

Prefatory Note

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October 20, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

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The Domestic Financial Economy

Commercial Bank Credit

(Percent change, annual rate, except as noted; seasonally adjusted)

| Type of credit | 2004 | 2005 | H1 2006 | Q3 2006 | Aug. 2006 | Sept. 2006 | Level, ¹ Sept. 2006 |
|---------------------------|------|------|------------|------------|--------------|---------------|-----------------------------------|
| Total ² | 8.9 | 10.5 | 11.9 | 8.5 | 5.7 | 2.4 | 7,791 |
| <i>Loans</i> ³ | | | | | | | |
| Total | 9.7 | 11.6 | 11.6 | 10.2 | 8.7 | 5.2 | 5,801 |
| To businesses | | | | | | | |
| Commercial and industrial | 1.2 | 13.2 | 16.3 | 19.0 | 29.3 | 3.0 | 1,149 |
| Commercial real estate | 11.7 | 17.1 | 15.6 | 12.9 | 8.1 | 7.8 | 1,398 |
| To households | | | | | | | |
| Residential real estate | 15.6 | 12.0 | 7.7 | 8.2 | -6.9 | 5.8 | 1,734 |
| Revolving home equity | 43.8 | 13.3 | .0 | 3.9 | -10.4 | 5.1 | 449 |
| Consumer | 8.8 | 3.1 | 6.7 | 5.8 | 9.0 | -3.1 | 727 |
| Originated ⁴ | 6.0 | .5 | 7.1 | 5.5 | 7.2 | 4.8 | 1,106 |
| Other ⁵ | 7.4 | 8.4 | 12.0 | 1.9 | 15.1 | 10.0 | 795 |
| <i>Securities</i> | | | | | | | |
| Adjusted ² | 6.6 | 7.6 | 12.8 | 3.5 | -3.1 | -5.6 | 1,990 |
| Reported | 5.2 | 5.3 | 13.0 | 3.2 | 3.2 | -5.1 | 2,144 |
| Treasury and agency | 4.9 | .0 | 8.3 | 6.1 | 6.9 | -1.2 | 1,216 |
| Other ⁶ | 5.7 | 13.3 | 19.4 | -6 | -1.8 | -10.1 | 928 |

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

2. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).

3. Excludes interbank loans.

4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

6. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

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Selected Financial Market Quotations
(One-day quotes in percent except as noted)

| Instrument | 2004 | 2005 | 2006 | | Change to Oct. 19 from selected dates (percentage points) | | |
|---|---------|---------|----------|---------|---|-----------------|------------------|
| | June 28 | Dec. 30 | Sept. 19 | Oct. 19 | 2004 June 28 | 2005 Dec. 30 | 2006 Sept. 19 |
| <i>Short-term</i> | | | | | | | |
| FOMC intended federal funds rate | 1.00 | 4.25 | 5.25 | 5.25 | 4.25 | 1.00 | .00 |
| Treasury bills ¹ | | | | | | | |
| 3-month | 1.36 | 3.99 | 4.82 | 4.97 | 3.61 | .98 | .15 |
| 6-month | 1.74 | 4.22 | 4.90 | 4.96 | 3.22 | .74 | .06 |
| Commercial paper (A1/P1 rates) ² | | | | | | | |
| 1-month | 1.28 | 4.23 | 5.25 | 5.25 | 3.97 | 1.02 | .00 |
| 3-month | 1.45 | 4.37 | 5.25 | 5.24 | 3.79 | .87 | -.01 |
| Large negotiable CDs ¹ | | | | | | | |
| 3-month | 1.53 | 4.49 | 5.34 | 5.33 | 3.80 | .84 | -.01 |
| 6-month | 1.82 | 4.65 | 5.38 | 5.36 | 3.54 | .71 | -.02 |
| Eurodollar deposits ³ | | | | | | | |
| 1-month | 1.29 | 4.36 | 5.33 | 5.32 | 4.03 | .96 | -.01 |
| 3-month | 1.51 | 4.52 | 5.39 | 5.36 | 3.85 | .84 | -.03 |
| Bank prime rate | 4.00 | 7.25 | 8.25 | 8.25 | 4.25 | 1.00 | .00 |
| <i>Intermediate- and long-term</i> | | | | | | | |
| U.S. Treasury ⁴ | | | | | | | |
| 2-year | 2.88 | 4.43 | 4.81 | 4.88 | 2.00 | .45 | .07 |
| 5-year | 3.97 | 4.35 | 4.66 | 4.73 | .76 | .38 | .07 |
| 10-year | 4.90 | 4.47 | 4.81 | 4.86 | -.04 | .39 | .05 |
| U.S. Treasury indexed notes | | | | | | | |
| 5-year | 1.56 | 2.03 | 2.41 | 2.59 | 1.03 | .56 | .18 |
| 10-year | 2.25 | 2.10 | 2.39 | 2.50 | .25 | .40 | .11 |
| Municipal general obligations (Bond Buyer) ⁵ | 5.01 | 4.38 | 4.30 | 4.33 | -.68 | -.05 | .03 |
| Private instruments | | | | | | | |
| 10-year swap | 5.21 | 4.92 | 5.30 | 5.32 | .11 | .40 | .02 |
| 10-year FNMA ⁶ | 5.38 | 4.84 | 5.11 | 5.16 | -.22 | .32 | .05 |
| 10-year AA ⁷ | 5.60 | 5.27 | 5.72 | 5.75 | .15 | .48 | .03 |
| 10-year BBB ⁷ | 6.25 | 5.82 | 6.28 | 6.31 | .06 | .49 | .03 |
| 10-year high yield ⁷ | 8.41 | 8.30 | 8.49 | 8.38 | -.03 | .08 | -.11 |
| Home mortgages (FHLMC survey rate) | | | | | | | |
| 30-year fixed | 6.21 | 6.21 | 6.40 | 6.36 | .15 | .15 | -.04 |
| 1-year adjustable | 4.19 | 5.16 | 5.54 | 5.57 | 1.38 | .41 | .03 |

| Stock exchange index | Record high | | 2005 | 2006 | | Change to Oct. 19 from selected dates (percent) | | |
|----------------------|-------------|----------|---------|----------|---------|---|-----------------|------------------|
| | Level | Date | Dec. 30 | Sept. 19 | Oct. 19 | Record high | 2005 Dec. 30 | 2006 Sept. 19 |
| Dow Jones Industrial | 12,012 | 10-19-06 | 10,718 | 11,541 | 12,012 | .00 | 12.08 | 4.08 |
| S&P 500 Composite | 1,527 | 3-24-00 | 1,248 | 1,318 | 1,367 | -1.51 | 9.51 | 3.69 |
| Nasdaq | 5,049 | 3-10-00 | 2,205 | 2,222 | 2,341 | -53.63 | 6.15 | 5.34 |
| Russell 2000 | 782 | 5-5-06 | 673 | 725 | 767 | -1.85 | 13.99 | 5.78 |
| Wilshire 5000 | 14,752 | 3-24-00 | 12,518 | 13,187 | 13,722 | -6.98 | 9.62 | 4.05 |

1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.
September 19, 2006, is the day before the most recent FOMC announcement.