

Prefatory Note

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May 4, 2007

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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Supplemental Notes

The Domestic Nonfinancial Economy

Labor Market Developments

The employment report for April provides further evidence that labor market demand has moderated over the past several months. Private nonfarm payrolls rose 63,000 last month from February and March levels that were slightly lower than originally estimated. The three-month moving average of the change in private payrolls was 92,000 in April, down from 181,000 in the three months ending in January.

The construction industry shed 11,000 jobs in April, with sectors associated with both residential and nonresidential construction posting small losses. Manufacturing employment fell 19,000 last month, similar to declines in recent months, with about half the decrease occurring among motor vehicle and parts manufacturers. Retailers eliminated 26,000 jobs last month primarily as a result of cutbacks at general merchandise stores, which had seen large gains in March. Employment also declined, on balance, in the financial activities industry—with at least half the loss occurring in real estate credit. Most other industries added jobs in line with their recent trends in April, while health-care providers added an above-average number of jobs.

Average weekly hours of production or nonsupervisory workers ticked down 0.1 hour to 33.8 hours in April. The aggregate hours of production or nonsupervisory workers declined 0.4 percent last month, partially unwinding the outsized increase in March. After incorporating the revised information on hours worked in the first quarter, we now estimate that productivity in the nonfarm business sector rose at an annual rate of close to 2 percent last quarter.

Average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls rose 0.2 percent in April following a slightly larger increase in March. For the twelve months ending in April, average hourly earnings rose 3.7 percent, compared with an increase of 3.8 percent over the previous twelve months.

In the household survey, the unemployment rate edged up to 4.5 percent last month—in the middle of the narrow range it has occupied since September. The labor force participation rate dipped to 66.0 percent.

The Domestic Financial Economy (Tables attached)

Changes in Employment

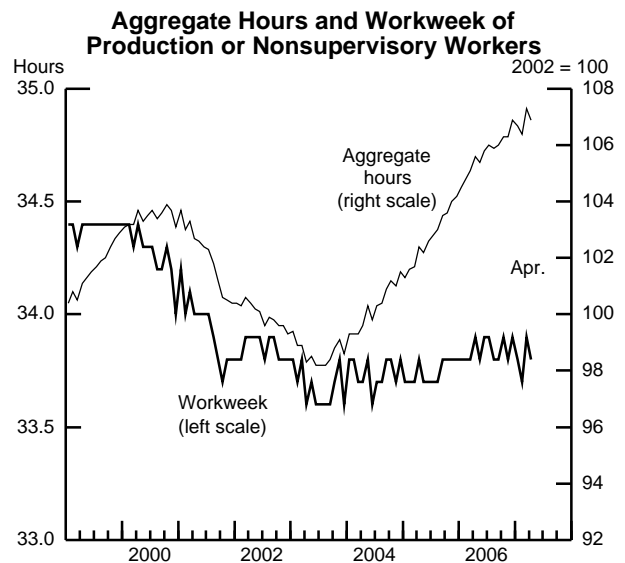
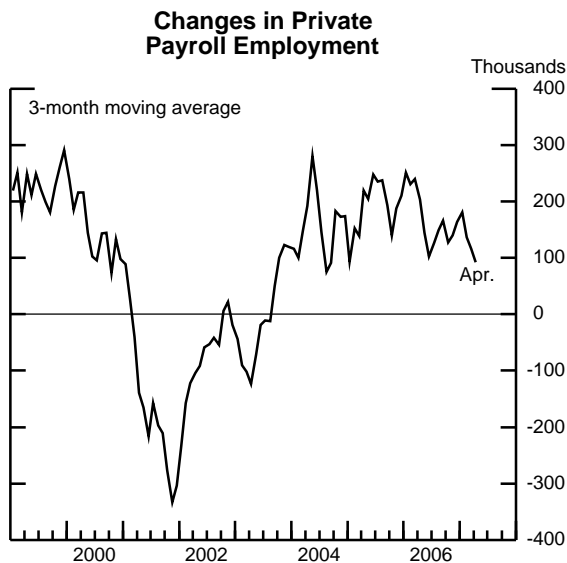
(Thousands of employees; seasonally adjusted)

Measure and sector	2006	2006		2007			
		Q3	Q4	Q1	Feb.	Mar.	Apr.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	189	202	177	143	90	177	88
Private	169	166	164	116	56	157	63
Natural resources and mining	5	3	4	3	5	4	2
Manufacturing	-7	-11	-25	-12	-17	-18	-19
Construction	11	11	-14	2	-77	50	-11
Wholesale trade	11	9	12	3	11	3	13
Retail trade	-3	-2	11	25	7	33	-26
Transportation and utilities	9	8	11	2	-3	4	1
Information	2	1	7	3	13	-3	3
Financial activities	16	20	10	3	6	0	-11
Professional and business services	42	32	52	18	36	6	24
Temporary help services	-1	-4	6	-4	-13	-1	-6
Nonbusiness services ¹	83	94	96	70	75	78	88
Total government	20	36	13	27	34	20	25
Total employment (household survey)	262	173	340	109	-38	335	-468
Memo:							
Aggregate hours of private production workers (percent change) ²	2.5	1.4	2.0	1.1	-.3	.8	-.4
Average workweek (hours) ³	33.8	33.8	33.9	33.8	33.7	33.9	33.8
Manufacturing (hours)	41.1	41.3	41.1	41.0	40.9	41.2	41.1

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."

2. Establishment survey. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

3. Establishment survey.

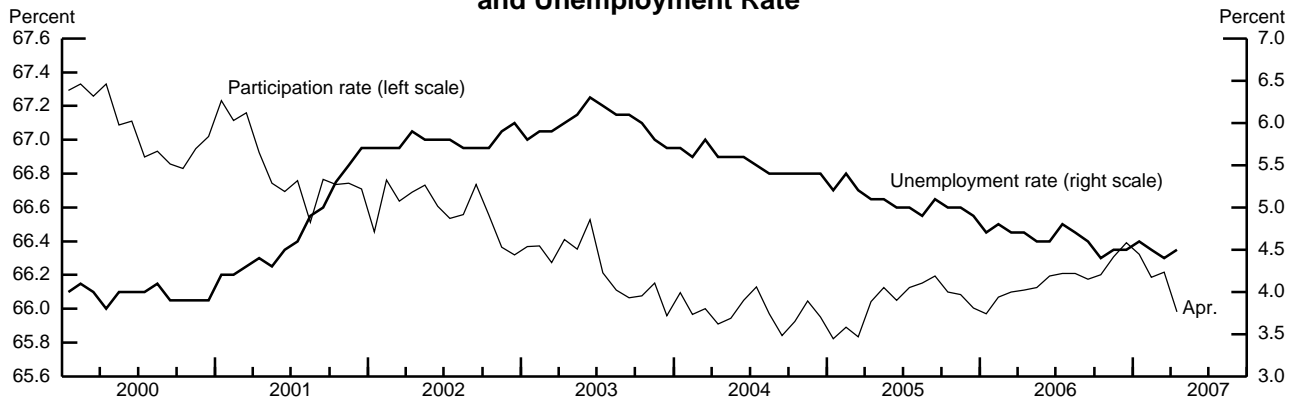


Selected Unemployment and Labor Force Participation Rates

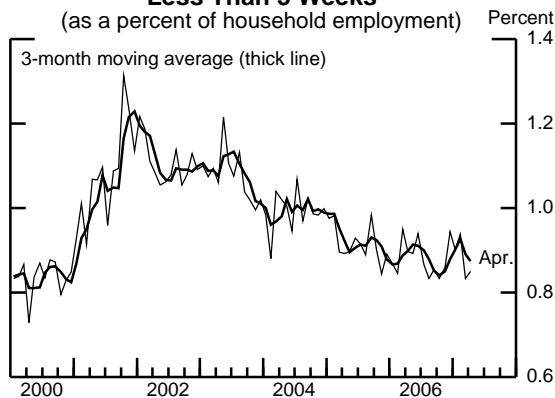
(Percent; seasonally adjusted)

Rate and group	2006	2006		2007			
		Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Civilian unemployment rate</i>							
Total	4.6	4.7	4.5	4.5	4.5	4.4	4.5
Teenagers	15.4	16.1	15.1	14.8	14.9	14.5	15.3
20-24 years old	8.2	8.3	8.3	7.7	7.4	7.6	7.8
Men, 25 years and older	3.5	3.5	3.3	3.6	3.7	3.5	3.5
Women, 25 years and older	3.7	3.8	3.5	3.5	3.5	3.4	3.5
<i>Labor force participation rate</i>							
Total	66.2	66.2	66.3	66.2	66.2	66.2	66.0
Teenagers	43.6	43.5	43.4	42.2	42.2	41.6	41.6
20-24 years old	74.6	74.9	75.0	75.1	74.8	75.3	74.3
Men, 25 years and older	75.5	75.4	75.7	75.7	75.7	75.7	75.6
Women, 25 years and older	59.6	59.9	59.8	59.6	59.6	59.6	59.4

Labor Force Participation Rate and Unemployment Rate



Job Losers Unemployed Less Than 5 Weeks (as a percent of household employment)



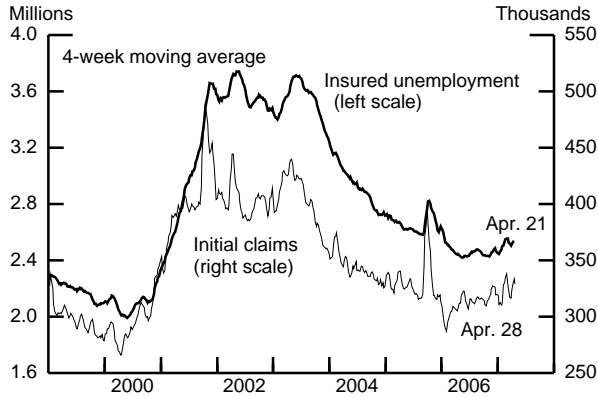
Unemployed Due to Job Loss (as a percent of the labor force)



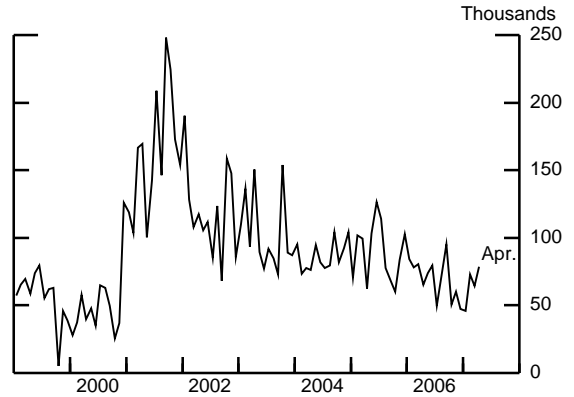
Labor Market Indicators

Layoffs

Unemployment Insurance



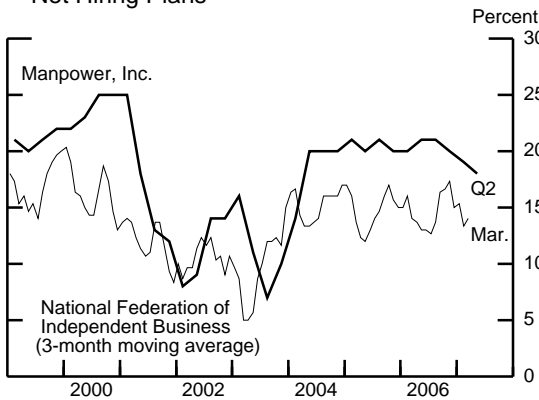
Layoff Announcements



Note. Seasonally adjusted by FRB staff.
Source. Challenger, Gray, and Christmas, Inc.

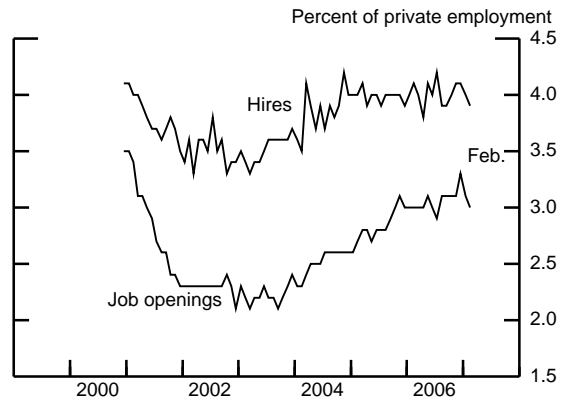
Hiring

Net Hiring Plans



Note. Percent planning an increase in employment minus percent planning a reduction.

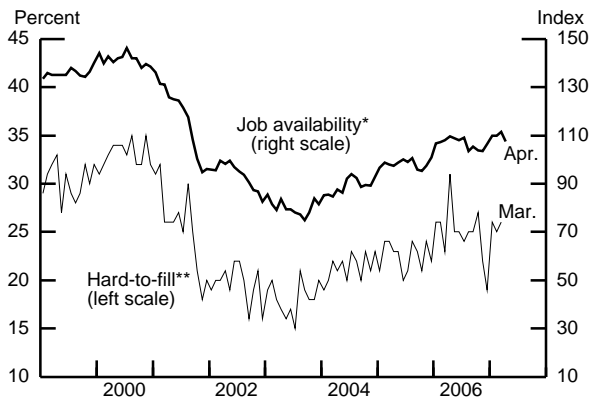
Job Openings and Hires



Source. Job Openings and Labor Turnover Survey.

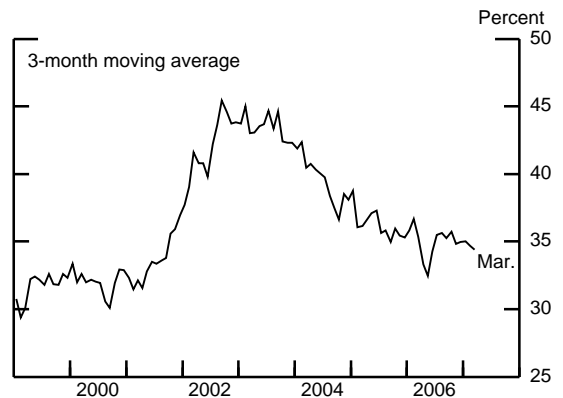
Labor Market Tightness

Job Availability and Hard-to-Fill Positions



*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
**Percent of small businesses surveyed with at least 1 "hard-to-fill" job opening.
Source. For job availability, Conference Board; for hard-to-fill, National Federation of Independent Business.

Exhaustion Rate



Note. The exhaustion rate is calculated as the number of individuals who were receiving unemployment insurance benefits but reached the end of their potential eligibility expressed as a percent of all individuals who began receiving such benefits 6 months earlier.

Commercial Bank Credit

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

Type of credit	2005	2006	Q4 2006	Q1 2007	Mar. 2007	Apr. 2007	Level, ¹ Apr. 2007
Total	10.5	9.4	3.7	8.4	7.7	10.1	8,141
<i>Loans²</i>							
Total	11.6	10.6	7.1	9.5	4.4	11.6	6,113
To businesses							
Commercial and industrial	13.2	16.4	10.1	6.3	7.9	9.4	1,196
Commercial real estate	16.9	13.5	7.0	9.0	8.9	10.5	1,481
To households							
Residential real estate	12.0	7.0	4.8	10.1	-1.3	11.8	1,817
Revolving home equity	13.3	1.4	1.3	2.9	6.4	-3.2	454
Other	11.5	9.1	6.0	12.6	-3.8	16.9	1,363
Consumer	3.1	5.1	.3	6.9	-5.0	10.6	745
Originated ³	.7	6.3	4.7	7.6	2.4	2.0	1,142
Other ⁴	8.6	11.1	14.6	15.8	12.1	17.0	873
<i>Securities</i>							
Total	7.6	5.9	-6.0	5.1	17.5	5.5	2,028
Treasury and agency	.0	5.0	-2.7	-.3	8.4	-24.5	1,188
Other ⁵	13.5	12.6	7.1	7.7	22.7	45.8	1,033

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the consolidation of certain variable interest entities (FIN 46), the adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006 and March 2007, respectively. Data also account for breaks caused by reclassifications.

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

2. Excludes interbank loans.

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

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

5. 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	2006	2007		Change to May 3 from selected dates (percentage points)		
	June 28	June 29	Mar. 20	May 3	2004 June 28	2006 June 29	2007 Mar. 20
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	5.25	5.25	5.25	4.25	.00	.00
Treasury bills ¹							
3-month	1.36	4.88	4.92	4.76	3.40	-.12	-.16
6-month	1.74	5.06	4.91	4.83	3.09	-.23	-.08
Commercial paper (A1/P1 rates) ²							
1-month	1.28	5.27	5.24	5.23	3.95	-.04	-.01
3-month	1.45	5.37	5.23	5.24	3.79	-.13	.01
Large negotiable CDs ¹							
3-month	1.53	5.47	5.30	5.31	3.78	-.16	.01
6-month	1.82	5.59	5.30	5.31	3.49	-.28	.01
Eurodollar deposits ³							
1-month	1.29	5.33	5.32	5.32	4.03	-.01	.00
3-month	1.51	5.49	5.34	5.35	3.84	-.14	.01
Bank prime rate	4.00	8.25	8.25	8.25	4.25	.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	5.26	4.64	4.74	1.86	-.52	.10
5-year	3.97	5.15	4.45	4.56	.59	-.59	.11
10-year	4.90	5.28	4.64	4.74	-.16	-.54	.10
U.S. Treasury indexed notes							
5-year	1.56	2.49	2.03	2.10	.54	-.39	.07
10-year	2.25	2.61	2.19	2.27	.02	-.34	.08
Municipal general obligations (Bond Buyer) ⁵	5.01	4.71	4.13	4.25	-.76	-.46	.12
Private instruments							
10-year swap	5.21	5.81	5.08	5.22	.01	-.59	.14
10-year FNMA ⁶	5.38	5.59	4.93	5.03	-.35	-.56	.10
10-year AA ⁷	5.60	6.20	5.56	5.64	.04	-.56	.08
10-year BBB ⁷	6.25	6.74	6.01	6.12	-.13	-.62	.11
10-year high yield ⁷	8.41	8.74	8.11	7.96	-.45	-.78	-.15
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	6.78	6.16	6.16	-.05	-.62	.00
1-year adjustable	4.19	5.82	5.40	5.42	1.23	-.40	.02

Stock exchange index	Record high		2006	2007		Change to May 3 from selected dates (percent)		
	Level	Date	June 29	Mar. 20	May 3	Record high	2006 June 29	2007 Mar. 20
Dow Jones Industrial	13,241	5-3-07	11,191	12,288	13,241	.00	18.32	7.76
S&P 500 Composite	1,527	3-24-00	1,273	1,411	1,502	-1.64	18.03	6.48
Nasdaq	5,049	3-10-00	2,174	2,408	2,565	-49.18	17.99	6.53
Russell 2000	834	4-26-07	714	794	829	-.59	16.04	4.44
Wilshire 5000	15,159	5-3-07	12,846	14,302	15,159	.00	18.01	5.99

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.
June 29, 2006, is the day the most recent policy tightening ended.
March 20, 2007, is the day before the most recent FOMC announcement.