

Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

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March 12, 2010

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

Consumer Spending

Total nominal retail sales increased 0.3 percent in February. Sales in the retail control group of stores (which exclude motor vehicle dealers, gasoline stations, and building material and supply stores, and are the component of overall retail sales used by the BEA in constructing the national accounts) jumped 0.9 percent in February following a downward-revised gain of 0.6 percent in January. The gains were spread widely across establishment types and were especially robust at general merchandise stores, food and beverage stores, electronics and appliance stores, auto parts stores, and other retailers. Folding in our forecast for February PCE prices, we estimate that real PCE control moved up 0.8 percent in February.

Consumer Attitudes

The Thomson Reuters/University of Michigan index of consumer sentiment edged down in early March, as assessments of both current and expected conditions fell back a bit. Overall, measures of consumer sentiment remain relatively downbeat and have improved little, on balance, since their modest rebound last spring.

The preliminary survey results for the median expectation for inflation over the next 12 months edged up in March, returning to its January level, while the median expectation for inflation over the next 5 to 10 years was unchanged. At 2.8 and 2.7 percent, respectively, these readings remained at the low end of the narrow range that has prevailed over the past few years.

Federal Government Sector

The data for defense spending in the Monthly Treasury Statement for February were consistent with real defense purchases remaining roughly flat in the first quarter of 2010.

The unified federal budget deficit widened further over the first five months of fiscal 2010. Net receipts were 7 percent lower in the October to February period than they had been a year earlier. Federal outlays in October-February rose 1½ percent relative to the same period a year earlier as a substantial decrease in outlays for the TARP largely offset a 9½ percent increase in other spending.¹

¹ In the March Greenbook, we reported that non-TARP outlays in the first four months of fiscal 2010 increased 12 percent relative to the same year-earlier period; that number was incorrect and should have been 7 percent.

Business Inventories

Folding in a modest decline in the book-value of retail inventories excluding motor vehicles and parts, the combined book-value of inventories in the manufacturing and trade sector (excluding motor vehicles and parts) fell at an annual rate of \$7 billion in January. This figure is consistent with a further small liquidation of real stocks. The ratio of book-value inventories to sales (excluding motor vehicles and parts) edged down again in January and stood well below the recent peak recorded near the end of 2008.

The Domestic Financial Economy

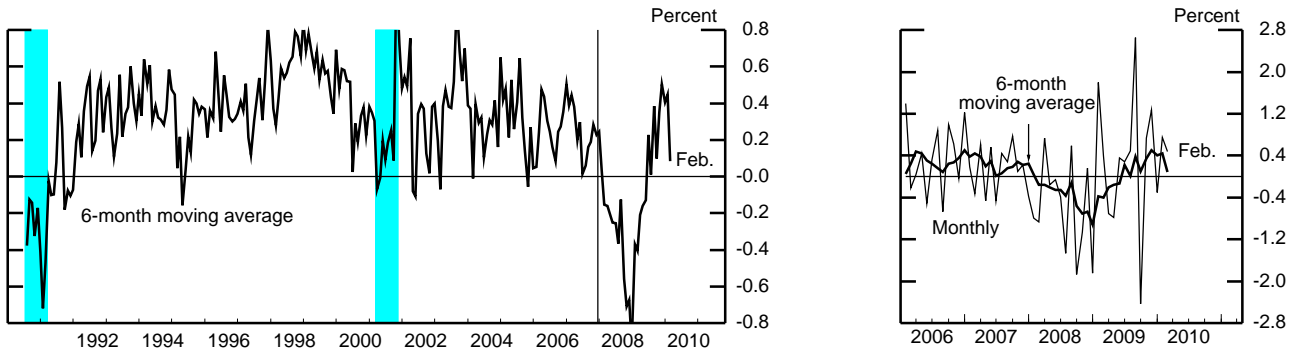
(Exhibits attached.)

Real Personal Consumption Expenditures
(Percent change from preceding comparable period)

Category	2009			2009	2010	
	Q2	Q3	Q4 ^e	Dec. ^e	Jan. ^e	Feb. ^e
	Annual rate			Monthly rate		
Total real PCE	-9	2.8	1.7	.1	.3	n.a.
Motor vehicles	-6.2	53.9	-24.0	1.8	-1.5	-1.4
Goods ex. motor vehicles	-2.8	3.8	5.7	-.5	.9	.6
Services	.2	.8	1.1	.3	.1	n.a.
Ex. energy	.7	.8	.6	.1	.1	n.a.
Memo:						
Real PCE control ¹	-2.5	3.2	6.1	-.3	.7	.8
Nominal retail control ²	-1.8	1.4	5.4	-.2	.6	.9

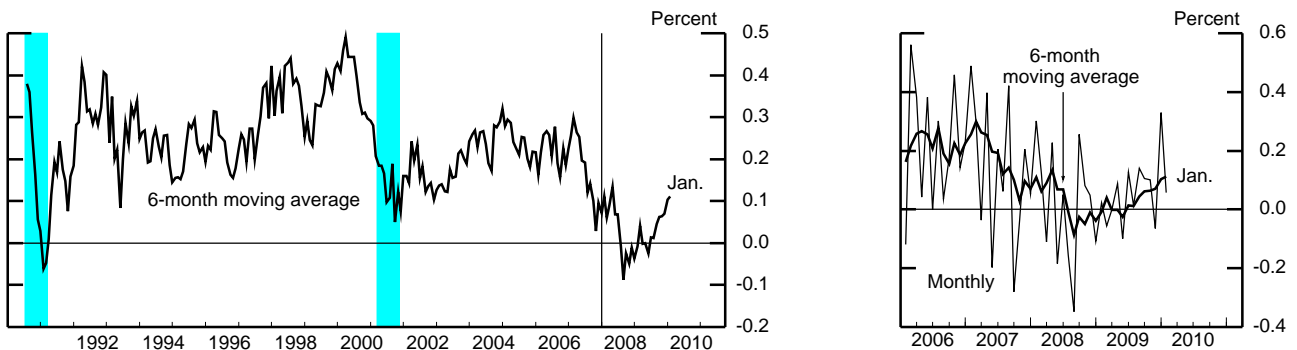
1. Durables excluding motor vehicles, nondurables excluding gasoline, and food services.
 2. Total sales less outlays at building material and supply stores, automobile and other motor vehicle dealers, and gasoline stations.
 e Staff estimate.
 n.a. Not available.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Change in Real PCE Goods



Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical line represents the last business cycle peak as defined by the NBER.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Change in Real PCE Services



Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical line represents the last business cycle peak as defined by the NBER.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

March 12, 2010

Thomson Reuters/University of Michigan Survey of Consumers
Indexes of consumer sentiment
 (Not seasonally adjusted)

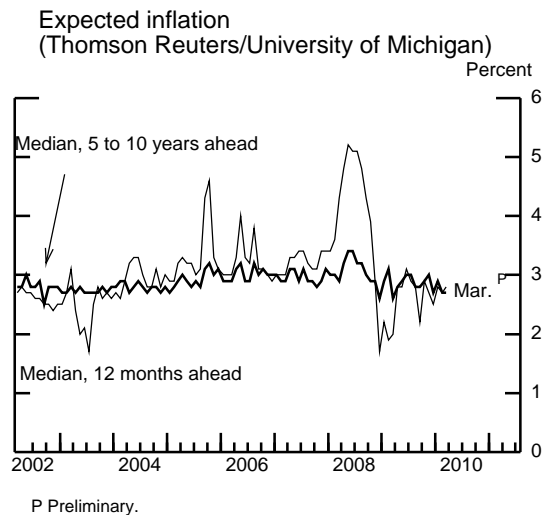
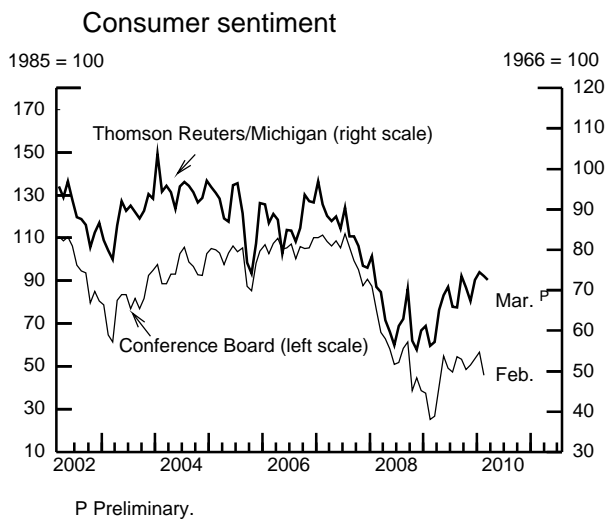
Category	2009					2010		
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. ^P
Composite of current and expected conditions ¹	65.7	73.5	70.6	67.4	72.5	74.4	73.6	72.5
Current conditions ¹	66.6	73.4	73.7	68.8	78.0	81.1	81.8	80.8
Expected conditions ¹	65.0	73.5	68.6	66.5	68.9	70.1	68.4	67.2
Personal financial situation								
Now compared with 12 months ago ²	58	69	69	63	73	77	75	73
Expected in 12 months ²	111	115	117	112	116	110	109	109
Expected business conditions								
Next 12 months ²	69	88	81	70	79	84	80	74
Next 5 years ²	80	91	76	83	81	86	84	86
Appraisal of buying conditions								
Cars	139	126	124	126	127	126	126	130
Large household appliances ²	113	120	120	114	128	133	136	135
Houses	156	156	156	154	151	147	151	151
Expected unemployment change - next 12 months	124	110	120	124	112	111	106	114
Prob. household will lose a job - next 5 years	27	27	24	26	26	25	26	27
Expected inflation - next 12 months								
Mean	3.0	2.8	3.2	3.1	3.0	3.4	3.6	3.5
Median	2.8	2.2	2.9	2.7	2.5	2.8	2.7	2.8
Expected inflation - next 5 to 10 years								
Mean	3.1	3.2	3.2	3.2	3.0	3.3	3.3	3.1
Median	2.8	2.8	2.9	3.0	2.7	2.9	2.7	2.7

Note. Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

P Preliminary.

1. Feb. 1966 = 100.

2. Indicates the question is one of the five equally-weighted components of the index of sentiment.



Nonfarm Inventory Investment (Billions of dollars; seasonally adjusted annual rate)

Measure and sector	2009					2010
	Q2	Q3	Q4	Nov.	Dec.	Jan.
<i>Real inventory investment (chained 2005 dollars)</i>						
Total nonfarm business	-163.1	-141.4	-11.3^e	...	...	...
Motor vehicles	-48.1	-4.6	20.9 ^e	...	...	...
Nonfarm ex. motor vehicles	-115.1	-136.9	-32.3 ^e	...	...	...
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	-39.8	-55.3	-5.3 ^e	-1.9 ^e	-19.6 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	-52.5	-51.9	-1.4 ^e	39.6 ^e	-42.2 ^e	n.a.
Retail trade ex. motor vehicles & parts	-18.6	-22.1	-9.0 ^e	-20.3	6.9 ^e	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	-152.6	-124.7	25.9	74.0	-29.6	-6.9
Wholesale trade ex. motor vehicles & parts	-66.0	-49.8	7.5	10.5	-10.0	9.0
Retail trade ex. motor vehicles & parts	-62.9	-50.7	19.3	74.3	-36.3	-7.0
	-23.7	-24.2	-9	-10.7	16.7	-8.9

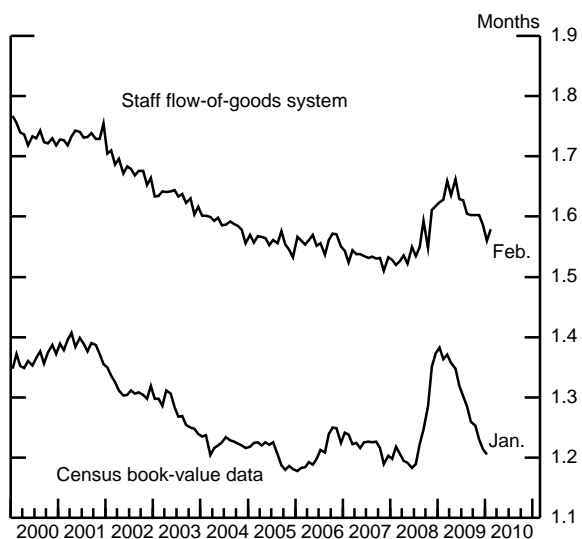
n.a. Not available.

... Not applicable.

^e Staff estimate of real inventory investment based on revised book-value data.

Source: For real inventory investment, U.S. Dept. of Commerce, Bureau of Economic Analysis; for book-value data, Census Bureau.

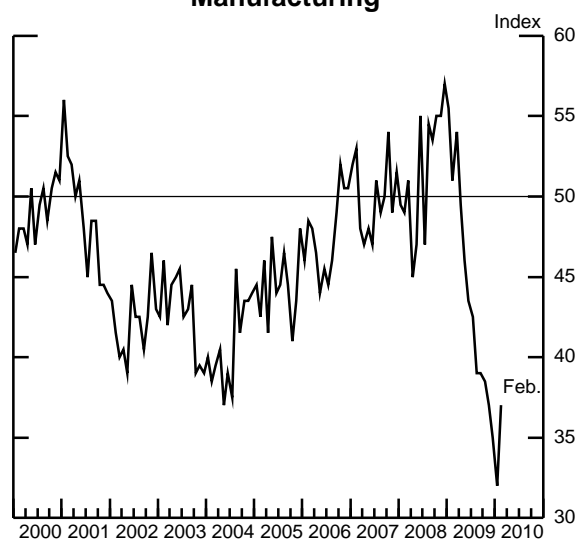
Inventory Ratios ex. Motor Vehicles



Note: Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

Source: Census Bureau; staff calculation.

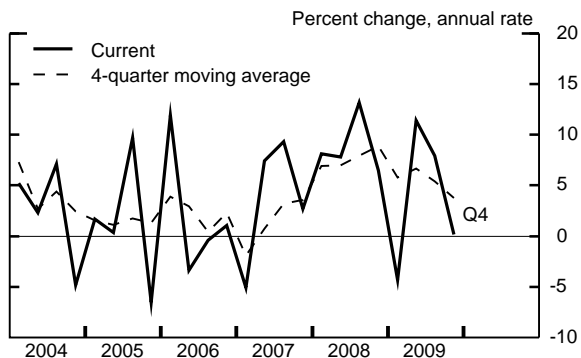
ISM Customers' Inventories: Manufacturing



Note: A number below 50 indicates inventories are "too low."
Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business.

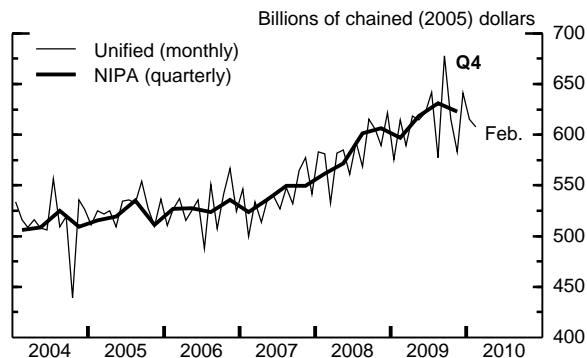
Federal Government Indicators

Total Real Federal Purchases



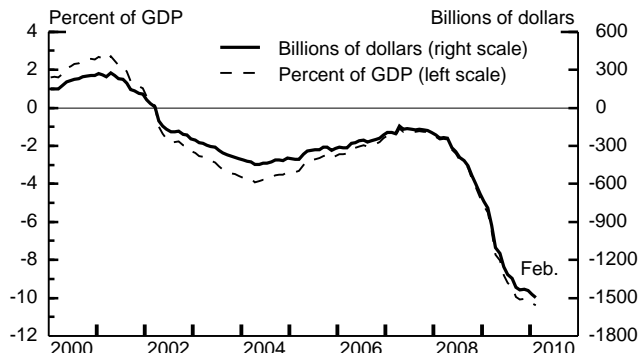
Note: National Income and Product Accounts (NIPA) measure.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Real Defense Spending



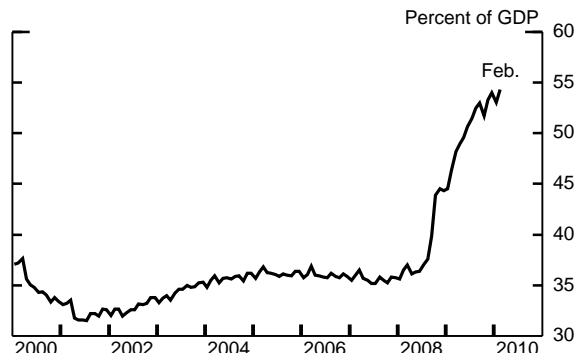
Note: Nominal unified defense spending is seasonally adjusted and deflated by BEA prices. NIPA defense purchases exclude consumption of fixed capital.
Source: Monthly Treasury Statement; U.S. Department of Commerce, Bureau of Economic Analysis.

Unified Budget Deficit



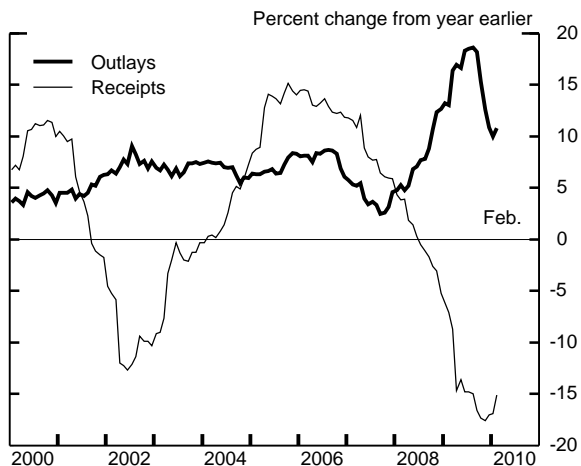
Note: Adjusted for payment-timing shifts; cumulative deficit over the previous 12 months.
Source: Monthly Treasury Statement.

Federal Debt Held by the Public



Source: Monthly Treasury Statement.

Unified Outlays and Receipts



Note: Adjusted for payment-timing shifts; based on cumulative outlays or receipts over the previous 12 months.
Source: Monthly Treasury Statement.

Recent Unified Federal Outlays and Receipts

Function or source	Oct. 2009-Feb. 2010	
	Billions of dollars	Percent change*
Outlays	1452	1.5
National defense	286	3.3
Major transfers ¹	858	14.9
Other primary spending	222	-33.3
Net interest	86	15.4
Receipts	801	-7.0
Individual income and payroll taxes	665	-9.1
Corporate income taxes	45	-14.1
Other	90	17.9
Deficit (-)	-652	14.3

Note: Adjusted for payment-timing shifts.

* Relative to same year-earlier period. Percent change in deficit is calculated on an absolute-value basis.

¹ Includes Social Security, Medicare, Medicaid, and income security programs.

Source: Monthly Treasury Statement.

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2008		2009		2010		Change to Mar. 11 from selected dates (percentage points)		
							2008	2009	2010
	Sept. 12	Dec. 15	Jan. 26	Mar. 11	Sept. 12	Dec. 15	Jan. 26		
<i>Short-term</i>									
FOMC intended federal funds rate	2.00	.13	.13	.13	-1.87	.00	.00		
Treasury bills ¹									
3-month	1.46	.05	.07	.16	-1.30	.11	.09		
6-month	1.80	.17	.14	.22	-1.58	.05	.08		
Commercial paper (A1/P1 rates) ²									
1-month	2.39	.13	.14	.22	-2.17	.09	.08		
3-month	2.75	.20	.20	.20	-2.55	.00	.00		
Large negotiable CDs ¹									
3-month	2.79	.22	.20	.22	-2.57	.00	.02		
6-month	3.09	.31	.29	.32	-2.77	.01	.03		
Eurodollar deposits ³									
1-month	2.60	.32	.28	.28	-2.32	-.04	.00		
3-month	3.00	.45	.40	.40	-2.60	-.05	.00		
Bank prime rate	5.00	3.25	3.25	3.25	-1.75	.00	.00		
<i>Intermediate- and long-term</i>									
U.S. Treasury ⁴									
2-year	2.24	.87	.85	.95	-1.29	.08	.10		
5-year	2.97	2.33	2.38	2.43	-.54	.10	.05		
10-year	3.93	3.79	3.80	3.87	-.06	.08	.07		
U.S. Treasury indexed notes ⁵									
5-year	1.33	.50	.38	.59	-.74	.09	.21		
10-year	1.77	1.42	1.37	1.59	-.18	.17	.22		
Municipal general obligations (Bond Buyer) ⁶	4.54	4.19	4.30	4.33	-.21	.14	.03		
Private instruments									
10-year swap	4.26	3.74	3.72	3.78	-.48	.04	.06		
10-year FNMA ⁷	4.36	4.08	4.14	4.20	-.16	.12	.06		
10-year AA ⁸	6.62	5.04	5.04	5.05	-1.57	.01	.01		
10-year BBB ⁸	7.22	6.09	5.74	5.74	-1.48	-.35	.00		
10-year high yield ⁸	10.66	9.29	8.76	8.66	-2.00	-.63	-.10		
Home mortgages (FHLMC survey rate)									
30-year fixed	5.78	4.94	4.98	4.95	-.83	.01	-.03		
1-year adjustable	5.03	4.34	4.29	4.22	-.81	-.12	-.07		
Stock exchange index									
	Record high		2009	2010		Change to Mar. 11 from selected dates (percent)			
	Level	Date	Dec. 15	Jan. 26	Mar. 11	Record high	2009 Dec. 15	2010 Jan. 26	
Dow Jones Industrial	14,165	10-9-07	10,452	10,194	10,612	-25.08	1.53	4.10	
S&P 500 Composite	1,565	10-9-07	1,108	1,092	1,150	-26.51	3.82	5.32	
Nasdaq	5,049	3-10-00	2,201	2,204	2,368	-53.09	7.61	7.48	
Russell 2000	856	7-13-07	606	612	677	-20.86	11.70	10.63	
D.J. Total Stock Index	15,807	10-9-07	11,385	11,282	11,983	-24.19	5.25	6.22	

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. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

September 12, 2008, is the last business day before Lehman Brothers Holdings filed for bankruptcy.
 December 15, 2009, is the day before the December 2009 FOMC monetary policy announcement.
 January 26, 2010, is the day before the most recent FOMC monetary policy announcement.

Commercial Bank Credit

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

Type of credit	2008	2009	H1 2009	Q3 2009	Q4 2009	Jan. 2010	Feb. 2010	Level ¹ Feb. 2010
Total	4.9	-6.5	-5.5	-7.1	-8.4	-9.2	-12.8	8,925
<i>Loans²</i>								
Total	4.4	-9.6	-7.4	-12.4	-12.3	-11.9	-14.1	6,586
Core	5.0	-7.6	-4.8	-9.5	-12.1	-14.5	-14.7	5,839
To businesses								
Commercial and industrial	16.3	-17.0	-14.1	-19.8	-24.3	-22.3	-15.4	1,301
Commercial real estate	6.1	-4.3	-1.6	-5.5	-8.8	-15.4	-7.1	1,618
To households								
Residential real estate	-3.2	-5.3	-2.2	-7.8	-9.5	-5.8	-23.3	2,108
Revolving home equity	13.0	.5	6.2	-4.5	-5.7	-5.2	-2.8	598
Closed-end mortgages	-8.0	-7.4	-5.1	-9.1	-11.0	-6.1	-31.2	1,511
Consumer	7.1	-2.2	-.2	-3.7	-4.9	-22.5	-6.3	812
Memo: Originated ³	5.7	-3.6	-2.0	-4.6	-5.9	-12.0	-6.0	1,207
Other	.4	-22.8	-25.3	-33.6	-14.0	9.0	-9.6	747
<i>Securities</i>								
Total	6.7	3.7	.8	9.6	3.6	-1.6	-9.1	2,339
Treasury and agency	16.3	7.9	2.1	18.0	8.8	-6.8	-4.7	1,424
Other ⁴	-4.3	-2.1	-1.0	-2.3	-4.0	6.5	-15.7	915

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 (FAS 115) and the initial consolidation of certain variable interest entities (FIN 46) and off-balance-sheet vehicles (FAS 166 and 167). Data also account for the effects of nonbank structure activity of \$5 billion or more.

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

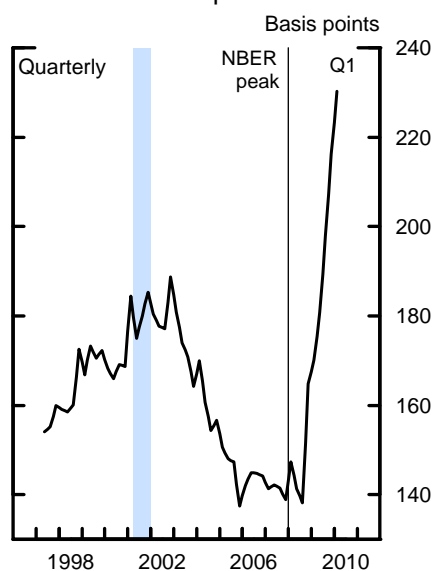
2. Excludes interbank loans.

3. Includes an estimate of outstanding loans securitized by commercial banks that retained recourse or servicing rights.

4. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account securities that are not Treasury or agency securities.

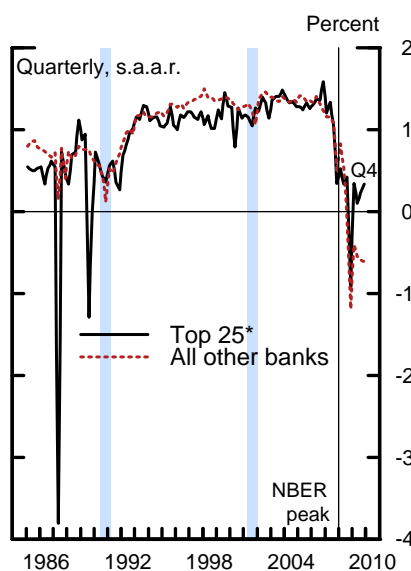
Source: Federal Reserve Board.

C&I Loan Rate Spread



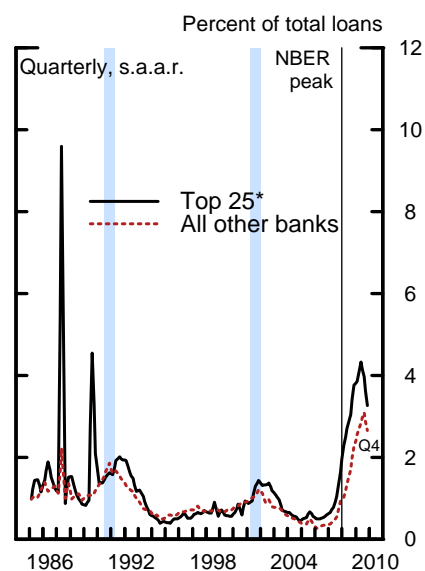
Weighted average for all banks, adjusted for changes in the nonprice loan characteristics.

Return on Assets



*Top 25 refers to all commercial banks in the 25 largest bank holding companies.

Loan Loss Provisions



*Top 25 refers to all commercial banks in the 25 largest bank holding companies.

Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). Vertical line represents the last business cycle peak, as defined by the NBER.

The International Economy

Trade in Goods and Services

The U.S. international trade deficit narrowed to \$37.3 billion in January, as a modest fall in exports was more than offset by a decline in imports.

Trade in Goods and Services

	2009	Annual rate			Monthly rate		
		2009			2009		2010
		Q2	Q3	Q4	Nov.	Dec.	Jan.
Percent change							
<i>Nominal BOP</i>							
Exports	-1.3	-.9	25.4	29.1	.9	3.4	-.3
Imports	-7.2	-9.9	36.8	35.3	2.6	4.9	-1.7
<i>Real NIPA</i>							
Exports	-.8	-4.1	17.8	22.4	...	...	...
Imports	-6.7	-14.7	21.3	15.3	...	...	...
Billions of dollars							
<i>Nominal BOP</i>							
Net exports	-378.6	-324.3	-385.5	-435.8	-36.1	-39.9	-37.3
Goods, net	-517.0	-461.8	-528.4	-582.0	-48.4	-51.9	-49.4
Services, net	138.4	137.5	142.9	146.2	12.3	12.0	12.1

BOP Balance of payments.

NIPA National income and product accounts.

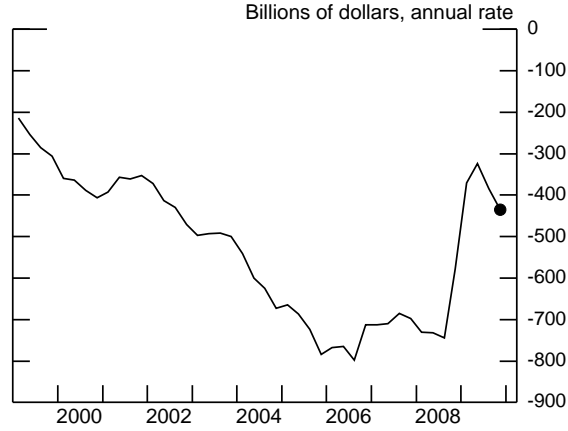
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

In January, the value of exports of goods and services declined 0.3 percent. The decrease was concentrated primarily in capital goods, as aircraft partially reversed very strong December sales and industrial machinery declined. Automotive products also fell sharply driven by a decline in sales outside of North America. Exports of agricultural products, services, fuels, chemicals and consumer goods all posted small increases.

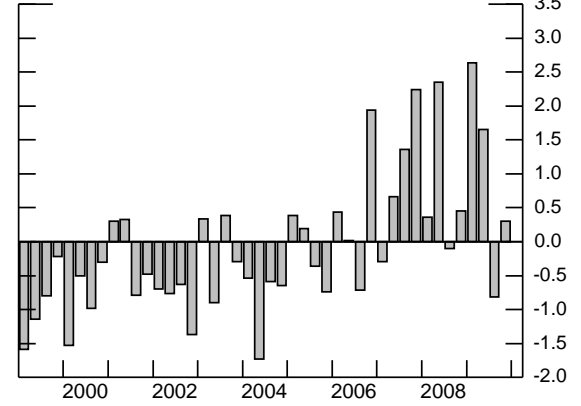
The value of imports of goods and services fell 1.7 percent in January, as oil, capital goods, automotive products and consumer goods all registered declines, more than offsetting a rise in industrial goods. The decrease in oil was driven by falling volume, as prices increased moderately. Capital goods fell as computers and telecommunication products partially retraced strong gains at the end of 2009, while automotive products purchases were down across major trading partners. Consumer imports fell on account of large declines in televisions and pharmaceuticals.

U.S. International Trade in Goods and Services (Quarterly)

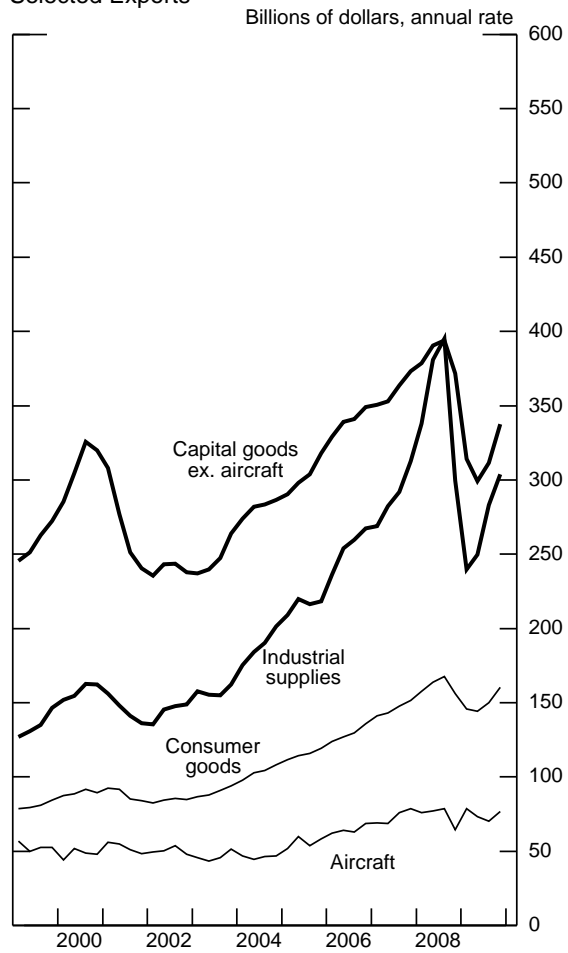
Trade Balance



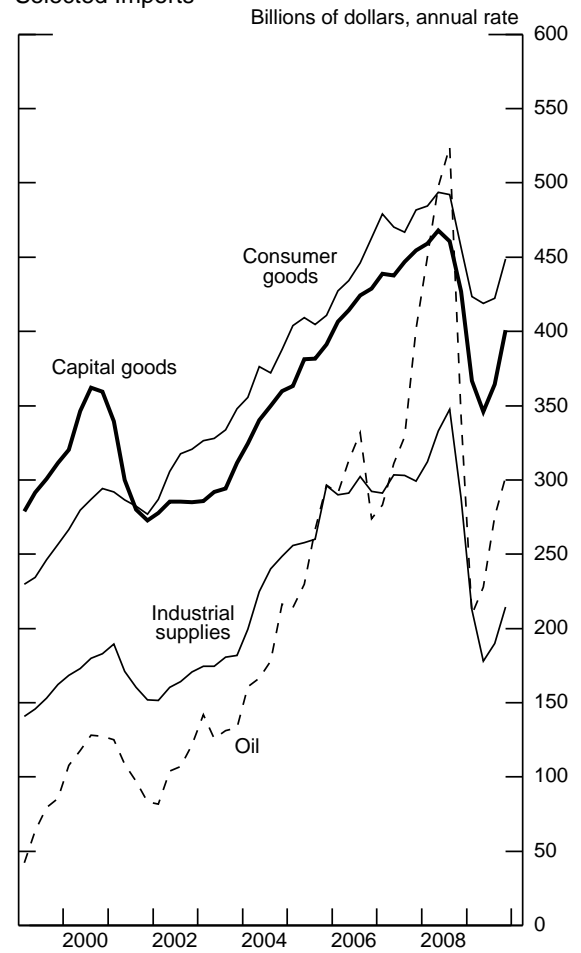
Contribution of Net Exports to
Growth of Real Gross Domestic Product



Selected Exports



Selected Imports



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

U.S. Exports and Imports of Goods and Services
(Billions of dollars; annual rate, balance of payments basis)

	Levels				Change ¹			
	2009		2009	2010	2009		2009	2010
	Q3	Q4	Dec.	Jan.	Q3	Q4	Dec.	Jan.
Exports of goods and services	1571.2	1674.7	1717.8	1712.0	86.3	103.5	57.3	-5.8
Goods exports	1054.6	1147.7	1189.0	1180.8	71.1	93.1	55.4	-8.1
Gold	14.3	15.3	17.3	18.9	2.0	1.0	5.5	1.6
Other goods	1040.3	1132.4	1171.7	1161.9	69.1	92.1	49.9	-9.7
Capital goods	381.7	414.1	429.8	417.2	9.1	32.5	21.3	-12.5
Aircraft & parts	70.2	76.7	84.1	77.8	-3.0	6.5	13.7	-6.3
Computers & accessories	37.5	40.9	41.7	43.4	1.9	3.4	.6	1.7
Semiconductors	38.5	42.9	42.3	43.1	3.5	4.4	-2.4	.7
Other capital goods	235.5	253.7	261.6	253.0	6.7	18.2	9.5	-8.7
Automotive	86.1	104.1	114.0	107.5	19.7	18.0	10.7	-6.5
Ind. supplies (ex. ag., gold)	283.1	303.8	311.7	314.1	33.5	20.7	12.1	2.5
Consumer goods	149.9	160.2	159.6	161.6	5.8	10.3	3.4	2.0
Agricultural	99.2	109.6	114.9	116.4	-1.9	10.4	.2	1.5
All other goods	40.3	40.6	41.7	45.0	3.0	.2	16.4	3.3
Services exports	516.6	527.0	528.8	531.1	15.2	10.4	1.8	2.3
Imports of goods and services	1956.7	2110.5	2196.6	2159.4	147.6	153.8	102.7	-37.2
Goods imports	1583.0	1729.7	1811.9	1773.3	137.7	146.7	97.3	-38.6
Oil	275.6	301.8	338.2	327.7	47.7	26.2	44.4	-10.5
Gold	8.8	10.7	10.3	9.9	.4	2.0	-.9	-.4
Other goods	1298.6	1417.1	1463.4	1435.7	89.6	118.5	53.7	-27.7
Capital goods	364.4	400.7	418.9	406.3	18.6	36.2	19.5	-12.6
Aircraft & parts	29.1	31.2	33.9	31.1	-2.3	2.1	4.7	-2.8
Computers & accessories	95.4	114.6	121.7	113.5	10.6	19.2	6.2	-8.3
Semiconductors	22.2	23.6	23.1	22.9	1.8	1.4	-.2	-.2
Other capital goods	217.7	231.3	240.2	238.8	8.4	13.6	8.7	-1.4
Automotive	177.4	207.4	219.5	201.8	51.2	29.9	19.3	-17.7
Ind. supplies (ex. oil, gold)	190.0	214.6	222.8	233.2	11.8	24.6	9.8	10.5
Consumer goods	422.4	448.9	453.5	443.0	3.5	26.5	-.7	-10.5
Foods, feeds, beverages	80.8	82.8	84.7	86.2	-.5	2.0	3.8	1.5
All other goods	63.6	62.8	63.9	65.1	5.1	-.8	2.0	1.2
Services imports	373.8	380.8	384.8	386.1	9.9	7.1	5.4	1.4
Memo:								
Oil quantity (mb/d)	11.30	11.41	12.49	11.89	-.26	.11	1.60	-.60
Oil import price (\$/bbl)	66.68	72.37	74.13	75.44	12.64	5.68	.27	1.31

1. Change from previous quarter or month.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.