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<sup>1</sup> In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

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CLASS III - FOMC

May 16, 1997

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

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## SUPPLEMENTAL NOTES

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Consumer Sentiment

According to the preliminary report, the Michigan SRC index of consumer sentiment surged in early May, reaching an all-time high of 104.6. The index of expected conditions rose 6.1 points, as households reported decidedly more favorable expectations of their personal financial situations and of business conditions in the next twelve months. The index of current conditions slipped a bit in early May but remained at a very high level.

Among questions not included in the overall index, results were also upbeat. The index of car buying conditions advanced strongly, reaching the highest level since April 1994. The index of house buying conditions also posted a solid gain in early May. In their attitudes towards buying cars and homes, consumers' concerns about rising interest rates diminished in May, after increasing appreciably in April. The expected change in unemployment over the next year declined sharply, continuing a broad downward trend that began in early 1996.

The mean value of expected inflation over the coming year rose 0.1 percentage point to 3.8 percent, while the median was unchanged at 3.0 percent. Both the mean and median values of expected inflation over the next five to ten years moved up 0.2 percentage point, to 3.8 and 3.1 percent respectively.

#### Housing Starts

Total private housing starts rose 2.6 percent in April to 1.47 million units because of a jump in construction of multifamily housing units. Revisions boosted the starts estimates for February and March by 32,000 units and 10,000 units, respectively. Estimates of permit issuance were revised back to January 1995, but most of the changes were negligible.

The rise in starts at the national level almost entirely reflected an 11-1/4 percent surge in the South to one of the highest levels on record for that region. Starts in the Midwest edged up 0.7 percent. Starts were off about 7 percent in both the Northeast and the West.

Single-family starts were about unchanged in April at 1.12 million units, but permits for single-family construction rose nearly 3 percent. The level of permit issuance suggests that

single family construction may be marginally higher than is indicated by the level of starts.

Multifamily starts jumped to 355,000 units, an increase of nearly 11 percent. However, permits for multifamily units dropped in April following a large rise in March, suggesting that the bulge in multifamily starts likely is transitory.

May 16, 1997

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES  
(Not seasonally adjusted)

	1996 Sep	1996 Oct	1996 Nov	1996 Dec	1997 Jan	1997 Feb	1997 Mar	1997 Apr	1997 May (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	94.7	96.5	99.2	96.9	97.4	99.7	100.0	101.4	104.6
Current conditions	102.0	106.6	107.5	104.9	106.8	107.2	109.8	115.2	113.9
Expected conditions	90.1	89.9	93.9	91.8	91.3	94.9	93.6	92.5	98.6
-----									
Personal financial situation									
Now compared with 12 months ago*	109	115	121	117	116	114	119	132	125
Expected in 12 months*	130	127	133	132	128	134	134	130	143
Expected business conditions									
Next 12 months*	127	131	137	130	136	135	138	130	145
Next 5 years*	105	103	108	107	103	113	105	113	109
Appraisal of buying conditions									
Cars	134	132	135	134	141	130	135	136	150
Large household appliances*	155	161	158	155	160	164	166	167	171
Houses	149	159	157	156	162	166	155	153	162
Willingness to use credit	40	37	43	41	45	39	37	41	52
Willingness to use savings	62	62	70	63	71	67	66	68	75
Expected unemployment change - next 12 months	112	114	110	110	114	107	112	113	106
Expected inflation - next 12 months									
Mean	4.3	4.2	4.0	3.9	4.1	3.8	3.5	3.7	3.8
Median	3.2	3.0	3.0	3.0	3.0	3.0	2.8	3.0	3.0
Expected inflation - next 5 to 10 years									
Mean	4.1	4.2	3.7	3.9	4.0	3.7	3.6	3.6	3.8
Median	3.2	3.0	3.0	3.0	3.1	3.1	3.0	2.9	3.1

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.  
(p) -- Preliminary  
(f) -- Final

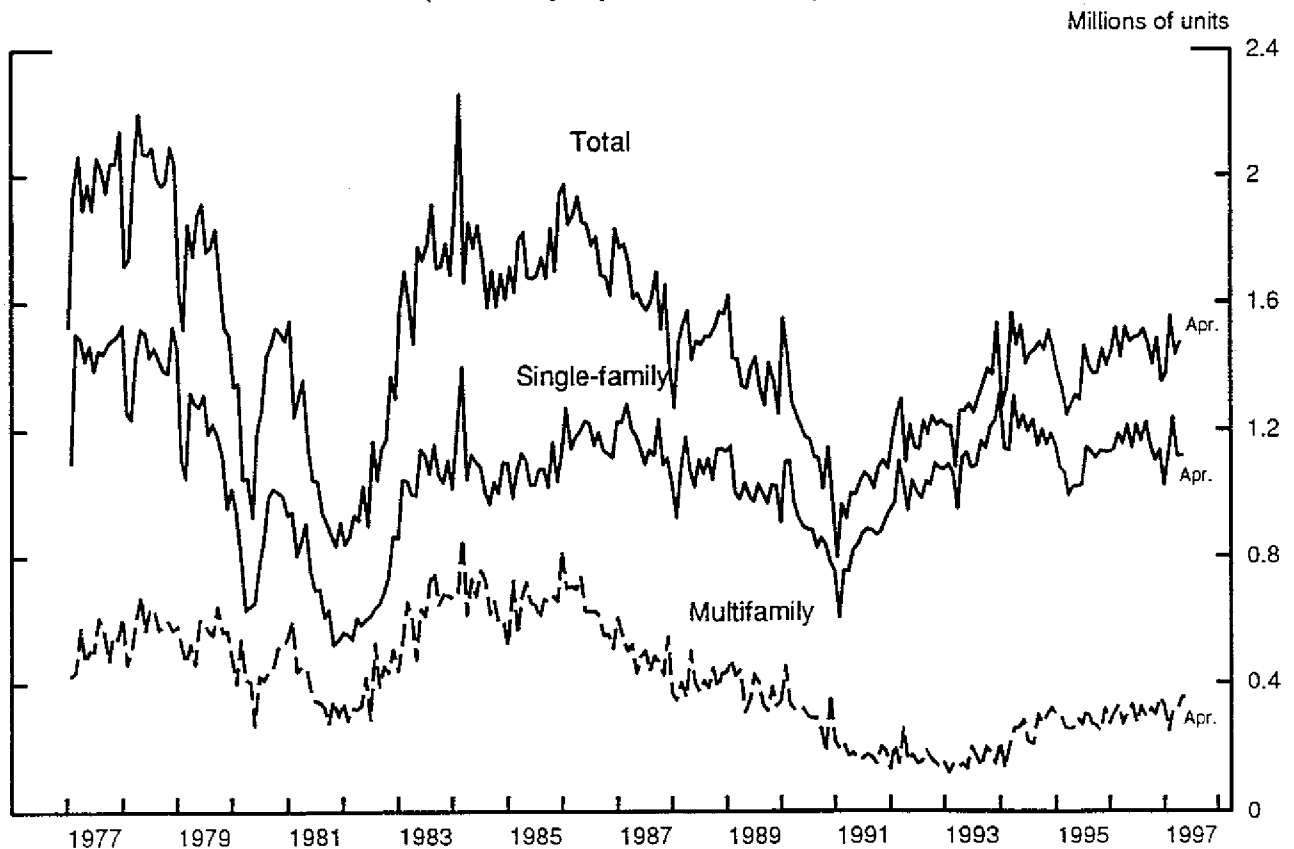
Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to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

**Private Housing Activity**  
(Millions of units; seasonally adjusted annual rate)

	1996			1997			
	1996 <sup>r</sup>	Q3 <sup>r</sup>	Q4 <sup>r</sup>	Q1 <sup>r</sup>	Feb. <sup>r</sup>	Mar. <sup>r</sup>	Apr. <sup>P</sup>
<i>All units</i>							
Starts	1.48	1.49	1.42	1.45	1.55	1.44	1.47
Permits	1.43	1.42	1.38	1.43	1.44	1.46	1.45
<i>Single-family units</i>							
Starts	1.16	1.18	1.09	1.16	1.24	1.12	1.12
Permits	1.07	1.06	1.01	1.05	1.07	1.03	1.06
New home sales	.76	.79	.76	.82	.83	.81	n.a.
Existing home sales	4.09	4.09	4.00	4.08	4.23	4.11	n.a.
<i>Multifamily units</i>							
Starts	.32	.31	.33	.30	.32	.32	.36
Permits	.36	.36	.38	.38	.37	.42	.38
<i>Mobile homes</i>							
Shipments	.36	.37	.35	.35	.35	.36	n.a.

Note. p Preliminary. r Revised. n.a. Not available.

**Private Housing Starts**  
(Seasonally adjusted annual rate)



THE FINANCIAL ECONOMY

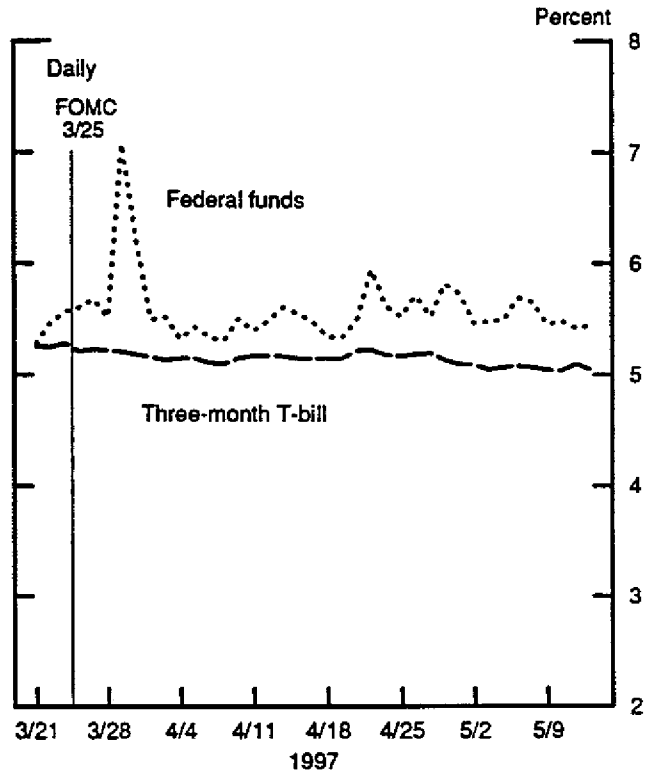
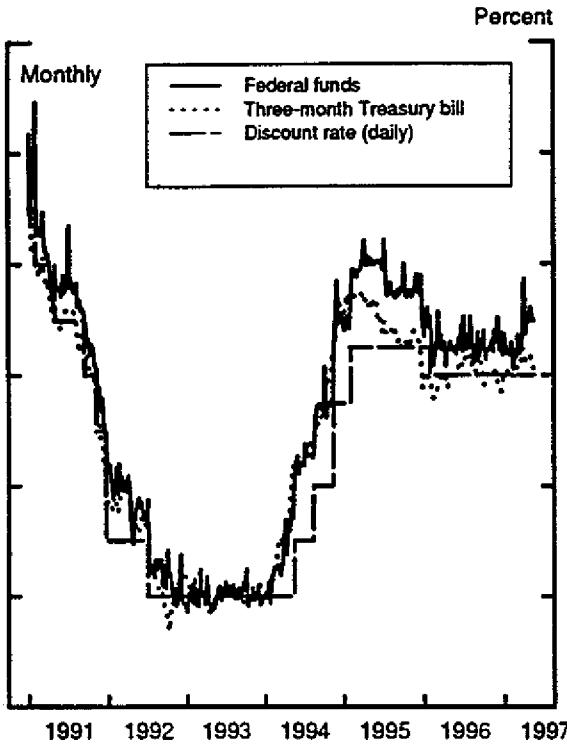
Selected Interest Rates

Attached are the charts on selected interest rates usually printed on the back of the green sheet at the beginning of the Greenbook Part 2 financial section

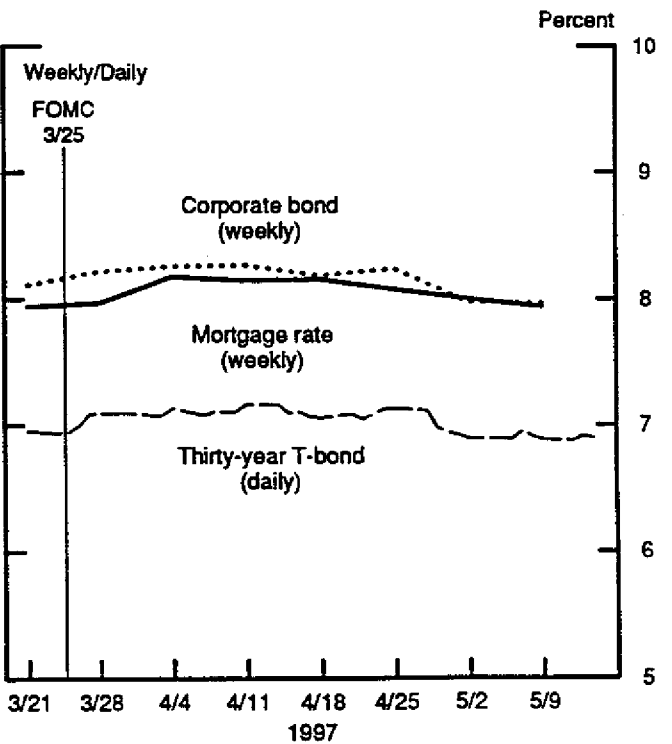
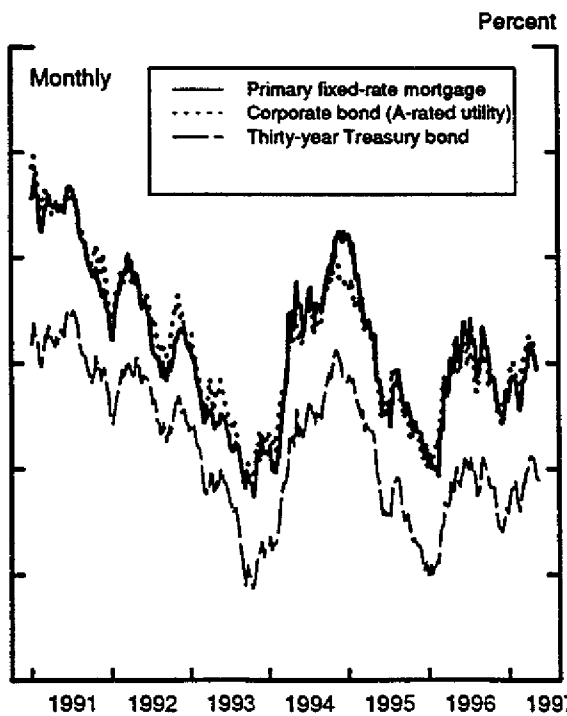


### Selected Interest Rates

#### Short-Term



#### Long-Term



Selected Financial Market Quotations<sup>1</sup>

(Percent except as noted)

Instrument	1996		1997		Change to May 15, from:			
	Feb.	July	FOMC,*		Feb.	July	FOMC,*	
	low	high	Mar. 25	May 15	low	high	Mar. 25	
<b>Short-term rates</b>								
Federal funds <sup>2</sup>	5.15	5.39	5.29	5.51	0.36	0.12	0.22	
Treasury bills <sup>3</sup>								
3-month	4.76	5.21	5.25	4.99	0.23	-0.22	-0.26	
6-month	4.67	5.40	5.35	5.31	0.64	-0.09	-0.04	
1-year	4.55	5.64	5.53	5.51	0.96	-0.13	-0.02	
Commercial paper								
1-month	5.27	5.50	5.61	5.62	0.35	0.12	0.01	
3-month	5.12	5.59	5.66	5.70	0.58	0.11	0.04	
Large negotiable CDs <sup>3</sup>								
1-month	5.21	5.44	5.56	5.60	0.39	0.16	0.04	
3-month	5.12	5.59	5.63	5.71	0.59	0.12	0.08	
6-month	4.99	5.83	5.77	5.89	0.90	0.06	0.12	
Eurodollar deposits <sup>4</sup>								
1-month	5.13	5.38	5.50	5.56	0.43	0.18	0.06	
3-month	5.13	5.56	5.56	5.69	0.56	0.13	0.13	
Bank prime rate	8.25	8.25	8.25	8.50	0.25	0.25	0.25	
<b>Intermediate- and Long-term Rates</b>								
U.S. Treasury (constant maturity)								
3-year	4.98	6.62	6.45	6.39	1.41	-0.23	-0.06	
10-year	5.58	7.06	6.72	6.67	1.09	-0.39	-0.05	
30-year	6.02	7.19	6.94	6.88	0.86	-0.31	-0.06	
U.S. Treasury indexed bond	n.a.	n.a.	3.47	3.57	n.a.	n.a.	0.10	
Municipal revenue (Bond Buyer) <sup>5</sup>	5.67	6.24	6.06	5.91	0.24	-0.33	-0.15	
Corporate-A utility, recently offered	7.18	8.23	8.11	7.98	0.80	-0.25	-0.13	
High-yield corporate <sup>6</sup>	9.57	10.36	9.66	9.58	0.01	-0.78	-0.08	
Home mortgages <sup>7</sup>								
FHLMC 30-yr fixed rate	6.94	8.42	7.94	7.91	0.97	-0.51	-0.03	
FHLMC 1-yr adjustable rate	5.19	6.01	5.71	5.82	0.63	-0.19	0.11	
<b>Stock exchange index</b>	Record high		1996	1997		Percentage change to May 15, from:		
	Level	Date	July low	FOMC,* Mar. 25	May 15	Record high	July low	FOMC,* Mar. 25
Dow-Jones Industrial	7333.55	5/15/97	5346.55	6905.25	7333.55	0.00	37.16	6.20
S&P 500 Composite	841.88	5/15/97	626.65	790.89	841.88	0.00	34.35	6.45
NASDAQ (OTC)	1388.06	1/22/97	1042.37	1242.64	1353.58	-2.48	29.86	8.93
Russell 2000	370.65	1/22/97	307.78	349.48	364.04	-0.68	19.61	4.17
Wilshire	7924.24	5/15/97	6099.34	7501.44	7924.24	0.00	29.92	5.64

1. One-day quotes except as noted.

2. Average for two-week reserve maintenance period closest to date shown. Last observation is the average to date for maintenance period ending May 21, 1997.

3. Secondary market.

4. Bid rates for Eurodollar deposits at 11 a.m. London time.

5. Most recent observation based on one-day Thursday quote and futures market index changes.

6. Merrill Lynch Master II high-yield bond index composite.

7. Quotes for week ending Friday previous to date shown.

\* Figures cited are as of the close on March 24, 1997.