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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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CONFIDENTIAL (FR)  
CLASS III FOMC

August 15, 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

Michigan (SRC) Survey of Consumer Attitudes

According to the preliminary report, the Michigan SRC index of consumer sentiment fell back in August, but it remained at an extremely favorable level after recording historical highs in June and July. Indeed, despite less favorable assessments of their current financial situations and expected business conditions, those components of the index in early August remained generally above the levels during the first five months of the year. Respondents' views on their personal financial situations over the next 12 months were unchanged in early August. Only households' opinions of buying conditions for large appliances dropped below the favorable level that prevailed earlier this year.

Among questions not included in the overall index, the index of expected unemployment change moved back up in August but remained relatively low. Reported unhappiness with prices led to the second straight monthly decline in assessments of buying conditions for cars. However, favorable views on mortgage rates provided a further boost to appraisals of buying conditions for new homes. Households' willingness to use savings or credit to finance a major purchase slipped somewhat in early August.

The mean of expected inflation over the next 12 months fell 0.2 percentage point to 3.2 percent; however, the median rose 0.1 percentage point in August to 2.8 percent. The mean of expected inflation over the next 5 to 10 years jumped 0.4 percentage point to 3.8 percent while the median moved up from 2.9 to 3 percent.

August 15, 1997

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

	1996 Dec	1997 Jan	1997 Feb	1997 Mar	1997 Apr	1997 May	1997 Jun	1997 Jul	1997 Aug (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	96.9	97.4	99.7	100.0	101.4	103.2	104.5	107.1	102.8
Current conditions	104.9	106.8	107.2	109.8	115.2	113.5	113.2	114.0	109.3
Expected conditions	91.8	91.3	94.9	93.6	92.5	96.6	98.9	102.6	98.5
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Personal financial situation									
Now compared with 12 months ago*	117	116	114	119	132	122	126	130	123
Expected in 12 months*	132	128	134	134	130	138	131	133	133
Expected business conditions									
Next 12 months*	130	136	135	138	130	142	147	151	149
Next 5 years*	107	103	113	105	113	109	121	130	114
Appraisal of buying conditions									
Cars	134	141	130	135	136	150	154	136	131
Large household appliances*	155	160	164	166	167	173	168	166	160
Houses	156	162	166	155	153	160	160	165	167
Willingness to use credit	41	45	39	37	41	49	43	49	46
Willingness to use savings	63	71	67	66	68	71	73	68	64
Expected unemployment change - next 12 months	110	114	107	112	113	109	108	104	108
Expected inflation - next 12 months									
Mean	3.9	4.1	3.8	3.5	3.7	3.7	3.5	3.4	3.2
Median	3.0	3.0	3.0	2.8	3.0	2.9	2.8	2.7	2.8
Expected inflation - next 5 to 10 years									
Mean	3.9	4.0	3.7	3.6	3.6	3.8	3.9	3.4	3.8
Median	3.0	3.1	3.1	3.0	2.9	3.0	3.1	2.9	3.0

\* -- 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.

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

(Percent except as noted)

Instrument	1997				Change to Aug. 14, from:		
	Jan. 2	Mar. low	FOMC * July 2	Aug. 14	Jan. 2	Mar. low	FOMC * July 2
	<b>Short-term rates</b>						
Federal funds <sup>2</sup>	5.79	5.27	5.63	5.63	-0.16	0.36	0.00
Treasury bills <sup>3</sup>							
3-month	5.05	5.04	5.04	5.20	0.15	0.16	0.16
6-month	5.14	5.17	5.10	5.20	0.06	0.03	0.10
1-year	5.28	5.37	5.33	5.26	-0.02	-0.11	-0.07
Commercial paper							
1-month	5.48	5.40	5.63	5.56	0.08	0.16	-0.07
3-month	5.47	5.45	5.64	5.56	0.09	0.11	-0.08
Large negotiable CDs <sup>3</sup>							
1-month	5.39	5.32	5.59	5.55	0.16	0.23	-0.04
3-month	5.42	5.42	5.68	5.61	0.19	0.19	-0.07
6-month	5.50	5.58	5.81	5.72	0.22	0.14	-0.09
Eurodollar deposits <sup>4</sup>							
1-month	5.38	5.31	5.56	5.50	0.12	0.19	-0.06
3-month	5.44	5.44	5.63	5.63	0.19	0.19	0.00
Bank prime rate	8.25	8.25	8.50	8.50	0.25	0.25	0.00
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	6.13	6.25	6.19	6.03	-0.10	-0.22	-0.16
10-year	6.54	6.56	6.45	6.27	-0.27	-0.29	-0.18
30-year	6.75	6.83	6.74	6.56	-0.19	-0.27	-0.18
U.S. Treasury 10-year indexed note	n.a.	3.36	3.63	3.57	n.a.	n.a.	-0.06
Municipal revenue (Bond Buyer) <sup>5</sup>	5.96	5.97	5.82	5.71	-0.25	-0.26	-0.11
Corporate-A utility, recently offered	7.64	7.97	7.84	7.69	0.05	-0.28	-0.15
High-yield corporate <sup>6</sup>	9.72	9.49	9.38	9.16	-0.56	-0.33	-0.22
Home mortgages <sup>7</sup>							
FHLMC 30-yr fixed rate	7.64	7.84	7.58	7.54	-0.10	-0.30	-0.04
FHLMC 1-yr adjustable rate	5.57	5.54	5.66	5.53	-0.04	-0.01	-0.13

Stock exchange index	Record high		1997			Percentage change to Aug. 14, from:		
	Level	Date	Jan. 2	FOMC * July 2	Aug. 14	Record high	Jan. 2	FOMC * July 2
	Dow-Jones Industrial	8259.31	8/6/97	6442.49	7722.33	7942.03	-3.84	23.28
S&P 500 Composite	960.32	8/6/97	737.01	891.03	924.77	-3.70	25.48	3.79
NASDAQ (OTC)	1630.44	8/6/97	1280.70	1438.25	1586.69	-2.68	23.89	10.32
Russell 2000	420.73	8/6/97	358.96	394.13	411.87	-2.11	14.74	4.50
Wilshire	9110.42	8/6/97	7147.80	8441.43	8807.29	-3.33	23.22	4.33

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 August 20, 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 July 1, 1997.