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September 28, 2001

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 Sentiment

According to the final report, the Michigan Survey Research Center (SRC) index of consumer sentiment fell almost 10 points in September. After having dropped considerably late in 2000, on balance, the SRC index had moved little through mid-August of this year. However, according to the bi-monthly reports, the SRC composite index tumbled in the second half of August before sliding further in both the first and second halves of this month.¹ Since mid-August, respondents have reported less favorable assessments of current conditions and much less optimism about business conditions expected in the next twelve months and the next five years.

Among those items not included in the overall index, expectations about the change in unemployment over the next twelve months deteriorated noticeably in September, and the diffusion index rose to its highest level since January 1991.²

Appraisals of current home-buying conditions were also less favorable this month, but this diffusion index remained in the elevated range registered so far this year. Meanwhile, appraisals of buying conditions for autos were little changed in September.

The mean and median of expected inflation over the next twelve months inched up 0.1 percentage point in September, to 3.2 percent and 2.8 percent, respectively. The mean of expected inflation over the next five to ten years decreased 0.2 percentage point to 3.4 percent, and the median inched down 0.1 percentage point to 2.9 percent.

Gross Domestic Product: 2001:Q2 Final

According to the BEA's final estimate, real GDP increased at an annual rate of 0.3 percent in the second quarter. Private businesses liquidated inventories at an annual rate of \$38.3 billion last quarter, following a runoff of \$27.1 billion in the first quarter, and this swing in private inventory investment subtracted 0.4 percentage point from the change in second-quarter real GDP. Final sales rose at an annual rate of 0.7 percent in the second quarter, off sharply from the 4.0 percent increase in the previous quarter. Within final sales, personal

¹ Looking even more closely at the weekly survey responses, the SRC reported that the overall sentiment index bounced up in the week immediately following September 11, then plunged toward the end of the month. That said, the weekly SRC data must be interpreted cautiously because they rely on small and possibly unbalanced (with respect to income, for example) samples.

² As with the SRC composite index, the bi-monthly reports indicate a rather steady deterioration in unemployment expectations since the second half of August.

consumption expenditures and government spending posted weaker increases than in the first quarter, while investment in residential structures, nonresidential structures, and equipment and software spending fell sharply. In addition, net exports arithmetically held down the second-quarter change in real GDP by about 0.1 percentage point.

Today's estimate of the rise in real GDP was 0.1 percentage point above the preliminary estimate and close to the staff estimate in the September Greenbook. The release included no large revisions or substantial discrepancies in any of the major categories.

The GDP price index is now estimated to have increased at an annual rate of 2.1 percent in the second quarter, down 0.1 percentage point from the preliminary release, and well below the 3.3 percent rate of increase in the first quarter. The increase in core PCE prices was revised down to 0.7 percent.

The BEA now reports that current-dollar corporate profits declined \$30 billion in the second quarter, little changed from the estimate reported in the preliminary release; in the first quarter, profits fell \$57.8 billion. Profits of financial corporations were revised down \$14.9 billion, while nonfinancial corporate profits were revised up \$6.7 billion; in addition, the BEA raised its estimate of profits from the rest of the world by \$6.8 billion. Altogether, profits (excluding those earned by Federal Reserve Banks) were 7.2 percent of GNP in the second quarter, down from 7.5 percent in the first quarter.

Business Inventories

Attached is a table containing updated data on manufacturing inventories at producers of durable goods.

September 28, 2001

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

	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sept. (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	94.7	90.6	91.5	88.4	92.0	92.6	92.4	91.5	81.8
Current conditions	107.7	105.8	103.4	98.0	102.2	101.6	98.6	101.2	94.6
Expected conditions	86.4	80.8	83.9	82.2	85.4	86.9	88.4	85.2	73.5

Personal financial situation									
Now compared with 12 months ago*									
Expected in 12 months*	123	122	119	110	112	117	114	118	108
Expected in 12 months*	126	129	131	134	129	126	133	127	128
Expected business conditions									
Next 12 months*	106	93	97	92	99	114	115	102	71
Next 5 years*	115	102	109	104	115	109	107	113	95
Appraisal of buying conditions									
Cars	133	137	146	129	133	127	138	132	133
Large household appliances*	157	152	148	143	152	146	141	144	136
Houses	149	149	148	144	154	162	149	154	149
Willingness to use credit	33	47	37	34	45	43	41	47	39
Willingness to use savings	55	66	52	55	58	64	60	55	47
Expected unemployment change - next 12 months	139	143	143	146	138	135	140	142	151
Prob. household will lose a job - next 5 years	20	23	22	21	21	22	24	23	24
Expected inflation - next 12 months									
Mean	3.8	3.2	3.3	3.7	3.9	4.0	3.0	3.1	3.2
Median	3.0	2.8	2.8	3.1	3.2	3.0	2.6	2.7	2.8
Expected inflation - next 5 to 10 years									
Mean	3.5	3.6	3.6	3.6	3.6	3.6	3.4	3.6	3.4
Median	2.9	3.0	3.0	3.1	3.0	3.0	2.9	3.0	2.9

* -- 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.

Real Gross Domestic Product and Related Items

(Percent change from previous period at compound annual rate;
based on seasonally adjusted data, chain-type indexes)

	<u>2001:Q1</u> Final	<u>2001:Q2</u> Preliminary	<u>2001:Q2</u> Final
1. Gross Domestic Product	1.3	.2	.3
2. Final sales	4.0	.6	.7
3. Consumer spending	3.0	2.5	2.5
4. Durables	10.6	7.1	7.0
5. Nondurables	2.4	.4	.3
6. Services	1.8	2.6	2.8
7. Business fixed investment	-.2	-14.6	-14.6
8. Nonresidential structures	12.3	-13.4	-12.2
9. Equipment and software	-4.1	-15.1	-15.4
10. Residential investment	8.5	5.8	5.9
11. Federal government consumption expenditures and investment	3.2	1.5	1.8
12. State and local government consumption expenditures and investment	6.4	7.4	6.6
13. Exports of goods and services	-1.2	-12.2	-11.9
14. Imports of goods and services	-5.0	-7.7	-8.4
<hr style="border-top: 1px dashed black;"/>			
<i>ADDENDA:</i>			
15. Inventory investment ¹	-27.1	-38.4	-38.3
16. Net exports of goods and services ¹	-404.5	-410.5	-406.7
17. Nominal GDP	4.0	2.0	2.4
18. GDP price index	3.3	2.2	2.1
19. PCE price index	3.2	1.6	1.3
20. Excluding food and energy	2.6	.9	.7
21. Profit share, excluding FR banks ²	7.5	7.2	7.2
22. Real disposable personal income	2.7	2.4	2.4
23. Personal saving rate (percent)	1.1	1.1	1.1

1. Level, billions of chained (1996) dollars.

2. Economic profits as a share of GNP.

Price Indexes for Gross Domestic Product
(Percent change from previous period at compound annual rates;
based on seasonally adjusted data, chain-type indexes)

	2001:Q1	2001:Q2	2001:Q2
	Final	Prelim.	Final
1. Gross domestic product	3.3	2.2	2.1
2. Gross domestic purchases	2.7	1.4	1.3
3. Personal consumption expenditures	3.2	1.6	1.3
4. Food and Beverages	4.0	2.6	2.6
5. Energy	11.7	9.3	9.2
6. Excluding food and energy	2.6	.9	.7
7. Business fixed investment	-1.9	-.5	-.1
8. Equipment and Software	-4.6	-1.9	-1.9
9. Computers and peripheral equipment	-30.9	-17.4	-17.3
10. Nonresidential structures	6.2	3.7	4.7
11. Residential investment	4.6	1.9	2.6
12. Government consumption expenditures and investment	3.5	1.8	1.8
13. Exports of goods and services	-.1	-.8	-1.0
14. Imports of goods and services	-3.0	-5.9	-6.0
15. Nonpetroleum goods	1.4	-5.6	-5.6

ADDENDA:			
16. GDP less food and energy	2.2	1.3	1.2
17. Gross domestic purchases less food and energy	2.3	1.0	.9

CHANGE IN INVENTORIES AT DURABLE GOODS MANUFACTURERS
(book value, billions of dollars at annual rate)

	2000		2001		2001			
	Q3	Q4	Q1	Q2	May	June	July	Aug.
Durable goods	11.5	18.1	-9.6	-25.2	-27.8	-40.2	-34.6	-24.6
Lumber and wood prod.	-.8	0.1	-.6	0.3	0.8	0.6	-1.3	-.4
Nonmetallic mineral prod.	0.7	1.0	0.1	-.4	-.8	0.3	-1.1	-1.5
Primary metals	0.4	-.5	-2.6	-3.8	-4.8	-4.1	-3.6	-3.3
Fabricated metals	2.0	0.8	-.4	-3.9	-3.2	-6.5	-3.0	-.3
Machinery	4.6	5.4	1.6	-3.0	-5.8	-.0	-5.0	-3.6
Computer and electronic prod.	0.8	10.9	1.6	-8.8	-6.2	-11.9	-13.2	-8.9
Electrical equipment	2.5	2.2	0.3	-2.4	-2.3	-3.5	-3.0	0.0
Transportation equipment	-1.3	-2.0	-9.0	-1.8	-4.0	-14.4	-2.0	-3.5
Motor vehicles	1.1	-2.2	-2.8	-.6	-4.9	-3.0	-2.3	-3.8
Aircraft & parts	-1.9	2.2	-6.6	-1.6	0.2	-4.3	1.3	1.3
Furniture	0.8	-.1	-.7	-1.1	-1.2	-1.1	-1.8	-2.2
Other durables	1.9	0.3	0.1	-.3	-.3	0.4	-.6	-.9
STAGE OF PROCESSING								
Materials and supplies	3.2	5.7	-4.3	-14.4	-7.0	-23.6	-17.0	-10.2
Work in process	-7.8	0.2	-4.1	-8.4	-14.7	-14.1	-6.3	-7.8
Finished goods	16.1	12.2	-1.2	-2.5	-6.2	-2.5	-11.3	-6.6

INVENTORY-SHIPMENTS RATIOS AT DURABLE GOODS MANUFACTURERS

	2000		2001		2001			
	Q3	Q4	Q1	Q2	May	June	July	Aug.
Durable goods	1.50	1.55	1.59	1.59	1.58	1.60	1.59	1.60
Lumber and wood prod.	1.41	1.45	1.51	1.41	1.37	1.38	1.39	1.39
Nonmetallic mineral prod.	1.24	1.32	1.36	1.32	1.30	1.33	1.31	1.29
Primary metals	1.68	1.77	1.80	1.76	1.74	1.78	1.72	1.71
Fabricated metals	1.63	1.67	1.71	1.69	1.68	1.71	1.68	1.67
Machinery	1.97	2.05	2.01	2.06	2.02	2.11	2.06	2.04
Computer and electronic prod.	1.23	1.27	1.38	1.52	1.55	1.56	1.60	1.67
Electronic equipment	1.38	1.39	1.41	1.39	1.40	1.41	1.45	1.43
Transportation equipment	1.42	1.48	1.49	1.42	1.39	1.39	1.37	1.38
Motor vehicles	0.58	0.61	0.62	0.59	0.57	0.59	0.56	0.56
Aircraft & parts	4.20	4.35	4.02	3.84	3.79	3.49	3.77	3.82
Furniture	1.37	1.39	1.42	1.42	1.42	1.47	1.40	1.36
Other durables	1.90	1.89	1.89	1.89	1.87	1.90	1.88	1.85

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

Instrument	2000	2001			Change to Sept. 27 from selected dates (percentage points)		
	June 26	Aug. 20	Sept. 10	Sept. 27	2000 June 26	2001 Aug. 20	2001 Sept. 10
<i>Short-term</i>							
FOMC intended federal funds rate	6.50	3.50	3.50	3.00	-3.50	-.50	-.50
Treasury bills ¹							
3-month	5.66	3.34	3.19	2.33	-3.33	-1.01	-.86
6-month	5.94	3.30	3.13	2.25	-3.69	-1.05	-.88
Commercial paper							
1-month	6.56	3.50	3.42	2.67	-3.89	-.83	-.75
3-month	6.56	3.37	3.24	2.40	-4.16	-.97	-.84
Large negotiable CDs ¹							
1-month	6.64	3.55	3.46	2.61	-4.03	-.94	-.85
3-month	6.73	3.45	3.26	2.52	-4.21	-.93	-.74
6-month	6.89	3.46	3.24	2.46	-4.43	-1.00	-.78
Eurodollar deposits ²							
1-month	6.63	3.49	3.41	2.60	-4.03	-.89	-.81
3-month	6.69	3.42	3.26	2.51	-4.18	-.91	-.75
Bank prime rate	9.50	6.75	6.50	6.00	-3.50	-.75	-.50
<i>Intermediate- and long-term</i>							
U.S. Treasury ³							
2-year	6.54	3.81	3.59	2.84	-3.70	-.97	-.75
10-year	6.35	5.21	5.14	4.91	-1.44	-.30	-.23
30-year	6.22	5.59	5.55	5.54	-.68	-.05	-.01
U.S. Treasury 10-year indexed note	4.08	3.33	3.26	3.16	-.92	-.17	-.10
Municipal revenue (Bond Buyer) ⁴	5.99	5.31	5.25	5.41	-.58	.10	.16
Private instruments							
10-year swap	7.38	5.77	5.62	5.26	-2.12	-.51	-.36
10-year FNMA	7.15	5.72	5.64	5.28	-1.87	-.44	-.36
10-year AA ⁵	7.60	6.35	6.30	6.23	-1.37	-.12	-.07
10-year BBB ⁵	8.49	7.14	7.08	7.11	-1.38	-.03	.03
High yield ⁶	11.97	12.51	12.86	14.04	2.07	1.53	1.18
Home mortgages (FHLMC survey rate) ⁷							
30-year fixed	8.14	6.92	6.89	6.80	-1.34	-.12	-.09
1-year adjustable	7.22	5.71	5.64	5.58	-1.64	-.13	-.06

Stock exchange index	Record high		2001			Change to Sept. 27 from selected dates (percent)		
	Lcvcl	Date	Aug. 20	Sept. 10	Sept. 27	Record high	2001 Aug. 20	2001 Sept. 10
Dow-Jones Industrial	11,723	1-14-00	10,320	9,606	8,681	-25.95	-15.88	-9.62
S&P 500 Composite	1,527	3-24-00	1,171	1,093	1,019	-33.31	-13.04	-6.77
Nasdaq (OTC)	5,049	3-10-00	1,881	1,695	1,461	-71.07	-22.36	-13.84
Russell 2000	606	3-9-00	479	441	393	-35.17	-17.94	-10.84
Wilshire 5000	14,752	3-24-00	10,838	10,104	9,350	-36.62	-13.73	-7.47

1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
4. Most recent Thursday quote.
5. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
6. Merrill Lynch 175 high-yield bond index composite.
7. For week ending Friday previous to date shown.

NOTES:

June 26, 2000 is the day before the FOMC meeting that ended the most recent period of policy tightening.
 August 20, 2001 is the day before the most recent FOMC meeting.
 September 10, 2001 is the day before the terrorist attacks.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2000	2001					Level (bil. \$) Sep. 01 (p)
		Q2	Q3 (p)	Jul.	Aug.	Sep. (p)	
<i>Aggregate</i>	Percent change (annual rate) ¹						
1. M2 ²	6.2	10.4	9.7	8.8	7.4	19.1	5284.9
2. M3	9.3	15.0	8.5	6.4	-1.0	19.3	7671.4
<i>Selected components</i>							
3. Currency	4.2	6.0	11.7	12.3	18.9	11.3	562.4
4. Liquid deposits ³	3.2	17.2	18.6	14.7	18.6	33.4	2703.1
5. Small time deposits	9.5	-4.1	-9.7	-13.5	-10.7	-10.0	1013.0
6. Retail money market funds	12.2	11.2	5.3	14.1	-10.5	14.8	997.6
7. M3 minus M2 ⁴	17.1	25.2	6.0	1.1	-19.1	19.7	2386.5
8. Large time deposits, net ⁵	13.6	0.7	-4.5	-7.6	-21.5	-3.0	802.1
9. Institution-only money market mutual funds	24.0	54.9	21.6	8.1	-20.9	58.1	997.6
10. RPs	11.7	21.0	-9.1	-12.4	-12.2	-35.0	370.3
11. Eurodollars	17.9	7.7	2.0	25.2	-14.8	20.5	216.5
<i>Memo</i>							
12. M1	-1.7	5.4	12.2	13.6	7.9	39.7	1143.0
13. Sweep-adjusted M1 ⁶	1.6	6.5	10.9	12.0	8.8	30.2	1577.5
14. Demand deposits	-10.9	-4.2	16.8	10.5	6.5	122.5	314.4
15. Other checkable deposits	-0.8	16.5	6.8	18.2	-13.4	2.3	257.5
16. Savings deposits	6.7	20.9	20.4	14.9	24.5	23.9	2131.3
17. Monetary base	1.4	5.4	14.8	11.6	15.2	48.2	615.4
	Average monthly change (billions of dollars) ⁷						
<i>Selected managed liabilities at commercial banks</i>							
18. Large time deposits, gross	8.7	1.3	-3.9	-6.5	-14.8	1.6	943.2
19. Net due to related foreign institutions	1.3	-10.2	-3.9	6.4	3.1	-31.9	193.9
20. U.S. government deposits at commercial banks	-1.4	-2.4	3.8	2.3	44.1	-53.0	59.1

1. For the years shown, Q4 to Q4 percent change. For the quarters shown, based on quarterly averages.
 2. Sum of M1, retail money market funds, saving deposits, and small time deposits.
 3. Sum of demand deposits, other checkable deposits, and saving deposits.
 4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.
 5. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.
 6. Sweep figures used to adjust these series are the estimated national total of transaction account balances initially swept into MMDAs owing to the introduction of new sweep programs on the basis of monthly averages of daily data.
 7. For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3.
- p--Preliminary