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September 20, 2002

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

Housing Market

Total private housing starts declined 2.2 percent in August to an annual rate of 1.61 million units. The decline was almost entirely concentrated in the Midwest, where starts dropped nearly 19 percent. Although housing starts have retreated from the elevated levels seen during the first half of this year, homes continued to be started at about the robust pace recorded in the first half of 2001.

In the single-family sector, housing starts fell 4.4 percent in August to an annual rate of 1.25 million units, the slowest pace since last November. In addition, single-family starts in July were revised down somewhat. However, permit issuance for single-family construction—adjusted for activity where permits are not required—increased slightly in August and now stands well above the pace of starts. The excess of adjusted permits relative to starts and the increase in the backlog of unused permits suggest that single-family starts may move back up in September. In the multifamily sector, the pace of starts in August rose 6.3 percent to an annual rate of 357,000 units. However, the issuance of permits for multifamily housing construction dropped sharply last month, suggesting that multifamily starts may fall some in September.

Private Housing Activity

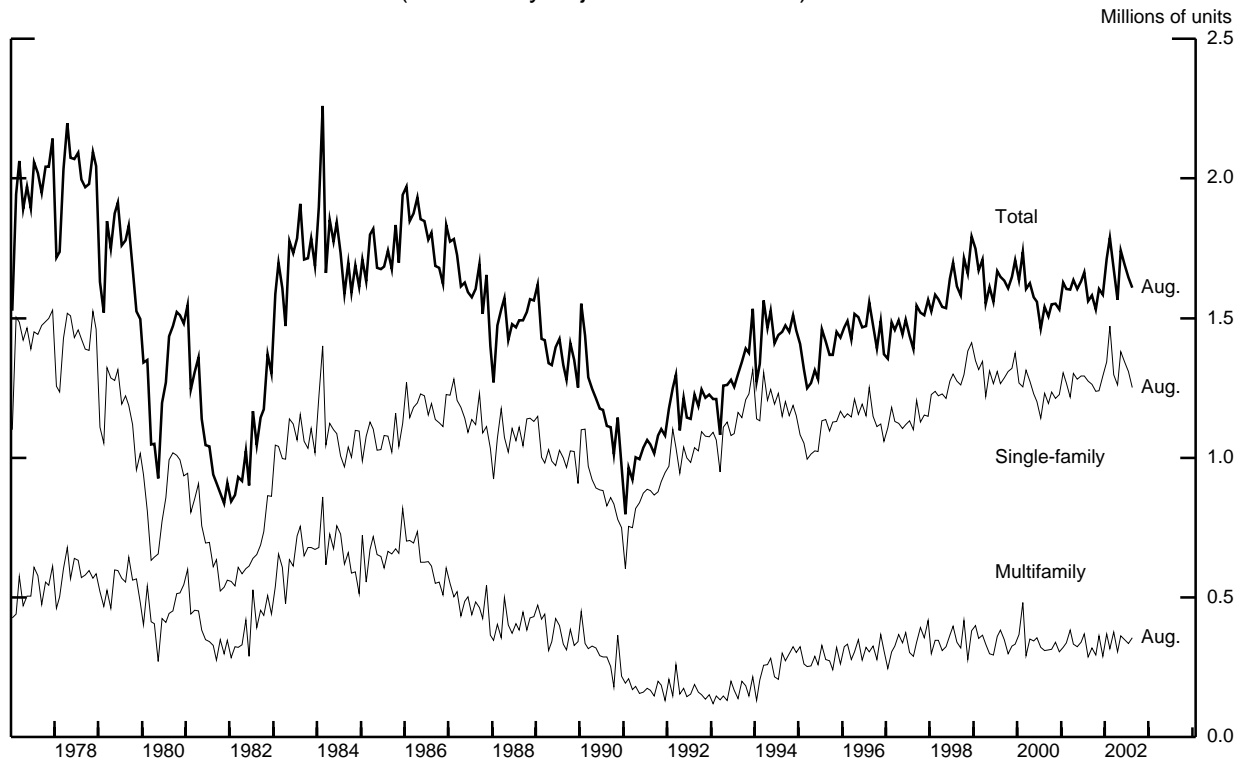
(Millions of units; seasonally adjusted annual rate)

	2001		2002				
	2001	Q4	Q1	Q2 ^r	June ^r	July ^r	Aug. ^p
<i>All units</i>							
Starts	1.60	1.57	1.73	1.67	1.69	1.65	1.61
Permits	1.64	1.64	1.69	1.67	1.71	1.71	1.67
<i>Single-family units</i>							
Starts	1.27	1.26	1.37	1.33	1.34	1.31	1.25
Permits	1.24	1.23	1.31	1.27	1.29	1.28	1.30
Adjusted permits ¹	1.28	1.26	1.34	1.31	1.34	1.32	1.32
New home sales	0.91	0.93	0.91	0.95	0.95	1.02	n.a.
Existing home sales	5.30	5.24	5.78	5.54	5.10	5.33	n.a.
<i>Multifamily units</i>							
Starts	0.33	0.32	0.35	0.34	0.35	0.34	0.36
Permits	0.40	0.41	0.39	0.40	0.41	0.43	0.37
<i>Mobile homes</i>							
Shipments	0.19	0.20	0.18	0.18	0.17	0.17	n.a.

1. Adjusted permits equals permit issuance plus total starts outside of permit-issuing areas.
 p Preliminary. r Revised. n.a. Not available.

Private Housing Starts

(Seasonally adjusted annual rate)



Commercial Bank Credit

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

Type of credit	2001	Q1 2002	Q2 2002	June 2002	July 2002	Aug. 2002	Level, Aug. 2002 (\$ billions)
Total							
1. Adjusted¹	4.2	1.0	5.1	5.2	5.6	15.5	5,482
2. Reported	5.1	-1.5	5.4	9.6	10.1	17.6	5,676
<i>Securities</i>							
3. Adjusted ¹	9.5	7.9	13.5	4.3	5.4	21.8	1,432
4. Reported	12.6	-2.0	13.5	20.0	21.5	28.8	1,625
5. Treasury & Agency	6.8	1.3	22.3	17.0	10.6	37.2	946
6. Other ²	21.1	-6.3	1.9	24.5	36.5	17.4	680
<i>Loans³</i>							
7. Total	2.5	-1.3	2.3	5.6	5.7	13.2	4,051
8. Business	-3.6	-6.6	-8.4	-7.5	-13.7	.2	987
9. Real estate	7.2	3.8	6.7	14.9	19.8	20.0	1,902
10. Home equity	19.9	25.6	39.6	41.5	44.0	30.0	197
11. Other	6.1	1.8	3.4	12.0	17.0	18.9	1,705
12. Consumer	3.8	5.3	5.1	-1.7	-6.5	21.8	577
13. Adjusted ⁴	7.4	5.2	4.5	3.4	-3.8	3.8	923
14. Other ⁵	-3	-13.4	4.9	6.0	6.2	5.6	585

Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded. The conversion from a thrift to a commercial bank charter added approximately \$37 billion to the assets and liabilities of domestically chartered commercial banks in the week ending May 8, 2002.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities, including revaluation gains on derivative contracts.

3. Excludes interbank loans.

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

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

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

Instrument	2000	2001	2002	2002	Change to Sept. 19 from selected dates (percentage points)		
	June 26	Sept. 10	Aug. 12	Sept. 19	2000 June 26	2001 Sept. 10	2002 Aug. 12
<i>Short-term</i>							
FOMC intended federal funds rate	6.50	3.50	1.75	1.75	-4.75	-1.75	.00
Treasury bills ¹							
3-month	5.66	3.19	1.65	1.62	-4.04	-1.57	-.03
6-month	5.94	3.13	1.60	1.60	-4.34	-1.53	.00
Commercial paper (A1/P1 rates)							
1-month	6.56	3.42	1.70	1.73	-4.83	-1.69	.03
3-month	6.56	3.24	1.67	1.72	-4.84	-1.52	.05
Large negotiable CDs ¹							
1-month	6.64	3.46	1.74	1.78	-4.86	-1.68	.04
3-month	6.73	3.26	1.70	1.77	-4.96	-1.49	.07
6-month	6.89	3.24	1.70	1.76	-5.13	-1.48	.06
Eurodollar deposits ²							
1-month	6.63	3.41	1.72	1.77	-4.86	-1.64	.05
3-month	6.69	3.26	1.68	1.74	-4.95	-1.52	.06
Bank prime rate	9.50	6.50	4.75	4.75	-4.75	-1.75	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury ³							
2-year	6.54	3.59	2.07	1.93	-4.61	-1.66	-.14
10-year	6.35	5.14	4.49	4.09	-2.26	-1.05	-.40
30-year	6.22	5.55	5.24	4.91	-1.31	-.64	-.33
U.S. Treasury 10-year indexed note	4.09	3.26	2.48	2.22	-1.87	-1.04	-.26
Municipal revenue (Bond Buyer) ⁴	5.99	5.25	5.36	5.05	-.94	-.20	-.31
Private instruments							
10-year swap	7.38	5.62	4.76	4.33	-3.05	-1.29	-.43
10-year FNMA	7.15	5.64	4.81	4.44	-2.71	-1.20	-.37
10-year AA ⁵	7.64	6.30	5.79	5.39	-2.25	-.91	-.40
10-year BBB ⁵	8.40	7.11	7.23	6.77	-1.63	-.34	-.46
High yield ⁶	12.30	12.72	13.51	13.13	.83	.41	-.38
Home mortgages (FHLMC survey rate) ⁷							
30-year fixed	8.14	6.89	6.31	6.18	-1.96	-.71	-.13
1-year adjustable	7.22	5.64	4.37	4.32	-2.90	-1.32	-.05

Stock exchange index	Record high		2001	2002		Change to Sept. 19 from selected dates (percent)		
	Level	Date	Sept. 10	Aug. 12	Sept. 19	Record high	2001 Sept. 10	2002 Aug. 12
Dow-Jones Industrial	11,723	1-14-00	9,606	8,689	7,942	-32.25	-17.31	-8.59
S&P 500 Composite	1,527	3-24-00	1,093	904	843	-44.79	-22.81	-6.69
Nasdaq (OTC)	5,049	3-10-00	1,695	1,307	1,216	-75.91	-28.25	-6.92
Russell 2000	606	3-9-00	441	389	366	-39.69	-17.06	-5.92
Wilshire 5000	14,752	3-24-00	10,104	8,537	8,005	-45.73	-20.78	-6.23

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 Master II high-yield bond.
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.
September 10, 2001, is the day before the terrorist attacks.
August 12, 2002, is the day before the announcement after the most recent FOMC meeting.

The International Economy

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit in July was \$34.6 billion. For the second quarter (which includes revised data for June), the trade deficit was \$44.2 billion, s.a.a.r., \$60 billion larger than in the first quarter and little changed from the previous estimate.

Net Trade in Goods and Services (Billions of dollars, seasonally adjusted)

	2001	Annual rate			Monthly rate		
		2001	2002		2002		
		Q4	Q1	Q2	May	June	July
<i>Real NIPA¹</i>							
Net exports of G&S	-415.9	-425.3	-446.6	-494.1
<i>Nominal BOP</i>							
Net exports of G&S	-358.3	-352.1	-382.0	-441.8	-37.7	-36.8	-34.6
Goods, net	-427.2	-402.7	-425.7	-489.9	-41.7	-40.6	-38.8
Services, net	68.9	50.5	43.7	48.1	4.0	3.9	4.3

1. Billions of chained (1996) dollars.

Source: U.S. Department of Commerce, Bureau of Economic Analysis and Census.

n.a. Not available. ... Not applicable.

The value of exported goods and services rose 1.3 percent in July following a similar-sized increase in June. Exports of goods were up 1.5 percent in July, owing largely to increases in exports of autos and aircraft. Exports of services rose about 1 percent, owing to moderate gains in travel, passenger fares, and other private services. Total exports of goods and services in July were about 2½ percent above the second-quarter level.

The value of imported goods and services in July dropped nearly 1 percent from the elevated June level, with similar-sized percent declines in both goods and services. Among categories of goods, increases in industrial supplies and automotive products were more than offset by declines in both capital and consumer goods. The decline in services imports was mainly in royalties and license fees. The level of total imports of goods and services in July was about the same as the second-quarter level.

U.S. Exports and Imports of Goods and Services

(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change ¹			
	2002		2002		2002		2002	
	Q1	Q2	June	July	Q1	Q2	June	July
Exports of G&S	933.0	974.0	986.0	998.8	1.3	41.0	13.9	12.8
Goods exports	658.6	689.7	699.0	709.5	-10.8	31.1	11.0	10.5
Gold	2.5	3.5	2.9	3.9	-0.3	0.9	-1.1	1.0
Other goods	656.1	686.2	696.1	705.6	-10.5	30.2	12.1	9.5
Aircraft & parts	49.4	50.2	53.3	61.2	1.3	0.8	5.1	7.9
Computers	39.0	38.6	39.6	37.1	-2.8	-0.4	0.8	-2.5
Semiconductors	39.5	43.9	45.9	46.2	1.3	4.4	2.6	0.3
Other capital gds	156.6	161.5	162.8	158.8	-4.2	5.0	1.8	-4.0
Automotive	73.8	80.4	79.9	85.1	-0.4	6.6	-1.2	5.2
to Canada	41.4	44.1	44.4	48.1	1.4	2.7	0.4	3.6
to Mexico	14.4	17.1	16.5	13.1	-1.9	2.7	-1.6	-3.5
to ROW	18.0	19.2	19.0	24.0	0.1	1.2	-0.1	5.0
Agricultural	55.1	54.1	57.3	56.1	-0.7	-1.0	3.6	-1.2
Ind supplies (ex. ag)	134.9	146.1	147.1	146.0	-1.9	11.2	0.8	-1.1
Consumer goods	82.2	84.2	85.3	87.0	-2.3	2.0	2.8	1.7
All other goods	25.5	27.2	24.8	28.1	-0.9	1.7	-3.0	3.3
Services exports	274.4	284.3	287.0	289.2	12.1	9.9	2.8	2.3
Imports of G&S	1315.0	1415.8	1427.0	1413.4	31.1	100.8	2.4	-13.6
Goods imports	1084.3	1179.6	1186.4	1175.7	12.2	95.3	-1.9	-10.7
Petroleum	76.7	108.1	103.8	107.2	-4.3	31.5	-7.6	3.4
Gold	2.0	3.5	3.4	3.1	-0.4	1.4	-0.4	-0.4
Other goods	1005.6	1068.0	1079.2	1065.4	16.9	62.4	6.1	-13.8
Aircraft & parts	29.0	24.9	24.9	23.2	-3.5	-4.1	2.5	-1.7
Computers	75.6	76.6	76.1	76.8	7.2	1.0	-0.6	0.7
Semiconductors	25.2	27.7	28.5	27.1	2.1	2.4	0.4	-1.5
Other capital gds	147.5	159.3	160.6	159.9	-0.6	11.8	-1.2	-0.6
Automotive	190.4	207.5	206.7	207.2	2.9	17.1	-5.1	0.5
from Canada	58.2	61.2	60.2	64.4	2.5	3.0	-1.6	4.2
from Mexico	39.4	43.6	42.8	38.5	-0.8	4.2	-1.3	-4.3
from ROW	92.9	102.7	103.7	104.3	1.2	9.9	-2.2	0.6
Ind supplies	152.8	162.5	163.8	162.4	0.5	9.8	1.6	-1.4
Consumer goods	285.3	307.1	313.7	306.7	6.9	21.8	6.3	-7.0
Foods, feeds, bev.	47.5	49.4	49.6	50.9	0.4	1.9	-0.1	1.3
All other goods	52.2	53.0	55.3	51.2	1.1	0.8	2.3	-4.1
Services imports	230.7	236.2	240.6	237.7	18.9	5.5	4.3	-2.9
<i>Memo:</i>								
Oil quantity (mb/d)	11.45	12.32	11.74	11.89	-0.62	0.87	-0.67	0.15
Oil import price (\$/bbl)	18.43	24.05	24.20	24.68	0.11	5.62	-0.36	0.48

1. Change from previous quarter or month.

Source: U.S. Department of Commerce, Bureau of Economic Analysis and Census.