

## **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.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

September 16, 2005

# 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

## Contents

### **The Domestic Nonfinancial Economy ..... 1**

Consumer Prices .....	1
Productivity and Costs .....	6
Insured Unemployment.....	8
Consumer Sentiment.....	8
Business Inventories .....	10

#### *Tables*

Measures of Consumer Price Inflation .....	2
Measures of Producer Price Inflation .....	2
Measures of Inflation .....	4
Broad Measures of Inflation .....	5
Surveys of Inflation Expectations.....	5
Labor Output per Hour.....	6
Hourly Compensation and Unit Labor Costs.....	7
University of Michigan Survey Research Center: Survey of Consumer Attitudes .....	9
Changes in Manufacturing and Trade Inventories.....	11

#### *Charts*

Core Consumer Price Inflation .....	3
Compensation per Hour .....	7
Book-Value Inventories Relative to Shipments and Sales .....	11

### **The Domestic Financial Economy .....12**

#### *Tables*

Commercial Bank Credit .....	12
Selected Financial Market Quotations .....	13

**The International Economy .....14**

U.S. Current Account..... 14

U.S. International Financial Transactions..... 14

*Tables*

U.S. Current Account..... 14

Summary of U.S. International Transactions..... 16

## Supplemental Notes

---

### The Domestic Nonfinancial Economy

#### Consumer Prices

The consumer price index advanced 0.5 percent in August, following a similar increase in July.<sup>1</sup> The increase in August, as in July, was primarily the result of a jump in consumer energy prices. On a twelve-month-change basis, overall CPI inflation was 3.6 percent last month, about a percentage point higher than its pace over the preceding year.

Excluding food and energy, the CPI moved up 0.1 percent for the fourth consecutive month; this left the twelve-month change in this index at 2.1 percent, a little above the pace in the year-earlier period. The increase in the core CPI last month was somewhat less than we had anticipated, mostly because prices for lodging away from home and medical care services were lower than expected.

Energy prices ran up 5 percent in August as motor fuel prices jumped 8 percent. This is the second consecutive large monthly increase in gasoline prices, and available survey data point to a rise roughly double this size in September. In all, consumer energy prices climbed 20 percent over the twelve months ending in August, about twice the rise seen in the preceding twelve months.

Consumer food prices were unchanged in August after having increased 0.2 percent in July. Prices of fruits and vegetables fell 1.3 percent, nearly reversing the spike in July. Over the twelve months ending in August, the CPI for food decelerated, rising 2¼ percent, compared with a 3½ percent increase over the preceding twelve-month period.

Prices of core consumer goods rose 0.1 percent last month as prices for apparel jumped 1 percent after having fallen by almost this amount in July. Prices for new motor vehicles declined considerably for a second consecutive month in August, apparently reflecting the continued influence of employee-discount programs at the Big Three domestic automakers. In August, prices of core goods were ¾ percent above their year-earlier level, compared with a decline of 1 percent over the preceding year.

---

<sup>1</sup> Data for the CPI are collected throughout the entire reference month. More than 90 percent of the prices for August were collected prior to August 29<sup>th</sup>, the date when Hurricane Katrina struck the Gulf Coast.

**Measures of Consumer Price Inflation**  
(Percent)

Measures	12-month change		3-month change		1-month change	
	Aug. 2004	Aug. 2005	Annual rate		Monthly rate	
			May 2005	Aug. 2005	July 2005	Aug. 2005
<i>CPI</i>						
<b>Total</b>	<b>2.7</b>	<b>3.6</b>	<b>4.4</b>	<b>4.2</b>	<b>.5</b>	<b>.5</b>
Food	3.5	2.2	3.9	1.1	.2	.0
Energy	10.5	20.2	28.7	38.2	3.8	5.0
<b>Ex. food and energy</b>	<b>1.7</b>	<b>2.1</b>	<b>2.2</b>	<b>1.4</b>	<b>.1</b>	<b>.1</b>
Core commodities	-1.1	.7	.6	-1.4	-.3	.1
Core services	2.9	2.7	2.9	2.4	.3	.1
Chained CPI (n.s.a.) <sup>1</sup>	2.1	3.0	...	...	...	...
Ex. food and energy <sup>1</sup>	1.4	1.8	...	...	...	...
<i>PCE prices</i> <sup>2</sup>						
<b>Total</b>	<b>2.6</b>	<b>2.9</b>	<b>3.5</b>	<b>2.9</b>	<b>.3</b>	<b>.4</b>
Food	3.2	1.9	3.8	.9	.2	.0
Energy	11.0	21.3	29.1	40.5	4.0	5.3
<b>Ex. food and energy</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>.9</b>	<b>.1</b>	<b>.1</b>
Core commodities	-.8	.1	.6	-2.4	-.3	.1
Core services	3.1	2.7	2.4	2.4	.2	.2
Core market-based	1.4	1.7	1.8	.9	.0	.1
Core non-market-based	4.5	n.a.	2.3	n.a.	.1	n.a.

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

2. PCE prices in August are staff estimates.

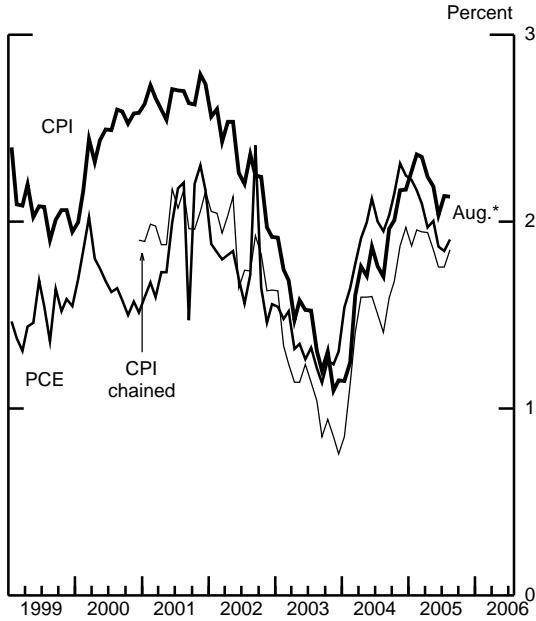
... Not applicable.

**Measures of Producer Price Inflation**  
(Percent)

Measures	12-month change		3-month change		1-month change	
	Aug. 2004	Aug. 2005	Annual rate		Monthly rate	
			May 2005	Aug. 2005	July 2005	Aug. 2005
<i>PPI</i>						
<b>Total finished goods</b>	<b>3.3</b>	<b>5.1</b>	<b>2.6</b>	<b>6.7</b>	<b>1.0</b>	<b>.6</b>
Food	4.0	1.2	1.0	-6.5	-.3	-.3
Energy	9.8	19.2	5.8	48.4	4.4	3.7
<b>Ex. food and energy</b>	<b>1.5</b>	<b>2.4</b>	<b>2.1</b>	<b>1.3</b>	<b>.4</b>	<b>.0</b>
Core consumer goods	1.5	2.6	2.0	1.0	.4	-.1
Capital equipment	1.4	2.2	2.5	.8	.5	-.1
Intermediate materials	8.0	6.1	4.4	7.4	1.0	.7
Ex. food and energy	7.2	3.2	.8	-1.3	-.1	-.1
Crude materials	23.5	11.3	20.3	24.2	6.7	2.3
Ex. food and energy	32.3	-.2	-9.2	13.4	3.1	4.6

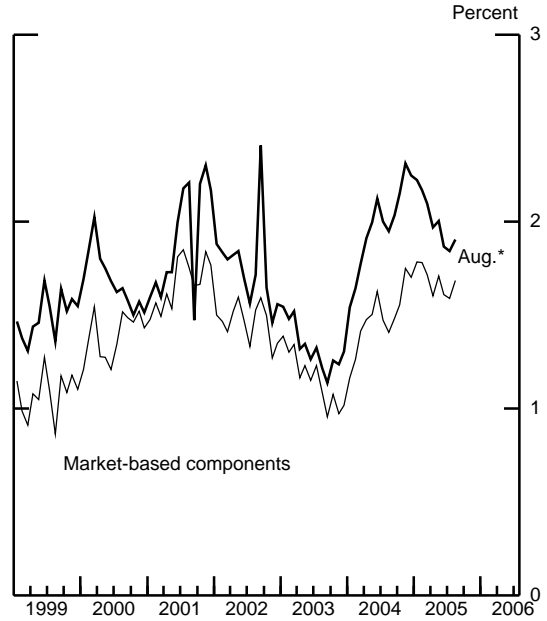
### Core Consumer Price Inflation (12-month change except where noted)

CPI and PCE ex. Food and Energy



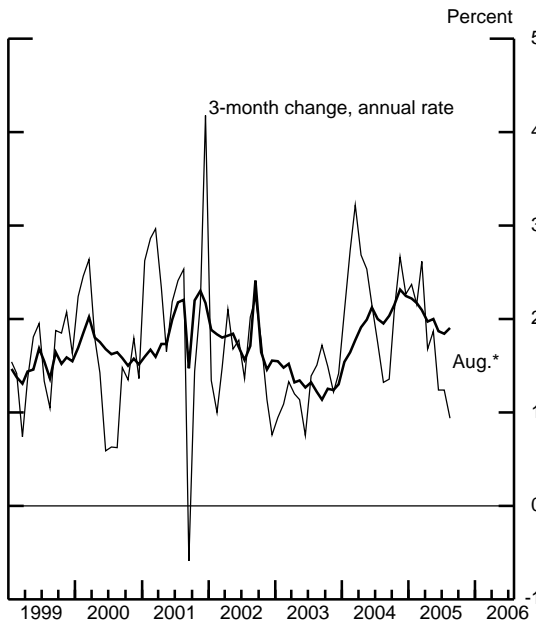
\* PCE for August is a staff estimate.

PCE excluding Food and Energy



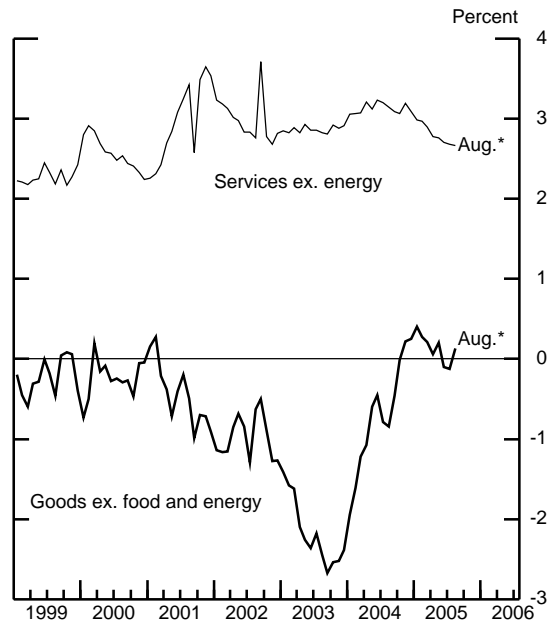
\* Staff estimate.

PCE excluding Food and Energy



\* Staff estimate.

PCE Goods and Services



\* Staff estimate.

**Measures of Inflation**  
(Percent)

Measures	12-month change		3-month change		1-month change	
	Aug. 2004	Aug. 2005	Annual rate		Monthly rate	
			May 2005	Aug. 2005	July 2005	Aug. 2005
<i>CPI</i>						
<b>Total</b>	<b>2.7</b>	<b>3.6</b>	<b>4.4</b>	<b>4.2</b>	<b>.5</b>	<b>.5</b>
Food	3.5	2.2	3.9	1.1	.2	.0
Energy	10.5	20.2	28.7	38.2	3.8	5.0
<b>Ex. food and energy</b>	<b>1.7</b>	<b>2.1</b>	<b>2.2</b>	<b>1.4</b>	<b>.1</b>	<b>.1</b>
Core goods	-1.1	.7	.6	-1.4	-.3	.1
Core services	2.9	2.7	2.9	2.4	.3	.1
Chained CPI (n.s.a.) <sup>1</sup>	2.1	3.0	...	...	...	...
Ex. food and energy <sup>1</sup>	1.4	1.8	...	...	...	...
<i>PCE prices</i> <sup>2</sup>						
<b>Total</b>	<b>2.6</b>	<b>2.9</b>	<b>3.5</b>	<b>2.9</b>	<b>.3</b>	<b>.4</b>
Food	3.2	1.9	3.8	.9	.2	.0
Energy	11.0	21.3	29.1	40.5	4.0	5.3
<b>Ex. food and energy</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>.9</b>	<b>.1</b>	<b>.1</b>
Core goods	-.8	.1	.6	-2.4	-.3	.1
Core services	3.1	2.7	2.4	2.4	.2	.2
Core market-based	1.4	1.7	1.8	.9	.0	.1
Core non-market-based	4.5	n.a.	2.3	n.a.	.1	n.a.
<i>PPI</i>						
<b>Total finished goods</b>	<b>3.3</b>	<b>5.1</b>	<b>2.6</b>	<b>6.7</b>	<b>1.0</b>	<b>.6</b>
Food	4.0	1.2	1.0	-6.5	-.3	-.3
Energy	9.8	19.2	5.8	48.4	4.4	3.7
<b>Ex. food and energy</b>	<b>1.5</b>	<b>2.4</b>	<b>2.1</b>	<b>1.3</b>	<b>.4</b>	<b>.0</b>
Core consumer goods	1.5	2.6	2.0	1.0	.4	-.1
Capital equipment	1.4	2.2	2.5	.8	.5	-.1
Intermediate materials	8.0	6.1	4.4	7.4	1.0	.7
Ex. food and energy	7.2	3.2	.8	-1.3	-.1	-.1
Crude materials	23.5	11.3	20.3	24.2	6.7	2.3
Ex. food and energy	32.3	-.2	-9.2	13.4	3.1	4.6

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

2. PCE prices in August are staff estimates.

... Not applicable.

n.a. Not available.



**Broad Measures of Inflation**  
(Percent change, Q2 to Q2)

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.6	2.0	2.8	2.4
Less food and energy	2.1	1.8	2.5	2.4
Nonfarm business chain price index	1.0	1.2	2.2	2.4
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.4	2.1	3.0	2.8
Less food and energy	1.9	1.7	2.5	2.3
PCE price index	1.2	1.8	2.7	2.5
Less food and energy	1.8	1.3	2.0	1.9
PCE price index, market-based components	.9	1.7	2.5	2.4
Less food and energy	1.5	1.2	1.5	1.6
CPI	1.3	2.2	2.8	2.9
Less food and energy	2.4	1.5	1.8	2.2
Chained CPI	1.0	1.9	2.5	2.5
Less food and energy	1.9	1.2	1.6	1.8
Median CPI	3.6	2.2	2.5	2.3
Trimmed mean CPI	2.2	1.9	2.1	2.2

**Surveys of Inflation Expectations**  
(Percent)

Period	Actual CPI inflation <sup>1</sup>	University of Michigan				Professional forecasters (10-year) <sup>4</sup>
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>		
		Mean	Median	Mean	Median	
2003:Q4	1.9	3.0	2.6	3.1	2.8	2.5
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5
Q2	2.9	4.0	3.3	3.3	2.8	2.5
Q3	2.7	3.3	2.9	3.1	2.8	2.5
Q4	3.3	3.4	3.0	3.1	2.8	2.5
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5
Q2	2.9	3.9	3.2	3.3	2.9	2.5
Q3	n.a.	4.3	3.6	3.5	2.9	2.5
2005:Apr.	3.5	4.0	3.3	3.4	3.0	...
May	2.8	3.8	3.2	3.5	2.9	...
June	2.5	4.0	3.2	3.1	2.8	2.5
July	3.2	3.6	3.0	3.3	2.9	...
Aug.	3.6	3.7	3.1	3.3	2.8	...
Sept.	n.a.	5.7	4.6	3.8	3.1	2.5

1. Percent change from the same period in the preceding year.
  2. Responses to the question: By about what percent do you expect prices to go up, on average, during the next 12 months?
  3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?
  4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.
- ... Not applicable.  
n.a. Not available.

Prices of non-energy services also moved up 0.1 percent in August. Shelter prices were unchanged as the volatile “lodging away from home” component fell 1.6 percent—more than reversing the previous month’s increase. Apart from shelter, prices of core services rose 0.2 percent. In August, airfares fell for the first time since January, and, for the first time in thirty years, prices of medical care services did not increase during the month. Prices of non-energy services rose 2¾ percent during the year ending in August, ¼ percentage point less than their year-earlier rise.

The chained CPI, or C-CPI-U, rose 3 percent over the twelve months ending in August, 0.6 percentage point less than the change in the official index.<sup>2</sup> The corresponding change in the core C-CPI-U was 1.8 percent, 0.3 percentage point lower than the official core CPI.

### Productivity and Costs

We now estimate that output per hour of all persons in the nonfarm business sector rose at an annual rate of 1.7 percent in the second quarter, following an increase at a 3.2 percent rate in the first quarter.<sup>3</sup> Over the four quarters ending in 2005:Q2, productivity increased 2.2 percent by our estimate, roughly half of the pace during the preceding four quarters. With hourly compensation in the nonfarm business sector

#### Labor Output per Hour

(Percent change from preceding period at an annual rate; seasonally adjusted)

Sector	2003	2004	2004	2005		2003:Q2 to 2004:Q2	2004:Q2 to 2005:Q2 <sup>1</sup>
			Q4	Q1	Q2 <sup>1</sup>		
Nonfarm business							
All persons	5.0	2.6	2.5	3.2	1.7	4.2	2.2
All employees <sup>2</sup>	5.5	2.5	2.1	3.7	1.5	4.1	2.5
Nonfinancial corporations <sup>3</sup>	4.5	4.7	8.5	2.7	6.8	3.2	6.3

Note. Annual changes are from fourth quarter of preceding year to fourth quarter of year shown.

1. Staff estimates.

2. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.

3. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.

<sup>2</sup> The chained CPI uses an index number formula that is intended to capture shifts in consumers’ expenditure patterns following relative price changes.

<sup>3</sup> The BLS reported last week that productivity rose at an annual rate of 1.8 percent in the second quarter, but that figure does not incorporate data on output and hours received in the past two weeks.

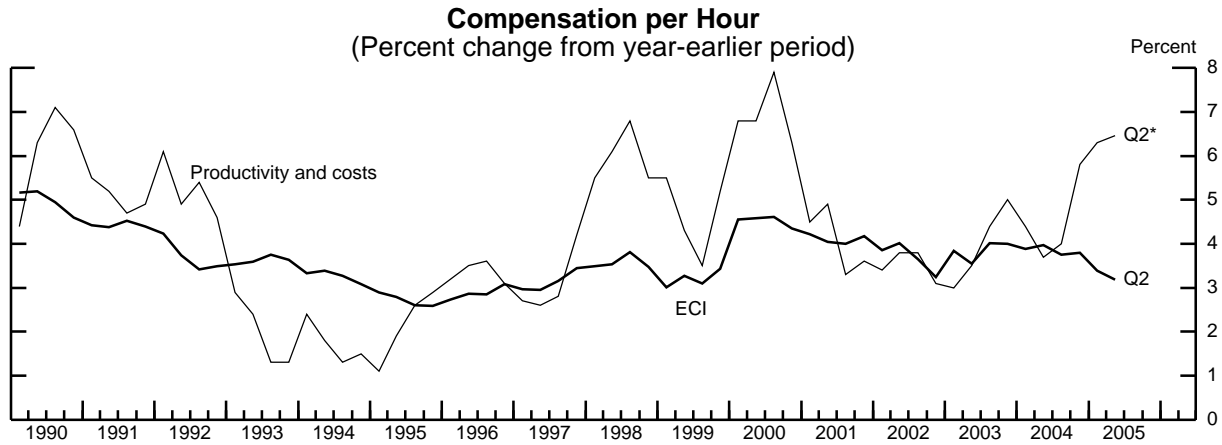
### Hourly Compensation and Unit Labor Costs

(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2003:Q2 to 2004:Q2	2004:Q2 to 2005:Q2 <sup>e</sup>	2004		2005	
			Q3	Q4	Q1	Q2 <sup>e</sup>
<i>Compensation per hour</i>						
Nonfarm business	3.7	6.5	6.1	10.2	5.5	4.4
Nonfinancial corporations <sup>1</sup>	3.2	6.7	6.3	10.6	5.9	4.0
<i>Unit labor costs</i>						
Nonfarm business	-.4	4.3	4.7	7.6	2.2	2.6
Nonfinancial corporations <sup>1</sup>	.0	.3	-1.0	1.9	3.1	-2.6

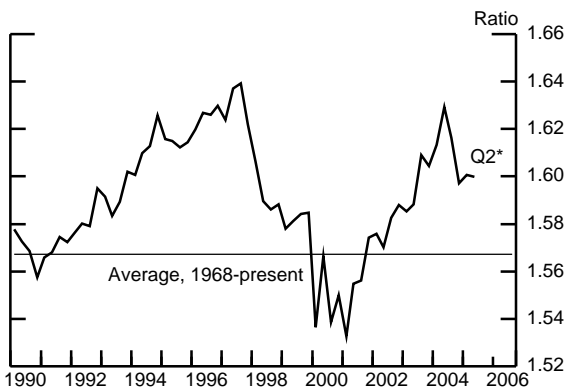
1. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.

e Staff estimate.



\* Value for Q2 is a staff estimate.

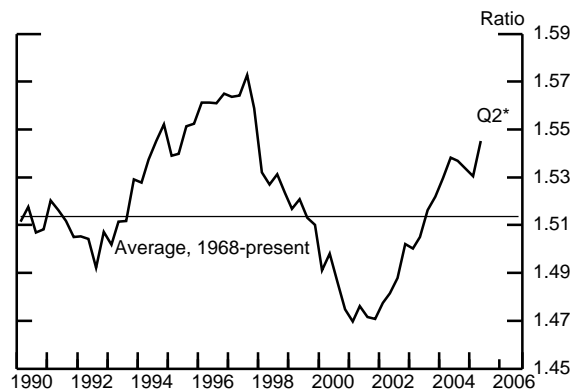
#### Markup, Nonfarm Business



Note. Ratio of output price to unit labor costs.

\* Value for Q2 is a staff estimate.

#### Markup, Nonfinancial Corporations



Note. Ratio of output price to unit labor costs.

\* Value for Q2 is a staff estimate.

having risen 6.5 percent over that period, unit labor costs rose 4.3 percent—a noticeable turnaround from the preceding three years during which they were little changed. We estimate that output per hour in the nonfinancial corporate sector rose at an annual rate of 6.8 percent in the second quarter to a level 6.3 percent higher than a year earlier. Hourly compensation rose 4.3 percent over the year ending in 2005:Q2, and unit labor costs continued to be little changed.

### **Insured Unemployment**

Initial claims for unemployment insurance under state programs jumped 71,000 to 398,000 for the week ending September 10, which raised the four-week moving average of new claims 20,000 to 341,000. According to our contact at the Employment and Training Administration (ETA), nearly all of this week's increase can be directly attributed to the hurricane. He also noted that upward revisions to this week's figure are likely: Given the nature and scale of the disaster, the states have faced problems in processing new claims, and the ETA will require more time than usual to accurately determine the number of claims and to apportion them among the states. In addition, some claimants, who are not eligible for regular state programs, may be eligible for Disaster Unemployment Assistance from the Federal Emergency Management Agency; because those claims are reported on a monthly basis, information on the numbers involved may not be available until next month.

Insured unemployment under state programs for the week ending September 3 was 2.6 million, close to the level at which it has held since the beginning of April. The insured unemployment rate remained at 2 percent.

### **Consumer Sentiment**

The Michigan Survey Research Center (SRC) reported that its overall index of consumer sentiment plunged 12.2 points in early September to 76.9, a level well below its average over the previous twelve months. The deterioration probably reflects recent increases in the price of gasoline and the effects of Hurricane Katrina, and it is likely restraining consumer spending somewhat.

The early-September drop in sentiment was the result of striking declines in both the "current conditions" and "expected conditions" components of the index. Among questions not included in the overall index, consumers reported that their expectations about the change in unemployment over the next twelve months worsened noticeably.

September 16, 2005

**University of Michigan Survey Research Center: Survey of Consumer Attitudes**  
**Indexes of consumer sentiment**  
 (Not seasonally adjusted)

Category	2005							
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept. <sup>P</sup>
Composite of current and expected conditions <sup>1</sup>	94.1	92.6	87.7	86.9	96.0	96.5	89.1	76.9
Current conditions <sup>1</sup>	109.2	108.0	104.4	104.9	113.2	113.5	108.2	97.7
Expected conditions <sup>1</sup>	84.4	82.8	77.0	75.3	85.0	85.5	76.9	63.6
Personal financial situation								
Now compared with 12 months ago <sup>2</sup>	121	117	113	109	122	122	117	101
Expected in 12 months <sup>2</sup>	127	130	121	121	129	133	121	112
Expected business conditions								
Next 12 months <sup>2</sup>	114	104	96	95	109	112	102	65
Next 5 years <sup>2</sup>	98	98	91	85	103	99	85	76
Appraisal of buying conditions								
Cars	144	130	128	133	139	152	147	127
Large household appliances <sup>2</sup>	162	163	158	163	172	172	164	151
Houses	151	150	149	156	146	145	140	127
Expected unemployment change - next 12 months	111	112	118	119	116	117	123	136
Prob. household will lose a job - next 5 years	23	23	27	24	23	22	23	23
Expected inflation - next 12 months								
Mean	3.3	4.0	4.0	3.8	4.0	3.6	3.7	5.7
Median	2.9	3.2	3.3	3.2	3.2	3.0	3.1	4.6
Expected inflation - next 5 to 10 years								
Mean	3.1	3.3	3.4	3.5	3.1	3.3	3.3	3.8
Median	2.8	2.9	3.0	2.9	2.8	2.9	2.8	3.1

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.

Appraisals of buying conditions for houses tumbled to their lowest level since February 1991, and appraisals of buying conditions for cars fell back to their spring levels.

The mean of expected inflation over the next twelve months ramped up to 5.7 percent, and the median climbed to 4.6 percent. The mean of expected inflation over the next five to ten years moved up to 3.8 percent, and the median moved up to 3.1 percent.

### **Business Inventories**

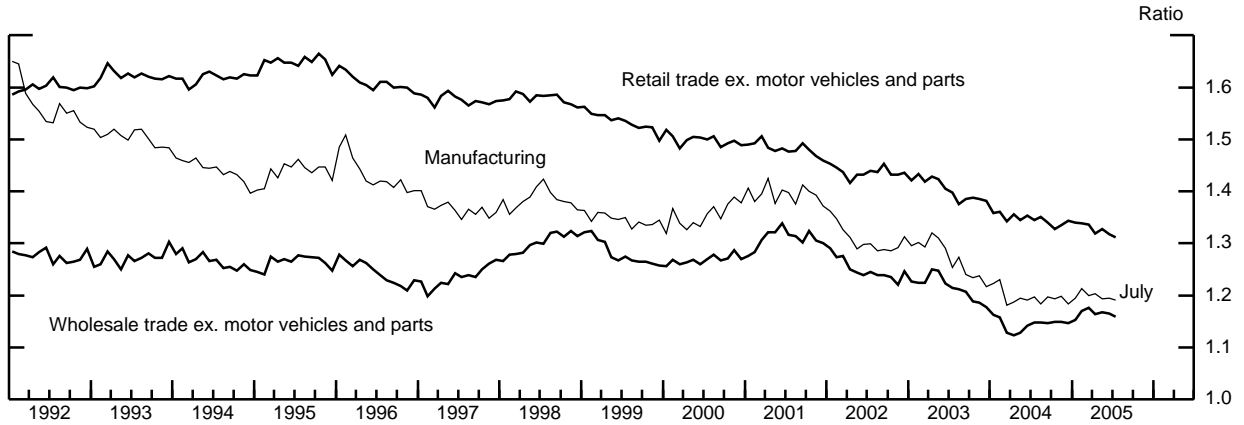
Retail inventories, on a book value basis, plummeted at an annual rate of \$99 billion in July and are now estimated to have dropped at a \$28 billion rate in June—more than previously reported. July's massive run-off, the second-largest in the thirteen-year history of the series, occurred at motor vehicle and parts dealers, likely the result of the employee-discount program on new vehicles. Elsewhere, retail inventories decreased at a \$1 billion pace in July, and the inventory-sales ratio, excluding motor vehicles and parts, edged down to 1.31 months.

For the entire manufacturing and trade sector excluding motor vehicles and parts, book-value inventories increased at an annual rate of \$22 billion in July. In the second quarter as a whole, inventories in this sector rose at a downward-revised annual rate of \$29 billion.

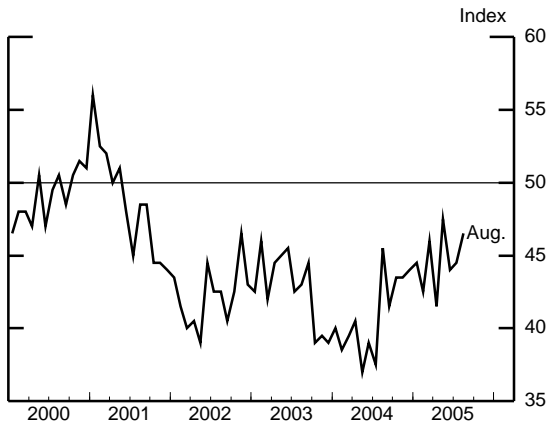
**Changes in Manufacturing and Trade Inventories**  
(Billions of dollars; seasonally adjusted book value; annual rate)

Sector	2005				
	Q1	Q2	May	June	July
Manufacturing and trade	88.6	18.7	21.7	-5.7	-74.3
Ex. wholesale and retail					
motor vehicles and parts	92.0	29.1	28.7	24.9	22.0
Manufacturing	42.6	.9	-5.6	3.5	27.8
Ex. aircraft	38.1	4.0	-10.2	8.8	16.8
Wholesale trade	30.5	20.2	13.7	18.9	-3.6
Motor vehicles and parts	-1.1	7.9	5.4	12.3	.8
Ex. motor vehicles and parts	31.6	12.4	8.3	6.6	-4.4
Retail trade	15.5	-2.4	13.7	-28.0	-98.5
Motor vehicles and parts	-2.3	-18.3	-12.3	-42.8	-97.1
Ex. motor vehicles and parts	17.7	15.8	26.0	14.8	-1.4

**Book-Value Inventories Relative to Shipments and Sales**

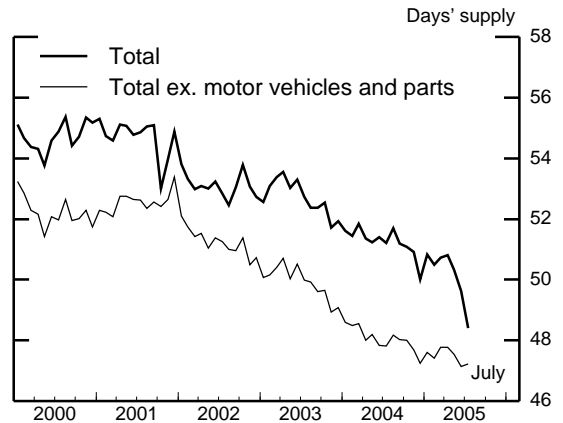


**ISM Customer Inventories: Manufacturing**



Note. A number above 50 indicates inventories are "too high."

**Inventory-Consumption Ratios, Flow-of-Goods System**



## The Domestic Financial Economy

### Commercial Bank Credit

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

Type of credit	2003	2004	Q1 2005	Q2 2005	July 2005	Aug. 2005	Level (\$ billions), Aug. 2005
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>5.9</b>	<b>8.9</b>	<b>14.3</b>	<b>10.0</b>	<b>9.9</b>	<b>12.3</b>	<b>7,052</b>
2. Reported	5.6	8.5	12.2	9.6	7.9	12.1	7,195
<i>Securities</i>							
3. Adjusted <sup>1</sup>	8.6	6.6	22.7	6.2	10.6	1.8	1,861
4. Reported	7.2	5.2	14.9	5.3	3.1	2.0	2,003
5. Treasury and agency	8.9	4.9	20.7	-5.6	3.8	-3.5	1,175
6. Other <sup>2</sup>	4.8	5.6	6.1	22.5	2.1	9.7	829
<i>Loans<sup>3</sup></i>							
7. Total	4.9	9.8	11.2	11.4	9.7	16.1	5,191
8. Business	-9.4	1.4	16.8	13.1	16.6	11.6	985
9. Real estate	11.1	14.0	13.5	13.7	20.4	14.6	2,804
10. Home equity	30.8	43.4	18.7	13.1	13.8	6.4	434
11. Other	8.8	9.8	12.5	13.8	21.7	16.1	2,370
12. Consumer	5.4	8.8	8.2	3.2	6.1	11.3	700
13. Adjusted <sup>4</sup>	5.8	6.0	5.8	-2.7	4.7	5.0	1,059
14. Other <sup>5</sup>	6.8	8.0	-1.8	8.6	-37.6	33.5	702

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and 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.

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

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, 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.



III-T-1  
**Selected Financial Market Quotations**  
 (One-day quotes in percent except as noted)

Instrument	2004		2005		Change to Sept. 15 from selected dates (percentage points)		
	June 28	Dec. 31	Aug. 8	Sept. 15	2004 June 28	2004 Dec. 31	2005 Aug. 8
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	2.25	3.25	3.50	2.50	1.25	.25
Treasury bills <sup>1</sup>							
3-month	1.36	2.18	3.47	3.37	2.01	1.19	-.10
6-month	1.74	2.52	3.70	3.65	1.91	1.13	-.05
Commercial paper (A1/P1 rates) <sup>2</sup>							
1-month	1.28	2.29	3.49	3.68	2.40	1.39	.19
3-month	1.45	2.28	3.65	3.77	2.32	1.49	.12
Large negotiable CDs <sup>1</sup>							
3-month	1.53	2.50	3.73	3.84	2.31	1.34	.11
6-month	1.82	2.72	3.96	3.97	2.15	1.25	.01
Eurodollar deposits <sup>3</sup>							
1-month	1.29	2.32	3.51	3.74	2.45	1.42	.23
3-month	1.51	2.49	3.70	3.83	2.32	1.34	.13
Bank prime rate	4.00	5.25	6.25	6.50	2.50	1.25	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>4</sup>							
2-year	2.88	3.08	4.19	3.92	1.04	.84	-.27
5-year	3.97	3.63	4.28	4.00	.03	.37	-.28
10-year	4.90	4.34	4.49	4.30	-.60	-.04	-.19
U.S. Treasury indexed notes							
5-year	1.56	1.03	1.82	1.38	-.18	.35	-.44
10-year	2.25	1.65	2.01	1.72	-.53	.07	-.29
Municipal general obligations (Bond Buyer) <sup>5</sup>	5.01	4.49	4.38	4.30	-.71	-.19	-.08
Private instruments							
10-year swap	5.21	4.65	4.85	4.61	-.60	-.04	-.24
10-year FNMA <sup>6</sup>	5.30	4.61	4.68	4.55	-.75	-.06	-.13
10-year AA <sup>7</sup>	5.59	4.98	5.18	5.01	-.58	.03	-.17
10-year BBB <sup>7</sup>	6.18	5.38	5.68	5.55	-.63	.17	-.13
5-year high yield <sup>7</sup>	8.30	7.34	7.84	7.84	-.46	.50	.00
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	5.77	5.89	5.74	-.47	-.03	-.15
1-year adjustable	4.19	4.10	4.57	4.46	.27	.36	-.11

Stock exchange index	Record high		2004	2005		Change to Sept. 15 from selected dates (percent)		
	Level	Date	Dec. 31	Aug. 8	Sept. 15	Record high	2004 Dec. 31	2005 Aug. 8
Dow Jones Industrial	11,723	1-14-00	10,783	10,537	10,559	-9.93	-2.08	.21
S&P 500 Composite	1,527	3-24-00	1,212	1,223	1,228	-19.62	1.30	.38
Nasdaq	5,049	3-10-00	2,175	2,164	2,146	-57.49	-1.35	-.84
Russell 2000	689	8-2-05	652	660	665	-3.35	2.13	.88
Wilshire 5000	14,752	3-24-00	11,971	12,213	12,271	-16.81	2.51	.48

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. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.  
 August 8, 2005, is the day before the most recent FOMC meeting.

## The International Economy

### U.S. Current Account

In the second quarter, the U.S. current account deficit was \$783 billion (s.a.a.r.), an improvement of \$12 billion over the first quarter (revised). Although the trade deficit held relatively steady, a decrease in unilateral transfers dominated the movement in the current account. The majority of the decrease in transfers is associated with a reduction in grants for military purchases of nearly \$15 billion (a.r.)

The current account deficit in the first quarter was revised down (larger deficit) by \$9 billion, primarily reflecting a downward revision to net direct investment income receipts.

<b>U.S. Current Account</b>				
(Billions of dollars, seasonally adjusted annual rate)				
Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
2003	-494.8	51.8	-76.7	-519.7
2004	-617.6	36.2	-86.7	-668.1
<i>Quarterly</i>				
2004:Q3	-629.9	30.8	-68.8	-667.9
Q4	-676.9	18.8	-95.3	-753.4
2005:Q1	-692.2	8.3	-110.7	-794.7
Q2	-693.3	3.9	-93.2	-782.6
<i>Change</i>				
Q3-Q2	-21.7	1.1	19.2	-1.4
Q4-Q3	-47.0	-12.0	-26.5	-85.5
Q1-Q4	-15.3	-10.5	-15.4	-41.2
Q2-Q1	-1.1	-4.4	17.5	12.1

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

### U.S. International Financial Transactions

We have received second quarter Balance of Payments data, which include preliminary estimates of direct investment data and new figures for foreign securities transactions.

The new data report inflows through foreign acquisitions of U.S. securities to be \$122 billion in the second quarter (line 4), compared with \$95 billion estimated in the Greenbook. The difference reflects adjustment factors applied by BEA that differ from their usual methodology and result in larger net purchases of U.S. securities. The largest adjustment is to agency bonds (line 4b), with net purchases of nearly \$21 billion, up \$16 billion from the Greenbook estimate. There are upward adjustments to corporate bonds (line 4c) and corporate stocks swaps (included in line 4d) as well.

Preliminary data for United States direct investment abroad (line 6) indicate net outflows of \$34 billion in the second quarter, with new equity flows and reinvested earnings continuing at their first quarter pace. For the year to date, outflows have not indicated large remittances by U.S. multinationals' foreign affiliates in response to the partial tax holiday included in the American Jobs Creation Act. Direct investment into the United States (line 7) slowed in the second quarter to \$18 billion. New equity flows and reinvested earnings continued at their first quarter pace, but the volatile intercompany debt component of direct investment switched to an outflow and pulled down recorded inflows.

The statistical discrepancy (the last line of the table) in the second quarter is positive \$54 billion, indicating some combination of over-reporting of the current account deficit or under-reporting of net financial inflows. For the first half of 2005 the discrepancy is nearly \$95 billion.

**Summary of U.S. International Transactions**  
(Billions of dollars, not seasonally adjusted except as noted)

	2003	2004	2004		2005			
			Q3	Q4	Q1	Q2	June	July
<b>Official financial flows</b>	<b>269.0</b>	<b>398.1</b>	<b>76.1</b>	<b>95.2</b>	<b>31.3</b>	<b>81.3</b>	<b>21.1</b>	<b>23.3</b>
1. Change in foreign official assets in the U.S. (increase, +)	267.5	395.3	75.7	94.6	25.9	82.1	21.2	21.7
a. G-10 countries + ECB	111.4	161.7	20.4	-3.1	5.5	-18.2	-10.5	4.0
b. OPEC	5.9	12.1	3.5	6.8	-3.9	4.6	.1	-4.5
c. All other countries	150.2	221.5	51.8	90.8	24.3	95.6	31.7	22.1
2. Change in U.S. official reserve assets (decrease, +)	1.5	2.8	.4	.7	5.3	-.8	-.1	1.7
<b>Private financial flows</b>	<b>291.7</b>	<b>186.5</b>	<b>40.6</b>	<b>73.7</b>	<b>130.7</b>	<b>61.0</b>	<b>...</b>	<b>...</b>
<b>Banks</b>								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	64.7	-23.2	-16.6	-4.8	-7.6	-55.3	-48.4	26.3
<b>Securities<sup>2</sup></b>								
4. Foreign net purchases of U.S. securities (+)	338.1	505.6	88.1	170.3	157.2	122.0	39.9	65.1
a. Treasury securities	115.2	121.9	1.0	10.0	76.3	5.5	-20.2	15.9
b. Agency bonds	-38.3	66.0	.5	43.2	.8	20.6	6.0	18.4
c. Corporate and municipal bonds	223.9	255.9	84.9	71.2	58.2	82.4	49.8	20.4
d. Corporate stocks <sup>3</sup>	37.2	61.8	1.7	45.8	21.9	13.5	4.4	10.4
5. U.S. net acquisitions (-) of foreign securities	-159.5	-106.0	-38.6	-17.8	-38.7	-42.0	-14.8	-15.7
a. Bonds	-40.8	-22.0	-21.6	-8.1	1.4	-17.8	-1.9	-5.8
b. Stock purchases	-101.2	-96.2	-16.4	-35.2	-38.0	-22.3	-12.9	-9.9
c. Stock swaps <sup>3</sup>	-17.4	12.2	-.6	25.5	-2.1	-1.9	.0	.0
<b>Other flows (quarterly data, s.a.)</b>								
6. U.S. direct investment (-) abroad	-140.6	-252.0	-41.2	-100.0	-27.0	-33.6	...	...
7. Foreign direct investment in the U.S.	67.1	106.8	35.7	31.6	35.1	17.6	...	...
8. Foreign holdings of U.S. currency	16.6	14.8	2.6	5.3	1.1	4.5	...	...
9. Other (inflow, +) <sup>4</sup>	105.2	-59.6	10.7	-10.9	10.7	47.8	...	...
<b>U.S. current account balance (s.a.)</b>	<b>-519.7</b>	<b>-668.1</b>	<b>-167.0</b>	<b>-188.4</b>	<b>-198.7</b>	<b>-195.7</b>	<b>...</b>	<b>...</b>
<b>Capital account balance (s.a.)<sup>5</sup></b>	<b>-3.2</b>	<b>-1.6</b>	<b>-.4</b>	<b>-.5</b>	<b>-4.5</b>	<b>-.3</b>	<b>...</b>	<b>...</b>
<b>Statistical discrepancy (s.a.)</b>	<b>-37.8</b>	<b>85.1</b>	<b>50.7</b>	<b>19.9</b>	<b>41.2</b>	<b>53.6</b>	<b>...</b>	<b>...</b>

Note. Data in lines 1 through 5 differ in timing and coverage from the balance of payments data published by the Department of Commerce. Details may not sum to totals because of rounding.

1. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

2. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. Includes (4d) or represents (5c) stocks acquired through non-market means such as mergers and reincorporations.

4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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