

## **Prefatory Note**

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,<sup>1</sup> and then making the scanned versions text-searchable.<sup>2</sup> Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

<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).

<sup>2</sup> A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)  
CLASS II - FOMC

June 26, 1998

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

## TABLE OF CONTENTS

	Page
<b>THE DOMESTIC NONFINANCIAL ECONOMY</b>	
Gross domestic product .....	1
Personal income .....	1
Consumer sentiment .....	2
Existing home sales .....	2
Insured unemployment .....	3
<u>Tables</u>	
Real Gross Domestic Product and Related Items .....	4
Personal Income .....	5
Consumer Attitudes .....	6
Existing Home Sales .....	7
<u>Chart</u>	
Labor Market Indicators .....	8
<b>THE FINANCIAL ECONOMY</b>	
<u>Tables</u>	
Selected Financial Market Quotations .....	9
<b>INTERNATIONAL DEVELOPMENTS</b>	
Correction to Greenbook .....	10

## SUPPLEMENTAL NOTES

---

### THE DOMESTIC NONFINANCIAL ECONOMY

#### Gross Domestic Product

According to BEA's final estimate, real GDP increased 5.4 percent at an annual rate in the first quarter of 1998. Nonfarm inventory investment rose considerably in the first quarter, providing a large boost to real GDP growth. Real final sales posted a solid 3.7 percent increase, despite a substantial drag from the foreign sector.

The final estimate of first-quarter real GDP growth was 0.6 percentage point higher than that in the preliminary release, with stronger figures for final sales and inventory investment each accounting for about half of the upward revision. Within final sales, net exports and outlays for nonresidential structures more than accounted for the markup in growth.

Corporate profits, on an economic basis, are now estimated to have increased nearly \$10 billion in the first quarter, about \$5 billion more than estimated in BEA's preliminary report. Profits (excluding Federal Reserve Banks) accounted for 9.6 percent of GNP in the first quarter, the same share as previously reported by BEA.

#### Personal Income

Total nominal personal income increased 0.5 percent in May following a 0.4 percent gain in April. Nominal disposable income also rose 0.5 percent in May, and, with prices up moderately, real disposable income increased 0.3 percent. Close to two-thirds of the May gain in personal income was attributable to an increase in wages and salaries. Among the components of nonwage income, most categories posted gains in line with those of recent months.

Real personal consumption expenditures increased 0.4 percent in May. Real purchases of durable goods climbed 3.4 percent, with a surge in spending on motor vehicles and an appreciable rise in outlays for other durable goods. Spending on nondurable goods slipped 0.1 percent in May, while services expenditures moved up just 0.1 percent. The May increase in consumer spending followed downward-revised gains of 0.3 percent and 0.2 percent in March and April, respectively. All told, the level of consumer spending in May was 1.1 percent above its first quarter average. Assuming real PCE grows another 0.4 percent in June, the data in hand would put consumption for the second quarter as a whole up about 4-1/4 percent (annual rate) from the first quarter.

With personal income rising a bit less than consumer outlays in May, the personal saving rate ticked down to 3.5 percent after holding steady at 3.6 percent in the three preceding months.

### Consumer Sentiment

The Michigan SRC Index of consumer sentiment fell about 1 point in June, but remained in an extremely favorable range. Respondents were less upbeat about future business conditions than in May, with a marked decline in the index of expected near-term business conditions and a smaller dip in the index of expected business conditions over the next five years. Meanwhile, assessments of current and expected future personal financial situations were unchanged at high levels in June, and the index of appliance buying conditions moved up to its strongest reading in four months.

Responses to questions that are not included in the overall index were mixed in June. The index of unemployment expectations deteriorated for the second consecutive month, but it remained at the favorable end of the range observed since the mid-1980s. The index of car buying conditions jumped to its highest level in a year, but the index of home buying conditions edged down further.

The mean and median values of expected inflation over the next twelve months each ticked up 0.1 percentage point in June to 3.2 percent and 2.7 percent, respectively. The mean value of expected inflation over the next five to ten years held steady at 3.3 percent; the median value moved up 0.1 percentage point to 2.9 percent.

### Existing Home Sales

Sales of existing homes rose 1.0 percent in May to 4.82 million units at an annual rate, a strong level that is exceeded only by the record high recorded in March of this year.<sup>1</sup> The preliminary estimate of existing home sales in April was not revised.

The median price of existing homes increased 6.0 percent in May, year over year, and the average price rose 6.1 percent. Both increases are fairly well in line with the rise in prices earlier in the year. These price series do not adjust for compositional changes in the structural characteristics and amenities of homes sold. The repeat sales price index for existing homes rose

---

1. The turnover rate of existing homes (sales in relation to the stock of homes) has also been very high although it still is below the range of the late 1970's.

5.1 percent, year over year, in the first quarter (most recent data). This index is calculated by Fannie Mae and Freddie Mac from price data obtained when houses are sold repeatedly or refinanced, and therefore holds constant some of the compositional shifts that can affect the median and average prices.

#### Insured Unemployment

Initial claims for unemployment insurance under state programs for the week ended June 20 rose 34,000 to 364,000. Preliminary reports suggest that layoffs associated with the two UAW strikes in Flint, Michigan boosted the level of claims last week by approximately 40,000; earlier layoffs likely boosted claims during the week ended June 13 by about 10,000. The four-week moving average of initial claims also jumped last week to 337,000.

The level of insured unemployment rose 66,000 during the week ended June 13, to 2.17 million. Although at least some of the furloughed auto workers are eligible for unemployment insurance payments, insured unemployment for the week ended June 13 was likely unaffected because the claims would not have been processed by then. The insured unemployment rate held steady at 1.8 percent during the week ended June 13.

## Real Gross Domestic Product and Related Items

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

	1996:Q4 to 1997:Q4	1997:Q4 Final	1998:Q1 Preliminary	1998:Q1 Final
1. Gross domestic product	3.7	3.7	4.8	5.4
2. Final sales	3.1	2.3	3.4	3.7
3. Consumer spending	3.6	2.5	6.1	6.0
4. Durables	6.8	1.9	15.9	15.0
5. Nondurables	1.4	-1.2	6.5	6.6
6. Services	4.0	4.4	4.0	4.0
7. Business fixed investment	9.0	-8	17.2	17.8
8. Producers' durable equipment	12.9	-3	27.5	26.4
9. Nonresidential structures	-7	-2.3	-7.4	-3.0
10. Residential investment	5.6	9.1	16.1	16.9
11. Federal government consumption expenditures and investment	-7	-2.3	-9.8	-10.0
12. Defense	-8	1.0	-18.4	-18.6
13. Nondefense	-6	-8.6	10.1	9.8
14. State and local government consumption expenditures and investment	2.0	1.8	.9	.8
15. Exports of goods and services	10.2	8.3	-3.0	-1.2
16. Imports of goods and services	14.4	5.3	17.7	17.1
<b>ADDENDA:</b>				
17. Nonfarm inventory investment <sup>1</sup>	57.8 <sup>2</sup>	64.5	91.8	96.7
18. Motor vehicles <sup>1</sup>	3.2 <sup>2</sup>	8.2	-5	2.6
19. Excl. motor vehicles <sup>1</sup>	54.6 <sup>2</sup>	56.3	92.3	94.1
20. Farm inventory investment <sup>1</sup>	8.0 <sup>2</sup>	9.8	8.9	9.0
21. Net exports of goods and services <sup>1</sup>	-146.5 <sup>2</sup>	-159.1	-214.7	-208.4
22. Nominal GDP	5.6	5.2	5.8	6.6
23. GDP price index	1.8	1.4	1.0	1.2
24. Profit share <sup>3</sup>	10.0 <sup>2</sup>	10.0	9.9	9.9
25. (Excluding FR banks)	9.7 <sup>2</sup>	9.7	9.6	9.6
26. Real disposable personal income	3.7	4.5	4.7	4.5
27. Personal saving rate (percent)	3.9 <sup>2</sup>	3.9	3.7	3.6

1. Level, billions of chained (1992) dollars.

2. Annual average.

3. Economic profits as a share of nominal GNP.

**PERSONAL INCOME**  
(Average monthly change at an annual rate; billions of dollars)

	1996	1997	1997		1998	1998	
			Q3	Q4	Q1	Apr.	May
Total personal income	32.5	32.2	24.0	38.3	35.3	28.6	38.3
Wages and salaries	21.2	21.2	16.2	30.6	24.2	16.8	24.3
Private	19.6	19.0	13.9	28.8	21.4	14.6	22.3
Other labor income	.5	.9	1.1	1.2	1.2	1.2	1.2
Proprietors' income	2.2	2.0	.7	1.7	1.4	5.0	4.1
Farm	.8	-.2	-1.7	-.3	-3.2	2.0	2.1
Rent	.7	-.3	.1	-1.1	-.5	1.8	2.6
Dividend	2.8	3.0	2.1	2.1	2.0	2.1	2.1
Interest	2.2	2.4	1.8	2.1	2.4	2.0	1.9
Transfer payments	4.2	4.5	3.1	3.7	6.9	.9	3.6
Less: Personal contributions for social insurance	1.4	1.5	1.0	2.0	2.4	1.0	1.6
Less: Personal tax and nontax payments	9.2	7.7	4.9	8.7	12.1	6.4	10.4
Equals: Disposable personal income	23.3	24.4	19.2	29.6	23.2	22.3	27.8
Memo: Real disposable income <sup>1</sup>	9.6	16.1	9.8	22.8	17.2	12.1	14.8

1. Billions of chained (1992) dollars.

**REAL PERSONAL CONSUMPTION EXPENDITURES**  
(Percent change from the preceding period)

	1997	1997		1998	1998	
		Q3	Q4	Q1	Apr.	May
		- - - Annual rate - - -			Monthly rate	
Personal consumption expenditures	3.6	5.6	2.5	6.0	.2	.4
Durable goods	6.8	18.4	1.9	15.0	.2	3.4
Excluding motor vehicles	8.4	11.8	4.5	20.3	-.1	1.7
Nondurable goods	1.4	4.3	-1.2	6.6	.4	-.1
Excluding gasoline	1.3	4.7	-1.6	7.0	.4	-.1
Services	4.0	3.9	4.4	4.0	.2	.1
Excluding energy	4.2	4.4	4.4	4.9	.3	.1
Memo:						
Personal saving rate (percent)	3.9	3.5	3.9	3.6	3.6	3.5
Real disposable income <sup>1</sup>	3.7	2.6	4.5	4.5	.2	.3

1. Percent changes derived from billions of chained (1992) dollars.



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

	1997 Oct	1997 Nov	1997 Dec	1998 Jan	1998 Feb	1998 Mar	1998 Apr	1998 May	1998 Jun (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	105.6	107.2	102.1	106.6	110.4	106.5	108.7	106.5	105.6
Current conditions	109.8	114.9	111.4	113.5	120.0	113.7	115.5	113.9	115.4
Expected conditions	102.8	102.3	96.1	102.2	104.2	101.9	104.3	101.7	99.3
-----									
Personal financial situation									
Now compared with 12 months ago*	124	130	123	124	142	128	131	130	130
Expected in 12 months*	136	138	136	141	145	134	138	134	134
Expected business conditions									
Next 12 months*	154	151	142	148	155	158	162	158	150
Next 5 years*	125	123	109	123	121	119	121	118	116
Appraisal of buying conditions									
Cars	141	140	135	145	149	146	145	148	152
Large household appliances*	161	169	166	171	170	167	169	166	170
Houses	164	163	161	172	170	176	178	172	171
Willingness to use credit	37	46	39	55	56	49	51	54	50
Willingness to use savings	69	69	75	74	78	82	70	78	68
Expected unemployment change - next 12 months	100	108	114	106	99	100	97	102	105
Expected inflation - next 12 months									
Mean	3.2	3.4	3.4	2.8	2.6	2.9	2.7	3.1	3.2
Median	2.8	2.9	2.8	2.3	2.4	2.5	2.4	2.6	2.7
Expected inflation - next 5 to 10 years									
Mean	3.6	3.8	3.9	3.4	3.2	3.3	3.2	3.3	3.3
Median	3.0	3.1	3.1	2.9	2.9	2.8	2.7	2.8	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.

THE MARKET FOR EXISTING HOUSES

	1997	1997		1998		1998	
		Q3	Q4	Q1	Mar.	Apr.	May
<u>Sales<sup>1</sup></u>							
Total	4,215	4,253	4,380	4,677	4,890	4,770	4,820
Percent Change	3.1	3.3	3.0	6.8	2.5	-2.5	1.0
<u>Regional Sales</u>							
Northeast	632	637	650	690	740	710	710
Midwest	1,067	1,067	1,103	1,170	1,240	1,210	1,180
South	1,575	1,603	1,653	1,810	1,890	1,810	1,840
West	942	947	973	1,003	1,020	1,030	1,090
<u>Inventories</u>							
Existing homes for sale <sup>2</sup>	2,065	2,132	2,065	2,259	2,259	2,029	2,270
Months' supply <sup>3</sup>	6.1	6.0	5.8	6.1	5.5	5.1	5.7
<u>Prices<sup>4</sup></u>							
Average	154.2	157.4	155.7	156.0	157.2	159.7	162.4
Percent change	6.0	6.3	7.5	5.9	6.6	6.2	6.1
Median	124.1	126.6	124.9	125.9	127.1	128.2	130.5
Percent change	5.0	5.0	6.2	5.5	5.9	6.2	6.0
Repeat Sales Index <sup>5</sup>	148.8	149.9	151.9	153.5	ND	ND	ND
Percent change	4.6	5.2	5.3	5.1	ND	ND	ND

Note: Annual and quarterly levels are averages of monthly data.

1. Thousands of units, seasonally adjusted annual rate, except where noted. Percent change is from previous comparable period.

2. Thousands of units, seasonally adjusted, end of period stock.

3. At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales.

4. Price levels are expressed in thousands of dollars and are not seasonally adjusted. Percent changes are from the previous comparable period a year earlier.

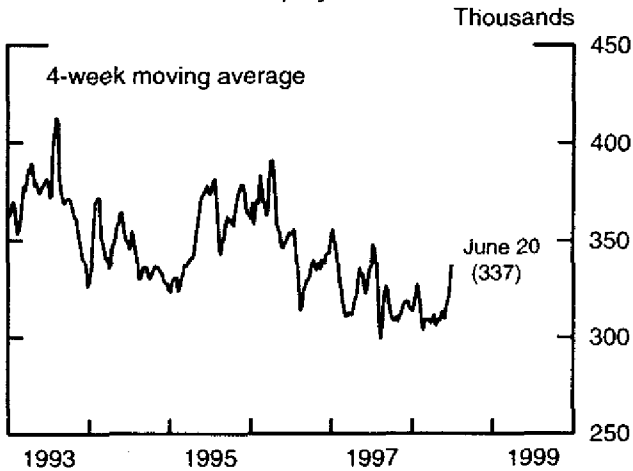
5. The index equals 100 in the first quarter of 1987.

ND--data not reported on a monthly basis.

June 25, 1998

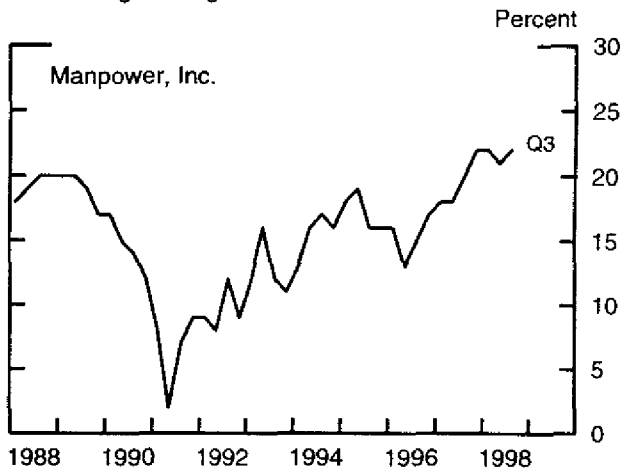
## Labor Market Indicators

Initial Claims for Unemployment Insurance



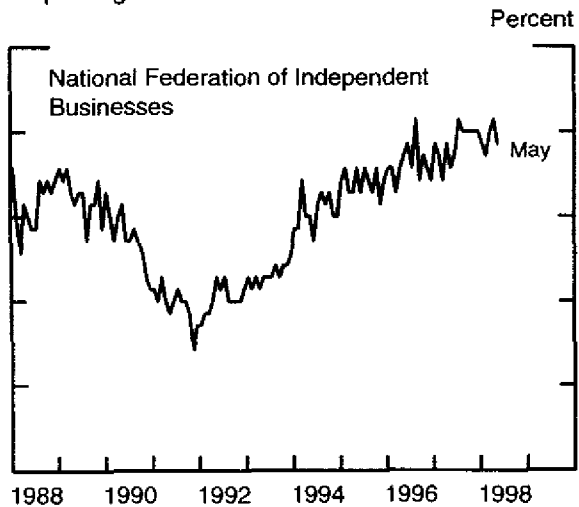
Note. State programs, includes EUC adjustment.

Net Hiring Strength

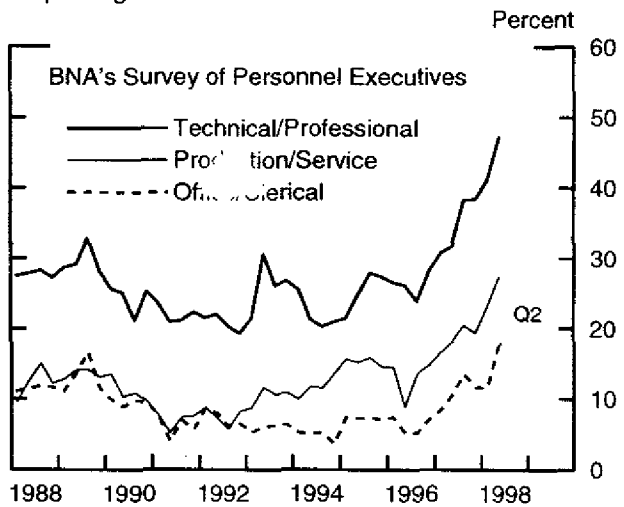


Note. Percent planning an increase in employment minus percent planning a reduction.

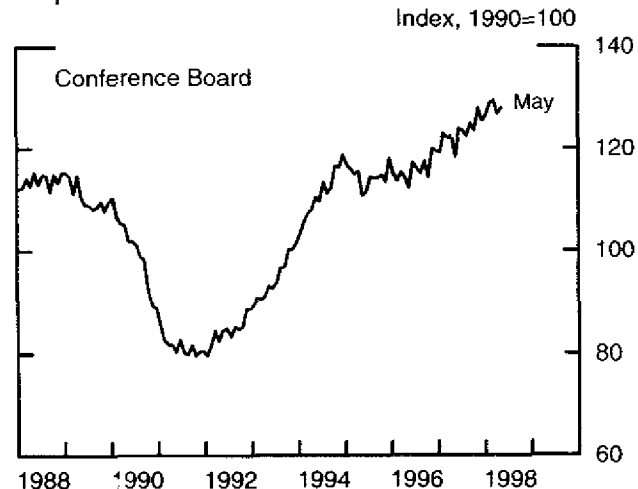
Reporting Positions Hard to Fill



Reporting Some Jobs Difficult to Fill

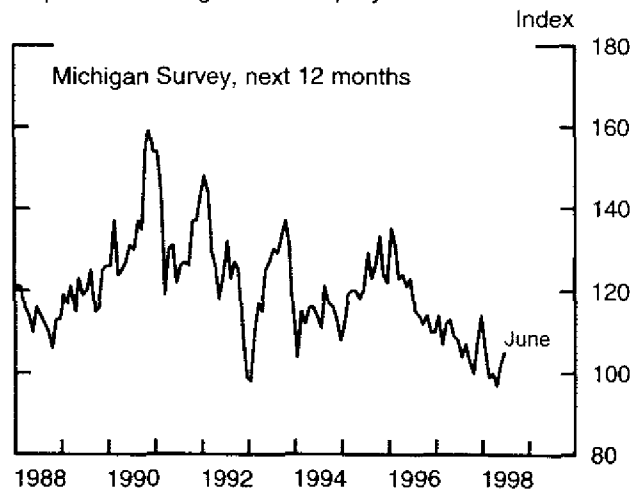


Help Wanted Index



Note. Series has been adjusted to take account of structural and institutional changes, including consolidation of newspaper industry and tendency to increase hiring through personnel supply agencies.

Expected Change in Unemployment



Note. Percentage expecting "more" minus percentage expecting "less" plus 100.

**Selected Financial Market Quotations<sup>1</sup>**  
(Percent except as noted)

Instrument	1997	1998			Change to June 25, from:			
	Sep. 30	Jan. 2	FOMC * May 19	June 25	Sep. 30	Jan. 2	FOMC * May 19	
<b>Short-term rates</b>								
Federal funds								
intended rate <sup>2</sup>	5.50	5.50	5.50	5.50	0.00	0.00	0.00	
realized rate <sup>3</sup>	5.51	5.44	5.56	5.45	-0.06	0.01	-0.11	
Treasury bills <sup>4</sup>								
3-month	4.93	5.18	5.05	4.89	-0.04	-0.29	-0.16	
6-month	5.08	5.19	5.17	5.09	0.01	-0.10	-0.08	
1-year	5.18	5.18	5.17	5.13	-0.05	-0.05	-0.04	
Commercial paper								
1-month	5.51	5.56	5.50	5.54	0.03	-0.02	0.04	
3-month	5.48	5.54	5.50	5.48	0.00	-0.06	-0.02	
Large negotiable CDs <sup>4</sup>								
1-month	5.59	5.64	5.56	5.58	-0.01	-0.06	0.02	
3-month	5.67	5.69	5.60	5.60	-0.07	-0.09	0.00	
6-month	5.72	5.71	5.68	5.65	-0.07	-0.06	-0.03	
Eurodollar deposits <sup>5</sup>								
1-month	5.56	5.59	5.53	5.50	-0.06	-0.09	-0.03	
3-month	5.63	5.69	5.59	5.56	-0.07	-0.13	-0.03	
Bank prime rate	8.50	8.50	8.50	8.50	0.00	0.00	0.00	
<b>Intermediate- and long-term rates</b>								
U.S. Treasury (constant maturity)								
3-year	5.88	5.62	5.59	5.53	-0.35	-0.09	-0.06	
10-year	6.12	5.67	5.64	5.46	-0.66	-0.21	-0.18	
30-year	6.41	5.86	5.92	5.66	-0.75	-0.20	-0.26	
U.S. Treasury 10-year indexed note	3.61	3.70	3.76	3.73	0.12	0.03	-0.03	
Municipal revenue (Bond Buyer) <sup>6</sup>	5.63	5.41	5.48	5.36	-0.27	-0.05	-0.12	
Corporate-A utility, recently offered	7.44	6.96	7.13	6.93	-0.51	-0.03	-0.20	
High-yield corporate <sup>7</sup>	9.02	9.04	9.02	9.18	0.16	0.14	0.16	
Home mortgages <sup>8</sup>								
FHLMC 30-yr fixed rate	7.28	7.03	7.19	6.96	-0.32	-0.88	-0.23	
FHLMC 1-yr adjustable rate	5.51	5.50	5.71	5.68	0.17	0.18	-0.03	
<b>Stock exchange index</b>								
	Record high		1998			Percentage change to June 25, from:		
	Level	Date	Jan. 2	FOMC * May 19	June 25	Record high	Jan. 2	FOMC * May 19
Dow-Jones Industrial	9211.84	5/13/98	7965.04	9050.91	8935.58	-3.00	12.19	-1.27
S&P 500 Composite	1130.54	4/22/98	975.04	1105.82	1129.28	-0.11	15.82	2.12
NASDAQ (OTC)	1917.61	4/22/98	1581.53	1831.62	1863.25	-2.83	17.81	1.73
Russell 2000	491.41	4/21/98	436.52	467.61	450.16	-8.39	3.12	-3.73
Wilshire	10782.75	4/22/98	9327.71	10485.71	10591.97	-1.77	13.55	1.01

1. One-day quotes except as noted.

2. FOMC's intended rate.

3. Average for two-week reserve maintenance period ending on or before date shown. Most recent observation is average for current maintenance period to date.

4. Secondary market.

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

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

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

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

\* Figures cited are as of the close on May 18, 1998.

## INTERNATIONAL DEVELOPMENTS

### Correction to Greenbook

After the Greenbook went to press, we learned of some reporting errors in the foreign official intervention data. As a consequence, we have reliable data on official activity since the May FOMC meeting for Canada, Germany, and Japan only.