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CONFIDENTIAL (FR)  
CLASS III - FOMC

March 26, 1999

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

#### Consumer Sentiment

According to the final report, the Michigan Survey Research Center index of consumer sentiment dropped about 2-1/2 percentage points in March but remained at a highly favorable level. Households had less favorable assessments of their current and future financial situations in March, and views on expected business conditions slipped somewhat. However, respondents were extremely upbeat about buying conditions for large household appliances: In March, this series was just one point below its historical high.

Among those series not in the overall index, the index of expected unemployment change moved back up again in March, suggesting some lingering concern about labor market conditions over the next year. Appraisals of buying conditions for cars were little changed in March at a level only a bit below the January high. However, less favorable views on current mortgage rates and home prices does appear to have damped assessments of home buying conditions this month.

The mean and median of expected inflation over the next twelve months rose in March to 3.1 percent and 2.7 percent, respectively. In contrast, the mean and median of expected inflation over the next five to ten years both fell this month to 3 percent and 2.7 percent, respectively.

#### Sales of Existing Homes.

Sales of existing homes edged down slightly in February to a level of 5.02 million units (annual rate). Having remained at or close to a record level for three consecutive months, this measure of activity in the housing market provides another indication that demand may be topping out.

The median price of existing homes sold in February was 3.9 percent above the year-earlier level, a reading at the lower end of the range of year-to-year price changes during the past year. The year-over-year increase in the average price of existing homes, 5.3 percent, was more in line with recent trends.

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

	1998 July	1998 Aug.	1998 Sept.	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	105.2	104.4	100.9	97.4	102.7	100.5	103.9	108.1	105.7
Current conditions	113.3	113.9	111.7	112.8	115.9	113.9	116.8	115.0	116.3
Expected conditions	100.0	98.3	93.9	87.5	94.3	91.9	95.7	103.6	99.0
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Personal financial situation									
Now compared with 12 months ago*	132	132	126	131	130	128	133	133	130
Expected in 12 months*	139	139	131	133	130	133	132	138	134
Expected business conditions									
Next 12 months*	145	146	130	118	136	130	143	152	141
Next 5 years*	119	111	117	101	113	107	110	127	123
Appraisal of buying conditions									
Cars	139	150	142	153	155	151	157	153	152
Large household appliances*	162	163	164	162	171	168	170	166	172
Houses	169	170	166	178	173	182	176	178	167
Willingness to use credit	54	48	53	53	53	52	47	53	51
Willingness to use savings	82	77	65	70	77	69	75	81	80
Expected unemployment change - next 12 months	111	109	112	121	119	124	115	108	113
Prob. household will lose a job - next 5 years	20	21	22	21	22	19	21	20	21
Expected inflation - next 12 months									
Mean	3.1	2.7	2.7	2.6	2.7	2.8	3.0	2.8	3.1
Median	2.6	2.4	2.3	2.5	2.3	2.5	2.7	2.5	2.7
Expected inflation - next 5 to 10 years									
Mean	3.1	3.0	3.4	3.2	3.1	3.2	3.5	3.3	3.0
Median	2.7	2.7	2.9	2.8	2.8	2.9	3.0	2.8	2.7

\* -- 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

	1998	1998			1998	1999	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
<b>Sales<sup>1</sup></b>							
Total	4,785	4,773	4,770	4,910	5,030	5,040	5,020
Percent Change	13.5	2.5	-0.1	2.9	2.7	0.2	-0.4
Previously reported level	4,785	4,780	4,777	4,893	5,030	5,070	
<b>Regional Sales</b>							
Northeast	682	690	670	673	680	710	720
Midwest	1,206	1,197	1,203	1,247	1,300	1,280	1,180
South	1,853	1,840	1,823	1,937	1,970	1,970	2,050
West	1,044	1,043	1,067	1,057	1,080	1,080	1,070
<b>Inventories</b>							
Existing homes for sale <sup>2</sup>	2,075	2,142	2,038	2,075	2,075	2,095	1,908
Months' supply <sup>3</sup>	5.4	5.4	5.2	5.0	4.9	5.0	4.6
<b>Prices<sup>4</sup></b>							
Average	162.9	163.7	165.7	162.9	163.0	161.8	162.0
Percent change	5.6	6.3	5.3	4.6	3.5	3.2	5.3
Median	130.6	130.9	132.6	131.0	130.5	131.3	129.3
Percent change	5.2	5.8	4.8	4.9	3.7	4.1	3.9
Repeat Sales Index <sup>5</sup>	155.2	154.3	156.4	157.7	ND	ND	ND
Percent change	5.4	5.8	5.5	4.8	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.

March 25, 1999

11:29:41  
March 26, 1999

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

Instrument	1998		1999		Change to Mar. 25 from selected dates (percentage points)		
	Oct. 15	Dec. 31	FOMC* Feb. 3	Mar. 25	Oct. 15	Dec. 31	FOMC* Feb. 3
<i>Short-term</i>							
<i>Federal funds</i>							
FOMC intended rate	5.00	4.75	4.75	4.75	-.25	.00	.00
Realized rate <sup>1</sup>	5.40	4.58	4.65	4.97	-.43	.39	.32
<i>Treasury bills <sup>2</sup></i>							
3-month	4.05	4.37	4.42	4.39	.34	.02	-.03
6-month	4.12	4.39	4.41	4.38	.26	-.01	-.03
1-year	4.06	4.33	4.38	4.52	.46	.19	.14
<i>Commercial paper</i>							
1-month	5.27	4.90	4.79	4.82	-.45	-.08	.03
3-month	5.13	4.84	4.76	4.80	-.33	-.04	.04
<i>Large negotiable CDs <sup>2</sup></i>							
1-month	5.35	5.01	4.87	4.86	-.49	-.15	-.01
3-month	5.31	4.97	4.88	4.89	-.42	-.08	.01
6-month	5.10	4.97	4.90	4.96	-.14	-.01	.06
<i>Eurodollar deposits <sup>3</sup></i>							
1-month	5.34	4.94	4.81	4.81	-.53	-.13	.00
3-month	5.28	4.94	4.81	4.88	-.40	-.06	.07
<i>Bank prime rate</i>							
	8.25	7.75	7.75	7.75	-.50	.00	.00
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	4.13	4.54	4.70	5.02	.89	.48	.32
10-year	4.58	4.65	4.79	5.21	.63	.56	.42
30-year	5.02	5.09	5.24	5.59	.57	.50	.35
U.S. Treasury 10-year indexed note	3.69	3.88	3.76	3.89	.20	.01	.13
Municipal revenue (Bond Buyer) <sup>4</sup>	5.21	5.26	5.17	5.29	.08	.03	.12
Corporate bonds, Moody's seasoned Baa	7.26	7.23	7.32	7.53	.27	.30	.21
High-yield corporate <sup>5</sup>	11.29	10.52	10.49	10.64	-.65	.12	.15
<i>Home mortgages (FHLMC survey rate) <sup>6</sup></i>							
30-year fixed	6.49	6.77	6.74	7.01	.52	.24	.27
1-year adjustable	5.36	5.58	5.57	5.75	.39	.17	.18

Stock exchange index	Record high		1998	1999		Change to Mar. 25 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* Feb. 3	Mar. 25	Record high	Dec. 31	FOMC* Feb. 3
Dow-Jones Industrial	9,997.62	3-18-99	9,181.43	9,274.12	9,836.39	-1.61	7.13	6.06
S&P 500 Composite	1,316.55	3-18-99	1,229.23	1,261.99	1,289.99	-2.02	4.94	2.22
NASDAQ (OTC)	2,510.09	2-1-99	2,192.69	2,463.42	2,434.80	-3.00	11.04	-1.16
Russell 2000	491.41	4-21-98	421.96	421.73	392.99	-20.03	-6.87	-6.81
Wilshire 5000	11,932.09	3-18-99	11,317.59	11,588.71	11,702.00	-1.93	3.40	.98

1. Average for two-week reserve maintenance period ending on or before date shown. Most recent observation is average for current maintenance period to date.
  2. Secondary market.
  3. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
  4. Most recent Thursday quote.
  5. Merrill Lynch Master II high-yield bond index composite.
  6. For week ending Friday previous to date shown.
- \* Data are as of the close on February 2, 1999.

**Commercial Bank Credit**  
(Percent change; seasonally adjusted annual rate)

Type of credit	1998	1998			1999		Level, Feb 1999 (billions of \$)
		Q3	Q4	Dec	Jan	Feb	
1. Bank credit: Reported	11.2	9.0	16.6	4.2	-5.6	-4.1	4,508.0
2.           Adjusted <sup>1</sup>	10.4	7.8	15.3	3.9	-5.3	-2.7	4,394.2
3. Securities: Reported	14.9	12.7	24.6	4.2	-13.8	-10.2	1,207.3
4.           Adjusted <sup>1</sup>	12.3	8.5	20.1	2.9	-13.7	-5.2	1,093.5
5.   U.S. government	6.2	0.9	10.4	3.5	2.4	-1.8	793.6
6.   Other <sup>2</sup>	34.7	38.0	52.8	5.5	-43.2	-26.1	413.7
7. Loans <sup>3</sup>	9.8	7.6	13.7	4.2	-2.5	-1.9	3,300.7
8.   Business	11.3	13.0	15.5	-2.9	-3.7	-0.3	942.1
9.   Real estate	6.7	1.9	8.7	12.6	4.4	3.1	1,331.4
10.   Home equity	0.1	-1.6	-3.3	-1.2	-5.0	-1.2	96.4
11.   Other	7.2	2.2	9.6	13.9	5.2	3.3	1,235.0
12. Consumer: Reported	-1.5	-7.1	2.6	7.0	5.3	0.7	504.3
13.           Adjusted <sup>4</sup>	6.0	4.3	6.3	9.3	1.6	0.2	757.9
14.   Other <sup>5</sup>	29.9	28.7	34.3	-6.2	-24.5	-19.6	522.9

Note. 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 shown are percentage changes in consecutive levels, annualized but not compounded.

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

2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.

3. Excludes interbank loans.

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

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



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

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**Date:** March 25, 1999

**To:** Federal Open Market Committee

**From:** Mike Prell 

**Subject:** Greenbook Part 1 Correction

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The last sentence on page I-2 should have ended "...while the market price-earnings multiple, measured on trailing earnings, will *remain around its current level.*" The current text mentions a further rise in the P-E ratio. Our projection does indeed show a moderate decline in economic profits from the current level, but it probably doesn't imply much change in the 12-month moving average of earnings used to calculate conventional market PEs.