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August 17, 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 preliminary report, the overall index of consumer sentiment from the Michigan Survey Research Center (SRC) edged up in early August, as respondents reported slightly more favorable opinions regarding current conditions and left their expectations for future conditions about unchanged. Among those questions not included in the overall measure, the index of the expected change in unemployment over the next twelve months was little changed in early August. Meanwhile, appraisals of homebuying conditions moved up slightly, and carbuying conditions about held steady.

The August survey included supplemental questions concerning how households plan to use their tax rebates. Among the 80 percent of respondents who expected to receive a rebate, 18 percent planned to spend the money (mostly within the next few months), 37 percent planned to save it, and 45 percent planned to pay off existing debt.¹

The mean of expected inflation over the next twelve months rose 0.3 percentage point in early August, to 3.3 percent, after having tumbled 1 percentage point in July; the median, which fell 0.4 percentage point last month, ticked up 0.1 percentage point in the latest survey to 2.7 percent. The mean of expected inflation over the next five years increased 0.3 percentage point to 3.7 percent, after having decreased 0.2 percentage point in July, and the median inched back up 0.1 percentage point to 3 percent.

1. Based on the Treasury's reports on issuance, we suspect that only about a third of the SRC respondents who will eventually receive a rebate check would have actually received it by the time of preliminary August survey.

August 17, 2001

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

	2000 Dec.	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	98.4	94.7	90.6	91.5	88.4	92.0	92.6	92.4	93.5
Current conditions	110.5	107.7	105.8	103.4	98.0	102.2	101.6	98.6	101.7
Expected conditions	90.7	86.4	80.8	83.9	82.2	85.4	86.9	88.4	88.3

Personal financial situation									
Now compared with 12 months ago*	126	123	122	119	110	112	117	114	118
Expected in 12 months*	131	126	129	131	134	129	126	133	127
Expected business conditions									
Next 12 months*	121	106	93	97	92	99	114	115	109
Next 5 years*	113	115	102	109	104	115	109	107	119
Appraisal of buying conditions									
Cars	146	133	137	146	129	133	127	138	137
Large household appliances*	161	157	152	148	143	152	146	141	145
Houses	139	149	149	148	144	154	162	149	153
Willingness to use credit									
Willingness to use savings	42	33	47	37	34	45	43	41	44
Willingness to use savings									
	67	55	66	52	55	58	64	60	62
Expected unemployment change - next 12 months									
	127	139	143	143	146	138	135	140	139
Prob. household will lose a job - next 5 years									
	19	20	23	22	21	21	22	24	22
Expected inflation - next 12 months									
Mean	3.4	3.8	3.2	3.3	3.7	3.9	4.0	3.0	3.3
Median	2.8	3.0	2.8	2.8	3.1	3.2	3.0	2.6	2.7
Expected inflation - next 5 to 10 years									
Mean	3.7	3.5	3.6	3.6	3.6	3.6	3.6	3.4	3.7
Median	3.0	2.9	3.0	3.0	3.1	3.0	3.0	2.9	3.0

* -- 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 International Economy

U.S. International Transactions

Trade in Goods and Services

The U.S. trade deficit in goods and services was \$29.4 billion in June, compared with \$28.5 billion in May (revised). For the second quarter, the trade deficit was \$360 billion at an annual rate, \$20 billion smaller than in the first quarter.

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

	2000	Annual rate			Monthly rate		
		2000	2001		2001		
		Q4	Q1	Q2	Apr.	May	June
<i>Real NIPA¹</i>							
Net exports of G&S	-399.1	-421.1	-404.5	-407.4
<i>Nominal BOP</i>							
Net exports of G&S	-375.7	-401.2	-380.1	-359.5	-32.0	-28.5	-29.4
Goods, net	-452.2	-474.1	-450.1	-431.2	-37.7	-34.4	-35.7
Services, net	76.5	72.9	70.0	71.7	5.7	6.0	6.3

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 exports decreased 2 percent in June. Most of the decline was accounted for by a drop in exported capital goods, particularly semiconductors. There was an unusually sharp decline in exported consumer goods. In contrast, exports of automotive products increased for the third consecutive month to a level not seen since last October. For the second quarter, the value of exports decreased 13 percent at a seasonally adjusted annual rate, marking the third consecutive quarterly decline. Exports of capital goods account for the majority of the drop for the quarter, with half of that decrease in computers and semiconductors. Exports of industrial supplies also fell sharply. The only notable increase in exports occurred in automotive products and owes entirely to increased shipments to Canada.

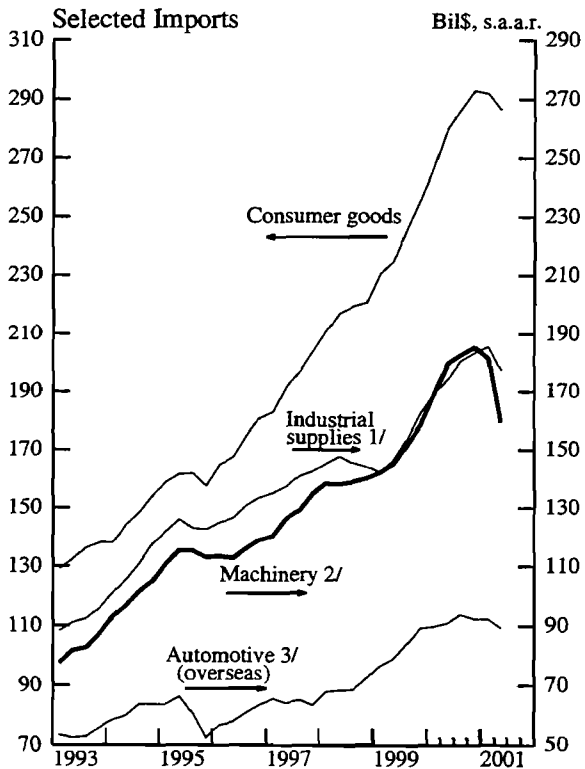
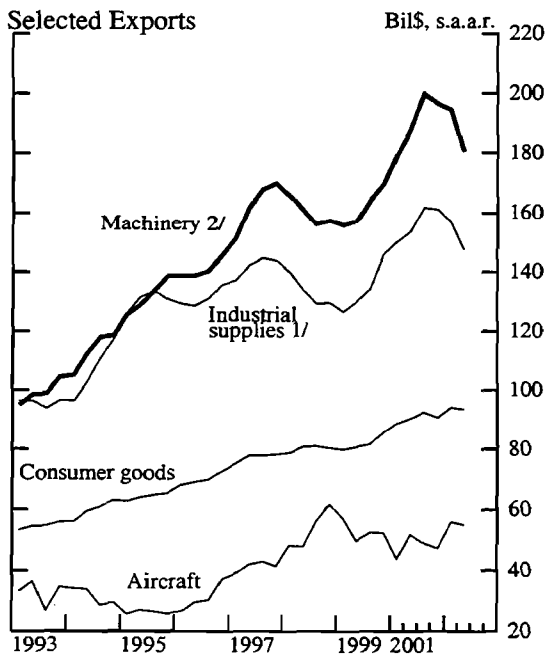
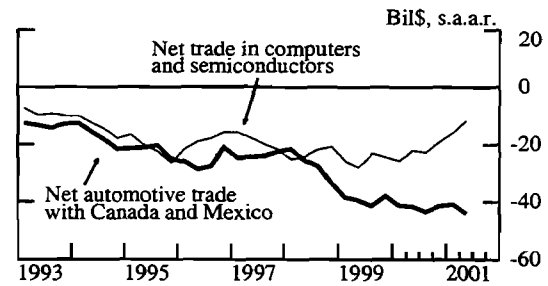
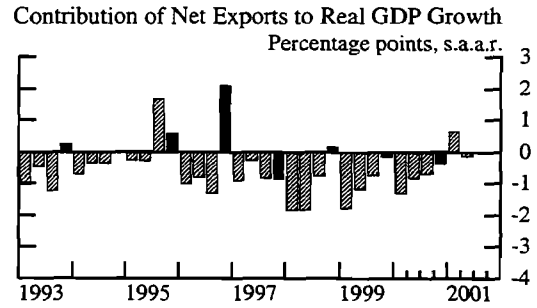
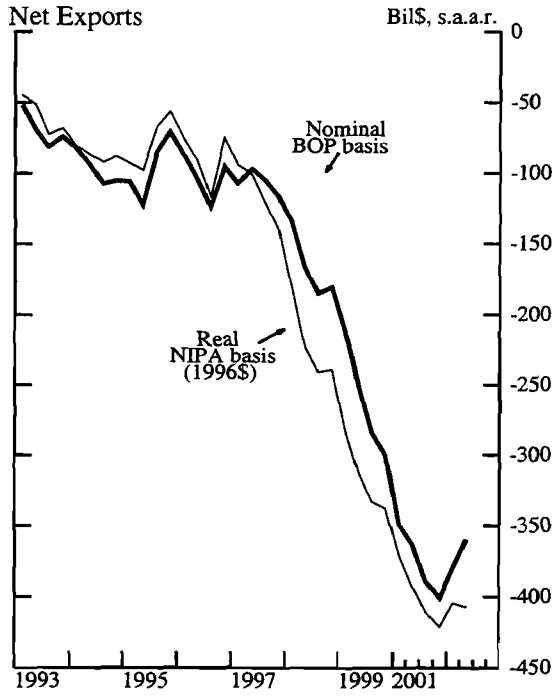
The value of imports declined 0.7 percent in June, following larger drops in April and May. Most of June's decrease occurred in imported industrial supplies, although imports of capital goods also moved down. Imports of automotive products increased. For the second quarter, the value of imports fell 15 percent at a seasonally adjusted annual rate. Like exports, the bulk of the import decline occurred in capital goods—both high-tech products and other machinery. Imports of industrial supplies and consumer goods both fell sharply

as well. In contrast, imports of automotive products increased, primarily from shipments from Canada.

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Implications: The trade figures for June and revised May suggest that there should be very little revision to NIPA real net exports in 2001:Q2. However, the levels of both real exports and real imports could be \$6 to \$7 billion lower (s.a.a.r.) than previously projected.

U.S. International Trade in Goods and Services



1. Excludes agriculture and gold.
2. Excludes computers and semiconductors.

1. Excludes oil and gold.
2. Excludes computers and semiconductors.
3. Excludes Canada and Mexico.

U.S. Exports and Imports of Goods and Services
(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change ¹			
	2001		2001		2001		2001	
	Q1	Q2	May	June	Q1	Q2	May	June
Exports of G&S	1077.2	1042.3	1052.4	1031.4	-3.3	-34.8	9.3	-21.0
Goods exports	779.8	743.4	754.2	729.9	-5.2	-36.4	8.1	-24.3
Gold	6.7	7.6	7.9	7.1	0.2	0.9	0.1	-0.9
Other goods	773.1	735.8	746.2	722.8	-5.4	-37.3	8.0	-23.4
Aircraft & parts	56.1	55.1	58.0	54.5	8.6	-0.9	5.2	-3.5
Computers	56.0	48.5	47.7	47.7	-1.2	-7.5	-2.3	-0.0
Semiconductors	58.0	46.4	49.2	41.5	-4.2	-11.6	0.6	-7.7
Other capital gds	197.3	182.9	184.3	181.0	-1.7	-14.3	0.7	-3.3
Automotive	71.8	76.3	76.1	79.6	-5.5	4.5	2.8	3.6
to Canada	37.5	42.2	41.3	44.1	-4.5	4.7	0.0	2.7
to Mexico	16.2	15.9	16.3	16.7	-0.9	-0.3	1.7	0.4
to ROW	18.0	18.2	18.4	18.8	-0.0	0.2	1.0	0.4
Agricultural	54.4	53.8	53.2	53.5	1.2	-0.6	-1.6	0.4
Ind supplies (ex. ag)	156.7	147.6	149.0	144.2	-4.6	-9.0	-0.7	-4.8
Consumer goods	94.0	93.6	97.5	88.3	3.3	-0.5	2.5	-9.2
All other goods	28.9	31.4	31.3	32.5	-1.3	2.6	-0.5	1.2
Services exports	297.4	299.0	298.3	301.6	1.8	1.6	1.2	3.3
Imports of G&S	1457.3	1401.8	1394.0	1384.4	-24.4	-55.4	-33.0	-9.7
Goods imports	1229.9	1174.6	1167.5	1158.2	-29.2	-55.3	-30.4	-9.3
Petroleum	117.2	114.5	115.9	112.6	-9.9	-2.7	1.0	-3.3
Gold	6.1	6.5	7.8	6.1	-0.6	0.4	2.2	-1.7
Other goods	1106.5	1053.6	1043.8	1039.5	-18.7	-52.9	-33.6	-4.3
Aircraft & parts	31.0	30.8	30.8	31.1	0.4	-0.2	0.3	0.3
Computers	85.7	75.9	75.4	72.7	-3.9	-9.8	-4.1	-2.7
Semiconductors	44.3	30.8	29.0	30.3	-4.7	-13.5	-4.3	1.3
Other capital gds	184.6	162.1	160.3	158.0	-3.5	-22.5	-7.7	-2.3
Automotive	186.9	191.4	187.8	193.1	-6.1	4.5	-5.5	5.3
from Canada	56.1	61.1	59.8	62.6	-4.3	5.0	-1.0	2.8
from Mexico	38.7	41.3	41.9	43.4	-1.7	2.7	3.1	1.5
from ROW	92.2	89.1	86.1	87.2	-0.1	-3.2	-7.7	1.0
Ind supplies	185.4	177.3	178.0	171.9	2.2	-8.1	-4.1	-6.1
Consumer goods	291.7	286.4	283.7	284.3	-0.9	-5.3	-7.7	0.7
Foods, feeds, bev.	45.9	45.7	45.0	47.3	-0.5	-0.1	0.0	2.4
All other goods	50.9	52.9	53.8	50.7	-1.8	2.0	-0.5	-3.2
Services imports	227.4	227.3	226.5	226.1	4.7	-0.1	-2.7	-0.4
<i>Memo:</i>								
Oil quantity (mb/d)	12.78	12.95	12.90	12.65	0.74	0.17	-0.40	-0.25
Oil import price (\$/bbl)	25.09	24.21	24.61	24.37	-3.80	-0.88	0.96	-0.24

1. Change from previous quarter or month.

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

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

Instrument	2000	2001			Change to Aug. 16 from selected dates (percentage points)		
	June 26	July 17	June 26	Aug. 16	2000 June 26	2001 July 17	2001 June 26
<i>Short-term</i>							
FOMC intended federal funds rate	6.50	3.75	4.00	3.75	-2.75	.00	-.25
<i>Treasury bills</i> ¹							
3-month	5.66	3.53	3.38	3.32	-2.34	-.21	-.06
6-month	5.94	3.48	3.38	3.26	-2.68	-.22	-.12
<i>Commercial paper</i>							
1-month	6.56	3.71	3.64	3.53	-3.03	-.18	-.11
3-month	6.56	3.59	3.52	3.41	-3.15	-.18	-.11
<i>Large negotiable CDs</i> ¹							
1-month	6.64	3.75	3.68	3.56	-3.08	-.19	-.12
3-month	6.73	3.67	3.61	3.48	-3.25	-.19	-.13
6-month	6.89	3.71	3.61	3.51	-3.38	-.20	-.10
<i>Eurodollar deposits</i> ²							
1-month	6.63	3.75	3.65	3.52	-3.11	-.23	-.13
3-month	6.69	3.67	3.60	3.46	-3.23	-.21	-.14
Bank prime rate	9.50	6.75	7.00	6.75	-2.75	.00	-.25
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury</i> ³							
2-year	6.54	4.16	4.09	3.80	-2.74	-.36	-.29
10-year	6.35	5.43	5.46	5.25	-1.10	-.18	-.21
30-year	6.22	5.76	5.80	5.61	-.61	-.15	-.19
U.S. Treasury 10-year indexed note	4.08	3.42	3.29	3.32	-.76	-.10	.03
Municipal revenue (Bond Buyer) ⁴	5.99	5.52	5.52	5.31	-.68	-.21	-.21
<i>Private instruments</i>							
10-year swap	7.38	6.04	6.02	5.81	-1.57	-.23	-.21
10-year FNMA	7.15	5.96	5.97	5.76	-1.39	-.20	-.21
10-year AA ⁵	7.60	6.55	6.55	6.37	-1.23	-.18	-.18
10-year BBB ⁵	8.49	7.44	7.37	7.15	-1.34	-.29	-.22
High yield ⁶	11.97	12.76	13.10	12.44	.47	-.32	-.66
<i>Home mortgages (FHLMC survey rate)</i> ⁷							
30-year fixed	8.14	7.21	7.11	7.00	-1.14	-.21	-.11
1-year adjustable	7.22	5.79	5.74	5.70	-1.52	-.09	-.04

Stock exchange index	Record high		2001			Change to Aug. 16 from selected dates (percent)		
	Level	Date	July 17	June 26	Aug. 16	Record high	2001 July 17	2001 June 26
Dow-Jones Industrial	11,723	1-14-00	10,606	10,472	10,393	-11.35	-2.02	-.76
S&P 500 Composite	1,527	3-24-00	1,214	1,217	1,182	-22.64	-2.70	-2.88
Nasdaq (OTC)	5,049	3-10-00	2,067	2,065	1,930	-61.77	-6.63	-6.50
Russell 2000	606	3-9-00	491	491	482	-20.53	-1.81	-1.86
Wilshire 5000	14,752	3-24-00	11,261	11,254	10,935	-25.88	-2.90	-2.84

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.
 July 17, 2001 is the day before the most recent Monetary Policy Report Testimony(House).
 June 26, 2001 is the day before the most recent FOMC action.