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CONFIDENTIAL (FR)
CLASS III FOMC

August 16, 1996

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

THE DOMESTIC NONFINANCIAL ECONOMY

Housing Markets

Single-family housing starts fell to 1.13 million units in July from a revised level of 1.20 million units for June that is slightly lower than the preliminary estimate. The decline in single-family homebuilding in July is consistent with recent indications of slackening in demand such as the August report from the National Association of Homebuilders on new home sales in early August. The final results of that survey showed a somewhat larger decline in builders' ratings of new home sales than was indicated in the preliminary figures that were cited in the Greenbook.

Multifamily housing starts increased 18 percent in July, offsetting a decline in June and continuing the oscillating pattern that has prevailed so far this year.

At the regional level, starts in July decreased 4 percent in the South and fell 12 percent in the West. Starts rose 2 percent in the Northeast and jumped 17 percent in the Midwest, where construction bounced back from a low reading in June.

Consumer Sentiment

According to the preliminary report, the Michigan SRC index of consumer sentiment was about unchanged in early August at a level that is at the high end of the relatively favorable range seen since early 1994. Respondents expressed somewhat more upbeat views of their current and future personal financial situations, but somewhat less positive views of appliance-buying conditions and expected business conditions.

Among results not included in the overall index, the indexes of expected unemployment, home-buying conditions, and car-buying conditions all held about steady at their relatively favorable July levels. Consumers' willingness to use credit to finance large purchases was unchanged, but their willingness to use savings was down sharply.

The mean value of expected inflation over the coming year held steady in early August at 4.3 percent while the median value moved up 0.2 percentage point to 3.1 percent. The mean and median values of expected inflation over the next five to ten years were unchanged at 4.2 percent and 3.1 percent, respectively.

Note

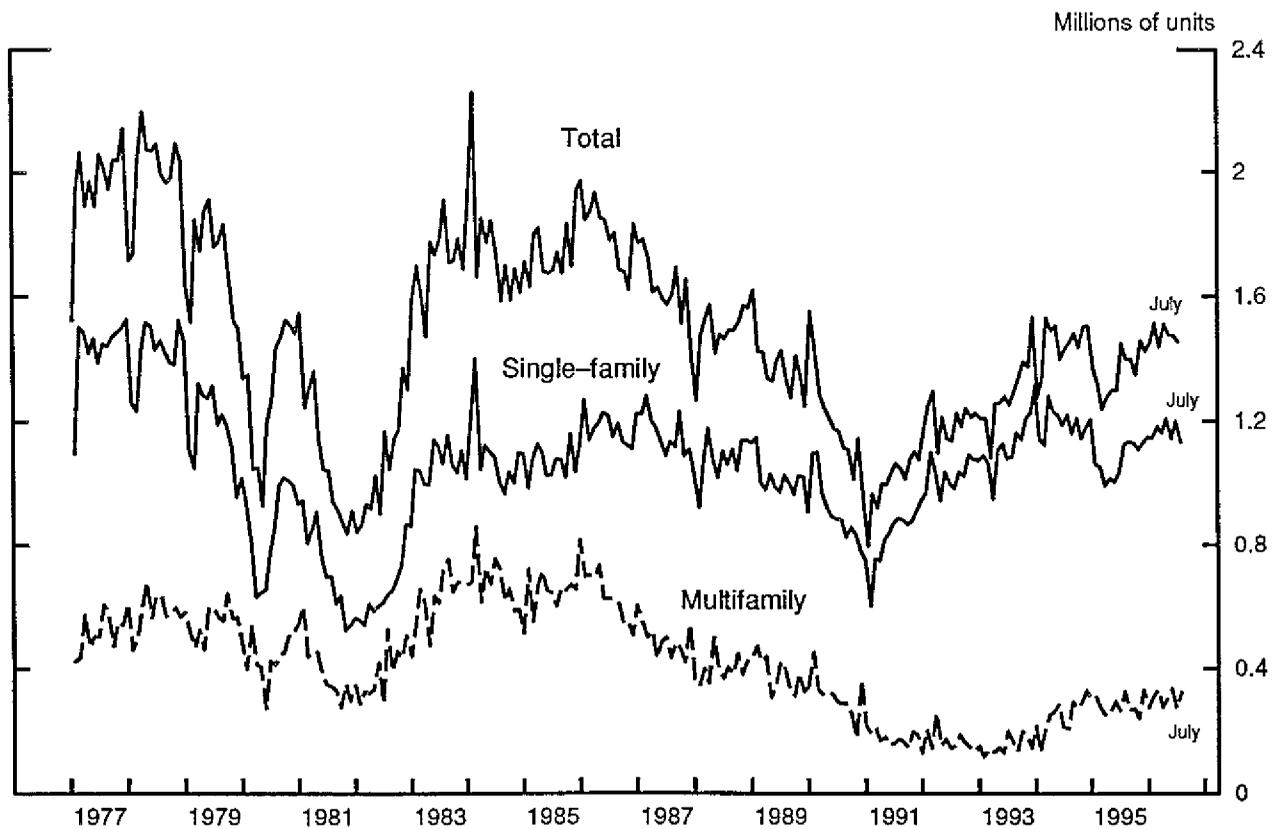
The staff forecast presented in Part 1 incorporates staff estimates of the likely revisions to the NIPA data where published BEA estimates are not final. A discussion of the staff estimates for 1996:Q2 is found at the beginning of the nonfinancial developments section of Part 2.

Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

	1995		1996				
	1995	Q4	Q1	Q2 ^r	May ^r	June ^r	July ^p
<i>All units</i>							
Starts	1.35	1.41	1.47	1.49	1.48	1.47	1.46
Permits	1.33	1.44	1.41	1.44	1.45	1.42	1.45
<i>Single-family units</i>							
Starts	1.08	1.13	1.16	1.19	1.14	1.20	1.13
Permits	1.00	1.08	1.08	1.10	1.10	1.09	1.07
New home sales	0.67	0.68	0.75	0.76	0.78	0.73	n.a.
Existing home sales	3.80	3.98	3.95	4.22	4.28	4.18	n.a.
<i>Multifamily units</i>							
Starts	0.28	0.28	0.31	0.30	0.33	0.27	0.32
Permits	0.33	0.36	0.33	0.34	0.35	0.33	0.38
<i>Mobile Homes</i>							
Shipments	0.34	0.35	0.35	0.37	0.37	0.37	n.a.

Note. p Preliminary. r Revised. n.a. Not available.

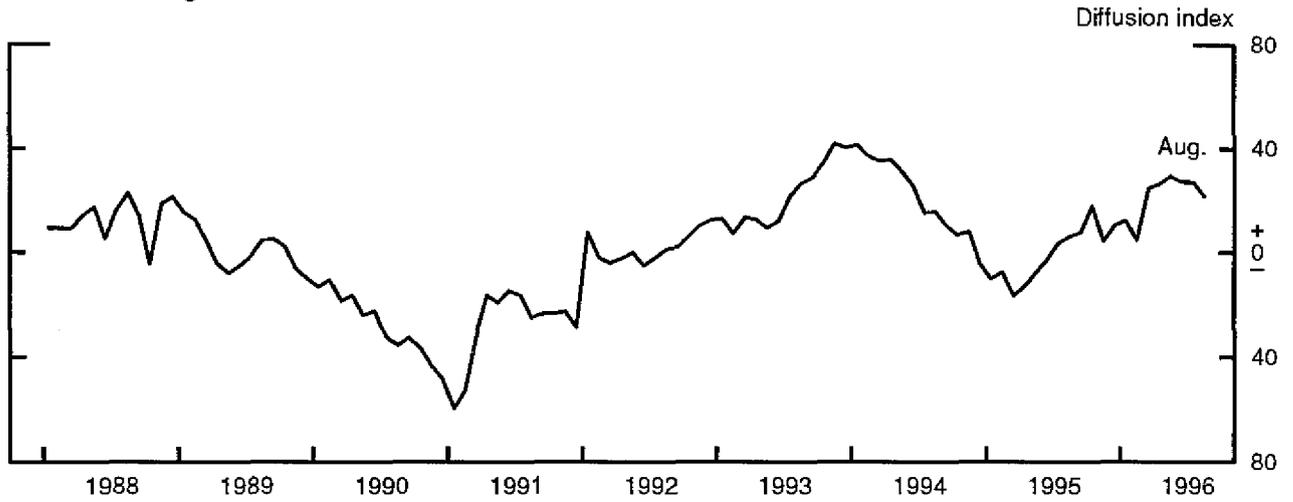
Private Housing Starts
(Seasonally adjusted annual rate)



Indicators of Housing Demand

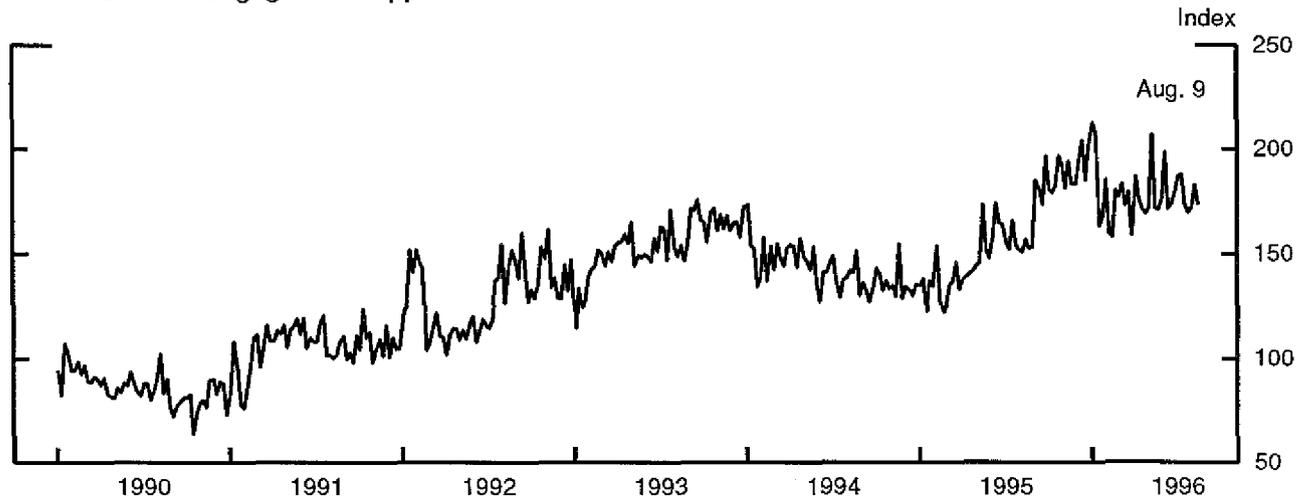
(Seasonally adjusted; FRB seasonals)

Builders' Rating of New Home Sales



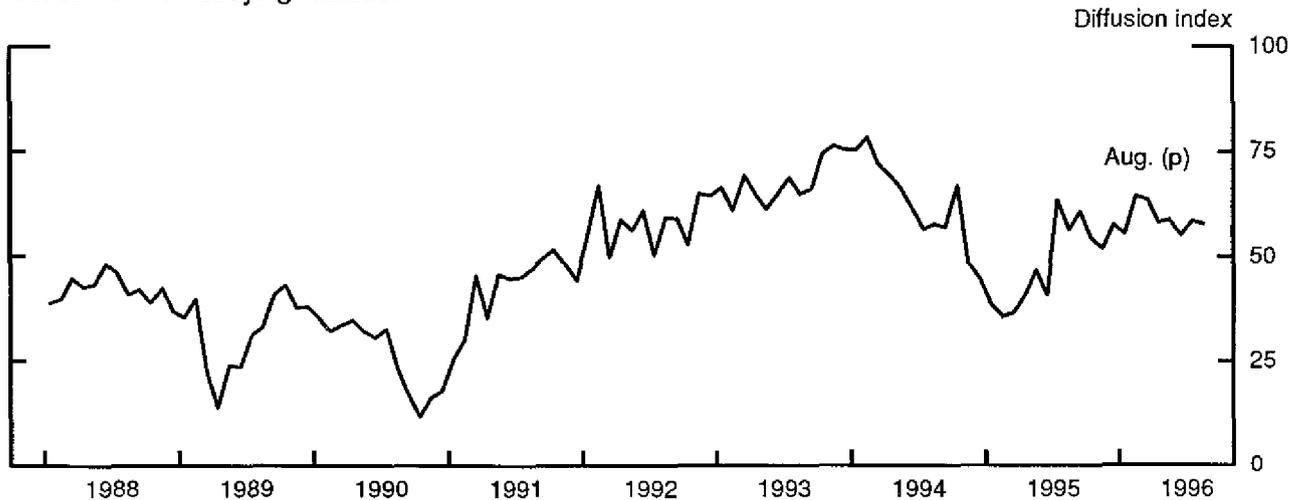
Note. The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

MBA Index of Mortgage Loan Applications for Home Purchase



Note. MBA index equals 100 on March 16, 1990, for NSA series.

Consumer Homebuying Attitudes



Note. The homebuying attitudes index is calculated from Survey Research Center data as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

August 16, 1996

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

	1995 Dec	1996 Jan	1996 Feb	1996 Mar	1996 Apr	1996 May	1996 Jun	1996 Jul	1996 Aug (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	91.0	89.3	88.5	93.7	92.7	89.4	92.4	94.7	94.5
Current conditions	102.4	105.8	105.2	105.4	107.8	105.1	105.4	107.5	107.4
Expected conditions	83.7	78.7	77.8	86.2	83.0	79.2	84.0	86.5	86.3

Personal financial situation									
Now compared with 12 months ago*	112	115	111	112	118	114	118	115	117
Expected in 12 months*	126	131	120	130	127	122	128	129	134
Expected business conditions									
Next 12 months*	115	104	109	125	118	110	117	122	116
Next 5 years*	95	80	83	91	88	86	93	97	96
Appraisal of buying conditions									
Cars	133	122	129	134	125	127	137	138	138
Large household appliances*	153	159	161	161	162	159	155	164	161
Houses	157	152	163	168	157	159	153	161	162
Willingness to use credit	45	36	40	47	45	37	54	38	38
Willingness to use savings	70	65	65	71	64	64	66	67	60
Expected unemployment change - next 12 months	122	135	131	123	124	121	123	115	115
Expected inflation - next 12 months									
Mean	3.3	4.0	3.6	4.2	4.5	4.9	4.2	4.3	4.3
Median	2.7	2.9	2.8	2.9	3.0	3.0	2.9	2.9	3.1
Expected inflation - next 5 to 10 years									
Mean	3.9	4.2	4.2	4.3	4.1	4.8	4.0	4.2	4.2
Median	3.1	3.1	3.2	3.2	3.0	3.2	3.1	3.1	3.1

* -- 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.

Selected Financial Market Quotations¹
(Percent except as noted)

Instrument	1996				Change to Aug. 15, from:		
	Feb. low	FOMC, July 2	July high	Aug. 15	Feb. low	FOMC, July 2	July high
Short-term rates							
Federal funds ²	5.15	5.37	5.39	5.24	0.09	-0.13	-0.15
Treasury bills ³							
3-month	4.76	5.18	5.21	5.05	0.29	-0.13	-0.16
6-month	4.67	5.27	5.40	5.13	0.46	-0.14	-0.27
1-year	4.55	5.48	5.64	5.33	0.78	-0.15	-0.31
Commercial paper							
1-month	5.27	5.48	5.50	5.40	0.13	-0.08	-0.10
3-month	5.12	5.50	5.59	5.41	0.29	-0.09	-0.18
Large negotiable CDs ³							
1-month	5.21	5.38	5.44	5.32	0.11	-0.06	-0.12
3-month	5.12	5.45	5.59	5.39	0.27	-0.06	-0.20
6-month	4.99	5.64	5.83	5.54	0.55	-0.10	-0.29
Eurodollar deposits ⁴							
1-month	5.13	5.34	5.38	5.28	0.15	-0.06	-0.10
3-month	5.13	5.47	5.56	5.38	0.25	-0.09	-0.18
Bank prime rate	8.25	8.25	8.25	8.25	0.00	0.00	0.00
Intermediate- and Long-term Rates							
U.S. Treasury (constant maturity)							
3-year	4.98	6.40	6.62	6.17	1.19	-0.23	-0.45
10-year	5.58	6.80	7.06	6.62	1.04	-0.18	-0.44
30-year	6.02	6.94	7.19	6.82	0.80	-0.12	-0.37
Municipal revenue (Bond Buyer) ⁵	5.67	6.20	6.24	5.98	0.31	-0.22	-0.26
Corporate-A utility, recently offered	7.18	7.99	8.23	7.81	0.63	-0.18	-0.42
High-yield corporate ⁶	9.57	10.12	10.36	10.01	0.44	-0.11	-0.35
Home mortgages ⁷							
FHLMC 30-yr fixed rate	6.94	8.29	8.42	7.88	0.94	-0.41	-0.54
FHLMC 1-yr adjustable rate	5.19	5.98	6.01	5.89	0.70	-0.09	-0.12

Stock exchange index	Level	Date	Record high			1996		
			FOMC, July 2	July low	Aug. 15	Record high	FOMC, July 2	July low
Dow-Jones Industrial	5778.00	5/22/96	5720.38	5346.55	5665.78	-1.94	-0.95	5.97
NYSE Composite	363.74	5/24/96	351.01	336.07	354.22	-2.62	0.91	5.40
S&P 500 Composite	678.51	5/24/96	673.60	626.65	662.28	-2.39	-1.68	5.69
NASDAQ (OTC)	1249.15	6/5/96	1191.36	1042.37	1134.69	-9.16	-4.76	8.86
Wilshire	6758.69	5/24/96	6649.91	6099.34	6482.40	-4.09	-2.52	6.28

- One-day quotes except as noted.
- Average for two-week reserve maintenance period closest to date shown. Last observation is the average for the maintenance period ending August 14, 1996.
- Secondary market.
- Bid rates for Eurodollar deposits at 11 a.m. London time.
- Most recent observation based on one-day Thursday quote and futures market index changes.
- Merrill Lynch Master II high-yield bond index composite.
- Quotes for week ending Friday previous to date shown.

COMMERCIAL BANK CREDIT
(Percentage change; seasonally adjusted annual rate)¹

Type of credit	1995	1996 Q1	1996 Q2	1996 May	1996 Jun	1996 Jul	Level, Jul 1996 (billions of \$)
1. Total loans and securities	8.7	5.3	2.5	1.3	1.5	1.0	3,671.3
2. Securities	3.5	.6	-3.1	7.8	-10.2	-6.4	974.8
3. U.S. government	-3.1	-2.5	.6	15.0	-11.1	-3	707.7
4. Other ²	25.6	8.4	-12.0	-10.0	-7.9	-22.5	267.1
5. Loans ³	10.7	7.1	4.6	-1.1	5.9	3.7	2,696.5
6. Business	11.5	7.3	5.0	3.6	4.9	5.5	741.4
7. Real estate	8.5	4.9	3.2	1.9	3.6	1.4	1,103.5
8. Home equity	5.2	5.6	-.5	-6.0	-6.0	6.0	79.8
9. Other	8.7	4.8	3.6	2.5	4.2	1.1	1,023.7
10. Consumer	10.7	6.7	4.9	-5.9	12.4	4.5	512.0
11. Adjusted ⁴	17.6	13.7	9.4	-.7	16.9	9.2	667.3
12. Security	14.4	-3.3	-8.0	-46.1	-7.3	-26.3	80.3
13. Other ⁵	18.4	21.2	13.0	-2.4	10.4	16.9	259.3

1. Monthly levels are *pro rata* averages of Wednesday data. Quarterly and annual levels (not shown) are simple averages of monthly levels and levels for the fourth quarter respectively. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.

2. Includes municipal securities, foreign government securities, corporate bonds, equities, and trading account assets.

3. Excludes interbank loans.

4. Includes estimates of consumer loans that have been securitized by banks and are still outstanding.

5. Includes loans to nonbank financial institutions, farmers, state and local governments, banks abroad, foreign governments, and all others not elsewhere classified. Also includes lease financing receivables.