

Prefatory Note

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January 25, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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Supplemental Notes

The Domestic Nonfinancial Economy

Federal Budget

The CBO has released a summary of *The Budget and Economic Outlook: Fiscal Years 2003-2012*. Having incorporated the incoming economic information since last January, CBO's near-term economic forecast shows a mild recession followed by a modest recovery. Real GDP is projected to increase 2.5 percent over the four quarters of 2002 and to accelerate to 4.3 percent in 2003. The level of real GDP in 2003 is substantially lower than projected a year ago. Over the period from 2004 to 2011, real GDP growth is assumed to average 3-1/4 percent per year—a touch faster than in last January's budget outlook. Despite the lower level of real GDP over the projection period, the CBO has not altered its longer-term assumption that the unemployment rate will level out at 5.2 percent. This implies that the CBO has revised down its estimate of the rate of growth of potential GDP by about 1/4 percentage point.

Sales of Existing Homes

Sales of existing homes edged down 0.8 percent in December, with the decrease essentially coming all in the South. Sales have remained flat, on balance, for about three years. The number of existing homes for sale also decreased in December, leaving the months of supply roughly unchanged at about the average level that has prevailed for two years.

The average price of existing homes sold rose 6.5 percent in December from a year earlier, and the median price rose 8.4 percent—both faster rates of increase than have been seen in recent months. The most recent figure for the repeat-sales price index for existing homes—which holds constant some of the compositional shifts that can affect average and median prices—is for the third quarter, when it was up 8.3 percent from a year earlier.

CBO's January 2002 Baseline Unified Budget Surplus Projection

(Billions of dollars, effect on surplus, fiscal years)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
Surplus	-21	-14	54	103	128	166	202	250	293	439	1602
Change from January 2001	-333	-373	-343	-330	-377	-406	-433	-460	-502	-450	-4008
Legislative	-81	-91	-158	-186	-238	-268	-293	-317	-355	-317	-2420
Economic	-148	-131	-95	-81	-75	-75	-76	-79	-82	-88	-929
Technical	-94	-84	-62	-51	-64	-64	-65	-64	-65	-45	-660

CBO's January 2002 Economic Forecast

(Calendar years)

	2001	2002	2003		2004-7	2008-11
					---annual average---	
Year-over-year percent change						
Real GDP	1.0	0.8	4.1		3.3	3.1
GDP price index	2.2	1.4	2.0		2.0	2.0
CPI-U	2.9	1.8	2.5		2.5	2.5
Percent, annual average						
Unemployment rate	4.8	6.1	5.9		5.2	5.2
Treasury securities						
3-month bill	3.4	2.2	4.5		4.9	4.9
10-year note	5.0	5.0	5.5		5.8	5.8

THE MARKET FOR EXISTING HOUSES

	2001	2001			2001		
		Q2	Q3	Q4	Oct.	Nov.	Dec.
<u>Sales¹</u>							
Total	5,251	5,303	5,213	5,200	5,180	5,230	5,190
Percent Change	2.7	0.6	-1.7	-0.3	5.7	1.0	-0.8
Previously reported level		5,303	5,213		5,180	5,210	
<u>Regional Sales</u>							
Northeast	640	637	643	640	650	640	630
Midwest	1,155	1,157	1,140	1,173	1,170	1,170	1,180
South	2,083	2,127	2,060	2,033	2,050	2,050	2,000
West	1,372	1,387	1,363	1,353	1,310	1,370	1,380
<u>Inventories</u>							
Existing homes for sale ²	2,080	2,031	2,138	2,080	1,911	2,139	2,080
Months' supply ³	4.6	4.5	4.8	4.7	4.4	4.9	4.8
<u>Prices⁴</u>							
Average	185.1	184.9	189.8	184.9	181.8	182.9	190.1
Percent change	5.1	5.0	5.6	4.3	2.8	3.6	6.5
Median	147.5	146.8	150.9	148.0	145.4	147.1	151.4
Percent change	6.1	6.4	5.8	6.2	4.9	5.4	8.4
Repeat Sales Index ⁵	ND	190.0	193.1	ND	ND	ND	ND
Percent change	ND	9.0	8.3	ND	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. Source: Freddie Mac.

ND--data not reported on a monthly basis.

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Commercial Bank Credit

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

Type of credit	2001	Q3 2001	Q4 2001	Oct. 2001	Nov. 2001	Dec. 2001	Level, Dec. 2001 (\$ billions)
Total							
1. Adjusted¹	3.8	2.4	2.6	-6.9	5.2	3.0	5,263
2. Reported	4.6	2.6	3.7	-4.1	6.0	-4.1	5,409
<i>Securities</i>							
3. Adjusted ¹	8.8	11.5	14.7	17.5	8.7	25.7	1,329
4. Reported	11.6	11.5	17.6	25.4	11.3	-3.1	1,474
5. Treasury & Agency	3.4	9.1	17.6	17.2	14.5	24.5	831
6. Other ²	23.8	14.5	17.5	35.6	7.5	-36.9	643
<i>Loans³</i>							
7. Total	2.2	-4	-1.2	-14.7	4.1	-4.5	3,934
8. Business	-4.5	-9.6	-11.8	-21.7	-12.8	-15.5	1,023
9. Real estate	6.0	3.9	7.1	8.8	10.6	5.8	1,760
10. Home equity	15.8	13.3	22.3	44.8	20.4	-37.6	145
11. Other	5.2	3.1	5.7	5.5	9.7	10.0	1,615
12. Consumer	4.0	-1.7	6.2	6.3	18.5	.6	561
13. Adjusted ⁴	6.6	1.6	9.4	12.2	20.4	3.2	900
14. Other ⁵	2.0	5.2	-12.6	-83.5	1.2	-20.6	591

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

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

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

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

Instrument	2000	2001		2002	Change to Jan. 24 from selected dates (percentage points)		
	June 26	Sept. 10	Dec. 10	Jan. 24	2000 June 26	2001 Sept. 10	2001 Dec. 10
<i>Short-term</i>							
FOMC intended federal funds rate	6.50	3.50	2.00	1.75	-4.75	-1.75	-.25
Treasury bills ¹							
3-month	5.66	3.19	1.68	1.69	-3.97	-1.50	.01
6-month	5.94	3.13	1.75	1.78	-4.16	-1.35	.03
Commercial paper							
1-month	6.56	3.42	1.76	1.71	-4.85	-1.71	-.05
3-month	6.56	3.24	1.75	1.70	-4.86	-1.54	-.05
Large negotiable CDs ¹							
1-month	6.64	3.46	1.86	1.75	-4.89	-1.71	-.11
3-month	6.73	3.26	1.81	1.75	-4.98	-1.51	-.06
6-month	6.89	3.24	1.87	1.87	-5.02	-1.37	.00
Eurodollar deposits ²							
1-month	6.63	3.41	1.85	1.71	-4.92	-1.70	-.14
3-month	6.69	3.26	1.79	1.75	-4.94	-1.51	-.04
Bank prime rate	9.50	6.50	5.00	4.75	-4.75	-1.75	-.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ³							
2-year	6.54	3.59	3.13	3.13	-3.41	-.46	.00
10-year	6.35	5.14	5.51	5.34	-1.01	.20	-.17
30-year	6.22	5.55	5.86	5.72	-.50	.17	-.14
U.S. Treasury 10-year indexed note	4.09	3.26	3.60	3.45	-.64	.19	-.15
Municipal revenue (Bond Buyer) ⁴	5.99	5.25	5.50	5.46	-.53	.21	-.04
Private instruments							
10-year swap	7.38	5.62	5.88	5.73	-1.65	.11	-.15
10-year FNMA	7.15	5.64	5.86	5.70	-1.45	.06	-.16
10-year AA ⁵	7.60	6.30	6.49	6.30	-1.30	.00	-.19
10-year BBB ⁵	8.49	7.08	7.38	7.17	-1.32	.09	-.21
High yield ⁶	11.97	12.86	12.84	13.03	1.06	.17	.19
Home mortgages (FHLMC survey rate) ⁷							
30-year fixed	8.14	6.89	6.84	6.83	-1.31	-.06	-.01
1-year adjustable	7.22	5.64	5.21	5.08	-2.14	-.56	-.13

Stock exchange index	Record high		2001		2002	Change to Jan. 24 from selected dates (percent)		
	Level	Date	Sept. 10	Dec. 10	Jan. 24	Record high	2001 Sept. 10	2001 Dec. 10
Dow-Jones Industrial	11,723	1-14-00	9,606	9,921	9,796	-16.44	1.98	-1.26
S&P 500 Composite	1,527	3-24-00	1,093	1,140	1,132	-25.88	3.63	-.68
Nasdaq (OTC)	5,049	3-10-00	1,695	1,992	1,943	-61.52	14.58	-2.49
Russell 2000	606	3-9-00	441	474	480	-20.85	8.85	1.17
Wilshire 5000	14,752	3-24-00	10,104	10,583	10,566	-28.37	4.57	-.16

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.
 September 10, 2001 is the day before the terrorist attacks.
 December 10, 2001 is the day before the most recent FOMC meeting.