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October 24, 2003

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **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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## Commercial Bank Credit

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

| Type of credit                            | 2002       | Q2<br>2003  | Q3<br>2003 | July<br>2003 | Aug.<br>2003 | Sept.<br>2003 | Level,<br>Sept. 2003<br>(\$ billions) |
|---|------------|-------------|------------|--------------|--------------|---------------|---------------------------------------|
| <b>Total</b>                              |            |             |            |              |              |               |                                       |
| <b>1. Adjusted<sup>1</sup></b>            | <b>7.2</b> | <b>10.7</b> | <b>4.9</b> | <b>3.4</b>   | <b>3.5</b>   | <b>-4.3</b>   | <b>5,958</b>                          |
| 2. Reported                               | 7.3        | 11.5        | 5.1        | 2.3          | -2.5         | 1.1           | 6,194                                 |
| <i>Securities</i>                         |            |             |            |              |              |               |                                       |
| 3. Adjusted <sup>1</sup>                  | 13.6       | 17.7        | -1.5       | -6.2         | -8.2         | -17.1         | 1,581                                 |
| 4. Reported                               | 13.3       | 18.9        | -8.0       | -30.1        | -27.4        | 3.3           | 1,779                                 |
| 5. Treasury and agency                    | 20.2       | 28.9        | -16.0      | -36.8        | -41.2        | -18.6         | 1,061                                 |
| 6. Other <sup>2</sup>                     | 4.3        | 3.5         | 4.8        | -19.3        | -5.3         | 37.1          | 717                                   |
| <i>Loans<sup>3</sup></i>                  |            |             |            |              |              |               |                                       |
| 7. Total                                  | 5.0        | 8.4         | 10.7       | 16.2         | 7.8          | .1            | 4,416                                 |
| 7a. Removing FIN 46 effects <sup>4</sup>  |            |             | 7.2        | 7.1          | 7.9          | 0.4           |                                       |
| 8. Business                               | -6.9       | -6.8        | -7.1       | 4.0          | -10.2        | -15.1         | 910                                   |
| 8a. Removing FIN 46 effects <sup>4</sup>  |            |             | -14.4      | -15.7        | -10.3        | -14.3         |                                       |
| 9. Real estate                            | 13.1       | 11.6        | 18.0       | 21.0         | 24.6         | 8.5           | 2,256                                 |
| 10. Home equity                           | 36.6       | 28.1        | 23.7       | 20.1         | 20.7         | 24.6          | 258                                   |
| 11. Other                                 | 10.9       | 9.6         | 17.3       | 21.1         | 25.2         | 6.4           | 1,997                                 |
| 12. Consumer                              | 5.5        | -.1         | 5.6        | 1.0          | 1.4          | 10.1          | 602                                   |
| 13. Adjusted <sup>5</sup>                 | 4.1        | 3.6         | 3.1        | 1.9          | -4.1         | 1.8           | 961                                   |
| 14. Other <sup>6</sup>                    | 1.6        | 30.2        | 17.4       | 31.7         | -16.4        | -16.1         | 648                                   |
| 14a. Removing FIN 46 effects <sup>4</sup> |            |             | 4.4        | -1.9         | -17.0        | -16.6         |                                       |

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. The conversion from a thrift to a commercial bank charter added approximately \$37 billion to the assets and liabilities of domestically chartered commercial banks in the week ending May 8, 2002.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115), as well as the estimated effects of consolidation related to FIN 46.

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, 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. Adjusted to remove estimated effects of consolidation related to FIN 46.

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

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

7. Banks implemented FIN 46 on July 1, but because of the staff's standard interpolation procedure for weekly bank credit series, this change also affected the levels and growth rates of bank credit and various components in June.

**Selected Financial Market Quotations**

(One-day quotes in percent except as noted)

| Instrument                                      | 2001     | 2003         |          |         | Change to Oct. 23 from selected dates (percentage points) |              |               |
|---|----------|--------------|----------|---------|---|--------------|---------------|
|   | Sept. 10 | BIS Sept. 19 | Sept. 15 | Oct. 23 | 2001 Sept. 10   | BIS Sept. 19 | 2003 Sept. 15 |
| <i>Short-term</i>                               |          |              |          |         |   |              |               |
| FOMC intended federal funds rate                | 3.50     | 1.00         | 1.00     | 1.00    | -2.50   | .00          | .00           |
| Treasury bills <sup>1</sup>                     |          |              |          |         |   |              |               |
| 3-month   | 3.19     | 0.93         | 0.94     | 0.94    | -2.25   | .01          | .00           |
| 6-month   | 3.13     | 1.00         | 1.01     | 1.01    | -2.12   | .01          | .00           |
| Commercial paper (A1/P1 rates)                  |          |              |          |         |   |              |               |
| 1-month   | 3.42     | 1.03         | 1.01     | 1.01    | -2.41   | -.02         | .00           |
| 3-month   | 3.24     | 1.03         | 1.03     | -       | -   | -            | -             |
| Large negotiable CDs <sup>1</sup>               |          |              |          |         |   |              |               |
| 1-month   | 3.46     | 1.06         | 1.07     | 1.06    | -2.40   | .00          | -.01          |
| 3-month   | 3.26     | 1.07         | 1.08     | 1.11    | -2.15   | .04          | .03           |
| 6-month   | 3.24     | 1.12         | 1.12     | 1.15    | -2.09   | .03          | .03           |
| Eurodollar deposits <sup>2</sup>                |          |              |          |         |   |              |               |
| 1-month   | 3.41     | 1.10         | 1.06     | 1.04    | -2.37   | -.06         | -.02          |
| 3-month   | 3.26     | 1.12         | 1.09     | 1.09    | -2.17   | -.03         | .00           |
| Bank prime rate                                 | 6.50     | 4.00         | 4.00     | 4.00    | -2.50   | .00          | .00           |
| <i>Intermediate- and long-term</i>              |          |              |          |         |   |              |               |
| U.S. Treasury <sup>3</sup>                      |          |              |          |         |   |              |               |
| 2-year  | 3.59     | 1.70         | 1.64     | 1.85    | -1.74   | .15          | .21           |
| 10-year   | 5.14     | 4.35         | 4.45     | 4.49    | -.65  | .14          | .04           |
| 30-year   | 5.55     | 5.22         | 5.34     | 5.33    | -.22  | .11          | -.01          |
| U.S. Treasury 10-year indexed note              | 3.28     | 2.17         | 2.17     | 2.03    | -1.25   | -.14         | -.14          |
| Municipal revenue (Bond Buyer) <sup>4</sup>     | 5.25     | 5.24         | 5.32     | 5.25    | .00   | .01          | -.07          |
| Private instruments                             |          |              |          |         |   |              |               |
| 10-year swap                                    | 5.62     | 4.57         | 4.73     | 4.72    | -.90  | .15          | -.01          |
| 10-year FNMA <sup>5</sup>                       | 5.68     | 4.72         | 4.84     | 4.85    | -.83  | .13          | .01           |
| 10-year AA <sup>6</sup>                         | 6.30     | 5.05         | 5.14     | 5.14    | -1.16   | .09          | .00           |
| 10-year BBB <sup>6</sup>                        | 7.11     | 5.87         | 5.99     | 5.94    | -1.17   | .07          | -.05          |
| High-yield <sup>7</sup>                         | 12.72    | 8.87         | 9.02     | 8.58    | -4.14   | -.29         | -.44          |
| Home mortgages (FHLMC survey rate) <sup>8</sup> |          |              |          |         |   |              |               |
| 30-year fixed                                   | 6.89     | 6.01         | 6.16     | 6.05    | -.84  | .04          | -.11          |
| 1-year adjustable                               | 5.64     | 3.81         | 3.87     | 3.79    | -1.85   | -.02         | -.08          |

| Stock exchange index | Record high |         | 2003         |          |         | Change to Oct. 23 from selected dates (percent) |              |               |
|----------------------|-------------|---------|--------------|----------|---------|---|--------------|---------------|
|                      | Level       | Date    | BIS Sept. 19 | Sept. 15 | Oct. 23 | Record high                                     | BIS Sept. 19 | 2003 Sept. 15 |
| Dow-Jones Industrial | 11,723      | 1-14-00 | 9,645        | 9,449    | 9,613   | -18.00  | -.33         | 1.74          |
| S&P 500 Composite    | 1,527       | 3-24-00 | 1,036        | 1,015    | 1,034   | -32.32  | -.24         | 1.87          |
| Nasdaq (OTC)         | 5,049       | 3-10-00 | 1,906        | 1,846    | 1,886   | -62.65  | -1.06        | 2.16          |
| Russell 2000         | 606         | 3-9-00  | 520          | 508      | 510     | -15.78  | -1.87        | .56           |
| Wilshire 5000        | 14,752      | 3-24-00 | 10,054       | 9,843    | 10,029  | -32.01  | -.25         | 1.89          |

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. Constant maturity yields estimated from Fannie Mae domestic non-callable coupon securities.
6. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
7. Merrill Lynch Master II high-yield bond.
8. For week ending Friday previous to date shown.

NOTES:

September 10, 2001 is the day before the terrorist attacks.  
September 15, 2003 is the day before the most recent FOMC meeting.