

Prefatory Note

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June 24, 2005

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

Manufacturers' Shipments, Orders, and Inventories

Shipments of nondefense capital goods excluding aircraft ticked up 0.2 percent in May following an upward-revised increase of 1.4 percent in April. Deliveries of communications gear jumped 8.5 percent and recouped much of the previous month's decline. But shipments of computers and peripheral equipment declined 2.4 percent, and shipments in the non-high-tech category edged down 0.2 percent. New orders for nondefense capital goods excluding aircraft declined 2.3 percent in May, reflecting widespread declines. The staff's constructed series on real adjusted durable goods orders moved down 1.9 percent in May after having risen 0.8 percent in April.

The book value of manufacturing durable goods inventories (which constitute nearly two-thirds of total manufacturing inventories) increased at an annual rate of less than \$10 billion in May following an anemic accumulation in April. The inventory-shipments ratio was unchanged at 1.41 months in May.

Housing

Sales of new and existing homes remained at a high level in May. Sales of existing homes (including single-family homes and condos and co-ops) edged down 0.7 percent in May from April's record high. Sales of existing single-family homes slipped roughly 1 percent in May while sales of condos and co-ops rose 2-1/4 percent. The inventory of existing homes for sale increased in May and represented 4.3 months' supply at the May sales pace, similar to the average over the past year and a half. Sales of new homes rose 2 percent in May to an annual rate of nearly 1.3 million units; sales were revised down about 3 percent in each of the two previous months. The stock of new homes for sale edged up in May, representing 4.2 months' supply at last month's sales pace, about the same as the average during the past year.

The median sales price of existing homes was up 12-1/2 percent in May from a year earlier. During the twelve months ending in May, the median sales price of existing single-family homes advanced 12 percent, and the median price of condos and co-ops rose 15 percent. The average sales price of new homes was 8 percent higher in May than a year earlier; the twelve-month change in May 2004 was 6-3/4 percent. The median price of new homes sold in May was up only 2-1/2 percent from a year earlier, compared with the increase of 8-1/4 percent posted during the year ending in May 2004.

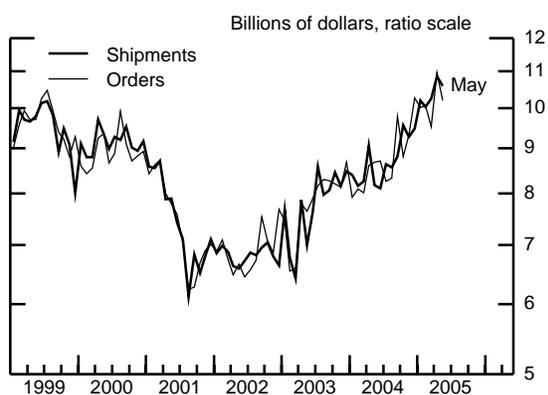
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

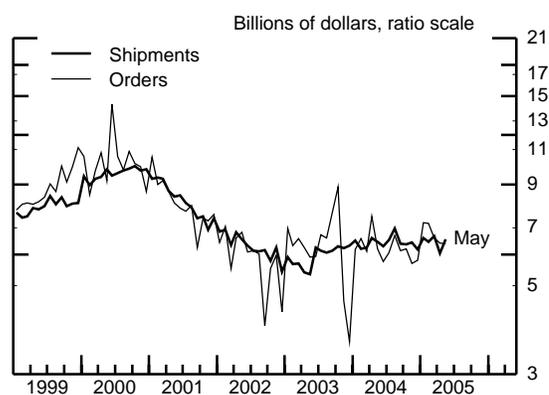
Indicators	2004	2005			
	Q4	Q1	Mar.	Apr.	May
	Annual rate		Monthly rate		
Shipments	9.7	12.8	1.1	2.3	-7
Excluding aircraft	9.6	14.0	-1	1.4	.2
Computers and peripherals	40.3	33.9	2.3	5.9	-2.4
Communications equipment	-17.1	16.2	3.4	-9.3	8.5
All other categories	8.6	10.0	-1.0	1.9	-2
Orders	4.7	7.6	-3.2	4.0	14.5
Excluding aircraft	6.3	21.8	-1.6	1.7	-2.3
Computers and peripherals	34.6	18.0	-5.4	15.1	-7.0
Communications equipment	-23.0	99.3	-8.2	-3.0	-.5
All other categories	5.9	14.9	.1	-.3	-1.5
Memo: Shipments of complete aircraft ¹	27.1	23.9	27.9	34.7	n.a.

1. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
n.a. Not available.

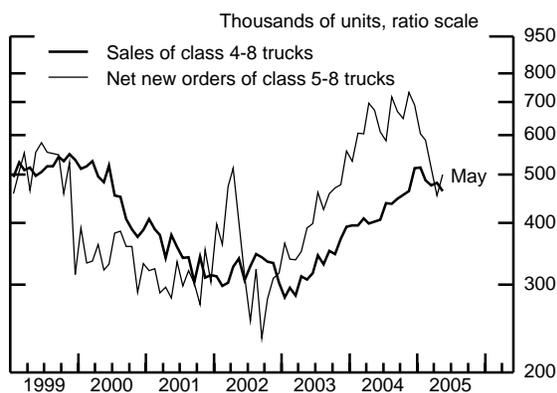
Computers and Peripherals



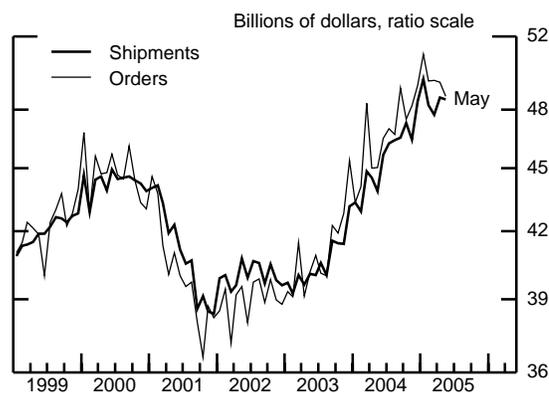
Communications Equipment



Medium and Heavy Trucks



Other Equipment



Note. Annual rate, FRB seasonals.
Source. For class 4-8 trucks, Ward's Communications;
for class 5-8 trucks, ACT Research.

The Market for Existing Homes

	2004	2004		2005	2005		
		Q3	Q4	Q1	Mar.	Apr.	May
Sales¹							
Single-family and condos and co-ops	6,784	6,797	6,877	6,837	6,870	7,180	7,130
Percent change	9.7	-1.5	1.2	-0.6	0.7	4.5	-0.7
<i>Previously reported level</i>						7,180	
Single-family	5,964	5,970	6,047	5,980	6,010	6,280	6,210
Percent change	9.4	-1.6	1.3	-1.1	0.7	4.5	-1.1
<i>Previously reported level</i>						6,280	
Condos and co-ops	820	828	829	854	858	902	922
Percent change	12.2	-0.7	0.2	3.0	1.4	5.1	2.2
Inventories							
Existing homes for sale ²	2,392	2,385	2,392	2,331	2,331	2,373	2,530
Months' supply ³	4.3	4.3	4.2	4.1	4.1	4.0	4.3
Prices⁴							
Single-family and condos and co-ops							
Median	185.2	189.3	189.3	190.3	193.0	205.0	207.0
Percent change	9.3	8.8	9.7	10.2	10.3	14.5	12.5
Single-family							
Median	184.1	188.2	187.5	188.3	191.9	203.1	204.6
Percent change	8.3	7.6	8.8	9.4	10.3	14.7	12.2
Mean	236.2	239.8	240.6	241.8	246.0	251.5	257.5
Percent change	9.3	8.5	9.4	9.7	10.3	9.8	9.8
Repeat-transaction price index ⁵	326.0	333.9	341.3	348.8	n.a.	n.a.	n.a.
Percent change	11.0	13.4	11.9	12.5	n.a.	n.a.	n.a.
Condos and co-ops							
Median	193.6	6,796.7	6,876.7	6,836.7	203.4	220.8	221.0
Percent change	17.0	4.7	8.1	8.2	13.9	16.9	15.2

Note: 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, not at an annual rate.

2. Single-family and condos and coops in thousands of units, seasonally adjusted, end of period stock.

3. Single-family and condos and coops at current sales rate; expressed as the ratio of inventories adjusted with staff seasonals to seasonally adjusted sales.

4. Price levels are expressed in thousands of dollars and are not seasonally adjusted. Percent changes are from the comparable period a year earlier.

5. The index equals 100 in the first quarter of 1980. Source: OFHEO.

n.a.--data not reported on a monthly basis.

The Market for New Single-Family Homes

	2004	2004		2005	2005		
		Q3	Q4	Q1	Mar.	Apr.	May
<i>Sales¹</i>							
Total	1,203	1,164	1,243	1,238	1,272	1,271	1,298
Percent Change	10.8	-3.2	6.8	-4	2.0	-.1	2.1
<i>Previously reported level</i>				1,254	1,313	1,316	
<i>Regional Sales</i>							
Northeast	83	68	85	73	77	98	74
Midwest	210	221	216	192	211	218	268
South	562	533	582	628	631	600	595
West	348	342	360	344	353	355	361
<i>Inventories</i>							
New homes for sale ²	395	406	418	442	443	437	442
Months' supply ³	4.0	4.3	4.1	4.3	4.2	4.2	4.2
<i>Prices⁴</i>							
Average	274.5	274.0	286.3	283.4	288.1	282.5	281.4
Percent change	11.4	10.4	11.8	7.8	10.4	4.9	8.1
Median	221.0	213.5	228.8	221.4	225.3	232.2	217.0
Percent change	13.3	11.3	15.1	.0	7.5	4.5	2.5
Constant-quality price index ⁵	141.9	142.9	146.6	145.7	n.a.	n.a.	n.a.
Percent change	7.6	7.0	8.4	4.4	n.a.	n.a.	n.a.

1. Thousands of units, seasonally adjusted annual rate, except where noted. Percent change is from previous comparable period, not at an annual rate.

2. Thousands of units, seasonally adjusted. Monthly figures are end of period stock. Quarterly and annual figures are averages of monthly figures.

3. At current sales rate, seasonally adjusted. The ratio of NSA inventories to NSA sales is seasonally adjusted by Census; as a result, the seasonally adjusted ratio may not be the same as the ratio of SA inventories to SA sales. Quarterly and annual figures are averages of monthly figures.

4. Price levels are expressed in thousands of dollars and are not seasonally adjusted. Quarterly and annual values of average and median prices are equal to a weighted average of monthly data; the weights are based on the response rate to the survey in each month. Percent changes are from the previous comparable period a year earlier.

5. 1996 = 100. Based on characteristics of homes sold in 1996.

n.a.--data not reported on a monthly basis.

June 24, 2005

The Domestic Financial Economy

Commercial Bank Credit

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

Type of credit	2003	2004	Q4 2004	Q1 2005	Apr. 2005	May 2005	Level (\$ billions), May 2005
Total							
1. Adjusted¹	5.9	8.9	6.7	14.0	4.7	6.7	6,882
2. Reported	5.6	8.4	6.9	12.0	4.4	8.4	7,028
<i>Securities</i>							
3. Adjusted ¹	8.6	6.5	1.1	22.7	-8.6	10.3	1,866
4. Reported	7.2	5.2	2.4	14.8	-8.4	16.2	2,012
5. Treasury and agency	8.9	5.0	-10.6	20.7	-23.6	5.8	1,202
6. Other ²	4.9	5.5	24.1	5.8	15.3	32.3	809
<i>Loans³</i>							
7. Total	4.9	9.8	8.7	10.9	9.6	5.3	5,016
8. Business	-9.4	1.4	6.8	15.9	18.0	14.6	957
9. Real estate	11.1	13.9	13.4	13.7	11.5	2.4	2,684
10. Home equity	30.8	43.4	37.6	18.7	12.1	10.0	424
11. Other	8.8	9.7	9.3	12.8	11.5	.9	2,261
12. Consumer	5.4	8.8	-1.1	8.2	7.8	-11.6	687
13. Adjusted ⁴	5.8	6.0	2.9	5.0	.4	-8.4	1,047
14. Other ⁵	6.8	7.9	4.0	-3.7	-7.4	21.5	688

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and 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 FAS 115).

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. 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	2004		2005		Change to June 23 from selected dates (percentage points)		
	June 28	Dec. 31	May 2	June 23	2004 June 28	2004 Dec. 31	2005 May 2
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	2.25	2.75	3.00	2.00	.75	.25
Treasury bills ¹							
3-month	1.36	2.18	2.88	3.00	1.64	.82	.12
6-month	1.74	2.52	3.10	3.17	1.43	.65	.07
Commercial paper (A1/P1 rates) ²							
1-month	1.28	2.29	3.00	3.19	1.91	.90	.19
3-month	1.45	2.28	3.10	3.31	1.86	1.03	.21
Large negotiable CDs ¹							
3-month	1.53	2.50	3.16	3.43	1.90	.93	.27
6-month	1.82	2.72	3.38	3.61	1.79	.89	.23
Eurodollar deposits ³							
1-month	1.29	2.32	3.03	3.26	1.97	.94	.23
3-month	1.51	2.49	3.14	3.41	1.90	.92	.27
Bank prime rate	4.00	5.25	5.75	6.00	2.00	.75	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	3.08	3.63	3.63	.75	.55	.00
5-year	3.97	3.63	3.87	3.73	-.24	.10	-.14
10-year	4.90	4.34	4.27	4.04	-.86	-.30	-.23
U.S. Treasury indexed notes							
5-year	1.56	1.03	1.16	1.39	-.17	.36	.23
10-year	2.25	1.65	1.61	1.69	-.56	.04	.08
Municipal revenue (Bond Buyer) ⁵	5.37	5.04	4.83	4.76	-.61	-.28	-.07
Private instruments							
10-year swap	5.21	4.65	4.67	4.36	-.85	-.29	-.31
10-year FNMA ⁶	5.30	4.61	4.59	4.26	-1.04	-.35	-.33
10-year AA ⁷	5.59	4.98	4.98	4.73	-.86	-.25	-.25
10-year BBB ⁷	6.18	5.38	5.50	5.31	-.87	-.07	-.19
5-year high yield ⁷	8.30	7.34	8.31	7.98	-.32	.64	-.33
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	5.77	5.75	5.57	-.64	-.20	-.18
1-year adjustable	4.19	4.10	4.22	4.23	.04	.13	.01

Stock exchange index	Record high		2004	2005		Change to June 23 from selected dates (percent)		
	Level	Date	Dec. 31	May 2	June 23	Record high	2004 Dec. 31	2005 May 2
Dow Jones Industrial	11,723	1-14-00	10,783	10,252	10,421	-11.10	-3.35	1.66
S&P 500 Composite	1,527	3-24-00	1,212	1,162	1,201	-21.39	-.92	3.32
Nasdaq	5,049	3-10-00	2,175	1,929	2,071	-58.99	-4.82	7.36
Russell 2000	655	12-28-04	652	586	634	-3.12	-2.68	8.24
Wilshire 5000	14,752	3-24-00	11,971	11,422	11,927	-19.15	-.37	4.42

1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.
 May 2, 2005, is the day before the most recent FOMC announcement.