

Prefatory Note

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December 9, 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

Contents

The Domestic Nonfinancial Economy 1

Erratum	1
Michigan Survey.....	1
Unemployment Insurance Claims.....	1
Wholesale Inventories.....	5

Tables

University of Michigan Survey Research Center: Survey of Consumer Attitudes	2
Unemployment Insurance Programs.....	3
Changes in Manufacturing and Trade inventories	6
Production of Domestic Light Vehicles.....	7

Charts

Unemployment Insurance	4
Book-Value Inventories Relative to Shipments and Sales	6
Inventories of Light Vehicles.....	7
Days' Supply of Light Vehicles.....	7

The Domestic Financial Economy8

Tables

Commercial Bank Credit	9
Selected Financial Market Quotations	10

Supplemental Notes

The Domestic Nonfinancial Economy

Erratum

On page I-17 of the December 7, 2005, Greenbook, in the discussion of the “stronger aggregate demand” scenario, the text states that “the personal saving rate rises to only ½ percent by late 2007 under the baseline monetary policy.” In fact, in this scenario, the saving rate rises to ¾ percent by late 2007 under the baseline monetary policy.

Michigan Survey

According to the preliminary report, the Michigan Survey Research Center’s (SRC) index of consumer sentiment jumped seven points in the first half of December to 88.7. Together with last month’s seven point gain, this brings the index back to its level prior to Hurricane Katrina.

The December rise owed to gains in both the “expected conditions” and the “current conditions” components of the overall index. Both of the “current conditions” components and all three of the “expected conditions” components rose, with the largest gain in expectations of personal finances.

Among those items not included in the overall index, consumers’ expectations about the change in unemployment over the next twelve months worsened a little, and appraisals of buying conditions for houses fell considerably. Consumers’ appraisals of buying conditions for cars improved.

Mean inflation expectations rose a little in early December. The mean expected inflation over the next twelve months ticked up to 4.2 percent, and the mean expected inflation over the next five to ten years rose to 3.5 percent. In contrast, median expected inflation over the next twelve months fell a little, and median expected inflation over the next five to ten years was unchanged.

Unemployment Insurance Claims

Initial claims for unemployment insurance under state programs increased 6,000 to 327,000 for the week ending December 3. The four-week moving average of initial claims remained at 323,000. The level of insured unemployment under state programs fell 137,000 to 2.6 million for the week ending November 26. The insured unemployment rate ticked down to 2 percent from the previous week's downward-revised level of 2.1 percent.

December 9, 2005

University of Michigan Survey Research Center: Survey of Consumer Attitudes
 Indexes of consumer sentiment
 (Not seasonally adjusted)

Category	2005							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^P
Composite of current and expected conditions ¹	86.9	96.0	96.5	89.1	76.9	74.2	81.6	88.7
Current conditions ¹	104.9	113.2	113.5	108.2	98.1	91.2	100.2	106.6
Expected conditions ¹	75.3	85.0	85.5	76.9	63.3	63.2	69.6	77.3
Personal financial situation								
Now compared with 12 months ago ²	109	122	122	117	103	96	103	116
Expected in 12 months ²	121	129	133	121	115	112	115	126
Expected business conditions								
Next 12 months ²	95	109	112	102	62	68	83	96
Next 5 years ²	85	103	99	85	76	72	80	88
Appraisal of buying conditions								
Cars	133	139	152	147	125	119	125	133
Large household appliances ²	163	172	172	164	151	139	157	160
Houses	156	146	145	140	130	125	130	117
Expected unemployment change - next 12 months	119	116	117	123	137	134	122	124
Prob. household will lose a job - next 5 years	24	23	22	23	23	22	22	19
Expected inflation - next 12 months								
Mean	3.8	4.0	3.6	3.7	5.5	5.5	4.1	4.2
Median	3.2	3.2	3.0	3.1	4.3	4.6	3.3	3.1
Expected inflation - next 5 to 10 years								
Mean	3.5	3.1	3.3	3.3	3.8	3.8	3.3	3.5
Median	2.9	2.8	2.9	2.8	3.1	3.2	3.0	3.0

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.

P Preliminary.

1. Feb. 1966 = 100.

2. Indicates the question is one of the five equally-weighted components of the index of sentiment.

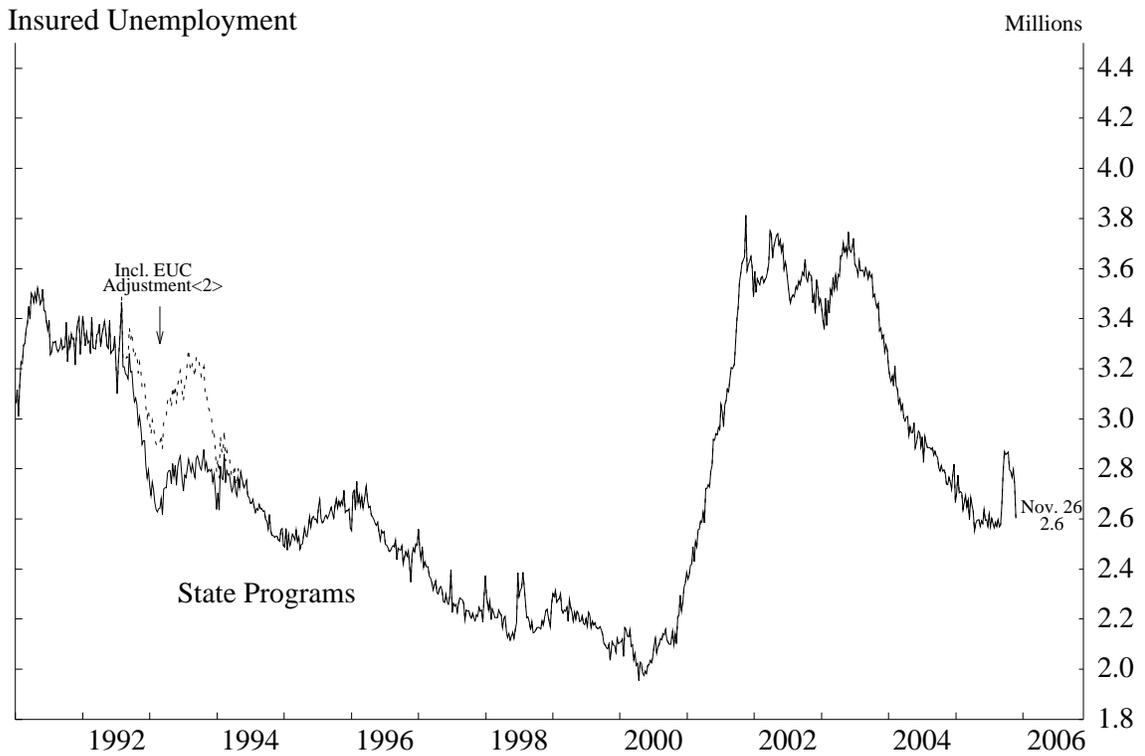
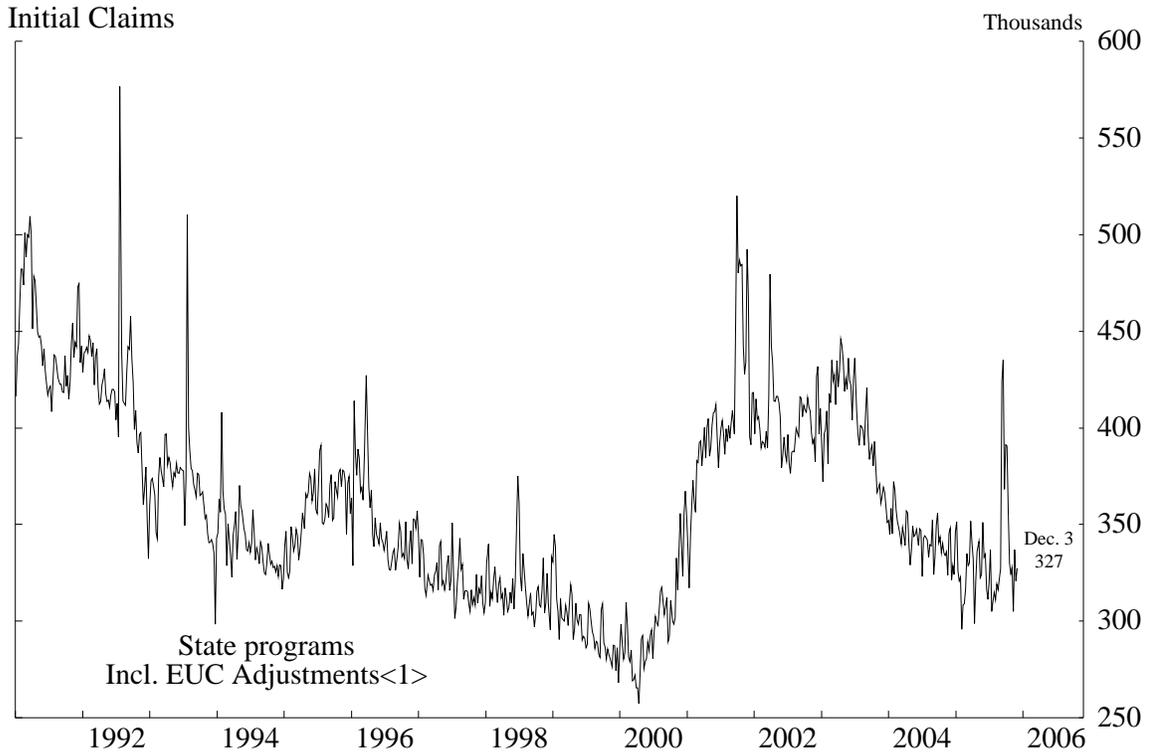
Unemployment Insurance Programs
(In Thousands)

Item	2005						
	Oct. 22	Oct. 29	Nov. 5	Nov. 12	Nov. 19	Nov. 26	Dec. 3
<i>Seasonally adjusted¹</i>							
Initial Claims							
All regular programs ²	334	328	332	308	342	323	330
State programs	330	325	328	305	337	321	327
Insured unemployment							
All regular programs ³	2842	2838	2810	2846	2784	2646	NA
State programs	2795	2790	2765	2797	2740	2603	NA
Extended benefits ⁴	0	0	0	0	0	NA	NA
State-insured							
Unemployment rate ⁵	2.2	2.2	2.2	2.2	2.1	2.0	NA
Initial Claims (Four-week moving avg.)							
All regular programs ²	371	354	338	326	327	326	326
State programs	367	351	335	322	324	323	323
<i>Not seasonally adjusted</i>							
Regular state programs							
Initial claims	305	294	340	284	369	291	443
Insured unemployment	2379	2416	2364	2564	2302	2715	NA

1. Only data for regular state programs are seasonally adjusted.
2. Includes federal employees and ex-servicemen.
3. Includes federal employees, railroad workers, and ex-servicemen.
4. Includes state and federal emergency extended benefits.
5. Percent of covered employees receiving regular state benefits.

Unemployment Insurance

(Weekly data; Seasonally adjusted)



<1> Beginning July 18, 1992, includes initial claims filed under the emergency unemployment benefits program by individuals also eligible to file under regular programs. The EUC program ended on April 30, 1994.
<2> Includes staff estimate of emergency benefits recipients who are also eligible to file under regular programs.

Wholesale Inventories

The book value of wholesale inventories rose at an annual rate of \$8 billion in October following a \$24 billion accumulation in September. Excluding motor vehicles, inventories at wholesalers rose only \$0.2 billion in October, and the inventory-sales ratio in this category edged down to 1.11 months.

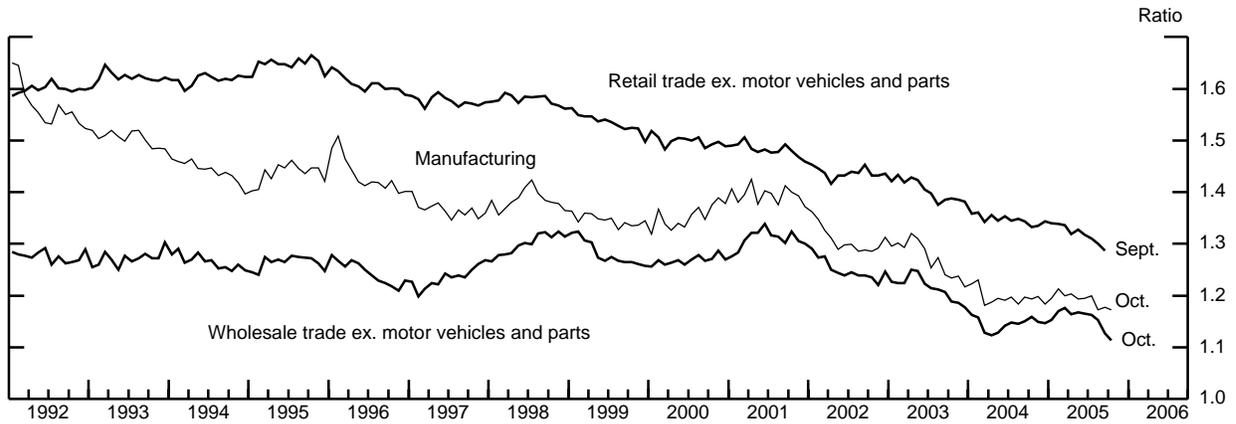
Stocks held by wholesalers of durable goods increased at an annual rate of \$25 billion in October. In contrast, stocks held by wholesalers of nondurable goods slid at an annual rate of \$17 billion, pulled down by run-offs at wholesalers of drug and pharmaceutical products.

Changes in Manufacturing and Trade Inventories
(Billions of dollars; seasonally adjusted book value; annual rate)

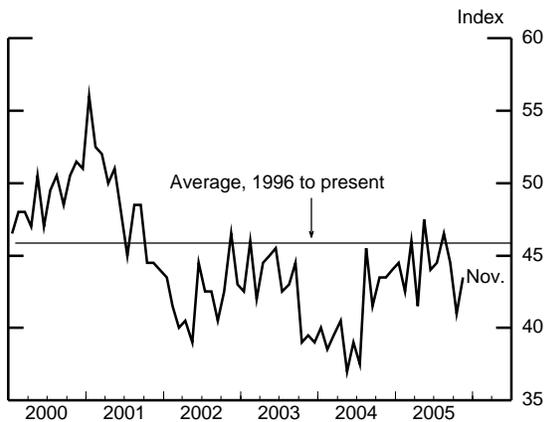
Sector	2005					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Manufacturing and trade	88.6	18.7	23.9	57.9	79.8	n.a.
Ex. wholesale and retail motor vehicles and parts	92.0	29.1	37.2	33.8	42.4	n.a.
Manufacturing	42.6	.9	8.3	-13.3	5.7	31.9
Ex. aircraft	38.1	4.0	5.2	-4.2	-1.8	25.8
Wholesale trade	30.5	20.2	16.1	20.6	23.6	7.7
Motor vehicles and parts	-1.1	7.9	-1.4	-5.2	1.3	7.5
Ex. motor vehicles and parts	31.6	12.4	17.5	25.8	22.3	.2
Retail trade	15.5	-2.4	-.5	50.6	50.4	n.a.
Motor vehicles and parts	-2.3	-18.3	-11.9	29.3	36.1	n.a.
Ex. motor vehicles and parts	17.7	15.8	11.4	21.3	14.3	n.a.

n.a. Not available.

Book-Value Inventories Relative to Shipments and Sales

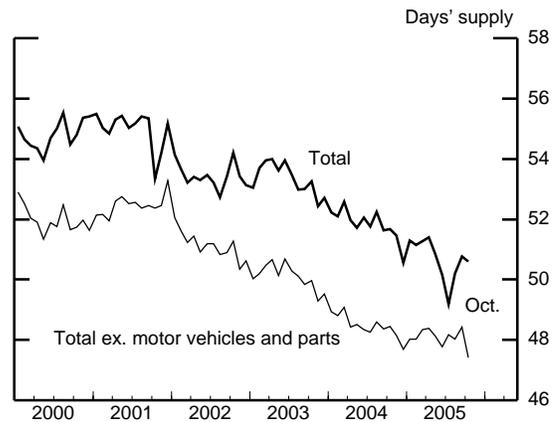


ISM Customer Inventories: Manufacturing



Note. A number above 50 indicates inventories are "too high."

Inventory-Consumption Ratios, Flow-of-Goods System



Production of Domestic Light Vehicles
(Millions of units at an annual rate except as noted; FRB seasonals)

Item	2004	2005		2006	2005		
		Q3	Q4	Q1	Sept.	Oct.	Nov.
U.S. production ¹	11.7	11.7	11.4	11.3	12.1	11.9	11.2
Autos	4.3	4.3	4.4	4.6	4.4	4.4	4.4
Light trucks	7.4	7.4	7.0	6.7	7.7	7.5	6.8
Days' supply ²	74	58	n.a.	n.a.	65	80	74
Autos	59	44	n.a.	n.a.	44	51	50
Light trucks	83	68	n.a.	n.a.	82	104	93
Inventories ³	3.22	2.75	n.a.	n.a.	2.75	2.97	3.03
Autos	1.02	.82	n.a.	n.a.	.82	.87	.90
Light trucks	2.20	1.94	n.a.	n.a.	1.94	2.10	2.12
Memo: U.S. production, total motor vehicles ⁴	12.0	12.1	11.9	11.7	12.5	12.4	11.6

Note. Components may not sum to totals because of rounding.

1. Production rates for the fourth and first quarters reflect the latest schedules from Ward's Communications.

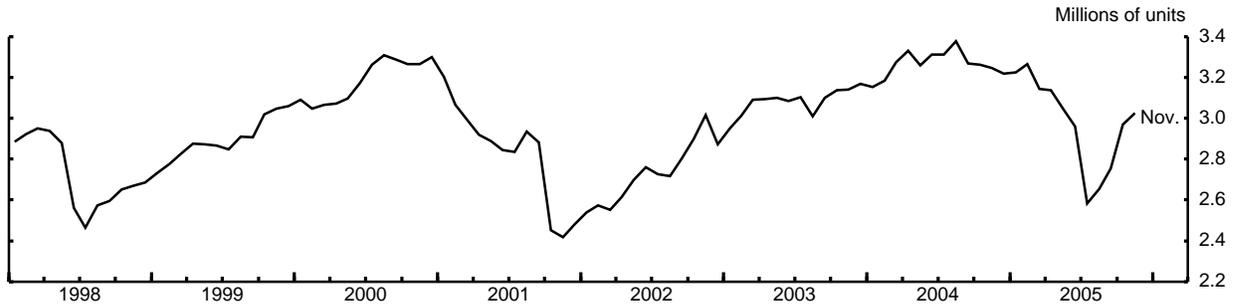
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

4. Includes medium and heavy trucks.

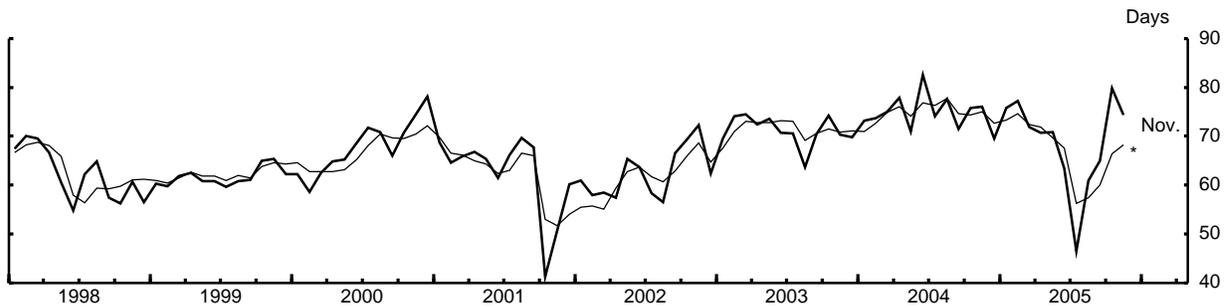
n.a. Not available.

Inventories of Light Vehicles



Note. FRB seasonals. Monthly totals.

Days' Supply of Light Vehicles



* Constructed using 6-month moving average of sales.

The Domestic Financial Economy

Commercial Bank Credit

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

Type of credit	2004	Q1 2005	Q2 2005	Q3 2005	Oct. 2005	Nov. 2005	Level (\$ billions), Nov. 2005
Total							
1. Adjusted¹	8.9	14.6	10.2	8.8	2.7	4.3	7,135
2. Reported	8.4	12.3	10.0	9.0	1.1	3.8	7,278
<i>Securities</i>							
3. Adjusted ¹	6.6	23.7	5.6	.0	.2	-3.5	1,852
4. Reported	5.2	14.9	5.2	1.1	-5.4	-4.7	1,995
5. Treasury and agency	4.8	20.2	-5.6	-6.0	-7.9	-17.8	1,139
6. Other ²	5.8	6.7	22.4	11.4	-2.0	13.3	855
<i>Loans³</i>							
7. Total	9.8	11.3	12.0	12.1	3.6	7.0	5,283
8. Business	1.3	16.8	13.8	12.2	9.2	11.1	1,007
9. Real estate	14.0	13.5	14.2	15.6	7.6	5.1	2,853
10. Home equity	43.9	18.6	14.1	11.7	-4.9	.0	436
11. Other	9.8	12.6	14.3	16.3	9.9	6.1	2,417
12. Consumer	8.8	8.3	3.1	4.7	-18.5	2.4	692
13. Adjusted ⁴	5.9	4.9	-2.6	4.3	-22.4	.7	1,045
14. Other ⁵	7.9	-1.3	9.7	5.6	1.8	12.9	731

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.

III-T-1
Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	2004		2005		Change to Dec. 8 from selected dates (percentage points)		
	June 28	Dec. 31	Oct. 31	Dec. 8	2004 June 28	2004 Dec. 31	2005 Oct. 31
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	2.25	3.75	4.00	3.00	1.75	.25
Treasury bills ¹							
3-month	1.36	2.18	3.89	3.85	2.49	1.67	-.04
6-month	1.74	2.52	4.12	4.12	2.38	1.60	.00
Commercial paper (A1/P1 rates) ²							
1-month	1.28	2.29	4.01	4.24	2.96	1.95	.23
3-month	1.45	2.28	4.13	4.36	2.91	2.08	.23
Large negotiable CDs ¹							
3-month	1.53	2.50	4.22	4.44	2.91	1.94	.22
6-month	1.82	2.72	4.43	4.61	2.79	1.89	.18
Eurodollar deposits ³							
1-month	1.29	2.32	4.08	4.33	3.04	2.01	.25
3-month	1.51	2.49	4.25	4.47	2.96	1.98	.22
Bank prime rate	4.00	5.25	6.75	7.00	3.00	1.75	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	3.08	4.45	4.39	1.51	1.31	-.06
5-year	3.97	3.63	4.46	4.37	.40	.74	-.09
10-year	4.90	4.34	4.67	4.58	-.32	.24	-.09
U.S. Treasury indexed notes							
5-year	1.56	1.03	1.81	2.06	.50	1.03	.25
10-year	2.25	1.65	2.00	2.16	-.09	.51	.16
Municipal general obligations (Bond Buyer) ⁵	5.01	4.49	4.56	4.49	-.52	.00	-.07
Private instruments							
10-year swap	5.21	4.65	5.05	5.03	-.18	.38	-.02
10-year FNMA ⁶	5.30	4.61	4.97	4.89	-.41	.28	-.08
10-year AA ⁷	5.59	4.98	5.37	5.31	-.28	.33	-.06
10-year BBB ⁷	6.18	5.38	5.97	5.92	-.26	.54	-.05
5-year high yield ⁷	8.30	7.34	8.34	8.35	.05	1.01	.01
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	5.77	6.31	6.32	.11	.55	.01
1-year adjustable	4.19	4.10	5.09	5.16	.97	1.06	.07

Stock exchange index	Record high		2004	2005		Change to Dec. 8 from selected dates (percent)		
	Level	Date	Dec. 31	Oct. 31	Dec. 8	Record high	2004 Dec. 31	2005 Oct. 31
Dow Jones Industrial	11,723	1-14-00	10,783	10,440	10,755	-8.26	-.26	3.02
S&P 500 Composite	1,527	3-24-00	1,212	1,207	1,256	-17.78	3.62	4.05
Nasdaq	5,049	3-10-00	2,175	2,120	2,246	-55.50	3.26	5.95
Russell 2000	691	12-2-05	652	647	685	-.77	5.16	5.97
Wilshire 5000	14,752	3-24-00	11,971	12,063	12,606	-14.55	5.30	4.50

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.
October 31, 2005, is the day before the most recent FOMC meeting.