

Prefatory Note

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May 5, 2006

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

Labor Market Developments

Private nonfarm payrolls increased 131,000 in April—a somewhat more moderate rise than in previous months—and the March level of employment was revised down 30,000. Aggregate hours rose a solid 0.5 percent in April, and the unemployment rate was unchanged at 4.7 percent.

By industry, manufacturing employment increased 19,000 last month, boosted by a gain of 12,000 in the motor vehicle and parts sector, and the March level of factory jobs was revised up 15,000. In industries related to manufacturing, wholesale trade employment continued to increase in April, but temporary-help employment was flat. In other goods-producing industries, recent increases in energy prices continued to boost mining activity and employment, while the construction industry saw its second consecutive month of moderate job gains following large advances earlier in the year.

Employment increases in services-producing industries were widespread in April, with the notable exception of retail trade, where payrolls fell 36,000; a downward revision to this industry's level of jobs in March accounted for much of the overall revision to private payrolls. On net, retail trade employment has changed little since last summer. Elsewhere, robust job gains occurred in professional and technical services (21,000), financial activities (26,000), health care services (23,000), and leisure and hospitality (20,000).

Average weekly hours of production or nonsupervisory workers on private nonfarm payrolls ticked up 0.1 hour to 33.9 hours last month. The increases in the workweek and employment led to an increase of 0.5 percent in the aggregate hours of production or nonsupervisory workers, and aggregate hours now stand 0.7 percent (not at an annual rate) above their first-quarter average.

In the household survey, both the unemployment rate and the labor force participation rate were unchanged last month, at 4.7 percent and 66.1 percent respectively. Two other indicators of labor market slack—the number of individuals working part time for economic reasons as a percent of employment and the number of individuals who are out of the labor force but would like a job as a percent of the labor force—were also little changed last month, though both have moved down over the past year.

The average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls increased 0.5 percent in April. Last month's gain brings the increase over the last three months to an annual rate of 5.2 percent and the increase over the past twelve months to 3.8 percent, up from an increase of 2.7 percent over the preceding twelve months.

Productivity and Costs

The staff has updated its estimate of output per hour in the nonfarm business sector, and we now show an increase at an annual rate of 3.6 percent in the first quarter. Our estimate is noticeably higher than the one published by the Bureau of Labor Statistics (BLS) on Thursday. The BLS report was based on the advance estimate of output published with the first-quarter GDP data; we have incorporated the incoming information on output—notably, the March data on outlays for construction put-in-place and manufacturers' inventories—that suggests a larger gain in first-quarter real GDP.

Labor Output per Hour

(Percent change from preceding period at an annual rate;
seasonally adjusted)

Sector	2004:Q1 to 2005:Q1	2005:Q1 to 2006:Q1 ¹	2005			2006
			Q2	Q3	Q4	Q1 ¹
Nonfarm business						
All persons	3.0	2.5	2.4	4.2	-.3	3.6
All employees ²	3.1	2.2	2.3	3.1	-.9	4.6
Nonfinancial corporations ³	5.4	n.a.	4.6	4.1	4.6	n.a.

1. Staff estimates.

2. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.

3. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.

n.a. Not available.

We estimate that compensation per hour in the nonfarm business sector increased at an annual rate of 5¾ percent in the first quarter. Quarterly changes in this measure of worker compensation have fluctuated noticeably, and, in the first quarter, hourly compensation was up 3¾ percent from a year earlier. That pace marks a considerable step-down from the rate of increase over the preceding four quarters, which appeared to include a bulge in stock option exercises and large bonuses at the end of 2004.

Changes in Employment

(Thousands of employees; seasonally adjusted)

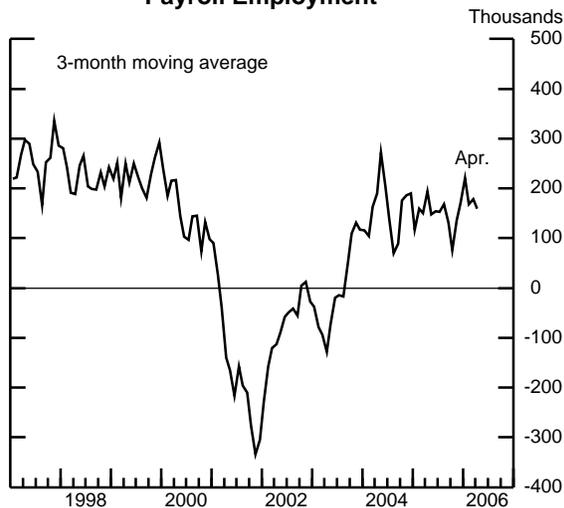
Measure and sector	2005	2005		2006			
		Q3	Q4	Q1	Feb.	Mar.	Apr.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	165	155	179	185	200	200	138
Private	152	132	171	178	168	179	131
Manufacturing	-6	-15	12	2	-1	1	19
Construction	25	16	30	28	34	6	10
Wholesale trade	7	5	7	13	9	12	11
Retail trade	13	4	11	4	-11	23	-36
Transportation and utilities	6	3	6	3	8	-7	11
Information	-1	3	-2	2	8	0	-2
Financial activities	12	19	17	21	24	19	26
Professional and business services	41	51	41	28	29	49	28
Temporary help services	14	21	18	-5	-4	10	-1
Nonbusiness services ¹	51	43	44	71	63	67	56
Total government	14	23	8	6	32	21	7
Total employment (household survey)	221	228	115	287	183	384	47
Memo:							
Aggregate hours of private production workers (percent change) ²	2.3	2.2	2.1	3.0	.2	.2	.5
Average workweek (hours) ³	33.8	33.8	33.8	33.8	33.8	33.8	33.9
Manufacturing (hours)	40.6	40.6	40.9	41.0	41.0	41.1	41.1

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."

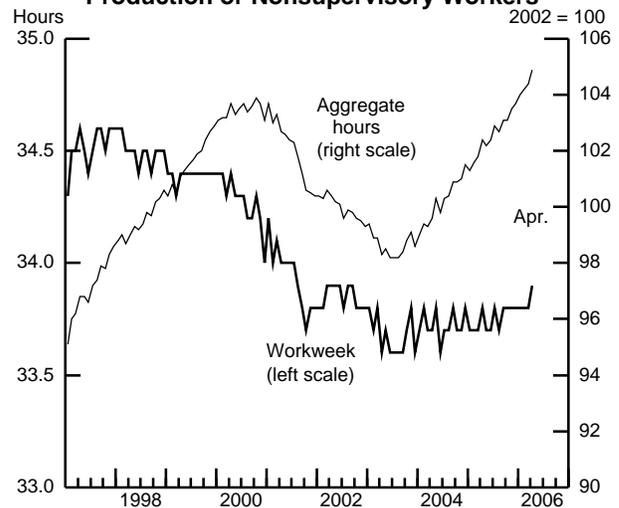
2. Establishment survey. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

3. Establishment survey.

Changes in Private Payroll Employment



Aggregate Hours and Workweek of Production or Nonsupervisory Workers

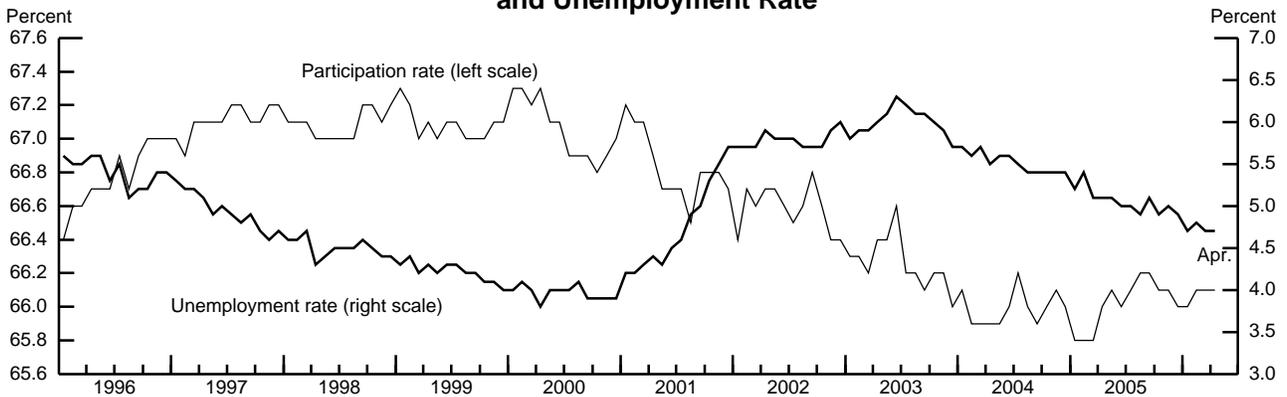


Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

Rate and group	2005	2005		2006			
		Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Civilian unemployment rate</i>							
Total	5.1	5.0	5.0	4.7	4.8	4.7	4.7
Teenagers	16.6	16.1	16.1	15.5	15.4	15.7	14.6
20-24 years old	8.8	8.6	8.5	8.1	8.5	7.6	8.2
Men, 25 years and older	3.8	3.8	3.7	3.6	3.7	3.6	3.6
Women, 25 years and older	4.2	4.2	4.2	3.9	3.9	3.8	3.9
<i>Labor force participation rate</i>							
Total	66.0	66.2	66.1	66.0	66.1	66.1	66.1
Teenagers	43.7	43.8	43.4	43.7	43.8	43.9	43.4
20-24 years old	74.6	74.6	74.8	74.0	74.5	73.9	74.1
Men, 25 years and older	75.4	75.6	75.3	75.5	75.4	75.6	75.6
Women, 25 years and older	59.4	59.5	59.6	59.4	59.4	59.3	59.4

Labor Force Participation Rate and Unemployment Rate



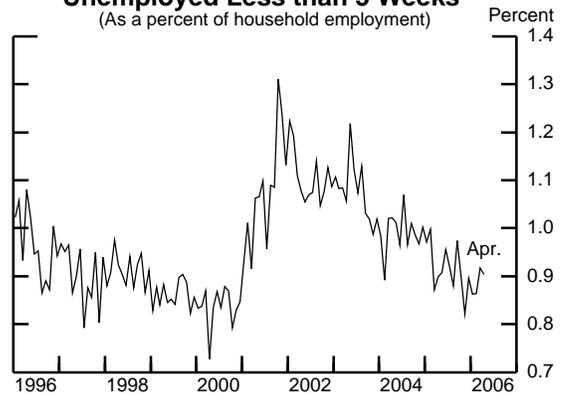
Persons Working Part Time for Economic Reasons

(As a percent of household employment)



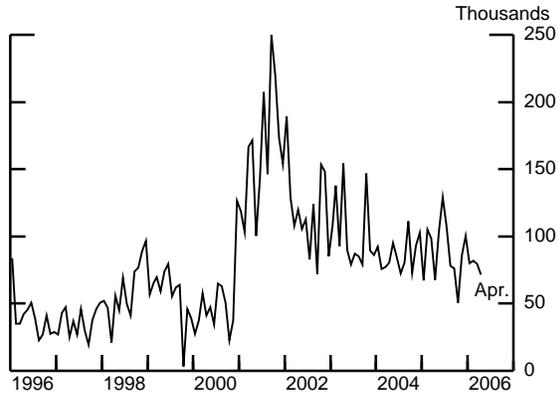
Job Losers Unemployed Less than 5 Weeks

(As a percent of household employment)



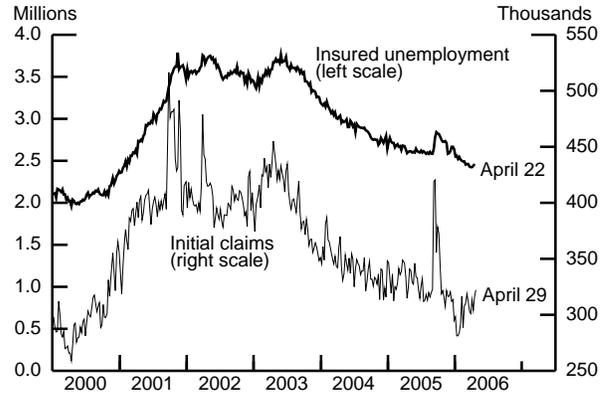
Labor Market Indicators

Layoff Announcements

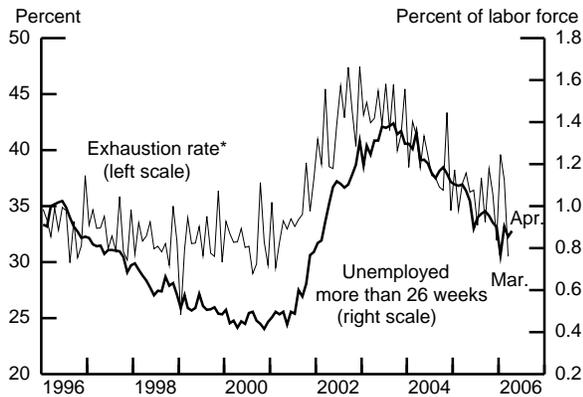


Note. Seasonally adjusted by FRB staff.
Source. Challenger, Gray, and Christmas, Inc.

Unemployment Insurance

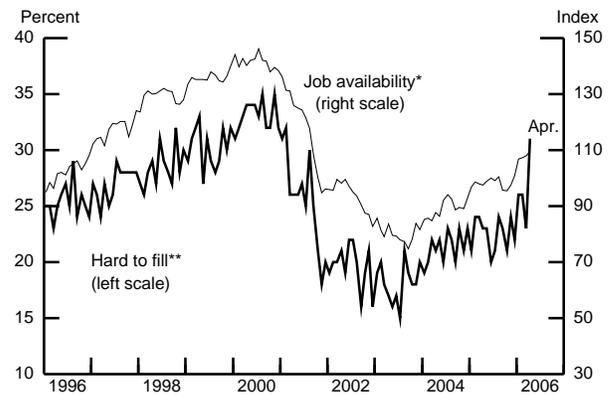


Exhaustion Rate and Long-Term Unemployed



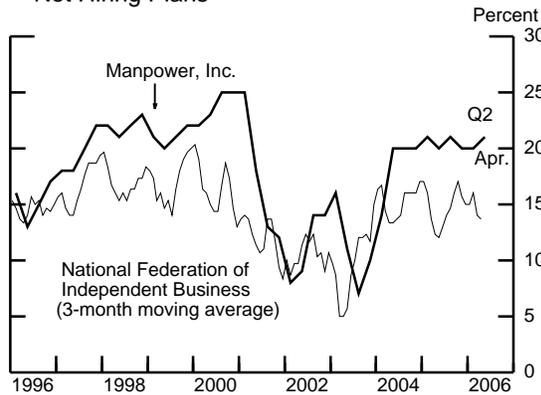
*The exhaustion rate is the number of individuals who were receiving unemployment insurance benefits but reached the end of their potential eligibility expressed as a percent of individuals who began receiving such benefits 6 months earlier.

Labor Market Tightness



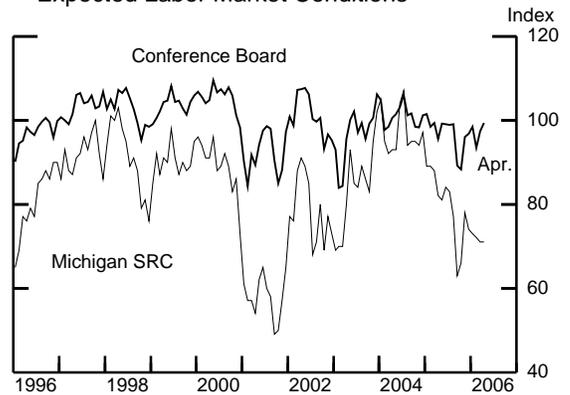
*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
**Percent of small businesses surveyed with at least one "hard to fill" job opening.
Source. For job availability, Conference Board; for hard to fill, National Federation of Independent Business.

Net Hiring Plans



Note. Percent planning an increase in employment minus percent planning a reduction.

Expected Labor Market Conditions



Note. The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.

Hourly Compensation and Unit Labor Costs

(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2004:Q1 to 2005:Q1	2005:Q1 to 2006:Q1 ^e	2005			2006
			Q2	Q3	Q4 ^e	Q1 ^e
<i>Compensation per hour</i>						
Nonfarm business	6.4	3.8	1.3	5.5	2.7	5.8
Nonfinancial corporations ¹	6.7	n.a.	1.1	6.3	2.5	n.a.
<i>Unit labor costs</i>						
Nonfarm business	3.4	1.3	-1.0	1.2	3.0	2.1
Nonfinancial corporations ¹	1.2	n.a.	-3.4	2.1	-2.0	n.a.

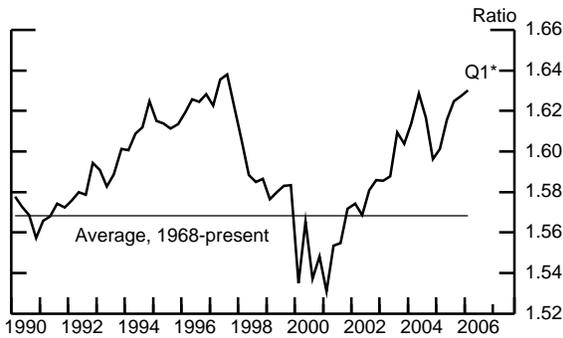
Note. Figures that include the most recent quarter are based on published data rather than the staff forecast.

1. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.

n.a. Not available.

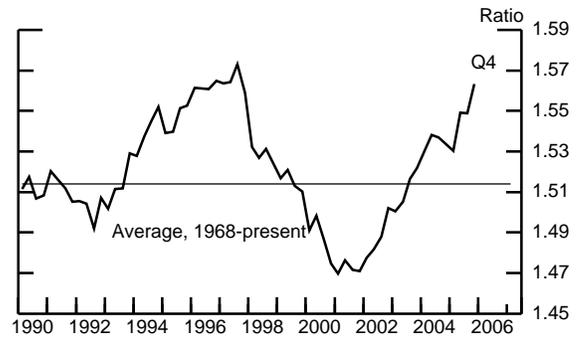
e Staff estimate.

Markup, Nonfarm Business



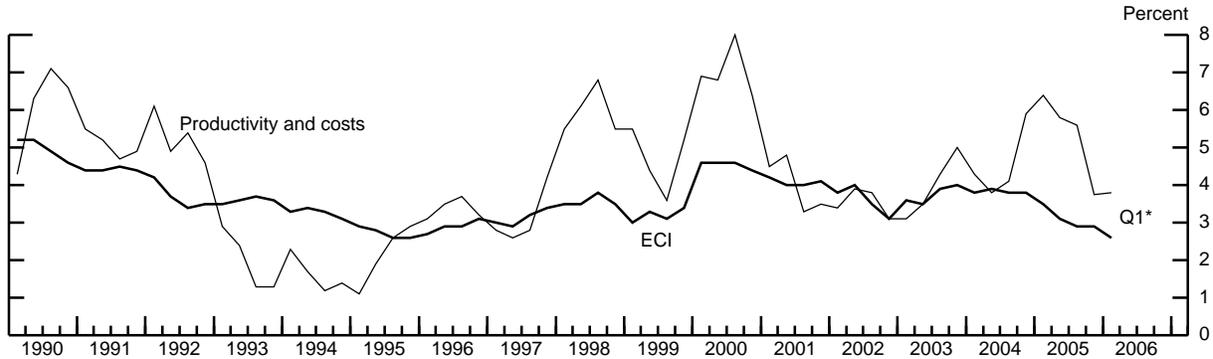
Note. The markup is the ratio of output price to unit labor costs.
* Values for 2005:Q4 and 2006:Q1 are staff estimates.

Markup, Nonfinancial Corporations



Note. The markup is the ratio of output price to unit labor costs.

Compensation per Hour
(Percent change from year-earlier period)



* P&C values for 2005:Q4 and 2006:Q1 are staff estimates.

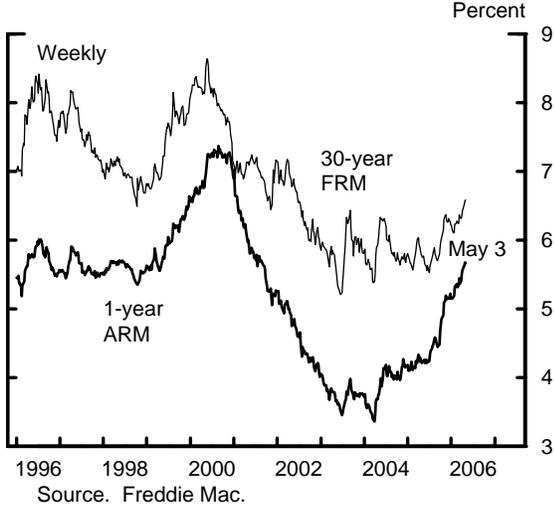
The Domestic Financial Economy

Consumer Credit

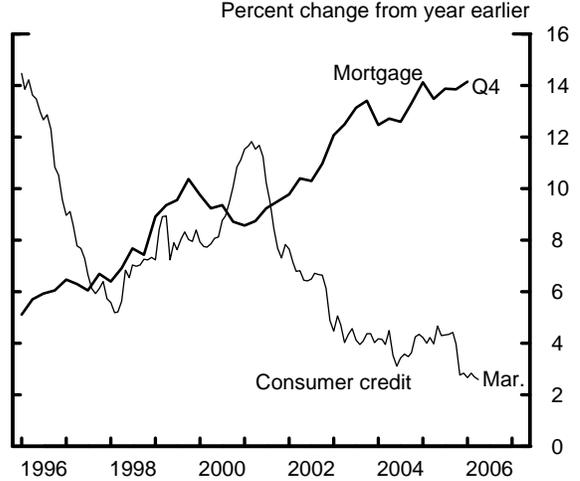
Consumer credit increased at an annual rate of $2\frac{3}{4}$ percent in the first quarter. Revolving credit was about unchanged in March while nonrevolving credit rose at a pace of $2\frac{1}{2}$ percent.

Household Liabilities

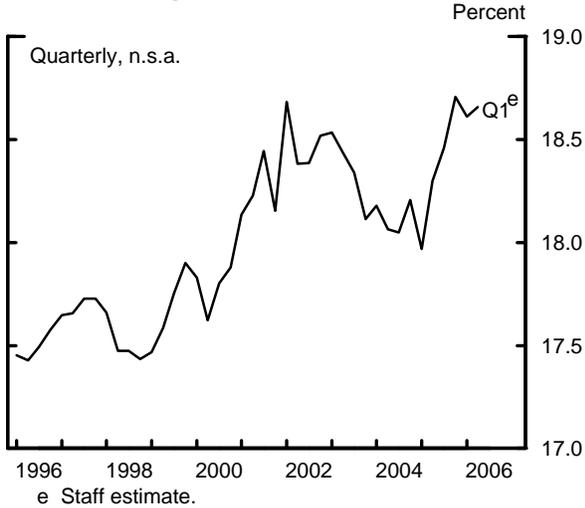
Mortgage Rates



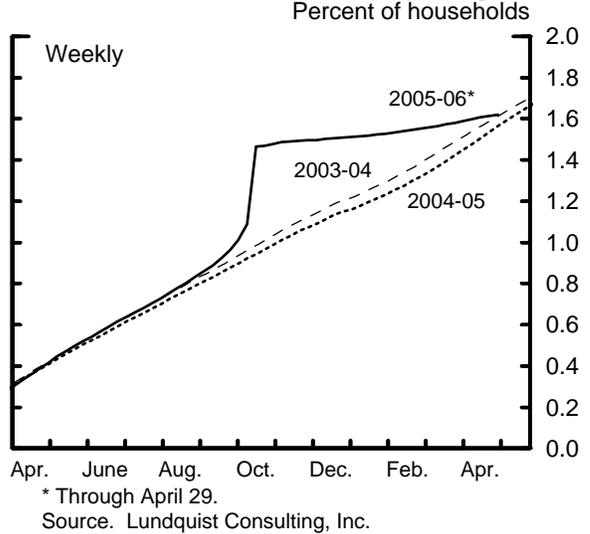
Mortgage and Consumer Debt



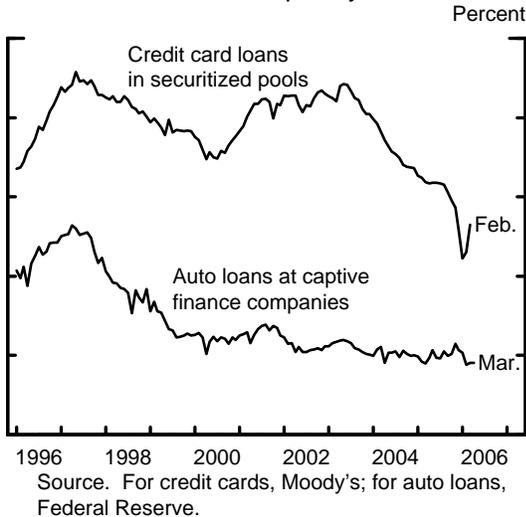
Financial Obligations Ratio



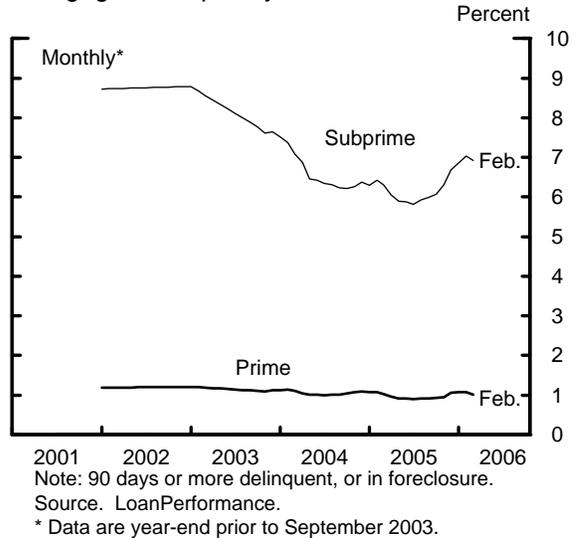
Cumulative Household Bankruptcy Filings



Consumer Credit Delinquency Rates



Mortgage Delinquency Rates



Commercial Bank Credit

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

Type of credit	2004	2005	2005: Q4	2006: Q1	Mar. 2006	Apr. ^e 2006	Level (billions of dollars), Apr. 2006 ^e
Total							
Adjusted¹	8.9	10.4	5.8	10.5	12.2	12.9	7,518
Reported	8.4	9.6	5.2	10.0	10.2	14.7	7,655
<i>Securities</i>							
Adjusted ¹	6.6	7.4	-6	8.5	14.6	24.5	1,968
Reported	5.2	5.0	-2.4	6.7	7.2	30.5	2,106
Treasury and agency	4.9	-2	-9.9	8.0	4.2	11.0	1,193
Other ²	5.6	13.0	8.3	5.0	11.4	57.0	913
<i>Loans³</i>							
Total	9.8	11.5	8.1	11.2	11.3	8.8	5,549
Business	1.3	13.4	9.5	16.5	7.2	19.6	1,070
Real estate	14.0	14.0	8.4	9.8	9.9	8.3	2,993
Home equity	43.8	11.1	-1.9	-2.5	3.6	-9.7	431
Other	9.8	14.5	10.2	12.0	11.1	11.3	2,563
Consumer	8.8	3.0	-4.3	4.2	20.1	8.5	711
Adjusted ⁴	5.7	.6	-4.3	8.2	15.3	3.9	1,083
Other ⁵	7.8	8.2	17.4	16.2	14.5	-4.0	776

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.

e Estimated.

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

Instrument	2004	2005	2006		Change to May 4 from selected dates (percentage points)		
	June 28	Dec. 30	Mar. 27	May 4	2004 June 28	2005 Dec. 30	2006 Mar. 27
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	4.25	4.75	4.75	3.75	.50	.00
Treasury bills ¹							
3-month	1.36	3.99	4.51	4.68	3.32	.69	.17
6-month	1.74	4.22	4.62	4.82	3.08	.60	.20
Commercial paper (A1/P1 rates) ²							
1-month	1.28	4.23	4.76	4.97	3.69	.74	.21
3-month	1.45	4.37	4.84	5.04	3.59	.67	.20
Large negotiable CDs ¹							
3-month	1.53	4.49	4.92	5.12	3.59	.63	.20
6-month	1.82	4.65	5.02	5.24	3.42	.59	.22
Eurodollar deposits ³							
1-month	1.29	4.36	4.82	5.06	3.77	.70	.24
3-month	1.51	4.52	4.96	5.14	3.63	.62	.18
Bank prime rate	4.00	7.25	7.50	7.75	3.75	.50	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	4.43	4.76	5.01	2.13	.58	.25
5-year	3.97	4.35	4.68	5.02	1.05	.67	.34
10-year	4.90	4.47	4.80	5.23	.33	.76	.43
U.S. Treasury indexed notes							
5-year	1.56	2.03	2.14	2.30	.74	.27	.16
10-year	2.25	2.10	2.25	2.49	.24	.39	.24
Municipal general obligations (Bond Buyer) ⁵	5.01	4.38	4.43	4.63	-.38	.25	.20
Private instruments							
10-year swap	5.21	4.92	5.23	5.68	.47	.76	.45
10-year FNMA ⁶	5.30	4.82	5.02	5.40	.10	.58	.38
10-year AA ⁷	5.59	5.25	5.57	6.01	.42	.76	.44
10-year BBB ⁷	6.18	5.84	6.11	6.50	.32	.66	.39
5-year high yield ⁷	8.30	8.28	8.16	8.23	-.07	-.05	.07
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	6.21	6.35	6.59	.38	.38	.24
1-year adjustable	4.19	5.16	5.51	5.67	1.48	.51	.16

Stock exchange index	Record high		2005	2006		Change to May 4 from selected dates (percent)		
	Level	Date	Dec. 30	Mar. 27	May 4	Record high	2005 Dec. 30	2006 Mar. 27
Dow Jones Industrial	11,723	1-14-00	10,718	11,250	11,439	-2.42	6.73	1.68
S&P 500 Composite	1,527	3-24-00	1,248	1,302	1,312	-14.09	5.12	.82
Nasdaq	5,049	3-10-00	2,205	2,316	2,324	-53.97	5.38	.36
Russell 2000	778	4-19-06	673	754	775	-.48	15.08	2.74
Wilshire 5000	14,752	3-24-00	12,518	13,158	13,318	-9.72	6.40	1.22

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.
 March 27, 2006, is the day before the most recent FOMC meeting.