

## **Prefatory Note**

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June 23, 2006

# 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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## Supplemental Notes

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### The Domestic Nonfinancial Economy

#### Manufacturers' Shipments, Orders, and Inventories

Shipments of nondefense capital goods excluding aircraft continued to edge up last month. Shipments of non-high-tech equipment increased moderately in May following two months of large gains. In high-tech categories, shipments of computers and peripherals turned up modestly last month while shipments of communications equipment declined for the first time in six months.

New orders for nondefense capital goods excluding aircraft increased 1.0 percent in May after having declined 1.9 percent in April. Last month's increase was led by a jump of 8 percent in orders for communications equipment, which unwound a fraction of the sharp drop in April. Orders of computers and peripherals, which increased 1.9 percent in May, also rebounded after having declined in April. Orders for non-high-tech equipment, which have been less volatile recently than the high-tech categories, continued to move up in May; the level of these orders in May was 2¼ percent (not at an annual rate) above the first-quarter average. Backlogs of unfilled orders for these items also continued to rise sharply.

A moving average of the staff's constructed series on real adjusted durable goods orders—which strips out nondefense aircraft, defense capital goods, and industries for which reported orders actually equal shipments—has historically had some predictive power for industrial production. In May, its three-month moving average was up 0.5 percent.

The book value of manufacturing durable goods inventories (which constitute about two-thirds of total manufacturing inventories) increased \$12 billion in May. Shipments of total durable goods increased 2.6 percent, and the inventory-shipments ratio moved down to 1.32 months.

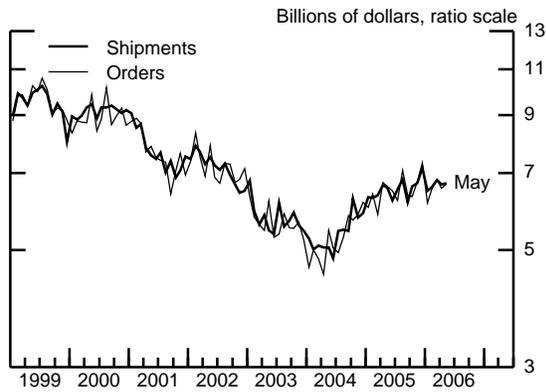
## Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

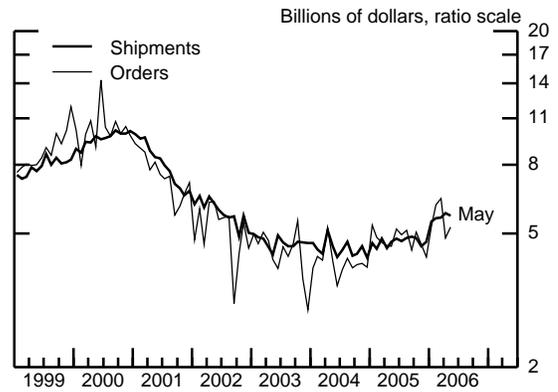
Category	2005	2006			
	Q4	Q1	Mar.	Apr.	May
	Annual rate		Monthly rate		
Shipments	33.9	1.4	1.5	-1.0	2.1
Excluding aircraft	13.2	10.6	2.0	.8	.1
Computers and peripherals	21.6	-11.7	3.1	-1.8	.6
Communications equipment	-8.9	87.7	.7	2.8	-1.9
All other categories	14.5	7.9	2.0	.9	.3
Orders	82.8	-25.6	11.6	-6.3	-1.9
Excluding aircraft	10.0	16.7	3.4	-1.9	1.0
Computers and peripherals	15.5	-16.3	4.2	-3.7	1.9
Communications equipment	-14.9	159.3	4.5	-23.8	7.9
All other categories	12.1	12.1	3.2	1.2	.2
Memo: Shipments of complete aircraft <sup>1</sup>	26.9	33.1	30.8	30.2	n.a.

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

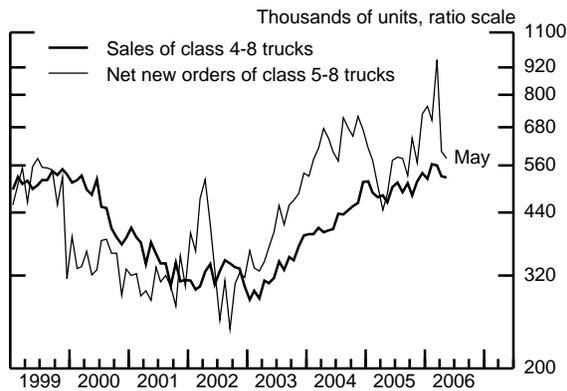
### Computers and Peripherals



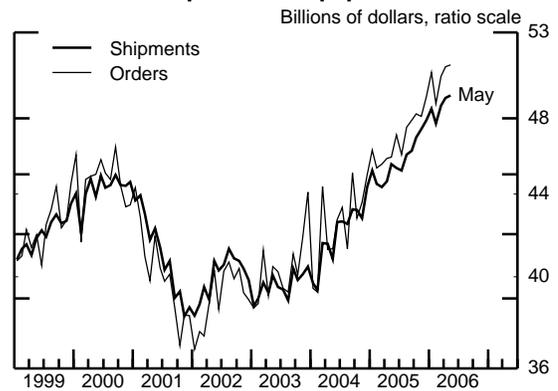
### Communications Equipment



### Medium and Heavy Trucks



### Non-high-tech, Nontransportation Equipment



Note. Annual rate, FRB seasonals.

Source. For class 4-8 trucks, Ward's Communications;  
for class 5-8 trucks, ACT Research.

# The Domestic Financial Economy

## Commercial Bank Credit

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

Type of credit	2004	2005	2005: Q4	2006: Q1	Apr. 2006	May 2006	Level (billions of dollars), May 2006
<b>Total</b>							
<b>Adjusted<sup>1</sup></b>	<b>8.9</b>	<b>10.4</b>	<b>6.0</b>	<b>11.1</b>	<b>13.4</b>	<b>14.2</b>	<b>7,624</b>
Reported	8.4	9.8	5.9	10.1	14.5	18.3	7,788
<i>Securities</i>							
Adjusted <sup>1</sup>	6.6	7.3	-1.5	10.8	27.3	4.9	1,983
Reported	5.2	5.3	-1.3	7.4	30.5	20.5	2,147
Treasury and agency	4.9	-1	-8.8	8.4	11.2	-3.4	1,193
Other <sup>2</sup>	5.7	13.4	9.3	6.0	56.7	51.6	954
<i>Loans<sup>3</sup></i>							
Total	9.8	11.6	8.7	11.2	8.5	17.5	5,641
Business	1.3	13.1	10.3	14.8	18.5	22.2	1,088
Real estate	13.9	14.1	8.9	10.5	9.9	10.9	3,037
HELOCs	43.7	11.3	-1.6	-2.2	-9.9	-7.5	428
Other	9.7	14.7	10.9	12.8	13.3	13.9	2,608
Consumer	8.8	3.1	-2.9	3.2	7.8	11.5	716
Adjusted <sup>4</sup>	5.9	.7	-3.7	8.3	1.4	2.9	1,085
Other <sup>5</sup>	7.7	8.4	17.2	16.2	-9.5	42.5	801

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).

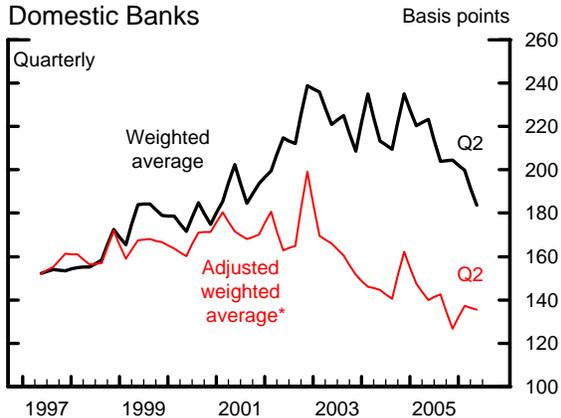
2. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

3. Excludes interbank loans.

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

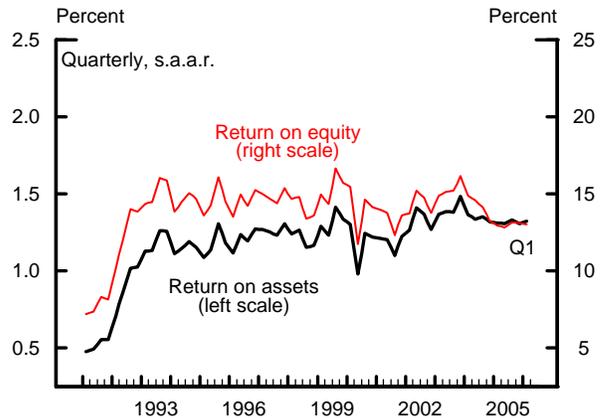
5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

C&I Loan Rate Spreads at Domestic Banks



Note. Spread over banks' estimated cost of funds.  
\* Adjusted for changes in nonprice loan characteristics.  
Source. Survey of Terms of Business Lending.

Bank Profitability



Source. Call Report.

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

Instrument	2004	2005	2006		Change to June 22 from selected dates (percentage points)		
	June 28	Dec. 30	May 9	June 22	2004 June 28	2005 Dec. 30	2006 May 9
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	4.25	4.75	5.00	4.00	.75	.25
Treasury bills <sup>1</sup>							
3-month	1.36	3.99	4.76	4.79	3.43	.80	.03
6-month	1.74	4.22	4.84	5.04	3.30	.82	.20
Commercial paper (A1/P1 rates) <sup>2</sup>							
1-month	1.28	4.23	4.98	5.24	3.96	1.01	.26
3-month	1.45	4.37	5.07	5.34	3.89	.97	.27
Large negotiable CDs <sup>1</sup>							
3-month	1.53	4.49	5.12	5.42	3.89	.93	.30
6-month	1.82	4.65	5.24	5.54	3.72	.89	.30
Eurodollar deposits <sup>3</sup>							
1-month	1.29	4.36	5.08	5.32	4.03	.96	.24
3-month	1.51	4.52	5.16	5.45	3.94	.93	.29
Bank prime rate	4.00	7.25	7.75	8.00	4.00	.75	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>4</sup>							
2-year	2.88	4.43	5.01	5.27	2.39	.84	.26
5-year	3.97	4.35	5.00	5.15	1.18	.80	.15
10-year	4.90	4.47	5.19	5.27	.37	.80	.08
U.S. Treasury indexed notes							
5-year	1.56	2.03	2.25	2.51	.95	.48	.26
10-year	2.25	2.10	2.43	2.62	.37	.52	.19
Municipal general obligations (Bond Buyer) <sup>5</sup>	5.01	4.38	4.63	4.68	-.33	.30	.05
Private instruments							
10-year swap	5.21	4.92	5.64	5.78	.57	.86	.14
10-year FNMA <sup>6</sup>	5.30	4.82	5.38	5.49	.19	.67	.11
10-year AA <sup>7</sup>	5.59	5.25	5.98	6.13	.54	.88	.15
10-year BBB <sup>7</sup>	6.18	5.84	6.47	6.70	.52	.86	.23
5-year high yield <sup>7</sup>	8.30	8.28	8.21	8.74	.44	.46	.53
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	6.21	6.58	6.71	.50	.50	.13
1-year adjustable	4.19	5.16	5.62	5.75	1.56	.59	.13

Stock exchange index	Record high		2005	2006		Change to June 22 from selected dates (percent)		
	Level	Date	Dec. 30	May 9	June 22	Record high	2005 Dec. 30	2006 May 9
Dow Jones Industrial	11,723	1-14-00	10,718	11,640	11,019	-6.00	2.81	-5.33
S&P 500 Composite	1,527	3-24-00	1,248	1,325	1,246	-18.45	-.22	-6.00
Nasdaq	5,049	3-10-00	2,205	2,338	2,123	-57.95	-3.73	-9.21
Russell 2000	782	5-5-06	673	781	688	-12.00	2.20	-11.87
Wilshire 5000	14,752	3-24-00	12,518	13,457	12,540	-14.99	.18	-6.81

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 9, 2006, is the day before the most recent FOMC meeting.