Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.
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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The Domestic Nonfinancial Economy

Labor Market Developments
Private payroll employment increased 114,000 in November from a level in October that was 20,000 higher than previously estimated. Over the three months ending in November, private employment rose 104,000 jobs per month on average, slightly less than the pace of 130,000 per month of the preceding three months. Once again in November, hiring at nonbusiness services establishments accounted for much of the overall gain, with employment in the education and health services industry up 41,000 and jobs in the leisure and hospitality industry up 31,000. Retail trade employers stepped up their hiring noticeably last month (20,000) after having shed nearly 100,000 jobs thus far this year. However, weakness persisted in manufacturing (-15,000) and construction (-29,000). In contrast to recent months, the weakness in construction employment was not confined to residential construction; rather, all the major subcategories, within both residential and nonresidential, posted losses. Finally, government employment continued to expand (18,000), again led by hiring in education.

Average weekly hours of production or nonsupervisory workers on private nonfarm payrolls held steady at 33.9 hours in November, but were up from the third quarter. The level of aggregate hours of these workers was 0.4 percent (not an annual rate) above the third-quarter average.

Average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls rose 0.2 percent in November. For the twelve months ending in November, average hourly earnings rose 4.1 percent, up from an increase of 3.0 percent over the preceding twelve months.

In the household survey, the unemployment rate ticked up 0.1 percentage point to 4.5 percent in November, reversing part of its decline the previous month. In contrast, the labor force participation rate edged up to 66.3 percent in November—the highest level that the participation rate has reached since 2003.1

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1 The November survey reference week for the household survey was moved forward from the week that included the 12th of the month to the week that included the 5th of the month. According to our contacts at the BLS, the major aggregates such as the unemployment rate and participation rate should be little affected by the change.
Changes in Employment
(Thousands of employees; seasonally adjusted)

<table>
<thead>
<tr>
<th>Measure and sector</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average monthly change</td>
<td>165</td>
<td>176</td>
</tr>
<tr>
<td>Monthly change</td>
<td>152</td>
<td>169</td>
</tr>
<tr>
<td>Nonfarm payroll employment (establishment survey)</td>
<td>2.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Private</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td>Natural resources and mining</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Construction</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Retail trade</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td>Transportation and utilities</td>
<td>14</td>
<td>-8</td>
</tr>
<tr>
<td>Information</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Financial activities</td>
<td>51</td>
<td>69</td>
</tr>
<tr>
<td>Professional and business services</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td>Temporary help services</td>
<td>14</td>
<td>-8</td>
</tr>
<tr>
<td>Nonbusiness services</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Total government</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Total employment (household survey)</td>
<td>221</td>
<td>287</td>
</tr>
</tbody>
</table>

Memo:
Aggregate hours of private production workers (percent change)
Average workweek (hours)
Manufacturing (hours)

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)

<table>
<thead>
<tr>
<th>Rate and group</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Civilian unemployment rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Teenagers</td>
<td>16.6</td>
<td>15.5</td>
</tr>
<tr>
<td>20-24 years old</td>
<td>8.8</td>
<td>8.1</td>
</tr>
<tr>
<td>Men, 25 years and older</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Women, 25 years and older</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Labor force participation rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>66.0</td>
<td>66.0</td>
</tr>
<tr>
<td>Teenagers</td>
<td>43.7</td>
<td>43.7</td>
</tr>
<tr>
<td>20-24 years old</td>
<td>74.6</td>
<td>74.0</td>
</tr>
<tr>
<td>Men, 25 years and older</td>
<td>75.4</td>
<td>75.5</td>
</tr>
<tr>
<td>Women, 25 years and older</td>
<td>59.4</td>
<td>59.4</td>
</tr>
</tbody>
</table>

Labor Force Participation Rate and Unemployment Rate

Note. Six-month moving averages.
* Adjusted to the payroll concept.
** Adjusted for benchmark revision.
Labor Market Indicators

Unemployment Insurance

- Initial claims (right scale)
- Insured unemployment (left scale)

Layoff Announcements

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

Exhaustion Rate

- Note. The exhaustion rate is calculated as the number of individuals who were receiving unemployment insurance benefits but reached the end of their potential eligibility expressed as a percent of all 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.
**Consumer Sentiment**

According to the preliminary report, the Michigan Survey Research Center’s (SRC) index of consumer sentiment dipped in early December to 90.2 after having edged down in November. The recent decrease reflected a weakening in the “expected conditions” component that more than offset a modest strengthening in the “current conditions” component of the overall index.

Among those items not included in the overall sentiment index, consumers’ expectations about the change in unemployment over the next twelve months worsened a bit. In addition, consumers’ appraisals of buying conditions for cars weakened. However, consumers’ appraisals of buying conditions for homes improved. Meanwhile, the median of expected inflation over the next twelve months remained unchanged, and the median over the next five to ten years ticked up to 3.1 percent in early December.
### University of Michigan Survey Research Center: Survey of Consumer Attitudes

Indexes of consumer sentiment  
(Not seasonally adjusted)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite of current and expected conditions¹</td>
<td>79.1</td>
<td>84.9</td>
<td>84.7</td>
<td>82.0</td>
<td>85.4</td>
<td>93.6</td>
<td>92.1</td>
<td>90.2</td>
</tr>
<tr>
<td>Current conditions¹</td>
<td>96.1</td>
<td>105.0</td>
<td>103.5</td>
<td>103.8</td>
<td>96.6</td>
<td>107.3</td>
<td>106.0</td>
<td>108.2</td>
</tr>
<tr>
<td>Expected conditions¹</td>
<td>68.2</td>
<td>72.0</td>
<td>72.5</td>
<td>68.0</td>
<td>78.2</td>
<td>84.8</td>
<td>83.2</td>
<td>78.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2012</th>
</tr>
</thead>
</table>
| Personal financial situation  
Now compared with 12 months ago² | 102 | 113 |
| Expected in 12 months² | 112 | 120 |
| Expected business conditions  
Next 12 months² | 81 | 88 |
| Next 5 years² | 80 | 79 |
| Appraisal of buying conditions  
Cars | 112 | 124 |
| Large household appliances² | 147 | 159 |
| Houses | 121 | 123 |
| Expected unemployment change - next 12 months | 127 | 127 |
| Prob. household will lose a job - next 5 years | 24 | 21 |
| Expected inflation - next 12 months  
Mean | 4.7 | 4.4 |
| Median | 4.0 | 3.3 |
| Expected inflation - next 5 to 10 years  
Mean | 3.8 | 3.4 |
| Median | 3.2 | 2.9 |

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.

¹ Preliminary.
² Indicates the question is one of the five equally-weighted components of the index of sentiment.
## Commercial Bank Credit

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

<table>
<thead>
<tr>
<th>Type of credit</th>
<th>2004</th>
<th>2005</th>
<th>H1 2006</th>
<th>Q3 2006</th>
<th>Oct. 2006*</th>
<th>Nov. 2006*</th>
<th>Level, 1Nov. 2006*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 2</td>
<td>8.9</td>
<td>10.5</td>
<td>11.9</td>
<td>7.7</td>
<td>.0</td>
<td>6.0</td>
<td>7,794</td>
</tr>
<tr>
<td>Loans 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9.7</td>
<td>11.6</td>
<td>11.7</td>
<td>10.0</td>
<td>3.5</td>
<td>5.3</td>
<td>5,835</td>
</tr>
<tr>
<td>To businesses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>1.2</td>
<td>13.2</td>
<td>16.4</td>
<td>18.9</td>
<td>9.1</td>
<td>4.6</td>
<td>1,162</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>11.7</td>
<td>17.1</td>
<td>15.6</td>
<td>12.9</td>
<td>2.2</td>
<td>6.9</td>
<td>1,408</td>
</tr>
<tr>
<td>To households</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential real estate</td>
<td>15.6</td>
<td>12.0</td>
<td>7.7</td>
<td>7.0</td>
<td>6.5</td>
<td>-1.9</td>
<td>1,726</td>
</tr>
<tr>
<td>Consumer</td>
<td>43.8</td>
<td>13.3</td>
<td>.1</td>
<td>3.2</td>
<td>.3</td>
<td>4.3</td>
<td>449</td>
</tr>
<tr>
<td>Revolving home equity</td>
<td>8.8</td>
<td>3.1</td>
<td>6.7</td>
<td>5.8</td>
<td>-10.9</td>
<td>9.5</td>
<td>725</td>
</tr>
<tr>
<td>Originated 4</td>
<td>6.0</td>
<td>.5</td>
<td>7.1</td>
<td>5.5</td>
<td>-1.6</td>
<td>9.6</td>
<td>1,113</td>
</tr>
<tr>
<td>Other 5</td>
<td>7.4</td>
<td>8.4</td>
<td>12.0</td>
<td>3.0</td>
<td>4.8</td>
<td>15.8</td>
<td>814</td>
</tr>
<tr>
<td>Securities 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted</td>
<td>6.6</td>
<td>7.6</td>
<td>12.8</td>
<td>1.1</td>
<td>-10.6</td>
<td>8.1</td>
<td>1,960</td>
</tr>
<tr>
<td>Reported</td>
<td>5.2</td>
<td>5.3</td>
<td>13.0</td>
<td>2.1</td>
<td>-12.4</td>
<td>10.6</td>
<td>2,124</td>
</tr>
<tr>
<td>Treasury and agency</td>
<td>4.9</td>
<td>.0</td>
<td>8.3</td>
<td>4.2</td>
<td>-27.5</td>
<td>-2.0</td>
<td>1,171</td>
</tr>
<tr>
<td>Other 6</td>
<td>5.7</td>
<td>13.3</td>
<td>19.4</td>
<td>-.6</td>
<td>7.0</td>
<td>26.5</td>
<td>953</td>
</tr>
</tbody>
</table>

* Adjusted to remove the effects of a consolidation of a sizable amount of thrift assets onto a commercial bank’s books in October 2006.

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.
2. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).
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.
6. 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.

\* Estimated.

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## Net Interest Margin

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3</td>
<td>4.6</td>
</tr>
<tr>
<td>Q2</td>
<td>4.4</td>
</tr>
<tr>
<td>Q1</td>
<td>4.2</td>
</tr>
<tr>
<td>Q3</td>
<td>3.9</td>
</tr>
<tr>
<td>Q2</td>
<td>3.7</td>
</tr>
<tr>
<td>Q1</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Note. Net interest margin is net interest income divided by average interest-earning assets.
Source. Call Report.

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## Loan-Loss Provisioning

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Percent of average assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3</td>
<td>1.4</td>
</tr>
<tr>
<td>Q2</td>
<td>1.2</td>
</tr>
<tr>
<td>Q1</td>
<td>1.0</td>
</tr>
<tr>
<td>Q3</td>
<td>0.8</td>
</tr>
<tr>
<td>Q2</td>
<td>0.6</td>
</tr>
<tr>
<td>Q1</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source. Call Report.
### Selected Financial Market Quotations

(One-day quotes in percent except as noted)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Change to Dec. 7 from selected dates (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-term</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FOMC intended federal funds rate</td>
<td>1.00</td>
<td>4.25</td>
<td>5.25</td>
<td>5.25</td>
</tr>
<tr>
<td>Treasury bills&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-month</td>
<td>1.36</td>
<td>3.99</td>
<td>5.00</td>
<td>4.85</td>
</tr>
<tr>
<td>6-month</td>
<td>1.74</td>
<td>4.22</td>
<td>4.99</td>
<td>4.86</td>
</tr>
<tr>
<td>Commercial paper (A1/P1 rates)&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1-month</td>
<td>1.28</td>
<td>4.23</td>
<td>5.25</td>
<td>5.25</td>
</tr>
<tr>
<td>3-month</td>
<td>1.45</td>
<td>4.37</td>
<td>5.24</td>
<td>5.23</td>
</tr>
<tr>
<td>Large negotiable CDs&lt;sup&gt;1&lt;/sup&gt;</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-month</td>
<td>1.53</td>
<td>4.49</td>
<td>5.33</td>
<td>5.30</td>
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<tr>
<td>6-month</td>
<td>1.82</td>
<td>4.65</td>
<td>5.37</td>
<td>5.28</td>
</tr>
<tr>
<td>Eurodollar deposits&lt;sup&gt;3&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-month</td>
<td>1.29</td>
<td>4.36</td>
<td>5.32</td>
<td>5.35</td>
</tr>
<tr>
<td>3-month</td>
<td>1.51</td>
<td>4.52</td>
<td>5.38</td>
<td>5.35</td>
</tr>
<tr>
<td>Bank prime rate</td>
<td>4.00</td>
<td>7.25</td>
<td>8.25</td>
<td>8.25</td>
</tr>
<tr>
<td><strong>Intermediate- and long-term</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury&lt;sup&gt;4&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-year</td>
<td>2.88</td>
<td>4.43</td>
<td>4.93</td>
<td>4.58</td>
</tr>
<tr>
<td>5-year</td>
<td>3.97</td>
<td>4.35</td>
<td>4.78</td>
<td>4.42</td>
</tr>
<tr>
<td>10-year</td>
<td>4.90</td>
<td>4.47</td>
<td>4.90</td>
<td>4.56</td>
</tr>
<tr>
<td>U.S. Treasury indexed notes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-year</td>
<td>1.56</td>
<td>2.03</td>
<td>2.61</td>
<td>2.17</td>
</tr>
<tr>
<td>10-year</td>
<td>2.25</td>
<td>2.10</td>
<td>2.52</td>
<td>2.17</td>
</tr>
<tr>
<td>Municipal general obligations (Bond Buyer)&lt;sup&gt;5&lt;/sup&gt;</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5-year</td>
<td>5.01</td>
<td>4.38</td>
<td>4.33</td>
<td>4.03</td>
</tr>
<tr>
<td>Private instruments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-year swap</td>
<td>5.21</td>
<td>4.92</td>
<td>5.36</td>
<td>4.95</td>
</tr>
<tr>
<td>10-year FNMA&lt;sup&gt;6&lt;/sup&gt;</td>
<td>5.38</td>
<td>4.84</td>
<td>5.19</td>
<td>4.79</td>
</tr>
<tr>
<td>10-year AA&lt;sup&gt;7&lt;/sup&gt;</td>
<td>5.60</td>
<td>5.27</td>
<td>5.78</td>
<td>5.40</td>
</tr>
<tr>
<td>10-year BBB&lt;sup&gt;7&lt;/sup&gt;</td>
<td>6.25</td>
<td>5.82</td>
<td>6.34</td>
<td>5.95</td>
</tr>
<tr>
<td>10-year high yield&lt;sup&gt;7&lt;/sup&gt;</td>
<td>8.41</td>
<td>8.30</td>
<td>8.39</td>
<td>8.19</td>
</tr>
<tr>
<td>Home mortgages (FHLMC survey rate)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30-year fixed</td>
<td>6.21</td>
<td>6.21</td>
<td>6.40</td>
<td>6.11</td>
</tr>
<tr>
<td>1-year adjustable</td>
<td>4.19</td>
<td>5.16</td>
<td>5.60</td>
<td>5.43</td>
</tr>
</tbody>
</table>

**Stock exchange index**

<table>
<thead>
<tr>
<th>Stock exchange index</th>
<th>Record high</th>
<th>2005</th>
<th>2006</th>
<th>Change to Dec. 7 from selected dates (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones Industrial</td>
<td>12,343</td>
<td>11-17-06</td>
<td>10,718</td>
<td>12,128</td>
</tr>
<tr>
<td>S&amp;P 500 Composite</td>
<td>1,527</td>
<td>3-24-00</td>
<td>1,248</td>
<td>1,377</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>5,049</td>
<td>3-10-00</td>
<td>2,205</td>
<td>2,345</td>
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<tr>
<td>Russell 2000</td>
<td>797</td>
<td>12-5-06</td>
<td>673</td>
<td>762</td>
</tr>
<tr>
<td>Wilshire 5000</td>
<td>14,752</td>
<td>3-24-00</td>
<td>12,518</td>
<td>13,802</td>
</tr>
</tbody>
</table>

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 24, 2006, is the day before the most recent FOMC announcement.