

Prefatory Note

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October 24, 2008

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

Home Sales and Prices

Sales of existing single-family homes increased 6.2 percent in September to 4.62 million units, up slightly from the level of a year ago. The flattening out of existing home sales over the past year contrasts with continued declines in sales of new homes and likely reflects the influence of increasing foreclosures, which tend to boost the supply of attractively priced existing homes for sale. Sales increases in September occurred in most regions but were especially apparent in the West, where price declines have been the largest. The months' supply of single-family homes for sale fell to 9.2 months in September, down from a peak of 10.7 months in January.

The average price of existing single-family homes sold fell 8.7 percent in the 12 months ending in September, about the same pace as in recent months. The monthly version of the purchase-only repeat-sales index calculated by the Federal Housing Finance Agency (formerly, the Office of Federal Housing Enterprise Oversight) declined 0.6 percent in August, leaving it 5.9 percent below its year-earlier level. This index is down 6.5 percent from its April 2007 peak and stands approximately at its September 2005 value.

The Domestic Financial Economy

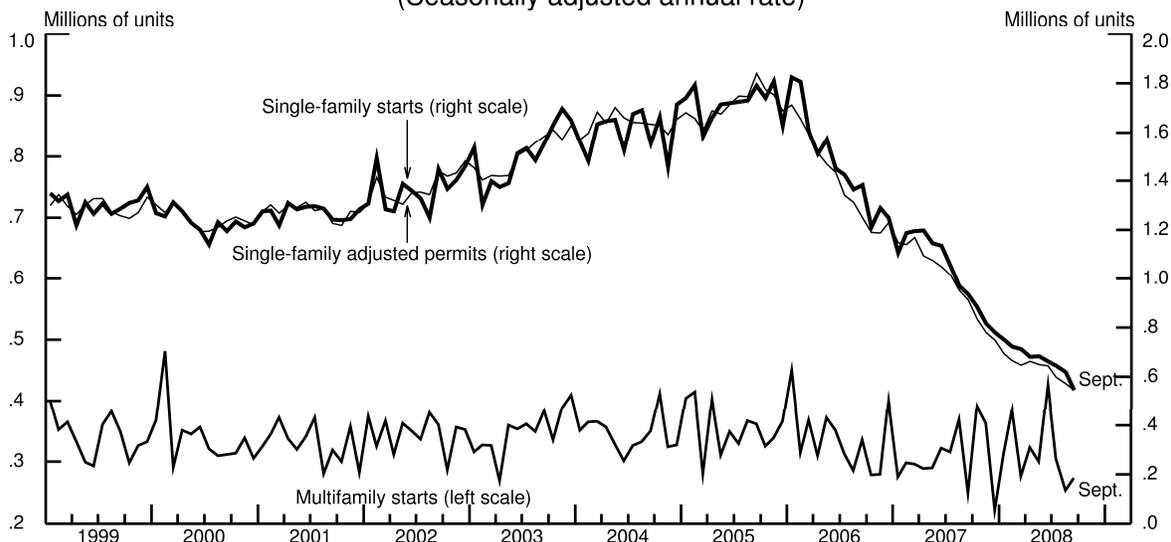
Private Housing Activity

(Millions of units, seasonally adjusted; annual rate except as noted)

Sector	2007	2008					
		Q1	Q2	Q3	July	Aug.	Sept.
<i>All units</i>							
Starts	1.36	1.05	1.03	.88	.95	.87	.82
Permits	1.40	.99	1.03	.86	.94	.86	.79
<i>Single-family units</i>							
Starts	1.05	.73	.68	.60	.64	.62	.54
Permits	.98	.65	.63	.56	.58	.55	.53
Adjusted permits ¹	.99	.67	.65	.57	.60	.57	.55
Permit backlog ²	.108	.096	.089	.085	.091	.083	.085
<i>New homes</i>							
Sales	.78	.56	.52	n.a.	.52	.46	n.a.
Months' supply ³	8.40	10.24	10.53	n.a.	9.85	10.64	n.a.
<i>Existing homes</i>							
Sales	4.94	4.39	4.34	4.46	4.41	4.35	4.62
Months' supply ³	8.67	10.24	10.29	9.50	9.74	9.57	9.17
<i>Multifamily units</i>							
Starts	.309	.325	.350	.277	.305	.254	.273
Permits	.419	.341	.400	.304	.353	.304	.254
Permit backlog ²	.075	.067	.068	.061	.066	.064	.061
<i>Mobile homes</i>							
Shipments	.096	.092	.088	n.a.	.084	.082	n.a.
<i>Condos and co-ops</i>							
Existing home sales	.713	.560	.573	.577	.610	.560	.560

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
 2. Number outstanding at end of period. Excludes permits that have expired or have been canceled, abandoned, or revoked. Not at an annual rate.
 3. At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales. Quarterly and annual figures are averages of monthly figures.
- n.a. Not available.
Source: Census Bureau.

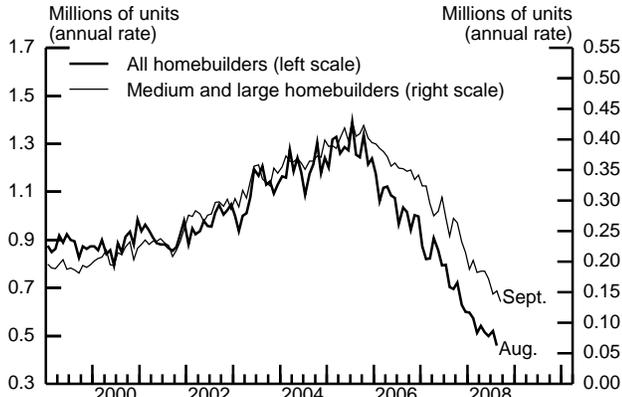
Private Housing Starts and Permits (Seasonally adjusted annual rate)



Note: Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
Source: Census Bureau.

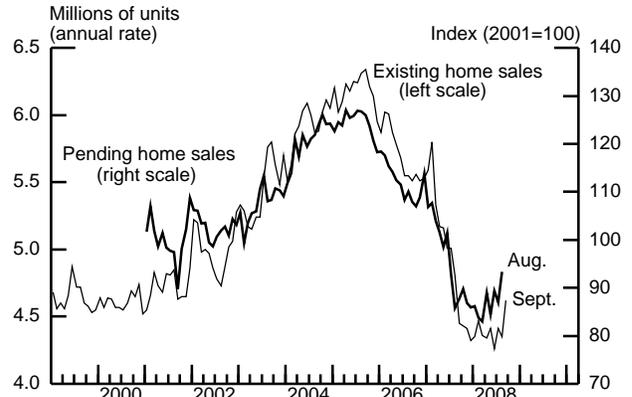
Indicators of Single-Family Housing

New Single-Family Home Sales



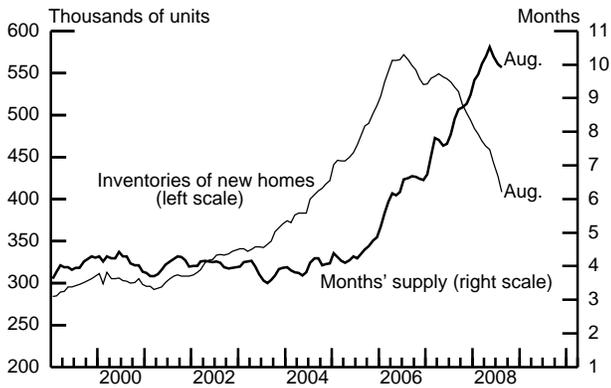
Source: For medium and large homebuilders, National Association of Home Builders; for all homebuilders, Census Bureau.

Existing Single-Family Home Sales



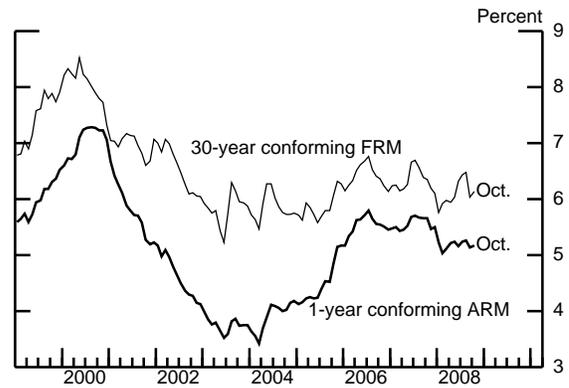
Source: National Association of Realtors.

Inventories of New Homes and Months' Supply



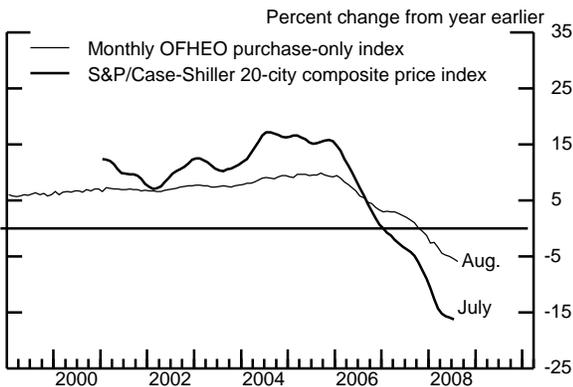
Note: Months' supply is calculated using the 3-month moving average of sales.
Source: Census Bureau.

Mortgage Rates



Note: The October reading is a monthly average of data available through Oct. 22, 2008.
Source: Federal Home Loan Mortgage Corporation.

Prices of Existing Homes



Source: For purchase-only index, Office of Federal Housing Enterprise Oversight; for S&P/Case-Shiller, Standard & Poor's.

Price of New Homes



Source: Census Bureau.

Commercial Bank Credit

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

Type of credit	2006	2007	H1 2008	Q3 2008	Sept. 2008	Oct. 2008 ^e	Level ¹ Oct. 2008 ^e
Total	10.3	11.2	4.7	3.6	14.0	12.4	9,582
<i>Loans²</i>							
Total	12.0	12.1	6.5	2.3	11.6	8.7	7,235
To businesses							
Commercial and industrial	14.3	19.1	13.7	5.9	20.2	32.1	1,578
Commercial real estate	13.6	10.4	10.2	1.3	-6	2.7	1,717
To households							
Residential real estate	9.9	8.4	2.5	-4.9	-5.8	-3.6	2,078
Revolving home equity	3.1	7.1	13.7	12.0	16.7	20.9	577
Other	12.3	8.8	-1.2	-10.8	-14.0	-12.8	1,501
Consumer	2.9	7.9	7.3	8.4	6.3	9.9	870
Originated ³	3.9	7.1	7.5	5.7	7.4	12.1	1,297
Other ⁴	21.1	17.6	-2.5	8.8	64.1	8.0	993
<i>Securities</i>							
Total	5.4	8.4	-9	7.7	21.5	23.7	2,348
Treasury and agency	2.0	-5.8	-1.0	24.6	30.5	21.3	1,275
Other ⁵	10.7	29.1	-8	-10.2	10.8	26.6	1,073

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the initial consolidation of certain variable interest entities (FIN 46), the initial adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006, March 2007, October 2007, and September 2008. Data also account for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

2. Excludes interbank loans.

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

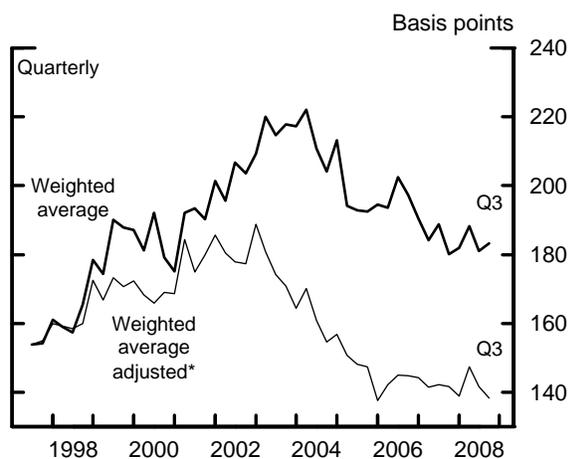
4. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

5. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account assets that are not Treasury or agency securities.

e Estimated.

Source: Federal Reserve.

C&I Loan Rate Spreads

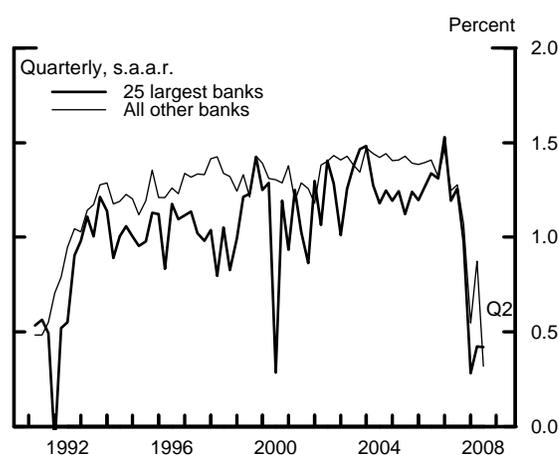


Note. Spreads over market interest rate on an instrument of comparable maturity on loans less than \$25 million (2006\$).

*Adjusted for changes in nonprice loan characteristics.

Source. Survey of Terms of Business Lending.

Return on Assets at Commercial Banks



Source. Call Report.

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

Instrument	2007		2008			Change to Oct. 23 from selected dates (percentage points)		
	Aug. 6	Aug. 6	Aug. 4	Sept. 15	Oct. 23	2007 Aug. 6	2008 Aug. 4	2008 Sept. 15
<i>Short-term</i>								
FOMC intended federal funds rate	5.25		2.00	2.00	1.50	-3.75	-.50	-.50
Treasury bills ¹								
3-month	4.74		1.72	1.03	.96	-3.78	-.76	-.07
6-month	4.72		1.93	1.52	1.48	-3.24	-.45	-.04
Commercial paper (A1/P1 rates) ²								
1-month	5.26		2.41	2.47	2.38	-2.88	-.03	-.09
3-month	5.29		2.72	2.73	3.48	-1.81	.76	.75
Large negotiable CDs ¹								
3-month	5.34		2.80	3.45	3.88	-1.46	1.08	.43
6-month	5.27		3.10	3.85	3.88	-1.39	.78	.03
Eurodollar deposits ³								
1-month	5.33		2.60	2.70	3.75	-1.58	1.15	1.05
3-month	5.35		3.00	3.00	4.50	-.85	1.50	1.50
Bank prime rate	8.25		5.00	5.00	4.50	-3.75	-.50	-.50
<i>Intermediate- and long-term</i>								
U.S. Treasury ⁴								
2-year	4.49		2.49	1.78	1.42	-3.07	-1.07	-.36
5-year	4.52		3.25	2.60	2.60	-1.92	-.65	.00
10-year	4.82		4.15	3.68	4.18	-.64	.03	.50
U.S. Treasury indexed notes ⁵								
5-year	2.43		1.15	1.25	2.73	.30	1.58	1.48
10-year	2.48		1.71	1.70	2.80	.32	1.09	1.10
Municipal general obligations (Bond Buyer) ⁶	4.51		4.74	4.54	5.32	.81	.58	.78
Private instruments								
10-year swap	5.44		4.66	4.24	4.06	-1.38	-.60	-.18
10-year FNMA ⁷	5.34		4.82	4.19	4.66	-.68	-.16	-.47
10-year AA ⁸	6.12		6.62	6.63	7.93	1.81	1.31	1.30
10-year BBB ⁸	6.57		7.17	7.11	9.40	2.83	2.23	2.29
10-year high yield ⁸	9.21		10.57	10.86	15.32	6.11	4.75	4.46
Home mortgages (FHLMC survey rate)								
30-year fixed	6.59		6.52	5.78	6.04	-.55	-.48	.26
1-year adjustable	5.65		5.22	5.03	5.23	-.42	.01	.20

Stock exchange index	Record high		2008			Change to Oct. 23 from selected dates (percent)		
	Level	Date	Aug. 4	Sept. 15	Oct. 23	Record high	2008 Aug. 4	2008 Sept. 15
Dow Jones Industrial	14,165	10-9-07	11,284	10,918	8,691	-38.64	-22.98	-20.39
S&P 500 Composite	1,565	10-9-07	1,249	1,193	908	-41.98	-27.29	-23.86
Nasdaq	5,049	3-10-00	2,286	2,180	1,604	-68.23	-29.82	-26.42
Russell 2000	856	7-13-07	704	690	490	-42.75	-30.42	-28.97
Wilshire 5000	15,807	10-9-07	12,738	12,184	9,111	-42.36	-28.47	-25.22

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. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

August 6, 2007, is the day before the August 2007 FOMC meeting.
August 4, 2008, is the day before the August 2008 FOMC monetary policy announcement.
September 15, 2008, is the day before the most recent FOMC monetary policy announcement.