

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.

June 19, 2009

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

Errata

In the box on page I-2 of Part 1, “Explanations for the Rapid Rise in the Unemployment Rate,” the third sentence of the second paragraph should read: “Although real GDP fell by more than real GDI in the first quarter of this year, that difference reversed only a small portion of the sharp rise in the statistical discrepancy since early 2007 (shown in the bottom right).

The Domestic Financial Economy

Commercial Bank Credit

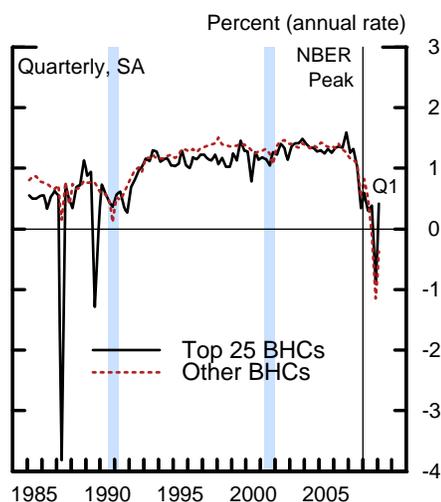
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2007	H1 2008	H2 2008	Q1 2009	Apr. 2009	May 2009	Level ¹ May 2009
Total	10.9	4.1	4.6	-6.3	-12.9	1.3	9,461
<i>Loans²</i>							
Total	11.4	5.8	2.4	-6.3	-11.1	-1.7	7,101
To businesses							
Commercial and industrial	19.5	13.6	13.0	-9.6	-16.9	-15.6	1,503
Commercial real estate	10.6	9.8	2.9	-9	-1.9	-2.2	1,722
To households							
Residential real estate	7.0	-1.0	-4.1	-8	-7.5	-6.8	2,159
Revolving home equity	6.5	12.2	12.9	8.4	3.5	-1.8	613
Closed-end mortgages	7.2	-5.0	-9.8	-4.2	-11.8	-8.8	1,546
Consumer	6.6	8.0	7.4	7.3	-15.6	-.4	881
Originated ³	6.0	8.0	4.7	1.8	-5.1	-2.2	1,293
Other	17.2	1.4	-4.5	-36.9	-23.7	37.6	836
<i>Securities</i>							
Total	9.4	-1.2	11.5	-6.2	-18.7	10.2	2,360
Treasury and agency	-5.6	.9	37.7	4.1	-27.7	-3.6	1,365
Other ⁴	30.6	-3.5	-16.0	-20.3	-5.9	29.7	995

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), and the initial adoption of fair value accounting. Data also account for the effects of nonbank structure activity of \$5 billion or more.

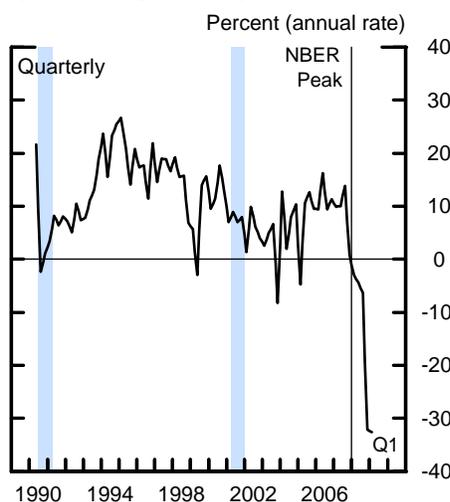
1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.
 2. Excludes interbank loans.
 3. Includes an estimate of outstanding loans securitized by commercial banks.
 4. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account assets that are not Treasury or agency securities.
- Source: Federal Reserve.

Return on Assets



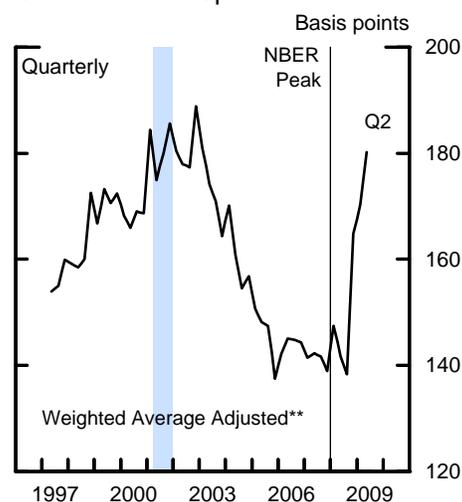
Source: Call Reports.

Growth in Unused Commitments



Source: Call Reports.

C&I Loan Rate Spreads*



*The spread over market interest rate on an instrument of comparable maturity.
 **Adjusted for changes in non-price loan characteristics.
 Source: Survey of Terms of Business Lending.

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2007	2009			Change to June 18 from selected dates (percentage points)			
	Aug. 6	Mar. 17	Apr. 28	June 18	2007 Aug. 6	2009 Mar. 17	2009 Apr. 28	
<i>Short-term</i>								
FOMC intended federal funds rate	5.25	.13	.13	.13	-5.12	.00	.00	
Treasury bills ¹								
3-month	4.74	.24	.13	.18	-4.56	-.06	.05	
6-month	4.72	.44	.31	.33	-4.39	-.11	.02	
Commercial paper (A1/P1 rates) ²								
1-month	5.26	.44	.31	.26	-5.00	-.18	-.05	
3-month	5.29	.66	.55	.40	-4.89	-.26	-.15	
Large negotiable CDs ¹								
3-month	5.34	1.08	.80	.36	-4.98	-.72	-.44	
6-month	5.27	1.83	1.38	.65	-4.62	-1.18	-.73	
Eurodollar deposits ³								
1-month	5.33	1.00	.90	.65	-4.68	-.35	-.25	
3-month	5.35	1.65	1.40	1.15	-4.20	-.50	-.25	
Bank prime rate	8.25	3.25	3.25	3.25	-5.00	.00	.00	
<i>Intermediate- and long-term</i>								
U.S. Treasury ⁴								
2-year	4.49	1.04	.92	1.27	-3.22	.23	.35	
5-year	4.52	2.14	2.04	2.84	-1.68	.70	.80	
10-year	4.82	3.47	3.38	4.18	-.64	.71	.80	
U.S. Treasury indexed notes ⁵								
5-year	2.43	2.04	1.55	1.54	-.89	-.50	-.01	
10-year	2.48	2.26	1.92	2.17	-.31	-.09	.25	
Municipal general obligations (Bond Buyer) ⁶	4.51	5.03	4.57	4.86	.35	-.17	.29	
Private instruments								
10-year swap	5.44	3.14	3.07	3.98	-1.46	.84	.91	
10-year FNMA ⁷	5.34	4.04	3.88	4.56	-.78	.52	.68	
10-year AA ⁸	6.12	6.99	6.33	6.12	.00	-.87	-.21	
10-year BBB ⁸	6.57	9.25	8.49	7.71	1.14	-1.54	-.78	
10-year high yield ⁸	9.21	16.41	12.79	12.15	2.94	-4.26	-.64	
Home mortgages (FHLMC survey rate)								
30-year fixed	6.59	4.98	4.78	5.38	-1.21	.40	.60	
1-year adjustable	5.65	4.91	4.77	4.95	-.70	.04	.18	
Stock exchange index								
Stock exchange index	Record high		2009			Change to June 18 from selected dates (percent)		
	Level	Date	Mar. 17	Apr. 28	June 18	Record high	2009 Mar. 17	2009 Apr. 28
Dow Jones Industrial	14,165	10-9-07	7,396	8,017	8,556	-39.60	15.68	6.72
S&P 500 Composite	1,565	10-9-07	778	855	918	-41.32	18.02	7.39
Nasdaq	5,049	3-10-00	1,462	1,674	1,808	-64.19	23.64	8.00
Russell 2000	856	7-13-07	404	473	509	-40.47	26.24	7.75
D.J. Total Stock Index	15,807	10-9-07	7,878	8,754	9,393	-40.57	19.24	7.31

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.

March 17, 2009, is the day before the March 2009 FOMC monetary policy announcement.

April 28, 2009, is the day before the most recent FOMC monetary policy announcement.

The International Economy

U.S. Current Account

The U.S. current account deficit was \$406 billion at an annual rate in the first quarter of 2009, \$214 billion narrower than in the fourth quarter (revised) of last year and the smallest deficit since the fourth quarter of 2001. For the second consecutive quarter, the narrowing of the current account deficit was the result of a substantially narrower deficit in goods and services, as imports have fallen more than exports. A somewhat smaller surplus in investment income in the first quarter offset a somewhat smaller deficit in other income and transfers.

U.S. Current Account				
(Billions of dollars, seasonally adjusted annual rate)				
Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
2007	-701.4	97.9	-123.1	-726.6
2008	-695.9	125.6	-135.7	-706.1
<i>Quarterly</i>				
2008:Q2	-731.4	112.3	-131.8	-750.9
Q3	-743.8	143.7	-136.7	-736.7
Q4	-578.0	92.1	-133.6	-619.5
2009:Q1	-364.8	84.3	-125.5	-406.0
<i>Change</i>				
Q2-Q1	-0.8	-41.7	8.8	-33.7
Q3-Q2	-12.4	31.4	-4.9	14.2
Q4-Q3	165.8	-51.6	3.1	117.2
Q1-Q4	213.2	-7.8	8.1	213.5

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

U.S. International Financial Transactions

The balance of payments data also included more complete information on financial flows in the first quarter. U.S. direct investment abroad and foreign direct investment into the United States both slowed notably, primarily reflecting weaker equity capital flows and reduced retained earnings (see lines 6 and 7 of the attached table "Summary of U.S. International Transactions"). On net, direct investment provided an inflow of \$11 billion, about the same as in the past two quarters. Other flows from non-bank

concerns, bank-reported data available only quarterly, and foreign acquisitions of U.S. currency on net provided a very small inflow (lines 9 and 10).

Despite the more complete information on financial flows in the balance of payments release, it is clear that the data collection systems are not capturing all types of transactions and all types of counterparties for cross-border financial flows. Indeed, despite the substantial narrowing of the current account deficit, the statistical discrepancy in the first quarter was still a sizable positive \$55 billion at a quarterly rate, similar to that recorded over the past several quarters. A positive discrepancy indicates some over-reporting of the current account deficit or under-reporting of net financial inflows.

With the release of the first-quarter data, the Bureau of Economic Analysis also published revised estimates of the current account for previous years. The current account deficit was increased \$33 billion in 2008, mostly in the fourth quarter. The fourth-quarter increase primarily reflected higher income payments on foreign direct investment in the United States. There were also large revisions to financial flows, especially in 2007 and 2008. These revisions primarily reflect recent surveys of U.S. holdings of foreign securities and foreign holdings of U.S. securities. Taken together, the surveys implied smaller net inflows through securities transactions, which contributed to a significant widening of the statistical discrepancy.

Summary of U.S. International Transactions
(Billions of dollars; not seasonally adjusted except as noted)

	2007	2008	2008			2009		
			Q2	Q3	Q4	Q1	Mar.	Apr.
Official financial flows	451.1	-54.6	138.0	-108.9	-286.5	313.6	22.7	97.8
1. Change in foreign official assets in the U.S. (increase, +)	475.2	479.9	182.3	117.5	-17.9	70.8	11.9	37.3
a. G-10 countries + ECB	36.8	-8.4	0.3	8.9	-16.0	-7.4	6.2	1.9
b. OPEC	33.0	45.5	16.3	16.1	-3.4	-5.0	5.3	-1.4
c. All other countries	405.5	430.0	165.8	92.5	-11.4	83.2	0.4	36.8
2. Change in U.S. official assets (decrease, +) ¹	-24.1	-534.6	-44.3	-226.4	-268.7	242.8	10.8	60.5
Private financial flows	212.5	559.7	-31.0	252.0	374.9	-266.5	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ²	-81.7	28.3	-91.4	-31.8	311.5	-247.8	-33.0	-9.2
Securities³								
4. Foreign net purchases (+) of U.S. securities	673.9	71.1	40.0	-23.9	52.7	0.5	44.5	-49.1
a. Treasury securities	67.1	197.0	18.3	79.1	81.6	55.4	49.7	-23.0
b. Agency bonds	-8.6	-185.0	-52.7	-70.1	-21.5	-45.2	-18.7	-13.7
c. Corporate and municipal bonds	384.7	2.5	52.1	-35.4	-3.8	-15.6	1.5	-15.5
d. Corporate stocks ⁴	230.7	56.6	22.1	2.6	-3.6	6.0	11.9	3.1
5. U.S. net acquisitions (-) of foreign securities	-366.2	64.0	-40.3	79.6	72.1	-33.1	-3.1	-25.1
a. Bonds	-218.5	64.2	-18.4	65.5	37.0	-31.8	-1.5	-14.8
b. Stock purchases	-136.4	3.4	-19.9	14.1	35.8	0.6	-1.6	-10.3
c. Stock swaps ⁴	-11.3	-3.6	-2.0	0.0	-0.8	-1.9	0.0	0.0
Other flows⁵								
6. U.S. direct investment (-) abroad	-398.6	-332.0	-103.6	-54.1	-84.5	-24.0	...	...
7. Foreign direct investment in the U.S.	275.8	319.7	100.7	62.8	96.8	35.3	...	...
8. Net derivatives (inflow, +)	6.2	-28.9	-2.4	-4.1	-14.5	n.a.	...	...
9. Foreign acquisitions of U.S. currency	-10.7	29.2	0.2	5.8	29.9	11.8	...	...
10. Other (inflow, +) ⁶	113.8	408.2	65.8	217.7	-89.1	-9.2	...	...
U.S. current account balance⁵	-726.6	-706.1	-187.7	-184.2	-154.9	-101.5	...	...
Capital account balance⁷	-1.9	1.0	-0.7	3.0	-0.7	-0.7	...	...
Statistical discrepancy⁵	64.9	200.1	81.4	38.1	67.2	55.1	...	...

Note: Data in lines 1 through 5 differ in timing and coverage from the balance of payments data published by the Department of Commerce. Details may not sum to totals because of rounding.

1. Includes changes in U.S. official reserve assets and in outstanding reciprocal currency swaps with certain foreign central banks.

2. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

3. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

4. Includes (4d) or represents (5c) stocks acquired through nonmarket means such as mergers and reincorporations.

5. Quarterly data; seasonally adjusted.

6. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions (in lines 1 through 5 and 8) since publication of the quarterly data in the Survey of Current Business.

7. Seasonally adjusted; consists of transactions in nonproduced nonfinancial assets and capital transfers.

G-10 Group of Ten (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom, United States).

ECB European Central Bank.

OPEC Organization of the Petroleum Exporting Countries.

... Not applicable.

Source: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Treasury International Capital reports with staff adjustments.