

## **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.

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August 7, 2009

# 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

#### Labor Market Developments

Job losses continued to abate in July, and aggregate hours of production and nonsupervisory workers were unchanged. Private payroll employment fell 247,000; in addition, the average monthly decline of 373,000 in May and June is now slightly less than previously reported. In the manufacturing sector, employment fell 52,000 in July. The step-up in motor vehicle assemblies boosted employment 28,000; elsewhere in manufacturing job losses were smaller in a number of industries, and workweeks generally moved up. Employment declines in July were also smaller than in recent months in business and financial services while employment in nonbusiness services posted its third monthly gain, supported the continued uptrend in health and education and a small gain in the leisure and hospitality industry. However, job losses in the construction industry continued at about the recent rate; since the spring, the contraction in establishments associated largely with residential building has eased a bit, but cutbacks have remained sizable in those associated with nonresidential construction. Elsewhere, declines in employment in continued to be widespread in warehousing and transportation and in retailing. Employment at state and local governments is now estimated to have edged down in June and July, extending the general downtrend that began in the fall of 2008.

In the household survey, the unemployment rate ticked down in July to 9.4 percent. In recent months, both the proportion of workers on part-time schedules for economic reasons and the proportion of unemployed workers who lost their job in the previous 5 weeks have leveled off. However, the number of longer term unemployed—particularly those jobless for more than 27 weeks—has continued to move up. The labor force participation rate fell back in July to its March level of 65.5 percent.

Average hourly earnings of production and nonsupervisory workers rose 0.2 percent in July to a level 2.5 percent higher than it was a year earlier. This measure of wage change has decelerated noticeably over the past year; in the 12 months ending in July 2008, average hourly earnings increased 3.5 percent.

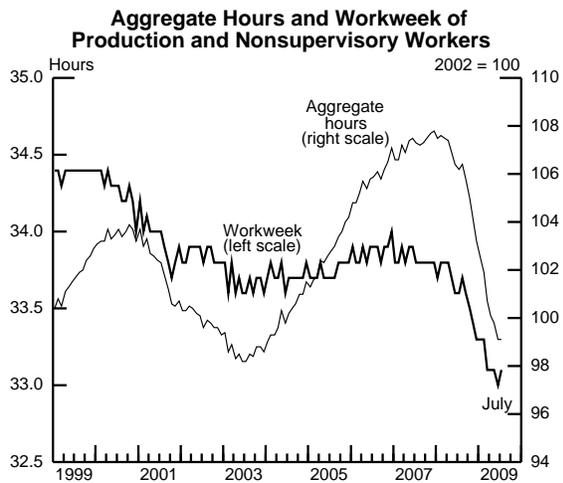
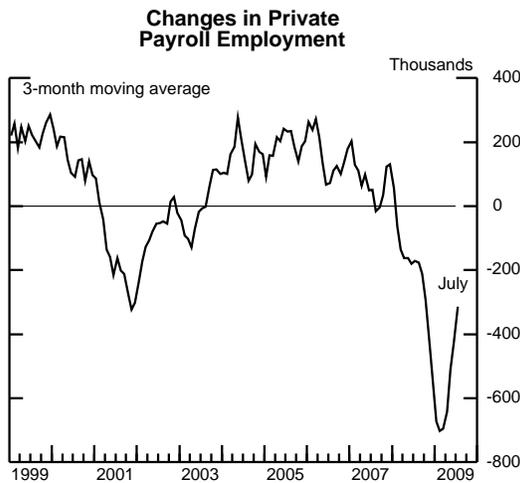
**Note:** Attached are updated versions of tables on personal consumption expenditures and prices that include newly released detail from the annual NIPA revision.

### Changes in Employment

(Thousands of employees; seasonally adjusted)

Measure and sector	2008		2009				
	2008	Q4	Q1	Q2	May	June	July
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	-257	-553	-691	-422	-303	-443	-247
Private	-270	-552	-695	-426	-292	-395	-254
Natural resources and mining	4	-2	-12	-10	-9	-6	0
Manufacturing	-73	-140	-202	-142	-146	-131	-52
Ex. motor vehicles	-58	-121	-176	-119	-123	-109	-80
Construction	-57	-97	-124	-82	-57	-86	-76
Residential	-35	-51	-53	-29	-14	-33	-27
Nonresidential	-22	-45	-71	-53	-43	-53	-49
Wholesale trade	-16	-32	-36	-20	-15	-14	-19
Retail trade	-44	-80	-55	-27	-28	-21	-44
Financial activities	-19	-35	-51	-34	-27	-29	-13
Temporary help services	-44	-70	-73	-29	-1	-31	-10
Nonbusiness services <sup>1</sup>	19	-19	-25	22	63	26	28
Total government	14	-1	4	5	-11	-48	7
Federal government	3	2	10	4	-16	-41	12
Total employment (household survey)	-246	-564	-817	-230	-437	-374	-155
Memo:							
Aggregate hours of private production workers (percent change) <sup>2</sup>	-3.3	-7.4	-8.9	-7.8	-.3	-.7	.0
Average workweek (hours) <sup>3</sup>	33.6	33.4	33.2	33.1	33.1	33.0	33.1
Manufacturing (hours)	40.8	40.2	39.6	39.5	39.4	39.5	39.8

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.



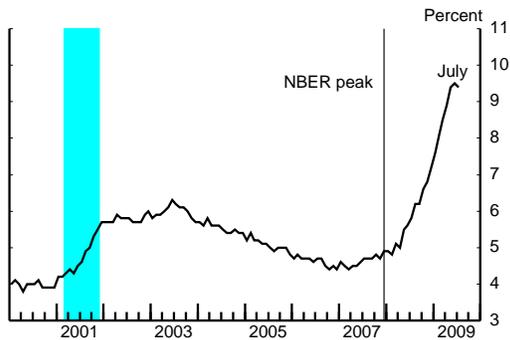
Source: U.S. Department of Labor, Bureau of Labor Statistics.

### Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

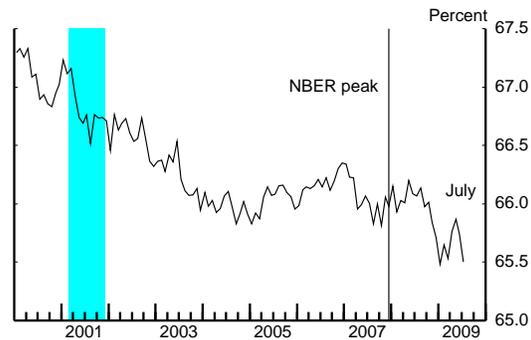
Rate and group	2008	2008	2009				
		Q4	Q1	Q2	May	June	July
<i>Civilian unemployment rate</i>							
Total	5.8	6.9	8.1	9.2	9.4	9.5	9.4
Teenagers	18.7	20.7	21.3	22.7	22.7	24.0	23.8
20-24 years old	10.2	11.3	13.0	15.0	15.0	15.2	15.3
Men, 25 years and older	4.8	6.0	7.4	8.8	9.0	9.2	9.0
Women, 25 years and older	4.4	5.2	6.2	6.9	7.0	7.0	6.9
<i>Labor force participation rate</i>							
Total	66.0	65.9	65.6	65.8	65.9	65.7	65.5
Teenagers	40.2	38.7	38.3	38.4	38.5	38.6	38.0
20-24 years old	74.4	74.1	73.7	74.1	73.7	73.4	73.5
Men, 25 years and older	75.4	75.2	74.6	74.9	75.1	75.0	74.8
Women, 25 years and older	60.0	60.1	60.0	60.3	60.3	60.3	60.1

**Unemployment Rate**



Note: Shaded bar indicates a period of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.

**Labor Force Participation Rate**

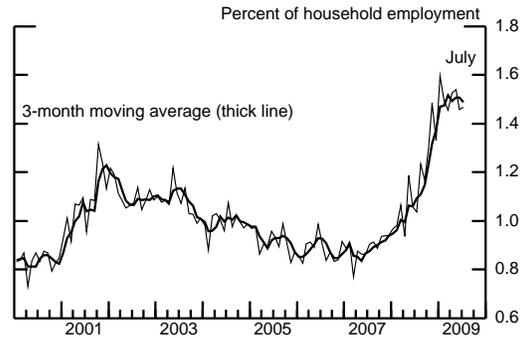


Note: See the note to the figure "Unemployment Rate."

**Persons Working Part Time for Economic Reasons**



**Job Losers Unemployed Less Than 5 Weeks**



Source: U.S. Department of Labor, Bureau of Labor Statistics.

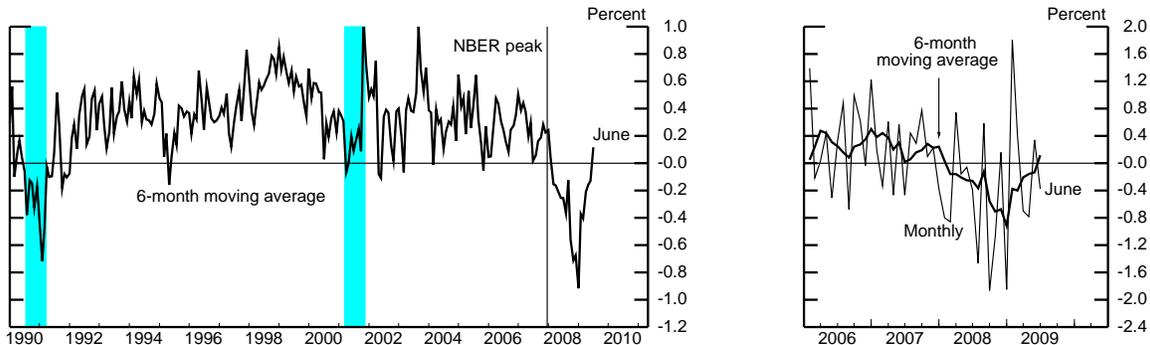
**Real Personal Consumption Expenditures**  
(Percent change from preceding comparable period)

Category	2008	2009		2009		
		Q1	Q2	Apr.	May	June
		Annual rate		Monthly rate		
<b>Total real PCE</b>	<b>-.2</b>	<b>.6</b>	<b>-1.2</b>	<b>-.2</b>	<b>.0</b>	<b>-.1</b>
Motor vehicles	-13.6	6.7	-11.9	-3.4	3.6	-2.1
Goods ex. motor vehicles	.4	2.8	-5.0	-.6	.3	.6
Ex. energy	5.8	-1.0	-7.2	.2	-.5	1.5
Services	.7	-.3	.1	.1	-.1	.0
Ex. energy	.8	-.2	.5	.1	.0	.0
Memo:						
Personal saving rate <sup>1</sup>	3.8	4.0	5.2	4.7	6.2	4.6

1. The annual value is the Q4 level.

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

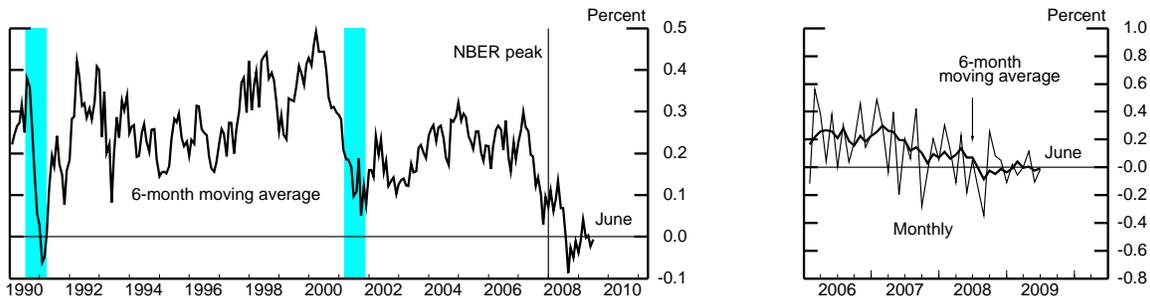
**Change in Real PCE Goods**



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.

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

**Change in Real PCE Services**



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.

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

**Price Measures**  
(Percent change)

Measures	12-month change		3-month change		1-month change	
	June 2008	June 2009	Annual rate		Monthly rate	
			Mar. 2009	June 2009	May 2009	June 2009
<i>CPI</i>						
<b>Total</b>	<b>5.0</b>	<b>-1.4</b>	<b>2.2</b>	<b>3.3</b>	<b>.1</b>	<b>.7</b>
Food	5.3	2.1	-.8	-1.5	-.2	.0
Energy	24.7	-25.5	7.9	22.1	.2	7.4
<b>Ex. food and energy</b>	<b>2.4</b>	<b>1.7</b>	<b>2.2</b>	<b>2.4</b>	<b>.1</b>	<b>.2</b>
Core goods	.2	1.5	3.8	4.1	.2	.3
Core services	3.3	1.8	1.5	1.8	.1	.1
Shelter	2.5	1.3	.1	1.4	.1	.0
Other services	4.3	2.6	2.6	2.1	.1	.2
Memo: core ex. tobacco	2.4	1.5	1.7	2.0	.1	.2
Chained CPI (n.s.a.) <sup>1</sup>	4.2	-1.3	...	...	...	...
Ex. food and energy <sup>1</sup>	2.1	1.3	...	...	...	...
<i>PCE prices</i>						
<b>Total</b>	<b>4.1</b>	<b>-.4</b>	<b>1.5</b>	<b>2.7</b>	<b>.1</b>	<b>.5</b>
Food and bev. at home	5.5	1.6	-2.5	-2.8	-.4	.1
Energy	25.4	-26.3	7.4	26.5	.2	8.3
<b>Ex. food and energy</b>	<b>2.6</b>	<b>1.5</b>	<b>1.6</b>	<b>2.0</b>	<b>.1</b>	<b>.2</b>
Core goods	.0	1.5	3.8	2.7	.0	.2
Core services	3.5	1.5	.8	1.8	.1	.2
Housing services	2.9	2.1	2.5	1.4	.1	.0
Other services	3.7	1.4	.3	2.0	.1	.2
Memo: core ex. tobacco	2.6	1.3	1.1	1.6	.1	.2
Core market-based	2.4	2.0	2.5	2.0	.1	.2
Core non-market-based	3.8	-1.4	-3.6	1.9	.2	.2
<i>PPI</i>						
<b>Total finished goods</b>	<b>9.1</b>	<b>-4.6</b>	<b>-.9</b>	<b>9.5</b>	<b>.2</b>	<b>1.8</b>
Food	8.2	-2.2	-8.5	4.2	-1.6	1.1
Energy	27.2	-25.2	-2.4	44.7	2.9	6.6
<b>Ex. food and energy</b>	<b>2.9</b>	<b>3.3</b>	<b>1.9</b>	<b>2.1</b>	<b>-.1</b>	<b>.5</b>
Core consumer goods	3.3	3.8	3.1	2.7	-.1	.5
Capital equipment	2.5	2.6	.3	1.3	-.1	.5
Intermediate materials	14.7	-12.5	-9.4	6.8	.3	1.9
Ex. food and energy	8.8	-6.6	-6.6	-3.0	-.2	.4
Crude materials	43.6	-40.0	-28.7	55.2	3.6	4.6
Ex. food and energy	32.8	-35.6	-1.6	40.3	6.7	2.6

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted (n.s.a.).

... Not applicable.

Source: For consumer price index (CPI) and producer price index (PPI), U.S. Dept. of Labor, Bureau of Labor Statistics; for personal consumption expenditures (PCE), U.S. Dept. of Commerce, Bureau of Economic Analysis.

**Commercial Bank Credit**

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

Type of credit	2007	2008	H2 2008	Q1 2009	Q2 2009	June 2009	July 2009 <sup>e</sup>	Level <sup>1</sup> July 2009 <sup>e</sup>
Total	9.8	5.1	4.6	-5.5	-3.2	-1.3	-13.6	9,331
<i>Loans<sup>2</sup></i>								
Total	10.7	4.6	2.1	-7.1	-6.6	-9.5	-18.9	6,979
Core	9.6	5.2	2.7	-3.0	-5.7	-7.8	-10.2	6,178
To businesses								
Commercial and industrial	19.0	16.6	11.3	-13.3	-15.1	-18.4	-11.2	1,490
Commercial real estate	9.3	6.0	2.9	-.7	-2.1	-4.1	-6.8	1,695
To households								
Residential real estate	5.6	-3.0	-5.2	-1.4	-1.4	-4.6	-11.1	2,143
Revolving home equity	5.7	13.0	13.0	9.9	2.6	-4.1	-6.3	608
Closed-end mortgages	5.5	-7.9	-11.2	-5.6	-3.0	-4.7	-13.1	1,535
Consumer	6.7	7.2	7.4	8.1	-6.3	-4.6	-13.1	850
Memo: Originated <sup>3</sup>	6.5	5.7	4.4	1.4	-3.8	-5.0	-6.8	1,257
Other	18.7	.5	-1.5	-34.3	-13.6	-21.4	-82.2	801
<i>Securities</i>								
Total	7.0	6.9	12.9	-.2	7.6	24.3	2.4	2,352
Treasury and agency	-6.1	18.6	32.4	5.8	-5.6	28.1	3.7	1,393
Other <sup>4</sup>	28.2	-7.0	-11.2	-9.4	28.6	18.7	.6	959

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 (FAS 115) and the initial consolidation of certain variable interest entities (FIN 46). 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 securities that are not Treasury or agency securities.

e Estimated.

Source: Federal Reserve.

**Selected Financial Market Quotations**

(One-day quotes in percent except as noted)

Instrument	2007	2009			Change to Aug. 6 from selected dates (percentage points)			
	Aug. 6	Apr. 28	June 22	Aug. 6	2007 Aug. 6	2009 Apr. 28	2009 June 22	
<i>Short-term</i>								
FOMC intended federal funds rate	5.25	.13	.13	.13	-5.12	.00	.00	
Treasury bills <sup>1</sup>								
3-month	4.74	.13	.20	.17	-4.57	.04	-.03	
6-month	4.72	.31	.34	.27	-4.45	-.04	-.07	
Commercial paper (A1/P1 rates) <sup>2</sup>								
1-month	5.26	.31	.30	.22	-5.04	-.09	-.08	
3-month	5.29	.55	.63	.30	-4.99	-.25	-.33	
Large negotiable CDs <sup>1</sup>								
3-month	5.34	.80	.40	.32	-5.02	-.48	-.08	
6-month	5.27	1.38	.68	.45	-4.82	-.93	-.23	
Eurodollar deposits <sup>3</sup>								
1-month	5.33	.90	.65	.45	-4.88	-.45	-.20	
3-month	5.35	1.40	1.05	.75	-4.60	-.65	-.30	
Bank prime rate	8.25	3.25	3.25	3.25	-5.00	.00	.00	
<i>Intermediate- and long-term</i>								
U.S. Treasury <sup>4</sup>								
2-year	4.49	.92	1.17	1.22	-3.27	.30	.05	
5-year	4.52	2.04	2.71	2.74	-1.78	.70	.03	
10-year	4.82	3.38	4.04	4.06	-.76	.68	.02	
U.S. Treasury indexed notes <sup>5</sup>								
5-year	2.43	1.55	1.45	1.57	-.86	.02	.12	
10-year	2.48	1.92	2.10	1.98	-.50	.06	-.12	
Municipal general obligations (Bond Buyer) <sup>6</sup>	4.51	4.57	4.86	4.65	.14	.08	-.21	
Private instruments								
10-year swap	5.44	3.07	3.97	4.01	-1.43	.94	.04	
10-year FNMA <sup>7</sup>	5.34	3.88	4.40	4.38	-.96	.50	-.02	
10-year AA <sup>8</sup>	6.12	6.33	5.94	5.48	-.64	-.85	-.46	
10-year BBB <sup>8</sup>	6.57	8.49	7.58	6.78	.21	-1.71	-.80	
10-year high yield <sup>8</sup>	9.21	12.79	12.13	10.66	1.45	-2.13	-1.47	
Home mortgages (FHLMC survey rate)								
30-year fixed	6.59	4.78	5.42	5.22	-1.37	.44	-.20	
1-year adjustable	5.65	4.77	4.93	4.78	-.87	.01	-.15	
<b>Stock exchange index</b>								
Stock exchange index	Record high		2009			Change to Aug. 6 from selected dates (percent)		
	Level	Date	Apr. 28	June 22	Aug. 6	Record high	2009 Apr. 28	2009 June 22
Dow Jones Industrial	14,165	10-9-07	8,017	8,339	9,256	-34.65	15.46	11.00
S&P 500 Composite	1,565	10-9-07	855	893	997	-36.29	16.60	11.65
Nasdaq	5,049	3-10-00	1,674	1,766	1,973	-60.92	17.88	11.72
Russell 2000	856	7-13-07	473	493	558	-34.84	17.93	13.15
D.J. Total Stock Index	15,807	10-9-07	8,754	9,130	10,261	-35.08	17.22	12.39

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.  
 April 28, 2009, is the day before the April 2009 FOMC monetary policy announcement.  
 June 22, 2009, is the day before the most recent FOMC monetary policy announcement.