

Prefatory Note

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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.

September 18, 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

Housing Starts

Single-family housing starts inched down to an annual rate of 480,000 units in August but remained substantially above the record low reached in the first quarter. Adjusted single-family permit issuance—which usually leads starts activity by a month or so—held steady in August at a level just below the rate of starts. Meanwhile, tight credit conditions and elevated vacancy rates continued to hold back activity in the much smaller multifamily sector, with starts registering another very weak reading of 120,000 units (annual rate) in August.

Note: Attached is an updated version of the table on nonfarm inventory investment that appeared on page II-26 of Part 2.

The Domestic Financial Economy

Update tables on commercial bank credit and selected financial market quotations are attached.

Private Housing Activity

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

Sector	2008	2009				
		Q1	Q2	June	July	Aug.
<i>All units</i>						
Starts	.91	.53	.54	.59	.59	.60
Permits	.91	.53	.53	.57	.56	.58
<i>Single-family units</i>						
Starts	.62	.36	.43	.48	.49	.48
Permits	.58	.36	.41	.43	.46	.46
Adjusted permits ¹	.58	.37	.42	.45	.47	.47
New homes						
Sales	.49	.34	.37	.40	.43	n.a.
Months' supply ²	10.68	11.61	9.55	8.51	7.51	n.a.
Existing homes						
Sales	4.35	4.12	4.24	4.33	4.61	n.a.
Months' supply ²	9.98	9.69	8.80	8.39	8.03	n.a.
<i>Multifamily units</i>						
Starts	.28	.17	.12	.11	.10	.12
Built for rent	.22	.14	.10	n.a.	n.a.	n.a.
Built for sale	.07	.03	.02	n.a.	n.a.	n.a.
Permits	.33	.17	.12	.14	.10	.12
<i>Condos and co-ops</i>						
Existing home sales	.56	.47	.52	.56	.63	n.a.

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

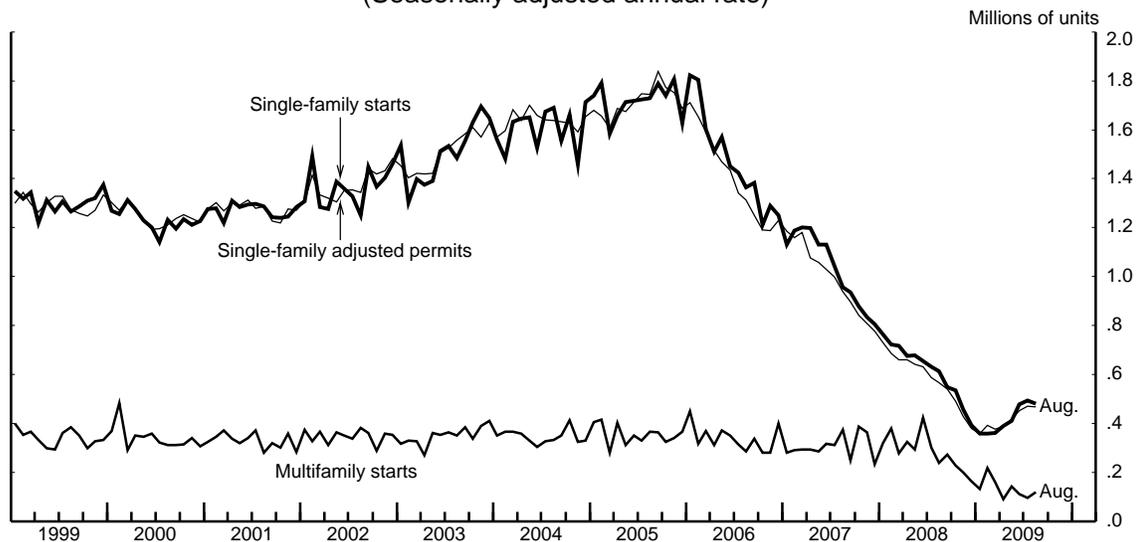
2. At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales. Quarterly and annual figures are averages of monthly figures.

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.

Nonfarm Inventory Investment (Billions of dollars; seasonally adjusted annual rate)

Measure and sector	2008	2009				
	Q4	Q1	Q2	May	June	July
<i>Real inventory investment (chained 2005 dollars)</i>						
Total nonfarm business	-35.7	-114.9	-168.6^e	...	...	...
Motor vehicles	-7	-63.6	-48.1 ^e	...	...	...
Nonfarm ex. motor vehicles	-35.1	-51.3	-120.5 ^e	...	...	...
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	8.2	-28.9	-40.0 ^e	-26.7 ^e	-45.3 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	-10.2	-8.8	-52.4 ^e	-36.8 ^e	-81.8 ^e	n.a.
Retail trade ex. motor vehicles & parts	-17.8	-11.6	-18.6 ^e	-22.8 ^e	-11.0 ^e	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	-155.9	-143.2	-150.2	-124.9	-178.0	-121.4
Manufacturing	-65.2	-77.3	-63.6	-48.4	-68.9	-43.8
Wholesale trade ex. motor vehicles & parts	-55.7	-47.3	-62.9	-49.8	-90.6	-55.3
Retail trade ex. motor vehicles & parts	-34.9	-18.6	-23.7	-26.8	-18.5	-22.3

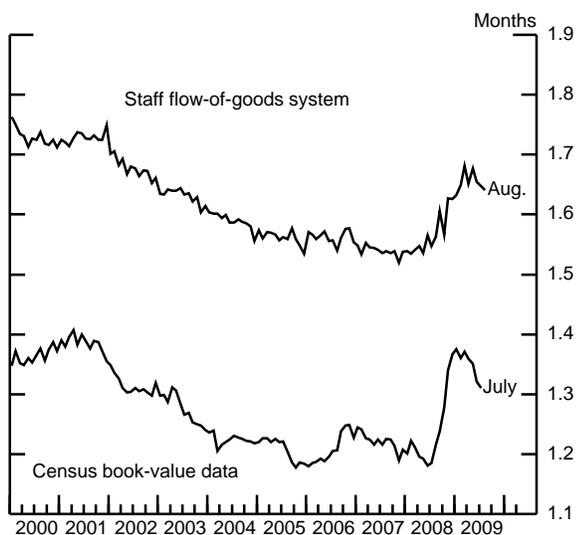
n.a. Not available.

... Not applicable.

^e Staff estimate of real inventory investment based on revised book-value data.

Source: For real inventory investment, U.S. Dept. of Commerce, Bureau of Economic Analysis; for book-value data, Census Bureau.

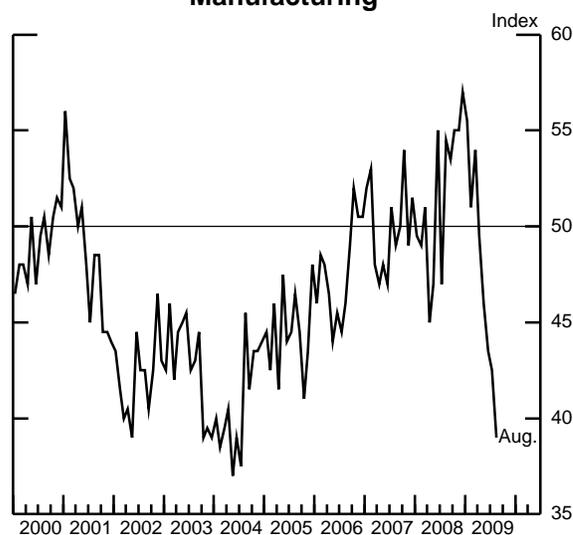
Inventory Ratios ex. Motor Vehicles



Note: Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

Source: Census Bureau; staff calculation.

ISM Customers' Inventories: Manufacturing



Note: A number above 50 indicates inventories are "too high."
Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business.

Commercial Bank Credit

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

Type of credit	2007	2008	H2 2008	Q1 2009	Q2 2009	July 2009	Aug. 2009	Level ¹ Aug. 2009
Total	9.9	5.1	4.5	-5.5	-3.5	-12.6	-10.6	9,260
<i>Loans²</i>								
Total	10.7	4.6	2.1	-7.1	-6.6	-19.3	-17.0	6,886
Core	9.6	5.2	2.7	-3.0	-5.8	-8.7	-14.4	6,120
To businesses								
Commercial and industrial	19.0	16.6	11.4	-13.4	-15.3	-12.1	-27.8	1,453
Commercial real estate	9.3	6.0	2.9	-.7	-1.7	-5.1	-7.8	1,690
To households								
Residential real estate	5.6	-3.0	-5.2	-1.4	-1.5	-9.5	-12.3	2,131
Revolving home equity	5.7	13.0	13.0	10.0	2.8	-6.1	-5.1	606
Closed-end mortgages	5.6	-7.9	-11.2	-5.6	-3.2	-10.8	-15.2	1,524
Consumer	6.7	7.2	7.4	8.0	-7.0	-8.4	-9.3	847
Memo: Originated ³	6.4	5.7	4.4	1.4	-4.3	-3.8	-11.4	1,248
Other	18.7	.5	-1.5	-34.2	-13.0	-95.6	-37.8	766
<i>Securities</i>								
Total	7.0	6.9	12.9	-.3	6.3	7.7	8.5	2,373
Treasury and agency	-6.1	18.6	32.4	5.9	-5.8	7.9	17.2	1,419
Other ⁴	28.3	-7.0	-11.2	-9.6	25.5	7.3	-4.3	954

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.

Source: Federal Reserve.

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2008	2009			Change to Sept. 17 from selected dates (percentage points)			
	Sept. 12	June 22	Aug. 11	Sept. 17	2008 Sept. 12	2009 June 22	2009 Aug. 11	
<i>Short-term</i>								
FOMC intended federal funds rate	2.00	.13	.13	.13	-1.87	.00	.00	
Treasury bills ¹								
3-month	1.46	.20	.18	.10	-1.36	-.10	-.08	
6-month	1.80	.34	.28	.20	-1.60	-.14	-.08	
Commercial paper (A1/P1 rates) ²								
1-month	2.39	.30	.22	.18	-2.21	-.12	-.04	
3-month	2.75	.63	.29	.22	-2.53	-.41	-.07	
Large negotiable CDs ¹								
3-month	2.79	.40	.32	.25	-2.54	-.15	-.07	
6-month	3.09	.68	.46	.36	-2.73	-.32	-.10	
Eurodollar deposits ³								
1-month	2.60	.65	.50	.40	-2.20	-.25	-.10	
3-month	3.00	1.05	.80	.55	-2.45	-.50	-.25	
Bank prime rate	5.00	3.25	3.25	3.25	-1.75	.00	.00	
<i>Intermediate- and long-term</i>								
U.S. Treasury ⁴								
2-year	2.24	1.17	1.20	.97	-1.27	-.20	-.23	
5-year	2.97	2.71	2.70	2.41	-.56	-.30	-.29	
10-year	3.93	4.04	3.97	3.68	-.25	-.36	-.29	
U.S. Treasury indexed notes ⁵								
5-year	1.33	1.45	1.54	1.01	-.32	-.44	-.53	
10-year	1.77	2.10	1.89	1.63	-.14	-.47	-.26	
Municipal general obligations (Bond Buyer) ⁶	4.54	4.86	4.65	4.20	-.34	-.66	-.45	
Private instruments								
10-year swap	4.26	3.97	3.98	3.63	-.63	-.34	-.35	
10-year FNMA ⁷	4.36	4.40	4.35	4.11	-.25	-.29	-.24	
10-year AA ⁸	6.62	5.94	5.41	5.05	-1.57	-.89	-.36	
10-year BBB ⁸	7.22	7.58	6.72	6.38	-.84	-1.20	-.34	
10-year high yield ⁸	10.66	12.13	10.61	9.98	-.68	-2.15	-.63	
Home mortgages (FHLMC survey rate)								
30-year fixed	5.78	5.42	5.29	5.04	-.74	-.38	-.25	
1-year adjustable	5.03	4.93	4.72	4.58	-.45	-.35	-.14	
Stock exchange index								
Stock exchange index	Record high		2009			Change to Sept. 17 from selected dates (percent)		
	Level	Date	June 22	Aug. 11	Sept. 17	Record high	2009 June 22	2009 Aug. 11
Dow Jones Industrial	14,165	10-9-07	8,339	9,241	9,784	-30.93	17.33	5.87
S&P 500 Composite	1,565	10-9-07	893	994	1,065	-31.92	19.31	7.15
Nasdaq	5,049	3-10-00	1,766	1,970	2,127	-57.87	20.41	7.97
Russell 2000	856	7-13-07	493	562	615	-28.08	24.89	9.49
D.J. Total Stock Index	15,807	10-9-07	9,130	10,243	11,008	-30.36	20.58	7.47

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:

September 12, 2008, is the last business day before Lehman Brothers Holdings filed for bankruptcy.
 June 22, 2009, is the day before the June 2009 FOMC monetary policy announcement.
 August 11, 2009, is the day before the most recent FOMC monetary policy announcement.

The International Economy

U.S. Current Account

Balance of payments data for the second quarter were released on Wednesday. The current account deficit narrowed slightly in the second quarter of 2009 to \$395 billion at an annual rate. The decrease relative to the previous quarter was more than accounted for by a shrinking of the deficit on goods and services, as imports have fallen by more than exports. However, this improvement in the goods and services balance was partly offset by a somewhat smaller surplus in investment income and larger 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:Q3	-743.8	143.7	-136.7	-736.7
Q4	-578.0	92.1	-133.6	-619.5
2009:Q1	-369.6	80.4	-128.6	-417.8
Q2	-332.0	72.8	-135.9	-395.2
<i>Change</i>				
Q3-Q2	-12.4	31.4	-4.9	14.2
Q4-Q3	165.8	-51.6	3.1	117.2
Q1-Q4	208.3	-11.7	5.0	201.7
Q2-Q1	37.6	-7.7	-7.3	22.6

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

U.S. International Financial Transactions

The recently released balance of payments data also included more complete information on financial flows in the second quarter. U.S. direct investment abroad and foreign direct investment into the United States remained weak in the second quarter (see lines 6 and 7 of the table "Summary of U.S. International Transactions"), and on net generated an outflow of \$19 billion. Transactions by non-banking concerns and other bank flows reported quarterly resulted in an inflow of \$54 billion (line 10).

The statistical discrepancy for the first half of 2009 was a sizable \$111 billion, more than half the current account deficit recorded during the period. This positive discrepancy suggests some over-reporting of the current account deficit or under-reporting of net financial flows.

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

	2007	2008	2008		2009			
			Q3	Q4	Q1	Q2	June	July
Official financial flows	451.1	-54.6	-108.9	-286.5	313.5	316.1	117.9	82.6
1. Change in foreign official assets in the U.S. (increase, +)	475.2	480.0	117.5	-17.9	70.7	124.7	54.9	44.9
a. G-10 countries + ECB	36.8	-8.4	8.9	-16.0	-7.4	15.5	20.5	6.6
b. OPEC	33.0	45.5	16.1	-3.4	-5.0	-0.3	-1.3	-0.4
c. All other countries	405.5	430.0	92.5	-11.4	83.1	117.5	38.4	38.7
2. Change in U.S. official assets (decrease, +) ¹	-24.1	-534.6	-226.4	-268.7	242.8	191.4	63.0	37.7
Private financial flows	212.5	559.7	252.0	374.8	-278.1	-257.8	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ²	-86.1	-15.6	-106.7	338.9	-278.6	-191.5	-116.7	-99.0
Securities³								
4. Foreign net purchases (+) of U.S. securities	673.9	70.9	-24.1	52.7	-3.8	-8.0	41.7	-14.8
a. Treasury securities	67.1	197.0	79.1	81.6	52.4	-22.5	27.8	-19.0
b. Agency bonds	-8.6	-185.0	-70.1	-21.5	-49.7	-0.3	2.1	-1.8
c. Corporate and municipal bonds	384.7	2.5	-35.4	-3.8	-12.5	-21.0	-4.5	-17.5
d. Corporate stocks ⁴	230.7	56.4	2.4	-3.6	6.0	35.7	16.3	23.5
5. U.S. net acquisitions (-) of foreign securities	-366.8	61.4	79.6	69.5	-35.2	-91.9	-36.2	-31.5
a. Bonds	-218.5	62.1	65.5	34.9	-33.9	-54.6	-21.3	-15.9
b. Stock purchases	-136.4	6.4	14.1	38.8	0.6	-37.3	-14.9	-15.6
c. Stock swaps ⁴	-11.9	-7.1	0.0	-4.3	-1.9	0.0	0.0	0.0
Other flows⁵								
6. U.S. direct investment (-) abroad	-398.6	-332.0	-54.1	-84.5	-40.3	-44.9	...	...
7. Foreign direct investment in the U.S.	275.8	319.7	62.8	96.8	23.9	26.1	...	...
8. Net derivatives (inflow, +)	6.2	-28.9	-4.1	-14.5	8.4	n.a.	...	...
9. Foreign acquisitions of U.S. currency	-10.7	29.2	5.8	29.9	11.8	-1.9	...	...
10. Other (inflow, +) ⁶	118.8	454.9	292.8	-113.9	35.6	54.3	...	...
U.S. current account balance⁵	-726.6	-706.1	-184.2	-154.9	-104.5	-98.8	...	...
Capital account balance⁷	-1.9	1.0	3.0	-0.7	-0.7	-0.7	...	...
Statistical discrepancy⁵	64.9	200.1	38.1	67.2	69.8	41.2	...	...

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.