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CLASS III FOMC

November 7, 1997

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Labor Market Developments

Total nonfarm payroll employment increased 284,000 in October, and the unemployment rate moved down 0.2 percentage point to 4.7 percent, its lowest level since October 1973.

In the payroll survey, nearly all of last month's employment gains were concentrated in the private sector; government employment rose only 2,000. Since July, private payrolls have increased 221,000 per month on average, similar to the 212,000 per month pace set in the first half of the year. By industry, factory payrolls jumped 54,000 last month--their largest gain during the current expansion. Within the service-producing sector, employment in the services industries rose 100,000, led by sizable increases at computer services and engineering and management services establishments.¹ Elsewhere, employment gains were generally in line with or above recent trends.

The average workweek of private production or nonsupervisory workers held steady at 34.5 hours, and aggregate weekly hours increased 0.2 percent. Hours growth in manufacturing was particularly strong in October. The average workweek for manufacturing production workers rose 0.2 hour to 42.0 hours, and aggregate weekly production worker hours rose 0.8 percent.² In the service-producing sector, the workweek held about steady, and hours growth was considerably more moderate.

Average hourly earnings of production or nonsupervisory workers rose 0.5 percent last month, following a 0.3 percent rise in September. Wage increases over the past two months have been boosted by the September 1 rise in the minimum wage (from \$4.75 per hour to \$5.15 per hour). Both this year's minimum wage hike and the one that occurred on October 1, 1996, contributed to the pickup in the growth of average hourly earnings to 4 percent over the past twelve months; absent the most recent hike in the minimum wage, we believe average hourly earnings would have been up about 3-3/4 percent from their level a year ago.

1. Although these two industries comprise only 4 percent of total employment, they have accounted for more than 10 percent of the jobs added in the past year.

2. Using the seasonal factors developed by the FRB staff for use in estimating industrial production, aggregate factory hours rose 0.4 percent in October.

CHANGES IN EMPLOYMENT
(Thousands of employees; based on seasonally adjusted data)

	1995	1996	1997			1997		
			Q1	Q2	Q3	Aug.	Sept.	Oct.
	---Average monthly changes---							
Nonfarm payroll employment ¹	185	212	228	237	235	52	269	284
Private	176	198	218	206	200	-33	330	282
Goods Producing	8	19	43	15	14	52	-9	71
Manufacturing	-1	-5	14	10	8	41	-12	54
Durable	11	5	15	14	18	47	-13	46
Nondurable	-12	-10	-1	-5	-9	-6	1	8
Construction	10	24	29	4	5	12	0	20
Service Producing	168	178	175	191	186	-85	339	211
Transportation and utilities	8	9	39	10	8	-154	170	29
Trade	48	60	28	52	61	41	32	59
Finance, insurance, real estate	-1	11	10	14	15	10	11	23
Services	113	98	97	115	102	18	126	100
Help supply services	10	13	17	-17	0	-30	12	0
Total government	9	14	10	31	35	85	-61	2
Private nonfarm production workers ¹	151	168	195	163	142	-146	295	236
Manufacturing production workers	-2	-5	9	7	7	23	-4	57
Total employment ²	32	232	440	63	117	96	-89	179
Nonagricultural	51	225	453	61	97	195	-156	326
Memo:								
Aggregate hours of private production workers (percent change) ^{1,3}	1.7	2.9	4.1	1.7	1.3	0.4	-0.1	0.2
Average workweek (hours) ¹	34.5	34.4	34.7	34.5	34.5	34.6	34.5	34.5
Manufacturing (hours)	41.6	41.5	41.9	42.0	41.8	41.8	41.8	42.0

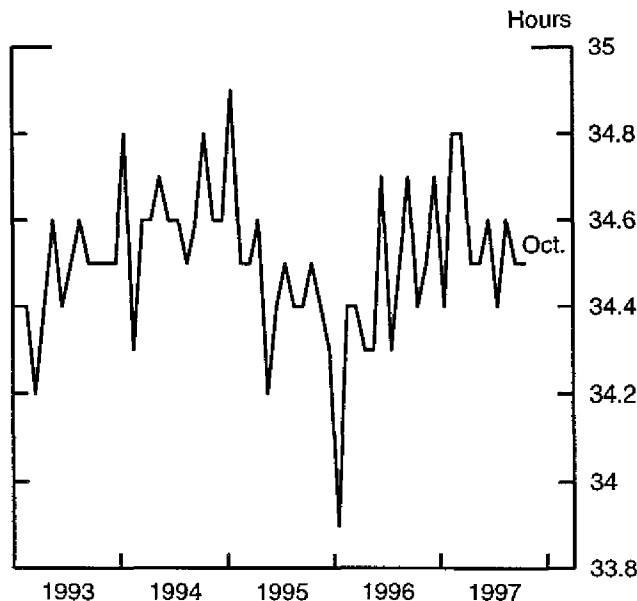
Note. Average change from final month of preceding period to final month of period indicated.

1. Survey of establishments.

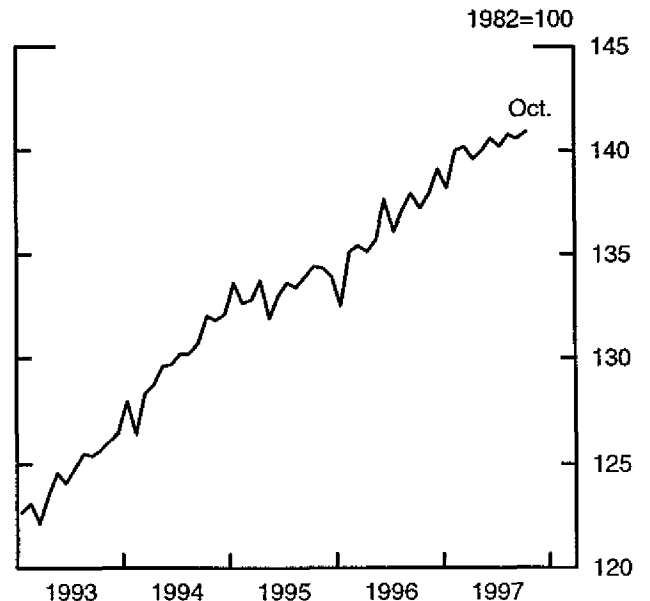
2. Survey of households.

3. Annual data are percent change from Q4 to Q4. Quarterly data are percent change from preceding period at an annual rate. Monthly data are percent change from preceding month.

Average Weekly Hours



Aggregate Hours of Production or Nonsupervisory Workers

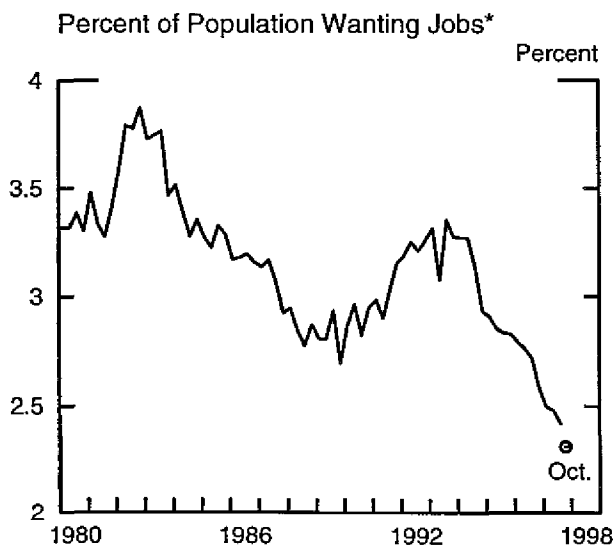
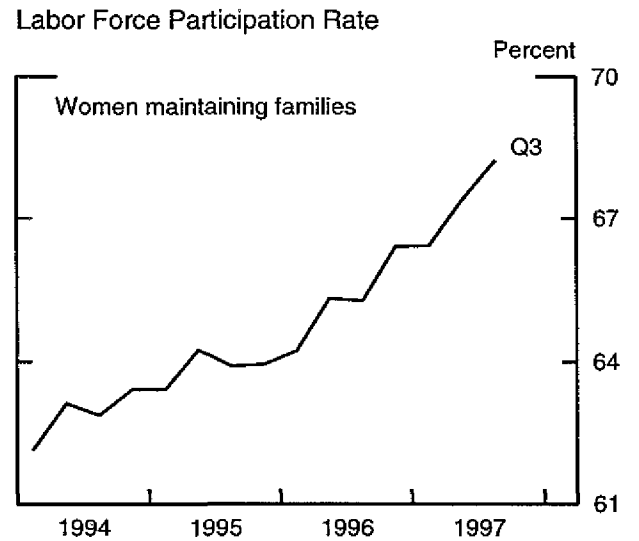


SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data)

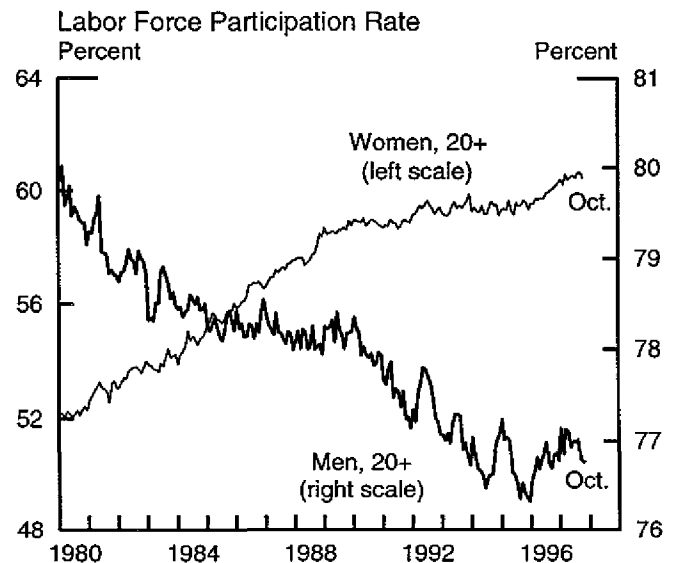
	1995	1996	1997			1997		
			Q1	Q2	Q3	Aug.	Sept.	Oct.
Civilian unemployment rate (16 years and older)	5.6	5.4	5.3	4.9	4.9	4.9	4.9	4.7
Teenagers	17.3	16.7	17.0	15.9	16.5	16.4	16.7	15.3
Men	4.8	4.6	4.5	4.1	4.1	4.1	4.1	4.1
Women	4.9	4.8	4.7	4.4	4.3	4.4	4.4	4.0
Labor force participation rate	66.6	66.8	67.2	67.1	67.1	67.1	67.0	66.9
Teenagers	53.5	52.3	52.6	51.8	50.9	50.5	50.7	50.6
Men, 20 years and older	76.7	76.8	77.0	77.0	76.9	77.0	76.8	76.8
Women, 20 years and older	65.2	65.6	65.8	65.8	66.0	66.0	66.0	65.8



Note. As a percent of total household employment.



* Data are quarterly. Seasonally adjusted by FRB staff.



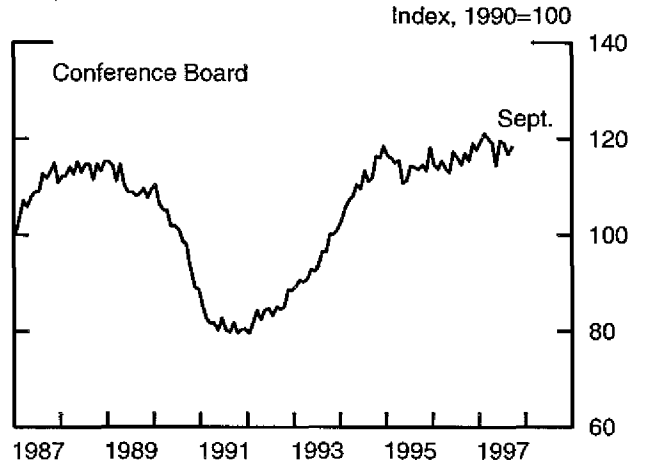
Labor Market Indicators

Initial Claims for Unemployment Insurance



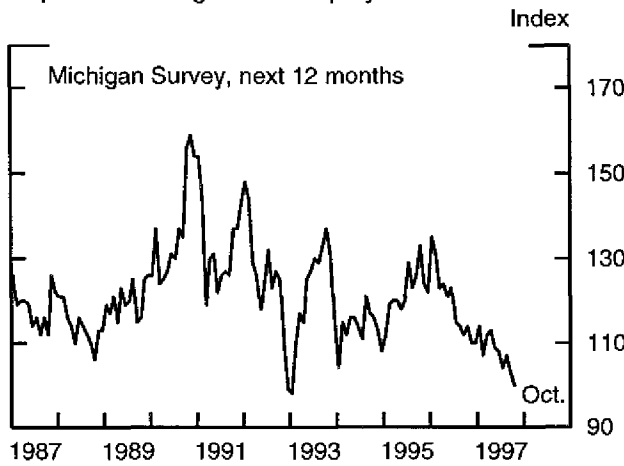
Note. State programs, includes EUC adjustment.

Help Wanted Index



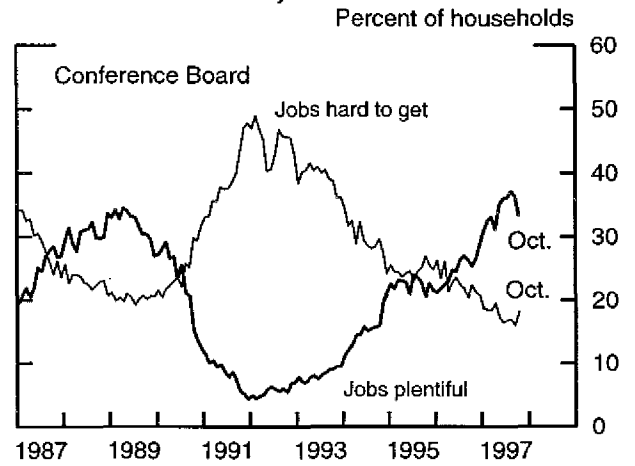
Note. Series has been adjusted to take account of structural and institutional changes, including consolidation of newspaper industry and tendency to increase hiring through personnel supply agencies.

Expected Change in Unemployment

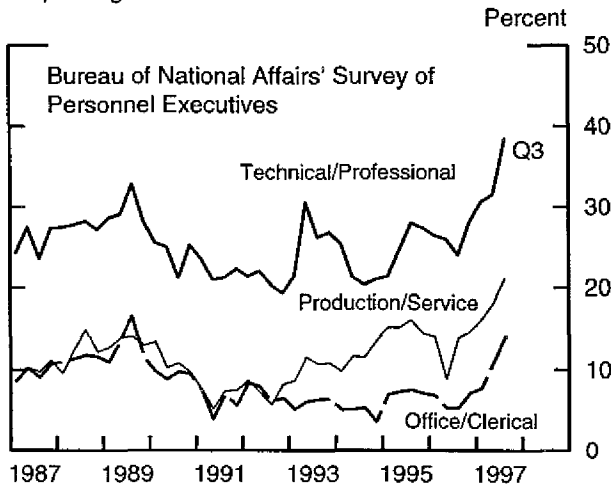


Note. Percentage expecting "more" minus percentage expecting "less" plus 100.

Current Job Availability

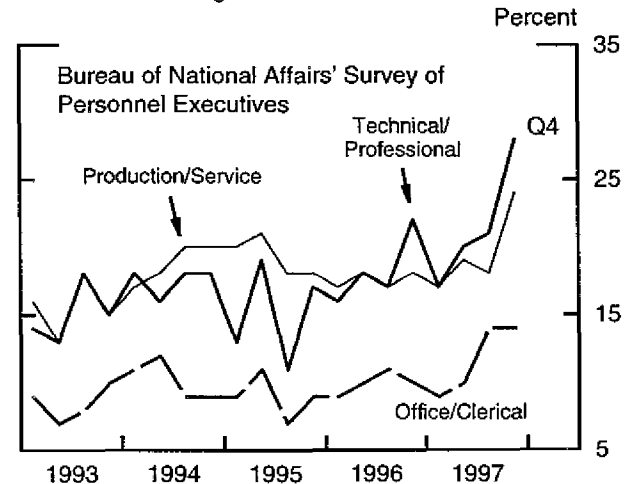


Reporting Some Jobs Difficult to Fill



Note. Seasonally adjusted by FRB staff.

Increase in Hiring

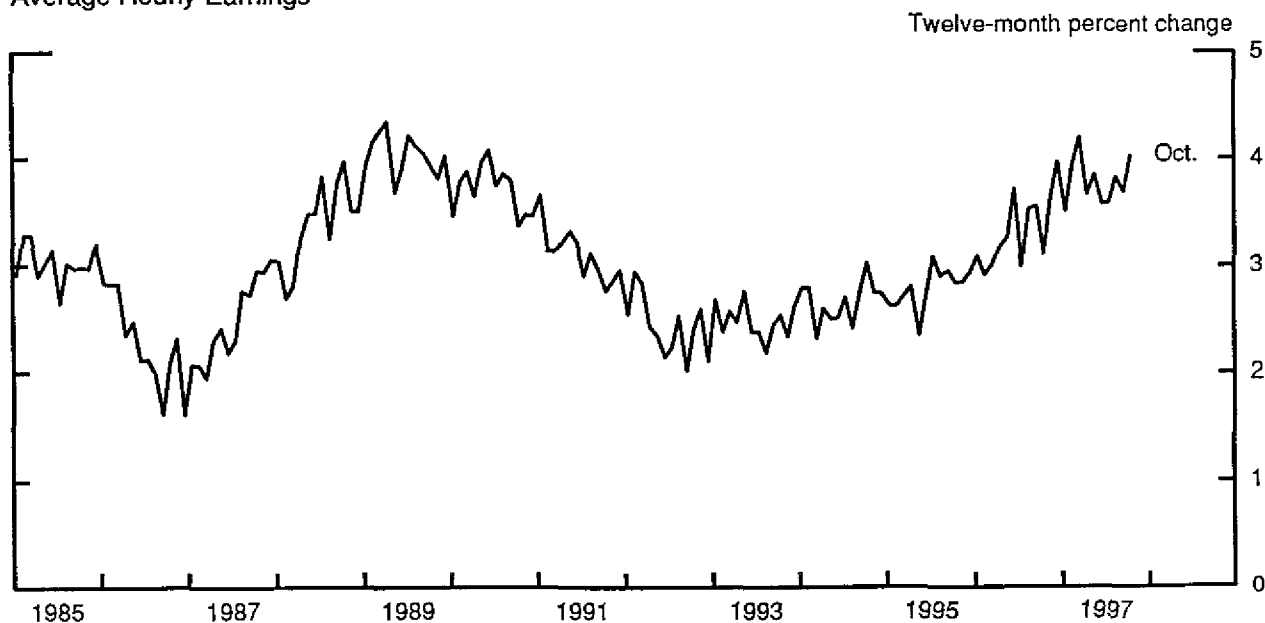


AVERAGE HOURLY EARNINGS
(Percentage change; based on seasonally adjusted data)¹

	1995	1996	1997			1997		
			Q1	Q2	Q3	Aug.	Sept.	Oct.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.9	4.0	3.7	3.0	4.0	.6	.3	.5
Manufacturing	2.7	3.7	2.5	1.5	3.1	.7	.2	1.0
Durable	1.8	3.9	2.1	1.2	2.4	.9	.0	1.2
Nondurable	3.8	3.4	3.0	1.0	4.0	.5	.2	.6
Contract construction	1.9	3.4	2.8	3.9	3.8	.4	.4	.2
Transportation and public utilities	2.7	2.0	4.8	3.3	3.8	.4	-.1	.0
Finance, insurance, and real estate	4.2	3.7	3.7	5.3	5.2	1.4	-.2	1.0
Total trade	3.0	4.5	4.3	2.9	5.1	.6	.5	.1
Services	3.5	4.3	4.0	3.3	3.3	.6	.2	.5

1. Annual and quarterly changes are measured from the final month of the preceding period to the final month of the period indicated.

Average Hourly Earnings*



* Production or nonsupervisory workers.

The household survey continues to point to tight labor markets. The drop in the aggregate unemployment rate was led by a 0.5 percentage point decline in the unemployment rate of women aged 25 and older; the unemployment rate for men aged 25 and older held steady, while the rate for teenagers--who account for only a small share of the labor force--dropped sharply. Household employment posted a 179,000 gain last month, with the increase concentrated largely among teenagers. The labor force participation rate held nearly steady, edging down 0.1 percentage point to 66.9 percent. Except for its bump up to 67.3 percent in March, the participation rate has fluctuated within a tenth or two of 67 percent for the past twelve months.

With this month's release, the BLS also announced that its preliminary estimate of next year's benchmark adjustment to the March 1997 employment count is 475,000, or 0.4 percent of total payroll employment. In addition, the BLS reports that its bias-adjustment factor--the adjustment to the sample-based estimates that is intended to capture employment growth at establishments that are underrepresented in the sample (including new establishments and smaller establishments)--is 155,000 for the fourth quarter.

Wholesale Inventories

Excluding motor vehicles, the book value of wholesale inventories rose at a \$32.9 billion annual rate in September, after growing at a revised \$25.5 billion pace in August. Nonvehicle sales of merchant wholesalers rose 2 percent in September, and the inventory-sales ratio for wholesale trade excluding motor vehicles fell to 1.23 months--within the narrow range posted over the past year.

Most categories of nondurables posted small changes in September. However, stocks in the "other nondurable goods" category--which includes tobacco--continued to accumulate, increasing at a rate of \$9.5 billion. Nonetheless, the September increase was sharply lower than August when we suspect that wholesalers stocked up on tobacco products in advance of September's price increase. Among durables, wholesale inventories in the professional and commercial equipment and supplies category also contributed to the buildup, advancing \$8.3 billion after having fallen in the preceding two months. This strength is consistent with the continuing strong growth in demand for office and computing equipment. Other industries that registered noteworthy stock

increases were machinery (\$8.0 billion) and electrical goods (\$4.9 billion).

The September wholesale inventory accumulation was substantially above the BEA's assumption of \$12.3 billion. If other data come in as the BEA assumed, overall inventory investment in 1997:Q3 would be revised up about \$7 billion, about twice what the staff assumed in our Greenbook estimate.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates;
based on seasonally adjusted data)

	1997			1997		
	Q1	Q2	Q3	July	Aug.	Sept.
<u>Book value basis</u>						
Total	35.8	51.5	n.a.	18.4	30.2	n.a.
Excluding wholesale and retail motor vehicles	30.9	48.9	n.a.	17.6	27.0	n.a.
Manufacturing	16.5	25.1	17.3	21.3	22.1	8.3
Excluding aircraft	9.1	19.8	12.1	15.9	12.0	8.3
Wholesale	14.3	19.1	15.6	-22.1	31.0	37.7
Excluding motor vehicles	11.5	14.3	13.8	-16.9	25.5	32.9
Retail	5.0	7.4	n.a.	19.1	-22.9	n.a.
Auto dealers	2.1	-2.1	n.a.	5.9	-2.2	n.a.
Excluding auto dealers	2.8	9.6	n.a.	13.2	-20.7	n.a.

SELECTED INVENTORY-SALES RATIOS
(Months' supply, based on Census book-value data, seasonally adjusted)

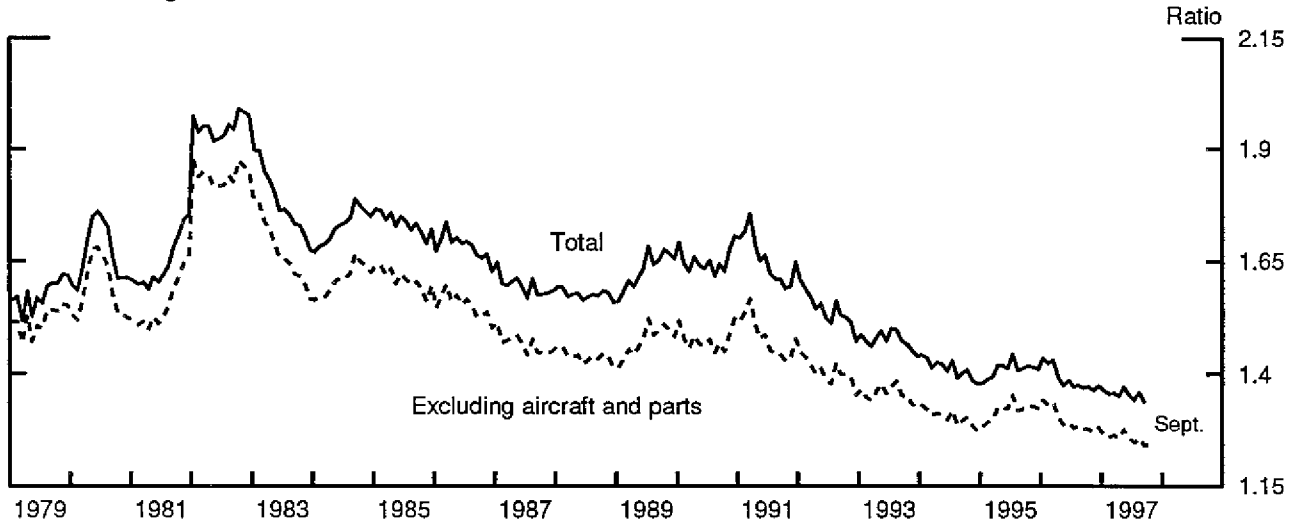
	Cyclical <u>reference points</u>		Range over <u>preceding 12 months</u>		September 1997
	1990-91	1995-96	High	Low	
	High	Low	High	Low	
Manufacturing and trade	1.58	1.37	1.39	1.35	1.37
Less wholesale and retail motor vehicles	1.55	1.34	1.35	1.32	1.34
Manufacturing	1.75	1.36	1.38	1.34	1.34
Primary metals	2.08	1.49	1.70	1.59	1.60
Nonelectrical machinery	2.48	1.80	1.87	1.72	1.72
Electrical machinery	2.08	1.41	1.48	1.33	1.29
Transportation equipment	2.93	1.48	1.61	1.49	1.57
Motor vehicles	.97	.56	.62	.56	.58
Aircraft	5.84	4.15	4.73	4.09	4.37
Nondefense capital goods	3.09	2.31	2.39	2.23	2.21
Textile	1.71	1.44	1.54	1.47	1.49
Petroleum	.94	.75	.84	.75	.79
Home goods & apparel	1.96	1.67	1.72	1.65	1.68
Merchant wholesalers	1.36	1.24	1.26	1.22	1.26
Less motor vehicles	1.31	1.22	1.23	1.20	1.23
Durable goods	1.83	1.53	1.56	1.50	1.54
Nondurable goods	.96	.93	.95	.92	.96
Retail trade	1.61	1.50	1.53	1.48	1.48
Less automotive dealers	1.48	1.43	1.45	1.41	1.41
Automotive dealers	2.21	1.68	1.79	1.68	1.67
General merchandise	2.43	2.21	2.26	2.10	2.07
Apparel	2.56	2.42	2.56	2.43	2.45
GAF	2.44	2.23	2.27	2.14	2.09

Note. September 1997 ratios for manufacturing and wholesale; August 1997 ratios for retail trade.

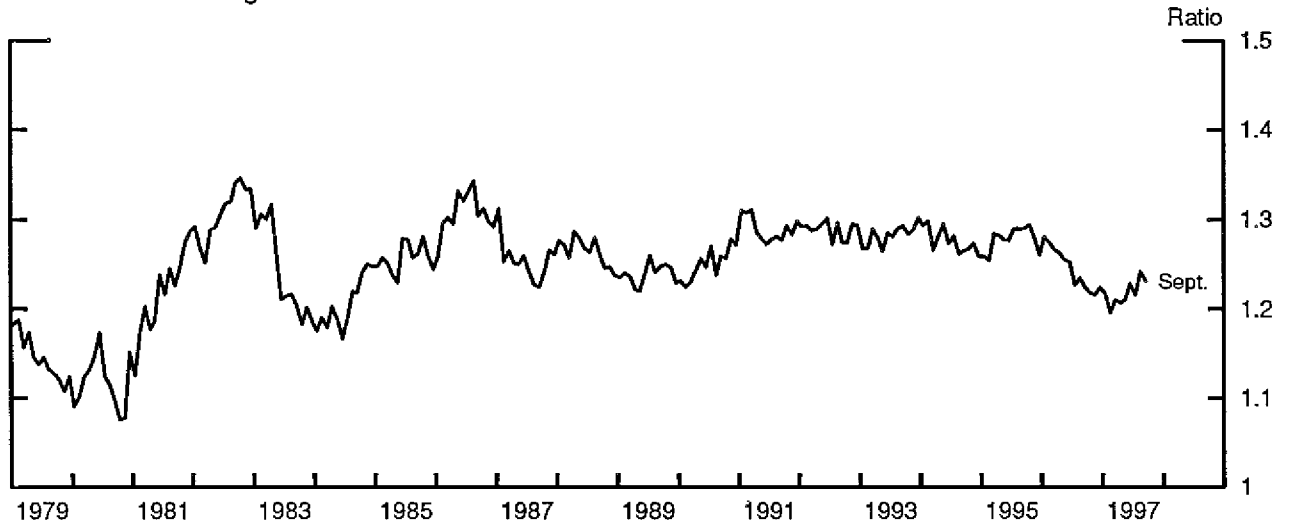
Inventory-Sales Ratios, by Major Sector

(Book value)

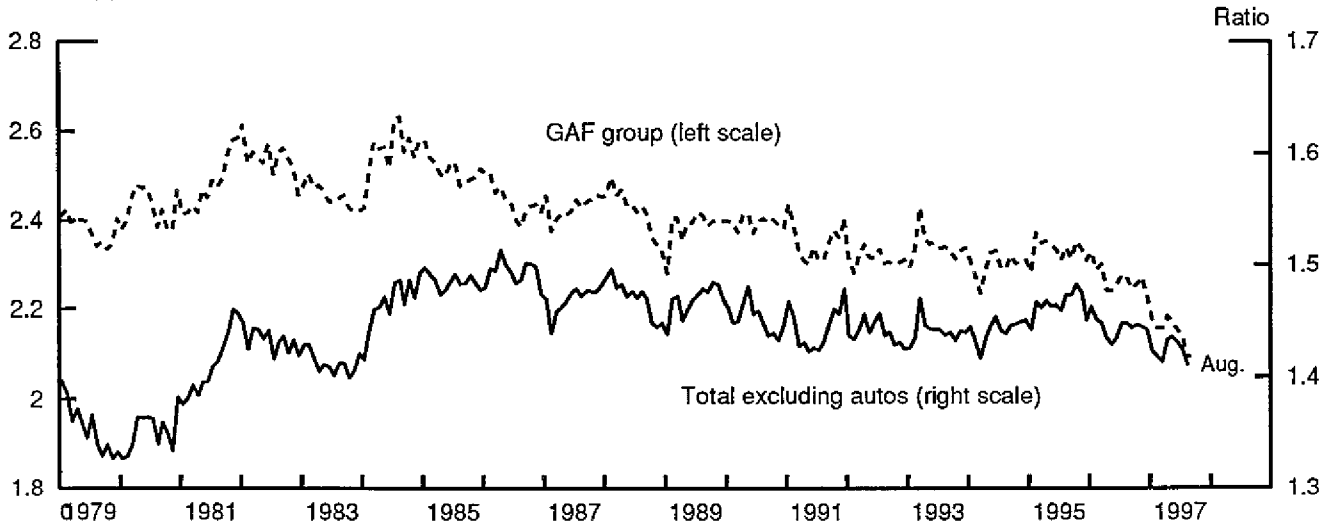
Manufacturing



Wholesale Excluding Motor Vehicles



Retail



Selected Financial Market Quotations¹
(Percent except as noted)

Instrument	1997				Change to Nov. 6, from:		
	Jan. 2	Mar. low	FOMC * Sep. 30	Nov. 6	Jan. 2	Mar. low	FOMC * Sep. 30
	Short-term rates						
Federal funds ²	5.79	5.27	5.58	5.60	-0.19	0.33	0.02
Treasury bills ³							
3-month	5.05	5.04	4.87	5.17	0.12	0.13	0.30
6-month	5.14	5.17	4.97	5.10	-0.04	-0.07	0.13
1-year	5.28	5.37	5.18	5.14	-0.14	-0.23	-0.04
Commercial paper ⁴							
1-month	5.48	5.40	5.51	5.50	0.02	0.10	-0.01
3-month	5.47	5.45	5.50	5.53	0.06	0.08	0.03
Large negotiable CDs ³							
1-month	5.39	5.32	5.59	5.58	0.19	0.26	-0.01
3-month	5.42	5.42	5.67	5.68	0.26	0.26	0.01
6-month	5.50	5.58	5.73	5.73	0.23	0.15	0.00
Eurodollar deposits ⁵							
1-month	5.38	5.31	5.56	5.50	0.12	0.19	-0.06
3-month	5.44	5.44	5.63	5.63	0.19	0.19	0.00
Bank prime rate	8.25	8.25	8.50	8.50	0.25	0.25	0.00
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	6.13	6.25	5.88	5.76	-0.37	-0.49	-0.12
10-year	6.54	6.56	6.10	5.90	-0.64	-0.66	-0.20
30-year	6.75	6.83	6.39	6.15	-0.60	-0.68	-0.24
U.S. Treasury 10-year indexed note	n.a.	3.36	3.60	3.53	3.53	0.17	-0.07
Municipal revenue (Bond Buyer) ⁶	5.96	5.97	5.63	5.65	-0.31	-0.32	0.02
Corporate-A utility, recently offered	7.64	7.97	7.46	7.37	-0.27	-0.60	-0.09
High-yield corporate ⁷	9.72	9.49	9.02	9.05	-0.67	-0.44	0.03
Home mortgages ⁸							
FHLMC 30-yr fixed rate	7.64	7.84	7.28	7.24	-0.40	-0.60	-0.04
FHLMC 1-yr adjustable rate	5.57	5.54	5.51	5.46	-0.11	-0.08	-0.05

Stock exchange index	Record high		1997			Percentage change to Nov. 6, from:		
	Level	Date	Jan. 2	FOMC * Sep. 30	Nov. 6	Record high	Jan. 2	FOMC * Sep. 30
	Dow-Jones Industrial	8259.31	8/6/97	6441.49	7991.43	7683.24	-6.97	19.28
S&P 500 Composite	983.12	10/7/97	736.01	953.34	938.03	-4.59	27.45	-1.61
NASDAQ (OTC)	1745.85	10/9/97	1279.70	1694.98	1623.44	-7.01	26.86	-4.22
Russell 2000	465.21	10/13/97	357.96	451.31	442.83	-4.81	23.71	-1.88
Wilshire	9486.69	10/7/97	7146.80	9215.39	9081.73	-4.27	27.07	-1.45

1. One-day quotes except as noted.

2. Average for two-week reserve maintenance period closest to date shown. Last observation is the average for maintenance period ending November 5, 1997.

3. Secondary market.

4. As of September 2, 1997, commercial paper rates are those collected by the Depository Trust Company; prior rates are averages of offering rates at several large dealers.

5. Bid rates for Eurodollar deposits at 11 a.m. London time.

6. Most recent observation based on one-day Thursday quote and futures market index changes.

7. Merrill Lynch Master II high-yield bond index composite.

8. Quotes for week ending Friday previous to date shown.

* Figures cited are as of the close on September 29, 1997.

Commercial Bank Credit
(Percent change; seasonally adjusted annual rate)

Type of credit	1996	1997		1997			Level, Oct 1997 p (billions of \$)
		Q2	Q3	Aug	Sep	Oct p	
1. Bank credit: Reported	4.0	7.6	5.6	3.0	5.5	6.3	3,997.6
2. Adjusted ¹	4.5	9.4	4.7	0.8	8.8	6.4	3,912.0
3. Securities: Reported	-1.5	2.5	2.4	-7.6	5.2	6.7	1,031.9
4. Adjusted ¹	0.0	9.1	-1.5	-17.6	18.9	7.3	946.4
5. U.S. government	-0.7	10.1	-2.2	-20.2	12.9	9.6	727.4
6. Other ²	-3.7	-15.0	13.7	22.6	-13.3	0.0	304.5
7. Loans ³	6.1	9.5	6.7	6.8	5.6	6.1	2,965.6
8. Business	8.6	8.0	8.7	11.6	16.4	7.9	841.3
9. Real estate	4.0	12.2	7.1	5.6	6.6	2.6	1,207.8
10. Home equity	7.1	20.3	15.4	11.6	15.3	15.1	96.8
11. Other	3.8	11.5	6.4	5.1	5.9	1.5	1,111.0
12. Consumer: Reported	5.5	-2.8	-0.4	0.9	-9.5	-13.6	507.5
13. Adjusted ⁴	10.8	0.5	1.7	5.9	-4.5	-5.0	695.1
14. Other ⁵	7.9	21.8	10.9	7.9	-0.6	38.8	409.1

Note. Adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).

2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.

3. Excludes interbank loans.

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

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

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