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**DIVISION OF INTERNATIONAL FINANCE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Date: June 24, 1999

To: Members of the Federal Open Market Committee

From: Thomas A. Connors *TAC*

Subject: Corrected Table, Greenbook Part 1, page I-38.

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Attached is a corrected table, **Impact of Alternative Assumptions**, contained in Greenbook Part 1, page I-38. The table has been corrected to reflect the current baseline assumptions for U.S. real GDP and the U.S. CPI.

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Impact of Alternative Assumptions

(Percent change, Q4 to Q4)

Measure	1999	2000
<i>U.S. real GDP</i>		
Baseline	3.7	2.6
Stronger foreign GDP growth	3.8	2.9
Stronger foreign growth and weaker dollar ¹	3.9	4.1
<i>U.S. CPI excluding food and energy</i>		
Baseline	2.1	2.5
Stronger foreign GDP growth	2.1	2.6
Stronger foreign growth and weaker dollar ¹	2.2	3.4

NOTE. All simulations assume federal funds rate unchanged from baseline.

1. Assumes dollar path falls an additional 10 percent below baseline.

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CLASS III - FOMC

June 25, 1999

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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THE DOMESTIC NONFINANCIAL ECONOMY

Real Gross Domestic Product, 1999:Q1

According to the BEA's final estimate, real GDP increased at an annual rate of 4.3 percent in the first quarter after having advanced at a 6.0 percent annual rate in the fourth quarter of 1998. Growth in real final sales slowed in the first quarter, but still posted a solid increase of 4.6 percent (annual rate). The slowdown in final sales reflected a substantial swing in the contribution from net exports, which had been boosted by transitory factors in the fourth quarter.

The final estimate of the first-quarter increase in real GDP was 0.2 percentage point higher than that in the preliminary release. The change owes mainly to upward revisions in net exports and nonresidential structures. The final estimate was a bit weaker than that anticipated in the June Greenbook because of marginally smaller than anticipated contributions from state and local consumption and investment, personal consumption expenditures, and net exports.

The GDP chain price index rose at an annual rate of 1.6 percent in the first quarter, compared with 0.9 percent over the four quarters of 1998. The first-quarter increase was 0.1 percentage point higher than that in the preliminary estimate, the result of small upward revisions to the inflation estimates in several expenditure categories.

Real disposable personal income rose 3.5 percent in the first quarter, 3/4 percentage point lower than in the preliminary release, and the personal saving rate was revised down to -0.7 percent. The downward revisions owe to BEA's incorporation of data on tax collections this spring, which showed higher estimates of federal income tax payments than assumed earlier.

Corporate profits (with inventory valuation and capital consumption adjustments) increased \$47.1 billion in 1999:Q1 following a decline of \$5.3 billion in 1998:Q4 when profits were held down \$13.5 billion by tobacco company payments related to litigation settlements. The revised estimate is \$15 billion higher than estimated in the preliminary report and raised the share of profits (excluding Federal Reserve banks) in GNP to 9.6 percent.

Real Gross Domestic Product and Related Items

(Percent change from previous period at compound annual rates;
based on seasonally adjusted data, chain-type indexes)

	1998:Q4	1999:Q1	1999:Q1
	Final	Preliminary	Final
1. Gross domestic product	6.0	4.1	4.3
2. Final sales	6.6	4.3	4.6
3. Consumer spending	5.0	6.8	6.7
4. Durables	24.5	12.9	12.9
5. Nondurables	4.2	9.4	9.5
6. Services	1.7	4.3	4.1
7. Business fixed investment	14.6	7.9	8.5
8. Producers' durable equipment	17.8	9.7	9.5
9. Nonresidential structures	6.0	2.9	5.7
10. Residential investment	10.0	15.4	15.4
11. Federal government consumption expenditures and investment	7.3	-1.7	-1.9
12. State and local government consumption expenditures and investment	1.3	7.7	7.7
13. Exports of goods and services	19.7	-6.8	-5.1
14. Imports of goods and services	12.0	14.2	13.5

<i>ADDENDA:</i>			
15. Nonfarm inventory investment ¹	37.5	34.7	35.1
16. Motor vehicles ¹	6.8	1.5	1.5
17. Excl. motor vehicles ¹	30.7	33.2	33.6
18. Net exports of goods and services ¹	-250.0	-310.1	-303.6
19. Nominal GDP	6.9	5.6	6.0
20. GDP price index	.8	1.5	1.6
21. Profit share ²	9.5	9.7	9.9
22. (Excluding FR banks)	9.2	9.4	9.6
23. Real disposable personal income	4.3	4.3	3.5
24. Personal saving rate (percent)	.0	-.6	-.7

1. Level, billions of chained (1992) dollars.

2. Economic profits as a share of nominal GNP.

Consumer Sentiment

According to the final report, the Michigan Survey Research Center (SRC) index of consumer sentiment rose 1/2 percentage point in June.¹ Expectations of future business conditions improved considerably in June. However, respondents' assessments of their current finances were little changed this month, and their views concerning their future finances dipped a bit. Appraisals of buying conditions for large household appliances fell back in June after having climbed to a historical high in May.

Responses to questions that are not included in the overall index were somewhat mixed in June. The index of expected unemployment change fell sharply indicating a substantial improvement in assessments of labor market conditions over the next twelve months. In addition, households' willingness to use savings to finance a major purchase soared in June to its highest level since September 1984. However, appraisals of buying conditions for cars and for homes moved lower in June, reflecting, in part, some dissatisfaction with current interest rates.

The mean of expected inflation over the next twelve months edged down 0.1 percentage point to 3.1 percent, but the median declined 1/4 percentage point to 2.5 percent. The mean of expected inflation over the next five to ten years declined 0.2 percentage point to 3.3 percent, and the median fell 0.1 percentage point to 2.8 percent.

Sales and Prices of Existing Homes

Sales of existing homes declined 4 percent in May to an annual rate of 5.04 million units. With this decrease, existing home sales are down 7 percent from their record high in March. Existing home sales respond to changing market conditions with a lag because many of them are recorded at the time a sale is closed rather than when the sales contract is signed. The recent declines in existing home sales follow a falloff in new home sales between December and March. In April, however, new home sales increased 9-1/4 percent, and other,

1. The increase shown in the final tabulations was less than shown in the preliminary June report, which was released on June 11 and showed the index up more than 2 percentage points.

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES
(Not seasonally adjusted)

	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.	1999 May	1999 June
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	97.4	102.7	100.5	103.9	108.1	105.7	104.6	106.8	107.3
Current conditions	112.8	115.9	113.9	116.8	115.0	116.3	115.9	121.1	118.9
Expected conditions	87.5	94.3	91.9	95.7	103.6	99.0	97.4	97.6	99.8

Personal financial situation									
Now compared with 12 months ago*	131	130	128	133	133	130	134	133	133
Expected in 12 months*	133	130	133	132	138	134	136	135	133
Expected business conditions									
Next 12 months*	118	136	130	143	152	141	141	144	147
Next 5 years*	101	113	107	110	127	123	115	114	122
Appraisal of buying conditions									
Cars	153	155	151	157	153	152	150	151	150
Large household appliances*	162	171	168	170	166	172	167	182	176
Houses	178	173	182	176	178	167	168	171	168
Willingness to use credit	53	53	52	47	53	51	49	52	53
Willingness to use savings	70	77	69	75	81	80	73	75	88
Expected unemployment change - next 12 months	121	119	124	115	108	113	109	110	102
Prob. household will lose a job - next 5 years	21	22	19	21	20	21	23	22	20
Expected inflation - next 12 months									
Mean	2.6	2.7	2.8	3.0	2.8	3.1	3.0	3.2	3.1
Median	2.5	2.3	2.5	2.7	2.5	2.7	2.7	2.8	2.5
Expected inflation - next 5 to 10 years									
Mean	3.2	3.1	3.2	3.5	3.3	3.0	3.0	3.5	3.3
Median	2.8	2.8	2.9	3.0	2.8	2.7	2.8	2.9	2.8

* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.
 (p) -- Preliminary
 (f) -- Final
 Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

THE MARKET FOR EXISTING HOUSES

	1998	1998		1999	1999		
		Q3	Q4	Q1	Mar.	Apr.	May
Sales¹							
Total	4,970	4,980	5,100	5,207	5,420	5,250	5,040
Percent Change	13.4	0.7	2.4	2.1	5.4	-3.1	-4.0
Previously reported level	4,970	4,980	5,100	5,207	5,420	5,240	
Regional Sales							
Northeast	662	660	657	687	720	660	630
Midwest	1,130	1,123	1,173	1,153	1,190	1,150	1,100
South	1,868	1,867	1,930	2,023	2,110	2,030	2,000
West	1,309	1,333	1,337	1,347	1,400	1,420	1,320
Inventories							
Existing homes for sale ²	2,086	2,047	2,086	2,080	2,080	2,119	2,083
Months' supply ³	5.2	5.0	4.8	4.7	4.6	4.8	5.0
Prices⁴							
Average	159.1	161.9	159.1	161.6	162.3	163.8	167.9
Percent change	5.7	5.2	4.5	5.9	5.9	4.9	5.3
Median	128.4	130.7	128.7	129.3	129.6	130.7	133.1
Percent change	5.4	5.0	4.8	4.5	4.0	3.9	3.3
Repeat Sales Index ⁵	154.9	156.1	157.8	159.5	ND	ND	ND
Percent change	5.7	5.8	5.4	4.9	ND	ND	ND

Note: Annual and quarterly levels are averages of monthly data.

1. Thousands of units, seasonally adjusted annual rate, except where noted. Percent change is from previous comparable period.
2. Thousands of units, seasonally adjusted, end of period stock.
3. At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales.
4. Price levels are expressed in thousands of dollars and are not seasonally adjusted. Percent changes are from the previous comparable period a year earlier.
5. The index equals 100 in the first quarter of 1987.

ND--data not reported on a monthly basis.

June 25, 1999

more timely indicators of housing demand--such as builders' ratings of new home sales and applications for home mortgages--rose from April through June.

The year-over-year increase in the median price of existing homes was 3.3 percent in May, the lowest such increase recorded over the past twelve months. The average price was up 5.3 percent from a year earlier, which is near the midpoint of the distribution of such increases over the past twelve months. These price series do not adjust for compositional changes in the structural characteristics and amenities of homes sold. The most recent observation for the repeat-sales price index for existing homes--which holds constant some of the compositional shifts that can affect the median and average prices--shows a 4.9 percent increase in the first quarter from a year earlier.²

Shipments and Orders of Durable Goods

New orders for durable goods rose 1.4 percent in May. A big increase in the volatile series for aircraft orders accounted for all of the gain: Excluding aircraft, orders edged off 0.2 percent last month. The staff's constructed series on real adjusted durable goods orders--which strips out nondefense aircraft, defense capital goods, and industries for which reported orders actually equal shipments--ticked down 0.1 percent in May, but remained 2.5 percent above its first-quarter average.

Orders for nondefense capital goods excluding aircraft fell 1 percent in May. The decline was due to a large drop in orders for engines and turbines, which have been running at very high levels. Excluding engines and turbines and aircraft, orders for nondefense capital goods rose 2.4 percent last month to level 2.9 percent above the first-quarter average. Most notably, sizable increases were posted in May for construction machinery and metalworking machinery, two industries whose shipments were depressed by weak foreign demand over the past year. Orders for communications equipment remained on a steep uptrend, rising 1 percent in May.

2. This index is calculated by Fannie Mae and Freddie Mac using price data obtained when houses are sold repeatedly or refinanced.

ORDERS AND SHIPMENTS OF DURABLE GOODS
(Percent change from comparable previous period,
seasonally adjusted)

	1998		1999	1999		
	Q3	Q4	Q1	Mar.	Apr. (r)	May (a)
Nondefense capital goods						
Orders	4.3	-4.3	6.9	.1	-1.3	2.8
Aircraft and parts	1.7	-19.7	33.8	-22.2	-15.6	37.8
Excluding aircraft and parts	4.7	-1.6	3.1	3.9	.5	-1.0
Office and computing	2.7	.6	-.5	4.0	1.7	.5
Communications equipment	-3.0	5.8	11.6	3.9	-2.3	1.0
All other	7.7	-4.4	2.4	3.9	.9	-2.1
Shipments	1.6	4.0	-1.4	2.7	1.2	1.3
Aircraft and parts	2.5	17.2	-5.2	.2	1.5	.4
Excluding aircraft and parts	1.4	1.7	-.6	3.2	1.1	1.4
Office and computing	2.0	.6	-.1	-1.0	6.2	-.5
Communications equipment	2.1	5.3	5.7	5.5	2.3	1.4
All other	1.0	1.2	-2.5	4.4	-1.3	2.3
Supplementary orders series						
Durable goods*	2.7	.6	3.8	2.9	-2.3	1.4
Industries with unfilled orders	3.0	.0	3.6	2.9	-2.2	1.5
Capital goods	3.6	-2.8	7.2	4.0	-5.6	4.1
Nondefense	4.3	-4.3	6.9	.1	-1.3	2.8
Defense	-2.3	11.2	9.4	41.3	-35.5	17.6
Real adjusted durable goods	4.9	.9	3.3	3.0	1.0	-.1

r--Revised.

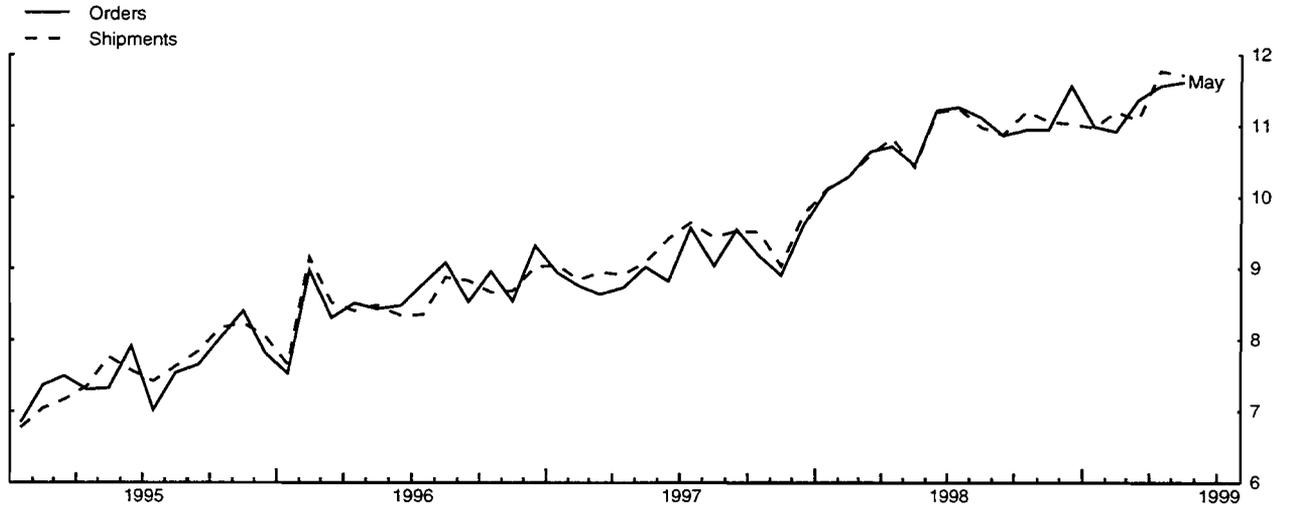
a--Advance.

*--Contains industry detail not shown separately.

RECENT DATA ON ORDERS AND SHIPMENTS

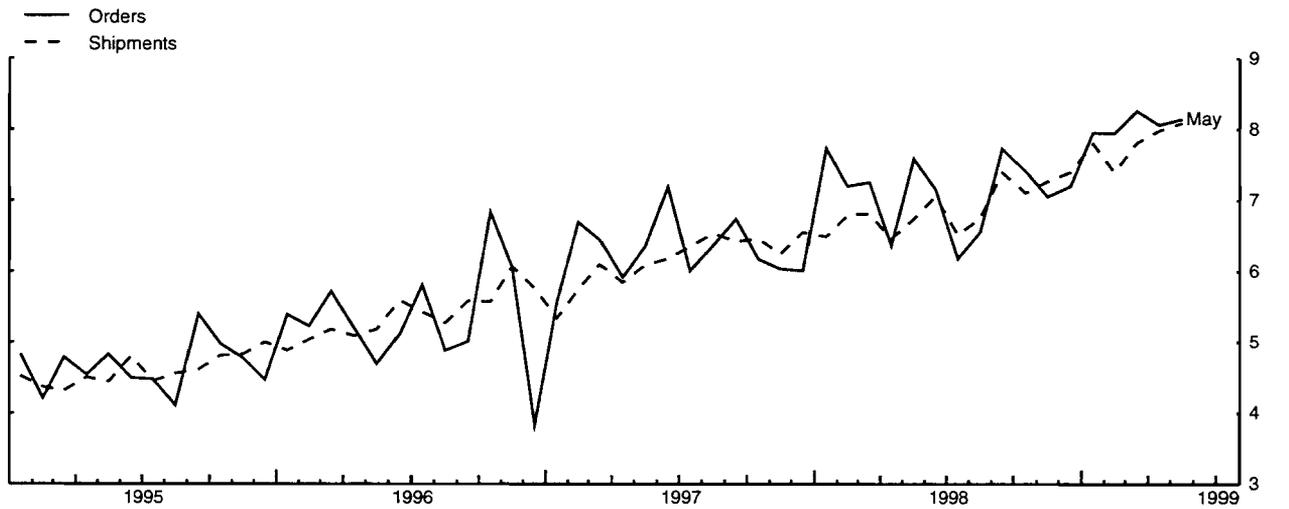
Office and Computing Equipment

Billions of Dollars



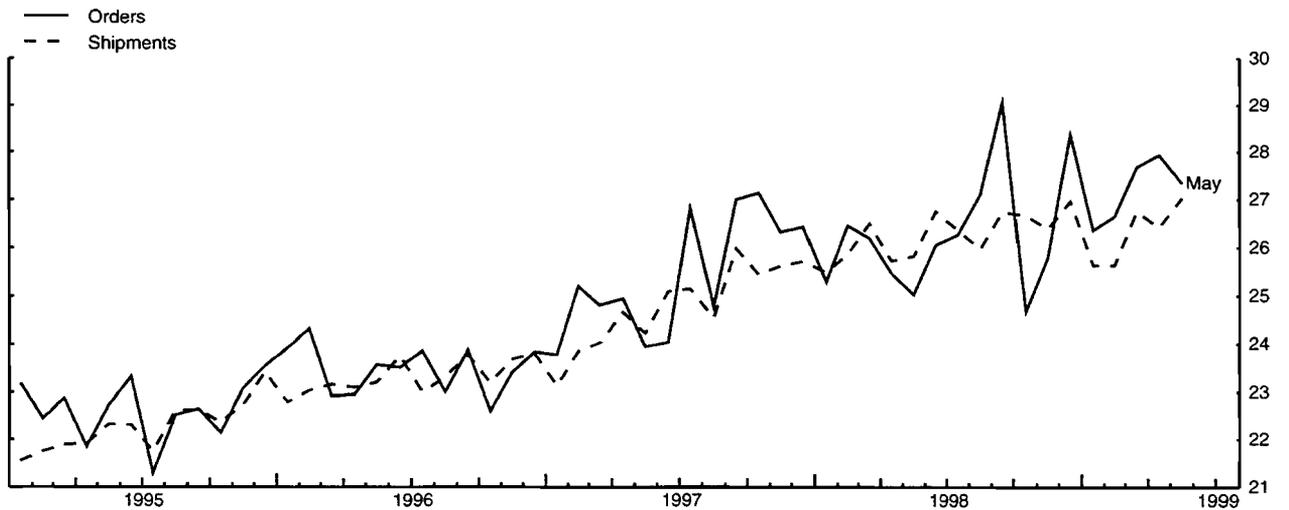
Communications Equipment

Billions of Dollars



Other Equipment (excl. aircraft, computers, and communications eq.)

Billions of Dollars



Shipments of nondefense capital goods excluding aircraft rose 1.4 percent last month. Computer shipments ticked down 0.5 percent following a very large gain in April. Shipments of communications equipment advanced 1.4 percent in May and stood 5-1/2 percent above their first-quarter average level. Shipments of nondefense capital goods excluding aircraft and high-tech equipment posted a strong gain last month, increasing 2.3 percent.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
 (Billions of dollars; annual rate except as noted;
 based on seasonally adjusted Census book value)

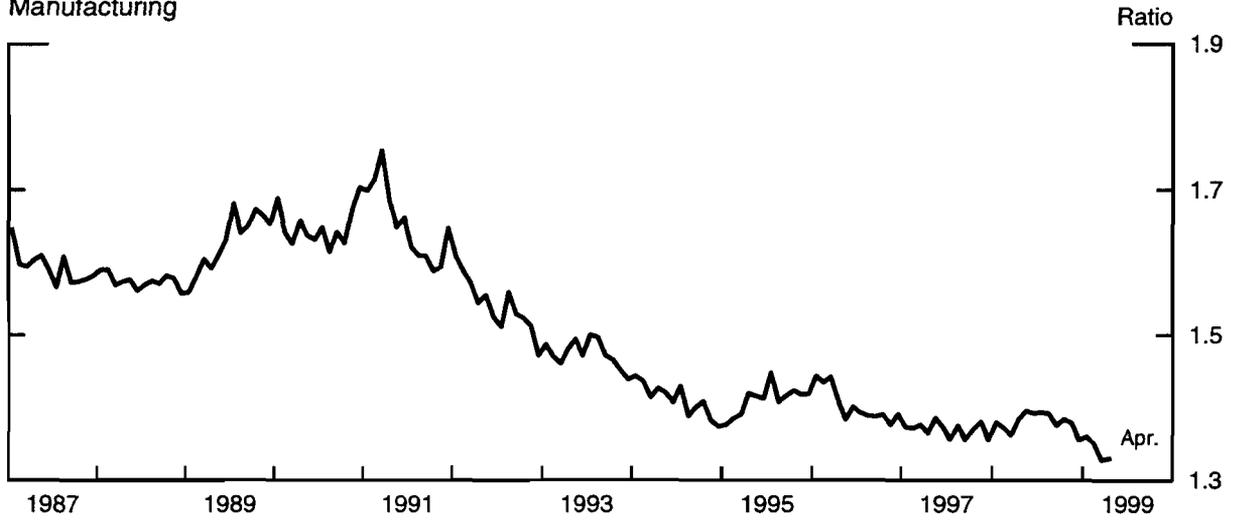
Category	1998		1999	1999		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Manufacturing and trade	41.4	26.2	33.4	42.8	63.5	25.3
Less wholesale and retail motor vehicles	33.8	6.3	9.6	27.3	9.6	8.8
Manufacturing	7.4	-7.0	-12.9	-8.0	-7.4	-8.4
Less aircraft	1.3	-3.9	-3.0	-9.4	3.1	-.6
Merchant wholesalers	26.4	11.3	5.9	22.3	8.0	6.3
Less motor vehicles	24.5	6.3	4.7	21.5	1.0	5.7
Retail trade	7.6	21.9	40.4	28.5	63.0	27.3
Automotive dealers	5.7	14.9	22.6	14.7	46.9	15.8
Less automotive dealers	1.8	6.9	17.8	13.8	16.0	11.5

SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
 (Months' supply, based on seasonally adjusted Census book value)

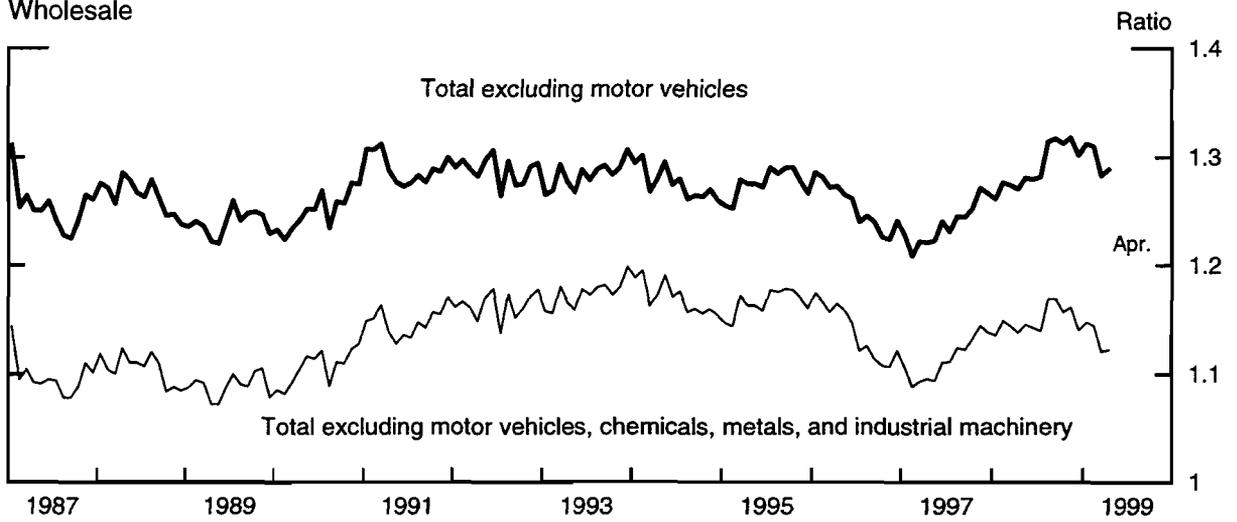
Category	Cyclical reference points		Range over preceding 12 months		April 1999
	1990-91 high	1991-98 low	High	Low	
	Manufacturing and trade	1.58	1.37	1.39	
Less wholesale and retail motor vehicles	1.55	1.34	1.37	1.32	1.33
Manufacturing	1.75	1.36	1.40	1.33	1.33
Primary metals	2.08	1.46	1.74	1.57	1.66
Steel	2.56	1.59	2.25	1.86	2.10
Nonelectrical machinery	2.48	1.61	1.67	1.61	1.61
Electrical machinery	2.08	1.21	1.39	1.21	1.20
Transportation equipment	2.93	1.51	1.85	1.49	1.52
Motor vehicles	.97	.53	.64	.52	.53
Aircraft	5.84	4.05	4.97	4.05	4.05
Nondefense capital goods	3.09	2.04	2.21	2.04	2.00
Textiles	1.71	1.38	1.59	1.48	1.54
Paper	1.32	1.06	1.23	1.17	1.19
Chemicals	1.44	1.25	1.45	1.37	1.38
Petroleum	.94	.80	.99	.85	.82
Home goods & apparel	1.96	1.59	1.75	1.59	1.53
Merchant wholesalers	1.36	1.24	1.33	1.29	1.30
Less motor vehicles	1.31	1.21	1.32	1.27	1.29
Durable goods	1.83	1.54	1.66	1.59	1.59
Nondurable goods	.95	.90	.99	.94	.97
Retail trade	1.61	1.44	1.48	1.42	1.44
Less automotive dealers	1.48	1.38	1.42	1.36	1.36
Automotive dealers	2.22	1.56	1.66	1.56	1.70
General merchandise	2.42	1.98	2.04	1.91	1.93
Apparel	2.53	2.27	2.54	2.35	2.31
GAF	2.42	2.04	2.09	1.98	1.99

Inventory-Sales Ratios, by Major Sector (Book value)

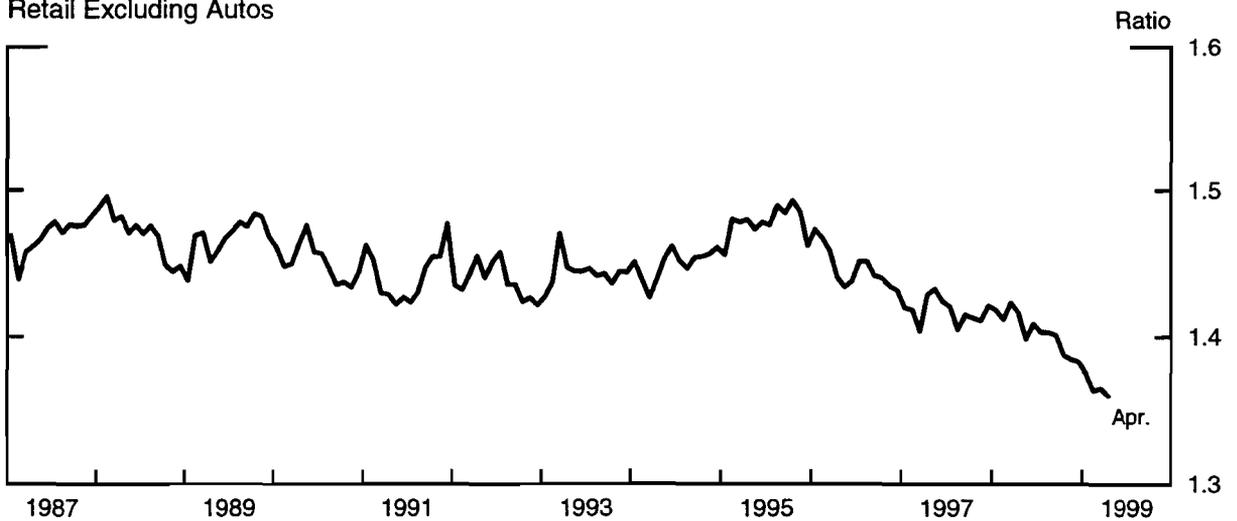
Manufacturing



Wholesale



Retail Excluding Autos



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

Instrument	1998		1999		Change to June 24 from selected dates (percentage points)		
	Oct. 15	Dec. 31	FOMC* May 18	June 24	Oct. 15	Dec. 31	FOMC* May 18
<i>Short-term</i>							
Federal funds							
FOMC intended rate	5.00	4.75	4.75	4.75	-.25	.00	.00
Realized rate ¹	5.40	4.58	4.85	4.73	-.67	.15	-.12
Treasury bills ²							
3-month	4.05	4.37	4.55	4.60	.55	.23	.05
6-month	4.12	4.39	4.62	4.85	.73	.46	.23
1-year	4.06	4.33	4.64	4.90	.84	.57	.26
Commercial paper							
1-month	5.27	4.90	4.80	5.04	-.23	.14	.24
3-month	5.13	4.84	4.83	5.03	-.10	.19	.20
Large negotiable CDs ²							
1-month	5.35	5.01	4.86	5.11	-.24	.10	.25
3-month	5.31	4.97	4.94	5.23	-.08	.26	.29
6-month	5.10	4.97	5.05	5.40	.30	.43	.35
Eurodollar deposits ³							
1-month	5.34	4.94	4.75	5.00	-.34	.06	.25
3-month	5.28	4.94	4.88	5.19	-.09	.25	.31
Bank prime rate	8.25	7.75	7.75	7.75	-.50	.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury (constant maturity)							
2-year	4.13	4.54	5.31	5.75	1.62	1.21	.44
10-year	4.58	4.65	5.66	6.05	1.47	1.40	.39
30-year	5.02	5.09	5.91	6.17	1.15	1.08	.26
U.S. Treasury 10-year indexed note	3.69	3.88	3.82	4.01	.32	.13	.19
Municipal revenue (Bond Buyer) ⁴	5.21	5.26	5.34	5.62	.41	.36	.28
Corporate bonds, Moody's seasoned Baa	7.26	7.23	7.75	8.15	.89	.92	.40
High-yield corporate ⁵	11.29	10.52	10.42	10.72	-.57	.20	.30
Home mortgages (FHLMC survey rate) ⁶							
30-year fixed	6.49	6.77	7.10	7.65	1.16	.88	.55
1-year adjustable	5.36	5.58	5.71	5.94	.58	.36	.23

Stock exchange index	Record high		1998	1999		Change to June 24 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* May 18	June 24	Record high	Dec. 31	FOMC* May 18
Dow-Jones Industrial	11,107.19	5-13-99	9,181.43	10,853.47	10,534.83	-5.15	14.74	-2.94
S&P 500 Composite	1,367.56	5-13-99	1,229.23	1,339.49	1,315.78	-3.79	7.04	-1.77
Nasdaq (OTC)	2,652.05	4-26-99	2,192.69	2,561.84	2,553.99	-3.70	16.48	-.31
Russell 2000	491.41	4-21-98	421.96	441.35	443.16	-9.82	5.02	.41
Wilshire 5000	12,549.05	5-13-99	11,317.59	12,293.78	12,072.98	-3.79	6.67	-1.80

1. Average for two-week reserve maintenance period ending on or before date shown. Most recent observation is average for current maintenance period to date.
 2. Secondary market.
 3. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
 4. Most recent Thursday quote.
 5. Merrill Lynch Master II high-yield bond index composite.
 6. For week ending Friday previous to date shown.
- * Data are as of the close on May 17, 1999.

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

Type of credit	1998	1998			1999		Level, May 1999 (billions of \$)
		Q4	Q1	Mar	Apr	May	
1. Bank credit: Reported	11.0	16.8	-0.8	-8.8	1.8	2.6	4,502
2. Adjusted ¹	10.3	15.4	1.3	-1.6	1.6	2.9	4,416
3. Securities: Reported	13.9	22.8	-5.8	-18.7	0.7	0.2	1,189
4. Adjusted ¹	11.2	17.6	1.9	9.3	-0.2	1.4	1,103
5. U.S. government	5.9	8.3	4.1	11.4	0.5	-1.8	798
6. Other ²	32.1	51.9	-23.6	-75.6	1.2	4.3	391
7. Loans ³	10.0	14.7	1.1	-5.2	2.1	3.5	3,313
8. Business	12.0	16.1	-0.2	4.6	4.3	-6.3	949
9. Real estate	6.7	10.2	7.1	-0.2	1.6	6.2	1,347
10. Home equity	0.0	-3.2	-2.4	1.2	11.0	12.1	100
11. Other	7.3	11.4	7.9	-0.3	0.9	5.7	1,246
12. Consumer: Reported	-1.8	4.8	2.3	-3.1	1.2	-9.6	496
13. Adjusted ⁴	5.8	7.8	2.9	3.0	1.7	-4.9	755
14. Other ⁵	29.6	33.1	-12.3	-38.0	0.7	27.5	522

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.