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December 17, 1999

# 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

#### Housing Starts

Total private housing starts slipped 2-1/4 percent in November to an annual rate of 1.60 million units. Total starts in both September and October were revised up slightly. Among regions, starts fell in the South and the Midwest, but rose in the West and the Northeast.

Single-family starts declined 3.6 percent last month to 1.29 million units, about in line with the assumption in the December Greenbook. Unseasonably warm and dry weather in November may have boosted starts somewhat. Single-family starts averaged 1.32 million units in October and November, about 1-1/2 percent less than the average pace earlier this year. Adjusted permits for single-family units were about unchanged last month at a level somewhat lower than starts, which, in itself, would imply a small reduction in the backlog of single-family permits. However, cancellations of single-family permits fell from 42,000 units (annual rate) in October to -58,000 units in November.<sup>1</sup> As a result, the permit backlog increased almost 4 percent in November.

Starts of multifamily units rose 3.7 percent in November to 308,000 units, about 30,000 units less than we had expected. The average level of these starts in October and November was about 12 percent lower than the pace during the first three quarters of this year. Permits for these units increased 1.9 percent in November, and the permit backlog for multifamily units rose slightly.

All told, today's starts data do not suggest a material revision to our outlook for outlays for real residential structures in the current quarter.

#### Contracts for Nonresidential Construction

The value of contracts for private nonresidential buildings fell 6 percent in November.<sup>2</sup> Furthermore, the figure for October was revised to show a 10 percent decline, compared with the 4-1/2 percent drop shown in last month's initial estimate. In November, contracts for office construction shot up nearly 40 percent; however, contracts for office buildings have trended down, on balance, since February, and even with the gain this month the level of contracts was well below the earlier peak. Industrial construction contracts rose for the fourth consecutive month, though these gains followed sharp drops during the second and third quarters. Contracts for other commercial structures (which include

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<sup>1</sup> The level of permit cancellations may be negative when permits that were originally assigned to the multifamily category are reclassified as single-family permits; reporting errors are one reason why such reclassifications occur.

<sup>2</sup> Note, however, that preliminary estimates of contracts often are revised substantially.

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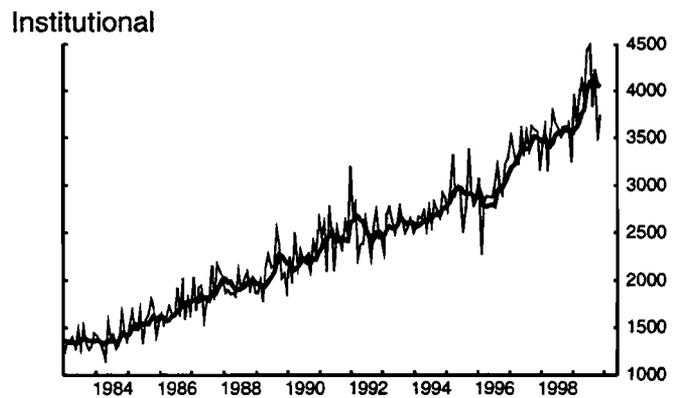
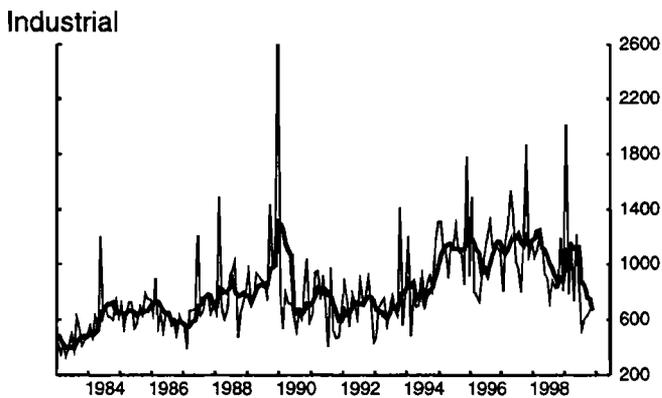
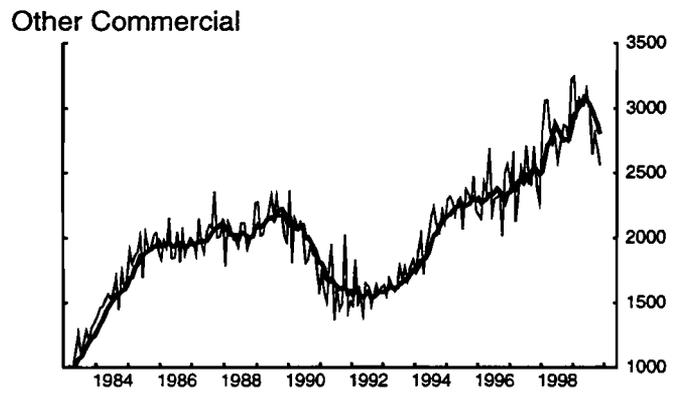
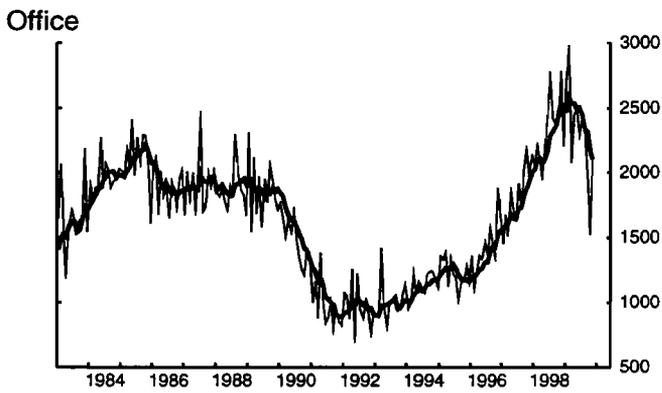
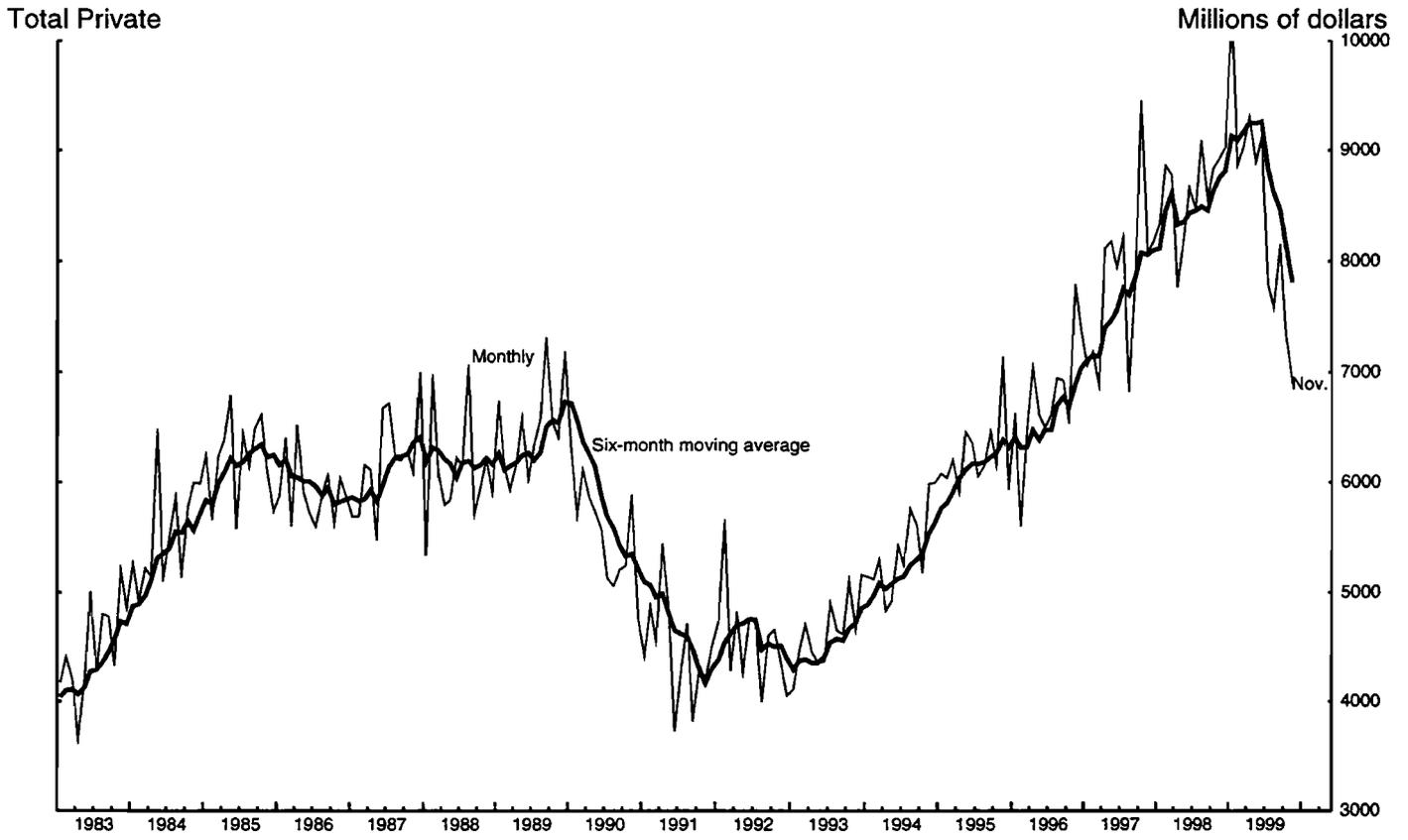
PRIVATE HOUSING CONSTRUCTION

(Thousands of units, seasonally adjusted annual rate, except where noted)

	1999							
	1998	Q1	Q2	Q3 <sup>r</sup>	Sept. <sup>r</sup>	Oct. <sup>p</sup>	Oct. <sup>r</sup>	Nov. <sup>p</sup>
<b>Starts</b>	1,617	1,773	1,617	1,657	1,637	1,628	1,637	1,600
1-family	1,271	1,389	1,318	1,305	1,295	1,325	1,340	1,292
Multifamily	346	384	299	352	342	303	297	308
<b>Permits</b>	1,604	1,723	1,601	1,589	1,506	1,584	1,594	1,614
1-family	1,184	1,274	1,233	1,209	1,171	1,165	1,178	1,190
Multifamily	421	449	368	380	335	419	416	424
<b>Adjusted permits<sup>1</sup></b>	1,711	1,817	1,688	1,679	1,604	1,664	1,675	1,679
1-family	1,284	1,368	1,321	1,296	1,269	1,245	1,259	1,255
Multifamily	427	449	368	383	335	419	416	424
<b>Permit backlog<sup>2</sup></b>	129	136	150	147	147	139	140	142
1-family	83	82	90	94	94	84	84	86
Multifamily	58	54	59	53	53	55	56	57
<b>Permit Cancellations<sup>3</sup></b>	61	64	17	34	17	127	125	47
1-family	-12	-17	-31	-24	-68	37	42	-58
Multifamily	73	81	48	58	85	90	83	104
<b>Mobile home shipments</b>	373	385	363	332	320	n.a.	321	n.a.
<b>Regional Data</b>								
<b>Total Starts</b>								
Northeast	149	168	154	158	133	130	137	147
Midwest	331	353	352	342	372	378	382	356
South	743	855	719	751	745	755	755	680
West	395	398	392	406	387	365	363	417
<b>Total Permits</b>								
Northeast	157	171	161	154	147	142	142	163
Midwest	323	343	335	330	333	332	328	353
South	727	797	707	724	664	742	751	721
West	397	412	398	382	362	368	373	377

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas and a correction for starts occurring in permit issuing places but without a permit.
  2. Number outstanding at end of period. Seasonally adjusted by staff. Excludes permits that have been cancelled, abandoned, expired, or revoked. Not at an annual rate.
  3. Calculated by Board staff. Annual and quarterly data are averages of monthly observations. Estimated cancellations can be negative because the input series are not necessarily consistent. Annual rate.
- r--revised. p--preliminary. n.a.--not available.

# Contracts for Nonresidential Buildings



Note. Data are seasonally adjusted using FRB seasonal factors. Individual sectors include both public and private construction contracts.

retail space and warehouses) and for lodging and miscellaneous structures slid further last month.

## U.S. International Transactions

### Trade in Goods and Services

In October, the U.S. trade deficit in goods and services was \$25.9 billion, about \$1-1/2 billion larger than in the previous two months and higher than the previous peak deficit recorded in July.

**Net Trade in Goods and Services**  
(Billions of dollars, seasonally adjusted)

	1998	Annual rate 1999			Monthly rate 1999		
		Q1	Q2	Q3	Aug.	Sept.	Oct.
<i>Real NIPA<sup>1</sup></i>							
Net exports of G&S	-215.1	-284.5	-319.0	-336.7	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-164.3	-215.9	-260.1	-293.8	-24.0	-24.2	-25.9
Goods, net	-246.9	-296.8	-337.6	-367.1	-30.1	-30.2	-32.0
Services, net	82.6	80.9	77.3	73.3	6.2	6.1	6.1

1. Billions of chained (1996) dollars.

Source. U.S. Department of Commerce, Bureau of Economic Analysis and Census.

n.a. Not available. ... Not applicable.

The value of exports was about the same in October as in the previous two months. A strong increase in exports of nonagricultural industrial materials in October was nearly offset by a sharp decline in exported machinery. The rise in the value of industrial materials was largely from fuel (primarily price) and chemicals (about one-third price). The drop in exported machinery was in computers, semiconductors, and other machinery (especially telecommunications equipment). Exports of aircraft moved up a bit in October, and other trade categories saw smaller movements, which were largely offsetting.

The value of imports jumped 1-1/2 percent in October from the already high levels recorded in the previous two months. The largest increases were in consumer goods and machinery (computers, semiconductors, and other industrial machinery), with smaller rises in oil and industrial materials. Rising prices of oil more than offset a decline in the quantity imported. Imported automotive products (primarily passenger cars) declined moderately for a second month from the peak reported in August.

The trade figures for October and the revisions for September affect the staff's estimates for real net exports in both the third and fourth quarters. The data suggest that, owing to higher exports, NIPA real net exports of goods and services were stronger in 1999:Q3 than estimated in the November Greenbook by perhaps \$1 to 2 billion (annual rate). For 1999:Q4, the new information suggests a slightly lower level of real net exports than shown in the Greenbook. However, part of the decline could be offset on the top line by additional strength in domestic equipment and software expenditures.

**U.S. Exports and Imports of Goods and Services**  
(Billions of dollars, SAAR, BOP basis)

	Levels				Amount Change <sup>1</sup>			
	1999		1999		1999		1999	
	Q2	Q3	Sept.	Oct.	Q2	Q3	Sept.	Oct.
<b>Exports of G&amp;S</b>	938.0	972.0	984.3	983.0	10.4	34.0	-1.8	-1.3
Goods exports	663.4	695.9	707.2	704.4	6.3	32.4	-2.5	-2.8
Agricultural	49.0	51.7	52.3	51.1	1.7	2.7	-0.6	-1.2
Gold	3.3	6.1	11.7	5.0	0.5	2.8	6.9	-6.7
Other goods	611.1	638.0	643.2	648.3	4.1	27.0	-8.8	5.1
Aircraft & pts	48.7	53.9	51.1	54.9	-7.9	5.1	-13.0	3.8
Computers	46.5	48.2	48.8	47.4	2.3	1.8	0.4	-1.3
Semiconductors	45.2	49.2	48.6	46.8	3.1	4.1	-0.8	-1.8
Other cap gds	159.2	167.9	172.2	166.7	0.3	8.8	5.8	-5.6
Automotive	75.0	76.0	74.4	76.0	3.6	0.9	-5.9	1.5
to Canada	44.6	46.1	45.2	44.9	1.9	1.5	-3.1	-0.2
to Mexico	11.4	11.5	12.2	14.2	1.2	0.0	0.3	2.0
to ROW	19.0	18.4	17.0	16.8	0.6	-0.6	-3.1	-0.2
Ind supplies	129.5	134.2	138.2	148.0	3.4	4.7	2.2	9.8
Consumer goods	79.1	80.6	82.9	81.2	-0.5	1.5	4.0	-1.7
All other	27.9	28.0	27.0	27.3	-0.3	0.1	-1.1	0.3
Services exports	274.6	276.2	277.1	278.6	4.2	1.6	0.7	1.5
<b>Imports of G&amp;S</b>	1198.4	1265.8	1274.1	1294.3	54.9	67.4	0.6	20.2
Goods imports	1001.1	1062.9	1069.7	1088.4	47.1	61.8	-1.5	18.6
Petroleum	63.7	78.3	84.5	87.2	21.3	14.6	4.6	2.7
Gold	3.2	7.4	11.6	6.4	-0.1	4.3	3.6	-5.2
Other goods	934.3	977.2	973.6	994.8	25.9	42.9	-9.8	21.2
Aircraft & pts	22.6	24.9	25.3	24.6	0.4	2.4	3.1	-0.7
Computers	82.0	82.5	77.4	82.9	4.5	0.5	-6.8	5.5
Semiconductors	37.3	38.2	37.6	39.6	3.9	0.9	-0.5	1.9
Other cap gds	149.8	156.5	158.8	163.2	3.9	6.7	1.8	4.4
Automotive	175.1	186.2	184.3	180.9	3.4	11.1	-4.4	-3.5
from Canada	62.6	66.0	61.9	62.5	-2.5	3.4	-11.1	0.6
from Mexico	33.3	34.1	35.9	35.8	2.4	0.8	0.9	-0.1
from ROW	79.2	86.1	86.5	82.6	3.6	6.9	5.8	-3.9
Ind supplies	146.2	154.0	155.7	158.3	3.9	7.9	0.2	2.6
Consumer goods	232.7	242.9	243.2	251.8	3.6	10.1	0.2	8.6
Foods	43.8	44.2	44.5	43.8	2.1	0.4	0.5	-0.7
All other	44.8	47.7	46.8	49.7	0.2	2.9	-3.8	2.9
Services imports	197.3	202.9	204.4	205.9	7.8	5.6	2.1	1.5
<i>Memo:</i>								
Oil qty (mb/d)	11.86	11.51	11.34	11.18	0.65	-0.35	-0.35	-0.16
Oil price (\$/bbl)	14.69	18.62	20.41	21.36	4.30	3.93	1.68	0.95

1. Change from previous quarter or month.

Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

Instrument	1998		1999		Change to Dec. 16 from selected dates (percentage points)		
	Oct. 15	Dec. 31	FOMC* Nov. 16	Dec. 16	1998 Oct. 15	1998 Dec. 31	FOMC* Nov. 16
<i>Short-term</i>							
FOMC intended federal funds rate	5.00	4.75	5.25	5.50	.50	.75	.25
<i>Treasury bills</i> <sup>1</sup>							
3-month	4.05	4.37	5.12	5.23	1.18	.86	.11
6-month	4.12	4.39	5.22	5.50	1.38	1.11	.28
1-year	4.06	4.33	5.21	5.56	1.50	1.23	.35
<i>Commercial paper</i>							
1-month	5.27	4.90	5.31	6.33	1.06	1.43	1.02
3-month	5.13	4.84	5.80	5.87	.74	1.03	.07
<i>Large negotiable CDs</i> <sup>1</sup>							
1-month	5.35	5.01	5.43	6.45	1.10	1.44	1.02
3-month	5.31	4.97	5.99	6.10	.79	1.13	.11
6-month	5.10	4.97	5.98	6.10	1.00	1.13	.12
<i>Eurodollar deposits</i> <sup>2</sup>							
1-month	5.34	4.94	5.38	6.38	1.04	1.44	1.00
3-month	5.28	4.94	5.94	6.06	.78	1.12	.12
Bank prime rate	8.25	7.75	8.25	8.50	.25	.75	.25
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	4.13	4.54	5.79	6.15	2.02	1.61	.36
10-year	4.58	4.65	5.94	6.31	1.73	1.66	.37
30-year	5.02	5.09	6.04	6.39	1.37	1.30	.35
U.S. Treasury 10-year indexed note	3.69	3.88	4.07	4.28	.59	.40	.21
Municipal revenue (Bond Buyer) <sup>3</sup>	5.21	5.26	6.08	6.17	.96	.91	.09
Corporate bonds, Moody's seasoned Baa	7.26	7.23	8.03	8.24	.98	1.01	.21
High-yield corporate <sup>4</sup>	11.28	10.17	10.91	10.92	-.36	.75	.01
<i>Home mortgages (FHLMC survey rate)</i> <sup>5</sup>							
30-year fixed	6.49	6.77	7.67	7.84	1.35	1.07	.17
1-year adjustable	5.36	5.58	6.30	6.45	1.09	.87	.15

Stock exchange index	Record high		1998	1999		Change to Dec. 16 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* Nov. 16	Dec. 16	Record high	Dec. 31	FOMC* Nov. 16
Dow-Jones Industrial	11,326.04	8-25-99	9,181.43	10,760.75	11,244.89	-.72	22.47	4.50
S&P 500 Composite	1,433.30	12-3-99	1,229.23	1,394.39	1,418.78	-1.01	15.42	1.75
Nasdaq (OTC)	3,715.06	12-16-99	2,192.69	3,219.54	3,715.06	.00	69.43	15.39
Russell 2000	491.41	4-21-98	421.96	452.97	465.26	-5.32	10.26	2.71
Wilshire 5000	13,281.06	12-3-99	11,317.59	12,844.55	13,224.40	-.43	16.85	2.96

1. Secondary market.

2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.

3. Most recent Thursday quote.

4. Merrill Lynch 175 high-yield bond index composite.

5. For week ending Friday previous to date shown.

\* Data are as of the close on November 15, 1999.