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November 9, 2000

# 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

#### Producer Prices

The producer price index for finished goods rose 0.4 percent in October, pushed up by sizable increases in prices of food and energy items. Excluding food and energy, core producer prices declined 0.1 percent last month, coming in a bit below our expectation. Over the past twelve months, the core PPI has increased 1.0 percent, nearly a percentage point less than its pace in the prior year. However, tobacco prices more than accounted for that deceleration; excluding tobacco, core producer prices have accelerated about 1/2 percentage point over the past year.

Energy prices rose 1.4 percent in October, boosted by a further sharp increase in natural gas prices. In contrast, gasoline and heating oil prices dropped back in October following large increases in the previous month. Over the past twelve months, the PPI for energy has risen more than 19 percent, compared with an increase of about 12 percent in the year-earlier period. Wholesale food prices also jumped in October, with increases registered for many different food items; however, this index is quite volatile, and we see little signal in last month's numbers.

Prices of core consumer goods were flat in October; as a small rise in the PPI for tobacco and increases in prices of a range of other items were offset by decreases in the prices for cars and light trucks. Last month prices of cars and light trucks were down 1.8 percent and 1.2 percent, respectively, following similarly sized increases in the previous month. Monthly changes in vehicle prices can be especially volatile around this time of the year, largely because October is the month in which the PPI sample switches almost entirely to new model-year vehicles. Cutting through the recent swings in prices, over the past twelve months car prices have fallen 1.1 percent, and light truck prices have moved down 0.6 percent.<sup>1</sup>

The PPI for capital goods was unchanged in October. In addition to the decline in light vehicle prices mentioned, computer prices fell 0.7 percent last month and are down 14 percent over the past year; in the previous twelve-month

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1. As new vehicles are introduced into the PPI sample in October of each year, the BLS adjusts for quality change by using estimates of the dollar value of additional features included as standard equipment on the new models. (The BLS uses this information to adjust for quality in both the PPI and the CPI.) According to this year's estimates, the total dollar increase in retail prices for model-year 2001 passenger cars compared with cars from the previous model year averaged \$422.51 per vehicle. Quality improvements accounted for about 50 percent of that increase. For light trucks, the total dollar increase in retail prices averaged \$450.30 per vehicle, and quality improvements accounted for about two-thirds of that increase.

RECENT CHANGES IN PRODUCER PRICES  
(Percent change; based on seasonally adjusted data)<sup>1</sup>

	Relative importance, Dec. 1999	1998	1999	2000			2000	
				Q1	Q2	Q3	Sept.	Oct.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.0	2.9	7.9	2.3	2.0	.9	.4
Consumer foods	22.9	.1	.8	3.6	2.7	-2.3	.4	.8
Consumer energy	13.8	-11.7	18.1	51.8	8.3	8.6	3.7	1.4
Other finished goods	63.3	2.5	.9	.8	1.4	1.9	.3	-.1
Consumer goods	38.9	4.2	1.2	.8	1.0	2.1	.4	.0
Capital equipment	24.4	.0	.3	.9	1.2	1.7	.2	.0
Intermediate materials <sup>2</sup>	95.5	-3.0	4.0	9.5	3.1	3.1	.7	.2
Excluding food and energy	81.7	-1.6	1.9	4.2	2.7	.3	.0	.0
Crude food materials	39.0	-11.0	-.1	21.5	-10.4	-14.0	3.9	3.5
Crude energy	39.0	-23.8	36.9	84.9	163.6	11.8	8.1	4.6
Other crude materials	22.0	-16.0	14.0	9.9	-10.7	-10.5	.3	-.6

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

RECENT CHANGES IN PRODUCER PRICES -- RELATIVE CONTRIBUTION<sup>1</sup>  
(Percent change; based on seasonally adjusted data)<sup>2</sup>

	Relative importance Dec. 1999	1998	1999	2000			2000	
				Q1	Q2	Q3	Sept.	Oct.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.0	2.9	7.9	2.3	2.0	.9	.4
Consumer foods	22.9	.0	.2	.8	.6	-.5	.1	.2
Consumer energy	13.8	-1.6	2.2	6.2	1.2	1.3	.6	.2
Other finished goods	63.3	1.5	.6	.5	.8	1.2	.2	-.0
Consumer goods	38.9	1.6	.5	.3	.4	.8	.1	.0
Capital equipment	24.4	.0	.1	.2	.3	.4	.1	.0

1. Data may not add due to rounding.
2. Changes are from final month of preceding period to final month of period indicated.

period these prices declined about 21 percent. Increases were posted for most other items and were particularly large for civilian aircraft and for oil and gas field machinery. Over the past year, capital goods prices have risen 0.9 percent, up about 1/2 percentage point from the pace in the previous twelve months.

At earlier stages of processing, the PPI for core intermediate goods was flat in October. Although this index was up about 2 percent over the past year, twelve-month changes in these prices have moved lower since the spring.<sup>2</sup> The index for core crude goods dropped 0.6 percent last month, with sizable declines posted for iron and steel scrap, aluminum scrap, and wastepaper. Over the past year, these prices have fallen about 1/2 percent, down considerably from the 6-1/2 percent increase registered in the previous twelve-month period.

## **U.S. International Transactions**

### **Prices of Internationally Traded Goods**

**Oil.** The price of imported oil (BLS) declined 3.2 percent in October following an increase of 11 percent in September. In late September, following the Clinton administration's decision to release 30 million barrels of oil from the Strategic Petroleum Reserve, the spot price of West Texas Intermediate (WTI) fell from its post-Gulf War high of \$37.20 per barrel to near \$30 per barrel. During October, however, spot oil prices moved higher as the deteriorating situation in the Middle East, the terrorist attack on the USS Cole, and Iraqi threats to suspend exports raised the possibility that oil supplies from the region could be disrupted. An increase in OPEC's production targets of 500,000 b/d had little effect on oil prices because most OPEC countries appear to be producing at capacity. Spot WTI remained between \$33 and \$35 per barrel during the latter half of October, and is currently trading around \$33 per barrel.

**Non-oil imports.** Prices of imported non-oil goods were unchanged in October after having dipped in September. Increases in prices of imported industrial supplies (led by rising natural gas prices), semiconductors, and automotive products were offset by declines in prices of computers, consumer goods, and foods. Prices of core goods imports (which exclude oil, computers, and semiconductors) rose 0.1 percent in October, slightly less than the monthly average for the previous two quarters. In the third quarter, the price of core

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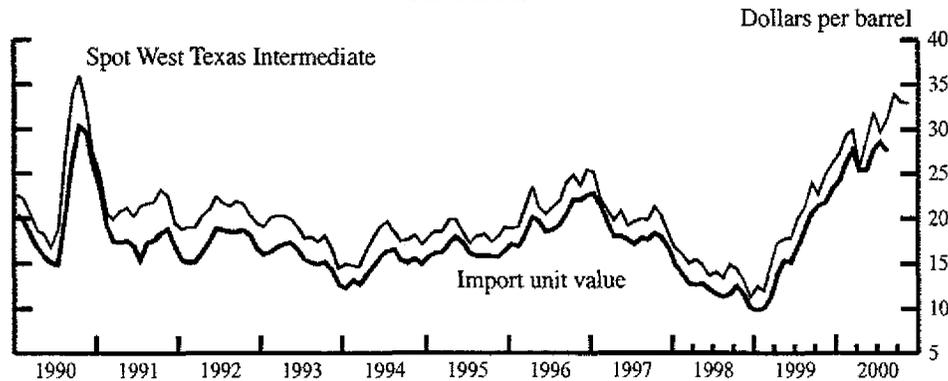
2. With this release, the BLS announced that beginning in January 2001, the index for microprocessors--a component of the PPI for intermediate materials--will incorporate quality adjustments based on a hedonic estimate of the value of increases in the processing power of microprocessors.

**Prices of U.S. Imports and Exports**  
(Percentage change from previous period)

	Annual rates			Monthly rates		
	2000			2000		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
	----- BLS prices (1995 weights) -----					
<b>Merchandise imports</b>	10.5	0.1	6.8	0.2	1.2	-0.5
Oil	105.1	-6.3	54.4	1.0	11.0	-3.2
Non-oil	1.7	1.0	0.9	0.1	-0.2	0.0
Core goods*	2.1	1.5	1.5	0.1	-0.2	0.1
Foods, feeds, beverages	0.0	-4.4	-4.6	0.2	-0.7	-0.1
Industrial supplies ex oil	11.0	9.8	8.3	0.7	-0.6	0.8
Computers	-1.4	-9.1	-3.4	-0.2	-0.4	-1.9
Semiconductors	-3.9	0.0	-4.7	0.3	0.0	0.2
Cap. goods ex comp & semi	-1.5	0.3	-1.5	-0.1	-0.1	-0.2
Automotive products	0.7	1.4	0.4	-0.2	-0.1	0.1
Consumer goods	-0.8	-1.9	-0.4	0.0	-0.1	-0.1
<b>Merchandise exports</b>	2.7	2.0	-0.3	-0.2	0.5	-0.1
Agricultural	0.5	5.7	-12.1	-2.1	3.2	0.7
Nonagricultural	2.9	1.5	1.1	-0.1	0.3	-0.2
Core goods*	4.2	2.1	1.8	-0.1	0.4	-0.2
Industrial supplies ex ag	12.2	5.9	2.8	-0.3	1.1	-0.5
Computers	-7.1	-4.5	-2.2	-0.6	0.0	0.0
Semiconductors	-5.0	-4.1	-5.5	-0.1	-0.1	-0.6
Cap. goods ex comp & semi	0.8	1.3	1.0	0.1	0.0	0.0
Automotive products	0.3	0.8	1.0	0.0	0.1	-0.1
Consumer goods	0.5	-0.1	0.0	-0.1	-0.2	-0.1
<b>Chain price index</b>	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	5.6	0.2	3.9	...	...	...
Non-oil merchandise	0.9	0.8	0.7	...	...	...
Core goods*	1.5	1.8	1.5	...	...	...
Exports of goods & services	1.9	1.9	0.9	...	...	...
Nonag merchandise	1.4	1.3	0.9	...	...	...
Core goods*	3.2	2.4	1.3	...	...	...

\*/ Excludes computers and semiconductors.  
n.a. Not available. ... Not applicable.

**Oil Prices**



goods imports rose at an annual rate of 1.5 percent. The increase was attributable to industrial supplies and, to a much lesser extent, to automotive products. The price indexes of imported machinery, consumer goods, and foods all declined in the third quarter.

**Exports.** Prices of total goods exports resumed a recent downward trend in October following a moderate increase in September. Prices of agricultural exports rose in October (primarily increasing grain prices), but at a much slower rate than in September. The decline in prices of nonagricultural exports was attributable largely to industrial supplies as exported fuel prices—which jumped substantially in September—fell in October. Prices of exported core goods (which exclude computers, semiconductors, and agricultural products) declined slightly in October with declines or zero change recorded in all major trade categories. In the third quarter, prices of total goods exports were about unchanged. Prices of computers, semiconductors and agricultural exports declined. The price of core goods exports rose at an annual rate of 1.3 percent in the third quarter, a somewhat smaller rise than in second quarter, with increases recorded in prices of industrial supplies, machinery, and automotive products.

NOTE: Prices of core goods imports and exports in October were consistent with projections for the fourth quarter presented in the November Greenbook.

## **The Financial Economy**

### **Erratum**

On page III-A-1 of Part 2 of the Greenbook, the first sentence of the second paragraph should read: “Over the past three months, the number of foreign and domestic banking institutions that reported tightening standards and terms on C&I loans to large and medium-sized firms--**80 and 44 percent respectively**--exceeded the number that tightened lending conditions following the financial crisis in the fall of 1998.”

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

Instrument	1999	2000			Change to Nov. 8 from selected dates (percentage points)		
	June 29	May 15	FOMC* Oct. 3	Nov. 8	1999 June 29	2000 May 15	FOMC* Oct. 3
<i>Short-term</i>							
FOMC intended federal funds rate	4.75	6.00	6.50	6.50	1.75	.50	.00
<i>Treasury bills</i> <sup>1</sup>							
3-month	4.70	5.94	6.03	6.22	1.52	.28	.19
6-month	4.92	6.24	6.01	6.10	1.18	-.14	.09
1-year	4.89	6.05	5.75	5.90	1.01	-.15	.15
<i>Commercial paper</i>							
1-month	5.18	6.47	6.50	6.47	1.29	.00	-.03
3-month	5.12	6.59	6.51	6.50	1.38	-.09	-.01
<i>Large negotiable CDs</i> <sup>1</sup>							
1-month	5.21	6.55	6.57	6.56	1.35	.01	-.01
3-month	5.32	6.74	6.70	6.66	1.34	-.08	-.04
6-month	5.43	6.97	6.67	6.66	1.23	-.31	-.01
<i>Eurodollar deposits</i> <sup>2</sup>							
1-month	5.13	6.53	6.54	6.53	1.40	.00	-.01
3-month	5.25	6.72	6.71	6.65	1.40	-.07	-.06
Bank prime rate	7.75	9.00	9.50	9.50	1.75	.50	.00
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	5.68	6.88	5.98	5.99	.31	-.89	.01
10-year	5.93	6.47	5.83	5.87	-.06	-.60	.04
30-year	6.07	6.17	5.93	5.89	-.18	-.28	-.04
U.S. Treasury 10-year indexed note	4.01	4.21	3.97	3.87	-.14	-.34	-.10
Municipal revenue (Bond Buyer) <sup>3</sup>	5.62	6.23	5.85	5.73	.11	-.50	-.12
<i>Private instruments</i>							
10-year swap	6.81	7.82	6.93	6.98	.17	-.84	.05
10-year FNMA	6.59	7.70	6.76	6.76	.17	-.94	.00
Merrill Lynch BBB	7.60	8.86	8.15	8.45	.85	-.41	.30
High yield <sup>4</sup>	10.53	11.94	11.92	12.79	2.26	.85	.87
<i>Home mortgages (FHLMC survey rate)</i> <sup>5</sup>							
30-year fixed	7.63	8.52	7.88	7.73	.10	-.79	-.15
1-year adjustable	5.93	6.96	7.21	7.12	1.19	.16	-.09

Stock exchange index	Record high		2000			Change to Nov. 8 from selected dates (percent)		
	Level	Date	May 15	FOMC* Oct. 3	Nov. 8	Record high	May 15	FOMC* Oct. 3
Dow-Jones Industrial	11,723	1-14-00	10,808	10,700	10,907	-6.96	.92	1.93
S&P 500 Composite	1,527	3-24-00	1,452	1,436	1,409	-7.74	-2.97	-1.88
Nasdaq (OTC)	5,049	3-10-00	3,608	3,569	3,232	-35.99	-10.42	-9.45
Russell 2000	606	3-9-00	498	512	501	-17.40	.58	-2.15
Wilshire 5000	14,752	3-24-00	13,438	13,522	13,153	-10.84	-2.12	-2.73

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 October 2, 2000.

NOTE. June 29, 1999 is the day before the beginning of the most recent sequence of policy tightenings.

NOTE. May 15, 2000 is the day before the most recent tightening.

### Commercial Bank Credit

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

Type of credit	1999	Q2 2000	Q3 2000	Aug. 2000	Sept. 2000	Oct. 2000	Level, Oct. 2000 (\$ billions)
<b>Total</b>							
1. Adjusted <sup>1</sup>	5.5	12.7	9.7	9.5	8.2	-5.7	5,039
2. Reported	4.1	12.5	10.0	10.4	11.7	-6.0	5,139
<i>Securities</i>							
3. Adjusted <sup>1</sup>	8.3	10.9	3.0	-7	-4.6	-19.8	1,207
4. Reported	3.1	10.2	4.7	3.4	9.7	-20.0	1,307
5. U.S. government	2.8	.5	-1.3	-9.7	-7.8	-22.3	792
6. Other <sup>2</sup>	3.8	27.3	14.8	25.2	37.7	-16.6	514
<i>Loans<sup>3</sup></i>							
7. Total	4.5	13.4	11.9	12.8	12.5	-1.2	3,832
8. Business	4.9	13.6	9.4	10.2	1.0	-6	1,081
9. Real estate	9.4	15.9	10.5	6.6	8.1	-2.1	1,625
10. Home equity	-3.3	29.2	13.6	13.3	17.2	21.0	122
11. Other	10.4	14.9	10.2	6.1	7.4	-3.8	1,503
12. Consumer	-2.3	9.4	12.9	21.0	8.4	-1.6	533
13. Adjusted <sup>4</sup>	4.4	7.9	11.5	12.7	5.2	-4.7	837
14. Other <sup>5</sup>	-1.8	9.5	20.1	27.9	50.4	.0	592

Note. All data are 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 are percentage changes in consecutive levels, annualized but not compounded. These data have been benchmarked to the December 1999 Call Report.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 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 and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.