

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

May 11, 2001

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

Contents

The Domestic Nonfinancial Economy 1

Retail Sales 1

Consumer Sentiment 1

Producer Prices 4

Tables

Retail Sales 2

Survey of Consumer Attitudes 3

Recent Changes in Producer Prices 6

Unemployment Insurance Benefits 7

The Financial Economy

Table

Selected Financial Market Quotations 8

The International Economy 9

Prices of Internationally Traded Goods 9

Table

Prices of U.S. Imports and Exports 10

Chart

Oil Prices 10

Supplemental Notes

The Domestic Nonfinancial Economy

Retail Sales

According to the advance report, total nominal retail sales jumped 0.8 percent in April, boosted by strong sales at building material and supply stores and at automotive dealers. Nominal outlays in the retail control group, which excludes sales at these establishments, rose 0.7 percent. However, the increase in the nominal retail control was revised down 0.4 percentage point in March and 0.2 percentage point in February.¹

Within the nominal control category, outlays fell again in April at stores selling furniture and appliances. Purchases at eating and drinking places and at drug and proprietary stores also declined last month while spending at food stores and at outlets for “other durable goods” were little changed. In contrast, spending at apparel outlets and general merchandise stores rose briskly last month, and purchases at gasoline stations jumped 2.5 percent. However, the rise in sales at gasoline stations largely reflected higher pump prices in April – physical product data from the Department of Energy indicate that real gasoline purchases rose only slightly.

On balance, today’s retail sales data did not materially alter our view of the evolution of consumer spending over the first half of this year. The downward revisions to purchases in February and March suggest that BEA’s advance estimate of the change in total real PCE in the first quarter will be revised down from an annual rate of around 3 percent to an increase of 2-3/4 percent. For the second quarter, although nominal retail control was up more sharply in April than expected, the downward revisions to February and March put spending on a lower trajectory moving into the second quarter.² Nonetheless, our estimated level of real outlays in the control category in April relative to the revised first-quarter level does not alter our projection for the change in real PCE in the second quarter.

Consumer Sentiment

According to the preliminary release, the Michigan Survey Research Center (SRC) index of consumer sentiment rose four percentage points in early May to a level a bit above its long-run historical average. This month, respondents became more optimistic about expected business conditions. They also had more favorable assessments of buying conditions for large household

1. Sales at furniture and appliance stores were revised down in both months as were purchases at most stores selling nondurable goods.

2. The April retail sales data along with our estimate of consumer prices suggests that spending on real goods excluding motor vehicles rose 0.4 percent in April to a level that was unchanged from the first quarter.

May 11, 2001

RETAIL SALES
(Percent change; seasonally adjusted)

	2000		2001	2001		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total sales	1.3	.1	1.0	-.2	-.4	.8
Previous estimate			1.1	.0	-.2	
Retail control ¹	1.6	.4	.8	-.5	-.4	.7
Previous estimate			1.1	-.3	-.0	
Total excl. automotive group	1.4	.5	.9	-.4	-.4	.7
Previous estimate			1.2	-.2	-.1	
GAF ²	1.4	-.1	.5	-.9	-1.0	1.4
Previous estimate			1.1	-.5	-.1	
Durable goods stores	.8	-.9	1.3	.5	-.3	.7
Previous estimate			1.2	.5	-.7	
Bldg. material and supply	-1.1	.4	1.6	1.3	-1.0	1.5
Automotive dealers	1.3	-.9	1.3	.5	-.2	1.0
Furniture and appliances	.1	-1.2	.1	-.8	-1.1	-.5
Other durable goods	1.4	-1.7	2.6	1.2	1.0	-.1
Nondurable goods stores	1.7	.8	.7	-.7	-.4	.9
Previous estimate			1.1	-.4	.1	
Apparel	1.3	1.8	1.3	.2	-1.8	1.6
Food	.4	1.2	1.1	.3	.1	.1
General merchandise ³	2.1	-.2	.3	-1.4	-.7	2.1
Gasoline stations	2.4	-.2	-1.9	-.1	-2.1	2.5
Other nondurable goods ⁴	2.4	1.3	1.3	-1.4	.2	.0
Eating and drinking	1.1	.3	2.5	-1.3	.1	-.8
Drug and proprietary	3.4	2.0	3.2	.5	.7	-.6

1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.

2. General merchandise, apparel, furniture, and appliance stores.

3. Excludes mail-order nonstores; mail-order sales are also excluded from the GAF grouping.

4. Also includes sales at liquor stores and mail order houses.

May 11, 2001

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

	2000 Sept.	2000 Oct.	2000 Nov.	2000 Dec.	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	106.8	105.8	107.6	98.4	94.7	90.6	91.5	88.4	92.6
Current conditions	112.0	113.6	116.9	110.5	107.7	105.8	103.4	98.0	102.1
Expected conditions	103.4	100.7	101.6	90.7	86.4	80.8	83.9	82.2	86.5

Personal financial situation									
Now compared with 12 months ago*									
Expected in 12 months*	124	129	133	126	123	122	119	110	114
Expected in 12 months*	132	132	137	131	126	129	131	134	129
Expected business conditions									
Next 12 months*	149	143	142	121	106	93	97	92	102
Next 5 years*	136	132	131	113	115	102	109	104	116
Appraisal of buying conditions									
Cars	145	144	149	146	133	137	146	129	135
Large household appliances*	167	166	170	161	157	152	148	143	151
Houses	144	134	152	139	149	149	148	144	156
Willingness to use credit									
Willingness to use credit	41	43	41	42	33	47	37	34	43
Willingness to use savings									
Willingness to use savings	70	62	72	67	55	66	52	55	59
Expected unemployment change - next 12 months									
Expected unemployment change - next 12 months	111	117	114	127	139	143	143	146	138
Prob. household will lose a job - next 5 years									
Prob. household will lose a job - next 5 years	21	19	20	19	20	23	22	21	22
Expected inflation - next 12 months									
Mean	3.7	4.1	3.8	3.4	3.8	3.2	3.3	3.7	3.8
Median	2.9	3.2	2.9	2.8	3.0	2.8	2.8	3.1	3.1
Expected inflation - next 5 to 10 years									
Mean	3.6	3.7	3.6	3.7	3.5	3.6	3.6	3.6	3.4
Median	3.0	3.0	2.9	3.0	2.9	3.0	3.0	3.1	3.0

* -- 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.

appliances and of their current personal finances relative to a year ago. However, they were less optimistic about their personal financial situations over the coming year, which according to the SRC, reflected concern about higher gasoline and electricity prices.

Among those questions not in the overall index, the index of expected unemployment change dropped sharply in early May. This put the index back to about the same level as in January of this year and suggests a noticeable improvement in expected labor market conditions over the next twelve months. In addition, appraisals of car and home buying conditions both improved in May, reflecting in part more favorable assessments of current prices.

The mean of expected inflation over the next 12 months edged up 0.1 percentage point to 3.8 percent, but the median was unchanged at 3.1 percent. The mean of expected inflation over the next 5 to 10 years fell 0.2 percentage point to 3.4 percent, and the median ticked down 0.1 percentage point to 3 percent.

Producer Prices

The producer price index for finished goods rose 0.3 percent in April, following a 0.1 percent decline in March. Excluding food and energy, the PPI rose 0.2 percent last month, a bit more than we had expected. The core PPI rose 1.6 percent over the twelve months ending in April, 0.4 percentage point faster than a year ago.

Wholesale energy prices rose 0.1 percent last month, reflecting offsetting swings in the various components of this category. Gasoline prices jumped 7 percent in April while fuel oil prices were up about 2 percent. By contrast, electricity prices rose only 0.2 percent last month, and natural gas prices fell 4-1/4 percent; prices of other energy goods also declined sharply on net.³ Over the past twelve months, total finished energy prices rose 13-1/2 percent, 4 percentage points less than the year-earlier rate of increase.

The PPI for food rose 0.6 percent in April; meat, egg, and dairy prices moved higher, while vegetable prices fell sharply. The twelve-month change in producer food prices was 3.1 percent last month, roughly the same as a year ago.

Core consumer goods prices rose 0.2 percent in April after having risen 0.3 percent in the preceding month. Over the past twelve months, core

3. We had expected to see an April increase in the PPI for electricity as a result of rate increases that occurred in California after the March PPI's pricing date. However, this increase was not evident in the electricity PPI for either California or the nation as a whole in April.

consumer goods prices have risen 1.9 percent, compared with a year-earlier twelve-month change of 1.5 percent.

Capital goods prices rose 0.3 percent in April after having posted no change in March; this left the twelve-month change in capital goods prices at 1.1 percent, up 1/2 percentage point from a year ago. Computer prices rose 1-1/2 percent last month; this was the first increase in this index since 1994, but came on the heels of a particularly steep decline in March. Despite the April increase, computer prices have fallen 18-1/2 percent over the past year, compared with a 16-1/2 percent decline over the year-earlier twelve-month period. Elsewhere, the PPI for applications software rose 4.2 percent in April, following a 0.3 percent increase in March.⁴

At earlier stages of processing, core intermediate goods prices edged down 0.1 percent last month and have risen about 1/2 percent over the past year. Prices of core crude materials dropped another 2-1/2 percent in April, and have fallen more than 12 percent over the past twelve months.

4. The BEA uses this index as the quarterly indicator for prepackaged software prices in the NIPAs. However, because it is a component of the PPI for service industries, it is not included in the finished goods PPIs discussed in this memo.

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

	Relative importance, Dec. 2000	1999	2000	2000		2001	2001	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.9	3.6	2.0	2.9	4.9	-.1	.3
Consumer foods	22.5	.8	1.7	-1.2	2.7	10.2	1.1	.6
Consumer energy	15.6	18.1	16.6	6.4	12.0	12.6	-2.6	.1
Other finished goods	61.9	.9	1.3	2.5	.5	1.3	.1	.2
Consumer goods	38.0	1.2	1.4	2.4	1.0	2.1	.3	.2
Capital equipment	23.9	.3	1.2	1.7	.3	.0	.0	.3
Intermediate materials ²	95.6	4.0	4.2	3.1	1.2	1.8	-.2	-.3
Excluding food and energy	79.8	1.9	1.6	.3	-.3	1.5	.1	-.1
Crude food materials	31.8	-.1	7.4	-8.2	36.5	14.8	3.0	-.5
Crude energy	52.5	36.9	85.6	20.0	102.6	-44.1	-4.9	3.0
Other crude materials	15.8	14.0	-5.5	-8.8	-9.2	-13.4	-1.3	-2.6

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 CONTRIBUTION¹
(Percent change; based on seasonally adjusted data)²

	Relative importance Dec. 2000	1999	2000	2000		2001	2001	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.9	3.6	2.0	2.9	4.9	-.1	.3
Consumer foods	22.5	.2	.4	-.3	.6	2.2	.2	.1
Consumer energy	15.6	2.2	2.3	1.0	1.8	1.9	-.4	.0
Other finished goods	61.9	.6	.8	1.5	.3	.8	.1	.1
Consumer goods	38.0	.5	.6	.9	.4	.8	.1	.1
Capital equipment	23.9	.1	.3	.4	.1	.0	.0	.1

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

May 10, 2001

UNEMPLOYMENT INSURANCE BENEFITS
(In thousands)

	2001						May 5
	Mar. 24	Mar. 31	Apr. 7	Apr. 14	Apr. 21	Apr. 28	
-----Seasonally adjusted; BLS basis ¹ -----							
Initial Claims							
All regular programs ²	367	386	399	391	414	427	386
State programs	365	384	396	389	412	425	384
Insured unemployment							
All regular programs ³	2533	2593	2536	2697	2704	2760	--
State programs	2494	2554	2500	2661	2671	2727	--
Extended benefits	1	4	2	3	2	2	--
State-insured							
Unemployment rate ⁴	2.0	2.0	2.0	2.1	2.1	2.1	--
Initial Claims (Four-week moving avg.)							
All regular programs ²	378	380	384	386	398	408	405
State programs	376	378	382	384	395	406	403
-----Not seasonally adjusted-----							
<u>Regular state programs</u>							
Initial claims	336	330	400	350	372	354	336
Insured unemployment	2863	2858	2677	2834	2703	2714	--

1. Only data for regular state programs are seasonally adjusted.
2. Includes federal employees and ex-servicemen.
3. Includes federal employees, railroad workers, and ex-servicemen.
4. Percent of covered employees receiving regular state benefits.

III-T-1
Selected Financial Market Quotations
 (One-day quotes in percent except as noted)

Instrument	2000	2001			Change to May 10 from selected dates (percentage points)		
	June 26	Mar. 19	Apr. 17	May 10	2000 June 26	2001 Mar. 19	2001 Apr. 17
<i>Short-term</i>							
FOMC intended federal funds rate	6.50	5.50	5.00	4.50	-2.00	-1.00	-5.00
<i>Treasury bills</i> ¹							
3-month	5.66	4.42	4.02	3.66	-2.00	-.76	-.36
6-month	5.94	4.25	4.02	3.58	-2.36	-.67	-.44
1-year	5.82	4.07	3.99	3.58	-2.24	-.49	-.41
<i>Commercial paper</i>							
1-month	6.56	4.85	4.96	4.03	-2.53	-.82	-.93
3-month	6.56	4.71	4.62	3.90	-2.66	-.81	-.72
<i>Large negotiable CDs</i> ¹							
1-month	6.64	4.93	5.00	4.09	-2.55	-.84	-.91
3-month	6.73	4.79	4.72	3.98	-2.75	-.81	-.74
6-month	6.89	4.64	4.61	3.96	-2.93	-.68	-.65
<i>Eurodollar deposits</i> ²							
1-month	6.63	4.90	4.98	4.06	-2.57	-.84	-.92
3-month	6.69	4.79	4.71	3.96	-2.73	-.83	-.75
Bank prime rate	9.50	8.50	8.00	7.50	-2.00	-1.00	-5.00
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	6.50	4.32	4.41	4.17	-2.33	-.15	-.24
10-year	6.11	4.82	5.21	5.31	-.80	.49	.10
30-year	5.99	5.30	5.65	5.75	-.24	.45	.10
U.S. Treasury 10-year indexed note	4.08	3.29	3.42	3.20	-.88	-.09	-.22
Municipal revenue (Bond Buyer) ³	5.99	5.40	5.54	5.56	-.43	.16	.02
<i>Private instruments</i>							
10-year swap	7.38	5.76	6.13	5.99	-1.39	.23	-.14
10-year FNMA	7.15	5.67	5.99	5.99	-1.16	.32	.00
Merrill Lynch BBB	8.49	7.31	7.59	7.30	-1.19	-.01	-.29
High yield ⁴	11.97	12.03	12.48	11.95	-.02	-.08	-.53
<i>Home mortgages (FHLMC survey rate)</i> ⁵							
30-year fixed	8.14	6.96	7.04	7.14	-1.00	.18	.10
1-year adjustable	7.22	6.32	6.15	6.00	-1.22	-.32	-.15

Stock exchange index	Record high		2001			Change to May 10 from selected dates (percent)		
	Level	Date	Mar. 19	Apr. 17	May 10	Record high	2001 Mar. 19	2001 Apr. 17
Dow-Jones Industrial	11,723	1-14-00	9,959	10,217	10,910	-6.93	9.55	6.79
S&P 500 Composite	1,527	3-24-00	1,171	1,192	1,255	-17.83	7.21	5.32
Nasdaq (OTC)	5,049	3-10-00	1,951	1,923	2,129	-57.83	9.11	10.69
Russell 2000	606	3-9-00	451	456	491	-19.06	8.71	7.68
Wilshire 5000	14,752	3-24-00	10,754	10,924	11,575	-21.53	7.64	5.97

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.

NOTES:

June 26, 2000, is the day before the FOMC meeting that ended the most recent period of policy tightening.
 March 19, 2001 is the day before the most recent FOMC meeting.
 April 17, 2001 is the day before the intermeeting FOMC action.

The International Economy

Prices of imported non-oil goods (and core goods) declined about ½ percent in April. This was a smaller decrease than in the previous two months which had been affected by the sharp drop in the price of imported natural gas from elevated levels. In April, the decline in import prices occurred in all major categories of trade. The largest declines were in imported industrial supplies (from falling prices of unfinished metals and chemicals) and foods (led by a drop in prices of vegetables). The April decrease in prices of imported capital goods (other than computers and semiconductors), automotive products, and consumer goods followed increases of similar magnitudes in those categories in March. Prices of imported computers and semiconductors fell in April.

Oil. The BLS price of imported oil declined slightly in April following a much larger drop in March. For the first quarter on average, the price of imported oil declined about 40 percent at an annual rate following two quarters of increases. The spot price of West Texas Intermediate crude generally moved up during April as a new round of OPEC supply cuts became effective. In early May, spot WTI has traded between \$27 and \$29 per barrel.

Prices of U.S. goods exports (total and core) were unchanged in April following two months of slight declines. Prices for most exported goods saw little change in April, with the exception of agricultural products and computers. Prices of computers rose slightly after declining in March, while prices of agricultural products dropped by 0.6 percent. The decrease in agricultural products was led by falling prices for grains and oilseeds.

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

	Annual rates			Monthly rates		
	2000		2001	2001		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
	----- BLS prices (1995 weights)-----					
Merchandise imports	6.7	0.8	-5.6	-0.8	-1.5	-0.5
Oil	52.9	5.0	-44.9	0.3	-6.6	-0.5
Non-oil	0.9	0.3	2.2	-0.9	-0.7	-0.5
Core goods*	1.5	0.8	2.7	-1.0	-0.8	-0.4
Computers	-3.4	-10.4	-4.3	-1.2	-0.8	-2.0
Semiconductors	-4.9	-0.2	-3.7	-0.2	-0.3	-0.6
Cap. goods (ex comp & semi)	-1.5	-1.7	-0.3	0.0	0.4	-0.3
Automotive products	0.5	0.0	-1.3	-0.6	0.1	-0.2
Consumer goods	-0.5	-1.0	0.4	0.0	0.0	-0.1
Foods, feeds, beverages	-4.6	-2.9	0.3	-1.1	1.0	-2.1
Industrial supplies (ex oil)	8.6	6.9	12.6	-2.8	-3.9	-0.6
Merchandise exports	-0.1	0.7	-0.4	-0.2	-0.1	0.0
Core goods*	0.1	1.2	-0.3	-0.2	-0.1	0.0
Computers	-2.2	-1.6	-2.4	0.0	-0.6	0.3
Semiconductors	-5.5	-3.1	-3.5	-0.3	0.1	-0.1
Cap. goods (ex comp & semi)	1.0	0.9	2.6	0.3	0.2	0.1
Automotive products	1.0	0.0	0.5	-0.1	0.1	0.1
Consumer goods	0.0	-0.8	-0.7	-0.1	-0.1	0.0
Agricultural products	-12.1	12.4	2.9	-1.4	0.2	-0.6
Industrial supplies (ex ag)	3.2	-1.8	-4.3	-0.2	-0.9	0.0
	---Prices in the NIPA accounts (1996 weights)---					
Chain price index						
Imports of goods & services	3.8	0.2	-2.1	...	...	...
Non-oil merchandise	0.7	0.1	1.4	...	...	...
Core goods*	1.5	1.0	2.2	...	...	...
Exports of goods & services	0.7	0.5	-0.4	...	...	...
Total merchandise	0.0	0.4	-0.5	...	...	...
Core goods*	0.1	1.1	-0.0	...	...	...

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

Oil Prices

