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CLASS III FOMC

June 27, 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

Real GDP: 1997:Q1

As expected, the BEA's final estimate of real GDP for the first quarter changed little from the preliminary estimate. Relative to the staff expectations shown in Part 2, the final estimate indicated somewhat smaller downward revisions to business equipment spending and to nonfarm inventory accumulation. This report would not lead us to materially alter our current-quarter forecast of real output.

FIRST-QUARTER GROWTH OF REAL GDP
(Billions of 1992 chained dollars)

Category	BEA Preliminary	Revision to preliminary	
		June 25 GB	BEA Final
Real GDP	98.8	.2	2.3
Inventory investment	34.3	-4.3	-2.8
Final sales	64.9	4.8	5.0
PCE	66.2	-.5	-.7
BFI	21.8	-2.1	-1.3
Residential structures	4.0	.1	.5
Government	.2	.5	.2
Net exports	-28.4	6.4	6.1
Exports	23.1	-.9	-.7
Imports	51.6	-7.4	-6.9
Memo:			
Real GDP growth (percent, annual rate)	5.8	5.8	5.9

The final report also included revised estimates of corporate profits for the first quarter. Corporate profits (with inventory valuation and capital consumption adjustments) now are reported to have risen \$42.4 billion from the fourth-quarter level. This figure represents a downward revision of about \$4 billion from the preliminary release. The downward revision occurred in the foreign component of profits; domestic profits were revised up slightly. The profit share of GNP (excluding Federal Reserve banks) was 8.8 percent in the first quarter, up from 8.4 percent in the fourth quarter.¹

1. Profits in the fourth quarter were held down about \$18 billion because of a special assessment on thrift institutions to recapitalize the Savings Association Insurance Fund. Excluding this adjustment, the fourth-quarter profit share would have been 8.6 percent.

Real gross domestic income (GDI)--the output of the economy measured from the income side of the national accounts--increased 5.9 percent at an annual rate in the first quarter, the same as GDP. Over the past four quarters, however, real GDI has increased 4.7 percent, compared with real GDP growth of 4.1 percent.

Michigan (SRC) Survey of Consumer Attitudes

According to the final report, the Michigan SRC index of consumer sentiment climbed 1.3 percentage points in June to an historical high; the preliminary report had shown only a small increase (0.2 percentage point). Respondents had highly favorable assessments of future business conditions and of their current financial situation relative to last year. While households were less optimistic about their personal financial situation over the coming year, that index remains at a high level. Similarly, appraisals of buying conditions for large household appliances fell back in June, but remained at a highly favorable level.

Among the questions not included in the overall index, the index of expected unemployment change over the next 12 months, which has been on a downtrend for more than a year, edged down in June. The index of car buying conditions rose to its highest level since early 1994, reflecting favorable views concerning price discounts and interest rates. However, appraisals of home buying conditions were unchanged in June as more positive views on home prices were offset by more negative views of current mortgage rates. Households' willingness to use credit to finance a major purchase fell back somewhat in June after a jump in May, while their willingness to use savings rose.

The mean of expected inflation over the next 12 months edged down 0.2 percentage point to 3.5 percent in June and has changed little, on balance, of the past four months. The mean and median of expected inflation over the next five to ten years both edged up 0.1 percentage point to 3.9 and 3.1 percent, respectively in June.

Real Gross Domestic Product and Related Items

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

	1995:Q4 to 1996:Q4	1996:Q4	1997:Q1	
		Final	Preliminary	Final
1. Gross domestic product	3.1	3.8	5.8	5.9
2. Final sales	3.1	4.9	3.8	4.1
3. Consumer spending	2.7	3.4	5.7	5.6
4. Durables	5.4	5.0	19.3	18.8
5. Nondurables	1.8	1.8	4.9	4.6
6. Services	2.6	3.8	3.3	3.4
7. Business fixed investment	9.5	5.5	11.5	11.0
8. Producers' durable equipment	9.7	-9	13.4	12.7
9. Nonresidential structures	9.1	25.8	6.5	6.6
10. Residential investment	3.9	-1.8	6.0	6.7
11. Federal government consumption expenditures and investment	1.5	-5.3	-3.1	-3.2
12. Defense	.2	-6.9	-10.0	-10.1
13. Nondefense	4.1	-2.1	11.7	11.3
14. State and local government consumption expenditures and investment	2.1	1.9	2.0	2.1
15. Exports of goods and services	7.4	25.0	11.2	10.8
16. Imports of goods and services	8.3	3.3	23.2	19.9
<hr/>				
<i>ADDENDA:</i>				
17. Nonfarm inventory investment ¹	17.1 ²	19.3	52.0	49.2
18. Motor vehicles ¹	-3.6 ²	-4.6	.3	.2
19. Excl. motor vehicles ¹	20.7 ²	23.9	51.7	49.0
20. Farm inventory investment ¹	-4.0 ²	-2.6	-1.2	-1.1
21. Net exports of goods and services ¹	-113.6 ²	-98.4	-126.8	-120.7
22. Nominal GDP	5.0	5.4	8.1	8.3
23. GDP price index	2.1	1.9	2.8	2.7
24. GDP implicit price deflator	1.8	1.5	2.2	2.2
25. Corporate profits ³	670.2 ²	670.1	716.8	712.5
26. Profit share ⁴	8.9	8.7	9.1	9.1
27. (Excluding FR banks)	8.6	8.4	8.8	8.8
28. Personal saving rate (percent)	4.9 ²	5.1	4.8	4.7

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

2. Annual average.

3. With inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), level, billions of dollars.

4. Economic profits as a share of nominal GNP.

June 27, 1997

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

	1996 Oct	1996 Nov	1996 Dec	1997 Jan	1997 Feb	1997 Mar	1997 Apr	1997 May	1997 Jun (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	96.5	99.2	96.9	97.4	99.7	100.0	101.4	103.2	104.5
Current conditions	106.6	107.5	104.9	106.8	107.2	109.8	115.2	113.5	113.2
Expected conditions	89.9	93.9	91.8	91.3	94.9	93.6	92.5	96.6	98.9

Personal financial situation									
Now compared with 12 months ago*	115	121	117	116	114	119	132	122	126
Expected in 12 months*	127	133	132	128	134	134	130	138	131
Expected business conditions									
Next 12 months*	131	137	130	136	135	138	130	142	147
Next 5 years*	103	108	107	103	113	105	113	109	121
Appraisal of buying conditions									
Cars	132	135	134	141	130	135	136	150	154
Large household appliances*	161	158	155	160	164	166	167	173	168
Houses	159	157	156	162	166	155	153	160	160
Willingness to use credit	37	43	41	45	39	37	41	49	43
Willingness to use savings	62	70	63	71	67	66	68	71	73
Expected unemployment change - next 12 months	114	110	110	114	107	112	113	109	108
Expected inflation - next 12 months									
Mean	4.2	4.0	3.9	4.1	3.8	3.5	3.7	3.7	3.5
Median	3.0	3.0	3.0	3.0	3.0	2.8	3.0	2.9	2.8
Expected inflation - next 5 to 10 years									
Mean	4.2	3.7	3.9	4.0	3.7	3.6	3.6	3.8	3.9
Median	3.0	3.0	3.0	3.1	3.1	3.0	2.9	3.0	3.1

* -- 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.

Selected Financial Market Quotations¹

(Percent except as noted)

Instrument	1996		1997		Change to June 26, from:			
	Feb.	July	FOMC *		Feb.	July	FOMC *	
	low	high	May 20	June 26	low	high	May 20	
Short-term rates								
Federal funds ²	5.15	5.39	5.50	5.43	0.28	0.04	-0.07	
Treasury bills ³								
3-month	4.76	5.21	5.16	5.03	0.27	-0.18	-0.13	
6-month	4.67	5.40	5.37	5.06	0.39	-0.34	-0.31	
1-year	4.55	5.64	5.55	5.33	0.78	-0.31	-0.22	
Commercial paper								
1-month	5.27	5.50	5.65	5.61	0.34	0.11	-0.04	
3-month	5.12	5.59	5.72	5.63	0.51	0.04	-0.09	
Large negotiable CDs ³								
1-month	5.21	5.44	5.63	5.60	0.39	0.16	-0.03	
3-month	5.12	5.59	5.73	5.66	0.54	0.07	-0.07	
6-month	4.99	5.83	5.89	5.76	0.77	-0.07	-0.13	
Eurodollar deposits ⁴								
1-month	5.13	5.38	5.56	5.56	0.43	0.18	0.00	
3-month	5.13	5.56	5.69	5.63	0.50	0.07	-0.06	
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	4.98	6.62	6.42	6.24	1.26	-0.38	-0.18	
10-year	5.58	7.06	6.71	6.50	0.92	-0.56	-0.21	
30-year	6.02	7.19	6.92	6.78	0.76	-0.41	-0.14	
U.S. Treasury indexed bond	n.a.	n.a.	3.58	3.66	n.a.	n.a.	0.08	
Municipal revenue (Bond Buyer) ⁵	5.67	6.24	5.91	5.82	0.15	-0.42	-0.09	
Corporate-A utility, recently offered	7.18	8.23	8.00	7.79	0.61	-0.44	-0.21	
High-yield corporate ⁶	9.57	10.36	9.59	9.38	-0.19	-0.98	-0.21	
Home mortgages ⁷								
FHLMC 30-yr fixed rate	6.94	8.42	7.91	7.58	0.64	-0.84	-0.33	
FHLMC 1-yr adjustable rate	5.19	6.01	5.78	5.66	0.47	-0.35	-0.12	
Stock exchange index								
	Record high		1996	1997		Percentage change to June 26, from:		
	Level	Date	July	FOMC *		Record	July	FOMC *
			low	May 20	June 26	high	low	May 20
Dow-Jones Industrial	7796.51	6/20/97	5346.55	7228.88	7654.25	-1.82	43.16	5.88
S&P 500 Composite	898.70	6/20/97	626.65	833.27	883.68	-1.67	41.02	6.05
NASDAQ (OTC)	1452.43	6/24/97	1042.37	1341.24	1436.38	-1.11	37.80	7.09
Russell 2000	396.49	6/19/97	307.78	366.57	390.27	-1.57	26.80	6.47
Wilshire	8484.51	6/20/97	6099.34	7861.08	8364.37	-1.42	37.14	6.40

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 June 25, 1997.

3. Secondary market.

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

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

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

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

* Figures cited are as of the close on May 19, 1997.