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May 12, 2000

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

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Supplemental Notes

The Domestic Nonfinancial Economy

Producer Prices

The producer price index for finished goods declined 0.3 percent in April, after having registered large increases in the previous two months. Energy prices turned down last month, declining 4.1 percent, while food prices were up 1.0 percent. Outside of food and energy, the finished goods index increased 0.1 percent in April. Over the past twelve months, the core measure is up 1.3 percent, down a little from its 1.6 percent rate of rise in the previous twelve-month period.

The downturn in energy prices followed two months of extremely large increases and, for the most part, reflected the pass-through of declines in prices of crude oil. Gasoline prices dropped back 11.7 percent last month while prices of heating oil fell 14.0 percent. In contrast, natural gas prices moved up 1.6 percent in April and have risen more than 10 percent over the past year. Despite last month's decline, energy prices are almost 19 percent higher than twelve months earlier, largely the result of the rise in oil prices over most of that period.

The increase in wholesale prices for finished foods largely reflected higher prices for meats, poultry, and fish. In addition, the PPI for eggs rose sharply last month, although weekly data indicate that prices have since retraced that run-up. Over the past twelve months, finished food prices increased 2.8 percent following a small decline over the previous twelve months.

Prices of core consumer goods edged up 0.1 percent in April. Prices of passenger cars rose 0.4 percent, but prices of light trucks moved down a touch. Tobacco prices were little changed for the second consecutive month. Over the past twelve months, the PPI for core consumer goods rose 1.7 percent, down about 1 percentage point from its year-earlier pace; this step-down reflects a substantial deceleration in tobacco prices; excluding tobacco, core consumer prices rose about 1 percent over the past year, roughly $\frac{1}{3}$ percentage point more than their year-earlier pace.

Prices of capital goods rose 0.2 percent in April, as higher prices for cars, heavy trucks, and assorted other items were only partly offset by a drop in computer prices. In April, computer prices fell 2.4 percent, after an unusually small decline in March; over the past year, the PPI for computers has fallen about 17 percent, a somewhat slower pace of decline than in the preceding year. Overall prices of capital goods were up 0.7 percent over the past twelve months, an acceleration of roughly $\frac{1}{2}$ percentage point from the previous year's pace.

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

	Relative importance, Dec. 1999	1998	1999	1999		2000	2000	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.0	2.9	6.8	.9	8.6	1.0	-.3
Consumer foods	22.9	.1	.8	3.3	-2.0	3.3	.1	1.0
Consumer energy	13.8	-11.7	18.1	37.6	5.9	59.0	5.8	-4.1
Other finished goods	63.3	2.5	.9	2.5	.8	1.1	.1	.1
Consumer goods	38.9	4.2	1.2	3.8	1.1	.8	.1	.1
Capital equipment	24.4	.0	.3	.3	1.2	.9	.1	.2
Intermediate materials ²	95.5	-3.0	4.0	6.6	3.6	9.8	1.0	-.2
Excluding food and energy	81.6	-1.6	1.9	3.4	2.1	3.9	.4	.4
Crude food materials	38.8	-11.0	-.1	3.7	-3.6	21.0	3.5	1.7
Crude energy	39.4	-23.8	36.9	134.4	-27.9	91.5	1.2	-6.9
Other crude materials	21.8	-16.0	14.0	22.6	26.2	10.2	-.2	-1.2

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. 1999	1998	1999	1999		2000	2000	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.0	2.9	6.8	.9	8.6	1.0	-.3
Consumer foods	22.9	.0	.2	.8	-.5	.7	.0	.2
Consumer energy	13.8	-1.6	2.2	4.3	.8	7.0	.8	-.6
Other finished goods	63.3	1.5	.6	1.6	.5	.7	.1	.1
Consumer goods	38.9	1.6	.5	1.5	.4	.3	.0	.0
Capital equipment	24.4	.0	.1	.1	.3	.2	.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.

At earlier stages of processing, the PPI for intermediate goods excluding food and energy rose 0.4 percent in April, continuing the steady string of increases seen since early last year. These prices have risen 3.3 percent over the past year, up noticeably from the 1.5 percent decline in the year-earlier period. Prices of core crude goods declined 1.2 percent last month, following small declines in the preceding two months; over the past year, however, these prices are up 15.4 percent.

Consumer Sentiment

According to the preliminary results, the Michigan Survey Research Center index of consumer sentiment edged higher in early May. Respondents' assessments of their current personal financial situations were markedly more upbeat this month while their views on their expected finances one year from now were unchanged. Expectations of future business conditions improved a bit in early May and have now moved higher for the past two months following a sharp drop in March. Appraisals of buying conditions for large household appliances ticked down this month but still remained at a very positive level.

Among those questions not in the overall measure, the index of expected unemployment change dropped five points in early May, suggesting a noticeable improvement in views on the labor market over the next year. Appraisals of car buying conditions edged higher this month. However, assessments of buying conditions for homes fell sharply to the lowest level since June 1995, reflecting less favorable views on interest rates and house prices. Indeed, the share of respondents that felt that now was not a good time to buy because mortgage rates were too high was 15 percent in early May. Last May, only three percent of respondents felt that interest rates were too high.

Inflation expectations eased a bit in early May. The mean of expected inflation over the next twelve months edged down 0.1 percentage point to 3.4 percent, and the median dropped 1/4 percentage point to 2.9 percent. The mean of expected inflation over the next five to ten years also ticked down 0.1 percentage point this month to 3.1 percent while the median was unchanged at 2.8 percent.

Business Inventories

The book value of retail inventories rose at an annual rate of \$18.2 billion in March; excluding motor vehicles, retail inventories increased at an annual rate of \$12.4 billion. For the first quarter as a whole, non-auto retail inventories accumulated at an \$8.4 billion rate, down from a \$27.8 billion pace in the fourth quarter of 1999. With sales increasing 1.2 percent in March, the inventory-sales ratio at non-auto retailers edged down to 1.33 months. This ratio has declined substantially since early last year and is now at a very lean level by historical standards.

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

	1999 Sept.	1999 Oct.	1999 Nov.	1999 Dec.	2000 Jan.	2000 Feb.	2000 Mar.	2000 Apr.	2000 May (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	107.2	103.2	107.2	105.4	112.0	111.3	107.1	109.2	110.9
Current conditions	115.9	112.7	116.8	112.2	117.3	116.8	115.4	117.8	120.6
Expected conditions	101.5	97.1	101.0	101.1	108.6	107.8	101.7	103.7	104.7

Personal financial situation									
Now compared with 12 months ago*	132	127	138	133	135	132	135	130	139
Expected in 12 months*	135	133	138	132	141	138	136	137	137
Expected business conditions									
Next 12 months*	150	140	146	150	165	161	146	152	154
Next 5 years*	124	118	123	125	133	136	128	130	131
Appraisal of buying conditions									
Cars	145	146	148	141	144	153	134	148	149
Large household appliances*	169	166	166	158	169	172	165	176	175
Houses	149	149	156	154	152	153	150	151	141
Willingness to use credit									
Willingness to use credit	47	48	50	50	51	48	52	54	45
Willingness to use savings	62	59	68	70	85	75	67	70	70
Expected unemployment change - next 12 months									
Expected unemployment change - next 12 months	110	112	111	105	104	106	109	109	103
Prob. household will lose a job - next 5 years									
Prob. household will lose a job - next 5 years	20	20	21	19	19	21	20	19	17
Expected inflation - next 12 months									
Mean	3.2	3.5	3.3	3.6	3.5	3.5	3.8	3.5	3.4
Median	2.7	2.9	2.9	3.0	3.0	2.9	3.2	3.2	2.9
Expected inflation - next 5 to 10 years									
Mean	3.5	3.2	3.5	3.2	3.5	3.3	3.8	3.2	3.1
Median	2.9	2.8	2.9	2.9	3.0	2.9	3.1	2.8	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.

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

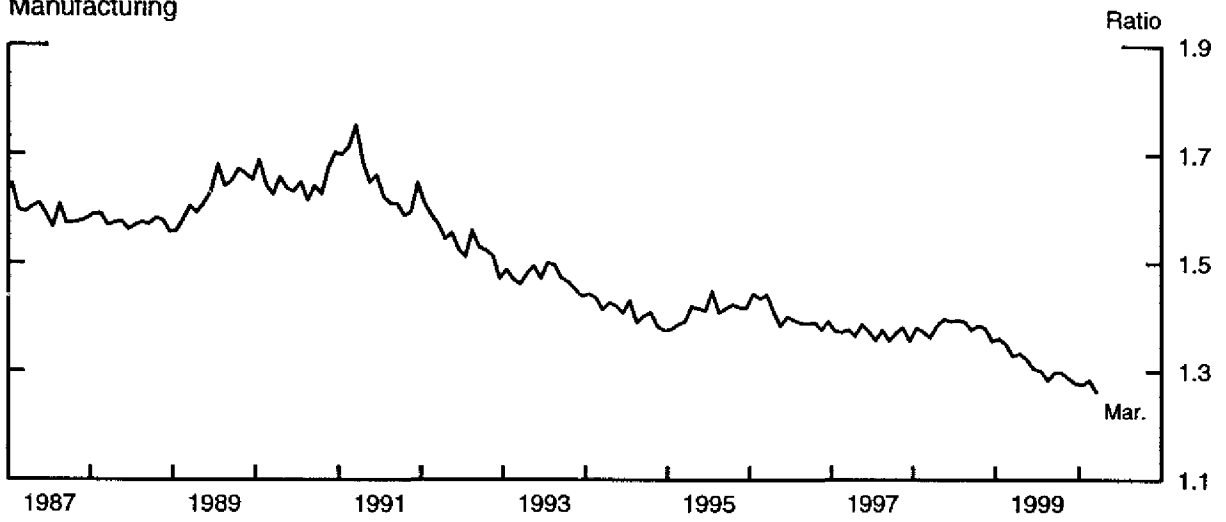
Category	1999		2000	2000		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Manufacturing and trade	50.6	79.8	63.9	71.5	72.6	47.7
Less wholesale and retail motor vehicles	45.1	69.4	54.2	48.5	79.9	34.4
Manufacturing	11.9	18.8	23.4	27.9	39.5	2.6
Less aircraft	15.0	27.2	20.1	32.6	32.3	-4.5
Merchant wholesalers	23.7	25.7	26.2	29.3	22.3	27.0
Less motor vehicles	20.7	22.8	22.5	26.4	21.8	19.3
Retail trade	15.1	35.3	14.4	14.3	10.7	18.2
Automotive dealers	2.6	7.5	6.0	20.1	-7.8	5.7
Less automotive dealers	12.5	27.8	8.4	-5.8	18.5	12.4

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

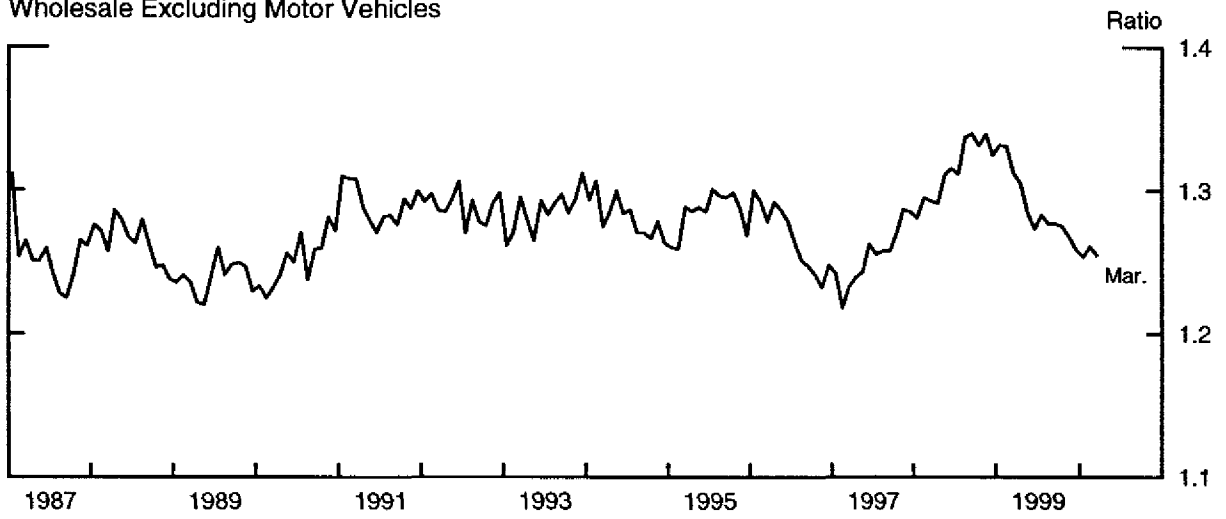
Category	Cyclical reference points		Range over preceding 12 months		March 2000
	1990-91	1991-98	High	Low	
	high	low			
Manufacturing and trade	1.58	1.37	1.37	1.32	1.31
Less wholesale and retail motor vehicles	1.55	1.34	1.34	1.29	1.28
Manufacturing	1.75	1.36	1.33	1.28	1.26
Primary metals	2.08	1.46	1.66	1.53	1.54
Steel	2.56	1.59	2.10	1.88	1.86
Nonelectrical machinery	2.48	1.61	1.64	1.47	1.48
Electrical machinery	2.08	1.21	1.22	1.15	1.13
Transportation equipment	2.93	1.51	1.52	1.38	1.44
Motor vehicles	.97	.53	.55	.51	.52
Aircraft	5.84	4.05	4.47	3.68	4.72
Nondefense capital goods	3.09	2.04	2.04	1.79	1.85
Textiles	1.71	1.38	1.58	1.52	1.57
Paper	1.32	1.06	1.20	1.12	1.12
Chemicals	1.44	1.25	1.40	1.30	1.31
Petroleum	.94	.80	.85	.68	.68
Home goods & apparel	1.96	1.59	1.60	1.52	1.49
Merchant wholesalers	1.36	1.24	1.33	1.27	1.28
Less motor vehicles	1.31	1.22	1.31	1.25	1.25
Durable goods	1.83	1.53	1.61	1.55	1.58
Nondurable goods	.96	.90	.99	.94	.94
Retail trade	1.61	1.45	1.46	1.41	1.40
Less automotive dealers	1.48	1.39	1.38	1.34	1.33
Automotive dealers	2.23	1.58	1.72	1.61	1.64
General merchandise	2.68	2.01	1.96	1.92	1.90
Apparel	2.54	2.29	2.33	2.19	2.17
Food	.83	.80	.82	.79	.81

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

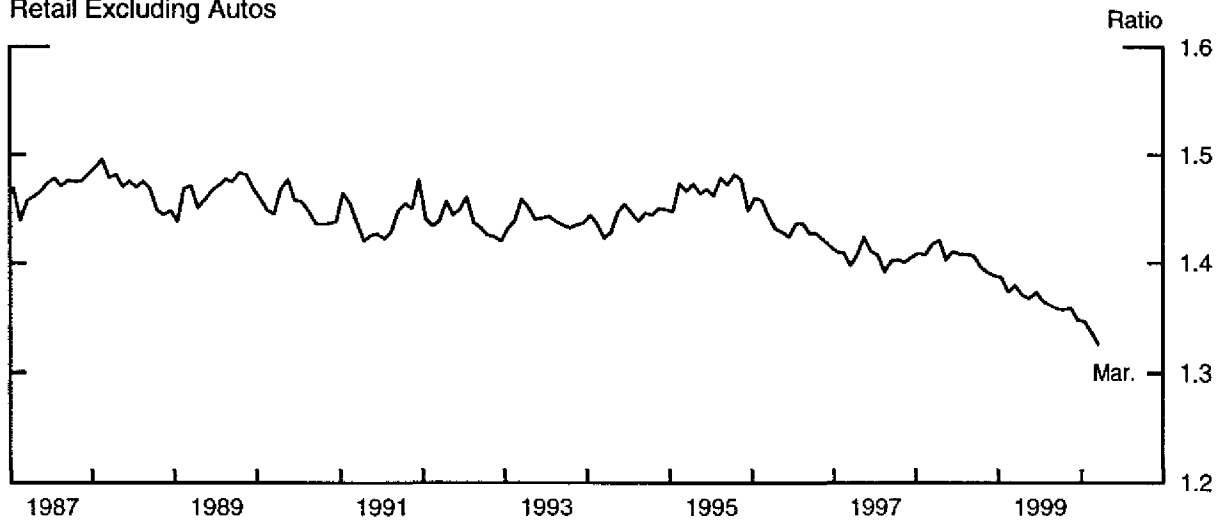
Manufacturing



Wholesale Excluding Motor Vehicles



Retail Excluding Autos



The increase in non-auto retail stocks in March was concentrated at furniture outlets and in the other durables category, a grouping that includes stores selling sporting goods, toys, and jewelry. Sales at furniture and other durables stores were relatively weak in March compared with their recent trends, and inventory-sales ratios for both of these categories moved up. In contrast, stocks at general merchandisers fell sharply in March.

Total manufacturing and trade inventories excluding auto dealers rose at an annual rate of \$34.4 billion in March, following a \$79.9 billion increase in February. With total non-vehicle shipments and sales up 1.4 percent in March, the inventory-sales ratio for this aggregate fell to 1.28 months. For the first quarter as a whole, total book-value manufacturing and trade inventories excluding motor vehicles increased at an annual rate of \$54.2 billion. This is about \$7 billion less than BEA had assumed when preparing the advance estimate of first-quarter GDP. A lower-than-expected rate of stockbuilding by manufacturers accounts for this difference. Today's retail inventory figures were in line with what the BEA had assumed and with the staff's assumptions in the May Greenbook.

U.S. International Transactions

Prices of Internationally Traded Goods

Oil. The price of imported oil (BLS) fell sharply in April following a small decline in March. OPEC's decision in late March to increase production by 1.7 million barrels per day was the main factor driving down oil prices. After having dropped an average of \$4 per barrel in April, the spot price of West Texas intermediate has recently moved back up to around \$29 per barrel following shipping delays in Norway and amid indications that OPEC may not increase production further when the group meets in June.

Non-oil imports. Prices of imported non-oil goods, as well as prices of imported "core" goods (which exclude oil, computers, and semiconductors), increased only slightly in April following two months of stronger rises. Prices of imported industrial supplies rose 0.1 percent in April after having recorded substantially larger increases in February and March. Prices of imported machinery (other than computers and semiconductors) rose marginally in April following small declines in four of the past five months. The price indexes for imported automotive products and consumer goods were unchanged from March levels. Prices of imported computers declined for the fourth consecutive month in April, while prices of imported semiconductors increased for the first time since September.

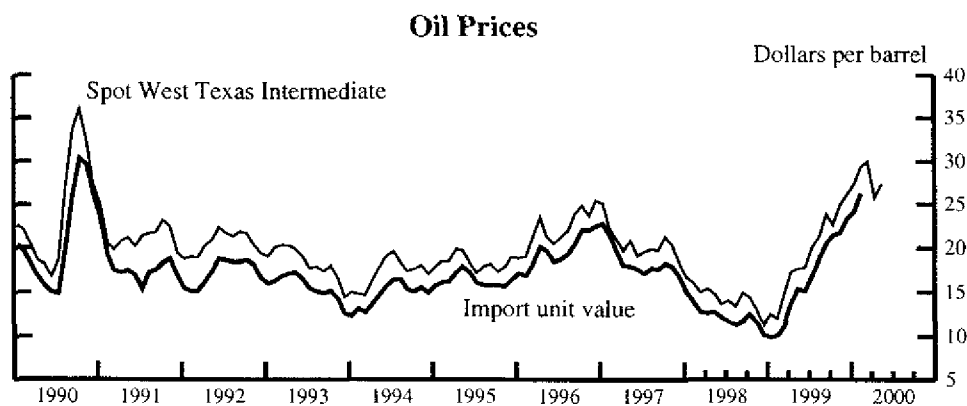
Exports. Prices of total goods exports declined slightly in April following three consecutive months of increases. For exported agricultural products, prices rose for the fourth consecutive month. Prices of exported “core” goods (which exclude agricultural products, computers, and semiconductors) declined in April after having risen for the last thirteen months. A drop in the price of exported industrial supplies (led primarily by lower prices for fuels) outweighed an increase (for the fourth consecutive month) in the price of exported machinery. The prices of computer exports declined for the fifth consecutive month, while the price of semiconductor exports, like imports, increased for the first time since September.

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

	Annual rates			Monthly rates		
	1999		2000	2000		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
	----- BLS prices (1995 weights)-----					
Merchandise imports	9.0	8.2	10.4	2.0	0.2	-1.6
Oil	178.2	83.5	104.7	14.7	-0.7	-12.7
Non-oil	-0.1	1.9	1.7	0.3	0.2	0.1
Core goods*	1.0	2.5	1.9	0.5	0.3	0.1
Foods, feeds, beverages	-6.8	2.6	0.7	-0.3	-0.3	1.1
Industrial supplies ex oil	7.9	9.9	10.8	1.6	2.3	0.1
Computers	-13.7	-1.0	-1.9	-0.4	-0.5	-0.5
Semiconductors	-7.4	-1.6	-3.9	-0.3	-0.3	1.3
Cap. goods ex comp & semi	-2.1	0.3	-1.7	0.1	-0.3	0.1
Automotive products	0.8	0.5	0.7	0.1	0.0	0.0
Consumer goods	-0.4	0.1	-0.7	0.0	-0.4	0.0
Merchandise exports	0.7	2.4	3.0	0.5	0.5	-0.1
Agricultural	-4.2	-1.7	0.6	1.2	0.1	0.6
Nonagricultural	1.1	3.0	3.4	0.5	0.5	-0.2
Core goods*	1.6	4.1	4.4	0.6	0.7	-0.3
Industrial supplies ex ag	10.1	10.6	12.4	1.6	1.8	-0.9
Computers	-8.6	-2.0	-3.7	-0.6	-0.3	-0.3
Semiconductors	-9.6	-3.6	-5.0	-0.1	-0.5	0.1
Cap. goods ex comp & semi	-0.5	0.5	0.9	0.1	0.1	0.2
Automotive products	0.8	2.6	0.5	0.0	0.4	0.0
Consumer goods	0.3	1.3	0.9	0.2	-0.1	0.0
	---Prices in the NIPA accounts (1996 weights)---					
Chain price index						
Imports of goods & services	6.2	4.9	5.6	...	...	...
Non-oil merchandise	-0.7	0.9	0.7	...	...	...
Core goods*	1.1	1.3	1.4	...	...	...
Exports of goods & services	1.3	2.6	1.8	...	...	...
Nonag merchandise	1.0	2.7	1.8	...	...	...
Core goods*	2.5	3.0	3.2	...	...	...

* / Excludes computers and semiconductors.

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



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

Instrument	1999		2000		Change to May 11 from selected dates (percentage points)		
	June 29	Dec. 31	FOMC* Mar. 21	May 11	1999 June 29	1999 Dec. 31	FOMC* Mar. 21
	<i>Short-term</i>						
FOMC intended federal funds rate	4.75	5.50	5.75	6.00	1.25	.50	.25
<i>Treasury bills</i> ¹							
3-month	4.70	5.17	5.74	5.96	1.26	.79	.22
6-month	4.92	5.49	5.89	6.15	1.23	.66	.26
1-year	4.89	5.63	5.87	6.00	1.11	.37	.13
<i>Commercial paper</i>							
1-month	5.18	5.13	6.00	6.37	1.19	1.24	.37
3-month	5.12	5.75	6.04	6.54	1.42	.79	.50
<i>Large negotiable CDs</i> ¹							
1-month	5.21	5.72	6.07	6.50	1.29	.78	.43
3-month	5.32	5.90	6.18	6.68	1.36	.78	.50
6-month	5.43	6.08	6.38	6.89	1.46	.81	.51
<i>Eurodollar deposits</i> ²							
1-month	5.13	5.69	6.06	6.47	1.34	.78	.41
3-month	5.25	5.88	6.16	6.69	1.44	.81	.53
Bank prime rate	7.75	8.50	8.75	9.00	1.25	.50	.25
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	5.68	6.24	6.52	6.82	1.14	.58	.30
10-year	5.93	6.45	6.18	6.43	.50	-.02	.25
30-year	6.07	6.48	5.99	6.16	.09	-.32	.17
U.S. Treasury 10-year indexed note	4.01	4.33	4.16	4.15	.14	-.18	-.01
Municipal revenue (Bond Buyer) ³	5.62	6.23	6.16	6.23	.61	.00	.07
Corporate bonds, Moody's seasoned Baa	8.05	8.18	8.32	8.92	.87	.74	.60
High-yield corporate ⁴	10.53	10.94	11.14	11.90	1.37	.96	.76
<i>Home mortgages (FHLMC survey rate)</i> ⁵							
30-year fixed	7.63	8.06	8.24	8.52	.89	.46	.28
1-year adjustable	5.93	6.56	6.68	6.96	1.03	.40	.28

Stock exchange index	Record high		1999	2000		Change to May 11 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* Mar. 21	May 11	Record high	Dec. 31	FOMC* Mar. 21
	Dow-Jones Industrial	11,723	1-14-00	11,497	10,680	10,546	-10.04	-8.27	-1.26
S&P 500 Composite	1,527	3-24-00	1,469	1,457	1,408	-7.83	-4.18	-3.35
Nasdaq (OTC)	5,049	3-10-00	4,069	4,610	3,500	-30.68	-14.00	-24.09
Russell 2000	606	3-9-00	505	549	489	-19.26	-3.04	-10.89
Wilshire 5000	14,752	3-24-00	13,813	14,053	13,041	-11.59	-5.58	-7.20

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 March 20, 2000.

Commercial Bank Credit

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

Type of credit	1999	Q4 1999	Q1 2000	Feb. 2000	Mar. 2000	Apr. 2000	Level, Apr. 2000 (\$ billions)
Total							
1. Adjusted ¹	5.4	9.2	11.3	8.4	8.9	12.1	4,830
2. Reported	4.0	9.0	10.8	8.8	9.3	10.7	4,902
<i>Securities</i>							
3. Adjusted ¹	8.0	4.3	7.2	.4	5.6	10.3	1,209
4. Reported	2.8	3.7	5.6	2.4	7.4	5.0	1,281
5. U.S. government	2.4	-5.8	3.5	3.7	-2.8	-4.3	809
6. Other ²	3.5	22.1	9.4	-3	25.7	21.2	472
<i>Loans³</i>							
7. Total	4.5	11.0	12.7	11.0	10.0	12.7	3,621
8. Business	4.9	9.0	10.9	10.8	10.5	9.8	1,039
9. Real estate	9.1	15.6	17.6	14.2	13.4	16.0	1,541
10. Home equity	-2.8	5.2	22.6	25.3	29.2	40.6	113
11. Other	10.2	16.4	17.2	13.4	12.2	14.2	1,428
12. Consumer	-2.2	2.8	12.9	11.6	7.4	9.3	509
13. Adjusted ⁴	4.5	8.1	7.6	2.1	7.2	7.9	807
14. Other ⁵	-1.6	9.8	2.2	2.3	2.1	12.3	532

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.

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