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December 6, 2002

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 Economy

Labor Markets

The labor market report for November was a touch weaker than we had expected. Labor market conditions appear to have slipped a little between October and November, with private employment on nonfarm payrolls falling 48,000, a second noticeable monthly decline. In addition, the unemployment rate popped up to 6.0 percent last month, after having averaged 5.7 percent over the preceding three months.

Manufacturing industries continued to perform poorly, shedding 45,000 jobs in November, roughly the same rate of decrease as in the previous several months. The help supply and wholesale trade industries, which are closely related to manufacturing, posted cutbacks of 23,000 and 5,000 respectively, although these losses were somewhat smaller than in October. Outside of manufacturing the largest reduction in employment in November occurred in retail trade where the loss of 39,000 jobs may have been driven in part by poor holiday hiring. Jobs in the transportation and public utilities industries also continued to contract.

The services industry (excluding help supply) remained a relative bright spot as employment rose 73,000, matching the average increase since mid-year. Within services, health and education establishments continued their strong expansion, recording gains of 27,000 and 15,000 respectively. The finance, insurance, and real estate industry added 7,000 jobs last month, but the gain was well below the average gains of prior months.

Hiring for the Transportation Security Administration continued to boost government payrolls last month, but the Postal Service reported that, because of technological advances, it needed fewer holiday workers than in the past. On net government employment was up 8,000.

Aggregate hours of production or nonsupervisory workers declined 0.1 percent in November for the second month in a row; however, because of September's large increase, the level of hours last month stood just above the third-quarter average. Average weekly hours of production or nonsupervisory workers were unchanged in November from October's upward revised level of 34.2 hours.

The rise in the unemployment rate in November brings the movement of that series more closely in line with other recent labor market indicators. The over-the-month increase was concentrated among adult men, although the unemployment rate among teenagers also moved up considerably. Meanwhile, the labor force participation rate moved down 0.3 percentage point to

CHANGES IN EMPLOYMENT
(Thousands of employees; based on seasonally adjusted data)

	2001	2002			2002		
		Q1	Q2	Q3	Sept.	Oct.	Nov.
-Average monthly change-							
Nonfarm payroll employment ¹	-119	-63	12	58	-4	6	-40
<i>Previous</i>	-119	-63	12	55	-13	-5	...
Private	-158	-88	7	30	-8	-47	-48
Mining	1	-2	-2	-1	-3	1	-2
Manufacturing	-109	-80	-22	-34	-35	-59	-45
Construction	-3	-14	-15	6	11	-22	-4
Transportation and utilities	-23	-14	-8	-22	-40	1	-10
Retail trade	-15	5	-8	-8	-11	8	-39
Wholesale trade	-16	-7	0	-4	-3	-11	-5
Finance, insurance, real estate	10	-3	-2	12	25	44	7
Services	-2	27	63	81	48	-9	50
Help supply services	-54	4	36	8	2	-67	-23
Total government	39	25	5	27	4	53	8
Total employment (household survey)	-153	-54	53	377	711	-271	-689
Nonagricultural	-154	-14	58	315	601	-498	-522
Memo:							
Aggregate hours of private production workers (percent change) ^{1,2}	-2.2	-0.5	0.3	-0.6	0.3	-0.1	-0.1
Average workweek (hours) ¹	34.2	34.2	34.2	34.1	34.2	34.2	34.2
Manufacturing (hours)	40.7	40.8	41.0	40.8	40.8	40.7	40.7

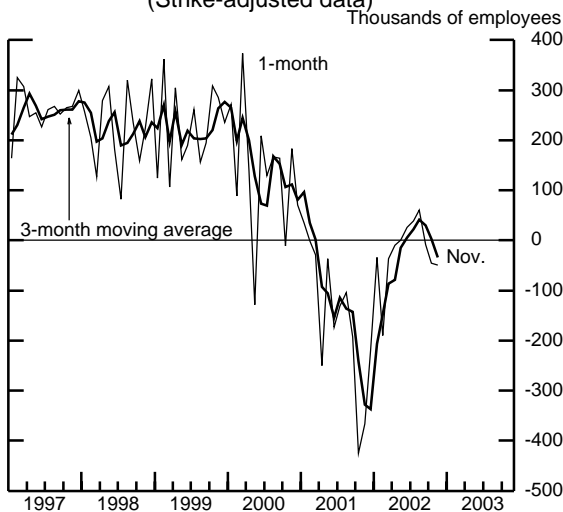
Note. Average change from final month of preceding period to final month of period indicated.

1. Survey of establishments.

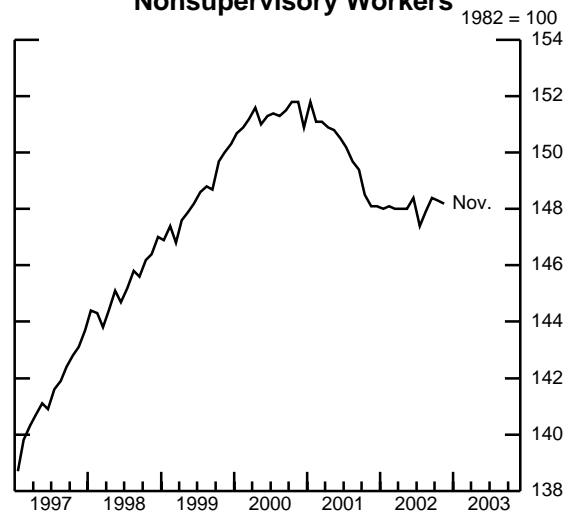
2. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

... Not applicable.

Private Payroll Employment Growth
(Strike-adjusted data)



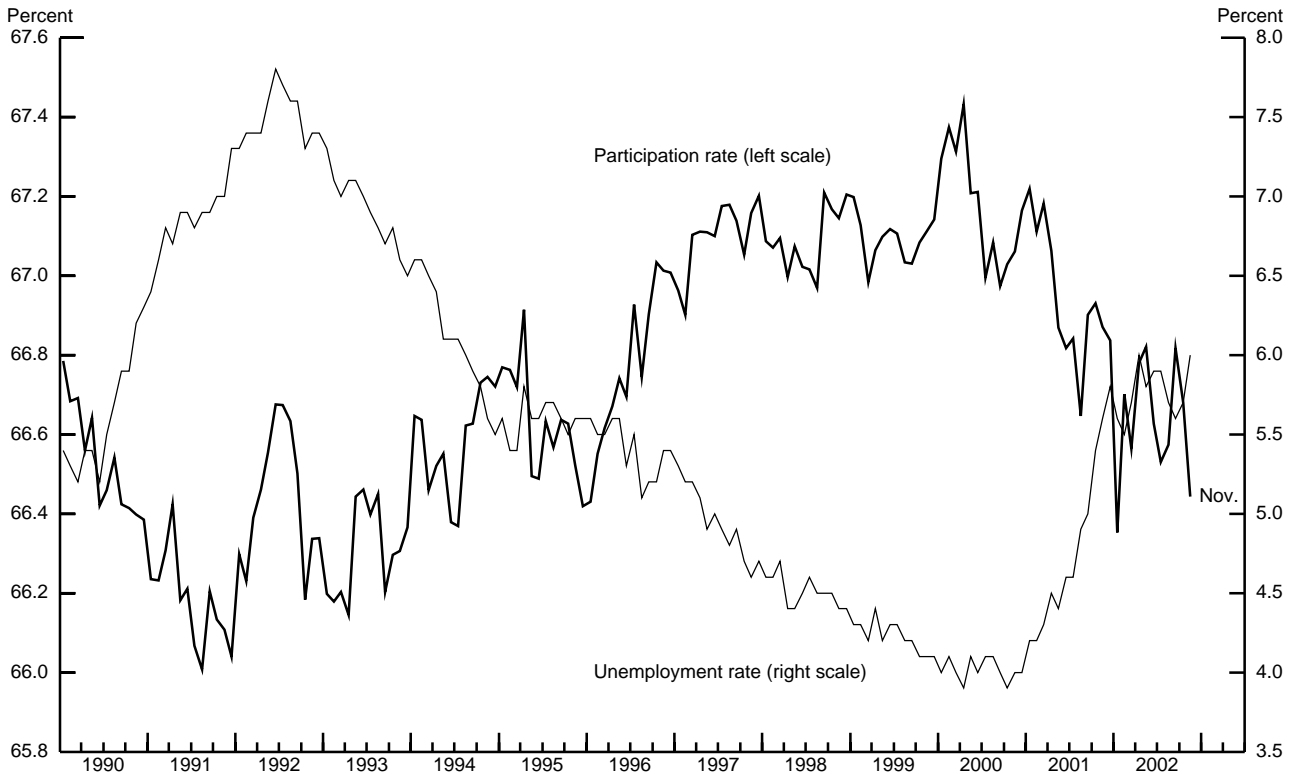
Aggregate Hours of Production or Nonsupervisory Workers



SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data)

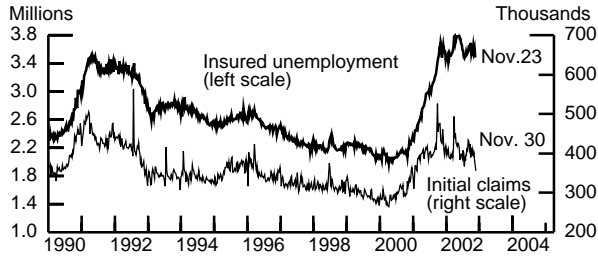
	2001	2002			2002		
		Q1	Q2	Q3	Sept.	Oct.	Nov.
Civilian unemployment rate (16 years and older)	4.8	5.6	5.9	5.7	5.6	5.7	6.0
Teenagers	14.7	16.0	17.1	16.9	15.7	14.6	16.8
20-24 years old	8.3	9.8	9.4	9.6	9.7	10.3	9.8
Men, 25 years and older	3.6	4.5	4.9	4.6	4.5	4.6	5.1
Women, 25 years and older	3.7	4.4	4.8	4.5	4.5	4.6	4.4
Labor force participation rate	66.9	66.5	66.7	66.6	66.8	66.7	66.4
Teenagers	49.9	48.2	47.7	47.6	48.6	47.7	47.3
20-24 years old	77.2	76.3	76.7	76.6	76.4	75.9	76.2
Men, 25 years and older	75.9	75.6	75.9	75.8	75.9	75.7	75.3
Women, 25 years and older	59.7	59.6	59.6	59.6	59.8	59.8	59.6

Labor Force Participation Rate and Unemployment Rate

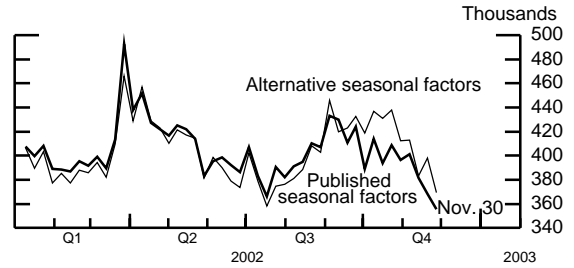


Labor Market Indicators

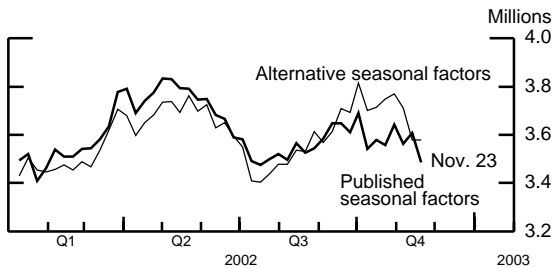
Unemployment Insurance



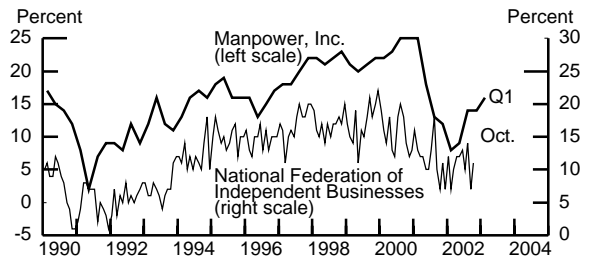
Initial Claims



Insured Unemployment

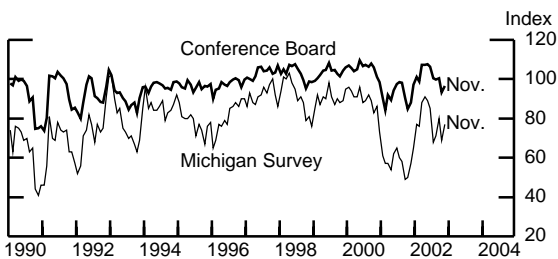


Net Hiring Strength



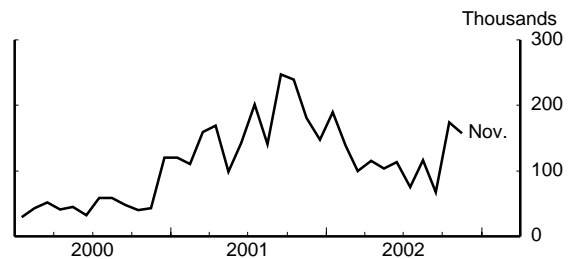
Note. Percent planning an increase in employment minus percent planning a reduction.

Expected Employment Conditions



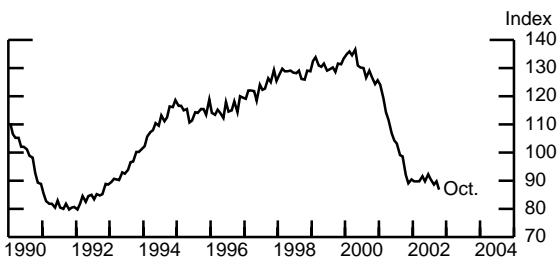
Note. The proportion of households expecting unemployment to fall, minus the proportion expecting it to rise, plus 100.

Layoff Announcements



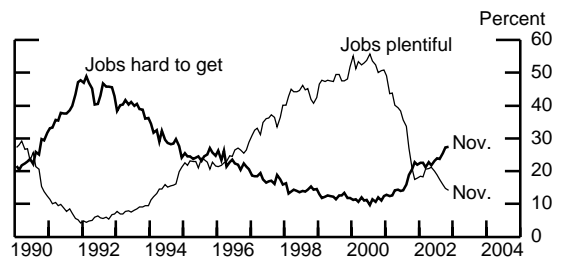
Note. Seasonally adjusted by FRB staff. Source. Challenger, Gray and Christmas, Inc.

Help Wanted Index



Source. Conference Board.

Current Employment Conditions



Source. Conference Board.

66.4 percent, the lowest level since January 1996.¹ Household employment plummeted 689,000 in November. Over the past two months, household employment has fallen 960,000, retracing most of the 1.1 million increase that took place in August and September.

Average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls increased 0.3 percent in November. Over the twelve months ended in November, the change in average hourly earnings was 2.9 percent, down from 3.9 percent over the previous twelve months.

In the weeks following the reference week for the labor market reports, initial claims for unemployment insurance moved lower. The drop in new claims in the week ended November 30 put the four-week moving average at 377,000; using alternative seasonal factors—calculated excluding the spike in claims after September 11, 2001—that figure was 391,000, 40,000 below the late October level. However, Labor Department staff caution that the unevenness of weekly filings during holiday periods may have contributed to the most recent decline.

Industrial Production and Capacity Utilization

The recent data, as reported in this week's historical revision to the industrial production and capacity measures, are summarized in the attached table.

Consumer Credit

Consumer credit increased at an annual rate of 1 percent in October, below the downward revised 3-1/2 percent pace in the third quarter. In October, revolving credit rose moderately while nonrevolving credit contracted slightly.

1. The labor force participation rate was also 66.4 percent in January 2002, but we attribute the low level in that month to problems with the seasonal adjustment process, and the participation rate rebounded in February.

Selected Components of Industrial Production
(Percent change from preceding comparable period)

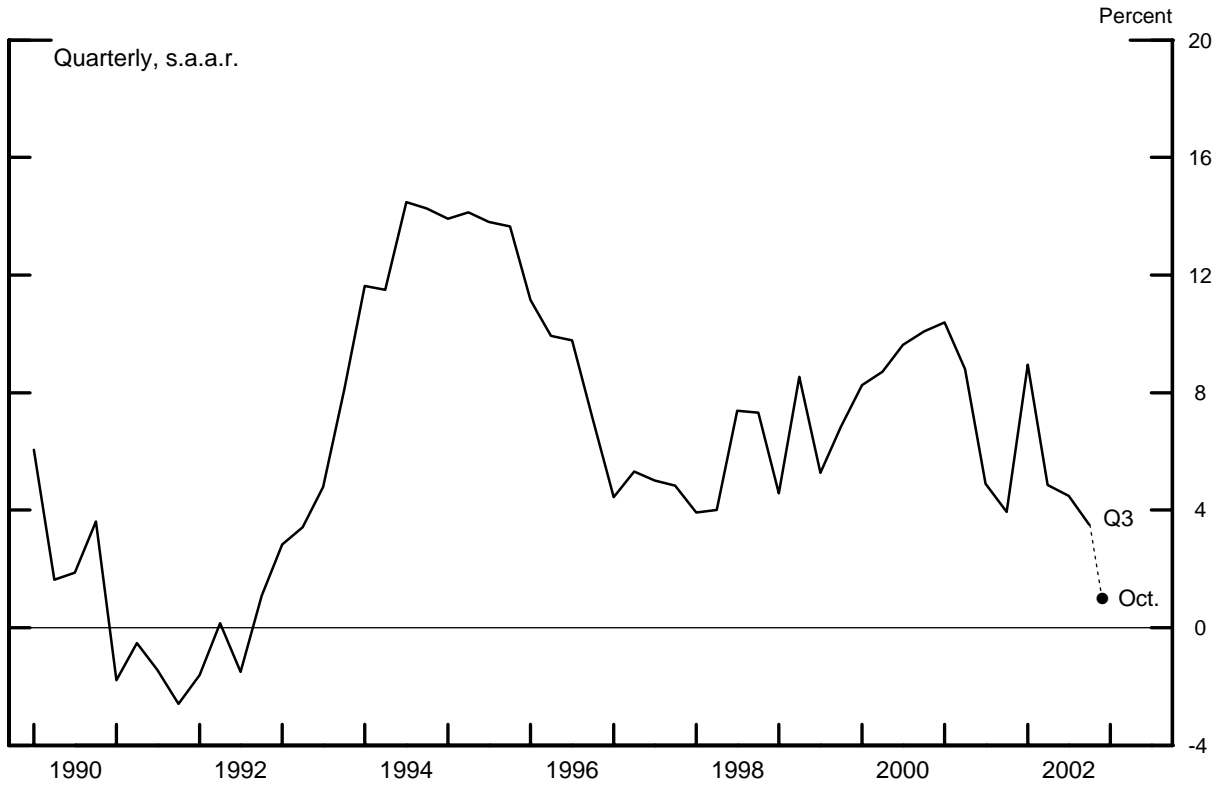
Component	Proportion 2001 (percent)	2001 ¹	2002 ²		2002 ³		
			H1	Q3	Aug.	Sept.	Oct.
Total	100.0	-5.7	2.9	3.5	-2	.0	-8
Previous	100.0	-5.9	3.4	3.5	-2	-2	-8
Manufacturing	84.7	-6.1	2.4	3.0	.0	-.2	-.7
Ex. motor veh. and parts	78.3	-6.5	1.2	1.7	.1	-.2	-.4
Ex. high-tech industries	71.6	-6.0	.6	1.1	.0	-.2	-.5
Mining	6.3	-.6	-4.4	3.2	.2	-1.0	-.7
Utilities	9.0	-5.4	13.4	8.6	-2.8	2.7	-1.9
<i>Selected industries</i>							
High technology	6.6	-9.6	7.1	7.7	1.1	.0	.7
Computers	1.3	-5.9	22.7	9.5	1.4	1.5	2.1
Communication equipment	2.3	-20.2	-14.4	-21.2	-.8	-3.7	-.9
Semiconductors ⁴	3.0	-3.5	16.9	29.7	2.1	1.5	.9
Motor vehicles and parts	6.5	-1.2	16.4	18.2	-.1	-.6	-3.4
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	21.9	-2.2	-.1	-.7	-.5	.2	-.5
Durables	3.5	-8.0	4.1	-5.8	-.9	-.2	-.7
Nondurables	18.5	-1.0	-.9	.2	-.4	.3	-.4
Business equipment	7.8	-13.7	-6.6	-3.8	.4	-1.0	-.9
Defense and space equipment	1.8	3.7	3.7	6.7	.5	.1	.3
Construction supplies	6.6	-5.9	3.1	1.2	.3	-.1	-.6
Business supplies	7.4	-6.5	-.2	3.8	.2	-.4	-.2
Materials	25.3	-7.3	2.7	3.0	.1	-.2	-.5
Durables	13.6	-9.0	2.2	1.6	.3	-.4	-.5
Nondurables	11.7	-5.4	3.2	4.8	-.2	.2	-.4

1. Fourth-quarter to fourth-quarter change.
2. Annual rate.
3. Monthly rate.
4. Includes related electronic components.
- ... Not applicable.

Capacity Utilization
(Percent of capacity)

Sector	1967- 2001 average	1982 low	1990- 91 low	2002				
				Q1	Q2	Q3	Sept.	Oct.
Total industry	81.9	70.8	78.6	75.1	75.7	76.2	76.1	75.4
Manufacturing	80.8	68.6	77.2	73.4	73.9	74.3	74.1	73.6
High-tech industries	80.5	75.6	74.6	61.8	62.2	62.2	62.1	62.1
Excluding high-tech industries	80.8	68.1	77.3	74.8	75.3	75.8	75.7	75.1
Utilities	86.8	78.6	83.3	85.2	84.8	85.5	85.0	84.4
Mining	87.9	77.2	84.2	85.5	87.8	88.2	88.4	86.3

Consumer Debt Growth



Commercial Bank Credit

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

Type of credit	2001	Q2 2002	Q3 2002	Sept. 2002	Oct. 2002	Nov. ^p 2002	Level, Nov. 2002 ^p (\$ billions)
Total							
1. Adjusted¹	4.1	5.1	8.7	10.5	8.3	17.0	5,656
2. Reported	5.0	5.1	12.5	12.0	5.9	18.5	5,858
<i>Securities</i>							
3. Adjusted ¹	8.8	13.7	10.7	1.2	6.1	34.4	1,493
4. Reported	12.0	12.9	24.0	7.6	-2.0	37.6	1,695
5. Treasury & Agency	6.0	25.5	24.5	21.2	10.0	39.2	1,008
6. Other ²	20.8	-3.3	23.1	-11.4	-19.1	35.2	688
<i>Loans³</i>							
7. Total	2.6	2.1	8.0	13.8	9.0	10.9	4,162
8. Business	-3.7	-9.0	-8.8	-8.2	-5.9	-.7	972
9. Real estate	7.2	6.9	18.8	21.3	20.2	19.2	2,002
10. Home equity	19.9	40.8	40.4	19.4	25.0	17.5	208
11. Other	6.2	3.5	16.5	21.5	19.7	19.4	1,793
12. Consumer	3.8	5.1	4.7	16.8	4.1	2.0	588
13. Adjusted ⁴	7.4	3.6	1.0	2.5	5.2	6.9	931
14. Other ⁵	-1	4.1	6.6	23.3	1.8	10.7	601

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. The conversion from a thrift to a commercial bank charter added approximately \$37 billion to the assets and liabilities of domestically chartered commercial banks in the week ending May 8, 2002.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities, including revaluation gains on derivative contracts.

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

Instrument	2000	2001	2002	2002	Change to Dec. 5 from selected dates (percentage points)			
	June 26	Sept. 10	Nov. 5	Dec. 5	2000 June 26	2001 Sept. 10	2002 Nov. 5	
<i>Short-term</i>								
FOMC intended federal funds rate	6.50	3.50	1.75	1.25	-5.25	-2.25	-.50	
Treasury bills ¹								
3-month	5.66	3.19	1.40	1.20	-4.46	-1.99	-.20	
6-month	5.94	3.13	1.38	1.25	-4.69	-1.88	-.13	
Commercial paper (A1/P1 rates)								
1-month	6.56	3.42	1.54	1.29	-5.27	-2.13	-.25	
3-month	6.56	3.24	1.49	1.32	-5.24	-1.92	-.17	
Large negotiable CDs ¹								
1-month	6.64	3.46	1.57	1.38	-5.26	-2.08	-.19	
3-month	6.73	3.26	1.55	1.35	-5.38	-1.91	-.20	
6-month	6.89	3.24	1.52	1.39	-5.50	-1.85	-.13	
Eurodollar deposits ²								
1-month	6.63	3.41	1.55	1.38	-5.25	-2.03	-.17	
3-month	6.69	3.26	1.55	1.37	-5.32	-1.89	-.18	
Bank prime rate	9.50	6.50	4.75	4.25	-5.25	-2.25	-.50	
<i>Intermediate- and long-term</i>								
U.S. Treasury ³								
2-year	6.54	3.59	1.83	1.99	-4.55	-1.60	.16	
10-year	6.35	5.14	4.38	4.42	-1.93	-.72	.04	
30-year	6.22	5.55	5.25	5.18	-1.04	-.37	-.07	
U.S. Treasury 10-year indexed note	4.09	3.26	2.46	2.50	-1.59	-.76	.04	
Municipal revenue (Bond Buyer) ⁴	5.99	5.25	5.20	5.24	-.75	-.01	.04	
Private instruments								
10-year swap	7.38	5.62	4.62	4.60	-2.78	-1.02	-.02	
10-year FNMA	7.15	5.64	4.71	4.67	-2.48	-.97	-.04	
10-year AA ⁵	7.64	6.30	5.65	5.47	-2.17	-.83	-.18	
10-year BBB ⁵	8.40	7.11	7.30	6.98	-1.42	-.13	-.32	
High yield ⁶	12.30	12.72	13.49	12.36	.06	-.36	-1.13	
Home mortgages (FHLMC survey rate) ⁷								
30-year fixed	8.14	6.89	6.13	6.13	-2.01	-.76	.00	
1-year adjustable	7.22	5.64	4.25	4.19	-3.03	-1.45	-.06	
<hr/>								
Stock exchange index	Record high		2001	2002		Change to Dec. 5 from selected dates (percent)		
	Level	Date	Sept. 10	Nov. 5	Dec. 5	Record high	2001 Sept. 10	2002 Nov. 5
Dow-Jones Industrial	11,723	1-14-00	9,606	8,678	8,623	-26.44	-10.23	-.63
S&P 500 Composite	1,527	3-24-00	1,093	915	907	-40.65	-17.02	-.97
Nasdaq (OTC)	5,049	3-10-00	1,695	1,401	1,411	-72.06	-16.79	.68
Russell 2000	606	3-9-00	441	386	394	-34.92	-10.50	2.17
Wilshire 5000	14,752	3-24-00	10,104	8,624	8,578	-41.85	-15.11	-.53

1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
4. Most recent Thursday quote.
5. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
6. Merrill Lynch Master II high-yield bond.
7. 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.
 September 10, 2001 is the day before the terrorist attacks.
 November 5, 2002, is the day before the most recent FOMC meeting.