

## **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,<sup>1</sup> and then making the scanned versions text-searchable.<sup>2</sup> Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

<sup>1</sup> 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).

<sup>2</sup> A two-step process was used. An advanced optical 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.

October 24, 2003

# 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**

<b>The Domestic Financial Economy .....</b>	<b>1</b>
---	----------

### *Tables*

Commercial Bank Credit .....	1
Selected Financial Market Quotations .....	2

## Commercial Bank Credit

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

Type of credit	2002	Q2 2003	Q3 2003	July 2003	Aug. 2003	Sept. 2003	Level, Sept. 2003 (\$ billions)
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>7.2</b>	<b>10.7</b>	<b>4.9</b>	<b>3.4</b>	<b>3.5</b>	<b>-4.3</b>	<b>5,958</b>
2. Reported	7.3	11.5	5.1	2.3	-2.5	1.1	6,194
<i>Securities</i>							
3. Adjusted <sup>1</sup>	13.6	17.7	-1.5	-6.2	-8.2	-17.1	1,581
4. Reported	13.3	18.9	-8.0	-30.1	-27.4	3.3	1,779
5. Treasury and agency	20.2	28.9	-16.0	-36.8	-41.2	-18.6	1,061
6. Other <sup>2</sup>	4.3	3.5	4.8	-19.3	-5.3	37.1	717
<i>Loans<sup>3</sup></i>							
7. Total	5.0	8.4	10.7	16.2	7.8	.1	4,416
7a. Removing FIN 46 effects <sup>4</sup>			7.2	7.1	7.9	0.4	
8. Business	-6.9	-6.8	-7.1	4.0	-10.2	-15.1	910
8a. Removing FIN 46 effects <sup>4</sup>			-14.4	-15.7	-10.3	-14.3	
9. Real estate	13.1	11.6	18.0	21.0	24.6	8.5	2,256
10. Home equity	36.6	28.1	23.7	20.1	20.7	24.6	258
11. Other	10.9	9.6	17.3	21.1	25.2	6.4	1,997
12. Consumer	5.5	-.1	5.6	1.0	1.4	10.1	602
13. Adjusted <sup>5</sup>	4.1	3.6	3.1	1.9	-4.1	1.8	961
14. Other <sup>6</sup>	1.6	30.2	17.4	31.7	-16.4	-16.1	648
14a. Removing FIN 46 effects <sup>4</sup>			4.4	-1.9	-17.0	-16.6	

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), as well as the estimated effects of consolidation related to FIN 46.

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, 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. Adjusted to remove estimated effects of consolidation related to FIN 46.

5. Includes an estimate of outstanding loans securitized by commercial banks.

6. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

7. Banks implemented FIN 46 on July 1, but because of the staff's standard interpolation procedure for weekly bank credit series, this change also affected the levels and growth rates of bank credit and various components in June.

**Selected Financial Market Quotations**

(One-day quotes in percent except as noted)

Instrument	2001	2003			Change to Oct. 23 from selected dates (percentage points)		
	Sept. 10	BIS Sept. 19	Sept. 15	Oct. 23	2001 Sept. 10	BIS Sept. 19	2003 Sept. 15
<i>Short-term</i>							
FOMC intended federal funds rate	3.50	1.00	1.00	1.00	-2.50	.00	.00
Treasury bills <sup>1</sup>							
3-month	3.19	0.93	0.94	0.94	-2.25	.01	.00
6-month	3.13	1.00	1.01	1.01	-2.12	.01	.00
Commercial paper (A1/P1 rates)							
1-month	3.42	1.03	1.01	1.01	-2.41	-.02	.00
3-month	3.24	1.03	1.03	-	-	-	-
Large negotiable CDs <sup>1</sup>							
1-month	3.46	1.06	1.07	1.06	-2.40	.00	-.01
3-month	3.26	1.07	1.08	1.11	-2.15	.04	.03
6-month	3.24	1.12	1.12	1.15	-2.09	.03	.03
Eurodollar deposits <sup>2</sup>							
1-month	3.41	1.10	1.06	1.04	-2.37	-.06	-.02
3-month	3.26	1.12	1.09	1.09	-2.17	-.03	.00
Bank prime rate	6.50	4.00	4.00	4.00	-2.50	.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>3</sup>							
2-year	3.59	1.70	1.64	1.85	-1.74	.15	.21
10-year	5.14	4.35	4.45	4.49	-.65	.14	.04
30-year	5.55	5.22	5.34	5.33	-.22	.11	-.01
U.S. Treasury 10-year indexed note	3.28	2.17	2.17	2.03	-1.25	-.14	-.14
Municipal revenue (Bond Buyer) <sup>4</sup>	5.25	5.24	5.32	5.25	.00	.01	-.07
Private instruments							
10-year swap	5.62	4.57	4.73	4.72	-.90	.15	-.01
10-year FNMA <sup>5</sup>	5.68	4.72	4.84	4.85	-.83	.13	.01
10-year AA <sup>6</sup>	6.30	5.05	5.14	5.14	-1.16	.09	.00
10-year BBB <sup>6</sup>	7.11	5.87	5.99	5.94	-1.17	.07	-.05
High-yield <sup>7</sup>	12.72	8.87	9.02	8.58	-4.14	-.29	-.44
Home mortgages (FHLMC survey rate) <sup>8</sup>							
30-year fixed	6.89	6.01	6.16	6.05	-.84	.04	-.11
1-year adjustable	5.64	3.81	3.87	3.79	-1.85	-.02	-.08

Stock exchange index	Record high		2003			Change to Oct. 23 from selected dates (percent)		
	Level	Date	BIS Sept. 19	Sept. 15	Oct. 23	Record high	BIS Sept. 19	2003 Sept. 15
Dow-Jones Industrial	11,723	1-14-00	9,645	9,449	9,613	-18.00	-.33	1.74
S&P 500 Composite	1,527	3-24-00	1,036	1,015	1,034	-32.32	-.24	1.87
Nasdaq (OTC)	5,049	3-10-00	1,906	1,846	1,886	-62.65	-1.06	2.16
Russell 2000	606	3-9-00	520	508	510	-15.78	-1.87	.56
Wilshire 5000	14,752	3-24-00	10,054	9,843	10,029	-32.01	-.25	1.89

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. Constant maturity yields estimated from Fannie Mae domestic non-callable coupon securities.
6. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
7. Merrill Lynch Master II high-yield bond.
8. For week ending Friday previous to date shown.

NOTES:

September 10, 2001 is the day before the terrorist attacks.  
September 15, 2003 is the day before the most recent FOMC meeting.