

Prefatory Note

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August 5, 2005

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

Employment Situation 1

Unemployment Insurance Claims.....5

Tables

Changes in Employment.....2

Selected Unemployment and Labor Force Participation Rates3

Unemployment Insurance Programs.....6

Charts

Changes in private Payroll Employment2

Aggregate Hours of Production or Nonsupervisory Workers.....2

Labor Force Participation Rate and Unemployment Rate3

Persons Working Part-Time for Economic Reasons3

Short-Term Quit Rate3

Labor Market Indicators4

Unemployment Insurance7

The Domestic Financial Economy8

Tables

Commercial Bank Credit8

Selected Financial Market Quotations9

Supplemental Notes

The Domestic Nonfinancial Economy

Employment Situation

The labor market continued to improve gradually in July, in line with our expectations. Private nonfarm payroll employment rose 181,000, little different from average gains over the first half of the year, and the unemployment rate held steady at 5 percent.¹

Employment gains were widespread last month, with the one-month diffusion index moving up to its highest level since May of last year.² Retail trade employment jumped 50,000 in July, with most component industries contributing to the increase. Robust job growth continued in health care services (29,000), food services (30,000) and financial activities (21,000), where job gains were concentrated in real estate and real estate credit. Employment in manufacturing changed little last month (-4,000), as did employment in the related industries of temporary help services (-2,000) and wholesale trade (8,000).

Average weekly hours of production and nonsupervisory workers on private nonfarm payrolls held steady at 33.7 hours in July. Aggregate hours increased 0.2 percent, on par with average increases over the first half of the year.

In the household survey, the unemployment rate was down slightly from its second-quarter average, while the labor force participation rate ticked up 0.1 percentage point to 66.1 percent, slightly above its second-quarter average. Alternative gauges of labor market slack were mixed. The number of individuals unemployed for longer than six months, as a percent of unemployment—a proxy for the relative difficulty of job finding—retraced some of its drop in June but remained below its second-quarter average. However, the number of individuals employed part time for economic reasons in nonagricultural industries was little changed last month and up slightly from the second quarter.

Average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls rose 0.4 percent in July. Over the past twelve months, average hourly earnings rose 2.7 percent, above the 2 percent increase over the preceding twelve months.

¹ The BLS reported that hurricane Dennis, which struck several southern states near the beginning of the July reference week, had no discernable effect on national payroll employment.

² The diffusion index measures the percent of industries with employment increasing plus one-half of the percent of industries with employment unchanged.

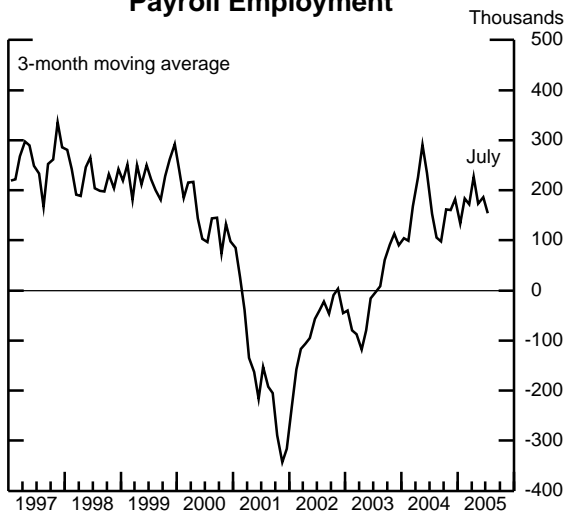
Changes in Employment

(Thousands of employees; seasonally adjusted)

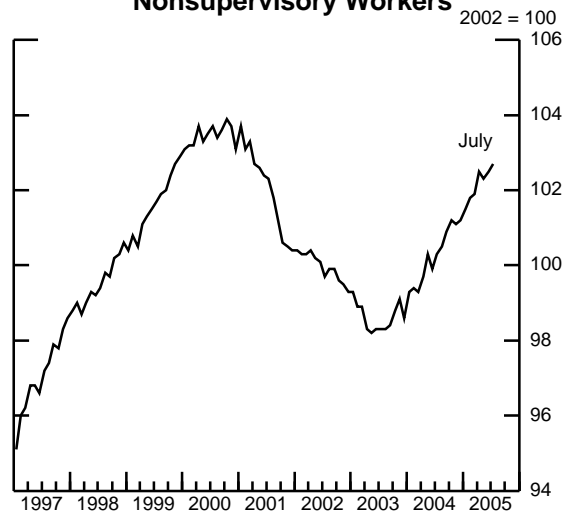
Measure and sector	2004	2004		2005			
		Q4	Q1	Q2	May	June	July
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	183	190	182	195	126	166	207
Private	171	182	172	186	117	164	181
Previous	171	182	172	173	97	144	...
Manufacturing	3	-6	-6	-12	1	-21	-4
Construction	23	29	24	23	6	15	7
Wholesale trade	7	4	6	6	11	2	8
Retail trade	13	13	17	22	28	10	50
Transportation and utilities	9	5	18	7	5	-4	8
Information	-2	0	2	4	-6	0	2
Financial activities	12	15	13	14	7	19	21
Professional and business services	45	53	41	37	8	57	33
Temporary help services	15	14	9	7	-3	10	-2
Nonbusiness services ¹	59	67	51	81	55	82	55
Total government	12	8	10	8	9	2	26
Total employment (household survey)	146	210	115	379	376	163	438
Memo:							
Aggregate hours of private production workers (percent change) ²	2.4	2.4	2.3	2.8	-.2	.2	.2
Average workweek (hours) ³	33.7	33.7	33.7	33.7	33.7	33.7	33.7
Manufacturing (hours)	40.8	40.6	40.6	40.4	40.4	40.4	40.4

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."
 2. Establishment survey. 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.
 3. Establishment survey.
- ... Not applicable.

Changes in Private Payroll Employment



Aggregate Hours of Production or Nonsupervisory Workers

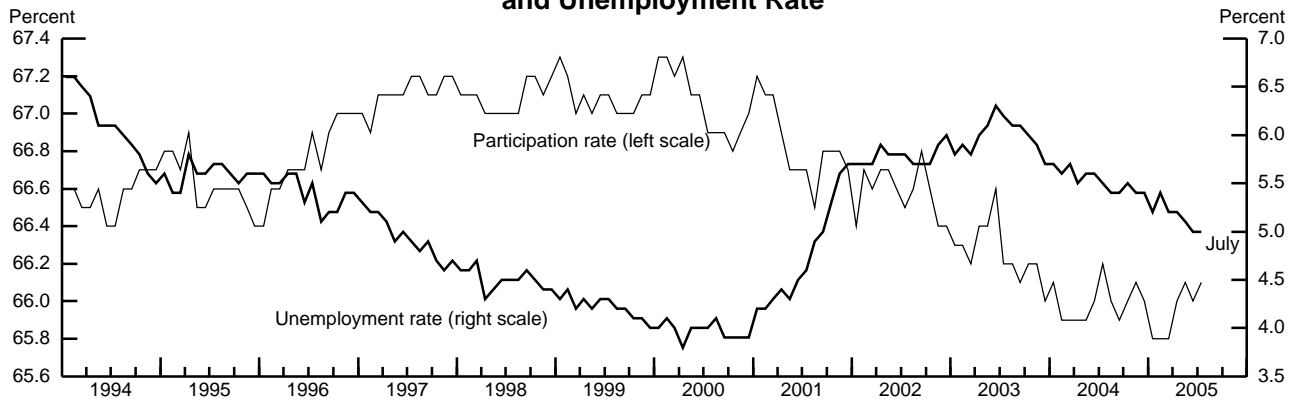


Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

Rate and group	2004	2005					
		Q4	Q1	Q2	May	June	July
<i>Civilian unemployment rate</i>							
Total	5.5	5.4	5.3	5.1	5.1	5.0	5.0
Teenagers	17.0	17.1	16.9	17.3	17.9	16.4	16.1
20-24 years old	9.4	9.3	9.5	8.8	8.8	8.8	8.3
Men, 25 years and older	4.4	4.3	4.1	3.8	3.8	3.7	3.8
Women, 25 years and older	4.4	4.2	4.1	4.2	4.1	4.2	4.3
<i>Labor force participation rate</i>							
Total	66.0	66.0	65.8	66.0	66.1	66.0	66.1
Teenagers	43.8	44.1	43.5	43.9	44.0	43.9	43.8
20-24 years old	75.0	75.3	74.4	74.3	74.3	74.8	74.7
Men, 25 years and older	75.3	75.3	75.2	75.5	75.6	75.5	75.5
Women, 25 years and older	59.3	59.2	59.1	59.2	59.3	59.2	59.5

Labor Force Participation Rate and Unemployment Rate



Persons Working Part-Time for Economic Reasons

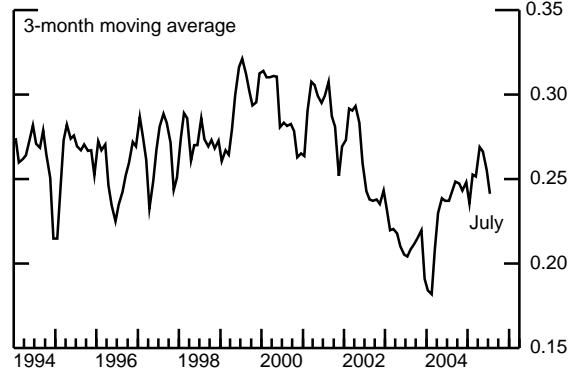
(Percent of household employment)



Short-Term Quit Rate

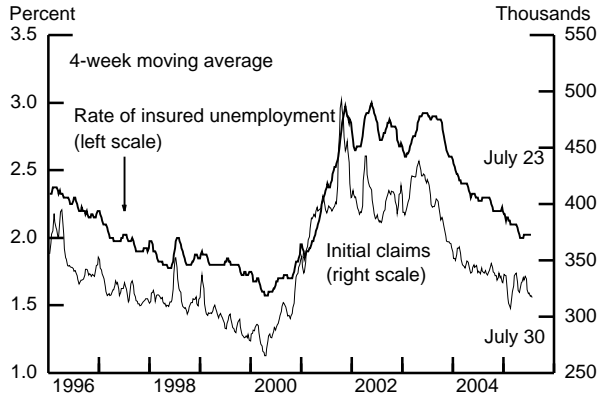
(Unemployed less than 5 weeks)

Percent of household employment

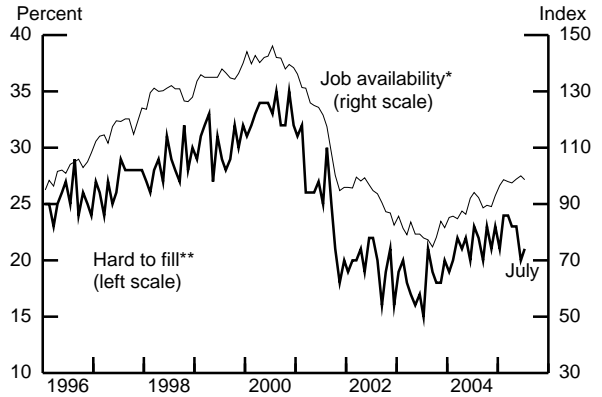


Labor Market Indicators

Unemployment Insurance

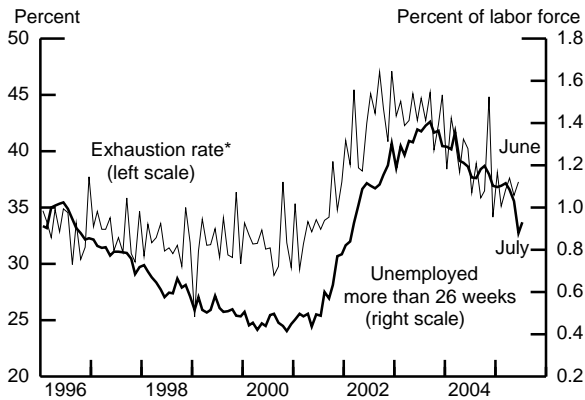


Labor Market Tightness



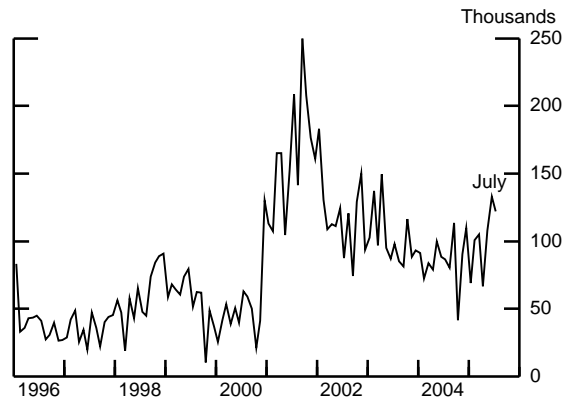
*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
 **Percent of small businesses surveyed with at least one "hard to fill" job opening.
 Source: For job availability, Conference Board; for hard to fill, National Federation of Independent Business.

Exhaustion Rate and Long-Term Unemployed



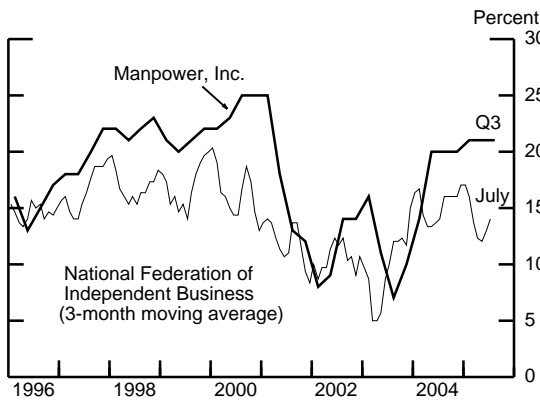
*Note. Seasonally adjusted by FRB staff. Exhaustion rate is number of individuals who exhausted benefits without finding a job, expressed as a share of individuals who began receiving benefits six months earlier.

Layoff Announcements



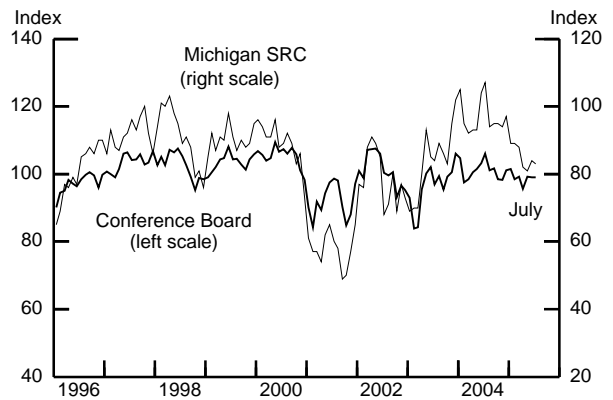
Note. Seasonally adjusted by FRB staff.
 Source: Challenger, Gray, and Christmas, Inc.

Net Hiring Plans



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

Expected Labor Market Conditions



Note. The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.

Unemployment Insurance Claims

Initial claims for unemployment insurance under state programs dipped 1,000 to 312,000 for the week ending July 30. The four-week moving average of initial claims decreased 2,000 to 317,000, its lowest value since early March. The level of insured unemployment under state programs for the week ending July 23 was 2.6 million, remaining close to the level it has held since the beginning of April. The insured unemployment rate was unchanged at 2 percent.

The Domestic Financial Economy

Unemployment Insurance Programs
(In Thousands)

Item	2005						
	June 18	June 25	July 2	July 9	July 16	July 23	July 30
<i>Seasonally adjusted¹</i>							
Initial Claims							
All regular programs ²	320	315	325	341	309	316	316
State programs	316	311	321	337	305	313	312
Insured unemployment							
All regular programs ³	2639	2615	2660	2617	2646	2628	NA
State programs	2597	2572	2617	2571	2599	2581	NA
Extended benefits ⁴	0	0	0	0	0	NA	NA
State-insured							
Unemployment rate ⁵	2.0	2.0	2.1	2.0	2.0	2.0	NA
Initial Claims							
(Four-week moving avg.)							
All regular programs ²	337	327	324	325	322	323	321
State programs	334	324	321	321	319	319	317
<i>Not seasonally adjusted</i>							
Regular state programs							
Initial claims	290	287	327	427	371	297	260
Insured unemployment	2405	2415	2411	2625	2630	2509	NA

1. Only data for regular state programs are seasonally adjusted.

2. Includes federal employees and ex-servicemen.

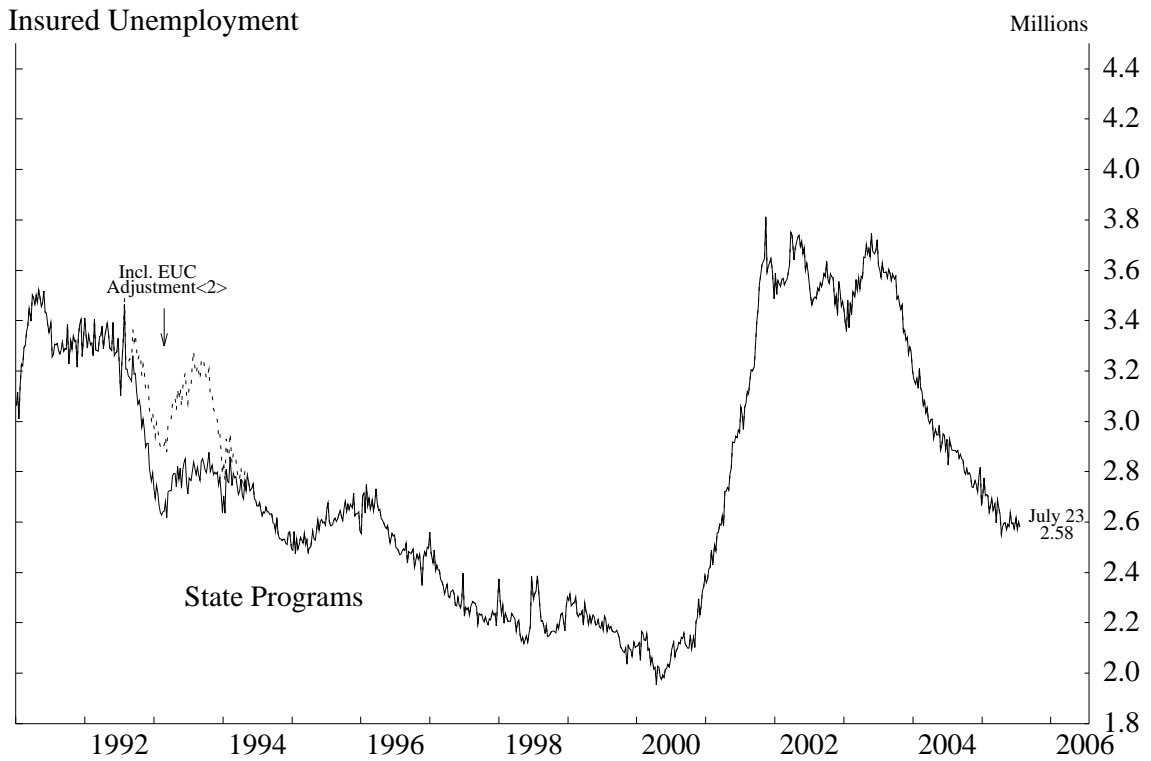
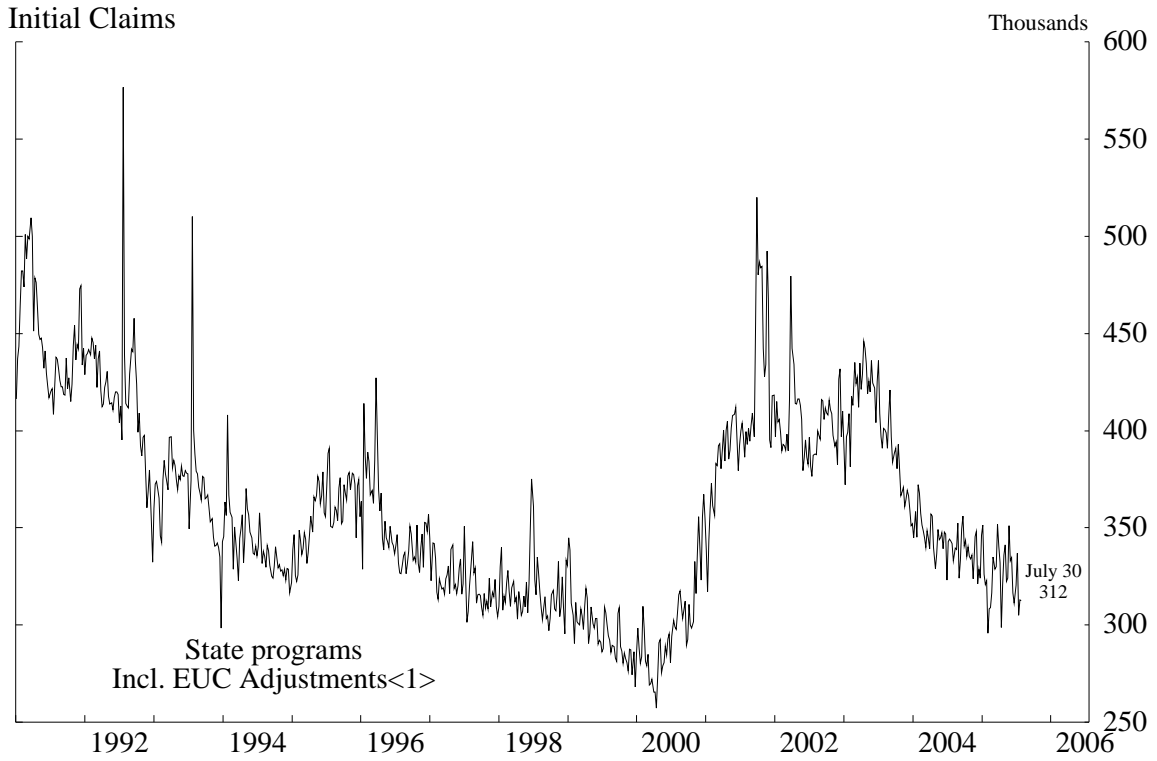
3. Includes federal employees, railroad workers, and ex-servicemen.

4. Includes state and federal emergency extended benefits.

5. Percent of covered employees receiving regular state benefits.

Unemployment Insurance

(Weekly data; Seasonally adjusted)



<1> Beginning July 18, 1992, includes initial claims filed under the emergency unemployment benefits program by individuals also eligible to file under regular programs. The EUC program ended on April 30, 1994.
<2> Includes staff estimate of emergency benefits recipients who are also eligible to file under regular programs.

Commercial Bank Credit

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

Type of credit	2003	2004	Q1 2005	Q2 2005	June 2005	July ^e 2005	Level (\$ billions), July 2005 ^e
Total							
1. Adjusted¹	5.9	8.9	14.4	9.8	6.5	8.4	6,973
2. Reported	5.6	8.4	12.4	9.6	7.4	6.5	7,114
<i>Securities</i>							
3. Adjusted ¹	8.6	6.5	23.0	5.7	-15.2	9.1	1,856
4. Reported	7.2	5.1	15.1	5.2	-10.3	2.1	1,998
5. Treasury and agency	8.9	5.0	20.7	-5.7	-27.5	3.5	1,178
6. Other ²	4.9	5.4	6.5	22.4	14.9	.2	820
<i>Loans³</i>							
7. Total	4.9	9.8	11.4	11.3	14.5	8.2	5,116
8. Business	-9.4	1.5	16.9	13.0	6.6	17.6	978
9. Real estate	11.1	13.9	13.5	13.4	17.3	18.9	2,765
10. Home equity	30.8	43.4	18.7	13.2	9.3	11.0	431
11. Other	8.8	9.7	12.6	13.5	18.9	20.3	2,334
12. Consumer	5.4	8.8	8.2	3.3	4.9	8.7	695
13. Adjusted ⁴	5.8	6.0	5.0	-2.5	2.9	5.6	1,054
14. Other ⁵	6.8	7.9	-9	9.2	23.9	-45.9	679

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and 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.

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

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. 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.

e Estimated.

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

Instrument	2004		2005		Change to Aug. 4 from selected dates (percentage points)		
	June 28	Dec. 31	June 29	Aug. 4	2004 June 28	2004 Dec. 31	2005 June 29
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	2.25	3.00	3.25	2.25	1.00	.25
Treasury bills ¹							
3-month	1.36	2.18	3.06	3.39	2.03	1.21	.33
6-month	1.74	2.52	3.23	3.60	1.86	1.08	.37
Commercial paper (A1/P1 rates) ²							
1-month	1.28	2.29	3.22	3.45	2.17	1.16	.23
3-month	1.45	2.28	3.34	3.61	2.16	1.33	.27
Large negotiable CDs ¹							
3-month	1.53	2.50	3.47	3.72	2.19	1.22	.25
6-month	1.82	2.72	3.65	3.94	2.12	1.22	.29
Eurodollar deposits ³							
1-month	1.29	2.32	3.28	3.51	2.22	1.19	.23
3-month	1.51	2.49	3.44	3.69	2.18	1.20	.25
Bank prime rate	4.00	5.25	6.00	6.25	2.25	1.00	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	3.08	3.67	4.08	1.20	1.00	.41
5-year	3.97	3.63	3.76	4.15	.18	.52	.39
10-year	4.90	4.34	4.06	4.39	-.51	.05	.33
U.S. Treasury indexed notes							
5-year	1.56	1.03	1.41	1.74	.18	.71	.33
10-year	2.25	1.65	1.69	1.95	-.30	.30	.26
Municipal revenue (Bond Buyer) ⁵	5.37	5.04	4.76	4.90	-.47	-.14	.14
Private instruments							
10-year swap	5.21	4.65	4.35	4.74	-.47	.09	.39
10-year FNMA ⁶	5.30	4.61	4.28	4.58	-.72	-.03	.30
10-year AA ⁷	5.59	4.98	4.76	5.08	-.51	.10	.32
10-year BBB ⁷	6.18	5.38	5.34	5.58	-.60	.20	.24
5-year high yield ⁷	8.30	7.34	7.97	7.76	-.54	.42	-.21
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	5.77	5.53	5.82	-.39	.05	.29
1-year adjustable	4.19	4.10	4.24	4.47	.28	.37	.23

Stock exchange index	Record high		2004	2005		Change to Aug. 4 from selected dates (percent)		
	Level	Date	Dec. 31	June 29	Aug. 4	Record high	2004 Dec. 31	2005 June 29
Dow Jones Industrial	11,723	1-14-00	10,783	10,374	10,610	-9.49	-1.60	2.27
S&P 500 Composite	1,527	3-24-00	1,212	1,200	1,236	-19.09	1.98	3.00
Nasdaq	5,049	3-10-00	2,175	2,069	2,191	-56.60	.73	5.92
Russell 2000	689	8-2-05	652	643	672	-2.42	3.11	4.52
Wilshire 5000	14,752	3-24-00	11,971	11,947	12,364	-16.19	3.28	3.49

1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.
June 29, 2005, is the day before the most recent FOMC announcement.