

Prefatory Note

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March 24, 2006

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

Sales and Prices of New and Existing Homes

Sales of new homes fell 11 percent in February to an annual rate of 1.08 million units; the sharp drop suggests that residential construction will decline in the coming months. The stock of new homes for sale increased in February, and it represented 6.3 months of sales at February's unusually depressed pace of sales. The months' supply of new homes has been trending upward since October 2004 and is now at a level not seen since the end of 1995.

At the same time, sales of existing homes turned up in February for the first time since last August. Total sales rose 5.2 percent to an annual rate of 6.9 million units; sales of single-family homes increased 4.7 percent while sales of condos and co-ops were up 8.8 percent. The inventory of homes for sale ticked down in February, but the months' supply of homes at February's sales pace remained elevated compared with its range of recent years.

The average sales price of new homes was about 3 percent higher in February than it was a year earlier, and the median price of new homes in February was 3 percent lower than a year earlier. The Census Bureau began phasing in a new sampling frame in January 2005, and the sales prices of homes in the current sample may not be comparable to the previous sample. Because the sample of homes sold in 2005 contained a mixture of homes drawn from both the old and new sampling frames, the year-to-year changes in the prices of new homes sold should be interpreted with caution. That said, staff estimates of the magnitude of the bias suggest that new home prices have been decelerating in recent months.

The median sales price of existing homes sold was up 10.6 percent in February from a year earlier. The median price of single-family homes climbed 11.7 percent. Although the rate of increase of single-family home prices remained robust, the percent change over the twelve months ending in February was smaller than the twelve-month changes of the summer and fall. The median price of condos and co-ops rose 3.5 percent from a year earlier, continuing a marked deceleration that began in the spring of 2005.

Equipment Spending

New orders for nondefense capital goods excluding aircraft fell 2¼ percent in February after having ticked up in January. Orders for non-high-tech equipment plunged

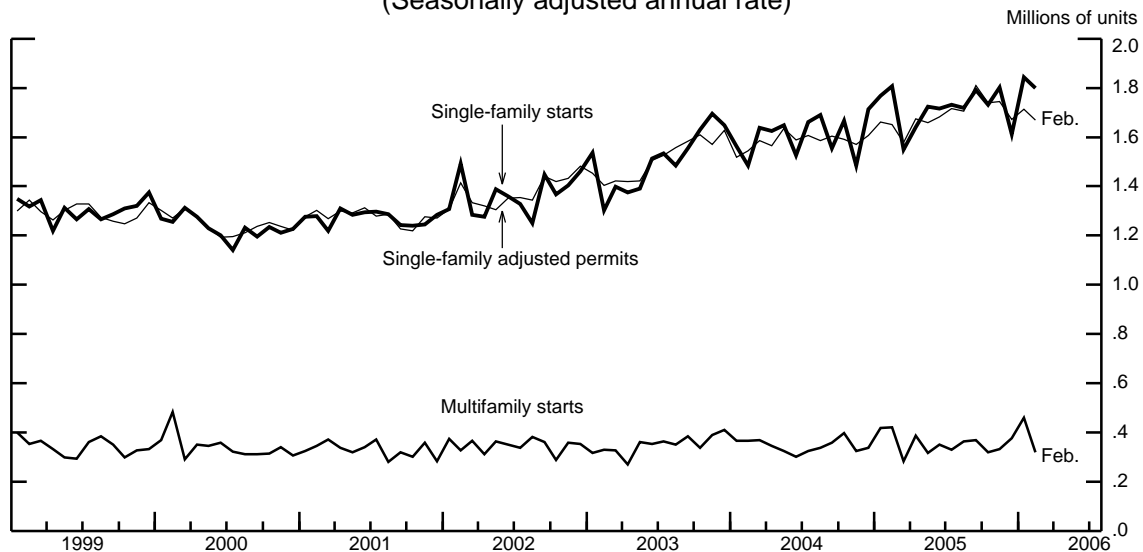
Private Housing Activity

(Millions of units, seasonally adjusted; annual rate except as noted)

Sector	2005	2005				2006	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
<i>All units</i>							
Starts	2.07	2.04	2.10	2.06	1.99	2.30	2.12
Permits	2.15	2.11	2.18	2.11	2.08	2.22	2.18
<i>Single-family units</i>							
Starts	1.72	1.69	1.75	1.72	1.61	1.84	1.80
Permits	1.68	1.64	1.71	1.69	1.65	1.69	1.66
Adjusted permits ¹	1.69	1.67	1.74	1.72	1.67	1.71	1.67
Permit backlog ²	.17	.16	.17	.17	.17	.17	.16
<i>New homes</i>							
Sales	1.28	1.29	1.30	1.29	1.28	1.21	1.08
Months' supply ³	4.45	4.30	4.50	4.70	4.80	5.30	6.30
<i>Existing homes</i>							
Sales	6.18	6.28	6.26	6.06	5.86	5.79	6.06
Months' supply ³	4.40	4.30	4.60	4.90	4.90	5.10	5.10
<i>Multifamily units</i>							
Starts	.35	.35	.35	.34	.38	.46	.32
Permits	.47	.47	.47	.42	.43	.53	.52
Permit backlog ²	.06	.06	.06	.06	.06	.06	.06
<i>Mobile homes</i>							
Shipments	.15	.13	.13	.19	.18	.17	n.a.
<i>Condos and co-ops</i>							
Existing home sales	.90	.92	.92	.88	.89	.78	.85

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
 2. Number outstanding at end of period. Excludes permits that have expired or have been canceled, abandoned, or revoked. Not at an annual rate.
 3. At current sales rate. The ratio of n.s.a. inventories to n.s.a. sales is seasonally adjusted by the Census Bureau; as a result, the s.a. ratio may not be the same as the ratio of s.a. inventories to s.a. sales. Quarterly and annual figures are averages of monthly figures.
- n.a. Not available.

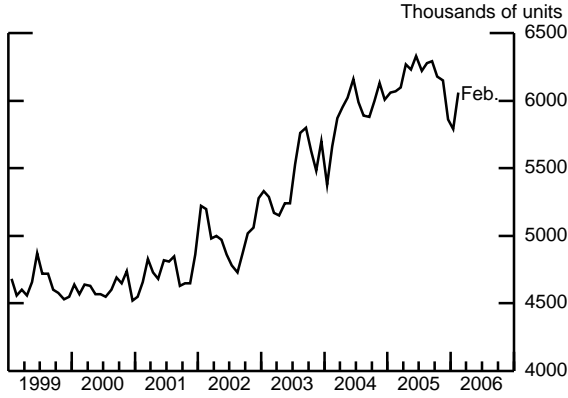
Private Housing Starts and Permits (Seasonally adjusted annual rate)



Note. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

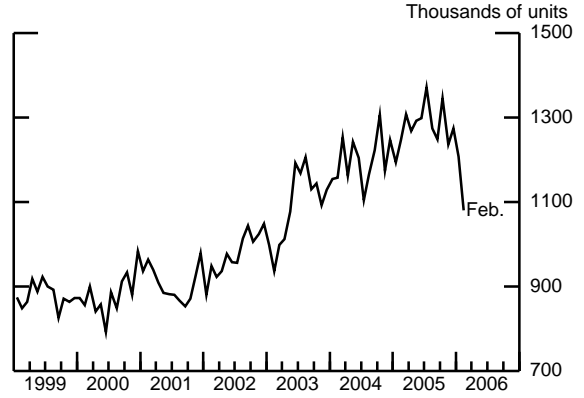
Indicators of Single-Family Housing

Existing Home Sales



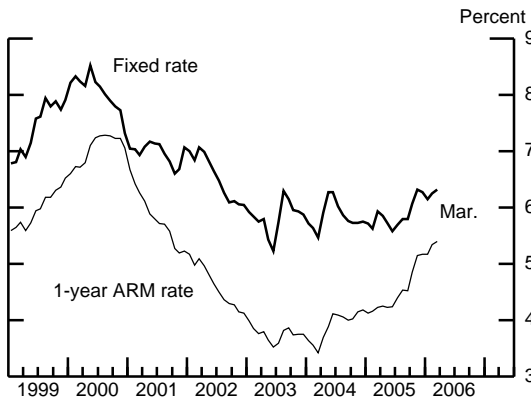
Source. National Association of Realtors.

New Home Sales



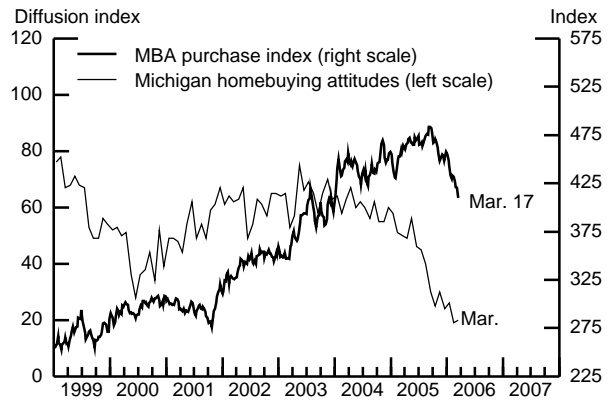
Source. Census Bureau.

Mortgage Rates



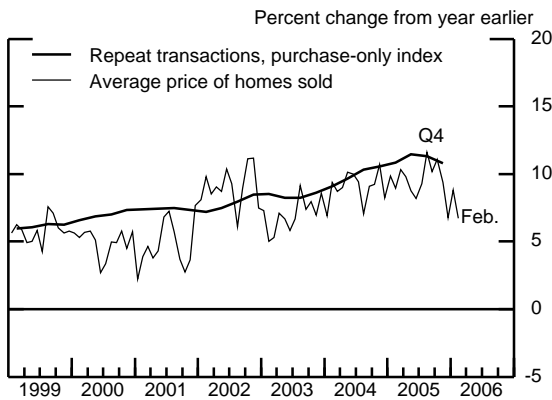
Note. The March readings are based on data through March 22, 2006.
Source. Freddie Mac.

Homebuying Indicators



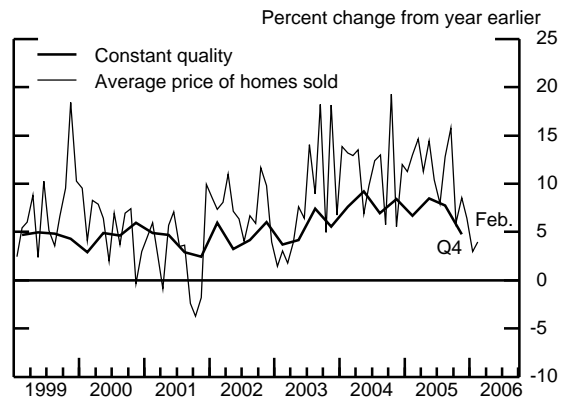
Note. MBA index is a 4-week moving average.
Source. Mortgage Bankers Association and Michigan Survey.

Prices of Existing Homes



Source. For repeat transactions, OFHEO; for average price, National Association of Realtors.

Prices of New Homes



Note. Starting in 2005, average price values are adjusted by Board staff to take into account new sampling procedures.
Source. Census Bureau.

4½ percent last month, after having risen strongly on balance in December and January, leaving the January-February average level 2½ percent above the fourth-quarter average. Orders for communications equipment surged for a second month in February while orders for computers and peripherals retraced almost half of their January decline.

Shipments of nondefense capital goods excluding aircraft dropped 1 percent in February after having been unchanged in January. Shipments of non-high-tech equipment fell 1½ percent last month—their first monthly decline since last July. However, backlogs of unfilled orders widened slightly last month, and we continue to expect solid gains in shipments over the coming months. Shipments of communications equipment moved up ¾ percent in February following very strong gains in the previous two months. In contrast, shipments of computers and peripherals only inched up last month following a sharp decline in January. The recent shipments and orders data for computers are consistent with anecdotal reports from the industry that the first quarter was weak.

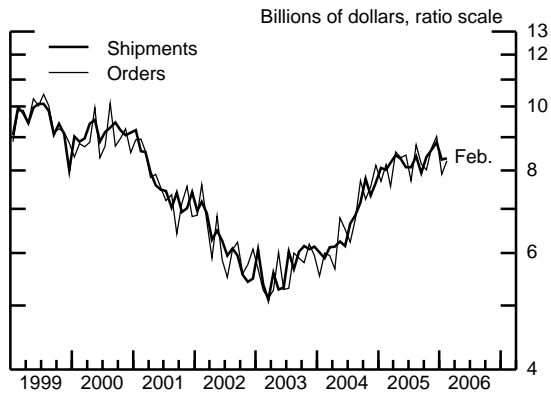
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

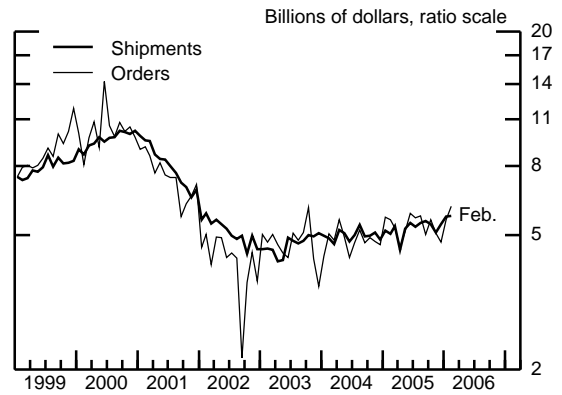
Category	2005			2006	
	Q3	Q4	Dec.	Jan.	Feb.
	Annual rate			Monthly rate	
Shipments	1.8	35.1	5.2	-4.4	.6
Excluding aircraft	3.2	15.6	3.8	.0	-1.1
Computers and peripherals	-6.6	24.2	2.7	-5.7	.3
Communications equipment	30.8	-9.2	5.8	5.3	.8
All other categories	2.3	17.3	3.8	.4	-1.6
Orders	-15.6	89.9	1.9	-19.8	1.6
Excluding aircraft	4.0	11.9	4.9	.3	-2.3
Computers and peripherals	-10.7	17.7	4.3	-12.5	4.8
Communications equipment	23.2	-21.3	-5.8	16.1	9.6
All other categories	4.8	15.2	6.1	1.1	-4.6
Memo:					
Shipments of complete aircraft ¹	26.2	27.6	27.5	31.7	n.a.

1. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
n.a. Not available.

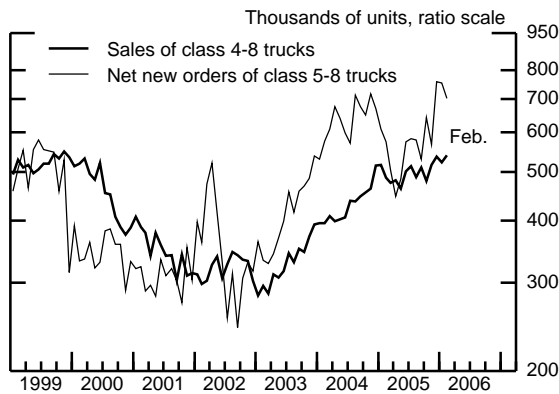
Computers and Peripherals



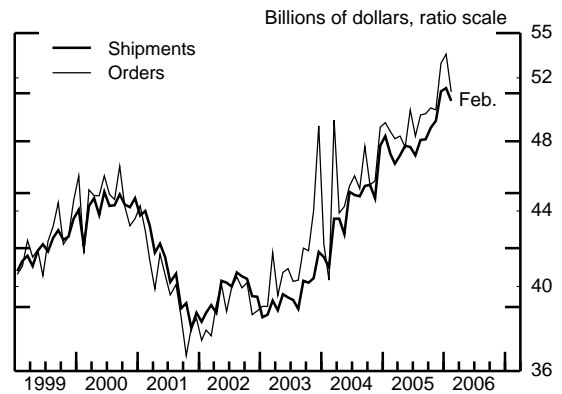
Communications Equipment



Medium and Heavy Trucks



Non-high-tech, Non-trans. Equipment



Note. Annual rate, FRB seasonals.
Source. For class 4-8 trucks, Ward's Communications;
for class 5-8 trucks, ACT Research.

The Domestic Financial Economy

Commercial Bank Credit

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

Type of credit	2004	2005	2005: Q3	2005: Q4	Jan. 2006	Feb. 2006	Level (billions of dollars), Feb. 2006
Total							
Adjusted¹	8.9	10.4	9.6	5.8	9.4	15.9	7,358
Reported	8.4	9.6	9.7	5.2	9.7	15.4	7,494
<i>Securities</i>							
Adjusted ¹	6.6	7.4	.5	-.6	4.4	31.4	1,904
Reported	5.2	5.0	1.7	-2.4	6.2	28.6	2,040
Treasury and agency	4.9	-.4	-5.3	-10.1	11.7	34.3	1,176
Other ²	5.6	13.2	12.0	8.4	-1.0	20.9	864
<i>Loans³</i>							
Total	9.8	11.5	12.9	8.1	11.0	10.6	5,454
Business	1.3	13.4	11.4	9.5	25.9	11.0	1,047
Real estate	14.0	14.0	17.0	8.3	11.0	9.2	2,947
Home equity	43.8	11.1	10.8	-1.9	-3.9	-5.5	433
Other	9.8	14.5	18.2	10.2	13.6	11.7	2,514
Consumer	8.8	3.0	4.8	-4.4	6.5	2.4	692
Adjusted ⁴	5.7	.6	3.6	-4.5	7.4	6.8	1,064
Other ⁵	7.8	8.2	7.0	17.4	-4.1	22.6	769

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.

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

Instrument	2004	2005	2006		Change to Mar. 23 from selected dates (percentage points)			
	June 28	Dec. 30	Jan. 30	Mar. 23	2004 June 28	2005 Dec. 30	2006 Jan. 30	
<i>Short-term</i>								
FOMC intended federal funds rate	1.00	4.25	4.25	4.50	3.50	.25	.25	
Treasury bills ¹								
3-month	1.36	3.99	4.38	4.55	3.19	.56	.17	
6-month	1.74	4.22	4.45	4.63	2.89	.41	.18	
Commercial paper (A1/P1 rates) ²								
1-month	1.28	4.23	4.47	4.73	3.45	.50	.26	
3-month	1.45	4.37	4.55	4.84	3.39	.47	.29	
Large negotiable CDs ¹								
3-month	1.53	4.49	4.64	4.91	3.38	.42	.27	
6-month	1.82	4.65	4.77	5.03	3.21	.38	.26	
Eurodollar deposits ³								
1-month	1.29	4.36	4.56	4.81	3.52	.45	.25	
3-month	1.51	4.52	4.67	4.95	3.44	.43	.28	
Bank prime rate	4.00	7.25	7.25	7.50	3.50	.25	.25	
<i>Intermediate- and long-term</i>								
U.S. Treasury ⁴								
2-year	2.88	4.43	4.54	4.79	1.91	.36	.25	
5-year	3.97	4.35	4.49	4.73	.76	.38	.24	
10-year	4.90	4.47	4.63	4.84	-.06	.37	.21	
U.S. Treasury indexed notes								
5-year	1.56	2.03	1.93	2.14	.58	.11	.21	
10-year	2.25	2.10	2.05	2.25	.00	.15	.20	
Municipal general obligations (Bond Buyer) ⁵	5.01	4.38	4.42	4.43	-.58	.05	.01	
Private instruments								
10-year swap	5.21	4.92	5.06	5.26	.05	.34	.20	
10-year FNMA ⁶	5.30	4.82	4.88	5.08	-.22	.26	.20	
10-year AA ⁷	5.59	5.25	5.39	5.61	.02	.36	.22	
10-year BBB ⁷	6.18	5.84	5.96	6.14	-.04	.30	.18	
5-year high yield ⁷	8.30	8.28	8.17	8.17	-.13	-.11	.00	
Home mortgages (FHLMC survey rate)								
30-year fixed	6.21	6.21	6.23	6.32	.11	.11	.09	
1-year adjustable	4.19	5.16	5.33	5.41	1.22	.25	.08	
Stock exchange index								
	Record high		2005	2006		Change to Mar. 23 from selected dates (percent)		
	Level	Date	Dec. 30	Jan. 30	Mar. 23	Record high	2005 Dec. 30	2006 Jan. 30
Dow Jones Industrial	11,723	1-14-00	10,718	10,900	11,270	-3.86	5.16	3.40
S&P 500 Composite	1,527	3-24-00	1,248	1,285	1,302	-14.78	4.28	1.28
Nasdaq	5,049	3-10-00	2,205	2,307	2,300	-54.44	4.30	-.29
Russell 2000	748	3-23-06	673	731	748	.00	11.05	2.29
Wilshire 5000	14,752	3-24-00	12,518	12,979	13,136	-1.95	4.94	1.21

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.
January 30, 2006, is the day before the most recent FOMC meeting.