

Prefatory Note

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August 3, 2007

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

Labor Market Developments

Private nonfarm payroll employment rose 120,000 in July, and the June level was revised up 33,000. The July gain was equal to the average increase this year and was about 50,000 less than the average increase in 2006. The unemployment rate edged up to 4.6 percent last month; it has remained between 4.4 and 4.6 percent since last September.

By industry, construction employment declined 12,000 in July, with most of the drop in jobs typically associated with nonresidential construction. Since the beginning of the year, construction employment has decreased an average of 5,000 per month after having been essentially flat over the second half of last year. Manufacturing employment edged lower (-2,000) in July after somewhat larger declines earlier in the year. Employment in retail trade also was little changed. Hiring in most other private service-producing industries continued to be solid, with noticeable increases in jobs at professional and technical services firms (26,000), at health care facilities (36,000), and at leisure and hospitality businesses (22,000).

Average weekly hours of production or nonsupervisory workers ticked down to 33.8 hours in July, reversing its June increase. Over the past year, the workweek has changed little on net. Aggregate production worker hours moved down 0.1 percent in July, leaving the current level 0.3 percent (not at an annual rate) above the average level in the second quarter.

Average hourly earnings of production or nonsupervisory workers on nonfarm private payrolls rose 0.3 percent in July. Over the twelve months ending in July, average hourly earnings increased 3.9 percent, the same as over the preceding twelve months.

In the household survey, the participation rate held steady at 66.1 percent in July. Although the number of short-term job losers remained at a relatively low level last month, the number of longer-term job losers increased, suggesting a decrease in hiring. Last month's slight uptick in the unemployment rate reflected increases for both adult men and women, but not for teenagers.

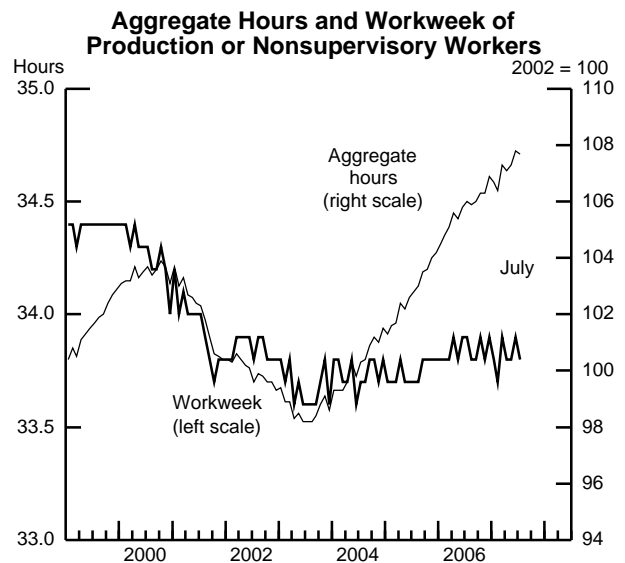
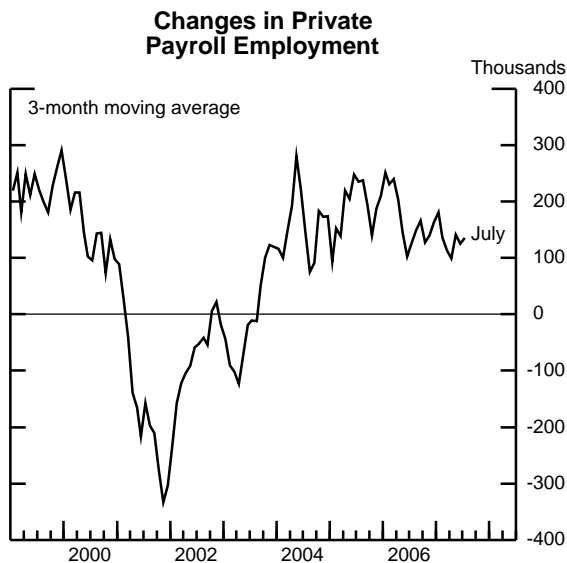
Changes in Employment
(Thousands of employees; seasonally adjusted)

Measure and sector	2006	2007					
		Q4	Q1	Q2	May	June	July
	Average monthly change			Monthly change			
Nonfarm payroll employment (establishment survey)	189	177	142	145	188	126	92
Private	169	164	115	126	181	107	120
Natural resources and mining	5	4	3	2	1	3	2
Manufacturing	-7	-25	-14	-11	-3	-13	-2
Construction	11	-14	3	-10	-12	3	-12
Wholesale trade	11	12	2	16	12	19	10
Retail trade	-3	11	27	-8	18	-14	-1
Transportation and utilities	9	11	2	3	2	5	10
Information	2	7	4	3	1	-1	-5
Financial activities	16	10	2	6	16	-2	27
Professional and business services	42	52	14	22	34	7	26
Temporary help services	-1	6	-7	-8	-10	-7	-7
Nonbusiness services ¹	83	96	71	103	112	100	65
Total government	20	13	28	19	7	19	-28
Total employment (household survey)	262	340	109	-38	157	197	-30
Memo:							
Aggregate hours of private production workers (percent change) ²	2.5	2.0	1.1	2.3	.2	.5	-.1
Average workweek (hours) ³	33.8	33.9	33.8	33.8	33.8	33.9	33.8
Manufacturing (hours)	41.1	41.1	41.0	41.2	41.1	41.3	41.3

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.

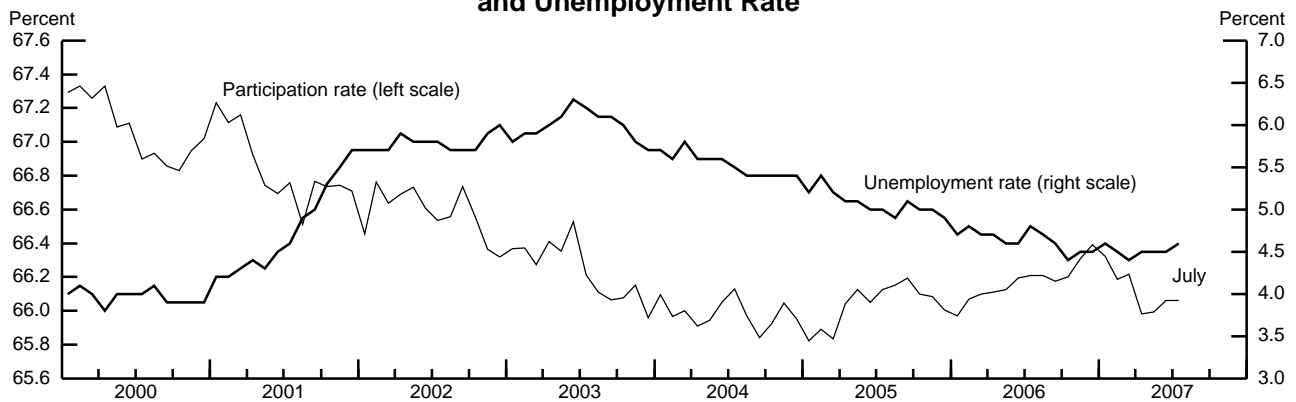


Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

Rate and group	2006	2006		2007			
		Q4	Q1	Q2	May	June	July
<i>Civilian unemployment rate</i>							
Total	4.6	4.5	4.5	4.5	4.5	4.5	4.6
Teenagers	15.4	15.1	14.8	15.6	15.7	15.8	15.2
20-24 years old	8.2	8.3	7.7	7.7	7.3	8.0	8.5
Men, 25 years and older	3.5	3.3	3.6	3.5	3.5	3.4	3.6
Women, 25 years and older	3.7	3.5	3.5	3.5	3.6	3.6	3.7
<i>Labor force participation rate</i>							
Total	66.2	66.3	66.2	66.0	66.0	66.1	66.1
Teenagers	43.6	43.4	42.2	41.5	41.0	41.8	41.2
20-24 years old	74.6	75.0	75.1	74.2	73.8	74.5	74.6
Men, 25 years and older	75.5	75.7	75.7	75.6	75.6	75.5	75.6
Women, 25 years and older	59.6	59.8	59.6	59.6	59.6	59.7	59.8

Labor Force Participation Rate and Unemployment Rate



Job Losers Unemployed Less Than 5 Weeks

(as a percent of household employment)



Unemployed Due to Job Loss

(as a percent of the labor force)



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

Instrument	2004	2006	2007		Change to Aug. 2 from selected dates (percentage points)			
	June 28	June 29	June 27	Aug. 2	2004 June 28	2006 June 29	2007 June 27	
<i>Short-term</i>								
FOMC intended federal funds rate	1.00	5.25	5.25	5.25	4.25	.00	.00	
Treasury bills ¹								
3-month	1.36	4.88	4.64	4.75	3.39	-.13	.11	
6-month	1.74	5.06	4.75	4.75	3.01	-.31	.00	
Commercial paper (A1/P1 rates) ²								
1-month	1.28	5.27	5.25	5.26	3.98	-.01	.01	
3-month	1.45	5.37	5.26	5.24	3.79	-.13	-.02	
Large negotiable CDs ¹								
3-month	1.53	5.47	5.34	5.34	3.81	-.13	.00	
6-month	1.82	5.59	5.36	5.33	3.51	-.26	-.03	
Eurodollar deposits ³								
1-month	1.29	5.33	5.31	5.33	4.04	.00	.02	
3-month	1.51	5.49	5.34	5.35	3.84	-.14	.01	
Bank prime rate	4.00	8.25	8.25	8.25	4.25	.00	.00	
<i>Intermediate- and long-term</i>								
U.S. Treasury ⁴								
2-year	2.88	5.26	4.94	4.62	1.74	-.64	-.32	
5-year	3.97	5.15	4.95	4.60	.63	-.55	-.35	
10-year	4.90	5.28	5.16	4.87	-.03	-.41	-.29	
U.S. Treasury indexed notes ⁵								
5-year	1.60	2.51	2.67	2.40	.80	-.11	-.27	
10-year	2.26	2.61	2.70	2.45	.19	-.16	-.25	
Municipal general obligations (Bond Buyer) ⁶	5.01	4.71	4.63	4.51	-.50	-.20	-.12	
Private instruments								
10-year swap	5.21	5.81	5.67	5.51	.30	-.30	-.16	
10-year FNMA ⁷	5.38	5.59	5.49	5.35	-.03	-.24	-.14	
10-year AA ⁸	5.60	6.20	6.11	6.11	.51	-.09	.00	
10-year BBB ⁸	6.25	6.74	6.56	6.58	.33	-.16	.02	
10-year high yield ⁸	8.41	8.74	8.44	9.19	.78	.45	.75	
Home mortgages (FHLMC survey rate)								
30-year fixed	6.21	6.78	6.67	6.68	.47	-.10	.01	
1-year adjustable	4.19	5.82	5.65	5.59	1.40	-.23	-.06	
Stock exchange index								
	Record high		2006	2007		Change to Aug. 2 from selected dates (percent)		
	Level	Date	June 29	June 27	Aug. 2	Record high	2006 June 29	2007 June 27
Dow Jones Industrial	14,000	7-19-07	11,191	13,428	13,463	-3.84	2.31	.27
S&P 500 Composite	1,553	7-19-07	1,273	1,506	1,472	-5.21	15.66	-2.27
Nasdaq	5,049	3-10-00	2,174	2,605	2,576	-48.98	18.47	-1.13
Russell 2000	856	7-13-07	714	838	784	-8.39	9.75	-6.50
Wilshire 5000	15,701	7-13-07	12,846	15,233	14,830	-5.55	15.45	-2.65

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. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. 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, 2006, is the day the most recent policy tightening ended.
June 27, 2007, is the day before the most recent FOMC announcement.

Commercial Bank Credit

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

Type of credit	2005	2006	Q1 2007	Q2 2007	July 2007 ^e	Level, ¹ July 2007 ^e
Total	10.5	9.6	8.6	9.4	9.2	8,340
<i>Loans</i> ²						
Total	11.6	10.7	9.9	9.4	9.3	6,254
To businesses						
Commercial and industrial	13.5	16.4	7.9	11.0	18.5	1,255
Commercial real estate	17.0	13.6	10.3	11.5	5.6	1,524
To households						
Residential real estate	11.9	7.2	9.6	6.6	3.7	1,835
Revolving home equity	13.3	1.5	3.5	.1	5.5	459
Other	11.4	9.4	11.7	8.9	3.1	1,376
Consumer	3.1	5.2	7.5	5.2	14.1	769
Originated ³	.7	6.4	8.0	2.2	13.7	1,151
Other ⁴	8.5	11.0	14.8	12.8	10.4	872
<i>Securities</i>						
Total	7.5	6.3	4.8	9.6	9.2	2,085
Treasury and agency	.0	3.0	-2.1	-7.9	2.1	1,155
Other ⁵	13.5	12.7	10.9	33.6	11.0	1,094

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the consolidation of certain variable interest entities (FIN 46), the adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006 and March 2007 respectively. Data also account for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

2. Excludes interbank loans.

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

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

5. 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.

e Estimated.