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CONFIDENTIAL (FR)  
CLASS III - FOMC

June 28, 1996

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

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## SUPPLEMENTAL NOTES

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Real GDP 1996:Q1 (final)

According to BEA's final estimate, real GDP increased 2.2 percent at an annual rate in the first quarter of 1996, little changed from the preliminary estimate of 2.3 percent. A large drawdown of motor vehicle inventories, associated in part with the shutdown at General Motors, held down GDP growth about a percentage point. By contrast, final sales grew at a 3.3 percent annual rate in the first quarter, as both consumption and investment posted sizable increases. However, net exports fell \$18 billion in the first quarter (as measured in chained 1992 dollars), about offsetting the large fourth-quarter increase.

As we expected, the final figure for nonfarm inventory accumulation was slightly higher in real terms than the preliminary estimate, and final sales were a bit lower. The most notable downward revisions were those to Federal government purchases and exports of goods and services; revisions to other categories were small. The preliminary estimate of Federal purchases had been surprisingly large, given budget developments, and the downward revision makes the first-quarter increase more plausible.

Today's report included revised first-quarter corporate profits. Profits for corporations other than Federal Reserve Banks (with inventory valuation adjustment and capital consumption adjustments) are estimated to have risen another \$33.2 billion last quarter, an upward revision of \$9.2 billion from the preliminary estimate. The revision occurred entirely in profits from foreign sources, as domestic profits were unchanged. As a share of GNP, non-Federal Reserve corporate profits were 8.5 percent, the highest level since the late 1960s.

#### Consumer Sentiment

The final report for the Michigan SRC index of consumer sentiment showed only a slightly smaller rebound in June than indicated in the preliminary figures. As before, the June index returned to about the middle of the favorable range that has held since early 1994. In response to questions that constitute the aggregate index, respondents' views on their current and future financial situations rebounded in June. Views on expected business conditions also improved. However, households' appraisals of buying

conditions for large household appliances slipped again and stood at the lower end of the range observed for the past two and a half years.

Among the series that are not included in the aggregate index, assessments of car buying conditions jumped to the highest level in about a year. However, respondents' appraisals of buying conditions for homes deteriorated because of less favorable views of mortgage interest rates. Consumers' willingness to use credit to finance major purchases rose to its highest reading since July 1994, but their willingness to use savings was little changed.

Inflation expectations moved back down in June after surging in May. The mean level of expected inflation over the next year retreated 3/4 percentage point to 4.2 percent, which is only a bit above the average reading over the past year of about 4 percent; the median edged down to 2.9 percent. Over the next five to ten years, expected mean inflation also fell back 3/4 percentage point to 4 percent, which is just slightly below the average reading over the past year; the median was little changed at 3.1 percent.

Clarification of Change in Federal Deficit Between Fiscal 1996 and 1997 (discussed on page I-3 of Part 1)

Although the staff expects capital gains realizations to continue at an elevated rate in both 1996 and 1997, a portion of the fiscal 1996 receipts surprise is forecast to be temporary because the strong financial market gains of 1995 were not anticipated by taxpayers and resulted in unusually high final payments in 1996. Continued strong withheld and estimated tax payments during the first half of this year suggest that taxpayers are incorporating the higher level of capital gains realizations into their current tax payments. As a result, fiscal 1996 revenues are expected to reflect the tax consequences of increased capital gains realized in both 1995 and 1996, whereas the fiscal 1997 revenue reflects, for the most part, only the higher level of gains for 1997.

## Real Gross Domestic Product and Related Items

(Percent change from previous period at compound annual rates;  
based on seasonally adjusted data, chain-type indexes)

	1994:Q4 to 1995:Q4	1995:Q4 Final	1996:Q1	
			Preliminary	Final
1. Gross domestic product	1.3	.5	2.3	2.2
2. Final sales	1.9	1.6	3.7	3.3
3. Consumer spending	2.0	1.2	3.6	3.6
4. Durables	1.8	.3	8.0	8.5
5. Nondurables	1.1	-.3	3.7	3.6
6. Services	2.6	2.2	2.6	2.5
7. Business fixed investment	6.7	3.1	12.3	12.4
8. Producers' durable equipment	7.3	4.0	13.2	14.1
9. Nonresidential structures	5.0	.9	9.6	7.9
10. Residential investment	-1.4	6.4	6.6	7.4
11. Federal government consumption expenditures and investment	-6.6	-12.8	8.5	5.8
12. Defense	-6.6	-12.0	7.4	3.8
13. Nondefense	-6.5	-14.6	10.8	10.1
14. State and local government consumption expenditures and investment	2.1	1.5	-.7	-.9
15. Exports of goods and services	6.5	11.0	4.9	2.0
16. Imports of goods and services	4.6	1.3	10.9	10.2
<hr style="border-top: 1px dashed black;"/>				
<b>ADDENDA:</b>				
17. Nonfarm inventory investment <sup>1</sup>	37.4 <sup>2</sup>	19.5	-.1	3.6
18. Motor vehicles <sup>1</sup>	2.1 <sup>2</sup>	-2.6	-24.0	-21.4
19. Excl. motor vehicles <sup>1</sup>	35.4 <sup>2</sup>	22.1	23.9	25.0
20. Farm inventory investment <sup>1</sup>	-4.4 <sup>2</sup>	-3.5	-6.1	-6.2
21. Net exports of goods and services <sup>1</sup>	-114.2 <sup>2</sup>	-96.6	-110.6	-114.6
22. Nominal GDP	3.7	2.3	4.5	4.3
23. GDP price index	2.6	2.2	2.4	2.4
24. GDP implicit price deflator	2.4	1.8	2.1	2.1
25. Profit share <sup>3</sup>	8.1 <sup>2</sup>	8.4	8.7	8.8
26. (Excluding FRB banks)	7.8	8.1	8.4	8.5
27. Personal saving rate (percent)	4.5 <sup>2</sup>	4.9	4.6	4.6

1. Level, billions of chain (1992) dollars.
2. Annual average.
3. Economic profit as a share of nominal GNP.

June 28, 1996

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES  
(Not seasonally adjusted)

	1995 Oct	1995 Nov	1995 Dec	1996 Jan	1996 Feb	1996 Mar	1996 Apr	1996 May	1996 Jun
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	90.2	88.2	91.0	89.3	88.5	93.7	92.7	89.4	92.4
Current conditions	104.8	101.3	102.4	105.8	105.2	105.4	107.8	105.1	105.4
Expected conditions	80.8	79.7	83.7	78.7	77.8	86.2	83.0	79.2	84.0
-----									
Personal financial situation									
Now compared with 12 months ago*	111	108	112	115	111	112	118	114	118
Expected in 12 months*	120	123	126	131	120	130	127	122	128
Expected business conditions									
Next 12 months*	112	111	115	104	109	125	118	110	117
Next 5 years*	91	85	95	80	83	91	88	86	93
Appraisal of buying conditions									
Cars	125	130	133	122	129	134	125	127	137
Large household appliances*	161	154	153	159	161	161	162	159	155
Houses	151	148	157	152	163	168	157	159	153
Willingness to use credit	40	43	45	36	40	47	45	37	54
Willingness to use savings	63	62	70	65	65	71	64	64	66
Expected unemployment change - next 12 months	133	124	122	135	131	123	124	121	123
Expected inflation - next 12 months									
Mean	3.6	3.8	3.3	4.0	3.6	4.2	4.5	4.9	4.2
Median	2.9	2.8	2.7	2.9	2.8	2.9	3.0	3.0	2.9
Expected inflation - next 5 to 10 years									
Mean	3.7	4.0	3.9	4.2	4.2	4.3	4.1	4.8	4.0
Median	3.1	3.1	3.1	3.1	3.2	3.2	3.0	3.2	3.1

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.

**Selected Financial Market Quotations<sup>1</sup>**

(Percent except as noted)

Instrument	1994	1996			Change to June 27, from:			
	high	Feb. low	FOMC, May 21	June 27	1994 high	Feb. 1996 low	FOMC, May 21	
<b>Short-term rates</b>								
Federal funds <sup>2</sup>	5.66	4.92	5.26	5.22	-0.44	0.30	-0.04	
Treasury bills <sup>3</sup>								
3-month	5.78	4.76	5.02	5.06	-0.72	0.30	0.04	
6-month	6.38	4.67	5.12	5.20	-1.18	0.53	0.08	
1-year	6.84	4.55	5.25	5.45	-1.39	0.90	0.20	
Commercial paper								
1-month	6.13	5.27	5.37	5.50	-0.63	0.23	0.13	
3-month	6.32	5.12	5.38	5.51	-0.81	0.39	0.13	
Large negotiable CDs <sup>3</sup>								
1-month	6.10	5.21	5.31	5.40	-0.70	0.19	0.09	
3-month	6.39	5.12	5.35	5.50	-0.89	0.38	0.15	
6-month	6.89	4.99	5.44	5.69	-1.20	0.70	0.25	
Eurodollar deposits <sup>4</sup>								
1-month	6.06	5.13	5.28	5.38	-0.68	0.25	0.10	
3-month	6.38	5.13	5.34	5.50	-0.88	0.37	0.16	
Bank prime rate	8.50	8.25	8.25	8.25	-0.25	0.00	0.00	
<b>Intermediate- and Long-term Rates</b>								
U.S. Treasury (constant maturity)								
3-year	7.82	4.98	6.18	6.50	-1.32	1.52	0.32	
10-year	8.04	5.58	6.62	6.91	-1.13	1.33	0.29	
30-year	8.16	6.02	6.82	7.06	-1.10	1.04	0.24	
Municipal revenue (Bond Buyer) <sup>5</sup>	7.37	5.67	6.17	6.20	-1.17	0.53	0.03	
Corporate-A utility, recently offered	9.05	7.18	7.90	8.17	-0.88	0.99	0.27	
High-yield corporate <sup>6</sup>	11.43	9.57	10.00	10.15	-1.28	0.58	0.15	
Home mortgages <sup>7</sup>								
FHLMC 30-yr fixed rate	9.25	6.94	8.08	8.29	-0.96	1.35	0.21	
FHLMC 1-yr adjustable rate	6.79	5.19	5.78	5.93	-0.86	0.74	0.15	
		Record high	1989	1996		Percentage change to June 27, from:		
	Level	Date	Low, Jan. 3	FOMC, May 21	June 27	Record high	1989 low	FOMC, May 21
<b>Stock exchange index</b>								
Dow-Jones Industrial	5778.00	5/22/96	2144.64	5748.82	5677.53	-1.74	164.73	-1.24
NYSE Composite	363.74	5/24/96	154.00	361.09	357.58	-1.69	132.19	-0.97
S&P 500 Composite	678.51	5/24/96	275.31	673.15	668.55	-1.47	142.84	-0.68
NASDAQ (OTC)	1249.15	6/5/96	378.56	1248.11	1166.01	-6.66	208.01	-6.58
Wilshire	6758.69	5/24/96	2718.59	6719.13	6566.27	-2.85	141.53	-2.27

1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average maintenance period to date July 3, 1996.
3. Secondary market.
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Merrill Lynch Master II high-yield bond index composite.
7. Quotes for week ending Friday previous to date shown.



**COMMERCIAL BANK CREDIT**  
(Percentage change; seasonally adjusted annual rate)<sup>1</sup>

Type of credit	1995	1995 Q4	1996 Q1	1996 Mar	1996 Apr	1996 May	Level, May 1996 (billions of \$)
1. Total loans and securities	8.7	5.1	4.7	-3.0	5.3	1.4	3,654.6
2. Securities	3.5	2.8	-0.3	-19.4	-1.3	8.3	986.2
3. U.S. government	-3.1	3.4	-2.7	-17.8	-0.5	14.8	713.7
4. Other <sup>2</sup>	25.8	1.2	5.9	-23.5	-3.5	-7.9	272.6
5. Loans <sup>3</sup>	10.8	6.0	6.7	3.2	7.7	-1.1	2,668.3
6. Business	11.5	6.3	5.9	-4.0	9.0	4.0	730.9
7. Real estate	8.5	3.9	4.5	5.4	1.6	2.0	1,097.5
8. Home equity	5.2	3.1	5.1	-1.5	3.0	-4.5	79.7
9. Other	8.8	3.9	4.4	5.8	1.8	2.4	1,017.8
10. Consumer	10.6	6.2	7.1	7.4	6.2	-5.5	503.9
11. Adjusted <sup>4</sup>	17.6	19.1	13.9	12.2	9.6	2.0	653.1
12. Security	14.4	-0.5	-2.8	-9.8	8.5	-53.2	81.9
13. Other <sup>5</sup>	18.5	17.7	21.9	11.2	33.4	-2.4	254.2

1. Monthly levels are *pro rata* averages of Wednesday data. Quarterly and annual levels (not shown) are simple averages of monthly levels and levels for the fourth quarter respectively. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.

2. Includes municipal securities, foreign government securities, corporate bonds, equities, and trading account assets.

3. Excludes interbank loans.

4. Includes estimates of consumer loans that have been securitized by banks and are still outstanding.

5. Includes loans to nonbank financial institutions, farmers, state and local governments, banks abroad, foreign governments, and all others not elsewhere classified. Also includes lease financing receivables.