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November 15, 1999

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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## Supplemental Notes

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### Consumer Spending and Sentiment

**Retail sales.** According to the advance report, total nominal retail sales were unchanged in October. For the second consecutive month, a decline in sales at automotive dealers held down overall sales. Nominal purchases at stores in the retail control category, which excludes sales at automotive dealers and building material and supply stores, increased 0.4 percent last month after gains of 1.0 percent and 0.7 percent in August and September.

In October, most of the major categories within the retail control posted solid gains in nominal spending. The largest increases in sales occurred at stores selling in the "other durable goods" category and at drug stores. The only major categories in which sales declined in October were general merchandise stores--where sales were little changed--and furniture and appliance outlets--where sales fell about 1 percent. Both of these categories, however, had registered large increases in September.

Sales in the retail control for October came in somewhat stronger than we assumed in the November Greenbook, but not enough to materially change our view of the pace of consumer spending in the fourth quarter.

**Michigan survey of consumer attitudes.** According to the preliminary estimates, the Michigan Survey Research Center index of consumer sentiment moved back up in November, with improvements in both the current and expected conditions components. The index now stands near the top of the very favorable range that we have seen so far this year. Respondents had more positive views of their current financial situations and were more upbeat about prospects for their future finances in early November. Assessments of future business conditions also improved this month, and appraisals of buying conditions for large household appliances were unchanged.

Among those questions not in the overall index, the index of expected unemployment change rose in early November. With the exception of a sharp dip in June, this series had moved within a relatively narrow and fairly favorable range since January. Appraisals of buying conditions for cars perked up in early November, and appraisals of buying conditions for homes improved noticeably, reflecting in part more favorable assessments of mortgage rates. Nonetheless, the index of home buying conditions remains well below the range that prevailed between the middle of 1997 and the middle of 1999.

Concerns about near-term inflation eased somewhat in early November. The mean of expected inflation over the next twelve months fell 0.4 percentage point to 3.1 percent, and the median declined to 2.7 percent. However, the mean of

November 12, 1999

**RETAIL SALES**  
(Percent change; seasonally adjusted)

	1999			1999		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
<b>Total sales</b>	3.2	1.7	2.1	1.3	-.1	-.0
Previous estimate			2.3	1.5	.1	
<b>Retail control<sup>1</sup></b>	2.7	1.9	1.6	1.0	.7	.4
Previous estimate			1.6	1.0	.7	
<b>Total excl. automotive group</b>	3.0	1.8	1.4	.9	.6	.5
Previous estimate			1.4	.9	.6	
<b>GAF<sup>2</sup></b>	3.6	1.3	1.3	.6	.8	-.1
Previous estimate			1.3	.7	.7	
<b>Durable goods stores</b>	3.9	1.0	2.7	1.8	-1.1	-.6
Previous estimate			3.0	2.1	-.8	
Bldg. material and supply	6.1	.1	-1.0	.3	-1.3	1.7
Automotive dealers	3.8	1.5	4.4	2.5	-2.0	-1.6
Furniture and appliances	2.3	1.5	2.2	1.1	1.8	-.9
Other durable goods	3.1	-.3	-.5	1.1	.4	2.0
<b>Nondurable goods stores</b>	2.7	2.2	1.7	1.0	.7	.4
Previous estimate			1.8	1.0	.8	
Apparel	4.5	2.3	-.9	.9	-1.0	.9
Food	1.6	1.0	1.1	.5	.6	.6
General merchandise <sup>3</sup>	3.9	.8	1.7	.3	.9	-.1
Gasoline stations	-1.8	6.4	6.4	2.8	2.0	.3
Other nondurable goods <sup>4</sup>	3.9	2.9	1.5	1.2	.5	.6
Eating and drinking	1.2	1.7	.6	-.1	.6	.8
Drug and proprietary	4.3	2.8	1.2	.8	.8	1.4

1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.

2. General merchandise, apparel, furniture, and appliance stores.

3. Excludes mail-order nonstores; mail-order sales are also excluded from the GAF grouping.

4. Also includes sales at liquor stores and mail order houses.

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

	1999 Mar.	1999 Apr.	1999 May	1999 June	1999 July	1999 Aug.	1999 Sept.	1999 Oct.	1999 Nov (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	105.7	104.6	106.8	107.3	106.0	104.5	107.2	103.2	107.7
Current conditions	116.3	115.9	121.1	118.9	116.5	114.1	115.9	112.7	118.5
Expected conditions	99.0	97.4	97.6	99.8	99.2	98.4	101.5	97.1	100.7
-----									
Personal financial situation									
Now compared with 12 months ago*	130	134	133	133	132	132	132	127	142
Expected in 12 months*	134	136	135	133	135	139	135	133	140
Expected business conditions									
Next 12 months*	141	141	144	147	147	140	150	140	147
Next 5 years*	123	115	114	122	118	118	124	118	120
Appraisal of buying conditions									
Cars	152	150	151	150	153	148	145	146	148
Large household appliances*	172	167	182	176	171	165	169	166	166
Houses	167	168	171	168	167	153	149	149	153
Willingness to use credit	51	49	52	53	49	50	47	48	50
Willingness to use savings	80	73	75	88	73	65	62	59	67
Expected unemployment change - next 12 months	113	109	110	102	109	113	110	112	114
Prob. household will lose a job - next 5 years	21	23	22	20	24	21	20	20	19
Expected inflation - next 12 months									
Mean	3.1	3.0	3.2	3.1	3.0	3.2	3.2	3.5	3.1
Median	2.7	2.7	2.8	2.5	2.7	2.8	2.7	2.9	2.7
Expected inflation - next 5 to 10 years									
Mean	3.0	3.0	3.5	3.3	3.3	3.3	3.5	3.2	3.3
Median	2.7	2.8	2.9	2.8	2.9	2.8	2.9	2.8	2.8

\* -- 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, plus 100.

expected inflation over the next five to ten years edged up to 3.3 percent in November while the median was unchanged at 2.8 percent.

### **Retail Inventories**

The book value of retail inventories rose at an annual rate of \$10.8 billion in September. Excluding autos, retail inventories increased at an annual rate of \$11.2 billion, close to the average pace recorded in the first two months of the quarter and about unchanged from the second-quarter pace. However, with non-auto retail sales rising 1.4 percent in the third quarter (not at an annual rate), the inventory-sales ratio for this category fell to 1.35 months, the lowest quarterly ratio since 1980.

Inventories held by outlets selling nondurable goods increased at an \$8.3 billion pace in September, led by stockbuilding at food stores and at "other nondurable goods" establishments--the category that includes eating and drinking places, and drug and proprietary stores. In contrast, apparel stores liquidated inventories in September for the third consecutive month. Non-auto inventories held by durable goods retailers expanded at an annual rate of \$2.8 billion in September, as the accumulation that occurred in the miscellaneous "other durable goods" category more than offset the drawdown in stocks at lumber and building materials retailers.

For the quarter as a whole, total manufacturing and trade inventories (excluding motor vehicles) rose at an annual rate of \$42.8 billion in book value terms, up substantially from the \$12.9 billion pace reported in the second quarter. Nonetheless, the retail inventory data for September were weaker than the BEA assumed in its advance estimate of real GDP. They were also a bit below the estimate that we incorporated into our November Greenbook forecast and would reduce our estimate of the change in real GDP in the third quarter to an annual rate of about 5-1/4 percent.

### **Productivity and Costs**

The BLS reported that output per hour of all persons in the nonfarm business sector rose at an annual rate of 4.2 percent in the third quarter, up from the 0.6 percent rate of increase in the second quarter. The sharp rise in labor productivity reflected a 5.7 percent increase in real output in the nonfarm

CHANGES IN MANUFACTURING AND TRADE INVENTORIES  
(Billions of dollars; annual rate except as noted;  
based on seasonally adjusted Census book value)

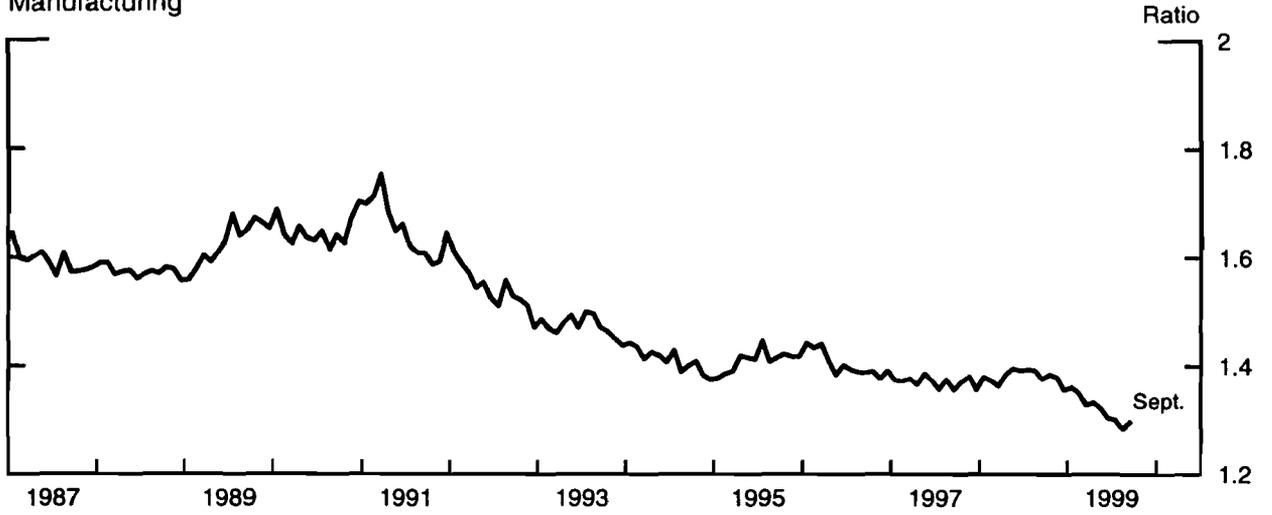
Category	1999			1999		
	Q1	Q2	Q3	July	Aug.	Sept.
Manufacturing and trade	34.3	34.8	44.2	41.7	41.5	49.3
Less wholesale and retail motor vehicles	10.2	12.9	42.8	49.9	35.4	43.1
Manufacturing	-12.9	-3.6	10.6	28.2	-8.3	11.9
Less aircraft	-3.0	5.1	13.3	21.2	10.2	8.4
Merchant wholesalers	7.5	8.0	25.6	31.4	18.9	26.5
Less motor vehicles	6.5	6.2	21.3	26.5	17.5	20.0
Retail trade	39.7	30.3	7.9	-17.9	30.9	10.8
Automotive dealers	23.1	20.1	-2.9	-13.0	4.7	-.4
Less automotive dealers	16.6	10.2	10.9	-4.9	26.2	11.2

SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE  
(Months' supply, based on seasonally adjusted Census book value)

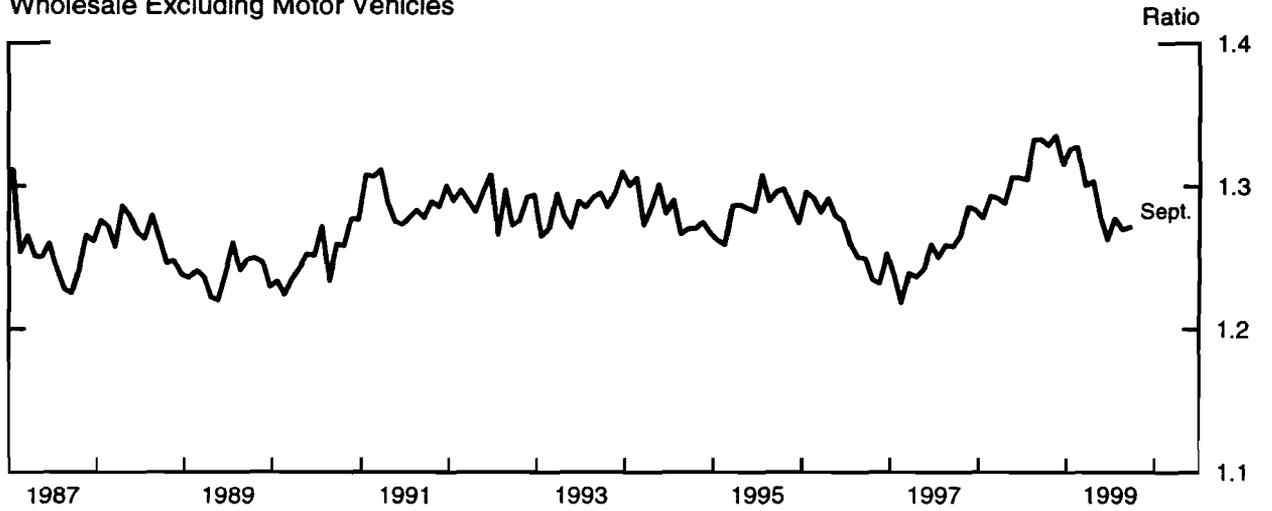
Category	Cyclical reference points		Range over preceding 12 months		September 1999
	1990-91	1991-98	High	Low	
	high	low			
Manufacturing and trade	1.58	1.37	1.39	1.33	1.33
Less wholesale and retail motor vehicles	1.55	1.34	1.37	1.29	1.30
Manufacturing	1.75	1.36	1.38	1.28	1.30
Primary metals	2.08	1.46	1.74	1.56	1.54
Steel	2.56	1.59	2.25	1.94	1.93
Nonelectrical machinery	2.48	1.61	1.66	1.52	1.60
Electrical machinery	2.08	1.21	1.26	1.17	1.16
Transportation equipment	2.93	1.51	1.62	1.39	1.45
Motor vehicles	.97	.53	.55	.51	.51
Aircraft	5.84	4.05	4.48	3.68	4.36
Nondefense capital goods	3.09	2.04	2.11	1.87	1.96
Textiles	1.71	1.38	1.59	1.53	1.56
Paper	1.32	1.06	1.23	1.14	1.16
Chemicals	1.44	1.25	1.45	1.33	1.33
Petroleum	.94	.80	.99	.76	.75
Home goods & apparel	1.96	1.59	1.75	1.53	1.61
Merchant wholesalers	1.36	1.24	1.35	1.28	1.29
Less motor vehicles	1.31	1.22	1.34	1.26	1.27
Durable goods	1.83	1.54	1.66	1.56	1.57
Nondurable goods	.95	.90	1.01	.95	.97
Retail trade	1.61	1.44	1.46	1.42	1.43
Less automotive dealers	1.48	1.38	1.40	1.35	1.34
Automotive dealers	2.22	1.59	1.74	1.61	1.67
General merchandise	2.42	2.00	2.04	1.91	1.91
Apparel	2.53	2.28	2.49	2.25	2.25
GAF	2.41	2.06	2.11	1.97	1.96

### Inventory-Sales Ratios, by Major Sector (Book value)

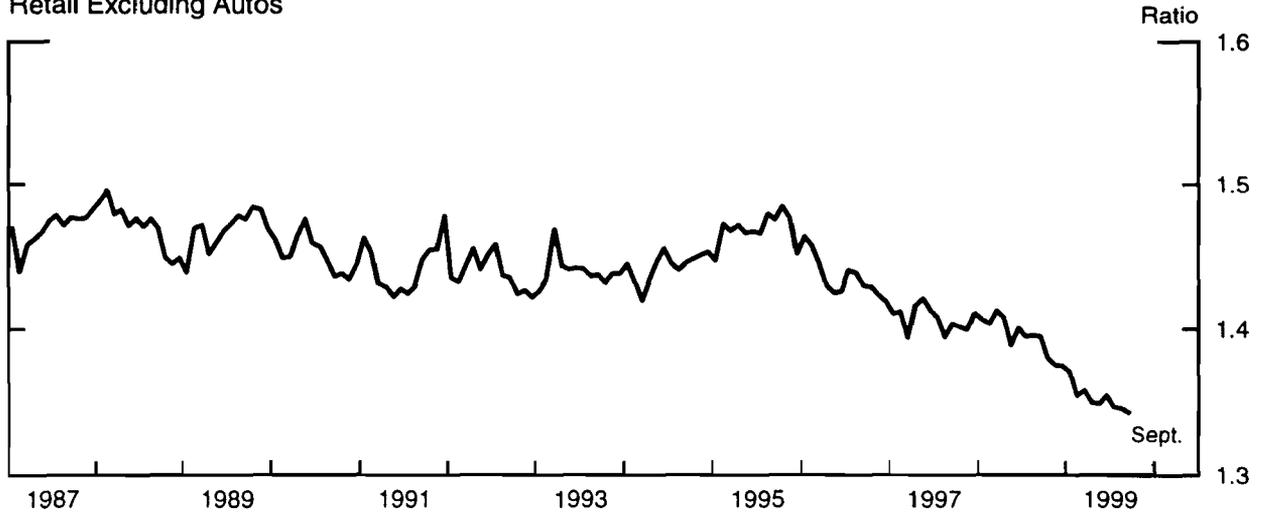
Manufacturing



Wholesale Excluding Motor Vehicles



Retail Excluding Autos



business sector and a 1.5 percent increase in hours of all persons.<sup>1</sup> Over the four quarters ending in the third quarter of 1999, productivity increased 2.9 percent, up from the 2.4 percent rise over the previous four quarters. Taking into account our expected revisions to the third-quarter NIPA figures would raise our current estimate of the change in productivity in the third quarter to about 5-1/4 percent (annual rate); the increase over the past four quarters would be roughly 3-1/4 percent.

**LABOR PRODUCTIVITY AND COSTS**  
(Percent change from preceding period at compound annual rate;  
based on seasonally adjusted data)

Item	1997 <sup>1</sup>	1998 <sup>1</sup>	1999			1998:Q3 to 1999:Q3
			Q1	Q2	Q3	
<b>Nonfarm business sector</b>						
Output per hour	2.2	3.1	2.7	.6	4.2	2.9
Compensation per hour	4.2	5.3	4.2	4.8	4.8	4.6
Unit labor costs	2.0	2.1	1.4	4.2	.6	1.7
<b>Nonfinancial corporations<sup>2</sup></b>						
Output per hour	3.3	4.1	4.1	3.2	n.a.	4.1 <sup>3</sup>
Compensation per hour	4.3	5.4	4.7	4.8	n.a.	5.2 <sup>3</sup>
Unit labor costs	1.0	1.2	.6	1.6	n.a.	1.1 <sup>3</sup>

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.

2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.

3. Percent change from 1998:Q2 to 1999:Q2.

Hourly compensation of all persons in the nonfarm business sector rose at an annual rate of 4.8 percent in the third quarter, unchanged from the second-quarter pace. Over the most recent four quarters, hourly compensation increased 4.6 percent, down from the 5.7 percent rise in the previous four quarters. Unit labor costs edged up at an annual rate of 0.6 percent last quarter and have increased 1.7 percent since the third quarter of 1998.

With today's release, the BLS published revised estimates of productivity and costs in the nonfarm business sector and the nonfinancial corporate sector for

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1. In putting together the Greenbook, we estimated that hours of all persons in the nonfarm business sector would increase at an annual rate of 2.4 percent in the third quarter; this estimate was almost a percentage point too high. The error reflected our underestimate of the decline in hours of self-employed workers.

the period from 1959 to the middle of 1999, which incorporate data from the comprehensive revision of the national income and product accounts. For the nonfarm business sector, the BLS revised up its estimates of productivity growth during the 1990s by about 0.3 percentage point per year, on average.<sup>2</sup> The revised data eliminate the slowdown in productivity growth in the early 1990s that was apparent in the pre-revision data. The revised data remain consistent with a sharp acceleration in productivity in the middle of 1995, and another acceleration at the end of 1997. However, the revised data suggest that the acceleration at the end of 1997 is somewhat more gradual (0.3 percentage point) than in the unrevised data (0.5 percentage point).

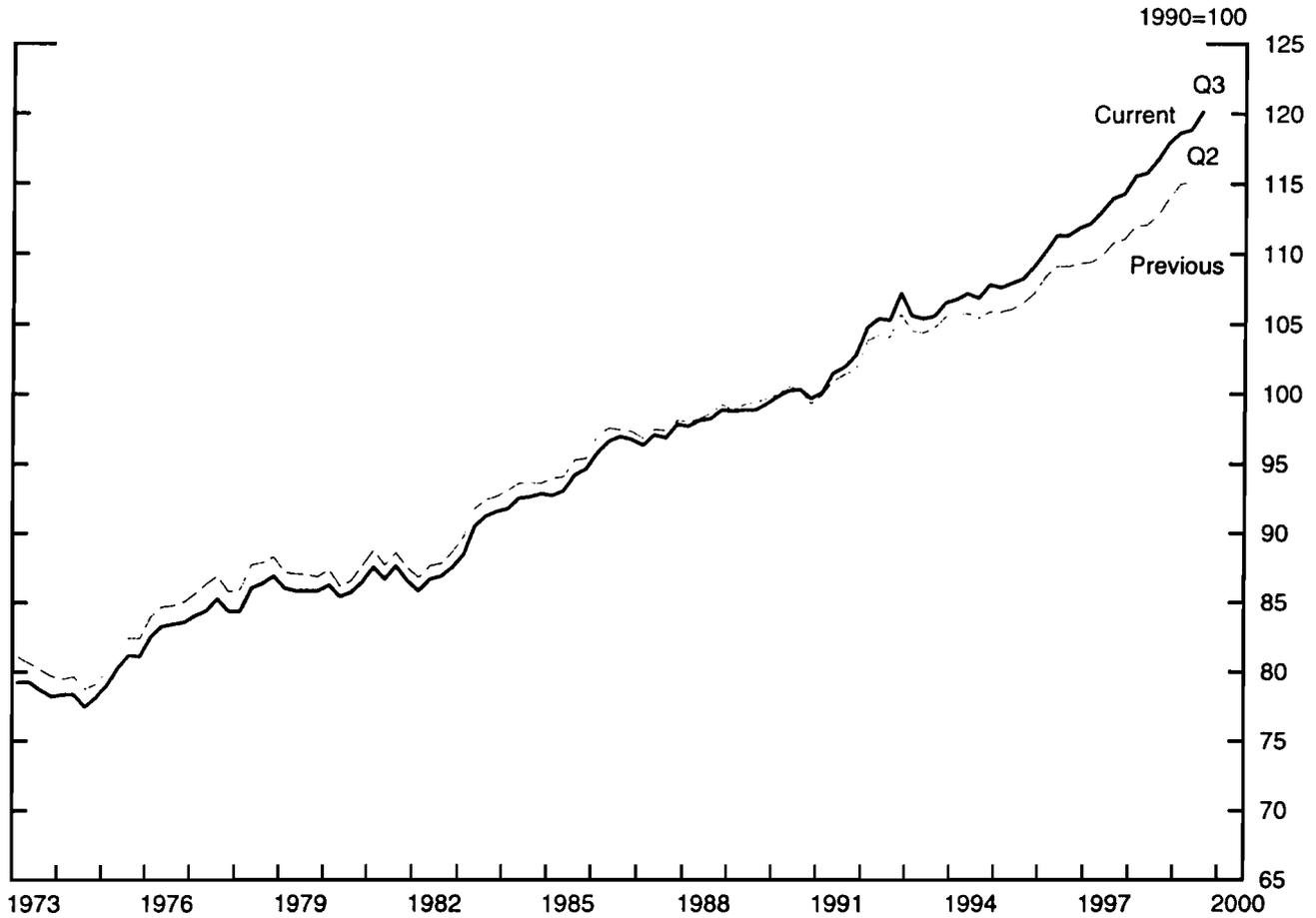
The revised data also show a different pattern for the increases in hourly compensation in the nonfarm business sector over the past several years. Most notably, the four-quarter change through the second quarter of 1999, previously reported as 4.3 percent was revised up to 4.9 percent, while the change over the prior four quarters was revised up even more, from 4.3 percent to 5.3 percent. With these revisions in place, this measure of hourly compensation in the nonfarm business sector now shows a sizable deceleration, a pattern similar to the employment cost index and average hourly earnings.

The revisions for the nonfinancial corporate sector were similar to those for the nonfarm business sector. The BLS revised up productivity growth in the 1990s by approximately 0.3 percentage point per year, although in this case the largest revisions were to the data for the most recent year and a half (0.5 percentage point on average). The BLS now estimates that productivity growth for nonfinancial corporations averaged 4.0 percent from the end of 1997 to the first half of 1999, up from the 3.5 percent previously published.

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2. As in the Appendix to the Domestic Nonfinancial Developments section of the November Greenbook, the data in the text and the chart are shown on a methodologically consistent basis.

**Productivity in the Nonfarm Business Sector\***



**Productivity Growth**  
(Percent change, annual rate)

	<u>1980:Q1 to</u> <u>1990:Q2</u>	<u>1990:Q2 to</u> <u>1995:Q2</u>	<u>1995:Q2 to</u> <u>1997:Q4</u>	<u>1997:Q4 to</u> <u>1999:Q2</u>
<b>Nonfarm business</b>				
Current	1.5	1.5	2.3	2.6
Previous	1.4	1.1	1.9	2.4
<b>Nonfinancial corporate</b>				
Current	2.2	2.0	3.1	4.0
Previous	2.1	1.7	2.8	3.5

\* Staff estimates. All figures are shown on a methodologically consistent basis.

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

Instrument	1998		1999		Change to Nov. 10 from selected dates (percentage points)		
	Oct. 15	Dec. 31	FOMC* Oct. 5	Nov. 10	1998 Oct. 15	1998 Dec. 31	FOMC* Oct. 5
<i>Short-term</i>							
FOMC intended federal funds rate	5.00	4.75	5.25	5.25	.25	.50	.00
<i>Treasury bills</i> <sup>1</sup>							
3-month	4.05	4.37	4.69	5.05	1.00	.68	.36
6-month	4.12	4.39	4.81	5.18	1.06	.79	.37
1-year	4.06	4.33	4.98	5.21	1.15	.88	.23
<i>Commercial paper</i>							
1-month	5.27	4.90	5.30	5.26	-.01	.36	-.04
3-month	5.13	4.84	5.96	5.75	.62	.91	-.21
<i>Large negotiable CDs</i> <sup>1</sup>							
1-month	5.35	5.01	5.38	5.37	.02	.36	-.01
3-month	5.31	4.97	6.08	5.95	.64	.98	-.13
6-month	5.10	4.97	5.97	5.95	.85	.98	-.02
<i>Eurodollar deposits</i> <sup>2</sup>							
1-month	5.34	4.94	5.31	5.31	-.03	.37	.00
3-month	5.28	4.94	6.00	5.94	.66	1.00	-.06
Bank prime rate	8.25	7.75	8.25	8.25	.00	.50	.00
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	4.13	4.54	5.70	5.81	1.68	1.27	.11
10-year	4.58	4.65	5.95	6.00	1.42	1.35	.05
30-year	5.02	5.09	6.10	6.09	1.07	1.00	-.01
U.S. Treasury 10-year indexed note	3.69	3.88	4.07	4.08	.39	.20	.01
Municipal revenue (Bond Buyer) <sup>3</sup>	5.21	5.26	5.96	6.09	.88	.83	.13
Corporate bonds, Moody's seasoned Baa	7.26	7.23	8.23	8.13	.87	.90	-.10
High-yield corporate <sup>4</sup>	11.28	10.17	10.99	10.89	-.39	.72	-.10
<i>Home mortgages (FHLMC survey rate)<sup>5</sup></i>							
30-year fixed	6.49	6.77	7.70	7.84	1.35	1.07	.14
1-year adjustable	5.36	5.58	6.12	6.34	.98	.76	.22

Stock exchange index	Record high		1998	1999		Change to Nov. 10 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* Oct. 5	Nov. 10	Record high	Dec. 31	FOMC* Oct. 5
Dow-Jones Industrial	11,326.04	8-25-99	9,181.43	10,401.23	10,597.74	-6.43	15.43	1.89
S&P 500 Composite	1,418.78	7-16-99	1,229.23	1,304.60	1,373.46	-3.19	11.73	5.28
Nasdaq (OTC)	3,155.96	11-10-99	2,192.69	2,795.97	3,155.96	.00	43.93	12.88
Russell 2000	491.41	4-21-98	421.96	426.61	448.72	-8.69	6.34	5.18
Wilshire 5000	12,976.99	7-16-99	11,317.59	11,892.90	12,653.60	-2.49	11.80	6.20

1. Secondary market.

2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.

3. Most recent Thursday quote.

4. Merrill Lynch 175 high-yield bond index composite.

5. For week ending Friday previous to date shown.

\* Data are as of the close on October 4, 1999.