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August 18, 2000

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

Consumer Sentiment

According to the preliminary report, the University of Michigan Survey Research Center's overall index of consumer sentiment was little changed in early August and remained a bit above the elevated level registered, on average, over the past two years. Assessments of current conditions moved down in early August, as in the preceding two months, and now stand in the lower end of the range recorded over the past two years.¹ In contrast, assessments of expected conditions held steady in early August and remained in the upper end of their range during the past two years.

Among those questions not in the overall index, appraisals of buying conditions for cars popped up in August; appraisals of buying conditions for homes rose modestly, but remained well below the average seen in the winter and early spring. Expectations about changes in unemployment over the next twelve months were a shade more favorable in early August than in July.

Expected inflation over the next twelve months fell somewhat in early August: The mean decreased 0.4 percentage point to 3.3 percent while the median decreased 0.3 percentage point to 2.7 percent. However, expected inflation over the next five years rose a little: The mean increased 0.2 percentage point to 3.4 percent, and the median increased 0.1 percentage point to 2.9 percent.

1. At the end of May, the current conditions index registered its second highest value since monthly readings of the series began in 1978.

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

	1999 Dec.	2000 Jan.	2000 Feb.	2000 Mar.	2000 Apr.	2000 May	2000 June	2000 July	2000 Aug (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	105.4	112.0	111.3	107.1	109.2	110.7	106.4	108.3	107.8
Current conditions	112.2	117.3	116.8	115.4	117.8	119.9	115.1	114.2	112.9
Expected conditions	101.1	108.6	107.8	101.7	103.7	104.8	100.8	104.5	104.5

Personal financial situation									
Now compared with 12 months ago*	133	135	132	135	130	138	129	130	125
Expected in 12 months*	132	141	138	136	137	137	137	139	140
Expected business conditions									
Next 12 months*	150	165	161	146	152	153	146	148	152
Next 5 years*	125	133	136	128	130	133	123	135	130
Appraisal of buying conditions									
Cars	141	144	153	134	148	145	138	141	149
Large household appliances*	158	169	172	165	176	173	170	167	168
Houses	154	152	153	150	151	136	128	136	138
Willingness to use credit									
Willingness to use credit	50	51	48	52	54	45	49	44	49
Willingness to use savings									
Willingness to use savings	70	85	75	67	70	65	79	70	70
Expected unemployment change - next 12 months									
Expected unemployment change - next 12 months	105	104	106	109	109	104	112	111	110
Prob. household will lose a job - next 5 years									
Prob. household will lose a job - next 5 years	19	19	21	20	19	18	21	23	21
Expected inflation - next 12 months									
Mean	3.6	3.5	3.5	3.8	3.5	3.5	3.4	3.7	3.3
Median	3.0	3.0	2.9	3.2	3.2	3.0	2.9	3.0	2.7
Expected inflation - next 5 to 10 years									
Mean	3.2	3.5	3.3	3.8	3.2	3.4	3.3	3.2	3.4
Median	2.9	3.0	2.9	3.1	2.8	2.9	2.8	2.8	2.9

* -- 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.

U.S. International Transactions

Trade in Goods and Services

In June, the U.S. trade deficit in goods and services was \$30.6 billion, not much different from the size of deficits recorded in the previous three months. For the second quarter, the deficit was \$366 billion at an annual rate, \$21 billion larger than in the first quarter.

Net Trade in Goods and Services (Billions of dollars, seasonally adjusted)

	1999	Annual rate			Monthly rate		
		1999	2000		2000		
		Q4	Q1	Q2	Apr.	May	June
<i>Real NIPA¹</i>							
Net exports of G&S	-322.4	-352.5	-376.8	-416.1
<i>Nominal BOP</i>							
Net exports of G&S	-265.0	-305.1	-344.7	-365.7	-30.5	-30.3	-30.6
Goods, net	-345.6	-384.9	-423.4	-440.9	-36.9	-36.5	-36.8
Services, net	80.6	79.8	78.7	75.2	6.4	6.2	6.2

1. Billions of chained (1996) dollars.

Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

n.a. Not available. ... Not applicable.

The value of exports of goods and services in June jumped sharply with increases recorded in all major trade categories, particularly semiconductors, computers, and other machinery. For the second quarter, nominal exports of goods and services rose at an annual rate of 14 percent. Almost all of the increase was in capital goods. Exports of high tech goods (computers, semiconductors, and telecommunications equipment) and other machinery rose strongly. The increase in aircraft exports in the second quarter reversed a decline in the first quarter when Boeing was on strike.

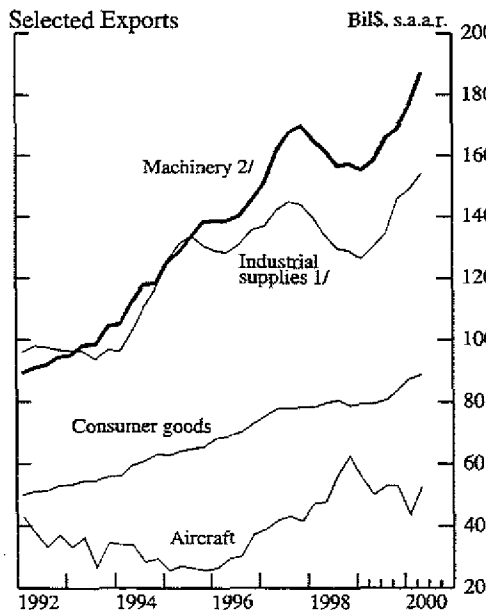
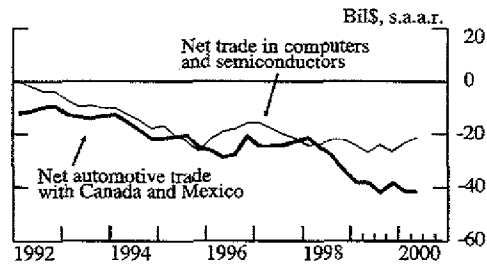
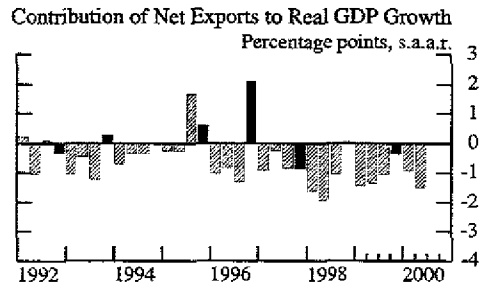
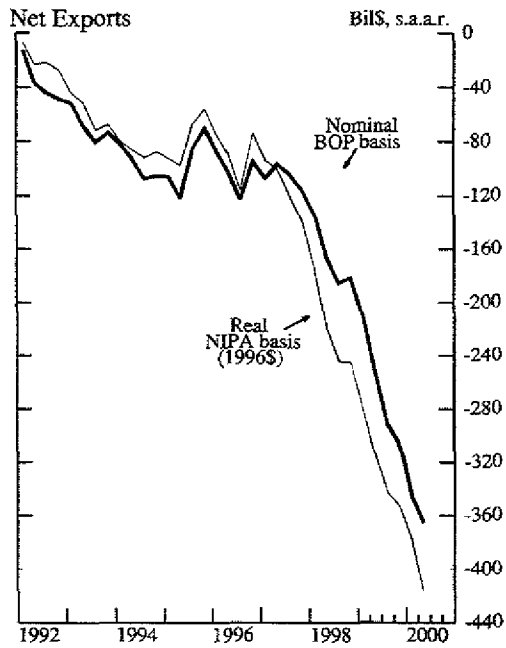
The value of imports of goods and services also grew strongly in June, particularly oil (both price and quantity), automotive products (reversing declines in May), and computers and semiconductors. For the second quarter, the nominal value of imports of goods and services jumped at an annual rate of 17 percent. The sharpest increases were in oil (mostly quantity), consumer goods, and capital equipment.

Implications for NIPA Real Net Exports

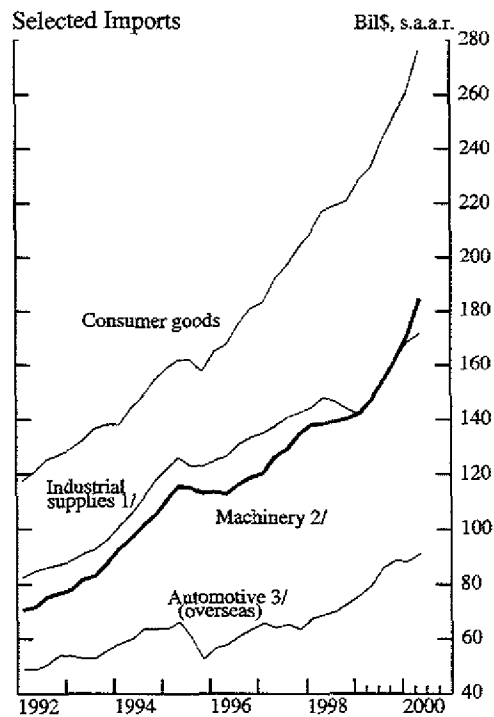
U.S. trade data for June, and revisions for May, suggest that NIPA real net exports in 2000:Q2 could be \$6-1/2 billion (seasonally adjusted, annual rate) stronger (smaller deficit) than estimated in the August Greenbook. Both exports and imports were substantially higher in the second quarter than we anticipated,

with real exports \$15 billion stronger and real imports \$8-1/2 billion stronger. A rough estimate suggests that BEA's Advance NIPA estimate for net exports could be revised by similar amounts.

U.S. International Trade in Goods and Services



1. Excludes agriculture and gold.
2. Excludes computers and semiconductors.



1. Excludes oil and gold.
2. Excludes computers and semiconductors.
3. Excludes Canada and Mexico.

U.S. Exports and Imports of Goods and Services
(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change ¹			
	2000		2000		2000		2000	
	Q1	Q2	May	June	Q1	Q2	May	June
Exports of G&S	1020.1	1054.9	1038.8	1086.8	21.5	34.7	-0.2	48.0
Goods exports	734.9	767.2	753.0	797.9	14.6	32.3	2.2	45.0
Agricultural	52.5	52.9	53.8	54.0	2.5	0.4	2.8	0.2
Gold	9.6	3.7	2.7	5.2	0.9	-5.9	-0.6	2.5
Other goods	672.8	710.6	696.5	738.8	11.2	37.8	0.0	42.3
Aircraft & pts	43.6	52.9	56.5	55.5	-9.4	9.2	9.8	-1.0
Computers	51.2	55.3	52.4	57.1	3.4	4.1	-4.1	4.7
Semiconductors	52.5	59.6	57.8	65.1	1.2	7.1	1.9	7.3
Other cap gds	179.0	189.4	182.0	196.5	7.2	10.4	-7.6	14.5
Automotive	80.3	80.1	78.8	84.6	2.8	-0.2	1.8	5.8
to Canada	47.5	45.0	44.5	46.9	0.2	-2.5	0.8	2.5
to Mexico	15.9	17.3	17.1	18.4	2.2	1.4	0.7	1.3
to ROW	17.0	17.8	17.3	19.2	0.4	0.8	0.3	1.9
Ind supplies	148.8	154.1	152.1	158.3	3.3	5.3	0.1	6.2
Consumer goods	87.3	88.7	86.0	93.7	3.7	1.4	-0.6	7.7
All other	30.0	30.4	31.0	28.1	-1.1	0.4	-0.5	-2.9
Services exports	285.2	287.6	285.8	288.8	7.0	2.4	-2.4	3.0
Imports of G&S	1364.8	1420.6	1402.5	1454.2	61.1	55.7	-2.5	51.7
Goods imports	1158.3	1208.1	1190.7	1240.1	53.0	49.8	-2.8	49.4
Petroleum	108.0	117.3	113.7	129.2	22.3	9.3	4.6	15.5
Gold	9.6	3.0	2.3	4.2	0.3	-6.6	-0.0	1.8
Other goods	1040.6	1087.8	1074.7	1106.7	30.4	47.2	-7.4	32.1
Aircraft & pts	23.2	24.7	24.5	24.5	-0.9	1.5	-0.5	-0.0
Computers	83.8	90.0	88.0	91.5	0.1	6.1	-2.4	3.5
Semiconductors	43.2	46.4	45.9	50.2	1.5	3.1	2.9	4.4
Other cap gds	173.9	187.5	187.4	189.6	8.8	13.5	1.8	2.2
Automotive	193.3	195.2	187.4	200.1	5.3	1.9	-10.6	12.7
from Canada	66.1	63.3	60.7	66.2	0.8	-2.8	-2.3	5.5
from Mexico	38.9	40.7	39.2	42.4	5.0	1.8	-1.3	3.1
from ROW	88.3	91.2	87.5	91.6	-0.5	2.9	-7.0	4.1
Ind supplies	168.4	171.6	171.1	174.5	6.3	3.2	1.9	3.5
Consumer goods	260.5	276.4	276.4	277.5	7.6	15.9	1.1	1.1
Foods	44.6	45.6	45.6	46.1	0.0	1.1	0.4	0.5
All other	49.6	50.5	48.4	52.7	1.6	0.9	-2.0	4.3
Services imports	206.6	212.5	211.8	214.1	8.1	5.9	0.3	2.3
<i>Memo:</i>								
Oil quantity (mb/d)	11.35	12.00	12.11	12.11	0.75	0.65	0.32	0.00
Oil import price (\$/bbl)	25.98	25.40	25.44	25.44	3.83	-0.58	0.11	0.00

1. Change from previous quarter or month.

Source: U.S. Department of Commerce, Bureau of Economic Analysis and Census.

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	1999	2000			Change to Aug. 17 from selected dates (percentage points)		
	FOMC* June 30	FOMC** May 16	FOMC*** June 28	Aug. 17	FOMC* June 30	FOMC** May 16	FOMC*** June 28
<i>Short-term</i>							
FOMC intended federal funds rate	4.75	6.00	6.50	6.50	1.75	.50	.00
<i>Treasury bills</i> ¹							
3-month	4.70	5.94	5.67	6.09	1.39	.15	.42
6-month	4.92	6.24	5.96	6.07	1.15	-.17	.11
1-year	4.89	6.05	5.82	5.89	1.00	-.16	.07
<i>Commercial paper</i>							
1-month	5.18	6.47	6.56	6.47	1.29	.00	-.09
3-month	5.12	6.59	6.58	6.47	1.35	-.12	-.11
<i>Large negotiable CDs</i> ¹							
1-month	5.21	6.55	6.66	6.55	1.34	.00	-.11
3-month	5.32	6.74	6.74	6.61	1.29	-.13	-.13
6-month	5.43	6.97	6.89	6.75	1.32	-.22	-.14
<i>Eurodollar deposits</i> ²							
1-month	5.13	6.53	6.66	6.53	1.40	.00	-.13
3-month	5.25	6.72	6.72	6.59	1.34	-.13	-.13
Bank prime rate	7.75	9.00	9.50	9.50	1.75	.50	.00
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	5.68	6.88	6.50	6.30	.62	-.58	-.20
10-year	5.93	6.47	6.10	5.81	-.12	-.66	-.29
30-year	6.07	6.17	5.95	5.72	-.35	-.45	-.23
U.S. Treasury 10-year indexed note	4.01	4.21	4.08	4.02	.01	-.19	-.06
Municipal revenue (Bond Buyer) ³	5.62	6.23	5.99	5.76	.14	-.47	-.23
<i>Private instruments</i>							
10-year swap	6.81	7.82	7.33	7.09	.28	-.73	-.24
10-year FNMA	6.59	7.70	7.15	-	-	-	-
Merrill Lynch BBB	7.60	8.86	8.49	8.25	.65	-.61	-.24
High yield ⁴	10.53	11.94	11.98	11.81	1.28	-.13	-.17
<i>Home mortgages (FHLMC survey rate)⁵</i>							
30-year fixed	7.63	8.52	8.14	8.04	.41	-.48	-.10
1-year adjustable	5.93	6.96	7.22	7.28	1.35	.32	.06

Stock exchange index	Record high		2000			Change to Aug. 17 from selected dates (percent)		
	Level	Date	FOMC** May 16	FOMC*** June 28	Aug. 17	Record high	FOMC** May 16	FOMC*** June 28
Dow-Jones Industrial								
S&P 500 Composite	1,527	3-24-00	1,452	1,451	1,496	-2.06	2.07	3.14
Nasdaq (OTC)	5,049	3-10-00	3,608	3,859	3,941	-21.94	6.19	2.12
Russell 2000	606	3-9-00	498	508	516	-14.79	2.11	1.65
Wilshire 5000	14,752	3-24-00	13,438	13,537	13,941	-5.50	2.53	2.99

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 June 29, 1999.
 ** Data are as of the close on May 15, 2000.
 *** Data are as of the close on June 27, 2000