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November 2, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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Supplemental Notes

The Domestic Nonfinancial Economy

The Labor Market

The labor market deteriorated dramatically in October, with the unemployment rate jumping half a percentage point and private payroll employment falling by 439,000, the largest one-month drop since 1975. Although travel and tourism-related industries suffered especially large employment declines, almost all major sectors posted job losses last month. Aggregate hours of production or nonsupervisory workers fell 0.7 percent, its largest decline this year.

Manufacturing employment declined 142,000 in October and has fallen by more than 1.1 million over the past year. The transportation equipment industry was the hardest hit, losing 26,000 jobs. As in previous months, the electrical equipment and industrial machinery industries also suffered large employment decreases. Overall, factory job losses were again very widespread, and the three-month diffusion index of employment change in manufacturing remained close to its lowest level since 1982.

Though manufacturing suffered the largest employment decline of any major industry, the majority of last month's job cuts occurred outside of manufacturing—a reversal of the pattern prevailing earlier this year. In particular, employment in travel and tourism-related industries fell sharply in the aftermath of the September 11 terrorist attack: The airlines and transportation services industries (largely travel agents) lost a combined 53,000 jobs, hotel employment dropped 46,000, and eating and drinking establishments shed 42,000 jobs. In addition, help supply services cut 107,000 jobs in October. Elsewhere, the construction industry, which had maintained a steady level of employment over the last three months, cut 30,000 workers, and wholesale trade lost 23,000 jobs.

In addition to the decline in employment, the average workweek fell 0.1 hour to 34.0 hours in October, and the manufacturing workweek decreased 0.2 hour to 40.4 hours, 1.2 hours below the level of a year ago. With October's decline, the index of aggregate weekly hours of production or nonsupervisory workers stood 1 percent below the average level in the third quarter.

The unemployment rate in October reached 5.4 percent, the highest level since 1996 and 1.4 percentage points above its level of a year ago. The number of job losers unemployed for fewer than five weeks as a percent of household employment (a proxy for the layoff rate) shot up to 1.33 percent, the highest level since March 1991; the increase in unemployed job losers accounts for nearly all of the rise in unemployment over the past year. The number of workers who work part time for economic reasons jumped for the second consecutive month, and, at 4.5 million, is about 1.1 million higher than in

CHANGES IN EMPLOYMENT
(Thousands of employees; based on seasonally adjusted data)

| | 2000 | | 2001 | | 2001 | | |
|---|----------------------------|-----|------|------|-------|-------|------|
| | H1 | H2 | Q2 | Q3 | Aug. | Sept. | Oct. |
| | --Average monthly change-- | | | | | | |
| Nonfarm payroll employment ¹ | 267 | 66 | -74 | -83 | -54 | -213 | -415 |
| Previous | 267 | 66 | -74 | -88 | -84 | -199 | |
| Private | 178 | 121 | -113 | -141 | -127 | -211 | -439 |
| Mining | 1 | 1 | 3 | 1 | 2 | -1 | -2 |
| Manufacturing | 5 | -29 | -120 | -105 | -155 | -90 | -142 |
| Construction | 16 | 21 | -22 | -1 | -6 | 1 | -30 |
| Transportation and utilities | 13 | 16 | -3 | -19 | -26 | -20 | -55 |
| Retail trade | 31 | 21 | 35 | -13 | -23 | -61 | -81 |
| Wholesale trade | 9 | 8 | -15 | -11 | -7 | -22 | -23 |
| Finance, insurance, real estate | -7 | 7 | 4 | -1 | 5 | 5 | 5 |
| Services | 110 | 76 | 4 | 7 | 83 | -23 | -111 |
| Help supply services | 15 | -19 | -44 | -17 | -14 | -2 | -107 |
| Total government | 90 | -54 | 39 | 58 | 73 | -2 | 24 |
| Total employment (household survey) | 114 | 109 | -283 | 83 | -986 | 788 | -619 |
| Nonagricultural | 116 | 115 | -227 | 8 | -1058 | 685 | -599 |

Memo:

| | | | | | | | |
|---|------|------|------|------|------|------|------|
| Aggregate hours of private production workers (percent change) ^{1,2} | 2.1 | 0.2 | -1.5 | -3.0 | -0.5 | -0.1 | -0.7 |
| Average workweek (hours) ¹ | 34.5 | 34.3 | 34.2 | 34.1 | 34.0 | 34.1 | 34.0 |
| Manufacturing (hours) | 41.8 | 41.3 | 40.8 | 40.7 | 40.7 | 40.6 | 40.4 |

Note. Average change from final month of preceding period to final month of period indicated.

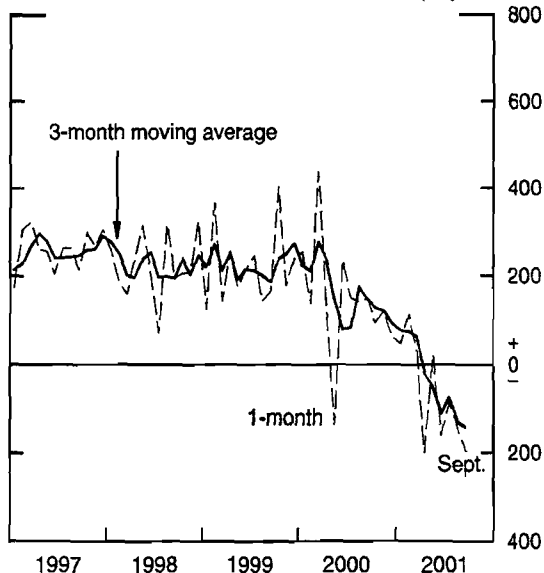
1. Survey of establishments.

2. 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.

Private Payroll Employment Growth

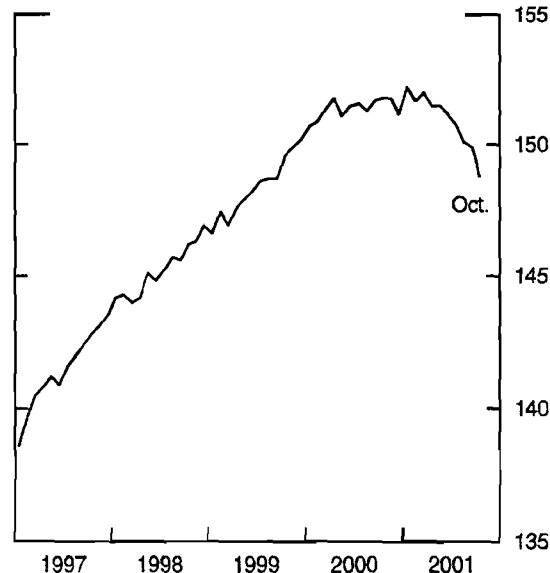
(Strike-adjusted data)

Thousands of employees



Aggregate Hours of Production or Nonsupervisory Workers

1982 = 100

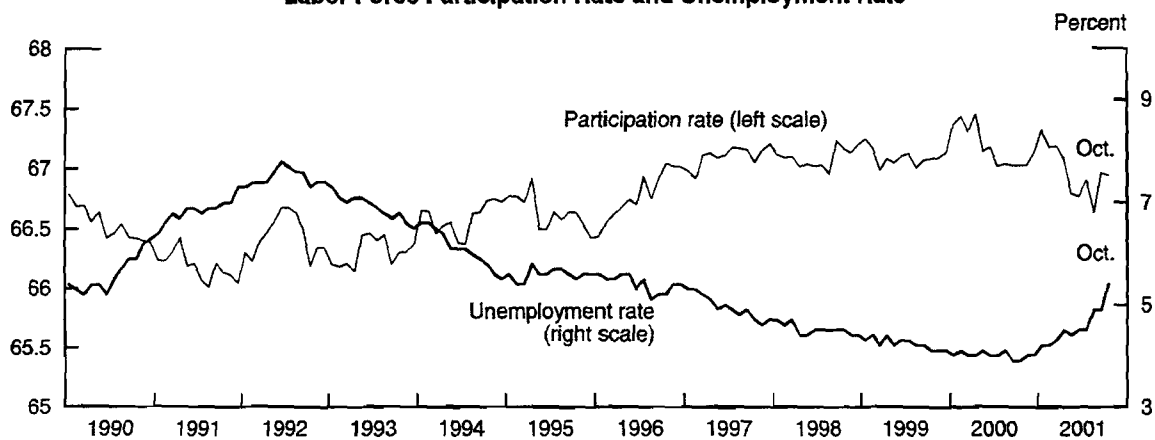


SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

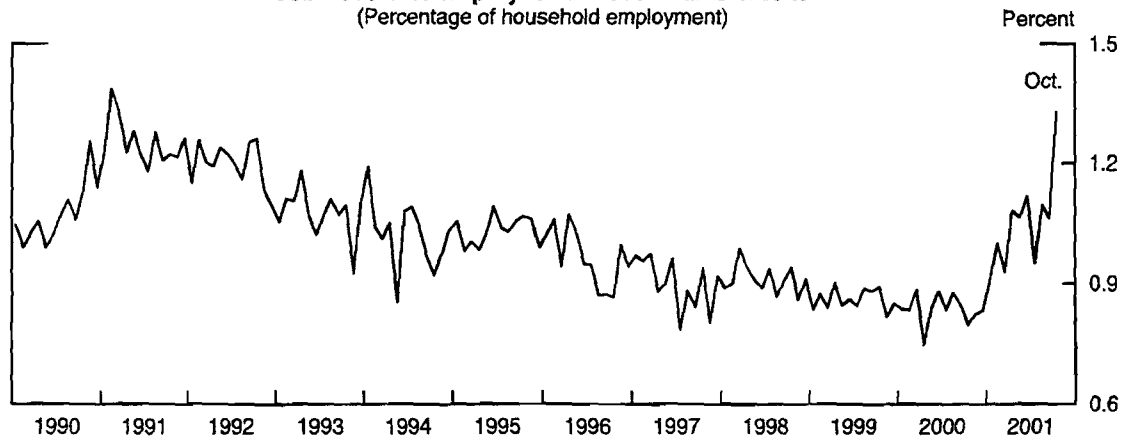
| | 1999 | 2000 | 2001 | | | 2001 | | |
|--|------|------|------|------|------|------|-------|------|
| | | | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| Civilian unemployment rate (16 years and older) | 4.2 | 4.0 | 4.2 | 4.5 | 4.8 | 4.9 | 4.9 | 5.4 |
| Teenagers | 13.9 | 13.1 | 13.7 | 14.0 | 15.2 | 16.1 | 14.7 | 15.5 |
| 20-24 years old | 7.5 | 7.1 | 7.4 | 8.1 | 8.4 | 9.0 | 8.5 | 9.5 |
| Men, 25 years and older | 3.0 | 2.8 | 3.1 | 3.4 | 3.6 | 3.7 | 3.7 | 4.2 |
| Women, 25 years and older | 3.3 | 3.2 | 3.3 | 3.4 | 3.7 | 3.7 | 3.9 | 4.3 |
| Labor force participation rate | 67.1 | 67.2 | 67.2 | 66.9 | 66.8 | 66.6 | 67.0 | 66.9 |
| Teenagers | 52.0 | 52.2 | 51.3 | 49.7 | 49.1 | 47.4 | 49.8 | 50.0 |
| 20-24 years old | 77.6 | 77.9 | 78.2 | 76.6 | 77.0 | 76.8 | 77.6 | 77.0 |
| Men, 25 years and older | 76.1 | 76.0 | 75.9 | 75.9 | 75.9 | 75.8 | 75.9 | 76.0 |
| Women, 25 years and older | 59.5 | 59.7 | 59.9 | 59.6 | 59.7 | 59.6 | 59.7 | 59.6 |
| Memo: Potential worker rate ¹ | 7.2 | 6.9 | 7.1 | 7.4 | 7.8 | 8.0 | 7.8 | n.a. |

1. The potential worker rate equals the number of civilian unemployed plus those who are not in the labor force and want a job as a percentage of the civilian labor force plus those who are not in the labor force and want a job.

Labor Force Participation Rate and Unemployment Rate

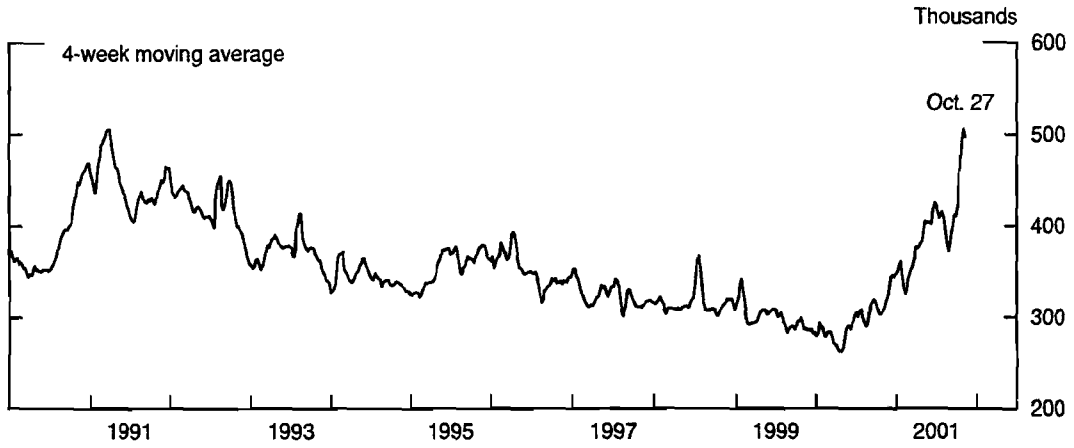


Job Losers Unemployed for Less Than 5 Weeks
(Percentage of household employment)

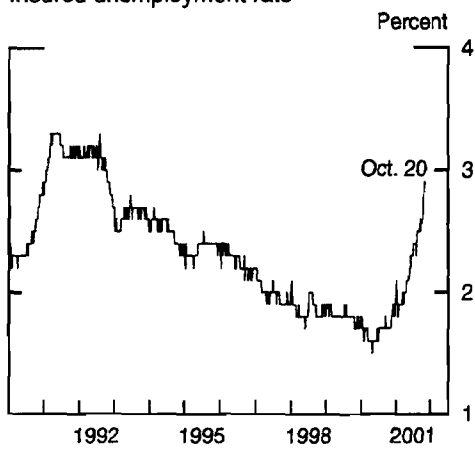


Labor Market Indicators

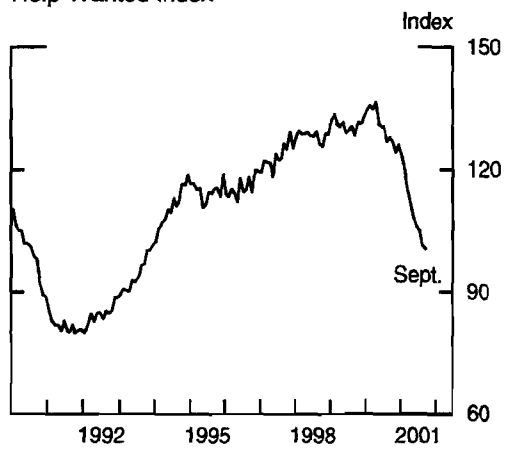
Initial Claims



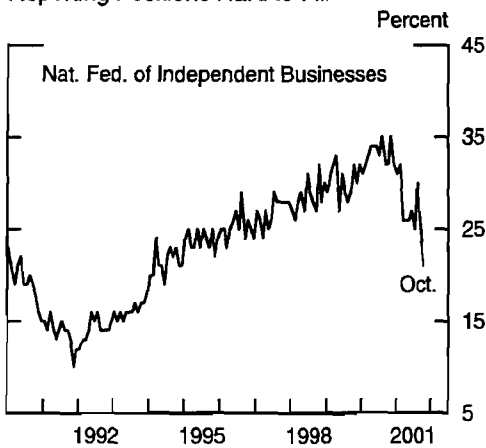
Insured unemployment rate



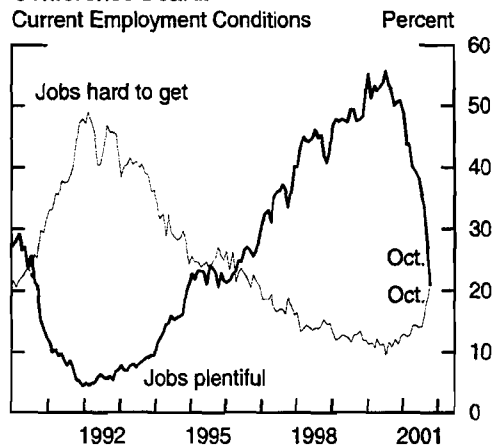
Help-Wanted Index



Reporting Positions Hard to Fill



Conference Board:
Current Employment Conditions



August. The labor force participation rate edged down 0.1 percentage point to 66.9, after having increased sharply last month. Though the participation rate has fluctuated noticeably over the past year, it has experienced little net movement and is currently only 0.1 percentage point below the rate prevailing last fall.

Average hourly earnings of production or nonsupervisory workers rose 0.1 percent in September. Over the twelve-month period ended in October, average hourly earnings increased 4.1 percent. Although the year-over-year rise is greater than the 3.9 percent increase over the previous twelve months, average hourly earnings have decelerated recently, increasing at an annual rate of 3.7 percent over the three months ended in October.

Sales of Light Motor Vehicles

Sales of total light vehicles in October surged to a near-record level of 21.2 million units (annual rate).¹ Special financing packages offered by many firms prompted the surge in demand.² Most of this surge in demand was likely borrowed from future months; based on typical price elasticities, the size of the net increase in incentives—about \$500 per vehicle—would have suggested a much smaller overall consumer response. Consistent with anecdotal reports and confirmed by confidential data from the major automakers, retail sales skyrocketed last month. However, fleet sales dropped back as demand from rental car companies apparently plunged.

With the financing incentives applying to most models, sales of both cars and trucks soared last month. However, the incentive plans were most prominent among the Big Three producers, and their collective market share jumped more than three percentage points, to 68 percent.

Manufacturers' Inventories

The book value of manufacturers' inventories dropped at an annual rate of \$48.4 billion in September, a slightly larger liquidation than the average pace recorded in the first two months of the quarter. For the quarter as a whole, stocks declined at a \$44.3 billion annual rate, a bit faster than the second-quarter drop. However, shipments decreased 4.3 percent in September (not at an annual rate), and the inventory-sales ratio jumped to 1.43 months, the highest monthly ratio in more than five years.

1. The only higher monthly sales rate occurred in September 1986, when sales were 21.6 million units (annual rate); that spike in sales was also prompted by higher incentives, including discounted finance rates.

2. These programs were typically zero-interest financing for loans up to 36 months and discounted rates for longer-term loans.

SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

| | 1999 | 2000 | 2001 | | | | |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| | | | Q2 | Q3 | Aug. | Sept. | Oct. |
| Total ¹ | 16.78 | 17.22 | 16.65 | 16.12 | 16.24 | 15.76 | 21.17 |
| Autos | 8.70 | 8.84 | 8.41 | 7.91 | 7.93 | 7.68 | 10.20 |
| Light trucks | 8.07 | 8.38 | 8.24 | 8.21 | 8.30 | 8.08 | 10.96 |
| North American ² | 14.29 | 14.37 | 13.62 | 13.15 | 13.20 | 12.89 | 17.61 |
| Autos | 6.98 | 6.83 | 6.34 | 5.89 | 5.85 | 5.74 | 7.82 |
| Big Three | 4.86 | 4.65 | 4.11 | 3.75 | 3.67 | 3.79 | 5.43 |
| Transplants | 2.12 | 2.17 | 2.23 | 2.15 | 2.18 | 1.96 | 2.39 |
| Light trucks | 7.31 | 7.54 | 7.28 | 7.26 | 7.36 | 7.15 | 9.79 |
| Big Three | 6.55 | 6.57 | 6.25 | 6.23 | 6.28 | 6.18 | 8.62 |
| Transplants | .76 | .97 | 1.03 | 1.03 | 1.08 | .97 | 1.17 |
| Foreign produced | 2.49 | 2.85 | 3.03 | 2.97 | 3.04 | 2.86 | 3.56 |
| Autos | 1.72 | 2.01 | 2.07 | 2.02 | 2.09 | 1.93 | 2.39 |
| Light trucks | .77 | .84 | .96 | .95 | .95 | .93 | 1.17 |
| Memos: | | | | | | | |
| Total sales, as reported | 16.77 | 17.23 | 16.65 | 16.12 | 16.24 | 15.76 | 21.17 |
| Big Three market share | 69.5 | 66.8 | 64.2 | 63.7 | 63.1 | 64.9 | 68.0 |

Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

1. Excludes the estimated effect of automakers' changes in reporting periods.

2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

November 2, 2001

Durable goods inventories fell sharply in September, led by a whopping \$30.9 billion drawdown at manufacturers of computers and electronic products. Although the inventory-shipments ratio in this industry moved down, stocks remain quite bloated relative to shipments. Inventories declined in most other durable goods categories as well, but many stock-sales ratios rose sharply further. Nondurable goods inventories fell at a \$10.8 billion pace in September, led by a large liquidation at food stores. Nonetheless, the ratio of inventories to shipments at nondurable goods manufacturers also increased in September.

Staff Forecast Update

Since the publication of the Greenbook, we have received not only the details underlying the BEA's advance estimate of third-quarter real GDP, but also a number of pieces of information that were not available for that estimate. These include September data on manufacturers' inventories, construction put in place, and revised shipments of nondefense capital goods. On net, the information did not alter our thinking about third-quarter real GDP.

However, the October labor market report has led us to reevaluate the near-term forecast. The report suggested that job losses in travel and related industries in the wake of September 11 were as large, if not larger, than we had anticipated. The substantial drop in factory hours was not altogether surprising, but given the weakness in the orders component of the National Association of Purchasing Managers report, we are inclined to deepen the drop in industrial production projected for the fourth quarter. Apart from those cutbacks, the payroll report more generally was weaker than we anticipated. We now expect that real GDP will decline at an annual rate of about 3 percent in the fourth quarter, with final sales likely to decline somewhat more than we previously thought and the drawdown in inventories a bit larger. Some of the additional weakness in demand likely will carry over to early next year, and real GDP is now expected to edge down at an annual rate of about 1/2 percent in the first quarter.

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

| Category | 2001 | | | 2001 | | |
|--|-------|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | July | Aug. | Sept. |
| Manufacturing and trade | -24.0 | -43.3 | n.a. | -72.2 | -16.8 | n.a. |
| Less wholesale and retail motor vehicles | -10.0 | -40.4 | n.a. | -88.0 | -21.3 | n.a. |
| Manufacturing | -11.9 | -34.4 | -44.3 | -43.1 | -41.3 | -48.4 |
| Less aircraft and parts | -9.3 | -35.3 | -46.3 | -43.6 | -42.3 | -53.0 |
| Merchant wholesalers | -5.0 | .2 | n.a. | -34.0 | -4.3 | n.a. |
| Less motor vehicles | -2.4 | 3.3 | n.a. | -33.0 | .3 | n.a. |
| Retail trade | -7.2 | -9.0 | n.a. | 4.9 | 28.8 | n.a. |
| Automotive dealers | -11.5 | .3 | n.a. | 16.9 | 9.0 | n.a. |
| Less automotive dealers | 4.3 | -9.3 | n.a. | -12.0 | 19.8 | n.a. |

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

| Category | 2001 | | | 2001 | | |
|--|------|------|------|------|------|-------|
| | Q1 | Q2 | Q3 | July | Aug. | Sept. |
| Manufacturing and trade | 1.42 | 1.42 | n.a. | 1.42 | 1.42 | n.a. |
| Less wholesale and retail motor vehicles | 1.38 | 1.38 | n.a. | 1.38 | 1.38 | n.a. |
| Manufacturing | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 | 1.43 |
| Primary metals | 1.80 | 1.76 | 1.73 | 1.72 | 1.72 | 1.80 |
| Steel | 2.30 | 2.20 | 2.20 | 2.17 | 2.19 | 2.26 |
| Machinery | 2.01 | 2.06 | 2.09 | 2.06 | 2.04 | 2.20 |
| Computers and electronics | 1.38 | 1.52 | 1.55 | 1.60 | 1.66 | 1.59 |
| Electrical equipment | 1.41 | 1.39 | 1.46 | 1.45 | 1.42 | 1.54 |
| Transportation equipment | 1.49 | 1.42 | 1.42 | 1.37 | 1.38 | 1.52 |
| Motor vehicles | .62 | .59 | .58 | .56 | .56 | .65 |
| Aircraft | 4.02 | 3.84 | 3.77 | 3.77 | 3.83 | 3.68 |
| Fabricated metals | 1.71 | 1.69 | 1.67 | 1.67 | 1.65 | 1.70 |
| Textiles | 1.75 | 1.68 | 1.60 | 1.62 | 1.61 | 1.59 |
| Paper | 1.17 | 1.18 | 1.21 | 1.19 | 1.19 | 1.24 |
| Chemicals | 1.41 | 1.43 | 1.45 | 1.44 | 1.43 | 1.50 |
| Petroleum | .68 | .68 | .70 | .72 | .70 | .69 |
| Rubber and plastics | 1.25 | 1.22 | 1.18 | 1.16 | 1.18 | 1.21 |
| Merchant wholesalers | 1.30 | 1.32 | n.a. | 1.31 | 1.30 | n.a. |
| Less motor vehicles | 1.28 | 1.31 | n.a. | 1.30 | 1.29 | n.a. |
| Durable goods | 1.62 | 1.61 | n.a. | 1.60 | 1.58 | n.a. |
| Nondurable goods | .97 | 1.03 | n.a. | 1.01 | 1.02 | n.a. |
| Retail trade | 1.59 | 1.56 | n.a. | 1.56 | 1.57 | n.a. |
| Less automotive dealers | 1.50 | 1.47 | n.a. | 1.47 | 1.47 | n.a. |
| Automotive dealers | 1.85 | 1.80 | n.a. | 1.81 | 1.82 | n.a. |
| General merchandise | 1.94 | 1.92 | n.a. | 1.90 | 1.92 | n.a. |
| Apparel | 2.41 | 2.41 | n.a. | 2.37 | 2.40 | n.a. |
| Food | .85 | .86 | n.a. | .85 | .85 | n.a. |

Appendix: Insurance Payments and NIPA Price Indexes

Many of the price indexes in the national accounts were affected by BEA's treatment of insurance payments resulting from the events of September 11. In the NIPAs, nominal insurance expenditures are determined either as premiums less benefit payments or, as in the case of life insurance, as operating expenses (including profits) of insurers. Although the usual source data for insurance services are available only with a lag, the BEA made judgmental downward adjustments to nominal insurance services in the third quarter for personal consumption, state and local government consumption, and imports to reflect disaster-related benefit payments.³

These adjustments lowered nominal expenditures but – according to standard BEA practice – were assumed to have no effect on real outlays. As a result, price inflation was temporarily reduced for these expenditure components, as well as for aggregates such as gross domestic purchases. In particular, the chain price index for PCE excluding food and energy was held down about 1 ½ percentage points at an annual rate in the third quarter.⁴ By contrast, GDP price inflation in the third quarter was boosted 0.9 percentage point by the adjustment, since the effect on imports was much larger than for personal and government consumption. We expect that these effects of disaster-related insurance payments on inflation will be reversed in the fourth quarter.

Broad measures of inflation
(Percent)

| Chain price index | 2001:Q3 | | September 2001 | |
|--------------------------------|----------------------------------|---------------------|------------------|---------------------|
| | One-quarter change (annual rate) | Four-quarter change | One-month change | Twelve-month change |
| GDP | 2.1 | 2.3 | n.a. | n.a. |
| excluding insurance adjustment | 1.2 | 2.1 | n.a. | n.a. |
| Gross domestic purchases | -0.3 | 1.3 | n.a. | n.a. |
| excluding insurance adjustment | 0.5 | 1.5 | n.a. | n.a. |
| PCE | -0.4 | 1.5 | -0.6 | 0.9 |
| excluding insurance adjustment | 0.8 | 1.8 | 0.3 | 1.8 |
| PCE excluding food and energy | 0.3 | 1.2 | -0.9 | 0.5 |
| excluding insurance adjustment | 1.7 | 1.6 | 0.2 | 1.6 |

3. The downward adjustments amounted to \$20.5 billion (at an annual rate) for personal consumption expenditures, \$0.8 billion for state and local government expenditures, and \$44 billion for imports of services. The change in imported insurance services, which include payments to businesses, exceed the combined change in household and government insurance services. As a result, nominal GDP was boosted on balance by these adjustments.

4. Because the special adjustments were made entirely to the September data, the effects on that month's changes in PCE price indexes were considerably larger and are expected to be reversed in October.

RECENT PRICE INDICATORS
(Percent)

| | From 12 months earlier | | From 3 months earlier | | 2001 | |
|-----------------------------|---------------------------|---------------|--------------------------|---------------|----------------|-------|
| | Sept. 2000 | Sept. 2001 | June 2001 | Sept. 2001 | Aug. | Sept. |
| | | | -Annual rate- | | -Monthly rate- | |
| <u>CPI</u> | | | | | | |
| Total | 3.5 | 2.6 | 3.7 | 0.7 | 0.1 | 0.4 |
| Core | 2.6 | 2.6 | 2.6 | 2.4 | 0.2 | 0.2 |
| ex tobacco | 2.5 | 2.5 | 2.4 | 2.0 | 0.3 | 0.1 |
| Core commodities | 0.3 | 0.1 | -1.6 | 0.3 | -0.4 | 0.3 |
| ex tobacco | -0.2 | -0.5 | -2.5 | -1.1 | -0.2 | 0.1 |
| Core services | 3.5 | 3.8 | 4.5 | 3.1 | 0.5 | 0.1 |
| Current-methods | 3.4 | 2.6 | 3.7 | 0.7 | 0.1 | 0.4 |
| Core | 2.5 | 2.6 | 2.6 | 2.4 | 0.2 | 0.2 |
| ex tobacco | 2.4 | 2.5 | 2.4 | 2.0 | 0.3 | 0.1 |
| <u>PCE Prices</u> | | | | | | |
| Total | 2.7 | 0.9 | 1.6 | -2.4 | 0.0 | -0.6 |
| Core | 2.0 | 0.5 | 0.5 | -2.3 | 0.1 | -0.9 |
| ex tobacco | 1.9 | 0.4 | 0.3 | -2.6 | 0.1 | -1.0 |
| Core commodities | -0.4 | -0.9 | -2.3 | -0.5 | -0.5 | 0.3 |
| ex tobacco | -0.8 | -1.4 | -3.1 | -1.7 | -0.3 | 0.0 |
| Core services | 3.0 | 1.1 | 1.8 | -3.0 | 0.3 | -1.4 |
| Core market-based | 1.8 | 1.6 | 0.9 | 1.8 | 0.0 | 0.2 |
| Core nonmarket-based | 2.5 | -5.0 | -1.5 | -20.6 | 0.4 | -6.3 |
| <u>PPI</u> | | | | | | |
| Total finished goods | 3.5 | 1.6 | 0.3 | -0.8 | 0.4 | 0.4 |
| Core | 1.4 | 1.4 | 1.9 | 1.6 | -0.1 | 0.3 |
| ex tobacco | 1.4 | 0.8 | 0.8 | 1.7 | -0.1 | 0.3 |
| Core consumer goods | 1.5 | 1.8 | 2.3 | 1.8 | -0.1 | 0.4 |
| ex tobacco | 1.5 | 0.9 | 0.5 | 2.0 | -0.1 | 0.4 |
| Capital equipment | 1.4 | 0.6 | 1.2 | 1.1 | -0.1 | 0.1 |
| Core intermediate materials | 2.3 | -0.9 | -0.9 | -3.7 | -0.4 | -0.1 |
| Core crude materials | 2.7 | -10.1 | -13.7 | -6.0 | -0.8 | 0.2 |

BROAD MEASURES OF INFLATION
(4-quarter percent change)

| | 1998 Q3 | 1999 Q3 | 2000 Q3 | 2001 Q3 |
|---|------------|------------|------------|------------|
| <u>Product prices</u> | | | | |
| GDP chain price index | 1.2 | 1.4 | 2.4 | 2.3 |
| Less food and energy | 1.4 | 1.4 | 2.3 | 1.9 |
| Nonfarm business chain price index ¹ | 0.8 | 1.0 | 2.1 | 1.8 |
| <u>Expenditure prices</u> | | | | |
| Gross domestic purchases chain price index | 0.8 | 1.6 | 2.7 | 1.3 |
| Less food and energy | 1.1 | 1.4 | 2.1 | 1.2 |
| PCE chain price index | 1.1 | 1.7 | 2.7 | 1.5 |
| Less food and energy | 1.5 | 1.4 | 2.0 | 1.2 |
| PCE chain price index, market-based components | 0.9 | 1.7 | 2.7 | 1.9 |
| Less food and energy | 1.4 | 1.3 | 1.8 | 1.7 |
| CPI | 1.6 | 2.3 | 3.5 | 2.7 |
| Less food and energy | 2.3 | 2.0 | 2.6 | 2.7 |
| Current-methods CPI | 1.3 | 2.3 | 3.4 | 2.7 |
| Less food and energy | 2.1 | 2.0 | 2.5 | 2.7 |
| Median CPI | 3.0 | 2.4 | 2.8 | 3.7 |
| Trimmed mean CPI | 2.0 | 1.7 | 2.7 | 3.0 |

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

| | Actual inflation ¹ | University of Michigan | | | | Professional forecasters (10-year) ⁴ |
|---------|----------------------------------|------------------------|---------------------|-------------------|---------------------|---|
| | | 1 year | | 5 to 10 years | | |
| | | Mean ² | Median ² | Mean ³ | Median ³ | |
| 1999-Q4 | 2.6 | 3.5 | 2.9 | 3.3 | 2.9 | 2.5 |
| 2000-Q1 | 3.2 | 3.6 | 3.0 | 3.5 | 3.0 | 2.5 |
| Q2 | 3.3 | 3.5 | 3.0 | 3.3 | 2.8 | 2.5 |
| Q3 | 3.5 | 3.6 | 2.9 | 3.4 | 2.9 | 2.5 |
| Q4 | 3.4 | 3.8 | 3.0 | 3.7 | 3.0 | 2.5 |
| 2001-Q1 | 3.4 | 3.4 | 2.9 | 3.6 | 3.0 | 2.5 |
| Q2 | 3.4 | 3.9 | 3.1 | 3.6 | 3.0 | 2.5 |
| Q3 | 2.7 | 3.1 | 2.7 | 3.5 | 2.9 | 2.5 |
| July | 2.7 | 3.0 | 2.6 | 3.4 | 2.9 | |
| Aug. | 2.7 | 3.1 | 2.7 | 3.6 | 3.0 | |
| Sept. | 2.6 | 3.2 | 2.8 | 3.4 | 2.9 | 2.5 |
| Oct. | | 1.6 | 1.0 | 2.8 | 2.7 | |

1. CPI; percent change from the same period in the preceding year.

2. Responses to the question: By about what percent do you expect prices to go up, on the average, during the next 12 months?

3. Responses to the question: By about what percent per year do you expect prices to go up, on the average, during the next 5 to 10 years?

4. Compiled by the Federal Reserve Bank of Philadelphia.

The Domestic Financial Economy

Treasury Finance

In its mid-quarter refunding announcement on October 31, the Treasury said that it is suspending its issuance of both nominal and inflation-indexed thirty-year bonds. This decision largely caught market participants by surprise. The yields on the on-the-run nominal and indexed Treasury bonds dropped 33 and 19 basis points on the day, respectively. The announcement also drove down private yields, particularly at longer maturities. Yields on thirty-year swaps and Fannie Mae bonds fell nearly 30 basis points, and yields on investment-grade corporate bonds fell about 16 basis points on the day. Partly in response to the sharp movements in bond prices, bid-ask spreads for thirty-year bonds reportedly widened considerably.

The announcement also described some adjustments to the Treasury's debt buyback program. The Treasury will not conduct any buyback operations in January 2002, and thereafter it will announce at its mid-quarter refundings the amounts and timing of buyback operations for the subsequent three months. The Treasury indicated that there will likely be periods during which it will not repurchase debt, depending in part on its financing needs. Market participants interpreted these comments as indicating that the buyback program would be scaled back considerably.

III-T-1
Selected Financial Market Quotations
 (One-day quotes in percent except as noted)

| Instrument | 2000 | 2001 | | | Change to Nov. 1 from selected dates (percentage points) | | |
|---|---------|----------|--------|--------|--|------------------|----------------|
| | June 26 | Sept. 10 | Oct. 1 | Nov. 1 | 2000 June 26 | 2001 Sept. 10 | 2001 Oct. 1 |
| <i>Short-term</i> | | | | | | | |
| FOMC intended federal funds rate | 6.50 | 3.50 | 3.00 | 2.50 | -4.00 | -1.00 | -.50 |
| Treasury bills ¹ | | | | | | | |
| 3-month | 5.66 | 3.19 | 2.32 | 2.02 | -3.64 | -1.17 | -.30 |
| 6-month | 5.94 | 3.13 | 2.31 | 1.94 | -4.00 | -1.19 | -.37 |
| Commercial paper | | | | | | | |
| 1-month | 6.56 | 3.42 | 2.63 | 2.20 | -4.36 | -1.22 | -.43 |
| 3-month | 6.56 | 3.24 | 2.40 | 2.10 | -4.46 | -1.14 | -.30 |
| Large negotiable CDs ¹ | | | | | | | |
| 1-month | 6.64 | 3.46 | 2.60 | 2.21 | -4.43 | -1.25 | -.39 |
| 3-month | 6.73 | 3.26 | 2.54 | 2.10 | -4.63 | -1.16 | -.44 |
| 6-month | 6.89 | 3.24 | 2.46 | 2.08 | -4.81 | -1.16 | -.38 |
| Eurodollar deposits ² | | | | | | | |
| 1-month | 6.63 | 3.41 | 2.63 | 2.25 | -4.38 | -1.16 | -.38 |
| 3-month | 6.69 | 3.26 | 2.50 | 2.18 | -4.51 | -1.08 | -.32 |
| Bank prime rate | 9.50 | 6.50 | 6.00 | 5.50 | -4.00 | -1.00 | -.50 |
| <i>Intermediate- and long-term</i> | | | | | | | |
| U.S. Treasury ³ | | | | | | | |
| 2-year | 6.54 | 3.59 | 2.87 | 2.54 | -4.00 | -1.05 | -.33 |
| 10-year | 6.35 | 5.14 | 4.88 | 4.55 | -1.80 | -.59 | -.33 |
| 30-year | 6.22 | 5.55 | 5.48 | 5.04 | -1.18 | -.51 | -.44 |
| U.S. Treasury 10-year indexed note | 4.09 | 3.26 | 3.14 | 2.95 | -1.14 | -.31 | -.19 |
| Municipal revenue (Bond Buyer) ⁴ | 5.99 | 5.25 | 5.41 | 5.23 | -.76 | -.02 | -.18 |
| Private instruments | | | | | | | |
| 10-year swap | 7.38 | 5.62 | 5.25 | 4.78 | -2.60 | -.84 | -.47 |
| 10-year FNMA | 7.15 | 5.64 | 5.27 | 4.81 | -2.34 | -.83 | -.46 |
| 10-year AA ⁵ | 7.60 | 6.30 | 6.13 | 5.84 | -1.76 | -.46 | -.29 |
| 10-year BBB ⁵ | 8.49 | 7.08 | 7.07 | 6.82 | -1.67 | -.26 | -.25 |
| High yield ⁶ | 11.97 | 12.86 | 14.11 | 13.55 | 1.58 | .69 | -.56 |
| Home mortgages (FHLMC survey rate) ⁷ | | | | | | | |
| 30-year fixed | 8.14 | 6.89 | 6.72 | 6.64 | -1.50 | -.25 | -.08 |
| 1-year adjustable | 7.22 | 5.64 | 5.45 | 5.25 | -1.97 | -.39 | -.20 |

| Stock exchange index | Record high | | 2001 | | | Change to Nov. 1 from selected dates (percent) | | |
|----------------------|-------------|---------|----------|--------|--------|--|------------------|----------------|
| | Level | Date | Sept. 10 | Oct. 1 | Nov. 1 | Record high | 2001 Sept. 10 | 2001 Oct. 1 |
| Dow-Jones Industrial | 11,723 | 1-14-00 | 9,606 | 8,837 | 9,264 | -20.98 | -3.56 | 4.83 |
| S&P 500 Composite | 1,527 | 3-24-00 | 1,093 | 1,039 | 1,084 | -29.03 | -.77 | 4.39 |
| Nasdaq (OTC) | 5,049 | 3-10-00 | 1,695 | 1,480 | 1,746 | -65.41 | 3.00 | 17.96 |
| Russell 2000 | 606 | 3-9-00 | 441 | 398 | 435 | -28.25 | -1.33 | 9.38 |
| Wilshire 5000 | 14,752 | 3-24-00 | 10,104 | 9,518 | 10,001 | -32.21 | -1.03 | 5.07 |

1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
4. Most recent Thursday quote.
5. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
6. Merrill Lynch 175 high-yield bond index composite.
7. For week ending Friday previous to date shown.

NOTES:

June 26, 2000 is the day before the FOMC meeting that ended the most recent period of policy tightening.
 September 10, 2001 is the day before the terrorist attacks.
 October 1, 2001 is the day before the most recent FOMC meeting.

Commercial Bank Credit

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

| Type of credit | 2001 | Q2 2001 | Q3 2001 | Aug. 2001 | Sept. 2001 | Oct. ^P 2001 | Level, Oct. 2001 ^P (\$ billions) |
|---------------------------|------|------------|------------|--------------|---------------|---------------------------|---|
| Total | | | | | | | |
| 1. Adjusted ¹ | 3.2 | 2.7 | 1.8 | -6 | 13.6 | -10.2 | 5,196 |
| 2. Reported | 4.3 | 3.2 | 2.5 | 3.1 | 17.2 | -8.4 | 5,374 |
| <i>Securities</i> | | | | | | | |
| 3. Adjusted ¹ | 7.0 | 4.2 | 11.6 | 16.8 | 7.7 | 6.5 | 1,281 |
| 4. Reported | 11.0 | 6.1 | 13.2 | 29.4 | 21.8 | 11.2 | 1,460 |
| 5. Treasury & Agency | 2.2 | -3.3 | 10.9 | 20.3 | 17.1 | 11.1 | 806 |
| 6. Other ² | 24.0 | 18.6 | 16.2 | 41.0 | 27.7 | 11.3 | 654 |
| <i>Loans³</i> | | | | | | | |
| 7. Total | 2.0 | 2.2 | -1.2 | -6.2 | 15.5 | -15.6 | 3,914 |
| 8. Business | -3.4 | -4.3 | -9.8 | -7.9 | 3.6 | -17.2 | 1,049 |
| 9. Real estate | 4.7 | 6.2 | 3.0 | -3.4 | 4.0 | 5.7 | 1,723 |
| 10. Home equity | 18.3 | 12.5 | 13.3 | 15.7 | 20.7 | 27.1 | 145 |
| 11. Other | 3.6 | 5.6 | 2.2 | -5.1 | 2.5 | 3.7 | 1,578 |
| 12. Consumer | 2.6 | 3.9 | -2.5 | -5.5 | -2 | 6.1 | 549 |
| 13. Adjusted ⁴ | 4.9 | 5.1 | 1.8 | -1.5 | 1.1 | 8.8 | 880 |
| 14. Other ⁵ | 3.7 | 1.6 | 3.4 | -11.3 | 83.7 | -88.1 | 593 |

Note. All data are adjusted 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 FIN 115).

2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities.

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.

p Preliminary.