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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

THE DOMESTIC NONFINANCIAL ECONOMY

Consumption

According to the advance report, total nominal retail sales jumped 1 percent in October, with strong gains at building material and supply stores and at automotive dealers. In the retail control category, which excludes sales at those establishments, nominal outlays rose 0.5 percent in October after having been little changed in August and September.¹

Within retail control, sales at most stores posted moderate to strong gains in October. After having declined over the preceding two months, nominal purchases at apparel stores rebounded nearly 2 percent in October. Nominal sales at gasoline stations rose 0.5 percent; however, physical product data from the Department of Energy indicate that, in real terms, purchases of gasoline fell last month.

Retail sales in October were in line with the staff's expectation and suggest no change to our assumptions for consumer spending in the fourth quarter. Based on today's retail sales release and our projections for consumer prices in October, the staff estimates that real personal consumption expenditures for goods other than motor vehicles increased 0.3 percent in October to a level 0.4 percent above the third quarter.

According to the preliminary report, the Michigan SRC index of consumer sentiment bounced back 5 points in early November, more than retracing its October decline. Although the index remains below the peak recorded last winter, it continues to be at a high level by historical standards.

In early November, households' views of business conditions over the next twelve months and over the next five years rebounded from last month's sharp downturn. Households' assessments of buying conditions for large household appliances were also markedly more favorable in early November. Although the index of current personal financial conditions was little changed in early November, it stayed within the high range that has prevailed for most of the past year. However, respondents' expectations of their personal financial situations twelve months hence weakened slightly.

1. Largely as a result of downward revisions to spending at apparel and food stores, the increase in nominal control in September was revised down 0.1 percentage point.

Among questions not included in the overall index, responses were mixed in early November. Respondents' views of the expected change in unemployment over the coming year were somewhat less pessimistic than in October, although they remained less favorable than the readings over the first half of the year. Appraisals of car and home buying conditions remained near historically high levels, despite having fallen from last month's especially lofty assessments.

The mean value of expected inflation over the next twelve months held steady in early October at 2.6 percent, but the median value moved down 0.3 percentage point to 2.2 percent. Both the mean and median readings of expected inflation over the next five to ten years fell 0.1 percentage point to 3.1 and 2.7 percent, respectively.

Producer Prices

The PPI for finished goods increased 0.2 percent in October after a 0.3 percent increase in September. Food prices rose briskly for a second month, and energy prices turned up sharply. Over the twelve months ending in October, the overall PPI declined 0.7 percent; excluding food and energy, producer prices rose 1.1 percent over that period, compared with a 0.2 percent rise over the preceding twelve months.

The price index for finished foods rose 0.4 percent in October for the second consecutive month. In both September and October, the index was boosted by hefty price increases for vegetables and for dairy products. Despite these recent increases, overall food prices are up only 0.3 percent over the past twelve months. Food prices jumped in October at the crude stage of processing, the first increase in four months, but the crude food index remained 6 percent below its level of a year earlier.

Finished energy prices moved up 1.2 percent in October, after having declined over the previous four months. Prices of gasoline rose considerably last month; as a result of production cutbacks in September, refiners' margins have recovered. Natural gas prices also moved up, in part because colder-than-normal weather boosted demand in mountain and western states. By contrast, fuel oil prices edged down, and electricity rates were little

changed in October.² Overall, the index for finished energy has dropped 10 percent over the past twelve months.

Prices of finished consumer goods other than food and energy, which jumped 0.5 percent in September, were unchanged in October; prices for these goods rose about 2 percent over the twelve months to October compared with an increase of only 3/4 percent over the previous twelve-month period. Within consumer goods, prices for cars rose 0.5 percent last month, while light truck prices were unchanged. Prices of both cars and light trucks had risen considerably in September after sizable declines in earlier months.³ Cutting through these monthly movements, prices of new cars in October were 3/4 percent lower than a year earlier, and prices of light trucks were down 1/2 percent. Among other consumer goods, prices generally remained the same or declined a bit, with a large price decline reported for home electronic equipment.

Prices of capital equipment were unchanged in October and are down about 1/2 percent over the past twelve months. Price increases in October for cars and for heavy trucks--for which the demand has been very strong--were offset by price declines for computers and other capital equipment. Computer prices fell 2.2 percent in October, about in line with the average monthly change over the past year.

The PPI for intermediate materials other than food and energy declined 0.3 percent in October for the second consecutive month, bringing the decline over the past twelve months to about 1 percent. Prices for crude materials other than food and energy dropped 2.7 percent in October--the largest decline since June 1991--and are down nearly 14 percent over the past year.

2. The staff had expected that the large rebates and price cuts in Virginia would result in a noticeable decline in electricity prices in October. A BLS analyst reported that these rebates were not included in the October PPI, but may show up in November.

3. In October, the PPI sample largely shifts from old to new model-year vehicles. Prior to seasonal adjustment, the old model-year vehicles typically have been heavily discounted in September, and the new vehicles entering the sample in October usually come in at a higher price than the discounted prices on last year's models. Because price movements are large and the timing of discounts can differ from year to year, the interpretation of monthly changes in the PPI for motor vehicles can be complicated at this time of the year. On an NSA basis, new car prices increased 6.9 percent in October, and light truck prices were up 6.3 percent.

November 13, 1998

RETAIL SALES
(Percent change; seasonally adjusted)

	1998			1998		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Total sales	2.1	1.9	-.1	.1	.3	1.0
Previous estimate			-.1	.0	.3	
Retail control ¹	1.6	1.3	1.0	.1	.0	.5
Previous estimate			1.0	.1	.1	
Total excl. automotive group	1.9	1.4	1.0	.1	.1	.5
Previous estimate			1.0	.1	.1	
GAF ²	3.5	1.1	.6	-.1	.0	.5
Previous estimate			.7	.0	.1	
Durable goods stores	3.4	2.3	-1.2	.1	.6	1.8
Previous estimate			-1.3	.0	.6	
Bldg. material and supply	5.7	2.3	.4	-.3	.8	.9
Automotive dealers	2.5	3.6	-3.1	.0	.9	2.6
Furniture and appliances	4.6	-.6	2.8	.1	.4	.2
Other durable goods	3.4	.1	1.3	.7	-.5	.5
Nondurable goods stores	1.1	1.6	.8	.1	.0	.5
Previous estimate			.9	.1	.1	
Apparel	4.1	1.1	-.6	-.9	-3.0	1.9
Food	.3	1.7	1.1	.6	.0	.4
General merchandise ³	2.9	1.8	.0	.1	.8	.2
Gasoline stations	-4.5	-.4	.3	-2.0	-.4	.5
Other nondurable goods ⁴	1.8	2.1	1.6	.4	.4	.4
Eating and drinking	2.3	1.0	.5	.1	1.1	.8
Drug and proprietary	2.4	2.3	2.2	1.2	.4	.5

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.

RECENT CHANGES IN PRODUCER PRICES
(Percent change; based on seasonally adjusted data)¹

	Relative importance, Dec. 1997	1996	1997	1998			1998	
				Q1	Q2	Q3	Sept.	Oct.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.8	-1.2	-3.0	.3	.3	.3	.2
Consumer foods	23.2	3.4	-.8	-1.8	.9	1.8	.4	.4
Consumer energy	13.6	11.7	-6.4	-27.0	-1.1	-10.2	-.1	1.2
Other finished goods	63.2	.6	.0	2.3	.3	2.3	.4	.1
Consumer goods	38.0	.8	.3	3.9	1.4	3.3	.5	.0
Capital equipment	25.2	.4	-.6	.0	-1.2	.9	.4	.0
Intermediate materials ²	94.9	.7	-.8	-4.4	-1.3	-1.9	-.2	-.2
Excluding food and energy	81.8	-.9	.3	-.9	-1.2	-1.5	-.3	-.3
Crude food materials	42.1	-1.0	-4.0	-14.3	-.7	-22.6	-1.9	4.0
Crude energy	36.4	51.2	-23.1	-53.5	-14.6	-15.2	-1.7	1.9
Other crude materials	21.5	-5.5	.0	-13.6	-5.6	-18.3	-1.3	-2.7

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

RECENT CHANGES IN PRODUCER PRICES -- RELATIVE CONTRIBUTION¹
(Percent change; based on seasonally adjusted data)²

	Relative importance Dec. 1997	1996	1997	1998			1998	
				Q1	Q2	Q3	Sept.	Oct.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.8	-1.2	-3.0	.3	.3	.3	.2
Consumer foods	23.2	.8	-.2	-.4	.2	.4	.1	.1
Consumer energy	13.6	1.5	-.9	-4.1	-.1	-1.3	.0	.2
Other finished goods	63.2	.4	.0	1.4	.2	1.4	.3	.0
Consumer goods	38.0	.3	.1	1.5	.5	1.3	.2	.0
Capital equipment	25.2	.1	-.1	.0	-.3	.2	.1	.0

1. Data may not add due to rounding.
2. Changes are from final month of preceding period to final month of period indicated.

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

	1998 Mar.	1998 Apr.	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.	1998 Oct.	1998 Nov. (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	106.5	108.7	106.5	105.6	105.2	104.4	100.9	97.4	102.4
Current conditions	113.7	115.5	113.9	115.4	113.3	113.9	111.7	112.8	116.8
Expected conditions	101.9	104.3	101.7	99.3	100.0	98.3	93.9	87.5	93.1

Personal financial situation									
Now compared with 12 months ago*	128	131	130	130	132	132	126	131	132
Expected in 12 months*	134	138	134	134	139	139	131	133	130
Expected business conditions									
Next 12 months*	158	162	158	150	145	146	130	118	132
Next 5 years*	119	121	118	116	119	111	117	101	113
Appraisal of buying conditions									
Cars	146	145	148	152	139	150	142	153	150
Large household appliances*	167	169	166	170	162	163	164	162	171
Houses	176	178	172	171	169	170	166	178	171
Willingness to use credit	49	51	54	50	54	48	53	53	49
Willingness to use savings	82	70	78	68	82	77	65	70	77
Expected unemployment change - next 12 months	100	97	102	105	111	109	112	121	118
Expected inflation - next 12 months									
Mean	2.9	2.7	3.1	3.2	3.1	2.7	2.7	2.6	2.6
Median	2.5	2.4	2.6	2.7	2.6	2.4	2.3	2.5	2.2
Expected inflation - next 5 to 10 years									
Mean	3.3	3.2	3.3	3.3	3.1	3.0	3.4	3.2	3.1
Median	2.8	2.7	2.8	2.9	2.7	2.7	2.9	2.8	2.7

* -- 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.

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	1997	1998			Change to Nov. 12 from selected dates (percentage points)		
	Dec. 31	FOMC* Sept. 29	Oct. 15*	Nov. 12	Dec. 31	FOMC* Sept. 29	Oct. 15*
<i>Short-term</i>							
Federal funds							
FOMC intended rate	5.50	5.50	5.25	5.00	-.50	-.50	-.25
Realized rate ¹	5.44	5.48	5.40	4.84	-.60	-.64	-.56
Treasury bills ²							
3-month	5.22	4.36	3.93	4.37	-.85	.01	.44
6-month	5.23	4.41	4.06	4.40	-.83	-.01	.34
1-year	5.22	4.33	4.01	4.29	-.93	-.04	.28
Commercial paper							
1-month	5.65	5.25	5.26	5.10	-.55	-.15	-.16
3-month	5.57	5.13	5.11	5.13	-.44	.00	.02
Large negotiable CDs ²							
1-month	5.65	5.29	5.34	5.18	-.47	-.11	-.16
3-month	5.72	5.22	5.30	5.30	-.42	.08	.00
6-month	5.74	5.12	5.09	5.10	-.64	-.02	.01
Eurodollar deposits ³							
1-month	5.63	5.25	5.25	5.19	-.44	-.06	-.06
3-month	5.72	5.19	5.25	5.31	-.41	.12	.06
Bank prime rate							
	8.50	8.50	8.25	8.00	-.50	-.50	-.25
<i>Intermediate- and long-term</i>							
U.S. Treasury (constant maturity)							
2-year	5.66	4.45	4.08	4.47	-1.19	.02	.39
10-year	5.75	4.61	4.58	4.77	-.98	.16	.19
30-year	5.93	5.15	5.00	5.25	-.68	.10	.25
U.S. Treasury 10-year indexed note	3.70	3.57	3.72	3.80	.10	.23	.08
Municipal revenue (Bond Buyer) ⁴	5.40	5.17	5.17	5.28	-.12	.11	.11
Corporate bonds, Moody's seasoned Baa	7.28	7.10	7.23	7.33	.05	.23	.10
High-yield corporate ⁵	9.06	10.46	11.20	10.71	1.65	.25	-.49
Home mortgages (FHLMC survey rate) ⁶							
30-year fixed	6.99	6.64	6.49	6.89	-.10	.25	.40
1-year adjustable	5.53	5.42	5.36	5.48	-.05	.06	.12

Stock exchange index	Record high		1998			Change to Nov. 12 from selected dates (percent)		
	Level	Date	FOMC* Sept. 29	Oct. 15*	Nov. 12	Record high	FOMC* Sept. 29	Oct. 15*
Dow-Jones Industrial	9,337.97	7-17-98	8,108.84	7,968.78	8,829.74	-5.44	8.89	10.80
S&P 500 Composite	1,186.75	7-17-98	1,048.69	1,005.53	1,117.69	-5.82	6.58	11.15
NASDAQ (OTC)	2,014.25	7-20-98	1,739.22	1,540.97	1,851.06	-8.10	6.43	20.12
Russell 2000	491.41	4-21-98	368.01	324.98	392.20	-20.19	6.57	20.68
Wilshire 5000	11,106.10	7-17-98	9,603.94	9,060.47	10,262.82	-7.59	6.86	13.27

1. Average for two-week reserve maintenance period ending on or before date shown. Most recent observation is average for current maintenance period to date.

2. Secondary market.

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

4. Most recent Thursday quote.

5. Merrill Lynch Master II high-yield bond index composite.

6. For week ending Friday previous to date shown.

* Data are as of the close on the previous business day.