



WEEKLY ECONOMIC DIGEST

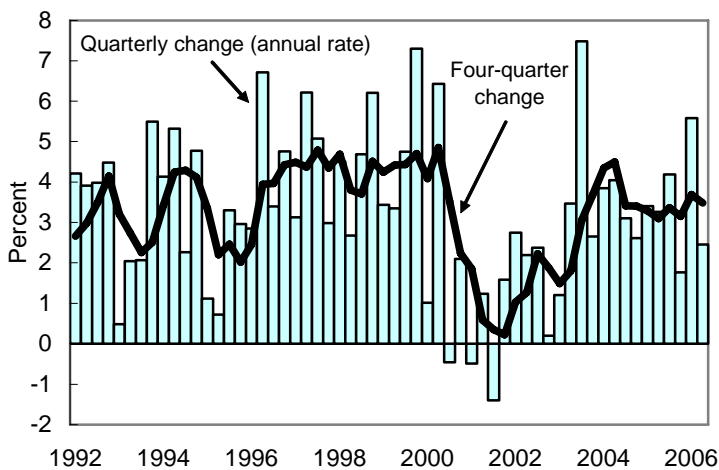


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

August 1, 2006

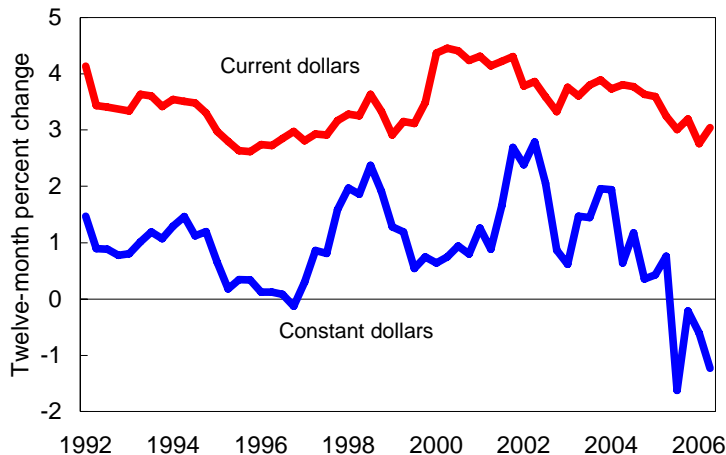
Economy Slows in Second Quarter; Earlier Growth Revised Down

Growth of Real Gross Domestic Product



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

Employment Cost Index for Civilian Workers



Source: Bureau of Labor Statistics, U.S. Department of Labor and JEC staff calculations.

- **Economic growth slowed sharply in the second quarter.** Real (inflation-adjusted) gross domestic product (GDP) grew at an average annual rate of 2.5 percent in the first quarter, according to the advance estimate from the Department of Commerce. Over the past year, real GDP grew 3.5 percent (see top chart). Declines in consumer expenditures on durable goods and business spending on equipment and software contributed to the deceleration in GDP in the second quarter.
- **Revisions lowered estimated growth in real GDP and investment.** Revisions to data beginning in the first quarter of 2003 lowered the average annual rate of growth of real GDP for 2002-2005 by 0.3 percentage points to 3.2 percent. With those revisions, real GDP has grown at an average annual rate of 3.1 percent since the end of the recession in the fourth quarter of 2001, compared with 4.3 percent in previous recoveries. Real business fixed investment has grown at an average annual rate of 3.2 percent, compared with 5.9 percent in previous recoveries.
- **Compensation rebounded in the second quarter but not enough to offset inflation.** Compensation (wages plus benefits) of civilian workers, as measured by the employment cost index (ECI), rose by 0.9 percent between March and June, after rising by just 0.6 percent between January and March. However, the gain from March to June fell short of the 1.3 percent rise in the consumer price index. Over the past 12 months, the ECI has fallen by 1.2 percent after inflation (see bottom chart).
- **Home sales continued to drop in June.** Sales of new single-family homes dropped 3.0 percent last month, while sales of existing single-family homes fell by 0.9 percent. Existing home sales were 8.2 percent below their level in June of last year. The median sales price of existing single-family homes was \$231,500, only 1.1 percent higher than the median sales price a year ago and the smallest 12-month appreciation since 1995.

The Economy at a Glance	Jun	May	Apr	Mar	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	2.5	5.6	1.8	3.2	3.9	4.2
Industrial Production (% growth)	10.0	1.2	10.0	6.2	6.6	5.1	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)	82.4	81.8	81.9	81.3	82.0	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)*	4.6	4.6	4.7	4.7	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)	1850	1953	1832	1972	1878	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)*	n.a.	n.a.	n.a.	n.a.	1.0	1.7	5.5	0.6	1.2	3.6
Retail Sales (% growth)	-1.0	1.6	8.3	8.7	3.7	13.4	1.9	8.5	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	n.a.	n.a.	n.a.	-1.5	-1.0	-0.3	-1.5	-0.4	2.0
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	2.4	4.9	7.4	4.9	5.0	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)	3.7	3.7	3.7	3.7	3.5	2.4	2.4	1.6	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	3.6	2.4	3.2	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	n.a.	3.7	-0.3	4.2	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.79	4.72	4.60	4.51	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	5.11	5.11	4.99	4.72	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	4.99	4.94	4.79	4.59	4.91	4.46	3.98	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	10998	11334	11235	11144	11189	10996	10616	10544	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Personal Income and Outlays: June 2006** [Release: Tuesday, August 1]
- **Construction Spending: June 2006** [Release: Tuesday, August 1]
- **Full Report on Manufacturers' Shipments, Inventories and Orders: June 2006** [Release: Thursday, August 3]
- **The Employment Situation: July 2006** [Release: Friday, August 4]
- **Consumer Credit: June 2006** [Release: Monday, August 7]