



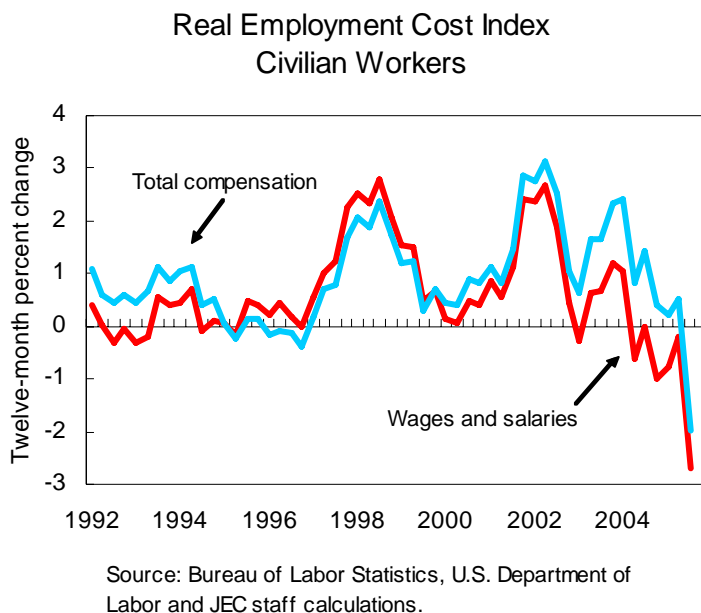
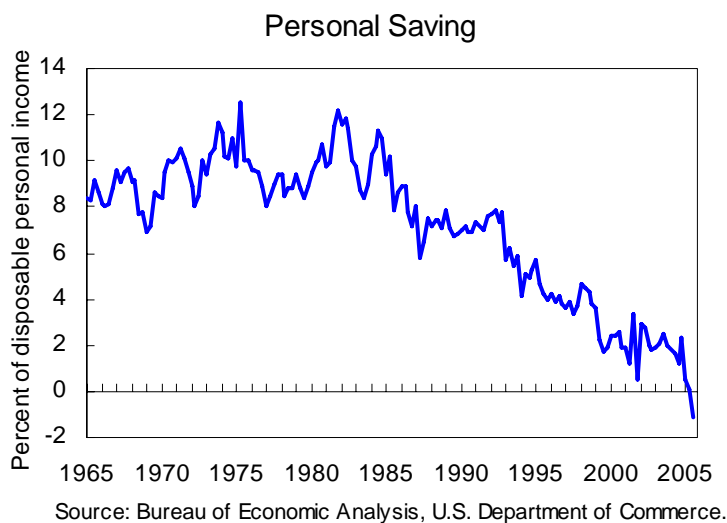
WEEKLY ECONOMIC DIGEST



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

November 1, 2005

GDP Rises in the Third Quarter, but Saving Evaporates and Real Wages Fall



- **Economic growth picked up in the third quarter.** Real (inflation-adjusted) gross domestic product (GDP) rose at a 3.8 percent annual rate in the third quarter, up from 3.3 percent in the second quarter, according to the Department of Commerce's advance estimate. As a result, real GDP in the third quarter was 3.6 percent higher than it was a year earlier. Motor vehicle production increased at a 15 percent annual rate in the third quarter, contributing 0.5 percentage point to overall growth in the quarter.
- **Personal saving was negative in the third quarter.** Personal outlays exceeded disposable personal income by \$100 billion in the third quarter. As a result, the personal saving rate was -1.1 percent. The personal saving rate has been declining for some time (see top chart), but this is the first negative quarter in the postwar period. Growth in income was muted by reduced rental and proprietors' income due to property damage from the hurricanes. Insurance payments offset some of that loss and added to income in September, but uninsured losses totaled about \$40 billion in the third quarter. As a result of slower income growth and higher inflation, real disposable personal income fell by 0.9 percent in the quarter.
- **Employment costs increased less than inflation.** The Employment Cost Index (ECI)—a measure of compensation that includes both wages and benefits—rose 0.8 percent between June and September to a level 3.0 percent higher than it was a year earlier. The wage and salary component of the ECI was just 2.3 percent higher than it was a year ago, the smallest 12-month change on record. After adjusting for inflation, ECI compensation has fallen 2.0 percent and wages and salaries have fallen 2.7 percent over the past 12 months (see bottom chart).

The Economy at a Glance	Sep	Aug	Jul	Jun	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.8	3.3	3.8	3.3	4.2	2.7
Industrial Production (% growth)	-14.5	2.4	0	10.0	1.3	1.4	3.6	4.5	4.2	0
Capacity Utilization (level, %)	78.6	79.8	79.7	79.8	79.4	79.4	79.3	78.8	78.1	75.5
Civilian Unemployment Rate (level, %)*	5.1	4.9	5.0	5.0	5.0	5.1	5.3	5.4	5.5	6.0
Housing Starts (thousands)	2108	2038	2062	2065	2069	2044	2083	1973	1950	1854
Real Disposable Personal Income (% growth)	12.3	-16.1	1.5	4.7	-0.9	1.5	1.0 [#]	4.3 [#]	3.1 [#]	2.4
Retail Sales (% growth)	2.9	-20.2	22.4	24.6	6.7	10.8	6.0	9.8	7.3	4.3
Personal Saving Rate (level, %)	-0.4	-1.8	-1.2	-0.3	-1.1	0.1	0.5	1.2 [#]	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	15.4	6.2	6.2	0	5.1	4.2	2.4	3.6	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	1.2	1.2	1.2	1.5	2.0	2.6	2.3	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	3.2	2.8	2.8	3.2	3.9	3.9
Output per Hour (% growth)*	—	—	—	—	n.a.	1.8	3.2	2.5	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.42	3.44	3.22	2.97	3.36	2.86	2.54	2.01	1.37	1.01
T-note Rate, 10-years (level, %)	4.20	4.26	4.18	4.00	4.21	4.16	4.30	4.17	4.27	4.01
Federal Funds Rate (level, %)	3.62	3.50	3.26	3.04	3.46	2.94	2.47	1.95	1.35	1.13
Dow Jones Industrial Avg (index level)	10533	10554	10545	10487	10544	10382	10648	10362	10317	8994

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.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Construction Spending: September 2005** [Release: Tuesday, November 1]
- **Federal Open Market Committee Monetary Policy Announcement** [Release: Tuesday, November 1]
- **Productivity and Costs: Third Quarter 2005 (Preliminary)** [Release: Thursday, November 3]
- **Manufacturers Shipments, Inventories, and Orders: September 2005** [Release: Thursday, November 3]
- **The Employment Situation: October 2005** [Release: Friday, November 4]
- **Consumer Credit: September 2005** [Release: Monday, November 7]