



WEEKLY ECONOMIC DIGEST

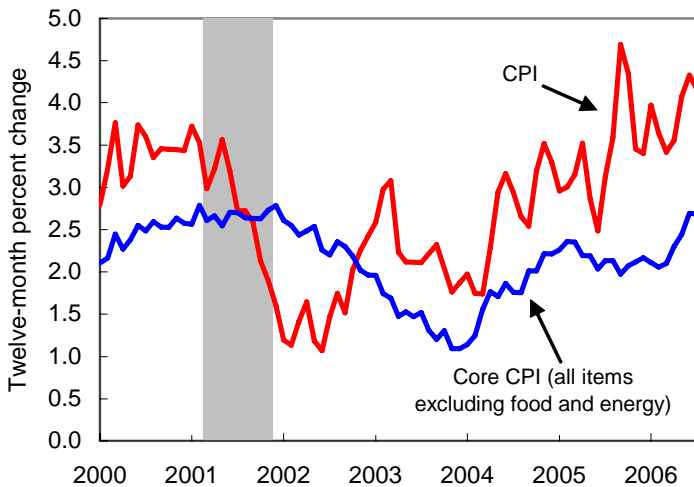


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

August 22, 2006

Economy Shows Signs of Cooling, Although Retail Sales Remain Solid

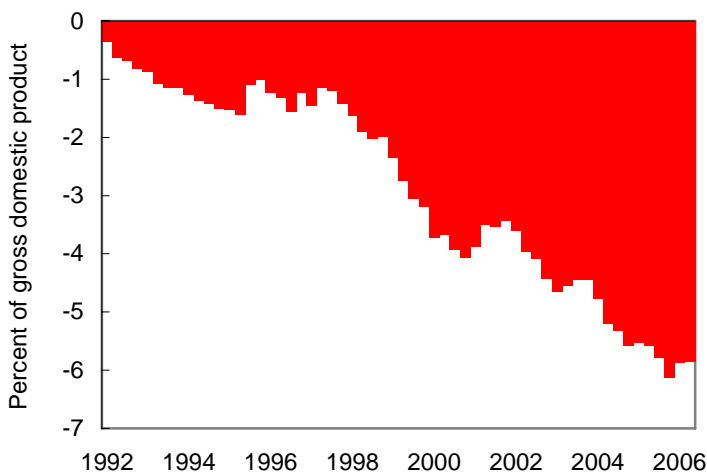
Consumer Price Indexes



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

Balance of Trade in Goods and Services



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

- **Consumer price inflation was boosted by higher energy prices in July, while core inflation moderated.** The consumer price index (CPI) rose by 0.4 percent last month as the price index for energy goods and services rose by 2.9 percent. The overall CPI was 4.2 percent higher than a year earlier (see top chart). After growing by 0.3 percent in each of the previous four months, the core CPI (which excludes the volatile prices of food and energy) rose by 0.2 percent in July to a level 2.7 percent higher than a year earlier.
- **Homebuilding and vehicle production declined in July.** The number of new privately owned housing units started fell by 2.5 percent last month to an annual rate of 1.795 million units. That was 13.3 percent below the rate a year earlier and the slowest pace for new home building in more than three years. In addition, production of motor vehicles and parts dropped by 5.4 percent in July, leaving production 0.8 percent below last year's level.
- **Retail sales rebounded last month.** Total sales at retail establishments and food services rose by 1.4 percent in July after falling by 0.4 percent in June. Sales of motor vehicles and parts rose by 3.1 percent in July but remained 9.4 percent lower than a year earlier. Sales at gasoline stations rose by 2.5 percent, reflecting a pickup in gas prices. Non-automotive sales were solid, rising by 0.7 percent in July to 7.7 percent above last year's level.
- **A drop in oil imports contributed to a slight drop in the trade deficit in June.** The deficit for international trade in goods and services (imports minus exports) narrowed slightly to \$64.8 billion in June from May's deficit of \$65.0 billion. Exports rose by \$2.4 billion (2.0 percent) while imports rose by \$2.2 billion (1.2 percent) despite a 3.5 percent decline in petroleum imports. The trade deficit remained unsustainably large, averaging 5.9 percent of gross domestic product in the second quarter (see bottom chart).

The Economy at a Glance	Jul	Jun	May	Apr	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	4.2	3.2	3.9
Industrial Production (% growth)	4.9	10.0	0	10.0	6.2	5.1	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)	82.4	82.3	81.7	81.8	81.9	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)*	4.8	4.6	4.6	4.7	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)	1795	1841	1953	1832	1875	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)*	n.a.	4.8	0	1.1	1.0	1.7	5.5	-0.6	1.2	3.6
Retail Sales (% growth)	18.1	-4.7	2.4	8.3	3.5	13.4	2.1	8.1	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	-1.5	-1.6	-1.4	-1.5	-1.0	-0.3	-1.5	-0.4	2.0
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	4.9	2.4	4.9	7.4	5.0	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)	2.4	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)	—	—	—	—	1.1	4.3	-0.1	4.4	2.3	3.0
Financial Markets										
T-bill Rate, 3-month (level, %)	4.95	4.79	4.72	4.60	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	5.09	5.11	5.11	4.99	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	5.24	4.99	4.94	4.79	4.91	4.46	3.98	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	11033	10998	11334	11235	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 two weeks.

Upcoming Economic Releases:

- **Existing Home Sales: July 2006** [Release: Wednesday, August 23]
- **Advance Report on Durable Goods Manufacturer's Shipments, Inventories and Orders: July 2006** [Release: Thursday, August 24]
- **New Residential Sales: July 2006** [Release: Thursday, August 24]
- **Gross Domestic Product (Preliminary) and Corporate Profits: Second Quarter 2006** [Release: Wednesday, August 30]
- **Personal Income and Outlays: July 2006** [Release: Thursday, August 31]
- **The Employment Situation: August 2006** [Release: Friday, September 1]
- **Construction Spending: July 2006** [Release: Friday, September 1]