



WEEKLY ECONOMIC DIGEST

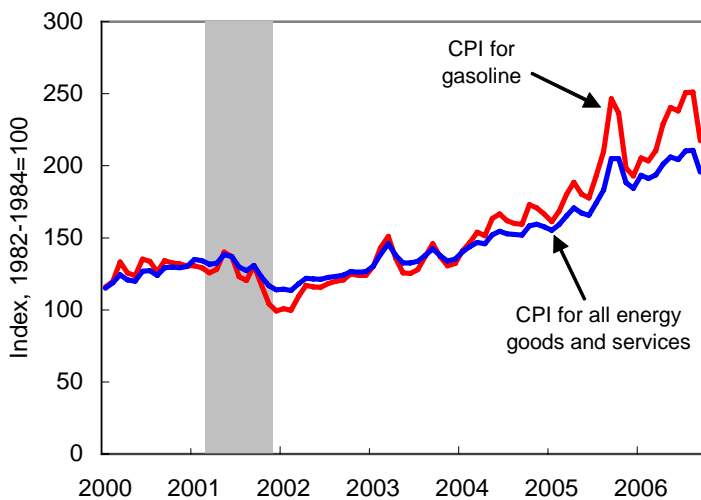


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

October 24, 2006

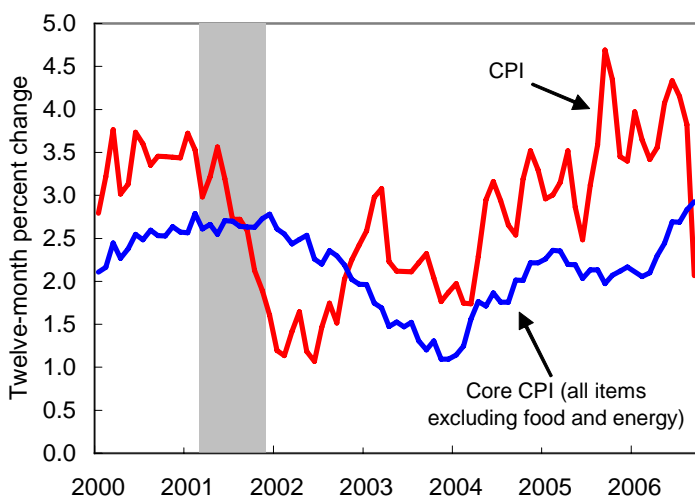
Gasoline Prices Abate from Recent Highs

Consumer Price Indexes for Energy



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

Consumer Price Inflation



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

Note: The gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Consumer prices dropped as energy prices fell in September.** The consumer price index (CPI) declined by 0.5 percent last month. After rising by 14.4 percent in the first eight months of this year, consumer energy prices fell by 7.2 percent in September, with gasoline prices dropping by 13.5 percent (see top chart). The core CPI, which excludes the volatile food and energy prices, rose by a moderate 0.2 percent for the third consecutive month. As a result of larger increases earlier this year, the 12-month change in the core CPI was 2.9 percent, compared with just 2.1 percent for the overall CPI (see bottom chart).

- **Retail sales were held down by weak automotive purchases and lower gasoline sales.** Total sales at retail establishments and food services fell by 0.4 percent in September. Sales of motor vehicles and parts were flat last month, while gasoline purchases were down 9.3 percent. Sales excluding motor vehicles and gasoline, however, rose by 0.8 percent and were a solid 7.3 percent higher than they were a year earlier.

- **Industrial production fell in September.** Industrial production in manufacturing, mining, and utilities declined by 0.6 percent last month, following no gain in August. The output of utilities dropped by 4.4 percent. Factory output dropped by 0.3 percent in September. While most manufacturing sectors showed declines, the 2.1 percent drop in motor vehicle production was the largest. Even with September's decline, however, factory output was still 5.9 percent above last year's level.

- **The trade deficit widened in August.** The deficit for international trade in goods and services (imports minus exports) rose by \$1.9 billion in August, to \$69.9 billion. Although exports grew by \$2.7 billion (2.3 percent), imports grew by \$4.6 billion (2.4 percent). Oil prices rose in August, and that contributed some to the rise in imports. However, non-petroleum imports rose as well, gaining 2.7 percent in August, contributing to a 0.9 percent widening in the non-oil trade deficit.

| The Economy at a Glance | Sep | Aug | Jul | Jun | 2006 Qtr 3 | 2006 Qtr 2 | 2005 Qtr 1 | 2005 Qtr 4 | 2005 | 2004 |
|---|-------|-------|-------|-------|---------------|---------------|---------------|---------------|-------|-------|
| Economic Activity | | | | | | | | | | |
| Real GDP (% growth)* | — | — | — | — | n.a. | 2.6 | 5.6 | 1.8 | 3.2 | 3.9 |
| Industrial Production (% growth) | -7.0 | 0 | 3.7 | 14.0 | 3.6 | 6.6 | 5.1 | 5.3 | 3.3 | 4.1 |
| Capacity Utilization (level, %) | 81.9 | 82.5 | 82.6 | 82.5 | 82.3 | 82.0 | 81.1 | 80.5 | 80.0 | 78.6 |
| Civilian Unemployment Rate (level, %)* | 4.6 | 4.7 | 4.8 | 4.6 | 4.7 | 4.7 | 4.7 | 5.0 | 5.1 | 5.5 |
| Housing Starts (thousands) | 1772 | 1674 | 1760 | 1833 | 1735 | 1873 | 2123 | 2060 | 2073 | 1950 |
| Real Disposable Personal Income (% growth)* | n.a. | 2.0 | 3.8 | 4.6 | n.a. | 1.7 | 4.6 | 5.5 | 1.2 | 3.6 |
| Retail Sales (% growth) | -5.0 | 1.1 | 17.8 | -6.1 | 4.1 | 3.3 | 13.4 | 1.9 | 7.2 | 6.2 |
| Personal Saving Rate (level, %)* | n.a. | -0.5 | -0.7 | -0.6 | n.a. | -0.6 | -0.3 | -0.3 | -0.4 | 2.0 |
| Inflation & Productivity | | | | | | | | | | |
| CPI-U Inflation, all items (% growth) | -5.8 | 2.4 | 4.9 | 2.4 | 2.9 | 5.0 | 2.2 | 3.2 | 3.4 | 2.7 |
| Core CPI-U Inflation (% growth) | 2.4 | 2.4 | 2.4 | 3.7 | 3.0 | 3.5 | 2.4 | 2.4 | 2.2 | 1.8 |
| Compensation per hour (% growth)* | — | — | — | — | n.a. | 3.6 | 2.4 | 3.2 | 3.3 | 3.7 |
| Output per hour (% growth)* | — | — | — | — | n.a. | 1.6 | 4.3 | -0.1 | 2.3 | 3.0 |
| Financial Markets | | | | | | | | | | |
| T-bill Rate, 3-month (level, %) | 4.81 | 4.96 | 4.95 | 4.79 | 4.91 | 4.70 | 4.39 | 3.83 | 3.15 | 1.37 |
| T-note Rate, 10-years (level, %) | 4.72 | 4.88 | 5.09 | 5.11 | 4.90 | 5.07 | 4.57 | 4.49 | 4.29 | 4.27 |
| Federal Funds Rate (level, %) | 5.25 | 5.25 | 5.24 | 4.99 | 5.25 | 4.91 | 4.46 | 3.98 | 3.22 | 1.35 |
| Dow Jones Industrial Avg (index level) | 11534 | 11257 | 11033 | 10998 | 11274 | 11189 | 10996 | 10616 | 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: September 2006** [Release: Wednesday, October 25]
- **Federal Open Market Committee Statement on Monetary Policy** [Wednesday, October 25]
- **New Residential Sales: September 2006** [Release: Thursday, October 26]
- **Gross Domestic Product: Third Quarter 2006 (Advance)** [Release: Friday, October 27]
- **Personal Income and Outlays: September 2006** [Release: Monday, October 30]
- **Employment Cost Index: September 2006** [Release: Tuesday, October 31]
- **Productivity and Costs: Third Quarter 2006 (Advance)** [Release: Thursday, November 2]
- **The Employment Situation: October 2006** [Release: Friday, November 1]