



WEEKLY ECONOMIC DIGEST

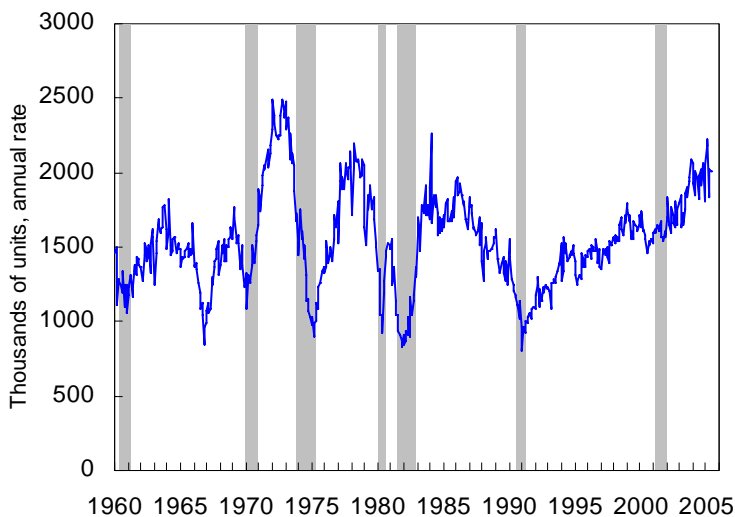


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

July 26, 2005

Housing Starts Remain High; China Makes Small Revaluation; Earnings Lag Behind Inflation

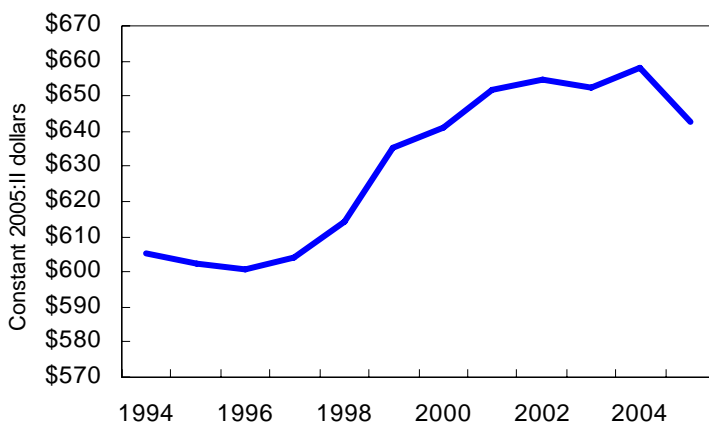
Privately Owned Housing Units Started



Source: Census Bureau, U.S. Department of Commerce.

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

Real Median Usual Weekly Earnings of Full-Time Wage and Salary Workers



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Housing starts were unchanged last month.** Just over 2 million (annual rate) privately owned housing units were started last month. That was unchanged from May but 9.7 percent higher than a year earlier. Housing starts have been strong for several years, and contrary to historical experience were largely unaffected by the 2001 recession (see top chart). Low borrowing costs have been an important factor in buoying housing activity, as monetary policy tightening by the Federal Reserve has not yet affected mortgage or other long-term interest rates.

- **China revalued its currency slightly.** Last Thursday, China raised the value of the yuan by 2.1 percent against the dollar. That is a small first step toward what could eventually be a larger appreciation, if the Chinese allow the narrow band within which they constrain daily movements in the yuan to move up over time. Such an appreciation should eventually boost U.S. net exports, but it could also lead to higher long-term interest rates if reduced exchange rate intervention leads to reduced demand for U.S. assets by China.

- **Real earnings fell over the past year.** The median usual weekly earnings of full-time workers were \$643 (not seasonally adjusted) in the second quarter, only 0.6 percent above their level a year earlier. That increase was far less than the 3 percent rise in consumer prices, leaving real (inflation-adjusted) median earnings 2.3 percent lower. After growing robustly in the late 1990s, median real earnings have been stagnating since 2001 (see bottom chart). Real earnings at the top of the distribution (the 90th percentile) rose 0.2 percent in the past year, but losses were pervasive through the rest of the distribution.

The Economy at a Glance	Jun	May	Apr	Mar	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004	2003
Economic Activity										
Real GDP (% growth)*	—	—	—	—	n.a.	3.8	3.8	4.0	4.4	3.0
Industrial Production (% growth)	11.4	3.7	-3.5	2.4	2.1	3.6	4.5	2.7	4.2	0
Capacity Utilization (level, %)	80.0	79.4	79.2	79.5	79.5	79.3	78.8	78.2	78.1	75.5
Civilian Unemployment Rate (level, %)	5.0	5.1	5.2	5.2	5.1	5.3	5.4	5.5	5.5	6.0
Housing Starts (thousands)	2004	2004	2027	1833	2012	2083	1973	1974	1950	1854
Real Disposable Personal Income (% growth)*	n.a.	1.6	0.6	0.2	n.a.	3.1 [#]	6.0 [#]	2.9	3.4 [#]	2.3
Retail Sales (% growth)	21.7	-3.4	23.4	3.9	10.7	6.0	10.2	6.7	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	0.6	0.5	0.6	n.a.	0.9	1.1 [#]	0.7	1.0 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	0	-1.2	6.2	7.4	4.2	2.4	3.6	1.6	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	1.2	0	4.9	2.0	2.6	2.3	1.7	1.8	1.5
Employment Cost Index (% growth)*	—	—	—	—	n.a.	2.4	3.2	4.1	3.9	4.0
Output per Hour (% growth)	—	—	—	—	n.a.	2.9	2.3	0.9	4.0	4.3
Financial Markets										
T-bill Rate, 3-month (level, %)	2.97	2.84	2.78	2.74	2.86	2.54	2.01	1.49	1.37	1.01
T-note Rate, 10-years (level, %)	4.00	4.14	4.34	4.50	4.16	4.30	4.17	4.30	4.27	4.01
Federal Funds Rate (level, %)	3.04	3.00	2.79	2.63	2.94	2.47	1.95	1.43	1.35	1.13
Dow Jones Industrial Avg (index level)	10487	10377	10283	10682	10382	10648	10362	10130	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 workers in private industry. 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:

- **New Residential Sales in June 2005** [Release: Wednesday, July 27]
- **Annual Revision of National Income and Product Accounts (first quarter 2002 through first quarter 2005) and Advance Estimates of Gross Domestic Product for the Second Quarter of 2005** [Release: Friday, July 29]
- **Employment Cost Index: June 2005** [Release: Friday, July 29]
- **Construction Spending: June 2005** [Release: Monday, August 1]
- **Personal Income and Outlays: June 2005** [Release: Tuesday, August 2]
- **Manufacturers' Shipments, Inventories and Orders: June 2005** [Release: Tuesday, August 2]