



# WEEKLY ECONOMIC DIGEST

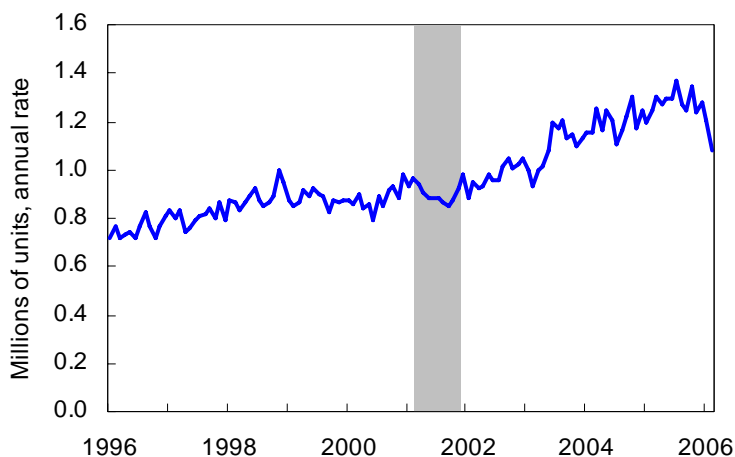


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
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March 28, 2006

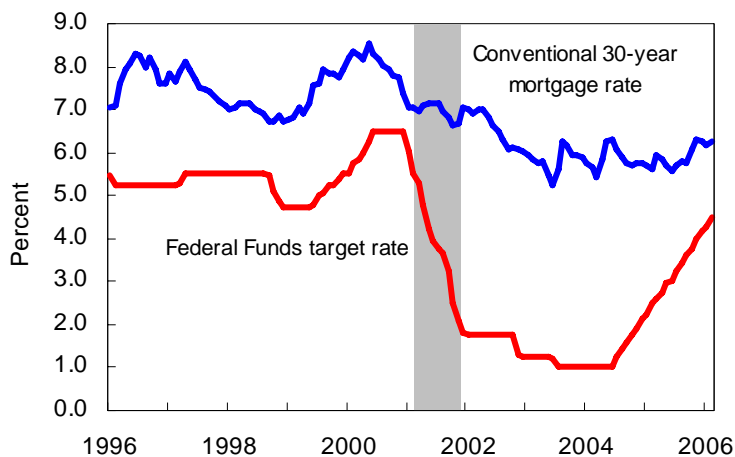
## Housing Market Cools as Fed Considers Next Rate Move

New Single-Family Houses Sold



Source: Census Bureau, U.S. Department of Commerce and the National Bureau of Economic Research.

Interest Rates



Source: Board of Governors, Federal Reserve System and National Bureau of Economic Research.

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

- Housing starts fell in February.** New privately owned housing starts fell by 7.9 percent to 2.120 million units at an annual rate last month. However, financial markets had expected an even larger decline in the wake of the 15.8 percent weather-related surge in January. February's decline left housing starts 4.8 percent below their level a year earlier.
- New home sales dropped sharply last month.** Sales of new single-family homes fell by 10.5 percent in February to 1.080 million units at an annual rate (see top chart). That level of sales was 13.4 percent lower than a year earlier and the lowest since May 2003. The median price of new single-family homes was \$230,400, down 2.9 percent from a year earlier. The decline in new home sales worked to boost the stock of new homes for sale (the equivalent of 6.3 months of sales at the current rate) to its highest level in more than a decade.
- Existing home sales rebounded in February but remained below last year's level.** Sales of existing single-family homes rose by 4.7 percent last month to 6.060 million units at an annual rate. However, that rate was 0.2 percent lower than it was a year earlier. Analysts believe that warm January temperatures may have boosted purchases that closed in February. The median price of existing single-family homes was \$208,500, up 11.6 percent from a year earlier.
- Mortgage rates rose last month but remain low.** The national average commitment rate for a 30-year, conventional, fixed rate mortgage rose slightly to 6.25 percent in February. However the mortgage interest rate (like other long-term interest rates) has changed little since June 2004 when the Federal Open Market Committee (FOMC) began raising short-term interest rates (see bottom chart). The FOMC, which already has raised its target for the federal funds rate by 3½ percentage points, meets today and is expected to raise that rate by another ¼ percentage point.

The Economy at a Glance	Feb	Jan	Dec	Nov	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	1.6	4.1	3.3	3.8	3.5	4.2
Industrial Production (% growth)	8.7	-3.5	12.7	11.4	5.3	1.4	1.6	3.8	3.3	4.1
Capacity Utilization (level, %)	81.2	80.8	81.2	80.5	80.5	79.8	79.9	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.8	4.7	4.9	5.0	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)	2120	2303	1989	2136	2059	2101	2044	2083	2072	1950
Real Disposable Personal Income (% growth)*	n.a.	0.7	6.4	9.0	7.1	-2.0	0.2	-3.4	1.5	3.4
Retail Sales (% growth)	-14.9	41.5	3.6	11.2	1.9	6.9	11.1	4.9	7.5	7.3
Personal Saving Rate (level, %)*	n.a.	-0.7	-0.4	-0.2	-0.2	-1.6	-0.2	0.5	-0.4	1.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	1.2	8.7	-1.2	-8.1	3.2	5.5	3.7	2.5	3.4	2.7
Core CPI-U Inflation (% growth)	1.2	2.4	1.2	2.4	2.4	1.6	2.0	2.5	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	3.2	3.2	2.8	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	-0.5	4.2	2.4	3.8	2.9	3.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.43	4.24	3.89	3.88	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.57	4.42	4.47	4.54	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.49	4.29	4.16	4.00	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10971	10872	10828	10695	10616	10544	10382	10648	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:

- **Federal Open Market Committee Statement on Monetary Policy** [Tuesday, March 28]
- **Gross Domestic Product (Final) and Corporate Profits: Fourth Quarter 2005** [Release: Thursday, March 30]
- **Personal Income and Outlays: February 2006** [Release: Friday, March 31]
- **Full Report on Manufacturers' Shipments, Inventories and Orders: February 2006** [Release: Friday, March 31]
- **Construction Spending: February 2006** [Release: Monday, April 3]