



# WEEKLY ECONOMIC DIGEST

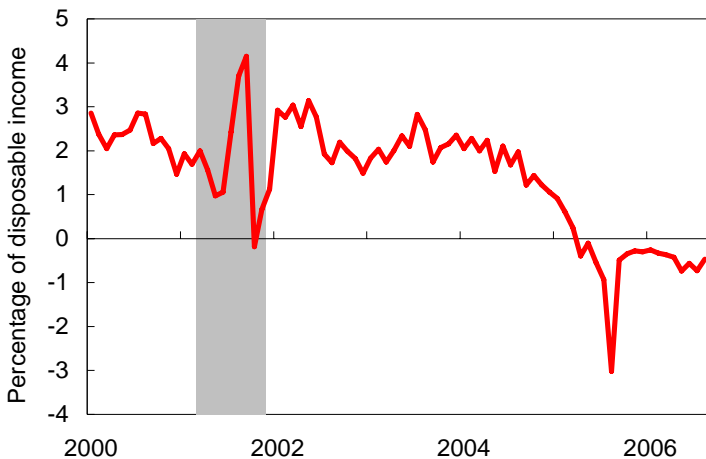


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

October 3, 2006

## Weakening Housing Market is a Drag on Growth

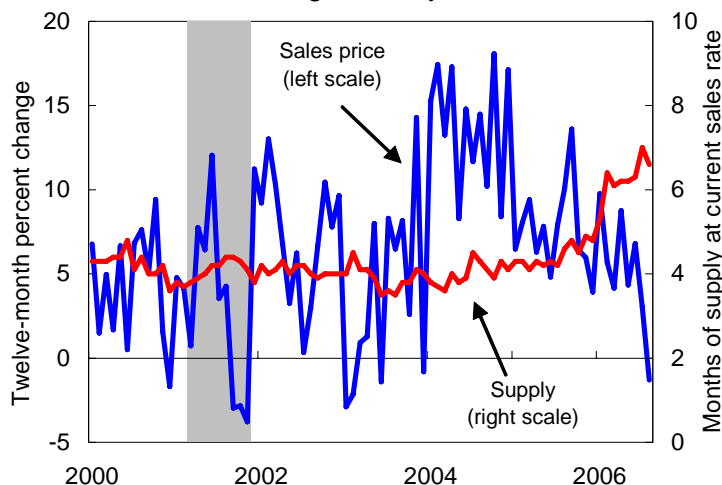
### Personal Saving Rate



Sources: Bureau of Economic Analysis, U.S. Department of Commerce; National Bureau of Economic Research; and JEC Democratic Staff.

Note: The saving rate was adjusted to exclude the one-time effect of the Microsoft dividend payment in December 2004.

### Median Sales Price and Supply of New Single-Family Homes



Sources: Census Bureau, U.S. Department of Commerce; and National Bureau of Economic Research.

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

- **Second quarter growth was revised down again.** Real (inflation-adjusted) gross domestic product (GDP) grew at a 2.6 percent annual rate in the second quarter, according to the latest estimate of the Department of Commerce. That is below the department's previous estimates for the quarter and well below the economy's average growth of 3.5 percent over the previous four quarters. Falling residential investment subtracted 0.7 percent from GDP growth in the second quarter, and forecasters see the economy slowing further in the second half of the year as housing-related activity continues to be a drag on growth.

- **Consumer incomes grew slowly and spending declined in August.** Real (inflation-adjusted) personal disposable income grew 0.2 percent in August, following a 0.3 percent rise in July. That slowing largely reflected a 0.2 percent decline in real aggregate wages and salaries of workers in private industry. Real consumption expenditures declined by 0.1 percent in August. Although the gap between spending and income narrowed, the personal saving rate remained negative (see upper chart).

- **New home prices sagged in August and the unsold inventory is high.** The median sale price of new homes was \$237,000 last month, down 1.3 percent over the past 12 months (see bottom chart). Sales of new single-family homes were 17.4 percent lower than a year earlier, and the supply of homes available for sale was 6.6 months at the current sales rate, remaining near its highest level in more than a decade and suggesting that there will be further softening in new home prices.

- **New orders for capital goods fell in August, but backlogged orders remain high.** New orders for nondefense capital goods dropped by 3.5 percent last month, the fourth decline in the past five months. Even so, many analysts regard the near-term outlook for shipments as favorable, because unfilled orders were 28.8 percent above the level a year ago, a level equivalent to nearly five months of shipments at the current rate.

<b>The Economy at a Glance</b>	Sep	Aug	Jul	Jun	2006 Qtr 3	2006 Qtr 2	2005 Qtr 1	2005 Qtr 4	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	n.a.	2.6	5.6	1.8	3.2	3.9
Industrial Production (% growth)	n.a.	-1.2	4.9	14.0	n.a.	6.6	5.1	5.3	3.3	4.1
Capacity Utilization (level, %)	n.a.	82.4	82.7	82.5	n.a.	82.0	81.1	80.5	80.0	78.6
Civilian Unemployment Rate (level, %)*	n.a.	4.7	4.8	4.6	n.a.	4.7	4.7	5.0	5.1	5.5
Housing Starts (thousands)	n.a.	1665	1772	1833	n.a.	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)	n.a.	2.9	17.5	-6.1	n.a.	3.3	13.4	2.2	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
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	n.a.	2.4	4.9	2.4	n.a.	5.0	2.2	3.2	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	2.4	2.4	3.7	n.a.	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
<b>Financial Markets</b>										
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	4.90	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 week.

### Upcoming Economic Releases:

- **Full Report on Manufacturers' Shipments, Inventories and Orders: August 2006** [Release: Wednesday, October 4]
- **The Employment Situation: September 2006** [Release: Friday, October 6]
- **Consumer Credit: August 2006** [Release: Friday, October 6]