



WEEKLY ECONOMIC DIGEST

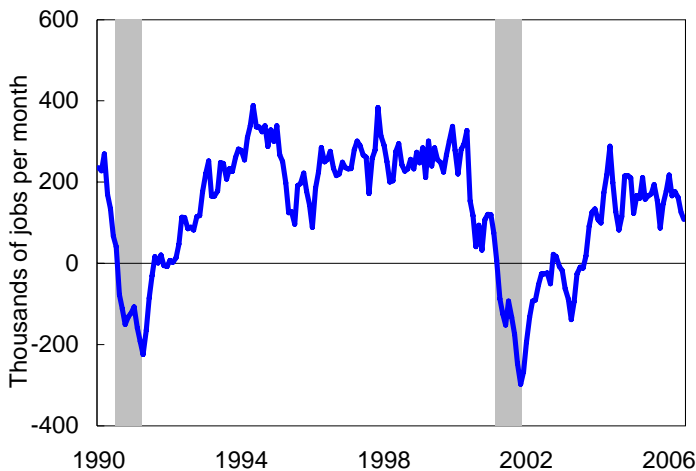


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

July 11, 2006

Job Growth Slows in the Second Quarter

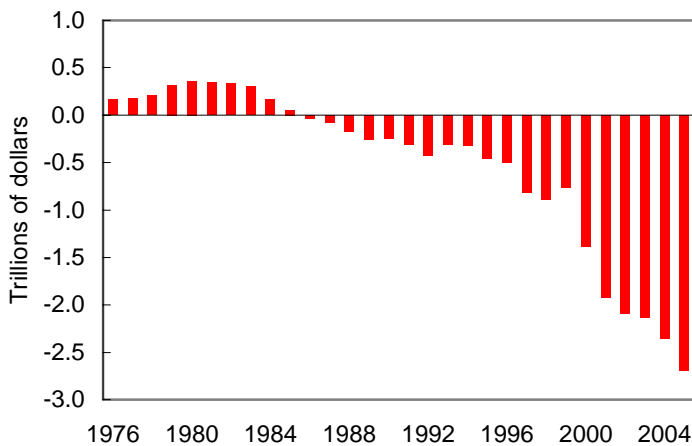
Change in Nonfarm Payroll Employment
Three-Month Moving Average



Source: 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.

Net U.S. International Investment Position



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

- **Payroll growth was modest again in June.** Payroll employment at nonfarm establishments rose by 121,000 jobs last month, falling short of the consensus forecast of 175,000 jobs. Payroll employment has grown by an average of 155,000 jobs per month over the past year, but average growth over the past three months was only 108,000 jobs per month (see top chart). About 150,000 jobs per month are needed to absorb a growing labor force.
- **The unemployment rate was unchanged last month.** The civilian unemployment rate remained at 4.6 percent in June. The percentage of the population either working or looking for a job edged up 0.1 percent to 66.2 percent, but that is a full percentage point lower than the labor force participation rate when the recession started in March 2001.
- **Wage gains are probably still lagging behind inflation despite a jump in June.** The average hourly earnings of production and nonsupervisory workers in private nonfarm businesses rose by 0.5 percent last month, pushing earnings to 3.9 percent above their level a year earlier. However, when the June consumer price index becomes available it is likely to show that consumer prices rose even faster over the past 12 months.
- **Economic growth in the first quarter was revised up** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 5.6 percent in the first quarter, according to revised estimates by the Department of Commerce. Forecasters expect growth to be more moderate for the rest of the year.
- **U.S. net international indebtedness grew in 2005.** The value of foreign-owned assets in the United States exceeded the value of U.S. owned assets abroad by \$2.7 trillion at the end of 2005 (see bottom chart). The deterioration of the U.S. net international investment position due to the large current account deficit was partly offset by a larger appreciation in the value of U.S. assets abroad than in the value of foreign assets in the United States.

The Economy at a Glance	Jun	May	Apr	Mar	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	n.a.	5.6	1.7	4.1	3.5	4.2
Industrial Production (% growth)*	n.a.	-1.2	10.0	6.2	n.a.	5.3	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)*	n.a.	81.7	81.9	81.4	n.a.	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)	4.6	4.6	4.7	4.7	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)	n.a.	1957	1863	1972	n.a.	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)	n.a.	0.0	1.2	-1.2	n.a.	1.5	5.1	-1.4	1.3	3.4
Retail Sales (% growth)*	n.a.	0.8	9.5	8.7	n.a.	13.4	1.9	8.8	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-1.7	-1.6	-1.5	n.a.	-1.4	-0.5	-1.6	-0.5	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	4.9	7.4	4.9	n.a.	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	3.7	3.7	3.7	n.a.	2.4	2.4	1.6	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	n.a.	2.4	3.2	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	n.a.	3.7	-0.3	4.2	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.79	4.72	4.60	4.51	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	5.11	5.11	4.99	4.72	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	4.99	4.94	4.79	4.59	4.91	4.46	3.98	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	10998	11334	11235	11144	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 week.

Upcoming Economic Releases:

- **U.S. International Trade in Goods and Services: May 2006** [Release: Wednesday, July 12]
- **Monthly Treasury Statement of Receipts and Outlays of the U.S. Government: June 2006** [Release: Thursday, July 13]
- **Manufacturing and Trade Inventories and Sales: May 2006** [Friday, July 14]
- **U.S. Import and Export Price Indexes: June 2006** [Release: Friday, July 14]
- **Advance Monthly Sales for Retail and Food Services: June 2006** [Release: Friday, July 14]
- **Industrial Production and Capacity Utilization: June 2006** [Release: Monday, July 17]