



WEEKLY ECONOMIC DIGEST

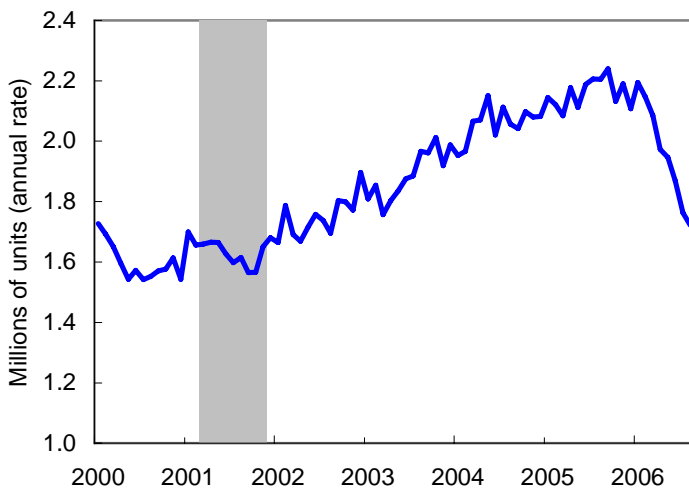


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

September 26, 2006

The Housing Market Continues to Soften

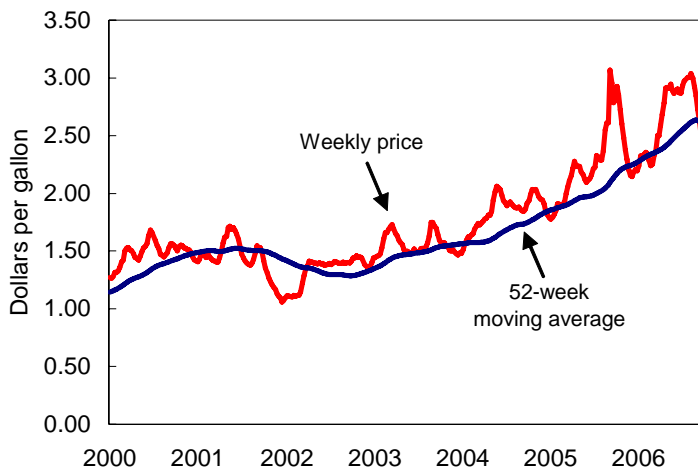
Building Permits for New Private Housing



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

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

Retail Gasoline Prices, Regular Unleaded
Nationwide average of Monday prices



Source: Energy Information Administration, U.S. Department of Energy.

- **Homebuilding fell sharply last month.** The number of new privately owned housing units started fell by 6.0 percent in August. That is the sixth decline in the last eight months. At 1.665 million units (annual rate) starts are now 19.8 percent lower than they were in August 2005. No imminent pickup in home building is likely, as the number of building permits authorized for new privately owned homes declined by 2.3 percent in August to 1.722 million units (annual rate). That is 21.9 percent below the August 2005 level and the lowest rate in four years (see top chart).
- **Sales of existing homes fell again last month.** Total sales of existing homes (comprising single-family homes, townhouses, condominiums, and co-ops) fell for the fifth consecutive month in August, dropping 0.5 percent to 6.300 million units (annual rate). August sales were 12.6 percent lower than they were a year ago. The median price of existing homes was \$225,000, 1.7 percent lower than it was in August 2005.
- **Growth in housing equity moderated in the second quarter.** Reflecting the cooling housing market, the market value of equity in household real estate grew at an annual rate of just 5.1 percent in the second quarter. That was barely enough to offset a decline in non-housing wealth, and the net worth of households and nonprofit institution rose at an annual rate of just 0.4 percent in the second quarter. Over the past four quarters, housing wealth has increased by 8.7 percent and total net worth by 7.9 percent.
- **Energy prices remain high despite recent dip.** The spot price of West Texas Intermediate crude petroleum slipped to \$61.42 per barrel last week. Analysts cite the easing in geopolitical and weather-related risks, and the effects of a slowing U.S. economy on world energy demand as reasons for the decline. The average retail price of regular grade gasoline was \$2.38 per gallon nationwide yesterday. That is lower than the peak of \$3.04 per gallon in early August, but the average price over the past year remains near its recent high (see bottom chart).

The Economy at a Glance	Aug	Jul	Jun	May	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005	2004
Economic Activity										
Real GDP (% growth)*	—	—	—	—	2.9	5.6	1.8	4.2	3.2	3.9
Industrial Production (% growth)	-1.2	4.9	14.0	1.2	6.6	5.1	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)	82.4	82.7	82.5	81.7	82.0	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.8	4.6	4.6	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)	1665	1772	1833	1953	1873	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)*	n.a.	4.1	4.4	0.2	1.5	4.6	5.5	-0.6	1.2	3.6
Retail Sales (% growth)	2.9	17.5	-6.1	2.4	3.3	13.4	2.2	8.0	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	-0.9	-0.7	-0.8	-0.7	-0.3	-0.3	-1.5	-0.4	2.0
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	2.4	4.9	2.4	4.9	5.0	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)	2.4	2.4	3.7	3.7	3.5	2.4	2.4	1.6	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	3.6	2.4	3.2	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	1.6	4.3	-0.1	4.4	2.3	3.0
Financial Markets										
T-bill Rate, 3-month (level, %)	4.96	4.95	4.79	4.72	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	4.88	5.09	5.11	5.11	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	5.25	5.24	4.99	4.94	4.90	4.46	3.97	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	11257	11033	10998	11334	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:

- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: August 2006** [Release: Wednesday, September 27]
- **New Residential Sales: August 2006** [Release: Wednesday, September 27]
- **Gross Domestic Product and Corporate Profits: Second Quarter 2006 (Final)** [Release: Thursday, September 28]
- **Personal Income and Outlays: August 2006** [Release: Friday, September 29]
- **Construction Spending: September 2006** [Release: Monday, October 2]