JOINT ECONOMIC COMMITTEE

JIM SAXTON, CHAIRMAN

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ECONOMIC VITAL SIGNS: FEBRUARY 2006

The economy grew at an annual rate of 3.5% in 2005. Job creation has maintained its healthy growth rate through January 2006. The economy has added more than 4.7 million jobs since May of 2003.

Economic Indicators

- Economy grew at 3.5% in 2005
- Employment
  - 193,000 payroll jobs were added in Jan.
  - 4.7% unemployment rate in Jan.
  - 2.1 million payroll jobs added since Jan. 05
- Fixed investment rose 3.0% in the 4th Quarter
- Industrial production increased 2.8% in 2005
- Real disposable personal income increased 1.4% in 2005
- New home sales rose 2.9% Nov. to Dec.
- Inflation in 2005
  - 2.8% increase in prices for PCE
  - 2.0% increase excluding energy & food
- Interest rates in Jan.
  - Home mortgage rates averaged 6.12%
  - The prime rate rose to 7.5%

REAL GDP

Gross domestic product (GDP), the measure of current output of goods and services produced by labor and property located in the U.S., increased at an annual rate of 3.5% in 2005. According to the advance estimate of GDP reported by the Department of Commerce, the economy expanded by 1.1% in the fourth quarter. This weaker than expected performance can be ascribed to sluggish motor vehicle sales, a decline in national defense expenditures and a deceleration in fixed investment. Advance estimates of GDP are based on incomplete source data and are subject to revision.

Because of the economic dislocations associated with the hurricanes, the month to month volatility in the sales of motor vehicles and the fluctuations in the price of energy, short-run changes in many economic statistics may not be the best indicators of current economic health. For the year of 2005, the increase in GDP is a respectable margin above the 30-year average increase of 3.1%.

The economy has been expanding for seventeen consecutive quarters.

EMPLOYMENT

In January, the economy created 193,000 non-farm payroll jobs. The rate of unemployment fell to 4.7%. In the fourth quarter of 2005, the economy created 530,000 non-farm payroll jobs. Since January 2005, 2.1 million non-farm payroll jobs have been added. This is an impressive showing considering that net national job growth was at a virtual standstill in September and October due to the effects of the hurricanes.

Since May 2003, the economy has added 4.7 million non-farm payroll jobs.

INDUSTRIAL PRODUCTION

Industrial production increased 0.6% in December, following a gain of 0.8% in November. At an annual rate, 2005 industrial production was 2.8% above 2004.

According to the Commerce Department, in the closing months of 2005, manufacturing shipments and new orders for manufactured goods both showed significant increases. For example, new orders for manufactured durable goods have been up for three consecutive months, averaging a monthly increase of 3.4%.

PERSONAL INCOME AND CONSUMPTION

Due to the effects of the hurricanes, there have been erratic swings in the components of personal income. As a result, real disposable income has not consistently increased from month to month over the course of 2005. However, year over year, real disposable personal income increased 1.4%.

Real personal consumption expenditures (PCE) began to recover in November and December. But even a strong finish in the consumption of durable goods in December was not enough to offset the lackluster growth in consumer expenditures in the fourth quarter. The fourth quarter increase in real PCE was well below trend, registering 1.1%. For the year, however, real PCE grew at a respectable 3.6%.

HOUSING SECTOR

The outlook for the housing sector is mixed. Sales of new single-family houses increased 2.9% from November to December. In contrast, sales of existing homes declined 5.7% in the same period. Even with this decline, 2005 broke home sales records.

INFLATION

Core inflation, or the change in the level of prices that excludes volatile energy and food prices, remains low. In the fourth quarter, the core personal consumption expenditures (PCE) price index increased by 2.6% while the PCE index that includes volatile food and energy prices increased by 2.2%. The core Consumer Price Index (CPI) that excludes volatile food and energy prices rose 2.8% in the fourth quarter.

Core inflation appears to be contained. That said, the Federal Reserve may choose to focus on the low rate of unemployment as a harbinger of increases in core inflation.

INTEREST RATES

In an effort to restrain potential inflationary pressures, the Federal Reserve raised the federal funds rate to 4.50% on January 31. The prime rate, moving in lockstep with the federal funds rate, increased to 7.50%.

From October of 2005 through January, long-term Treasury interest rates were relatively stable. The rate on 10-year Treasury notes moved from an October average of 4.46% to 4.40% in January. The standard 30-year mortgage rate that averaged 6.07% in October, averaged 6.15% in January of 2006.

INVESTMENT

There was a distinct deceleration in fixed investment spending in the fourth quarter of 2005, increasing 3% compared to 8% in the third quarter. On the other hand, new orders for non-defense capital goods, excluding volatile orders for aircraft, increased 2.6% in the fourth quarter. Shipments for non-defense capital goods, excluding aircraft, increased 3.4% in the fourth quarter.

CLOSING THOUGHTS

To date, there is no evidence that higher energy costs have "passed through" to the general price level for the economy as a whole. The economy has shown itself to be resilient to significant shocks and continues to create jobs at a steady rate. According to the Conference Board, consumer confidence, which rebounded after the hurricanes, improved further in January. Consumer confidence now stands at its highest level in more than three years. If investment spending returns to trend, the prospects for solid economic growth and job creation remain encouraging for 2006.