JOINT ECONOMIC COMMITTEE

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ECONOMIC VITAL SIGNS: JULY 2006

In the first quarter of 2006, the economy expanded at a rapid annual rate of 5.6%. Since August of 2003, the economy has added 5.4 million non-farm payroll jobs.

Economic Indicators

- Economy grew at a rate of 5.6% in the 1st quarter
- Employment
  - 121,000 payroll jobs were added in June
  - 4.6% unemployment rate in June
  - Since June `05, avg. hourly earnings rose 3.9%
- 1st quarter real fixed business investment rose 14.2%
- Industrial production rose 0.8% in June
- Real disposable personal income per capita increased 0.73% in the 1st quarter
- Price level increase from June 2005
  - 4.3% increase in the CPI for all items
  - 2.6% increase in the core CPI
- Interest rates in June
  - Home mortgage rates averaged 6.68%
  - 10-year Treasury notes averaged 5.11%
  - Prime rate increased to 8.25% on June 29

REAL GDP

The Commerce Department reported that real gross domestic product (GDP) – the inflation-adjusted measure of current output of goods and services produced by labor and property located in the U.S. – increased 5.6% in the first quarter of 2006. The acceleration in real GDP growth in the first quarter can largely be attributed to an up-tick in personal consumption expenditures and private fixed investment. Federal expenditures also contributed to the acceleration in growth.

In the fourth quarter of 2005, real GDP increased at an annual rate of 1.7%. The moderation of economic growth in the fourth quarter of 2005 was due to the economic dislocations associated with Hurricanes Katrina and Rita. For the year of 2005, however, the economy grew at a rate of 3.5%, a respectable margin above the 30-year average increase of 3.1%.

EMPLOYMENT

In June, the economy created 121,000 non-farm payroll jobs and the unemployment rate stood at 4.6%. According to the Bureau of Labor Statistics, this job growth was widespread across most economic sectors.

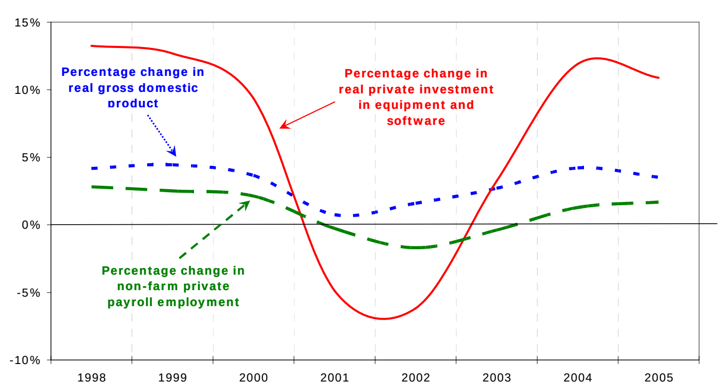
INVESTMENT

Real fixed nonresidential investment spending accelerated from 4.5% in the fourth quarter of 2005 to 14.2% in the first quarter of 2006. A jump in aircraft, motor vehicle and communications equipment investments contributed significantly to this acceleration.

As the figure below shows, the 2001 recession followed a collapse in investment spending that continued even as the economy began to recover in late 2001. Subsequently, the up tick in economic growth in 2003 was fueled by a rebound in investment.

Investment Drives Economic and Employment Growth

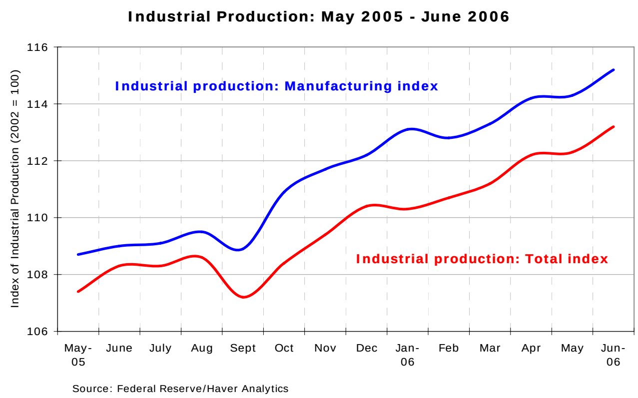
In 2000, investment in equipment and software, which accounted for 75% of all private nonresidential fixed investment in that year, fell precipitously



Source: Bureau of Economic Analysis/Haver Analytics (annual data in 2000 constant-dollars)

Industrial Production

Following a brief respite in May, industrial production returned to its brisk rate of growth. According to the Federal Reserve, industrial production increased 0.8% in June. Total output climbed at a 6.6% pace and manufacturing output rose at an annual rate of 5.4% in the second quarter.



Indexes for both the manufacturing and non-manufacturing sectors point to a growing economy, according to the Institute for Supply Management. The manufacturing sector has been growing for 37 months; the non-manufacturing sector has expanded for 39 months.

Personal Income

The Bureau of Labor Statistics reported that average hourly earnings, not adjusted for inflation, have risen by 3.9% since June of 2005. According to the Bureau of Economic Analysis, real disposable personal income increased 1.4% from May 2005 to May 2006.

Housing Sector

While new residential sales increased 4.6% and starts of single-family homes increased 4.3% from April to May, many analysts expect softening in the housing sector. From May to June, for example, building permits and housing starts both fell 4.3% and 5.3% respectively.

Interest Rates

The Federal Reserve, in an effort to restrain potential inflationary pressures, raised the federal funds rate to 5.25% on June 29. The prime rate increased to 8.25%.

Long-term interest rates have also crept up. The rate on 10-year Treasury notes has increased over the last six months from an average of 4.47% in December to an average of 5.11% in June. The standard 30-year mortgage rate edged up to an average of 6.68% in June.

Inflation

In June, the core inflation measure, which excludes volatile energy and food prices, and the headline inflation measure, which includes all types of items, presented different pictures. The core Consumer Price Index (CPI) was 2.6% higher than in June of 2005, a pace considered uncomfortable by inflation watchdogs. June's headline CPI, in contrast, moderated relative to the prior three months.

From March to May, rising energy prices were the culprit for most of the increase in the headline CPI. Despite higher prices, demand for gasoline continues to rise. The Energy Information Administration (EIA) reported that for the four weeks ending July 7, demand for gasoline increased 1.7%, in spite of prices that were, on average, 30% higher than for approximately the same period last year.

Before recent tensions in the Middle East put upward pressure on crude oil prices, gasoline prices were not expected to increase. The EIA, for example, recently forecast that the average price of gasoline would be $2.88 per gallon from April through September and decline thereafter.

Closing Thoughts

Despite elevated energy prices, the economy is adding jobs and the economic expansion remains on track. The Consensus Economics Inc. forecast for economic growth in 2006 remains 3.5%, markedly above the 30-year average rate of growth.