JOINT ECONOMIC COMMITTEE

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RESEARCH REPORT #109-43
September 19, 2006

ECONOMIC VITAL SIGNS: SEPTEMBER 2006

The economy is poised to achieve the 3.25% to 3.5% annual growth rate forecast by the Federal Reserve for 2006. In August, the economy added 128,000 non-farm payroll jobs.

Economic Indicators

- Economy grew at a rate of 2.9% in the 2nd quarter
- Employment situation in August
  - 128,000 payroll jobs were added
  - 4.7% unemployment rate
  - 5.7 million new payrolls jobs since Aug. ‘03
- Real fixed investment rose 9.1% Jan. through June
- Industrial production rose 4.7% Aug. ‘05 to Aug. ‘06
- Real disposable personal income increased 0.3% in July
- Price level increase from August 2005
  - 3.8% increase in the CPI for all items
  - 2.8% increase in the core CPI
- Interest rates in August
  - Home mortgage rates averaged 6.52%
  - 10-year Treasury notes averaged 4.88%

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. – moderated in the second quarter to an annual rate of 2.9%, following an unsustainably fast rate of 5.6% in the first quarter. The moderation of real GDP growth in the second quarter can be attributed to a lower rate of increase in personal consumption expenditures for durable goods and private fixed investment expenditures. Federal expenditures also decelerated.

Despite many factors that could have dampened economic expansion, the economy has been performing well in recent years. For example, the economy grew at a rate of 3.5% in 2005, in spite of the economic dislocations associated with Hurricanes Katrina and Rita, and elevated energy costs.

INVESTMENT

Real private fixed nonresidential investment spending grew at an annual rate of 9.1% in the first half of 2006. After a strong first quarter, the rate of investment spending eased in the second quarter.

Recent data released by the Census Bureau seem to indicate that the deceleration in investment spending in the second quarter was temporary. From June to July, new orders and shipments of non-defense capital goods – excluding aircraft – increased 1.3% and 1.5%, respectively.

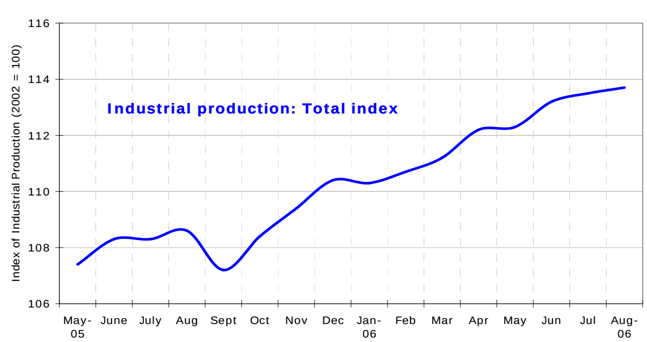
EMPLOYMENT

The economy created 128,000 non-farm payroll jobs in August, exceeding the forecasts of many economists. The rate of unemployment edged down to 4.7%.

INDUSTRIAL PRODUCTION

Despite occasional dips – the largest dip in the figure below was caused by the hurricanes – industrial production has been on an upward trend. In the second quarter, industrial production increased at an annual rate of 6.2%. Since August of 2005, industrial production has increased 4.7%.

Industrial Production: May 2005 - August 2006



Source: Federal Reserve/Haver Analytics

According to the Institute for Supply Management (ISM), its August index for manufacturing activity signals continued economic expansion. The manufacturing sector, according to the ISM, has been growing for over three years, as has the non-manufacturing sector.

PERSONAL INCOME

The Bureau of Labor Statistics reported that average hourly earnings, not adjusted for inflation, have risen by 3.9% since August of 2005. According to the Bureau of Economic Analysis, real disposable personal income increased 2.5% from July 2005 to July 2006. Per capita real disposable personal income increased 1.8% from the second quarter of 2005 to the second quarter of 2006.

HOUSING SECTOR

Many analysts have been expecting a softening of the housing sector and recent data seem to indicate that the sector is indeed softening. From June to July, building permits, housing starts and housing completions fell 6.5%, 2.5% and 5.4% respectively. The trend for existing home sales is similar. According to the National Association of Realtors, existing home sales nationwide fell 4.1% from June to July.

INTEREST RATES

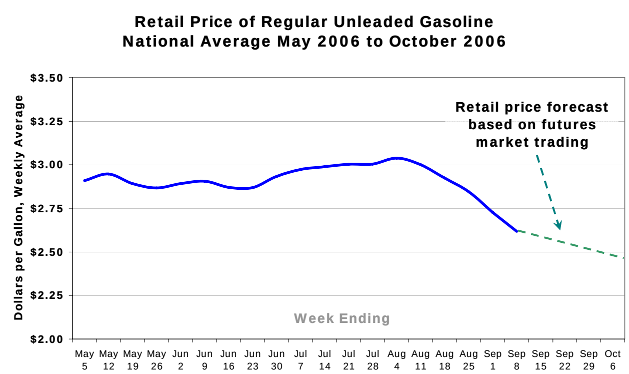
In an effort to restrain potential inflationary forces, the Federal Reserve raised the federal funds rate to 5.25% in June. To the relief of many investors and economists, Federal Reserve policy makers did not increase interest rates at their August meeting. The prime rate has also stabilized at 8.25%.

Long-term interest rates dipped slightly in August. The rate on 10-year Treasury notes had been on an upward trend for the last year, but eased to an average of 4.88% in August from 5.09% in July. The standard 30-year mortgage rate also slipped to an average of 6.52% in August from 6.76% in July.

INFLATION

The core Consumer Price Index (CPI), which excludes erratic energy and food prices, increased 2.8% in the last twelve months. This rate of change in the price index is considered excessive by many inflation watchdogs. The headline CPI – the index for overall price changes – has increased 3.8% since August of 2005. Another price index that analysts closely watch, the market-based index of personal consumption expenditures, has increased 3.3% since July of 2005.

Throughout the spring of 2006, elevated energy prices were the cause of most of the increase in the headline CPI. Gasoline prices crept up even more during the summer driving season. Since early August, however, gasoline prices have eased considerably. The Energy Information Administration forecasts that gasoline prices will decline through September and October. This forecast is corroborated by recent futures trading data on the New York Mercantile Exchange, as shown in the figure below.



Source: Energy Information Administration and *The Wall Street Journal* /Haver Analytics.

CONCLUSION

Despite economic headwinds, the economy continues to expand and add jobs. The rate of growth registered in the first quarter was unsustainable and was followed by a more moderate rate in the second quarter. The pace of economic growth for 2006 is well on track to exceed the 30-year average.