JOINT ECONOMIC COMMITTEE



UNITED STATES CONGRESS Senator Charles E. Schumer, Vice Chairman

Congresswoman Carolyn B. Maloney, Chair WEEKLY ECONOMIC DIGEST

WEEK OF JUNE 21, 2010

LOW INFLATION AND RISING PRODUCTION POINT TO CONTINUED EXPANSION, BUT WEAK HOUSING MARKET COULD BE A DRAG ON NASCENT RECOVERY

KEY ECONOMIC STATISTICS

NEW SINGLE-FAMILY HOUSING STARTS ↓17.2% May 2010

> INDUSTRIAL PRODUCTION

↑1.2 %

CAPACITY UTILIZATION **1.0 ppt**

May 2010

CONSUMER PRICE INDEX (CPI) ↓0.2%

> CORE CPI **10.1%** May 2010

INITIAL JOBLESS CLAIMS 4-WEEK AVG 463,500 ↓500 Week Ending June 12, 2010

THIS WEEK

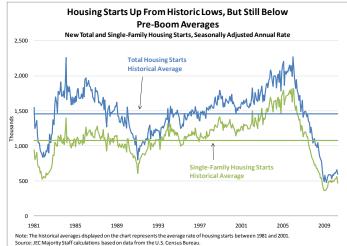
Tuesday, June 22 Existing Home Sales May 2010

Wednesday, June 23 New Home Sales May 2010

Thursday, June 24 Advance Durable Goods Estimate May 2010 Inflation Remains in Check Amidst Falling Energy Prices. The Bureau of Labor Statistics reported that the Consumer Price Index for All Urban Consumers (CPI-U), a key measure of inflation, fell 0.2 percent in May, led by a 2.9 percent drop in energy prices. May's decline in the overall price index followed a 0.1 percent decrease in April. Gasoline prices posted the largest decline over the month (-5.2 percent); however, gasoline prices remain 27.0 percent above their May 2009 level. Core CPI-U, which excludes the volatile food and energy categories, increased 0.1 percent over the month; the index has increased only 0.9 percent since May 2009. This reflects the enormous slack in the economy and reinforces the expectation that next week the Federal Open Markets Committee will reiterate that the federal funds rate will remain unchanged "for an extended period of time." Projections by the Administration, the Federal Reserve, and the Congressional Budget Office all suggest that inflation will remain low at least through 2012.

Industrial Output Rises While Excess Capacity Shrinks. The Federal Reserve released preliminary estimates showing that industrial production rose 1.2 percent in May after rising 0.7 percent in April. Manufacturing production rose 0.9 percent over the month; since May 2009, manufacturing output has grown 7.9 percent. Production increased in all major market groups: consumer products, business equipment, construction supplies, and materials. Preliminary estimates show that capacity utilization across all industries increased 1.0 percentage point to 74.7 percent in May. Capacity utilization in manufacturing rose 0.7 percentage points last month; it is now up 6.4 percentage points from its June 2009 trough, eliminating some of the excess capacity creating during the recession. Increasing output and capacity utilization in the manufacturing sector, along with the recent boost in employment within the industry, is a positive sign of continuing recovery.

Single-Family Housing Starts Decline After Homebuvers' Credit Expires. New singlefamily housing starts fell 17.2 percent in May, following a 5.6 percent increase in April. Single -family home starts were at a seasonally adjusted annual rate of 468,000 units in May. Declines were evident across the country last month: single-unit starts were down by 26.8 percent in the South, by 10.9 percent in the Midwest, by 2.0 percent in the West, and by 1.7 percent in the Northeast. Much



of the decline in home starts in May can be attributed to the April 30, 2010 expiration of the federal first time homebuyers' tax credit. Homebuyers may have moved home purchases forward in order to take advantage of the expiring tax credit. Single-family home starts rapidly declined from February 2006 through January 2009 (see chart). After increasing for the first half of 2009, housing starts have been relatively stagnant for the past 12 months at a level well below the pre-housing boom average of 1.5 million units (from 1981 to 2001). May's increase (33 percent) in multi-family housing starts, which are much more volatile, offset the decline in single-family housing starts, leaving the overall level of housing starts (593,000) statistically unchanged from April's level (659,000). The drop in single-family home starts in May foreshadows declining sales of new and existing home in coming months.