



WEEKLY ECONOMIC DIGEST

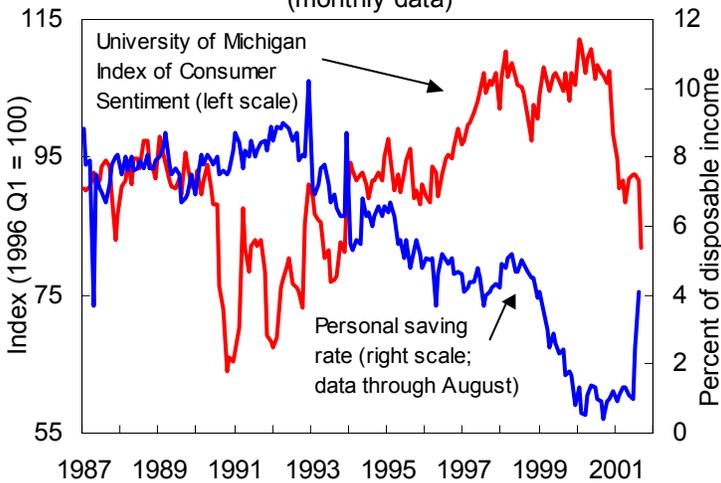


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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October 2, 2001

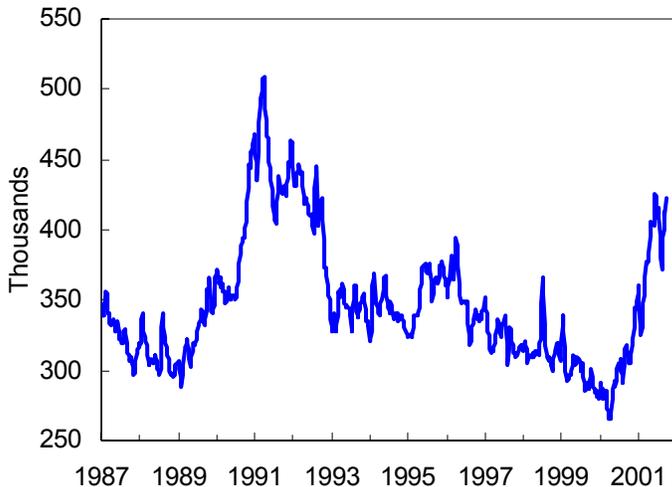
Continued Weakness Sets the Stage For Further Cuts by the Fed

Consumer Sentiment and Personal Saving
(monthly data)



Source: Survey Research Center, University of Michigan; and Bureau of Economic Analysis, U.S. Department of Commerce.

Initial Claims for Unemployment Insurance
(Four-week moving average)



Source: Employment Training Administration, U.S. Department of Labor.

- **Capital demands remained weak.** Although preliminary data indicate that new orders for nondefense capital goods increased 0.8 percent in August—the first increase since March—orders remained more than 20 percent below year-ago levels. Shipments, unfilled orders, and inventories of nondefense capital goods continued to decline, albeit at a slower rate than in previous months. Advance indicators of manufacturing activity, moreover, portend continued weakness. A survey by the National Association of Purchasing Managers suggests that factories took another turn for the worse in September with respondents reporting continued declines in factory employment and export demands.
- **Household spending weakened.** The personal saving rate skyrocketed in August, following a similar surge in July. Households continued to be reluctant to spend very much of their tax rebates. Disposable personal income rose by \$141 billion last month, nearly all of which was due to declines in tax payments as personal income rose by less than \$2 billion. However, households spent less than ten percent of their increased disposable income, choosing instead to increase their saving.
- **Consumer confidence slipped.** Survey measures of consumer confidence published by the Conference Board and the University of Michigan fell significantly in September. It is difficult to draw precise implications from those declines in confidence indexes for household consumption—confidence indexes have fallen before without inducing declines in consumption and, overall, the level of the confidence indexes are still relatively high by historical standards. It is equally difficult, however, to be sanguine about the prospects for respectable growth in household spending with confidence falling as labor markets appear to be weakening. The sharp rise in initial claims for unemployment insurance during the week ending on September 22 includes a substantial uptick in claims from New York—continued deterioration in labor markets would further undermine the household sector’s ability to lead overall economic growth.
- **Federal Reserve is expected to cut rates further.** The Federal Open Market Committee (FOMC) is meeting today to decide whether or not to cut its target for the federal funds rate. Financial markets have recovered somewhat since their weakness in the immediate aftermath of the attacks, and the central bank is returning its focus to stabilizing the economy. Many analysts are expecting the FOMC to cut the funds rate as a means of shoring up household and business confidence in the near-term outlook.

Economy At A Glance	Aug	Jul	Jun	May	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000	1999
Economic Activity										
Real GDP (% growth)					0.3	1.3	1.9	1.3	4.1	4.1
Industrial Production (% growth)	-9.2	-1.2	-12.7	-3.5	-4.4	-6.8	-0.9	3.5	5.6	4.2
Capacity Utilization (Level, %)	76.2	76.9	77.1	78.0	77.8	79.2	81.3	82.4	82.1	81.2
Civilian Unemployment Rate (Level, %)*	4.9	4.5	4.5	4.4	4.5	4.2	4.0	4.0	4.0	4.2
Housing Starts (Thousands)	1527	1641	1634	1610	1623	1627	1539	1505	1575	1647
Real Disposable Personal Income (% growth)	25.3	23.9	1.2	1.2	2.4	2.7	4.2	2.7	3.5	2.5
Retail Sales (% growth)	4.0	2.0	-0.2	2.4	5.2	5.2	0.3	4.7	7.6	8.2
Personal Saving Rate (Level, %)	4.1	2.5	1.0	1.1	1.1	1.1	1.0	0.8	1.0	2.4
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)	1.2	-3.5	2.7	4.9	3.1	4.2	2.9	3.5	3.4	2.2
Core CPI-U Inflation (% growth)	2.4	2.4	3.9	1.3	2.6	3.2	2.4	2.5	2.4	2.1
Compensation per Hour (% growth)					4.1	4.5	3.6	3.6	4.4	3.5
Output per Hour (% growth)					2.1	0.0	2.4	1.4	3.0	2.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	3.4	3.5	3.5	3.6	3.7	4.8	6.0	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.0	5.2	5.3	5.4	5.3	5.1	5.6	5.9	6.0	5.7
Federal Funds Rate (Level, %)	3.7	3.8	4.0	4.2	4.3	5.6	6.5	6.5	6.2	5.0
Dow Jones Industrial Avg(Index Level)	10315	10445	10767	11005	10669	10513	10586	10882	10735	10465

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; 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. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Major Economic News Due This Week:

- **Federal Open Market Committee Meeting** [Release: Tuesday, October 2, 2001]
- **Vehicle Sales, September** [Release: Tuesday, October 2, 2001]
- **Manufacturers' Shipments, Orders, and Inventories of Durable Goods, August** [Release: Thursday, October 4, 2001]
- **Employment, September** [Release: Friday, October 5, 2001]