



# WEEKLY ECONOMIC DIGEST

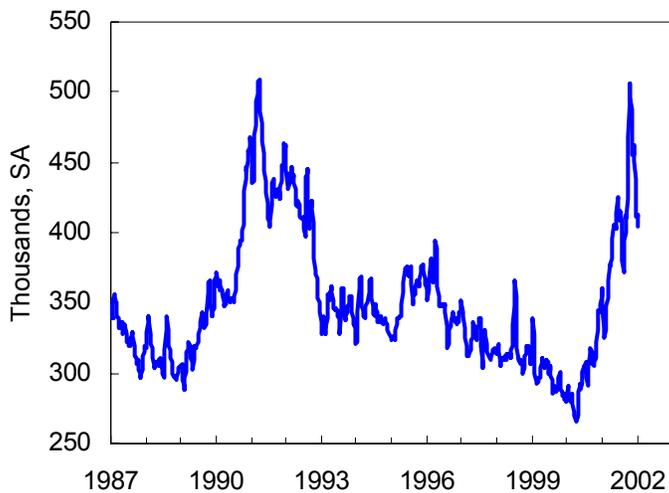


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
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January 29, 2002

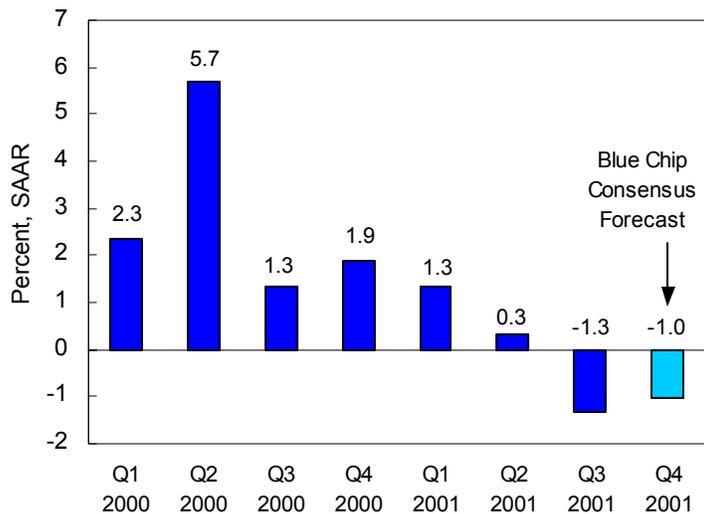
## Fed Likely to Hold Steady Amid Signs that the Economy is Stabilizing

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



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

Growth of Real GDP



Source: Bureau of Economic Analysis, U.S. Department of Commerce; Blue Chip Economic Indicators, January 10, 2002.

- **New home sales showed surprising strength.** Sales of new homes grew 5.7 percent in December, following a 5.2 percent advance a month earlier. Most analysts had been expecting December sales to be down somewhat from November's strong showing. The demand for housing has remained unusually strong throughout the current recession. However, such strength in recession may mean that once an economic recovery is underway, housing expenditures may not rise as sharply they normally do during rebounds.
- **New jobless claims continued to decline.** During the week ending January 19, initial claims for unemployment insurance fell by 15,000, the third consecutive weekly decline. That is a positive development, but the levels of new and continuing jobless claims remain relatively high, and it is too soon to conclude that a recovery is underway.
- **The manufacturing outlook improved.** In December, average weekly hours worked in manufacturing—usually a reliable indicator of overall economic conditions—rose above their levels of a year earlier. That was the first year-on-year increase in the factory work week since the manufacturing recession began in mid-2000. Moreover, orders for capital equipment appear to have strengthened, suggesting a brighter outlook for the battered manufacturing sector. Both of those key indicators will be updated during the coming week—most analysts are optimistic that the nascent strength in manufacturing will build.
- **Overall weakness persists.** Despite those encouraging early signs, the economy remains weak. Later this week, the Commerce Department will publish its preliminary estimates of economic growth during the fourth quarter of 2001. Most economic forecasters—including the Congressional Budget Office—estimate that the economy contracted by about one percent in the final quarter of last year. Moreover, the unemployment rate rose through the end of the year and is expected to continue rising.
- **The Fed is likely to keep rates at current levels.** Although the economy remains weak, the central bank is expected to keep the federal funds rate at current levels in light of mounting evidence that the recession is no longer worsening. Unlike the situation a month ago when another rate cut seemed likely, current prices of federal funds futures assign a low probability to a rate cut this week.

<b>Economy At A Glance</b>	Dec	Nov	Oct	Sep	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2001	2000
<b>Economic Activity</b>										
Real GDP (% growth)*						-1.3	0.3	1.3		4.1
Industrial Production (% growth)	-1.2	-4.7	-8.1	-12.4	-7.2	-4.7	-5.9	-6.1	-3.9	4.5
Capacity Utilization (Level, %)	74.4	74.5	74.9	75.5	74.6	76.2	77.4	78.9	76.8	81.8
Civilian Unemployment Rate (Level, %)*	5.8	5.6	5.4	5.0	5.6	4.8	4.5	4.2	4.8	4.0
Housing Starts (Thousands)	1570	1625	1518	1585	1571	1601	1623	1627	1606	1575
Real Disposable Personal Income (% growth)*		1.2	-25.4	-8.2		12.3	2.4	2.7		3.5
Retail Sales (% growth)	-1.3	-30.9	109.8	-23.5	11.3	-1.3	5.2	5.4	3.5	7.6
Personal Saving Rate (Level, %)*		0.9	0.2	4.7		3.8	1.1	1.1		1.0
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)	-2.4	0.0	-3.5	4.9	-0.4	0.7	3.1	4.2	2.8	3.4
Core CPI-U Inflation (% growth)	1.2	4.9	2.4	2.4	2.7	2.5	2.6	3.2	2.7	2.4
Compensation per Hour (% growth)*						3.6	4.1	4.5		4.4
Output per Hour (% growth)						1.5	2.1	-0.1		3.3
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	1.7	1.9	2.2	2.6	1.9	3.2	3.7	4.8	3.4	5.8
T-Note Rate, 10-years (Level, %)	5.1	4.7	4.6	4.7	4.8	5.0	5.3	5.1	5.0	6.0
Federal Funds Rate (Level, %)	1.8	2.1	2.5	3.1	2.1	3.6	4.3	5.6	3.9	6.2
Dow Jones Industrial Avg (Index Level)	9980	9722	9221	9043	9641	9934	10669	10513	10189	10735

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:

- **Durable Goods Report, December 2001 Advance** [Release: Tuesday, January 29, 2002]
- **Federal Open Market Committee Announcement** [Release: Wednesday, January 30, 2002]
- **Employment Cost Index, Fourth-Quarter 2001** [Release: Thursday, January 31, 2002]
- **Personal Income, December 2001** [Release: Thursday, January 31, 2002]
- **Employment Situation, January** [Release: Friday, February 1, 2002]