



# JOINT ECONOMIC COMMITTEE

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## RECENT ECONOMIC DEVELOPMENTS

### Most Recent Data Confirm Strengthening Economy

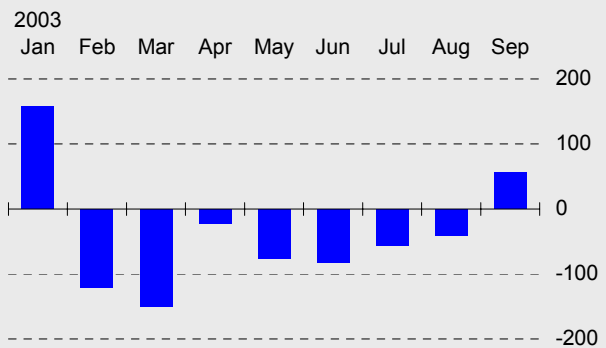
Increased economic growth is translating into a stronger job market. Payrolls increased in September, new jobless claims have trended down since April, and most other measures of economic activity have strengthened. Consumer spending and disposable (after tax) income growth were robust, in part due to recent tax relief. Analysts expect that economic growth in the third quarter was very strong, probably close to 5%. Though growth in manufacturing and services has been weaker, recent trends in manufacturing and in orders remain generally positive.

#### Highlights

- Employment numbers are improving. Payrolls increased by 57,000 in September, the first gain since January (Figure 1), while new jobless claims are the lowest in eight months.
- The economy is steadily growing. Analysts estimate that growth reached almost 5%, at an annual rate, in the third quarter and will continue at about 4% this quarter.
- A few recent measures of business activity were disappointing; durable goods and factory orders fell in August, and growth in manufacturing and services slowed. These reports will raise concern only if they persist.

#### After Declines, Payroll Employment Improves 1

(Monthly payroll employment change, in 1000s, SA)



Source: Bureau of Labor Statistics

#### The Labor Market Has Stabilized

*Payroll employment* increased in September and declines of prior months have been successively smaller, pointing to a stabilizing labor market (Figure 1). Downward trends in *jobless claims* and reported layoffs also indicate improving labor markets. The *unemployment rate* held steady at 6.1% in September. Positive indicators include an increase in the average work week, continued growth in business hiring of temporary help, and declines in manufacturing job losses in recent months. The large discrepancy between the Bureau of Labor Statistic's two employment surveys remains – the *household survey* indicates job growth since the end of the recession, while the *payroll survey* indicates job losses.

#### Some Mixed Signals on Business Activity

*Industrial production* grew at a weaker than expected pace, which may have been affected by the mid-month electricity blackout, and *durable goods orders* and *factory orders* fell in August. *Manufacturing* and *service-producing* businesses reported that their production continued to expand.

## Steady Fed and Lower Long-Term Rates

The *Federal Reserve* held the overnight interest rate (the *Federal Funds rate*) at 1% in mid-September. In light of very low inflation, the Fed is expected to leave rates low for some time. *Long-term interest rates* increased after the Fed's June meeting, retreated in September, and recently ticked back up after the announcement of payroll employment gains on October 4 (Figure 2).

## Stock Prices Continue to Rally

The value of U.S. stock markets has increased by \$2 trillion since the start of this year. Reflecting positive outlooks on economic growth and corporate profits, *stock prices* have continued to rally. Strong *productivity growth* has helped bolster corporate profits. Since September 1, the Dow is up 2.5% and the NASDAQ is up by close to 5%.

## Tax Relief Helped Consumer Spending

*Personal income* and *wage and salary* growth were slow in July and August, but *disposable (after-tax) personal income* surged, assisted by recent tax relief. *Personal consumption* posted strong month-over-month growth, and *retail sales* were very strong. Housing also continued to be robust.

## Oil Prices Remain High

*Oil prices* remain high at around \$30 per barrel, partially due to concern over a looming strike in OPEC-member Nigeria.

## International Developments

The *current account deficit*, measuring wealth coming in and out of the U.S. and dominated by the *trade deficit*, stayed at 5.1% of GDP in the second quarter. The *dollar* has continued to fall versus the *yen* and the *euro* (Figure 3). Japan has actively worked to keep the yen's value down, and China continues to peg its *yuan* to the dollar. Concerns about currency policies led the G7 countries – the leading developed nations – to call for flexible exchange rates at a September 20 meeting.

### Long-Term Interest Rates

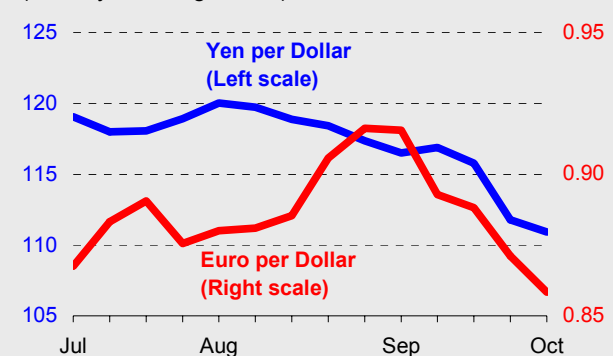
(10-year constant maturity treasury yield)



Source: Federal Reserve Board

### Dollar Continues to Slide

(Weekly exchange rates)



Source: Federal Reserve Board

### Upcoming Indicators

**GDP** – Preliminary estimates of third quarter GDP growth will be reported on October 30<sup>th</sup>; forecasters expect growth of 4.5% - 5.5%.

**Personal Income** – Estimates of third quarter income, consumption spending, and wage growth will also be reported on October 31<sup>st</sup>; and will shed light on the strength of consumer spending.

**Employment** – Employment data for October are due Nov. 7<sup>th</sup>, while weekly jobless claims are reported each Thursday.