Joint Economic Committee

# WEEKLY ECONOMIC DIGEST

Senator Charles E. Schumer, Chairman
Congresswoman Carolyn B. Maloney, Vice Chair

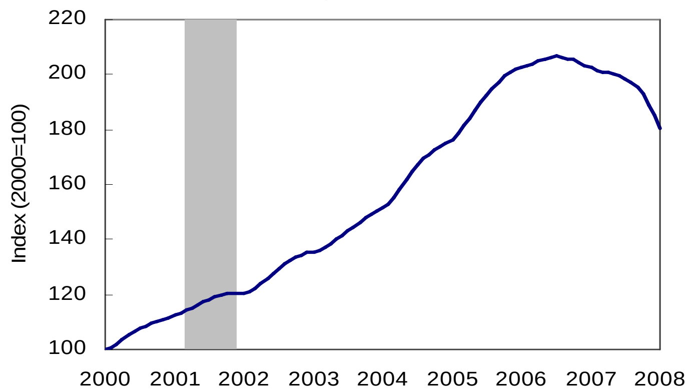
March 31, 2008

## ECONOMIC NEWS

### Strongest Evidence Yet of Slowing Economy

**Housing prices continue to decline.** The January 2008 Case/Shiller Composite 20-city house price index fell by 10.7 percent from January 2007. The Case/Shiller index has fallen for 18 consecutive months. (See Chart) The National Association of Realtors reported that the national median existing-home price for all housing types was $195,900 in February, representing a decline of 8.2 percent from a year earlier, when the median was $213,500.

Home Prices Drop Over Ten Percent Since Jan 2007
S&P/Case-Shiller Composite 20 Home Price Index




Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.
Sources: Standard & Poors and the National Bureau of Economic Research.

**Consumer confidence continues to fall.** The Conference Board reported that U.S. consumer confidence fell more than expected in March. The Conference Board's confidence index fell to a five-year low of 64.5 from a revised 76.4 in February. Moreover, the Expectations Index— which measures consumer assessment of future business conditions, job markets, and incomes—declined to 47.9 from 58.0, hitting a 35-year low.

**Sales of new homes fall.** The Commerce Department reported that sales of new single-family homes fell to a 13-year low in February. Sales were 1.8 percent below their January level, and 29.8 percent below their level in February 2007 at seasonally adjusted annual rates.

**Demand for durable goods falls.** The Commerce Department reported that the demand for durable goods in February fell for the second consecutive month. The drop in orders for big-ticket items was led by the biggest decline ever in demand for machinery. Over all, orders for durable goods, which are meant to last for three years or more, fell in February to a seasonally adjusted $210.65 billion, down from $214.24 billion in January.

## IN FOCUS

### Job Losses, Home Price Declines, and Financial Market Distress

Current employment data indicate that the economy is faltering. Total private nonfarm payroll employment fell by 101,000 jobs between January and February 2008. Since November 2007 nonfarm payroll jobs have declined by 141,000.

The housing sector is experiencing falling prices and large inventories of unsold homes. The Case/Shiller Composite 20-city house price index for January 2008 was 10.7 percent below the level of January 2007. The index has fallen by 12.5 percent from its peak value in July 2006. (See Chart Opposite) These price declines reflect, in part, the large inventories of homes for sale. The Census Bureau reports that in February there was a seasonally adjusted 9.8 month supply of unsold new single family houses, the highest level since 1981.

Home builders have responded to these price and inventory signals by reducing construction of new homes. Single family housing starts in February were 40.5 percent below the level of February 2007, falling to the lowest level reached since 1991. Building permits for single family homes were also down in February, 41.9 percent below the level of February 2007.

Turmoil in the financial markets has continued, forcing the Federal Reserve to deal with threats to financial market stability. On March 17 the Fed arranged the rescue of Bear Stearns, the fifth largest U.S. investment bank. The Fed has agreed to lend JPMorgan Chase, which is acquiring Bear Stearns, $29 billion against a portfolio of $30 billion in assets owned by Bear Stearns. JPMorgan Chase will take the first billion of any loss on the portfolio by providing $1 billion in subordinated funding on the portfolio.

To prevent liquidity problems at other investment banks, the Fed created a temporary Primary Dealer Credit Facility, through which investment banks and other dealers can borrow overnight against a wide range of collateral, including mortgage backed securities. Primary dealers will be able to borrow on the same terms as commercial banks that borrow through the Fed discount window, even though the dealers are not subject to Fed regulations that govern commercial banks. In addition, the Fed has created a Term Securities Lending Facility through which primary dealers, like investment banks, can obtain Treasury securities for a one-month period at auction, using assets that include mortgage backed securities as collateral.

*Continued on reverse...*

## THE WEEK AHEAD

*Wednesday Apr 2nd:*

*JEC Hearing — Fed Chair Ben Bernanke on Economic Outlook*

| DAY | RELEASE |
|---|---|
| Tuesday, Apr 1 | Auto and Truck Sales (March 2008)<br>Construction Spending (February 2008) |
| Wednesday, Apr 2 | JEC Hearing — THE ECONOMIC OUTLOOK with Fed Chairman Ben Bernanke, Room 106, Dirksen Senate Office Building, 9:30 a.m.<br>Factory Orders (February 2008) |
| Friday, Apr 4 | JEC Hearing — THE EMPLOYMENT SITUATION: MARCH 2008, Room 106, Dirksen Senate Office Building, 9:30 a.m. |

## THE ECONOMY AT A GLANCE

| KEY INDICATORS | MONTH | | | QUARTER | | | YEAR | |
|---|---|---|---|---|---|---|---|---|
| | Feb | Jan | Dec | 2007 Q4 | 2007 Q3 | 2007 Q2 | 2007 | 2006 |
| Real GDP Growth (%) | — | — | — | 0.6 | 4.9 | 3.8 | 2.2 | 2.9 |
| Unemployment (% of labor force) | 4.8 | 4.9 | 5.0 | 4.8 | 4.7 | 4.5 | 4.6 | 4.6 |
| Labor Productivity Growth (%) | — | — | — | 1.9 | 6.3 | 2.6 | 1.8 | 1.0 |
| Labor Compensation Growth (%) | — | — | — | 3.4 | 3.1 | 3.5 | 3.4 | 3.1 |
| CPI-U Inflation (%) | 0.0 | 4.9 | 4.9 | 5.0 | 2.8 | 4.6 | 2.9 | 3.2 |
| Core CPI-U Inflation (%) | 0.0 | 3.7 | 2.4 | 2.5 | 2.5 | 2.0 | 2.3 | 2.5 |

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor.

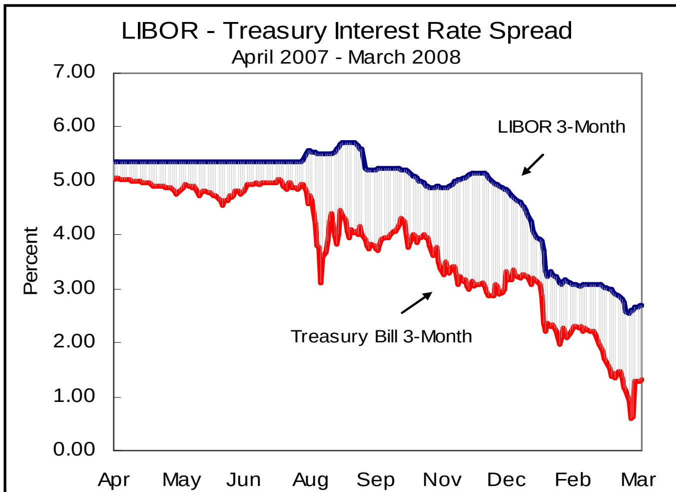
Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

## IN FOCUS (Continued)

The Fed also has moved to lower the cost of funds to banks. Since March 17 the Fed has lowered the cost of borrowing from the discount window from 3.25 to 2.5 percent, and lowered the target Federal funds rate by ¾ percent to 2.25 percent.

There are, however, signs that financial markets remain under stress. In particular, the market for interbank lending, in which banks make term loans to one another, is not functioning normally. The stress in this market can be seen by looking at the difference between the rate banks must pay for three month loans (three month LIBOR) and the rate of interest on three month Treasury bills. This interest rate spread, which measures the risk premium that banks charge to lend to each other, remains abnormally high. (See Snapshot) The fact that it is elevated indicates that bank remain wary of each other as counterparties. The problems in the interbank market have forced the Fed to create a Temporary Auction Facility (TAF), which allows banks to bid for term loans from the Fed. The latest TAF auction provided $50 billion to the banks. Two more auctions, each for $50 billion, are scheduled.

## SNAPSHOT




Sources: U.S. Department of the Treasury and the Financial Times.