



This is the first edition of the *Quarterly Economic Digest* (QED), a new publication by the Democratic staff of the Joint Economic Committee. It is designed to serve as a resource for Members of Congress and their staff who are interested in following national economic trends. The QED will be distributed each quarter, following the release of major economic indicators.

The QED offers an in-depth view with fresh analysis on key economic issues, going beyond the headlines to analyze the details of recent economic releases, including GDP, job growth, personal income and spending and housing. In addition, the QED offers perspective on new developments in the global economy and a look at recent trends in monetary and fiscal policy.

The current issue covers the first quarter of 2016. In some areas, such as jobs and unemployment, newly released data are also analyzed. The central finding is that the economy continues to expand at a moderate pace. There are several bright spots—inflation is low, real income is up and the unemployment rate is at the lowest point in eight and a half years. There are also areas of concern—the percentage of Americans in the labor force has decreased slightly, job growth has slowed in April and May and there are headwinds that are constraining global growth. Each of these issues is discussed in more detail below.

The QED is organized into 10 sections:

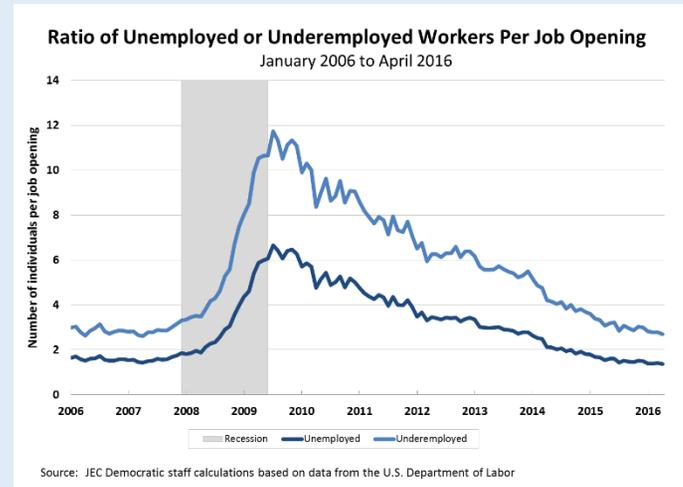
- **JOB GROWTH AND OPENINGS:** 75 months of Private-Sector Job Growth—Record Streak Continues
- **EMPLOYMENT:** Trend Towards Full Employment Continues, But Considerable Slack Remains
- **GDP GROWTH:** Pace Slowed Due to Weak Business Investment and Net Exports
- **PRIVATE INVESTMENT:** Business Investment Declined Sharply in the First Quarter
- **PERSONAL INCOME AND SPENDING:** Consumer Spending Slowed Despite Solid Gains in Real Income
- **HOUSING:** Data Signal Housing Market Continues to Improve
- **GLOBAL ECONOMY:** Uncertainties Continue to Put a Drag on Global Growth
- **FINANCIAL MARKETS:** Equity Market Remains Volatile; Credit Market Bearish
- **MONETARY POLICY:** The Federal Reserve Delays Additional Interest Rate Increases
- **FISCAL POLICY:** Federal Spending Declined; State and Local Government Spending Increased

In addition to the Quarterly Economic Digest, the Democratic staff of the Joint Economic Committee also provides a wide variety of reports and briefs on issues from [women's economic security](#) and the [changing role of fathers](#) to the [economic situation in all 50 states](#) and [how communities of color have fared](#) during the recovery.

## JOB GROWTH AND OPENINGS: 75 Months of Private-Sector Job Growth—Record Streak Continues

Job growth averaged 196,000 per month in Q1. This is in line with the average monthly growth between 2011 and 2015 of 205,000 jobs. However, growth slowed to 123,000 jobs in April, and just 38,000 in May.

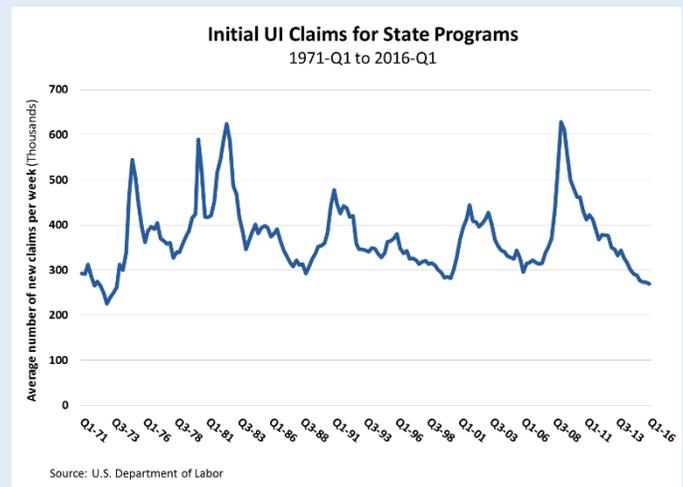
- **Job openings hit record high:** The Job Openings and Labor Turnover Survey (JOLTS) reports [5.8 million job openings](#) at the end of April, up from 5.3 million at the end of December and substantially above the average number of openings in 2006 and 2007. There were an average of [5.3 million new hires](#) per month in Q1, the most in any quarter since 2006. On average, there were 1.4 unemployed workers and 2.7 underemployed workers for every job opening in April.
- **Manufacturing job losses:** Manufacturing employment fell by an average of 9,000 jobs per month in Q1. Even before stalling in 2015, manufacturing had recovered less than a third of the jobs lost during the recession, roughly 2,630,000 jobs lost between 2006 and 2010. The current level is about 5 million (30 percent) below where it was in 2000.



## EMPLOYMENT: Trend Towards Full Employment Continues, But Considerable Slack Remains

The unemployment rate averaged 4.9 percent in the first quarter, down a tenth from the previous quarter's average. This is considered to be very close to full employment (estimated at 4.8 percent). The rate then fell to 4.7 percent in May, though that decline largely reflected falling labor force participation. Involuntary part-time employment remains high.

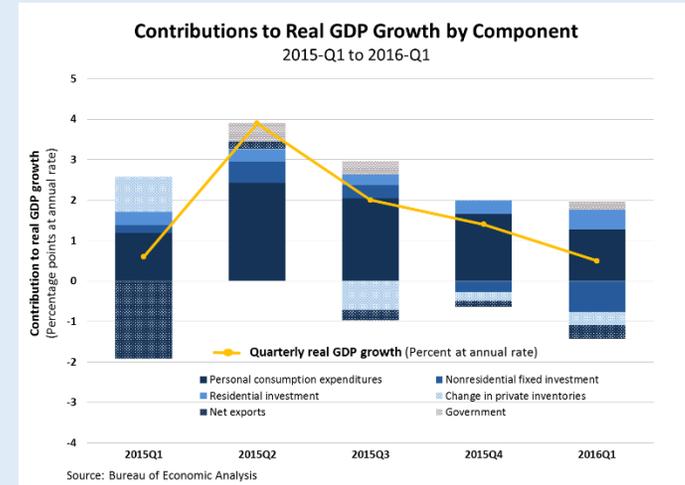
- **Part-time work remains elevated:** The number of people employed part-time who would have preferred a full-time job averaged about [6 million](#) in Q1, and the number jumped to 6.4 percent in May. Involuntary part-time employment has come down a long way from its peak of around 9 million in 2010. Nonetheless, it remains significantly elevated compared with its pre-recession level (4.2 million in 2006).
- **Labor force participation improved:** The portion of the population in the labor force continued to grow in Q1. The participation rate was still significantly below its [66.0 percent average level](#) in 2007, but a substantial portion of the decline can be directly attributed to the [aging population](#). However, labor force participation fell in both April and May.
- **Initial claims for unemployment insurance fell to their lowest level since 1973:** Initial claims continued to edge down in Q1 to an average of 269,000 per week. This indicates that very few people are currently losing jobs. The low level of newly unemployed workers in Q1 implies that the risk of a looming recession is small.



## GDP GROWTH: Pace Slowed Due to Weak Business Investment and Net Exports

Real GDP rose at **an annual rate of 0.8 percent** in Q1, based on the preliminary (second) estimate. This was down from 1.4 percent in Q4 of 2015. Consumer spending (personal consumption expenditures) continued to rise, but the increase was partially offset by declines in business investment and net exports.

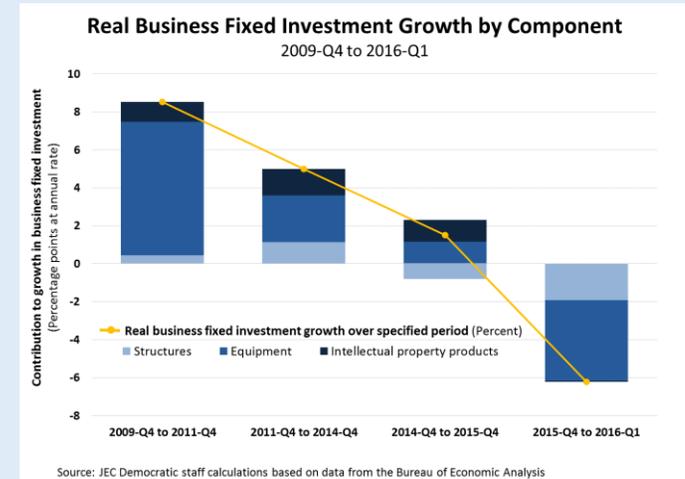
- **Consumption growth was moderate:** Consumer spending rose at a rate of 1.9 percent in Q1, more than fully accounting for the growth of real GDP during the quarter. However, this is considerably slower than the real consumer spending growth of 2.7 percent in 2015.
- **Investment fell substantially:** Business fixed investment declined substantially in the first quarter. Real residential investment surged at a 17.1 percent annual rate, indicating a continued recovery in the housing sector. In addition, inventories detracted slightly from growth.
- **State and local government spending rose slightly:** Government consumption expenditures and gross investment rose at a 1.2 percent rate in Q1.
- **Net exports continue to be a drag on growth:** Real net exports fell by \$9 billion, reducing real GDP growth by 0.2 percentage point. Real exports declined by 2.0 percent from the previous quarter, while imports edged down 0.2 percent.



## PRIVATE INVESTMENT: Business Investment Declined Sharply in the First Quarter

Nonresidential (or business) fixed investment declined at a **6.2 percent annual rate in Q1**, the **second consecutive quarterly decrease** and the largest decline since Q2 of 2009. This subtracted about 0.8 percentage point from the overall GDP growth rate in Q1. Business investment growth had already slowed sharply to 1.5 percent in 2015, compared with an average of around 5 percent during the previous three years.

- **Investment in structures decline substantially:** Structures investment fell by 8.9 percent annual rate in Q1 as investment in oil drilling and mining structures continued to collapse.
- **Investment in equipment fell by 9.0 percent:** The decline in Q1 in equipment investment mostly reflects direct and spillover effects from reduced drilling for resulting from low oil prices. Equipment is the largest component of business fixed investment.
- **Investment in intellectual property edged down slightly:** Research and development edged down slightly in Q1 after declining during the second half of 2015.

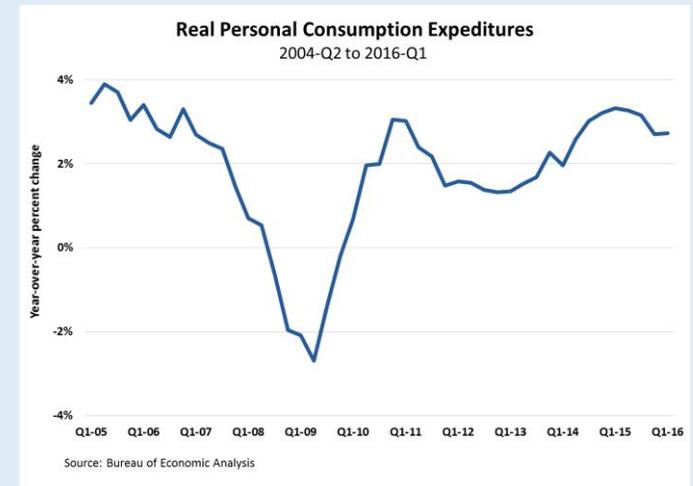


## PERSONAL INCOME AND SPENDING: Consumer Spending Slowed Despite Solid Gains in Real Income

Consumer spending, which accounts for about two-thirds of GDP, slowed in Q1 despite solid gains in real income. Earlier declines in gasoline prices and modest wage growth helped to boost real incomes, but consumers thus far appear to be saving much of the gains.

Consumer spending [picked up](#) in April, and appears to have advanced further in May.

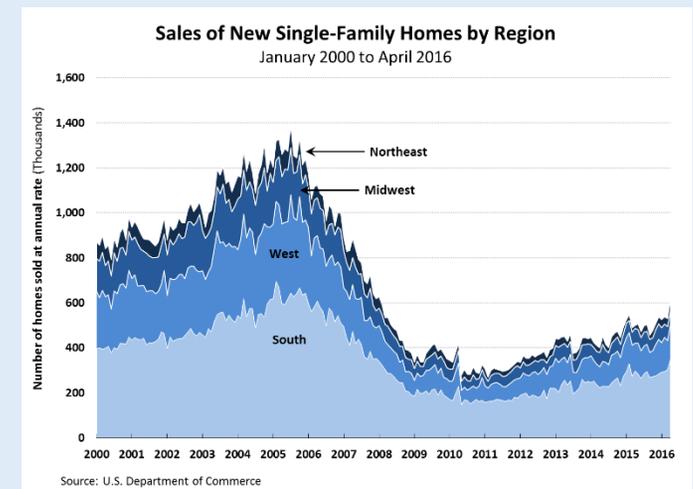
- **Slowing in consumer spending:** The [slowdown in the first quarter](#) is mostly attributable to durable goods, primarily motor vehicles and parts. Sales of autos and light trucks fell from 17.8 million (at a seasonally-adjusted annual rate) in Q4 of 2015 to an average of 17.4 million in May.
- **Solid real income gains:** Real disposable personal income rose at a [4.0 percent annual rate](#) in the first quarter. Nominal (not inflation-adjusted) income from wages and salaries rose at a 4.7 percent seasonally-adjusted annualized rate in Q1, reflecting continued advances in employment. Earlier declines in energy prices helped to boost real incomes.
- **Other key drivers of consumer spending are on balance supportive:** The sharp decline in stock prices at the beginning of Q1 likely contributed to the slowing in consumer spending. Stock market wealth has since [fully recovered](#) its losses. However, major indicators of consumer sentiment were essentially flat in the first quarter and edged up in May.



## HOUSING: Data Signal Housing Market Continues to Improve

Residential investment and single-family housing starts both posted strong growth in Q1, signaling continued improvement in the housing sector. Compared with the previous quarter, house prices were relatively stable.

- **Real residential investment surged:** Real residential investment rose at a 17.1 percent annual rate in Q1. In 2015, residential investment rose 9.4 percent.
- **Housing starts remained stable:** The overall level of housing starts in Q1 was little changed from the previous quarter, though up 16 percent compared with a year earlier. Nonetheless, at about 1.1 million units per year, housing starts remain well below the 2.1 million units per year average at the height of last decade's bubble. Single-family housing starts rose 4.8 percent in the first quarter, and were up 23 percent over a year earlier.
- **Home sales were stable:** [New home sales](#) rose in the first quarter, as did the much larger category of existing home sales.
- **House prices remain the same as previous quarter:** However, they are up 5 to 7 percent over a year ago (depending on which measure is used). According to the [FHFA Purchase Only Index](#), house prices have surpassed their previous peak set in 2007.



## GLOBAL ECONOMY: Uncertainties Continue to Put a Drag on Global Growth

Global forecasts remain worrisome. Major forecasters have revised down global growth projections due to performance below expectations in Q1.

- **Concerns about China:** China lowered its 2016 growth target to [6.5 to 7.0 percent](#), a quarter-century low. The Chinese government opened new lines of credit in Q1 in an effort to boost growth, causing new loan insurance to hit a record high. Meanwhile, the share of [risky loans](#) in the Chinese banking system has risen to an alarming level.
- **The possibility that the UK may exit the EU adds to uncertainty:** A referendum in the UK on the “Brexit” is scheduled for June 23, adding to the political and economic uncertainties in the region. The Bank of England has warned that a “Brexit” could lead to a recession.
- **Negative interest rates risks:** Major central banks have taken the unconventional step of setting the deposit rate at [negative levels](#) in an attempt to boost bank lending and stimulate economic activity. The potential [risks](#) and [repercussions](#) of this monetary policy are a concern.
- **Commodity prices improved but remain low:** After a substantial dive in 2015, commodity prices [rebounded](#) somewhat in Q1 2016. Brent crude oil prices rose [18.5 percent](#) in Q1 as production continued to fall. However, Q1 average prices remain significantly lower than 2015 levels and the energy sector continues to post substantial [earnings losses](#).

### IMF April 2016 World Economic Outlook Projections

*Real GDP Growth in Percent Change*

	Actual 2015 GDP	Current 2016 Projections	Percentage Point Difference Between Current and Oct. 2015 Projections
<b>World</b>	3.1	3.2	-0.4
<b>Advanced Economies</b>	1.9	1.9	-0.3
United States	2.4	2.4	-0.4
Euro Area	1.6	1.5	-0.1
Japan	0.5	0.5	-0.5
Canada	1.2	1.5	-0.2
<b>Emerging Markets</b>	4.0	4.1	-0.4
Brazil	-3.8	-3.8	-2.8
Mexico	2.5	2.4	-0.4
China	6.9	6.5	0.2

Source: IMF Overview of the World Economic Outlook Projections

## FINANCIAL MARKETS: Equity Market Remains Volatile; Credit Market Bearish

### Financial markets continue to show signs of distress.

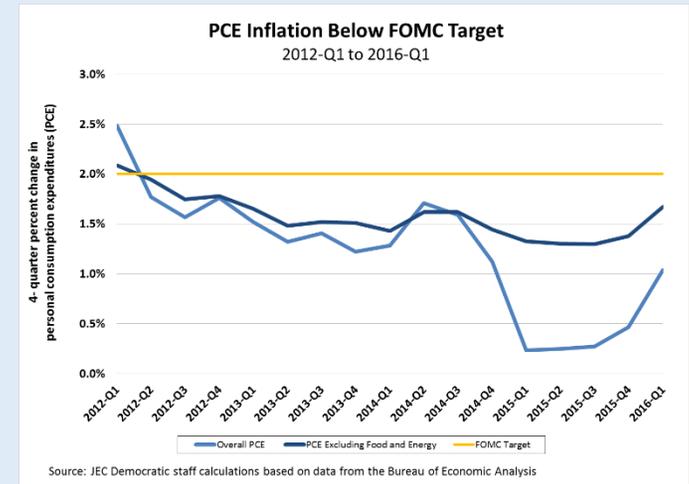
- **Stock market remains volatile:** By the end of March the stock market more than recovered from the losses in January and early February. Stock prices continued to advance modestly through most of April and have been more or less stable since. Currently stock prices are more than 3 percent above their level at the start of the year.
- **High yield credit spreads widened in Q1:** The yield on high risk corporate bond spreads [rose to a level not seen since the Great Recession](#) in Q1. This is an indication that investors are less likely to lend to risky investments. [Higher yield bonds](#) are typically issued by less creditworthy entities as compensation for additional risks.
- **Dollar exchange rate remains strong:** The exchange rate has declined slightly since January, reversing the rise that occurred in late 2015. However, the much larger increase in the dollar between mid-2014 and early 2015 remains intact. A strong dollar tends to increase the trade deficit by making exports more expensive to foreign purchasers and imports cheaper for domestic purchasers.



## MONETARY POLICY: The Federal Reserve Delays Additional Interest Rate Increases

Due to concerns about slowing growth both domestically and abroad, the Federal Reserve continues to keep interest rates low to support economic activity as it prepares the market for future rate increases.

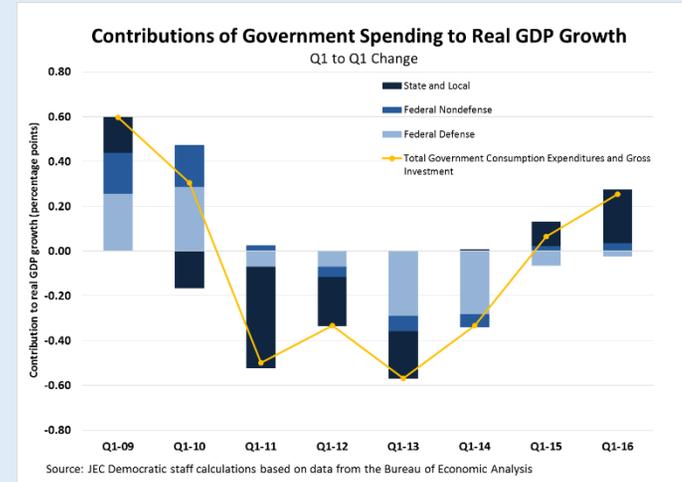
- **After raising rates in December 2015 for the first time since 2006, there were no rate hikes in Q1:** At its April 26-27 and June 14-15 meetings, the FOMC left the target range for the federal funds rate unchanged at ¼ to ½ percent. Committee participants continue to anticipate [two quarter-point rate increases](#) this year, but have projected a slower pace of raising the federal funds rate in response to slower than expected growth and overall uncertainty.
- **Financial and global market risks slowed the pace of rate increases:** The slower pace of interest rate increases reflects [financial market turmoil](#) earlier this year and concerns about [slow growth both at home and globally](#).
- **Inflation stays below target:** Low inflation over the past year has been due mostly to [falling prices for energy](#) and for imported goods. However, core measures (those excluding the volatile food and energy categories) have also been running low. In recent months, energy prices have begun to recover and core measures have shown some signs of firming.



## FISCAL POLICY: Federal Spending Declined; State and Local Government Spending Increased

Overall government spending (combined federal, state and local) went up slightly from the previous quarter and made a modest contribution to real GDP growth in Q1. The decline in federal spending was offset by gains in state and local government spending.

- **Overall government spending increased slightly:** Real government spending and investment increased by 1.2 percent at a seasonally-adjusted annual rate from the previous quarter, above the overall growth of 0.7 percent in 2015. This contributed a 0.2 percentage point increase in real GDP growth in Q1.
- **Federal spending declined:** Real federal spending decreased by 1.6 percent at an annualized rate from the previous quarter. The 3.6 percent decrease in defense spending was partly offset by the 1.6 percent increase in nondefense spending.
- **State and local spending increase offset federal decline:** Real state and local government spending increased by 2.9 percent at an annualized rate from the previous quarter, more than offsetting the fall in federal spending. The pace of increase in state and local spending in Q1 is considerably faster than the overall growth rate in 2015 of 1.4 percent.



## SUGGESTED READINGS

- Andrew Ross Sorkin, “[President Obama Weighs His Economic Legacy](#),” *The New York Times* (4/28/16)
- Binyamin Appelbaum, “[Which Labor Market Data Should You Believe?](#)” *The New York Times* (6/13/16)
- Bob Tita, “[How To Revitalize U.S. Manufacturing](#),” *The Wall Street Journal* (6/7/16)
- Chair Janet Yellen, “[Current Conditions and the Outlook for the U.S. Economy](#),” *Board of Governors of the Federal Reserve System* (6/6/16)
- Charles Forelle, “[Everything You Need to Know About Negative Rates](#),” *The Wall Street Journal* (6/14/16)
- Harriet Torry, “[Fed Decision Markers Wrestle With So-Called Natural Rate](#),” *The Wall Street Journal* (6/12/16)
- Josh Mitchell, “[Weak Productivity, Rising Wages Putting Pressure on U.S. Companies](#),” *The Wall Street Journal* (6/7/16)
- Kate Davidson and Jon Hilsenrath, “[Yellen: No Rate Rise Until Economic Outlook Clears](#),” *The Wall Street Journal* (6/7/16)
- Peter Coy, “[Has America Run Out of Workers to Fill Its Open Jobs?](#)” *Bloomberg Businessweek* (6/8/16)
- Rep. Carolyn Maloney, “[Does The Economy Do Better Under Democrats or Republicans?](#)” *The Huffington Post* (6/13/16)
- Richard Fausset, “[Feeling Let Down and Left Behind, With Little Hope for Better](#),” *The New York Times* (5/25/2016)
- Steven Erlanger, “[Money, Jobs and Sovereignty: Myth vs. Reality Ahead of ‘Brexit’ Vote](#),” *The New York Times* (6/6/16)