



JOINT ECONOMIC COMMITTEE

JIM SAXTON, CHAIRMAN

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ECONOMIC VITAL SIGNS: MAY 2006

In the first quarter of 2006, the economy expanded at a rapid annual rate of 4.8%. Over the course of the last year, the economy added about 2 million non-farm payroll jobs.

Economic Indicators

- Economy grew at a rate of 4.8% in the 1st quarter
- Employment
 - 138,000 payroll jobs were added in April
 - 4.7% unemployment rate in April
 - Since April '05, about 2 million jobs added
- 1st quarter fixed business investment rose 14.3%
- Industrial production increased at an annual rate of 4.5% in the 1st quarter
- Real disposable personal income per capita increased 0.7% in the 1st quarter
- Inflation in the 1st quarter
 - 2.0% increase in prices for PCE
 - 2.8% increase in the core CPI
- Interest rates in April
 - Home mortgage rates averaged 6.51%
 - 10-year Treasury notes averaged 4.99%
 - Prime rate was 7.75%

REAL GDP

The Commerce Department reported that real gross domestic product (GDP) – the inflation-adjusted measure of current output of goods and services produced by labor and property located in the U.S. – increased 4.8% in the first quarter. The acceleration in real GDP growth in the first quarter can be largely attributed an up-tick in personal consumption expenditures and private fixed investment. Federal expenditures also contributed to the acceleration in GDP growth.

Due to the economic dislocations associated with hurricanes Katrina and Rita, the rate of economic expansion moderated in the fourth quarter of 2005. But, as the vigorous rate of GDP growth in the first quarter shows, the economic expansion, boosted by the rebound of investment spending that began in the second quarter of 2003, is well established.

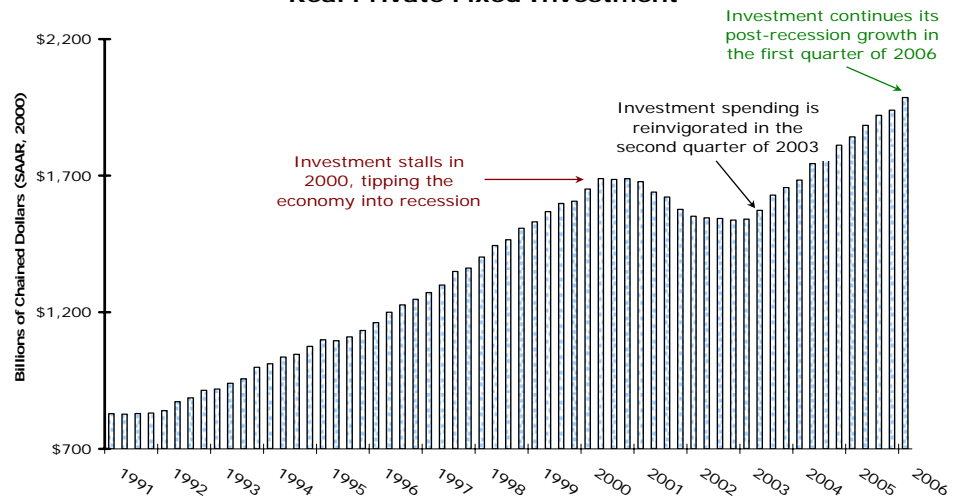
EMPLOYMENT

In April, the economy created 138,000 non-farm payroll jobs and the unemployment rate stood at 4.7%. In the first quarter of 2006, non-farm payroll employment increased by 554,000. Since August of 2003, the economy has created 5.3 million jobs.

INVESTMENT

Fixed nonresidential investment spending accelerated from 4.5% in the fourth quarter of 2005 to 14.3% in the first quarter of 2006. A jump in aircraft, motor vehicle and communications equipment investments contributed significantly to this acceleration.

Real Private Fixed Investment



Source: Bureau of Economic Analysis/Haver Analytics

INDUSTRIAL PRODUCTION

According to the Federal Reserve, industrial production increased 0.6% in March, following a gain of 0.5% in February. For the first quarter, industrial production rose at an annual rate of 4.5%.

The Commerce Department reported that new orders for manufactured durable goods, excluding transportation equipment, increased 2.8% in March. The headline aggregate statistic for new orders for manufactured goods registered an increase of 6.1% due to a large increase in orders for non-defense aircraft and parts. This was the fifth increase in the last six months.

According to the Institute for Supply Management, both the manufacturing and non-manufacturing sectors increased their rate of expansion in April.

PERSONAL CONSUMPTION AND INCOME

The growth of real personal consumption expenditures (PCE) and real disposable personal income have returned to their pre-hurricane trend. Spending on durable goods recovered in the first quarter of 2006, pushing the annual PCE growth rate to 5.5%. While there was a slight slowdown in the growth of real personal disposable income in the first quarter, the components of personal income

that have fluctuated due to the effects of the hurricanes, have, by and large, returned to normal, and per capita real disposable income appears to have returned to trend.

INTEREST RATES

On May 10, the Federal Reserve raised the federal funds rate to 5.0%. The prime rate, moving in lockstep, increased to 8.0%.

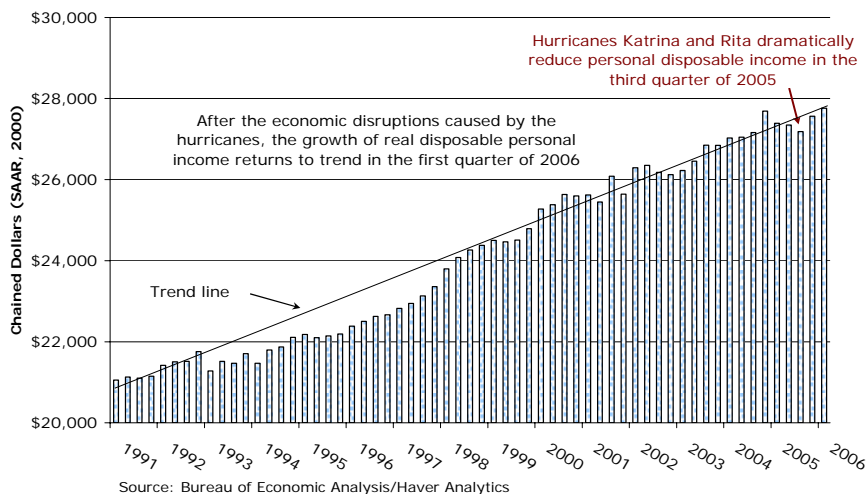
Long-term interest rates have inched up. The rate on 10-year Treasury notes moved from an October average of 4.46% to an average of 4.99% in April. The standard 30-year mortgage rate edged up to an average of 6.51% in April.

INFLATION

Core inflation, or the increase in the level of prices that excludes volatile energy and food prices, remains low. The core Consumer Price Index that excludes food and energy prices rose 2.8% in the first quarter. The PCE price index that includes food and energy prices increased 2.0% over the same period.

The reader should note that energy prices generally declined in the first quarter of 2006, thus helping to moderate the overall price increases registered in the indexes. There is concern that the energy price increases that began in April may be reflected in future economic statistics.

Real Disposable Income Per Capita



CLOSING THOUGHTS

The economy is growing at a rapid rate. Employment is likewise expanding. The economy has shown itself to be resilient to significant shocks and most key economic data continue to reflect healthy growth. As Federal Reserve Chairman Bernanke recently testified before the Joint Economic Committee, the economic outlook continues to be positive.