



RECENT ECONOMIC DEVELOPMENTS

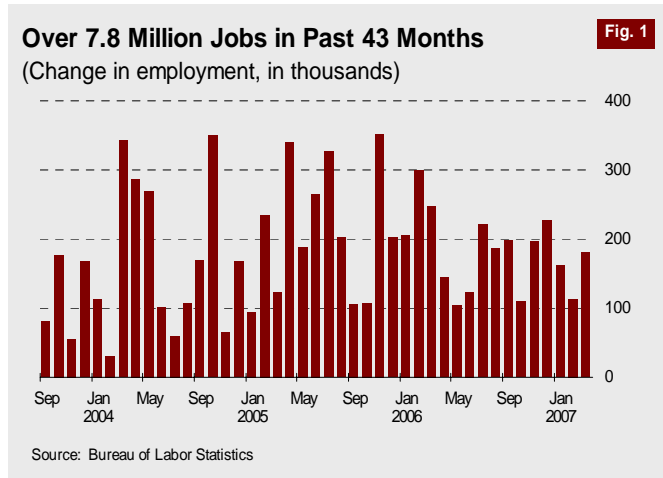
APRIL 18, 2007

GROWTH EXPECTED TO ACCELERATE TO 3.0% BY YEAR’S END

The economy continued to grow in the 4th quarter of 2006 – annualized growth in the inflation-adjusted (real) gross domestic product (GDP) was 2.5%. Despite a resilient increase in consumer spending and rising exports, growth remained somewhat below trend, held down by continued adjustments in the housing market and a downturn in business investment. Private forecasters expect growth to remain moderate in the near term as adjustments in the housing market continue, but also expect growth to accelerate to more trend-like rates of around 3.0% by year’s end. Real GDP has grown at a robust average annualized rate of 3.0% over the past 21 consecutive quarters of expansion. Employment has also continued to expand; over 7.8 million new payroll jobs have been created in the past 43 months of consecutive job gains, and the Nation’s unemployment rate fell to a low 4.4% of the labor force in March, among the lowest readings in six years.

Highlights

- Job gains continue; 180,000 new payroll jobs were created in March. Payrolls are up by over 7.8 million new jobs in the past 43 consecutive months with job gains (Fig. 1).
- The unemployment rate edged down to 4.4% in March, well below the recent peak of 6.3% in June 2003 (Fig. 2, next page).
- Real GDP growth was revised up to an annualized 2.5 % in the 4th quarter from an earlier estimate of 2.2% (Fig. 3, next page).
- The housing market continues to cool: existing home sales fell by 3.6% in February on a year-over-year basis; new home sales fell by 18.3% (Fig. 4, next page).



Over 7.8 Million New Jobs in 43 Months; Unemployment Rate Edges Down to 4.4%

Payroll employment increased by 180,000 new jobs in March – the 43rd consecutive month with job gains (Fig. 1). Over 7.8 million new jobs have been added to payrolls in the past 43 months. Over the year ending in March, close to 2 million new jobs have been added to payrolls. During the past year, payroll job gains have averaged a healthy 164,000 per month. The *unemployment rate* edged down to 4.4% in March, among the lowest readings in 6 years and well below the near-term peak of 6.3% in June 2003 (Fig. 2, next page).

GDP Growth Revised Up to 2.5% in the 4th Quarter

GDP growth was revised up to 2.5% for the 4th quarter from an earlier estimate of 2.2%. Consumer spending remained resilient, growing at a 4.2% annualized rate, buoyed by continued growth in jobs, incomes, and inflation-adjusted wages. Strength of demand abroad contributed to a robust 10.6% annualized rate of export growth in the 4th quarter. Business investment declined, however, for the first time in nearly three years, and residential investment declined for the 5th consecutive quarter, reflecting the slowdown in housing markets. Despite recent below-trend growth, real GDP has grown for 21 consecutive quarters, averaging a robust 3.0% annualized rate over that period. The *Blue Chip* consensus of private forecasters sees a gradual acceleration in growth, rising to 3.0% by the end of 2007 and continuing at about that same rate throughout 2008 (Fig. 3, next page).

Business Investment Weakened

In the final quarter of last year, *non-residential investment* spending declined after 14 consecutive quarters of healthy growth. Weakness over the past few months in orders for *non-defense durable goods excluding aircraft*, a barometer of business investment, has raised some concerns that business investment will not continue to offset weakness in residential investment. However, Fed Chairman Bernanke recently testified that: “Over the coming year, capital spending is poised to expand at a moderate pace, supported by steady gains in business output and favorable financial conditions.”

The Fed Remains on Hold

The *Fed* kept its *target for overnight interest rates* at 5¼% at its March policymaking meeting, the 6th consecutive meeting with no change in the target rate. Between June 2004 and late June 2006, the Fed had raised its target from 1% to 5¼% with 17 consecutive quarter-point increases. Despite those actions, long-term interest rates remain low. In its March policy statement, the Fed dropped reference to additional policy “firming” (i.e., increases in its target for overnight rates) that had been referred to in its statements since December 2005. Many have taken this to indicate that the Fed’s bias is no longer tilted toward future short-term interest rate hikes.

The Housing Sector Continues to Cool

Existing home sales were down 3.6% in February and have not risen for 15 straight months on a year-over-year basis. *New home sales* were down 18.3% and have fallen for 14 straight months. *House-price appreciation* has also slowed and *housing starts and permits* have each declined for 12 straight months through March on a year-over-year basis. Home sales have fallen from the rapid pace of the summer of 2005, but levels of sales remain healthy, supported by still-low mortgage rates.

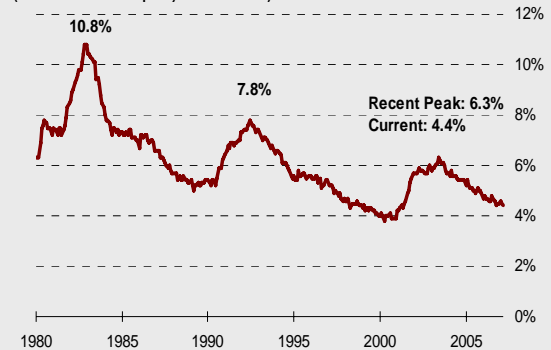
Subprime Difficulties Unlikely to Spill Over

The market for “*subprime*” mortgages—home loans to those with poor credit histories—has witnessed rising default and delinquency rates, causing some lending companies to close. New subprime loans in 2006 represented around 20% of the total mortgage market, up from 5% in 2001. There is little evidence to suggest a significant risk that subprime difficulties will spill over and lead to a more general “*credit crunch*” in which even creditworthy borrowers find it significantly more costly to obtain loans. According to recent JEC testimony by Fed Chairman Bernanke: “At this juncture...the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained.”

Unemployment Rate Below Previous Peaks

Fig. 2

(Civilian unemployment rate)

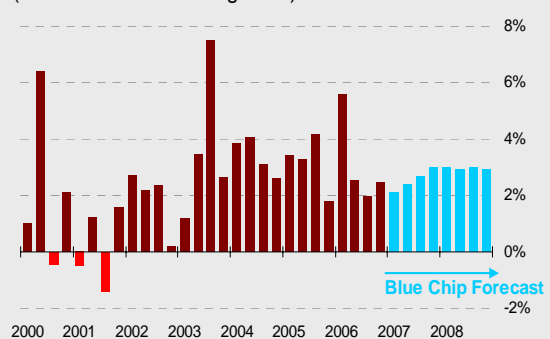


Source: Bureau of Labor Statistics

Economic Growth Since 2000

Fig. 3

(Real annualized GDP growth)

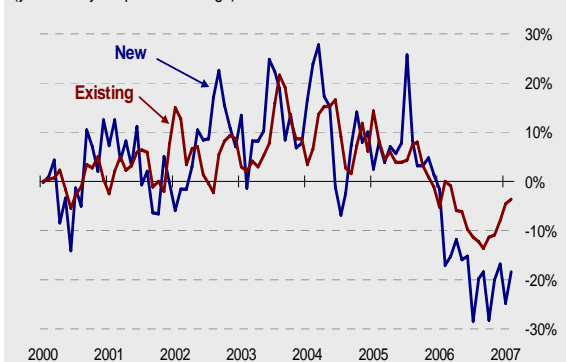


Sources: Bureau of Economic Analysis

Existing and New Home Sales Have Fallen

Fig. 4

(year-over-year percent change)



Source: Haver Analytics

Upcoming Indicators

Inflation – The Consumer Price Index for March is scheduled for released on *April 17*.

GDP – The “advance” estimate of GDP for the 1st quarter is scheduled for release on *April 27*.

Employment – The Bureau of Labor Statistics reports April’s employment situation on *May 4*.

Federal Reserve – The Fed’s next policy meeting is scheduled for *May 9*.