



Hudson Institute Economic Report

(updated weekly)
January 18, 2008

This week provided little good news for economic data, and markets reacted accordingly. One set of disappointing data came from December retail sales, which declined by 0.4 percent. Even though retail sales were still 4.1 percent higher than in December 2006, this shows that the financial and housing market woes are beginning to spill over into consumer spending.

Another set of negative data came from the inflation numbers. Inflation for 2007 was 6.8 percent for the producer price index and 4.1 percent for the consumer price index. The Fed does not have much leeway for monetary stimulus, since it would increase the risk of inflation. Core inflation, excluding food and energy, was lower, with core producer prices rose by 0.2 percent for a year-on-year gain of 2.06 percent. Falling energy prices in December made for a 0.1 percent fall in the reported PPI. Core consumer prices continued to rise at a moderate pace, 0.2 percent in December, for a 2.4 percent gain from December 2006. The reported CPI, which showed 0.28 percent growth, was buoyed up by higher heating costs, but was lower than November's 0.8 percent growth.

November's trade gap widened 9.1 percent to \$63.2 billion, due to a 3 percent growth in imports, driven mostly by oil prices, and a slow 0.5 percent growth in exports.

It's actually good news that housing starts in December declined 14 percent to an annual rate of 1.006 million units, the lowest since May 1991, because fewer new houses will enable median house prices to stabilize. This decrease was significant, and significantly below expectations of 1.150 million units. A lesser, but still significant, slump came in permits, which fell 8.1 percent to an annual rate of 1.068 million units. This was the lowest number of permits since March 1993, and lower than the estimated 1.140 million units.

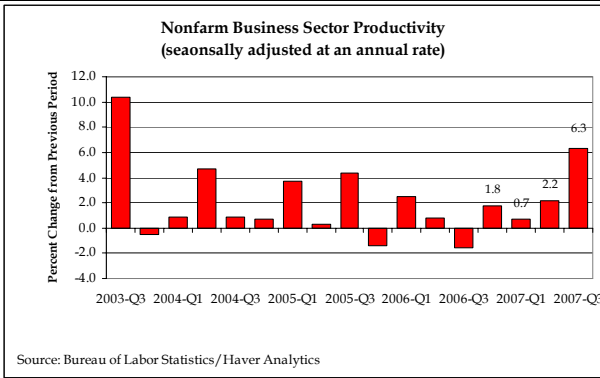
The only positive news was a decline in initial unemployment claims, from 322,000 on January 3 to 301,000 on January 12. This is the lowest level since the week of September 22. Although one week's data are not an indicator of a reliable trend, this implies that Americans started off 2008 by getting back to work. The 4-week moving average has fallen from 340,250 to 328,500, about the level it was in late October.

For more information, contact Senior Fellow Diana Furchtgott-Roth, 202.974.6450 (DFR@hudson.org) and John Weicher, 202.974.2420 (John@hudson.org). To request Hudson Institute's Economic Report, contact Andrew Brown, 202.974.6451, or email at Abrown@hudson.org.

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I. Output Data

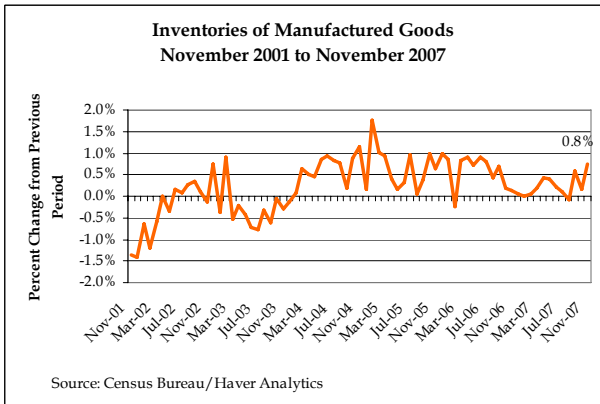
<p style="text-align: center;">Real Gross Domestic Product (seasonally adjusted at an annual rate)</p> <p style="text-align: center;">Source: Bureau of Economic Analysis/Haver Analytics</p>	<ul style="list-style-type: none"> • Third quarter final real GDP growth was an annual rate of 4.9 percent. • From 3rd quarter 2006 to 3rd quarter 2007, real GDP grew at 2.8 percent. • Real GDP growth in 2006 was 2.87 percent for the year. <p style="text-align: right;">1.</p>
<p style="text-align: center;">Real After Tax Personal Incomes November 2001 to November 2007 (seasonally adjusted at an annual rate)</p> <p style="text-align: center;">Source: Bureau of Economic Analysis/Haver Analytics</p>	<ul style="list-style-type: none"> • Personal incomes rose 0.36 percent in November, and were 6.0 percent higher than a year ago. • Real after-tax personal incomes, at an annual rate of \$8,692.1 billion, were down 0.25 percent from October, and were 2.14 percent higher than a year ago. <p style="text-align: right;">2.</p>



- Third quarter nonfarm business productivity growth was revised up to 6.3 percent (from an original 4.9 percent). The year-on-year growth rate was at 2.7 percent
- Productivity growth was 1.6 percent in 2006 – the smallest increase since 1997.
- Unit labor costs fell at an annual rate of 2.0 percent in Q3, following a 1.1 percent fall in Q2. The year-on-year growth rate was at 3.0 percent.
- Unit labor costs were up 3.3 percent in 2006 – the biggest increase since 2000.

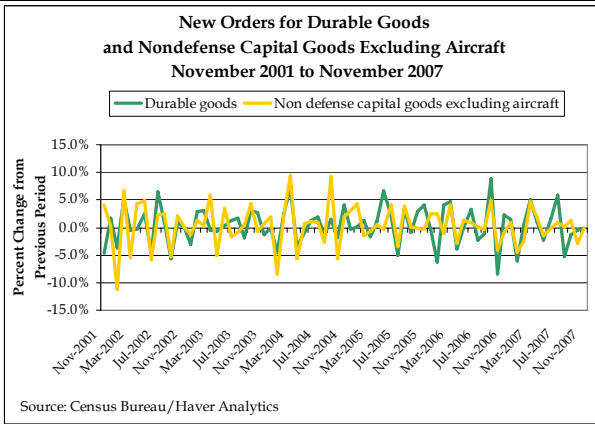
3.

*** New this week**



- Inventories of manufactured goods rose 0.8 percent to \$524.4 billion in November. Shipments rose 1.4 percent.
- New orders for manufactured goods in November rose by 1.5 percent.

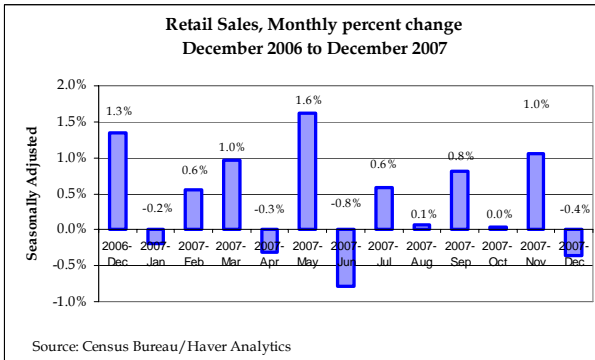
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- New orders for manufactured durable goods decreased 0.1 percent in November, following a 0.5 percent decrease in October (revised from 0.4). Shipments were down 0.06 percent, following a 0.5 percent rise in October.
- New orders of core capital goods rose 4.1 percent in November, following a 2.5 percent fall in October (revised from 2.3). Shipments rose by 0.2 percent, following a 1.2 percent decrease in October.

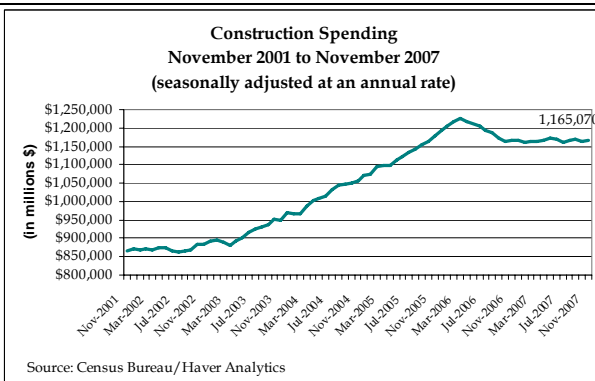
5.

*** New this week**



- Retail sales in December fell by 0.37 percent, and were 4.08 percent higher than a year ago.
- Excluding the volatile auto sector, retail sales fell by 0.36 percent in December, and were 5.1 percent higher than a year ago.

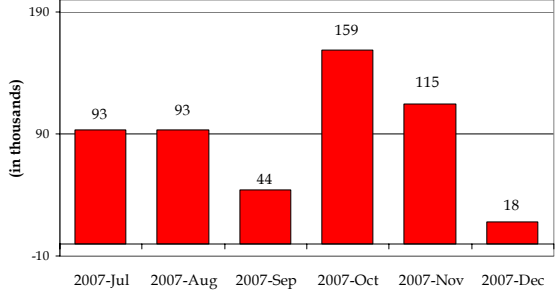
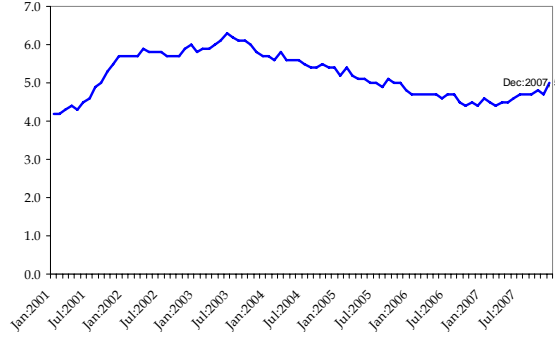
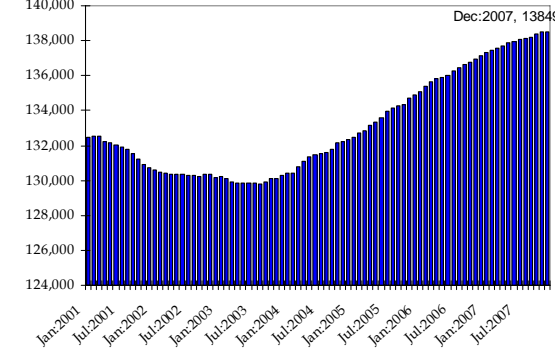
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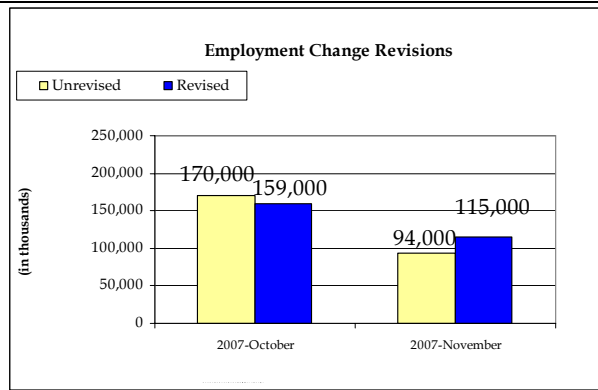


- Following a 0.4 percent fall (revised from 0.4) in October, construction spending rose by 0.1 percent to an annual rate of \$1,165 billion in November.
- The November figure was 0.1 percent lower than a year ago.

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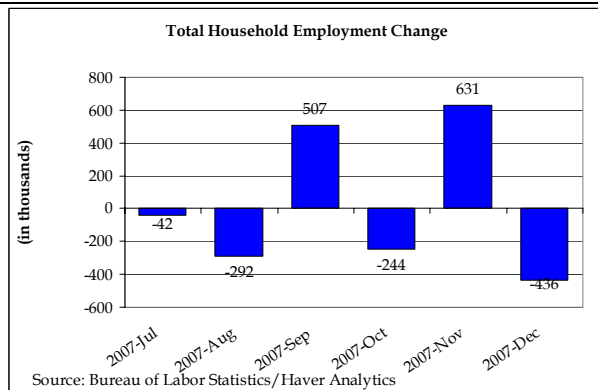
II. Labor Market Data

<p style="text-align: center;">Total Nonfarm Employment Change</p>  <p style="text-align: center;">Source: Bureau of Labor Statistics/Haver Analytics</p>	<ul style="list-style-type: none"> • In December, the payroll survey recorded an increase of 18,000 jobs. • Over the past year, total payroll employment has increased by 1.32 million jobs. Employment in the private sector has increased by 1.0 million jobs. <p style="text-align: right; color: blue;">8.</p>
<p style="text-align: center;">Unemployment Rate since 2001</p>  <p style="text-align: center;">Source: Bureau of Labor Statistics/Haver Analytics</p>	<ul style="list-style-type: none"> • The unemployment rate in December 2007 rose to 5.0 percent, up from 4.4 percent a year ago. <p style="text-align: right; color: blue;">9.</p>
<p style="text-align: center;">Payroll Employment since 2001</p>  <p style="text-align: center;">Source: Bureau of Labor Statistics/Haver Analytics</p>	<ul style="list-style-type: none"> • From August 2003 to December 2007, nonfarm payroll employment has increased by over 8.6 million jobs, a record 52 months straight of job growth. • In December 2007, the payroll survey jobs total was 6.02 million above the level of January 2001. <p style="text-align: right; color: blue;">10.</p>



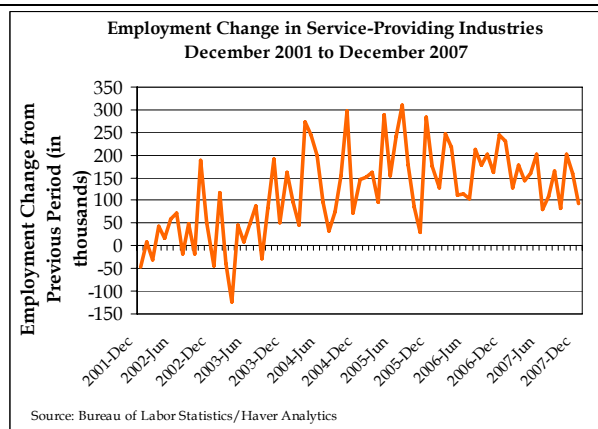
- In December, the change in October's nonfarm payroll employment was revised down from 170,000 to 159,000. It was first estimated at 166,000. November's number was revised up from 94,000 to 115,000. The total upward revision was 10,000.

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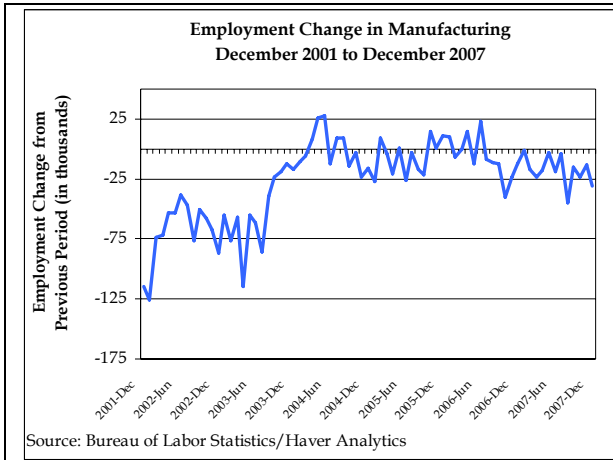
- The household survey showed a loss of 436,000 employed workers in December 2007, and a gain of about 262,000 workers over the past year.
- The household survey has shown an increase of over 8.6 million employed workers since August 2003 and 8.4 million workers since January 2001.

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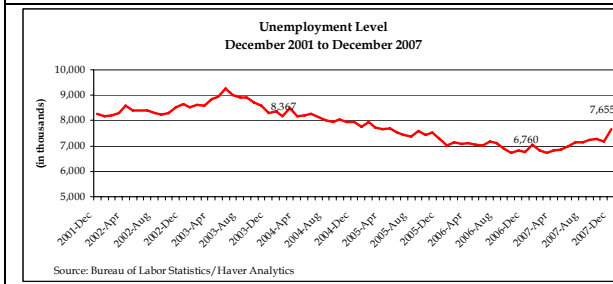
- Employment in services increased by 93,000 in December 2007.
- Employment in services has added over 8.2 million jobs out of 8.6 million created since August 2003, 52 months of consecutive gains.

13.



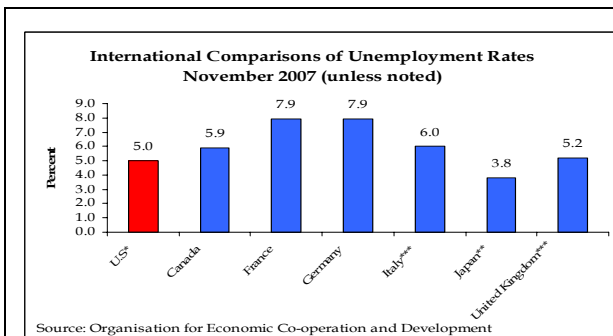
- Manufacturing employment decreased by 31,000 in December 2007.
- In December 2007, manufacturing jobs were 212,000 below the level of December 2006.
- Manufacturing has lost over 3.1 million jobs since January 2001.

14.



- The number of unemployed was 7.655 million in December 2007, compared with 6.760 million in December 2006.

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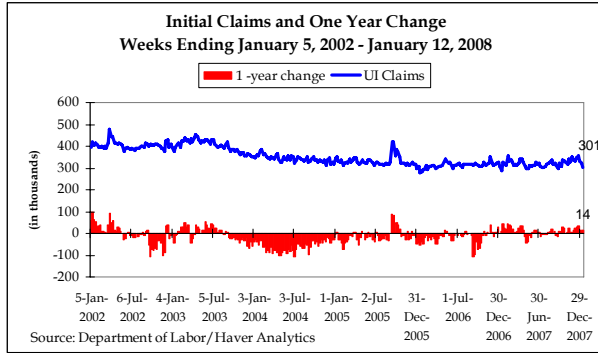


* December rate for the United States
** October rate *** September rate

- The U.S. unemployment rate is lower than Canada, France, Germany, Italy, and the U.K.
- Japan has a lower rate than the United States.

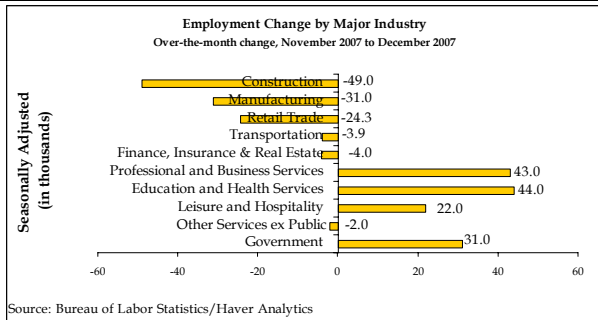
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*** New this week**



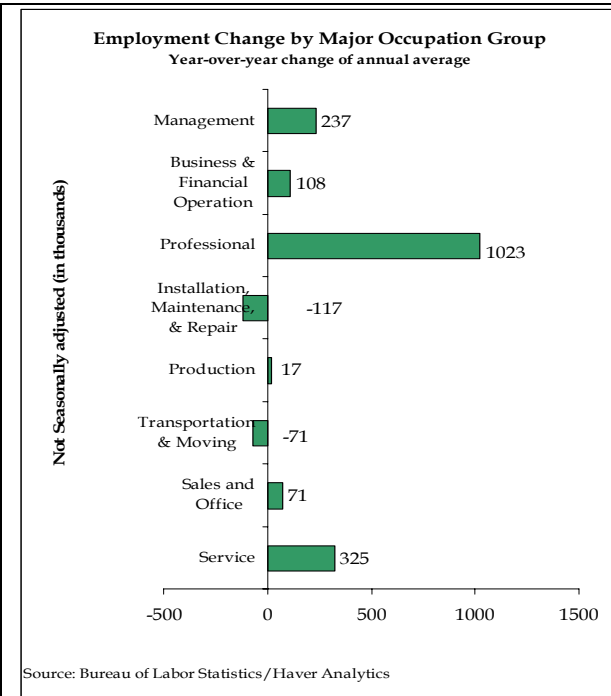
- During the week ending January 12, 2008, initial jobless claims fell 21,000 to 301,000 from 322,000 the week before, and were 4.8 percent higher than a year ago.
- The four-week moving average of initial jobless claims was 328,500, down from 340,250 the week before (down from 341,000), and was 5.6 percent higher than a year ago.

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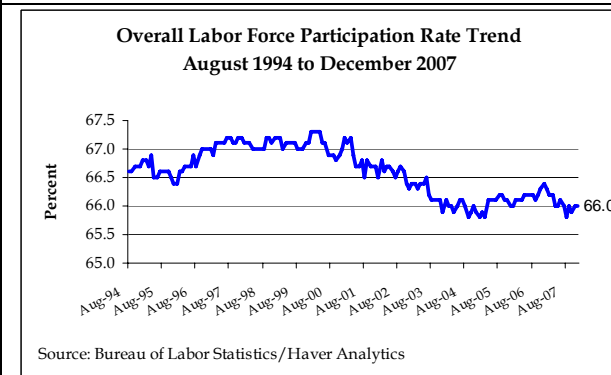
- Key industries that gained jobs in December include education and health services (+44,000), professional and business services (+43,000), government (+31,000), and leisure and hospitality (+22,000).

18.



- Professional & related occupations increased 1 million jobs over the past year.
- Other major gains were in service occupations, management occupations, business and financial operation occupations, sales and office occupations, and production occupations.
- Employment in installation, maintenance and repair; and transportation and moving occupations declined.

19.

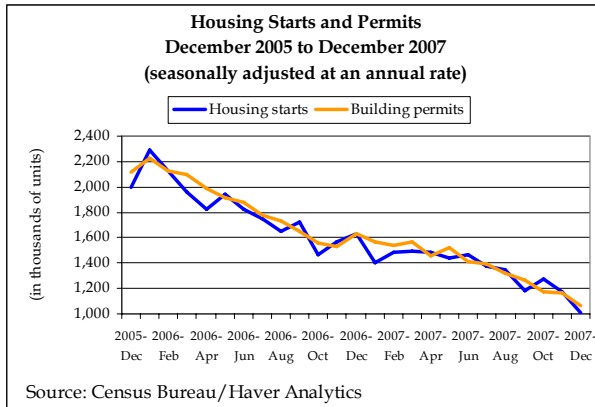


- In December 2007, the labor force participation rate remained at 66.0 percent.
- The average labor force participation rate since 1994 was 66.6 percent.
- The highest rate since 1994 was 67.3 percent in January - April 2000.

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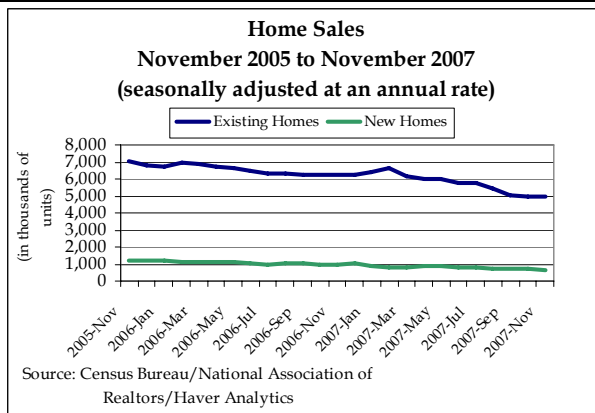
III. Housing Data

*** New this week**



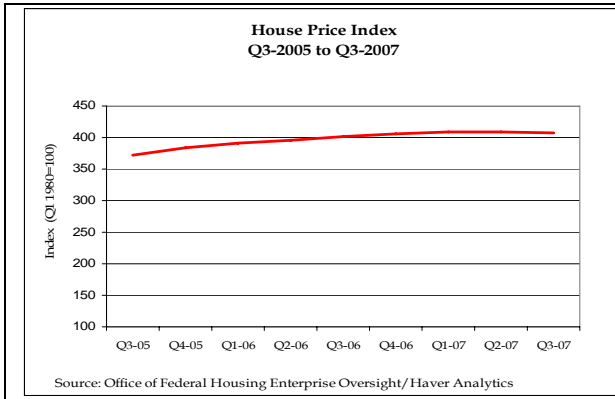
- Following a 7.9 percent decrease in November, housing starts fell 14.2 percent to an annual rate of 1.006 million units in December from November's 1.173 million, and were 38.2 percent lower than a year ago.
- Following a 0.7 percent fall in November, building permits fell 8.1 percent to 1.068 million units in December from November's 1.16 million, and were 34.4 percent lower than a year ago.

21.



- In November, existing home sales increased by 0.4 percent to an annual rate of 5 million units. This figure was 20 percent lower than a year ago.
- Following a 1.7 percent rise in October, sales of new single-family homes fell by 9 percent to an annual rate of 0.647 million units. This figure was 34.4 percent lower than a year ago.

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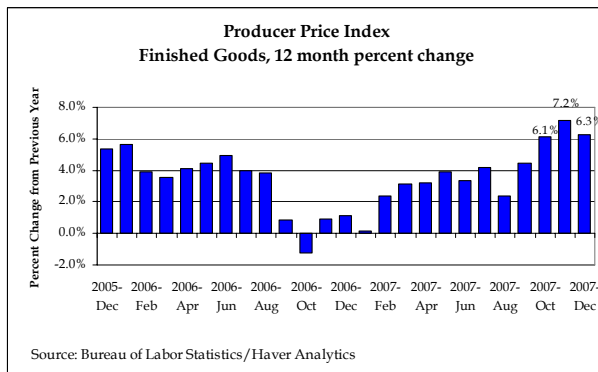


- Average home prices fell 0.3 percent in the third quarter of 2007, and were up 1.7 percent over the past year.
- During the past year, the biggest increase in home prices was in Utah, at 12.9 percent.

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IV. Price and Interest Rate Data

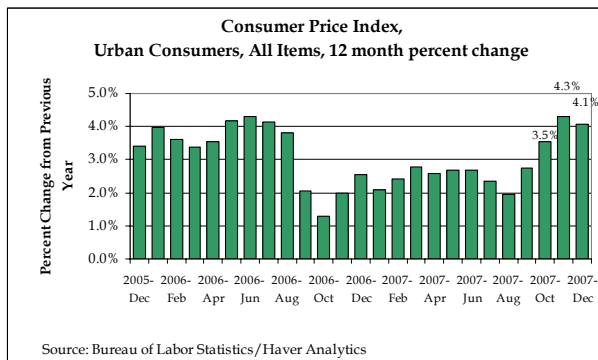
*** New this week**



- The PPI for finished goods fell 0.1 percent in December, following a 3.2 percent rise in November.
- Over the past year, the PPI rose by 6.2 percent.
- The core PPI rose 0.2 percent in December, and showed a year-on-year gain of 2.06 percent.

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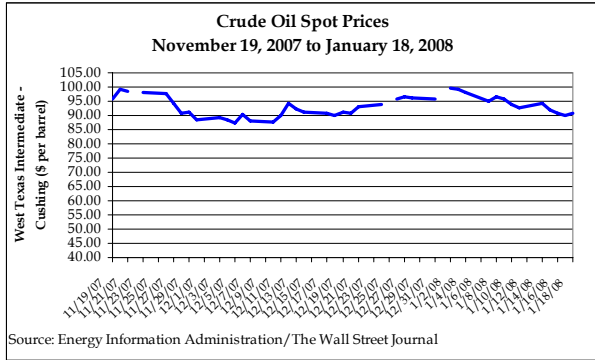
*** New this week**



- The CPI for all items rose 0.3 percent in December, following a 0.8 percent increase in November.
- The 12-month change of the CPI was 4.08 percent in December 2007.
- Excluding food and energy, the core CPI rose 0.24 percent in December, and was up 2.4 percent over the past year.

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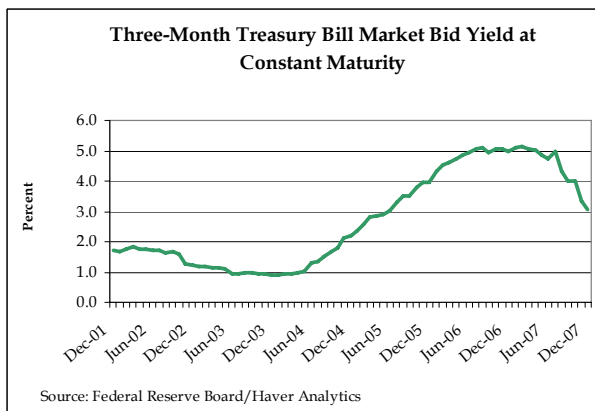
*** New This Week**



- Crude oil prices fell to an average of about \$91.56 a barrel this week.
- On January 18, oil traded around \$90.75 a barrel, up from Thursday's close of \$90.13 a barrel.

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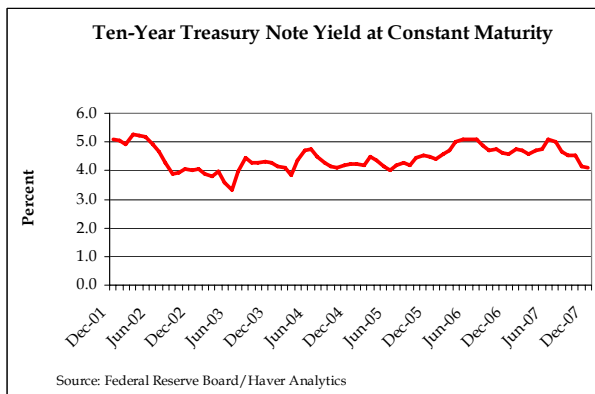
*** New This Week**



- For the week ending January 11, the latest three-month Treasury bill market bid yielded 3.21 percent, down from 3.27 percent the week before and down from 5.09 percent a year ago.

27.

*** New This Week**

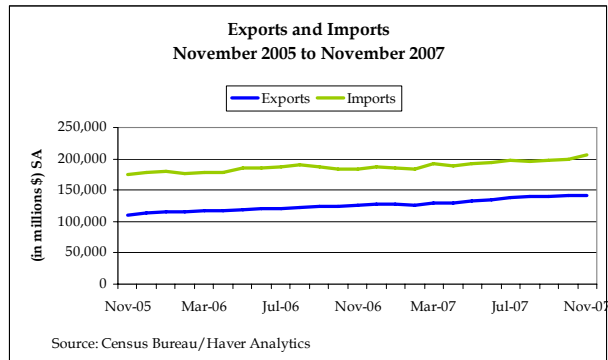


- For the week ending January 11, the latest ten-year Treasury note yielded 3.85, down from 3.94 percent a week ago, and down from 4.7 percent a year ago.

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V. Trade Data

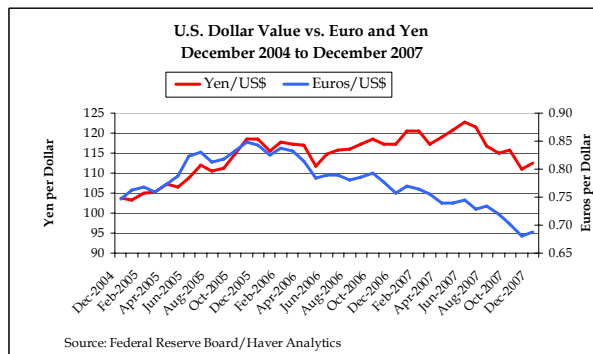
* New this week



- The trade deficit widened by 9.2 percent in November to \$63.1 billion from October's \$57.8 billion.
- Compared to October, exports rose by 0.5 percent and imports increased by 3 percent.
- November's exports of \$142.3 billion were at a record high, and were 13.0 percent higher than one year earlier.

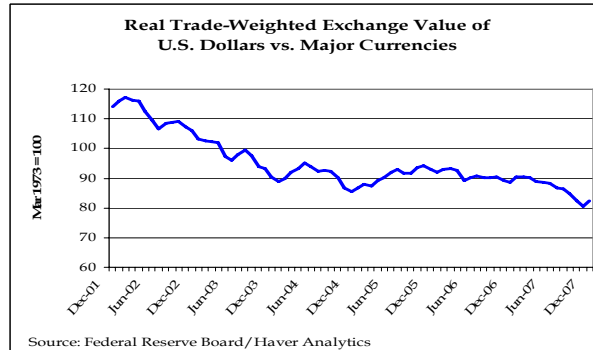
29.

* New this week



- Compared to last week, the dollar fell against the euro and against the yen.
- On January 18, the dollar traded at 0.6808 euros, up from Thursday's close of 0.680735.
- On January 18, the dollar traded at 107.12 yen, up from Thursday's close of 107.01 yen.

30.



- The index of real trade-weighted exchange value of the dollar relative to major currencies increased to 82.28 in December from 82.67 in November.

31.

VI. Survey Data

<p>* New this week</p> <p>Source: University of Michigan/The Conference Board/Haver Analytics</p>	<ul style="list-style-type: none"> • The University of Michigan’s consumer sentiment index rose in January to 80.5 from 75.5 in December. • The Conference Board’s index of consumer confidence rose 0.8 points to 88.6, in December from 87.8 in November. <p style="text-align: right;">32.</p>
<p>Source: Institute for Supply Management/Haver Analytics</p>	<ul style="list-style-type: none"> • The Institute for Supply Management’s Index of Manufacturing Activity fell 3.1 points to 47.7 in December from 50.8 in November – indicating contraction in this industry. • The ISM Manufacturing Employment Index rose 0.2 points to 48.0 in December from 47.8 in November – indicating contraction of employment. <p style="text-align: right;">33.</p>
<p>Source: Institute for Supply Management/Haver Analytics</p>	<ul style="list-style-type: none"> • The Institute for Supply Management’s Index of Non-Manufacturing Business Activity fell 0.2 point to 53.9 in December from 54.1 in November - signaling slower expansion in the industry. • The Employment Index rose 1.3 points to 52.1 in December from 50.8 in November – signaling faster expansion in employment. <p style="text-align: right;">34.</p>