



Hudson Institute Economic Report **(updated bi-weekly and the first Friday of every month)** **March 28, 2008**

Markets rose slightly as February data showed a 0.5% increase in personal income, and 0.35% growth in real disposable income, stronger growth than in the last five months and higher than expectations. Yet consumers are unwilling to spend, and personal spending rose only 0.1%. The core PCE deflator, used by the Federal Reserve to measure inflation, came in at 2% annually, within the comfort range, showing that the Fed's recent monetary intervention has not yet led to a ramp-up in inflation, as has been feared.

Home sales and prices were mixed in February. Existing home sales rose by 2.9% from January, at a seasonally adjusted annual rate, while new home sales were down a statistically insignificant 1.8%. The increase in existing home sales was the first since July, although sales have been close to the 5 million level for the last five months. At the same time, the median price of existing homes fell by 1.9% in February, to \$195,900 from a revised \$199,700, while the median price of new homes sold rose by 8.2%, to \$244,100 from a revised \$225,600. The median for existing homes continues a pattern of decline for the last several months, while the median for new homes has fluctuated within the range of \$220,000 to \$260,000 since October. (The preliminary January figure was below this range, but has been revised upward.)

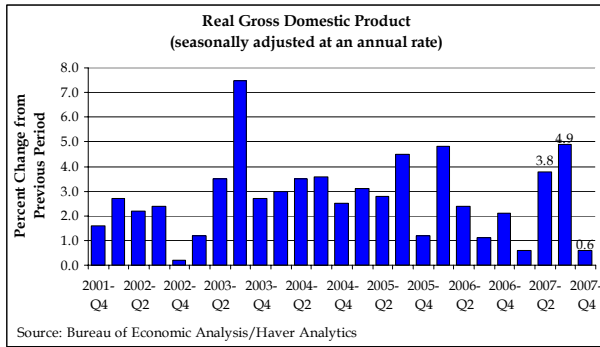
The major house price indices, Case-Shiller and OFHEO, both show continuing decline, with Case-Shiller showing the largest decrease. The widely-followed Case-Shiller 20-market index declined in January by 2.4 %, and has fallen by 10.7% since January 2007. OFHEO is now also publishing monthly home purchase price indices; the OFHEO index changed much less, declining by 1.1% in January and 3.0% over the last 12 months. The OFHEO index is based on loans purchased by the GSEs, while Case-Shiller includes both jumbo loans and mortgages on lower-priced houses (probably including subprime loans), and is in this respect more comprehensive. Yet the OFHEO index covers the entire country, compared to Case-Shiller's 20 large metropolitan areas, of which eight are located in the West. Also, the Case-Shiller 20-market index has been the most volatile of the three Case-Shiller indices, rising more than either the 10-city or the national index during the housing boom.

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I. Output Data

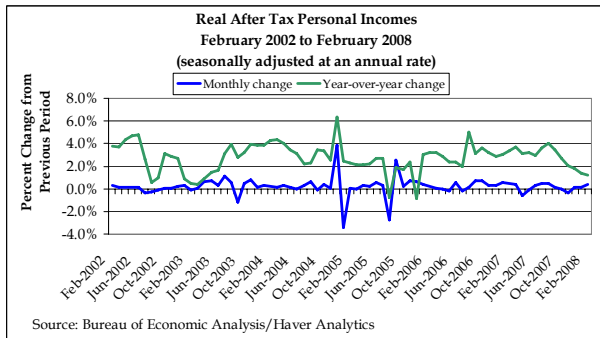
*** New this week**



- Fourth quarter final real GDP growth was an annual rate of 0.6 percent.
- From 4th quarter 2006 to 4th quarter 2007, real GDP grew at 2.5 percent.
- Real GDP growth in 2007 was 2.18 percent for the year.

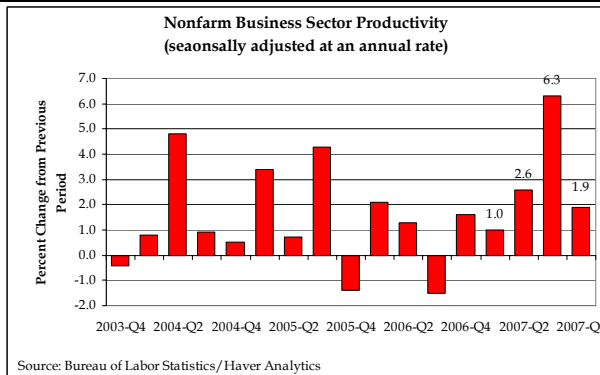
1.

*** New this week**



- Personal incomes rose 0.47 percent in February, and were 4.5 percent higher than a year ago.
- Real after-tax personal incomes, at an annual rate of \$8,735.8 billion, were up 0.35 percent from January, and were 1.25 percent higher than a year ago.

2.



- Fourth quarter nonfarm business productivity growth was revised up 0.1 percentage points to 1.9 percent. The year-on-year growth rate was at 2.9 percent
- Productivity growth was 1.8 percent in 2007.
- Unit labor costs rose at an annual rate of 2.6 percent in Q4, following a 2.7 percent fall in Q3. The year-on-year growth rate was at 0.9 percent.
- Unit labor costs were up 3.07 percent in 2007 – the biggest increase since 2000.

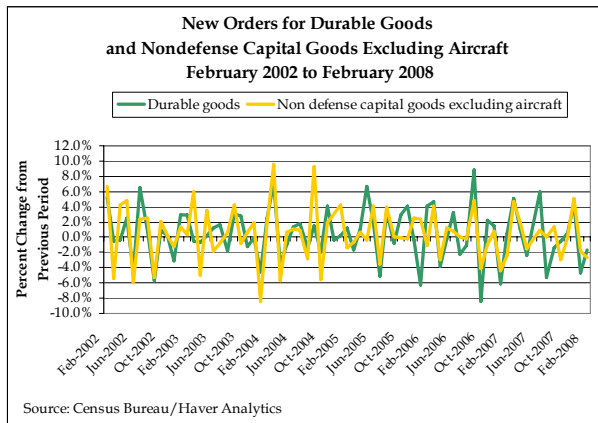
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- Inventories of manufactured goods rose 1.3 percent to \$535.3 billion in January. Shipments rose by 1.1 percent.
- New orders for manufactured goods in January fell by 2.5 percent.

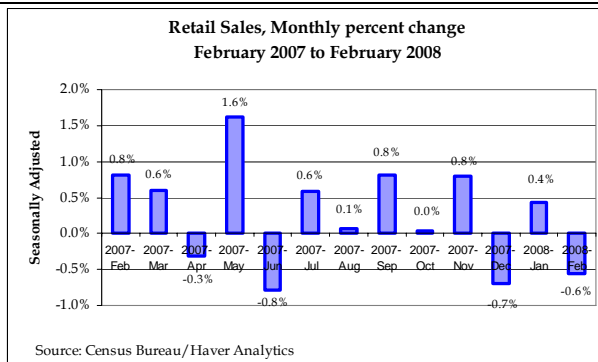
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*** New this week**



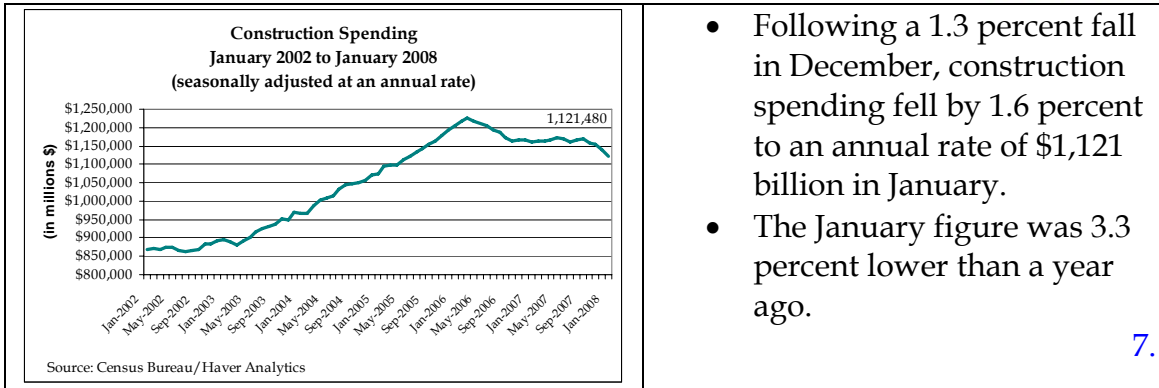
- New orders for manufactured durable goods decreased 1.7 percent in February, following a 4.6 percent decrease in January. Shipments were down 2.77 percent, following a 2.25 percent rise in January.
- New orders of core capital goods fell 2.6 percent in February, following a 1.8 percent fall in January. Shipments fell by 2.1 percent, following a 0.44 percent decrease in January.

5.



- Retail sales in February fell by 0.56 percent, and were 2.58 percent higher than a year ago.
- Excluding the volatile auto sector, retail sales fell by 0.57 percent in February, and were 2.3 percent higher than a year ago.

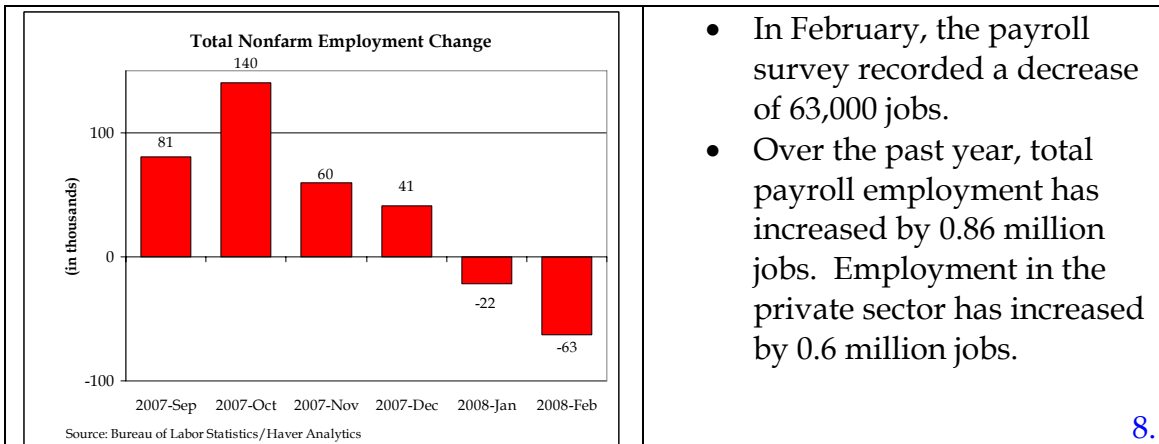
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- Following a 1.3 percent fall in December, construction spending fell by 1.6 percent to an annual rate of \$1,121 billion in January.
- The January figure was 3.3 percent lower than a year ago.

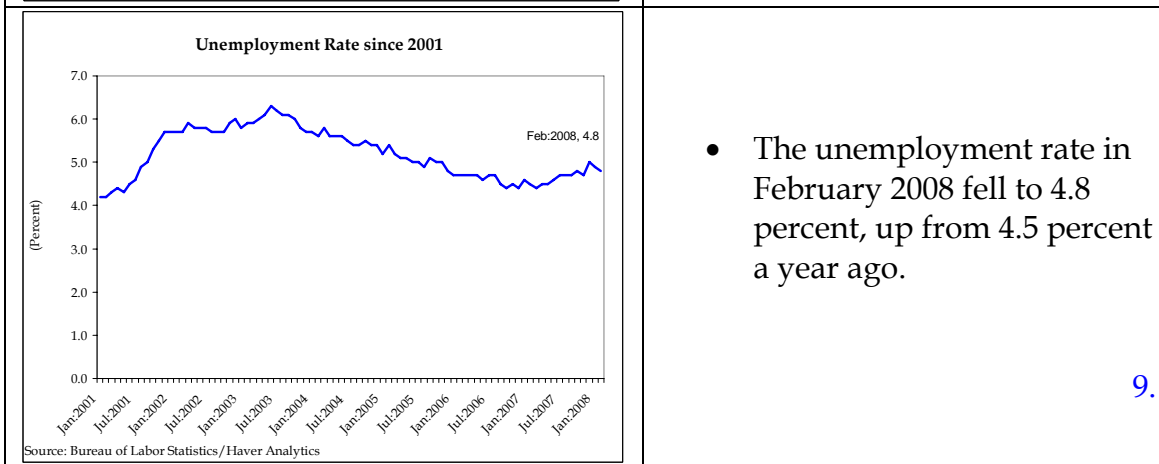
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II. Labor Market Data



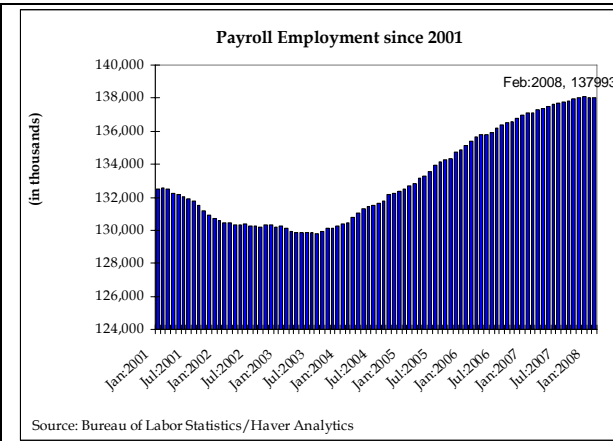
- In February, the payroll survey recorded a decrease of 63,000 jobs.
- Over the past year, total payroll employment has increased by 0.86 million jobs. Employment in the private sector has increased by 0.6 million jobs.

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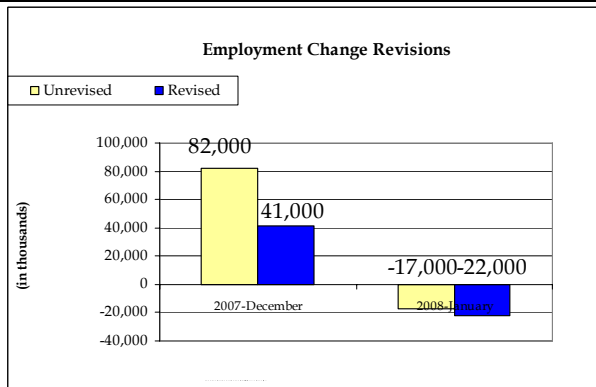
- The unemployment rate in February 2008 fell to 4.8 percent, up from 4.5 percent a year ago.

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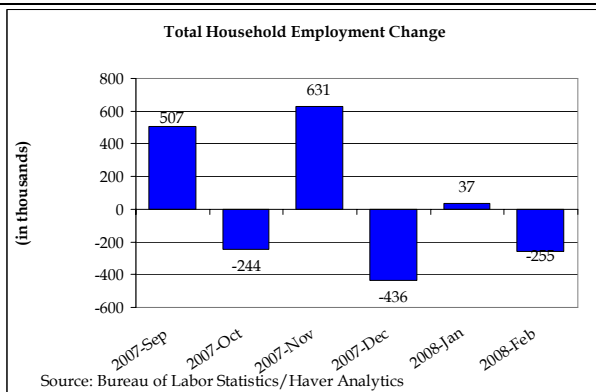
- From August 2003 to February 2008, nonfarm payroll employment has increased by 8.17 million jobs.
- In February 2008, the payroll survey jobs total was 5.54 million above the level of January 2001.

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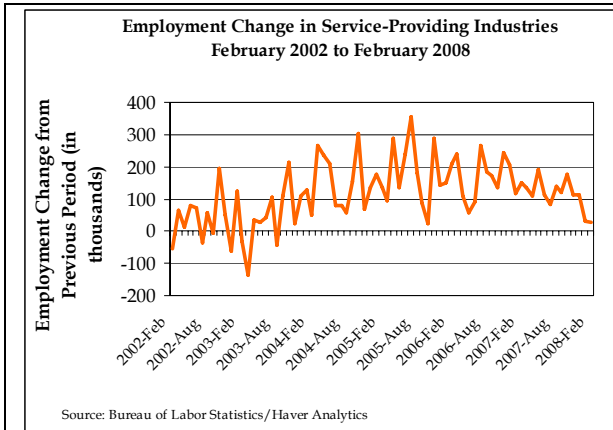
- In February, the change in December's nonfarm payroll employment was revised down from 82,000 to 41,000. It was first estimated at 18,000. January's number was revised down from -17,000 to -22,000. The total downward revision was 46,000.

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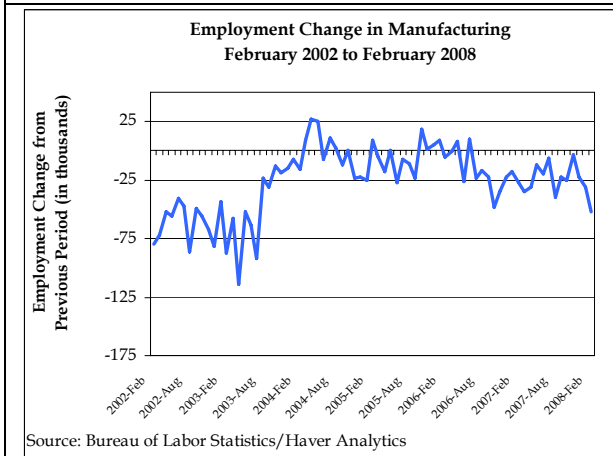
- The household survey showed a loss of 255,000 employed workers in February 2008, and a gain of about 105,000 workers over the past year.
- The household survey has shown an increase of over 8.4 million employed workers since August 2003 and nearly 8.2 million workers since January 2001.

12.



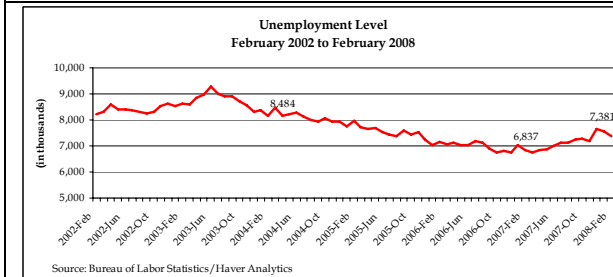
- Employment in services increased by 26,000 in February 2008.
- Employment in services has added over 8.0 million jobs out of 8.17 million created since August 2003, 54 months of consecutive gains.

13.



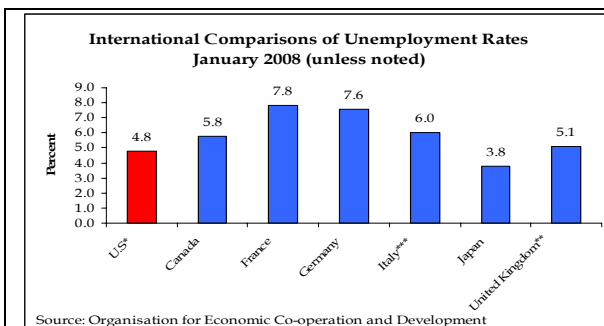
- Manufacturing employment decreased by 52,000 in February 2008.
- In February 2008, manufacturing jobs were 299,000 below the level of February 2007.
- Manufacturing has lost over 3.4 million jobs since January 2001.

14.



- The number of unemployed was 7.381 million in February 2008, compared with 6.837 million in February 2007.

15.

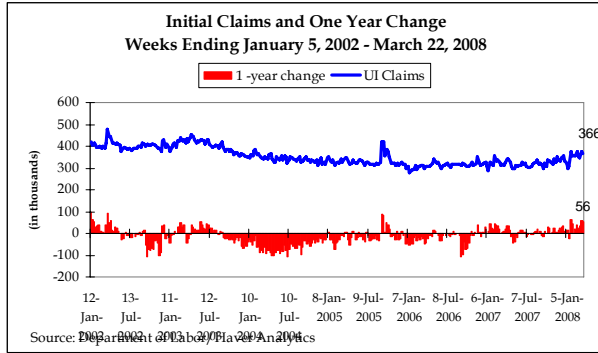


* February rate for the United States
** November rate *** September rate

- 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.

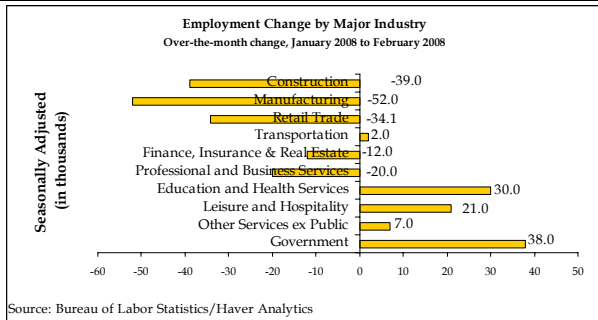
16.

*** New this week**



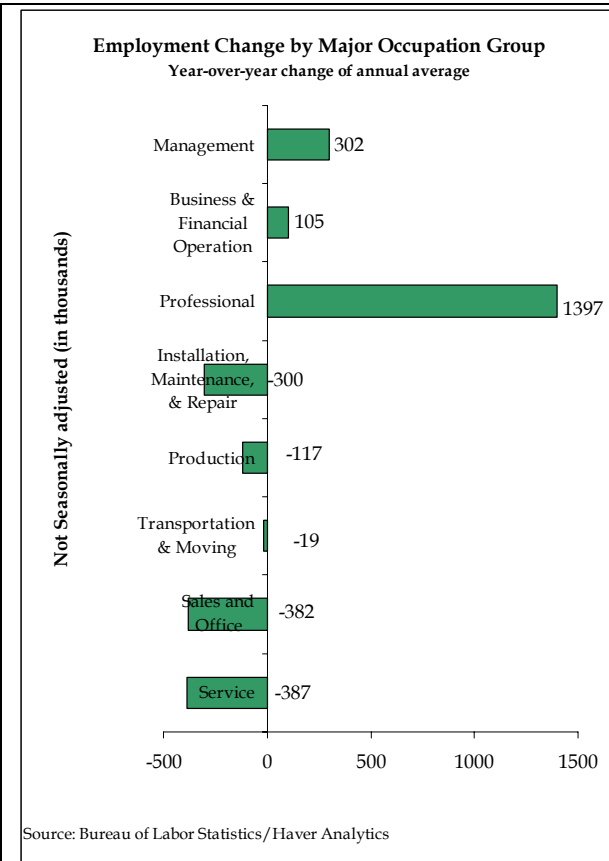
- During the week ending March 22, 2008, initial jobless claims fell 9,000 to 366,000 from 375,000 the week before, and were 18 percent higher than a year ago.
- The four-week moving average of initial jobless claims was 358,000, up from 356,250 the week before, and was 13.5 percent higher than a year ago.

17.



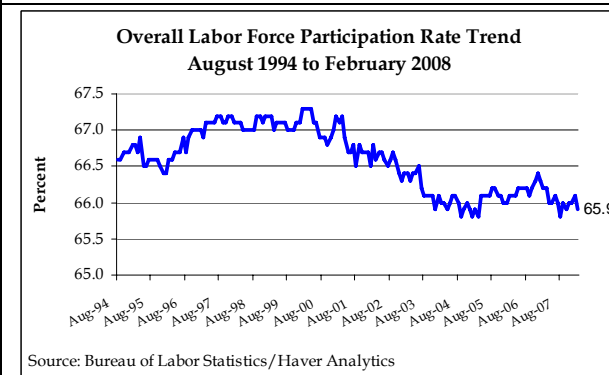
- Key industries that gained jobs in February include government (+38,000), education and health services (+30,000), leisure and hospitality (+21,000), other services (+7,000), and transportation (+2,000).

18.



- Professional & related occupations increased 1.397 million jobs over the past year.
- Other major gains were in management occupations and business & financial operation occupations.
- Employment in installation, maintenance and repair; production; transportation and moving; sales and offices; and service occupations declined.

19.

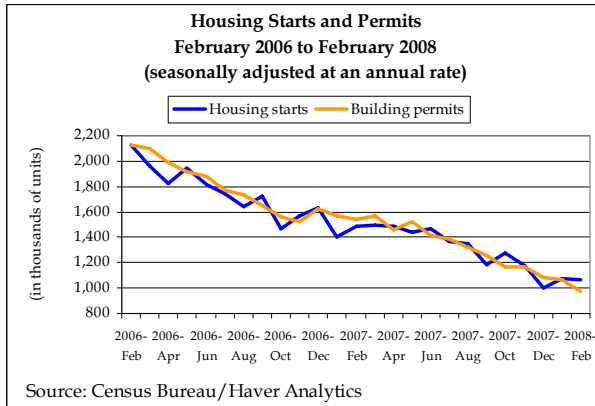


- In February 2008, the labor force participation rate fell from 66.1 to 65.9 percent.
- The average labor force participation rate since 1994 was 66.6 percent.
- The highest rate since 1994 was 67.3 percent in January - April 2000.

20.

III. Housing Data

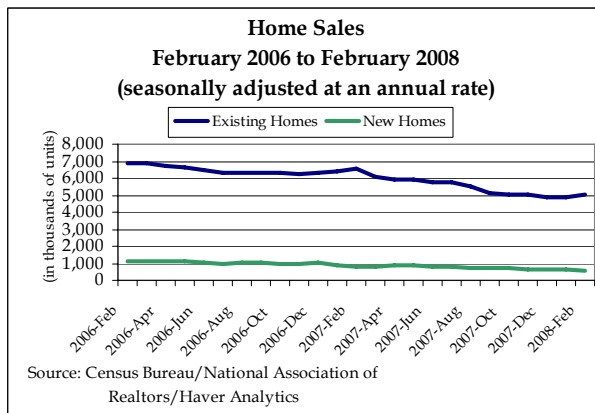
*** New this week**



- Following a 7.1 percent increase in January, housing starts fell 0.56 percent to an annual rate of 1.065 million units in February from January's 1.071 million, and were 28.4 percent lower than a year ago.
- Following a 1.8 percent fall in January, building permits fell 7.8 percent to 0.978 million units in February from January's 1.06 million, and were 36.5 percent lower than a year ago.

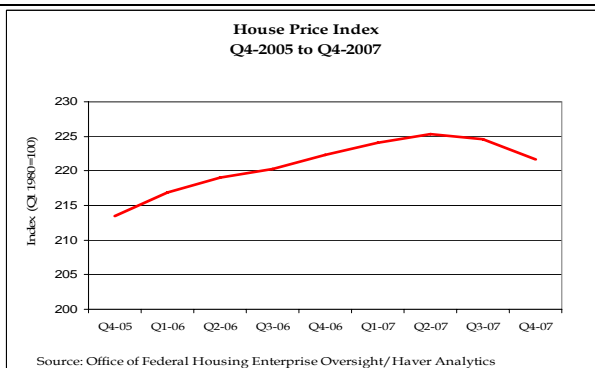
21.

*** New this week**



- In February, existing home sales increased by 2.86 percent to an annual rate of 5.03 million units. This figure was 23.8 percent lower than a year ago.
- Following a 1.64 percent fall in January, sales of new single-family homes fell by 1.8 percent to an annual rate of 0.59 million units. This figure was 29.8 percent lower than a year ago.

22.

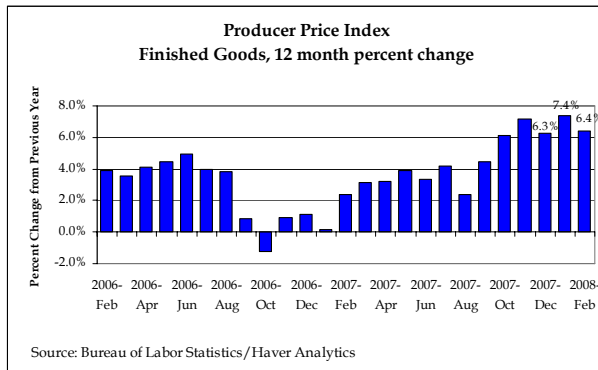


- Average home prices fell 1.3 percent in the fourth quarter of 2007, and were down 0.3 percent over the past year.
- During the past year, the biggest increase in home prices was in Utah, at 12.9 percent.

23.

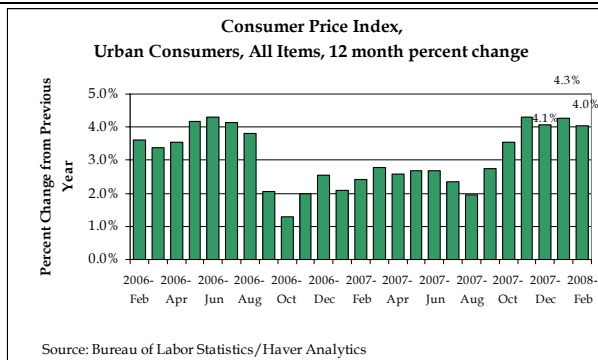
IV. Price and Interest Rate Data

*** New this week**



- The PPI for finished goods rose 0.3 percent in February, following a 1 percent rise in January.
- Over the past year, the PPI rose by 6.4 percent.
- The core PPI rose 0.5 percent in February, and showed a year-on-year gain of 2.49 percent.

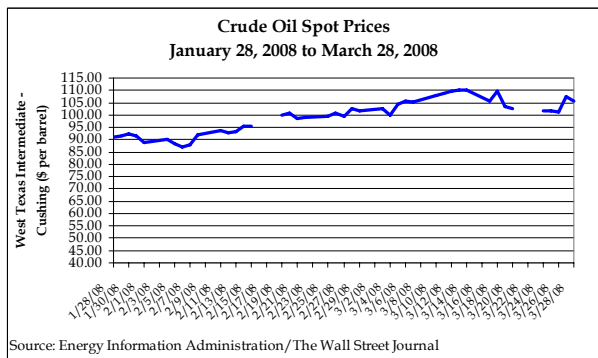
24.



- The CPI for all items rose less than 0.05 percent in February, following a 0.4 percent increase in January.
- The 12-month change of the CPI was 4.03 percent in February 2008.
- Excluding food and energy, the core CPI rose less than 0.05 percent in February, and was up 2.3 percent over the past year.

25.

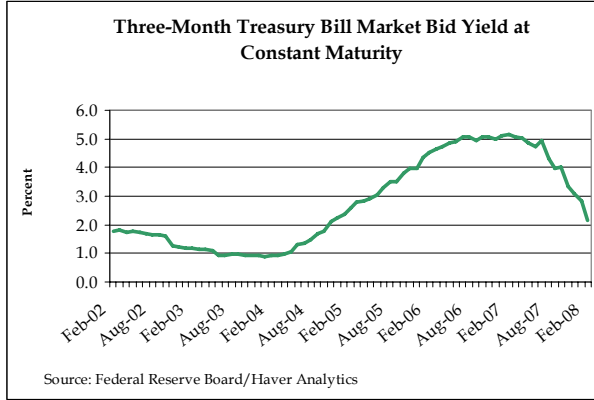
*** New This Week**



- Crude oil prices fell to an average of about \$103.58 a barrel this week.
- On March 28, oil traded around \$105.62 a barrel, down from Thursday's close of \$107.58 a barrel.

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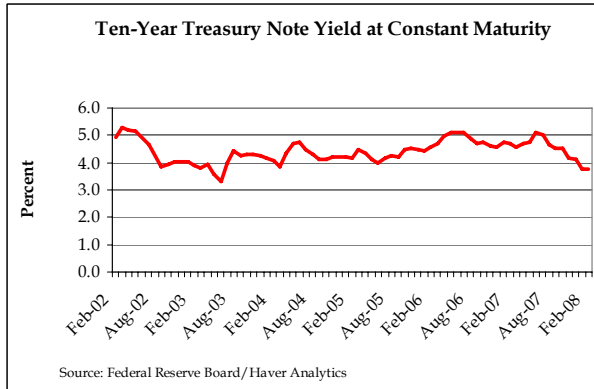
*** New This Week**



- For the week ending March 21, the latest three-month Treasury bill market bid yielded 0.82 percent, down from 1.37 percent the week before and down from 5.06 percent a year ago.

27.

*** New This Week**



- For the week ending March 21, the latest ten-year Treasury note yielded 3.39, down from 3.51 percent a week ago, and down from 4.58 percent a year ago.

28.

V. Trade Data

<p style="text-align: center;">Exports and Imports January 2006 to January 2008</p> <p style="text-align: center;">Source: Census Bureau/Haver Analytics</p>	<ul style="list-style-type: none"> • The trade deficit rose by 0.6 percent in January to \$58.2 billion from December's \$57.8 billion. • Compared to December, exports rose by 1.6 percent and imports increased by 1.3 percent. • January's exports of \$148.2 billion were at a record high, and were 16.5 percent higher than one year earlier. <p style="text-align: right; color: blue;">29.</p>
<p style="color: red;">* New this week</p> <p style="text-align: center;">U.S. Dollar Value vs. Euro and Yen February 2005 to February 2008</p> <p style="text-align: center;">Source: Federal Reserve Board/Haver Analytics</p>	<ul style="list-style-type: none"> • Compared to last week, the dollar fell against the euro and rose against the yen. • On March 28, the dollar traded at 0.63297 euros, down from Thursday's close of 0.63299. • On March 28, the dollar traded at 99.87 yen, equal to Thursday's close of 99.87 yen. <p style="text-align: right; color: blue;">30.</p>
<p style="text-align: center;">Real Trade-Weighted Exchange Value of U.S. Dollars vs. Major Currencies</p> <p style="text-align: center;">Source: Federal Reserve Board/Haver Analytics</p>	<ul style="list-style-type: none"> • The index of real trade-weighted exchange value of the dollar relative to major currencies decreased to 81.40 in February from 81.68 in January. <p style="text-align: right; color: blue;">31.</p>

VI. Survey Data

<p style="text-align: center;">Measures of Consumer Attitudes</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 fell 0.3 points to 70.5 in March from 70.8 in February. • The Conference Board’s index of consumer confidence fell 12.3 points to 75, in February from 87.3 in January. <p style="text-align: right;">32.</p>
<p style="text-align: center;">Institute for Supply Management Manufacturing Indices</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 2.4 points to 48.3 in February from 50.7 in January - indicating contraction in this industry. • The ISM Manufacturing Employment Index fell 1.1 points to 46.0 in February from 47.1 in January - indicating faster contraction of employment. <p style="text-align: right;">33.</p>
<p style="text-align: center;">Institute for Supply Management Nonmanufacturing Indices</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 rose 8.9 points to 50.8 in February from 41.9 in January - signaling expansion in the industry. • The Employment Index rose 3 points to 46.9 in February from 43.9 in January - signaling slower contraction in employment. <p style="text-align: right;">34.</p>