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# Current State and Trend of Economic Variables

Introduction: This memo provides information about eight principle indicators that are used to monitor the performance of the U.S. economy. Included is information relative to the current state and trend of the principle indicators. A conclusion about the state of the economy, based on the aggregation of the data presented, is also included.

- Employment

  Weekly, the Labor Department reports on the number of people filing new claims for unemployment benefits. Falling claims are an early indicator of a surge in hiring, which in turn means more people with paychecks to spend, infusing more money into the economy.

  On June 2, 2006, the Labor Department reported that the unemployment rate during the previous month fell to 4.6 percent, down from 5.1 percent during the same period of 2005. Total employment (144.0 million) continued to trend up in May (+75,000) to 135.1 million. Over the year it has increased by 2.4 million, a 12-month increase of 1.5%.[1]

- Inflation

  Relatively low unemployment rates, such as the current rate of 4.6%, will give employees more negotiating power with employers, which may tend to push up wages. Higher wages equate to increased unit labor costs, thereby inflating the price of goods. Over the past two years, the yearly growth of hourly pay of production workers has accelerated from 1.6% to 3.3%.[2] Further, higher energy costs for products and services may be passed along to consumers. In March, consumer prices outside of energy and food rose 0.3%, the largest monthly gain in a year.[3] Concurrently, the Consumer Price Index rose 0.6 percent in April, the Labor Department reported, compared with the 0.4 percent rise in March. [1] Overall, consumer prices are up 3.5 percent over the last 12 months. According to the Federal Open Market Committee, in a statement issued May 10th, possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures. [4]

- Interest Rates

  In attempts to curb inflation, during the period from February 2005 through May 2006, the Federal Reserve increased the Fed Funds rate from 2.5% to 5.02%, causing the Prime Rate to increase from 5.5% to 8.0 %.[5] An increase in interest rates by the Federal Reserve (Fed) is done in an attempt to slow the desire for borrowing. Such rate increases are, therefore, an indicator that the economy is experiencing a growth trend.

- Consumer Spending & Confidence

  Consumer spending accounts for about two-thirds of all U.S. economic activity, and the Commerce Department's monthly retail-sales report provides an important indicator of consumer spending. According to the April report, 2006 has realized a 4-percent increase in personal disposable income and an accompanying 3.7-percent increase in personal consumption expenditures. [6] Sales for April were $362.7 billion, an increase of approximately 0.5 percent from the previous month and up nearly 6.6 percent from April 2005. Total sales for the February through April 2006 period were up about 7.3 percent from the same period a year ago.

Retail trade sales were up 0.5 percent from March and were 6.6 percent above last year, and sales of non-store retailers were up 13.3 percent from last year (all figures accurate to within .7%).

Separately, the University of Michigan's report on consumer sentiment for 2005 demonstrates a leveling of consumer confidence in the economy, with April's figures at 87.4. [7]

- Business Spending

When business spending is rising, it implies that the economy is doing well, and there have been 10 straight quarters of rising business investment.[8] Within manufacturing, production was strongest among makers of computers and electronic products, where output rose 19% during the past 12 months and 1.2% last month. Economists pay close attention to computer output because it suggests that businesses are investing in new equipment.

In the Spring issue of The *Journal of Business Forecasting*, Jack Malehorn writes that "Business spending plans are called to remain strong and steady into the future. The key ingredient - nonresidential fixed investment - is anticipated to be around 5 percent throughout the forecast period." [9]

- Government Spending

The Treasury Department's Monthly Treasury Statement is an important source of data that the Bureau of Economic Analysis relies on to calculate its estimates of Federal Government spending in the national income and product accounts. During the first quarter of 2006, the total federal government spending rose to

$4217 Billion from $3277.6 Billion during the same period in 2005, an increase of 30.28%. [10]

- Trade Balance

  The Nation's international deficit in goods and services increased to $68.5 billion in January 2006 from $65.1 billion in December 2005, as imports increased more than exports.[11] Conversely, on May 12, 2006, the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, through the Department of Commerce, announced an improvement of $3.6 billion in the trade deficit from February to March.[12] According to the report, total March exports of $114.7 billion and imports of $176.7 billion resulted in a goods and services deficit of $62.0 billion. March exports were $2.1 billion more than February exports of $112.5 billion, and March imports were $1.5 billion less than February imports of $178.2 billion.

Conclusion:

The combination of the economic indicators presented in this memo demonstrates that the United States is experiencing an upward trend in the state of the economy, perhaps best summarized by former Secretary of the Treasury, John Snow, who commented in February 2006 that, “By nearly every conventional statistical measure, the American economy is performing very well today -- continued economic growth; a strong employment market; household wealth is at historic highs; inflation has been kept in check; interest rates are still low by historic standards.” [8]

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