Current Economic Developments - September 9th, 2004

Data released since your last Directors' meeting have been somewhat mixed. Still, employment growth remains low and needs to pick-up before worries about the economy subside.

In August, payroll employment rose and the unemployment rate fell to its lowest level in nearly three years. However, initial claims edged slightly upward, consumer confidence deteriorated, and auto and light truck sales fell.

In July, although personal income posted only a modest gain, consumer spending rose, led by a rebound in durable goods. New and existing home sales slipped, yet sales remain high, despite rising interest rates. Housing starts and building permits rose.

In the manufacturing sector, industrial production and capacity utilization rose in July, but August's ISM index and July's new orders for capital goods, excluding aircraft, suggest some slowing.

Nonfarm payroll employment rose in August and the unemployment rate dropped to its lowest level in nearly three years.

![Graph showing change in nonfarm payroll employment and the unemployment rate from August 2001 to August 2004.](image)

However, initial claims edged slightly upward.

Source: Department of Labor, Employment and Training Administration.

Consumer optimism waned in August, as perceptions about the economy worsened, especially future expectations about the labor market.

Source: The University of Michigan (left panel) and The Conference Board (right panel).
Domestic auto and light truck sales were lower in August, compared to July.

Real DPI and Consumption

Although real disposable income posted only a modest gain in July, consumer spending was up, especially on durable goods.

Real PCE: Durables
In July, industrial production and capacity utilization rose.

The ISM employment index eased in August, causing a dip in the composite index. Still, the ISM index remains above 50.
New orders for durable goods posted a modest increase in July, but capital goods excluding aircraft eased, suggesting possible slowing.

![Durable Goods Orders Graph](image)

New and existing home sales slipped in July, but sales remain strong and housing starts and building permits rebounded.

![New and Existing Home Sales Graph](image)

Source: U.S. Census Bureau.
In July, we saw a slight improvement in inflation, despite a continued increase in oil prices. Core inflation remains moderate at both the wholesale and retail levels.

Real GDP was revised downward in the second quarter, as real net exports continued to fall.
Overall, perceptions about the economy have weakened, but consumer confidence does not always predict future spending.