

August 10, 2006

## Current Economic Indicators

This month's message from the current economic indicators is unwelcome but not unanticipated: slowing growth and rising prices. Puget Sound job growth declined to a 2.1 percent rate for the three-month period ending in June, about one-third the expansion rate registered in the first three months of the year. In June, on a year-over-year basis, the regional inflation rate, like the U.S. inflation rate, crept above 4 percent. The core rate, which excludes energy and food prices, approached 3 percent.

But there is no reason to be glum, since the regional economy remains fundamentally strong. Over the year, local employment was still up 4.0 percent in June, compared to only 1.4 percent for the nation. The four-county area added 67,900 payroll jobs during the twelve months,

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Seasonally Adjusted and Annualized

	June 2006	Annualized Percent Change	
		Over Three Months	Over Twelve Months
<b>Puget Sound Region</b>			
Employment (thous.)	1784.6	2.1	4.0
Aerospace	70.7	6.3	8.4
Construction	119.9	5.0	11.8
Information (including software)	82.1	4.3	3.5
Unemployment rate <sup>1</sup> (%)	4.5	0.2	-0.5
Initial claims for unemployment insurance (thous./mo.)	15.4	-2.1	-13.6
Help-wanted ads (thous./mo.)	17.0	-19.2	-9.5
Manufacturing work-week (hrs.)	39.7	-10.1	0.3
Consumer price index <sup>2</sup> (82-84=1.000)	2.082	5.3	4.2
Consumer price index, core <sup>2,3</sup> (82-84=1.000)	2.069	1.2	2.9
Housing permits (thous.)	24.9	6.7	-6.3
Home sales (thous.)	77.1	-6.8	-3.5
Average home price (thous. \$)	395.3	15.6	14.8
<b>United States</b>			
Industrial production (97=1.000)	1.132	7.2	4.5
Employment (mils.)	135.2	1.0	1.4
Unemployment rate <sup>1</sup> (%)	4.6	-0.1	-0.4
Personal income (bils. \$)	10871.1	6.9	6.5
Personal consumption expenditures (bils. \$00)	8069.3	2.3	2.6
Retail sales (bils. \$)	4365.7	2.9	6.1
Consumer price index (82-84=1.000)	2.023	5.0	4.3
Consumer price index, core <sup>3</sup> (82-84=1.000)	2.060	3.5	2.7
Housing starts (mils.)	1.850	-24.7	-11.0
Three-month treasury bill rate <sup>1</sup> (%)	4.79	0.28	1.82
Ten-year treasury note rate <sup>1</sup> (%)	5.11	0.39	1.11
Conventional mortgage rate <sup>1</sup> (%)	6.68	0.36	1.10

<sup>1</sup>Percent change calculated as simple change in the variable.

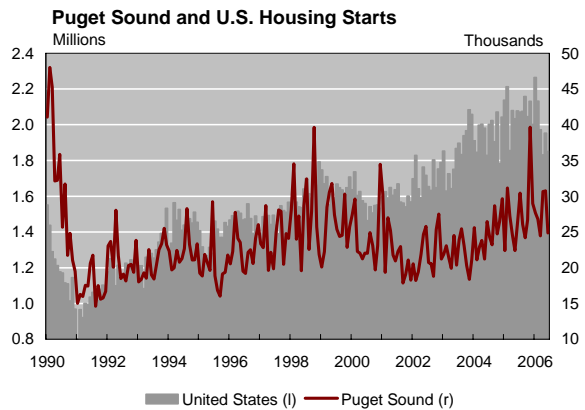
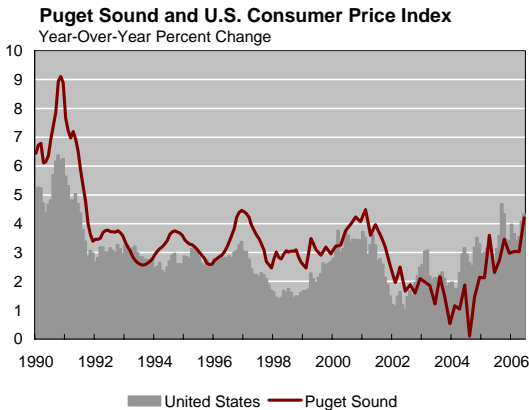
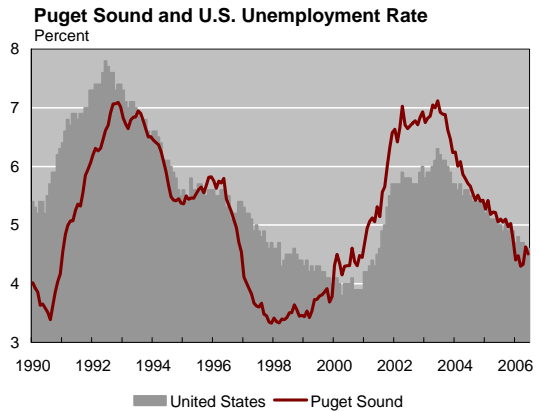
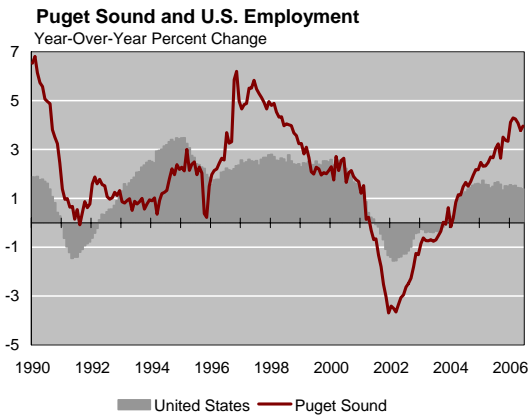
<sup>2</sup>Interpolated from bi-monthly data.

<sup>3</sup>Excludes food and energy prices.

including 12,600 in construction, 5,500 in aerospace, and 3,900 at Microsoft. At the same time, the Puget Sound unemployment rate fell from 5.1 percent to 4.5 percent, 0.1 percentage point below the national rate. Monthly initial claims for unemployment insurance fell from 17,800 to 15,400, while the average length of the manufacturing workweek increased from 39.6 to 39.7 hours. The only sign of weakness in the labor market was a drop in weekly help-wanted ads from 18,800 to 17,000.

As for the inflation rate, there is a good chance that it will moderate in the coming months. With two wars now raging in the Middle East, some analysts think that gasoline prices will climb to \$4 per gallon, further dampening consumer spending. But most economists are cautiously optimistic about energy and other prices. According to the Blue Chip forecast released on August 10, the national inflation will decline from 3.5 percent in 2006 to 2.7 percent in 2007.

Slowdown, inflation, rising interest rates—nothing seems to phase the local housing market, at least so far. In June, home sales were off only 3.5 percent over the year, while the average home price continued to escalate at roughly 15 percent per annum. Though down 6.3 percent for the year, housing permits rebounded at a 6.7 percent annual rate over the quarter ending in June. Much of the recent strength in housing construction has stemmed from multi-family construction (apartments and condominiums).



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Seasonally Adjusted and Annualized

	2005:06	2005:07	2005:08	2005:09	2005:10	2005:11	2005:12	2006:01	2006:02	2006:03	2006:04	2006:05	2006:06
<b>Puget Sound Region</b>													
Employment (thous.)	1716.7	1726.6	1729.4	1724.0	1746.1	1747.6	1748.6	1763.3	1770.7	1775.1	1778.6	1778.6	1784.6
Aerospace	65.2	66.3	66.5	52.2	68.7	69.5	70.2	70.3	70.8	69.6	70.0	70.3	70.7
Construction	107.3	108.0	108.3	109.9	111.2	112.1	113.6	115.6	116.3	118.4	119.4	120.1	119.9
Information (including software)	79.4	80.0	80.5	80.7	80.9	81.0	80.9	81.2	81.1	81.3	82.1	81.7	82.1
Unemployment rate (%)	5.1	5.1	5.0	5.1	5.0	5.0	4.8	4.4	4.5	4.3	4.3	4.6	4.5
Initial claims for unemployment insurance (thous./mo.)	17.8	16.7	17.6	16.0	15.8	16.6	14.9	16.3	15.9	15.5	15.0	15.9	15.4
Help-wanted ads (thous./mo.)	18.8	20.4	19.0	19.2	19.2	18.6	18.9	18.6	18.2	17.9	18.2	16.8	17.0
Manufacturing work-week (hrs.)	39.6	39.2	39.6	39.3	39.7	40.3	40.9	41.1	40.7	40.7	40.4	39.5	39.7
Consumer price index <sup>1</sup> (82-84=1.000)	1.998	1.999	1.999	2.016	2.033	2.021	2.009	2.023	2.036	2.055	2.074	2.078	2.082
Consumer price index, core <sup>1,2</sup> (82-84=1.000)	2.011	2.004	1.997	2.009	2.021	2.021	2.021	2.036	2.050	2.063	2.076	2.073	2.069
Housing permits (thous.)	26.5	30.5	26.1	24.2	26.7	39.6	29.0	27.7	26.8	24.5	30.7	30.7	24.9
Home sales (thous.)	79.9	79.5	85.3	81.9	82.2	83.3	83.2	73.5	82.7	78.5	74.0	75.5	77.1
Average home price (thous. \$)	344.4	344.3	350.5	363.0	369.6	367.2	369.6	374.4	376.4	380.4	386.7	391.0	395.3
<b>United States</b>													
Industrial production (97=1.000)	1.083	1.083	1.086	1.072	1.084	1.094	1.104	1.103	1.107	1.112	1.122	1.123	1.132
Employment (mils.)	133.4	133.6	133.8	133.8	133.9	134.2	134.4	134.5	134.7	134.9	135.0	135.1	135.2
Unemployment rate (%)	5.0	5.0	4.9	5.1	4.9	5.0	4.9	4.7	4.8	4.7	4.7	4.6	4.6
Personal income (bils. \$)	10206.6	10288.3	10103.5	10396.1	10452.6	10472.4	10526.1	10612.4	10644.2	10685.8	10762.9	10804.6	10871.1
Personal consumption expenditures (bils. \$00)	7863.3	7929.6	7889.2	7867.2	7875.3	7909.6	7945.8	7977.5	8011.3	8022.6	8037.4	8052.4	8069.3
Retail sales (bils. \$)	4115.8	4217.4	4141.3	4158.6	4169.3	4195.6	4212.8	4340.9	4304.1	4334.3	4363.3	4369.2	4365.7
Consumer price index (82-84=1.000)	1.939	1.951	1.962	1.986	1.991	1.978	1.977	1.990	1.991	1.998	2.010	2.019	2.023
Consumer price index, core <sup>2</sup> (82-84=1.000)	2.006	2.010	2.012	2.015	2.020	2.025	2.028	2.032	2.035	2.042	2.048	2.054	2.060
Housing starts (mils.)	2.078	2.070	2.075	2.158	2.046	2.131	2.002	2.265	2.132	1.972	1.832	1.953	1.850
Three-month treasury bill rate (%)	2.97	3.22	3.44	3.42	3.71	3.88	3.89	4.24	4.43	4.51	4.60	4.72	4.79
Ten-year treasury note rate (%)	4.00	4.18	4.26	4.20	4.46	4.54	4.47	4.42	4.57	4.72	4.99	5.11	5.11
Conventional mortgage rate (%)	5.58	5.70	5.82	5.77	6.07	6.33	6.27	6.15	6.25	6.32	6.51	6.60	6.68

<sup>1</sup>Interpolated from bi-monthly data.

<sup>2</sup>Excludes food and energy prices.