



## Taking the Measure of the U.S. Economy

A number of indicators confirm our earlier observations that the U.S. economy is not presently falling into a deep recession, but may instead be stabilizing at a slow but positive rate of growth for the first and second quarter. The March employment report did include a decline in payroll employment for the third time in a row, but the average workweek increased, as did total hours. When industrial activity stabilizes and picks up, employers add hours for the current workforce before they begin to hire. This glimmer of optimism is further supported by a small uptick in the Institute of Supply Management (ISM) manufacturing index and the employment component, which showed that hiring by manufacturers had stabilized.

The U.S. housing market is also showing signs that the end of the housing cycle may be in sight. While housing starts have fallen rapidly since the beginning of 2006, with only a short stabilization last year, they have now

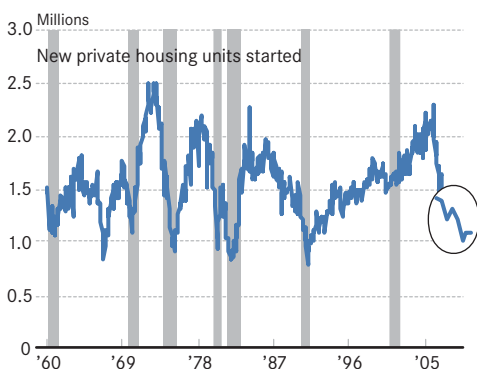
approached the level of one million units (Chart 1). Single-family housing starts have declined relative to new home sales. This has led to a steady decline in the supply of unsold new homes. Once home sales begin to pick up (note that existing home sales were up last month), the inventory of unsold homes will fall even more rapidly.

Second, with lower interest rates and lower home prices, housing affordability has improved dramatically and is almost back to the high levels at the beginning of 2003. The housing affordability index is a measure of the financial ability to buy a house.

Finally, the stock market is also telling us that the housing crunch may be close to over, as stock prices of homebuilding appreciated this year and financial stocks have stabilized (Chart 2).

Chart 1

### Housing activity is stabilized at about one million units

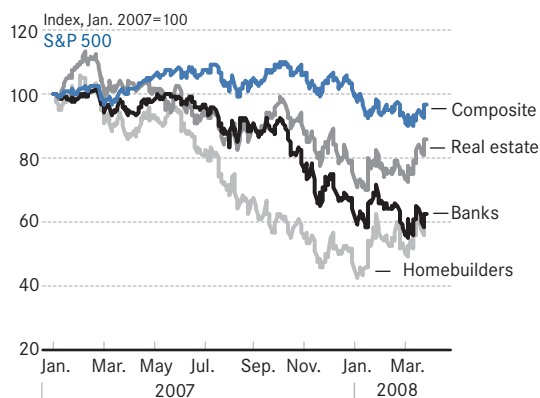


Note: Shaded areas represent U.S. recessions.

Sources: The Census Bureau, The Conference Board

Chart 2

### U.S. stocks are signaling a bottom



Sources: Datastream, The Conference Board