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THE RICH, THE POOR, AND THE WANNABEES:

A Study of the Distribution of Income and Wealth of the United States of America

As a friend of mine once said, the public's perception of wealthy is the person who earns a dollar more than them, but never them.

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Introduction...

The technical meaning of income, without any modifying words, is that it is the reward to productive resources for their current employment in the transformation process called production.

This occurs at a firm. The traditional names for each of the productive resource types are labor, capital, entrepreneurship, and land. A rich history of controversy has taken place over the centuries since Adam Smith wrote his *Wealth of Nations* in 1776.

The Physiocrats (http://www.age-of-the-sage.org/philosophy/wealth_nations.html) argued that only **land** was productive in a net sense, only land ceated a surplus. Marx and most socialists argued that only **labor** is productive in a net sense. Only labor created surplus value. On this basis Lenin and his successors created the Soviet Union and its decades of misery. (<http://www.isil.org/resources/lit/labor-theory-val.html>).

Some Austrian school adherents enjoined Marx to argue he was wrong and that capital was productive (http://en.wikipedia.org/wiki/Austrian_School). Jean Baptiste Say put forth the idea that **entrepreneurship** was productive, and so it went and to some even currently, they continue one tradition or another (http://en.wikipedia.org/wiki/Jean-Baptiste_Say).

The modern discipline of Economics recognizes that all of these resources are productive (**land, labor, entrepreneurship and capital**) in a net sense and that production is a combination of all resources in a process called production that transforms these resources into useful goods and services.

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THE DISTRIBUTIONS OF INCOME AND WEALTH

Income Distribution – What is it?

The traditional income distribution, as presented by the U.S. Census Bureau, divides the population into households and then divides those households into five equal quintiles, from the lowest income households to the highest. Each quintile then has an upper and a lower threshold that is estimated by the Census Bureau. The much-ballyhooed “middle class” is represented by the middle quintile.

The approach we will take is to present some current data of which few people are aware. It comes from various sources such as the Census Bureau, Bureau of Economic Analysis, Internal Revenue service, etc.

We will be focusing on the term income, but much of the time the word income is used it has a modifier that changes its meaning (income) significantly. It leads to another Tower of Babel, as is often the case in economics. Such terms as, money income, adjusted gross income, national income, personal income, disposable income, and so on, are examples of this confusing terminology. Each use of income is significantly different from the other. This is bewildering to the uninitiated and rich food for the demagogue. As we proceed, each variation of the term income will be analyzed, as well as the relationship of these various meanings of income.

Of course, income is not wealth. The distribution of wealth is different than is the income distribution. In fact, income is a flow of rewards to productive resources over a period of time for participating in production process. Wealth is a stock of assets measured at a point in time. A person or household can have a very high income but have little wealth. Conversely, a person can have great wealth but in a relative sense, receive little income. In this article, we will confine our discussion to income.

THE CENSUS BUREAU AND THE DISTRIBUTION OF HOUSEHOLD MONEY INCOME

Household income includes all the income received by the entire household that was measured during a census. The Ten Year census is an enumeration while those in between the decennial censuses use smaller statistically determined samples. Households include family households and non-family households.

Again, the definition of income in the census data is referred to as money income.



Money Income

The Bureau of the Census uses a "money income" concept as the basis for its per capita income estimate. Money income is the sum of all sources of cash income including wages and salaries, income earned through self employment and farming, interest, dividends, and rental income, social security payments, disability payments, pensions, alimony and child support, winnings from gambling, and other cash income sources.

http://www.stats.indiana.edu/web/definitions/data_definitions.htm

Household Income

Household income is the sum of money income received in a calendar year by all household members 15 years old and over, including household members not related to the householder, people living alone, and other nonfamily household members. Included in the total are amounts reported separately for wage or salary income; net self-employment income; interest, dividends, or net rental or royalty income or income from estates and trusts; Social Security or Railroad Retirement income; Supplemental Security Income (SSI); public assistance or welfare payments; retirement, survivor, or disability pensions; and all other income.

http://quickfacts.census.gov/qfd/meta/long_101615.htm

Real Income...

The New Paradigm approach to these issues considers the distribution of real income as well as money income. Real income is the amount of goods and services that your money income will buy. Remember that the household is not only the supplier of productive resources, but it is also the consumer of some of the goods and services produced.

As competition increases and puts downward pressure on the price of goods and services, a given amount of household income can buy more goods and services as prices fall.

(Deflation --- not necessarily a bad thing...restructuring)

[http://byrned.faculty.udmercy.edu/2003%20Volume,%20Issue%202/Newsletter2003num2\(A\).htm](http://byrned.faculty.udmercy.edu/2003%20Volume,%20Issue%202/Newsletter2003num2(A).htm)



If two workers were in the same household earning \$11.50 per hour each in wages only and working a standard 2,000 hours per year each, this would place them at just about the median in the income distribution, which is close to \$46,000.

The thresholds dividing each twenty percent of households from the next quintile (from lowest to highest) are rather surprising to most who view them for the first time. Usually, most think they seem very low based on their intuition. For example, you find that some households with two public school teachers in major metropolitan areas receive money income that places them in the top 20% income earner bracket.

Contrary to the often-repeated statement that the middle class is disappearing, rest-assured there will always be a middle class – statistically speaking. The middle quintile represents the income range above which are 40% of the households and below which are 40% of the households. This is true in the U.S. and in all poor nations as well. There will always be the poor, even if the average of the bottom 5% were \$1,000,000.

Definition time...

Quintiles: Dividing the population into five equal segments

(Population) **Median:** The halfway point in measured population; the median, in terms of the quintiles would be the midpoint of the third quintile – again, the third quintile represents the middle class.

Household Income Table of Contents
<http://pubdb3.census.gov/macro/032006/hhinc/toc.htm>

Table HINC-05. Percent Distribution of Households, by Selected Characteristics Within Income Quintile and Top 5 Percent in 2005

[Source: U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement. **Numbers in thousands**. Households as of March of the following year. A.O.I.C. stands for alone or in combination]

For 2005		Lowest Fifth (0-20%)	Second Fifth (21-40%)	Third Fifth (41-60%)	Fourth Fifth (61-80%)	Highest Percent (81-100%)	Top Five Percent
Number of Households	114,384	22,877	22,877	22,877	22,877	22,877	5,721
Lower Limit (Income)	\$ -	\$ -	\$19,178	\$36,000	\$57,658	\$91,705	\$166,000
Upper Limit (Income)		\$19,177	\$35,999	\$57,657	\$91,704		

Median Household Income U.S. = \$46,326

Table 1. Civilian workers, by major occupational and industry group
<http://www.bls.gov/news.release/ecec.t01.htm>

Table 3. Employer costs per hour worked for employee compensation and costs as a percent of total compensation: State and local government workers, by major occupational and industry group, June 2006
<http://www.bls.gov/news.release/ecec.t03.htm>

Table 5. Employer costs per hour worked for employee compensation and costs as a percent of total compensation: Private industry workers, by major occupational group and bargaining unit status, June 2006

EMPLOYER COST PER HOUR WORKED

Compensation component	Total Civilian Workers	Private Industry Union Workers	Industry Non-Union Workers	State and Local Govt
	Table 1	Table 5	Table 5	Table 3
Total Compensation (PER HOUR)	\$26.86	\$34.77	\$24.02	\$37.01
Wages and salaries	18.80	21.55	17.32	24.96
Total benefits	8.06	13.22	6.69	12.05
Percent of benefits to Total Compensation	30%	38%	28%	33%
Benefits include the following:				
Paid leave (<i>Includes vacation, holiday, sick and other</i>)	1.88	2.62	1.60	2.92
Supplemental pay	0.67	1.16	0.68	0.33
Insurance (<i>Health insurance</i>)	2.19	3.95	1.63	4.06
Retirement and savings (<i>Defined benefit; Defined contributions</i>)	1.15	2.42	0.73	2.56
Legally required (<i>Social Security and Medicare; Federal unemployment; State unemployment; Workers compensation</i>)	2.17	3.06	2.06	2.18

A recent study by the Dept. of Labor indicated that the average compensation of a laborer is about \$27 per hour. Now be careful here because that includes non-wage compensation of individual workers (pension contributions by the firm, health care insurance costs paid by the firm, etc.). Because these non-wage benefits are often treated preferentially for tax purposes, they have a higher after tax value than the usually fully taxable wage income.

A number of sources point out that the typical in-house UAW production worker at the three traditional nameplate American auto firms (GM, Ford, and Daimler-Chrysler) costs a total of \$ 130,000 per year, or about \$65 per hour (estimate of the Wharton School of Business of the University of Pennsylvania). The auto firms that are transplants from other parts of the

world, have a \$25-30 per hour total labor compensation advantage over the traditional big three American firms, much of that advantage is in significantly lower non-wage compensation. That is still approximately a total labor compensation package of \$60,000 per year and appreciably higher than the median compensation level per worker throughout the rest of the economy.

<http://knowledge.wharton.upenn.edu/article.cfm?articleid=1301&CFID=2015046&CFTOKEN=90028167>

INCOME LEVELS AND POVERTY

The Census Bureau publishes different estimates of poverty, based upon 15 different definitions of income.

Poverty 2002		
Number and Percent of Persons in Poverty, by Definition of Income: 2002 (Poverty Thresholds Based on CPI-U-X1)		
Total number of persons was 285,317,000 in 2002		
Definition of Income	In Poverty Number Below Poverty (thousands)	Poverty Rate (per cent)
Income before taxes:		
1. Money income excluding capital gains (current measure).....	30,685	10.8
1a. Money income less taxes without EIC.....	33,430	11.7
1b. Money income less taxes with EIC.....	29,050	10.2
2. Definition 1 less government cash transfers.....	53,419	18.7
3. Definition 2 plus capital gains.....	53,363	18.7
4. Definition 3 plus health insurance supplements to wage or salary income	51,735	18.1
Income after taxes:		
5. Definition 4 less social security payroll taxes.....	54,167	19.0
6. Definition 5 less federal income taxes (excluding the EIC).....	54,418	19.1
7. Definition 6 plus the earned income credit (EIC).....	50,245	17.6
8. Definition 7 less State income taxes.....	50,566	17.7
9. Definition 8 plus nonmeans-tested government cash transfers.....	30,200	10.6
10. Definition 9 plus the value of medicare.....	29,599	10.4
11. Definition 10 plus the value of regular-price school lunches.....	29,594	10.4
12. Definition 11 plus means-tested government cash transfers.....	27,487	9.6
13. Definition 12 plus the value of medicaid.....	26,232	9.2
14. Definition 13 plus the value of other means-tested government noncash transfers.....	23,359	8.2
14a. Definition 13 plus the value of other means-tested government noncash transfers less medical programs.....	24,013	8.4
15. Definition 14 plus net imputed return on equity in own home.....	21,517	7.5
<i>Source: U.S. Census Bureau, Current Population Survey, 2003 Annual Social and Economic Supplement.</i>		

Note that the first definition of income used is money income. It is before taxes but includes some money transfer payments (see box above). It then alters the definition to generate the other 14+ definitions. The closest definition to **disposable personal income** as defined in the National Income and Product Accounts is definition number 14. The poverty rate consistent with that definition of income is 8.4% of the total population living in such households.

Bureau of Economic Analysis

http://www.bea.gov/bea/glossary/glossary_d.htm

Disposable personal income: Total after-tax income received by persons; it is the income available to persons for spending or saving.

Note also that as the definition of income is refined to include deductions for most taxes and additions for most transfer payments and non-wage compensation, the poverty rate falls from 19.1% until definition 15, which indicates a poverty rate of 7.5%.

Many critics argue that illegal income or legal income not reported would lessen the poverty rate even further if such income was in fact included.

RELATIVE VERSUS ABSOLUTE POVERTY

When poverty is discussed in this context, it is not the absolute abject variety you would find in the Third World. Rather, it is a measure of relative poverty.

Size of family unit	Weighted average thresholds	Related children under 18 years								
		None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual).....	9,393									
Under 65 years.....	9,573	9,573								
65 years and over.....	8,825	8,825								
Two persons.....	12,015									
Householder under 65 years.....	12,384	12,321	12,682							
Householder 65 years and over.....	11,133	11,122	12,634							
Three persons.....	14,680	14,393	14,810	14,824						
Four persons.....	18,810	18,979	19,289	18,660	18,725					
Five persons.....	22,245	22,887	23,220	22,509	21,959	21,623				
Six persons.....	25,122	26,324	26,429	25,884	25,362	24,586	24,126			
Seven persons.....	28,544	30,289	30,479	29,827	29,372	28,526	27,538	26,454		
Eight persons.....	31,589	33,876	34,175	33,560	33,021	32,256	31,286	30,275	30,019	
Nine persons or more.....	37,656	40,751	40,948	40,404	39,947	39,196	38,163	37,229	36,998	35,572

Source: U.S. Census Bureau, Current Population Survey 2004 Annual Social and Economic Supplement.

How the Census Bureau Measures Poverty
<http://www.census.gov/hhes/poverty/povdef.html>

Example: Family A has five members: two children, their mother, father, and great-aunt.

Their threshold was \$22,509 dollars in 2003. (See poverty thresholds for 2003)

Suppose the members' incomes in 2003 were:

Mother: \$10,000

Father: 5,000

Great-aunt: 10,000

First child: 0

Second child: 0

Total family income: \$25,000

Compare total family income with their family's threshold.

$$\text{Income / Threshold} = \$25,000 / \$22,509 = 1.11$$

Since their income was greater than their threshold, Family A is not "in poverty" according to the official definition.

The income divided by the threshold is called the Ratio of Income to Poverty.

Family A's ratio of income to poverty was 1.11.

The difference in dollars between family income and the family's poverty threshold is called the Income Deficit (for families in poverty) or Income Surplus (for families above poverty)

-- Family A's income surplus was \$2,491 (or \$25,000 - \$22,509).

LIFETIME AVERAGE VERSUS ANNUAL ESTIMATES OF INCOME

Catholic Insight

http://catholicinsight.com/online/social/article_289.shtml

According to Joseph Campbell, in his article Poverty: A bias toward exaggeration, published in May 2003:

Even if reported income accurately identified the poor, the division of total income into quintile shares, ranging from the lowest fifth of all households to the highest, would be misleading. This is because households are constantly moving from one quintile to another, up and down the income scale. But, like single frames from an action film, the quintile charts reveal none of this economic dynamism.

They show that in both Canada and the United States, the top fifth of all households receive some 45 percent of the income and the bottom fifth less

than five percent. What's more, the percentages have not changed much over half a century. This suggests that the economy is rigidly unfair because the poor never seem able to escape scarcity and the rich cling tenaciously to affluence.

But if the percentages of total income don't change much, the people behind them rarely stop changing. The US Treasury Department reports that 86 percent of Americans with incomes in the bottom fifth in 1979 were in a higher bracket nine years later. Of these, 40 percent were in the upper two fifths and 15 percent had reached the top fifth.

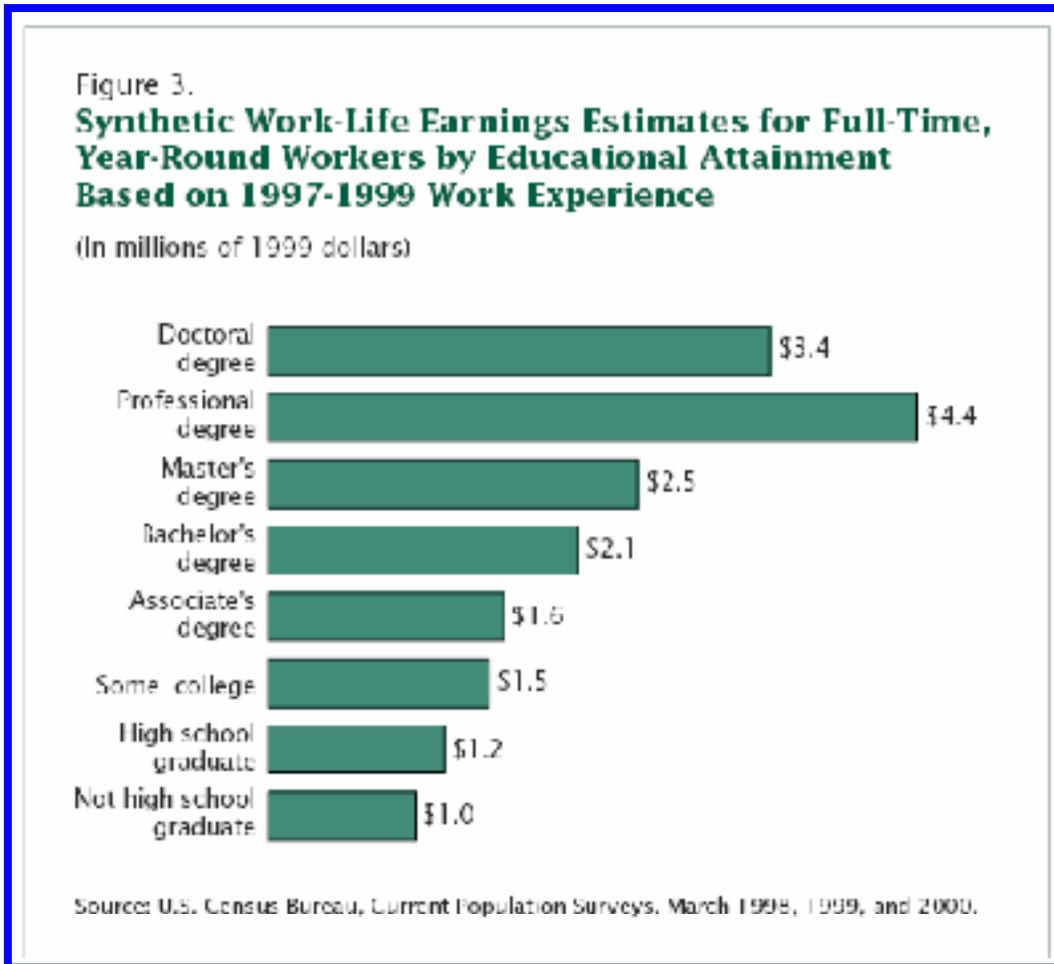
INCOME AND ITS RELATIONSHIP TO EDUCATION

U.S. Census Bureau

The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings

Issued July 2002

<http://www.census.gov/prod/2002pubs/p23-210.pdf>



One of the interesting things that the Census Bureau does is to relate educational attainment to income achievement.

The correlation is clear: they are positively...and highly related.

The world of high-tech needs labor that is increasingly educated and trained; this is what is meant by the concept of human capital, embodied in the individuals that supply the productive resources.

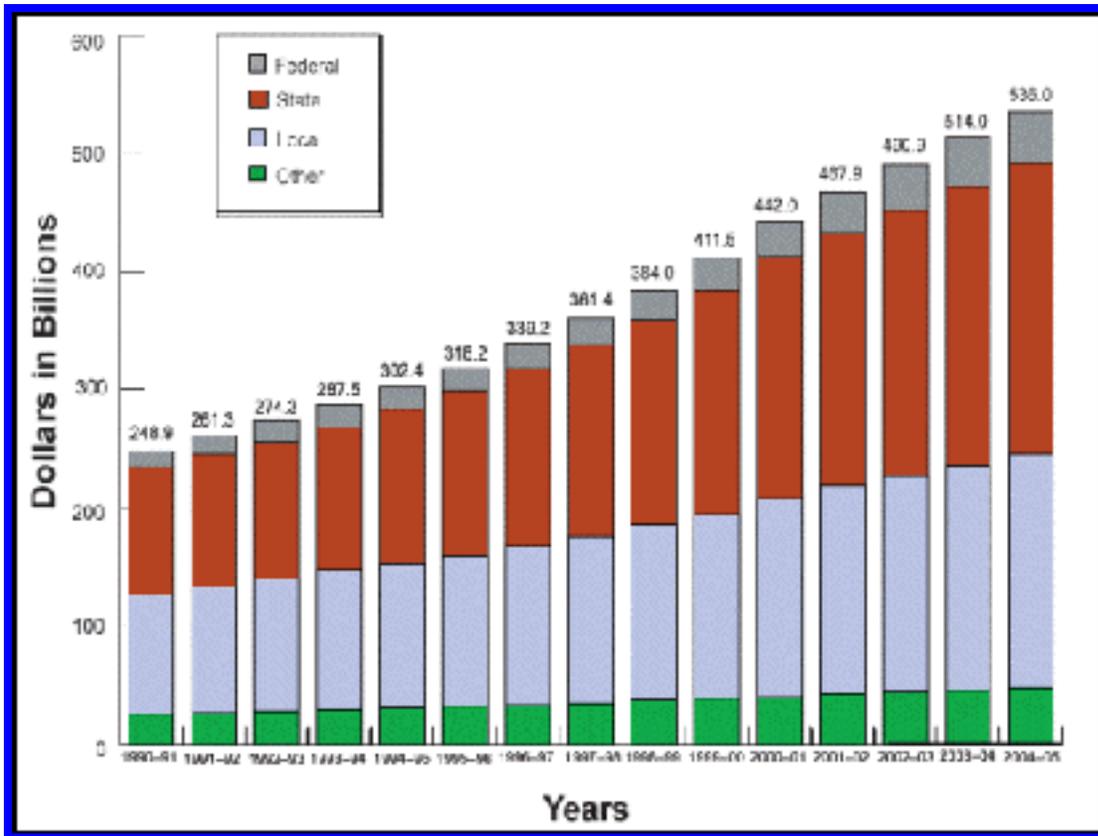
We always tell our students that the university is a capital goods firm. Human capital is an increasingly important and recognized form of capital accumulation. In the National Income and Product Accounts, it is buried and is not shown as part of Gross Private Domestic Investment. Yet as a nation, we spend more on education than on defense. Unfortunately, it is written off as a business expense if the employee's firm pays for it. It is shown in Personal Consumption Expenditures if the household pays for it. It is buried in Government Consumption Expenditures and Gross Investment if

government pays for it by taxing the public and/or borrowing the funds to finance education. That is not to say the delivery system is above criticism. The intention is there even if the execution is not always delivered effectively and efficiently.

Education

<http://www.ed.gov/about/overview/fed/10facts/edlite-chart.html#1>

Total U.S. Expenditures for Elementary and Secondary Education



Sources: NCES, "Common Core of Data," surveys and unpublished data.

Digest of Education Statistics: 2005

http://nces.ed.gov/programs/digest/d05/tables/dt05_025.asp

Year

2003-2004

All Educational Institutions (public and private)
\$826.6 billion

All Elementary and Secondary Schools
\$511.2 billion

All Colleges and Universities
\$315.4 billion

Defense Spending

For fiscal year 2004, Defense spending totaled **\$437 billion**.
<http://www.cbo.gov/ftpdocs/68xx/doc6837/11-2005-MBR.pdf>

Table 1. Synthetic Estimates of Work Life Earnings by Educational Attainment, Work Experience, and Age, Based on 1997-1999 Work Experience
(Numbers in 1999 dollars)

Work experience and age	Not high school graduate	High school graduate	Some college	Associate's degree	Bachelor's degree	Master's degree	Professional degree	Doctoral degree
ALL WORKERS								
Work-life estimate	766,991	1,037,759	1,267,803	1,331,201	1,838,432	2,127,547	4,015,613	3,105,790
90-percent confidence interval (-)	17,590	11,557	22,573	30,334	25,007	37,124	510,771	151,514
Average earnings								
Total	18,934	25,929	31,192	33,020	45,384	54,537	90,253	81,422
25 to 29 years	15,246	20,976	22,877	25,403	33,031	37,211	42,862	47,467
30 to 34 years	17,238	21,282	23,134	25,672	34,117	37,063	55,365	51,150
35 to 39 years	18,311	23,823	25,747	32,347	45,522	58,179	104,365	79,227
40 to 44 years	19,470	27,657	29,623	35,143	45,724	75,777	109,151	83,947
45 to 49 years	19,230	27,036	34,157	35,734	50,820	50,370	100,435	87,148
50 to 54 years	21,714	27,547	36,735	37,673	54,415	54,097	90,707	80,560
55 to 59 years	21,710	27,010	30,630	37,027	50,501	50,040	127,713	89,703
60 to 64 years	20,510	25,446	31,096	31,473	41,253	50,423	150,561	84,870
FULL-TIME, YEAR-ROUND WORKERS								
Work-life estimate	953,097	1,221,575	1,494,509	1,563,707	2,140,064	2,413,058	4,411,547	3,440,001
90-percent confidence interval (-)	25,737	14,593	25,240	45,903	35,553	69,143	249,653	136,515
Average earnings								
Total	23,420	30,426	38,758	35,216	52,221	62,595	109,551	89,422
25 to 29 years	19,300	24,577	26,196	25,749	35,118	43,114	49,112	50,027
30 to 34 years	21,598	23,751	23,070	30,977	47,350	50,240	70,775	55,035
35 to 39 years	22,480	29,938	36,816	37,631	53,613	56,606	114,998	80,753
40 to 44 years	21,700	31,580	30,970	42,147	50,090	62,771	110,313	89,947
45 to 49 years	23,289	32,043	35,134	40,022	57,281	56,971	115,835	95,800
50 to 54 years	23,700	32,223	41,134	43,913	61,324	54,005	107,723	89,021
55 to 59 years	25,078	32,751	42,350	44,023	60,437	57,522	137,015	96,872
60 to 64 years	24,504	32,570	35,080	42,629	55,917	57,552	172,461	99,434

1. This table is based on data from the following sources: Department of Labor, Bureau of Economic Analysis, Current Population Surveys, March 1998, 1999, and 2000.

Note: Average earnings based on years.

Source: U.S. Census Bureau, Current Population Surveys, March 1998, 1999, and 2000.

To see the relationship between income and education a little more clearly, go to the rows where it shows the ages from 45-54 years of age. This age group includes a group called tenured workers. Note that you as you scan to the right, as the level of educational attainment is rising so is the median income for that age group.

SAVINGS AND ITS RELATIONSHIP TO INCOME

National Economic Trends
April 1989
Courtenay C. Stone
Federal Reserve Bank of St. Louis

Considerable public concern has been expressed in recent years about the behavior of the U.S. personal saving rate, measured as the proportion of personal saving to disposable personal income. In 1987, for example, the personal saving rate hit a postwar low of 3.2 percent; in 1988, it rose only to 4.2 percent, well below its average level in the three previous decades since 1950. However, concern about the current relatively low personal saving rate may be misplaced. Two broader measures of the personal saving rate have not declined precipitously in the 1980s compared to their levels in previous decades.

The table below shows what has happened since 1950 to the personal saving rate described above and to two other broader based measures of saving relative to disposable personal income. The so-called individual saving rate uses the “saving by individuals” data from the Federal Reserve flow of funds accounts. These data include households, personal trust funds, nonprofit institutions, farms and other noncorporate business; they measure increases in financial assets, net investment in owner-occupied homes, consumer durables and certain other assets and net reductions in debt. The third saving rate, called the total personal saving rate simply to distinguish it from the others, measures saving as the sum of personal saving, personal and employer contributions for social insurance and employer contributions for private pension, health and welfare funds. In sharp contrast to the behavior of the personal saving rate, the two broader saving rates are not substantially lower in the 1980s, on average, than they were in prior decades. During the 1980s, the individual saving rate has been only slightly below its prior levels, while the total personal saving rate has exceeded its earlier levels.

Personal Saving Rates: Selected Measures

	1980-88	1970-79	1960-69	1950-59
Personal saving	5.4%	8.0%	6.7%	6.8%
Individual saving	11.8%	13.3%	12.2%	12.6%
Total personal saving				

While we've already noted that there is significant confusion in measuring income and poverty, there are also misperceptions in how we view and measure savings. Much political hay has been made over the negative household savings rate in 2005 as seen in the National Income and Product Accounts. Yet, the household savings rate as seen in the Flow of Funds Accounts, measured by the Board of Governors of the Federal Reserve System shows a higher and positive savings rate for the same period by treating consumer durables as investment, and not as consumption (as the NIPA treats them). Consumer durables have a life of three years or more and therefore are treated as investment by the Flow of Funds Accounts, not as expense.

Taking the Courtenay Stone approach illustrated in the box above, if we added only the surplus for the Social Security System in 2005 to the Personal Savings as reported in the Flow of Funds Accounts, this would elevate the savings rate even higher.

Illustration...expanding upon the BEA numbers

BEA – NIPA

Table 2.1. Personal Income and Its Disposition

<http://bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=58&FirstYear=2005&LastYear=2005&Freq=Ann>

Personal saving \$(34.8) billion

Personal saving as a percentage of disposable personal income* (0.4)%

*\$9,036 billion disposable personal income

Federal Reserve – FOFA (Flow of Funds Accounts)

<http://www.federalreserve.gov/releases/z1/current/z1r-3.pdf>

From NIPA above:

\$(34.8) billion (Personal saving)

+ \$210.2 billion (Net investment in consumer durables)

= \$175.4 billion (Personal Savings...Flow of Funds)

Personal saving (Flow of Funds) as a percentage of disposable personal income* 1.9%

Social Security and Medicare Boards of Trustees

A SUMMARY OF THE 2006 ANNUAL REPORTS

<http://www.socialsecurity.gov/OACT/TRSUM/trsummary.html>

From FOFA above:

\$175.4 billion (Personal Savings...Flow of Funds)

+ \$162.4 billion (Net increase in assets...OASI)

= \$337.8 billion (Personal saving...with OASI)

Personal saving (with OASI) as a percentage of disposable personal income*
3.7%

THE THEORY BEHIND THE NUMBERS – DIGGING INTO THE ACCOUNTS

Production and income are two sides of the same coin, so to speak. Production is the transformation of productive resources (labor, capital, entrepreneurship, and land) into goods and services to satisfy consumption needs and nonconsumption spending for capital accumulation, collective consumption and investment by government and exports to the rest of the world.

Income is the reward to the resources employed by a firm in the transformation process called production. These activities are measured by the Bureau of Economic Analysis (<http://bea.gov/>), which is a division of the Department of Commerce of the United States Government (<http://www.commerce.gov/>). The measurements are reflected in the National Income and Product Accounts (NIPA) and are generated quarterly and summed up annually.

The economic activity of the economy is measured at market prices. Activities that do not flow through the market are nearly always left out since very few imputations are made. This means that the work done within the households by a member of that household are not counted. The only major exception is the imputation of owner occupied housing. Its rental value is estimated and added to the rent of houses rented (this is recorded as part of Net Rent in the NIPA).

When members of the household enter the labor force, activities formerly undertaken within the household such as child care, housekeeping, etc. are now counted if the services are purchased in the market. Should a participant in the market economy leave and return to housekeeping duties, the activities are no longer measured. In effect, what are measured are just the economic activities flowing through the market economy.

Since the total production of the economy is measured at market prices, a level of ambiguity arises. If what is measured is all the domestic production, whether produced by our resources employed here or foreign resources employed in this country, it is called Gross Domestic Product (GDP). This excludes the estimate of production and income of our resources employed

abroad. If some of our resources are employed outside the country, their production and income is counted in the host country's GDP.

When the production and income of all of our resources are counted whether employed inside our country or outside in another country, it is called Gross National Product or GNP. This measure does not count the production and income of foreign resources employed here. The accompanying page from the NIPA shows the distinction.

BEA - NIPA

Table 1.7.5. Relation of Gross Domestic Product, Gross National Product, Net National Product, National Income, and Personal Income

<http://bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=43&FirstYear=2005&LastYear=2006&Freq=Qtr>

Line		2005
1	Gross domestic product	\$ 12,456
2	Plus: Income receipts from the rest of the world	513
3	Less: Income payments to the rest of the world	482
4	Equals: Gross national product	\$ 12,488

It starts with GDP and subtracts an estimation of production of foreign resources employed in the U.S, and then adds an estimation of the production and income of our resources employed in the rest of the world. This is accomplished with lines 1 through 4.

A second ambiguity arises in that total production includes investment in expanding the stock of capital goods as well as replacing the stock that wears out and becomes obsolete. This is usually termed depreciation but is now called *Consumption of Fixed Capital*. When this subtraction is made from GNP, the remainder is termed Net National Product or NNP. It is what is left for consumption and non-consumption spending after a provision is made for replacing the stock of capital used up in the production process.

Line		2005
1	Gross domestic product	\$ 12,456
2	Plus: Income receipts from the rest of the world	513
3	Less: Income payments to the rest of the world	482
4	Equals: Gross national product	\$ 12,488
5	Less: Consumption of fixed capital	1,605
6	Private	1,353
7	Domestic business	1,059
8	Capital consumption allowances	953
9	Less: Capital consumption adjustment	(106)
10	Households and institutions	294
11	Government	252
12	General government	207
13	Government enterprises	45
14	Equals: Net national product	\$ 10,883

In recent years a change has been made in distinguishing between Net National Product and National Income. The editors of this newsletter believe this was a profound mistake and should be reversed. As you can see by looking at the GDP table, a Discrepancy is subtracted (possibly added) to arrive at National Income. This verges on the edge of misleading the users of the NIPA.

Line		2005
1	Gross domestic product	\$ 12,456
2	Plus: Income receipts from the rest of the world	513
3	Less: Income payments to the rest of the world	482
4	Equals: Gross national product	\$ 12,488
5	Less: Consumption of fixed capital	1,605
6	Private	1,353
7	Domestic business	1,059
8	Capital consumption allowances	953
9	Less: Capital consumption adjustment	(106)
10	Households and institutions	294
11	Government	252
12	General government	207
13	Government enterprises	45
14	Equals: Net national product	\$ 10,883
15	Less: Statistical discrepancy	71
16	Equals: National income	\$ 10,812

What was formerly done since the inception of these accounts in the 1930s was to estimate which taxes were passed forward and inflated market prices, thus overstating GDP, GNP, and NNP.

All taxes for any purpose by any level of government are ultimately borne by households and only households no matter what is statutorily mandated. Firms are places where production occurs and only that. Some taxes are passed forward to consumers when it is possible, and the rest are passed back to the resource (labor, capital, entrepreneurship and land) in the form of lower disposable income. Remember that households play two roles: they are both the productive resources and the consumers. Which taxes are passed forward and which backward depend upon the price elasticities of the supply of resources. That differs from industry to industry and from firm to firm. In *Public Finance Theory*, this is referred to as the shifting and incidence of taxes.

From the inception of these accounts, until it was changed recently, the NIPA argued that the bulk of sales, excise, and property taxes were passed on in the form of higher prices to the consumers. Hence, they inflated prices. Taxes are neither production nor income and hence had to be subtracted from NNP to properly estimate the National Income, which is the aggregation of all household income earned in the production process.

It is the argument then that firms no longer can pass on such taxes. That may be true in markets that have become very competitive, but is certainly not the case in markets that are not very competitive or that have become increasingly cartelized such as the oil industry.

National Income is the aggregate of rewards that resources earn by supplying their resources to the firm in the production process. Payment is usually in cash but can be in kind such as room in board for farm workers or resident hall advisers at colleges and universities. It is the sum of wages, now called Compensation to Employees, Profits of both corporations and unincorporated enterprises, Net Rent and Net Interest.

BEA - NIPA

Table 1.12. National Income by Type of Income

<http://bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=53&FirstYear=2005&LastYear=2005&Freq=Ann>

Line		2005
1	National income	\$ 10,812
2	Compensation of employees	7,030
3	Wage and salary accruals	5,665
4	Government	978
5	Other	4,687
6	Supplements to wages and salaries	1,366
7	Employer contributions for employee pension and insurance funds	933
8	Employer contributions for government social insurance	432
9	Proprietors' income with IVA and CCAdj	971
10	Farm	30
11	Nonfarm	940
12	Rental income of persons with CCAdj	73
13	Corporate profits with IVA and CCAdj	1,331
14	Taxes on corporate income	399
15	Profits after tax with IVA and CCAdj	931
16	Net dividends	577
17	Undistributed profits with IVA and CCAdj	355
18	Net interest and miscellaneous payments	483
19	Taxes on production and imports	922
20	Less: Subsidies 1	57
21	Business current transfer payments(net)	74
22	To persons (net)	46
23	To government (net)	30
24	To the rest of the world (net)	(2)
25	Current surplus of government enterprises 1	(15)
	Cash flow:	

26	Net cash flow with IVA and CCAdj	1,211
27	Undistributed profits with IVA and CCAdj	355
28	Consumption of fixed capital	857
29	Less: Inventory valuation adjustment	(33)
30	Equals: Net cash flow	1,244
	Addenda:	
31	Proprietors' income with IVA and CCAdj	971
32	Farm	30
33	Proprietors' income with IVA	37
34	Capital consumption adjustment	(7)
35	Nonfarm	940
36	Proprietors' income (without IVA and CCAdj)	866
37	Inventory valuation adjustment	(5)
38	Capital consumption adjustment	79
39	Rental income of persons with CCAdj	73
40	Rental income of persons (without CCAdj)	96
41	Capital consumption adjustment	(23)
42	Corporate profits with IVA and CCAdj	1,331
43	Corporate profits with IVA	1,486
44	Profits before tax (without IVA and CCAdj)	1,519
45	Taxes on corporate income	399
46	Profits after tax (without IVA and CCAdj)	1,119
47	Net dividends	577
48	Undistributed profits (without IVA and CCAdj)	543
49	Inventory valuation adjustment	(33)
50	Capital consumption adjustment	(156)

Notice that coming from GNP, National Income is deduced. It is also directly measured from independent sources. The two results should be the same, but because the huge task and many resources wanting to avoid indictments for illegal activities and wishing to evade taxes, they make it certain that significant discrepancies will occur.

Other conventions lead to some peculiar treatments, especially in the case of interest treatment. Remember that income, unqualified, means one thing only in economics. It is the reward for the current offering of resources in the production process. If interest is paid on debt for which there is no underlying resource, it is not income, but rather a transfer payment. Hence, it is argued that most of the federal government debt, which was incurred many years in the past, no longer reflects a productive base, as in the case of such things as past wars and recessions. A similar argument is used for a good deal of consumer debt. The net result is that Net Interest in the NIPA

seems far smaller than what is paid in interest on debt (public and private).
Other peculiarities can be viewed in preceding table.

N.B. (Note Well...)

Line Item 19 (Table 1.12. National Income by Type of Income), TAXES ON PRODUCTION AND IMPORTS:

Taxes are not income, nor are they production; hence they are not part of National Income. Line Item 19 should be moved back up to where the "Statistical Discrepancy" is between Net National Product and National Income of Table 1.7.5. Relation of Gross Domestic Product, Gross National Product, Net National Product, National Income, and Personal Income (Line Item 15).

BEA – NIPA

Again...

Table 1.7.5. Relation of Gross Domestic Product, Gross National Product, Net National Product, National Income, and Personal Income

<http://bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=43&FirstYear=2005&LastYear=2006&Freq=Qtr>

Line		2005
1	Gross domestic product	\$ 12,456
2	Plus: Income receipts from the rest of the world	513
3	Less: Income payments to the rest of the world	482
4	Equals: Gross national product	\$ 12,488
5	Less: Consumption of fixed capital	1,605
6	Private	1,353
7	Domestic business	1,059
8	Capital consumption allowances	953
9	Less: Capital consumption adjustment	(106)
10	Households and institutions	294
11	Government	252
12	General government	207
13	Government enterprises	45
14	Equals: Net national product	\$ 10,883
15	Less: Statistical discrepancy	71
16	Equals: National income	\$ 10,812
17	Less: Corporate profits with inventory valuation and capital consumption adjustments	1,331
18	Taxes on production and <u>imports less subsidies 1</u>	865
19	Contributions for government social insurance	881
20	Net interest and miscellaneous payments on assets	483
21	Business current transfer payments (net)	74
22	Current surplus of government <u>enterprises 1</u>	(15)
23	Wage accruals less disbursements	-
24	Plus: Personal income receipts on assets	1,519
25	Personal current transfer receipts	1,527
26	Equals: Personal income	\$ 10,239

Other adjustments are made to National Income, bringing you from National Income to Personal Income.

Another major adjustment occurs that brings us to Disposable Personal Income, usually shortened to Disposable Income.

BEA – NIPA

Table 2.1. Personal Income and Its Disposition

<http://bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=58&FirstYear=2005&LastYear=2005&Freq=Ann>

Line		2005
1	Personal income	\$ 10,239
2	Compensation of employees, received	7,030
3	Wage and salary disbursements	5,665
4	Private industries	4,687
5	Government	978
6	Supplements to wages and salaries	1,366
7	Employer contributions for employee pension and insurance funds	933
8	Employer contributions for government social insurance	432
9	Proprietors' income with inventory valuation and capital consumption adjustments	971
10	Farm	30
11	Nonfarm	940
12	Rental income of persons with capital consumption adjustment	73
13	Personal income receipts on assets	1,519
14	Personal interest income	945
15	Personal dividend income	574
16	Personal current transfer receipts	1,527
17	Government social benefits to persons	1,481
18	Old-age, survivors, disability, and health insurance benefits	845
19	Government unemployment insurance benefits	31
20	Veterans benefits	37
21	Family assistance 1	18
22	Other	549
23	Other current transfer receipts, from business(net)	46
24	Less: Contributions for government social insurance	881
25	Less: Personal current taxes	1,203
26	Equals: Disposable personal income	9,036
27	Less: Personal outlays	9,071
28	Personal consumption expenditures	8,742
29	Personal interest payments 2	209
30	Personal current transfer payments	119
31	To government	72
32	To the rest of the world (net)	47
33	Equals: Personal saving	\$ (35)
34	Personal saving as a percentage of disposable personal income	(0.40)

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Disposable Personal Income ends up in two parts. Personal Outlays are subtracted from Disposable Personal Income to leave Personal Saving. Personal Outlays consist mostly of Personal Consumption Expenditures. Recall call from PCE (Personal Consumption Expenditures) that it is comprised of **Services, Non-durables** and **Durable Consumer Goods**. The latter has lives estimated to be on the average of at least 3 years or more. In the durable consumer goods category are light vehicles (passenger cars, light trucks and SUVs), major appliances (washing machines, refrigerators, etc.) and furniture.

Personal Saving is then divided by Disposable Personal Income, giving us the Personal Savings rate.

An important point must be made here.

This measure of personal saving is a very narrow measure of savings. Long-lived durable consumer goods are subtracted to arrive at saving. This in accounting terms borders on an absurdity. It should be recalled that in their formative years, the NIPA was heavily influenced by the growing acceptance of the Keynesian demand side macro. In the Keynesian framework, aggregate demand called the tune. Consumption and investment were two parts of aggregate demand, so why the concern over long-lived consumer goods? Demand is demand!

Again, as we noted previously, the alternative to this treatment of consumer durable goods is found in the Flow of Funds Accounts generated quarterly by the Board of Governors of the Federal Reserve System. Remember that in the Flow of Funds Accounts, that consumer durables are treated as investment – not expense.

WHO PAYS THE TAXES?

<http://www.cbo.gov/showdoc.cfm?index=5324&sequence=0>
<http://www.cbo.gov/showdoc.cfm?index=5746&sequence=0>

Effective Federal Tax Rates: 1979-2001
 *** Effective Federal Tax Rates: 2001-2014

Share of Individual Income Tax Liabilities for All Households, by Comprehensive Household Income Quintile

Income Category	*In 2001, if your household earned:	*** Your income group paid the following portion of Federal Income Taxes 2001	**In 2005, if your household earned:	*** Your income group paid the following portion of Federal Income Taxes 2005
Lowest Quintile	\$0 - \$17,959	-2.3%	\$0 - \$19,177	-2.4%
Second Quintile	\$17,960 - \$33,311	0.3%	\$19,178 - \$35,999	0.6%
Middle Quintile	\$33,312 - \$52,999	5.2%	\$36,000 - \$57,657	5.9%
Fourth Quintile	\$53,000 - \$83,499	14.3%	\$57,658 - \$91,704	15.4%
Highest Quintile	\$83,500 -	82.5%	\$91,705 -	80.6%

Note: In 2001, if your household earned \$150,499 or more, then you were in the top 5% of income earners

Note: In 2005, if your household earned \$166,000 or more, then you were in the top 5% of income earners

* 2001 Income Data: Table HINC-05. Percent Distribution of Households, by Selected Characteristics Within Income Quintile and Top 5 Percent in 2001 (Source: Current Population Survey, March 2002. Numbers in thousands. Households as of March of the following year) http://pubdb3.census.gov/macro/032002/hhinc/new05_000.htm

** 2005 Income Data: Table HINC-05. Percent Distribution of Households, by Selected Characteristics Within Income Quintile and Top 5 Percent in 2005 [Source: U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement. Numbers in thousands. Households as of March of the following year.] http://pubdb3.census.gov/macro/032006/hhinc/new05_000.htm

Effective Federal Tax Rates:
 1979-2001

Who pays the taxes...

<http://www.cbo.gov/showdoc.cfm?index=5324&sequence=0>

2001-2014

Who pays the taxes...

<http://www.cbo.gov/showdoc.cfm?index=5746&sequence=0>

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Who Pays Income Taxes?

For Tax Year 2003

Percentiles Ranked by Adjusted Gross Income (AGI)	AGI	Percentage of Federal Personal Income Tax Paid
Top 1%	\$295,495 & up	34.27%
Top 5%	\$130,080 & up	54.36%
Top 10%	\$94,891 & up	65.84%
Top 50%	\$29,019 & up	96.54%
Bottom 50%	<\$29,019	3.46%

Source: Internal Revenue Service

<http://www.house.gov/deal/press/town.hall.meeting/Who%20Pays%20Income%20Taxes.doc>

Internal Revenue Service
 US Department of Treasury
 SOI Tax Stats - Individual Statistical Tables by Size of Adjusted Gross Income
<http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html>

U.S. Department of Treasury
 Fact Sheet:
 Who Pays The Most Individual Income Taxes?
 April 1, 2004

<http://www.ustreas.gov/press/releases/js1287.htm>

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Projected Share of Individual Income Taxes and Income in 2004 Share of Individual Income Taxes ¹ [Share of Adjusted Gross Income]						
	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%
With the Tax Cuts	32.3	52.8	64.8	83.0	96.4	3.6
	[15.3]	[29.9]	[41.5]	[64.6]	[86.4]	[13.6]
Without the Tax Cuts	30.5	50.2	62.6	81.8	95.9	4.1
	[15.3]	[29.9]	[41.5]	[64.6]	[86.4]	[13.6]

Source: U.S. Treasury, Office of Tax Analysis.

¹Estimates of taxes paid ignore any behavioral responses to the tax cuts.

Some further food for thought...

<http://www.ustreas.gov/press/releases/js1287.htm>

“Taxpayers who rank in the top 50 percent of taxpayers by income pay virtually all individual income taxes. In all years since 1990, taxpayers in this group have paid over 90 percent of all individual income taxes. In 2000 and 2001, this group paid over 96 percent of the total.”

“The share of taxes paid by the bottom 50 percent of taxpayers will fall from 4.1 percent to 3.6 percent.”

Current Statistics (11-18-2006)

The Employment Picture



Unemployment Rate ({4.7% Aug}...{4.6% Sep})...**{4.4% Oct}**

Employment increased in October, and the unemployment rate declined to 4.4 percent, the Bureau of Labor Statistics of the U.S. Department of Labor reported.

Industry Payroll Employment (Establishment Survey Data)

Total nonfarm payroll employment increased by 92,000 in October to 135.8 million. This followed job gains of 148,000 in September and 230,000 in August (as revised). Over the month, employment rose in professional and business services, health care, food services, and mining; manufacturing and construction lost jobs.

Unemployment (Household Survey Data)

In October, total employment increased by 437,000 to 145.3 million, and the employment-population ratio edged up to 63.3 percent. The civilian labor force, at 152.0 million, was about unchanged in October; the labor force participation rate has held at 66.2 percent since June.

News Release - <http://www.bls.gov/news.release/empsit.nr0.htm>

The Employment Situation for November is scheduled to be released on Friday, December 8, at 8:30 A.M. (EST).



Jobless Claims

(4-wk rolling average: 311,500 Oct - 28, to 311,750 Nov - 4, to 313,750 Nov - 11)

In the week ending Nov. 11, the advance figure for seasonally adjusted initial claims was 308,000, a decrease of 2,000 from the previous week's revised figure of 310,000. The 4-week moving average was 313,750, an increase of 2,000 from the previous week's revised average of 311,750.

For 2001, the average weekly initial jobless claims were running around 405,000; thus far, in 2006 the average has been in the 310,000 – 315,000 range.

News Release - <http://www.dol.gov/opa/media/press/eta/ui/current.htm>



GDP (3rd Quarter 2006 Real GDP: 1.6%)

Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- **increased at an annual rate of 1.6 percent in the third quarter of 2006**, according to advance estimates released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 2.6 percent.

❖ **3rd Quarter 2006 is the twentieth consecutive quarter of economic expansion**

The major contributors to the increase in real GDP in the third quarter were:

from Table 2.--Contributions to Percent Change in Real Gross Domestic Product

Personal Consumption Expenditures (PCE) 2.13%

(Durable Goods 0.66% (Motor Vehicles and parts 0.41%); Nondurable Goods 0.33%; Services 1.15% change from 2nd Quarter)

Gross private domestic investment: -0.34%

(Fixed Investment -0.24%; Change in Private Inventories -0.10%)

Net Exports (Exports – Imports): -0.58%

An increase in Exports contributed 0.70% were more than offset by increasing Imports which accounted for a -1.28% change.

Government Spending (Government consumption expenditures and gross investment): 0.37%

Federal increasing 0.12% and State and Local increasing by 0.25%

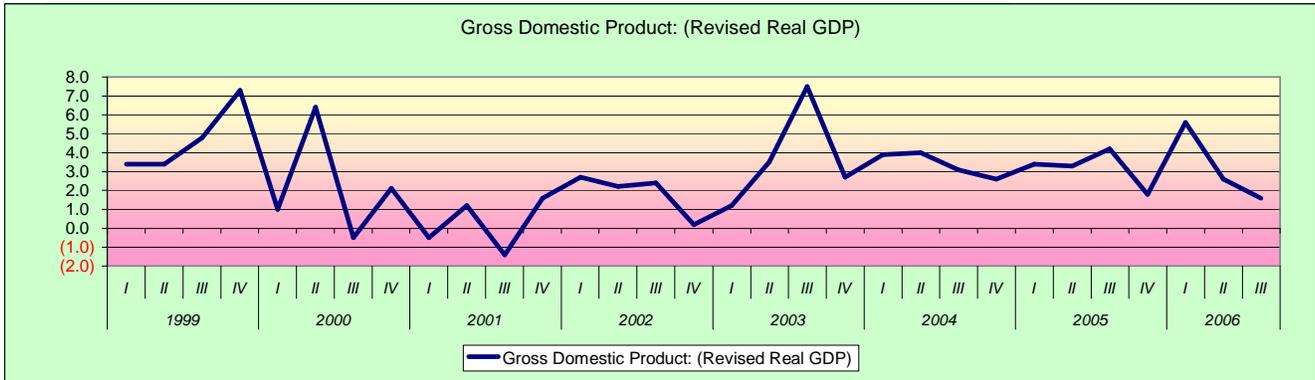
News Release - <http://bea.gov/bea/newsrelarchive/2006/gdp306a.htm>

What Recession? The ongoing debate as to when/if there indeed was a recession at all

(Webster's Dictionary) **RECESSION** : A period during which economic activity, as measured by gross domestic product, declines for at least two quarters in a row in a specific country. If the decline is severe and long, such as greater than ten percent, it may be termed a depression.

Bureau of Economic Analysis (BEA)
 Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product
 [Percent] Seasonally adjusted at annual rates
 Today is: 11/17/06 Last Revised on October 27, 2005 Next Release Date November 29, 2006

	1999				2000				2001				2002				2003				2004				2005				2006			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	
Gross Domestic Product: (Revised Real GDP)	3.4	3.4	4.8	7.3	1.0	6.4	(0.5)	2.1	(0.5)	1.2	(1.4)	1.6	2.7	2.2	2.4	0.2	1.2	3.5	7.5	2.7	3.9	4.0	3.1	2.6	3.4	3.3	4.2	1.8	5.6	2.6	1.6	



Leading Indicators

According to figures released by the Conference Board on October 19, 2006, five of the ten indicators that make up the leading index increased in September. The Conference Board announced that the U.S. leading index increased 0.1 percent, the coincident index remained unchanged and the lagging index increased 0.2 percent in September.

The leading index now stands at 137.7 (1996=100). Based on revised data, this index decreased 0.2 percent in August and decreased 0.3 percent in July. During the six-month span through September, the leading index decreased 0.9 percent, with five out of ten components advancing (diffusion index, six-month span equals 45 percent).

Next release – November 20, at 10:00 AM ET

News Release - http://www.conference-board.org/economics/bci/pressRelease_output.cfm?cid=1



Construction (put in place) (September 0.3% below August)

The U.S. Census Bureau of the Department of Commerce announced today that construction spending during September 2006 was estimated at a seasonally adjusted annual rate of \$1,195.9 billion, 0.3 percent ($\pm 1.6\%$)* below the revised August estimate of \$1,200.0 billion. The September figure is 2.9 percent ($\pm 2.6\%$) above the September 2005 estimate of \$1,162.1 billion.

During the first 9 months of this year, construction spending amounted to \$903.2 billion, 6.6 percent ($\pm 1.8\%$) above the \$847.1 billion for the same period in 2005.

Next release – October 2006 data will be released on December 1, 2006 at 10:00 A.M. EDT.

News Release - <http://www.census.gov/const/C30/release.pdf>



New Housing Starts (October 6.3% below September)

Privately-owned housing units authorized by building permits in October were at a seasonally adjusted annual rate of 1,535,000. This is 6.3 percent ($\pm 1.2\%$) below the revised September rate of 1,638,000 and is 28.0 percent ($\pm 1.2\%$) below the October 2005 estimate of 2,131,000.

Single-family authorizations in October were at a rate of 1,173,000; this is 3.8 percent ($\pm 1.3\%$) below the September figure of 1,219,000. Authorizations of units in buildings with five units or more were at a rate of 294,000 in October.

Next release (for November) – December 19, 2006 at 8:30 A.M. EDT

News Release - <http://www.census.gov/indicator/www/newresconst.pdf>



New Residential Sales (September 5.3% above August)

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Sales of new one-family houses in September 2006 were at a seasonally adjusted annual rate of 1,075,000, according to estimates released jointly today by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 5.3 percent ($\pm 15.6\%$)* above the revised August rate of 1,021,000, but is 14.2 percent ($\pm 12.2\%$) below the September 2005 estimate of 1,253,000.

The median sales price of new houses sold in September 2006 was \$217,100; the average sales price was \$293,200. The seasonally adjusted estimate of new houses for sale at the end of September was 557,000. This represents a supply of 6.4 months at the current sales rate.

Next release (for October) – November 29, 2006 at 10:00 A.M. EDT.

News Release - <http://www.census.gov/const/newressales.pdf>



Durable Goods (September increased 2.1% over August)

Summary

New orders for manufactured goods in September, up following two consecutive monthly decreases, increased \$8.6 billion or 2.1 percent to \$411.2 billion, the U.S. Census Bureau reported today. This was at the highest level since the series was first stated on a NAICS basis in 1992 and followed a 0.3 percent August decrease.

Shipments, down three of the last four months, decreased \$14.1 billion or 3.5 percent to \$392.4 billion. This followed a 0.8 percent August increase. Unfilled orders, up sixteen of the last seventeen months, increased \$24.8 billion or 3.9 percent to \$656.9 billion. This was at the highest level since the series began and followed a 0.5 percent August increase. The unfilled orders-to-shipments ratio was 4.44, up from 4.20 in August. Inventories, up eleven of the last twelve months, increased \$3.0 billion or 0.6 percent to \$479.4 billion. This followed a 0.6 percent August increase. The inventories-to-shipments ratio was 1.22, up from 1.17 in August.

New Orders for manufactured durable goods in September, up four of the last five months, increased \$17.5 billion or 8.3 percent to \$228.1 billion, revised from the previously published 7.8 percent increase. This was at the highest level since the series began and followed a slight August increase.

New orders for manufactured nondurable goods decreased \$8.9 billion or 4.6 percent to \$183.1 billion.

Shipments of manufactured durable goods in September, down two of the last three months, decreased \$5.3 billion or 2.5 percent to \$209.3 billion, revised from the previously published 2.8 percent decrease. This followed a 2.1 percent August increase.

Shipments of manufactured nondurable goods, down three of the last four months, decreased \$8.9 billion or 4.6 percent to \$183.1 billion. This was led by petroleum and coal products, which decreased \$5.5 billion or 13.9 percent to \$33.9 billion.

Unfilled orders for manufactured durable goods in September, up sixteen of the last seventeen months, increased \$24.8 billion or 3.9 percent to \$656.9 billion, revised from the previously published 3.8 percent increase. This was at the highest level since the series began and followed a 0.5 percent August increase.

Inventories of manufactured durable goods in September, up eight of the last nine months, increased \$3.1 billion or 1.1 percent to \$291.3 billion, revised from the previously published 1.0 percent increase. This followed a 0.7 percent August increase.

Inventories of manufactured nondurable goods, down following six consecutive monthly increases, decreased slightly to \$188.1 billion. This was due to petroleum and coal products, which decreased \$1.2 billion or 3.9 percent to \$29.0 billion.

By stage of fabrication, September materials and supplies increased 0.6 percent in durable goods and decreased 0.6 percent in nondurable goods. Work in process increased 2.0 percent in durable goods and decreased 1.3 percent in nondurable goods. Finished goods increased 0.5 percent in durable goods and 0.9 percent in nondurable goods.

Note: All figures in text are in seasonally adjusted current dollars.

Next release (for October) – November 28, 2006 at 8:30 A.M. EDT.

News Release - <http://www.census.gov/indicator/www/m3/>

Capital Goods Industries (September):

Capital Goods Industries

Nondefense new orders for capital goods in September increased \$15.2 billion or 21.9 percent to \$84.5 billion.

Defense new orders for capital goods in September increased \$4.1 billion or 41.9 percent to \$13.7 billion.

Next release (for October) – November 28, 2006 at 8:30 A.M. EDT.

News Release - <http://www.census.gov/indicator/www/m3/adv/>



Current Account Balance (Trade Balance)

The Current Account Balance consists of the Trade Balance (Net Exports (Exports less Imports) of Goods and Services), the Income Balance (Income Receipts and Income Payments), and net Unilateral Current Transfers. The Department of Commerce publishes the Current Account Balance data on quarterly basis.

The U.S. Current Account Balance 2003 – \$527.5 billion

The U.S. Current Account Balance 2004 – \$665.3 billion

The U.S. Current Account Balance 2005 – \$791.5 billion

*The U.S. Trade Balance 2003 – \$494.9 billion

*The U.S. Trade Balance 2004 – \$611.3 billion

*The U.S. Trade Balance 2005 – \$716.7 billion

*Balance on goods and services

The U.S. Census Bureau and the U.S. Bureau of Economic Analysis, through the Department of Commerce, announced today that total September exports of \$123.2 billion and imports of \$187.5 billion resulted in a goods and services deficit of \$64.3 billion, \$4.7 billion less than the \$69.0 billion in August, revised. September exports were \$0.6 billion more than August exports of \$122.6 billion. September imports were \$4.1 billion less than August imports of \$191.6 billion.

In September, the goods deficit decreased \$4.8 billion from August to \$70.1 billion, and the services surplus decreased \$0.1 billion to \$5.8 billion. Exports of goods increased \$0.6 billion to \$88.6 billion, and imports of goods decreased \$4.2 billion to \$158.7 billion. Exports of services were virtually unchanged at \$34.5 billion, and imports of services were virtually unchanged at \$28.7 billion.

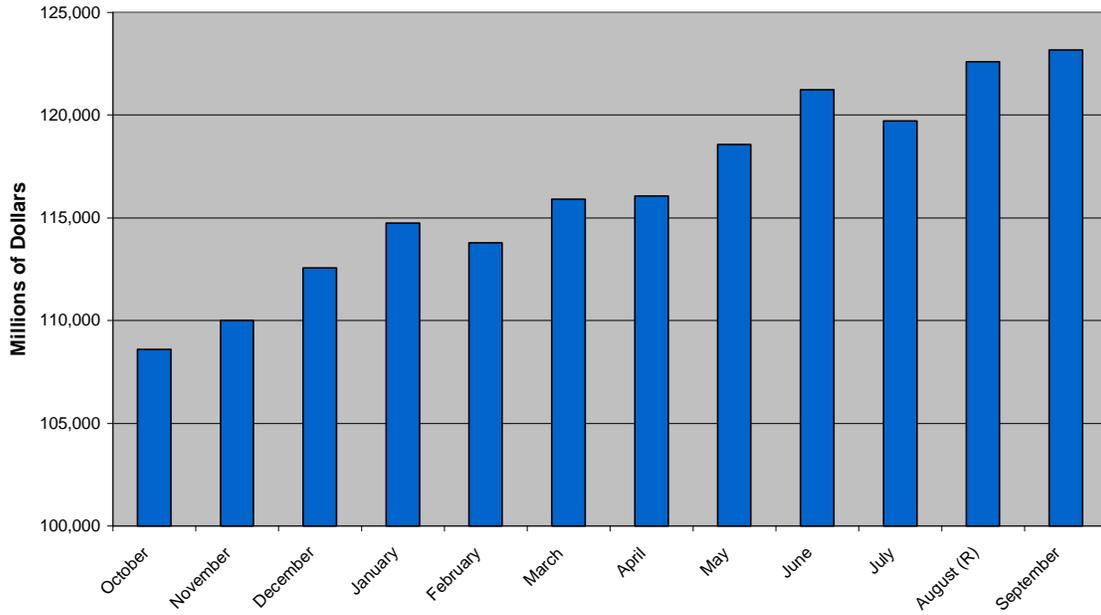
In September, the goods and services deficit was down \$0.7 billion from September 2005. Exports were up \$16.8 billion, or 15.8 percent, and imports were up \$16.2 billion, or 9.4 percent.

Next release (for October) – December 2006

News Release - <http://www.bea.gov/bea/newsrelarchive/2006/trad0906.htm>

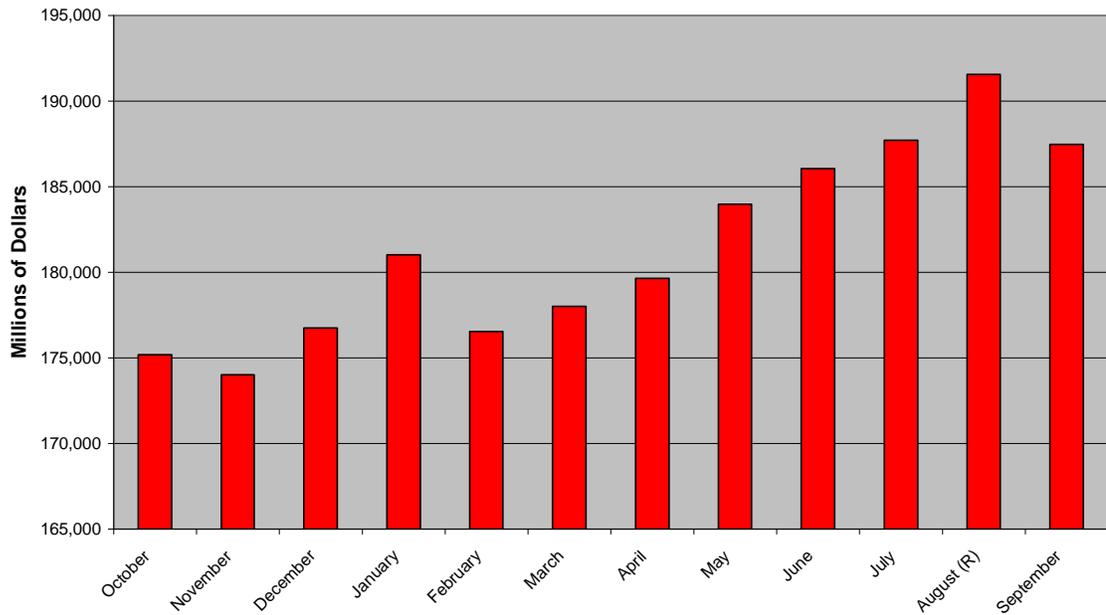
The Good (Exports October 2005 - September 2006)

Extracted from Department of Commerce
November 9, 2006 (August Revised)



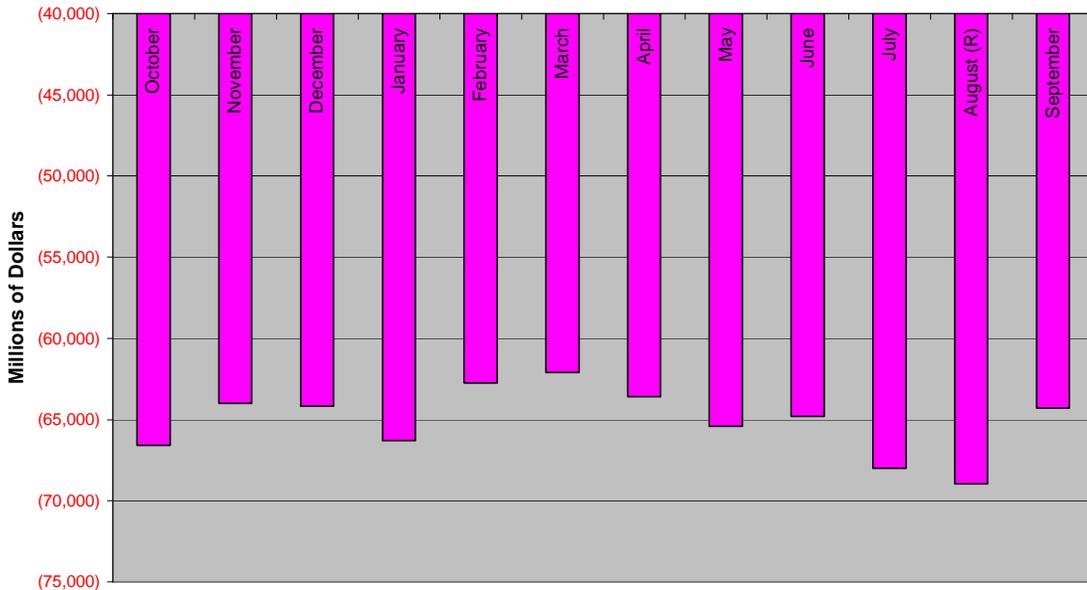
The Bad (Imports October 2005 - September 2006)

Extracted from Department of Commerce
November 9, 2006 (August Revised)



The Ugly (Trade Balance October 2005 - September 2006)

Extracted from Department of Commerce
November 9, 2006 (August Revised)



CPI -0.5% (October) / PPI - 0.7% (October) (Seasonally adjusted)

CPI – The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.5 percent in October, before seasonal adjustment, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. The October level of 201.8 (1982-84=100) was 1.3 percent higher than in October 2005.

On a seasonally adjusted basis, the CPI-U decreased 0.5 percent in October, the same as in September. Energy prices, which declined 7.2 percent in September, fell 7.0 percent in October.

The index for all items less food and energy rose 0.1 percent in October, following increases of 0.2 percent in each of the three preceding months.

Next release (for November) – December 15, 2006, at 8:30 A.M. (EDT)

News Release - <http://www.bls.gov/news.release/cpi.nr0.htm>

PPI – The Producer Price Index for Finished Goods fell 1.6 percent in October, seasonally adjusted, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. This decrease followed a 1.3-percent decline in September and a 0.1-percent advance in August.

Among finished goods in October, prices for goods other than foods and energy declined 0.9 percent after rising 0.6 percent in September. The index for finished consumer foods also turned down-falling 0.8 percent in October following a 0.7-percent increase in the prior month. Conversely, prices for energy goods decreased 5.0 percent after dropping 8.4 percent in September.

Next release (for November) – December 19, 2006 at 8:30 A.M. EDT

News Release - <http://www.bls.gov/news.release/ppi.nr0.htm>



Productivity, Compensation and Unit Labor Cost (Seasonally Adjusted)

The Bureau of Labor Statistics of the U.S. Department of Labor today reported preliminary productivity data--as measured by output per hour of all persons--for the third quarter of 2006. The preliminary seasonally-adjusted annual rates of productivity growth in the third quarter were:

- 0.1 percent in the business sector and
- 0.0 percent in the nonfarm business sector

Hourly compensation in the business sector increased at an annual rate of 4.0 percent during the third quarter of 2006, slower than the 6.4-percent rise one quarter earlier (as revised).

Unit labor costs, which reflect changes in both hourly compensation and productivity, rose 4.0 percent during the third quarter of 2006.

Next Release (for 3rd Quarter - revised) – December 5, 2006 at 8:30 A.M. EDT

News Release - <http://www.bls.gov/news.release/prod2.nr0.htm>



10-year U.S. Government Bond Rate

The 10-year Maturity U.S. Government Security continues to remain trading at a relatively low rate.

