



WEEKLY ECONOMIC DIGEST

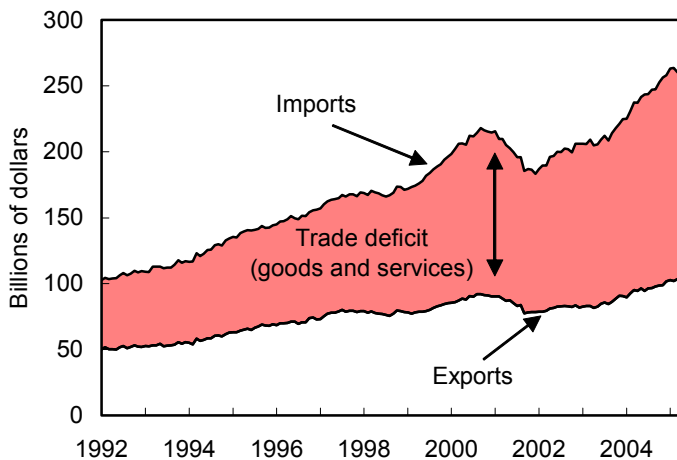


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

June 14, 2005

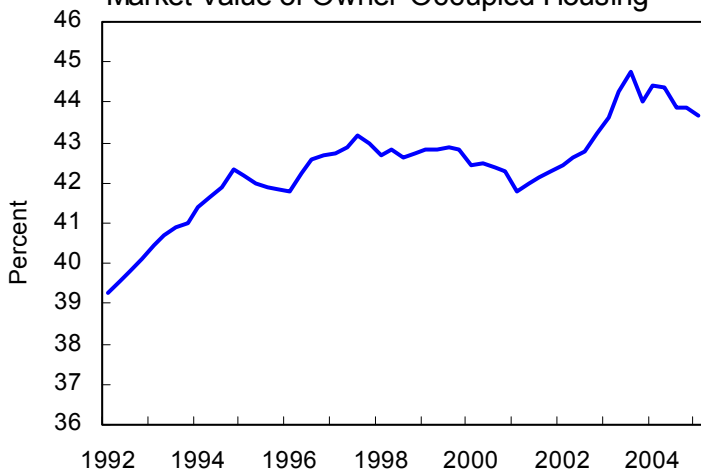
Trade Deficit Remains Near Record High Level

U.S. International Trade in Goods and Services



Source: Census Bureau, Bureau of Economic Analysis; U.S. Department of Commerce

Household Mortgage Debt as a Share of the Market Value of Owner-Occupied Housing



Source: Board of Governors, Federal Reserve System.

- **The trade deficit widened in April.** Imports of goods and services grew by \$6.5 billion (4.1 percent) while exports grew by \$3.1 billion (3.0 percent) in April, the most recent month for which data are available. As a result, the trade deficit for goods and services widened to \$57.0 billion, a little below the record levels reached in recent months (see top chart). In the first quarter, the trade deficit for goods and services was a record \$687 billion (annual rate), or 5.6 percent of gross domestic product.
- **Nonoil import prices fell in May.** The price index for imports excluding petroleum unexpectedly fell by 0.3 percent last month, and was 2.5 percent above its level a year earlier. Nonpetroleum import prices had been putting moderate pressure on inflation in recent months. However, only about half of the depreciation of the dollar over the past three years has been reflected in nonoil import prices. Analysts believe that increased competition stemming from globalization has led foreign producers and U.S. importers to absorb at least part of the currency costs of the falling dollar out of their profits in order to protect their U.S. market share.
- **Home values rose more rapidly than mortgage debt in the first quarter.** The market value of owner-occupied real estate owned by households rose at an annual rate of 11.4 percent in the first quarter, according to new data released by the Federal Reserve. By comparison, mortgage debt rose at a somewhat slower 9.1 percent annual rate. Since late 2003, growth of the market value of owner-occupied homes has tended to exceed growth of the mortgage debt owed by households. As a result, mortgage debt as a fraction of the market value of owner-occupied homes has tended to decline recently, though that fraction remains relatively high (see bottom chart).

The Economy at a Glance	May	Apr	Mar	Feb	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.5	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)*	n.a.	-2.4	1.2	6.2	3.6	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)*	n.a.	79.2	79.4	79.4	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.1	5.2	5.2	5.4	5.3	5.4	5.5	5.6	5.5	6.0
Housing Starts (thousands)*	n.a.	2038	1836	2228	2084	1973	1974	1923	1950	1854
Real Disposable Personal Income (% growth)	n.a.	1.0	-0.2	1.9	3.3 [#]	6.0 [#]	2.9	2.8	3.4 [#]	2.3
Retail Sales (% growth)*	n.a.	18.0	4.3	8.1	6.0	10.2	6.4	6.6	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0.4	0.5	0.9	0.9	1.1 [#]	0.7	1.3	1.0 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)*	n.a.	6.2	7.4	4.9	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)*	n.a.	0	4.9	3.7	2.6	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	4.1	3.6	3.9	4.0
Output per Hour (% growth)	—	—	—	—	2.9	2.3	0.9	4.1	4.0	4.3
Financial Markets										
T-bill Rate, 3-month (level, %)	2.84	2.78	2.74	2.54	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.14	4.34	4.50	4.17	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	3.00	2.79	2.63	2.50	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10377	10283	10682	10724	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Producer Price Indexes: May 2005** [Release: Tuesday, June 14]
- **Advance Monthly Sales for Retail and Food Services: May 2005** [Release: Tuesday, June 14]
- **Manufacturing and Trade Inventories and Sales: April 2005** [Release: Wednesday, June 15]
- **Consumer Price Index: May 2005** [Release: Wednesday, June 15]
- **Industrial Production and Capacity Utilization: May 2005** [Release: Wednesday, June 15]
- **New Residential Construction: May 2005** [Release: Thursday, June 16]
- **U.S. International Transactions: First Quarter 2005** [Release: Friday, June 17]