



WEEKLY ECONOMIC DIGEST

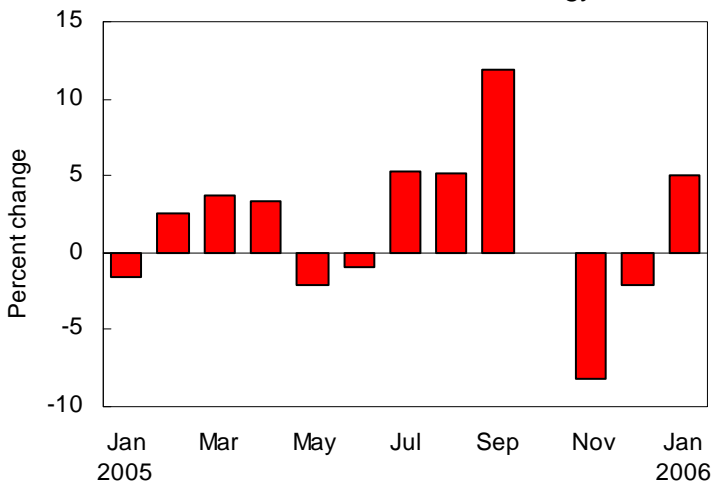


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

February 22, 2006

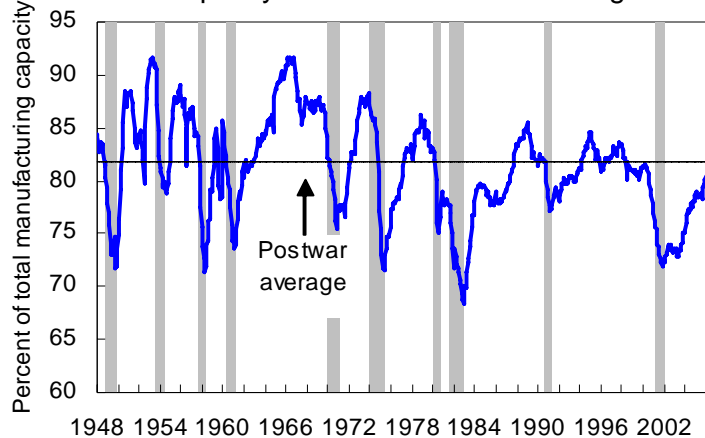
Energy Prices Up, but Core Inflation Remains Moderate Even as Retail Sales Surge

Consumer Price Index for Energy



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Capacity Utilization in Manufacturing



Source: Board of Governors, Federal Reserve System and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **A rebound in energy prices pushed up consumer prices last month.** After two months of declines, the consumer price index (CPI) rose by 0.7 percent in January, with energy prices rising by 5.0 percent (see top chart). The core CPI, which excludes the volatile food and energy components, rose by a moderate 0.2 percent. Over the past 12 months, energy prices rose by 24.8 percent and the CPI rose by 4.0 percent—though the core rose by just 2.1 percent. With the average hourly earnings of production or nonsupervisory workers on nonfarm payrolls rising by just 3.3 percent, real average hourly earnings fell by 0.7 percent over the past 12 months.

- **Retail sales surged in January.** Sales at retail establishments and food services grew at a robust 2.3 percent pace last month after rising by 0.4 percent in December. January's gain was more than double the 0.9 percent growth that financial markets had expected and it boosted sales to 8.8 percent above last year's level. January's gain reflected a 2.9 percent rise in sales at motor vehicle and parts dealerships, a 5.5 percent increase in gas station sales that in part reflected rising gasoline prices, and a 1.8 percent rise in all other sales.

- **Declining utility output held down industrial production last month.** Industrial production fell by 0.2 percent in January. That decline reflected a 10.1 percent drop in the output of utilities as a result of unseasonably warm temperatures. Factory production rose by 0.7 percent to a level 4.5 percent above last year's. Capacity utilization in manufacturing rose to 80.5 percent, the highest level since July 2000 (see bottom chart).

- **Warm weather spurred construction of new homes.** New privately owned housing starts rose by 14.5 percent in January to 2.276 million units at an annual rate (see bottom chart). That was the highest level since March 1973 and 4.0 percent above the level a year earlier.

The Economy at a Glance	Jan	Dec	Nov	Oct	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	1.1	4.1	3.3	3.8	3.5	4.2
Industrial Production (% growth)	-2.4	11.4	14.0	14.0	5.6	1.4	1.6	3.8	3.3	4.1
Capacity Utilization (level, %)	80.9	81.2	80.6	79.9	80.6	79.8	79.9	79.9	80.1	78.6
Civilian Unemployment Rate (level, %)	4.7	4.9	5.0	4.9	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)	2276	1988	2136	2051	2058	2101	2044	2083	2072	1950
Real Disposable Personal Income (% growth)	n.a.	5.0	10.0	4.9	7.0	-2.0	0.2	-3.4	1.4	3.4
Retail Sales (% growth)	32.0	4.6	11.2	2.6	2.0	6.9	11.2	4.8	7.5	7.3
Personal Saving Rate (level, %)	n.a.	-0.7	-0.2	-0.1	-0.4	-1.8	-0.2	0.5	-0.5	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	8.7	-1.2	-8.1	3.7	3.2	5.5	3.7	2.5	3.4	2.7
Core CPI-U Inflation (% growth)	2.4	1.2	2.4	2.4	2.4	1.6	2.0	2.5	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	3.2	3.2	2.8	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	-0.6	4.5	2.1	3.2	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.24	3.89	3.88	3.71	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.42	4.47	4.54	4.46	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.29	4.16	4.00	3.78	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10872	10828	10695	10324	10616	10544	10382	10648	10548	10317

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 civilian workers. 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.

Upcoming Economic Releases:

- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: January 2006** [Release: Friday, February 24]
- **New Residential Sales: January 2005** [Release: Monday, February 27]
- **Gross Domestic Product: Fourth Quarter 2005 (Preliminary)** [Release: Tuesday, February 28]
- **Existing Home Sales: January 2005** [Release: Tuesday, February 28]