



WEEKLY ECONOMIC DIGEST

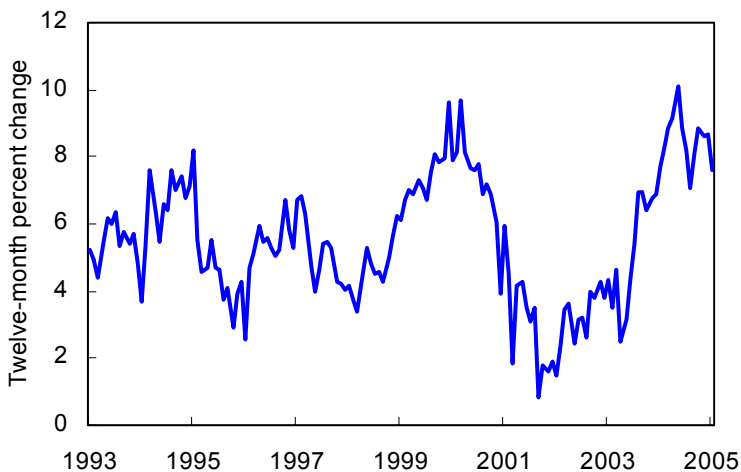


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI)

February 23, 2005

Production and Sales Continue to Grow at a Solid but Noninflationary Pace

Retail and Food Services Sales
(excluding motor vehicles, and parts dealers)

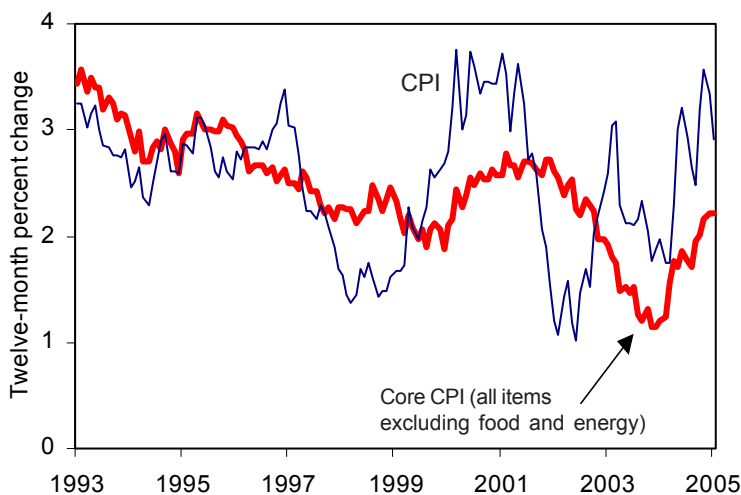


Source: Bureau of the Census, U.S. Department of Commerce.

- **Nonautomotive retail sales grew solidly in January.** Total sales at retail and food services establishments fell by 0.3 percent, but the decline reflected a 3.3 percent drop in sales at motor vehicle and parts dealers, which tend to be volatile from month to month. Excluding automotive sales, retail and food services sales grew by 0.6 percent to a level that was 7.6 percent higher than sales a year earlier (see top chart).

- **Factory production rose.** Manufacturing output rose by 0.4 percent in January, matching December's increase and pushing the level of production to 5.2 percent above its level a year earlier. Production of business equipment rose by 1.1 percent to 9.8 percent above its level in January 2004. However, output of consumer goods fell by 0.4 percent to only 2.2 percent above its level a year ago. Capacity utilization in manufacturing was at 78 percent last month, which is still slightly below the 80 percent mark that many analysts believe is its trend level.

Consumer Price Index



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

- **Housing starts increased.** Nearly 2.2 million privately owned housing units were started in January (annual rate), an increase of 11.6 percent over the level a year earlier. The number of units authorized by building permits rose to 2.1 million or 6.8 percent above the level at the start of 2004, suggesting that home builders remain optimistic. Mortgage rates have remained relatively low, fueling some of the current strength in housing demand.

- **Consumer prices rose moderately in January.** The consumer price index (CPI) rose by 0.1 percent last month. Since January 2004, the CPI has risen by 2.9 percent, but that rise includes a 10.5 percent increase in energy prices over the year. Core CPI inflation (which excludes the volatile changes in food and energy prices) has risen by a moderate 2.2 percent since January 2004 (see bottom chart).

The Economy at a Glance	Jan	Dec	Nov	Oct	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
Economic Activity										
Real GDP (% growth)*	—	—	—	—	3.1	4.0	3.3	4.5	4.4	3.0
Industrial Production (% growth)	0.0	8.7	1.2	10.0	4.0	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)	79.0	79.1	78.6	78.5	78.7	78.2	77.9	77.3	78.0	75.5
Civilian Unemployment Rate (level, %)	5.2	5.4	5.4	5.5	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)	2159	2063	1805	2065	1978	1969	1920	1943	1952	1853
Real Disposable Personal Income (% growth)*	n.a.	9.4 [#]	2.4	2.4	4.1 [#]	2.0	2.8	2.4	3.1 [#]	2.3
Retail Sales (% growth)	-3.7	14.4	-0.5	13.3	9.9	5.7	6.4	10.9	7.6	5.3
Personal Saving Rate (level, %)*	n.a.	0.1 [#]	0.3	0.2	0.2 [#]	0.5	1.3	1.0	0.8 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	1.2	0.0	3.7	7.4	3.6	1.6	4.4	3.9	2.7	2.3
Core CPI-U Inflation (% growth)	2.4	2.4	2.4	2.4	2.3	1.8	2.6	1.9	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.8	3.6	4.1	4.5	3.7	4.1
Output per Hour (% growth)	—	—	—	—	0.8	1.8	3.9	3.7	4.1	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.33	2.19	2.07	1.76	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.22	4.23	4.19	4.10	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.28	2.16	1.93	1.76	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10540	10673	10412	10002	10362	10130	10289	10488	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.

Upcoming Economic Releases:

- **Advance Report on Durable Goods, Manufacturer's Shipment, Inventories, and Orders: January 2005** [Release: Thursday, February 24]
- **Gross Domestic Product: Fourth Quarter 2004 (Preliminary)** [Release: Friday, February 25]
- **Personal Income and Outlays: January 2005** [Release: Monday, February 28]