



WEEKLY ECONOMIC DIGEST

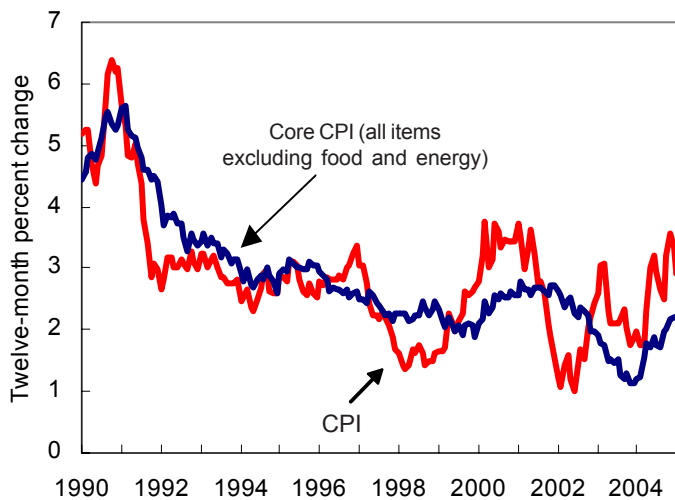


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

March 23, 2005

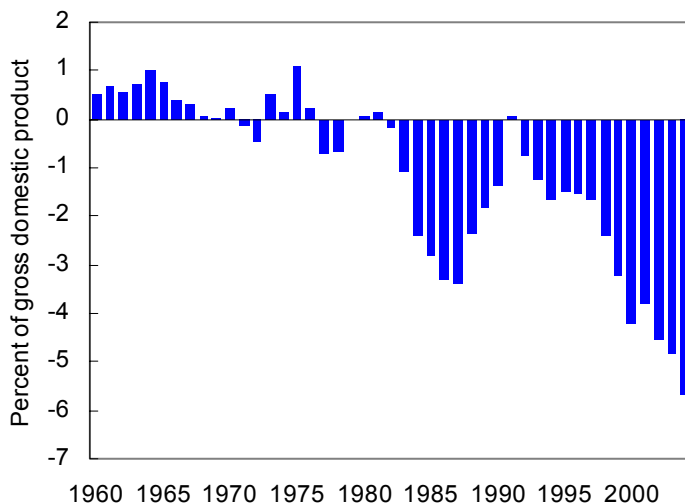
Fed Adds New Mention of Inflation As It Raises Rates

Consumer Price Inflation



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

U.S. Current Account Balance



Source: U.S. Department of Commerce.

- **The Fed made its seventh consecutive interest rate hike.** The Federal Open Market Committee (FOMC) of the Federal Reserve raised its target interest rate for overnight federal funds Tuesday by $\frac{1}{4}$ percentage point to $2\frac{3}{4}$ percent. The FOMC reiterated its intention to continue raising the target rate at a “measured pace,” which so far has meant seven $\frac{1}{4}$ -point increases since last June. In its announcement, the FOMC upgraded its characterization of production growth to “solid,” consistent with February’s growth of retail sales (to 7.7 percent above last year’s level) and factory production (to 4.7 percent above last year’s level). More significant, however, was the FOMC’s statement that “pressures on inflation have picked up in recent months.”
- **Underlying consumer price inflation edged up in February.** The consumer price index (CPI) rose by 0.4 percent last month, which put it 2.9 percent above its level a year earlier (see top chart). That gain reflected a 2.0 percent monthly increase in energy prices. The core CPI (which excludes food and energy prices) also inched up by a more moderate 0.3 percent, reflecting some acceleration in consumer prices for shelter and medical care. In February, the core CPI was 2.3 percent higher than it was a year ago.
- **The current account deficit rose to a record \$665.9 billion last year.** The U.S. current account deficit—a measure that combines the balance on trade in goods and services with the balance on international income flows—rose to a record 5.7 percent of gross domestic product in 2004, according to new data released by the Department of Commerce (see bottom chart). The current account deficit is financed by net financial inflows, such as net increases in U.S. liabilities to foreign individuals and governments. In 2004, those included \$261.5 billion of net purchases of U.S. Treasury securities by foreign central banks and other official agencies, the largest such inflow on record.

The Economy at a Glance	Feb	Jan	Dec	Nov	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
Economic Activity										
Real GDP (% growth)*	—	—	—	—	3.8	4.0	3.3	4.5	4.4	3.0
Industrial Production (% growth)	3.7	1.2	10.0	3.7	4.4	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)	79.4	79.2	79.2	78.7	78.8	78.2	77.9	77.3	78.1	75.5
Civilian Unemployment Rate (level, %)*	5.4	5.2	5.4	5.4	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)	2195	2183	2056	1805	1975	1969	1920	1943	1952	1853
Real Disposable Personal Income (% growth)*	n.a.	5.6 [#]	9.5 [#]	2.4	3.4 [#]	2.9	2.8	2.4	3.2 [#]	2.3
Retail Sales (% growth)	6.2	3.7	16.6	-0.5	10.1	5.7	6.5	10.8	7.6	5.3
Personal Saving Rate (level, %)*	n.a.	1.0	0.3 [#]	0.5	0.5 [#]	0.7	1.3	1.0	0.9 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	4.9	1.2	0.0	3.7	3.6	1.6	4.4	3.9	2.7	2.3
Core CPI-U Inflation (% growth)	3.7	2.4	2.4	2.4	2.3	1.7	2.6	1.9	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.8	3.6	4.1	4.5	3.8	4.0
Output per Hour (% growth)	—	—	—	—	2.1	1.3	3.9	3.8	4.0	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.54	2.33	2.19	2.07	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.17	4.22	4.23	4.19	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.50	2.28	2.16	1.93	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10724	10540	10673	10412	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 two weeks.

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

Upcoming Economic Releases:

- **Advance Report on Durable Goods, Manufacturers' Shipments, Inventories, and Orders: February 2005** [Release: Thursday, March 24]
- **Gross Domestic Product and Corporate Profits: Fourth Quarter 2004 (Final)** [Release: Wednesday, March 30]
- **Personal Income and Outlays: February 2005** [Release: Thursday, March 31]
- **The Employment Situation: March 2005** [Release: Friday April 1]

Note: The next issue of the Weekly Economic Digest will be released on Tuesday, April 5.