



# WEEKLY ECONOMIC DIGEST

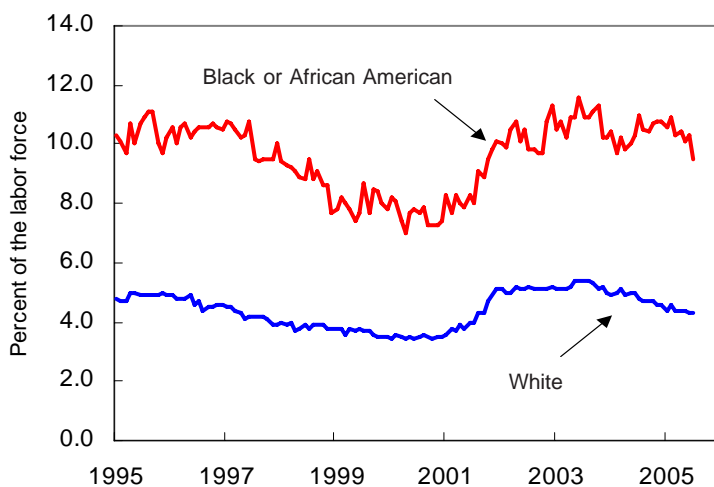


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

August 8, 2005

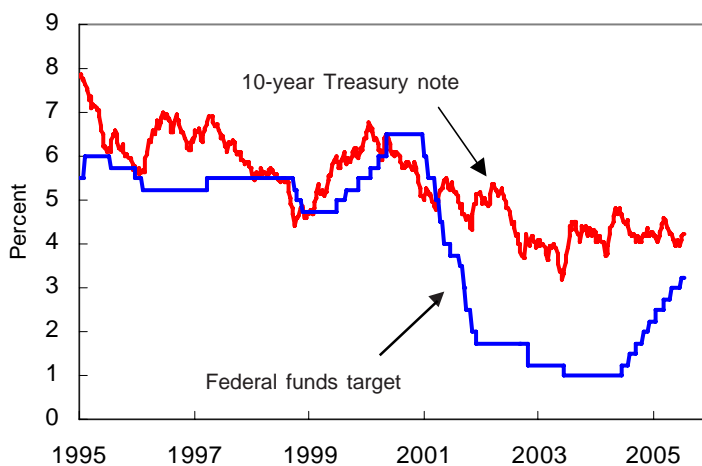
## July Job Gains Solidify Expectations of Further Fed Tightening

Unemployment Rates by Race



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

Interest Rates



Source: Board of Governors, Federal Reserve System.

- **Payroll growth exceeded expectations last month.** Growth in nonfarm payroll employment of 207,000 jobs in July was nearly 30,000 jobs above financial market forecasts. Payroll growth was concentrated in service-sector industries with significant employment gains of 50,000 jobs in retail trade, 33,000 jobs in professional and business services, 33,000 jobs in leisure and hospitality, and 26,000 jobs in government. Goods-producing industries showed negligible overall employment gains (up 4,000 jobs) with manufacturing payrolls dropping by 4,000 jobs.
- **The unemployment rate was unchanged last month.** The civilian unemployment rate was 5.0 percent in July, the same as in June. The fraction of the population that is employed rose by 0.1 percentage point to 62.8 percent while the fraction of the population in the labor force also rose by 0.1 percentage point to 66.1 percent. Both those measures, however, remain more than a percentage point below their levels at the start of the recession in March 2001. The unemployment rate for blacks fell by 0.8 percentage point last month to 9.5 percent. Even so, the unemployment rate for blacks remains 5.2 percentage points higher than that for whites (see top chart).
- **The Fed is likely to continue tightening monetary policy.** In light of the July employment report, financial markets continue to expect that the Federal Open Market Committee (FOMC) will raise its target for the federal funds rate by  $\frac{1}{4}$  percentage point to  $3\frac{1}{2}$  percent at the conclusion of its August 9<sup>th</sup> meeting. That would be the tenth consecutive  $\frac{1}{4}$  percentage point hike by the FOMC since it began raising its funds rate target in June 2004. Short-term interest rates have risen as the Fed has tightened, but long-term rates have not followed suit: the interest rate on 10-year Treasury notes remains below its level when the FOMC began raising rates (see bottom chart).

The Economy at a Glance	Jul	Jun	May	Apr	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	3.4	3.8	3.3	4.0	4.2	2.7
Industrial Production (% growth)*	n.a.	11.4	3.7	-3.5	2.1	3.6	4.5	2.7	4.2	0
Capacity Utilization (level, %)*	n.a.	80.0	79.4	79.2	79.5	79.3	78.8	78.2	78.1	75.5
Civilian Unemployment Rate (level, %)	5.0	5.0	5.1	5.2	5.1	5.3	5.4	5.5	5.5	6.0
Housing Starts (thousands)*	n.a.	2004	2004	2027	2012	2083	1973	1974	1950	1854
Real Disposable Personal Income (% growth)	n.a.	6.1	1.6	0.7	1.4	1.6 <sup>#</sup>	4.3 <sup>#</sup>	2.8	3.1 <sup>#</sup>	2.4
Retail Sales (% growth)*	n.a.	21.7	-3.4	23.4	10.7	6.0	10.2	6.7	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0	0.4	0.2	0.2	0.7	1.2 <sup>#</sup>	1.2	1.5 <sup>#</sup>	2.1
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)*	n.a.	0	-1.2	6.2	4.2	2.4	3.6	1.6	2.7	2.3
Core CPI-U Inflation (% growth)*	n.a.	1.2	1.2	0	2.0	2.6	2.3	1.7	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	2.4	3.2	4.1	3.9	4.0
Output per Hour (% growth)*	—	—	—	—	n.a.	2.9	2.3	0.9	4.0	4.3
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	3.22	2.97	2.84	2.78	2.86	2.54	2.01	1.49	1.37	1.01
T-note Rate, 10-years (level, %)	4.18	4.00	4.14	4.34	4.16	4.30	4.17	4.30	4.27	4.01
Federal Funds Rate (level, %)	3.26	3.04	3.00	2.79	2.94	2.47	1.95	1.43	1.35	1.13
Dow Jones Industrial Avg (index level)	10545	10487	10377	10283	10382	10648	10362	10130	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:

- **Productivity and Costs: Second Quarter 2005** [Release: Tuesday, August 9]
- **Federal Open Market Committee Monetary Policy Announcement** [Tuesday, August 9]
- **Advance Monthly Sales for Retail and Food Services: July 2005** [Release: Thursday, August 11]
- **U.S. International Trade in Goods and Services: June 2005** [Release: Friday, August 12]
- **Consumer Price Index: July 2005** [Release: Tuesday, August 16]
- **Industrial Production and Capacity Utilization: July 2005** [Release: Tuesday, August 16]