



# WEEKLY ECONOMIC DIGEST

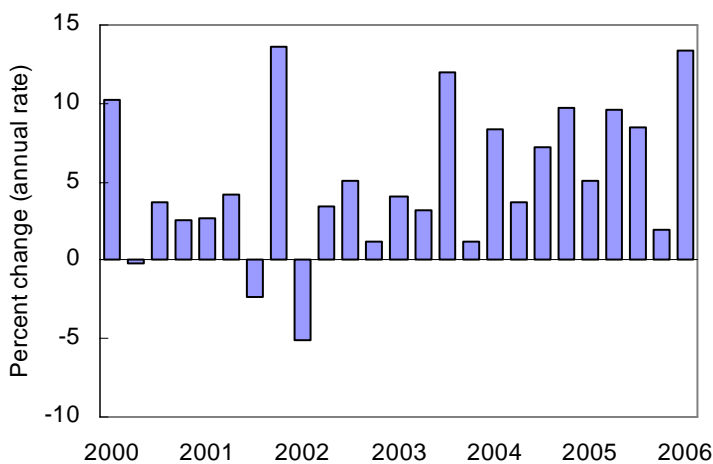


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

April 18, 2006

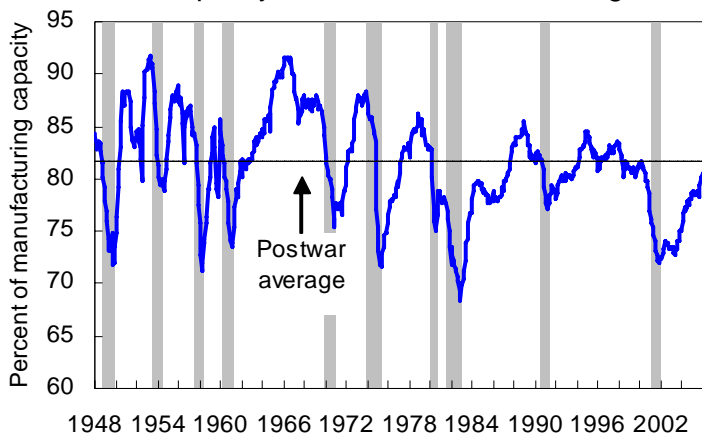
## Strong Retail Sales Point to First-Quarter Growth Spurt

Retail and Food Service Sales



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

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.

- **With solid growth in March, retail sales rebounded in the first-quarter.** Sales at retail establishments and food services grew by 0.6 percent in March. Over the first three months of the year sales grew at a 13.4 percent annual rate, a sharp acceleration from the anemic 1.9 percent rise (annual rate) in the fourth quarter of last year (see top chart). Acceleration in consumer spending underlies the consensus view among forecasters that overall economic growth was unusually strong in the first quarter.

- **Industrial production picked up last month.** Industrial production in manufacturing, mining, and utilities grew by 0.6 percent in March, slightly ahead of the 0.5 percent advance in February. Factory production grew by 0.5 percent after a small 0.1 percent drop in February and a 0.7 percent gain in January. The average rate of capacity utilization in manufacturing rose to 80.4 percent in March (see bottom chart), though it remains below the historical average of 81.7 percent.

- **Housing starts dropped in March.** New privately owned housing starts fell by 7.8 percent last month to 1.960 million units at an annual rate. That was the second straight monthly decline since January's 16.0 percent surge in starts. Over the first quarter of the year, housing starts were a modest 2.3 percent higher, on average, than over the first quarter of 2005.

- **The trade deficit narrowed slightly in February but it remains in a historically high range.** The deficit for international trade in goods and services (imports minus exports) fell by \$2.8 billion from \$68.6 billion in January to \$65.7 billion in February. Both exports and imports declined, but imports declined by more. Because the deficit is so large, however, export growth will have to exceed import growth substantially and for a sustained period in order for the trade gap to decline significantly.

| The Economy at a Glance                    | Mar   | Feb   | Jan   | Dec   | 2006<br>Qtr 1 | 2005<br>Qtr 4 | 2005<br>Qtr 3 | 2005<br>Qtr 2 | 2005  | 2004  |
|--|-------|-------|-------|-------|---------------|---------------|---------------|---------------|-------|-------|
| <b>Economic Activity</b>                   |       |       |       |       |               |               |               |               |       |       |
| Real GDP (% growth)                        | —     | —     | —     | —     | n.a.          | 1.7           | 4.1           | 3.3           | 3.5   | 4.2   |
| Industrial Production (% growth)           | 7.4   | 6.2   | -4.7  | 12.7  | 4.5           | 5.3           | 1.4           | 1.6           | 3.3   | 4.1   |
| Capacity Utilization (level, %)            | 81.3  | 81.0  | 80.7  | 81.1  | 81.0          | 80.5          | 79.8          | 79.9          | 80.0  | 78.6  |
| Civilian Unemployment Rate (level, %)      | 4.7   | 4.8   | 4.7   | 4.9   | 4.7           | 5.0           | 5.0           | 5.1           | 5.1   | 5.5   |
| Housing Starts (thousands)                 | 1960  | 2126  | 2307  | 1989  | 2131          | 2059          | 2101          | 2044          | 2072  | 1950  |
| Real Disposable Personal Income (% growth) | n.a.  | 2.4   | 1.2   | 6.2   | n.a.          | 6.7           | -1.4          | 0.2           | 1.4   | 3.4   |
| Retail Sales (% growth)                    | 7.8   | -9.3  | 43.2  | 5.1   | 13.4          | 1.9           | 8.5           | 9.5           | 7.2   | 6.2   |
| Personal Saving Rate (level, %)            | n.a.  | -0.5  | -0.5  | -0.3  | n.a.          | -0.2          | -1.6          | -0.2          | -0.4  | 1.8   |
| <b>Inflation &amp; Productivity</b>        |       |       |       |       |               |               |               |               |       |       |
| CPI-U Inflation, all items (% growth)*     | n.a.  | 1.2   | 8.7   | -1.2  | n.a.          | 3.2           | 5.5           | 3.7           | 3.4   | 2.7   |
| Core CPI-U Inflation (% growth)*           | n.a.  | 1.2   | 2.4   | 1.2   | n.a.          | 2.4           | 1.6           | 2.0           | 2.2   | 1.8   |
| Employment Cost Index (% growth)           | —     | —     | —     | —     | n.a.          | 3.2           | 3.2           | 2.8           | 3.2   | 3.9   |
| Output per Hour (% growth)                 | —     | —     | —     | —     | n.a.          | -0.5          | 4.2           | 2.4           | 2.9   | 3.4   |
| <b>Financial Markets</b>                   |       |       |       |       |               |               |               |               |       |       |
| T-bill Rate, 3-month (level, %)            | 4.51  | 4.43  | 4.24  | 3.89  | 4.39          | 3.83          | 3.36          | 2.86          | 3.15  | 1.37  |
| T-note Rate, 10-years (level, %)           | 4.72  | 4.57  | 4.42  | 4.47  | 4.57          | 4.49          | 4.21          | 4.16          | 4.29  | 4.27  |
| Federal Funds Rate (level, %)              | 4.59  | 4.49  | 4.29  | 4.16  | 4.46          | 3.98          | 3.46          | 2.94          | 3.22  | 1.35  |
| Dow Jones Industrial Avg (index level)     | 11144 | 10971 | 10872 | 10828 | 10996         | 10616         | 10544         | 10382         | 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.

\* Subject to revision over the next week.

### Upcoming Economic Releases:

- **Consumer Price Index: March 2006** [Release: Wednesday, April 19]
- **Existing Home Sales: March 2006** [Release: Tuesday, April 25]