



# WEEKLY ECONOMIC DIGEST

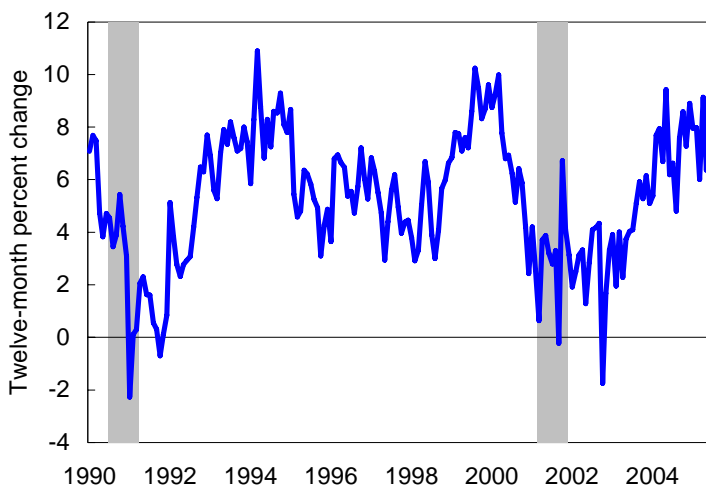


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

July 19, 2005

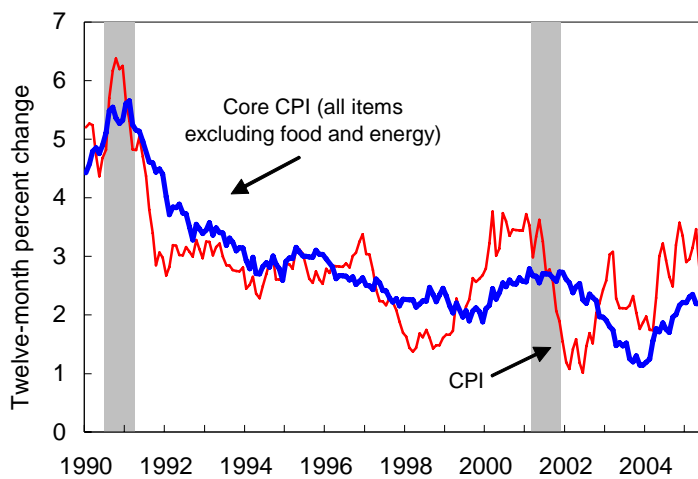
## Economic Recovery Marked by Moderate Inflation but Large Trade Gap

Retail and Food Service Sales



Source: Census Bureau, U.S. Department of Commerce and National Bureau of Economic Research.

Consumer Price Indexes



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

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

- **Retail sales outpaced expectations in June.** Sales at retail establishments and food services grew by 1.7 percent last month after falling by 0.3 percent in May. June's increase was nearly twice the 0.9 percent rise that financial markets had expected and pushed retail sales to 9.6 percent above the level of a year earlier (see top chart). Sales growth was fairly pervasive.
- **Production posted solid gains last month.** Industrial output rose by 0.9 percent in June. That was the largest monthly gain in industrial production in 16 months. Factory production rose by 0.4 percent, after rising by 0.5 percent in May. That growth raised the average rate of capacity utilization in manufacturing to 78.4 percent, the highest level since late 2000 but still more than 3 percentage points below its historical trend level.
- **Consumer prices were little changed in June.** The consumer price index (CPI) did not change last month, following a 0.1 percent drop in May. The recent moderation reflects what appears now to have been a temporary dip in energy prices. However, the core CPI (which excludes food and energy prices) also posted a modest 0.1 percent gain for the second successive month and is now 2.1 percent above its level a year ago (see bottom chart).
- **The trade gap narrowed slightly in May, but remained close to recent record highs.** The U.S. trade deficit for goods and services narrowed by \$1.6 billion in May to \$55.3 billion, still within \$5 billion of February's record deficit of \$60.1 billion. May's narrowing in the trade deficit reflected a \$1.4 billion decrease in imports arising largely from a drop in the price of imported oil. That drop turns out to have been temporary—the price index for imported petroleum rose by 7.6 percent in June.

The Economy at a Glance	Jun	May	Apr	Mar	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	n.a.	3.8	3.8	4.0	4.4	3.0
Industrial Production (% growth)	11.4	3.7	-3.5	2.4	2.1	3.6	4.5	2.7	4.2	0
Capacity Utilization (level, %)	80.0	79.4	79.2	79.5	79.5	79.3	78.8	78.2	78.1	75.5
Civilian Unemployment Rate (level, %)	5.0	5.1	5.2	5.2	5.1	5.3	5.4	5.5	5.5	6.0
Housing Starts (thousands)*	n.a.	2009	2005	1833	n.a.	2083	1973	1974	1950	1854
Real Disposable Personal Income (% growth)	n.a.	1.6	0.6	0.2	n.a.	3.1 <sup>#</sup>	6.0 <sup>#</sup>	2.9	3.4 <sup>#</sup>	2.3
Retail Sales (% growth)	21.7	-3.4	23.4	3.9	10.7	6.0	10.2	6.7	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0.6	0.5	0.6	n.a.	0.9	1.1 <sup>#</sup>	0.7	1.0 <sup>#</sup>	1.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	0	-1.2	6.2	7.4	4.2	2.4	3.6	1.6	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	1.2	0	4.9	2.0	2.6	2.3	1.7	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	n.a.	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, %)	2.97	2.84	2.78	2.74	2.86	2.54	2.01	1.49	1.37	1.01
T-note Rate, 10-years (level, %)	4.00	4.14	4.34	4.50	4.16	4.30	4.17	4.30	4.27	4.01
Federal Funds Rate (level, %)	3.04	3.00	2.79	2.63	2.94	2.47	1.95	1.43	1.35	1.13
Dow Jones Industrial Avg (index level)	10487	10377	10283	10682	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:

- **New Residential Construction in June 2005** [Release: Tuesday, July 19]
- **Existing Home Sales: June 2005** [Release: Monday, July 25]