



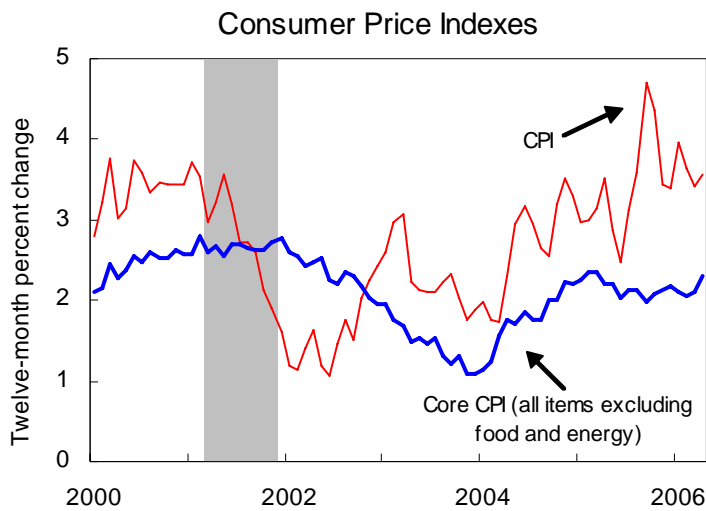
# WEEKLY ECONOMIC DIGEST



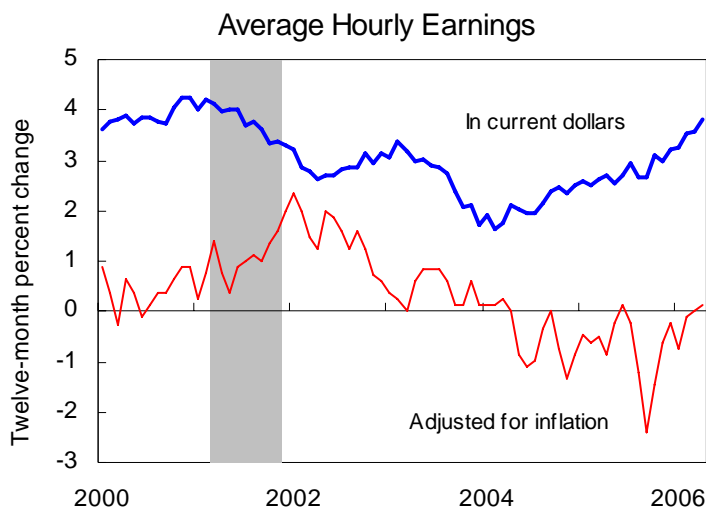
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

May 23, 2006

## Higher Inflation Keeps Real Wages Flat



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



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

- **Rising energy prices boosted inflation again in April.** The consumer price index (CPI) rose by 0.6 percent last month, following a 0.4 percent gain in March. Driven by an 8.8 percent surge in gasoline prices, energy prices accelerated from a 1.3 percent rise in March to a 3.9 percent increase in April. The core CPI (which excludes changes in the volatile food and energy prices) rose by 0.3 percent for the second straight month. The 12-month change in the core CPI rose slightly to 2.3 percent and the overall CPI was 3.5 percent higher than it was in April 2005 (see top chart).

- **Inflation has eroded the purchasing power of recent wage gains.** The average hourly earnings of production or nonsupervisory workers increased by 3.8 percent during the 12 months ending in April. However, rising living costs eroded most of the value of that gain, and real (inflation-adjusted) average hourly earnings rose by just 0.1 percent over that period (see bottom chart).

- **Industrial production posted a solid gain in April.** Industrial production in manufacturing, mining, and utilities grew by 0.8 percent last month, up from a 0.6 percent gain in March. Factory production grew by 0.7 percent in April, up from a 0.5 percent gain a month earlier. Production of business equipment grew by 1.8 percent to a level 12.5 percent higher than a year ago. The average rate of capacity utilization in manufacturing rose to 80.8 percent last month, though it remains below the historical average of 81.7 percent.

- **Housing starts fell sharply last month.** New privately owned housing starts fell by 7.4 percent in April to 1.849 million units at an annual rate, the lowest rate since November 2004. Financial markets had been expecting a much smaller decline of 0.5 percent. April's was the third consecutive monthly decline, and it left starts 11.1 percent lower than a year earlier.

The Economy at a Glance	Apr	Mar	Feb	Jan	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	4.8	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	10.0	7.4	4.9	-1.2	5.4	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	81.9	81.4	81.1	80.9	81.2	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.7	4.8	4.7	4.7	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)	1849	1996	2132	2265	2131	2060	2101	2064	2073	1950
Real Disposable Personal Income (% growth)*	n.a.	1.2	2.4	0	3.2	6.7	-1.4	0.2	1.4	3.4
Retail Sales (% growth)	6.0	7.8	-9.7	43.2	13.3	1.9	8.6	9.5	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	-0.8	-0.6	-0.6	-0.7	-0.2	-1.6	-0.2	-0.4	1.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	7.4	4.9	1.2	8.7	2.2	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	3.7	3.7	1.2	2.4	2.4	2.4	1.6	2.0	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	3.2	2.8	3.3	3.7
Output per Hour (% growth)	—	—	—	—	3.2	-0.3	4.2	2.4	2.7	3.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.60	4.51	4.43	4.24	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	4.99	4.72	4.57	4.42	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.79	4.59	4.49	4.29	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11235	11144	10971	10872	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:

- **Advance Report on Durable Goods Manufacturer's Shipments, Inventories, and Orders: April 2006** [Wednesday, May 24]
- **New Residential Sales: April 2006** [Release: Wednesday, May 24]
- **Existing Home Sales: April 2006** [Release: Thursday, May 25]
- **Gross Domestic Product (Preliminary) and Corporate Profits: First Quarter 2006** [Release: Thursday, May 25]
- **Personal Income and Outlays: April 2006** [Release: Friday, May 26]