



# WEEKLY ECONOMIC DIGEST

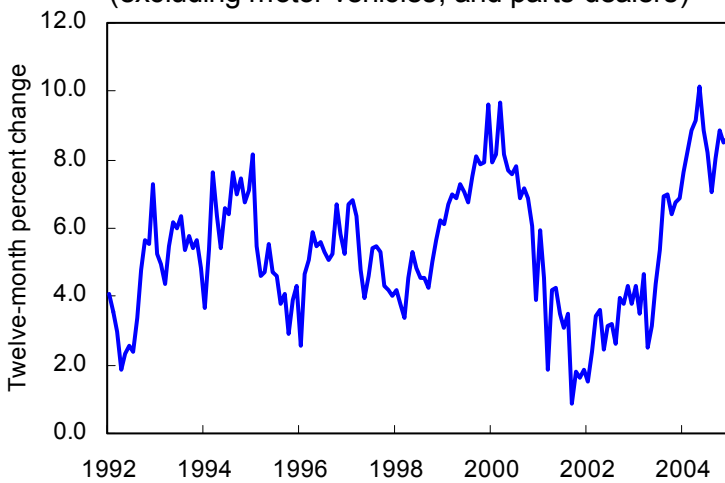


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI)

January 25, 2005

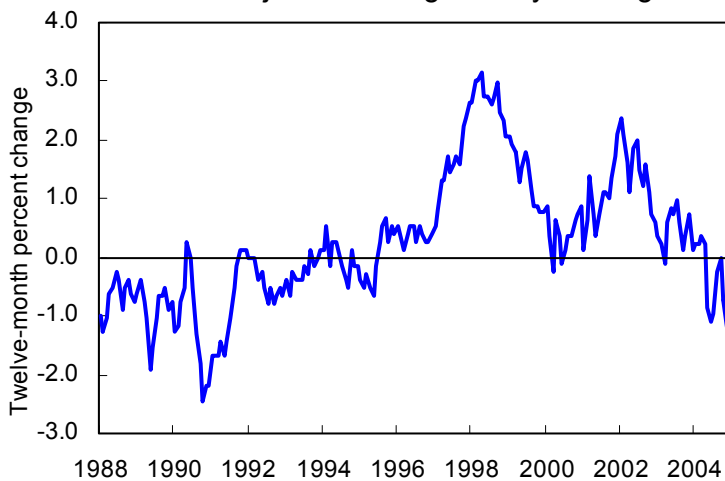
## Consumer Spending Drives Output Growth, While Wages Lag Behind

Retail and Food Service Sales  
(excluding motor vehicles, and parts dealers)



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

Inflation-Adjusted Average Hourly Earnings



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

- **Automotive purchases boosted late-year consumer spending.** Sales at retail and food service establishments grew 1.2 percent in December, reflecting a 4.3 percent spike in automotive sales. Nonautomotive sales increased by 0.3 percent to 8.6 percent above their level at the end of 2003 (upper chart). Analysts expect that when fourth-quarter gross domestic product (GDP) data are released next week, they will show that consumption spending continued to grow more rapidly than the overall economy.
- **The trade deficit rose.** The latest data show that the trade deficit for goods and services widened by \$4.3 billion in November to \$60.3 billion. That change reflected a 2.3 percent decline in exports and a 1.3 percent increase in imports and followed an import-led surge in October. Those increases in the trade deficit, along with slower growth in business investment may mean that overall GDP growth slowed in the fourth quarter.
- **Underlying price inflation remained moderate.** The consumer price index (CPI) declined by 0.1 percent in December to 3.4 percent above its level at the end of 2003. Last month's decline reflected a 1.8 percent drop in energy prices that only partially offset October's 4.2 percent spike. The core CPI, which excludes the volatile effects of changes in food and energy prices, rose a moderate 0.2 percent in December. That is the average monthly increase in the core CPI since the middle of 2003 and has left the core CPI 2.3 percent above its level at the end of 2003.
- **Labor earnings failed to keep pace with inflation in 2004.** Between December 2003 and December 2004, the average hourly earnings of production and other nonsupervisory workers on private nonfarm payrolls fell 0.8 percent after adjusting for inflation (lower chart). Over the entire year, real wages were 0.4 percent lower than they were in 2003. Modest increases in the workweek were not enough to keep real (inflation adjusted) average weekly earnings from falling as well. That slow growth in earnings underscores the enduring weakness in the labor market.

The Economy at a Glance	Dec	Nov	Oct	Sep	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	n.a.	4.0	3.3	4.5	n.a.	3.0
Industrial Production (% growth)	10.0	2.4	10.0	-3.5	4.1	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)	79.2	78.6	78.5	78.0	78.8	78.2	77.9	77.3	78.0	75.5
Civilian Unemployment Rate (level, %)	5.4	5.4	5.5	5.4	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)	2004	1807	2065	1905	1959	1969	1920	1943	1948	1853
Real Disposable Personal Income (% growth)*	n.a.	2.4	2.4	1.2	n.a.	2.0	2.8	2.4	n.a.	2.3
Retail Sales (% growth)	15.4	1.2	13.3	21.1	10.3	5.7	6.6	10.4	7.6	5.3
Personal Saving Rate (level, %)*	n.a.	0.3	0.1	0.3	n.a.	0.5	1.3	1.0	n.a.	1.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	-1.2	2.4	7.4	2.4	3.0	0.6	4.8	5.1	2.7	2.3
Core CPI-U Inflation (% growth)	2.4	2.4	2.4	3.7	2.0	1.8	2.3	2.9	1.8	1.5
Compensation per hour (% growth)*	—	—	—	—	n.a.	3.6	4.1	4.5	n.a.	4.1
Output per hour (% growth)	—	—	—	—	n.a.	1.8	3.9	3.7	n.a.	4.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	2.19	2.07	1.76	1.65	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.23	4.19	4.10	4.13	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.16	1.93	1.76	1.61	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10673	10412	10002	10205	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. Compensation is the Employment Cost Index 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.

#### Upcoming Economic Releases:

- **Advance Report on Durable Goods Manufacturer's Shipments, Inventories, and Orders, December 2004** [Release: Thursday, January 27]
- **Employment Cost Index, December 2004** [Release: Friday, January 28]
- **Gross Domestic Product, Fourth Quarter 2004 (Advance)** [Release: Friday, January 28]