



WEEKLY ECONOMIC DIGEST

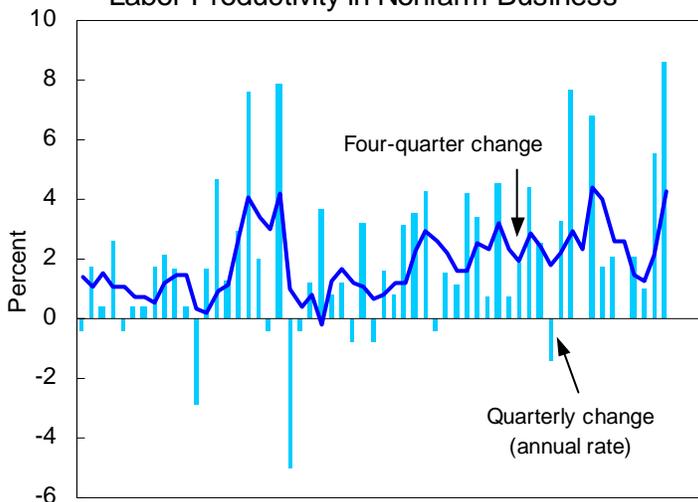


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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May 14, 2002

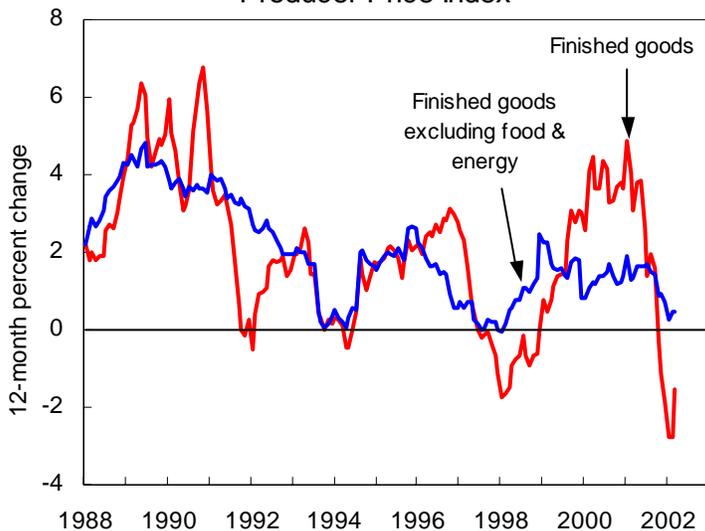
Strong Productivity Growth Keeps Inflation Low

Labor Productivity in Nonfarm Business



1988 1990 1992 1994 1996 1998 2000 2002
Source: Bureau of Labor Statistics, U.S. Department of Labor.

Producer Price Index



1988 1990 1992 1994 1996 1998 2000 2002
Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Productivity accelerated in the first quarter.** Nonfarm business productivity grew at an annual rate of 8.6 percent during the first quarter of 2002 after growing at a 5.5 percent annual rate in the fourth quarter of last year. Output rose at an annual rate of 6.5 percent, while hours worked declined by 1.9 percent. That combination of higher output and lower hours propelled productivity to a level that was 4.3 percent higher than a year earlier. The unusually robust rate of productivity growth is the highest since the second quarter of 1983; it is well above the roughly 2 percent per year rate that most analysts regard as the long-term trend rate for productivity growth.
- **Increases in compensation remained modest.** Compensation per hour grew at only a 2.7 percent annual rate in the first quarter. With output per hour growing so much faster than compensation per hour, labor costs per unit of output declined for the second quarter in a row. Falling unit labor costs relieve firms of the pressure to raise prices and allow them to improve their profit margins. Corporate profits should strengthen as a result.
- **Import prices rose last month.** Import prices rose by 1.4 percent in April, following a 1.2 percent advance in March. As was the case in March, most of April's increase stemmed from rising oil prices. However, the prices of nonpetroleum imports rose 0.4 percent last month, up from the March rise of 0.1 percent. To a great degree, those increases reflect declines in the exchange value of the U.S. dollar over the last couple of months. So far, however, the weakening dollar has not been a major source of inflationary pressure.
- **Producer prices fell in April.** The producer price index for finished goods fell 0.2 percent last month even though energy prices rose 2.5 percent. The drop in the overall index for finished goods reflects a continued low core rate of producer price inflation (which excludes the effects of changes in food and energy prices) along with a very large decline in food prices. Despite rising energy prices in recent months, the producer price index for finished goods remains about 2 percent below the levels that prevailed a year earlier. The producer price index for raw materials, however, has increased more rapidly than the finished goods index in recent months.

Economy At A Glance	Apr	Mar	Feb	Jan	2002 Qtr 1	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001	2000
Economic Activity										
Real GDP (% growth)					5.8	1.7	-1.3	0.3	1.2	4.1
Industrial Production (% growth)*		8.7	3.7	6.2	2.5	-6.7	-4.7	-5.9	-3.9	4.5
Capacity Utilization (Level, %)*		75.4	74.9	74.7	75.0	74.7	76.2	77.4	76.8	81.8
Civilian Unemployment Rate (Level, %)	6.0	5.7	5.5	5.6	5.6	5.6	4.8	4.5	4.8	4.0
Housing Starts (Thousands)*		1646	1785	1713	1714	1579	1601	1623	1603	1569
Real Disposable Personal Income (% growth)		3.7	7.4	22.4	10.4	-8.1	12.3	2.4	3.6	3.5
Retail Sales (% growth)*		2.6	2.5	-1.8	-3.1	12.3	-1.3	5.5	3.5	7.6
Personal Saving Rate (Level, %)		2.2	2.1	2.0	2.1	0.4	3.8	1.1	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)*		3.7	2.4	2.4	1.4	-0.3	0.7	3.1	2.8	3.4
Core CPI-U Inflation (% growth)*		1.2	3.7	2.4	2.3	2.7	2.7	2.4	2.7	2.4
Compensation per Hour (% growth)					3.6	4.2	3.7	4.0	4.1	4.5
Output per Hour (% growth)					8.6	5.5	1.1	2.1	1.9	3.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.7	1.8	1.7	1.7	1.7	1.9	3.2	3.7	3.4	5.8
T-Note Rate, 10-years (Level, %)	5.2	5.3	4.9	5.0	5.1	4.8	5.0	5.3	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.7	1.7	1.7	1.7	2.1	3.5	4.3	3.9	6.2
Dow Jones Industrial Avg (Index Level)	10165	10501	9891	9924	10105	9641	9934	10669	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; 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.

* Subject to revision this week.

Upcoming Economic Releases:

- **Retail Sales, April** [Release: Tuesday, May 14, 2002]
- **Consumer Price Index, April** [Release: Wednesday, May 15, 2002]
- **Industrial Production, April** [Release: Wednesday, May 15, 2002]
- **International Trade, March** [Release: Friday, May 17, 2002]