



# WEEKLY ECONOMIC DIGEST

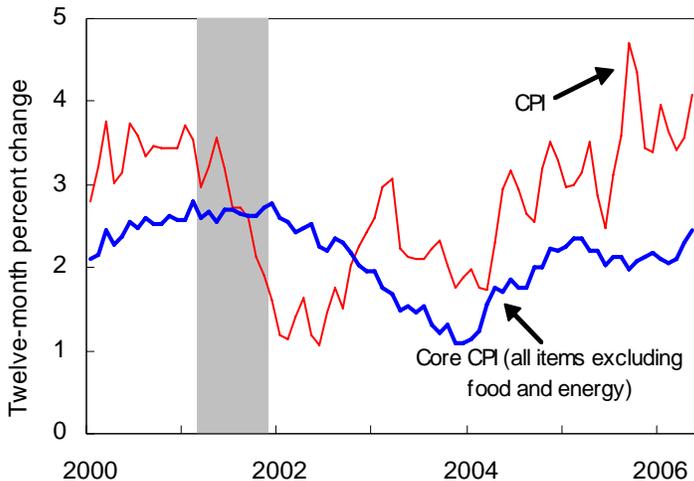


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

June 20, 2006

## Energy Prices Depress Real Wages; Core Inflation Weighs on Fed

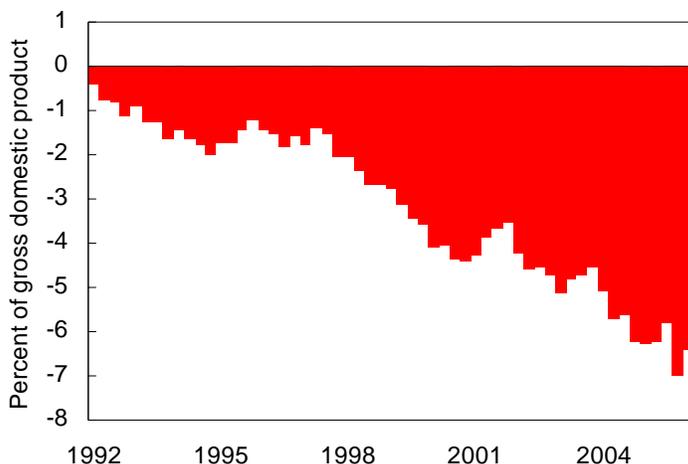
Consumer Price Indexes



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

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

U.S. Current Account Balance



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

- Inflation is still outpacing wage growth.** The consumer price index (CPI) rose by 0.4 percent in May, as energy prices increased by 2.4 percent. Those rates are down some from their pace in April, but last month the CPI grew faster than the average hourly earnings of production or other nonsupervisory workers, as it has over the past year. The CPI was 4.1 percent higher in May than it was a year earlier (see top chart), while real (inflation-adjusted) average hourly earnings were 0.6 percent lower.

- Core inflation remained slightly elevated in May.** The core CPI (which excludes food and energy prices) grew by 0.3 percent for the third month in a row, rising to 2.4 percent above its level a year earlier. Over the past three months, core CPI inflation has averaged 3.8 percent at an annual rate, which is outside the range that Federal Reserve Chairman Bernanke considers desirable for the long-run. Financial futures markets seem convinced that the Fed will raise its interest rate target by another ¼ percentage point at the close of its next monetary policy meeting on June 29.

- Retail sales and industrial production slowed in May.** Growth of sales at retail establishments and food services slowed to 0.1 percent last month from 0.8 percent in April. Despite the slowing, sales remained a healthy 7.6 percent above last year's level. Industrial production in manufacturing, mining, and utilities declined by 0.1 percent in May after rising 0.8 percent a month earlier. Production was 4.3 percent higher in May than a year earlier.

- The current account deficit narrowed slightly in the first quarter.** The deficit on the U.S. current account, which combines the balance on trade in goods and services with the balance on international income flows, declined to \$208.7 billion in the first quarter from a record level of \$223.1 billion in the fourth quarter. At 6.4 percent of gross domestic product (GDP), the first quarter deficit is second in size only to the fourth quarter deficit of 7.0 percent of GDP (see bottom chart).

The Economy at a Glance	May	Apr	Mar	Feb	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	5.3	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	-1.2	10.0	6.2	4.9	5.3	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	81.7	81.9	81.4	81.1	81.1	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.6	4.7	4.7	4.8	4.7	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)*	n.a.	1849	1996	2132	2131	2060	2101	2064	2073	1950
Real Disposable Personal Income (% growth)	n.a.	-1.2	0	2.4	2.1	5.1	-1.4	0.2	1.3	3.4
Retail Sales (% growth)	0.8	9.5	8.7	-9.7	13.4	1.9	8.8	9.3	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-1.6	-1.4	-1.3	-1.3	-0.5	-1.6	-0.2	-0.5	1.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	4.9	7.4	4.9	1.2	2.2	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	3.7	3.7	3.7	1.2	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)	—	—	—	—	3.7	-0.3	4.2	2.4	2.7	3.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.72	4.60	4.51	4.43	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	5.11	4.99	4.72	4.57	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.94	4.79	4.59	4.49	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11334	11235	11144	10971	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:

- **New Residential Construction: May 2006** [Release: Tuesday, June 20]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: May 2006** [Release: Friday, June 23]
- **New Residential Sales: May 2006** [Release: Monday, June 26]
- **Existing Home Sales: May 2006** [Release: Tuesday, June 27]