



WEEKLY ECONOMIC DIGEST

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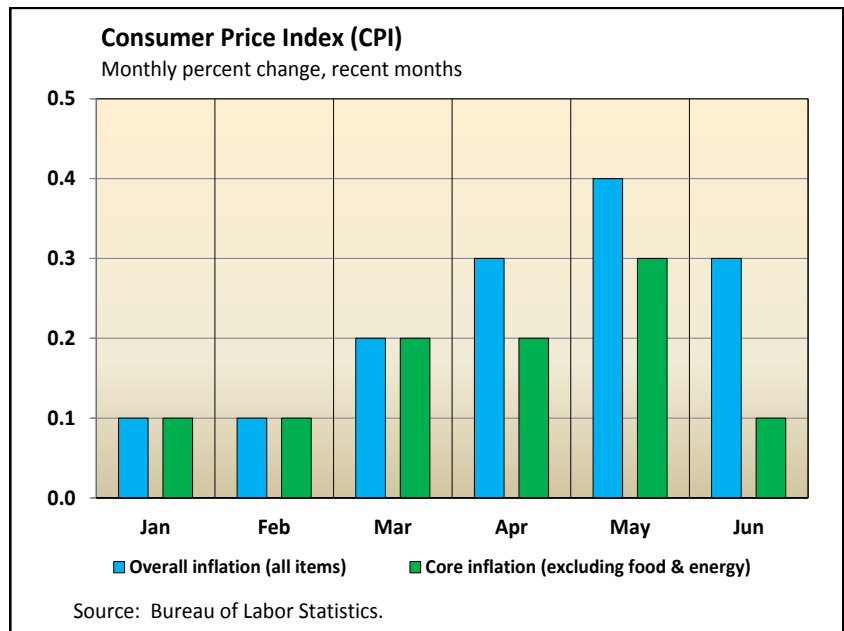
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July 29, 2014

Inflation Declined Slightly in June

Inflation remains below the Federal Reserve's longer-term goal

- A leading measure of inflation, the change in the consumer price index for all urban consumers (CPI), was 0.3 percent last month, following an increase of 0.4 percent in May (see chart).
- Core inflation (which excludes changes in the often volatile prices of food and energy) was 0.1 percent last month, down from 0.3 percent in May.
- CPI inflation has averaged 2.1 percent over the past 12 months, while core CPI inflation has averaged 1.9 percent.
- The Federal Reserve's preferred measure of core inflation (which typically is lower than the CPI-based measure) averaged just 1.5 percent over the 12 months through May, well below the central bank's target of 2 percent. In June, most Federal Reserve Board Members and Bank Presidents projected that the measure of core inflation will be 1.5 percent to 1.6 percent this year.



Real weekly earnings have changed little

- The average weekly earnings of workers on nonfarm business payrolls were essentially unchanged in June, after accounting for inflation.
- Real (inflation-adjusted) weekly earnings have changed little over the past year, strongly indicating that labor costs are not fueling inflationary pressures.
- Since February 2010 (when employment began to recover), real weekly earnings have increased at only a 0.3 percent annual rate.

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Home sales were mixed in June

- Sales of existing single-family homes increased by 2.5 percent in June, following a 6.1 percent rise in May (see chart).
- However, sales of new single-family homes declined sharply last month, dropping 8.1 percent, and erased most of an 8.3 percent gain in May.
- Even with the volatility of home sales in recent months, inventories of completed new homes awaiting sale remain relatively low.
- Low inventories suggest that continued recovery in housing demand should spur construction.
- Home prices continued to rise in May, according to the Federal Housing Finance Agency (FHFA), with all major regions of the country experiencing rising prices over the past 12 months.
- The FHFA estimates that home prices in May were only about 6.5 percent below the peak level reached in April 2007.
- The recovery in home prices has been a critical element of the recovery in household wealth, which most analysts expect will support consumer spending in the near term.

Sales of Existing Single Family Homes

Thousands of units, seasonally adjusted at annual rates, monthly through June 2014



Source: National Association of Realtors.

THE ECONOMY AT A GLANCE

Key Indicators	Months			Quarters			Years	
	Jun.	May	Apr.	2014-Q2	2014-Q1	2013-Q4	2013	2012
Real GDP growth (%)	—	—	—	N/A	-2.9	2.6	2.6	2.0
Unemployment (% of labor force)	6.1	6.3	6.3	6.2	6.7	7.0	7.0	7.8
Long-term unemployment (% of labor force)	2.0	2.2	2.2	2.1	2.4	2.6	2.6	3.1
Inflation (%)	0.3	0.4	0.3	3.0	1.9	1.1	1.2	1.9
Core inflation (% excludes food & energy)	0.1	0.3	0.2	2.5	1.6	1.6	1.7	1.9

Sources: Staff estimates based on data from the Bureau of Economic Analysis and the Bureau of Labor Statistics.

Notes: (—) Real GDP data are not released on a monthly basis. (n.a.) Data are not yet available.

Real GDP growth is the change in gross domestic product after adjusting for inflation. Long-term unemployment refers to those workers who have been unemployed for 27 weeks or longer. Inflation and core inflation refer to changes in the relevant consumer price indexes for all urban consumers. Quarterly estimates of GDP growth and inflation are reported at annual rates. Yearly estimates of GDP growth and inflation are Q4-to-Q4. Yearly unemployment rate estimates are Q4 averages.