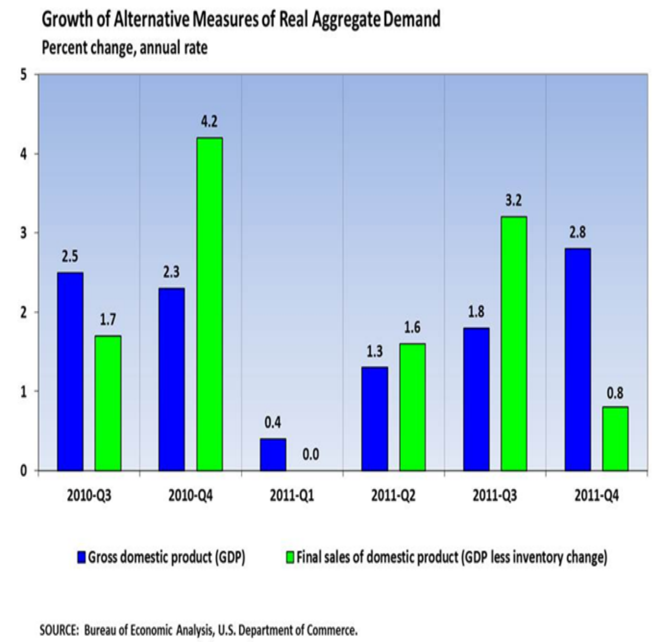
WEEKLY ECONOMIC DIGEST

JOINT ECONOMIC COMMITTEE UNITED STATES CONGRESS
SENATOR ROBERT P. CASEY, JR., CHAIRMAN

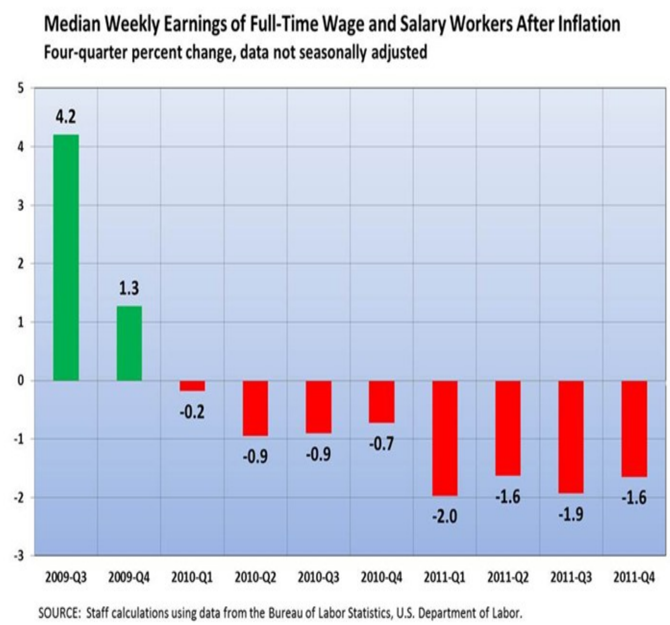
January 31, 2012

Fourth-Quarter Growth Disappoints and Earnings Lag Inflation

- U.S. economic growth in the fourth quarter was a bit weaker than expected. Real (inflation-adjusted) gross domestic product (GDP) grew at a 2.8 percent annual rate in the fourth quarter, according to the Commerce Department's advance estimates (see top chart). While economic activity accelerated in the fourth quarter, forecasters had expected growth to have exceeded 3 percent. Moreover, most of the fourth-quarter growth stemmed from inventory accumulation: inventory change contributed 1.9 percentage points to overall GDP growth. Final sales of domestic product (i.e., GDP less inventory change) grew by only 0.8 percent in the fourth quarter which amounts to a sharp deceleration from third-quarter sales. Decelerating business investment, reductions in government purchases and rising imports contributed to the deceleration in sales.



- The typical earnings of wage and salary workers failed to keep up with inflation again in the fourth quarter. The median weekly earnings of full-time wage and salary workers were $764 in the fourth quarter of 2011 (not seasonally adjusted). While that was 1.6 percent higher than a year earlier, it was less than the 3.3 percent increase in the consumer price index for all urban consumers over that period; after adjustment for inflation, median earnings declined by 1.6 percent over the last four quarters (see bottom chart). The earnings of full-time wage and salary workers at the upper limit of the lowest 10 percent of the earnings distribution increased only 0.8 percent over the last four quarters, half the increase experienced by workers at the middle of the earnings distribution.



THE WEEK AHEAD

DAY	SELECTED UPCOMING DATA RELEASES
Tuesday, Jan 31	Employment Cost Index (December)
Wednesday, Feb 1	Construction spending (December)
Thursday, Feb 2	Productivity & Costs (Fourth quarter, preliminary)
Friday, Feb 3	The Employment Situation (January)

THE ECONOMY AT A GLANCE

	MONTH			QUARTER			YEAR	
KEY INDICATORS	Dec	Nov	Oct	2011 Q4	2011 Q3	2011 Q2	2011	2010
Economic Activity								
Real gross domestic product	—	—	—	2.8	1.8	1.3	1.7	3.0
Manufacturing production	0.9	-0.4	0.5	3.9	5.0	0.1	4.5	5.4
Factory utilization rate (percent of capacity)	75.9	75.3	75.6	75.6	75.1	74.4	74.9	71.7
Civilian unemployment rate (percent of labor force)	8.5	8.7	8.9	8.7	9.1	9.1	8.9	9.6
Housing starts (thousands of units, annual rates)	657	685	628	657	615	572	607	585
Light vehicle sales, domestic (millions of units, annual rates)	10.506	10.658	10.371	10.512	9.789	9.406	9.904	8.812
Retail & food service sales	0.1	0.4	0.7	7.9	4.7	4.7	7.7	6.4
Real disposable personal income	0.3	0	0.3	0.8	-1.9	-0.5	0.9	1.8
Personal saving rate (percent of disposable income)	4.0	3.5	3.6	3.7	3.9	4.8	4.4	5.3
Inflation & Productivity								
CPI-U inflation	0	0	-0.1	0.9	3.1	4.1	3.1	1.6
Core CPI-U inflation	0.1	0.2	0.1	1.7	2.7	2.5	1.7	1.0
Output per hour, nonfarm bus.	—	—	—	n.a.	2.3	-0.1	n.a.	4.1
Unit labor costs, nonfarm bus.	—	—	—	n.a	-2.5	-0.1	n.a.	-2.0
Employment Cost Index	—	—	—	n.a.	1.2	2.8	n.a.	1.9

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; and Bureau of Labor Statistics, U.S. Department of Labor.

Notes: Except where otherwise noted, values in the table represent simple percent changes for monthly data and percent changes at annual rates for quarterly data. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy prices as reported by the Bureau of Labor Statistics. The Employment Cost Index covers all civilian workers and the quarterly change is measured from the last month of the previous quarter to the last month of the indicated quarter. 'n.a.' denotes that data are not yet available. '—' denotes that data are not available monthly.