



WEEKLY ECONOMIC DIGEST

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February 4, 2014

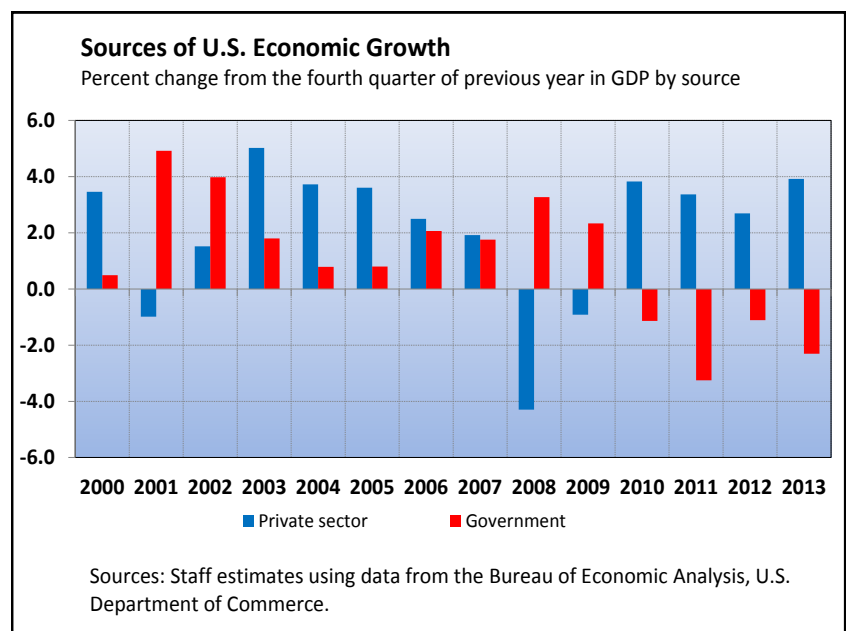
The U.S. Economy Accelerated in the Second Half of 2013

The economy recorded solid gains in the fourth quarter

- Real (inflation-adjusted) gross domestic product (GDP) grew at a 3.2 percent annual rate in the fourth quarter, after increasing 4.1 percent in the third quarter, according to preliminary data from the Department of Commerce.
- The economy's fourth-quarter gain largely reflects increases in consumer spending, exports and business investment (including inventory accumulation).
- Federal government purchases declined sharply in the fourth quarter and have decreased in 11 of the last 13 quarters. The Commerce Department estimates that the partial federal shutdown in October directly reduced GDP growth by at least 0.3 percentage point in the fourth quarter.

Economic activity accelerated during 2013

- Between the fourth quarter of 2012 and the fourth quarter of 2013, GDP grew 2.7 percent, up from 2.0 percent in 2012 and in 2011.
- The acceleration in 2013 reflects private-sector growth of nearly 4 percent (see chart). But a sharp drop in federal government purchases offset a significant part of that gain.
- Personal consumption expenditures grew at the fastest rate since 2010.
- State and local government spending rose slightly in 2013, the first increase since 2009.



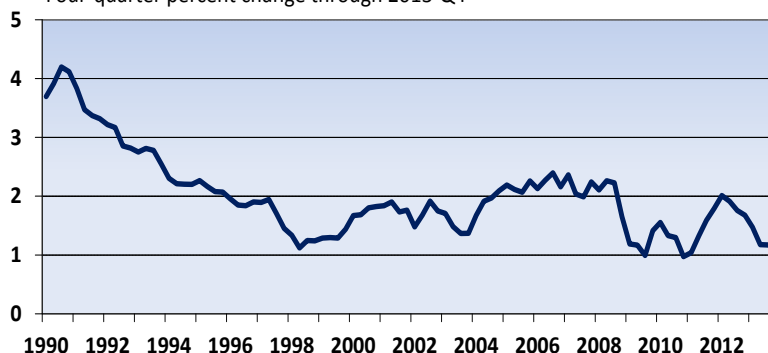
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Inflation remained low through the end of last year

- Inflation (as measured by changes in the Commerce Department's price index for personal consumption expenditures) amounted to just 0.9 percent over the course of 2013, the lowest rate since 1998.
- "Core" inflation (which excludes changes in the typically volatile prices of food and energy) edged down to 1.1 percent over the course of last year, down from 1.7 percent in 2012 and 1.8 percent in 2011 (see chart)
- Even as the economy picked up some steam in the second half of 2013, inflation ended the year well below the Federal Reserve's longer-term goal of 2 percent.

Core Inflation in Consumer Prices

Four-quarter percent change through 2013-Q4



Sources: Staff estimates using data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Note: Core inflation is measured as the four-quarter percent change in the chain-weighted price index for personal consumption expenditures excluding the the prices of food and energy.

Wages and benefits grew again in the fourth quarter and outpaced inflation in 2013

- Hourly compensation for civilian workers (which includes wages, salaries and benefits) rose 0.5 percent between September and December, slightly ahead of the gain over the previous three months, according to the Labor Department's Employment Cost Index.
- Over the course of 2013, compensation for civilian workers increased 2.0 percent, little changed from the 1.9 percent increase during 2012. Compensation growth exceeded the rate of inflation in consumer prices last year.

THE WEEK AHEAD

DAY

SELECTED UPCOMING DATA RELEASES & EVENTS

Tuesday, Feb. 4

Full Report on Manufacturers' Shipments, Inventories and Orders (December)

Thursday, Feb. 6

U.S. International Trade in Goods and Services (December)
Productivity and Costs (Fourth quarter, preliminary)

Friday, Feb. 7

The Employment Situation (January)
Consumer Credit (December)