



Economic Update

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U.S. House of Representatives
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Volume 3, Number 7

14 September 2004

Economy 'Regains Traction' ABOVE-TREND GROWTH EXPECTED TO CONTINUE THROUGH 2005

The U.S. economy is growing at a relatively strong pace in the second half of this year, and forecasters expect the good performance to continue through the end of next year. The apparent “soft patch” of 2 months ago now simply seems to have reflected the volatility that occurs around the broader trend of sustained growth during an expansion. The economy has grown for 11 consecutive quarters, and, over the past year, at one of its fastest paces in 20 years. Payroll employment has increased for 12 consecutive months, by a total of 1.7 million jobs; and the unemployment rate has declined steadily over the past 15 months – to 5.4 percent.

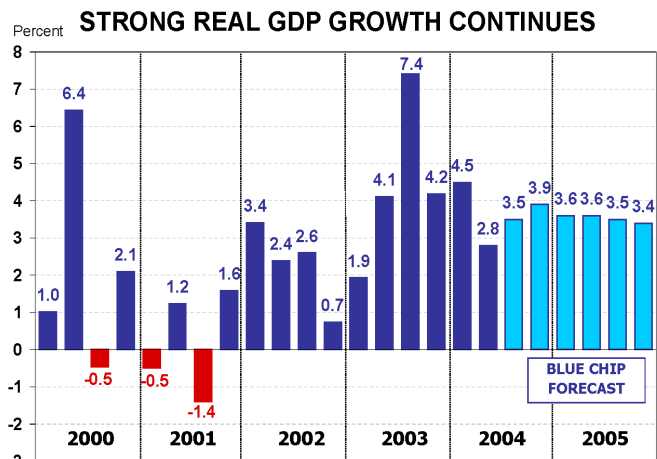
In recent testimony to the House Budget Committee, Federal Reserve Chairman Greenspan confirmed that the U.S. economic expansion has “regained some traction” and that “the economy is doing reasonably well.” The Congressional Budget Office also stated, in its recent update of the budget and economic outlook, that it “expects solid growth in overall economic output over the next two years.”

Recent Data

Recent data confirm the broad-based gains in the economy over the past year:

- Despite the apparent second-quarter “soft patch” – with growth in real gross domestic product [GDP] at a 2.8-percent annual rate – real GDP increased 4.7 percent over the past year, one of the fastest paces in 20 years. Analysts project a return to growth at or above 3.5 percent in the coming year (see chart).
- Payroll employment has increased by 1.7 million jobs in the past 12 months, with 144,000 new jobs in August.
- Manufacturing employment rose by 22,000 jobs in August and is up 100,000 jobs over the past 6 months.
- Employment as measured by the household survey – which includes self-employed individuals and others not captured by the establishment jobs numbers – grew to a record high of nearly 140 million in August.

- The unemployment rate fell to 5.4 percent in August – down from 6.3 percent in June 2003. The unemployment rate is now lower than the decade averages for the 1970s (6.2 percent), the 1980s (7.3 percent), and the 1990s (5.8 percent).



SOURCE: Bureau of Economic Analysis; Blue Chip Economic Indicators.

- Weekly first-time unemployment insurance claims fell to 319,000 in the first week of September – one of the lowest levels in 4 years – and have been below 400,000 for 48 straight weeks. Claims below 400,000 indicate continued improvement in labor markets.
- Manufacturing activity soared from the end of 2003 through the first half of 2004 – the highest pace of manufacturing activity in 20 years (Institute for Supply Management PMI index).
- Industrial production – the output of the Nation’s factories, mines, and utilities – rose 0.4 percent in July and is up 4.9 percent over the past year. Recently, growth in industrial production was its best in 4 years.
- Real business equipment investment rose at a 13.7-percent rate over the past year, the fastest rate of growth in 5 years.

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- Housing starts rose 8.3 percent in July, and building permits increased 5.7 percent. Housing starts and permits have been at their highest levels in 20 years – at a pace of about 2 million new housing units per year.
- The homeownership rate is at a record high 69.2 percent (second quarter 2004). Sales of new single-family houses also have been at record highs.
- Labor productivity – output per labor hour – has been growing at an extraordinarily fast pace. During 2003, labor productivity in the nonfarm business sector grew at a 5.7 percent rate – the fastest pace in 30 years.
- Inflation measures have fallen back to lower levels following energy-induced increases earlier this year. The consumer price index [CPI] was up 3.0 percent over the prior 12 months through July, while the core CPI (excluding food and energy) was up 1.8 percent.
- Crude oil prices continue at high levels – recently in the \$42 to \$45 per barrel range – but gasoline prices have declined in recent weeks: the national average retail price for regular gasoline was \$1.85 in the first 2 weeks of September, down from more than \$2.00 a gallon in the late spring.
- Consumption spending has moderated recently, rising 1.6 percent at an annual rate in the second quarter following growth of 4 percent over the prior year. Retail sales slipped slightly in August, by 0.3 percent, following a 0.8 percent gain in July. Consumption appears on track for a 2½ to 3 percent annual rate of increase in the third quarter.

The Blue Chip Outlook

The Blue Chip survey of private forecasters shows an outlook for continued strong growth, with a falling unemployment rate, relatively low inflation, and moderate increases in interest rates.

- The Blue Chip projection for growth over the second half of 2004 has declined in recent months – down from about a 4-percent annual rate to about 3¾ percent currently – but the outlook still is for “above-potential” (or “above-trend”) growth that will help to bring the unemployment rate down further. (Potential real GDP growth is seen to be around 3 percent to 3¾ percent.)

- The unemployment rate is expected to decline further, to 5.2 percent by the end of 2005.
- CPI inflation is expected to fall to roughly the 2-percent to 2½-percent range over the next year and a half – down from the 3.5-percent and 4.8-percent annual rates of the first and second quarters.
- Interest rates are expected to rise gradually over the next year and a half, reflecting the above-trend real growth and the return to more fully employed resources in the U.S. economy. The 3-month Treasury bill rate is expected to rise from its recent levels of about 1.6 percent to 3.4 percent by the end of 2005; the 10-year Treasury yield is expected to increase from its recent levels of around 4¼ percent to about 5¼ percent.

Blue Chip Economic Outlook, September 2004

	2003.4	2004.1	2004.2	2004.3	2004.4	2005.1	2005.2	2005.3	2005.4
	Actual				Projection				
Real GDP Growth	4.2	4.5	2.8	3.5	3.9	3.6	3.6	3.5	3.4
Unemployment Rate	5.9	5.6	5.6	5.5	5.4	5.4	5.3	5.3	5.2
CPI Inflation	0.7	3.5	4.8	2.6	2.3	2.1	2.2	2.3	2.4
3-month Treasury Bill	0.9	0.9	1.1	1.5	1.9	2.3	2.6	3.0	3.4
10-year Treasury Note	4.3	4.0	4.6	4.5	4.7	4.9	5.1	5.2	5.3

Greenspan Testifies Before Budget Committee

In his recent testimony to the House Budget Committee, Fed Chairman Greenspan stated that, although “economic activity hit a soft patch in late spring after having grown briskly in the second half of 2003 and the first part of 2004 . . . [t]he most recent data suggest that, on the whole, the expansion has regained some traction.” Chairman Greenspan also discussed the rise in oil and energy prices that occurred earlier this year, but acknowledged the difficulties in evaluating their overall impact on the U.S. economy.

The Federal Reserve’s Federal Open Market Committee [FOMC] will meet again later this month to evaluate the stance of monetary policy. In August, the FOMC raised the Federal funds rate by 25 basis points, to 1½ percent. In its accompanying statement, the Committee said: “The economy nevertheless appears poised to resume a stronger pace of expansion going forward.”

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