



JOINT ECONOMIC COMMITTEE

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RECENT ECONOMIC DEVELOPMENTS

JANUARY 25, 2005

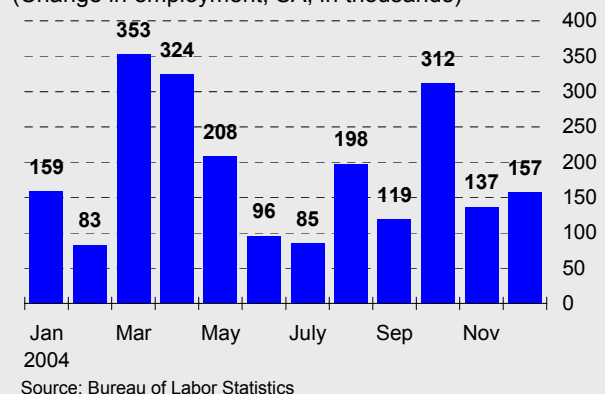
The Economic Expansion Remains Steady

Robust growth in consumer and business investment spending continues to fuel growth in the gross domestic product (GDP) and payroll job gains continue at a healthy pace. Payroll employment has expanded for 16 consecutive months and payroll job gains in 2004 totaled over 2.2 million. Energy prices rose again recently, after a sharp retreat from recent peaks of late October. Higher energy prices have pushed up the dollar value of imports while stagnant growth abroad has hampered export growth. As a result, the U.S. trade deficit hit a record high in dollar terms in November. Despite increases in energy prices last year, inflation remains tame. Forecasters continue to see low inflation along with strong and steady growth at least through next year.

Highlights

- Payroll employment rose by 157,000 in December, the 16th straight month of gains (Fig. 1) and the unemployment rate remained at 5.4%.
- GDP growth was revised up to 4.0% for the 3rd quarter of last year from a prior estimate of 3.9%, led by strength in consumer and business investment spending. Forecasters see continued growth throughout next year.
- The trade deficit widened in November to \$60.3 billion, a record high in dollar terms.
- Crude oil futures prices have risen close to \$50 a barrel again, after a large decline that followed the recent peak in prices in late October.

Over 2.2 Million New Payroll Jobs in 2004
(Change in employment, SA, in thousands)



Sixteen Straight Months of Job Gains Have Added Over 2.2 Million New Jobs to Payrolls

The economy added 157,000 *payroll jobs* in December, bringing total payroll job gains in 2004 above 2.2 million. Manufacturing employment rebounded in December, with 3000 manufacturing payroll jobs gained in the month. Manufacturers added 76,000 payroll jobs in 2004, the first year of net job gains in manufacturing since 1997. The *unemployment rate* held steady at 5.4% in December, below the average of each of the past three decades. December's 5.4% unemployment rate is down from 5.7% a year earlier.

Forecasters See Strong and Steady GDP Growth following the 3rd Quarter's 4.0% Growth

GDP growth was revised up to 4.0% in the 3rd quarter of last year, with robust consumer and business investment spending continuing to fuel growth. Inflation-adjusted *personal consumption expenditure* growth soared to an annualized rate of 5.1% in the 3rd quarter, the best performance in almost three years. *Business investment* in equipment and software grew at a rapid 17.5% annualized rate. Forecasters see continued low inflation with strong and steady growth in output and employment. The most recent Blue Chip consensus forecast is for GDP to grow at an annualized rate of 3.7% in the 4th quarter of 2004 and at an average annual rate of around 3.5% throughout 2005 (Fig. 2, next page).

The Trade Deficit Has Widened

The U.S. *trade deficit* widened in November to \$60.3 billion, the largest monthly deficit in dollar terms. The dollar value of imports surged in November, pushed up by higher oil prices, while the value of exports fell. Declines in the value of the dollar have made U.S. imports more expensive and U.S. exports more competitive overseas, but weakness in economies abroad has hampered U.S. export growth. The *value of the U.S. dollar* has fallen by 50% against the euro since early 2002 and by 19% against the yen.

Energy Prices Have Risen Again

Crude-oil futures prices have risen close to \$50 a barrel recently, partly because of cold weather in the U.S. and fears of supply cuts. This recent rise follows a sharp retreat in prices from their late-October peak of close to \$56 a barrel. The Organization of Petroleum Exporting Countries (OPEC) plans to meet January 30 to evaluate production quotas and its output ceiling. OPEC decided in December to cut production beginning this month.

Inflation Remains Tame

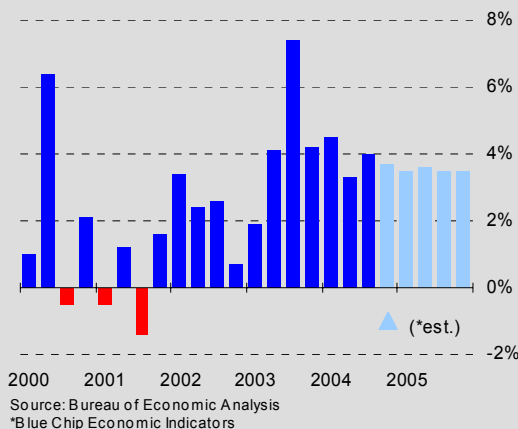
Inflation remains generally contained, but has risen over the past year. Year-over-year inflation in the *consumer price index (CPI)* has accelerated from 1.9% at the start of last year to 3.3% in December. Excluding volatile food and energy prices, *core CPI inflation* has doubled from 1.1% at the start of last year to 2.2% in December. Inflation in the *core personal consumption expenditure price index*, the Fed's preferred consumer price inflation gauge, is up from 1.1% at the start of last year to 1.5% in November.

Business Activity Remains Vibrant

The *Institute for Supply Management (ISM) manufacturing index* rose in December, the second consecutive monthly increase. The index has been above 50, indicating expansion, for 20 straight months and stands at 58.6, indicating a vigorous pace of expansion. The *ISM non-manufacturing index* also rose in December, to 63.1, and indicates a vigorous pace of expansion in service-producing sectors of the economy. The non-manufacturing index has been above 50 for 20 straight months and above 60 for two straight months (Fig. 3).

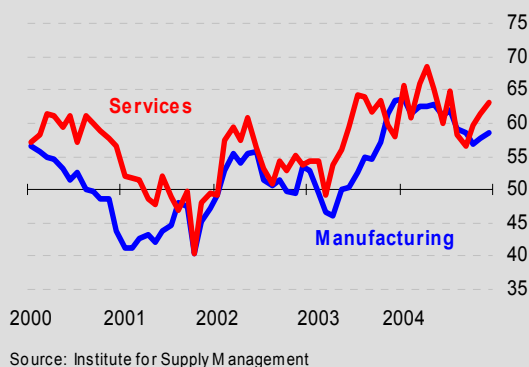
Strong Growth Expected Through 2005
(Real annualized GDP growth rate)

2



Robust Business Activity Continues
(ISM Index, reading of 50+ indicates sector expansion)

3



Upcoming Indicators

Federal Reserve – The Fed's next meeting is scheduled for *February 1-2*; markets expect another quarter-point rate rise.

Employment – The Bureau of Labor Statistics reports January's employment situation on *February 4*. Jobless claims data arrive every Thursday.

GDP – The first look at GDP growth for the 4th quarter arrives *January 28*.

Inflation – The Consumer Price Index is scheduled to be released *February 23*. The Producer Price Index is scheduled to be released *February 18*.