



JOINT ECONOMIC COMMITTEE

CHAIRMAN ROBERT F. BENNETT

RECENT ECONOMIC DEVELOPMENTS

SEPTEMBER 15, 2004

The Expansion Has Regained Traction

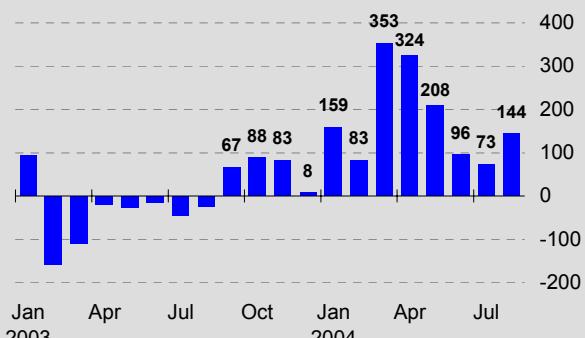
The economic expansion has regained traction following the soft patch of late spring. Payroll employment growth picked up in August and consumer spending appears to have rebounded in July and August. Business investment spending continues to grow and employment and output in manufacturing are on the rise. Levels of activity in housing markets and new construction remain strong. Exports rebounded in July while imports declined, leading to an improvement in the trade balance. Inflation, inflation expectations, energy prices and long-term interest rates have recently eased. Forecasters see strong growth in the gross domestic product (GDP) for the second half of the year.

Highlights

- Payroll employment rose by 144,000 in August, the 12th straight month of gains (Fig. 1). Manufacturing jobs also rose and unemployment edged down to 5.4%.
- Inflation and energy prices have retreated. Crude oil prices have fallen to around \$44 per barrel from a recent peak of almost \$49.
- Forecasters see GDP growth of 3.5% for the 3rd quarter and 3.9% in the 4th quarter. Growth in the 2nd quarter, which includes the late spring "soft patch," was 2.8%.
- Long-term interest rates have eased. The yield on a 10-year Treasury note, for example, is around 4.2%, down from 4.8% in mid-May.

1.7 Million New Jobs Since August 2003

(Change in employment, SA, in thousands)



Source: Bureau of Labor Statistics (Payroll Survey)

Twelve Straight Months of Job Gains Have Added 1.7 Million New Jobs to Payrolls

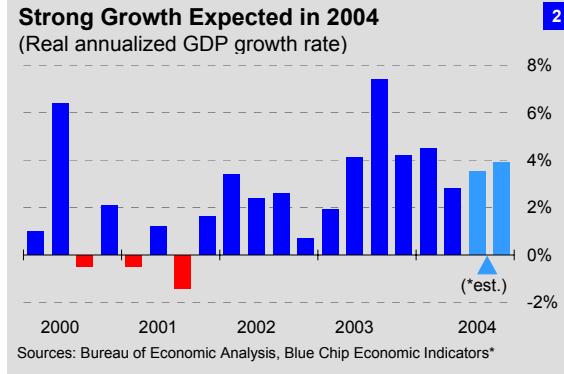
The economy added a healthy 144,000 *payroll jobs* in August, the 12th straight month of payroll job gains, according to the Bureau of Labor Statistics. Payroll job gains in June and July were revised up. In the past year, 1.7 million new payroll jobs have been created. Manufacturers continued to add to payrolls in August, increasing jobs by 22,000. Manufacturing has added more than 100,000 payroll jobs since January. The *unemployment rate* fell again in August to 5.4%, the lowest since October 2001. Over the past year, the unemployment rate has fallen in all but one of the 50 states.

Inflation and Energy Prices Have Eased; Health Care Costs Continue to Rise Rapidly

Consumer and producer price inflation, inflation expectations, and energy prices have all eased in recent months, though energy prices remain elevated. *Crude oil prices* have retreated to around \$44 per barrel from a mid-August peak of almost \$49. *Retail gasoline prices* have also retreated, to around \$1.90 per gallon on average from a late-May peak of \$2.10 per gallon. The annual rate of growth in employer-sponsored *health-care premiums* moderated somewhat this year, rising 11.2%, according to a survey by the Kaiser Family Foundation and Health Research and Education Trust. This survey year was the fourth straight in which premium growth was double-digit.

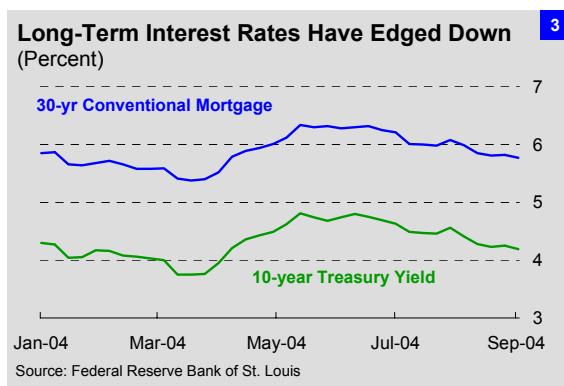
Forecasters Predict Faster GDP Growth

According to Federal Reserve Chairman Greenspan's testimony last week, recent data indicate that "the expansion has regained some traction." The consensus forecast for inflation-adjusted *GDP growth*, from the Blue Chip survey of forecasters, is 3.5% for the 3rd quarter of this year and 3.9% for the 4th quarter. Growth in the 2nd quarter was revised down to a still healthy 2.8% from an earlier estimate of 3.0%. *Growth in labor productivity*—output per unit of labor—was also revised down for the 2nd quarter.



Long-Term Interest Rates Have Eased

Declining inflation expectations have helped to bring down *long-term interest rates*. The yield on a 10-year Treasury note is currently around 4.2%, down from a recent high of 4.8% in mid-May. The interest rate on a conventional, fixed-rate, 30-year mortgage currently stands at a bit below 5.80%, down from a recent high of 6.35% in mid-May.



Housing Markets Remain Firm

While *new and existing home sales* fell in July, levels of activity remain high, aided by the still-low mortgage rates and a strengthened economy. *Housing starts*—groundbreakings for new homes—rebounded in July, increasing by a strong 8.3% over June's starts, and *building permits* rose. *Total construction spending* (private residential, private non-residential, and public) increased 0.4% in July relative to one month earlier. All three components of total construction posted gains.

The Trade Balance Improved in July

Exports grew 3.9% in July while imports fell 1.5% and the trade deficit got smaller. In June, the pattern was reversed; exports fell while imports grew and the trade deficit expanded. In July, exports had grown by 12.0% relative one year earlier while imports had grown 15.5%. The trade deficit remains high at over \$50 billion.

Upcoming Indicators

Federal Reserve – The Fed next meets on September 21. Markets expect another quarter point increase in the Fed's target overnight interest rate.

Employment – The Bureau of Labor Statistics reports September's employment situation on October 8. Jobless claims data arrive every Thursday.

GDP – The first look at GDP growth for the 3rd quarter arrives October 29.

Inflation – The Consumer Price Index is scheduled to be released September 16. The next release of the Producer Price Index is scheduled for October 15.