JOINT ECONOMIC COMMITTEE

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10 FACTS ABOUT TODAY'S ECONOMY

Every month generates a seemingly inconsistent series of economic indicators that send mixed signals. Yet, the fundamentals of the U.S. economy remain strong, including America's world-class productivity levels and growth, and long-sought price stability. As Alan Greenspan noted in recent testimony to the Joint Economic Committee (JEC), the U.S. economy has shown "extraordinary resilience" enabling it to weather a series of economic storms that might have plunged a less flexible economy into deep recession. This report highlights a number of positive trends that have developed throughout the last few years, despite remaining challenges in some sectors of the economy.

The 10 Facts

1. The U.S. economy has grown despite a remarkable series of shocks.
2. The economic slowdown began in 2000; the recession ended in November 2001.
3. Consumers have been strong, incomes and spending have grown, and home sales and homeownership have hit record highs.
4. Higher productivity raises our standard of living, but it also raises the hurdle for job creation.
5. Today's unemployment rate remains below the peaks of previous recessions.
6. Manufacturing is losing jobs, but other sectors are adding them.
7. Tax relief is working.
8. Deficits expand after recessions, but can be reversed by spending restraint and economic growth.
9. Most economists forecast faster economic growth.
10. The U.S. economy is growing faster than many other major economies.

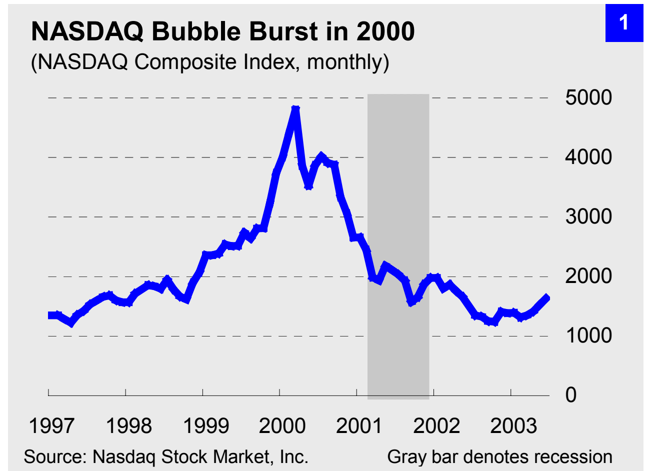
1. **The U.S. economy has grown despite a remarkable series of shocks.** In the last three years, the U.S. economy has been buffeted from many directions: the bursting of the high-tech bubble, sharp declines in the stock market, scandals in corporate governance, terrorist attacks, energy price spikes, port closures, and two wars. Yet, the U.S. experienced only a short, shallow recession followed now by seven quarters of renewed economic growth.[1] With the uncertainties of these shocks waning and the passage of new tax relief, the stock market has also begun to rebound. For example, in the first half of this year, stocks regained $1 trillion of their value.[2]

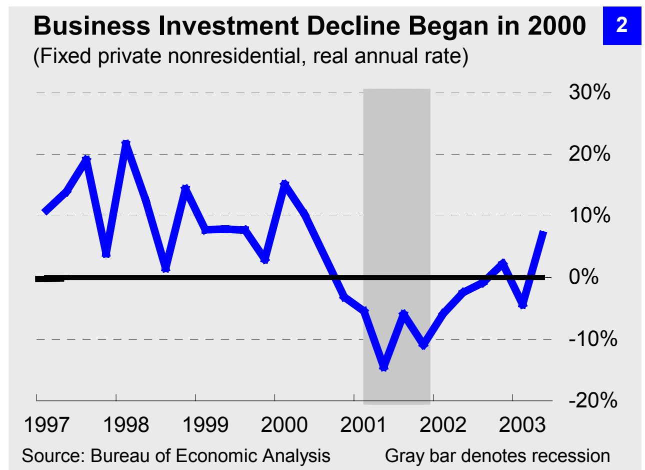
2. **The economic slowdown began in 2000; the recession ended in November 2001.** The National Bureau of Economic Research (NBER), the unofficial arbiter of business cycle ups and downs, recently announced that the 2001 recession began in March and ended in November of that year. At eight months long, the recession was one of the shortest on record.[3] Economic data demonstrate that the seeds of the 2001 recession were sown as the technology boom came to an end in 2000.

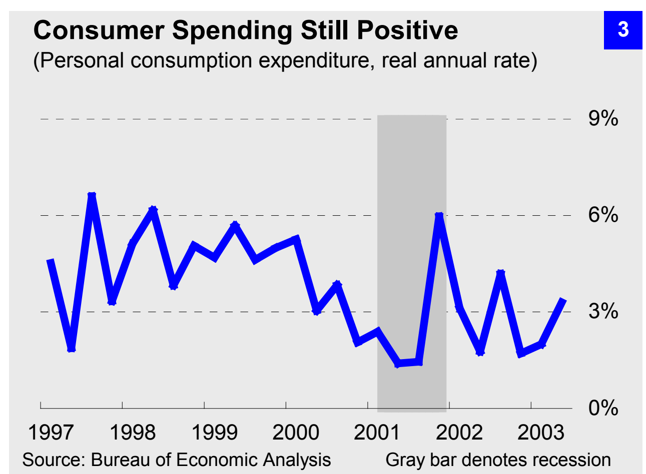
- **Stock markets plummeted in 2000.** For example, the Nasdaq Composite Index plummeted by 44.7 percent from its March 2000 peak to the end of the year (chart 1).[4] The S&P 500 Composite Index declined by 10.4 percent from its August 2000 peak to the end of the year.[5]

- **Business investment turned negative in 2000.** Chart 2 shows it went from growing at 15.1 percent in the first quarter of 2000 to retracting at 3.2 percent in the last quarter (annual rate adjusted for inflation).[6]

- **Economic growth slowed in 2000.** Annual GDP growth dropped from 3.7 percent in the first half of 2000 to 0.9 percent in the second half (adjusted for inflation).[7]





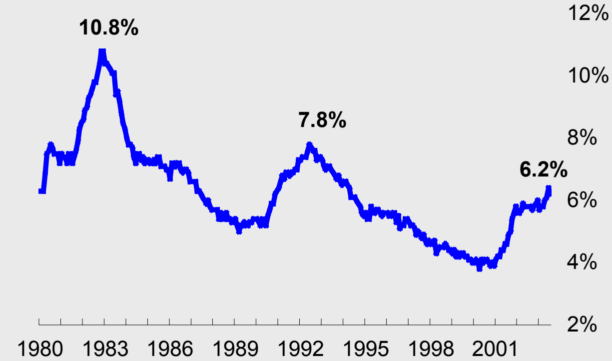


3. **Consumers have been strong, incomes and spending have grown, and home sales and homeownership have hit record highs.** Consumer incomes, spending, and home sales usually stall during a recession. Many economists feared the same would eventually happen this time, but it never did (see chart 3). Consumers' disposable income has increased 5 percent since the recession (in real terms, i.e., excluding inflation), and real growth in consumer spending has hovered around a 3 percent annual rate.[8] New and existing home sales have continued to hit new records.[9] Also, with homeownership now at 68.2 percent, more Americans own their own home than ever before.[10]

4. **Higher productivity raises our standard of living, but it also raises the hurdle for job creation.** History demonstrates that higher productivity leads to higher wages and faster economic growth generally. Productivity growth has been a key factor setting the U.S. apart from most countries. Yet, the exceptionally high productivity growth that began in the late 1990s has also meant that the hurdle for new job creation is higher than it was before. Employers are able to go longer without hiring than they have in the past since their existing workers are more productive. Growth in productivity, which averaged 1.2 percent annually between 1974 and 1995, doubled to 2.4 percent for the period from 1996 to present.[11]

5. **Today's unemployment rate remains below the peaks of previous recessions.** Chart 4 shows that the current unemployment rate of 6.2 percent remains below the peaks of the 1980s recessions and the early 1990s recession. It is important to understand that the unemployment rate reflects businesses creating and terminating jobs, and people entering and leaving the labor markets. It generally lags other economic indicators and even rises slightly at the beginning of a recovery when people who have stopped looking for jobs become encouraged and start looking again. For example, unemployment was higher during the two years after the 1991 recession than during 1991 itself, reaching a high of 7.8 percent in June 1992. This phenomenon played out again over the last few months. After some favorable economic news, people re-entered the labor markets and pushed the unemployment rate up to 6.4 percent in June, the highest point during this recession and recovery period.[12]

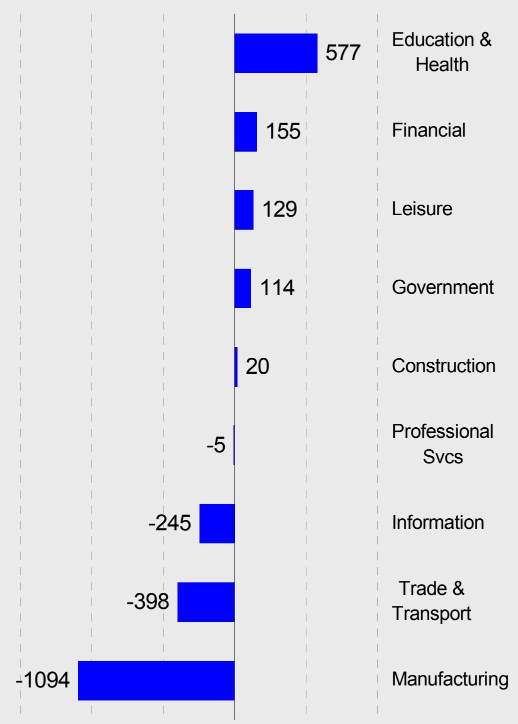
Unemployment Rate Below Previous Peaks 4
(Civilian unemployment rate, seasonally adjusted)



Source: Bureau of Labor Statistics

6. **Manufacturing is losing jobs, but other sectors are adding them.** Evidence on job creation shows up in the payroll survey – where manufacturing employment is declining severely, but is counterbalanced by new jobs in other sectors. Chart 5 shows that the decline in manufacturing employment explains a majority of job losses since 2002; however, other sectors have been growing. New positions in the much larger service sector continue to expand, with job creation in education, health, finance, leisure and construction. Although an important sector of the economy, manufacturing represents a relatively small portion of the existing labor market. For example, manufacturing accounts for 14.7 million existing jobs while education alone accounts for 16.5 million.[13]

Jobs Transformation, 2002 - Present 5
(Change in Payroll Employment by Sector, 1000s)

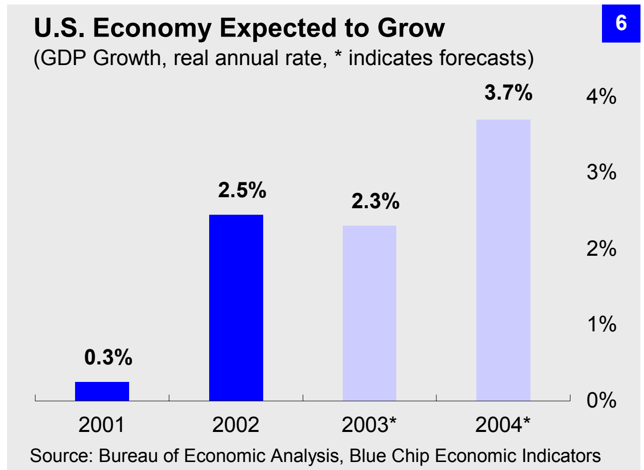


Source: Bureau of Labor Statistics

7. **Tax relief is working.** Congress and President Bush recently passed three rounds of tax relief to help the economy. The largest of the bills started to phase in tax reductions in June 2001, with the subsequent bills adding to it and accelerating the phase-ins of the tax reductions. Numerous economists believe these measures helped shorten the recession and will continue to assist the recovery. For example, Federal Reserve Chairman Alan Greenspan said, "the 2001 tax cut did fortuitously turn out to be extremely well-timed from the point of view of the economy."[14] The Treasury Department estimates that without the tax relief as many as 1.5 million more Americans would be out of work right now and the unemployment rate would be well over 7 percent.[15]

8. **Deficits expand after recessions, but can be reversed by spending restraint and economic growth.** When compared with the size of the economy, today's budget deficits are expected to remain well below the deficits that occurred after the recessions in the 1980s and early 1990s. Recessions expand deficits by reducing the tax base and increasing spending on low-income programs like Medicaid. For example, 53 percent of the budget deterioration in fiscal year 2003 has been due to the weak economy and estimate changes. Legislated spending increases and tax relief account for 24 percent and 23 percent, respectively. Renewed economic growth and spending restraint are the keys to reversing budget deficits.[16]

9. **Most economists forecast faster economic growth.** For example, the Blue Chip consensus forecast shows GDP growing 3.6 percent in the third quarter and 3.8 percent in the fourth quarter of this year (annualized rates adjusted for inflation).[17] Forecasters base their expectations for a pickup in growth on several factors, including the recently passed tax package and the Federal Reserve's determination to keep interest rates at current low levels for as long as necessary.



10. **The U.S. economy is growing faster than many other major economies.** For example, last year GDP in the U.S. grew at a 2.4 percent annual rate, while in Japan, Germany and other developed countries GDP grew at about 1 percent or less.[18] Unfortunately, the sluggish global economy harms U.S. trade, which is a significant portion of our economy. Fortunately, economic indicators point to an improved global outlook in 2004, which should result in increased global demand for U.S. products.

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1 Bureau of Economic Analysis (BEA).
2 Wilshire 5000 Index, Wilshire Associates, Inc.
3 National Bureau of Economic Research (NBER).
4 Nasdaq Stock Market, Inc.
5 Standard & Poor Corporation.
6 BEA.
7 BEA.
8 BEA.
9 Census Bureau and National Association of Realtors.
10 Census Bureau.
11 Bureau of Labor Statistics (BLS).
12 BLS.
13 BLS.
14 Testimony before the House Committee on Financial Services, April 30, 2003.
15 U.S. Department of Treasury, July 15, 2003 (http://www.treas.gov/press/releases/js557.htm).
16 Office of Management & Budget, and the Joint Economic Committee (see report "Understanding Today's Deficits" at http://jec.senate.gov/studies/TodaysDeficits.pdf).
17 Blue Chip Economic Indicators, July 10, 2003.
18 International Monetary Fund, and the Joint Economic Committee (see report "Putting the U.S. Economy in Global Context" at http://jec.senate.gov/studies/JEC%20on%20Intl%20econ%206-24-03.pdf).