



# JOINT ECONOMIC COMMITTEE

ROBERT F. BENNETT, CHAIRMAN

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## RECENT ECONOMIC DEVELOPMENTS

### The Economy and Job Market Strengthen

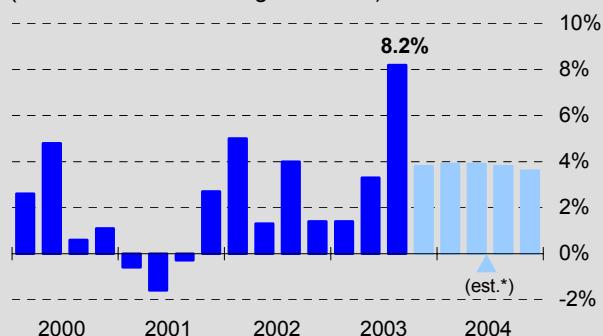
The economy is beginning to run on all cylinders, as economic growth translates into job creation. Forecasters expect continued job gains and strong, sustainable economic growth into 2004.

#### Highlights

- The economy grew at an 8.2% rate in the third quarter (revised up from the original estimate of 7.2%), the fastest in almost twenty years. Forecasters expect solid growth of roughly 4% through the end of 2004.
- Payrolls are expanding, adding almost 300,000 jobs in the last three months. The unemployment rate has been declining, falling to 6.0% in October.
- New claims for unemployment benefits have fallen sharply in recent weeks, reaching their lowest level since before the recession.

#### Remarkably Strong Growth in Q3 2003

(Real annualized GDP growth rate)



Sources: Bureau of Economic Analysis,

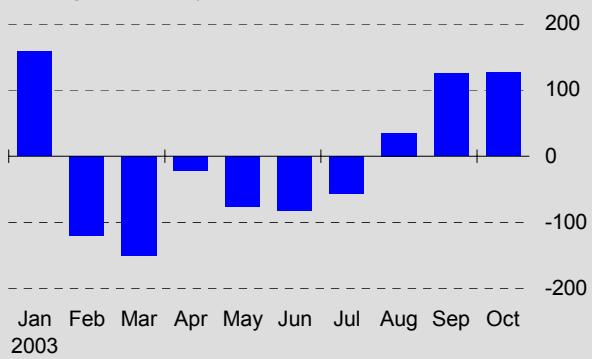
\*Blue Chip Economic Indicators

#### Payrolls are Expanding

*Payroll employment* increased in August, September, and October, adding 286,000 jobs (Figure 2). Forecasters expect that payroll jobs will continue to increase in the coming year. While projections vary, several leading analysts believe that the economy will add more than 2.5 million jobs by the end of 2004. If this forecast is realized, payroll employment will be higher in late 2004 than it was at the start of 2001. (Payrolls are currently about 2.4 million below their pre-recession peak.)

#### Payroll Employment Begins to Improve

(Change in employment, in thousands)



Source: Bureau of Labor Statistics

#### Employment Survey Disparity Grows

The Bureau of Labor Statistics' *household survey* continues to show greater job gains than the payroll survey. In October, for example, the household survey estimated that the number of employed people increased by 441,000; with that increase, employment now exceeds its level at the start of the recession. The disparity between the household and payroll surveys began as the economy emerged from the recession at the end of 2001; it has now grown to be the largest such disparity in the history of the two surveys. Growing self-employment, which is captured in the household survey but not the payroll, explains some of the disparity, but the bulk of the disparity remains as yet unexplained.

## Unemployment is Declining

The *unemployment rate* fell to 6.0% in October, below its recent peak of 6.4% in June (Figure 3). Forecasters expect that the unemployment rate will decline in the future, falling to 5.7% by the last quarter of 2004. Unemployment remains significantly lower than the levels that prevailed after the recessions of the early 1980s and early 1990s.

## New Unemployment Claims are the Lowest in Several Years

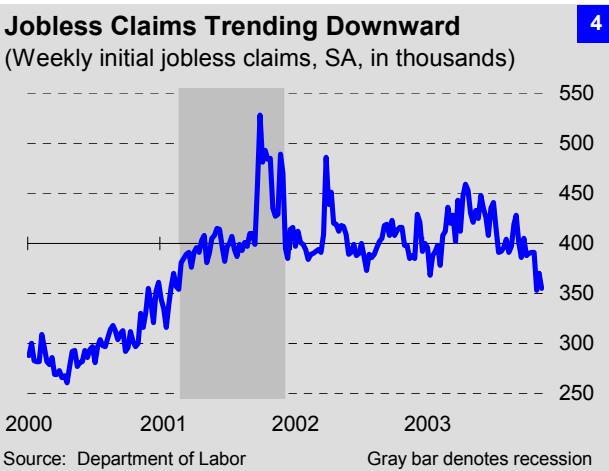
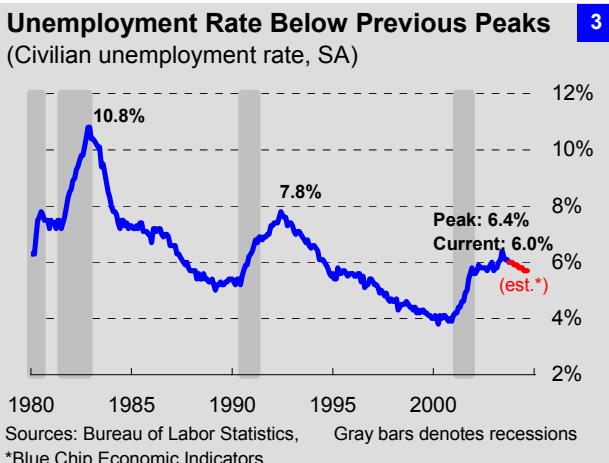
*New claims for unemployment* have fallen sharply in recent months (Figure 4). Weekly jobless claims averaged about 367,000 over the last month, the lowest level since early 2001, before the recession began. As a rule of thumb, economists expect that employment will increase whenever jobless claims are less than 400,000.

## Growth Soared in the Third Quarter, Helped by Recent Tax Relief

Real growth in the *gross domestic product* (GDP) accelerated to an 8.2% annual rate in the third quarter, reflecting wide strength in the economy (the original estimate, 7.2%, was revised up because of additional strong data that weren't available at that time). *Business investment* has been strong for the past two quarters, in part because of the pro-investment components of recent tax relief. *Consumer spending* also posted significant gains, as take-home incomes were helped by lower tax rates and other recent tax relief.

## Forecasters Expect Further Growth

Analysts expect continued economic growth over the next year. The Blue Chip forecasters see growth at an average rate just under 4% through the end of 2004 (Figure 1, page 1). Forecasters surveyed by the National Association of Business Economists see even stronger growth, with real GDP in 2004 being 4.5% higher than in 2003. If this forecast is realized, it would be the fastest year-over-year growth since 1984.



## Upcoming Indicators

**Employment** – November employment data will be announced on December 5<sup>th</sup>; weekly jobless claims are reported each Thursday (Wednesday this week because of the holiday).

**GDP** – The Bureau of Economic Analysis will release a comprehensive revision of GDP data on December 10<sup>th</sup>. This revision will make a host of changes to the presentation and calculation of the GDP statistics; some changes may lead to revisions to historical GDP data.

**Federal Reserve** – The Federal Open Market Committee meets on December 9. Analysts expect no change in short-term interest rates, but will carefully review the policy statement for any indication of when the Fed will begin to raise rates.