



JOINT ECONOMIC COMMITTEE

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RESEARCH REPORT #109-44
September 2006



U.S. ECONOMY OUTPERFORMS PEER GROUP FROM 2001 TO 2006

The bursting of the stock market bubble in early 2000 caused economic growth to slow during the second half of 2000. The terrorist attack on September 11, 2001 exacerbated this slowdown. Pro-growth policies have helped the U.S. economy recover from this slowdown and sustain a vigorous expansion.

Consequently, the U.S. economy has outperformed its peer group of large developed economies¹ (Canada, the European Union (EU),² and Japan). On balance, from the first quarter of 2001 to the second quarter of 2006, the U.S. economy compares favorably with its peer group in terms of real GDP growth, real investment in fixed assets, industrial production, employment, labor productivity, and price stability (see table on page 2).

Real GDP Growth

From the first quarter of 2001 through the second quarter of 2006, the U.S. economy expanded at an average annualized rate of 2.63 percent. The United States ranked first among its peer group in real GDP growth.

Real Gross Investment in Fixed Assets

From the first quarter of 2001 to the second quarter of 2006, U.S. real gross investment in fixed assets increased by 14.2 percent. The United States ranked second in the growth of real gross investment in fixed assets.

However, this increase masks two distinct periods. The economic slowdown that began in the

¹ A large developed economy, as defined here, is a developed economy that produces at least one percent of world GDP.

² The Euro-zone consists of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. The European Union-15 (EU-15) consists of the Euro-zone countries plus Denmark, Sweden, and the United Kingdom. The European Union-25 (EU-25) are the EU-15 countries plus Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

second half of 2000 reduced U.S. real gross investment in fixed assets by 6.0 percent from the first quarter of 2001 to the first quarter of 2003. After policymakers lowered the maximum federal tax rate on capital gains and dividends to 15 percent in May 2003, this trend reversed. From the second quarter of 2003 to the second quarter of 2006, U.S. real gross investment in fixed assets swelled by 21.5 percent.³

Industrial Production

From January 2001 to June 2006, U.S. industrial production increased by 9.9 percent. The United States ranked first among its peer group in industrial production growth.

Employment and Unemployment

From January 2001 through July 2006, the United States ranked second in employment growth in percentage terms. U.S. employment grew by 4.9 percent (or by 6.715 million jobs). Canada ranked first in percentage growth at 10.7 percent (1.593 million). The European Union-15 ranked third at 4.4 percent (7.447 million). Japanese employment fell by -1.4 percent (-910,000).³

In July 2006, however, the U.S. unemployment rate of 4.8 percent was significantly lower than either the Canadian unemployment rate of 6.4 percent or the EU-25 unemployment rate of 8.0 percent.

Labor Productivity

From the first quarter of 2001 to the second quarter of 2006, U.S. labor productivity grew by 9.9 percent. While Japan slightly edged the United States in labor productivity growth, this was due in part to Japan's reduction in employment. The United States clearly outperformed Canada and the European Union in terms of labor productivity growth.

³ Employment and unemployment data are from U.S. household survey or similar foreign statistical sources.

Price Stability

From January 2001 to August 2006, U.S. consumer prices rose at an average annualized rate of 3.1 percent. Canada and the European Union had similar inflation rates. In Japan, deflation caused consumer prices to decline at an average annualized rate of 0.1 percent.

Equity Prices

As measured by major stock price indices, Canada recorded the largest gain in equity prices from January 2, 2001 to August 31, 2006. The Toronto Stock Exchange Index rose by 35.1 percent. Japan also scored significant gains. The Nikkei 300 was up 22.5 percent.

U.S. equity prices generally rose. The Dow Jones Industrial Average (DJIA), Standard and Poor's 500 Index (S&P 500), and Wilshire 5000 increased by 6.9 percent, 1.6 percent, and 11.0 percent respectively. However, the NASDAQ Composite Index was 4.7 percent lower.

In contrast, European equity prices were down significantly. For example, the Paris CAC 40

dropped by 12.8 percent, the Frankfurt Xetra Dax fell by 8.9 percent, and the FT 100 (London) declined by 5.9 percent.

By the end of August 2006, the DJIA, S&P 500, and the Wilshire 5000 were significantly above their relatively high levels at the end of 2000. The significant increases in equity prices in Canada and Japan can be attributable to special circumstances. Canadian equity prices benefited from the heavy concentration of energy and natural resource corporations on the Toronto Stock Exchange. Because the Japanese stock market was depressed during much of the 1990s, the gains in Japanese equity prices since 2000 were from a low base.

Conclusion

On balance, the U.S. economy has outperformed its peer group of large developed economies in a number of key measures of economic well-being between 2001 and 2006. Pro-growth tax policy and deft monetary policy have contributed to the superior performance of the U.S. economy.

Economy	Average Real GDP Growth Rate (Q1-2001 to Q2-2006)	Increase in Real Gross Investment in Fixed Assets from Q1-2001 to Q2-2006	Industrial Production Growth (January 2001 to June 2006)	Increase in Total Employment (January 2001 to July 2006) in percent ⁴	Unemployment Rate (July 2006)	Labor Productivity Growth (Q1-2001 to Q2-2006) ⁵	Average Annualized Increase in Consumer Prices (January 2001 to August 2006)
Canada	2.59%	36.9%	3.6%	10.7%	6.4%	3.8%	2.5%
EU-25	1.79%	11.0%	4.6%	N/A	8.0%	N/A	2.2%
EU-15	1.68%	10.1%	3.1%	4.4%	7.3%	4.9%	2.1%
Euro-zone	1.48%	8.1%	4.3%	3.7%	7.8%	3.6%	2.2%
Japan	1.60%	0.5%	3.4%	-1.4%	4.1%	10.5%	-0.1%
United States	2.63%	14.2%	9.9%	4.9%	4.8%	9.9%	3.1%

Sources for GDP and gross fixed investment data: Statistics Canada, Statistical Office of the European Communities, Cabinet Office (Japan), U.S. Department of Commerce, Bureau of Economic Analysis

Sources for industrial production data: Statistics Canada, Statistical Office of the European Communities, Ministry of Economy, Trade & Industry (Japan), and Federal Reserve Board

Sources for employment and unemployment data: Statistics Canada, Statistical Office of the European Communities and European Central Bank, Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Labor, Bureau of Labor Statistics

Sources for labor productivity data: Statistics Canada, Statistical Office of European Communities, Cabinet Office and Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Commerce, Bureau of Economic Analysis and U.S. Department of Labor, Bureau of Labor Statistics

Sources for inflation data: Statistics Canada, Statistical Office of the European Communities, Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Labor, Bureau of Labor Statistics

⁴ Euro-zone increase in total employment is through March 2006.

⁵ Euro-zone increase in labor productivity is through the first quarter of 2006.