

## ***The U.S. Recovery: Back from Sabbatical***

***Presented to:***

**Federation of Tax Administrators  
Revenue Estimating Conference  
New Orleans, Louisiana  
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***Presented by:***

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### ***Overview and Issues***

- ◆ **After a long absence, the recovery has returned.**
  - ➔ **GDP growth has accelerated.**
  - ➔ **More sectors are participating.**
  - ➔ **Deflation fears have dissipated.**
- ◆ **The stage is set for accelerating growth...**
  - ➔ **Monetary policy remains accommodative.**
  - ➔ **Fiscal policy is expansionary.**
  - ➔ **Business investment is rising.**

## Overview and Issues

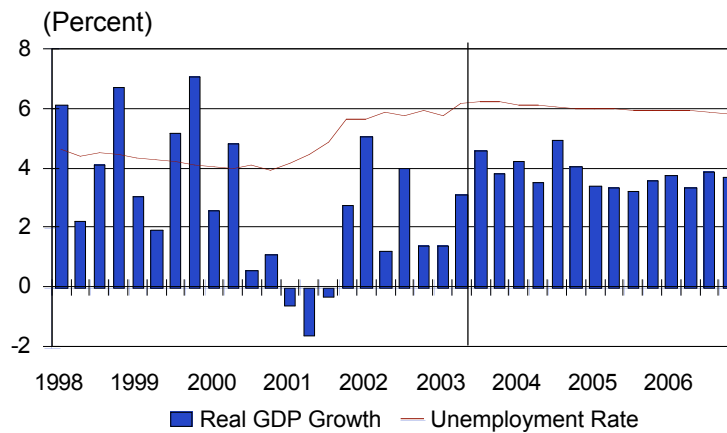
- ◆ But the lead player—jobs—has to show up.
  
- ◆ Once over that hump...
  - There is a disconnect between demand for education and health care and willingness to pay for them.
  - Households are not saving enough for retirement.
  - Pensions once thought secure are at risk.



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## The Recovery Will Continue, But Unemployment Will Fall Slowly



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## Sources of Growth in the U.S. Economy

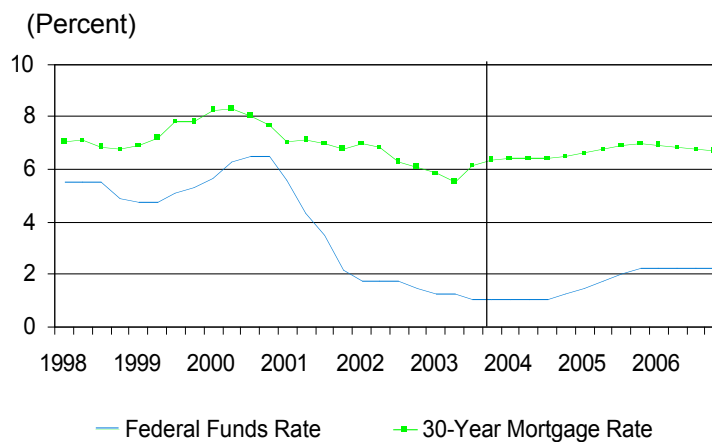
	1998	2001	2003	2003	2005
<b>GDP Growth (%)</b>	4.28	0.25	2.59	4.08	3.71
<b>Contributions</b>					
<b>Consumption</b>	3.18	1.67	2.14	2.88	2.34
<b>Structures</b>	0.21	-0.05	-0.17	0.03	0.19
<b>Equip. &amp; Software</b>	1.27	-0.61	0.37	0.79	0.79
<b>Residential</b>	0.32	0.01	0.23	-0.06	0.01
<b>Federal</b>	-0.05	0.29	0.54	0.30	0.09
<b>State &amp; Local</b>	0.39	0.36	0.01	0.01	0.16
<b>Net Trade</b>	-1.20	-0.18	-0.52	-0.38	0.07



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## The Fed Will Stay Accommodative

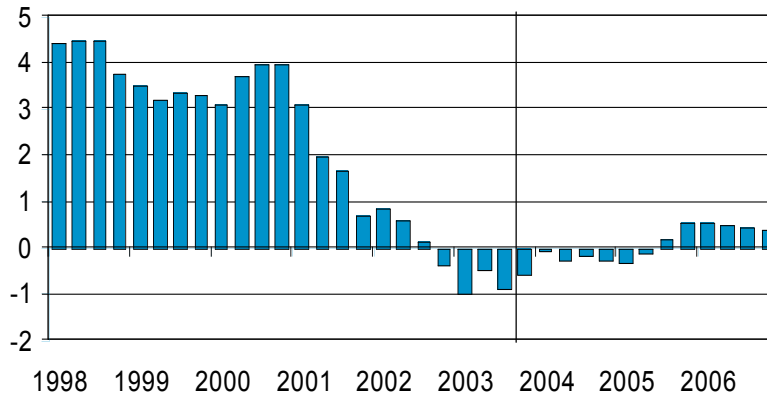


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## Real Interest Rates Are Negative

(Federal funds rate less year-over-year change in consumption deflator)

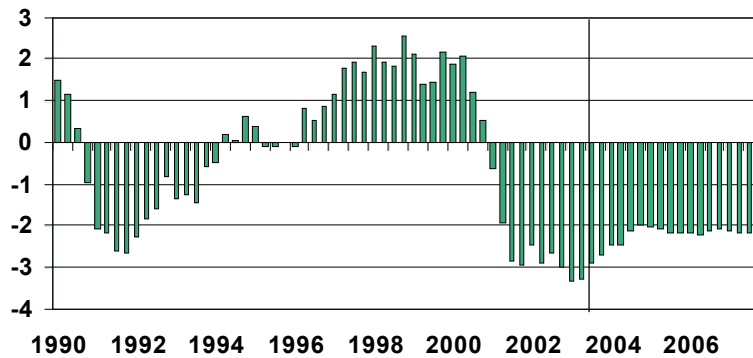


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## The Output Gap Has Widened in Recovery

(Difference between actual and potential GDP as a % of potential)

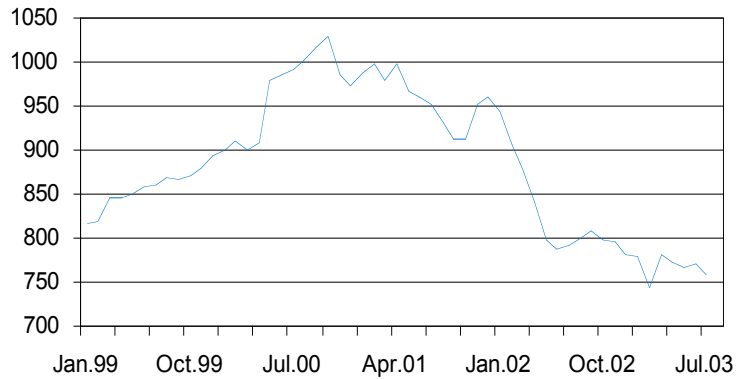


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## The Federal Tax Take Is Down

(Individual income tax payments, 12-month moving sum, \$ bn)

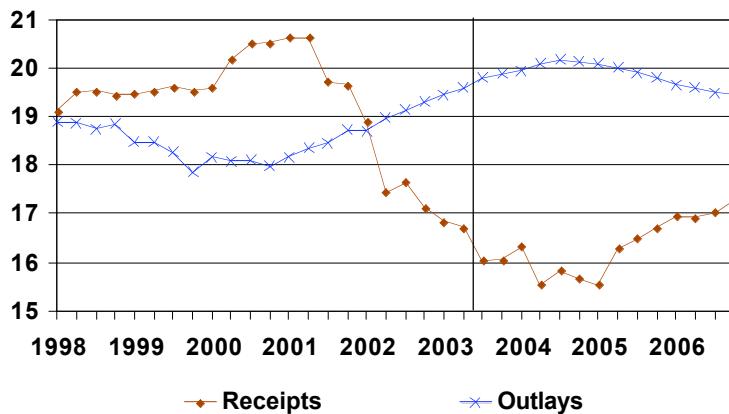


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## The Fiscal Kick is Worth Nearly 6% of GDP

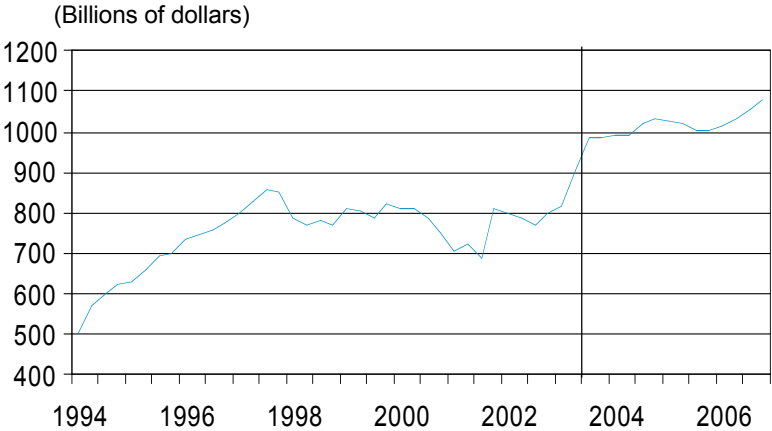
(Federal receipts and outlays as a percent of GDP, unified budget)



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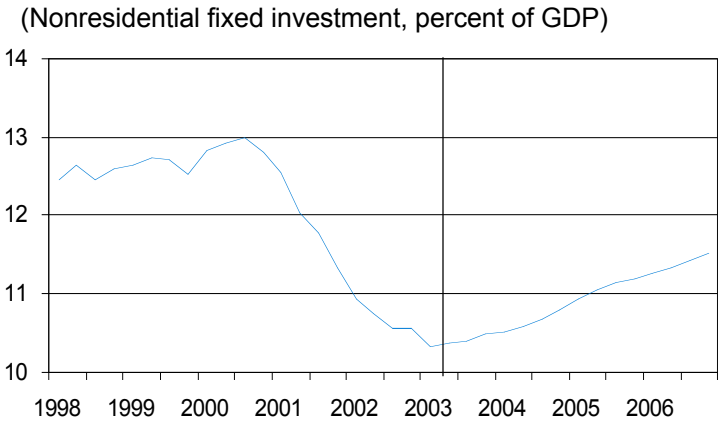
### Economic Profits Have Finally Recovered



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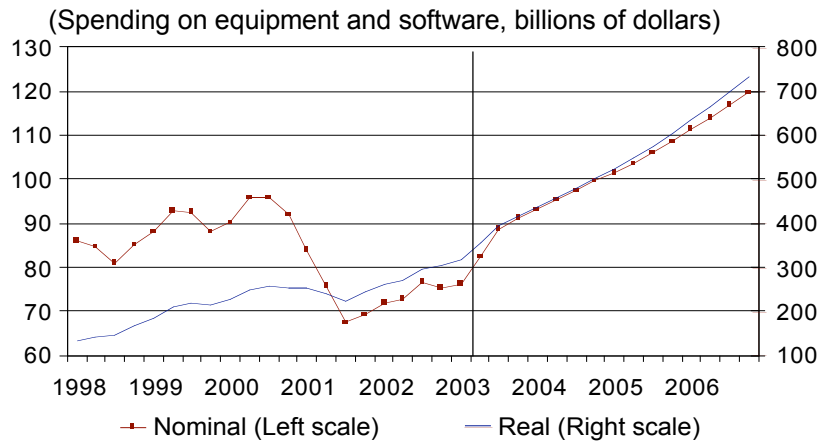
### Investment Has Bottomed Out



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## Computer Investment Is Rising...Even in Nominal Terms



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## Encouraging Signs

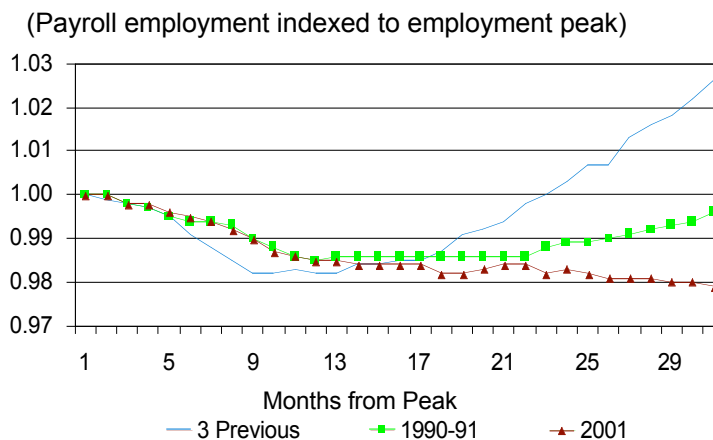
- ◆ **Small business optimism is up.**
  - ➔ Hiring plans are turning positive.
  - ➔ Capital spending plans are up.
  - ➔ Profits are improving.
- ◆ **The nagging issues--**
  - ➔ Cost and availability of insurance.
  - ➔ Taxes, government regulation and red tape.
  - ➔ Mismatch between price hikes and labor compensation costs.



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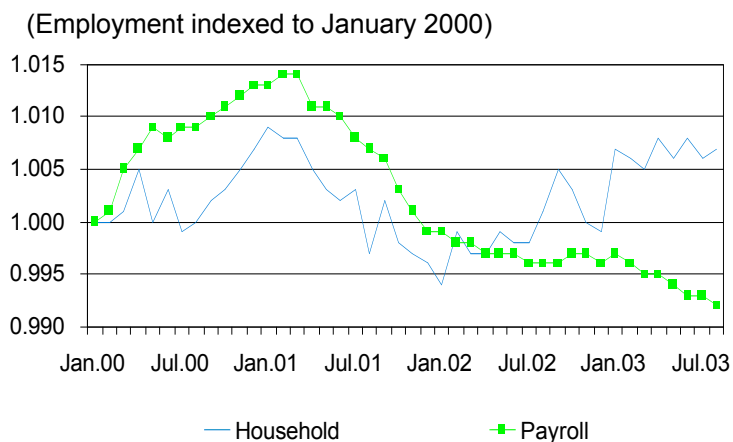
## A Job-Loss Recovery..



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## ...Or Is It?



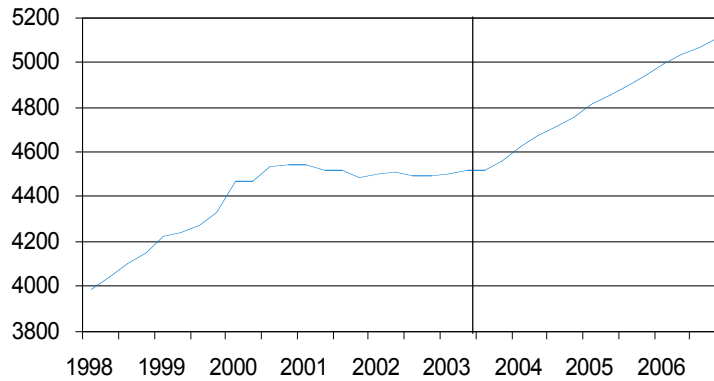
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## Wage Increases Don't Offset Fewer Jobs...

(Real wage and salary disbursements, billions of dollars)

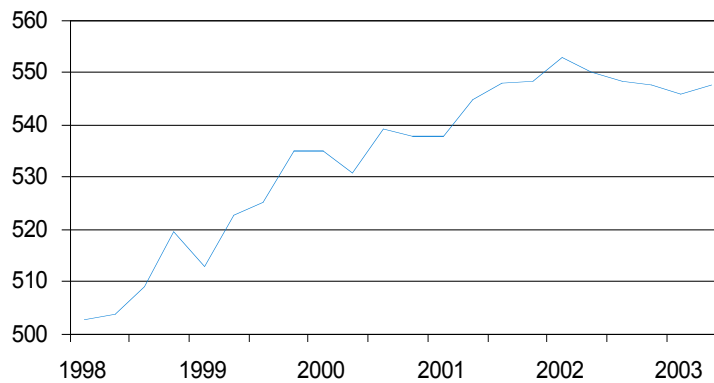


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## More Pay per Hour Doesn't Offset Fewer Hours

(Real median usual weekly earnings, all full time workers, \$)

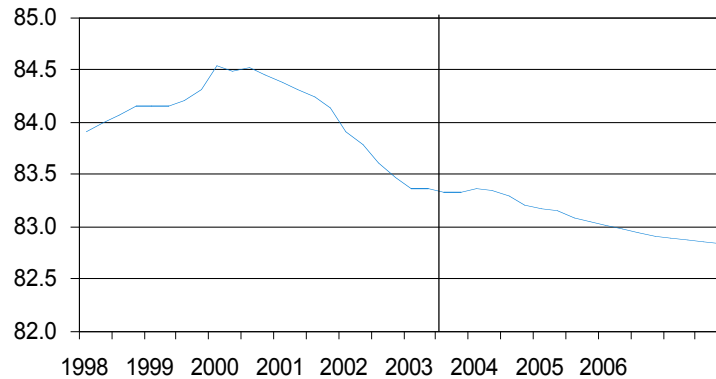


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## ***Relatively Less Pay Shows Up in the Check***

(Wage and salaries as a percent of total compensation)



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## ***Issues Confronting the Consumer***

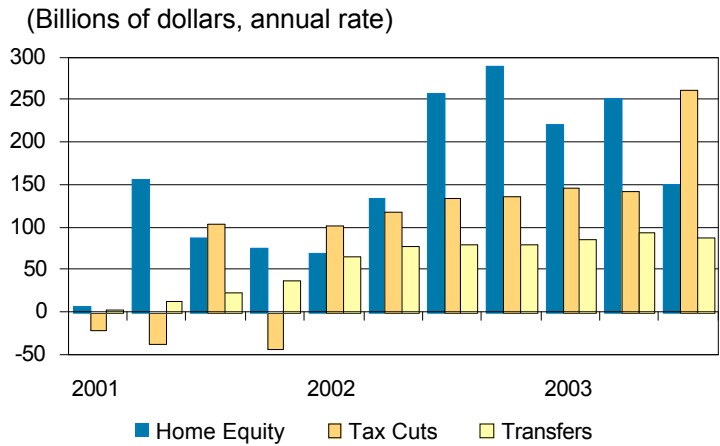
- ◆ Mortgage refinancing has been supporting spending.
- ◆ The debt-service burden is near a record high.
- ◆ Incomes are under stress.
- ◆ Pensions look less secure.
  - ➔ PBGC guarantees on are limited.
  - ➔ Defined contribution plans require active saving by consumers.
- ◆ Federal tax cuts will be partially offset by increased state and local taxes—and fees.



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## Boosts for Consumer Spending

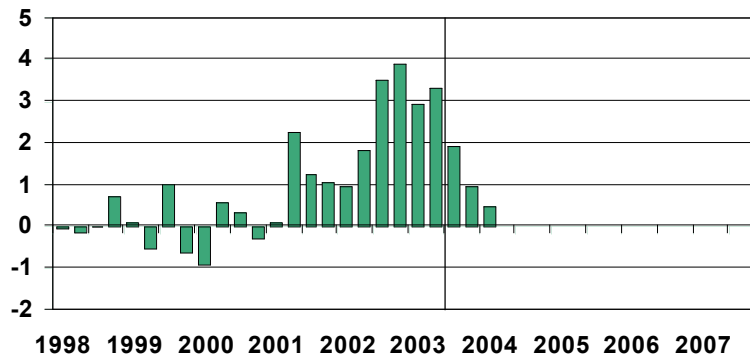


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## Equity Withdrawals Support Consumption

(“Extra” mortgage acquisitions as a % of consumer spending)

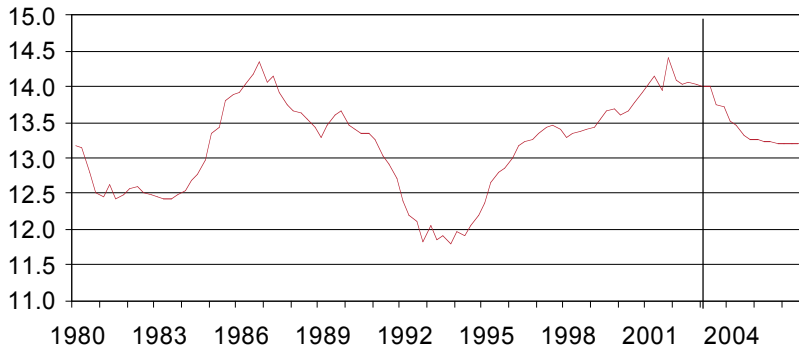


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## Debt Service Claims a Near-Record Share of Income

(Debt service as a percent of disposable income)

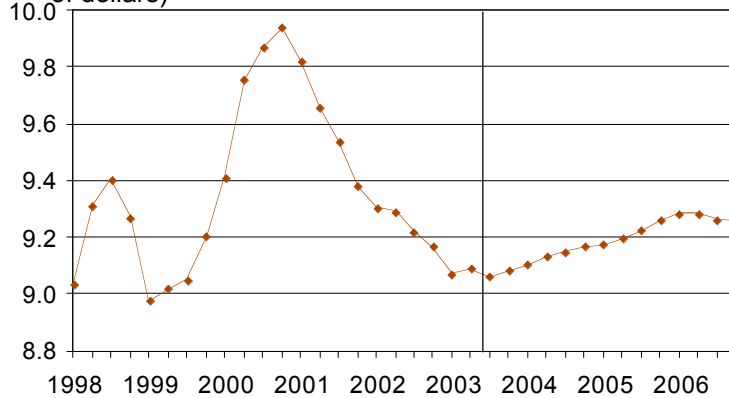


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## The Flip Side of Falling Interest Rates

(Real Personal interest income per household, thousands of dollars)



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## ***Bankruptcies Threaten Pensions***

- ◆ **PBGC is administering nearly 3000 plans of failed companies.**
- ◆ **Guaranteed benefits often fall short of promised benefits. Medical and survivor benefits are at particular risk.**
- ◆ **PBGC has 125 plans of former steel companies. Four airlines already and more coming.**
- ◆ **PBGC surplus of \$8 billion turned to deficit of \$3.6 billion in 2002.**

## ***But Be of Good Cheer***

- ◆ **Vermont recently reported that tax revenues are running a bit ahead of expectations.**
- ◆ **Wisconsin says revenues may come in on target.**
- ◆ **Software firms in Massachusetts are planning to rebuild staff in the coming year.**
- ◆ **Mutual funds are beginning to report gains.**
- ◆ **“Economists predict GDP growth will be fastest since 1999.” (WSJ, 9/12/03)**

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TABLE 1

**Alternative Scenarios of the U.S. Economy**

	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2002	2003	2004	2005	2006	2007	2008
<b>Strong Recovery (Probability 20%)</b>													
<b>Composition of Real GDP, Percent Change, Annual Rate</b>													
Gross Domestic Product	3.1	4.7	4.2	4.8	4.2	5.7	2.4	2.6	4.5	4.0	3.4	3.3	2.9
Total Consumption	3.8	6.1	2.7	4.7	4.4	5.2	3.1	3.1	4.4	3.6	3.0	2.8	2.8
Nonresidential Fixed Investment	8.0	7.2	8.4	7.8	8.4	11.8	-5.7	1.9	8.7	9.8	7.3	6.6	5.4
Residential Fixed Investment	4.5	0.3	-2.3	-1.5	-1.3	1.8	3.9	5.2	-0.5	0.4	1.4	2.4	0.5
Exports	-1.2	7.0	9.0	6.8	9.5	11.4	-1.6	1.1	8.1	11.6	10.1	8.4	7.7
Imports	7.9	10.3	7.0	8.7	9.2	7.9	3.7	4.6	8.5	7.3	5.0	4.9	4.6
Federal Government	25.5	1.1	3.7	3.1	3.5	3.4	7.5	8.1	4.2	1.3	0.9	1.0	1.0
State & Local Government	-0.7	-1.7	0.9	1.1	2.1	2.8	2.8	0.2	1.0	2.0	2.4	1.6	1.6
<b>Prices &amp; Wages, Percent Change, Annual Rate</b>													
Consumer Prices	0.6	2.8	0.4	0.4	1.3	2.0	1.6	2.3	1.2	1.8	2.0	2.3	2.3
Producer Prices, Finished Goods	-1.9	2.0	-2.6	-0.8	0.0	0.5	-1.3	2.7	-0.6	-0.1	0.7	1.2	1.4
Employment Cost Index - Total Comp.	3.4	3.4	3.4	3.4	3.3	3.5	3.8	3.8	3.4	3.5	3.3	3.2	3.3
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	29.04	31.10	28.97	26.32	25.69	26.00	26.11	30.79	26.16	27.50	29.29	30.52	31.28
Productivity (%ch., saar)	7.1	5.0	3.0	3.1	2.5	3.7	5.3	3.8	3.5	2.1	2.1	2.3	2.2
Manufacturing Production (%ch., saar)	-3.5	3.1	3.4	6.5	7.8	8.6	-0.8	0.0	5.4	6.8	4.7	4.0	3.3
Nonfarm Inven. Chg. (Bil. 1996 \$)	-19.8	-7.2	27.7	54.3	59.8	65.8	4.1	1.1	62.6	68.8	49.8	55.6	47.2
Consumer Sentiment Index	89.3	91.5	92.9	93.7	94.4	95.0	89.6	88.4	94.4	92.8	90.8	89.1	87.1
Light Vehicle Sales (Mil. units, saar)	16.308	17.461	16.723	16.943	17.138	17.399	16.778	16.603	17.295	17.601	17.675	17.784	17.670
Housing Starts (Mil. units, saar)	1.739	1.784	1.698	1.673	1.672	1.653	1.711	1.739	1.661	1.622	1.625	1.660	1.642
Unemployment Rate (%)	6.2	6.2	6.2	6.0	6.0	5.8	5.8	6.1	5.9	5.6	5.5	5.5	5.5
Payroll Employment (%ch., saar)	-0.7	0.2	1.5	3.2	2.2	2.6	-1.1	-0.1	2.0	2.2	1.7	1.3	1.1
Federal Surplus (Unified, FY, bil. \$)	-16.6	-143.4	-118.5	-123.6	-123.1	-118.4	-157.8	-413.1	-483.5	-374.7	-275.0	-216.4	-173.6
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	1.25	1.00	1.00	1.00	1.00	1.03	1.67	1.12	1.07	1.86	2.50	2.79	3.63
10-Year Treasury Note Yield (%)	3.62	4.33	4.66	4.81	4.86	4.87	4.61	4.13	4.89	5.30	5.43	5.49	5.88
<b>Incomes</b>													
Personal Income (% ch., saar)	3.5	4.0	4.9	6.9	5.9	6.3	2.7	3.4	5.6	5.7	5.6	5.4	5.4
(Four-quarter % change)	6.5	9.2	5.9	5.6	9.5	9.5	-4.0	8.4	8.2	32.3	6.8	5.0	0.1
<b>Slow Growth Lingers (Probability 20%)</b>													
<b>Composition of Real GDP, Percent Change, Annual Rate</b>													
Gross Domestic Product	3.1	4.6	3.2	3.3	2.4	3.0	2.4	2.6	3.1	2.8	3.8	3.3	3.0
Total Consumption	3.8	6.0	2.0	3.6	3.4	3.2	3.1	3.0	3.4	2.3	3.0	2.6	2.5
Nonresidential Fixed Investment	8.0	7.2	6.7	5.5	5.0	7.2	-5.7	1.8	6.3	6.4	9.0	8.4	5.6
Residential Fixed Investment	4.5	0.1	-7.3	-12.3	-14.8	-12.7	3.9	4.8	-9.1	-4.2	2.7	3.3	1.7
Exports	-1.2	7.0	8.7	5.3	6.7	8.2	-1.6	1.1	6.6	9.6	10.6	9.7	9.2
Imports	7.9	10.1	5.2	6.0	6.0	3.6	3.7	4.4	6.0	4.1	6.0	5.2	4.0
Federal Government	25.5	1.1	3.7	5.5	5.8	5.6	7.5	8.1	5.7	2.9	0.6	-0.7	0.0
State & Local Government	-0.7	-1.7	0.1	0.2	0.3	0.4	2.8	0.1	-0.1	0.8	2.2	2.1	1.8
<b>Prices &amp; Wages, Percent Change, Annual Rate</b>													
Consumer Prices	0.6	2.8	0.5	0.6	1.2	1.9	1.6	2.3	1.2	1.6	1.6	1.7	1.6
Producer Prices, Finished Goods	-1.9	2.0	-2.4	-0.4	-0.2	0.5	-1.3	2.7	-0.5	-0.4	0.2	0.6	0.6
Employment Cost Index - Total Comp.	3.4	3.4	3.4	3.3	3.1	3.1	3.8	3.8	3.3	3.0	2.6	2.5	2.4
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	29.04	31.10	29.50	27.43	26.25	27.05	26.11	30.93	27.09	27.92	28.59	29.28	29.94
Productivity (%ch., saar)	7.1	4.9	2.2	2.3	1.6	2.4	5.3	3.7	2.7	2.2	2.6	2.1	2.2
Manufacturing Production (%ch., saar)	-3.5	3.0	2.4	4.6	5.4	5.4	-0.8	0.0	3.7	5.3	6.1	4.5	3.6
Nonfarm Inven. Chg. (Bil. 1996 \$)	-19.8	-7.7	22.6	41.7	39.0	34.8	4.1	-0.3	37.1	42.9	59.8	57.7	45.4
Consumer Sentiment Index	89.3	90.6	89.9	89.5	90.7	89.8	89.6	87.4	89.3	85.3	87.2	85.8	83.9
Light Vehicle Sales (Mil. units, saar)	16.308	17.411	16.521	16.548	16.652	16.768	16.778	16.540	16.694	16.760	17.458	17.659	17.617
Housing Starts (Mil. units, saar)	1.739	1.784	1.655	1.562	1.504	1.461	1.711	1.729	1.493	1.439	1.480	1.544	1.557
Unemployment Rate (%)	6.2	6.2	6.2	6.2	6.3	6.4	5.8	6.1	6.4	6.8	6.7	6.5	6.5
Payroll Employment (%ch., saar)	-0.7	-0.3	0.4	2.2	1.9	1.6	-1.1	-0.3	1.1	1.2	1.7	1.6	1.2
Federal Surplus (Unified, FY, bil. \$)	-16.6	-143.5	-121.5	-130.2	-134.4	-135.9	-157.8	-413.3	-522.0	-490.4	-361.7	-242.6	-182.1
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	1.25	1.00	1.00	0.75	0.50	0.25	1.67	1.12	0.44	0.25	0.25	0.69	1.75
10-Year Treasury Note Yield (%)	3.62	4.33	4.64	4.63	4.53	4.38	4.61	4.13	4.50	4.52	4.48	4.59	4.99
<b>Incomes</b>													
Personal Income (% ch., saar)	3.5	4.0	4.4	5.7	4.4	4.3	2.7	3.4	4.6	3.9	5.0	4.7	4.3
(Four-quarter % change)	6.5	9.0	2.5	-0.6	1.3	-0.8	-4.0	7.5	0.1	40.0	16.7	5.7	1.7

TABLE 2

## Summary of the U.S. Economy

	2003:1	2003:2	2003:3	2003:4	2004:1	2004:2	2004:3	2004:4	2005:1	2005:2	2005:3	2005:4	2006:1
<b>Composition of Real GDP, Percent Change, Annual Rate</b>													
Gross Domestic Product	1.4	3.1	4.6	3.8	4.2	3.5	5.0	4.1	3.4	3.3	3.2	3.6	3.8
Final Sales of Domestic Product	2.3	4.0	4.1	2.6	3.3	3.4	4.9	3.9	3.3	3.3	3.3	3.8	4.0
Total Consumption	2.0	3.8	6.0	2.4	4.2	4.1	4.8	3.8	2.8	2.7	2.6	3.2	3.5
Durables	-2.0	24.1	20.0	-6.5	1.6	7.5	9.0	4.6	2.2	2.1	0.3	4.3	5.7
Nondurables	6.1	1.1	5.4	3.9	4.6	3.3	3.5	3.4	2.9	2.9	2.9	3.3	3.3
Services	0.9	1.5	3.7	3.5	4.5	3.8	4.7	3.9	3.0	2.7	2.9	2.9	3.2
Nonresidential Fixed Investment	-4.4	8.0	7.2	8.2	7.0	7.0	10.4	10.6	9.7	9.3	7.3	6.7	7.3
Equipment & Software	-4.8	8.2	11.7	11.5	8.9	8.8	10.4	10.1	10.1	9.8	8.0	7.5	8.2
Information Processing Equipment	10.6	19.5	13.9	10.1	9.7	9.0	10.3	9.5	9.3	10.6	9.8	9.1	9.0
Computers & Peripherals	22.6	57.6	50.6	22.3	21.7	19.5	21.1	20.3	18.6	18.3	22.0	21.3	22.3
Communications Equipment	15.6	14.4	3.8	8.4	6.7	5.1	8.0	4.4	10.0	8.9	6.4	3.8	1.6
Industrial Equipment	-5.4	-1.5	1.0	-0.4	1.2	6.4	7.9	10.0	13.3	14.9	13.4	11.5	11.7
Transportation equipment	-35.3	-6.6	22.0	33.9	15.2	12.9	15.4	15.0	13.1	9.6	3.5	3.4	7.1
Aircraft	-38.6	-57.8	40.8	30.3	7.9	5.3	11.4	8.3	17.1	13.7	10.4	17.7	15.1
Other Equipment	-7.4	3.1	7.6	8.2	8.2	6.5	8.0	7.4	6.2	3.1	2.9	3.2	3.8
Structures	-2.9	7.1	-6.8	-2.6	0.4	1.0	10.7	12.2	8.2	7.6	4.8	4.2	4.0
Buildings and Miscellaneous	-4.8	5.9	-1.7	-2.2	0.6	1.5	11.7	13.9	11.7	10.8	7.1	4.0	6.1
Commercial	-0.8	-1.0	-5.5	-5.5	-2.4	-6.2	13.3	13.6	13.2	18.9	9.1	6.9	4.0
Industrial	-7.7	-4.6	-20.3	-2.2	10.4	-1.5	1.2	31.0	41.3	20.3	20.4	13.7	13.6
Other	-4.6	21.0	4.7	0.4	1.3	11.7	16.1	12.0	4.0	-1.6	1.6	-1.2	8.7
Mining & Petroleum	30.8	76.7	-37.0	-5.2	-14.0	7.1	10.9	10.7	-11.4	-16.5	-12.2	-2.3	-2.4
Public Utilities	-11.9	-18.9	-1.8	-2.3	9.0	-4.1	6.5	6.6	8.1	11.1	6.2	8.3	-0.6
Residential Fixed Investment	10.1	4.5	0.1	-3.0	-2.4	-2.0	0.7	0.1	-0.4	1.0	-0.5	1.9	0.8
Exports	-1.3	-1.2	7.0	9.0	6.3	8.5	10.1	10.5	11.8	11.4	10.8	10.7	10.8
Imports	-6.2	7.9	10.1	6.3	7.6	8.5	6.9	7.6	6.6	7.1	5.0	5.2	5.2
Federal Government	0.7	25.5	1.1	3.7	3.1	3.5	3.4	1.7	0.8	0.1	0.6	1.0	1.0
State & Local Government	0.2	-0.7	-1.7	0.1	0.3	0.5	0.8	0.6	0.8	2.4	2.7	2.9	2.1
<b>Billions of Dollars</b>													
Real GDP	9552.0	9625.5	9734.2	9826.2	9928.3	10015.2	10137.1	10238.3	10324.8	10410.1	10493.1	10585.3	10683.8
Nominal GDP	10688.4	10793.9	10962.2	11084.0	11233.4	11370.1	11554.7	11714.7	11866.0	12013.2	12157.0	12307.9	12478.6
<b>Prices &amp; Wages, Percent Change, Annual Rate</b>													
GDP Deflator	2.4	0.8	1.7	0.7	1.2	1.4	1.6	1.5	1.8	1.7	1.6	1.4	1.8
Consumer Prices	3.9	0.6	2.8	0.5	0.6	1.2	2.0	1.9	1.7	1.8	1.8	1.6	1.7
Producer Prices, Finished Goods	9.6	-1.9	2.0	-2.4	-0.4	-0.1	0.7	-0.9	-0.5	0.4	0.0	-1.2	0.5
Employment Cost Index - Total Comp.	5.5	3.4	3.4	3.4	3.3	3.3	3.3	3.6	3.4	3.1	3.2	3.2	3.2
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	34.06	29.04	31.10	29.50	27.43	26.25	27.06	27.64	27.63	27.90	28.14	28.38	28.50
Productivity (%ch., saar)	2.2	7.1	4.9	2.7	2.8	2.2	3.4	2.2	1.8	1.9	1.9	2.3	2.4
Total Industrial Production (%ch., saar)	0.3	-3.5	3.0	3.2	5.8	6.9	7.8	6.7	6.4	5.8	5.6	5.1	4.8
Factory Operating Rate	73.212	72.601	73.080	73.553	74.476	74.926	75.823	76.548	77.169	77.702	78.131	78.546	79.100
Nonfarm Inven. Chg. (Bil. 1996 \$)	3.8	-19.8	-7.7	25.9	50.0	53.5	57.2	60.8	63.8	65.5	63.7	57.4	52.4
Consumer Sentiment Index	80.0	89.3	90.6	90.4	90.7	92.8	93.4	92.2	90.9	90.2	89.8	89.9	89.8
Light Vehicle Sales (Mil. units, saar)	15.920	16.308	17.411	16.555	16.683	16.877	17.116	17.355	17.353	17.342	17.053	17.129	17.282
Housing Starts (Mil. units, saar)	1.737	1.739	1.784	1.692	1.656	1.650	1.637	1.630	1.618	1.604	1.598	1.597	1.602
Existing House Sales (Mil. units, saar)	5.867	5.827	5.881	5.648	5.410	5.244	5.205	5.215	5.227	5.224	5.239	5.254	5.253
Unemployment Rate (%)	5.8	6.2	6.2	6.2	6.1	6.1	6.0	6.0	6.0	6.0	5.9	5.9	5.9
Payroll Employment (%ch., saar)	-0.3	-0.7	-0.3	0.6	2.6	2.5	2.6	1.9	1.8	2.0	1.8	1.7	1.7
Federal Surplus (Unified, FY, bil. \$)	-144.9	-16.6	-143.5	-120.1	-127.0	-128.3	-125.4	-144.7	-141.7	-34.3	-96.3	-105.4	-101.0
Current Account Balance (Bil. \$)	-544.4	-533.2	-574.0	-580.1	-602.0	-619.8	-630.1	-647.4	-656.3	-676.2	-688.1	-693.6	-692.0
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	1.25	1.25	1.00	1.00	1.00	1.00	1.03	1.25	1.42	1.75	2.00	2.25	2.25
3-Month Treasury Bill Rate (%)	1.16	1.04	0.94	0.96	0.97	0.95	0.98	1.17	1.31	1.61	1.83	2.05	2.06
10-Year Treasury Note Yield (%)	3.92	3.62	4.33	4.65	4.80	4.85	4.87	5.04	5.15	5.30	5.39	5.48	5.40
30-Year Fixed Mortgage Rate (%)	5.83	5.51	6.11	6.38	6.41	6.40	6.41	6.48	6.61	6.76	6.87	6.96	6.91
S&P 500 Stock Index	860	938	995	1023	1037	1053	1072	1093	1110	1128	1149	1171	1193
(Four-Quarter % change)	-24.0	-12.2	11.2	15.3	20.5	12.3	7.7	6.8	7.1	7.1	7.2	7.1	7.5
Exchange Rate, Industrial Countries	1.124	1.073	1.077	1.082	1.075	1.068	1.060	1.053	1.045	1.038	1.030	1.027	1.023
(% change, annual rate)	-17.2	-17.0	1.5	1.8	-2.6	-2.8	-2.8	-2.8	-2.8	-2.8	-2.9	-1.2	-1.5
<b>Incomes</b>													
Personal Income (% ch., saar)	3.7	3.5	4.0	4.6	6.3	5.3	5.7	5.5	5.2	5.2	5.2	4.9	6.1
Real Disposable Income (%ch., saar)	2.1	2.8	7.5	2.6	8.3	1.5	3.9	3.5	2.5	2.8	2.7	3.0	3.3
Saving Rate (%)	3.6	3.3	3.7	3.7	4.7	4.1	3.9	3.8	3.8	3.8	3.9	3.9	3.8
After-Tax Profits (Billions of \$)	490	473	495	492	501	498	520	521	669	683	687	699	726
(Four-quarter % change)	13.9	7.5	10.8	5.9	3.2	5.4	5.2	6.0	32.6	37.0	32.7	35.2	9.9



TABLE 3  
Summary of the U.S. Economy

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Composition of Real GDP, Percent Change</b>													
Gross Domestic Product	3.6	4.4	4.3	4.1	3.8	0.3	2.4	2.6	4.1	3.7	3.6	3.4	3.1
Final Sales of Domestic Product	3.6	4.0	4.2	4.3	3.7	1.5	1.8	2.6	3.6	3.7	3.7	3.4	3.1
Total Consumption	3.2	3.6	4.8	4.9	4.3	2.5	3.1	3.1	4.1	3.3	3.1	3.0	2.9
Durables	5.6	6.6	10.5	11.8	8.2	6.0	7.3	6.7	5.6	3.6	4.2	4.0	3.0
Nondurables	2.9	2.9	4.1	4.7	3.9	2.0	3.2	3.7	3.9	3.1	3.1	3.0	3.1
Services	2.8	3.3	4.0	3.7	3.8	2.0	2.2	2.0	3.9	3.3	3.0	2.8	2.8
Nonresidential Fixed Investment	10.0	12.2	12.5	8.1	7.8	-5.2	-5.7	1.9	8.0	9.2	7.7	7.3	5.6
Equipment & Software	11.0	13.3	14.6	11.5	8.2	-6.4	-1.7	4.6	9.9	9.6	8.1	7.5	6.4
Information Processing Equipment	18.3	21.8	22.7	18.4	14.8	-6.0	2.7	11.7	10.8	9.7	9.6	11.1	10.9
Computers & Peripherals	44.1	45.2	43.5	40.4	18.8	-2.6	18.2	31.3	26.1	19.8	21.5	21.0	20.0
Communications Equipment	12.1	13.6	14.9	19.7	28.8	-19.9	-10.3	6.8	6.8	7.3	3.9	7.1	7.6
Industrial Equipment	3.9	2.6	4.0	1.3	9.0	-4.4	-4.5	-2.3	3.0	11.8	11.2	3.5	-0.2
Transportation equipment	8.4	8.3	11.8	14.8	-3.4	-12.3	-10.2	-4.7	17.3	11.1	5.7	5.2	3.8
Aircraft	-7.3	20.1	34.9	43.4	3.7	1.9	-35.7	-27.6	8.6	12.5	15.5	13.1	8.0
Other Equipment	5.3	11.5	9.6	0.8	5.0	-2.6	-1.0	2.2	7.4	5.4	3.6	3.8	2.9
Structures	7.1	9.1	6.8	-1.3	6.5	-1.7	-16.4	-6.6	1.4	7.9	6.1	7.0	3.2
Buildings and Miscellaneous	8.3	9.5	5.9	-1.3	3.7	-5.8	-19.5	-6.2	2.4	10.2	7.5	7.2	5.0
Commercial	8.8	10.4	8.3	4.9	6.8	-7.1	-18.9	-8.7	-1.3	12.1	6.3	3.7	2.9
Industrial	-1.7	-1.7	3.8	-22.7	-6.7	-12.2	-45.5	-18.2	0.5	22.6	20.1	25.0	12.7
Other	19.9	16.5	4.7	-0.6	2.0	-5.4	-9.0	2.2	7.1	5.6	7.6	8.6	6.0
Mining & Petroleum	15.7	24.2	-4.1	-14.2	25.3	26.0	-14.1	1.8	-3.8	-4.4	-1.8	2.4	0.0
Public Utilities	-2.1	-2.2	21.2	7.0	10.3	-0.3	-5.9	-12.6	0.5	7.2	4.9	8.7	-1.9
Residential Fixed Investment	7.4	2.0	8.0	6.7	1.1	0.3	3.9	5.1	-1.2	0.1	1.6	2.5	1.1
Exports	8.2	12.3	2.1	3.4	9.7	-5.4	-1.6	1.1	7.6	10.9	10.0	8.4	7.8
Imports	8.6	13.7	11.8	10.9	13.2	-2.9	3.7	4.5	7.7	6.7	5.5	5.4	4.6
Federal Government	-0.9	-0.4	-0.8	2.3	1.3	4.8	7.5	8.1	4.2	1.3	0.9	1.0	1.0
State & Local Government	2.3	4.0	3.4	4.7	3.5	3.1	2.8	0.1	0.1	1.4	2.3	1.8	1.7
<b>Billions of Dollars</b>													
Real GDP	7813.1	8159.5	8508.9	8858.9	9191.4	9214.5	9439.9	9684.5	10079.7	10453.3	10826.8	11199.3	11541.5
Nominal GDP	7813.2	8318.4	8781.5	9274.3	9824.7	10082.2	10446.3	10882.1	11468.2	12086.0	12728.9	13403.9	14074.5
<b>Prices &amp; Wages, Percent Change</b>													
GDP Deflator	1.9	1.9	1.2	1.4	2.1	2.4	1.1	1.5	1.3	1.6	1.7	1.8	1.9
Consumer Prices	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	1.2	1.8	1.8	2.0	2.1
Producer Prices, Finished Goods	2.6	0.4	-0.9	1.8	3.7	2.0	-1.3	2.7	-0.4	-0.2	0.4	0.9	1.1
Employment Cost Index - Total Comp.	2.8	3.1	3.5	3.2	4.6	4.1	3.8	3.8	3.4	3.3	3.1	3.0	3.1
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	22.13	20.63	14.39	19.27	30.35	25.96	26.11	30.93	27.10	28.01	28.78	29.50	30.26
Productivity (%ch., saar)	2.5	2.0	2.5	2.3	2.9	2.0	5.3	3.8	3.2	2.2	2.2	2.3	2.2
Total Industrial Production (%ch., saar)	4.4	7.3	5.6	4.3	4.7	-3.5	-0.8	0.0	4.9	6.4	5.0	4.3	3.5
Factory Operating Rate	81.234	82.696	81.919	81.408	81.443	75.551	73.746	73.111	75.443	77.887	79.808	81.377	81.976
Nonfarm Inven. Chg. (Bil. 1996 \$)	22.1	60.6	75.0	64.2	67.2	-63.2	4.1	0.5	55.4	62.6	52.8	58.3	48.1
Consumer Sentiment Index	93.6	103.2	104.6	105.8	107.6	89.2	89.6	87.6	92.3	90.2	89.8	88.6	86.7
Light Vehicle Sales (Mil. units, saar)	15.097	15.125	15.520	16.900	17.359	17.114	16.778	16.548	17.008	17.219	17.481	17.720	17.689
Housing Starts (Mil. units, saar)	1.469	1.475	1.621	1.647	1.573	1.601	1.711	1.738	1.643	1.604	1.608	1.646	1.638
Existing House Sales (Mil. units, saar)	4.179	4.390	4.963	5.193	5.158	5.292	5.595	5.806	5.269	5.236	5.318	5.508	5.580
Unemployment Rate (%)	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.1	6.1	6.0	5.9	5.8	5.8
Payroll Employment (%ch., saar)	2.0	2.6	2.6	2.4	2.2	0.0	-1.1	-0.2	1.6	2.0	1.7	1.5	1.2
Federal Surplus (Unified, FY, bil. \$)	-107.6	-22.0	69.2	124.4	236.9	127.3	-157.8	-413.2	-500.8	-417.1	-315.9	-238.5	-183.5
Current Account Balance (Bil. \$)	-117.2	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-557.9	-624.8	-678.6	-701.7	-729.9	-760.5
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	5.30	5.46	5.35	4.97	6.24	3.89	1.67	1.12	1.07	1.86	2.25	2.54	3.4
3-Month Treasury Bill Rate (%)	5.00	5.06	4.79	4.63	5.81	3.43	1.61	1.03	1.02	1.70	2.07	2.34	3.09
10-Year Treasury Note Yield (%)	6.44	6.35	5.26	5.64	6.03	5.02	4.61	4.13	4.89	5.33	5.33	5.36	5.72
30-Year Fixed Mortgage Rate (%)	7.80	7.60	6.94	7.43	8.06	6.97	6.54	5.96	6.43	6.80	6.80	6.75	7.08
S&P 500 Stock Index	671	873	1084	1326	1427	1192	996	954	1064	1140	1225	1313	1415
(Four-Quarter % change)	23.9	30.1	24.2	22.3	7.6	-16.4	-16.5	-4.2	11.5	7.1	7.5	7.2	7.8
Exchange Rate, Industrial Countries	1.000	1.078	1.132	1.111	1.162	1.232	1.216	1.089	1.064	1.035	1.017	1.003	0.994
(% change, annual rate)	4.7	7.8	5.0	-1.8	4.6	6.1	-1.3	-10.4	-2.3	-2.7	-1.7	-1.3	-1.0
<b>Incomes</b>													
Personal Income (% ch., saar)	5.6	6.0	7.0	4.9	8.0	3.3	2.7	3.4	5.2	5.3	5.5	5.3	5.1
Real Disposable Income (%ch., saar)	2.5	3.1	5.4	2.6	4.8	1.8	4.2	2.9	4.6	2.9	3.1	2.5	2.4
Saving Rate (%)	4.8	4.2	4.8	2.6	2.8	2.3	3.7	3.6	4.1	3.8	3.8	3.3	2.8
After-Tax Profits (Billions of \$)	503	555	482	514	523	471	452	487	510	684	750	790	794
(% change)	9.9	10.4	-13.1	6.6	1.7	-10.0	-4.0	7.9	4.7	34.1	9.5	5.4	0.5

TABLE 4

## Monthly Economic Indicators

	Jul. 2002	Aug. 2002	Jan. 2003	Feb. 2003	Mar. 2003	Apr. 2003	May. 2003	Jun. 2003	Jul. 2003	Aug. 2003	2000	2001	2002
<b>Industrial Markets</b>													
Industrial Prod. (1997=100.0)	112.3	112.4	111.1	111.1	110.9	110.1	110.3	110.6	110.8		117.4	112.6	111.3
Percent Change	0.4	0.1	0.5	0.0	-0.2	-0.7	0.2	0.3	0.2		5.0	-4.1	-1.1
Percent Change Year Earlier	-0.2	0.4	0.8	0.6	0.2	-0.8	-1.0	-1.1	-1.4				
Capacity Utilization, Manufacturing (%)	74.3	74.3	73.3	73.3	73.1	72.5	72.6	72.7	72.8		81.4	75.6	73.7
Unemployment Rate (%)	5.8	5.8	5.7	5.8	5.8	6.0	6.1	6.4	6.2	6.1	4.0	4.8	5.8
Payroll Employment (Mil.)	130.204	130.224	130.356	130.235	130.084	130.062	129.986	129.903	129.854	129.761	131.790	131.830	130.376
Change (Mil.)	-0.179	0.020	0.158	-0.121	-0.151	-0.022	-0.076	-0.083	-0.049	-0.093	2.796	0.040	-1.454
Leading Indicator (1992=1.000)	1.110	1.109	1.112	1.106	1.104	1.105	1.117	1.120	1.125		1.097	1.086	1.109
Percent Change	-0.2	-0.1	0.0	-0.5	-0.2	0.1	1.1	0.3	0.4		1.0	-0.9	2.1
New Orders, Mfg. (Bil. \$)	324.4	324.0	322.2	320.7	325.6	317.1	318.1	324.1	329.4		346.3	323.2	317.2
Percent Change	4.4	-0.1	1.6	-0.5	1.5	-2.6	0.3	1.9	1.6		5.0	-6.7	-1.9
Inv. Chg., Mfg. & Trade (Bil. \$)	6.1	0.3	3.0	7.7	3.8	0.0	-3.4	1.1			61.5	-65.2	23.8
Merchandise Trade Bal. (Bil. \$)	-38.1	-40.8	-43.9	-42.6	-46.3	-45.1	-45.4	-43.6			-436.1	-411.9	-468.3
<b>Consumer Markets</b>													
Disposable Income (Bil. 96\$)	7050	7057	7131	7118	7109	7141	7176	7188	7280		6630	6748	7032
Percent Change	-0.3	0.1	0.4	-0.2	-0.1	0.4	0.5	0.2	1.3		4.8	1.8	4.2
Personal Income (Bil. \$)	8935	8959	9069	9096	9119	9137	9173	9207	9226		8407	8685	8922
Percent Change	-0.4	0.3	0.2	0.3	0.3	0.2	0.4	0.4	0.2		8.0	3.3	2.7
Personal Saving Rate (%)	3.2	3.3	3.6	3.9	3.3	3.5	3.4	3.1	3.8		2.8	2.3	3.7
Consumer Expenditures (Bil. \$)	7356	7379	7493	7490	7554	7557	7593	7637	7697		6684	6987	7304
Percent Change	1.1	0.3	0.0	0.0	0.8	0.0	0.5	0.6	0.8		7.0	4.5	4.5
Retail Sales (Bil. \$)	300.5	304.3	307.0	302.7	309.6	308.7	310.2	312.9	317.2		3374.2	3471.8	3580.5
Percent Change	0.8	1.3	0.4	-1.4	2.3	-0.3	0.5	0.9	1.4		6.7	2.9	3.1
Non-Auto. Retail Sales (Bil. \$)	227.4	228.6	234.1	232.7	236.2	234.1	234.8	237.2	239.1		2558.0	2631.3	2729.3
Percent Change	0.0	0.5	1.4	-0.6	1.5	-0.9	0.3	1.0	0.8		7.4	2.9	3.7
New Light-Vehicle Sales (Mil.)	18.1	18.6	16.1	15.3	16.1	16.4	16.0	16.3	17.2	19.0	17.2	17.0	16.7
Domestic	14.6	15.4	12.8	12.1	12.5	13.0	12.8	13.0	13.9	15.5	14.4	13.9	13.4
Imports	3.4	3.2	3.3	3.3	3.5	3.4	3.2	3.3	3.3	3.5	2.9	3.1	3.3
Housing Starts (Mil.)	1.666	1.630	1.828	1.640	1.742	1.627	1.745	1.845	1.872		1.573	1.601	1.711
New Home Sales (Mil.)	0.961	1.025	1.009	0.935	1.008	1.004	1.108	1.200	1.165		0.880	0.907	0.977
Existing Home Sales (Mil.)	5.380	5.310	5.940	5.910	5.750	5.800	5.850	5.830	6.120		5.158	5.292	5.595
Chg. Consumer Install. Credit (Bil. \$)	7.5	7.9	15.0	2.4	1.0	8.8	8.1	-0.4			144.1	107.3	59.3
<b>Prices and Wages</b>													
CPI, All Urban Consumers	1.801	1.805	1.822	1.833	1.839	1.833	1.833	1.836	1.839		1.722	1.771	1.799
Percent Change Year Earlier	1.5	1.7	2.6	3.0	3.0	2.2	2.1	2.1	2.1		3.4	2.8	1.6
Consumption Chain Price Index	1.111	1.114	1.122	1.126	1.130	1.128	1.127	1.129	1.132		1.074	1.096	1.111
Percent Change Year Earlier	1.2	1.4	2.1	2.3	2.4	1.7	1.7	1.8	1.8		2.5	2.0	1.4
PPI, Finished Goods	1.386	1.386	1.412	1.428	1.448	1.423	1.419	1.426	1.428		1.380	1.407	1.389
Percent Change Year Earlier	-1.1	-1.5	2.5	3.4	4.0	2.4	2.5	2.9	3.0		3.7	2.0	-1.3
PPI, Industrial Commodities (NSA)	1.326	1.328	1.367	1.393	1.436	1.382	1.378	1.392	1.392		1.348	1.357	1.324
Percent Change Year Earlier	-1.4	-1.1	5.6	7.9	10.0	4.4	4.2	5.1	5.0		6.5	0.7	-2.4
Avg. Private Hourly Earnings (\$)	14.97	15.02	15.22	15.29	15.29	15.30	15.35	15.38	15.43	15.45	14.00	14.52	14.95
Percent Change Year Earlier	2.9	3.0	3.3	3.5	3.3	3.3	3.3	3.0	3.1	2.9	3.9	3.8	2.9
West Texas Int. Crude Oil (\$/bbl.)	26.92	28.34	32.99	35.75	33.43	28.26	28.14	30.66	30.70	31.59	30.30	25.89	26.09
Percent Change Year Earlier	1.8	3.4	67.6	73.0	37.3	7.6	4.0	20.2	14.1	11.5	57.4	-14.6	0.8
<b>Financial Markets</b>													
Federal Funds Rate (%)	1.73	1.74	1.24	1.26	1.25	1.26	1.26	1.22	1.01	1.03	6.24	3.89	1.67
3-Month T-Bill Rate (%)	1.68	1.62	1.17	1.17	1.13	1.13	1.07	0.92	0.90	0.95	5.82	3.39	1.60
Commercial Bank Prime Rate (%)	4.75	4.75	4.25	4.25	4.25	4.25	4.25	4.22	4.00	4.00	9.23	6.92	4.68
Moody's Aaa Corp. Bond Yield (%)	6.53	6.37	6.17	5.95	5.89	5.74	5.22	4.97	5.49	5.87	7.62	7.08	6.49
Long-Term Treasury Rate (%)			5.07	4.93	4.90	4.99	4.61	4.45	5.00	5.41			
Conv. Mortgage Rate, FHLMC (%)			5.92	5.84	5.75	5.81	5.48	5.23	5.63	6.26	96.76	83.67	78.45
M1 Money Supply (Bil. \$)	1196	1185	1213	1233	1237	1237	1258	1272	1278		1103	1137	1190
Percent Change	0.6	-0.9	0.2	1.7	0.3	0.0	1.7	1.1	0.4		-3.3	8.0	3.2
M2 Money Supply (Bil. \$)	5635	5673	5821	5874	5886	5909	5996	6044	6092		4801	5222	5620
Percent Change	0.9	0.7	0.5	0.9	0.2	0.4	1.5	0.8	0.8		5.9	10.0	6.2
Trade-Weighted US\$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	101.4	102.5	100.9	100.8	100.5	99.9	96.4	96.1	97.1	98.2	100.0	104.8	104.4
Percent Change	-1.9	1.1	-1.4	-0.1	-0.3	-0.5	-3.5	-0.4	1.1	1.1	6.1	3.4	-3.5
Percent Change Year Earlier	-4.4	-1.7	-6.0	-6.5	-6.1	-6.4	-8.2	-7.0	-4.2	-4.2			
Real Morgan Guaranty Index	102.9	103.9	101.6	100.7	100.8	99.8	96.8	96.6	97.8	99.1	100.0	106.3	106.1
Percent Change	-2.1	1.0	-1.3	-0.9	0.0	-1.0	-3.0	-0.1	1.2	1.3	5.4	5.9	-5.6
Percent Change Year Earlier	-4.4	-2.2	-7.7	-8.8	-7.6	-7.8	-9.2	-8.1	-5.0	-4.7			