



**GLOBAL**INSIGHT

## The U.S. Economic Outlook

*Presented to:*  
**2004 FTA Revenue Estimating & Tax Research Conference**  
**September 20, 2004**  
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### *Two Views of the U.S. Economy*

<b>Doing Well</b>	<b>Muddling Along</b>
<ul style="list-style-type: none"><li>◆ Companies are hiring again</li><li>◆ Underlying inflation remains low</li><li>◆ Tax cuts have kept consumer spending strong</li><li>◆ Home ownership is at a record high</li><li>◆ Globalization increases our standard of living</li></ul>	<ul style="list-style-type: none"><li>◆ We're still 1 to 3 million jobs short</li><li>◆ Wages are not keeping up with inflation</li><li>◆ Tax cuts have created a structural deficit</li><li>◆ Consumers are up to their eyeballs in debt</li><li>◆ Offshoring is depriving Americans of jobs</li></ul>



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## *But First, Some Context*

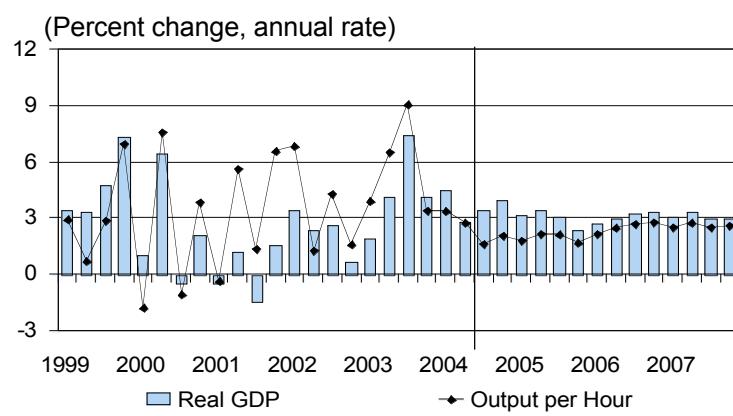


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## *To Get More Output—Work Smarter or Put in More Hours*

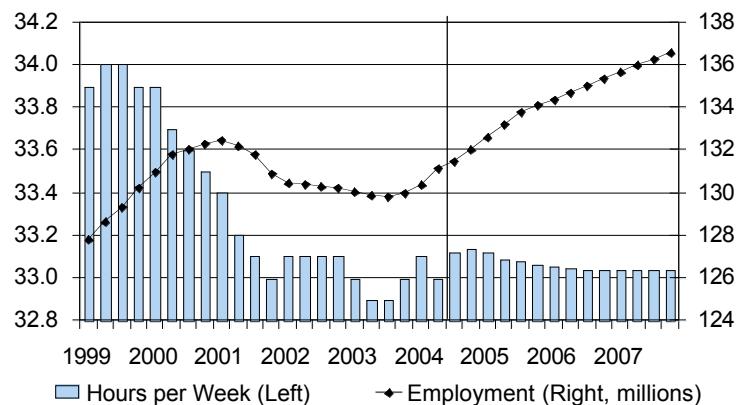


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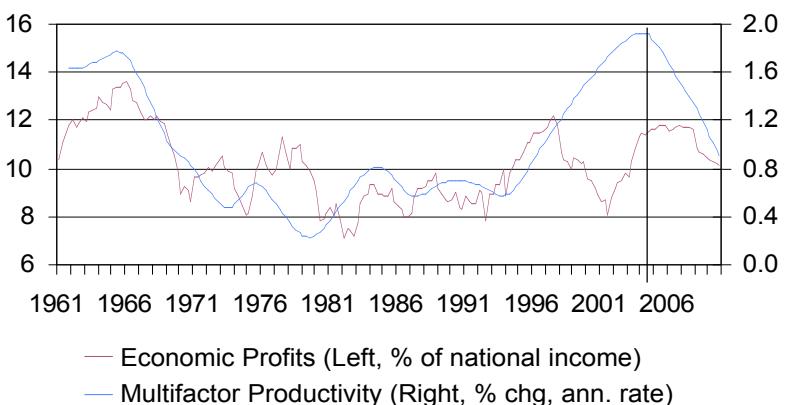
### **For More Hours—Add People or Lengthen the Workweek**



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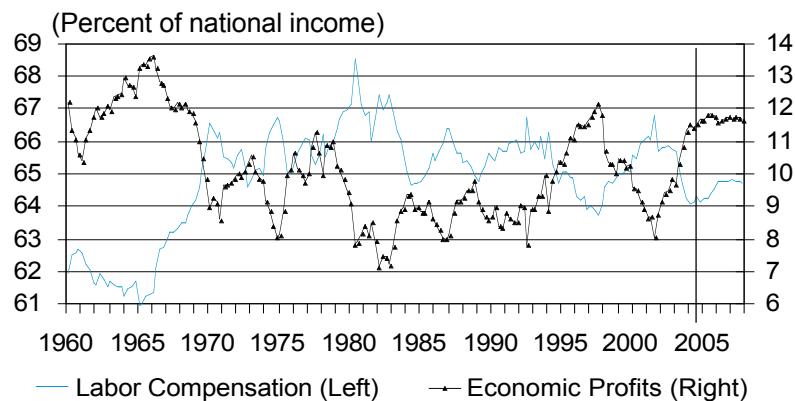
### **Economic Profits Claim a Near-Record Share of National Income**



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### The Savings Fell Through to the Bottom Line



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

	2001	2002	2004	2005	2006
<b>GDP Growth (%)</b>	0.75	1.86	4.27	3.32	2.90
<b>Contributions</b>					
<b>Consumption</b>	1.74	2.14	2.47	2.00	2.04
<b>Structures</b>	-0.07	-0.57	0.07	0.10	0.08
<b>Equip. &amp; Software</b>	-0.44	-0.45	0.97	0.67	0.55
<b>Residential</b>	0.02	0.22	0.50	-0.11	-0.34
<b>Federal</b>	0.23	0.46	0.33	0.23	0.11
<b>State &amp; Local</b>	0.37	0.33	0.09	0.16	0.20
<b>Net Trade</b>	-0.20	-0.70	-0.56	0.30	0.33

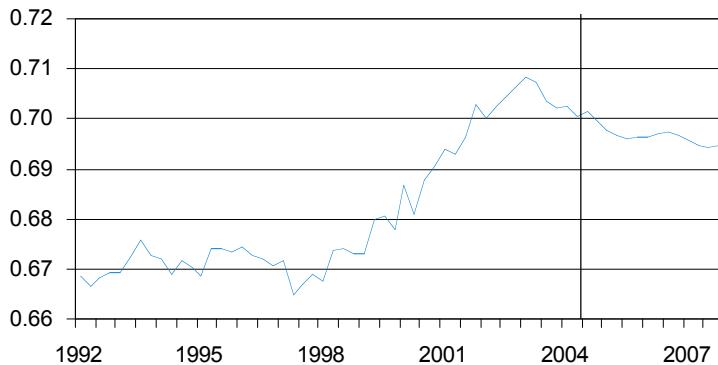


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### **Consumers Have Given Their All for the Economy**

(Consumption as a share of GDP)

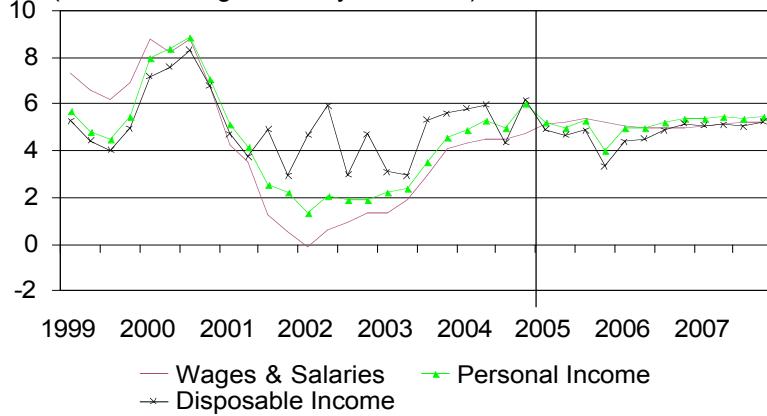


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### **Transfers and Tax Cuts Supported Spending**

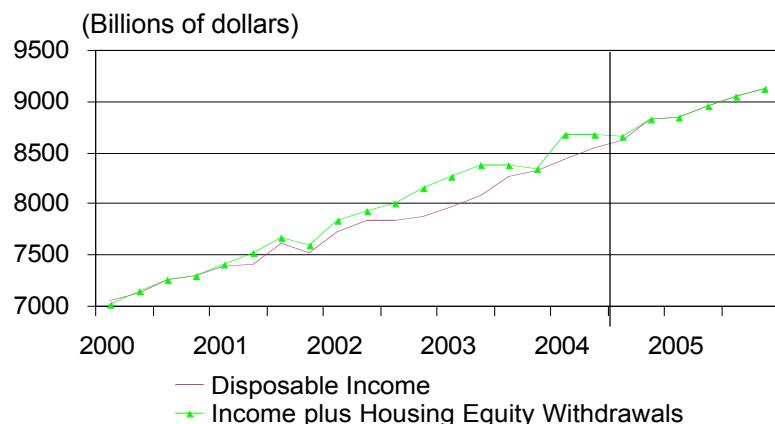
(Percent change from a year earlier)



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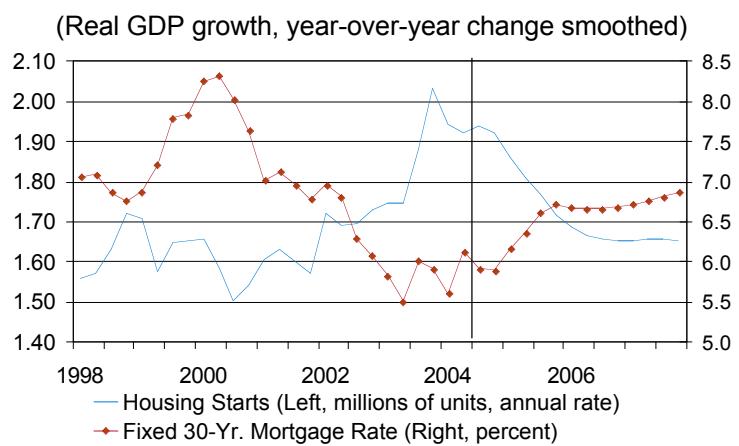
### Housing Equity Also Bolstered Spending



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### Consumers Also Helped by Buying Houses

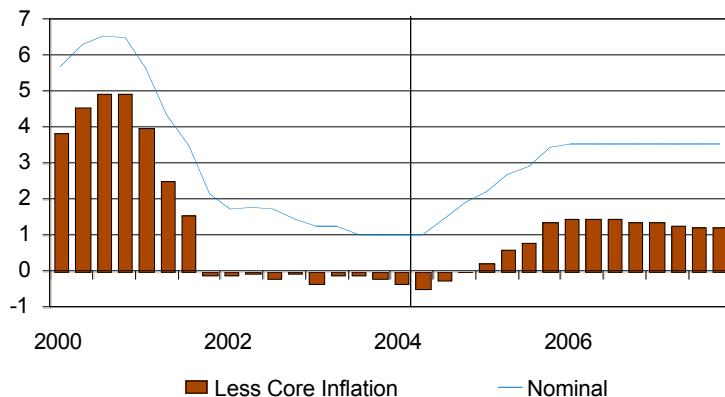


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### The Fed Is Aiming for Positive Real Interest Rates

(Federal funds target rate, percent)

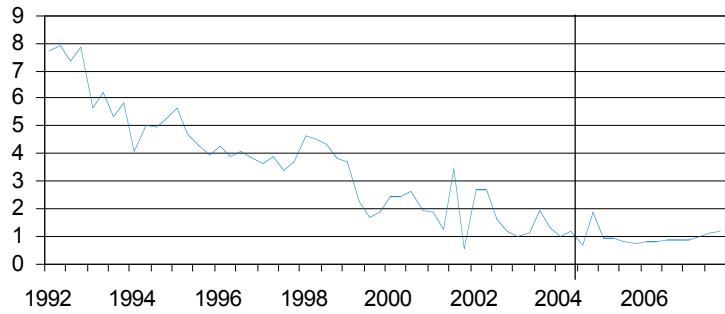


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### Households Set Aside a Mere 2% of Income

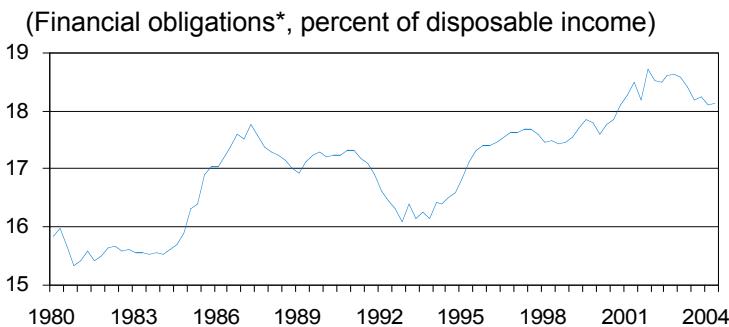
(Household saving rate, percent of disposable income)



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### Over 18% of Income is Obligated Before It Is Received



\* Debt service, rent, property taxes, homeowners' insurance, vehicle leases



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### Do New Jobs Pay Less?

- ◆ Yes
  - Full-time jobs go to part-time.
  - Workers trade pay cuts for jobs.
  - Unemployed IT workers sell at Wal\*Mart
- ◆ No
  - Average hourly earnings keep rising.
  - Ratio of total private-sector wages to total hours worked keeps rising.
- ◆ Who is getting the additional income?

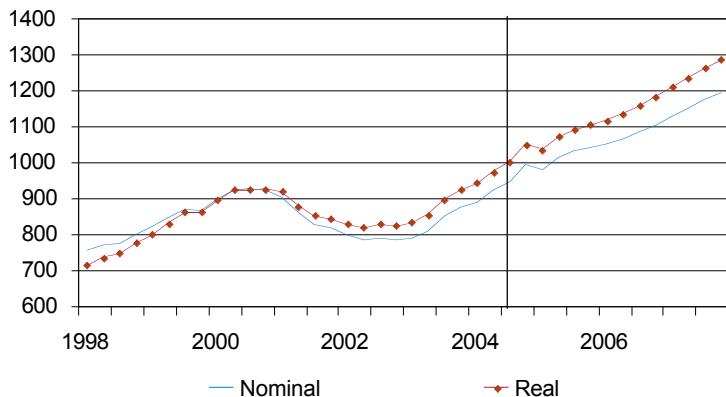


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### ***Equipment Investment Is Finally Breaking New Ground***

(Real GDP growth, year-over-year change smoothed)

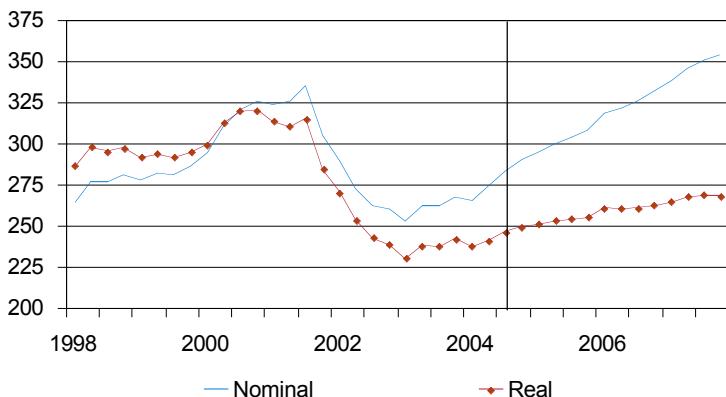


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### ***Still a Long Way to Go on Nonresidential Investment***

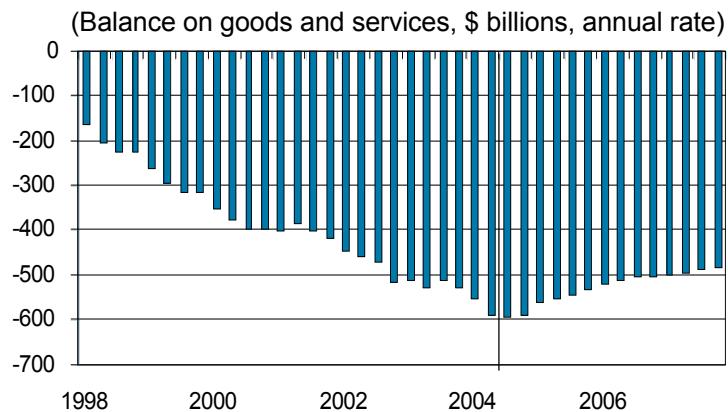
(Real GDP growth, year-over-year change smoothed)



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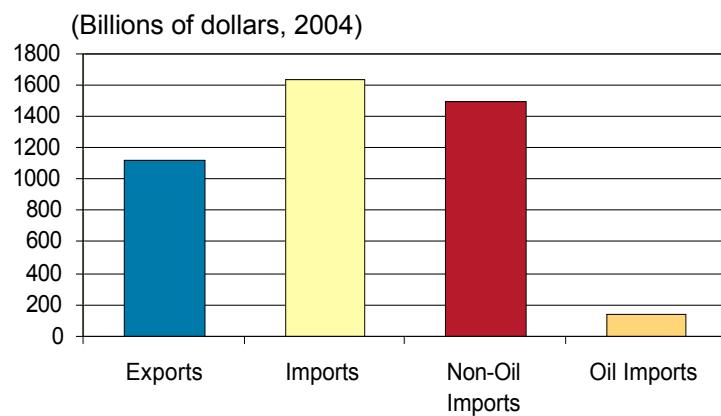
### ***The Drag from Trade Is Expected to Lessen***



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### ***Oil Is a Small Part of the Problem***

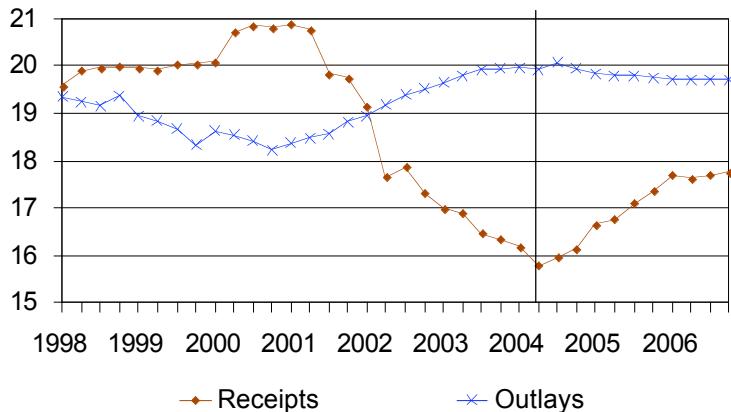


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### Fiscal Policy Is Still Expansionary

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



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### Potholes on the Road to the Future

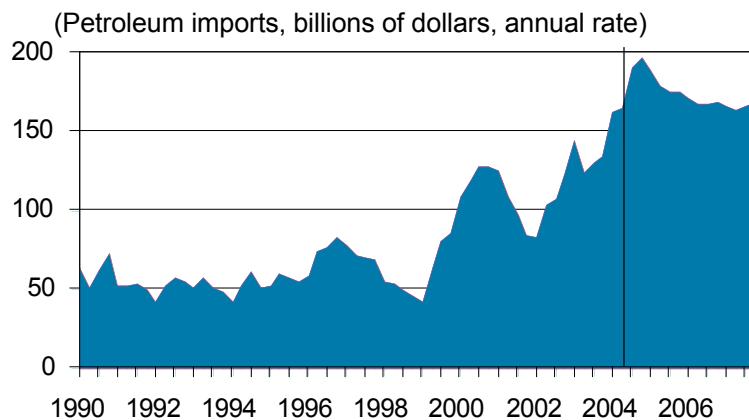
- ◆ Sustained high oil prices
- ◆ Increasingly skewed income distribution
- ◆ The savings / pension deficit
- ◆ The federal deficit
- ◆ The external deficit
- ◆ The steadily increasing load on Medicare and Medicaid



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### ***The Bill for Oil Imports Has Tripled***

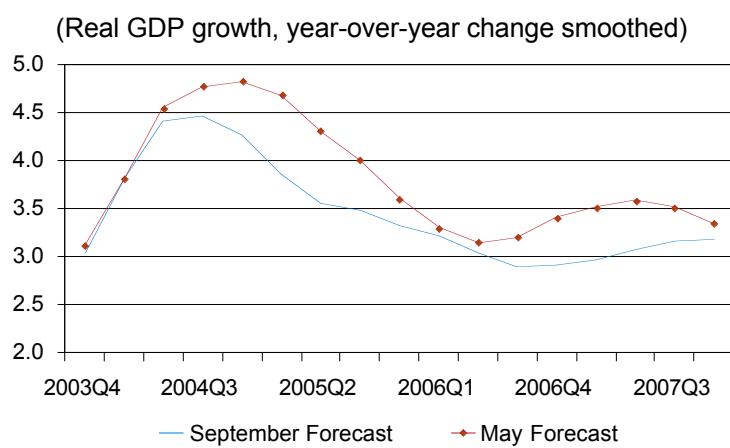


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### ***High Oil Prices Have Lowered the Forecast***

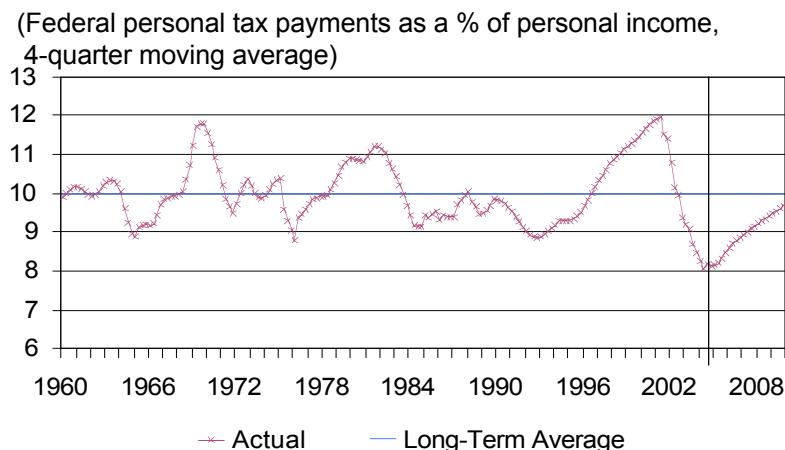


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### **The Federal Tax-Take Has Been Slashed**



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### **The Trade Deficit**

- ◆ The United States buys more than it produces and invests more than it saves.
- ◆ The rest of the world produces more than it buys and saves more than it invests.
- ◆ This is a disequilibrium situation.
- ◆ We need to save more; others need to consume more.



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## The Savings Deficit

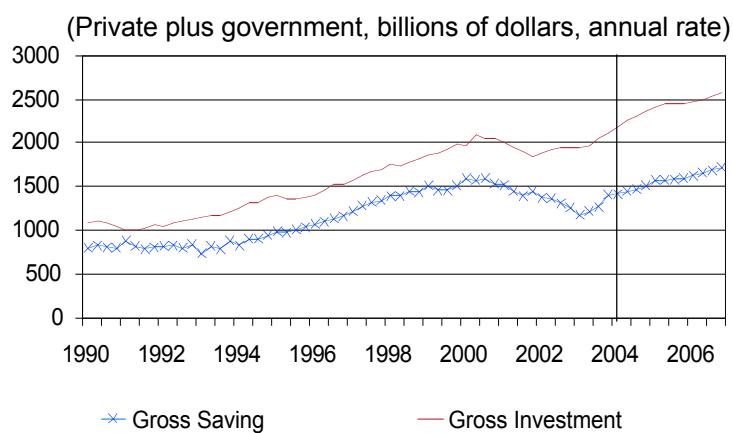
- ◆ Households are (minimal) net savers.
- ◆ Businesses are (usually) net borrowers.
- ◆ Governments are sometimes savers, sometimes borrowers.
- ◆ Add it all up, and the U.S. is a net borrower.
- ◆ There's only one place to go for the funds—the rest of the world.



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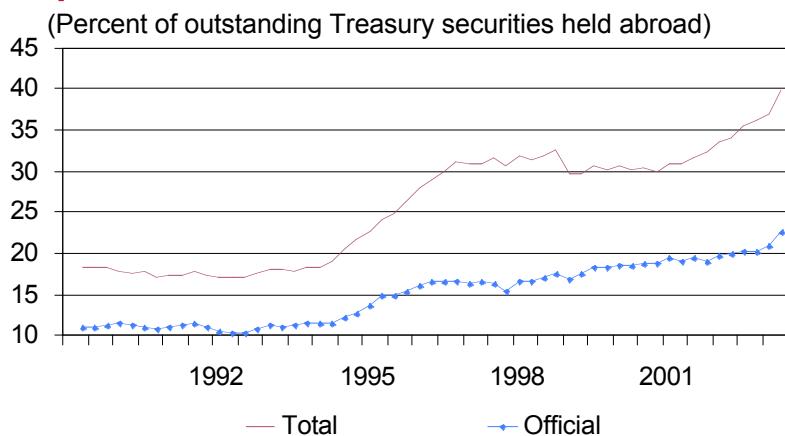
### *But Add in Government, and It Has Been Years Since We Fully Financed Our Own Investment*



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### ***Both Official and Private Foreign Investors Help Finance the Deficit***



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### ***In Conclusion***

- ◆ Globalization is here to stay.
  - ➔ The domestic constraint on supply is gone.
  - ➔ Promises made under different circumstances will be hard to keep.
- ◆ The rest of the world needs to grow faster.
  - ➔ We cannot continue to do all the consuming—though we might like to.
  - ➔ Markets can solve economic problems, but not political ones.



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TABLE 1

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

	2004:2	2004:3	2004:4	2005:1	2005:2	2005:3	2003	2004	2005	2006	2007	2008	2009
<b>The Soft Patch is Brief (Prob. = 20%)</b>													
<b>Composition of Real GDP, Percent Change, Annual Rate</b>													
Gross Domestic Product	2.8	3.4	4.5	3.7	4.2	3.9	3.0	4.3	3.9	3.8	3.6	3.2	3.2
Total Consumption	1.6	3.9	3.0	3.2	3.4	3.5	3.3	3.5	3.2	3.5	2.8	2.6	2.8
Nonresidential Fixed Investment	12.1	11.3	17.8	-2.7	13.2	7.5	3.3	10.5	8.4	11.1	11.7	8.1	7.0
Residential Fixed Investment	14.8	4.0	2.2	-3.8	-3.8	-5.9	8.8	9.6	-1.1	-5.1	-1.1	1.6	0.1
Exports	6.2	8.8	13.8	12.6	13.9	13.5	1.9	9.4	12.2	10.9	9.3	8.9	8.4
Imports	14.1	7.1	7.6	2.0	7.4	6.7	4.4	10.3	6.2	6.9	7.1	5.3	5.1
Federal Government	2.7	4.5	4.2	3.3	3.1	2.6	6.6	4.8	3.4	1.6	0.7	0.6	0.7
State & Local Government	2.2	0.8	0.9	1.2	1.4	3.3	0.7	0.8	1.5	2.2	2.1	1.5	1.5
<b>Prices &amp; Wages, Percent Change, Annual Rate</b>													
Consumer Prices	4.7	1.9	2.1	1.3	0.9	0.6	2.3	2.6	1.5	1.0	1.4	1.6	1.8
Producer Prices, Finished Goods	6.2	2.3	1.1	1.0	-1.2	-1.8	3.2	3.4	0.6	-0.9	-0.2	0.2	0.6
Employment Cost Index - Total Comp.	4.0	3.7	3.3	3.5	3.3	3.4	4.0	3.8	3.5	3.7	3.7	3.7	3.6
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	38.31	43.59	42.96	39.42	36.90	34.37	31.12	40.05	35.71	30.95	29.67	28.95	29.03
Productivity (%ch., saar)	2.7	1.7	2.7	2.2	2.7	2.7	4.5	3.9	2.4	2.7	2.8	3.0	3.1
Manufacturing Production (%ch., saar)	4.9	3.1	4.9	6.0	4.7	4.5	0.3	4.5	4.8	4.8	4.3	3.9	3.7
Nonfarm Inven. Chg. (Bil. 2000 \$)	55.3	36.1	32.5	50.0	49.3	51.9	-1.1	39.6	50.4	53.1	67.9	55.3	55.2
Consumer Sentiment Index	93.3	96.2	98.1	96.4	95.2	96.5	87.6	96.4	95.8	94.0	92.3	89.3	87.4
Light Vehicle Sales (Mil. units, saar)	16.537	17.119	17.271	17.242	17.469	17.446	16.626	16.858	17.376	17.816	17.970	18.055	18.198
Housing Starts (Mil. units, saar)	1.923	1.938	1.924	1.890	1.838	1.794	1.853	1.932	1.820	1.691	1.687	1.696	1.672
Unemployment Rate (%)	5.6	5.4	5.3	5.3	5.2	6.0	5.5	5.3	5.2	5.1	5.2	5.3	5.3
Payroll Employment (%ch., saar)	2.3	1.1	1.7	1.9	2.1	2.1	-0.3	1.0	1.8	1.6	1.2	0.8	0.7
Federal Surplus (Unified, FY, bil. \$)	-25.7	-105.5	-95.7	-96.8	-47.3	-65.6	-374.3	-432.1	-305.4	-174.9	-81.4	-56.2	-40.1
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	1.01	1.41	1.89	2.18	2.65	2.92	1.13	1.33	2.69	3.00	3.00	3.19	4.13
10-Year Treasury Note Yield (%)	4.60	4.36	4.45	4.67	4.82	5.04	4.02	4.36	4.85	4.81	4.87	5.20	5.68
<b>Incomes</b>													
Personal Income (% ch., saar)	6.1	3.4	9.9	1.8	5.2	5.2	3.2	5.3	5.0	5.5	5.4	5.2	5.4
(Four-quarter % change)	18.5	13.1	3.5	36.7	37.7	36.0	11.4	12.7	36.4	6.8	3.4	-0.4	-2.6
<b>Shades of Stagflation (Prob. = 20%)</b>													
<b>Composition of Real GDP, Percent Change, Annual Rate</b>													
Gross Domestic Product	2.8	3.0	3.3	2.3	2.6	2.5	3.0	4.2	2.6	2.4	2.9	2.9	3.2
Total Consumption	1.6	3.3	1.6	1.7	1.7	2.2	3.3	3.4	2.0	2.5	2.7	2.7	2.9
Nonresidential Fixed Investment	12.1	11.1	16.8	-6.6	9.6	5.4	3.3	10.5	5.8	4.6	6.5	5.9	6.8
Residential Fixed Investment	14.8	2.6	-0.5	-7.2	-9.0	-13.5	8.8	9.2	-5.2	-11.8	-2.7	3.2	2.8
Exports	6.2	8.7	11.4	10.7	11.9	11.3	1.9	9.3	10.5	9.1	8.1	7.6	7.4
Imports	14.1	6.3	4.0	-3.4	1.0	1.8	4.4	9.9	1.9	3.2	6.1	5.6	5.8
Federal Government	2.7	4.5	4.2	3.3	3.1	2.6	6.6	4.8	3.4	1.6	0.7	0.6	0.7
State & Local Government	2.2	0.8	1.5	1.3	1.1	2.6	0.7	0.8	1.5	1.3	1.1	1.5	1.8
<b>Prices &amp; Wages, Percent Change, Annual Rate</b>													
Consumer Prices	4.7	1.9	2.5	2.5	2.1	2.1	2.3	2.6	2.4	2.3	2.6	2.8	2.9
Producer Prices, Finished Goods	6.2	2.3	0.9	2.6	0.4	0.1	3.2	3.4	1.6	0.5	0.8	1.2	1.6
Employment Cost Index - Total Comp.	4.0	3.8	3.6	3.7	4.0	3.9	4.0	3.9	3.8	4.0	3.8	3.6	3.6
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	38.31	43.59	44.00	44.10	43.56	42.99	31.12	40.31	43.30	41.46	40.34	39.63	39.72
Productivity (%ch., saar)	2.7	3.0	1.6	1.7	2.4	2.5	4.5	4.0	2.1	2.4	2.5	2.2	2.3
Manufacturing Production (%ch., saar)	4.9	2.7	4.1	4.2	2.2	1.8	0.3	4.4	3.2	2.8	4.0	3.8	3.4
Nonfarm Inven. Chg. (Bil. 2000 \$)	55.3	33.8	20.8	29.3	17.6	11.0	-1.1	36.1	15.1	20.1	52.9	50.2	51.6
Consumer Sentiment Index	93.3	93.2	88.4	85.9	80.9	79.4	87.6	93.2	80.9	79.1	81.9	84.2	86.8
Light Vehicle Sales (Mil. units, saar)	16.537	16.966	16.721	16.472	16.393	16.363	16.626	16.682	16.420	16.565	16.822	17.015	17.201
Housing Starts (Mil. units, saar)	1.923	1.937	1.907	1.835	1.761	1.660	1.853	1.927	1.707	1.508	1.534	1.606	1.640
Unemployment Rate (%)	5.6	5.5	5.7	5.8	6.0	6.1	6.0	5.6	6.1	6.6	6.6	6.4	6.0
Payroll Employment (%ch., saar)	2.3	-0.2	1.6	1.3	1.1	0.9	-0.3	0.8	1.1	0.4	0.7	1.0	1.3
Federal Surplus (Unified, FY, bil. \$)	-25.7	-106.2	-99.9	-104.9	-60.9	-85.8	-374.3	-432.8	-351.5	-370.9	-418.2	-462.6	-446.2
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	1.01	1.41	1.89	2.27	3.32	4.33	1.13	1.33	3.69	5.88	6.75	6.56	6.13
10-Year Treasury Note Yield (%)	4.60	4.34	4.40	4.69	5.26	6.00	4.02	4.34	5.51	6.73	7.33	7.47	7.23
<b>Incomes</b>													
Personal Income (% ch., saar)	6.1	2.5	9.8	0.9	4.6	4.9	3.2	5.2	4.4	5.4	6.3	6.4	6.7
(Four-quarter % change)	18.5	14.4	0.3	32.7	31.9	27.1	11.4	12.1	30.2	1.2	2.7	2.1	2.5

TABLE 2

**Summary of the U.S. Economy**

	2004:1	2004:2	2004:3	2004:4	2005:1	2005:2	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1
<b>Composition of Real GDP, Percent Change, Annual Rate</b>													
Gross Domestic Product	4.5	2.8	3.4	4.0	3.2	3.5	3.1	2.4	2.7	3.0	3.3	3.3	3.1
Final Sales of Domestic Product	3.3	2.1	4.3	4.2	2.6	3.7	3.1	2.6	2.9	3.0	3.1	2.9	2.8
Total Consumption	4.1	1.6	3.9	2.5	2.8	3.0	2.9	2.6	2.9	3.2	3.2	2.9	2.4
Durables	2.2	0.0	14.7	-2.1	0.7	3.0	1.7	1.3	5.5	6.2	6.3	4.4	4.5
Nondurables	6.7	0.5	3.4	2.8	2.4	2.9	3.2	3.0	2.8	3.2	3.0	2.9	2.6
Services	3.3	2.5	2.1	3.3	3.5	3.1	3.1	2.6	2.4	2.6	2.8	2.6	2.0
Nonresidential Fixed Investment	4.2	12.1	11.3	17.4	-3.7	11.8	5.9	4.6	5.5	5.0	6.2	7.3	7.7
Equipment & Software	8.0	13.6	12.0	21.2	-5.4	14.4	7.1	5.4	4.5	6.8	8.0	8.8	9.0
Information Processing Equipment	16.4	13.6	11.6	28.4	-5.6	19.3	10.7	9.5	7.6	9.3	9.4	10.6	11.1
Computers & Peripherals	6.5	26.9	22.8	44.9	-11.1	29.3	22.0	20.4	19.2	21.4	21.3	20.7	20.8
Communications Equipment	20.0	30.7	9.1	23.7	-2.6	22.6	6.7	4.7	4.0	3.1	2.1	5.4	5.7
Industrial Equipment	6.6	2.6	25.9	6.6	-13.3	3.2	1.4	9.3	5.0	8.3	6.8	6.6	5.9
Transportation equipment	-15.0	23.9	-3.8	22.0	-3.6	20.6	4.6	-8.5	-4.5	1.4	9.5	10.6	11.0
Aircraft	-71.6	362.3	-54.7	14.1	25.9	12.8	9.1	9.2	9.6	12.1	10.7	7.7	3.0
Other Equipment	8.3	15.8	16.4	14.2	1.7	5.6	3.9	2.8	2.2	2.5	3.4	3.8	3.6
Structures	-7.6	7.1	8.9	5.2	2.1	3.4	1.7	1.7	9.1	-0.8	0.6	2.5	3.5
Commercial & Health Care	-9.1	18.5	17.2	2.1	-0.3	5.4	6.2	0.1	15.5	1.5	0.4	0.3	-0.9
Manufacturing	-16.8	-15.5	12.4	12.4	13.1	31.9	11.0	18.7	20.8	24.2	13.2	17.4	15.7
Power & Communication	-13.4	-32.2	-1.7	-9.1	2.0	-1.1	1.1	17.2	1.5	-3.5	10.6	10.9	26.1
Mining & Petroleum	6.7	20.0	10.6	24.2	1.1	-6.3	-20.0	-19.0	3.9	-19.8	-11.5	-7.9	-9.5
Other	-7.0	17.9	-0.7	7.3	5.2	3.3	7.2	6.4	2.9	3.1	-0.3	4.3	4.3
Residential Fixed Investment	5.0	14.8	4.0	1.1	-4.4	-5.0	-7.5	-7.8	-6.9	-5.9	-4.8	-1.9	-1.0
Exports	7.3	6.2	8.8	11.8	10.5	11.4	10.8	9.5	9.0	9.0	9.5	9.7	9.5
Imports	10.6	14.1	7.1	6.0	0.6	5.7	5.0	4.1	3.4	4.1	5.4	6.9	6.1
Federal Government	7.1	2.7	4.5	4.2	3.3	3.1	2.6	2.2	1.6	0.7	0.7	0.7	0.8
State & Local Government	0.0	2.2	0.8	0.9	1.1	1.2	3.0	1.9	1.5	1.7	1.3	1.4	0.9
<b>Billions of Dollars</b>													
Real GDP	10697.5	10771.4	10862.3	10968.2	11054.1	11149.1	11233.3	11300.3	11376.5	11459.8	11552.3	11647.3	11736.0
Nominal GDP	11472.6	11643.1	11782.5	11955.8	12118.7	12279.3	12421.4	12545.3	12687.2	12832.7	12991.7	13157.4	13324.5
<b>Prices &amp; Wages, Percent Change, Annual Rate</b>													
GDP Deflator	2.8	3.2	1.1	2.0	2.3	1.9	1.6	1.6	1.8	1.7	1.7	1.8	2.0
Consumer Prices	3.6	4.7	1.9	2.3	1.8	1.5	1.2	1.3	1.5	1.6	1.7	1.7	1.7
Producer Prices, Finished Goods	3.9	6.2	2.3	1.6	1.8	-0.2	-0.8	-0.5	-0.1	-0.3	0.1	0.2	0.0
Employment Cost Index - Total Comp.	4.3	4.0	3.7	3.5	3.6	3.4	3.4	3.8	3.9	3.4	3.5	3.7	3.6
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	35.35	38.31	43.59	44.00	41.50	40.00	38.50	37.33	36.83	36.17	36.00	35.50	35.00
Productivity (%ch., saar)	3.4	2.7	1.7	2.1	1.8	2.2	2.1	1.7	2.2	2.5	2.7	2.8	2.5
Total Industrial Production (%ch., saar)	6.6	4.9	3.1	4.5	4.8	3.0	2.3	2.2	3.3	4.2	5.0	5.0	5.0
Factory Operating Rate	75.1	76.0	76.4	76.9	77.0	77.2	77.1	76.9	76.9	77.1	77.6	78.1	78.7
Nonfarm Inven. Chg. (Bil. 2000 \$)	34.5	55.3	36.1	28.6	43.3	38.1	36.3	32.0	25.9	23.6	29.1	41.7	51.7
Consumer Sentiment Index	98.0	93.3	96.2	93.5	93.1	92.1	92.6	91.1	89.2	88.8	88.7	89.1	88.9
Light Vehicle Sales (Mil. units, saar)	16.504	16.537	17.119	17.079	16.986	17.196	17.097	16.904	16.958	17.080	17.372	17.262	17.399
Housing Starts (Mil. units, saar)	1.943	1.923	1.938	1.923	1.862	1.813	1.767	1.718	1.688	1.667	1.658	1.653	1.653
Existing House Sales (Mil. units, saar)	6.203	6.787	6.709	6.586	6.395	6.273	6.185	6.042	5.929	5.871	5.832	5.778	5.749
Unemployment Rate (%)	5.6	5.6	5.4	5.4	5.4	5.3	5.4	5.4	5.5	5.6	5.6	5.6	5.6
Payroll Employment (%ch., saar)	1.1	2.3	1.1	1.6	1.8	1.9	1.7	1.0	0.8	0.9	1.0	0.9	0.8
Federal Surplus (Unified, nsf, bil. \$)	-170.8	-25.7	-105.5	-96.7	-99.3	-52.2	-74.0	-71.9	-68.9	-75.4	-74.9	-72.5	-70.3
Current Account Balance (Bil. \$)	-579.5	-667.0	-683.4	-707.9	-683.0	-683.8	-681.8	-677.4	-673.2	-666.5	-664.8	-669.4	-672.5
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	1.00	1.01	1.41	1.89	2.18	2.65	2.92	3.41	3.50	3.50	3.50	3.50	3.50
3-Month Treasury Bill Rate (%)	0.92	1.07	1.49	1.92	2.32	2.69	2.91	3.23	3.26	3.24	3.24	3.24	3.24
10-Year Treasury Note Yield (%)	4.02	4.60	4.36	4.45	4.68	4.85	5.10	5.20	5.24	5.23	5.24	5.27	5.32
30-Year Fixed Mortgage Rate (%)	5.61	6.13	5.91	5.90	6.16	6.37	6.61	6.72	6.68	6.66	6.66	6.69	6.71
S&P 500 Stock Index	1133	1123	1101	1117	1127	1135	1147	1159	1168	1179	1193	1206	1219
(Four-Quarter % change)	31.8	19.7	10.1	5.7	-0.6	1.0	4.1	3.7	3.6	4.0	4.0	4.1	4.4
Exchange Rate, Major Trading Partners (% change, annual rate)	0.840	0.867	0.850	0.831	0.826	0.827	0.827	0.827	0.818	0.814	0.809	0.804	0.796
	-11.2	13.4	-7.4	-8.9	-2.3	0.5	0.1	-0.2	-3.9	-2.0	-2.3	-2.5	-4.2
<b>Incomes</b>													
Personal Income (% ch., saar)	5.0	6.1	3.4	9.9	1.6	5.1	4.8	4.4	5.4	5.3	5.6	5.3	5.3
Real Disposable Income (%ch., saar)	2.4	2.5	1.6	7.8	-1.0	3.1	2.6	2.2	3.1	3.4	3.6	2.9	2.6
Saving Rate (%)	1.0	1.2	0.7	1.9	0.9	0.9	0.8	0.7	0.8	0.8	0.9	0.9	0.9
After-Tax Profits (Billions of \$) (Four-quarter % change)	706	711	727	732	953	963	965	962	960	975	996	1009	1011
	17.2	18.5	13.1	2.5	35.1	35.4	32.8	31.5	0.7	1.3	3.2	4.9	5.4

TABLE 3

**Summary of the U.S. Economy**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Composition of Real GDP, Percent Change</b>													
Gross Domestic Product	4.5	4.2	4.4	3.7	0.8	1.9	3.0	4.3	3.3	2.9	3.2	2.9	3.0
Final Sales of Domestic Product	4.0	4.2	4.5	3.8	1.6	1.4	3.1	3.9	3.4	3.0	3.0	3.0	3.0
Total Consumption	3.8	5.0	5.1	4.7	2.5	3.1	3.3	3.5	2.9	2.9	2.8	2.6	2.7
Durables	8.6	11.3	11.7	7.3	4.3	6.5	7.4	6.0	2.4	4.2	4.5	3.9	4.1
Nondurables	2.7	4.0	4.6	3.8	2.0	2.6	3.7	4.3	2.7	3.0	2.8	2.7	2.8
Services	3.3	4.2	4.0	4.5	2.4	2.6	2.2	2.6	3.0	2.7	2.4	2.4	2.4
Nonresidential Fixed Investment	12.1	11.1	9.2	8.7	-4.2	-8.9	3.3	10.5	7.4	5.9	7.1	6.1	5.8
Equipment & Software	13.8	13.3	12.7	9.4	-4.9	-5.5	6.4	13.0	8.5	6.7	8.6	7.4	6.4
Information Processing Equipment	23.3	21.9	21.2	17.4	-1.8	-4.2	12.0	17.3	11.1	9.8	10.8	10.8	9.4
Computers & Peripherals	45.2	44.3	41.0	21.1	2.0	11.5	33.1	26.5	17.9	21.1	20.9	19.9	19.3
Communications Equipment	13.9	15.9	19.2	30.0	-7.6	-17.3	4.1	19.7	11.5	5.2	5.3	6.5	4.8
Industrial Equipment	2.2	3.6	-0.2	7.7	-8.5	-5.7	0.1	5.0	1.9	6.2	5.3	2.6	2.4
Transportation equipment	8.3	7.0	15.3	-4.1	-11.2	-12.1	-3.1	5.9	7.4	0.9	10.2	6.5	4.0
Aircraft	18.4	33.7	44.0	2.8	2.8	-32.2	-25.7	-11.0	11.5	10.1	6.7	6.6	7.6
Other Equipment	9.7	8.6	0.8	3.6	-3.3	-1.9	5.4	14.5	7.6	3.1	3.4	2.3	2.3
Structures	7.2	5.1	-0.4	6.8	-2.3	-17.8	-5.6	2.8	4.0	3.0	2.3	1.5	4.0
Commercial & Health Care	10.5	5.8	3.2	6.3	-5.3	-15.8	-7.0	2.0	5.2	5.2	0.3	-0.1	0.8
Manufacturing	-4.5	3.4	-22.5	-6.1	-10.3	-46.1	-14.7	-5.6	14.3	19.2	20.2	15.7	19.9
Power & Communication	-3.6	15.3	17.4	14.7	3.0	-3.2	-19.9	-5.7	-3.1	4.8	13.1	2.7	5.7
Mining & Petroleum	17.4	-7.8	-8.8	27.8	17.8	-26.3	23.1	19.0	1.4	-11.7	-11.8	-8.7	0.5
Other	13.5	5.4	0.8	2.9	-4.7	-15.3	-2.7	2.6	5.5	3.8	3.8	4.6	4.4
Residential Fixed Investment	1.9	7.6	6.0	0.8	0.4	4.8	8.8	9.5	-2.0	-6.3	-1.8	-0.4	-1.1
Exports	11.9	2.4	4.3	8.7	-5.4	-2.3	1.9	9.3	10.4	9.6	9.4	8.8	8.2
Imports	13.6	11.6	11.5	13.1	-2.7	3.4	4.4	10.2	4.9	4.5	5.9	4.8	4.6
Federal Government	-1.0	-1.1	2.2	0.9	3.9	7.5	6.6	4.8	3.4	1.6	0.7	0.6	0.7
State & Local Government	3.6	3.6	4.7	2.7	3.2	2.8	0.7	0.8	1.4	1.7	1.4	1.4	1.5
<b>Billions of Dollars</b>													
Real GDP	8703.5	9066.9	9470.4	9817.0	9890.7	10074.8	10381.3	10824.8	11184.2	11509.0	11874.2	12215.8	12578.0
Nominal GDP	8304.3	8747.0	9268.4	9817.0	10128.0	10487.0	11004.1	11713.5	12341.2	12917.2	13579.2	14245.2	14958.2
<b>Prices &amp; Wages, Percent Change</b>													
GDP Deflator	1.7	1.1	1.4	2.2	2.4	1.7	1.8	2.1	1.9	1.7	1.9	2.0	2.0
Consumer Prices	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.6	1.9	1.5	1.7	2.0	2.1
Producer Prices, Finished Goods	0.4	-0.9	1.7	3.9	2.0	-1.3	3.2	3.5	1.2	-0.2	0.1	0.6	1.0
Employment Cost Index - Total Comp.	3.1	3.5	3.2	4.6	4.1	3.8	4.0	3.9	3.6	3.6	3.6	3.6	3.5
<b>Other Key Measures</b>													
Oil - WTI (\$ per barrel)	20.63	14.39	19.27	30.35	25.96	26.11	31.12	40.31	39.33	36.13	34.85	34.14	34.22
Productivity (%ch.)	1.6	2.6	2.9	2.7	2.6	4.3	4.5	3.8	2.0	2.2	2.6	2.6	2.7
Total Industrial Production (%ch.)	7.4	5.9	4.4	4.4	-3.4	-0.6	0.3	4.5	3.7	3.4	4.8	4.1	3.6
Factory Operating Rate	82.6	82.0	81.4	81.1	75.4	73.9	73.4	76.1	77.1	77.4	79.2	79.7	80.2
Nonfarm Inven. Chg. (Bil. 2000 \$)	68.5	71.2	71.5	57.8	-31.8	13.5	-1.1	38.6	37.4	30.1	57.4	47.0	45.3
Consumer Sentiment Index	103.2	104.6	105.8	107.6	89.2	89.6	87.6	95.3	92.2	89.0	88.5	86.4	85.5
Light Vehicle Sales (Mil. units)	15.126	15.506	16.888	17.342	17.115	16.779	16.626	16.810	17.046	17.168	17.399	17.508	17.661
Housing Starts (Mil. units)	1.475	1.621	1.647	1.573	1.601	1.710	1.853	1.932	1.790	1.666	1.655	1.632	1.596
Existing House Sales (Mil. units)	4.390	4.963	5.193	5.158	5.290	5.593	6.098	6.571	6.224	5.852	5.725	5.679	5.644
Unemployment Rate (%)	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5	5.4	5.6	5.6	5.7	5.7
Payroll Employment (%ch.)	2.6	2.6	2.4	2.2	0.0	-1.1	-0.3	1.0	1.7	1.1	0.9	0.7	0.8
Federal Surplus (Unified, FY, bil. \$)	-22.0	69.2	124.4	236.9	127.3	-157.8	-374.3	-432.1	-322.3	-291.1	-284.0	-290.0	-278.3
Current Account Balance (Bil. \$)	-136.0	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-659.4	-681.5	-668.5	-674.7	-676.7	-693.0
<b>Financial Markets, NSA</b>													
Federal Funds Rate (%)	5.46	5.35	4.97	6.24	3.89	1.67	1.13	1.33	2.79	3.50	3.50	3.88	4.9
3-Month Treasury Bill Rate (%)	5.06	4.79	4.63	5.81	3.43	1.61	1.01	1.35	2.79	3.24	3.24	3.57	4.47
10-Year Treasury Note Yield (%)	6.35	5.26	5.64	6.03	5.02	4.61	4.02	4.36	4.96	5.24	5.39	5.89	6.42
30-Year Fixed Mortgage Rate (%)	7.60	6.94	7.43	8.06	6.97	6.54	5.82	5.89	6.46	6.67	6.79	7.24	7.76
S&P 500 Stock Index	873	1084	1326	1427	1192	996	964	1119	1142	1187	1246	1330	1442
(Percent change)	30.1	24.2	22.3	7.6	-16.4	-16.5	-3.2	16.1	2.1	3.9	5.0	6.8	8.4
Exchange Rate, Major Trading Partners (Percent change)	0.925	0.969	0.953	1.000	1.060	1.044	0.916	0.847	0.827	0.812	0.789	0.779	0.771
Personal Income (% ch.)	6.1	7.3	5.1	8.0	3.5	1.8	3.2	5.3	4.8	5.1	5.4	5.4	5.7
Real Disposable Income (%ch.)	3.5	5.8	3.0	4.8	1.9	3.1	2.3	3.3	2.6	3.0	3.1	2.9	3.0
Saving Rate (%)	3.7	4.3	2.4	2.4	1.8	2.0	1.4	1.2	0.9	0.8	1.0	1.2	1.4
After-Tax Profits (Billions of \$)	552	470	517	508	504	574	640	719	961	985	1025	1019	1005
(Percent change)	10.1	-14.9	10.1	-1.7	-0.9	14.0	11.4	12.4	33.7	2.5	4.0	-0.5	-1.4

TABLE 4

**Monthly Economic Indicators**

	Jul. 2003	Aug. 2003	Jan. 2004	Feb. 2004	Mar. 2004	Apr. 2004	May. 2004	Jun. 2004	Jul. 2004	Aug. 2004	2001	2002	2003
<b>Industrial Markets</b>													
Industrial Prod. (1997=100.0)	111.8	111.8	114.5	115.8	116.3	117.1	117.7	117.5	118.2		112.7	111.8	112.2
Percent Change	0.5	0.0	0.3	1.1	0.4	0.7	0.5	-0.2	0.6		-4.0	-0.7	0.3
Percent Change Year Earlier	-0.6	-0.8	2.2	3.3	4.0	5.4	6.0	5.7	5.8				
Capacity Utilization, Manufacturing (%)	73.0	73.0	74.5	75.3	75.5	75.9	76.2	75.9	76.3		75.4	73.9	73.4
Unemployment Rate (%)	6.2	6.1	5.6	5.6	5.7	5.6	5.6	5.6	5.5		5.4	4.8	5.8
Payroll Employment (Mil.)	129.814	129.789	130.194	130.277	130.630	130.954	131.162	131.258	131.331		131.475	131.837	130.343
Change (Mil.)	-0.045	-0.025	0.159	0.083	0.353	0.324	0.208	0.096	0.073		0.144	0.046	-1.494
Leading Indicator (1992=1.000)	1.128	1.132	1.149	1.149	1.158	1.159	1.164	1.163	1.160		1.085	1.109	1.123
Percent Change	0.7	0.4	0.3	0.0	0.8	0.1	0.4	-0.1	-0.3		-0.8	2.2	1.3
New Orders, Mfg. (Bil. \$)	330.6	329.4	341.9	345.8	363.1	359.1	360.6	364.8	369.6		323.2	317.2	328.9
Percent Change	2.0	-0.3	-0.9	1.1	5.0	-1.1	0.4	1.2	1.3		-6.7	-1.9	3.7
Inv. Chg., Mfg. & Trade (Bil. \$)	2.0	-5.5	1.9	9.7	8.9	8.6	8.2	11.4			-54.5	17.5	21.8
Merchandise Trade Bal. (Bil. \$)	-43.4	-42.9	-48.4	-48.6	-49.9	-51.8	-50.3	-57.8	-53.5		-411.9	-468.3	-532.4
<b>Consumer Markets</b>													
Disposable Income (Bil. 2000\$)	7814	7871	7884	7899	7908	7941	7948	7947	7958		7333	7560	7734
Percent Change	1.4	0.7	0.0	0.2	0.1	0.4	0.1	0.0	0.1		1.9	3.1	2.3
Personal Income (Bil. \$)	9175	9209	9404	9446	9485	9544	9595	9617	9628		8724	8879	9162
Percent Change	0.3	0.4	0.3	0.4	0.4	0.6	0.5	0.2	0.1		3.5	1.8	3.2
Personal Saving Rate (%)	2.2	2.2	1.1	0.9	1.0	1.4	0.9	1.3	0.6		1.8	2.0	1.4
Consumer Expenditures (Bil. \$)	7776	7854	8015	8067	8098	8104	8188	8173	8238		7055	7376	7761
Percent Change	0.6	1.0	0.6	0.6	0.4	0.1	1.0	-0.2	0.8		4.7	4.6	5.2
Retail Sales (Bil. \$)	315.9	318.9	323.9	327.0	333.8	331.1	335.9	334.2	336.5		3475.9	3564.4	3755.7
Percent Change	1.1	1.0	0.5	1.0	2.1	-0.8	1.4	-0.5	0.7		3.1	2.5	5.4
Non-Auto. Retail Sales (Bil. \$)	239.5	241.9	249.2	250.6	255.5	255.0	257.1	257.8	258.3		2634.8	2718.8	2859.2
Percent Change	1.2	1.0	1.5	0.6	1.9	-0.2	0.9	0.3	0.2		3.1	3.2	5.2
New Light-Vehicle Sales (Mil.)	16.8	17.9	16.3	16.5	16.7	16.6	17.7	15.4	17.2		16.6	17.1	16.6
Domestic	13.5	14.5	13.2	13.2	13.3	13.2	14.1	12.0	13.9		13.4	14.0	13.5
Imports	3.3	3.4	3.1	3.3	3.4	3.3	3.5	3.3	3.3		3.2	3.1	3.3
Housing Starts (Mil.)	1.893	1.835	1.934	1.895	2.000	1.963	1.979	1.826	1.978		1.601	1.710	1.853
New Home Sales (Mil.)	1.156	1.189	1.155	1.165	1.270	1.176	1.283	1.211	1.134		0.907	0.976	1.089
Existing Home Sales (Mil.)	6.190	6.390	6.000	6.130	6.480	6.630	6.810	6.920	6.720		5.290	5.593	6.098
Chg. Consumer Install. Credit (Bil. \$)	5.1	10.5	26.1	0.1	4.8	2.4	4.5	4.3	10.9		136.2	76.2	81.7
<b>Prices and Wages</b>													
CPI, All Urban Consumers	1.838	1.845	1.858	1.863	1.872	1.876	1.888	1.894	1.893		1.770	1.799	1.840
Percent Change Year Earlier	2.1	2.2	2.0	1.7	1.7	2.3	3.0	3.2	3.0		2.8	1.6	2.3
Core Cons. Price Defl. (2000=100.0)	105.142	105.193	105.885	106.068	106.291	106.411	106.533	106.662	106.695		101.904	103.707	105.072
Percent Change Year Earlier	1.3	1.1	1.2	1.4	1.5	1.5	1.5	1.5	1.5		1.9	1.8	1.3
PPI, Finished Goods	1.428	1.435	1.457	1.458	1.467	1.477	1.488	1.484	1.485		1.484	1.407	1.389
Percent Change Year Earlier	3.0	3.5	3.3	2.1	1.5	3.6	4.9	4.0	4.0		3.4	2.0	-1.3
PPI, Industrial Commodities (NSA)	1.391	1.391	1.422	1.428	1.433	1.448	1.462	1.472	1.484		1.493	1.357	1.324
Percent Change Year Earlier	4.9	4.7	4.0	2.5	-0.2	4.8	6.1	5.7	6.7		7.3	0.7	-2.4
Avg. Private Hourly Earnings (\$)	15.40	15.41	15.49	15.52	15.55	15.59	15.63	15.66	15.72		15.77	14.52	14.94
Percent Change Year Earlier	2.9	2.7	2.0	1.6	1.8	2.2	2.1	2.1	2.1		2.3	3.8	2.7
West Texas Int. Crude Oil (\$/bbl.)	30.76	31.59	34.27	34.74	36.76	36.70	40.29	38.04	40.81		44.94	25.92	26.10
Percent Change Year Earlier	37.3	7.6	-4.9	5.0	18.1	9.1	3.8	-2.8	9.8		29.8	-14.4	0.7
<b>Financial Markets</b>													
Federal Funds Rate (%)	1.01	1.03	1.00	1.01	1.00	1.00	1.00	1.03	1.26		1.43	3.89	1.67
3-Month T-Bill Rate (%)	0.90	0.95	0.88	0.93	0.94	0.94	1.02	1.27	1.33		1.48	3.39	1.60
Commercial Bank Prime Rate (%)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25		4.42	6.92	4.68
Moody's Aaa Corp. Bond Yield (%)	5.49	5.88	5.54	5.50	5.33	5.73	6.04	6.01	5.82		5.65	7.08	6.49
10-Year Treasury Note Yield (%)			4.15	4.08	3.83	4.35	4.72	4.73	4.50		4.28	5.02	4.61
Conv. Mortgage Rate, FHLMC (%)			5.74	5.64	5.45	5.83	6.27	6.29	6.06		5.87	6.97	6.54
M1 Money Supply (Bil. \$)	1273	1282	1287	1307	1326	1324	1323	1336	1324		1137	1192	1264
Percent Change	0.2	0.6	-0.5	1.5	1.5	-0.2	-0.1	1.0	-0.9		8.2	3.2	6.1
M2 Money Supply (Bil. \$)	6066	6107	6070	6121	6168	6217	6288	6296	6287		5220	5615	5999
Percent Change	0.7	0.7	0.1	0.8	0.8	0.8	1.1	0.1	-0.1		10.0	6.2	4.5
Trade-Weighted US\$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	97.1	98.2	91.7	92.1	93.1	93.9	95.5	94.3	93.7		93.8	104.8	97.5
Percent Change	1.1	1.1	-1.8	0.5	1.1	0.8	1.8	-1.3	-0.7		0.1	3.4	-3.5
Percent Change Year Earlier	-4.2	-4.2	-9.1	-8.6	-7.3	-6.0	-0.9	-1.8	-3.5		-4.5		
Real Morgan Guaranty Index	98.2	99.5	92.5	92.5	93.0	93.5	95.2	94.3	93.6		94.0	106.4	106.3
Percent Change	1.2	1.3	-2.0	0.0	0.6	0.5	1.8	-0.9	-0.7		0.4	5.9	-5.5
Percent Change Year Earlier	-4.7	-4.5	-9.1	-8.3	-7.7	-6.6	-1.9	-2.8	-4.7		-5.5		