JOINT ECONOMIC COMMITTEE

CHAIRMAN ROBERT F. BENNETT

ECONOMIC UPDATE

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PUTTING THE U.S. ECONOMY IN GLOBAL CONTEXT

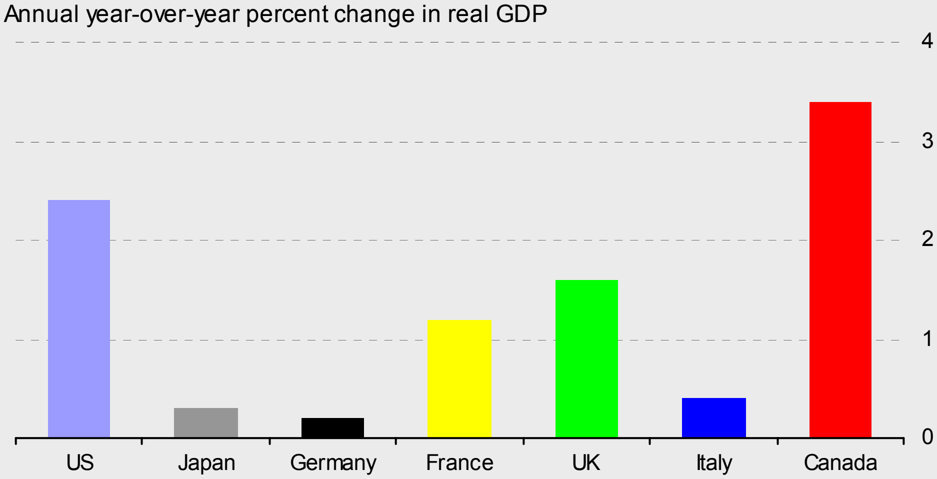
The U.S. economy has been growing for over a year and a half since the 2001 recession, but the rebound has been slower than hoped. Labor markets remain sluggish, while output growth has lagged behind past recoveries. Although some analysts have tried to blame U.S. leaders for this sluggish recovery, it must be emphasized that economic weakness has been a global problem. In fact, many foreign economies have suffered through significantly worse economic setbacks than has the United States. Looking ahead, forecasters see a pickup in growth both here and abroad.

The U.S. economy grew faster than most other developed economies last year.

- Japan, the world's second largest economy, continues to be mired in an economic slump; as illustrated in Chart 1, its economy grew by only 0.3 percent last year.
- The major European economies are doing better, but only slightly. The four largest European economies—Germany, the United Kingdom, France, and Italy—grew only 0.2 percent to 1.6 percent last year.
- In contrast, the United States and Canada both posted significant growth: the U.S. grew at a solid, if somewhat disappointing, 2.4 percent, while our neighbor to the North grew by 3.4 percent. Canada was the only G7 member to post faster growth than the United States.
- Sluggish growth abroad has dampened foreign demand for U.S. produced goods and services; this has slowed growth in the U.S.

Chart 1. Growth was Sluggish in the G7 in 2002

Annual year-over-year percent change in real GDP



Source: IMF World Economic Outlook, April 2003

The U.S. economy has outperformed the Japanese and European economies because of a combination of three factors:

- <u>The fundamental resilience of the U.S. economy</u>. The U.S. has much more flexible labor markets and financial markets than most other developed economies. Flexibility has helped the U.S. economy endure a remarkable series of shocks—the bursting of the technology bubble, stock market declines, corporate accounting scandals, the 9/11 attacks, and two subsequent wars.
- <u>Supportive monetary policy</u>. The Federal Reserve has lowered short-term interest rates to record lows, helping to support many sectors of the economy.
- <u>Well-timed fiscal policy</u>. President Bush and the Congress have enacted three rounds of significant tax relief since the recession began in 2001. This tax relief has helped to support the economy as it has been buffeted by recent shocks.

Forecasters expect that both U.S. and global growth will soon accelerate and that U.S. growth will continue to outpace growth in Japan and Europe.

- Most leading forecasters expect a resumption of strong growth both here and abroad. To illustrate, Chart 2 reports the most recent forecasts of the International Monetary Fund (IMF).
- The United States is expected to reach three-and-a-half to four percent growth in 2004, while European growth will be around two percent, and Japanese growth will be only one percent; Canada's growth will be slightly less than that in the U.S.

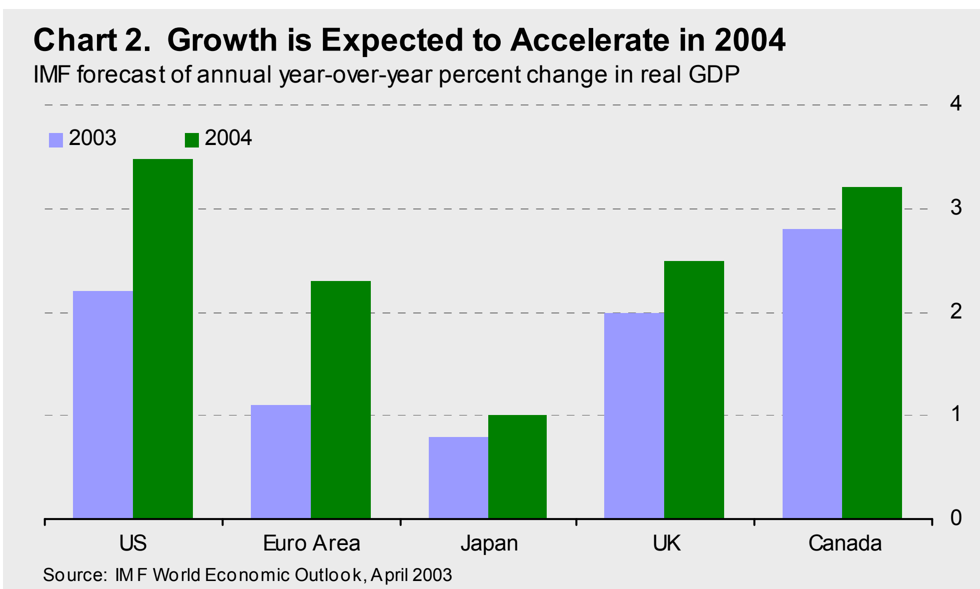


Chart 2. Growth is Expected to Accelerate in 2004
IMF forecast of annual year-over-year percent change in real GDP
Source: IMF World Economic Outlook, April 2003

- Faster global growth will be driven by a variety of factors: continued low interest rates, low inflation, the resolution of concerns about Iraq, reductions in energy prices, and further recovery from the investment boom and bust of the late 1990s.
- Recent U.S. stock market gains appear to reinforce the forecasts of a pickup in domestic growth. The Dow Jones Industrial Average is up by 11 percent this year, and the Nasdaq has increased by almost 25 percent. These gains exceed those of almost all other developed economies. Growth in the U.S. economy seems poised to shift into a faster gear.