JOINT ECONOMIC COMMITTEE

CHAIRMAN ROBERT F. BENNETT

RECENT ECONOMIC DEVELOPMENTS

APRIL 1, 2003

Growing Doubt about the Economic Outlook

The war in Iraq has obviously created uncertainty in the U.S. economy, however there is more to the story. The past month's economic data have revealed a variety of mixed signals, such as robust housing markets, yet at the same time payroll employment fell by 308,000 jobs in February. It is unusually difficult to judge the current balance of risks.

Positive Signals:

Personal Income grew a solid 0.3 percent in February, the seventh consecutive monthly gain of at least that size. Income growth has helped consumers sustain this recovery.

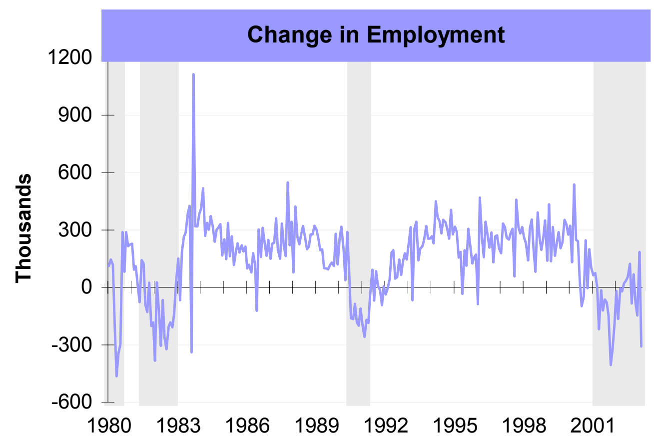
Productivity—output per hour of work—displayed strong growth in 2002 despite some weakness in the fourth quarter. The strong productivity growth last year was the highest since 1950.

Housing Markets remain robust, helped by low mortgage rates. New and existing home sales and mortgage activity have been strong. Nearly all of the mortgage strength has been on the refinancing side as households extract equity from their homes to sustain consumption. Mortgage demand for new purchases remain sturdy, but has fallen below the heated pace of last year. Private construction remains strong, but private nonresidential construction remains in the doldrums.

Signals of Weakness:

Associated with geopolitical uncertainties, **Energy Prices** have exhibited some sharp spikes and increased volatility. Prices for oil and natural gas have declined from their recent highs, but remain elevated.

Payroll Employment plunged in February, declining by 308,000 jobs. The widespread declines reflected continued weakness in manufacturing and large job losses in construction, retail trade, and transportation.



Source: Bureau of Labor Statistics, nonfarm payroll, SA

The **Unemployment Rate** was 5.8 percent in February, largely unchanged from January. Initial claims for unemployment insurance have exceeded 400,000 for some time now. A level of jobless claims above 400,000 is an indication of a flat or contracting labor market.

Note: The payroll employment figures and the unemployment rate are derived from different surveys.

Consumer Spending has not increased for two consecutive months, in part because of weak auto sales and winter storms.

Indicators of **Business Investment** have been mixed; there seems to be a continuing reluctance of businesses to strengthen spending and hiring plans.

Measures of **Consumer Confidence** have been on the decline, both on the feelings of the present situations of consumers and their expectations about future conditions.

Other Developments:

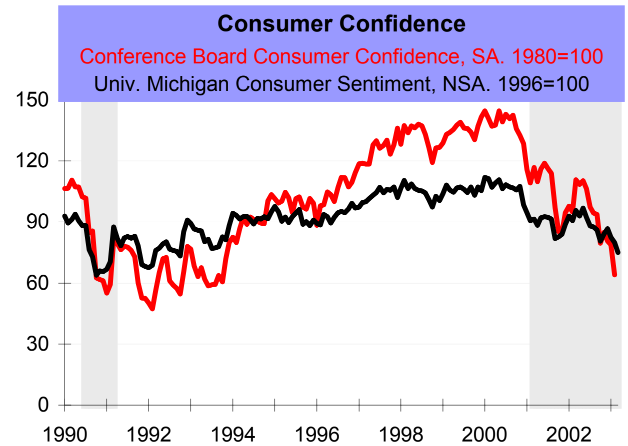
At its March meeting, the **Federal Reserve** decided to keep the overnight interest rate at 1.25 percent. Typically, the Fed also announces that risks are tilted toward lower growth, toward higher inflation, or are viewed as balanced. Uncharacteristically, this time the Fed announced that it could not usefully characterize the current balance of risks. The Fed sees recent economic data as mixed and jobs data as disappointing. Fed officials evidently do not feel confident about forecasting the economic outlook.

The **Consumer Price Index** shot up in February, driven by a 5.9 percent jump in energy prices. The "core" rate of consumer price inflation, which excludes the often-volatile food and energy prices, remained tame. Aside from energy, inflation remains contained.

The **Producer Price Index (PPI)** surged one percent in February, led by rapid energy price increases as well. While energy price increases were behind much of the PPI surge, underlying prices for intermediate and crude goods have also been climbing.

The U.S. **Current Account Deficit**—a measure of flows of wealth into and out of a country—continued to set new records in the fourth quarter of 2002, and breached the 5 percent of GDP threshold for the first time. One way to view the current account is as the difference between U.S. national savings and investment. The deficit, then, means that U.S. savings are lower than U.S. investment, requiring that the U.S. borrow surplus savings of foreign countries.

Driven by increases in personal income and moderate spending growth, the **Savings Rate** has increased to 4.0 percent.



Looking Ahead:

- March Employment Situation, April 4
- Blue Chip Economic Forecast, April 10
- Industrial Production, April 15
- Consumer Price Index, April 16
- GDP for 2003 Q1, April 25
- Personal Income, April 28