



# JOINT ECONOMIC COMMITTEE

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## RECENT ECONOMIC DEVELOPMENTS

### Economic Strength Continues

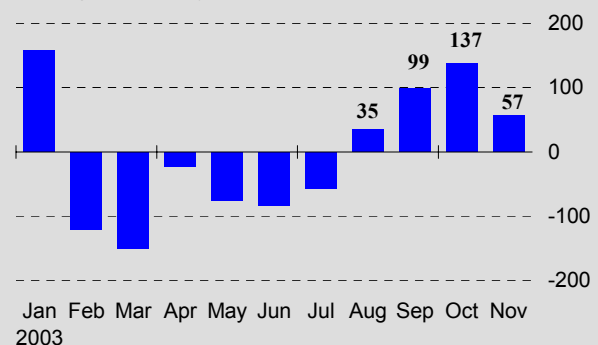
The economy soared last quarter, with gross domestic product (GDP) increasing at the fastest pace in almost 20 years. Labor productivity – output per hour – also showed a remarkable gain. Economic strength continues to build as consumer spending remains robust, the housing market remains active, and companies are beginning to hire, invest, and restock their inventories. Forecasters see continued job gains and strong growth ahead.

#### Highlights

- Payroll employment has increased by more than 300,000 in the last four months (Figure 1); the unemployment rate fell to 5.9% in November.
- Economic growth was remarkably strong in the third quarter. GDP grew at an 8.2% annual rate, the highest in almost 20 years, and productivity grew at a 9.4% annual rate.
- Forecasters see economic growth of around 4% through the end of 2004. They expect such growth to translate into job gains of 100,000 to 200,000 per month.

#### Payroll Employment Continues to Increase 1

(Change in employment, in thousands)



Source: Bureau of Labor Statistics

#### Labor Markets Have Been Strengthening

*Payroll employment* increased by 57,000 in November, bringing job gains to 328,000 over the past four months. The *survey of households* has shown even stronger job gains – 589,000 in November alone – increasing the discrepancy between the two employment surveys. The *unemployment rate* fell to 5.9% in November, well below its summer peak of 6.4%, and *new claims* for unemployment insurance have been trending down since early May. Manufacturing has also shown positive signs. The pace of manufacturing job losses has slowed considerably in recent months, and total hours worked have been rising, the first such gains since early 2000. Increasing hours may be a precursor to increasing manufacturing employment.

#### GDP and Productivity Surged in the Third Quarter

Third quarter *GDP growth* of 8.2% (Figure 2, next page) was the fastest in nearly 20 years. Consumer spending, business spending, and residential investment continued to be growth engines, and inventories began to contribute to growth. *Corporate profits* increased at an 11.8% annual rate, the fourth straight quarterly gain; growing profits support business hiring and investment. *Nonfarm business productivity* grew at a 9.4% rate in the third quarter, the strongest in almost 20 years.

#### Recent GDP Revisions

Recent “benchmark” revisions to the GDP data provided new insight about the economic slowdown of 2000-2001, but had little effect on long run growth trends. The new data confirmed that the slowdown began in 2000 (the economy contracted in the third quarter of that year) and showed that the third quarter of 2001, when the terrorist attacks occurred, was the worst quarter of the recession.

### Steady Fed, Less Fear of Deflation

The *Federal Reserve* held short-term interest rates steady in December. The Fed sees little risk of deflation at the moment, but it also sees little evidence of resurgent inflation. As a result, the Fed has signaled that it is comfortable leaving interest rates low for a “considerable period.” *Producer prices* and *consumer prices* actually edged down in November.

### Consumers Remain Resilient

*Retail sales* continued solid growth in November, assisted by auto sales and growth in *personal income*. Personal income rose 0.4% in October and the savings rate increased to 3.3%. Since early September, *consumer confidence* has risen, with a very strong gain in November.

### Positive News on Business Activity

*Industrial Production* jumped 0.9% in November, the fastest growth since 1999. *Business inventories* grew for a second month, but sales grew faster. This bodes well for future growth as businesses will need to restock shelves. *Factory orders* were solid, and orders reflecting business investment posted gains for the fifth month of the past six. Even with rising shipments, unfilled orders keep rising.

### International Developments

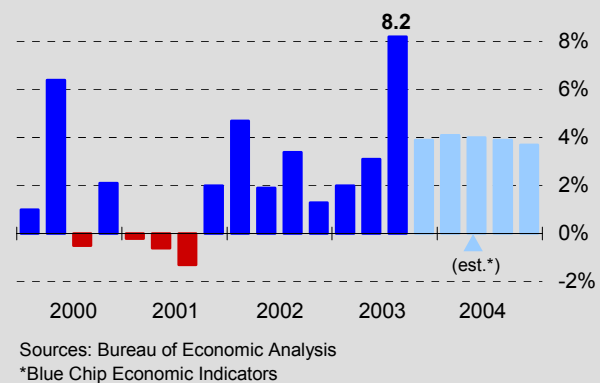
The *trade deficit* edged up in October with strong growth in both exports and imports. *The dollar* has continued to fall versus the *yen* and the *euro* (Figure 3). The declining dollar makes U.S. exports more competitive abroad, but it also makes imports more expensive to the U.S.

### Energy Market Developments

*Oil prices* remain elevated at over \$30 per barrel, in part because of concerns that OPEC will cut production. OPEC has also discussed the need to raise oil prices in order to offset the impact of the falling dollar. *Natural gas prices* have risen sharply in recent weeks. Prolonged increases in energy prices may hamper future economic growth.

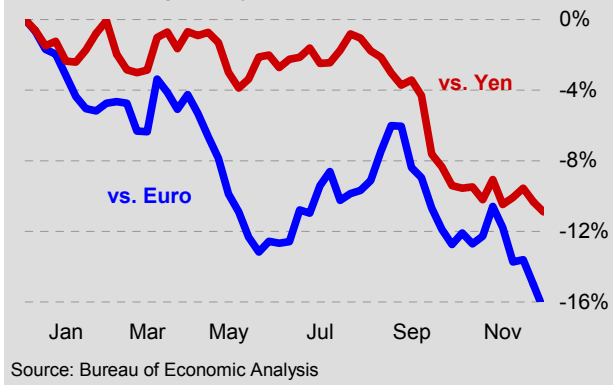
**The Revised Look of GDP Growth**  
(Real annualized GDP growth rate)

2



**The Dollar Continues to Fall**  
(Percent change this year)

3



#### Upcoming Indicators

**GDP** – The final estimate of third-quarter gross domestic product will be reported on *December 23*. The first estimate of fourth-quarter gross domestic product will be released on *January 30, 2004*.

**Employment** – Employment data for December are due *January 9, 2004*, while weekly jobless claims are reported *each Thursday*.