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U.S. ECONOMY OUTPERFORMS PEER GROUP FROM 2001 TO 2006

From 2001 to 2006, the U.S. economy has generally outperformed the other large developed economies¹ of Canada, the European Union (EU),² and Japan. On balance, the U.S. economy compares favorably with its peer group in terms of real GDP growth, real investment in fixed assets, industrial production, employment, labor productivity, and price stability (see table next page).

Pro-growth tax policy and deft monetary policy helped the U.S. economy to recover from the shocks of the bursting of the stock market bubble in early 2000 and the terrorist attacks on September 11, 2001, and to sustain a vigorous expansion through 2006.

Real GDP Growth

From the first quarter of 2001 to the fourth quarter of 2006, the U.S. economy expanded at an average annualized rate of 2.6 percent. The United States ranked first among its peer group in real GDP growth.

Real Gross Investment in Fixed Assets

From the first quarter of 2001 to the fourth quarter of 2006, U.S. real gross investment in fixed assets increased by 11.6 percent. However, this interval combines two distinct periods. The economic slowdown, which began in the second half of 2000 and then became a recession, reduced U.S. real gross investment in fixed assets by 6.0 percent from the first quarter of 2001 to the first

quarter of 2003. After policymakers lowered the maximum federal tax rate on capital gains and dividends to 15 percent in May 2003, this trend reversed. From the second quarter of 2003 to the fourth quarter of 2006, U.S. real gross investment in fixed assets swelled by 18.8 percent.

Overall, Canada outperformed the United States in the percentage growth of this investment measure mainly due to a boom in Canada's energy and natural resources sectors. The performance of the United States and the European Union was roughly similar and trailed that of Japan.

Industrial Production

From January 2001 to December 2006, U.S. industrial production grew by 8.9 percent, which was the largest increase among its peer group.

Employment and Unemployment

From January 2001 through December 2006, U.S. employment growth ranked first in number and second in percentage terms. U.S. employment grew by 6.0 percent (8.312 million). Canada ranked first in percentage growth at 11.6 percent (1.728 million). The Euro-zone ranked third at 4.9 percent (6.533 million). Japanese employment fell by 1.1 percent (-680,000).³

In December 2006, the U.S. unemployment rate of 4.5 percent was significantly lower than either the Canadian unemployment rate of 6.1 percent or the EU-25 unemployment rate of 7.6 percent.

Labor Productivity

From the first quarter of 2001 to the fourth quarter of 2006, labor productivity in both Japan and the United States grew by 9.8 percent. Unlike the United States, however, Japan's labor productivity growth was partially due to a reduction in employment. The United States clearly outperformed Canada and the European Union in terms of labor productivity growth.

¹ A large developed economy, as defined here, is a developed economy that produces at least one percent of world GDP.

² The Euro-zone consists of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. The European Union-15 (EU-15) consists of the Euro-zone countries plus Denmark, Sweden, and the United Kingdom. The European Union-25 (EU-25) consists of the EU-15 countries plus Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

³ Employment and unemployment data are from the U.S. household survey and similar foreign statistical sources.

Price Stability

From January 2001 to December 2006, U.S. consumer prices rose at an average annualized rate of 2.6 percent. Canada and the European Union had similar inflation rates. In Japan, deflation caused consumer prices to decline at an average annualized rate of 0.3 percent.

Equity Prices

As measured by major stock price indices, Canada recorded the largest gain in equity prices from year-end 2000 to year-end 2006. The Toronto Stock Exchange Index rose by 44.5 percent. Japan also scored significant gains. The Nikkei 300 was up 27.9 percent.

U.S. equity prices generally rose. The Dow Jones Industrial Average (DJIA), Standard and Poor's 500 Index (S&P 500), and Wilshire 5000 increased by 15.5 percent, 7.4 percent, and 17.1 percent respectively. However, the NASDAQ Composite Index was 2.2 percent lower.

In contrast, European equity prices were mixed. For example, the Paris CAC 40 dropped by 6.5 percent, the Frankfurt Xetra Dax edged up by 2.5 percent, and the FT 100 (London) was essentially unchanged.

The significant increases in equity prices in Canada and Japan can be attributed to special circumstances. Canadian equity prices benefited from the heavy concentration of energy and natural resources corporations on the Toronto Stock Exchange. Because Japan's stock market was depressed during the 1990s, the gains in Japanese equity prices since 2000 were from a low base.

Conclusion

On balance, the U.S. economy has outperformed its peer group of large developed economies in a number of key measures of economic well-being between 2001 and 2006. Pro-growth tax policy and deft monetary policy have contributed to the superior performance of the U.S. economy.

Economic Indicators for Canada, the European Union, Japan, and the United States, 2001-2006							
Economy	Average Real GDP Growth Rate (Q1-2001 to Q4-2006)	Increase in Real Gross Investment in Fixed Assets (from Q1-2001 to Q4-2006, from Q1-2001 to Q3-2006 for EU)	Industrial Production Growth Rate (Jan. 2001 to Dec. 2006)	Increase in Total Employment (Jan. 2001 to Dec. 2006, Sept. 2006 for Euro-zone) in percent	Unemployment Rate (Dec. 2006)	Labor Productivity Growth (Q1-2001 to Q4-2006, Q1-2001 to Q3-2006 for Euro-zone)	Average Annualized Increase in Consumer Prices (Jan. 2001 to Dec. 2006)
Canada	2.5%	39.6%	-1.4%	11.6%	6.1%	4.0%	2.1%
EU-25	1.9%	12.4%	6.7%	N/A	7.6%	N/A	2.1%
EU-15	1.8%	11.7%	N/A	N/A	7.1%	N/A	2.0%
Euro-zone	1.6%	9.5%	6.5%	4.9%	7.5%	4.0%	2.1%
Japan	1.5%	0.2%	7.2%	-1.1%	4.0%	9.8%	-0.3%
United States	2.6%	11.6%	8.9%	6.0%	4.5%	9.8%	2.6%

Economic data are as of March 5, 2007.

Sources for GDP and gross fixed investment data are Statistics Canada, Statistical Office of the European Communities, Cabinet Office (Japan), and U.S. Department of Commerce, Bureau of Economic Analysis.

Sources for industrial production data are Statistics Canada, Statistical Office of the European Communities, Ministry of Economy, Trade & Industry (Japan), and Federal Reserve Board.

Sources for employment and unemployment data are Statistics Canada, Statistical Office of the European Communities and European Central Bank, Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Labor, Bureau of Labor Statistics.

Sources for labor productivity data are Statistics Canada, Statistical Office of European Communities, Cabinet Office and Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Commerce, Bureau of Economic Analysis and U.S. Department of Labor, Bureau of Labor Statistics.

Sources for inflation data are Statistics Canada, Statistical Office of the European Communities, Ministry of Health, Labor & Welfare (Japan), and U.S. Department of Labor, Bureau of Labor Statistics.