Committee on Ways and Means

State of the U.S. Economy

October 17, 2003

- According to a consensus from private economists, real GDP growth in the third quarter is expected to be 4.9 percent (annually). Growth for the next 15 months is expected to average 3.7 percent, well above the historic real growth of 3.3 percent since 1959.
- The consensus estimate is for the unemployment rate to fall from the current 6.1 percent to 5.8 percent by the end of 2004. Initial weekly jobless claims, the best early indicator of the labor market, has fallen below the critical 400,000 level. The four-week moving average is now 391,000, suggesting continued job creation in the coming months.
- Inflation remains low by historical standards. Core inflation rose just 1.2 percent in the last 12 months, a 38-year low.
- The recession of 2001 was notably short and shallow. However, the labor market has remained quite weak despite the return to growth. Since the recession began in March 2001, 2.7 million jobs have been lost according to the "establishment survey" conducted by the Department of Labor (DOL). There is anecdotal evidence that many firms are hiring workers on a contract basis instead of increasing payroll. This phenomenon could lead to an exaggerated estimate of job loss in the establishment survey. The DOL's "household survey" - which suggests a more mild decrease of 190,000 in employment since March 2001 - may in fact be more accurate.
- Output in the manufacturing sector is increasing. The September Institute for Supply Management (ISM) Index, a forward-looking survey of manufacturing output, has indicated manufacturing expansion for three consecutive months. The Industrial Production estimates from the Federal Reserve Board also indicate growth in this sector. The September data increased 0.4 percent and the overall output has increased modestly for the last six months. Capacity utilization has begun to increase as well.
- Real (inflation adjusted) disposable personal income increased a strong 1.3 percent in July and 0.6 percent in August, largely due to changes to the withholding schedules and tax rebate checks sent by the Department of Treasury.
- Productivity (output per hour) has increased rapidly, over four percent per year for the last two years. These strong gains have allowed U.S. output to increase despite the weak labor market.
- Consumer spending remains strong. Retail sales have increased more than five percent on a yearly basis for five consecutive months. Given the slight decline in prices for retail goods during this time, real retail sales are increasing about six percent annually. Over the last twelve months, auto sales and clothing sales have been especially strong.
- According to the International Monetary Fund (IMF) forecast, world GDP is expected to increase 4.1 percent next year. An improved global economy should lead to an increase in U.S. exports of over six percent in 2004.
- The stock market has increased in value by $1.3 trillion since the Jobs and Growth tax bill was agreed to by Congress. The number of large corporations paying dividends has increased this year for the first time since 1994. 45 percent of dividend paying companies in the S&P 500 increased their dividends this year compared to just 33 percent at this point last year.