

Edward J. Bloustein School: National Economic Summary
Current Conditions as of 7 October 2004

Positives

GDP (Constant \$)	3.3%	2nd Qtr. growth slows; 1st qtr. = 4.5%. 11 straight quarters of growth.
Consumer Spending (Qrtly; constant \$)	1.6%	2nd Qtr. 04; drop from 4.1% in 1st qtr. Durable consumption - 2.5%; services + 2.3%
Consumer Spending (Monthly, Current \$)	0%	Aug 04; spending cools off as auto sales drop.
Consumer Confidence Index (Conference Board)	96.8	Aug 04; employment anxieties lower index. Gas prices and Iraq concerns continue.
Retail Sales	-.3%	Aug 04; auto sales slip; disappointing overall decline. Gas prices continue to drain purchasing power.
Auto Sales	5.6%	Sept 04 vs. Sept 03; incentives help bounce back from Aug!
Corporate Profits (with inventory adj and capital consumption adj.)	.7%	2nd Qtr 2004. Up 19% from 2nd Qtr 2003! 5 straight quarters of growth.
Federal Spending	2.7%	2nd Qtr 04; slowing from 7.1% in 1st Qtr. Up 6.6 % for 2003.
Productivity(nonfarm bus.sector)	2.7%	2nd qtr 04; still solid but slowing; unit labor costs rising.
Personal Income	.4%	Aug 04; up 5% for 2nd qtr. at annual rate. Wages & salaries rise by \$18.8B in Aug.
Interest Rates: Fed. Funds	1.75%	End of 46 year low rates. "Measured increases" continue. 6 Oct; 3.35% on 4 June 03; rates down. 25 Sept.; rates below 6% again! Home equity loans, \$750B in 03, support spending. Mortgage apps comp. index, 724.8 for 1 Oct; +.1%.
10 Year T Bond	4.22%	
30 Year Fixed Mortgage (bankrate.com)	5.75%	
New Home Sales (annual rate)	1.184M	Aug 04; +9.4%; sales gain as housing stays hot. 2004 sales 11% higher than 2003 YTD.
Existing Home Sales (annual rate)	6.54M	Aug 04; -2.7% but 14 months over 6M rate. Demand strong as mortgage rates fall.
Housing Starts (annual rate)	2M	Aug 04; +.6%; lower rates; +9% over Aug 03. Starts 1.85M in 2003; +8.4% over 2002; best yr since 1978! Permits -5.5% in Aug 04; 1.95M annual rate.
Residential Investment (Constant \$)	16.5%	2nd Qtr 04, sharp acceleration from 5.0% in 1st Qtr.
Non-residential Fixed Investment	12.5%	2nd Qtr, 04; comeback continues: up + 4.2% in 1st Qtr.
Computer Equipment/Software	14.2%	2nd Qtr 04; encouraging growth for tech sector. 6.4 % increase in 2003 vs. - 5.5% in 2002, -4.9% in 2003.

Median Price of Existing Homes (Single-family)	7.3%	Aug 04 vs Aug 03; US Median = \$190.1K in Aug 04. NJ Median Price = \$283,800; 1st Qtr 04. N.J. Median Sales Price, + 9.2% from 2003, 1st Qtr.
Consumer Price Index	2.7%	Aug 03 to Aug 04; +.1% in Aug 04; core rate +.1%. CPI + 3.7% YTD.
	3.3%	Personal Cons. Expenditures index, 1st Qtr, 04; 1.9% for 03.
Producer Price Index	-.1%	Aug 04; w/o food/energy, -.1%. Finished goods +3.4% from Aug 03.
Construction Spending	.4%	July 04; \$997.2B annual rate. Spending up 9% YTD vs. same period in 2003.
Supply Managers (Non-mfg. index)	56.7	Sept 04; -1.5 pts, sector growth moderating.
Index of Leading Indicators	-.3%	115.7 Aug 04; three months of decline as economy slows.
U.S. Dollar Index	89.2	20 Sept; down 5.3% since Sept 03. Euro = \$1.228; 6 Oct; +6% vs. year ago. Yen = 111.38 per US \$; 6 Oct; flat vs. year ago. China has largest export total to U.S. Yuan fixed to \$.
Federal Tax Cut		\$330B with \$40B in 2004, but short-term stimulus now waning. Sunset provisions create future concerns (federal deficit and tax hikes). Tax benefits skewed to higher incomes (top rate falls to 35% from 38.6%).
Employment		Moderate job gains resume, +144K in August. Large increase in medical care and social services employment, +42K. Mfg jobs gain (autos) but only to replace July losses. Total jobs up 1.68M since August 03 low.
Unemployment Rate	5.4% in August 04.	NJ = 4.8% in Aug 04; +48.9K jobs 04 YTD; 22.8K> than Dec 2000 peak.
Initial Unemployment Claims	335K, 2 Oct. down 37K.	
Supply Managers Index (Mfg)	58.5	Sept 04; down .5 pts; but sector expanding for 16 months. Employment increasing, order backlogs building.
Factory Orders (all mfg industries)	-.1%	\$370.5B, Aug 04; up 11.8% 2004 YTD vs. 2003.
Durable Mfg Goods Orders	-.3%	\$195.8B in Aug 04; +12.5% YTD over 2003.
Industrial Production Index		Index = 116.6; +.1% Aug 04. Manufacturing index +.5% in Aug 04. Capacity in use, 77.3%; 1972-2003 average was 81.1%.
Business Inventories	.9%	July 04, \$1.246Tr, +6.4% since July 03.
Inventories (GDP account)		\$61.1B gain in non-farm inventories in 2nd quarter 04.
Inventories (wholesale trade)	1.3%	July 04; \$313.8B, sales improve.
Agriculture		Net farm income up, prices now dropping. Lower dollar helps exports, but ag export prices down 8.5% in Aug 04.

Weaknesses

Federal Deficit	\$375B FY03 record deficit; 3.5% of GDP. Estimate of \$422B in FY04. Deficit of \$2.3 trillion projected for next decade by CBO.
International Trade	2003 deficit of \$496.5B. +17% over 2002. 4.5% of GDP. Deficit with China \$124B in 03; record monthly deficit, -\$14.9B July 04. July 04 deficit, \$50.15B; down \$5B from June but still 2nd highest ever. July 04 exports, \$95.8B, up 3% over June. June 04 imports, \$146B, down \$2B from June.
Exports Imports	+7.3%, 2nd Qtr 04. +1.9% for 2003 vs. -2.3% in 2002. Lower dollar helps! + 12.6%, 2nd Qtr 04; +4.4% in 2003 vs. +3.4% in 02. Energy prices add to import total, plus strong US demand for foreign goods.
Import Prices	1.7% in Aug 04; non-petroleum prices +.4%, petroleum prices, +9.6%!
State and Local Gov't Expenditures	Fiscal weakness continues; 1.9% in 2nd Qtr 04; 0% in 1st Qtr. Up only .7% for 2003.
Oil	Oil prices fall at record; \$52.02 (6 Oct) for near month delivery. Inventories low, supply disruptions, high demand all pressure prices. Each 1 cent rise in gas prices = \$1B loss in purchasing power. Each \$10 rise in price of barrel of oil = \$70B tax.
Natural Gas	Prices near all time high; \$7.05 per mil BTU (6 Oct) for near month. Large cost increases for industries/consumers ahead.
Mad Cow Disease	Major export markets for US beef remain constrained.

Wild Cards

Terrorism	Continued uncertainty overhangs economic decisions.
War in Iraq/Afganistan	Entangled and messy. Risk to confidence and equity and energy markets. Cost est. \$5B per month. \$87B add on this year; \$25B more committed. Guns AND Butter (i.e., War and aftermath costs <u>and</u> tax cuts) All financed by debt.
Stock Markets	Super 2003, but inventory of capital losses after 3 years of decline. Dow Jones; -16.8% for 2002. +25.3% in 2003. NASDAQ; -31.5% for 2002. +50% in 2003. S&P 500 -23.4% for 2002. +26.4% in 2003. Dow Jones = 10,239.92; 6 Oct.; -2.05% YTD. High was 10,737.7 on 11 Feb. S&P 500 = 1,142.05, 6 Oct; +2.71% YTD. NASDAQ Composite, 1,971.03, 6 Oct; -1.61% YTD. Dow peak, 11,723 on 14 Jan 00. Dow currently 12.7% below peak. S&P peak 1,527 on 24 Mar 00. S&P currently 25.3% below peak. NASDAQ peak 5,048 on 10 Mar 00. NASDAQ currently 61% below peak. Markets recover recent losses.