

**Edward J. Bloustein School: National Economic Summary
Current Conditions as of 28 February 2005**

Positives

GDP (Constant \$)	3.8%	4th Qtr growth slows from 4% pace in 3rd quarter. 4.4% in 2004; best since 1999; 12 quarters of growth.
Consumer Spending (Qrtly; constant \$)	4.2%	4th Qtr; down from 5.1% in 3rd qtr. Durable consumption +6.7%; services + 3.7%.
Consumer Spending (Monthly, Current \$)	.8%	Dec 04; robust spending on durables.
Consumer Confidence Index (Conference Board)	104.0	Feb 05; -1.1 pts, but at high level.
Retail Sales	-.3%	Jan 05; but w/o autos, + .6%.
Auto Sales	2.3%	Jan 05 vs. Jan 04; 17 million vehicles sold in 2004.
Corporate Profits (with inventory adj and capital consumption adj.)	-4.8%	3rd Qtr 2004. Up 5.8% from 3rd Qtr 2003. Profits fall by \$55.9B from 2nd Qtr 04 (insurance payouts).
Federal Spending	1.7%	4th Qtr 04; defense spending flat. Federal spending up 4.7% in 2004 vs. 6.6% in 2003.
Productivity (nonfarm bus.sector)	.8%	4th Qtr 04; further slowing; +4.1% for 2004.
Personal Income	3.7%!!	Dec 04; \$38B Microsoft dividend to 46M shareholders. Without dividend, personal income +.6% in Dec 04.
Interest Rates: Fed. Funds	2.5%	"Measured increases" continue.
10 Year T Bond	4.27%	25 Feb; long term rates edge up on inflation concerns.
30 Year Fixed Mortgage (bankrate.com)	5.72%	25 Feb; rates up but holding below 6%. Home equity loans continue to support spending. Mortgage apps index 727.9, 18 Feb; -.6% from wk ago. Index down 5.5% from year ago.
New Home Sales (annual rate)	1.098M	Dec 04; -2% from Dec 03; housing finally cooling.
Existing Home Sales (annual rate)	6.8M	Jan 05; -.1%; record 6.675M sales in 04; +9.4% over 03. Demand strong as mortgages remain below 6%.
Housing Starts (annual rate)	2.16M	Jan 05; +4.7% above Dec 04; +11.6% above Jan 04. Starts 1.85M in 2003; +8.4% over 2002; best yr since 1978! Permits +1.7% in Jan 05; 2.105M annual rate.
Residential Investment (Constant \$)	2.1%	4th Qtr 04, new housing slows in 2nd half of 2004.
Non-residential Fixed Investment	14%	4th Qtr, 04; acceleration throughout 2004.
Computer Equipment/Software	18%	4th Qtr 04; strong growth for tech sector. 13.5% increase in 2004 vs. 6.4% in 2003; -5.5% in 02.

Median Price of Existing Homes (Single-family)	10.5%	Jan 05 vs Jan 04; US Median = \$189K in Jan 05. NJ Median Price = \$307,600; 2nd Qtr 04. N.J. Median Sales Price, + 12.2% from 2003, 2nd Qtr.
Construction Spending	1.1%	Dec 04; \$998.4B for 2004; +9% over 2003.
Consumer Price Index	3% 2.2%	Jan 05 vs Jan 04; 2.4% w/o food and energy. Personal Cons. Expenditures index for 2004.
Producer Price Index	.3%	Jan 05; w/o food/energy, +.8%. Finished goods +4.2% from Jan 04; 2.7% w/o food/energy.
Index of Leading Indicators (Conference Board)	-.3%	115.6 Jan 05; -.3% over last six months.
U.S. Dollar Index	84.0	14 Feb; -1.96% since Feb 04. Euro = \$1.324; 25 Feb; +5.6% from year ago. Yen = 105.21 per US \$; 25 Feb, -3.5% from 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 over. AMT now biting into middle class taxpayers.
Employment		+146K jobs in Jan 05; disappointing; total = 132.573M jobs. Manufacturing output up, but jobs down 25K in Jan 05. Previous peak employment level of Feb 01 surpassed. Total jobs up 2.17M in 2004; best year since 1999.
Unemployment Rate		U.S. = 5.2% in Jan 05. NJ = 4.2% in Dec 04; +75.9K jobs in 2004; 49.8K > than Dec 2000 peak. 2004 was best NJ job growth year since 2000 (79.6K jobs).
Initial Unemployment Claims		312K; 19 Feb, +9K; level indicates improving job market.
Supply Managers (Non-mfg index)	59.2	Jan 05; -4.7 pts; 62.5 avg for 2004 - highest on record.
Supply Managers Index (Mfg)	56.4	Jan 05; mfg sector expanding for 20 months. Employment index and export index rising.
Factory Orders (all mfg industries)	.3%	\$379.1B, Dec 04; increases in 7 of last 8 months.
Durable Mfg Goods Orders	-.9%	\$200.4B; Jan 05; +.8% w/o transportation.
Industrial Production Index		Index = 117.8; flat in Jan 05. Manufacturing index +.4% in Jan 05. Capacity in use, 79%; up 1.4 pts. from Jan 04.
Inventories-non-farm (GDP)		\$19.3B gain in 4th qtr after \$28.4B decline in 3rd qtr.
Agriculture		Net farm income up; lower dollar helps exports. But ag export prices down 5% in 2004.

Weaknesses

Federal Deficit	\$427B FY05 record deficit; 3.5% of GDP. FY 04 deficit was \$421B.
International Trade	2004 deficit of \$617.7B. +24% over 2003. 4.5% of GDP. Deficit with China \$161.98B in 04; 30% increase over 2003. Dec 04 deficit, \$56.4B, down \$2.9B from Nov 04. Dec 04 exports, \$100.2B, up \$3.1B from Nov 04. Dec 04 imports, \$156.4B, up \$.4B from Nov 04.
Exports Imports	+8.1% in 2004; +1.9% for 2003, and -2.3% in 2002; +2.4% in 4th qtr 04. +9.8 in 2004; +4.4% in 2003 and +3.4% in 02; +11.4% in 4th qtr 04. Energy prices boost 04 imports, plus strong US demand for foreign goods.
Import Prices	+.9% in Jan 05; +6% since Jan 04. Non-petroleum prices +3% since Jan 04; petroleum prices +26.9%!
State and Local Gov't Expenditures	Fiscal weakness persists; +.8% in 4th Qtr 04; +0.4% for all of 2004. Up only .7% for 2003.
Oil	Oil prices above \$50; \$51.49 (25 Feb) for near month delivery. Each 1 cent rise in gas prices = \$1B loss in purchasing power. Each \$10 rise in price of barrel of oil = \$70B tax on consumers.
Natural Gas	Prices high; \$6.715 per mil BTU (25 Feb). High cost for industries/consumers.

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. \$8B per month. \$100B plus additional committed. Guns AND Butter (i.e., War and aftermath costs <u>and</u> tax cuts) All financed by debt.
Stock Markets	Post-election rebound for stocks cools. Dow Jones; -16.8% for 2002; +25.3% in 2003; +3.15% in 2004. NASDAQ; -31.5% for 2002; +50% in 2003; +8.59% in 2004. S&P 500 -23.4% for 2002; +26.4% in 2003; 8.99% in 2004. Dow Jones = 10,783.01 on 31 Dec 04. S&P 500 = 1,211.92 on 31 Dec 2004. NASDAQ Composite, 2,175.44 on 31 Dec 2004. Dow peak, 11,723 on 14 Jan 00. S&P peak 1,527 on 24 Mar 00. NASDAQ peak 5,048 on 10 Mar 00. Dow Jones 10,841.6, 25 Feb 05, +.54% YTD. S&P 500 1,211.37, 25 Feb 05, -.05% YTD. NASDAQ Comp. 2,065.4, 25 Feb 05, -5.06% YTD.