

**Edward J. Bloustein School: National Economic Summary  
Current Conditions as of 15 Sept 2004**

**Positives**

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| <b>GDP</b><br>(Constant \$)  | <b>2.8%</b>   | <b>2nd Qtr. growth slows; 1st qtr. = 4.5%.<br/>11 straight quarters of growth.</b>   |
| <b>Consumer Spending</b><br>(Qrtly; constant \$)                               | <b>1.6%</b>   | <b>2nd Qtr. 04; drop from 4.1% in 1st qtr.<br/>Durable consumption - 2.5%; services + 2.3%</b>   |
| <b>Consumer Spending</b><br>(Monthly, Current \$)                              | <b>.8%</b>    | <b>July 04; spending picks up, June's decline reversed.</b>  |
| <b>Consumer Confidence Index</b><br>(Conference Board)                         | <b>98.2</b>   | <b>Aug 04; employment anxieties lower index.<br/>Gas prices and Iraq concerns continue.</b>  |
| <b>Retail Sales</b>  | <b>-.3%</b>   | <b>Aug 04; auto sales slip; disappointing overall decline.<br/>Gas prices continue to drain purchasing power.</b>  |
| <b>Auto Sales</b>  | <b>2.9%</b>   | <b>July 04 vs. July 03; incentives help; 17.3M annual rate!</b>  |
| <b>Corporate Profits (with inventory adj<br/>and capital consumption adj.)</b> | <b>.1%</b>    | <b>2nd Qtr 2004. Up 18.3% from 2nd Qtr 2003!<br/>5 straight quarters of growth.</b>  |
| <b>Federal Spending</b>  | <b>2.7%</b>   | <b>2nd Qtr 04; slowing from 7.1% in 1st Qtr.<br/>Up 6.6 % for 2003.</b>  |
| <b>Productivity(nonfarm bus.sector)</b>  | <b>2.5%</b>   | <b>2nd qtr 04; still solid but slowing; unit labor costs rising.</b>   |
| <b>Personal Income</b>   | <b>.1%</b>    | <b>July 04; up 11% at annual rate.<br/>Wages &amp; salaries rise by \$19.8B in July.</b>   |
| <b>Interest Rates: Fed. Funds</b>  | <b>1.5%</b>   | <b>End of 46 year low rates. "Measured increases" continue.<br/>10 Sept; 3.35% on 4 June 03; rates down.<br/>10 Sept.; rates below 6% again!<br/>Home equity loans, \$750B in 03, support spending.<br/>Mortgage apps comp. index, 678.2 for 10 Sept; -2%.</b> |
| <b>10 Year T Bond</b>  | <b>4.19%</b>  |  |
| <b>30 Year Fixed Mortgage</b><br>(bankrate.com)                                | <b>5.85%</b>  |  |
| <b>New Home Sales</b><br>(annual rate)   | <b>1.134M</b> | <b>July 04; -6.4%; sales slow, but rate still high.<br/>2003 sales 11.6% higher than 2002.</b>   |
| <b>Existing Home Sales</b><br>(annual rate)                                    | <b>6.72M</b>  | <b>July 04; -2.9% but 13 months over 6M rate.<br/>Demand strong as mortgage rates fall.</b>  |
| <b>Housing Starts</b><br>(annual rate)   | <b>1.98M</b>  | <b>July 04; +8.3%; lower rates; +4.5% over July 03.<br/>Starts 1.85M in 2003; +8.4% over 2002; best yr since 1978!<br/>Permits +5.7% in July 04; 2.05M annual rate.</b>  |
| <b>Residential Investment (Constant \$)</b>                                    | <b>14.7%</b>  | <b>2nd Qtr 04, sharp acceleration from 5.0% in 1st Qtr.</b>  |
| <b>Non-residential Fixed Investment</b>  | <b>12.1%</b>  | <b>2nd Qtr, 04; comeback continues: up + 4.2% in 1st Qtr.<br/>2nd Qtr 04; encouraging growth for tech sector.<br/>6.4 % increase in 2003 vs. - 5.5% in 2002, -4.9% in 2003.</b>  |
| <b>Computer Equipment/Software</b>   | <b>13.6%</b>  |  |

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| <b>Median Price of Existing Homes (Single-family)</b> | <b>8.7%</b>                    | <b>July 04 vs July 03; US Median = \$191.3K in July 04. NJ Median Price = \$283,800; 1st Qtr 04. N.J. Median Sales Price, + 9.2% from 2003, 1st Qtr.</b>  |
| <b>Consumer Price Index</b>                           | <b>3.0%</b>                    | <b>July 03 to July 04; -.1% in July 04; core rate +.1%. CPI + 4.1% YTD.</b>   |
|   | <b>3.3%</b>                    | <b>Personal Cons. Expenditures index, 1st Qtr, 04; 1.9% for 03.</b>   |
| <b>Producer Price Index</b>                           | <b>-.1%</b>                    | <b>Aug 04; w/o food/energy, -.1%. Finished goods +3.4% from Aug 03.</b>   |
| <b>Construction Spending</b>                          | <b>.4%</b>                     | <b>July 04; \$997.2B annual rate. Spending up 9% YTD vs. same period in 2003.</b>   |
| <b>Supply Managers (Non-mfg. index)</b>               | <b>58.2</b>                    | <b>Aug 04; -6.6 pts, sector growth moderating.</b>  |
| <b>Index of Leading Indicators</b>                    | <b>-.3%</b>                    | <b>116.0 July 04; two months of decline as economy slows.</b>   |
| <b>U.S. Dollar Index</b>                              | <b>88.7</b>                    | <b>14 Sept; down 7.6% since Sept 03. Euro = \$1.23; 10 Sept.; +8.6% vs. year ago. Yen = 109.5 per US \$; 10 Sept; -6.4% vs. year ago. China has largest export total to U.S. Yuan fixed to \$.</b>                        |
| <b>Federal Tax Cut</b>                                |                                | <b>\$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%).</b> |
| <b>Employment</b>                                     |                                | <b>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.</b>   |
| <b>Unemployment Rate</b>                              | <b>5.4% in August 04.</b>      | <b>NJ = 5% in July 04; +43K jobs 04 YTD; 16.9K &gt; than Dec 2000 peak.</b>   |
| <b>Initial Unemployment Claims</b>                    | <b>319K, 4 Sept; down 44K.</b> |   |
| <b>Supply Managers Index (Mfg)</b>                    | <b>59.0</b>                    | <b>Aug 04; down 3 pts, but sector still expanding. Employment rising but slower than in July.</b>   |
| <b>Factory Orders (all mfg industries)</b>            | <b>1.3%</b>                    | <b>\$369.6B, July 04.</b>   |
| <b>Durable Mfg Goods Orders</b>                       | <b>1.6%</b>                    | <b>\$195.8B in July 04; +12.4% YTD over 2003.</b>   |
| <b>Industrial Production Index</b>                    |                                | <b>Index = 116.6; +.1% Aug 04. Manufacturing index +.5% in Aug 04. Capacity in use, 77.3%; 1972-2003 average was 81.1%.</b>   |
| <b>Business Inventories</b>                           | <b>.9%</b>                     | <b>July 04, \$1.246Tr, +6.4% since July 03.</b>   |
| <b>Inventories (GDP account)</b>                      |                                | <b>\$20.8B gain in non-farm inventories in 2nd quarter 04.</b>  |
| <b>Inventories (wholesale trade)</b>                  | <b>1.3%</b>                    | <b>July 04; \$313.8B, sales improve.</b>  |
| <b>Agriculture</b>                                    |                                | <b>Net farm income up, prices now dropping. Lower dollar helps exports, but ag export prices down 8.5% in Aug 04.</b>   |

## Weaknesses

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| <b>Federal Deficit</b>                    | <b>\$375B FY03 record deficit; 3.5% of GDP. Estimate of \$422B in FY04. Deficit of \$2.3 trillion projected for next decade by CBO.</b>  |
| <b>International Trade</b>                | <b>2003 deficit of \$496.5B. +17% over 2002. 4.5% of GDP.<br/>Deficit with China \$124B in 03; record monthly deficit, -\$14.9B July 04.<br/>July 04 deficit, \$50.15B; down \$5B from June but still 2nd highest ever.<br/>July 04 exports, \$95.8B, up 3% over June.<br/>June 04 imports, \$146B, down \$2B from June.</b> |
| <b>Exports<br/>Imports</b>                | <b>+6.1%, 2nd Qtr 04. +1.9% for 2003 vs. -2.3% in 2002. Lower dollar helps!<br/>+ 14.1%, 2nd Qtr 04; +4.4% in 2003 vs. +3.4% in 02.<br/>Energy prices add to import total, plus strong US demand for foreign goods.</b>  |
| <b>Import Prices</b>                      | <b>1.7% in Aug 04; non-petroleum prices +.4%, petroleum prices, +9.6%!</b>   |
| <b>State and Local Gov't Expenditures</b> | <b>Fiscal weakness; 2.2% in 2nd Qtr 04; 0% in 1st Qtr.<br/>Up only .7% for 2003.</b>   |
| <b>Oil</b>                                | <b>Oil prices fall but stay high; \$42.81 (10 Sept) for near month delivery.<br/>Energy cost increases spreading to other gds/services.<br/>Each 1 cent rise in gas prices = \$1B loss in purchasing power.<br/>Each \$10 rise in price of barrel of oil = \$70B tax.</b>  |
| <b>Natural Gas</b>                        | <b>Prices ease, but still high; \$4.54 per mil BTU (10 Sept) near month.<br/>Large cost increase for industries/consumers.</b>   |
| <b>Mad Cow Disease</b>                    | <b>Major export markets for US beef remain constrained.</b>  |

## Wild Cards

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| <b>Terrorism</b>              | <b>Continued uncertainty overhangs economic decisions.</b>   |
| <b>War in Iraq/Afganistan</b> | <b>Entangled and messy. Risk to confidence and equity and energy markets.<br/>Cost est. \$5B per month. \$87B add on this year; \$25B more committed.<br/>Guns AND Butter (i.e., War and aftermath costs <u>and</u> tax cuts)<br/>All financed by debt.</b>  |
| <b>Stock Markets</b>          | <b>Super 2003, but inventory of capital losses after 3 years of decline.<br/>Dow Jones; -16.8% for 2002. +25.3% in 2003.<br/>NASDAQ; -31.5% for 2002. +50% in 2003.<br/>S&amp;P 500 -23.4% for 2002. +26.4% in 2003.<br/>Dow Jones = 10,313.07; 10 Sept.; -1.35% YTD. High was 10,737.7 on 11 Feb.<br/>S&amp;P 500 = 1,123.92, 10 Sept; +1.08% YTD.<br/>NASDAQ Composite, 1,894.31, 10 Sept; -5.44% YTD.<br/>Dow peak, 11,723 on 14 Jan 00. Dow currently 12.1% below peak.<br/>S&amp;P peak 1,527 on 24 Mar 00. S&amp;P currently 26.4% below peak.<br/>NASDAQ peak 5,048 on 10 Mar 00. NASDAQ currently 62.5% below peak.<br/>Markets recover recent losses.</b> |