

FORECAST OF THE NATION
February 2005

Global Malaise Is A Double – Edged Sword

ECONOMIC
FORECASTING
CENTER



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This quarterly publication, *The Forecast of the Nation*, provides an analysis of the U.S. economy's current activity, historical economic data for the last nine years, and a forecast for the next three years. The results of this forecast are presented at the Quarterly Economic Forecasting Conference towards the end of February, May, August and November at Georgia State University's Student Center in Atlanta, Georgia.

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GLOBAL MALAISE IS A DOUBLE - EDGED SWORD

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FEBRUARY 8, 2005

FORECAST COMMENTARY

The 4th quarter GDP report was perfect in all areas except exports, which actually declined by 3.9% in spite of the dollar having weakened substantially against its major trading partners (except the Peso) in the last eighteen months. Investment growth was a healthy 9.2% and was matched by robust growth in imports despite a weaker dollar. Consumption grew by 4.6% and it can partly be explained by the extra purchasing power of 2.2 million people that came on board the corporate payrolls in 2004. The rest can be attributed to the carrot of recurring discounts on automobiles that attracted consumers in droves to auto dealers in October and December. Thus, durable goods consumption growth was 6.7% instead of the moderation expected following a stellar 17.2% growth of durable goods in the 3rd quarter (It seems that these auto sales come about every other month, upsetting the projections of us forecasters. I see a conspiracy here!).

Looking forward, for the US growth engine to rev at full speed, we will need the global economy, especially the health of our major European trading partners, to substantially improve in the coming months. We have gotten the price boost—cheaper prices for our exports via a weakened dollar—and as explained by the J-curve theory, the boost in domestic exports will come much later than the drop in imports. However, this theory misses out on foreign demand-side factors.

Our partners have to be in the mood, or have the ability, to demand our relatively cheaper-priced products. In Germany, the unemployment rate is above 10 percent and home price appreciation is absent, so there is no fuel any consumption desires. The UK is actively trying to cure its housing bubble with the interest rate medicine, which surely bodes ill for demand for our exports (except for British tourists shopping in NY on budget tours). Sustained high levels of oil prices in 2004 have weakened the global economy, but while not to the point of producing a recession, a slowdown has definitely weakened the desire for our exports. This time around, we have escaped the hit of high oil prices chiefly because of the public's lack of inflationary expectations and an absence from production's pass-on-the-cost mechanism, at least at home.

Global malaise also happened during the 1997-1998 Asian currency crisis when, to use a Texan expression, "We made out like bandits". Back then we ran into supply constraints at home and needed the malaise in the Asian economies to release the required resources for our production machinery without igniting any undue inflation at home. We first expanded our production possibility frontier via technological changes (read: www and computers) and then transcended it with trade at favorable conditions. Almost a decade later, we need a different type of bailout. We need the boost in demand from our partners to employ our idle human resources, and especially after the last

few years, we have a few extra million people that can be put to work without igniting inflation.

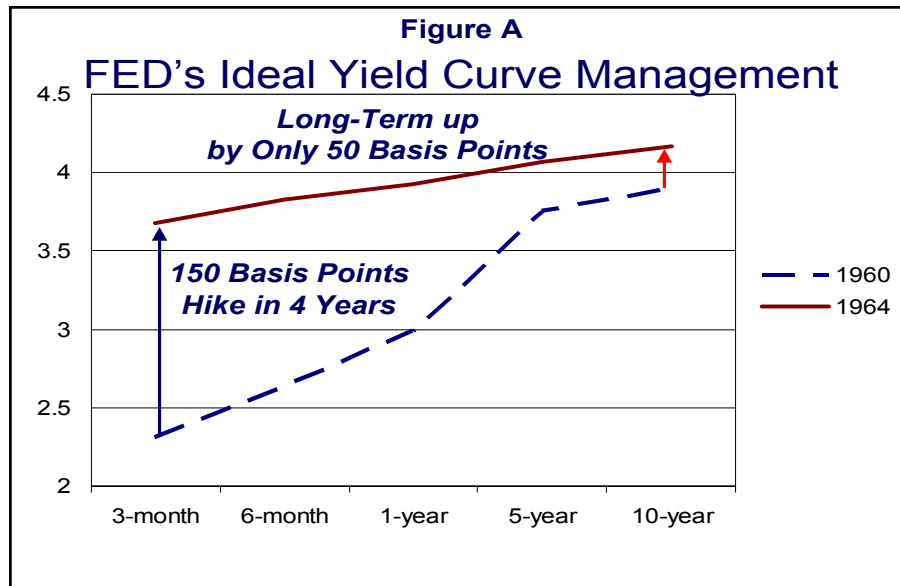
The latest payroll report showed a net gain of 146 thousand jobs, below the consensus expectations of 200,000 jobs, but close to my long-term projection of 150 thousand jobs (detailed reasoning can be read in the November 2003 report). Some may blame this on the outsourcing frenzy, and I've addressed this issue in a special article on pages 6 and 7. However, in the last three months, only 411 thousand jobs have been created with 40 thousand jobs being lost in the manufacturing sector. Three years into the recovery, labor force participation rate is still falling. This implies that slack exists in the system to hire more people for production, which will come in handy when the global economy improves and the demand for exports increases.

What will spark the global recovery? What is the main factor causing the malaise? Oil. Oil at \$50 a barrel is equivalent to €37 at the current exchange rate. All we need is for the price of oil to come down to \$40 by the end of 2005, or equivalent to €30, and the European consumers will get a big relief given their highly taxed gasoline. This is expected by year-end, and what makes this possible? Every person in Texas is drilling a new well in his or her backyard, and Canadians are using shovels as fast as they can make them to mine their Alberta sand-tar pits! High oil prices sow the seeds of future price decline as supply from every corner rushes into the market. In technical speak, high prices makes the marginal high-cost producer viable for the market. This in turn floods the market with new supplies, which either stabilize or cause a crash in prices if demand adjusts rather quickly. This boom and bust cycle is consistently seen in the commodities markets (the last memorable episode was the fall in electricity prices in California after then-Governor Davis signed expensive contracts which rightly got him "terminated" by the voters!). The critical issue would be the speed of adjustment in the case of oil. It's been hovering around \$50 a barrel for the last six months and is due for a correction.

Another favorable factor for an expected global recovery are the winds of change blowing in Europe, especially in Germany, regarding their work rules. These changes, if and when they happen, will take substantial time to display their full impact. However, the optimism it creates in the interim for the business climate and for board room confidence will be critical for investment purposes. Their investment also results in demand for our products. Business confidence has begun to improve in Germany in recent months. This in turn sets the tone for the majority of the Euro zone. The UK is expected to have a soft landing, and the way the Alitalia deal went down last year in Italy bodes well for their business climate too (the pilots union took a 50% pay cut and agreed to work 50% more!). Thus, all we need is time with no major hiccup in the financial environment at home (read: Greenspan and Co. remain well "measured" with their hike strategy).

My forecast is for lack-luster real GDP growth in the 1st half of 2005, when it grows only by 2.7%. This rate is much slower than the 3.6% growth rate in the 2nd half of 2004. However, as the global economy recovers, the 2nd half of 2005 will register a 3.5% growth rate, when exports grow by 11.4% instead of 1st half's pace of 5.3% growth. Part of this forecast banks upon China succeeding in its quest for a slowdown, (perhaps an actual 6% GDP growth will do just fine instead of their permanently reported 9% growth rate, with the SARS episode notwithstanding). This makes for an annual growth rate of 3.2% for real GDP. By the same logic, when the export engine is firing on all cylinders in 2006, real GDP growth is 3.7%, and 2007 is a good year too as it again grows by 3.5%.

Export growth will be in double digits in 2006 and 2007. Imports remain in the 5% range for this entire-period, which implies an improvement in the trade deficit both in nominal and real terms. Job growth will be in the range of 165 thousand jobs per month in 2005, but in terms of job growth, it is the second half that is more robust with an average of 185 thousand jobs per month. Oil prices will moderate to below \$40 a barrel by



late 2005, but will be above \$35 for a while. Overall inflation will also come down as oil prices decline, and will average 2.3% in 2005, and fall below 2% the year after. Core inflation will, however, hover around 2% for the entire 2005-2007 period. The Federal Reserve (FED) will raise rates by another 125 basis points this year, keeping its measured pace trajectory.

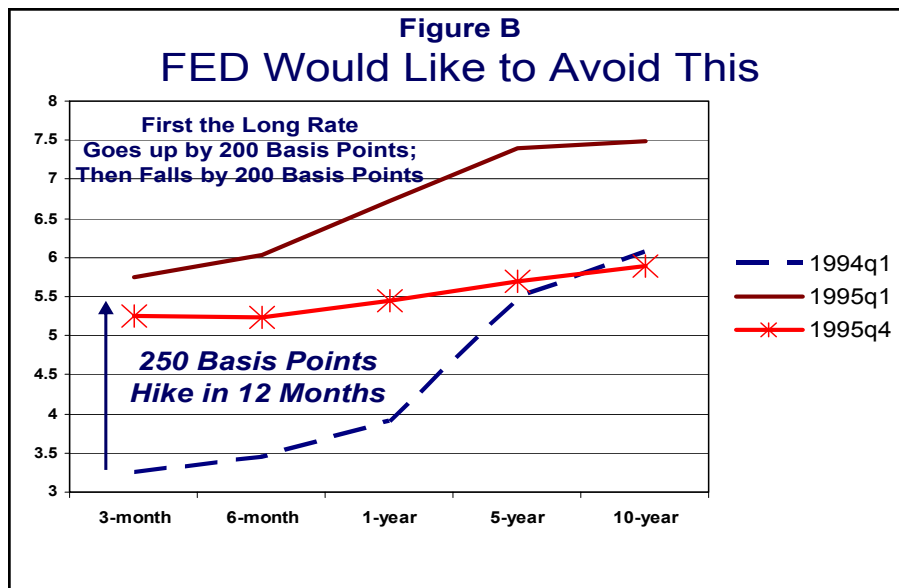
How Global Malaise Helps the Federal Reserve Maintain its Measured Pace

The FED is doing its measured hike of 25 basis points at every meeting like clock work, and the overnight federal funds rate is now up by 150 basis points in the last seven months. This should have surely slowed the economy a little bit, especially in the consumption and investment arena. But nothing of that sort has happened, and will not happen through this interest rate channel in the coming months. Another 125 basis points in total rate hikes this year will barely make the 10-year bond rate go up by 80 basis points to be 5.1% by the end of the year. So the tightening of a cumulative total of 275 basis points in this cycle has caused the long-term bond to go up by only 50 basis points!

Figure A shows the Fed's ideal yield management strategy, which they first pulled off in the early 60's. From 1960 to 1964 the Fed gradually raised the funds rate by 150 basis points and the long-term yield only went up by 50 basis points. Thus, the excess liquidity was mopped up from the system without causing any financial upheavals or slowdowns in the economy's growth. Given that the amount of monetary injections needed to be mopped up was also minimal and gradual over that time-period, perhaps managing the yield curve was easy.

Thirty years later in the early 90's the situation was quite different. Even though the early 90's recession was mild by historical standards, monetary stimulus was applied for a very long time because of the persistent jobless recovery. Thus, the FED kept the funds rate at 3% from late 1992 to early 1994. Consequently, a lot of liquidity had to be extracted from the system. The issue was whether to do it quickly or slowly. The trade-off was disrupting financial markets versus having the inflation monster rear its ugly head.

When the FED started on its aggressive rate hike strategy, and added 250 plus basis points in less than a year, it surprised the markets so much that

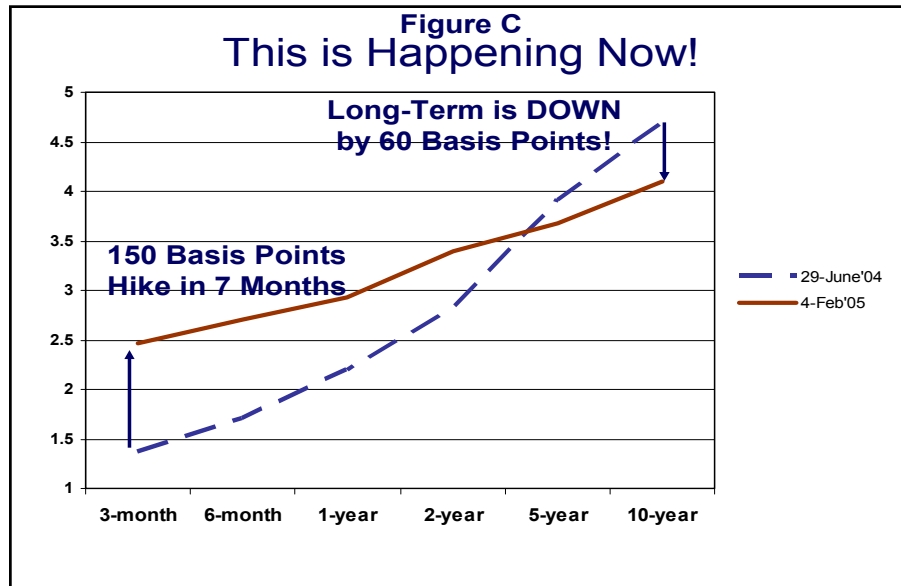


the long-term bond yield shot up by 200 basis points very early in the tightening cycle. Note that those were the days when the FED did not announce its rate change decisions to the public instantaneously as they do now. It was both the change in direction, as well as the amount of rate hikes that caught the banks off-guard on their balance-sheets (one hike in late December '94 was of 75 basis points - all in one go!). The hikes were also a big contributor to the bankruptcy of Orange County, the richest county in the US. Robert Citron, who then was the Treasurer of Orange County, infamously doubled down on his interest rate bet every time the FED move resulted in losses for him. No wonder they say "Don't bet against the FED"!

The markets only calmed down once the FED somehow communicated to them in late December of 94 that it was done with tightening. By early 1995 bond yields had dropped sharply, and by late 1995 the 10-year bond yield had come down by 200 basis points even though the FED had cut the funds rate by only 50 basis points in total that year. Figure B shows this gyration in the yield curve. The Fed learnt from this episode that surprises in a modern financial setting are very disruptive. It seems to me that this episode of yield

management was also responsible for the FED instituting its new transparency measures by 1996, something from which we benefit tremendously now. The FED decisions are announced right after the meeting publicly, with an explanatory statement and the infamous "bias" language. Even the FOMC minutes are now being released with only a six week lag. (On one hand this certainly makes my job of forecasting the FED much easier but it also made 90% of corporate economist on Wall Street, who were the designated FED watchers, redundant to say the least, thereby, limiting the profession's growth!)

Figure C shows today's ongoing episode of tightening. The short-end of the curve is up by 150 basis points but the long-end has fallen by 60 basis points! Why has this happened? One reason is that the FED signaled its intentions by practically doing cartwheels on Constitution Avenue! Greenspan and his loyal cadre of deputies made more than 100 speeches signaling the FED's intentions in the 1st half of 2004 before even a single rate hike was done. Even now there is a FED official giving a speech every few days, a pace on par with the 1st half of 2004. Every speech emphasizes the FED's commitment to a "measured" pace and the FOMC statements in the last quarter have added



the obligatory cautionary line about being vigilant regarding the inflation monster. One should note that the bond market also gets very nervous if the FED looks to be relaxing even a bit in this regard. This game of shouting from the roof tops will go on this year but it still doesn't explain the drop in the long-yield seen so far. Remember, this phenomenon of a falling long-end bond with a rising short-end bond has never been seen before. So what explains this very welcome and fortuitous anomaly that seems to go against the theory of term-structure of interest rates?

The reason is the record high trade deficit figures, which gets lots of media attention but for all the wrong reasons. We should be thankful for the high trade deficit numbers for one good reason. My *November 2004 Forecast of the Nation* report showed you the inverse statistical relationship between trade deficit and the 10-year bond rate. The trade deficit has been rising very sharply this year. But how does this mechanism actually work? The simplest explanation is that foreign central banks, especially China and Japan, hold their trade surpluses in treasury bonds of long-term maturity. When one country runs a trade surplus with another, either by definition or of its own free volition, it has loaned the other the capital for the

same amount. They may regret it later but I am assuming rationality in their economic actions in running a surplus.

China and its supplier nations in Asia have made it clear that they will develop their countries and create jobs domestically via an export-led growth strategy. As there is no such thing as a free lunch in economics, there is a cost to this strategy. Free market economic principles imply that their currencies have to appreciate, which will then eliminate the surplus by reducing their exports. But this market correction will severely crimp their export-led growth objective. Their teeming masses need to be fed and clothed, and brought into this new era. China has solved this problem by pegging its currency to the dollar. The other Asian countries, notably Japan, will then use their central bank's printing presses to try to stop their currencies from appreciating.

These central banks have succeeded very well in their objectives so far. Japan, in particular, has another problem that has been vexing them for almost a decade - deflation. The only cure is to print money and cause reflation. Modern economies, being pure fiat money regimes, must first have to induce somebody to hold their currency

Why Outsourcing Scares The Middle-Class

The election circus is over and while we are all geared up for the holiday season, the realities of everyday life are still with us. CNN's Lou Dobbs has been the self-appointed watch-dog on the outsourcing issue but he uses more rhetoric than economic logic to rail against its evils in his daily evening commentary. Let me add my two cents to this issue based upon my experience as not only an educator, mentor and advisor to my students, but also as a professional economic forecaster.

In the early 1990's I was a young graduate student at UCLA, pursuing my PhD in economics and financing it all as a teaching assistant. Wearing jeans, a t-shirt and a bit of premature gray somehow made me approachable and believable to the young undergrad students in my introductory economics classes. California at that time was going through a brutal recession, and freshly minted graduates with just an economics degree, even those with a 3.5+ GPA, were not getting job interviews. I observed that students who had done something extra, such as a minor in business economics or accounting, or had summer internship experience, were getting bites in the job market fish pond.

When asked for career advice by students deciding upon a major, I would advise them to gain additional skills apart from a pure concentration in economics, thus making themselves more marketable to prospective employers. Specializing in one white-collar area with some appealing appendages is a classic middle-class strategy. I followed it, so did my peers and our parents before us. This strategy has stood the test of time over many generations is the twentieth century.

Can I give this advice now with the same degree of confidence? The answer is both yes and no, as you would expect from an economic practitioner. Yes, the basic advice that one should have multiple skills is correct. But

what has changed is that, in only a decade, the traditional pairings we used to recommend won't work in this new era. Outsourcing has either taken away the payoff or made this generations-old strategy very uncertain. This has happened so fast that, in less than a decade, young students and their parents are feeling adrift and scared by the speed of change.

First, let's examine the factor responsible for this dramatic change, and only then can a solution be found. The chief culprit is modern communications technology, which spawned the great 90's, and at the time made us a richer and better-paid nation as a whole. But it also took away what I am terming the *geographic insulation* from the labor market. This term is better understood with the help of the following example of a much sought after middle-class profession.

In the 1950's an accountant in LA faced competition from accountants in neighboring cities but didn't have to worry about an accountant in NY taking away clients that easily. The cost of travel and communications protected each accountant's domain, allowing them to earn a very good living. In business lingo there was a premium, or pricing power, in the profession. Local supply and demand regulated this premium from getting too high. As communication costs came down in the 70's and 80's, especially with the advent of the fax and the emergence of private express carriers, the accountant in NY was now effectively competing with one in LA. The result was that we paid lower prices for our accounting work but still there was enough of a salary premium left for us educators to advise our students to become accountants. Thus, while Florida may have been cheaper than Wall Street for back-office operations, it was still in the same country. The competition was within the different geographical middle-class sections within the national boundaries.

But things started to change in the mid-1990's. In spring of 1997, I remember co-teaching an MBA class at UCLA where we asked our students what it would take to move back-office operations to India. The answer was surprisingly simple: feasible but costly given that satellite communications would take a decade to pay off. The reality is that the internet, e-mail, and powerful but inexpensive software made this both cheaper and feasible by the end of the 1990's.

Now, the competitor to an accountant at home is anyone, anywhere in the world with a high speed hookup, decent knowledge of English, an accounting major, and a US intermediary firm to facilitate orders. Today the premium for this profession for garden-variety accounting work is totally gone. (Sarbanes-Oxley requirements, however, have recreated the geographic insulation premium again for auditors). You can extend this analogy to other professions as well. The radiologist has been rendered obsolete or over-paid as a doctor in India can read an exact digital copy of your x-ray for 1/10th the price, and is faster to boot. An economics graduate in Shanghai can do research on Chinese issues more easily and cheaper than the economics major in Atlanta because of the native language advantage, plus users say that the quality of work is superior. The list goes on and on.

The dark under belly of technology is the uncertainty of the future economic prospects of the middle-class when deciding to gamble with higher education. This is the classic risk versus return trade-off in finance. First, when blue-collar workers lost their price premium from global competition, the middle-class sat by smugly, comfortable in their white-collar strategy. But now, the middle-class's own (programmers, engineers) have produced the means for their own fear and discomfort, appearing in the blink of an eye in terms of generational time.

So what is my recommendation to a young kid and their parents? Think outside the box. This means pairing specialties that parents previously looked down upon. If that radiologist in their down time can also do book-keeping or marketing for the hospital then they will never be outsourced. Why? Companies outsource functions only when revenue growth is weak, as is the case since 2001 and that puts pressure on profit margins. The middle-class, also being the owners of those companies, is demanding a good return on their investments, as they should. If the person can fulfill more functions for the same price, and is in-house, I doubt any company will go looking for outsiders that easily, be they in Nebraska or in India, given the economies of scale from in-house management. We need to radically change our thinking - quickly - before we go the way of the dinosaur.

One final thought. Until recently, I assumed that an MBA with concentration in pure finance still had a high price premium. In a recent speech to a group of CFO's of mid-to-small-sized banks I explained my double-duty concept with the radiologist example, and one CFO asked me if I knew of an MBA who could also program in C++ as it was too costly and inefficient to go to IT guys to program his complex finance formulas! The era of thinking outside the box is already here, and the middle class better adapt fast or the plight of the textile worker will become its new song.

for its intrinsic value, and the carrot used is a lower interest rate. This works until you reach the natural price-floor of zero percent for nominal interest rates. Maybe Ben Bernanke and Co. at the FED can offer innovative schemes if you read their voluminous papers in copious quantity (a new growth field in economic theory). But in reality, laws in all developed nations prohibit the easiest solution that is actually feasible. In grad school, it is taught under the phrase made popular by Milton Friedman, "a helicopter drop of money". Now, you know why the Treasury has to legally give you a tax cut when what the politicians really want is to give you free money. Tax cuts come in the realm of fiscal measures over which modern central banks luckily have no say. Central banks also cannot invest in stocks and corporate bonds in their own country, and for very good reasons, most notably the moral hazard problem these transactions generate.

The Japanese Central Bank lending rate has been almost zero for a long time. This means they have excess reserves in their banking system as there are no takers for this free money. But also note that you need investment opportunities to make use of money. So, if you can't loan them out then why not put it to another novel use, which is to intervene in the foreign currency market to buy up dollars. Defacto, the Japanese Central Bank is acting as our ally by mopping up the money supply that our FED has pumped out. This way they can pursue their reflationary goal and mop up our excess liquidity. This also takes care of their appreciating currency problem, which threatens to wipe away the trade surplus.

As you cant get something for nothing, they are now left with an amount of foreign IOU's equivalent to the trade surpluses that cannot be monetized. These are in real terms, and by definition cannot be used to buy goods from debtor nations in the present period. Redemption will happen eventually but later in the future. They have to invest these IOU's elsewhere. They can buy assets in a third country or assets from the debtor nation. The central banks are also re-

stricted to only buying government bonds, as they are prohibited by law to hold corporate stocks and bonds, or even government agency bonds which are mostly mortgage-backed securities.

So which nations are considered safe, good, investment choices for the Chinese and the Japanese? Not many because the most important consideration for the central banks is absolute safety. Australian bonds are a good, safe bet but one small bank in Los Angeles can buy up their entire supply in a week! Euro-denominated bonds are also not a reasonable choice because not many have been floated (notice that Germany runs a trade surplus too) and the monetary union is only five years old. Of course, at the rate the French, Germans, Portuguese and others are running deficits, there could be plenty of these to go around in another few years!

In the case of Europe, the risk lies in the possibility of union dissolution if members quarrel over the blatant disregard for the growth stability pact engineered by Germany, the dominant partner, to monitor the spendthrift Italians and French. Even if this probability is infinitesimally small, it still exists - unlike in the US union. In fact, Germany is the one now running the biggest deficit of all! If you know bond traders, they like to discount these things rather harshly. This in turn translates into a drop in liquidity for Euro-denominated bonds, which makes them unattractive. In other corners of the world, Argentina has so nicely swindled the world twice over the past 100 years on their bonds that I doubt any Central Bank will admit on the record that they held them in their portfolio. It is therefore logical that central banks would not want anything but the absolute safest, which is the US treasury bond.

In a nut-shell, these central banks are captive loaners or investors for our treasury bonds, which incidentally also finances our somewhat large (okay, mammoth) fiscal deficit. If it wasn't for these two central banks, we would have to offer a much higher interest rate to foreigners to hold our treasury bonds. This would have brought the do-

mestic consumption juggernaut to a premature halt, and all the nice refinancing breaks would have been history too. Thus, in light of our pathetically low savings rate, these “voluntary” capital inflows also add to the available pool of funds for investment. And investment growth has been close to 10% in the last two years, a rate that matches that of the late 90’s.

Thus, global malaise is a double-edged sword. On one hand it takes away the need for our exports but then it also helps keep our interest rates down at the long end, making for this spectacular housing boom to continue for another few years before the bill comes due. It always does eventually!

RECENT EVIDENCE

Total retail sales increased by a solid 1.3% in December, following an anemic 0.1% gain in November. For the 4th quarter, total retail sales posted a 2.5% gain from the previous quarter, and an 8.2% gain over last year. The primary reason behind this boost is the strong growth in auto sales, as sales excluding autos rose only at a modest rate of 0.3%. Auto sales rebounded strongly from 16.4 million units in November, to 18.4 million units in December, while the annual figure for the year 2004 came in at a respectable 16.8 million units, the fourth strongest year on record.

Personal income rose at a very strong rate of 3.7% in December, while personal consumption grew at a modest rate of 0.8%. Still, this is a significant acceleration from November when both income and consumption grew by 0.4%. However, December growth numbers were somewhat distorted by the large, one-time dividend payment of \$32 billion from Microsoft. On a quarterly basis, income rose at an annualized rate of 10.8%, outpacing the 7.2% in consumption growth. For the year 2004, personal income expanded by 5.4%, and personal consumption increased by 6%.

The Consumer Confidence Index surged to 103.4 in January, its highest reading since July of 2002.

Among the possible explanations are relative stable energy prices, the conclusion of elections and a relatively good job market that has added 2.2 million new jobs in the past 12 months. In the last quarter of 2004, the confidence index registered a value of 96.1, down 4.3% from the previous quarter, but up 7.1% from the 4th quarter of 2003.

Housing starts in December rebounded from a sharp 13% decline in November, and advanced 11% from 1.807 million units to 2.004 million units. This surge is the biggest one-month gain since September 1997. In the last quarter of 2004, housing starts averaged 1.959 million units – 2% below the third quarter level. Still, construction activity was strong enough in the 4th quarter to rank as the third strongest quarter ever. Existing home sales dropped in December by 3.3% to 6.690 million annualized units from the all-time-high level of 6.920 million units in November. Viewed over the four quarters of 2004, existing home sales have been volatile but fluctuating within a narrow band around 6.6 million units.

New home sales remained virtually unchanged in December, with a 0.1% gain from November to 1.098 million units. At the same time, the U.S. Census revised November sales downward by 2%. On a year-over-year basis, new home sales went down by 1.9%. Despite the weak second half, 2004 was still a very strong year, with sales up by 8% over 2003 levels. Total private construction increased 0.9% to strongly close out 2004. Private residential construction increased 1.1% in December, while November’s estimate was revised upward significantly, from a previously reported 0.4% decline to a 0.3% increase.

The Industrial Production Index grew at a better than expected rate of 0.8% in December, following a 0.2% increase in November, and now stands 4.4% above the level a year ago. Manufacturing production increased by 0.7%, following a tepid 0.1% growth in November. This growth was led by a 0.9% expansion in durable goods. Consumer goods production strengthened as well, rising by 0.7% after no growth in November. Utilities pro-

Summary of Recent Evidence

	Last 4 Months				4th Qtr.	
	Oct	Nov	Dec	Jan 05	Average	Comments
Consumer Spending						
Retail Sales (\$ billions)	311.8	312.0	316.1		313.3	Strengthening
Automobile Sales (million units)	17.39	16.81	18.40			Good Deals Are Sticking Around
Consumer Confidence (Index 1985=100)	92.9	92.6	102.7	103.4	96.1	Election Jitters are Over!
Personal Income (\$ billions)	9,777	9,818	10,179		9,925	Sweetener from Microsoft
Personal Consumption (\$ billions)	8,385	8,416	8,483		8,428	Growing Nicely
Housing and Construction						
Housing Starts (million units)	2.065	1.807	2.004		1.959	Very Strong Levels
Existing Home Sales (million units)	6.760	6.920	6.690		6.790	Volatile Behavior
New Home Sales (million units)	1.263	1.097	1.098		1.153	Tricky Weakness
Residential Construction (\$ billions)	556.2	555.8	559.8		557.3	Momentum Exists
Value of Construction (\$ billions)	1,017.4	1,020.8	1,031.8		1,023.3	Upward Momentum
Manufacturing						
Industrial Production (index 1997=100)	116.6	116.8	117.8		117.1	Picking Up Sharply
Capacity Utilization (%)	78.5	78.6	79.2		78.8	Inflationary Pressure is On
ISM Index	57.5	57.6	57.3	56.4	57.5	Moderating
Durable Goods Orders (\$ billions)	195.5	199.4	201.6		198.8	Still Doing Well
Deficit & Interest Rates						
Trade Deficit (\$ billions)	-56.0	-60.3				A New Reality
10-Year Note (% per annum)	4.10	4.19	4.23	4.22	4.17	In Harmony with the FED
3-Month Bill (% per annum)	1.8	2.1	2.2	2.4	2.0	Rising at a "Measured" Pace
Inflation						
CPI (year-over-year % change)	3.2	3.6	3.4		3.4	Cooling Pressure
Core CPI (year-over-year % change)	2.0	2.2	2.3		2.1	Climbing Slowly
PPI (year-over-year % change)	4.4	5.1	4.1		4.5	End of Energy Price Nightmare
Employment						
Non-Farm Payroll Employment (thou.)	282.0	132.0	133.0	146.0	182.3	Fallen Expectations
US Layoff (thousands)	101.8	104.5	109.0	92.4	105.1	Moderating?
Unemployment Rate (%)	5.5	5.4	5.4	5.2	5.4	Better Times Ahead?

duction rose sharply by 2.7%, following two months of decline. For 2004, the Industrial Production Index advanced 0.4% to 115.5.

Capacity utilization rose 60 basis points to 79.2% and is quickly approaching a level that is consistent with rising inflationary pressures. The overall ISM index rose 0.8 points to 58.6 in December, but on a quarterly basis declined by 3.5% to 57.5 in the 4th quarter of 2004. Overall, this was a surprisingly solid year for the manufacturing industry as the ISM Index expanded by 14% from 2003 levels. However, this index dropped nearly a full point to be 56.4 in January. Durable goods orders advanced 0.6% in December, following an upwardly revised 1.8% increase in November, which followed a 1.0% decline in October. For the 4th quarter of 2004, durable goods orders came in at a strong annualized rate of 3.9%.

The U.S. trade deficit increased by \$4.3 billion in November to \$60.3 billion following a revised October figure of \$56.0 billion. This is the largest monthly deficit on record. Imports were pushed higher by rising oil prices, and exports were undercut by a sharp decline in foreign sales of capital goods. Exports of goods and services in November declined 2.3% while imports of goods and services increased 1.3%. Over the year, exports of goods and services were up by 6.0%, while imports were up by an even stronger 19.8%.

The Federal Reserve Board has continued to steadily increase its overnight federal funds rate by 25 basis points since last June, and as we write this report in early February, the 3-month Treasury bill yield now stands at 2.5%. The current 10-year bond rate is only 4.1% which has made the yield curve less steep than before.

The decline in energy prices in December caused consumer prices to fall 0.1%, therefore lowering the annualized rate of inflation to 3.3%. On a year-over-year basis the CPI is up by 3.4%, slightly lower than the 3.6% pace in November. At the same time, core inflation rose 0.2% in December, and has increased 2.3% over the last year.

In the 4th quarter of 2004, the CPI advanced 3.4% from the level seen last year. Falling energy prices also affected the producer price index for finished goods which fell sharply by 0.7% in December after a 0.6% increase in November. Over the 4th quarter of 2004, the PPI rose by 4.5% and now stands at an annualized rate of 7.8%.

Total non-farm employment grew by a decent 146,000 jobs in January. Additionally, the December payroll numbers were revised downward from 157,000 to 133,000. On top of that, total employment gains for 2004 were benchmarked from 2,231,000 to 2,172,000. Goods-producing payrolls declined by 31,000 in January, while service-producers added 177,000 jobs. Manufacturing payroll continued to bleed another 25,000 jobs. Retail Trade and Professional and Business Services on the other hand gained 19,200 and 25,000 jobs, respectively. Meanwhile, the unemployment rate, derived from a separate survey, fell to 5.2% from 5.4% in December. Announced corporate layoffs dropped as well to 92,351 from over 100,000 during the last four months of 2004. U.S. Layoff announcements are now 21% lower than the number recorded for January 2004.

HIGHLIGHTS OF THE FORECAST

The latest GDP release showed that the economy expanded at a 3.1% rate in the 4th quarter of 2004, following an increase of 4.0% in the 3rd quarter. On an annual basis, the real GDP increased 4.4% in 2004, compared with an increase of 3.0% in 2003. The major contributors to the increase in real GDP were personal consumption expenditures, exports, residential fixed investment, and federal government spending. Personal consumption expenditures increased 4.6% in the 4th quarter compared with an increase of 5.1% in the 3rd quarter. Durable good purchases grew strongly by 6.7%, however, it was still a significant deceleration from the 17.2% growth rate of the 3rd quarter. Consumption of nondurable goods and services rose by 5.8% and 3.7%, respectively, in the last two quarters.

Fixed investment grew at a solid rate of 6.7% in the 4th quarter. Investment is now up by 8.4% compared to levels seen a year ago. Federal government spending on defense was unchanged, following an increase of 10.1% in the 3rd quarter. Strong import growth of 9.1% added to the negative export growth of 3.9% to make for a rising net-exports. The real change in private inventories added only 0.4% to 4th quarter GDP growth.

Real GDP will moderate to a 2.7% growth rate in the 1st half of 2005, but will display a healthy 3.5% growth rate in the 2nd half. For 2005, real GDP growth will be 3.2%. In 2006, real GDP expands by 3.7% as exports rise by 11.8%. In 2007 real GDP will moderate to 3.5% because of minor decelerations across major categories.

- Overall consumption growth is expected to be 2.1% in the first quarter of 2005, which is a sizable moderation from the 4.6% growth rate in the last quarter of 2004. Consumption picks up to above 3.0% by year end. For the year 2005, consumption growth will be a healthy 3.3%, grow again by 3.4% in 2006, and moderate to 3.1% in 2007. Consumption growth for durable goods will decline sharply to 3.2% in 2005 from its 6.9% pace in 2004. It will increase by 4.7% in 2006 and moderate a bit to 4.5% in 2007. Consumption growth for nondurable goods will also moderate in 2005 to 3.5%, and drop further to 3.1% in 2006 and to 3.0% in 2007. Service sector consumption is expected to grow by 3.1% in 2005, by 3.3% in 2006 and by 2.8% in 2007.
- For the year 2005, fixed investment is expected to moderate a bit to a 9.5% growth rate following a 10.4% rate in 2004. Investment will show a solid growth rate of 7.2% in 2006 and will moderate a bit to a 6.1% growth rate in 2007. Investment in producer's durable equipment posted a very strong growth rate of 13% in 2004. The growth rate for this category will be a strong 10.2% in 2005, moderating to 7.7% in 2006, and then

to 6.9% in 2007. Investment in structures is expected to rise by 7.0% in 2005. This growth trend will continue in 2006 also at a 5.4% rate, and will again grow by 3.4% in 2007. Residential investment will decline by 2.2% as housing starts to decline in 2005. This category again declines by 5.6% in 2006 and by 3.0% in 2007 as housing starts begin to moderate further.

- In 2004, the economy finally turned a corner in job creation and gained about 2.2 million jobs. As a result, the unemployment rate dropped from its 2003 average of 6.0% to 5.5% in 2004. However, even though the upcoming two years will see job additions at a decent 165,000 jobs per month, the unemployment rate will remain in the narrow range of 5.2% to 5.3%.
- In 2004, the monthly overall inflation rate fluctuated between 1.8% and 4.8% in response to oil price movements. In the 3rd quarter of 2004, the CPI inflation rate was 1.9%, and it rose to 3.5% in the 4th quarter as oil prices remained close to the \$50 dollars mark. Overall, the CPI index will moderate to a 2.0% in the 1st quarter of 2005, and further to 1.7% in the 2nd quarter and to 1.6% in the 3rd quarter. For the year 2005, the inflation rate will average 2.3%, then decline sharply to 1.6% in 2006, before rising slightly to 1.8% level in 2007.
- The core inflation rate had been steadily trending downward since mid-2003, raising the specter of deflation. But as job growth returned in 2004 it halted the trend and put it on an upward trajectory. The core inflation rate rose from its 1.5% level in 2003 to 1.8% in 2004. In 2005, core inflation will average 2.1%, and will moderate a bit to 1.9% in 2006 before rising to 2.1% in 2007. Wage compensation in the non-farm business sector grew at 4.3% rate in 2004. It will grow again by 4.2% in 2005 and by 4.4% in 2006. In 2007, job

growth will be strong enough to make wages grow again at a 4.5% rate.

- Oil prices have been climbing in recent years. They increased from \$26.1 per barrel in 2002 to \$31.1 dollars in 2003. The situation worsened in 2004 as crude oil prices escalated to \$41.6 per barrel. In the first half of 2005, expect the price of oil to average \$47.7 per barrel, and to moderate to \$42.1 in the second half. In 2005, price of oil will average \$44.9 per barrel, drop to \$36.1 in 2006 and moderate further to \$34.7 by 2007. Oil price level will remain above the \$30 per barrel for the coming future.
- The Federal Funds Rate increased to 2.0% in the 4th quarter of 2004, and will rise gradually to the 3.75% level within a year as the FED follows through on its promise of “measured” hikes. In 2006, the FED pauses somewhat and the Funds rate is expected to reach the 4% mark only by early 2007.
- The 10-year bond rate averaged 4.2% in the 4th quarter of 2004. However, it is not expected to cross the 5.0% mark until late 2005. The 10-year bond rate will average 4.7% in 2005, and for 2006, it will average 5.4%. In 2007, it finally crosses the 6.0% mark.
- Pretax corporate profits increased by a strong 11.3% in 2004 and will rise by 8.6% this year. Profits moderate sharply in 2006 when they grow by only 3.9% but strengthen a bit in 2007, when they rise by 6.1%.
- Housing starts averaged 1.969 million units in the 3rd quarter of 2004, and again averaged a stellar 1.945 million units in the 4th quarter of 2004. They will moderate somewhat to 1.852 million units in the 1st quarter of 2005 and will slowly drop by the end of the year, finishing at 1.679 million units in the 4th quarter of 2005. On an annual basis, housing starts will drop sharply from the 1.944 million units in 2004 to 1.767 million units in 2005. In 2006, housing starts moderate further to 1.668 million units as mortgage rates edge closer to 7.0%. Housing starts will average 1.637 million units in 2007 as effective mortgage rate rises from the 6.9% level in 2006 to be 7.4% by 2007.
- Automobile and light truck sales will continue to be strong in 2005. They will increase from 16.8 million units in 2004 to 17.1 million units in 2005. In 2006, auto sales will experience another mild increase when they average 17.2 million units, and will sell at the very strong rate of 17.5 million units in 2007 as oil prices moderate substantially.
- The dollar’s 2004 slide of 8.3% in nominal terms will continue in 2005. The nominal trade-weighted dollar index is expected to slide by 10.1% in 2005, and then moderate throughout 2006 and 2007 by 4.7% and 2.0%, respectively. In 2004, real exports grew robustly by 8.2% against a 9.8% increase in real imports. In 2005, exports rise by only 5.0%, whereas imports moderate to a 5.8% increase. In 2006, imports rise by 5.2% and exports rise by a strong 11.8%. In 2007, exports rise by an even stronger 12.3%, and imports are expected to grow by only 5.3%. The trade deficit in nominal terms will expand significantly to \$679.6 billion in 2005 from the \$607.0 billion level in 2004. It will moderate a bit to \$645.4 billion in 2006 and further to \$608.6 billion in 2007. These numbers signal the new trade deficit reality which is expected to exist for years to come.

Forecast Graphs

Figure 1

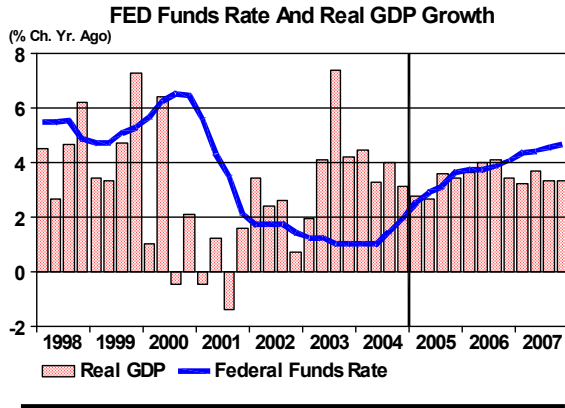


Figure 2

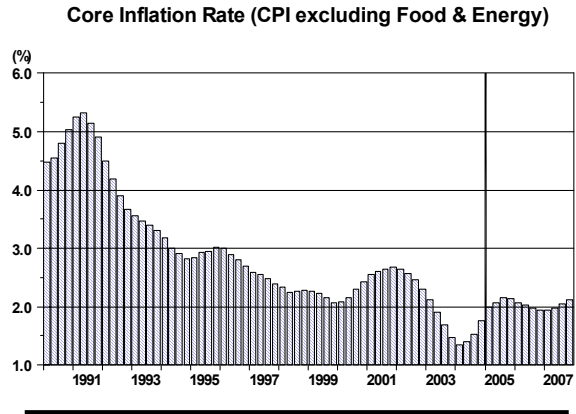


Figure 3

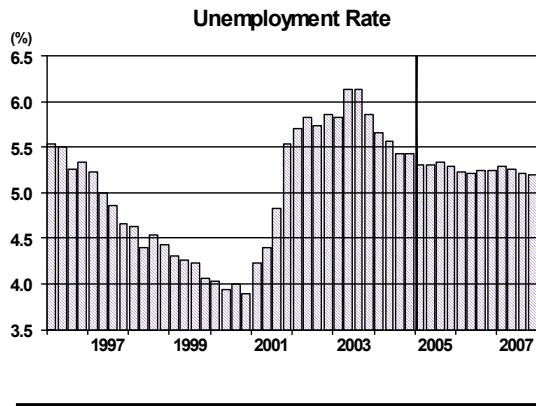


Figure 4

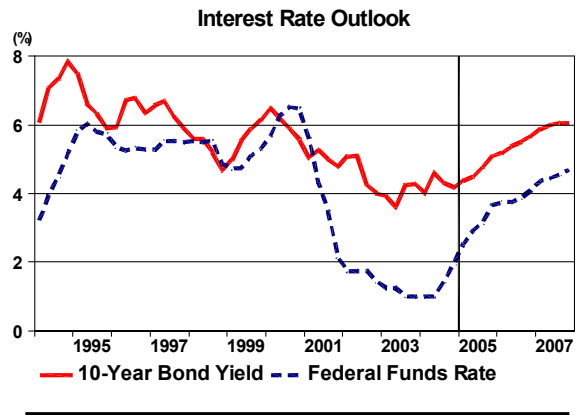


Figure 5

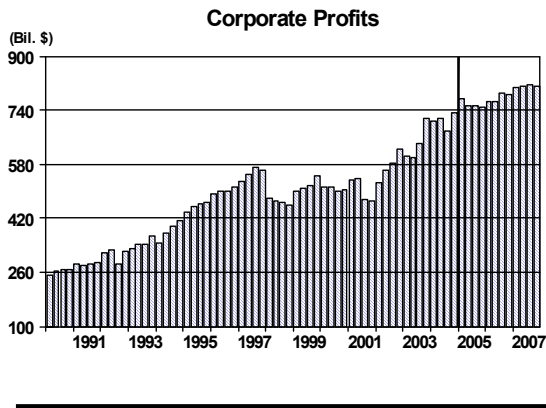
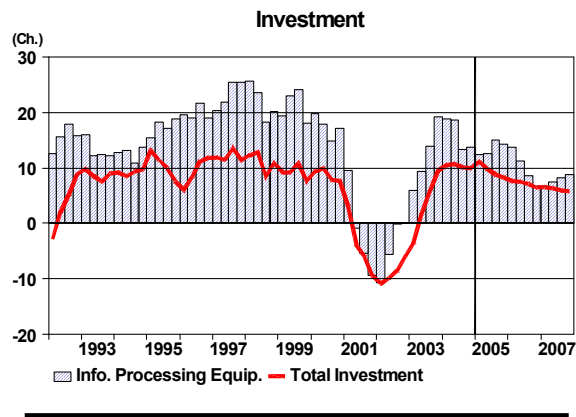


Figure 6



Forecast Graphs

Figure 7

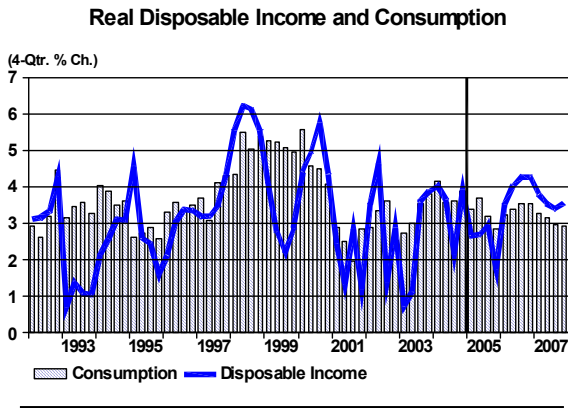


Figure 8

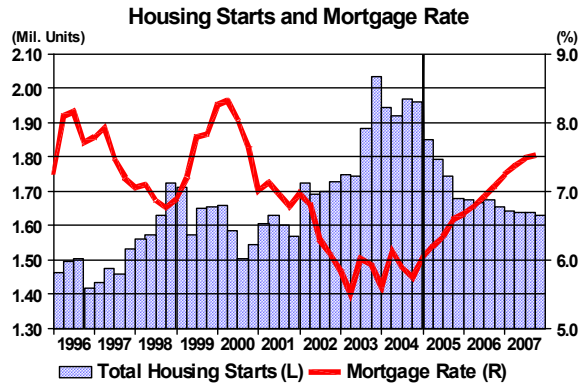


Figure 9

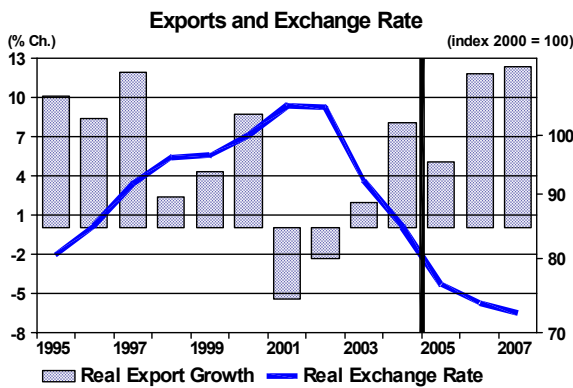


Figure 10

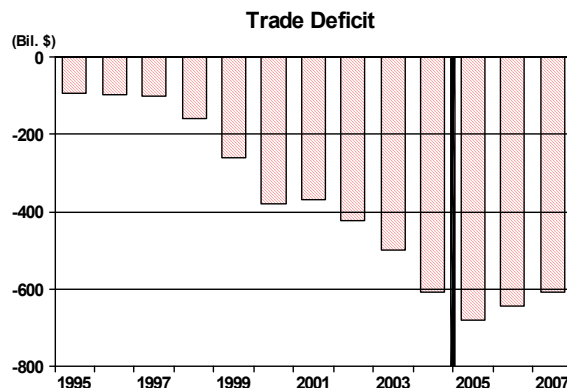
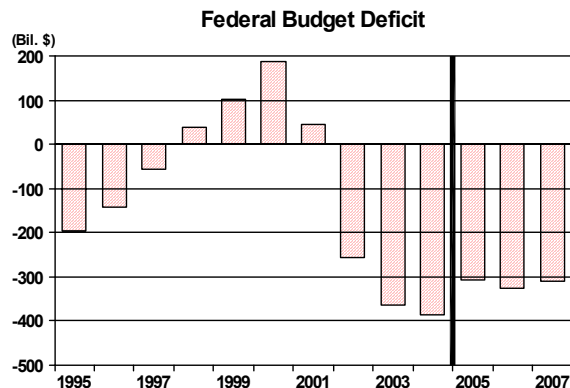


Figure 11



Figure 12



FORECAST OF THE NATION

February 2005 Report

Tables

Forecast Tables - Summary

Table 1A. Summary of the Georgia State University Short-Term Forecast of the Nation

	HISTORY									FORECAST		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Money Supply (M1)	-3.2	-3.3	1.0	2.0	0.2	3.0	4.8	6.0	5.4	2.2	1.0	0.2
Money Supply (M2)	4.8	4.9	7.3	7.5	6.1	8.7	7.6	6.8	4.5	3.4	3.5	3.9
Money Supply (M3)	6.8	8.3	10.4	8.7	9.4	11.4	8.0	6.3	5.2	2.8	3.8	4.5
Currency	4.1	7.0	7.6	9.8	7.6	6.0	9.5	6.2	5.1	3.8	3.4	3.6
GDP Deflator	1.9	1.7	1.1	1.4	2.2	2.4	1.7	1.8	2.1	1.9	1.6	1.8
Real GDP	3.7	4.5	4.2	4.4	3.7	0.8	1.9	3.0	4.4	3.2	3.7	3.5
Interest Rates (%) on:												
90-day Treasury Bills	5.0	5.1	4.8	4.6	5.8	3.4	1.6	1.0	1.4	3.0	3.7	4.2
10-year Treasury Bonds	6.4	6.4	5.3	5.6	6.0	5.0	4.6	4.0	4.3	4.7	5.4	6.0
30-year Treasury Bonds	6.7	6.6	5.6	5.9	5.9	5.5	5.4	5.1	5.1	5.2	5.9	6.3
Prime Rate	8.3	8.4	8.4	8.0	9.2	6.9	4.7	4.1	4.3	6.1	6.9	7.5
Moody's Corporate Aaa Bonds	7.4	7.3	6.5	7.0	7.6	7.1	6.5	5.7	5.6	6.0	6.6	7.1
Prime Rate Less Inflation	5.3	6.1	6.8	5.8	5.9	4.1	3.1	1.9	1.7	3.8	5.3	5.7
Federal Fiscal Policy												
Effective Tax Rates (%):												
Personal Income	21.5	21.7	21.8	21.4	21.8	23.0	20.0	18.8	18.1	18.3	18.5	18.8
Corporate Profits	5.4	5.1	5.9	5.7	6.0	6.0	5.4	5.1	5.2	4.5	4.6	4.8
Defense Purchases--%change												
Current \$	1.7	-1.4	-1.1	4.3	2.7	6.0	11.4	13.5	10.4	6.4	2.4	1.7
Constant \$	-1.4	-2.8	-2.1	1.9	-0.5	3.9	7.7	9.0	7.4	3.6	0.9	0.0
Other Expenditures--% change												
Transfers to Persons	5.9	3.4	3.0	4.2	5.3	9.0	9.9	6.4	4.2	4.9	7.4	6.2
Grants to S&L Gov't	3.8	3.9	7.1	9.5	6.2	11.6	10.3	11.7	3.1	4.5	4.7	5.7
Billions of Current Dollars												
Revenues	1524.0	1653.1	1773.8	1891.2	2053.9	2016.2	1847.3	1877.0	1956.1	2169.4	2308.0	2463.6
Expenditures	1665.8	1708.9	1735.0	1787.6	1864.4	1969.5	2101.8	2241.6	2341.7	2477.0	2633.6	2774.2
Deficit	-141.8	-55.8	38.8	103.6	189.5	46.7	-254.5	-364.6	-385.7	-307.6	-325.6	-310.6
As Shares of GDP												
Revenues	19.5	19.9	20.3	20.4	20.9	19.9	17.6	17.1	16.7	17.6	17.8	18.0
Expenditures	21.3	20.6	19.8	19.3	19.0	19.4	20.0	20.4	20.0	20.1	20.3	20.3
Defense Purchases	4.5	4.2	4.0	3.9	3.8	3.9	4.2	4.5	4.7	4.7	4.6	4.4
Transfers to Persons	11.4	11.1	10.8	10.6	10.6	11.2	11.9	12.0	11.7	11.7	11.9	12.0
Deficit	-1.8	-0.7	0.4	1.1	1.9	0.5	-2.4	-3.3	-3.3	-2.5	-2.5	-2.3
Details of Real GDP--% change												
Real GDP	3.7	4.5	4.2	4.4	3.7	0.8	1.9	3.0	4.4	3.2	3.7	3.5
Final Sales	3.7	4.0	4.2	4.5	3.8	1.7	1.4	3.2	3.9	3.2	3.6	3.4
Consumption	3.4	3.8	5.0	5.1	4.7	2.5	3.1	3.3	3.8	3.3	3.4	3.1
Business Fixed Investment	9.3	12.1	11.1	9.2	8.7	-4.2	-8.9	3.3	10.3	9.5	7.2	6.1
Producers Durable Equip.	10.6	13.8	13.3	12.7	9.4	-4.9	-5.5	6.4	13.4	10.2	7.7	6.9
Structures	5.7	7.2	5.1	-0.4	6.8	-2.3	-17.8	-5.6	1.0	7.0	5.4	3.4
Residential Construction	8.0	1.9	7.6	6.0	0.8	0.4	4.8	8.8	9.5	-2.1	-5.6	-3.0
Exports	8.4	11.9	2.4	4.3	8.7	-5.4	-2.3	1.9	8.1	5.0	11.8	12.3
Imports	8.7	13.6	11.6	11.5	13.1	-2.7	3.4	4.4	9.8	5.9	5.2	5.3
Federal Purchases	-1.2	-1.0	-1.1	2.2	0.9	3.9	7.5	6.6	4.7	3.3	1.4	0.7
State & Local Purchases	2.3	3.6	3.6	4.7	2.7	3.2	2.8	0.7	0.4	1.8	2.0	1.8
Billions of 2000 Dollars												
Real GDP	8329	8704	9067	9470	9817	9891	10075	10381	10837	11179	11588	11997
Final Sales	8300	8632	8994	9401	9760	9922	10063	10382	10792	11138	11537	11931
Inventory Change	28.7	71.2	72.6	68.9	56.5	-31.7	11.8	-0.7	45.4	40.8	50.6	65.7

Forecast Tables - Summary

Table 1B. Summary of the Georgia State University Short-Term Forecast of the Nation

	HISTORY									FORECAST		
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Industrial Production and Resource Utilization												
Production--% change	4.3	7.3	5.8	4.5	4.3	-3.6	-0.3	-0.0	4.1	3.6	4.9	4.6
Capacity Util. Manuf. (%)	81.4	82.8	81.8	81.1	80.6	74.5	73.5	73.7	76.7	77.1	78.0	79.4
Real Bus. Investment as % of Real GDP	14.5	15.2	16.0	16.6	17.1	16.5	15.4	15.7	16.5	16.9	16.8	16.7
Nonfarm Employment (mil.)	119.7	122.8	125.9	129.0	131.8	131.8	130.3	130.0	131.5	133.2	135.3	136.9
Unemployment Rate (%)	5.4	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.3	5.2	5.2
Inflation--% change												
Consumer Price Index	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.7	2.3	1.6	1.8
Total less Food & Energy	2.7	2.4	2.3	2.1	2.4	2.7	2.3	1.5	1.8	2.1	1.9	2.1
Consumption Deflator	2.2	1.7	0.9	1.7	2.5	2.1	1.4	1.9	2.2	1.6	1.6	2.0
GDP Deflator	1.9	1.7	1.1	1.4	2.2	2.4	1.7	1.8	2.1	1.9	1.6	1.8
Producers Price Index	2.3	-0.1	-2.5	0.9	5.8	1.1	-2.3	5.3	6.2	2.5	-1.1	-0.7
Factors Related to Inflation--%change												
Nonfarm Business Sector												
Wage Compensation	3.4	3.1	5.9	4.6	7.0	4.1	3.2	4.0	4.2	4.3	4.4	4.5
Productivity	2.6	1.6	2.7	2.7	2.7	2.6	4.3	4.5	4.0	2.3	2.4	2.5
Unit Labor Costs	0.7	1.4	3.3	1.8	4.2	1.5	-1.1	-0.3	0.1	1.9	2.0	1.9
Farm Price Index	13.9	-7.7	-7.3	-5.9	1.2	4.2	-4.6	12.7	10.4	-8.7	-3.3	0.4
Crude Oil Price (\$/bbl)	22.1	20.6	14.4	19.3	30.4	26.0	26.1	31.1	41.5	44.9	36.1	34.7
New Home Price (\$1000)	139.8	145.0	152.0	159.8	166.5	172.6	185.0	191.4	216.6	221.7	222.3	227.3
Income, Consumption and Saving--%change												
Disposable Income	5.2	5.3	6.8	4.7	7.5	4.1	4.6	4.2	5.7	4.2	5.7	5.7
Real Disposable Income	3.0	3.5	5.8	3.0	4.8	1.9	3.1	2.3	3.4	2.5	4.0	3.6
Real Consumption	3.4	3.8	5.0	5.1	4.7	2.5	3.1	3.3	3.8	3.3	3.4	3.1
Savings Rate (%)	4.0	3.7	4.3	2.4	2.4	1.8	2.0	1.3	1.0	0.2	0.7	1.0
Housing and Automobiles--millions of units												
Housing Starts	1.469	1.475	1.621	1.647	1.573	1.601	1.710	1.853	1.948	1.767	1.668	1.637
Auto and Light Truck Sales	15.1	15.1	15.5	16.9	17.3	17.1	16.8	16.6	16.8	17.1	17.2	17.5
Corporate Profits												
Billions of Dollars												
Before Taxes	733.0	798.2	718.3	775.9	773.4	707.9	758.0	874.5	973.1	1056.5	1097.8	1164.8
After Taxes	501.4	552.1	470.0	517.2	508.2	503.8	574.2	639.6	708.8	757.8	776.7	810.5
Percent Change												
Before Taxes	8.7	8.9	-10.0	8.0	-0.3	-8.5	7.1	15.4	11.3	8.6	3.9	6.1
After Taxes	10.0	10.1	-14.9	10.1	-1.7	-0.9	14.0	11.4	10.8	6.9	2.5	4.4
International Trade												
Nominal												
U.S. Dollar--% change	4.5	7.7	4.8	-1.6	4.9	6.0	-1.5	-12.2	-8.2	-10.1	-4.7	-2.0
Exports--% change	6.9	10.0	0.1	3.7	10.6	-5.8	-2.7	4.1	11.9	6.5	11.5	12.4
Imports--% change	6.8	9.5	5.6	12.2	17.9	-5.1	2.1	8.0	15.2	8.2	5.7	6.7
Net Exports (bil. \$)	-96.3	-101.6	-160.0	-260.5	-379.5	-367.0	-424.9	-498.1	-609.4	-679.6	-645.4	-608.6
Real												
U.S. Dollar--% change	5.3	7.9	5.0	0.3	3.7	5.5	-0.4	-12.4	-8.0	-9.9	-3.3	-1.9
Exports--% change	8.4	11.9	2.4	4.3	8.7	-5.4	-2.3	1.9	8.1	5.0	11.8	12.3
Imports--% change	8.7	13.6	11.6	11.5	13.1	-2.7	3.4	4.4	9.8	5.9	5.2	5.3
Net Exports (bil. 2000\$)	-79.7	-104.6	-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-586.4	-630.1	-586.4	-525.5

Forecast Tables - Summary

Table 2A. Quarterly Summary of the Georgia State University Forecast of the Nation

	2004:3	2004:4	2005:1	2005:2	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1
Monetary Aggregates, Velocity, GDP--%change											
Money Supply (M1)	3.4	5.7	-0.6	1.3	1.5	1.0	1.2	0.7	0.7	0.3	-0.0
Money Supply (M2)	2.7	4.4	2.6	2.4	3.0	3.0	4.0	3.7	4.2	3.8	3.8
Money Supply (M3)	3.6	2.0	1.2	2.5	3.1	3.3	4.3	4.0	4.4	4.2	4.4
Currency	9.4	5.6	1.7	2.0	2.8	3.2	4.1	3.3	3.7	3.6	3.4
GDP Deflator	1.4	2.0	2.2	1.6	1.3	1.6	2.1	1.3	1.5	1.8	2.1
Real GDP	4.0	3.1	2.8	2.7	3.6	3.5	3.7	4.0	4.1	3.4	3.2
Interest Rates (%) on:											
90-day Treasury Bills	1.5	2.0	2.5	2.9	3.1	3.6	3.6	3.6	3.6	3.8	4.0
10-year Treasury Bonds	4.3	4.2	4.4	4.5	4.8	5.1	5.2	5.4	5.5	5.7	5.9
30-year Treasury Bonds	5.1	4.9	5.0	5.1	5.3	5.6	5.6	5.8	5.9	6.1	6.2
Prime Rate	4.4	4.9	5.5	5.9	6.1	6.7	6.7	6.7	6.9	7.1	7.4
Moody's Corporate Aaa Bon	5.6	5.5	5.8	5.8	6.1	6.4	6.5	6.6	6.7	6.8	7.0
Prime Rate Less Inflation	2.6	1.5	3.6	4.2	4.5	5.2	5.1	5.5	5.2	5.2	5.5
Federal Fiscal Policy											
Effective Tax Rates (%):											
Personal Income	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Corporate Profits	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Defense Purchases--%change											
Current \$	12.2	2.1	11.9	4.3	2.9	2.3	5.0	0.2	0.5	0.8	4.6
Constant \$	10.0	0.0	5.3	3.1	2.1	1.6	0.9	-0.2	-0.1	-0.0	0.3
Other Expenditures--% change											
Transfers to Persons	0.3	12.4	2.9	5.2	4.9	3.5	13.1	6.6	8.3	5.4	7.5
Grants to S&L Gov't	-10.7	24.8	-3.8	7.4	6.4	2.0	5.4	3.8	5.3	5.9	5.9
Billions of Current Dollars											
Revenues	1956.7	2003.1	2131.8	2146.9	2182.8	2216.3	2258.9	2284.4	2324.5	2364.2	2417.1
Expenditures	2340.8	2390.7	2431.0	2466.0	2494.3	2516.7	2580.7	2616.8	2653.3	2683.3	2728.8
Deficit	-384.1	-387.6	-299.3	-319.1	-311.5	-300.5	-321.9	-332.4	-328.8	-319.1	-311.6
As Shares of GDP											
Revenues	16.6	16.7	17.6	17.5	17.6	17.7	17.7	17.7	17.8	17.8	18.0
Expenditures	19.8	20.0	20.1	20.1	20.1	20.0	20.3	20.3	20.3	20.2	20.3
Defense Purchases	4.7	4.7	4.8	4.8	4.7	4.7	4.7	4.6	4.6	4.5	4.5
Transfers to Persons	11.6	11.8	11.7	11.7	11.7	11.7	11.9	11.9	12.0	12.0	12.1
Deficit	-3.3	-3.2	-2.5	-2.6	-2.5	-2.4	-2.5	-2.6	-2.5	-2.4	-2.3
Details of Real GDP--% change											
Real GDP	4.0	3.1	2.8	2.7	3.6	3.5	3.7	4.0	4.1	3.4	3.2
Final Sales	5.1	2.7	3.0	2.7	3.4	3.5	3.8	3.8	3.8	3.2	3.1
Consumption	5.1	4.6	2.1	2.8	3.1	3.3	3.6	3.5	3.7	3.2	2.6
Business Fixed Investment	13.0	10.3	8.8	7.7	8.4	8.2	6.5	7.1	6.7	5.4	6.6
Producers Durable Equip.	17.5	14.9	3.5	9.4	10.8	9.0	6.7	6.0	7.2	7.1	7.0
Structures	-1.1	-4.1	29.1	2.3	0.8	5.6	6.0	10.6	5.0	0.0	5.3
Residential Construction	1.6	0.3	-1.4	-7.8	-7.5	-7.1	-5.4	-3.7	-3.7	-4.5	-2.6
Exports	6.0	-3.9	5.6	6.1	10.7	12.2	12.5	12.2	12.6	12.6	12.4
Imports	4.6	9.1	4.3	4.4	4.7	5.5	5.2	5.0	5.6	6.5	5.4
Federal Purchases	4.8	1.6	5.2	3.0	2.3	1.9	1.5	0.6	0.6	0.7	0.9
State & Local Purchases	-1.7	0.6	3.8	2.0	2.5	2.1	1.9	2.2	1.4	1.7	1.8
Billions of 2000 Dollars											
Real GDP	10891.0	10975.7	11050.4	11124.0	11222.1	11317.9	11420.1	11533.1	11649.6	11748.4	11841.8
Final Sales	10856.5	10929.9	11011.7	11085.1	11178.7	11275.8	11380.1	11487.5	11594.8	11686.4	11776.9
Inventory Change	34.5	45.8	38.7	38.9	43.4	42.1	40.0	45.7	54.8	62.0	64.8

Forecast Tables - Summary

Table 2B. Quarterly Summary of the Georgia State University Forecast of the Nation

	2004:3	2004:4	2005:1	2005:2	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1
Industrial Production and Resource Utilization											
Production--% change	2.7	4.1	3.4	1.5	5.9	5.5	5.1	4.7	4.5	4.7	4.4
Capacity Util. Manuf. (%)	77.0	77.6	76.9	76.9	77.2	77.3	77.4	77.8	78.3	78.6	78.9
Real Bus. Investment as % of Real GDP	16.7	16.8	16.9	16.9	16.9	16.8	16.8	16.8	16.7	16.7	16.7
Nonfarm Employment (mil.)	131.7	132.3	132.4	132.9	133.4	134.0	134.5	135.1	135.6	136.0	136.3
Unemployment Rate (%)	5.4	5.4	5.3	5.3	5.3	5.3	5.2	5.2	5.2	5.2	5.3
Inflation--% change											
Consumer Price Index	1.9	3.4	2.0	1.7	1.6	1.5	1.7	1.3	1.7	1.9	1.9
Total less Food & Energy	1.5	2.3	2.3	2.2	2.0	1.9	1.9	1.9	1.9	2.0	2.2
Consumption Deflator	1.3	2.5	1.1	1.6	1.2	1.7	1.8	1.3	1.9	2.1	2.2
GDP Deflator	1.4	2.0	2.2	1.6	1.3	1.6	2.1	1.3	1.5	1.8	2.1
Producers Price Index	4.8	10.1	-0.6	-2.0	-0.7	-0.1	-1.6	-3.0	0.9	0.3	-1.7
Factors Related to Inflation--%change											
Nonfarm Business Sector											
Wage Compensation	3.4	3.1	5.7	3.9	3.9	4.3	4.8	4.4	4.4	4.5	4.4
Productivity	1.8	0.9	3.6	1.8	2.6	2.2	2.1	2.6	2.9	2.5	2.1
Unit Labor Costs	1.7	2.4	1.8	2.1	1.4	2.1	2.7	1.7	1.5	2.0	2.2
Farm Price Index	-28.2	-2.7	-15.1	-8.1	-3.7	-2.5	-3.8	-3.2	-2.4	-0.0	1.8
Crude Oil Price (\$/bbl)	43.9	48.3	48.5	47.0	43.5	40.6	37.1	36.0	35.8	35.3	34.8
New Home Price (\$1000)	214.0	222.8	216.3	221.8	224.6	224.2	219.3	220.6	223.7	225.6	221.6
Income, Consumption and Saving--%change											
Disposable Income	3.2	11.1	-1.2	4.5	4.4	4.9	6.7	6.3	6.0	5.4	5.2
Real Disposable Income	2.0	8.4	-2.3	2.9	3.1	3.2	4.8	4.9	4.1	3.2	3.0
Real Consumption	5.1	4.6	2.1	2.8	3.1	3.3	3.6	3.5	3.7	3.2	2.6
Savings Rate (%)	0.5	1.3	0.2	0.2	0.2	0.1	0.4	0.7	0.8	0.8	0.8
Housing and Automobiles--millions of units											
Housing Starts	1.969	1.959	1.852	1.792	1.744	1.679	1.675	1.667	1.675	1.655	1.642
Auto and Light Truck Sales	17.1	17.0	16.9	17.1	17.1	17.2	16.9	17.0	17.4	17.3	17.4
Corporate Profits											
Billions of Dollars											
Before Taxes	932.8	1009.1	1076.2	1048.0	1051.5	1050.3	1076.3	1080.0	1116.0	1119.0	1157.3
After Taxes	679.5	732.8	774.2	752.3	754.2	750.6	764.9	765.8	789.1	787.1	808.7
Percent Change											
Before Taxes	-20.6	36.9	29.4	-10.1	1.3	-0.4	10.3	1.4	14.0	1.1	14.4
After Taxes	-19.4	35.3	24.6	-10.8	1.0	-1.9	7.8	0.5	12.7	-1.0	11.4
International Trade											
Nominal											
U.S. Dollar--% change	-6.8	-19.7	-16.3	-4.5	-5.9	-5.4	-4.3	-4.7	-4.3	-3.3	-0.3
Exports--% change	7.7	0.0	6.2	6.3	10.4	12.4	12.2	11.2	12.4	12.8	12.7
Imports--% change	10.0	18.0	2.4	5.2	5.0	6.4	4.5	5.2	7.3	8.0	7.1
Net Exports (bil. \$)	-611.8	-687.5	-680.7	-686.3	-679.2	-672.2	-656.4	-646.0	-641.2	-638.1	-630.5
Real											
U.S. Dollar--% change	-8.4	-20.9	-16.4	-2.5	-3.4	-3.4	-2.9	-3.7	-3.6	-3.0	-0.3
Exports--% change	6.0	-3.9	5.6	6.1	10.7	12.2	12.5	12.2	12.6	12.6	12.4
Imports--% change	4.6	9.1	4.3	4.4	4.7	5.5	5.2	5.0	5.6	6.5	5.4
Net Exports (bil. 2000\$)	-583.2	-631.9	-635.3	-637.6	-628.8	-618.6	-605.8	-591.9	-578.8	-569.0	-554.3

Forecast Tables - Detailed

Table 3A. Gross Domestic Product

	<i>HISTORY</i>								<i>FORECAST</i>		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Billions of Current Dollars											
Gross Domestic Product	8304.3	8747.0	9268.4	9817.0	10128.0	10487.0	11004.1	11728.0	12332.2	12992.5	13694.9
Personal Consumption											
Expenditures	5547.4	5879.5	6282.5	6739.4	7055.0	7376.1	7760.9	8231.1	8637.8	9079.4	9547.3
Durable Goods	692.7	750.2	817.6	863.3	883.7	916.2	950.7	995.7	1019.5	1062.4	1107.6
Autos and Parts	305.1	336.1	370.8	386.5	407.9	426.1	440.1	449.3	458.7	483.0	501.8
Nondurable Goods	1619.0	1683.6	1804.8	1947.2	2017.1	2080.1	2200.1	2376.5	2486.7	2570.4	2683.8
Services	3235.8	3445.7	3660.0	3928.8	4154.3	4379.8	4610.1	4858.9	5131.6	5446.7	5755.9
Gross Private Domestic											
Investment	1389.8	1509.1	1625.7	1735.5	1614.4	1579.2	1665.8	1922.4	2068.3	2160.2	2269.9
Residential	349.1	385.8	424.9	446.9	469.3	504.1	572.3	661.7	673.1	648.7	644.1
Nonres. Structures	250.3	275.2	282.2	313.2	322.6	271.6	261.6	277.0	310.6	339.4	365.5
Producers Dur. Equip	718.3	777.3	851.7	918.9	854.2	792.4	833.1	940.7	1038.7	1117.1	1190.6
Change In Inv.	72.0	70.8	66.9	56.5	-31.7	11.2	-1.2	43.1	45.8	55.0	69.7
Net Exports	-101.6	-160.0	-260.5	-379.5	-367.0	-424.9	-498.1	-609.4	-679.6	-645.4	-608.6
Exports	955.4	955.9	991.3	1096.3	1032.8	1005.0	1046.2	1170.3	1246.2	1389.8	1562.7
Imports	1056.9	1115.9	1251.8	1475.8	1399.9	1429.9	1544.3	1779.6	1925.8	2035.2	2171.3
Government Purchases	1468.7	1518.3	1620.8	1721.6	1825.6	1956.7	2075.5	2183.8	2305.7	2398.3	2486.4
Federal	530.9	530.5	555.8	578.8	612.9	680.9	752.2	810.0	859.0	884.2	904.4
Defense	349.6	345.7	360.6	370.3	392.6	437.4	496.5	548.1	583.4	597.6	607.6
Other	181.3	184.7	195.2	208.5	220.3	243.5	255.8	261.9	275.7	286.6	296.8
State and Local	937.8	987.9	1065.0	1142.8	1212.8	1275.8	1323.4	1373.9	1446.7	1514.1	1582.0
Billions of 2000 Dollars											
Gross Domestic Product	8703.5	9066.9	9470.4	9817.0	9890.7	10074.8	10381.3	10837.2	11178.6	11587.8	11996.6
Personal Consumption											
Expenditures	5547.4	5879.5	6282.5	6739.4	7055.0	7376.1	7760.9	8231.1	8637.8	9079.4	9547.3
Durable Goods	646.9	720.3	804.5	863.3	900.7	959.6	1030.6	1101.3	1136.8	1190.6	1243.8
Autos & Parts	304.7	339.0	372.4	386.5	405.8	428.7	452.1	467.4	472.1	490.7	503.3
Nondurable Goods	1725.3	1794.4	1876.6	1947.2	1986.7	2037.4	2112.3	2208.3	2286.6	2358.2	2428.1
Services	3468.0	3614.9	3758.0	3928.8	4023.2	4128.6	4220.3	4339.0	4474.2	4621.8	4752.6
Gross Private Domestic											
Investment	1387.7	1524.1	1642.6	1735.5	1598.4	1560.7	1628.8	1839.1	1930.8	1995.8	2074.4
Residential	388.6	418.3	443.6	446.9	448.5	470.1	511.2	559.6	548.0	517.4	501.8
Nonres. Structures	280.1	294.5	293.2	313.2	306.1	251.6	237.4	239.7	256.4	270.2	279.5
Producers Dur. Equip	658.3	745.6	840.2	918.9	874.2	826.5	879.2	996.6	1098.7	1183.7	1265.9
Change In Inv.	71.2	72.6	68.9	56.5	-31.7	11.8	-0.7	45.4	40.8	50.6	65.7
Net Exports	-104.6	-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-586.4	-630.1	-586.4	-525.5
Exports	943.7	966.5	1008.2	1096.3	1036.7	1012.4	1031.8	1115.3	1171.4	1309.5	1470.8
Imports	1048.4	1170.3	1304.5	1475.8	1435.8	1484.4	1550.3	1701.7	1801.5	1895.8	1996.2
Government Purchases	1594.0	1624.4	1687.0	1721.6	1780.4	1857.9	1909.4	1946.7	1992.5	2028.4	2056.5
Federal	567.6	561.3	573.7	578.8	601.4	646.6	689.6	721.9	745.8	756.5	761.8
Defense	373.0	365.3	372.2	370.3	384.9	414.7	451.8	485.1	502.6	507.3	507.6
Other	194.6	195.9	201.5	208.5	216.5	232.0	237.6	236.4	242.8	248.8	254.0
State and Local	1025.9	1063.0	1113.2	1142.8	1179.0	1211.4	1219.9	1224.7	1246.6	1271.8	1294.5

Forecast Tables - Detailed

Table 3B. Gross Domestic Product

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Annual Rates of Change of Current Dollar GDP Components (%)											
Gross Domestic Product	6.2	5.3	6.0	5.9	3.2	3.5	4.9	6.6	5.2	5.4	5.4
Personal Consumption											
Expenditures	5.5	6.0	6.9	7.3	4.7	4.6	5.2	6.1	4.9	5.1	5.2
Durable Goods	6.1	8.3	9.0	5.6	2.4	3.7	3.8	4.7	2.4	4.2	4.3
Autos and Parts	7.1	10.2	10.3	4.2	5.5	4.5	3.3	2.1	2.1	5.3	3.9
Nondurable Goods	4.1	4.0	7.2	7.9	3.6	3.1	5.8	8.0	4.6	3.4	4.4
Services	6.1	6.5	6.2	7.3	5.7	5.4	5.3	5.4	5.6	6.1	5.7
Gross Private Domestic											
Investment	12.1	8.6	7.7	6.8	-7.0	-2.2	5.5	15.4	7.6	4.4	5.1
Residential	4.5	10.5	10.1	5.2	5.0	7.4	13.5	15.6	1.7	-3.6	-0.7
Nonres. Structures	11.5	9.9	2.5	11.0	3.0	-15.8	-3.7	5.9	12.1	9.3	7.7
Producers Dur. Equip	10.4	8.2	9.6	7.9	-7.0	-7.2	5.1	12.9	10.4	7.5	6.6
Exports	10.0	0.1	3.7	10.6	-5.8	-2.7	4.1	11.9	6.5	11.5	12.4
Imports	9.5	5.6	12.2	17.9	-5.1	2.1	8.0	15.2	8.2	5.7	6.7
Government Purchases	3.7	3.4	6.7	6.2	6.0	7.2	6.1	5.2	5.6	4.0	3.7
Federal	0.7	-0.1	4.8	4.1	5.9	11.1	10.5	7.7	6.1	2.9	2.3
Defense	-1.4	-1.1	4.3	2.7	6.0	11.4	13.5	10.4	6.4	2.4	1.7
Other	4.9	1.9	5.7	6.8	5.7	10.5	5.1	2.4	5.3	4.0	3.6
State and Local	5.5	5.3	7.8	7.3	6.1	5.2	3.7	3.8	5.3	4.7	4.5
Annual Rates of Change of Constant Dollar GDP Components (%)											
Gross Domestic Product	4.5	4.2	4.4	3.7	0.8	1.9	3.0	4.4	3.2	3.7	3.5
Personal Consumption											
Expenditures	3.8	5.0	5.1	4.7	2.5	3.1	3.3	3.8	3.3	3.4	3.1
Durable Goods	8.6	11.3	11.7	7.3	4.3	6.5	7.4	6.9	3.2	4.7	4.5
Autos & Parts	6.8	11.3	9.9	3.8	5.0	5.6	5.5	3.4	1.0	3.9	2.6
Nondurable Goods	2.7	4.0	4.6	3.8	2.0	2.6	3.7	4.5	3.5	3.1	3.0
Services	3.3	4.2	4.0	4.5	2.4	2.6	2.2	2.8	3.1	3.3	2.8
Gross Private Domestic											
Investment	12.4	9.8	7.8	5.7	-7.9	-2.4	4.4	12.9	5.0	3.4	3.9
Residential	1.9	7.6	6.0	0.8	0.4	4.8	8.8	9.5	-2.1	-5.6	-3.0
Nonres. Structures	7.2	5.1	-0.4	6.8	-2.3	-17.8	-5.6	1.0	7.0	5.4	3.4
Producers Dur. Equip	13.8	13.3	12.7	9.4	-4.9	-5.5	6.4	13.4	10.2	7.7	6.9
Exports	11.9	2.4	4.3	8.7	-5.4	-2.3	1.9	8.1	5.0	11.8	12.3
Imports	13.6	11.6	11.5	13.1	-2.7	3.4	4.4	9.8	5.9	5.2	5.3
Government Purchases	1.9	1.9	3.9	2.1	3.4	4.4	2.8	2.0	2.4	1.8	1.4
Federal	-1.0	-1.1	2.2	0.9	3.9	7.5	6.6	4.7	3.3	1.4	0.7
Defense	-2.8	-2.1	1.9	-0.5	3.9	7.7	9.0	7.4	3.6	0.9	0.0
Other	2.6	0.7	2.8	3.5	3.8	7.2	2.4	-0.5	2.7	2.5	2.1
State and Local	3.6	3.6	4.7	2.7	3.2	2.8	0.7	0.4	1.8	2.0	1.8

Forecast Tables - Detailed

Table 4. Employment

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Employment (Millions)										
Total	129.6	131.5	133.5	136.9	136.9	136.5	137.7	139.2	141.2	143.4	145.6
Private	103.1	106.0	108.7	111.0	110.7	108.8	108.4	109.9	111.4	113.5	115.0
Mining	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Construction	5.8	6.1	6.5	6.8	6.8	6.7	6.7	7.0	7.1	7.2	7.3
Manufacturing	17.4	17.6	17.3	17.3	16.4	15.3	14.5	14.3	14.3	14.3	14.5
Trans. & Util.	4.6	4.8	4.9	5.0	5.0	4.8	4.8	4.8	4.9	5.0	5.2
Trade	20.1	20.4	20.9	21.2	21.0	20.7	20.5	20.7	20.8	21.1	21.3
Financial Activities	7.2	7.5	7.6	7.7	7.8	7.8	8.0	8.1	8.2	8.2	8.2
Education & Health	14.1	14.4	14.8	15.1	15.6	16.2	16.6	17.0	17.3	17.7	17.9
Prof. and Bus. Ser.	14.3	15.1	16.0	16.7	16.5	16.0	16.0	16.4	17.0	17.8	18.5
Information	2.1	2.2	2.4	2.6	2.6	2.4	2.3	2.2	2.3	2.4	2.4
Leisure & Hospt.	11.0	11.2	11.5	11.9	12.0	12.0	12.2	12.5	12.6	12.8	12.9
Government	19.7	19.9	20.3	20.8	21.1	21.5	21.6	21.6	21.8	21.8	21.9
Federal	2.8	2.8	2.8	2.9	2.8	2.8	2.8	2.7	2.7	2.7	2.7
State & Local	16.9	17.1	17.5	17.9	18.4	18.7	18.8	18.9	19.0	19.1	19.2
	Population and Labor Force (Millions)										
Population aged 16+	210.3	213.0	215.8	218.4	221.2	223.9	226.5	229.1	231.7	234.4	237.0
Labor Force	137.6	139.1	141.0	142.6	143.9	145.1	146.5	147.4	149.5	151.5	153.7
Unemployment (%)	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.3	5.2	5.2

Table 5. Personal Income and Its Disposition

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Billions of Current Dollars										
Personal Income	6915.1	7423.0	7802.4	8429.7	8724.1	8878.9	9161.8	9659.2	10114.9	10705.6	11336.9
Wages & Salaries	3877.6	4183.4	4466.3	4829.2	4942.8	4976.3	5103.5	5342.6	5629.8	5964.2	6309.2
Other Labor Income	497.5	529.7	562.4	609.9	642.7	729.6	808.9	875.4	920.3	971.0	1014.2
Nonfarm Income	541.8	598.4	649.7	705.7	752.2	759.9	812.3	884.4	933.9	995.1	1055.5
Farm Income	34.2	29.4	28.6	22.7	19.7	9.7	21.9	18.0	16.8	15.6	16.9
Rental Income	128.8	137.5	147.4	150.3	167.4	170.9	153.9	165.6	173.4	186.4	198.9
Dividends	333.0	350.0	335.6	376.1	369.0	387.9	392.8	441.1	443.7	465.2	485.9
Interest Income	848.7	933.3	928.6	1011.0	1011.0	946.7	929.9	945.6	978.1	1005.9	1078.5
Transfer Payments	951.2	978.6	1022.1	1084.1	1193.9	1282.7	1335.4	1406.3	1461.8	1573.3	1677.4
Personal Contributions For Social Insurance	297.7	317.2	338.1	359.2	374.5	384.7	396.7	419.6	442.9	471.2	499.7
Personal Tax and Nontax Payments	926.3	1027.0	1107.5	1235.7	1237.3	1051.2	1001.9	1036.4	1132.9	1210.4	1304.0
Disposable Income	5988.9	6396.0	6694.9	7194.0	7486.8	7827.7	8159.9	8622.8	8982.0	9495.2	10032.9
Consumption	5547.4	5879.5	6282.5	6739.4	7055.0	7376.1	7760.9	8231.1	8637.8	9079.4	9547.3
Interest	163.9	174.5	181.0	204.7	212.3	197.2	185.3	188.2	206.4	219.8	239.4
Transfers To Foreigners	21.0	24.6	28.3	31.5	33.0	35.7	38.2	42.5	44.9	48.4	51.9
Personal Saving	218.3	276.8	158.6	168.5	132.4	159.2	110.6	90.0	15.9	64.6	105.1
Personal Saving Rate(%)	3.7	4.3	2.4	2.4	1.8	2.0	1.3	1.0	0.2	0.7	1.0

Forecast Tables - Detailed

Table 6. Personal Consumption Expenditures By Major Types

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Billions of Current Dollars											
Personal Consumption	5547.4	5879.5	6282.5	6739.4	7055.0	7376.1	7760.9	8231.1	8637.8	9079.4	9547.3
Durable Goods	692.7	750.2	817.6	863.3	883.7	916.2	950.7	995.7	1019.5	1062.4	1107.6
Autos and Parts	305.1	336.1	370.8	386.5	407.9	426.1	440.1	449.3	458.7	483.0	501.8
Nondurable Goods	1619.0	1683.6	1804.8	1947.2	2017.1	2080.1	2200.1	2376.5	2486.7	2570.4	2683.8
Services	3235.8	3445.7	3660.0	3928.8	4154.3	4379.8	4610.1	4858.9	5131.6	5446.7	5755.9
Billions of 2000 Dollars											
Personal Consumption	5831.8	6125.8	6438.6	6739.4	6910.4	7123.4	7355.5	7634.7	7883.3	8152.7	8402.1
Durable Goods	646.9	720.3	804.5	863.3	900.7	959.6	1030.6	1101.3	1136.8	1190.6	1243.8
Autos and Parts	304.7	339.0	372.4	386.5	405.8	428.7	452.1	467.4	472.1	490.7	503.3
Nondurable Goods	1725.3	1794.4	1876.6	1947.2	1986.7	2037.4	2112.3	2208.3	2286.6	2358.2	2428.1
Services	3468.0	3614.9	3758.0	3928.8	4023.2	4128.6	4220.3	4339.0	4474.2	4621.8	4752.6
Annual Rates of Real Growth											
Personal Consumption	3.8	5.0	5.1	4.7	2.5	3.1	3.3	3.8	3.3	3.4	3.1
Durable Goods	8.6	11.3	11.7	7.3	4.3	6.5	7.4	6.9	3.2	4.7	4.5
Autos and Parts	6.8	11.3	9.9	3.8	5.0	5.6	5.5	3.4	1.0	3.9	2.6
Furniture	11.8	13.1	14.7	11.5	6.0	8.7	9.1	11.7	5.0	5.9	6.8
Other Durables	6.4	8.1	10.3	8.0	-0.4	4.7	9.1	6.5	5.2	4.4	4.9
Nondurable Goods	2.7	4.0	4.6	3.8	2.0	2.6	3.7	4.5	3.5	3.1	3.0
Food and Beverages	1.3	2.4	3.2	3.5	1.6	1.9	3.8	4.8	2.4	1.2	1.4
Gasoline and Oil	3.1	4.6	3.5	-0.3	1.5	1.4	0.7	-0.3	8.7	3.8	1.4
Fuel	-8.1	-5.3	2.3	-3.5	-4.2	1.4	0.3	4.8	-0.7	-9.0	-4.1
Clothing and Shoes	3.0	7.0	7.4	5.3	2.0	4.3	4.3	6.7	4.0	4.3	4.4
Other Nondurables	5.5	5.4	5.7	4.8	3.1	3.1	4.1	4.7	3.7	6.0	5.6
Services	3.3	4.2	4.0	4.5	2.4	2.6	2.2	2.8	3.1	3.3	2.8
Housing	2.4	2.9	3.1	2.9	2.7	2.7	1.3	1.7	2.2	2.2	2.2
Household Operation	4.0	4.9	4.1	4.9	0.2	0.8	1.5	2.7	1.2	2.3	3.0
Transportation Serv.	6.3	3.3	4.2	2.8	-1.1	-2.8	-0.8	1.1	2.1	2.0	2.1
Medical Care	2.2	3.0	1.9	3.8	4.7	6.0	4.0	3.7	4.4	4.0	2.9
Other Services	3.0	8.9	3.8	6.4	5.0	2.9	0.9	1.4	5.7	5.9	3.5

Table 7. Residential Construction and Housing Starts

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Housing Starts (Millions of Units)											
Housing Starts	1.475	1.621	1.647	1.573	1.601	1.710	1.853	1.948	1.767	1.668	1.637
Single-family	1.136	1.278	1.306	1.232	1.272	1.363	1.504	1.601	1.474	1.389	1.336
Multi-family	0.338	0.344	0.341	0.341	0.330	0.347	0.348	0.346	0.292	0.279	0.301
Residential Construction Expenditures (Billions of Dollars)											
Current Dollars	349.1	385.8	424.9	446.9	469.3	504.1	572.3	661.7	673.1	648.7	644.1
2000 Dollars	388.6	418.3	443.6	446.9	448.5	470.1	511.2	559.6	548.0	517.4	501.8
% Change	1.9	7.6	6.0	0.8	0.4	4.8	8.8	9.5	-2.1	-5.6	-3.0
Treas. Bill Rate	5.1	4.8	4.6	5.8	3.4	1.6	1.0	1.4	3.0	3.7	4.2
Conventional Home Mortg.											
Rate, Effective	7.6	6.9	7.4	8.1	7.0	6.5	5.8	5.8	6.3	6.9	7.4
Median Sales Price of											
New Homes (Thous \$)	145.0	152.0	159.8	166.5	172.6	185.0	191.4	216.6	221.7	222.3	227.3
Real Disp. Income	6295.8	6664.0	6861.7	7194.0	7333.3	7559.8	7733.7	7997.9	8197.4	8526.0	8829.3
% Change	3.5	5.8	3.0	4.8	1.9	3.1	2.3	3.4	2.5	4.0	3.6

Forecast Tables - Detailed

Table 8. Business Fixed Investment and Inventories

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Billions of Current Dollars											
Business Fixed Investment	968.7	1052.5	1133.9	1232.1	1176.8	1063.9	1094.7	1217.6	1349.3	1456.5	1556.1
Producers Dur. Equip.	718.3	777.3	851.7	918.9	854.2	792.4	833.1	940.7	1038.7	1117.1	1190.6
Nonresidential Structures	250.3	275.2	282.2	313.2	322.6	271.6	261.6	277.0	310.6	339.4	365.5
Buildings (excl. Farm)	184.6	203.1	207.6	222.8	216.4	179.2	171.6	178.8	201.7	225.1	246.2
Commercial	89.2	100.0	109.1	121.3	118.2	97.0	91.5	94.8	108.0	119.0	126.5
Industrial	37.6	40.5	32.6	31.8	29.5	16.4	14.2	14.2	17.2	23.8	30.8
Other Buildings	57.8	62.6	65.8	69.7	68.7	65.8	65.9	69.8	76.6	82.4	88.9
Utilities	33.9	39.5	44.5	51.5	54.4	54.3	45.5	44.7	47.8	49.2	56.7
Mining Exploration	22.4	23.4	20.6	27.2	39.2	29.3	35.6	43.3	49.6	52.5	49.0
Billions of 2000 Dollars											
Business Fixed Investment	934.2	1037.8	1133.3	1232.1	1180.5	1075.7	1110.8	1225.6	1342.0	1438.5	1526.3
Producers Dur. Equip.	658.3	745.6	840.2	918.9	874.2	826.5	879.2	996.6	1098.7	1183.7	1265.9
Nonresidential Structures	280.1	294.5	293.2	313.2	306.1	251.6	237.4	239.7	256.4	270.2	279.5
Buildings (excl. Farm)	209.7	221.2	216.6	222.8	208.4	168.6	157.7	156.6	169.4	183.6	193.8
Commercial	101.6	108.7	113.5	121.3	114.2	91.2	83.7	82.6	90.2	96.6	99.1
Industrial	42.3	43.7	33.9	31.8	28.5	15.4	13.1	12.5	14.4	19.2	23.9
Other Buildings	65.8	68.8	69.2	69.7	65.6	62.1	60.8	61.5	64.8	67.8	70.6
Utilities	35.6	41.0	45.9	51.5	52.8	51.5	42.1	38.9	39.5	40.2	45.6
Mining Exploration	25.3	23.3	21.3	27.2	32.0	23.6	29.0	34.4	37.1	36.0	30.8
Percent Change in Real Business Fixed Investment											
Business Fixed Investment	12.1	11.1	9.2	8.7	-4.2	-8.9	3.3	10.3	9.5	7.2	6.1
Producers Dur. Equip.	13.8	13.3	12.7	9.4	-4.9	-5.5	6.4	13.4	10.2	7.7	6.9
Nonresidential Structures	7.2	5.1	-0.4	6.8	-2.3	-17.8	-5.6	1.0	7.0	5.4	3.4
Buildings (excl. Farm)	UN	5.5	-2.1	2.9	-6.5	-19.1	-6.5	-0.7	8.2	8.4	5.5
Commercial	UN	7.0	4.5	6.8	-5.9	-20.2	-8.2	-1.3	9.2	7.1	2.6
Industrial	-4.5	3.4	-22.5	-6.1	-10.3	-46.1	-14.7	-4.9	15.1	33.5	24.9
Other Buildings	UN	4.5	0.7	0.7	-5.9	-5.4	-2.1	1.2	5.4	4.5	4.2
Utilities	-1.3	15.2	12.0	12.1	2.5	-2.4	-18.2	-7.7	1.5	2.0	13.3
Mining, Shafts & Wells	17.4	-7.8	-8.8	27.8	17.8	-26.3	23.1	18.5	7.7	-2.8	-14.4
Related Concepts											
Annual Growth-Price Deflator For:											
Producers Dur. Equip.	-3.0	-4.5	-2.8	-1.3	-2.3	-1.9	-1.2	-0.4	0.2	-0.2	-0.3
Structures	3.9	4.6	3.0	3.9	5.4	2.4	2.1	4.9	4.8	3.7	4.1
Moody's AAA Rate(%)	7.3	6.5	7.0	7.6	7.1	6.5	5.7	5.6	6.0	6.6	7.1
Capacity Utilization in											
Manufacturing(%)	82.8	81.8	81.1	80.6	74.5	73.5	73.7	76.7	77.1	78.0	79.4
Final Sales (Bil 2000 \$)	8632.4	8994.3	9401.5	9760.5	9922.4	10063.1	10382.1	10791.9	11137.8	11537.2	11931.0
Change in Business Inventories											
Current Dollars	72.0	70.8	66.9	56.5	-31.7	11.2	-1.2	43.1	45.8	55.0	69.7
2000 Dollars	71.2	72.6	68.9	56.5	-31.7	11.8	-0.7	45.4	40.8	50.6	65.7

Forecast Tables - Detailed

Table 9. Federal Government Receipts and Expenditures Fiscal Year

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Billions of Current Dollars										
Receipts	1653.1	1773.8	1891.2	2053.9	2016.2	1847.3	1877.0	1956.1	2169.4	2308.0	2463.6
Personal Tax and											
Nontax Receipts	744.3	825.8	893.0	999.1	994.5	831.2	775.8	788.4	866.6	933.6	1017.3
Corp. Profits Tax Accruals	203.0	204.3	213.0	219.5	164.7	143.4	191.4	214.0	297.8	307.9	318.4
Indirect Business Tax and											
Nontax Accruals	78.2	81.1	83.9	87.8	85.8	87.3	89.4	89.7	95.9	101.5	106.1
Contributions For											
Social Insurance	576.4	613.8	651.7	691.7	717.5	733.8	758.2	801.8	845.6	899.8	954.4
Expenditures	1708.9	1735.0	1787.6	1864.4	1969.5	2101.8	2241.6	2341.7	2477.0	2633.6	2774.2
Purchases Goods & Serv.	530.9	530.5	555.8	578.8	612.9	680.9	752.2	810.0	859.0	884.2	904.4
National Defense	349.6	345.7	360.6	370.3	392.6	437.4	496.5	548.1	583.4	597.6	607.6
Other	181.3	184.7	195.2	208.5	220.3	243.5	255.8	261.9	275.7	286.6	296.8
Transfer Payments	918.9	946.5	986.1	1038.1	1131.4	1243.0	1322.5	1378.0	1445.0	1552.3	1648.9
To Persons	704.2	716.9	735.7	770.0	838.7	917.0	956.1	998.8	1044.3	1131.3	1204.4
To Foreigners	21.0	24.6	28.3	31.5	33.0	35.7	38.2	42.5	44.9	48.4	51.9
Grants-In-Aid To State and											
Local Governments	198.6	212.8	232.9	247.3	276.1	304.4	339.9	350.4	366.3	383.5	405.3
Net Interest	278.5	281.2	264.7	263.2	240.2	213.5	197.6	203.5	219.4	242.4	267.7
Subsidies Less Surplus of											
Govt. Enterprises	32.1	34.9	44.1	46.1	53.1	37.7	40.6	35.1	42.2	47.1	49.7
Surplus (+) or Deficit (-)	-55.8	38.8	103.6	189.5	46.7	-254.5	-364.6	-385.7	-307.6	-325.6	-310.6

Table 10. State and Local Government Receipts and Expenditures

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Billions of Current Dollars										
Receipts	750.0	794.9	840.4	893.2	915.8	926.5	969.3	1037.8	1104.5	1151.1	1199.6
As Share of GDP	9.0	9.1	9.1	9.1	9.0	8.8	8.8	8.8	9.0	8.9	8.8
Personal Tax and Nontax											
Receipts	182.0	201.2	214.5	236.6	242.7	220.1	226.1	247.9	266.3	276.8	286.7
Corporate Profits	34.1	34.9	35.8	35.6	30.2	31.2	34.5	39.5	49.6	51.9	54.1
Indirect Business Tax and											
Nontax Accruals	533.8	558.8	590.2	621.1	642.8	675.3	708.7	750.3	788.6	822.4	858.7
Contributions For Social											
Insurance	10.8	10.4	9.8	11.0	13.7	14.6	15.1	16.6	17.5	18.2	19.1
Federal Grants-In-Aid	198.6	212.8	232.9	247.3	276.1	304.4	339.9	350.4	366.3	383.5	405.3
Expenditures	1058.3	1111.2	1186.3	1269.5	1368.2	1436.9	1498.1	1567.9	1633.2	1714.3	1803.0
As Share of GDP	12.7	12.7	12.8	12.9	13.5	13.7	13.6	13.4	13.2	13.2	13.2
Purchases	937.8	987.9	1065.0	1142.8	1212.8	1275.8	1323.4	1373.9	1446.7	1514.1	1582.0
Transfer Payments	227.6	235.8	252.4	271.7	305.2	331.9	350.3	374.7	387.2	410.9	440.3
Interest Received	-0.1	-1.0	-3.8	-4.5	5.2	14.2	17.6	20.5	24.2	30.5	33.0
Net Subsidies	-11.8	-9.8	-10.0	-7.1	3.6	-2.3	-3.4	-1.9	-2.6	-3.6	-4.4
Dividends Received	1.5	1.7	1.8	1.9	2.0	2.2	2.5	2.8	2.7	2.8	2.8
Net Wage Accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Surplus Or Deficit	39.1	52.0	50.4	50.0	4.8	-25.0	-3.2	16.0	46.0	40.7	34.2

Forecast Tables - Detailed

Table 11. U.S. Exports and Imports of Goods and Services

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Billions of Current Dollars											
Net Exports-Goods & Serv.	-101.6	-160.0	-260.5	-379.5	-367.0	-424.9	-498.1	-609.4	-679.6	-645.4	-608.6
Current Account Balance	-136.0	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-663.1	-762.9	-776.7	-781.3
Merchandise Balance	-197.7	-248.1	-348.3	-459.1	-436.7	-492.7	-555.7	-673.2	-743.0	-725.8	-704.5
Exports-Goods & Services	955.4	955.9	991.3	1096.3	1032.8	1005.0	1046.2	1170.3	1246.2	1389.8	1562.7
Merchandise	687.7	680.9	697.2	784.4	731.2	697.0	726.4	815.6	873.6	981.6	1117.0
Food, Feeds & Beverages	51.5	46.4	46.0	47.9	49.4	49.6	55.0	55.7	51.3	54.0	57.3
Industrial Supplies	152.6	142.9	142.4	166.7	155.3	153.5	168.3	197.4	208.3	216.6	229.4
Motor Vehicles & Parts	73.3	72.4	75.3	80.4	75.4	79.0	80.7	88.0	96.5	110.0	125.4
Capital Goods, Ex. MVP	254.5	246.3	258.4	308.9	269.1	240.1	246.9	278.5	295.9	340.1	396.5
Computer Equipment	49.4	45.3	46.8	55.5	47.6	38.6	39.9	42.2	49.4	60.0	69.4
Other	205.2	201.1	211.6	253.4	221.6	201.5	207.0	236.3	246.5	280.1	327.1
Consumer Goods, Ex. MVP	78.0	80.3	80.9	89.4	88.3	84.4	89.9	101.7	117.3	143.9	177.7
Other	36.5	39.1	41.4	43.1	41.0	40.2	38.9	44.3	50.1	52.6	55.4
Services	267.7	275.1	294.1	312.0	301.6	308.1	319.8	354.7	372.6	408.2	445.6
Imports-Goods & Services	1056.9	1115.9	1251.8	1475.8	1399.9	1429.9	1544.3	1779.6	1925.8	2035.2	2171.3
Merchandise	885.4	928.9	1045.5	1243.5	1168.0	1189.6	1282.0	1488.8	1616.6	1707.4	1821.5
Foods, Feeds & Beverage	39.7	41.2	43.6	46.0	46.6	49.7	55.9	61.9	65.0	68.9	72.3
Petroleum & Products	71.7	50.6	67.8	120.2	103.6	103.5	133.1	181.5	193.0	177.0	176.3
Indus Supplies Ex. Petr	135.3	142.5	147.9	172.8	164.8	158.4	174.3	223.7	245.0	254.6	271.1
Motor Vehicles & Parts	139.5	148.7	179.0	195.9	189.8	203.8	210.2	228.0	246.1	265.1	291.3
Capital Goods, Ex. MVP	236.8	247.6	271.9	320.6	266.7	257.9	271.7	317.9	358.7	391.0	417.1
Computer Equipment	70.2	72.5	81.5	89.8	74.0	75.2	76.5	88.1	97.5	105.0	114.9
Other	166.6	175.2	190.5	230.9	192.7	182.7	195.2	229.8	261.2	286.0	302.2
Consumer Goods, Ex. MVP	194.2	217.2	242.1	282.0	284.5	308.0	334.0	371.1	392.3	424.4	456.6
Other	51.6	59.3	69.5	79.6	80.7	83.0	78.8	80.5	88.6	93.9	99.9
Services	171.6	186.9	206.3	232.3	231.9	240.2	262.3	290.8	309.2	327.8	349.8
Billions of 2000 Dollars											
Net Exports-Goods & Serv.	-104.6	-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-586.4	-630.1	-586.4	-525.5
Exports-Goods & Services	943.7	966.5	1008.2	1096.3	1036.7	1012.4	1031.8	1115.3	1171.4	1309.5	1470.8
Imports-Goods & Services	1048.4	1170.3	1304.5	1475.8	1435.8	1484.4	1550.3	1701.7	1801.5	1895.8	1996.2
Exports and Imports -- % Change											
Current Dollars											
Exports	10.0	0.1	3.7	10.6	-5.8	-2.7	4.1	11.9	6.5	11.5	12.4
Imports	9.5	5.6	12.2	17.9	-5.1	2.1	8.0	15.2	8.2	5.7	6.7
Constant Dollars											
Exports	11.9	2.4	4.3	8.7	-5.4	-2.3	1.9	8.1	5.0	11.8	12.3
Imports	13.6	11.6	11.5	13.1	-2.7	3.4	4.4	9.8	5.9	5.2	5.3
Production Indicators - % Change											
U.S. Industrial Production	7.3	5.8	4.5	4.3	-3.6	-0.3	-0.0	4.1	3.6	4.9	4.6
Price Indicators											
Price Deflators (% Ch)											
Exports	-1.7	-2.3	-0.6	1.7	-0.4	-0.4	2.1	3.5	1.4	-0.2	0.1
Imports	-3.6	-5.4	0.6	4.2	-2.5	-1.2	3.4	4.9	2.3	0.4	1.3
Crude Oil Prices (\$/barrel)	20.6	14.4	19.3	30.4	26.0	26.1	31.1	41.5	44.9	36.1	34.7
U.S. Dollar											
Real Exchange Rate	91.55	96.11	96.40	100.00	105.48	105.08	92.10	84.71	76.34	73.84	72.47
%Change	7.9	5.0	0.3	3.7	5.5	-0.4	-12.4	-8.0	-9.9	-3.3	-1.9

Forecast Tables - Detailed

Table 12. Implicit Price Deflators and Other Inflation Indicators (Percent Change)

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Implicit Price Deflators											
GDP	1.7	1.1	1.4	2.2	2.4	1.7	1.8	2.1	1.9	1.6	1.8
Consumption	1.7	0.9	1.7	2.5	2.1	1.4	1.9	2.2	1.6	1.6	2.0
Durables	-2.2	-2.7	-2.4	-1.6	-1.9	-2.7	-3.4	-2.0	-0.8	-0.5	-0.2
Motor Vehicles	0.3	-1.0	0.4	0.4	0.5	-1.1	-2.1	-1.3	1.1	1.3	1.3
Furniture	-5.7	-5.8	-6.2	-4.5	-5.9	-5.7	-6.0	-4.1	-2.9	-3.1	-2.6
Other Durables	-1.0	-0.7	-1.6	-0.8	0.3	-0.8	-1.6	0.1	-1.2	0.0	0.6
Nondurables	1.4	-0.0	2.5	4.0	1.5	0.6	2.0	3.3	1.1	0.2	1.4
Food	2.3	1.8	1.9	2.3	2.9	1.9	1.9	3.1	1.7	1.3	1.9
Clothing & Shoes	0.1	-1.9	-1.6	-1.3	-2.0	-2.7	-2.5	-0.4	-1.8	-2.4	-0.7
Gasoline & Oil	-0.0	-13.0	8.8	27.9	-3.7	-6.1	16.3	17.8	-0.3	-5.6	-0.5
Fuel	1.0	-8.7	1.2	37.6	1.7	-9.8	19.5	14.8	6.0	-3.6	0.3
Services	2.7	2.2	2.2	2.7	3.3	2.7	3.0	2.5	2.4	2.7	2.8
Housing	2.9	3.2	2.8	3.2	3.9	3.8	2.4	2.5	2.8	2.4	2.3
Household Operat.	1.7	-0.9	-0.1	1.9	4.6	-0.8	3.9	2.1	1.5	0.5	-0.7
Electricity	0.5	-3.9	-0.7	1.6	8.1	-1.1	2.3	1.9	2.3	1.5	0.2
Natural Gas	6.9	-2.0	0.5	16.7	19.9	-14.6	22.9	8.4	3.0	-0.8	-8.4
Water and Sewer	2.5	3.2	2.2	2.5	2.9	3.2	3.7	5.9	4.4	3.3	3.0
Telephone	0.2	-1.3	-2.4	-3.4	-2.0	0.2	-0.9	-2.0	-1.8	-1.9	-1.7
Domestic Service	2.6	2.8	2.9	4.4	3.8	3.7	2.5	2.2	2.1	1.4	1.0
Other Operations	2.5	2.1	3.3	3.8	4.9	4.3	4.8	2.5	2.8	2.2	2.1
Transportation	2.0	2.2	2.2	2.5	1.7	1.2	2.9	1.5	1.8	2.4	2.7
Other Services	3.1	2.2	3.3	3.6	4.0	4.2	4.2	4.1	3.3	3.5	3.6
Investment Deflators:											
Nonresidential	-1.3	-2.2	-1.3	-0.1	-0.3	-0.8	-0.4	0.8	1.2	0.7	0.7
Structures	3.9	4.6	3.0	3.9	5.4	2.4	2.1	4.9	4.8	3.7	4.1
Prod. Dur. Equip.	-3.0	-4.5	-2.8	-1.3	-2.3	-1.9	-1.2	-0.4	0.2	-0.2	-0.3
Residential	2.5	2.7	3.8	4.4	4.6	2.5	4.4	5.6	3.9	2.1	2.4
Government Purchases	1.8	1.4	2.8	4.1	2.5	2.7	3.2	3.2	3.2	2.2	2.3
Federal	1.7	1.0	2.5	3.2	1.9	3.3	3.6	2.9	2.7	1.5	1.6
State & Local	1.9	1.7	2.9	4.5	2.9	2.4	3.0	3.4	3.4	2.6	2.7
Exports	-1.7	-2.3	-0.6	1.7	-0.4	-0.4	2.1	3.5	1.4	-0.2	0.1
Imports	-3.6	-5.4	0.6	4.2	-2.5	-1.2	3.4	4.9	2.3	0.4	1.3
Other Inflation Related Indicators											
Consumer Price Index	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.7	2.3	1.6	1.8
Producers Price Index	-0.1	-2.5	0.9	5.8	1.1	-2.3	5.3	6.2	2.5	-1.1	-0.7
Nonfarm Sector Indicators											
Wage Compensation	3.1	5.9	4.6	7.0	4.1	3.2	4.0	4.2	4.3	4.4	4.5
Productivity	1.6	2.7	2.7	2.7	2.6	4.3	4.5	4.0	2.3	2.4	2.5
Unit Labor Costs	1.4	3.3	1.8	4.2	1.5	-1.1	-0.3	0.1	1.9	2.0	1.9
Crude Oil Prices (dollars/barrel)											
Refiners' Acq. Cost	19.11	12.58	17.42	28.21	22.95	24.00	28.60	37.03	38.14	33.04	31.91

Forecast Tables - Detailed

Table 13. Producers Price Indexes

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Annual Percent Change										
All Commodities	-0.1	-2.5	0.9	5.8	1.1	-2.3	5.3	6.2	2.5	-1.1	-0.7
Industrial Commodities	0.3	-2.3	1.4	6.6	0.7	-2.4	5.1	6.0	3.3	-1.1	-0.9
Textiles & Apparel	0.2	0.2	-1.5	0.3	-0.1	-1.2	-0.1	0.9	0.1	-0.8	-0.3
Fuels	0.3	-12.5	6.9	28.8	1.7	-11.5	21.1	12.4	4.5	-3.2	-4.7
Chemicals	1.0	0.2	0.2	4.7	0.6	0.0	6.6	7.6	7.2	-2.2	-2.3
Rubber & Plastics	-0.5	-0.5	-0.1	2.4	1.4	-0.3	2.6	2.7	4.2	-0.4	-0.4
Lumber & Wood	4.4	-2.5	2.5	-3.0	-2.2	-0.6	2.4	10.3	-1.5	-1.5	-0.8
Pulp & Paper	-0.5	2.3	1.4	5.5	0.6	0.6	2.2	3.0	3.8	1.9	2.1
Metals & Products	0.6	-3.0	-2.5	2.7	-2.1	0.4	2.6	15.7	3.1	-3.5	0.3
Equipment	-0.5	-0.8	-0.5	-0.2	-0.3	-0.6	-0.8	0.2	1.0	-0.3	-0.0
Trans. Equipment	-0.1	-0.3	0.4	1.4	1.0	-0.4	0.8	2.0	2.8	1.7	1.1
Farm	-7.7	-7.3	-5.9	1.2	4.2	-4.6	12.7	10.4	-8.7	-3.3	0.4
Processed Foods & Feeds	0.5	-1.8	-0.3	1.5	3.2	-0.8	5.3	5.4	-0.2	-0.1	0.9
By Stage of Processing											
Crude Materials	-2.3	-13.0	1.6	22.8	0.3	-10.6	25.1	17.6	-0.9	-4.3	-4.2
Intermediate Materials	-0.1	-2.1	0.1	4.9	0.4	-1.5	4.7	6.6	2.9	-1.6	-0.9
Finished Goods	0.4	-0.9	1.7	3.9	2.0	-1.3	3.2	3.6	2.1	-0.0	0.0
Consumers	0.6	-1.0	2.4	4.7	2.4	-1.5	4.3	4.4	2.0	-0.2	-0.2
Producers	-0.0	-0.5	-0.6	1.6	0.6	-0.4	0.3	1.4	2.0	0.6	0.7

Forecast Tables - Detailed

Table 14. Money, Interest Rates and Corporate Profits

	HISTORY								FORECAST		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Billions of Dollars											
Money Supply (M1)	1069.3	1079.8	1101.5	1103.4	1136.9	1192.0	1264.0	1332.3	1361.5	1374.9	1377.5
Money Supply (M2)	3923.1	4208.4	4525.8	4801.4	5219.3	5614.5	5998.4	6266.7	6481.1	6711.1	6975.8
Percent Change											
Money Supply (M1)	-3.3	1.0	2.0	0.2	3.0	4.8	6.0	5.4	2.2	1.0	0.2
Money Supply (M2)	4.9	7.3	7.5	6.1	8.7	7.6	6.8	4.5	3.4	3.5	3.9
Interest Rates (Percent)											
Short-term Rates											
3-Month Treas. Bills	5.06	4.79	4.63	5.81	3.43	1.61	1.01	1.36	3.01	3.65	4.15
Prime Bank Loans	8.44	8.35	7.99	9.23	6.92	4.68	4.12	4.34	6.06	6.86	7.51
U.S. Government Bond Yields											
1 Year Maturity	5.63	5.05	5.08	6.11	3.48	2.00	1.24	1.89	3.35	4.01	4.51
5 Year Maturity	6.22	5.15	5.54	6.15	4.55	3.82	2.97	3.43	4.15	4.96	5.54
10 Year Maturity	6.35	5.26	5.64	6.03	5.02	4.61	4.02	4.27	4.68	5.43	5.99
30 Year Maturity	6.61	5.58	5.87	5.94	5.49	5.42	5.05	5.12	5.23	5.86	6.32
State and Local Governments Bond Yields											
Domestic Muni. Bonds	5.52	5.09	5.43	5.70	5.15	5.03	4.74	4.68	4.78	5.28	5.77
Corporate Bond Yields											
Moodys AAA Corp. Bonc	7.26	6.53	7.04	7.62	7.08	6.49	5.67	5.63	6.01	6.63	7.07
Effective Mortgage Rate	7.60	6.94	7.43	8.06	6.97	6.54	5.82	5.84	6.29	6.86	7.40
Corporate Profits (Billions of Dollars)											
Profits Before Taxes	798.15	718.25	775.88	773.40	707.90	758.03	874.45	973.14	1056.50	1097.84	1164.75
Inventory Valuation Adj.	14.13	20.20	0.93	-14.08	11.35	-1.23	-14.13	-42.78	12.70	16.30	9.60
Profits After Taxes	552.10	469.98	517.23	508.20	503.80	574.20	639.58	708.83	757.83	776.72	810.55

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