November 19, 2004

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The First Year Revisited

Dear Readers:

Please accept my apology for the several-month lapse since the last issue. I had to undergo a knee replacement surgery. It was very successful but required several months of rehabilitation. That rehab period is nearly finished and now it is on to the newsletter. With this issue, the eighth over all (Volume 2004, Issue 3), we will review and update the previous seven issues and introduce a series on the energy challenge, hoping to complete it in the next issue or two (since it is a highly complex topic). We at The New Economic Paradigm Associates, plan to return to our pattern of approximately 10 issues per year. We thank many readers of this Newsletter for the encouragement to keep on going.

- Don Byrne, Editor

UPDATES ON PREVIOUS ISSUES…the first newsletter

(Volume 2003: Issue 1) August 6, 2003
(What Recession? Welcome to the World of the New Economic Paradigm)

When the first issue was published, the economy was in the seventh quarter of the recovery/expansion from the recession of 2001. Yet voices were bellowing at us from the media that the recession was still going on. Now we find out that by the traditional definition of a recession, two consecutive quarters of a negative real growth rate, the recession never occurred. Recent revisions show the second quarter grew in excess of one percent, positively. The original data showed that the same outcome was revised downward resulting in three consecutive quarters of negative real growth. Now, that revision is reversed...

By the traditional definition, no recession occurred in 2001! As we showed in the first issue of this newsletter, the downturn began in 2000. After an annualized growth of 7.3 percent in the fourth quarter 1999, the decline began, bottoming out at a -0.5 percent in the third quarter of 2000. It rebounded a bit in the fourth quarter of 2000 but turned negative in the first quarter of 2001 before rebounding yet again in the second quarter of 2001. After a -1.4 showing in the third quarter 2001 (9/11), GDP has shown positive growth for the last twelve quarters.

What Recession?

http://www.wjla.com/headlines/0704/162933.html

(*Webster's Dictionary*) RECESSION : A period during which economic activity, as measured by gross domestic product, declines for at least two quarters in a row in a specific country. If the decline is severe and long, such as greater than ten percent, it may be termed a depression.

According to the latest statistics, there has not been a recession since 1991!

Bureau of Economic Analysis (BEA)
Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product
[Percent] Seasonally adjusted at annual rates
Today is: 10/29/04 Last Revised on October 29, 2004 Next Release Date November 30, 2004

	2000				2001				2002				2003				2004		
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
Gross Domestic Product: (Revised Real GDP)	1.0	6.4	(0.5)	2.1	(0.5)	1.2	(1.4)	1.6	3.4	2.4	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3	3.7

- If the definition of a recession is changed to one quarter of negative growth then the number of recessions since, the Second World War will take a dramatic rise.

- If we change the definition to two out of three negative quarters of growth, then the recession began in third quarter of 2000.

As we argued in the first issue, the downturn began in 2000 due primarily to two factors, with a third factor contributing the loss of a 7.8 percent rate of growth (7.3% in 4th Quarter 1999 to -0.5% in the 3rd Quarter 2000).

The **first** of the two major factors were the continuous rise in federal income taxes from 1992 until 2000 - taxes rose much faster than government spending, with a general account surplus in the federal budget emerging in 1998. Remember that no matter the economic model employed, taxes depress and government spending stimulates; both by impacting aggregate demand, but in opposite directions.

A **second** major factor for the 2000 downturn as pointed out in the first issue of this newsletter was the rapidly growing trade deficits for roughly the same eight years. Imports depress by reducing domestic aggregate demand and exports stimulate by increasing aggregate demand. Thus, trade deficits depress by lowering aggregate demand on a net basis. Again, this is true no matter your economic model.

In the **third** case, the Federal Reserve applied the coup de grace by tightening in 1999, erroneously as this newsletter has argued. The downturn was already cast in stone from the rising burdens of the federal budget and the growing trade deficit.

We are now in the 12th consecutive quarter since the recession that never was in 2001! At times, notably the third quarter of 2003, the quarterly positive growth rates have reached those of 1999... [7.4 real growth in the 3rd Quarter, 2003 (see the following from the U.S. Bureau of Economic Analysis – BEA)
http://www.bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=1&FirstYear=2003&LastYear=2004&Freq=Qtr]

In Issue 2 of this newsletter, the question of deflation was discussed at length.

(Volume 2003: Issue 2) August 31, 2003

(Deflation --- not necessarily a bad thing…restructuring)

According to the New Paradigm, because of the significant and widespread growth of competition in many markets, the episodes of recession and inflation are becoming less frequent…when they do occur; they are less severe in terms of duration and depth. In fact, this newsletter pointed out that when deflation comes from cost reductions such as is happening in industries that are restructuring (in order to cope with growing competition), occasional episodes of deflation will occur. **This is not the same great depression induced deflation of the 1930's!** Rather it is due to the increasing strength of competition wrenching the market power from firms and unions that formerly were able to expropriate the consumer surplus and convert most of it into surplus wages and profits. Competition, by eliminating market power, both eliminates surplus rewards and increases the consumer surplus. (See NEW PARADIGM, ETC.)

Downward price rigidity, emanating from price power of firms and unions in the absence of significant competition in markets, is slowly but inexorably being eliminated as increasing competition is entering more markets. Downward price flexibility is eliminating those downward price rigidities and their resulting twin-biases toward recession and inflation that for many years were characteristics of the U.S. economy.

In at least three of the last 13 months or so, the Bureau of Labor Statistics announced that real labor compensation had risen and was partly due to deflation. In two months, deflation contributed to nearly 40 percent of the rise and in one month about 14 percent of the rise. Get used to some deflation; but fear ye not! It is a result of the widespread restructuring going on as the brave new world of competition in markets takes hold. It is not due to a collapse in demand as in the 1930's (where firms reduced output, shuttering operations) but rather falling costs due to downward pressure on prices as increasing competition occurs. Remember, it is not your income that is critical but rather it is what your income can buy. To paraphrase some theoretic terms, the current trend toward bouts of ***deflation is due to "cost push" and not "demand push"***.

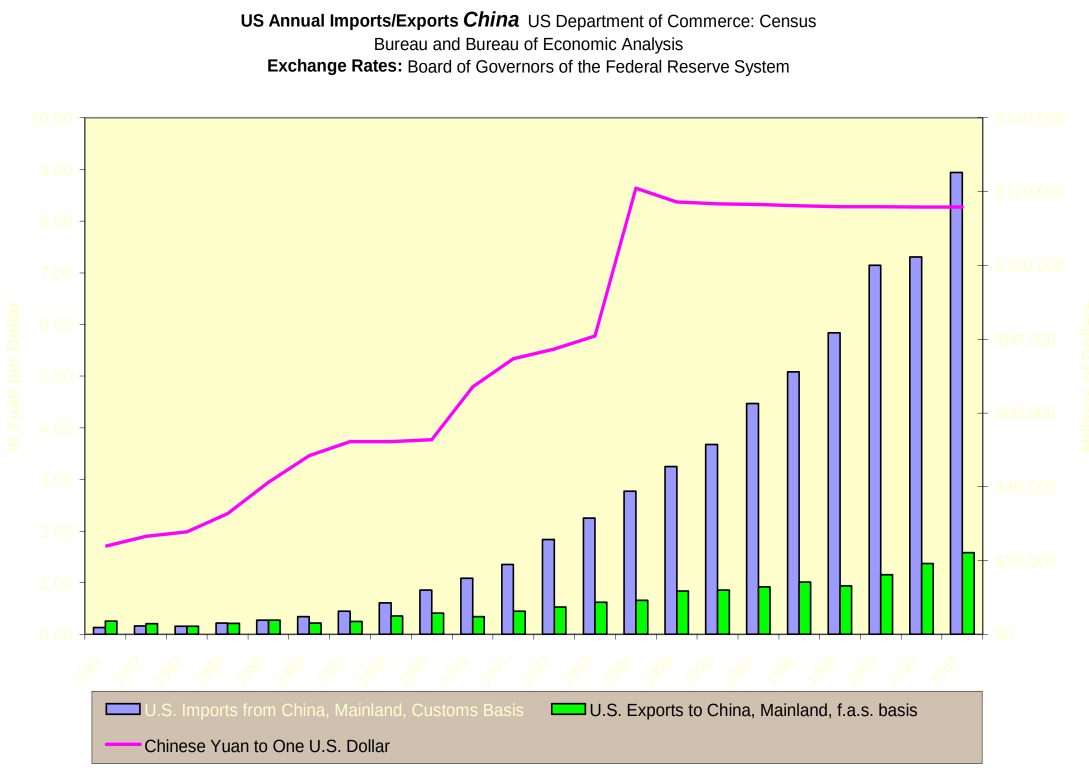
In Issue 3 of this newsletter, we discussed the trade deficit and its implications.

(Volume 2003: Issue 3) October 10, 2003
(Trade Deficits – How dirty is your float?)

As noted the third issue of this newsletter, the trade deficit continues at record levels. Trade deficits depress the economy. Remember, imports depress by increasing aggregate supply and exports stimulate by increasing aggregate demand. When imports of merchandise and services exceed exports of merchandise and services, a trade deficit occurs thus depress the American economy. **As we argued back in late last year, the causality probably ran from net capital inflows or a combined capital account surplus to the trade deficit and not the other way around!** The reason for our line of argument was that a net inflow of capital from the rest of the world caused the dollar to appreciate against foreign currencies. This is the case since the demand for dollars by foreign investors exceeded the supply of dollars by Americans wanting to invest abroad. At an even more basic level, foreign capital has found the real risk adjusted interest rates on American assets to their liking compared to their own nation's similar interest rates. American investors can be satisfied in staying at home for the same reason.

In the last FOMC meetings, the Fed saw fit to influence short-term interest rates upward. Fortunately, longer-term interest rates in the U.S. have not followed suit; rather they have fallen. If the Fed persists and attempts to go farther out in terms of maturity (and succeeds in influencing longer-term interest rates), it could increase the trade deficit. Another reason for the worsening trade deficit has been very high oil prices. Since this increases the dollar value of oil imports, it adds to the trade deficit.

As pointed out in the original issue of the trade deficit, some nations such as mainland China have deliberately intervened in the foreign exchange markets, pegging the U.S. Dollar at levels where the Yuan is probably around one fourth of its equilibrium price in the absence of China's intervention. **We kid you not, refer to the graph showing the last time there was a "balance" in the Trade Balance with China!**



In Issue 4 of this newsletter, we discussed the federal deficit and its implications.

(Volume 2003: Issue 4) November 22, 2003

(National Debt and Federal Deficits…leveraging current assets for tomorrow's growth)

In the follow-up on the first newsletter (see above), we discussed the three causes of the downturn beginning in 2000. At present, in 2004 two of those factors are in place: the huge trade deficit and the Federal Reserve's continued quixotic obsession with inflation (the Fed has pursued policies resulting in a cumulative increase in the federal funds rate of 100 basis points (1%) since June 2004).

The federal budget is currently trending in the opposite direction of what it was in 2000: in 2000, it showed a surplus of $159 billion; in 2003, it was in deficit to the tune of $506 billion. The federal budget continues to be in deficit in the range of between $400 billion and 500 billion, depending upon whom you ask…

From the Congressional Budget Office
http://www.cbo.gov/showdoc.cfm?index=1944&sequence=0

From the Bureau of Economic Affairs
http://www.bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=84&FirstYear=2003&LastYear=2004&Freq=Qtr

The negative affects of the trade deficit are virtually offset by the federal government budget deficit. This has the just the opposite affect of that which was occurring in 2000. In 2000, the growing federal government surplus (depressing in and of itself) added to the depressing affect of the huge trade deficit. If it were not for this reversal concerning the federal budget, the current expansion would have been much weaker (if occurring at all).

For those sensitive to federal government deficits, recall the concept of the fiscal drag discussed in previous issues of the newsletter. While tax cuts tend to have the immediate affect of reducing tax revenues, those same tax cuts, tend to stimulate the growth of the tax base through economic expansion. This then enables the "growing out of the deficit," as taxes rise faster than spending. Such a pattern can be seen more than once since the end of the Second World War (See Kennedy tax cut proposal, April 1961 http://www.nationalcenter.org/JFKTaxes1961.html).

In Issue 5 of this newsletter, we discussed the Federal Reserve System and its role in the economy

(Volume 2003: Issue 5) December 31, 2003

(The Federal Reserve System: Sausage making and its relation to monetary policy)

Our opinion on the wisdom and efficacy of the Fed's monetary policy continues to be highly skeptical. Our problem with the Fed lies in two areas: first is the Fed's obsession with inflation; and the second is the inability of Fed policies to influence long-term interest rates.

The Obsession

Despite the huge run-up in oil prices and other commodities, significant inflation has not broken out and the economy continues to expand. Yet, the Fed, once again, continues to sound the alarm that serious inflation is just around the corner and that action must be taken to avoid it. The lesson of the increasingly relevant New Paradigm in Economics is that the strongest barrier to inflation is growing and pervasive competition throughout the markets.

The Fed's obsession with inflation continues unabated despite extensive changes in the increasingly competitive nature of markets in the U.S.… http://story.news.yahoo.com/news?tmpl=story&cid=1471&ncid=1203&e=10&u=/ibd/20041111/bs_ibd_ibd/20041110feature

The Inability

In addition to their preoccupation with the lack of evidence pointing to significant and persistent inflation, we also express concern over the effectiveness of the Fed's policies in influencing the entire term structure of interest rates (yield curve). The Fed's ability to influence longer term rates, such as the U.S. Government Bond Rate (at present the 10-year bond is more than 50 points below where it was when the Fed began its tightening four meetings ago in June 2004), seems ineffectual.

In terms of the *Expectations Theory of the Terms Structure of Interest Rates*, the market is of the belief that short-term interest rates are going to fall in the future. Recall that in the Expectations Theory, actual long-term rates are the geometric average of the expected short-term rates for that time period.

It is clear that the Fed does not control expectations of future short-term interest rates. Some possibilities are that the Fed has set off fears of a softening economy, or that the public believes that any remaining inflation may be eliminated, if not outright deflation occurring. An alternative to the Fed's fear of inflation could be that they want short-term rates higher in order to give them some room to maneuver should the economy actually soften (providing them an opportunity to lower interest rates should the need arise).

In Issue 1, Volume 2004, of this newsletter, we discussed various schools of thought influencing policymakers

(Volume 2004: Issue 1) February 16, 2004

(Economic schools of thought…of long dead economists and other items of interest)

Inflationary Gap

There seem to be continued, but veiled references by Fed officials and prominent lawmakers that an inflationary gap is imminent and that federal government deficits portend future economic chaos. While one could argue that in the past, the economy was subject to a strong inflationary bias, those of us who support the New Economic Paradigm argument point out that the increasing pervasiveness of competition in our markets has led to the decline in price power of both product and resource markets. Again, in the past, it was the downward price rigidity that led to the inflationary bias – since prices would rise and rarely fall. Increasing competition has been an important factor in eliminating this bias.

Monetarism

Fed officials have and continue to chant the monetarist theme that the major cause of inflation is the excessive growth of money. Very recently, the president of the Federal Reserve Bank of Minneapolis joined this choir. What is surprising about this is his district and the University of Minnesota nurtured the school of thought called Rational Expectations. This was the concept for which Professor Lucas was awarded a Nobel Prize. He, along with Thomas Sargent, brought to the forefront this concept, which says that periods of inflation affect only nominal, and not the real metrics of interest rates and labor compensation. A number of monetarists believe there was an inconsistency between Monetarism and Rational Expectations. Hence, the surprise by the recent statements by the president of the Federal Reserve Bank of Minneapolis.

In Issue 2, Volume 2004, of this newsletter, we discussed the two surveys used by the BLS to measure the employment situation

(Volume 2004: Issue 2) March 29, 2004

(On Unemployment and Debt…not as dreary as first thought or continues to be reported)

Contrary to reports showing a fall in jobs of 874,000 in the current expansion, the much more reliable population or household survey shows an increase of 1,848,000 over that period. The seventh and previous newsletter went into this dichotomy of the two surveys in great length.

Also, see the more current updated material…

Department of Labor, Bureau of Labor Statistics: November 5, 2004

Labor Force Statistics from the Current Population Survey (Household Survey)

1 Month Net Change

Series Id: LNS12000000
Seasonal Adjusted
Series title: (Seas) Employ Level
Labor force status: Employed
Type of data: Number in thousands
Age: 16 years and over

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2001	158	(209)	157	(463)	(212)	(221)	249	(777)	555	(422)	(213)	(156)	(1,554)
2002	(363)	647	(256)	(10)	409	(152)	125	333	526	(258)	(534)	(86)	381
2003	988	(129)	(18)	278	(73)	168	(69)	89	(49)	451	438	(54)	2,020
2004	87	(265)	(3)	278	196	259	629	21	(201)	298			1,299

Net Job Gain / (Loss) 2,146

Change in Payroll Employment (Payroll Survey)

1 Month Net Change

Series Id: CES0000000001
Seasonally Adjusted
Super Sector: Total nonfarm
Industry: Total nonfarm
NAICS Code: N/A
Data Type: ALL EMPLOYEES, THOUS

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2001	(53)	104	15	(271)	1	(150)	(115)	(141)	(267)	(361)	(332)	(212)	(1,782)
2002	(165)	(90)	43	(68)	2	25	(111)	11	(47)	83	(37)	(209)	(563)
2003	94	(159)	(110)	(20)	(28)	(14)	(45)	(25)	67	88	83	8	(61)
2004	159	83	353	324	208	96	85	198	139	337			1,982

Net Job Gain / (Loss) (424)

Net Difference 2,570

ENERGY CHALLENGE: 2004

Economic development, a rising standard of living, the better life: all of these depend upon the increasing production and use of energy.

There are costs in producing energy in whatever form. Some of the costs occur in extracting sources of energy such as coal and oil for direct combustion or the production of electricity. These fuels also involve the cost of pollution, its prevention or cleanup – referred to as externalities in economic terms.

Other energy sources involve their own particular costs. Nuclear power involves significant upfront capital costs, including preparing the materials, the cost of the facilities (replete with redundant safety systems) and the finally the long-term storage systems for the waste products.

Renewable resources such as hydroelectric, wind and solar power involve environmental costs that range from the significant impact on ecosystems and reconfiguration of landscapes to the effrontery of people's aesthetic values.

While we will leave the economic analysis to the next few issues of this newsletter, we would like to present some data that might be startling to some. We also encourage you click on the associated hyperlinks for more detail.

From Energy Information Administration, U.S. Department of Energy

United States Oil Picture

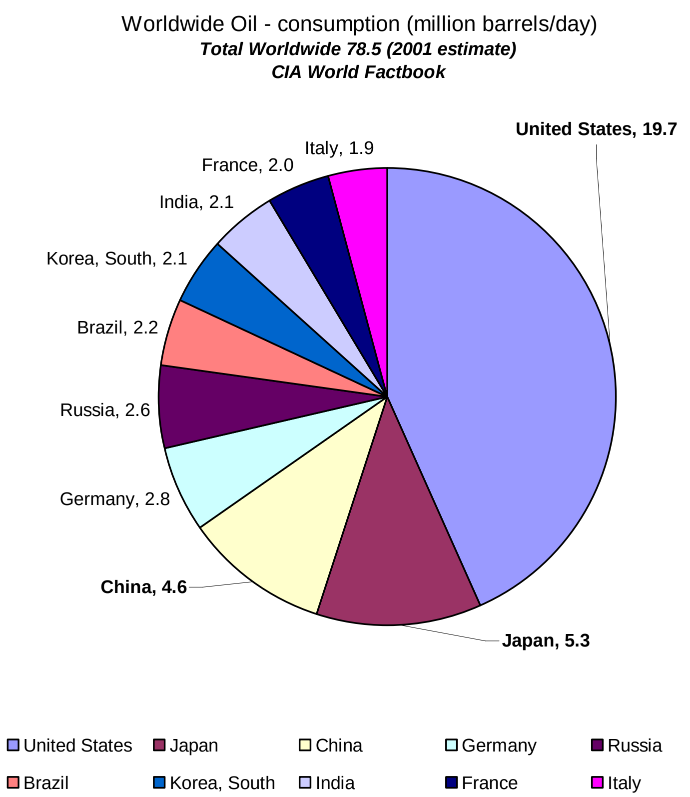
- **Proven Oil Reserves (1/1/04E):** 22.7 billion barrels
- **Oil Production (2003E):** 7.9 million barrels per day (bbl/d), of which 5.7 million bbl/d is crude oil (NOTE: Including "refinery gain," US oil production in 2003 is estimated at 8.8 million bbl/d)
- **Oil Consumption (2003E):** 20.0 million bbl/d
- **Net Oil Imports (2003E):** 11.2 million bbl/d (56.0% of total consumption)
- **Gross Oil Imports (2003E):** 12.2 million bbl/d (of which, 9.6 million bbl/d was crude oil and 2.6 million bbl/d were petroleum products)
- **Crude Oil Imports from the Persian Gulf (2003E):** 2.4 million bbl/d (around 25% of gross U.S. crude oil imports)

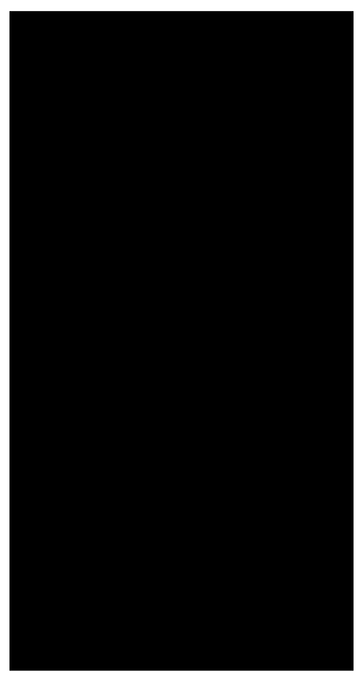
- **Top Sources of U.S. Crude Oil Imports (2003E):** Saudi Arabia (1.72 million bbl/d); Mexico (1.59 million bbl/d); Canada (1.55 million bbl/d); Venezuela (1.19 million bbl/d)
- **Value of Gross Oil Imports (2003E):** $132.5 billion (up from $102.7 billion in 2002)
- **Crude Oil Refining Capacity (1/1/04E):** 16.7 million bbl/d (132 refineries)

ANWR (Alaskan National Wildlife Reserve)
Project output of 1.4 million barrels/day
Potential for 16 billion total barrels (30 plus years output)

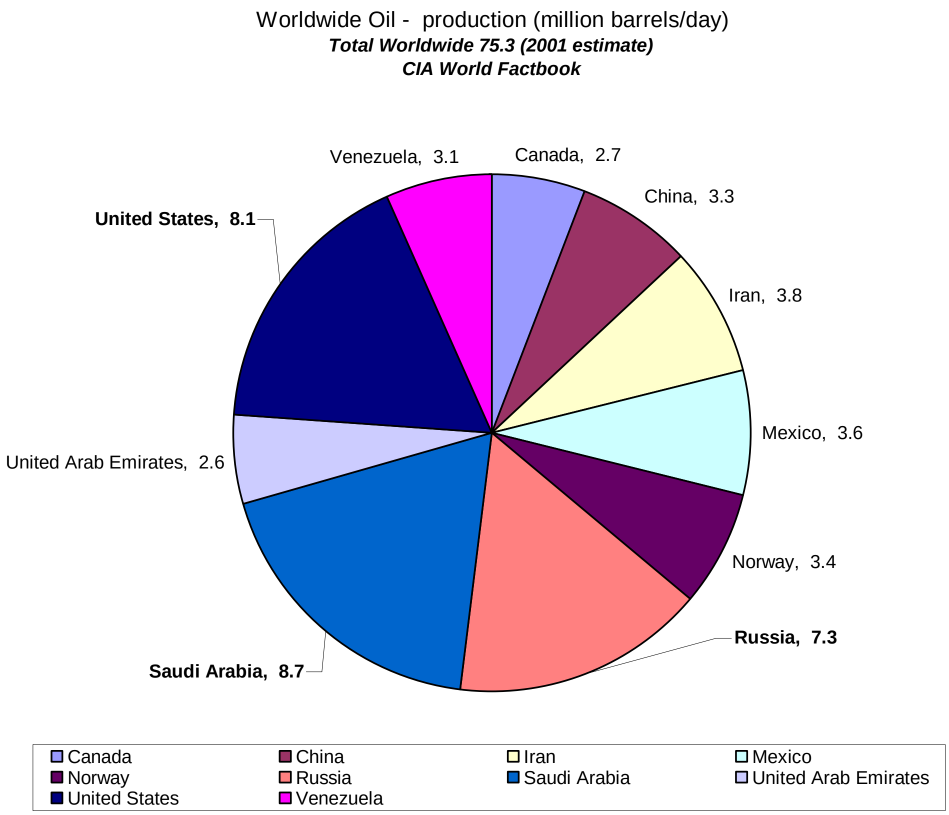
Must read from U.S. House of Representatives…much more to follow
http://resourcescommittee.house.gov/issues/emr/report/resources.htm#undiscovered

The United States – An Oil Thirsty Nation

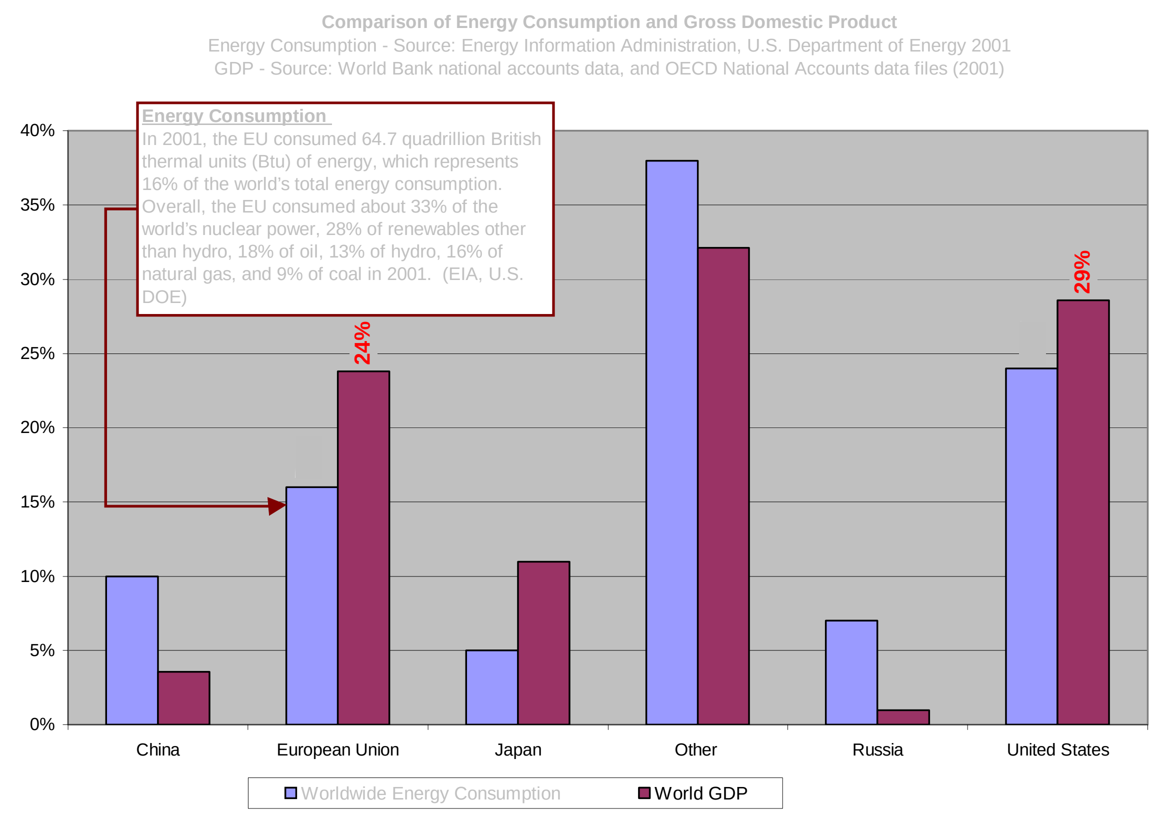




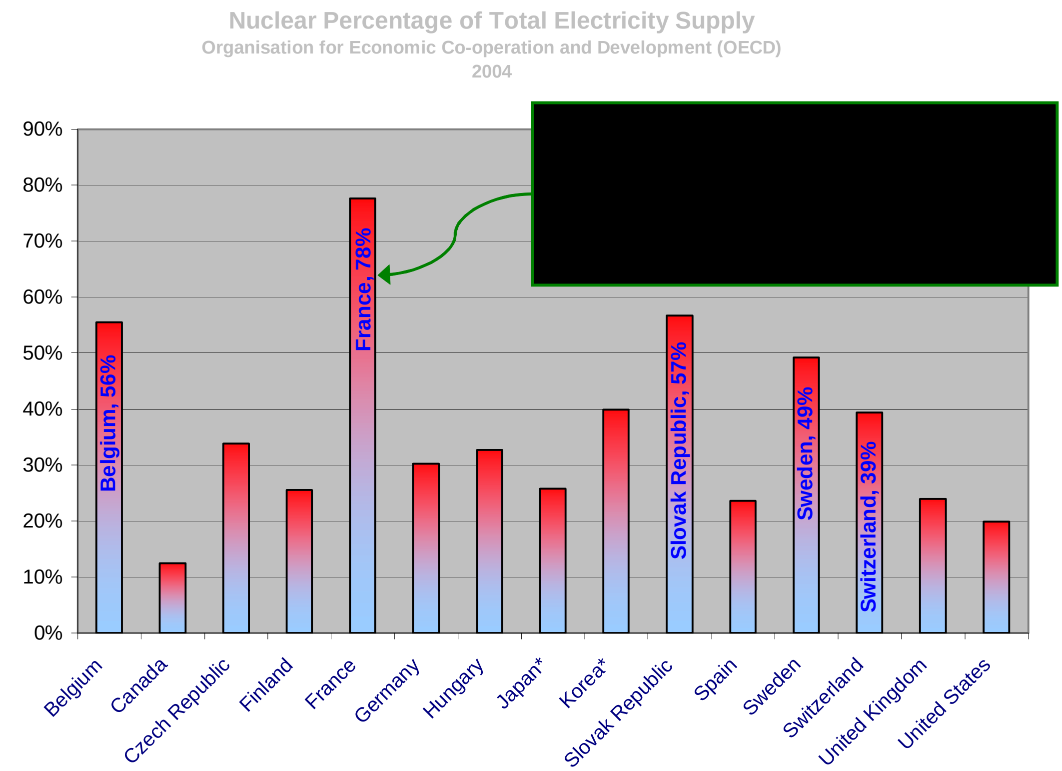
The U.S. is the second largest producer of oil…



In 2001, the U.S. was the largest user of energy, consuming 24% of the world total, but also contributed 29% to the world's GDP growth.



Nuclear Proliferation…***Illumination***



** Six units were under construction: four in Japan and two in the Republic of Korea.*

Energy consumption around the globe…

Australia

Fuel Share of Energy Consumption (2002E): Coal (46.6%), Oil (32.9%), Natural Gas (17.0%)

Electric Generation Capacity (2002E): 45.3 million kilowatts (84% thermal, 14% hydroelectric)

Brazil

Fuel Share of Energy Consumption (2002E): Oil (51%), Hydro (33.2%), Natural Gas (5.7%), Coal (5.2%), Other Renewables (1.7%), Nuclear (1.7%)

Electric Generation Capacity (2002E): 76.2 gigawatts (83% hydroelectric, thermal 10%, renewables 4% and nuclear 3%)

Canada

Fuel Share of Energy Consumption (2001): Oil (30.3%), Hydro (27.3%), Natural Gas (23.6%), Coal (13.5%), Nuclear (6.6%)
Electricity Generation (2001E): 566.3 billion kilowatthours (Bkwh) (56% hydro, 28.3% thermal, 13% nuclear, 1.3% geothermal and other)

China
Fuel Share of Energy Consumption (2002E): Oil (24.5%), Natural Gas (3.1%), Coal (64.5%)
Electricity Generation (2002E): 1,575 billion kilowatthours (79% conventional thermal; 20% hydro; 1% nuclear)

France
Fuel Share of Energy Consumption (2001E): Oil (40%), Natural Gas (15.3%), Coal (4.6%)
Electricity Generation (2002E): 528.6 billion kilowatthours (Bkwh), nuclear (78.5%), hydro (11.5%), thermal (9.3%), other renewables (0.8%)

Germany
Fuel Share of Energy Consumption (2002E): Oil (40%), Coal (23%), Natural Gas (22%), Nuclear (11%), Hydro (2%), Other Renewables (2%)

India
Fuel Share of Energy Consumption (2002E): Coal (54.5%), Oil (34.7%), Natural Gas (6.5%)
Electricity Generation (2002E): 547 billion kilowatthours (84% conventional thermal; 12% hydro; 3% nuclear)

Italy
Fuel Share of Energy Consumption (2001E): Oil (47.8%), Natural Gas (31.7%), Coal (6.2%), Hydro (6.1%), and other Renewables (1.6%)

Japan
Fuel Share of Energy Consumption (2002E): Oil (49.7%), Coal (18.9%), Natural Gas (12.7%)

Korea
Fuel Share of Energy Consumption (2001E): Oil (55.1%), Coal (21.1%), Natural Gas (10.3%)

Mexico
Fuel Share of Energy Consumption (2001E): Oil (62.8%), Natural Gas (24.2%), Hydro (4.9%), Coal (4.5%), Other (2.0%), Nuclear (1.4%)
Net Electricity Generation (2002E): 198.6 billion kilowatthours (Bkwh); 81% thermal, 12% hydro, 4.5% nuclear, 2.5% other

Russia
Fuel Share of Energy Consumption (2001E): Natural Gas (52%), Coal (18%), Oil (19%)

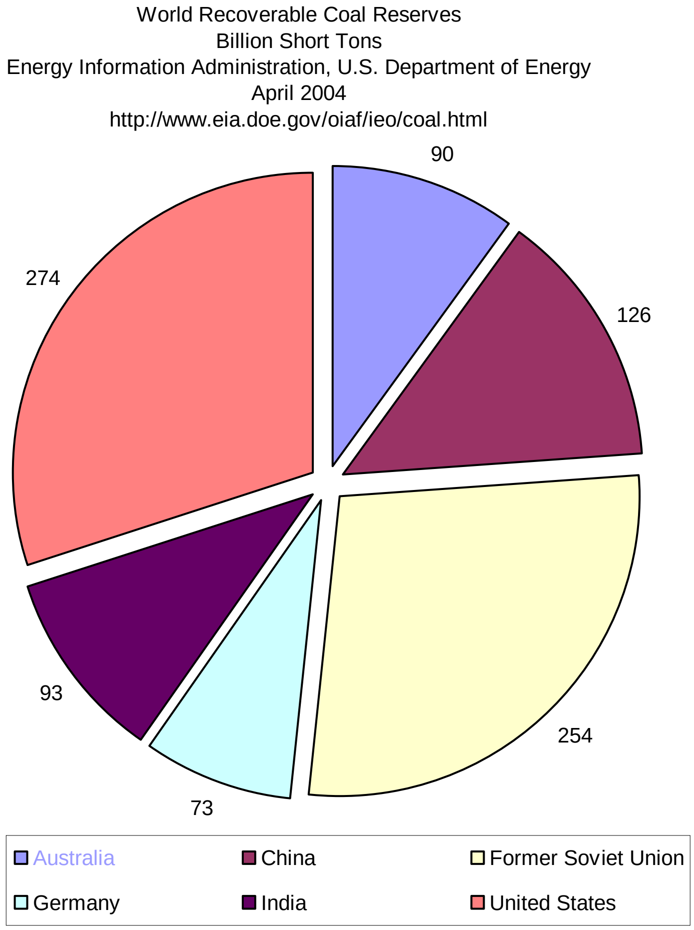
Spain
Fuel Share of Energy Consumption (2001E): Oil (54.9%), Natural Gas (12.7%), Coal (11.9%), Nuclear (10.9%)

United Kingdom
Fuel Share of Energy Consumption (2001E): Oil (35.2%), Natural Gas (35.3%), Coal (16.6%), Nuclear (10.9%), Hydro (0.34%), Other Renewables (0.60%)

United States
Fuel Share of Energy Consumption (2003E): Oil (40%), Coal (23%), Natural Gas (23%), Nuclear (8%), Hydroelectricity (3%), Other "renewables" (3%)
Electric Net Summer Installed Capacity (2002E): 905 gigawatts (76% thermal-fired, 11% nuclear; 11% hydroelectric, and 2% "renewables")

Energy Information Administration, U.S. Department of Energy
http://www.eia.doe.gov/emeu/cabs/usa.html you can use this link to check out all the preceding country's as well.

…and let's not forget coal

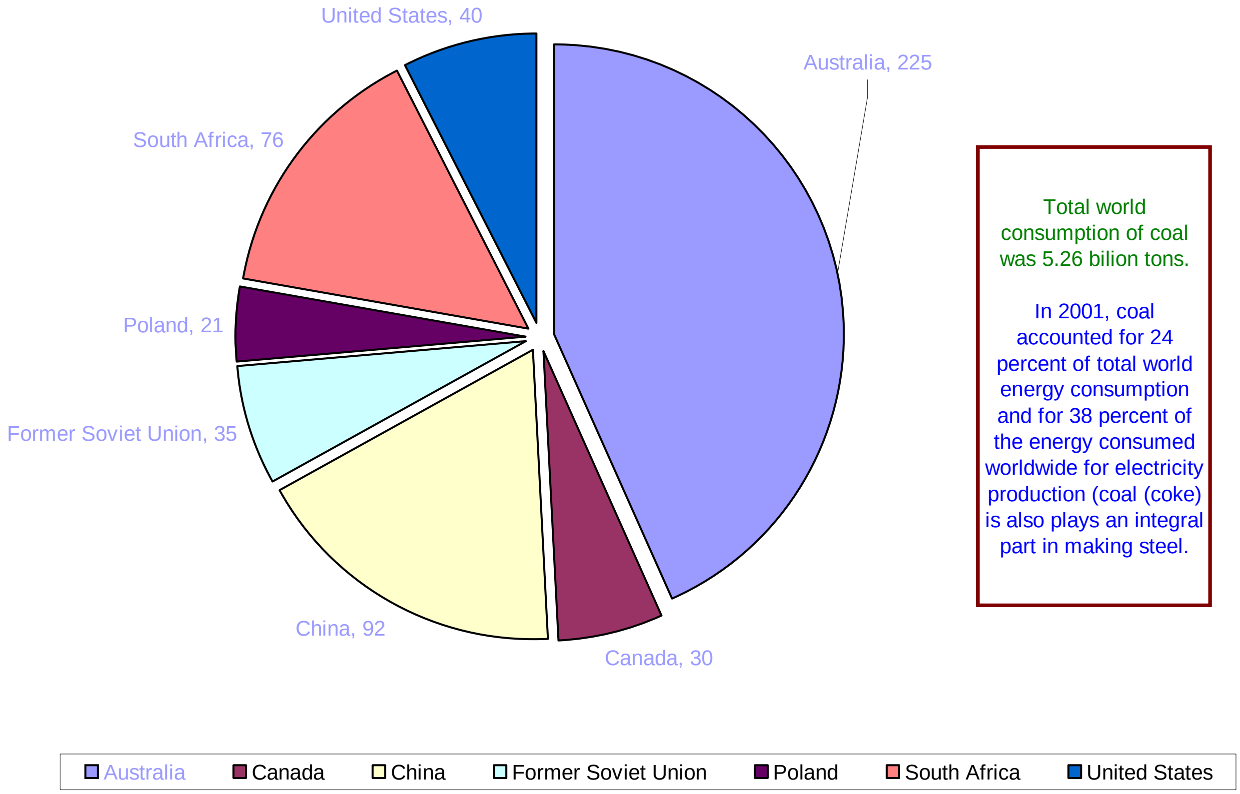


Total recoverable reserves of coal around the world are estimated at 1,083 billion tons—enough to last approximately 210 years at current consumption levels.

Australia, the United States, and Canada are endowed with substantial reserves of premium-grade bituminous coals that can be used to manufacture coke. Together, these three countries supplied 81 percent of the coking coal traded worldwide in 2002.

…Australia is feeding Asia appetite for energy

Worldwide Coal Exporters (656 million tons total)
Energy Information Administration, U.S. Department of Energy
April 2004 http://www.eia.doe.gov/oiaf/ieo/coal.html



Current Statistics (11-5-2004)

The Employment Picture

Unemployment Rate ({5.4% Aug}…{5.4% Sep})…**{5.5% Oct}**

Nonfarm payroll employment increased by 337,000 in October, and the unemployment rate was about unchanged at 5.5 percent, the Bureau of Labor Statistics of the U.S. Department of Labor reported November 5, 2004. Over the prior 3 months, payroll employment rose by nearly 225,000 on average. In October, according to the Bureau of Labor Statistics of the U.S. Department of Labor, construction employment rose sharply over the month, and several service-providing industries also added jobs.

Industry Payroll Employment (Establishment Survey Data)
Total nonfarm payroll employment increased by 337,000 in October to 132.0 million, seasonally adjusted. This followed job gains of 139,000 in September and 198,000 in August (as revised). Over the month, there was a large job gain in construction as well as notable increases in several service-providing industries. Since August 2003, payroll employment has risen by 2.2 million.

Unemployment (Household Survey Data)

Both the number of unemployed persons, 8.1 million, and the unemployment rate, 5.5 percent, were essentially unchanged from September to October. The jobless rate has held fairly steady thus far this year and remains below its most recent high of 6.3 percent in June 2003.

Jobless Claims
(4-wk rolling average: 354,000 Oct-09, 348,750 Oct-16, to 343,500 Oct-23, to 342,000 Oct-30)

In the week ending Oct. 30, the advance figure for seasonally adjusted initial claims was 332,000, a decrease of 19,000 from the previous week's revised figure of 351,000. The 4-week moving average was 342,000, a decrease of 1,500 from the previous week's revised average of 343,500.

For 2001, the average weekly initial jobless claims were running around 405,000; thus far, in 2004, the average has been in the 345,000 range.

News Releases - http://ows.doleta.gov/unemploy/archive.asp

GDP (3rd Quarter 2004 Real GDP: 3.7%)

The numbers for the third quarter of 2004 showed continued growth (yet lower than the 7.4% from a year ago) in real GDP. The Commerce Dept. reported a 3.7% growth rate for the3rd Quarter 2004 (on an annualized basis). It marked the 12th consecutive quarter of economic expansion.

Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 3.7 percent in the second quarter of 2004, according to advance estimates released by the Bureau of Economic Analysis (BEA press release on October 29, 2004). In the second quarter, real GDP increased 3.3 percent.

The major contributors to the increase in real GDP in the second quarter were:

Personal Consumption Expenditures (PCE) 3.23%
(Durable Goods 1.33% up tick from 3rd Quarter; Services 1.1%)

Gross private domestic investment: 0.85%
(-.48% change in private inventories)

Net Exports (Exports – Imports): -0.62%
Exports contributed 0.51% while Imports negatively impacted the total by -1.13%

Government Spending (Government consumption expenditures and gross investment): 0.26%
Federal increasing .31% and State and Local down -0.05%

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	2000				2001				2002				2003				2004		
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
Gross Domestic Product: (Revised Real GDP)	1.0	6.4	(0.5)	2.1	(0.5)	1.2	(1.4)	1.6	3.4	2.4	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3	3.7

Leading Indicators

According to figures released by the Conference Board on October 26, 2004, “The leading index fell again in September, the fourth consecutive decline, and the weakness in the last four months has become more widespread. However, these declines in the leading index have not been large enough nor have they persisted long enough to signal an end to the current economic expansion.”

Next release – November 18, 2004

Construction (put in place)

The most recent data from the Census Bureau shows rising levels of construction put in place. The August figure of $1.015.3 billion at a seasonally adjusted annualized rate, shows an increase of 10.1% above the August 2003 estimate of $922 billion.

According to the Census Bureau, during the first eight months of this year, construction spending amounted to $646.8 billion, 9.4% above $591.2 billion for the same period in 2003.

Next release (for September) – November 2004

New Housing Starts

The most recent joint U.S. Census Bureau and U.S Department of Housing and Urban Development data available show a drop off in new housing starts. The September figures are running at a seasonally adjusted annual rate of 1.898 million units, 6.0 percent lower than the 1.909 million-unit revised rate reported for August estimate and is 1.2% below the September 2003 rate of 1.922 million.

Next release (for October) – November 2004

New Residential Sales

According to the U.S. Census Bureau and U.S Department of Housing and Urban Development, sales of new homes increased from August's reported numbers of 1.165 million units, to 1.206 million units (on a seasonally adjusted annualized basis) in September, representing an increase of 3.5%. This rate is above the September 2003 figure of 1.127 million units by 7.0%.

Next release (for October) – November 2004

Durable Goods

The most recent report from the Commerce Department, Census Bureau shows that **New Orders** for manufactured goods decreased $0.3 billion or 0.1% in August to $370.5 billion. This followed a 1.7% increase in July.

Shipments increased $4.0 billion, or 1.1% to $376.1 billion. This was the highest level since the current NAICS series was developed in 1992…and followed a 0.9% increase in July.

Unfilled orders of manufactured goods in August, up twelve of the last thirteen months, increased $1.8 billion or 0.3% to $536.6 billion, unchanged from the previously published increase.

Meanwhile, **Inventories** of manufactured durable goods in August, up nine consecutive months, increased $1.7 billion or 0.6% to $276.6 billion.

Capital Goods Industries (July):
D*efense*, new orders decreased $1.6 billion or 16.2% to $8.1 billion; shipments increased $0.2 billion or 3.1% to $8.3 billion; unfilled orders decreased $0.2 billion or 0.1% to $141.6 billion; inventories decreased by $0.1 billion or 0.6% to $19.6 billion.
Nondefense new orders increased by $5.8 billion or 9.0% to $69.5 billion; shipments increased by $0.4 billion or 0.6% to $62.7 billion; unfilled orders increased by $6.7 billion or 3.0% to $234.4 billion; and inventories increased $1.2 billion or 1.1% to $108.3 billion.

As ever, durable goods measure continues to be a volatile indicator but the trends have been positive (looking over the past several months).

Current Account Balance (Trade Balance)

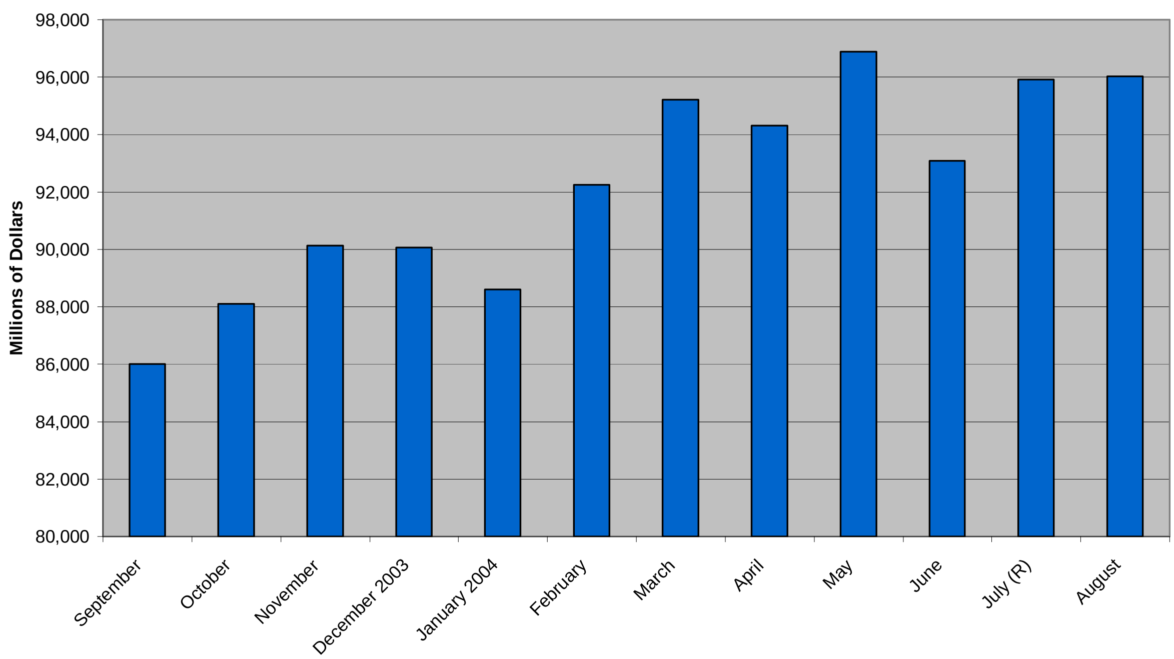
The Current Account Balance consists of the Trade Balance (Net Exports (Exports less Imports) of Goods and Services), the Income Balance (Income Receipts and Income Payments), and net Unilateral Current Transfers. The Department of Commerce publishes the Current Account Balance data on quarterly basis.

The Current Account Balance 2003 – $541.8 billion

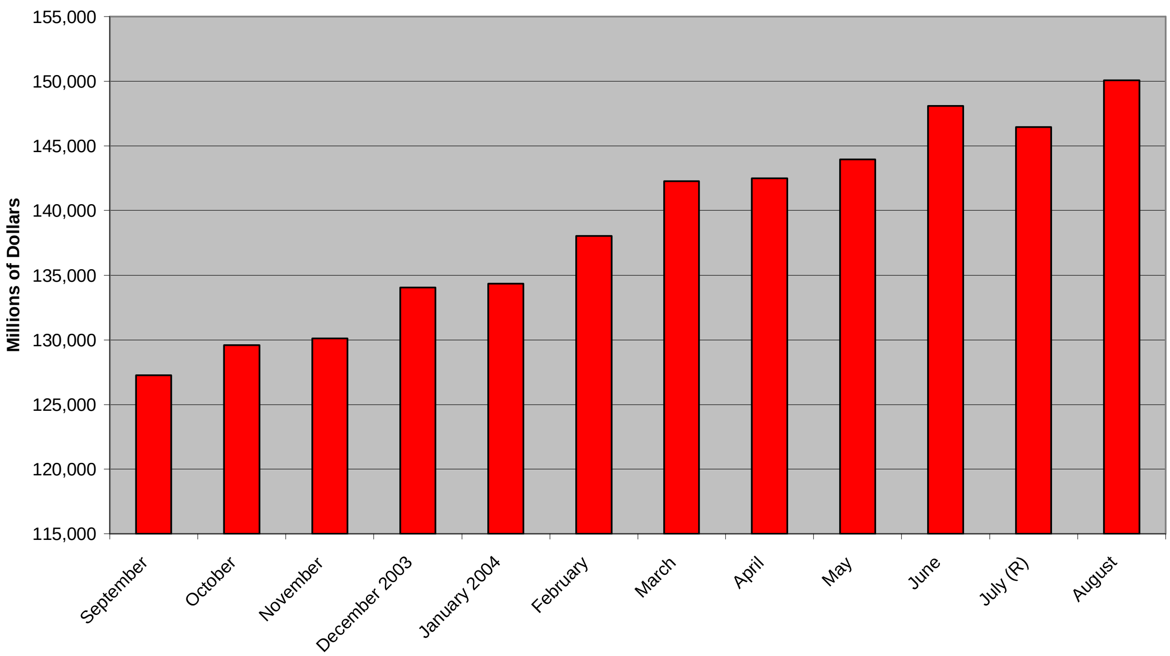
The Trade Balance 2003 – $490.2 billion

As reported by the Commerce Department, the trade deficit in August 2004 stood at $54.0 billion, increasing by $3.5 billion from the $50.5 billion (revised) reported for July 2004. August exports were at $95.0 billion up slightly from $94.9 billion revised figure for July. Imports were at $150.1 billion, up $3.6 billion from the revised $146.5 billion reported for July.

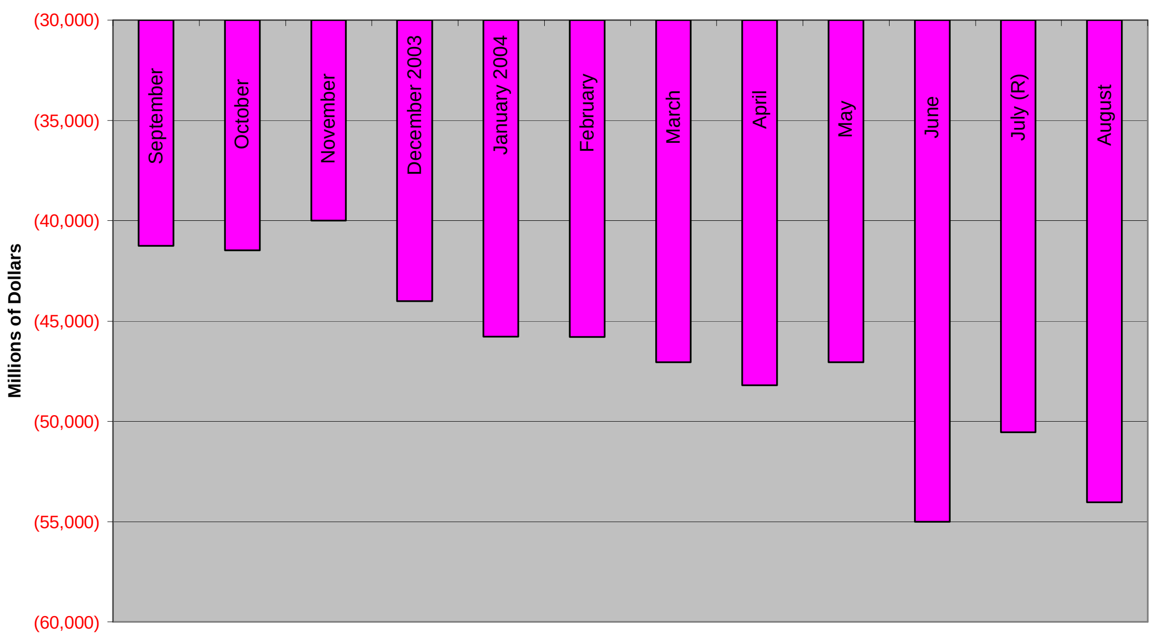
The Good (Exports Sep 2003 - Aug 2004)
Extracted from Department of Commerce
October 14, 2004



The Bad **(Imports Sep 2003 - Aug 2004)**
Extracted from Department of Commerce
October 14, 2004



The Ugly **(Trade Balance Sep 2003 - Aug 2004)**
Extracted from Department of Commerce
October 14, 2004(July-Revised)



CPI 0.2% (September) / PPI 0.1% (September) (Seasonally adjusted)

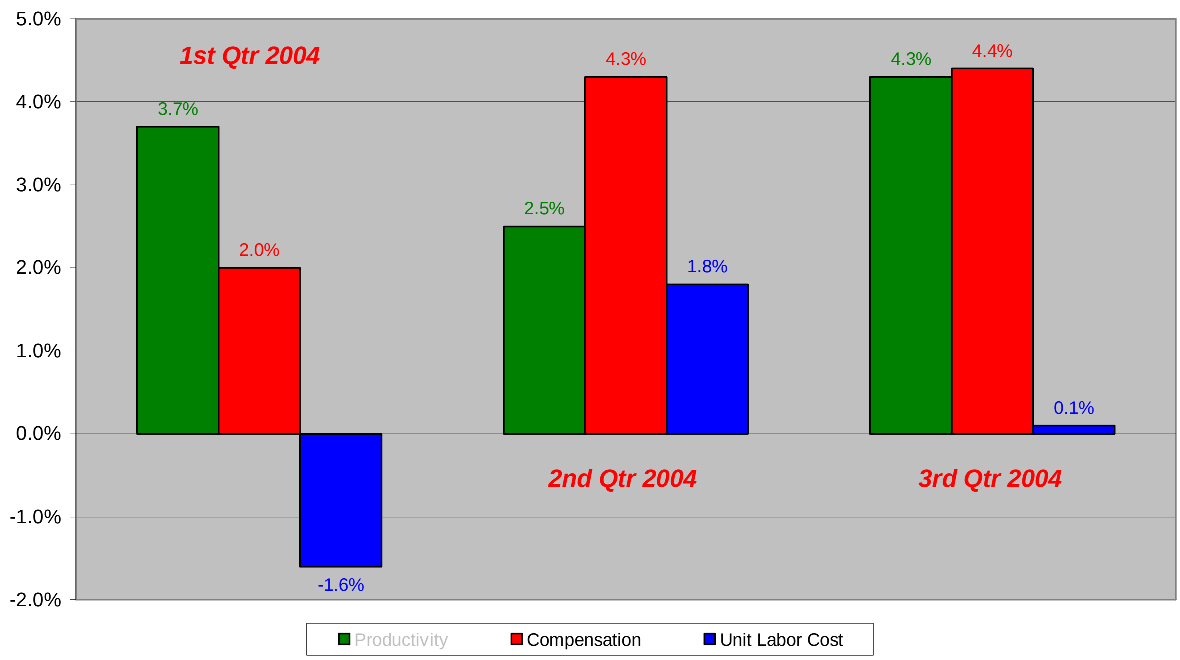
CPI – On a seasonally adjusted basis, the CPI-U (all urban consumers), which had increased 0.1% in August, rose 0.2 percent in September (reflecting a 2.5% annual increase from September 2003). Adding to the increase in costs for the month were education where costs rose 0.6 percent, reflecting increases in the indexes for college tuition and for elementary and high school tuition up 0.8 and 0.9 percent, respectively; and in medical care where costs rose 0.3 percent in September to a level 4.4 percent higher than a year ago.

PPI – On a seasonally adjusted basis, the Producer Price Index for Finished Goods increased 0.1 percent in September 2004, following a (0.1) decline in August (reflecting a 3.3% annual increase from September 2003).

Productivity, Unit Labor Cost and Compensation (Seasonally Adjusted)

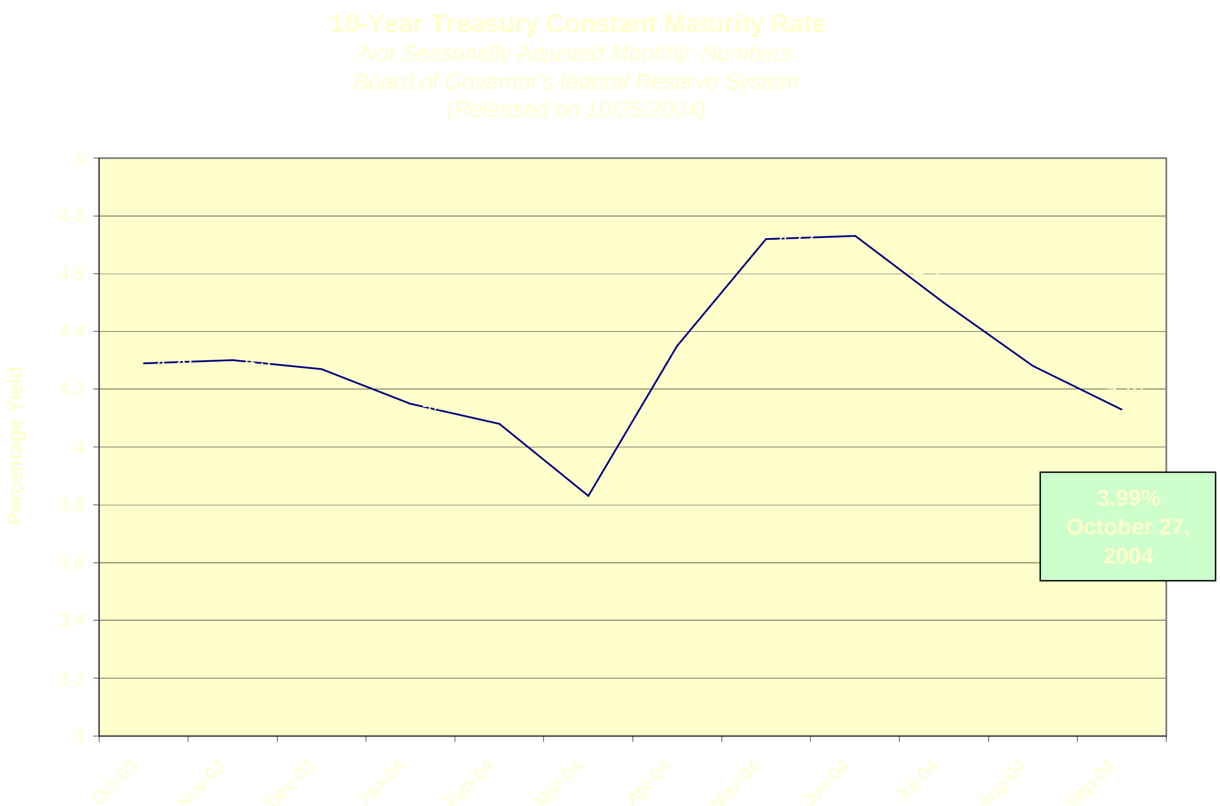
According to the Bureau of Labor Statistics, for the first three quarters of 2004 **Productivity** gains amounted to 3.7% for the 1st Quarter, 2.5% for the 2nd and 4.3 for the 4th Quarter. **Unit Labor Costs** declined by 1.6% in the 1st Quarter and rose by 1.8% in the 2nd and dropped to 0.1% in the 3rd Quarter; and **Compensation** grew at 2.0% in the 1st Quarter, 4.3% in the 2nd and 4.4% in the 3rd Quarter.
Productivity gains continue to dampen the effect of increasing compensation.

Productivity, Compensation and Unit Labor Costs *2004*
Department of Labor
Extracted October 27 2004



10-year U.S. Government Bond Rate

The 10-year Maturity U.S. Government Security continues to remain trading at a relatively low rate. For the month of September 2004, the yield averaged 4.13 percent.



On the Web at http://byrned.faculty.udmercy.edu/