EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
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Joint Press Release of the Council of Economic Advisers, The Department of the Treasury, and the Office of Management and Budget

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The Administration today released an updated economic forecast that shows solid economic growth in the coming year.

"The combination of lower energy prices, a tight labor market, and strong underlying fundamentals is producing a solid economy for America's workers," said Edward P. Lazear, Chairman of the Council of Economic Advisers. In the past year, hourly wages have increased 2.8 percent after adjusting for inflation, which is well above the historical average and amounts to about $960 for a full-time production worker. We expect real wage growth to continue."

The Administration releases an economic forecast twice a year. The new economic forecast – which will be used for the President's Fiscal Year 2008 budget – is similar to the consensus of professional economic forecasters and the Administration's past forecasts.

"The economic forecast clearly reflects the fact that the U.S. economy is moderating to more sustainable growth levels, firmer labor markets and steady inflation rates. As we continue working toward pro-growth polices in the areas of retirement and energy security as well as worker competitiveness, we will achieve long-term U.S. economic strength, which will improve the standards of living for future generations of Americans," said Treasury Secretary Henry M. Paulson.

The updated forecast projects somewhat slower economic growth in the near-term than was projected in June 2006. Specifically, the forecast projects real gross domestic product (GDP) will grow 3.1 percent and 2.9 percent during the four quarters of 2006 and 2007, respectively. These growth rates are similar to the U.S. historical average. The revisions reflect a slower-than-expected housing sector while growth in other parts of the economy remains strong.

The forecast shows a strong labor market with both the unemployment rate and monthly payroll job growth slightly lower than previously projected. Last month the unemployment rate dropped to the lowest rate in over five years, and it currently stands at 4.4 percent. The lower-than-expected unemployment rate has reduced the projected annual average to just 4.6 percent in 2006 and 2007. The new forecast projects payroll growth to average 129,000 jobs per month next year.

"The strong, sustained growth reflected in this forecast will generate solid revenue growth in the years ahead. Coupled with spending restraint, this revenue growth will help us further reduce the federal budget deficit," said Rob Portman, Director of the Office of Management and Budget.

For example, the Treasury Department recently reported that quarterly tax receipts in September hit an historic high of $71.8 billion with revenues for all of fiscal year 2006 11.8 percent higher than the previous year. This builds on dramatic revenue growth in the prior year of 14.5 percent. Due to the large decline in energy prices, overall inflation as measured by the consumer price index (CPI) is on track to increase less in 2006 than previously forecasted by the Administration.

The new forecast therefore revises CPI inflation during the four quarters of 2006 from 3.0 percent to just 2.3 percent. CPI inflation during 2007 is forecasted to be 2.6 percent.

The Administration's forecast of interest rates is similar to market expectations and the consensus of professional economic forecasters. The updated forecast of interest rates on 10-year Treasury notes has been revised down slightly while the forecast of short-term interest rates has remained largely unchanged.

The long-run moderation of job growth reflects solid economic growth coupled with underlying demographic trends, such as slower growth in the working-age population and the retirement of the baby-boom generation.

The forecast was developed by a team from the Council of Economic Advisers, the Department of the Treasury, and the Office of Management and Budget, with assistance from other agencies.

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Table 1: *Administration Forecast <1>*

	Nominal GDP	Real GDP (chain-type)	GDP price index (chain-type)	Consumer price index (CPI-U)	Unemployment rate (percent)	Interest rate, 91-day Treasury bills <2> (percent)	Interest rate, 10-year Treasury notes (percent)	Nonfarm payroll employment (millions)	Nonfarm payroll employment (average monthly change, Q4-to-Q4 thousands) <3>
	Percent change, Q4-to-Q4				Level, calendar year				
2005 (actual)	6.4	3.1	3.1	3.7	5.1	3.1	4.3	133.5	160
2006	5.9	3.1	2.7	2.3	4.6	4.7	4.8	135.3	151
2007	5.5	2.9	2.5	2.6	4.6	4.7	5.0	137.0	129
2008	5.5	3.1	2.3	2.6	4.8	4.6	5.1	138.6	139
2009	5.3	3.1	2.2	2.5	4.8	4.4	5.2	140.2	126
2010	5.2	3.0	2.1	2.4	4.8	4.2	5.3	141.5	113
2011	5.0	3.0	2.0	2.3	4.8	4.1	5.3	143.0	118
2012	5.0	2.9	2.0	2.3	4.8	4.1	5.3	144.3	107

<1> Based on data available as of November 13, 2006.
<2> Discount basis.
<3> If the effect of the BLS benchmark adjustment were included, monthly job growth would average 205 and 173 thousand in 2005 and 2006, respectively. The level of payroll employment would be 133.7 and 136.1 million in these 2 years.

Sources: Council of Economic Advisers, Department of Commerce (Bureau of Economic Analysis and Economics and Statistics Administration), Department of Labor (Bureau of Labor Statistics), Department of the Treasury, and Office of Management and Budget.