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The Administration today released an updated economic forecast that shows the economic expansion is expected to continue at a healthy and sustainable pace.

The updated economic forecast – which will be used for the Mid-Session Review of the Budget later this summer – is similar to the forecast released last December and used for the President's FY 2006 budget. Early indicators of activity suggest the 3.4 percent forecast for real gross domestic product (GDP) growth during the four quarters of 2005 remains on track. This forecast is consistent with the consensus of professional economic forecasters.

"The updated forecast remains largely the same as what we projected six months ago," said Harvey S. Rosen, Chairman of the Council of Economic Advisers. "The economic expansion is continuing."

The forecast for the labor market in 2005 is also on track. Payroll employment has increased 180,000 per month during the first 5 months of 2005, in line with the forecast of 175,000 jobs per month released in December. The revised forecast now predicts an average of 178,000 payroll jobs being added per month in 2005. The unemployment rate is now expected to be a tenth of a percentage point lower than previously projected.

"Economic growth is steady, it is strong, and our economy's underlying fundamentals are robust. All signs indicate that the President's economic policies are working, especially for job-seekers. With the unemployment rate at a low that we've rarely seen in history and 3.5 million new jobs created over the past two years, there is considerable good news to report on, as well as to look forward to," remarked Treasury Secretary John W. Snow.

The Administration's economic forecast shows moderate inflation. Inflation has been higher than expected so far this year, but most of the increase has been concentrated in volatile energy prices. The forecast for inflation, as measured by the price index for GDP, is revised up slightly to 2.3 percent during the four quarters of 2005; it then drops to 2.1 percent as previously projected.

Overall inflation in the consumer price index (CPI) has similarly been elevated by rapid energy price increases. The overall CPI increased by 3.5 percent during the 12 months through April, a rate that is not expected to persist. The core CPI (which excludes food and energy) increased only 2.2 percent during the past 12 months. As a result, the forecast of CPI inflation during the four quarters of 2005 has been revised up to 2.9 percent, but the Administration still forecasts overall CPI inflation to stabilize around 2.4 percent in 2006 and beyond. Again, the inflation forecasts are in line with the consensus of economic forecasters.

Recent trading in financial futures markets suggests that market participants expect short-term interest rates to rise a bit further, and the Administration's interest rate projections reflect those views. The rate on 91-day Treasury bills, which closed at 3.01 percent on June 3, is expected to gradually increase to 3½ percent by 2007. The forecast shows rates on 10-year Treasury notes rising as well, from about 4 percent on June 3 to about 5.2 percent in 2007. By 2010, the difference between the rates on 10-year and 91-day Treasury securities is projected to be close to its historical average.

"With the President's focus on spending discipline, we are seeing positive signs for the American economy, and for the federal government's balance sheet," said Joshua B. Bolten, Director of the Office of Management and Budget.

Real GDP growth is expected to slow over the projection period, from 3.4 percent during 2005 and 2006, and eventually to taper off to 3.1 percent in 2009 and 2010. The predicted slowdown reflects slower anticipated 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, the Office of Management and Budget, with assistance from other agencies.

Table 1-1. *---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)
	Percent change, fourth quarter to fourth quarter				Level, calendar year			
2004 (actual)	6.4	3.9	2.4	3.4	5.5	1.4	4.3	131.5
2005	5.9	3.4	2.3	2.9	5.2	3.0	4.3	133.6
2006	5.5	3.4	2.1	2.4	5.1	3.4	4.8	135.8
2007	5.5	3.3	2.1	2.4	5.1	3.5	5.2	137.8
2008	5.4	3.2	2.1	2.4	5.0	3.6	5.4	139.6
2009	5.3	3.1	2.1	2.4	5.0	3.8	5.5	141.1
2010	5.3	3.1	2.1	2.4	5.0	4.0	5.6	142.6

<1> Based on data available as of June 6, 2005.
<2> Discount basis.
Sources: Council of Economic Advisers, Department of Commerce (Bureau of Economic Analysis), Department of Labor (Bureau of Labor Statistics), Department of the Treasury, and Office of Management and Budget.