

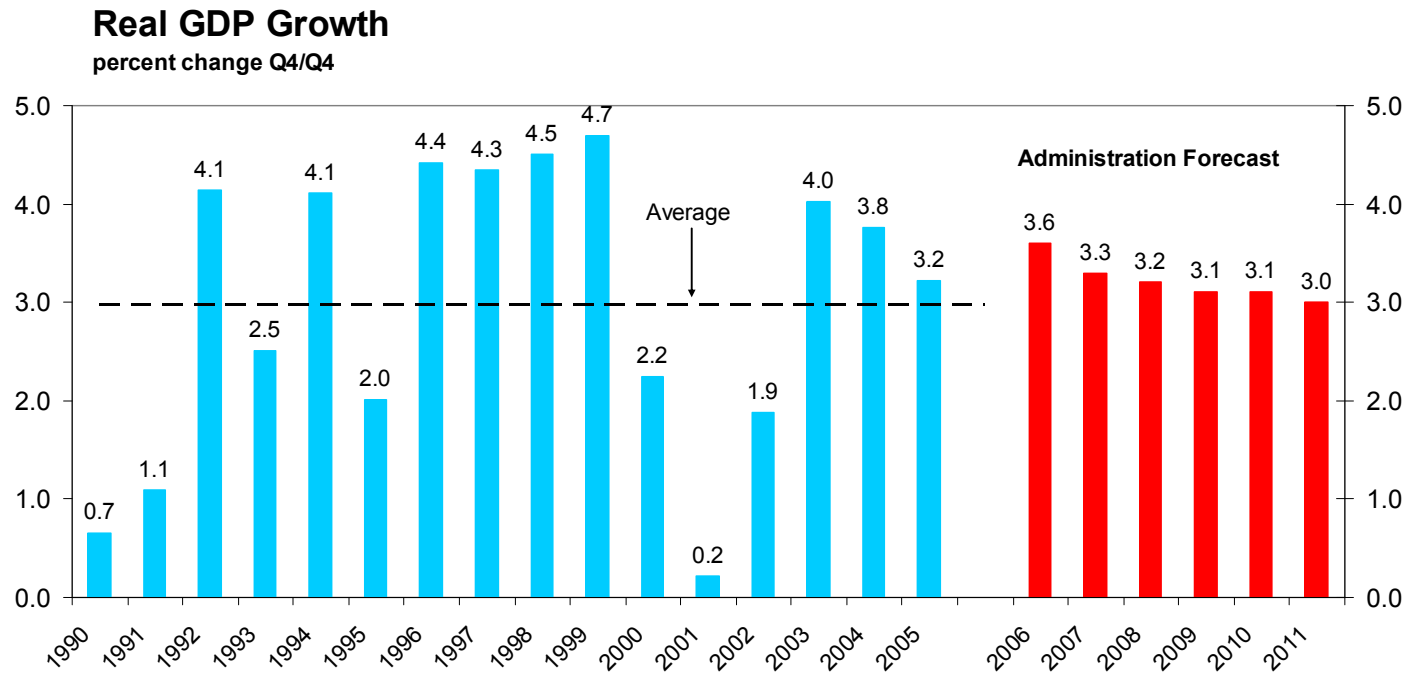
# **Forecast for the U.S. Economy**

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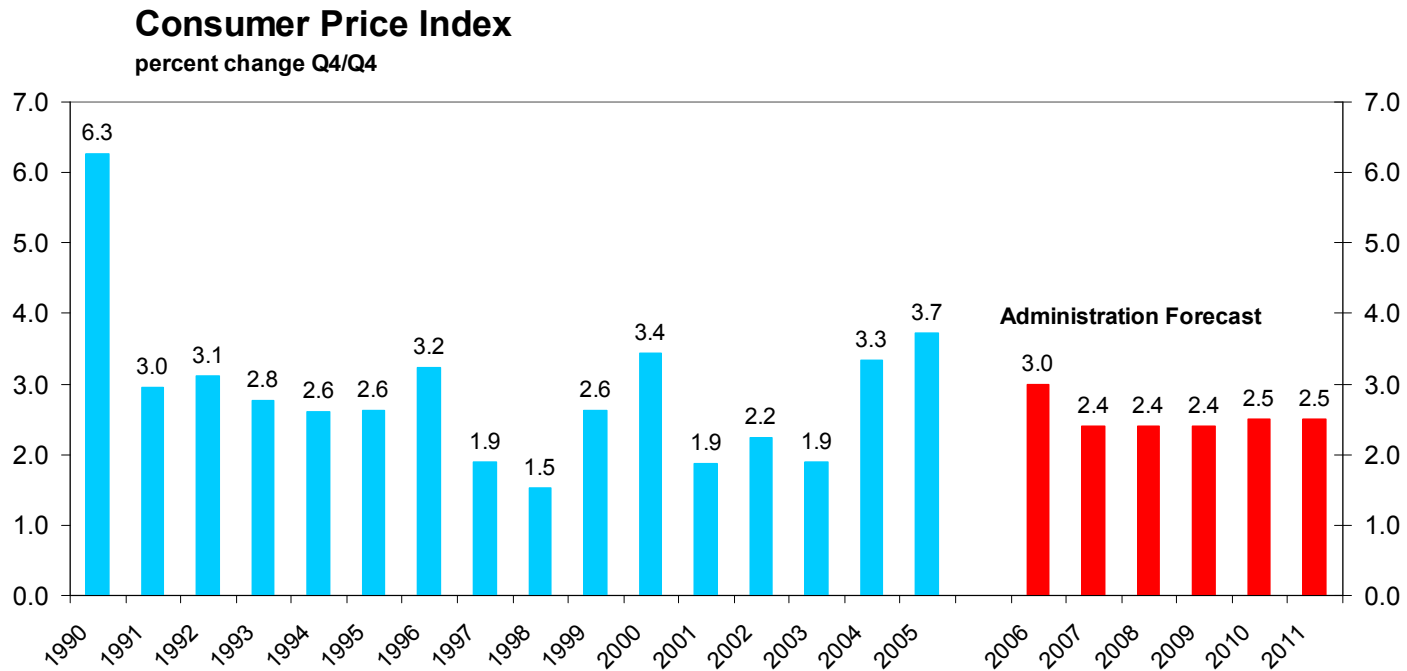
June 26, 2006

# Economic Growth is at very high level, but should slow toward the historical average



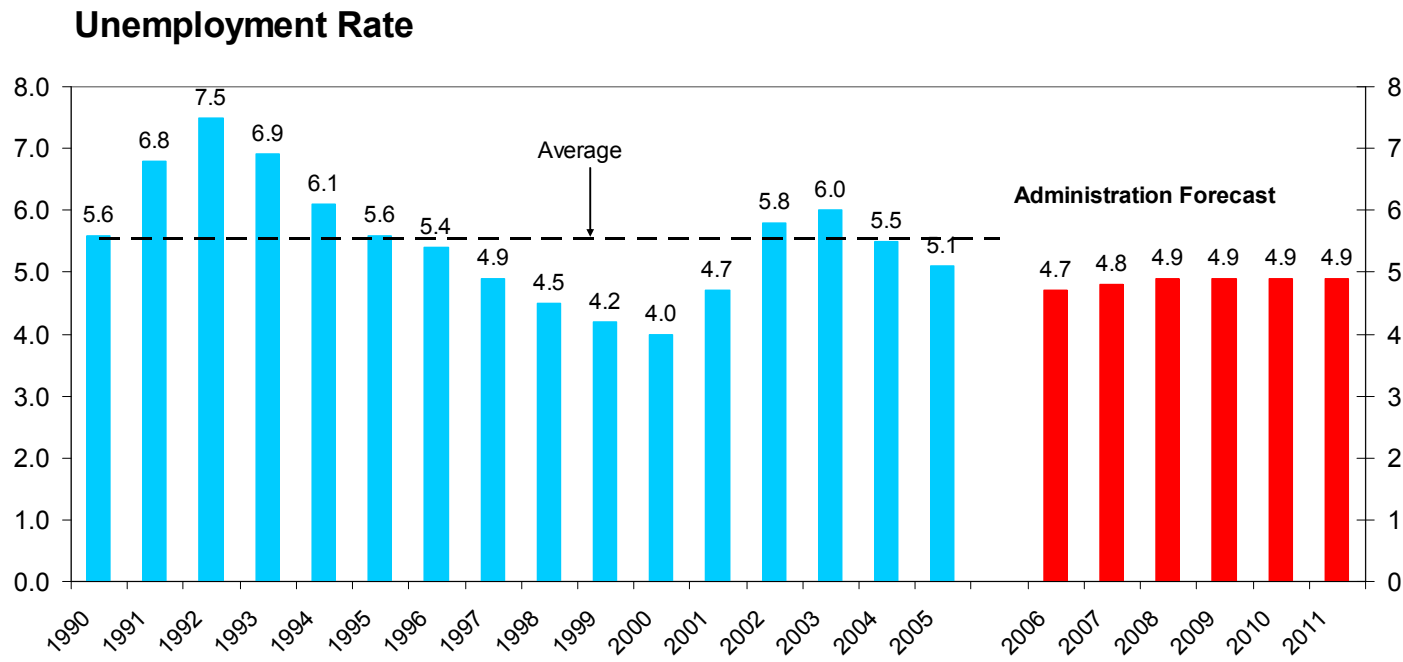
- We expect growth will slow through the rest of the year, averaging 3.6% over the four quarters of 2006.
- We forecast real GDP growth to slow to 3.0% by 2011

# Inflation should decline next year



- The inflation forecast is for 3.0 percent over this year.
- The forecast shows inflation returning to 2.4 percent for the next several years.

# Unemployment rate is expected to remain very low by historical standards



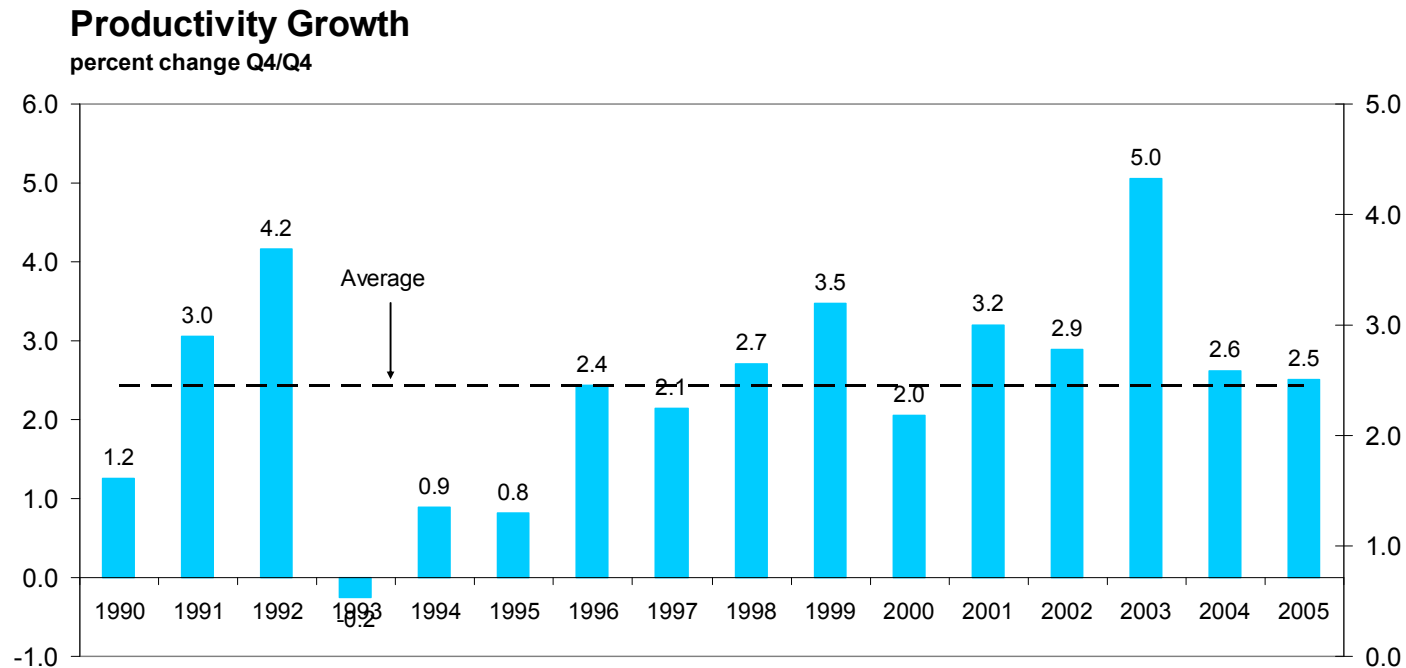
- The unemployment rate has fallen 0.3 percentage point so far this year and the labor market is expected to remain strong in 2006.
- We forecast a very gradual, very slight rise through the forecast period (a conservative forecast).

# Long Term Growth – Potential GDP

$$\begin{aligned} \text{Potential GDP growth (private sector)} \\ = \text{Labor Force Growth} \\ + \text{Productivity Growth} \end{aligned}$$

- Expect potential real GDP growth slow to 3.1% by 2009 and to 3.0% by 2011.
- This slowdown by 2011 primarily reflects declining labor force growth due to:
  - Declining growth rates of the population age 16+
  - Approaching retirement of the Baby-Boom generation (1946 birth cohort reaches early-retirement age of 62 in 2008).

# Productivity Growth Could Offset Some of Slowdown in Labor Force Growth

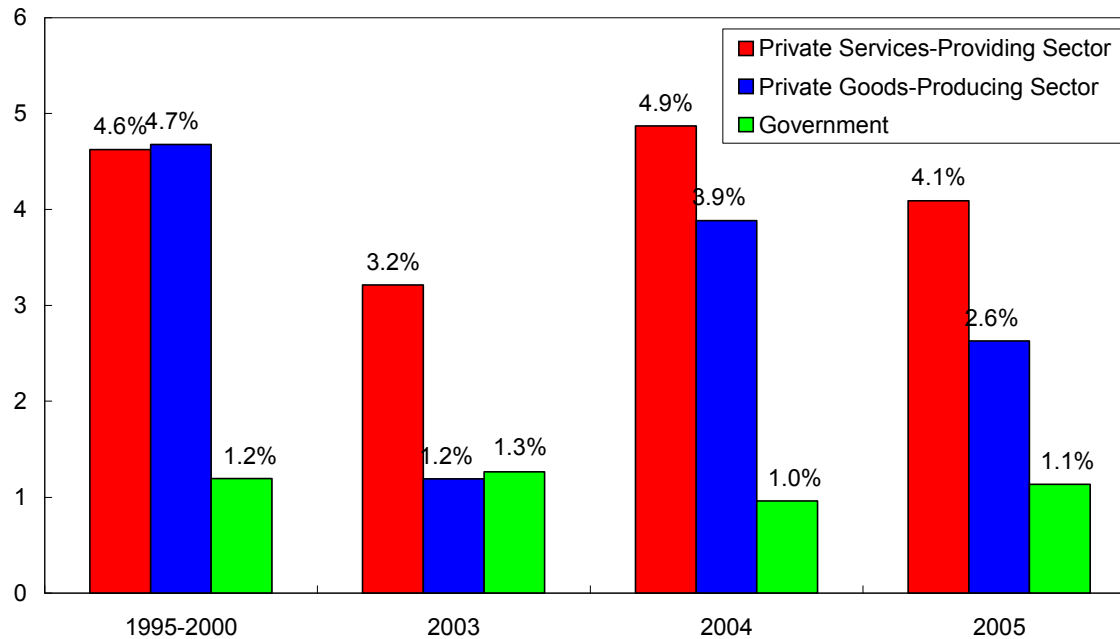


- Productivity growth has been exceptional since 2000.
  - Productivity in the first quarter grew 3.7% at an annual rate

# Industry Composition of GDP Growth

## Growth in Real GDP by Industry

Annual percent change



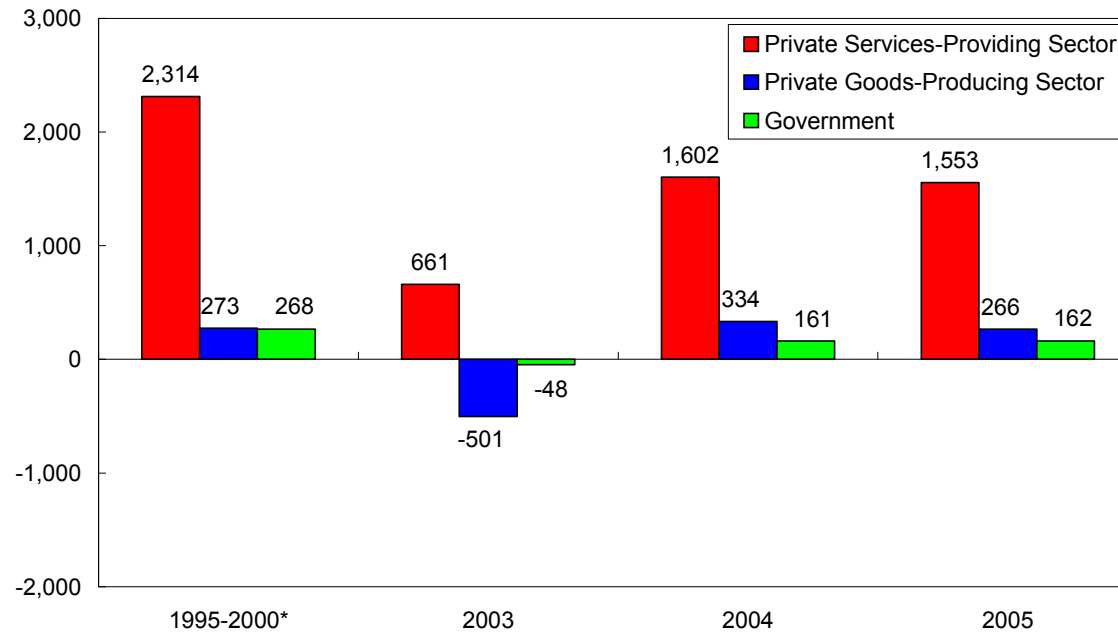
Source: Bureau of Economic Analysis.

- Output growth in service-providing industries has now outpaced goods-producing industries for 5 straight years.

# Employment Growth

## Growth in Employment by Industry

Annual level change



Note: Growth in payroll data from 1995 to 2000 refers to the average annual level change.

Source: Bureau of Labor Statistics.

- Job growth remains firmly centered in service-providing industries.