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The Administration today released an updated economic forecast that shows the strong economic expansion in the U.S. is expected to continue with healthy job creation and contained inflation.

The new economic forecast – which will be used for the President's Fiscal Year 2007 budget – is similar to the consensus of professional economic forecasters and the Administration's previous forecast. Early indicators of activity suggest that growth of real gross domestic product (GDP) during the four quarters of 2005 will be about 3.5 percent, revised up 0.1 percentage point from the Mid-Session projection in June 2005. In 2006, real GDP growth is expected to be similar at 3.4 percent.

"This week's estimate for the third quarter of this year, the Administration's new economic forecast, and the consensus of private forecasters all show strong economic growth. The economy has weathered the hurricanes and volatile energy prices," said Matthew J. Slaughter, Member of the Council of Economic Advisers.

The forecast for employment in 2005 remains on track with job growth at 160,000 per month, revised down slightly from a Mid-Session estimate of 178,000 per month largely because of the September disruptions from Hurricanes Katrina and Rita. Payroll employment growth during 2006 is projected to increase to 176,000 per month, essentially unchanged from the Administration's previous forecast. The unemployment rate has fallen 0.4 of a percentage point during the past year and is projected to remain at 5.0 percent.

"The U.S. economy today is performing strongly and with the help of good economic policies from the Administration and the Fed, this economy continues to demonstrate flexibility and dynamism – even in the face of the severe weather disruptions we faced this summer. Real GDP and payrolls are expected to continue to grow at an above-trend rate while core inflation remains low," said Treasury Secretary John W. Snow.

The Administration expects moderate inflation during the next six years, the length of the forecast. For example, the overall consumer price index (CPI) is projected to increase at about a 2.4 or 2.5 percent annual rate. While overall CPI inflation during the 12 months ended in October was higher than expected at 4.3 percent, the variance was almost entirely due to volatile energy prices. Excluding food and energy, the core CPI increased 2.1 percent during the past 12 months, essentially unchanged from the year-earlier rate. The Administration's inflation forecasts for the CPI and the GDP price index show overall inflation resuming that trend in 2006, which is consistent with the previous forecast and the consensus of private economic forecasts.

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 yield on 10-year Treasury notes on November 14 was 4.61 percent, just 68 basis points above the (discount) rate on 91-day Treasury bills. This term premium is very low relative to its historical average, and the Administration's forecast shows it increasing gradually during the six-year forecast period. As a result, yields on 10-year notes are expected to increase somewhat more than 91-day Treasury bill rates during the next several years, eventually leveling out at 5.6 percent in 2009.

"Economic growth, along with spending restraint, is essential to continued deficit reduction. The President's pro-growth economic policies are working, and the resulting continued expansion means we remain on track to meet the President's goal of cutting the deficit in half by 2009," said Joshua B. Bolten, Director of the Office of Management and Budget.

Over the longer run, real GDP growth is expected to edge down gradually from 3.5 percent in 2005 to 3.1 percent in 2009 through 2011. The predicted deceleration partially reflects 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. Ben S. Bernanke, Chairman of the Council of Economic Advisers, did not participate in the development of this forecast.

Table 1-1. *---Administration Forecast <1>*

	Nominal GDP	Real GDP (chain-type)	GDP price index (chain-type)	Consumer price index (CPI-U)	Unemploy-ment rate (percent)	Interest rate, 91-day Treasury bills <2> (percent)	Interest rate, 10-year Treasury notes (percent)	Nonfarm payroll employ-ment (millions)	Nonfarm payroll employ-ment (average monthly change, Q4-to-Q4 thousands)
	Percent change, Q4-to-Q4				Level, calendar year				
2004 (actual)	6.8	3.8	2.9	3.4	5.5	1.4	4.3	131.5	178
2005	6.4	3.5	2.8	3.8	5.1	3.2	4.3	133.6	160
2006	5.6	3.4	2.2	2.4	5.0	4.2	5.0	135.5	176
2007	5.6	3.3	2.2	2.4	5.0	4.2	5.3	137.4	140
2008	5.4	3.2	2.1	2.4	5.0	4.3	5.5	139.0	139
2009	5.3	3.1	2.1	2.4	5.0	4.3	5.6	140.7	132
2010	5.3	3.1	2.1	2.4	5.0	4.3	5.6	142.2	127
2011	5.3	3.1	2.2	2.5	5.0	4.3	5.6	143.7	126

<1> Based on data available as of November 15, 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.