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THE DEPARTMENT OF THE TREASURY, AND THE OFFICE OF
MANAGEMENT AND BUDGET,**

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The Administration today released its economic forecast for 2005, showing that the economy is fundamentally strong, with growth expected to continue at solid rates.

The forecast projects real GDP growth of 3.5 percent during the four quarters of 2005 and of 3.4 percent during 2006. Projected growth then tapers to 3.1 percent by 2009 and 2010. This forecast is consistent with the consensus of professional economic forecasters.

“Fiscal restraint and a strong economy are the two critical elements required to cut the budget deficit in half by 2009,” said Director of the Office of Management and Budget Joshua B. Bolten. “This forecast shows that the pro-growth policies we’ve enacted will help generate the economic growth necessary to meet that goal.”

The unemployment rate is projected to gradually decline from its current 5.4 percent level to 5.1 percent in 2007 and later years. Payroll employment has increased 185,000 per month during the first 11 months of 2004, according to preliminary estimates from the Bureau of Labor Statistics (BLS). The Bureau has announced that they expect to revise these numbers upward. Job growth during the four quarters of 2005 is estimated to be about 175,000 per month—a figure in line with the consensus forecast—so that payroll employment is estimated to average 133.4 million in 2005.

“Given the powerful contractionary forces at work since early 2000, the strength of our economy is remarkable” said Council of Economic Advisers Chairman Gregory Mankiw. “The United States faced the bursting of the high-tech bubble of the 1990s, corporate scandals, and slow growth among our trading partners, and today our economy is strong and growing.”

The forecast projects that inflation, as measured by the price index for GDP, will remain near 2 percent for the entire forecast period. This matches the rate of core inflation over the last four quarters and is about the same as that expected by the consensus of private forecasters. Consumer price inflation has been temporarily boosted during the past year by high oil prices. As the impact of these oil price increases recedes, consumer price inflation is expected to come down and eventually stabilize around 2.4 percent.

The current slope of the yield curve (the difference between the yield on 10-year Treasury notes and the 91-day rate) suggests that market participants expect short-term interest rates to rise. The Administration interest rate projections reflect these views as well as those of the consensus of

economic forecasters. By 2010, the rates on 10-year and 91-day Treasury securities relative to the rate of expected consumer price inflation are projected to be close to their historical average.

During the last four quarters (through the third quarter), real GDP has risen 4.0 percent, significantly above the average post-war growth rate. The rate of inflation remains low, with core consumer price inflation at 2.2 percent during the 12 months through November. The unemployment rate of 5.4 percent in November is down from 6.3 percent in June 2003 and is below the average of the past three decades.

“Today’s forecast demonstrates that the substantial tax relief passed in President Bush’s first term, together with expansionary monetary policy, provided economic stimulus and put the economy on the road to recovery and subsequent expansion,” said Secretary of the Treasury John Snow.

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.

Table 1
Administration Economic Forecast

	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 (percent)	Interest rate, 10-year Treasury notes (percent)	Nonfarm payroll employment (millions)
	Percent change, fourth quarter to fourth quarter				Level, calendar year			
2003 (actual)	6.2	4.4	1.7	1.9	6.0	1.0	4.0	129.9
2004	6.3	3.9	2.3	3.4	5.5	1.4	4.3	131.3
2005	5.5	3.5	1.9	2.0	5.3	2.7	4.6	133.4
2006	5.6	3.4	2.0	2.3	5.2	3.5	5.2	135.5
2007	5.4	3.2	2.1	2.4	5.1	3.8	5.4	137.5
2008	5.4	3.2	2.1	2.4	5.1	4.0	5.5	139.2
2009	5.3	3.1	2.1	2.4	5.1	4.1	5.6	140.9
2010	5.3	3.1	2.1	2.4	5.1	4.2	5.7	142.5

<1> Based on data available as of December 3, 2004.

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.