Economy Watch …

"We Are Forecasting Solid Growth For 2008"

Council of Economic Advisers Chairman Lazear Discusses The Administration's Economic Forecast For 2008; Revised Third Quarter GDP Growth Of 4.9 Percent

"We continue to see signs of healthy economic growth, which only underscores the resilience of our economy despite continued challenges in the housing sector. … We are entering a record fifth year of continuous job growth while the unemployment rate remains low and we believe that these trends will continue."

– Council Of Economic Advisers Chairman Edward Lazear, 11/29/07

"The Economy Remains Strong"

Chairman Lazear: "[W]e're still in the range where we expect continued job growth." "The point that you made earlier about the GDP numbers, of course, is something that we are quite happy about. What it does show is that the economy remains strong even during a period when credit issues were going on." (Bloomberg's "Starting Bell," 11/29/07)

➢ **"[O]ne quarter does not necessarily mean that we are going one way or the other."** "If you think about the first quarter, that was a quarter where we had very weak growth – it was just slightly above a half percent, but then it was followed by a quarter of almost 4% growth, and then a quarter of almost 5% growth. … And again, most forecasters are thinking that 2008 will be better than the fourth quarter of this year."

"Personal Income Growth Has Been Strong"

Chairman Lazear: "[T]he labor market still is strong." "Unemployment is still low, wages are still continuing to grow, and as a result, people have money and they're spending it – the real disposable income numbers, all of those numbers seem to be strong. So you're seeing that being reflected in continued consumption growth." (Edward Lazear, Press Briefing On Administration's Economic Forecast, The White House, 11/29/07)

➢ **"[B]ecause the difference between nominal wage growth and expected inflation has still been pretty strong, pretty significant … it looks like demand is still there and the labor market is still strong."**

➢ **"Real disposable income this year is up by 4 percent."** "That's a pretty strong number, and I think it is being reflected in the consumption numbers that we're seeing."

> **"What we tend to look at is average hourly earnings. … We've been seeing good, strong nominal growth in those wages really for about the past three years now."** "I would say over the past three years we've seen good, strong wage growth there."

"This Economy Tends To Be Very Flexible And Very Resilient"

Chairman Lazear: "It's simply that the housing market decline has been more significant than we expected." "Still, we are forecasting solid growth for 2008 – 2.7 percent still is a good, solid growth rate, and that is especially the case given that we have been hit with a pretty significant decline in the housing market."

> **"[B]ecause of the lags that are associated with housing investment and with building, we would expect the decline in … GDP growth that results from housing to play out even over the next couple of quarters."** "So even if things were to sort of go back the other way right now, you'd still expect some hit on GDP growth over the next couple of quarters from housing. So we expect that at least through the first half of 2008 housing will have adverse affects on GDP growth."

> **"Because this economy tends to be very flexible and very resilient, when one sector declines, another sector tends to grow."** "[R]esidential construction can easily move into non-residential construction because they're pretty good substitutes for one another. And the fact that the economy is pretty flexible allows that to happen."

> **"[W]e're not seeing business investment contract as a result of the kinds of credit issues that we're seeing in the financial markets."** "I think the reason they haven't had an effect in the short-run – there are really two reasons. One is, profits remain high, and as long as profits remain high, firms have plenty of cash flow, so they still have a lot of capital on hand to do the business investment."