

# Macroeconomic Perspective

Simon Wilkie

Chief Economist

Federal Communications Commission

Views expressed herein do not necessarily reflect those of the Commission, its Chairman, the Commissioners, or its Staff.

# Overview

- The Recession
- Current Economic Situation
- Macroeconomic Forecasts
- Supply and Demand Indicators
- Potential Problems
- Reasons to be Cheerful
- Conclusions

# Sizing the Recession

- NBER dates recession from March 2001
- GDP contracted for Q1-Q3 2001 (BEA)
- Industrial production peaked June 2000
- Trough December 2001 (7.2% decline)
- Real Personal Income Fell through 2001
- Risen through 2002

# Current Economic Situation

- GDP grew 5% 1st Q and 1.3% 2nd Q
- Unemployment Stable
- Output rising faster than employment because of productivity growth
- Profits up 8.8% 2ndQ 2002 over 2001
- “Leading Indicators” declined last 3 months

# Economic Forecasts

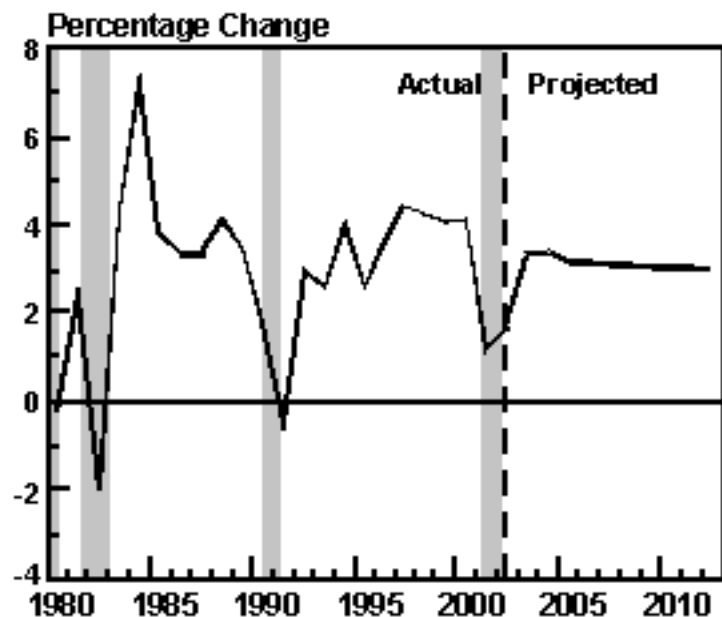
- CBO estimates 2.3% GDP growth 2002
- CBO estimates 3.0% GDP growth 2003
- CBO estimates 3.2% GDP growth 2002-12
- GDP growth 2.9% 91-95, 3.8% 96-01
- Inflation 1.7% for 2002 and 2.4% for 2003
- Unemployment 5.9% for 2002 and 2003

**Table 1.**

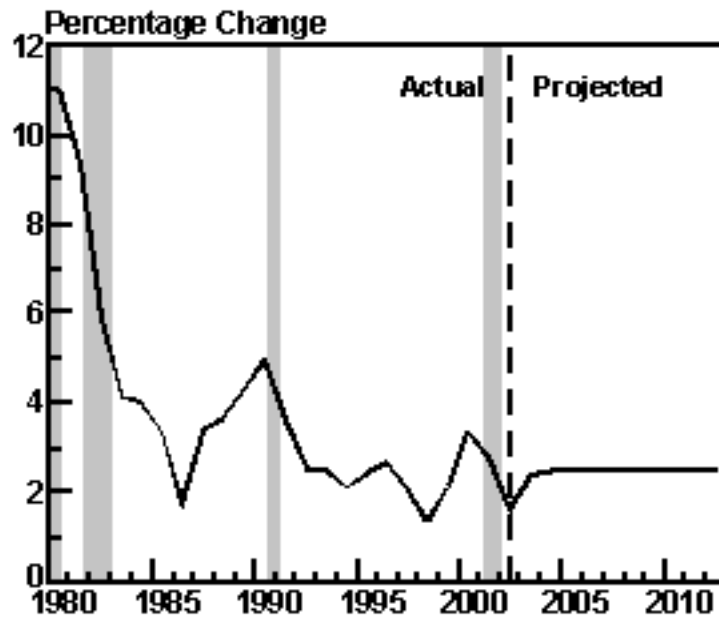
**CBO's Current Economic Projections for Calendar Years  
2002 Through 2012 (Corrected, August 26, 2002)**

	<b>Actual</b>	<b>Forecast</b>		<b>Projected Annual Average</b>	
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004-2007</b>	<b>2008-2012</b>
Nominal GDP (Billions of dollars)	10,082	10,429	10,912	13,414	17,358
Nominal GDP (Percentage Growth)	2.6	3.4	4.6	5.3	5.3
Real GDP (Percentage change)	0.3	2.3	3.0	3.2	3.1
GDP Price Index (Percentage change)	2.4	1.1	1.6	2.0	2.1
CPI (Percentage change)	2.8	1.7	2.4	2.5	2.5
Unemployment Rate (Percent)	4.8	5.9	5.9	5.3	5.2
Three-Month T-Bill Rate (Percent)	3.4	1.7	2.9	4.9	4.9
Ten-Year T-Note Rate (Percent)	5.0	4.9	5.4	5.8	5.8

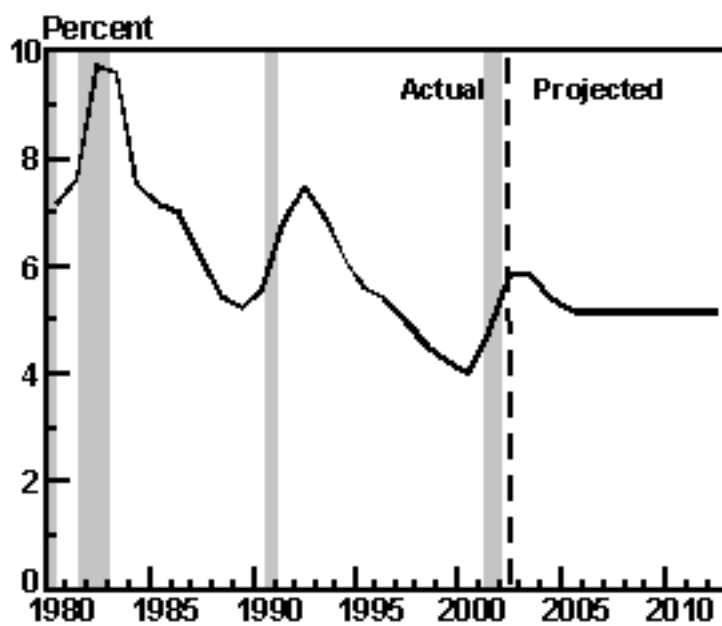
Real GDP



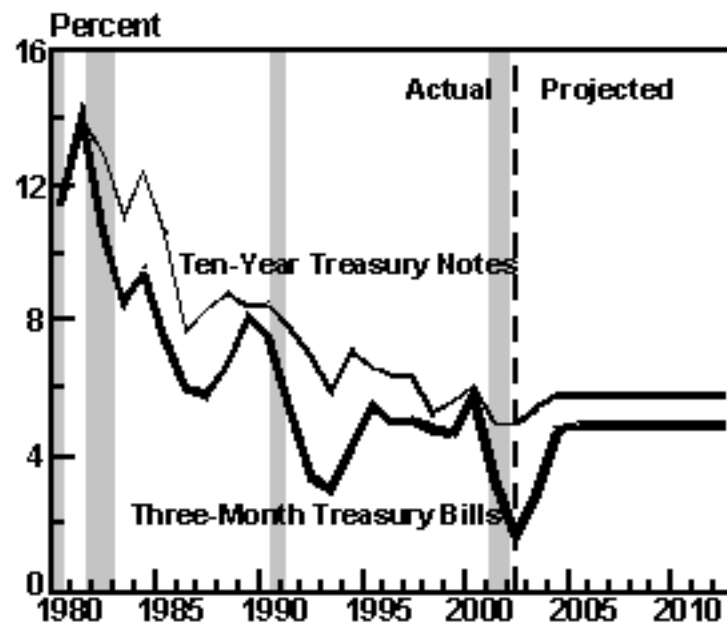
Inflation



Unemployment Rate



Interest Rates



# Supply and Demand

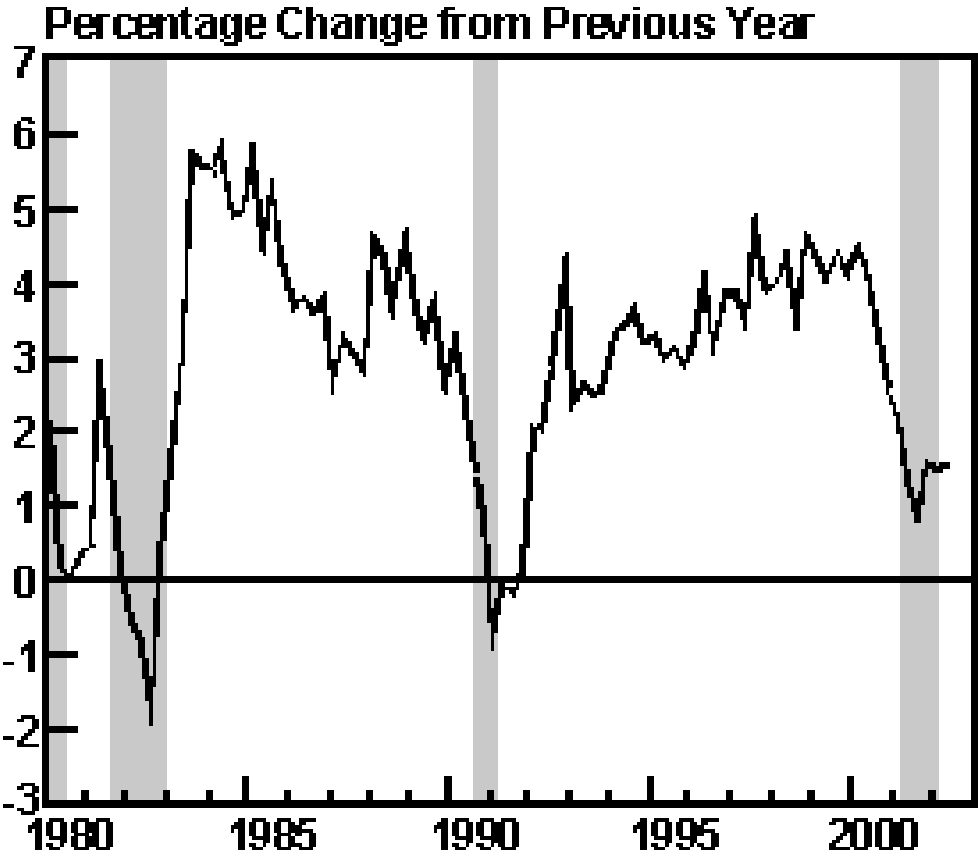
- Real personal income has not fallen
- Consumer demand remains high
- Anemic business investment
- Capacity utilization remains low



# Industrial Capacity Utilization

- 76% of Industrial Capacity used (August)
- Flat for last 3 months
- Year ago 76.4%
- Long run average 81.9%
- Low 71.1% (1982) High 85.4 (1988-9)
- Capacity growth 1% last year

# Real Final Demand



# Growing Sectors

- Services
- Health Care
- Entertainment
- Construction
- Federal Government

# Lagging Sectors

- Telecommunications
- Information Technology
- High Tech Industrial Production
- Financial

# Potential Problems

- “Wealth Effect” Decline in Stock Markets could affect consumer behavior
- Dock workers strike - \$1B trade a day!
- Mideast Issues- effect on budget & oil price
- Trade Issues: Steel Tariffs, Exporter Tax Policies, Agricultural Subsidies. WTO

# Reasons to be Cheerful

- Economy has grown since 3rd Q 2001
- Economy growing at  $\sim 3.8\%$  (1st & 2nd Q)
- Unemployment stable at 5.8%
- Personal income close to all time high
- Consumer expenditures resilient

# Conclusions

- Recession was significant
- Classic over capacity situation
- Real Personal Income stable
- (Non-Financial) Profits recovering
- Stock market decline creates substantial uncertainty