



INFORMATION BULLETIN

Current Economic Climate Winter 2008

The purpose of this bulletin is to provide local leaders with information on key economic trends that make up the current economic climate. These trends are significant because they impact the availability of funds for education, health care, and other public services at the national, state, and local levels.

This bulletin is issued twice each calendar year - summer and winter - and presents information about changes in the gross domestic product, employment and unemployment, consumer prices, retail sales, housing, industrial production, and stock market performance. Other pertinent trends are described as well. In addition, a brief summary of projections for the economy is presented. Finally, comments on both the Federal and State Budgets are offered. We will continue to issue regular monthly Information Bulletins on the Consumer Price Index.

This is the tenth issue of the Current Economic Climate. Your comments and suggestions on this series of Information Bulletins are most welcome. Please contact Dan Kinley or Neil Foley at NYSUT Research and Educational Services with your feedback and comments.

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Current Economic Climate Winter 2008

—HIGHLIGHTS—

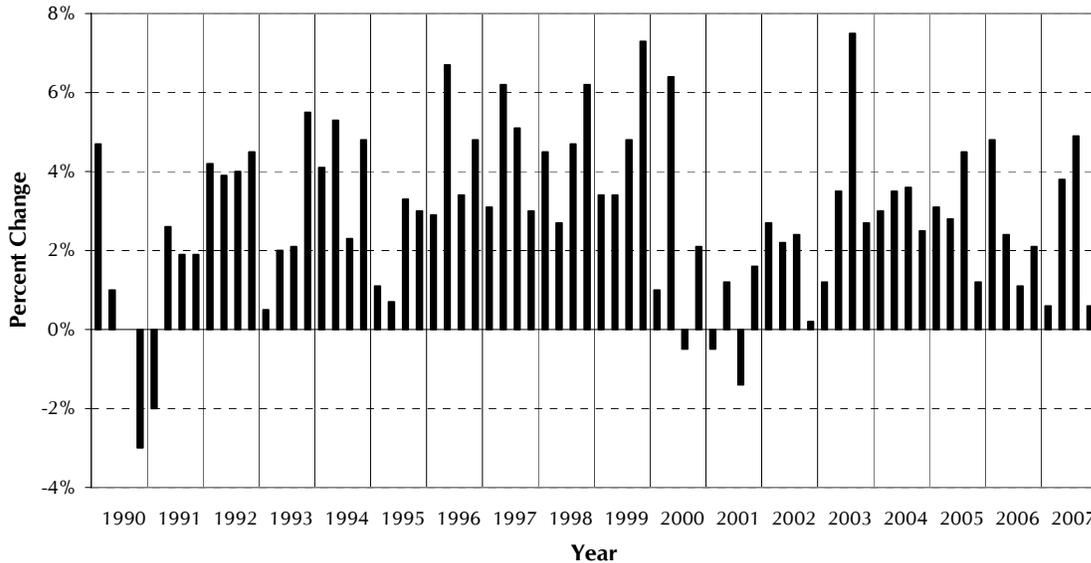
- The annual growth of the Real Domestic Product for 2007 was 2.2 percent which compares to 2.9 percent for 2006, 3.1 percent for 2005 and 3.6 percent for 2004.
- The national unemployment rate for December 2007 was 5.0 percent which is higher than the 4.4 of December 2006 and the 4.8 of December 2005.
- The New York State unemployment rate for December 2007 was 4.9 percent which is higher than the 4.1 percent of December 2006.
- New York State employment for December 2007 was at 8,841.4 million jobs which is up from the December 2006 employment level of 8,772.4 million jobs.
- The manufacturing industry in New York State has lost 406,400 jobs from December 1990 to December 2007, a loss of 42.8 percent.
- The Consumer Price Index – United States City Average for December 2007 was 4.1 percent higher than the index for December 2006.
- According to the Congressional Budget Office, the Federal budget deficit for 2008 is expected to rise over the \$163 billion deficit for 2007 to an estimated \$219 billion.
- The New York State Division of the Budget in its 21 Day Amendments to the 2008-09 Executive Budget has estimated that revenues for 2008-09 will be lower by \$384 million.
- While pointing to a soft economy marked by a higher unemployment rate, the financial market problems associated with sub-prime mortgages, higher energy prices and the slowdown in housing, the Federal Reserve Chairmen Ben Bernanke said before Congress in February 2008 that the Federal Reserve Board has reduced the federal funds rate by 2.5 percent since September 2007, and that the Board is monitoring the economy carefully and will take actions necessary to promote moderate economic growth and mitigate risks to economic activity.

—Economic Trends—

Gross Domestic Product —

The Gross Domestic Product (GDP) is the sum of goods and services produced in the United States for a given period. It is an indicator of general business activity and economic growth. The most widely followed measure of economic growth is Real GDP which adjusts to remove the effects of inflation. Chart 1 shows the quarterly changes in Real GDP since 1990.

Chart 1
Gross Domestic Product Quarterly Changes



Source: Figures obtained from the U.S. Commerce Department, Bureau of Economic Analysis, National Accounts at website www.bea.gov/bea

Throughout the balance of the 1990s, there was growth, quarter to quarter until 2000. During this period, seven quarters exceeded a 5 percent rate of growth. The third quarter of 2000 clearly shows a downturn in the economy.

While the downturn of 2000 and 2001 ended with the fourth quarter of 2001, growth since then had been lackluster through the first quarter of 2003. From the first quarter of 2003 through the last quarter of 2007, growth has been uneven as 4 quarters have grown at a rate in excess of 4 percent, 10 quarters have grown at a rate of less than 3 percent, and 6 quarters have ranged between 3 and 4 percent in growth.

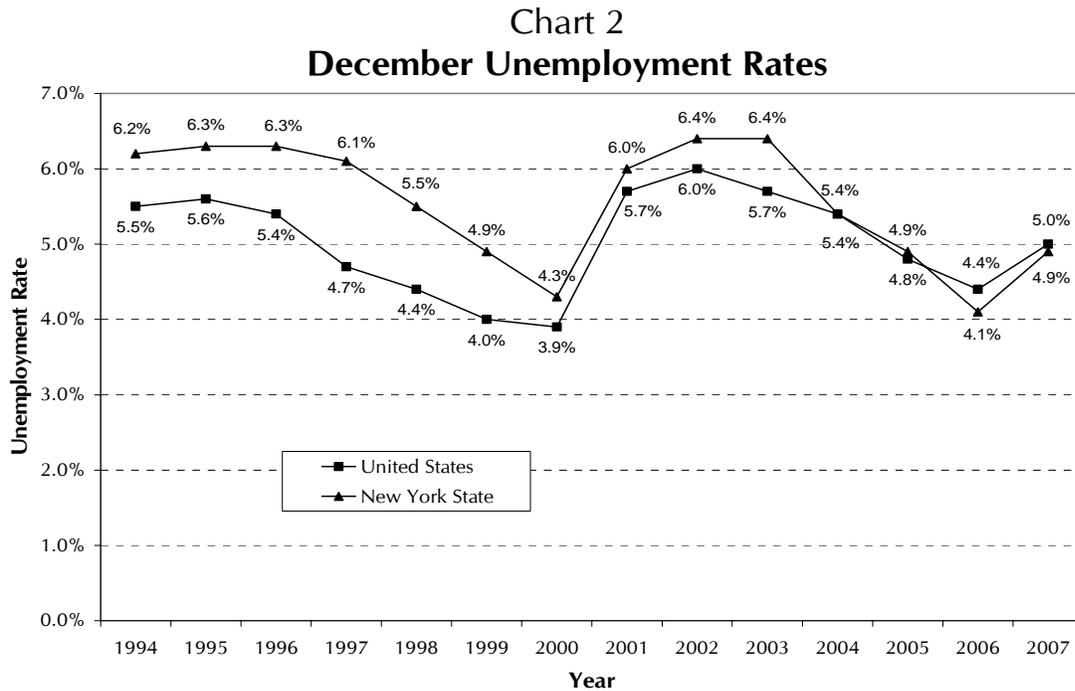
The annual growth rate for Real GDP can be seen in Table 1 for the last ten years.

Table 1 <i>Annual Rate of Growth - NYS</i> <i>Real Gross Domestic Product</i>	
<u>YEAR</u>	<u>RATE OF GROWTH</u>
1998	4.2 PERCENT
1999	4.5
2000	3.7
2001	0.8
2002	1.6
2003	2.5
2004	3.6
2005	3.1
2006	2.9
2007	2.2

Source: Figures obtained from the U.S. Commerce Department, Bureau of Economic Analysis, National Accounts at website www.bea.gov/bea

National and State Unemployment -

Unemployment rates are important indicators of economic climate. Chart 2 below presents unemployment rates for the United States and New York State for the period from 1994 through 2007 -- December figures only.



Source: U.S. Department of Labor, Bureau of Labor Statistics at website www.bls.gov

The rise and fall of unemployment rates may be seen as the inverse of the rise and fall of the Real GDP since 1994. Simply stated, as economic activity increases (growth in Real GDP), unemployment rates fall, and as economic activity declines (fall-off in Real GDP), unemployment rises.

The unemployment rate for the nation was 5.5 percent in December 1994, declined to 3.9 percent in December 2000, rose sharply to 5.7 percent in December 2001, rose even high to 6 percent in December 2002, and declined to 4.4 percent in December of 2006. The rate has risen to 5.0 percent in December of 2007.

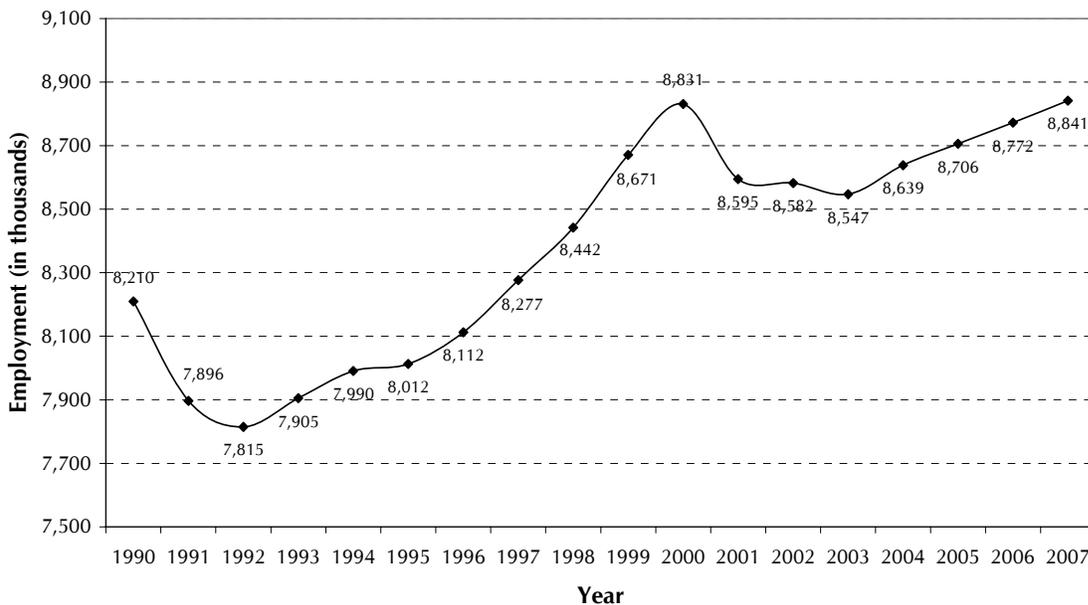
The unemployment rate for New York State for December 1994 was 6.2 percent, and then declined with the growth in the economy in the 1990s to 4.3 percent in December 2000. The state unemployment rate then rose to 6.0 percent for December 2001, 6.4 percent for both December 2002 and December 2003. The rate has fallen to 4.1 percent in December 2006 and has now risen to 4.9 percent in December 2007.

The rise and fall of the unemployment rates in New York State reflects the boom cycle of the 1990s and the downturn of 2000 and 2001 followed by the uneven growth in Real GDP for 2002 and 2003. The growth in Real GDP for 2004, 2005 and 2006, although uneven has contributed to a decline in the unemployment rate. The slowing of growth in 2007 has seen a rise in the unemployment rate to 4.9 percent for December 2007.

New York State Employment -

Chart 3 shows the number of workers employed in December of each year from 1990 on.

**Chart 3
New York State Employment**



Source: NYS Department of Labor, Workforce and Industry Data, ww.labor.state.ny.us

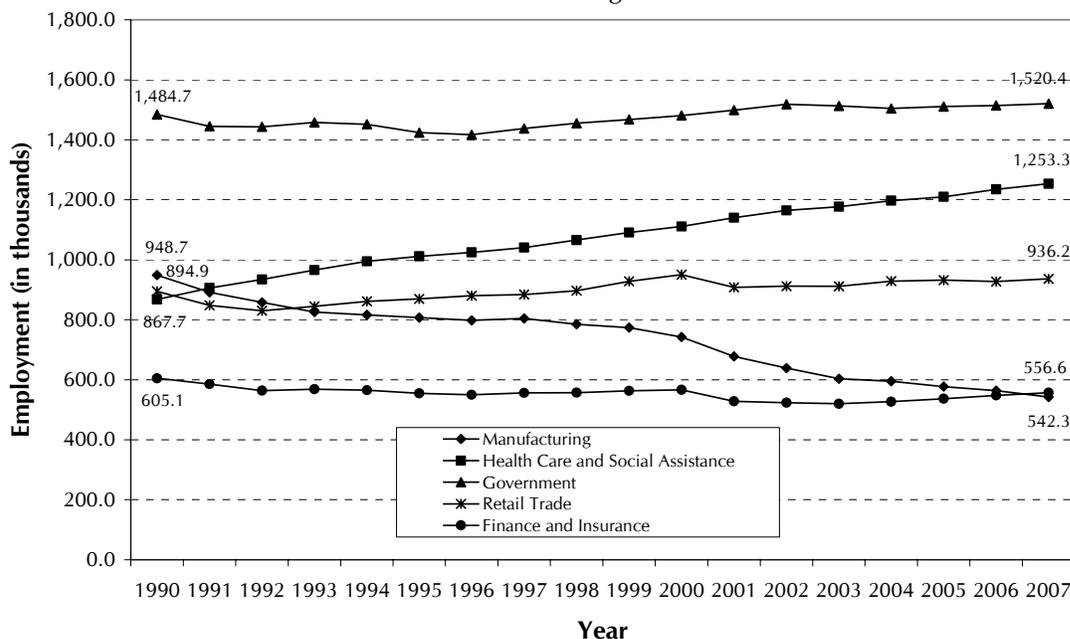
The trend line in Chart 3 clearly shows the decline in employment during the economic downturns of the early 1990s and the period from 2000 through 2003.

Employment in December 2007 has increased to 8.8 million workers from 8.5 million workers in December 2003. The employment level in December 2007 is slightly higher than the previous high of December 2000.

Looking at total employment numbers alone does not reveal other changes in employment in New York State. Chart 4 shows the employment trends in New York State in five selected sectors.

Chart 4
Employment - Selected Industries

December Figures



Source: New York State Department of Labor, Workforce and Industry Data; www.labor.state.ny.us

The New York State Department of Labor keeps data on employment in selected industries. Chart 4 presents this data for five selected industries for the month of December from 1990 to 2007. The employment trends over this period are illustrative of the changing nature of the New York State economy.

Employment in manufacturing has declined continuously over the last 18 years – a loss of 406,400 jobs since 1990.

At the same time, health care and social assistance employment grew – an increase of 385,600 jobs.

Government employment in New York has grown from 1,484,700 jobs to 1,520,400 jobs, an increase of 35,700 jobs.

Retail trade has grown from 894,900 jobs to 936,200 jobs, an increase of 41,300 jobs.

Finance and insurance has decreased in job over this period from 605,100 jobs to 556,600 jobs, a decrease of 48,500 jobs.

Manufacturing has declined dramatically in jobs, health care and social assistance has grown dramatically while other sectors such as government, retail trade, and finance and insurance have changed to a lesser degree.

Job Trends and Compensation –

One question that is often asked as new jobs are created is what are the wages of the new jobs compared to the wages of the jobs that are lost. Using the information in Chart 4 which shows selected broad categories of jobs in New York State, and then factoring in wage data from the New York State Department of Labor, the question can answered.

Chart 4 shows the dramatic loss in the number of manufacturing jobs -- 406,400 jobs since December 1990, and significant growth in the number of health care and social assistance jobs -- an increase of 385,600 over this same period.

New York State Department of Labor data for 2006 shows that the annual average wages for the manufacturing industry was \$53,770. Conversely, the health care and social assistance industry had annual average wages of \$39,891. The difference in wages between the two industries is \$ 13,879. The sector with job growth, health care and social assistance, is paying on average almost 26 percent less than the industry that is losing jobs -- manufacturing.

Government annual average wages for 2006 was \$48,418.

Retail trade is a large employment industry in New York State with over 936,000 jobs. The annual average wages in 2006 for this industry was \$28,195.

The December 2007 level of employment in the finance and insurance industry is 556,600 jobs which is below the December 2000 level of 566,700 but is coming back, The December 1990 employment level of 605,100 is still the highest level of employment for this industry in the last 18 years. The annual average wages for this industry in 2006 was \$177,637.

Consumer Price Index -

NYSUT Research and Educational Services issues a monthly Information Bulletin, Consumer Price Index, which reports the latest monthly data on the consumer price index. This Information Bulletin uses data from the Bureau of Labor Statistics, U.S. Department of Labor.

The United States City Average Consumer Price Index for December 2007 was 210.036 – representing an increase of 4.1 percent over the index for December 2006.

According to the NYSUT Information Bulletin, Consumer Price Index, December 2007, the Northeast Area Consumer Price Index for December 2007 was 223.425 – representing an increase of 3.8 percent over the Index for December of 2006.

The United States City average increase for the 2007 calendar year was 2.8 percent and 3.2 percent for 2006.

The New York – Northern New Jersey average increase for the 2007 calendar year was 2.8 percent and 3.8 percent for 2006.

Retail Sales -

According to the February 10, 2008 Blue Chip Economic Indicators Report, total retail sales fell 0.4 percent in December of 2007 and rose just 4.2 percent for the calendar year 2007. This is the most modest growth since 2002.

Blue Chip suggests that the planned tax rebate program should help retail sales in the late second quarter and third quarter of 2008. But, as Blue Chip cautions, slowing job growth, tighter credit and falling home values are expected to weigh on consumer spending throughout 2008.

Housing -

Blue Chip Economic Indicators for February 10, 2008 reports that total housing starts plunged 14 percent in December to an annualized rate of 1.006 million units, the lowest level since 1991. The Report goes on to state that for all of 2007, total starts dropped 25 percent, the largest decline since 1980. There is a continued softness in housing permits that suggests further pullbacks in construction. New home sales dropped by 26 percent for 2007, the biggest decline since 1963.

Blue Chip summarizes the situation by saying Near record high inventories of unsold new and existing homes, tightening credit standards and falling home values suggest continued pain for this sector.

Industrial Production -

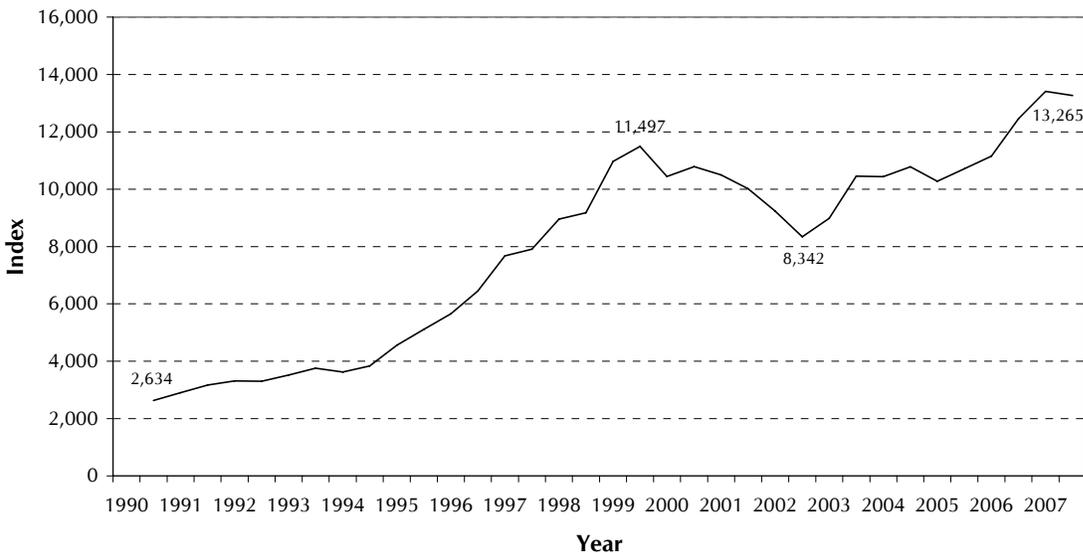
According to the Blue Chip Report for February 10, 2008 industrial production grew 2.1 percent for all of 2007 and was the weakest annual advance since 2003 and a “bit reminiscent of the slowdown in 1989 and 1990 before the 1990-91 recession”.

Weighing on the manufacturing activity in 2007 were problems in both the housing and automobile industries. Anticipated slower economic spending, along with signs of softening business investment do not bode well for manufacturing activity this year. Blue Chip suggests that the consensus forecast for industrial production is growth of only 1.1 percent for 2008.

Stock Market Performance -

The stock market experienced a tremendous run-up in the late 1990s due in large part to the technology boom. There are numerous reasons, however, for the subsequent decline of the stock market. They include the so-called bursting of the technology bubble, the economic downturn of 2000 and 2001 along with the slow recovery of 2002, continuing international uncertainty, corporate scandals, and the attacks of September 11, 2001. Chart 5 shows the performance levels of the Dow Jones Industrial Average, one of the key market indicators, on June 30 and December 31 for every year since 1990.

Chart 5
**Dow Jones Industrial Average
June 30th and December 31st**



Source: Yahoo Finance, Historical Prices; <http://finance.yahoo.com>

The Dow Jones Industrial Average closed at 11,497 on December 31, 1999 and dropped to 8,342 at the close on December 31, 2002 and subsequently rose to 10,454 at the close on December 31, 2003, an increase for the year of 25 percent.

The market has had ups and downs since December 31, 2003 with a close on December 31, 2007 at 13,265. The Dow Jones Average monthly closings during these years has gone as low as 9,660 and as high as 14,280.

Energy Costs -

One of the most volatile factors in the current economy is the cost of energy. The sharply rising and falling costs for gasoline and natural gas impact the consumer and just about every sector of the economy as rising and falling energy costs affect the manufacture and transportation of so many goods.

The following is a snapshot of a few sample energy costs from 1996 through 2007 for regular gasoline in the month of December of each year and for residential natural gas for the month of November of each year (latest available data).

<u>YEAR</u>	<u>REGULAR GASOLINE</u> <u>PRICE PER GALLON</u>	<u>NATURAL GAS</u> <u>RESIDENTIAL PRICE</u> <u>PER THOUSAND CUBIC FEET</u>
	<u>DECEMBER</u>	<u>NOVEMBER</u>
1996	\$1.23.3	\$6.37
1997	1.11.9	6.86
1998	92.3	6.58
1999	1.26.1	7.15
2000	1.41.8	8.58
2001	1.07.2	7.98
2002	1.34.8	7.99
2003	1.44.8	9.77
2004	1.80.0	11.44
2005	2.17.4	15.64
2006	2.28.4	12.47
2007	2.98.4	12.82

Source: U.S. Energy Administration: web site www.EIA.DOE.gov

The numbers tell a story of fairly stable prices for regular gasoline until 2000-01, followed by a steady increase in price from December to December with a price of 2.98 per gallon for December of 2007.

Natural gas, however, has risen from \$6.37 per thousand cubic feet for November 1996 to \$15.64 for November 2005 and was at \$12.82 for November of 2007. While natural gas has risen and now declined somewhat, regular gasoline has risen sharply with an increase of 70 cents from December 2006 to December 2007, an increase of 30 percent.

Projections on the Economy -

Factors such as the ups and downs of the Real GDP, the volatility of the international situation, changes in the stock market and energy costs, including petroleum all contribute to the difficulty of economic forecasting. This past year the task has been made all the more difficult because of the decline of the housing industry with the upheaval created by sub-prime mortgages in the financial sector.

Blue Chip Reports makes forecast projections on a regular basis regarding key economic indicators. These forecasts are the results of surveying over 50 economic forecasters including banks and other financial institutions, manufacturers, research groups, etc.

Blue Chip Economic Indicators in its February 10, 2008 Report contains a consensus forecast for 2008 Real GDP of 1.7 percent growth over 2007. This consensus forecast of U.S. economic growth in 2008 tumbled over the last month according to Blue Chip because of weaker than expected economic reports, further signs tightening credit conditions and continued turmoil in the credit markets. The consensus forecast now place the odds of recessions at almost 50 percent.

The New York State Division of the Budget in its most recent publication, Supplement to the Annual Information Statement (AIS) State of New York February 14, 2008 observes that since the Division completed its forecasts in January, the national economic picture has continued to deteriorate and the risk of a recession has increased.

The Director of the Congressional Budget Office, Peter R. Orszag, in a letter dated February 15, 2008 to the Chairman of the Senate Budget Committee, the Honorable Kent Conrad, states that the risk of a recession remains elevated and economic activity will remain subdued for some period as the economy continues to work through the effects of problems in the housing and financial markets and the high price of oil.

The Director of the CBO forecasts that real GDP for 2008 will grow by 1.9 percent. This is close to the Blue Chip forecast of 1.7 percent. This would be the lowest growth rate since 2002.

- FEDERAL AND STATE BUDGETS-

Federal Government Budget Outlook -

In a report entitled *The Budget and Economic Outlook: Fiscal Years 2008 to 2018* dated January 2008, the Congressional Budget Office offers an analysis of the Federal Budget spending, revenues, surpluses and deficits.

The report summary states that after three years of declining budget deficits, the slowing economy this year will lead to an increase in the deficit. CBO is projecting that the deficit will rise from 1.2 percent of GDP in 2007 to 1.5 percent of GDP for 2008. The federal budget deficit for 2007 was \$163 billion and is expected to rise to \$219 billion for 2008. CBO is projecting deficits for the federal budget of \$198 billion in 2009, \$241 billion for 2010 and \$117 billion for 2011.

CBO notes that enactment of a stimulus package (which did occur since the report was issued) and additional funding for military operations in Iraq and Afghanistan will increase the deficit this year.

The federal budget deficits continue impact the availability of funds for education, health care and human services spending. Along with the deficits of recent years, there have been prolonged negotiations to achieve consensus on important legislation. The final product has often not met the needs of public schools, health care and human services

The New York State Budget Outlook -

On February 11, Governor Spitzer outlined his 21 Day Amendments to the 2008-09 Executive Budget. The Budget was amended to reflect an estimated decline in revenues for 2008-09 of \$384 million which has been addressed through \$237 million in savings actions and \$147 million in spending re-estimates. The decline in revenues will impact the out year budget gaps as well. The decline in revenues in the New York State Budget will continue to impact the availability of funds to address the critical needs of education, health care and human services.

- OUTLOOK -

On February 14, 2008 Chairman Ben Bernanke of the Federal Reserve gave testimony to the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate. The testimony offered Chairman Bernanke's views on financial conditions, the near-term economic outlook and related issues. Here are some of the highlights:

“...Financial markets in the United States and a number of other industrialized countries have been under considerable strain since last summer. Heightened investor concerns about the credit equity of mortgages, especially sub-prime mortgages with adjustable interest rates, triggered the financial turmoil.Concerns about the weaker outlook for the economy have also roiled the financial markets in recent months.

Conditions in the labor market have also softened.... The softer labor market, together with factors including higher energy prices, lower equity prices and declining home values seem likely to weigh on consumer spending in the short term.”

The Federal Reserve Chairman went on to state that the recently enacted stimulus package and the growth in exports should help the economy. In addition, he pointed to the actions taken by the Federal Reserve to reduce the Federal funds rate by 225 basis points (2.25 percent) since September in order to promote moderate growth and mitigate the risks to economic activity.

The Chairman closed his testimony by envisioning an improving picture. He stated that the Federal Reserve will closely monitor developments to act in a timely manner as needed to support growth and provide adequate insurance against downside risks.

- SOURCES -

Blue Chip Economic Indicators for January and February 2008

Bureau of Economic Analysis, U.S. Department of Commerce

Bureau of Labor Statistics, U.S. Department of Labor

Dow Jones Industrial Average, Historical Figures, Yahoo Finance Website

NYSUT Information Bulletin, Consumer Price Index, December 2007, All Urban Consumers, No. 200704 Released January 16, 2008

New York State Department of Labor, Workforce Industry Data

New York State Division of the Budget; Documents for Proposed Executive Budget for 2008-09; New York State Division of the Budget Website

21 Day Budget Amendments to the 2008-09 Executive Budget; NYS Division of the Budget website

Supplement to the Annual Information Statement State of New York February 14, 2008; NYS Division of the Budget website

Letter dated February 15, 2008 from Congressional Budget Office Director Peter R. Orszag to Senator Kent Conrad' Chairman of the Senate Budget Committee. Congressional Budget Office Website.

Testimony of Chairman Ben S. Bernanke on the Economy and Financial Markets before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate February 14, 2008. Board of Governors of the Federal Reserve System website.

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