



# INFORMATION BULLETIN

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## *Current Economic Climate Winter 2007*

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**T**he 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 eighth 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 2007*

### — HIGHLIGHTS —

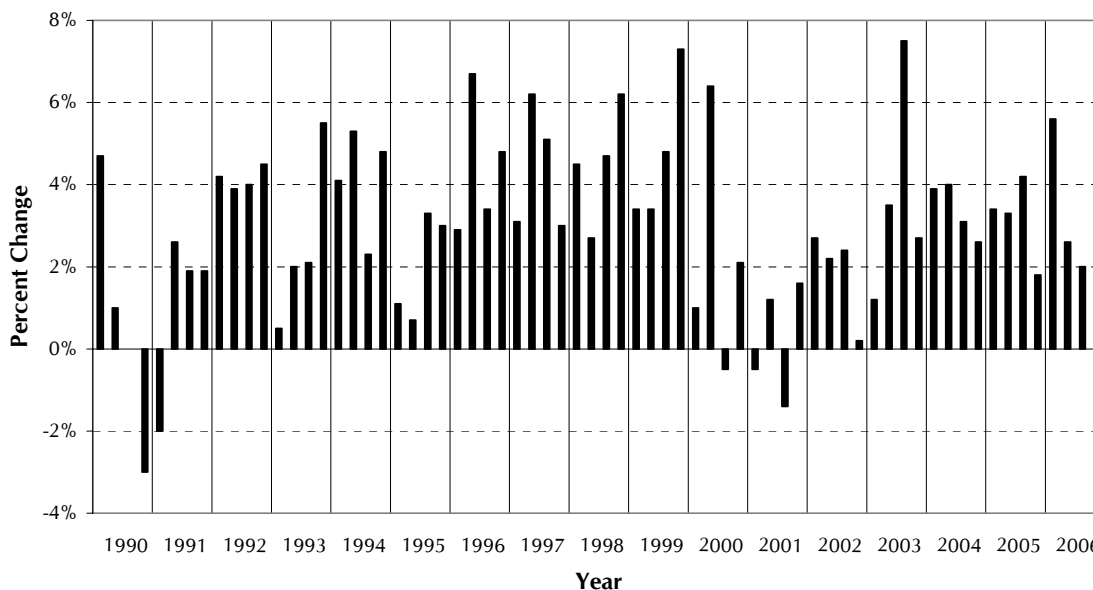
- The annual average growth of the Real Gross Domestic Product for 2006 was 3.4 percent which compares to 3.2 percent for 2005, 3.9 percent for 2004, 2.5 percent for 2003, 1.6 percent for 2002 and 0.8 percent for 2001.
- The national unemployment rate for December 2006 was 4.5 percent which is the lowest since December of 2000.
- The New York State unemployment rate for December 2006 of 4.0 percent which matches the lowest level on record according to the New York State Department of Labor
- New York State employment in December of 2006 was 8,742.2 million workers, an increase of 61,800 workers from December of 2005.
- The manufacturing sector in New York State has lost 388,000 jobs from December 1990 to December of 2006, a loss of 41 percent.
- For the calendar year 2006 the Consumer Price Index was up 3.2 percent which compares to an increase of 3.4 percent for calendar year 2005 over calendar year 2004.
- According to the Congressional Budget Office, the Federal Deficit is projected to be in the vicinity of \$200 billion.
- The New York State Division of the Budget states that there is a current year (2006-07) surplus of \$1.5 billion. The potential imbalance for 2007-08 of \$1.6 billion is overcome through a combination of budget growth limitations most notably in Medicaid and increased revenue collections as a result of closing tax law loopholes.

## — 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 Economic Accounts at website [www.bea.gov/bea](http://www.bea.gov/bea)

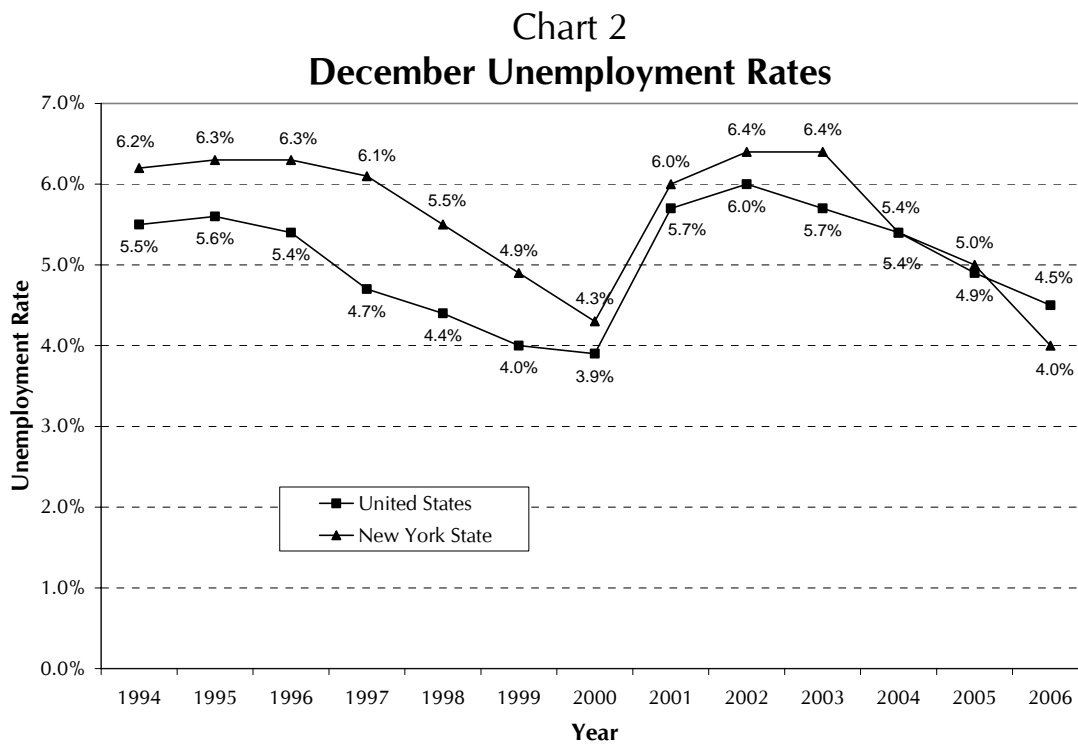
Chart 1 shows that in 1990 and 1991 there was a marked downturn in the economy.

Throughout the balance of the 1990s, there was growth, quarter to quarter, until 2000. During this period, seven quarters exceeded 5 percent growth rates. 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. Since then, as Chart 1 shows, growth in Real GDP has improved and has been uneven since then with four quarters at 4 percent or more and five quarters below 3 percent. Finally, Chart 1 shows the up and down quarter to quarter changes in the GDP for the years 2003 through 2006.

### 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 2006 -- December figures only.



Source: U.S. Department of Labor, Bureau of Labor Statistics at website [www.bls.gov](http://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 higher to 6 percent in December 2002, and has been declining ever since to 4.5 percent in December 2005.

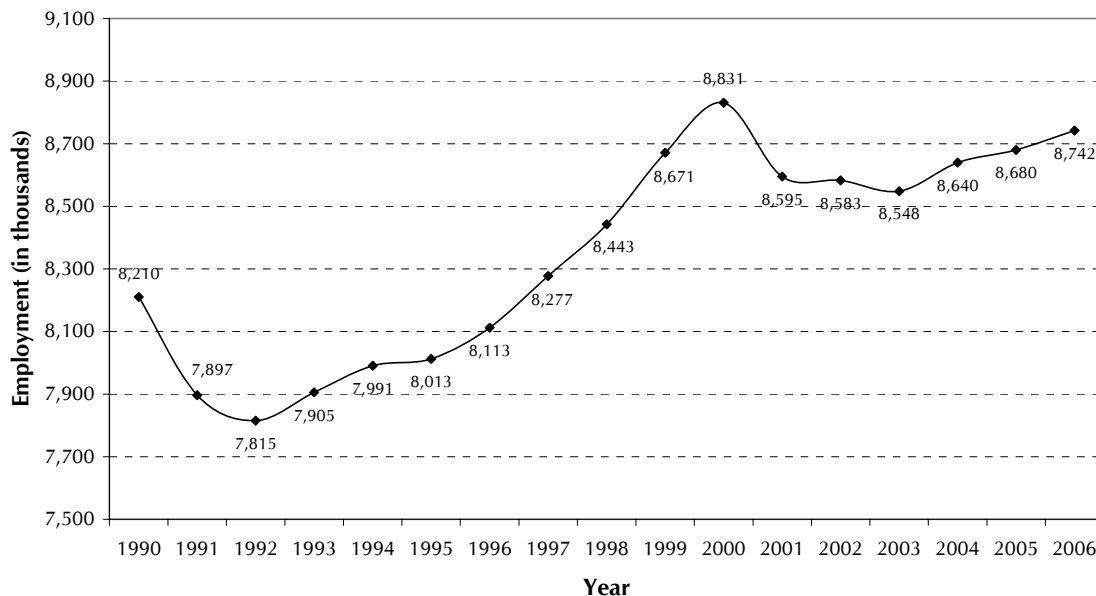
The unemployment rate for New York State for December 1994 was 6.2 percent, and then declined with the growth in the economy in the 1990s to 4.3 percent in December 2000. The state unemployment rate then rose to 6.4 percent for December in both 2002 and 2003, and now with the growth in the economy has fallen to 4.0 percent in December 2006.

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 has contributed to the lower unemployment rates.

### 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



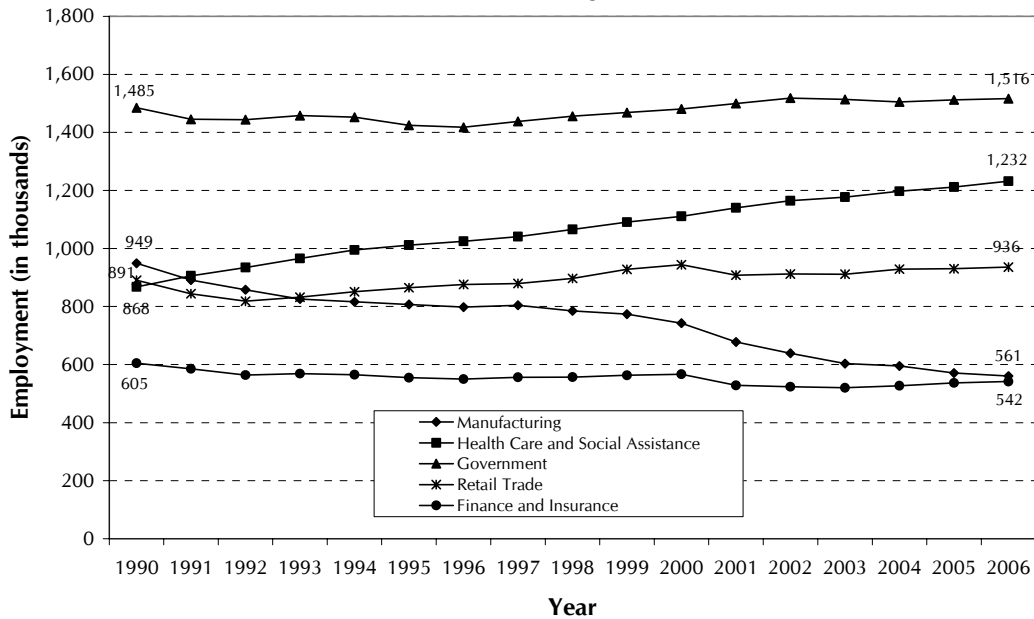
Source: NYS Department of Labor, Workforce and Industry Data; [www.labor.state.ny.us](http://www.labor.state.ny.us)

The trend line in Chart 3 clearly shows the decline in employment during the economic downturns of the early 1990s and 2000 through 2002.

Employment in December 2006 has increased to 8.7 million workers from 8.6 million in December 2005. These employment levels are still below the 8.8 million workers employed in December 2000.

Looking at total employment numbers alone does not reveal other important 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](http://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 2006. 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 17 years – a loss of 388,000 jobs since 1990.

At the same time, health care and social assistance employment grew – an increase of 364,100 jobs.

Government employment in New York has remained relatively level over the past 17 years.

Retail trade has increased by 45,100 jobs while finance and insurance have declined by 63,400 jobs.

### **Job Trends and Compensation –**

One of the questions 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 be answered.

Chart 4 shows the dramatic loss in the number of manufacturing jobs – 388,000 since December of 1990, and significant growth in the number of health care and social assistance jobs -- an increase of 364,100 jobs over this same period.

New York State Department of Labor data for 2005 shows that the annual average wage for the manufacturing sector was \$51,961. Conversely, the health care and social assistance sector had an annual wage of \$38,526. The difference in wages is \$13,435. The sector with job growth, health care and social assistance, is paying on average almost 26 percent less than the sector that is losing jobs – manufacturing.

Government has been relatively stable in the number of jobs for the period since 1990. The annual average wage for 2005 was \$46,920.

Retail trade is a large employment sector in New York State with over 936,000 jobs. The annual average wage in 2005 for the sector was \$27,245.

The current level of employment in the finance and insurance sector is 541,700 jobs which is below the 566,700 level of December 2000 and below the 605,100 of December 1990. The annual average wage in 2005 for this sector was \$153,068.

### **Consumer Price Index –**

NYSUT Research and Educational Services issues a monthly Information Bulletin, Consumer Price Index that 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 2006 was 201.8 – representing an increase of 2.5 percent over the index for December 2005.

According to the NYSUT Information Bulletin, Consumer Price Index, December 2006, the New York – Northern New Jersey Area Consumer Price Index for December 2006 was 221.3 – representing an increase of 3.3 percent over the Index for December of 2005.

The United States City average increase for the 2006 calendar year was 3.2 percent and 3.4 percent for 2005.

The New York – Northern New Jersey average increase for the 2006 calendar year was 3.8 percent and 3.9 percent for 2005.

### **Retail Sales –**

According to the February 10, 2007 Blue Chip Economic Indicators Report, total retail sales were better than expected for the month of December showing an increase of 0.9 percent. Sales excluding vehicles rose 1.0 percent. Sales at electronic and appliance stores grew 3.0 percent in December with sales of flat screen TVs. Sales at apparel stores rose 0.6 percent after two months of declines.

### **Housing –**

For all of 2006, total housing starts fell 12.9 percent while single family starts dropped 14.7 percent according to the Blue Chip Economic Indicators Report of February 10, 2007. In 2006, total permits fell 14.9 percent while single family permits dropped 18.1 percent. In 2006 sales of new houses declined 16.4 percent, the largest decline since 1990. There is a record number of new vacant homes for sale that is not good for a swift recovery of this sector of the economy.



## Industrial Production –

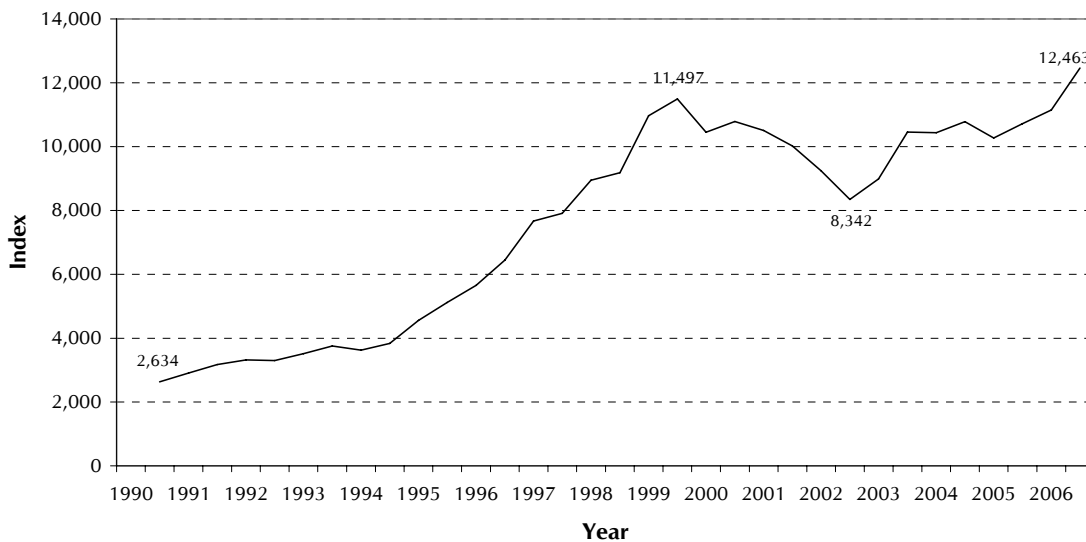
In 2006, total industrial production increased 4.0 percent after increasing 3.2 percent for 2005, and 2.5 percent for 2004 as reported by the February 10 Blue Chip Economic Indicators Report.

Total industrial production increased by a larger than expected 0.4 percent in December 2006, but gains in the prior two months were revised to show a 0.1 percent decline. Manufacturing output showed a strong 0.7 percent rise in December 2006 supported by a 2.3 percent increase in auto parts production and growth of 1.9 percent in home electronics goods production.

## Stock Market Performance –

The stock market experienced a tremendous run-up in the 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 stock market barometers, 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 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 Dow Jones Average closed at 10,717.5 on December 31, 2005 and rose to 12,463.15 at its close for the 2006 year, an increase year over year of 16.3 percent.

### Energy Costs –

One of the volatile factors in the current economy is the cost of energy. These sharply rising and falling costs 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 taken of a few sample energy costs from 1996 through 2006 for regular gasoline in the month of December of each year and for residential natural gas for the month of November (latest available data).

<u>YEAR</u>	REGULAR GASOLINE PRICE PER GALLON <u>DECEMBER</u>	NATURAL GAS RESIDENTIAL PRICE PER THOUSAND CUBIC FEET <u>NOVEMBER</u>
1996	\$123.3	\$6.37
1997	111.9	6.86
1998	92.3	6.58
1999	126.1	7.15
2000	141.8	8.58
2001	107.2	7.98
2002	134.8	7.99
2003	144.8	9.77
2004	180.0	11.44
2005	217.4	15.78
2006	228.4	12.49

Source: U.S. Energy Information Administration: web site [www.EIA.DOE.gov](http://www.EIA.DOE.gov)

The numbers tell a story of fairly stable prices until 2000-2001, followed by a slight decline and then a sharp increase through mid 2006 to the recent drop off in prices in the latter part of 2006. Even though there may be a decline from prices of mid 2006, the December price of gasoline is still a “high” for the month of December. Natural gas, however, hit its “high” in September 2005 at \$16.70 and has declined to \$12.49 cost per thousand cubic feet.

### **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 oil and natural gas all contribute to the difficulty of economic forecasting.

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

Blue Chip in its January 2007 issue forecasts year over year growth in Real GDP for 2007 over 2006 at 2.4 percent. This is down considerably from the actual 2006 over 2005 growth of 3.4 percent in Real GDP. The forecast growth for 2008 over 2007 in Real GDP is 3.0 percent which shows growth over the prior year but still below last years actual of 3.4.

The New York State Division of the Budget in its Economic Backdrop discussion accompanying the 2007-08 Executive Budget forecasts Real GDP growth for 2007 at 2.3 percent, and 3.0 percent for 2008. These forecasts are in line with the Blue Chip forecasts.

The Congressional Budget Office in its January 30, 2007 Testimony delivered by Peter R. Orszag to Congress on The Budget and Economic Outlook: Fiscal Years 2008-2017 forecasts Real GDP growth for 2007 at 2.3 percent and 3.0 percent for 2008.

## FEDERAL AND STATE BUDGETS

### Federal Government Budget Outlook –

CBO Director Peter R. Orszag testified to Congress on January 30, 2007 that...

*CBO estimates that if today's laws and policies did not change, federal spending would total \$2.7 trillion in 2007 and revenues would total \$2.5 trillion, resulting in a budget deficit of \$172 billion. The additional funding that is likely to be needed to finance military operations in Iraq and Afghanistan would put that deficit in the vicinity of \$200 billion. Even so, this year's shortfall would be smaller than the 2006 deficit of \$248 billion.*

Source: Congressional Budget Office

In a letter dated February 7, 2007 responding to a request from Senator Kent Conrad, Chairman of the Senate Budget Committee, the Congressional Budget Office stated that....

*Since September 2001, policymakers have provided \$503 billion in budget authority for military and diplomatic operations in Iraq, Afghanistan, and other regions in support of the war on terrorism. At least 70 percent of that amount has been allocated for the war in Iraq.*

Source: Congressional Budget Office

The federal deficit continues to impact in an adverse way the availability of funds to support education, health care and human services. For example, we have seen actions taken by the Congress for cutbacks in student loans and their further failure to raise Pell Grants commensurate with the rising costs of college.

### New York State Budget Outlook –

The following are a number of observations from the financial plan submitted with the 2007-08 Executive Budget....

- *The Division of the Budget (DOB) now projects a current year (2006-07) surplus of \$1.5 billion, up from the \$1.1 billion estimate in the Mid-Year Financial Plan.*

- *Despite this significant surplus in the current year (2006-07), the State faces a structural deficit of \$1.6 billion in 2007-08 in the absence of Executive Budget actions.*
- *The Executive Budget eliminates the entire potential \$1.6 billion imbalance in 2007-08 with \$2.8 billion in recommended actions that are sufficient to both balance the Budget and fund several new initiatives. Key gap-closing actions will restrain spending in many of the fastest growing programs in the State Budget, particularly Medicaid. In addition, revenue collections will increase as a result of closing a number of tax law loopholes...*
- *The Budget maintains \$3 billion in total reserves, with roughly \$1.2 billion planned to reduce future budget gaps.*

Source: New York State Executive Budget 2007-08; Briefing Book, pp.9-10.

The Executive Budget Financial Plan will undergo modification as the Legislature reviews and acts on the proposed budget, and there are changes in spending and revenues over the time period of this calendar year and the first three months of next calendar year – the last three months of the 2007-08 state fiscal year.

## —OUTLOOK—

In his testimony to the Committee on Banking, Housing and Urban Affairs of the United States Senate on February 14, 2006, Chairman of the Federal Reserve Board Ben S. Bernanke made a number of observations about the current and future status of the United States economy. The following are some excerpts from his testimony:

*...The U.S. economy appears to be making a transition from the rapid rate of expansion experienced over the preceding several years to a more sustainable rate of growth. The principal source of the ongoing moderation has been a substantial cooling in the housing market, which has led to a marked slowdown in the pace of residential construction. However, the weakness in housing market activity and the slower appreciation of house prices do not seem to have spilled over to any significant extent to other sectors of the economy. Consumer spending has continued to expand at a solid rate, and the demand for labor has remained strong. On average about 165,000 jobs per month have been added to nonfarm payrolls over the past six months, and the unemployment rate, at 4.6 percent in January, remains low.*

*Overall, the U.S. economy seems likely to expand at a moderate pace this year and next, with growth strengthening somewhat as the drag from housing diminishes.*

### **Sources –**

*Blue Chip Economic Indicators* for January and February 2007

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

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

*Semiannual Monetary Policy Report* to the Congress Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate February 14, 2007 by Chairman Ben S. Bernanke

Dow Jones Industrial Average, Historical Figures, Yahoo Finance Website

NYSUT Information Bulletin, Consumer Price Index, December 2006 All Urban Consumers, No 200702 Released January 22, 2007.

New York State Department of Labor, Workforce Industry Data

Congressional Budget Office Testimony; Statement of Director Peter R. Orszag; The Budget and Economic Outlook: Fiscal Years 2008-2017 before the Committee on the Budget, U.S. House of Representatives, January 30, 2007.

New York State Executive Budget Documents for 2007-08

U.S.. Energy Information Administration

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