



INFORMATION BULLETIN

Current Economic Climate Summer 2007

The purpose of this bulletin is to provide local leaders with information on key economic trends that make up the current economic climate. This information is important to local union leaders because ultimately, the ability to make investments in critical public services at all levels—national, state, and local—could be impacted by the general health of the national economy. In New York State, the state's economy is very dependent upon the financial services sector; therefore changes in the economic climate could impact the state's ability to provide funds for education, health care, and other public services. All of this impacts on the Resources available to school districts.

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 ninth 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 comments and suggestions.

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Current Economic Climate *Summer 2007*

—HIGHLIGHTS—

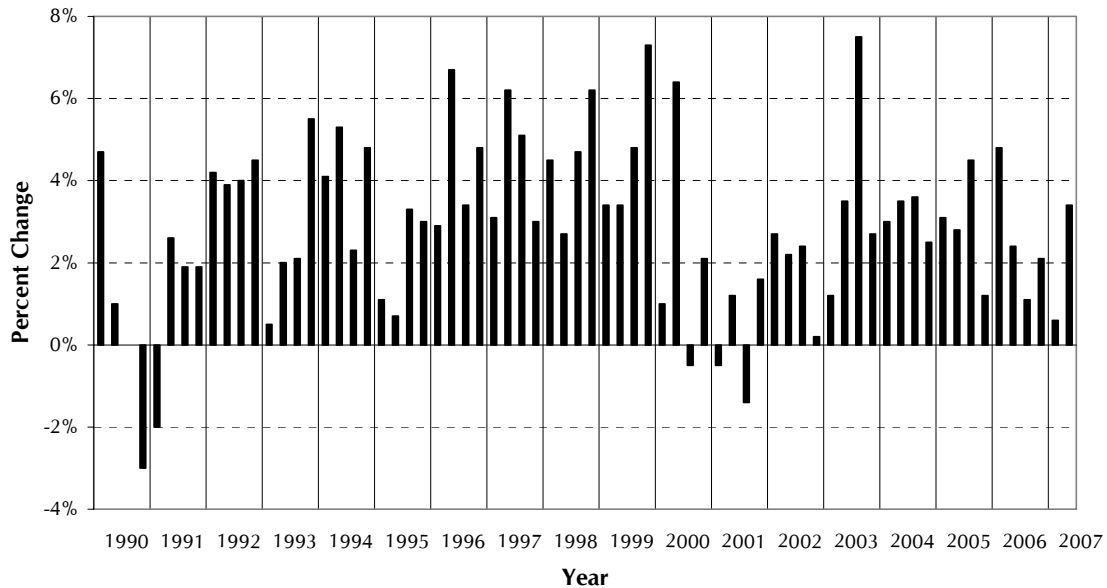
- The Real Gross Domestic Product rate of change fell to 0.6 percent in the First Quarter of 2007 and then rose to 3.4 percent for the Second Quarter of 2007. Current forecasts for all of 2007 place the annual rate of Real GDP growth at 2.0 percent, and 2.8 percent for 2008. These would be the lowest annual rates since 2003.
- The unemployment rate for the United States for June of 2007 was 4.5 percent which is the lowest since 2001
- The unemployment rate for New York State for June of 2007 was 4.7 percent, which is up from the June 2006 rate of 4.5 percent.
- There were 8.7 million workers employed in June of 2007 in New York State which is the highest number in over 10 years.
- The changing nature of the New York State employment picture is marked by the loss of manufacturing jobs – 443,000 jobs since 1990, and the increase in jobs in health care and social assistance – 385,300 jobs since 1990.
- Inflation has diminished from June of 2006 to June of 2007. For New York – Northern New Jersey Area, the inflation rate for June 2006 over June 2005 was 5.6 percent. The same rate for June 2007 over June 2006 was 2.5, a reduction of slightly more than half the rate of the previous period.
- The price of gasoline has risen to \$3.10 per gallon in June of 2007 which is a gain of just more than 100 percent since June of 2003 when gasoline was \$1.53 per gallon.
- The federal budget deficit is projected to be \$214 billion for 2007 and \$226 billion for 2008.
- The New York State Division of the Budget is projecting budget gaps for 2008-09 of \$3.6 billion, for 2009-10 of \$5.3 billion, and for 2010-11 of \$6.7 billion.

—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. Department of Commerce. Bureau of Economic Analysis, National Economic Accounts at website: 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 1990's there was growth, quarter to quarter, until 2000. During this period, seven quarters exceeded five percent growth rates. The third quarter of 2000 clearly shows a downturn in the economy.

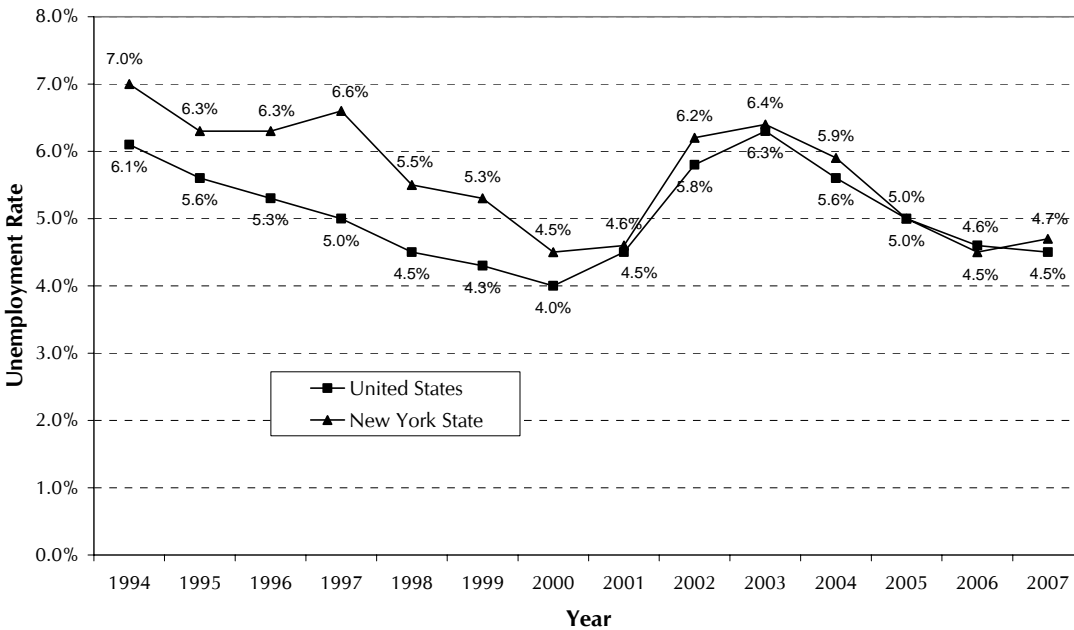
While the downturn of 2000 and 2001 ended with the fourth quarter of 2001, growth since then had been lackluster through the first quarter of 2003. Since then, as Chart 1

shows, growth in Real GDP has improved and has been uneven since then with three quarters at four percent or more and eight quarters below three percent. Finally, Chart 1 shows the up and down quarter to quarter changes in the GDP for the years 2003 through the first half of 2007. The first two quarters of 2007 are illustrative of the uneven growth with first quarter at 0.6 percent and the second quarter at 3.4 percent. These preliminary numbers will be changed in the future as more accurate data is developed.

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 -- June figures only.

Chart 2
US and NYS Unemployment Rates
June Figures



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 rates rise.

The unemployment rate for the nation was 6.1 percent in June 1994, declined to 4.0 percent in June 2000, rose to 6.3 percent in June 2003, and declined to 4.5 percent in June of 2007.

The unemployment rate in New York State for June 1994 was 7.0 percent and then declined to 4.5 percent in June 2000. Since then, the unemployment rate in New York State has climbed to 6.4 percent in June of 2003 and was 4.7 percent in June of 2007.

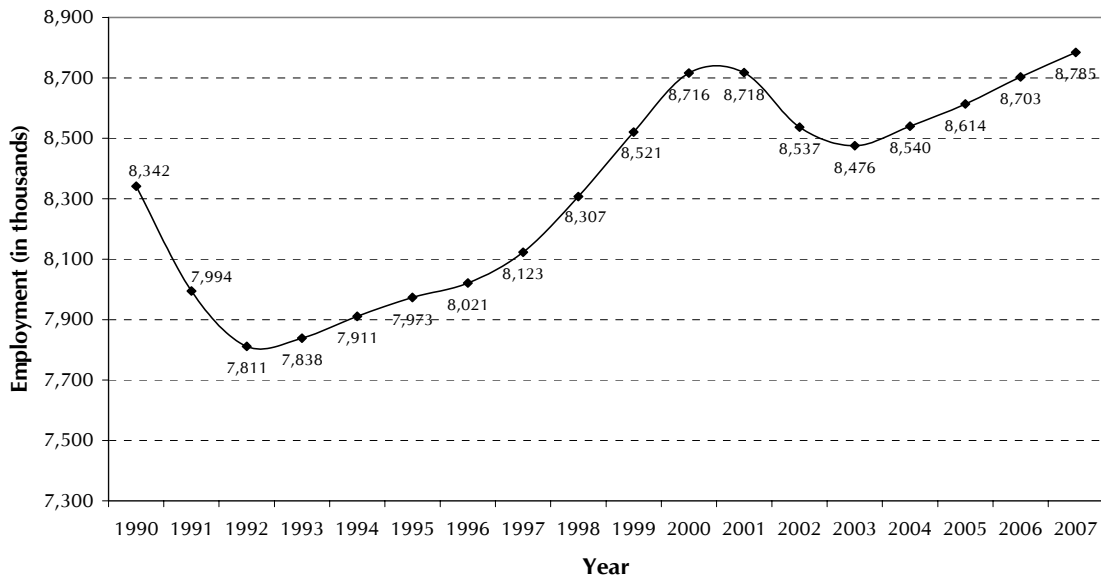
The rise and fall of unemployment rates in New York State reflects the economic growth of the mid to latter 1990s and the downturn of 2001 followed by the generally improving performance of the economy since 2001. It is interesting to note that for almost the entire period covered in Chart 2, New York State's unemployment rate has exceeded the national unemployment rate. Yet in June 2005, the New York State unemployment rate of 5.0 percent was the same as the national unemployment rate of 5.0 percent. The June 2006 unemployment rate for New York State of 4.5 percent was slightly below that national unemployment rate for June 2006 of 4.6 percent. However, the June 2007 unemployment rate for New York State of 4.7 percent is above the national unemployment rate June of 4.5 percent.

New York State Employment —

Chart 3 shows the number of New York State workers that were employed in June in each of the last 18 years.

Chart 3
New York State Employment

June Figures



SOURCE: NYS Department of Labor, Workforce and Industry Data; www.labor.state.ny.us

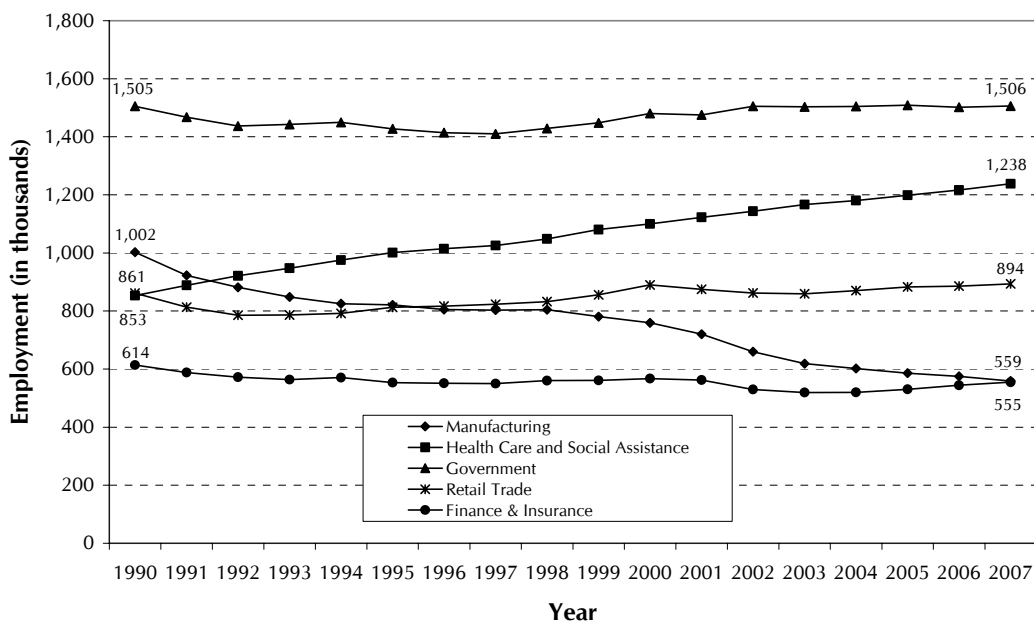
The trend line in Chart 3 clearly shows the decline in employment in New York State in the early 1990s and again from 2001 through 2003.

Employment in June 2007 has increased to 8.785 million workers from the 8.476 million workers employed in June 2003. The June 2007 employment level of 8.785 million workers is the first time that employment has risen above the June 2001 high level of 8.718 million workers employed.

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

Chart 4
Employment - Selected Industries

June Figures



SOURCE: NYS Department of Labor, Workforce and Industry Data; www.labor.state.us

The New York State Department of Labor keeps data on employment in selected industries. Chart 4 presents this data for five selected industries in New York State for the month of June 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 decline of 443,300 jobs since 1990.

Over the same time period, health and social assistance employment grew - an increase of 385,300 jobs.

The loss of manufacturing jobs and the growth in health care and social assistance employment is a major change in the New York State employment picture.

Government employment in New York State has remained at almost constant level over the last 18 years.

Retail trade has increased by 32,200 jobs while the finance and insurance sector has declined by 58,900 jobs.

Job Trends and Compensation —

One of the questions that is 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 information in Chart 4 which shows the broad categories of jobs in New York State for selected industries along with accompanying wage data from the New York State Department of Labor, can offer help in answering the question.

Chart 4 shows the dramatic loss in the number of manufacturing jobs -- 443,300 - since June of 1990 and the significant growth in the number of health care and social assistance jobs - an increase of 385,300 jobs over this same time period.

New York State Department of Labor data for 2006 shows that the annual average wage for the manufacturing sector was \$53,770. Conversely, health care and social assistance had an annual average wage for 2006 of \$39,891. The difference between the two wages is \$13,879. The sector with the job growth, health care and social assistance, is paying on average 25.8 percent less than the sector that is losing higher wage jobs - manufacturing.

Government has been relatively stable in the number of jobs over the period of time in Chart 4 - 18 years. The annual average wage for All Government for 2006 was \$48,418.

Retail trade is a large employment sector in New York State with over 893,500 jobs. This sector has grown from 861,300 in June of 1990 to 893,500 in June of 2007. The annual average wage was \$28,195 in 2006. This wage is 47.6 percent less than the manufacturing annual average wage.

Finally, the finance and insurance sector has declined from 613,700 jobs in June of 1990 to 554,800 jobs in June of 2007, a decline of 58,900 jobs. The annual average wage for this sector 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 June of 2007 was 208.352 – representing an increase of 2.7 percent over the index for June of 2006.

According to the NYSUT Information Bulletin, Consumer Price Index, June 2007, the New York – Northern New Jersey Area Consumer Price Index for June 2007 was 228.258 – representing an increase of 2.5 over the Index for June of 2006.

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

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

Retail Sales —

According to Blue Chip Economic Indicators for August 10, 2007, total retail sales fell 0.9 percent in the month of June from the month of May, the largest drop in two years.

On a year over year basis, retail sales were up 4.1 percent in June 2007 compared to 5.0 percent in June 2006 and 8.8 percent in June 2005.

Sales of cars, trucks, housing, building materials, furniture and home furnishings were all down.

Housing —

According to the Blue Chip Economic Indicators for August 10, 2007 the housing market has the following elements: record high inventories of unsold new and existing homes, falling home prices, and higher interest rates than a year ago.

Blue Chip notes the about \$1 trillion of Adjustable Rate Mortgages will reset between now and the end of 2008, which will result in higher monthly mortgage payments. Lending standards are tightening as well.

Blue Chip reports that many analysts think the housing sector will not begin to see a real recovery until 2009 at the earliest.

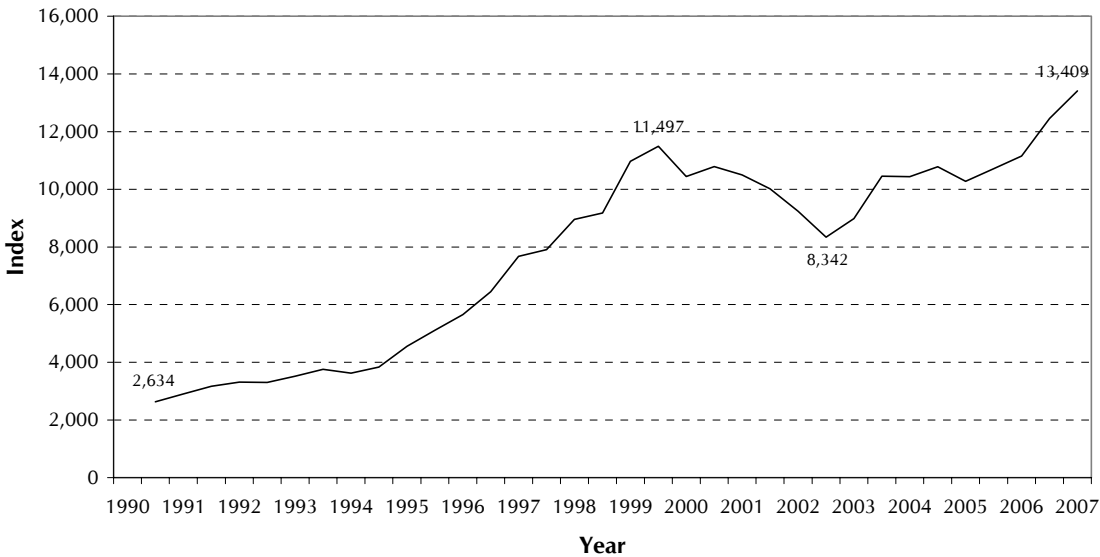
Industrial Production —

According to Blue Chip Economic Indicators of August 10, 2007, total industrial production grew at an annualized rate of 2.9 percent for the Second Quarter of 2007, which was an improvement over the First Quarter growth rate of 1.1 percent and the contraction of 1.5 percent in the Fourth Quarter of 2006. Driving the gain was a rebuilding of inventory levels that had been allowed to run down in the previous two quarters. Blue Chip is forecasting an annual growth rate of 2.0 percent for 2007 and 3.1 percent for 2008.

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 market. They include the 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 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 reached 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 13,409 on June 30, 2007 after showing steady increase throughout 2006 and the first half of 2007.

Energy Costs —

One of the volatile factors in the current economy is the cost of energy. The sharply rising and changing costs of energy impact the consumer and just about every sector of the economy because rising energy costs affect transportation and manufacture of so many goods.

The following table is just a snapshot taken of a few sample energy costs from 1996 to 2007 for U.S. Natural Gas Residential Price Monthly and U.S. All Grades All Formulations Retail Gasoline Prices.

Table 1
Energy Costs for 1996-2007 – June of Each Year

<u>YEAR</u>	NATURAL GAS RESIDENTIAL PRICE PER THOUSAND CUBIC FEET	GASOLINE/RETAIL ALL GRADES/FORMULATIONS CENTS PER GALLON
	<u>MAY</u>	<u>JUNE</u>
1996	\$6.84	\$1.30.0
1997	6.83	1.24.2
1998	7.70	1.10.3
1999	7.30	1.15.4
2000	8.26	1.66.6
2001	11.14	1.65.8
2002	8.54	1.42.4
2003	10.79	1.53.3
2004	11.63	2.01.3
2005	12.88	2.19.8
2006	14.40	2.93.0
2007	14.79	3.10.2

SOURCE: U.S. Energy Information Administration; web site www.EIA.DOE.gov

The numbers tell a story of fairly stable prices until 2000-01, followed by a slight decline and then a sharp increase to the present beginning in 2003. From 2002 to the present, gasoline has increased \$167.8 a gallon or over 100 percent in 5 years. Similarly, natural gas has increased \$6.25 or 73 percent.

Projections on the Economy —

Factors such as the ups and downs of the Real GDP, the volatility of international relations, 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 key economic indicators. These estimates are the result of surveying over 50 economic forecasters including banks and other financial institutions, manufacturers, research groups, etc. In the August 10, 2007 monthly report, Blue Chip states that the consensus forecast of inflation-adjusted growth for the remainder of 2007 and for 2008 has declined. The Real GDP forecast for 2007 over 2006 has fallen to 2.0 percent. The Real GDP forecast for 2008 over 2007 has fallen to 2.8 percent. The 2.0 percent revised estimate for 2007 would be the lowest rate of growth year over year since 2002.

The Board of Governors of the Federal Reserve Monetary Policy Report to the Congress dated July 18, 2007 estimates that Real GDP growth year-over-year fourth quarter to fourth quarter for 2007 will be between 2 ¼ and 2 ½ percent. The estimate for 2008 year-over-year fourth quarter to fourth quarter is between 2 ½ and 2 ¾ percent.

The New York State Division of the Budget in its First Quarterly Update to the 2007-08 Financial Plan is estimating Real GDP for 2007 at 2.2 percent and for 2008 at 3.0 percent.

As the August 10, 2007, Blue Chip Report indicates there is ... “Rising concern about the contagion from the meltdown in the sub-prime mortgage market...” The recent developments with sub-prime mortgages and credit tightening could lead to further stress on Wall Street that could eventually affect Main Street.

The Federal Reserve took action on August 17th to approve a one half a percent reduction in the primary credit rate to 5 ¾ percent. The Federal Reserve took this action in response to a tightening of credit conditions associated with sub-prime mortgages and “ ...to mitigate the adverse effects on the economy arising from disruptions in financial market”. (Federal Reserve statement of August 17, 2007)

FEDERAL AND STATE BUDGETS

The Federal Government Budget Outlook —

The Congressional Budget Office in March of 2007 released An Analysis of the President's Budgetary Proposals for Fiscal Year 2008. The actual budget deficit for 2006 was \$248 billion. The estimate for 2007 is \$214 billion. The estimate for 2008 is \$226 billion. According to the CBO report, the President is requesting additional appropriations of nearly \$100 billion in 2007 for military operations in Iraq and Afghanistan and other activities related to the war on terrorism. The President is seeking \$145 billion for such activities next year.

The federal deficits adversely impact the availability of funds to support education, health care and human services. As the deficits continue, educational spending priorities fall further behind and the federal government falls short in its role of providing critical resources to support and improve our schools and colleges.

New York State Budget Outlook —

The New York State Division of the Budget in its First Quarterly Update to the 2007-08 Financial Plan dated July 30 2007 is projecting budget gaps for 2008-09 of \$3.6 billion, for 2009-10 of \$5.3 billion, and for 2010-11 of \$6.7 billion. These projected gaps will impact the availability of resources to support education, health care and human services spending.

On May 10, 2007, State Comptroller Thomas DiNapoli released a report on the 2007-08 enacted state budget that projected budget gaps for future years that are close to the figures contained in the Division of the Budget First Quarterly Update to the 2007-08 Financial Plan. The Comptroller's gap projection for 2008-09 is \$3.1 billion; for 2009-10, \$4.8 billion; and, for 2010-11, \$ 6.6 billion.

The gaps create an environment in the future that will necessitate greater attention to the financial plan in order for the Governor to meet the requirement to submit a balanced budget to the legislature.

— OUTLOOK —

As this Bulletin is written in mid-August, there has been a period of stress on Wall Street occasioned by a credit tightening associated with sub-prime mortgage lending. It is difficult to extrapolate the future impact on the economy of this stress and the reduction of one half percent to 5 ¾ percent in the primary credit rate by the Federal Reserve.

The Federal Reserve in a statement of August 17 said that they are monitoring the situation and are "... prepared to act as needed to mitigate the adverse effects on the economy arising from the disruptions in financial markets".

The downward forecasts in Real GDP growth are indicators of the severity of the situation as well. The stress in the financial markets coupled with projections of future year New York State budget gaps necessitate a close monitoring of changes in the economy and their impact on the New York State financial plan.

The next Current Economic Climate Report is to be issued in the early months of 2008. At that point there will be more experience with the sub-prime mortgage fallout and its implications for the economy. The implications of the volatility in energy prices along with changes in inflation will need to be watched closely also. By January of next year, the Governor's 2008-09 Budget will have been submitted to the state legislature. There is the possibility of a submission of the budget in some form later this year.

Sources —

Blue Chip Economic Indicators for July and August, 2007

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

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State Fiscal Year 2007-08 Budget Analysis, Review of the Enacted Budget May 2007 Office of the New York State Comptroller, May 10, 2007

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An Analysis of the President's Budgetary Proposals for Fiscal Year 2008, March 2007, Congress of the United States, Congressional Budget Office

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