The us economic forecast for 2005(iv)-2006 essay

Business, Accounting

Opinions on the US GDP forecast vary substantially. On September 29, macroeconomic analysts evidenced the government's final reading on second-quarter gross domestic product. The preliminary reading was for a 3. 3% annual growth rate, revealing that the spring " soft patch" was not as bad as it was expected (WSJ, Investor's Calendar, 1). The debate regarding the US GDP growth for the last quarter of 2005 and year 2006 has been intensified by the claims that the Katrina hurricane will impact negatively the latter. Indeed, the storm decreased industrial production by 0. % (Malpass, A16).

However, analysts assure that the GDP data won't record directly the damage caused by the storm, because the actual destruction is not counted towards GPD with the only exception of the loss of rents and home usage (Malpass, A16). The data presented by the Bureau of Economic Analysis reveal the US economy continues to show solid growth (). Real GDP during the second quarter increased at an annual rate of 3.

4 percent following growth of 3. 3 percent during the fourth quarter of 2004 and 3. 8 percent in the first quarter of 2005. Most importantly, between the third quarter of 2001 and the first quarter of 2005, real GDP increased at an average annual rate of 3. 1 percent.

The data also indicate that inflation remains under control even with the increase in energy prices during this year. Therefore the general picture for the year 2006 is that the US economy is growing at a near average rate with relatively low inflation. The analysis provided by the Economist Intelligence Unit is slightly inconsistent with the general picture illustrated by the Bureau of Economic Analysis. According to the EIU, US Real GDP growth is expected to slow down to 3. % in the last quarter of 2005 and 2. 9% in 2006, which in comparison with the peak of 4. 2% in 2004 can be interpreted as decline. The specialists of the EIU explain the trend of the economic slowdown in 2005(IV)-06 on the basis of the influence of monetary tightening on the financial health of the personal and corporate sectors ().

Because one of the GDP major constituents is consumption, and as experts indicate during the year 2006 a greater part of personal income will need to be forwarded to debt service (automatic decrease in consumption), GDP is expected to decrease. According to the EIU, the house price boom and increasing interest rates will eventually add to the US GDP declining tendency during the year 2006. Practically, increasing interest rates are now slowing the house price boom, and in 2006 will impact house and financial asset prices to decline. The general picture for the US GDP is as follows: the consumers' desire to save more, intensified with increasing debt-service costs, will cause consumer demand to decline towards the end of 2005 and throughout most of 2006. On the component analysis, GDP is broken down into four major components, namely consumption, investment, government spending, and net exports (exports minus imports). The largest contributor to growth in the second quarter was personal consumption spending, accounting for 2. 3 percentage points of the 3.

4 percent real GDP growth rate (US BEA). Consumption spending has been spread across durable goods, nondurable goods, and services. Durable goods spending is likely to be stronger in the forth quarter due to strong motor

vehicle sales. The EIU forecasts minor changes in the spending on motor vehicles, indicating the following tendency in the stock of passenger cars per 1, 000 population: 482 (2004), 480 (2005), and 478 (2006). It is important to emphasize that in the US, unlike other countries high oil prices have merely stemmed the rise of trucks as a share of vehicle sales. The US economy has sustained the high gas prices expectedly well. The economy has been expanding rapidly such that the negative impact of higher energy prices has had only a small influence on economic growth. From this perspective, the economy has been very resilient and this tendency is expected in the period 2005(IV)-2006, though the tendency has its limitation, since till now rising gas prices have been absorbed by households and businesses in many ways.

For instance, in the business sector, corporate profits have experienced strong growth recently. In a period of rising profits, companies may be better prepared to handle the rising energy costs. For domestic households, incomes are growing in the relatively quick pace to sustain the rise in gas prices. Some experts also believe that households have additional options in the form of reduction of the percentage of income going into savings, drawing savings down, or carrying larger credit card balances to compensate more expensive gas without changing their overall spending patterns. However, as it has been mentioned above, the EIU is inconsistent with such optimism for the year 2006. According to the US BEA, net exports contributed another 1. 57 percentage points to total growth due to the largest growth in exports since the end of 2003 and the first decrease in imports since the first quarter of 2003 ().

Simultaneously, the EUI forecast further increase in exports from 5. 8 percent in 2005 to 6. 3 percent in 2006 (). This trend will be accompanied with decline in imports from 7. 3 percent in 2005 to 5. 9 percent in 2006, which logically will lead to GDP increase as compared to previous periods, though very insignificant as related to these indicators. The year 2005 government spending contributed . 38 percentage points to overall country's growth.

Only investment deducted from real GDP growth, decreasing growth by . 4 percentage points. However, this fact was solely caused with a drawdown in business inventories. As for the second quarter of 2005, fixed investment itself was very strong and the similar tendency is expected for the year 2006. Overall, the latest GDP figures show an economy experiencing broad-based yet sustainable growth. The US price index hit a nine-month low of 2. 5% in June 2005. The EIU expects that accelerating price increases in the second half of the year, peaking in the fourth quarter of 2005 in 3 percent inflation.

From the critical perspective, throughout the year 2006 oil price and related pressures will begin to scatter, and inflation is expected to ease to 2. 8, especially as the Federal Reserve continues to tighten monetary policy (). From the future standpoint, the course of energy prices is clearly an important indicator. If gas prices become stable and begin to reverse in the nearest, continued strong economic growth can be expected. Logically for the US economy it would translate into anticipated real GDP growth of 3.

5 percent, further employment gains of nearly 200, 000 jobs per month, and a stable unemployment rate around 5. percent. BibliographyThe US Bureau of Economic Analysis.

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