Assessing the Performance of the U.S. Economy Today

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Introduction:

In assessing the performance of the current U.S. economy; this paper will look at macroeconomic variables like: "aggregate output and employment, money growth and Inflation, and international trade and the U.S. dollar exchange value (Miller R., VanHoose d., 2003)." The above mention variables will help assess the current U.S. economy performance.

To analyze the macroeconomic variables, the paper will look at the following economic indicators: Real GPD, Unemployment, CPI for inflation, Trade Balance, and Exchange Rate.

Methodology:

To assess the U.S economy is to compare the past data for the economic indicators and compare it to the current years 2007 and 2008. The reason for having two years is to track the trend. Basically it will be a trend analysis and the use of average comparisons. The data for most of the indicators contains monthly figures that was average off to get yearly figures; after the trend is discovered then a closer look will done on quarterly data for 2007 and 2008 on the economic indicators.

Hypothesis:

Base on my personal dealings with stock market, employment, and interest rate, the increase in prices on consumer goods, the increases in gas prices and income being constant, and the fast decline in the credit and the housing market; I will say the U.S. economy is in a recession; and there are a number of news shows and programs that share my same views. Even Warren Buffett on CNBC also said "the U.S. economy is in a recession." The analysis of the macroeconomic indicators will decide whether we fail to reject recession, or we reject recession.

H_0: Recession

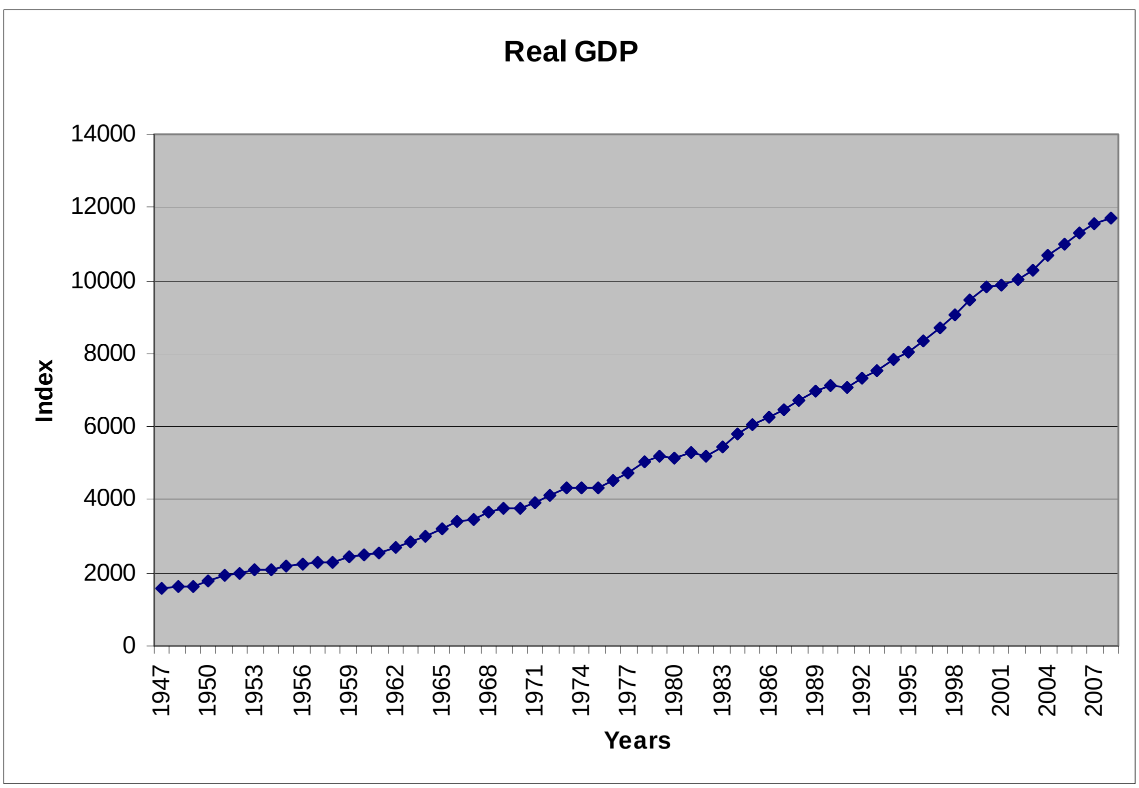
H_1: Not Recession

"A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough (http://en.wikipedia.org/wiki/Recession)." Analytically, a recession is a "decline in real GDP lasting at least two consecutive quarters, which can cause real GDP to fall below its long run, natural level (Miller R., VanHoose d., 2003)."

Analysis of Economic Indicators:

Real GDP

To assess the performance of the U.S economy Real GDP is a very important indicator and the following graph shows real GDP from 1947 to 2008.



Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

Base on the graph above there is a trend and it is upward moving showing that real GDP has been increasing but also at a slowing rate; base on this we will reject recession and say that the U.S. economy is not declining but advancing at a slow pace. Taking a closer look at the current quarterly data, as show below, the U.S. economy is basically increasing at a decreasing rate base on Real GDP data.

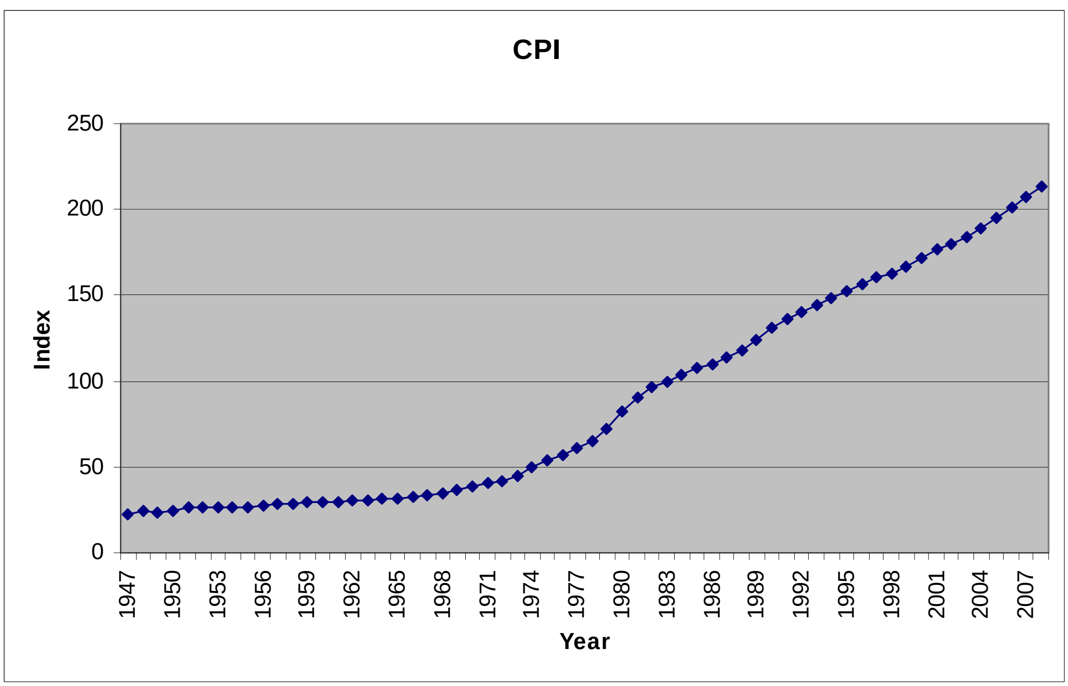
Real GDP by Quarters

Date	2008Q1	2007Q4	2007Q3	2007Q2	2007Q1	2006Q4
Value	11701.9	11675.7	11658.9	11520.1	11412.6	11395.5

Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

<u>CPI</u>

Consumer Price Index (CPI) will help show inflation. Base on the graph below, consumer prices have being increasing steady from around 1983 to 2008; and base on its trend it therefore suggest that there is a small increase in inflation.



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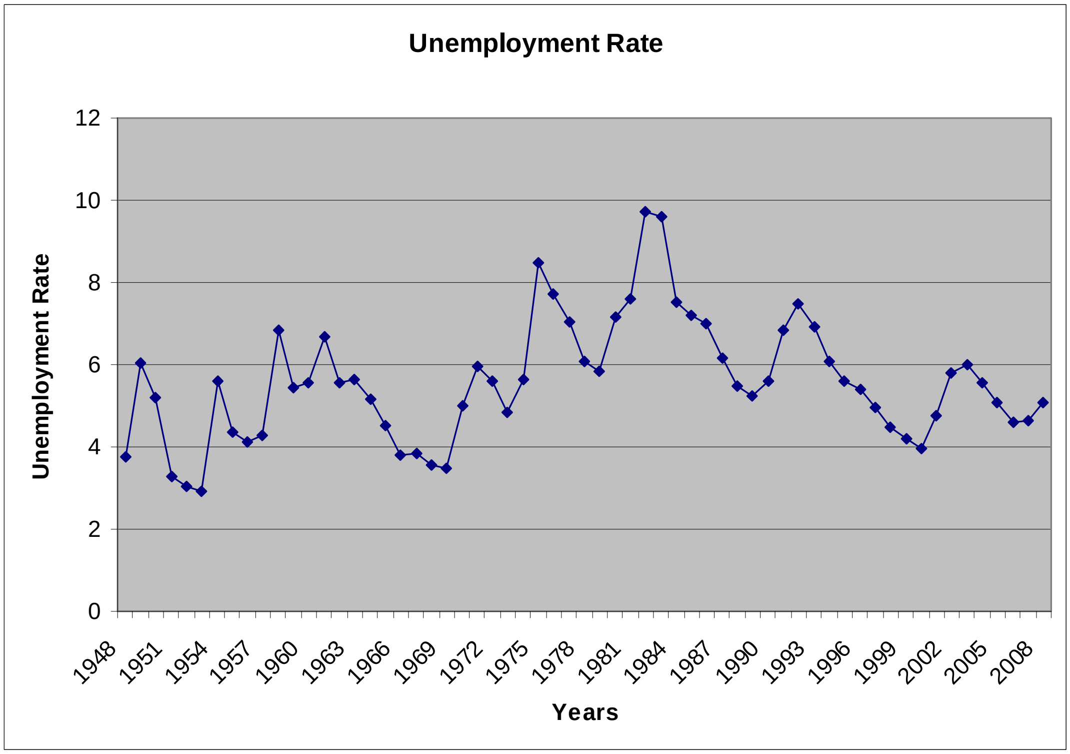
Unemployment

The unemployment rate will show how much for the working population is not working and hence not producing or not adding value to U.S. economy; the unemployment graph is show below:



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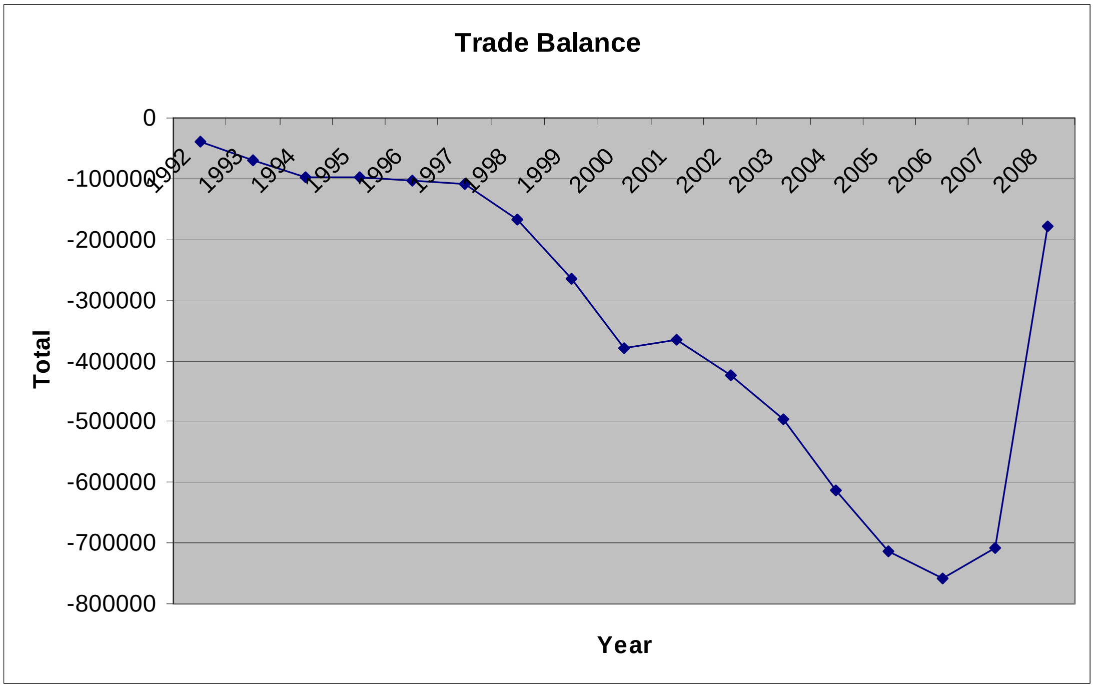
The graph above shows the unemployment rate fluctuating around 4 to 6% from 1995 to 2008 and currently at 5.06%; the U.S economy can sustain a 5.06% level of unemployment and still be productive an growing.

International Trade – Trade Balance

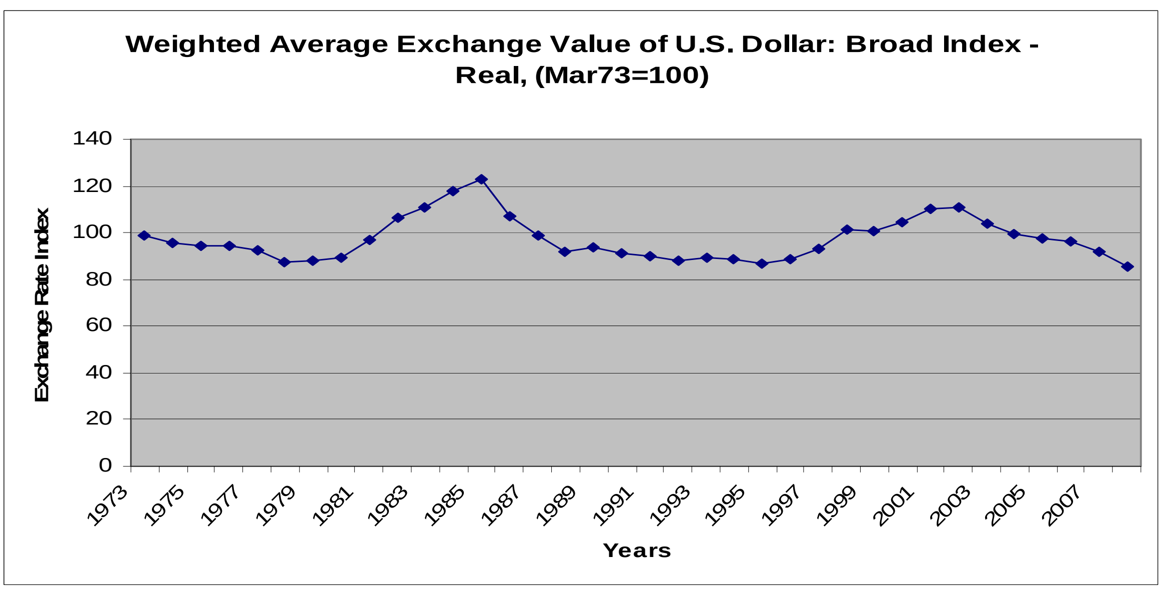
The graph below shows the trade balance where the U.S. has a trade deficit which is closer to zero than its was since 2000; for 2008 its about -178882 million dollars which is pretty good. The trade deficit means the U.S. is importing more than it is exporting but over the years the gap have been narrowing which is very good for any economy and this is mainly due to increase production and lower U.S. dollar.



Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

Exchange Rate

The graph below shows the weighted average exchange value of the U.S. dollar has been declining since 2002 and it is close to the lowest point in over 35 years; this might seen bad for the Investors but it is also making U.S. goods cheaper to foreign buyers; which in turn boost the economy and why the trade deficit is getting closer to zero.



Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

Conclusion

Current Economic data:

Statistic	Value	Last Updated
Real GDP	**11701.9 billion** (0.9% annual rate) Quarter 1, 2008	01/31/2008
Nominal GDP	**14195.6 billion** (3.5% annual rate) Quarter 1, 2008	01/31/2008
Unemployment Rate	**5.5%** for 5/1/2008	02/04/2008
CPI	**0.2%** seasonally adjusted for 4/1/2008 (3.88% for 12 months ending Apr, 2008)	01/23/2008
Federal Budget	**162.81 billion** (deficit) for FY 2006 , 152.19 billion for current FY through 4/1/2007	06/05/2008
Public Debt	**$9,407.5 billion**	06/05/2008
Federal Funds Rate	**1.98**% for 06/05/2008	02/05/2008
30 Year Treasury Bond	**4.75%** for 06/05/2008	02/05/2008
Money Supply (M1)	**-0.7%** (12 months ending 04/2008) **1367.7 billion** for 4/1/2008	02/04/2008
Money Supply (M2)	**6.5%** (12 months ending 04/2008) **7676.7 billion** for 4/1/2008	02/04/2008
Balance of Trade	**-58210** Millions of dollars 3/1/2008	01/22/2008

Source: http://www.econedlink.org/datalinks/#Consumer

Base on the trend analysis and current data the U.S. economy is first as the Real GDP show the economy is not in a recession but is experiencing increasing growth at a decreasing rate; there is some stress on the economy like inflationary concerns which will slow down the economy and maybe can explain the decreasing rate. Everyone would like to see zero unemployment but the U.S. economy can sustain 5.06% but the trend shows that it can increase which can be a strain on the economy. The lowering of the federal fund rates and the exchange rate can be seen has simulators which will cause the U.S. economy to grow fast in the times ahead. So base on this research I would reject H_0 recession and say the U.S. economy has increasing growth at a decreasing rate.

References

Miller R., Vanhoose, D. 2003. Macroeconomics: theories, Policies, and International Applications, third edition, Thomson-Southwestern.

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CPI: Urban Consumer - All items, (1982-84=100, SA) for United States, Source: U.S. Bureau of Labor Statistics (BLS): CPI, Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

Trade: Balance - Total, (Mil. $, SA), for United States, Source: BOC: International Trade in Goods & Services - Exhibit 1, Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

Household survey: Unemployment rate, (% SA), for United States, Source: Bureau of Labor Statistics: CPS Household Survey, Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

Weighted Average Exchange Value of U.S. Dollar: Broad Index - Real, (Mar73=100) For United States, Source: U.S. Board of Governors of the Federal Reserve System: Exchange Rates G.5 (405), Data provided by www.FreeLunch.com - http://www.economy.com/freelunch

Current Economic Data, Source: http://www.econedlink.org/datalinks/#Consumer.

What is recession, http://en.wikipedia.org/wiki/Recession.