

Policy Memorandum: A Historical Comparison Of The Current Economic Expansion

To: Interested Parties

From: The White House

Date: January 20, 2006

Introduction

The American economy has exhibited tremendous strength and resiliency during the President's years in office. When comparing the economy with the same point in the previous business cycle, in many respects the current expansion is even stronger than the growth of the early and mid-nineties. This memo highlights some of those economic comparisons.

According to the National Bureau of Economic Research, the last recession ended in November 2001. After four years of solid growth, the unemployment rate in December 2005 was 4.9%, inflation is contained, GDP growth is strong, and more Americans now own their homes than at any other time in our Nation's history. One of the most encouraging measures of the Nation's current economic strength is the rise in worker productivity – during this recovery, productivity has increased at the fastest rate since World War II. Over time, productivity growth leads to higher standards of living.

In April 1995, four years after the recession of the early 1990s came to an end, unemployment and inflation were higher than they are today, and GDP growth was lower. In spite of a stock market collapse, recession, terrorist attacks, corporate scandals, high energy costs, and natural disasters, today's economy has remained resilient. A comparison with the economic recovery of the previous business cycle illustrates our current strength.

Economic Indicator	April 1995	December 2005
Job Growth		
Unemployment	5.8%	4.9%
Average over previous 12 months	5.8%	5.1%
Unemployment rate for African Americans	10.7%	9.3%
Unemployment rate for Hispanics	8.9%	6.0%
Average monthly payroll growth (12-month time period)	290,000	168,000
Economy		
Average GDP over most recent four quarters	2.2%	3.6%
Average monthly inflation (Core CPI over past 12 months)	3.2%	2.2%
Productivity (growth over 4 quarters)	0.3%	3.1%
Real Private Fixed Investment (growth	5.7%	7.9%

over 4 quarters)		
Equipment and Software Investment (growth over 4 quarters)	12.3%	10.0%
The American Household	April 1995	December 2005
Homeownership rate	64.8%	68.7%
Minority Homeownership rate	43.5%	51.2%
Housing Affordability Index	130.6	115.0
Household Net Worth (growth over 4 quarters)	8.1%	11.0%
Real hourly compensation (growth over 4 quarters)	-0.7%	1.2%
Stock Ownership Percent of all American families	40.4%	51.9% (Latest data as of 2001)

**Some December 2005 statistics are calculated from the most recent third quarter data available.*

**Data source: Bureau of Labor Statistics*

Analysis

The economy today is more robust than it was in the mid-1990s. Today's unemployment rate is lower than the average of the 1970s, 1980s, and 1990s and even lower than it was in the expansion of the mid-1990s. Compared to April 1995, the unemployment rate for African Americans and Hispanics is lower, inflation is more contained, and economic growth is stronger.

At this point in the business cycle of the 1990s, American worker productivity growth was stagnant. Over the last four years of the current expansion, productivity has been growing at 3.4% and workers are now over 17% more productive than in 2001. Increasing productivity is delivering benefits to working families. From 1973 to 1995, productivity grew at 1.4% per year. At that rate, it would take 50 years to double the standard of living. Today, productivity is projected to grow by 2.6% over the long term. At that rate, the standard of living will double nearly twice as fast.

More Americans now own their homes than at any time in our Nation's history, and minority homeownership has reached record levels. Today, more American families are invested in the stock market. Real hourly compensation is growing faster than the previous business cycle – when real hourly compensation actually exhibited negative growth. Real after-tax income is up 7.2% since April 2003.

As the Nation enters its fifth year of economic expansion, the economy is expected to continue growing, with healthy job creation and contained inflation. American businesses should enjoy a strong U.S. economic environment in 2006.

The President's Agenda For Continued Job Creation And Economic Opportunity

To ensure the economy's continued momentum, the President is working with Congress to make tax relief permanent and to restrain spending. The President is advancing pro-growth policies to reduce America's dependence on foreign sources of energy, help workers find affordable healthcare, strengthen rules governing pensions, reform our legal system, give more Americans control over their lives by expanding ownership, and open foreign markets to American goods and services. To help Americans take advantage

of new opportunities, the President is proposing reforms to improve the Nation's education system and job training programs so that workers have the skills needed for success in a global economy. The President is committed to maintaining America's economic leadership in the 21st century.