
INTERNATIONAL ECONOMIC COMPARISONS

U.S. Economic Performance Relative to Other Group of Seven (G-7) Members

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Economic Growth

The real gross domestic product (GDP) of the United States—the output of goods and services produced in the United States measured in 1996 prices—increased at an annual rate of 3.7 percent in the third quarter of 2004, according to advance estimates by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA).² In the second quarter real GDP increased by 3.3 percent, down from the 4.5 percent increase in the first quarter. The major contributors to the increase in real GDP in the third quarter of 2004 were personal consumption expenditure, equipment and software, exports, government spending, and residential fixed investment. The contributions of these components were partly offset by a decline in private inventory investment. Imports increased (accounted for as a subtraction from GDP).

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² Data for this article were taken largely from the most current of the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, “Gross Domestic Product,” news release series BEA 04-48, found at Internet address <http://www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm>; Federal Reserve Board of Governors, “Industrial Production and Capacity Utilization,” statistical release series G.17, found at Internet address <http://www.federalreserve.gov/releases/G17/Current/>; U.S. Department of Labor, Bureau of Labor Statistics, “Consumer Price Index,” news release series USDL-04-, found at Internet address <http://www.bls.gov/news.release/cpi.nr0.htm>; U.S. Department of Labor, Bureau of Labor Statistics, “The Employment Situation,” news release series USDL-04-, found at Internet address <http://www.bls.gov/news.release/emp-sit.nr0.htm>.

Real personal consumption expenditure increased by 4.6 percent in the third quarter, up from an increase of 1.6 percent in the second. Durable goods purchases increased 16.8 percent in the third quarter compared with a decrease of 0.3 percent in the second. Nondurable goods increased by 3.9 percent, compared with an increase of 0.1 percent in the second; and services expenditures increased by 2.7 percent, the same as in the second quarter. Real nonresidential fixed investment increased by 11.7 percent in the third quarter, compared with an increase of 12.5 percent in the second. Nonresidential structures increased by 1.4 percent, compared with an increase of 6.9 percent. Equipment and software increased by 14.9 percent in the third quarter compared with an increase of 14.2 percent in the second. Real residential fixed investment increased by 3.1 percent, down from an increase of 16.5 percent in the second quarter.

Real exports of goods and services increased by 5.1 percent in the third quarter of 2004, down from an increase of 7.3 percent in the second. Real imports of goods and services in 2004, second quarter increased by 7.7 percent, compared with an increase of 12.6 percent in the second quarter.

Real federal government consumption expenditure and gross investment increased by 4.6 percent in 2004, third quarter, compared with an increase of 2.7 percent in the preceding quarter. National defense spending increased by 9.3 percent in the third quarter of 2004, following an increase of 4.4 percent in the second. Nondefense spending decreased by 4.7 percent in 2004, third quarter, compared with the second quarter increase of 4.4 percent. Real state and local government consumption expenditures and gross investment decreased by 0.5 percent during 2004, third

quarter, compared with an increase of 1.9 percent in the second quarter.

The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased by 1.8 percent in the third quarter, compared with an increase of 3.5 percent in the second quarter. Excluding food and energy prices, the price index for gross domestic purchases increased by 1.5 percent in the third compared with an increase of 2.5 percent in the second.

In other G-7 economies, the annualized rates of real GDP growth were as follows. In the United Kingdom, the economy grew by 1.5 percent in the third quarter of 2004, and by 3.0 percent during the year through 2004, third quarter. In Germany, the economy grew by 1.9 percent in the second quarter, and by 2.0 percent in the year through the second quarter of 2004. In Japan, the economy grew by 1.3 percent in the second quarter, but grew by 4.2 percent in the year through the second quarter of 2004. In Italy, the economy grew by 1.1 percent in the second quarter, and by 1.2 percent in the year through the second quarter of 2004. In France, the economy grew by 2.8 percent in the second quarter of 2004, and grew at the same rate in the year through the second quarter of 2004. In Canada, the economy grew by 4.3 percent in the second quarter of 2004, but grew by 3.0 percent in the year through the second quarter of 2004. For EU members linked by the euro currency, the euro area, GDP grew by 2.0 percent in the second quarter of 2004, and grew at the same rate in the year through the second quarter of 2004.

U.S. Corporate Profits

The U.S. Department of Commerce in their GDP news release for the second quarter of 2004 reported that corporate profits from current production, with inventory valuation and capital consumption adjustment, increased by \$8.3 billion in the second quarter of 2004, down from the \$36.5 billion increase in 2004, first quarter; and substantially less than the increases of \$72.0 billion in 2003, fourth quarter, and an increase of \$70.9 billion in 2003, third quarter. Current-production cash flow, net cash flow with inventory valuation and capital consumption adjustments—the internal funds available to corporation for investment—decreased by \$5.7 billion in the second quarter of 2004, down from an increase of \$5.9 billion in the first quarter of 2004.³

³ BEA, "Gross Domestic Product: Second Quarter 2004 (Preliminary), Corporate Profits: Second Quarter 2004 (Preliminary)," *BEA News*, BEA 04-39, found at Internet address <http://www.bea.gov/bea/newsrelarchive/2004/gdp204p.pdf>, retrieved on Sept. 1, 2004.

Domestic profits by financial and nonfinancial firms together increased by \$28.3 billion in the second quarter of 2004, compared with an increase of \$47.0 billion in the first quarter. Domestic profits of financial corporations decreased \$7.9 billion in 2004, second quarter, in contrast to an increase of \$19.8 billion in the first quarter. Domestic profits of nonfinancial corporations increased by \$36.2 billion in 2004, second quarter, compared with an increase of \$27.3 billion in the first quarter. In 2004, second quarter, real gross value-added increased and profits per unit of real gross value added increased. The 2004, second quarter increase in unit profits reflected a larger increase in prices corporations received than the unit costs they incurred, as unit labor costs increased while unit nonlabor costs remained unchanged.

The foreign component of profits decreased by \$20.0 billion in the second quarter of 2004, compared with an increase of \$10.5 billion in the first quarter. This measure is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates, including dividends received by U.S. residents from unaffiliated foreign corporations, minus (2) payments by U.S. affiliates of earnings to their foreign parent companies, plus dividends paid by U.S. corporations to unaffiliated foreign residents. The second quarter 2004 decrease was accounted for by a large increase in payments and a small decrease in receipts.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production rose by 0.1 percent in September 2004 after decreasing by 0.1 percent in August, and following an increase of 0.7 percent in July 2004. Total output was 4.6 percent higher in September 2004 than its level in September 2003. Manufacturing output declined by 0.3 percent in September, but posted a substantial annual rate of increase of 5.3 percent over September 2003. Utilities output increased 5.4 percent in September following a decrease of 2.3 percent in August as temperatures returned to normal levels after unseasonably warm weather in August. Utilities output in September 2004 was 5.5 percent higher than in September 2003. Mining output declined by 2.3 percent in September as the recent spate of hurricanes appears to have had a noticeable restraining effect on production. The index for the rate of capacity utilization for total industry was unchanged in September at 77.2 percent in September 2004, and was 1.5 percentage points above its level in September 2003, and 3.9 percentage points below its 1972-2003 average.

By market group, the output of consumer goods rose 0.3 percent in September 2004. The production of

consumer durables fell 0.3 percent in September as output in all major categories slipped. The output of consumer automotive products edged down after a sizable gain in August. The output of business equipment rose 0.3 percent in September, and it increased 10.0 percent over September 2003. The production of information processing equipment increased by 0.3 percent in September, but rose by 12.6 percent over September 2003. Computer and electronic products increased for the fourth consecutive month by 0.7 percent in September 2004, and was 9.5 percent higher than in September 2003.

Other G-7 member countries reported the latest growth rates of industrial production for the month of August 2004, as follows: the United Kingdom reported a 0.1-percent decrease, France reported a 0.7-percent increase; Germany reported a 3.5-percent increase, Italy reported a 3.5-percent decrease, Canada reported a 4.1-percent increase, and Japan reported an 3.8-percent increase in September 2004. The euro area reported an increase of 1.5 percent for the month of August 2004.

Prices

The seasonally adjusted U.S. Consumer Price Index increased by 0.2 percent in September 2004 following an increase of 0.1 percent in August, according to the U.S. Department of Labor. For the year ended September 2004, consumer prices increased 2.5 percent. Energy costs declined 0.4 percent in September after advancing sharply in the first half of the year. The index for food was unchanged in September following an increase of 0.1 percent in August. The price index for all items, less food and energy, increased by 0.3 percent in September and increased by 2.0 percent in the 12 months ended September 2004.

Other G-7 members reported the latest consumer price increases as follows: consumer prices increased by 2.1 percent in Germany, 2.1 percent in Italy, 1.1 percent in the United Kingdom, 1.8 percent in Canada, 2.2 percent in France, but prices decreased by 0.2 percent in Japan. Prices increased by 2.1 percent in the euro area.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics, reported that the U.S. unemployment rate was virtually unchanged at 5.4 percent in September 2004. Job growth in September was little changed in most of the major industry sectors over the month. In

other G-7 countries, the latest unemployment rates were reported to be 7.1 percent in Canada, 9.9 percent in France, 10.7 percent in Germany, 8.1 percent in Italy, 4.8 percent in Japan, and 4.7 percent in the United Kingdom. The unemployment rate in the euro area was 9.0 percent.

Forecasts

The world economy continues to display characteristics favorable to long-term growth, according to the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD).

IMF Forecasts

Forecasts of the International Monetary Fund in their latest report on the world economic outlook show that the global recovery has become increasingly well established.⁴ World output growth is projected at about 5.0 percent; world trade volume projected to rise sharply by about 8.8 percent in 2004 and by 7.2 percent in 2005; with strong growth in industrial countries and exceptionally rapid expansion in emerging markets, notably China. World growth has been accomplished by a strong upturn in global trade flows, a pickup in private consumption expenditure, underpinned by generally improving labor market conditions, and continued strength in investment, as post bubble corporate balance sheets restructuring has proceeded. But challenges and risks still remain, including terrorist attacks, global trade imbalances, high oil prices, and fiscal deficits. Although the global recovery appears to be underway, its pace and nature vary significantly across regions. Well established recoveries appear underway in the United States and Asia, but less well established recoveries appear in the euro area as domestic demand and consumption remain weak.

In the United States, GDP is projected by the IMF to grow at 4.3 percent in 2004, and 3.5 percent in 2005. Inflation is expected to remain subdued, with consumer prices projected to increase by 3.0 percent in 2004, and in 2005. The unemployment rate is projected at 5.5 percent in 2004 and 5.4 percent in 2005.

In contrast, GDP in the euro area is projected to grow at 2.2 percent in 2004 and in 2005; consumer prices to increase by 2.1 percent in 2004 and by 1.9 percent in 2005; and the unemployment rate to remain high at 9.0 percent in 2004 and at 8.7 percent in 2005.

⁴ IMF, "Advancing Structural Reforms," *World Economic Outlook*, April 2004, found at Internet address <http://www.imf.org/external/pubs/ft/weo/2004/01/index.htm>, retrieved on Sept. 1, 2004.

In Japan, GDP is projected to grow by 4.4 percent in 2004 and by 2.3 percent in 2005; consumer prices to decline by 0.2 percent in 2004 and by 0.1 percent in 2005 as deflationary pressures persist albeit at a slower rate; and the unemployment rate to remain at 4.7 percent in 2004 and 4.5 percent in 2005. In Canada, GDP is projected to grow by 2.9 percent in 2004, and by 3.1 percent in 2005; consumer prices are projected to increase by 1.9 percent in 2004 and by 2.2 percent in 2005; and the unemployment rate is projected at 7.2 percent in 2004 and 6.8 percent in 2005. In the newly industrialized Asian countries, GDP is projected to grow by 5.5 percent in 2004 and by 4.0 percent in 2005; consumer prices are to increase by 2.4 percent in 2004 and by 2.6 percent in 2005; and the unemployment rate is projected at 4.1 percent in 2004 and in 2005.

The current account position for the United States is projected by the IMF to improve, reaching 5.4 percent of GDP in 2004 and 5.1 percent in 2005. Japan's current account surplus is expected to reach 3.4 percent of GDP in 2004 and at 3.2 percent in 2005. In the euro area the current account surplus would rise slightly from 2003 to 0.8 percent of GDP in 2004, and 0.9 percent in 2005. Germany's surplus would increase to 4.4 percent of GDP in 2004 and to 4.8 percent in 2005. Canada's surplus would reach 2.9 percent of GDP in 2004 and to 2.4 percent in 2005, up from 2.0 percent of GDP in 2003. The current account deficit in the United Kingdom as a percent of GDP would moderate to 2.0 percent in 2004 and 1.9 percent in 2005. France's current account surplus would turn into a deficit of 0.6 percent of GDP in 2004 and in 2005. The current account surplus of the newly industrialized Asian economies would also moderate to 6.8 percent of GDP in 2004 and 6.5 percent in 2005, down from 7.6 percent surplus in 2003.

OECD Forecast for the Industrialized Countries

Economic forecasts by the Organization of Economic Co-operation and Development (OECD) in its May 2004 *Economic Outlook* find that a strong momentum has finally taken hold across the OECD area following a drawn-out period of fits and starts.⁵ The turn for the better stems from a variety of factors such as the steadying of the geopolitical environment that has allowed oil prices to stabilize and business confidence to strengthen. In the United States, the eco-

nomics recovery has benefitted from strong productivity gains, the stimulus provided by monetary and fiscal policies, and high-potential investment growth. In Japan, the economy has shown a marked and better-than-expected improvement due to better investment prospects in the manufacturing sector and fast growing markets in other Asian economies. The OECD forecast states that the most likely scenario for the next two years is one of sustained growth in the United States and progressive recovery in Europe and Japan, underpinned by a prolonged period of low inflation, monetary ease, and moderate long-term interest rates.

The OECD forecasted U.S. real GDP to grow by 4.2 percent in 2004, and by 3.8 percent in 2005. In contrast, Japan's real GDP is projected to grow by 1.8 percent both in 2004 and in 2005. In the euro area (EU-12), real GDP is projected to grow by 1.8 percent in 2004, and by 2.5 percent in 2005. In the larger area of the European Union (EU-15), real GDP is projected to grow by 1.9 percent in 2004, and by 2.5 percent in 2005. Real GDP for the whole OECD area—the world's industrialized economies as a group—is projected to grow by 3.0 percent in 2004, and by 3.1 percent in 2005.

Inflation is projected to remain subdued in the United States, rising by 1.2 percent in both 2004 and 2005. In Japan, deflationary price pressures are expected to remain throughout the 2-year forecast period, as prices are projected to decline by 1.3 percent in 2004, and by 0.8 percent in 2005. In the euro area, inflation is projected to slow from 1.7 percent in 2004 to 1.6 percent in 2005. In the European Union, inflation is projected to slow from 1.8 percent in 2004, to 1.7 percent in 2005. In the overall OECD area, inflation is projected to remain slow at 1.4 percent in 2004 and 2005.

Unemployment is projected to decline to 5.9 percent in 2004 and to 5.2 percent in 2005 in the United States. In Japan, unemployment is projected to stay at 5.2 percent in 2004, and 5.0 percent in 2005. In the euro area, unemployment is projected to remain high at 9.0 percent in 2004, and at 8.7 percent in 2005. In the European Union, unemployment is projected to hit 8.1 percent in 2004, declining slightly to 7.9 percent in 2005. In the total OECD area, unemployment is projected to remain around 7.0 percent, declining to 6.7 percent in 2004 and 2005, respectively.

The U.S. current-account deficit—as a percent of GDP—is projected to remain high over the two years, growing to 5.0 percent in 2004 and to 5.1 percent in 2005. In Japan, the current-account surplus is projected to grow from 3.6 percent of GDP in 2004 to 4.3 percent in 2005. In the euro area, the current-account

⁵ OECD, *Economic Outlook No. 75*, June 2004, found at Internet address http://www.oecd.org/document/18/0,2340,en_2649_34109_20347538_1_1_1_1,00.html, retrieved on Sept. 8, 2004.

surplus is projected to remain at its current 0.7 percent in 2004, and rise to 0.9 percent in 2005. The overall OECD current-account deficit, as a percent of GDP, is projected to remain at 1.3 percent in both years.

World trade volume—the average of world merchandise imports plus exports—is projected to increase by 7.8 percent in 2004, and by 9.1 percent in 2005, up from the much lower growth rate of 4.0 percent in 2003.

Productivity and Costs, Second Quarter 2004

The Bureau of Labor Statistics of the U.S. Department of Labor reported that revised productivity data—as measured by output per hour of all persons—showed gains in the second quarter of 2004.⁶ The revised seasonally adjusted annual rates of productivity change in the second quarter were 1.5 percent in the business sector, and 2.5 percent in the nonfarm business sector. In manufacturing, the revised productivity changes in the second quarter were 6.9 percent in manufacturing, 4.9 percent in durable goods manufacturing, and 9.7 percent in nondurable goods manufacturing (table 1).

Business

Productivity in the business sector increased by 1.5 percent in the second quarter of 2004, as output increased by 3.2 percent, hours worked rose by 1.6 percent, hourly compensation rose by 3.7 percent. This measure of hourly compensation includes wages and salaries, supplements, employer contributions to employee benefit plans, and taxes. Real hourly compensation in the business sector declined by 0.1 percent in the second quarter, and unit labor costs rose by 2.1 percent. The change in unit labor cost approximates the change in hourly compensation less the change in productivity. The implicit price deflator for business output, which reflects changes in both unit labor costs and unit nonlabor payments, rose by 3.4 percent. In the first quarter of 2004, productivity grew by 3.9 percent as output grew by 5.3 percent and hours worked grew by 1.3 percent. Hourly compensation grew by 2.8 percent in the first quarter, and real hourly compensation declined by 0.8 percent. Unit labor costs declined by 1.1 percent and the implicit price

deflator for business rose by 2.1 percent in the second quarter of 2004.

Nonfarm Business

Productivity rose by 2.5 percent in the nonfarm business sector in the second quarter of 2004, reflecting a 3.5-percent rise in output and a 1.0-percent increase in working hours of all persons. Hourly compensation increased by 4.3 percent. Real hourly compensation in the second quarter declined by 0.4 percent, and unit labor costs grew by 1.8 percent. The implicit price deflator for nonfarm business output rose by 2.9 percent in the second quarter of 2004. In the first quarter of 2004, productivity increased by 3.7 percent as output grew by 5.7 percent, hours worked rose by 2.0 percent, hourly compensation rose by 2.0 percent, real hourly compensation decreased by 1.6 percent and unit labor cost decreased by 1.6 percent. The implicit price deflator rose by 2.0 percent.

Manufacturing

In the second quarter of 2004, productivity in manufacturing grew by 6.9 percent as output expanded by 6.2 percent, working hours of all persons declined by 0.6 percent, hourly compensation rose by 3.2 percent. Real hourly compensation declined by 1.5 percent, and unit labor costs declined by 3.5 percent. In the first quarter of 2004, productivity grew by 2.7 percent as output expanded by 6.2 percent, hours worked rose by 3.4 percent, hourly compensation declined by 4.1 percent, real hourly compensation declined by 7.4 percent, and unit labor costs decreased by 6.6 percent.

In durable goods industries, productivity grew by 4.9 percent, as output expanded by 5.9 percent, hours worked rose by 1.0 percent, and hourly compensation declined by 2.3 percent. Real hourly compensation decreased by 2.3 percent, and unit labor costs decreased by 2.5 percent. In the first quarter, productivity grew by 4.3 percent, as output expanded by 9.9 percent, hours worked rose by 5.4 percent, and hourly compensation declined by 7.1 percent. Real hourly compensation decreased by 10.4 percent, and unit labor costs in durables declined by 10.9 percent.

In nondurable goods industries, productivity grew by 9.7 percent in the second quarter of 2004, as output expanded by 6.3 percent, but hours worked declined by 3.1 percent. Hourly compensation in nondurables manufacturing rose by 4.4 percent during the second quarter but real hourly compensation declined by only 0.3 percent as unit labor costs declined by 4.8 percent. In the first quarter, productivity rose by 1.6 percent as

⁶U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs — Second Quarter 2004," *News*, USDL 04-1727, Sept. 2, 2004, found at Internet address <http://www.bls.gov/lpc/>, retrieved on Sept. 8, 2004.

Table 1
Productivity and costs: Second quarter 2004 measures, seasonally adjusted annual rates

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
<i>Percent change from preceding quarter</i>						
Business	4.6	5.2	0.5	5.9	2.2	1.2
Nonfarm business .	3.8	5.4	1.5	4.6	0.9	0.8
Manufacturing	2.9	5.8	2.8	6.2	2.5	3.1
Durable	5.9	9.3	3.2	5.5	1.8	-0.4
Nondurable	-0.7	1.4	2.1	7.3	3.6	8.1
<i>Percent change from same quarter a year ago</i>						
Business	5.6	5.9	0.3	4.8	2.8	-0.8
Nonfarm business .	5.5	5.9	0.4	4.6	2.7	-0.8
Manufacturing	5.2	3.1	-2.0	6.1	4.2	0.9
Durable	7.4	5.7	-1.6	6.3	4.4	-1.0
Nondurable ...	2.8	0.1	-2.6	5.6	3.7	2.8

Source: U.S. Department of Labor, Bureau of Labor Statistics, news release USDL 04-995, found at <http://www.bls.gov/1pc/>.

output expanded by 1.8 percent, hours worked rose by 0.2 percent and hourly compensation grew by 1.5 percent. Real hourly compensation declined by 2.0 percent and unit labor costs rose by zero percent.

It is worth noting that although productivity measures describe the relationship between real output and labor time involved in production, these do not measure the specific contributions of labor, capital, or any other factor of production. Rather, they reflect the joint effects of many influences, including changes in technology, capital investment, capacity utilization, organization, managerial skills, and other characteristics of the work force. Also, output and hours in manufacturing, which includes about 13 percent of U.S. business-sector employment, tend to vary more from quarter to quarter than data for the aggregate

business and nonfarm business sectors. Moreover, the data sources and methods used in the preparation of the manufacturing series differ from those used in preparing the business and nonfarm business series, and that these measures are not directly comparable. Output measures for business and nonfarm business are based on measures of gross domestic product prepared by the U.S. Department of Commerce, Bureau of Economic Analysis. Quarterly output measures for manufacturing reflect indexes of industrial production independently prepared by the Federal Reserve System, Board of Governors. Business output is an annual-weighted index constructed after excluding from GDP general government, nonprofit institutions, and private households. Using this method, business output accounted for about 78 percent of the value of GDP.

