

Canmac Economics United States Economic Outlook Executive Summary

Introduction

This briefing note provides an economic outlook of the U.S. economy out to 2008. The outlook is derived from a macro econometric model developed and maintained by Ray Fair of Yale University. The forecast is based on the national income and product accounts (NIPA) data that were released on October 29th, 2004. For purposes of this forecast the U.S. model has been re-estimated through 2004:3. Hence model forecasts are derived from the latest available data.

Our forecast provides a base case and alternative forecast of the key macro indicators of the U.S. economy to 2008. The base case is derived directly from Fair.

Base Case

Table 1.0 gives the growth rates that were assumed for the current forecast for the key exogenous variables in the model along with the actual growth rates between 1993:3 and 2004:3.

**Table 1.0: Base Case Assumptions
Growth Rates (annual rates)**

	Current Forecast Assumptions	Actual 2004:3– 1993:3
Transfers Payments from the Federal Government to Households	8.0	5.0
Federal Government Purchases of Goods	5.0	4.0
State and Local Government Purchases of Goods	3.0	4.7
Exports	8.0/6.0	5.2
Import Price Deflator	2.5	0.2

Base Case Forecast Highlights

Table 2.0: Base Case Forecast				
Year	Three Month Treasury Bill Rate	GDP Price Deflator	Real GDP	Unemployment Rate%
2004	1.28	2.14	4.38	5.56
2005	2.13	2.90	3.20	5.55
2006	2.80	3.14	2.75	5.54
2007	3.17	3.12	2.60	5.64
2008	3.41	3.09	2.65	5.73

Alternative Outlook

An alternative forecast was desired using the following assumption:

- 5% growth in exports over all forecast years

The major differences between the base case and the alternative forecast are the higher resulting unemployment rate (.58% higher under the alternative forecast) and slower real GDP growth (.24% lower than the base case). We also find that under this forecast, there is a large difference in the T-bill in the medium and long term versus the base case.

Table 3.0: Alternative Forecast				
Year	Three Month Treasury Bill Rate	GDP Price Deflator	Real GDP	Unemployment Rate%
2004	1.28	2.14	4.35	5.57
2005	1.94	2.88	2.72	5.73
2006	2.37	2.99	2.31	5.95
2007	2.58	2.94	2.37	6.14
2008	2.67	2.93	2.41	6.31

The forecast provided here is a summary. If a detailed forecast is required contact Dr. Mike Foster, President, Canmac Economics Ltd. (902)864-3838,

Base Case

Alternative Forecast

