The State of the National Economy

In order to accurately assess the current state of the national economy as a whole, one must first examine the major macroeconomic variables from which such assessments are made. The following article will examine four of those variables—Gross Domestic Product (GDP), unemployment rates, inflation rates, and interest rates.

The first item to be expounded upon is Gross Domestic Product, or GDP. Gross Domestic Product is defined as the market value of all final goods and services produced within a country in a given period. Per its definition, therefore, it does not include such items as raw materials, nor does it include any goods or services produced by U.S. citizens working abroad. GDP is comprised of four main components: 1. Personal consumption expenditures (both durable and non-durable goods, services), 2. Gross private domestic investment (fixed investment—buildings and capital, both residential and non-residential, and changes in inventories), 3. Net exports of goods and services (usually a negative number), and 4. Government expenditures (consumption, investment, and all federal, state, and local spending). Two primary versions of GDP exist, Nominal GDP and real GDP. Nominal GDP reflects the production of goods and services at current prices, while real GDP identifies the production of goods and services at constant prices, or prices adjusted according to a selected base year using a GDP deflator index. As such, real GDP is often regarded as the more accurate and more useful of the two methods. According to the Survey of Current Business, which is published monthly by the Bureau of Economic Analysis (BEA), real GDP increased by 2.5% from the first to second quarter of 2006. This reflects an increase of approximately 13.2 billion. Some notable observations include a significant increase in service exports (+5.8%), as well as significant decreases in residential fixed investment (-6.3%) and federal non-defense spending (-7.8%).

Next is the topic of the unemployment rate. In recent times, the workforce

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Figure 1: Percent Change from preceding period in real GDP, quarters I-IV of 2005, quarters I & II of 2006.
participation rate, also known as employment-population ratio, in the U.S. has averaged between 62% and 64%. That percentage holds true currently, with the most recent figure from the BEA reporting a workforce participation rate of 63.1% in August of 2006. This means that 63.1% of the U.S. recorded population is actively involved in the labor force. The remaining 36.9% is comprised of the unemployed, retirees, full-time students, children, and so on. The national unemployment rate is derived by dividing the number of unemployed by the workforce population, not by the entire population. Therefore, students, children, retirees, and the like are not factored into the equation in determining the unemployment rate. By definition, an unemployed individual is one who is actively seeking work and cannot find it. Economists believe that there exists a natural rate of unemployment, or a rate that cannot be avoided. This is due to frictional unemployment and seasonal unemployment. Natural unemployment is estimated to be around 4%—therefore, an unemployment rate of 4% is sometimes even considered “zero unemployment” by economists. The Bureau of Labor Statistics (BLS) reports a national unemployment rate of 4.7% for August, 2006. This rate is considered by most to be excellent (see figure 2).

Third is the issue of inflation in the United States. Inflation is generally defined as a rise in the average price level of all goods and services within an economy. High rates of inflation are often brought about by a condition of excess money in the economy, resulting in “too many dollars chasing too few goods.” A first-year economics student could tell you that this will result in an increase in the price of the goods, holding the quantity produced fixed in the short run. The inflation rate can be calculated using several different methods, one of which utilizes the Consumer Price Index, or CPI. CPI can be defined as a measure of the overall cost of goods and services purchased by a typical consumer. CPI is calculated using a set market basket (collection of goods) as well as a base year as a reference point. Other methods of calculating inflation make use of the Producer Price Index, as well as the GDP Deflator. According to the BLS, in August 2006, the Consumer Price Index showed an increase of 0.2% over the previous month. This roughly corresponds to an overall inflation rate of 3.82% (www.InflationData.com). Increases in the CPI have remained relatively constant over the past year, representative of a slow but steady growth in the overall inflation rate (See Figures 3 and 4).
The topic of the inflation rate is closely tied to the topic of interest rates, the final area to be discussed. In the U.S., setting the interest rate is a function of the Federal Reserve Bank. The Federal Open Market Committee (FOMC) —part of the Federal Reserve System— is defined as the entity responsible for implementing monetary policy, and the process of controlling inflation, most commonly by raising or lowering the Federal Funds rate. For example, in the case of a forecasted rise in inflation, the FOMC would preemptively raise the Federal Funds rate in the hopes of minimizing inflation. The Federal Funds rate is generally considered a “base rate” for interest rates. As such, most all other rates (mortgage rates, consumer loan rates, commercial loan rates, credit card rates, etc.) generally rise and fall in accordance with the Federal Funds rate. According to a Federal Reserve statistical release, the Federal Funds rate was at 5.27% per annum as of September 22nd, 2006. Likewise, the conventional 30-year mortgage rate stood at 6.40%, and the Bank Prime loan rate came in at 8.25%.

As one can easily see, rates have gradually been on the rise, which is a result of inflationary fears. However, the current economic outlook is a positive one, with projections for significant and continued economic growth in the future.

Sources:
2. www.bls.gov
3. www.federalreserve.gov
4. www.InflationData.com

By: Justin Clinton Reilly

DEBT IN AMERICA
BY: BRITTANY CONNORS

The average college student graduates owing $19,000 in student loans and about $3,000 in credit card debt. The average American puts away barely $1 of every $100 earned. Over $1 million US citizens file bankruptcy. About every man, woman and child in America owe $145,000 to pay the US government’s deficit. If those figures alarm you then you are not alone.

Economists and government officials have feared that as American citizens continue their gluttonous spending and nonstop borrowing, the nation will inevitably succumb to a huge fiscal disaster. At the end of September, the national debt outstanding reached $8.5 trillion, while interest payments on that debt are now as high as $400 billion a year. During the Depression and Second World War in the 1950s, Americans had saved around 8% of their income. Over the decades, these figures fluctuated slightly between 7 and 11% until the start of the new millennium, in which savings dropped dramatically to 1.8% in 2004. Now estimates are almost at zero. To support these results, the Bureau of Economic Analysis reports that in 2000 the average household debt was at least 18% of disposable income. That means that every $1 out of $5 of spending money earned by American’s, after bills and everyday necessities, goes towards debt. That is not even counting the average $7,200 credit card debt per household.

Due to the housing boom, many individuals have increased confidence in the rising values of their homes. This spark in the housing market influences record home building and
buying, especially in some of the faster growing cities in the nation. Yet despite the attractiveness of the housing markets as a form of investing your money, a home translates into wealth only when you sell it. Over the past year there has been a heated debate over whether the housing boom is a bubble just waiting to burst. Although this is good for the buyer, it is bad for the people trying to sell their home for a premium price. The National Association of Realtors showed a 2% fall in the housing market this quarter, which is a huge indicator of the housing bubble bursting. This can become a major debt issue for those who bought at the top and are selling at the bottom, since they now face bankruptcy and the possibility of foreclosure. Interest rates on mortgages are a leading cause of debt to home owners as well. Interest only mortgages are found to be riskier than fixed mortgage rates since interest only loan borrowers may wind up owing more than what their house is worth.

It seems that the “I-want-it-now” attitude, no matter the consequences, is a favorable slogan for individuals as well as the US government. The budget surplus of $236 billion back in 2000 had quickly changed into a deficit of $412 billion in 2004. Yet, the fluctuating deficit is only part of the problem. The biggest worry involves the United States’ entitlement programs. Medicare, Medicaid, and Social Security will only add to the government’s debt issues as the population ages (in particular the baby boomers). According to the Government Accountability Office, the government is overextended due to such entitlement programs, such as pensions and veteran’s health care, to a tune of $43 trillion. In order to stabilize and control the long-range fiscal imbalance, the United States needs to examine tax policies and the federal budget in addition to the costly entitlement programs.

It is clear, both the average citizen and the US government are heavy consumers and poor savers. The government spends $300 billion more a year than it takes in from taxes. As a society, we purchase $725 billion more in goods from foreigners than we sell to them. The value of the dollar is not only an indicator of the housing bubble bursting. It is also a key player in the debt that our country faces. In 2005, the dollar was down 27% against the Euro and further decline seems imminent. With the dollar depressing, our standard of living suffers as prices of imports increase. The decrease in the value of the dollar also affects Treasuries and other securities by making them less valuable to foreigners, who are vital investors, and therefore further depressing the dollar. As far as today’s generations are concerned, a huge cause of debt is the rising college tuition costs. Over the past few years public colleges have increased their tuition costs by 57%. This causes a problem for everyone, especially those taking out school loans. Since the maximum amount that students can borrow is around $23,000 many students are now taking out private loans. Rising interest rates can become major concerns to those borrowing in the private loan market. However, for many students the choice is either take out loans or do not go to school. According to a USA Today article, the Washington-based Education Trust stated that need-based federal aid has shrunk. Currently the US has a 35% college participation level and this is due to tuition increases and less financial aid. Although the US ranks first in adults 35-64 with college degrees, they drop to seventh with American’s between 25-34 completing college. The amount of financial debt a college student endures is a large impact on a graduate’s ability to purchase a home and even start a family.

Many college students do not think of their financial struggle in the future, which is why financial management is so important. An individual with a full time job can accumulate a very large chunk of savings by simply deducting $500 each month from their paycheck and deposit it directly into a savings account. Even saving only 10-15% of each paycheck can put individuals in a much better financial position than they currently were in. Those that plan their spending and then base their savings around that find themselves reaping the rewards more than those who do not. The key for effective saving is long term thinking and moderation. Simply paying bills on time and using low interest credit cards can make a huge difference in the amount of debt one accumulates each year. Utilizing a company’s 401(k) plan to its fullest for future plans, in particular retirement, along with a diversified portfolio of CD’s, stocks and mutual funds, is essential. If more individuals stopped “living beyond their means” less of them will be overextended and struggling, and more will be living prosperous lives.

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THE RECORD TRADE DEFICIT
BY: MARK T. MEACHAM

A trade deficit is a simple concept. A country’s balance of payments (BOP) is in a deficit when its imports exceed its exports. Many analysts believe that deficits are both good and bad based on the conditions under which they occur. A trade deficit is bad for the reason that a large deficit means an accumulation of interest payments that could very well get out of control. On the other hand, a trade deficit is good if it is used effectively to finance domestic investments, which have potential for job creation and profit making.

A trade deficit, also known as a trade gap, is important because it provides analysts with information that determines the current economic state. A substantial trade gap means that there is a reduction in domestic economic activity, where the production of goods and services are being executed overseas (outsourcing). The Gross Domestic Product (GDP), as one of the key representative figures of a nation’s economic standing, is adjusted downward to account for the deficit.

This past July, the US trade deficit reached a record 68.1 billion dollars for the month, higher than what analysts expected: 65.5 billion dollars. A large portion of this deficit is due to the record high oil prices we experienced this summer, as well as the large deficit America still has with China. The following is some data on the US trade gaps.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (Million)</th>
<th>Imports (Million)</th>
<th>Balance of Trade (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>535,233</td>
<td>616,097</td>
<td>-80,864</td>
</tr>
<tr>
<td>1991</td>
<td>578,344</td>
<td>609,479</td>
<td>-31,135</td>
</tr>
<tr>
<td>1992</td>
<td>616,883</td>
<td>655,975</td>
<td>-39,093</td>
</tr>
<tr>
<td>1993</td>
<td>642,863</td>
<td>713,058</td>
<td>-67,195</td>
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<tr>
<td>1994</td>
<td>703,254</td>
<td>801,633</td>
<td>-98,379</td>
</tr>
<tr>
<td>1995</td>
<td>794,387</td>
<td>890,652</td>
<td>-96,265</td>
</tr>
<tr>
<td>1996</td>
<td>851,602</td>
<td>955,544</td>
<td>-103,942</td>
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<tr>
<td>1997</td>
<td>934,637</td>
<td>1,042,815</td>
<td>-108,178</td>
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<td>1998</td>
<td>933,495</td>
<td>1,098,363</td>
<td>-164,868</td>
</tr>
<tr>
<td>1999</td>
<td>966,443</td>
<td>1,229,695</td>
<td>-263,252</td>
</tr>
<tr>
<td>2000</td>
<td>1,070,980</td>
<td>1,448,324</td>
<td>-377,344</td>
</tr>
<tr>
<td>2001</td>
<td>1,006,653</td>
<td>1,369,345</td>
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<tr>
<td>2002</td>
<td>975,940</td>
<td>1,397,675</td>
<td>-421,735</td>
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<td>2003</td>
<td>1,020,503</td>
<td>1,517,011</td>
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</tr>
<tr>
<td>2004</td>
<td>1,147,181</td>
<td>1,764,256</td>
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</tr>
<tr>
<td>2005</td>
<td>1,275,245</td>
<td>1,991,975</td>
<td>-716,730</td>
</tr>
<tr>
<td>2006</td>
<td>820,276</td>
<td>1,273,277</td>
<td>-453,001</td>
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In the month of July 2006, US exports were down 1.1% to $120 billion, still the 2nd highest level in history. Sales of American jetliners, computers and food all fell. Imports, on the other hand, rose to a record $188 billion. More than 15% of imports came from America’s foreign oil bill, as it scaled up to an all time high of $28.5 billion. The deficit did decline slightly with China moving to $19.6 billion, but still on track to beat last year’s $202 billion deficit, the highest ever for a single country. The current negative trade balance with China has become somewhat of a political issue for the past decade. China runs a trade deficit with other countries, but still manages to run a mass surplus with the US. Henry M. Paulson Jr., the recently appointed Secretary of the Treasury, has made it his initial priority to resolve the trade issue with China.

The following table displays information between 1990 and July 2006 showing the balance of trade in the US in Millions of Dollars.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Exports (Million)</th>
<th>Imports (Million)</th>
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<tbody>
<tr>
<td>China</td>
<td>5,065</td>
<td>24,640</td>
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<tr>
<td>Japan</td>
<td>4,971</td>
<td>12,545</td>
</tr>
<tr>
<td>Germany</td>
<td>3,236</td>
<td>7,472</td>
</tr>
<tr>
<td>England</td>
<td>3,649</td>
<td>4,860</td>
</tr>
</tbody>
</table>

In 2006 (Jan-July) the US trade deficit was $453,001 million. China’s exports were 5,065 million US dollars and imports were 24,640 million US dollars. Japan’s exports were 4,971 million US dollars and imports were 12,545 million US dollars. Germany’s exports were 3,236 million US dollars and imports were 7,472 million US dollars. England’s exports were 3,649 million US dollars and imports were 4,860 million US dollars.

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<td>Globalpolicy.org</td>
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<td>Abcnews.go.com/business</td>
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<td>Newratings.com/analyst</td>
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U.S. RECESSION AND THE HOUSING SLUMP
BY: DANIELLE WOO

Whoever is in the market for a new home will realize the vast options are significantly increasing as market prices decline. Bloomberg News reports that a couple selling their eight-room home in Westford, Massachusetts, with a renovated kitchen at an asking price of $389,900. . At this price they’ll
lose $14,100. According to the Economist magazine, new houses with “gourmet kitchens and extended libraries have been cut by nearly 20%” but business is still slow.

The housing slump is not the main concern; rather the economic uncertainty lies in the question: Is America being forced into a recession? The U.S. economy is slowing at an exponentially sharp rate, and the impact of the housing slump has yet to occur. Builders across the nation are cutting back on production, and housing purchases are still in decline, residential real estate investments is probably falling by around 15 – 20% at an annual rate. Housing investments are a big chunk of the national growth for the past few years, but at this rate, there would be percentage drops in the overall economic growth.

Adding in the employment factor, the impact would be greater. During the housing expansion, the investment boom helped create a large chunk of job growth (approximately 20,000 jobs a month) in the housing industry. With the decline of housing, it is estimated that the industry may drop down job growth to nearly 100,000 a month and heightening the unemployment rate.

These two direct effects of the housing slump will definitely slow the national economy, but whether or not the nation will enter a recession depends on the market (consumers) reaction. If in a negative aspect, then the consumer market would feel as though their homes are worth less. Then their homes can no longer be their cash cows when they want to finance their spending by withdrawing from the home’s equity. However, in a positive spin, consumers may look in the other direction, such as oil prices. Lower fuel prices and a strong income growth may help counter the housing decline, but it will not stop the reality of the housing slump which can go in either direction.

Sources:


THE TOP FIVE JOBS IN AMERICA
BY: MARK MEACHAM

Every year millions of college students graduate and have the choice of either continuing their education, or entering the workforce. Either way, at some point, these college graduates will have to find a career that best suits them. There have been studies done that show the best occupations in today’s society.

Researchers decided on a list of five jobs, out of a pool of hundreds, which are considered the best jobs in America, based on pay, average annual job openings and an “A-D” grading system of stress levels, creativity, ease of entry and more. The top five jobs are as follows:

5.) Physicians Assistant - Provides routine health care, orders lab tests and treats illnesses. Assistants work an average of 35-40 hours per week. However, there is little room for advancement. This position requires 4 years of college and national licensing. The average salary is approximately $75,000 a year. Over a 10 year period there is job growth of 40% with an average annual job opening of 4,000.

Stress- C, Flexibility- B, Creativity- B, Ease of entry- C

4.) Human Resource Manager - Designs employee benefit programs for workers. Human Resource Managers contribute to the company’s moral. However, the duty of terminating workers falls on them. This position requires a Bachelor’s degree, often followed by a Master’s degree. The average salary is $73,500 a year. Over a 10 year period there is job growth of 23% with an average annual job opening of 32,300.

Stress- B, Flexibility- A, Creativity- B, Ease of entry- C

3.) Financial Advisor - Gives advice on short-term investing, retirement and budgeting. This occupation is great because of the opportunities for self-employment. However, it is stressful handling other people’s money. This position requires a Bachelor’s degree and state licensing. The average salary is $122,500 a year. Over a 10 year period there is job growth of 26% with an average annual job opening of 6,100.

Stress-C, Flexibility- B, Creativity- B, Ease of entry- B

2.) College Professor - A teacher, lecturer or researcher employed at a college or university. This occupation is extremely flexible with opportunities for creativity. However, there is the burden of constant paperwork and scrutiny. This position requires a Master’s degree for adjuncts, but a PhD for tenured professors. The average salary is $81,500 a year.
that both India and China have discussed the possibility of creating a Chinese-Indian common market closely based on that of the European Union Model. If this alliance were to take place, it would create the world’s largest economic system, which would have about 2.5 billion consumers (about 40% of the human race). One advantage for India is that since 2004, the value of trade with Asian nations has surpassed that of exchange with the United States and Western Europe combined.

However, some Indians feel that China wants to align with India to make it submissive so that it will not interfere with China’s interactions with Pakistan, Bangladesh, and Burma. The Chinese have also been accused of having 265 soldier incursions into India since January 2005. This charge made by the Indo-Tibetan Border Police, which China denies, may remind many Indians of the Chinese-Indian Border War in 1962.

Some critics view America’s influence on India as a way to limit and control the influence made by the Chinese. India has much in common with the United States making it a likely choice. They both are democracies, capitalist economies, sharing markets and the English language. Besides the commonality between the two countries, economic interdependence between the two countries has grown as well. The bilateral trade between the United States and India has grown from $12.3 billion (in U.S. Dollars) in 2000-01 to $19.6 billion (in U.S. Dollars) in 2004-05. In addition, in terms of direct foreign investment in India, the United States ranks second.

In India personal consumption is 67% of GDP, which is the highest of all the Asian countries (China at 42%). Only the United States ranked higher at 70% and with India’s emerging middle class, which is estimated to be 300 million people, this is a market the American exporters would like to gain. Recently India and the United States strengthened the steps towards an alliance by signing a landmark civilian nuclear program. The bill called “United States and India Nuclear Cooperation Promotion Act of 2006” was passed on July 26th, 2006 by the House of Representatives and is now awaiting Senate approval. Whomever India’s chooses only time will tell. With America looking like the likely choice, an interesting fact is, according to a Pew Global Attitudes Survey released in June 2005, 71% of Indians said they had a favorable view of the United States, making it the most pro-American country in the world.

Sources: cnn.com, New York Times
The Regional Economy
By: Josh Daniel

Regional Analysis
The demographical changes of Monroe County has many wondering what the economic impact has been. An analysis of current and past data concerning major economic indicators has revealed that Monroe County seems to reflect national trends and the general state of the economy of the Commonwealth.

Job Outlook
The number of jobs in Monroe County has steadily risen over the past five years. In 2000, the labor force was 69,200 with 66,300 being gainfully employed. The labor force has grown to 77,800 people in 2005. 73,600 people, who were able to work, found employment in 2005. Even more recent numbers show the continuation of this trend. The labor force in August of 2006 was 80,200. The number of jobs for the same time period increased to 76,400. This growth in labor force and jobs explains why the total employment growth rate for Monroe County has consistently outperformed the state average since 2002. 2002 and 2004 were exceptional years of growth, in which Monroe County’s total employment growth was higher than both the state and national average. Total employment growth for 2003 showed that Monroe County grew slightly slower than the national average of 0.9%. The growth rate recently has been right around the national average through 2005 and into the second quarter of 2006.

The unemployment rate for Monroe County has consistently been higher than the national and state averages through the 1990’s. However, fluctuation of the unemployment rate through this period seems to reflect national trends. This was especially evident by the peaks in unemployment of Monroe County during periods of national recession. The unemployment rate since 2001 has stayed much closer to the state and national averages. In fact, the unemployment rate of Monroe County for the first and second quarter of 2006 was 5.2% and 4.9% respectively. The state average for the first and second quarter was 5.1% and 4.6% respectively. This is good news since an unemployment rate of 5% is considered to be full employment of the population.

Housing
Building activity for Monroe County has remained relatively consistent with national and state new housing growth since 1990. Housing growth peaked during the late 1990’s, but continued to grow through 2000 to 2004. There was a decrease in building permits observed during 2004 and 2005, but that decreased growth appears to be reversing in the first and second quarter of 2006. The percentage change in the first quarter of 2006 was a substantial 43.9%. The percentage change for the second quarter of 2006 was 17.9%.

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Departmental News
by: Olivia Conner and Cory Gager

On August 31, Dr. Constantinos Christofides was presented with East Stroudsburg University’s Distinguished Professor Award for 2005 at the annual Freshman Convocation. The award is the highest faculty honor and is presented to those who make outstanding contributions to the university in the areas of teaching, scholarship, creative endeavor, and service to the university and community.

On April 19, Dr. Kathleen Barnes was recognized by East Stroudsburg University’s Office of Disability Services for demonstrating sensitivity to students with disabilities and awareness of disability issues. This award is given after students with disabilities nominate an individual.

She also recently took 26 of her Organizational Strategy students to Stony Acres, ESU’s 119-acre wildlife sanctuary and recreation facility, to experience a day long team-building retreat. The retreat is designed to assist students in the development of communication and leadership skills.

The department has recently hired two new Business Management professors. Alvin Gibson and Alla Wilson are a welcome addition to our rapidly growing department and we wish them nothing but success on their new endeavor.

Growth of department:
E-News is a publication developed by ESU Students of Economics, Business Management and students interested in these fields. It is a service to ESU and the local community.

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