

U.S. Manufacturing: Recent Challenges and Policy Recommendations

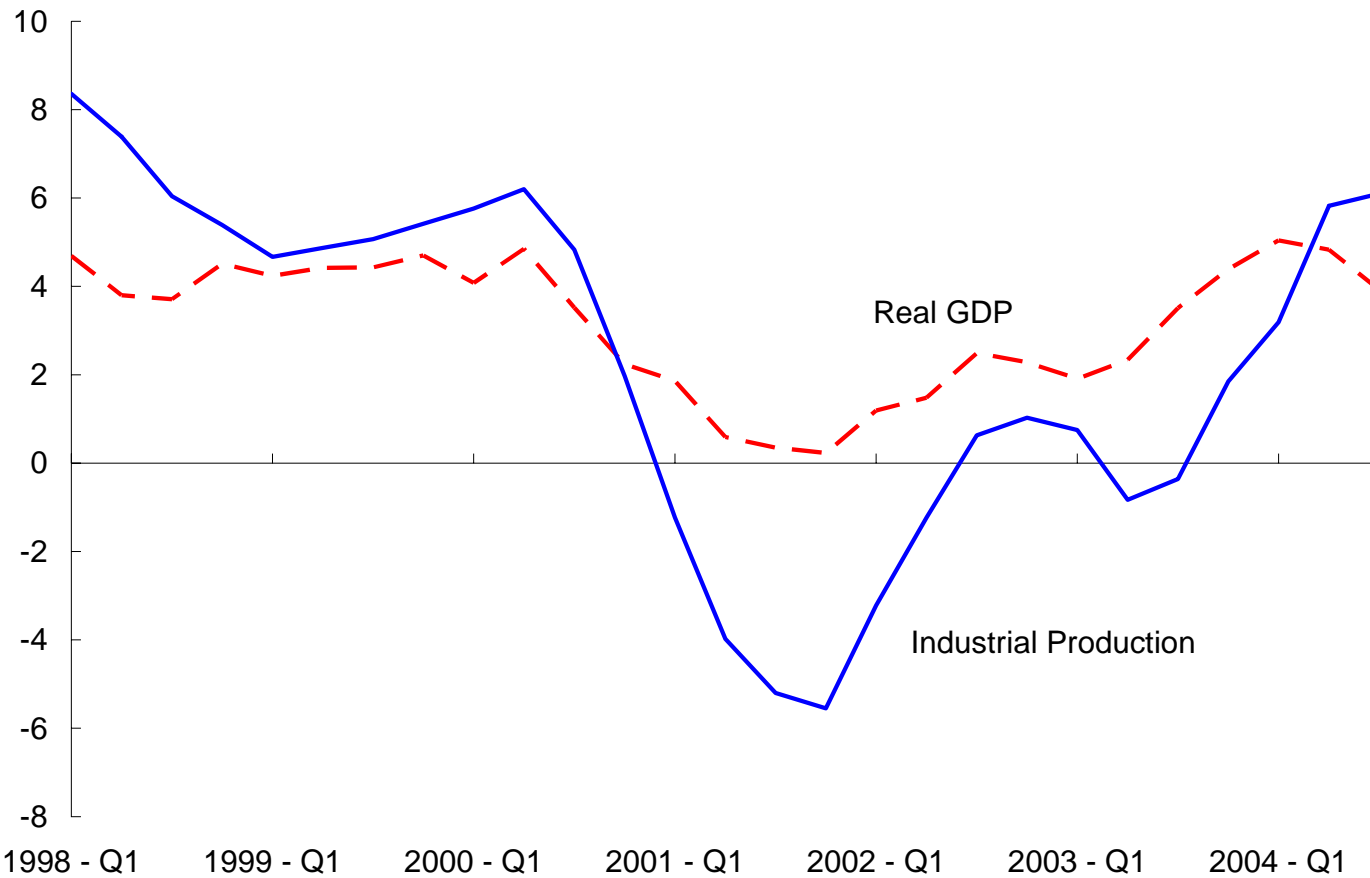


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Council of Economic Advisers

Framing the Future: Tomorrow's Border Economy
El Paso, Texas
December 3, 2004

U.S. GDP and Manufacturing Output

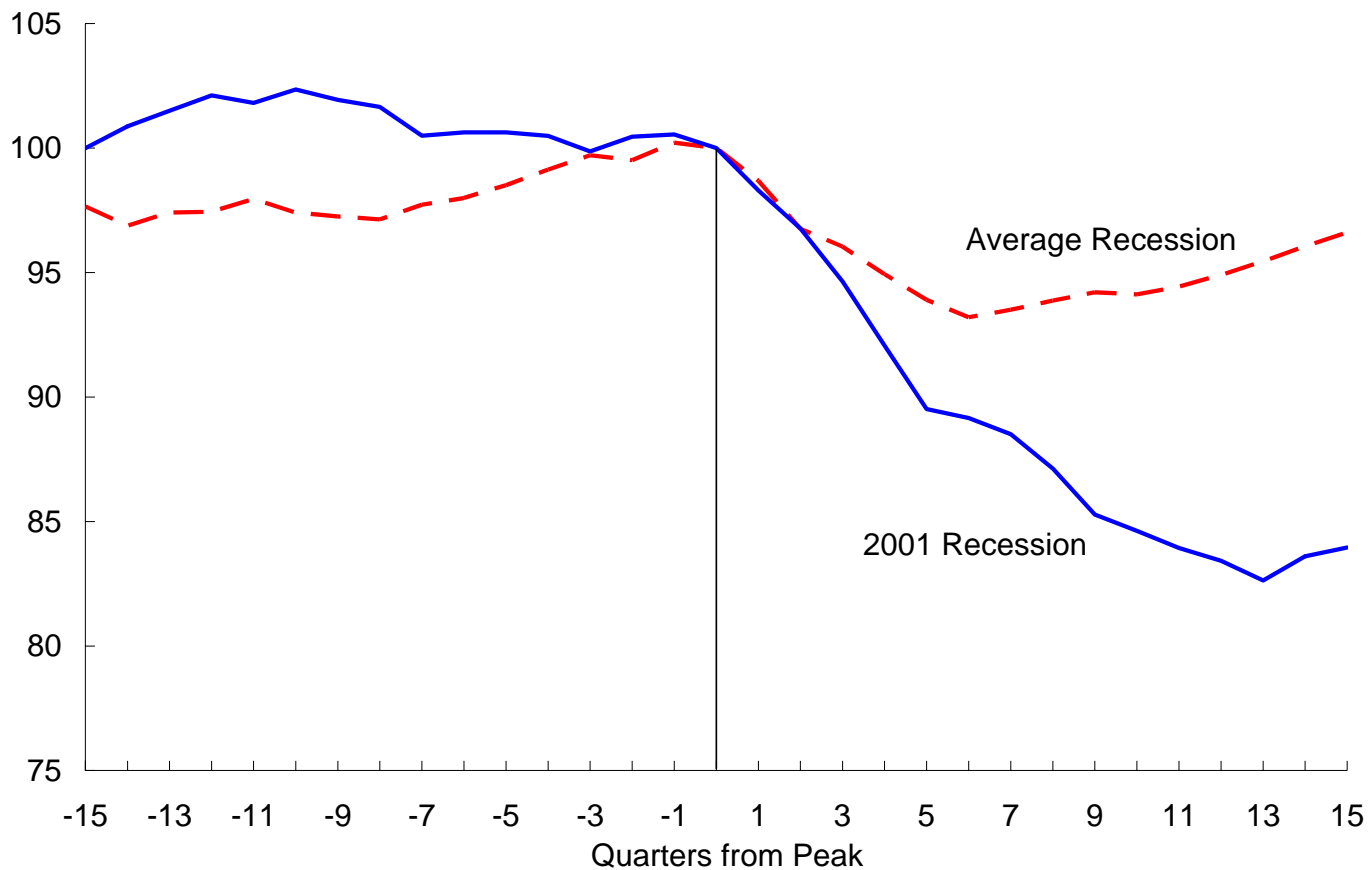
Percent change from 4 quarters earlier



Source: Department of Commerce and Federal Reserve Board

U.S. Manufacturing Employment

Index, level at manufacturing production peak = 100



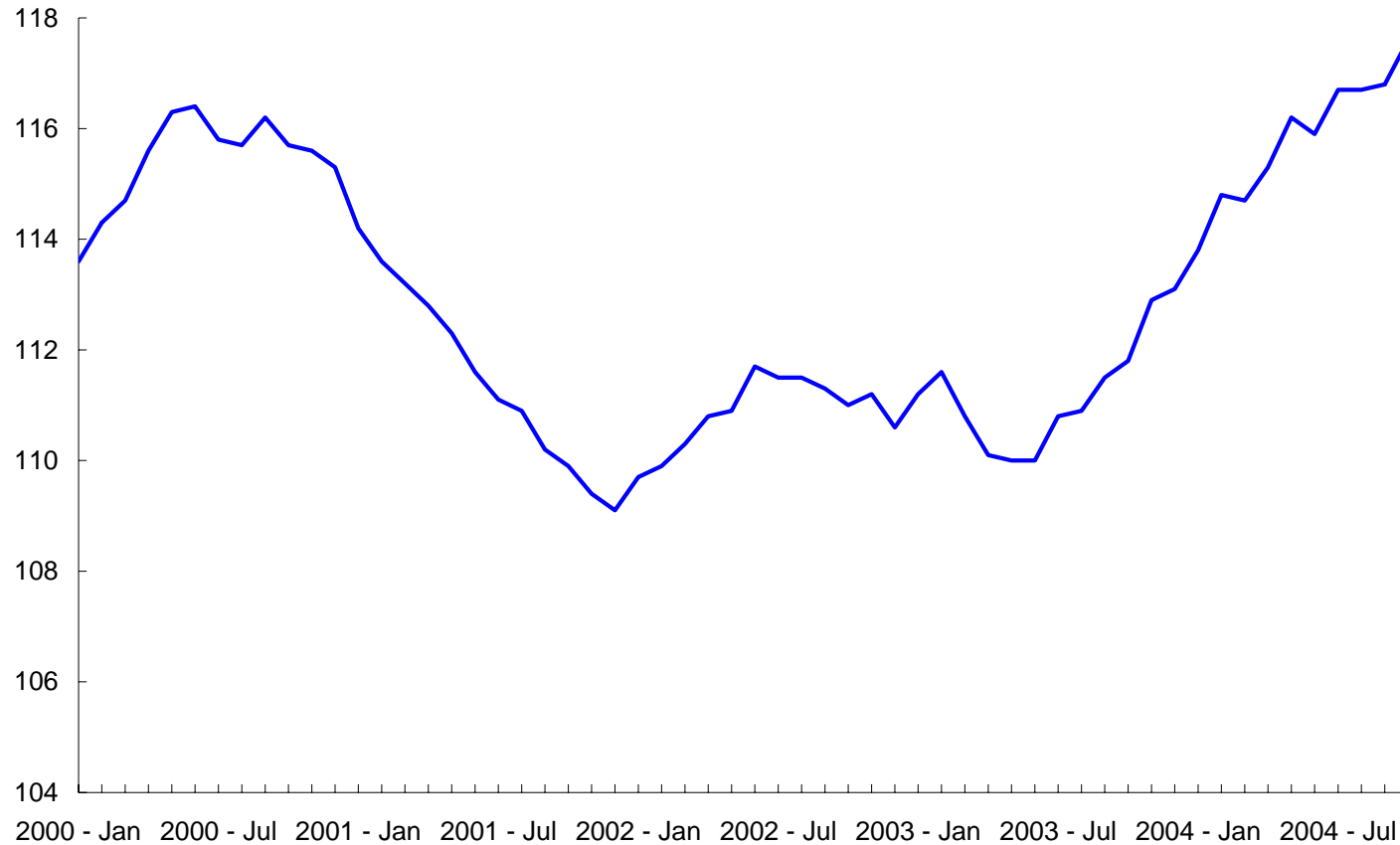
Note: Average based on prior recessions since 1960.

Source: Department of Labor

U.S. Industrial Production

Industrial Production Index

1997 = 100

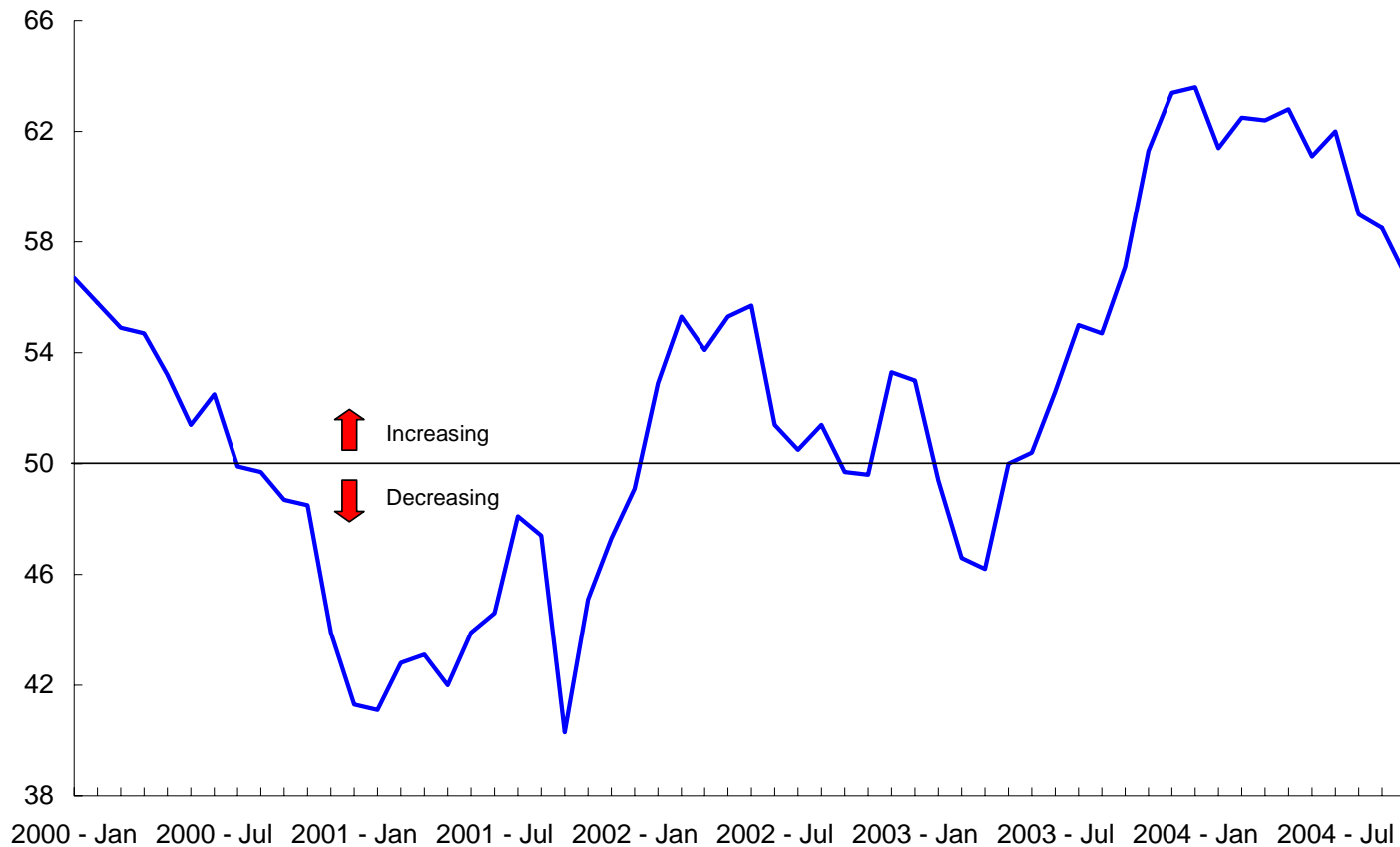


Source: Federal Reserve Board

ISM Manufacturing Index

ISM Manufacturing: PMI Composite Index

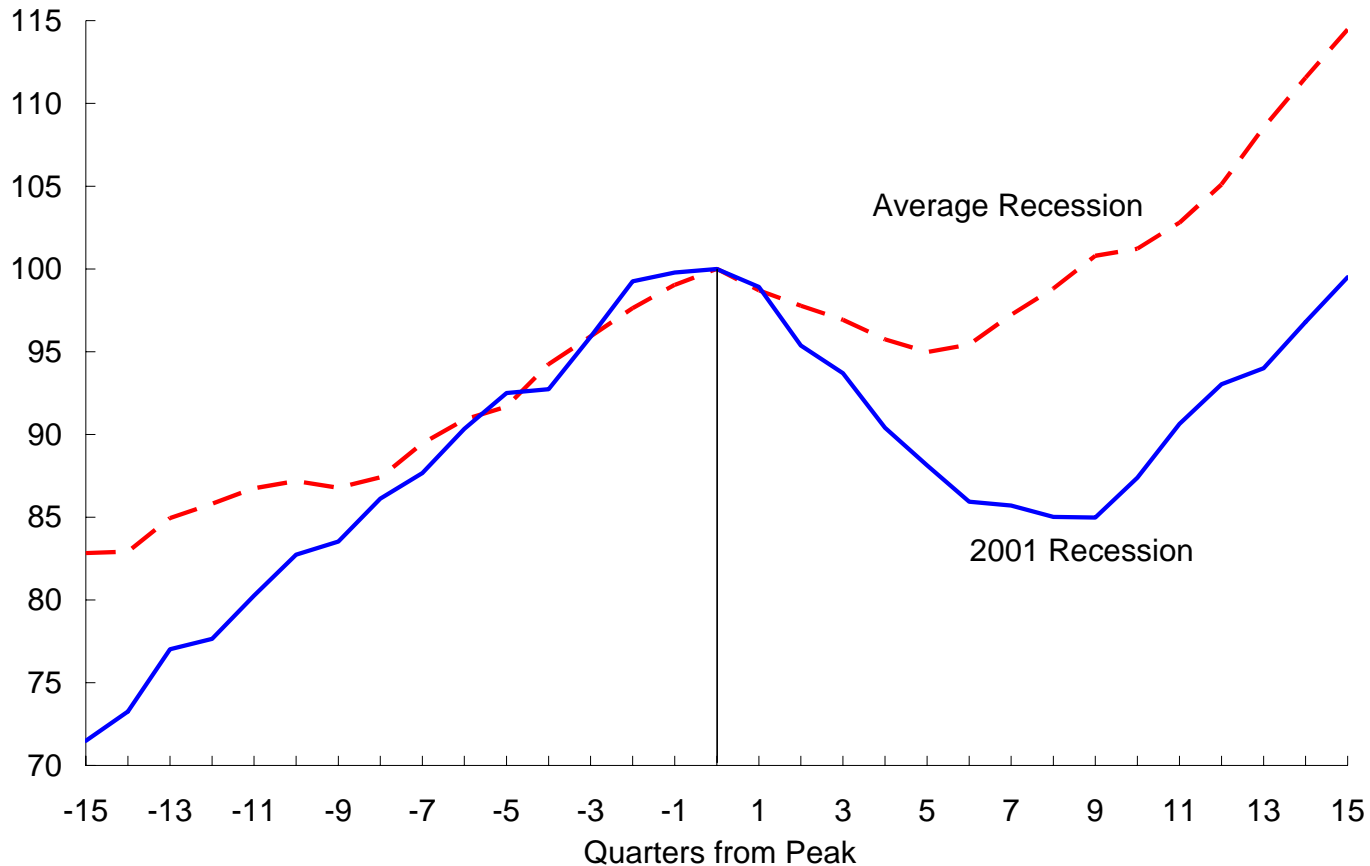
50+ Indicates Economic Expansion



Source: Institute for Supply Management

Investment during Recessions

Index, level at manufacturing production peak = 100

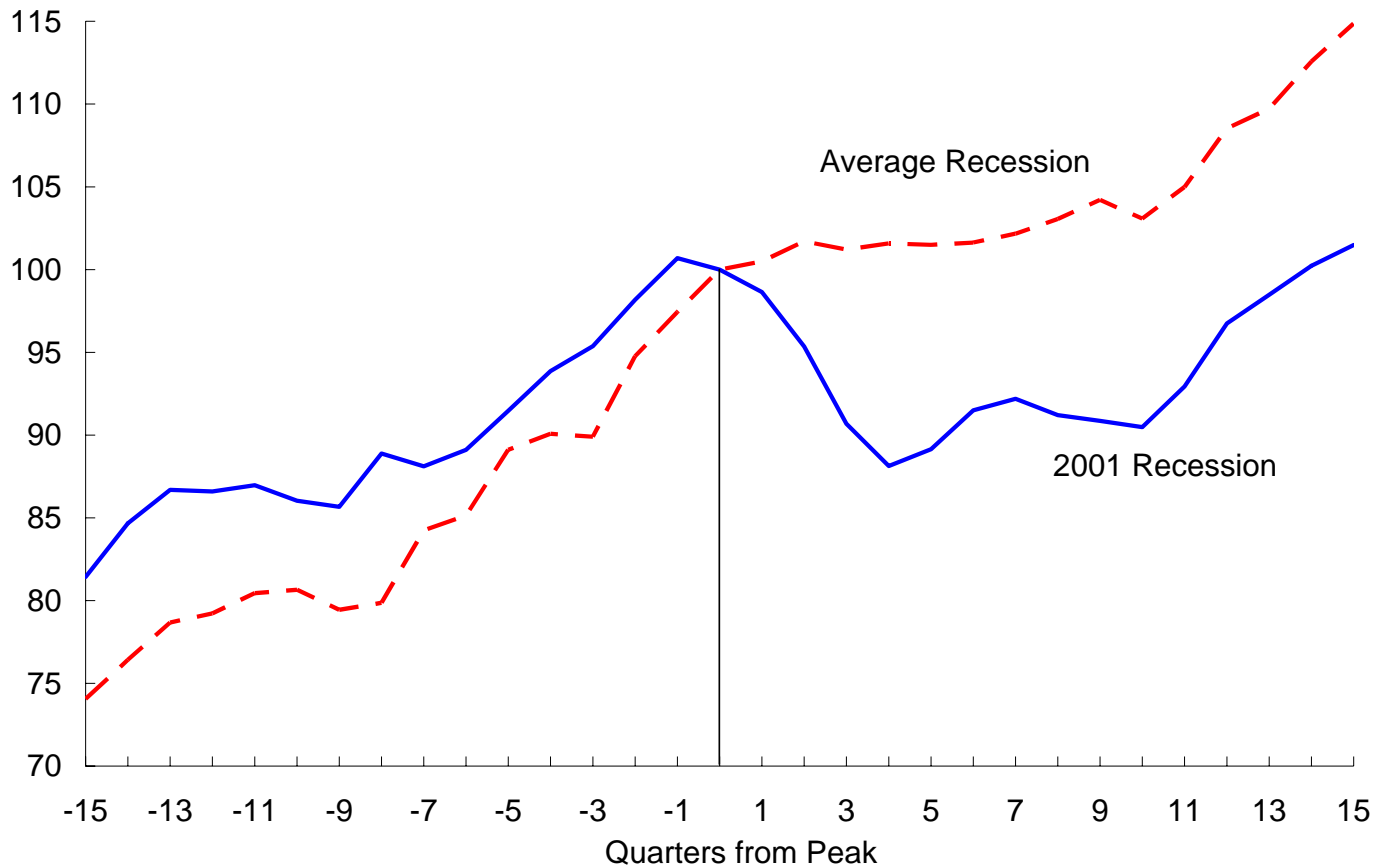


Note: Average based on prior recessions since 1960.

Source: Department of Labor

Exports during Recessions

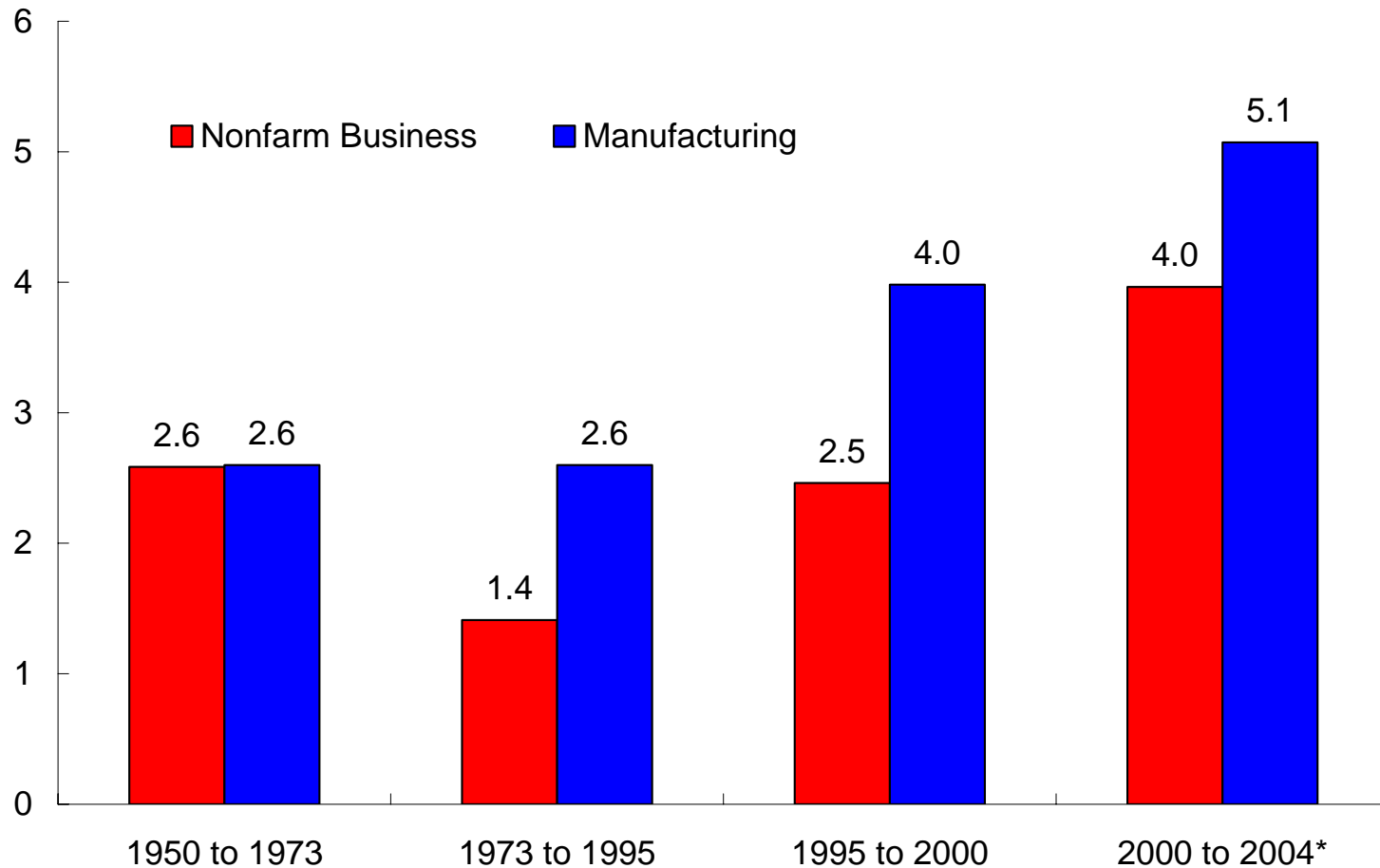
Index, level at manufacturing production peak = 100



Note: Average based on prior recessions since 1960.
Source: Department of Labor

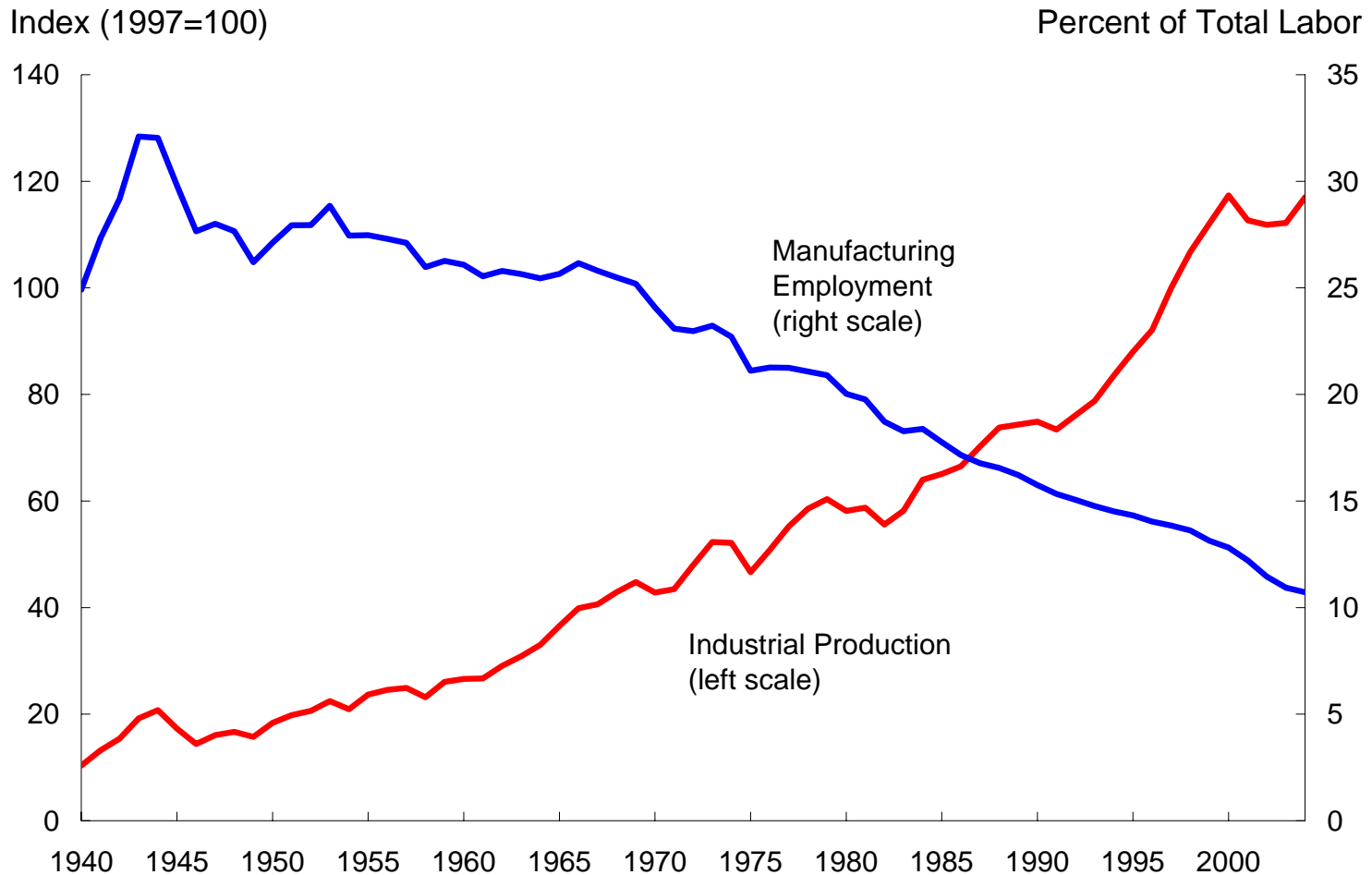
U.S. Productivity Growth

Percent, at an annual rate

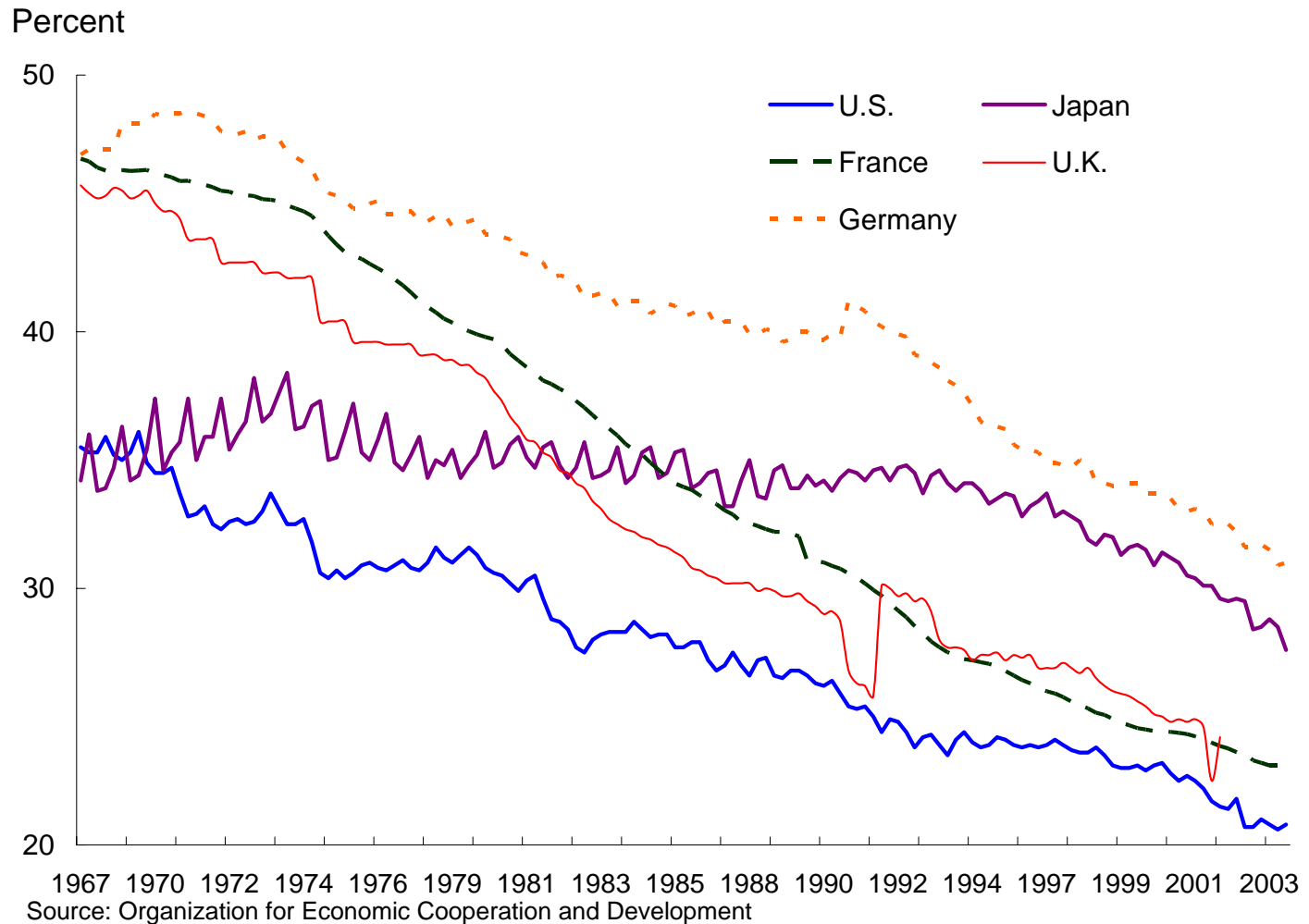


* 2004 data through Q3: 2004

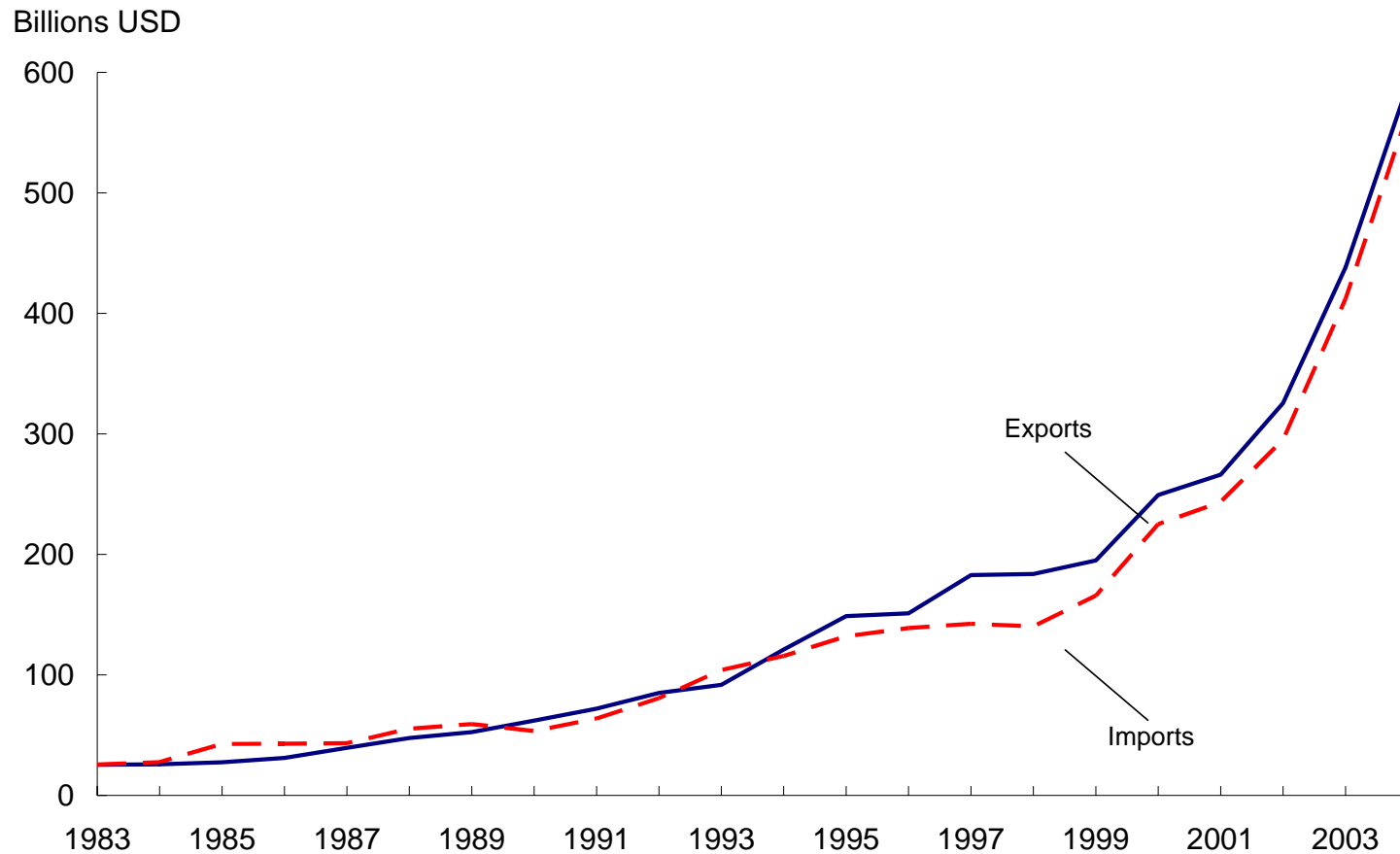
Employment & Productivity Growth



Share of Employment in Industry

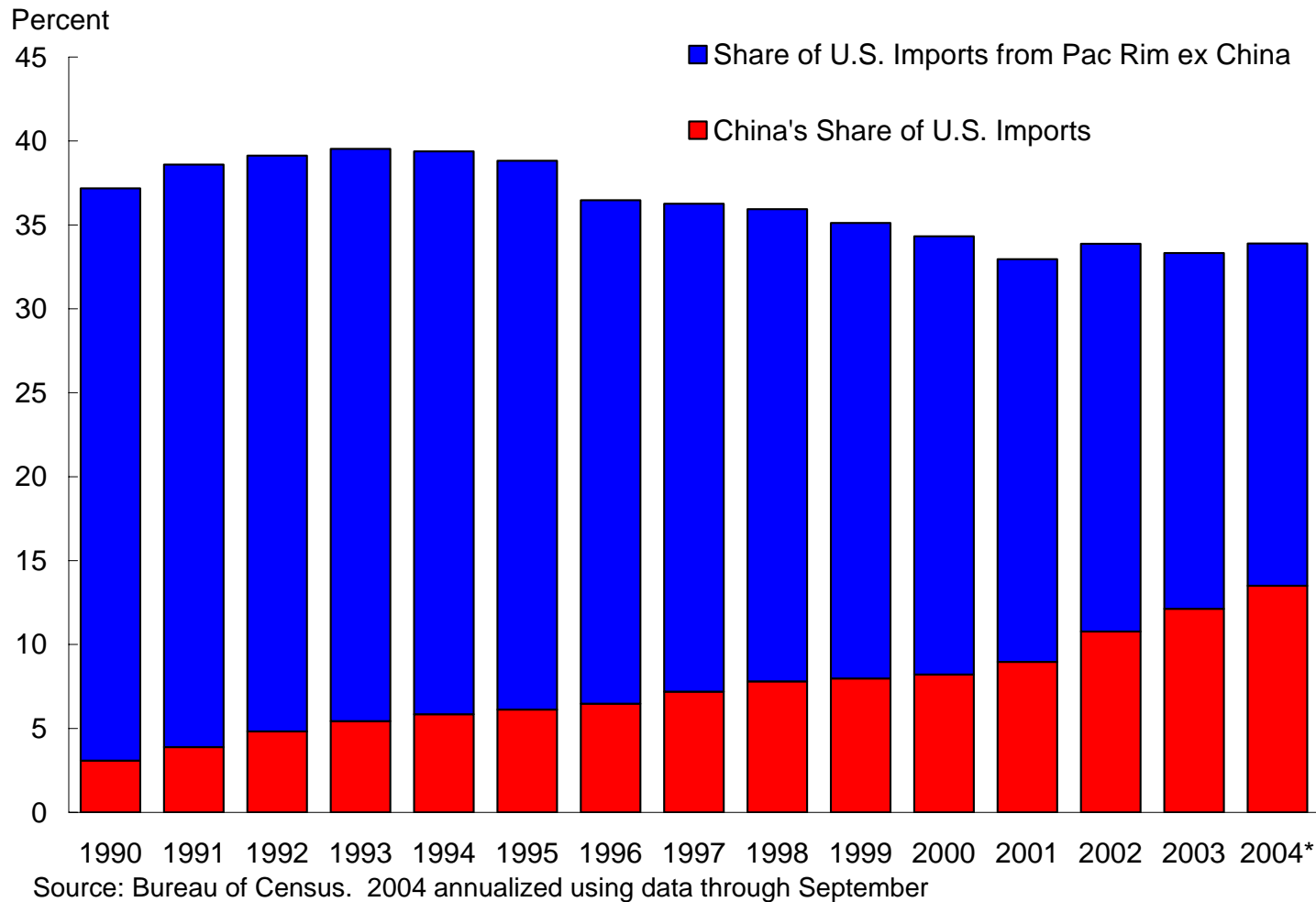


China's Trade in Goods

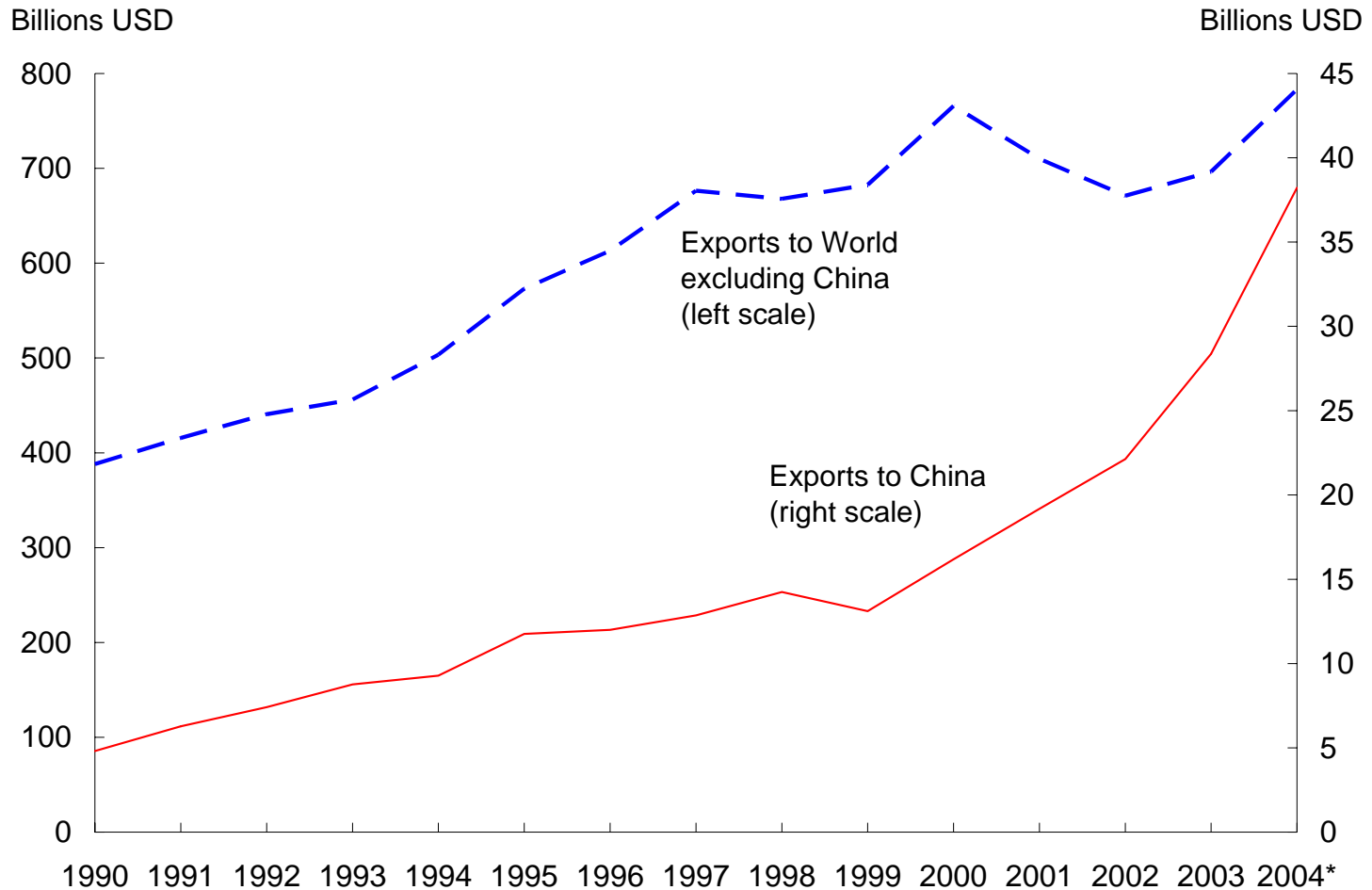


*2004 annualized using data through October
Source: China Customs

U.S. Imports from the Pacific Rim



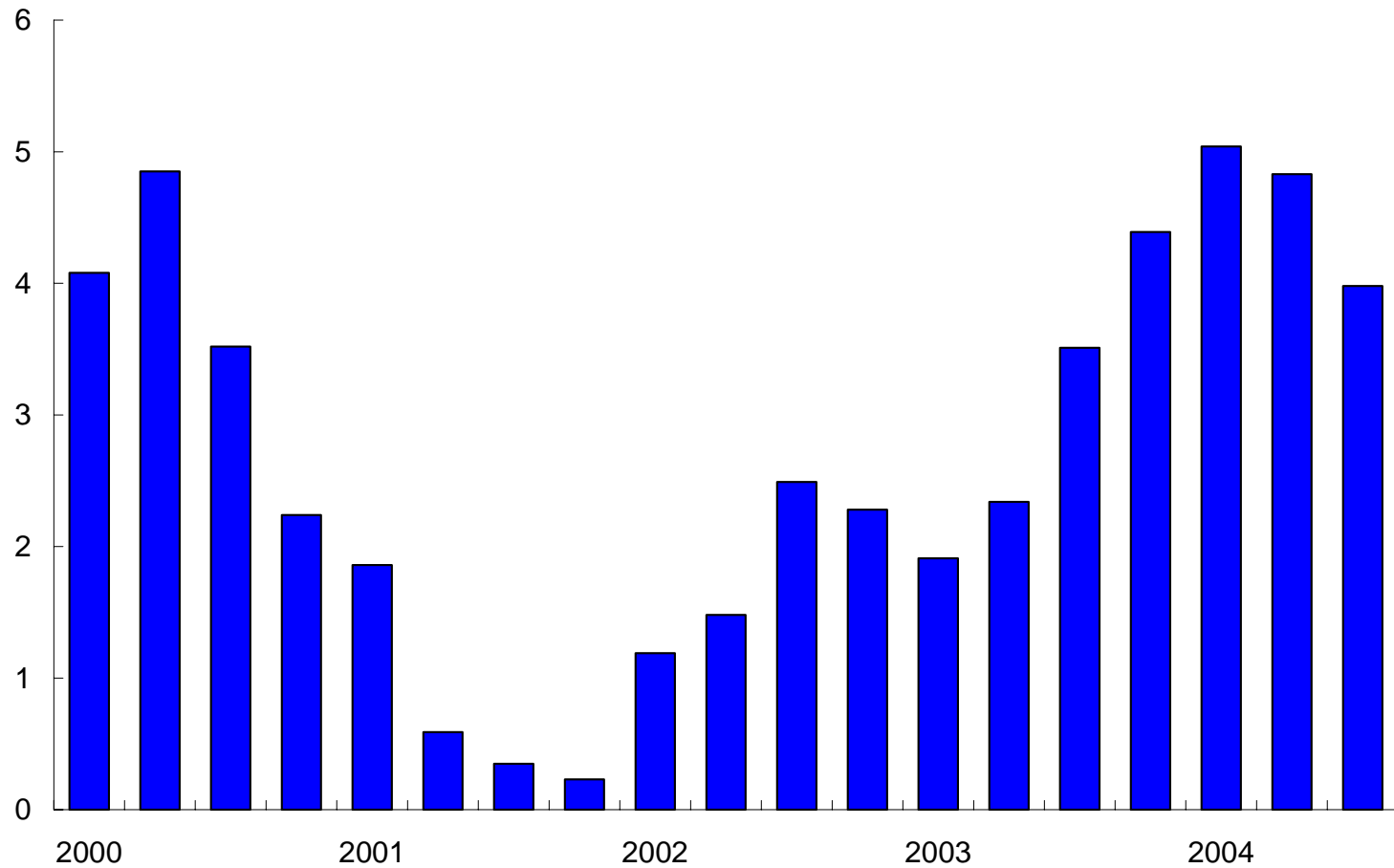
U.S. Exports



Source: Bureau of Economic Analysis. 2004 annualized using data through September

U.S. GDP Growth

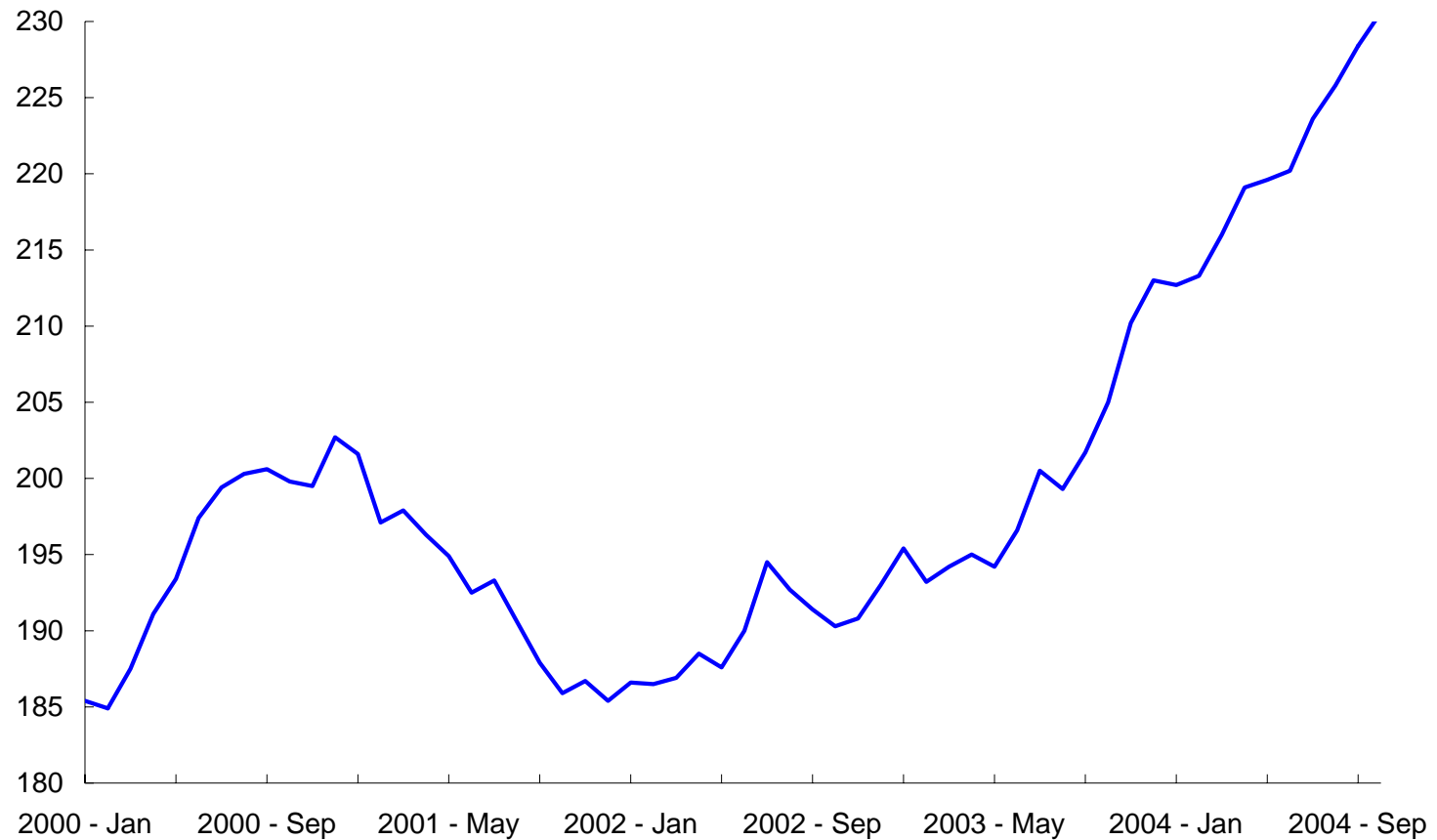
Four-quarter percent change at an annual rate



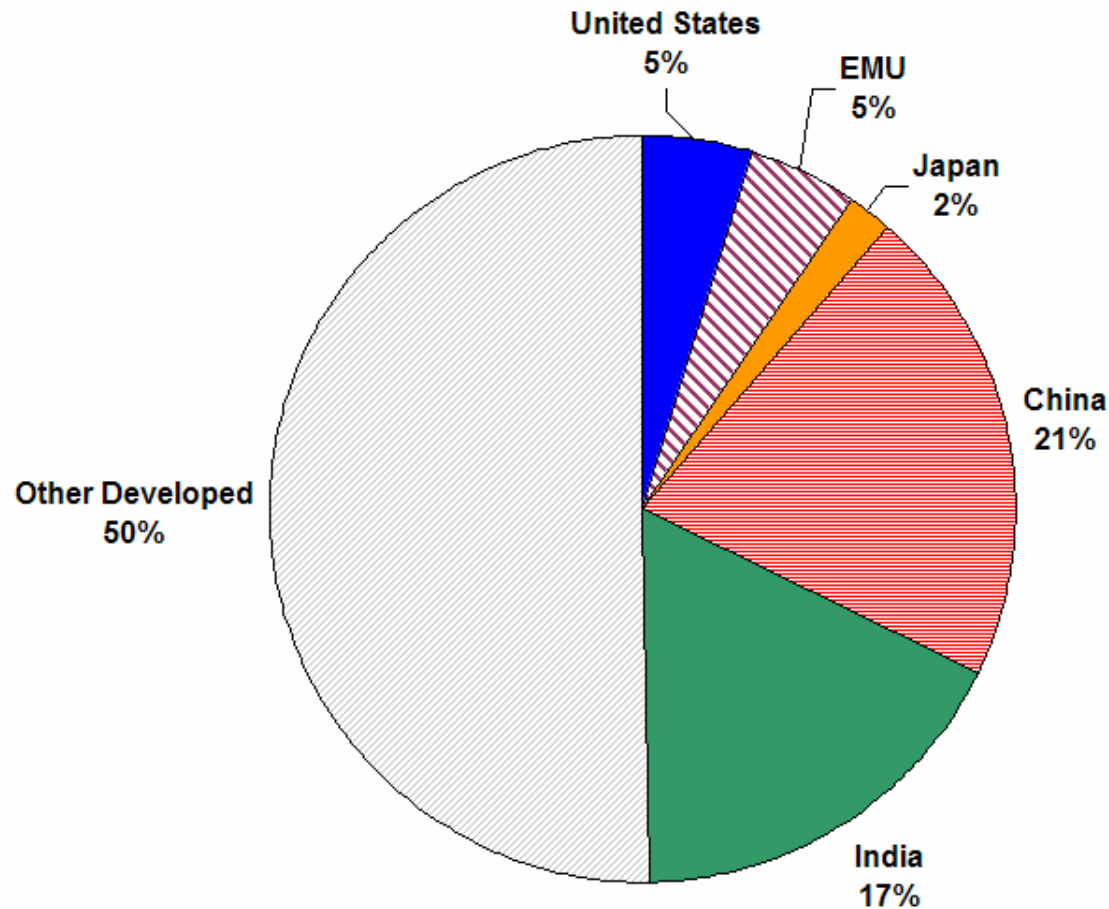
U.S. Business Investment

Weekly Production

Business Week Index (1992 = 100)



World Population in 2003



Source: World Bank *World Development Indicators Database*

Free-Trade Agreements

- Completed FTAs
 - ◆ Israel (1985)
 - ◆ Mexico and Canada – NAFTA (1994)
 - ◆ Jordan (2001)
 - ◆ Singapore (2004)
 - ◆ Chile (2004)
 - ◆ Australia (2004)
 - ◆ Morocco (2004)
 - ◆ Bahrain (2004) – awaiting congressional approval
 - ◆ Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua- CAFTA (2004) – awaiting congressional approval
- In negotiation and/or announced intent
 - ◆ Free-trade Area of the Americas – FTAA (34 nations)
 - ◆ Botswana, Lesotho, Namibia, South Africa, Swaziland – SACU
 - ◆ Oman
 - ◆ United Arab Emirates (UAE)
 - ◆ Thailand
 - ◆ Panama
 - ◆ Columbia, Bolivia, Peru, Ecuador

Improving U.S. Competitiveness

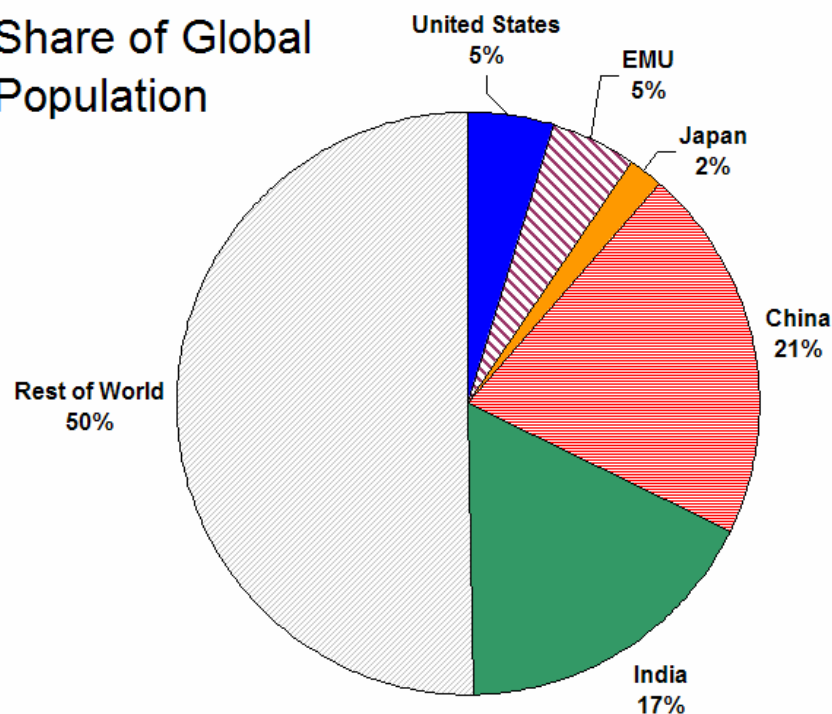
- Make tax relief permanent
- Reduce the burden of lawsuits on the economy
- Streamline regulations to ensure that they are reasonable and affordable
- Make health care costs more affordable
- Ensure an affordable and predictable energy supply

Training & Adjustment Assistance

- Trade Adjustment Assistance (TAA)
- Jobs for the 21st Century
 - ◆ Community college programs
- Personal Reemployment Accounts
- Opportunity Zones
- Over \$20 billion in 2005 budget for worker training and reemployment opportunities

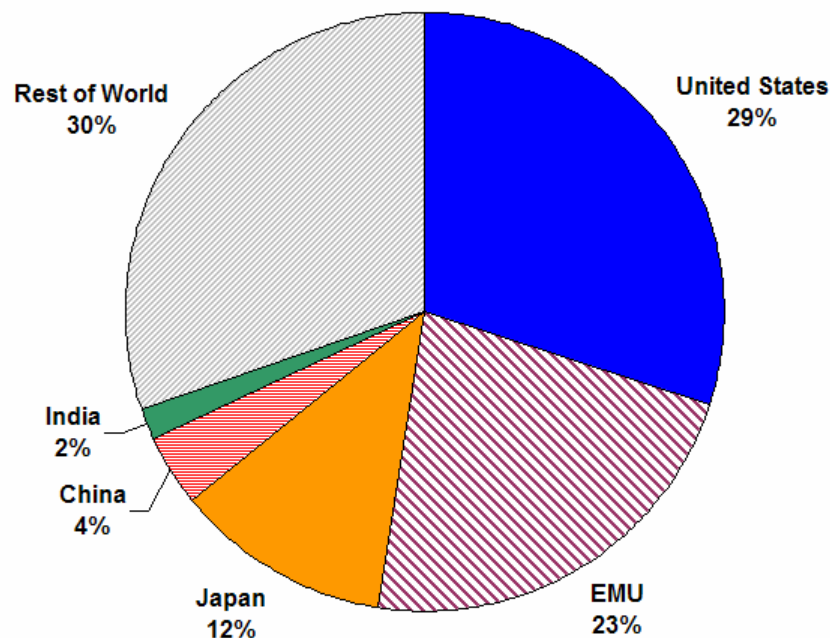
World Population and Output (2003)

Share of Global Population



Source: World Bank *World Development Indicators Database*

Share of Global GDP (in U.S. \$)

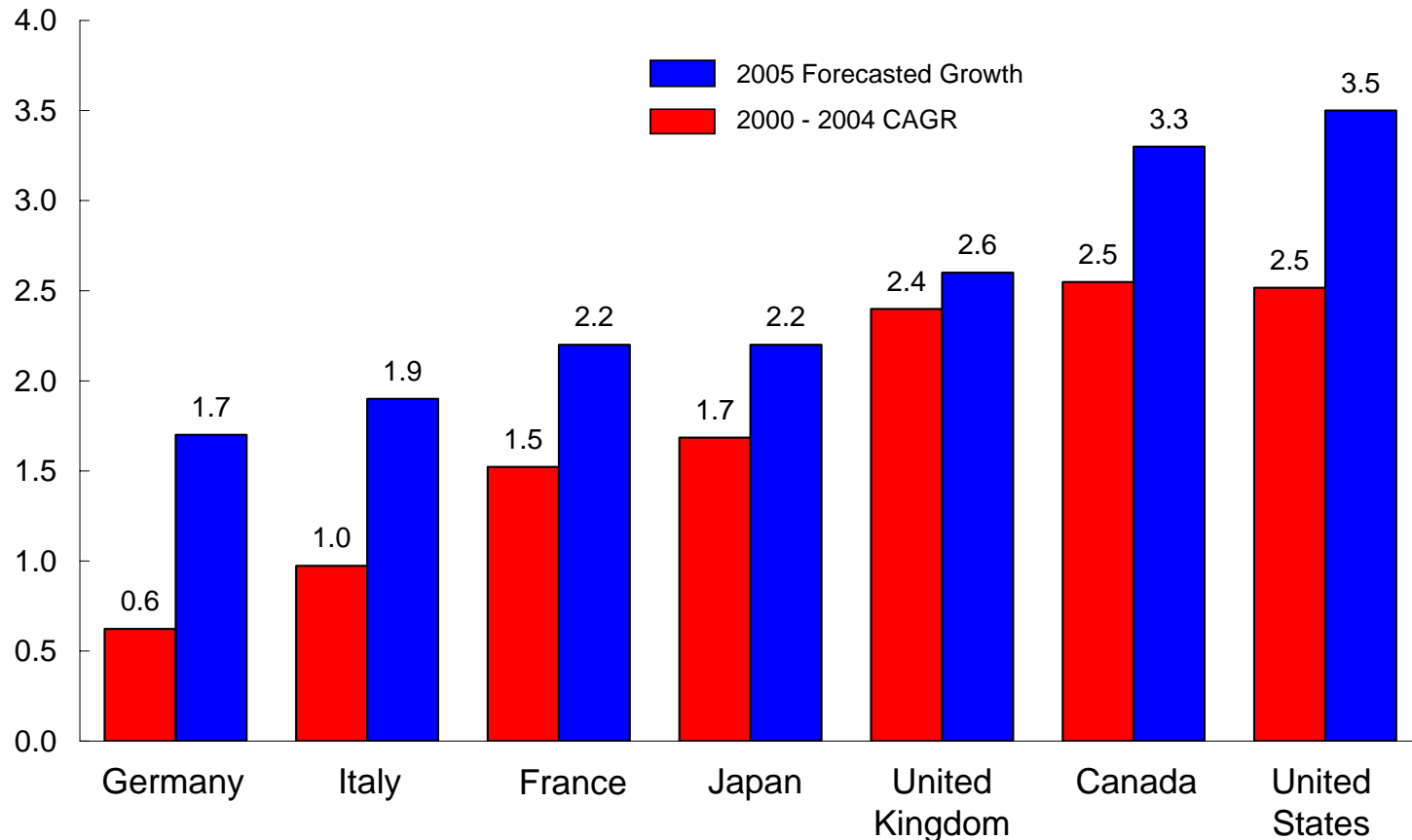


Source: World Bank *World Development Indicators Database*

Average GDP Growth in G-7

Average GDP Growth

Percent Growth



Source: November 2004 Blue Chip Indicators, except Potential Growth (from OECD June 2004 Economic Outlook)