



## Overview

In 2006, the economy of the United States slowed as evidenced by the flattening of GDP growth. Corporate profits remained strong, though they are expected to slow in 2007. Consumers were affected by increases in interest rates and energy prices and have become more cautious. However, rising wages, moderate employment gains, and lower gas prices will help enhance consumer spending. Construction spending slowed in 2006 and is expected to continue its decline in 2007. Oil prices are moderating and should not adversely affect growth in 2007. Inflation should hold steady despite the fact that interest rates will continue to increase.

**Consumer Spending.** Consumer spending will be enhanced by rising wages, moderate employment gains, and moderating energy prices. However, the slowdown in the housing market will be a risk to consumers.

**Housing Market.** The slowdown in the housing market poses a risk to GDP growth for 2007. A cooling housing market may erode household expenditures due to decreases in appreciation and equity withdrawals.

## Summary of Economic Conditions

The Federal Reserve Board continued to tighten monetary policy in 2005 and 2006. The Federal Reserve will loosen policy somewhat in 2007. Inflation is not expected to be a deterrent to economic growth in the foreseeable future. In 2006, the high price of oil resulted in cautious spending among consumers and financial markets; as prices moderate in 2007, disposable income will increase allowing for enhanced consumer spending. Business capital spending is expected to remain strong over the next fiscal year. Car and truck sales decreased in 2006, and are expected to remain slow. Retail sales continued to grow throughout 2006. Employment expanded by 1.4% in 2006. Real GDP grew at an estimated rate of 3.3% in 2006, and is expected to grow by 2.4% in 2007. Consumer prices are expected to advance by 2.1% in 2007, lower than the 2005 growth rate of 3.3%.

## Outlook for 2007

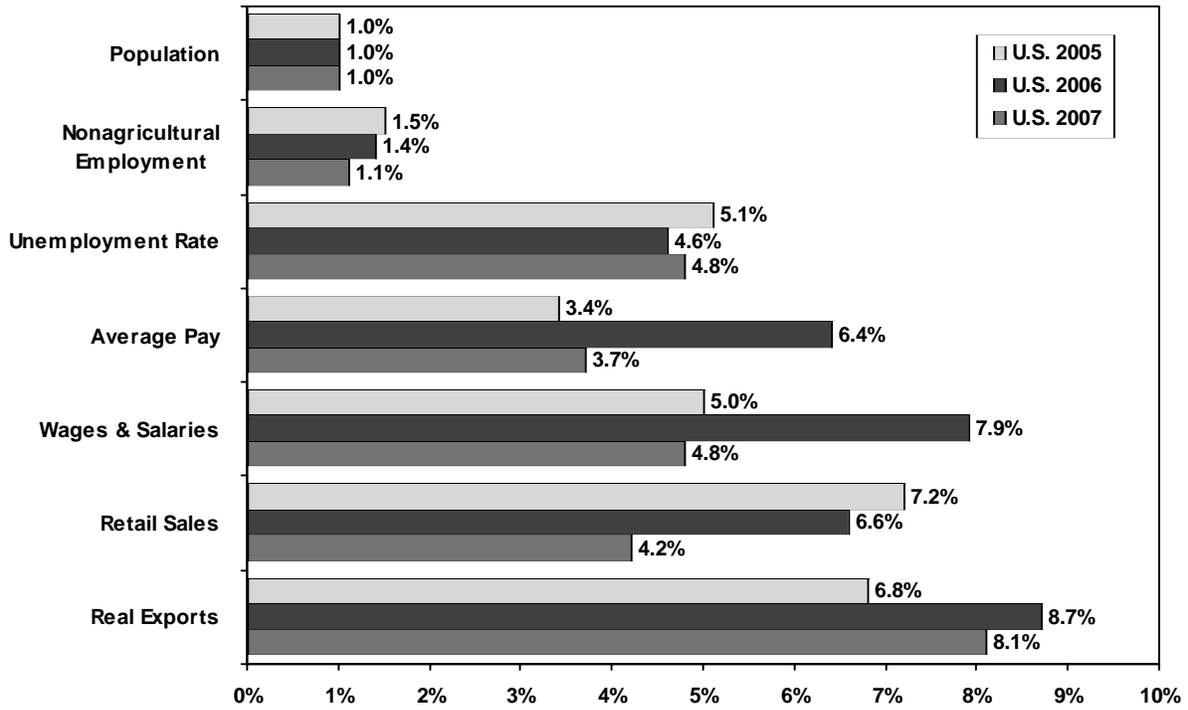
Real GDP is expected to increase by 2.4% in 2007. Consumer spending should continue to grow at approximately 2.8% for 2007. Spending for business equipment and software is expected to grow rapidly in 2007.

## Significant Issues

**Business Investment and Exports.** Business capital spending and exports should remain healthy throughout 2007, fueled by recent declines in oil prices, strong profits, and low interest rates. Equipment purchases are expected to grow at approximately 6.2%. Business construction should also remain high in 2007.

**Energy Prices.** The future path of energy prices will be a significant factor in the performance of the economy in 2007. Rising energy prices posed a significant risk to the economy in 2006 but are expected to moderate in 2007. Forecasts for crude oil prices call for a slight decrease in 2007 compared to the average price in 2006.

Figure 1  
 United States Economic Indicators



Source: Council of Economic Advisors' Revenue Assumptions Committee