



**May 5, 2005**

## **Economic Outlook**

- **The U.S. Economy grew at a 3.1% annual pace in the first quarter, the slowest in two years. An inflation gauge tracked by the Federal Reserve rose the most since late 2001. The Personal Consumption Price Index, excluding food and energy, rose 2.2% versus 1.7% in the fourth quarter.**
- **Non-farm productivity for the first quarter rose to a 2.6% annual rate, compared to a 2.1% gain in the fourth quarter. Economists had forecasted 1.9% for the quarter.**
- **Businesses added 477,000 employees last quarter, fewer than the previous quarter, suggesting that companies are focused on maintaining efficiency gains. As a result, employers may defer hiring, as they pay more for raw materials and labor.**
- **Initial jobless claims came in at 333,000 versus the estimate of 323,000. On average, 326,000 people per week have filed claims so far this year.**
- **Orders at U.S. factories unexpectedly rose in March, led by the biggest jump in demand for petroleum and coal products, the most in more than a decade of records.**
- **The increase suggests that manufacturing, which accounts for 13% of the U.S. Economy, will give some support to the economic expansion after growth cooled in the first quarter. Its contributions will be limited because orders for automobiles and**

**capital equipment declined, suggesting a slowdown in business and consumer spending. Military orders surged.**

- **The economy expansion may be reaching a mature rate of expansion, while the increase in oil and coal bears out potential inflation pressures. The federal policy makers increased the overnight rate to 3% from 2.75% citing increased inflation pressure, but reiterated their “measured pace” language.**
- **Growth in U.S. services, the biggest part of the economy, slowed in April as record energy prices led companies to cut back on orders and hiring. The report showed rising fuel and transportation costs might be keeping the economy from accelerating. The ISM Services Index tracks banking, insurance, construction, retailing and other services. The ISM has averaged 57.5% since 1997. Services account for 85% of the U.S. Economy.**

The content and materials contained herein were prepared by VTL Associates, LLC (“VTL”), by utilizing and relying upon data, charts, news content, and information provided by Bloomberg Professional service, Ryan Labs, and Zephyr StyleADVISOR. VTL assumes no responsibility for the accuracy of such data, charts, news content, and information. Evaluations, observations, opinions, strategies, estimates, projections, graphic illustrations, and commentaries are for informational purposes only and are not intended to be an offer, solicitation or recommendation with respect to the purchase or sale of any security or any class of securities, nor do they represent recommendations or advice for any particular client or client portfolio or fund. Past results are not necessarily indicative of future performance. VTL Associates, LLC disclaims responsibility, financial or otherwise, for the accuracy or completeness of this report.