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CBPP STATEMENT
Special Series: **Economic Recovery Watch**

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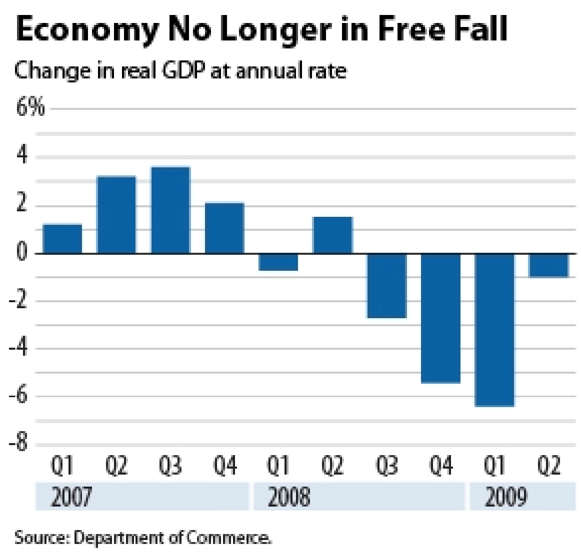
STATEMENT BY CHAD STONE, CHIEF ECONOMIST, ON TODAY'S ECONOMIC GROWTH REPORT

Today's report on second-quarter economic growth shows that the economy is no longer in free fall. It also provides evidence that the economic recovery legislation that the Administration and Congress enacted earlier this year is doing what it was reasonably expected to do.



No mainstream economist believed that the recovery measures would produce an immediate turnaround in the economy, but they did expect them to slow the downward spiral and help generate a turnaround sooner than would otherwise occur. The first outcome is already happening and the second is likely. After falling at an annual rate of 5.4 percent in the fourth quarter of last year and 6.4 percent in the first quarter of this year, economic activity as measured by real (inflation-adjusted) gross domestic product (GDP) fell a much smaller 1.0 percent in the second quarter (see chart). Three-quarters of the business forecasters surveyed earlier this month by Blue Chip Economic Indicators expect that the bottom of the recession will occur before October.

The economy still must dig itself out of a deep hole over the next few years. Economic activity stimulated by the stimulus measures that are continuing to kick in will provide a useful boost as a recovery takes shape. The unemployment rate, which is traditionally a "lagging indicator" of economic improvement, will continue to rise well after GDP begins to grow, but will not reach as high a level as it would have without that boost.

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