FOIA Number: 2018-0275-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Records Management - SUBJECT FILE

Series/Staff Member: Subject Files

Subseries:

OA/ID Number: 21904

Scan ID: 406340

Document Number:

Folder Title:
BE

Stack:	Row:	Section:	Shelf:	Position:
S	83	4	4	1

'00 FEB 18 AM9:08

406340

THE PRESIDENT HAS SEEN
02-21-00
BE

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

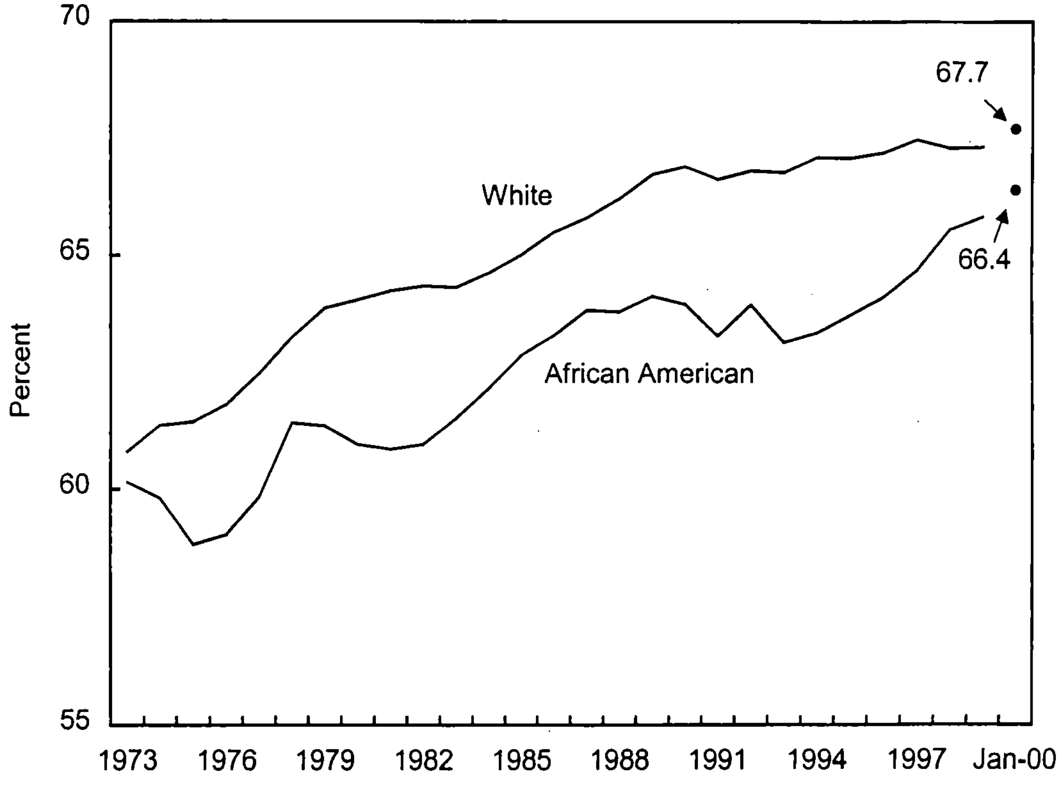
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

copied
Baily
Podesta
(entire report)

February 18, 2000

CHART OF THE WEEK

Labor Force Participation Rate, Aged 16 and Over



The labor force participation rate of African Americans has been lower than that of whites and has shown greater variability through time. However, gains in African American labor force participation in this expansion have narrowed the gap to the smallest it has been since 1973.

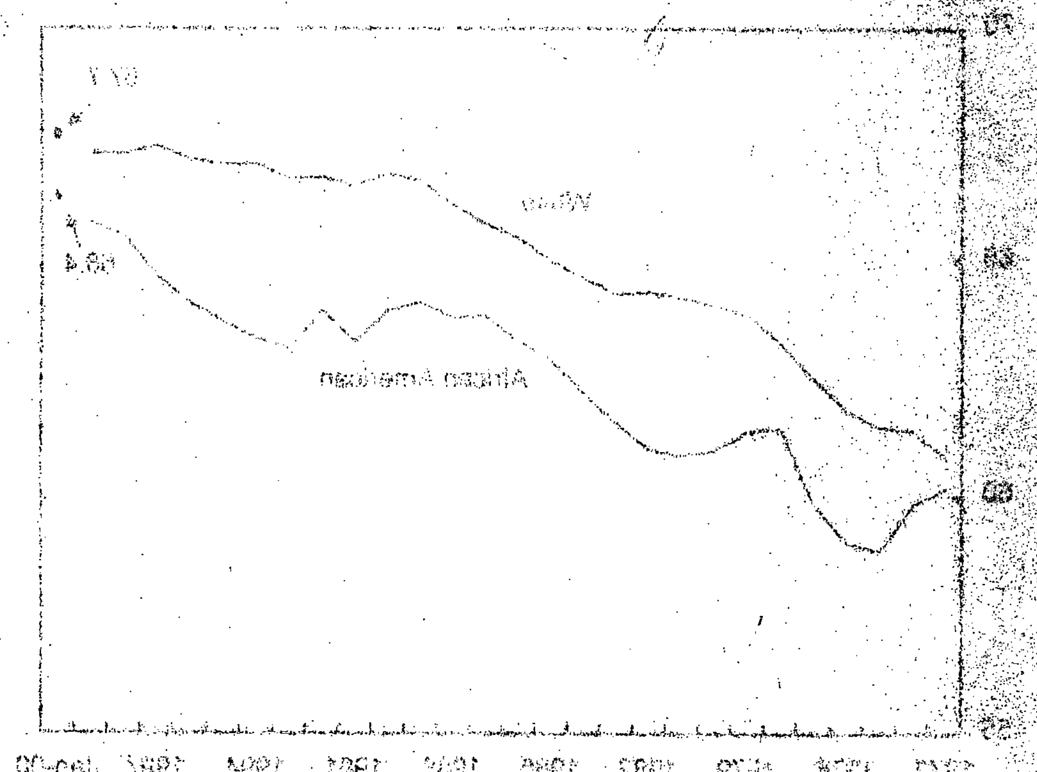
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

February 18, 2000

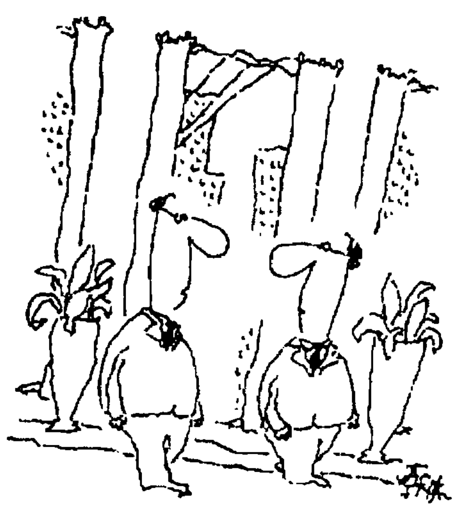
CHART OF THE WEEK

Labor Force Participation Rate: Aged 16 and Over



The labor force participation rate of African Americans has been lower than that of whites and has shown greater variability through time. However, gains in African American labor force participation in this expansion have narrowed the gap to the smallest it has been since 1972.

CONTENTS

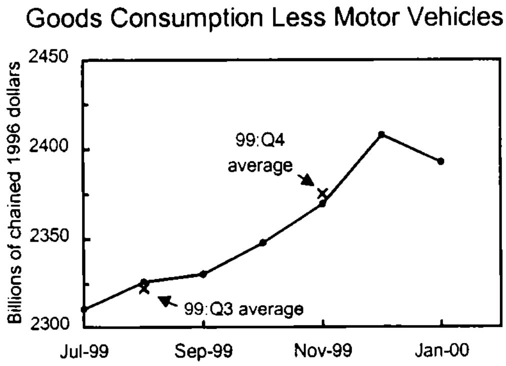


"I'd really like to fire that terrible new advisor, but he keeps advising me not to."

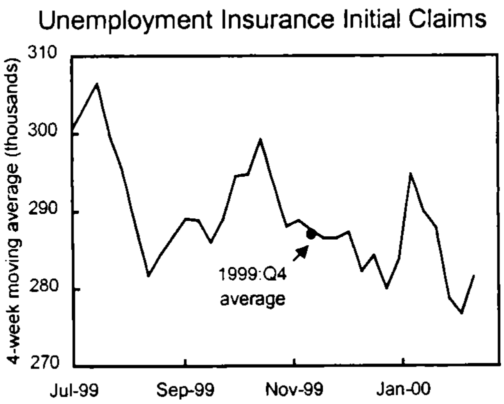
MACROECONOMIC UPDATE

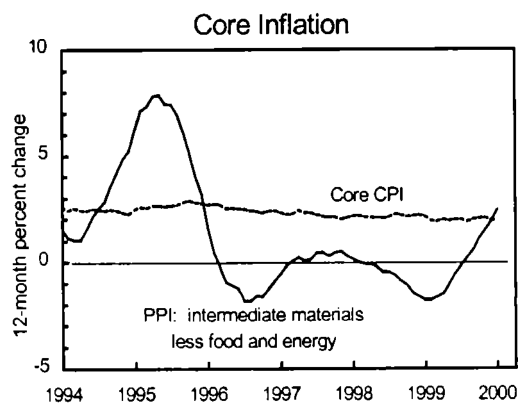
Still Going Strong

Large gains in industrial production and production-worker hours point to the first quarter being another of solid growth. Y2K effects altered the monthly pattern of activity around the turn of the year but are likely to have limited effects on the quarter. Growth in real GDP in the fourth quarter, estimated at 5.8 percent in the advance report, is likely to be revised up to about 6½ percent at an annual rate.



Note: Figures for November, December, and January are adjusted based on latest retail sales reports.





Note: Core CPI is measured by the core CPI-U-RS

Sales. Y2K effects were clear in retail sales. Real consumption of goods excluding motor vehicles rose sharply in November and December, and then declined in January (see upper chart). The swing was pronounced for sales at grocery, drug, jewelry, and furniture stores. Despite the drop, real sales of non-auto goods in January remained well above the fourth-quarter level.

Y2K and inventories. Inventory accumulation, which added 1.2 percentage points to real GDP growth in the fourth quarter, may have been boosted by the desire to buffer production against Y2K disruptions. No data are yet available for the first quarter, but a drop in stockbuilding is likely.

Other indicators. Indicators that were not obviously affected by Y2K are uniformly strong. Housing starts were up sharply in December and posted a further gain in January. Motor vehicles sold at a strong 17¾ million unit annual rate in January. Payroll employment increased 387,000 in January. And initial claims for unemployment insurance for the 4 weeks ending in mid-February stayed below the fourth-quarter level, indicating continuing strong demand for labor (see middle chart).

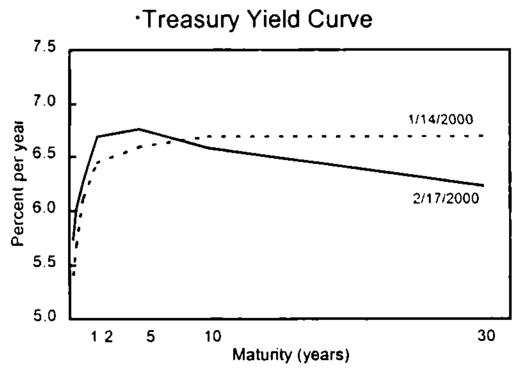
Inflation. Prices of commodities and intermediate goods (especially petroleum products) have accelerated sharply—likely reflecting the strength of the world economy. But core consumer prices remain low and stable in the face of the price acceleration at the earlier stages of processing (see lower chart on previous page). Labor costs outweigh all other production costs, and these have been contained by the stunning growth of productivity—which now appears to have grown in excess of 5 percent at an annual rate in the second half of 1999.

SPECIAL ANALYSIS

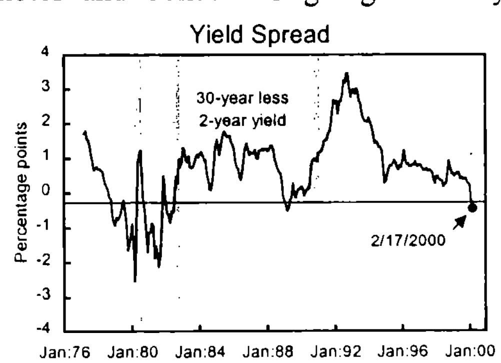
Debt Paydown, the Bond Market, and the Economy

Yields on Treasury bonds have dropped below yields on short- and intermediate-duration Treasury securities. Such an "inversion" of the yield curve usually is associated with a tightening of monetary policy and the possibility of an economic downturn. In this case, however, part of the explanation lies in the market's response to a future of declining public debt, and the macroeconomic impact so far looks to be small.

An inverted yield curve. Since mid-January, yields on 1-to-5-year Treasury securities have increased about 25 basis points, reflecting heightened concerns that the continued strength of the economy would cause the Fed to tighten further. Normally, Fed tightening causes long-term yields to rise, but by less than short-term rates, because the market expects the tightening to be temporary. In fact, however, yields on 30-year Treasury bonds have fallen about 50 basis points. These opposite movements have inverted the usually upward-sloping yield curve (see upper chart). The current inversion is atypical in that much of the action is occurring at the long end of the yield curve rather than the short end, as would be the case if the cause were entirely a tightening of monetary policy.



Supply and demand? Changes in inflationary expectations, monetary policy, and risk factors do not appear to explain fully this sharp downturn in long-term Treasury bond yields. Instead, the decline appears to be related to anticipated reductions in the relative supply of these securities. Recent fiscal projections may have focused investors' attention on the implications for debt management of growing surpluses, and in particular the future reduction in the supply of Treasury notes and bonds. Ongoing volatility in Treasury bond yields suggests that markets are still digesting the implications of reduced debt. While it is unclear whether the downward slope of the yield curve will persist, it is interesting to note that the yield curve in the United Kingdom is likewise inverted—resulting from shifts in supply and institutional demand—and that this condition has persisted for over 6 months.



Note Shading indicates recession

Does this matter for the economy? Yield-curve inversions occurring because of restrictive monetary policy are often associated with the onset of a recession (see lower chart on previous page). In contrast, the flattening of the yield curve in 1997 resulted from a drop in long-term yields, not a rise in short-term rates, and economic growth continued to be robust in the following 2 years. Although expectations of a policy tightening have contributed to the current inversion of the yield curve, an additional cause has been the sharp decline in long-term yields, suggesting that monetary policy is not so tight as is implied by the slope of the yield curve. The fall in long-term Treasury yields does not look to have much effect on private spending, either. Thus far, there appears to have been little passthrough to private borrowing rates.

Conclusion. Recent declines in long-term Treasury bond yields appear to be related to expected reductions in the supply of these securities in an era of expanding Federal Government surpluses. So far, the macroeconomic implications of the fall in Treasury bond yields appear to be small.

THE PRESIDENT HAS SEEN
02-21-00

ARTICLE

Recent Changes in Family Finances

As discussed last week, aggregate household debt and debt service payments have been rising faster than disposable personal income in recent years. Recent evidence suggests, however, that for most families assets have been growing even faster than debt.

The SCF. The main source of data on how financial conditions vary among families is the Federal Reserve's Survey of Consumer Finances (SCF), a survey of about 4,300 families that is conducted every 3 years, most recently in 1998. Because wealth is highly concentrated, the SCF oversamples relatively wealthy households in order to get more statistically reliable estimates of the pattern of wealth holdings. However, it explicitly excludes members of the *Forbes* 400 list of the wealthiest Americans as well as a few very famous people.

Changes in net worth. A recent Fed analysis of the latest SCF indicates that net worth—the difference between gross assets and liabilities—grew strongly between 1995 and 1998. Real median net worth rose 18 percent, to $71,600. This is 20 percent higher than in 1989, the last full year of the previous economic expansion. Mean net worth, which is more sensitive to the size of the gains in the upper part of the distribution, rose 26 percent between 1995 and 1998, to $282,500. Because some of this gain represented a recovery from a decline in mean net worth between 1989 and 1992, mean net worth in 1998 was also about 20 percent higher than it was in 1989.

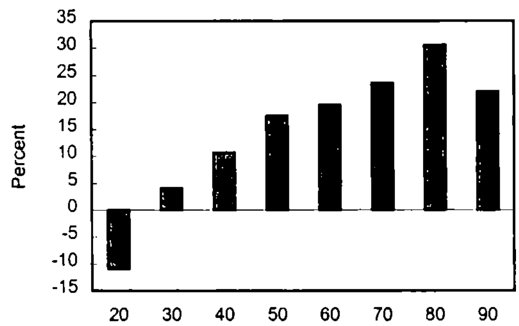
Variation by income. The Fed analysis reports that these increases in net worth were broadly shared by different demographic groups, though not by all. In general, older, higher-income, and better-educated families had the largest gains. In terms of levels, 1998 median net worth ranged between $3,600 for families with income below $10,000 and $510,800 for families with incomes of $100,000 or more. Mean net worth was considerably higher in each group. Even in the lowest income category, mean net worth was $40,000—more than 10 times the median, suggesting that even among those with low incomes some proportion of families have substantial net worth relative to their income.

Variation by race. The study reports on just two categories, white non-Hispanics and all others. Levels and changes in the first group closely track those of the population as a whole. For the others, mean net worth increased almost as rapidly as for all families between 1995 and 1998, but the median actually fell slightly. This sharp divergence between the median and the mean suggests considerable variability in the recent changes experienced by non-white and Hispanic families. Since 1989, by contrast, mean and median net worth grew substantially more rapidly for these minorities than for white non-Hispanics. Nevertheless, the median net worth of white, non-Hispanic families was $94,900 in 1998, or almost six times the $16,400 of minority families.

THE PRESIDENT HAS SEEN
02-21-00

The distribution of wealth. Wealth is distributed much more unevenly than income. In 1998, the wealthiest 10 percent of families held more than two-thirds of all wealth, and the top 0.5 percent held more than a quarter. (In the distribution of household income, by contrast, the highest income fifth received about half of aggregate income and the top 5 percent received 21 percent.) Unpublished Fed estimates show a small increase in the Gini measure of wealth inequality between 1995 and 1998, but one that is within the range of sampling error. Nevertheless, these data also show that larger percentage gains in real net worth occurred at the wealthier end of the distribution (see chart). In the wealthiest 10 percent of families, stocks and privately held businesses were the most important sources of gains and debt was relatively unimportant. In the rest of the distribution a variety of assets, including principal residences and stocks, were important. In this group, increases in debt offset about a quarter of the rise in assets.

Change in Real Net Worth, 1995-98



Percentile of the wealth distribution

Conclusion. Survey data on family finances show that recent rapid increases in net worth relative to income have been broadly shared. Nevertheless, the extraordinary gains in the stock market appear to have contributed to larger gains among families that in many cases were already well-off.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Teens Respond to Cigarette Price Hikes. An increase in the price of cigarettes has a negative impact on older teenagers' decision to smoke, indicating that raising cigarette taxes may be an effective policy to decrease youth smoking, according to a recent study. Sharp price reductions for cigarettes in the early 1990s were found to account for 30 percent of the increase in youth smoking between 1991 and 1997. Moreover, teens from traditionally socioeconomically disadvantaged groups, such as African Americans and children of less-educated parents, were found to be particularly price sensitive. In contrast, younger teens were not sensitive to price (either in their decision to smoke or in the amount they smoked), indicating that younger teenagers smoke for non-economic reasons such as experimentation or acceptance by peers. Non-price policies were found to have a mixed impact on youth smoking. There is some suggestion that laws which restrict youth access to tobacco products reduce the amount that teens smoke but do not affect their decision to smoke. In addition, the study finds little consistent evidence that clean air regulations matter for youth smoking decisions.

Malpractice Reform Increases Productivity with No Harm to Health. Reforms of medical malpractice liability law designed to reduce the level of compensation to potential claimants improve medical productivity by reducing hospital expenditures without harming patients' health, according to a recent study. Moreover, other policies that reduce non-financial costs to the doctor, such as the time spent and the amount of conflict involved in defending against a claim, may also substantially reduce hospital expenditures. The study found that malpractice pressure leads to highly significant increases in hospital expenditures by encouraging doctors to practice "defensive medicine." A 1 percentage point decrease in a physician's probability of defending against a malpractice claim in a given year results in a 2 to 3 percent decrease in real expenditures. Moreover, these changes in medical practice induced by changes in malpractice pressure do not have systematic or substantial effects on patient health outcomes, at least for the elderly heart-disease patients that were studied.

Trapped in Poor Neighborhoods? A recent study estimates that while over one-third of poor African Americans will live in a high poverty neighborhood for at least 1 year out of 10, most will not stay long. Only 7 percent will live in such a neighborhood for 10 or more consecutive years. Although only a small percentage of those who ever live in a poor neighborhood stay a long time, those who do make up the bulk of residents at any moment in time. In the study, more than three-quarters of residents in high poverty neighborhoods at any given time will likely be there for more than 10 years, and over 50 percent for more than 20 years. Moreover, many of those who do "escape" are likely to return; 40 percent of poor African Americans who leave such neighborhoods will return to one within 5 years, nearly 50 percent within 10 years. This result suggests that, for many poor African Americans, the most difficult part of escaping from high poverty neighborhoods is not moving out at a point in time, but staying out for a long duration.

THE PRESIDENT HAS SEEN
02-21-00

INTERNATIONAL ROUNDUP

Investment in the Internet for the Developing World. In a major initiative intended to promote the digital economy in the developing world, The World Bank's International Finance Corporation (IFC) has joined with the Japanese Internet company SOFTBANK to invest in Internet businesses in about 100 developing countries. The new venture, called SOFTBANK Emerging Markets (SBEM), will commit $500 million to global Internet development. SBEM will invest seed money in new Internet enterprises and provide an array of technological, legal, and management support to help turn ideas into solid businesses. The initiative will seek to improve Internet access in targeted countries by generating investor interest in emerging markets, which should help lower the price of Internet access and increase the number of subscribers. It will also promote free or subsidized Internet service to schools and other educational institutions.

Development Assistance Rises in the OECD. After more than 5 years of continuous decline, net Official Development Assistance (ODA) by the 21 Development Assistance Committee (DAC) countries of the OECD rose in 1998 by nearly 10 percent in real terms, to $52 billion. Over 60 percent of this increase was accounted for by jumps in bilateral loans and emergency and distress relief. Despite this increase, the ratio of ODA relative to income in the DAC has fallen to 0.25 percent, well below the 0.33 percent average maintained in the 1970s and 1980s. The United States, which gave nearly $9 billion in 1998, was the second largest net donor of ODA; however, it devoted just 0.10 percent of its GNP to ODA, the lowest in the DAC. About half of total ODA in 1998 went toward education, health, and other social and economic infrastructure, with debt relief accounting for 9 percent.

Multinationals Cautiously Optimistic about Investment in Africa. A recent survey of 63 of the world's largest multinational firms by the International Chamber of Commerce and the United Nations Conference on Trade and Development reveals that companies are generally optimistic about investment opportunities in Africa. One-third of firms surveyed expect to increase investment in Africa over the next 3 to 5 years, while more than half expect their investment to remain at present levels. Only 6 percent plan to decrease their investment or pull out of Africa altogether. The growth and size of local markets and the profitability of FDI were the most commonly cited factors influencing investment positively, while the prevalence of bribery was by far the most cited discouraging factor. South Africa was the most attractive country for FDI in Africa, followed by Egypt, Morocco, and Nigeria. Several least developed countries, including Ethiopia, Mozambique, Uganda, and Tanzania, were among the nations expected to make the most progress in creating a business-friendly environment and thus were also seen as attractive destinations for FDI.

RELEASES THIS WEEK

U.S. International Trade in Goods and Services
****Embargoed until 8:30 a.m., Friday, February 18, 2000****

The goods and services trade deficit declined to $25.5 billion in December from $27.1 billion in November. For 1999, the goods and services trade deficit was $271.3 billion; for 1998, the deficit was $164.3 billion..

Consumer Price Index
****Embargoed until 8:30 a.m., Friday, February 18, 2000****

The consumer price index rose 0.2 percent in January. Excluding food and energy, consumer prices also rose 0.2 percent.

Producer Price Index

The producer price index for finished goods was unchanged in January. Excluding food and energy, producer prices fell 0.2 percent.

Housing Starts

Housing starts rose 2 percent in January to 1.775 million units at an annual rate.

Industrial Production and Capacity Utilization

The Federal Reserve's index of industrial production increased 1.0 percent in January. Capacity utilization rose 0.5 percentage point to 81.6 percent.

MAJOR RELEASES NEXT WEEK

Advance Durable Shipments and Orders (Thursday)
Gross Domestic Product (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1999	1999:2	1999:3	1999:4
Percent growth (annual rate)					
Real GDP (chain-type)	3.0	4.2	1.9	5.7	5.8
GDP chain-type price index	5.2	1.6	1.3	1.1	2.0
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.7	3.3	0.6	5.0	5.0
Real compensation per hour:					
Using CPI	1.0	1.8	1.2	2.0	1.1
Using NFB deflator	1.5	2.9	2.9	4.0	1.8
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.6	12.6	12.7	12.5
Residential investment	4.5	4.4	4.5	4.4	4.4
Exports	8.2	10.8	10.7	10.8	10.9
Imports	9.2	13.5	13.4	13.8	14.1
Personal saving	6.6	1.7	1.8	1.5	1.4
Federal surplus	-2.8	N.A.	1.3	1.4	N.A.

	1970-1993	1999	November 1999	December 1999	January 2000
Unemployment Rate (percent)	6.7**	4.2**	4.1	4.1	4.0
Payroll employment (thousands)					
increase per month			257	316	387
increase since Jan. 1993					20790
Inflation (percent per period)					
CPI	5.8	2.7	**0.2**	0.2	**0.2**
PPI-Finished goods	5.0	3.0	**0.2**	**0.1**	**0.0**

**Figures beginning 1994 are not comparable with earlier data.

New or revised data in **boldface**.
CPI data **embargoed until 8:30 a.m., Friday, February 18, 2000**.

FINANCIAL STATISTICS

	1998	1999	December 1999	January 2000	Feb. 17, 2000
Dow-Jones Industrial Average	8626	10465	11246	11281	10515
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.20	5.32	5.57
10-year T-bond	5.26	5.65	6.28	6.66	6.58
Mortgage rate, 30-year fixed	6.94	7.43	7.91	8.21	8.38
Prime rate	8.35	8.00	8.50	8.50	8.75

INTERNATIONAL STATISTICS

Exchange Rates	**Current level February 17, 2000**	**Percent Change from**	
		Week ago	**Year ago**
Euro (in U.S. dollars)	0.986	-0.0	-12.2
Yen (per U.S. dollar)	110.3	1.4	-7.4
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	95.38	0.4	1.9

International Comparisons [1/]	**Real GDP growth** (percent change last 4 quarters)	**Unemployment rate** (percent)	**CPI inflation** (percent change in index last 12 months)
United States	4.2 (Q4)	4.0 (Jan)	**2.7** (Jan)
Canada	4.2 (Q3)	6.9 (Dec)	2.6 (Dec)
Japan	1.0 (Q3)	4.6 (Nov)	-1.1 (Dec)
France	2.9 (Q3)	10.4 (Dec)	1.3 (Dec)
Germany	1.3 (Q3)	8.8 (Dec)[2/]	1.2 (Dec)
Italy	1.2 (Q3)	12.1 (Apr)	2.1 (Dec)
United Kingdom	1.8 (Q3)	5.9 (Oct)	1.8 (Dec)

U.S. CPI data **embargoed until 8:30 a.m., Friday, February 18, 2000.**

1/ For unemployment data, rates approximating U.S. concepts as calculated by the U.S. Department of Labor, Bureau of Labor Statistics.

2/ Rate for unified Germany.