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THE PRESIDENT HAS SEEN
10-31-00

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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

October 27, 2000

Copied entire report:
Baily
Podesta
Pg 6:
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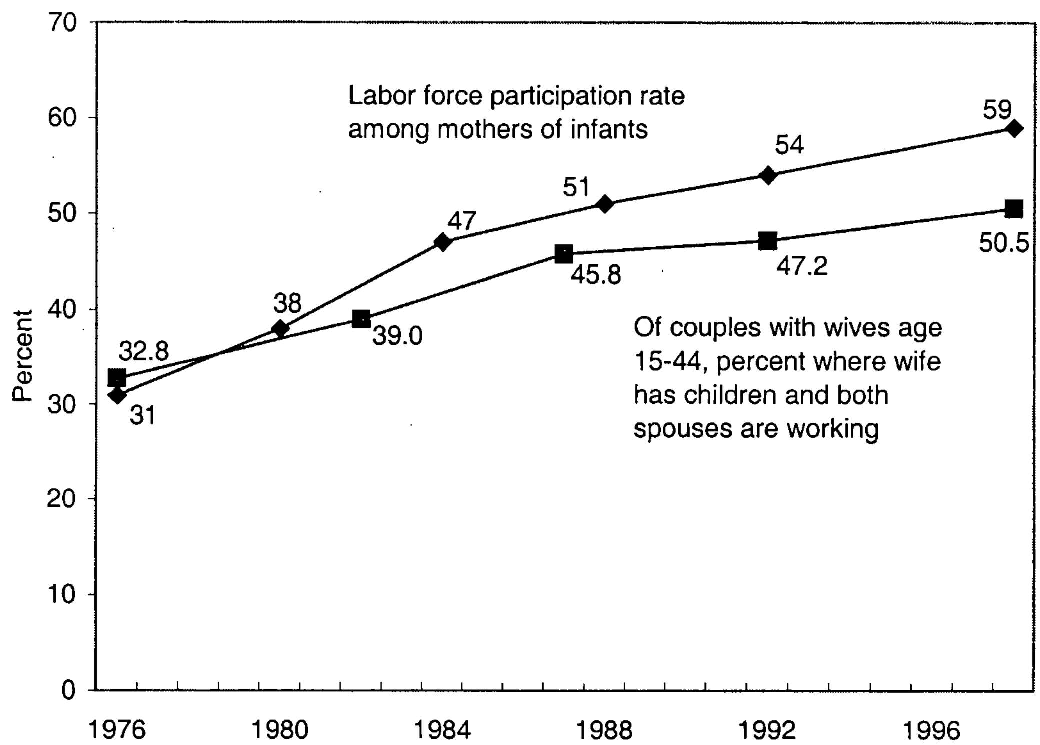
Jennings

CHART OF THE WEEK

More Women Combining Work and Family



According to a recent Census Bureau report on the fertility of American women, the number of women who both work and have children has increased steadily over the past two decades. Since such indicators were first collected in 1976, the labor force participation rate among mothers of infants (children less than 1 year old) has almost doubled. Additionally, among couples with wives age 15-44, the proportion in which the wife has children and both spouses are working has topped one-half for the first time.

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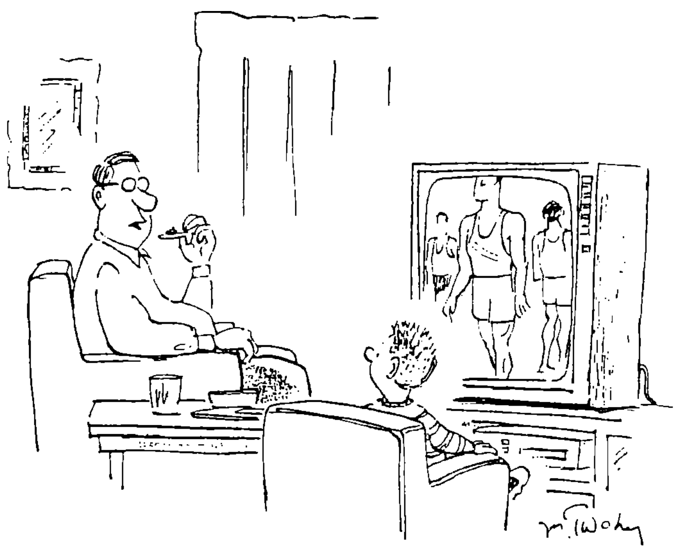
DEPARTMENTS



"Daddy is fiscally buff."

CURRENT DEVELOPMENT

GDP Scorecard: Third Quarter 2000

Real GDP is estimated to have increased at a 2.7 percent annual rate in the third quarter of 2000. Exports grew very rapidly. Business investment continued to post strong growth, but growth was not as strong as in the past 2 years. In contrast, Federal purchases dropped sharply, while most of the major categories of construction fell. Inflation, as measured by the price index for GDP, was 2.0 percent, down from the 2.8 percent annual rate in the first half of the year.

Component	Growth*	Comments
Total consumer expenditures	4.5%	Motor vehicle purchases retraced part of their second-quarter decline, while nondurables and services also posted solid rates of growth.
Equipment and software	8.5%	Computer equipment grew at a 55 percent annual rate, but purchases of other forms of business equipment slowed from their recent trend.
Nonresidential structures	1.7%	Almost all the recent growth was accounted for by drilling for oil and natural gas.
Residential investment	-9.2%	The decline had been foreshadowed by a substantial drop in single-family housing starts. Residential investment is likely to fall further in the fourth quarter.
Inventories (change, billions of 1996 dollars)	$79.9	The inventory-to-sales ratio has edged up since March, but remains low nevertheless.
Federal purchases	-10.1%	The 10 percent fall in nondefense purchases partly reflects the completion of the decennial census. Defense purchases have been erratic, and the third-quarter drop retraces part of the second-quarter increase.
State & local purchases	0.0%	Highway building, which had boomed in the fourth and first quarters, fell sharply in the third.
Exports	16.2%	This was the sixth consecutive quarter of strong export growth, and suggests continuing expansion among our trading partners.
Imports	13.8%	About half of the growth in imports is accounted for by capital goods.

*Percent real growth in the quarter at annual rates (except inventories). This advance estimate is subject to substantial revision—especially for exports, imports, and inventories, where the estimates are based on only 2 months of data.

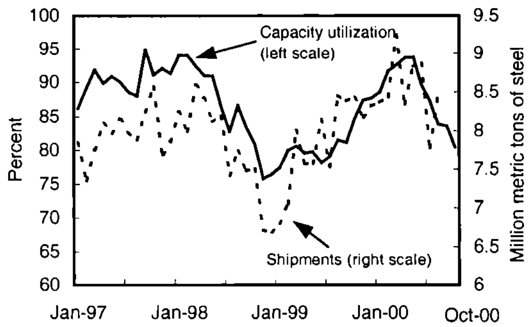
SPECIAL ANALYSIS

Steel Industry Update

After a sharp downturn during the import crisis of 1998 and a tepid recovery in late 1999, the U.S. steel industry rebounded strongly in early 2000. Since June, however, the economy has slowed and domestic steel production and capacity utilization have slackened; imports initially remained high, but then declined sharply in September.

The steel industry boomed in early 2000. For the first half of this year, strong orders from auto manufacturers, the construction sector, and steel distributors fueled an expanding demand for both domestic and imported steel. Monthly domestic production of raw steel averaged 8.9 million metric tons, even higher than levels before the 1998 crisis. Producers shipped over 15 percent more steel than in the first half of 1999, with first-quarter shipments the highest in 26 years. Capacity utilization ran above 90 percent for most of the first half of 2000, peaking at 93.7 percent in May (see chart). Imports grew along with domestic output, rising 21 percent compared with the same period in 1999.

Shipments and Capacity Utilization



Steel output has since declined. Both the construction sector and sales by domestic auto companies slackened in mid-year, contributing to decreased demand. Steel distributors, the largest purchasers of raw steel, also appeared to experience a slowdown. Monthly domestic production of raw steel has fallen since May, dropping to a current level of less than 8 million metric tons. Capacity utilization has likewise declined, from 93.7 percent in May to 80.5 percent in the first 3 weeks of October. Steel mill inventories have begun to creep back up, providing further evidence of slowing demand.

Prices have fallen and employment remains depressed. Prices have also recently turned downward. Producer prices for steel from blast furnaces and steel mills recovered partially from steep drop-offs in 1998 and 1999, rising to around 93 percent of their pre-1998 level. Since May, prices have begun to fall again, averaging a half-percent decline each month.

Blast furnace and steel mill employment at the end of 1997 was 235,100, and then fell by more than 8,000 workers during the 1998 crisis. Employment rose somewhat after October 1999, reaching 228,000 workers in June of this year. The downward trend has since resumed; September employment was 225,300 workers.

Imports also appear to be moderating. While this year's strong growth in imports continued into the third quarter, even rising slightly, preliminary data show September imports at 2.7 million metric tons, a 14 percent drop from May.

Import penetration follows a similar trend: 27 percent in the first two quarters of 2000, rising a bit early in the third quarter, and then likely tapering off in September (see chart). High imports in July and August were possibly due to the filling of orders made during the strong demand of the first half. After an order is placed, it typically takes 2 to 6 months for foreign steel to arrive.

The slowdown is potentially rooted in decreased demand. In 1998 a sharp surge in relatively inexpensive imports was followed by a substantial decline in domestic production. Import penetration soared, reflecting a rise in the overall market share of imported steel. The current data are not sufficient to know whether the steel industry is on the verge of a similar experience, but initial evidence indicates that the catalyst is more likely a slowdown in demand rather than an import push. To be sure, imports did increase their share of the U.S. market in July and August, contributing to the domestic industry's difficulties. In September, however, imports fell 15 percent from the March-May average, as domestic production declined 10 percent over the same period.

ARTICLE

Shifting Composition and Energy Use of Manufacturing

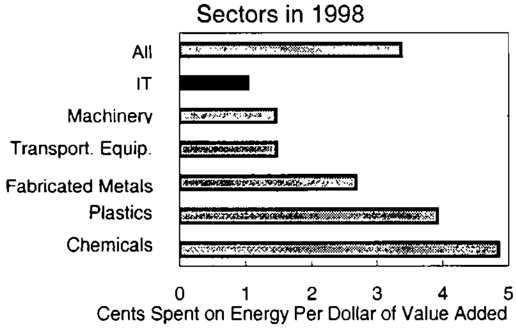
Over the past 50 years, U.S. energy use has on average grown nearly 2/3 percent for every 1 percent increase in GDP. But during the current economic expansion, energy use has grown at a more modest rate of less than 1/2 percent for each 1 percent increase in GDP. This may be due in part to the fact that much of the growth is occurring in sectors that are less energy intensive than those that fueled past expansions.

What determines the energy intensity of the economy? The energy intensity of the economy, or amount of energy consumed per unit of GDP, is a way of describing one facet of the relationship between the amount and type of inputs used in production nationwide and the resulting GDP. One significant determinant of this relationship is the relative size of each sector of the economy. As particular sectors of the economy become more important, the intensity with which they use energy has a greater effect on the overall energy use of the economy. Thus, given the substantial growth of information technology (IT) equipment manufacturing, it is important to understand how this will affect the intensity with which our economy uses energy.

Manufacturing is a big consumer of energy. While manufacturing's share of GDP in the mid-1990s was roughly 17 percent, it was responsible for 31 percent of domestic energy consumption and 26 percent of carbon dioxide emissions. Manufacturing's disproportionate share of energy consumption implies that further growth in typical manufacturing sectors can have significant implications for our future energy consumption and aggregate emissions.

But the share of IT in manufacturing is growing. Since the beginning of this economic expansion, the growth rate of IT-producing industries has far surpassed the observed 5 percent annual growth of the entire manufacturing sector. During this period, the production of computers, communications equipment, and semiconductors has grown at an average annual rate of 32.3 percent. As a result, during the course of this economic expansion, IT-producing industries' share of manufacturing's value added increased from 8.3 percent in 1991 to 11.5 percent in 1998. Consequently, these industries' energy needs have the potential to significantly influence growth in manufacturing's energy demand.

Energy Intensity of Manufacturing Sectors in 1998



The differences between the energy intensity of IT-producing industries and the rest of manufacturing are dramatic (see chart). In 1998, on average, 1 cent was spent on energy inputs for every dollar of value added in IT-producing industries, while 3.7 cents were spent in the remaining manufacturing industries. If IT-producing industries had the same energy intensity as the rest of manufacturing, in 1998 their additional energy needs would have been equivalent to 11,100 megawatts of electricity—roughly the residential electricity consumption of Florida.

Not only does the IT industry appear to be less energy intensive currently, but its intensity has also declined faster than that of the manufacturing sector as a whole. Between 1992 and 1997, real energy intensity of all manufacturing dropped at an annual rate of 3.4 percent. In contrast, during the same period, manufacturing sectors that produce IT equipment witnessed a median annual reduction in energy intensity of 7.3 percent, with intensity dropping in the computer production industry by 18.3 percent per year. While this dramatic decline likely reflects actual improvements in energy use, it may be due primarily to the explosive growth in quality-adjusted output and productivity in that sector.

The composition effect on energy intensity will continue, but not indefinitely. Given that IT-producing industries have a much lower energy intensity than other manufacturing sectors, continued growth in those industries will not raise future energy demand to the extent that past periods of manufacturing growth have. But further progress in reducing the impact of future economic growth on energy demand is more likely to be made through improvements in the technologies and practices that determine productivity, or through changes in the price of energy relative to other inputs.

Energy Demand of IT Use

Recently there has been a debate about the contribution to energy demand from the use, rather than the production, of IT. Analyses in this debate suffer from a lack of data describing aggregate energy consumption attributable to IT equipment. They must therefore build "bottom-up" estimates that are based on assumptions about the number of individual units and their energy consumption. One report, which has received press attention, suggests that energy consumption arising from Internet use accounts for 8 percent of the U.S. electricity supply. A recent analysis from Lawrence Berkeley National Laboratory discovered numerous flaws in this analysis, such as overestimation of both the energy use of various types of computer units, and the amount of that use attributable to Internet-related activity. Correcting for these flaws reduces the estimated energy use by at least a factor of 8. Furthermore, the analysis estimates that electricity demand from all office, telecommunications, and network equipment—not just that related to Internet use—accounts for only 2.6 percent of national electricity use.

THE PRESIDENT HAS SEEN
10-31-00

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

More Custodial Parents Receiving Full Child Support Due. In the spring of 1998, there were 14 million "custodial parents"—parents of children under 21 whose other parent is not living with the family—according to a recent Census Bureau report. Mothers represent more than 85 percent of all custodial parents. About 56 percent of custodial parents had some sort of child support agreement (most arranged through the legal system). Of parents with support agreements, the share receiving at least partial payments was unchanged from 1993 to 1997 at about two-thirds. However, the proportion receiving full child support payments rose from 34 percent in 1993 to 41 percent in 1997. Between 1993 and 1997, the proportion of custodial parents with full-time, year-round jobs increased, especially among mothers; the proportion in poverty decreased; and the proportion participating in public assistance programs decreased. However, the poverty rate among custodial-parent families, at 29 percent in 1997, was still much higher than the overall poverty rate among families with children.

Decreasing Employment Rates among the Disabled May be Due to Greater Working-Age Participation in the Disability Insurance Program. During the 1990s, employment rates for the non-disabled population rose, but employment rates for the disabled fell. Critics of the Americans with Disabilities Act have pointed to this as evidence that the law discourages employers from hiring the disabled by requiring reasonable accommodations for disabled employees, which may raise employers' costs. However, a recent study supports an alternative explanation operating through the supply side of the labor market: the decreased employment of the disabled is largely due to growth in the fraction of the working-aged population receiving Disability Insurance benefits. This increase in DI benefits may be a result of 1984 relaxations of various standards for disability benefit eligibility, in particular, increased eligibility of people suffering from mental illness. Growth in DI availability appears to be facilitating the withdrawal of disabled men and women from the work force.

cc Bruce Reed
Jennings

American Families Enjoying Economic Gains Since 1997, But Some Are Not Better Off under Other Measures of Well Being. New data from an Urban Institute survey of American families show improvements in several economic indicators over the 1997-99 period, consistent with recent Census Bureau data on incomes. Employment rates increased for single parents, poverty rates decreased, and fewer families reported having problems affording food. Child poverty rates declined, and the likelihood that low-income children lived in single-parent families decreased. However, other indicators considered by the survey reveal that not all families are better off in all ways. The proportion of middle-income children covered by health insurance declined; the time that higher-income parents spent reading to their children fell; and self-reported stress among parents in higher-income, two-parent families rose. Low-income children continue to fare worse than higher-income children on every measure of child well being.

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INTERNATIONAL ROUNDUP

Cameroon Qualifies for Debt Relief under HIPC. The IMF and World Bank have agreed to support a comprehensive debt-reduction package for Cameroon under the Highly Indebted Poor Countries initiative. Interim debt relief should begin shortly, with more to come after the completion point is reached around the end of 2002. Cameroon is the eleventh country to reach decision point under the enhanced initiative, and still needs to satisfy poverty reduction criteria in order to qualify for the full debt reduction available through HIPC. In the meantime, the interim debt relief will free about $100 million per year for expenditures on health care, primary education, HIV/AIDS prevention, and other critical social services. Debt service as a percentage of government revenue is projected to decline from its current 23 percent to 12 percent in 2001. Cameroon has already implemented economic reforms with support from the IMF's Poverty Reduction and Growth Facility, and has made substantial macroeconomic progress. Real GDP growth has averaged 4.5 percent over the last 4 years, and average consumer price inflation has been lowered to less than 1 percent in 1999-2000.

And You Can Take That to the Bank. A new study finds that banking crises in developing countries are primarily caused by rapid domestic credit growth, large bank liabilities relative to reserves, and deposit-rate decontrol. This suggests that bank stability in emerging markets is at risk when macroeconomic and financial policies combine with financial deregulation to create an unsustainable lending boom. Based on 75 developing countries from 1975 to 1997, the authors find a diminishing role for external factors, such as economic growth rates in OECD countries, in explaining banking crises since the early 1990s. They also find that countries with fixed and flexible exchange rates are equally susceptible to banking crises. In addition, the authors find at least as much evidence that deposit insurance has the favorable effect of providing protection from depositor panics, as that it destabilizes banking systems by weakening market discipline in emerging markets.

Global Private Equity and Venture Capital Boomed in 1999. A newly released report finds that global financial investment of private equity and venture capital (PEVC) reached $136 billion in 1999, up 65 percent from 1998. Global investments of this type have shown an average annual growth rate of 36 percent over the last 5 years, with technology companies receiving an increasing share (33 percent in 1999) of total investment. The United States received 71 percent of global PEVC investments, equivalent in 1999 to about 1 percent of GDP. Average venture capital funding for technology-based companies in the United States rose 87 percent in 1999. Venture capital investments in the United States in the first half of 2000 have already outstripped those for all of 1999. Western Europe also saw a significant increase of 65 percent in PEVC investments in 1999, but this still represents only 1/3 of 1 percent of European GDP. The UK received 45 percent of all investments, far ahead of Germany and France, with 13 and 11 percent, respectively. Technology investments in Western Europe grew 84 percent in 1999 and accounted for one-third of total PEVC investment.

RELEASES THIS WEEK

Advance Durable Orders

****Embargoed until 10:00 a.m., Friday, October 27, 2000****

Advance estimates show that new orders for durable goods increased 1.8 percent in September, following an increase of 3.5 percent in August.

Gross Domestic Product

****Embargoed until 8:30 a.m., Friday, October 27, 2000****

According to advance estimates, real gross domestic product grew at an annual rate of 2.7 percent in the third quarter of 2000.

Employment Cost Index

The employment cost index for private industry workers increased 4.6 percent for the 12-month period ending in September.

MAJOR RELEASES NEXT WEEK

Consumer Confidence—The Conference Board (Tuesday)
NAPM Report on Business (Wednesday)
Productivity (Thursday)
Leading Indicators (Thursday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1999	2000:1	2000:2	2000:3
Percent growth (annual rate)					
Real GDP (chain-type)	2.9	5.0	4.8	5.6	**2.7**
GDP chain-type price index	5.2	1.6	3.3	2.4	**2.0**
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.7	4.1	1.9	5.7	N.A.
Real compensation per hour:					
Using CPI	1.0	2.2	0.0	1.7	N.A.
Using NFB deflator	1.5	3.3	1.1	2.9	N.A.
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.9	13.4	13.7	**13.8**
Residential investment	4.5	4.3	4.3	4.2	**4.1**
Exports	8.2	10.6	10.8	11.0	**11.3**
Imports	9.2	13.4	14.2	14.6	**15.0**
Personal saving	6.6	1.6	0.1	0.2	**-0.2**
Federal surplus	-2.8	1.3	2.4	2.4	N.A.

	1970-1993	1999	July 2000	August 2000	September 2000
Unemployment Rate (percent)	6.7**	4.2**	4.0	4.1	3.9
Payroll employment (thousands)					
increase per month			-40	-91	252
increase since Jan. 1993					22266
Inflation (percent per period)					
CPI	5.8	2.7	0.2	-0.1	0.5
PPI-Finished goods	5.0	2.9	0.0	-0.2	0.9

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

New or revised data in **boldface.**
GDP and related data **embargoed until 8:30 a.m., Friday, October 27, 2000**.

FINANCIAL STATISTICS

	1998	1999	August 2000	September 2000	Oct. 26, 2000
Dow-Jones Industrial Average	8626	10465	11015	10968	10380
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	6.09	6.00	6.18
10-year T-bond	5.26	5.65	5.83	5.80	5.69
Mortgage rate, 30-year fixed	6.94	7.43	8.03	7.91	7.68
Prime rate	8.35	8.00	9.50	9.50	9.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level October 26, 2000**	**Percent Change from Week ago**	**Percent Change from Year ago**
Euro (in U.S. dollars)	0.827	-1.6	-21.8
Yen (per U.S. dollar)	108.4	-0.2	3.4
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	103.7	0.8	12.7

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	**5.3** (Q3)	3.9 (Sep)	3.5 (Sep)
Canada	5.3 (Q2)	7.1 (Aug)	3.2 (Sep)
Japan	0.8 (Q2)	4.6 (Aug)	-0.7 (Aug)
France	3.4 (Q2)	9.7 (Aug)	2.2 (Sep)
Germany	3.6 (Q2)	8.3 (Aug)	2.5 (Sep)
Italy	2.6 (Q2)	10.6 (Jul)	2.6 (Sep)
United Kingdom	2.9 (Q3)	5.4 (Jun)	3.3 (Sep)

U.S. GDP data **embargoed until 8:30 a.m., Friday, October 27, 2000.**

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