Case Number: 2018-0275-F

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BE

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

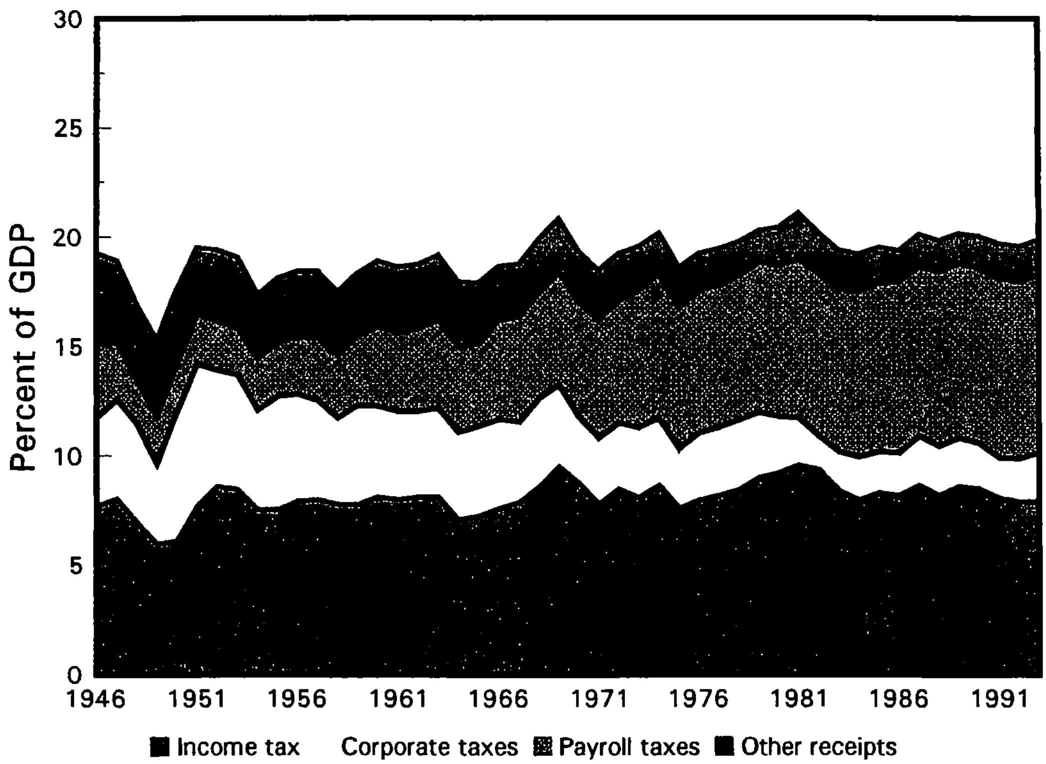
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

April 15, 1994

THE PRESIDENT HAS SEEN

CHART OF THE WEEK

Federal Receipts as a Share of GDP



Federal receipts have been about 20 percent of GDP since World War II. The share of revenue raised by personal income taxes has also been roughly constant. Declines in the share of corporate income taxes and other taxes (excises, duties) have been offset by increased reliance on payroll taxes as a source of revenue.

PHOTOCOPY
WJC HANDWRITING

EYES ONLY

CONTENTS

QUOTATION OF THE WEEK

"The public interest is closely aligned with that of bondholders."

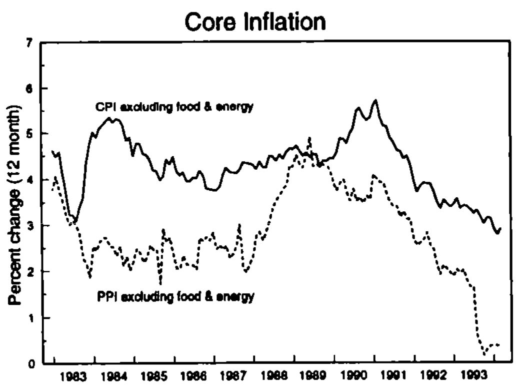
Former Fed Governor Wayne Angell, commenting on maintaining the Fed's independence to tighten monetary policy (Wall Street Journal, April 11, 1994)

EYES ONLY

CURRENT DEVELOPMENT

Inflation Is Moderate, But Up Slightly from Last Year

This week's reports on consumer and producer prices continue to show moderate inflation. Core consumer price inflation (CPI excluding food and energy) was 2.9 percent at an annual rate over the first 3 months of the year, the same rate of increase as over the last 12 months. Core producer price inflation (PPI for finished goods excluding food and energy) was 3.3 percent over the first 3 months of the year, compared to 0.4 percent over the last 12 months.



How does a core CPI inflation rate of 3 percent look in the light of recent economic history? Beginning in 1985, core CPI inflation was between 4 percent and 4-1/2 percent. When it increased in the late 1980s, the Fed moved to a restrictive policy. With a lag, the 1990-91 recession steadily reduced CPI inflation to below 3 percent last year. (Core PPI inflation showed a similar pattern in the same period, although its changes led CPI changes and were larger.)

Analysis. In retrospect, the period from mid-1993 through early 1994 is likely to appear to be one of unusually low inflation. Indeed, the Administration forecasts an increase in inflation as a consequence of a strengthening economy.

- Even if oil prices stay low, the downward pressure they have been exerting on inflation has about run its course. As economies around the world recover, upward pressure on the price of oil and other commodities is likely.
- The 3.3 percent rate of increase of the core PPI so far this year might herald the beginning of a slight increase in CPI inflation.
- For those, such as Wayne Angell, who would like to see inflation decline to zero, seeing the trough in inflation is a disappointment.

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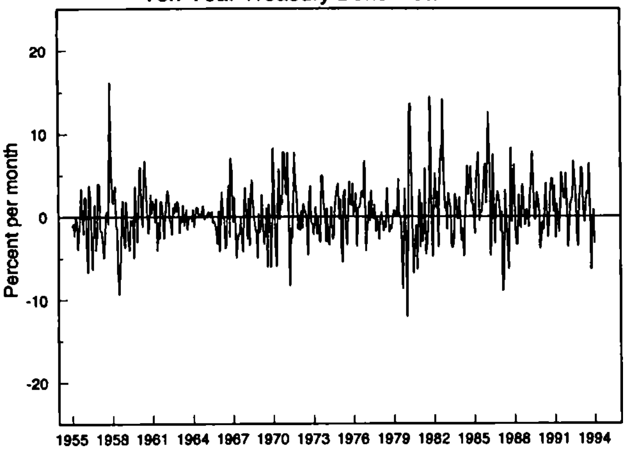
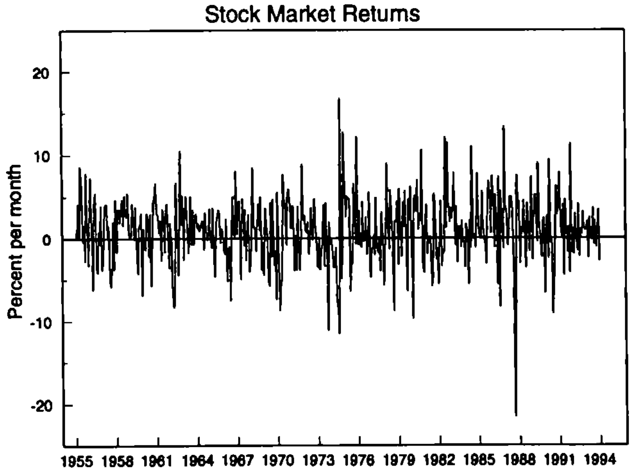
No Trend in Financial Market Volatility

In recent months, there has been growing concern that the expansion of derivative securities and hedge funds may have increased the volatility of financial markets. This echoes the concern about program trading activities expressed a few years ago.

Ten-Year Treasury Bond Returns



Stock Market Returns



The charts show the month-to-month returns from holding bonds and stocks. <u>There has been no discernable increase in the volatility of either bond or stock returns</u>.

Bond returns have periodic changes in their volatility. They were particularly volatile in the 1979 to 1982 period, when the Fed was making no effort to stabilize interest rates. But the recent period has not been particularly volatile.

Stock market volatility has been fairly constant over the last 30 years. Volatility has been relatively low over the last year.

EYES ONLY

CURRENT DEVELOPMENT

Truck Strike Has Little Impact on Overall Economy

Although it has been almost 2 weeks since 75,000 Teamsters went on strike against 22 freight carriers, shippers and consumers have noticed little disruption. In contrast, the trucking strike in 1979 significantly disrupted freight traffic. It affected 300,000 workers at 350 firms.

Analysis. Although total employment in trucking has grown 20 percent since 1979, the unionized sector of the industry has shrunk dramatically. The main reason is the 1980 legislation that partially deregulated the trucking industry and that allowed a large number of non-union firms to enter the market.

In 1979, negotiations between the Teamsters and the trucking industry were closely watched as the first major test of the Carter Administration's wage guidelines. Today, there is little concern that a generous new union contract will set the stage for economy-wide wage increases, for several reasons:

- The striking union has many fewer workers than previously.

- The strike is not mainly over wage levels. The key issue is management's demands for rule changes that would allow firms to make greater use of part-time workers and rail transport. This emphasis reflects the Teamsters' weakened bargaining position since trucking was deregulated.

- Unions in other industries have become less likely to base negotiations on the provisions of wage agreements signed in key industries such as trucking and steel.

ARTICLE

The Odds Have It: Gambling in the U.S.A.

Gambling is a large and growing business in the United States. In 1992, Americans made legal wagers of $330 billion and, after covering payouts of winners, the gambling industry earned $30 billion in revenues. This dwarfs the revenues earned by other entertainment industries—for example, movie ticket sales are only about $5 billion per year.

Gambling Activity: Annual Wagers and Revenue

	Wagers (billions)	**Revenue** (billions)
State lotteries	$24.4	$11.5
Nevada/NJ casinos	237.7	9.0
Horse racing	14.1	2.9
Indian reservations	15.2	1.5
Charitable games	4.8	1.3
Bingo	4.3	1.0
Greyhound racing	3.3	0.7
Card rooms	8.4	0.7
Cruise ships and riverboats	11.6	0.7
Other casino activities	3.6	0.5
Jai alai	0.4	0.1
Legal bookmaking	2.1	0.1
Total	$329.9	$29.9

Notes: Figures are for 1992. Wagers are the total amount bet for each gambling activity. Revenue is wagers minus payouts. Source: *International Gaming and Wagering Business*, August 1993.

Gambling is becoming ubiquitous.

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- 37 states and the District of Columbia have lotteries.
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- 43 states permit some form of parimutuel betting (horse or greyhound racing, or jai alai, for example).
- Only 2 states (Hawaii and Utah) have no legalized gambling.

The uses of gambling revenue. To stay in business, the gambling industry's receipts must exceed its payouts to winning gamblers. Accordingly, gamblers lose money on average. The industry's revenues must be large enough to cover its costs, its profit margin, and any taxes that may be assessed by state, local, or Federal governments.

States use two basic methods to raise revenues from gambling:

- Casino games and parimutuel betting are taxed by levying an excise tax on gambling revenues. For example, New Jersey assesses an 8 percent excise tax on the amount retained by casinos. The casinos use the remaining 92 percent to cover wages and other costs and to provide a net profit.
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Who bears the burden of taxes on gambling? The typical gambler at casinos is from the middle class. Patrons of lotteries tend to have lower incomes than average. Hence, taxes on gambling are regressive. The implicit tax on state lotteries is especially so.

PHOTOCOPY
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[illegible]

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Producer Prices

The producer price index for finished goods rose 0.2 percent in March.

Retail Sales

According to the advance report, retail sales rose 0.4 percent in March.

Industrial Production ** FOR RELEASE FRIDAY 9:15 A.M. **

Industrial production rose 0.5 percent in March. Capacity utilization increased 0.2 percentage point to 83.6 percent.

MAJOR RELEASES NEXT WEEK

Housing Starts (Wednesday)

U.S. ECONOMIC STATISTICS

	1970–1992	1992	1993	1993:3	1993:4
Percent growth (annual rate)					
Real GDP	2.5	3.9	3.1	2.9	7.0
GDP deflator	5.7	2.8	2.2	1.6	1.3
Productivity					
Nonfarm business	1.2	3.6	1.9	4.0	6.1
Manufacturing (1978-92)	2.1	4.8	5.2	3.0	7.2
Real compensation per hour	0.7	2.1	0.1	1.8	–0.1
Shares of Real GDP (percent)					
Business fixed investment	10.9	10.6	11.5	11.6	12.0
Residential investment	4.8	4.0	4.2	4.1	4.3
Exports	7.9	11.6	11.6	11.5	11.9
Imports	9.0	12.3	13.1	13.2	13.5
Shares of Nominal GDP (percent)					
Personal saving	4.9	4.0	3.0	2.8	3.0
Federal surplus	–2.8	–4.6	–3.5	–3.3	–3.2

	1970–1992	1992	1993	Feb. 1994	Mar. 1994
Unemployment Rate	6.7*	7.4*	6.8*	6.5	6.5

*Figures beginning 1994 are not comparable with earlier data. The 1993 unemployment rate is estimated to have been 7.4 percent on a basis comparable to the 1994 data.

	1970–1992	1992	1993	Feb. 1994	Mar. 1994
Payroll employment (thousands)					
increase per month			168	198	456
increase since Jan. 1993					2498
Inflation (percent per period)					
CPI	5.9	2.9	2.7	0.3	**0.3**
PPI-Finished goods	5.2	1.6	0.2	0.5	**0.2**

Newly released data in **boldface**.

FINANCIAL STATISTICS

	1992	1993	Feb. 1994	Mar. 1994	Apr. 14, 1994
Dow-Jones Industrial Average	3284	3522	3906	3817	3663
Interest Rates					
3-month T-bill	3.43	3.00	3.25	3.50	3.58
10-year T-bond	7.01	5.87	5.97	6.48	6.97
Mortgage rate, 30-year fixed	8.40	7.33	7.15	7.68	8.26
Prime rate	6.25	6.00	6.00	6.25	6.25

INTERNATIONAL STATISTICS

Exchange Rates	Current level Apr. 14, 1994	Percent Change from Week ago	Percent Change from Year ago
Deutschemark-Dollar	1.710	−0.4	+7.4
Yen-Dollar	104.2	−0.6	−8.4
Multilateral (Mar. 1973=100)	94.86	−0.4	+4.7

International Comparisons	Real GDP growth (last 4 quarters)	Unemployment rate	CPI inflation (last 12 months)
United States	+3.1 (Q4)	6.5 (Mar)	2.5 (Mar)
Canada	+3.0 (Q4)	11.1 (Feb)	0.2 (Feb)
Japan	0.0 (Q4)	2.8 (Jan)	1.2 (Jan)
France	−0.1 (Q4)	11.7 (Dec)	1.8 (Jan)
Germany	−0.8 (Q4)	6.6 (Jan)	3.4 (Feb)
Italy	−0.5 (Q3)	10.6 (Jul)	4.2 (Feb)
United Kingdom	+2.4 (Q4)	10.0 (Jan)	2.4 (Feb)

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April 15, 1994

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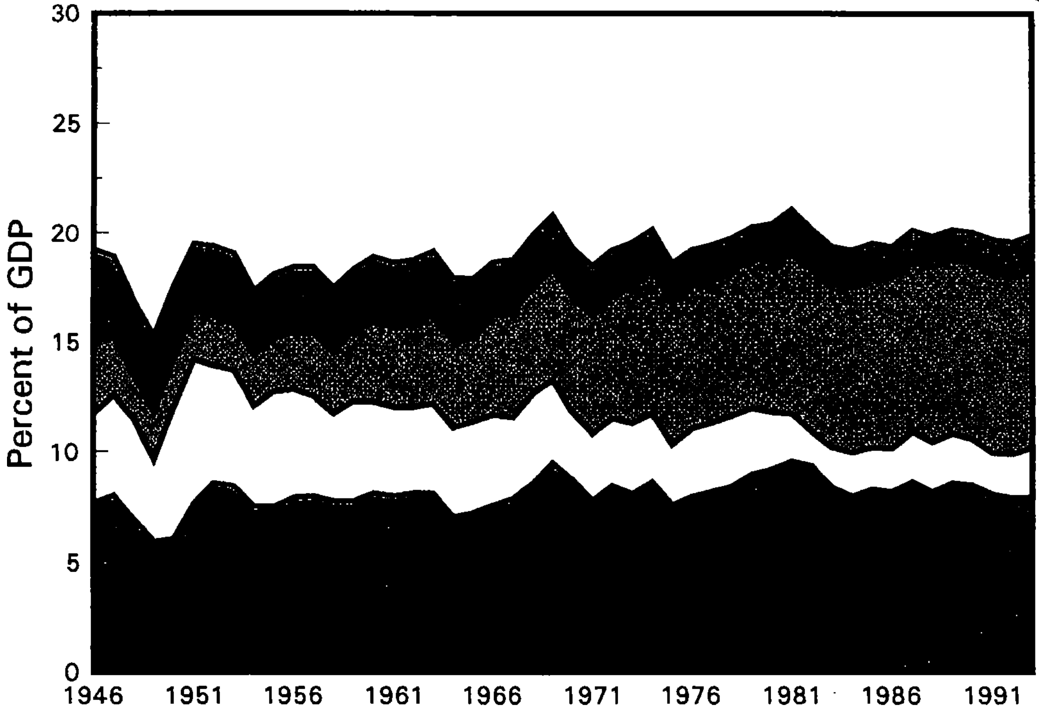

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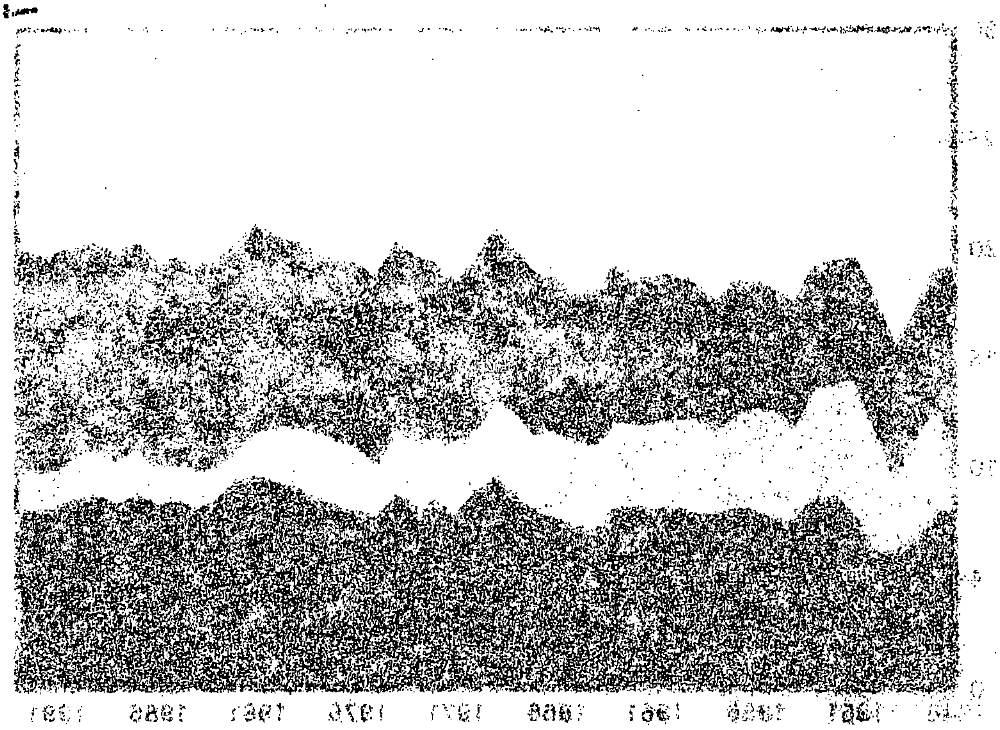

Individual income taxes, Corporate taxes, Payroll taxes, Other receipts

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ARTICLE

DEPARTMENTS

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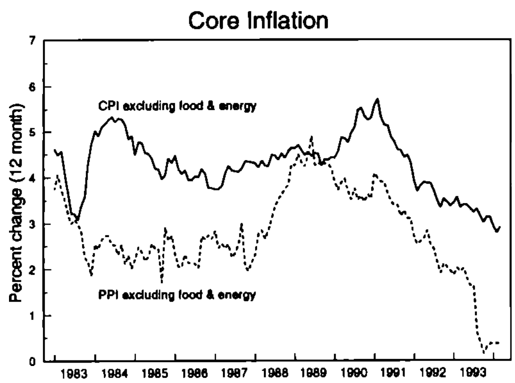

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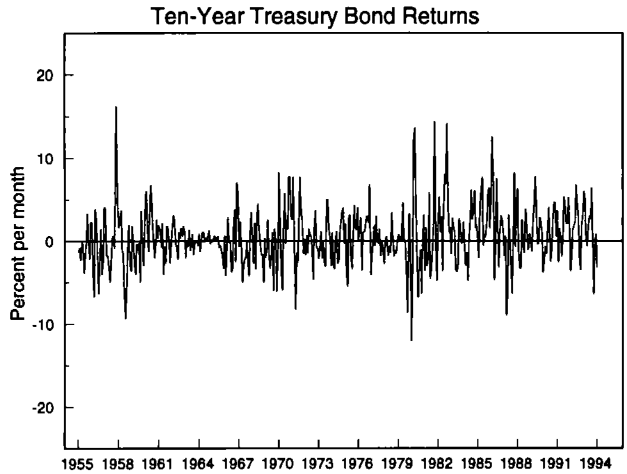

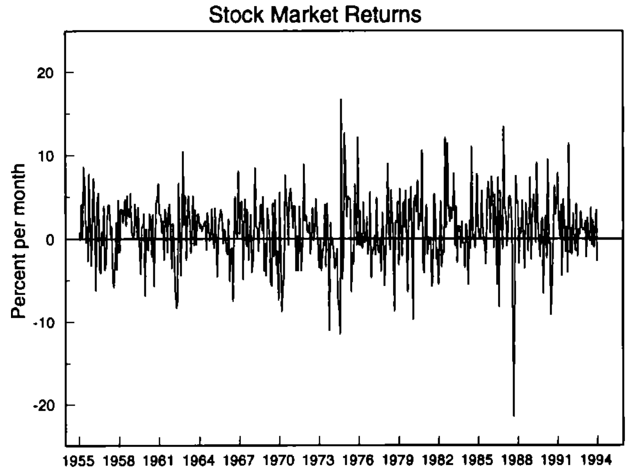

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Percent growth (annual rate)					
Real GDP	2.5	3.9	3.1	2.9	7.0
GDP deflator	5.7	2.8	2.2	1.6	1.3
Productivity					
Nonfarm business	1.2	3.6	1.9	4.0	6.1
Manufacturing (1978-92)	2.1	4.8	5.2	3.0	7.2
Real compensation per hour	0.7	2.1	0.1	1.8	–0.1
Shares of Real GDP (percent)					
Business fixed investment	10.9	10.6	11.5	11.6	12.0
Residential investment	4.8	4.0	4.2	4.1	4.3
Exports	7.9	11.6	11.6	11.5	11.9
Imports	9.0	12.3	13.1	13.2	13.5
Shares of Nominal GDP (percent)					
Personal saving	4.9	4.0	3.0	2.8	3.0
Federal surplus	–2.8	–4.6	–3.5	–3.3	–3.2

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increase since Jan. 1993					2498
Inflation (percent per period)					
CPI	5.9	2.9	2.7	0.3	**0.3**
PPI-Finished goods	5.2	1.6	0.2	0.5	**0.2**

Newly released data in **boldface**.

FINANCIAL STATISTICS

	1992	1993	Feb. 1994	Mar. 1994	Apr. 14, 1994
Dow-Jones Industrial Average	3284	3522	3906	3817	3663
Interest Rates					
3-month T-bill	3.43	3.00	3.25	3.50	3.58
10-year T-bond	7.01	5.87	5.97	6.48	6.97
Mortgage rate, 30-year fixed	8.40	7.33	7.15	7.68	8.26
Prime rate	6.25	6.00	6.00	6.25	6.25

INTERNATIONAL STATISTICS

Exchange Rates	**Current level Apr. 14, 1994**	**Percent Change from**	
		Week ago	**Year ago**
Deutschemark-Dollar	1.710	−0.4	+7.4
Yen-Dollar	104.2	−0.6	−8.4
Multilateral (Mar. 1973=100)	94.86	−0.4	+4.7

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	+3.1 (Q4)	6.5 (Mar)	2.5 (Mar)
Canada	+3.0 (Q4)	11.1 (Feb)	0.2 (Feb)
Japan	0.0 (Q4)	2.8 (Jan)	1.2 (Jan)
France	−0.1 (Q4)	11.7 (Dec)	1.8 (Jan)
Germany	−0.8 (Q4)	6.6 (Jan)	3.4 (Feb)
Italy	−0.5 (Q3)	10.6 (Jul)	4.2 (Feb)
United Kingdom	+2.4 (Q4)	10.0 (Jan)	2.4 (Feb)