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: 417629

Document Number:

Folder Title:
BE

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

THE PRESIDENT HAS SEEN
5-15-00

'00 MAY 12 AM8:57

417629

WEEKLY ECONOMIC BRIEF OF THE PRESIDENT OF THE UNITED STATES

BE

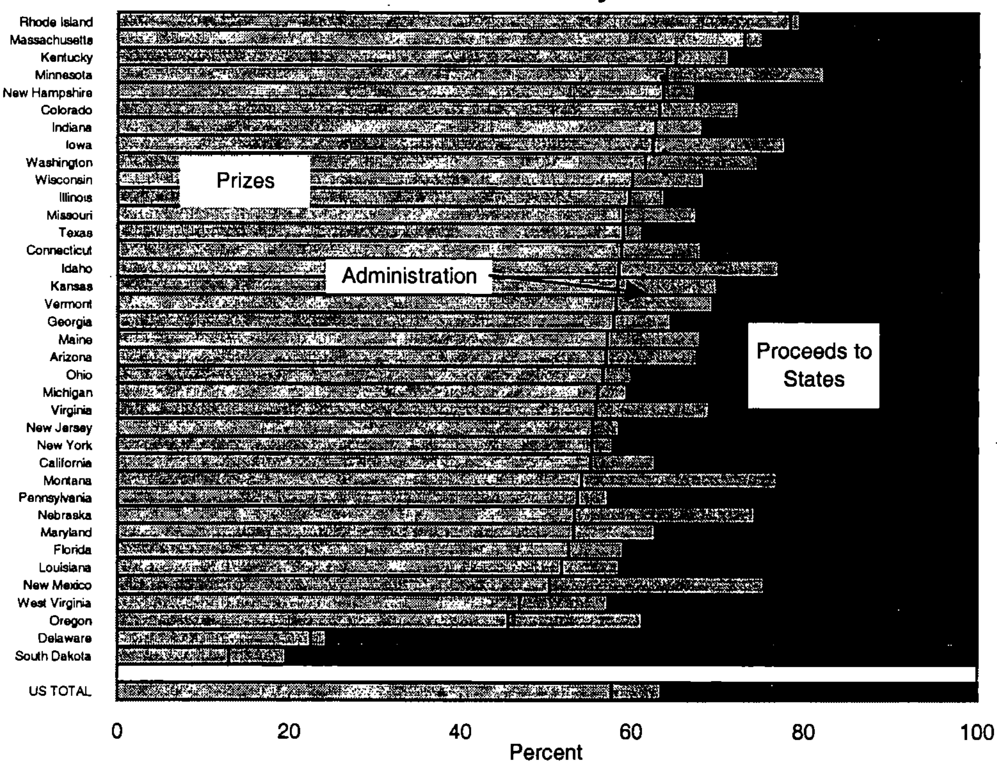
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

May 12, 2000

copied
Baily
Podesta

CHART OF THE WEEK

Allocation of State Lottery Collections



Thirty-seven U.S. states have lotteries. In 1998, aggregate ticket sales were $33.3 billion: 57.7 percent of this total was paid out in prizes, 5.8 percent went for administration, and 36.5 percent represented proceeds to the states. Rhode Island and Massachusetts paid out the largest percentage of ticket sales in prizes; South Dakota and Delaware paid out the least.

A17629

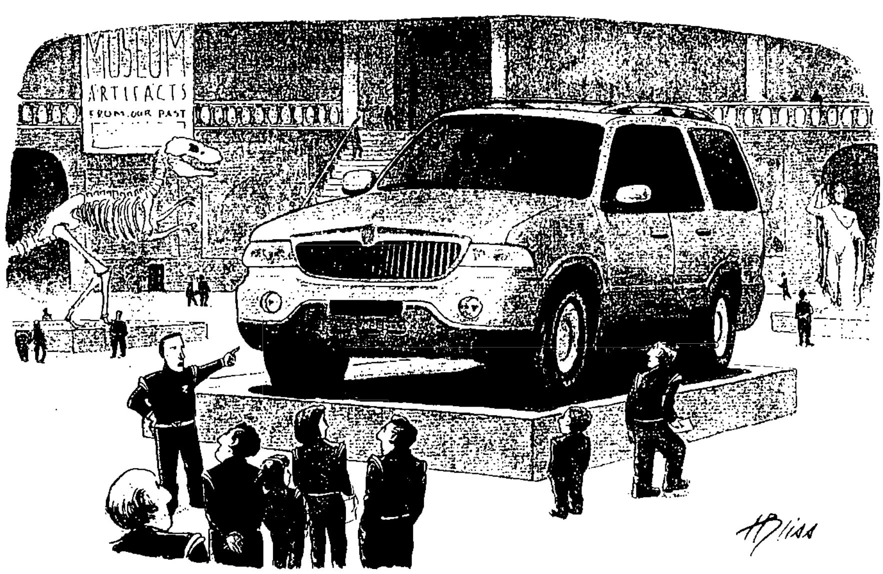
CONTENTS

CURRENT DEVELOPMENT

SPECIAL ANALYSIS

ARTICLE

DEPARTMENTS

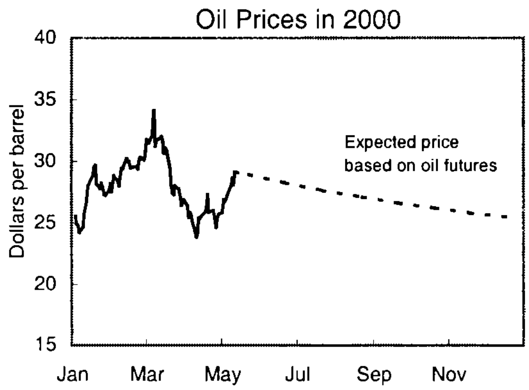


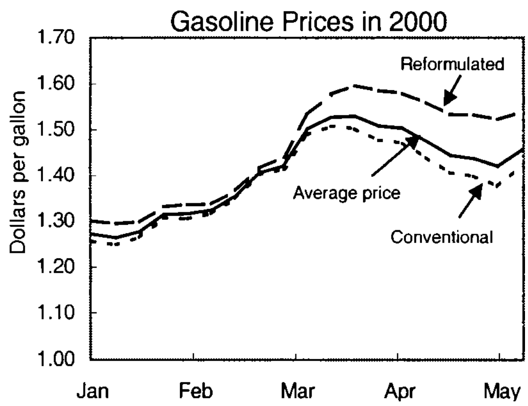
"We're not certain why they disappeared, but archeologists speculate that it may have had something to do with their size."

CURRENT DEVELOPMENT

Over the Hill on Oil and Gasoline Prices?

After falling nearly $10 per barrel from its early March peak, the price of crude oil has moved up some. Gasoline prices also rose last week after declining for 6 straight weeks. Nevertheless, further large increases are not expected this year.





Oil. West Texas Intermediate crude closed Thursday at $29.13 per barrel, 15 percent below its 2000 peak on March 7, but 22 percent above its 2000 trough on April 11 (see upper chart). The market expects prices to fall slightly over the next few months, but low stocks in the United States and other OECD countries, and increased demand from refiners after the spring maintenance season may support or pull prices up. Some OPEC ministers' comments suggest that the cartel may not increase production at its June meeting.

Gasoline. After falling 11 cents per gallon between March 20 and May 1, the average cost of gasoline rose 3½ cents last week to $1.46 per gallon (see lower chart). The Energy Information Agency's forecast projects gasoline prices to stay between $1.40 and $1.45 through the summer. Gasoline inventories remain lean, however, as we approach the zenith of the summer driving season—a combination that could support higher prices.

Regulatory impacts. Average gasoline prices mask the difference between conventional and reformulated gasoline (RFG). The latter, which has been required since 1995 in areas with severe smog problems, has averaged 2.5 cents more per gallon than conventional gasoline. More stringent RFG standards effective this year were expected to increase this spread to 4 cents per gallon. However, this gap had widened to as much as 14 cents before narrowing to 11 cents in the past week. Transient refinery problems could have caused the spread, but analysts also may have underestimated refining costs, especially since royalties might be required on an RFG patent that was recently upheld in court.

Conclusion. Oil and gasoline prices are expected to remain stable through the summer, but OPEC decisions, lean stocks, and strong demand in the upcoming driving season are risk factors for higher prices.

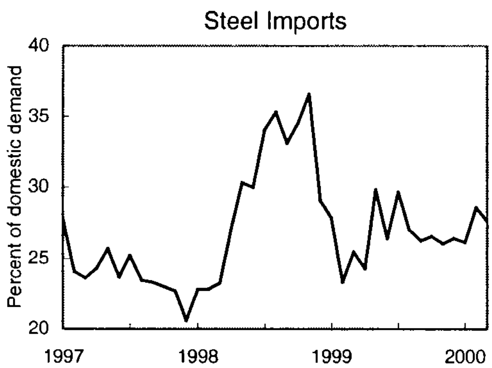
5-15-00

SPECIAL ANALYSIS

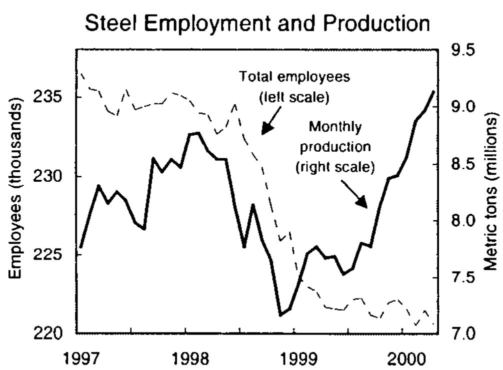
Is Steel Still in Trouble?

November 1998 marked a nadir for the U.S. steel industry; imports accounted for 37 percent of the domestic market while nearly a quarter of domestic production capacity lay idle. Fortunately, the industry has recovered substantially since then.

Fewer imports. Imports now meet just over a quarter of domestic steel demand, up slightly from the 1997 average of 24 percent (see upper chart). Imports in recent months have been led by semi-finished products, which are then processed further by domestic firms. In part, the scaling back of imports reflects the anti-dumping and countervailing measures imposed in 1999, and also the recovery of demand in other steel consuming countries. Declines in imports from Japan and Russia were particularly sizable.



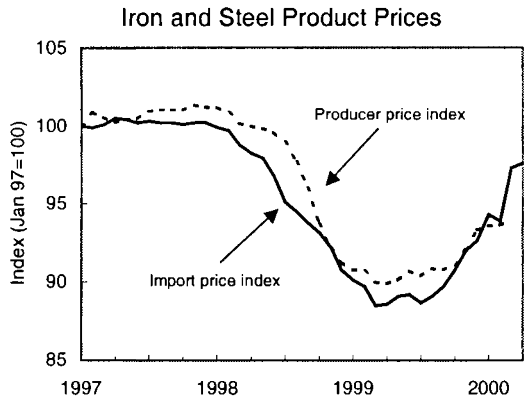
More domestic production. While production and employment dropped sharply in tandem during the 1998 crisis, the booming U.S. economy has facilitated a swift recovery in production since then (see lower chart). Domestic raw steel production in April approached a high annual rate of 110 million metric tons, with demand growth especially strong in the construction sector and in the oil and gas drilling and transportation sector. ~~U.S. steel producers~~ are now operating at over 90 percent of capacity, and the inventory buildup during the crisis has been reversed as new orders and shipments have picked back up.



Employment and productivity. The increase in production has not been accompanied by an increase in employment. The number ~~of employees in~~ the blast furnaces and basic steel products sector remains around 220,000, with increased productivity accounting for the increased output. This pattern is consistent with longer-term trends: steel industry employment has declined steadily since the 1980s to less than half its level then, while greater production efficiency has allowed output to grow.

Prices, profits, and prospects. Prices have also begun to climb back to earlier levels (see chart on next page). Available (but incomplete) earnings results confirm that a recovery is underway. They also show that mini-mills have

5-15-00



weathered the crisis far better than integrated mills. The OECD Steel Committee predicts that in 2000, imports to the United States ~~should fall by 8 percent, as demand continues~~ to recover in other steel consuming countries. Increased production, along with higher prices, should lead to improved performance in 2000 for the main steel enterprises after a difficult period in 1998-99.

Conclusion. The steel industry appears to have bounced back from its 1998 crisis. Nevertheless, longer-term trends of declining employment and the importance of mini-mills are likely to continue.

5-15-00

ARTICLE

Is Japan Becoming More Open?

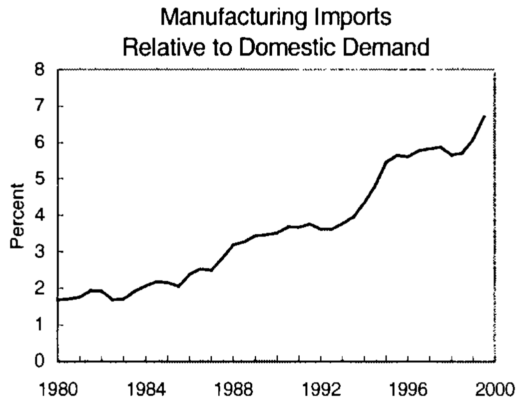
Japan has long appeared relatively closed to foreign goods and investment. Although official barriers to goods, such as tariffs, are low, observers have pointed to a wide range of potential "invisible" barriers. Foreign investors have also faced numerous hurdles. Recent reforms are helping to ease these barriers, and quantitative indicators show some signs of increasing openness. Nevertheless, Japan remains much more closed than other industrial countries.

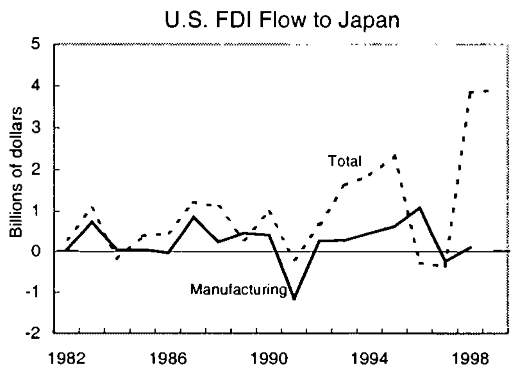
Structural reforms should ease barriers to foreign access. In the 1990s, Japan began a program of structural reforms to create a more efficient and competitive domestic economy. Financial liberalization is creating a more competitive and open financial environment. New accounting standards are improving corporate governance and transparency by making it easier to evaluate the performance of Japanese companies. These standards could also make foreign firms more willing to merge or acquire Japanese companies because they can better evaluate what they are buying. Japan has made some (albeit incomplete) progress at reducing regulation in areas such as telecommunications, energy, distribution, and auto repair. Japan itself is the major beneficiary of these reforms, but foreign providers of goods and capital are also likely to benefit.

Challenges to the *keiretsu*. One indicator of structural change in Japan is that the *keiretsu* system of affiliated firms (often centered around a lead bank that provides financial support to the group) is now under attack. Cross-shareholding appears to be falling; mergers of weak Japanese lead banks may also attenuate the sometimes cozy ties between banks and companies. A breakdown of the *keiretsu* system should benefit foreign firms. In the past, members of a *keiretsu* may have preferred to purchase inputs from affiliated suppliers, even if foreign suppliers were cheaper; *keiretsu* members may even have colluded to keep potential competitors (including foreign firms) out of the market.

Auto alliances. A second indicator of structural change is that foreign auto companies have now taken major ownership stakes in Japanese auto companies. Renault, for example, is allied with Nissan; Ford is allied with Mazda; General Motors has alliances with Isuzu, Subaru, and Suzuki; Daimler-Chrysler has announced an alliance with Mitsubishi. The president of Nissan was born in Brazil and educated in France, and the president of Mazda is American. These alliances may help further the breakdown in the traditional *keiretsu* system.

Trade and FDI flows. In addition to these qualitative indicators, quantitative evidence suggests some progress. Manufacturing imports showed particularly sharp gains relative to domestic demand in the early 1990s (see upper chart on next page). Nevertheless, the Japanese figure remains about half that of the United States and about a quarter that of the EU.





Inflows of foreign direct investment have also risen, driven in part by surging mergers and acquisitions (M&A) related to restructuring. U.S. direct investment in Japan, for example, reached record levels of about $4 billion per year in 1998 and 1999, after essentially no investment in 1997 (see lower chart). Cross-border M&A in Japan rose from $4 billion in 1998 to $16 billion in 1999. While these changes are dramatic, for both FDI inflows and cross-border M&A activity, Japan accounted for only about 2 percent of developed-country totals in 1999, up from less than 1 percent in 1998. By contrast, the roughly similar U.S. and EU shares together accounted for around 90 percent of direct investment inflows and cross-border M&A activity to developed countries in 1998 and 1999.

Progress may be slow. Even after Japan fully implements reforms, it will take time for the full quantitative effects to be apparent. In addition, Japan's prolonged recession and the relative strength of the dollar tend to restrain Japan's imports of U.S. goods. For example, despite some steps taken under the 1995 U.S.-Japan Agreement on Autos and Auto Parts that opened up the Japanese distribution system and auto-repair regime—and despite the ownership stakes of U.S. auto companies in Japanese firms—sales of U.S. autos and auto parts have plummeted in recent years, largely reflecting the adverse macroeconomic environment.

Conclusion. Despite nascent signs of increasing openness, import penetration and inflows of foreign direct investment relative to GDP in Japan remain well below the rates in other industrial countries, which have also been making substantial changes to open their economies. To the extent that structural reforms continue, Japan is likely to open further in the future. Nevertheless, reforms still have a long way to go, and they face domestic political opposition, so that continued progress is not assured.

5-15-00

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

The Power of Suggestion in Saving Behavior. How a company presents its savings plan to employees affects their enrollment decision. A recent study examined data from a large U.S. corporation that changed its 401(k) plan from one requiring employees to affirmatively opt into the plan to one automatically enrolling employees unless they made a negative election to opt out of the plan. Although none of the economic features of the plan changed, this switch to automatic enrollment dramatically changed the saving behavior of employees. When they were automatically enrolled, 401(k) participation was significantly higher. Additionally, the default contribution rate and investment allocation chosen by the company under automatic enrollment had a strong influence on the saving behavior of 401(k) participants. This "default" behavior appears to result both from participant inertia and from many employees interpreting the default as investment advice from the company. Automatic enrollment in 401(k) plans also appears to even out differences that previously existed between men and women and between racial and ethnic groups.

Deterrence or Vengeance? The economic approach to optimal punishment suggests that differences in sentence length should be related to their effect on incapacitating criminals and deterring crime. A new paper analyzing sentences for murders finds some support for this hypothesis: sentences are higher when the expected apprehension rate for murderers is lower, for types of murder that respond less to deterrence, and for murderers with higher expected recidivism rates. Victim characteristics also play a role. Consistent with other studies, murderers were found to receive shorter sentences if the victim was black or male. This pattern was observed even in the case of vehicular homicides, where the victim was most likely random and different sentences would be unlikely to have deterrence effects: drivers who killed women got 56 percent longer sentences, while those who killed blacks got 53 percent shorter sentences. These striking effects lead the authors to conclude that sentence lengths may also be driven, in part, by a taste for vengeance.

Just the Facts, Mom. The nation has 35 million mothers aged 15 to 44 to honor this Mother's Day. About a third of these mothers have one child, 40 percent have two, and 9 percent have four or more. Alabama, Alaska, Idaho, Mississippi, and Wyoming have the highest percent of women who are mothers (about 64 percent of women aged 15-44). In contrast, only 38 percent of women in the District of Columbia have ever given birth. In June 1998, nearly 120,000 (3 percent) of women who had given birth during the previous year were in their 40s, compared with fewer than 60,000 (2 percent) in 1980. Mothers are working more and returning to work sooner after giving birth. In 1998, the majority (59 percent) of women aged 15-44 who had given birth in the previous year had returned to the labor force, a 50 percent increase since 1980. As more mothers enter the workforce to help support their families, we are also paying them greater tribute: in 1997, the nation's greeting card publishers shipped $212 million worth of Mother's Day cards, up from $148 million in 1992.

33-1
40-2
18-3
9-4+

5-15-00

INTERNATIONAL ROUNDUP

Internet Prices Falling in the OECD. The cost of accessing the Internet is falling in OECD countries, and a trend toward "unmetered" access bodes well for electronic commerce, according to a new OECD study. The average cost of 20 hours per month of Internet access fell by 15 percent between October 1999 and March 2000. The United States, Australia, Canada, New Zealand, and Mexico have unmetered plans in which the Internet access charge does not vary with connection time. For peak-time, the monthly access charge averages $44 in these five unmetered countries, compared with an average of $256 for 150 hours in metered countries. Since countries with unmetered access have six times as many servers designed for e-commerce, unmetered access appears to facilitate e-commerce. The study also reports that the Internet Service Provider fee has fallen as a share of Internet access costs from 63 percent in 1995 to 23 percent in March 2000 (while the share of telephone service costs has increased).

East Asian Nations Coordinate to Defend Currencies. The governments of East Asian nations have decided to move forward with a proposal to establish a regional financing arrangement to supplement the existing international facilities. This "Chiang Mai Initiative" was launched last weekend by the finance ministers of Japan, China, and the Republic of Korea, along with the ten finance ministers of the Association of South East Asian Nations. The proposal is meant to strengthen the economic defenses of these nations against the sort of speculation that instigated the 1997 Asian economic crisis. Specifically, the proposal involves a network of bilateral currency swaps and repurchasing agreements. The Ministers expressed general agreement over the course of the meetings on the importance of further cooperation among Asian nations in response to the region's growing interdependence.

Growth Does Not Worsen Inequality. Using data for 80 countries covering four decades, a new study by World Bank researchers finds evidence that when a country grows, the income of the poor grows as well. Analyzing growth in per capita GDP and in the average income of the poorest 20 percent of the population the study found that the two tended to grow approximately one-for-one, suggesting that the poor share proportionally in overall growth. The study also investigated whether different sources of economic growth might have differential impacts on the poor. For instance, it found that openness to trade had no effect on the incomes of the poor after controlling for the effect of growth in overall per capita GDP, suggesting that trade does not have negative effects on the poor. The results do indicate that inflation has a disproportionately higher negative effect on the income of the poor, suggesting that measures to control inflation are in fact "super pro-poor" policies. Additionally, the study found that public spending on health and education did not have systematic effects on the incomes of the poor, which might suggest that such spending has been poorly targeted.

RELEASES THIS WEEK

Producer Price Index

****Embargoed until 8:30 a.m., Friday, May 12, 2000****

The producer price index for finished goods fell 0.3 percent in April. Excluding food and energy, producer prices rose 0.1 percent.

Retail Sales

Advance estimates show that retail sales decreased 0.2 percent in April following an increase of 0.5 percent in March. Excluding sales in the automotive group, retail sales were unchanged, following an increase of 1.2 percent.

MAJOR RELEASES NEXT WEEK

Consumer Prices (Tuesday)
Housing Starts (Tuesday)
Industrial Production and Capacity Utilization (Tuesday)
U.S. International Trade in Goods and Services (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1999	1999:3	1999:4	2000:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.9	4.6	5.7	7.3	5.4
GDP chain-type price index	5.2	1.6	1.1	2.0	2.7
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.7	3.7	5.0	6.9	2.4
Real compensation per hour:					
Using CPI	1.0	1.7	2.0	0.9	0.3
Using NFB deflator	1.5	2.9	4.0	1.8	1.8
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.6	12.7	12.5	12.9
Residential investment	4.5	4.4	4.4	4.4	4.4
Exports	8.2	10.8	10.8	10.9	10.8
Imports	9.2	13.5	13.8	14.0	14.2
Personal saving	6.6	1.7	1.5	1.3	0.5
Federal surplus	-2.8	1.2	1.4	1.2	N.A.

	1970-1993	1999	February 2000	March 2000	April 2000
Unemployment Rate (percent)	6.7**	4.2**	4.1	4.1	3.9
Payroll employment (thousands)					
increase per month			27	458	340
increase since Jan. 1993					21615
Inflation (percent per period)					
CPI	5.8	2.7	0.5	0.7	N.A.
PPI-Finished goods	5.0	**2.9**	1.0	1.0	**-0.3**

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

New or revised data in **boldface**.
PPI data **embargoed until 8:30 a.m., Friday, May 12, 2000**.

FINANCIAL STATISTICS

	1998	1999	March 2000	April 2000	May 11, 2000
Dow-Jones Industrial Average	8626	10465	10483	10944	10546
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.69	5.66	5.96
10-year T-bond	5.26	5.65	6.26	5.99	6.43
Mortgage rate, 30-year fixed	6.94	7.43	8.24	8.15	8.52
Prime rate	8.35	8.00	8.83	9.00	9.00

INTERNATIONAL STATISTICS

Exchange Rates	**Current level May 11, 2000**	**Percent Change from** Week ago	Year ago
Euro (in U.S. dollars)	0.902	1.3	-15.8
Yen (per U.S. dollar)	108.5	0.3	-10.3
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	99.42	-0.2	5.1

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	5.0 (Q1)	3.9 (Apr)	3.7 (Mar)
Canada	4.7 (Q4)	6.8 (Mar)	3.0 (Mar)
Japan	0.0 (Q4)	5.0 (Mar)	-0.5 (Mar)
France	3.1 (Q4)	9.8 (Mar)	1.5 (Mar)
Germany	2.3 (Q4)	8.4 (Mar)	1.9 (Mar)
Italy	2.1 (Q4)	11.3 (Jan)	2.5 (Mar)
United Kingdom	3.0 (Q4)	5.9 (Dec)	2.6 (Mar)

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