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THE PRESIDENT HAS SEEN

6-24-96

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

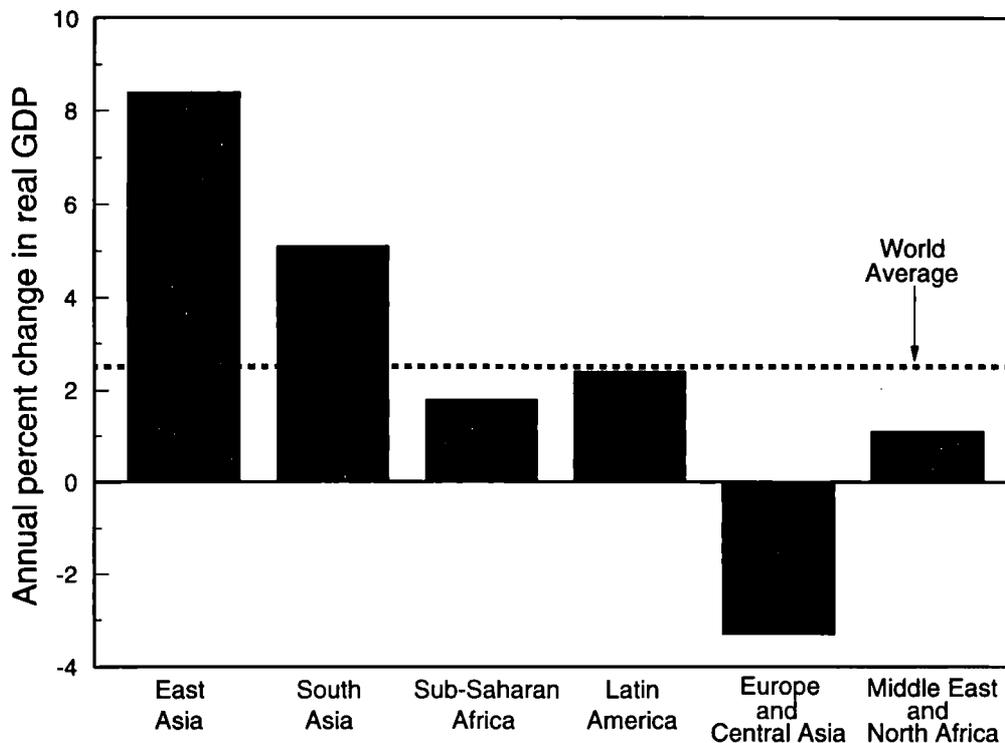
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

June 21, 1996

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CHART OF THE WEEK

Growth in the Developing World by Region, 1986-1995



Economic growth during the last decade varied widely across regions in the developing world. Growth in East Asia averaged 8.4 percent a year, while developing economies in Europe and Central Asia contracted at an average annual rate of 3.3 percent. Excluding Eastern Europe and the former Soviet Union, developing countries grew at a 4.2 percent average annual rate, substantially eclipsing the 2.5 percent average growth in high-income countries.

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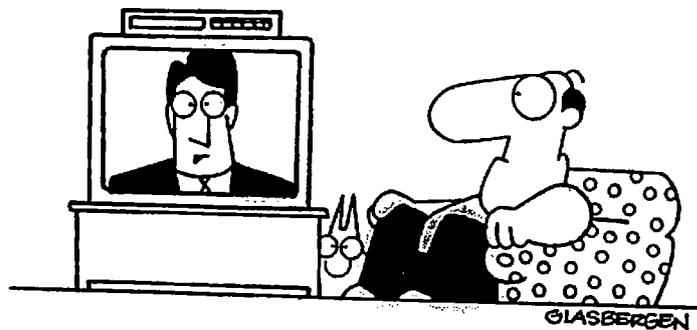
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**“In an effort to speed up the economy,
the government has banned decaffeinated coffee...”**

THE PRESIDENT HAS SEEN

6/24/96

CURRENT DEVELOPMENT

Income Inequality Update

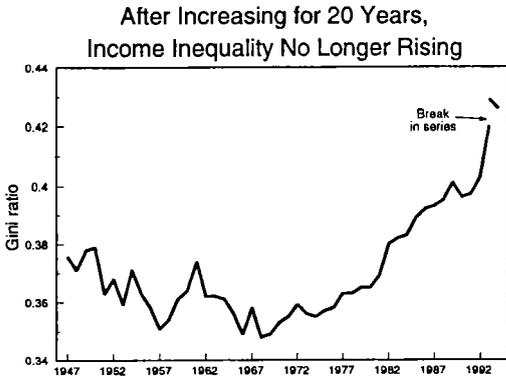
~~CC: Guss Sperry / GS / DCU~~

This is important - this is the 1st time heard about this -> need to get out - scan use of 1993 data on family income? (thought '93 data would be this - also need to get to understand collection - As a result

BC

Income inequality among families fell between 1993 and 1994 (see chart), though it would be hard to tell

from press reports of a just-released Census Bureau study. The reports ignored important changes in survey procedures and therefore erroneously concluded that income disparities increased sharply during the first 2 years of the Clinton Administration.



Analysis. Beginning with the March 1994 survey, which records income data for 1993, the Census Bureau raised the upper limit at which it records high earnings from \$300,000 to \$1 million.

That is, before 1993 a family with earnings of \$1 million would be reported as receiving \$300,000; beginning in 1993 that same family would be reported as receiving \$1 million. Not surprisingly, this change sharply increases inequality by raising reported incomes in the top quintile.

COPIES SENT TO SPERLING, STEPHANOROULOS, AND MORRIS

Paying proper attention to these changes in survey procedures, Census data show for families:

- overall inequality (as measured by the Gini index of inequality) declined between 1993 and 1994;
- incomes increased across the board in 1994 for the first time since 1989, with average income growth highest in the bottom quintile;
- the share of income received by the lowest quintile increased for the first time since 1973, while the share going to the top quintile fell a little—a sharp reversal of previous trends.

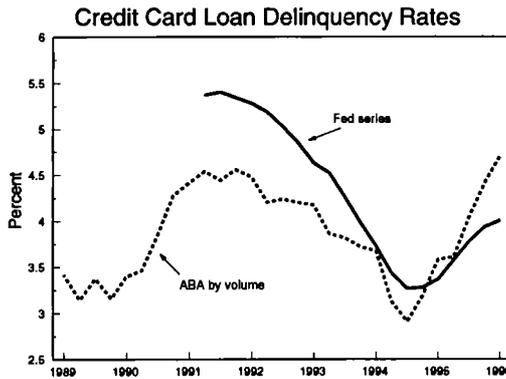
One final note: Contrary to those who thought the increase in taxes on upper income individuals would adversely affect incentives, the Census report shows that income growth of the top 5 percent averaged 2.5 percent per year between 1992 and 1994, faster than in any year since the mid-1980s.

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CURRENT DEVELOPMENT

Credit Card Delinquencies Not Ominous in Fed Data

A recent American Bankers Association (ABA) report showed that credit card delinquencies are at an all-time high. This raised the specter of potential financial difficulties that could spell trouble for the economy. (The overall quality of loans, however, remains high, see Weekly Economic Briefing, May 31, 1996).



More reliable data from the Federal Reserve, however, show a far less troubling trend in credit-card delinquencies (see chart).

Analysis. Both the ABA and the Fed series show a rise in credit-card delinquency rates over the past year. But the delinquency rate in the Fed series remains well below the peak reached in the last recession. The Fed's data are probably more reliable because they are based on reports from all insured commercial banks. The ABA data come from a survey and are subject to normal sampling error.

Some of the rise in the delinquency rate may be related to aggressive efforts by credit card issuers to expand their customer base. Even with no change in the delinquency rate among the highly creditworthy cardholders who always have qualified for a card, the inclusion of more and more lower income, less creditworthy, and more delinquency-prone people in the cardholder population would have raised the average delinquency rate.

CURRENT DEVELOPMENT

A Million Men Did Not Disappear from the Labor Force in the Past Year or So

A front-page article in last week's Wall Street Journal reported that about one million men in the prime working years of 25 to 54 who would like to work "have disappeared from the labor force in the past year or so." This is factually wrong: the problem of prime age men who have dropped out of the labor force is neither new nor getting worse—it is getting better.

X | **Analysis.** As part of its monthly employment report, the Bureau of Labor Statistics (BLS) tabulates the number of people who say they want to work but did not actively seek employment that month. These people are not included in the labor force and therefore are not counted as unemployed (see Weekly Economic Briefing, May 24, 1996). Between 1994 and 1995, the number of men between 25 and 54 with this kind of weak attachment to the labor force fell from 944,000 to 838,000. The Journal added its own estimate of "a couple hundred thousand" more "not inclined to work again" to the 838,000 figure to get its "million missing men." But it erred in treating this number as the new flow into the drop-out pool rather than the total population of the pool.

Official BLS data do not reveal any sharp deterioration in labor force participation among prime-age men between 1994 and 1995, instead they show:

- Continuing a trend that has been evident for years, the labor force participation rate among men aged 25 to 54, fell slightly; but
- The number of such men in the labor force grew by half a million; and
- The number of such men with jobs grew by three-quarters of a million.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Beige Book Positive on Growth and Inflation. New reports from Federal Reserve district banks paint a picture of continued moderate growth with tame inflation during May and June. Nearly all regions report expanding activity, and several report that growth has accelerated recently. Although several regions saw increasing prices for some raw and intermediate products like building materials and grain, there was little evidence of rising retail prices. Retail sales strengthened and generally exceeded year-ago levels, and manufacturing and construction picked up in most regions. Agriculture was hurt in several regions by the weather and low cattle prices. Production of natural gas and oil increased. Labor markets remain tight, but with little indication of upward pressure on wages. Business sentiment is increasingly optimistic about national and regional economic growth. The San Francisco Fed reports, for example, that 90 percent of businesses surveyed expect national growth to match or exceed its long-run average pace over the next four quarters—up from 40 percent in February.

X

Good News for Auto Buyers, Sellers and Drivers. Sticker shock may not be so bad for new car buyers, according to the Commerce Department. Car prices are still going up, but at only a 1.4 percent pace. This is well below the 3.4 percent pace of 1994 and half the overall inflation rate. Meanwhile, auto manufacturers are taking unusual steps to boost production, especially of light trucks and minivans, during the normally slower summer months. GM, for example, cancelled one week of its planned vacation shutdown in three midwestern plants. Whether in a car or truck, drivers (and vacationers) this summer should have good news at the pump. According to the Department of Energy, nationwide average retail gas prices should fall 10 cents a gallon below their May peak this summer.

X

Golden Outlook for Golden State. Two forecasts released this week lauded the recovery of California's economy. The UCLA Business Forecast reports that employment growth in California is the best it has been since the late 1980s, and will stay strong into 1998 fueled by gains in business services, computer software, multimedia and entertainment. The California economy looks strong, as retail spending is up and house prices appear to have bottomed out, with sales picking up. At the national level, UCLA does not foresee either inflation or recession as a problem, prompting them to predict that the current expansion "could become the best expansion in history." The Commerce Department's forecast for metropolitan areas paints a similarly sunny picture in California. They predict employment to grow 35 percent, twice the national rate, from 1993 to 2005 in many California metropolitan areas.

Services
growth
EM
Strong
employment
in Calif

Michael
Waldman
6/28
Ralph
S.

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INTERNATIONAL ROUNDUP

MFN Critics' Case Questioned. Critics opposed to renewing China's MFN status often point to the rapid growth of U.S. imports coming from China as harmful to the U.S. economy. A study released last week by the Institute for International Economics contradicts this proposition. The study shows that the increase in imports from China over the period 1988-94 has displaced third-country imports, not U.S. production. And although some critics also claim that the composition of imports from China has shifted to high-tech products, the study shows that U.S. imports from China remain overwhelmingly concentrated in labor-intensive light manufactures such as toys and footwear.

Soaring Growth in Japan. The Japanese economy grew at a 12.7 percent annual rate in the first quarter, according to data released earlier this week. This is far stronger than even the most optimistic analysts had expected. Although private consumption expenditures rose a strong 10.2 percent and housing surged, substantial growth came from government spending and special statistical factors relating to leap year. Net exports were a negative contributor: exports were flat and imports rose nearly 12 percent. As a result, the trade surplus fell by nearly one-third relative to the previous quarter. Although the recent data provide further indication that a recovery is under way in Japan, areas of concern remain. Problems with the banks have not been fully addressed, and government spending will also begin to slow. Most analysts will probably raise their growth forecasts for 1996, but cautious optimism remains the prudent outlook.

Canadian Countermeasures. Earlier this week, Canada became the first country to consider counter-measures aimed at the Helms-Burton Act. Arthur Eggleton, Canada's trade minister, unveiled several measures designed to discourage U.S. companies from taking action against Canadian companies and their executives. Eggleton also announced that Canada would call for a meeting of the ministerial commission set up under the dispute settlement provisions of NAFTA, arguing that the entry ban violates NAFTA guarantees on free travel. Later this summer, the Canadian administration may also present to the parliament measures that would allow Canadian companies to move against assets held in Canada by U.S. complainants and countersue in Canadian courts for damages awarded in the United States. The practical effect of this measure may be small. U.S. firms large enough to have assets in Canada are likely to avoid Helms-Burton suits as bad business, and U.S. parties without Canadian assets may be undeterred by the countermeasures.

RELEASES THIS WEEK

U.S. International Trade in Goods and Services

The goods and services trade deficit was \$8.6 billion in April compared with a deficit of \$8.0 billion in March.

Productivity

Nonfarm business productivity rose 2.1 percent at an annual rate in the first quarter of 1996. Manufacturing productivity increased 5.5 percent.

Housing Starts

Housing starts declined 5 percent in May to 1.43 million units at an annual rate. For the first 5 months of 1996, starts were up 14 percent over the same period a year ago.

MAJOR RELEASES NEXT WEEK

Consumer Confidence—Conference Board (Tuesday)
Advance Durable Shipments and Orders (Wednesday)
Gross Domestic Product (Friday)

U.S. ECONOMIC STATISTICS

	1970– 1993	1995	1995:3	1995:4	1996:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	1.3	3.6	0.5	2.3
GDP chain-type price index	5.3	2.6	2.2	2.2	2.4
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	0.3	1.7	-0.8	2.1
Real compensation per hour:					
Using CPI	0.6	1.0	2.1	0.5	0.1
Using NFB deflator	1.3	1.7	2.0	2.0	2.4
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.2	10.2	10.2	10.4
Residential investment	4.5	4.0	4.0	4.0	4.1
Exports	8.2	11.1	11.1	11.3	11.3
Imports	9.2	12.5	12.5	12.4	12.6
Personal saving	5.1	3.3	3.2	3.6	3.4
Federal surplus	-2.7	-2.2	-2.2	-2.1	-2.1
<hr/>					
	1970– 1993	1995	March 1996	April 1996	May 1996
Unemployment Rate	6.7**	5.6**	5.6	5.4	5.6
Payroll employment (thousands)					
increase per month			158	163	348
increase since Jan. 1993					9724
Inflation (percent per period)					
CPI	5.8	2.5	0.4	0.4	0.3
PPI-Finished goods	5.0	2.3	0.5	0.4	-0.1

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

New or revised data in **boldface**.

FINANCIAL STATISTICS

	1994	1995	April 1996	May 1996	June 20, 1996
Dow-Jones Industrial Average	3794	4494	5580	5617	5659
Interest Rates					
3-month T-bill	4.25	5.49	4.95	5.02	5.12
10-year T-bond	7.09	6.57	6.51	6.74	6.98
Mortgage rate, 30-year fixed	8.35	7.95	7.93	8.07	8.30
Prime rate	7.15	8.83	8.25	8.25	8.25

INTERNATIONAL STATISTICS

Exchange Rates	Current level	Percent Change from	
	June 20, 1996	Week ago	Year ago
Deutschemark-Dollar	1.523	-0.7	+9.2
Yen-Dollar	108.1	-0.7	+27.7
Multilateral \$ (Mar. 1973=100)	87.86	-0.7	+7.1

International Comparisons	Real GDP growth	Unemployment rate	CPI inflation
	(last 4 quarters)		(last 12 months)
United States	1.7 (Q1)	5.6 (May)	2.9 (May)
Canada	0.6 (Q1)	9.4 (Apr)	1.5 (Apr)
Japan	5.5 (Q1)	3.5 (Apr)	0.1 (Mar)
France	1.0 (Q1)	12.6 (Mar)	2.4 (Apr)
Germany	0.8 (Q4)	7.1 (Mar)	1.5 (Apr)
Italy	1.1 (Q1)	12.0 (Jan)	4.5 (Apr)
United Kingdom	1.9 (Q1)	8.5 (Apr)	2.4 (Apr)