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THE PRESIDENT HAS SEEN

11-13-95

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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

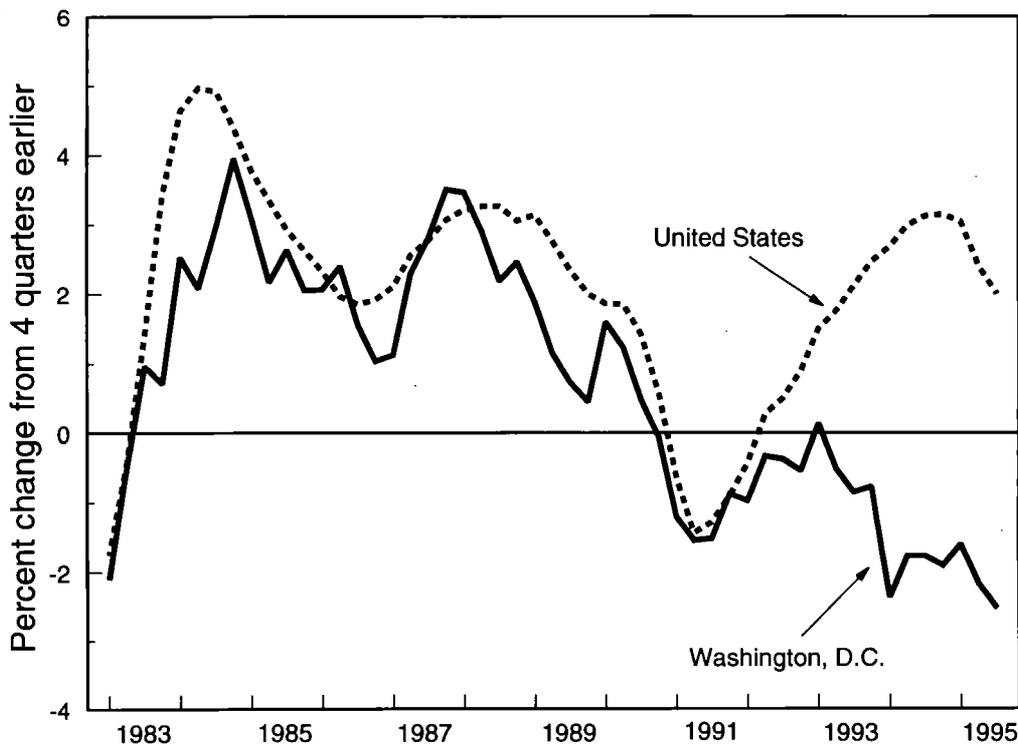
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

November 10, 1995

95 NOV 12 P 6 : 37

CHART OF THE WEEK

Employment Growth in the District of Columbia and the United States



Employment growth in the District of Columbia closely tracked the national pattern during the 1980s. Since 1991, however, employment growth in the District has fallen sharply relative to the nation, with employment actually contracting over the past 5 years. An Article in this issue of the Weekly Economic Briefing discusses the recent deterioration in job prospects for District residents.

PHOTOCOPY
WJC HANDWRITING

THE PRESIDENT HAS ^{DEPT} 11-13-95

Carrie / EB / Leon

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11/13/95

- Study w/ POTUS note

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CURRENT DEVELOPMENT

Preliminary Data Show Eight Million Jobs Created

The Bureau of Labor Statistics reported recently that its official measure of employment rose by 7.5 million jobs from January 1993 through October of this year. BLS has already started the process of revising the 1995 employment data, and has released its estimate of revisions through March 1995 with the recent report. BLS estimates that the gain in employment through March will be revised upward by 590,000, which would push the total gain from January 1993 through October 1995 to 8.1 million.

Two caveats. This estimate is still unofficial and could change:

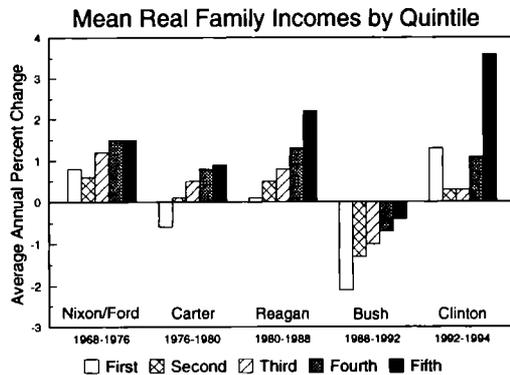
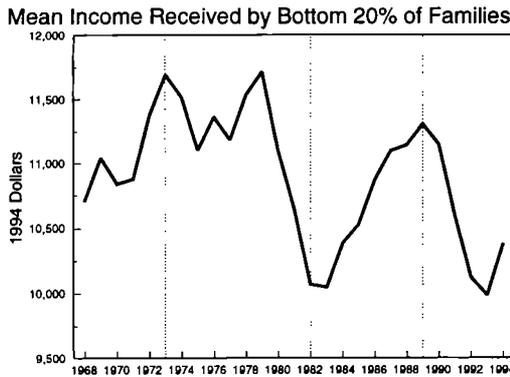
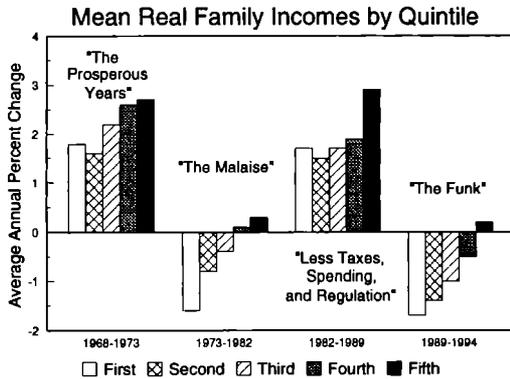
- The revision for March will not become official until June 1996 when revised data for all of 1995 are released.
- Although it is unlikely, employment gains between March 1995 and December 1995 could be revised downward.

Should be official by April. Even without these revisions (to be announced in June 1996), it is highly likely that the official, regularly reported gain in jobs will surpass 8 million by early 1996. With most analysts estimating that the economy will create about 100,000 jobs per month for the near future, it should take about 5 months to raise the official estimate of employment from 7.5 million to 8 million. This should occur when the March employment numbers are released by BLS in early April.

CURRENT DEVELOPMENT

Lies, Damn Lies, and Statistics

A recent opinion piece by Senator Connie Mack argued that real family incomes declined from 1973 to 1982, grew significantly from 1982 to 1989, and declined or stagnated from 1989 to 1994 (see top chart). The article attributed the differences in performance to economic policies, claiming, for example, that the gains from 1982 to 1989 were the result of less government spending, lower taxes, and less government regulation.



Analysis. A problem with income comparisons of the sort presented in the article is that fluctuations over the business cycle can overwhelm underlying trends in income. One way to adjust for this problem is to make sure the starting and ending points for different time periods represent similar stages of the business cycle.

The Mack article does not make this adjustment. In fact, the article picks time periods that accentuate the effects of the business cycle. As the middle chart shows, the period 1973 to 1982 starts with a high point and ends with a low point of a business cycle, 1982 to 1989 starts with a low point and ends with a high point, and 1989 to 1994 starts with a high point and ends during an on-going economic expansion.

A different view. By choosing time periods to match presidential administrations, a very different picture emerges (see bottom chart). In particular, incomes declined from 1988 to 1992, but rose from 1992 to 1994.

The gain from 1992 to 1994 for the bottom quintile helped lower the poverty rate during 1994.

SPECIAL ANALYSIS

The Rising Cost of Tuition at Public Universities

Between 1986 and 1992, tuition at public 2-year and 4-year colleges grew by 21 and 37 percent, respectively, even after accounting for inflation. The primary cause of the increase was not higher costs of education. Educational expenditures per full-time equivalent student rose by only 2.6 percent at public 4-year colleges and actually fell by 3.8 percent at public 2-year colleges. Rather, tuition increased because of a decline in state support for higher education as budgetary constraints forced states to reorient their spending priorities. In 1986, state and local governments paid about 71 percent of educational expenses per student at public colleges. By 1992, these subsidies covered only 63 percent of these costs. As state and local governments have cut the share of costs covered by their subsidies, tuition costs have risen accordingly.

*is
\$ given
to students
parents*

What Do Students Actually Pay? The total costs of a year at public 2-year and 4-year colleges in 1992 were approximately \$5,400 and \$10,000 respectively. Even with the decline in state support, however, students at public institutions usually pay much less than the full cost of their education (see table).

Educational Costs and Tuition at Public Colleges in 1992

	Public 2-Year Colleges	Public 4-Year Colleges
Average Educational Expenditure per Full-Time Student	\$5,361	\$9,938
Tuition and fees minus grant aid, by family income:		
First quartile	-\$79	\$518
Second quartile	740	1,767
Third quartile	1,012	2,337
Fourth quartile	1,228	3,028

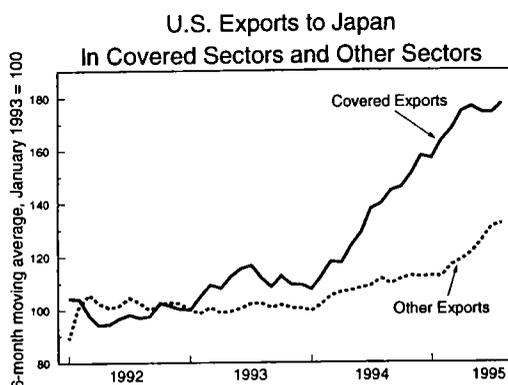
Nevertheless, students' out-of-pocket cost can be a significant burden, particularly for lower-income students. Loan programs often help to meet this additional need. With states likely to continue shifting more of the costs of a college education onto students, the demand for Federal loan programs is likely to continue to grow.

SPECIAL ANALYSIS

U.S. Trade Policy with Japan: Assessing the Record

The Council of Economic Advisers and the Treasury Department recently released an interim assessment of the Administration's trade policy with Japan that finds evidence of improved access to Japan's markets. Although the solid export performance detailed in the report has been influenced by a variety of factors, the Administration's trade agreements with Japan appear to have contributed to the growth in exports.

Export growth is strong. The report shows that, since the beginning of the Administration, growth in U.S. exports to Japan has been strong—more than twice the growth in U.S. exports to the



European Union. Moreover, export growth in sectors covered by Clinton Administration trade agreements has been even stronger. U.S. exports to Japan in sectors covered by Clinton Administration agreements have grown nearly 80 percent since January 1993, or about twice as fast as other exports to Japan (see chart). Furthermore, growth in U.S. exports to Japan in these sectors has been accelerating—exports in these sectors grew one-

seventh in 1993, one-quarter in 1994, and by nearly one-third in the first 8 months of 1995.

Sectoral successes. The report also details gains in specific sectors where there has been sufficient time since the agreements were signed to judge the results:

- U.S. exports to Japan of medical instruments have grown over 50 percent since an agreement on public sector procurement of medical technology was signed in November 1994. This is over twice the rate of growth of U.S. medical-instrument exports to the European Union.
- Since the agreement on cellular telephones was signed in March 1994 and the Japanese Government instituted deregulation measures, subscribers in the Tokyo-Nagoya region have grown from 22,000 to 500,000. Motorola, which had tried unsuccessfully for years to break into this market, provides the bulk of equipment to build and maintain this system, with sales in the hundreds-of-millions of dollars per year.
- The Administration targeted apples as one of its first bilateral trade initiatives with Japan. Whereas U.S. apple exports to Japan were once banned, apple exports are now expected to reach \$15 million in 1995.

Analysis. U.S. exports worldwide have been growing rapidly during the past several years. Some of the recent growth in exports to Japan likely reflects this overall upward trend in U.S. exports, and thus the Japanese gains cannot be entirely attributed to changes in trade policy. For example, the rise in exports for many of the sectors covered by Administration trade agreements began prior to implementation of those agreements. Even so, the evidence supports the view that these agreements have contributed to export growth:

- Export growth in sectors covered by agreements has been twice as high as growth in other sectors.
- Export growth in sectors covered by agreements has been accelerating as more agreements have been signed.

Bilateral deficit is not a useful scorecard. Despite the strong performance of exports and a resurgence in U.S. competitiveness, some critics will mistakenly point to the bilateral trade deficit with Japan as a scorecard of U.S. trade policy. ~~The bilateral deficit is attributable to macroeconomic factors such as slower economic growth and higher domestic saving in Japan compared with faster growth and lower saving in the United States, and does not gauge the success or failure of trade policies.~~ As Japan's growth rate rises and the U.S. budget deficit continues to decline (raising domestic saving in the United States), we should see improvement in the bilateral trade balance.

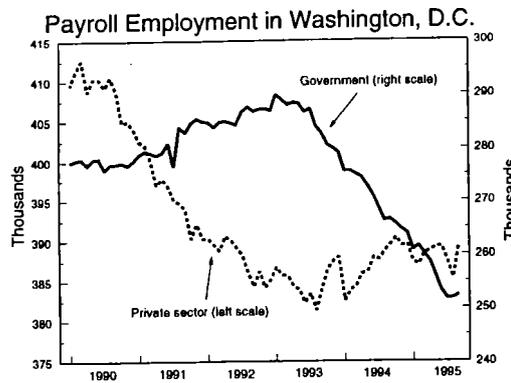
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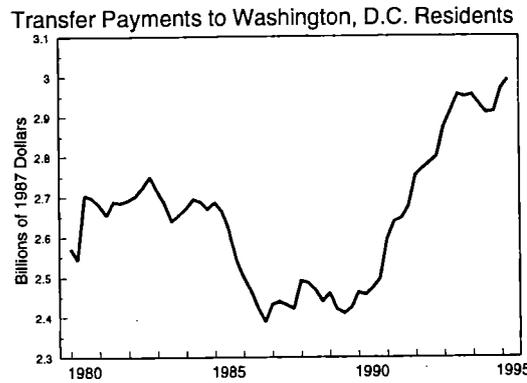
ARTICLE

District of Columbia's Economy Struggles with Job Loss

A bill recently passed by the House would set spending for the District of Columbia at \$4.9 billion for fiscal year 1996, representing a reduction of \$256 million below the budget level recommended by the District's financial control board. This proposed cut comes at a time when the District's economy is struggling to cope with substantial job loss due to continuing downsizing of the Federal and local governments, as well as its ongoing budgetary and social problems.



Analysis. The District has shed nearly 45,000 jobs—about 6.5 percent—over the past 5 years. While a fall in private-sector jobs drove the decline during the early 1990s, a sharp reduction in government jobs (24,000 Federal and 7,000 local) was responsible for the decline over the past 2 years (see chart).



Jobs in the District, of course, can be held by residents of neighboring states, and District residents likewise can hold jobs outside the District, so changes in jobs don't translate directly into changes in employment of District residents. In fact, the drop in employment of District residents has been relatively greater than the number of jobs eliminated in the District would suggest. Employment has declined 18 percent over the past 5 years, and about 20 percent since it peaked in 1988.

This drop in employment has nearly doubled the District's unemployment rate, from 4.8 percent in 1988 to 9.1 percent today. By comparison, the national rate was 5.5 percent in 1988, the same as today. The weak job market has been one factor pushing more residents on to public assistance, and causing Federal and local government transfer payments to increase 20 percent since 1988 (see chart).

Outlook. With further cutbacks in Federal employment likely, the District's future employment prospects depend on job creation in the private sector. On this score the outlook is uncertain: although activity appears to have picked up

modestly in some sectors, the hospitality industry—the District’s largest private employer—continues to struggle to compete against cities with larger convention facilities, as well as cheaper lodging available in the suburbs. More importantly, the District continues to suffer from the problems of an urban center—poor schools, high crime, and drugs—that have caused jobs and people to locate in the suburbs.

11-13-95

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Budget Cuts Threaten Federal Statistics Agencies. Both the House and Senate Appropriations bills include sizable cuts (relative to Administration requests) in the budgets for the major Federal statistics agencies. The Bureau of the Census has said these cuts will require a large reduction in preparatory activities for the 2000 Decennial Census and elimination of some data gathering necessary for scheduled improvements of the National Accounts. The Bureau of Economic Analysis will have to end tabulation of regional, state, and local data. Perhaps the highest profile cut, however, is to the Bureau of Labor Statistics, for which the Administration requested \$377 million, while the House budget was \$30 million less, and the Senate Appropriations Committee was \$46 million less. If such cuts are enacted, BLS likely will be forced to slow its research into correcting ways in which the Consumer Price Index overstates rises in the cost of living. Such corrections would have powerful effects on budget projections. In reaction, Republican Congressional leaders recently have changed their tune and asked the BLS whether it needs more funding to carry out such research.

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Official Warns Banks About Increasing Loan Risk. The nation's 40 largest federally chartered banks have relaxed standards for consumer loans, according to a survey and letter released by the Comptroller of the Currency. The survey found that 48 percent of the banks had eased home equity lending standards. Of the banks loosening standards, more than half said they are lowering collateral requirements, with some reporting higher maximum credit lines. Standards for indirect consumer lending (e.g., credit card balances) eased at 33 percent of the surveyed banks, while 35 percent reported somewhat increased credit risk in this area. The study also found that banks made more exceptions for individual loans not conforming to the banks' established policies. The Comptroller concluded his letter to the banks by expressing concern that banks not lose sight of the added risk.

Education Department Releases Annual Report. In its annual study entitled, "The Condition of Education," the Department of Education reports that the drop-out rate for students in grades 10 to 12 held steady between 1992 and 1993. The study also finds that high school graduates have taken more courses overall, particularly in core academic fields. While the share taking remedial math courses fell from 33 percent in 1982 to 17 percent in 1992, the proportion taking both advanced algebra and geometry rose from 29 percent to 50 percent. In addition, the study finds that more high school graduates are choosing to go to college immediately after high school graduation, though it is very common for college students to enroll, leave, possibly return, and thus not finish within the expected period of time.

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INTERNATIONAL ROUNDUP

Concern over Russian reforms in run-up to December elections. The dismissal of the head of the central bank and slightly higher budget deficit projections are raising questions about Russia's economic prospects. On November 8, President Boris Yeltsin dismissed acting central bank chairwoman Paramonova, who had twice failed to be confirmed by Russia's parliament because of her anti-inflation zeal. Alexander Khandruyev, a central bank deputy whose commitment to fighting inflation seems uncertain, was appointed as interim chairman. Meanwhile, debate in the parliament continues to focus on the 1996 budget. There is considerable pressure to pass the budget before the December elections. Media reports indicate that a new budget was approved by a reconciliation committee on November 8. The budget includes deficit projections which are slightly worse than originally planned by the government.

The peso reaches an all-time low. Turmoil intensified on Mexico's markets this week as the peso fell to a record closing low of 7.85 pesos per dollar on November 8. Interest rates have risen sharply: the yield on new 3-month government debt rose from 44 percent during last week's auction to 52 percent this week. The upheaval in financial markets seems to be the result of an apparent crisis of confidence, as well as continuing concerns about banking sector problems and political unrest.

Markets react positively to French government reshuffle. Financial markets reacted positively to a government reshuffle announced by French Prime Minister Juppé on November 7. The reshuffle is being interpreted as a signal that the government intends to address France's persistent budget deficit. The government has suffered a sharp drop in popularity since President Chirac took office 6 months ago, as pledges to reduce unemployment and taxes have failed to be fulfilled (see Weekly Economic Briefing, October 27, 1995). Plans to reform the welfare system are crucial to improving the country's public finances, and proposals for cutting welfare expenditures are expected next week. France must reduce its current budget deficit from 5.2 percent of GDP to no more than 3 percent in order to meet the fiscal criterion for European Monetary Union.

RELEASES THIS WEEK

Producer Price Index

The producer price index for all finished goods decreased 0.1 percent in October. Excluding food and energy, producer prices were unchanged.

Productivity

Nonfarm business productivity increased at an annual rate of 2.0 percent in the third quarter. Manufacturing productivity increased 6.2 percent.

MAJOR RELEASES NEXT WEEK

Advance Retail Sales (Tuesday)

Consumer Prices (Wednesday)

Industrial Production and Capacity Utilization (Wednesday)

Housing Starts (Friday)

U.S. ECONOMIC STATISTICS

	1970– 1993	1994	1995:1	1995:2	1995:3
Percent growth (annual rate)					
Real GDP:					
Fixed weights	2.5	4.1	2.7	1.3	4.2
Chain weights	2.7	3.7	1.7	0.7	3.0
GDP implicit price deflator:					
Fixed weights	5.5	2.3	2.2	1.6	0.6
Chain weights*	5.4	2.7	2.8	2.2	1.9
Productivity, nonfarm business (NFB):					
Fixed weights	1.2	1.8	2.5	4.9	2.0
Chain weights	1.4	0.9	0.2	3.4	0.7
Real compensation per hour (NFB):					
Using CPI	0.6	0.6	1.0	0.3	1.0
Using NFB deflator:					
Fixed weights*	1.1	1.1	2.9	2.5	3.2
Chain weights*	1.2	0.7	1.8	1.4	1.8

* CEA estimates.

Shares of Real GDP (percent)

Business fixed investment	11.0	12.6	13.6	13.9	14.1
Residential investment	4.7	4.3	4.2	4.0	4.1
Exports	8.0	12.3	12.9	13.1	13.3
Imports	9.2	14.4	15.1	15.4	15.5

Shares of Nominal GDP (percent)

Personal saving	4.9	3.0	3.8	2.9	3.1
Federal surplus	-2.8	-2.4	-2.1	-1.8	N.A.

	1970– 1993	1994	Aug. 1995	Sept. 1995	Oct. 1995
Unemployment Rate	6.7**	6.1**	5.6	5.6	5.5
Payroll employment (thousands)					
increase per month			263	50	116
increase since Jan. 1993					7527
Inflation (percent per period)					
CPI	5.8	2.7	0.1	0.1	N.A.
PPI-Finished goods	5.0	1.7	-0.1	0.3	-0.1

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

New or revised data in **boldface**.

FINANCIAL STATISTICS

	1993	1994	Sept. 1995	Oct. 1995	Nov. 9, 1995
Dow-Jones Industrial Average	3522	3794	4747	4760	4864
Interest Rates					
3-month T-bill	3.00	4.25	5.28	5.28	5.39
10-year T-bond	5.87	7.09	6.20	6.04	5.97
Mortgage rate, 30-year fixed	7.33	8.35	7.64	7.48	7.37
Prime rate	6.00	7.15	8.75	8.75	8.75

INTERNATIONAL STATISTICS

Exchange Rates	Current level	Percent Change from	
	November 9, 1995	Week ago	Year ago
Deutschemark-Dollar	1.412	-0.4	-7.6
Yen-Dollar	100.8	-2.7	+3.0
Multilateral \$ (Mar. 1973=100)	83.78	-0.5	-3.8

International Comparisons	Real GDP growth	Unemployment rate	CPI inflation
	(last 4 quarters)		(last 12 months)
United States	3.3 (Q3)	5.5 (Oct)	2.5 (Sept)
Canada	2.5 (Q2)	9.2 (Sept)	2.3 (Sept)
Japan	0.6 (Q2)	3.2 (Sept)	-0.3 (Aug)
France	2.9 (Q2)	12.1 (Aug)	2.0 (Sept)
Germany	2.1 (Q2)	6.6 (Aug)	2.0 (Aug)
Italy	2.9 (Q2)	12.0 (Jul)	5.8 (Sept)
United Kingdom	2.3 (Q3)	8.6 (Sept)	3.8 (Sept)