

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the Clinton Presidential Library Staff.

Scan ID

426432

Subject Code:

BE

Original OA/ID Number:

CF 1677

| Row: | Section: | Shelf: | Position: | Stack: |
|------|----------|--------|-----------|--------|
| 25 | 2 | 10 | 3 | V |

CS

C. E.

EYES ONLY

9-21-00

426432

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

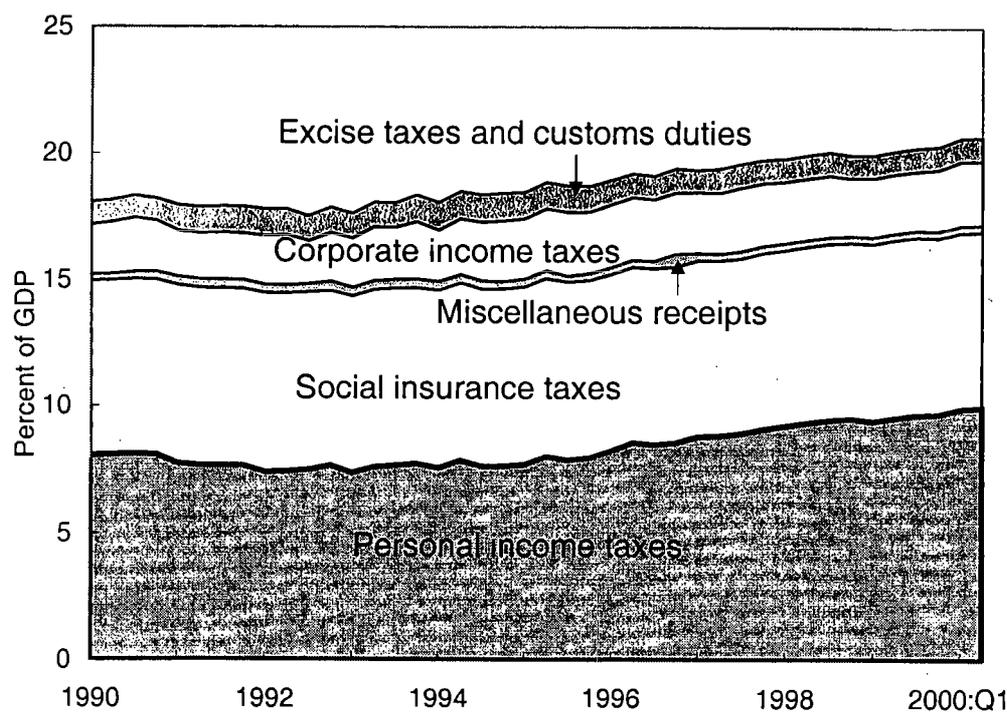
'00 SEP 15 AM 10:14

September 15, 2000

*copied
Entire Report:
Bailey
Podesta
Pg. 7:
C. Busson*

CHART OF THE WEEK

Federal Revenues as Share of GDP



Federal revenues as a share of GDP have reached 20.6 percent this year, a postwar high. The growth in total revenues has been especially pronounced since the mid-1990s, due to the surge in personal income tax receipts, which rose from about 8 percent of GDP in 1995 to nearly 10 percent most recently. The strong growth in the personal tax component is due largely to increases in capital gains realizations, real incomes overall, and the incomes of the highest-income households in particular.

426432

... ..
... ..
... ..
... ..
... ..

... ..
... ..
... ..
... ..
... ..

... ..
... ..
... ..
... ..
... ..

... ..
... ..
... ..
... ..
... ..

... ..
... ..
... ..
... ..
... ..

OF THE
... ..

... ..

CONTENTS

MACROECONOMIC UPDATE

GDP Growth Moderates in the Third Quarter1

SPECIAL ANALYSIS

The Open Source Paradigm in Software Authorship.....2

ARTICLE

Fewer Displaced Workers and Less Traumatic Disruptions.....4

DEPARTMENTS

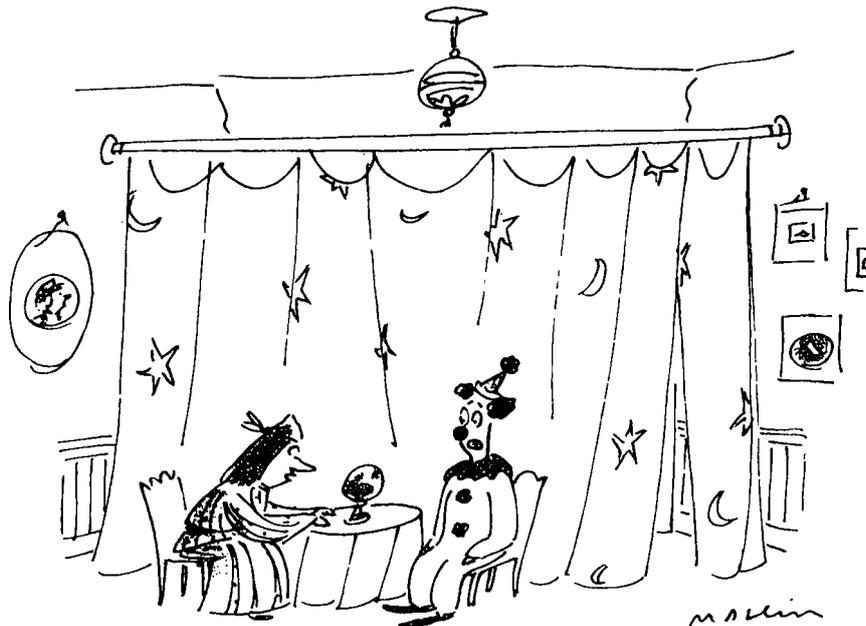
Business, Consumer, and Regional Roundup..... 6

International Roundup.....7

Releases 8

U.S. Economic Statistics 9

Financial and International Statistics..... 10

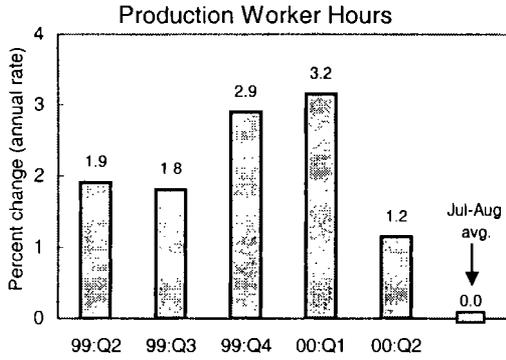


"You will run away from the circus and join a dot-com."

MACROECONOMIC UPDATE

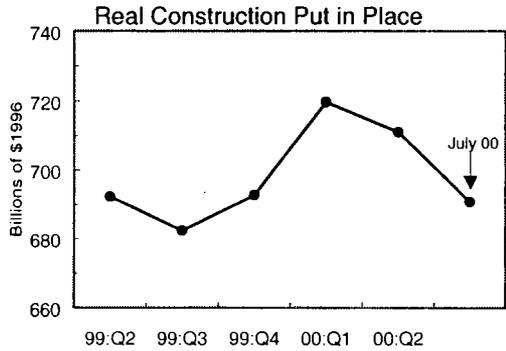
GDP Growth Moderates in the Third Quarter

After growing 6 percent during the past four quarters, evidence is mounting that real GDP slowed in the third quarter to a growth rate in the 2½-to-3½ percent range at an annual rate. The evidence for the slowdown is most apparent in the labor-market data.

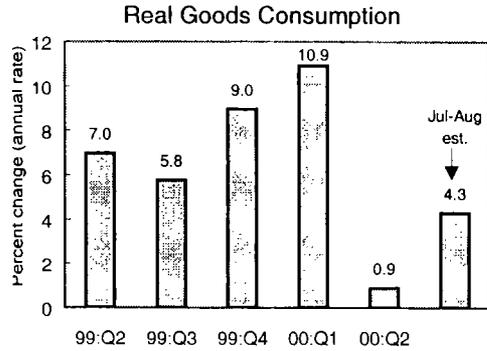


Labor market is slowing. Hours of production workers are flat thus far in the third quarter, a significant deceleration from its earlier pace (upper chart). Initial claims for unemployment insurance, available through September 9th, have risen significantly from the extraordinarily low levels reported earlier in the year.

Construction is falling. Third-quarter data on consumer and business spending remain fragmentary, but point to a slowdown. Construction spending has dropped (middle chart). Homebuilding and public construction account for the decline. Nonresidential construction has plateaued after strong gains early in the year. Although business investment in equipment and software remains robust, early third-quarter data suggest that its growth may not be as strong as previously.



But growth of personal consumption is rebounding. The growth of real goods consumption in the third quarter appears to be rebounding to a 4¼ percent annual rate, after dropping in the second quarter (lower chart). Additionally, consumer sentiment remains in the top 3 percent of its historical range.



Ripples from the world economy. The strengthening of the world economy has boosted export prospects for American goods, but it may also have caused import prices to accelerate. As a result, the inflation risk has increased. CPI inflation over the past 12 months has increased to 2.5 percent, up from 1.9 percent 1 year ago (but identical to the 2.5 percent of 2 years ago).

9-21-00

ARTICLE

Fewer Displaced Workers and Less Traumatic Disruptions

While losing a job because of a plant or company shutdown remains a painful possibility, displaced worker data indicates that the continued growth of the economy has reduced the severity of these disruptions. The data indicate that fewer workers are being displaced, and that many displaced workers are able to obtain new employment at relatively high pay.

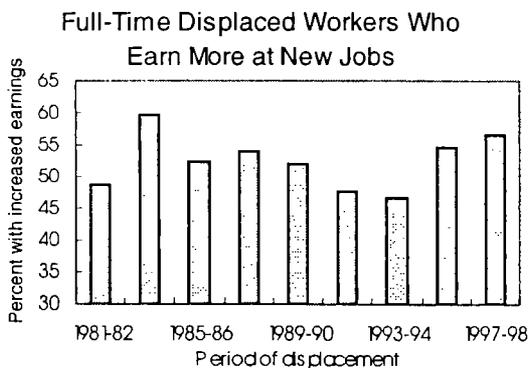
Displaced worker data. In 1984 the Census Bureau started collecting data on displaced workers through biannual supplements to the Current Population Surveys. These surveys obtain information on the number and characteristics of people who lost their jobs because their plant or company shut down or was moved, there was insufficient work, or their position or shift was abolished. The Census focuses on long-tenured employees (those who held a job for three or more years), who are more likely to have developed some job-specific skills and attachment to their employer. These employees are more likely to have lost their job due to labor market conditions rather than as a result of a bad match.

The displacement rate for long-tenured employees continues to fall. The data indicate only 2.5 percent of long-tenured workers were displaced in 1997 and 1998, a decline from 2.9 percent in 1995-96 and 3.9 percent in 1991-92. Displacements follow the business cycle, so the continued decline is likely a reflection of the sustained growth of the economy.



Re-employment rates are especially strong. Another feature of the strong economy is that the disruptions caused by displacements are not as traumatic as in the past. About 69 percent of full-time, long-tenured employees displaced in 1997-98 who reported earnings were re-employed in full-time jobs by February 2000. This rate continued an upward trend from about 60 percent re-employment over a comparable period for those displaced in 1991-92. The percent of displaced full-time long-tenured employees who took part-time jobs fell from 9 percent to 4 percent between 1995-96 and 1997-98, possibly because they continued to look for better full-time jobs. This seems to explain the commensurate increase in unemployment (from 5 percent to 10 percent during

this period) for these workers. The proportion of full-time displaced workers who leave the labor force is at the lowest level observed since the initial survey period of 1981-82.



Re-employment earnings are also very good. In addition to faring well at finding new full-time jobs, a majority of the full-time, long-

tenured workers displaced in 1997-98 are finding new jobs with higher pay. Almost 57 percent of those reporting their earnings have better paying new jobs than the jobs that were lost. However, one-fourth of those who find full-time employment have earnings reduced by at least 20 percent.

Conclusion. The combination of relatively low displacement rates, high levels of full-time re-employment for displaced full-time long-term employees, and higher earnings for many in their new jobs suggests that the disruption caused by job losses due to plant closures or eliminating shifts may be less traumatic than in the past.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

COPS Program a Success in Increasing Number of Police Officers. A new Urban Institute evaluation of the \$9 billion Community Oriented Policing Services Program shows that it has succeeded in increasing the number of police officers on the streets. Funds were targeted to high-crime jurisdictions—the 1 percent of grantee agencies with the highest crime rates received about a third of all program funds. About 80 percent of total grant funds went toward the first 3 years of new officer salaries; the remainder was spent on new technology and civilian hires to free up officer time for community policing. About 90 percent of grantee agencies expect to retain the police officers hired under the program after their COPS grants end, although some expect to be able to pay for the continuing employment of these officers by placing them in positions vacated by retiring officers. Thus, although the COPS grants are only temporary, the study estimates a permanent net increase in police officers nationwide of between 69,000 and 85,000 officers in 2001, and between 63,000 and 84,000 officers in 2003 and thereafter.

Heavier White Women Earn Lower Wages. Among white women, an increase in weight of about 65 pounds lowers wages by about 7 percent, holding intelligence, education, work experience, job tenure, region, year, and local unemployment rates constant, according to a new study. This decrease in wages is equivalent to a year of education, or to three years of work experience. An increase in height of 3 inches raises wages for white women by about 4 percent. Weight does not appear to affect the wages of non-white women, however, and for all women weight does not affect the likelihood of employment or type of occupation. An earlier, related line of research has found that beauty, too, affects labor market outcomes: subjectively measured "plainness" reduces wages about 5 to 10 percent for men as well as women.

EPI Issues Report on Working Americans. *The State of Working America 2000-01* is a biennial compendium and analysis of federal statistics and academic work, produced by the Economic Policy Institute. The report finds that over the 1995-99 period, productivity increases, low unemployment rates, and increases in the minimum wage have led to a rise in wages and incomes, especially for lower-income Americans. Income inequality grew at a slower rate after 1995 than earlier in the decade. Much of the increase in incomes is due to an increasing number of hours worked, some of which is due to greater employment. While wealth has increased this decade, consumer debt has risen almost as much for the typical family, and poverty has declined only slightly.

INTERNATIONAL ROUNDUP

Role of Foreign Banks in Developing Countries is Growing. A new IMF report describes recent developments in emerging market financing, in particular strong foreign direct investment, a rise in portfolio flows, and net repayments to international banks. Emerging market borrowers are relying more on domestic currency financing and longer-term funds, a consequence of the financial crises of the late 1990s. The report documents a growing presence of foreign-owned financial institutions in developing countries. This appears to be due to the ongoing consolidation of banking systems in both mature and developing countries, as well as the desire by developing countries to have banks operating in their markets hold globally diversified portfolios. In Central Europe, foreign control of total bank assets increased from 8 percent in 1994 to 57 percent in 1999. A similar trend was present in Latin America. Evidence indicates that the competitive pressures created by foreign entry in the financial markets have led to lower operating costs and smaller interest rate margins. However, it is less clear whether such foreign presence leads to more stable banking systems and lower volatility in the availability of credit.

Copied
C. Benson

International Effects of Duty-Free E-Commerce. New research explores the arguments to make permanent a WTO protocol that exempts electronically delivered items (e.g., digitized media and certain services) from customs duties. Cross-border service trade that could take place in electronic form reached \$370 billion in 1995, or 6 percent of total world trade. Trade in media is smaller; total world trade in digitizable media amounted to only \$44 billion in 1996. The paper argues that the revenue currently lost from the provision is minimal. Less than one percent of existing tariff revenue would be lost if all current trade in digitizable media were electronic. Furthermore, there are currently no duties on non-electronically traded services. However, the growth rate in trade of media products from 1990 to 1996 was substantially higher than the growth in overall trade. Thus, future revenues lost could become significant over time.

U.S. Ranks First in Economic Creativity and Competitiveness. A new report by the World Economic Forum ranks countries based on their competitiveness. One indicator is "growth competitiveness," which aims to measure the factors that contribute to future growth and is similar to the competitiveness index used in previous years. The U.S. ranks first in this measure, up from last year when it was ranked second to Singapore. Luxembourg, the Netherlands, and Ireland ranked third through fifth, respectively. The "current competitiveness" index aims to identify the factors that support current productivity and hence current economic performance. Finland ranks first in this measure, with the U.S. second, Germany third, and the Netherlands fourth. A new index of "economic creativity" measures the development and the adoption of new technology, and places the U.S. first, followed by Finland and Singapore.

C. Benson

RELEASES THIS WEEK**Industrial Production and Capacity Utilization******Embargoed until 9:15 a.m., Friday, September 15, 2000****

The Federal Reserve's index of industrial production increased 0.3 percent in August following no change in July. Capacity utilization rose 0.1 percentage point to 82.3 percent.

Consumer Price Index****Embargoed until 8:30 a.m., Friday, September 15, 2000****

The consumer price index fell 0.1 percent in August. Excluding food and energy, consumer prices rose 0.2 percent.

Retail Sales

Advance estimates show that retail sales rose 0.2 percent in August following an increase of 0.9 percent in July. Excluding sales in the automotive group, retail sales rose 0.3 percent following an increase of 0.8 percent.

Producer Price Index

The producer price index for finished goods fell 0.2 percent in August. Excluding food and energy, producer prices rose 0.1 percent.

MAJOR RELEASES NEXT WEEK

Housing Starts (Tuesday)

U.S. International Trade in Goods and Services (Wednesday)

U.S. ECONOMIC STATISTICS

| | 1970- 1993 | 1999 | 1999:4 | 2000:1 | 2000:2 |
|----------------------------------------|---------------|------|--------|--------|--------|
| Percent growth (annual rate) | | | | | |
| Real GDP (chain-type) | 2.9 | 5.0 | 8.3 | 4.8 | 5.3 |
| GDP chain-type price index | 5.2 | 1.6 | 1.6 | 3.3 | 2.6 |
| <u>Nonfarm business (NFB) sector:</u> | | | | | |
| Productivity (chain-type) | 1.7 | 4.1 | 8.0 | 1.9 | 5.7 |
| Real compensation per hour: | | | | | |
| Using CPI | 1.0 | 2.2 | 1.3 | 0.0 | 1.7 |
| Using NFB deflator | 1.5 | 3.3 | 2.9 | 1.1 | 2.9 |
| Shares of Nominal GDP (percent) | | | | | |
| Business fixed investment | 11.4 | 12.9 | 13.0 | 13.4 | 13.7 |
| Residential investment | 4.5 | 4.3 | 4.3 | 4.3 | 4.2 |
| Exports | 8.2 | 10.6 | 10.8 | 10.8 | 11.0 |
| Imports | 9.2 | 13.4 | 13.9 | 14.2 | 14.6 |
| Personal saving | 6.6 | 1.6 | 1.1 | 0.1 | 0.2 |
| Federal surplus | -2.8 | 1.3 | 1.5 | 2.4 | 2.4 |

| | 1970- 1993 | 1999 | June 2000 | July 2000 | August 2000 |
|---------------------------------------|---------------|-------|--------------|--------------|----------------|
| Unemployment Rate (percent) | 6.7** | 4.2** | 4.0 | 4.0 | 4.1 |
| Payroll employment (thousands) | | | | | |
| increase per month | | | 57 | -51 | -105 |
| increase since Jan. 1993 | | | | | 21989 |
| Inflation (percent per period) | | | | | |
| CPI | 5.8 | 2.7 | 0.6 | 0.2 | -0.1 |
| PPI-Finished goods | 5.0 | 2.9 | 0.6 | 0.0 | -0.2 |

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

New or revised data in **boldface**.

CPI data **embargoed until 8:30 a.m., Friday, September 15, 2000.**

FINANCIAL STATISTICS

| | 1998 | 1999 | July 2000 | August 2000 | Sept. 14, 2000 |
|-------------------------------------------|------|-------|--------------|----------------|-------------------|
| Dow-Jones Industrial Average | 8626 | 10465 | 10663 | 11015 | 11087 |
| Interest Rates (percent per annum) | | | | | |
| 3-month T-bill | 4.78 | 4.64 | 5.96 | 6.09 | 5.97 |
| 10-year T-bond | 5.26 | 5.65 | 6.05 | 5.83 | 5.79 |
| Mortgage rate, 30-year fixed | 6.94 | 7.43 | 8.15 | 8.03 | 7.88 |
| Prime rate | 8.35 | 8.00 | 9.50 | 9.50 | 9.50 |

INTERNATIONAL STATISTICS

| Exchange Rates | Current level | Percent Change from | |
|---------------------------------------------------------------------------------|---------------------------|----------------------------|-----------------|
| | September 14, 2000 | Week ago | Year ago |
| Euro (in U.S. dollars) | 0.862 | -1.4 | -17.2 |
| Yen (per U.S. dollar) | 107.3 | 2.0 | 1.8 |
| Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. \$) | 101.4 | 1.4 | 9.1 |

| International Comparisons ¹ | Real GDP growth | Unemployment rate | CPI inflation |
|-----------------------------------------------|----------------------------------|--------------------------|------------------------------------------|
| | (percent change last 4 quarters) | (percent) | (percent change in index last 12 months) |
| United States | 6.0 (Q2) | 4.1 (Aug) | 3.4 (Aug) |
| Canada | 5.3 (Q2) | 6.8 (Jul) | 3.0 (Jul) |
| Japan | 0.8 (Q2) | 4.7 (Jul) | -0.5 (Jul) |
| France | 3.4 (Q2) | 9.6 (Jul) ² | 1.7 (Jul) |
| Germany | 3.6 (Q2) | 8.3 (Jul) | 1.9 (Jul) |
| Italy | 3.0 (Q1) | 10.8 (Apr) | 2.7 (Jul) |
| United Kingdom | 3.1 (Q2) | 5.5 (May) | 3.2 (Jul) |

U.S. CPI data **embargoed until 8:30 a.m., Friday, September 15, 2000.**

^{1/} For unemployment data, rates approximating U.S. concepts as calculated by the U.S. Department of Labor, Bureau of Labor Statistics, except as noted in footnote 2.

^{2/} Data from OECD standardized unemployment rates.