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# WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

A9 : 44

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

January 23, 1995

## CHART OF THE WEEK

Job Creation and Inflation Since 1982


More than 3 million jobs were created during 1994. At the same time, consumer price inflation remained low, and showed no sign of picking up. This outstanding performance has led some observers to question conventional economic wisdom about how fast the economy can grow, and how low the unemployment rate can fall, before inflation begins to accelerate. Two stories included in this Briefing examine the validity of conventional economic wisdom about these relationships.

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## SPECIAL ANALYSES

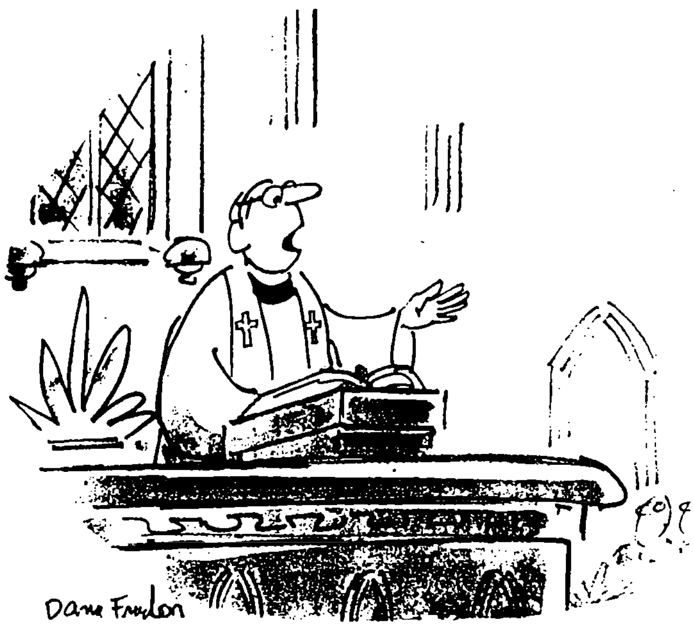


## ARTICLE



## DEPARTMENTS






*"And the Lord said, 'They shall gradually, so as not to cause unemployment, beat their swords into plowshares.'"*

## SPECIAL ANALYSIS

# Why Did the Mexican Peso Collapse?

During 1994, interest rates in the major industrial countries increased sharply. Some have argued that this development was at least partially responsible for the collapse of the peso. According to these observers, the rise in interest rates increased the attractiveness of assets held in the major industrial countries, and decreased the attractiveness of assets held in Mexico and other so-called emerging market countries. Is there any validity to this argument?

To some extent, there may be. During 1994, stock prices declined sharply in several emerging markets, suggesting that there may indeed have been a shift in investor preferences. However, no developing country other than Mexico suffered a currency crisis. This fact suggests that primary responsibility for the Mexican crisis lies with the Mexicans themselves. For too long, the Mexicans tried to defend an inappropriate level of the exchange rate between the peso and the dollar.

Between 1987 and the end of 1993, the inflation-adjusted value of the peso relative to the dollar rose by more than 75 percent. A key signal that this appreciation was unsustainable was the fact that Mexico's current account moved from near balance in the mid-1980s to a deficit of $27 billion in 1994.

Despite growing suspicion in capital markets that the peso was overvalued, its value was not allowed to adjust downward to the appropriate extent, partly because Mexican authorities wanted to maintain the strength of the peso at least through their Presidential elections. Ultimately, the central bank did not have enough reserves to defend the peg, and it was forced to allow the peso to float freely once its reserves had fallen to dangerously low levels.

The collapse of the peso illustrates the hazards of attempting to maintain a fixed exchange rate at a level that is inconsistent with the underlying fundamentals of the economy.

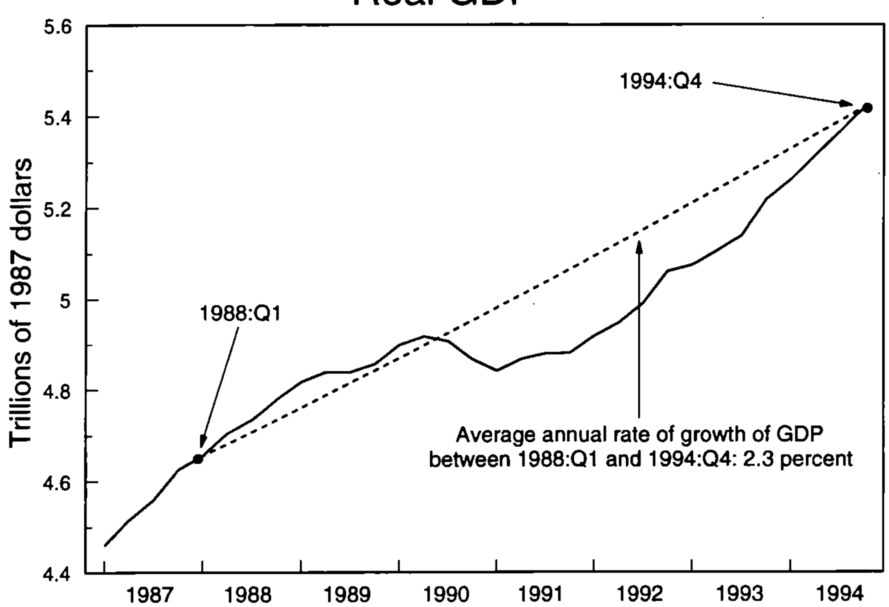
## SPECIAL ANALYSIS

### Sustainable Macroeconomic Performance, Part I: The Rate of Growth of GDP

According to conventional wisdom, the sustainable rate of growth of GDP is about 2.5 percent per year. However, some observers have asserted recently that growth as rapid as 5 percent per year may be sustainable.

**Is conventional wisdom wrong?** In this case, probably not. One way to see that conventional wisdom is about on track is to examine the economy's history over the recent past. Drawing a line between two points on a GDP graph gives an indication of the rate of potential GDP growth, as long as the two endpoints of the line correspond to periods when the unemployment rate was at similar levels. This method is illustrated in the chart below.

Real GDP




In the fourth quarter of 1994, the unemployment rate averaged 5.6 percent. During the economic expansion of the 1980s, the unemployment rate was at a similar level in the first quarter of 1988. And between these two quarters, GDP grew at an average annual rate of 2.3 percent.

**But hasn't there been a lot of structural change since 1988?** Indeed there has, and it is partly for that reason that the conventional forecast for potential GDP growth of 2.5 percent is a shade higher than the 2.3 percent average growth experienced since 1988.

Greater optimism than that does not appear to be warranted on the basis of 1994 data. Specifically, a rule of thumb known as Okun's Law—that has worked remarkably well in tracking the American economy for 25 years—suggests that the sustainable rate of growth of GDP in 1994 may actually have been slightly *slower* than 2.5 percent (see box for a discussion of Okun's Law).

**Okun's Law**

Arthur Okun served on the Council of Economic Advisers during the 1960s in several capacities, including staff economist, Member, and Chairman. While at the Council, he developed a rule of thumb, still in use today in roughly unchanged form, for relating changes in the unemployment rate and the growth of GDP to one another.

Okun began by postulating the following relationship: If the unemployment rate is constant, GDP must be growing about in line with the capacity of the economy. Then he noticed that changes in the unemployment rate seemed to be related systematically to the growth of GDP: Each percentage point decline in the unemployment rate seemed to be associated with an extra 2 percentage points of growth in real GDP. (In Okun's day, the boost to GDP growth appeared to be closer to 3 percentage points.)

Application of this logic to data for 1994 yields the following results: Between 1993:Q4 and 1994:Q4 the unemployment rate declined 0.9 percentage point (ignoring any adjustment for the redesign of the Current Population Survey). According to Okun's Law, this decline in the unemployment rate was associated with "excess" growth in real GDP (that is, over and above the rate of growth of the economy's capacity) of about 1.8 percentage points. Real GDP grew about 4 percent in 1994 (CEA projection). This suggests that the economy's capacity was actually expanding at about a 2.2 (=4-1.8) percent annual rate.

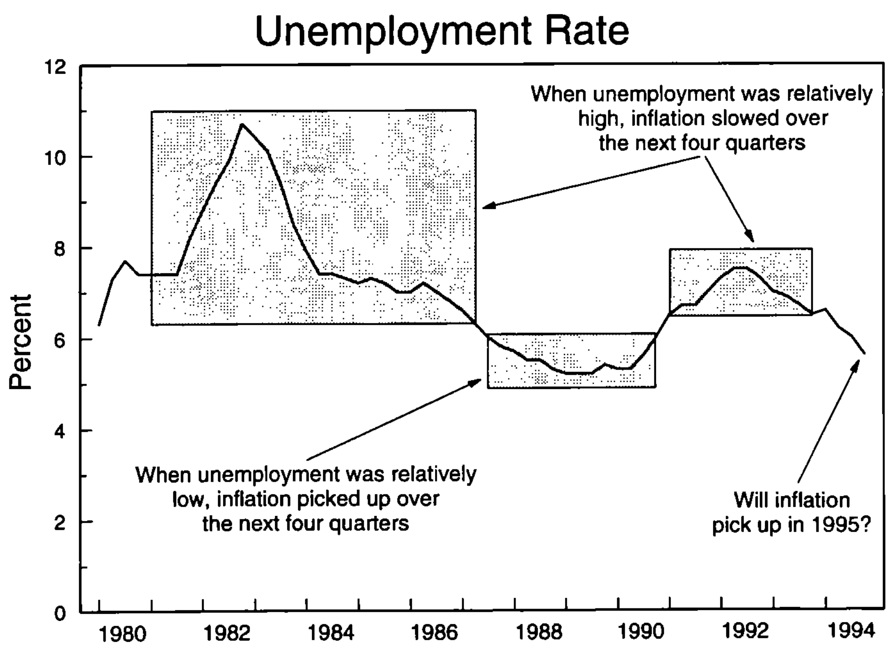
Like all statistical relationships in economics, Okun's Law does not apply perfectly from quarter to quarter, or even from year to year. As a result, most economists find evidence from a period of several years (such as is presented in the chart on the preceding page) to be more persuasive than results calculated using a single year's data. Nonetheless, the Okun's Law calculation provides at least some evidence that the rate of growth of the nation's capacity has not picked up significantly in recent quarters.

## SPECIAL ANALYSIS

# Sustainable Macroeconomic Performance, Part II: The Unemployment Rate

Economists have also attempted to estimate the sustainable level of the unemployment rate, defined as the unemployment rate that historically has been associated with the absence of either upward or downward pressure on the inflation rate. (Thus, by this definition, an unemployment rate that has been associated with rising inflation is below the sustainable level, while an unemployment rate that has been associated with falling inflation is above the sustainable level.) Currently, conventional wisdom is that the sustainable level of the unemployment rate is in the neighborhood of 5-3/4 percent. Again, one can ask...

**Does conventional wisdom have it wrong?** Here again, conventional wisdom seems to be close to the mark. One simple way to provide rough confirmation of the conventional view is to examine recent historical data on inflation and the unemployment rate, and observe directly the unemployment rates that were associated with rising inflation, as well as those that were associated with falling inflation. Application of this approach is illustrated in the chart below.




During the early 1980s, and again during the most recent recession, the unemployment rate was relatively high and inflation subsequently declined. Conversely, between late 1987 and 1990, when the unemployment rate was below 6 percent, inflation edged up.

As to the current expansion, two questions remain unresolved. First, will the most recent decline in unemployment be followed by a pickup in inflation? It is difficult to know how much influence recent structural changes in the economy (e.g., the continued opening up of international trade) may have on the behavior of inflation. But the record of the 1980s suggests that conventional wisdom, in placing the sustainable level of the unemployment rate somewhere between 5.5 percent and 6 percent, already is making some small allowance for favorable structural change.

Second, how large might any pickup in inflation be? Historical experience suggests that other factors in addition to the level of the unemployment rate affect the evolution of inflation over time. The consensus view of private-sector forecasters is that there will be a moderate increase in inflation, from 2.6 percent over the four quarters of 1994 to about 3.5 percent in 1995. In its official forecast (to be published in early February with the Budget), the Administration takes a slightly more optimistic view, and anticipates an increase to only 3.2 percent.

## ARTICLE

# The GOP Takings Doctrine: Must We Pay to Prevent Pollution?

The Fifth Amendment to the U.S. Constitution prohibits the government from "taking" private property for public use without just compensation. There is continuing debate in legal and economic spheres about the appropriate scope of the Constitution's takings clause. However, the Supreme Court has held that the clause generally does not apply to government actions which prevent harm or nuisances to others or the property of others, regardless of whether that property is private or public.

**The GOP Doctrine.** In their "Contract," the House Republicans have proposed to require compensation for any Federal government action that infringes on private property and thereby diminishes the value of a person's property by 10 percent or more (where property is defined to mean only land and the right to use or receive water). Under the proposed requirement, if the Federal government acted to protect the public's environmental and other resources, and these protections had costs for private landowners, compensation would be required <u>even when such actions are not generally considered takings under the Constitution</u>. This requirement would exempt only government actions to alleviate situations that the President deems to "pose a serious and imminent threat to public health and safety."

Under the Contract rule, the Federal government would be required to compensate landowners if it restricted the conversion of wetlands, even when that conversion would involve dredging that disrupts local ecosystems, harms wildlife, impairs waterflows in public waterways, and/or worsens flooding. Other restrictions on water pollution and toxic waste disposal that do not pose an "imminent" threat to public health could also be covered by the Republican takings doctrine; examples of such measures could include government requirements for the handling of waste in private landfills and the designation of Superfund sites. The precise scope of the Republican takings legislation is unclear; if it were to be enacted, it would likely be the subject of endless litigation.

Vice President Gore is heading up the Administration's effort to develop a response to the GOP takings proposal.

**Arguments for compensation.** The Constitution's takings clause is designed to encourage economically efficient investments by protecting the institution of private property. Ideally, the takings clause works to combat a potential government failure that economists call "fiscal illusion." When the government is subject to fiscal illusion, it places too little weight on the private costs of its actions and too much weight on perceived public benefits and budgetary costs. As a result, the government may act too quickly to appropriate private property.

The just compensation clause requires, in effect, that private costs of a government action be reflected in the government's budget, thereby eliciting more economically-efficient behavior on the part of public authorities.

Compensation for government takings can also provide private landowners with insurance against the loss of their property. If such insurance is not available to landowners, the potential threat of an uncompensated taking by the government might deter investment and the economically-efficient use of property.

**Compensation can be inefficient.** There are at least two important costs that would be associated with a requirement that the government pay compensation for actions taken to prevent harm. First, such a requirement will discourage the government from correcting market failures that produce negative externalities, such as environmental pollution. In the wetlands area alone, for example, a compensation requirement could potentially cost taxpayers $400 billion—in effect a bribe to private landowners to prevent them from damaging the environment.

Second, land investments often carry with them some appropriate level of cost for harm-prevention. The promise of compensation would eliminate such costs from the calculus of landowners, leading them to "over-invest" in their property. Investors might even take costly actions solely for the purpose of increasing the likelihood or amount of such compensation. If, for example, the government must pay potential polluters to protect environmental resources from harm, the potential polluters will have an incentive to propose environmentally damaging projects in order to receive "just" compensation for not pursuing them.

**Conclusion.** The essential point is that none of the economic arguments in favor of the takings clause suggests that the government should have to go several steps further and compensate property owners for the exercise of its power to prevent harm. Indeed, when the government regulates to protect public resources, it is protecting the property rights of the public at large. And when the government regulates to prevent some people from harming other people or their property (in cases where background property and tort law do not cheaply or adequately deter such harm), the government is often protecting private property, not infringing on it.

**Takings and Unfunded Mandates**

An analogy can be drawn between the issue of takings with respect to individuals and businesses and the issue of unfunded mandates with respect to states. The Federal government has prohibited New York from dumping its garbage off the coast of New Jersey. This relieves New Jersey, but raises costs borne by New York. Should the Federal government compensate New York for forcing it to bear the costs of its own pollution? Under the unfunded mandate legislation moving through Congress, such compensation would be required under certain circumstances.

## BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

**Bubble, Bubble, Toil, But No Trouble (Yet).** The economic expansion remains "vibrant," reports the Federal Reserve in its January "beige book" survey of the twelve Fed regions. Although holiday retail sales fell short of the high expectations generated early in the season, the underlying momentum of consumer spending remains quite strong, in the Fed's view. And while higher interest rates appear to have slowed the growth in construction and sales of single-family homes—although by less than some had expected—multifamily residential and commercial construction are still chugging along. Labor markets continue to strengthen, with some indications of higher wage increases. Price increases are also more widespread than at the time of the Fed's December survey, and business surveys reveal higher inflationary expectations. Regional variations may be subsiding: The Fed notes that economic conditions have grown somewhat more uniform across districts, thanks in part to improvements in California and New York.

**Update on Maternal Mortality and Race.** The past half-century has seen a dramatic decline in the rate at which women die from pregnancy complications, but there remain large racial differences in mortality rates. According to new data from the Centers for Disease Control, the overall maternal mortality rate declined 98 percent between 1940 and 1990, with similarly large drops for both white and black women. Despite the improvement, pregnant black women remain 3 times as likely as whites to die as a result of complications. No particular at-risk group accounts for the discrepancy: In all age groups and for each of the major causes of death, mortality is higher among black women. What, then, is the explanation? The CDC researchers aren't sure yet, but they suspect that the culprits include well-documented discrepancies in access to (and quality of) pregnancy-related health care.

**Complying with the Family and Medical Leave Act: Not So Bad After All, Firms Say.** Contrary to allegations that were made at the time of its passage, most companies are finding it relatively easy to comply with the Family and Medical Leave Act. A Conference Board survey of employers finds that 70 percent consider compliance "easy" or "very easy," while only 5 percent report compliance to be "very difficult." Indeed, most of the firms in the survey have gone beyond the FMLA requirements—for example, by extending leave beyond the 12 weeks required by law, or by offering the benefits to workers at sites with fewer than 50 employees. One factor holding down costs: Only about 1 percent of employees took family or medical leave during the first year after the law took effect, with nearly nine out of ten doing so because of their own poor health (rather than to serve as care-givers).

## RELEASES LAST WEEK

**Housing Starts **Embargoed until 8:30 a.m., Friday, January 20****

Housing starts decreased 1.0 percent in December to a seasonally adjusted annual rate of 1.5 million units. For the year, housing starts were up 13 percent.

**U.S. International Trade in Goods and Services**

The goods and services trade deficit increased to $10.5 billion in November from $10.1 billion in October.

**Industrial Production and Capacity Utilization**

The Federal Reserve's index of industrial production rose 1.0 percent in December. Capacity utilization rose 0.7 percentage point to 85.4 percent in December.

## MAJOR RELEASES THIS WEEK

Advance Durable Orders (Thursday)
Gross Domestic Product (Friday)

## U.S. ECONOMIC STATISTICS

| | 1970-1993 | 1993 | 1994:1 | 1994:2 | 1994:3 |
|---|---|---|---|---|---|
| **Percent growth** (annual rate) | | | | | |
| Real GDP | 2.5 | 3.1 | 3.3 | 4.1 | 4.0 |
| GDP deflator | 5.5 | 1.8 | 2.9 | 2.9 | 1.9 |
| Productivity | | | | | |
| Nonfarm business | 1.2 | 1.8 | 2.9 | –2.1 | 2.9 |
| Manufacturing (1978-93) | 2.1 | 3.8 | 6.4 | 5.6 | 3.6 |
| Real compensation per hour | 0.6 | –0.3 | 3.9 | –2.0 | –0.6 |
| **Shares of Real GDP** (percent) | | | | | |
| Business fixed investment | 11.0 | 11.5 | 12.2 | 12.4 | 12.7 |
| Residential investment | 4.7 | 4.1 | 4.4 | 4.4 | 4.3 |
| Exports | 8.0 | 11.7 | 11.8 | 12.1 | 12.4 |
| Imports | 9.2 | 13.2 | 13.8 | 14.2 | 14.6 |
| **Shares of Nominal GDP** (percent) | | | | | |
| Personal saving | 4.9 | 3.0 | 2.7 | 3.0 | 3.0 |
| Federal surplus | –2.8 | –3.8 | –2.7 | –2.2 | –2.3 |

| | 1993 | 1994 | Oct. 1994 | Nov. 1994 | Dec. 1994 |
|---|---|---|---|---|---|
| **Unemployment Rate** | 6.7* | 6.1* | 5.7 | 5.6 | 5.4 |

*Figures beginning 1994 are not comparable with earlier data.

| | | | Oct. 1994 | Nov. 1994 | Dec. 1994 |
|---|---|---|---|---|---|
| **Payroll employment** (thousands) | | | | | |
| increase per month | | | 162 | 488 | 256 |
| increase since Jan. 1993 | | | | | 5602 |

| | 1970-1993 | 1994 | Oct. 1994 | Nov. 1994 | Dec. 1994 |
|---|---|---|---|---|---|
| **Inflation** (percent per period) | | | | | |
| CPI | 5.8 | 2.7 | 0.1 | 0.3 | 0.2 |
| PPI-Finished goods | 5.0 | 1.7 | –0.5 | 0.5 | 0.2 |

## FINANCIAL STATISTICS

| | 1993 | 1994 | Nov. 1994 | Dec. 1994 | Jan. 19, 1995 |
|---|---|---|---|---|---|
| **Dow-Jones Industrial Average** | 3522 | 3794 | 3792 | 3770 | 3882 |
| **Interest Rates** | | | | | |
| 3-month T-bill | 3.00 | 4.25 | 5.29 | 5.60 | 5.71 |
| 10-year T-bond | 5.87 | 7.09 | 7.96 | 7.81 | 7.74 |
| Mortgage rate, 30-year fixed | 7.33 | 8.36 | 9.18 | 9.19 | 9.05 |
| Prime rate | 6.00 | 7.15 | 8.15 | 8.50 | 8.50 |

## INTERNATIONAL STATISTICS

| **Exchange Rates** | **Current level Jan. 19, 1995** | **Percent Change from** | |
|---|---|---|---|
| | | **Week ago** | **Year ago** |
| Deutschemark-Dollar | 1.512 | –1.1 | –13.4 |
| Yen-Dollar | 98.75 | –0.1 | –11.1 |
| Multilateral (Mar. 1973=100) | 87.51 | –0.8 | –9.3 |

| **International Comparisons** | **Real GDP growth (last 4 quarters)** | **Unemployment rate** | **CPI inflation (last 12 months)** |
|---|---|---|---|
| United States | 4.4 (Q3) | 5.4 (Dec) | 2.7 (Dec) |
| Canada | 4.8 (Q3) | 9.6 (Nov) | –0.1 (Nov) |
| Japan | 1.1 (Q3) | 2.9 (Nov) | 0.7 (Oct) |
| France | 2.8 (Q3) | 12.4 (Oct) | 1.6 (Nov) |
| Germany | 2.5 (Q3) | 6.4 (Nov) | 2.6 (Nov) |
| Italy | 2.3 (Q2) | 11.4 (Jul) | 3.7 (Nov) |
| United Kingdom | 4.1 (Q3) | 9.1 (Nov) | 2.6 (Nov) |

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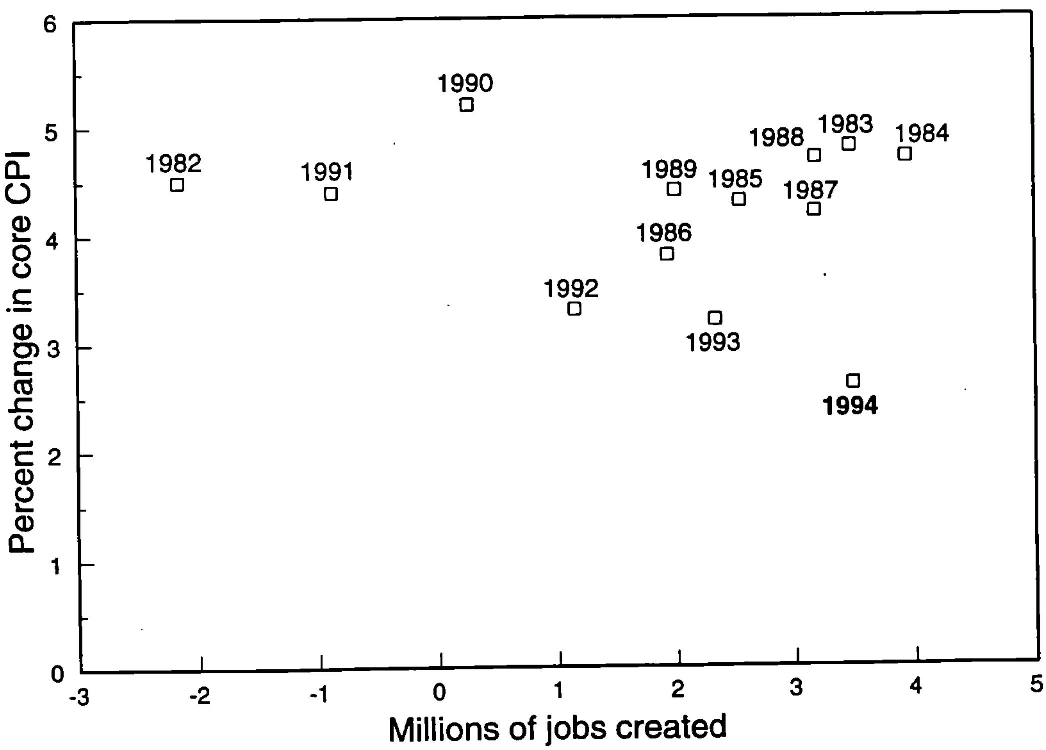


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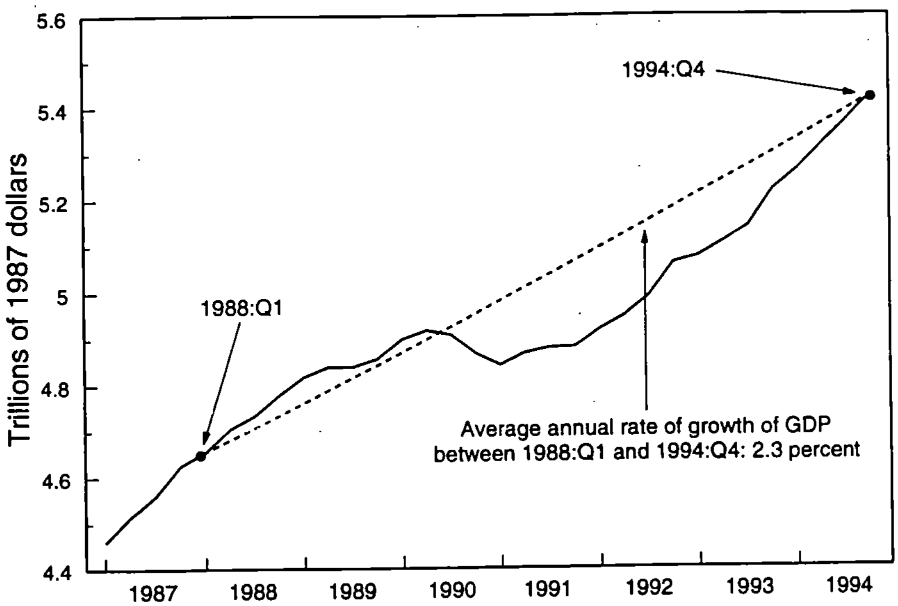


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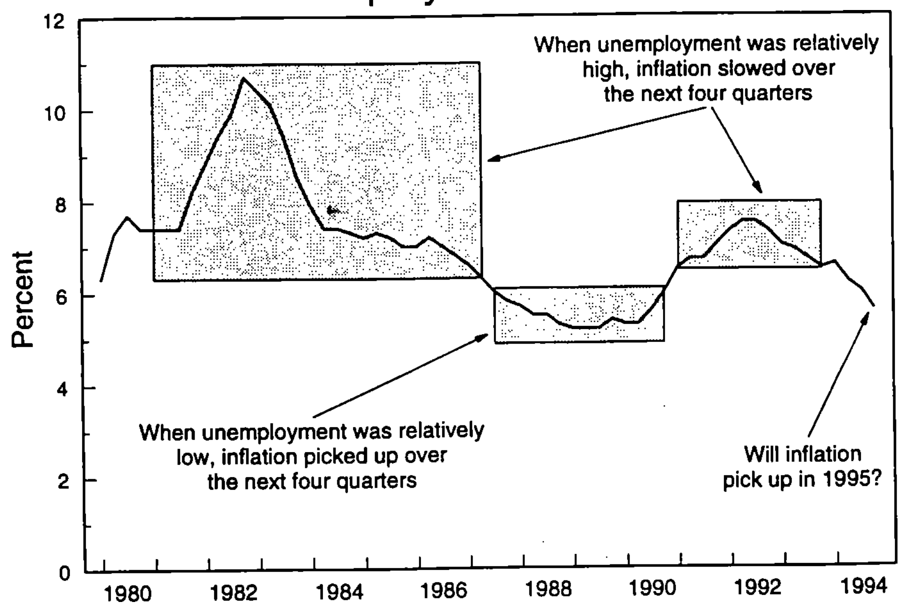


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Vice President Gore is heading up the Administration's effort to develop a response to the GOP takings proposal.

**Arguments for compensation.** The Constitution's takings clause is designed to encourage economically efficient investments by protecting the institution of private property. Ideally, the takings clause works to combat a potential government failure that economists call "fiscal illusion." When the government is subject to fiscal illusion, it places too little weight on the private costs of its actions and too much weight on perceived public benefits and budgetary costs. As a result, the government may act too quickly to appropriate private property.

The just compensation clause requires, in effect, that private costs of a government action be reflected in the government's budget, thereby eliciting more economically-efficient behavior on the part of public authorities.

Compensation for government takings can also provide private landowners with insurance against the loss of their property. If such insurance is not available to landowners, the potential threat of an uncompensated taking by the government might deter investment and the economically-efficient use of property.

**Compensation can be inefficient.** There are at least two important costs that would be associated with a requirement that the government pay compensation for actions taken to prevent harm. First, such a requirement will discourage the government from correcting market failures that produce negative externalities, such as environmental pollution. In the wetlands area alone, for example, a compensation requirement could potentially cost taxpayers $400 billion—in effect a bribe to private landowners to prevent them from damaging the environment.

Second, land investments often carry with them some appropriate level of cost for harm-prevention. The promise of compensation would eliminate such costs from the calculus of landowners, leading them to "over-invest" in their property. Investors might even take costly actions solely for the purpose of increasing the likelihood or amount of such compensation. If, for example, the government must pay potential polluters to protect environmental resources from harm, the potential polluters will have an incentive to propose environmentally damaging projects in order to receive "just" compensation for not pursuing them.

**Conclusion.** The essential point is that none of the economic arguments in favor of the takings clause suggests that the government should have to go several steps further and compensate property owners for the exercise of its power to prevent harm. Indeed, when the government regulates to protect public resources, it is protecting the property rights of the public at large. And when the government regulates to prevent some people from harming other people or their property (in cases where background property and tort law do not cheaply or adequately deter such harm), the government is often protecting private property, not infringing on it.

**Takings and Unfunded Mandates**

An analogy can be drawn between the issue of takings with respect to individuals and businesses and the issue of unfunded mandates with respect to states. The Federal government has prohibited New York from dumping its garbage off the coast of New Jersey. This relieves New Jersey, but raises costs borne by New York. Should the Federal government compensate New York for forcing it to bear the costs of its own pollution? Under the unfunded mandate legislation moving through Congress, such compensation would be required under certain circumstances.

## BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

**Bubble, Bubble, Toil, But No Trouble (Yet).** The economic expansion remains "vibrant," reports the Federal Reserve in its January "beige book" survey of the twelve Fed regions. Although holiday retail sales fell short of the high expectations generated early in the season, the underlying momentum of consumer spending remains quite strong, in the Fed's view. And while higher interest rates appear to have slowed the growth in construction and sales of single-family homes—although by less than some had expected—multifamily residential and commercial construction are still chugging along. Labor markets continue to strengthen, with some indications of higher wage increases. Price increases are also more widespread than at the time of the Fed's December survey, and business surveys reveal higher inflationary expectations. Regional variations may be subsiding: The Fed notes that economic conditions have grown somewhat more uniform across districts, thanks in part to improvements in California and New York.

**Update on Maternal Mortality and Race.** The past half-century has seen a dramatic decline in the rate at which women die from pregnancy complications, but there remain large racial differences in mortality rates. According to new data from the Centers for Disease Control, the overall maternal mortality rate declined 98 percent between 1940 and 1990, with similarly large drops for both white and black women. Despite the improvement, pregnant black women remain 3 times as likely as whites to die as a result of complications. No particular at-risk group accounts for the discrepancy: In all age groups and for each of the major causes of death, mortality is higher among black women. What, then, is the explanation? The CDC researchers aren't sure yet, but they suspect that the culprits include well-documented discrepancies in access to (and quality of) pregnancy-related health care.

**Complying with the Family and Medical Leave Act: Not So Bad After All, Firms Say.** Contrary to allegations that were made at the time of its passage, most companies are finding it relatively easy to comply with the Family and Medical Leave Act. A Conference Board survey of employers finds that 70 percent consider compliance "easy" or "very easy," while only 5 percent report compliance to be "very difficult." Indeed, most of the firms in the survey have gone beyond the FMLA requirements—for example, by extending leave beyond the 12 weeks required by law, or by offering the benefits to workers at sites with fewer than 50 employees. One factor holding down costs: Only about 1 percent of employees took family or medical leave during the first year after the law took effect, with nearly nine out of ten doing so because of their own poor health (rather than to serve as care-givers).

EYES ONLY

## RELEASES LAST WEEK

**Housing Starts **Embargoed until 8:30 a.m., Friday, January 20****

Housing starts decreased 1.0 percent in December to a seasonally adjusted annual rate of 1.5 million units. For the year, housing starts were up 13 percent.

**U.S. International Trade in Goods and Services**

The goods and services trade deficit increased to $10.5 billion in November from $10.1 billion in October.

**Industrial Production and Capacity Utilization**

The Federal Reserve's index of industrial production rose 1.0 percent in December. Capacity utilization rose 0.7 percentage point to 85.4 percent in December.

## MAJOR RELEASES THIS WEEK

Advance Durable Orders (Thursday)
Gross Domestic Product (Friday)

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## U.S. ECONOMIC STATISTICS

| | 1970–1993 | 1993 | 1994:1 | 1994:2 | 1994:3 |
|---|---|---|---|---|---|
| **Percent growth** (annual rate) | | | | | |
| Real GDP | 2.5 | 3.1 | 3.3 | 4.1 | 4.0 |
| GDP deflator | 5.5 | 1.8 | 2.9 | 2.9 | 1.9 |
| Productivity | | | | | |
| Nonfarm business | 1.2 | 1.8 | 2.9 | –2.1 | 2.9 |
| Manufacturing (1978-93) | 2.1 | 3.8 | 6.4 | 5.6 | 3.6 |
| Real compensation per hour | 0.6 | –0.3 | 3.9 | –2.0 | –0.6 |
| **Shares of Real GDP** (percent) | | | | | |
| Business fixed investment | 11.0 | 11.5 | 12.2 | 12.4 | 12.7 |
| Residential investment | 4.7 | 4.1 | 4.4 | 4.4 | 4.3 |
| Exports | 8.0 | 11.7 | 11.8 | 12.1 | 12.4 |
| Imports | 9.2 | 13.2 | 13.8 | 14.2 | 14.6 |
| **Shares of Nominal GDP** (percent) | | | | | |
| Personal saving | 4.9 | 3.0 | 2.7 | 3.0 | 3.0 |
| Federal surplus | –2.8 | –3.8 | –2.7 | –2.2 | –2.3 |

| | | 1994 | Oct. 1994 | Nov. 1994 | Dec. 1994 |
|---|---|---|---|---|---|
| **Unemployment Rate** | 6.7* | 6.1* | 5.7 | 5.6 | 5.4 |

*Figures beginning 1994 are not comparable with earlier data.

| | | | Oct. 1994 | Nov. 1994 | Dec. 1994 |
|---|---|---|---|---|---|
| **Payroll employment** (thousands) | | | | | |
| increase per month | | | 162 | 488 | 256 |
| increase since Jan. 1993 | | | | | 5602 |

| | | 1994 | Oct. 1994 | Nov. 1994 | Dec. 1994 |
|---|---|---|---|---|---|
| **Inflation** (percent per period) | | | | | |
| CPI | 5.8 | 2.7 | 0.1 | 0.3 | 0.2 |
| PPI-Finished goods | 5.0 | 1.7 | –0.5 | 0.5 | 0.2 |

EYES ONLY

## FINANCIAL STATISTICS

| | 1993 | 1994 | Nov. 1994 | Dec. 1994 | Jan. 19, 1995 |
|---|---|---|---|---|---|
| **Dow-Jones Industrial Average** | 3522 | 3794 | 3792 | 3770 | 3882 |
| **Interest Rates** | | | | | |
| 3-month T-bill | 3.00 | 4.25 | 5.29 | 5.60 | 5.71 |
| 10-year T-bond | 5.87 | 7.09 | 7.96 | 7.81 | 7.74 |
| Mortgage rate, 30-year fixed | 7.33 | 8.36 | 9.18 | 9.19 | 9.05 |
| Prime rate | 6.00 | 7.15 | 8.15 | 8.50 | 8.50 |

## INTERNATIONAL STATISTICS

| **Exchange Rates** | **Current level Jan. 19, 1995** | **Percent Change from** | |
|---|---|---|---|
| | | **Week ago** | **Year ago** |
| Deutschemark-Dollar | 1.512 | –1.1 | –13.4 |
| Yen-Dollar | 98.75 | –0.1 | –11.1 |
| Multilateral (Mar. 1973=100) | 87.51 | –0.8 | –9.3 |

| **International Comparisons** | **Real GDP growth (last 4 quarters)** | **Unemployment rate** | **CPI inflation (last 12 months)** |
|---|---|---|---|
| United States | 4.4 (Q3) | 5.4 (Dec) | 2.7 (Dec) |
| Canada | 4.8 (Q3) | 9.6 (Nov) | –0.1 (Nov) |
| Japan | 1.1 (Q3) | 2.9 (Nov) | 0.7 (Oct) |
| France | 2.8 (Q3) | 12.4 (Oct) | 1.6 (Nov) |
| Germany | 2.5 (Q3) | 6.4 (Nov) | 2.6 (Nov) |
| Italy | 2.3 (Q2) | 11.4 (Jul) | 3.7 (Nov) |
| United Kingdom | 4.1 (Q3) | 9.1 (Nov) | 2.6 (Nov) |