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THE PRESIDENT HAS SEEN

3/11/96

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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

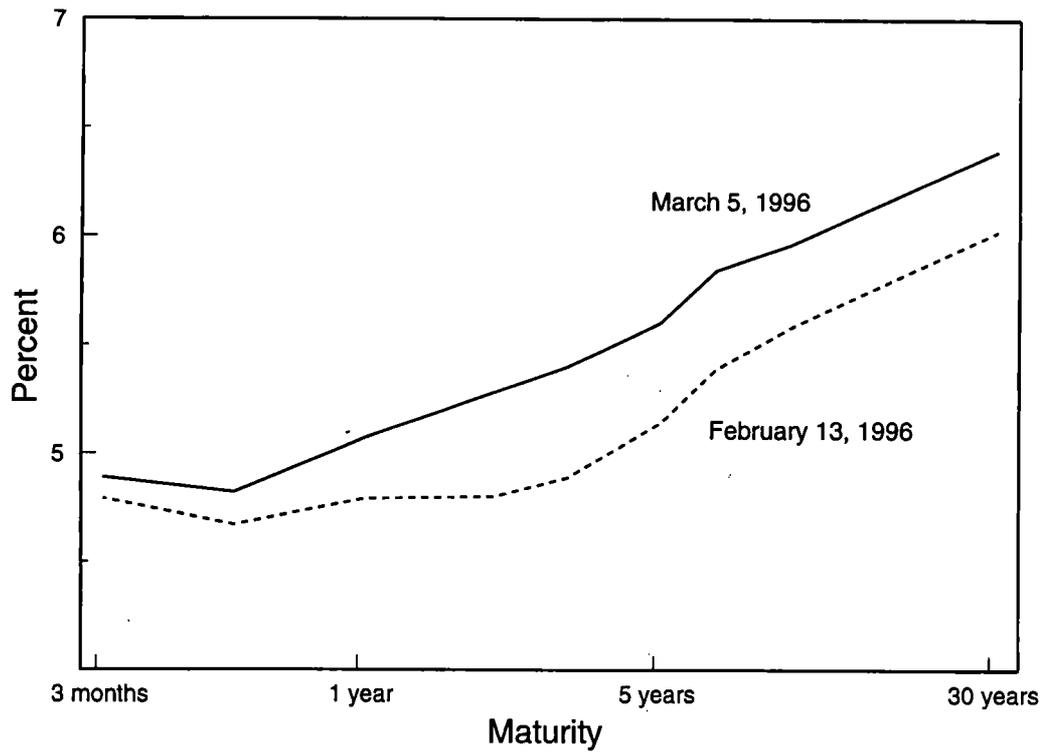
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

March 8, 1996

Copy sent to
Stiglitz

CHART OF THE WEEK

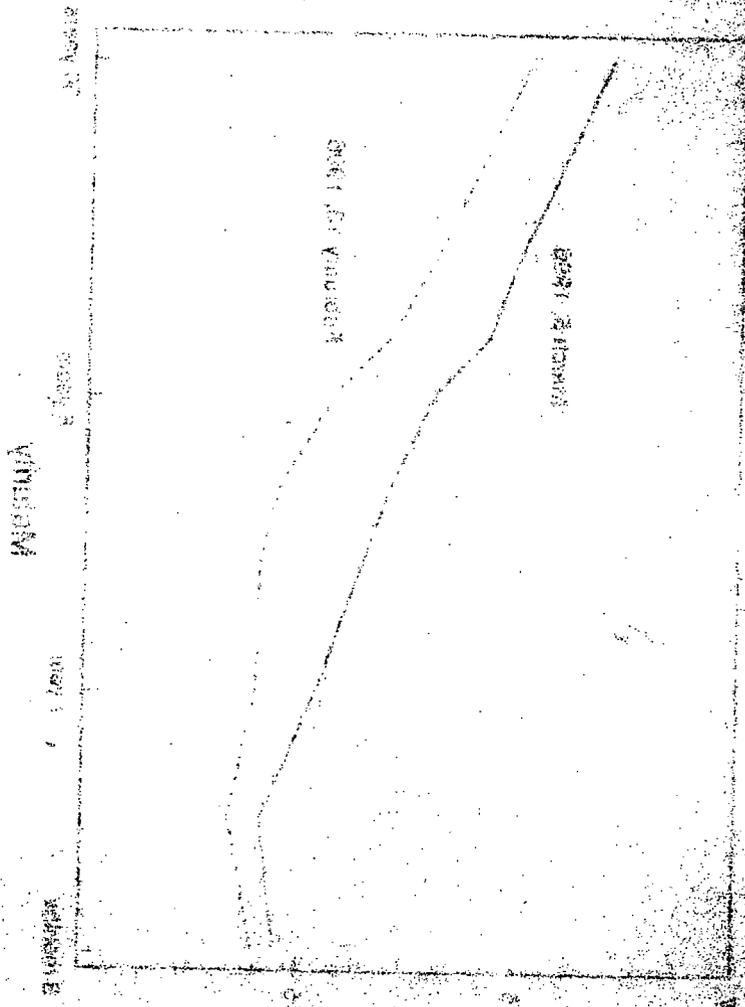
The Treasury Yield Curve



The yield curve for government securities has rotated upward during the past month, as interest rates on securities with long maturities have risen by more than interest rates on those with short maturities. A possible reason for the upward tilt to the yield curve is the recent improvement in the outlook for the economy over the rest of this year. A Special Analysis in this issue of the Weekly Economic Briefing discusses the rise in long-term rates.

155166

THE UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF ECONOMIC RESEARCH
WASHINGTON, D. C. 20250
ECONOMIC RESEARCH SERVICE
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WHEAT

UNITED STATES DEPARTMENT OF AGRICULTURE

REPORT 3-1-53

FOR THE MONTH OF JANUARY 1953

WHEAT
UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF ECONOMIC RESEARCH
WASHINGTON, D. C. 20250

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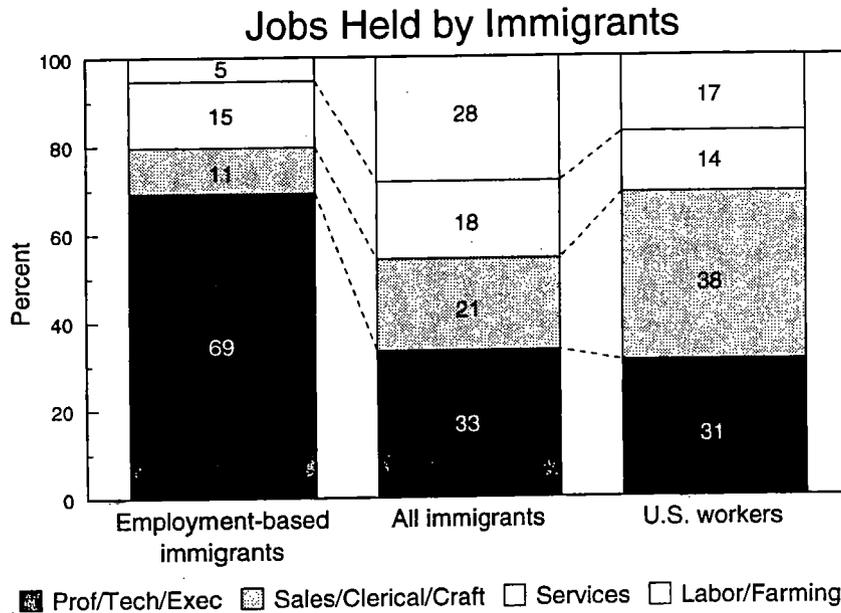
SPECIAL ANALYSIS

What Jobs Do Legal Immigrants Hold?

Many Americans worry that immigrants take jobs—especially less-skilled jobs—away from those born in this country and exert downward pressure on wages. Employers, on the other hand, claim that legal immigrants admitted under the employment preference category actually create job opportunities for U.S. workers by providing complementary skills that are in short supply. In the face of these conflicting claims, Senator Simpson announced on Thursday that he would drop provisions from his proposed immigration bill that would have restricted legal employment-based immigration and required employers of these immigrants to pay a training fee.

Analysis. In 1994 the United States admitted a total of 580,000 legal immigrants between the ages of 16 and 64. Of these, 98,000 were admitted in the employment-based immigration category. This includes principals, whom the sponsoring U.S. employer hires, and their spouses and children.

Even including working spouses and children of principals, employment-based immigrants admitted during 1994 were more likely than U.S. workers to work in highly paid professional, technical, or executive occupations (see chart). This is in sharp contrast to all working legal immigrants, who as a whole tend to be less skilled than the national profile.



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Did the Bond Market Anticipate the Employment Report?

The surge in employment for February confirmed what recent evidence had been indicating: economic growth during the first quarter will be faster than previously expected. Bond rates had risen by almost half a percentage point over the past month, sparking some concern households and businesses might restrain spending and dampen economic activity. To the contrary, it now appears likely that the rise in long-term rates reflected a strengthening of the economy during the current quarter and an improved outlook for the remainder of the year.

Analysis. With inflation expected to remain low and stable, the recent jump upward in long-term rates seems to reflect a rise in inflation-adjusted or real long-term rates rather than an increase in the premium for expected inflation. Several explanations for the apparent rise in real long-term rates have made the rounds in recent weeks, though none of them appeared able to completely explain the recent volatility in bond markets.

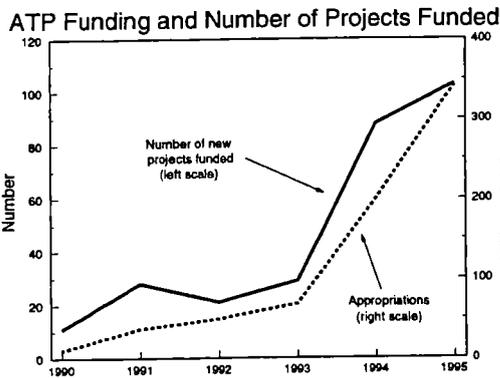
- Recent data had shown that growth in the current quarter is likely to be faster than had been expected and suggested an economic rebound later this year stronger than had been anticipated. A stronger economy makes it less likely that the Federal Reserve will ease short-term rates. The expectation of little or no further easing by the Fed could have led to the rise in long-term rates because such rates are an average of expected future short-term rates.
- Receding prospects for a budget deal may have led investors to expect a greater amount of future government borrowing in credit markets, forcing rates upward on long-term bonds. The timing of the initial increase and subsequent slight retreat in rates had followed closely the primary election fortunes of Senator Dole, which may have influenced investor perceptions of the likelihood of a budget deal.
- Long-term rates in Germany moved upward before U.S. rates, leading some to speculate that the rise in German rates was responsible for the rise in U.S. rates. Because interest rates among the G-7 countries often move together, it probably was not the case that U.S. rates simply followed German rates. Instead, rates in both countries (along with rates in other G-7 countries) may have risen in response to common factors affecting world financial markets.

The very strong employment report seems to confirm the view that the recent movement upward in long-term rates reflected an increasing belief that economic growth would be stronger than expected, both in the current quarter and later this year.

ARTICLE

Advanced Technology Program: Early Evidence is Promising

The Advanced Technology Program (ATP), begun in 1990, was designed to encourage innovation in "precompetitive technologies." The Administration increased ATP funding substantially (see chart) to partly address our nation's shortfall in spending on research and development (R&D). Early evidence



suggests that ATP is raising industry spending on R&D while maintaining the necessary incentives for firms to choose projects with high payoffs. Nonetheless, Congress tried to eliminate ATP in the original 1996 Commerce, Justice, State, and Judiciary Appropriations bill.

Federal technology investments are essential. Economic theory suggests that industry will underinvest in R&D

because it often spills over into other technologies or uses. While these spillovers can yield benefits to the nation that outweigh costs, the benefits to an individual firm may not. Studies confirm this market failure, finding social rates of return to R&D averaging close to 50 percent—far exceeding private rates of return of 20 to 30 percent. Underinvestment can be exacerbated because firms may be unable to raise sufficient funds in capital markets for fear of reducing future private gains by releasing information about their ideas. Federal investments help mitigate the underinvestment problem not only through direct spending, but also because, as many studies have shown, Federal R&D spending stimulates additional private R&D expenditures.

Features of successful Federal technology programs. Federal technology programs should fund projects with potentially high spillovers. Such programs should also lead to a net increase in R&D, particularly by stimulating additional private spending. However, the government should not fund projects that would be funded in the absence of Federal support. ATP, with its rigorous proposal evaluations and cost-sharing requirements, is designed to meet these goals.

Evaluating ATP. Although detailed economic studies directly evaluating ATP are not yet completed, both ATP and the General Accounting Office (GAO) have undertaken and analyzed surveys of firms involved in ATP to help gauge the program's success thus far.

The ATP-sponsored survey revealed overwhelmingly positive responses from nearly all firms receiving funding. The survey found:

- The vast majority of firms said they invested more of their own resources in the ATP-sponsored technology as a result of winning an award. Forty percent of winners said they had attracted additional outside funding.
- Almost all the firms planned to release non-proprietary information about their research, and viewed information-sharing as an essential component of technological progress (suggesting that ATP-sponsored research could yield significant spillovers).
- Many firms reported creating new jobs as a result of their awards, although hiring researchers to work on ATP projects is not a primary goal of the program.

The recent GAO report surveyed both project winners and a sample of “near-winners”—firms whose projects received the highest ratings in evaluations, but did not ultimately receive funding. The report found:

- Among near-winners, half of applicants continued their projects without ATP funding, although they had to delay project goals. This result is consistent with the ATP philosophy: projects that would take place without Federal support should not be funded.
- About half of applicants that looked for funding elsewhere before turning to ATP were told that their projects were too risky or “precompetitive”—traits that fulfill ATP funding requirements.
- ATP was very successful in encouraging joint-ventures.

Summary. ATP is not perfect, and may fund some projects that would have been funded anyway by the private sector or that ultimately will be unsuccessful. The uncertain nature of research almost guarantees such a result. Nevertheless, ATP appears to be doing a good job of addressing a market failure and promoting additional private-sector expenditures on R&D. Ironically, one indication of ATP’s success may be the beating it is taking on Capitol Hill. Because ATP targets no one particular industry or group, it has not developed any special-interest support.

PHOTOCOPY
VJG HANDWRITING

THE PRESENT HAS SEEN
3/14/96

Leon (Luma)
he showed me
something of his - go
to ATP project + show this
away to clear that up ~~for~~
VJG

3/11/96

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Study Projects Strong Hiring in Auto Sector due to Aging Population. A recent study by researchers at the University of Michigan projects that an unprecedented rate of retirement within the aging auto workforce will result in large-scale hiring of new workers in the next few years. Although total employment in the motor vehicle industry is projected to decline, the study estimates that the Big Three (General Motors, Ford and Chrysler) automakers will hire up to 250,000 new workers between 1995 and 2003 as their aging workforce begins retiring in vast numbers. According to the study, 43 percent of workers in the automobile industry in Michigan were 45 years or older in 1993, compared to just 35 percent in 1980. Furthermore, almost 55 percent of hourly autoworkers in Michigan have over 20 years of service and are thus closing in on the 30 years needed to retire with full pension.

Computer Industry Goes Full-Circle: From Mainframes to PCs and Back Again! Ignoring early industry skepticism, California-based Oracle Corporation recently demonstrated a prototype of its Network Computer (NC). Unlike conventional PCs, which require increasingly large and fast hard drives, memory, and processing speed to store and run applications, the NC will download software when needed from central network "servers." Because the NC server would do all hardcore crunching, NCs will not need to be very powerful, meaning they also would not be very expensive: the prototype cost under \$300 to build, and the company hopes the NC will sell for just \$500. If such a system were to take off, it could provide an alternative to the Microsoft-Intel technology, since individuals would no longer need to buy powerful PCs or boxed applications. Interestingly, such a development would bring computer use full-circle: the advent of PCs meant the decline of mainframe-based systems, while the NC could lead to a new era in which, once again, individuals connect to central, powerful computers.

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INTERNATIONAL ROUNDUP

Mexican Labor Market Picks Up After 1995 Contraction. Mexico's dramatic economic downturn during 1995 resulted in a decrease of 7.5 percent in manufacturing employment and a contraction of 6.9 percent in GDP. Per capita earnings in the manufacturing sector also fell sharply, declining by nearly 13 percent in real terms. But conditions are improving. According to a broad measure of unemployment that includes those without jobs who have gone back to school or work in the home, the unemployment rate fell to 6.9 percent in December, down from a 2-year high of 10.1 percent in August. Since then unemployment has increased somewhat, to 8.0 percent in January. The peso devaluation has especially benefited the *maquiladora* export sector, whose contribution to output increased by 10 percent in 1995. Employment in this sector grew by 9.8 percent during the same period.

Chinese Government Announces 15-Year Economic Plan. Nearly 3,000 delegates met in Beijing this week to endorse a blueprint for economic reform through the year 2010. The annual legislative session is occurring at a time when China's economy is at risk of overheating following average annual real GDP growth of more than 11 percent over the past 5 years. Premier Li Peng has supported a slowdown in annual real GDP growth to 8 percent over the next 5 years, with inflation to be reduced from the current 15 percent to 10 percent. Eliminating China's current account deficit is another goal. The growing inequality of incomes across China's regions has become an important policy issue. Although China exhibited strong regional income convergence after the onset of market reforms in 1978, this trend has reversed itself in the past few years. The rapid growth of the coastal regions is now widening the inequality between the relatively rich coastal provinces and relatively poor interior regions. One policy option to counteract increasing regional inequality is to mandate fiscal transfers from the coast to the interior.

Economic Consequences of Colombian Decertification May Be Small. The cutoff of U.S. aid to Colombia may not have serious economic effects, although U.S. opposition could slow or stop as much as \$600 million in multilateral loans up for possible approval this year. The Colombian economy has been one of Latin America's best performers in recent years, growing by more than 5 percent annually since 1993 and set to expand by 4.5 percent this year. Gross domestic investment is expected to remain strong, and now stands at roughly 23 percent of GDP. Foreign direct investment (excluding the petroleum sector) amounted to roughly \$5.8 billion, or 8 percent of GDP in 1994; U.S. investors accounted for 60 percent of this total. The government has issued \$686 million worth of bonds in 1996, including a \$200 million issue of 20-year "Yankee bonds," which are dollar-denominated bonds issued in the U.S. by foreign governments. This made Colombia the first Latin American government to issue Yankee bonds of this maturity. Another sign of continued confidence in the creditworthiness of the Colombian government is the fact that rating agencies' gradings of Colombian debt were not changed as a result of decertification.

RELEASES THIS WEEK

Employment and Unemployment

****Embargoed until 8:30 a.m., Friday, March 8, 1996****

In February, the unemployment rate declined to 5.5 percent from 5.8 percent in January. Nonfarm payroll employment increased by 705,000, to 117.9 million.

Leading Indicators

The index of leading economic indicators decreased 0.5 percent in January to 100.2 (1987=100), following a 0.2 percent increase in December.

Productivity

Nonfarm business productivity decreased 0.5 percent at an annual rate in the fourth quarter of 1995. Manufacturing productivity increased 2.7 percent.

Domestic Auto Sales

Domestic autos were sold at an annual rate of 7.6 million units in February.

MAJOR RELEASES NEXT WEEK

Producer Prices (Thursday)

Industrial Production and Capacity Utilization (Friday)

Consumer Prices (Friday)

U.S. ECONOMIC STATISTICS

	1970– 1993	1995	1995:2	1995:3	1995:4
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	1.4	0.5	3.6	0.9
GDP chain-type price index	5.3	2.6	2.5	2.2	2.2
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.5	0.8	3.0	1.7	-0.5
Real compensation per hour:					
Using CPI	0.6	1.4	2.0	2.2	0.6
Using NFB deflator	1.3	2.2	3.2	2.4	2.4
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.2	10.2	10.2	10.3
Residential investment	4.5	4.0	3.9	4.0	4.0
Exports	8.2	11.1	11.1	11.1	11.3
Imports	9.2	12.5	12.8	12.5	12.3
Personal saving	5.1	3.3	2.9	3.2	3.6
Federal surplus	-2.7	N.A.	-2.2	-2.2	N.A.
<hr/>					
	1970– 1993	1995	Dec. 1995	Jan. 1996	Feb. 1996
Unemployment Rate	6.7**	5.6**	5.6	5.8	5.5
Payroll employment (thousands)					
increase per month			145	-188	705
increase since Jan. 1993					8397
Inflation (percent per period)					
CPI	5.8	2.5	0.2	0.4	N.A.
PPI-Finished goods	5.0	2.2	0.6	0.3	N.A.

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

New or revised data in **boldface**.

Employment and unemployment data **embargoed until 8:30 a.m., Friday, March 8, 1996.**

FINANCIAL STATISTICS

	1994	1995	Jan. 1996	Feb. 1996	March 7, 1996
Dow-Jones Industrial Average	3794	4494	5179	5519	5642
Interest Rates					
3-month T-bill	4.25	5.49	5.00	4.83	4.90
10-year T-bond	7.09	6.57	5.65	5.81	6.07
Mortgage rate, 30-year fixed	8.35	7.95	7.03	7.08	7.38
Prime rate	7.15	8.83	8.50	8.25	8.25

INTERNATIONAL STATISTICS

Exchange Rates	Current level March 7, 1996	Percent Change from	
		Week ago	Year ago
Deutschemark-Dollar	1.479	+0.6	+7.7
Yen-Dollar	105.3	+0.1	+15.9
Multilateral \$ (Mar. 1973=100)	86.58	+0.3	+5.1

International Comparisons	Real GDP growth (last 4 quarters)	Unemployment rate	CPI inflation (last 12 months)
United States	1.4 (Q4)	5.5 (Feb)	2.7 (Jan)
Canada	0.6 (Q4)	9.4 (Dec)	1.7 (Dec)
Japan	-0.2 (Q3)	3.4 (Nov)	-0.3 (Dec)
France	0.7 (Q4)	12.2 (Sept)	2.1 (Dec)
Germany	1.5 (Q3)	6.7 (Nov)	1.5 (Dec)
Italy	2.4 (Q4)	12.0 (Oct)	5.8 (Dec)
United Kingdom	1.9 (Q4)	8.6 (Dec)	3.3 (Dec)

U.S. unemployment data **embargoed until 8:30 a.m., Friday, March 8, 1996.**

155166

EYES ONLY

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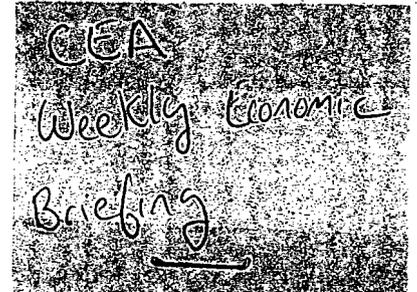
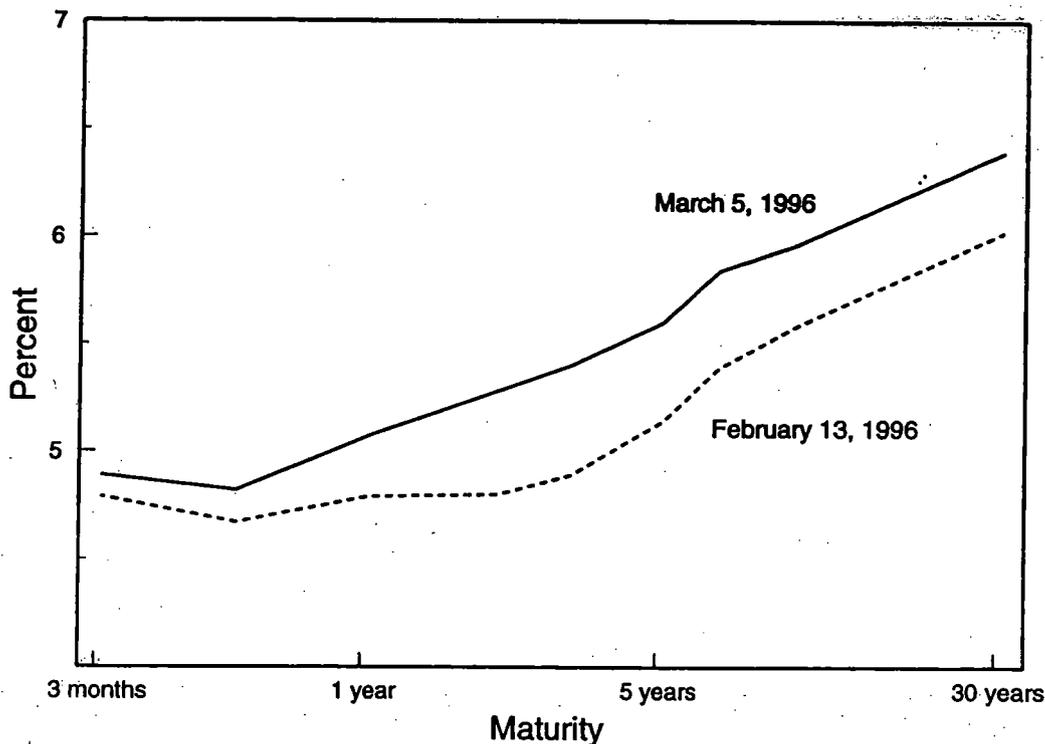


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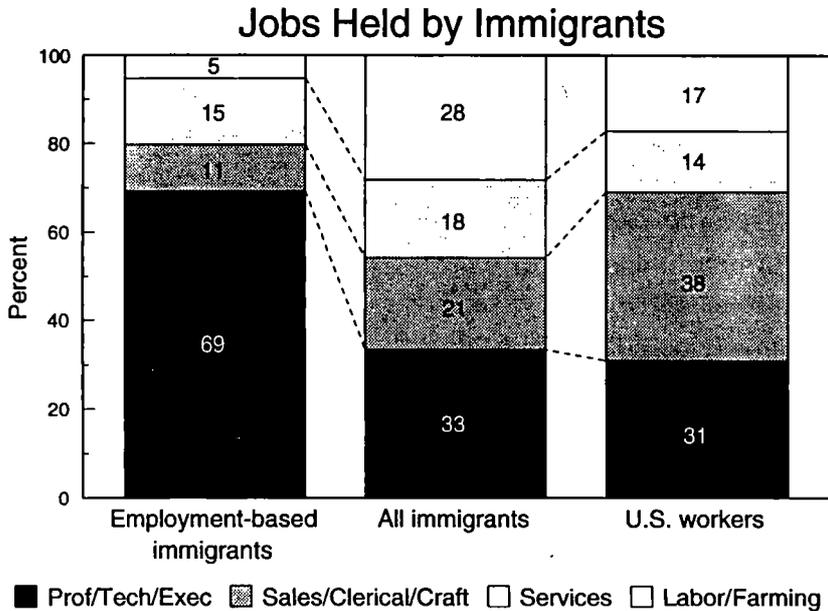
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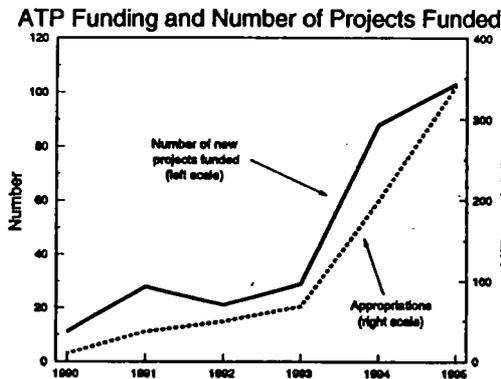
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Mexican Labor Market Picks Up After 1995 Contraction. Mexico's dramatic economic downturn during 1995 resulted in a decrease of 7.5 percent in manufacturing employment and a contraction of 6.9 percent in GDP. Per capita earnings in the manufacturing sector also fell sharply, declining by nearly 13 percent in real terms. But conditions are improving. According to a broad measure of unemployment that includes those without jobs who have gone back to school or work in the home, the unemployment rate fell to 6.9 percent in December, down from a 2-year high of 10.1 percent in August. Since then unemployment has increased somewhat, to 8.0 percent in January. The peso devaluation has especially benefited the *maquiladora* export sector, whose contribution to output increased by 10 percent in 1995. Employment in this sector grew by 9.8 percent during the same period.

Chinese Government Announces 15-Year Economic Plan. Nearly 3,000 delegates met in Beijing this week to endorse a blueprint for economic reform through the year 2010. The annual legislative session is occurring at a time when China's economy is at risk of overheating following average annual real GDP growth of more than 11 percent over the past 5 years. Premier Li Peng has supported a slowdown in annual real GDP growth to 8 percent over the next 5 years, with inflation to be reduced from the current 15 percent to 10 percent. Eliminating China's current account deficit is another goal. The growing inequality of incomes across China's regions has become an important policy issue. Although China exhibited strong regional income convergence after the onset of market reforms in 1978, this trend has reversed itself in the past few years. The rapid growth of the coastal regions is now widening the inequality between the relatively rich coastal provinces and relatively poor interior regions. One policy option to counteract increasing regional inequality is to mandate fiscal transfers from the coast to the interior.

Economic Consequences of Colombian Decertification May Be Small. The cutoff of U.S. aid to Colombia may not have serious economic effects, although U.S. opposition could slow or stop as much as \$600 million in multilateral loans up for possible approval this year. The Colombian economy has been one of Latin America's best performers in recent years, growing by more than 5 percent annually since 1993 and set to expand by 4.5 percent this year. Gross domestic investment is expected to remain strong, and now stands at roughly 23 percent of GDP. Foreign direct investment (excluding the petroleum sector) amounted to roughly \$5.8 billion, or 8 percent of GDP in 1994; U.S. investors accounted for 60 percent of this total. The government has issued \$686 million worth of bonds in 1996, including a \$200 million issue of 20-year "Yankee bonds," which are dollar-denominated bonds issued in the U.S. by foreign governments. This made Colombia the first Latin American government to issue Yankee bonds of this maturity. Another sign of continued confidence in the creditworthiness of the Colombian government is the fact that rating agencies' gradings of Colombian debt were not changed as a result of decertification.

RELEASES THIS WEEK

Employment and Unemployment

****Embargoed until 8:30 a.m., Friday, March 8, 1996****

In February, the unemployment rate declined to 5.5 percent from 5.8 percent in January. Nonfarm payroll employment increased by 705,000, to 117.9 million.

Leading Indicators

The index of leading economic indicators decreased 0.5 percent in January to 100.2 (1987=100), following a 0.2 percent increase in December.

Productivity

Nonfarm business productivity decreased 0.5 percent at an annual rate in the fourth quarter of 1995. Manufacturing productivity increased 2.7 percent.

Domestic Auto Sales

Domestic autos were sold at an annual rate of 7.6 million units in February.

MAJOR RELEASES NEXT WEEK

Producer Prices (Thursday)

Industrial Production and Capacity Utilization (Friday)

Consumer Prices (Friday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1995	1995:2	1995:3	1995:4
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	1.4	0.5	3.6	0.9
GDP chain-type price index	5.3	2.6	2.5	2.2	2.2
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	0.8	3.0	1.7	-0.5
Real compensation per hour:					
Using CPI	0.6	1.4	2.0	2.2	0.6
Using NFB deflator	1.3	2.2	3.2	2.4	2.4
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.2	10.2	10.2	10.3
Residential investment	4.5	4.0	3.9	4.0	4.0
Exports	8.2	11.1	11.1	11.1	11.3
Imports	9.2	12.5	12.8	12.5	12.3
Personal saving	5.1	3.3	2.9	3.2	3.6
Federal surplus	-2.7	N.A.	-2.2	-2.2	N.A.
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	1970- 1993	1995	Dec. 1995	Jan. 1996	Feb. 1996
Unemployment Rate	6.7**	5.6**	5.6	5.8	5.5
Payroll employment (thousands)					
increase per month			145	-188	705
increase since Jan. 1993					8397
Inflation (percent per period)					
CPI	5.8	2.5	0.2	0.4	N.A.
PPI-Finished goods	5.0	2.2	0.6	0.3	N.A.

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

New or revised data in **boldface**.

Employment and unemployment data **embargoed until 8:30 a.m., Friday, March 8, 1996.**

FINANCIAL STATISTICS

	1994	1995	Jan. 1996	Feb. 1996	March 7, 1996
Dow-Jones Industrial Average	3794	4494	5179	5519	5642
Interest Rates					
3-month T-bill	4.25	5.49	5.00	4.83	4.90
10-year T-bond	7.09	6.57	5.65	5.81	6.07
Mortgage rate, 30-year fixed	8.35	7.95	7.03	7.08	7.38
Prime rate	7.15	8.83	8.50	8.25	8.25

INTERNATIONAL STATISTICS

Exchange Rates	Current level	Percent Change from	
	March 7, 1996	Week ago	Year ago
Deutschemark-Dollar	1.479	+0.6	+7.7
Yen-Dollar	105.3	+0.1	+15.9
Multilateral \$ (Mar. 1973=100)	86.58	+0.3	+5.1

International Comparisons	Real GDP growth	Unemployment rate	CPI inflation
	(last 4 quarters)		(last 12 months)
United States	1.4 (Q4)	5.5 (Feb)	2.7 (Jan)
Canada	0.6 (Q4)	9.4 (Dec)	1.7 (Dec)
Japan	-0.2 (Q3)	3.4 (Nov)	-0.3 (Dec)
France	0.7 (Q4)	12.2 (Sept)	2.1 (Dec)
Germany	1.5 (Q3)	6.7 (Nov)	1.5 (Dec)
Italy	2.4 (Q4)	12.0 (Oct)	5.8 (Dec)
United Kingdom	1.9 (Q4)	8.6 (Dec)	3.3 (Dec)

U.S. unemployment data **embargoed until 8:30 a.m., Friday, March 8, 1996.**