FOIA Number: 2018-0275-F

FOIA MARKER

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

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Records Management - SUBJECT FILE

Series/Staff Member: Subject Files

Subseries:

OA/ID Number: 21792

Scan ID: 170510SS

Document Number:

Folder Title:
BE

Stack:	Row:	Section:	Shelf:	Position:
S	83	4	3	3

170510 SS

BE

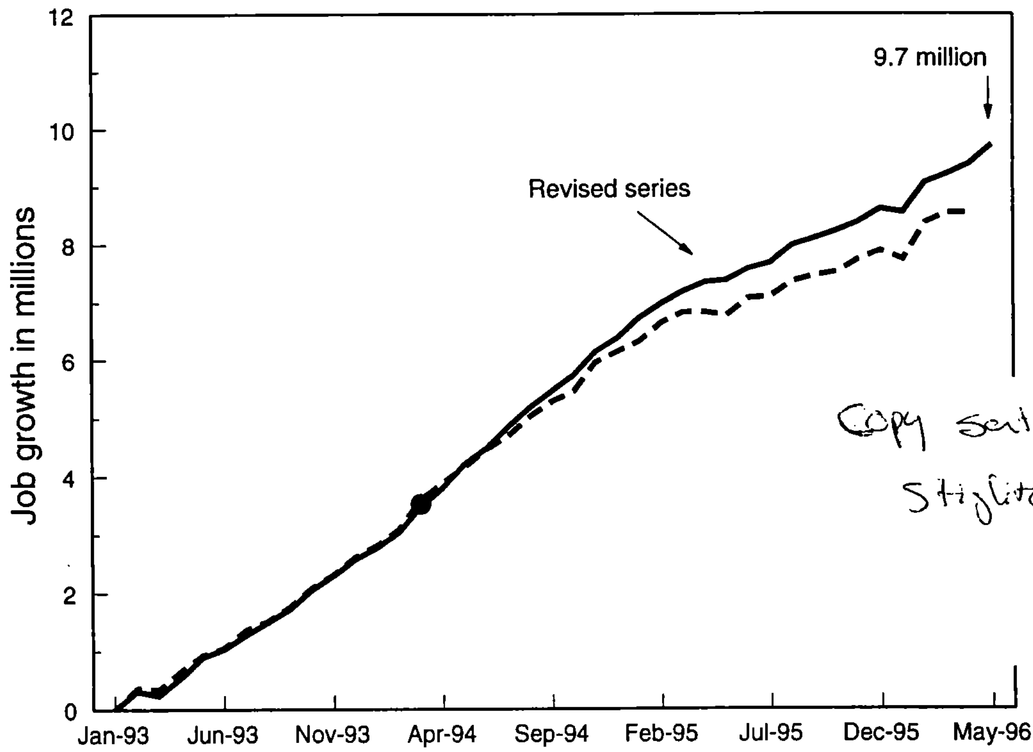
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

June 7, 1996

CHART OF THE WEEK

Payroll Employment Up 9.7 Million Since January 1993



Copy sent to Stiglitz

Revisions to the payroll employment data, released this week, show that job growth since March 1994 has been stronger than previously reported (compare the revised series with the old series). Taking into account both these revisions and job growth during May, a total of 9.7 million jobs have been created since January 1993. A Special Analysis in this issue of the Weekly Briefing discusses these revisions.

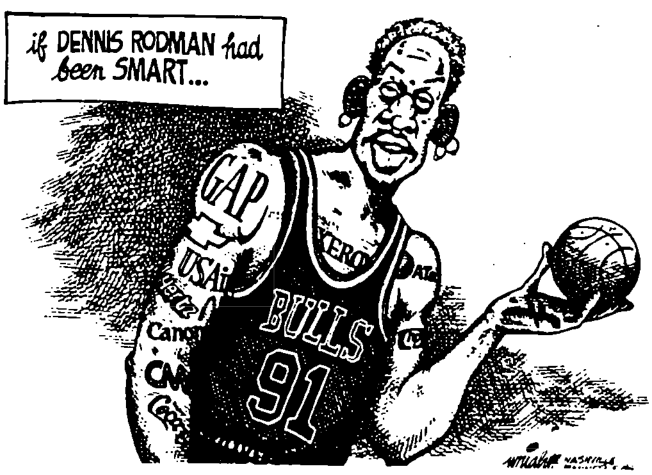
CONTENTS

CURRENT DEVELOPMENT

SPECIAL ANALYSIS

ARTICLE

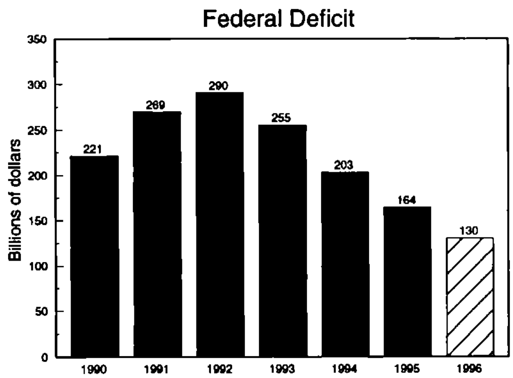
DEPARTMENTS



CURRENT DEVELOPMENT

Tax Payments Surge, Lowering Deficit Projections and Confirming Strong Income Growth in 1995

Federal tax payments collected this spring on income for 1995 have run about $15 billion above predictions, reducing this year's projected budget deficit. Although an official update will not be released until July, informal estimates from the Congressional Budget Office now peg the budget deficit for fiscal year 1996 at about $130 billion (see chart). The higher tax revenues in part reflect solid income gains during 1995, possibly indicating that the economy expanded more strongly than the growth of gross domestic product alone would suggest.



Analysis. The tax windfall has come from the non-withheld component of taxes—typically taxes on income from non-wage sources. While a complete analysis awaits data from the IRS, part of the unexpected surge in tax revenue may be due to unexpectedly high capital gains associated with the exceptional stock-market performance during 1995. Part of the surge probably also is due to unexpected increases in other income sources such as rents, partnerships, interest and dividends.

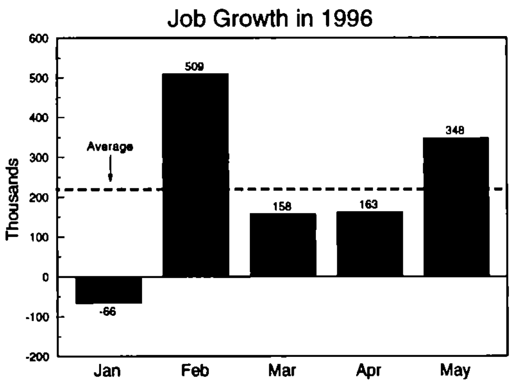
Because capital gains income does not reflect current production, an unexpected surge in tax revenue from this source would not necessarily indicate greater-than-expected economic strength. To the extent that the surge in tax payments reflects strong income growth from sources other than capital gains, however, the tax windfall suggests that the economy expanded during 1995 at a rate closer to the 2.3 percent growth rate of gross domestic income (GDI) than the 1.3 percent growth rate of gross domestic product (GDP). In this case, GDP growth likely will be revised upward, perhaps substantially, when the Commerce Department revision for 1995 is released in the summer of 1997 (see Weekly Economic Briefing, May 17, 1996).

SPECIAL ANALYSIS

Data Revisions Boost Official Job Growth

The Bureau of Labor Statistics (BLS) now reports that 9.7 million jobs have been created since January 1993, up substantially from the 8.5 million reported last month. Much of this sharp jump comes from benchmark adjustments to account for the creation of new businesses. The rest is due to solid job growth in May and a substantial upward revision for April.

Job growth in May. Nonfarm businesses added 348,000 jobs to their payrolls in May. Job growth in April was revised upward from 2,000 to 163,000. So far in 1996 new jobs have been created at a rate of about 222,000 a month (see chart), well above the 120,000 a month that many experts consider a sustainable pace for an economy close to full employment.



Revisions to the data capture job creation at new firms. Monthly changes in payroll employment are based on a survey of about 390,000 establishments. Unfortunately, these survey data underestimate job growth during periods of rapid new business formation and exhibit other sampling errors. The survey can account for job growth in "old" firms represented in the survey, but cannot account for job growth in "new" firms not represented. To correct for this underestimate of job growth at new firms, BLS includes an adjustment in its monthly estimate of payroll employment. Each year (usually in June), BLS updates the accuracy of these adjustments by using more complete data from state unemployment insurance records.

The revision released this week increased total employment for March 1995 by 542,000 in order to be consistent with the unemployment insurance data. Employment each month between April 1994 and March 1995 was then adjusted upward through a gradual "wedging-in" of the additional jobs. Employment for months after March 1995 also was adjusted upward by a cumulative 120,000 to reflect more fully jobs believed to have been created at new firms. Although preliminary estimates were available in November, this release marks the first month in which the revisions are incorporated into the official measure.

Before the release of the May employment report, the official BLS measure showed that 8.5 million jobs had been created during this Administration. The combination of the 161,000 upward revision for April, the 348,000 gain in May, the March 1995 benchmark adjustment of 542,000, and the 120,000 addition for the expected birth of new firms, brings the new count to 9.7 million.

No effect on the unemployment rate, some effect on productivity. The data revisions discussed above apply to the payroll employment series, which is based on information supplied by employers. The unemployment rate and related data on household employment, unemployment, and labor force participation are based on a different survey and therefore are not affected by these revisions. By themselves, these revisions would lower measured productivity because they increase the number of hours, while leaving output unchanged.

ARTICLE

Social Security and Medicare Trust Fund Reports Released

The Social Security and Medicare Trustees reported this week on the status of the trust funds. While most of the press attention has focused on the serious deterioration of Medicare's Hospital Insurance (HI) trust fund, the news on the Old-age, Survivors, and Disability Insurance (OASDI) trust fund was pretty good.

Medicare. The date when the HI trust fund will run out of money was moved forward from late 2002 to early 2001. This move reflected higher-than-expected costs during 1995, as well as a change in long-range assumptions. For fiscal 1995, the fund had been projected to increase by $4.7 billion, but instead declined by $36 million. This swing resulted in a lower trust fund balance that by itself—assuming no change in the underlying assumptions—would have moved the depletion date from the end of 2002 to mid-2001.

But the factors that raised costs in 1995—a sharp increase in complexity of case load, faster billing, and slower decline in the rate of growth in skilled nursing and home-health care expenditures—forced the actuaries to change their underlying assumptions about the future. Incorporating these cost trends moved the projected date of depletion to January 2001.

These cost trends, combined with the new starting point for fund reserves, revised projections of payroll tax revenues, and the addition of one more year of deficit as the forecast period moves ahead one year, also significantly increased the 75-year deficit from 3.52 percent of taxable payrolls to 4.52 percent (see table on next page). This is the biggest jump since 75-year deficits were first calculated in 1985, and the second largest 75-year deficit (1993 was the largest at 5.11 percent). The increase means that the Medicare payroll tax would have to rise by 4.52 percentage points (from 2.9 percent to 7.4 percent) in order for revenues to match outlays under current law over the next 75 years.

Social Security. On the other hand, the picture for Social Security over the 75-year projection horizon remained virtually unchanged, as the 75-year deficit increased marginally from 2.17 percent to 2.19 percent of taxable payrolls (see table on next page). Even if nothing else changed, the long-run deficit would have increased by 0.08 percent as an additional large-deficit year was added to the forecast period. The fact that the increase in the deficit was smaller than this amount meant that adjustments to the projections actually lowered the deficit slightly. Interestingly, despite little change in the long-run outlook, the exhaustion date for the OASDI trust fund moved forward by one year, from 2030 to 2029, as revenue projections were revised down in the short term to reflect revised earnings data for recent years. If the revised lower earnings data had been used last year, the exhaustion date would have been 2029, and would have remained unchanged for the last 3 years.

Conclusion. The Medicare report not only confirmed that the short-term imbalance of the Medicare trust fund is an immediate problem, but it also indicated that the long-run challenge of insolvency is now more serious. At the same time, the report on Social Security showed little change in the extent of its long-run insolvency. To achieve financial balance in the Social Security system over the next 75 years, the Social Security payroll tax would have to be raised by a little over 2 percentage points, roughly the same as last year's projection, and less than half the increase needed to bring Medicare into 75-year balance.

75-Year Trust Fund Balance
As a Percent of Taxable Payrolls

Year	Social Security (OASDI)	Medicare (HI)
1985	-0.41	-2.79
1986	-0.44	-3.02
1987	-0.62	-2.30
1988	-0.58	-2.37
1989	-0.70	n/a
1990	-0.91	-3.26
1991	-1.08	-3.35
1992	-1.46	-4.20
1993	-1.46	-5.11
1994	-2.13	-4.14
1995	-2.17	-3.52
1996	-2.19	-4.52

Note: Method of calculating the OASDI deficit fully and explicitly includes interest from 1988 onward.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

CPI Commission to Delay Report. The Senate Finance Committee has agreed to delay until December the final report of the Advisory Commission to Study the Consumer Price Index. The Commission's report had been expected later this month. In its preliminary report last September, the Commission expressed its judgement that the CPI in the past has overstated changes in the cost of living by about 1.5 percentage points per year. At that time, the Commission anticipated that adjustments planned by the Bureau of Labor Statistics to fix technical problems in the way the index is computed could remove 0.5 percentage point of this overstatement, leaving a remaining bias of 1.0 percentage point. BLS announced in March that it will make adjustments to the CPI starting this July, and estimated that the new adjustments plus previous ones made during 1995 will reduce the bias by about 0.25 percentage point, only half of what the Commission had anticipated. The Commission's chairman, Michael Boskin, suggested that the Commission may not be satisfied that BLS has made a complete technical correction, and may raise its estimate of the remaining bias.

More Children in "Working Poor" Families. Popular belief has it that nearly all childhood poverty can be found in families headed by welfare-dependent single mothers. Yet a new study reveals that many poor children live in families with at least one parent who works. Between 1989 and 1994, the number of such children rose 30 percent to 5.6 million—over one-third of all poor children. Working-poor families—defined as those earning less than the poverty level—spend an average of 21 percent of their income on day care that is often of low quality. More than a quarter of the children in working-poor families lack any form of health insurance: their parents' jobs do not provide it and they are not covered under Medicaid despite recent expansions in the program that have kept the problem from being even worse. In addition, the report cites the Earned Income Tax Credit (EITC) as having prevented an even greater increase in the number of children below the poverty line. In 1994, the EITC is estimated to have lifted 1.7 million ~~children in working~~ poor families out of poverty.

Outlook Sunny in the Southwest. The latest 25-year regional forecast from DRI/McGraw-Hill shows the Southwest leading the pack in growth of regional employment, population and income. Currently, the Southwest (which here includes California) leads the nation in export growth because of booming trade with the Pacific Rim. The forecast predicts that exports will play an increasingly important role in the U.S. economy overall, as export opportunities shift toward developing countries making substantial investments in industrial equipment, transportation infrastructure, electricity generation, and telecommunications. A manufacturing base that produces these types of goods recently has powered the Southwest economy: the top four states in job growth last year were all in the Southwest, and expected growth in high-technology industries suggests these states will continue to lead the nation.

INTERNATIONAL ROUNDUP

Ireland Set to Grow Fastest Among Industrial Economies For Third Year in a Row. The Republic of Ireland's real GDP is projected to grow by nearly 6 percent this year—more than three times the average rate expected for the European Union. The upbeat outlook for 1996 comes on the heels of 7 percent growth last year, which occurred despite economic slowdown among some of Ireland's major trading partners. This strong performance can be attributed to resurgent business investment and continued buoyant export growth. Although the unemployment rate has fallen from its high of 17 percent in the mid-1980s, it remained at more than 13 percent last year. This remaining slack in labor markets, however, has helped keep inflation relatively low at less than 2.5 percent on average for the past three years despite strong growth. Ireland is one of the few countries that currently meets both the inflation and the deficit criteria for European Monetary Union. During 1995, total bilateral trade between the U.S. and Ireland exceeded $9 billion with a trade surplus of about $1.8 billion for the U.S. Some 430 U.S. companies have established operations in Ireland, with total investments of over $10 billion. These companies employ 60,000 people and represent more than half of all foreign investment in Ireland.

Global Foreign Direct Investment Flows Surge to All-Time High in 1995. Manifesting an accelerating trend of globalization among transnational corporations, foreign direct investment increased by $103 billion worldwide between 1994 and 1995, to hit a record high of $325 billion. Following a period of slow growth and boosted by a new wave of mergers and acquisitions, investment in developed countries reached an estimated $216 billion last year. The U.S. accounted for $75 billion in inflows and $97 billion in outflows, both record levels. Developing countries registered an inflow of $97 billion, also an all-time high. Investment in Central and Eastern Europe nearly doubled last year, to $12 billion.

Perceptions of Public Corruption. This week the Berlin-based Transparency International released its 1996 Corruption Perception Index, which is based on surveys of business people and reflects their perceptions of corruption in public administration in 54 countries. Of the surveyed countries, Nigeria was perceived as having the greatest amount of corruption, while New Zealand had the least, and the United States had the 15th smallest amount. The organization defines corruption as "the misuse of public power for private benefits" through activities such as bribing officials, kickbacks on the awarding of public contracts, and embezzlement. The index scores only the behavior of public officials and politicians who generally are on the receiving end of bribes, and does not account for the contribution of exporting companies from industrial countries to corruption in developing countries. Corruption issues were addressed at the recent OECD meeting in Paris (see Weekly Economic Briefing, May 31, 1996), with Ministers pledging to examine the tax deductibility of bribes to foreign public officials and to consider denying deductibility in their countries if still permitted.

RELEASES THIS WEEK

Employment and Unemployment
****Embargoed until 8:30 a.m., Friday, June 7, 1996****

In May, the unemployment rate rose to 5.6 percent from 5.4 percent in April. Nonfarm payroll employment rose by 348,000.

Leading Indicators

The composite index of leading indicators increased 0.3 percent in April.

NAPM Report on Business

The Purchasing Managers' Index declined to 49.3 percent in May from 50.1 percent in April.

MAJOR RELEASES NEXT WEEK

Producer Prices (Tuesday)
Consumer Prices (Wednesday)
Retail Sales (Thursday)
Industrial Production and Capacity Utilization (Friday)

U.S. ECONOMIC STATISTICS

	1970–1993	1995	1995:3	1995:4	1996:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	1.3	3.6	0.5	2.3
GDP chain-type price index	5.3	2.6	2.2	2.2	2.4
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	0.7	1.7	−1.0	2.6
Real compensation per hour:					
Using CPI	0.6	1.3	2.2	0.4	0.0
Using NFB deflator	1.3	2.2	2.4	2.4	1.6
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.2	10.2	10.2	10.4
Residential investment	4.5	4.0	4.0	4.0	4.1
Exports	8.2	11.1	11.1	11.3	11.3
Imports	9.2	12.5	12.5	12.4	12.6
Personal saving	5.1	3.3	3.2	3.6	3.4
Federal surplus	−2.7	−2.2	−2.2	−2.1	−2.1

	1970–1993	1995	March 1996	April 1996	May 1996
Unemployment Rate	6.7**	5.6**	5.6	5.4	**5.6**
Payroll employment (thousands)					
increase per month			**158**	**163**	**348**
increase since Jan. 1993					**9724**
Inflation (percent per period)					
CPI	5.8	2.5	0.4	0.4	N.A.
PPI-Finished goods	5.0	2.3	0.5	0.4	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, June 7, 1996**.

FINANCIAL STATISTICS

	1994	1995	April 1996	May 1996	June 6, 1996
Dow-Jones Industrial Average	3794	4494	5580	5617	5667
Interest Rates					
3-month T-bill	4.25	5.49	4.95	5.02	5.07
10-year T-bond	7.09	6.57	6.51	6.74	6.76
Mortgage rate, 30-year fixed	8.35	7.95	7.93	8.07	8.30
Prime rate	7.15	8.83	8.25	8.25	8.25

INTERNATIONAL STATISTICS

Exchange Rates	**Current level June 6, 1996**	**Percent Change from Week ago**	**Percent Change from Year ago**
Deutschemark-Dollar	1.533	0.0	+8.2
Yen-Dollar	109.3	+1.5	+28.4
Multilateral $ (Mar. 1973=100)	88.38	0.1	+6.8

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	1.7 (Q1)	**5.6 (May)**	2.9 (Apr)
Canada	0.2 (Q1)	9.3 (Mar)	1.5 (Apr)
Japan	2.2 (Q4)	3.1 (Mar)	0.1 (Mar)
France	1.0 (Q1)	12.5 (Jan)	2.4 (Apr)
Germany	0.8 (Q4)	7.0 (Feb)	1.5 (Apr)
Italy	1.1 (Q1)	12.0 (Jan)	4.5 (Apr)
United Kingdom	1.9 (Q1)	8.3 (Mar)	2.4 (Apr)

U.S. unemployment data **embargoed until 8:30 a.m., Friday, June 7, 1996.**