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Weekly Economic Briefing for Week Oct. 25th

THE PRESIDENT HAS SEEN
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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

October 29, 1999

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Pg 7
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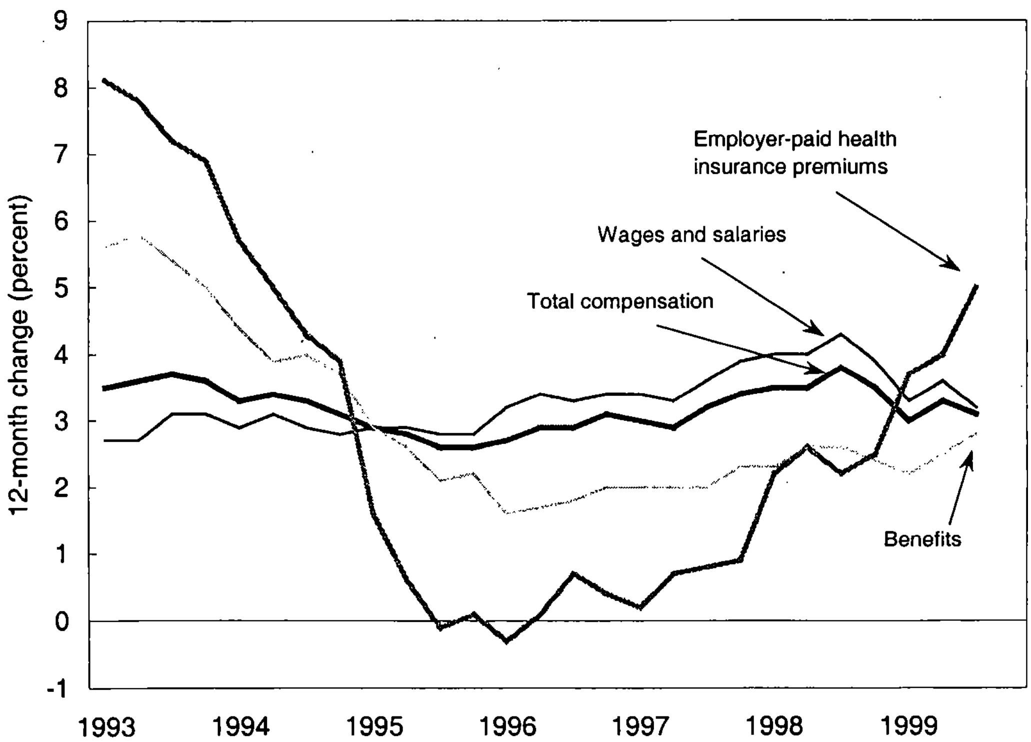
CHART OF THE WEEK

Employment Cost Index for Private Industry



Over the 12 months ending in September, hourly compensation, measured by the employment cost index (ECI), rose 3.1 percent. As they have for the past several years, wages and salaries rose faster than benefits. However, employer-paid health insurance premiums continued to accelerate, rising 5.0 percent over the 12 months ending in September.

THE PRESIDENT HAS SEEN

WEEKLY ECONOMIC REPORT TO THE PRESIDENT

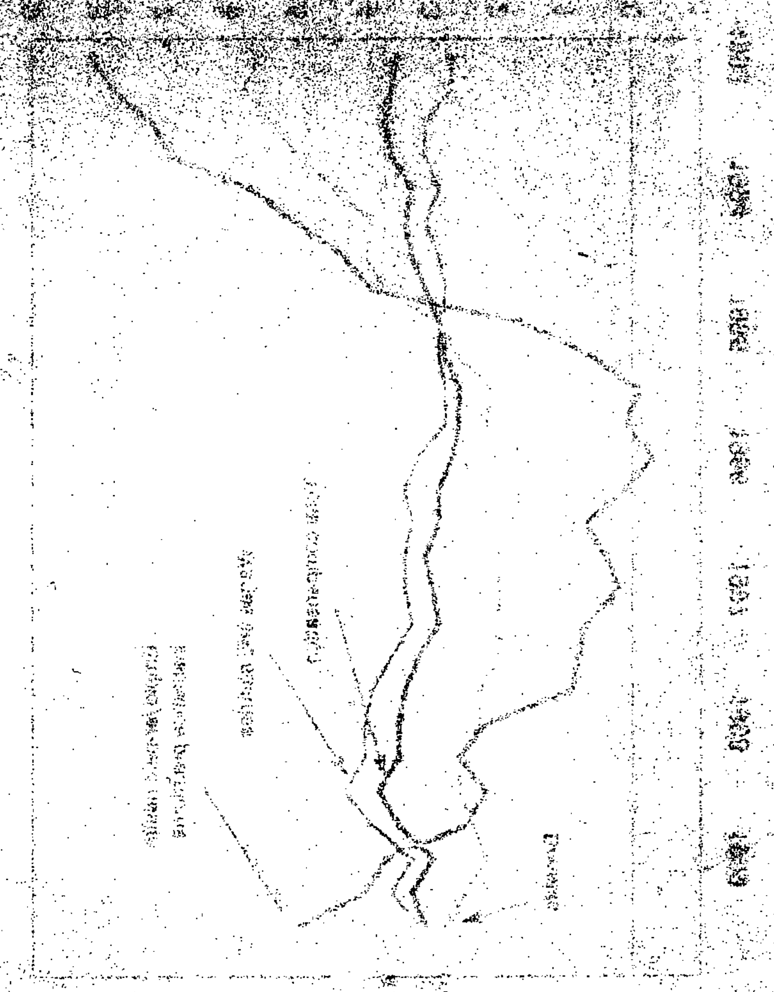
Prepared with the assistance of the Office of the ...

... the Council of Economic Advisers

October 23, 1969

CHART OF THE WEEK

Employment Cost Index for Private Industry



CONTENTS

"I lost everything in the Beanie Baby crash of '99."

<u>CURRENT DEVELOPMENT</u>

GDP Scorecard: Third Quarter 1999

Real GDP is estimated to have grown at a 4.8 percent annual rate in the third quarter of 1999. Strong growth in consumption, investment in equipment and software, and an increase in stock building accounted for the gains. The price index for GDP increased 1.3 percent over the past four quarters, about the same as the year-earlier rate.

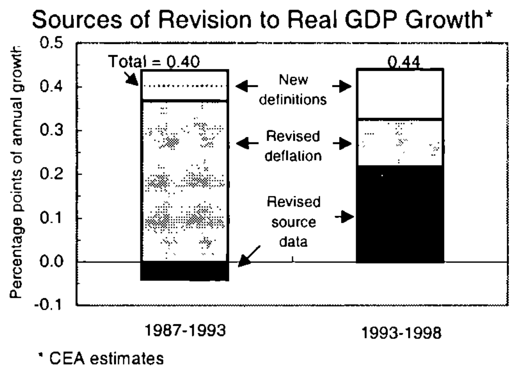
Component	Growth*	Comments
Total consumer expenditures	4.3%	Although down from an annual growth rate of 5.8 percent in the first half, this growth rate is still strong and exceeds the growth of real disposable income.
Equipment and software	21.7%	As usual, computer investment was strong, but industrial equipment—which had stagnated for the past year—sprang to life.
Nonresidential structures	-5.0%	Nonresidential structures investment has fallen for three consecutive quarters as industrial structures have been weak. However, office building continues to trend up.
Residential investment	-6.3%	The decline—the first in over 2 years—had been foreshadowed by housing starts. Starts are running high relative to their demographics and are not likely to grow further.
Inventories (change, billions of 1992 dollars)	$28.1	Despite a sizable increase from the second-quarter pace, inventories remain lean with respect to sales. In the fourth quarter, firms may build buffer stocks against Y2K problems.
Federal purchases	3.1%	A large increase in defense purchases offset a decline in nondefense purchases.
State & local purchases	3.4%	This growth rate is close to the average pace of the past 3 years.
Exports	12.4%	Exports had been fairly flat since mid-1997, the start of the Asian economic crisis. The gain in exports last quarter may indicate more rapid growth abroad, but it is too early to say.
Imports	17.2%	Large increases in imports of consumer and capital goods reflect the strength of domestic consumption and investment.

*Percent real growth in the third quarter at annual rates (except inventories). This advance estimate is subject to substantial revision, especially for exports, imports, and inventories, where the estimates are based on only 2 months of data.

SPECIAL ANALYSIS

Revisions Show Higher GDP Growth

The Commerce Department's benchmark revision—which incorporates information from the periodic economic censuses—shows higher real GDP growth for every year since 1978. In addition to bringing in new data sources, the benchmark revision provided an opportunity to change accounting definitions and to improve the consistency of the historical record.



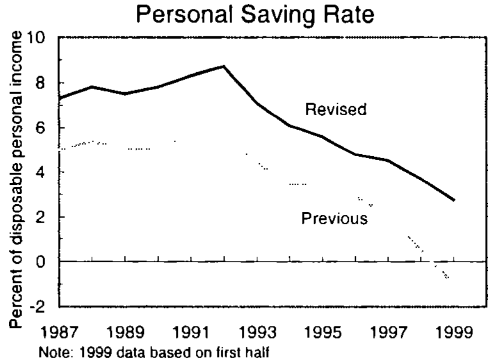
On the product side. Over the 11 year period between 1987 and 1998, revisions to the annual rate of growth of real GDP averaged 0.4 percentage point. Since the first quarter of 1993, real GDP has grown at an average annual rate of 3.8 percent. Over the past 4 years real GDP grew at a 4.1 percent annual rate.

The revisions fall into three main categories (see upper chart):

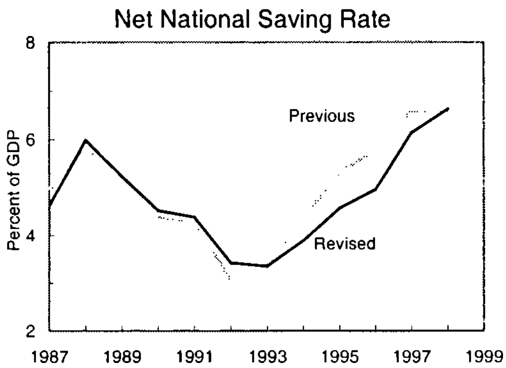
- Source data. Incorporating new data from the economic censuses and other sources added about 0.2 percentage point per year to growth since 1993, but had little impact on prior years.

- Revised deflation methodology. For the 1987 to 1993 period, the largest component of the revision represents a change in how spending is adjusted for inflation. Most of the change in deflation methodology reflects extending the new methodology now used for the CPI to the years 1978-94 (this methodology was already in use for the post-1994 period).

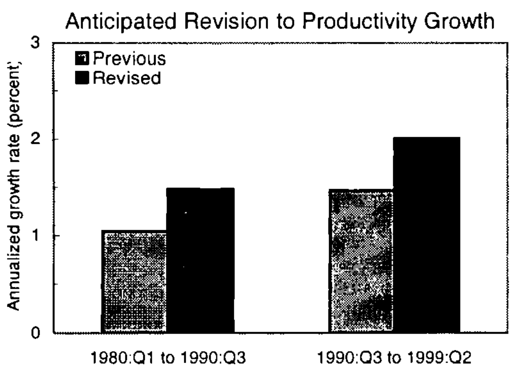
- New definitions. The most significant new definition is the inclusion of the purchase and development of computer software as investment, raising the *level* of GDP by about 1.9 percent by 1998. This change raises the *growth rate* of real GDP by an average of 0.1 percentage point per year.



On the income side. Pension plans for government employees were moved from the government to the household sector so that contributions to (and interest and dividends earned by) these pension plans are now classified as personal income, while the pension payments were removed from transfer income. This reclassification boosts the personal saving rate over most of the past decade (see lower chart on previous page), but it is offset by a decline in government saving. The personal saving rate still shows a marked decline but is no longer negative. New data boosted wages and salaries substantially in 1998, adding to income and saving.



With software now classified as investment, software depreciation is added to the income side of the accounts. Although the new procedure boosts gross saving, net saving as a share of GDP changed little (see upper chart).



Productivity. Clearing away the smoke from the new classifications and deflation procedures, new source data indicate that spending and income both grew a bit faster over the past 5 years than had been thought previously. This suggests an upward revision to productivity growth (see lower chart) that is likely to boost the estimated growth rate of potential output.

Budget implications? These revisions have limited implications for the budget outlook because many of them (such as the treatment of software) have little impact on Federal receipts and outlays. However, the small upward revision in the acceleration of output in the past few years hints at further growth that could have a modest positive impact on the budget surplus.

ARTICLE

Evaluating the Evidence on Job Stability

Recent research provides a fresh look at the question of whether job stability has been on the decline in the 1990s. This question achieved prominence in the popular press a few years ago and continues to resurface from time to time. The new research finds that, although instability may have increased for certain groups of workers through the mid-1990s, the earlier press accounts were more alarmist than the evidence seems to warrant.

Earlier evidence. Over the last several years numerous newspaper and magazine articles have worried about the "downsizing" of America and the loss of permanent jobs. In 1996, for example, the *New York Times* stated that "the notion of lifetime employment has come to seem as dated as soda jerks, or tail fins." The conclusions of these news reports generally suggest that there is a new reality in the U.S. labor market such that workers must anticipate more frequent job changes, are in constant fear of being laid off, and will be unable to retain a career job for much of their work life. Analysis in the 1999 *Economic Report of the President* called this picture into question, noting, for example, that job displacement had begun to decline from its 1993-95 peak. Nevertheless, the *Report* noted that the rate of job displacement in 1995-97 remained higher than it was in 1987-89 with a similar rate of unemployment.

Evidence from large corporations. Many popular accounts emphasize the experiences of workers in large firms and are frequently anecdotal or based on particular downsizing announcements. More systematic evidence, however, comes from a recent study that used actual payroll data from 51 large corporations that were the clients of a consulting firm to analyze what happened to employee tenure and the percentage of workers in long-term jobs in the 1990s. In fact, this study found that the average tenure of employees was longer in the mid-1990s (13.4 years) than it was in the early 1990s (12.6 years) and that the percentage of workers who have been with the same employer 10 or more years actually increased considerably in the 1990s. It found no evidence of a trend toward focusing on mid-career employees in the implementation of downsizing decisions. Rather, the retention rates for workers with 10 to 19 years of service were virtually identical in downsizing and growing firms.

This evidence is specific to large companies and may not be representative of all U.S. workers. For example, each of the firms surveyed has a defined benefit pension plan and all of the firms provide health insurance to their employees. However, this evidence provides some kinds of information about firm behavior that is not available in household surveys.

Evidence from household surveys. The advantage of household surveys is their representativeness, and the new research on job stability is largely based on such surveys. While there is still less than total agreement among all the new studies, there is some evidence that job instability showed small increases during the early to mid-1990s for certain workers—white males with long tenure, blacks, and young workers—but not the dramatic change reported in the press. For example, one study found some indication that more-tenured workers experienced a significant decline in job stability but less-tenured workers experienced gains. The authors do not, however, see this as part of a longer-term trend toward decreased job stability for the American workforce generally. Indeed, a different study that used data from two large household panel surveys found little change in overall job exit rates and concluded that any increase in instability that may have existed in an earlier period did not persist into the 1990s. This study also found little evidence of an *increase* in job *insecurity* as measured by involuntary terminations, a job ending in a spell of non-employment, or of job changes being accompanied by wage declines.

Conclusion. While there is some hard evidence to back up the stories in the popular press about changes in job stability, recent research offers a more tempered view. As one commentator noted, "where there was once anecdotal smoke, there is now some statistical fire—but not a raging conflagration." Finally, it is worth emphasizing that most of the studies on this topic have only used data through the mid-1990s. The continued strong economy should help to remove fuel from any remaining fires.

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11-5-99

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Dow Now Will Do Windows. For the first time in its history, the Dow Jones Industrial Average will include NASDAQ stocks, with Microsoft and Intel joining SBC Communications and Home Depot as new members of the 30 stock index. These four will replace Chevron, Goodyear, Sears, and Union Carbide, effective at the beginning of trading on Monday. The managing editor of the *Wall Street Journal*, whose editors select the component stocks of the Dow, said that these changes will make the index even more representative of the evolving U.S. economy. The *New York Times* noted that recently the Dow has grown more slowly than the Standard and Poor's 500 stock index, with which it competes for license fees from option and futures trading based on the indexes. The *Times* calculates that if the current changes had been made at the time of the last change of the Dow in 1997, the index subsequently would have grown faster than the S&P 500 and would have peaked at more than 12,800 this summer. The Dow is price-weighted (in contrast to most others, which are value-weighted). Hence, Microsoft is not the dominant stock in the index. Because a given percentage change in a stock with a high price moves the Dow more than the same change in a stock with a lower price, American Express has a bigger weight than Microsoft.

EITC Promotes Employment among Single Mothers. The EITC is responsible for large increases in the employment of single mothers since the mid-1980s, according to a recent study. Between 1984 and 1996, the proportion of single mothers who worked during the previous year increased by 9 percentage points (to 82 percent). The share of single mothers with young children who worked rose 14 percentage points (to 75 percent). The study found that over 60 percent of the overall increase was attributable to the EITC. Changes in welfare benefits and welfare waivers accounted for much of the rest, while other factors, including expansions of Medicaid and child care and changes in training programs, played a small role.

Good news
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Creating a Living Downtown in Denver. In a report published last year, the Brookings Institution and Fannie Mae found that many American downtowns are experiencing population booms—especially those of New York, Denver, and Houston. A recent follow-up report, written by the Director of Denver's Community Planning and Development Agency, discusses that city's experience. The report cites a strong economy, population gains in the region, and a stock of low-cost buildings to be redeveloped as contributing to downtown Denver's growth. It also identifies certain public policies that may have helped, including policies to give definition and cohesion to Denver's downtown neighborhoods, such as the declaration of Lower Downtown ("LoDo") as an historic district in 1988. Downtown accessibility was improved through new roads leading to downtown and by free shuttle bus service linked to regional bus terminals. Regional amenities were added as well, including new cultural and sports venues, a convention center, and the parks along the South Platte River. The city also expanded police presence, worked to preserve old buildings, and sought developers to rehabilitate empty buildings.

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INTERNATIONAL ROUNDUP

ILO Studies Trends in Commerce Sector. Stimulated by technology, evolving consumer demand, and trade liberalization, the number of jobs in the commerce sector (wholesale and retail trade) grew significantly worldwide during the 1990s, according to a new report by the International Labor Organization (ILO). In the 93 countries reviewed, the commerce sector created nearly 54 million jobs from 1990 to 1997. Of those, 40 million were added in Asian and Pacific countries (20 million in China alone), 6 million in industrialized countries, 6 million in Latin America, and 2 million in transition economies. Commerce-sector employment grew significantly faster than overall employment for the majority of countries studied from 1995 to 1997. This sector tends to have a relatively large proportion of female and part-time employees as well as high labor turnover rates. The report notes some evidence that the rise of multinational corporations may be putting local enterprises out of business (especially in developing countries), but it also cites the benefits of challenging local firms to boost their productivity.

Hong Kong Begins Selling Its Stock Portfolio. In August 1998, Hong Kong's government bought $15 billion worth of stock shares, arguing that this was necessary to foil speculators who were simultaneously shorting the stock market and selling currency (in hopes of driving up interest rates and driving down stock prices). More than a year after this intervention, share prices have increased substantially, and the government is now trying to sell some of its share-holdings packaged in a fund that tracks Hong Kong's benchmark Hang Seng Index. The authorities are reportedly enticing local investors with a discount on the market price of the stocks. Public reaction has included concern that unloading such a large portfolio could depress the market and doubt that the offer will be attractive to investors (because, some argue, the fund is heavily weighted toward poorly performing property stocks and local investors may prefer individual stocks to funds). A few expressed strong objections to the intervention itself, viewing it as a betrayal of Hong Kong's free-market principles.

Transportation Costs Hinder Economic Development in Africa. A lack of investment is weakening the capacity and efficiency of transport systems in sub-Saharan Africa, according to a recent study by the United Nations Conference on Trade and Development. IMF statistics show that for 31 out of 43 Sub-Saharan countries freight costs on imports were 50 percent higher than the average for all developing countries. Among the top 15 export products from Africa to the United States, African transport costs are higher than their competitors' for all but 3 products. The report argues that inadequate transport systems can adversely affect export performance and market development. High transport costs also lead to balance of payments problems, as many countries must import transportation services. The study found that for 20 out of 43 countries, payments for such imports absorbed over 20 percent of total foreign exchange earnings from exports. The report argues that private financing for transportation investment may sometimes be feasible, but the necessary infrastructure investment almost certainly requires public financing and development aid.

S: R. Daley
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RELEASES THIS WEEK

Gross Domestic Product

According to advance estimates, real gross domestic product grew at an annual rate of 4.8 percent in the third quarter of 1999.

Employment Cost Index

The employment cost index for private industry workers rose 3.1 percent for the 12-month period ending in September.

Advance Durable Orders

Advance estimates show that new orders for durable goods decreased 1.3 percent in September, following an increase of 1.0 percent in August.

Consumer Confidence

Consumer confidence, as measured by The Conference Board, fell 4.1 index points in October, to 130.1 (1985=100).

MAJOR RELEASES NEXT WEEK

NAPM Report on Business (Monday)
Leading Indicators (Wednesday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1998	1999:1	1999:2	1999:3
Percent growth (annual rate)					
Real GDP (chain-type)	**3.0**	**4.6**	**3.7**	**1.9**	**4.8**
GDP chain-type price index	**5.2**	**1.1**	**2.0**	**1.3**	**1.0**
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	2.6	3.6	0.6	N.A.
Real compensation per hour:					
Using CPI	0.6	2.5	2.9	1.5	N.A.
Using NFB deflator	1.3	3.7	3.0	3.7	N.A.
Shares of Nominal GDP (percent)					
Business fixed investment	N.A.	**12.5**	**12.6**	**12.6**	**12.8**
Residential investment	N.A.	**4.2**	**4.4**	**4.5**	**4.4**
Exports	8.2	**11.0**	**10.7**	**10.7**	**10.9**
Imports	9.2	**12.7**	**12.9**	**13.4**	**13.9**
Personal saving	N.A.	**2.6**	**2.2**	**1.8**	**1.5**
Federal surplus	N.A.	**0.5**	**1.1**	**1.3**	N.A.

	1970-1993	1998	July 1999	August 1999	September 1999
Unemployment Rate (percent)	6.7**	4.5**	4.3	4.2	4.2
Payroll employment (thousands)					
increase per month			373	103	-8
increase since Jan. 1993					19409
Inflation (percent per period)					
CPI	5.8	1.6	0.3	0.3	0.4
PPI-Finished goods	5.0	0.0	0.2	0.5	1.1

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

New or revised data in **boldface**.

FINANCIAL STATISTICS

	1997	1998	August 1999	September 1999	Oct. 28, 1999
Dow-Jones Industrial Average	7441	8626	10935	10714	10623
Interest Rates (percent per annum)					
3-month T-bill	5.06	4.78	4.72	4.68	4.96
10-year T-bond	6.35	5.26	5.94	5.92	6.12
Mortgage rate, 30-year fixed	7.60	6.94	7.94	7.82	7.96
Prime rate	8.44	8.35	8.06	8.25	8.25

INTERNATIONAL STATISTICS

Exchange Rates	**Current level October 28, 1999**	**Percent Change from Week ago**	**Percent Change from Year ago**
Euro (in U.S. dollars)	1.052	-2.7	N.A.
Yen (per U.S. dollar)	105.1	-0.8	-10.6
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	92.65	0.6	-0.6

International Comparisons [1]	**Real GDP growth** (percent change last 4 quarters)	**Unemployment rate** (percent)	**CPI inflation** (percent change in index last 12 months)
United States	4.1 (Q3)	4.2 (Sep)	2.6 (Sep)
Canada	3.7 (Q2)	7.8 (Aug)	2.1 (Aug)
Japan	1.1 (Q2)	4.7 (Aug)	0.2 (Aug)
France	2.1 (Q2)	11.3 (Aug)	0.5 (Aug)
Germany	0.6 (Q2)	7.1 (Aug)[2]	0.6 (Aug)
Italy	0.8 (Q2)	12.1 (Apr)	1.7 (Aug)
United Kingdom	1.8 (Q3)	6.0 (Jun)	1.1 (Aug)

1/ For unemployment data, rates approximating U.S. concepts as calculated by the U.S. Department of Labor, Bureau of Labor Statistics.
2/ Rate for former West Germany. Using OECD standardized unemployment data, the unemployment rate for unified Germany for August was 9.2 percent.