Case Number: 2018-0275-F

FOIA MARKER

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

Scan ID
099899SS

Subject Code:
BE

Original OA/ID Number:
CF 1677

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

EF

C. F. THE PRESIDENT HAS SEEN 3/6

0998995S

BE

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

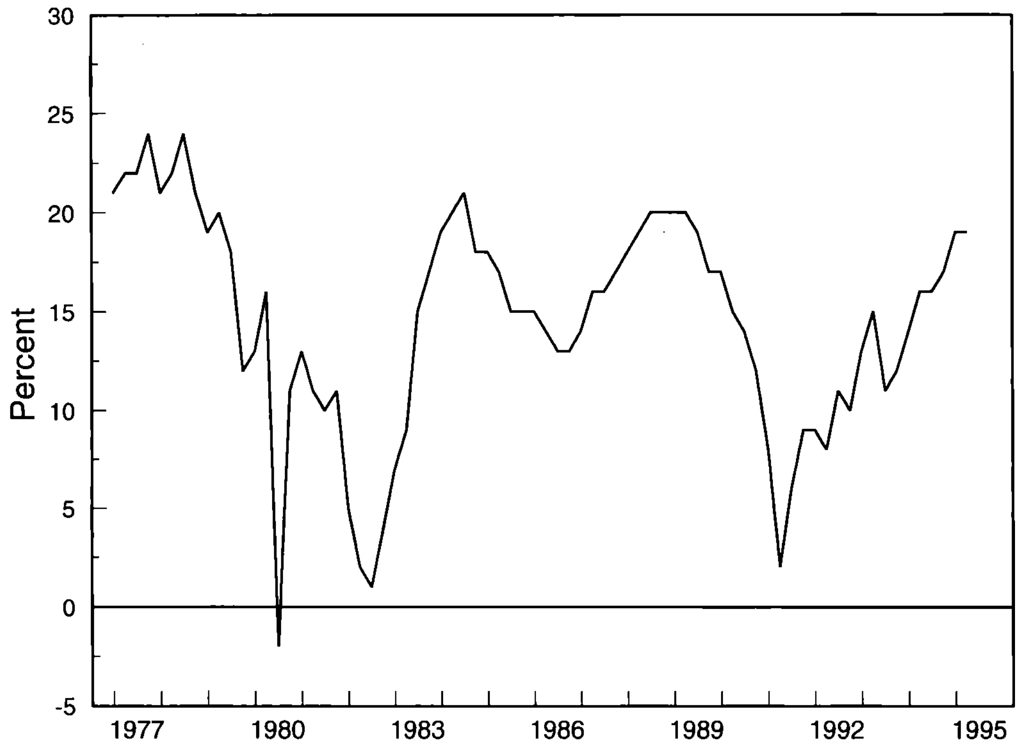
95 MAR 3 P3:08

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

March 6, 1995

CHART OF THE WEEK

Net Fraction of Businesses Planning to Increase Employment



According to the most recent survey by Manpower Inc., the net fraction of U.S. businesses planning to increase employment during the second quarter of this year is 19 percent—the same as in the previous survey and otherwise the strongest reading since the third quarter of 1989. By region, hiring plans are strongest in the Midwest and weaker in the Northeast and West, continuing a pattern that has prevailed throughout the current economic expansion.

CONTENTS

"Well, how about this: We take from the rich and invest!"

PHOTOCOPY
WJC HANDWRITING

CURRENT DEVELOPMENT

Barings Bad Tidings

Barings—England's oldest investment bank—was brought down this week by the actions of a single trader. The details of how this disaster was accomplished remain obscure, with different and contradictory stories emerging by the day. According to available reports, the trader placed a huge wager that the Nikkei 225 index of Japanese stock prices would rise. Instead, the index fell sharply following the Kobe earthquake in mid-January, causing the bank to sustain losses in excess of $400 million as of last week. Barings was required to cover these losses on a daily basis as they occurred. To generate the cash required for this purpose, the trader apparently sold options on the very same index of stock prices, saddling the bank with yet more exposure to the index.

The Bank of England attempted to organize a consortium of banks to rescue Barings. However, the consortium was unwilling to assume the risk of further losses on the original wagers. Reportedly, the Sultan of Brunei initially indicated a willingness to absorb that risk in return for £200 million, but later changed his mind. Barings was then allowed to fail, leaving the Singapore exchange responsible for meeting Barings's obligations.

Analysis. Observers cite two major violations of standard risk management procedures that contributed to this sequence of events. First, the same person who executed the original wagers reportedly also performed the separate function of informing the bank of its exposure in the trades. This dual role probably enhanced his ability to conceal ~~the true exposure of the~~ bank. The American commercial banking industry states that they have more stringent mechanisms for controlling risk than are prevalent in other countries.

The Japanese and Singapore exchanges have also been faulted for their failure to question Barings's extraordinarily large position in the Japanese stock index. The exchange authorities may have believed that the large position was taken on behalf of the bank's customers rather than the bank itself. Or they may have thought that Barings had hedged its position—making a bet on the Osaka exchange that the stock index would go up and making the opposite bet on the Singapore or another exchange. Under U.S. Commodity Futures Trading Commission procedures, an open position of 50 or more contracts by any one purchaser in any one commodity generates an immediate inquiry from the exchanges (the Barings trader held at least 20,000 contracts on the Japanese stock index). However, the Nikkei 225 futures contract is traded on at least three exchanges worldwide, and a clever trader can probably hinder detection of a large position by trading in more than one market because information is not fully shared across all exchanges. Moreover, trading in options can take place outside of exchanges, a fact apparently exploited by the Barings trader.

PHOTOCOPY
WJC HANDWRITING

SPECIAL ANALYSIS

How Tight is the Labor Market?

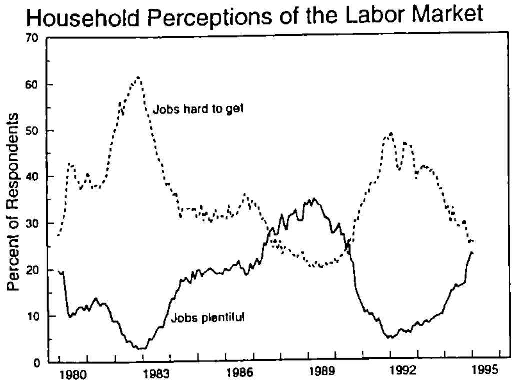
A tight labor market yields both benefits and costs. On the benefit side of the ledger, a tight labor market causes an improvement in worker skills to the extent that skills improve with experience and employers provide on-the-job training. A tight labor market may also help reduce discrimination on the basis of gender or race if it raises the costs to employers of engaging in such discrimination. And the experience of the late 1980s suggests that a tight labor market helps narrow the distribution of income (see Chart of the Week, Weekly Economic Briefing, October 24, 1994). On the cost side, tight labor markets put upward pressure on inflation.

So how tight is the labor market currently? A tight national labor market may be reflected in many different phenomena. For example, the unemployment rate may be low, compensation may be rising rapidly, businesses may report difficulty in finding qualified candidates to fill vacancies, and individuals may experience little difficulty in finding new employment.

- As measured by the employment cost index (generally regarded as the most reliable indicator of labor cost trends), nominal compensation in the private sector decelerated throughout 1994. However, the absence of a recent pickup in compensation inflation may not be very revealing of labor market conditions in the second half of 1994, because compensation trends generally are thought to lag changes in labor market conditions.

- During late 1994, the unemployment rate declined sharply, into a range that was associated with tight labor markets during the late 1980s (see Weekly Economic Briefing, January 23, 1995). Still, the best guess is that the unemployment rate is not as low currently as it was during 1989 and early 1990 (the uncertainty being introduced by the recent redesign of the Current Population Survey), and it has not yet persisted at a low level for nearly as long.

- Surveys of employers also point to a recent strengthening of conditions in labor markets. On the basis of its most recent survey of small businesses, the National Federation of Independent Businesses concluded that "The data indicated the tightest labor market in years.... Owners are hoping to avoid raising compensation, but tightening labor markets and growing shortages of skilled employees may alter their plans." A survey by Michigan State University indicated that job prospects for new college graduates will be better in 1995 than in 1994—the second consecutive year of improvement following four years of deterioration. And Manpower Inc.'s latest survey of hiring plans yielded the strongest reading since mid-1989 (see Chart of the Week).



- The Conference Board's survey of households suggests that, from the worker's perspective, labor market conditions improved noticeably last year. Toward the end of the year, many more households responded that "jobs are plentiful" and fewer that "jobs are hard to get" (see chart). Even so, the readings are somewhat less robust than they were during the late 1980s.

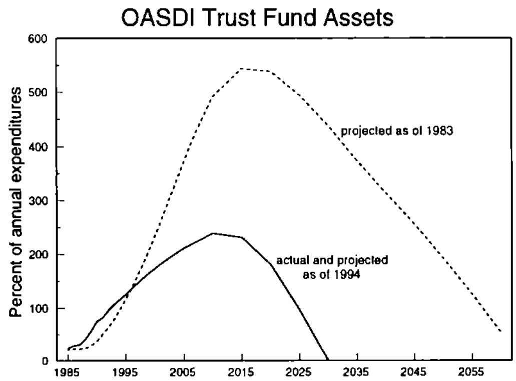
Conclusion. Available indicators seem to be sending a reasonably consistent message: Labor market conditions tightened considerably during 1994. Although they do not appear to be as tight now as they were during the late 1980s, labor markets may still be sufficiently tight to generate a slight acceleration in compensation, as is implicit in the Administration's current forecast. Over the long haul, the Administration's emphasis on human capital investment could be helpful in this regard, to the extent that it creates the potential for additional economic growth without a buildup of inflationary pressures.

PHOTOCOPY
WJC HANDWRITING

ARTICLE

Those Fascinating Social Security Trust Fund Projections

In 1983, Congress enacted legislation based on the recommendations of the Greenspan Commission. At the time, it was asserted that those recommendations were sufficient to keep the Social Security Trust Fund solvent for 75 years. However, updated projections presented in the 1994 Board of Trustees Report show the Trust Fund going bust in 2029, nearly 30 years ahead of the 1983 schedule (see chart). (All projections referenced here are the so-called intermediate projections. The 1995 Trustees report is expected to be published in the spring.)



Key forecast parameters. As part of the projection process, Social Security actuaries must make assumptions about the future course of many variables. The most important of these include: fertility and labor force participation (to determine the number of workers supporting each retiree); productivity and its effect on wages (to determine the aggregate wage base subject to payroll taxes); inflation and mortality (to determine the aggregate amount of benefits to be paid); and interest rates (to determine how fast the trust fund builds).

Many economists attempt to forecast these parameters, but generally over only a relatively short time horizon (e.g., 5 or 10 years). Because the uncertainty surrounding any forecast generally increases with the number of years into the future that the forecast goes, the "confidence interval" surrounding the 75-year projections made by the Social Security actuaries is probably very wide. One thing is clear:

The forecast is very sensitive to the assumptions. According to current projections, the Trust Fund on average over the next 75 years will run a deficit equal to 2.1 percent of average taxable payroll during the period (measured in present-value terms). Translated into English, this means that, according to current projections, an increase in Social Security payroll taxes of 2.1 percentage points would return the Trust Fund to 75-year solvency, assuming no behavioral change in response to the higher tax rates. (Of course, the funding problem could also be addressed by other means such as boosting retirement ages or increasing the taxation of benefits.)

If the economy performs more favorably than the actuaries have assumed, then the funding problem would be alleviated. For example, if real wages were to increase

1.5 percent per year on average over the next 75 years rather than 1.0 percent as the actuaries have assumed, the 75-year funding gap would be equivalent to 1.6 percent of taxable payroll.

Similarly, if the fertility rate over the next 75 years were to average 2.1 children per woman rather than 1.9 children as assumed by the actuaries, the 75-year funding gap would be reduced to 1.8 percent of taxable payroll. And if death rates drop 25 percent from today's levels rather than 35 percent as projected by the actuaries, the 75-year funding gap would be equivalent to 1.7 percent of taxable payroll.

In sum, it is possible that the economy and the demography of the Nation will evolve in such a manner that the Social Security funding problem will turn out to be less severe than is currently anticipated in the baseline forecast. However, there is probably a roughly equal risk that the problem will turn out to be more severe than the actuaries have assumed (as is indicated by the deterioration in the outlook for the Trust Fund since 1983). The table on the next page specifies in greater detail the sensitivity of the funding situation to changes in various assumptions as estimated by the actuaries.

Trust Fund Sensitivity Analysis

Social Security actuaries have estimated the sensitivity of the average imbalance between revenues and outlays of the Social Security Trust Fund over the next 75 years to many key parameters. The sensitivities in the table below are expressed as a percent of taxable payroll over the projection period. For example, each 0.5 percentage point increase in the rate of real wage growth is estimated to cause the Trust Fund deficit to decline by 0.54 percent of average taxable payroll. (Recall that, according to current projections, the annual average deficit in the Trust Fund over the next 75 years will be an estimated 2.13 percent of average taxable payroll.)

Parameter	1994 Forecast	Effect of change on long-run Trust Fund balance (percent of taxable payroll)
Real wage growth	1.0 percent	0.5 percent increase leads to 0.54 percent of taxable payroll improvement
Fertility	1.9 children per woman	0.1 child increase leads to 0.15 percent improvement
Death rate	35 percent lower than current death rate over 75 years	10 percent further reduction leads to 0.39 percent worsening
Immigration	850,000 net immigrants per year	100,000 more net immigrants leads to 0.07 percent improvement
Consumer prices	4.0 percent annual increase	1.0 percentage point increase leads to 0.22 percent improvement
Real interest rates	2.3 percent	0.5 percentage point increase leads to 0.30 percent improvement

Canada Cuts Back, But Leaves Safety Net Largely Intact. Canada's Liberal government this week presented its proposed 1995-96 budget. The result should please deficit hawks: Even under the budget's conservative economic assumptions, the deficit is projected to fall from 5.1 percent of GDP in 1994-95 to 3 percent of GDP in 1996-97. This improvement will be achieved largely through deep cuts in spending, with budgets falling across the board. The government workforce is slated to plummet 14 percent over the next 3 years, while business subsidies (primarily for transportation and agriculture) will fall 60 percent. The budget also puts all federal transfers to the provinces for health, education, and welfare into a single block grant, and it cuts spending for these purposes substantially from levels projected earlier. Although the budget raises several taxes, the business community had been braced for heftier increases, according to press reports.

Under IMF Pressure, Russian Reform Plows Ahead. Russia's government this week unveiled a series of market-oriented reforms designed to put the country in the International Monetary Fund's good graces. Three decrees already signed would: cancel various tax and import duty exemptions, which should help shore up government finances; liberalize a range of prices still under government control; and increase the powers of the state anti-monopoly and capital-market regulators. The decrees also strengthen the fiscal hand of the president, by placing all spending decisions under presidential control. Finally, a decree still in the works will eliminate some major export controls. Observers believe that the new reforms will convince the IMF later this month to sign off on a $6.4 billion standby loan—the largest Fund loan yet to Russia.

Poor Marks for Child Care Centers. Goal number one under Goals 2000 states that "by the year 2000, all children in America will start school ready to learn." But that goal may be difficult to achieve: The child care provided at most centers in the United States is poor to mediocre, with almost half of the infants and toddlers left in rooms that fail to meet even minimal standards of health, safety, and support. These are the conclusions of a new study of 400 randomly chosen child-care centers in four states (California, Colorado, Connecticut, and North Carolina). The researchers found that only 14 percent of all centers, and only 8 percent of infant and toddler rooms, offer care that is "developmentally appropriate"—meaning that children are kept safe, treated with affection, and encouraged to learn. Predictably, these high-quality centers on average offered higher staff-to-child ratios and had more educated staffs. (The National Association for the Education of Young Children recommends that center directors have at least a bachelor's degree in a relevant field and that teachers have a "child development certificate," obtainable through 9 months of study.) Children in the high-quality centers were judged to have higher language abilities, pre-math skills, and social skills than those in low-quality centers.

RELEASES LAST WEEK

Leading Indicators

****Embargoed until Friday, March 3, 1995 at 8:30 a.m.****

The index of leading economic indicators was unchanged in January following increases of 0.2 percent in December and 0.1 percent in November.

Personal Income and Expenditures

Personal income rose 0.9 percent in January (monthly rate). Disposable personal income rose 0.7 percent. Personal consumption expenditures rose 0.4 percent.

Gross Domestic Product

According to revised estimates for the fourth quarter, real gross domestic product grew at an annual rate of 4.6 percent.

Consumer Confidence

Consumer confidence, as measured by the Conference Board, decreased 2.4 index points in February, to 99.0 (1985=100).

MAJOR RELEASES THIS WEEK

Productivity (Wednesday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970–1993	1994	1994:2	1994:3	1994:4
Percent growth (annual rate)					
Real GDP	2.5	4.0	4.1	4.0	**4.6**
GDP deflator	5.5	2.3	2.9	1.9	**1.3**
Productivity					
Nonfarm business	1.2	1.4	–2.1	3.2	1.8
Manufacturing (1978-93)	2.1	4.6	5.6	3.5	2.8
Real compensation per hour	0.6	0.7	–2.0	–0.4	1.4
Shares of Real GDP (percent)					
Business fixed investment	11.0	12.6	12.4	12.7	**13.0**
Residential investment	4.7	4.3	4.4	4.3	4.2
Exports	8.0	12.3	12.1	12.4	**12.9**
Imports	9.2	14.4	14.2	14.6	**14.9**
Shares of Nominal GDP (percent)					
Personal saving	4.9	3.0	3.0	3.0	3.4
Federal surplus	–2.8	N.A.	–2.2	–2.3	N.A.

	1970–1993	1994	Nov. 1994	Dec. 1994	Jan. 1995
Unemployment Rate	6.7*	6.1*	5.6	5.4	5.7

*Figures beginning 1994 are not comparable with earlier data.

	1970–1993	1994	Nov. 1994	Dec. 1994	Jan. 1995
Payroll employment (thousands)					
increase per month			534	210	134
increase since Jan. 1993					5578
Inflation (percent per period)					
CPI	5.8	2.7	0.1	0.2	0.3
PPI-Finished goods	5.0	1.7	0.6	0.4	0.3

New or revised data in **boldface**.

FINANCIAL STATISTICS

	1993	1994	Jan. 1995	Feb. 1995	March 2, 1995
Dow-Jones Industrial Average	3522	3794	3872	3954	3980
Interest Rates					
3-month T-bill	3.00	4.25	5.71	5.77	5.75
10-year T-bond	5.87	7.09	7.78	7.47	7.30
Mortgage rate, 30-year fixed	7.33	8.36	9.15	8.83	8.53
Prime rate	6.00	7.15	8.50	9.00	9.00

INTERNATIONAL STATISTICS

Exchange Rates	**Current level March 2, 1995**	**Percent Change from Week ago**	**Percent Change from Year ago**
Deutschemark-Dollar	1.441	−1.9	−15.3
Yen-Dollar	95.33	−1.5	−8.2
Multilateral (Mar. 1973=100)	85.05	−1.1	−10.0

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	4.0 (Q4)	5.7 (Jan)	2.8 (Jan)
Canada	5.6 (Q4)	9.6 (Dec)	0.3 (Dec)
Japan	1.1 (Q3)	2.9 (Nov)	0.7 (Dec)
France	3.6 (Q4)	12.4 (Nov)	1.7 (Dec)
Germany	3.6 (Q4)	6.4 (Nov)	2.3 (Jan)
Italy	3.7 (Q3)	12.0 (Oct)	3.8 (Jan)
United Kingdom	3.9 (Q4)	8.8 (Dec)	3.3 (Jan)

EF

C. F. EYES ONLY

0998995S

BE

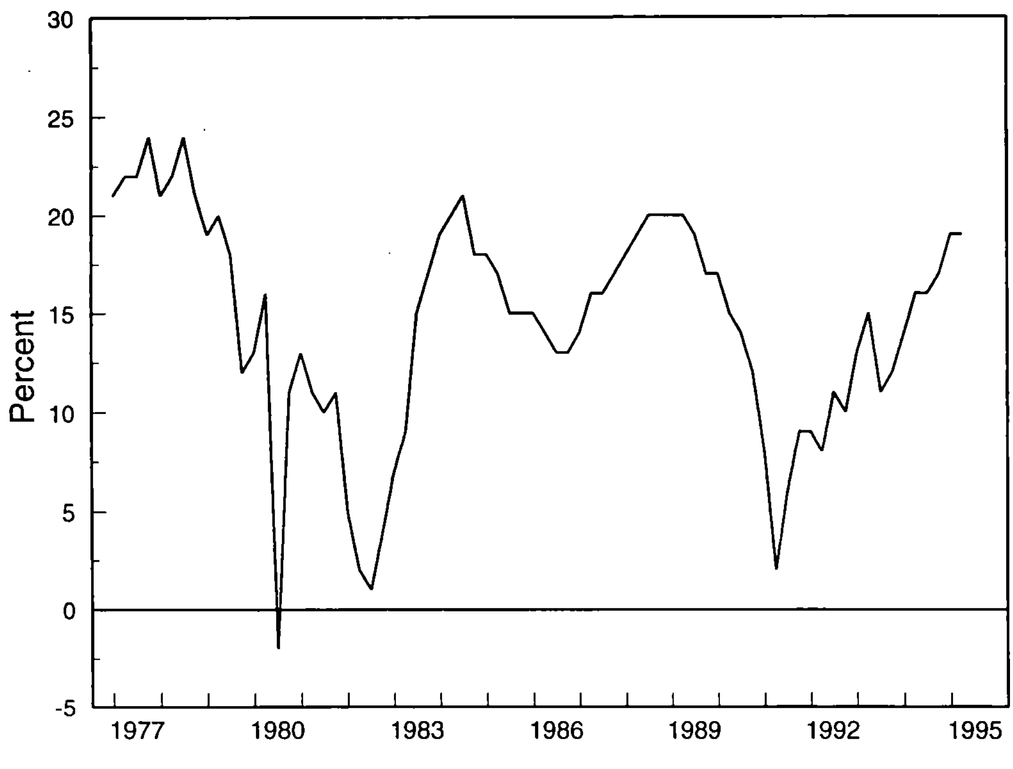
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

March 6, 1995

CHART OF THE WEEK

Net Fraction of Businesses Planning
to Increase Employment



According to the most recent survey by Manpower Inc., the net fraction of U.S. businesses planning to increase employment during the second quarter of this year is 19 percent—the same as in the previous survey and otherwise the strongest reading since the third quarter of 1989. By region, hiring plans are strongest in the Midwest and weaker in the Northeast and West, continuing a pattern that has prevailed throughout the current economic expansion.

EYES ONLY

CONTENTS

"Well, how about this: We take from the rich and invest!"

EYES ONLY

CURRENT DEVELOPMENT

Barings Bad Tidings

Barings—England's oldest investment bank—was brought down this week by the actions of a single trader. The details of how this disaster was accomplished remain obscure, with different and contradictory stories emerging by the day. According to available reports, the trader placed a huge wager that the Nikkei 225 index of Japanese stock prices would rise. Instead, the index fell sharply following the Kobe earthquake in mid-January, causing the bank to sustain losses in excess of $400 million as of last week. Barings was required to cover these losses on a daily basis as they occurred. To generate the cash required for this purpose, the trader apparently sold options on the very same index of stock prices, saddling the bank with yet more exposure to the index.

The Bank of England attempted to organize a consortium of banks to rescue Barings. However, the consortium was unwilling to assume the risk of further losses on the original wagers. Reportedly, the Sultan of Brunei initially indicated a willingness to absorb that risk in return for £200 million, but later changed his mind. Barings was then allowed to fail, leaving the Singapore exchange responsible for meeting Barings's obligations.

Analysis. Observers cite two major violations of standard risk management procedures that contributed to this sequence of events. First, the same person who executed the original wagers reportedly also performed the separate function of informing the bank of its exposure in the trades. This dual role probably enhanced his ability to conceal the true exposure of the bank. The American commercial banking industry states that they have more stringent mechanisms for controlling risk than are prevalent in other countries.

The Japanese and Singapore exchanges have also been faulted for their failure to question Barings's extraordinarily large position in the Japanese stock index. The exchange authorities may have believed that the large position was taken on behalf of the bank's customers rather than the bank itself. Or they may have thought that Barings had hedged its position—making a bet on the Osaka exchange that the stock index would go up and making the opposite bet on the Singapore or another exchange. Under U.S. Commodity Futures Trading Commission procedures, an open position of 50 or more contracts by any one purchaser in any one commodity generates an immediate inquiry from the exchanges (the Barings trader held at least 20,000 contracts on the Japanese stock index). However, the Nikkei 225 futures contract is traded on at least three exchanges worldwide, and a clever trader can probably hinder detection of a large position by trading in more than one market because information is not fully shared across all exchanges. Moreover, trading in options can take place outside of exchanges, a fact apparently exploited by the Barings trader.

EYES ONLY

SPECIAL ANALYSIS

How Tight is the Labor Market?

A tight labor market yields both benefits and costs. On the benefit side of the ledger, a tight labor market causes an improvement in worker skills to the extent that skills improve with experience and employers provide on-the-job training. A tight labor market may also help reduce discrimination on the basis of gender or race if it raises the costs to employers of engaging in such discrimination. And the experience of the late 1980s suggests that a tight labor market helps narrow the distribution of income (see Chart of the Week, Weekly Economic Briefing, October 24, 1994). On the cost side, tight labor markets put upward pressure on inflation.

So how tight is the labor market currently? A tight national labor market may be reflected in many different phenomena. For example, the unemployment rate may be low, compensation may be rising rapidly, businesses may report difficulty in finding qualified candidates to fill vacancies, and individuals may experience little difficulty in finding new employment.

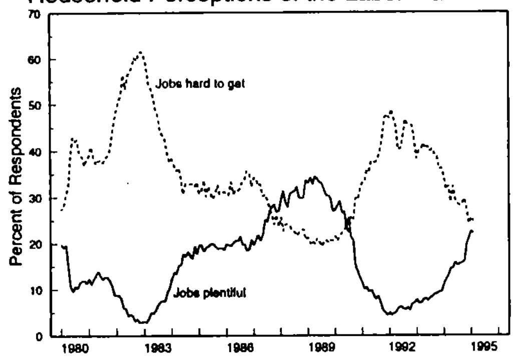
- As measured by the employment cost index (generally regarded as the most reliable indicator of labor cost trends), nominal compensation in the private sector decelerated throughout 1994. However, the absence of a recent pickup in compensation inflation may not be very revealing of labor market conditions in the second half of 1994, because compensation trends generally are thought to lag changes in labor market conditions.

- During late 1994, the unemployment rate declined sharply, into a range that was associated with tight labor markets during the late 1980s (see Weekly Economic Briefing, January 23, 1995). Still, the best guess is that the unemployment rate is not as low currently as it was during 1989 and early 1990 (the uncertainty being introduced by the recent redesign of the Current Population Survey), and it has not yet persisted at a low level for nearly as long.

- Surveys of employers also point to a recent strengthening of conditions in labor markets. On the basis of its most recent survey of small businesses, the National Federation of Independent Businesses concluded that "The data indicated the tightest labor market in years.... Owners are hoping to avoid raising compensation, but tightening labor markets and growing shortages of skilled employees may alter their plans." A survey by Michigan State University indicated that job prospects for new college graduates will be better in 1995 than in 1994—the second consecutive year of improvement following four years of deterioration. And Manpower Inc.'s latest survey of hiring plans yielded the strongest reading since mid-1989 (see Chart of the Week).

EYES ONLY

Household Perceptions of the Labor Market



- The Conference Board's survey of households suggests that, from the worker's perspective, labor market conditions improved noticeably last year. Toward the end of the year, many more households responded that "jobs are plentiful" and fewer that "jobs are hard to get" (see chart). Even so, the readings are somewhat less robust than they were during the late 1980s.

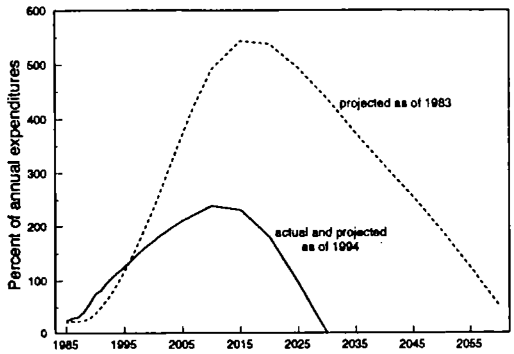
Conclusion. Available indicators seem to be sending a reasonably consistent message: Labor market conditions tightened considerably during 1994. Although they do not appear to be as tight now as they were during the late 1980s, labor markets may still be sufficiently tight to generate a slight acceleration in compensation, as is implicit in the Administration's current forecast. Over the long haul, the Administration's emphasis on human capital investment could be helpful in this regard, to the extent that it creates the potential for additional economic growth without a buildup of inflationary pressures.

ARTICLE

Those Fascinating Social Security Trust Fund Projections

In 1983, Congress enacted legislation based on the recommendations of the Greenspan Commission. At the time, it was asserted that those recommendations were sufficient to keep the Social Security Trust Fund solvent for 75 years. However, updated projections presented in the 1994 Board of Trustees Report show the Trust Fund going bust in 2029, nearly 30 years ahead of the 1983 schedule (see chart). (All projections referenced here are the so-called intermediate projections. The 1995 Trustees report is expected to be published in the spring.)

OASDI Trust Fund Assets



Key forecast parameters. As part of the projection process, Social Security actuaries must make assumptions about the future course of many variables. The most important of these include: fertility and labor force participation (to determine the number of workers supporting each retiree); productivity and its effect on wages (to determine the aggregate wage base subject to payroll taxes); inflation and mortality (to determine the aggregate amount of benefits to be paid); and interest rates (to determine how fast the trust fund builds).

Many economists attempt to forecast these parameters, but generally over only a relatively short time horizon (e.g., 5 or 10 years). Because the uncertainty surrounding any forecast generally increases with the number of years into the future that the forecast goes, the "confidence interval" surrounding the 75-year projections made by the Social Security actuaries is probably very wide. One thing is clear:

The forecast is very sensitive to the assumptions. According to current projections, the Trust Fund on average over the next 75 years will run a deficit equal to 2.1 percent of average taxable payroll during the period (measured in present-value terms). Translated into English, this means that, according to current projections, an increase in Social Security payroll taxes of 2.1 percentage points would return the Trust Fund to 75-year solvency, assuming no behavioral change in response to the higher tax rates. (Of course, the funding problem could also be addressed by other means such as boosting retirement ages or increasing the taxation of benefits.)

If the economy performs more favorably than the actuaries have assumed, then the funding problem would be alleviated. For example, if real wages were to increase

1.5 percent per year on average over the next 75 years rather than 1.0 percent as the actuaries have assumed, the 75-year funding gap would be equivalent to 1.6 percent of taxable payroll.

Similarly, if the fertility rate over the next 75 years were to average 2.1 children per woman rather than 1.9 children as assumed by the actuaries, the 75-year funding gap would be reduced to 1.8 percent of taxable payroll. And if death rates drop 25 percent from today's levels rather than 35 percent as projected by the actuaries, the 75-year funding gap would be equivalent to 1.7 percent of taxable payroll.

In sum, it is possible that the economy and the demography of the Nation will evolve in such a manner that the Social Security funding problem will turn out to be less severe than is currently anticipated in the baseline forecast. However, there is probably a roughly equal risk that the problem will turn out to be <u>more</u> severe than the actuaries have assumed (as is indicated by the deterioration in the outlook for the Trust Fund since 1983). The table on the next page specifies in greater detail the sensitivity of the funding situation to changes in various assumptions as estimated by the actuaries.

EYES ONLY

Trust Fund Sensitivity Analysis

Social Security actuaries have estimated the sensitivity of the average imbalance between revenues and outlays of the Social Security Trust Fund over the next 75 years to many key parameters. The sensitivities in the table below are expressed as a percent of taxable payroll over the projection period. For example, each 0.5 percentage point increase in the rate of real wage growth is estimated to cause the Trust Fund deficit to decline by 0.54 percent of average taxable payroll. (Recall that, according to current projections, the annual average deficit in the Trust Fund over the next 75 years will be an estimated 2.13 percent of average taxable payroll.)

Parameter	1994 Forecast	Effect of change on long-run Trust Fund balance (percent of taxable payroll)
Real wage growth	1.0 percent	0.5 percent increase leads to 0.54 percent of taxable payroll improvement
Fertility	1.9 children per woman	0.1 child increase leads to 0.15 percent improvement
Death rate	35 percent lower than current death rate over 75 years	10 percent further reduction leads to 0.39 percent worsening
Immigration	850,000 net immigrants per year	100,000 more net immigrants leads to 0.07 percent improvement
Consumer prices	4.0 percent annual increase	1.0 percentage point increase leads to 0.22 percent improvement
Real interest rates	2.3 percent	0.5 percentage point increase leads to 0.30 percent improvement

EYES ONLY

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Canada Cuts Back, But Leaves Safety Net Largely Intact. Canada's Liberal government this week presented its proposed 1995-96 budget. The result should please deficit hawks: Even under the budget's conservative economic assumptions, the deficit is projected to fall from 5.1 percent of GDP in 1994-95 to 3 percent of GDP in 1996-97. This improvement will be achieved largely through deep cuts in spending, with budgets falling across the board. The government workforce is slated to plummet 14 percent over the next 3 years, while business subsidies (primarily for transportation and agriculture) will fall 60 percent. The budget also puts all federal transfers to the provinces for health, education, and welfare into a single block grant, and it cuts spending for these purposes substantially from levels projected earlier. Although the budget raises several taxes, the business community had been braced for heftier increases, according to press reports.

Under IMF Pressure, Russian Reform Plows Ahead. Russia's government this week unveiled a series of market-oriented reforms designed to put the country in the International Monetary Fund's good graces. Three decrees already signed would: cancel various tax and import duty exemptions, which should help shore up government finances; liberalize a range of prices still under government control; and increase the powers of the state anti-monopoly and capital-market regulators. The decrees also strengthen the fiscal hand of the president, by placing all spending decisions under presidential control. Finally, a decree still in the works will eliminate some major export controls. Observers believe that the new reforms will convince the IMF later this month to sign off on a $6.4 billion standby loan—the largest Fund loan yet to Russia.

Poor Marks for Child Care Centers. Goal number one under Goals 2000 states that "by the year 2000, all children in America will start school ready to learn." But that goal may be difficult to achieve: The child care provided at most centers in the United States is poor to mediocre, with almost half of the infants and toddlers left in rooms that fail to meet even minimal standards of health, safety, and support. These are the conclusions of a new study of 400 randomly chosen child-care centers in four states (California, Colorado, Connecticut, and North Carolina). The researchers found that only 14 percent of all centers, and only 8 percent of infant and toddler rooms, offer care that is "developmentally appropriate"—meaning that children are kept safe, treated with affection, and encouraged to learn. Predictably, these high-quality centers on average offered higher staff-to-child ratios and had more educated staffs. (The National Association for the Education of Young Children recommends that center directors have at least a bachelor's degree in a relevant field and that teachers have a "child development certificate," obtainable through 9 months of study.) Children in the high-quality centers were judged to have higher language abilities, pre-math skills, and social skills than those in low-quality centers.

EYES ONLY

RELEASES LAST WEEK

Leading Indicators

****Embargoed until Friday, March 3, 1995 at 8:30 a.m.****

The index of leading economic indicators was unchanged in January following increases of 0.2 percent in December and 0.1 percent in November.

Personal Income and Expenditures

Personal income rose 0.9 percent in January (monthly rate). Disposable personal income rose 0.7 percent. Personal consumption expenditures rose 0.4 percent.

Gross Domestic Product

According to revised estimates for the fourth quarter, real gross domestic product grew at an annual rate of 4.6 percent.

Consumer Confidence

Consumer confidence, as measured by the Conference Board, decreased 2.4 index points in February, to 99.0 (1985=100).

MAJOR RELEASES THIS WEEK

Productivity (Wednesday)
Employment (Friday)

EYES ONLY

U.S. ECONOMIC STATISTICS

	1970–1993	1994	1994:2	1994:3	1994:4
Percent growth (annual rate)					
Real GDP	2.5	4.0	4.1	4.0	**4.6**
GDP deflator	5.5	2.3	2.9	1.9	**1.3**
Productivity					
Nonfarm business	1.2	1.4	–2.1	3.2	1.8
Manufacturing (1978-93)	2.1	4.6	5.6	3.5	2.8
Real compensation per hour	0.6	0.7	–2.0	–0.4	1.4
Shares of Real GDP (percent)					
Business fixed investment	11.0	12.6	12.4	12.7	**13.0**
Residential investment	4.7	4.3	4.4	4.3	4.2
Exports	8.0	12.3	12.1	12.4	**12.9**
Imports	9.2	14.4	14.2	14.6	**14.9**
Shares of Nominal GDP (percent)					
Personal saving	4.9	3.0	3.0	3.0	3.4
Federal surplus	–2.8	N.A.	–2.2	–2.3	N.A.

			Nov. 1994	Dec. 1994	Jan. 1995
Unemployment Rate	6.7*	6.1*	5.6	5.4	5.7

*Figures beginning 1994 are not comparable with earlier data.

			Nov. 1994	Dec. 1994	Jan. 1995
Payroll employment (thousands)					
increase per month			534	210	134
increase since Jan. 1993					5578
Inflation (percent per period)					
CPI	5.8	2.7	0.1	0.2	0.3
PPI-Finished goods	5.0	1.7	0.6	0.4	0.3

New or revised data in **boldface**.

EYES ONLY

FINANCIAL STATISTICS

	1993	1994	Jan. 1995	Feb. 1995	March 2, 1995
Dow-Jones Industrial Average	3522	3794	3872	3954	3980
Interest Rates					
3-month T-bill	3.00	4.25	5.71	5.77	5.75
10-year T-bond	5.87	7.09	7.78	7.47	7.30
Mortgage rate, 30-year fixed	7.33	8.36	9.15	8.83	8.53
Prime rate	6.00	7.15	8.50	9.00	9.00

INTERNATIONAL STATISTICS

Exchange Rates	**Current level**	**Percent Change from**	
	March 2, 1995	**Week ago**	**Year ago**
Deutschemark-Dollar	1.441	–1.9	–15.3
Yen-Dollar	95.33	–1.5	–8.2
Multilateral (Mar. 1973=100)	85.05	–1.1	–10.0

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	4.0 (Q4)	5.7 (Jan)	2.8 (Jan)
Canada	5.6 (Q4)	9.6 (Dec)	0.3 (Dec)
Japan	1.1 (Q3)	2.9 (Nov)	0.7 (Dec)
France	3.6 (Q4)	12.4 (Nov)	1.7 (Dec)
Germany	3.6 (Q4)	6.4 (Nov)	2.3 (Jan)
Italy	3.7 (Q3)	12.0 (Oct)	3.8 (Jan)
United Kingdom	3.9 (Q4)	8.8 (Dec)	3.3 (Jan)