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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

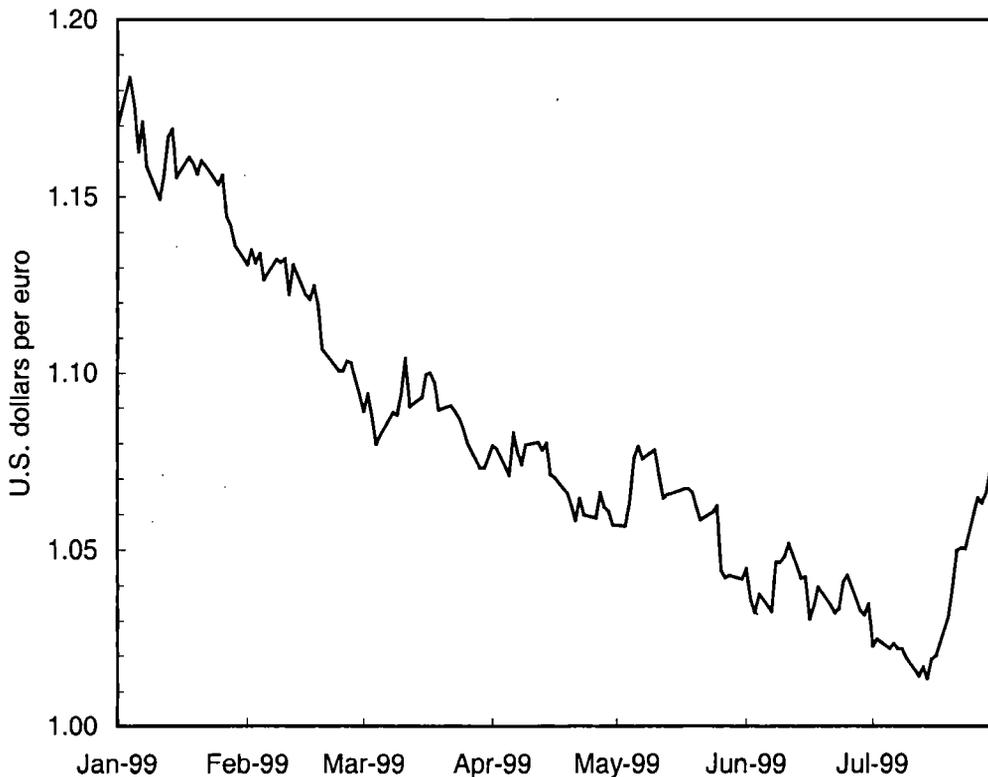
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

July 30, 1999

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CHART OF THE WEEK

Euro Rebounds before Reaching \$1.00



Since the euro was introduced, its foreign exchange value has slid, coming close to \$1.00 in mid-July. In the past 2 weeks, however, the euro has rallied to rise above \$1.05. A range of reasons has been offered for the rebound, including a heightened perception of economic strength in the euro zone and the possibility that the European Central Bank would adopt a bias toward higher interest rates.

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“Eight years of unprecedented expansion, and yet the kid sector has failed to participate.”

CURRENT DEVELOPMENT

GDP Scorecard: Second Quarter 1999

Real GDP is estimated to have increased at a 2.3 percent annual rate in the second quarter of 1999. Strong gains in consumption and equipment investment were partially offset by declines in stockbuilding and net exports. The price index for GDP increased at a 1.6 percent annual rate—somewhat higher than the 1.1 percent annual rate of increase over the previous four quarters.

Component	Growth ¹	Comments
Total consumer expenditures	4.0%	Although consumption has slowed from the 5½ percent pace over the previous four quarters, consumers' spending ran further ahead of their income, dropping the saving rate to -1.1 percent.
Producers' durable equipment	15.3%	As has been typical in this expansion, most of the strength was in computers or other information processing equipment.
Nonresidential structures	-1.2%	Construction of industrial buildings continues to fall. Office building construction leveled off in the second quarter after a solid gain in the first.
Residential investment	5.1%	Although housing starts fell sharply in the second quarter, residential investment was supported by commissions on existing home sales.
Inventories (change, billions of 1992 dollars)	\$19.3	The pace of stockbuilding was much lower in the second quarter than in the first. Inventories are now extraordinarily lean with respect to sales. CEA expects renewed stockbuilding to boost GDP growth in the second half.
Federal purchases	-3.2%	The drop reflects continued declines in Federal employment and budget authority.
State & local purchases	-0.1%	Road construction did not suffer the normal seasonal drop in the first quarter. Reciprocally, it failed to post the normal seasonal increase in the second.
Exports	4.5%	Coming after only a 0.5 percent gain over the previous four quarters, the gain in exports suggests a rebound in foreign GDP.
Imports	9.7%	Most of the increase was in capital goods, especially computer-related equipment.
¹ Percent real growth in the second 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

Wives' Earnings and Family Income Inequality Revisited

New research on the impact of wives' earnings on family income inequality has confirmed earlier findings that over the broad sweep of three decades increases in wives' labor force participation and earnings have, on balance, moderated inequality. However, the new research finds that in more recent years wives' earnings have had a neutral effect on the distribution of income across families.

Conflicting forces. Married women's earnings have risen dramatically during the past three decades as their time devoted to paid work has risen substantially and their hourly wages have increased. As male earnings stagnated during this period, wives' earnings have been the main source of growth in family income. The impact on family income inequality has reflected two conflicting effects:

- Reduced inequality in wives' earnings. Although married women's earnings are less equally distributed than those of married men (largely because more women have zero earnings), the inequality in wives' earnings has declined over time as more have taken paid employment (and the proportion with zero earnings has declined). This effect has tended to moderate family income inequality over time.
- Increasing correlation with husbands' earnings. Wives' and husbands' earnings have been positively correlated throughout the past three decades, and the increase in labor force participation has been greatest among wives of high-earning husbands. In addition, more highly educated, higher-wage men tend to marry more highly educated, higher-wage women. As a result, the correlation between husbands' and wives' earnings increased between 1976 and 1990, increasing inequality among married couples.

How it all adds up. The new study confirms earlier research findings that the changes in wives' earnings over the entire period after 1967 made the married-couple family income distribution more equal than it would otherwise have been in 1994. This equalizing effect was smaller (but still existed) when all families, including single-parent ones, were included. However, the equalizing effect virtually disappears for married couples (and becomes slightly *disequalizing* for all families) for the period after 1979. The correlation between wives' and husbands' earnings did not begin rising until the mid-1970s. Before that time, therefore, the declining inequality of married women's earnings dominated the picture; but from 1979 until at least 1994, it was balanced by the increasing correlation between wives' earnings and those of their husbands.

Conclusion. The impact of increases in wives' earnings and labor force participation on family income inequality depends on a complex set of interactions. Recently, the rising correlation between wives' and husbands' income (and its aggravating effect on inequality) has become important enough to offset other factors, leaving little net effect.

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SPECIAL ANALYSIS

Effects of WIC on Birth Outcomes

Relative to many other industrialized countries, the United States has surprisingly high rates of low-weight births, pre-term births, and infant mortality, particularly among blacks. Research on the impact of the Special Supplemental Food and Nutrition Program for Women, Infants, and Children (WIC) finds that WIC participation leads to significantly better outcomes in important measures such as birth weight for black infants—though not for whites.

The WIC program. WIC is specifically designed to combat the negative birth outcomes that are often associated with the socioeconomic status of the mother and conditions during pregnancy (such as smoking, drug use, and inadequate prenatal care and nutrition). It is a national clinic-based program that provides a variety of nutritional and health-related goods and services to pregnant and postpartum women, infants, and children under the age of 6. The program had 7.4 million participants in 1998 and an appropriation of \$3.9 billion in FY 1999. To be eligible, participants must have a low family income (at or below 185 percent of the poverty level) and a demonstrated “nutritional risk” factor (such as anemia, low weight, or drug-use). One estimate is that roughly 50 percent of income-eligible women were covered by WIC in the early 1990s.

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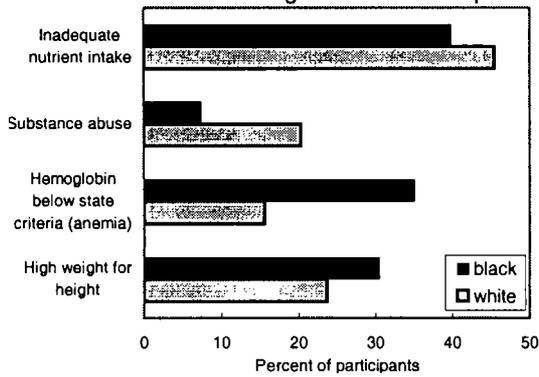
Research findings. Evaluating WIC’s effectiveness is complicated by selection issues. On the one hand, women most in need of services may be the ones who choose to participate, making the program appear more effective than it might be for others. On the other hand, women who pay particular attention to their health may be the ones who seek additional assistance, in which case the program may appear to be less effective than it might be for others. However, a new study that pays particular attention to these selection issues provides some of the strongest evidence to date on the effectiveness of the program.

Its results suggest that prenatal WIC participation increases birth weights for black infants by 5 to 13 percent. The study also finds a statistically significant increase in gestational length of 1.4 percent, a reduction in the likelihood of a pre-term birth of 5 percent, and significant reductions in the likelihood of a neonatal and infant death. However, the new study for the most part found no significant effect of WIC on birth outcomes for whites. This last finding is consistent with previous research, which has found smaller or no effects for whites.

Accounting for racial differences. The study suggests possible explanations for why WIC appears to have a stronger effect for blacks. First, it may be the case that prior to any WIC intervention, white mothers are, in ways unobservable to the researcher, healthier at the time of their pregnancy, so that the marginal impact of WIC may be smaller for them. Second, some evidence suggests that black and white women differ in the risk factors that make them eligible for the

PHOTOCOPY
WIC HANDWRITING

Nutritional Risks of Pregnant WIC Participants



program (see chart), suggesting the possibility that the program may be more effective at combating the ill effects of some risk factors than of others.

Implications. The new study provides strong evidence that WIC is effective at improving birth outcomes, at least for a needy subgroup of the population. As welfare caseloads

decline and fewer expectant mothers receive assistance through the traditional welfare system, the importance of WIC could increase.

8-2-99

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Child Support Enforcement is Working Better Than We Think. Although the share of single mothers receiving child support has remained roughly the same (about 30 percent) over the past 20 years, child-support enforcement has actually improved, according to an Urban Institute study. The study finds that a shift in the composition of single mothers away from divorced or separated mothers toward never-married mothers has masked improvements in the receipt rate for both groups. Between 1976 and 1997, the receipt rate of never-married mothers increased from 4 to 18 percent while that of previously married mothers rose from 36 to 42 percent. However, the proportion of never-marrieds (with their lower receipt rates) increased from 17 percent in 1976 to 46 percent in 1997. The study estimates that over half of the rise in child support rates for never-married mothers and a third of the rise in child support receipt rates for previously married mothers can be attributed to greater enforcement efforts and the expansion of funding for child support enforcement.

Study Examines the Gender Gap in Retirement Income. On average, single women have less wealth and income in retirement than single men. In addition, women aged 65 and older are about twice as likely to live in poverty as are similarly-aged men. A number of studies have examined widowhood as an important determinant of these differentials, but a new study looks at differences in work histories, since women earn less on average than men, are concentrated in female-dominated fields, and work fewer years during their prime. The study finds that the first two of these factors significantly lower a single woman's retirement wealth and that the three combined can explain 85 percent of the retirement wealth gap. The authors conclude that if women's earnings continue to climb as they have over the past decade or so, future cohorts of women approaching retirement will enjoy higher well-being, both absolutely and relative to men. Continuation of the slow but steady observed fall in occupational segregation should contribute further to that improvement.

Recent Studies Show Sharp Differences in Well-Being in the DC Region. The District of Columbia ranks last in a recent ranking of the best states for raising children, well below its neighbors Maryland (7) and Virginia (23). This finding is complemented by a new Brookings Institution study finding that metropolitan Washington is prosperous but deeply divided. Signs of overall prosperity include a remarkably low regional unemployment rate and a growing number of jobs, partly due to the exploding technology industry; rising capital investment; and housing, retail, and office markets that are among the hottest in the country. However, the western areas (including parts of Northwest DC) typically enjoy wealth and prosperity while the eastern parts suffer from high rates of poverty. DC and Prince George's County are home to a disproportionately high percentage of the region's poor citizens, single mothers, and struggling schools. The area is also racially segregated, with 70 percent of the area's African American population living in DC or Prince George's County. Most of the region's job growth took place in the western parts and outside of the Capital Beltway.

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INTERNATIONAL ROUNDUP

OECD Warns Against Complacency in South Korean Restructuring. In its recent survey of the South Korean economy, the Organization for Economic Cooperation and Development noted that the country has been remarkably successful in overcoming the financial crisis at the end of 1997. The OECD concludes that supportive macroeconomic policies and progress in structural reform have laid the foundation for positive growth in 1999. However, the survey warns that the success to date should not lead to complacency about the necessity of fully implementing the new framework put in place after the crisis and in making additional improvements. A priority emphasized by the OECD is further progress in establishing a healthy, market-based financial system. The OECD also argues that much needs to be done to restructure the corporate sector, using the new governance framework that has been put in place. Events this week surrounding the restructuring of Daewoo, Korea's second largest chaebol (business conglomerate), have focused attention on the country's commitment to structural reform. After falling almost 15 percent over the previous 5 trading days, the Korean stock market rose over 6 percent on Tuesday, in part apparently on news that the government has strengthened its commitment to push corporate reform and that the restructuring of Daewoo would proceed apace. Meanwhile, the latest production data show that South Korea's industrial output rose 29.5 percent from a year earlier in June, the largest such increase since August 1988.

European Central Bank Keeps Interest Rates Unchanged. The Governing Council of the European Central Bank (ECB) decided at its July 29 meeting to keep interest rates unchanged, despite speculation earlier this week that an interest rate hike might be announced. The speculation was fueled by the recent remarks of ECB president Wim Duisenberg indicating that a reassessment of the ECB's interest rate policy might be appropriate once economic growth starts to accelerate. As discussed in the Chart of the Week, Duisenberg's comments were probably one factor contributing to the recent rise in the euro. In addition, positive market sentiment regarding the prospects for euro area output growth has been reflected in a narrowing of the gap between United States and euro area bond yields (as well as in the appreciation of the euro). The most recent ECB Monthly Bulletin discusses how new data point to a stabilization of overall output growth in the euro area in early 1999 and to an economic recovery in the second part of 1999 and into the year 2000. Press reports also indicate that the most recent German and French business confidence indexes were stronger than expected. On the monetary side, rapid credit expansion and sustained growth of the monetary aggregates at rates above the ECB's reference rate of 4.5 percent per year have raised concerns in some quarters about future price stability. For the present, however, the ECB has not decided to raise rates.

RELEASES THIS WEEK

Gross Domestic Product

According to advance estimates, real gross domestic product grew at an annual rate of 2.3 percent in the second quarter.

Employment Cost Index

The employment cost index for private industry workers rose 3.3 percent for the 12-month period ending in June.

Advance Durable Orders

Advance estimates show that new orders for durable goods rose 0.3 percent in June, following an increase of 0.8 percent in May.

Consumer Confidence

Consumer confidence, as measured by The Conference Board, fell 3.4 index points in July, to 135.6 (1985=100).

MAJOR RELEASES NEXT WEEK

NAPM Report on Business (Monday)
Leading Indicators (Tuesday)
Productivity (Thursday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970- 1993	1998	1998:4	1999:1	1999:2
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	4.3	6.0	4.3	2.3
GDP chain-type price index	5.4	0.9	0.8	1.6	1.6
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.5	2.7	4.3	3.5	N.A.
Real compensation per hour:					
Using CPI	0.6	2.6	2.2	2.6	N.A.
Using NFB deflator	1.3	3.8	3.8	2.6	N.A.
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	11.0	11.0	11.0	11.2
Residential investment	4.5	4.3	4.5	4.6	4.6
Exports	8.2	11.3	11.3	10.9	10.9
Imports	9.2	13.0	13.1	13.2	13.5
Personal saving	5.2	0.3	-0.0	-0.5	-0.8
Federal surplus	-2.7	0.9	0.8	1.4	N.A.
<hr/>					
	1970- 1993	1998	April 1999	May 1999	June 1999
Unemployment Rate (percent)					
	6.7**	4.5**	4.3	4.2	4.3
Payroll employment (thousands)					
increase per month			321	-5	268
increase since Jan. 1993					18895
Inflation (percent per period)					
CPI	5.8	1.6	0.7	0.0	0.0
PPI-Finished goods	5.0	0.0	0.5	0.2	-0.1

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

New or revised data in **boldface**.

FINANCIAL STATISTICS

	1997	1998	May 1999	June 1999	July 29, 1999
Dow-Jones Industrial Average	7441	8626	10854	10704	10791
Interest Rates (percent per annum)					
3-month T-bill	5.06	4.78	4.50	4.57	4.59
10-year T-bond	6.35	5.26	5.54	5.90	5.88
Mortgage rate, 30-year fixed	7.60	6.94	7.15	7.55	7.70
Prime rate	8.44	8.35	7.75	7.75	8.00

INTERNATIONAL STATISTICS

Exchange Rates	Current level July 29, 1999	Percent Change from	
		Week ago	Year ago
Euro (in U.S. dollars)	1.072	2.0	N.A.
Yen (per U.S. dollar)	115.2	-1.8	-19.1
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. \$)	95.06	-1.2	-4.5

International Comparisons ^v	Real GDP growth	Unemployment rate	CPI inflation
	(percent change last 4 quarters)	(percent)	(percent change in index last 12 months)
United States	4.1 (Q2)	4.3 (Jun)	2.0 (Jun)
Canada	3.2 (Q1)	8.1 (May)	1.6 (May)
Japan	0.1 (Q1)	4.7 (May)	-0.4 (May)
France	2.3 (Q1)	11.4 (Apr)	0.5 (Apr)
Germany	0.8 (Q1)	7.2 (May) ^z	0.4 (May)
Italy	0.9 (Q1)	12.1 (Apr)	1.6 (May)
United Kingdom	1.2 (Q1)	6.2 (Mar)	1.3 (May)

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 May was 9.1 percent.