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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

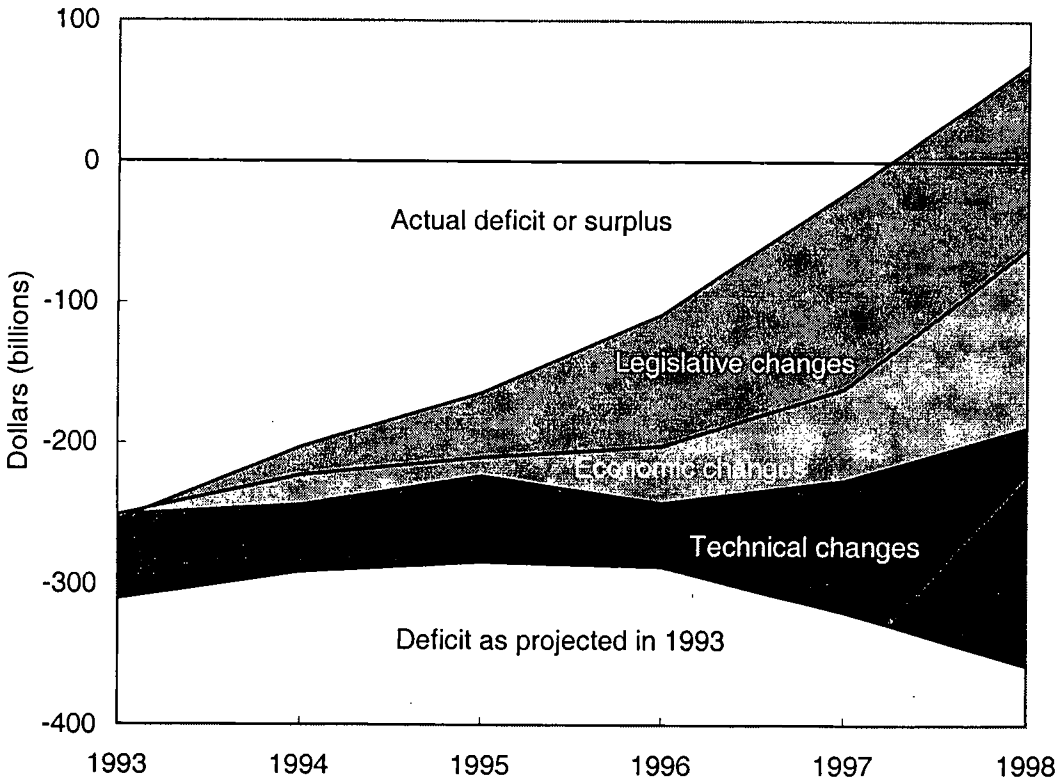
'00 FEB 4 AM 8:57

February 4, 2000

copied
Baily
Podesta

CHART OF THE WEEK

Actual Deficits or Surpluses Compared with 1993 Projections



The Congressional Budget Office's 1993 budget projections showed the Federal budget deficit worsening to $357 billion in 1998. In fact, the budget was in surplus by $69 billion. CBO estimates that $130 billion of this swing resulted from legislative changes, $127 billion from better economic performance, and $169 billion from changes in technical factors (such as overall trends in health care costs that affect Medicare, or the weather, which affects farm programs).

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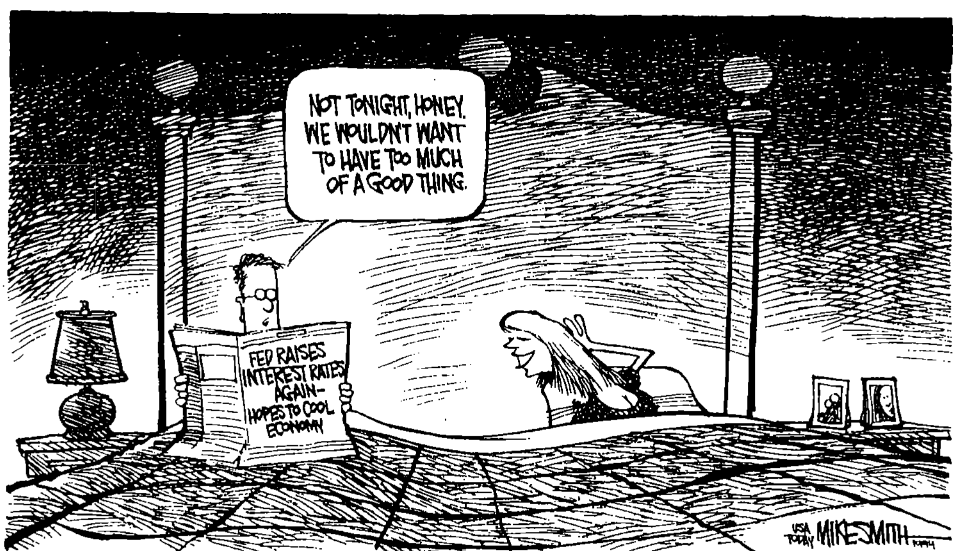
CURRENT DEVELOPMENT

ARTICLE

DEPARTMENTS



POOR SUSAN, SHE MARRIED AN OFFICIAL OF THE FEDERAL RESERVE.

CURRENT DEVELOPMENT

GDP Scorecard: Fourth Quarter 1999

Real GDP is estimated to have increased at a 5.8 percent annual rate in the fourth quarter of 1999 with strong growth in consumption, inventory investment, exports, and government spending. Growth over the four quarters of 1999 is estimated to have been 4.2 percent. Inflation—as measured by the price index for GDP—increased at a 2.0 percent annual rate in the fourth quarter, but only 1.6 percent over the whole year.

Component	Growth*	Comments
Total consumer expenditures	5.3%	Fourth-quarter consumption grew at the same rate as during the previous four quarters, and the saving rate fell further.
Equipment and software	4.9%	Growth was the weakest it has been in over a year. Investment in computers rose at only a 27 percent annual rate, well below the 46 percent pace over the previous 4 quarters. Motor vehicle investment fell.
Nonresidential structures	-5.3%	Spending has fallen in each of the past 4 quarters.
Residential investment	-1.2%	Housing starts peaked in the first quarter, and have come down since. Because housing starts remain high relative to what would be predicted based on demographics, this is not likely to be a growth sector.
Inventories (change, billions of 1996 dollars)	$65.4	Some of this very large inventory buildup may have been to buffer against feared Y2K disruptions. Nevertheless, final sales growth was strong enough to keep the inventory-to-sales ratio from rising.
Federal purchases	16.0%	Large gains were estimated in both defense and nondefense categories.
State & local purchases	4.4%	The fourth-quarter gain was similar to the pace over the previous four quarters. The surplus of state and local governments—about $46 billion over the most recent 4 quarters—has doubled over the past 2 years.
Exports	6.9%	Fourth-quarter growth was slightly better than the pace of the previous 4 quarters and may reflect emerging strength among our trading partners.
Imports	10.6%	About 40 percent of this large increase in imports was for capital goods. Another 30 percent of the increase was accounted for by consumer goods.

*Percent real growth in the fourth 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.

THE PRESIDENT HAS SEEN
2-11-00

ARTICLE

The 2000 *Economic Report of the President*

The 2000 *Economic Report of the President* will be released February 10. This article summarizes and highlights the chapters of the accompanying annual report of the Council of Economic Advisers.

Chapter 1: Sustaining a Record-Breaking Expansion.

This overview chapter describes how the Administration's policy strategy of investing in people and technology, opening international markets, and maintaining fiscal discipline has paid off in a record-breaking expansion. In addition, it contrasts this expansion with previous expansions and examines the question of whether we are in a new economy.

An expansion that is not just longer. Several features of this expansion are distinctive and heartening. First and foremost, the structural budget deficit shifted from deficit to surplus (rather than either growing or remaining large as in previous long expansions). This fiscal prudence has contributed to an investment-led expansion as relatively low real interest rates have spurred strong investment in technology and high-tech equipment. In addition, productivity growth has strengthened as the expansion has matured (typically it slows down); core inflation has declined despite falling unemployment (typically inflation rises with low unemployment); and capacity has roughly kept pace with output growth (typically capacity utilization rates increase more).

Rethinking inequality. The two-decade-long trend toward greater inequality has ended. Between 1993 and 1998, household incomes grew between 9.9 and 11.7 percent for each quintile of the income distribution. Since 1994, workers with only a high-school degree and those who have completed college have seen similar earnings growth; hourly wage growth for the lowest deciles has matched those in the top deciles. At the same time, however, the forces previously seen as causing greater inequality—technological change, the internationalization of the economy, and fiscal restraint—have never been stronger. Instead of aggravating inequality, however, rapid productivity growth and openness to trade have helped us to operate and sustain a high-employment economy, with opportunities for all. Deficit reduction has been compatible with more careful targeting of spending to increase funding for education, training and the Earned Income Tax Credit.

A New Economy? Since the previous cyclical peak in 1990, growth in GNP per capita has matched the 2.1 percent annual pace recorded for the century as a whole. Data from the past 5 years suggests, however, that we may have done better than just return to the good old days, and that the future could be even more prosperous. The challenge is to sustain this progress with the policy framework that has worked so well—maintaining fiscal discipline, investing in people and technology, and opening international markets.

Chapter 2: Macroeconomic Policy and Performance

This chapter provides a review of macroeconomic developments in the past year as well as the Administration's economic forecast and the near-term outlook for the economy. It also examines in detail the stock market boom, the changing nature of the business cycle, and the high investment economy.

A record-breaking year. A number of measures besides growth, unemployment and inflation show how strongly the economy performed in 1999. For example, the employment-to-population ratio of 64.3 percent topped last year's record. The proportion of American households owning their own homes climbed to a new high of 66.8 percent in 1999. Sales of new and existing homes also broke new ground last year and 16.8 million cars and light trucks were sold, the most ever.

The stock market boom. The bull market that began in 1995 is already the strongest since the 1930s and the sixth strongest in the last 200 years. The real return to stocks has averaged nearly 24 percent per year during the last 5 years, with technology stocks performing especially well in the past 2 years. No one has a definitive explanation for this run-up in stock prices, but the chapter analyzes two possibilities: a reduction in the equity premium owing to reduced costs of diversification and greater tolerance toward stock market risk; and improved prospects for future productivity growth related to investments in intangible capital and new technologies.

The end of the business cycle? Business cycles moderated in the second half of the 20th century, owing in part to fundamental changes in the economy, as well as changes in monetary and fiscal policy. For example, more cyclically sensitive sectors like manufacturing now account for a smaller share of employment and output than earlier this century, and volatile inventory stocks are less important.

The high-investment economy and productivity. The acceleration in productivity growth, from 1.4 percent per year between 1973 and 1995 to 2.9 percent per year since 1995, has been fueled by increases in real business investment—especially computers—along with increased productivity in the computer-producing sector. This pickup in productivity growth has supported real wage gains and temporarily lowered the unemployment rate consistent with stable inflation (the NAIRU), helping keep inflation in check.

The Administration forecast. Growth in real GDP is projected to moderate to 2.9 percent and 2.6 percent in 2000 and 2001, respectively. Although the 2000 figure was slightly above the consensus of professional forecasters when the GDP projection was finalized in November, it is now slightly below. Productivity is projected to grow an average of 2.1 percent per year over the next 4 years, similar to the average rate of growth since the last business-cycle peak. The unemployment rate is expected to remain at 4.2 percent for 2000, and then to edge upward slowly, reaching 5.2 percent in 2003—the middle of the range consistent with stable inflation in the long run. Inflation—as measured by the CPI—is projected to remain roughly stable over the 11-year projection horizon.

Chapter 3: Technology and the American Economy

This chapter examines the technological change that has driven growth in this expansion and in this century at the industry level. Technological change has created new industries and altered the competitive landscape of the American economy. Just as Ford changed manufacturing earlier in the century with his invention of the assembly line, today computers and information technology are changing how firms operate in our economy.

Growth in telecommunications and information technology. Two examples of these trends are evident in the telecommunications and information technology industries. The computer and telecommunications industries contributed between 21 and 31 percent of GDP growth in each of the years from 1995 to 1998. Investment in communications equipment grew by 13 percent annually from 1993 to 1998, spurred on in part by new investments by wireless phone companies that now serve more than 69 million subscribers. Computer usage in the home has also been rising, as has usage of the Internet. A recent survey found that more than 118 million Americans had access to the Internet, and more than 74 million were actively using this new communications medium.

The effect of information technology on the firm. Information technology has vast potential to enhance the economy's productivity and make firms more efficient. For example, one company found that by moving marketing and support functions online, it saved more than $300 million per year in operating costs. Use of information technology to support business-to-business e-commerce is also becoming increasingly important, as firms are finding new ways to use information technology to organize markets for selling industrial products like steel or conducting auctions among potential suppliers of customized parts. By one estimate, business-to-business e-commerce is expected to grow from $43 billion in 1998 to over $1.3 trillion by 2003.

Supporting new innovations. As technology becomes increasingly vital to our knowledge-based economy, a crucial task of government is to provide appropriate support for research and development. New technologies can create benefits with large spillovers to society, but firms may underinvest in R&D because they cannot appropriate the full benefits of that investment. By supporting research in a broad and balanced national R&D portfolio, the $43 billion investment in the 21st Century Research Fund proposed for fiscal 2001 has the potential to yield significant benefits in years to come.

Enhancing competition. Government can promote competition by changing the regulatory framework within which industries operate, as it did with the Telecommunications Act of 1996, which reduced barriers to entry in local telephone markets. Local competition is growing rapidly, and new entrants now account for 6 percent of revenues in these markets.

Chapter 4: Work and Learning in the 21st Century

This chapter analyzes how the nature of work has changed dramatically over the past 100 years and the challenges these changes pose for current policy. In 1900 over 40 percent of the work force was in agriculture, and another 28 percent was in manufacturing. Services, broadly defined, accounted for the remaining 31 percent. Today, agriculture accounts for less than 3 percent of employment, while the service-producing sector dominates with over 75 percent. The change in the industrial mix has been associated with a technological revolution—one that has touched the majority of jobs and put a premium on a new set of skills, including those related to the new information technologies.

The rising importance of skills and education. In 1940, 41 percent of whites and 12 percent of African Americans had completed high school. By 1998 both groups enjoyed about an 88 percent completion rate. Despite these impressive gains, it appears that in recent decades the demand for skilled workers outpaced the supply. The rise in the demand for basic computer skills illustrates this change. In 1984 about a quarter of all workers were using a computer at work, by 1997 that proportion had risen to virtually half. In fact, most jobs in today's labor market that are available to workers without a college degree require the ability to perform basic tasks involving reading, writing, or arithmetic, the use of computers, and the interpersonal skills to serve customers effectively. Only 8 percent of the jobs available to non-college graduates require none of these skills. Further, a sharp increase in the wages of college graduates relative to those without a college degree provides indirect but striking evidence of rising demand for workers with higher level skills. In 1999 male college graduates working full time were earning 68 percent more per week than comparable male high school graduates, and 147 percent more than those who had not completed high school. These figures are up from 29 and 57 percent, respectively, in 1979.

Growth in opportunities. This chapter also analyzes the increasing opportunities for women, minorities, and persons with disabilities. For example, through most of the 1960s and 1970s, the median full-time, full-year woman worker earned about 60 cents for every dollar earned by her male counterpart. More recently, this figure has been about 75 cents on the dollar (73 cents in 1998 in the series cited in the report). Women's earnings are even closer to men's when factors such as education and experience are held constant, but evidence of discrimination still exists.

Policy challenges. The challenge for public policy in the 21st century will be to develop an appropriate set of education and training policies: one that creates a framework of lifetime learning within which workers can acquire and maintain both the basic skills and the more technical skills they need in the new labor market. The last part of the chapter discusses the appropriate role of government in fostering this objective and Administration initiatives such as Head Start, the Technology Literacy Challenge, and the Workforce Investment Act.

Chapter 5: The Changing American Family

This chapter discusses how the opportunities and challenges facing American families have changed over the last hundred years as the increase in the number of dual-earner and single-parent families has eclipsed the traditional one-breadwinner, one-homemaker family. In particular, the chapter looks at the balance between the rewards of work and the needs and rewards of family time.

Key trends. The chapter identifies three important trends that have shaped the American family over the past century. First, 60 percent of females are now in the labor force, up from 20 percent in 1900. Second, increases in divorce and out-of-wedlock births mean that 28 percent of children now live in one-parent families, up from less than 10 percent in 1900. Finally, life expectancy has increased from less than 50 to well over 70 years, so that concern for their own retirement and care of elderly relatives are increasingly concerns of families today.

Increasing diversity across families. Traditional one-breadwinner, one-homemaker married couples have been declining as a share of all families (from 67 percent in 1952 to 27 percent in 1999). Dual-earner married couples, by contrast, now account for roughly half of all families, up from a fifth at mid-century. The share of families headed by a single householder is now 23 percent, up from 13 percent 50 years ago. Among these family types, the median income of dual-earner couples has always been higher than that of the others, and the gap has widened over the past half-century. The median income of married couples in which the wife has no earnings is less than three-fifths that of dual-earner married couples; the median income of families headed by single females is a little more than a third that of dual-earner married couples.

Increased educational attainment and greater labor force participation of wives have been particularly important in raising the incomes of dual-earner couples. Three-fifths of married mothers with earnings have at least some college (up from 22 percent in 1969). And 79 percent of married mothers with at least some college worked (up from 53 percent in 1969). Single mothers are also working more, but with lower average educational attainment, their earnings are lower.

Challenges: The "money crunch" and the "time crunch." Despite favorable income gains in the current expansion, many families experience a "money crunch" that makes it difficult to meet basic family needs. The money crunch affects poor and possibly also non-poor families, now that a car, a telephone, and perhaps even a computer are near-necessities and families have to set aside funds to educate their children and, increasingly, to take care of their aging parents. A second challenge families face is the "time crunch": a shortage of time to devote to family needs, because the increased participation of parents, especially mothers, in the labor force reduces time at home. The chapter's discussion of the money and time crunches includes a discussion of Administration policies to address them—including the Family and Medical Leave Act, expansions of the EITC, and the child care and long-term care initiatives.

Chapter 6: Opportunity and Challenge in the Global Economy

This chapter describes the importance of global economic integration in producing unprecedented prosperity in the United States and much of the rest of the world. It focuses on the role of technology and policy in driving integration, as well as the benefits and challenges globalization brings.

The fall and rise of the global economy. Trade and, to a much lesser extent, investment links were well established a century ago, but both deteriorated during the interwar period. Over the past 50 years, however, international trade and investment have risen sharply. Economic globalization—the worldwide integration of national economies through trade, capital flows, and shared production arrangements—has never before been as broad or as deep as today. U.S. trade (exports plus imports) has amounted to nearly 25 percent of GNP in recent years, its highest point in at least a century. Global capital flows have soared even more dramatically. Cross-border transactions in bonds and equities have exploded, amounting to about 223 percent of GNP in the United States in 1998, compared with only 9 percent of GNP in 1980.

The forces behind globalization. Technological improvements—in transportation, communications, information technology, and other areas—have reduced the costs of doing business internationally. In 1930, for example, a 3-minute phone call from New York to London cost $293 in 1998 dollars. By 1998, one widely subscribed discount plan charged only 36 cents for a clearer, more reliable 3-minute call. Such improvements have also increased the range of possible commercial transactions, particularly in financial markets. Policy has also played an active role in reducing barriers to trade and investment. Since the creation of the GATT in 1948, import tariffs on industrial products in industrial countries have dropped by about 90 percent. Especially since the 1970s, many countries have decided to remove restrictions on capital flows.

The benefits of a global economy. Globalization raises living standards. It improves efficiency, promotes innovation, encourages technology transfer, and otherwise enhances productivity growth. Through trade, countries can shift resources into their most internationally competitive sectors. Recent studies show substantial wage premiums in U.S. jobs supported by goods exports—on the order of 15 percent. Consumers also enjoy less expensive and more varied products. Global capital flows can help countries invest more effectively. Foreign direct investment, as well as trade, can help spread international best practices.

The challenges of globalization. International economic integration, like other sources of growth, involves tradeoffs. Even as the nation benefits overall, some industries and their workers may find themselves facing sharp international competition. Moreover, global capital flows help promote growth, but can disrupt economies when they reverse course. Sound policy can help ensure that the benefits of economic integration are shared as widely as possible.

Chapter 7: Making Markets Work for the Environment

Economic growth brings abundant benefits but it can also unleash a wide array of environmental problems. Fortunately the same economic dynamism that gives rise to these problems also provides the income and the know-how needed to address them. The challenge in addressing environmental problems lies in harnessing the power of markets to deliver continued economic growth and foster sound environmental practices.

Environmental problems through the 20th century. In 1900, one of the most common environmental problems was the accumulation of horse manure on city streets, which posed public health problems. While the automobile eventually solved this problem, it brought others in its wake. Over time, other environmental problems became apparent, often reflecting a growing and changing economy. Concerns about pesticide use, burning rivers, and smog-filled skies brought more attention to environmental problems culminating in the 1970 Earth Day, which spurred new legislation. While these laws' traditional, usually inflexible, regulatory approaches improved environmental quality since 1970, they also carried significant costs. By 1990, the costs of environmental pollution control had reached $125 billion annually.

The U.S. experience with market-based approaches. In light of the higher costs of traditional regulations, innovative efforts to address environmental problems through market-based incentives—such as emissions permit trading and emissions charges—have been pursued to achieve environmental goals at lower cost than traditional approaches. The experiences with tradable permit programs, including efforts to reduce local air pollutants, the lead content of gasoline, and acid rain-causing sulfur dioxide, illustrate the substantial cost-savings from market-based approaches. Compared with a traditional regulatory approach, the sulfur dioxide trading program has achieved annual cost-savings of up to $1 billion. Phasing down lead in gasoline resulted in an extraordinary reduction in lead emissions: 1997 lead emissions were 50 times lower than 1970 emissions. Charging households for each unit of solid waste set out for collection reduces waste sent to landfills. None of the market-oriented approaches undermined the achievement of environmental goals. More cost-effective attainment of environmental goals depends in large part on the design of markets tailored to the specific characteristics of an environmental problem.

Applying these lessons to climate change. Perhaps the leading environmental challenge of the 21st century will be to address the risks associated with global climate change. The characteristics of the climate change challenge create great potential for emissions trading and similar flexibility mechanisms to reduce greenhouse gas emissions. Lessons drawn from our domestic experience support the Administration's advocacy of rules that would promote an efficient international trading system. Expanding the number of countries participating in trading would both reduce the costs of U.S. compliance with its Kyoto target and promote technology transfer to and investment in developing countries.

Conclusion: A Century of Change: New Opportunities For The Future

The conclusion draws together the report's findings on how the 20th century was one of dramatic growth, change, and new opportunity. Technological innovation, globalization, and demographic shifts were key drivers of those changes, creating new industries, altering the nature of work, and reshaping the typical family.

A look back. At the turn of the century, fewer than 10 percent of homes had electricity. Fewer than 2 percent of people had telephones. A car was a luxury for only the wealthy. Health and sanitation problems, such as typhoid fever spread by contaminated water, were common. One in 10 children died in infancy. Average life expectancy was just 47 years. 80 percent of children lived in a family with a breadwinner-father and homemaker-mother. Fewer than 10 percent lived in single-parent homes. Widowhood was far more common than divorce. Fewer than 14 percent of Americans graduated high school.

More than 40 percent of the work force worked on farms. Average income per capita, in 1999 dollars, was about $4,200. About 80 percent of women worked at home or on the farm. Only about 30 percent of workers were employed in services, which made up just 2 percent of U.S. exports. International trade equaled about 15 percent of GNP, but there was relatively little integration of national economies through investment and production arrangements.

The American economy today. Infant mortality has dropped by more than 90 percent over the course of the century. Life expectancy has increased by about 30 years. Typhoid, cholera, smallpox, and polio have been dramatically reduced or even eliminated through improved sanitation and the widespread use of vaccines. Average income per capita is now $33,740, more than eight times what it was in 1900. Just 3 percent of the labor force now work on farms. More than 40 percent of employment is in industries that use information technology intensively. Services account for half of the 20 million new jobs created over the last 7 years and about 29 percent of exports. More than 80 percent of Americans over 25 have finished high school, and almost a quarter have graduated college.

Women now graduate high school and college at slightly higher rates than men. Over 75 percent of women aged 25-44 are in the work force. Women and minorities work in a broad range of industries that previously were closed to them. The "typical" family has been redefined. Some 28 percent of children now live in single-parent families; another 44 percent live in families where both parents work for pay. Only 24 percent of children live in what used to be the typical model of a breadwinner-father and homemaker-mother.

Looking ahead. Americans today are more prosperous and have more choices than ever before. But these new opportunities have also brought new challenges for policymakers—such as helping prepare workers for the increasingly global, competitive, technology-driven economy; and helping families cope with the competing demands of work and family.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Inventory Management Helps Make Economy More Stable. Since 1984 the variability of quarterly real GDP growth has been only half that of the preceding 25 years. Changes in all major components of GDP have contributed to the increase in stability, with inventory investment and consumer spending contributing the most, according to a New York Federal Reserve Bank study. Increased stability in inventory investment has been the most important contributor, possibly due to structural changes in inventory management. For example, just-in-time ordering methods enable firms to decrease the lead time in which they must purchase materials, thereby allowing them to react more quickly to unexpected shifts in demand and avoid extreme fluctuations in inventories. Increased stability in residential investment over these two periods was also found to have had a stabilizing effect. Regulatory and structural changes in the 1980s (such as the elimination of interest rate ceilings on deposits) very likely contributed to the sector's stability, largely by enabling banks and other financial institutions to stabilize the supply of funds for housing investment.

Study Examines Impact of Taking Leave. While the Family and Medical Leave Act legally guarantees 92 million workers the right to spend needed time with family members, it cannot guarantee how leave-takers are treated upon their return to the workplace. A recent study found managers who had taken leaves of absences in the early 1990s received significantly fewer promotions and smaller salary increases than managers who had not done so, even after controlling for performance ratings. The study found that there was no greater penalty attached to a family leave (which might be viewed as voluntary) than to sick leave. Also, women managers who took leaves of absence were not punished more severely than their male counterparts. (However, 89 percent of the leave-takers were women, indicating penalties did apply primarily to them.) The study notes that wage penalties incurred by women taking job-protected family leave were relatively small, particularly in comparison with the wage penalties associated with career interruptions—though the two are not strictly comparable.

Congregations Provide Social Services. Over one-third of religious congregations indicated in a recent survey that they might apply for government money to support human services programs, such as grants and contracts provided by government agencies implementing "charitable choice" provisions. Currently, 57 percent of congregations surveyed participate in social service projects. However, only a small minority administer their own programs. The majority either support projects run by other organizations or work in collaboration with other organizations. Congregations are more likely to engage in activities that address the immediate needs of individuals for food, clothing, and shelter than in projects or programs that require sustained involvement to meet long-term goals. The study also found that very large congregations, predominantly African American congregations, Catholic congregations, and theologically liberal or moderate Protestant congregations expressed the greatest interest in the proposed charitable choice provisions.

INTERNATIONAL ROUNDUP

World Bank Launches Global Emissions Trading Prototype. The World Bank recently launched a $150 million Prototype Carbon Fund ("PCF")—the world's first global emissions trading fund intended to address climate change. Using contributions from four European governments and nine primarily Japanese companies, the PCF will fund cleaner technologies in developing and transitional economies to reduce greenhouse gas emissions. After verification by an independent party, these reductions will be transferred to the Fund's contributors in the form of emissions reduction certificates. Depending on the rules developed at the next climate change negotiations at The Hague in November 2000, these certificates may eventually be used to satisfy future greenhouse gas emissions limits. The World Bank, which will aid in negotiating a price for the emissions reductions, hopes to establish prices of roughly $20 per ton of carbon reduced. This price, which is consistent with a range of abatement cost estimates made by the Administration, would allow industrialized countries to comply with their emissions limits at a reduced cost while simultaneously offering developing and transitional countries an opportunity to gain advanced technology and a new source of revenue. The PCF has already identified several potential projects and plans to begin operations in April 2000.

New Rice May Save Millions of Lives. Scientists at the Swiss Federal Institute of Technology's Institute for Plant Sciences have developed a new rice strain that could save millions of lives and improve maternal and child health in developing countries by increasing the iron and Vitamin A content of the rice grain. This development, which results from genetically modifying rice grains, should help alleviate Vitamin A deficiency, which afflicts 124 million children worldwide, causes over 1 million childhood deaths each year, and is the single most important cause of blindness among children in developing countries. In related research, the International Rice Research Institute, using traditional plant breeding techniques, has developed a rice high in iron and zinc. According to the World Bank, between 40 and 50 percent of children under age 5 in developing countries are iron deficient.

RELEASES THIS WEEK

Employment and Unemployment
****Embargoed until 8:30 a.m., Friday, February 4, 2000****

In January, the unemployment rate was 4.0 percent; it was 4.1 percent in December. Nonfarm payroll employment rose by 387,000.

Leading Indicators

The composite index of leading economic indicators increased 0.4 percent in December following an increase of 0.3 percent in November.

NAPM Report on Business

The Purchasing Managers' Index declined 0.5 percentage point to 56.3 percent in January. (A reading above 50 percent indicates that the manufacturing economy is generally expanding.)

MAJOR RELEASES NEXT WEEK

Productivity (Tuesday)
Retail Sales (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1999	1999:2	1999:3	1999:4
Percent growth (annual rate)					
Real GDP (chain-type)	3.0	4.2	1.9	5.7	5.8
GDP chain-type price index	5.2	1.6	1.3	1.1	2.0
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.7	N.A.	0.6	4.9	N.A.
Real compensation per hour:					
Using CPI	1.0	N.A.	1.2	2.1	N.A.
Using NFB deflator	1.5	N.A.	2.9	4.4	N.A.
Shares of Nominal GDP (percent)					
Business fixed investment	11.4	12.6	12.6	12.7	12.5
Residential investment	4.5	4.4	4.5	4.4	4.4
Exports	8.2	10.8	10.7	10.8	10.9
Imports	9.2	13.5	13.4	13.8	14.1
Personal saving	6.6	1.7	1.8	1.5	1.4
Federal surplus	-2.8	N.A.	1.3	1.4	N.A.

	1970-1993	1999	November 1999	December 1999	January 2000
Unemployment Rate (percent)	6.7**	4.2**	4.1	4.1	**4.0**
Payroll employment (thousands)					
increase per month			**257**	**316**	**387**
increase since Jan. 1993					**20790**
Inflation (percent per period)					
CPI	5.8	2.7	0.1	0.2	N.A.
PPI-Finished goods	5.0	3.0	0.2	0.3	N.A.

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

New or revised data in **boldface**.
Employment and unemployment data **embargoed until 8:30 a.m., Friday, February 4, 2000**.

FINANCIAL STATISTICS

	1998	1999	December 1999	January 2000	Feb. 3, 2000
Dow-Jones Industrial Average	8626	10465	11246	11281	11013
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.20	5.32	5.46
10-year T-bond	5.26	5.65	6.28	6.66	6.49
Mortgage rate, 30-year fixed	6.94	7.43	7.91	8.21	8.25
Prime rate	8.35	8.00	8.50	8.50	8.50 [p]

[p] As of February 3, 2000, the prime rate at a number of banks has moved to 8.75 percent.

INTERNATIONAL STATISTICS

Exchange Rates	**Current level February 3, 2000**	**Percent Change from**	
		Week ago	**Year ago**
Euro (in U.S. dollars)	0.989	-0.0	-12.8
Yen (per U.S. dollar)	107.9	2.9	-4.0
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. $)	94.58	1.0	2.6

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	4.2 (Q4)	**4.0** (Jan)	2.7 (Dec)
Canada	4.2 (Q3)	6.9 (Nov)	2.6 (Dec)
Japan	1.0 (Q3)	4.6 (Nov)	-1.1 (Dec)
France	2.9 (Q3)	10.7 (Nov)	1.3 (Dec)
Germany	1.3 (Q3)	9.0 (Nov)[2/]	1.2 (Dec)
Italy	1.2 (Q3)	12.1 (Apr)	2.1 (Dec)
United Kingdom	1.8 (Q3)	5.9 (Sep)	1.8 (Dec)

U.S. unemployment data **embargoed until 8:30 a.m., Friday, February 4, 2000**.

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 unified Germany.