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THE PRESIDENT HAS SEEN
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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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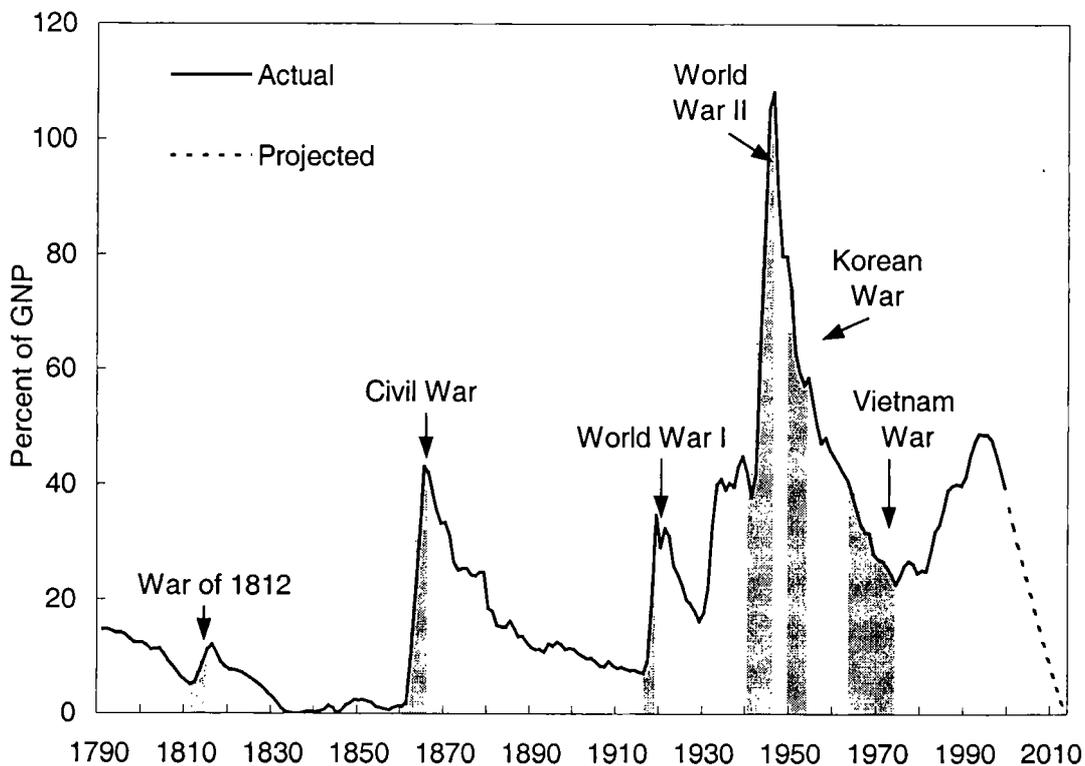
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

February 11, 2000

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Entire Report:
Bailey
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CHART OF THE WEEK

Federal Debt Held by the Public as a Percent of GNP, 1791-2013



Publicly held Federal debt relative to GNP has generally risen sharply in times of war, and otherwise has tended to decline. Two notable exceptions are the Vietnam War when the debt-GNP ratio fell, and the 1980s and early 1990s, when the debt-GNP ratio rose steadily although the country was mostly at peace. Projections are based on the 2001 Budget. GNP data for 1791-1868 are very rough estimates.

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OF THE BUREAU OF THE UNITED STATES
DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC RESEARCH

RESEARCH REPORT

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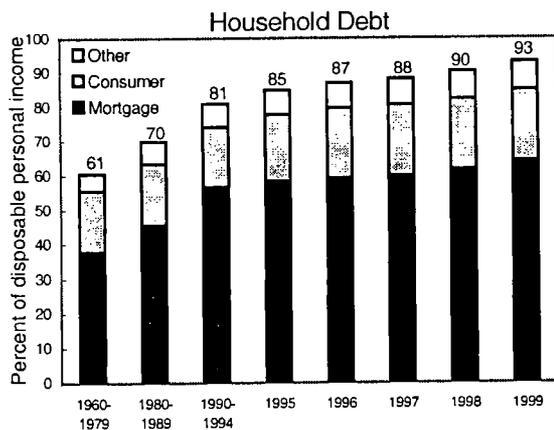
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CURRENT DEVELOPMENT

The Financial Condition of Households

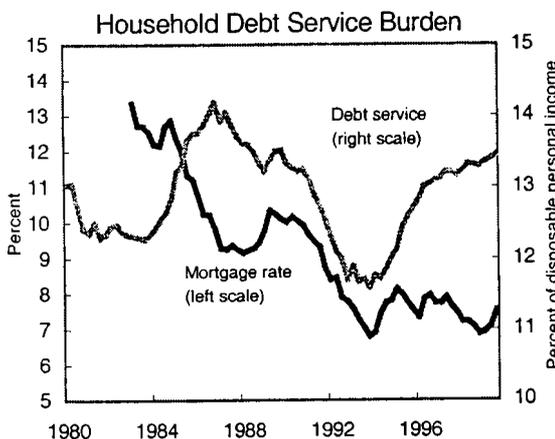
Consumer debt increased 7.6 percent in 1999, well above the 5.4 percent increase recorded in 1998. Total household debt (including home mortgages and other debt) increased 9 percent at an annual rate over the first three quarters of 1999 (the latest period for which data are available), up a bit from the rate of increase in 1998. Real estate loan delinquency rates remain low and stable while the number of personal bankruptcies fell for the first time in 4 years.

Trends in household debt. Household debt increased more than 3 percentage points faster than disposable personal income in 1999. Although household debt has been growing faster than disposable income for most of the postwar period, the divergence in these growth rates has been more pronounced over the last 2 years. As a result, the level of household debt reached about 93 percent of disposable personal income in 1999



Growth in non-consumer debt, although strong, is well below the torrid pace witnessed in the mid-1990s. The composition of household debt has shifted over time with mortgages now accounting for nearly 69 percent of household debt, up about 4 percentage points from the 1980s.

69



Debt service burden. The ratio of debt service to disposable income reached 13.4 percent in the third quarter of 1999, slightly above the 20-year average of 12.9 percent (lower chart). The recent rise in the debt service burden reflects rising debt levels and a pickup in interest rates on car loans and home mortgages. Looking forward, further increases in interest rates would likely push the debt service burden upward.

Indicators of financial distress. The real estate loan delinquency rate remained below 2 percent through the first three quarters of 1999 and has been trending downward since peaking at over 7½ percent in 1991. The delinquency rate for non-mortgage consumer loans remained stable at about 3¼ percent. Based on preliminary data, there were 1.3 million personal bankruptcies in 1999—112,000

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fewer than in 1998. This marks a reversal of the trend that saw bankruptcies rise by nearly 80 percent from 1994 to 1998.

Conclusion. Although growth in household debt continues to outstrip that of income, loan delinquency rate has remained stable and personal bankruptcies have fallen sharply. With debt service burdens already high, however, a drop-off in income growth or an increase in interest rates could put pressure on household finances.

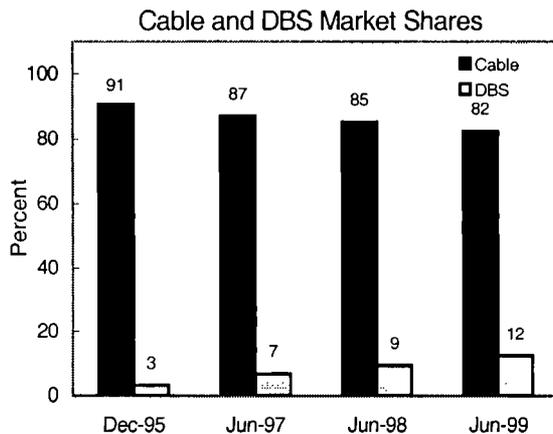
SPECIAL ANALYSIS

Competition for Cable TV

The Federal Communications Commission recently released its sixth annual report assessing the status of competition in markets for the delivery of video programming. The report finds that competition to cable from direct broadcast satellite (DBS) is growing, and that cable prices are not escalating as rapidly as in the past.

Cable TV and DBS. Cable TV has been the dominant technology for delivering multichannel programming, but the superior quality of DBS technology appears to be eroding cable's market share. Historically, cable systems have been based on analog technology that limits the number of channels available to subscribers. DBS operators use satellites to transmit digital programming to their subscribers' small dishes. This digital technology enables DBS to deliver more channel capacity than many cable systems, digital quality pictures, and specialized programming. In response to this new competitor, cable providers have been investing in upgrading their systems and offering more channels using digital technology. According to cable industry data, while about 64 percent of all cable subscribers are served by systems with 54 or more channels, only about 5 percent of cable subscribers are served by systems with more than 90 channels. By comparison, DBS firms are able to offer packages with more than 100 channels of programming.

Market share shifts. Since 1995, cable's share of the multichannel programming market has declined from 91 percent to 82 percent (see chart). At the same time,



DBS technology has grown from just 3 percent to about 12 percent of the market. Although DBS gets a number of customers from areas not served by cable, about 60 percent of its customers have access to cable. The largest DBS operator (DirecTV) has about 9 percent of all multichannel subscribers, which makes it the third largest multichannel programming provider after AT&T and Time Warner.

Cable prices. Between December 1998 and December 1999, cable prices increased 2.8 percent, far less than the 6.9 percent increase between December 1997 and 1998. Part of these rate increases were driven by higher prices for programming, which increased about 15 percent between 1998 and 1999. Cable firms have also been investing heavily in upgrading their systems, and are expected to have spent nearly \$7 billion on system rebuilds and upgrades during 1999.

DBS competition and improved cable service. Direct evidence of competition's effect on reducing cable prices comes from areas where one cable system "overbuilds" another, and then competes head-to-head for the same customers. Examples of overbuilds, however, are comparatively rare. Because DBS is available nationwide, it is difficult to discern the direct effect of DBS competition on cable rates. Nonetheless, competition from DBS for cable does appear to provide an incentive for cable providers to upgrade their systems to compete with the greater number of channels offered by DBS.

Recent changes brought about by SHVIA. Until recently, one of the principal limitations of DBS service was the inability to offer local broadcast channels via satellite. With the signing of the Satellite Home Viewer Improvement Act (SHVIA) in November 1999, satellite providers can now retransmit local broadcasts into local markets. DBS providers now offer local TV broadcasts in a number of major cities, making further inroads into cable TV's market share likely as competition among multichannel program providers intensifies.

C. C. Sawyer
Sex Culture

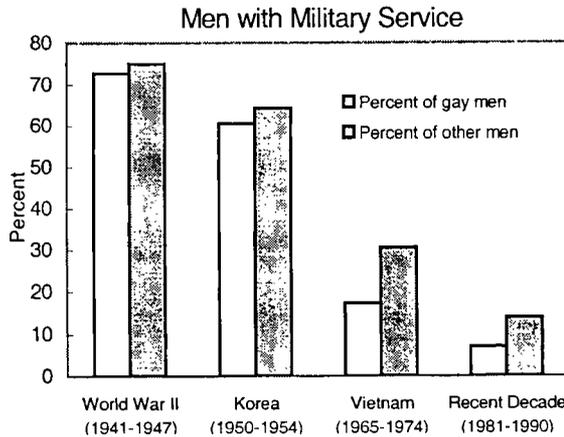
SPECIAL ANALYSIS

Historical Trends of Gays and Lesbians in the Military

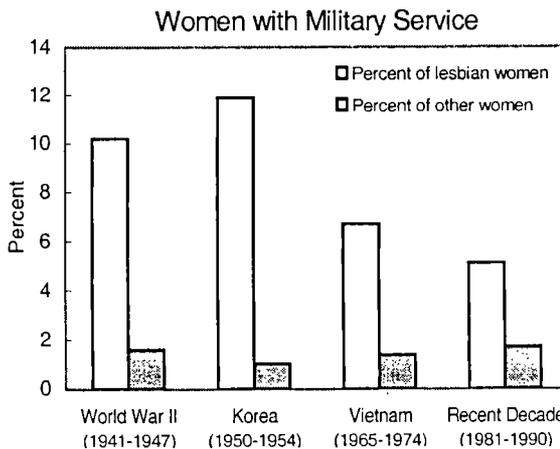
Over the past several decades many gay men and lesbian women have served in the United States military. Until very recently, though, there has been virtually no demographic research to document even basic facts about this record of service.

Rates of military service. In a survey of several thousand adults conducted from 1988 to 1994, about 17 percent of gay men indicated that they had served in the military, compared with 32 percent of heterosexual men. About 8 percent of lesbian women had served in the military, compared with 14 percent of heterosexual women. Analysis of same-sex partners in the 1990 Census yields patterns of military service that mirror the survey results (though it is not possible with Census data to examine non-partnered gays and lesbians).

Cohort analysis of military service for men. Cohort analysis of the same-sex partner data from the Census reveals some interesting trends in military service.



Gay men who reached draft age (age 18) during the World War II or Korean Conflict eras served in the military in nearly the same proportions as other men. In addition, during these eras the average number of years of service was only slightly lower for gay military men than for other men. The rate of military service has been falling for men in general over the past several decades, and has been falling more rapidly for gay men. Among men turning age 18 from 1981 to 1990 the fraction of gay men with military service was about half as large as for other men, and the length of service was about 1 year shorter.



other women in these cohorts, less than 2 percent served at some time. Moreover, lesbian military women accumulated far more years of duty than other women. Among women turning 18 during the Korean Conflict era, for instance, lesbian servicewomen averaged 3.5 years compared with 0.6 years for other women.

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Indeed, in the Korean and Vietnam Conflict eras, average years of service for lesbians in the military were similar to the number of years served by men. More recently, there has been a narrowing in the large differences between lesbian women and other women in military service rates, perhaps as a result of changes in military policy that previously barred married women and pregnant women from service.

Conclusion. Best estimates indicate that gays and lesbians make up less than 5 percent of the population. Nonetheless, the service record of this group is of considerable interest. Large numbers of gays and lesbians have served in the U.S. military—many, no doubt, with honor and distinction. Gay men were about as likely as other men to serve in the military during World War II and the Korean Conflict eras, periods when a high percentage of young men were drafted. Lesbian women were more likely to serve than other women during these periods. Indeed, over this span gays and lesbians combined served in the military in higher proportion than heterosexual individuals. However, younger cohorts of gay men are much less likely than other men to have military service, and traditionally high service rates for lesbian women have also declined. Changing social norms about gay “openness” combined with the military policy on sexual orientation and the conversion to an all-volunteer military have likely contributed to these trends.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

BP Amoco/Arco Merger Challenged by FTC. The Federal Trade Commission announced last week that it would challenge the proposed merger between BP Amoco and Arco. The FTC argues that the merger would lessen competition in the exploration and production of Alaskan crude oil and in its sale to West Coast refineries. Some West Coast refineries specialize in processing Alaskan crude oil, and the combined company could use its 75 percent share of Alaskan oil production to raise prices by restricting the supply of Alaskan crude oil. The FTC argues that BP Amoco discriminates in price among these refiners, charging the highest price to refiners that have the least ability to substitute for Alaskan oil while charging lower prices to those with more flexibility. The FTC's next step will be to seek a preliminary injunction in court to stop the merger. A crucial issue for the court will be determining whether the market for Alaskan crude oil on the West Coast is distinct from the world market. If crude oil from the rest of the world can be readily substituted for Alaskan crude, then BP Amoco would be unable to use its control of Alaskan oil to raise prices without encouraging imports from other sources.

Welfare-to-Work May Not Be Enough. According to a study which has received much attention recently (but has not yet been published in full), welfare reform's goal of improving child outcomes is unlikely to succeed unless several factors are addressed. Despite evidence that high-quality child care can improve early learning, the quality of child care used by the study's sample of current and former welfare mothers was generally quite low. In center-based care, educational materials were often scarce and little reading or storytelling was observed. In home-based care, where most children were placed, there were even fewer educational materials, and much greater use of television and videos. In addition, these children's early learning and development may be limited by uneven parenting practices and high rates of maternal depression. Although the authors acknowledge that they cannot draw causal links between welfare reform and poor child development outcomes, they argue that welfare-to-work alone may not improve children's well-being without addressing these deeper issues.

Why Don't Households Save? Vast differences exist in the wealth holdings of American households with a large percentage arriving close to retirement with little or no wealth, according to a recent study using data from the Health and Retirement Survey. One quarter of households where the respondent was between 50 and 61 years of age had less than \$30,000 in net worth, and one-tenth had a net worth of \$850 or less. Moreover, savings are often invested in low-return assets: nearly one-half of these households do not own any stocks, bonds, or real estate. Planning for retirement appears to be one predictor of wealth: households who plan accumulate significantly more wealth by retirement age. Unfortunately, about one-third of households nearing retirement have done little or no planning for retirement. Factors that tend to raise the likelihood of retirement planning include education level, being married, and having a sibling older than 62.

INTERNATIONAL ROUNDUP

Oil Prices in 2000 May be Higher than Previously Expected. The U.S. Energy Information Administration (EIA) recently raised its average crude oil price forecast for 2000 by \$2 per barrel, assuming continued decline in world petroleum inventories and greater compliance by OPEC to targeted cuts. Prices in the futures market showed a similar pattern. The EIA still expects that OPEC production will increase substantially in 2000, although more slowly than previously projected. If OPEC production does expand as assumed, crude oil prices should gradually recede in the second half of 2000 after remaining relatively high for the first half of the year. The average cost per barrel of crude oil imported into the United States (a broad gauge of international oil costs) is projected to fall from around \$25 per barrel this January to about \$22.50 per barrel by January 2001, and continue to fall the rest of that year. On average, world demand will still exceed production this year, so a net withdrawal from inventories worldwide is expected. However, year-over-year declines in stocks are expected to end during the second half of 2000.

Japan's Economy Continues to Struggle. Japan's Economic Planning Agency said this week that the economy is likely to have contracted during the fourth quarter of 1999. This follows on the heels of the third quarter's 4 percent (annual rate) decline in real GDP. Recent high-profile job cuts, lower year-end bonuses, and falling wages are thought to have contributed to a sharp drop-off in December household spending, making 1999 the seventh straight year of decline. On a more positive note, industrial production rose in the fourth quarter of last year, and data released yesterday showed a larger-than-expected gain in private industrial machinery orders in December 1999, boosting hopes that higher private capital investment will bolster the economy.

FDI Flows Rose Sharply in 1999. Worldwide flows of foreign direct investment (FDI) rose 25 percent in 1999 to a record \$827 billion, according to preliminary estimates by United Nations Conference on Trade and Development. This increase follows a 41 percent jump in 1998, and marks a more than doubling of FDI flows over the last 3 years. In the industrialized countries cross-border mergers and acquisitions have become the primary mode of entry into foreign markets, and are growing in importance in developing countries. In 1999, the United Kingdom overtook the United States as the largest outward investor for the first time since 1988, while the United States likely remained the world's largest recipient of foreign direct investment. FDI flows to developing countries rose last year by 15 percent after stagnating in 1998, with China the largest recipient at \$40 billion.

RELEASES THIS WEEK

Retail Sales

****Embargoed until 8:30 a.m., Friday, February 11, 2000****

Advance estimates show that retail sales rose 0.3 percent in January following an increase of 1.7 percent in December. Excluding sales in the automotive group, retail sales declined 0.3 percent following an increase of 1.9 percent.

Productivity

Nonfarm business productivity rose 5.0 percent at an annual rate in the fourth quarter of 1999. Manufacturing productivity rose 10.7 percent.

MAJOR RELEASES NEXT WEEK

Industrial Production and Capacity Utilization (Tuesday)
Housing Starts (Wednesday)
Producer Prices (Thursday)
Consumer Prices (Friday)
U.S. International Trade in Goods and Services (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
<u>Nonfarm business (NFB) sector:</u>					
Productivity (chain-type)	1.7	3.3	0.6	5.0	5.0
Real compensation per hour:					
Using CPI	1.0	1.8	1.2	2.0	1.1
Using NFB deflator	1.5	2.9	2.9	4.0	1.8
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.
<hr/>					
	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**.

FINANCIAL STATISTICS

	1998	1999	December 1999	January 2000	Feb. 10, 2000
Dow-Jones Industrial Average	8626	10465	11246	11281	10644
Interest Rates (percent per annum)					
3-month T-bill	4.78	4.64	5.20	5.32	5.50
10-year T-bond	5.26	5.65	6.28	6.66	N.A.
Mortgage rate, 30-year fixed	6.94	7.43	7.91	8.21	8.36
Prime rate	8.35	8.00	8.50	8.50	8.75

INTERNATIONAL STATISTICS

Exchange Rates	Current level	Percent Change from	
	February 10, 2000	Week ago	Year ago
Euro (in U.S. dollars)	0.987	-0.2	-12.9
Yen (per U.S. dollar)	108.7	0.8	-5.0
Major currencies index (Mar. 1973=100) (trade-weighted value of the U.S. \$)	94.99	0.4	2.9

International Comparisons ^{1/}	Real GDP growth	Unemployment rate	CPI inflation
	(percent change last 4 quarters)	(percent)	(percent change in index last 12 months)
United States	4.2 (Q4)	4.0 (Jan)	2.7 (Dec)
Canada	4.2 (Q3)	6.9 (Dec)	2.6 (Dec)
Japan	1.0 (Q3)	4.6 (Nov)	-1.1 (Dec)
France	2.9 (Q3)	10.4 (Dec)	1.3 (Dec)
Germany	1.3 (Q3)	8.8 (Dec) ^{2/}	1.2 (Dec)
Italy	1.2 (Q3)	12.1 (Apr)	2.1 (Dec)
United Kingdom	1.8 (Q3)	5.9 (Oct)	1.8 (Dec)

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.