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THE PRESIDENT HAS SEEN
6-15-98

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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

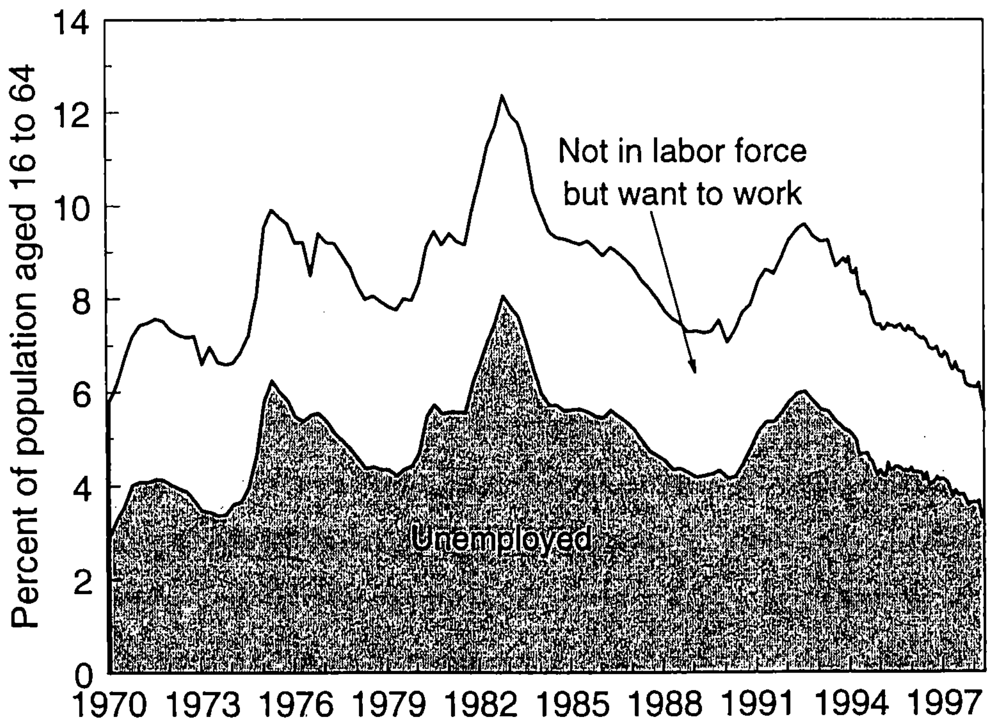
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

June 12, 1998

Copied entire report: Yellen COS page 8 Emanuel Sperling COS

CHART OF THE WEEK

People Without Jobs Who Want to Work



In congressional testimony this week, Federal Reserve Chairman Greenspan noted that the percentage of persons aged 16 to 64 who wanted to work but did not have jobs had fallen to slightly more than 5½ percent—a record low for this series, which first became available in 1970. This statistic, which includes both the unemployed and those who wanted a job but had not looked for work (and were therefore treated as not in the labor force) is a measure of how tight labor markets have become.

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DEPARTMENTS

"All I'm saying is now is the time to develop the technology to deflect an asteroid."

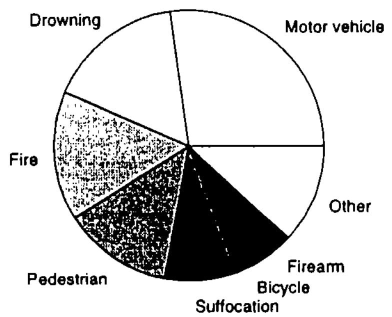
TREND

Growing-up Risks Are Going Down

Until about 1970, the main reason for reductions in child mortality was progress against infectious disease and other medical conditions. Since then, a large part has come from reductions in deaths due to injuries.

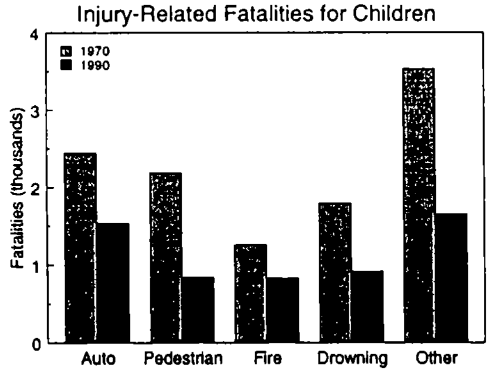
Current levels. Unintentional injuries represent the number-one cause of death for children aged 1 to 14. The major causes of these injuries are accidents affecting motor vehicle passengers, pedestrian accidents (which often involve collisions between cars and pedestrians), drowning, fires, suffocation, bicycle accidents, and firearm accidents (see upper chart). Causes of death vary by age; for example, while firearm accidents represent only 3 percent of injury-related deaths for all children under age 14, they represent 24 percent of all injury-related deaths for children aged 10 to 14.

Causes of Childhood Deaths Due to Unintentional Injury, 1995



Note: Data are for children aged 14 and under

Injury-Related Fatalities for Children



Note: Data are for children aged 1 to 12.

Reasons for decline. The number of deaths due to unintentional injuries for children aged 1 to 14 declined by 53 percent from 1970 to 1995, accounting for half of the total reduction in child mortality over this period. The decline in child-injury fatalities in the 1970s and 1980s occurred across a broad range of injury categories (see lower chart). Hence, it is unlikely that it was driven by a small number of specific interventions.

Rather a combination of factors was probably responsible, including the following:

- Increased regulation, such as drug-packaging requirements, seat belt and automobile safety seat requirements, and safety standards for toys and other products likely to be encountered by children.
- More information due to increased research and development in child safety and greater coverage of child-safety issues in the press and in popular child-rearing books. For example, the number of pages devoted to child-safety issues in the best-selling child-rearing book by Dr. Spock more than quadrupled between the 1957 and the 1992 editions.

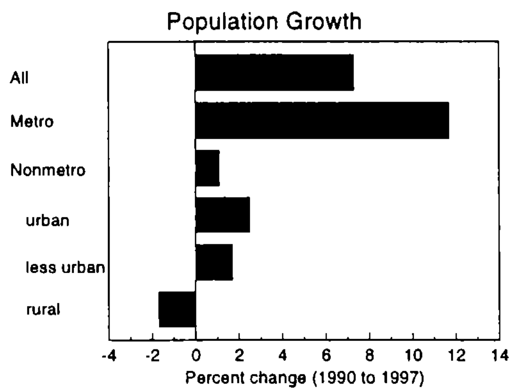
- Demographic/lifestyle factors probably had mixed effects on child safety. For example, the increase in the number of working mothers and single-parent families may have reduced the amount of parental time available for child supervision. But these effects may have been offset by decreases in the average number of children per family.
- Enhanced trauma care probably led to improvements in outcomes for accident victims, particularly for victims of burns and motor vehicle accidents.

Policy initiatives. Because unintentional injuries remain a major cause of death and disability for children, the Children's Environmental Health and Safety Task Force has made further reductions in unintentional injuries one of its main priority areas. It will consider a range of approaches to reducing unintentional injuries, including education and outreach, subsidies for safety devices such as fire alarms and bicycle helmets, and enhanced technical support to promote state and local interventions.

SPECIAL ANALYSIS

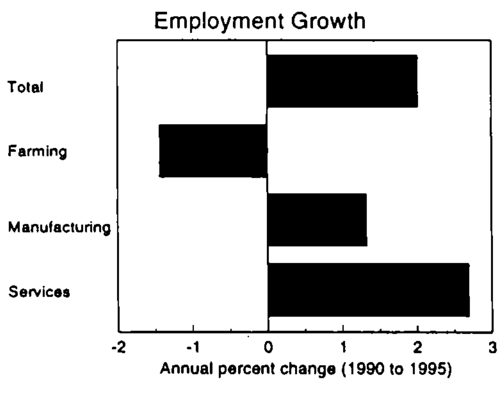
Economic Change in the Great Plains

The tough economic times currently facing farmers in the northern Great Plains may revive arguments that the region is losing population and is no longer economically viable. In fact, however, a recent study shows that population growth in the Great Plains has been roughly comparable to overall U.S. population growth. Farm jobs are disappearing, but the population is growing in metropolitan areas, and new job opportunities are opening up in manufacturing and services.



Population growth. Between 1990 and 1997, population in the Great Plains grew by 7.3 percent (see upper chart), compared with 7.5 percent for the United States as a whole. Almost all of this growth occurred in metro areas (cities of 50,000 or more). While the total population in nonmetro counties also grew slightly, over half of Great Plains counties lost population. Most of these are sparsely populated, isolated from urban centers, and highly dependent on agriculture.

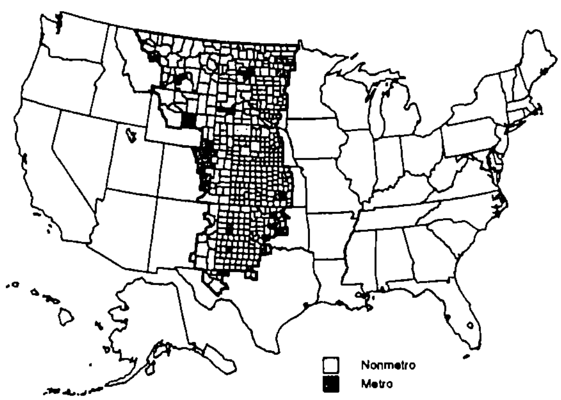
Economic change. Total employment in the Great Plains grew by an average of 2.0 percent per year between 1990 and 1995 (see lower chart), compared with 1.0 percent for the nation as a whole. Like the rest of the U.S. economy, most employment growth occurred in wholesale and retail trade and services. Jobs in manufacturing grew more rapidly than the U.S. average, although from a relatively small base. Employment in primary industries (farming and mining) declined, but total agricultural output from the 10 Great Plains states increased during this period due to productivity gains. Nevertheless, counties highly dependent on agriculture lost population. Rural communities that have been successful in maintaining population and jobs are those that have been able to diversify their economies, are connected to urban centers, or offer natural amenities that attract new residents or tourists.



Farming the Great Plains. Few crops are well-adapted to the Great Plains climate. Dryland agriculture emphasizes wheat and rangeland for cattle, while irrigation is generally required to support corn and cotton. Farm numbers have been declining in the region, and many farmers rely on government farm program payments and off-farm jobs to supplement farm earnings. Further consolidation of farms is expected, and without growth in nonfarm job opportunities, continued population decline is likely in many rural, isolated counties.

What is the Great Plains?

The Great Plains is the continental slope of the west central United States, east of the Rocky Mountains. In general, the Plains have sparser population, lower and more erratic rainfall, and less forest land than areas to the east. The eastern boundary often lacks a sharp visible physical border. As defined here it includes 478 counties, about one-fifth of the land area of the continental United States.

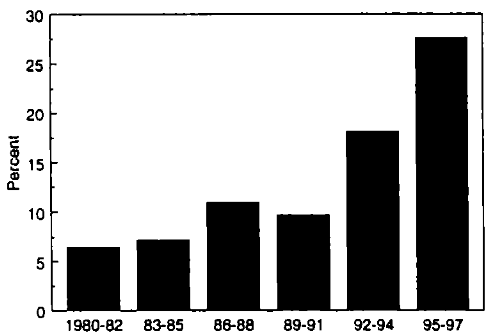


ARTICLE

Vehicle Leasing Takes Off

The popularity of leasing new cars and trucks has increased sharply since the early 1980s (see chart). Under a typical lease contract, the consumer puts up a modest down payment, then makes monthly payments for a fixed period (often 3 years), at the end of which the consumer can choose to purchase the vehicle for a price specified in the original lease contract or return the vehicle. Some might be concerned that leasing is diminishing one of the traditional channels of wealth accumulation in the United States: the "forced saving" imposed by a monthly car payment.

Leasers as a Share of Those Recently Acquiring a New Vehicle



Note: Data represent percent of those recently acquiring a new vehicle who have at least one leased vehicle.

Leasing pros. Industry analysts cite several reasons consumers might prefer to lease rather than buy. For a given vehicle, leases entail a lower down payment and much lower monthly payments, making it possible for consumers to drive a nicer car than they could afford to buy. For high-income consumers who want a new car every few years, leasing can be a way to avoid the inconvenience and cost of repeatedly disposing of used vehicles. Leasing can also provide "lemon insurance," because a consumer with a problem car probably will not choose to buy it when the lease ends. Similarly, leasing is a convenient way to experiment with an unfamiliar vehicle type, such as a sport utility vehicle, with the option to return the vehicle at the end of the lease if it turns out not to fit the consumer's needs.

Leasing cons. Because lease contracts are necessarily very complex, some consumers may not fully understand the terms of the deal to which they commit themselves when they agree to lease. Indeed, the upsurge in leasing in the early 1990s was accompanied by complaints from consumers charging that they had been misled in various ways about the terms of their leases. The worst abuses involved down payments, trade-in values, and rebates that were not credited to the consumer in the terms of the lease—effectively disappearing into the dealer's or lessor's pocket, in ways that unsophisticated consumers might find difficult or impossible to detect amid the complexity of the lease contract. Another problem was that some contracts did not contain enough information for consumers to be able to verify or understand how their monthly payment was calculated. Finally, many consumers reportedly did not understand that there are often hefty penalty charges for terminating a lease early.

The Fed to the rescue. In response to these problems, the Federal Reserve Board, which writes the regulations for the leasing industry, implemented an updated set of guidelines in January 1998 that require lessors to specify clearly all terms of the lease in a standard format designed to make comprehension and comparison of lease contracts simpler.

Meet the leasers. So who is the typical leaser? Perhaps surprisingly, data from both 1992 and 1995 show that leasers of new vehicles tend to have considerably higher household incomes and greater liquid assets than consumers who choose to finance their new vehicle with a loan (and both owners and leasers of new vehicles are considerably more affluent than the average household). Furthermore, leasing is more prevalent at the luxury end of the auto market than in the middle or economy parts of the market.

Conclusions. Leasing rather than buying new vehicles can be attractive to consumers for a variety of reasons. Surveys have found higher levels of satisfaction among consumers who have leased vehicles than among those who have financed their purchase. Surveys also find that a large proportion of current leasers intend to lease their next vehicle as well. While leasers do not build equity in their vehicles over the course of the lease, they may simply prefer to pursue wealth accumulation more directly in such forms as tax-favored retirement accounts. So long as the recent changes in regulations and in leasing procedures succeed in making consumers informed purchasers, there appears to be little reason for concern about the remarkable rise in the proportion of vehicles that are leased.

6-15-98

EYES ONLY

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Greenspan Calls Current Economic Performance "Impressive." In testimony to Congress on Wednesday, Federal Reserve Chairman Alan Greenspan stated, "The current economic performance, with its combination of strong growth and low inflation, is as impressive as any I have witnessed in my near half-century of daily observation of the American economy." However, Greenspan expressed his continuing concern that economic growth will run into constraints as the reservoir of unemployed people available to work is drawn down (see Chart of the Week). Greenspan said the Fed remains watchful for signs of potential inflationary imbalances, but his testimony appeared to ease many investors' concern that the Fed was likely to raise interest rates at its next meeting, and the bond market rallied.

Study Finds Differences by Race in Application of Death Penalty. A new study released by the Death Penalty Information Center (DPIC) finds evidence of significant racial disparities in the application of the death penalty. The study, conducted in Philadelphia, examined a large sample of the murders there between 1983 and 1993 in which the death penalty could be applied. Even after controlling for a variety of case differences such as multiple victims, the deliberate infliction of pain, and the background of the accused, blacks were almost four times as likely to receive a death sentence as whites. The racial combination most likely to result in a death sentence was a black defendant with a non-black victim, followed by a black defendant with a black victim and a non-black defendant with a non-black victim. Non-blacks who killed blacks were least likely to receive a death sentence. These findings accord with most previous research on the subject. Another recent study, also released by the DPIC, finds that nearly 98 percent of the chief District Attorneys in death penalty states are white, though the study offers no direct evidence on differences between white and non-white DAs in seeking the death penalty.

Behavior Alone Does Not Explain Socioeconomic Differences in Mortality. Differences in health along socioeconomic lines have been recognized as a persistent public health problem. A prominent hypothesis about these differences suggests that they arise from the higher prevalence of risky behaviors, such as smoking, drinking alcoholic beverages, and being overweight, among those with lower levels of education and income. However, a new study has found that socioeconomic differences in mortality would persist even with improved health behaviors among the disadvantaged. The study investigated the degree to which education, income, and four behavioral risk factors (cigarette smoking, alcohol drinking, sedentary lifestyle, and relative body weight) affected mortality risk over a period of seven and a half years. The study found that, although behavioral differences explained a modest portion of the mortality differences across socioeconomic groups, the risk of dying was still significantly greater for the lowest income groups even after these risky behaviors were taken into account.

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INTERNATIONAL ROUNDUP

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Sinking Yen Pulls Down Pacific Rim Currencies. On Monday the yen fell below 140 to the dollar for the first time in 7 years; it then fell further later in the week. Monday's drop helped trigger a fall in the Australian dollar the same day. Despite intervention by the central bank, Australia's currency fell to a 12-year low against the U.S. dollar. Trade links to Asia have contributed to weakening in both the Australian and the New Zealand dollars over the past 18 months, and each country faces a difficult choice between letting the currency fall (which would increase inflationary pressure) and raising interest rates (which would risk recession). New Zealand—which is experiencing rising unemployment, falling stock prices, and a current account deficit approaching 8 percent of GDP—has already eased monetary policy several times in recent months. In Japan, new data are likely to show that the economy contracted again in the first quarter, producing the two consecutive quarters of decline that conventionally signify a recession. On Wednesday, the Diet extended its session to June 18 to allow time to pass the supplementary budget, which is necessary for implementing the economic stimulus package announced April 24.

Is Russian Tax Reform Finally on the Way? Despite long-standing recognition that effective tax reform is central to Russia's recovery from its current economic troubles, little progress has been realized. One response was the formation last week of Russia's newest political movement, the "Union of Russian Tax Payers," on the platform of rational and effective budget and tax policies for Russian citizens. Sensing, perhaps, the growing grass-roots pressure for movement on tax reform, the Russian government made the unprecedented move Monday night of arresting the head and several managers of Goskomstat, the state statistical agency, for systematically understating the actual production of large firms to facilitate tax evasion among Russian companies. The arrests raise questions about the accuracy of Russian economic accounting, which could contribute to the shaky confidence of international investors even though the implication is that true economic production is higher than officially declared. (In general, including black market activity would add an estimated 25 to 35 percent to Russian GDP.) Russian financial markets remained relatively stable early this week, despite defaults on several regional government agribonds. According to Russian news reports, legislation is now being drafted by the Finance Ministry that would prohibit borrowing at the regional level.

PHOTOCOPY WJC HANDWRITING

Repression of Union Activities Increasing. Repression of trade union activities is increasing around the world, according to the annual report on trade union rights published this week by the International Confederation of Free Trade Unions (ICFTU), which represents 125 million workers in 141 countries. In 1997, 299 trade unionists were killed, more than half of these in Colombia. In addition, 1,681 were tortured or ill-treated, 2,329 were detained, and there were 3,369 cases of intimidation. "Fifty years after the adoption of the ILO Convention on Freedom of Association...trade unionists are still having to fight for the right to organize," commented the ICFTU General Secretary, introducing the report.

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RELEASES THIS WEEK

Producer Price Index

****Embargoed until 8:30 a.m., Friday, June 12, 1998****

The producer price index for finished goods increased 0.2 percent in May. Excluding food and energy, producer prices also increased 0.2 percent.

Retail Sales

Advance estimates show that retail sales rose 0.9 percent in May following an increase of 0.7 percent in April. Excluding sales in the automotive group, retail sales rose 0.4 percent in May following an increase of 0.5 percent in April.

MAJOR RELEASES NEXT WEEK

Consumer Prices (Tuesday)
Housing Starts (Tuesday)
Industrial Production and Capacity Utilization (Tuesday)
U.S. International Trade in Goods and Services (Thursday)

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U.S. ECONOMIC STATISTICS

	1970-1993	1997	1997:3	1997:4	1998:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	3.7	3.1	3.7	4.8
GDP chain-type price index	5.4	1.8	1.4	1.4	1.0
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	2.1	3.6	1.4	1.1
Real compensation per hour:					
Using CPI	0.6	2.2	1.8	3.1	3.7
Using NFB deflator	1.3	2.5	2.7	3.9	3.5
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.5	10.7	10.6	10.7
Residential investment	4.5	4.1	4.1	4.1	4.2
Exports	8.2	11.8	11.9	11.9	11.5
Imports	9.2	13.1	13.3	13.2	13.1
Personal saving	5.3	2.8	2.6	2.9	2.7
Federal surplus	-2.7	-0.4	-0.1	-0.1	0.6

	1970-1993	1997	March 1998	April 1998	May 1998
Unemployment Rate (percent)	6.7**	4.9**	4.7	4.3	4.3
Payroll employment (thousands)					
increase per month			82	302	296
increase since Jan. 1993					16010
Inflation (percent per period)					
CPI	5.8	1.7	0.0	0.2	N.A.
PPI-Finished goods	5.0	-1.2	-0.3	0.2	**0.2**

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

New or revised data in **boldface**.
PPI data **embargoed until 8:30 a.m., Friday, June 12, 1998.**

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FINANCIAL STATISTICS

	1996	1997	April 1998	May 1998	June 11, 1998
Dow-Jones Industrial Average	5743	7441	9037	9080	8812
Interest Rates (percent per annum)					
3-month T-bill	5.01	5.06	4.95	5.00	4.97
10-year T-bond	6.44	6.35	5.64	5.65	5.44
Mortgage rate, 30-year fixed	7.80	7.60	7.14	7.14	7.04
Prime rate	8.27	8.44	8.50	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level June 11, 1998**	**Percent Change from**	
		Week ago	**Year ago**
Deutschemark-Dollar	1.804	2.2	5.1
Yen-Dollar	143.3	3.5	28.6
Multilateral $ (Mar. 1973=100)	101.8	2.1	7.3

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	3.7 (Q1)	4.3 (May)	1.4 (Apr)
Canada	3.8 (Q1)	8.4 (Apr)	1.0 (Apr)
Japan	-0.2 (Q4)	4.2 (Apr)	0.3 (Apr)
France	3.4 (Q1)	12.0 (Apr)	1.0 (Apr)
Germany	3.0 (Q1)	[2] 7.6 (Mar)	1.3 (Apr)
Italy	2.8 (Q4)	12.1 (Jan)	1.8 (Apr)
United Kingdom	2.9 (Q1)	6.5 (Feb)	4.0 (Apr)

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 March 1998 is 10.0 percent.