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Current Economic Conditions and Selected Forecasts

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Current Economic Conditions and Selected Forecasts

Summary

According to the National Bureau of Economic Research, the agency that dates the American business cycle, the U.S. economic expansion that began in March 1991 is now the longest peacetime expansion in American history.

Gross Domestic Product (GDP), our basic measure of economic activity, grew at an annual rate of 2%during the first quarter of 2001. It grew 3.4% during 2000, compared with 4.2% during 1999, 4.4% during 1998, 4.4% during 1997, and 2.7%, 4.0%, 2.7% and 3.6%, respectively, during the period 1993-1996. There was little change in inventories during 2000 as Final Sales grew 3.6%. The growth of GDP over 2000 was irregular. The annualized rate of growth during the first half was 5.2% vs. 1.6% during the second half.

The unemployment rate, which has been falling since mid-1992, reached an expansion low of 3.9% in September 2000. It has risen slightly since then and for the first two months of this year it was 4.2%. Over 1998 and 2000, the unemployment rate has moved within a narrow band of from 4.7% to 3.9%. The monthly unemployment rates recorded during most of the past 4 years have been below those thought by many economists to characterize full employment. If these economists are correct, excess demand currently characterizes the economy. Excess demand leads to a rise in the inflation rate. This has yet to materialize, however. During the past 12 months, about 1.5 million jobs have been created, which means an average rate of job creation per month of 125,000. During the expansion, nearly 20 million jobs have been added to the economy.

The inflation rate has, on average, been low over most of the expansion. Except for 1996, 1999, and the first three quarters of 2000, the rate of inflation measured by the Consumer Price Index has declined in each year of the expansion. For the 12 months ending in March 2001, the CPI rose 2.9%. For the 3 months ending in March 2001, it rose at an annual rate of 4.0%. A similar pattern shows up in the two GDP price indexes. Both indexes rose 1.8% during 1997, 1.2% during 1998, 1.5% during 1999, and 2.3% during 2000. They increased at an annual rate of 3.1% furing the first quarter of 2001. The rate of rise of per unit labor costs, a possible indicator of future inflation, has shown no tendency to accelerate over the past three years as labor markets have tightened.

Fiscal policy continued to tighten during 2000. Monetary policy appears to be geared to promoting a real GDP growth rate of about 2.0% to 2.5% per year, a rate thought compatible with a stable rate of inflation.

Recent forecasts by private sector individuals and firms for 2001 suggest that GDP will grow between 1.5% and 1.8%, unemployment will average between 4.5% and 4.7%, and inflation will average between 1.7% and 3.3%.

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Current Economic Conditions

In March 2001, the American economy was in its 120th month of expansion according to the National Bureau of Economic Research, the nonprofit, nonpartisan organization that dates the phases of the business cycle for the United States. It is now the longest expansion in U.S. history. The nine previous expansions since the end of World War II have averaged 50 months. This average is dominated by two long expansions: one ran for 106 months and dominated the decade of the 1960s, and the other ran for 92 months and dominated the decade of the 1980s.

The current expansion began after a very shallow downturn. Initially, the growth rate of GDP[1] was weak and the unemployment rate continued to rise well into the recovery phase of the upswing reaching 7.7% in June 1992. Since that time, the expansion has been characterized by a falling unemployment rate and a falling rate of inflation. The unemployment rate declined to an expansion low of 3.9% in September 2000. During November and December it stood at 4.0%. In January and February it rose to 4.2%, as might be expected as GDP growth has slowed.

The rate at which the broad-based price indexes have risen has declined as the expansion has matured, which is unusual. Moreover, as labor markets have tightened, the rate of rise of per unit labor costs, an indicator of possible future inflation trends, has shown no tendency to accelerate. Given the growth rates in the labor force and productivity, the determinants of a sustainable rate of growth, growth of GDP in the 3.0% to 3.5% range would be compatible with a continued low rate of inflation.

Federal Reserve policy over this cycle has shifted several times in efforts to both slow down the rate of GDP growth when it appeared to be too rapid to be sustainable and to speed it up when it was too slow. During the closing months of 1998, the Federal Reserve eased monetary policy three times in the face of a rather robust rate of growth of GDP. It did this to ease an impending credit crunch in the United States and to ease international monetary conditions in the face of the crisis in Southeast Asia. This easing was reversed by Federal Reserve action in June, August, and November of 1999 and February, March, and May 2000. On January 3 and 31, March 20, and April 18, 2001, in the face of a falling rate of GDP growth, the rate was reduced to 4-1/2%.

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[1]Gross Domestic Product rather than Gross National Product is now used as the principal measure of economic activity for the United States. The two measures differ in their treatment of foreign-owned productive resources in the United States and similar U.S.-owned resources abroad.

Recent Macroeconomic Developments

The growth rate of GDP both during and after the 1990!1991 recession is shown in **Table 1**.[2] The relatively shallow recession was followed by a recovery/expansion of modest proportions. Only in 1992 did GDP growth become relatively rapid. This continued into 1994. As the economy approached full employment, the Federal Reserve began to tighten monetary policy to sustain the expansion. The result was slower GDP growth in 1995. GDP growth during 1996, 1997, 1998, and 1999 has been quite substantial averaging about 4.0%. During this period of expansion, inventories have remained balanced since the growth in Final Sales has been running close to the growth in GDP. GDP grew 3.4% during 2000.

Table 1. The Growth Rate of Real GDP v. Final Sales
(In percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
GDP Year Over Year	1.8	-0.5	3.0	2.7	4.0	2.7	3.6	4.4	4.4	4.2	5.0	2.0
4thQ Over 4thQ	0.5	0.9	4.0	2.5	4.1	2.3	4.1	4.3	4.6	5.0	3.4	2.7
Final Sales Year Over Year	2.0	-0.2	2.8	2.6	3.4	3.1	3.6	4.0	4.2	4.6	4.3	4.6
4thQ Over 4thQ	0.9	0.2	4.2	2.6	3.2	2.9	3.9	3.9	4.6	4.8	4.8	3.1

Source: U.S. Department of Commerce.
*Year Over Year is the annualized quarterly rate for the first quarter. 4th Q Over 4th Q is the rate betweeen 2000:1Q and 2001: 1Q.

The unemployment rate, a nearly constant 5.3% during the final 2 years of the preceding expansion, began rising in July 1990. It rose sharply over the ensuing 10 months, reaching 6.7% in March 1991, the official trough of the recession. However, as shown in table 2, even as the economy recovered, the unemployment rate continued to rise, reaching a high of 7.7% in June 1992. Since that time, the rate has fallen slowly, reaching an expansion low of 3.9% in September 2000, a rate not seen since the 1970s.[3] As GDP growth began to slow in the second half of 2000, the

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[2]The annual rate of growth of GDP and other economic variables can be computed in two ways. One is to take the annual average of GDP for 1996, for example, and compare it to the annual average for 1995. When this method is used, the calculated growth rate is actually GDP's growth from the mid point of 1995 to the mid point of 1996. An alternative method is to compute its growth from the fourth quarter of 1995 to the fourth quarter of 1996 (or where monthly data are available, from December to December). This method has the advantage of computing growth over the previous 12 months in question. The GDP growth rates used in the text of this report are those on a year over year basis.

[3]The unemployment data recorded in table 2 are not compatible throughout the period shown. These data are derived from a survey of approximately 50,000 households. The questions asked these households were subject to substantial changes in January 1994. Initially, the households were asked both sets of questions and the two surveys produced different unemployment rates--the revised questions produced a higher rate. Later, however, the two

(continued...)

unemployment rate has slowly crept upward. Since August 1994, the rate has fluctuated within a range of from 3.9% to 6.0%. This range is thought by many economists to be consistent with full employment. However, a rate of 4.0% is below all estimates of the lower bound of the range. Since the expansion began in March 1991, civilian employment has risen by approximately 20.0 million.

Table 2. Civilian Unemployment Rate
(in percentages)

	J	F	M	A	M	J	J	A	S	O	N	D
1992	7.1	7.3	7.3	7.3	7.4	7.7	7.6	7.6	7.5	7.4	7.3	7.3
1993	7.1	7.0	7.0	7.0	6.9	6.9	6.8	6.7	6.7	6.7	6.5	6.4
1994	6.7	6.6	6.5	6.4	6.1	6.1	6.1	6.0	5.8	5.7	5.6	5.4
1995	5.7	5.4	5.5	5.8	5.7	5.6	5.7	5.6	5.6	5.5	5.6	5.6
1996	5.7	5.5	5.5	5.5	5.6	5.3	5.4	5.2	5.2	5.2	5.3	5.3
1997	5.3	5.3	5.2	5.0	4.8	5.0	4.9	4.9	4.9	4.8	4.6	4.7
1998	4.6	4.6	4.7	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.4	4.3
1999	4.3	4.4	4.2	4.3	4.2	4.3	4.3	4.2	4.2	4.1	4.1	4.1
2000	4.0	4.1	4.0	4.0	4.1	4.0	4.0	4.1	3.9	3.9	4.0	4.0
2001	4.2	4.2	4.3									

Source: U.S. Department of Labor.

As the economic expansion has taken hold and the unemployment rate has fallen, fears of a renewed burst of inflation have arisen. Thus far, there is little evidence in the broad based price and wage indexes that inflationary pressures are building.[4]

As shown in **Table 3**, the CPI rose 2.9 for the 12 months ended in March 2001. For the 3-month period ending in March 2001 the CPI rose at an annual rate of 4.0%. The rate of inflation shown by the two price indexes derived from the GDPs accounts recorded in **Table 4**, has shown a continued tendency to fall. During 1994, 1995, 1996, 1997, 1998, 1999, and 2000 their respective rates of rise were 2.0%, 2.1%, 1.7%, 1.6%, 1.1%, 1.5%, and 2.4%.[5] During the first quarter of 2001 they rose at an annual rate of 3.1%.

The behavior of labor costs, regarded by some as an indication of future inflation, is shown in **Table 5**. The growth rate of per unit labor costs, which is heavily influenced by productivity, has shown no tendency to rise even as labor

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[3](...continued)
surveys tended to produce identical rates. As shown in table 2, the pre-1994 rates are based on the old survey questions while the post-1994 rates are based on the revised questions.

[4]For a more extensive discussion of inflation and other alternative measures of the inflation rate , see CRS Report RL30344, *Inflation: Causes, Costs and Current Status*, by Gail Makinen.

[5]On a year over year basis, the rise in the Implicit Price Deflator between 1990 and 2000 was, respectively, 3.9% 3.4%, 2.2%, 2.7%, 2.1%, 2.1%, 1.0%, 2.0%, 1.2%, 1.5%, and 2.1%. The corresponding rise in the chain type deflator was identical.

markets have tightened.[6] The rate at which the Employment Cost Index for private industry has risen has shown some tendency to accelerate since its 1995 low. Since the growth in per unit labor costs has been fairly constant over the past three years, this is a sign that wage increases are largely driven by increases in productivity.

Table 3. Rate of Change in the Consumer Price Index

(in percentages)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Dec. Over Dec.	3.1	2.9	2.7	2.7	2.5	3.3	1.7	1.6	2.7	3.4	2.9
Year Over Year	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2	3.4	4.0

*The upper number is for the 12 months ended in March; the lower is the annualized rate for the 3 months ended in March.

Source: U.S. Department of Labor.

Table 4. Rate of Change in the GDP Deflators

(in percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Implicit Price Deflator	4.2	3.1	2.3	2.4	2.1	2.1	1.9	1.8	1.2	1.5	2.2	2.3
Chain Type Deflator	4.2	3.1	2.3	2.4	2.1	2.1	1.9	1.8	1.2	1.5	2.2	2.3

Source: U.S. Department of Commerce. *First quarter 2001 over first quarter 2000.

Table 5. Rate of Change in Labor Costs

(in percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Unit Labor Costs	5.3	1.7	0.4	2.0	0.9	1.5	0.5	2.1	2.4	0.6	2.3	NA
Employment Cost Index	4.6	4.4	3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.2

Source: U.S. Department of Labor. *The ECI is for the 12 months ended in March. For all other years it is for the 12 months ended in December.

Table 6. U.S. Foreign Trade Deficit

(as a percent of GDP)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
Trade Deficit*	1.8	1.2	0.8	0.2	0.3	0.8	1.2	1.0	1.1	1.4	2.6	3.6	4.4	4.3

*Percentages measure the real trade deficit divided by real GDP. Data for 2001 is through the first quarter.

Source: U.S. Department of Commerce.

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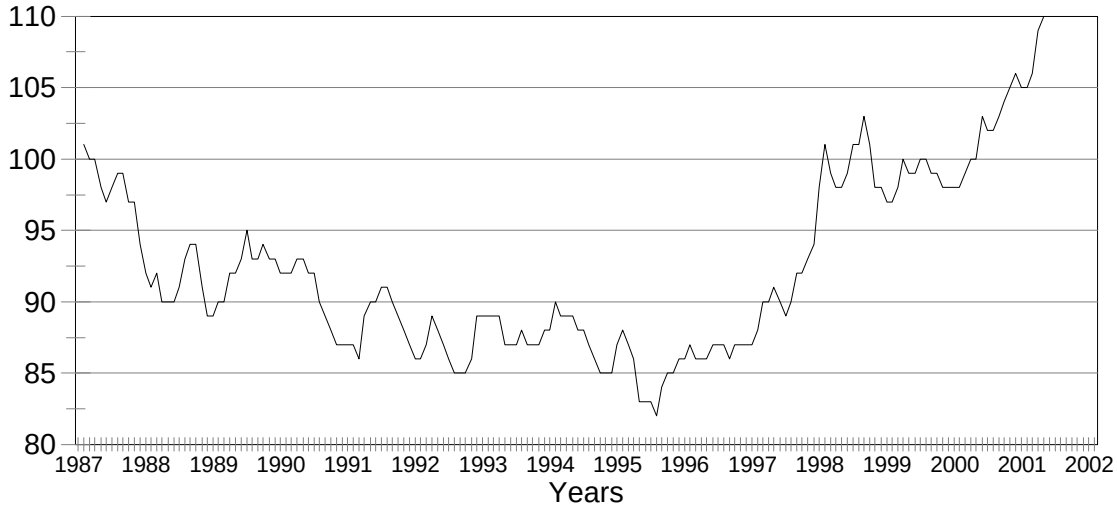
[6]On a year over year basis, the rise in per unit labor costs for 1990 through 1998 was respectively, 4.3%, 3.3%, 1.2%, 2.1%, 0.8%, 1.1%, 0.4%, 1.6%, and 2.4%.

The U.S. foreign trade deficit (net imports), as shown in **Table 6**, recorded a continued and dramatic fall from 1986 through 1991. In each of these years the trade deficit declined as export growth exceeded import growth. During 1992 the trade deficit began to grow as a fraction of GDP and is now running at a rate in excess of its previous high in 1987. The increase in the U.S. foreign trade deficit during 1992 ! 2000 reminds us that the United States still receives a substantial net inflow of capital from abroad.

Figure 1 records the movement in the foreign exchange value of the dollar over the past 12 years. After a low in mid-1995, the dollar has steadily risen in value (or appreciated). This appreciation was aided in 1995 and 1996 by a large net inflow of capital from foreign official sources (largely due to the actions of foreign central banks in support of their own currencies). These net official inflows accounted for about 80% of the net capital inflow in 1995 and about 66% in 1996. Subsequent net inflows have been heavily dominated by private purchases of U.S. assets.

Figure 1. Real Dollar Exchange Rate, 1987-2000
(Market Basket of 26 Currencies)



Posture of Monetary and Fiscal Policy

The course of GNP growth can respond significantly to changes in fiscal and monetary policy. The posture of fiscal policy depends on how it is measured. A generally accepted method is to examine the ratio of the structural or full employment budget deficit to full employment GDP. When that is done, as shown in **Table 7**, fiscal policy during 2000 was contractionary as the full employment surplus rose from 0.2% to 1.1% of potential GNP. An alternative, although inferior measure, is the ratio of the actual budget deficit to actual GDP. When examined, fiscal policy in 2000 was also contractionary as the actual surplus rose from 1.4% to 2.4% of actual GDP.

Table 7. Alternative Measures of Fiscal Policy

($ in billions per fiscal year)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Standardized Budget Deficit	$155	$127	$115	$119	$151	$184	$181	$138	$136	$89	$56	$18	$+20	$+106
Full Employment GDP	4,691	4,999	5,351	5,715	6,098	6,416	6,731	7,055	7,404	7,777	8,186	8,589	9,026	9,532
Ratio	0.033	0.025	0.021	0.021	0.025	0.029	0.027	0.020	0.018	0.011	0.007	0.002	+0.002	+0.011
Actual Budget Deficit	$150	$155	$152	$221	$269	$290	$255	$203	$164	$108	$22	$+69	$+124	$+236
Actual GDP	4,654	5,017	5,407	5,738	5,928	6,222	6,561	6,949	7,323	7,700	8,194	8,666	9,153	9,828
Ratio	0.032	0.031	0.028	0.039	0.045	0.047	0.039	0.029	0.022	0.014	0.003	+0.008	+0.014	+0.024

Source: Congressional Budget Office (January 2001).

Traditionally, the posture of monetary policy has been judged either by the growth of the monetary aggregates or by movements in interest rates.[7] In fact, neither is an unambiguous indicator. The monetary aggregates, for example, give a confused picture. Although M1 can explain how the economic expansion got underway, it cannot explain the expansion's continuation. The opposite is true for both M2 and M3.

Although the contraction of reserves could indicate monetary tightening, it is, in fact, compatible with monetary expansion. This occurs because over much of this expansion, demand deposits have been declining and it is against these deposits that banks are legally obligated to hold reserves. Each dollar of decline frees up about 10 cents in reserves that banks can lend. Thus, even though reserves have fallen, they have declined by less than the reserves set free by the contraction of demand deposits. This has increased the net lending powers of banks.

Some of the dollars that were in checking accounts have found their way into passbook savings and CDs. These shifts can explain why M1 falls without a commensurate fall in M2 and M3. For the latter to grow, however, funds must be added to passbook savings and CDs that were not originally in checking accounts.

[7]For a more comprehensive discussion of monetary policy, see CRS Report RL30354 *Monetary Policy: Current Policy of Conditions*, by Gail Makinen.

Table 8. The Growth Rates of the Monetary Aggregates

(annualized rates of change)

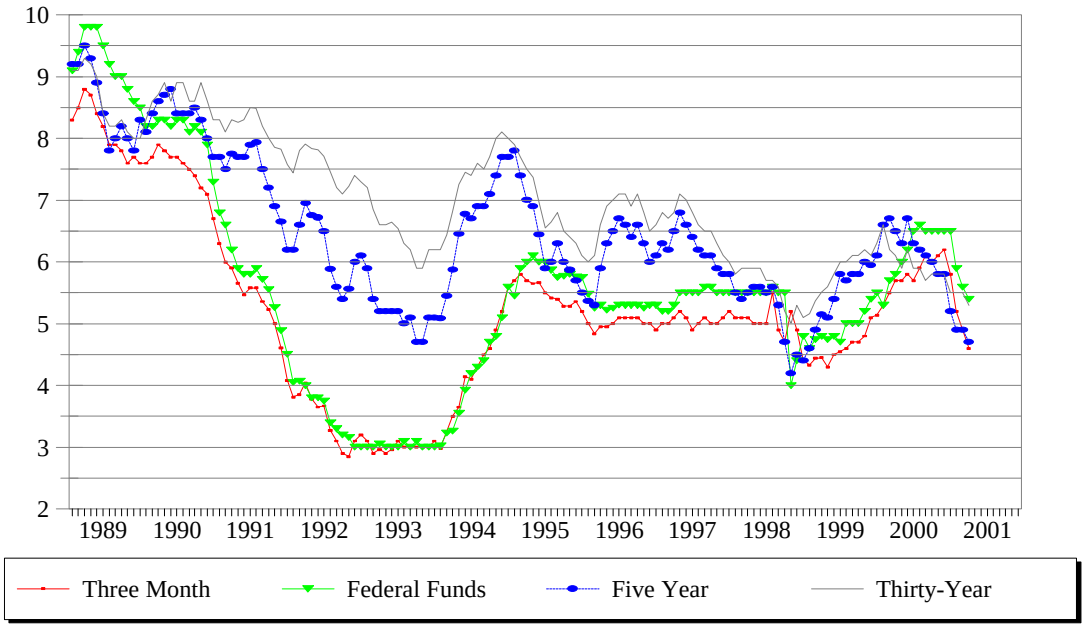
Time Period	Aggregate Reserves	Monetary Base	M1	M2	M3
88:12 ! 89:12	0.8%	4.2%	0.8%	5.4%	4.0%
89:12 ! 90:12	3.1	9.5	4.0	3.8	1.6
90:12 ! 91:12	9.0	8.3	8.7	3.0	1.3
91:12 ! 92:12	19.6	10.5	14.3	1.6	0.3
92:12 ! 93:12	11.3	10.5	10.3	1.6	1.4
93:12 ! 94:12	-1.8	8.2	1.8	0.4	1.7
94:12 ! 95:12	-5.0	3.9	-2.0	4.1	6.0
95:12 ! 96:12	-11.2	4.0	-4.1	4.7	7.3
96:12 ! 97:12	-6.6	6.1	-0.7	5.7	9.1
97:12–98:12	-3.5	7.0	2.2	8.8	11.0
98:12–99:12	-7.6	15.3	2.3	6.0	8.3
99:12–00:12	-7.3	-1.5	-3.0	6.3	8.8
00:12–01:03	-2.4	5.8	7.9	13.3	13.5

Source: Board of Governors of the Federal Reserve System.

The growth in the reserves of depository institutions results to a large degree from decisions to move the key federal funds' interest rate (shown in figure 2). The rate was forced down beginning in October 1990. From April through July 1991, the rate was held at a fairly steady 5.75%. In August it was moved toward 5.50%, in September to 5.25%, in November to 4.75%, in January 1992 to about 4.0%, in April toward 3.75%, in July toward 3.25%, and in September toward 3.0%, where it was maintained for nearly 16 months. Beginning in February 1994, the Board of Governors, in a series of seven steps culminating in February 1995, raised the federal funds rate to 6.0%. (The increase in the federal funds rate was achieved by reducing the level of aggregate reserves available to depository institutions.) Early in July, as a pronounced slowdown in economic activity became apparent, the federal funds rate was reduced to 5.75%. In mid-December it was reduced to 5.5% and on January 31, 1996, it was reduced to 5.25%. However, as GDP growth rose in 1996 to a rate believed to be unsustainable, the Federal Reserve reversed course and hiked the rate to 5.5% on March 25, 1997. In the face of poor prospects for GDP growth and turmoil in both domestic and international financial markets, the rate was reduced 1/4% on September 29, October 15, and November 17, 1998 at which point it stood at 4.75%. In three equal moves of 1/4% during June, August, and November 1999, the rate was returned to its pre-crisis level of 5.5%. On both February 2 and March 21, 2000, the rate was raised an additional 1/4%, and on May 16 it was raised ½%, bringing the rate to 6.5%. In four equal cuts of 1/2% (January 3 and 31, March 20, and April 18), the rate was reduced to 4-1/2%.

As Figure 2 shows, movements in short-term interest rates mimic closely movements in the federal funds rate. This is not as true for longer-term rates. Their rise and fall as well as the magnitude of their shifts is often different from the timing and magnitude of shifts in the federal funds rate. This is due in part to the fact that they respond to the longer run outlook for inflation, the financing requirements necessitated by the budget deficit, both current and prospective, and the international

Figure 2. Yield on Selected U.S. Treasury Securities and Federal Funds



flow of capital.

Source: Board of Governors of the Federal Reserve System.

Summary of Current Developments

The NBER decided that the U.S. recession that began in July 1990 ended in March 1991. During the fourth quarter of 1991 (1991:4), GDP recovered the ground lost in the three quarters during which output contracted. The growth rate of GDP during the recovery was, however, low when compared with the average of past expansions. The unemployment rate began to rise in July 1990. It rose rapidly, reaching 6.8% in May 1991. For the first 6 months of 1992 it slowly crept upward, reaching a high of 7.7% in June. Since then it has fallen. Over the past 24 months, it has ranged between 3.9% and 4.9%, a range suggesting that overfull employment or excess demand characterizes the U.S. economy. During the expansion some 20.0 million jobs have been added to the U.S. economy. All three price indexes show that the inflation rate during the expansion has remained low. Monetary policy, largely responsible for the recovery and subsequent expansion, has been adjusted to alter the growth of aggregate demand so as to produce more or less continuous full employment and a low rate of inflation. This has involved seven upward adjustments to the federal funds rate between February 1994 and February 1995. The rate was adjusted downward by 0.25% in early July and mid-December of 1995, and on January 31, 1996. Although this led to a rise in the growth rate of GDP, the rate achieved was thought to be too high. Consequently, on March 25, 1997, the Federal Reserve hiked the rate by 0.25%. On September 29, October 15, and November 17, 1998, in the face of uncertain developments abroad, the rate was lowered by 0.25%, for a cumulative reduction of 0.75%. The easing was undone in a series of three equal steps in June, August, and November 1999. The rate was increased by 1/4% on February 2 and March 21 and by 1/2% on May 16 to stand at 6.5%. In the face of stalled GDP

growth the Federal Reserve in four equal reductions of 1/2% on January 3 and 31, March 20, and April 18, moved the rate to 4-1/2%.

Sources of GDP Growth

Table 9 records the sources of growth in GDP over the current expansion. These data record two interesting developments. First, investment spending has played an important role in this expansion. And among the categories of investment, outlays for personal computers have been important. This bodes well for the longer run growth in productivity. Second, purchases by all levels of government have played only a small role in the expansion.

Table 9. Sources of GDP Growth: 1992 through 2001: 1Q

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001:1Q
Real GDP Growth*	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Consumption	71.2	87.7	59.3	86.2	51.5	53.8	72.5	85.4	87.9	107.4
Investment	28.8	41.5	46.7	1.2	42.4	43.5	49.4	29.3	34.5	-121.4
Govt. Purchases	6.2	-6.4	0.8	-6.8	12.0	9.7	8.7	14.1	6.5	15.5
Net Exports	-6.3	-25.9	-6.97	19.4	-5.9	-7.0	-30.7	-28.4	-28.8	80.2

* Computed using real GDP at 1996 chained dollars on a 4th quarter over 4th quarter basis.
Source: Department of Commerce.

Economic Forecasts, 2001

All of the forecasts summarized in **Table 10** expect the expansion now in progress to continue through 2001. If these forecasts come to pass, the economy is expected to maintain a soft landing in the sense that GDP growth is expected to fall to a range of 2% to 3.3% in 2001. This rate of growth will be insufficient to keep the unemployment rate steady. It is expected to rise and finish out the year in the 4.5% to 5.0% range. The inflation rate is expected to remain in the 2.0% to 3.0% range. Both short-term and long-term interest rates are expected to be below 2000 levels.

The *Wall Street Journal* published the results of its survey of 54 economic forecasters in its January 3, 2001 edition. These forecasters, on average, expect real GDP to grow at an annual rate of 2.0%, 2.1%, 2.8%, and 2.9% respectively, over the four quarters of 2001. The CPI is expected to rise 2.8% for the year ended in May. The 3-month Treasury bill rate and 30-year bond rate are expected to be 5.36% and 5.35% in June 2001 and the unemployment rate in May is expected to be 4.4%.

Table 10. Economic Forecasts, 2001

	2000				2001				1999*	2000*	2001
	1*	2*	3*	4*	1*	2	3	4			
Nominal GDP[a]											
OMB	8.3	8.2	3.8	3.0	5.2	NA	NA	NA	5.8	7.1	5.5
CBO	8.3	8.2	3.8	3.0	5.2	NA	NA	NA	5.8	7.1	4.7
DRI	8.3	8.2	3.8	3.0	5.2	3.6	4.4	3.8	5.8	7.1	4.2
WEFA	8.3	8.2	3.8	3.0	5.2	2.7	4.1	4.2	5.8	7.1	3.5
BC	8.3	8.2	3.8	3.0	5.2	3.4	4.3	5.0	5.8	7.1	4.0
Real GDP[a]											
OMB	4.8	5.6	2.2	1.0	2.0	NA	NA	NA	4.2	5.0	3.3
CBO	4.8	5.6	2.2	1.0	2.0	NA	NA	NA	4.2	5.0	2.4
DRI	4.8	5.6	2.2	1.0	2.0	1.4	2.2	2.0	4.2	5.0	1.5
WEFA	4.8	5.6	2.2	1.0	2.0	0.8	2.3	2.6	4.2	5.0	1.8
BC	4.8	5.6	2.2	1.0	2.0	1.4	2.4	3.1	4.2	5.0	1.8
Unemployment[b]											
OMB	4.1	4.0	4.0	4.0	4.2	NA	NA	NA	4.2	4.0	4.1
CBO	4.1	4.0	4.0	4.0	4.2	NA	NA	NA	4.2	4.0	4.4
DRI	4.1	4.0	4.0	4.0	4.2	4.6	4.9	5.1	4.2	4.0	4.7
WEFA	4.1	4.0	4.0	4.0	4.2	4.6	4.9	5.0	4.2	4.0	4.7
BC	4.1	4.0	4.0	4.0	4.2	4.5	4.6	4.7	4.2	4.0	4.5
GDP Deflator[a] (chain weights)											
OMB	3.3	2.4	2.0	2.0	3.1	NA	NA	NA	1.5	2.1	2.0
CBO	3.3	2.4	2.0	2.0	3.1	NA	NA	NA	1.5	2.1	2.3
DRI	3.3	2.4	2.0	2.0	3.1	2.2	2.1	1.8	1.5	2.1	2.5
WEFA	3.3	2.4	2.0	2.0	3.1	1.9	1.7	1.9	1.5	2.1	1.7
BC	3.3	2.4	2.0	2.0	3.1	2.0	1.9	1.9	1.5	2.1	2.1
CPI-U[a]											
OMB	4.1	3.6	3.1	2.7	4.2	NA	NA	NA	2.2	3.4	2.7
CBO	4.1	3.6	3.1	2.7	4.2	NA	NA	NA	2.2	3.4	2.8
DRI	4.1	3.6	3.1	2.7	4.2	3.2	2.6	1.9	2.2	3.4	3.3
WEFA	4.1	3.6	3.1	2.7	4.2	2.7	2.0	2.2	2.2	3.4	3.1
BC	4.1	3.6	3.1	2.7	4.2	2.3	2.3	2.3	2.2	3.4	2.9
T-BILL Rate[b]											
OMB	5.5	5.9	6.0	6.0	4.9	NA	NA	NA	4.6	5.8	6.0
CBO	5.5	5.9	6.0	6.0	4.9	NA	NA	NA	4.6	5.8	4.8
DRI	5.5	5.9	6.0	6.0	4.9	4.2	3.8	3.9	4.6	5.8	4.2
WEFA	5.5	5.9	6.0	6.0	4.9	3.9	3.8	4.0	4.6	5.8	4.1
BC	5.5	5.9	6.0	6.0	4.9	4.3	4.1	4.1	4.6	5.8	4.3
10-Year Rate[b]											
OMB	6.5	6.2	5.8	5.6	5.1	NA	NA	NA	5.6	6.0	5.8
CBO	6.5	6.2	5.8	5.6	5.1	NA	NA	NA	5.6	6.0	4.9
DRI	6.5	6.2	5.8	5.6	5.1	4.8	4.8	4.9	5.6	6.0	4.9
WEFA	6.5	6.2	5.8	5.6	5.1	4.8	4.8	5.0	5.6	6.0	4.9
BC	6.5	6.2	5.8	5.6	5.1	4.9	4.9	5.0	5.6	6.0	5.0

Sources: Data Resources, Inc., *U.S. Forecast Summary*, April 2001; Wharton Econometric Forecasting Associates Group. *U.S. Economic Outlook*, April 2001; *Blue Chip Economic Indicators*, April 10, 2001. Congressional Budget Office, January, 2001; and, the Office of Management and Budget, January 2001.

* Actual data, subject to revisions. The annual data for nominal GDP, real GDP, the GDP deflator and the CPI are on a year over year basis; and the unemployment and interest rate data are either quarterly or annual averages.
a. Annualized quarterly rates of change. b. Quarterly averages.

The Chairman of the Board of Governors of the Federal Reserve presented the economic projections of the Federal Reserve for 2001 in testimony before the Senate Banking Committee on February 13, 2001. The Federal Reserve projections for 2001 are that over the four quarters of the year real GDP will grow between 2.0% and 2.5% and that prices will increase from 1.75% to 2.25%. The civilian unemployment rate is projected to be about 4.5% during the fourth quarter of the year.

Promotion of Economic Growth

Over the longer run, the economic well-being of a nation depends on the growth of potential output or GDP per capita. Crucial to this growth is the fraction of a nation's resources devoted to capital formation. The ability to add to the capital stock through investment depends on a nation's saving rate.

Saving comes from several sources. In the private sector individuals (households) and businesses are responsible for saving. The former save when all of their after tax income is not used for consumption. Businesses save through retained earnings and capital consumption allowances.

The public sector can also be a source of national saving and this occurs when government revenues are larger than expenditures. Budget surpluses, then, can be viewed as a source of national saving.

Table 11 shows the sources of saving for the United States during the past 39 years. There are several things to note about these data. First, except for the decade of the 1990s, the gross private sector savings rate has averaged a remarkably stable 17%-19% of GDP, with most of the saving being done by businesses. More significantly, however, the private sector saving rate net of depreciation, representing saving available for additions to capital, declined considerably in the 1990s. Thus, even without a federal budget deficit, the United States would have had a "saving problem."

Second, over this 39-year period, the saving done by the public sector, as a whole, has declined. There is, however, diversity as to the contribution made by the level of government. The large negative contribution made by the federal government during the 1980s reflects the widely publicized budget deficit. Even though state and local governments have been running sizable budget surpluses, they have not been large enough to offset the federal deficits. This has been reversed beginning in 1993. The improved budget position of the federal government has been adding to national saving.

Third, the data show that for 20 of these 39 years, the United States exported a small fraction of its savings to the rest of the world (i.e., was a net exporter of capital). This changed during the 1980s when the United States started to import the savings of the rest of the world.

Should efforts to correct the international trade deficit prove fruitful, the net inflow of foreign saving will cease. Should this occur without a significant improvement in either the private sector saving rate or the negative saving rate of the public sector, the rate of new investment will fall to a very low level in the United States and with it the means for improving the well-being of future generations of Americans.

Table 11. U.S. Saving By Sector

(as percent of GDP)

	Private Sector				Public Sector					
Year	Pers.	Bus.	Total	Net of Deprec.	Fed.	State & Local	Total	Net of Deprec.	Net Private & Pub.[a]	Net[b] Foreign
1960-9	5.7	11.4	17.1	9.6	2.2	1.7	4.0	1.3	10.9	-0.6
1970-9	6.8	11.6	18.4	9.8	-0.5	1.8	1.3	-1.2	8.6	-0.2
1980-9	6.7	12.6	19.2	9.0	-2.2	1.4	-0.8	-3.0	6.0	1.5
1990-9	4.3	12.5	16.9	6.8	-1.0	1.3	-0.3	-2.0	4.8	1.4
1984	7.8	13.2	21.0	11.0	-3.1	1.7	-1.4	-3.7	7.3	2.2
1985	6.7	13.1	19.8	9.8	-3.0	1.6	-1.4	-3.7	6.1	2.6
1986	6.0	12.1	18.1	8.0	-3.1	1.5	-1.6	-3.8	4.2	3.2
1987	5.3	12.3	17.7	7.6	-1.9	1.3	-0.6	-2.9	4.7	3.2
1988	5.7	12.7	18.5	8.4	-1.5	1.4	-0.1	-2.4	6.0	2.2
1989	5.5	11.9	17.4	7.3	-1.2	1.4	0.2	-2.0	5.3	1.6
1990	5.8	11.8	17.5	7.5	-1.8	1.1	-0.7	-2.9	4.6	1.2
1991	6.2	12.1	18.4	8.2	-2.4	1.0	-1.4	-3.7	4.5	-0.2
1992	6.5	12.1	18.4	8.3	-3.5	1.0	-2.5	-4.8	3.5	0.6
1993	5.3	12.1	17.5	7.5	-2.9	1.1	-1.8	-4.1	3.4	1.1
1994	4.5	12.3	17.0	6.9	-1.9	1.2	-0.6	-2.9	4.0	1.5
1995	4.1	12.8	17.1	7.1	-1.5	1.3	-0.1	-2.4	4.7	1.3
1996	3.5	13.0	16.5	6.5	-0.7	1.4	0.8	-1.5	5.0	1.4
1997	3.0	13.1	16.2	6.1	0.4	1.5	1.9	-0.3	5.8	1.5
1998	3.0	12.6	15.7	5.5	1.6	1.6	3.2	1.0	6.5	2.3
1999	1.6	12.8	14.4	4.1	2.3	1.7	4.0	1.9	6.0	3.4

Source: U.S. Department of Commerce.

a. Equal to the sum of private sector saving net of depreciation and total public sector saving net of depreciation.

b. Negative sign indicates the export of saving from the United States. Positive sign indicates the import of saving from abroad.

A sudden increase in the national saving rate is, however, not without some possible adverse consequences. In the short run, a sudden increase in the saving rate means decreased consumption and/or lower public sector net spending, both of which depress aggregate demand. Moreover, in either case, the demand for some types of output would fall to be replaced by an increased demand for other types of output. As a result, some industries and firms would have to contract while others expand. Resources would have to transit from declining to growing industries. These short-run dislocations should be borne in mind if a higher national saving rate becomes the object of public policy.