

INTERNATIONAL ECONOMIC COMPARISONS

Michael Youssef¹
myoussef@usitc.gov
202-205-3269

U.S. Economic Performance Relative to Other Group of Seven (G-7) Members

U.S. real GDP—the output of goods and services produced in the United States measured in 1996 prices—grew at an annual rate of 2.4 percent in the third quarter of 2000 following a 5.6-percent growth rate in the second quarter, according to revised estimates by the U.S. Department of Commerce (Commerce News BEA 00-34). For the year 1999 real GDP grew by 4.2 percent.

The annualized rate of real GDP growth in the third quarter of 2000 was 2.8 percent in the United Kingdom, 4.8 percent in Canada, 2.7 percent in France, 2.3 percent in Germany, 2.1 percent in Italy, and 1.0 percent in Japan. The annualized rate of real GDP growth in the third quarter was 2.8 percent for EU members linked by the Euro currency, the Euro area (EU-11).

Industrial Production

The Federal Reserve Board (Federal Reserve Statistical Release -G.17 (419)) reported that U.S. industrial production fell by 0.2 percent in November 2000 following a decline of 0.1 percent in October. Manufacturing output dropped by 0.5 percent with declines spread about evenly across durable and nondurable goods industries. Output at utilities surged by 3.6 percent in November due to unseasonably cold weather. The output of consumer goods ticked up by 0.1 percent in November after having fallen by 0.9 percent in October. The production of durable consumer goods decreased for a second month and was pulled down by a drop in the assembly rate of autos and light trucks. The output of other consumer durables, which dipped by 0.3 percent in November, was held down by a decline in carpeting and furniture. Total industrial production in November 2000 was 4.7 percent higher than

in November 1999. Overall industrial capacity utilization was 4.6 percent higher in November 2000 than in November 1999.

For the third quarter as a whole, total industrial production index increased at an annual rate of 3.7 percent, the slowest quarterly rate since the first quarter of 2000.

Other G-7 member countries reported the following growth rates of industrial production. For the year ended October 2000, Japan reported an increase of 6.6 percent, the United Kingdom reported an increase of 0.6 percent, Germany reported an increase of 4.1 percent, Italy reported an increase of 4.3 percent. For the year ended September 2000, France reported an increase of 3.4 percent and Canada reported an increase of 4.3 percent. The Euro area reported an increase of 5.6 percent for the year ended September 2000.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) increased 0.2 percent in November 2000, the same as in October 2000, according to the U.S. Department of Labor (USD L-00-360). The food index, which rose by 0.1 percent in October 2000, was unchanged in November. The energy index increased by 0.1 percent in November 2000, following a 0.2-percent rise in October. For the 12-month period ended November 2000, the urban CPI (“CPI-U”) increased by 3.4 percent.

During the 1-year period ended November 2000, prices increased by 2.4 percent in Germany, 2.7 percent in Italy, 3.2 percent in Canada, 3.2 percent in the United Kingdom, and by 2.2 percent in France. During the 1-year period ended October 2000, prices declined by 0.9 percent in Japan. Prices increased by 2.9 percent in the Euro area in the year ended November 2000.

Employment

The Bureau of Labor Statistics (USD L 01-02) reported that the unemployment rate was unchanged in December 2000 at 4.0 percent. The jobless rate has been in the 3.9 to 4.1 percent range since October 1999. Employment fell in manufacturing, but rose in construction and in the services sector.

¹ The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

In other G-7 countries, their latest unemployment rates were 6.9 percent in Canada, 9.3 percent in Germany, 5.5 percent in the United Kingdom, 9.4 percent in France, 10.5 percent in Italy, and 4.7 percent in Japan. The unemployment rate in the Euro area was 8.9 percent.

Forecasts

The OECD Economic Outlook report No. 68 issued in November 2000 expects global economic growth prospects to remain relatively bright, despite higher oil prices and a weakening in many equity markets.² After reaching 4.5 percent this year—the fastest pace in more than a decade—growth among the OECD economies is projected to slow to about 3.25 percent (at an annual rate) in 2001 and 3.0 percent in 2002. Against a background of some modest further tightening in monetary policy in the United States and the Euro area, core inflation is likely to remain low in most OECD countries. Areawide employment should continue to rise while unemployment may remain close to about 6 percent of the labor force. The OECD report also stated that, with a sharper and more widespread rebound in activity outside the OECD area than expected previously, world output may rise by some 4.75 percent this year before slowing to a growth rate of 4.0 percent in 2001 and 2002.

The OECD report also stated that financial market developments so far do not suggest turbulence, but could remain sources of risk in particular if the optimism attached to technology stocks continues to wane and risk premia in high-yield corporate bond markets continue to widen. Such developments could affect confidence and discourage private spending, triggering a sharper slowdown than projected, particularly in the United States. Attractive returns and buoyant economic conditions in the United States have ensured that the record high current-account deficit has been financed without difficulty. Ultimately, however, the current-account deficit requires adjustments that might take place smoothly. However, a change in foreign investor sentiment could slacken the pace of capital inflows and lead to turbulence in foreign-exchange markets, with possibly inflationary consequences that might require a monetary policy response that, in turn, could lead to a more abrupt slowdown in the U.S. economy.

Moreover, the OECD report points out that the unusually long expansion in the United States (although in few other OECD economies), coupled with the strong pick-up in U.S. productivity growth, has prompted much discussion of the sources of growth and the set of policies that might favor better growth performance in OECD economies. Although the

debate is dominated by “new economy” arguments emphasizing the production and diffusion of information and communications technology, the evidence suggests that “old economy” mechanisms are still crucial to understanding the growth process. In particular, the accumulation of various kinds of capital—human as well as physical—plus the need for research and development, are considered two key elements for economic growth. Differences across countries in this respect may contribute significantly to explain the observed variations in growth patterns.

Raising levels of per capita income in the long term requires a broad set of policies, including: sound macroeconomic management; a tax system that encourages work effort and entrepreneurship; openness to international trade and competition; and government expenditure programs that emphasize investment and capital accumulation, including investment in infrastructure. Appropriate conditions in financial markets and product market regulations also have an important role in fostering innovation and productivity enhancement. However, the “new economy” does raise some novel policy challenges, notably in respect to consumer protection, taxation, and competition policy, according to the OECD report.

The OECD report projected U.S. real GDP to grow at a rate of 5.2 percent in 2000, 3.5 percent in 2001, and 3.3 percent in 2002. Inflation is projected to reach 2.1 percent in 2000, 2.2 percent in 2001, and 2.3 percent in 2002. U.S. unemployment rate is projected to reach 4.0 percent in 2000, 4.2 percent in 2001, and 4.5 percent in 2002. U.S. current-account deficit would reach 4.3 percent of GDP in 2000, 4.5 percent in 2001, and 4.3 percent in 2002.

In the Euro area (EU-11), the rise in oil prices and less accommodating monetary conditions have already contributed to a moderate deceleration in the pace of economic activity in the area in the course of 2000. Nonetheless, economic growth is set to expand at rates above potential over the coming 2 years. The OECD report projected Euro area GDP to increase at a rate of 2.9 percent in 2000, 2.6 percent in 2001, and 2.7 percent in 2002. Inflation is projected to increase by 1.2 percent in 2000, 1.9 percent in 2001, and 2.0 percent in 2002. Unemployment in the Euro area is projected to reach 9.0 percent in 2000, and then decline to 8.3 percent in 2001, and 7.7 percent in 2002. Current-account balances would show a surplus of 0.1 percent of GDP in 2001 and 0.4 percent of GDP in 2002.

In the broader European Union (EU-15), GDP is projected to increase at a rate of 3.4 percent in 2000, 3.0 percent in 2001, and 2.7 percent in 2002. Inflation is to increase by 1.4 percent in 2000, 2.0 percent in 2001, and 2.2 percent in 2002. Unemployment is projected to reach 8.2 percent in 2000, and decline thereafter to 7.6 percent in 2001, and 7.2 percent in 2002. The current account would show a deficit of 0.2

² OECD, *Economic Outlook No. 68*, Dec. 20, 2000, (OECD: Paris, 2000).

percent of GDP in 2000 and 2001, but achieve balance in 2002.

In Japan, the economy has started a moderate recovery. Output is projected to grow at a rate of 2.0 to 2.25 percent during the 2001-2002 projection period, with deflation gradually subsiding as economic growth picks up, according to the report. Japan's current account is estimated to show a 2.8-percent surplus as a percent of GDP in 2000, 2.7 percent in 2001, and 3.0 percent in 2002.

In addition, seven major U.S. forecasters expect real GDP growth in the United States during the fourth quarter of 2000 to reach an average of about 3.2 percent (at an annual rate), and to increase to 3.4 percent in the first quarter of 2001. The growth rate for the

year 2000 would average about 5.2 percent. Table 5 shows macroeconomic projections for the U.S. economy from October 2000 to June 2001, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes from the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 4.1 percent in the fourth quarter, and is expected to remain at that rate over the first and second quarters of 2001. Inflation (as measured by the GDP deflator) is expected to reach about 2.2 percent in the fourth quarter and rise slightly in the first half of 2001.

Table 5
Projected changes in U.S. economic indicators, by quarters, Oct. 2000-June 2001, and annuals 2000-2001

(Percentage)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Macro Economic Advisers	Eaton Corp.	Regional Financial Associates	Mean of forecasts
<i>GDP constant dollars</i>								
2000:								
Oct.-Dec.	5.9	2.5	3.0	3.3	3.0	2.2	2.5	3.2
Annual 2000 . . .	5.4	5.2	5.2	5.2	5.2	5.1	5.2	5.2
2001:								
Jan.-March . . .	5.4	2.0	2.6	3.5	3.2	3.1	3.7	3.4
April-June	1.8	2.0	2.9	3.8	3.2	4.0	3.2	3.0
Annual 2001 . . .	3.9	2.6	3.1	3.7	3.3	3.4	3.3	3.3
<i>GDP Price Deflator</i>								
2000:								
Oct.-Dec.	3.0	2.6	1.7	1.5	1.9	2.2	2.6	2.2
Annual 2000 . . .	2.2	2.2	2.1	2.1	2.1	2.1	2.2	2.1
2001:								
Jan.-March . . .	3.4	2.2	1.7	1.9	2.2	2.0	2.6	2.3
April-June	3.0	2.2	1.9	1.5	2.6	1.4	2.2	2.1
Annual 2001 . . .	2.9	2.2	1.7	1.7	2.2	1.8	2.4	2.1
<i>Unemployment average rate</i>								
2000:								
Oct.- Dec.	3.9	4.1	4.3	4.0	4.0	4.3	4.0	4.1
Annual 2000 . . .	4.0	4.1	4.1	4.0	4.0	4.2	4.0	4.1
2001								
Jan.-March . . .	3.8	4.2	4.4	4.1	3.9	4.2	4.1	4.1
April-June	3.9	4.3	4.5	4.1	3.9	4.2	4.1	4.1
Annual 2001 . . .	4.0	4.3	4.5	4.2	4.0	4.4	4.2	4.1

Note.—Except for the unemployment rate, percentage changes in the forecast represent annualized rates of change from preceding period. Quarterly data are seasonally adjusted. Forecast date, Oct. 2000.

Source: Compiled from data of the Conference Board. Used with permission.