
INTERNATIONAL ECONOMIC COMPARISONS

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

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Economic Growth

The real gross domestic product (GDP) of the United States—the output of goods and services produced in the United States measured in 1996 prices—increased at an annual rate of 4.0 percent in the third quarter of 2002. In the second quarter of 2002, real GDP increased at an annual rate of 1.3 percent, according to estimates by the U.S. Department of Commerce Bureau of Economic Analysis.² For the year 2001, real GDP grew by 0.3 percent, following a growth rate of 3.8 percent in the year 2000. The major contributors to the increase in the third quarter of 2002 were personal consumption expenditures, equipment and software, exports, and government spending. However, the contributions of these components were partly offset by a decrease in nonresidential structures. Imports, which are a subtraction in the calculation of GDP, increased.

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² Data for this article were taken largely from the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, “Gross Domestic Product,” *BEA News Release*, found at Internet address <http://www.bea.doc.gov/bea/newsrel/gdp.htm>; Federal Reserve Board, “Industrial Production and Capacity Utilization,” G.17 (419) Release, found at Internet address <http://www.federalreserve.gov/releases/G17/Current/>; U.S. Department of Labor, Bureau of Labor Statistics, “Consumer Price Index,” *USDL-01*, found at Internet address <http://www.bls.gov/news.release/cpi.nr0.htm>; U.S. Department of Labor, Bureau of Labor Statistics, “The Employment Situation,” *USDL-01*, found at Internet address <http://www.bls.gov/news.release/emp-sit.nr0.htm>; and the Conference Board, Consumer Research Center, “Forecasters’ Forecasts,” facsimile transmission, used with permission.

The annualized rate of real GDP growth in the third quarter of 2002 was 1.1 percent in Italy, 3.0 percent in Japan, 3.4 percent in the United Kingdom, 1.1 percent in Germany, 3.1 percent in Canada, and 0.9 percent in France. For EU members linked by the euro currency, the euro area (EU-12) GDP growth rate was 1.3 percent in the third quarter of 2002.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production fell 0.8 percent in October 2002, its third consecutive monthly decline. The rate of capacity utilization for total industry fell 0.6 percentage point to 75.2 percent from 75.8 percent, a level 6.7 percent below its 1967-2001 average.

By market groups, the output of consumer goods decreased 0.8 percent in October, its third consecutive monthly decline. The production of consumer durable goods fell 2.5 percent, as a 4.4 percent decline in the output of automotive products accounted for much of the drop. The production of consumer nondurable goods fell 0.3 percent. The production of business equipment dropped 2.0 percent in October following a decline of 1.5 percent in September. The output of industrial materials fell 0.7 percent, the largest since December 2001.

By industry group, manufacturing output decreased 0.7 percent in October 2002 following decreases of 0.4 percent in September, and 0.1 percent in August. The index for durable goods decreased 1.2 percent, and the index for nondurables slipped 0.2 percent. The largest decline in durable goods industries was in motor vehicles and parts, which dropped 5.2 percent due to parts shortages resulting from effects of the port

shutdown on the West Coast. This decline followed a decrease of 1.3 percent in September. Excluding motor vehicles and parts, manufacturing output was unchanged. Output of utilities decreased 1.6 percent, and production in mining declined 1.0 percent. Utilities output declined by 1.6 percent.

Other G-7 member countries reported the following growth rates of industrial production. For the year ending September 2002, Japan reported an increase of 5.2 percent, Italy reported an increase of 1.2 percent, but United Kingdom reported a decrease of 2.5 percent, Germany reported a decrease of 1.3 percent, and France reported a decrease of 1.1 percent. For the year ending August 2002, Canada reported an increase of 3.1 percent. The euro area reported a decrease of 0.6 percent for the year ending September 2002.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) rose by 0.3 percent in October 2002, following a 0.2 percent increase in September, and a 0.3 percent increase in August, according to the U.S. Department of Labor. For the year ended October 2002, consumer prices increased 1.9 percent.

During the year ended in October 2002, France reported an increase of 1.9 percent, Germany reported an increase of 1.3 percent, Italy reported an increase of 2.7 percent, and the United Kingdom reported an increase of 2.1 percent. During the year ending in September 2002, prices increased by 2.3 percent in Canada, but declined by 0.7 percent in Japan. Prices increased by 2.2 percent in the euro area in the year ending October 2002.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics reported that the U.S. unemployment rate at 6.0 percent in October 2002. Job losses continued in the manufacturing industry but were offset by gains in services. In other G-7 countries, the latest unemployment rates were reported to be 7.6 percent in Canada, 9.0 percent in France, 9.9 percent in Germany, 9.0 percent in Italy, 5.4 percent in Japan, and 5.3 percent in the United Kingdom. The unemployment rate in the euro area was 8.3 percent.

Forecasts

Despite the terrorist attacks in the United States of September 11, 2001, the U.S. economy has been ranked as the most competitive in the world, according to the World Economic Forum's most recent Global Competitiveness Report. The report constructs a

“growth competitiveness index” for 80 industrialized and emerging economies. The index includes several factors that influence a country's economic prospects over the next five to eight years, such as technology, public institutions, and the macroeconomic environment. The U.S. strong performance in technology—particularly in research and development, with collaboration between universities and business, as well as the strong level of tertiary education—helped to rank the U.S. economy in first place. The other economies in the top 30 were ranked in order as Finland, Taiwan, Singapore, Sweden, Switzerland, Australia, Canada, Norway, Britain, Japan, Hong Kong, Israel, Chile, South Korea, Ireland, Thailand, South Africa, China, Czech Republic, Mexico, Brazil, India, Poland, Colombia, Philippines, Argentina, Russia, Indonesia, and Turkey.

In testimony before the U.S. Congress Joint Economic Committee, Alan Greenspan—chairman of the Federal Reserve Board of Governors—noted that the U.S. economy shows remarkable strength despite the forces that have continued to burden it, the lengthy adjustment of capital spending due to the decline in equity values, the fallout from the revelations of corporate malfeasance, and the heightened political risks in areas such as the Middle East. U.S. real GDP grew by 3 percent over the past four quarters despite these obstacles, a very respectable pace compared to the sluggish growth in other major world economies.³

OECD Forecasts⁴

Forecasts by the Organization of Economic Co-operation and Development (OECD) in its preliminary editions of its *Economic Outlook*, released November 21, 2002, show assuring rates of growth in the coming years for the United States compared to other OECD economies. U.S. real GDP is projected to grow by 2.3 percent in 2002, by 2.6 percent in 2003, and by 3.6 percent in 2004. In contrast, Japan's real GDP is projected to decline by 0.7 percent in 2002, and then increase by only 0.8 percent in 2003, and by 0.9 percent in 2004. In the euro area, real GDP is projected to grow by 0.8 percent in 2002, by 1.8 percent in 2003, and by 2.7 percent in 2004. In the European Union, real GDP is projected to grow by 0.9 percent in 2002, by 1.9 percent in 2003, and by 2.7 percent in 2004. Real GDP for the whole OECD area—the world's industrialized economies as a group—is projected to grow by 1.5 percent in 2002, by 2.2 percent in 2003, and by 3.0 percent in 2004.

³ Testimony of Chairman Alan Greenspan before the U.S. Congress Joint Economic Committee, “The economic outlook,” Nov. 13, 2002, found at Internet address <http://www.federalreserve.gov/>, retrieved on Dec. 5, 2002.

⁴ OECD, *Economic Outlook No. 72*, Preliminary Edition, November 2002, found at Internet address <http://www.oecd.org/>, retrieved on Dec. 5, 2002.

Inflation is projected to remain subdued in the United States, rising from 1.1 percent in 2002 to 1.3 percent in both 2003 and 2004. In Japan, deflationary price pressures are expected to remain throughout the three year period as prices are projected to decline by 1.0 percent in 2002, 1.6 percent in 2003, and by 1.4 percent in 2004. In the euro area (EU-12), inflation is projected to slow from 2.2 percent in 2002 to 1.9 percent in 2003, and to 1.8 percent in 2004. In the somewhat larger area of the European Union (EU-15), inflation is projected to slow from 2.4 percent in 2002 to 2.0 percent in 2003, and to 1.9 percent in 2004. In the overall OECD area, inflation is projected to slow from 2.2 percent in 2002 to 1.8 percent in 2003, and to 1.6 percent in 2004.

Unemployment is projected to remain at 5.8 percent in the United States in 2002, rise slightly to 6.0 percent in 2003, then fall back to 5.7 percent in 2004. In Japan, unemployment is projected to stay at 5.5 percent in 2002, and remain at a 5.6 percent level in both 2003 and 2004. In the euro area, unemployment is projected to remain high at 8.3 percent in 2002, rise to 8.5 percent in 2003, and decline slightly to 8.3 percent in 2004. In the European Union, unemployment is projected to rise from 7.6 percent in 2002 to 7.8 percent in 2003, and then decline to 7.5 percent in 2004. In total OECD area, unemployment is projected to remain around 6.7 to 6.8 percent during the three year period.

The U.S. current account deficit, as a percent of GDP, is projected to remain high in the three years, growing by 0.2 percent from 4.9 percent in 2002 to 5.1 percent in 2003 and to 5.3 percent of GDP in 2004. In Japan, the current account surplus is projected to grow from 3.2 percent, of GDP in 2002 to 3.8 percent in 2003, and to 4.2 percent in 2004. In the euro area, the current account surplus is projected to grow from 0.9

percent in 2002 and 2003 to 1.2 percent in 2004. The overall OECD current account deficit, as a percent of GDP, is projected to remain at 1.2 percent over the three years.

World trade volume—the average of world merchandise imports plus exports—is projected to increase by 2.2 percent in 2002, but grow substantially more in 2003 and 2004, by 7.7 percent and 8.8 percent respectively.

Private Economic Forecasts

Economic prospects also improved, according to private forecasters, despite the terrorist attacks in the United States on September 11, 2001. Seven major U.S. forecasters expect real GDP growth in the United States during the fourth quarter of 2002, to reach an average annualized rate of 2.4 percent. The overall growth rate for the year 2002 is expected to average 2.5 percent. In the first and second quarters of 2003, GDP is projected to grow at 3.5 percent and 3.7 percent, respectively. Table 1 shows macroeconomic projections for the U.S. economy from October 2002 to September 2003, 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 6.1 percent in the third and fourth quarters of 2002, remains at 6.1 percent for the year 2002, and then slows slightly during the first and second quarter of 2003. Inflation, as measured by the GDP deflator, is expected to remain subdued, reaching an average of about 1.7 percent in the fourth quarter of 2002. For the year, inflation is projected to remain at 1.2 percent, and then rise by 1.9 percent in the year 2003 (table 1).

Table 1

Projected changes of selected U.S. economic indicators, by quarter and year, April 2002–September 2003

		Conference Board	Macro-economic Advisers	E.I. Dupont	UCLA	Regional Forecasting Associates	Merrill Lynch Capital Markets	Eaton Corporation	Mean of forecasts
		<i>Percent (see note)</i>							
GDP, constant dollars									
2002	Q:II (actual) . . .	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
	Q:III	3.6	4.3	3.7	2.6	3.5	4.5	3.1	3.6
	Q:IV	3.0	1.1	2.0	2.5	1.9	2.5	3.9	2.4
2003	Q:I	4.7	2.3	2.5	2.6	2.5	2.5	4.1	3.0
	Q:II	3.2	3.7	3.0	2.7	3.3	4.0	4.7	3.5
	Q:III	4.3	4.0	3.0	3.2	3.8	4.5	3.4	3.7
	Annual 2002 . .	2.5	2.5	2.4	2.3	2.9	2.6	2.5	2.5
	Annual 2003 . .	3.7	2.8	2.7	2.7	3.5	3.3	3.7	3.2
Unemployment, average rate									
2002	Q:II (actual) . . .	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
	Q:III	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
	Q:IV	6.0	6.0	5.9	6.1	6.3	6.1	6.0	6.1
2003	Q:I	6.1	6.0	5.9	6.2	6.3	6.3	6.2	6.1
	Q:II	6.0	5.7	5.8	6.1	6.2	6.2	6.1	6.0
	Q:III	5.7	5.6	5.7	6.1	6.1	6.0	5.9	5.9
	Annual 2002 . .	5.9	5.8	5.8	5.9	6.0	5.9	5.9	5.9
	Annual 2003 . .	5.8	5.7	5.8	6.1	6.1	6.1	6.0	5.9
GDP price deflator									
2002	Q:II (actual) . . .	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	Q:III	1.3	1.3	1.5	1.2	1.7	1.3	2.9	1.6
	Q:IV	2.6	1.0	1.5	1.1	1.8	1.2	2.6	1.7
2003	Q:I	3.4	1.3	1.4	1.4	1.8	1.5	2.9	2.0
	Q:II	3.0	1.5	1.4	1.7	2.2	0.6	2.4	1.8
	Q:III	3.0	1.9	1.8	2.3	2.1	1.2	2.4	2.1
	Annual 2002 . .	1.2	1.1	1.2	1.1	1.5	1.1	1.4	1.2
	Annual 2003 . .	2.7	1.4	1.5	1.6	2.2	1.2	2.5	1.9

Note.—Projected changes in percent represent annualized percentage rates of change from the preceding period, except for the unemployment rate which represents a simple percentage rate of the U.S. labor force. Quarterly data are seasonally adjusted.

Source: Calculated from data supplied by the Conference Board. Used with permission. Forecast date, September 2002.