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# INTERNATIONAL ECONOMIC COMPARISONS

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## 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 1.3 percent in the second quarter of 2002. In the first quarter of 2002, real GDP increased at an annual rate of 5.0 percent, according to estimates by the U.S. Department of Commerce, Bureau of Economic Analysis.<sup>2</sup> 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 second quarter of 2002 were private inventory investment, personal consumption expenditures, exports, and government spending. However, the contributions of these

components were partly offset by a decrease in non-residential structures. Imports, which are a subtraction in the calculation of GDP, increased sharply.

The annualized rate of real GDP growth in the second quarter of 2002 was 4.3 percent in Canada, 2.0 percent in France, 1.1 percent in Germany, 0.9 percent in Italy, 2.6 percent in Japan, and 2.4 percent in the United Kingdom. For EU members linked by the euro currency, the euro area (EU-12), GDP growth rate was 1.4 percent in the second quarter of 2002.

### *Industrial Production*

The Federal Reserve Board reported that U.S. industrial production fell 0.3 percent in August 2002, a partial reversal of the 0.4 percent increase in July and its first decline since December 2001. The rate of capacity utilization for total industry was 76.0 percent, a rate that has remained essentially flat for the last three months.

Manufacturing output decreased 0.1 percent in August, following increases of 0.3 percent in July and 0.6 percent in June. Excluding motor vehicles and parts, manufacturing output was unchanged. Output of utilities dropped back 2.5 percent, but production in mining climbed 0.8 percent. Production of motor vehicles and parts retreated slightly from the elevated pace in July, and furniture output declined, but production of primary metals—principally iron and steel—and industrial and electrical machinery rose noticeably. The output of semiconductors and related electronic components has risen since the fourth quarter of 2001.

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<sup>2</sup> 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.

Other G-7 member countries reported the following growth rates of industrial production. For the year ending August 2002, Japan reported an increase of 1.9 percent. For the year ending July 2002, Canada reported an increase of 1.3 percent, France reported a decrease of 1.7 percent, Germany reported a decrease of 1.9 percent, Italy reported an increase of 0.9 percent, and the United Kingdom reported a decrease of 2.5 percent. The euro area reported a decrease of 0.5 percent for the year ending July 2002.

## Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.3 percent in August 2002, following a 0.1 increase in each of the preceding two months, according to the U.S. Department of Labor. For the year ended August 2002, consumer prices increased 1.8 percent more than its level in August 2001.

During the 1-year period that ended in September 2002, Germany reported an increase of 1.1 percent, and Italy reported an increase of 2.6 percent. During the year ending in August 2002, prices increased by 2.6 percent in Canada, 1.8 percent in France, and 1.4 percent in the United Kingdom. But prices decreased by 0.9 percent in Japan during the year ending in August 2002. Prices increased by 2.2 percent in the euro area in the year ending September 2002.

## Employment

The U.S. Department of Labor, Bureau of Labor Statistics reported that the U.S. unemployment rate at 5.6 percent in September was little changed. Job losses in manufacturing and transportation offset gains in finance and health services.

In other G-7 countries, the latest unemployment rates were reported to be 7.5 percent in Canada, 9.0 percent in France, 9.9 percent in Germany, 9.0 percent in Italy, 5.4 percent in Japan, and 5.2 percent in the United Kingdom. The unemployment rate in the euro area was 8.3 percent.

## Forecasts

The events of 2001 brought new challenges for the U.S. economy and for economic policy. However, a report submitted to the Congress on July 16, 2002, by the Federal Reserve Board emphasized that the pace of economic activity in the United States picked up in the first half of 2002 as some of the powerful forces that had been restraining spending for the preceding year and a half abated. The Board expects the economy to expand rapidly enough over the next six quarters to erode current margins of underutilized capital and labor resources. The central tendency of the Board forecasts for real GDP growth over the four quarters of

2002 is 3.5 percent to 3.75 percent, and the central tendency for real GDP growth in 2003 is 3.5 percent to 4.0 percent. The central tendency of the projection of the civilian unemployment rate, is 6.0 percent, which is expected to stay close to this figure for the remainder of the 2002 and then move down to between 5.25 percent and 5.5 percent by the end of 2003. The economy continues to display characteristics favorable to long-term growth; productivity growth remains strong, and inflation remains low and stable, the Board reported. Support from monetary and fiscal policies, and rising productivity should lead to a strengthening in final demand over coming quarters. Business spending on equipment and software will likely be boosted by rising sales, improving profitability, tax incentives, and by the desire to acquire new capital embodying ongoing technological advances. Inflation—as measured by an increase in the chain-type index for personal consumption expenditures—is expected to stay mute. The Board expects underlying inflation to remain close to recent levels through the end of 2003. The central tendency of the Board's projections of the increase in personal consumption expenditure over the four quarters of both 2002 and 2003 is 1.5 percent to 1.75 percent, compared with last year's pace of 1.25 percent.<sup>3</sup>

In addition, private economic prospects improved 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 third quarter of 2002 to reach an average annualized rate of 3.0 percent, and 2.9 percent in the fourth quarter. The overall growth rate for the year 2002 is expected to average 2.4 percent. In the first and second quarters of 2003, GDP is projected to grow at 3.4 percent and 3.7 percent respectively. Table 1 shows macroeconomic projections for the U.S. economy from April 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 6.0 percent in the third quarter of 2002, and remain at 6.0 percent for the rest of the year 2002, then rises slightly during the first quarter of 2003 and dips afterward. Inflation, as measured by the GDP deflator, is expected to remain subdued, reaching an average of about 1.8 percent in the third quarter of 2002, then dips in the fourth quarter to 1.6 percent. For the year, inflation is projected to remain at 1.2 percent, and then rises by 1.8 percent in the year 2003 (see table 1).

<sup>3</sup> Board of Governors of the Federal Reserve System, "Monetary Policy Report to the Congress," submitted to the Congress on July 16, 2002, found at Internet address <http://www.federalreserve.gov/boarddocs/hh/2002/July/Full-Report.txt>, retrieved on Oct. 1, 2002.

**Table 1**

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

	Conference Board	Macroeconomic Advisers	E.I. Dupont	UCLA	Regional Forecasting Associates	Merrill Lynch Capital Markets	Eaton Corporation	Mean of forecasts
	<i>Percent (see note)</i>							
<b>GDP, constant dollars</b>								
2002	Q:II (actual)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	Q:III	2.5	3.5	3.0	2.4	2.8	3.1	3.0
	Q:IV	4.0	2.4	2.0	2.5	2.3	3.5	2.9
2003	Q:I	3.9	2.8	3.0	2.8	3.1	4.1	3.4
	Q:II	3.7	3.8	3.0	2.8	3.6	4.2	3.7
	Q:III	5.0	3.8	3.0	2.8	4.2	4.0	3.7
	Annual 2002	2.4	2.4	2.3	2.3	2.3	2.5	2.4
	Annual 2003	3.7	3.1	2.7	2.6	3.1	3.7	3.2
<b>Unemployment, average rate</b>								
2002	Q:II (actual)	5.9	5.9	5.9	5.9	5.9	5.9	5.9
	Q:III	6.1	6.0	5.9	5.9	6.1	5.8	6.0
	Q:IV	6.1	6.0	6.0	6.0	6.3	5.9	6.0
2003	Q:I	6.2	5.9	5.9	5.9	6.3	6.0	6.1
	Q:II	6.1	5.7	5.8	5.8	6.2	5.9	6.1
	Q:III	5.9	5.6	5.7	5.8	6.1	5.8	5.8
	Annual 2002	5.9	5.9	5.9	5.9	6.0	5.8	5.9
	Annual 2003	5.9	5.6	5.8	5.8	6.1	5.9	5.9
<b>GDP price deflator</b>								
2002	Q:II (actual)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	Q:III	2.2	1.0	1.5	1.3	1.5	1.9	1.8
	Q:IV	2.5	1.1	1.5	1.1	1.8	0.5	1.6
2003	Q:I	3.6	1.3	1.4	1.5	1.8	1.3	2.0
	Q:II	2.7	1.6	1.4	1.5	2.2	1.0	1.8
	Q:III	2.8	1.8	1.8	1.3	2.2	1.3	1.9
	Annual 2002	1.3	1.1	1.2	1.1	1.2	1.1	1.2
	Annual 2003	2.7	1.4	1.5	1.3	1.9	1.1	1.8

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, August 2002.