Originally Processed With FOIA(s):
2025-0647-S

FOIA Number:
2025-0647-S

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Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Chief of Staff, White House Office of
Series: Rogers, Ed, Files
Subseries: Subject Files

OA/ID Number: 04016
Folder ID Number: 04016-023

Folder Title:
Economic Talking Points

Stack:	Row:	Section:	Shelf:	Position:
G	15	23	1	

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release April 9, 1991

THE PRESIDENT'S ECONOMIC GROWTH AGENDA

FACT SHEET

The President believes that a strong, growing, and dynamic economy enhances job creation and opportunity for all Americans. The Administration is pursuing an economic growth agenda built around four principles:

- Encouraging Savings and Investment
- Opening New Opportunities in International Markets
- Promoting an Educated and Dynamic Workforce
- Reducing the Burden of Government Regulation

I. ENCOURAGING SAVINGS AND INVESTMENT

The President is committed to creating conditions that foster long-term, market-driven economic growth. The Administration is taking important steps to lower the cost of capital and to encourage entrepreneurship, savings, investment, and innovation. The President is pursuing policies that will lower the barriers to the formation of productive capital and ensure that our physical, human, and technological infrastructure remains the finest in the world.

A. Reducing the Cost of Capital

Controlling Government Borrowing

The President is committed to controlling Federal government spending. Last year's budget agreement will decrease the Federal government's borrowing requirements by nearly $500 billion over the next five years. The agreement's spending caps set limits for discretionary spending while a pay-as-you-go system will force new mandatory spending to be offset by revenue increases or reductions in other programs.

Increasing Private Savings and Investment in the Economy

The President has repeatedly called for a reduction in the capital gains tax rate and has asked Federal Reserve Chairman Alan Greenspan to lead a technical study of the economic effects of the capital gains reduction.

The Administration's Fiscal Year 1992 Budget also includes proposals for Family Savings Accounts which will create needed incentives to save and penalty-free IRA withdrawals for first-time home buyers.

Encouraging an Innovative and Sound Financial System

The Administration's financial industry reform package will help ensure the continued strength of our Nation's financial system. Comprehensive banking reform will modernize our outdated banking laws, protect taxpayers and depositors, help alleviate tight credit conditions, and make our financial institutions more competitive at home and abroad.

B. Investing in Infrastructure and Research and Development

Revitalizing our Transportation Infrastructure

The Administration is proposing a significant increase in Federal highway spending, from $14.6 billion in 1991 budget authority to $20.3 billion in 1996. On a cumulative basis, almost $88 billion will be provided for highway construction and rehabilitation over the next five years. The Administration is also proposing a 17 percent increase in budget authority for our Nation's aviation systems.

Expanding Research and Development

The President's FY 1992 budget includes $76 billion for research and development, an $8.4 billion (13 percent) increase over 1991 levels. To encourage private sector R&D, the President supports the permanent extension of the Research and Experimentation Tax Credit.

Implementing the National Energy Strategy

The President transmitted his National Energy Strategy to the Congress in February. The Strategy is a comprehensive and balanced plan for a secure, efficient, and environmentally sound energy future. Over the next two decades, the Strategy will remove unnecessary barriers to market forces so that ample supplies of affordable energy can continue to foster economic growth.

II. OPENING NEW OPPORTUNITIES IN INTERNATIONAL MARKETS

Throughout the postwar period, the United States has led the world toward a system of free trade and open markets. The benefits of global economic integration and expanded international trade have been enormous, at home and abroad. The President and his Administration are aggressively working with the Congress to remove the remaining barriers to international trade and investment in our own hemisphere and throughout the world. Today, America is in the midst of an export boom. Merchandise exports have risen 55 percent in the last 4 years -- twice as fast as imports. Continuation of fast track authority for congressional approval of trade agreements is crucial to the President's trade strategy.

A. Successfully Concluding the Uruguay Round Negotiations

The President's top trade priority remains the Uruguay Round negotiations of the General Agreement on Tariffs and Trade. Success in the Uruguay Round will open agricultural markets, lower or eliminate tariffs on many products, strengthen the GATT system, and extend it to cover important new areas -- such as services, investment and intellectual property -- critical to U.S. economic vitality. A strong multilateral trading system is essential to America's economic future, since it assures our businesses access to growth markets in Europe and Asia.

B. North American Free Trade Agreement

The President has committed with Mexican President Salinas and Canadian Prime Minister Mulroney to negotiate a North American Free Trade Agreement (NAFTA). Creation of a NAFTA, with a market of some 360 million consumers and total output of $6 trillion, would be a catalyst for economic growth and development throughout the three countries.

The U.S.-Canada Free Trade Agreement has contributed to growth in both economies in its first two years.

Bilateral trade increased approximately nine percent from 1988 to 1989 and 4.2 percent from 1989 to 1990 despite a slowdown in both economies.

C. **Advancing the Enterprise for the Americas Initiative**

The Enterprise for the Americas Initiative promises to fuel growth and prosperity throughout this hemisphere by removing barriers to trade and investment. This Initiative also aims to provide official debt reduction to countries engaged in significant economic reforms and thereby to build on the Administration's ongoing support for commercial debt reduction. Restoring Economic growth in Latin America will boost U.S. trade, since the region is a natural market for American goods, services, and investment.

D. **Challenging Unfair Trade Barriers**

The Administration is pursuing numerous bilateral initiatives aimed at persuading foreign governments to open their markets and remove unfair barriers to American goods, services, and investment. In addition, the Administration is involved in ongoing bilateral negotiations with Japan to identify and eliminate structural factors that may impede balance of payments adjustment and efficient patterns of world trade. Our policy is to address trade concerns by opening foreign markets, not by closing our own.

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The President is committed to building on these market-opening initiatives by expanding the nation's exports, a major source of growth in recent years. The Trade Promotion Coordinating Committee has for the first time brought together the resources of eighteen Federal agencies to provide one-stop shopping to U.S. businesses seeking help in exporting. As part of this effort, the Department of Commerce is sponsoring a series of seminars across the country to help prospective exporters expand overseas sales.

III. PROMOTING AN EDUCATED AND DYNAMIC WORKFORCE

The President believes that long-term economic growth requires skilled and adaptable workers as well as modern capital and new technology. The Administration is taking important steps to ensure that American workers are well-educated and highly-skilled and that U.S. labor markets remain the world's most dynamic and flexible.

A. Restructuring the Education System

The President is committed to educational excellence for all Americans. He has advocated choice in education, increased flexibility in education-related funding in exchange for greater accountability, alternative certification for teachers and principals, rewards for outstanding teachers and for schools that improve their students' achievements, and innovative approaches to mathematics and science education. In partnership with the Nation's governors, the Administration is working to determine how best to measure and monitor progress toward the national education goals. The President will soon propose a new Educational Excellence Act with additional initiatives.

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The President has taken a number of steps to preserve the dynamism which is the hallmark of U.S. labor markets. He has continued to oppose mandated employer benefits which will reduce the options available to employees and slow down job growth in the economy. The President supports flexible benefit packages, negotiated between employers and employees.

The President opposes recent efforts to undermine more than fifty years of balance in labor/management relations. He objects to current Striker Replacement Legislation that would prohibit employers' ability to continue operations during labor disputes through the use of permanent replacement workers. Cooperation, not confrontation, is the key to international competitiveness.

The Immigration Act of 1990, the first major reform of legal immigration in a quarter-century, will substantially increase the overall level of immigration, particularly of skilled workers. These new workers will contribute to U.S. economic growth.

C. Improving our Job Training Efforts

The President proposed amendments to the Job Training Partnership Act (JTPA) which would have targeted job training efforts toward severely disadvantaged adult and youth workers. In an effort to reach youth in poverty stricken inner-city neighborhoods and rural communities, a new Youth Opportunities Unlimited (YOU) Program was proposed for certain high-poverty areas. In addition, the Job Opportunities and Basic Skills Program (JOBS) allows the states flexibility in providing Aid to Families with Dependent Children (AFDC) recipients help in acquiring needed job skills. The Administration currently is preparing a JTPA bill to transmit to the 102nd Congress.

IV. REDUCING THE BURDEN OF GOVERNMENT REGULATION

The remarkable flexibility of the U.S. economy, which stems from its reliance on free markets, is a major national asset. Government regulations generally reduce economic flexibility and thus should have a very limited role. Where regulation is necessary, regulatory programs should pass strict cost-benefit tests and should seek to harness the power of market forces to serve the public interest, not to distort or diminish those forces.

A. Council on Competitiveness Deregulation Task Force

The Vice President's Council on Competitiveness has formed a task force to study deregulation's effect on the U.S. economy. This task force will examine the Federal government's role in the marketplace by studying the history and costs and benefits of regulations on a wide variety of industries: transportation, communications, energy and financial services.

B. Biotechnology

The Vice President's Council on Competitiveness recently released the Report on National Biotechnology Policy outlining the Administration's commitment to free market development of biotechnology products. The Report makes 15 recommendations within three broad policy areas: investing in science and technology; risk-based regulation; and a free market environment providing capital and financial resources and protecting intellectual property rights.

C. **Joint Production Ventures**

The Economic Policy Council has developed a proposal which would encourage manufacturing consortia and joint ventures among industrial competitors. Currently, antitrust laws inhibit such ventures due to uncertainties regarding the risk of prosecution and private lawsuits. The current proposals would require the Justice Department and courts to consider global competition when deliberating antitrust issues.

D. **Drug Approval Process Working Group**

The working group has been assembled to review the FDA's drug approval process and propose operational or structural changes. This is an effort to create a more time-conscious and efficient process, especially with respect to experimental drugs, without increasing risk. Further, the group will review the condition of the U.S. pharmaceutical industry and suggest options for maintaining its health and competitive position.

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Growth Incentives

There are only three ways to increase the rate of economic growth:

- o Move existing resources from low value uses to high value uses.

  Markets do this automatically. Investors and workers will naturally seek the highest return for their money or their time. Governments interrupt this process through taxing and spending and by setting regulations. These actions move resources from high value uses to politically favored ones of lower value.

- o Increase the supply of or quality of labor.

  If more workers are being added to the labor force, the economy will grow naturally. But, this has the drawback that it will not cause output per worker to grow. That is what is really important.

- o Increasing saving and investment.

  Higher saving allows more investment in plant and equipment. Saving has a price, however. In order to increase saving, society must temporarily depress its standard of living or consumption.

Policies to achieve these growth promoting goals:

Low Value to High Value

1. Cut Government Spending. Almost by definition, government does things which private markets will not undertake. Sometimes the reason is that private markets cannot undertake them. In these cases government action is appropriate. But, in most cases government action merely moves resources from the private sector to wasteful, unwanted, or unneeded public projects.

   A. FREEZE DOMESTIC DISCRETIONARY PROGRAMS FOR ONE YEAR. This will generate roughly $12 billion per year in budget savings.

   B. CHANGE MEDICARE PART-B DEDUCTIBLE TO 1 PERCENT OF INCOME. This will not only save several billion annually but will also be good health care policy. It is also "progressive".

   C. CHANGE INDEXING OF SOCIAL SECURITY "BEND POINTS" TO SIMPLE PRICE INFLATION. This will not cut anyone's current benefits but will literally save hundreds of billions per year in the early to mid 21st century. The savings could be used to justify a social security tax cut. (See below.)

2. Cut Capital Gains. One of the worst features of a high capital gains tax is that it locks investors into low yielding assets when higher yielding assets are available.

3. Energy Market Deregulation. Many of these proposals are in the National Energy Strategy. Included: PUHCA Reform and Natural Gas regulation. These reforms will allow our scarce natural resources to be used more effectively.

4. Pension Reform. A set of proposals in this area is being put together by Treasury and Labor with OPD's assistance. They will increase portability thereby allowing workers to move more easily between jobs.

Labor

1. Cuts in Taxes on Labor Income.

    A. Cut Taxes on Married Women -- Presently most married women face an effective marginal tax rate of over 40 percent. This is important because economic evidence shows that married women are the most sensitive (elastic) with regard to taxes and labor supply. The most effective step would be to restore the "Two-Earner Deduction" which was repealed as part of the 1986 tax reform act.

    B. Cut Social Security Taxes -- This should be viewed as an employment incentive. This addresses the key "work or welfare" margin. The most cost effective cut would be on the first $100 earned each week. We could eliminate the employee portion of social security taxes on the first $100 for about $35 billion.

2. Increased Emphasis on Choice as a Way of Promoting Quality in Education. We should be frank about this. It will not lead to growth in the near term, but is key to the long run rate of growth in our economy.

Capital

1. Restore IRAs. The evidence is divided, but some of the best indicates that these were a cost effective way of promoting savings. The budgetary efficiency of this program could be enhanced by careful design -- including a floor on deductibility. IRAs are key to restoring the Savings Habit for the American middle class.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

September 27, 1990

AC/ER

ER - INFO

MEMORANDUM FOR GOV. JOHN H. SUNUNU

FROM: MICHAEL J. BOSKIN MJB

RE: Most sensitive economic data release dates between now and the election

As requested, the following are the dates on which the most sensitive economic data are scheduled to be released together with some brief comments on each. Note that these are the official data release dates and do not reflect possible major movements in the financial or oil markets which may make considerable news.

Friday, October 5--Employment and Unemployment for September

The unemployment rate has been inching up the last few months and preliminary data from weekly state unemployment insurance claims indicate that the rate may rise again.

Friday, October 11--Producer Price Index and Advance Retail Sales

The producer price index for September is likely to be up substantially because of the crude oil component.

Retail sales--one half of consumer spending--have been relatively weak.

Wednesday, October 17--State and area employment and unemployment data

These data are broken down not only by state but metropolitan areas as well. Hence, the President should be briefed on local conditions if he is traveling on the 17th.

Thursday, October 18--Exports and Imports and Consumer Price Index

The Trade deficit (for August) is likely to be bad news because it is the first to reflect the rise in oil prices.

The Consumer price index (in September) will be up considerably because of the oil component.

Tuesday, October 30--First estimate of Third Quarter GNP growth

Contrary to the media perception after the weak 0.4 percent annual growth rate in the second quarter, I do not believe we entered a recession in the third quarter. I believe the third quarter GNP growth is likely to be around one percent.

Friday, November 2--Employment and unemployment for October (see above under the corresponding data released on October 5.)

The following are less important general economic indicators but relate to industries or sectors which are currently in bad shape:

Autos

Wednesday, October 3--Monthly auto sales

Monday, October 15--early October 10 day auto sales

Wednesday, October 24--Mid-October auto sales

Monday, November 5--Monthly auto sales for October

Housing

Wednesday, October 17--Housing starts and permits; less important data on the housing industry: Tuesday, October 2, housing sales, Monday, October 29--Housing vacancies, Thursday, November 1--New construction expenditures

Thrift Industry

Thrift institution activity, October 9 (tentative)

Treasury statement for FY 1990 Receipts and Outlays and the budget deficit tentively scheduled for October 22.

cc: Mr Rogers

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

MEMORANDUM FOR GOVERNOR JOHN SUNUNU

FROM: MICHAEL BOSKIN

RE: Talking Points on the Economy FYI Your Speech Tomorrow (These are taken from the remarks I gave yesterday)

1. The economy has been sluggish for several quarters, e.g.,

   -- real GNP growth averaged slightly over 1 percent (annual rate) for the first half of 1990.

   -- While not all the data are in, it does appear that real growth continued in the third quarter, probably up from the very slow pace in the second quarter (N.b. while a thousand calculations go into such an estimate, not all the data are in, and many private forecasters are quite negative, my own best guess would be close to 1-1/2 percent real growth at an annual rate in the third quarter.)

2. Obviously, an oil "shock" is never good news, let alone when the economy is growing too slowly.

   -- There is going to be a one-time hit to the inflation rate with higher consumer and producer prices, and also a hit to real GNP. This is likely to be felt most in the fourth quarter of 1990 and the first quarter of 1991. However,

   -- We use one-third less energy per dollar of GNP than in the 1970s;

   -- We have dismantled most of the burdensome energy regulation of the 1970s that prevented the relatively smooth functioning of energy markets.

3. While the economy has been growing slowly overall, it is a mixture of some sectors and regions doing well, others doing OK, and others doing poorly.

-- Exports have been strong and consumer spending on services solid;

-- The interest-sensitive sectors such as residential and commercial construction and autos have been quite weak. (N.b. autos rebounded in September, but probably only due to large end-of-year incentive programs).

-- The Northeast--after stronger than average growth for several years--has slowed considerably, whereas the Northwest, and the farm economy are generally solid, and the Southwest has begun to turn around. For example, the unemployment rate in Texas is now below that in Massachusetts.

4. Obviously there is a lot of uncertainty in the short term outlook because we do not yet know the size and duration of the oil price "shock"; that depends on a variety of factors, primarily geopolitical and diplomatic.

5. The single best thing we can do to build some growth into the economy, provide some resilience in the face of this shock and maximize the probability of the economy rebounding sooner and stronger, is to pass an enforceable multi-year growth-oriented deficit reduction package as close as possible to the original budget summit agreement. This will have very desirable effects on the financial markets, and give the Federal Reserve room to lower interest rates. These factors in turn will help stimulate the economy next year, especially the interest-sensitive sectors which have been so weak.

Long-run

1. There are some pundits of declinism who argue that the United States is in long-run economic decline; that we have been surpassed by others; that our future is no longer in our own hands to decide; that our destiny is controlled by foreigners. Nothing could be further from the truth. With less than 5 percent of the world's population, we produce more than 25 percent of the world's GNP. We have the highest standard of living of any industrial country and the highest absolute level of productivity. We account for a larger share of the industrial output of the OECD countries than we did 20 years ago (N.B., i.e., their service sectors are also growing rapidly). We have serious problems and important challenges, but they are basically within our own hands to control. We have an education system that simply isn't

delivering the goods--the performance of our kids. We spend more per pupil than any other country in the world except Switzerland on K through 12 education. And on international test after international test, our kids do poorly. The only way we can remain the world's leading economy in the 21st century is to have a first-rate labor force with the skills to adapt to changes we cannot even begin to imagine today. That's going to take a major restructuring of the elementary and secondary education system. The President has begun that task with the Nation's Governors....

2. We need to reorient our fiscal priorities in this country to spend less and save and invest more, both publicly and privately. The $500 billion deficit reduction in the budget package is the most important component of that strategy. By the end of the 5-year period, we are projected to be running a consolidated budget surplus.

3. Our trade and regulatory policies are also designed to remove obstacles to American business growth and job creation.

cc: Ed Rogers

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

July 26, 1990

To: The President

From: Mike Boskin MJB

Re: Second Quarter GNP Growth

The first of the Commerce Department's three successive estimates of GNP growth has the second quarter of 1990 at an anemic 1.2 percent annual rate. The first quarter was revised down from 1.9 percent to 1.7 percent. This now makes five consecutive quarters under 2 percent.

[redacted]

The broadest based measures of inflation--the GNP deflator and the GNP fixed-weight index--came in at 4.4 percent and 3.9 percent, respectively, in the second quarter, each down substantially from the first quarter.

With inflation showing no signs of accelerating--indeed abating--and real GNP growth so anemic, it is really inexcusable that the FED is not easing, independent of any budget deal. Of course, if there is a budget deal they will have to ease a lot and quickly.

Michael J. Boskin
Chairman

THE CHAIRMAN OF THE
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WASHINGTON

July 26, 1990

MEMORANDUM FOR THE PRESIDENT

FROM: MICHAEL J. BOSKIN MJB

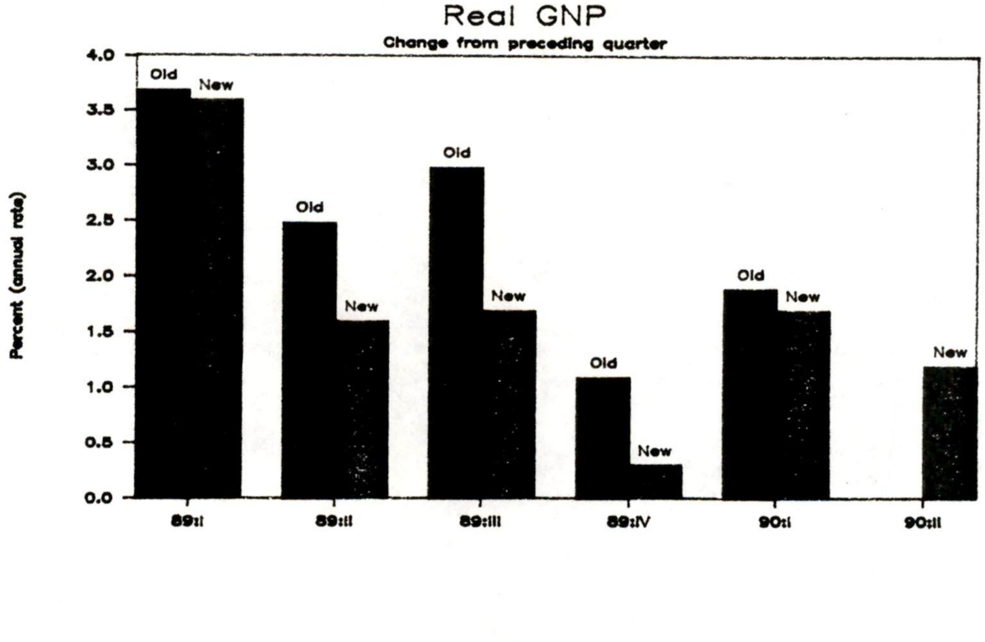
SUBJECT: Advance Estimate of Second-Quarter GNP and Revisions to 1987-89 Estimates, Commerce Department Release, Tomorrow Morning, 8:30 a.m.

Real GNP grew at a 1.2 percent annual rate in the second quarter, according to the advance estimate of GNP. Market expectations were for a 1.5 percent increase. Real GNP growth in the first quarter was revised down to 1.7 percent. Inflation, measured by the fixed-weighted price index, was 3.9 percent in the second quarter, substantially lower than the revised 6.6 percent rate in the first.

Real final sales fell 1.5 percent in the second quarter. All components of private spending were weak, except for consumer services which rebounded from a temporarily low level in the first quarter. Overall consumption declined 0.3 percent in the second quarter, the second decline in three quarters. Real exports fell 3.7 percent in the second quarter, while imports rose 3.2 percent. As a result, the real net export deficit worsened by more than $10 billion. A $26.2 billion increase in real inventories propped up GNP.

Real GNP growth on a fourth-quarter-to-fourth-quarter basis was revised down from 2.6 percent to 1.8 percent in 1989. In addition, real GNP growth for 1988 was revised up slightly from 3.4 percent to 3.5 percent while growth in 1987 was revised down from 5.4 percent to 5.0 percent. There was virtually no revision to earlier inflation estimates for all years. For 1989, a downward revision for spending on consumer services was the most important factor in the GNP revision. Fourth-quarter 1989 GNP growth was particularly sluggish, posting only a 0.3 percent increase at an annual rate.

These figures suggest a weaker economy in 1989 than previously estimated, and confirm the weakness in the first half of 1990 observable in recent monthly figures.



THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

TALKING POINTS ON THE ECONOMY
March 8, 1990

Overview of the U.S. Economy

o The U.S. economy is the largest, most productive, and strongest economy in the world.

- The United States, with less than 5 percent of the world's population, accounted for 26 percent of world GNP in 1988. This is more than 2-1/2 times that of the next largest economy (Japan).

- With exports of goods and services at an all-time high in 1989 ($589 billion), the United States once again became the world's leading exporter.

- America's standard of living, as measured by per capita income, is the highest of any major industrialized country in the world and is one-third higher than that of West Germany or Japan.

The Current Expansion

o The economy continued to expand in 1989, the seventh consecutive year of economic growth.

- GNP rose 2.5 percent in 1989. This was more moderate than the very rapid pace of economic growth in 1987 and 1988.

- A better balance between domestic spending and domestic production was achieved, as growth in government purchases slowed while net exports and business investment grew more rapidly.

- The Nation's saving rate -- the sum of business and household saving less government borrowing-- rose from a low of 12.2 percent in 1987 to 13.4 percent in 1989.

  -- During this period, personal saving by households rose from 3.2 to 5.4 percent while the federal government deficit (borrowing) fell from 3.4 to 2.9 percent.

o The continued expansion has further increased employment and incomes.

- **21.2 million jobs have been created in the current expansion. Job gains in 1989 totalled 2.5 million.**

- **The average unemployment rate in 1989, 5.3 percent, was at its lowest level since 1973 and was lower than in any major European country.**

  -- 1989 unemployment rates for blacks (11.4 pecent) and teenagers (15.0 percent) were the lowest since the early 1970s. For Hispanics, the 1989 rate (8.0 percent) was the lowest recorded since the government began keeping separate data for this group in 1980.

  -- The unemployment rate for adult women (4.7 percent) was the lowest since 1969. During the 1980s, the unemployment rate for women has fallen to a rate about equal to that for men. This is a first since World War II.

- Personal income after taxes and adjusted for inflation, rose 3.6 percent in 1989, above the 2.9 percent average during the last 10 years.

o The trade deficit has improved markedly, falling to its lowest level since 1984.

- **The merchandise trade deficit has fallen almost 30 percent from its 1987 peak.**

- The merchandise trade deficit declined by 11 percent in 1989 to $113.2 billion.

  -- **Exports of goods increased by 13 percent in 1989 to $361.9 billion.**

  -- **Imports of goods increased by 6 percent in 1989 to $475.1 billion.**

- **The improvement in the merchandise trade deficit in 1989 is especially striking when petroleum products are excluded.**

  -- **The merchandise trade balance excluding petroleum products fell by 28 percent to $63 billion in 1989.**

- **The merchandise trade deficit was partly offset by a substantial and growing surplus in services.**

o Inflation has been contained in the expansion.

-- Following an uptick early in 1989 due to a temporary jump in food and energy prices, inflation returned to the 4 percent range it has maintained for most of this expansion.

-- The broadest measure of economy-wide inflation, the GNP fixed-weighted price index, rose by 4.1 percent during 1989, down from 4.5 percent in 1988 and about the same as in 1987.

o Interest rates declined substantially during most of 1989.

-- In December short-term interest rates were 119 basis points below their peaks in March 1989. And, despite an increase of 12 basis points early this year, they remain more than a percentage point below last March's level.

-- 10-year bond rates declined 152 basis points between March and December 1989. These rates have moved up somewhat more than short-term rates recently, but still remain about 90 basis points below last March's level.

-- Most of the decline in 3-month T-bill rates occurred between March and October. In contrast, 10-year bond rates moved down through the end of the year.

-- The prime rate charged by banks is 1-1/2 percentage points below last March's level.

-- Mortgage rates also are below their mid-1989 highs, 9.91 percent in January as compared with 10.48 percent in July.

Recent Economic Data

o Recent data indicate that the economy is growing more slowly, but do not point to a recession.

- Labor market data show continued employment growth and no increase in unemployment, pointing to continued growth in production. (To be updated Friday, March 9 when the February employment data are available.)

- Other indicators of activity are mixed, but on balance suggest that we are in a period of weak growth.

  -- Autos, housing, and certain manufacturing sectors remain weak, but consumer confidence remains at relatively high levels, and the trade deficit continues to improve.

- The underlying inflation rate remains close to its average over the past 7 years.

  - The large price increases in January were distorted by special factors, including weather and sharp increases in food and energy prices.

  - Excluding volatile food and energy prices, the underlying "core" inflation rate rose 4.5 percent, similar to the average pace of the past 7 years.

  - This uptick in inflation is similar to what happened early last year, when prices rose sharply and then slowed considerably later in the year.

Document No.________________

WHITE HOUSE STAFFING MEMORANDUM

DATE: 1/29/90 ACTION/CONCURRENCE/COMMENT DUE BY: ---------

SUBJECT: TALKING POINTS ON ACCURACY OF THE ADMINISTRATIONS 1989 ECONOMIC FORECAST

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	✓	MCCLURE	☐	✓
SUNUNU	☐	✓	NEWMAN	☐	✓
SCOWCROFT	☐	✓	PORTER	☐	✓
DARMAN	☐	✓	ROGICH	☐	✓
BATES	☐	✓	UNTERMEYER	☐	✓
CARD	☐	✓	PINKERTON	☐	✓
CICCONI	☐	✓	WINSTON	☐	✓
DEMAREST	☐	✓	ROGERS	☐	✓
FITZWATER	☐	✓	ANDERSON	☐	✓
GRAY	☐	✓	WRAY	☐	✓
HAGIN	☐	✓	BOSKIN	☐	✓

REMARKS:

Michael Boskin has forwarded the attached information on the accuracy of the Administration Economic Forecast of 1989.

RESPONSE:

James W. Cicconi
Assistant to the President
and Deputy to the Chief of Staff
Ext. 2702

1/29/90

COUNCIL OF ECONOMIC ADVISERS

Administration Forecast Accuracy For 1989[1]

	Forecast[2]	Actual
Real GNP	2.9	2.9
Unemployment Rate	5.2	5.2
10-Year Treasury Notes	8.5	8.5
3-Month Treasury Bills	8.0	8.1
Consumer Price Index	5.0	4.8
GNP Deflator	4.5	4.1

1 Administration forecast prepared for the July 1989 Mid-session Review.

2 Data for real GNP and prices are percent change year-over-year. Data for interest and total unemployment rates are annual averages.

Comparison of 52 Private "Blue Chip" Forecasts Made in July With Administration Mid-Session Forecast for 1989

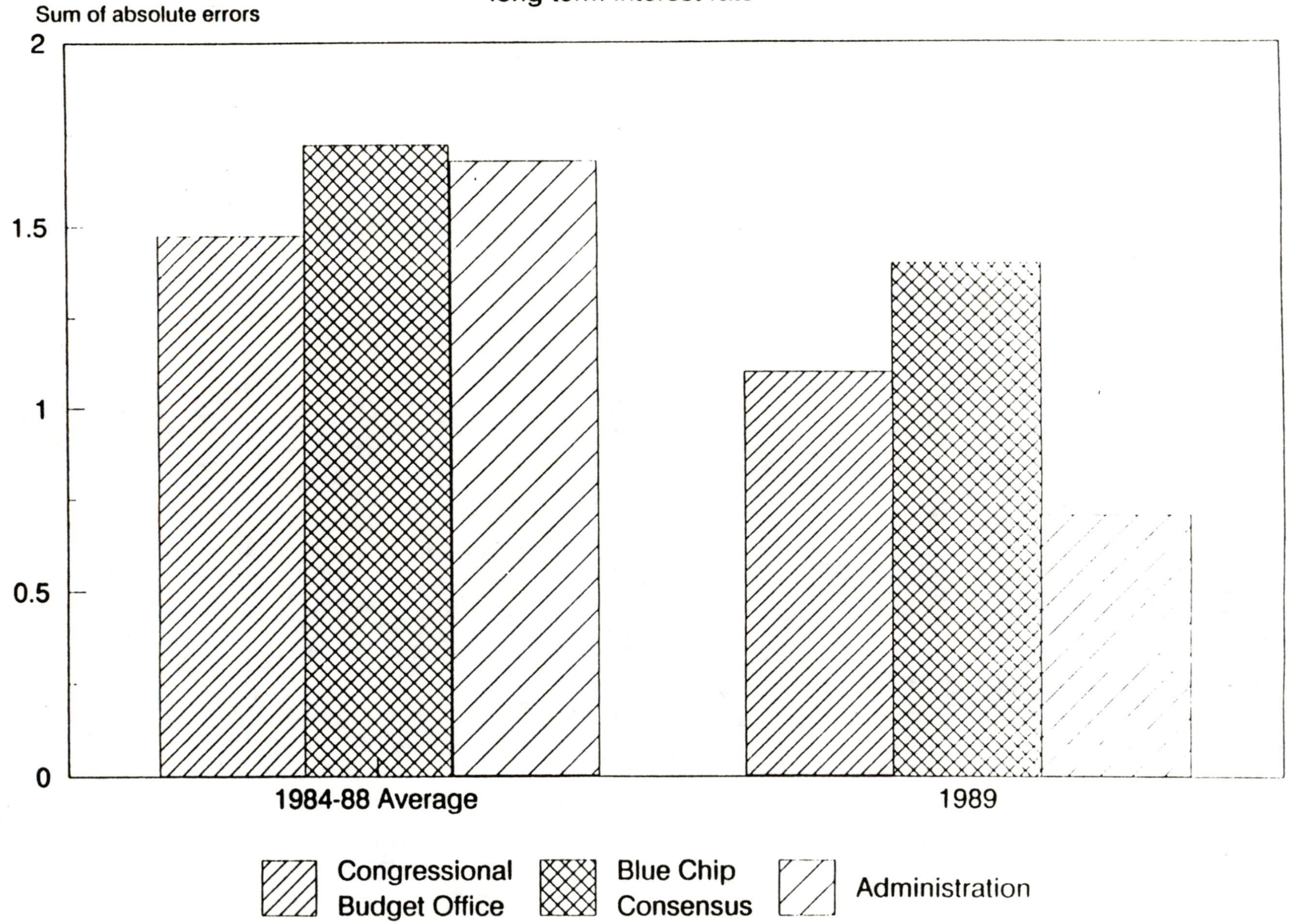
Number of Private Forecasts which were ____ than Administration Forecast:

	More Accurate	As Accurate	Less Accurate
Real GNP	0	5	47
Unemployment Rate	0	15	37
Long-term Interest Rate	0	11	35
3-Month Treasury Bills	6	18	25
Consumer Price Index	6	7	39
GNP Deflator	8	7	37
Combination	0	0	52

Accuracy is defined as the smallest absolute deviation from the actual figures for 1989. The combination category is the sum of the absolute deviations on all six categories. Data are for real GNP growth (Yr/Yr), the change in the GNP deflator (Yr/Yr), the change in the CPI (Yr/Yr), the unemployment rate, the 3-month T-bill interest rate, and a long-term interest rate.

COMPARISON OF FORECAST ACCURACY: ADMINISTRATION, BLUE CHIP CONSENSUS, AND CBO

Sum of absolute errors for real GNP growth (Yr/Yr), the change in the GNP deflator (Yr/Yr), the change in the CPI (Yr/Yr), the unemployment rate, the 3-month T-bill interest rate, and a long-term interest rate



Note: Long-term interest rate for Blue Chip is the corporate AAA bond; for the Administration, it is the 10-year bond rate; for CBO, it is the corporate AAA in 1984-85, and the 10-year bond rate in 1986-89.

U.S. Senate Republican Policy Committee

William L. Armstrong, *Chairman* **November 7, 1989**

Economic Talking Points

- A **snapshot of the economy** shows slow to moderate growth with weakness in the manufacturing sector.

- The **civilian unemployment** rate was 5.3% in October. This is unchanged from the previous month. [Labor Dept.]

- **Non-farm employment** rose by 233,000 jobs in October. Employment in local government rose by 96,000 (seasonally adjusted) as the school system adds teachers for the fall term. Employment in the services industry rose by 85,000 in October and the number of transportation jobs increased by 25,000. Employment in the goods-producing sector was essentially unchanged in October. [Labor Dept.]

- **Job growth** in the private sector has slowed recently. It has averaged only 110,000 over the last four months. This is half the growth rate that occurred during the first six months of the year. Employment in durable manufacturing industries is down 155,000 since March. [Labor Dept.]

- Real **per capita income** in 1988 reached an all time high of $13,120. This is 1.7% higher than in 1987. [Commerce Dept.]

- **Personal income** rose 0.3% in September. Were it not for Hurricane Hugo the figure would be a 0.6% rise. [Commerce Dept.]

- The **U.S. economy** grew at an annual rate of 2.5% in the third quarter of 1989. The increase was spurred in large part by a surge in consumer spending. This is the same growth rate which prevailed in the second quarter. [Commerce Dept.]

- The nation's **non-farm business** sector increased its productivity at an annual rate of 2.1% in the third quarter. This is nearly double the 1.1% rate in the second quarter. [Labor Dept.]

- **Manufacturing firms** showed a productivity increase of 1.4% in the third quarter. This is the smallest gain since the fourth quarter of 1987.

- **Retail sales** rose 0.5% in September. This is the third consecutive monthly rise following increases of 0.7% in both July and August. Sales are up 7% compared with those one year ago. [Commerce Dept.]

- The **Consumer Price Index** rose a modest 0.2% in September. In each of the last four months, the CPI has not exceeded 0.2%. For the first three quarters of this year, consumer prices have risen at an annual rate of 4.4%—identical to that for all of 1987 and 1988. [Labor Dept.]

- The **Producer Price Index** rose 0.9% in September. More than half of the September rise was due to a climb in the index for energy goods. Most of the remainder of the increase was due to seasonal adjustments for motor vehicles, reflecting changes in the timing of end-of-model-year discounts. Consumer food prices actually declined by 0.6%. The September rise follows producer price declines over the last three months. The PPI in September 1989 is 4.5% higher than one year ago. [Labor Dept.]

- During the third quarter **consumer prices** declined sharply from the second quarter. The annual rate of inflation (measured by the GNP implicit price deflator) fell from 4.6% to 2.9%. [Commerce Dept.]

- The **U.S. trade deficit**, after falling for two consecutive months to its lowest level in nearly 5 years, increased to $10.8 billion in August. While imports rose sharply, exports were down only slightly at $30.4 billion from the $30.5 billion level recorded in July. In fact, exports were at the fifth highest level ever recorded. For the first eight months of 1989, the trade gap was 7% lower than the same period last year. [Commerce Dept.]

- The **index of leading economic indicators** rose 0.2% in September. This follows a 0.5% rise in August (which was originally reported as a 0.2% increase). [Commerce Dept.]

- New **orders for machine tools** jumped 33.4% in September. This follows an 18% rise in August and a 20.7% decline in July. Comparing September 1989 to September 1988, orders are down 7.7%. [Assoc. for Manufacturing Technology]

- New **orders for durable goods** increased 0.2% in September. This is a revision of the earlier estimate of a 0.1% decline. It follows a 3.9% increase in August. [Commerce Dept.]

- **Industrial output** was down 0.1% in September, following a 0.3% gain in August. The industrial production index now stands 2.7% higher than September of 1988. [Federal Reserve]

- **New orders** to U.S. factories were unchanged in September. However, when defense is excluded, new orders for manufactured goods fell 2.1%. [Commerce Dept.]

- The **capacity utilization rate** for the industrial sector (factories, mines, and utilities) declined by 0.2 of a percentage point to 83.6% in September. [Federal Reserve]

- While the industrial sector has shown some weakness in recent months, the **index of the National Association of Purchasing Management** increased from 46% to 47.6% in October. A reading below 50% indicates that the manufacturing sector is generally declining. [National Association of Purchasing Agents]

- Sales of **existing single-family homes** rose 4.3% to a seasonally adjusted rate of 3.63 million. This is the highest level since December of last year. [National Association of Realtors]

- Sales of **new homes** fell by 14% in September. This follows a 3.4% decline the month before. [Depts. of Commerce & HUD]

- **Housing starts** declined in September by 5.2% to a seasonally adjusted annual rate of 1.26 million units. However, much of the decline was due to a large drop in the South that appears to have been related to bad weather from Hurricane Hugo. [Commerce Dept.]

- **Construction spending** was flat in September, but for the year is running 2% above the same time period in 1988. [Commerce Dept.]

Staff Contact: Kevin Holsclaw, 224-2946

Economic Talking Points

Republican Policy Committee — 11/7/89

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