The US Economic Outlook: The Pause That Refreshes

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The U.S. Economic Expansion Continues to Amaze

- It has reached a record length--9 years and counting--with unemployment and inflation near 30-year lows
- Technology and entrepreneurs are driving it
- Foreign investors have rushed to get in on it
- Consumers have overdosed on it
Core Inflation Is Subdued

(Percent change from a year earlier)
Declining Unemployment, Particularly Among Less Educated Workers

(Unemployment rate, persons 25 & older, June)

- HS Dropout
- High School
- Some College
- College Graduates

1997 vs 2000
Workers Have Done Well In This Expansion

(Wages and salaries per worker)
Real GDP Growth Took Off in 1996

(Percent change from a year earlier)
The Post-1995 Acceleration in Growth: A Surprise But Not a Miracle

- The arrival of Windows 95
- The penetration of the internet
- The approach of Y2K
- The transformation of the federal budget deficit into a surplus
- Forbearance by the Federal Reserve
Investment Is Rising As A Share Of GDP

(Nominal investment as a share of GDP)
And More is for High Tech

(Spending on computers, software & communications equipment. as % of all equipment spending)
Productivity Is Accelerating

(Percent change year ago in output/hour)
Multi-factor Productivity: Synergy on a Grand Scale

(Percent change from a year earlier)
How to Finance Investment?
Don’t Look To Consumers

(Household saving as percent of disposable income)
The Private Sector Saves Less, The Public Sector Saves More

(Share of private investment)
U.S. Investment Opportunities
Pull in Funds

(Share of private investment)
The Dollar Has Been in High Demand

(Value of the U.S. dollar, index)
If Things Are So Good, Why Did The Fed Tighten?

- Tight labor markets make labor costs a concern
- The speed limit has risen, but probably not to 5%
- No one knows how much pressure the economy can handle
- The Fed would rather be safe than sorry
Labor Cost Increases Have Been Accelerating

(Percent change from a year earlier)
Oil Prices Are A Bit of a Problem

($/barrel, refiners acquisition price)
Higher Energy Prices Are Picking Consumers’ Pockets...

(Change in consumer spending on energy, billions of dollars)
...But Getting Only Small Change

(Consumer spending on energy as percent of total)
The U.S. Has Become More Energy Efficient

(Cost of crude oil and natural gas liquids as percent of GDP)
Consumer Spending is Moderating

(Percent change from a year earlier)
Light Vehicle Sales Have Peaked

(Millions of units)
Home Sales Have Tapered Off

(New plus existing, millions)
Even the Stock Market Has Sobered Up

(Percent change from a year earlier, S&P 500)