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## USA: Sustained expansion

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## USA: Sustained Expansion

The economic upswing in the USA is now entering its third year, although the pace continues to be very moderate. Following the marked acceleration in the growth of demand and production as of mid-1992, there was a noticeable slowdown again at the beginning of the year in nearly all demand sectors except for investment in machinery and equipment. In all, real seasonally adjusted gross domestic product rose in the winter six months at an annual rate of some 3%. The utilization of capacity and the number of employed rose slightly. At 7.0% of the labour force, unemployment in June was nearly one percentage point lower than its last peak in the early summer of last year. Prices rose somewhat faster in the spring; the cost of living of private households in May was 3.2% higher than a year previously.

The upswing has been propelled by business demand; stock-building alone has had a considerable stimulating effect. But above all, low interest rates and rising profits have spurred the propensity to invest. Real spending on machinery and equipment was 16.5% higher in the first quarter of 1993 than in the equivalent period a year ago; only in commercial building have the excesses of the eighties continued to have a dampening effect. The very robust growth in residential building since mid-1991 has slackened recently. Disposable income has expanded a little faster since the autumn, in particular under the influence of the somewhat more rapid rise in employment. Private consumption appears to have increased slightly, although the propensity to save did not decline any further. Altogether, private domestic demand rose during the winter six months at an annual rate of some 5%, while government demand declined considerably, not least due to cuts in defence expenditure. Foreign trade transactions have also had a pronounced retarding effect. Owing to the recession in major partner countries, growth in exports as a whole has been moderate, with imports continuing to expand at a rapid rate. Prices rose somewhat faster in the early months of this year. The rate of increase of producer prices for finished products compared to one year previously rose from 1.5% in January to 2.1% in May. Food and energy, which are, however, often subject to short-term fluctuations, were overproportionally contributory factors to this. For consumer prices, in contrast, the rate of

increase—excluding food and energy—of 3.4% has slightly exceeded that of the cost of living as a whole. Wage rises have also remained moderate: average hourly earnings in the private sector, excluding agriculture, were 2.4% higher in the first quarter of 1993 than a year previously; including incidental wage costs, the increase was probably about one percentage point higher.

A certain cooling down of the economic climate was probably caused, among other things, by the fact that it became obvious during the fiscal policy deliberations in Congress that even the new President had only a limited capacity for action. His stimulation programme for the current fiscal year has already run aground. Some of the measures envisaged will presumably be adopted when they have been resubmitted, but they will not be extensive. The budget deficit ought not to much exceed last year's figure of \$ 290 billion (5% of gross domestic product). The fate of the medium-term consolidation plan still remains undecided, even after its adoption by the Senate, since the versions adopted by the House of Representatives and by the Senate still differ substantially. Even less certain is the shape the proclaimed health reform will take and its implications for government finances. It may, however, be assumed that government spending will rise tangibly in the next fiscal year in order to curb the budget deficit.

The Federal Reserve has continued to keep interest rates low, with money market rates remaining at 3%. Capital market rates, which dropped again markedly after the consolidation plan for the national budget was presented at the beginning of the year, stayed firm at 6% for ten-year government securities. This interest rate pattern is a sign of a continued expansionary monetary policy, even though the M2 money supply, which the Federal Reserve would like to see grow by 2% to 6% in 1993, has in fact declined somewhat since the beginning of the year. The main reason for this is that due to the present pattern of interest rates the attractiveness of time and savings deposits, which make up two-thirds of M2, is greatly reduced compared with investments that are not included in the money supply. The M1 money supply, which consists of cash and sight deposits and is hence more responsive to demand, grew up to May at an annual rate of 9% as compared with the fourth quarter of 1992.

## ECONOMIC TRENDS

The economic parameters will probably not change significantly in the further course of the current year. Fiscal policy is not likely to have a tangible dampening effect on income and demand and the Federal Reserve is unlikely to adopt a much stricter course in monetary policy in view of the moderate upswing and restrained price rises. Under these conditions, low interest rates will continue to have a decisive stimulating effect on the economy. Business investments in particular will continue to expand rapidly thanks to the favourable interest-profit ratio and good sales and earnings prospects. Residential building can be expected to revive in response to the further drop in mortgage rates this spring. Disposable income will receive further stimulus from the slight increase in employment; with no short-term change in the propensity to save, private consumption will thus rise at a moderate pace. Exports will probably expand only slowly at first, in particular as an improvement in the economies of the other industrial countries is slow in coming.

beginning of the year, will increase more rapidly again in the coming months. The basic recovery trend will, however, probably remain comparatively modest, with an annual increase in real gross domestic product of 3% in 1993 and somewhat higher in 1994. The utilization of productive capacity will continue to rise slightly and employment will grow, but unemployment will hardly decline due to a faster increase in labour supply. Under these circumstances, the wage push will not intensify to any notable degree. As the intensity of competition will at the same time decline only little given the slow rise in the utilization of capacity, prices will rise relatively moderately at first. The increase in the cost of living of private households will probably average a good 3% for 1993 and remain little above this next year. As a result of America's economic lead over the other industrial countries, the deficit on current account is bound to increase substantially.

*Compiled by the Department of World Business Trends  
of the Hamburg Institute for Economic Research (HWWA).*

Aggregate demand, having slowed down at the

### Economic Indicators

	1991	1992	2 <sup>nd</sup> Q.	1992 3 <sup>rd</sup> Q.	4 <sup>th</sup> Q.	1993 1 <sup>st</sup> Q.		1991	1992	Latest value
Real gross domestic product <sup>1</sup>	-1.2	2.1	0.4	0.8	1.2	0.2	Unemployment rate <sup>3</sup>	6.8	7.4	6.9 <sup>a</sup>
Domestic demand	-1.8	2.5	0.8	1.0	1.1	0.7	Hourly rate of pay <sup>4,5</sup>	3.2	2.5	2.6 <sup>b</sup>
Private consumption	-0.6	2.3	0.0	0.9	1.3	0.3	Consumer prices <sup>5</sup>	4.2	3.0	3.1 <sup>b</sup>
Government consumption	1.2	-0.3	-0.3	0.9	-0.7	-1.9	Producer prices <sup>5,6</sup>	2.1	1.2	2.4 <sup>b</sup>
Fixed asset investment	-8.5	5.5	3.6	0.6	3.3	2.0	Interest rate, short-term <sup>7</sup>	5.7	3.5	3.0 <sup>a</sup>
Equipment	-4.6	7.5	5.5	2.3	3.5	3.9	Interest rate, long-term <sup>8</sup>	7.9	7.0	6.0 <sup>a</sup>
Commercial and industrial buildings	-12.0	-6.9	-0.2	-2.9	-0.5	-0.4	Money supply, M1 <sup>5,9</sup>	8.0	14.3	11.6 <sup>a</sup>
Residential buildings	-12.6	13.1	3.0	0.1	5.8	0.0	Money supply, M2 <sup>5,9</sup>	3.1	2.0	0.8 <sup>a</sup>
Net exports <sup>2</sup>	0.6	-0.4	-0.5	-0.2	0.1	-0.4	External value of the dollar <sup>5,10</sup>	-1.7	-2.3	-2.1 <sup>b</sup>
Exports	5.8	6.3	-0.4	2.2	2.2	-0.6	Terms of trade <sup>5</sup>	1.0	1.0	1.0 <sup>c</sup>
Imports	-0.1	9.6	3.5	3.5	1.4	2.9	Balance on current account <sup>11</sup>	-0.1	-1.1	-1.4 <sup>c</sup>

<sup>1</sup> Change over preceding period in %, quarterly values seasonally adjusted. <sup>2</sup> Change expressed as % of gross domestic product of preceding period. <sup>3</sup> % of labour force. <sup>4</sup> Private sector, excl. agriculture. <sup>5</sup> Percentage change over preceding year. <sup>6</sup> Finished goods. <sup>7</sup> Federal Funds. <sup>8</sup> Public sector bonds, maturity 10 years. <sup>9</sup> Annual values: 4<sup>th</sup> Quarter. <sup>10</sup> For 18 industrial countries. <sup>11</sup> In % of gross domestic product. <sup>a</sup> May. <sup>b</sup> April. <sup>c</sup> 4<sup>th</sup> Quarter.

Sources: National statistics, Deutsche Bundesbank, own calculations.

### HWWA Index of World Market Prices of Raw Materials<sup>1</sup> (1975 = 100)

Raw Materials and Groups of Materials	1992		1993					25. 6.	9. 7.
	AA <sup>2</sup>	June	March	April	May	June			
Total index . . . . .	160.1	171.0	153.1	153.0	151.8	147.3	144.9	139.5	
Total, excl. energy raw materials . . . . .	132.1	135.7	121.5	120.4	119.5	117.9	117.1	119.8	
Food, tropical beverages . . . . .	88.6	91.9	89.3	89.3	89.9	87.6	87.7	92.4	
Industrial raw materials . . . . .	165.2	169.2	146.0	144.1	142.1	141.0	139.5	140.7	
Agricultural raw materials . . . . .	169.8	175.5	143.3	143.4	144.0	140.6	137.3	137.4	
Non-ferrous metals . . . . .	172.3	175.8	156.5	149.6	142.2	143.8	144.1	148.5	
Energy raw materials . . . . .	176.5	191.6	171.6	172.0	170.6	164.4	161.2	151.0	

<sup>1</sup> On dollar basis. <sup>2</sup> Annual Average.