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ECONOMIC OUTLOOK USA is designed to aid private and public decision makers in achieving a better understanding of the economic and social environment in which they will be operating. The analysis of this publication incorporates direct measurements of the expectations, attitudes and plans of both consumers and business firms with the economic and financial variables traditionally used in forecast models. The philosophy of this publication is that a blend of anticipatory and traditional measures provides richer insights into prospective developments, insights which will produce more consistently reliable forecasts of both economic and social change.

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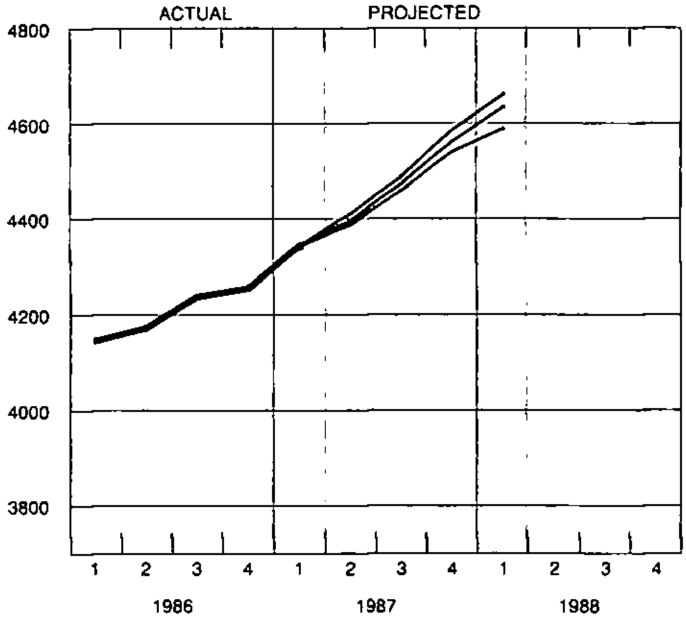
GROSS NATIONAL PRODUCT

IN CURRENT DOLLARS
Billions of Dollars



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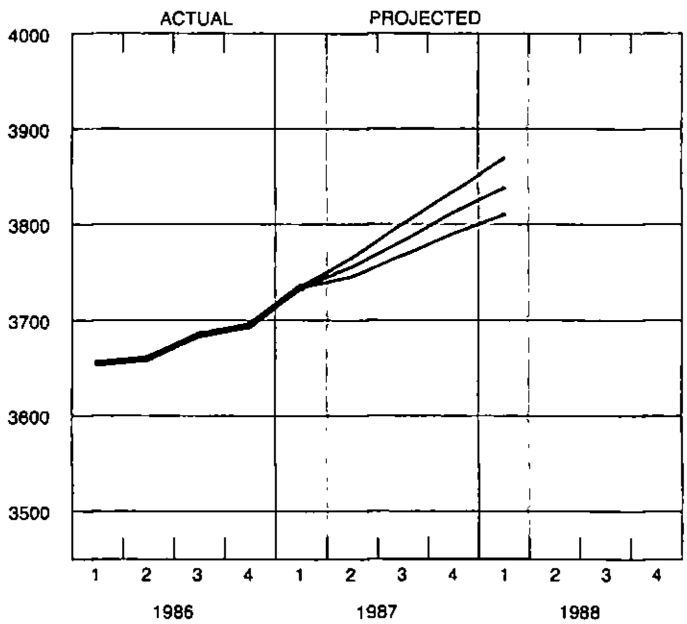
GROSS NATIONAL PRODUCT

IN CONSTANT 1982 DOLLARS
Billions of Dollars



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What Is the Fed up to?

Paul Wachtel
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New York University

Recent Money Supply Trends

The facts are quite simple: in 1986 the narrowly defined money supply (M1) grew by 15.2 percent, well above the Federal Reserve's own target growth range for the year of 3 to 8 percent (see the chart below). What's going on here?

This is an important question for which there is no satisfactory answer. Some suggest that the behavior of the money supply over the last year is understandable in the light of some unusual developments in the financial sector and, therefore, no cause for worry. However, the case for this approach, including that made by Federal Reserve Board chairman Paul Volcker at his February appearance before the Senate Banking Committee, is not entirely convincing. Other answers suggest that for a variety of reasons recent monetary policy may be severely misguided and that the Fed is running some serious risks.

Twice each year the Federal Open Market Committee makes a formal report to Congress on the conduct of monetary policy. In his congressional testimony on February 19th, Volcker argued that the extraordinary sensitivity of money demand to the decline in interest rates over the last several years, accompanied by the final stages of interest rate deregulation on transactions deposits, have come together to make the narrow money supply an unreliable indicator of policy. He concluded that the resultant uncertainty causes M1 "to provide little guidance for the FOMC's operational decisions or reliable information for the Congress or for market participants." As a result, the Fed took the bold step of dispensing with M1 growth targets for 1987 altogether.

The technical underpinnings of this decision are not subject to dispute. There is substantial agreement that the unusual behavior of M1 is not understood. However, the 1987 Economic Report of the President, presumably written by Council Of Economic Advisors chairman Beryl Sprinkel, who is much more closely allied to the monetarist approach than Volcker has ever been, is much less sanguine about the consequences of recent monetary policy trends. The Report takes note of the Fed's viewpoint, but it adds some warnings:

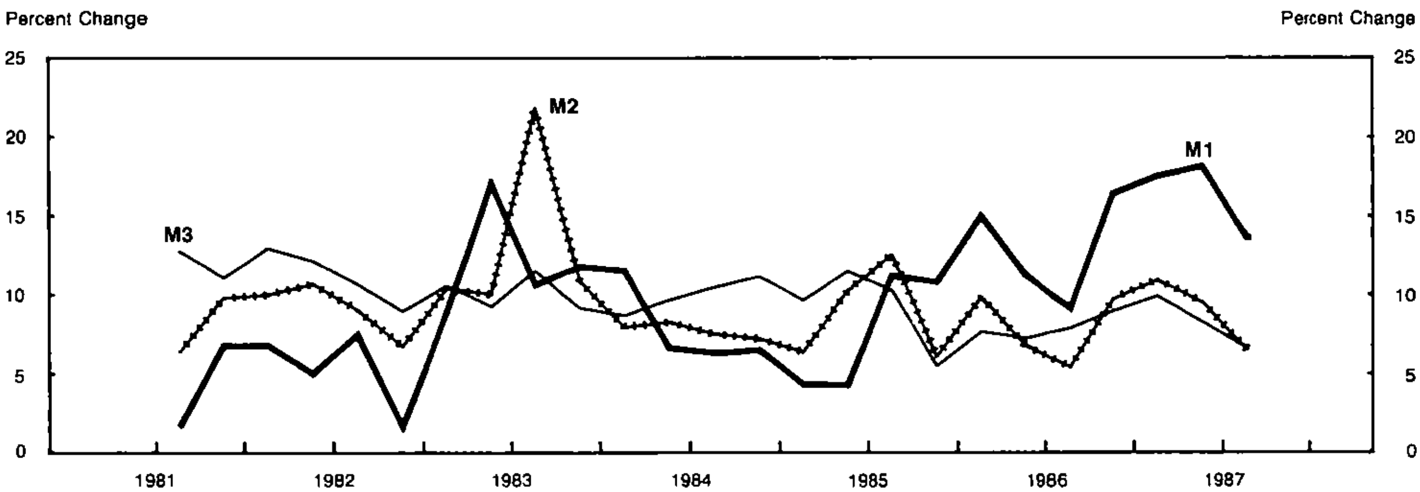
> Until a more reliable relationship between M1 and nominal income growth is reestablished, however, the implications of this rapid M1 growth remain uncertain.... Although the nature of the change in velocity [the ratio of nominal income to M1] behavior is not fully understood at this time, no plausible assessment of the change in velocity growth would imply a permanent need for such rapid money growth. Analysts agree that at some point the rate of monetary growth must be reduced if the ultimate goal of price stability is to be achieved. The difficult policy issue is one of timing....

Whereas the Fed dismisses the validity of M1 targeting in its report, the CEA is more mindful of the risks in the monetary policy path followed by the Federal Reserve. In addition to the rapid growth of M1, growth of the more broadly defined monetary aggregates in 1986 has been at the very top of the Fed's target growth ranges (see the chart), and growth in the total debt aggregate exceeded the target range.

Even the most conservative observer must acknowledge that there is a risk of igniting inflationary pressures. The risk may not be as large as it would have been earlier because real growth has been fairly lethargic throughout 1985 and 1986. However, the risks should not be dismissed. Chairman Volcker and his colleagues on the FOMC, which includes several independent-minded Reagan appointees, know full well what the risks are in the current stance of monetary policy. Why are they taking these risks?

Note: An earlier version of this article appears in the Spring/Summer 1987 issue of *NYU Business*.

Quarterly Change in Monetary Aggregates, 1981-1987



Reasons for the Fed's Policy

The Federal Reserve's policy statements do not provide any answers to this question. However, there seem to be three distinct reasons why the Fed tolerates rapid money growth and its concomitant risks:

The Domestic Economy. The Federal Reserve worries about the lackluster performance of the domestic economy. It is also so convinced of its own success during the first half of the 1980s in wringing inflation out of the system that it is now placing greater emphasis on the real economy. Until the international economy responds to the fall of the dollar, the Federal Reserve is not confident that the U.S. domestic economy can sustain the aging expansion.

Fiscal Policy. The Federal Reserve, which has the power to conduct monetary policy, would also like to aim fiscal policy away from deficits. There is nothing that the Fed can do to reduce the federal deficit directly, no matter how concerned it is about the ultimate effects of the Reagan deficits. Thus, it would like to try to force the hand of fiscal policy.

The Fed has until recently encouraged the dollar depreciation and kept interest rates from rising, both of which have made it more difficult for the Treasury to finance the deficit by borrowing abroad. Thus there is continued pressure on Congress to finally take convincing steps to reduce the deficit. It seems that the Fed would like to maintain this pressure for changes in fiscal policy that go beyond the largely discredited and ineffective Gramm-Rudman-Hollings bill of the last Congress.

Fragility of the Financial System. The current stance of monetary policy seems to be influenced in an important way by concerns over the fragility of the domestic and international financial system. There are two elements of the system which are particularly fragile now: the portfolio of bank loans to developing countries and the thrift industry—the savings and loan associations.

The dimensions of the international debt crisis and the exposure of most large American banks are well known. Loan defaults by sovereign nations would seriously affect the American banking industry, but the greater risk is that an avalance of defaults would increase the risk of all foreign borrowing, reduce the ability of the international banking system to finance world trade, and throw the international economy into recession. A low interest rate policy in the U.S. helps stave off such an occurrence.

It is also well known that a large portion of the thrift industry is, in actuality, bankrupt or close to it. If monetary policy were to tighten and interest rates to rise, there would quickly be a large increase in the number of declared bankruptcies among savings and loan associations. An increase in short-term interest rates increases the cost of funds to the S&Ls, many of which have large portfolios of illiquid assets.

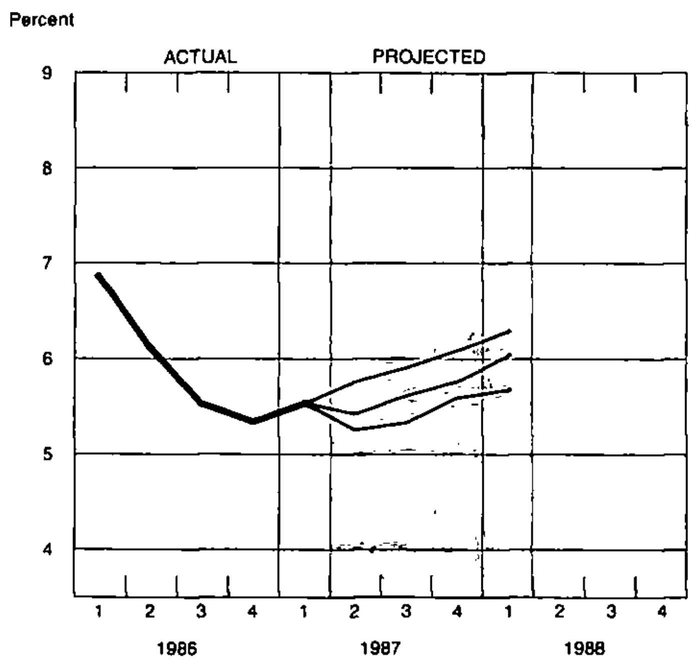
A General Accounting Office report issued in March suggested that the agency that insures S&L deposits—the FSLIC—was technically bankrupt at year-end 1986. The insurance fund required $8 billion for thrifts that were expected to fail soon, which was at least $5 billion more that its end-of-year reserves. Edwin Gray, chairman of the FHLBB, estimates that $19.5 billion is required to assist the thrift industry. Congress is seriously considering bailout legislation; if enacted, such a bailout would be a deficit-increasing federal expenditure. If additional funds are required, the Fed would have to provide them through the discount window. The Fed is surely not eager to make any policy change that would lead to bailout expenditures or an expansion of emergency discount borrowings. It seems that the hands of the monetary policy makers who might want to tighten policy are tied by the threat of financial fragility.

A Change in Policy?

It is hard to know exactly why the Federal Reserve chose to allow the money supply to expand so rapidly in 1986. Perhaps it did so because monetary policy priorities shifted to concern about real growth, the deficit, and—most importantly—the fragility of the financial system. Evidence accumulating in the spring of 1987 indicates that the Fed might be waking up.

Although it is not yet a sure thing, there are indications that the money supply expansion binge is ending. Why might this change in priorities be occurring? Concern about economic growth and the government deficit have to some extent been replaced by concern about inflation and the (perhaps too rapid) fall of the dollar. As 1987 unfolds, it may turn out that the Fed's priority is the balance of trade and pressure on the dollar. If so, the Fed may be content to let Congress grapple with the government deficit and the fragile financial system. *May 1987*

3-MONTH TREASURY BILL RATE



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

Consumer Spending and the Outlook for 1987

F. Thomas Juster
Survey Research Center and
Department of Economics
The University of Michigan

The current economic expansion is now in its fifth year—above average as expansions go in the U.S. during the postwar period, but below average for the pace of expansion. During the first couple of years after the November 1982 turning point coming out of the severe recession of 1981–82, the expansion was reasonably normal by historical standards: Consumption turned first, government fiscal policy contributed a substantial stimulus, and business investment followed along with considerable vigor, especially in 1984.

However, since the end of 1984, the expansion has had an unusual configuration with no historical precedent. The rate of expansion overall has been modest—the GNP growth rate over the two-year span from the end of 1984 to the end of 1986 has been 2.5 percent per year. But this modest growth rate has been compounded from a very mixed bag of components. Overall, consumption has grown at a rate of almost 4 percent a year since the end of 1984, and outlays for durable goods have grown at about 8 percent per year over this span. While total investment has grown at above 3 percent per year, that growth has been a mixture of virtually no growth in business fixed investment combined with about a 10 percent per year growth in residential fixed investment—the latter dominantly a consumer-driven phenomenon.

As we are all aware from extensive public discussion, the growth rate of net exports over this period has been sharply negative—imports growing a good deal more than exports, thus holding down the overall growth rate of GNP. Finally, federal government spending has grown substantially—over 7 percent per year for the federal sector, and over 4 percent per year for the state and local government sector. Thus the last two years of the current expansion can be characterized as a period in which substantial growth in consumer spending and housing, plus moderate growth in federal spending, have combined with no growth in business investment spending and negative growth in net exports to produce a sluggish 2.5 percent per year growth in overall output. In short, consumers, and to some extent the public sector, have held up the system.

Not only has consumption growth been substantially larger than GNP growth, but it has been much larger than the growth of disposable income. Again on the basis of extensive public discussion, we are all aware of the fact that the rate of personal saving has dropped to record low levels in the U.S. during the last year or so. Concretely, disposable income grew by only about 2 percent per year over the period 1984–1986, while consumption grew by almost double that amount. As an arithmetic consequence, the saving rate declined sharply, from around 5 percent in 1984 to somewhere around 3 percent currently. The rapid growth of consumer spending relative to disposable income has of course meant that consumer credit use has expanded rapidly over the last couple of years; that is true for both housing mortgage debt and consumer installment debt, although during the last couple of quarters the growth of consumer installment debt has slowed markedly while housing debt has expanded enormously—some think as a consequence of the tax reform legislation which continues to make housing mortage payments tax deductible while gradually eliminating deductibility for other consumer interest payments.

This record has raised questions among analysts of the business scene as to whether or not consumers will continue to spend at the pace of the last several years. As some analysts see it, consumer incomes have been rising very sluggishly, consumer debt has grown substantially, the saving rate has been driven down to historically low levels, and the debt-income ratio is at an all-time high. Given this set of circumstances, it is not unreasonable to suppose that consumers will be "taking a breather," as it were, during the next year or so to digest the excesses of the last couple of years and bring the saving rate back to more normal levels. If that happens, the main source of strength in the current recovery will have disappeared, and the recovery itself may be in jeopardy.

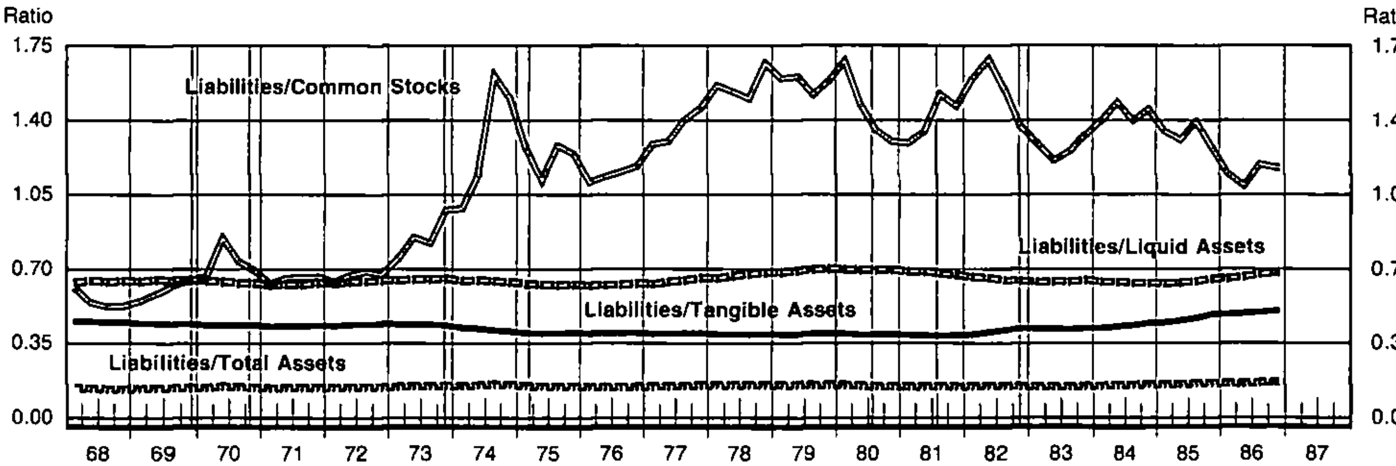
What is a reasonable assessment of this view of consumer spending prospects? One can examine the issue by looking at the behavioral data on consumer spending, debt repayments, debt outstanding, and financial portfolios. Alternatively, one can look at data on consumer attitudes and expectations, which presumably reflect the influences of all these forces. In this article, we take a look at both.

Debt Burden

As usual, there are several ways of looking at the behavioral issue relating to debt burden. One way is to look at consumer portfolios, and ask whether the rise in consumer debt is out of line with the usual share of debt in total consumer portfolios. For that, we need to examine debt, stocks of tangible assets, and financial asset holdings.

In the aggregate, there is a little evidence that consumer portfolios have become a bit unbalanced during the last few years (see the chart accompanying this article). The ratio of consumer liabilities (mortgage debt, installment debt, etc.) to tangible asset holdings (houses, cars, and durable goods) has risen from around 0.4 to about 0.5 during the last three years; similar ratios were around 0.45 during the 1960s, and lower—a bit under 0.4—during the 1970s when inflation rates drove up asset values relative to debt. Consumers have about two-thirds as much liabilities as liquid asset holdings—a slightly higher ratio than three years ago but much the same as comparable ratios during the 1960s and 1970s. Consumer liabilities relative to holdings of common stock are lower than during most of the 1980s (because of the rise in stock prices) but much higher than during the 1960s and early 1970s, while liabilities have about the same ratio to holdings of pension and insurance reserves as they have had since the 1960s. Overall, the ratio of total consumer liabilities to total consumer assets is higher than three years ago (about 16.5 percent com-

TRENDS IN CONSUMER LIABILITY-TO-ASSET RATIOS, 1968-1986



Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

pared to 14.5 percent), and the current figure represents an all-time high.

The most often cited figure here is the debt/income ratio, which moved up to an all-time high late in 1986 and has been growing steadily throughout the current expansion. That ratio—the amount of nonmortgage debt outstanding relative to the annual flow of consumer income, is neither fish nor fowl—it does not compare portfolios (debts to assets) nor does it compare debt burden (debt repayments to income flows). Thus it is hard to know what to make of those data.

While the comparisons above indicate that the debt-asset ratio in consumer portfolios is relatively high, we cannot really compare the debt burden/income flow ratio except for particular products where the relevant data can be obtained. That comparison can be done for automobiles and yields some very interesting results. Over the 14-year span 1972–1986 fourth quarter, the average price of vehicles has approximately tripled, the average amount financed by debt has gone up almost four times, and the ratio of the amount of automobile debt financed to income has gone up substantially (from about 28 percent to over 39 percent). But at the same time, the average maturity on new automobile contracts has gone up almost 50 percent—from roughly 35 months to over 49 months. As a consequence, the average monthly payment has less than tripled, and shows about the same ratio to income in 1986 as it showed in 1972. In fact, there is no trend in the series over the entire span from 1972 to 1986.

Preliminary evidence relating to housing debt appears to show somewhat the same pattern, although the ratio of housing mortgage payments to income got to be very substantial in the early 1980s when interest rates on house mortgages were in the 15–18 percent zone for a few years. But the evidence seems to suggest that, at current interest rates, housing mortgage payments relative to consumer income have not changed a great deal relative to the 1970s.

How should one interpret these results? If debt burden is taken to be the amount of contractual commitment relative to consumer income reflected by consumer and mortgage debt, the implications of the reliable data on automobiles and the speculative inferences from incomplete data on housing suggest that the debt burden has not gone up over the last couple of years, despite the substantial rise in outstanding debt. The basic reason is that maturities have expanded substantially and, in the case of housing, that interest rates have come down substantially. If that is what is meant by debt burden, the conclusion would be: Debt burden has not changed much. And if debt burden influences future spending, the conclusion would be: A continuation of consumer spending trends is not in great jeopardy.

There are some attitudinal data produced by The University of Michigan's monthly Survey of Consumer Attitudes that relate directly to the same issue. Since the middle 1970s, these surveys have asked consumers: "If there were something that you wanted to buy, do you think that *now* is a time when it would be OK for you to *buy it on credit*, or is now a time when you would be *especially reluctant* to take on new debt?" A similar question has been asked since the middle 1970s on use of saving: "OK to use your savings for a major purchase, or would you be especially reluctant now?" These series show the expected cyclical response—during recessions the reluctant proportion rose and the not reluctant proportion fell, while during recoveries the reverse happened. The "OK to use" proportion continued to rise through about the middle of 1986, but since July of last year, there has been some distinct slippage in responses to both savings and credit use questions—consumers reporting that they are perceptibly more reluctant to use savings or credit to make major purchases.

Thus the evidence on whether the amount of debt outstanding relative to income constitutes a prospective burden that will inhibit consumer spending this year and next, or whether it does not, is mixed. Looking at the portfolio data, there is some evidence that consumer debt relative to consumer assets is higher than normal. Looking at debt burden as reflected by contractual payment flows relative to income, there is no evidence that debt burden is more of a problem now than two years ago. Looking at the amount of outstanding debt relative to income flows, debt is clearly high by historical standards. And looking at attitudes toward the use of debt or savings to finance purchases, there is some evidence that consumer willingness to incur further debt is weaker now than it was in the middle of last year. Overall, it looks as if one should be a bit cautious—recent changes in consumer financial position and debt commitments relative to income flows may well have a negative influence on consumer spending behavior during the next year or so.

Consumer Attitudes Generally

Besides looking at debt, asset, and income relationships, we can also examine consumer expectations and attitudes generally as providing some clues to future consumer spending and saving behavior. These data are detailed in the article by Richard Curtin in this issue, but a brief look at them from a longer time perspective is useful.

Overall, the Index of Consumer Sentiment can be viewed as holding up at a remarkably high level, all things considered. Values of the ICS in the low 90s have pertained for a couple of years now, with some mild tendency toward decline from the high 90s registered a few years ago. But the all-time highs of this index were only in the low hundreds, and the current level is not that much below these all-time highs.

This relatively high level of consumer sentiment is being driven by a very favorable set of expectations relating to prices and credit market conditions. Price expectations themselves have been stable for a couple of years at around the 4 percent expected inflation level, and consumers seem to be more confident that inflation rates will continue to be low: Increased confidence is inferred from the fact that the dispersion of price expectations among consumers has narrowed appreciably over the last year, with many fewer consumers expecting either price declines or very large price increases, and relatively more expecting modest price increases close to the average expected change. Reduced dispersion is likely to mean greater confidence on the part of consumers generally that inflation really will continue at about the rate that is presently expected.

The other factor holding up consumer attitudes is the very high level of the market conditions measure in the Index of Consumer Sentiment. Assessments that now is a good time to buy houses, cars, and durables are at close to historic highs, and have been at very high levels over the last couple of years. Consumers clearly perceive that interest rates and financing conditions generally are very favorable to purchases, that good buys are available at reasonable prices, and hence that now is a very good time to buy durable goods.

The sources of concern in the general consumer attitudes data relate to consumer expectations about business conditions and about their own financial prospects. The expectations component of the consumer sentiment index is far from its all-time highs, and has shown a consistent decline for a couple of years (see the top chart on p. 17). Thus the high level of consumer sentiment does not translate directly into a high level of consumer optimism. The sentiment level is strongly influenced by the extremely buoyant level of consumer assessments of market conditions, which do not necessarily have anything to do with optimism about either the economy or consumers' personal finances.

Conclusions

1. Consumers have been acting a bit like less-developed countries during the last several years—stretching out their debt payments to make them less burdensome on current income, cutting back on their savings, and leveraging their financial portfolios.
2. Consumers are relatively buoyant about economic conditions currently and, in particular, have a strong liking for the price stability and declines in nominal interest rates that have accompanied the last several years.
3. Although debt clearly has increased quite a lot, debt burden is probably not a serious current constraint, although it will be an inhibiting factor. And even if debt burden in the aggregate is not a serious constraint, there are clearly some overextended households, and a good many more would find themselves overextended if a recession were to develop.
4. Continued stability of both prices and interest rates is probably crucial to continuation of consumer willingness to spend at normal rates.
5. Even though consumers are relatively buoyant and there is no strong indication that their willingness to spend has decreased markedly, it is not plausible, given the data, that consumer spending will grow at a faster rate than income over the next several years. That is, although consumers are likely to hold up their end and not go into a shell, they are unlikely to repeat the performance of the last several years where they almost singlehandedly sustained the economic recovery.
6. Thus some other economic sector is going to have to provide the necessary exogenous thrust to maintain the real growth rate—investment, net exports, or government.
7. If problems emerge from the consumer perspective, they are likely to be found in the area of interest rates (first) and prices (second).

May 1987

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Consumer Confidence Remains Favorable amid Growing Apprehensions

Richard T. Curtin
Survey Research Center
The University of Michigan

Recent ICS Trends

The Index of Consumer Sentiment was 90.5 in the first quarter 1987 survey, down five points from one year earlier and a total of 9 points below the cyclical peak recorded at the start of 1984 (see the chart below). Although the current reading is the lowest level recorded during the past four years, it is still higher than the cyclical peak recorded in the late 1970s. Overall, such a sustained period of consumer confidence has not been recorded since the 1960s. To be sure, the confidence exhibited by consumers in the 1980s is quite distinct from that of the 1960s. Now consumer confidence is more defensive in orientation, based on the avoidance of the excesses of the past decade. Although consumers do not expect anything better than continued sluggish growth during the year ahead, few expect a recession. That growth has slowed is not nearly as important as the expectation that the economy will not slide into recession.

The small overall decline in consumer sentiment during the past year has masked significant divergences in the underlying measures. Most of the weakness can be traced to the expected poor performance of the domestic economy during the year ahead, while attitudes toward buying conditions have remained at relatively favorable levels. Although many consumers have emphasized their concerns with unemployment, slow domestic growth was also expected to promote the continued availability of purchase discounts. The strength of the current mixture of attitudes and expectations is that it has thus far proved less volatile in responding to economic news than was true during the 1970s. The vulnerability of the current situation is that the maintenance of favorable attitudes has become increasingly dependent on low interest and inflation rates.

Personal Financial Prospects

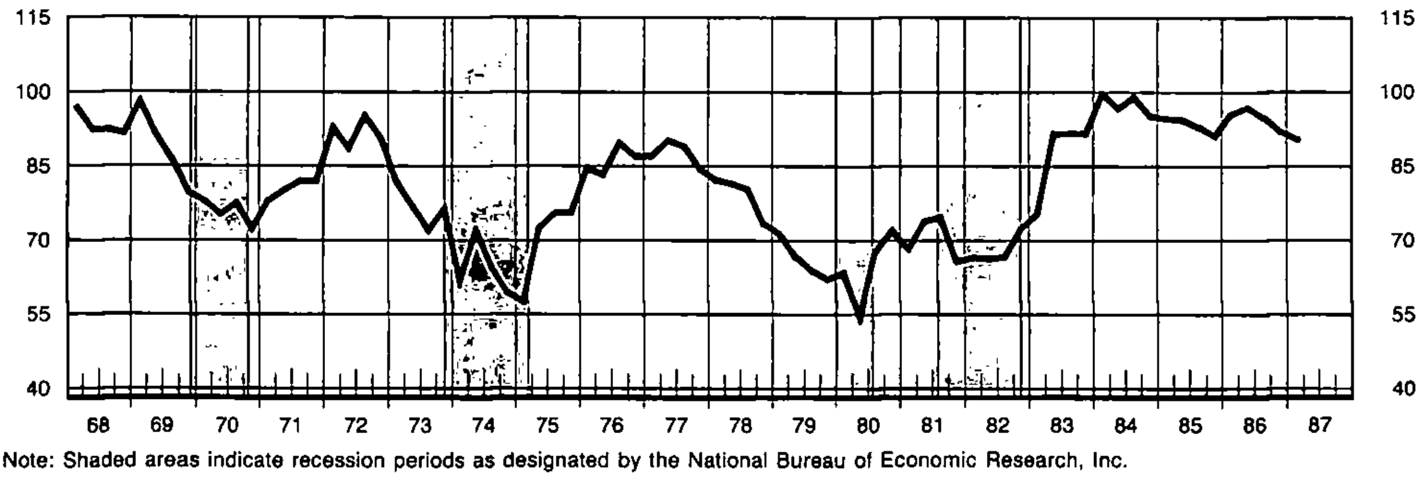
The 1987 surveys indicate that the overall financial situation of American families has remained at the relatively favorable levels that have been recorded throughout the past three years. In the first quarter 1987 survey, 43 percent of all families reported that their financial situation had improved, nearly identical to the figures recorded one and two years earlier. When asked to explain how their financial situation had improved or worsened during the past year, 35 percent of all families mentioned that their family income had increased, identical to the figures recorded one and three years earlier. Importantly, just 10 percent of all families complained about the erosion of living standards due to inflation at the start of 1987, the lowest level in twenty years. The very low rate of inflation during 1986 played a significant role in extending the life of these favorable financial assessments.

When asked about prospects for the year ahead, half of all American families expected their overall financial situation to remain the same, all things considered. Just 10 percent of all families in the first quarter 1987 survey expected their financial situation to worsen, a low level that has remained largely unchanged during the past three years. An improved financial situation was expected by 36 percent of all families in the first quarter 1987 survey, unchanged from the year-earlier reading.

The relatively flat profile of these personal financial evaluations during the past three years has been based on offsetting changes. Although as many families as last year expected income increases, the size of the expected increase has fallen. The falling income growth rates, however, have been offset by continued declines in the rate of inflation. By the start of 1987, though, the positive gap

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

in growth rates had vanished, as families on average expected about the same rate of increase in their incomes as in prices (4%).

These financial prospects suggest a more cautious outlook by the consumer. As such, spending on large discretionary items will not be aided by the expectation of future income gains. Nonetheless, current financial prospects do not indicate planned spending cut-backs in the face of adversity. Stagnant income growth will constrain purchases and focus attention on the affordability of purchases. Price discounts and monthly repayment amounts will be of greater concern to consumers in making purchase decisions.

Expectations about the Economy

Consumers' assessments of the national economy have reflected the slowdown in growth as the expansion has lengthened. At the start of 1987, 45 percent of all families thought that the national economy had improved during the prior year, down from 52 percent at the start of 1986 and the peak of 71 percent in 1984. The outlook for the economy during the year ahead is for more of the same: the majority of all families in the first quarter 1987 survey (58 percent) expected the overall performance of the national economy to be similar to last year's. Fewer consumers expected significant change in either direction, with about as many consumers anticipating improvement as deterioration in the national economy during the year ahead (22 versus 20 percent)

That the economic expansion is expected to continue, however slow and halting, is viewed by the majority of consumers as meaning the continuation of good times financially in the country as a whole during the year ahead. To be sure, this assessment is not as favorable as earlier in the expansion, falling to 54 percent in the first quarter of 1987, from 59 percent one year earlier and 69 percent three years earlier. Nonetheless, even at its diminished level, more families expected favorable economic conditions at the start of 1987 than at the late-1970s peak.

The primary concern expressed by consumers about the continued weakness in the domestic economy involves prospects for employment. Half of all families in the first quarter 1987 survey expected the national unemployment rate to remain at its current level during the year ahead. On the margin, however, twice as many families expected increases in the national unemployment rate as expected declines (35 versus 14 percent).

Confidence in government economic policies to control inflation and unemployment sank to the lowest level recorded in nearly four years. In the first quarter 1987 survey, the proportion giving a favorable rating (22 percent) fell below the proportion giving an unfavorable rating (25 percent) for the first time since early 1983.

Although the majority did not expect the onset of a recession during the year ahead, half of all consumers did expect a recession within the next five years. Among all families in the first quarter 1987 survey, 50 percent expected bad times financially during the next five years, up from 44 percent one year earlier and 35 percent three years earlier. An uninterrupted expansion over the longer term was expected by only 34 percent of all families at the start of 1987.

Interest Rates and Buying Attitudes

Attitudes toward buying conditions remained favorable in the first quarter 1987 survey, although receding from the peak levels recorded last year. Favorable attitudes toward buying conditions for homes were held by 79 percent of all families in the first quarter 1987 survey, down from 81 percent at the close of 1986 and the all-time peak of 85 percent recorded in the spring of 1986. These very positive home-buying attitudes have been supported by favorable perceptions of prices as well as by declines in mortgage interest rates. The availability of good housing buys was reported by 21 percent of all families in the first quarter 1987 survey, down from 24 percent one quarter earlier. And although favorable references to current mortgage rates remain widespread, reported by 71 percent at the start of 1987, these favorable views of mortgage rates have declined steadily since the 82 percent peak in the second quarter of 1986.

Favorable attitudes toward buying conditions for vehicles were held by 61 percent of all families in the first quarter 1987 survey, down from 66 percent one quarter earlier and the all-time peak of 76 percent two quarters earlier. This decline was reflected in fewer references to the availability of discounted interest rates on new vehicle loans, falling to 39 percent in the first quarter 1987 survey from the peak of 59 percent recorded two quarters earlier. The availability of price discounts, in contrast, was mentioned by 26 percent of all families at the start of 1987, above the 1986 high of 24 percent.

Buying conditions for large household durables were viewed favorably by 72 percent of all families in the first quarter 1987 survey, not much below the all-time peak of 77 percent recorded in each of the first three quarter of 1986. The major reason given by consumers for these very positive attitudes has been the availability of price discounts, reported by 35 percent of all families; just 7 percent complained about high and rising prices for major household durables. References to reduced interest rates on purchases of household durables were made by 21 percent of all families in the first quarter 1987 survey, down from a peak of 30 percent in 1986.

Summary Outlook

Although consumer optimism has all but disappeared, consumer pessimism has not risen in its place. Rather, consumer confidence has been anchored by the expectation of little sustained change in either direction. Recent increases in the expected rate of inflation, coupled with smaller expected income increases, have led the majority of consumers to expect no net change in their financial situation during the year ahead. While this is a more cautious outlook, it is not negative, as very few consumers expect their financial situation to worsen. Consequently, while such personal financial assessments do not provide support for spending increases, neither do they provide the premise for sharp spending cutbacks. This does, however, focus consumer spending decisions on the affordability of purchases, given little expected growth in real incomes. And it focuses evaluations of buying conditions on the availability of discounts.

The prospective weaknesses are the past areas of strength: inflation and interest rates. Significant increases in either of these areas would turn marginal improvements in real incomes into declines, and sour favorable buying attitudes. At issue is not whether, but how much, and for how long, these rates will increase. Currently, there is little evidence that consumers expect a sustained resurgence in inflation and interest rates such as occurred during the past. Wage demands are thus likely to respond more slowly to rising price expectations, and rising market prices are more likely to be resisted rather than validated by stepped-up purchases. The responses of the consumer sector are thus likely to limit the ability of moderately rising rates to generate and reinforce a sustained period of increases. Small increases of limited duration in interest and inflation rates will be countered by shifting the timing of purchases, rather than abandoning purchase plans in the expectation of a recession. This is a reaction that allows sellers to use purchase incentive programs to reduce the variations in sales due to short-term changes in rates. And consumers' willingness to wait for discounts has only increased as the expansion has lengthened, and their stocks of goods as well as of debts have increased.

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Alternative Schools for Troublesome Secondary Students[1]

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The research summarized here is a longitudinal study of the effectiveness of certain alternative secondary schools in improving the behavior of delinquent and disruptive students. The three alternative schools studied were selected by theoretical criteria because this research was intended not only to assess the schools' effectiveness but also to test a theory which identifies adverse scholastic experiences as a major cause of delinquency.[2]

Our theory made us especially interested in some innovative programs with which some school systems are addressing the problem of delinquent and disruptive behavior. These programs go under the generic name of *alternative schools*. Such schools have been created for the gifted as well as the poor student, for the well-behaved as well as the disruptive. Some could be described as "permissive," others, as "strict"; some concentrate on basic scholastic skills while others pursue special talents and interests; and so on. About all that alternative schools have in common is that their programs are somehow different from the curriculum followed by the large majority of the community's students.

We were specifically interested in those alternative schools designed to serve students identified as behavior problems in their conventional schools. These problems include chronic truancy, disruptive behavior, and serious delinquency. Accurate figures are not available, but students of alternative education indicate that approximately a third of alternative programs are designed as responses to these problems. Within these limits, however, there is still a wide variety of approaches: disciplinarian; "back to basics"; detention; behavior modification; and others.

The alternative school programs we studied made special efforts (1) to provide their students, who had had histories of scholastic failure, with experiences of success, largely through individualized instruction and evaluation; and (2) to provide social support from warm, accepting teachers. The idea is that scholastic success and social support would raise the students' self-esteem and strengthen the social bonds that integrate students with their schools. Thus, the provocation to be delinquent would be reduced, the social constraints against delinquency would be strengthened, and consequently disruptive and delinquent behavior would decline.

The Students and the Alternative Programs

The students in the study were on the average quite heavily delinquent. Their self-reported delinquent behavior was markedly more frequent and serious than the national average found in the *National Surveys of Youth* around 1970. The students also had histories of poor performance and disruptive behavior at school. About half of those who attended the alternative schools were sent there by school officials and the other half volunteered, although poor school grades and high levels of self-reported delinquent behavior were similar among the referrals and the volunteers.

The study included three alternative programs operated by two public school systems in mostly white, working- to middle-class suburban areas. The programs served 30-60 students at a time in buildings near the junior and senior high

[1]This is adapted from an article with the same title which appeared in *The Urban Review*, Vol. 14, No. 4 (1982), pp. 305-316. References are included in that article. The three figures are taken from the authors' monograph, *Expelled to a Friendlier Place* (The University of Michigan Press, Ann Arbor: 1984), pp. 124-126. The editors appreciate the permission granted by Agathon Press, Inc., publisher of *The Urban Review*, and by The University of Michigan Press.

[2]The theory that guided this research assumes that the student role is central and critical for American adolescents. Therefore, failure in this role constitutes a substantial threat to adolescents' self-esteem. Derogated self-esteem is psychologically aversive and provokes efforts to counteract it. Delinquent behavior is one such defensive response that is particularly well-suited to this purpose. Delinquent behavior, especially disruptive behavior at school, can be an effective defense for several reasons. First, since a major provocation is failure at school, then disrupting school is a counter-attack on the threatening institution. Second, assuming that delinquent and disruptive behavior is a self-aggrandizing performance, its worth is enhanced by the appreciative peer audience often available at school. Third, delinquent and disruptive behavior at school conveys a declaration of rebellion against the standards of success set by the schools.

schools which the students would ordinarily have attended. The curricula and procedures were more informal than the conventional schools': there were many fewer rules, and the administrators and teachers were more tolerant and flexible than faculty in conventional schools ordinarily are or can be. Teacher/student ratios were higher than is usually the case in secondary schools. Instances of disruptive behavior in the alternative schools were rare.

Two of the alternative programs, Alpha and Beta, featured independent study/learning contracts. The students in each also met daily as a group for one and a half to two hours for training in human relations and communication skills. The third program, Ace, offered a more conventional school curriculum and schedule, except that Ace was smaller, more individualized, more flexible, and warmer and more personal than a conventional program.

Study Design

Students attending the alternative schools were compared with students at the conventional schools from which they came. The comparison group consisted largely of students who were named by counselors and vice-principals as students also appropriate for alternative school referral. The alternative and conventional students were interviewed once early in the school year, as alternative students entered their programs, again at the end of the school year, and a third time in the following fall.

Of the 240 students initially identified as suitable participants in the study, 100 were alternative school students and 140 were students in the comparison group who attended only the conventional school. We interviewed 83 percent of the alternative school students and 69 percent of the comparison group in the first wave. In the third wave, we interviewed 72 percent of the originally identified alternative students and 64 percent of the conventional students.

The alternative and conventional students were quite similar when the study began. There were about the same proportions of boys and girls in each group; the grade point averages of the students in the two groups were equally poor; personal adjustment, assessed by psychological indexes of self-esteem, anxiety, and depression, was about the same in both groups; both groups had equally negative attitudes toward school generally and equally small commitment to the role of student; and their disruptive and delinquent behavior was at about the same high level, as indicated by the schools' records of disciplinary action and by the students' own reports of their behavior in school and in the community. The alternative students and the conventional comparison group also differed to a statistically significant degree in some respects: the alternative students were somewhat younger, they were more negative about their conventional school teachers, more pessimistic about their chances of succeeding at school, and felt more stigmatized as "bad kids."

Measurement and Data Analysis

A key variable in this study is, of course, whether students attended an alternative school or not. (Many alternative school students took some conventional school courses concurrently.) But since we are also interested in the social psychological processes by which the alternative programs intended to improve the students' performance and behavior, we constructed measures of these mediating processes as well. One is an index of students' perceptions of the flexibility and fairness of their schools' policies and rules. Another is the students' assessment of their academic prospects—their beliefs in their chances of being successful students, together with their feelings of being stigmatized if they attended an alternative school. A third mediating variable is respondents' assessments of how well they were currently performing in the student role—including their most recent course grades, their reports of the effort they were devoting to schoolwork, and their satisfaction with their performance. Fourth, we measured students' global attitude toward school, including participation in school activities and relationships with teachers.

Finally among the mediating variables, we measured students' self-esteem at both conscious and unconscious levels. We wanted to test the idea that a primary function of delinquent behavior is to defend poor students from feelings of low esteem. We hypothesized that, as a psychological defense, delinquent behavior raises adolescents' *conscious* self-esteem but *not* their *unconscious* self-esteem. The latter would remain low until experiences such as scholastic success make defensive delinquency unnecessary. Our own prior research had shown that the more delinquent adolescent boys gave evidence of high conscious and low unconscious self-esteem. Other research has demonstrated that youth with low conscious self-esteem will subsequently commit more delinquent acts than youth with higher self-esteem and that conscious self-esteem will rise as a result.

Disruptive and delinquent behavior in school and in the community was measured by the confidential reports of the students themselves, a widely used technique that has proved to be more sensitive and valid than official school, police, and court records.

All of these variables were measured among both alternative and conventional school students. Measures of change over the course of the study were also created, using a procedure—regression analysis—that corrects for unequal baseline levels.

Our basic strategy was to compare students who had had alternative school experience with those who were in conventional schools. Comparisons were made of the two groups each taken as a whole and for each of the three programs. We asked whether alternative school experience made a difference in the mediating processes and in delinquent and disruptive behavior at the third time period, by which time most of the alternative school students had returned to the conventional schools. We also explored whether the alternative schools affected different kinds of students differently.

Findings

The delinquent and disruptive behavior of both the alternative and conventional school students declined over the course of the study, probably reflecting in part a combination of statistical artifact ("regression to the mean") and actual improvement accompanying maturation. However, almost all of the social psychological processes that were hypothesized to make a difference in the misbehavior of youth indeed predicted to significant improvement. The alternative schools were more effective in putting these processes in motion.

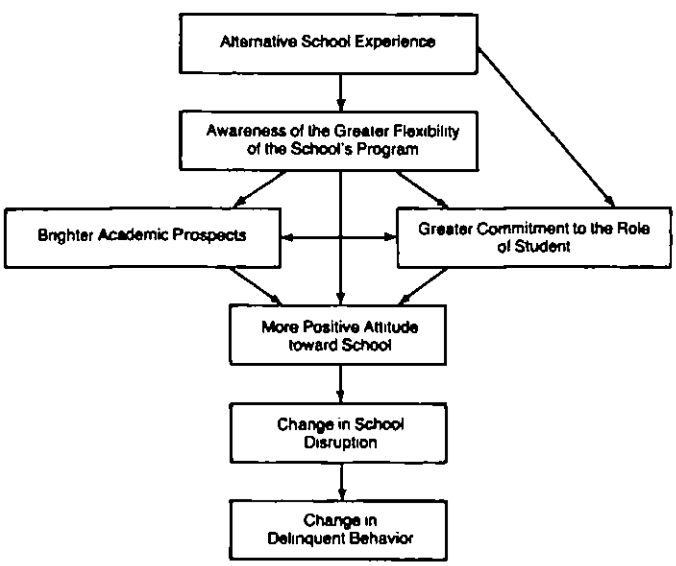
We found that the effectiveness of the alternative school programs differed between the kinds of students in their classes. The alternative schools made a significant difference in the behavior of their most *buoyant* students, but they had a negligible effect on the more *beset* students.

The "beset" students in this study were identified as those alternative and conventional students who exhibited relatively high levels of anxiety and depression during our first interview with them. They reported to us more than the average frequency of somatic symptoms of anxiety such as headaches and upset stomachs; they said they felt tense and nervous; they said that they more often "feel depressed." The beset students were those who scored in the top third of a scale composed of these indicators. We called the other two-thirds of the students "buoyant." The alternative and conventional school groups in this study each had about the same proportion of beset students. Beset students tended to be somewhat more delinquent than the buoyant students.

The beset alternative students did not respond as positively to the programs as the buoyant students did. Chart 1 presents the processes by which the alternative schools had a significantly more positive effect on the disruptive behavior of their buoyant students even after these students returned to the conventional schools. At critical points in these processes, the beset students responded differently.

Both buoyant and beset alternative students reported that their schools were more flexible and their rules more fair compared with the conventional students' descriptions of their schools. Clearly the two kinds of programs were perceived differently by their students. All students who rated their school as more flexible and fair tended to believe their own academic prospects were better than other students did. But the effect of greater flexibility in the alternative programs persisted *only* among their buoyant students after they returned to the conventional schools. By the third interview, the beset former alternative students were no more optimistic than the beset conventional students. Similarly, the perception of the flexibility of school rules was related to our respondents' commitment to the role of student. Since the alternative schools were seen as being more flexible, they fostered greater commitment to the student role, but only among the alternative schools' buoyant students, who then remained more committed through the third interview. The beset alternative students as a group never exceeded their conventional counterparts in commitment to studenthood, despite their recognition of the alternative schools' greater flexibility.

CHART 1. Model of the Social-psychological Process of Change—Disruptive and Delinquent Behavior



In general, brighter academic prospects and greater commitment to being students were reflected in better global attitudes towards school among alternative and conventional students. And again, since the alternative school students became more optimistic and committed, their attitudes toward school were better. This remained true of the buoyant alternative students even after they returned to the conventional schools, but not of the beset students. Improved attitudes toward school were related to a greater decline in delinquent and disruptive behavior in school. Consequently, by the third interview the buoyant former alternative students were behaving markedly better in school than their conventional counterparts according to students' own reports of their behavior and to ratings by their teachers. They were also earning higher grades. This was not true of the beset former alternative students (see Charts 2 and 3).

Declining misbehavior in school was related to declining delinquency in the community. But, while this relationship was strong, it was of course not perfect. Neither the buoyant nor the beset former alternative students reported that they were less delinquent at the third interview than the conventional students did.

We can draw only highly tentative conclusions from comparing the three alternative programs because the number of students in any one program was small. Few of the differences between the alternative and conventional schools were statistically reliable, but their tendencies generally paralleled the findings for the three programs taken together: the school grades of buoyant former alternative school students were higher than those of the conventional students, their disruptive behavior was lower, and delinquent behavior was slightly higher; the differences among the beset students were not as great or as consistent in direction.

Insofar as the comparisons among the three alternative programs can be trusted, it seems that the Alpha program had the most marked effects—positive and negative—on its students' grades and disruptive behavior in school. Alpha's buoyant students seemed most improved at the third interview, and its beset students appeared to deteriorate most relative to their respective comparison groups. This impression of Alpha's impact is reinforced by the fact that the separate components of the change process (diagrammed in Chart 1) seem more tightly linked at Alpha than at Beta or Ace. Alpha's relative success seems attributable to its greater effectiveness in increasing its buoyant students' commitment to the role of student. Greater commitment persisted more reliably into the conventional school year than positive global attitudes toward school, on which the effects of Beta and Ace depended more heavily. At the same time, Alpha's beset students did not become more committed to the student role, just as Beta's or Ace's beset students did not. But since Alpha's effectiveness depended so heavily on commitment, its beset students fared worst. Alpha probably achieved the greater commitment of its buoyant students through the greater emotional intensity of its program, which, of the three programs we observed, most closely resembled group therapy. But the intensity of introspection encouraged by Alpha's method may have worked to the disadvantage of the beset students, who were at the outset quite anxious and depressed.

One of the potentially negative aspects of an alternative school experience is stigmatization. Youth may be made to feel that they are different in a derogatory sense by having

CHART 2. Changes in Disruptive Behavior at School for *Buoyant* Alternative ($n = 29$) and Conventional ($n = 31$) School Students

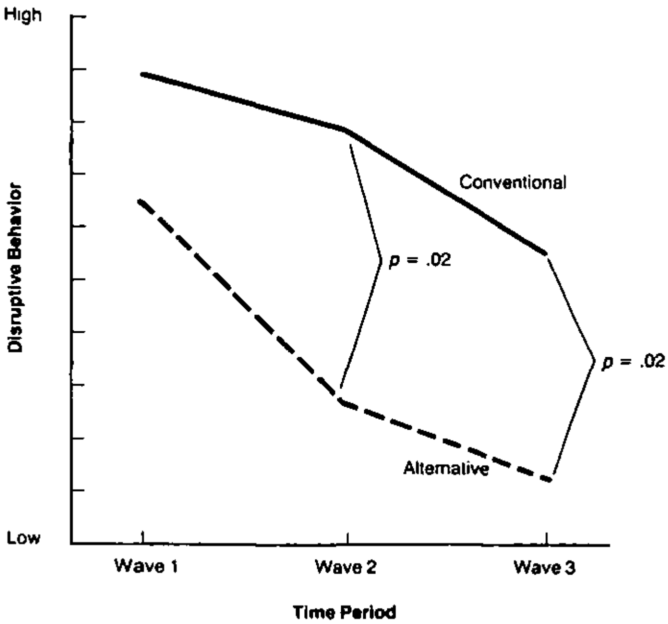
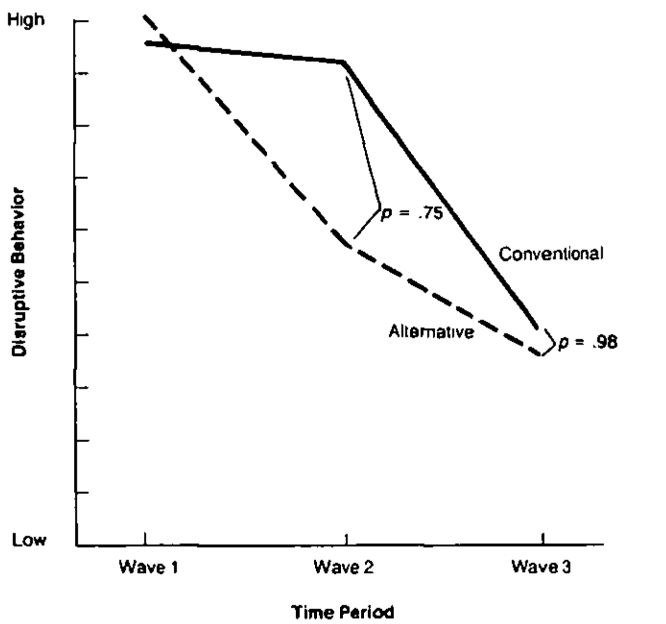


CHART 3. Changes in Disruptive Behavior at School for *Beset* Alternative ($n = 17$) and Conventional ($n = 12$) School Students



been sent to a special school for "bad kids." A substantial number of administrators, teachers, and students did hold negative opinions about the alternative programs and the young people who went there. Many of the alternative students were aware of these attitudes and shared them at first. But by our third interview with them, the students who had had an alternative school experience were almost invariably positive about the school and their classmates. So few students at that point expressed feelings of stigmatization that it is impossible with our data to determine whether stigma hindered the alternative schools' efforts. We conclude that alternative schools can be effective even though they may be negatively regarded by the educators and students in the associated conventional schools.

It should be noted that the alternative schools were as much if not more successful with their more highly delinquent students. The positive effects of the alternative schools on their buoyant students was greater with those who had been more disruptive and delinquent when they first entered the programs. But the alternative schools had negligible effects on beset students regardless of their history of misbehavior. Clearly then the alternative schools' ineffectiveness with their beset students was not due to the beset students' higher level of delinquency.

The effects of the alternative schools were not mediated or conditioned by the level of delinquency of their students' friends. The schools had no discernible effect on changing their students' friends or the degree of their friends' delinquency. If anything, the alternative schools were more successful with those buoyant students who reported having more delinquent friends. We believe that this is actually a reflection of the schools being more effective with students who were more delinquent themselves (and who chose to hang around with more delinquent friends).

Nor did the effects of the alternative schools depend upon changing their students' relationships with their parents. None of our data indicate that the social psychological processes by which the alternative schools effected change among their buoyant students involved students' parents. While improving relationships between students and parents would probably improve most adolescents' behavior, it is not a necessary condition for the effectiveness of school programs.

Our theory of a particular kind of alternative school as a means for reducing disruptive and delinquent behavior posits that youngsters' self-esteem is a key variable. We found a general decline in students' conscious self-esteem over the course of this study, about equal among alternative and conventional students. Nevertheless, improvement in the behavior and performance of the buoyant alternative students occurred without discernible change in their unconscious self-esteem and in the face of a decline in their conscious self-esteem. Self-esteem proved not so crucial to the processes of change as we had expected it to be. In this respect, the theoretical model was not confirmed, a surprising finding in the light of previous research.

Discussion

The assertion that poor scholastic experiences are significant causes of delinquent and disruptive behavior, particularly at school, received substantial support in this study. As certain youngsters' assessments of their schools and of themselves as students became more positive, their scholastic performance and their behavior improved.

Given these findings, the question arises of whether school-based programs might better screen out manifestly depressed and anxious students because the programs are less likely to help them. Such screening would be advisable if anxiety and depression could be diagnosed accurately, but this is difficult under the best of circumstances, and few school systems have the resources to do it well. It seems wiser to us, therefore, to employ alternative school programs in the diagnostic process: if certain students' behavior does not improve despite their greater satisfaction with the alternative program, then a search for other points of intervention might be made. It may be wise to permit beset students to remain in alternative schools for a longer period, perhaps even to graduate from them.

We also note that the positive effects of the alternative schools were narrow, bearing most clearly on students' behavior at school and not reliably on delinquent behavior in the community. Perhaps the effects were narrow because the mediating changes were limited to school-related optimism and commitment. It is possible that unless or until youngsters' scholastic experiences enhance self-esteem globally, they will not have a global effect on their misbehavior. We have assumed that performance at school is highly salient to adolescents in western culture, and that being good at it would enhance self-esteem globally. Perhaps we have over-estimated the breadth of its impact.

On the other hand, it may be that the timing of our final interview with the students, one term after they had returned to the conventional schools, did not allow sufficiently for youngsters' self-esteem to change. The students may not yet have been altogether convinced of their ability to make it through school, despite their greater optimism.

There is one ominous sign in our data on self-esteem: the conscious self-esteem of the buoyant students and of the beset alternative students had declined significantly from our first to our third interviews with them. If it is true that low conscious self-esteem provokes disruptive and delinquent behavior, then we can expect a resurgence of misbehavior in the future. Or, if for some reason delinquency proves to be an inadequate defense, then we can expect increased anxiety and depression.

Our findings relating to students' families and friends also have theoretical and practical implications. Change in the buoyant students' behavior and scholastic performance, we found, did not depend upon improved relationships with their parents or diminished delinquency among their friends. These data speak to the salience of scholastic experiences, which seem to have marked influence in their own right, whether as sources of provocation or of social control. It is likely that the salience of schooling is pervasive throughout western culture, but it is plausible that there are subcultural differences. School-based programs may not be so effective in these subcultures, independent of other influences like families and friends. For example, we are mindful that almost all the students in our study were white suburbanites. Would alternative programs like the ones we oberved work among black residents of the inner city? We think so, but, of course, they would have to be tried. We think so because there are sufficient data in hand to indicate that schooling is certainly no less salient for black adolescents and their parents and perhaps even more salient.

We are not surprised that the alternative schools had independent positive effects on the behavior of buoyant students, at least at school. After all, the thrust of adolescence in our culture is to become more autonomous from parents and more serious about schoolwork. While most adolescents are still closely bound in many ways to their parents, the familial ties of most heavily delinquent youngsters are weaker. Our data reflect this: the students' attitudes toward school were more closely related to their deliquency than were their relationships with their parents. A possible exception to this generalization is the beset students' relationships with their mothers, which seemed more closely related to their behavior. This is consistent with our observation that the alternative programs were not effective with beset students because school was not the main source of their problems.

At the same time that adolescents are becoming more independent of parental influence, they are becoming more involved with their friends and peers. One might expect therefore that the delinquent tendencies of students' friends would be important influences on the students' behavior. But having delinquent friends is more likely a consequence of needing support for one's own delinquent behavior than a cause of that behavior. Buoyant students' disruptive and delinquent behavior at school declined even while they were reporting no change in their friends' behavior. We expect that students whose improved performance and behavior persist will however eventually begin to select less delinquent friends.

The practical significance of our findings relating to students' parents and friends is that educators need not depend upon reaching disruptive students' parents or changing disruptive students' friendship patterns in order to reduce disruption in their schools. Alternative programs of the kind we have observed can be independently effective with their more buoyant students. But it may be important that someone intervene with the parents of the beset students who do not respond positively to an alternative school.

Of particular practical significance is our finding that students' perceptions of their alternative school being flexible is critical to positive change. Many of the concrete options for designing alternative programs may be selected on the basis of the general principle of enhancing flexibility. "Flexibility" in this instance means taking into account the individual students' needs, fears, abilities, and moods in conducting the daily business of education. We regard flexibility as another term for *interpersonality* or the absence of rigid role regulation of social interactions. It is manifested in part by a relative suspension of the conventional rules governing how teachers and students behave toward one another. Another manifestation is the alteration of planned activities to accommodate to the mood of the class as a whole.

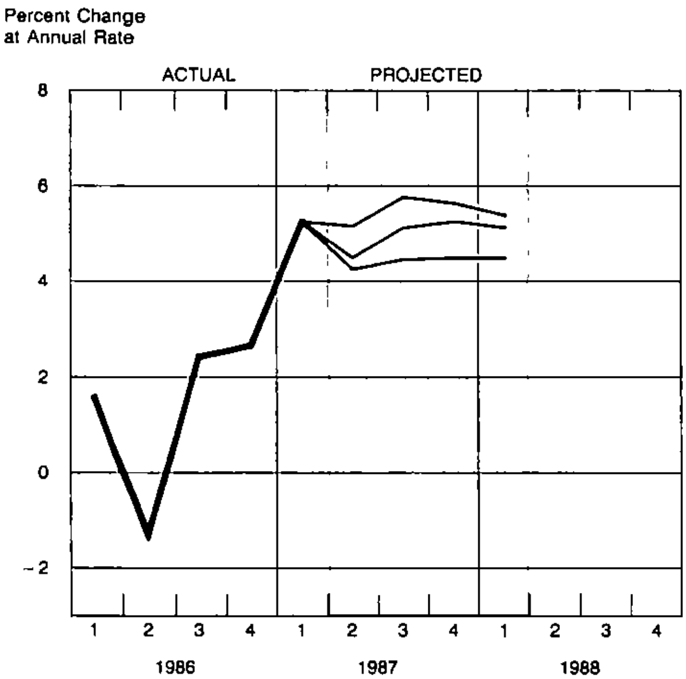
For example, one option for an alternative program is to house it in a building separate from the conventional high school that the students would ordinarily attend. Our observation of the schools in this study suggests to us that being in separate buildings contributed a great deal to the flexibility of the programs. The more casual comings and goings of alternative students, the occasionally higher noise level, the regular availability of coffee and a place to smoke, and other deliberate informalities that created the ambience of the alternative programs probably could not have been tolerated in the midst of a conventional comprehensive secondary school. At the same time, the potential danger of stigmatization by the implication of isolation and quarantine did not materialize, according to our data. The proximity of the separate facilities to the conventional junior and senior high schools of course facilitated the attendance of students in selected classes and students' transitions back to the conventional schools.

For another example: There seems to be a growing consensus among educators, despite the lack of any reliable data, that the principal is a major determinant of the level of disruptiveness in a school. Furthermore, the consensus seems to be that firm discipline and organization are the hallmarks of effective principals. Our data on the importance of perceived flexibility suggest, on the other hand, that disruptive students may not respond so well to the projection of such a principal's style onto the school program if discipline and organization mean inflexibility. Certain students may be disruptive because they have chronic problems dealing with authority and because their frequent experiences of failure in school make any universal standards of behavior and performance threatening to them. If the principal is indeed a key element in minimizing school disruption, this study suggests that it is because his or her administration permits and encourages the staff to develop more interpersonal relationships even with the most disruptive students and to accommodate to their individuality.

We recognize that the desirable flexibility of alternative schools contains an element of unfairness. This unfairness, we think, is a major source of opposition to alternative schools among faculty and staff of conventional schools. Conventional school teachers quite rightly feel strongly their obligation to treat their students evenhandedly, which includes holding them equally to scholastic standards. But it is apparent that this principle is not followed in the kind of alternative school we observed in this study. So these alternative schools are open to the charge that their students earn scholastic credits with less effort, that they receive passing grades for below-standard work, and that they are privileged to break ordinary school rules. And this, it is pointed out, as a consequence of behaving intolerably badly! But we need to remember that the intolerable behavior was generated under conditions of fixed standards for performance and behavior, applied evenhandedly. These are conditions with which, for whatever reasons, disruptive students are developmentally unable to deal. It is arguable, nevertheless, that adolescents need to learn to deal with these conditions, for schools reflect the society they serve. And it is also arguable that, according to our data, temporary suspension of these conditions is efficacious for that learning to occur, at least by students who are not extremely anxious and depressed. Tailoring the level and pace of learning to the individual student's abilities and interests, and fostering interpersonal relations between teachers and students, contradict our conventional sense of fairness. Psychologically, however, the conditions of the alternative schools seemed to their students fairer than those of the conventional schools.

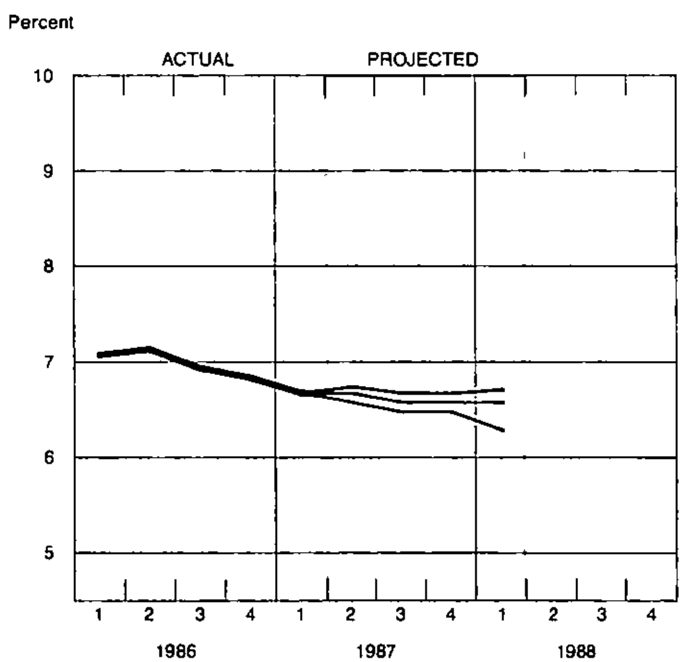
Producing statistically significant differences between "treatments" is only a tool of action-research, not its ultimate aim. The present findings also offer guidance to conventional secondary school administrators that will help to improve the educational process. While the constraints under which conventional junior and senior high schools operate—large size, low teacher/student ratios, pressures to evaluate students impersonally, etc.—make it impossible for them to adopt wholly the procedures of effective alternative schools, they may be able to alter their programs to a degree and on occasion to accommodate the needs of those students who are showing signs of failure, and the negative behaviors consequent to failure, so that many of them would not need to be sent to an alternative school. It appears that there is much to be gained generally from educational practices that impress students with their fairness and flexibility; from curricula whose level and pace meet students at their current level of academic adjustment and achievement; and from teaching styles that convey a sense of personal caring and support.

CONSUMER PRICE INDEX



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

UNEMPLOYMENT RATE



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

Actual and Projected Economic Indicators

seasonally adjusted

SERIES FORECAST BY THE ASA-NBER PANEL													
ECONOMIC INDICATOR	Quarterly Data										Annual Data		
	Actual					Projected					Actual	Projected	
	1986:1	1986:2	1986:3	1986:4	1987:1	1987:1	1987:2	1987:3	1987:4	1988:1	1986	1987	1988
GROSS NATIONAL PRODUCT	4,149.2	4,175.6	4,240.7	4,258.7	4,348.4	4,324.0	4,389.9	4,467.8	4,554.0	4,626.2	4,206.1	4,435.0	4,727.7
GNP IMPLICIT PRICE DEFLATOR (index, 1982 = 100)	113.5	114.0	115.0	115.2	116.4	116.1	117.1	118.1	119.3	120.4	114.4	117.6	122.0
CORPORATE PROFITS AFTER TAXES	126.9	128.8	135.9	144.5	136.6	142.0	144.1	148.8	155.0	153.0	134.0	147.9	158.0
UNEMPLOYMENT RATE (percent)	7.07	7.13	6.93	6.83	6.67	6.80	6.80	6.70	6.70	6.70	6.99	6.75	6.60
INDUSTRIAL PRODUCTION (index, 1977 = 100)	125.0	124.4	125.0	126.0	126.8	127.0	128.0	129.0	130.1	131.0	125.1	128.5	132.5
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.938	1.878	1.758	1.702	1.801	1.700	1.720	1.701	1.710	1.720	1.819	1.710	1.725
CONSUMER PRICE INDEX (annualized percent change from prior quarter or year)*	1.60	-1.30	2.43	2.66	5.26	3.35	3.50	4.00	4.10	4.00	1.92	3.30	4.00
3-MONTH TREASURY BILL RATE (%)	6.89	6.13	5.53	5.34	5.53	5.48	5.37	5.55	5.70	5.98	5.97	5.60	6.10
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	9.68	9.06	9.14	9.05	NA	8.75	8.83	8.76	8.90	9.20	9.23	9.00	9.18
GNP IN 1982 DOLLARS	3,655.9	3,661.4	3,686.4	3,696.1	3,735.9	3,725.1	3,751.7	3,778.6	3,807.9	3,833.7	3,674.9	3,766.6	3,868.3
PERSONAL CONSUMPTION EXPENDITURES (1982 dollars)	2,372.7	2,408.4	2,448.0	2,445.8	2,438.9	2,452.5	2,466.0	2,483.1	2,499.0	2,516.1	2,418.7	2,471.5	2,537.0
NONRESIDENTIAL FIXED INVESTMENT (1982 dollars)	457.8	456.8	454.4	457.8	446.3	451.5	452.7	455.0	459.2	461.0	456.7	454.0	465.5
RESIDENTIAL FIXED INVESTMENT (1982 dollars)	186.3	192.7	197.2	199.7	197.5	198.7	199.2	199.0	198.8	199.5	194.0	198.8	200.5
CHANGE IN BUSINESS INVENTORIES (1982 dollars)	39.9	15.1	-0.3	-28.5	35.0	12.1	15.0	17.5	15.5	21.4	6.5	16.0	23.6
NET EXPORTS (1982 dollars)	-125.9	-153.9	-163.3	-148.0	-137.2	-143.1	-136.5	-128.0	-118.5	-120.0	-147.8	-132.4	-110.0
FEDERAL GOVERNMENT PURCHASES (1982 dollars)	320.4	328.9	330.9	348.6	331.0	346.4	345.9	346.0	353.2	346.0	332.2	347.0	348.0
STATE AND LOCAL GOVERNMENT PURCHASES (1982 dollars)	404.8	413.3	419.5	420.7	424.3	423.0	426.0	428.9	431.0	434.0	414.6	428.0	436.2

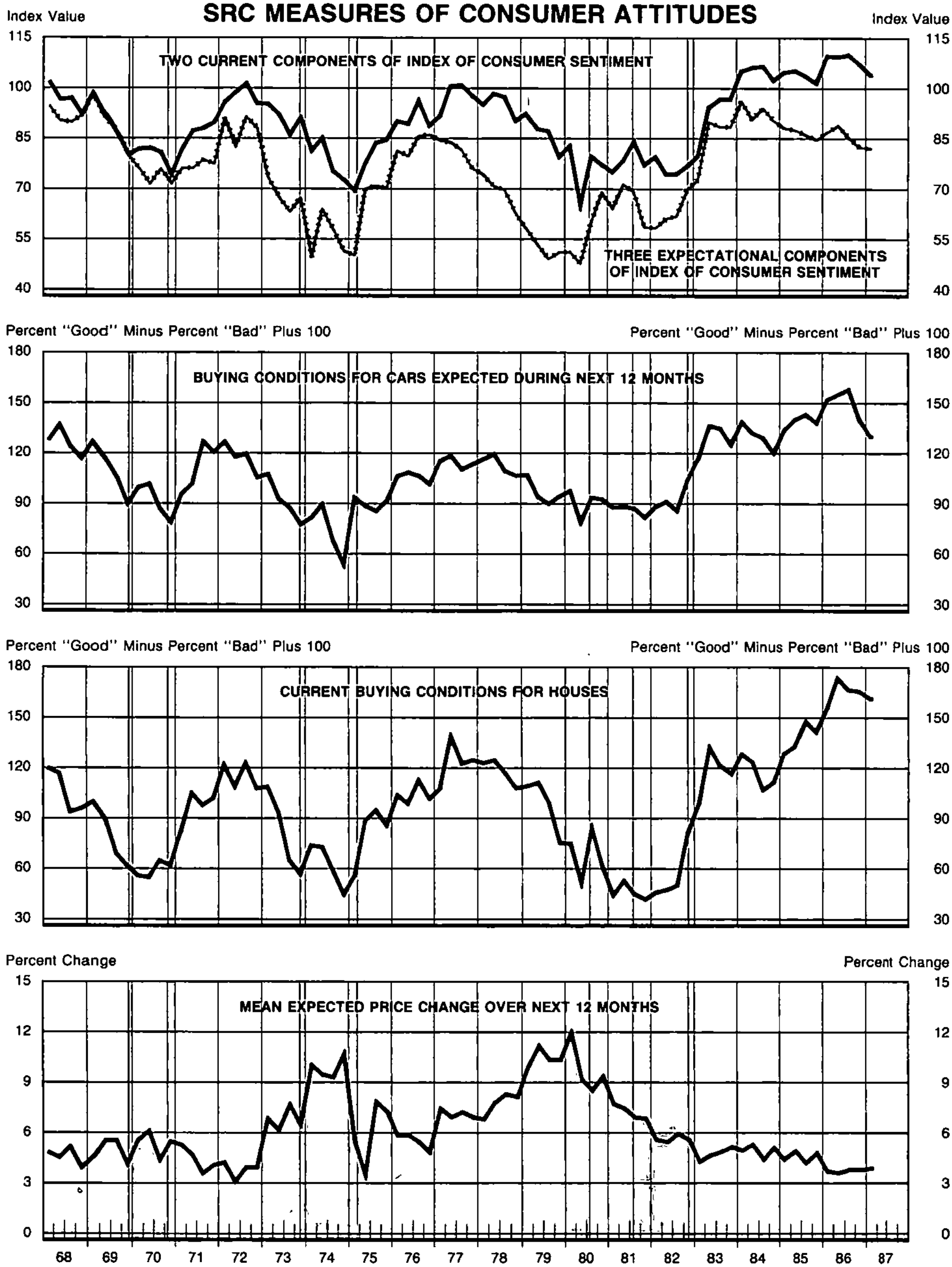
SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS													
ECONOMIC INDICATOR	Quarterly Data										Annual Data		
	1984:4	1985:1	1985:2	1985:3	1985:4	1986:1	1986:2	1986:3	1986:4	1987:1	1984	1985	1986
GROSS NATIONAL PRODUCT	3,845.6	3,909.3	3,965.0	4,030.5	4,087.7	4,149.2	4,175.6	4,240.7	4,258.7	4,348.4	3,765.0	3,998.1	4,206.1
PERSONAL CONSUMPTION EXPENDITURES	2,487.2	2,530.9	2,576.0	2,627.1	2,667.9	2,697.9	2,732.0	2,799.8	2,820.4	2,850.7	2,428.2	2,600.5	2,762.5
GROSS PRIVATE DOMESTIC INVESTMENT	661.1	650.6	667.1	657.4	669.5	708.3	687.3	675.8	663.2	718.1	662.1	661.1	683.6
NET EXPORTS	-66.1	-49.4	-77.1	-83.7	-105.3	-93.7	-104.5	-108.9	-110.2	-111.9	-58.7	-78.9	-104.3
GOVERNMENT PURCHASES	763.4	777.3	799.0	829.7	855.6	836.7	860.8	874.0	885.3	891.4	733.4	815.4	864.2
DISPOSABLE PERSONAL INCOME	2,729.6	2,755.4	2842.3	2,832.0	2,882.2	2,935.1	2,978.5	2,979.9	2,993.0	3,053.1	2,670.6	2,828.0	2,971.6
PERSONAL SAVING RATE (percent of disposable income)	6.0	5.2	6.5	4.2	4.4	5.0	5.1	2.8	2.5	3.4	6.3	5.1	3.9

Note: (1) All data are at annual rates and in billions of current dollars unless otherwise indicated. (2) To facilitate comparison and evaluation of forecasts, both actual data, released in late May, and projected data, released by ASA-NBER in March, are displayed for first quarter 1987.

Sources: Projections: American Statistical Association—National Bureau of Economic Research panel of forecasters.
Actual Data: U.S. Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

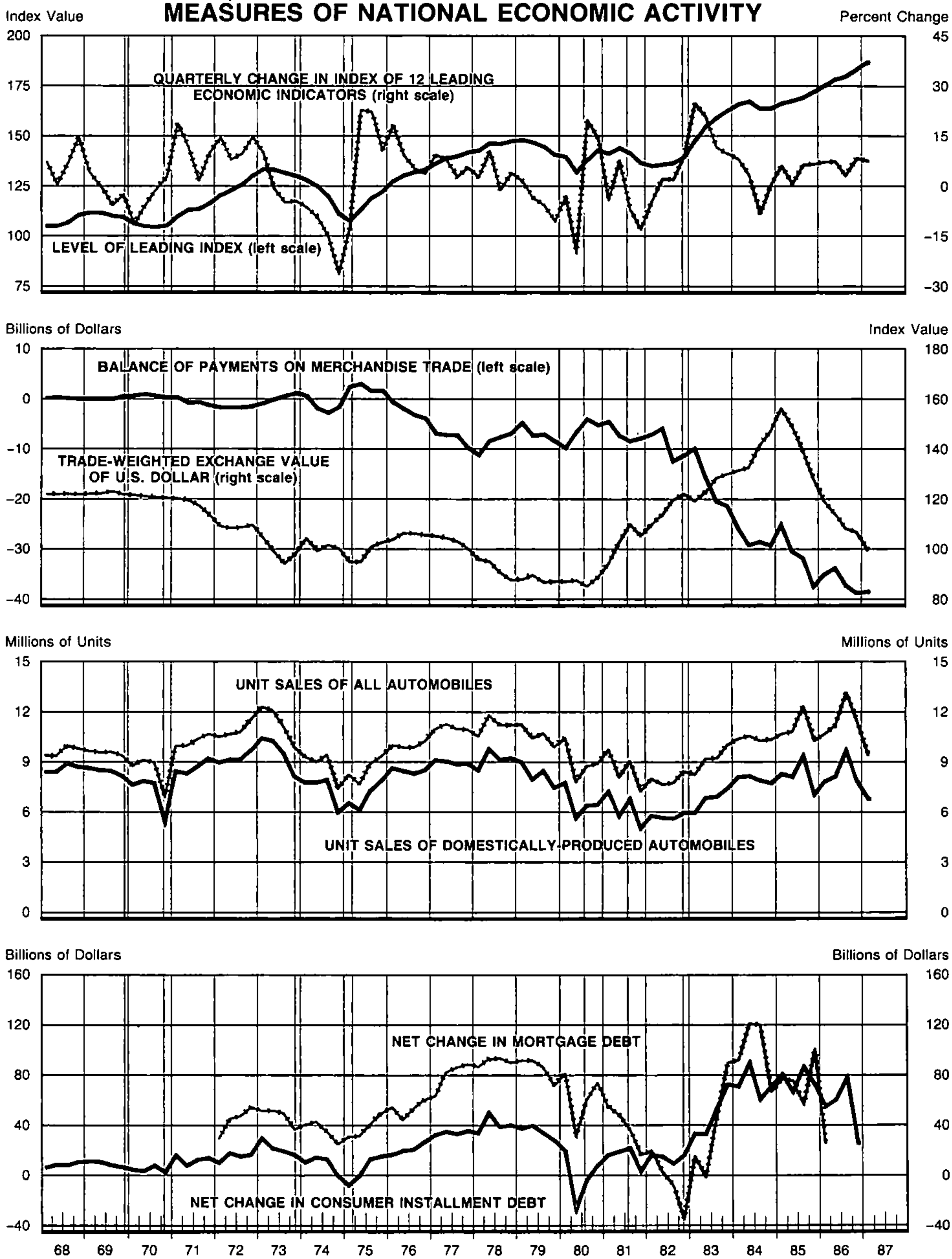
*Substantial revision of the data for series marked with an asterisk has occurred since the last printing.

SRC MEASURES OF CONSUMER ATTITUDES



Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

MEASURES OF NATIONAL ECONOMIC ACTIVITY



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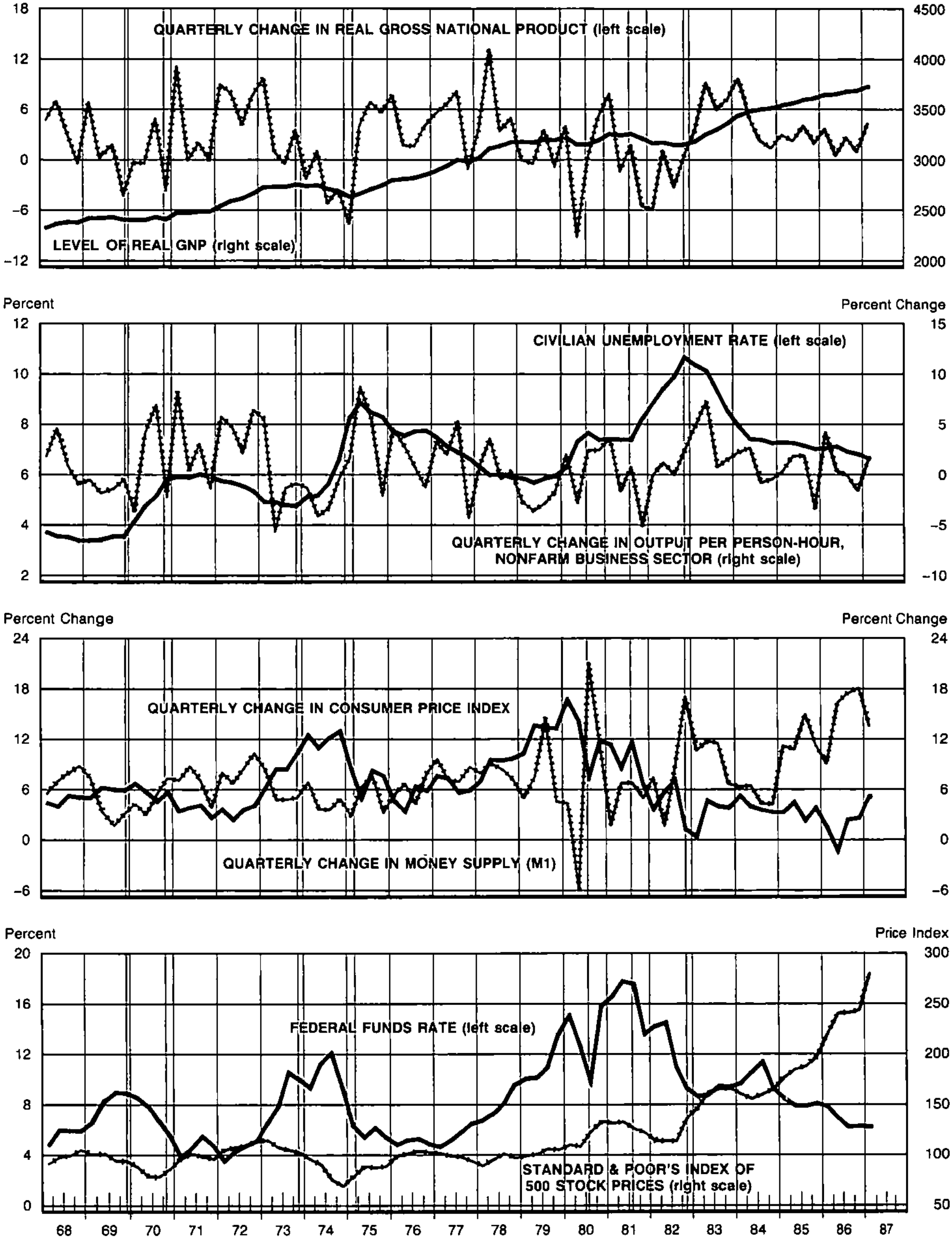
MEASURES OF NATIONAL ECONOMIC ACTIVITY



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