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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 in 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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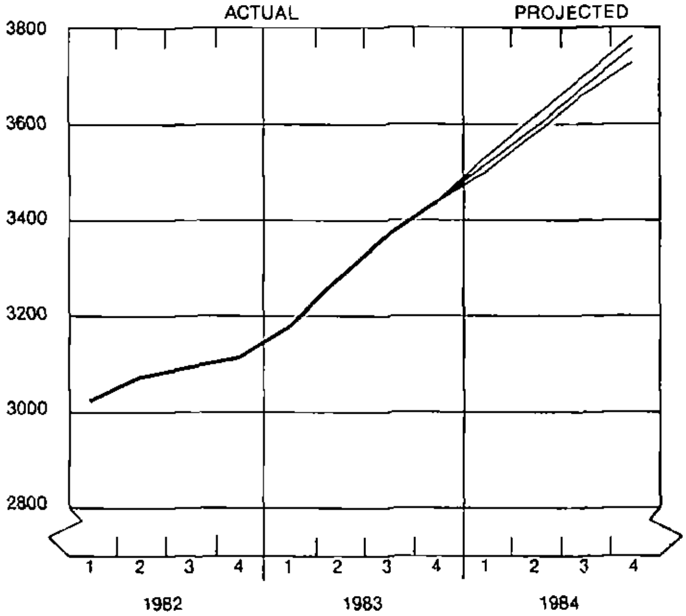
GROSS NATIONAL PRODUCT

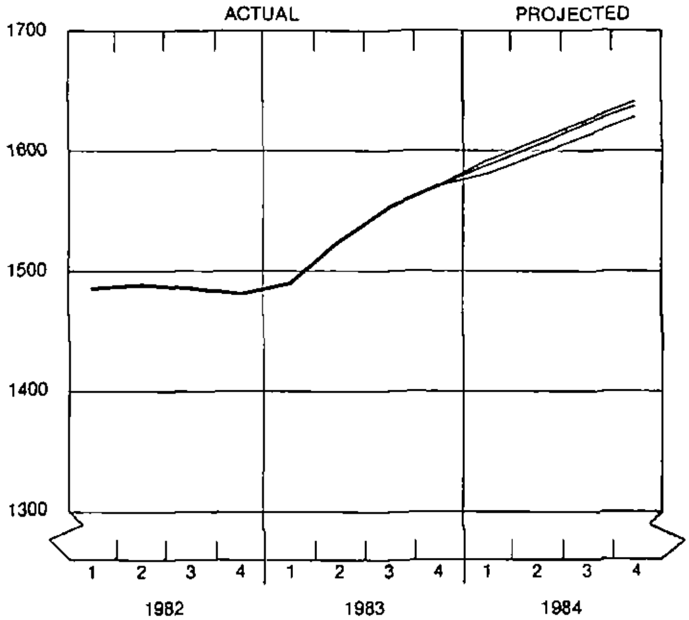
IN CURRENT DOLLARS
Billions of Dollars



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.

GROSS NATIONAL PRODUCT

IN CONSTANT 1972 DOLLARS
Billions of Dollars



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The U.S. Economic Outlook for 1984

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Review of the Forecast for 1983

At the Economic Outlook Conference held one year ago, we concluded that real GNP would grow by 3.4 percent for 1983. That forecast put us out on a fairly isolated limb. When it appeared a few weeks later in Robert Eggert's *Blue Chip Economic Indicators,* it ranked as the eighth most optimistic out of 43 forecasts of real GNP for 1983. Closest to us among major economic model forecasts was the Wharton forecast, which sat about midway in the Eggert ranking with a predicted growth rate of 2.8 percent (also the consensus forecast for that period). Based on the data available for the first three quarters of this year and our present forecast for the balance of the year, we are now estimating that real GNP for 1983 as a whole will wind up 3.5 percent above its 1982 level. Translated into billions of 1972 dollars, that amounts to a $51.8 billion rise in real GNP for 1983, compared to our forecast of $50.7 billion made a year ago.

Pleasurable as it is to begin a forecast evaluation by noting that we had the total just about right, that is hardly a sufficient basis on which to judge the overall quality of the forecast. Two other aspects of considerable importance to the potential usefulness of a forecast are how well it explains the sectoral detail accompanying the aggregates, and how well it captures the dynamic path of the economy. The former aspect—the matter of underlying detail—is addressed in Table 1. Looking first at the components of the change in real GNP, it is clear that our forecast was extremely accurate in its representation of the changes in consumer purchases of nondurables and services, business purchases of equipment and structures, residential construction activity, government purchases, and inventory accumulation.

We were less accurate in our prediction of the change in consumer purchases of durable goods, where we were low by almost $7 billion (1972 dollars); and we were even farther off in the case of real net exports of goods and services, where our error amounted to an over prediction of about $12½ billion. Little of the error in our forecast of consumer durables was due to misjudging total car sales; on the contrary, we believe that our forecast of 9.1 million car sales in 1983 will turn out to be almost exactly correct. With regard to net exports, the major part of our forecast error occurred on the export side of the account. A year ago we believed that U.S. exports would not continue to weaken beyond the point reached in 1982:3 and that the level of exports would remain nearly constant for the balance of 1982 and most of 1983. We expected virtually no export growth until late in 1983. What our forecast missed completely was a further sharp drop in exports in the closing quarter of 1982, after which real exports did indeed remain virtually flat for most of 1983—but at a level more than $10 billion below that which we had anticipated.

By all available measures 1983 has been a year of marked reduction in the rate of inflation, and our forecast clearly underestimated the extent of the improvement. This has in fact been the third straight year of substantially reduced inflation. We have gone from double-digit inflation in 1980, to an 8½ percent rise in consumer prices in 1981, to about 6 percent in 1982, and to only about 4 percent this year. Getting to this state of relatively low inflation has, of course, been extremely costly in human terms, as the 1981-82 recession produced the highest unemployment rates in forty years.

While the rate of inflation came down by more than we had anticipated, interest rates dropped by less. At this time last year 3-month treasury bills were yielding about 8 percent—well below their levels of a few months earlier—and we were forecasting a further decline to an average of about 7 percent for 1983. That proved to be too optimistic in a manner which our discussion of the dynamics of the forecast, to which we now turn, reveals.

TABLE 1. Review of RSQE Forecast for 1983

Economic Indicator	1981-82 Actual[1]	1982-83 Actual[2]	1982-83 Predicted[3]
Changes:			
Real GNP & Components (billions 1972 dollars)			
GNP	−28.4	51.8	50.7
Personal Consumption	13.5	41.1	31.0
Durable Goods	−1.3	15.9	9.0
Nondurables & Services	14.8	25.2	22.0
Business Fixed Investment	−8.3	0.5	−2.5
Residential Construction	−6.8	15.8	12.8
Inventory Investment	−17.9	8.4	8.8
Net Exports	−14.1	−17.3	−4.7
Government Purchases	5.3	3.4	5.0
Wages & Prices (% changes)			
Hourly Compensation, private nonfarm sector	7.9	5.7	6.2
Price Deflator, private nonfarm sector	5.9	3.8	4.6
Personal Consumption Deflator	5.8	4.0	5.6
Consumer Price Index	6.2	3.3	5.9
Levels in Terminal Quarter:			
Civilian Unemployment Rate (%)	9.7	9.7	10.1
3-Month Treasury Bill Rate (%)	10.6	8.6	6.9
Corporate Aaa Rate (%)	13.8	12.0	11.2
Auto Sales (millions of units)	8.0	9.1	9.1
Private Housing Starts (thousands of units)	1059	1693	1618
Corporate Profits[4] (% of GNP)	5.4	7.0	7.1

[1]Based on data published by official agencies (U.S. Departments of Commerce and Labor, Federal Reserve Board, etc.).
[2]First three quarters of 1983 based on data published by official agencies; fourth quarter of 1983 as forecast by RSQE in November 1983.
[3]RSQE forecast released in November 1982.
[4]Includes inventory valuation and capital consumption adjustments.

The forecast for 1983 produced a somewhat smoother GNP growth path than is now estimated to have occurred, but it captured the overall contour reasonably well and the cumulated change in real GNP from late 1982 to late 1983 extremely well. Our error in forecasting the quarterly pattern in the unemployment rate was relatively minor and consistent with the timing errors in our real GNP forecast.

Our overestimate of the rate of inflation in 1983 stems primarily from missing the dramatic reduction in the rate of inflation which occurred in the late winter and early spring of this year. A good deal of that may prove to have been the transitory benefit of a number of favorable special factors, including temporary weakness in food, oil, and other crude materials prices.

In forecasting the path of interest rates last year, we were anticipating that the Federal Reserve Board would be pushing rates lower not only to continue supporting the domestic recovery, but also to provide for lower cost refinancing of third world debt to American and other Western banks. The Fed pulled up quite short of what we had expected in this regard and appears, on the contrary, to have been nudging interest rates upward after the early months of the year and until sometime into the summer. From the reports of a number of bankers, as well as the Fed's own data on member bank borrowings, the 8½ percent discount rate was largely a fiction during the spring and early summer. The Fed simply closed the window to many willing borrowers—in effect tightening credit without advertising it and thereby pushing up interest rates.

The Current State of the Economy

As we read the indicators relevant to the current state of economic activity, it seems clear that a strong upward momentum is still operating. New orders for nondefense capital goods are rising sharply, personal income is increasing rapidly, consumer sentiment is at record or near-record levels both among higher and lower income families, and the early reports on October retail trade indicate strong gains. Domestic auto sales are pressing hard on the available supply, and the auto companies are scheduling high levels of production to raise the flow of cars to the dealer network. Manufacturing production has risen at a 22 percent annual rate in the past three months, while capacity utilization has recovered to 78.4 percent. Civilian employment reached nearly 102 million in September, a gain in excess of 1.1 million workers since June and 2.8 million since the turn of the year. By the end of October, various short-term interest rates had dropped some 50-100 basis points compared with their mid-August levels, and long-term rates had edged down by 20-30 basis points.

All told, these initial conditions fairly guarantee a strong economic performance in the closing quarter of 1983. We are forecasting that the fourth quarter of 1983 will register an annualized growth rate of 6.5 percent, down somewhat from the estimated third quarter growth rate but still very strong indeed. In consumer purchases, business investment, and government purchases, the third and fourth quarter gains are nearly alike. Residential building and net exports are the sectors which account for the small drop-off in the fourth quarter growth rate. The real net export balance is forecast to fall by about $4 billion (annual rate) as imports continue to rise while exports remain nearly flat. Residential building is forecast to be up in the fourth quarter, but by only about half as much as in the third quarter, as the spring/summer run-up in interest rates has taken some of the steam out of the housing recovery.

Inflation is expected to remain moderate in the fourth quarter, while the civilian unemployment rate is expected to average 8.9 percent for the quarter.

The drop in short-term interest rates which began in mid-August as the Fed allowed credit conditions to ease a bit has brought the treasurey bill rate to an 8.7 percent average for October, and we are forecasting that these rates will continue to edge downward—on average—for at least the next several months.

Thus we see 1983 ending with the economy still on a steep growth path and characterized by conditions which are likely to continue the pattern of substantial growth into the early months of 1984. Before extending the outlook into the 1984-85 period, we turn to a discussion of the input assumptions which are of major importance in shaping our forecast of economic activity for the next several years.

Inputs to the Forecast

The *federal expenditure* assumptions in our forecast are summarized in Table 2. The latest available data indicate that federal spending in the National Income and Product Accounts totalled $819.6 billion in fiscal 1983, up $79 billion from the previous fiscal year. We are assuming total expenditure increases of about $57 billion and $71 billion for fiscal years 1984 and 1985, respectively. The item in the budget which accounts for most of the expenditure slowdown in fiscal 1983, are forecast to decline by more than $9 billion in fiscal 1984 is transfer payments. This category, which contains the bulk of the social program spending of the federal government, increased by $34 billion in FY 1983 and is projected to rise by only $9 billion in the current fiscal year.

TABLE 2. Federal Government Expenditures and Receipts (National Income and Product Accounts, billions of dollars)

Expenditures, Receipts, and Deficit	Fiscal 1983[1]	Fiscal 1984[2]	Fiscal 1985[2]
Total Expenditures	819.6	876.0	947.5
Purchases of Goods and Services	276.9	301.0	332.3
National Defense	197.6	221.6	245.5
Nondefense	79.3	79.4	86.8
Transfer Payments	344.0	352.9	373.1
Grants-in-Aid to State and Local Governments	86.0	87.9	90.3
Net Interest Paid	92.5	115.6	132.8
Subsidies less Current Surplus of Gov't. Enterprises	19.8	19.0	19.0
Less: Wage Accruals less Disbursements	−0.4	0.4	0
Total Receipts	634.2[3]	705.4	791.1
Deficit (−)	−185.4	−170.6	−156.4

[1]Data for Fiscal 1983 are from the *Survey of Current Business*, October 1983.
[2]RSQE projections and forecasts for fiscal years 1984 and 1985.
[3]Receipts and Deficit for 1983:3 are RSQE Projections.

Some $17 billion of this difference results from the fact that unemployment insurance benefits, which increased by $7½ billion in fiscal 1983, are forecast to decline by more than $9 billion in fiscal 1984. The balance is accounted for primarily by the decision to eliminate half a year's worth of the normal increase in benefit payments to social security recipients. The benefit increase, which is tied to the rate of inflation and would normally have been paid on July 1, 1983, was pushed back to January 1, 1984, with no make-up for the half-year of delay. We are assuming that defense spending will continue to rise rapidly but at a diminishing rate of increase over the next two fiscal years. The non-compensation component of defense spending rose by 20.7 percent in FY 1982 and by 18.9 percent in FY 1983; we are assuming increases of 16 percent and 11 percent in fiscal years 1984 and 1985, respectively, which imply corresponding real increases of about 8 percent and 3 percent.

With regard to *federal taxes,* our forecast assumes no major changes in tax legislation. That implies, of course, that the full Reagan tax cut program remains in effect and that inflation indexation of the federal personal tax structure begins in January 1985, as scheduled. In effect the indexed tax system will continue to tax the usual nominal tax base, but at tax rates determined by the growth of the *real* tax base after 1984. The indexed system will be in effect for the final three quarters of fiscal 1985 and, by our calculations, will produce a net federal revenue loss of $5 billion in that fiscal year. The size of the revenue loss rises substantially over time, however, as the price level continues to rise; and we calculate that the net revenue loss in the second fiscal year of the indexed system—fiscal 1986—will increase to about $22 billion dollars, or the equivalent of about another 7 percent cut in personal income taxes by fiscal 1986.

The net result of the assumed federal budget and the rest of our input assumptions is an economic forecast which produces the *federal deficit path* shown in the bottom line of Table 2: successive reductions in the deficit amounting to about $15 billion in each of the next two fiscal years. Adjusting for the size of the economy, this implies that the deficit will slip from 5.7 percent of GNP in fiscal 1983 to 4 percent of GNP in fiscal 1985.

In recent years the monetary authorities have been extremely active in their pursuit of what has, on the average, been a rather restrictive set of credit conditions. From about 1978 to mid-1982—with a brief hiatus in mid-1981—the Fed pursued a tight money policy in order to beat double-digit inflation and lower inflationary expectations. The Fed switched to easier credit conditions in order to support economic recovery and, simultaneously, to ease the refinancing of less-developed-country debt to Western banks from mid-1982 to about the spring of 1983. Concurrently, however, the federal budget was turning substantially expansionary under the impetus of the administration's three-year tax cut program. In apparent reaction to money market fears and the potential inflationary impact of the resulting long-term or structural imbalance in the federal budget, the Fed backed off its expansionary policy this spring with the result that interest rates moved up by 100-150 basis points between May and August of this year. The Fed again reversed direction in the late summer—but by enough to reverse no more than half of the earlier run-up in interest rates.

The basic conclusion which we draw from this brief narrative on Fed policy is that the monetary authorities are unlikely to run much of a risk of erring on the expansionary side. As long as the economy is heading upward under the stimulus of a basically expansionary federal budget, inflation—or the potential for a resurgence of inflationary expectations—will remain the enemy. The credit markets will be on notice that a persistent imbalance in the federal budget will not be permitted to drive the economy into a state of excess aggregate demand and accelerating inflation. The further implication, of course, is the persistence of relatively high interest rates—not because of inflation but, on the contrary, because the Fed will keep rates at a relatively high level precisely to avoid inflation. The quantitative translation of our sense of the likely course of *monetary policy* is that

- the monetary base will follow a path averaging 5 percent growth per year during 1984 and 1985, and
- the discount rate will remain fixed at its current level of 8½ percent.

The fiscal and monetary policies assumed in our forecast constitute a policy mix biased against such sectors as the automobile and housing markets, and construction activity in general. Further, by keeping the international value of the U.S. dollar relatively high, the high interest rate policy favors imports over domestic production across a broad spectrum of commodities. In a direct, simplistic sense massive personal tax cuts clearly favor the private sector. But if such tax cuts outstrip the desirable and politically feasible extent to which expenditures can be held down, the true implications of the tax cut policy are far more complicated and likely even to be quite different from that which may have been intended.

For much of the past year the U.S. inflation rate has benefited from weakness—if not declines—in a number of basic prices including those for petroleum, crude industrial materials, lumber, and various agricultural commodities. To the extent that this has been the result of the severity of the 1981-82 recession both in the U.S. and in most of the rest of the Western economies, it cannot be expected to continue. We are assuming that most such prices will be increasing at more rapid rates over the next two years as economic growth continues and the markets for basic commodities begin to tighten.

In the case of *crude oil* we have assumed an annual inflation rate building up from the 4-5 percent range in the very near term to 6 percent by mid-1984 and 7 percent by early 1975. We are assuming that the price of *natural gas,* which has been particularly weak recently, will be increasing at a rate of about 8½ percent on the average over the next two years. *Other crude materials prices* are assumed to increase at a 7 percent annual rate until mid-1984, at an 8 percent rate from mid-1984 to early 1985, and at a 9 percent rate thereafter.

In the case of *farm prices,* we have assumed that last summer's drought will cause a bulge in the rate of farm price inflation to 8 percent at annual rate from the spring through the winter of 1984. If the primary effect of the drought (and the PIK program) is to reduce to "about normal" the carryover stock levels which had risen dramatically during the past few years, and the 1984 growing seasons result in normal production levels, farm price inflation can be expected to drop in 1985. At this point, we have assumed a modest decline to a 7 percent rate of increase of farm prices in 1985.

As might be judged from hints contained in the foregoing discussion, we are not expecting *the dollar* to weaken significantly in international markets over the horizon of this forecast. The expected pattern of domestic interest rates is consistent with continued strength for the U.S. dollar. The likelihood that foreign central banks will want to follow U.S. interest rates closely to the extent that the latter might decline is, again, consistent with the view that the dollar will remain generally strong. Further, the political and economic turmoil afflicting so many parts of the world has resulted in the U.S. dollar's appearing to be among the few safe havens for financial investment, and this is likely to continue to enhance the value of the dollar. In our judgment, this combination of factors is likely to be strong enough to counterbalance the weakness of the dollar which should otherwise emerge due to the progressive deterioration of our trade balance.

With respect to *exports of goods and services* from the U.S., we are assuming a pattern of real growth building up to an annual rate of 3½ percent by mid-1984, due primarily to approximate stability of the other major currencies relative to the dollar and a moderate economic recovery abroad. In the context of our forecast, this assumption results in a continual increase in our trade deficit from the $14 billion projected for this year to over $50 billion (in current prices) for calendar 1984 and to $70 billion for calendar 1985.

We turn now to a systematic review of the 1984-85 economic outlook as it results from processing the initial conditions and our input assumptions through the Michigan Quarterly Econometric Model of the U.S. Economy.

Overview of the Forecast

Our forecast for 1984-85 is summarized in Chart 1. The 3½ percent growth of real GNP now estimated for 1983 is forecast to be followed by a 6½ percent increase in total national output in 1984 and a 4.2 percent increase in 1985. Measured on a fourth quarter to fourth quarter basis, we are forecasting that real GNP will rise by 5.6 percent during 1984—compared with 6.6 percent during 1983—and by 3.2 percent during 1985.

This substantial growth of production is forecast to be accompanied by a reduction in the civilian unemployment rate to an average of 8.3 percent for calendar 1984 and 7½ percent for 1985.

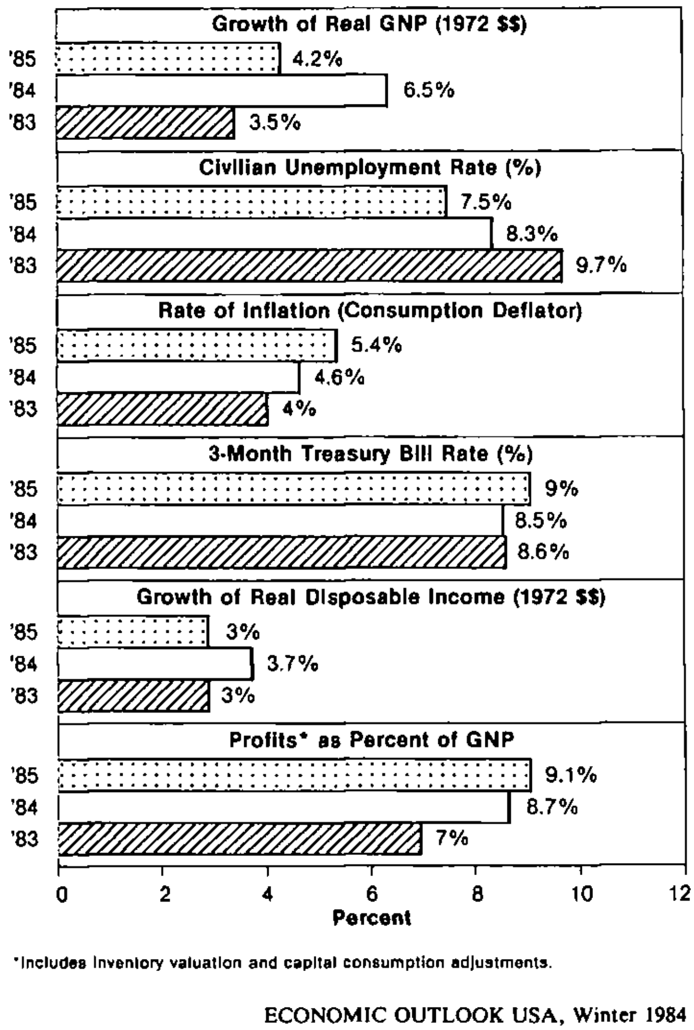
The gains in output and employment over the next two years cannot be expected to be entirely costless on the inflation side. The average level of consumer prices (implicit deflator) in 1984 is forecast to be 4.6 percent higher than in 1983—up moderately from the 4 percent increase estimated for 1983 as a whole. The year 1985, however, is forecast to register a 5.4 percent increase in the average level of consumer prices.

It is worth noting the context of the inflation pattern which we are forecasting in order to put it into reasonable historical perspective. Between 1983 and 1985 the unemployment rate is expected to decline by about 2.2 percentage points from a very high level associated with a severe recession. Over the same two years the concomitant tightening of markets—without any major supply shocks, up or down—is forecast to add almost 1½ percentage points to the rate of inflation. That short-run trade off is considerably better than was experienced during the comparable 1976-78 period, when the unemployment rate declined by 1.6 percentage points to the accompaniment of an increase of almost 2 percentage points in the rate of inflation—and that was before the second OPEC shock. On the other hand, the trade off predicted for 1983-85 is not nearly as favorable as that which accompanied the recovery from the severe recession which ended in 1958:1. The unemployment rate dropped by 1.3 percentage points from 1958 to 1960, and the rate of inflation remained virtually constant at about 2 percent! When it comes to inflation, the mid-seventies experience is clearly the more relevant to our current situation. The major benefit deriving from the circumstances and severity of the 1981-82 recession may well be that we now have in place better initial conditions vis-à-vis restraint of inflation than we had following the 1974-75 recession.

Turning to the forecast for interest rates, we expect that the average level of short-term interest rates in 1984 will differ little from their present level, which, in the case of 3-month treasury bills, is about 8½ percent. For 1985, however, credit conditions are forecast to become tighter as the economic expansion matures and the Fed pursues the kind of monetary policy already discussed in the input section of this report. The result is short-term interest rates up an average of 50 basis points for 1985 as a whole.

Finally in this overview, we note that the immediate benefits of a relatively non-inflationary economic expansion will accrue both to consumers and businesses during the next two years. Consumer purchasing power is forecast to rise by 3.7 percent and 3 percent in 1984 and 1985, respectively, while corporate profits experience a substantial cyclical recovery (before tax, including inventory valuation and cap-

CHART 1. Overview of RSQE Forecast for 1984-85



*Includes inventory valuation and capital consumption adjustments.

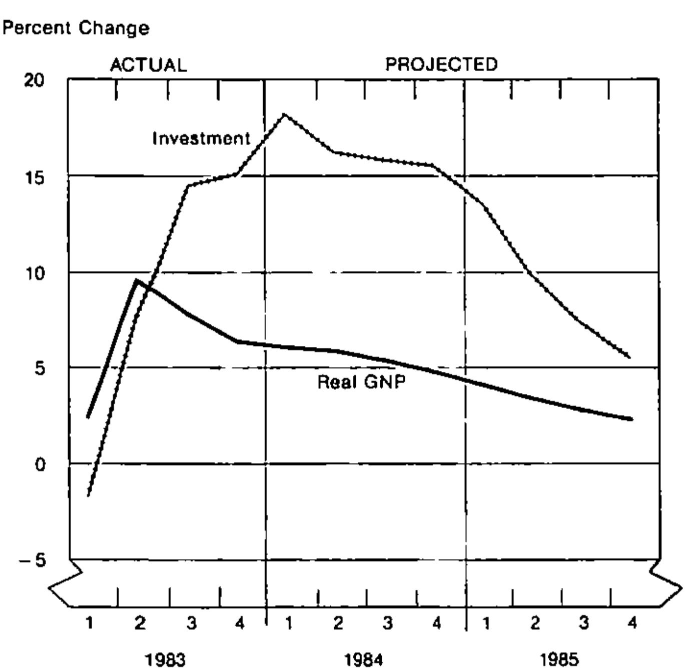
ital consumption adjustments), which is expected to carry the profit share of GNP to about 9 percent for 1985. The latter figure is comparable to the profit shares experienced in the mid-1960s and the late 1970s, and is well above the postwar low of 5.4 percent reached in 1982.

The Path of the Economic Expansion

The forecast paths of several important indicators of macroeconomic activity are described in Charts 2-5. As shown in Chart 2, our forecast implies continued economic growth for at least the next two years, but at a rate diminishing from 6½ percent in the current quarter to 6 percent in 1984:2, 4.9 percent in 1984:4, 3½ percent in 1985:2, and about 2½ percent at the end of 1985. This pattern of growth is forecast to produce a fairly smooth decline in the unemployment rate from just under 9 percent currently to about 7½ percent in the spring of 1985 (Chart 3). The GNP growth rate expected thereafter is simply insufficient to support further reductions in unemployment, and the unemployment rate remains at about 7½ percent for the balance of 1985. There are four basic factors which contribute to the existence and the extent of the slowdown in the rate of growth of the economy in 1985:

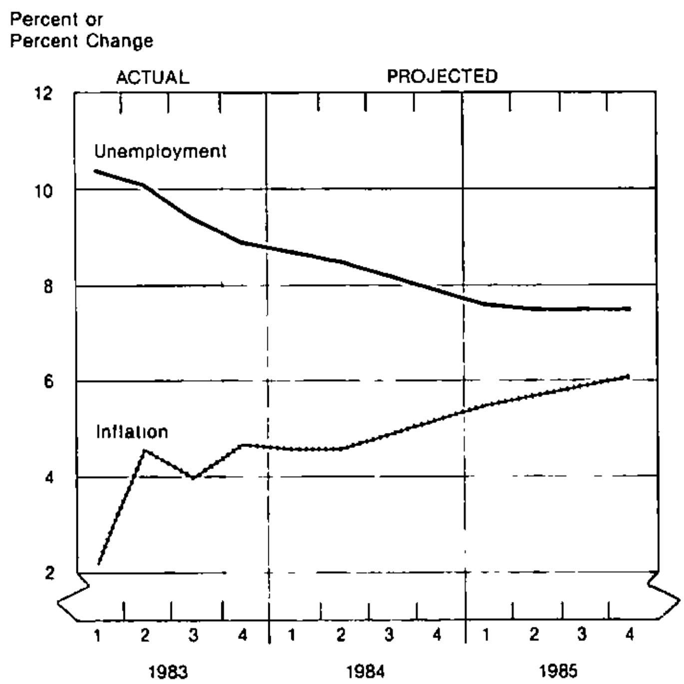
- First, of course, is the fact that 6-8 percent growth rates are so far beyond the economy's normal capacity to expand that such rates can persist only under conditions of extreme underutilizatioin of resources.
- Second, continued strength of the U.S. dollar, along with initially more rapid expansion in the U.S. than abroad, combine to favor a continual decline in real net exports, which amounts to a persistent drag on the domestic economy.
- Third, and somewhat technically, the model contains a number of so-called "accelerators" which represent a behavioral characteristic applying to certain categories of durable goods purchases such as automobiles and business equipment. Simply stated, there is a tendency for the rate of purchase of such commodities to oscillate around a sustainable average value before settling down to that value. When a number of these durable goods categories begins to accelerate nearly simultaneously in the early stages of a major cyclical recovery, sometime later many of them will be slowing down at about the same time as well.
- And finally, the monetary policy assumptions which we have made begin to bite toward the end of 1984. Interest rates are relatively high throughout the period of this forecast, but short-term rates are moving steadily upward after mid-1984 and rise by about 75 basis points from late 1984 to late 1985 (Chart 4). During that period various interest-sensitive sectors begin to feel the direct pinch of higher interest rates or the indirect effects of adverse patterns in the flow of funds. Thus,
  - —automobile sales reach a peak of 10.8 million units (annual rate) in 1984:4 and then fall off slightly and steadily to a 10½ million unit rate a year later (Chart 5);
  - —housing activity peaks in early 1985 and drifts down from a starts rate of nearly 1.9 million units in 1985:1 to 1.8 million units in 1985:4 (Chart 5); and
  - —the rate of growth of real business capital purchases peaks at about 18 percent early next year and then declines to a rate of less than 6 percent by the end of 1985 (Chart 2).

CHART 2. Annual Rates of Growth of Real Gross National Product and Business Fixed Investment (1972 dollars)



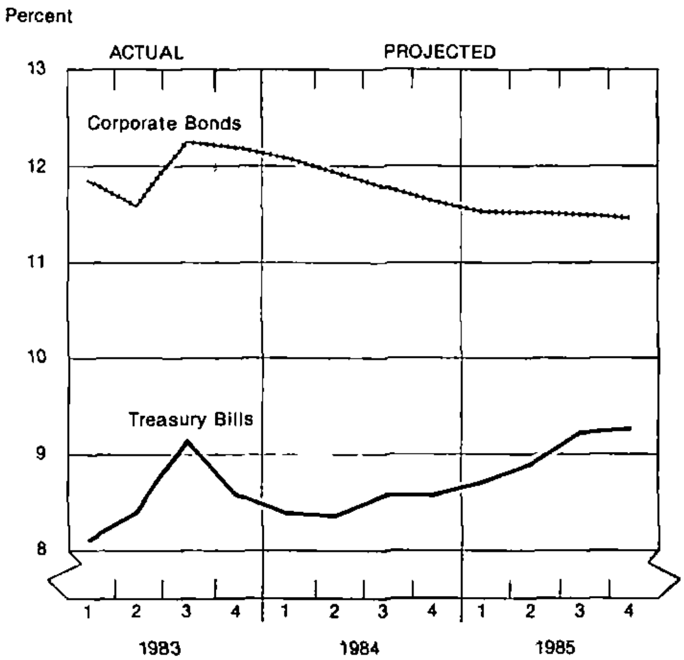
Sources: Actual data, U.S. Department of Commerce; projected data, RSQE Forecast.

CHART 3. Unemployment Rate and Annualized Inflation Rate (Personal Consumption Deflator)



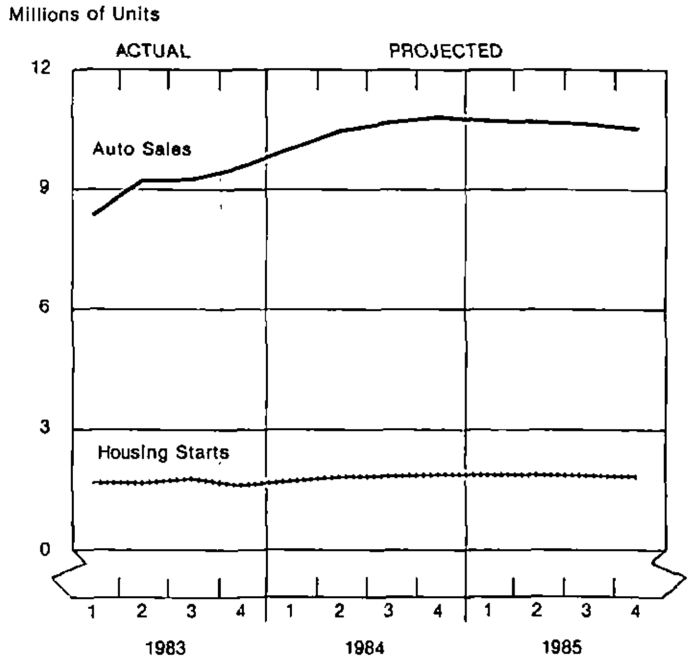
Sources: Actual data, U.S. Department of Commerce; projected data, RSQE Forecast.

CHART 4. Interest Rates for 3-Month Treasury Bills and Corporate Aaa Bonds



Sources: Actual data, U.S. Department of Commerce; projected data, RSQE Forecast.

CHART 5. Automobile Sales and New Private Housing Starts



Sources: Actual data, U.S. Department of Commerce, projected data, RSQE Forecast.

Substantial additional quarterly detail from the RSQE forecast is displayed in Table 3.

Is there anything especially peculiar about the post-1982 GNP path, as it has developed to the present and as we forecast it to continue during the next two years? Part of the answer is contained in Chart 6, which plots the path of real GNP for the 12 quarters following the GNP trough quarter in the comparably severe recessions of 1957-58, 1974-75, and 1981-82. The trough dates are 1958:1, 1975:1, and 1982:4, respectively.

The first thing to note in Chart 6 is the striking similarity in the current and the post-1975 expansion paths. The transitory drop in real GNP a year and a half into the post-1958 recovery is the result of the 1959 strike in the steel industry and should therefore be disre-garded. Thus adjusted, all three of the recovery paths look extremely similar for eight quarters following the trough in real GNP, after which the post-1958 recovery path is aborted by the minor recession of 1960. The post-1975 expansion, on the other hand, continued for two years beyond the three shown in Chart 6. The simple history shown in the chart, therefore, is equally consistent with the current expansion's ending late in 1984 or continuing right through 1987. The fact that we are forecasting a GNP growth path which has considerable historical precedent may be of some comfort, but it hardly contributes to pinning down the end-point of the current expansion.

Uncertainties and Conclusions

The bottom line of this forecast is that we have good news and bad news. The good news is in Chart 2: the strong likelihood of another two years of economic expansion which should carry the economy to an unemployment rate of about 7½ percent, to the accompaniment of a fairly modest rise

CHART 6. Comparison of Economic Recoveries from Three Postwar Recessions

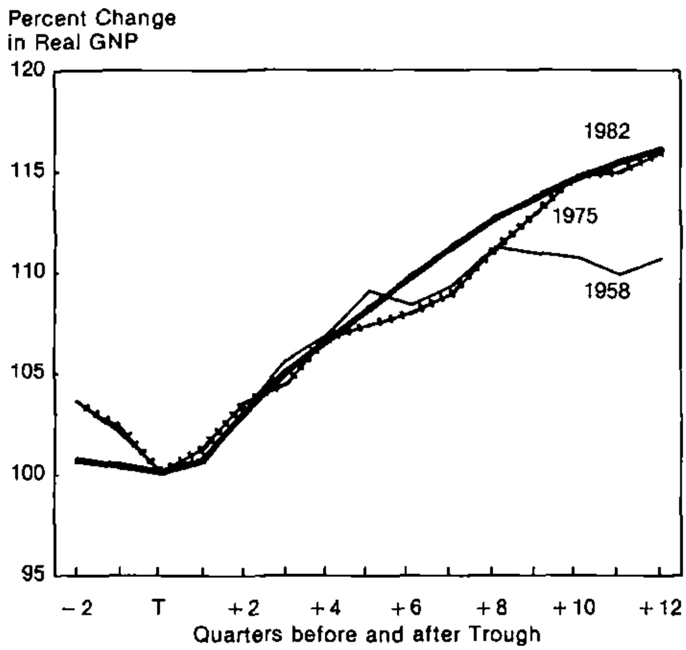


TABLE 3. Selected Economic Indicators as Forecast by RSQE

Seasonally adjusted

ECONOMIC INDICATORS	Quarterly Data										Annual Data			
	ACT.	PROJECTED									PROJECTED			
													% Changes	
	83:3	83:4	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1984	1985	83-84	84-85
GROSS NATIONAL PRODUCT	3,363	3,453	3,545	3,636	3,726	3,821	3,910	3,997	4,082	4,173	3,682	4,041	11.1	9.7
PERSONAL CONSUMPTION EXPENDITURES	2,186	2,232	2,278	2,325	2,372	2,421	2,471	2,523	2,576	2,630	2,349	2,550	8.8	8.6
DURABLE GOODS	284.1	294.2	303.5	313.6	322.1	330.0	336.1	342.5	348.6	354.0	317.3	345.3	13.9	8.8
AUTOMOBILES and PARTS	137.2	144.3	150.8	158.1	163.9	169.1	172.5	176.2	179.7	182.5	160.5	177.7	20.3	10.7
FURNITURE and H.H. EQUIPMENT	102.7	104.7	106.8	108.7	110.5	112.3	114.1	115.9	117.5	119.0	109.6	116.6	8.1	6.4
OTHER DURABLES	44.2	45.1	45.9	46.8	47.6	48.5	49.5	50.5	51.4	52.5	47.2	60.0	7.7	8.0
NONDURABLE GOODS	819.0	835.6	850.9	865.3	880.5	897.1	914.8	933.1	951.6	971.1	873.5	942.6	8.1	7.9
SERVICES	1,083	1,102	1,124	1,146	1,169	1,194	1,220	1,247	1,275	1,305	1,158	1,262	7.9	9.0
GROSS PRIVATE DOMESTIC INVESTMENT	500.9	539.8	574.6	607.3	637.1	665.9	691 7	712.9	730.4	744.6	621.2	719.9	31.1	15.9
NONRESIDENTIAL	348.4	362.6	380.3	397 7	416.1	435.4	454.4	471.0	486.2	500 1	407.4	477.9	18.1	17.3
RESIDENTIAL STRUCTURES	140.7	148.1	155.2	162.5	169.0	174.2	178.4	182.1	184.9	186.8	165.2	183.1	25.1	10.8
CHANGE in BUSINESS INVENTORIES	11.8	29.1	39.1	47.1	52.0	56.3	58.9	59.8	59.3	57.7	48.6	58.9	–	–
NET EXPORTS	–25.7	–36.9	–46.8	–53.6	–57.9	–62.5	–67.0	–71 0	–74.1	–75.8	–55.2	–72.0	–	–
EXPORTS	339.3	345.3	351.3	357.7	364.9	372.8	381.3	390.3	399.7	409.8	361 7	395.3	8.1	9.3
IMPORTS	365.0	382.2	398.0	411.3	422.8	435.3	448.3	461.3	473.8	485.6	416.9	467.2	19.7	12.1
GOVERNMENT PURCHASES	701.8	718.7	739.2	757.1	775.3	796.7	814.3	832.2	850.6	873.9	767.1	842.8	10.3	9 9
FEDERAL	281.2	288.0	298.1	305.3	312.6	322.9	329.1	335.3	341.7	352.7	309.7	339.7	11.0	9.7
NATIONAL DEFENSE	205.8	211.3	219.1	225.0	231.0	238.4	243.1	247.8	252.7	260.7	228.4	251.1	12.6	9.9
OTHER	75.4	76.7	79.0	80.3	81.6	84.5	86.0	87.5	89.0	92.0	81.3	88.6	6.5	8.9
STATE and LOCAL	420.6	430 7	441.1	451.8	462.7	473.8	485.2	496.9	508.9	521.2	457.3	503.1	9.9	10.0
GROSS NATIONAL PRODUCT DEFLATOR, 1972=100	216.4	218.7	221.2	223.5	226.1	229.0	232.0	235.1	238.5	242.3	224.9	237.0	4.3	5.3
REAL GROSS NATIONAL PRODUCT (billions of 1972 dollars)	1,554	1,579	1,603	1,626	1,648	1,668	1,685	1,700	1,712	1,722	1,636	1,705	6.5	4.2
AGGREGATE UNEMPLOYMENT RATE (percent)	9.43	8.90	8.71	8.51	8.18	7.87	7.65	7.51	7.46	7.48	8.32	7.52	–	–
CORPORATE PROFITS plus IVA and CCA	254 6	273.4	290.4	312.9	331.0	346.2	358.0	364.4	373.6	378.9	320.1	368.7	38.0	15.2
90-DAY TREASURY BILL RATE (%)	9.14	8.58	8.39	8.36	8.57	8.57	8.70	8:89	9.22	9.26	8.47	9.02	–	–
REAL DISPOSABLE INCOME (billions of 1972 dollars)	1,101	1,111	1,119	1,128	1,136	1,146	1,155	1,164	1,170	1,117	1,132	1,166	3.7	3.0
PERSONAL SAVING RATE (percent of disposable income)	4.70	4.70	4.56	4.47	4.39	4.45	4.56	4.61	4.52	4.59	4.47	4.57	–	–

Note: All data are in billions of current dollars unless otherwise indicated.

Sources: Projections by Research Seminar in Quantitative Economics, University of Michigan; actual data from Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

in inflation from the current rate of about 4 percent up to the range of 5½-6 percent two years hence. Along the way, the automobile market is seen to enjoy a 2-year average sales rate of about 10½ million cars – compared with 9.1 million this year, 8 million in 1982, and 8½ million the year before that. Housing starts are expected to average about 1.8 million starts in the next two years, compared with 1.7 million this year and 1.1 million in each of the two preceding years. Over the next two years – measured from 1983:4 – consumer purchasing power is expected to grow at a 3 percent annual rate, productivity will have risen at an average annual rate of 2 percent, capacity utilization will be up to 87 percent, and the profit share in GNP will be up to about 9 percent. This is a lot of good news indeed, and it bears little resemblance to the economy of 1981-82.

But there is a disquieting side to all of this as well. There are some elements in the scenario which are uncomfortably reminiscent of conditions which existed – and in some cases, were created – in 1981-82. And there is a concern about whether our forecast is indicating that the expansion will have petered out by the end of 1985. If so, we will have gotten the civilian unemployment rate barely back to where it was when the recession hit in 1981, and only very briefly; and that hardly seems like real progress.

There are even more fundamental issues than whether GNP will turn down in late 1985 or early 1986. After all, many events – policy and otherwise – which we can hardly discern now will occur during the next two years, and some of these could easily reshape the 1985-86 outlook dramatically.

We should, of course, take seriously the message that currently perceived conditions imply the strong likelihood of a significantly reduced economic growth rate by mid-1985. That implies the need to watch events very closely and to make considered judgments about the proper course of macroeconomic policy. And it raises most directly the fundamental issues that must be addressed. There is nothing in our forecast scenario which takes care of the high interest rates which continue as a nagging part of the environment. Do we want the distribution of economic activity implied by a high interest rate environment? There is nothing in the scenario which involves solution to or a real amelioration of international financial strains—and that remains a continuing source of uncertainty plaguing the domestic monetary system and the domestic economy in general.

There is no automatic solution to the budget deficit problem in our forecast. The economic growth of the next two years reduces the budget deficit by a total of some $30 billion, and that is roughly comparable to what happened two or three years after the 1974-75 recession. But by that time we were dealing with a deficit of about one percent of GNP, not the 4 percent we are forecasting for 1985. And the situation could easily deteriorate after 1985 because of the increasingly large revenue losses caused by indexation of the personal tax system. If it's not feasible to put federal spending on a severely reduced growth path, the deficit problem—under current tax laws—may well be permanently with us. That has grave implications for the composition of economic benefits, the flexibility of monetary policy, and economic stability in general. It is not irrelevant that the present administration has engineered a fundamental imbalance in the federal budget. The money markets look ahead, and capital investment decisions are made on the basis of long-term expectations. We are ill-advised to support or continue with a set of economic policy decisions which have undesirable long-term consequences. Despite the shiboleths regarding what constitutes political wisdom in an election year, we can hardly afford to wait long before turning seriously to measures which will correct the fundamental imbalance in the structure of federal taxing and spending.

November 1983

Editor's Note: A Michigan Model forecast produced early in February was broadly consistent with the November forecast discussed above.

The Economic Outlook and Economic Policy*

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My perhaps parochial view is that the forecasts made by my University of Michigan colleagues—headed by Saul Hymans and doing business as the University of Michigan's Research Seminar in Quantitative Economics (RSQE)—are a good deal better than the average macroforecast. Indeed, their forecast a year ago hit the 1983 recovery just about on the nose. Their latest predictions and policy analyses were released in November at the 31st annual University of Michigan Conference on the Economic Outlook and are summarized elsewhere in this issue.

This forecast calls for growth in real GNP at a rate of 5.6% between the fourth quarters of 1983 and 1984, slowing to 3.2% real growth over the four quarters ending in 1985:4. It assumes that there will be no change in federal tax laws and that federal expenditures in the national income and product accounts (NIPA) will rise about 7% in fiscal 1984 and a further 8% in fiscal 1985, thereby producing NIPA deficits of $171 billion and $156 billion respectively in the two years. These budgetary forecasts are considerably more optimistic than most—undoubtedly reflecting some combination of higher real growth and lower interest rates than are implicit in most other forecasts. Even so, I think they are too low.

Federal Reserve policy is assumed by the RSQE forecasters to allow the monetary base to grow by 5% during both 1984 and 1985, and to hold the discount rate unchanged. On the basis of these fiscal and monetary policy assumptions, the resulting economic forecast produces a treasury bill rate that dips a bit early in 1984 but returns to 8.6% by the fourth quarter; it then rises to about 9¼% by the fourth quarter of 1985. The corporate Aaa interest rate is forecast to fall slowly but to remain close to 11½% during 1985.

Now, if we compare the RSQE forecasts of corporate Aaa interest rates for the fourth quarters of 1984 and 1985 with its forecasts of the GNP deflator, we derive implied forecasts of one version—even if not conceptually ideal—of a *real* corporate Aaa rate of about 7% in late 1984 and about 5% in late 1985. These are extremely high real interest rates! Defined in exactly the same way, real Aaa corporate rates averaged only 2.6% during the 1960s and only 1.9% during the 1970s.

To be sure, the similarly defined real Aaa rate in the third quarter of 1983 was about 8%, without preventing recovery in investment and GNP. Nevertheless, given these implied forecasts of remarkably high *real* interest rates continuing to face investors, I find it a bit surprising that real nonresidential fixed investment can be forecast in the Michigan Model to rise as much as 16.5% between the fourth quarters of 1983 and 1984, and another 9.1% during 1985.

*Adapted from comments prepared for a symposium at the annual meeting of the American Economic Association, San Fransisco, California, December 28, 1983.

That real business investment rises at all may, of course, be explained by accumulated technological innovation, by accelerator effects, and by swelling corporate profits, which are predicted to rise 60% over the next four quarters. On the other hand, real residential construction, forecast to rise 10.4% during 1984, is not expected to increase at all during 1985.

Crowding Out

These forecasts of rapidly declining gains in business and residential investment appear to involve "crowding out" with a vengeance. This, of course, is what a great many forecasters seem to be predicting, if something is not done about the huge federal deficits that are expected to continue. The common but least sophistacted version of the crowding-out story runs something like this. Financing massive federal deficits adds to the *total market demand for loans.* This increase in the demand for loans must raise interest rates (unless expansionary monetary policy prevents it). Soon, interest rates will rise sufficiently to choke off enough private investment so as to stabilize interest rates—but at levels of interest rates *far too high* for full employment, while producing levels of investment that provide far too little growth of potential output.

However, this common but unsophisticated version of crowding out is clearly unsatisfactory. For with the economy well below full employment, massive federal deficits involve a large and growing *public demand* for goods and services which is *not* offset by tax levies that more or less equivalently reduce the *private demand* for goods and services. The resulting higher level of total demand will increase GNP and personal and corporate income, thereby both raising private saving and reducing the federal deficits. The enlarged private saving can thus finance the remaining deficits. In short, so long as output can expand freely, no crowding out becomes necessary, in the sense of a demand for loans in excess of the supply of loans at the initial interest rate. To be sure, if the supply of money is unchanged and the demand for money rises to reflect increased transactions (as well as increased wealth), then interest rates will rise somewhat. However, monetary policy can accommodate such an increased demand for money with an increased supply, without necessarily having inflationary effects, other than those effects (if any) that are associated with an increased aggregate demand from any other source, such as increased *exports* or *private* investment. "True" crowding out should occur only at "high" or "full" employment.

In this preferred version of the story, we need not worry about crowding out until we are a lot closer to high employment than is forecast for the end of 1985. Of course, as we *approach* high employment—if we do—inflation might begin to reaccelerate. If so, we might well need to reduce federal deficits for *that* reason. But we need not act now. Indeed, for the near term it seems quite possible that large federal deficits, financed by selling bonds and bills, might even produce some "crowding *in*" of private investment—à la Benjamin Friedman's wealth and portfolio effects.

Why Worry about Deficits?

What, then, *is* the basis for worry about deficits? First of all, I see *no* reason to worry about the deficits now, nor during 1984. Rather, we should welcome them for their contribution to recovery. But I do worry about deficits of the size currently forecast if they should extend much beyond 1984. Why? *Not* because the financing of them would require the crowding out of investment as we bumped into a ceiling on output. But simply because, with fuller recovery from recession—say in 1985—the level of public plus private aggregate demand accompanying the large deficits may begin to push unemployment below the "NAIRU"—the non-accelerating-inflation rate of unemployment. Unless curbed by tighter monetary or fiscal policy, this would threaten a reacceleration of inflation. If demand is then curbed by monetary policy, as now seems likely (by default) to be the policy choice, it would generate even higher interest rates—and thus would come at the expense of investment and growth. In my view, this result can and should be avoided by phasing in higher tax rates—probably effective in 1985. We will surely need to do this if all of the massive defense-spending increases now planned are really unavoidable.

Like Martin Feldstein—and maybe even (who knows?) Ronald Reagan—I urge that such a tax increase be legislated in 1984, to become effective sometime in 1985. My personal preference in raising taxes would be first to eliminate tax indexation, to continue with the repeal of as much of the excessive corporate tax give-aways enacted in 1981 as can be achieved, and to conclude with the take-back of whatever part is necessary of the personal income tax cuts. I would not object to a shift to a well-considered and *clearly progressive* consumption tax; but under no circumstances should we enact federal excise or value-added taxes, which are, among other things, regressive and which, because they enter directly into prices, would immediately reignite inflation.

Monetary Policy

I see no need for monetary policy to tighten if fiscal policy is properly adjusted. It may seem unrealistic to assume that taxes can be raised in an election year. However, I once helped to get taxes raised in an election year, which may or may not have contributed to my party's candidate's losing that election. But, if tax increases are not enacted, and recovery proceeds apace, there will be severe pressures on the Fed to tighten as recovery proceeds in 1984 and 1985. In that event, I see little hope that recovery could remain robust or long continue.

It seems obvious to me that—for domestic political and social reasons, as well as to avoid potentially very serious international economic, social, and political problems—we need, and the world needs, a strong, healthy, and prolonged U.S. economic recovery and expansion. This will require judicious, flexible, and timely stabilization policy adjustments. Unfortunately, I very much doubt that either the present administration, the present ideological and social climate in America, or even the present tendencies in the economics profession are ready to initiate or to support such flexible policy adjustments.

In short, I am pessimistic about the current state of U.S. economic policy and about the prospects for constructive solutions to our problems. I fear that we are heading toward increased instability, further inappropriate microeconomic interventions in the name of macroeconomic health, reduced international cooperation, and more beggar-thy-neighbor competition in constraints on trade and payments.

It is not the best of times either for economics or for the economy.

The Return of Sustained Expansion?

Paul W. McCracken
Edmund Ezra Day University Professor of Business Administration
The University of Michigan

These are not easy times for economists who only feel comfortable when taking a pessimistic view about business prospects. And while the profession has never been the "dismal" lot that the poet Thomas Carlyle suggested in his famous dictum, there have been enough reasons to be concerned about the malfunctioning of the economy, and for long enough, so that optimism almost has the discomforts of a new pair of shoes. For uncomfortably close to a couple of decades, a dour interlude of history beginning about the mid-sixties, the American economy has exhibited varying degrees of sub-par operating characteristics. We had almost forgotten that historically the U.S. economy has operated with inflation at an average rate of 2 percent per year, an average unemployment rate of about 5 percent, and gains in real income and productivity of 2-2½ percent per year.

If performance is the measure of policy, the prize for the best strategy for economic policy in this century would probably have to be awarded to, surprising as it may seem, Calvin Coolidge. From 1922 to 1929 the unemployment rate averaged 3.7 percent, the consumer price index rose 0.3 percent per year, real income per person rose at the average annual rate of 3.1 percent, and—contemporary Republicans take notice—he reduced the national debt 26 percent.

Recent Cost-Price Improvement

While we are not yet ready to measure up to Silent Cal's awesome standards of economic performance, 1984 does inherit an impressive legacy from its predecessors. Indeed, two sets of evidence about our economic prospects argue persuasively for a quite optimistic view of the economic outlook. For one thing, the cost-price level has been displaying a remarkable degree of stability, relative to our history since the mid-1960s, even though production and employment have been rising strongly. This is a development of major significance. One of the exasperations of the 15 years from the mid-1960s to the end of the last decade was the relentless tendency for costs per unit of output to rise. During the 1970s annual increases in compensation per man hour rose persistently except for 1975 and 1976, and reached the double digit zone by 1980. If that rising trend had continued, increases in compensation per hour would have been in the 12 percent zone last year. The increase was actually 5 percent, a rate not seen since the mid-1960s; and with strong gains in productivity the increase in labor costs per unit of output last year was about one percent.

We saw last year, therefore, a stability in the price level not out of character with our history but also not seen for so long that we had almost forgotten about the longer-run stability in the purchasing power of the dollar. Prices of finished products at the producer level rose only 0.6 percent in 1983, and prices of consumer goods excluding food actually were somewhat lower than in 1982 (again at the producer level).

The important thing at this juncture is to see this sort of price-cost stability as fundamentally characteristic of the American economy's performance, not some sort of weird quirk that can never be expected to recur. The odd-ball chapter in our history was the long excursion into instability that got underway about 1966.

Good News about Purchasing and Capital Spending

The second set of encouraging evidence about our economic prospects is what the "fore-shadowing" indicators are saying. Economic forecasting, many suspect, involves observing the entrails of a dead goose, evaluating the nature of rings around the moon, and pondering the pattern of sun spots. Indicators of the economic future are not infallible, but they are not quite this astrological. Indeed, there is logic in the assumption that some of these indicators ought to lead movements in general economic activity. And what these have been saying is good news. In January, for example, the percent of purchasing executives reporting an increase in the volume of incoming business exceeded those reporting a reduction by 34 percent. This is a large net number, and it suggests for the months ahead further good gains in production and employment. And this is evidence to be taken seriously. It would be difficult to think of a group whose finger tips are more sensitively on the pulse of business than these members of the National Association of Purchasing Management.

Before 1984 was far along the Department of Commerce brought some good news about prospective outlays for plant and equipment. This has been a concern during the current expansion. For one thing a revival of these basic capital outlays has historically been the driving force carrying on a cyclical expansion after about the first year. (During the first year the revival of consumer demand and the cessation of further inventory liquidation usually carry the load.) Moreover, the financial stringencies experienced by many companies during recent years and the low operating rates many had reached by the end of 1982 raised the possibility that these basic capital outlays this time might be slow to revive. If so the economy might be stranded after the first stage of this expansion, with little to keep it going after 1983.

For those thus worried the Department of Commerce survey was surprisingly good news. After declines last year in all major segments of businesses, companies are projecting strong increases *in real terms* for 1984—for all businesses a projected increase of 9.4 percent (Table 1). Moreover, these data (based on survey responses from the companies themselves) provided little support for the grim view that firms in the manufacturing sector are engaged in the process of the de-industrialization of America. Manufacturers are projecting a rise in these outlays in real terms of 13 percent, and those in durable goods (hardest hit by both the 1981-82 recession and problems of foreign competition resulting from the over-valued dollar) are projecting a 16 percent rise. Such figures do not suggest that these firms see themselves evacuating their markets.

TABLE 1. Increase In Expenditures for New Plant and Equipment (In constant dollars; nonfarm businesses)

Type of Business	1982-83	1983-84
Manufacturing	−5.6%	13.0%
Durable goods	−7.8	15.9
Nondurable goods	−3.3	10.0
Nonmanufacturing	−2.3	7.4
Weighted Average	−3.5	9.4

Source: U.S. Department of Commerce.

Auto companies are projecting particularly large increases in their outlays to enlarge and renovate their production facilities. Indeed, theirs is the largest projected increase (34 percent in current dollars) of the major industrial lines, with companies making electrical machinery and fabricated metals also projecting strong gains. This is not a picture of going out of business—of de-industrialization.

Threats to Continued Expansion

After the euphoria of last year with its unexpectedly strong gains, and with the indicators pointing to strong further improvement in 1984, we must expect some nervous second thoughts to be coming along about prospects for the year ahead. Is this another case of where almost massively good news is blinding us to the fall that lies just ahead? The economy has, of course, been tackled from its blind side before, and it is not amiss for us to direct an occasional anxious glance behind us. The major threat to sustained economic expansion, as is almost always the case, is posed by economic policies themselves. One is the hemorrhaging U.S. external trade position, which gave us an overall trade deficit approaching $60 billion last year, and a particularly sharp swing from surplus to deficit in our trade in manufactured goods (Table 2). This in turn is primarily, though not entirely, the result of our large budget deficits that create foreign demand for dollars to take advantage of high interest rates here.

TABLE 2. U.S. Trade Surplus In Manufacturing Goods and the Index of the Dollar's Real Effective Exchange Rate (Dollar amounts in billions)

Year	Trade Surplus	Exchange Rate Index*
1979	$ 4.4	88.0
1980	18.8	89.5
1981	11.8	100.7
1982	−4.3	109.8
1983	−10.0	112.0

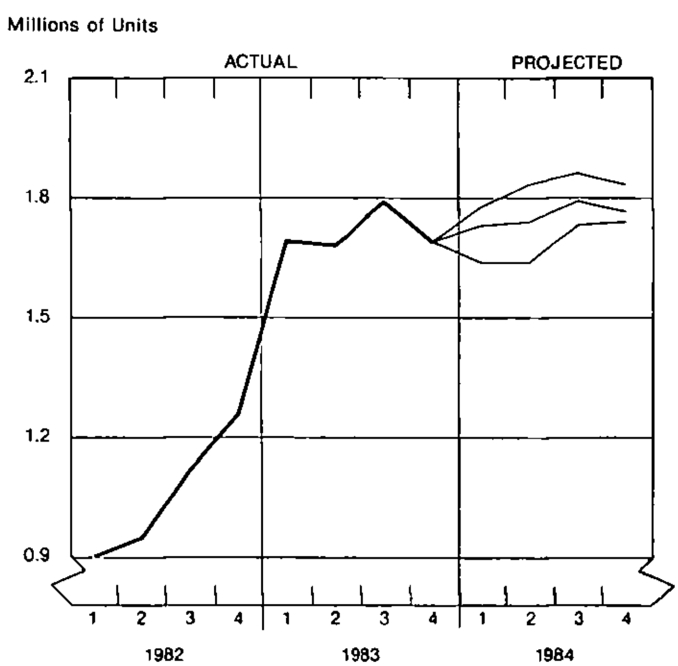
*1980-82 = 100.

Source: Trade data—Department of Commerce; Index of the dollar's real effective exchange rate—*World Financial Markets*, December 1983, p. 10.

We can live with these pressures through 1984, though with the probability of growing discomfort by year end. If by the forepart of 1985 the present political impasse can be resolved, the 1980s could see the inherent capability of the U.S. economy to operate with a reasonably stable price level and more sustained expansion reassert itself once again.

January 1984

NEW PRIVATE HOUSING UNITS STARTED



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.

Optimism Rides High Plateau

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Optimism Maintained at Record Levels

In the fourth quarter 1983 survey, the Index of Consumer Sentiment was 91.5, nearly identical to the 91.6 recorded in the third quarter of 1983 and the 91.5 recorded in the second quarter of 1983. Consumer optimism and confidence have not been as favorable for as long since 1972. The recent substantial improvement in consumer sentiment has broken the pattern of increasingly lower cyclical peaks that had been recorded since the all-time record level was set in 1965 (see the chart below). The recovery in consumer sentiment has been wide-ranging, covering attitudes toward personal finances, business, and market conditions; and the recovery in sentiment has been broadly based, occurring across all regions of the country and across all age and income subgroups. Although the overall level of consumer sentiment has remained unchanged during the past nine months, small offsetting trends have been recorded. Favorable expectations for future improvement paced the initial rise in optimism in early 1983 but have since receded slightly from their mid-year peak levels. Favorable evaluations of current economic conditions rose rapidly as the recovery period lengthened and reached peak levels in late 1983. This reflects a slowing in the expected pace of improvement in the economy as the recovery period lengthens. Overall, these small declines from peak levels do not detract from the otherwise very favorable levels of consumer attitudes and expectations.

Personal Finances Strengthen

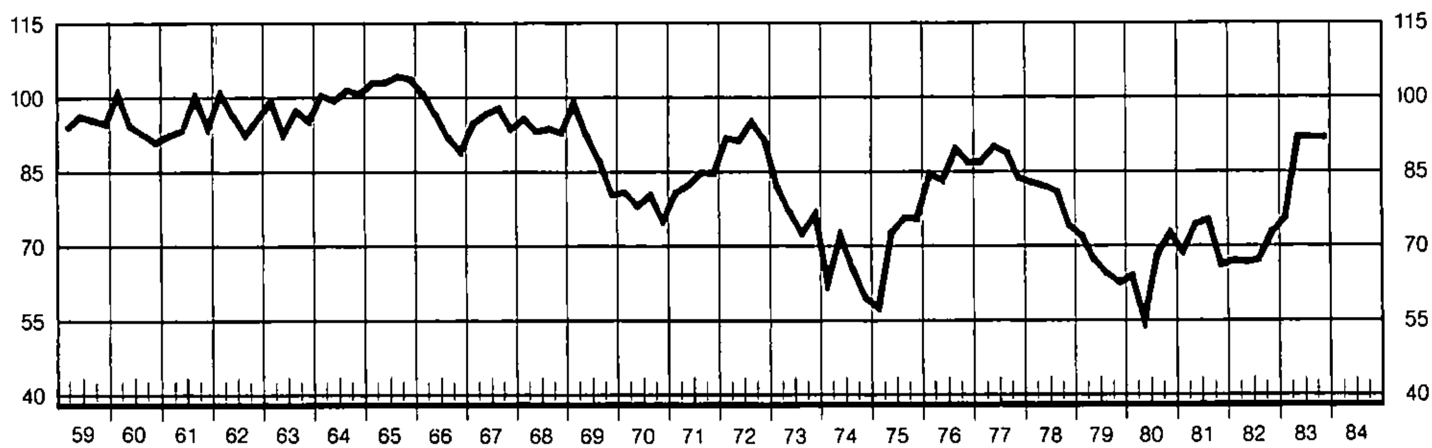
The personal financial situation of American families improved substantially during 1983, and at year end the proportion of families that reported favorable changes in their financial situation was the highest recorded since the 1972 peak. The fourth quarter 1983 survey marked the third consecutive quarter in which more families reported an improved rather than a worsened financial situation. This was in sharp contrast to the prior four years, when unfavorable evaluations of personal finances predominated. Among all families, 40 percent reported in the fourth quarter survey that their financial situation had improved, up from 31 percent one year earlier. In contrast, 27 percent of all families reported that their financial situation had worsened, down from 41 percent one year earlier.

The improvement in personal finances during the past year has been due to more favorable income and inflation trends. In the fourth quarter 1983 survey, 31 percent of all families reported increases in family income (up from 29 percent one year earlier), while 16 percent of all families reported income declines (down from 22 percent one year earlier). References to the unfavorable impact of inflation on family budgets were made by 17 percent in the fourth quarter 1983 survey, compared to 16 percent one quarter earlier (the lowest level recorded in a decade) and 25 percent one year earlier. Consumer complaints about inflation have declined substantially from four years earlier, when unfavorable references to inflation were made by 46 percent of all families. Combined, these improvements in family incomes and declines in inflation have led to the most favorable evaluations of real income progress recorded during the past decade. The majority of American families reported in the fourth quarter survey that increases in their family income had kept pace with or exceeded the rate of inflation during 1983.

By a wide margin, the 1983 fourth quarter survey showed that American families expected further improvements in their financial situation during the year ahead. Among all families, 37 percent expected their financial situation to improve during 1984, while just 11 percent expected a worsening financial situation. Compared with a year earlier, the 1983 fourth quarter survey recorded only a small increase

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



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

in the number of families that expected improvement in their financial sitation (37 percent, up from 35 percent), but fewer families expected financial reversals in the year ahead (11 percent, down from 16 percent). In explaining their prospects, fewer families in the fourth quarter survey expected their nominal income to decline during the year ahead than expected declines one year earlier (12 percent, down from 15 percent). The proportion of families in the fourth quarter survey that expected their income to increase during the year ahead was just above the year earlier reading (60 percent, up from 58 percent), but, overall, families expected smaller income increases: the proportion of families that expected increases of 10% or more fell from 28 to 23 percent, while families that expected income increases of 1-4% rose from 6 to 12 percent. The overall median income increase expected by families during 1984 was 3.9%, down from the 4.7% recorded one year earlier.

Recession: Over But Not Forgotten

The fourth quarter survey recorded the most favorable perceptions held by American consumers of recent improvements in the economy during the past 30 years. Among all families, 67 percent reported in the fourth quarter 1983 survey that the economy had improved during the past year, up from 63 percent in the third quarter and just 14 percent in the fourth quarter of 1982. Only 10 percent of all families in the fourth quarter 1983 survey expected the economy to worsen during 1984, while 45 percent expected continued improvement. Sixty-two percent of all families in the fourth quarter 1983 survey expected these improvements to lead to good times financially in the economy as a whole during 1984. This was virtually unchanged from the 60 percent recorded in the third quarter and the 61 percent recorded in the second quarter 1983 surveys.

Consumers have become more optimistic about the short-term outlook for the economy because of favorable trends in employment and inflation, as well as greater confidence in government economic policies. Thirty-five percent of all families in the fourth quarter 1983 survey expected unemployment to decline during 1984, nearly twice the 18 percent that expected unemployment to increase. An annual rate of inflation of 5.1% was expected in the fourth quarter 1983 survey, just below the 5.6% recorded one year earlier. While the overall mean expected inflation rate has remained largely unchanged during the past year, fewer consumers reported in the fourth quarter 1983 survey that they expected prices to remain unchanged or to decline (24 percent, down from 32 percent one year earlier). Among those families that expected price increases, the proportion that expected an inflation rate of 10% or more fell to 17 percent from 22 percent one year earlier, while the proportion that expected inflation rates in the 1-5% range rose to 43 percent from 30 percent. Confidence in government economic policies to combat inflation and unemployment improved substantially during 1983 and at year-end nearly gained the levels recorded when President Reagan entered office. Among all families, 27 percent favorably rated government economic policies in the fourth quarter 1983 survey, up from 20 percent one year earlier. Unfavorable ratings of government economic policies fell to 21 percent in the fourth quarter, from 32 percent one year earlier.

Longer-term prospects for the economy as a whole improved to favorable levels in early 1983 but since then have remained largely unchanged. During the last three quarters of 1983, the proportion of families that expected good times financially over the next five years remained in a narrow range of 38 to 39 percent. Unfavorable long term business expectations were reported by approximately the same proportion of families—38 to 40 percent. In the fourth quarter survey, the balance of opinion was unfavorable, with 39 percent expecting good times financially and 40 percent expecting bad times in the economy as a whole over the longer term. To be sure, these evaluations are greatly improved over the recession lowpoint and now stand nearly equal to the last cyclical peak recorded during the late 1970s. Compared with prior cyclical peaks, at least as many families reported favorable long-term business expectations (the 39 percent recorded in 1983 was the highest since 1969), but families more frequently expected unfavorable long-term developments (40 percent in 1983, compared with a low of 25 percent recorded in the 1970s). These results indicate that consumers are still unconvinced that the short-term improvements will lead to a long-lasting recovery. The repeated cycles of recession and recovery during the past decade have not been forgotten, even in the current mood of optimism.

Interest Rate Concerns

At this time, unfavorable interest rate expectations represent the primary factor associated with diminished prospects for a long lasting recovery. Interest rates were expected to increase during the year ahead by 37 percent of all families in the fourth quarter 1983 survey, somewhat below the 44 percent recorded in the third quarter but well above the 22 percent recorded one year earlier. Interest rate declines were expected by 22 percent of all families in the fourth quarter of 1983, just above the 19 percent recorded one quarter earlier but well below the 46 percent one year earlier.

Favorable Buying Attitudes

Attitudes about buying conditions for cars, houses, and large household durables all remained at very favorable levels in the fourth quarter 1983 survey. The majority of all families continued to rate buying conditions favorably in each market studied, although the proportions holding favorable attitudes have declined somewhat since mid-year.

Favorable buying attitudes toward large household durables were held by 63 percent of all families in the fourth quarter 1983 survey, just below the peak of 65 percent recorded one quarter earlier and well above the year-earlier reading of 48 percent. When asked to explain their views, 35 percent of all families in the fourth quarter 1983 survey mentioned the availability of lower prices and discounts on household durables, up from 30 percent one year earlier. The widespread appeal of lower prices and discounts on household durables has dominated consumer views about buying these household items to a greater extent during 1983 than at any other time during the prior 20 years.

The proportion of families holding favorable attitudes toward buying conditions for houses was 55 percent in the fourth quarter 1983 survey, down from the second quarter peak of 64 percent. The small decline since the second quarter has been due largely to fewer references to reduced mortgage interest rates—falling to 40 percent at year end from 57 percent in the second quarter. Complaints about high mortgage rates, in contrast, only rose to 28 percent by year end from the second quarter low of 23 percent. Perceptions of housing prices also remained on balance favorable in the fourth quarter survey, although by a narrower margin than earlier in 1983. References to the availability of lower housing prices fell to 19 percent in the fourth quarter of 1983 from the second quarter peak of 23 percent, while complaints about high housing prices only rose to 15 percent from the second quarter low of 13 percent.

Favorable car-buying attitudes were held by 58 percent of all families in the fourth quarter 1983 survey, down from the record peak of 65 percent in the second quarter 1983 survey. Although favorable car-buying attitudes have declined somewhat since mid-1983, in the fourth quarter 1983 survey they were still as favorable as they were at peak levels during the 1970s. Specific vehicle purchase intentions have increased substantially during the past year. Among all families, 17 percent reported in the fourth quarter 1983 survey that they expected to purchase a new vehicle during the next 12 months, an all-time record.

Fewer respondents have mentioned the availability of lower interest rates on car loans since mid-1983, falling from 40 to 20 percent by year end. Only a small increase in complaints about high interest rates was recorded, rising from a second quarter low of 8 percent to 9 percent by year end. Perceptions of vehicle prices also became somewhat less favorable. In the third quarter of 1983, the proportion of families mentioning high vehicle prices fell to a low of 18 percent (down from 30 percent in the third quarter 1982 survey). Accompanying the new model introductions, the proportion mentioning high prices rose to 24 percent by the fourth quarter of 1983 (just below the 25 percent recorded in the fourth quarter of 1982). At the same time, references to the availability of lower prices and rebates declined to 21 percent in the fourth quarter of 1983, from 31 percent one year earlier. As a result, for the first time in 1983, a unfavorable balance of opinion towards vehicle prices wa recorded in the fourth quarter survey.

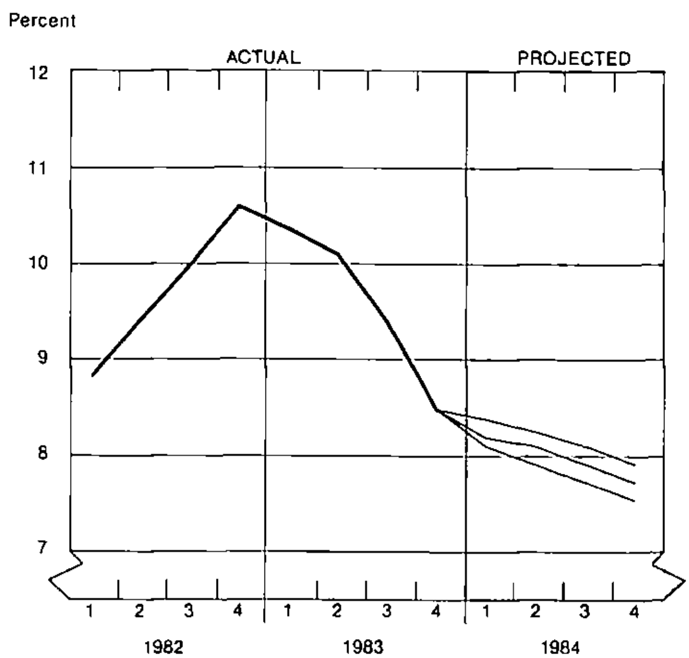
Summary Outlook

The recent overall trends in consumer attitudes and expectations can be summarized rather easily: consumer sentiment is now more favorable than at any other time during the prior decade. Following a rapid improvement in early 1983, a broad range of consumer attitudes and expectations have receded slightly from a mid-year peak. This reflects a slowing in the expected pace of improvement in the economy as the recovery period lengthens. Overall, these small declines from peak levels do not detract from the otherwise very favorable levels of consumer attitudes and expectations. The majority of consumers now expect improvement in their own financial situation as well as for the economy as a whole during the next year or so, but the majority do not expect these good times to persist uninterrupted into the longer term. Nonetheless, the rapid improvement in consumer optimism earlier in the year together with its subsequent maintenance at favorable levels point toward continued increases in sales of vehicles, houses, and large household durables in 1984.

The distinctive aspect of this recovery is that expected trends in inflation, coupled with more volatile and higher interest rate expectations, have begun to restructure consumer attitudes toward market buying conditions. During the 1970s, consumers found the most important source of variability in buying conditions to be changes in product prices, and they frequently adopted buy-in-advance rationales in response to expected price increases. This response predominated at that time because interest rates charged on consumer loans were largely unresponsive to changes in the expected rate of inflation. The "buy-in-advance psychology" which developed represented a significant restructuring of buing attitudes from the 1950s and early 1960s. Since 1980, consumers have viewed interest rates charged on consumer loans, rather than inflation, to be the most important source of expected variability in market buying conditions. This new "interest rate psychology" will determine the length and pace of the current recovery in consumer sales.

January 1984

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.

Results from the November NABE Survey

Richard E. Barfield
Survey Research Center
The University of Michigan

The seventh in the series of quarterly surveys of National Association of Business Economists (NABE) members was conducted this past November. Respondents were asked to forecast various economic series and to give their opinions about current economic policy matters.

Conditions in Company/Industry

Throughout the survey program, economists affiliated with a business firm have been asked about quarterly trends in various economic aspects of their own company or industry. Results from the November survey are displayed in Table 1 and seem generally consistent with the moderately vigorous economic expansion experienced during the three months preceding the survey:

- Demand was up in a substantial majority of the companies, and employment had been rising or stable for all but 15 percent.
- Inventories had been increasing in only about a third of the firms.
- Real capital outlays had been rising in about a third of the companies and falling in only about 10 percent.
- Profit margins had been going up in over half the firms, while prices had on the whole remained pretty stable during the period.
- Wages and salaries had been rising in slightly fewer than half of the firms and stable in slightly more than half, with virtually none reporting falling compensation.

As mentioned in previous reports, NABE respondents are classified according to their primary affiliation in six groups: manufacturing, nonbank finance, trade associations and others not elsewhere classifiable, government and academic, commercial banking, and consulting. Ordinarily, then, we would be able to discuss differences in the reports of respondents associated with different industries. However, the response rate for the November survey was lower than usual, producing fewer observations than desirable for the separate affiliation groups, and we will limit this discussion to the aggregate results. Most of the November responses about company and industry conditions came from economists affiliated with manufacturing and commercial banking.

TABLE 1. Trend in Various Economic Aspects of Respondent's Company or Industry During Three Months Prior to Interview

Economic Aspect	Rising	Same	Falling
Unit Volume of Demand	70%	28%	2%
Employment	36	49	15
Unit Volume of Inventories	35	42	23
Real Capital Outlays	33	56	11
Profit Margins	54	27	19
Prices Charged	20	69	11
Wage Rates & Salaries	44	52	3

Economic Forecasts

Table 2 displays the median values of forecasts made in November for selected economic series. Real GNP was expected to increase by slightly less than 5 percent from 1983:4 to 1984:4 (up a bit from the 4.6 percent forecast in the August 1983 survey) and by just above 5 percent for the full year 1984 as compared with 1983. Consumer prices were foreseen to increase by just about 5 percent fourth quarter to fourth quarter (the same as in August) and by the same amount year over year. Real fixed investment was forecast to increase by about 9 percent from 1983:4 to 1984:4 (up sharply from the 4.9 percent August estimate) and by slightly over 9 percent for all of 1984 compared with 1983.

The business economists predicted that the unemployment rate would average just about 9 percent for the fourth quarter of last year (down slightly from the 9.2 percent forecast in August), just about 8 percent in the fourth quarter of 1984, and about 8.3 percent for the year 1984. Given the dramatic unemployment rate declines in November and December, the NABE forecasters were obviously off the

TABLE 2. Forecasts of Selected Economic Series, November 1983

Series	Median Value
Annualized Percent Change:	
Real GNP	
1983:4-1984:4	4.88
Year 1983-Year 1984	5.05
Consumer Price Index	
1983:4-1984:4	5.05
Year 1983-Year 1984	5.02
Real Fixed Investment	
1983:4-1984:4	8.94
Year 1983-Year 1984	9.13
Percent:	
Unemployment Rate	
1983:4	8.96
1984:4	8.09
Year 1984	8.29
Prime Rate	
12/31/83	11.02
6/30/84	10.86
12/31/84	11.20
Millions of Units:	
New Private Housing Starts	
1983:4	1.66
1984:4	1.74
Year 1984	1.73
Automobile Sales	
1983:4	9.88
1984:4	10.31
Year 1984	10.04

mark for 1983:4 and will probably be somewhat high for this year as well. The prime rate was expected to be about 11 percent at the end of 1983 and slightly below that figure at mid-1984 (both figures quite close to the August prediction); it was seen to rise a bit by the end of 1984.

New private housing starts were expected to average about 1⅔ million units in 1983:4 and 1¾ million units both in 1984:4 and for the year as a whole (the fourth quarter estimates were quite close to those given in the August survey). Auto sales were expected to reach 9.9 million units in 1983:4 and to climb farther to 10.3 million in 1984:4, averaging about 10 million units for 1984 as a whole (the fourth quarter estimates were several hundred thousand units higher than the August ones).

Two new regional forecast questions were included in the November survey. Respondents were asked whether "the overall economic growth rate in your part of the country will be faster than, slower than, or about the same as the national rate during 1984" and whether "the unemployment rate in your part of the country will be higher than, lower than, or about the same as the national rate during 1984." Rather predictably, economists in the South and West foresaw higher economic growth and lower unemployment rates during 1984 compared with the nation as a whole. And those in the slow-to-recover North Central region were most pessimistic about growth and unemployment trends: 50 percent of economists in that region anticipated lower-than-average growth rates, compared with 20 percent from the other three regions combined, while 76 percent expected higher-than-average unemployment rates, compared with only 21 percent elsewhere.

Fiscal and Monetary Policy

As in previous surveys, the business economists were asked about recent fiscal and monetary policy. Trends over the past four surveys in their assessment of the appropriateness of fiscal and monetary policy are displayed in Table 3. While there was some quarter-to-quarter fluctuation during 1983 in opinion about fiscal policy, the basic consensus that policy has been too stimulative remained pretty stable during the year, with some 70-75 percent holding that view in each survey. Less than a quarter saw fiscal policy as about right, and less than a tenth believed it too restrictive during 1983. Compared with late 1982, opinion during the past year was somewhat less polarized, with fewer seeing fiscal policy as too stimulative or too restrictive and more finding it about right.

TABLE 3. Trends in Opinions about Fiscal and Monetary Policy, February 1983-November 1983

Opinion	February	May	August	November
Fiscal Policy:				
Too Stimulative	70%	73%	76%	73%
About Right	23	21	20	22
Too Restrictive	8	7	4	5
Monetary Policy:				
Too Stimulative	27%	26%	23%	3%
About Right	68	67	69	82
Too Restrictive	5	7	8	15

The questions were "What is your view about current fiscal policy—is it too stimulative, too restrictive, or about right?" and "What is your view about recent monetary policy actions—have they been too stimulative, too restrictive, or about right?"

Concerning recent monetary policy, the November survey indicated a shift in opinion. While about a quarter of the sample viewed monetary policy as too stimulative in February, May, and August last year, by November only about 3 percent said that monetary policy was too stimulative; and the proportion assessing it as too restrictive about doubled in November compared to the three earlier quarters. A new monetary policy question posed in November asked whether the U.S. and other major countries (France, the U.K., Japan, etc.) should coordinate their monetary policies "so as to reduce exchange rate fluctuations and lessen inflationary pressures." Opinion was split quite evenly, with about 45 percent favoring coordination and about 55 percent opposing it.

Other Issues

As in the August 1983 survey, the business economists were asked several questions about the international economy. When asked whether "in view of recent developments" international debt problems were more or less serious than before, 32 percent said more serious and 15 percent less serious, with the remainder taking the "about the same" position. This was a slightly more pessimistic viewpoint than that expressed in August, but when asked if they expected a major debtor country to default in the next 6 months, only about 15 percent said yes. The final question in this area—again repeated from August—asked for the change expected in the international value of the dollar, "calculated on a trade-weighted basis," between the survey date and the end of the year. One-eighth expected an increase, about three-fifths expected a decrease, and about one-quarter believed there would be no change, all of which represented a substantial shift from August to November toward an expectation that the dollar's value would decline. In fact the dollar remained quite strong relative to other currencies through the end of 1983.

Finally, NABE members were asked "in which year do you expect the peak of the current [business] cycle to occur?" Answers are displayed in Table 4; since the reader may be interested, they are distributed by the primary affiliation categories even though cell sizes are undesirably small for some groups. Overall, the modal year expected to mark the end of the current expansion turned out to be 1985, with about a fifth of the business economists seeing an even earlier end. Hardly anyone in the sample (only 5 percent) expected the current expansion to last beyond 1986, which would make it somewhat shorter than the average postwar business cycle expansion.

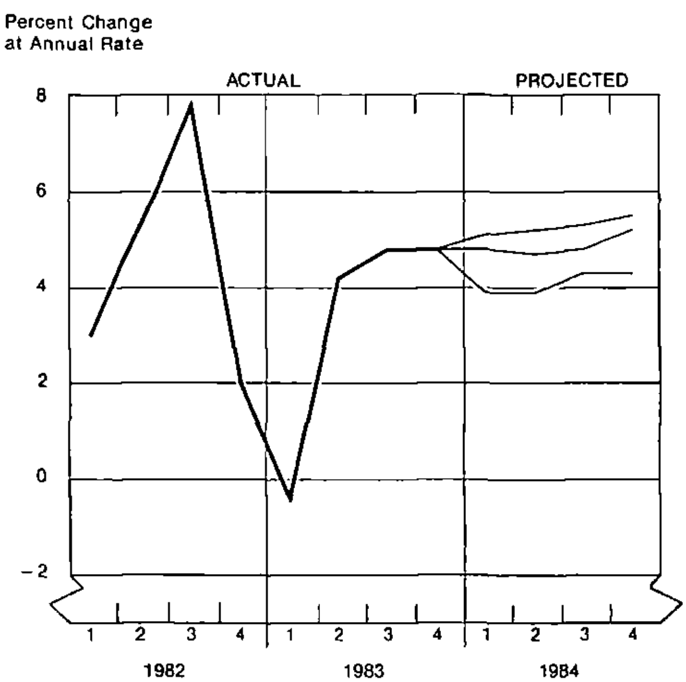
Errata: Because of a misunderstanding, our composing and printing firm changed the time span on several charts in the Autumn 1983 issue from 1958-83 (correct) to 1959-84. The affected charts are the one displaying the Index of Consumer Sentiment on page 78 and all charts on pages 93-95. In all cases the initial year should have been 1958 and the concluding year 1983. The shaded areas (screens) for the two charts on page 90 were also placed incorrectly. They should have covered the projected data quarters 1983:4-1984:3, just as the screens properly do for the charts on pages 74 and 77. We regret these errors and any puzzlement they may have caused our readers.

TABLE 4. Expected Year for Peak of Current Business Cycle by Primary Affiliation of Business Economists

Response Category	Primary Affiliation Group Manu-facturing	Nonbank Finance	Trade Associations & "Other"	Government & Academic	Commercial Banking	Consulting	All Groups
1984 or Earlier	18%	10%	28%	28%	16%	17%	20%
1985	55	50	52	61	50	48	53
1986	22	40	12	11	22	35	22
1987 or Later	4	0	8	0	12	0	5

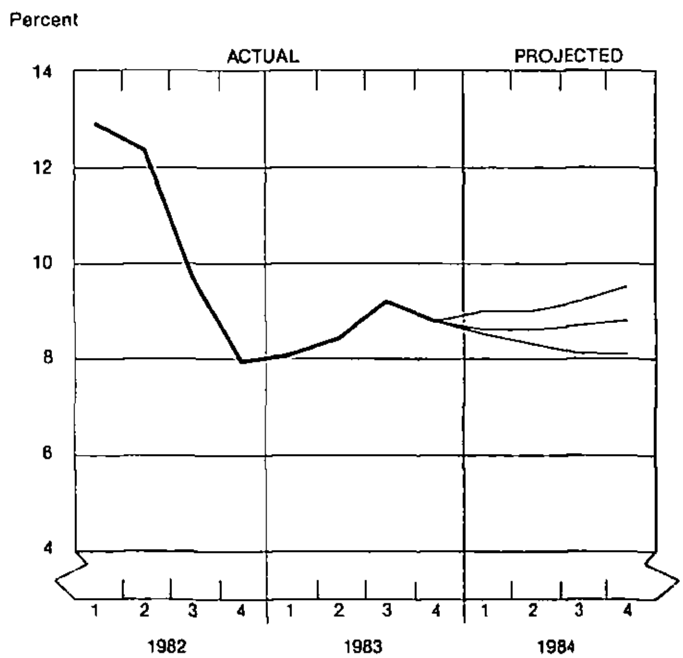
The question was "Most economists agree that the business cycle is still very much with us. Assuming that's the case, in what year do you expect the peak of the current cycle to occur?"

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

90-DAY 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.

Actual and Projected Economic Indicators

seasonally adjusted

SERIES FORECAST BY THE ASA-NBER PANEL

ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	Actual							Projected					Actual		Proj.
	1982:2	1982:3	1982:4	1983:1	1983:2	1983:3	1983:4	1983:4	1984:1	1984:2	1984:3	1984:4	1982	1983	1984
GROSS NATIONAL PRODUCT	3,070	3,091	3,110	3,172	3,272	3,362	3,432	3,447	3,525	3,603	3,687	3,770	3,073	3,309	3,649
GNP IMPLICIT PRICE DEFLATOR (index, 1972 = 100)	206.1	208.0	210.0	212.8	214.6	216.4	218.5	218.7	221.7	224.7	227.7	230.6	206.9	215.6	226.0
CORPORATE PROFITS AFTER TAXES	117.4	116.5	113.5	108.2	127.2	144.1	NA	149.7	155.0	161.0	167.0	172.2	115.1	NA	164.0
UNEMPLOYMENT RATE (percent)	9.43	10.00	10.60	10.37	10.10	9.40	8.47	8.90	8.60	8.50	8.30	8.10	9.72	9.58	8.30
INDUSTRIAL PRODUCTION (index, 1967 = 100)	139.4	138.2	135.3	138.5	144.5	151.8	156.0	156.0	158.0	160.1	162.7	164.2	138.6	147.7	161.4
NEW PRIVATE HOUSING UNITS STARTED (millions)	0.950	1.122	1.261	1.694	1.683	1.791	1.692	1.650	1.690	1.700	1.750	1.725	1.059	1.715	1.720
CONSUMER PRICE INDEX (% change from prior quarter or year)	5.3	7.8	2.0	−0.4	4.2	4.8	4.8	5.0	5.0	4.9	5.0	5.4	6.2	3.2	5.0
3-MONTH TREASURY BILL RATE (%)	12.36	9.71	7.94	8.08	8.42	9.19	8.79	8.80	8.60	8.60	8.70	8.80	10.72	8.62	8.80
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	15.65	14.72	12.22	11.99	11.57	12.68	NA	12.38	12.03	12.00	12.00	11.90	14.68	NA	12.00
GNP IN 1972 DOLLARS	1,489	1,486	1,481	1,490	1,525	1,553	1,571	1,575	1,592	1,609	1,627	1,643	1,485	1,535	1,616
PERSONAL CONSUMPTION EXPENDITURES (1972 $)	969	971	980	987	1,011	1,016	1,032	1,031	1,041	1,049	1,058	1,068	970	1,011	1,054
NONRESIDENTIAL FIXED INVESTMENT (1972 $)	167.1	163.3	160.5	159.9	163.0	170.1	178.9	173.0	175.4	179.0	182.0	184.9	166.1	168.0	180.1
RESIDENTIAL FIXED INVESTMENT (1972 $)	37.8	36.5	40.6	45.5	52.6	56.8	56.1	57.0	57.0	58.0	59.0	60.0	37.8	52.8	58.5
CHANGE IN BUSINESS INVENTORIES (1972 $)	−3.4	−1.3	−22.7	−15.4	−5.4	3.8	7.5	9.7	9.6	12.0	12.0	13.1	−9.4	−2.4	11.7
NET EXPORTS (1972 $)	33.4	24.0	23.0	20.5	12.3	11.4	2.5	7.0	6.0	6.4	6.0	6.8	28.9	11.7	6.2
FEDERAL GOVERNMENT PURCHASES (1972 $)	110.3	116.9	124.4	118.4	117.6	118.9	116.9	120.0	122.0	124.0	126.0	127.5	116.5	118.0	125.0
STATE AND LOCAL GOVERNMENT PURCHASES (1972 $)	175.4	175.3	175.2	174.5	174.5	176.3	176.3	178.0	179.0	180.0	180.8	182.0	175.2	175.4	180.0

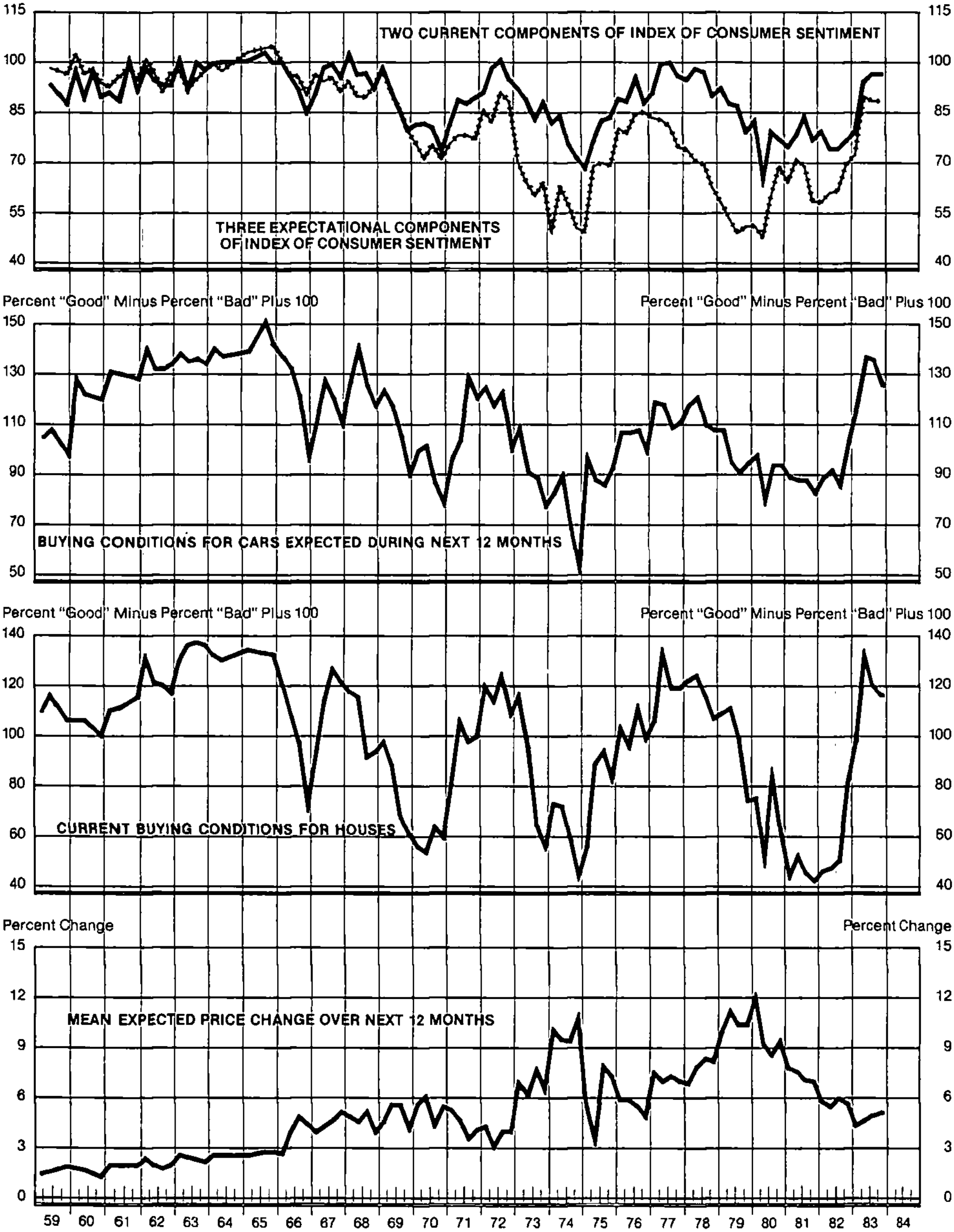
SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS

ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	1981:1	1981:2	1981:3	1981:4	1982:1	1982:2	1982:3	1982:4	1983:1	1983:2	1983:3	1983:4	1981	1982	1983
GROSS NATIONAL PRODUCT	2,867	2,913	3,005	3,032	3,021	3,070	3,091	3,110	3,172	3,272	3,362	3,432	2,954	3,073	3,309
PERSONAL CONSUMPTION EXPENDITURES	1,803	1,836	1,886	1,904	1,939	1,973	2,009	2,047	2,073	2,147	2,181	2,233	1,857	1,992	2,159
GROSS PRIVATE DOMESTIC INVESTMENT	455.5	472.1	495.8	476.2	422.9	432.5	425.3	377.4	404.1	450.1	501.1	529.8	474.9	414.5	471.3
NET EXPORTS	31.9	21.1	22.8	29.2	29.9	33.3	0.9	5.6	17.0	−8.5	−18.3	−32.6	26.3	17.4	−10.6
GOVERNMENT PURCHASES	576.3	583.5	600.3	622.8	629.8	631.6	655.7	679.7	677.4	683.4	698.3	701.7	595.7	649.2	690.2
DISPOSABLE PERSONAL INCOME	1,968	2,010	2,092	2,121	2,128	2,159	2,192	2,228	2,256	2,301	2,362	2,424	2,048	2,177	2,336
PERSONAL SAVING RATE (% of disposable income)	5.7	6.0	7.2	7.5	6.1	5.9	5.6	5.4	5.4	4.0	4.9	5.1	6.6	5.8	4.9

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 January, and projected data, released by ASA-NBER in December, are displayed for fourth quarter 1983.

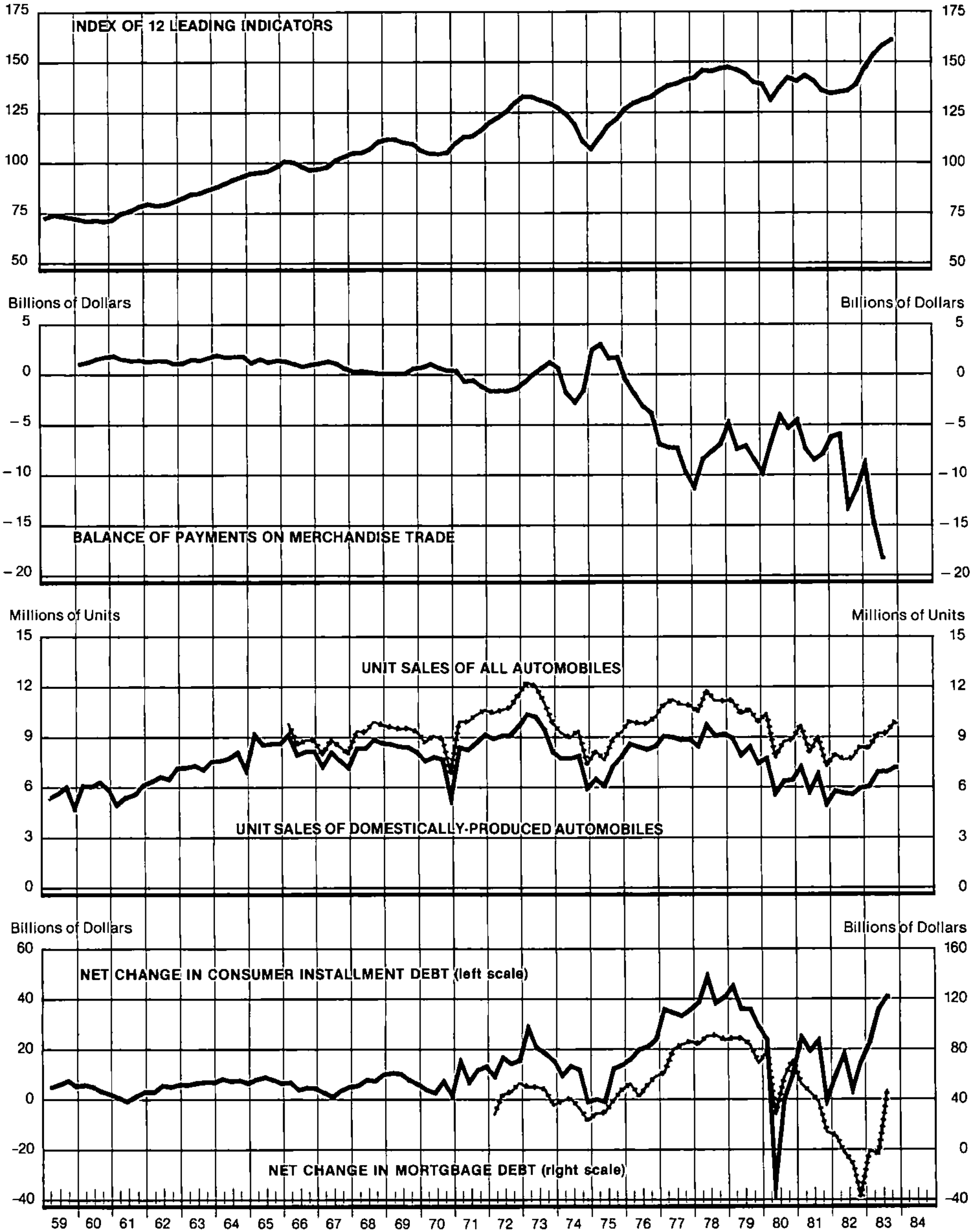
Sources: Projections: American Statistical Association—National Bureau of Economic Research panel of forecasters.
Actual Data: U.S. Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

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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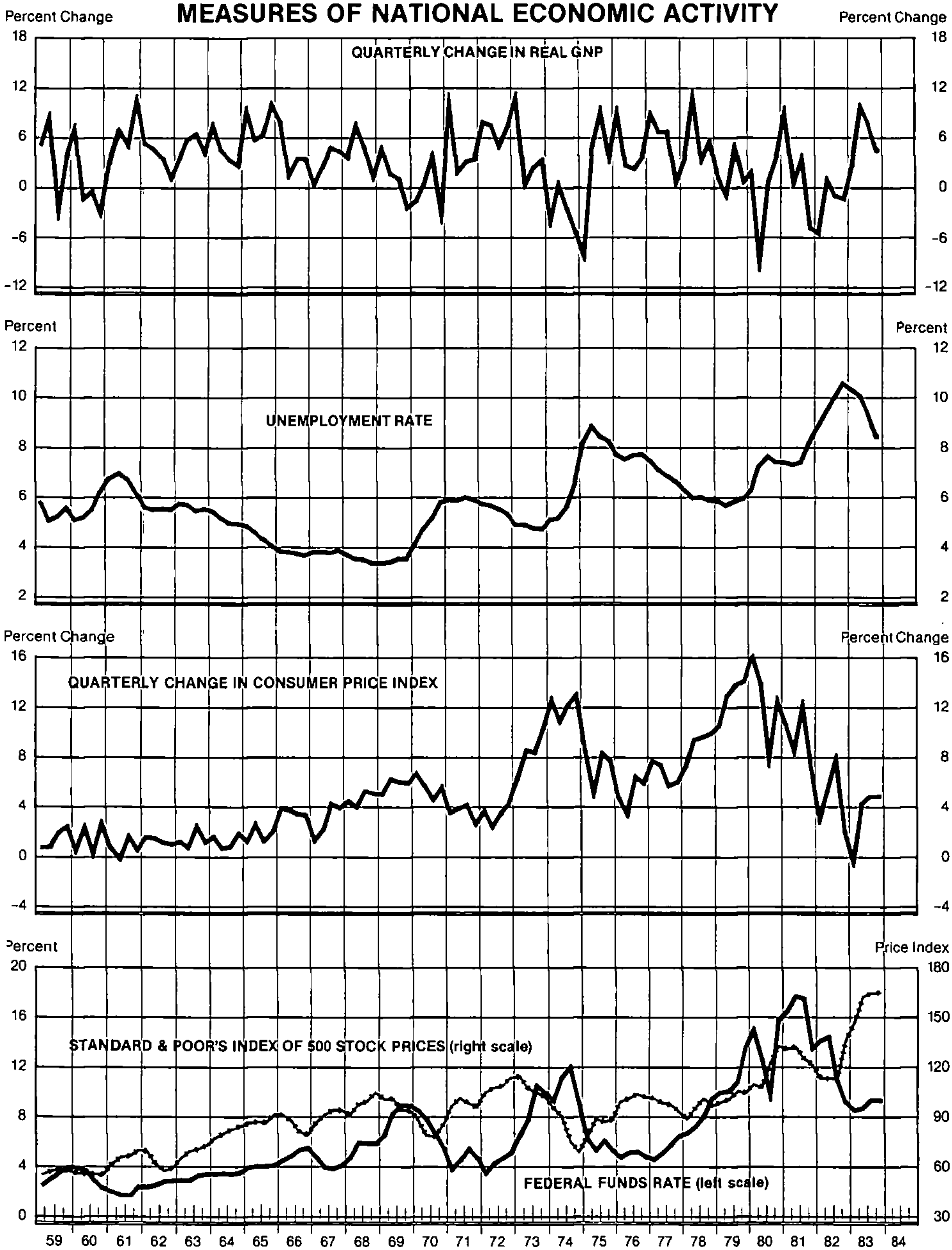
MEASURES OF NATIONAL ECONOMIC ACTIVITY



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Sheds new light on welfare use and family economics in America...

Years of
POVERTY
Years of
PLENTY

The Changing Economic Fortunes of American Workers and Families

Greg J. Duncan

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The results and conclusions from these unique data have important implications for social science theory and for the social and economic policies that are based on that theory.

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