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EDITOR'S NOTE:

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

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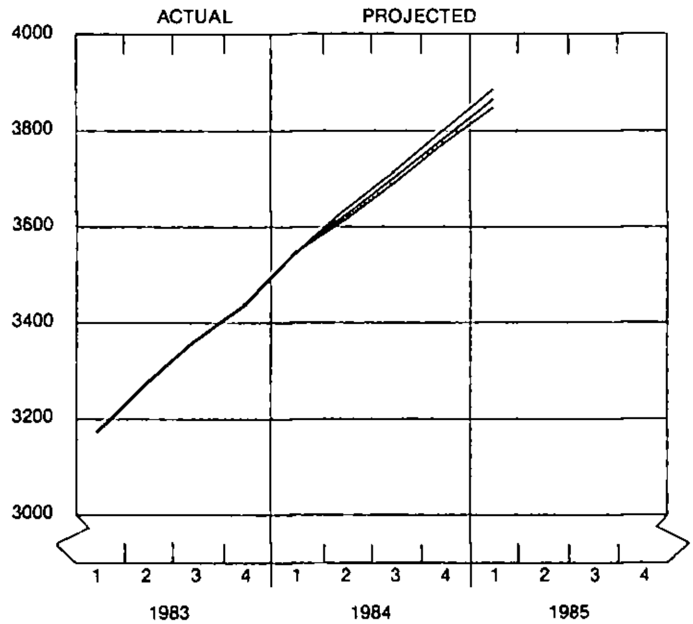
ECONOMIC PROSPECTS: Actual and projected seasonally adjusted quarterly data at annual rates.

GROSS NATIONAL PRODUCT

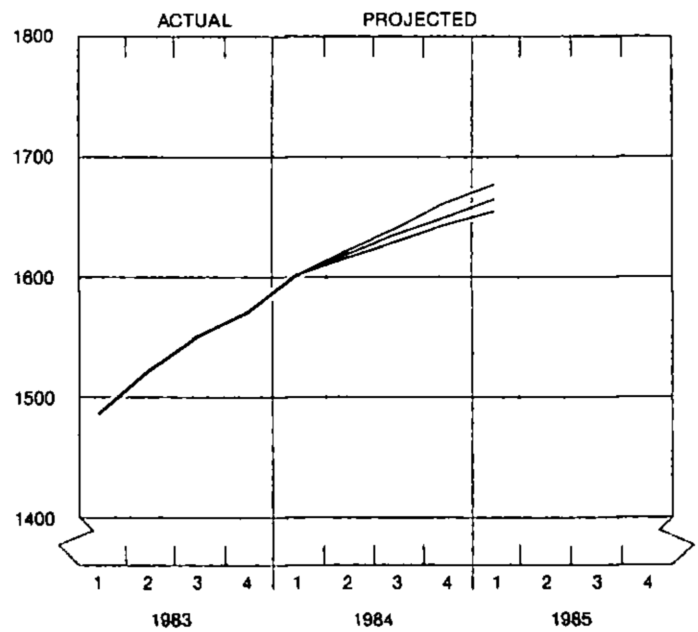
IN CURRENT DOLLARS
Billions of Dollars



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



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.

How Healthy and Durable Is the Current Expansion?

Victor Zarnowitz
Professor of Economics and Finance
The University of Chicago

The Recession and Disinflation of 1980-82

In 1980-82 the U.S. economy suffered two recessions separated by an aborted recovery. There was no net growth in total real output over these three years, industrial production declined substantially, and unemployment soared from 6 percent to nearly 11 percent of the labor force. The cyclical movements in credit flows and interest rates were very sharp. The monetary growth rates fluctuated in a highly volatile manner. Inflation rates fell unevenly but strongly, from double-digit levels in 1980 to less than 3 percent late in 1982. Interest rates, too, dropped eventually in the course of the 1981-82 recession. However, the declines in interest rates tended to be considerably smaller in relative terms than the declines in inflation rates.

The disinflation of 1980-82, like that of 1974-75, was largely unanticipated, that is, heavily underpredicted at the time. As the recession proved longer and more severe than expected, however, nominal wage demands greatly moderated, and there were even some widely publicized "givebacks" in labor contracts. Yet changes in real compensation of employees in the nonfarm business sector, which tended to be negative since 1978, turned predominantly positive during the 1981-82 contraction. Labor costs per unit of output definitely decelerated in 1982 before actually declining during the recovery of 1983.

Financial costs were greatly reduced as well. Growth of manufacturing and trade inventories was halted, then reversed. Expenditures on new plant and equipment contracted with the usual lags behind new appropriations and orders. Interest rates on business loans from banks fell rapidly on the average from the vicinity of 20 to that of 10 percent.

All this helped business concerns to "reliquefy," that is, gradually restore strength to their balance sheets by cutting back on loans, reducing outstanding liabilities, and improving the quality of their assets. In the meantime, the leading indicators began to predict the upturn in general economic activity. The earliest maintained signals came from the deflated monetary aggregates, new housing starts and permits, change in sensitive materials prices, vendor performance (slowing of deliveries), and change in stocks of materials and supplies on hand and on order, roughly in this sequence. The upturn in the composite index of leading indicators preceded the business cycle trough by 8 months, the longest lead in the post-World War II period, but it was a moderate and gradual movement which at the time many disregarded or disbelieved. However, the sharp rise in the stock market in the late summer and fall of 1982 confirmed the nearness of the business cycle trough, which was later dated November by the National Bureau of Economic Research. Soon consumer sentiment and purchases of durable goods began visibly to improve and add to the gathering forces of recovery.

Aggregate demand and supply interacted as usual. Increased price-cost ratios, profit margins, and cash flows paved the way to a recovery in this recession as they did in so many previous ones.

Private-Sector Behavior and Public-Policy Concerns

It is important to recall these developments leading to the current business expansion in order to recognize that the observed changes originated in large part from the working of the economy itself rather than the fiscal and monetary policy actions which typically attract most of the public attention. To be sure, the Federal Reserve permitted the monetary aggregates (M1 and M2) to increase substantially late in 1982 and early in 1983, which helped the upturn. Inflation stayed low at the time and real money balances rose strongly (their growth decelerated later in 1983). But the velocity of money (or income-to-money-supply ratios) had surprisingly large declines throughout the 1981-82 recession and flattened only in 1983 when interest rates stopped falling. It is for good reasons that the role of changes in the demand for money and of the credit flows has received a great deal of new analytical interest in this period, coinciding also with the deregulation of and major innovations in the financial sphere.

Having strongly underestimated the 1982 disinflation and contraction a year before, many forecasters similarly underestimated the 1982 recovery as it began to unfold, on the ground that monetary policy had been too tight for too long and that high real interest rates would prevent a vigorous upswing. Large errors of underprediction of cyclical movements in both 1982 and 1983 were made by some Keynesian and monetarist economists alike.

Despite an intense public scrutiny of fiscal policy, its macroeconomic implications were long overstated or misunderstood. In constant dollars, the rise of federal government purchases of goods and services during 1981-82 was largely offset by the weakness of state and local government purchases. Tax cuts did not become effective overall before 1983.

The high domestic interest rates and political unrest and uncertainties abroad combined to cause large inflows of foreign capital. This external demand for U. S. securities has helped to finance our fiscal deficits since 1980, but the resulting strength of the dollar has contributed strongly to the persistent erosion in real terms of net U. S. exports of goods and services. Although this was not an unanticipated development, its duration and magnitude were widely underpredicted.

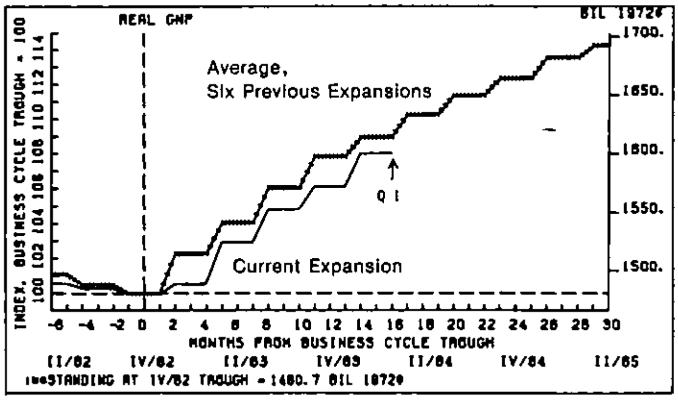
The Recovery and Expansion of 1983-84

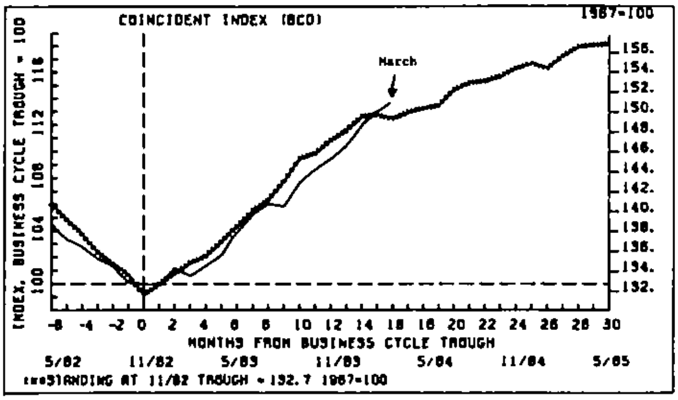
The upward movement in total employment and output which started in the last quarter of 1982 refused to conform to the pessimistic forecasts and did not turn out to be weak at all. In the five quarters recorded so far since the trough, virtually all indicators of macroeconomic performance have improved greatly. Real GNP—total output of goods and services—gained some 120 billion of 1972 dollars or 8 percent. Total civilian employment rose from 99 to about 104 billion persons or 5 percent. The rate of unemployment fell below 8 percent of the labor force. Output of factories, mines, and utilities rose 19 percent and its durable-manufactures component 26 percent. Capacity utilization in manufacturing increased from less than 70 to about 80 percent.

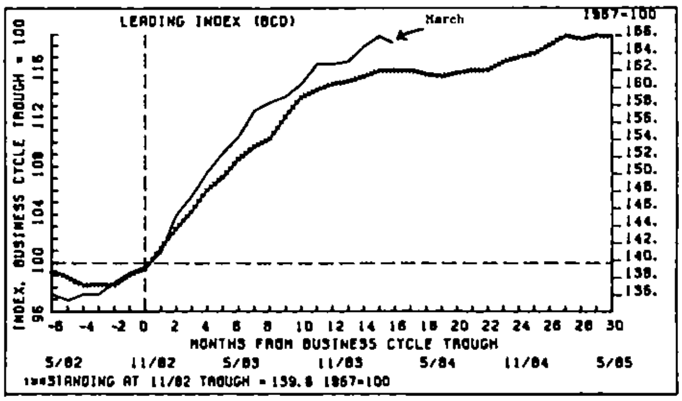
In fact, quarterly real GNP and the monthly index of coincident indicators as well as its several components have followed closely the average path of six previous post-World War II expansions, as shown by the accompanying charts.[1] For these and some related series (nonfarm employment, real personal income) the current-cycle patterns run parallel to but a little below the average-cycle patterns. Industrial production would have been almost perfectly predicted by the simple device of averaging the movements of the series over the corresponding interval of the earlier business cycles. For the index of leading indicators the parallelism is likewise close, but here the current curve is positioned a few index points above the historical averages. This reflects the movements of some leading series such as housing starts and materials prices. For some other leaders—contracts and orders for plant and equipment, change in inventories, stock prices—the patterns overlap and cross.

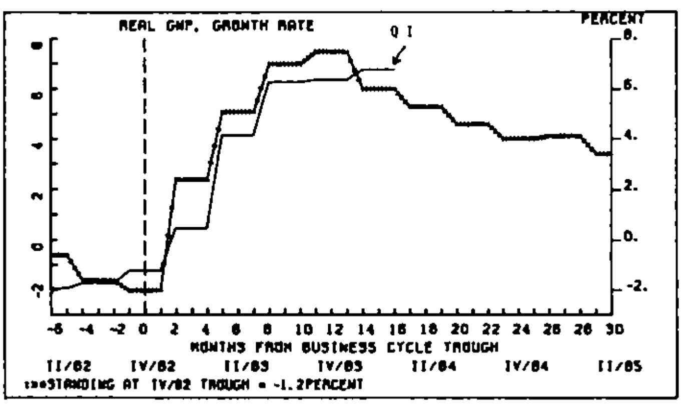
In comparisons involving percentages or ratios—growth rates of output, prices, money, and debt; the unemployment rate; inventory/sales ratio—the figures plotted are data proper rather than deviations from trough standings. Here the patterns are often closely correlated but very different in levels as in the case of unemployment, which has fallen somewhat faster than the average but from a very high peak. The decline in inventories relative to sales has been particularly large. Corporate profit margins have risen more than usual, but their level is still below the average. However, the growth rates of total real GNP in 1983-84 have been very close to the historical track.

The monetary growth rates increased sharply in the year centered on the business cycle trough but have fallen strongly since then. Their course lies well above the average. The pattern for the growth in federal debt is similar, only still more elevated. For business and consumers, the picture is just the reverse: a decline in the debt growth during the year around the trough, a steep upswing afterwards. When the public and private debts are combined, a procyclical pattern of growth emerges that is fairly similar to the average path but higher and steeper in recent months. The current curves for interest rates are way above their historical counterparts, of course. Disquietingly, inflation in terms of CPI has moved up at a faster than average pace in the last year, and so has a composite of several series that historically tended to anticipate inflation.[2]



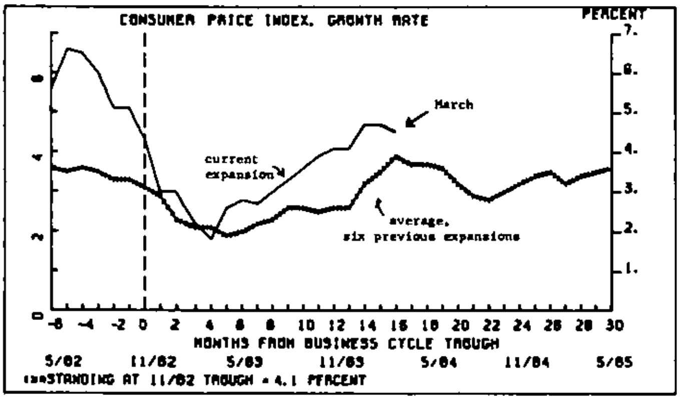


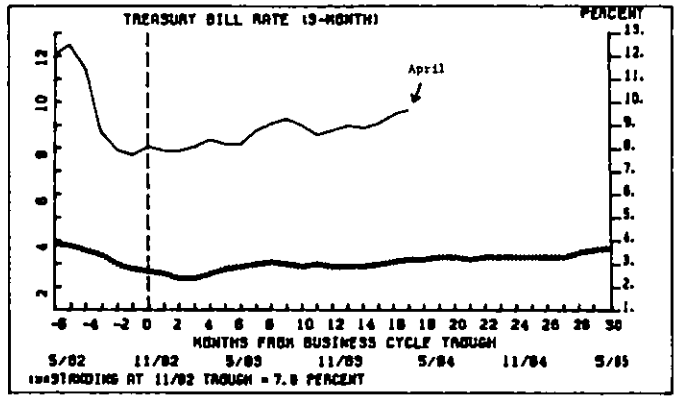


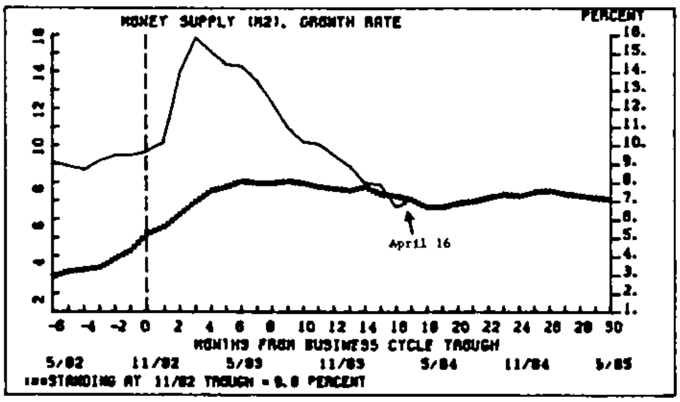


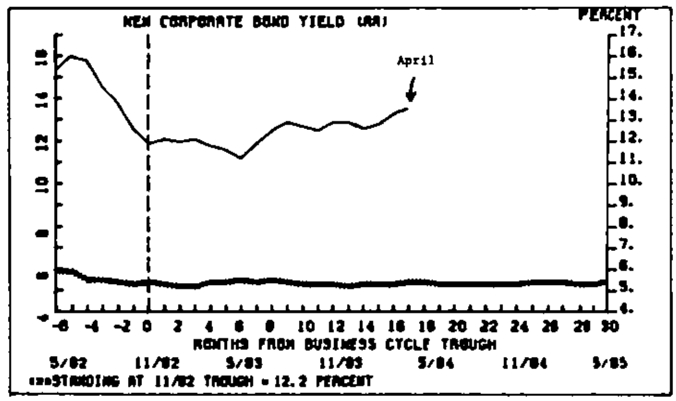
[1]The six expansions are 1949-54, 1954-57, 1958-60, 1961-69, 1970-73, and 1975-80. The 1980-81 recovery, which lasted 12 months only and was atypically weak, is not included in the average patterns. The figures shown for the levels represent indexes with the three-month average centered on the initial business cycle trough equal to 100. For the underlying data, see *Business Conditions Digest* (BCD), a monthly report of the U. S. Department of Commerce, Bureau of Economic Analysis. The charts are updated and reproduced by permission from *Recession-Recovery Watch*, a bimonthly report published by the Center for International Business Cycle Research (CIBCR), Columbia Business School, Columbia University, New York.

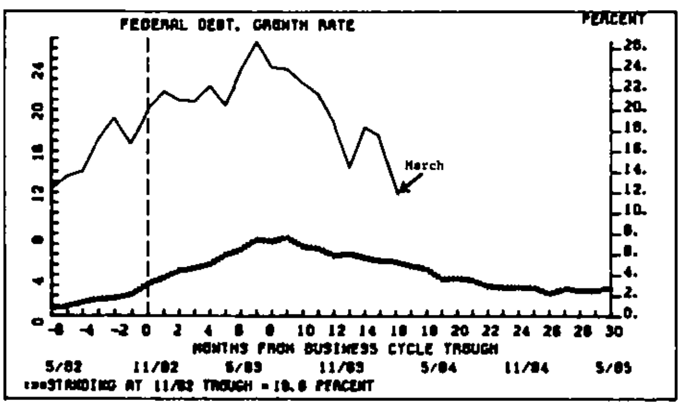
[2]The growth rates in the charts are six-month (or two-quarter) smoothed rates obtained by dividing the current month's (quarter's) value by the average for the 12 preceding months (or 4 quarters), and expressing the result as a compound annual rate. The leading index of inflation computed by CIBCR, Columbia University, is a composite of the annual rates of change in industrial materials prices and in total debt outstanding and the ratio of civilian employment to total population of working age.

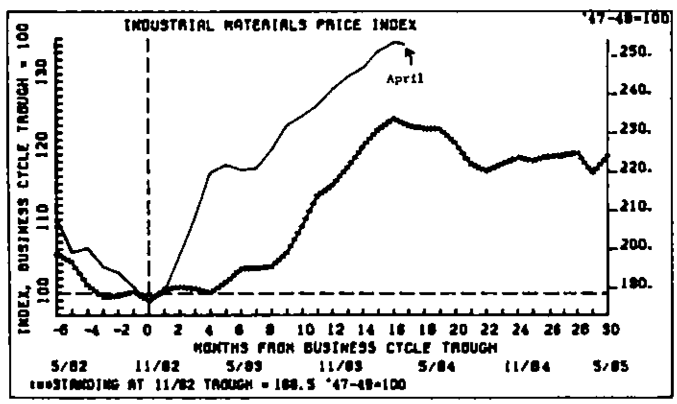

CONSUMER PRICE INDEX, GROWTH RATE
PERCENT
March
current expansion
average, six previous expansions
MONTHS FROM BUSINESS CYCLE TROUGH
**STANDING AT 11/82 TROUGH = 4.1 PERCENT

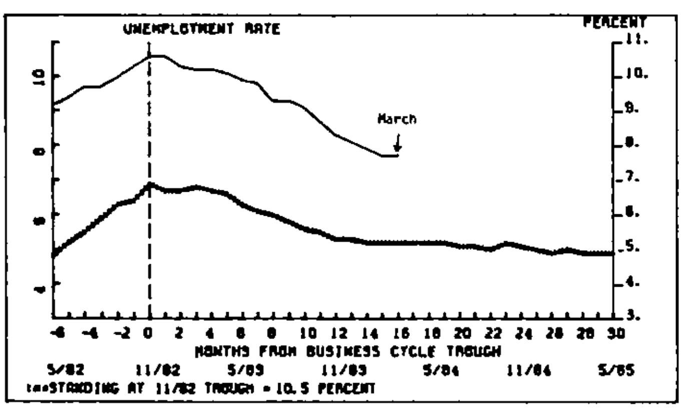

TREASURY BILL RATE (3-MONTH)
PERCENT
April
MONTHS FROM BUSINESS CYCLE TROUGH
**STANDING AT 11/82 TROUGH = 7.8 PERCENT

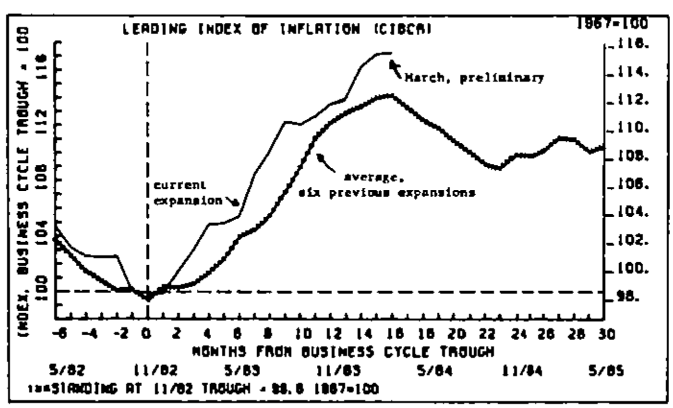

MONEY SUPPLY (M2), GROWTH RATE
PERCENT
April 16
MONTHS FROM BUSINESS CYCLE TROUGH


NEW CORPORATE BOND YIELD (AA)
PERCENT
April
MONTHS FROM BUSINESS CYCLE TROUGH
**STANDING AT 11/82 TROUGH = 12.2 PERCENT


FEDERAL DEBT, GROWTH RATE
PERCENT
March
MONTHS FROM BUSINESS CYCLE TROUGH


INDUSTRIAL MATERIALS PRICE INDEX
'47-49=100
INDEX, BUSINESS CYCLE TROUGH = 100
April
MONTHS FROM BUSINESS CYCLE TROUGH


UNEMPLOYMENT RATE
PERCENT
March
MONTHS FROM BUSINESS CYCLE TROUGH
**STANDING AT 11/82 TROUGH = 10.5 PERCENT


LEADING INDEX OF INFLATION (CIBCR)
1967=100
INDEX, BUSINESS CYCLE TROUGH = 100
March, preliminary
current expansion
average, six previous expansions
MONTHS FROM BUSINESS CYCLE TROUGH

In sum, the record shows that the current expansion in employment and output has been about average: neither too weak nor too strong and hence much less vulnerable than many had feared. The evidence from leading indicators is generally consistent with the projection that the expansion will continue at a pace close to or somewhat higher than the average. However, early warnings concerning a possible renewal of serious inflationary pressures begin to emerge. There are dangers both in ignoring such warnings if they continue and in overreacting to them.

Reviewing the Forecasts

The predominant view among forecasters is that the economy will continue expanding at least through mid-1985, although at rates averaging considerably lower than those observed hitherto. This is supported, for example, by the median predictions from the February survey of the American Statistical Association and the National Bureau of Economic Research as well as by many other private and public forecasts issued in the first quarter of this year. The evidence from the average historical patterns is consistent with such expectations. Indeed, few of those who circulate numerical forecasts for 1985 and 1986 (the major econometric service bureaus, some corporate economists) seem prepared to go on record in saying that another recession will take place during this longer period. Yet a broad survey asking the question directly in November 1983 found that 20 percent of the responding members of the National Association of Business Economists thought it likely that the "peak of the current cycle" will occur in 1984, 53 percent in 1985, 22 percent in 1986, and 5 percent in 1987 or later (see Richard Barfield's report in the Winter 1984 issue of ECONOMIC OUTLOOK USA).[3] Apparently the events of the last two decades have revived the belief that "the business cycle is still very much with us," as was stated in that survey question.

Most forecasters until recently continued to anticipate that inflation will creep upward but very slowly and that interest rates will be fairly stable, though more likely to rise than decline. They predicted strong corporate profits for 1984, slower gains for 1985; an end to the housing expansion and less growth in consumption and state and local government purchases in the year ahead; net exports nearing a nadir; but also large increases in business investment and federal government purchases, in large measure for defense (all expenditures being measured in constant dollars).

These forecasts preceded several late news items. The prime rate was raised twice in less than a month and reached 12 percent. Banks pleaded higher costs of funds they borrow, and it is clear that the private demand for credit is rising strongly. The stock market closed on Friday April 6 at the lowest level in nearly a year. Later the Federal Reserve raised the discount rate by ½ point to 9 percent.

These developments are bound to worsen the long-held fears of some (mainly Wall Street) analysts that this expansion is heading toward an unsustainable boom and another credit crunch severely aggravated by the unprecedented and uncontrolled federal budget deficits. The financial markets seem preoccupied with the threatening if somewhat vague prospects for either an inflationary monetization of public-debt rises or a new runup of interest rates.

Certainly, the accumulation of huge fiscal deficits with relatively low rates of private saving is a very real cause for serious concern at the present time when a continuing expansion will have to be financed increasingly by private domestic borrowing. Contrary to recent predictions by some (but not all) monetarist economists, the decline in monetary growth rates which occurred in 1983 has yet to show any effect of chilling (or even merely cooling) the expansion. Financial market economists worry instead about too much fiscal stimulus making for an overheated economy increasingly running into supply bottlenecks and rises in prices of commodities, labor, and credit. According to their scenario, strong restrictions would be necessary to reduce the growth of demand to the feasible growth of supply that the economy can produce; but such fiscal and monetary tightening is unlikely as long as the revival of inflation is not yet evident and alarming. So the most likely outcome is a boom with much higher inflation and interest rates in 1985, spreading abroad and causing the dollar to fall. If the already long overdue steps to reduce the fiscal deficits decisively were taken in time, the expansion could be prolonged by avoiding the new boom-and-bust sequence. Next year, however, it will be too late for that, and the expansion will probably end prematurely as a result of financial disturbances in the U. S. and abroad triggering another recession.

This pessimistic forecast is by no means implausible: similar sequences of events happened before when a rapid rise in demand would not be accommodated on the credit and supply side. But it is not yet clear that the economy is about to overheat, and the scenario is certainly not predetermined. The notion that the Fed will resist an out-and-out boom is probably right, but there is still much unemployed labor and capacity around. The alternative forecast that real growth will slow considerably in the year ahead also draws much support from history and still seems to represent the majority view. If a breathing spell is granted the economy in the year ahead and a significant deficit-cutting package is finally passed, a continued runup of interest rates may after all be avoided.

Nonetheless the danger of a premature revival of inflationary pressures (possibly aggravated by large wage settlements or a major strike) is growing. The indicator analysis of the previous section is consistent with inflation rising to 7-8 percent in the year ahead. It is likely that the Fed is apprehensive of such prospects, too. Some Fed-watchers in the public as well as the private sector are apt to contemplate still another possibility, namely that the Fed may overreact and impede the economy's progress. But this also is highly speculative at this point.

The expansion has been very healthy indeed for the U. S. economy so far, but its vigor and durability are uncertain. The high real growth rates of 1983:2-1984:1 are clearly not sustainable. Lower growth supported by higher rates of investment in plant and equipment and lower rates of consumer and government spending is now desirable, and we may get it for some time with some luck and caution. The prescription for a healthier economy is clear: a long period of what we had earlier in this recovery, real growth with little inflation and at least stable if not lower interest rates. Overheating is a threat but a tighter monetary policy should be avoided. On the positive side, the main policy requirements are to reduce fiscal deficits and work at promoting international trade and lowering the risk of acute foreign debt crises.

April 1984

[3] Rather similar responses to the same question were forthcoming in the February 1984 NABE survey. See Barfield's article in this issue.

The Reign of Optimism

Richard T. Curtin
Director, Surveys of Consumer Attitudes
Survey Research Center
The University of Michigan

Consumer Confidence Reaches Record Level

The Index of Consumer Sentiment stood at 99.5 in the first quarter 1984 survey, the highest level recorded since the first quarter of 1966 (the base survey). The first quarter 1984 reading was 8 Index points above the plateau of 91.5 recorded in the second through fourth quarters of 1983, and 24.2 Index points above the year-earlier reading. The recent improvement has been due to more favorable assessments of the economy as a whole and more favorable evaluations of buying conditions.

It has been nearly four years since the all-time low in the Index of Consumer Sentiment was recorded in the second quarter of 1980. The Index has nearly doubled since then, rising from 54.4 to 99.5. Most of the four-year increase, however, was recorded during two separate six-month periods. The first substantial increase was recorded immediately following the record low, when the Index rose from 54.4 in the second quarter to 72.1 in the fourth quarter of 1980. Two years later, in the fourth quarter of 1982, the Index still stood at 72.5. The second period of rapid improvement was recorded from the fourth quarter of 1982 to the second quarter of 1983, when the Index rose from 72.5 to 91.5. The Index then remained at that much improved level through the balance of 1983. The two short periods of rapid improvement, as well as the prolonged periods at low levels and at high levels, has been due largely to interest rate developments. That the last recovery was halted by high interest rates has not been forgotten by the consumer, and, despite otherwise very favorable views, interest rate increases now expected by consumers are seen as darkening clouds on the economic horizon.

Family Finances Best in Decade

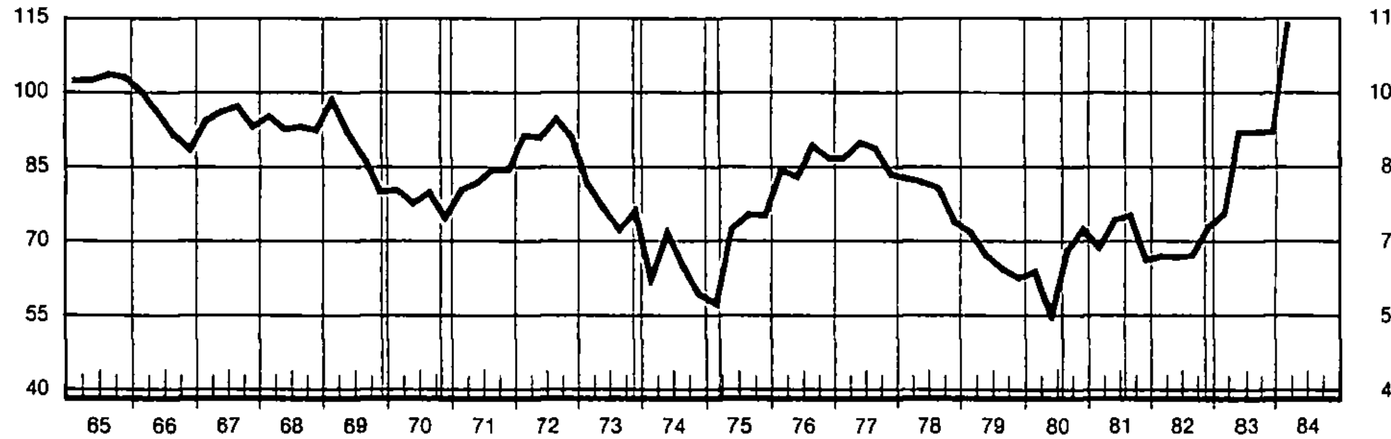
By the start of 1984 the financial situation of American families had improved substantially over the conditions that prevailed one year earlier. In the first quarter 1984 survey, evaluations of both recent financial progress and expected improvement during the year ahead remained at or near decade peaks. In addition, these favorable short-term evaluations of personal finances are now accompanied by more favorable longer-term evaluations.

In the first quarter 1984 survey, 45 percent of all families reported that their financial situation had improved, up from 30 percent one year earlier, and the highest proportion recorded since 1972. When asked to explain how their financial situation had changed, families more frequently mentioned receiving income increases in the first quarter of 1984 than one year earlier (35, up from 27 percent). Complaints about the adverse impact of inflation on family budgets fell to 15 percent in the 1984:1 survey, down from 23 percent one year earlier, and 44 percent three years earlier.

Not only have reports of recent financial progress become more favorable, but American families also expected continued improvement during the year ahead. Among all families in the first quarter 1984 survey, 41 percent expected their personal financial situation to improve, regaining the cyclical peak first reached in the second quarter of 1983. Increases in family incomes during the year ahead were expected by 64 percent of all families in the survey, up from 53 percent one year earlier. Just 9 percent of all families expected income declines in the 1984:1 survey, down from 17 percent one year earlier.

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



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

The cumulative impact of these recent improvements has established the most favorable longer-term evaluations of personal finances recorded during the past decade. Among all families, 58 percent reported in the first quarter 1984 survey that their current financial situation had improved compared with five years earlier, up from 47 percent in the first quarter 1983 survey. Unfavorable evaluations of the longer-term trends in their financial situation were reported by 27 percent of all families, down from 38 percent one year earlier. Longer-term personal financial expectations have also improved. Among all families, 54 percent expected their personal financial situation to improve during the next five years, up from 52 percent one year earlier, and 39 percent in 1980. In the 1984:1 survey, just 11 percent of all families expected their personal financial situation to worsen during the next five years, down from a peak of 26 percent recorded in the first quarter of 1980.

Willingness to Spend

The improved financial situation of American families has led to an increased willingness to use accumulated savings or to incur new debt in order to make major new purchases. Among all families in the first quarter 1984 survey, 40 percent reported their willingness to use accumulated savings in order to make major purchases, up from 29 percent one year earlier, and the highest level in more than five years. When asked about their willingness to incur new debt in order to make major purchases, 29 percent of all families reported their willingness to use credit, up from 18 percent one year earlier, and 12 percent three years earlier.

The rise in consumer predisposition to spend has been accompanied by favorable attitudes toward buying conditions for major household durables, vehicles, and houses. The major factor underlying the recent maintenance of favorable buying attitudes has been favorable perceptions of market prices.

Consumer attitudes toward buying conditions for large household durables reached record favorable levels in the first quarter 1984 survey. Among all families, 71 percent favorably rated buying conditions for durables, up from 53 percent one year earlier, and the highest proportion recorded during the last 30 years. Among all families, just 19 percent reported unfavorable buying conditions for large household durables, half the 38 percent recorded one year earlier. When asked to explain their views on market conditions for household durables, the appeal of lower prices and discounts was mentioned by 40 percent of all respondents, the highest quarterly level ever recorded. In comparison, just 10 percent of all families mentioned their aversion to high prices for household durables, down from 19 percent one year earlier, and the lowest level recorded since 1972.

Buying conditions for vehicles were viewed favorably by 64 percent of all families in the first quarter 1984 survey, reversing small declines recorded at year-end, and nearly regaining the all-time quarterly record of 65 percent in the second quarter of 1983. Because fewer households held unfavorable vehicle buying attitudes in the first quarter 1984 survey (25 percent) than in the second quarter 1983 survey (29 percent), the net balance of opinion was more favorable at the start of 1984. When asked to explain their views on buying conditions for vehicles, references to low prices and discounts remained as frequent in early 1984 as in early 1983 (24 percent), but references to high vehicle prices declined to 17 percent in early 1984 from 24 percent one year earlier, representing the lowest proportion recorded in more than five years. Fewer families mentioned the availability of lower interest rates on vehicle loans in the 1984:1 survey compared with one year earlier (22, down from 33 percent), and fewer consumers registered complaints about high interest rates (7, down from 13 percent).

Attitudes toward buying conditions for houses remained at very favorable levels in the first quarter 1984 survey. Among all families, 61 percent held favorable attitudes toward buying conditions for houses, up from 55 percent in the fourth quarter of 1983, and just below the cyclical peak of 64 percent recorded in the second quarter 1983 survey. The 1984:1 survey marked the fifth consecutive quarter in which consumer perceptions of market prices for houses have remained on balance favorable. This represents the most favorable perceptions of market prices for houses held by consumers in more than 20 years. Among all families, 17 percent reported the appeal of low prices and the availability of good housing buys, compared with 14 percent that cited their aversion to high housing prices. Just three years ago, in the first quarter of 1981, eight times as many respondents cited their aversion to high prices for housing (32 percent) as mentioned the appeal of low prices (4 percent).

Record Assessments of Economic Performance

The first quarter 1984 survey continued to record widespread awareness of the ongoing economic expansion. Reports that business conditions had improved during the past year were made by 71 percent of all respondents in the survey—the highest proportion recorded in more than 30 years. Much of the improvement, however, was recorded by mid-1983, when the proportion that reported improved business conditions doubled, rising from 27 percent in the first quarter of 1983 to 59 percent in the second quarter. The rise since then has been at a much slower pace.

When asked about news they had heard and could recall of recent economic developments, respondents in the first quarter 1984 survey reported twice as many favorable as unfavorable developments (67 versus 30 percent). These very favorable perceptions of recent economic developments have been primarily due to more favorable employment and unemployment trends. During the past year, respondents have reported hearing of increases in employment (rising from 17 to 26 percent), and much less frequently have reported news of spreading unemployment (falling from 35 to 12 percent). Overall, more than twice as many respondents to the 1984:1 survey expected unemployment to decline during the year ahead as expected it to increase (35 versus 15 percent).

The annual rate of inflation expected by consumers in the January 1984 survey was 4.9%, just above the cyclical low of 4.3% recorded one year earlier. The mean expected rate of inflation has declined substantially since the peak rate of 11.9% was recorded in the first quarter 1980 survey. In the three years from 1980 to 1983, the mean expected inflation rate declined by 7.6 percentage points, while a small increase of 0.6 percentage points was recorded during the past year. The sharp decline during the earlier period was accompanied by a shift in responses from inflation expectations of 10% or more (declining from 52 percent in 1980 to 14 percent in 1983), to the expectation that prices would remain unchanged or decline (rising from 10 percent in 1980 to 38 percent in 1983). The small increase in the overall mean recorded during the past year was accompanied by a shift away from the expectation that prices would remain unchanged or decline (from 38 to 24 percent), and toward a greater concentration of price expectations in the 1-4% range (from 21 to 32 percent). This consolidation and reduction in the dispersion of price expectations indicates less consumer uncertainty about expected price trends.

Confidence in government economic policies to control inflation and unemployment reached new favorable levels in the first quarter 1984 survey. Among all families, 32 percent favorably rated government economic policies, up from 18 percent recorded one year earlier. Unfavorable ratings of governement economic policies were given by 18 percent of all families in the survey, half the 36 percent recorded one year earlier. This recent improvement restores the high level of confidence recorded in the early months of the Reagan administration.

Higher Interest Rates Expected to Slow Pace of Recovery

Although evaluations of recent economic progress are now at record levels, many fewer consumers expected that same rapid pace of economic improvement to continue during the year ahead. Among all families in the first quarter 1984 survey, the proportion that expected the economy to improve during the year ahead fell to 41 percent from the peak level of 52 percent recorded in the second quarter of 1983. Importantly, this decline in expectations for continued improvement was not mirrored by increases in the expectations of a renewed decline. Just 10 percent of all families in the 1984:1 survey expected the economy to worsen during the year ahead. Nearly half of all consumers (47 percent) expected the current improved level of the economy to be maintained during the year ahead.

The widespread expectation among consumers of higher interest rates represents the major reason underlying the expected slowing in the pace of economic expansion during the year ahead. Among all families in the first quarter 1984 survey, 40 percent expected interest rates to increase during the year ahead, twice the 20 percent recorded one year earlier. The proportion of families that expected interest rates to decline during the year ahead fell to 17 percent in the 1984:1 survey, from 42 percent one year earlier.

Although the rate of improvement is expected to slow, favorable economic conditions were expected to persist in the near and longer terms. In the first quarter 1984 survey, 69 percent of all families expected good times in the economy as a whole during the next 12 months, the highest level recorded in nearly 20 years. When asked about the prospects for the economy over the next five years or so, 44 percent of all families expected good times to persist over the longer term in the 1984:1 survey, the highest level recorded during the last 20 years. Four years earlier, in the first quarter of 1980, just 17 percent of all families expected good times in the economy as a whole over the longer term.

Federal Budget Deficits

In the March 1984 survey, respondents were asked about their views concerning the federal budget deficit, repeating questions asked in prior years. Awareness of the federal budget deficit was reported by 81 percent of all families in the survey, up significantly from the 55 percent recorded in 1973 and the 54 percent recorded in1961 (see Table 1). Few consumers thought that the federal budget was in balance in 1984 (6 percent) or in the earlier surveys. Importantly, the proportion of American families who reported they did not know whether the budget was in deficit or not has fallen over the past 20 years, to 10 percent in 1984 from 41 percent in 1961. The increased awareness of the federal budget deficit has also been acompanied by an increased concern. In the March 1984 survey, 45 percent reported that they were very concerned about the deficit, up from 23 percent in 1973.

TABLE 1. Awareness of the Federal Budget Deficit

Awareness and Concern	Nov. 1961	Feb. 1973	March 1984
Budget in Deficit	54%	55%	81%
Very Concerned	*na*	*23*	*45*
A Little Concerned	*na*	*22*	*29*
Not at all Concerned	*na*	*10*	*7*
Budget Balanced	4	9	6
Don't Know	41	35	10
NA	1	1	3
Total	100%	100%	100%
Cases	956	1348	700

The questions were: (Feb. 1973, March 1984) "Do you happen to know whether the federal government is spending more money than it is taking in, so that it is operating with a deficit at present, or are federal government revenues and spending pretty much in balance?"

(Nov. 1961) "Now I have a few questions about the federal government; do you happen to know whether the federal government is now operating with a deficit?"

(Feb. 1973, March 1984) "Is this deficit something about which you are very concerned, a little concerned, or not at all concerned?"

A more sensitive measure of the salience of federal budget deficits uses an indirect measurement approach. As part of the regular monthly monitoring of consumer attitudes and expectations, respondents are asked to explain in their own word the reasoning underlying their opinions. In the March 1984 survey, when asked about news of recent economic developments, just 2 percent of all families mentioned federal budget deficits. And when asked about why they expected business conditions to improve or worsen during the year ahead, just 4 percent mentioned the adverse impact of federal budget deficits. Consequently, the use of fixed-choice questions resulted in much higher levels of expressed concern with federal deficits.

When asked whether they expected the annual federal deficit to increase or decrease during the next year or so, nearly the majority (49 percent) of all respondents in the March 1984 survey expected increased deficits (see Table 2). Just 14 percent of all respondents expected reductions in the

TABLE 2. Expected Reduction in the Federal Budget Deficit During the Next Year or Two (March 1984)

Expected Deficit	All Households
Reduced	14%
Same	29
Increased	49
Don't Know	5
NA	3
Total	100%
Cases	700

The question was: "During the next year or two, do you think the size of the annual budget deficit will be reduced, will the size of the deficit remain about the same, or will the size of the annual budget deficit increase?"

TABLE 3. Expected Change in the Federal Budget Deficit During the Next Five to Ten Years (March 1984)

Expected Federal Budget	All Households
Balanced Budget	20%
Remain in Deficit	73
Don't Know	5
NA	2
Total	100%
Cases	700

The question was: "During the next 5 to 10 years, do you think the federal government will be successful in balancing the budget, or will the federal budget remain in deficit?"

annual federal deficit during the year ahead. Consumers did not expect much progress in the longer term either. Among all families, 73 percent expected that over the next five to ten years the federal budget would remain in deficit. In comparison, 20 percent of all families felt that the government would be successful in eliminating the deficit over the longer term (see Table 3).

Despite this heightened concern, when asked about the impact federal deficits would have on business conditions, the majority (56 percent) in the March 1984 survey reported that deficits would not make any difference, just above the 53 percent recorded in 1982 (see Table 4). The proportion of families that expected budget deficits to worsen economic conditions was 28 percent in the recent survey, down from 33 percent two years earlier.

The relationship between views on the federal deficit and consumer attitudes and expectations is shown in Table 5. Less favorable attitudes and expectations were held by respondents who expressed concern with the current deficit, and by respondents who expected continued deficits in the near and longer terms. In general, these differences were relatively small across a wide array of attitudes and expectations, as indicated by the Index of Consumer Sentiment. The major exception, however, was with regard to interest rate expectations. Much less favorable interest rate expectations were consistently recorded among respondents who voiced concern with the present deficit or expected continued deficits in the future. It appears that current concern with federal deficits has been neutralized due to the limited impact expected on the economy in general. Nonetheless, the major factor likely to translate this latent concern into a manifest concern with the performance of the economy is rising interest rates.

TABLE 4. The Effects of Federal Budget Deficits on Business Conditions

Effects On Business Conditions	April 1982	March 1984
Better	7%	10%
No Difference	53	56
Worse	33	28
Don't Know	5	4
NA	2	2
Total	100%	100%
Cases	702	700

The question was: "Do you think the federal budget deficit expected during the next year will make business conditions in the country as a whole better or worse than at present, or won't it make much difference?"

TABLE 5. The Relationship between Opinions on Federal Deficits and Consumer Attitudes and Expectations (March 1984)

Opinions on Deficits	Index of Consumer Sentiment	Proportion that Expected Increases in Interest Rates
Concern with Budget Deficit		
Very Concerned	100.8	53
A Little Concerned	105.9	39
Not at all Concerned	106.8	29
Expected Deficit Within 1 Year		
Reduced	114.6	31
Same	101.8	38
Increased	99.1	54
Effects of Deficit on Business Conditions		
Better	114.7	34
No Difference	105.4	39
Worse	92.1	62

Summary Outlook

The widespread optimism and confidence recorded in the first quarter survey points toward continued growth in consumer sales during 1984. Reports by consumers that business conditions had improved during the past year were more frequent in early 1984 than at any other time in the prior 30 years. Many fewer consumers, however, expected that same rapid pace of economic improvement to continue during the year ahead. Although consumers expected the rate of improvement to slow, good times financially in the economy as a whole were expected to persist during the next year or so. The financial situation of American families improved substantially by the start of 1984 and, coupled with very favorable perceptions of market buying conditions, has prompted a greater willingness on the part of consumers to make major purchases.

Along with greater sales, these data also indicate that greater pressures on the credit market can be expected in the upcoming months. The length and pace of the recovery will be determined by whether the increases in the demand for credit by the consumer sector, when combined with the needs of the government and the business sectors, can be accommodated without a resurgence in interest rates. Consumer sensitivity to interest rate trends has greatly heightened in recent years, and increases in interest rates are likely to have a pervasive but uneven impact. Consumer purchases of houses and vehicles can be expected to register more immediate and sharper repsonses than other less interest-sensitive purchases. Interest rate increases will also affect the discretionary incomes of families with outstanding variable-rate loans, as well as families with "variable-rate" checking or savings accounts. Importantly, consumer awareness and concern with federal budget deficits were associated with expected increases in interest rates, and rising interest rates are likely to focus and heighten concerns with federal deficits.

April 1984

Business Economists Foresee Continued Expansion But Urge Action on Deficits

Richard E. Barfield
Survey Research Center
The University of Michigan

The eighth in the series of quarterly surveys of National Association of Business Economists (NABE) members was conducted in early February. Respondents were asked to forecast various economic series and to give their opinions about current economic policy matters. For analytical purposes, the business economists were 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.

Conditions in Company/Industry

Throughout the survey program, economists affiliated with a business firm (that is, those in manufacturing, commercial banking, or nonbank finance) have been asked about quarterly trends in various economic aspects of their own company or industry. Results from the February survey are displayed in Table 1 and are generally consistent with the continued economic expansion experienced during the three months preceding the survey:

- Demand was up in about three-quarters of the companies, and employment had been rising or stable for all but about one-eighth. Increases in both demand and employment were most vigorous in manufacturing.
- Inventories had been increasing in only about a quarter of the firms.
- Real capital outlays had been rising in nearly half of the companies and falling in less than 10 percent, with the commercial banking industry having been less likely to see increases than the other two.
- Profit margins had been going up in 40 percent of the firms and stable in 45 percent, with manufacturing firms most likely to have experienced rising profits.
- Prices had remained relatively stable during the period for most firms represented, though in manufacturing nearly half the economists reported increases or decreases.

TABLE 1. Trend in Various Economic Aspects of Respondent's Company or Industry During Three Months Prior to February 1984 Interview

Economic Aspect	Rising	Same	Falling
Unit Volume of Demand	74%	24%	2
Employment	34%	54	12
Unit Volume of Inventories	23%	47	30
Real Capital Outlays	46%	46	8
Profit Margins	40%	45	15
Prices Charged	22%	67	11
Wage Rates & Salaries	45%	52	3

- Wages and salaries had been rising in slightly fewer than half the firms and stable in slightly more than half, with virtually none reporting falling compensation. About two-thirds of respondents in the nonbank financial area reported rising wage rates and salaries.

These aggregate trends were broadly similar to those reported in the previous (November 1983) survey, with three exceptions: inventory volume was less likely to have been rising in the three months prior to February, real capital outlays were more likely to have been rising, and profit margins were more likely to have been stable.

Economic Forecasts

Table 2 displays the median values of forecasts made in February for selected economic series; analogous results from the previous survey are also displayed. Real GNP was expected to increase by somewhat over 4 percent from 1983:4 to 1984:4 and by close to 5 percent for the full year 1984 compared with 1983; both values were a bit lower than those given in the November survey. Consumer prices were forecast to increase by just about 5 percent fourth quarter to fourth quarter and 4.8 percent year over year, with the latter estimate being a bit lower than the one given in November. Real fixed investment was foreseen to increase slightly more than 9½ percent from 1983:4 to 1984:4 and by about 11 percent year over year—both estimates somewhat higher than the ones given in November.

The business economists predicted that the unemployment rate would average close to 8 percent in the third and fourth quarters of this year and for the year as a whole; the latter two estimates were a bit lower than the November ones. The prime rate was expected to remain close to 11 percent through midyear but then to rise to over 11½ percent by year end, somewhat higher figures than forecast in November.

New private housing starts were expected to be stuck at the 1.7 million mark throughout this year, close to the estimates given in November. Auto sales were seen to start the year at about the 10 million unit mark, grow by about a quarter million units by the fourth quarter, and average right at 10 milllion units for the full year 1984. These estimates were also quite close to the November ones.

The only systematic differences in forecasts among the affiliation groups seemed to be that the government and academic economists expected a slightly slower recovery accompanied by higher interest rates: their forecasts of GNP growth, car sales, and fixed investment growth were the lowest of the several affiliation groups, while their prime rate predictions were the highest. Their projections of CPI incease were also the lowest. But the differences among groups were generally quite small this time.

The two regional forecast questions asked first in November were repeated in the February survey, with the business economists being asked whether the "overall economic growth rate" and the unemployment rate in their part of the

TABLE 2. Forecasts of Selected Economic Series, November 1983-February 1984

Series	Median Value Nov. 83	Feb. 84
Annualized Percent Change:		
Real GNP		
1983:4-1984:4	4.88	4.20
Year 1983-Year 1984	5.05	4.80
Consumer Price Index		
1983:4-1984:4	5.05	5.02
Year 1983-Year 1984	5.02	4.84
Real Fixed Investment		
1983:4-1984:4	8.94	9.61
Year 1983-Year 1984	9.13	11.02
Percent:		
Unemployment Rate		
1984:3	–	7.97
1984:4	8.09	7.90
Year 1984	8.29	8.01
Prime Rate		
3/31/84	–	11.05
6/30/84	10.86	11.10
12/31/84	11.20	11.63
Millions of Units:		
New Private Housing Starts		
1984:1	–	1.70
1984:4	1.74	1.70
Year 1984	1.73	1.70
Automobile Sales		
1984:1	–	9.99
1984:4	10.31	10.26
Year 1984	10.04	10.01

Note: Dash indicates quarter forecast not asked for in November.

country would be higher than, lower than, or about the same as the national rate during 1984. Once again the North Central region was expected to be worst off, but the differences weren't as dramatic as those found in November. Concerning real GNP growth, more than half the respondents in the South and West expected faster-than-average change, followed by 43 percent of those in the North Central area and 33 percent of those in the Northeast. But 32 percent of the North Central economists expected slower-than-average growth, compared with 23 percent of those in the Northeast. Somewhat surprisingly, about 32 percent of respondents in the West also expected slower-than-average GNP growth. Concerning unemployment, the expectations were more polarized: about 55 percent of Southern business economists expected lower-than-average local unemployment rates, followed by about 45 percent of those in the West and Northeast; but only 8 percent of economists in the North Central region projected their unemployment rate to average lower than the national rate, while 80 percent saw it as likely to be higher.

Fiscal and Monetary Policy

As in all 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. As compared with the relatively stable pattern of opinion about fiscal policy during 1983, the February 1984 survey indicated a more nearly unanimous view that fiscal policy then was too stimulative. The proportion of business economists holding that view ranged from 71 percent in nonbank finance to 92 percent in government and academia.

Several other questions relating to fiscal policy were posed in the February survey. Respondents were asked which course of action to reduce prospective deficits they would prefer: reducing expenditures as a proportion of GNP, raising revenues, or some of both. Reducing expenditures was the most popular course, with about two-thirds favoring either expenditure cuts only or expenditure cuts primarily along with some revenue increases. About a fifth of the economists favored taking tax and expenditure actions more or less equally, with only about a tenth emphasizing "revenue enhancement." (But 30 percent of government and academic economists favored the latter course.) When asked whether the administration and Congress should take action to reduce the deficits even though this is an election year, more than 96 percent said yes.

It was noted that the President's Private Sector Commission on Cost Control has issued proposals to reduce federal spending by over $100 billion a year; the business economists were then asked whether the government should move "as rapidly as possible" to implement these proposals. Ninety percent said at least some of the proposals should be implemented, though about a quarter of the goverment/academic economists disagreed. Survey participants were asked their opinion about limiting the rate of indexation of income tax brackets and cost of living adjustments of entitlements programs (including Social Security) to "the rate of inflation less three percent." Some two-thirds favored enactment of such a limitation. Finally, the economists were asked whether the president should have line-item veto powers. Almost three-fourths favored the idea, though those affiliated with goverment and academia split 50-50.

TABLE 3. Trends in Opinions about Fiscal and Monetary Policy, May 1983-February 1984

Opinion	May	August	November	February
Fiscal Policy:				
Too Stimulative	73%	76%	73%	82%
About Right	21	20	22	14
Too Restrictive	7	4	5	4
Monetary Policy:				
Too Stimulative	26%	23%	3%	3%
About Right	67	69	82	78
Too Restrictive	7	8	15	19

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 February survey revealed little change in opinion from the November survey, with around 80 percent viewing it as about right and most of the remainder seeing it as too restrictive. As noted in our previous report, this does represent a shift away from the "too stimulative" view when compared with opinion earlier in 1983.

Other Issues

As in other surveys, the business economists were asked several questions about the international economy. When asked whether the quota on auto imports from Japan should be allowed to expire on schedule in March 1985, nearly 85 percent said yes (but only about 70 percent of those in manufacturing agreed). Opinion was nearly unanimously against the House-passed legislation requiring up to 90 percent of any car sold in the U.S. to be made domestically, and there was little variation among the various affiliation groups here. Another question in this area—repeated from August and November of last year—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. Only one-tenth each expected an increase or no change, with the remaining 80 percent anticipating at least some decrease. This balance of opinion continues the shift noted last year toward an expectation that the dollar's value will decline, though of course the time horizon was substantially longer when the question was posed in February than when it was posed in August or November 1983.

Finally—as in the November survey—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 and are distributed by the six primary affiliation categories. Again the modal year expected to mark the end of the current expansion turned out to be 1985, with nearly a sixth of the business economists seeing an end this year. Consulting economists and their government/academic colleagues appeared rather less optimistic than other survey participants that the expansion would last beyond 1985. Hardly anyone in the sample (about 4 percent) expected the current expansion to last beyond 1986. As noted in our last report, if this expectation is fulfilled, the current expansion will then have been somewhat shorter than the average postwar business cycle expansion.

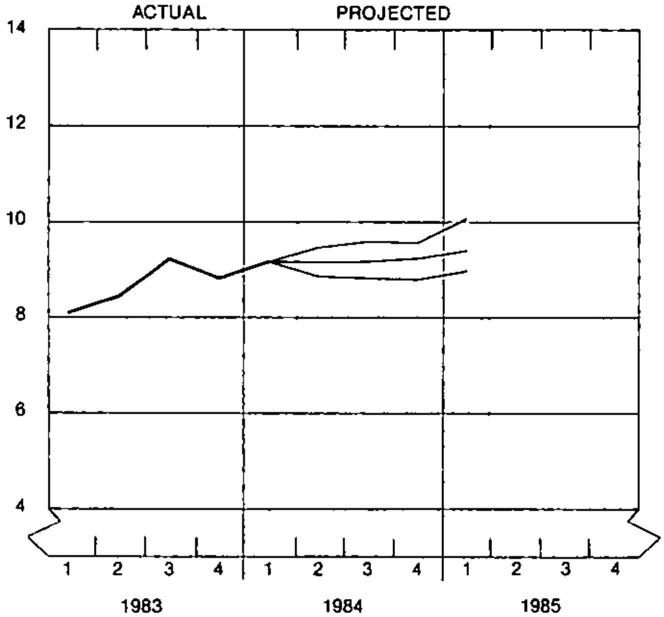
TABLE 4. Expected Year for Peak of Current Business Cycle by Primary Affiliation of Business Economists, February 1984

	Primary Affiliation Group						
Year	Manu-facturing	Nonbank Finance	Trade Associations & "Other"	Government & Academic	Commercial Banking	Consulting	All Groups
1984 or Earlier	16%	15%	15%	23%	9%	21%	16%
1985	47	50	52	54	55	65	53
1986	35	30	28	19	29	14	27
1987 or Later	2	5	5	4	7	0	4

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?"

3-MONTH TREASURY BILL RATE

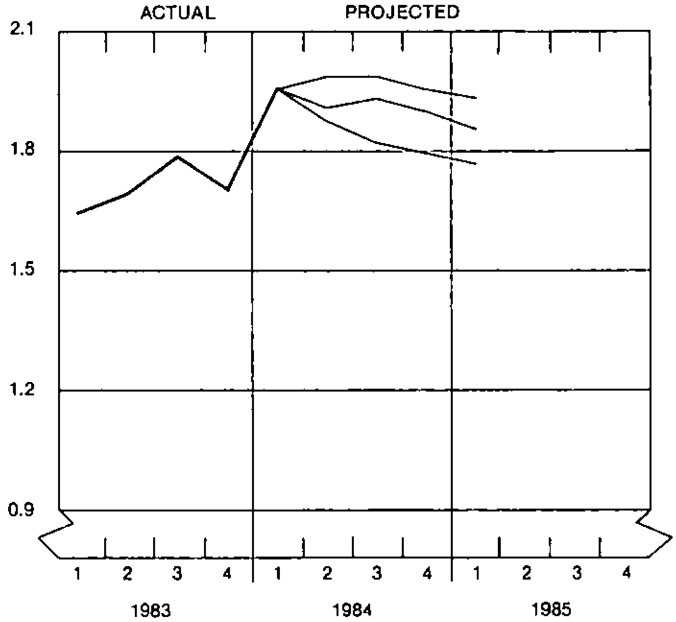
Percent



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.

NEW PRIVATE HOUSING UNITS STARTED

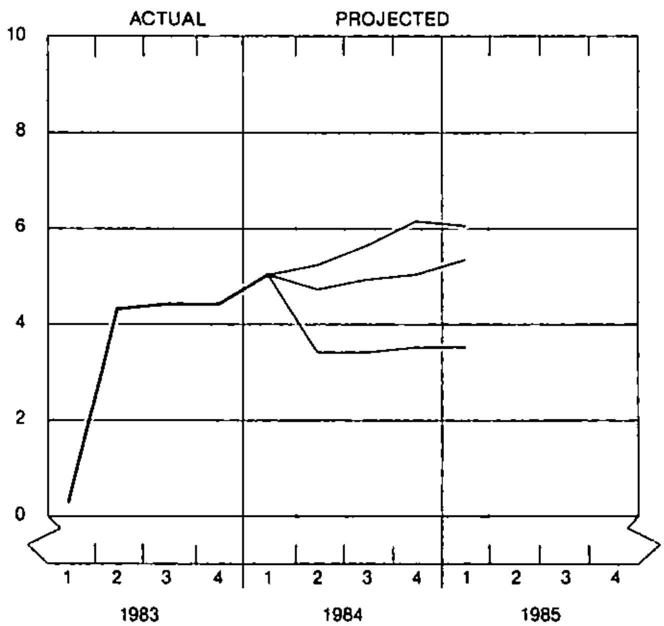
Millions of Units



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

CONSUMER PRICE INDEX

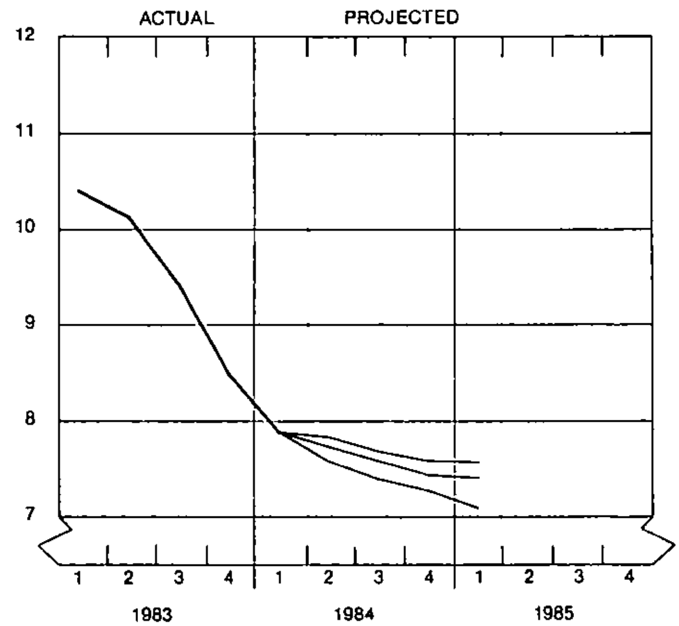
Percent Change
at Annual Rate



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.

UNEMPLOYMENT RATE

Percent



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.

The Changing American Family: Marriage and Divorce*

Arland Thornton
Survey Research Center
Deborah Freedman
Department of Economics
The University of Michigan

Some of the issues most fiercely contested in the American public arena during the past decade have focused directly on central aspects of the family. The battle over the Equal Rights Amendment concerned appropriate roles for men and women and the allocation of opportunities and rewards by gender. The abortion controversy bears directly on the reproductive function of the family, while the debate over sex education in schools and birth control for minors involves not only teenage sexual activity and childbearing but also the right of public organizations to intervene in relationships between parents and children. Important elements in these controversies concern the relative roles of public and familial supports for individual Americans and the extent to which governments should influence familial matters.

This surge of interest in family issues mirrors the magnitude of the changes occurring in family values and behavior. Although the family continues to be a central institution in American society, the shape of the institution is changing in ways that are influencing most Americans. Consider the following:

- Fifty-six percent of women aged 20-24 in 1983 have never been married, compared to only 36 percent of women this age in 1970.
- The number of unmarried couples living together has more than tripled since 1970 to nearly 1.9 million in 1983.
- Half of all recent first marriages will end in divorce if current rates continue, and up to half of all children will experience living in a fatherless family before they reach age 18.
- Currently, 19 percent of households with children under 18 are headed by a woman with no husband present.
- Over half (51 percent in 1982) of all married women now hold a paid job outside the home, including 49 percent of married mothers of preschool children.
- Median income for married-couple families with a working wife was $30,300 in 1982, compared to $21,300 where only the husband worked.
- Young white women now in the prime childbearing ages of the twenties say they expect to have an average of two children but are delaying the start of their families to such an extent that nearly 30 percent of them could end up childless.
- Eighteen percent of all births in 1980 were out of wedlock.

These trends affecting family patterns have had major repercussions on many aspects of American life, ranging from changes in divorce laws and marital settlements to the new political force of the women's vote and a proliferation of new products and advertising strategies aimed at two-earner familes. The impact of family changes on individuals is demonstrated by the growth of organizations designed for people living in non-traditional family situations—the National Association of Step Parents, Mothers Without Custody, Equal Rights for Fathers, Parents Without Partners, and Fathers Who Care. A stream of new books provides advice on surviving divorce, combining motherhood and a career, being a successful stepparent, and being a single adult. The changes seem so great that many Americans have begun to wonder if the very institution of the family will survive. Our studies indicate, however, that the family is resilient, family ties remain strong, and Americans consistently report that a happy marriage and a good family are the most important aspects of life.

In this article we focus on past and current trends in marriage and divorce in the United States, derived from data collected here at the Survey Research Center and elsewhere. Future articles in ECONOMIC OUTLOOK USA will discuss other aspects of change in the American family.

Marriage and Divorce

In the United States, marriage has traditionally marked the creation of a new family. Typically, families have been formed when previously unmarried persons join together in marriage. Marriages, however, do not last forever and eventually are dissolved, either by the death of a spouse or voluntarily through divorce. Important for the institution of the family is how long marriages last, on average, until dissolved, and whether the most frequent cause is death or divorce. Marital dissolution, however, does not signal the end of the marital experience for many former partners. Most formerly married Americans enter into a new marriage fairly quickly, thus revealing a preference for the married state. Recently another type of arrangement has become more common—couples living together without getting married.

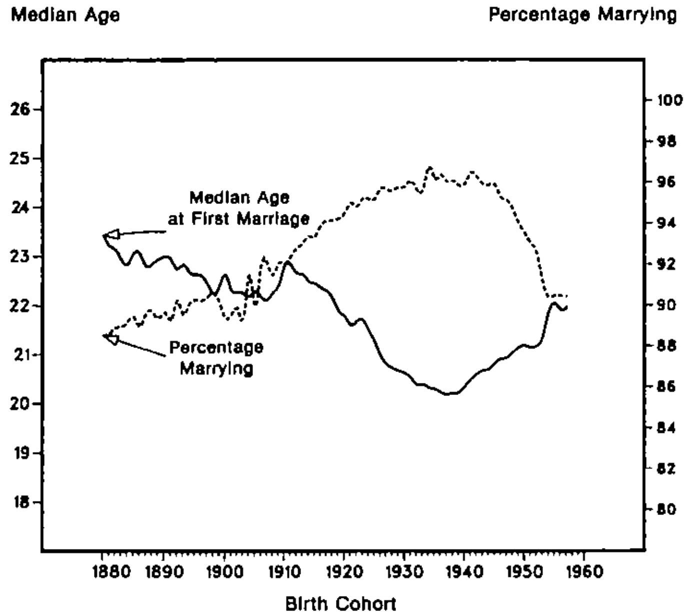
First Marriage

First marriage patterns have gone through a wave of change since World War II. Except for a brief upturn at the end of World War I and a sharp decline during the Depression of the 1930s, first marriage rates were quite steady during the first four decades of this century. But after World War II came the "postwar marriage boom"—a substantial, pervasive increase in marriage rates that helped spawn the baby boom. The rates remained high through the 1950s and 1960s and then fell sharply again during the 1970s and now have begun to stabilize at levels very similar to those of the first few decades of the century.

Chart 1 shows how the postwar marriage boom reshaped the pattern of first marriage in America. Median age at first marriage fell dramatically—from about 23 for white women born in the 1880s to just over 20 for those born in the late 1930s, who married in the late 1950s and early 1960s. The proportion of people ever marrying also increased. While

*This article is taken from the authors' "The Changing American Family," *Population Bulletin*, Vol. 38, No. 4 (Population Reference Bureau, Inc.: Washington, D.C., 1983) and is published here with the permission of the Population Reference Bureau, Inc. Complete references for the material cited herein are contained in the *Population Bulletin* monograph.

CHART 1. Median Age at First Marriage and Percentage Marrying through Age 44, Birth Cohorts of White Women



about 11 percent of white women born during the 1880s had not married by age 45, only about 3 percent of those born in the late 1930s remained single at that age. However, the marital patterns of more recent "birth cohorts" are close to those observed early in the century. Median age at marriage for white women born during the 1950s has increased to around 22, and it now appears that about 10 per cent, and possibly more, will never marry. In 1983, 56 percent of all American women aged 20-24 still had not married, compared to just 36 percent of women that age in 1970.

The marriage boom was both more substantial and longer-lasting for men than for women. While the average age at marriage fell about three years for women, the decline was about four years for men—from about age 27 to 23. In addition, marriage rates for women declined somewhat during the 1960s but the rates for men held fairly steady. This can probably be attributed to the "marriage squeeze"—a phenomenon caused by a shortage of men relative to the number of women in the prime marrying years. The shortage resulted because the number of babies born each year as the baby boom mounted from 1947 was larger than the number born the year before, and women tend to marry men two to three years older than themselves. Thus, there was an insufficient number of older men from which the women in each of these successively larger birth cohorts could choose their mates.

Prior to World War II, similar proportions of blacks and whites married, but blacks tended to marry at earlier ages. However, the postwar marriage boom was not as marked for blacks as for whites, especially at the younger ages, and average age at first marriage is now higher for blacks than for whites.

The timing of marriage relative to school attendance and employment also changed markedly after World War II. Previously, the transition to adulthood had been made in a fairly regular and orderly fashion; most men and women finished their schooling and most men began to work before marrying. But after the war many young people chose to marry while still in school and before beginning work.

Part of this shift was linked to the postwar expansion of education, which increased educational attainment and thus the age of school completion. Although educational opportunities and attainment had expanded somewhat before the war, still in 1940 only 36 percent of men and 40 percent of women aged 25-29 had completed four years of high school, and just 7 percent of men and 5 percent of women had completed four years of college. By 1979, 85 percent of both men and women in this age group had completed high school, and one-fourth of men and one-fifth of women had completed college. This increase in educational attainment added to the decline in age at marriage in the postwar era meant that many more people married before finishing their education; nearly a fourth of the men born during the 1930s did so, compared to less than a tenth of those born two decades earlier. With age at marriage now rising, this trend has been reversed, but there is unlikely to be a return to the prewar pattern of nearly universal postponement of marriage until after school completion, unless age at marriage increases enough to offset the current high levels of education.

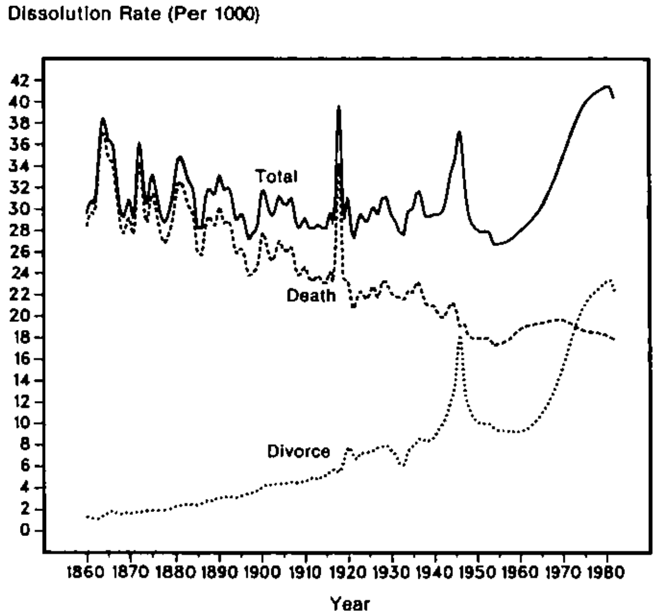
Attitudes toward marriage and remaining single have changed markedly along with the changes in marital patterns. The legitimacy of remaining single is increasingly accepted by both young people and their parents; Americans no longer regard getting married as necessarily better than remaining single. A 1976 national study found that only a third of all Americans would disapprove of a decision by someone to remain single—a decline from 50 percent in 1957. Although most young people now say that they would be bothered at least a little if they did not marry, only a few say they would be greatly bothered by that outcome. Mothers also report that they would not be greatly bothered if their children did not marry.

Although the imperative to marry has weakened, marriage continues to be highly valued by Americans. Americans consistently report that a happy marriage and a good family life are the most important aspects of life. Most young Americans still expect to marry; a 1980 study found that more than 90 percent of American youth expect to marry—a proportion similar to that found in 1960. Most young Americans are also optimistic about the permanency of their marriages. However, marital plans have changed to parallel the increases in actual marriage ages; between 1960 and 1980 the median age at which young people expect to marry increased by a year for men and year and a half for women. Even though most young Americans value marriage and plan to marry, the fact that they accept the legitimacy of single life and plan to postpone their own marriages may result in an increase in the percentage who never marry.

Divorce

Marital conflict and divorce have been recognized as serious social concerns since as far back as the late 18th century. But, while marital incompatability has always been with us, Chart 2 shows that, except for a sharp but temporary increase after World War II, the actual rate of divorce in the United States increased only gradually and steadily, with some minor fluctuations, from 1860 to the early 1960s. Then came two decades of sustained and rapid increase, with the rate more than doubling, so that by the

CHART 2. Marital Dissolutions Per 1000 Existing Marriages by Divorce, Death, and Total



end of the 1970s more than 2 percent of existing marriages were being terminated by divorce each year. Then the rate leveled off and there was even a slight decline in 1982. Actual *numbers* of annual divorces climbed to a record 1.21 million in 1981 and then also dipped 3 percent to 1.18 million in 1982—the first decline since 1962.

The forces behind the surge in divorce during the 1960s and 1970s were not only strong but also pervasive, affecting all races and age groups about the same. Thus, the divorce differentials observed in the 1950s—less divorce among whites than among blacks and less among older persons and those married at later ages—persisted through the 1970s.

The rapid increase in divorce has meant that, while 29 percent of the couples married in 1952 were divorced by their 25th wedding anniversary, couples married in 1957 took only 20 years to experience a similar attrition, those married in 1962 took only 15 years, and those married in 1967 took only about ten years. Almost half of the marriages of 1973 will end in divorce if the divorce rates of 1977 continue, compared to only about 5 percent of the marriages of the 1860s. For black Americans the current proportion is even higher; as many as two-thirds of all recent marriages of black Americans could be terminated by divorce if current rates continue. Black couples are also much more likely to separate than white married couples.

Of course, marriages are also terminated when one spouse dies. From 1860 through the mid-1960s, the increasing divorce rate was generally offset by the declining death rate. Consequently, except for unusual fluctuations in mortality and divorce, the total marital dissolution rate remained roughly constant or even declined somewhat over this century (Chart 2). During the 1960s and 1970s, however, the rapid increase in divorce outstripped the decline in mortality, resulting in a substantial increase in the total marital dissolution rate.

Children of Divorce

One of the most serious consequences of the high divorce rate is its effect on the lives of children. Over a million children are affected by divorce each year in the United States. The 1.2 million children whose parents were divorced in 1979 represented nearly 2 percent of all children under age 18. The exposure of children to marital disruption is not a recent phenomenon, however. Some 25 to 30 percent of all children born during the first half of this century experienced the disruption of their parents' marriage before they reached age 18, with the main reason shifting over time from mortality to separation and divorce. However, the marked rise in divorce during the 1960s and 1970s has increased the total exposure of children to family dissolution. Dissolution rates of the late 1970s imply that about one of every three white children and two of three black children born after marriage will experience a parental marital dissolution by age 16. Most children of divorced parents live with their mother, and the majority will experience living in a fatherless home for at least five years. Furthermore, this experience is not necessarily ended when the mother remarries; approximately one-third of white and one-half of black children whose mothers remarry will experience a second parental marital dissolution before they reach adulthood.

Reasons for the High Divorce Rate

It would be easy to interpret the increase in divorce as a sign of deteriorating family life and declining marital happiness, but there are other possible reasons: people may now expect more of marriage and thus be more aware and less tolerant of their marital problems; Americans may now be more accepting of divorce as a solution to an unhappy marriage; and changes in laws and economic circumstances have made divorce more feasible. One study suggests that marital happiness has actually increased; the proportion of people saying that their marriage was either very happy or above average went up from 68 percent in 1957 to 80 percent in 1976. While this finding probably partly reflects the fact that more unhappy marriages were terminated by divorce during the 1970s than in the 1950s, it also raises doubts about a general decline in marital happiness.

The same study also showed that the proportion of people perceiving problems in their marriage increased at the same time—from 46 percent in 1957 to 61 percent in 1976. But this probably reflects not so much an increase in marital problems as the greater expectations for marriage which now make people less tolerant of ordinary difficulties in their own marriages.

Generally negative attitudes toward divorce have been declining as Americans have become more willing to see it as a solution in specific cases. The extent of this shift is illustrated by a study in which 82 percent of women interviewed in 1980 disagreed with the statement: "When there are children in the family, parents should stay together even if they don't get along"; only 51 percent of these same women disagreed with this in 1962. Preferences for easier divorce laws have also increased recently. Of course, this apparently greater acceptance of divorce could be more a consequence than a cause of increasing divorce.

The increase in women's labor force participation and decline in family size probably have made it easier for Americans today, especially women, to obtain a divorce. Changes in marital laws have also facilitated divorce. In fact, the spiraling divorce rate has been a major contributor to the veritable revolution in family law. The first no-fault divorce law was passed in 1969 in California, and by 1980 all but Illinois and South Dakota had adopted some form of no-fault divorce. This has made moral issues less relevant in divorce litigation, while property division and child custody rights have become the important concerns. At the same time, the incidence of family litigation has exploded; roughly half the cases on civil court dockets are family law cases, largely a result of the higher divorce rate.

For divorced women, financial problems loom large. The payment of alimony (now generally called "spousal maintenance") has never been common. Alimony now is probably awarded only rarely, and then primarily to help the wife temporarily until she can get a job. On the other hand, judicial rulings regarding the division of marital property have become more equitable for women. Until very recently, all but the few "community property" states followed English common law and awarded property in a divorce to the person whose name appeared on the title, usually the husband. Now most states have adopted more equitable distribution laws for divorce settlements, with the definition of equitable sometimes spelled out as equal, but more often left to judicial decision. The definition of marital property remains in flux; pension benefits, medical benefits, seniority rights, and military pensions have been included. Still controversial and currently the subject of litigation is whether the value of profesional degrees and careers can be quantified and included in marital settlements. Judges still award child-support payments, but in 1982 only 69 percent of white women and 34 percent of black women who had minor children from an absent father had been awarded or had an agreement to receive such payments.

Despite legal shifts toward more equitable property settlements, wives typically find themselves financially much worse off than their former spouse after a divorce. The family assets to be divided are not large in many marriages. No-fault divorce laws have restricted wives in more prosperous families from bargaining for a favorable financial settlement in exchange for an uncontested divorce. Child-support awards, while important for divorced mothers, often are not large and frequently are not paid. In 1981, only 75 percent of divorced and separated women due child-support payments actually received any and the average payment for the year was about $2,300. Only about half of payments are ever made in full, and for women whose marriages have been terminated for several years the payment rate is even lower. Collecting delinquent payments is expensive, time-consuming, and difficult for divorced mothers. Federal and state governments now have programs to enforce child-support decisions, but they provide only marginal relief to divorced women. Meanwhile, in job markets still generally tilted against women, many divorced women have trouble finding a job that pays enough to support a family, especially those who have been out of the labor force for some time. With all this, divorce now constitutes a major cause of poverty among women and their children.

Judicial decisions regarding child custody have also changed. Until the middle of the 19th century, children automatically went to their fathers, but as economic conditions changed, the laws were modified to award custody to mothers as the natural nurturers of children during their "tender years." In most states, judges now make custody decisions on the basis of the child's best interest. Mothers still obtain custody in about nine out of ten cases, but fathers more often seek custody, and joint custody—now legal in 28 states—is an option viewed more favorably by many judges. Meanwhile, litigation over custody and visitation rights has increased greatly. Grandparents also now go to court to obtain the right to visit with their grandchildren.

Remarriage

Most family scholars believe that divorce stems from dissatisfaction with a specific spouse and does not represent disillusionment with marriage as an institution. Most divorced people remarry, so the remarriage rate following divorce has been very high in the United States—generally exceeding the first marriage rate. Many of these remarriages occur fairly soon after divorce; for example, about half of all women who divorce while still relatively young remarry within three years and from 60 to 70 percent remarry within five years. Men, however, are more likely than women to remarry eventually after divorce, and remarriage rates are also higher for younger than for older divorced people.

Remarriage rates for black Americans are considerably lower than those for whites. One national study of young ever-separated women found that two-thirds of the white women had remarried by the interview in 1970, but only about one-third of the black women. This disparity reflects the fact that blacks are both more likely than whites to remain separated without divorcing and less likely than whites to remarry after a divorce.

By 1977, 43 percent of all new marriages were remarriages for one or both of the partners, up from 32 percent of marriages in 1969; and in 1980, 20 percent of all existing marriages included at least one previously divorced spouse. Many of these remarriages involve people who have been married at least twice before.

In earlier times, remarriages usually involved people whose former spouse had died. These families were complex, often including stepparents and stepchildren and siblings related only through marriage or who shared only one biological parent. Now remarried families have become both much more numerous and more complicated because most remarriages involve divorced persons whose former spouses are still alive and living elsewhere, often with children from that marriage. A recent study estimated that in at least 40 percent of remarriages with partners in their thirties, one of the partners, usually the husband, has a child from a previous marriage who is living elsewhere. In these cases a central family relationship—that between parent and child—is split across at least two households.

Remarried families often maintain relationships with the former spouse and his or her family. These can become especially complicated when both spouses in a remarriage have been divorced before, perhaps more than once, and have children from the previous marriage, and when former spouses also remarry. Of course, the new configurations created by divorce and remarriage can be a source of additional support and family interaction. But they add family responsibilities as well and can bring new conflicts and tensions, particularly for children, who are the chief links between former spouses and their current families. How can consistent guidelines for discipline be maintained when parents share custody or when the children in a household have differing relationships to the parents who maintain the household? What can a stepmother do to win acceptance from her new spouse's children? How should children relate to their enlarged group of siblings and other new "step-relatives"? Such complexities probably help explain why divorce rates among remarriages are as high as or higher than the rates for first marriages.

Remarriage has generally followed the trend in first marriage, with a substantial rise after World War II. Unlike first-marriage rates, however, remarriage rates continued to rise during the 1960s, in tandem with the surge in newly divorced young people — the group most likely to remarry. Remarriage rates computed separately for divorced and widowed women remained fairly steady through the 1960s and then, like first-marriage rates, dropped sharply during the mid-1970s and seemed to have stabilized at the end of the decade. This leveling off might be expected to continue in the 1980s with the divorce rate now also apparently stabilized. Even so, the number of people remarrying fairly soon after divorce remains high.

The Unmarrieds

With reduced rates of first marriage and remarriage combined with high divorce rates, the percentage of currently single adults has increased markedly. In 1982, only 39 percent of women aged 20-24 were currently married and living with their husbands, compared to 64 percent of women this age in 1960. Single life is now particularly common for black adult Americans. Among women aged 30-54 in 1982, less than half of black women were married and living with their husbands, compared to more than three-fourths of white women.

This growing market of unmarrieds is now a prime target for businesses and organizations. Community agencies organize social activities especially for singles, commercial firms promote dating services, and many businesses have designed products, services, and new marketing techniques to cater to the special needs of the new unmarried group, including a proliferation of new books, magazines, and newspapers offering advice on how to enjoy and manage single living.

Cohabitation without Marriage

The number of unmarried American adults sharing a household with an unrelated person of the opposite sex more than tripled between 1970 and 1977 and nearly doubled again in the five years from 1977 to 1982. Though the rise tapered off in the next year, still, in March 1983, close to 1.9 million couples — 4 percent of all couples maintaining a separate household — were living together without benefit of matrimony, up from about half a million in 1970. This increase in cohabitation can be attributed both to the larger number of unmarried people in the population — the result of declining marriage rates and increasing divorce rates — and their greater tendency to live together without marriage. Cohabitation has increased among persons of all ages and marital statuses, but particularly among the young and the divorced. By 1983, eight of every ten unmarried-couple households were maintained by a person under 45, and 28 percent included at least one child under 15.

The figures on current cohabitation considerably understate the percentage of young persons who will cohabit at some time during their lives. Eighteen percent of a 1974-75 sample of men in their twenties said they had lived with a woman without marriage for six months or more, even though only 5 percent were currently cohabiting. By now, the percentage of men with some experience of cohabitation must be much higher, paralleling the rise in current cohabitation.

There is little to document the extent to which cohabiting partners view living together as a prelude to marrige, an alternative to marriage, or simply a more economical and enjoyable form of independent living. Thus, it is difficult to assess the effect of cohabitation on marriage rates. The decline in marriage and rise in cohabitation are clearly linked, but which causes the other remains uncertain. Some cohabiting couples probably would have chosen marriage during earlier times. One study has shown that at least one-fourth of the drop in the percentage of ever-married persons between 1970 and 1977 was due to rising cohabitation. However, it is still not clear whether cohabitation has increased because more people are delaying marriage or because the new popularity and acceptability of cohabitation encourage couples to choose it in lieu of marriage.

Errata: The shaded areas indicating recession periods were incorrectly placed for several charts in the Winter 1984 issue. Affected charts are all those on pages 21-23 and the Index of Consumer Sentiment chart on page 14. The shaded areas all should have been placed one year to the left of (or, one year earlier than) their printed position. For example, the most recent recession occurred from mid-1981 to the end of 1982, rather than mid-1982 to the end of 1983, as shown. And, the shaded area indicating projected quarterly data for the table on page 20 (Actual and Projected Economic Indicators) was extended one quarter too far to the left (to cover actual data for 1983:4). We regret these errors and have implemented new procedures to prevent them.

Actual and Projected Economic Indicators

seasonally adjusted

SERIES FORECAST BY THE ASA-NBER PANEL

ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	Actual							Projected					Act'l.	Projected	
	1982:3	1982:4	1983:1	1983:2	1983:3	1983:4	1984:1	1984:1	1984:2	1984:3	1984:4	1985:1	1983	1984	1985
GROSS NATIONAL PRODUCT	3,091	3,110	3,172	3,272	3,362	3,436	3,541	3,519	3,595	3,673	3,753	3,834	3,310	3,635	3,961
GNP IMPLICIT PRICE DEFLATOR (index, 1972 – 100)	208.0	210.0	212.8	214.6	216.4	218.5	220.7	221.0	223.5	226.0	229.0	232.0	215.6	225.0	236.5
CORPORATE PROFITS AFTER TAXES	116.5	113.5	108.2	127.2	144.1	142.9	NA	148.0	152.5	157.2	162.4	165.0	130.6	154.2	167.8
UNEMPLOYMENT RATE (percent)	10.00	10.60	10.37	10.10	9.40	8.47	7.87	8.00	7.85	7.70	7.55	7.52	9.58	7.80	7.50
INDUSTRIAL PRODUCTION (index, 1967 – 100)	138.2	135.3	138.5	144.5	151.8	155.5	159.7	159.0	161.0	163.0	165.0	166.3	147.6	162.0	169.0
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.116	1.269	1.643	1.690	1.782	1.699	1.950	1.720	1.730	1.750	1.720	1.680	1.704	1.745	1.610
CONSUMER PRICE INDEX (% change from prior quarter or year)	7.2	1.6	0.3	4.3	4.2	4.4	5.0	4.2	4.3	4.5	4.6	4.9	3.2	4.5	5.1
3-MONTH TREASURY BILL RATE (%)	9.71	7.94	8.08	8.42	9.19	8.79	9.13	8.90	8.90	8.90	8.96	9.10	8.62	8.90	9.03
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	14.72	12.22	11.99	11.57	12.68	12.76	NA	12.68	12.80	12.70	12.65	12.80	12.25	12.80	13.00
GNP IN 1972 DOLLARS	1,486	1,481	1,490	1,525	1,553	1,573	1,604	1,590	1,607	1,623	1,637	1,651	1,535	1,614	1,666
PERSONAL CONSUMPTION EXPENDITURES (1972 $)	971	980	987	1,011	1,016	1,032	1,047	1,043	1,053	1,062	1,070	1,078	1,011	1,057	1,090
NONRESIDENTIAL FIXED INVESTMENT (1972 $)	163.3	160.5	159.9	163.0	170.1	180.7	185.9	182.0	184.2	187.4	191.0	194.0	168.4	186.0	197.9
RESIDENTIAL FIXED INVESTMENT (1972 $)	36.5	40.6	45.5	52.6	56.8	55.8	59.7	57.0	58.0	59.0	59.0	59.0	52.7	58.0	57.0
CHANGE IN BUSINESS INVENTORIES (1972 $)	−1.3	−22.7	−15.4	−5.4	3.8	8.7	26.6	10.0	10.0	11.7	13.0	13.5	−2.1	11.6	13.3
NET EXPORTS (1972 $)	24.0	23.0	20.5	12.3	11.4	2.8	−6.5	1.9	1.4	0.5	0.5	1.8	11.8	0.5	3.0
FEDERAL GOVERNMENT PURCHASES (1972 $)	116.9	124.4	118.4	117.6	118.9	116.4	114.4	118.4	121.6	124.7	127.0	128.0	117.8	123.5	130.0
STATE AND LOCAL GOVERNMENT PURCHASES (1972 $)	175.3	175.2	174.5	174.5	176.3	175.9	177.3	177.0	178.0	179.0	180.0	181.0	175.3	179.0	182.0

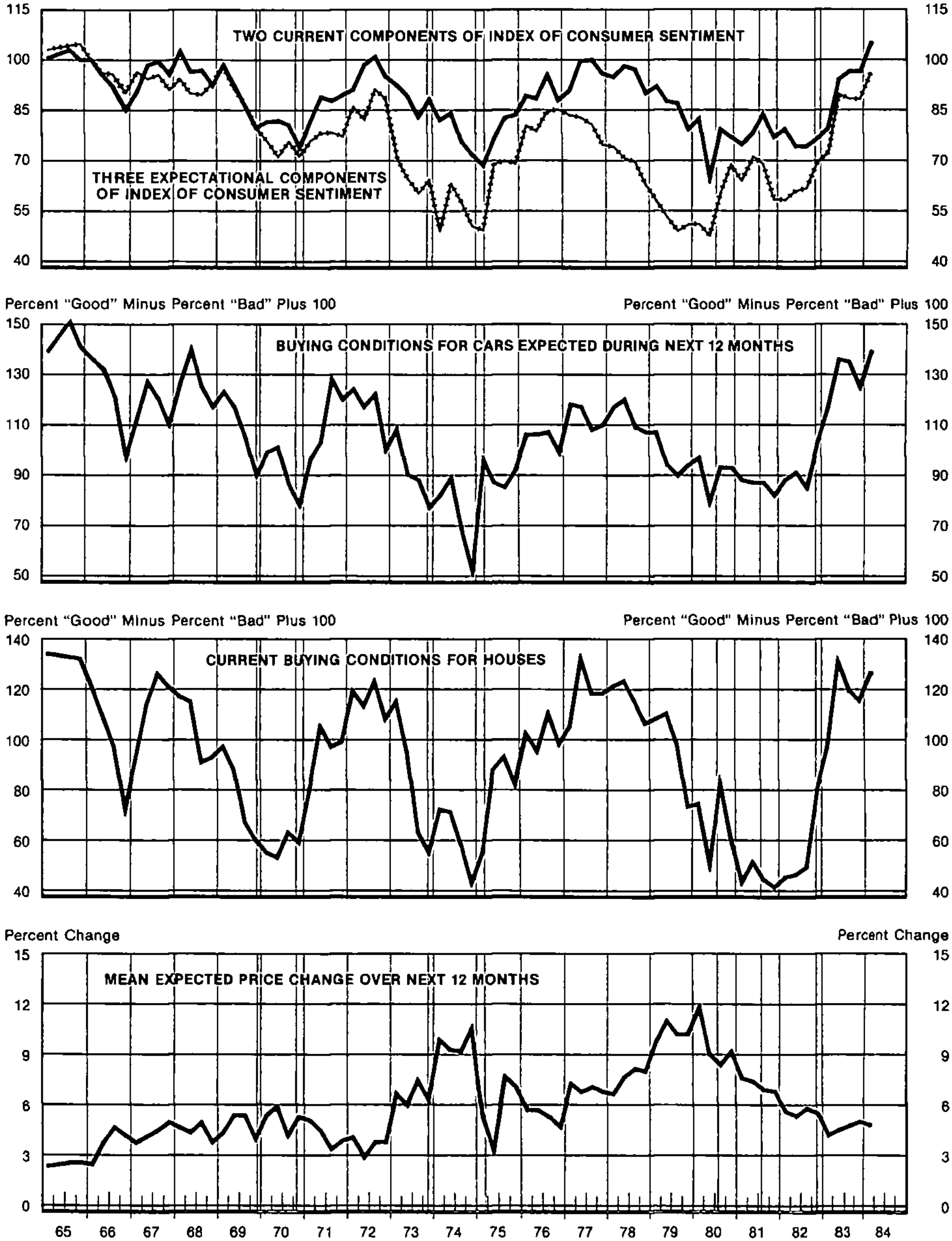
SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS

ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	1981:2	1981:3	1981:4	1982:1	1982:2	1982:3	1982:4	1983:1	1983:2	1983:3	1983:4	1984:1	1981	1982	1983
GROSS NATIONAL PRODUCT	2,913	3,005	3,032	3,021	3,070	3,091	3,110	3,172	3,272	3,362	3,436	3,541	2,954	3,073	3,310
PERSONAL CONSUMPTION EXPENDITURES	1,836	1,886	1,904	1,939	1,973	2,009	2,047	2,073	2,147	2,181	2,231	2,280	1,857	1,992	2,158
GROSS PRIVATE DOMESTIC INVESTMENT	472.1	495.8	476.2	422.9	432.5	425.3	377.4	404.1	450.1	501.1	532.5	595.3	474.9	414.5	472.0
NET EXPORTS	21.1	22.8	29.2	29.9	33.3	0.9	5.6	17.0	−8.5	−18.3	−26.1	−45.2	26.3	17.4	−9.0
GOVERNMENT PURCHASES	583.5	600.3	622.8	629.8	631.6	655.7	679.7	677.4	683.4	698.3	699.0	710.6	595.7	649.2	689.5
DISPOSABLE PERSONAL INCOME	2,010	2,092	2,121	2,128	2,159	2,192	2,228	2,256	2,301	2,362	2,424	2,503	2,048	2,177	2,336
PERSONAL SAVING RATE (% of disposable income)	6.0	7.2	7.5	6.1	5.9	5.6	5.4	5.4	4.0	4.9	5.2	6.1	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 April, and projected data, released by ASA-NBER in March, are displayed for first quarter 1984.

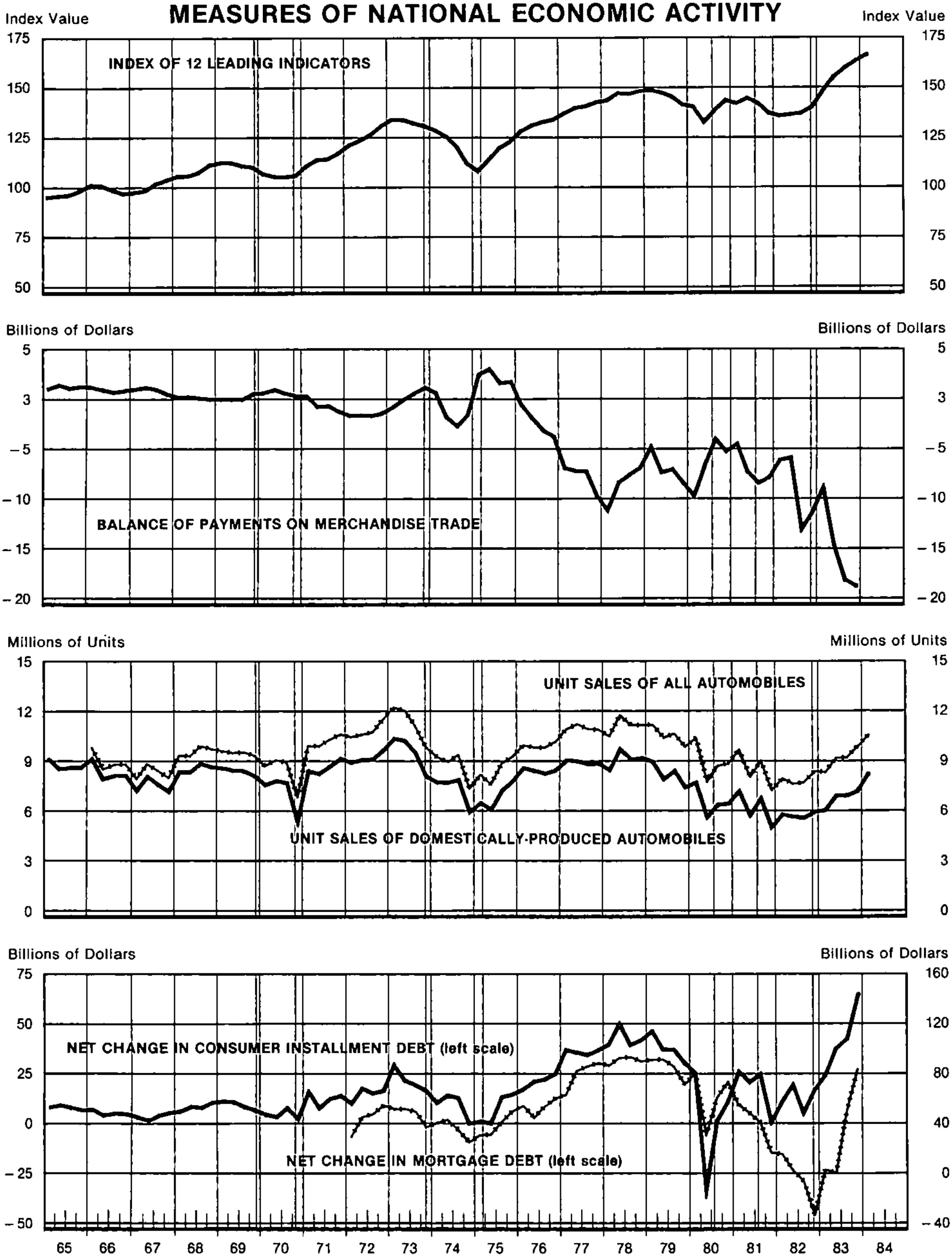
Sources: Projections: American Statistical Association—National Bureau of Economic Research panel of forecasters.
Actual Data: U.S. Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

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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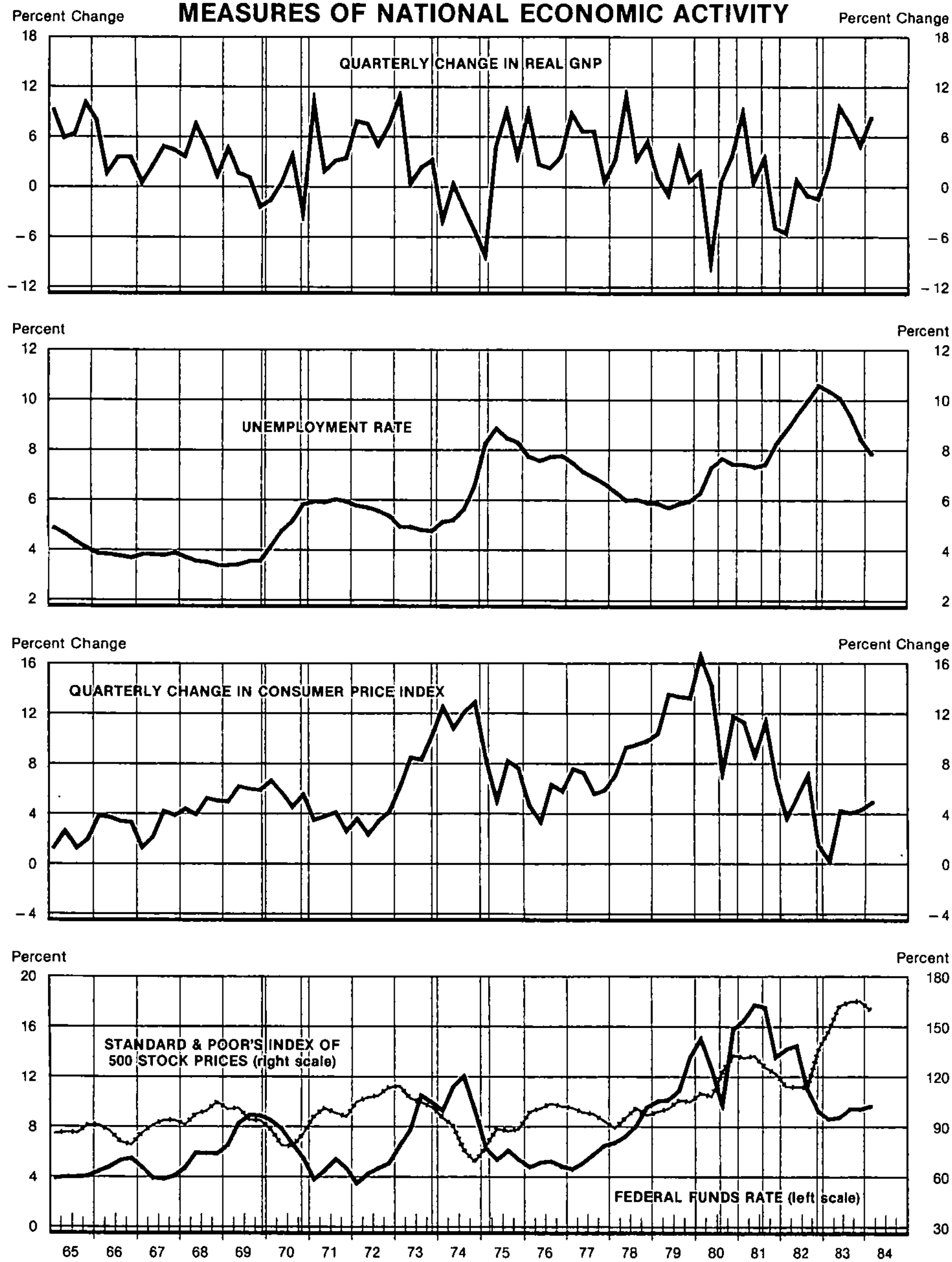
MEASURES OF NATIONAL ECONOMIC ACTIVITY



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