UNITED NATIONS

ECONOMIC COMMISSION FOR
LATIN AMERICA AND THE CARIBBEAN
ECLAC Washington Office

Distr.
RESTRICTED
LC/WAS/R.26 /c.1/
October 5, 2002

ORIGINAL: ENGLISH

UNITED STATES ECONOMIC OUTLOOK

Quarterly Developments

U.S. ECONOMIC OUTLOOK

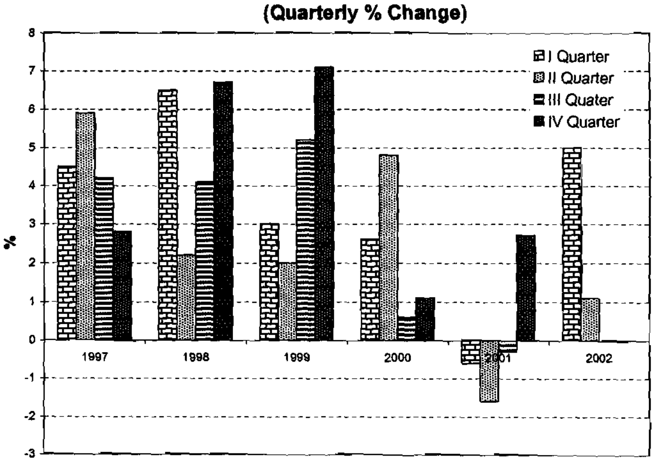
After a stunning growth of 5.0% in the first quarter of 2002, the U.S. economy grew by 1.3% in the second quarter. Together with the fall in equity markets, the accounting scandals and the uncertain outlook for business profits have challenged the strength of the current recovery. Even though a double-dip recession is still considered unlikely, it is looming with recovered strength.

With demand sluggish, job growth meager, no risk of inflation and the stock market in a prolonged gloominess, the Federal Reserve decided at its September meeting to keep interest rates at their current level of 1.75%, while maintaining its bias towards future easing. While growth is not as robust as they would like it to be, the Federal Reserve believes that moderate growth is occurring and thus felt no need to provide additional stimulus at this point. However, the Fed noted the possibility of deterioration in the current conditions and stands ready to respond with further rate cuts.

I. CURRENT ASSESSMENT

- **GDP growth**

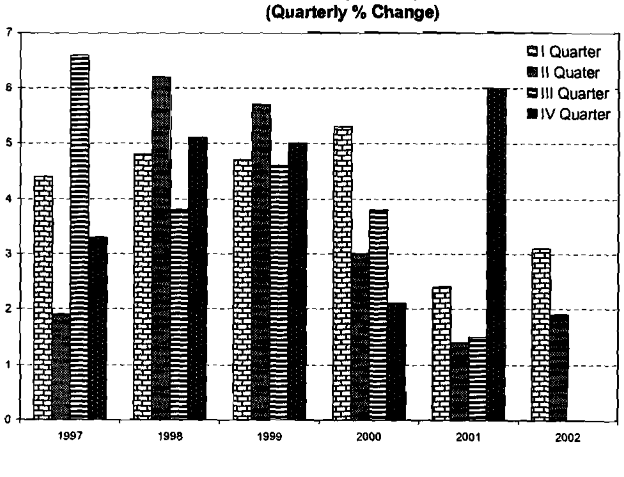
Real Gross Domestic Product (Quarterly % Change)



The U.S. economy expanded at an annual rate of 1.3 % in the second quarter of 2002, way below expectations and at a much lower pace than in the first quarter. First quarter growth was revised down, but still stands at a solid 5%.

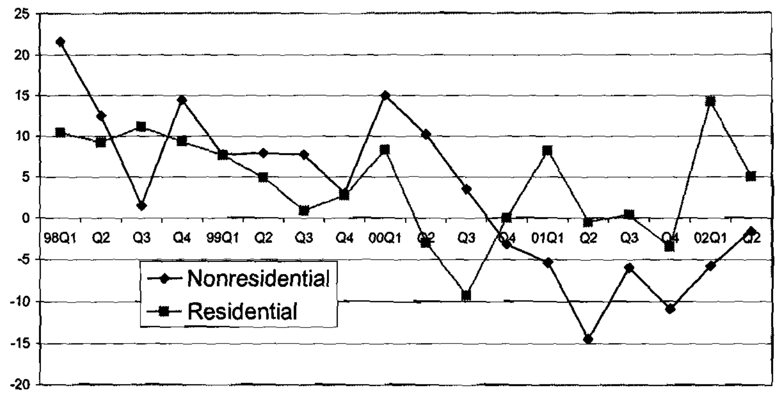
Growth of gross domestic product (GDP) in the second quarter was driven by inventories; real final sales—which exclude inventories-- actually fell 0.1%. Business inventories rose for the first time since the last quarter of 2000. Consumer spending was weaker than in the first quarter, 1.8% versus 3.1%, mostly due to a fall in durable goods. Businesses, on the other hand, continued to cut spending although at a slower pace. Structures investment fell again but equipment and software spending rose by 3.3%, the first time since the third quarter of 2000. Government spending rose by 1.4%.

Personal Consumption Expenditures (Quarterly % Change)



Imports grew at a much higher rate than exports, 23.5% and 11.7% respectively, adding to the trade deficit and acting as a major detractor from growth.

Gross Private Domestic Investment
(Quarterly % Change)



- **Sectoral Developments**

Industrial production has increased for seven consecutive months this year, with the industrial component of the economy on a solid footing after a year and a half of decline. Manufacturing output was up 0.9% in the second quarter and grew 0.7% in June, but a mere 0.2% in July. Since then, there are some signs of a slowdown in the pace of the recovery in manufacturing.

The "National Association of Purchasing Manager (NAPM)" index of manufacturing activity, after having increased steadily during the second quarter to a reading of 56.2% in June, it is now at its lowest level since January. It is marginally above the 50% level that indicates an expansion at a reading of 50.5% in July.

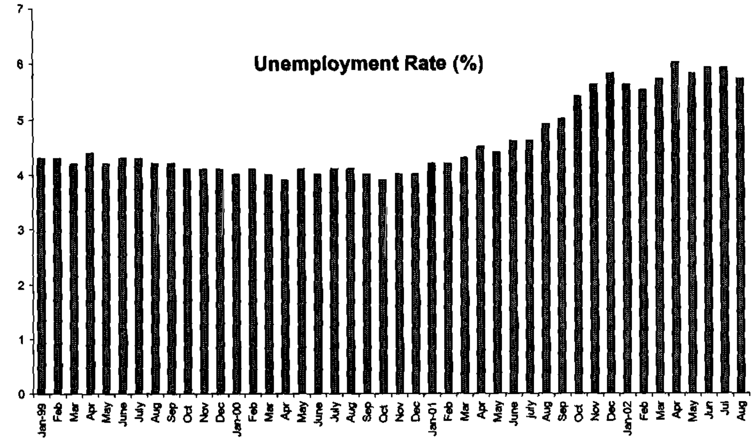
Industrial Outlook

2000/2001	Total Industrial Production		Capacity Utilization Rate (%)
	Index 1992=100	Percentage Change From Previous Month	Total Industry
2001			
January	143.9	-0.8	79.3
February	143.5	-0.3	78.9
March	142.9	-0.4	78.5
2001 Q1	143.4		78.9
April	142.0	-0.6	77.8
May	141.6	-0.3	77.5
June	140.3	-0.9	76.7
2001 Q2	141.3		77.3
July	140.4	0.1	76.7
August	140.0	-0.3	76.4
September	138.5	-1.1	75.5
2001 Q3	139.6		76.2
October	137.7	-0.6	75.0
November	137.2	-0.3	74.7
December	136.7	-0.4	74.4
2001 Q4	137.2		74.7
2002			
January	137.6	0.6	74.8
February	138.1	0.4	75.0
March	138.6	0.3	75.2
2002 Q1	138.1		75.0
April	138.8	0.1	75.3
May	139.5	0.5	75.6
June	140.4	0.7	76.0
2002 Q2	139.6		75.6
July	140.7	0.2	76.1

Capacity utilization has increased steadily during this year. At 76.1% it is at the highest level since August 2001. However, this rate of capacity utilization is still low enough to avoid all supply bottlenecks and limited inflationary pressures from the industrial component of the economy.

- **Labor markets**

The expected rebound of the labor market is taking longer than anticipated. While the economy has been in recovery since January, labor market figures have been disappointing. There has been only one month of job growth this year, new unemployment claims remain high, and the unemployment rate rose to 5.9% in June. The manufacturing industry continues to exhibit the largest number of mass layoff events, although both the number of events and the number of initial claimants have declined.



Productivity of U.S. workers in the non-farm business sector rose at a seasonally adjusted annual rate of 1.5% in the second quarter, a larger increase than expected. Productivity in the manufacturing sector grew at a strong 4.1% during the second quarter. Hours worked fell by 0.7%.

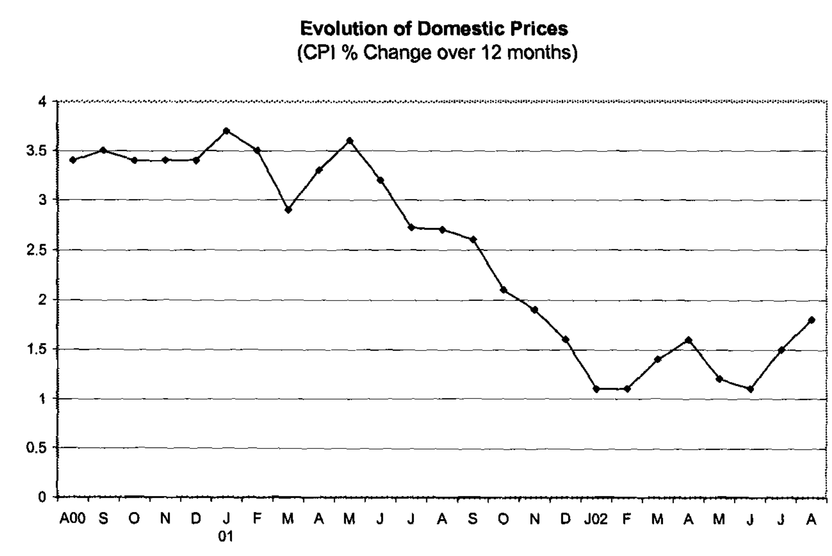
Productivity and costs: Preliminary Second-quarter 2002 measures

(Seasonally adjusted annual rates)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
	Percent change from preceding quarter					
Business	4.7	2.2	-2.5	2.5	1.2	-2.2
Nonfarm business	4.7	2.1	-2.5	2.4	1.1	-2.2
Manufacturing	5.3	-1.1	-6.1	3.4	2.1	-1.8
Durable	6.2	-1.7	-7.5	3.5	2.2	-2.5
Nondurable	3.9	-0.3	-4.0	3.5	2.2	-0.3

- **Inflation**

For the twelve months ended in July, the consumer price index (CPI) rose 1.5 %. The CPI rose by 0.5% in the second quarter and by 0.1% in June and July. However, price trends began to accelerate in August even as the economic recovery progresses at a more moderate pace than previously anticipated. The CPI rose at an unexpectedly higher rate of 0.3% in August rising the year on year rate to 1.8%.



Over the first eight months of the year, core price inflation has held remarkably steady between 2.2% and 2.5%. With this, the Federal Reserve has been able to concentrate on a recovery in output and employment without feeling the pressure of an imminent price spike.

- **Monetary policy**

In its September meeting, the Federal Open Market Committee (FOMC) decided to hold monetary policy unchanged for the sixth consecutive time since December 2001. The Fed had lowered the fund rate target eleven times during a one-year period to its current level of 1.75% -- the lowest in 40 years. The FOMC noted that although the economic recovery is under way, several forces, both internal and external, could sabotage the recovery and tilt the economy back toward recession. Among them, the risk of war against Iraq and a halt in consumer spending that has been the main driving force in this recovery.

Fed authorities continue emphasizing the importance of job growth to sustain resilient consumer spending and of profit gains to stimulate businesses' spending that has remained dormant since last year. If reality does not fulfill the expectations, the Federal Reserve will be in no hurry to change the status quo. A further lowering of the rates, however, still seems to be unlikely.

Stock Market

	Dow Jones Industrial Average	S&P 500	Nasdaq
1998	8,625.52	1,085.50	1,794.91
1999	10,464.88	1,327.33	2,728.15
2000	10,734.90	1,427.22	3,783.67
2001	10189.13	1194.18	2035.00
January	10,682.74	1,335.63	2,656.86
February	10,774.57	1,305.75	2,449.57
March	10,081.32	1,185.85	1,986.66
April	10,234.52	1,189.84	1,933.93
May	11,004.96	1,270.37	2,181.13
June	10,767.20	1,238.71	2,112.05
July	10,444.50	1,204.45	2,033.98
August	10,314.68	1,178.51	1,929.71
September	9,042.56	1,044.64	1,573.31
October	9,220.75	1,076.59	1,656.43
November	9,721.82	1,129.68	1,870.06
December	9,979.88	1,144.93	1,977.71
2002			
January	9,923.80	1,140.21	1,976.77
February	9,891.05	1,100.67	1,799.72
March	10,500.95	1,153.79	1,863.05
April	10,165.18	1,112.03	1,758.80
May	10,080.48	1,079.27	1,660.31
June	9,492.44	1,014.05	1,505.49
July	8,616.52	903.59	1,346.09
August	8,685.48	912.55	1,327.36
Week ended:			
2002 Aug 10	8,446.27	877.01	1,273.82
17	8,702.16	913.33	1,323.29
24	8,949.34	948.21	1,396.79
31	8,754.40	926.90	1,340.90
7-Sep	8,631.02	886.12	1,275.61

- **Financial Markets**

Stocks rose early in the spring when the signs of a recovery started to show in several major economic indicators. However, the succession of corporate scandals and a lack of a forecast of solid sales and profit gains for the second half of this year, have been driving the major stock indexes down since March.

U.S. Treasury Security Yields
(Percent per annum)

2001	3-Month Bills (new issues)	Constant maturity 30-year
January	5.27	5.54
February	4.93	5.45
March	4.5	5.34
April	3.92	5.65
May	3.67	5.78
June	3.48	5.67
July	3.54	5.61
August	3.39	5.48
September	2.87	5.48
October	2.22	5.32
November	1.93	5.12
December	1.72	5.48
2002		
January	1.66	5.45
February	1.73	*
March	1.81	*
April	1.72	*
May	1.74	*
June	1.71	*
July	1.68	*
August	1.63	
Week ended:		*
2002 Aug 10	1.60	*
17	1.63	*
24	1.63	*
31	1.63	*
7-Sep	1.61	*

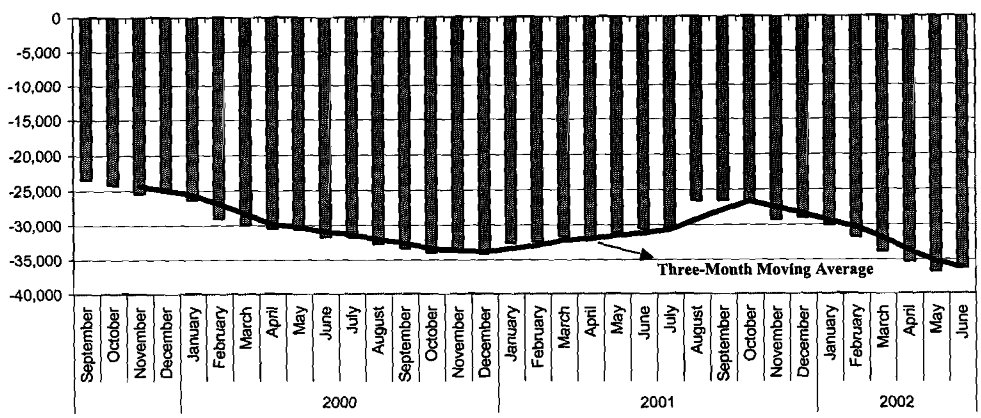
The fall in equity markets has been accompanied by significant changes in other asset prices, including a depreciation of the dollar against other major currencies as well as a generalized decline in long term interest rates as fears of inflation and expectations of monetary tightening recede. The shock to the stock markets, considered unusual since it occurs as activity is recovering from the downturn in 2001, is now widespread, affecting sectors well beyond the technology sector .

The S&P index of 500 stock plunged 17.6% in the third quarter, its worst quarterly showing since the market crashed in 1987. The fall was widespread. Only 41 of the 500 stocks of the S&P have gained over the quarter as well as 12 of the Nasdaq 100 stocks and 2 of the 30 firms in the Dow Jones industrial average.

- **External sector**

The latest data shows exports remaining firm in July after a sharp gain in the previous month, though import growth faded after advancing in a strong manner earlier in the year. Imports may have been artificially inflated earlier in the year as suppliers front-loaded purchases from Asia in anticipation of a possible dock-workers' strike. Thus, the July falloff in imports is unlikely to reflect fading domestic demand than the distortion brought about by the shift in buying.

U.S.Trade Balance
(US$ million)



- **Trade policy developments**

On the trade policy front, passage of Trade Promotion Authority (TPA) by Congress, and signed into law by President Bush on August 6, was considered a landmark victory toward advancing the U.S. trade agenda in new global trade negotiations, completing the Free Trade Area of the Americas, completing a free trade agreement with Chile, and initiating negotiations for a Central American Free Trade Agreement (CAFTA). In addition to TPA, the trade package also expanded the lapsed Andean Trade Preferences Act and renewed the Generalized System of Preferences.

On July 25th, the U.S. unveiled a comprehensive proposal for reforming and liberalizing global trade in agricultural goods outlining a strategy for reducing and eventually eliminating tariffs and other forms of trade-distorting subsidies in agriculture. Among its highlights, the U.S. market access proposal would reduce tariffs on the basis of a formula that would demand greater reductions of high tariffs than low tariffs, and result in no tariff over 25%. This would result in global average allowed agricultural tariffs falling to 15% from 62%.

On domestic support, the proposal would simplify the current system such that subsidies would be considered either trade distorting or non-trade distorting. Trade distorting support would be capped at 5% of the value of agricultural production. (It is estimated that this would result in a global reduction of over $100 billion of allowed trade distorting support). Non–trade distorting support would not be eliminated as long as it complies with certain criteria.

II. LOOKING AHEAD

- The Conference Board's composite index of leading indicators fell 0.2% in August. Seven of the ten index components weakened in August, with only money supply showing some signs of strength. The decline in the index is another piece of evidence that the recovery continues to stall.

- The Risk of Recession Index rose further in August to little over 30%. The persistent weakness in equity markets over the past few months and faltering growth expectations reflected in a flattening yield curve are driving this rise. The risk of recession today is seen as almost five times the low reached in March. A second recession is still not imminent, but the risks are certainly high and rising.