UNITED NATIONS

ECONOMIC COMMISSION FOR
LATIN AMERICA AND THE CARIBBEAN
ECLAC Washington Office

Distr.
RESTRICTED
LC/WAS/R.38
June 10, 2005
ORIGINAL: ENGLISH

UNITED STATES ECONOMIC OUTLOOK

Quarterly Developments

U.S. ECONOMIC OUTLOOK

The U.S. economy grew 3.5% in the first quarter of 2005. Although this rate is better than the initial estimate of 3.1% (which would have been the slowest pace in two years), it is still down from the 3.8% in the final quarter of 2004. Rising energy prices adversely affected spending by consumers and businesses in the first quarter. Growth in consumer spending cooled to 3.6%, down from 4.2% in the fourth quarter. Business spending slowed sharply to a 3.5% annual rate from 14.5%, and was the biggest disappointment in the GDP report. The GDP report also showed inflation hitting a seven-year high of 2.2% (at an annual rate) in the first quarter, according to the Fed's preferred measure.[1]

Economic data has been volatile since the beginning of the year and have caused bouts of speculation in the markets about the outlook for the U.S. economy. Positive data released in April, which included vigorous retail sales, solid orders for big-ticket manufactured goods, surging home sales and a pickup in hiring, combined with the new GDP estimate suggested that the economy was still on solid ground. Yet, the release of data for May, in particular the low payroll employment gain (payrolls increased only 78,000 after an exceptionally strong growth of 274,000 in April), which was much worse than expected, has prompted another bout of speculation regarding whether the U.S. economy has slid into a soft patch. The Federal Reserve has remained focused on inflation and has kept an optimistic view on economic growth. However, May's low payroll employment gain puts a greater burden on the Fed to show why its positive view of the economic outlook, and the implied need for additional interest rate increases, remains valid. Testifying before Congress's Joint Economic Committee on June 9, Alan Greenspan, Chairman of the Federal Reserve, noted that the pace of economic growth has been uneven over the last year, characterized by spurts and pauses, in part because of swinging oil prices. He added, however, that *"the U.S. economy seems to be on a reasonably firm footing, and underlying inflation remains contained,"* thus rates can continue to be lifted *"at a pace that is likely to be measured."*

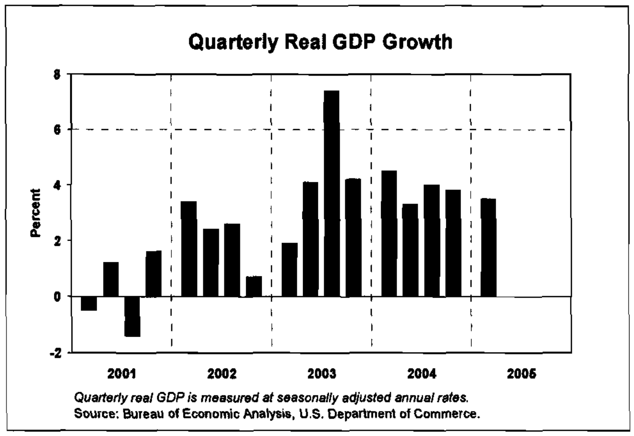
The Federal Reserve increased interest rates three times in 2005. Since June 2004, the Fed has raised its short-term rate target to 3% from 1%, while the 10-year Treasury bond yield has fallen to less than 4% from 4.7%. On June 6, Mr. Greenspan said that the decline in long-term interest rates *"is clearly without precedent"*. He added that *"one prominent hypothesis"* for the decline *"is that markets are signaling economic weakness."* Although he gave this theory more credibility than in February, he still shed doubt on it. He suggested, in response to questions, that the globalization of capital markets is a major factor in the decline of long-term interest rates, given that since 1995 investors around the world have been increasingly willing to invest beyond their borders. He added that he thinks *"the most relevant and likely reason why we're dealing with this is new forces at play in the international markets."*

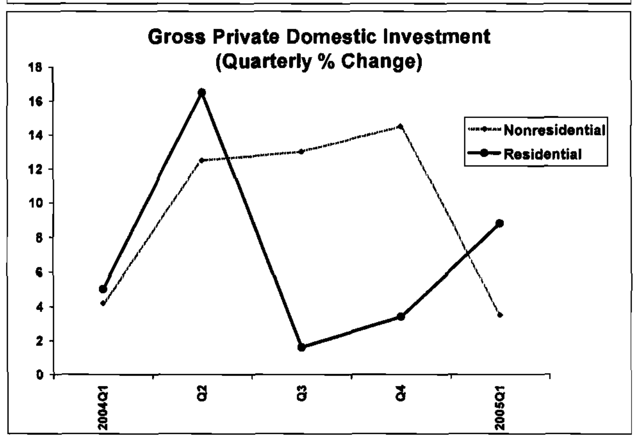
[1] That is an index of personal consumption expenditure, excluding food, energy and items for which market prices can't be readily determined such as services furnished without payment by financial intermediaries.

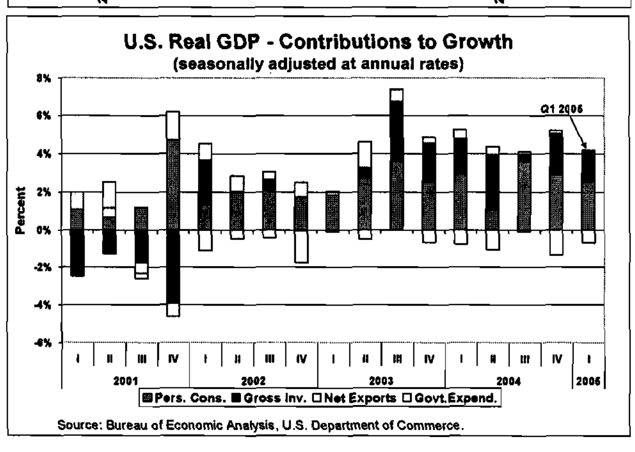
I. CURRENT ASSESSMENT

- **GDP growth**

According to the latest estimates released by the U.S. Department of Commerce on May 26, the U.S. economy grew at an annual rate of 3.5% in the first quarter of 2005, slightly down from the previous quarter's rate of 3.8%. This small reduction in real GDP growth reflected decelerations in equipment and software and in personal consumption expenditure, which were partially offset by accelerations in exports, private inventory investment, and residential fixed investment, as well as by a deceleration in imports. The first quarter growth rate was stronger than previously estimated and showed that the U.S. economy headed into 2005 with impetus.[2]







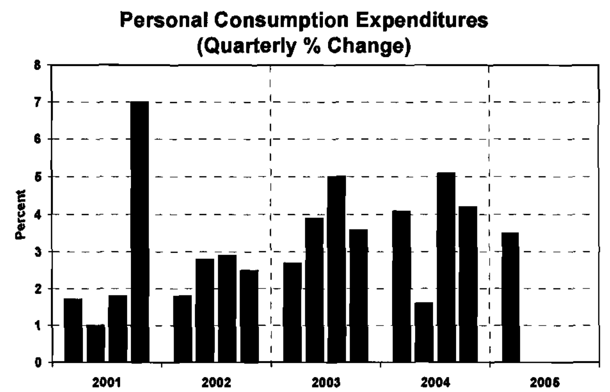
Consumer spending slowed, increasing 3.6% after rising 4.2% in the fourth quarter. Purchases of durable goods, motor vehicles in particular, continued to decelerate, growing only 1.7%, compared to 3.9% in the fourth and 17.2% in the third quarter. Nonresidential fixed investment, which represents overall business spending, decelerated considerably in the first quarter. Following an increase of 14.5% in the fourth quarter, it grew only 3.5%, with spending on equipment and software up by only 5.6%, compared to 18.4% in the fourth quarter. There was a large upward revision to fixed residential investment, to 8.8% growth. This reflects the ongoing strength in the housing market.

Real imports of goods and services were revised down to 9.1% annualized growth in the first quarter, compared to 11.4% in the fourth quarter. Real exports of goods and services increased 7.2% in the first quarter, compared to 3.2% in the previous quarter. Net

[2] A month ago the Commerce Department said that GDP grew 3.1% in the first quarter, far slower than the fourth quarter's pace. However, the economy grew faster than first believed partly because import growth was revised downwards, although it was partially offset by a slower rate of inventory accumulation. Combined, these two changes were responsible for the 0.4% upward revision.

exports of goods and services trimmed 0.67% off real GDP growth in the first quarter, while personal expenditure and gross private domestic investment contributed 2.54% and 1.65% respectively.

The upward revision in real GDP growth indicates that the economy continued to advance in the first quarter, and appears to be on solid ground. The reasons for the upward revision were trade and inventories. The trade deficit in March was much smaller than expected ($55 billion instead of the more than $60 billion that the Bureau of Economic Analysis assumed when putting together its advance estimate), because imports were not as high as previously thought. Private inventory investment was $68.4 billion in the first quarter at an annualized rate, revised down from $80.2 billion in the advance estimate. The composition of growth, however, seems to be changing. Personal consumption, which had been leading growth in previous quarters, is slowing down and is expected to continue to do so as interest rates rise.



Quarterly Personal Consumption Expenditures are measured at seasonally adjusted annual rates.
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

- **Sectoral Developments**

Industrial production expanded at an annual rate of 3.6% in the first quarter of 2005, following a 4.5% advance in the fourth quarter of 2004. On a year-over-year basis (March 2004 to March 2005), total industrial production increased 3.9%.

Manufacturing production also advanced at an annual rate of 3.6% in the first quarter. It fell 0.1% in March, after increasing by 0.3% both in January and February, indicating a slowdown at the end of the first quarter. Weakness in auto production was the driving factor in the March decline. New orders for manufactured goods increased 0.1% in March, however, following a 0.5% decrease in February, according to the Commerce Department. Excluding transportation equipment, factory orders rose 1.3%, after declining 0.6% in February. The increase suggests that manufacturing, which accounts for about 13% of the economy,

Industrial Outlook

2004/2005Q1	Total Industrial Production		Capacity Utilization Rate (%)
	Index 1997=100	Percentage Change From Previous Period	Total Industry
2004 Q1	**113.9**	**5.6**	**77.3**
January	113.2	0.3	76.9
February	114.4	1.1	77.7
March	114.1	-0.3	77.4
2004 Q2	**115.1**	**4.3**	**77.9**
April	114.7	0.5	77.7
May	115.5	0.7	78.2
June	115.1	-0.4	77.8
2004 Q3	**115.9**	**2.7**	**78.2**
July	115.9	0.7	78.3
August	116.0	0.1	78.3
September	115.7	-0.3	78.0
2004 Q4	**117.2**	**4.5**	**78.8**
October	116.6	0.8	78.5
November	116.9	0.2	78.7
December	117.9	0.8	79.2
2004	**115.5**	**4.3**	**78.1**
2005 Q1	**118.2**	**3.6**	**79.3**
January	117.9	0.0	79.2
February	118.2	0.2	79.3
March	118.5	0.3	79.4

Source: Federal Reserve.

will give some support to the economic expansion in the next quarter. The contribution will be limited, however, because orders for cars and capital equipment declined. Durable goods orders were down 2.3%, while non-durable goods orders increased 2.8%.

Mining production advanced at an annual rate of 6.6% in the first quarter. Higher oil and coal production boosted mining output by 0.7% in March, following an increase of 0.4% in February and a decline of 0.1% in January. Utility production was up by 1.4% in the first quarter. In March, electric and gas utilities (with the return to more seasonal temperatures) contributed to a 3.6% advance in utility production, following two months of decline (-1.1% in February and -2.3% in January). Overall industrial production was up 0.3% in March due to the sharp increase in utilities output.

Total industrial capacity expanded 1.2% in the first quarter of 2005. The rate of capacity utilization in March was 79.4%, 1.6% below its 1972-2003 average. Capacity utilization continues to rise for all three stages of processing. For crude goods, capacity utilization stood at 86.7% in March and exceeded its 30-year average of 86.4%. Primary and finished sector rates are below their long-term average.

- **Labor markets**

The volatility that characterized labor market trends in 2004 persisted in the first quarter of 2005. With an average of 190,000 jobs a month (about the same as the average of 189,000 in the fourth quarter of 2004), job gains swung from 124,000 in January to 300,000 in February, and to 146,000 in March. At this stage of the business cycle job creation would be expected to average over 200,000. As in 2004, increasing energy prices appear to be limiting employment. Employers seem to keep controlling costs and the higher spending in energy and other raw materials may be reducing their willingness to hire more workers. Nevertheless, the unemployment rate declined to 5.2% in March from 5.4% in February, as several industries added jobs over the month, including construction, mining, health care, and wholesale trade.

Source: Bureau of Labor Statistics.

Productivity gains for U.S. workers in the nonfarm business sector grew at a 2.6% annualized rate in the first quarter, beating market expectations and marking a pickup in growth from the two previous quarters, although the pace is no longer at the soaring

Productivity and costs: Preliminary first-quarter 2005 measures
(Seasonally adjusted annual rates)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
	Percent change from preceding quarter					
Business	2.1	3.6	1.5	4.3	1.9	2.2
Nonfarm business	2.6	3.6	1.0	4.8	2.4	2.2
Manufacturing	3.9	3.3	-0.7	4.9	2.5	0.9
Durable	6.3	5.8	-0.4	5.3	2.9	-0.9
Nondurable	1.3	0.3	-1.0	3.9	1.5	2.6

Source: Bureau of Labor Statistics.

rates that prevailed shortly after the recovery took hold. Unit labor costs also picked up, however, showing an increase of 2.2% in the nonfarm business sector, the largest quarterly increase since last year's third quarter. The first quarter rate followed an increase of only 0.4% in all of 2004. The rise in unit labor costs provides further support to the notion that core inflation will likely continue to trend higher this year. Chairman Greenspan, speaking to the Congress's Joint Economic Committee on June 9, said it *"remains an open question"* whether rising labor costs will push inflation higher, an indication that the Fed remains worried about building price pressures.

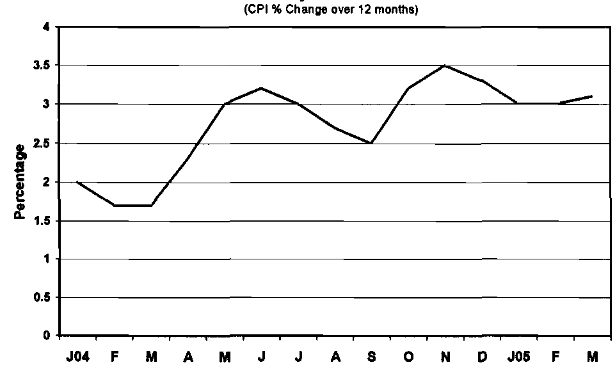
Wages and salary trends in the currently most dynamic sectors of the economy (construction, financial services and transportation) remain very well contained, however. Salaries climbed just 2.4% at an annual rate according to the Employment Cost Index. This is a new record for the slowest year-over-year growth rate recorded to date, and reflects employees' ongoing lack of leverage amid an unsteady labor market. The uneven revival in the labor market since the 2001 recession has made it hard for workers to negotiate real improvements in living standards. Although the labor market has been improving, companies may still feel there is a big pool of workers to draw on. The labor force participation rate, despite rising in April to 66%, is still well down on its peak of 67.3% in April 2000.

- **Inflation**

The Consumer Price Index for All Urban Consumers (CPI-U) rose at a seasonally adjusted annual rate (SAAR) of 4.3% in the first quarter of 2005, following an increase of 3.3% for all of 2004. The energy index, which rose 16.6% in 2004, advanced at a 21.1% SAAR in the first quarter of 2005 and accounted for about three-eighths of the first quarter advance in the overall CPI-U, according to the Bureau of Labor Statistics. Consumer prices outpaced gains in most workers' wages, as households paid more for energy, clothing, hotel rooms, medical care and other items.

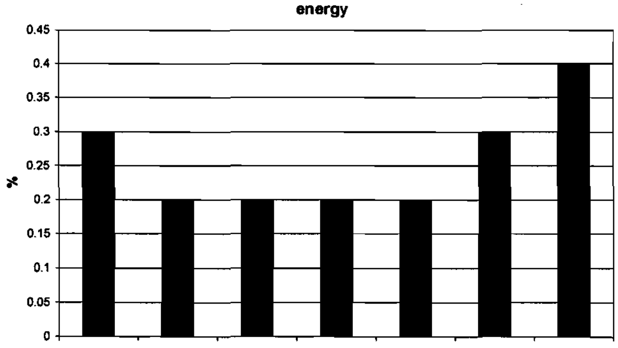
Excluding food and energy the CPI-U advanced at a 3.3% SAAR in the first quarter of 2005, following a 2.2% rise in all 2004. It climbed 0.4% in March. Although most categories advanced at a faster rate in the first quarter of 2005 than in all 2004, about 70% of the acceleration was accounted by higher shelter costs, largely as a result of a 3.9% advance in the index for

Evolution of Domestic Prices from January 2004-March 2005
(CPI % Change over 12 months)



Source: Bureau of Labor Statistics.

Inflation Acceleration
Month-to-Month percentage change in the CPI, excluding food and energy

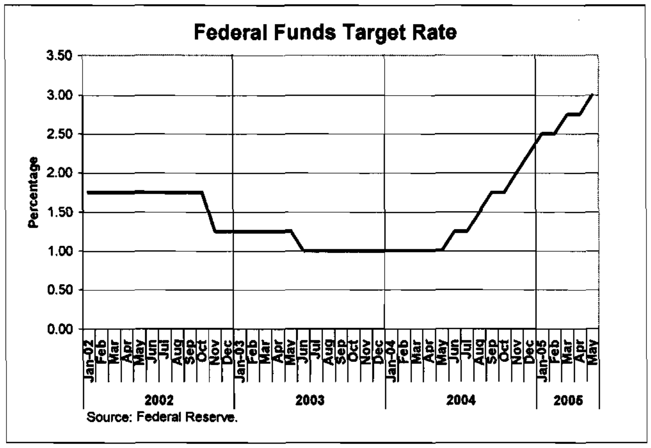


Source: Bureau of Labor Statistics.

lodging away from home. Higher hotel and motel rates reflect a recovery in business and leisure travel, including an increase in the number of foreign tourists taking advantage of the recent slide in the value of the U.S. dollar.

Although inflation is still low, there are concerns that it is accelerating. The CPI report reinforced analysts' expectations that the Fed will continue raising interest rates to keep inflation under control.

- **Monetary policy**



The U.S. Federal Reserve raised the federal funds target rates three times in 2005, from 2.25% in the beginning of the year to 3% in May, signaling that it intends to keep raising rates in the months to come. The Federal Open Market Committee (FOMC) raised short-term interest rates on February 2, March 22, and May 3, which was its eighth increase since June 2004, repeating previous declarations that it could afford to raise rates at a "pace that is likely to be measured". Federal Reserve officials remained steady as volatile data shifted the mood in the market and led to bouts of speculation about whether the U.S. economy had slid into a soft patch of growth.

Since the beginning of the year data has been uneven, but the Fed officials remained focused on inflation. Despite a slowdown in economic growth in the first months of 2005, the Federal Reserve did not move away from earlier statements that the current level of interest rates was still *"accommodative"* and that its goal was to keep raising interest rates up until low borrowing costs no longer provide a stimulus to the economy. The Fed was less alarmed about signs of an economic slowdown than some investors.

Although inflation risks remained the Federal Reserve's primary concern, in its May 3rd statement it also acknowledged that the U.S. economy has slowed. Compared with a more buoyant view on growth in the March 22nd statement, the Fed stated that *"recent data suggest that the solid pace of spending growth has slowed somewhat, partly in response to the earlier increases in energy prices"*. In an interview on June 1, the new president of the Federal Reserve Bank of Dallas, Richard Fisher, said that the Fed is in the *"eighth inning"* of raising interest rates, suggesting that an increase by the Fed later in the month could be the last. Keeping the baseball analogy, he told the Wall Street Journal that *"We have the ninth inning coming up at the end of June; we feel strongly we have been getting good fast, hard pitches coming right down the pipe,"* suggesting that policy moves have been effective and that the tightening cycle is approaching an end. His comments are at odds with those of other Fed officials who have emphasized that interest rates are still too low to ensure low inflation. Mr. Fisher's remarks, however, reinforced the view of many bond traders that economic growth is slowing.

Even with May's latest increase, short-term borrowing costs are still below historical averages. At 3%, the funds rate is below the core inflation of 3.3%, and the 4.3% rate recorded by the broader consumer-price index. More important, long-term interest rates for corporate bonds and home mortgages have declined further in recent months. The yield on the 10-year Treasury note is lower now than when the FOMC started raising rates last June. Alan Greenspan has referred to the low level of market-determined long-term interest rates as a *"conundrum"*. Traditionally, such low long-term interest rates might have been taken as a sign that growth is about to collapse, but the prevailing view within the Fed is different. Rather than a warning about growth concerns, low long-term interest rates are an indication of investor confidence that the Fed will keep inflation under control, and of demand for U.S. Treasuries from foreign central banks. Low long-term interest rates did not signal weaker growth last year, as the economy continued to grow rapidly.

Nevertheless, on June 6, Mr. Greenspan acknowledged that *"one prominent hypothesis"* for the low level of long-term interest rates *"is that markets are signaling economic weakness."* He still seemed skeptical, but gave more weight to this explanation than he did in his semiannual testimony before the Senate Banking Committee in February.

- **Financial markets**

The Federal Reserve steadily lowered its funds rate in 2001 and 2002, and left it at 1% (a 45-year low) throughout 2003, creating large amounts of liquidity in financial markets, as the cost of borrowing declined. By cutting short-term rates to 1%, the Fed also encouraged consumers to borrow more, discouraged saving and contributed to a surge in housing prices. In the second half of 2004, the Fed steadily raised its funds rate up to 2.25% in December, attempting to slow the pace of lending in financial and housing markets. It reached 3% by May, 2005.

However, the higher funds rate has not generated an increase in market interest rates, which have fallen sharply since the Fed first started raising rates on June 30, 2004. The yield on the 10-year Treasury note was trading at 4.34 % in April 2005, compared to 4.73% in June 2004. It has now fallen below the 4% level, to 3.88% (on June 2, 2005), a 14-month low. Mortgage rates, which follow the 10-year note, have also fallen, with the 30-year fixed mortgage rate reaching 5.65% in the week ending on May 26, down form 6.32% a year ago, according to mortgage financier Freddie Mac. The unexpected persistence of low long-term interest rates has driven the sales and prices of housing to record levels and is stirring worries of a real estate investment bubble.

U.S. Treasury Security Yields

	Constant Maturities	
	3-year	10-year
1998	5.14	5.26
1999	5.49	5.65
2000	6.22	6.03
2001	4.09	5.02
2002	3.10	4.61
2003	2.10	4.01
2004	2.78	4.27
2004		
January	2.27	4.15
Februrary	2.25	4.08
March	2.00	3.83
April	2.57	4.35
May	3.10	4.72
June	3.26	4.73
July	3.05	4.50
August	2.88	4.28
September	2.83	4.13
October	2.85	4.10
November	3.09	4.19
December	3.21	4.23
2005		
January	3.39	4.22
Februrary	3.54	4.17
March	3.91	4.50
April	3.79	4.34

Source: Economic Indicators, U.S. Government Printing Office

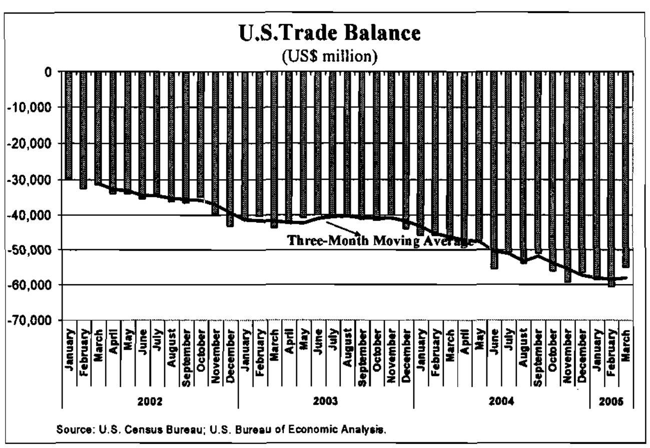
Fund managers have been finding a variety of partial explanations for why long-term rates keep being pushed lower. Some point to short-term issues, such as the recent comments by Mr. Fisher, president of the Federal Reserve Bank of Dallas, or the recent downgrading of debt issued by

General Motors Corp. and Ford Motor Co., which have prompted some investors to move money from corporate bonds to Treasuries. There are long-term economic conditions combined with short-term factors, however, which include: the Fed (as well as other central banks), as described above, cut their short-term rates in response to the 2001 recession, and have held them relatively low since then, creating abundant liquidity in world markets; inflation has been extremely low in recent years; pension funds and insurers have large amounts of retirement savings to invest on behalf of aging populations[3]; and, finally, the continued strong demand for U.S. debt securities (of different durations) from Asian investors, which has pushed prices higher and yields lower, lowering borrowing costs for home buyers and companies. The ongoing low level of market rates keeps asset prices high.

The Treasury announced in early May that it is considering whether to start reissuing 30-year bonds. A decision to reintroduce the 30-year bond would provide a broader spectrum of investment opportunities at the long end of the yield curve, what could mean higher 10-year Treasury yields. The announcement indicates how much the facts underscoring the U.S. bond market and budget balance have changed since October 2001, when the Treasury stopped issuing long bonds. Tax cuts, a recession and wars in Afghanistan and Iraq pushed the federal deficit up to US$412 billion in 2004. Four years ago the Congressional Budget Office expected cumulative budget surpluses of US$5,600 billion by 2011, while the outlook now is for cumulative deficits of the same order. Borrowing needs for the intermediate-term and for the first wave of retiring baby boomers will likely increase the deficit in 10 years. Moreover, the Administration's own proposal to partially privatize social security would lead to a large increase in debt issuance. New 30-year bonds would contribute to improve the maturity profile of the U.S. public debt.

- **External sector**

According to the Bureau of Economic Analysis and the Census Bureau, the U.S. monthly goods and services deficit narrowed to its lowest level in six months in March 2005. The deficit decreased US$5.6 billion from the record US$60.6 billion in February to US$55 billion in March. The marked decline in the deficit was driven by an increase in exports and a decrease in imports.



Exports reached US$102.2 in March, US$1.5 billion more than in February. The biggest rise in exports was posted in the category of capital goods, which were up over US$900 million during the month. In addition, exports of services were up about US$500 million.

Imports in March were US$4.1 billion less than the US$161.2 billion imports of the previous month. The 2.5% drop in imports in March was the biggest monthly decrease since December 2001. Imports of crude oil rose to US$14 billion

[3] In some countries, there has been recent regulatory pressure on pension funds to match their long-term liabilities with long-term investments, prompting a shift to bonds with durations of 10 years or more.

in March, from US$11.3 billion in February, but non-petroleum imports declined sharply. Capital goods imports decreased by US$300 million, auto imports fell US$1.3 billion, and imports of consumer goods declined by US$2.4 billion.

The goods deficit with China decreased (from US$13.9 billion in February to US$12.9 billion in March), while it increased with the European Union and Japan (to US$9.3 billion and US$6.9 billion in March, from US$8.5 and US$7.8 billion in February, respectively). The March figures show the U.S. continues to have large trade deficits with China, followed by Europe, Japan, OPEC members, Canada, Mexico, Korea, Taiwan and Brazil.

After February's record trade deficit, the March numbers left some analysts cautiously optimistic, although others warned about rushing to conclusions from a single month's figures. These numbers are likely to spark a debate regarding whether the decline in the U.S. dollar is finally starting to narrow the U.S. trade deficit. For the first quarter of the year, the trade deficit was still running at an annual rate of US$696 billion (5.7% of GDP), significantly higher than the US$617 billion record set in 2004.

II. LOOKING AHEAD

- After eight rate rises at eight successive meetings, the Fed considers monetary policy is still accommodative. Investors expect the Fed to boost its target for the federal-funds rate to 3.25% from 3% at its next meeting at the end of June. However, since the beginning of the year, economic data has been volatile and there have been opposing views on where the U.S economy is headed. Many bond traders believe the economy is slowing, but the Fed has maintained an optimistic outlook for economic growth. In its last statement, however, the FOMC presented a less sanguine view on growth compared to previous statements, although it remained optimistic. Yet, a renewed plunge in long-term interest rates world wide towards the end of May might suggest that pessimists are winning. Government bonds in the U.S., the euro zone and Asia have all declined sharply in response to disappointing economic data, lackluster business investment, and hopes that the Fed's tightening cycle will come to an end, which rose after the comments made by Mr. Richard Fisher, new president of the Federal Reserve Bank of Dallas.

- Recent credit downgrades of General Motors and Ford Motor raised another important concern regarding the stability of the financial system, given the explosive growth of innovative structured credit products, such as credit default swaps or collateralized debt obligations. The fact that the financial industry has consolidated and is more concentrated than before, combined with the growth in hedge funds, which are dramatically bigger than in 1998, although not more transparent than they were then, contribute to the increasing concerns. Timothy Geithner, the president of the Federal Reserve Bank of New York, in a speech to the Bond Market Association in April, emphasized the concentration and growth of hedge funds in financial markets, highlighting the fact that *"although hedge funds help improve the efficiency of our system, and may also contribute to greater stability over time by absorbing risks that other institutions will not absorb, they may also introduce some uncertainty into market dynamics in conditions of stress."* Hedge funds, unlike many traditional investors are quick to cut their losses when a problem occurs, which means that liquidity can evaporate very fast in response to a crisis.

- The United States is paying almost US$700 billion more on foreign goods, services, and net interest payments than it is currently earning from its transactions with the rest of the world. The deficit must be financed, but U.S. national savings are inadequate to cover the financing, a most fundamental imbalance in the U.S. economy. From 2002 to 2004, the rate of national savings was lower than at any time since 1934, and has trended downward since peaking at 11.2% in 1982. In 2004 the personal saving was 1.2%. This decline has spurred much concern among economists.

- The current imbalances in the global economy continue to be another source of concern among economists. According to the OECD's forecast for all leading economies (in its twice-yearly economic outlook) released on May 24, poor prospects for economic growth in Japan and continental Europe, alongside a robust U.S. economy will exacerbate global economic imbalances. According to the agency, *"these continuing divergences in domestic demand between Europe and some Asian countries on the one hand, and the U.S. on the other, cannot be treated with benign neglect"*. The OECD also forecasts that the U.S. current account deficit, the most important measure of the size of global economic imbalances and the risks to the world economy, would continue to rise, hitting nearly US$900 billion or 6.7% of the U.S. GDP in 2006, a level the agency said is unsustainable and could lead to a weakening of the dollar. According to the OECD chief economist, *"We're not saying there will be a doomsday tomorrow morning... but because the adjustments [to global imbalances] are relatively slow, we are running the risk that an accident will happen. That's where we are. Time is running out – the numbers are getting big, big, big."*

- Finally, in face of prospects of further increase in an already high trade deficit, U.S. Treasury Secretary John Snow told Chinese authorities in May that they must revalue their currency by at least 10% against the dollar to prevent protectionist legislation in the U.S. congress (he said also that the U.S. could eventually charge China with unfair currency manipulation). *"Addressing imbalances in the global economy is a shared responsibility among the major economic regions of the world,"* he commented. However, many economists agree that a revaluation of the Chinese currency, the *renminbi,* would have little impact on the U.S. trade balance. Mr. Greenspan expressed concern with the recent efforts to restrict international trade, which included the U.S. and European Union response to a surge in Chinese textile exports after the quotas were lifted, and an ongoing dispute between the U.S. and the European Union over aircraft manufacturer subsidies. *"The recent emergence of protectionism and continued structural rigidities in many parts of the world are truly worrisome,"* he said.