U.S. Economic Slowdown Expected through 1999

U.S. FORECAST

Current Economic Conditions

The strong expansion enjoyed by the U.S. economy since 1991 has now slowed considerably, and in light of the global financial situation, a more serious slowdown may be on the horizon. Inflation-adjusted gross domestic product (GDP) recorded tremendous growth of 5.6 percent (SAAR) during the first quarter of 1998, slowing to just 1.6 percent in the second quarter. Part of this slowdown can be attributed to the recent GM strike, which led to a decline in both the rate of inventory accumulation and industrial production. The walkout accounted for an estimated 0.5 percent reduction in inflation-adjusted GDP.

The unemployment rate fell to just 4.4 percent in the second quarter, down from 4.7 percent in the first quarter. While unemployment remains historically low, the overall employment picture of the second quarter shows the effects of the slowing economy. Total nonagricultural job growth slowed from 2.8 percent in the first quarter to 2.3 percent in the second quarter. Meanwhile, there was a 0.6 percent erosion of manufacturing jobs in the second quarter following first quarter job growth of 1.5 percent.

Inflation continues to remain under control, with consumer prices rising approximately 2.5 percent in recent quarters. Estimates for all of 1998 show consumer prices increasing a mere 1.7 percent. Producer prices are expected to decline 1.8 percent in 1998. However, a decrease in the rate of productivity, accompanying slower economic growth, will likely exert some upward pressure on unit labor costs, and ultimately prices, in the quarters to come. A slowing global economy should take much of this pressure off of the U.S. economy.

The spreading international financial crisis is both significant and potentially troublesome to the U.S. economy. Weakness in Asia has Japan mired in its worst post-war recession. Meanwhile, the collapse of the Russian ruble, the fall of the South African rand, and recent devaluations in South America, leave many nations with an uncertain economic future. For the U.S., international economic weakness has led to a decline in U.S. exports as foreign currencies weaken against the dollar (see Figure 1). During the second quarter, inflation-adjusted exports fell 8 percent, contributing to the overall slowdown in economic growth. This trend is likely to continue into the near future. In addition to a decrease in

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exports, financial turmoil abroad and instability in the U.S. stock market has affected consumer confidence, resulting in a decline in consumer spending further dampening GDP growth. Investor confidence also has withered, especially abroad.

The combination of slower U.S. economic growth and worldwide financial problems, coupled with the continued absence of inflationary pressures, has led the Federal Reserve (Fed) to reduce the federal funds rate 0.25 percentage points to 5.25 percent. As individual banks begin to lower interest rates in response, the U.S. economy should receive a modest boost through increased spending on interest-rate sensitive consumer durables and housing. Further, a reduction in interest rates will make U.S. securities relatively less attractive, reducing the inflow of capital from troubled economies abroad. At a minimum, this should take some pressure off the beleaguered international exchange rate markets.

U.S. Forecast Summary

Prospects for the U.S. economy over the short term have been muddied by global economic weakness. The long and robust expansion of this decade is expected to wane, with little if any chance of an upswing in economic activity over the near term, as shown in Figure 2. The chances of recession have grown significantly in recent months. As of August 7, WEFA estimated the probability of an imminent recession in the U.S. to be 15 percent. This figure jumped to 35 percent as per WEFA’s September 3 update.

Inflation-adjusted GDP is expected to grow 3.4 percent for all of 1998, with growth of 2.4 percent expected in 1999. (Note that the forecast data were derived prior to the recent Fed reduction in interest rates. Lower interest rates recently engineered by the Fed will lead to marginally higher rates of growth for output, employment, and prices.) The consumer price index is expected to finish the year up 1.7 percent, with consumer prices experiencing a 2.3 percent rise in 1999. Producer prices should finish lower in 1998, with a projected 0.8 percent increase in 1999.

Job creation is dependent on economic growth, therefore the predicted slowdown in economic growth will contribute to a deteriorating employment outlook. Total nonagricultural job growth in 1998 should come in at 2.4 percent, with job creation decelerating to 1.5 percent in 1999. The decline in total job growth is driven by
a sluggish 0.2 percent increase in manufacturing employment during 1998, followed by the projected erosion of 1 percent of manufacturing jobs in 1999. Further, the recent period of historically low unemployment rates is about to cease, with an overall unemployment rate of 4.5 percent in 1998 rising to 4.8 percent in 1999.

The decline in job and income growth will coincide with dampened consumer spending, the largest component of total spending on final goods and services. While consumer spending will record strong growth of 4.4 percent in 1998, consumer expenditures will rise just 2.4 percent in 1999, the slowest growth since the 1990-91 recession. Expect nonresidential fixed investment growth to fall sharply from a 12.6 percent pace in 1998 to 6.6 percent in 1999.

U.S. Forecast at a Glance

- A U.S. economic slowdown, caused by weak global economic conditions, is expected to continue through 1999. Inflation-adjusted gross domestic product will increase 3.4 percent in 1998 slipping to 2.4 percent growth in 1999.

- Nonagricultural jobs are expected to grow at a 2.6 percent pace in 1998 and 1.6 percent in 1999, the slowest growth since 1992. Manufacturing employment will increase 0.2 percent in 1998 and fall by 1 percent in 1999.

- Consumer spending, which will finish 1998 with strong growth of 4.4 percent, will record the slowest growth since 1991, rising just 2.4 percent in 1999.

- Inflation should remain under control, with consumer prices rising 1.7 percent in 1998 and 2.3 percent in 1999.

- Slower economic growth, continued international financial unrest and low inflation could result in further interest rate cuts by the Fed in the quarters to come.

**Tennessee Economy Slows**

**TENNESSEE FORECAST**

**Current Economic Conditions**

The Tennessee economy has held up reasonably well in the face of a slowing global economy. Tennessee nonagricultural job growth advanced at a seasonally adjusted annual rate (SAAR) of 3.0 percent in the first quarter of 1998, following growth of 1.8 percent for calendar year 1997. Job growth decelerated to 0.3 percent (SAAR) in the second quarter, as the national economy slowed due to the GM strike. Tennessee personal income showed a similar slowing, with first quarter growth coming in at 8.3 percent, followed by a contraction of 2.8 percent in the second quarter (SAARs). On the positive side, the Tennessee unemployment rate fell from 4.5 percent in the first quarter to 4.3 percent in the second quarter. And taxable sales, which contracted in the first quarter, rebounded with positive growth in the second quarter.

The state’s manufacturing sector came out of 1997 with overall job losses of 0.4 percent, as a 2.2 percent drop in jobs in the nondurable goods sector overwhelmed 1.0 percent growth in jobs in the durable goods sector. The manufacturing sector was able to engineer positive job growth in the first quarter of 1998, but jobs slipped 2.5 percent (SAAR) in the second quarter as contraction took place in both the durable and nondurable goods sector. Expectations are for a sharper contraction in the third quarter. The textile, apparel and leather sectors continued to be battered by significant (often double-digit) job losses.

The service sector has cooled off from the heated pace of expansion earlier in the current economic expansion, with job growth in 1997
coming in at 2.8 percent (see Figure 3). The first quarter saw growth accelerate to 4.7 percent, but the second quarter produced a 0.5 percent contraction (SAARs). Jobs in mining; finance, insurance and real estate (FIRE); and transportation, communications and public utilities (TCPU) also showed positive growth in the first quarter, with contractions in the second quarter. The construction sector, which has enjoyed unprecedented growth, saw the pace of job expansion accelerate in the second quarter.

The Tennessee unemployment rate moved above its national counterpart in 1997 (5.4 percent versus 4.9 percent). In the first and second quarters of the current year, the Tennessee unemployment rate has remained below the national rate. The civilian labor force and employed persons in Tennessee showed growth of 3.9 percent and 6.9 percent (SAARs), respectively in the first quarter; the labor force contracted in the second quarter and employed persons advanced only 0.4 percent (SAAR).

Personal income growth mirrored many other economic indicators, growing 8.3 percent in the first quarter, and contracting 2.8 percent in the second quarter. A rebound in personal income growth is anticipated in the third quarter. Wage and salary growth helped drive personal income into the red in the second quarter with a 6.4 percent dip on the heels of 10.0 percent growth in the first quarter (SAARs). Stronger job growth in the third quarter will push wage and salary growth, as well as overall personal income growth, into the black.

Tennessee taxable sales performed miserably in the first quarter, with a decline of 18.8 percent (SAAR). A rebound of over 30 percent took place in the second quarter, and even stronger growth is expected in the third quarter (SAARs). Year-over-year growth in taxable sales is discouraging, with a decline of 2.9 percent recorded in the first quarter and growth of only 3.3 percent in the second quarter.

**Tennessee Forecast Summary**

The Quarterly Tennessee Econometric Model projects slower growth for the state economy through 1999, with the primary culprit being slower global and national growth. Job growth for calendar year 1998 is projected to be 1.8 percent, with slower growth of 1.6 percent anticipated for 1999. Nominal personal income is expected to close out 1998 with 5.1 percent growth, slowing to 4.9 percent growth in 1999 (See Figure 4). The unemployment rate is

![Figure 3](image)

**Figure 3**


![Figure 4](image)

**Figure 4**

**Tennessee Personal Income**
expected to inch forward to 4.5 percent in 1999, remaining below the national rate of unemployment. Should global and national economic conditions show sharper deterioration, Tennessee’s growth rates will slow as well.

The state’s manufacturing sector should end 1998 with overall job losses of 0.7 percent, with 1.9 percent contraction in nondurable goods employment outweighing 0.3 percent growth in durable goods employment. Job losses totaling 0.8 percent are projected for 1999. Job growth in durable goods employment will hold its own moving from 1998 to 1999 (0.3 percent), while job losses in the nondurable goods sector will grow from 1.9 percent in 1998 to 2.3 percent in 1999. Construction sector activity is expected to slow considerably, despite lower interest rates, reflecting slower job and income growth, and less commercial and industrial investment in October 13, 1998 structures. Job growth in the trade, services, government and FIRE sectors in 1999 will trail the pattern set in 1998; jobs in TCPU and mining will show very modest expansion.

Nominal personal income is expected to finish the year with 5.1 percent growth, slipping slightly to 4.9 percent growth in 1999 (see Figure 4). Growth in wage and salary income will remain essentially unchanged from 1998 to 1999 (5.5 percent). Proprietor’s income and rent, interest and dividend income will show slower growth moving into 1999.

Tennessee taxable sales are expected to improve somewhat in 1999, but this largely reflects the depressed level of taxable sales in the first quarter of 1998, rather than underlying strength in 1999. Following growth of only 2.6 in 1998, taxable sales should register 4.5 percent growth in 1999. For the current fiscal year, taxable sales are projected to grow 4.8 percent. Growth for fiscal year 1999/2000 is estimated to be 4.3 percent.

Tennessee Forecast at a Glance

- The current slowdown in global and national economic conditions will translate into slower growth for the Tennessee economy through 1999. Expect nominal personal income to show 5.1 percent growth in 1998 and 4.9 percent growth in 1999.
- Nonagricultural job growth will decelerate from the 1.8 percent pace expected in 1998 to 1.6 percent in 1999. Job losses in the state’s nondurable goods manufacturing sector will accelerate in 1999.
- The Tennessee unemployment rate is expected to close out 1998 at 4.4 percent, slightly lower than the 4.5 percent rate anticipated for the national economy. The state unemployment rate will rise to 4.5 percent in 1999, but will remain below its national counterpart. Nonetheless, the economy will remain at full employment.
- Tennessee taxable sales are expected to be weak in 1998, showing only 2.6 percent growth. Growth for 1999 is expected to be 4.5 percent. For fiscal year 1998/99, taxable sales growth is projected at 4.8 percent.