

## THE WORLD'S BIGGEST ECONOMIES GOING IN RIGHT DIRECTION

*The U.S.: Still Favorable Economic Fundamentals*

The economic fundamentals in the final quarter of 1996 support continued growth for the U.S. economy. A stunning 262,000 increase in December jobs can be evidence of fourth-quarter growth closer to 3%, which is clearly stronger than the third-quarter growth of 2%. The increase in nonfarm payroll employment was the largest since August and was well above the 214,000 average monthly increase in jobs during 1996. Further evidence of economic strength can be found in the construction and manufacturing sector. A jump in mortgage applications for home purchases at the start of the year represents nice prospects of future home sales and construction activity. The increase in December's NAPM (National Association of Purchasing Managers) index to 54 from 52.7 in the previous month signals strength in manufacturing.

Will the economic strength force the Fed to raise its target Federal funds rate, which has been keeping at 5.25% for more than a year? If we consider only the very short-term horizon, the answer may be "No". A couple of reasons can be given. First, still burdensome household debt will limit consumer demand even as employment surges. Second, the economic strength will be followed by hikes in bond market interest rates that will, in turn, moderate the growth without any monetary policy action as in the second quarter of 1996.

However, we cannot completely take away the possibility of the Fed's contractionary action because upward pressure on the prices still remains even though current levels of consumer price or producer price are relatively stable.

Manufacturers' operating costs are a bit higher and the oil markets are tight enough to propel prices higher into the coming spring. Pushing the year-over-year rise in earnings to 3.8% in December, its highest level since 1990, will have influence on the price index possibly this summer.

*Japan: Increased Business Confidence Being a Positive Factor for the Economy*

The Japanese economy continues to recover slowly. The growth rate of real GDP in the third quarter of 1996 was 0.1% on a quarter-over-quarter basis and was 3.2% on a year-over-year basis. However, the recovery is only being borne by a few sections of the economy. Business investment is the only investment component that is hanging onto its growth rate of 6.4%, while construction and government investment volumes decreased. Private consumption, one of the most important components of GDP, increased just 1.9% on a year-over-year basis.

Even though the increase in consumption tax, scheduled in April, will possibly hamper consumer spending, the Japanese economic recovery is expected to continue. Exports will likely to grow sharply thanks to the ongoing weaker yen. Manufacturing sectors will contribute to the future economic recovery. Profit levels have risen for manufacturing firms, which are currently experiencing a profit-to-sales ratio of over 4% for the first time in five years. Under these circumstances, business confidence of manufacturing firms have improved moderately and will likely to continue its upward trend. **VIP**

(Jae-Chil Kim)

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