

## STRONG GROWTH MOMENTUM IN THE U.S.

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### *The U.S.: Strong March Goes On....*

The U.S. economy's rising momentum has shown little sign of slowdown. On the contrary, the Dow Jones Industrial Average Index reached the unprecedented 10,000 point level on March 29. Many stock market analysts changed their views to be optimistic because the bullish market sentiment which has been validated by the unexpectedly strong macroeconomic environment is likely to continue. There have been views that individual consumption, which is 70% of GDP could shrink after 8 consecutive months of increases. But the bullish stock market overrides such pessimistic views at least for the time being. Looking at the money market, one cannot see a reason for the interest rates to show a significant upward or downward movement in the near future. In fact, there exist countervailing factors working against each other. The Fed does not feel the need to lower the interest rates vis-a-vis a bullish stock market and a very healthy macroeconomy. However, it does not feel the need to uphold the interest rates or tighten the money supply, either, facing virtually zero inflation. Anyway, many experts forecast the real GDP growth rate will be around 3.8~3.9% in the first quarter; the rate for the year could be 3.5~3.8%. From the experience of the past three years, economists are changing their estimate on the potential growth rate, which is the real GDP growth rate that maximizes employment without inflation, from the conventional 2.5% to 3.6~3.8% or higher. Indeed, the U.S. economy is undergoing a structural change.

### *Japan: A Self-Sustained Recovery Takes Time*

Japan could demonstrate slight signs of recovery in the first half of 1999 calendar year. Such signs include an improving inventory-shipment ratio, sharp downturn in corporate bankruptcies, and recovery in measures of confidence among small businesses. Those developments are direct or indirect results of vast public-sector stimulus packages. In fact, the longevity of a recovery that depends on fiscal stimulus is still in doubt. But with the increase in public investment underpinning the aggregate demand, inventory adjustment has made further progress and production has stopped decreasing. There still remain negative factors, though. Recovery in private consumption continues to be weak; corporate profits have been declining; and employment and household income conditions continue to deteriorate.

With the progress in inventory adjustment gradually paving the way for a recovery in production, the government's economic measures and the monetary easing by the Bank of Japan will support the economy. In addition, measures to restore the stability in the Japanese financial system through the injection of public funds into banks are expected to exert positive effects on the economy gradually. However, large firms in particular appear to be taking steps for full-scale restructuring over the 1999 fiscal year. In the short run, such corporate restructuring may reduce fixed investment and discourage household expenditure through the resulting deterioration in employment and income conditions. With such circumstances, it is still difficult to expect a fast self-sustained recovery in private sector. **VIP**