

Economic Outlook

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米国経済の現状と見通し

要 約

- ・2004年第2四半期の成長率は年率2.8%となった。第1四半期の4.5%、2003年後半の6.2%からスローダウンしている。設備投資と住宅投資は好調さを持続しているものの、個人消費が減速したことに加え、貿易赤字の悪化も成長の鈍化につながった。
- ・それでも2004年後半は減速しつつも、緩やかに健全な景気拡大を続ける見通しである。ただし、多くのエコノミストが予測していたよりも低成長となる。2004年通年の実質成長率は3.4~3.8%となろう。
- ・設備投資は空前の企業収益に支えられ、年内は好調さを維持する。住宅投資も低金利を背景に基調は引き続き強い。ただ、雇用拡大のテンポが遅いこと、実質賃金の低下、エネルギー価格の高騰、貿易赤字の拡大、金利上昇が成長を抑制する要因になる。

過去1年の軌跡

- ・2001年第4四半期以降、スローペースの回復が2年近く続いた後、2003年後半以降の基調は非常に強いものであった。しかし、一部は自律的な要因以外に、減税、利下げなど政策的な要因に支えられた結果でもある。
- ・2004年第2四半期の結果は、強い設備投資・住宅投資と動きの鈍い個人消費・深刻な貿易赤字という実態を正確に反映した姿になっている。

2004年後半の見通し

- ・2004年後半から2005年にかけて、米国景気は強い逆風を覚悟しなくてはならない。まず、個人消費の伸びが抑制される。この理由は、①雇用創出力の弱さ、②高騰したエネルギー価格の高止まり、③インフレの進行とそれに伴う金利上昇——の3つで

*本稿は、富士通総研特別顧問 Robert J. Shapiro 氏 (SONECON 代表、前米国商務次官) の四半期報告 “The U.S. Economic Outlook for the Second Half of 2004” をもとに、本人の許諾を得て要約したものである。(要約は長島直樹主任研究員による)



富士通総研特別顧問
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GDP 成長率と需要項目別の推移

(前期比年率、%)

	2003年 Q-3	Q-4	2003通年	2004年 Q-1	Q-2
GDP	7.4	4.2	3.1	4.5	2.8
個人消費	5.0	3.6	3.1	4.1	1.6
設備投資	15.7	11.0	3.0	4.2	12.1
住宅投資	22.4	9.6	7.5	5.0	14.7
輸出	11.3	17.5	2.0	7.3	6.1
輸入	2.8	17.1	4.0	10.6	14.1
政府支出	0.1	1.6	3.3	2.5	2.4

(注) Q1、Q2、…はそれぞれ第1四半期(1-3月期)、第2四半期(4-6月期)、…を示す。

ある。既に8月の消費者信頼感指数が急低下し、その兆候が現れている。以下、上記の3要因について簡単にコメントしよう。

- ① 雇用創出：2004年1～8月の8ヵ月で創出した雇用は、月平均14万人であり、これは人口増加率に見合うだけの増加である。すなわち、8月の雇用者対人口比率は62.4%であり、これは1月と同水準にとどまっているのである。この雇用拡大テンポは、1990年代後半の半分のペースである。また、2004年に入って増えた雇用のうち、3分の2は低賃金の業種である。過去1年間、平均賃金はフラットであり、健康保険料などの上昇によって、実質的な受け取りは減少している。この結果、所得比で見た家計の債務残高は過去最高に達している。
- ② エネルギー価格：米国は原油輸入に依存しているため、エネルギー価格の高騰は消費の減退と他の財・サービス価格の上昇をもたらす。過去5ヵ月間のガソリン・燃料油価格は前年比で平均35%、最近2ヵ月では前年比40%も高くなっている。そして、先物市場の値動きは、2004年末にかけて今後更に原油価格が上昇することを示唆している。気候が寒くなることや、イラク、ロシア、ベネズエラ、ナイジェリアといった産油国の供給が回復しないことを織り込んだ値動きである。
- ③ インフレと金利上昇：ほとんどの指標は、依然として緩やかではあるものの、インフレが進行していることを示している。2004年に入って、生産者価格は年率3.4%のペースで上昇しているが、これは去年の2倍の上昇率に相当する。食料品・

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- エネルギーを除くと、今年の上昇率は年率2%弱だが、これも昨年の2倍である。更に、2004年前半の単位労働コストは年率1.8%上昇した。これは生産性の伸び率が低下していることに加え、退職給付・健康保険料負担が急上昇した結果である。インフレ率は水準としては依然低位だが、じわじわと上昇しつつあるので、FRBがこれ以上の金融緩和を進めることは不可能である。利上げが行われれば、家計債務が高水準に達しているため、家計は大きな打撃を被り、消費は急速に冷え込む。
- ・個人消費の減速以外に、米国経済の成長抑制要因となるのは、高水準の貿易・経常赤字である。貯蓄率が低下を続け、今や米国の消費者・企業は供給の多くを輸入に依存している。2004年前半の輸入は、前年同期比で1,030億ドルも増加した。このうちエネルギー関連の寄与は15%に過ぎない。輸出も確かに伸びてはいるが、輸入増加のペースを下回っている。貿易赤字の改善には更なるドル下落が必要である。
 - ・最も明るい材料は企業の設備投資である。設備投資は、過去1年で10%以上増加しており、この傾向は少なくとも2004年中は続く見通しである。企業収益が空前の水準に達していることや、在庫水準の対売上比率が未曾有の低水準にあることが背景にある。更に、2004年いっぱい、購入した機器の半分を利益から控除できる税制優遇措置も設備投資を後押しする。

現拡大局面が過去の循環と異なる点

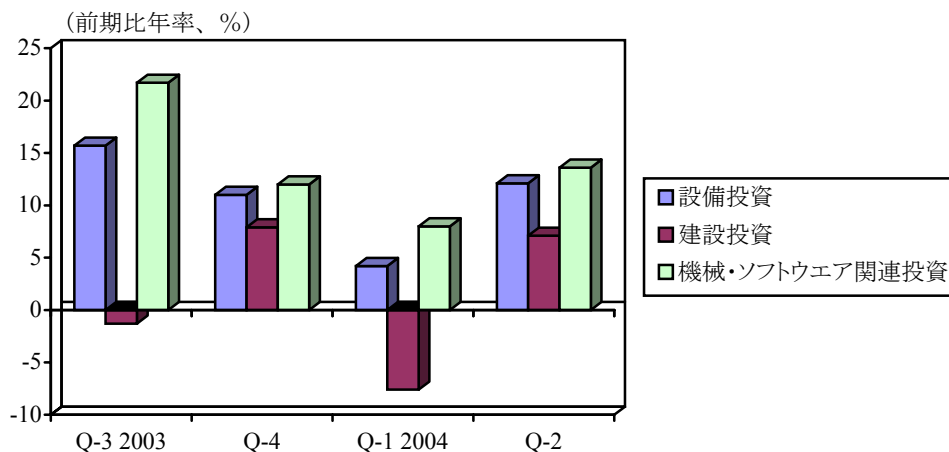
- ・現在の景気拡大局面において最大の問題点は、雇用と所得の伸びが十分でないことである。2001年の景気後退期は雇用の対GDP弾性値が前回の後退局面の3~4倍と、厳しい雇用削減圧力にさらされた。また、前回の回復期（1990年代初頭）は、回復を始めて32ヵ月間で20万人以上の雇用を生み出した月が14ヵ月あったのに対して、今回回復期は32ヵ月間でたったの3ヵ月に過ぎない。2002年以降、前回復期のペースで雇用が増えていけば、現在の雇用者は実際よりも300万人多くなったはずである。
- ・雇用増加のペースが鈍いため、平均実質賃金と家計の実質所得は3年連続で低下している。時間当たりの名目賃金上昇率を見ると、過去12ヵ月間続けてインフレ率を1%ポイント以上下回っている。また、家計の所得は全体としては、最近6ヵ月間ほとんど変わっていない一方、所得が増加したのは、上位5分の1に入る高所得者層にほぼ限られる。
- ・こうした二極化の背景には、WTOに象徴される1990年代の国際競争の激化が挙げられる。企業は競争激化に対応するために、生産性向上を迫られる一方、コスト上昇分を製品価格に転嫁することは著しく困難になった。米国企業は主に、労働分配率の引き下げによって、競争圧力に対抗する道を選んだ。
- ・こうした状況下で、連邦政府はこれまで拡張的な財政金融政策をとり続けてきたが、

既に政策余地はなくなっている。エネルギー供給や為替レートなど外的な環境変化への対応力が脆弱になっているのである。

設備投資：2004年景気の牽引役として

- ・設備投資は、機械・ソフトウェアを中心に少なくとも2004年中は好調さを持続する。このことは、今後個人消費が更に減速しても、年内は税額控除のインセンティブがあるため、確実である。
- ・ただ、2005年の見通しとなると、それほどバラ色ではない。特に、エネルギー価格の高止まりや米国・中国経済の減速が、世界経済に悪影響を及ぼすようなことがあれば、米国の設備投資が順調に拡大するのは難しい。
- ・機械・ソフトウェアの中でも、コンピューター・周辺機器への投資が特に好調であり、2004年第2四半期に上昇率を高めている。ソフトウェアも堅調さを保っている。そして、輸送機械・産業機械もついに増加基調に入った。
- ・IT投資は全体として今年いっぱい好調さを持続する見通しだが、パソコンや周辺機器の販売は、個人消費全体の減速に影響を受け、それほど好調には推移しないであろう。

設備投資の伸び：建設投資と機械・ソフトウェア関連投資



悪化する貿易・経常赤字

- ・2004年に入って、米国の貿易赤字・経常赤字は大方の予想に反して急速に悪化している。この背景には、米国の貯蓄率低下とドル下落が阻まれているという2つの要因がある。

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- ・まず貯蓄率低下だが、1990年代に4.8%あった民間貯蓄率は2000年以降の平均で3%まで落ちてしまった。国民純貯蓄率は同じ期間の比較で、5.3%から2%へ落ちた。外国からの資本流入に頼らざるを得ない状況が起こっている。
- ・為替に関しては、ドル実効レートが2002年2月から2004年1月までの2年間で実質24.6%減価したが、今年1月以降は逆に2.7%上昇している。
- ・注目すべきは、外資の構成が変化していることである。2000年から2002年までは、外資のネット流入のうち、米国市場の高収益率を狙った民間部門の比率が高く、外国政府の比率は8%に過ぎなかった。しかし、2003年9月から2004年6月にかけて、外国政府の対米投資が急増し、ネットの資本流入の35%を占めるに至った。これは、日本などが自国の輸出競争力を維持するために、ドルを買い支えた結果と見られる。この結果、アジアを中心に世界各国の外貨準備高のうちドル資産が70%を占めるに至っている。
- ・以前に各国政府がドルを買い支えた1987年には世界的な株価下落が起こった。現在の状況は、ドルの急落と長期金利の急騰を通じて米国経済・世界経済に打撃を与えるリスクを高めつつある。例えば、中国経済の減速が引き金となって、中国が米国債購入を減額するといったシナリオが考えられる。中国経済の減速が日本経済に悪影響を及ぼし、日本による米国債購入が減額される可能性もある。

米国の貿易・経常収支の動き

	貿易赤字 (10億ドル)	経常赤字 (10億ドル)	対GDP比 (%)
2002年 Q-1	93.8	110.2	4.27
Q-2	103.4	117.9	4.52
Q-3	106.9	119.0	4.52
Q-4	117.8	126.9	4.78
2002年 通年	421.7	474.0	4.52
2003年 Q-1	125.4	138.2	5.15
Q-2	123.4	133.9	4.94
Q-3	122.3	131.6	4.74
Q-4	125.5	127.0	4.51
2003年 通年	496.5	530.7	4.83
2004年 Q-1	136.9	144.9	5.05
Q-2	150.8	156.0	5.32

(注) Q1、Q2、…はそれぞれ第1四半期（1－3月期）、第2四半期（4－6月期）、…を示す。2004年Q-2は見込み値。

THE U.S. ECONOMIC OUTLOOK FOR THE SECOND HALF OF 2004

Managing Director of Sonecon, LLC
(Former Under Secretary of Commerce for Economic Affairs)

Robert J. Shapiro

Summary

The U.S. economy will expand at a moderate to healthy pace in the second half of 2004, growing more slowly than many observers and analysts have expected. The various forces tempering the U.S. expansion are high energy prices, declining real wages, weak job creation, record trade deficits and rising interest rates. If America's economic problems worsen, China's slowdown deepens, and world oil prices remain high, we could see a global downturn in 2005.

U.S. GDP expanded at a 2.8 percent rate in the second quarter of 2004, a major deceleration from the first-quarter pace of 4.5 percent and the 6.2 percent growth rate in the second half of 2003. Business investment and housing have remained strong, but consumer spending weakened sharply and the trade deficit has widened. Early data for the third quarter suggest that U.S. growth will remain moderate. The forces weakening consumption have not improved; and while retail sales gained strength in July, consumer confidence fell significantly in August. Similarly, the trade deficit has widened further; and while factory orders grew in July, industrial production remained flat.

In the second half of 2004, the U.S. expansion will be sustained mainly by investment. Strong business capital spending, financed by record profits, will be spurred by historically-low inventory-sales ratios and investment tax benefits set to expire on December 31st. Housing investment also should remain healthy in the second half, so long as the economy's softness keeps mortgage rates low. However, consumer spending, which sustained the expansion in 2002 and 2003, will play a smaller role. This year's 35 percent jump in energy prices will dampen consumption of non-energy goods and services. And those prices are not likely to decline significantly: Demand for energy will increase as the weather grows colder, while current supply disruptions in the Middle East, Venezuela, Russia and Nigeria are not likely to be resolved. Labor and wage markets also will temper consumption and growth: American businesses continue to create jobs at less than half the rate of previous recoveries; and until that changes, falling real wages and stagnating incomes are likely to persist. Finally,

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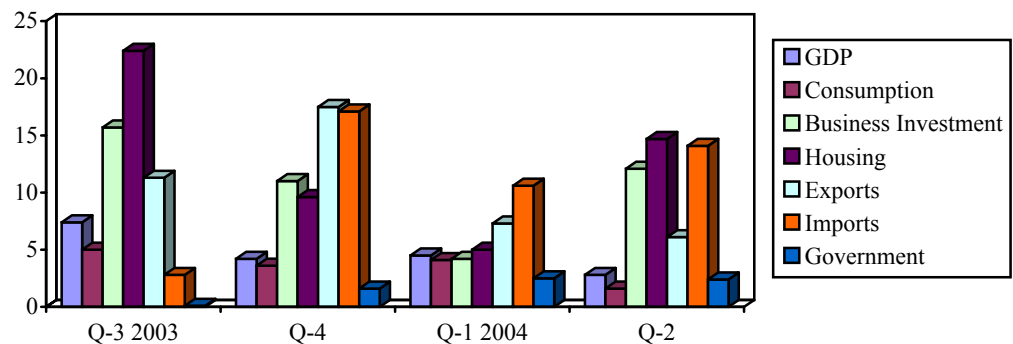
the record U.S. trade and current account deficits -- already at levels above those that triggered the 1987 crises with the dollar and global stock markets -- will continue to hamper growth.

Three months ago, we correctly forecast that U.S. growth was slowing down, even as the "Bluechip" consensus forecast of Wall Street and business economists was predicting a boom year. Our view has not changed: We expect U.S. GDP to grow 3.4 percent to 3.8 percent this year, with growth slower in the second half than in the first half of the year.

U.S. Economic Performance Over the Past Year

Following an initial two years of slow recovery, the U.S. economy achieved substantial momentum in the last four quarters (Figure 1, below). However, the notable economic strength seen in the second half of 2003 depended not on the economy's own forces, but on tax and interest-rate cuts which helped drive large gains in consumption and housing. Strong consumer spending in the first quarter of 2004 also depended on tax refunds. The second quarter results reflect more closely the economic factors in the expansion -- strong business and housing investment, moderate consumer demand, and a large trade deficit.

Figure 1. Growth of GDP and its Major Components Over the Past Last Year
(Percent Change from Preceding Period, at Annual Rate)

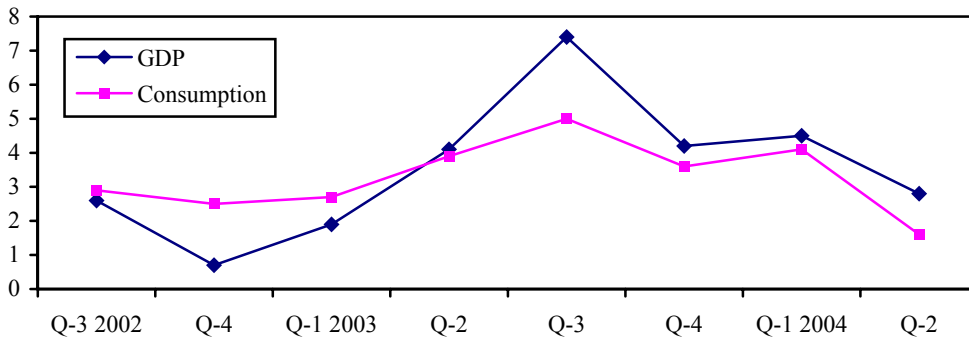


	Q-3 2003	Q-4	2003	Q-1 2004	Q-2
GDP	7.4	4.2	3.1	4.5	2.8
Consumption	5.0	3.6	3.1	4.1	1.6
Business Investment	15.7	11.0	3.0	4.2	12.1
Housing	22.4	9.6	7.5	5.0	14.7
Exports	11.3	17.5	2.0	7.3	6.1
Imports	2.8	17.1	4.0	10.6	14.1
Government	0.1	1.6	3.3	2.5	2.4

The Pattern of Growth Since 2002: Real Growth of the Major Components of GDP

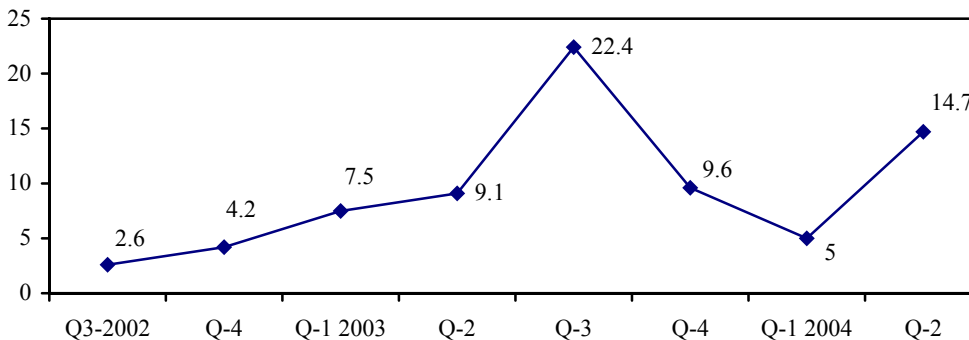
The economic shape of the expansion becomes more apparent when we chart specific patterns of growth in GDP and consumer spending, and investment.

Figure 2a. Consumption and GDP (Percent Change from Preceding Period)



The recovery began in the fourth quarter of 2001, but consumer spending and GDP growth remained weak until the second quarter of 2003 (Figure 2a, above). Throughout the recovery, overall growth has accelerated as consumption has strengthened and faltered when consumers have retrenched. Moreover, the largest gains have depended on large injections of fiscal, monetary and exchange-rate stimulus. Over the next several quarters, there are no prospects of additional fiscal or monetary stimulus.

Figure 2b. Housing Investment (Percent Change from Preceding Period)

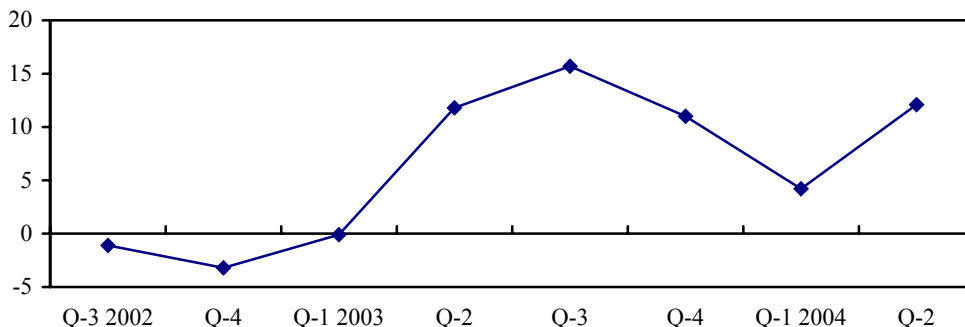


Housing investment has been strong since the first quarter of 2003, supported by low interest rates. The housing spurt in the third quarter of 2003 followed the last interest-rate cut, and the dip in the first quarter of 2004 followed the first interest-rate increase. The renewed strength of housing in the second quarter of this year was associated with the impact of a

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slower economy on mortgage rates. The early data for the third quarter suggest housing investment may be slowing down; and when the Federal Reserve resumes raising interest rates, the housing market is likely to slow further.

Figure 2c. Business Fixed Investment (Percent Change from Preceding Period)



Following the over-investment of the late 1990s and the 2001 recession, capital spending remained depressed until the second quarter of 2003. With the exception of the first quarter of 2004, business investment has been strong and is likely to remain so, drawing on high corporate profits, large tax incentives and low inventories.

Prospects for the Economy Through 2004

The U.S. expansion will face strong headwinds throughout this year and into 2005. Consumer spending, the chief engine of this expansion, will be contained by three important forces. The first such factor is the sub-par performance of the jobs market. In the first eight months of 2004, the United States created an average of 140,000 jobs per month, which is half the job-creation rate of the latter 1990s. These gains have barely kept pace with population growth: The employment-population ratio in August, 62.4 percent, was the same in January. Analysis also suggests that two-thirds of the new jobs created in 2004 were in low-wage industries, a finding supported by the earnings data. The real weekly earnings of average workers have been flat for the past year, with their real wages declining while the employer costs of their health coverage and other benefits have risen. As a consequence, average household debt has reached record levels, also tempering future consumption.

The second important factor is energy prices: With the U.S. dependent on oil imports, higher energy prices both drain consumption and drive up other prices. Over the last five months, the prices of gasoline and heating oil have both risen, on average, 35 percent compared to the same months of 2003; and this difference widened to 40 percent in the last

two months. Moreover, U.S. futures markets expect oil prices to rise further in the fourth quarter, as energy demand increases with the colder weather, and the supply problems in Iraq, Russia, Venezuela and Nigeria go unresolved.

The third factor likely to affect consumer spending in the second half of this year is inflation and interest rates. Most price measures show that inflation, while still modest, has been accelerating: Producer prices have risen this year at an annual rate of nearly 3.4 percent, twice last year's rate; excluding food and energy, these prices are still rising nearly 2 percent a year, again twice the rate of 2003. Further, unit labor costs in the first half of this year rose at annual rate of 1.8 percent as productivity gains slowed while retirement and health-insurance costs rose sharply. While inflation is still moderate, its upward trend will preclude the Federal Reserve from further interest-rate cuts to support growth. And with the household debt service at record highs, consumer spending will be highly sensitive to the future interest-rate hikes that the market still reasonably expects.

These forces are evident in the latest data. Most notably, consumer confidence fell sharply in August, reaching to its lowest point since May; and June and July saw the smallest gains in personal income since late 2002. While consumer spending recovered substantially in July, most of those gains reflected higher gasoline prices.

The other important factor likely to restrain U.S. growth in remainder of 2004 is record trade and current account deficits. With the U.S. saving rate continuing to fall, American consumers and firms have turned to imports: Compared to the same period in 2003, U.S. imports in the first half of 2004 rose by nearly \$103 billion, with energy imports accounting for just 15 percent of that increase. U.S. exports have also expanded but by much less: In the first half of 2004, U.S. exports were up by less than \$65 billion. Moreover, U.S. exports actually declined more than \$4 billion in June. Reducing the trade deficit and supporting U.S. growth will require more dollar depreciation, a course resisted by many other major trading nations, especially in Asia.

The most positive force in the U.S. economic outlook is growing business fixed investment. Capital spending has grown more than 10 percent over the last four quarters, and that trend is likely to continue for at least the remainder of 2004. With corporate profits at record levels, the resources for these investments are available; and with inventory-sales ratios at historical lows, the demand is strong as well. In addition, the government will underwrite higher investment in the near-term: Until December 31st, firms can deduct this year fully half of the cost of any new equipment they purchase.

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How This U.S. Expansion is Different from Previous Cycles

The principal underlying problem with the current expansion has been the economy's sub-par rates of job creation and income growth. The 2001 recession costs three to four times as many jobs, relative to the decline in GDP, as previous recessions. And in the first 32 months of this recovery, U.S. firms have been able to create 200,000 or more jobs per month only three times, compared to an average of 14 times in the first 32 months of previous recoveries. If the U.S. economy had created jobs since 2002 at the same rate it did in the recovery of the early 1990s, we would have 3 million more jobs today.

With such slow job creation, average real wages and real family incomes declined for three years while personal and household debt rose to record levels. Over the last 12 months, average hourly earnings have continued to lag inflation by more than one percent; and while total family income has stabilized in the last six months, most of those gains were earned by the most highly-skilled and affluent fifth of the U.S. population.

As we discussed in our earlier reports, these changes large reflect a substantial underlying increase in the intensity of global competition, arising mainly out of the WTO process of the 1990s. More intense competition has forced businesses to raise their productivity while limiting their ability to raise their prices, even when their costs increase. U.S. firms have responded to these forces by cutting wages and labor, relative to sales.

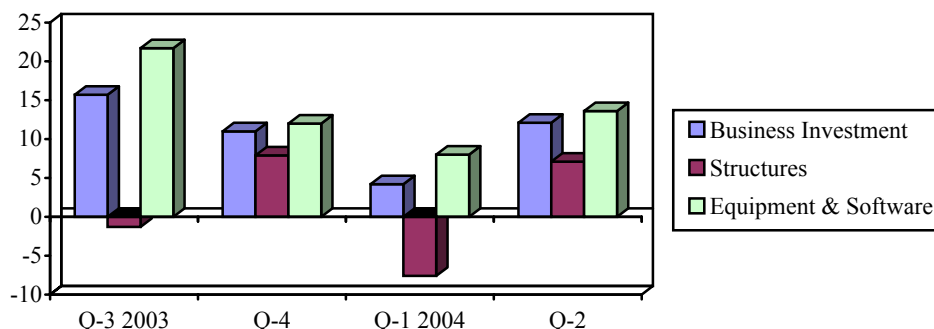
Facing these forces, the U.S. used large doses of fiscal and monetary stimulus to maintain consumption, with some success, even as these policies failed to relieve the underlying pressures on job creation and wages. Now, with little leeway to provide more fiscal or monetary stimulus, U.S. economic growth has become more vulnerable to higher energy prices and interest rates. With incomes not rising and high household debt, higher prices for gasoline and utilities quickly dampen family consumption – just as occurred in the second quarter of this year. Higher energy prices also place additional pressures on firms to cut other costs, further holding down job creation and wages in recent months. And with prices rising for commodities in addition to oil, as well as for health care, pension coverage and educational costs, the Federal Reserve has begun a new cycle of interest rate increases. These higher interest rates translate immediately into higher debt service costs, forcing families with record levels of debt to cut back on other goods and services. Higher interest rates are also likely to reduce mortgage refinancing, which millions of families used in 2002 and 2003 to maintain their purchasing power as their incomes fell.

All these dynamics leave the U.S. economy vulnerable to external shocks, such as a dollar crisis or a new disruption in oil supplies.

Business Fixed Investment As a Source of Strength in 2004

Despite America’s problems with job creation and wages, business fixed investment, especially in equipment and software, should remain a source of strength throughout 2004. Growth in demand for capital goods has been strong and turned up sharply again in the second quarter as firms moved to rebuild inventories (Figure 3). This demand should hold up through the end of this year even if consumption further moderates, as firms take advantage of special tax benefits for capital spending that expire in December. The prospect for business investment in 2005 is a little less promising, especially if high energy prices and weakness in the United States and China produce a global slowdown.

Figure 3. Real Growth of the Major Components of Business Fixed Investment Over the Past Year (Percent Change from Preceding Period, Annual Rates)



	Business Fixed Investment	Structures	Equipment & Software
Q-3 2003	15.7	-1.3	21.7
Q-4	11.0	7.9	12.0
Q-1 2004	4.2	-7.6	8.0
Q-2	12.1	7.1	13.6

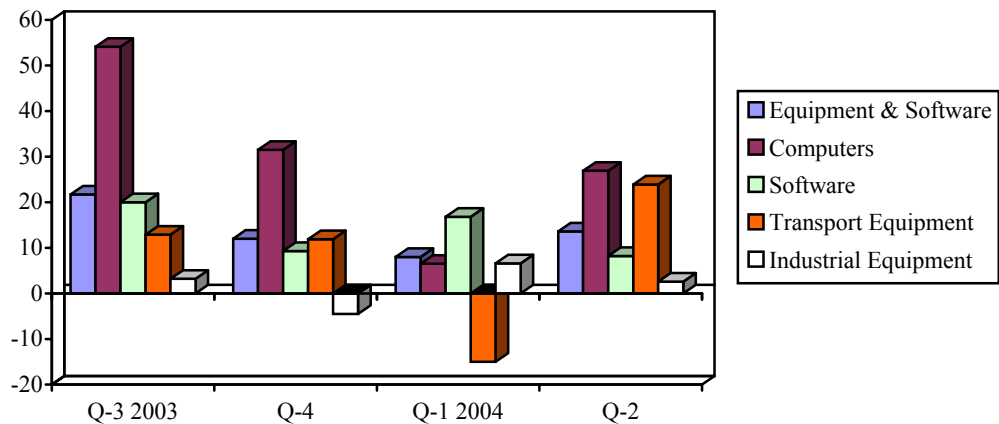
Outlook for Investment in Information Technologies

Purchases of computers and peripheral equipment have been the strongest area of business investment throughout this expansion. Here, too, the rate of increase in demand turned up sharply in the second quarter (see Figure 4, below). Purchases of software also

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have remained strong, and investments in transportation and industrial equipment have finally recovered. Investments in information technologies should accelerate further over the course of this year, as firms take advantage of the expiring tax benefits for those purchases. However, purchases of personal computers and peripherals will be vulnerable to a broader slowdown in consumption spending in the second half and into 2005.

Figure 4. Real Growth of Business Investment in Equipment and Its Components Over the Past Year (Percent Change from Preceding Period, Annual Rates)



	Equipment & Software	Computers	Software	Transport Equipment	Industrial Equipment
Q-3 2003	21.7	54.1	20.0	12.9	3.2
Q-4	12.0	31.5	9.3	11.9	-4.5
Q-1 2004	8.0	6.5	16.8	-15.0	6.6
Q-2	13.6	26.9	8.2	23.9	2.6

The Troubling Course of the U.S. Trade and Current Account Deficits

The U.S. trade and current account deficits, which had deteriorated sharply through 2002, stabilized in 2003; and most experts expected steady improvement this year driven by a declining dollar and strong global growth. In fact, both imbalances deteriorated sharply in both the first and second quarters. The U.S. current account deficit claimed 79 percent of the world’s surplus saving in 2003 and is certain to absorb a larger share this year.

Figure 5. U.S. Trade and Current Account Deficits, 2002-2004 Q2

	Trade Deficit	Current Account Deficit	Share of GDP
Q-1 2002	\$93.8 billion	\$110.2 billion	4.27%
Q-2	\$103.4 billion	\$117.9 billion	4.52%
Q-3	\$106.9 billion	\$119.0 billion	4.52%
Q-4	\$117.8 billion	\$126.9 billion	4.78%
2002	<i>\$421.7 billion</i>	<i>\$474.0 billion</i>	<i>4.52%</i>
Q-1 2003	\$125.4 billion	\$138.2 billion	5.15%
Q-2	\$123.4 billion	\$133.9 billion	4.94%
Q-3	\$122.3 billion	\$131.6 billion	4.74%
Q-4	\$125.5 billion	\$127.0 billion	4.51%
2003	<i>\$496.5 billion</i>	<i>\$530.7 billion</i>	<i>4.83%</i>
Q-1 2004	\$136.9 billion	\$144.9 billion	5.05%
Q-2	\$150.8 billion	\$156.0 billion (est.)	5.32%

The underlying problem producing these imbalances is two fold: The sharp drop in the U.S. saving rate; and the dollar's resistance to depreciation. The U.S. net private saving rate has averaged just 3 percent since 2000, compared to 4.8 percent in the 1990s, and the net national saving rate now stands at just 2 percent, compared to 5.3 percent in the 1990s. In the face of such a sharp drop in private and national saving, the U.S. is forced to run large trade and current account deficits in order to secure funds for investment. Moreover, the dollar has continued to hold its value this year despite the rising deficits, averting global markets' normal way of reducing them. From its peak in February 2002 to January 2004, the dollar's inflation-adjusted trade-weighted value fell 24.6 percent against the other major currencies that circulate internationally; yet since January, the dollar has *risen* 2.7 percent. Foreign investors clearly demonstrate an extraordinary willingness to fund these U.S. deficits, but the composition of this funding has been shifting. From 2000 to 2002, foreign governments' share of U.S. net inflows averaged just 8 percent, as private foreign investors sought the higher returns of U.S. markets. From September 2003 to June 2004, however, foreign government purchases jumped to 35 percent of U.S. net inflows, as private foreign investors stepped back and Asian governments supported the dollar to keep their own exports competitive. As a result, dollar asserts now comprise 70 percent of the world's official holdings of foreign exchange reserves, principally in Asia.

The last time the world saw a massive buildup in official holdings of dollar asserts was 1987, and it was followed by the U.S. and global stock market crash. The likelihood is rising

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that America's current, unprecedented imbalances will produce a sharp drop in the dollar and sharp increase in U.S. interest rates, slowing the American and global economies. The most likely trigger for such a crisis is a shift in support for the dollar in Asia. For example, an accelerated slowdown in China would narrow its trade surplus, potentially reducing its purchases of U.S. assets. A serious slowdown in China could also affect Japanese support for the dollar: With more than 40 percent of Japan's recent growth spurt traceable to China's impact on Japanese exports, capital spending and inventories, a serious slowdown in China will also dampen growth in Japan, potentially reducing its purchases of U.S. assets.

With economic growth moderating in both the United States and China -- the two engines of global growth -- the world economy is acutely sensitive to external shocks, especially rising oil prices or a sharply falling dollar. Yet, even if we elude these shocks, America's continuing problems with its labor markets and incomes suggest slower U.S. and global growth in late 2004 and into 2005.