

An Overview of the US Economy

In 1987, the US economy completed its fifth year of expansion since the 1981-1982 recession. Real GNP rose by 2.9 per cent in 1987, the third consecutive year of moderate growth, following strong growth in 1983 and 1984. Growth was propelled by consumer expenditure, investment in machinery equipment, and the build-up of inventories. Final domestic demand was moderate, despite a dramatic slowdown during the final quarter of 1987 in the wake of the October 19 stock market drop. Real net exports continued to show improvement during the year.

The US real trade deficit continues to decline, reflecting the increasing competitiveness of American industry as a result of the US dollar's depreciation since early 1985. Since the real trade deficit peaked in the third quarter of 1986, real net exports have improved dramatically. In 1987, the current account deficit reached US\$160.7 billion. However, recent data suggest that the corner on the huge US nominal trade deficit has now been turned.

Real GNP expanded at an annual rate of 3.9 per cent in the first quarter of 1988, propelled by a rebound in consumer spending from its fourth quarter decline, a surge in business spending on equipment and continuing improvement in real net exports. Reflecting continued output growth, employment continued to post strong gains and the unemployment rate declined to 5.4 per cent in April — the lowest level since June 1974.

Inflation remains relatively moderate. The CPI rose 3.9 per cent in April 1988 from its previous year level. Wage rates continue to rise in the 3½ per cent range, reflecting the strong undercurrent of cost containment that pervades American industry.

After a steady decline since 1985, the external value of the US dollar has stabilized in recent months against a trade-weighted basket of foreign currency.

UNITED STATES 1987 SUMMARY OF ECONOMIC INDICATORS

Growth of Real GDP/GNP	2.9%
Growth of Employment	2.6%
Unemployment Rate	6.2%
Growth of Consumer Price Index	3.6%
Total Merchandise Trade (exports plus imports) as a percentage of Nominal GDP/GNP	14.7%
Central Government Fiscal Deficit (as a percentage of GDP/GNP)	3.5%
Current Account Balance (billions of U.S. dollars)	- 160.7
Nominal Trade Balance (billions of U.S. dollars)	- 159.2
Total GDP/GNP per Capita (current U.S. dollars)	18,161
Total Trade per Capita (current U.S. dollars)	2,701