Economic Growth Is Expected to Slow,  
But Economists See Inflation Accelerating  

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WASHINGTON -- The U.S. economy will lose a little steam next year, but not enough to prevent what could be the biggest acceleration in inflation in four years, the National Association for Business Economics predicted Wednesday.

The association said it expects the economy, dulled by three Federal Reserve interest-rate increases this year, to slow to an annual growth rate of 3.2% in 2000. That's down from an estimated 3.9% in 1999, but is a half-percentage point more than the group estimated just three months ago.

Such a performance would be the country's weakest since 1996. But it wouldn't provide much short-term protection against inflation: The association said it expects growth in consumer prices to accelerate to a 2.5% annual rate, the fastest pace since 1996. The estimated rate this year was 2.2%.

Still, the association said its economists weren't alarmed. The group prepared its forecast by polling 35 economists, all association members. When queried late last month about the likelihood of additional Fed interest-rate increases in the near term, economists predicted that short- and long-term interest rates wouldn't rise much over the course of 2000.

"Economists seem happy with the view that the Fed is largely satisfied with policy now that the three easing steps taken in 1998 have been fully reversed," the association said in a statement.

That expectation partly reflects the economists' assumption that U.S. labor productivity growth next year will be higher than originally thought. The NABE revised its forecast of productivity growth for 2000 up to 2% from an earlier estimate of 1.7% -- an increase it said should help restrain inflationary pressures. It estimated productivity growth for 1999 at 2.7%, up from an earlier estimate of 2.5%.

As long as productivity -- defined as the amount of output for each hour of work -- maintains its impressive growth spurt, many economists argue the economy can continue to expand at a fast pace while inflationary pressures remain subdued. Increased productivity lets businesses increase employee pay without boosting prices because the workers are creating more output per hour.

The expectation that the Fed will remain on the sidelines next year may also reflect the group's views on the outlook for the U.S. labor market. Laurence Meyer, an influential member of the Fed's policy-making Open Market Committee, has said the central bank would have to raise rates again if the unemployment rate continued to drop. But the NABE predicted a slight uptick in the unemployment rate next year -- to an annual average of 4.3% from 4.2% this year.