

Experts predict economic boom in 1987

The U.S. economy should grow faster in 1987 after two years of sluggish performance, University of Michigan economists predict in an update of their annual forecast.

Major contributors to an expected 4 percent growth rate in real gross national product (GNP) next year will be:

• A substantial improvement in

real net exports.

• A return to approximate stability in the U.S. oil industry.

• A general strengthening of inventory investments as demand for U.S. production increases.

With these developments, the civilian unemployment rate is forecast to increase in late 1986 and return to the 7 percent level in the second half

of 1987. The inflation rate is expected to accelerate modestly during the year.

The update of the forecast presented in November at the University's annual conference on the Economic Outlook was prepared by Prof. Saul H. Hyman, Joan P. Cray and Janet C. White.

Expected passage of a revenue-neutrality tax reform bill, which would lower personal taxes and raise business taxes, will "tilt the composition of GNP toward consumption and away from capital formation," the U-M economists note.

This will ultimately lead to reduced productivity growth. Such an economic bias does not bode well for

our inflation outlook or our international competitiveness over the long run.

Weakness in the economy over the past year and a half is not attributed to private sector demand, which has grown at an average annual rate of 3.8 percent, compared to a 2.7 percent rate for U.S. production.

Much of the gap between the growth of domestic demand and domestic production is accounted for by our worsening trade balance, which has recently included a marked increase in oil imports, the economists say.

Because economic growth continues to be slow and requirements of Gramm-Rudman-Hollings are likely

strengthening of inventory investment as demand for U.S.-produced goods improves, contribute to the long-run forecast.

The U.S. economists include a cautionary note:

"The Reaganomics of the 1981 tax cut produced a national consumption binge, and the Reaganomics which is likely to be embodied in tax reform will further stimulate consumption at the expense of capital formation. And this produces a deteriorating outlook for productivity growth, which is exactly what this country should seek to avoid. Its implications for inflation and international competitiveness are obvious and negative."

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