

BY GENE KORETZ

## A DARKENING U.S. TRADE OUTLOOK?

Demand for exports may slacken

If the U.S. economy is to negotiate a soft landing, it will need help from friends overseas. But economist Lacy H. Hunt of HSBC Holdings Inc. warns that the widely anticipated improvement in America's export performance may prove largely illusory.

To be sure, U.S. imports are now slowing and exports have looked strong in recent months. Wage restraint, restructuring, and record investment have



boosted America's competitiveness. Even in dollar terms, unit labor costs have risen more slowly than in Japan or Germany over the past decade. And with the dollar down some 20% against the yen and mark this year alone, the U.S. is now the low-cost producer among industrial nations.

The problem, says Hunt, is that economic developments abroad are constricting appetites for U.S. goods. Of America's five biggest customers last year (chart), the three largest—Canada, Japan, and Mexico—are all on the edge of or in recession, while growth is slowing in Britain and may be sputtering in Germany. Weak currencies in Canada and Mexico have also raised the prices of U.S. goods in those nations.

In its latest world trade outlook, the International Monetary Fund predicts that import growth of industrialized countries will slow from 10.8% last year to 7.8% this year and to just 5% in 1996. While U.S. exports will gain ground in emerging Asia, they are headed down in such Latin American nations as Mexico and Argentina.

The upshot is that a declining U.S. trade deficit could paint a false picture

of health. "If it were due mainly to falling imports rather than export expansion," says Hunt, "it would really be a sign of economic weakness."

## WALL STREET CALLS THE TUNE

The risks of global diversification

In recent years, investment advisers have been touting global diversification of stock market portfolios as a good way to obtain higher returns with lower risk. A new study by economists Campbell R. Harvey of Duke University and Claude B. Erb and Tadas E. Viskanta of First Chicago Investment Management Co., however, suggests that diversification can be a risky strategy.

The researchers analyzed the monthly performances in dollar terms of 21 developed country stock markets, including Hong Kong and Singapore, from 1970 through 1994. To their surprise, they found that U.S. stock market declines were usually mirrored by declines in foreign markets (chart). Indeed, over the 25-year period, 18 of the foreign markets posted a negative average return for those months in which U.S. stock prices fell. The two exceptions were Japan, with no change on average, and Austria.

Similarly, the study found that average returns in all of the 21 markets (accounting for more than 90% of world equity capitalization) were lower during U.S. recessions than in expansions. In fact, in almost all cases, foreign markets were more highly correlated with U.S. stock movements during U.S. bear markets and recessions than during U.S. bull markets and expansions.

Available data for emerging stock markets indicate that many, but far from all, have done well during U.S. bear markets. But their performance is also more variable and in some cases seems to be reversing. "No market," says Harvey, "seems impervious to U.S. economic and stock market cycles."

### U.S. BEAR MARKETS CAST A GLOBAL PALL

AVERAGE MONTHLY DECLINE WHEN U.S. STOCKS FELL (1970-94)

U.S.	-3.0%
CANADA	-2.33%
BRITAIN	-1.5%
FRANCE	-1.5%
SINGAPORE	-1.33%
GERMANY	-0.58%
HONG KONG	-0.33%
ITALY	-0.17%
JAPAN (NO CHANGE)	0%

DATA: CLAUDE B. ERB, CAMPBELL R. HARVEY, TADAS E. VISKANTA

## DECIPHERING JUNE'S JOB DATA

The figures may be skewed

After unexpected employment declines in April and May, attention is focused on the June report due out on July 7. Since the Federal Reserve open market committee meets July 5-6, many observers think the Fed could postpone a possible easing until July 7, when everyone—including Fed policymakers—has had time to digest the numbers.

The problem, says economist Maury N. Harris of PaineWebber Inc., is that the June report will be statistically flawed. This year, he notes, the June payroll survey was conducted five weeks after the May survey. And in recent decades, such large intervals between employment surveys in May and June (when many students enter the labor force) have tended to magnify any changes in the job totals.

The upshot is that June's job count will be biased upwards—complicating the Fed's task (and the markets' perception)—even though Fed economists are presumably familiar with the problem.

## DON'T WAIT TO ENTER COLLEGE

Late starters rarely graduate

New high school graduates who choose to work for a year or two before entering college may be kidding themselves. According to a survey by the National Center for Education Statistics, reported in the June issue of *Numbers News*, their chances of eventually earning a college degree are considerably lessened.

In 1980, the center surveyed 15,000 high school sophomores about their educational plans. In a 1992 follow-up of the same respondents, it found that 40% of those who enrolled in college immediately after high school had earned a bachelor's degree. But of those who delayed entry, only 9% had finished their baccalaureates.

The survey also found that high school students' expectations are good predictors of future schooling. Among sophomores with no plans for higher education, for example, only 1% had earned college degrees by 1992. By contrast, 51% of those planning to attend college had gotten bachelor's degrees.