Monthly Automotive Outlook

NORTHWOOD UNIVERSITY

July 2012

Introduction

As we begin the second half of 2012, the U.S. economy is showing continued signs of slowing down. U.S. GDP for the 1st Quarter of 2012 settled at a revised 2.0 percent growth rate down from its initial report of 2.2 percent growth according to the U.S. Bureau of Labor Statistics while the first estimate for the 2nd quarter of 2012 came in at a disappointing GDP growth rate of 1.5 percent. This is a dramatic decline from the recently revised 4th Quarter 2011 GDP growth of just over 4.0 percent. The Dow Jones Industrial Average continued to rebound in July, settling at just over 13,000 which is up more than 100 points from the end of June. The DJIA increased 1.9 percent in February and was up another 1.2 percent in March before declining in May.

Key June/July Data

Positive and Negative Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations' cash reserves remain at just over $2 trillion. The June Conference Board's Global Leading Economic Indicators Report shows the United States grew at .2 percent while Europe decreased again at .3 percent and China increased .1 percent. This is the fifth straight month China has seen positive growth…just barely in June. The U.S. savings rate settled at 4.4 percent in June, up from 3.4 percent in May. Consumer confidence was up 3.2 points in June relative to May spurred largely by lower gasoline prices. New vehicle sales were up again in June leading us to believe that automobile, SUV and light truck sales could reach 14.4 million by year end. The unemployment rate settled at 8.2 percent again in June which is steady from 8.2 percent in May...but disappointing historically.

The U.S. now has the highest corporate income tax rate in the industrialized world at an average rate of 39.2 percent, surpassing Japan which cut its average corporate tax rate to 38 percent at the beginning of April. U.S. companies are holding more than $1.2 trillion overseas as a result. Oil, gold, and silver prices continue to remain relatively high, although oil and gasoline prices continue to fluctuate in a generally downward direction. The national average for gasoline prices dropped to $3.44 at the end of July, a 6 cent decline from the end of June. According to the latest manufacturing analysis of the ISM Report on Business, the manufacturing index of the U.S. economy decreased to 49.7 percent in June from 53.5 in May, moving below 50 which signals a recession for the manufacturing sector. Durable goods orders excluding transportation dropped 1.1 percent in June relative to May which was the biggest monthly decline since January. Real personal per capita spending (adjusted for inflation) went negative in June. This indicator has been decreasing for the last three months.

Current Issues

Who Do We Work For?

According to recently released data from the Washington, D.C. based Tax Foundation, in 2011 the average American worked 103 days, or until April 13th to pay their share of local, state and federal taxes. In 2011, based on data from the U.S. Congressional Budget Office (CBO), the average American worked 156 days, or until June 9th, to pay their share of local, state and federal government spending.

Finally, the Center for Fiscal Accountability concluded that the average American worked 225 days, or until

August 14, 2011 to pay for the total cost of government, which includes higher prices on goods, services and assets due to local, state and federal regulatory costs, as well as government spending at all levels.

Perhaps it is the realization that we work three days extra in 2011 vs. 2009 because government could not keep spending in line with tax revenue that has caused much of the concern in our current economy. Or could it be that we worked 78 days in 2011 to cover the cost of regulation at all levels? Could the cause of much of the discontent be the fact that average Americans will work roughly 7 ½ months paying for government at all levels and only 4 ½ months for themselves in 2011? Or maybe, just maybe, it is the realization that by 2020 we could be working into September or October to cover the cost of government if real reform is not realized soon. No rational person would argue that we do not need government; however, many rational people are asking how much government do we need? Perhaps the 1902 level where the U.S. government at all levels consumed just under 8 percent of GDP was more reasonable than the 41 percent it consumes today?

Rational Tax Policy

The Laffer Curve, named after Arthur Laffer, a well-known economist who served in the Kennedy and Reagan administrations. The curve is meant to depict the relationship between the marginal tax rate and the resulting level of government tax revenue.

The basic economic premise is that individuals respond to incentives, and are more willing to work, save and invest, given a greater return from an amount of productive effort undertaken. Thus, increases in the marginal tax rate – the additional amount extracted by government in taxes from any additional dollar earned – will at some point act as an increasing disincentive, resulting not only in less willingness to work, save and invest, but less government revenue as well.

The curve suggests that there are two marginal tax rates – a lower one and a higher one – each of which would generate the same amount of government revenue. The advocate of individual freedom and positive market incentives would argue that the lowest marginal tax rate consistent with the level of government revenue desired should be chosen, since the higher rate would unnecessarily reduce market incentives upon which future economic growth is dependent. Our current progressive tax system is riddled with disincentives and excessively high marginal rates. The U.S. needs to adopt a flat rate tax of no more than 20 percent or a national sales tax of roughly 20 percent to reignite the economy. Our tax system is too burdensome and making America less and less competitive in the global economy.

Contact Us

Those interested in more information regarding this publication can contact Dr. Timothy Nash at tgnash@northwood.edu or (989) 837-4323. If you know a student who is interested in earning a bachelor's degree in Automotive Marketing from Northwood University, please contact the Texas Campus contact Dave Spaulding at spauldingd@northwood.edu; the Florida Campus Automotive Program Chair Tim Gilbert at gilbert@northwood.edu; the Michigan Campus Automotive Program Chair Elgie Bright at brighte@northwood.edu. For the Automotive Program at Northwood's Cerritos College in California contact Todd Leutheuser at leutheus@northwood.edu. If you are interested in online automotive degree programs contact Kim Leach at (989) 837-4840 or leachk@northwood.edu. For information about the Northwood MBA, please contact Matt Bennett at (989) 837-4325 or mbennett@northwood.edu. View Northwood University's Monthly Automotive Outlook Newsletters from previous months at: www.northwood.edu/aboutus/automotive outlooks. For more information about Northwood University visit www.northwood.edu.