Northwood University's
Monthly Economic Outlook

January 2013

Introduction

The New Year welcomes us with mixed signals at best! The U.S economy showed signs of distress this week breaking the optimism on Wall Street. The first estimate of GDP for the fourth quarter of 2012 shows that the U.S. economy contracted by 0.1% compared to an increase of 3.1% in the third quarter. This decline was due mostly to a decrease in private inventory investment, federal government spending, Hurricane Sandy, and exports, which decreased by 5.7% in the fourth quarter.

Personal income increased by 0.5% and disposable personal income by 0.4%, both considerably higher from November. Due to the increase in income, consumers saved more, with the personal savings rate at 4.0% in December. This was the largest increase since April 2010. For the month of January, the 3 major stock indices were moderately bullish, with the Dow Jones Industrial Average up 6.15%, NASDAQ up 4.07%, and the S&P 500 up 5.31%.

Key December/January Data

Positive and Negative Signs

The U.S. housing industry continues to show mixed signals of a recovery. The National Association of Realtors reported its Pending Home Sales Index, based on housing contracts signed in December, dropped 4.3%. This decline was caused by a growing decrease in the stock of homes. The amount of new residential construction increased by 12.1% from November, up 36.9% from December 2011. The home ownership rate for the fourth quarter was 65.4%, this was its lowest since 2006, partly due to an increase in rentals due to lower rental costs.

The January Conference Board Leading Economic Index for the U.S rose 0.5% in December, while China increased 0.4%, its slowest rate for the 4th quarter, and the Eurozone grew by 0.4%. China grew at a slower rate partly due to slowing export growth and continued economic uncertainty in China, the U.S. and Europe.

Conference Board reported consumer confidence now stands at 58.6, falling 8.1 points from December, erasing all the gains made in 2012, partly due to no agreement on the debt ceiling, automatic government spending cuts, and an increase in the payroll tax. The seasonally-adjusted unemployment rate ticked up 0.1% to 7.8% in December.

On January 2nd, President Obama signed the American Taxpayer Relief Act of 2012 into law, delaying the U.S. from falling over the fiscal cliff by keeping in place most of the Bush-era tax cuts while raising taxes substantially on the rich. On January 23rd, the U.S. House of Representatives passed legislation to suspend the debt limit ceiling until May 19th. The next hurdle for Congress is to decide on sequestration, automatic government spending cuts that would hit the Pentagon and other federal agencies hard on March 1st.

Total orders for durable goods increased 4.6% to $230.7 billion in December 2012, which is sharply higher from November. On January 30th, the national average for a regular gallon of gasoline stood at $3.39, up 9 cents from its close on December 31st. The benchmark in oil closed at $98.02 per barrel on January 30th, up $6.20 from its close on December 31, 2012.

Current Issues

We have seen the enemy and the enemy is (U.S.) us and by us we mean every rational adult American who is of voting age or soon will be. We are allowing this great country to slowly crumble before our eyes. The "American Dream" which was once the ideal for all Americans and many around the world to benchmark to is now in question.

Fourth quarter 2012 U.S. GDP came in at an initial -.1%, a number no one in Washington, DC thought possible just a month ago. Certainly, it was not projected as the November 2012 elections were coming to fruition. The figure represents the worst quarter since the depths of "The Great Recession" in 2009. The U.S. Department of Commerce cited dramatic cuts in defense spending of more than 22% in the fourth quarter (largest quarterly decline in 40 years), lower than expected restocking of business inventories and a decline in U.S. exports to their lowest quarterly level in four years as the key reasons. Minimal cause was attributed to Hurricane Sandy…thus most was structural! In addition to the above, it is important to note that much of the surge in household income and consumer spending for the fourth quarter, and especially in December of 2012, can be tied directly to the fact that companies paid out nearly $40 billion in special dividends and bonuses in the anticipation that taxes would be higher in 2013. The repeat of a "stimulative" policy of this nature is unlikely to be adopted any time in 2013.

Simply put, the policies coming out of Washington, DC are not working! This is the worst recovery (if we can call it a recovery) since The Great Depression and it is being built on a faulty foundation. Increasing personal income taxes on the wealthy, the job creators, is not the answer to our problems. Ignoring the consequences of a $16.4 trillion (and growing) U.S. National Debt is inexcusable and dangerous. Also, we cannot refuse to have an open and honest debate on "Corporate Tax Reform" as U.S. corporations bear the burden of paying the highest corporate income tax rate in the industrialized world while the U.S. remains one of the few countries on a "world-wide" tax system in the world.

The greatness of the "American Competitive Free Enterprise System" is that it historically encouraged entrepreneurship, risk-taking, job creation and the belief in the "American Dream"…the belief that our best years were ahead. It was fueled by moderate taxes on and regulation of business with government living within its means. Today, taxes and regulations are burdensome and on the rise in America relative to much of the industrialized world and government debt is threatening this country's solvency and growth.

Therefore, we need CHANGE, we (us) must call for a radical overhaul of our tax structure at the personal and corporate levels bringing down rates, simplifying the code/process while encouraging job creation and economic growth. THEN we must begin a national debate on a U.S. Balanced Budget Amendment. Congress and the White House have proven that they can't bring our national debt under control. All but one of our fifty states has a balanced budget requirement. It is high time our federal government did as well!

Contact Us

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