

January 2016

Introduction

In the immortal words of Thomas Paine, “These are the times that try men’s (people’s) souls.”

The first three weeks of 2016 have seen the Dow Jones Industrial Average drop more than 9% with experts and pundits wondering if in fact we are poised to experience a second “Great Recession”, a repeat of the collapse of 2008-09. To make matters worse, many in America and around the world are wondering if we are entering a global “downturn”, a “meltdown” similar to the late 90’s or the recession that saw global GDP turn negative in 2009. We think not, yet there is much to be concerned about. Low global oil prices have brought good news for consumers of gasoline; and oil/natural gas feedstock’s, yet the news for oil company stocks and their employees, banks that hold their debt, and the communities they support is currently devastating. It was less than 5 years ago that West Texas Intermediate Crude (WTI) was priced at almost \$110 a barrel and just this week the same barrel flirted with \$20 a barrel. Many believe that China is slowing faster than reported. Ten years ago, GDP hovered closed to 14% growth and in 2015 China reported growth of 6.9%, a figure many question as excessively high.

Brazil is in recession as Canada and Japan flirt with it, the U.S. has historically grown at 3.25% annually since World War II while averaging just over 2% since 2009. The European Union has grown at less than 1.5% annually for the last three years and will struggle to reach 2% over the next two years. If Thomas Paine were alive today, he would certainly describe these times as “trying and difficult.”

Paine’s famous quote comes from the beginning of a famous pamphlet he wrote entitled “The Crisis” written

December 23, 1776. The difference with Paine in 1776 and America today is optimism. Paine, who was stirring his patriotic fellow colonists to revolt against the British monarchy, was optimistic about the possibilities, the outcome, the end result of the challenge. In fact, the last paragraph in “The Crisis” begins with “I thank God, that I fear not. I see no real cause for fear. I know our situation well and can see the way out of it.”

The trouble today is that most Americans are worried, they do not see an end, a way out of these trying economic times we face here in the U.S. and abroad.

Key December/January Data

Positive and Negative Signs

The U.S. stock market as measured by the Dow Jones Industrial Average ended 2015 at 17,425 and dropped nearly 10% before realizing a minor correction closing the week at 16,093, down more than 7.5% so far in 2016. The U.S. automobile industry had a record setting year in 2015 with more than 17.4 million new automobiles, light trucks and SUV’s sold with 2016 looking slightly better. U.S. unemployment hovered at 5% at the end of 2015 and new home sales ended the year in an impressive fashion. However, industrial production and manufacturing as measured by the IMF index was below 50 in October and November signaling a recession in that sector with a good chance the U.S. GDP will finish 2015 with a yearly average at or below 2.0. The U.S. labor force participation rate has averaged less than 63% for the last 21 months and is at one of its lowest levels since the late 1970’s, ending 2015 at 62.6%. Unemployment is down dramatically since the trough of the Great Recession in 2009 but we are afraid that much of that is due to people dropping out of the

workforce because they cannot find a good paying job. Let us not forget that the labor force participation rate averaged more than 66% in 2007 on the eve of the Great Recession when unemployment averaged less than 4.5% for the year.

Current Issues

What are the issues “trying” Americans economically and the American economy today? They are: 1.) **A difficult job market.** It is true the U.S. job market has created roughly 10 million new jobs since 2009; it is also true that many are not high paying jobs and as a percent of the U.S. population it has been a poor job recovery. 2.) **GDP Growth.** U.S. GDP growth has trailed the historic post WWII average annual growth rate by more than a point since 2009 and after seven years the current administration must own the poor progress and reflect on its own policies. 3.) **Government Spending.** Federal government spending has risen under President Obama as it has under his predecessors for many decades. Spending increases in Social Security, Medicare and Medicaid, the Affordable Care Act and other entitlement programs have driven the doubling of government spending in less than 10 years. Government spending coupled with an “overly optimistic” estimate of government revenue from poor GDP projections, have left record deficits for politicians and tax payers to deal with. Both sides of the aisle are to blame for our fiscal problems with a bi-partisan solution, a mandate. 4.) **Rising National Debt.** The national debt of the U.S. is now roughly \$19 trillion with gross interest payments surpassing \$400 billion annually and no payment on principle. What will happen in the future as our national debt increases and interest rates rise? 5.) **Corporate Tax Rates.** If the U.S. is to bring fiscal sanity to its shores and re-establish sound long term economic growth it must be competitive in the area of corporate tax rates. The U.S. has the highest business tax rate in the industrialized world. We will continue to find it difficult to compete, create enough good paying jobs and grow GDP annually

beyond 3% without tax reform. 6.) **Anti-Business Mentality.** The key source of jobs, income and GDP growth in the United States is business. This is a fact that many in Washington are either ignorant of or simply choose to ignore for political gain. From “you did not build that” and minimum wage increases to a more burdensome EPA and the Patient Protection and Affordable Care Act, the cost of doing business in America is rising. In addition, the success and wealth business generates for many is under attack in ways we have not seen in decades with higher taxes on the wealthy and successful being “the solution” rather than tax and regulatory reform.

Conclusion

We believe that the majority of Americans are disappointed and concerned with the performance of the U.S. economy over the last decade and desire a return to long-term stable economic growth and investment returns. Washington must address the issues above with solid, bi-partisan reform or long-term confidence will not return to America and the economic uncertainty we have faced will continue.

Contact Us

Comments or questions should be directed to Dr. Timothy G. Nash at: tgnash@northwood.edu or (989) 837-4323. The NU Outlook is a monthly publication of The McNair Center for the Advancement of Free Enterprise and Entrepreneurship. To view Northwood University’s Monthly Economic Outlook Newsletters from previous months, please visit: <http://www.northwood.edu/media/publications/>. For more information about Northwood University, our academic programs and enrollment opportunities for students, visit www.northwood.edu.

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