

Northwood University's **Monthly Economic Outlook**

February 10, 2011

Introduction

As we enter the second month of 2011, the U.S. economy currently is moving in a positive direction as initial 4th quarter GDP for 2010 came in at 3.2%. We continue to be optimistic regarding the first half of 2011 based on continued strong automobile sales, the outlook for more bi-partisan cooperation in Washington, the extension of the Bush tax cuts, and a personal savings rate of 5.3%. We continue to be concerned about the mounting U.S. deficit, which is now greater than \$14.1 trillion and the mixed signals being sent from the Congress and The White House as to how to control the size and scope of government spending and the national debt. We are also concerned about the future value of the U.S. dollar, and the mixed signals being sent regarding future inflation by the price of oil, gold, and silver relative to CPI data.

Key December/January Data

Positive Signs

According to the latest Manufacturing ISM Report on Business, the manufacturing sector of the U.S. economy continued to grow in January as evidenced by the Purchasing Managers index which increased to 60.8%, its highest level since January, 2004. U.S. productivity remains near record levels while cash balances for non-financial based U.S. corporations is at 1.98 trillion dollars. The Dow Jones Industrial Average rose 221 points in the month of January, an increase of 1.9%, while the survey of consumers intending to purchase an automobile over the next six months remained positive in January. The January Conference Board Global Leading Economic Indicators report shows U.S., Europe, and China were positive, growing at

1.0%, .8%, and .5%, respectively. The U.S. savings rate continues at a strong pace, once again realizing a rate of 5.3% in January. Automobile, SUV and light truck vehicle sales were up 17.3% in January 2011, over the same period in 2010. December and January data suggest that inflation is running at an annualized rate of less than two percent. The pending home sales index was up 2% in December of 2010, but down 4.2% from December, 2009. The U.S. unemployment rate dropped to 9%, down .4% from December, 2010, with private sector employment increasing by 187,000 jobs from December, 2010 to January, 2011. The Conference Board report on consumer confidence showed a substantial increase of more than 7% in January.

Negative Signs

While the national unemployment rate made progress in December, falling by .4%, it still stands at a sobering 9%. The average 30-year fixed mortgage rate rose from 4.79% in December to 4.96% at the end of January, 2011. Gold surged in December but has retreated \$30, down to \$1,340 per ounce in January, while silver increased \$1.40 from its end of December high, to close January at \$29 an ounce. Price movements in mortgage rates and silver, coupled with recent FED policy and the resignation of a key FED board governor gives us further reason to be concerned regarding future inflation. Unemployment benefits remain at record highs and will continue at these levels for at least the next 12 months. The U.S. dollar fell slightly against the Euro in January and saw little change against the Yen. Finally, we continue to be concerned over Egypt and the Middle East as well as the slow resolution of the U.S. mortgage crisis.

Current Issues

Last month we focused on the fact that Michigan was one of the poorest performing state economies in the U.S. over the last decade and suggested five reforms to energize that state's economy. This month we want to focus on state policies that have driven high performing states through our recent downturn and are leading the country out of recession.

Based on data from the Tax Foundation and the American Legislative Exchange Council (ALEC), we have constructed a brief comparison of public policies in the states that had the "best" economic outlook in 2010 (Utah, Colorado, Arizona, South Dakota and Florida) with those that had the "worst" (New York, New Jersey, Vermont, Illinois and California). The findings are interesting and thought-provoking.

* Four out of the five "best" outlook states were right-to-work states while all five of the "worst" outlook states were union shop states.

* All five of the "best" outlook states had the lowest minimum wage rate in the country while three of the five "worst" outlook states had among the highest minimum wage rates in the country.

* In general, the state tax reforms implemented in 2008 and 2009 greatly favored the "best" outlook states and in general were less friendly to growth in the "worst" outlook states. Large budget deficits loom in the "worst" states leaving us to believe that tax increases are on the horizon for these states.

* Personal, corporate and inheritance taxes in the "best" outlook states are among the lowest in the country for four of the five states in this category and at a reasonable level in Arizona. The five states with the "worst" outlook are among the highest in said categories.

* Finally, the "best" outlook states realized a population growth total of roughly 2.3 million people from 1999-2008, while the "worst" outlook states saw their population decline by a total of just under 4.3 million over the same period.

Conclusions

We believe that comprehensive bench-marking of "best practices" with other countries will be of immense help to our federal government, while the same practice can clearly be used within the governments of our 50 states.

Contact Us

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