

*February 2014*

## Introduction

As has been the case for more than four years, the U.S. economy is recovering but at a growth rate far below historical norms, both in GDP growth and job growth. GDP is forecast to grow by roughly 2.7% in 2014. If achieved, predicted U.S. GDP growth in 2014 will again be below the average annual post World War II growth rate of 3.3%. The index of U.S. Business Confidence in the United States increased to 53.2 in February up from 51.3 in January as reported by the Institute for Supply Management. A reading above 50 generally means that the manufacturing economy is expanding. This is good news for the U.S, it's most likely a sign that global demand is on the rise and competing countries like China are selling manufactured goods at higher prices. Overall, government spending has trended upward over the last quarter and the last year. During the last quarter, government spending increased from \$2.866 trillion dollars to \$2.907 trillion. General numbers illustrate that the rate of government growth is in fact slowing yet the overall U.S. national debt to annual U.S. GDP ratio is currently 103%. The Dow Jones Industrial Average (DJIA) peaked at 16,312 in February which compared to a January peak of 16,576 showing a slight decline for the year to date. The United States dollar decreased to 79.78 in February from 81.25 in January 2014 based on the United States Dollar Index or DXY which measures the performance of the dollar against a basket of international currencies. This is most likely the result of the Federal Reserve's monetary policy which is exemplified by quantitative easing and an expansionary U.S. monetary policy.

## Key January/February Data

### Positive and Negative Signs

The United States unemployment rate dropped to a five year low of 6.6% in January and quickly increased to 6.7% in February. However, non-farm jobs increased at a surprising rate in February with 162,000 jobs created in the private sector and an additional 13,000 government jobs being created in the month as well. In addition, the February jobs report revised upward January data showing job creation was actually 129,000 rather than the initial report of 113,000. The Conference Board's February Leading Economic Index (LEI) report for the Euro Area increased 1.2% which was the same figure reported for the Chinese economy. The U.S. LEI increased less than one percent over the same period. In late February U.S. Congressman David Camp (R), Chairman, Ways and Means Committee of the U.S. House of Representatives introduced a thoughtful tax plan to jump-start the U.S. economy. Mr. Camp's plan is to be applauded for its desire to simplify our tax code, reduce top tax brackets on industry and individuals, as well as to provide incentives for multi-national corporations to bring profits back to the United States from overseas operations. Mr. Camp's plan needs to be taken seriously and hopefully will inspire Congress and tax-payers to begin a serious and substantive debate on tax reform. We must create a new tax code, one that creates competitive advantages for U.S. businesses here and abroad, while simultaneously providing revenue via the private sector to stimulate GDP and job growth at levels above what we have experienced since 2009...let the debate begin! The United States average hourly manufacturing wages increased from \$19.24 in January of 2013 to \$19.53 in January of 2014. This is good news because manufacturing workers will be taking home a larger

wage and consuming and saving more money than they previously would. Overall U.S. wages in general increased in 2013 in nominal terms, but probably not adjusted for inflation.

## Current Issues

Today is once again the fulfillment of the Chinese proverb “May you live in interesting times.” With Russian troops moving into the Crimean region of Ukraine, global tensions are high. This present’s grave concern on many fronts after the world enjoyed a brief moment of global peace associated with the Sochi Olympics, hosted by Russia. This Russian initiated conflict will continue to affect the world’s economies whether a larger scale war breaks out or not. The Russian stock market has dropped more than 10% and created great uncertainty for Russian investors as well as investors in the global community. The U.S has suspended trade talks with Russia and has introduced or threatened numerous economic and political sanctions. While the E.U. continues to communicate with Moscow it too is preparing sanctions if Moscow refuses to reverse its current course. Russia is preparing counter sanctions and strongly echoing its position that this is a justifiable incursion designed to protect ethnic Russians living in the Crimea. The Russian central bank has sharply raised interest rates in an attempt to stem the ruble’s decline on the international currency markets, which could drive Russia’s economy into recession if excessively high rates last for months. Russian President Vladimir Putin has never concealed his desire and ambition to re-establish Russia’s regional influence. He has replaced Marxist ideals with ultra-nationalism, contempt for the West and a backwards, highly corrupt, form of crony capitalism. The Ukraine is incapable of defending itself especially considering they have neglected their military with spending on defense at just over 1% of GDP in recent years. “The Conflict in the Crimea” is not only a dangerous path for Russia and Europe it could well create major problems here in the U.S. and around the world. Some advocate harsher

restrictions on Russia that could be mirrored by every country. Russia is one of the world’s leading producers of oil, natural gas and coal and certainly can remain independent when it comes to vital energy needs. The difficulty for the world and the EU with this conflict is that Russia currently provides roughly 35% of all of the oil, natural gas and coal to western Europe. Delicate but firm negotiations are required to end this conflict. If a broader conflict ensues, the price of oil, natural gas and coal will certainly spike in Europe and shortly after, around the world. The fragile economic recovery in Europe, North America, and globally would come to an end and recession or worse could ensue. We certainly live in interesting global times...times we are less capable of dealing with due to unsound U.S. fiscal policy lead by a national debt in excess of 100 percent of U.S. GDP.

## Contact Us

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