

March 2012

Introduction

Nearing the end of the 1st Quarter of 2012, the U.S. economy has begun to show signs of life again. U.S. GDP for the 4th Quarter of 2011 remained unchanged at 3.0 percent growth according to the third estimate. This is much improved from 3rd Quarter growth of just 1.8 percent. The Dow Jones Industrial Average continues its slow and methodical climb, settling just below 13,200 at the writing of this piece. It increased 1.9 percent in February and is up another 1.2 percent in March.

Key February/March Data

Positive Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations' cash reserves remain at nearly \$2 trillion. The February Conference Board Global Leading Economic Indicators Report shows the United States increased .7 percent while Europe and China both increased .8 percent. This is the second straight month that the U.S., Europe and China have all seen positive growth. The U.S. savings rate settled at 3.7 percent in February, compared to 4.0 percent in December which shows more confidence in the market. This is the lowest it has been since August 2009, which was temporarily low because of the end of the Cash for Clunkers program. Consumer confidence jumped from 61.1 in January to 71.6 in February and then receded slightly to 70.2 in March. Automobile, SUV and light truck sales in February were up 15.7 percent relative to February 2011. The unemployment rate settled at 8.3 percent in February which is unchanged from January. Construction spending was up 8.2 percent in January

relative to January 2011 and February housing starts were up a massive 35.9 percent relative to February 2011.

Negative Signs

The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.3 percent with U.S. companies holding more than \$1.2 trillion overseas as a result. Oil, gold, and silver prices continue to remain relatively high, although they are trending downward. Despite falling crude oil prices, the national average for gas prices spiked to \$3.64 in February, a 20 cent increase from January. According to the latest manufacturing sector of the ISM Report on Business, the manufacturing sector of the U.S. economy decreased to 52.4 in January from 54.1 in January, drawing closer to falling below 50 which signals a recession for the manufacturing sector. Durable goods orders and shipments were both down in January relative to December, but were up compared to January 2011. Personal disposable income continues to trend upward, but at a slower pace than inflation which indicates a general decrease in wealth.

Current Issues

The last week in March 2012 was historic in the modern era from a legal perspective and perhaps from a regulatory perspective. Consider the following two issues. The U.S. Supreme Court spent 3 days and just over 6 hours hearing arguments regarding President Obama's Affordable Health Care Act while the EPA declared new regulations on carbon emissions which will make it very difficult to

construct a new coal fueled power plant in the future and certainly will put upward pressure on utility prices over time. The new EPA guidelines have caused much division in Congress including division within the Democratic Party and will likely result in a court challenge. So you may ask -- why is it important to reflect on such issues in an economics article? It is important because the role of public policy has never been more important in U.S. history than it is today. Public policy is the application of economics and the law in order to resolve issues and disputes while upholding the written law of a given country (i.e. the Constitution of the United States in the above instances). In essence, public policy is designed to improve society within the proper role and scope of government.

In the case of the President's health care act the problem the court is addressing is the legality of the legislation passed by the 101st Congress of the United States designed to cover the roughly 30 million Americans without health care insurance. The court is addressing whether or not the law itself and policy dictates are within the proper role of our federal government as defined by the U.S. Constitution. Or in practical terms, should the federal government be granted greater oversight and control over 18% or almost \$2.76 trillion of the U.S. economy.

The major debate centers around whether or not the federal government has the authority to mandate that individual Americans purchase health care insurance or be penalized via a tax for not doing so. If the court overturns this act, it will be the most precedent setting case in 50 years, some say since the Court overturned portions of President Roosevelt's "New Deal" in the 1930s. The new Carbon rules recently outlined by the EPA are just another example of the growing size and cost of the regulatory structure in the United States.

Not only is the United States soon to be the country with the highest corporate tax rate in the industrialized world and the country with the greatest percent of personal

income taxes paid by its top 1%, but it is quickly becoming a regulatory nightmare. The average cost of regulations per employees is now \$10,585 and growing, placing tremendous pressure on a firm's ability to maintain or hire new workers. In 2002, 67% of all Initial Public (stock) Offerings (IPO) in the world were issued on U.S. stock markets. Today after regulations like Sarbanes-Oxley just 16% of the world's IPO's in 2011 were issued by U.S. stock exchanges.

With the size and scope of government growing to record levels and the courts, not the legislature, seeming to be the only way to reverse said growth, perhaps the most important reason for choosing our next president is how he/she will appoint justices to the U.S. Supreme Court if given the opportunity? What do you think?

Contact Us

Comments or questions should be directed to Dr. Timothy G. Nash at: tgash@northwood.edu or (989) 837-4323.

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 visit www.northwood.edu.

Northwood University is committed to a policy of nondiscrimination and equal opportunity for all persons regardless of race, gender, color, religion, creed, national origin or ancestry, age, marital status, disability or veteran status. The University also is committed to compliance with all applicable laws regarding nondiscrimination. Northwood University is accredited by the Higher Learning Commission and is a member of the North Central Association (800-621-7440; higherlearningcommission.org).