

April 2012

Introduction

At the end of the 1st Quarter of 2012, the U.S. economy is showing signs of slowing down. U.S. GDP for the 1st Quarter of 2012 increased at 2.2% down from an expected growth rate of 2.7 percent according to many economists. This is a decline from 4th Quarter 2012 GDP growth of 3.0 percent. The Dow Jones Industrial Average slowed in late April, settling just above 13,200 at the writing of this piece which is flat from the end of March. It increased 1.9 percent in February and was up another 1.2 percent in March.

Key March/April 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 March Conference Board Global Leading Economic Indicators Report shows the United States increased .3 percent while Europe declined .3 percent and China increased .8 percent. This is the second straight month that the U.S. and China have seen positive growth. The U.S. savings rate settled at 3.7 percent in March, down 26 percent from a year ago, stimulating spending. Consumer confidence was up slightly to 70.2 in March. Automobile, SUV and light truck sales in March were up 12.7 percent relative to March 2011. The unemployment rate settled at 8.2 percent in March which is down from February. Construction spending was up 8.0 percent in February relative to February 2011 and March housing starts were down 5.8 percent relative to February 2012.

Negative Signs

The U.S. now has the highest corporate income tax rate in the industrialized world at an average rate of 39.2 percent, surpassing Japan which cut its average corporate tax rate to 38 percent at the beginning of April. U.S. companies are 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 \$3.75 in March, a 9 cent increase from February. According to the latest manufacturing sector of the ISM Report on Business, the manufacturing sector of the U.S. economy decreased to 54.5 in March from 54.9 in February, drawing closer to falling below 50 which signals a recession for the manufacturing sector. Durable goods orders and shipments were both down 4.2 percent in March relative to February, but were up compared to March 2011. Personal disposable income continued to trend upward .8 percent, ahead of .4 percent inflation in March which indicated a low increase in wealth.

Current Issues

The U.S. economy is trying desperately to recover at a sustainable pace but has yet to do so. The reason why the "Great Recession" is still visible through our economic rearview mirror is that the time and pace of recovery from recession is the worst since the "Great Depression." The "yo-yo" effect continued into 2012 with 3rd quarter 2011 GDP growth at 1.8 percent, 4th quarter 2011 GDP growth at 3.0 percent and now 1st quarter 2012 GDP growth at 2.2 percent. The hidden truth is that our economy is not as healthy as people and politicians want to believe.

There are obvious measures that America is less competitive and less free economically than we were relative to the rest of the world just ten years ago. According to the IMD World Competitive Index, the Heritage Foundation/Wall Street Journal Index of Economic Freedom and the Fraser/CATO Economic Freedom of the World Index U.S. competitiveness is falling on the world stage. Each shows U.S. tax levels and regulatory costs are growing relative to the rest of the world! This is making it difficult for Americans and American businesses to compete in a global world where 14 percent of our GDP is exported. In addition, our national debt in 2012 is now equal to 100 percent of our annual GDP. It was roughly 35 percent of GDP in 1981. The “hidden measures” of the burden Americans are facing can be found by more closely examining how we measure unemployment and inflation. Take unemployment. The March 2012 U.S. “official” unemployment rate (or U3) which measure the portion of the U.S. civilian labor force that is unemployed but actively seeking a job stood at 8.2 percent ... up 43.8 percent from 2002. The U3 rate was 5.7 percent in March of 2002. However, the U6 unemployment rate reported by the U.S. Bureau of Labor Statistics which includes U3 plus people who want to work but are not actively seeking work but have sought work in the last 12 months; includes workers who are “discouraged” and have given up looking for a job and workers who are working part-time and desire a full-time job but cannot find one.

The March 2012 the U6 unemployment rate is 14.5 percent, up 54.3 percent from March of 2002. The U6 unemployment rate in March of 2002 was 9.4 percent. If the U.S. inflation rate were calculated the same way the government calculated inflation prior to 1990 inflation over the last year is 6.5 percent rather than the currently reported rate of 3.1 percent. If we use the 1980 model the government used to calculate inflation, the rate is 11 percent over the last year. The post 1990 model tries to account for substitutes and new technology but under

estimates of cost of food and fuel which have been increasing at a rapid pace in the last year. The cost of doing business and living is higher than reported and now you know why!

Government needs to incent business to invest and allow it to be more competitive relative to their foreign competitors. Government at all levels needs to cut taxes and reduce government spending as government consumption of 41 percent of GDP is excessively high and must be reversed.

Contact Us

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