

Northwood University's Monthly Economic Outlook

April 2013

Introduction

As the second quarter of 2013 begins, the U.S. economy experienced substantially higher growth in the first quarter of 2013 than the last quarter of 2012. However, the first quarter 2013 estimate of U.S. GDP shows an expansion of 2.5%, which missed the 3.5% rate expected by the Conference Board. This expansion is primarily due to an increase in consumer spending which grew at 3.2% for the first quarter, compared to 1.8% in the prior quarter. Even with GDP growing for the fifteenth consecutive month, growth is weak compared to historical data and post WWI recoveries. Also, despite a rise in consumer spending, Americans' burdened by a fear of higher unemployment and lower after tax income sent the Reuters/University of Michigan's index on consumer sentiment down 6.3 points in April to 72.3, from 78.6 in March. It is apparent the economy is not improving quickly enough in most people's minds, with a belief that growth will either be slow or stagnant and 2013 U.S. GDP is likely to be below 2%.

The excessive U.S. debt burden currently stands at \$16.7 trillion or 106% of U.S. GDP and growing, with the possibility that a vote to increase the debt limit could be pushed back, yet again, until after the August recess. The PMI Index shows a weakening manufacturing sector in April, with a reading of 52.1, down 2.4 from March. The PMI Index has still shown expansion in manufacturing for four consecutive months, but at a slowing pace. New orders for durable goods fell sharply by 5.7%; making it the largest drop in seven months in March while April new vehicle sales are expected to grow roughly 10%.

The March Euro Area Leading Economic Index (LEI) decreased by 0.4% due to political instability in Italy and negative growth in countries like Portugal, Spain, and Cyprus while the China LEI was flat. U.S productivity continues to remain among the highest in the world and U.S non-financial cash reserves for non-financial-based U.S corporations are \$1.45 trillion. The Federal Reserve remains committed to their effort to curb unemployment and stimulate the economy by purchasing government securities at the alarming amount of \$85 billion per month...a move that concerns us relative to future inflation.

Key March/April Data

Positive and Negative Signs

March home sales were down 0.6% from February, but are up 10.3% from a year ago. The annual pace of housing topped 1 million (March to March) and hasn't seen that level since June 2008; it was up 7% in March with overall construction spending down 1.7% in April. Foreclosures fell 23% in the first quarter from a year ago, their lowest level since the second quarter of 2007. March auto sales were up 3.4%, the highest since 2007. Consumers' paychecks are consistently getting smaller, with a dismal 0.2% increase in March disposable income, compared to a 1.1 percent increase in February. Real disposable income has consistently declined since January when payroll taxes were increased.

As of April 30th, the Dow Jones Industrial Average increased by 1.7%, the NASDAQ increased by 1.19%, and the S&P 500 increased 1.53% for the month of April. April oil prices declined \$3.01 or 3.10% for the month, and as of April 30th, gold dropped \$126 or 7.92% for the month while silver dropped \$4.13 or 14.56% over the same period.

Current Issues

The U.S. economy is looking for direction...its "Economic True North" if you will and has been for some time now. The global economy is not providing much assistance as projected global GDP for 2013 is 3%, down from the Conference Board's 2012 projections of 3.2% growth which did not hit the mark coming in at 3.0% for 2012. When we take a closer look at the global

economy there is little reason for optimism in 2013 compared to 2012. Advanced economies which make up just under 50% of the global economy are projected to show economic growth from roughly 1.1% in 2012 to 1.2% in 2013 with Europe experiencing recovery at .3% growth and emerging economies growing at only 5% in 2013.

The U.S. Economy

U.S. GDP growth was -3.1% in 2009, 2.4% in 2010, 1.8% in 2011, 2.2% in 2012, and is projected to be 1.9% in 2013. It is important to note that U.S. private sector growth in goods and services averaged roughly 3.6% in 2012, up from 1.5% growth in 2011. This leads us to our concerns regarding 2013 U.S. GDP projections. The well-respected Conference Board predicted U.S. GDP growth to be 1.9% in 2013. The exact breakdown of the forecast is as follows: 2013 first quarter at 3.5% GDP growth, 2013 second quarter at 0.8% GDP growth, 2013 third quarter at 1.6% GDP growth and fourth quarter at 2.1% GDP growth.

Our first concern centers around the fact that initial first quarter 2013 U.S. GDP was reported last week at a disappointing 2.5%, a full point below what the Conference Board projected was for 2013. With the first quarter base establishing a poor start for the economy in 2013, we believe U.S. GDP will finish the year at an anemic 1.7-1.8% growth rate. Recall that our forecast for 2013 U.S. GDP growth was 1.8-2.3%. Our reason for concern and pessimism is centered around the private sector which is the cornerstone of our economy.

We ask what incentives exist or rather do not in 2013 relative to 2012 for private sector growth? And why are we pessimistic regarding a repeat of private sector growth from 2012 to 2013? The 2013 2% increase in payroll taxes for all working Americans does not bode well for consumer spending or personal investments in 2013. The increase in 2013 U.S. tax rates on the top 1% of income earners will certainly mean a reduction in spending on a range of consumer goods and services, a reduction in investments and a probable reduction in charitable donations...all helping to explain a slower rate of

growth in 2013 U.S. GDP. Second, the increased regulatory burden saddling the U.S. economy in 2013 led by the implementation of the "Affordable Care Act" is making it more difficult for the U.S. private sector to thrive and grow. The U.S. economy's regulatory burden relative to the rest of the world as measured by the Heritage Foundation/Wall Street Journal Freedom Index is growing and will continue to do so in 2013.

Finally, reducing the size and scope of government will have short-term negative consequences on the economy, but must be done in order to re-calibrate the U.S. economy in a prosperous direction.

Conclusion

Washington must adopt real and substantive tax reform this year; reform that promotes economic growth that does not punish people for being wealthy or successful. Simultaneously, Washington must re-invent itself and direct spending and programs to a level of consumption of U.S. GDP which does not exceed 17% of GDP while balancing the federal budget by 2020. The above will take the best ideas and the best minds America has to offer as well as successful real-world proven solutions from countries like Canada, Chile and New Zealand.

Contact Us

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