Northwood University's
# Monthly Economic Outlook

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## Introduction

On December 23, 1776 the American patriot, Thomas Paine described the state of the American Revolution by saying "these are the times that try men's souls...". In paraphrasing Paine in 2014, we believe it is appropriate to state "these are the times that are trying our economic recovery". Recently an Associated Press (AP) article noted the "Uneven global economy – a test for central bankers". The article went on to say that China was slowing down, Japan had impressive first quarter GDP growth of roughly 6 percent, Europe barely grew in the first quarter of 2014, and the United States seems to be picking up its pace. We agree with most of the AP analysis, however we question the state of the U.S. economy and whether or not fiscal reform and tax cuts are not the answer rather than monetary policy. Earlier this week the Wall Street Journal noted that the U.S. Department of Commerce reported first quarter 2014 U.S. GDP growth at a mere 0.1%. First quarter U.S. economic growth came within an eyelash of signaling a recession, making it hard to believe that there is reason to believe the U.S. economy is picking up its pace, at least relative to the 4th quarter of 2013. Many economists blame the poor economic performance in the first quarter to weather conditions. Weather certainly had a negative effect on certain areas of the economy, but it is hard for us to believe that minus a challenging winter, we would have had strong growth in the first quarter. To complicate things further, many economists now believe that when revised figures for the first quarter of 2014 are released, U.S. GDP will be revised downward into the negative range, largely based on concern over business inventories. J.P. Morgan Chase expects final first quarter GDP to come in at -0.8%, Macroeconomic Advisors believe the contraction will be -0.7%, while Barclays Capital predicts a contraction of -0.6% in the first quarter of 2014.

There are mixed signs on the employment front for the U.S. economy in April. Total U.S. non-farm payroll employment grew by an impressive 288,000 and the unemployment rate dropped to 6.3%, a decline of .4% from March, according to the Bureau of Labor Statistics. However, the U.S. labor force participation rate fell to 62.8% in April, from 63.2% in March, which is a 35-year low, according to the Bureau of Labor Statistics. Some 806,000 people dropped out of the labor force in April.

## Positive and Negative Signs

With 10.5 million Americans still looking for work the unemployment rate is 6.3 percent and employers do not feel comfortable raising wages for those they employ. As a result, average household take-home pay has declined through the recession and the recovery to just over $51,000 in 2013 from $55,627 in 2007, (adjusted for inflation). The result has been declining middle class incomes, which now officially lag slightly behind those of Canada. Investment in residential property remains a smaller share of the overall economy than at any time since World War II, contributing less to economic growth coming out of steep economic downturns like the early 1980s, when peak mortgage rates approached 20 percent, or the early 1990s, when hundreds of mortgage lenders went bankrupt. If housing activity returned to its postwar average GDP growth, it could be as high as 4 percent today. Gasoline prices have been rising in

recent weeks, mostly for seasonal reasons. The Conference Board's Consumer Confidence Index dropped to 82.3 from a March reading of 83.9. Despite the decline, consumer sentiment for the past two months has been at its strongest levels since January 2008, when the Great Recession was just beginning. The Labor Department reports that the unemployment rate for 2013 college graduates — defined as those ages 20 to 29 that earned a four-year or advanced degree was 10.9 percent. That was down from 13.3 percent in 2012 and was the lowest rate since 2007. The above is a good sign that the economy is still able to generate jobs, even though many are in the low wage segments of the retail and hospitality industries. Orders for durable goods increased 2.6 percent in March following a 2.1 percent rise in February, the Commerce Department reported in April. Those back-to-back gains followed two big declines in December and January which had raised concerns about possible weakness in manufacturing.

## Current Issues

Trying times for the U.S. economy or not, the U.S. motor vehicle industry has gone through its trying times and appears to be in the midst of a strong recovery. Sales of new automobiles, light trucks and SUV's should surpass 16 million in 2014, building on positive growth since 2010. Despite a roller coaster of sales since 2004, and its trough of 10.4 million new automobiles, light trucks and SUV's sold in 2009, there is much to celebrate regarding motorized vehicles. Wages in areas ranging from motor vehicle parts manufacturing and gasoline stations to tire and automobile dealers (often referred to as the motor vehicle aftermarket) saw average wages increase annually by just under 2% since 2004. Employment in this sector of the economy has increased 8.8% since 2009, totaling more than 4.2 million employed at the end of 2013. Motor vehicle aftermarket jobs totaled 4.5 million in 2004, a figure that will be approached over the next few years given projected growth in the sector, but probably not reached due to individual worker productivity and technology gains in production and distribution.

The maintenance and repair of motor vehicles has never been more important to the U.S. economy, with roughly 260 million automobiles, light trucks and SUV's on the roads, not to mention Class A trucks and construction equipment. The average automobile on the road is almost 12 years old with unmet maintenance totaling roughly $60 billion annually...the industry's future is bright. The maintenance and repair of all motorized vehicles, once they have been sold was roughly a $320 billion component of the U.S. economy in 2013 and is expected to grow to $360 billion by 2017 or before.

The U.S. economy will return to 3.5-4.5% annual economic growth when sound fiscal and tax policy are reintroduced to the U.S. economy. In the meantime, let's be grateful for the strong recovery in the motor vehicle segment of our economy.

## Contact Us

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