

# Northwood University's Monthly Economic Outlook

May 2013

## Introduction

Deep into the 2nd quarter, the U.S economy continues to show mixed and confusing signs and has yet to set a steady pace for growth. Americans are used to three years into an economic recovery. First quarter U.S. GDP growth was revised downward to 2.4% with early forecasts for the second quarter expected to be below 2% based on U.S. Bureau of Labor Statistics projections. On May 7<sup>th</sup>, the Dow Jones Industrial Average closed above 15,000 for the first time in history. While the DJIA was up 276 points or 1.86%, NASDAQ up 127 points or 3.82%, and S&P 500 up 33.17 points or 2.08% for the month.

## Key April/May Data

### Positive and Negative Signs

The U.S. housing market showed signs of mixed activity, with improvement in some areas and disappointment in others. Home prices in March rose 10.2% in the first quarter, the largest annual gain since 2006, but overall home prices are still down 28% from their 2006 peak. The Commerce Department reported new housing starts fell 16.5% in April, but newly issued building permits for April were 14.3% higher than March's estimate. More Americans felt compelled to sell their homes with April existing home sales rising 0.6%, the highest level since November 2009. A stark view of the market shows how the average U.S. household is far from recovering its wealth. As of March 2013, Americans have only regained 91% of the nominal losses suffered from the Great Recession, but when adjusted for inflation and averaged across the United States, average households have only recovered 45% of Pre-Great Recession wealth. The percentage declines greatly when one factors in national data across all income levels with households below average national income faring worst. Average American

paychecks and the ability to spend continued to decline with 2013 April personal income down roughly \$5.6 billion and disposable personal income down just over \$16 billion, making April the third consecutive month for negative income growth. Americans are not saving enough cash with the April U.S. savings rate at 2.5%, the lowest monthly rate since October 2007. The Conference Board's Consumer Confidence Index increased to 76.2, an increase of 7.2 points from April. The Conference Board's Leading Economic Index for the U.S. increased 0.6 points to 95.0, although consumers' future outlook remained weak. The Conference Board also reported that the Euro Area increased 0.1 points and China by 1.5 points due to increased real estate activity.

In April, 165,000 private sector jobs were added, with the unemployment rate dropping to 7.5%, the lowest since December 2008. Preliminary May jobs data does not look promising with unemployment at 7.6%. The April ISM manufacturing report shows a 0.6% decrease to 50.7 with May ISM dropping to 49 signaling possible recession. This breaks a five month expansion trend. May's new auto sales rose 6.5% from a year ago and up 11% from April. Durable goods rose 3.3% in April, from an expected 1.5%. The United States government avoided a default on debt payments on May 17<sup>th</sup>, it is expected that we will face the same dilemma on or before September 2<sup>nd</sup>, with no resolution to avert it on the horizon. The Federal Reserve is showing signs of willingness to consider cutting back on its \$85 billion monthly stimulus/buyback program, many believe chairman Ben Bernanke may test the waters yet this summer...a good sign for inflation...a signal that long term interest rates may be on the rise.

## Current Issues

In 2012 there were two interesting comparative pieces on the Reagan and Obama economic recoveries in The Wall Street Journal and Forbes. They are "A Tale of Two Presidencies" if

you will. Presidents Reagan and Obama clearly inherited the two worst economic downturns since The Great Depression and chose to solve the nation's problems with very different policy solutions...why?

The August 2012 Wall Street Journal article was quite favorable to President Reagan measuring both the Reagan and Obama recessions from their beginning over a 55-month period into recovery...here are some of the findings. The Reagan recovery created 7.8 million jobs and real per capita gross domestic product was up by \$3,091. The Obama recovery had 4 million fewer people working over the same period while per capita GDP was down \$803. Real median household income fell over the same period by almost \$4,000 during the Obama recovery while it increased \$3,380 or 7.7% during the Reagan recovery.

The number of people on food stamps fell by three million or 13.4% during the Reagan recovery while the number increased by 20 million or 71% during the Obama recovery. Households receiving Aid to Families with Dependent Children declined by 1% during the Reagan recovery while it increased 12% over the same period of the Obama recovery. The number of Americans receiving unemployment insurance declined 11.9% during the Reagan recovery while it increased 19.2% during the same period of the Obama recovery.

The September 2012 Forbes Magazine article basically agreed with the economic conclusions of the earlier Wall Street Journal piece, but noted that The Wall Street Journal failed to include the higher oil prices faced by the Obama administration and the fact that Europe and Japan were recovering in steady fashion as was the global economy for Reagan. Global factors were more of an impediment for President Obama relative to President Reagan, seems to be the thrust of the Forbes article. We are not sure we agree with that assumption as both presidents faced challenging economic and political conditions globally in their first term.

However, the "Tale of Two Presidencies" seems to boil down to differences in economic philosophy here and abroad during the presidencies. President Reagan had an innate faith in freedom, free people and free enterprise. He believed that government was too big, that Capitalism at its root was a moral and ethical system and that business people with few exceptions were pillars of their communities and this country. On a global scale, Reagan had many partners, leaders like Margaret Thatcher in Great Britain; Helmut Kohl in Germany, Pope John Paul II, Milton Friedman, Frederich Hayek and others. The above politicians and thinkers "joined hands" with leaders and visionaries in South America, China, and other parts of the world who showed a common belief and a common understanding that business productivity is the cornerstone of job creation, wealth development, tax revenue and most of all, economic growth and optimism.

### **Conclusion**

Americans believed Reagan when he said our best days were ahead of us and pro-business and limited government policies drove growth here and around the world. The Berlin Wall fell because of their ideas, Tiananmen Square was inspired by their ideas, reforms in Central and South America took root because of their ideas. People believed in a less comprehensive role for government under Reagan; they believed in the "American Dream" for themselves and their children...and so did much of the world...and it worked.

### **Contact Us**

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