Northwood University's

Monthly Economic Outlook

May/Early June *2014*

Introduction

The U.S. economy continues to send mixed signals on economic growth as we enter the last month of the first half of 2014. Initial revised first quarter U.S. GDP recently came out at -1% with a number of economists now arguing for a final first quarter U.S. GDP to be as low as -1.2%. Preliminary estimates for 2nd quarter U.S. GDP are being revised downward to 3.2-3.5% from early forecasts that called for 3.8-4.0% growth. All in all, the U.S. economy is improving but will probably show economic growth for the January – June 2014 period of roughly 1.1–1.3% well below what most economists had predicted and far below what Washington had hoped for.

On the positive side, the U.S. economy added 217,000 jobs in May. The steady job growth provided evidence that the U.S. economy may well be picking up steam from the slow pace of recovery it has experienced over the last 5 years...let's keep our fingers crossed.

Positive and Negative Signs

Unemployment remained at 6.3% for May, down from its peak of 10% during the depths of the Great Recession, but still high for an economic recovery in its fifth year. Both the Dow Jones Industrial Average and the Standard and Poor's 500 stock market index have realized all-time record high closes in both May and early June 2014.

May, 2014 U.S. auto sales hit a nine year high with Chrysler, Nissan and Toyota all realizing double digit growth with recall-embattled General Motors showing a 13% sales gain as it works to improve internal processes and maintain and grow customer confidence.

Motor vehicle sales rose 11% over April to 1.6 million automobiles, SUV's and light trucks in May. Concerns regarding lower than expected January and February motor vehicle sales were certainly eased by May industry data.

The monthly gage of U.S. consumer confidence was down substantially in May, lead by concern over gloomy income growth according to Thompsons Reuter's/University of Michigan's index of consumer sentiment which dropped from 84.1 in April to 81.9 in May.

Current Issues

As we have noted many times in this Outlook, we are fulfilling the Chinese proverb "May you live in interesting times"...and we are. The famed economist, Milton Friedman paid a great tribute to Ronald Reagan in the early 1990's when he pointed out that Reagan was the only world leader or noted economist who had predicted the collapse of the Soviet Union and the decline of global Communism. Reagan predicted this in a commencement speech he gave at the University of Notre Dame in the mid-1980's. Friedman went on to say that thought leaders and even free market economists had failed in preparing models for how communist countries could effectively turn to capitalism. It is abundantly clear to us that we as Americans and western economies in general, have failed to prepare for a restructured global economy and what it would/will mean for U.S. and western economies in the post "Berlin Wall Era." What we mean by this is that the U.S. economy, especially over the last 6-8 years is ill-prepared in many ways for a changing, complex global economy. In the post "Berlin Wall Era" the world economy is much freer at least in an economic sense. The rise of highly competitive and certainly more productive industries in China, India, Brazil, Russia and much of Central Europe evidence this realization. The United States and the European Union are facing formidable competitors from these regions who have the advantage of lower labor costs and lower corporate tax rates...in many instances, substantially lower tax rates. While it is our opinion that the United States is still the freest, most competitive economy and the leader in invention and innovation, it is not clear that public policy, emanating from Washington will allow the U.S. to remain so, in the not too distant future. If one looks at the U.S. economy in ten year increments, starting in 1948(end of WWII spending), the following average annual real GDP by period paints an interesting picture for the United States:
1948-1957=3.8%,1958-1967=4.28%,1968-1977= 3.18%, 1978-1987=3.15%, 1988-1997=3.05%, 1998-2007=2.99%, 2008 through 2013: U.S. GDP growth was .9% annually Even if you factor out -.3% GDP growth for 2008 and -3.1% GDP growth for 2009, the annual real U.S. GDP growth for 2010 through 2013 was only just over 1.9%.

As noted earlier, strong May U.S. jobs growth is to be applauded. However, it is important to point out that we now have 138.5 million jobs in the U.S. economy today, relative to 138.4 million jobs in the U.S. economy in December 2007. According to a recent report of the Bureau of Labor Statistics, this recovery has 1.49 million fewer construction jobs and 1.65 million fewer factory jobs. These high paying jobs would have been recovered by now in a normal recovery. Just 58.9% of working age Americans has jobs today, down from 62.7% at the beginning of the Great Recession. The U.S. recovery has not kept pace with U.S. population expansion; even the liberal economic policy institute estimates that the U.S. economy should have 7 million more jobs given a normal recovery with current population growth.

It is clear to us that perhaps the greatest loss to the U.S. economy will be the loss of U.S. House Ways and Means Chairman, David Camp, as he retires from Congress at the end of his current term early in 2015. Congressman Camp is one of this country's great statesmen. His courage and bold initiative to start the debate on tax reform in this country was thwarted by a lack of statesmanship, vision and courage on both sides of the aisle in Washington, D.C. by a congress that lacks understanding as to the challenges U.S. businesses and employees face in a complex global economy. It remains our strong position if America is to remain the leader of a free and prosperous global economy... America must have a free and prosperous economy. Therefore, pro-business tax reform must be the key driver for economic growth and expansion. The U.S. will not remain the world's strongest economy if it maintains its lack of statesmanship in Washington and among the highest tax rates on business in the world.

Contact Us

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