Northwood University's
Monthly Economic Outlook

June 2012

Introduction

At the end of the 2nd Quarter of 2012, the U.S. economy is showing continued signs of slowing down. U.S. GDP for the 1st Quarter of 2012 stayed at a revised 1.9% growth from its initial report of 2.2% growth according to the U.S. Bureau of Labor Statistics while corporate profits fell for the first time in four years. This is a decline from 4th Quarter 2011 GDP growth of 3.0 percent. The Dow Jones Industrial Average rebounded in June, settling at just under 12,900 which was up more than 500 points from the end of May. The DJIA increased 1.9 percent in February and was up another 1.2 percent in March before declining in May.

Key May/June Data

Positive and Negative 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 May Conference Board Global Leading Economic Indicators Report shows the United States increased .3 percent while Europe declined .3 percent and China increased 1.1 percent. This is the fourth straight month China has seen positive growth. The U.S. savings rate settled at 3.4 percent in May, down from a year ago and clearly stimulating spending. Consumer confidence was down slightly in May but is still signaling general growth. Automobile, SUV and light truck sales in May were up more than 23% percent relative to May 2011. The unemployment rate settled at 8.2 percent in May which is steady from 8.1 percent in April.

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 oil and gasoline prices continue to trend downward. Despite falling crude oil prices, the national average for gas prices dropped to $3.50 in June, a 40 cent decrease from April. According to the latest manufacturing sector of the ISM Report on Business, the manufacturing index of the U.S. economy decreased to 49.7 in June from 53.5 in May, moving below 50 which signals a recession for the manufacturing sector. Durable goods orders and shipments were up in May relative to April and were up compared to May 2011. Personal disposable income continued to trend upward .3 percent, ahead of .14 percent inflation in May which indicated an increase in wealth.

Current Issues

Consider the following information from the 2012 American Legislative Exchange Council (ALEC) book *Rich States, Poor States.* The five "best" performing states were Utah, Virginia, Wyoming, North Dakota and South Dakota and the five "worst" performing states were New York, Maine, Vermont, Illinois and Hawaii.

1. Work Conditions, five out of the five "best" states are right-to-work states while all five of the "worst" states are union shop states. According to a 2010 study performed by the National Institute for Labor Relations Research titled "Forced-Unionism Expansion Would Hurt Young

Employees the Most," right-to-work laws heavily influence 25-34 year olds, an age group that is critical for economic growth due to their high participation rate in the labor force, when selecting which state to locate themselves in to work. According to this study from 1998-2008, right-to-work states in the eastern half of the U.S. experienced 12.7 percent population growth of 25-34 year olds, compared to 4.6 percent growth for forced-unionism states in the east. Likewise, western right-to-work states saw 47.0 percent growth of this population group from 1998-2008, while forced-unionism states in the west saw just 8.3 percent growth.

2. Minimum Wage. All five of the "best" states had the lowest minimum wage rate in the country which is the federal mandated floor of $7.25 per hour. Three of the five "worst" states had among the highest hourly minimum wage rates in the country ranging from $7.50 to $8.46 per hour. The average minimum wage for the "worst" states was just under 7 percent higher than that of the "best" performing states.

3. Tax Reforms. In general, state tax reforms implemented in 2010 and 2011 greatly favored the "best" states due to their growth-friendly tax policies as evidenced by the fact that personal income taxes declined on average $4.79 per $1,000 of income over this period. Less friendly growth policies were adopted in the "worst" states with personal income taxes on average increasing $7.08 per $1,000 of personal income over the same period. In addition, large budget deficits loom in many of the "worst" states leaving us to believe that tax increases are on the horizon for these states.

4. Corporate and Investment Tax Policy. Corporate and inheritance taxes in the "best" outlook states are among the lowest in the country for four of the five states and at a reasonable level in Virginia. The five states with the "worst" outlook are among the highest in said categories. As an example, in the "best" states, state corporate income tax rates averaged 2.87 percent while the average rate of taxation on corporations was just under 10 percent in the "worst" states.

5. Legislatures. Four out of the five "best" outlook states have part-time legislatures and lower average costs than their "worst" state counterparts. In fact, "worst" state legislators are paid nearly 20 percent more in wages; on average, government is in session 20 percent longer; and staffs are more than 100 percent larger on average than their "best" state counterparts according to 2009 National Conference on State Legislatures (NCSL) data. When it comes to legislatures, contrary to the American motto, bigger is not always better.

6. Population Growth. Finally, the "best" outlook states realized a combined population growth total of nearly 237,185 people from 2001-2010, while the "worst" outlook states saw their total population decline by just under 2.3 million people over the same period.

Contact Us

Comments or questions should be directed to Dr. Timothy G. Nash at: tgnash@northwood.edu or (989) 837-4323.

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