

Late June/Early July 2014

Introduction

There has been some beautiful weather here in Michigan and across the U.S.. Many blame some of the poor economic performance in the first quarter of 2014 on a long, harsh winter...certainly weather was a factor. If you subscribe to the above thought, then perhaps we can look forward to brighter economic times as weather improves. The United States Stock Market (Dow Jones) increased to 16,818.13 in June from 16,717.17 at the end of May 2014. Job Vacancies in the United States increased to 4,927,000 in April of 2014 from 4,170,000 in March of 2014. The inflation rate in the United States was 2.10 percent in May. The inflation rate in the United States averaged 3.33 percent from 1914 until 2014. Some say this is a hopeful indicator of a sustainable inflation rate that will stay below average levels. The inflation index for all items less food and energy has increased 2.0 percent over the last 12 months, the highest figure since February 2013. The food index has advanced 2.5 percent over the same period, its largest 12-month increase since June 2012.

Key February/March Data

Positive and Negative Signs

The Federal Reserve's pledge to keep its benchmark interest rate low for a "considerable time" after its bond-buying program ends has put a lid on borrowing costs and propelled a rally in stocks that is still positive but slowing. Industry sectors like housing have stalled in recent months and need to rebound to drive improvement in growth. Business Confidence in the United States increased to 55.40 in June from 54.90 in

April of 2014. Understanding shifts in business confidence is essential today as the economy is at an inflection point. This is also true given the wide disparities that persist between the mood and behavior of consumers and businesses. The U.S. economy added 288,000 jobs in June, making it the fifth straight month of gains above 200,000, a run unmatched since September 1999 to January 2000. U.S. consumers were less worried about the economy in June according to the following survey of households released at the end of June. The Thomson-Reuters/University of Michigan June consumer sentiment index rose to 82.5 from a final reading of 81.9 for May.

Building Permits in the United States decreased to 991,000 in May from 1,059,000 in April of 2014. This signals that the fairly large housing construction boom from last month may be dissipating for the time being. The good news home sales are up. New Home Sales in the United States increased to 504,000 in May, up from 425,000 in April of 2014. The Patient Protection and Affordable Care Act instead of boosting GDP like it was initially touted to do, actually caused GDP to decline by 0.16 percentage points in the first quarter of 2014. "The downgrade reflected newly available data from the U.S. Census Bureau on the revenues and expenses of for-profit and nonprofit hospitals, physician offices, nursing homes, and other health care providers, which suggested that consumers spent less on health care services than the BEA had assumed in its initial two estimates of GDP," according to Laura Rosner, an economist for BNP Paribas.

Current Issues

The World at a Glance

The global economy, like the U.S., is showing mixed signals and no clear direction. The International Monetary Fund's (IMF) original GDP forecast for the world in 2014 predicted growth of 3.7 percent that has been adjusted downward to 3.2 percent. The U.S. economy realized shockingly disappointing first quarter 2014 GDP of -2.9 percent and is almost certain not to realize an annualized GDP growth rate of 2.8 percent as predicted by the IMF in December of 2013.

The European Union will come close to 1 percent GDP growth in 2014, an improvement over contraction in 2013. Advanced economies will likely grow at 2.0 percent in 2014, just below the IMF's prediction for a 2.2 percent and China is likely to fall short of the IMF's prediction of 7.5 percent GDP growth, down from roughly 7.7 percent growth in 2013.

U.S. Economy

The world's largest economy, the United States, saw impressive job growth in June with 288,000 jobs created and unemployment down to 6.1 percent, its lowest level since September 2008. Job growth was also revised upward for April and May relative to previous reports. However, the U.S. had a labor force participation rate of only 62.8 percent (lowest since 1978), first quarter GDP at -2.9 percent (which was not ALL due to weather), a national debt approaching \$18 trillion and wages that are still declining when adjusted for inflation.

European Area Economy

Inflation in the Euro Area was .5 percent in June and continues to show little room for price growth and weak demand for products. The Euro Area saw its worst level of manufacturing growth in six months based on the June Purchasing Managers Index with France and Germany leading the decline. However, new orders for

durable goods in June suggest that the second half of 2014 should show improvement in manufacturing growth.

Chinese Economy

The Chinese manufacturing sector grew in June for the first time in 2014 giving rise for optimism in this vital part of the Chinese economy. Growing economic ties with South Korea should bode well for future Chinese growth.

Global Issues

Nuclear weapon production in Iran and war in Iraq and Syria are adding to instability in the Middle East and driving world oil prices to above \$107 a barrel on the New York Mercantile Exchange in late June. Yet a global "basket" of cereals, seed oils, dairy products, meat and sugar dropped 3.8 points to 206 points in June or a decline of 1.8 percent in May, lower food prices gives us pause for optimism relative to feeding the poor and for general food prices globally.

As we celebrate the 238 birthday of these United States, we should stop and give thanks for the blessings we have in America and then in a bi-partisan way focus on needed reforms to revive strong, steady economic growth here at home and abroad.

Contact Us

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