

# Northwood University's **Monthly Economic Outlook**

*June 2015*

## **Introduction**

The recently released first revision of 2015 first quarter U.S. GDP came in at a dismal  $-0.7\%$  leaving Americans from Washington to Wall Street to Main Street clamoring about the future of the U.S. Economy. After a disappointing initial GDP estimate of just  $0.2\%$  growth, the revised number released in late May was unexpected by most economists and cause for reconsideration of the predictive use of GDP to calculate economic growth at least in the first quarter...more to come.

## **Key May/June Data**

### **Positive and Negative Signs**

The U.S. economy continues to look for a solid trend line most economists can point to as strong, substantial growth. As we have noted in previous issues, the U.S. economy is in the midst of a long recovery, but it has not been a strong recovery. It continues to be the worst economic recovery since The Great Depression in terms of average annual GDP growth. The current recovery lags behind average annual U.S. GDP growth by almost 1 percent with first quarter U.S. revised GDP putting a damper on 2015 as being a potential breakout year. The stock market has recovered nicely since the March 2009 trough of The Great Recession, but at roughly 18,000 on the Dow Jones Industrial Average (DJIA), the market has basically only recovered its losses to date when adjusting for inflation. Job creation has been good with just over 120,000 jobs created per month since 2009, yet it is still lagging behind normal job growth coming out of an economic downturn.

As an example, both President Obama and President Reagan inherited terrible economic conditions when they began their presidencies. More than 11.3 million jobs were created during the Reagan Recovery with average job growth at just under 234,000 jobs created each month. Job growth in the United States has averaged just under 188,000 per month since the current recovery began in 2010.

The U.S. automobile industry is in the midst of a strong recovery. Overall, new U.S. automobile, light truck and SUV sales topped 16.5 million in 2014, exceeding sales in any year since 2006. U.S. new automobile, light truck and SUV sales for 2015 are outpacing 2014 sales through May by more than 300,000 vehicles sold. A stronger U.S. dollar and a less than robust global economy continues to challenge U.S. exports and there overall GDP growth.

## **Current Issues**

Many economists in Washington, DC and around the country are puzzled and concerned over the accuracy of U.S. GDP. The debate is not over whether annual U.S. GDP is accurate or not...most believe it is. Rather the debate seems to focus on whether or not the method used to seasonally adjust U.S. GDP understates first quarter U.S. GDP and then subsequently overstates second through fourth quarter U.S. GDP. Negative or low U.S. GDP in the first quarter has been more common in recent years, but has failed to signal recession as each quarter has been followed by a strong second quarter of GDP growth. First quarter 2011 saw U.S. GDP at  $-1.5\%$  followed by second quarter growth of  $2.9\%$ , first quarter 2014 U.S. GDP was  $-2.1\%$  followed by second quarter growth of  $4.6\%$  and first quarter 2015 U.S. GDP currently is  $-0.7\%$  with many economists expecting a rebound in the

second quarter. Some believe this is a unique phenomenon due to the historically slow economic recovery we are experiencing relative to natural economic volatility. You see similar patterns of late within the economies of Japan and Germany, especially GDP growth relative to job growth over the same period.

The Bureau of Economic Analysis (BEA) currently adjusts U.S. GDP for “seasonal factors” like the weather or a natural disaster to give us a more accurate overall annual view of the economy and thus not falsely signaling an economic downturn or recession when it is not on the horizon like first quarter 2011 and 2014 and hopefully 2015. Many economists are suggesting that we “double” current seasonal adjustments causing first quarter U.S. GDP to be generally higher and second, third and fourth quarter GDP lower. Some believe the BEA would therefore report a “smoother”, more accurate view of the economy on a quarterly basis while having no impact on annual or overall GDP.

I personally prefer that GDP reported without any type of seasonal adjustment. People would better understand the immediate impact of weather or a dock strike on the U.S. economy and then quickly realize its lasting impact on the next quarter if any or how a dynamic economy is able to adjust and recover in the following quarter.

The major drivers of subpar 2015 first U.S. GDP were numerous. First, a strong U.S. dollar and congestion at U.S. ports on the West Coast based on a very contentious labor dispute, were key factors in U.S. exports being at their lowest level since 2009. Second, consumer spending only grew 1.8% in the first quarter of 2015 compared with 4.4% growth in consumer spending in the four quarters of 2014. Third and finally, real final sales of all U.S. goods and services fell by 1.1% in the first quarter of 2015, the largest decline in this category of U.S. GDP since 2009 in spite of strong automobile sales. This figure has many adjusting their estimates for annual U.S. GDP downward for the rest of 2015.

## Conclusion

Whether we adjust how U.S. GDP is calculated or not seems to be a poor use of time and focus in Washington, DC relative to the obvious issues impacting actual U.S. GDP and job growth. We continue to remain concerned over excessive regulations ranging from banking and construction to manufacturing and electronic technology. However, the “elephant in the U.S. economy” is clearly tax reform! The U.S. needs bi-partisan, pro-business, pro-growth tax reform if we are to have a robust and lasting economic recovery.

The U.S. has the highest average corporate tax rate (across all 50 states) of any country in the industrialized world...period. You can cut the data anyway you like, the U.S. average corporate tax rate is 39.1%. The average corporate tax rate for Europe is 18.6%, for North America 24.1%, for the G-7 countries 30.7%, for the Organization for Economic Cooperation and Development (OECD) 25.2%, for the G-20 28.4%, and the world as a whole 22.6%. Tax reform is an imperative for the long-term success and security of the U.S....let's get Washington to focus on it now!

## Contact Us

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