

*August 2013*

## Introduction

The financial markets are as doubtful as millions of Americans and much of the world regarding the U.S. recovery, and for one good reason: The policy of the U.S. Federal Reserve (FED). FED officials remain divided on the “tapering” of their \$85 billion monthly purchase of U.S. securities. Since the inception of QE3 last fall, the FED’s purchases have totaled more than \$800 billion, with fears of “pent-up” U.S. inflation sitting on its balance sheet. Emerging markets are now fearful of the extremely loose monetary policies of the world’s largest economies (U.S. foremost) in the last year, with massive amounts of liquidity expected to flood their markets. As we enter September, this issue along with the deadline on the U.S. debt ceiling and government spending cuts, will take center stage with an increasingly unpopular and unproductive Congress and White House.

## Key July/August Data

### Positive and Negative Signs

The U.S. ISM Report on manufacturing shows July’s PMI index increased by 4.5 to 55.4, signifying continued expansion in this sector while durable goods for July decreased by 7.3%, suggesting pessimism about the economy and production. Year to date, July home prices were up 12.1%, but their upward pace is slowing due to higher interest rates and inventories. New home sales dropped 13.4% in July, with the assumption that higher mortgage rates are cutting into housing demand. The August consumer confidence report by Reuters and

the University of Michigan showed a 3-point retreat to 82.1, from its 6 year high of 85.1 in July, with Americans feeling less confident about the job market, but more confident of their incomes rising.

In August, the Conference Board released its July U.S. Global Leading Economic Index (LEI) reporting an increase of 0.6%, even though low business spending and slowing global growth left future U.S. exports as a concern. The European Union’s LEI increased by 0.1% with second quarter EU GDP up 0.3% over last quarter, the first sign of growth after six straight months of contraction. Even though China’s economy is facing growing economic pains, their LEI increased by 1.4% due to higher real estate activity and increased bank loans. China’s exports rose considerably up 5.1% in July, after a 3.1% fall in June. Data clearly suggests Chinese growth may be resuming.

The July unemployment rate dropped to 7.4%, its lowest level since December 2008, mainly due to a high number of new part-time workers. The Bureau of Labor Statistics reported the number of full time jobs declined by 216,000, which explains the increase in part-time, low-paying jobs, and a decline in the unemployment rate. Otherwise, the unemployment rate would be significantly higher. The July U.S. labor force participation rate was at its lowest level at 63.4%, since its peak of 67.3% in January 2000. For the month of August, the Dow Jones Industrial Average was down 4.45%, the NASDAQ down 1.01%, and the S&P 500 down 3.13%. The national average for a gallon on gasoline stood at \$3.59 per gallon at the end of August. For August, the price of oil was \$107.65, up 2.24%,

Gold was \$1,396, up 5.26% and Silver was \$23.46, up 17.91%.

## Current Issues

### “The Paradox In Which We Live”

In late August the U.S. Bureau of Economic Analysis (BEA) reported that 2013 second quarter revised U.S. GDP was up .8% to 2.5%. This unexpected positive sign gives us reason for optimism, especially as the European Union is showing signs of growth after more than a year of negative data. The .8% rise in U.S. GDP is one of the largest quarterly revisions in the last 30 years. The BEA in the same report noted that first quarter 2013 final U.S. real GDP came in at a disappointing 1.1% annualized growth rate.

As we have been saying for more than two years now, the U.S. economy is an “enigma.” It has been puzzling to understand, taxing to watch and difficult to predict. It has been a roller coaster of economic activity based on numerous and conflicting factors. Clearly strong automobile sales again in August are a positive component of this economy as have the more than 2.1 million jobs in the U.S. shale oil and natural gas industry many of which have been created in the last three years. The “shale boom” (or unconventional oil and gas market) as it is being called is expected to lower the U.S. trade deficit by a third or \$164 billion by 2020 while adding \$2,000 to average U.S. household income by 2015 and \$3,500 by 2025. Job creation in this sector is expected to skyrocket to 3.3 million jobs in this area by 2020 and 3.9 million by 2025.

Daniel Yurgen, vice chairman of Information Handling Service (IHS) estimates that the entire unconventional oil and natural gas market and energy-related chemicals business will add \$533 billion dollars to U.S. GDP by

2025 if projected growth continues. Much opposition to said growth exists at the state and national level in this country so we cannot cash in the benefits just yet.

The U.S. economy is anchored by world-class productivity and impressive corporate balance sheets. Future growth is being threatened by increased individual income taxes on the wealthy/job creators as well as 20 new taxes related to the introduction of the Affordable Care Act most scheduled for 2014 and our 17.2 trillion national debt burden. The Cato Institute estimates that the Affordable Care Act will add \$1.67 trillion to our national debt and \$1.2 trillion in taxes.

## Conclusion

The future of the U.S. economy is uncertain and confusing...we need certainty and predictability from Washington. Tax reform and a balanced budget amendment are imperative for our Congress and the White House in 2014. Oh by the way, August unemployment data just came out...it was not good and the U.S. labor force participation rate dropped to 63.2%.

## Contact Us

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