

August 2015

Introduction

At the time of the writing of this edition of the Northwood University Outlook, the Dow Jones Industrial Average closed at 16,459.8 down 7.65% for the year and down 10.31% from its 52-week high. Global stock markets were in a massive sell mode, the Chinese economy was making the world nervous again, the Middle East conflict continued to grow, North Korea was threatening South Korea militarily and two U.S. servicemen helped thwart a terrorist attack on a high speed train traveling from Amsterdam to Paris.

At home, U.S. GDP reflected a disappointing first half growth rate for the economy averaging 1.45% growth January – June. Job growth improved in June and July but still trails historic job creation rates, in both quantity and quality, on an annual basis, especially at this point in an economic recovery.

The U.S. economy continues to “muddle along” with lackluster growth and no clear driver for acceleration and expansion, while many individual Americans are living paycheck to paycheck, saving little to no money for a future deemed to be dimmer and dimmer. For a while now, U.S. companies have had strong balance sheets in general, but lack confidence in the economy and Washington in order to take risks, grow the economy and create more high paying jobs. To make matters worse, American businesses are now concerned that they will have less help from abroad as EU growth is suspect, Japan is nearly in recession, Chinese growth is slowing more rapidly than expected (some U.S. economists believe that 2015 Chinese GDP could actually be growing at no more than 1 percent), South America is slowing and conflict is spreading across the globe.

Key July/August Data

Positive and Negative Signs

The U.S. economy continued to show mixed signs relative to economic growth in July and August. Automobile sales growth in July continued as new car SUV and light truck sales are trending at almost 400,000 units above the same pace in 2014. Durable goods orders were up again in July while consumers were less confident over the same period. The debt crisis in Greece and negative stock market returns in China, Japan and North America shook the confidence of U.S. investors from Wall Street to Main Street. The Conference Board's consumer confidence survey fell all the way to 90.9 in July from 99.8 in June. The University of Michigan's consumer sentiment index performed a little better at 93.3 in July, down from its June measure of 96.1. Annualized inflation rates for the first half of 2015 are low, averaging roughly 1percent while retail sales and consumer purchases are mixed, at best. Unemployment for June and July remains low at 5.3%, which is clearly a good sign for the economy, yet the unemployment rate is offset by the fact that the U.S. labor force participation rate dropped to 62.6%; its lowest level since 1977.

Current Issues

It seems clear to us that America and Americans in general need to focus more on what we can do to improve the U.S. economy while depending less on what may or may not happen abroad.

The above by no means is a suggestion that America remove itself as the leader of the global economy or its largest single participant. We believe in global

trade and all it affords the world in terms of higher standards of living, enhanced choices, cultural diversity, relative peace, etc. We, simply stated, believe that the U.S. needs to clean up its own economic house if we are to restore the economy to annual GDP growth of 3.3% with real wage growth and job creation exceeding 4 million jobs annually. To do this we must address many fundamental problems weighing down the U.S. economy with true lasting reforms. Among the most pressing are the following:

1. The U.S. National Debt – last month the U.S. national debt surpassed \$18.6 trillion or more than 103% of current U.S. GDP. It took 206 years for the U.S. national debt to surpass \$1 trillion and just 33 years to add another \$17.6 trillion to our debt. Our government in Washington has proven incapable of getting our financial house in order. It is now time for the American voter to consider a federal balanced budget amendment to handcuff government spending at the federal level. Said amendments are very effective at the state level in 49 of our 50 states.
2. Low to No Growth Tax Policy – the engine of any economic system is business and the good services and assets it produces. America's business sector is unduly shackled by corporate income tax rates. Any way you measure it, American business is at a distinct competitive disadvantage when it comes to taxation. Consider the following, according to KPMG the global average corporate income tax rate in 2015 is 23.68%, the average for Europe is 20.24%, for Asia it is 21.9%, for North America it's 33.3%, while the U.S. average corporate income tax rate stands at 40%. It is imperative that comprehensive U.S. tax reform be adopted immediately with lower more competitive U.S. corporate income tax rates driving the reform.

3. A Rational and Independent Energy Policy – the United States clearly needs to have an open debate and adopt a comprehensive energy policy to move the U.S. forward in a complex, global economy. Renewable energy clearly can and should play a role in said policy. However, it is ignorant to ignore the independence and stability provided to the U.S. economy from recent domestic exploration, discovery, and production of oil and natural gas. Hydraulic fracturing on private and state-owned land has helped reduce oil prices to their most competitive levels in almost a decade, making the United States the number two producer of oil in the world and number one in natural gas production. Just think where energy prices would stand if drilling permits on federal land over the last 6 years had expanded like those on private and state-owned land, rather than actually declining.

Conclusion

If America can get its own economic and political house in order we can restore the American Dream for all who want to work for it while simultaneously once again becoming the role model for economic growth and moral capitalism around the world.

Contact Us

Comments or questions should be directed to Dr. Timothy G. Nash at: tgnash@northwood.edu or (989) 837-4323. Dr. Nash was assisted in writing this issue by Northwood graduate student David Valentine. To view Northwood University's Monthly Economic Outlook Newsletters from previous months, please visit: <http://www.northwood.edu/media/free-market-library.aspx>. For more information about Northwood University, our academic programs and enrollment opportunities for students, visit www.northwood.edu.

Northwood University is committed to a policy of nondiscrimination and equal opportunity for all persons regardless of race, gender, color, religion, creed, national origin or ancestry, age, marital status, disability or veteran status. The University also is committed to compliance with all applicable laws regarding nondiscrimination. Northwood University is accredited by the Higher Learning Commission and is a member of the North Central Association (800-621-7440; higherlearningcommission.org).