

*October 2011*

## Introduction

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The U.S. economy appears to be at an economic crossroad: to the right lies recovery and prosperity and to the left awaits a second recession, a plummeting stock market and rising unemployment. With current economic data that points in the direction of each of these paths, it becomes difficult to predict which outcome is more likely for the United States in the coming months. In the Bureau of Economic Analysis's most recent release they announced an advance estimate of U.S. GDP for the 3<sup>rd</sup> Quarter of 2.5 percent. This follows an even weaker 2<sup>nd</sup> Quarter GDP which settled at a lowly 1.3 percent. Inflation increased in September to 3.9 percent. This is combined with gold and silver prices which are again on the rise after sliding directly following the United States' credit downgrade. Together these metrics suggest higher inflation in the U.S.'s future.

## Key September/October Data

### Positive 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 October Conference Board Global Leading Economic Indicators Report shows the U.S. and China increased at .2 percent and .5 percent respectively, while Europe decreased by .6 percent. The U.S. savings rate settled at 4.5 percent in September, down from 4.7 percent in August. The savings rate continues to slide and is down nearly a percent from July. Although automobile, SUV and light truck sales were down 1.7 percent in September relative to August 2011, they were up 9.9 percent relative to September 2010.

Monthly total light vehicles sales has exceeded one million units for the last seven months. Personal disposable income is up 3.2 percent relative to September 2010 and now sits at \$968.3 billion. Construction spending increased further in September and is now 48 percent higher than January 2011. While the pending home sales index fell 4.6 percent in September relative to August, the September 2011 level of 84.5 is still 6.4 percent higher than the September 2010 level. August durable goods orders and shipments soared in September, each increasing by more than 10 percent relative to August 2011. The Dow Jones Industrial average finished September down 580 points (5.1 percent), which finished a two and a half month slide. The Dow rebounded in October and is up more than 1,500 points (14.6 percent).

### Negative Signs

The unemployment rate remained unchanged at 9.1 percent in September as nonfarm payroll employment increased by 103,000 and private sector employment increase by 91,000. Despite President Obama's job-creation focus, all progress seems to be eluding him. The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.27 percent with U.S. companies holding more than \$1.3 trillion overseas as a result. Oil prices have climbed in October, surpassing \$90 a barrel. Likewise, gold and silver prices reversed their downward slide and have begun trending upward again reaching over \$1,700 and \$35 per ounce, respectively. According to the latest manufacturing ISM Report on Business, the Manufacturing sector of the U.S. economy increased to 51.6 in September from 50.6 in August, but is still very close to falling below 50 which signals trouble in the manufacturing sector. Housing starts slide for the second straight month settling at 53.1.

Consumer Confidence dropped considerably in October, reaching its lowest level since March 2009. The dollar index is also down about 4 percent so far through October.

## Current Issues

The U.S. national debt can be traced all the way back to the birth of this great nation in 1776. Due to the massive amount of debt accumulated by the federal government over the last 30 years, the cumulative U.S. federal debt prior to the 1940's barely registers in comparison. Furthermore, from 1776 to 1981, a period of 206 years, the U.S. Federal government accumulated just under \$1 trillion in debt. From 1981 to 2011, a 30 year period, the national debt ballooned from \$1 trillion to more than \$14.8 trillion to date. The federal government's dependency on leverage has only worsened in the last few years. At the end of the 2004 fiscal year the U.S. national debt was \$7.4 trillion, which means with the current national debt quickly approaching \$15 trillion, the national debt has essentially doubled in the last seven years. The U.S. national debt can be defined as all debt owed by U.S. federal government. It is divided into *Public Debt* (currently \$9.59 trillion) which is debt owned by individuals, institutions, or other countries and *Private Debt* (currently \$5.21 trillion) which is debt owned by the federal government itself, often referred to as intergovernmental holdings.

Concerns over this debt crisis have come to a head recently as the U.S. is nearing and will soon surpass its legal debt limit. If action is not taken to raise the debt limit soon or cut spending, the U.S. government could suffer a second downgrading of its credit rating and would be in danger of defaulting on financial obligations for the first time in the history of the country. As a pinnacle for prosperity throughout the world a U.S. debt crisis threatens serious consequences that would ripple across the globe.

Another facet to this crisis is the interest payment. In 2010 the U.S. paid \$413 billion in gross interest payments, which appears completely out of line when compared to the \$143 billion spent on education in that same year. Over the next ten years interest payments are only expected to grow as the debt level continues its upward trend and interest rates rise. In 2010 the average interest rate paid on the debt was just 2.96 percent due to the Federal Reserve's effort to keep rates low in order to spur private borrowing and investment. However, interest rates are largely Procyclical. If the U.S. continues to recover from its most recent financial crisis, and inflation increases, it can be reasonably assumed that interest rates will increase as well, making financing the national debt that much more expensive.

## Conclusions

Today, we are talking about taxing the rich without closely considering what it will mean to job creation and charitable contributions and economic growth. American free enterprise is responsible for our economic greatness. It is time we reign in government spending before it is too late.

## Contact Us

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