

October 2012

Introduction

As we move into the fourth quarter, the U.S economy is appearing to show signs of slow growth although it still remains unpredictable, especially with the fiscal cliff looming. The economy grew at an annual rate of 2% for the third quarter, due to the housing industry improving, and consumers and government spending more. But with the modest growth in the economy, the major indices experienced declines from their September rallies. For the month of October, the Dow Jones was down 2.94%, S&P down 2.17%, and the NASDAQ down 4.37%.

Key August/September Data

Positive and Negative Signs

Despite the downturn in the major indices on Wall Street, their year-to-date gains still look appealing. Year-to-date, the Dow Jones is up 7.31%, S&P up 12.37%, and the NASDAQ up 14.27%. But with this trend, these numbers are decreasing from last month. With the slow growth in the economy, some question the effectiveness of QE3. On October 24, the Federal Open Market Committee announced that it will continue to buy \$40 billion worth of mortgage backed securities per month, increasing their holdings of these securities by \$85 billion per month.

Americans were paying a bit more for goods and services as the Consumer Price Index increased by 0.6% for the month of September. On the contrary, the price of gold closed at \$1,710 on October 30th, down \$62 from its close on September 28th.

The October Conference Board leading economic index for China grew .3 percent in September while the Euro decreased by .4 percent, with the continued unsolved debt crisis that is plaguing European economies, such as Greece, Spain, and Portugal. The Commerce Department stated that consumer spending increased .8 percent in September due to the Consumer Sentiment index at a five year high. This is mostly credited to falling gas prices and a slightly better job market, with unemployment rate falling to 7.8%, which is the lowest it has been in 4 years. The U.S savings rate stands at 3.3%, which is a decline from 3.7% percent last month, meaning that individuals and governments are saving less, after consumption costs and their expenses. However, unemployment rose to 7.9% in October somewhat dashing optimism.

The U.S. government remained idle in the effort to combat their massive debt load. On October 31, United States' debt stands at \$16.2 trillion, which is about \$200 billion away from hitting its debt limit of \$16.4 trillion. After a dramatic fall of durable goods of 13.2% in August, September showed an improvement of 9.9% according to the Commerce Department. The Purchasing Managers' index was at 51.5% in September which is a slight increase of 1.9% from August's 49.6%, indicating a return to expansion for the United States.

As of October 30, 2012, the national average of a gallon of gasoline declined to \$3.55 from \$3.82 on September 24. The benchmark in oil closed at \$85.57 per barrel on October 26.

Current Issues

In 2010 Americans paid 9.9% of their income in state and local taxes on average according to a recently released study by The Tax Foundation. This is up from 9.3% in 2000 according to the same report. The states with the ten highest combined local and state tax burdens were (1 highest): 10. Pennsylvania, 9. Maine, 8. Massachusetts, 7. Minnesota, 6. Rhode Island, 5. Wisconsin, 4. California, 3. Connecticut, 2. New Jersey and the highest New York. While the states with the lowest combined local and state tax burdens were (1 lowest): 10. South Carolina, 9. Nevada, 8. Alabama, 7. New Hampshire, 6. Texas, 5. Wyoming, 4. Louisiana, 3. Tennessee, 2. South Dakota and 1. Alaska.

It is interesting to note that the highest taxed states had a number of things in common according to The Tax Foundation Study. First, each state had a local and state combined tax burden greater than 10% with Pennsylvania being the lowest at 10.2% of average income and New York being the highest at 12.8% of average income. High tax states also had the distinction of having their residents incur a high percentage of the tax burden ranging from 63.6% in Maine (16 highest) to 84.5% (highest) in California. States which have a lower percentage of the tax burden born by residents usually are blessed by strong tourism, mineral and oil and gas resources and a growing economy which attracts guest workers from other states.

In comparison, the ten lowest tax states have a local and state tax burden ranging from a high of 8.4% in South Carolina to the lowest state and local tax burden being Alaska at 7%. It is also interesting to note that the low tax states have a much higher percent of the state and local tax burden in said states being paid by non-residents. Again, this is usually due to high levels of tourism, mineral, oil and gas deposits and generally a pro-business growing economies which attract guest workers from other states. Fully 32% of all local and state taxes paid in Alabama are

paid by non-residents of Alabama (lowest of 10 low tax states) with just under 76% of the local and tax burden being paid in Alaska (highest) by non-residents.

The Tax Foundation report entitled “24/7 Wall Street” is a must-read for all government officials at the local and state levels who wish to enhance or maintain their state’s competitiveness. We also encourage you to go to the Northwood University homepage at www.northwood.edu and view our recent tax symposium program on American Competitiveness.

Contact Us

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