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## Introduction

The U.S. economy continues to show signs of growth coupled with signs for concern while the global economy sends mixed signals as well. China is expected to grow at roughly 7.5% in 2014 down slightly from its 2013 rate, while the EU is showing little growth so far in 2014. U.S. unemployment dropped to 5.9% in September with the economy creating just under 250,000 jobs, at the same time, the U.S. Labor Force Participation Rate dropped to 62.7% in September, evidence that Americans are frustrated and leaving the job market as they cannot find jobs and/or good paying jobs. The September Labor Force Participation Rate was the lowest in the United States since 1978.

U.S. stocks are up by roughly 5% after nine months in 2014 while consumer confidence was down sharply in September to 86 from 93.4 in August with wages stagnating over the same period.

## Key August/September Data

### Positive and Negative Signs

A good friend of mine recently sent me an article that showed some interesting U.S. data from 1938. Average U.S. household income in 1938 was \$1,731, average cost of a home was \$3,900, average cost of a new car was \$860, average apartment rent was \$27, one year of tuition at Harvard was \$420, average price of a movie ticket was \$.25, average price of a gallon of gasoline was \$.10 and a U.S. postage stamp cost \$.03. Today average U.S. household income is roughly \$51,930 (30 times 1938), the average price of a new automobile is roughly \$32,000 (37 times 1938), average price of a gallon of gasoline is roughly \$3.40 (34 times 1938).

The average price of a home is roughly \$273,600 (70 times 1938), the average price of a movie ticket is \$8.40 (34 times 1938) and yearly tuition for Harvard College is roughly \$59,600 (142 times 1938). This is not a pure measure of inflation as you can argue that the average home is larger and nicer today than in 1938 and the point is also true for an automobile, but clearly inflation has been problematic for most Americans. Perhaps a better measure of inflation and its impact on the average American is the cost of key items as a percent of income in 1938 vs. 2014. The average price of a new home was 2.25 to 1 relative to income in 1938 it is roughly 5.3 to 1 today, the average price of new automobile was .5 to 1 relative to income in 1938 it is roughly .62 to 1 today, and you could purchase 6,924 movie tickets with your gross household income in 1938 and only 6,182 today.

Neither of our examples are perfect measures of inflation nor are we attempting to include the fact that technology has dramatically reduced costs and veiled the impact of inflation (ie. big screen televisions and hand-held calculators). The U.S. government's Consumer Price Index (CPI) indicates a dollar today purchases 1/17 of a dollar in 1938. Whatever measure you use, the U.S. dollar has lost a tremendous amount of value over the last 76 years and the U.S. Federal Reserve Systems' policies and practices need to be questioned. However, many products like automobiles relative to inflation and income are great values today and automobile companies need to be celebrated for excellence in production, quality, efficiency and price.

## Current Issues

In the summer of 2014 Fortune Magazine released its Global Fortune 500 list of companies for 2013. The list is comprised of the 500 largest companies in the world

by sales revenue earned in 2013. The 500 largest companies in the world clearly appeared to be over much of the economic adversity they faced during The Great Recession as the 2013 list broke a number of performance records. The Global Fortune 500 companies generated combined revenue of \$31.1 trillion, up 2.5% from 2012 with profits up 27% to just under \$2 trillion or 6.4% profit on sales for the group. China placed 95 companies on the 2013 Global Fortune 500 list up from 89 last year with Chinese companies generating \$5.8 trillion in revenue or 18.6% of the total revenue with 19% of the total companies listed. The U.S. had fewer companies listed on the Global Fortune 500 in 2013 with 128 in 2013, down from 132 in 2012. U.S. companies listed generated \$8.6 trillion or 27.6% of total revenue with 25.6% of Global Fortune 500 companies being headquartered in the United States. The average Chinese company listed generated \$61 billion in revenue while the average U.S. company listed generated \$67.2 billion in revenue in 2013.

In 2013, the U.S. had the largest number of Global Fortune 500 companies with 128 companies, China was second with 95 companies, Japan third with 57 companies, France fourth with 31 companies, Germany fifth with 28 companies, the United Kingdom sixth with 28 companies, South Korea seventh with 17 companies, Switzerland eighth with 13 companies, the Netherlands ninth with 13 companies and Canada tenth with 10 companies in the Global Fortune 500. In 2013 the top ten countries totaled 420 or 84% of the Global Fortune 500 -- two from North America (27.6%), three from Asia (33.8%) and five from Europe (22.6%).

The Global Fortune 500 list was first introduced in 1990 with the United States on top placing 167 companies in the top 500, Japan was second with 111 companies, the United Kingdom was third with 43 companies, West Germany was fourth with 32 companies, France was fifth with 29 companies, Sweden was sixth with 15

companies, Canada was seventh with 13 companies, South Korea was eighth with 11 companies, Australia was ninth with 10 companies and Switzerland was tenth with 10 companies. In 1990, the top ten countries were home to 441 or 88.2% of the Global Fortune 500. West Germany was a country and Mainland China did not have a publicly traded company in the Global Fortune 500 based on sales. In 1990, two were from North America (36%), two were from Asia (24.4%), five were from Europe (25.8%) and ten were from Australia (2%). Australia and Sweden are out in 2013, replaced by China and The Netherlands. From 1990-2013 North America has 42 less Global Fortune 500 companies with the U.S. having 39 fewer on the list.

Market reforms in China and the collapse of Communism in Europe certainly explains much of the change in the Global Fortune 500 in just 24 years, yet we believe that high corporate tax rates and excessive regulatory costs in the U.S. relative to much of the world explains a good portion of the rest of the story. What will the Global Fortune 500 list look like in 2025 or 2030? It will not bode well for the U.S. if we do not reform tax and regulatory structures to allow U.S. companies to be more competitive!

## Contact Us

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