

October 2015

## Introduction

Once again we quote the famous Chinese proverb “may you live in interesting times”. There is no doubt that those of us who live in the United States, as well as around the world, live in very interesting times, from both a political and an economic perspective. The Chinese economy has experienced declining economic growth for more than five years now and a once strong and vibrant Canadian economy is now in recession. The South American economy as a whole is slowing with its largest economy, Brazil, leading the pace. Europe is barely staying out of recession with new signs that it may have not solved its financial crisis to date. With the United States, the brightest spot among the developed economies, is still underperforming.

## Key September/October Data

### Positive and Negative Signs

The U.S. economy continues to show mixed signals as we enter the fourth quarter of 2015. The U.S. stock market as measured by the Dow Jones Industrial Average is at 17,569 which is below where it ended the year in December of 2014. U.S. GDP currently stands at just over \$18 trillion with the U.S. national debt at more than \$18.6 trillion. U.S. per capita GDP is currently \$46,500 with the largest single component of U.S. GDP being services at more than \$12 trillion followed by manufacturing and government at just over \$2 trillion each.

The U.S. unemployment rate last month was 5.1% with U.S. government reporting 5.5 million job vacancies and

U.S. productivity up 3.3% for the year at 105 on the United States Non-Farm Labor Productivity Index. To give one a sense of gain, the U.S. Productivity Index averaged 61.27 from 1950 thru 2014. The U.S. Labor Force participation rate decreased to 62.4% in September from 62.6% in August of 2015. This is the lowest level since the late 1970s and down from its recorded peak of 67.3% in January of 2000.

The U.S. population stands at just under 320 million people with the average retirement age of men and women now at 66 years of age. Overall inflation is running close to zero with core inflation at 1.9%. The average federal funds interest rate is .25%. Our current account trade deficit is running at an annualized rate of 2.24% with the federal budget deficit at 2.5% and government debt to current GDP at more than 103%.

The University of Michigan's Consumer Sentiment Index increased to 9.1 in October from 8.2 in September of 2015, exceeding market expectations based on the initial report. The Index is at its highest value since July indicating that consumers are more optimistic about current and short-term future conditions within the U.S. economy. The University of Michigan's Consumer Confidence Index in the United States averaged 85.81 from 1952 thru 2014, reaching an all-time high of 111.4 in January of 2000 and a record low of 51.7 in May of 1980.

The U.S. economy is showing strong economic results relative to housing starts, automobiles, light truck and SUV sales, and appliance sales...all of which are being driven by near-historic low interest rates.

## Current Issues

The United States economy as well as the global economy continues to be a mixed bag of economic data

and political uncertainty. We ponder the following issues as they will impact fourth quarter U.S. GDP in 2015, as well as the U.S. and global economies in 2016 and beyond.

1. There is tremendous instability in the Middle East due to uncertain foreign policy by many countries in the West, political instability within many countries in the Middle East, religious strife that dates back in many cases more than one-thousand years, as well as inter-fighting among Muslim sects and radical fringe groups within each. This instability clearly impacts oil and natural gas prices on a global basis, trade routes for shipping and the general fiscal stability of many countries around the world involved in the conflict. Millions of good and innocent people have been killed in this conflict over the last twenty-five years with no real hope for stability or change on the horizon. We worry that going too green too soon could cause a return of higher energy prices in the near term.
2. The U.S. economy continues to lag behind its annual GDP growth rate average of 3.25% since the end of World War II. The U.S. economy grew at .6% for the first quarter of 2015, 3.9% for the second quarter 2015 and is expected to have anemic growth in the third quarter 2015. The Atlanta Federal Reserve Banks (FEDNOW Index) third quarter projection for U.S. economic growth is .9% while the Wall Street Journal's group of 30 economists predict U.S. third quarter GDP growth will come in at 1.6%. The muddling along continues in 2015.
3. The Chinese economy reported third quarter GDP at 6.9%, its lowest quarterly level in more than seven years. Chinese annual GDP has gone from more than 12% annual growth to what appears to be less than 7% growth in 2015 with the future expected to show even slower growth.

We are certainly living in interesting times...let's add challenging and uncertain to the list.

## Conclusion

With the 2016 U.S. presidential election a little over a year away, there is no clear direction one can gather from the political field of Democrats and Republicans seeking the presidency. For the first time in modern history, an openly avowed socialist has a chance, slim as it may be, to be president. Non-politicians dominate the Republican field with both parties' leading candidates speaking against the history and tradition that has made this country great. Traditional stalwarts of the American economy: the military, police forces across this country, free enterprise, business, profits, wealth, the American Dream – all are coming under fire. It seems we have forgotten the fact that the American competitive free enterprise system has created great wealth, a middle class that once was the envy of the world and a political system that was respected and revered globally. It is time to take a second look at the growth in the size and scope of government in the United States over the last 15 years.

## Contact Us

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