

November 2012

Introduction

With 2013 about a month away, we see that the U.S. economy is showing mixed signs of a recovery, as we approach an enormous economic headache called the fiscal cliff. The GDP for the U.S. actually grew at an annual rate of 2.7% for the third quarter, instead of a previously reported 2.0%. This was due primarily to businesses increasing their inventories and export growth outpacing a rise in imports. But on the flip side, consumer spending was down by more than 0.5% and government spending rose sharply this quarter. To top off the month, the major indices continued their steady decline. For the month of November, the Dow Jones Industrial Average was down 1.59%, NASDAQ down 0.27%, and the S&P 500 down 0.82%.

Key October/November Data

Positive and Negative Signs

With these mixed signs, housing in the U.S. showed continued signs of a slow but steady recovery. The S&P 500/Case-Shiller Home Price Index reported a 3.6% increase in housing prices, from a year ago this month. This is the biggest percentage gain in more than 2 years and the biggest jump in prices since the 2nd quarter of 2010. For October, home construction increased 3.6% from the pace in September. This indicates the highest level of home building in more than 4 years. Foreclosures have also fallen to a five-year low, lessening the supply of “distressed” homes on the market.

The Consumer Price Index increased slightly in October, up 0.1%, but economists estimate that consumer spending will be either stagnant or decrease for November due to the effects of Hurricane Sandy on the U.S. Northeast region. The price of gold closed at \$1,729.20 on November 29th, up \$19 from its close on October 30th.

The November Conference Board Leading Economic Index for China grew 1.5% in October while the Eurozone decreased by 0.2%. Economic morale in the Eurozone increased 1.4 points to 85.7, beating forecasts. Still another overhanging issue is how and when debt-laden countries like Greece will decrease their debt to GDP ratios, which in the case of Greece stands at about 170%. The Conference Board reported U.S. consumer confidence rising to its highest level in more than four years to 73.7, from an estimate of 73.1 in October. This is due mostly to an increase in housing prices, a growing share of Americans planning to buy a home is at a record high, and a job market that seems to be slowly recovering. The unemployment rate stands at 7.9%, which is still high by historical standards.

The U.S. government remains idle in the effort to combat the massive U.S. debt load. On November 28th, the United States' debt stands at \$16.267 trillion, which is rapidly approaching the federal debt limit of \$16.394 trillion. On November 29th a \$1.6 trillion tax increase, \$50 billion economic stimulus program, and a new power to raise the federal debt limit without congressional approval offered by President Obama was rejected by Republicans.

Following an improvement of 9.2% in September, total orders for durable goods remained unchanged for October, which stood at \$216.9 billion. The Purchasing Managers' index stood at 51.7% in October which is a slight increase of 0.2% from September's reading of 51.5%, indicating a slow continued return to manufacturing expansion for the United States.

As of November 26, 2012, the national average of a gallon of gasoline declined to \$3.44 from \$3.55 on October 30. The benchmark in oil closed at \$87.80 per barrel on November 29.

Current Issues

We clearly believe that the United States is the greatest economy in the history of the world in terms of its economic performance and the general promotion of human progress for its citizens and the world as a whole. However, as we look to the future we are concerned as to whether the United States can/will maintain this lofty position in the coming years, decades and centuries. For a nation to become great and to maintain said position and structure it must have a strong and vibrant business structure to fuel the development and growth of goods, services, assets and human capital. There are a number of factors or conditions that give us pause for concern regarding the U.S. economy and its future. Consider the following: the U.S. national debt is now greater than 100% of annual U.S. GDP with government at all levels consuming more than 42% of U.S. GDP today; that figure was less than 8% in 1900. The U.S. has one of the highest integrated capital gains tax rates in the industrialized world and the highest corporate income tax rate in the industrialized world at almost 40%.

If one believes, as we at Northwood University do, that the fundamental source of job creation, tax revenues to the government and general standards of living for households

emanates from the private (business) sector, than we should not be taxing and regulating our business sector as we are today. Additional measure of the excessive burdens government is placing on business via tax or regulations can be found in the declining ranking of the United States on key global metrics. The U.S. has fallen from number one on the IMD World Economic Forum Global Competitiveness Report for 2000 to number five today. We have gone from being number three on the Wall Street Journal/Heritage Foundation Economic Freedom Index in 1995 to number ten today and our high school students rank 14th in reading, 25th in math and 17th in science among high school students from industrialized nations based on the most recent Programme for International Assessment (PISA) exam results.

In the weeks, months and perhaps year ahead this great country has a unique opportunity to: a) debate and reconfirm the source of its economic and moral greatness, b) get its financial house on the path to recovery and c) fundamentally reform its tax system to promote long-term economic growth and stability. We believe the link below to the YouTube video of our recent tax reform symposium should be a vital part of this debate....enjoy it and pass it on! http://youtu.be/zQtxyz0_r2E

Contact Us

Comments or questions should be directed to Dr. Timothy G. Nash at: tgnash@northwood.edu or (989) 837-4323.

To view Northwood University's Monthly Economic Outlook Newsletters from previous months, please visit: <http://www.northwood.edu/media/publications/>

For more information about Northwood University visit www.northwood.edu.