

November 2013

Introduction

The U.S. economic recovery appears to be picking up steam in the third quarter with revised U.S. GDP up 3.6% on top of 2.5% growth in the second quarter. Consumers were resilient in their spending at the start of the 2013 holiday shopping season. Thanksgiving and Black Friday retail sales increased 2.3% from 2012, to \$12.3 billion. Black Friday and Thanksgiving online sales set records with a 39% and 18% rise in sales respectively, from 2012, totaling almost \$3 billion. Americans and the U.S. economy are showing some signs of confidence and revival despite the continued political and fiscal problems in Washington D.C.

Key October/November Data

Positive and Negative Signs

Hardest hit by the Great Recession, the auto industry, manufacturing, and the housing market are all showing continued signs of promise. November U.S. auto sales rose 8.9%. A sales pace of 16.41 million vehicles, if annualized, is the highest since February 2007. The November ISM PMI registered at 57.3, up 0.9% from October, which also represents the sixth consecutive month of manufacturing expansion. The S&P 500/Case-Shiller Home Price Index recorded a 3.2% third quarter rise, with a 11.2% year-to-date increase. This is the strongest figure since its 2006 peak. October new home sales rose 25.4%, the largest increase in 33 years despite a steady increase in mortgage rates. As of early December, the 30-year fixed rate mortgage stood at 4.46%, up 0.3% since early November. However, the U.S. home ownership rate of 65.3% is at its lowest level

in 18 years. Only 380,000 new households were formed in the third quarter 2013, representing a continuous drop. The October unemployment rate increased to 7.3% with the labor force participation rate decreasing to 62.8%, a 35-year low while November unemployment declined to 7%.

The November Conference Board Leading Economic Index shows that China and the EU increased 0.6%, showing signs of traction in those economies. Eurostat reported a 0.2% decrease in October retail sales in the EU, following a 0.6% September decrease. The Eurozone inflation rate rose to 0.9% in November year-to-date, easing fears of deflation. The EU unemployment rate decreased 0.1% to 12.1%, the first decline since February 2011. Economic sentiment in the Eurozone rose 0.8 points, the seventh consecutive monthly gain. The EU business climate reading turned positive for the first time since March 2012. This suggests that the Eurozone is undergoing an anemic, but gradual economic recovery. Stagnation, weak prices, and high unemployment are still problematic in the EU. The Obama administration has decided to delay online Affordable Care Act insurance purchases for small businesses until November 2014 with constant problems plaguing the individual side of the site. Only 106,185 individuals purchased private health plans through the website, far below the projected 500,000 to enroll in the first month. For November, the DJIA was up 3%, the NASDAQ increased 3.05% and the S&P 500 was up 2.43%. Oil has decreased by 1% while gold and silver have decreased 4.36% and 7.87% respectively. The November national average for a gallon of gasoline is \$3.28 and falling.

Current Issues

As we enter the Christmas and Hanukkah seasons we have much to celebrate across this great country and around the world. The European economy appears to be stabilizing and growth in Asia remains fairly stable and relatively strong. The U.S. is showing signs of life with GDP growth realizing 2.5% and 3.6% growth in the two most recent quarters. As noted above, many of the key economic metrics are signaling good news for the U.S. economy. We hope the U.S. economy is on the road to a sustained and lasting recovery. One that promises real job growth, increasing tax revenues, reduction in our national debt and tax reform that closes loop-holes while promoting sustained economic growth and enhanced U.S. global competitiveness.

Our worry is that recent growth has been triggered primarily by monetary policy and a lean and highly competitive business structure that is operating very efficiently coming out of the Great Recession. It is an economy that has yet to create enough high paying jobs for our college graduates and long-term unemployed to realize the “American Dream.” We have an “apprehensive” business community that is not convinced it is time to or prudent to take more risk in order to expand and grow the economy in new and meaningful ways. We are concerned that Washington does not have spending or fiscal policy under control. Our national debt is in excess of \$17 trillion dollars and growing, the Affordable Care Act is costing Americans more than was promised, and the threat of higher taxes on business and job creators is weighing heavily on business decision-makers, thus hindering growth and federal tax revenues. In addition, much of third quarter revised U.S. GDP growth comes from production now held in growing business inventories which could be signaling declining production over the next few quarters as the excess inventories are sold rather than adding to production and job growth.

If economic growth is to continue and accelerate in the months and years ahead, we need an “Economic Christmas Miracle from Washington.” We need Democrats and Republicans to commit to working together the way they did in the 1980’s when President Reagan and Speaker of the House Tip O’Neil had their battles in public, but behind closed doors worked together to bring an end to the brutal 1979-81 recession and work with other world leaders to end the cold war.

Bi-partisan cooperation in the decade of the 1980’s saw real gross national product increase 31%, 18.4 million civilian jobs created (an increase of 19.5%), manufacturing production increased 48%, productivity per hour of American labor increased 10.6%, U.S. exports increased 96.2%, gross private investment increased 32%, charitable giving increased 5.1% a year during the 1980’s compared with an average rate of 3.5% over the previous 25 years, tax revenue increased 25.5%, real disposable per capita income increased 18.5%, and the U.S. standard of living at the end of the 1980s was roughly 40% above that of Japan or the whole of Europe.

Free people working together can and do accomplish great things...even in Washington. That is our wish at this blessed time!

Contact Us

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