Northwood University's
Monthly Economic Outlook

December 2012

Introduction

With the New Year upon us, the U.S. economy shows signs of a brighter future even with dark clouds looming. The final estimate of U.S. GDP came in at 3.1% in the third quarter, which is higher than the second estimate of 2.7%. Consumers reached deeper into their wallets, as consumer spending for November rose 0.4%, the highest since August 2009. This could be due to personal income jumping 0.6%, the largest increase in 11 months. In December, the 3 major stock indices continued to contract, with the Dow Jones Industrial Average, NASDAQ, and the S&P 500 all down. For each of the past 3 years, investors have pulled more than $150 billion from U.S. stock mutual funds and ETFs.

Key November/December Data

Positive and Negative Signs

Despite recent negative news about U.S. housing, the sector continues to show promising signs of a steady recovery. Though housing starts declined 3% and single-family housing construction decreased 4.1% for November, they have grown 21.6% and 22.8%, respectively year-to-date.

An additional sign of future housing optimism was found in November new building permit growth which increased 3.6%, the highest level since July 2008. The S&P/ Case Shiller Index indicated that U.S. home prices rose 4.3% in the last 12 months ending in October.

The December Conference Board Leading Economic Index reported China grew by 1.1% in November and the Euro increased by 0.6%. In the past few weeks, the Eurozone has been able to manage their economic calamity. One of the main reasons is that Greece was able to buy back 31.9 billion euros of its debt. After the purchase, they can write off 20 billion euros of this debt, which was a precondition for Greece receiving more bailout money.

The Conference Board reported consumer confidence fell to 65.1, falling 6.4 points from November. This is due to fears of going over the “fiscal cliff”, which were to trigger automatic tax increases and spending cuts on January 1, 2013. It is expected that if the “fiscal cliff” lasts for a few months, it is possibly the U.S. economy would slip into a recession. The unemployment rate stands at 7.7%, which is at its lowest level since December 2008.

On December 26, Timothy Geithner, U.S. Secretary of the Treasury in a letter to Congress, said he would take “extraordinary measures” to avert the U.S. from hitting its debt ceiling on December 31st, by creating $200 billion “in headroom” that will last two months, before Congress will need to take action. Late January 1, the House of Representatives approved a Senate bill to avert the “fiscal cliff”. The deal included a two-month delay in spending cuts that would have taken effect on January 1st and extended tax cuts for those families making $450,000 and individual making $400,000.

Total orders for durable goods increased 0.7% in November to $220.9 billion. The ISM’s, Manufacturing Purchasing Managers’ Index, increased to 50.7 for December from 49.5 in November, indicating an expansion in manufacturing as 2012 came to a close.

On December 31th, the national average for a regular gallon of gasoline stood at $3.30, near last year’s-low of $3.26. In addition, AAA predicted 93.5 million Americans would be traveling for holidays, making December 2012 the busiest travel season for the holidays in 6 years.

Oil closed at $91.82 per barrel on December 31st, up $5.33 from its close on November 26.

Current Issues

We delayed the publishing of the December 2012 Northwood Economic Outlook to see if Congress and the White House would reach meaningful reform on the "fiscal cliff" especially in the area of government spending… they did not!

As of the end of 2012 the U.S. National Debt was in excess of $16.4 trillion and Washington simply "kicked the economic can" down the road until at least March. If major spending cuts are not realized the U.S. National Debt will surpass $20 trillion dollars before 2018 and the U.S. economy will continue to falter.

The average American owes $52,181 if the National Debt was divided by our current population while every American household would owe $135, 713 if we were to allocate our debt per household… but this is just the tip of our fiscal problems… "our fiscal iceberg!"

What most Americans do not realize is that the U.S. has unfunded liabilities or future debt obligations at the federal level that total more than $61 trillion (including the current national debt) or greater than 106% of the net worth of all U.S. households and non-profit organizations in America.

The additional obligations include more than $7.3 trillion in unfunded liabilities for federal employee retirement programs and veteran's benefits, more than 18.8 trillion in unfunded obligations for current Social Security participants and more than $24.4 trillion in unfunded obligations for current Medicare participants.

Total federal obligations divided by our current population come out to $195,140 for every man, woman, and child in the U.S. today and $513,380 for every American household.

To make matters worse many U.S. state and local governments are facing especially difficult financial situations and have financial obligations estimated to total another $20 trillion dollars, giving America long and short term debt obligations of more than $81 trillion not including the cost of our growing national debt and the potential for higher interest costs on the funding of the U.S. National Debt if we experience "stagflation" in the future. If we do not get government spending under control we will suffer economic tragedies far worse than Greece is experiencing today in less than 10 years.

Politicians have proven that they cannot solve this country's financial problems on their own and therefore it is time to constrain government with a balanced budget amendment… more next month.

Contact Us

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