Northwood University's
Monthly Economic Outlook

December 2013/New Year

Introduction

The U.S. economy ended 2013 with real GDP growing at roughly 2% and the Dow Jones Industrial average finishing at a record level of greater than 16,500. The unemployment rate averaged roughly 7.4%, a month in 2013 with the December 2013 unemployment rate falling to 6.7%. The economy showed signs of life in 2013 and signs for concern…clearly a repeat of the general performance of 2011 and 2012 with two major exceptions the record performance of the stock market as a high and the implementation of the Patient Protection and Affordable Care Act (PPACA) as a low. For 2013, the Chinese economy grew at a lower than predicted rate with final real GDP expected to come in at roughly 7%. The Chinese economy was the strongest single growth component of the global economy which grew at roughly 3% in 2013. By year-end the European economy was emerging from a deep and protracted recession with the hope of real GDP growth of 1-2% in 2014.

Key November/December Data

Positive and Negative Signs

The U.S. economy is beginning to show improving signs entering the first quarter of 2014. Second 2013 third quarter revised U.S. GDP came in at 4.1 percent versus an initial revised report of 3.6 percent growth and an expected growth rate of 2.5 percent at the beginning of the year. This was surprising to many economists who thought the U.S. economy was slowing after first quarter 2013 GDP came in at 1.1% even with strong new car sales. November and December data on industrial production, unemployment, interest rates, housing starts and inventories were improved, complimenting the GDP figures and light vehicle sales that were up in December continuing their positive trend from November and strong pace from the summer of 2013. New automobile, SUV and light truck sales increased robustly vs. 2012. New vehicle sales are expected to reach a sales level of 15.6 million for the U.S. in 2013, up from 14.4 million in 2012. The U.S. stock market had a strong December as the DJIA closed up more than 2% by month-end, and reached an all-time annual close. The U.S. economy is still a bit confusing, showing mixed results as gold and silver prices still remain high versus their historic averages, inflation as measured by food prices is just above 6 percent with gasoline and oil prices up in December 2013. The U.S. economy appears primed for take-off but concerns still remain over increases in the dividend, capital gains, payroll, and for some income taxes, as well as twenty expected new healthcare taxes and reforms which begin this year and next. The January 2014 budget deal and predictable economic policies from Washington in January could move the U.S. economy forward, drive unemployment below 6.5% and begin a stable and sustained recovery. Also, housing data and consumer confidence numbers improved last month with the government debt ceiling debate looming large in late 2014. A weak December labor force participation rate gave us pause for concern.

Current Issues

This year will have four major issues we will pay close attention to as they will be keys to the health of the Michigan and U.S. economy and to a lesser degree the global economy. They are:

1. **Automobile, Light Truck and SUV Sales** – The U.S. automobile industry has led the comeback of American manufacturing over the last two years and is expected to be strong again in 2014. U.S. automobile, light truck and SUV sales should see a 5% increase this

year and finish at 16.4 million vehicles sold. Used car sales and the U.S. motor vehicle aftermarket should realize strong revenue growth in 2014 as the average age of an automobile on the road today is 11.4 years. Our concern is that new vehicle sales stay at a decreasing rate in 2014 with sales in 2013 increasing at 8.3% for the year. We are also concerned that real median household income is projected to decline again in 2014…the fourth year in a row which does not bode well for future vehicle sales.

2. The U.S. Labor Force Participation Rate – The government reported that the U.S. unemployment rate had dropped to 6.7% in December and most economists were unimpressed. The reason is that the U.S. economy created less than 80,000 new jobs in December and the labor force participation rate was bad. The U.S. labor force participation rate dropped to 62.8% in December 2013, its lowest level since the late 1970s. The debate in political and economic circles continues around "what has caused the labor force participation rate to decline?" Why is such a low percentage of the American workforce employed? Ten years ago the rate was 65.9% -- are more Americans retiring? Are they going back to school so as to find better jobs? Are they unable to find work? Are they frustrated and leaving the workforce? A combination of all of the above?

3. Implementation of the PPACA -- As we have noted in earlier commentary, the implementation of the Patient Protection and Affordable Care Act (PPACA) will bring to light a rarely mentioned negative long-term consequence of greater U.S. government control of healthcare and healthcare pricing policies. The policy result will be U.S. healthcare related companies will realize lower profits from government controls and thus have less incentive and money to lead the world in R&D and the production of: 1) new and better pharmaceutical products, 2) new technology and equipment (i.e. CAT Scan machines, X-ray machines, MRI machines, etc.) and 3) breakthrough techniques in areas ranging from cancer and heart surgery to neonatal care. We also believe that health care costs in general will increase in 2014 rather than decline as a result of less competition and reduced patient choice.

4. U.S. Tax Policy and Class Warfare – We are very concerned over the lack of dialog and interaction in Washington, DC between our two major political parties. We are also concerned that too many in Washington, DC believe that America has a revenue problem rather than a spending problem. Too many politicians believe that the roots of America's greatness emanate from government and that business and the wealthy just need to pay more…their "fair share" in taxes to "solve" our economic dilemma. We believe that pro-business tax reform is needed at the federal level in order for Americans to compete and grow. We still have the highest corporate income tax rate in the industrialized world with the top 1% of Americans paying 35% of federal individual income taxes. Tax rates need to be lowered, not raised.

Conclusion

May we live in interesting times? Why yes we may!

Contact Us

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