

December 2011

Introduction

The U.S. economy continues to hover in the grey area between recovery and regression, leaving it vulnerable to an economic fluctuation that could tilt the scales either for the better or for the worse. With current economic data that points in the direction of each of these outcomes, it becomes difficult to predict in which direction it will tilt in the coming months. In the Bureau of Economic Analysis's most recent release they announced a third estimate of U.S. GDP for the 3rd Quarter of just 1.8 percent. The BEA's estimation for Q3 GDP was downwardly revised from the advance estimate to the second estimate, and again from the second estimate to the third estimate, falling in total from 2.5 percent to 1.8 percent. This follows a weak 2nd Quarter GDP which settled at a lowly 1.3 percent. While inflation slid slightly in November, it still remains above 3 percent as it has since April.

Key November/December Data

Positive Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations' cash reserves remain at nearly \$2 trillion. The October Conference Board Global Leading Economic Indicators Report shows the U.S. increased .5 percent while Europe remained unchanged and China decreased .1 percent. The U.S. savings rate settled at 3.5 percent in October, compared to 3.3 percent in September. Despite this month-to-month increase the October 2011 rate is still well below the October 2010 rate of 5.3 percent. Automobile, SUV and light truck sales were up 13.9 percent in November relative to the same month last year, even as vehicle sales began to taper off in the winter months. Housing starts have slid from the high summer months, but the November 2011

level of 51.8 is still 25.6 percent higher than the November 2010 level. Similarly, the pending homes sales index surged 10.4 percent in October relative to September, and is 9.2 percent higher than the October 2010 level. The unemployment rate settled at 8.6 percent in November, falling below 9 percent for the first time since March 2009. Finally, consumer confidence surged in November reaching 56.0, which is a 15.1 point increase from October.

Negative Signs

The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.27 percent with U.S. companies holding more than \$1.2 trillion overseas as a result. Oil, gold and silver prices continue to remain relatively high, signaling the potential for a future inflationary period. According to the latest manufacturing ISM Report on Business, the manufacturing sector of the U.S. economy increased to 52.1 in November from 50.8 in October, but is still very close to falling below 50 which signals trouble for the manufacturing sector. The Dow Jones Industrial Average fell roughly 389 points (3.3 percent) in November and is essentially unchanged so far in December. Construction spending in October was down relative to both the previous month and October 2010. Durable goods orders and shipments were both down in October relative to September. Personal disposable income continues to trend upward and is now up 1.5 percent from the beginning of the year. However, when compared to an inflation rate which has remained north of 3 percent since April, this shows a general decrease in overall wealth.

Current Issues

2011 saw the U.S. and global economy grow tentatively with signs for both hope and dismay throughout the year. America ends 2011 basically where we started it, with optimism, concern, and uncertainty. The Dow Jones Industrial Average (DJIA) closed 2010 at 11,578, up 11% for the year, with real U.S. GDP growth at 3% in 2010. The DJIA is at 12,247 as we write this piece, December 29, 2011. The following is our prediction for U.S. gasoline prices in 2012:

Over the last five years U.S. oil prices have ranged from an average yearly low of \$53.48 a barrel in 2009 to an average yearly high of \$87.48 in 2011 (yearly averages 2007 = \$64.20, 2008 = \$61.48, 2009 = \$53.48, 2010 = \$71.21 and 2011 = \$87.48). Furthermore, over the same period gasoline prices began the year at a national average low of \$1.60 per gallon in 2009 and a national average high of \$3.05 per gallon in 2007 (beginning of the year national average price per gallon of gasoline for 2007 = \$3.05, 2008 = \$3.05, 2009 = \$1.60, 2010 = \$2.60, and 2011 = \$3.02). Finally, yearly price swings in the price of a gallon on gasoline over the same period range from a low of \$.15 in 2007 to a high of \$1.33 in 2008 (yearly fluctuations in the price of a gallon of gasoline 2007 = \$.15, 2008 = \$1.33, 2009 = \$.98, 2010 = \$.43, and 2011 = \$.84).

The national average price for a gallon of gasoline on January 1, 2012 was \$3.26 per gallon. The question is what will the high price for a gallon of gasoline be in 2012 as well as the price swing for gasoline for the year and the average price for a barrel of U.S. oil?

It is important to remember that global supply and demand and exogenous variables like war or conflict are still the key drivers of the price of commodities. Note that President Bush's escalation of the war in Iraq "the surge" led to higher oil and gasoline prices in 2008 and the global financial collapse in late 2008 and early 2009 led to a collapse in demand for oil in 2009. Therefore, in 2012 we

must pay close attention to the financial crisis in Europe and the potential for conflict in the Middle East that could threaten the supply of oil via actions taken primarily by Iran.

We believe oil prices will range between \$95 and \$120 a barrel on the NYMEX as we believe the U.S. and allied forces will keep Iran in check and the "Arab Springs" will result in enhanced democracies in the Middle East including Syria.

U.S. Federal Reserve monetary policy in 2012 will prevent a recession, but the additional quantitative easing coupled with irresponsible federal fiscal policy will leave the United States in a precarious financial position by years end with inflation on the move and U.S. credit worthiness once again in question. Whoever occupies 1600 Pennsylvania Avenue and the seats of the U.S. Congress in January of 2013 will have little choice but to introduce stern austerity measures or face the same troubles Europe is facing today.

Conclusions

The United States is less than 5 years behind the troubles Europe confronts today...a collapse of the U.S. economy is not out of the question.

Contact Us

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