Introduction

At the mid-point of the 2nd Quarter of 2012, the U.S. economy is showing continued signs of slowing down. U.S. GDP for the 1st Quarter of 2012 was revised downward to 1.9% growth from its initial report of 2.2% growth according to the U.S. Bureau of Labor Statistics. This is a decline from 4th Quarter 2012 GDP growth of 3.0 percent. The Dow Jones Industrial Average slowed in May, settling at just above 12,390 which was down more than 800 points from the end of April. The DJIA increased 1.9 percent in February and was up another 1.2 percent in March.

Key April/May 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 April Conference Board Global Leading Economic Indicators Report shows the United States declined .1 percent while Europe declined .8 percent and China increased .8 percent. This is the third straight month China has seen positive growth. The U.S. savings rate settled at 3.4 percent in April, down from a year ago and clearly stimulating spending. Consumer confidence was down slightly in April but is still signaling general growth. Automobile, SUV and light truck sales in April were up 3.2, 5.8 and 1.3 percent respectively relative to April 2011. The unemployment rate settled at 8.2 percent in May which is up slightly from 8.1 percent in April. Construction spending was up 6.0 percent in March relative to March 2011 and April housing starts were up 2.8 percent relative to March 2012.

Negative Signs

The U.S. now has the highest corporate income tax rate in the industrialized world at an average rate of 39.2 percent, surpassing Japan which cut its average corporate tax rate to 38 percent at the beginning of April. U.S. companies are holding more than $1.2 trillion overseas as a result. Oil, gold, and silver prices continue to remain relatively high, although oil continues to trend downward. Despite falling crude oil prices, the national average for gas prices spiked to $3.90 in April, a 15 cent increase from March. According to the latest manufacturing sector of the ISM Report on Business, the manufacturing sector of the U.S. economy increased to 55.6 percent in May from 54.9 in April, moving away from a level of 50 which signals a recession for the manufacturing sector. Durable goods orders and shipments were both down in April relative to March but were up compared to April 2011. Personal disposable income continued to trend upward .6 percent, ahead of .4 percent inflation in April which indicated a low increase in wealth.

Current Issues

The U.S. economy is definitely slowing as defined by two key reports released this week. First Quarter 2012 GDP was revised downward from 2.2 percent growth to 1.9 percent growth, while the U.S. Bureau of Labor Statistics May unemployment report saw unemployment increase from 8.1 percent to 8.2 percent with net private sector job growth at a disappointing 69,000 for the month. Net U.S. job growth averaged 259,000 from December 2011 to February 2012 and dropped to an average of 135,000 in
March and April…making the May results disappointing at best. There are many factors which may be taken into consideration outside of the structural problems in the U.S. economy such as an uncompetitive tax and regulatory system.

Given that the U.S. exports roughly 15 percent of its GDP, a slowing global economy is of great concern. The OECD region saw first quarter 2012 GDP growth at just .4 percent, the Chinese economy is slowing and could easily fall below 7 percent GDP growth for 2012 while Europe presents many reasons for concern and a deepening recession. European GDP for the 17 country Eurozone was 0.0 percent growth for the first quarter of 2012 with the broader 27 country E.U. at .1 percent growth. This is an improvement from -.3 percent growth in the fourth quarter 2011 for both areas but of grave concern given the growing debt problem in Europe.

European unemployment for the Eurozone was 11 percent in April 2012 with the broader E.U. 27 registering a 10.2 percent unemployment rate, both up from 9.9 and 9.5 percent respectively in April of 2011. Eurozone public government debt as a percent of GDP was at 87.4 percent with the E.U. 27 public government debt at 82.2 percent for 2011. U.S. public debt by comparison was 69 percent of GDP at the end of 2011 with the U.S. national debt (private and public held government debt) at 98 percent of GDP for 2011. The public debt problem for Europe rests with the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) with Greece (159 % of GDP), Italy (119.6 % of GDP), Portugal (110.1 % of GDP), Ireland (104.9 % of GDP), and Spain (70 % of GDP). Even Germany, the strongest economy in the E.U., has a government public debt to GDP ratio of over 80 percent.

We believe Europe is at a cross roads debating whether it should engage in quantitative easing to avoid or lessen possible severe recession and the collapse of the Euro or institute austerity measures which will deepen the recession in the short term but bring fiscal sanity to the E.U. and avoid an even greater collapse over the long run. The Europeans have no choice but to cut government spending and reduce long term deficits or they will face a major economic collapse and a decade more of malaise and credit problems… so could the U.S. if our path varies from fiscal responsibility and sound public policy.

We look for a continued slowdown in the U.S. economy in 2012 and a probable recession in 2013 if government spending cuts are not adopted, and if proposed tax increases and new regulatory burdens are implemented in 2013 as well.

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Contact Us

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

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