

Prediction: U.S., world economies will plod on in 2015

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In 2014, the U.S. and global economy grew at a tepid pace with signs for both optimism and apprehension throughout the year. America ended 2014 in a similar fashion to 2013, basically where it started, with confidence, distress and indecision.

The Dow Jones Industrial Average closed 2011 at 12,218 and real U.S. gross domestic product ended the year at an annualized growth rate of 1.8 percent. The Dow Jones Industrial Average was at 13,105 at the end of 2012 and real U.S. GDP was up 2.8 percent. The Dow Jones Industrial Average closed 2013 at 16,588, up 27 percent, and real U.S. GDP is expected to end the year at an annualized growth rate of 2.2 percent. The Dow Jones Industrial Average was at 17,823 at the end of 2014, up 7.52 percent for the year, with real U.S. GDP expected to increase 2.3-2.4 percent for the year.

The following are our predictions for the U.S. and global economy in 2015 with brief comparisons to our 2014 predictions when appropriate:

1. U.S. real GDP will grow at an annualized rate between 2.2-2.5 percent in 2015 (our 2014 prediction was 2.2-2.5 percent GDP growth; actual BEA estimate for 2014 is 2.3 percent).
2. The global economy will grow at an annualized real GDP rate of 2.9-3.2 percent in 2015 (our 2014 prediction was 2.8-3.1 percent Global GDP growth; recent World Bank estimate for 2014 shows global GDP growth at roughly 3.2 percent for 2014) with Chinese annualized GDP growth in 2015 at 6.8-7.2 percent (our 2014 prediction was 6.8-7.2 percent GDP growth in China; recent World Bank 2014 estimate is 7.2 percent GDP growth for China) and Europe will continue to experience economic and political reform and mild economic growth again in 2015 (our 2014 prediction was mild growth in Europe with recent World Bank estimates of 0.9 percent growth for the Euro area in 2014).
3. U.S. unemployment will average 5.5 percent or above in 2015 (our prediction for 2014 was 6.6 percent or above; actual data for 2014 shows a monthly average of 6.2 percent).

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4. Again in 2015, the U.S. and allied nations will continue to keep Iran in check while we grow concerned over political instability and the growing size and scope of terrorist activity in the Middle East. Like last year, we see increased tension between Israel and Palestine and an ever-greater threat of terrorist activities spreading beyond the Middle East to democracies throughout the world.

5. Real interest rates (FED Funds rate) will be at 1-1.25 by the end of 2015 (our prediction of 1 -1.5 FED Funds rate in 2014 was high as the rate finished 2014 at below 0.25).

6. Austerity measures and European Central Bank intervention will once again keep the Euro area out of recession with GDP growth realizing 1.3-1.6 percent in 2015 (we were spot on in terms of 2014 GDP growth in the Euro area as we predicted 1-1.2 percent growth with initial World Bank estimates for Europe in 2014 being 0.9-1 percent growth).

7. Again, Congress and President Barack Obama will leave a larger deficit burden and an ever-difficult financial position to be dealt with in 2016 and beyond. With the fall of 2014 elections causing a change in power in the U.S. Senate, we hold guarded optimism that Congress will propose and pass major pro-business tax reform in 2015. We applaud Congressman Dave Camp's valiant effort to deliver tax reform in 2014.

8. U.S. inflation will average between 2 and 3 percent in 2015 while the Dow Jones Industrial Average will flirt with 19,000 before ending the year at just below 18,800 (we predicted inflation to be between 2 and 4 percent in 2014 and that the Dow Jones Industrial Average would flirt with 18,000: inflation averaged roughly 1.5 percent in 2014 and the Dow Jones Industrial Average broke 18,000 for the first time in history in 2014 before settling at 17,823).

9. The Chinese economy will slow again in 2015 as the clash between the country's communist planning model and capitalist trends continues to create conflicts and disequilibrium. Market forces will continue to press for greater transparency in the Chinese economy in 2015. The growing Chinese debt burden at the provincial level will again pose concerns for foreign investors and domestic policy in 2015.

10. We predicted that Americans would use the power of their vote to elect politicians that would focus on the financial troubles confronting Americans in 2014. We hope that the 2014 fall elections have brought that prediction to fruition, giving us a Congress that

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will deliver pro business tax reform and a sound, stable, achievable long-term deficit reduction program.

U.S. Federal Reserve monetary policy again in 2015 will prevent a recession, but the additional quantitative easing and irresponsible federal fiscal policy probably will again leave the United States in a difficult financial position by the end of the year. As you can see, we are guardedly optimistic about the new Congress but unfortunately would not bet on statesperson-like achievement in 2015 ... we hope they prove us wrong. If not, higher taxes on business and top income earners and the acceleration of the decline in American competitiveness will continue in 2016 and beyond.

11. Our prediction that fracking would bring substantial economic growth and enhanced oil and natural gas supply to the U. S. again in 2014 was correct. We predicted that the “big news” story for 2014 would be the implementation of the Patient Protection and Affordable Care Act, which would bring to light a rarely mentioned negative long-term consequence of greater U.S. government control of health care and health care pricing policies. Many of our detailed predictions regarding technology and R&D came to light in 2014. Probably the strongest validation of our prediction came recently when Harvard University faculty voted to repeal the Affordable Care Act due to recent health care premium increases at Harvard. It is important to note that in 2009 Harvard’s provost sent an open letter to the White House supporting PPACA for its cost-saving ability.

Our “big news” prediction for 2015 is that we see oil averaging below \$65 a barrel per month in 2015...remember, oil reached a peak of just under \$108 a barrel in June of 2014.

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