Uncertainty abounds in the U.S. and global economy as we near the end of 2015. Clearly, last month’s release of third quarter U.S. GDP for 2015 was disappointing at only 1.5% growth. U.S. GDP now averages 2.0% growth for the year to date and lags behind average U.S. GDP growth of 3.25% since the end of World War II. Our current economic recovery from downturn to rebound has been the worst since the Great Depression, while job growth during this recovery has been disappointing, both in terms of quality and quantity of jobs produced. It is even more problematic when you measure job growth as a percent of the population or as a percent of the job market.

In a recent survey of economists by Bloomberg News, 70% are convinced that the Federal Reserve Bank (The FED) will raise interest rates in December which is usually a sign of a strengthening economy. We find it hard to believe based on the results of a bell weather indicator like GDP so far in 2015. Economists point to low unemployment, automobile and home sales as key indicators of better days ahead. The aforementioned are all generally good signs of economic recovery and growth and historically are confirmed by GDP growth of 3.5-4.5% and an increasing labor force participation rate…both are signaling uncertainty and in our opinion, are unable to confirm a strong economic recovery.

Some economists have even gone as far as to say that the recent uptick in the U.S. 10-year bond yield from below 2% in September to almost 2.4% in November could be an early sign of rising inflation and perhaps even stagnation. This is not evident at this time.

Key October/November Data

Positive and Negative Signs

It is important to note that the U.S. economy has its challenges yet continues to be one of the bright spots in the world economy relatively speaking. World stocks were up 4.8% last year and have increased .8% so far in 2015, while U.S. stocks measured by the S&P 500 increased 13.7% last year and were up 3.8% at the time of this writing. The Morgan Stanley Capital Investment (MSCI) index of world real estate prices increased 15.2% in 2014 with global prices down .5% so far in 2015. U.S. real estate prices measured by the MSCI index of real estate prices saw U.S. gains up 28.1% in 2014 with slight growth of just under 1% to date in 2015.

Thompson-Renters-CRB Index of overall global commodity prices fell by 11.9% in 2014 and is down 12.4% year-to-date in 2015. Key individual commodities like gold and oil were down 1.1% and 49.7% respectively in 2014 with gold down 17.9% to date and oil down 16.4% so far in 2015. Lower commodity prices, especially oil, means lower costs to operate and maintain an automobile, as well as reduced prices for all products where oil is a feedstock. Economies and companies that are highly dependent on the production of minerals, oil and metals are seeing the adverse consequences of declining commodities prices here and abroad…their customers are not.

Finally, the U.S. dollar has been the preferred currency in the world based on appreciation over the last two years. The dollar increased in value 12.8% in 2014 and 9.7% to date in 2015 while the British pound, Euro, Swiss Franc and the Japanese yen declined between 5.9% and 12.1%
in 2014 relative to the U.S. dollar. In 2015, all are negative relative to the dollar with the Euro down 11% to date.

While many believe The FED will raise interest rates in December, most economists believe the European Central Bank (ECB) will not and may continue with their version of quantitative easing into 2016.

Current Issues

According to the World Bank, the global economy grew at an annual rate of 3.4% in 2014 and is expected to grow at 3.1% in 2015, a decline of .3%. The World Bank sees bright signs on the horizon and is calling for 3.6% global GDP growth in 2016 as of their October 2015 forecast. We spent some time recently reviewing GDP data by country and are concerned about individual country performance for 2015 relative to World Bank forecasts and certainly do not see as rosy a 2016 globally. The U.S. economy grew at 2.4% in 2014 according to the World Bank and is now forecasted to grow at an annual rate of 2.5% for 2015 and 2.6% in 2016. Late in 2014 the World Bank predicted the U.S. economy would grow at 3.2% in 2015, then downgraded U.S. growth to 2.7% this past June. With its current estimate for the U.S. at 2.5% GDP growth, the U.S. will need to realize a 4% GDP growth in the fourth quarter of this year to offset growth to date.

The World Bank sees Canada growing at 1.2% in 2015, the EU up 1.5% for the year, UK growth up 2.5%, Switzerland up .9%, Japan realizing .7% growth, China at 6.9%, growth in India up 7.4% this year, Mexico growing at 2.3%, Brazil declining -2.8% GDP. Russia experiencing -3.9% GDP growth in 2015 and the rest of the world which comprises 23.6% of global GDP growing at 3.2% for 2015. According to World Bank calculations, GDP is measured in U.S. dollars with the U.S. producing 23.2% of global GDP, China 17.8%, the Euro Area 14.5%, Japan 4.9%, the UK 4.0% and India 3.6% with Canada, Switzerland, Russia, Brazil and Mexico comprising 8.4% of global GDP collectively.

The global economy is still in a precarious state as the Euro Area is underperforming in 2015 and is expected to see little growth in 2016. Many economists question the accuracy of Chinese GDP figures which are forecasted to lose ground again in 2016.

Conclusion

The U.S. economy has realized fewer exports in 2015 due to a strong dollar and less demand for U.S. goods and services in countries that are underperforming, such as those in the Euro Area. The FED and the market sent two signals this past Thursday and Friday that indicate The FED may do nothing again in December. FED Vice Chairman Stanley Fischer said Thursday “It’s clear that the appreciation of the dollar and the accompanying foreign weakness has been a sizeable shock...” And on Friday, the Euro Area reported a disappointing third quarter GDP at only .3% growth which translates into a new annualized GDP growth rate of 1.2% causing us to further question World Bank forecasts for 2015 and 2016. Clearly, the U.S. cannot depend on the global economy for substantial additional GDP growth in the near term…it must depend on its own accelerated growth which must be driven by pro-business tax reform.

Contact Us

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