

May 2016

Introduction

We are just five months from the 2016 local, state and national elections here in the United States. This fall promises to be one of the most interesting and unique elections in modern if not all of U.S. history. On the Democratic side we have an avowed socialist losing in a surprisingly close primary to a former U.S. Secretary of State who happens to be a female, and whose husband is a former U.S. President. On the Republican side we have a long-shot U.S. billionaire businessman who defeated 16 talented, politically experienced challengers including the early favorite whose brother and father previously served as President of the United States. Neither Donald Trump nor Hillary Clinton has a clear lead or the confidence of a clear majority of Americans at this point.

Key April/May Data

Positive and Negative Signs

The U.S. economy has been performing at a below average rate since 2008. It trails historical norms in the areas of job creation, GDP growth and labor force participation. The U.S. also finds itself in a challenging global economy that is bookended by slow growth and massive debt problems. Political instability threatens much of the Middle East and Europe with the constant threat of terrorism greatly harming economic progress in much of the EU and Middle East...especially in Belgium, France, Iran, Iraq and Egypt.

U.S. unemployment, home sales and automobile sales are currently bright spots in the U.S. economy as they were in 2015.

While the European debt crisis seems to be stabilizing and EU growth is projected to be 1.5% in 2016, Chinese debt both government, business and household is expected to surpass 250% in 2016, with much of the Chinese business community owned by government.

Current Issues

There will be many clear lines of delineation between candidates, especially at the presidential level this fall. The following are among the many we believe should be considered by voters regardless of their political affiliation.

1. The Price of Oil

Most of us forget that oil averaged less than \$16 a barrel throughout the 1990's and the U.S. and global economies performed at impressive levels. From 2000 to date the world has traveled down a challenging path from 911 and the invasion of Afghanistan and Iraq to the growth in China and India and the Great Recession. Largely due to increasing demand and conflict, oil peaked at just under \$148 a barrel in 2008 with gasoline averaging more than \$4 a gallon around the same time. The emergence of Hydraulic Fracturing on largely state and private land has

dramatically increased the supply of U.S. oil and natural gas and made America energy independent. Fracking will clearly be a major political issue this fall.

2. U.S. Interest Rates

The one bright spot in the U.S. economy since 2008 has been low interest rates for business and households, not to mention the interest cost of financing the U.S. National Debt. Clearly the Federal Reserve has played a major role in keeping U.S. interest rates low via its “quantitative easing” programs over the last eight years. However, it is also important to realize that a major cause for interest rate increases is the “market process”. When the economy is strong and the supply of money is too little for the demand from consumers, interest rates will rise. In essence, interest rates naturally rise because borrowers can afford it and are willing to pay higher rates, not because the Federal Reserve decides for whatever reason to raise rates. We do not believe the Federal Reserve has a good reason to raise rates today.

3. U.S. National Debt

The U.S. national debt now stands at more than \$19.2 trillion and is growing. Yes, it is growing. Do not be confused when politicians tell you we have “cut the debt”. The annual budget “deficit” has declined but we are still running a deficit each year and increasing our national debt every year. The U.S. national debt per man, woman and child is now \$60,000, up dramatically from just over \$4,000 per capita in 1982 when the U.S. national debt first surpassed the \$1 trillion mark. The national debt has nearly doubled since 2009. The finance or interest cost on the U.S. National Debt is currently less than 2%. What will be the impact or cost to the U.S.

economy and federal budget if in fact interest rates begin to rise? Reducing the U.S. National Debt not just reducing the increase in the yearly budget deficit will be one of the most important tasks for our next president to tackle.

4. U.S. GDP Growth Rate

U.S. GDP has grown at an annual rate of 3.25% since the end of World War II. It has slowed dramatically in the last 10 years and is not off to a good start in 2016. The fourth quarter of 2015 saw U.S. GDP growth at a disappointing 1.4% and the first quarter of 2016 realized GDP growth of just .8%. Increased regulations, programs like the Affordable Care Act and higher taxes on the wealthy are applauded by many yet certainly have taken money out of the private sector and in many eyes thwarted economic growth. The U.S. has the highest corporate tax rate in the industrialized world, ensuring that taxes and economic growth will be an issue in the 2016 elections.

5. The American Dream

The American Dream is a national principle, a value if you will, for the United States. It is a model of standards (democratic republicanism, individual rights, liberty, opportunity, hard work and equality) by which freedom allows the opportunity for prosperity, success and upward economic mobility for family and children. Historically, the American Dream has been achieved through hard work and the breaking down of barriers. The American Dream is the promise that life will be better, richer, and more fulfilling over time for those willing to work hard while maximizing their God-given talents. Many question whether the American Dream is

alive and well today, and if not, what policies or party are best capable of restoring it. The future of America as defined by the American Dream may well be the most important issue to be debated with the fall elections of 2016.

Conclusion

November 8, 2016 is less than a half year away and the future of the U.S. economy is in doubt. The U.S. economy has experimented with dramatically different policies since 2009 and the results are mixed at best. Let us all commit to making our vote count as we give both parties a close look at all levels in November.

Contact Us

Comments or questions should be directed to Dr. Timothy G. Nash at: tgnash@northwood.edu or (989) 837-4323. The NU Outlook is a monthly publication of The McNair Center for the Advancement of Free Enterprise and Entrepreneurship at Northwood University. To view Northwood University's Monthly Economic Outlook Newsletters from previous months, please visit: <http://www.northwood.edu/media/publications/> . For more information about Northwood University, our academic programs and enrollment opportunities for students, visit www.northwood.edu.

Northwood University is committed to a policy of nondiscrimination and equal opportunity for all persons regardless of race, gender, color, religion, creed, national origin or ancestry, age, marital status, disability or veteran status. The University also is committed to compliance with all applicable laws regarding nondiscrimination. Northwood University is accredited by the Higher Learning Commission and is a member of the North Central Association (800-621-7440; higherlearningcommission.org).