MIDLAND DAILY NEWS

Economy looking for a way to break out

November 16, 2014
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The U.S. economy is trying to break out of a sub-par economic recovery that has lasted for roughly five years and is the slowest economic recovery by gross domestic product growth since the end of World War II. GDP growth since the end of World War II has averaged roughly 3.2 percent to date. Quarterly U.S. GDP growth since 2009 has averaged 1.82 percent and 2.0 percent for the first 3 quarters of 2014. After beginning 2014 with a dismal GDP growth rate of -2.1 percent, the U.S. economy has put together impressive back-to-back second and third quarters of 4.6 percent and 3.5 percent GDP growth, respectively.

Key September/October Data

Positive and Negative Signs

Major U.S. stock markets realized impressive growth in October and into early November with both the Dow Jones Industrial Average and the S&P 500 seeing all-time record highs. Impressive stock market growth has off-set concerns over consumer spending, especially retail sales as we enter the Christmas buying season. Analysts are worried about less than impressive retail sales to date especially considering that many retailers will generate up to 75 percent of their sales from October through December. The 18-member country euro zone economy (America’s largest trading partner) grew in the third quarter at a less than impressive pace, underscoring concerns that the region continues to face declining investment and high unemployment as other large economies like the U.S. and U.K. are seeing more impressive economic recoveries. GDP in the euro zone grew 0.6 percent from July through October 2014, on an annualized basis as reported by the European Union’s statistics office. GDP grew 0.2 percent over the same period on a quarterly basis. Of greater concern for U.S. exporters is that German GDP, which accounts for roughly 30 percent of euro zone economic output, increased just 0.3 percent on an annualized basis and 0.1 percent on a quarterly basis in the third quarter of 2014. Asia continues to exhibit the strongest GDP by region on a global basis; however we remain concerned over the fact that the Chinese economy is showing a slight slowing over the last year.

Current Issues

With the U.S. economy signaling impressive growth the last two quarters, and the mid-term elections indicating the likelihood of more pro-business legislative policies at the state and federal level, we thought it would be useful to point out unique areas of concern/opportunities relative to regulation and job growth in the United States. First, over the last 20 years, the U.S. has become a more heavily regulated nation (especially relative to the rest of the world) as measured by three broad-based indicators where regulation is a key component. The U.S. has gone from number three down to number ten on The Wall Street Journal/Heritage Foundation Global Freedom Index, from number two to number twelve on the Frasier/Cato Institute Global Freedom Index, and from number one to number seven on the World Economic Forum's Global Competitiveness Index.

Citing a more specific example, in a recent interview with CNBC's Mark Koba on the subject of employee lawsuits related to employer retaliation, we noted the following: "the good news is that the number of EEOC charges related to types of discrimination in the U.S. workplace in 2013 (93,727 claims) was at its lowest level since 2009 (93,277 claims), down 0.5 percent. In 2013, workforce retaliation claims (38,539 claims or 41.1 percent of all discrimination claims) were up more than 100 percent since 1997 (18,198 claims or 22.6 percent of all discrimination claims) and just under 71 percent since 2006 (22,555 claims for 29.8 percent of all discrimination claims). Two key U.S. Supreme Court decisions – Burlington Northern and Santa Fe Railroad Company vs. White, 2006 and Thompson vs. North American Stainless, 2011 expanded who could sue an employer for discrimination. Both decisions were unanimous decisions by the court reflecting rare complete agreement by the court, signaling little to no room for change or repeal and a stronger voice for the employee.

We believe that part of the reason for increased retaliation filings is due to an economy that is growing less rapidly in recovery relative to most post-World War II U.S. economic recoveries creating greater workloads and higher levels of stress at work. Even though a small percentage of charges filed with the EEOC eventually become lawsuits, the fact that retaliation is being cited more often indicates a need for enhanced communication among and between management and employees. Companies that can reduce or eliminate these types of EEOC charges clearly will reduce costs and be able to more effectively channel their dollar and human resources to more productive ends, including an enhanced bottom line."

U.S. jobs grew modestly in October while the U.S. unemployment rate fell and wage rates increased slightly sending a hopeful sign of a strengthening labor market. Non-farm payrolls increased at a seasonally-adjusted 214,000 in October, according to the U.S. labor department. The October data is below the year-to-date monthly average of just under 221,000 workers added per month.

The above, coupled with a 5.8 percent unemployment rate, have many optimistic that a full-blown economic recovery is under way ... we are a bit more pessimistic. Our concern relative to employment and job growth is three-fold: wage growth and household income has been stagnant at best over the last three years, the labor force participation rate (62.8 percent in October) is near its lowest level since the late 1970s and job "Quit Levels" are increasing but not quickly enough. Economists track Quit Levels as a sign of improving wages and a more robust job market. Quit Levels generally signal that employees are quitting their existing jobs because they have attained a better, higher paying job. At the trough of the Great Recession of 2009, U.S. Quit Levels were at a historically low 1.3 percent of U.S. payrolls. The long-term average annual U.S. Quit Level is 2.1 percent while U.S. Quit Levels today are at 1.8 percent.

Conclusion

Today's economy is evidence of the need for more enlightened management in the private sector, reduced regulation and regulatory reform at the state and federal level, and most important pro-business/pro-job growth/pro-wage growth tax reform at the federal level.