# 2013 SEPTEMBER NEWSLETTER

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# Summer

I trust that you had an enjoyable summer.

Unfortunately, the Economy, on the other hand, did not have a particularly good summer.

There was no sign of a Recovery, I repeat NO Recovery.

Our GDP growth rate for the first six months of the year was **1.8%.** Pardon me **but this is not a Recovery** !!

The growth rate for 2013 is becoming the SAME or LOWER than the

**PRIOR THREE YEARS !!**

Compare for yourself; the growth rate for **2010** was **2.4%,** in **2011** ... **1.8%** and in **2012** ... **2.2%.** That's the math, sorry no real recovery yet … Recovery has become a slump.

That’s the math … sorry … no real recovery yet … recovery has become slump.

## QUICK 'RECOVERY' HISTORY

SUMMER 2009 - The Great Recession Ends

SUMMER 2010 - The Recovery does begin

SUMMER 2011 - We are in The Great Slow Recovery

SUMMER 2012- The Great Stalled Recovery is upon us

WINTER 2012 - The **'SLUMP'** begins !

SUMMER 2013 – Unfortunately, THE **“SLUMP”** CONTINUES

**BUT …**

At least ... we are slowly **<u>SLUMPING UP</u>** !

And the good news. There **<u>is</u>** some good news !!

There **<u>are</u>** positive signs going forward.

- Auto sales are strong
- Residential housing construction is up
- Consumer confidence is up

These are the economic signals that reflect future job creation and with the unemployment rate stuck at 7.6% or so, we certainly need some optimism about jobs ... particularly if you don’t have one.

## Auto Sales

For the past few years, the auto industry has been the most consistently improving area of the Economy adding hundreds of thousands of jobs since 2009.

So how good are auto sales ??

2013 is the fourth year in a row that auto sales are going up ! And many analysts expect increases through at least 2015 ... woo-hoo !!

Long strings of increasing auto sales growth are rare. The industry had a five-year string of increases from 1996 through 2000, but to find another six-year streak you would have to go back a century **1909 to 1917**. (HUH, there were that many cars back then ?)

## Quick Auto History

☛ Engineers have been tinkering around with motor powered vehicles since the late 1700s. Steam powered, electric and gas powered engines were all tried with the gas combustion engine winning.

☛ The commercial production of automobiles began in France in 1890 and in the United States in the early 1900s.

☛ The first automobile produced for the masses was the three horsepower Oldsmobile. **425** were sold in **1901**.

☛ The Ford Motor Company started in **1903**, producing and selling **1,700** Model T automobiles in the first year of business. By **1920** Ford sold over a **million cars** !! (Not a bad growth business).

## How important is the auto industry to the economy? In 2012 ...

- New car dealerships accounted for **<u>15%</u>** OF TOTAL U.S. RETAIL SALES

- The payroll accounted for **<u>12%</u>** of TOTAL RETAIL PAYROLL

In other words, it is definitely significant and important for the overall growth of the Economy and job creation and it is lookin' good. In 2012, auto sales were **14.5 million**, in 2013 projection is **15.6 million**. This is more than a million more sales in one year. This past August buyers spent **$ 36 billion** on **1.27 million** cars, (the highest monthly volume recorded, the best month since 2006 !)

There is certainly 'pent up demand' and 'replacement demand' (your car stopped moving, oh well). The average car in America is thirteen years old, this is good if you are in the auto industry and need a job.

# RESIDENTIAL HOUSING

For the Economy the most important housing number is ...

How many new houses we are building each year. Why ?

Because it creates lots of jobs ! Not just for people in the construction industries, but also the furniture and appliance industries, etc.

So what do the numbers say ?

☛ The people working in the construction industries were very happy in **May 2006** when **<u>1 MILLION 418,888</u>** houses were built. (1,418,888)

☛ The people working in the construction industries were very unhappy in **February 2011** when only **408,000** houses were built.

☛ In this roughly 4 ½ year period, **1 MILLION, TEN THOUSAND, EIGHT HUNDRED AND EIGHTY-EIGHT <u>less</u>** houses were being built, (1,010,888). PER MONTH !!!!

Just for the math -

**<u>THIS IS A 71% DROP IN BUSINESS AND JOBS !! AAAHH !!</u>**

BUT … BUT … BUT … A MORE POSITIVE CONCLUSION

WHICH IS NOT HISTORICAL ... BUT IS HAPPENING **<u>NOW !!!</u>**

☛ In February 2011, 408,000 houses were being built in America ... the low point since 2000.

☛ By July 2013 ... 651,000 houses were being built in America.

☛ This is an increase of 243,000 houses being built ... PER MONTH !

☛ Just for the record in 2 ½ years, a 60% increase in building since February 2011. YAHOO !!

So what happened ?

☛ Population going up. From 298 million in 2006 to 317 million in 2012. An increase of 19 million people in a six-year period. 6.4% more of us !

☛ 35 million less houses were built from 2007 to now. A 42% reduction in houses for the 'more of us' !

| **Years** | **Population** | **Total Building** |
|---|---|---|
| 2001 to 2006 | 298 Million | 84 Million Homes |
| 2007 to 2012 | 317 Million | 49 Million Homes |

# Result?

One can detail the various reasons why house construction is increasing, but certainly there was such a dramatic reduction in house construction. For such a long period (six years) the shortage was created. The natural population growth would demand housing to increase.

Bottom line for the Economy. More job creation … more money … higher growth rate … all very good.

The Economy gets better.

## OVERVIEW

As we all know (unless you live in a cave) in the last seven years the housing market went through one of the most devastating downturns in American history.

This not only affected homeowners, and the market values of their houses, but it also devastated the livelihood of many people whose jobs depended on the housing industry.

From **2000 to 2006** house construction steadily **increased** month after month at a very healthy pace … lots of jobs … happy workers.

But from 2006 to 2011 house construction steadily decreased month after month until it arrived at the low point in February 2011.

By then, America was building a million houses LESS PER MONTH. Ouch, no jobs, bad for the Economy, bad times.

Now house construction is definitely on the rise again. Month after month the numbers are going UP ! Progress is being made …

**<u>SIDE NOTE</u>: This is all good for the apartment rental business.**

The lack of construction of housing means less housing that keeps people in apartments.

The improvement in the labor market helps provide jobs and better compensation for workers to pay higher rent !

And oh, by the way. There is one birth in America every 8 seconds !! With the net of deaths and migration America gains one person every 12 seconds ! Future renters of America. Love it !

**<u>ANOTHER NOTE</u>**: The U.S. has added **4.8 million** renters since 2008 and has lost **1.7 million** homeowners.

## CONSUMER CONFIDENCE

If you feel good and are more confident about the Economy, you might be more inclined to spend some money and further help the Economy.

If you do not feel good about the Economy and do not have as much confidence you will not spend and not help.

So, has the substantially improving auto and housing markets had any effect on YOU?

## OBSERVATIONS OF CONSUMER CONFIDENCE

☛ Since 1978, the month of **January 2000** at **112** was the highest recorded month of 'feel good sentiments' about the Economy by consumers.

☛ Since January 2000, the month of **November 2008** was the lowest recorded consumer sentiment at **<u>55</u>. (**now that was ugly)

☛ From the beginning of 2000 to November 2008, eight years and tears later the American consumer lost **<u>half</u>** of their confidence in the Economy.

☛ But the Index as of July 2013 has risen to **85**. Up from **55** in November 2008 … that is a **<u>55%</u>** increase !!! Things are definitely lookin' up.

☛ The average of the Consumer Confidence Index since inception in 1978 is **85** just like this July. Sooooo … we are now **average**. How do you feel ? Do you feel average ?

☛ Apparently America is feeling better, not great but better.

☛ We can feel **great** again when the annual confidence number is **107** again (like it was in **January of 2000** !)

We are on our way. We hope. Keep that confidence up !

## AND ON THE NATIONAL LEVEL

What do the 'crystal ball indicators' indicate ??

The **20** common indicators used to measure the Economy indicate that the Economy is continuing to slightly improve. Still slow and frustrating but improving.

In the first six months of 2013 of the 20 indicators used indicated that

ROUGHLY POSITIVE …….. **12** (60%)

ROUGHLY NEGATIVE …….. **2** (10%)

BASICALLY NO CHANGE … **6** (50%)

TOTAL INDICATORS 20

### <u>Some indicators have improved</u>:

☛ The unemployment rate has dropped from **7.9% to 7.6%**. Painfully not improving very fast but at least it is improving.

☛ Consumer confidence improved from a measure of **73 to 84** … go team !

☛ The inflation rate has stayed less than 2% … fairly benign this is good.

☛ Auto sales have been significantly improving … this is a very powerful positive for the Economy.

☛ Another big positive is housing construction which is also on the mend … with steadily increasing numbers.

☛ And retail sales and exports have been trending up … this is future jobs !!

**Some indicators have become worse**:

☛ The interest rate on the 10-year Treasury Bond (a major factor in determining interest rates) has substantially increased. This is bad because in the last six months it has caused an increase in the 30-year fixed loan from 3.53% to 4.46%. This is bad because people cannot qualify for loans to buy houses. If people don't buy houses people lose jobs. Hmmm.

**Some indicators seem to stay about the same**:

☛ Oil prices were very stable in the first half of the year … good.

☛ The business confidence index has remained flat … recording in the low **51 to 56** range (not very encouraging)

☛ Retail sales went up a little but at an anemic pace. Oh well.

**CONCLUSIONS FOR THE NATIONAL ECONOMY GOING FORWARD**

**A** … This Economy is getting very boring. The next six months are going to look very similar to the last six months. Although there are very positive advancements in the auto and housing industries, it has not been enough to start any significant momentum for the general Economy.

**B** … We are going to be in a slow-motion Economy for the foreseeable future.

The business confidence index is low and not improving and with the continuing state of political gridlock in Washington (on many topics) this uncertainty continues to depress the financial markets, business community and consumer spending. Not good for business hiring and job creation. Hence, slow economy. Rrrrrrr !!

**C** …There is a **little** better momentum than the first six months of the year. Don't get excited it is a little better momentum but get settled in for a continuing **'SLUMP'** at least into next year.

## How about the rest of the World ?

### How are the other Economies of the World performing ?

► In Ouagadougou, the Capital city of Burkina Faso, the growth rate for 2012 was **10%** … **WOW**. Can we believe this? Of course, because Burkina Faso means the 'Land of honest people' (Okay I will give you a hint. This country is located in Western Africa)

► How about Mongolia ? Would you believe **12.3%** !! Another **WOW** !

► And China, a major economic competitor, **7.8%** (jeez and we are dragging along at **1.8%.** Hmm not good)

► And to add insult Vietnam grew **5%** in 2012 versus our **1.8%**. Ouch !

► But to make you feel better… we are not the worst. France is **0%**, Italy **2.4%** and Greece is **-6.4%.**

## US Growth Rate

So exactly what should our growth rate look like anyway ??

Well in the 50 years from 1950 to 2000 the last half century, the **AVERAGE** annual growth rate for America was **3.6%** per year !! And from a **year ago** (the summer of 2012) our Economy grew at **1.7%** … are you kidding ! I don't want to be vulgar but this just plain sucks !

So, the Economy is struggling to recover but we are **not** even **half-way to AVERAGE. T**his is very frustrating and very disappointing.


# So Big Question

## How is this affecting 'Generation Y' ???

These are today's young adults born between 1978 and 2001 (age 18 to 41). How has the Economy treated them in their young adult years ?

Looking at the Annual GDP for 2001 to 2012 you will see that unfortunately, young adults who are 32 years old today have **never** lived as an adult in a **good economy**. In fact, not even in an average economy (except for one year). No wonder their expectations are lower, and they are accepting a lower standard of living. They do not know any better.

The Y Generation, in their very important young adult development years have lived in an average Economy (for only **one year** in the last twelve) !!! Eleven years in a **below average** Economy (92% of their young years). Sorry for my vulgarity again but that REALLY sucks !!

This is like the kid coming home with a "D" report card for 11 years and you being OK about this. What do you think? And imagine how you would feel if the kid couldn't read the report card!

**HOW DOES IT COMPARE TO THE BOOMER GENERATION ??**

Young adult years of the Boomer Generation (1961 to 1972) nine of the twelve years were above average … in some years significantly above average … 8.5% in 1965 for example. Wow, what can I say? They were born at the right time (lucky them).

**Take this comparison**:

**Boomer Generation** – 12 Year Average Growth Rate ….**4.6%** per year.

**Y Generation –** 12 Year Average Growth Rate … **1.6%** per year.

**PERSPECTIVE** – When the Boomers were in high school the opportunity and growth in the Economy was **3 times** what it is for a kid in high school today.

The Boomer Generation grew up in a much more positive and exciting Economy. Jobs and opportunities were plentiful. You could dream big ! Work hard and who knows what you could accomplish. You could buy that house, raise some kids, have your barbecue, your white picket fence and great Christmas celebrations with lots of presents, family and friends !

***The sobering truth is that over the last 62 years, the growth opportunity, and prosperity of a robust Economy has significantly declined.***

**1950s and 1960s** … the growth rate averaged **4.4%** a year.

**1970s, 1980s & 1990s** … the growth rate averaged **3.3%** a year.

For the last 12 years the Average Growth Rate was **1.6%** Per Year.

So let me review. From **4.4% to 3.3% to 1.6%** … WHOA !! Hey ! The growth in the Economy keeps going down !!

I mean … it is only **half** of what it was a decade ago … **WHAT !?!**

## So what is happening ?

Well there certainly is not any one cause but here are some of the likely contributing reasons …

- ✓ Our time in History
- ✓ The Demographic curve
- ✓ The growth of Government regulations
- ✓ The growth of Government debt
- ✓ The growth of Medical costs
- ✓ Cultural changes
- ✓ Negative political influences on the Economy
- ✓ Negative large corporate influences on the Economy
- ✓ The effects of industrial and corporate Globalization
- ✓ The Government getting too big and too expensive to manage

Oh, hell we might as well throw in BAD WEATHER, BAD KARMA and BAD LUCK.

## The future …

***In future newsletters, we will continue this examination of our American Economy and why our Economy is currently under-performing.***

***More importantly … for you personally ... where is the Economy headed in the future ... what will it look like … what do you need to prepare for.***

***Our study of the current financial trends ... combined with a study of American history … will provide us with the information to make a reasonable projection and expectation for our future Economy. You might want to know what's coming. See you in the next newsletter.***