# **MARK-TO-MARKET: U.S. economy gains strength, but challenges remain**

*Quad City Times* - Mark Grywacheski – September 10, 2017

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Since the end of the 2007-2009 recession, the U.S. economy has been underwhelming. With average annual economic growth of just 2.1 percent, it’s hard to imagine we are entering the ninth straight year of economic expansion.

Yes, the economy has had some minor gains, but what it truly lacks is sustained growth. The annual growth rate of a healthy economy is around 3.0 percent. Since the recession ended, the economy has had consecutive quarters of 3.0 percent growth or more only twice. The most recent was in 2014.

The latest data for Gross Domestic Product, or GDP, shows the economy grew at an annualized rate of 3.0 percent in the second quarter, reversing a recent slump in economic growth. In fact, the American economy hasn’t expanded at a 3.0 percent clip since the first quarter of 2015. GDP represents the total dollar value of goods and services produced in the U.S. It serves as the key indicator on the health of the American economy. The report, issued monthly by the U.S. Department of Commerce, reflects on and revises data for the prior quarter.

The 3.0 percent growth rate was better than expected and represents a sizable leap from the anemic 1.2 percent and 0.6 percent rates in the last two quarters. More importantly, the increase was attributed to the key driver of the U.S. economy – the American consumer.

Consumer spending, which consists of household purchases of durable and non-durable goods and services, accounts for more than two-thirds of all U.S. economic activity. It is the cornerstone of a robust economy. Yet, despite a high level of optimism on the state of the economy, Americans have been hesitant to spend. However, in the second quarter, consumer spending increased at an annual rate of 3.3 percent, the strongest pace in a year.

The economy was further driven by the renewed strength in business investment; the big-ticket purchases of equipment, buildings and intellectual property. Through 2015 and 2016, the average annual growth rate for these business purchases was a paltry 0.55 percent. But in the first half of this year business investments have surged by more than 7.0 percent.

Clearly, the latest GDP data serves as an indication of the economy’s untapped potential. But has the economic landscape actually changed to suggest this accelerated growth can continue?

The biggest conflicting signal on whether the economy has turned the corner is low inflation. With the accelerated expansion suggested in the latest GDP report, inflation should be rising, driven higher by the consumer demand for goods and services. Instead, inflation has been on a downward spiral this year. The Federal Reserve’s target rate of inflation remains at 2.0 percent. In July, inflation was just 1.4 percent, the lowest rate since December 2015.

Despite continued strength in the labor market, wage growth remains subdued. A tightening labor market should force employers to raise wages. However, wage growth has been stuck at a very tepid 2.5 percent the past few years, well below the 3.5-4.0 percent growth rate expected from a robust jobs market.

A deeper dive into the recent economic data brings focus to the U.S. Personal Savings Rate. Released each month by the U.S. Bureau of Economic Analysis, it reports the percentage of American’s disposable income set aside for saving or investment. The savings rate for Americans has currently fallen to 3.5 percent, the second lowest level since 2008. In October 2015, the rate was as high as 6.3 percent. The data suggests that Americans have offset the lack of wage growth by tapping their savings accounts to fund their purchases. This trend is unlikely to continue if wages remain stagnant, putting a halt to consumer spending and economic growth.

The recent GDP report certainly conveys a sense of optimism in the U.S. economic condition. Despite a strong jobs market, persistent low inflation and anemic wage growth continue to paint a muddled picture of the economy. The Fed is confident a sustained turnaround is forthcoming, but increasingly admits the timeline may be longer than once expected. Yes, the U.S. economy has yet to fully prove its bearing. But for now, the American consumers and businesses have given it a much-welcomed boost.

# **Irma's Wreckage to Depress U.S. Economy Further Following Harvey**

*Bloomberg Markets* - Patricia Laya and Catarina Saraiva *-* September 8, 2017

* September timing means impact may stretch into fourth quarter
* Some of the recovery could be delayed into first half of 2018

Hurricane Irma’s expected collision with Florida will probably deepen and prolong the slowdown in a U.S. economy already digesting the impact of another storm that smashed ashore in Texas two weeks ago.

The September timing of Irma threatens economic damage that will spill over into the final three months of the year, extending the volatility the U.S. was set to experience in the third quarter from Hurricane Harvey. While major weather events tend to depress growth before boosting it later, Irma could delay some of the rebound into the first half of 2018.

Harvey knocked offline almost a quarter of U.S. oil refining capacity and caused widespread power outages and flooding, bringing the Houston metropolitan area to a standstill. The impact was already visible in last week’s jump in unemployment-insurance claims, the [biggest since 2012](https://www.bloomberg.com/news/articles/2017-09-07/u-s-jobless-claims-soar-by-most-since-2012-on-hurricane-harvey), and is expected to show up in upcoming payroll tallies, along with car sales and inflation data.

Harvey’s effects could lower economic growth by 0.3 percentage point in the third quarter, according to the median estimate in a [survey](https://www.bloomberg.com/news/terminal/OVYY7O6TTDS1) of 36 respondents conducted by Bloomberg Sept. 1-7. Gross domestic product expanded at a 3 percent annual pace in the previous three months.

Irma will “create further weakness in indicators that are already softening as the result of the hurricane,” said Michelle Meyer, head of U.S. economics at Bank of America Corp. in New York, who trimmed the tracking estimate for this quarter by 0.4 percentage point to 2.5 percent. “The rebuilding efforts have taken some time to show through in the data” in the past, so some of the upswing won’t be felt until the first half, she said.



Irma has weakened slightly to a Category 4 storm with top winds of 150 miles an hour, the U.S. National Hurricane Center said in an advisory at 11 a.m. New York time. Still, the storm remains “extremely dangerous,” the NHC said. The deadly system was projected to maintain its strength until it slams into Florida on Sunday, having already left at least 11 people dead and thousands homeless across the Caribbean.

There is likely to be a “sizable adverse impact” on September’s change in the number of Americans on nonfarm payrolls, with a decline possible for the month, according to NatWest Markets. Irma is expected to hit Florida this weekend, the start of the payroll survey reference week, which includes the 12th of the month. The last time U.S. payrolls fell was September 2010, according to Labor Department figures.

While it’s too early to tell, Irma threatens to have an effect on near-term inflation as it could impact [$1.2 billion of crops](https://www.bloomberg.com/news/articles/2017-09-06/florida-farmers-brace-as-irma-threatens-1-2-billion-of-crops) in Florida, such as tomatoes and oranges. Any significant agricultural damage could lead to higher prices for some time, potentially boosting inflation when measured nationally, Meyer said. On top of that, just the state’s citrus industry alone supports about [45,000 jobs](https://www.bloomberg.com/news/articles/2017-09-06/as-seen-in-trading-places-weather-still-roils-orange-market).

“It’s going to have impact on two segments of inflation: wage inflation and food inflation,” Mohamed El-Erian, chief economic adviser at insurance and financial services company Allianz SE and a Bloomberg View columnist, said Friday on Bloomberg Television. “The lower GDP for sure will be offset by the rebuilding, and the inflation is a question mark.”

IHS Markit Chief Economist Nariman Behravesh reduced his estimate for GDP expansion this quarter by about 1.1 percentage points to a 2.1 percent annual rate, citing Harvey, a flattening oil-rig count and the weak construction report for July. Fourth-quarter GDP growth will get a 0.4 percentage-point boost to reach 2.7 percent, though Irma could exacerbate the growth volatility, Behravesh and his team said in a note Thursday.

“The third quarter is looking weaker now, but it’s a temporary weakness,” Behravesh said. Before the storms, “the economy was picking up some steam,” and “the underlying dynamics are still quite strong. Consumer spending is very solid, and exports are starting to pick up.”

*— With assistance by Marvin G Perez, and Sho Chandra*

**Look under the bonnet and the US economy is in for a rough ride**

*The Guardian* - [Phillip Inman](https://www.theguardian.com/profile/phillipinman) – September 2, 2017

However confident the Fed is of recovery, there is growing evidence of a slide into outright deflation

Hurricane Harvey was such a distraction last week that Donald Trump forgot to tweet about his country’s [return to 3% GDP growth](https://www.theguardian.com/business/live/2017/aug/30/markets-recover-after-korea-shock-and-ahead-of-us-gdp-business-live). When the news came that US second-quarter GDP, when extrapolated over a year, showed the country growing at the fastest rate in the G7, he was busy flying down to Texas to support the relief effort.

Trump and his Treasury secretary Steve Mnuchin have promised to deliver 3%-plus growth and here was the first indication that the president’s arrival in the White House had made a difference. In a way, it is just as well he missed the opportunity to brag. The headline figures may look good, but a peek under the bonnet of the [US economy](https://www.theguardian.com/business/useconomy) makes for disturbing reading. In a report last week a senior City analyst, Albert Edwards, showed that the Trump effect is quite the opposite and much of the life has been sucked out of the American economic juggernaut in the last six months.

Edwards’s chosen measure of the economy’s lifeless state is inflation, which has tumbled since the beginning of the year. Not so much the headline inflation figure, but the measure of core inflation that strips out oil prices and other volatile elements.

Core inflation is considered a key indicator of an economy’s health. To the ranks of central bankers it reveals how much domestic pressure there is on prices from long-lasting factors such as wages, and not external shocks to prices that can disappear as fast as they emerge. Edwards argues that the slump in inflation knocks out the Federal Reserve’s arguments for a rate rise beyond the current 1% to 1.25% range currently in place.

This is an important consideration, when most of the world’s governments and central bankers have braced themselves for another round of interest rate rises from the Fed that could see a flight of cash from their banks to New York.

Without a rate rise, weaker nations can relax, safe in the knowledge that the flows of international capital will still come in their direction. Until recently Fed boss Janet Yellen was [sticking to her view](https://www.theguardian.com/business/2017/jun/14/federal-reserve-interest-rates-increase-us-economy) that there would be at least one more rate rise this year and another couple in 2018. [Then she wobbled](https://www.nytimes.com/2017/07/12/business/yellen-federal-reserve-congress-economy.html?rref=collection%2Fbyline%2Fbinyamin-appelbaum&action=click&contentCollection=undefined&region=stream&module=stream_unit&version=latest&contentPlacement=3&pgtype=collection), as she admitted to Congress that the Fed had missed its 2% inflation target for the last five years and that core inflation stood at 1.4%.

Edwards says his preferred measure of core inflation shows it standing at 1.2% and on a downward trajectory. “If I were a Fed governor,” he said, “I would be pretty shocked/concerned/bemused at inflation developments this year. However confident the Fed is of a self-sustaining-recovery, there is growing evidence of a slide into outright deflation even ahead of the next recession which will likely unambiguously take us deep into deflationary territory.”

Edwards is one of many who believe the business cycle in the US, as elsewhere, is running out of steam and will soon go into recession. Japan is only growing, just like the eurozone, with huge amounts of central bank money injected each month. Britain has its outlook clouded by Brexit, but nevertheless, even the modest growth of the last six months would probably be zero or worse without the ultra-low interest rates on offer from the Bank of England.

Like many in the City, Edwards believes that the only option is to let the next US recession take its course without heavy Fed intervention, because to continue with ultra-low interest rates and quantitative easing is to store more trouble and invite an even bigger crash.

But as usual the debate in the City excludes the potential that governments have to support the economy with much-needed day-to-day spending and investment. Trump says that is exactly what he has in mind, but his reckless budget proposals look like being a rerun of the George W Bush tax cuts 15 years ago that favoured the rich and wrecked Bill Clinton’s efforts to balance the books.

To step in and allow the Fed to wind down its stimulus efforts, the US Treasury needs to raise more in tax. But not just any tax. One that targets those who are currently hoarding their winnings from the postwar boom. That puts baby boomers firmly in the frame along with their gains from property and pensions.

It is a global phenomena that this group have steadfastly refused to pay the tax needed to keep their governments and economies afloat. The Japanese government regularly runs 10% budget deficits and now has a debt-to-GDP level approaching 250% after the middle class switched to loaning its government funds rather than gifting a higher proportion of its income through tax.

The Germans hoard cash, which they then expect the rest of the world to borrow and pay interest on to keep them in a bountiful retirement. Britain and the US are among the countries where richer baby boomers vote to offload the problem to younger, lower-income groups, who must now borrow excessively just to make ends meet. Like it or not, low interest rates will be around for a decade or more unless older voters sanction their governments filling the void with taxpayer cash.