

### Spring 2013

#### The National Economic Outlook

Christine DePalma

Real Gross Domestic Product measures the market value of goods and services produced in the United States and is adjusted for inflation. Each quarter the Bureau of Economic Analysis totals real GDP and estimates the percentage change from the previous year. GDP has increased steadily but modestly since the third quarter of 2009, although the rate fluctuated with both accelerations and decelerations.

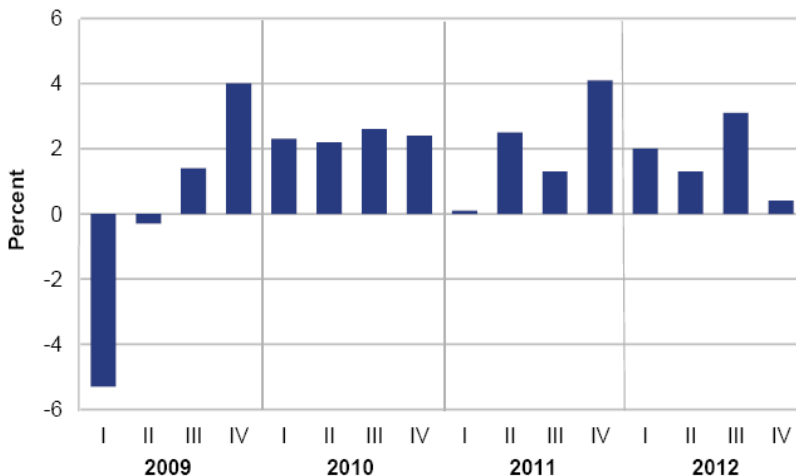
GDP growth slowed in the fourth quarter. According to the Bureau of Economic Analysis, real GDP increased 0.4% in the fourth quarter of 2013 compared to a 3.1% increase in the third. Personal consumption expenditures, nonresidential fixed investment, residential fixed investment and imports contributed to this increase that was offset by decreases in private inventory investment, federal government spending, exports, and state and local government spending. The deceleration this period reflected decelerations in private inventory investment, federal government spending, exports, and state and local government spending, which was offset by an acceleration in nonresidential fixed investment and personal consumption expenditures. The deceleration in imports also contributed to the deceleration.



### IN THIS ISSUE

- The National Economic Outlook
  - Christine DePalma
- The Employment Situation
  - Evan Baer
- 

Quarter-to-Quarter Growth in Real GDP



Real GDP growth is measured at seasonally adjusted annual rates.

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Consumption accelerated 0.2% attributable to the consumption of durable goods. This quarter personal consumption expenditures increased 1.8%. Nonresidential fixed investment increased 13.2% this quarter and residential fixed investment increased 17.6%. Exports decreased 2.8% this quarter whereas in the third quarter there was an upturn of 1.9%. Imports downturned 0.6% in the previous quarter but followed with a decrease of 4.2% this quarter. Government spending decreased 14.8%, a drastic difference from the 9.5% increase in the last quarter.

Real private inventories decreased real GDP by 1.52 percentage points after adding 0.73. The deceleration from \$60.3 billion to \$13.3 billion of private businesses inventories is a main contributor. Excluding private inventories from GDP, real final sales increased 1.9%, which is 0.5% less than the third quarter.

The price index increased 1.6%. The third quarter saw the price index increase 1.4%. However, with food and energy prices excluded from the price index, gross domestic purchases would see the same increase of 1.2% as in the third quarter.

Real GDP fared better in 2012 than in 2011. In 2012, real GDP increased 2.2% compared to 1.8%. Personal consumption expenditures, nonresidential fixed investments, exports, an acceleration of residential fixed investment and private inventory investment contributed to the increase. State and local and federal government spending decreased, but less than in 2011 which contributed to the acceleration experienced but the decrease in real GDP. The price index increased 2.5% in 2011 whereas in 2012, it increased 1.7%.

"News Release: Gross Domestic Product." *News Release: Gross Domestic Product*. N.p., n.d. Web. 07 May 2013.

## The Employment Situation

### Evan Baer

The latest Employment Situation report released by the Bureau of Labor Statistics showed a continuous decline in the unemployment rate, which is now down to 7.7%. This number is broken down into many different unemployment categories, ranging from U1 to U6. Table A-15 provided by the BLS displays these statistics, beginning by explaining persons unemployed for 15 weeks or longer (all measurements in this section measured as a percentage of the civilian labor force). Reported as 4.2%, this is the lowest result in months. U-2 is described as job losers and persons who completed temporary jobs and is staying consistent at 4.2%. U-3 is the official unemployment rate and is the lowest in years at 7.7%. U-4 combines discouraged workers with the total unemployment rate and comes in at 8.3%. U-5 adds all other persons marginally attached, and U-6 adds part-time employed for economic reasons, coming in at 9.2% and 14.3%. All measurements this month, U-1 – U-6, were lower than or equivalent to last month, but significantly lower than February 2012.

Table A-4 provides us with data on the unemployment rate by educational level. Both the seasonally adjusted and non-seasonally adjusted numbers are showing the same results with different quantities, which is a consistent decline. When looking at the seasonally adjusted results, persons with less than a high school diploma have an unemployment rate of 11.2%, which is lower than January 2013, and significantly lower than February 2012. High school graduates with no college came in at 7.9% unemployed, while persons with some college or associates degrees are 6.7% unemployed. Finally, the unemployment rate of those with a Bachelor's degree or higher is at 3.8%, which is slightly higher than last month but has stayed around this figure for the last several months.

In addition to these, Table A-6 reports the unemployment rate based on age, sex, and status. This category is measured 2 different ways: Persons with a disability and those without. Looking at the no disability statistics, the BLS shows the total

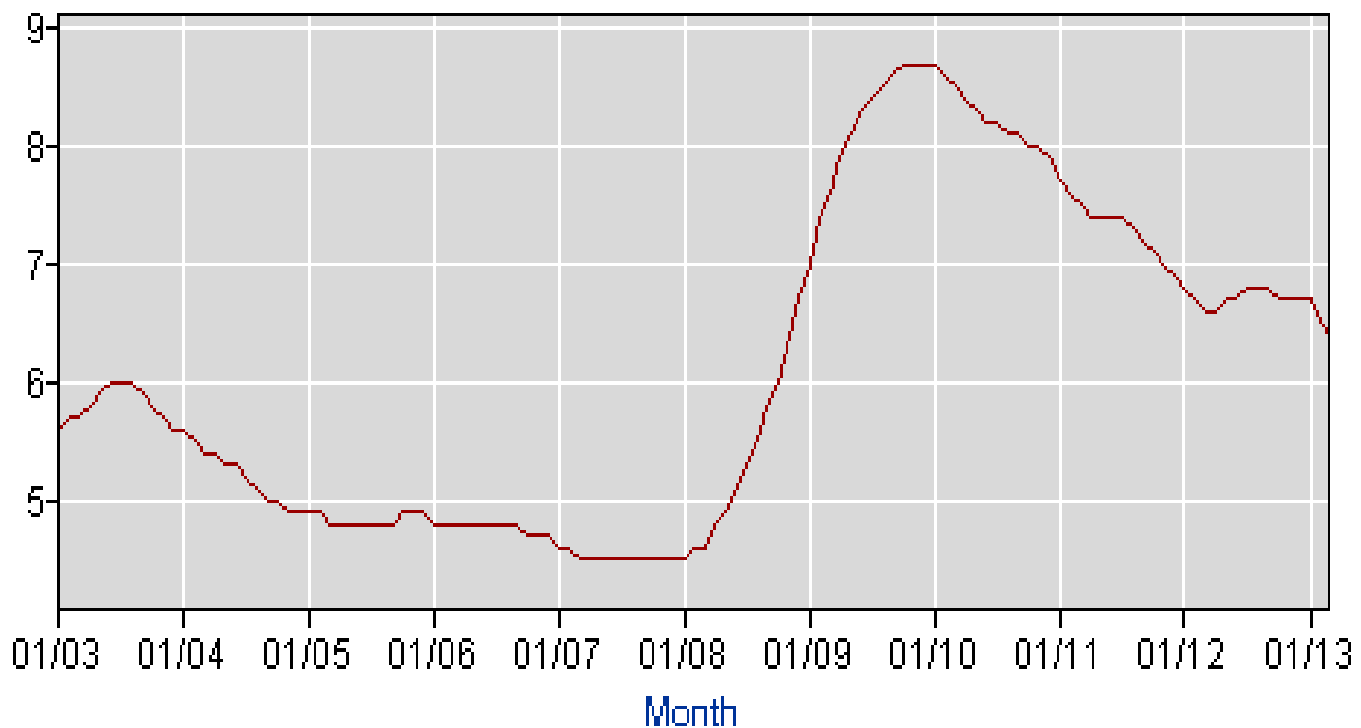
unemployment rate of people 16 years and over is 7.9%, down half a percent from last February. Men who are between ages 16-64 are 8.5% unemployed, which is down from 9.2% in February 2012. On the other hand, women who are ages 16-64 are 7.5% unemployed, also down from last February. The last category measures both sexes over the age of 65, and this is also down from last February, coming in at 5.7%.

The Employment Situation Summary says there were job gains in 3 major industries, which are professional and business services, construction and health care. Professional and business services added 73,000 jobs, while construction added 48,000 and health care gained 32,000. Several other industries showed small improvements. For example, the information industry added 20,000

jobs, while the retail trade industry continues to add positions also. The summary tells us that the unemployment rates for adult men (7.1%), adult women (7.0%) , and teenagers (25.1%) were essentially unchanged. Similarly unchanged was the number of long-term unemployed, which totaled about 4.8 million people. This group accounts for 40.2% of the unemployed. Finally, the number of discouraged workers is down slightly from February, totaling about 885,000 people.

\* P.S.—Since this report was written, a new Employment Situation Report was released by the Bureau of Labor Statistics. The new report shows little change, as the unemployment rate is barely down 0.1% to 7.6%.

## unemployment rate



As the chart shows, the recession of 2007-2009 caused the unemployment rate to increase and eventually peak between 2009 and 2010 and has since continued to decline to the current rate of 7.6%.

# National Defense Expenditures

## Matthew Roselli

Chart A

Year	Government Spending	Defense Spending	Social Security Spending	% Spent on Defense
1943	83	70	N/A	84.34%
1950	45	24	N/A	53.33%
1960	97	52	N/A	53.61%
1970	196	95	30	48.47%
1980	591	168	118	28.43%
1990	1253	342	248	27.29%
2000	1789	359	409	20.07%
2010	3456	848	707	24.54%
2012	3796	903	778	23.79%

All figures are in  
Billions of Dollars

One of the most prominent and controversial is the amount of the national budget dedicated to national defense. Some argue too much is being spent while others argue the United States does not spend enough. This brings up the questions of how much is actually spent annually on national defense, and how much is spent compared to other government programs?

In 2012 the national budget was \$3,796 Billion, of that \$903 Billion was spent on national defense, or 23.79% of budget. For comparison we can look at Social Security, which was allocated \$778 Billion or 20.50% of budget in 2012. In Chart A is a list of selected years from 1943 to 2012 showing some interesting trends. The chart shows that in 1943, the middle of World War II for the United States, that the national budget was at \$83 Billion and over

85% of that was spent on defense with only less than 1% being spent on social security. Social security was low at this time as it was only implemented in 1937 and only began to pay more significant amounts in 1960 at \$30 Billion. We can see by examining the chart that over time defense spending has become a smaller percentage of the national budget until 2010 when it went up about 4% from 2000 most likely due to the war against terror. We can also see that the percentage of the budget going to social security continues to rise as more and more of the baby boomer population begins to reach the age of retirement. As we can conclude though the topic of defense spending is always a hot button issue but compared to years previous the overall percentage spent of defense has gone down considerably.

## Yellen at the Federal Reserve

### Justin Shumway

In March 2013, a woman by the name of Elvira Nabiullina was named the next head of the Russian Central Bank by President Putin. In worldwide economic news, naming a woman to the head of one of the largest country's Central Bank is a huge deal! Russia might not be the only one to have a woman step up for the job.

There has been speculation by many U.S. economic head watchers such as Neil Irwin from *The Washington Post* to say that the next head of our

Federal Reserve just might be a woman as well. The current Chairman of the Fed, Ben Bernanke, has his term due at the end of January 2014. Obama could reappoint him for another eight years, but Mr. Bernanke could also step down for someone new to fill his spot. There are a number of possible candidates up for the job next year; one of them is the Vice Chairman of the Federal Reserve, Janet Yellen.



An article from *The Economist*, "Ben. And Then?" says, "the list of possible successors is headed by Janet Yellen, the Fed's vice-chair, by virtue of her position, experience, qualifications, and liberal credentials."

From most sources, Yellen is most likely the leading candidate for the position. She most certainly has the credentials by once holding two positions on the Federal Open Market Committee as President of the Federal Reserve Bank of San Francisco and as a governor in the 1990's. If Yellen is appointed the Chair of the Fed, she will be only the second woman (aside to the recent Elvira Nabiullina) to head the Central Bank of one of the top most powerful countries. If appointed, she might also be the second most powerful person in America, in that she has power over monetary policy for our entire nation.

Being a woman is not the only reason Janet Yellen would make for an interesting new chair. An article from *The New Yorker* explains that people who primarily worry about inflation are referred to as "hawks," and those who worry most about unemployment are called "doves." Yellen is said to be one of the most dovish people in our nation's policy making for her strong beliefs in Bernanke's expansionary policy. Part of this expansionary

policy, the Fed made a strong commitment to keeping the federal funds rate under the normal two percent and extremely close to zero until the unemployment rates fall to nearly 6.5%. Yellen firmly believes that fixing the unemployment problem will ultimately level off inflation. She reaffirmed her belief in the expansionary policy in a speech for the National Association for Business Economics she delivered in February 2013. She stated, "prolonged economic weakness could harden the economy's productive potential for years to come."

I am not saying that Janet Yellen will be the next chair of the Federal Reserve. By all means, there are a good number of very qualified candidates out there. What I am saying, along with many economic head watchers, is that Janet Yellen could very well be the woman on top next year. In the 100 years that we have had a Federal Reserve Bank, it has been a man's domain, but the world might have to get ready for a woman to be one of the most powerful people in the country!

Cassidy, John. "Janet Yellen: A Keynesian Woman at the Fed." *The New Yorker*. N.p., 03 Apr. 2013. Web. 04 Apr. 2013. <<http://www.newyorker.com/online/blogs/johncassidy/2013/04/janet-yellen-ben-bernanke-federal-reserve-next-chair.html>>.

"Ben. And Then?" *The Economist*. N.p., 30 Mar. 2013. Web. 1 Apr. 2013. <<http://www.economist.com/news/finance-and-economics/21574521-who-will-run-fed-next-year-ben-and-then>>.

## Low Personal Savings Rate of the United States

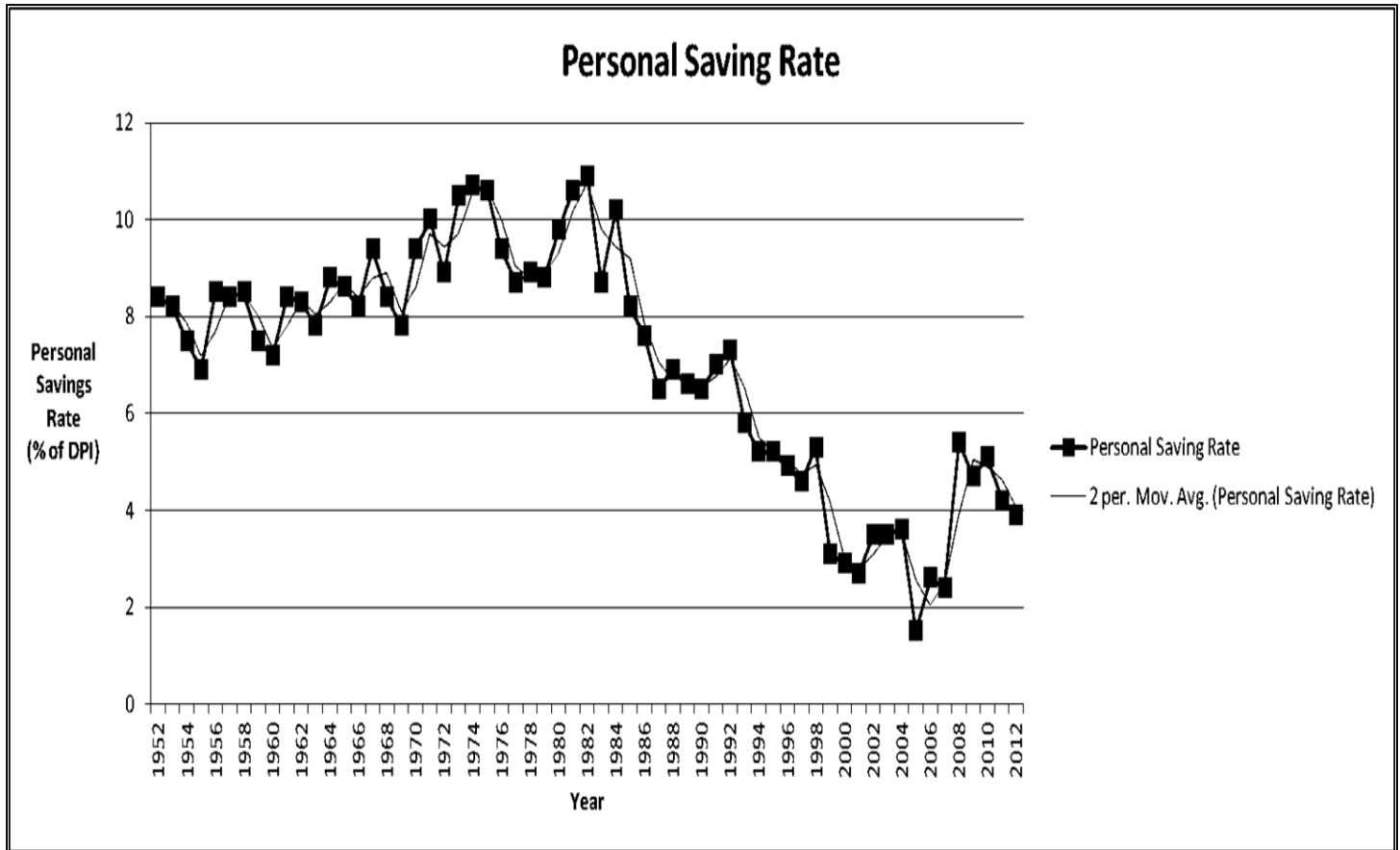
### Bradley CT Litts

There has been an alarming drop and downward trend to the personal savings rate in the United States since the mid 80's. This article will use the BEA's calculation of the personal savings rate to examine the possible cause and its effects on the economy as a whole and its effect to the consumer and to US corporations. Using the NIPA (National Income and Product Accounts) data obtained from BEA.gov I have constructed a graph of the United States personal savings rate dating back from 1952 until 2012. The graph clearly shows a downward trend after the mid 80's. Also visible is the recent

increase in the savings rate which caused the level of consumption to fall and drive the economy into the most recent recession. Just by looking at the graph you can see that the rate has fallen over the years. This simply means that consumers are spending more of their income and saving less. However there are other implications that consumers may not believe could affect them negatively. There are many deeper repercussions of this rate being so low. On a business note this rate being structurally low over a long period means that our companies will have to rely heavily on foreign

investors, this could pose a problem for companies in finding the funds that are needed to fund projects. The low savings rate will also contribute to the current account deficit. Also concerning is the reliance of the public on government programs such as Medicare to pay for their medical expenses. This program will become stressed in the future and the low savings rate of retirees will cause them great distress if the program were to be reduced in any manner. Another area for concern and most recent to the economy is the possibility of the

retrenchment of consumers spending. Should the consumers drastically begin saving the economy dip into a recession due to the drop in consumer spending and aggregate demand. This risk was recently seen and clearly shown in the graph with the increase in the savings rate from 2007 through 2008, this means that consumers cut their spending and drastically increased their savings due to the risk seen in spending their money and the fear of losing their job.



In conclusion this decline of the personal savings rate and having it be structurally low can only cause major problems for the future of the United States economy. There must be a balance in bringing the rate up however since if there is a drastic shock this would cause negative effects to aggregate demand

right away and cause major repercussions in the economy. There is no avoiding that eventually this must reverse and begin climbing up however if action is to be taken it must be done with great care as to not harm the economy in a negative way.