Five *DOWN*, Three *TO GO*. (*SB News-Press)*

(December 28, 2013) As 2013 wraps up, it's time for another year-end review of the economic news, and an outlook for 2014. In short, the summary of the Obama Administration is simple: it's been five long years DOWN, with an agonizing three-year wait for him TO GO at the end of 2016. A recent *Pew Research Center* poll finds about a third of Americans still report hearing "mostly bad news" about the economy, while only 7 percent are hearing "mostly good news." The remaining 60 percent says they're hearing "a mix of good and bad." How is it that over four years since the end of the recession, there's still such a pervasive amount of discouraging information about the U.S. economy?

Some good: *The Commerce Department* reported GDP grew at a 4.1 percent annual pace during July-August-September. That's up sharply from the 2.5 percent pace of April-May-June. But it's only the first time since 2011 the economy has been above the 4 percent pace. So the question remains, why can't the economy maintain stronger growth for several years? 5-Down: GDP has averaged only a 2.5 percent per year growth rate (compounded quarterly) the last five years – from $14.3 trillion to $16.2 trillion. This while the president spent almost $850 billion to "stimulate" economic expansion, and the Federal Reserve engaged in several rounds of quantitative easing (QE) that have kept interest rates artificially low the last four years. Even a modest 4.5 percent growth rate coming out of the recession would have grown the U.S. economy to nearly $18 trillion.

Some good: consumer spending grew at a 2 percent pace in November. 5-Down: Spending for post-Christmas 1st-quarter 2014 is expected to be flat, as consumers take a break and reassess their financial situations. Merrill Lynch's revised 4th-quarter GDP growth expects only a 2 percent pace, as 3rd-quarter business stockpiles in advance of Christmas won't be repeated.

Some good: The number of Americans filing for first-time unemployment benefits was down 10 percent to 338,000 last week, and the November unemployment rate is 7 percent (*Bureau of Labor Statistics*). 5-Down: The president inherited 7.6 percent unemployment with 154 million in the labor force, but the BLS U-6 "true" unemployment rate (keeps those who've stopped looking in the equation) remains over 14 percent. Most troubling is there are just 155.3 million in the labor force – only 1.3 million more than five years ago. That's a dismal average of less than 22,000 new jobs per month. And this while 4 million workers remain without jobs for more than 27 weeks.

Some good: The Fed just announced it will begin pulling back on its quantitative easing (QE) – buying government Treasury securities to keep prices high and yields (interest rates) low. This was received by the stock market as a positive signal the U.S. economy can now sustain growth without the Fed "stimulus" of artificially low interest rates. The Dow Jones Industrials have risen over 1,700 points – up 11.5 percent – just since early October on expectations (and now confirmation) of tapering QE. 5-Down: QE's been in place since rounds one and two in 2010, and round-3 in September 2012. And yet these near-zero percent manufactured rates have only "helped" the economy to 2.5 percent annual growth? Low rates also kept interest on more than $17 trillion of federal debt at $220 billion – an average rate of 1.3 percent. But as bond-buying is tapered and eventually eliminated, rates will return to true market levels (expected to average 5 percent), at which time interest on outstanding T-Bills, T-

Notes, and T-Bonds will top $850 billion – four times the current payments – consuming an additional $630 billion of annual federal spending.

Some good: A 2-year budget deal got passed by the House and Senate after the October government shutdown, as lawmakers looked to appear fiscally responsible ahead of the midterm elections next year. 5-Down: The president is nowhere to be found near anything involving a federal budget. Obama has not met his basic job duty of submitting, by February, a budget to Congress in 2009, 2011, 2012, and 2013 – and this paves the way for him to skip his 2014 due date as well, even as he put "no budget, no payday" into place for Congress last April. This recent non-presidential budget deal actually expands government spending and raises a long list of fees on individuals and businesses. The $15 billion in heralded "deficit reduction" over ten years will be overwhelmed by the $70 billion of increased debt service during that same time period – and could be even more depending on how high market interest rates climb post-QE tapering. It also ends nearly half of the mandatory budget cuts put in place when the August-2011 sequestration became law, as most of that reduced federal spending is now expected to be reinstated.

One other major 5-Down: On the global political front, America's stature as the primary superpower and defender of freedom has fallen dramatically, with defense spending cut across-the-board, translating to just a 12 percent total increase over five years – from $730 billion to $821 billion. Combined with the terribly naïve Iranian nuclear agreement, and continued isolation of our longtime ally Israel, the U.S. continues to erode its previous stature of strength on the world scene.

So what's the outlook for 2014? The U.S. economy will avoid another recession, but higher "true market" interest rates are coming for businesses (prime rate), home mortgages, auto loans, student loans, and credit cards – but more problematically, for the federal debt. Higher Treasury interest combined with no plan to rein in government spending will result in Obama's sixth consecutive trillion-dollar deficit, while total debt grows to $18 trillion. Ironically, U.S. healthcare stocks are expected to continue moving upward, assuming 23.5 million Americans sign up (and pay) for Obamacare by next December. But don't look for any significant strengthening of the economy, as 2014 will be defined by pre-midterm election "wait-and-see" inaction. With that 5-Down, the 3-To-Go is probably the only sustainable positive economic development America can look forward to between now and December-2016.