

The Daily Dish

January 6th Edition

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Yesterday, President Obama announced new executive orders imposing stricter gun rules to expand background checks on gun purchases. The executive orders would also increase funding for mental health and law enforcement agencies who perform background checks. In his first seven years in office, President Obama has issued 229 executive orders, with a total length of 1,086 pages.

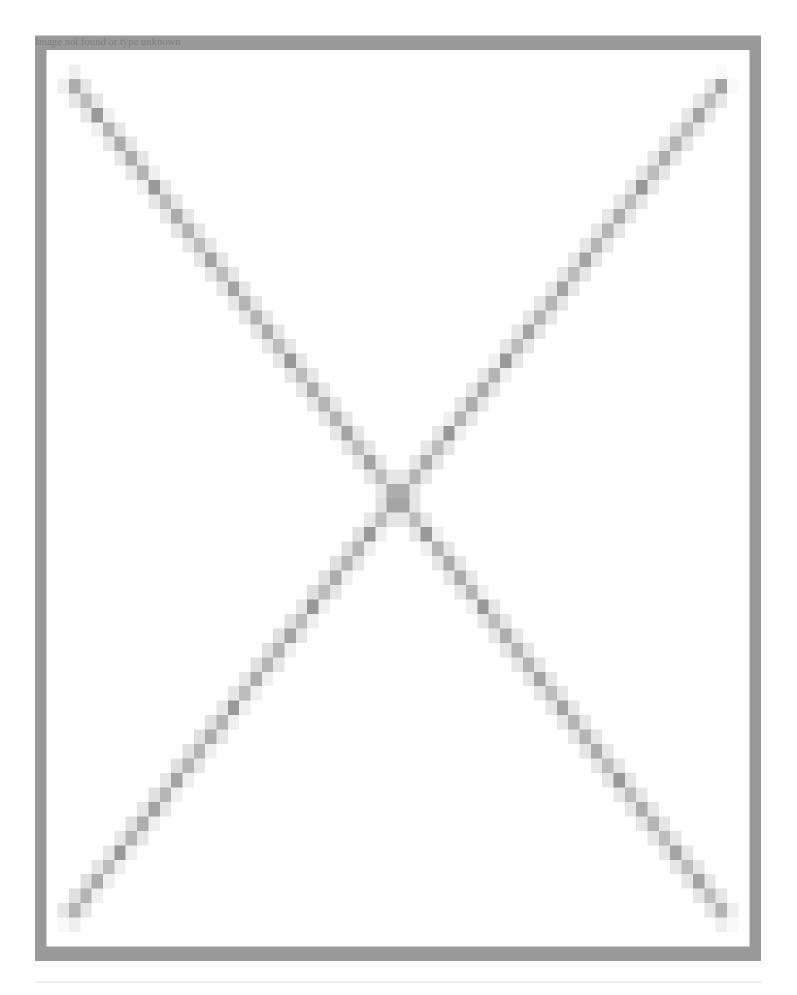
North Korea announced that they have successfully carried out its first underground test of a hydrogen bomb. This isn't the first time North Korea has conducted a nuclear test. The last occurred in February of 2013. If this claim is true, it is a violation of UN Security Council Resolutions preventing North Korea from developing nuclear weapons.

Eakinomics: Running on Empty?

To date the recovery has been frustrating, sluggish, and... reliable. Annual growth in Gross Domestic Product (GDP) has chugged along at 2.2 percent since the recovery began in June of 2009. Now, however, the Wall Street Journal reports that the fourth quarter is looking weak; specifically that "the Federal Reserve Bank of Atlanta said Mondayit now believes fourth-quarter GDP grew at just a 0.7% pace, down from a prior estimate of 1.3% growth. J.P. Morgan Chase cut its estimate in half to 1% growth from 2%. Forecasting firm Macroeconomic Advisers lowered its estimate by three-tenths of a percentage point to 1.1%."

In part, the weak fourth quarter reflects the downshift in manufacturing activity. Earlier, the Institute of Supply Management (ISM) reported that its Manufacturing Index (see chart) came in at 48.2 in December, down from 48.6 in November. (Index numbers above 50 indicate expansion; those below indicate contractions.) This was the first time that the manufacturing ISM showed contraction for two consecutive months since the expansion began.

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The manufacturing weakness is not terribly surprising. The relatively strong dollar hurts exports, exacerbated by the slowing global economy, and the decline in energy production in the U.S. has hurt their core strength during the past several years.

The good news is that manufacturing is under 15 percent of the U.S. economy. The service sector is far more important to the bottom line, and thus far it has been supported by household spending growth. With the labor market firming and wage growth (perhaps) about to finally pick up, the most apparent risk to the household sector is falling equity and other asset markets that have been inflated by extremely loose monetary policy.

In short, the recovery is not necessarily running on empty, but it does face some treacherous terrain as the global economy slows and the Fed normalizes monetary policy.

From the Forum

Regulation's Recipe for Failure Chokes Business and Hurts Students by Sam Batkins, AAF Director of Regulatory Policy

U.S. Government Accountability Office: Dodd-Frank Burdens Banks and Reduces Consumer Credit by Meghan Milloy, AAF Director of Financial Services Policy

A Weak Arctic Posture Threatens America's Ability to Lead by Rachel Hoff, AAF Director of Defense Analysis

Fact of the Day

Out of the top 100 costliest drugs provided by Medicare Part D, 78 brand name drugs account for 85 percent of spending but only 31 percent of claims. The other 22 generic drugs make up the bulk of the claims and small fraction of the spending.