



The Daily Dish

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DOUGLAS HOLTZ-EAKIN | OCTOBER 16, 2014

This week, the U.S. is poised to outpace Saudi Arabia to become the world's leader in petroleum production. The U.S. has already passed Russia as the largest combined oil and gas producer. [AAF research](#) finds that energy production in the U.S. has lowered oil and gas imports by \$73 billion, and increased exports by \$23 billion. Additionally, the trade deficit for oil and gas improved by \$96 billion, which helped reduce the overall trade deficit by \$72 billion. Domestic production has also added 0.3 percentage points annually to the economy.

Small businesses are [urging the EPA](#) to stop the waters of the U.S. rule. In the NFIB's filed comments, the small business association said, "Landowners will be more hesitant to engage in development projects or to make other economically beneficial uses of their properties."

On Wednesday, the administration began [sending out](#) letters reminding people to renew their coverage on [healthcare.gov](#). But when they log in, there could be a painful surprise. [AAF is out with a new study](#) today detailing "Seven Ways Your Exchange Premium Can Increase." If another family member gets a job or if you move, for example, that can increase exchange premiums.

Eakinomics: The Market's Wild Ride

Equity markets [swooned](#) yesterday, with the bellwether Dow dropping at the open, quickly losing over 300 points, bottoming out [460 points down](#), and ultimately recovering to close "only" 173 points down. This raises the natural question: why?

The honest answer is: I don't know; that would require mind-reading millions of investors. But to narrow the possibilities, let's follow the Casablanca rule and round up the usual suspects.

- Poor global growth. True enough, Europe is threatening to dive into a recession, Russia is barely above water, China and Brazil are slowing, and the official agencies — the World Bank and the International Monetary Fund — are marking down their [forecasts](#) for global growth. This explanation fits the selloff that began last week, but there was no new news yesterday that would fit the markets' reaction.
- Geopolitics. Ukraine remains threatened. Iran continues to pursue its nuclear ambitions. ISIS is on the march and seemingly oblivious to the airstrikes orchestrated by the U.S.. Iraq's future remains cloudy and problematic. Israel and Hamas have temporarily ceased open hostilities, but for how long? There is a slew of bad news, but bad geopolitics is just like bad global growth — nothing new yesterday to explain the selloff.
- Ebola. The ebola news yesterday *was* bad. Another U.S. case. Another ebola patient straight off a commercial [air flight](#). President Obama canceling a fund-raising trip to convene an emergency White House meeting. It was all very bad. But markets are supposed to price the present value of future cash flows and ebola doesn't seem to have the capacity to [damage the economy](#) enough to explain a

nearly 2 percent decline.

- U.S. economic data. Yesterday the government released the last data on inventory accumulation (less than expected), producer price inflation (a tad lower than the prior month) and retail sales (down 0.3 percent in September). They uniformly pointed to softer-than-expected growth. But even with a downturn in September, 3rd quarter sales were probably up at an annual rate of at least 2 percent. This is right in line with the 2.0 to 2.5 percent GDP growth that the U.S. has experienced in this recovery. Still, it is a piece of evidence that the so-called acceleration in U.S. growth remains more forecast than reality. If markets were counting on 3.0 or even 3.5 percent growth rates, it was correct to adjust downward.
- Fed policy. The Fed continues to wind down asset purchases. Maybe the selloff was just the market realizing that the monetary sugar high had to end. Unfortunately, the weak global growth and modest setback in the U.S. are both reasons for the Fed to stay looser, and longer. That goes the wrong direction.

In the end, one never knows exactly what investors were thinking. But I think it is significant that the weak growth data coincided with a drop off in consumer confidence. Weaker confidence and weaker data do add up to a problem for the market.

From the Forum

[U.S. oil and gas production boosts economic growth](#) by Catrina Rorke, AAF Director of Energy and Environmental Policy

[Seven Ways Your Exchange Premium Can Increase](#) by Angela Boothe, AAF Health Care Policy Analyst