The Daily Dish

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DOUGLAS HOLTZ-EAKIN | OCTOBER 31, 2014

TransCanada, the company behind Keystone XL, has applied for the rights to build a pipeline between the Alberta oil sands and the Atlantic Ocean. According to the company, the cost per barrel of using the new pipeline and crude tankers will be $2-$3 more expensive than Keystone. The administration has delayed approving Keystone XL for six years.

A new Dodd-Frank regulation could "significantly raise costs for many investors that trade options," Reuters reports. The rule is aimed at maintaining stability for banks' capital and credit risks, but would also be applied options market-making pieces of the banks. The rule could reportedly boost capital costs for market makers up to six times the current levels. To date Dodd-Frank has imposed 63.8 million paperwork burden hours and $32.7 billion in direct compliance costs.

The Department of Education announced the "gainful employment" regulations targeted at for-profit colleges and universities. The agency says the rule would cover 1,400 college programs serving 840,000 students. Critics are already giving the rule an "F" for not protecting all students and unintended consequences of the rule.

Eakinomics: 3rd Quarter GDP

The Department of Commerce yesterday released the first estimate of economic growth in the 3rd quarter (July – September) of 2014. The headline was 3.5 percent growth (at an annual rate), a healthy clip and certainly in excess of what I and most analysts had anticipated. (I did not think the growth rate would break 3.0 percent). What happened?

Digging inside the numbers, household spending (technically, "personal consumption expenditures") grew at only a 1.8 percent rate, decelerating from a 2.5 percent rate in the second quarter. Since this makes up just under 70 percent of spending, there have to be some hefty growth rates in other sectors to push the total up by 1.7 percentage points. The first upside surprise was that exports grew at a 7.8 percent rate, imports fell at a 1.7 percent rate, and the net export sector alone added 1.3 percentage points to GDP growth. It is hard to imagine this pattern persisting with the rest of the world growing ever more slowly and the dollar appreciating in value.

An even more mysterious contribution was the 16.0 percent growth rate of federal defense spending, which alone contributed another 0.7 percentage points of growth. What springs instantly to mind (at least my mind) is a large, one-time purchase of weapons or other material. Not so. The surge came in the purchase of services, notably personnel services, which could include contractors or the services of foreign nationals. A glance at the historical data is that a 3rd quarter jump is a fairly common occurrence; and one that quickly dissipates.

Given the seemingly transitory nature of these key components, it is perhaps better to focus on the growth of final sales to domestic purchasers — a measure of core purchasing power — which grew at 2.7 percent. This is much more consistent with a tick upward in the 2.0-2.5 percent growth the U.S. has experienced.

What will it take to grow faster? Obviously, the household sector has to grow more rapidly. As the chart below documents, over the course of the recovery the household sector has consistently contributed 0.13 percentage points *less* to quarterly growth than needed to have a neutral contribution — it has been a drag on recovery. In contrast, business investment (0.25 percentage points), housing construction (0.05 percentage points), and net exports (0.11 percentage points) have added to growth on average. Sustainable growth above 3 percent will require stronger real income growth for households and greater confidence in the future.

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From the Forum

A Look Inside The Complicated FCC Transaction Review Process by Will Rinehart, AAF Director of technology and Innovation Policy