Insight

Economic Update

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There has been little real news on the economy.

• The Commerce Department today announced that personal income grew 0.4 percent in May, while spending rose 0.2 percent. As a result, the saving rate ticked up to 4.0 percent. These readings are consistent with solid and unspectacular growth in household spending, consistent with growth in the vicinity of 2 percent.

• Data on consumer confidence will arrive Tuesday, but the major news will be the June jobs report on Friday. I expect that private sector jobs will rise 60-90 thousand, not enough to measurably affect unemployment.

The real news has been in policy developments.

• The best news was that the Obama Administration signaled a willingness to move forward on a free trade agreement with South Korea. Ignore the fact that this is driven more by geopolitics (tensions with North Korea, then next G-20 meeting in Seoul) than by a commitment to good economic policy. Ignore as well the fact that there is an existing, negotiated agreement being put aside. This is the first substantive, positive effort on international trade from an Administration that has been hostage to its labor union backers.

• The G-20 repudiated the Obama Administration on stimulus, reaching an agreement to reduce deficits by 2013. Granted, there is enough wiggle room to accommodate everyone in the actual agreement, but the rhetoric was a loss for the White House. If Europe successfully pursues deficit reduction and growth, expect financial markets to press the U.S. more strongly.

• The G-20 also agreed to raise capital standards for financial institutions, requiring they hold sufficient capital to survive shocks equivalent to the recent financial crisis. Additional capital in the financial sector is beneficial over the long term. However, new requirements on the heels of the capital, liquidity, and consumer costs in the financial regulation reform bode poorly for credit terms and availability during the phase-in.

Bottom Line: *Business as usual. The private-sector continues its steady, grinding economic recovery. Public policy continues as the greater source of uncertainty and costs.*