Daily Livestock Report

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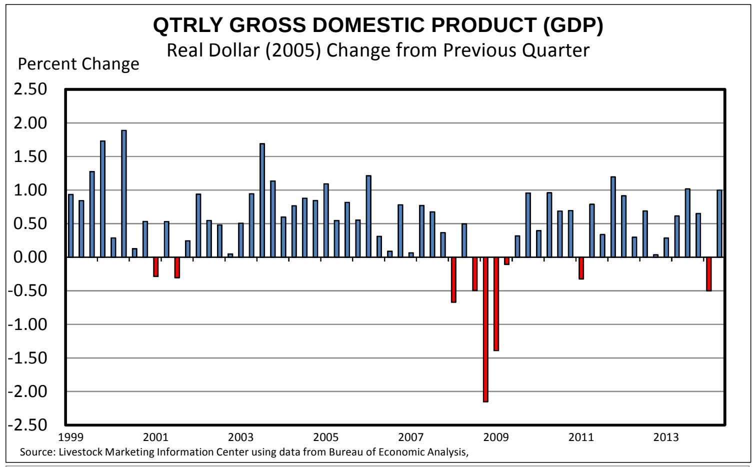
The U.S. economy grew once more in the second quarter according to GDP (gross domestic product) data made available by the Bureau of Economic Analysis on Tuesday. The data shows that GDP grew by 1% (an annualized rate of 4%) between the first and second quarters. That is a sharp improvement from the –0.5% (annualized rate of –2%) in Q1. Recall that that rate is significantly better than the original Q1 estimate of –0.73% or an annualized rate of –2.9%. The first quarter performance was largely attributed to harsh winter weather that kept consumers, especially on the East Coast, hunkered down for many weeks.

Viewed another way (bottom chart at right), the Q2 GDP figures imply year-on-year growth of 2.4%. That, too, is an improvement on Q1 performance of +2% but provides what we believe is a clearer picture of the steady progress that the economy has made since the end of 2010. The best year-on-year rate during this recovery, +3.3% in Q1 of 2012, pales in comparison to the robust 4%-plus growth rates of the late 1990s and as recently as late 2003 and early 2004. But this recover has not been able to achieve those rates yet though the trend shows improvement since Q1 2013.

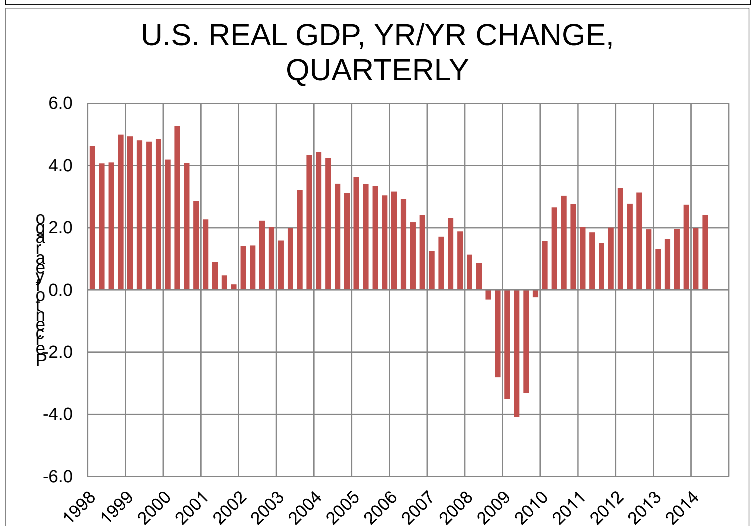
Recall that GDP is the market value of the goods and services produced in a country within a given time period. That value represents both the collective incomes of the providers of those goods and services and the collective expenditures of the consumers of them. The focus normally falls on the latter (expenditures) during a recovery since lower expenditures normally drive recessions. This recovery has clearly been slow in this regard but we would argue that disappointing personal disposable income growth has been a key issue as wage growth has lagged. Real personal disposable income per capita increased at an average year-on-year rate of just over 2% from 2000 through 2007. Since that time it has grown by an average of just 0.4%. This year has seen some improvement but the average is still a meager 1.4%. In a recent Time magazine article, former Treasury Secretary Roger Altman argues that consumer spending will grow by “around 3%” in 2014 as real disposable income rises and the savings rate moderates. Both are indeed happening but can they happen at a rate to push spending growth to 3%?

The Altman article points out several other reasons for optimism for the U.S. economy. There are data supporting and refuting (to some degree or another) each of them but we think they are worth considering.

- Housing has come back to life. Altman cites rising prices (but June saw a slowing for this variable), higher single– and multi-family home starts and higher household formation rates.
- American made makes sense again. The “near consensus” that American manufacturing was in permanent decline is giving way to new technology and rising wages in Asia.
- Energy production is booming. No one — including the energy companies — saw this coming just a few years ago. The U.S. is on track to become the largest oil producer in the world by the end of 2015.
- Our environment is getting healthier. Nearly every measure, including carbon emissions which have fallen by 10% since 2005, is better. Our comment: We must continue to pay attention to improve/protect the environment while not severely limiting economic gains. Only prosperous societies can afford to effectively protect natural resources.
- American schools are working smarter. Altman states clearly that we have a long way to go on this one but cites rising high school and college completion rates as the result what Johns Hopkins study states as “countless grassroots efforts toward public school reform.”
- Social trends are improving. The crime rate has fallen by 45% since 1991 and 13% since just 2007. Violent crime has fallen by 36%. Teen pregnancy rates have fallen by 51% from 1990. But overall birth rates have turned upward for the first time since 2007, indicating that the populations (ie. number of workers and consumers) will once again grow.



Source: Livestock Marketing Information Center using data from Bureau of Economic Analysis,



Source: Federal Reserve Bank of St. Louis