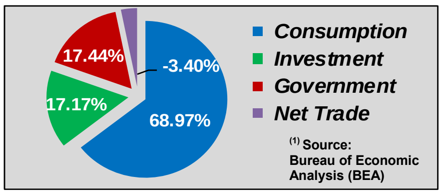
The American Consumer

The United States is still the world's largest economy, comprising over 25% of the entire world's Gross Domestic Product (GDP). **The American Consumer** makes the largest contribution to the US economy—over $2/3^{rds}$ of our GDP! It's easy to see, the American Consumer is the main driver of economic growth.

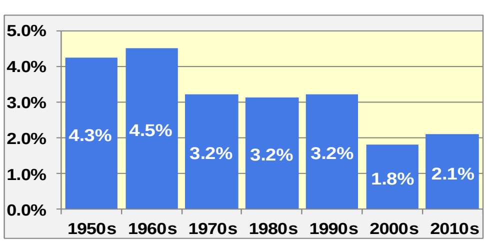
The components of the United States $18.2 trillion annual economic output as measured by the GDP are:



- ***Consumption* (the Consumer)** equals the value of all goods and services purchased by households (excluding housing).
- ***Investment*** consists of commercial equipment purchases and both commercial and residential new structure purchases.
- ***Government*** comprises federal, state and local government spending on goods and services.
- ***Net Trade*** is the difference between the exports and the imports of goods and services. Note when imports exceed exports it is a net reduction in GDP.

Economic growth is measured by the annual percentage increase in GDP. Recessions are marked by a decline in GDP for two consecutive quarters (i.e. negative growth or contraction). During the last century the US had been growing rapidly, averaging a 3.2% GDP gain per year from 1970 to the end of the century. However during the 1^{st} decade of this century, growth was stifled by two major recessions, resulting in only a 1.8% annual increase GDP. After the **Great Recession**, most economists forecasted a return to our historic 3%+ growth rate, but it hasn't materialized. The US has struggled with this slow growth pattern of only 2.1% during this decade.

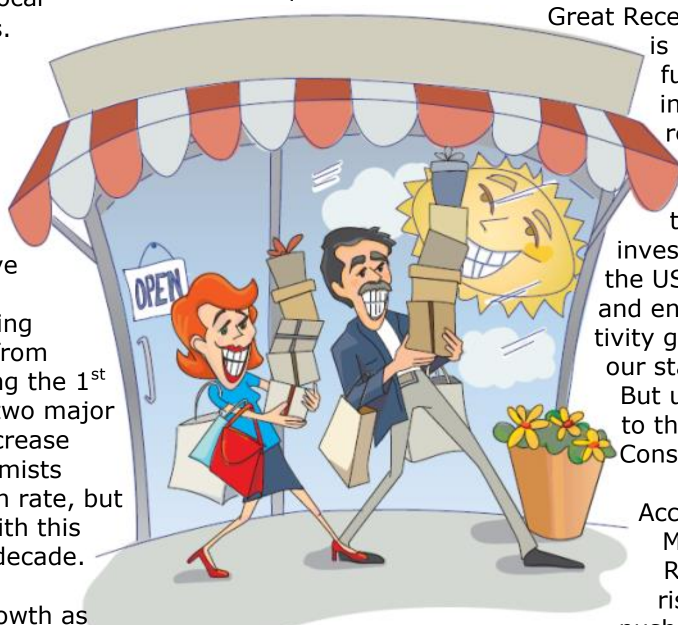
Most pundits are now accepting this slower growth as the norm and foresee future US growth only achieving a modest 2%-2½% rate per year. Economic growth depends on a myriad of factors too difficult to quantify, but the two major elements are (1) the number of people in the workforce and (2) the productivity of these workers.



Fertility rates and immigration determine the size of the **working population**. There has been a precipitous decline in fertility among industrialized nations due to the postponement of family formation and smaller family size. A fertility rate of 2.1 ensures a stable population. According to The World Bank, at 1.88 children, the US fertility rate is actually among the highest in developed countries. The industrialized countries must supplement their workforce through immigration just to preserve a stable demographic population.

Productivity gains make the economic pie bigger for all. Goods and services become cheaper holding inflation in check, and ideally, workers share in the fruits of their labor creating personal wealth. According to the Bureau of Labor Statistics, productivity increased by 2¼% per year during 1990-2010, however since the turn of the century these gains have tumbled to 1% per year. Productivity is the single most determinant of a nation's standard of living, and this decrease is troubling.

Many experts believe that the decline in productivity gains is a result of the lack of business investment. They cite the political and economic uncertainties since the Great Recession. Business is not committing funds to new investment and restructurings which could boost productivity. Business investment would lift the US GDP higher and encourage productivity gains, increasing our standard of living. But until then, it's up to the American Consumer.



According to the March Federal Reserve report, rising home prices pushed US Total Household Wealth to a new record of $88.1 trillion, extending our world-leading streak of wealth accumulation since the end of the financial crisis. Americans are not only saving more, but also have more disposable income due to low interest rates and gas prices, these latest gains benefit middle-income households the most and they are the engine of U.S. and global growth. Our consumption represents over $2/3^{rds}$ of US GDP. **The American Consumer** can drive the economy forward by going on a shopping spree.

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