Example of current macroeconomic situation in the united states essay

Finance, Investment

Introduction

Macroeconomics is a branch of economics that studies the performance of an economy, in aggregate terms. It helps in assessing the health of an economy and its prospects in future based upon analysis of important macroeconomic indicators. The paper attempts to understand the current macroeconomic situation of the United States using aggregate economic indicators and implications for monetary and fiscal policies. The paper is divided into three sections. The first section discusses the current macroeconomic situation of the nation using key macroeconomic indicators. The second section delves into the implications of the current macroeconomic situation on monetary and fiscal policy measures of the country. The third section concludes the paper.

Macroeconomic Situation of the United States

The key aggregate economic indicators that ascertain the macroeconomic situation of the United States are gross domestic product, unemployment rate, price indices, aggregate consumption and investment pattern.

Gross Domestic Product (GDP)

GDP is the most commonly used indicator to measure the economic health of a nation. It measures total output of United States, which is sum total of everything produced by all people and all companies in the country (Amadeo, 2012). As depicted in the Figure 1, the GDP of the United States was badly hit during the slowdown of 2008 and 2009, when it showed a

continuously downturn. The GDP has been showing signs of improvement since then.

Figure 1: US GDP Annual Growth Rate, 2002-2012

Source: Trading Economics, 2012

The Philadelphia Federal Reserve predicts that the nation's GDP will grow by 2. 3 per cent in 2012, 2. 7 per cent in 2013 and 3. 0 per cent in 2014 (Amadeo, 2012). Thus, the GDP growth rate is expected to be slow in the near future.

Unemployment Rate

Unemployment rate is defined as the percentage of the total work force that is currently searching for a job. It is another indicator that impedes economic growth of the US economy. As depicted in the Figure 2, unemployment rate has been a concern for the country since the beginning of economic slowdown of 2008. It has slightly improved, but is still at a much higher level as compared to the pre-slowdown figures. After showing a light declining trend in 2012, the unemployment rate has again increased in July 2012 to 8. 3 per cent (Trading Economic, 2012).

Figure 2: US Unemployment Trend, 2002-2012

Source: Trading Economics, 2012

Price Index

The change in Consumer Price Index (CPI) of an economy is determined by the internal and external environment of a nation. This rate of change in CPI

measures the inflation rate of a nation. The Figure 3 shows the lowest inflation rate in 2010 during the period 2002-2012.

Figure 3: US Inflation Rate, 2002-2012

Source: Trading Economics, 2012

Inflation rate is a big concern as the gasoline prices are on the rise. Gasoline prices accounts for biggest monthly increase in consumer prices since April 2011 (US Inflation Calculator, 2012). However, this situation appears to be short term in nature and the inflation rate is expected to be steady in future. According to the Federal Open Market Committee (FOMC), long-term stability in inflation rate is expected (US Inflation Calculator, 2012).

Aggregate Consumption

Low consumer confidence has led to decline in aggregate consumption, which is a major hindrance for economic growth. According to North (2012), the growth rate in spending in the US was 1. 4 per cent in the beginning of this year, which is much below its long-term average. Apart from consumer confidence, the low growth in spending rate can be attributed to the high gasoline process and high unemployment rate.

Investment Pattern

Aggregate investments in construction, capacity building and other long-term infrastructural projects have been low. Housing market was badly affected due to recession, and investment in housing has also been slow. Lack of investment in long-term growth can hinder growth of the economy in future.

Implications for Monetary and Fiscal Policy

Monetary Policy

An expansionary monetary policy aims at increasing the money in circulation, which is also known as easy money (AmosWEB, 2012). The three important easy money policy tools are focus on open market operations, lowering discount rate and reducing reserve requirements for banks. All the three measures help improve money supply in the market. However, interest rates are already near zero in the US, thus quantitative easing is an appropriate way to boost growth. Quantitative easing is the buying of longer-maturity financial assets by the government to improve circulation of money in the economy. It is required that quantitative easing used in a controlled manner to boost expansion in US so that it does not cause inflation. Hyperinflation is one of the chief problems associated with quantitative easing.

Fiscal Policy

An expansionary fiscal policy will be appropriate to deal with this macroeconomic situation of slow economic growth. There are three important tools for triggering economic expansion through fiscal policy. First, increase in government spending. Increase in government spending can be achieved by increasing government purchases and payments to agencies. This not only boosts net disposable income with people, but also provides additional employment to people. Second, reduce in income taxes. Income tax reduces the net disposable income of a person. Reducing income tax amounts to a higher disposable income. This, in turn, triggers the aggregate

demand and consumption. Third, transfer payments are allowances and benefits provided to the disabled and the needy, without expectation of any service from them. Allowance and benefits increase the household income and improve their spending power. Thus, all the three tools of expansionary fiscal policy help boost aggregate demand and aggregate consumption. Appropriate fiscal policy for US should be aimed at creating more employment and investing in infrastructure building.

Conclusion

The United States is battling economic slowdown and a difficult macroeconomic situation. The current and projected GDP growth rate is low indicating a slow growth in economy. The unemployment rate and inflation are high indicating low purchasing power, consumer confidence and aggregate consumption. Investments in long-term assets are also hampered. Thus, there is a need for an expansionary monetary and fiscal policy to give a boost to the economic growth. Increasing government spending and reducing interest rates are commonly adopted policy measures to trigger growth. However, given the budget constraints and near zero interest rate in the US, these measures are not proving to be as effective. Thus, controlled quantitative easing and creation of more jobs are appropriate policy measures to effect economic expansion. It is also important that the interest rates are maintained at near zero levels in the near future as well. These measures can improve the money supply in the nation and boost growth.

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