econ bad

Economy’s not looking too hot.

The Times of India 7/27

[“US Economic Growth Slowed to 1.5%,” 7/27/12, http://timesofindia.indiatimes.com/business/international-business/US-economic-growth-slowed-to-1-5/articleshow/15208436.cms] nv

The US economy grew at an annual rate of just 1.5 per cent from April through June, as Americans cut back sharply on spending. The slowdown in growth adds to worries that the economy could be stalling three years after the recession ended. The Commerce Department also said on Friday that the economy grew a little better than previously thought in the January-March quarter. It raised its estimate to a 2 per cent rate, up from 1.9 per cent. Growth at or below 2 per cent isn't enough to lower the unemployment rate, which was 8.2 per cent last month. And most economists don't expect growth to pick up much in the second half of the year. Europe's financial crisis and a looming budget crisis in the US are expected to slow business investment further. Stock futures rose slightly after the report was released. Some economists had thought the growth estimate would be even lower. "The main take away from today's report, the specifics aside, is that the US economy is barely growing,'' said Dan Greenhaus, chief economic strategist at BTIG LLC. ``Along with a reduction in the actual amount of money companies were able to make, it's no wonder the unemployment rate cannot move lower.'' The lackluster economy is raising pressure on President [Barack Obama](http://timesofindia.indiatimes.com/topic/Barack-Obama) in his re-election fight with [Mitt Romney](http://timesofindia.indiatimes.com/topic/Mitt-Romney), the presumptive Republican presidential nominee. But few think the Fed, the White House or Congress can or will do anything soon that might rejuvenate the economy quickly. Many lawmakers, for example, refuse to increase federal spending in light of historically large budget deficits. The 1.5 per cent growth rate in the second quarter was the weakest since the economy, as measured by the gross domestic product, expanded at a 1.3 per cent rate in the July-September quarter last year. GDP measures the country's total output of goods and services, from the purchase of a cup of coffee to the sale of fighter jets. Current-dollar GDP increased at an annual rate of $117.6 billion in the second quarter to $15.6 trillion. Growth was weaker mostly because consumer spending slowed to a growth rate of just 1.5 per cent. That's down from 2.4 per cent in the first quarter. Americans bought fewer autos, computers and other long-lasting manufactured goods. Spending on services increased. They also saved more. The savings rate increased to 4 per cent, up from 3.6 per cent in the first quarter. Consumer spending, which accounts for 70 per cent of economic activity, was offset somewhat by a slightly smaller drag from the government. Spending by governments fell at an annual rate of 1.4 per cent in the second quarter, just half of the 3 per cent rate of decline in the first quarter. The Commerce Department also revised its growth estimates for the past three years. Those revisions showed that the economy contracted 3.1 per cent in 2009, slightly less than the 3.5 per cent previously reported. Growth in 2010 was put at 2.4 per cent, down from 3 per cent, with growth in 2011 at 1.8 per cent instead of 1.7 per cent. The US economy has never been so sluggish this long into a recovery. The Great Recession officially ended in June 2009.  Until a few weeks ago, many economists had been predicting that growth would accelerate in the final six months of the year. They pointed to gains in manufacturing, home and auto sales and lower gas prices. But threats to the U.S. economy have left consumers too anxious to spend freely. Jobs are tight. Pay isn't keeping up with inflation. Retail sales fell in June for a third straight month. Manufacturing has weakened in most areas of the country.  Fear is also growing that the economy will fall off a "fiscal cliff'' at year's end. That's when tax increases and deep spending cuts will take effect unless Congress reaches a budget agreement. All that is making companies reluctant to expand and hire much.

Low economic growth now, future fiscal cliff.

Chandra 7/27

[Shobhana, Staff Writer, Bloomberg News, “Economy In U.S. Probably Expanded At Slowest Pace In Year,” 7/27/12, http://www.bloomberg.com/news/2012-07-27/economy-in-u-s-probably-expanded-at-slowest-pace-in-a-year.html] nv

The U.S. economy probably expanded in the second quarter at the slowest pace in a year as a softening labor market caused Americans to cut back on spending, economists said before a report today. Gross domestic product, the value of all goods and services produced, rose at a 1.4 percent annual rate after a 1.9 percent gain in the prior quarter, according to the median forecast of 81 economists surveyed by Bloomberg News. Consumer purchases, which account for about 70 percent of the world’s largest economy, may have grown at the weakest pace in a year. Households are restraining spending just as Europe’s debt crisis and looming U.S. tax-policy changes curb corporate investment, hurting sales at companies from United Parcel Service Inc. (UPS) to Procter & Gamble Co. (PG) Cooling growth makes it harder to reduce unemployment, helping explain why Federal Reserve Chairman Ben S. Bernanke told Congress last week that policy makers stand ready with more stimulus if needed. “We have an economy that is still very weak,” said Joshua Shapiro, chief U.S. economist at Maria Fiorini Ramirez Inc. in New York and the best forecaster of U.S. economic data in the two years through May, according to data compiled by Bloomberg. “Job growth is not enough to make a big dent in the unemployment rate. Households are trying to repair their finances. I don’t see any significant drivers for the economy in the second half.” The Commerce Department will release the GDP report at 8:30 a.m. in Washington. Economists’ estimates for growth ranged from 0.7 percent to 1.9 percent. The agency will also issue annual revisions to GDP going back three years. A separate report at 9:55 a.m. may show the Thomson Reuters/University of Michigan final index of consumer sentiment fell to 72 in July, the lowest level this year, from 73.2 a month earlier, economists in the Bloomberg survey predicted. Stocks are reflecting concerns about the global economy. The Standard & Poor’s 500 Index fell 3.3 percent from April through June, the first drop in three quarters. The gauge is little changed so far this month, closing yesterday at 1,360.02, compared with 1,362.16 on June 29. The projected 1.3 percent gain in second-quarter household spending would be about half the 2.5 percent rise from January through March, according to the median estimate before the GDP figures. Recent data signal consumers are reluctant to step up purchases. Retail sales fell in June for a third consecutive month, the longest period of declines since 2008. Same-store sales rose less than analysts’ estimates at retailers including Target Corp. (TGT) and Macy’s Inc. (M) Slowing sales and currency fluctuations led Procter & Gamble, the world’s largest consumer products company, to cut profit forecasts three times this year. Among frugal consumers is Roger Szemraj, a lobbyist for the food industry with OFW Law in Washington, who drives a hybrid car and said his routine has always been to find the grocery store with the best deals. “We are always looking to see what are the sales items and try to buy in that instance,” said Szemraj who was shopping at Safeway Inc. store in the Georgetown neighborhood of Washington because of a sale on lamb. “It’s a matter of looking to see what the sales price is.” Consumers may remain cautious until hiring accelerates. Payroll gains averaged 75,000 in the second quarter, down from 226,000 in the prior three months and the weakest in almost two years. The unemployment rate, which held at 8.2 percent in June, has exceeded 8 percent for 41 straight months. Bernanke told lawmakers last week that progress in reducing the jobless rate will probably be “frustratingly slow.” “Economic activity appears to have decelerated somewhat during the first half of this year,” Bernanke said in testimony to Congress. The Fed is “prepared to take further action as appropriate to promote a stronger economic recovery.” Jobs and the economy are central themes in the presidential campaign, with President Barack Obama and Republican challenger Mitt Romney sparring over who can best revitalize the recovery. UPS, the world’s largest package-delivery company, cut its full-year profit forecast after a drop in second-quarter international package sales. The Atlanta-based company, considered an economic bellwether because it moves goods ranging from financial documents to pharmaceuticals, projects the U.S. will grow 1 percent in the remainder of 2012. “Economies around the world are showing signs of weakening and our customers are increasingly nervous,” Chief Executive Officer Scott Davis said on a July 24 call with analysts. “In the U.S., uncertainty stemming from this year’s elections and the looming fiscal cliff constrains the ability of businesses to make important decisions such as hiring new employees, making capital investments, and restocking inventories.” A pickup in homebuilding has helped some manufacturers to fare better. Caterpillar Inc., the largest maker of construction and mining equipment, this week raised its full-year profit forecast on increased demand from North American builders. “We are planning for a world that is growing anemically in the next 24 months,” Chief Executive Officer Doug Oberhelman said on a July 25 conference call to discuss his company’s earnings. “We are not planning for an implosion.” Business investment, a driver of the expansion, may slow as weaker overseas markets limit exports. Orders for non-defense capital goods excluding aircraft, a proxy for future corporate spending on equipment, decreased in June, signaling production may cool.

Slow economy nearing fiscal cliff.

Mutikani 7/27

[Lucia, Staff Writer, Reuters, “Cautious consumers, foreign trade curb second quarter growth,” 7/27/12, http://www.reuters.com/article/2012/07/27/us-usa-economy-idUSBRE86Q04820120727] nv

U.S. economic growth slowed in the second quarter as consumers spent at their slowest pace in a year, increasing pressure on the Federal Reserve to do more to bolster the recovery. Gross domestic product expanded at a 1.5 percent annual rate between April and June, the weakest pace of growth since the third quarter of 2011, the Commerce Department said on Friday. First-quarter growth was revised up by a tenth of a percent to a 2.0 percent pace. Details of the report were weak, with foreign trade being a drag and stocks of unsold goods rising. That, together with signs that activity slowed further early in the third quarter strengthens the argument for the Fed to offer the economy additional stimulus at its September meeting. "The economy has lost altitude and flying pretty close to stall speed. Monetary policy is the only game in town and additional easing is highly likely," said Sung Won Sohn, an economics professor at California State University Channel Islands in Camarillo, California. The ailing economy could cost President Barack Obama a second term in office when Americans vote in November. Obama's approval rating on his handling of the economy is slipping. An Ipsos/Thomson Reuters poll published last week showed 36 percent of registered voters believe Republican candidate Mitt Romney has a better plan for the economy, compared to 31 percent who had faith in Obama's policies. In a nod to the darkening economic outlook, the White House on Friday cut its growth estimate for this year to 2.3 percent from 2.7 percent back in February. The growth forecast for 2013 was pared to 2.7 percent from 3.0 percent. The economy's expansion following the 2007-09 recession is the slowest since the 1980-81 period and the recession itself was the deepest in the post-war period. No major policy announcement is expected at the Fed's two-day meeting next week, but many economists now say the central bank could launch a third round of bond purchases, also known as quantitative easing, when policymakers gather on September 12-13. However, there is a chance the Fed could push further into the future its conditional pledge to keep rates near zero through late 2014, economists said. The U.S. central bank has already injected $2.3 trillion into the economy through asset purchases and slashed overnight interest rates to near zero. But not all economists believe the Fed will pump more money into the economy in September, arguing that the slowdown in growth was not a sufficient condition on its own. They said the Fed would want to save its limited arsenal for a real crisis. "The Fed will pull the trigger on QE3 if the sense is we are getting into trouble, but if we are just weak and somewhat limping forward, they will prefer to stay pat," said Adolfo Laurenti, a senior economist at Mesirow Financial in Chicago. "They do not want to use whatever ammunition they have left too soon, they want to keep some just because things might get even worse later on." The economy has been hit by worries of deep government spending cuts and higher taxes scheduled to kick in at the start of 2013, as well as troubles from the debt crisis in Europe. The biggest factor weighing on the recovery is fear that politicians in Washington will be unable to avoid the so-called fiscal cliff at the turn of the year, economists said. Third-quarter growth is forecast at a rate between 1 and 1.5 percent. Expectations of further monetary stimulus fueled a rally on Wall Street, with the Dow Jones industrial average closing above 13,000 for the first time since May 7. The Standard & Poor's 500 index touched its highest level in nearly three months. Treasury debt prices fell as the GDP report was in line with economists' expectations. The dollar rose against the yen.

Slowdown in economic recovery points to another recession.

Crutsinger 7/27

[Martin, Staff Writer, AP News, “Few think sluggish US economy will strengthen soon,” 7/27/12, http://www.businessweek.com/ap/2012-07-27/few-think-sluggish-us-economy-will-strengthen-soon]

A U.S. economy that plodded along in the first three months of the year likely grew even less in the April-June quarter. And most economists no longer think growth will strengthen much in the second half of 2012. Weaker hiring, nervous consumers, sluggish manufacturing and the overhang of Europe's debt crisis might be pointing toward everyone's big fear: another recession. Against that background, the government on Friday will issue its first of three estimates of how much the U.S. economy expanded last quarter. The consensus forecast is that growth slowed to an annual rate of 1.5 percent, according to a survey of economists by data firm FactSet. The Commerce Department will issue the estimate at 8:30 a.m. EDT. A quarterly growth rate of 1.5 percent would be the weakest in a year. It would follow a meager 1.9 percent rate in the first three months of 2012. Much more growth would be needed to fuel stronger hiring. Economists generally say even 2 percent annual growth would add only about 90,000 jobs a month. That's too few to drive down the unemployment rate, which is stuck at 8.2 percent. The U.S. economy has never been so sluggish this long into a recovery. The Great Recession officially ended in June 2009. Until a few weeks ago, many economists had been predicting that growth would accelerate in the final six months of the year. They pointed to gains in manufacturing, home and auto sales and lower gas prices. But threats to the U.S. economy have left consumers — who account for about 70 percent of the economy — too anxious to spend freely. Jobs are tight. Pay isn't keeping up with inflation. Retail sales fell in June for a third straight month. Manufacturing has weakened in most areas of the country. Fear is also growing that the economy will fall off a "fiscal cliff" at year's end. That's when tax increases and deep spending cuts will take effect unless Congress reaches a budget agreement. All that is making companies reluctant to expand and hire much. From April through June, U.S. job growth slowed to 75,000 a month, down from a healthy 226,000 average in the first three months of the year. "The European situation has been getting worse and is dragging down the global economy," said Sung Won Sohn, an economics professor at California State University. "And we have got the fiscal cliff to worry about in the United States." Six of the 17 countries that use the euro currency are in recession. Growth has also weakened in powerhouse emerging markets in China, India and Brazil. With these economies slowing, so is their demand for U.S. exports. Sohn estimates the likelihood of a U.S. recession within the next 12 months at 30 percent to 35 percent. That's up from his estimate of 20 percent six months ago. Nariman Behravesh, chief economist at IHS Global Insight, puts the chance of a recession at 25 percent. He expects growth to increase slightly to an annual rate above 2 percent in the second half of this year. Other economists are gloomier. They think growth will muddle along below 2 percent through 2012. Many economists think consumers pulled back sharply on spending last quarter. Analysts at JPMorgan estimate that consumer spending grew at a scant 1 percent annual pace in the April-June period, down from a 2.5 percent annual increase in the first quarter. "Businesses and consumers are quite worried, so they're holding back," Behravesh said. "For consumers, the worry is the jobs markets. Businesses are worried about Europe. And China is looking weaker than most of us would have thought even a few months ago." Behravesh said even companies that think Congress will manage to reach a budget deal by year's end are too uncertain about possible tax changes to step up hiring. "That is making them very cautious about investment decisions," he said. In delivering the Federal Reserve's midyear economic report to Congress last week, Chairman Ben Bernanke sketched a bleak picture. And he warned that unless lawmakers strike a deal, the tax increases and deep spending cuts that will take effect Jan. 1 could trigger another U.S. recession. Bernanke has said the Fed is prepared to take further action if unemployment stays high. He hasn't specified what steps it might take or whether any action is imminent. The lackluster economy is also raising pressure on President Barack Obama in his re-election fight with Mitt Romney, the presumptive Republican presidential nominee. But few think the Fed, the White House or Congress can or will do anything soon that might rejuvenate the economy quickly. Many lawmakers, for example, refuse to increase federal spending in light of historically large budget deficits. "There is nothing out there to light a fire under the economy," said Joel Naroff, chief economist at Naroff Economic Advisors.

Economic slowdown now

Brown 7/27

[Abram, Staff Writer, Forbes, “U.S. Economy Falls Into Slump: Q2 GDP Grows By 1.5%, Beating Expectations,” 7/27/12, http://www.forbes.com/sites/abrambrown/2012/07/27/u-s-economy-proves-resilient-q2-gdp-grows-by-1-5-beating-expectations/] nv

The U.S. economy proved to be stronger than thought last quarter, as the country’s gross domestic product rose more than expected albeit at a tepid pace. GPD, the sum of all goods and services, expanded by 1.5%. That’s down from the upwardly revised 2% seen in the first quarter. But it does top economists’ predictions, which called for only 1.2% growth. “The economy has effectively landed—nothing to suggest further overall weakening growth, nothing to suggest a rebound either,” says Steve Blitz, ITG Investment Research’s chief economist. A troubling combination of a renewed crisis in Europe and a tepid U.S. labor market threatened to choke off economic in the quarter.Businesses were widely seen tamping down both expectations and orders. Consumers followed by cutting back on expenses. Economists dialed back estimates for second-quarter GDP, from near 2% to, in some cases, less than 1%. Some of that fear is evident in today’s figures. Personal consumption expenditures rose 1.5%, down from the 2.2% a quarter earlier. The drop in purchases reflects that worry about the economy’s future. Stocks opened higher this morning. The Dow Jones industrial average rallied 0.4% to 12,941.05. The S&P 500 gained 0.6% to 1,367.63. And the Nasdaq rose 0.4% to 2,903.99. This morning’s GDP figure is only an initial estimate. A series of revisions and recalculations will follow in recent weeks. This first snapshot at last quarter’s economic growth will most certainly come into greater focus—and the GDP estimate will undoubtedly change. For sure, the second-quarter growth is still too little to see large expansions or expenditures. The data shows that inflation remains tame, rising 0.7% in the quarter. Contrast that with the 2.5% rise in prices seen in the first quarter. Low inflation coupled with stagnant growth will, certainly, renew investor clamor for another round of bond-buying by the Federal Reserve. Fed policymakers have reportedly grown more concerned in recent weeks about the economy’s slump, and may launch fresh programs to stimulate the economy, either at the policy meeting at month’s end or later, in September. “Growth of 1.5% [in June] is lousy, but not lousy enough to significantly alter the Fed’s understanding of current conditions or the outlook for future growth,” says FTN Financial economist Chris Low. “As a result, the Fed next week has pretty much the same information to work with as yesterday.” Health care and consumer discretionary stocks were among the morning’s early gainers.  Goodyear Tire jumped 8.1% to $10.69. Coach rallied 2.7% to $61.31. Ford Motor rose 0.3% to $8.99. Gilead Sciences increased 5.5% to $54.32. Amgen climbed 3.7% to $82.76.

Fiscal cliff is fast-approaching.

Dooley 7/28

[Bryan, Staff Writer, The Royal Gazette Online, “US economy on a fiscal cliffhanger,” 7/28/12, http://www.royalgazette.com/article/20120728/BUSINESS08/707289974] nv

Similar to Sylvester Stallone’s character in the 1993 movie “Cliffhanger” who dangled nervously from a precipitous rock face in the Colorado Rocky Mountains, such is the predicament now facing the already teetering US economy, which is fast approaching a monumental raft of fiscal stimulus programmes scheduled to end abruptly early next year, potentially sending the world’s largest economy back into a recession. The American economy, lately recognised as the ‘cleanest dirty shirt’ among the world’s major developed countries had been demonstrating remarkable resilience earlier in the year even as Europe continued to be dragged down by the fiscally wayward Southern European countries. Meanwhile, Japan remains stuck in their two-decade long period of stagnation despite a modest reconstruction bounce following last year’s tragic natural disasters. Up until this spring in fact, the US economy seemed to have best potential to lead the world out of an impending growth slowdown even as the all-important Chinese economy likely faced a ‘growth recession’ after many years of annual double-digit Gross Domestic Product (GDP) advances. Over the past few months, however, a new undercurrent of scepticism is growing among top economists that the US will no longer be able to buck the trend. In addition to the European debt crisis which has already begun to crimp the revenues of US-based multinational companies, the impending fiscal cliff has created a rising level of political controversy threatening to put the brakes on private sector hiring and eerily reminiscent of last year’s heated political debate over America’s yawning budget deficit. Market followers will remember that last year’s escalating rift between the two main political parties pushed America to the brink of a bond default, prompting the first ever credit downgrade of US debt. In the end, last year’s great debate led to the formation of a congressional ‘supercommittee’ which mandated obligatory spending cuts if a bipartisan fiscal agreement was not met by the end of this year.

Fiscal cliff would lead to another recession.

Dooley 7/28

[Bryan, Staff Writer, The Royal Gazette Online, “US economy on a fiscal cliffhanger,” 7/28/12, http://www.royalgazette.com/article/20120728/BUSINESS08/707289974] nv

With the November elections quickly approaching, political platforms are increasingly focused on the coming ‘cliff’ — with the stakes growing higher each day. Used broadly, the term ‘fiscal cliff’ refers to the entirety of the economic and political consequences facing the US next year when key tax breaks and spending programmes expire. Simply put, America has two choices: If US politicians do nothing, current policy stays in effect automatically resulting in a swath of tax increases in addition to supercommittee spending cuts. Or, alternatively, American legislators can come to an agreement which extends some or all of the scheduled tax breaks and agree to reduce or postpone the spending cuts, placing less pressure on the anaemic recovery but failing to begin reduce the exploding American budget deficit — at least in the short term. How we arrived at the edge of the cliff dates back to 2001, an earlier recessionary period which occurred in the aftermath of the bursting technology stock bubble. At that time, President George W. Bush passed the Economic Growth and Tax Relief Reconciliation Act of 2001, a sweeping piece of legislation providing favourable tax rates for individuals and corporations. The broad tax breaks, later referred to as ‘the Bush tax cuts’ were extreme in nature but were only meant to be temporary. The Bush programme materially reduced taxes on stock dividends, capital gains, estates, gifts and various types of retirement plans. The initial programs were designed to expire at the end of 2010. However, in 2010 President Obama extended the breaks for another two years in order to help counteract America’s poor economic performance and inability to produce meaningful job gains after the end of the Great Recession. The expiration of the Bush Era tax cuts will amount to a hefty $221 billion of cash coming directly out of American pockets according to the Congressional Budget Office. In addition to the Bush tax breaks expiring, payroll taxes, which were also lowered during the leaner times, are scheduled to be reset to higher levels at the end of the year. The extra payroll taxes would take another $95 billion away from consumers. On top of this amount, other spending changes and the large potential budget sequester drives the total fiscal cliff amount to just over $600 billion. When compared to the present US. GDP of approximately $15.5 trillion, the cliff represents about a 4% setback. Given that the US economy managed to grow just 1.7% last year, the cliff, if left unaddressed, would consume over two years of economic progress and surely throw the country back into recession. If the bad news is that the cliff is fast approaching, the good news is that politicians who want a job or want to keep their job are trying to stay ahead of the curve. In terms of policy platforms, both Republicans and Democrats ultimately would like to avoid the sharp recession scenario and seem to realise that if leaders reach another impasse, nobody wins. Yet with the two parties sharply divided on what to pare combined with an unfortunate lack of leadership in the White House, another stalemate is still possible. More importantly, the fiscal cliff is already creating business inertia that has already become a 2012 issue. Because business owners and managers currently face a major uncertainty as to what the rules will be next year, they are less likely to hire people or spend on plant and equipment.

Spending key to stimulate economy.

Dewan 7/27

[Shaila, Economics Reporter, The New York Times, “U.S. Growth Falls to 1.5%; a Recovery Seems Mired,” 7/27/12, http://www.nytimes.com/2012/07/28/business/economy/us-economy-expands-at-1-5-rate.html?\_r=1&pagewanted=all] nv

The United States economy has lost the momentum it appeared to be building earlier this year, as the latest government statistics showed that it expanded by a mere 1.5 percent annual rate in the second quarter. The mired recovery makes the United States more vulnerable to trouble in Europe and, at home, the potential expiration of several tax breaks and other buoyant measures at the end of the year, known as the fiscal cliff. It also illustrates the election-season challenge to President Obama, who must sell his economic record to voters as the recovery slows. Growth, as measured by the gross domestic product, lagged as consumers curbed new spending and businesses held back. Several bright spots in the first three months of the year, including auto production, computer sales and large purchases like appliances and televisions, dimmed or faded away altogether in the second quarter, and government at all levels continued to cut spending. Growth was not strong enough to drive down the unemployment rate, which has stalled above 8 percent in recent months. The lackluster figure immediately gave Mr. Obama’s opponents the opportunity to question the federal government’s response to the financial crisis, though a vast majority of economists agree that the stimulus and the bank bailouts saved jobs. House Speaker John Boehner said the G.D.P. report, released Friday by the Commerce Department, showed “the need to stop all of the looming tax hikes.” The report also spurred calls from liberals for the government to do more. The Federal Reserve, which has lowered its forecasts in recent weeks, is watching the slowdown carefully as it considers further stimulus, though several analysts said Friday that they doubted that new action from the Fed could have much effect. “Given where interest rates are, I think it should be evident that we’re in one of those spots where in order to lift growth, government needs to spend money,” said Steve Blitz, the chief economist at ITG Investment Research. The economy is following a pattern established over several years now — hopes raised by modest acceleration that later fizzles out — that underscores the notion that rebounds after financial busts take their own excruciating time. This year, some of the weakening was to be expected after a spurt of activity during an unseasonably warm winter. A mild uptick is expected in the second half of the year, driven in part by lower gas prices. But improvement strong enough to provide real traction or lower the jobless rate remains out of reach. While the economy has not entered a downward spiral in which weakness feeds on itself, wrote Jim O’Sullivan, the chief United States economist for High Frequency Economics, an analysis firm, “there does not appear to be much basis for expecting a significant pickup any time soon.” The government also provided on Friday a revised figure for first-quarter G.D.P., saying the economy then grew by a 2 percent annual rate. The previous estimate was 1.9 percent. A slowdown in household spending is still hampering economic growth. Consumers increased their savings rate, a sign of increased uncertainty about the future. Governments also continued to cut spending. Exports accelerated in the second quarter despite more recent signs of diminishing demand, but the gain was canceled out by a larger increase in imports, which count against the gross domestic product. Economists expect exports to shrink as the dollar rises against other currencies, making American goods less competitive. The housing sector, which has gone from a drag on the economy to a positive, continued to grow, posting a 9.7 percent gain — though again, that is less than half its rate of growth in the first quarter. Uncertainty cast a pall, coming from both the domestic front, with a presidential race and the fate of numerous federal policies in question, and from overseas, with companies like Ford reporting a decline in profit this week because of the slowdown in Europe, despite a healthy showing in North America. “You can’t blame all of it on Europe — we have our own problems yet,” said Joshua Shapiro, the chief United States economist at MFR Inc., a financial consulting firm. “When you have a credit bubble or asset bubble that’s popped, the recovery process from that is just really long and really painful.”

Economy weak now.

Rugaber 7/26

[Christoper S., AP Economics Writer, The Associated Press, “US economy looks weaker, business confidence dims,” 7/26/12] nv

Businesses placed fewer orders for most long-lasting manufactured goods in June, suggesting many are losing confidence in the slumping U.S. economy. The housing recovery also lost some momentum last month as fewer Americans signed contracts to buy homes. A third report Thursday showed applications for unemployment benefits plunged last week — normally a good sign. But economists quickly dismissed the decline, saying fewer temporary auto layoffs distorted the figure. The latest data added to worries that growth in the April-June quarter could be sharply lower than at the start of the year. The government will issue its first of three estimates for second-quarter growth on Friday. “It looks like the corporate sector is starting to lose confidence in the economy,” said Ethan Harris, co-director of global economics at Bank of America Merrill Lynch, said. The most alarming sign Thursday was a report from the Commerce Department on business orders for durable goods, items expected to last at least three years. While overall orders rose 1.6 percent in June from May, the increase was driven mostly by a surge in volatile aircraft orders. When excluding aircraft and other transportation equipment, orders fell 1.1 percent — the third decline in four months. And orders for so-called core capital goods, which indicate business investment plans, dropped 1.4 percent, also the third decline in four months. Businesses placed fewer orders for industrial machinery, computers, and autos in June. Manufacturing has helped drive growth since the recession ended three years ago. But it has slowed in recent months, along with the broader economy. The report on durable goods “is just another number confirming how weak the second quarter was,” Harris said. Economists expect growth slowed in the April-June quarter to an annual rate of only 1.5 percent, according to a survey by FactSet. That’s down from 1.9 percent in the first three months of the year. But Harris says that may be too optimistic. He expects growth of only 1.1 percent. And he believes the economy will remain sluggish for the rest of the year. Europe’s financial crisis has lowered demand for U.S. exports. And the pending expiration of several U.S. tax cuts at the start of next year, along with scheduled spending cuts, may be weighing on growth. Many U.S. companies may postpone large investment plans until the outlook for those two issues improves, he said. “Why am I going to make a big capital spending decision, when I know that in a few months the economy could take a big hit?” Harris asked. Some economists forecast that the looming U.S. budget crisis could shave several points from next year’s growth. Overall durable goods orders rose to $221.6 billion in June. That’s 57 percent higher than the recession low hit in the spring of 2009. But orders are still 9.1 percent below their peak in December 2007, when the recession began. Europe did receive a dose of good news Thursday when Mario Draghi, president of the European Central Bank, said he would “do whatever it takes” to preserve the euro currency. Stocks surged after he made his comments. The Dow Jones industrial average gained 212 points, or 1.7 percent, to close up at 12,888. The broader Standard & Poor’s 500 index rose 22 points to 1,360. It was the S&P’s first gain in five days. The housing market has been a bright spot this year. But a report Thursday showed the recovery will be bumpy. The National Association of Realtors said its index of sales agreements fell 1.4 percent in June to 99.3, down from 100.7 in May. A reading above 100 is considered healthy. Contract signings typically indicate where the housing market is headed. There’s generally a one- to two-month lag between a signed contract and a completed deal. The index is 9.5 percent higher than it was a year ago. And Joshua Shapiro, chief U.S. economist at MFR Inc., noted that despite June’s drop, the index is higher than it was in April. That could translate into higher sales of previously occupied homes in July. Separately, the Labor Department said the number of people seeking unemployment benefits fell by 35,000 to a seasonally adjusted 353,000. But economists view the report with skepticism because the government’s seasonal adjustments didn’t anticipate fewer summer shutdowns by automakers, which have resulted in fewer temporary layoffs.

Economy unstable now.

Shapiro 7/26

[Aviv N., Senior Research Analyst and Business Development Officer for AlgosysFx, Forexpros, “Concerns Over The Weakening US Economy Elevate,” 7/26/12, http://www.forexpros.com/analysis/concerns-over-the-weakening-us-economy-elevate-130965] nv

New data from the US raised concerns about the weak economy's long-term impact on the next generation of Americans as more children and families across the United States are facing poverty and economic instability following the recession. A report released yesterday found that a rising number of children in nearly every state have families experiencing deeper poverty and economic insecurity since 2005, even as some other areas such as education and healthcare have improved. The findings showed that 2.4 Million more children slipped into poverty from 2005 to 2010, from 13.3 Million to 15.7 Million. The economic well-being of children and families has plummeted because of the recession. The findings of the report came amid an uncertain recovery in the wake of a national recession that ran from late 2007 to mid-2009 and led to significant unemployment and housing foreclosures. Further information suggest that there were a growing number of children whose parents did not have stable, full-time employment and whose families were burdened with high housing costs. Still, there were some gains in health and education. Dozens of states saw more parents with high school diplomas and fewer teen births. Children in more than 40 states gained access to health insurance, and there were fewer deaths among children and teenagers. Many states also saw steady improvement in the number of children enrolled in preschool as well as gains in reading and math proficiency. The findings come as state governors continue to wrestle with fiscal problems from the recession. Despite such trouble, policymakers should not lose sight of investing in the nation's youth. In the same way, an examination of the US economy reveals some highs and some serious problems. US growth is at a tepid 2 percent. The US housing market’s rate of descent has slowed but prices remain 30-60 percent below highs. New housing starts have stabilized, at around 50 percent below peak levels. Benefiting from a weaker dollar, manufacturing has improved. Lower oil and natural gas prices have benefitted the economy. However, employment remains weak. If discouraged workers who have left the workforce and part-time workers seeking full-time employment are included, then unemployment is above 15 percent, far higher than the headline at 8 percent. The total number of Americans now employed is around 140 Million — well-below the peak level above 146 Million. In addition, consumer spending remains patchy. Job insecurity, lack of earnings and wealth losses are causing households to reducing spending and repay debt. Record corporate profits have been achieved mainly through cost reductions and minimal revenue growth. Investment is weak due to the lack of demand. Bank lending is sluggish due to lower demand for credit and problems of financial institutions. Federal public finances remain unsustainable. Cuts in spending, mandated under the 2011 increase in the national debt ceiling, would improve deficits but adversely affect growth. State and municipal finances are under severe stress, with an increasing number of borrowers filing for bankruptcy.

Alt cause—eurozone crisis makes economy bad now.

Liberto 7/25

[Jennifer, Staff Writer, CNN Money, “Geithner: Europe threatens U.S. economy,” 7/25/12, http://money.cnn.com/2012/07/25/news/economy/geithner/index.htm] nv

The biggest threat to the U.S. economy is Europe, Treasury Secretary Tim Geithner said Wednesday. "The economic recession in Europe is hurting economic growth around the world, and the ongoing financial stress is causing a general tightening of financial conditions, exacerbating the global slowdown," Geithner said in testimony before the House Financial Services Committee. Geithner's testimony comes as part of his role as chief of a regulatory group called the Financial Stability Oversight Council. Geithner touted that four years after the financial crisis the system is "stronger and more resilient." He said that banks now hold far more capital in reserves than they used to. And the size of the "shadow banking system," or financial contracts called derivatives, that remains unregulated has shrunk since the crisis, Geithner said. But the European debt crisis remains a substantial threat to U.S. and worldwide growth, according to the Treasury chief. "A severe crisis in Europe would necessarily have very substantial, adverse effects on the United States," Geithner said. Geithner said that the U.S. economy has also been hurt by the rise in oil prices earlier this year, cuts to government spending and slow rates of income growth. He warned that economic growth could be curtailed more by approaching tax increases and spending cuts, and uncertainty about what Congress will do as the so-called fiscal cliff approaches. "These potential threats underscore the need for continued progress in repairing the remaining damage from the financial crisis and enacting reforms to make the system stronger for the long run," Geithner said. During the hearing, Geithner is expected to be asked about his role running the New York Federal Reserve, which is embroiled in the scandal over rigging of a key financial benchmark that impacts interest rates for mortgages, loans and derivative contracts worldwide. While Geithner was in charge of the New York Fed, the agency got early warning signals that the British bank Barclays was fixing the Libor rate. Geithner didn't mention the Libor scandal in his opening statement.

U.S. economy is fast approaching a fiscal cliff.

Hopkins and Mattingly 7/24

[Cheyenne Hopkins and Phil Mattingly, Staff Writers, Bloomberg, “Geithner Says Europe, Fiscal Cliff Threaten U.S. Economy,” 7/24/12, http://www.bloomberg.com/news/2012-07-25/geithner-says-europe-fiscal-cliff-threaten-u-s-economy.html] nv

Treasury Secretary Timothy F. Geithner said the European debt crisis poses the greatest threat to the U.S. economy, while the so-called “fiscal cliff” also threatens growth. Geithner, in testimony prepared for delivery to a U.S. House panel tomorrow, said European leaders should complement long-term economic reforms with short-term changes, such as strengthening the banking systems and bringing sovereign borrowing rates down, to restore fiscal stability. “In addition to pressures from Europe and the global economic slowdown, U.S. growth has been hurt by rise in oil prices earlier this year, the ongoing reduction in spending at all levels of government, and slow rates of growth in income,” Geithner said in remarks for the House Financial Services Committee. A copy of his testimony was obtained by Bloomberg News. U.S. lawmakers remain deadlocked over long-delayed budget decisions including the future of the George W. Bush-era income tax cuts that expire Dec. 31, automatic spending cuts set to take effect in January and raising the federal debt limit. The end-of-year tax and budget impasse has led to warnings the U.S. could careen off a “fiscal cliff” if Congress doesn’t act. “The slowdown in U.S. growth could be exacerbated by concerns about approaching tax increases and spending cuts, and by uncertainty about the shape of the reforms to tax policy and spending that are necessary to restore fiscal responsibility,” he said. Geithner will be testifying on the annual report of the Financial Stability Oversight Council, which seeks to prevent another financial crisis.

Long-term economy weak.

Blackden 7/28

[Richard, US Business Editor, The Telegraph, “World holds its breath as America’s debt battle looms,” 7/28/12, http://www.telegraph.co.uk/finance/economics/9432942/World-holds-its-breath-as-Americas-debt-battle-looms.html] nv

It is just hard to make any sort of plans for what we're going to do," complains Pat Conroy, the founder and president of MicroMain, a small software company based in Austin, Texas. "It is very hard to know what sort of investments we're going to make." It is common to hear US politicians invoke America's exceptionalism and the view that it is a nation apart. The dollar's status as the world's reserve currency and the large foreign appetite for US government debt are the two pieces of economic evidence often put forward to support the claim. Right now, Conroy, who employs 35 people to design software for property managers, is feeling sceptical. Like many other Americans, the entrepreneur is frustrated that the country is exhibiting a failing that has become familiar across much of the West since the financial crisis. More than three years after President **Barack** Obama was swept into the White House, he and Congress have not delivered a plan that reduces the government's more than $15 trillion (£9.7 trillion) of debt, or one that stops it rising. Instead, there have been a series of temporary deals culminating in last summer's debt ceiling debacle in which the world was forced to hold its breath to see if the US would default on its borrowings for the first time. Default was narrowly avoided, but the **US was stripped of its coveted AAA status just a few days later** by rating agency Standard & Poor's. Almost four years on from the financial crisis, America is now facing a debt battle and once again the world is holding its breath. For if America messes up, much of the world will surely follow. The battle is familiar to many countries in the West. The imminent retirement of the baby-boomer generation means that government spending on pension benefits and healthcare will reach unsustainable levels unless those benefits are scaled back, taxes increased or there is a combination of both. The Congressional Budget Office (CBO) – America's equivalent of the Office for Budget Responsibility – has warned that the ratio of America's debt to the size of its economy risks ballooning to 199pc by 2037 from the already historically high level of 70pc if nothing is done. For those like Alice Rivlin who have spent their careers trying to keep America's budget balanced, the failure to confront the long-term challenge is deeply troubling. "The long-term picture is just getting worse," says Rivlin, who ran the budget office in former president Bill Clinton's administration. "There is no really serious national conversation about the debt." This inability to tackle the long-term horizon has left America facing a much more urgent debt fight that risks plunging the US back into recession and casting a long shadow over the rest of the world economy. As things stand, the world's largest economy will fall off what Federal Reserve chairman, Ben Bernanke, has called a "fiscal cliff" at the end of the year. In practical terms, the cliff has two main ingredients. Firstly, tax rises that come from the expiration on December 31 of cuts introduced by George W Bush and later extended by Obama. Secondly, the start of $1.2 trillion of spending cuts that will be split between defence and other government spending. To give a sense of the steepness of the cliff, economists at Bank of America estimate that if the tax rises and spending cuts are all allowed to happen then it will produce a fiscal tightening equivalent to 4% of US gross domestic product. That is bigger than anything David Cameron and George Osborne have tried since taking office. And it is the uncertainty over whether the US will fall off the cliff that is worrying Pat Conroy and his software firm in Texas. The greater hesitancy among the businesses he sells to has left Conroy unsure whether he will convert the handful of contractors the company has added this year into permanent employees. Nor is the fog just restricting the view of America's army of small businesses. With half of the spending cuts due to come from the military budget, the country's biggest defence and aerospace companies are rattled. No one appears to know which specific programmes will be targeted when the axe falls in January. "We're entering a time frame when the uncertainty is as onerous as the cuts themselves," Jim McNerney, the chairman and chief executive of Boeing, said. "I have no choice but to adjust my costs." If it were just Conroy's 35-person operation or even the vast Boeing company affected that would be manageable. But an increasing number of economists expect a measure of paralysis to ripple across US businesses over the rest of the year. Analysts at Bank of America believe it will bring the US economy to a virtual halt in the fourth quarter, when it is forecasting growth of just 0.25pc. "Businesses don't have any clarity and we think we'll see them respond," said Michelle Meyer, an economist at Bank of America. "It will start showing up in the data in coming months." Worryingly, it is not just America's businesses that are stuck with a restricted view of how much they will be taxed next year and where exactly spending cuts will fall. It is consumers whose spending still accounts for the lion's share of the economy. Should all the tax cuts, including an emergency tax on salaries, be allowed to lapse, the Tax Policy Center estimates that 83pc of households will face an annual increase in their tax bills of $3,701. The fog is set to remain at least until the election because the latest opinion polls suggest that November's fight for the presidency between Obama and Mitt Romney, his Republican challenger, will be close. The battle between Democrats and Republicans for control of Congress is also forecast to be very tight. None of which is encouraging for a global economy in which much of Europe and the UK are mired in recession and Asia is facing its own headwinds. If there is good news, it is that few expect America's political elite to allow the country to fall off the "cliff." Whatever voters decide in November, most expect some of the tax cuts to be extended and a portion of the spending reductions to be delayed. Economists at Barclays, for example, are forecasting a compromise that will deliver fiscal tightening of about 1.3pc of GDP. That will be a drag on growth next year, but is less likely to force the US into the double-dip camp with Britain and large parts of Europe. No one wants to see the world's largest economy contract again. That includes the financial markets. Whatever you think of some Americans' view that theirs is a country apart, bond investors still treat it as one. Although the US budget deficit has fallen from the 9.9pc of gross domestic product it reached during the depths of the recession in 2009, it is still predicted to hit 7.6pc this year. That is higher than any year between the end of the Second World War and 2008, when Lehman Brothers collapsed. By contrast, the International Monetary Fund forecasts that Britain's budget gap will narrow to 7.1pc next year.

Alt cause—eurozone crisis is weakening world economy.

Wiseman 7/23

[Paul Wiseman, Economics Writer, AP News, “Global economy in worst shape since 2009,” 7/23/12, http://www.businessweek.com/ap/2012-07-22/slower-global-growth-reflects-close-economic-links#p1] nv

Mounting fears about Spain's financial health help illustrate why the global economy is in its worst shape since 2009.

Six of the 17 countries that use the euro currency are in recession. The U.S. economy is struggling again. And the economic superstars of the developing world — China, India and Brazil — are in no position to come to the rescue. They're slowing, too. The lengthening shadow over the world's economy illustrates one of the consequences of globalization: There's nowhere to hide. Investors drove up Spain's borrowing rates Monday over concern that the government's debts might force it to seek a bailout. The interest rate on Spain's 10-year bond touched 7.56 percent — the highest since the euro began in 1999. Stocks around the world tumbled in response. Worries about Spain intensified after its central bank said the economy shrank 0.4 percent in the second quarter. The government predicts the economy will keep contracting next year as tax hikes and spending cuts hurt consumers and businesses. Italy has also been swept up by fears that it may need to request aid. Rates on Italy's government bonds jumped Monday, and stock prices sank. Economies around the world have never been so tightly linked — which means that as one region weakens, others do, too. That's why Europe's slowdown is hurting factories in China. And why those Chinese factories are buying less iron ore from Brazil. As a result of this global economic slowdown, the International Monetary Fund has reduced its forecast for world growth this year to 3.5 percent, the slowest since a 0.6 percent drop in 2009. Some economists predict the global economy will grow a full percentage point less. For now, few foresee another global recession. Central banks in China, Britain, Brazil, South Korea and Europe have cut interest rates in the past month to try to jolt growth. European leaders have begun to focus more on promoting growth, not just shrinking debt and cutting budgets. The Chinese government, in particular, is expected to do what it takes to protect its economy from deteriorating too quickly. And despite their slowdowns, China and India are still growing at rates America and Europe can only imagine. But many economists say European policymakers aren't moving fast enough to strengthen European banks and ease borrowing costs for Italy and Spain. They fear the global impact if Europe's economy deteriorates further. Stock prices in the United States and elsewhere are fluctuating almost daily depending on the outlook for a resolution of Europe's debt crisis. Around the world, sales at companies ranging from automakers to technology companies are falling. Advanced Micro Devices, a California-based maker of computer chips used in everything from slot machines to smart cameras, says revenue likely dropped 11 percent in the second quarter because of weaker-than-expected sales in China and Europe. At Jagemann Stamping Co. in Manitowoc, Wis., sales to Europe have dropped more than 10 percent from a year ago. The company makes metal parts for auto companies and other customers. It's still enjoying strong sales in the United States, so it hasn't had to cut workers because of falling business in Germany and the Czech Republic. "What it does is slow our new hiring," says company president Ralph Hardt. One growing concern about the global economy is there's little margin for error: Unemployment is already at recession levels in Europe and the United States. The United States, by far the world's biggest economy, has long pulled the global economy out of slumps. Now it needs help. Three years after the Great Recession officially ended, the American economy can't maintain momentum. For the third straight year, growth has stalled at mid-year after getting off to a promising start. Unemployment stood at 8.2 percent in June — the 41st straight month it's been above 8 percent. Americans spent less at retail businesses for a third straight month in June, the longest losing streak since the recession. Economists are downgrading their estimates of economic growth in the April-June quarter. When the government releases its first estimate on Friday, many think it won't even match the first quarter's sluggish 1.9 percent annual pace. The global slowdown is squeezing U.S. exports, which have accounted for an unusually large 43 percent share of U.S. growth since the recession officially ended in June 2009. Consumer confidence has fallen four straight months in the face of scant hiring and weak economic growth. U.S. companies are nervous about the threat of tax increases and spending cuts that are scheduled to kick in at year's end unless Congress breaks a deadlock. The IMF has warned of a spillover to the rest of the world if the U.S. economy falls off the so-called fiscal cliff. Europe's obstacles are even more severe. It's faced with crushing government debts, struggling banks and scant economic growth. Unemployment in the 17 countries that use the euro is 11 percent, the highest since the euro was adopted in 1999. Greece, Portugal, Italy and Spain are in recessions. Germany and France are faring better, but both are likely to grow more slowly this year than America. French retail giant Carrefour SA — the Wal-Mart of Europe — says its sales fell in the second quarter amid a slowdown in its core markets in Europe. Italy's Fiat lost nearly $260 million in Europe the first three months of the year. French carmaker PSA Peugeot-Citroen plans to slash 8,000 jobs in France and close a major factory. Europe's banks are stuck with bad real estate loans and shaky European government bonds. The European Central Bank has made massive amounts of money available to Europe's banks at cheap rates to try to revive lending. But borrowing by many businesses and consumers remains weak because they are uncertain about future income. Many fear that Greece and perhaps other countries will default on their debts and have to abandon the euro currency, which could ignite financial chaos across Europe. A summit of European leaders last month produced some agreements that helped calm markets for a few days. But optimism faded as investors recognized that governments are still saddled with big debts and banks with bad loans. And that Europe itself still faces the threat that growth will stall and the euro currency alliance will collapse.

econ stable

The economy is resilient.

Forex 7/27

[Forex.com, Forex Fundamentals, “The US Remains Resilient,” 7/27/12, http://www.actionforex.com/analysis/daily-forex-fundamentals/the-us-remains-resilient-20120727170972/] nv

After focusing mostly on Europe and in particular Mario Draghi, the markets have had to adapt to a better than expected Q2 GDP report from the US. It showed that the US economy expanded by 1.5% in Q2 on an annualised basis. Although that is below the 1.9% rate in Q1 it was above the consensus 1.4%. The markets reacted in typical fashion: buying the dollar and selling Treasuries, causing yields to rise and dragging USDJPY higher with it. But will the GDP report alter the course of the FOMC meeting that concludes next Wednesday? There had been some expectation in the market that the Fed would do more QE on the back of intensifying risks emanating from the currency bloc; however growth at this rate suggests that the US economy is far from recessionary territory. The Fed's mandate is to provide full employment and keep the inflation rate under control. It has managed to keep core inflation (stripping out food and energy) a fairly stable 2.2% in June, and this pair has been trading in a fairly narrow range for some time, which suggests the Fed is doing its job when it comes to inflation. However, unemployment has been more stubborn and remains at an elevated 8.2%, and job growth is fairly anaemic. There is some good news; initial jobless claims have been trending lower in recent weeks, although that could be due to the usual disruption during the summer months caused by factory shutdowns etc. On balance the economic data does not suggest another round of QE is necessary from the Fed. Although the employment picture is weak, Fed officials may want to wait to see if the economy picks up in the second half of the year, since the growth outlook is neither too good for jubilation nor too bad for more stimulus, in our view. For example, personal consumption declined from 2.4% in Q1 to 1.5% in Q2, which is fairly muted but not a bad reading. Services and private sector investment rose at a faster rate in Q2 than Q1, and investment in residential and non-residential building also registered healthy gains for the third straight quarter. This is important since housing has been a major drag on the US economy in the last four years. Also, growth in the US is not reliant on the public sector: government spending slipped to 1.4% in Q2 after a 3% decline in Q1. It is interesting that the US economy is so resilient in the face of deep recessions across the Atlantic, and that growth is managing to do well even while government spending is falling. Dare I say it, but Republican Presidential candidate Mitt Romney should stop telling London how to “do” the Olympics and offer some useful advice: by telling us the trick of how to have steady growth while reducing government spending. Europe is not far from the markets' minds either, as investors digest Draghi's comments for the second day. After yesterday's stunning rally the markets have woken up today in a slightly less jubilant mood. Stocks are still rallying, but Spanish bond yields rose to 6.95% today after comments from the Bundesbank suggested that Germany will not support bond purchases or give the rescue funds banking licences to print money and act as sovereign lenders of last resort. This knocked the wind out of the bond markets and also the euro, which tumbled to a low of 1.2240. However, they have since picked up as we get close to the end of the European week, and EURUSD is once again testing the 1.2330 level - a key resistance zone for this pair - after the leaders of Germany and France stood together and offered to do everything possible to save the currency union.

The economy remains resilient.

Airaghi 7/30

[Angelo Airaghi, Commodity Trading Advisor, Seeking Alpha, “Europe: Will Action Follow Words?” 7/30/12, http://seekingalpha.com/article/761011-europe-will-action-follow-words] nv

The US economy is resilient, despite the world's slowdown. European leaders will instead do anything to support the Eurozone. Historically, the last quarter of the year favors stocks and gold, and penalizes the US dollar. Considering everything, it was not so bad. After rising 2.0% in the first quarter of 2012 and topping 4.0% in the last part of 2011, GDP growth fell to 1.5% in the second quarter of this year. The economy is clearly contracting, but the decline remains contained so far. Household spending fell to 1.5% from 2.4%. Business investment slid to 5.3% from 7.5%. Residential investment increased for the fifth straight quarter. Finally, exports were quite strong at +5.3%, considering the global slowdown.

America’s economy remains resilient.

Phillips 7/27

[Scott Phillips, Motley Fool investment analyst, Sydney Morning Herald, “Are We About to Benefit from a US Recovery?” 7/27/12, http://www.smh.com.au/business/motley-fool/are-we-about-to-benefit-from-a-us-recovery-20120727-22xol.html] nv

We've long been used to the concept that if America sneezes, the rest of the world catches a cold. That concept was used to explain share market movements, and our seemingly slavish link to changes in the Dow Jones and S&P 500. That link isn't as inextricable as it once was. On one hand, Chinese growth has been pulling the economy along for years now. On the other, Europe's problems are an endless source of nerves for business, bankers and investors alike. Doom and gloom is gone, and in its place is a surprisingly positive view of America's future. Despite the lessening role of the US in global economic affairs, the country does remain a powerful force – for its innovation and its consumption. If economic growth is as much a question of confidence as it is of activity, a resurgent America could be the kick-start the global economy needs. Perhaps surprisingly, it could be a growth in US exports that provides the much needed circuit breaker. The storyline around America has taken a sudden, and to many, unexpected turn in the past couple months. Just two weeks ago, The Economist featured a cover with a shirtless Uncle Sam flexing with the words "Comeback Kid" above the muscle-bound American icon. This wasn't a traditional Uncle Sam poster. This Uncle Sam had red, white, and blue tassles on his nipples. The new America seems to have an edge. The message behind that Economist cover? America has managed to come out of the recession with a leaner, more powerful economy, and is quietly becoming an energy superpower on par with Saudi Arabia thanks to recent advancements in finding new oil and gas. Along with a revitalised energy future, America has begun paying down its debts, closing its trade gap, and was the first to clean up its banking system. Doom and gloom is gone, and in its place is a surprisingly positive view of America's future, tassles and all. In the face of continually high unemployment and essentially flat real GDP growth over the past five years, such a notion of American recovery could seem foreign. In the minds of investors who are pricing the S&P 500 at its lowest P/E since the middle of the '90s and are pricing many Dow Jones stalwarts themselves near single-digit P/Es, "greatness" doesn't seem to be the word they're associating with the country's future. A recent American Interest essay, written by economist Tyler Cowen, had arguments similar to those in The Economist, saying that America would once again become an export powerhouse. He pointed out that as poorer countries first develop, they crave raw resources to build infrastructure. America doesn't specialise in these resources and has missed out on a big part of the emerging market export bonanza thus far. However, as these countries get wealthier and begin to import more high-end services and goods like pharmaceuticals, entertainment, and advanced technologies, they'll shift their demand to America. We've already seen the impact of how emerging countries' changing tastes are boosting American companies like Intel (Nasdaq: INTC), which routinely credits growth in countries like China, Brazil, and Turkey for its sales growth. To truly grasp America's dominance of the technology space, one only needs to look at a list of the largest tech companies in the world. Nine of the 10 largest are American (the other is South Korean giant Samsung). The first European company doesn't show up until No. 11 on the list. Why now? Why all the sudden media interest in the potential of American greatness? Or, more specifically, what has changed in America that wasn't present during its sub-par growth years between 2007 and today? A large part of the storyline is the reforms America enacted earlier than other nations across the globe. The country recapitalised its banking system aggressively in 2008 and 2009 and started chipping away at the amount of credit outstanding in the country. In contrast to America's banks and consumers cutting credit and tightening their belts, China moved full-steam ahead, seeing credit as a percentage of GDP move from less than 125% in 2008 to north of 175% today. Much of Europe's banking system is still a mess, and deeper structural reforms to backstop banks across countries like Spain have been necessary lately. Even with the recent progress, Europe still has a long way to go before there's faith not only in its banks, but in the continent's nations themselves. With five years of doom-and-gloom headlines behind us, sometimes it's important to remember how resilient economies can be. It's important to remember that downturns give us a chance to reform broken systems and clean out waste. It's important to remember that the world has been through worse, and that great economic revivals can come at times of despair, when no one saw it coming. Australian investors have taken a very pessimistic view of the future, largely driven by those ever-present European concerns, a sluggish US and lower Chinese growth. It's just possible that America might give us the jump start we're looking for.