

Prices Fuel U.S. Economic Woes

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Fuel prices are soaring. Home prices are plunging. The subprime mortgage crisis has led to large numbers of foreclosures in some regions. Consumer debt continues to increase.

During his July 24 ACA Convention general session, State of the Economy: Consumer Woes and Credit Quality, noted economist Dr. Ken Mayland made several observations about these factors and the current U.S. financial state.

“The rapid rise in fuel prices is a show-stopper for the economy,” Mayland said. Unfortunately, he doesn’t see any indications that the price of oil will drop. Conservation efforts may decrease demand in the United States, but not enough to surpass the growing demand in China and India. Alternative power choices won’t provide any significant relief for years or even decades.

Statistics indicate consumers are pulling the money to cover the rising fuel costs from only two areas-decreased spending on automobiles and decreased savings. According to Mayland, the personal savings rate has dropped from about 3 percent to almost nothing. Unfortunately, this lack of savings leaves many people financially unprepared in the event of an emergency. As consumers see their savings shrinking, many are worried about their future. Their fears may well play a major factor when they vote in November.

Mayland believes the presidential election will come down to two issues: the war in Iraq and a solution for the 50 percent of tax filers earning \$31,000 or less. He also foresees a major government expansion of programs, which he compares to President Johnson’s 1964 Great Society goals, which sought to eliminate poverty and racial injustice.

While the economic picture remains bleak, Mayland offered hope. Something-expansionary policies, stock prices, exports, housing, autos, political change-will eventually spark a recovery. The United States has experienced a negative economy in the past, and it always recovers. There’s no reason to believe this economic downturn will be the exception.