



State of the Union: Economic Challenges Ahead

Last week, President Obama declared the state of our union as “strong.” In an address to the nation, the President was upbeat and sounded confident. And he said the ailing economy remains his “unfinished task.”

The fact is there are many economic challenges ahead for this country. And while the President talked about improving the situation for the middle class, he was short on specifics. His remarks set-off what everyone expected – disagreement about where the economy stands and whether it is improving. All of this at a time when a growing number of Americans don’t think we’re on the right track for economic recovery.

Even with the economic uncertainty, the U.S. economy continues to expand at a modest rate. It's clear that the road to recovery would be stronger if we are able to resolve the tax and spending issues facing the country.

Even so, there are bright spots:

- The housing market is showing signs of improvement, with housing prices moving higher. So are mortgage interest rates, something that is being watched very closely.
- Consumer confidence is still subdued, but in recent weeks has improved, moving higher since its lowest levels in 2009.
- Corporate profits remain steady, mainly due to continued cost cutting measures. Business investment and hiring are still lagging - especially when it comes to small businesses, change to this trend seems to be around the corner. And, for the first time in many months, there's talk of expansion in some sectors, like the auto industry.
- The Federal Reserve continues to hold interest rates at artificially low levels and most likely will continue this policy until Chairman Ben Bernanke's term is concluded early next year.

So, what does 2013 hold for us?

While we expect the economy to continue its modest growth this year, the remaining question is whether the U.S. contains government spending. This is critically important because there’s a direct correlation between an increase in government spending and lower economic growth – despite the perception that government spending enhances economic growth.

All of that said, we do remain cautiously optimistic for this year. We expect to see a modest rise in the U.S. GDP, some job growth and the equity markets to have a positive year, offering us additional investment opportunities.

Sincerely,

George

George M. Kapusta, CFP
President