Your Name

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State of the Economy

**Introduction**

The economy of a state can be understood through certain factors or indicators known as economic indicators. The economic indicators help experts or professionals assess the precise condition of the economy. The investors make their decisions given the opportunities available in a specific market, based on the understanding developed from the economic indicators. The investors can predict changes in the economy of a country. Among the many indicators of economy, some more prominent factors are gross domestic product, employment, consumer price index, M2 (money supply), producer price index, current employment statistics, retail industries’ sales, business inventories and sales, S&P stock, consumer confidence survey, inflation, monetary policy, fiscal policy, etc. Economic indicators predict the future of a country’s economy. Economic indicators hold immense significance for consumers and especially the business persons. They can make decisions with confidence and clarity. Economic indicators are researched, identified, and calculated by certain specialized institutions such as the National Bureau of Economic Research, Bureau of Labor Statistics, United States Census Bureau, etc. The United States has an economy that can justifiably be claimed to be the world's one of the most diversified and wealthiest economies. The US economy is predominantly a free economy with a freedom score of 76.8. Though it has seen little declines in trade freedom, monetary freedom, labor freedom, and fiscal health, the overall freedom score of the economy has seen increased by 1.1 points. This progress can be attributed to improvements made in tax burden scores as well as those related to government integrity.

**Business Cycle**

The business cycle of the economy of a particular country or state refers to the rise and fall in the economy, mostly in terms of the gross domestic product, with time. The economists analyze business cycles and help investors and consumers make better financial decisions. A business cycle can be divided into four phases to better understand it. The phases include i) expansion, ii) peak, iii) contraction, iv) trough. These phases do not show an occurrence at regular intervals, that is, the four phases can have dissimilar periods depending upon the trends of industry, market conditions, and nature of businesses. Expansion is the start of a business cycle, characterized by the growth of the economy. Peak is the month wherein expansion begins to convert in contraction. Contraction refers to the decline in economic growth that ends at the trough, the month wherein contraction phase transitions to the expansion phase. Factors influencing business cycle include capital, supply & demand, and consumer confidence. The US economy is in the expansion phase since last ten years. It started with the trough that occurred at the end of 2008. The economists have been warning the investors that the recession stage is near. The peak month can start anytime indicating the start of the contraction period.

**Gross Domestic Product (GDP)**

Gross domestic product refers to the value of goods produced and services made in terms of money in a country given a specific period. GDP is the most widely used tool by the economists to measure the size and growth rate of the economy. It is believed by the experts that a rising GDP indicates the growth of the economy whereas a declining GDP indicates that the economy is in trouble. GDP when adjusted for inflation provides deep insight into the economy. GDP can be measured as ‘nominal GDP’ (by measuring the raw data), ‘real GDP’ (by adjusting for inflation and comparing economic outputs between years and over time), 'GDP growth rate' (by measuring increases in GDP over specific periods), and 'GDP per capita' (by measuring GDP per individual in a country). Three approaches – expenditure, output, and income – are used to calculate GDP. Current GDP in the US is about 21345 billion and it is expected to be 22750 billion in 2020. GDP in the US was 2.35% in 2019 as compared to the previous year. It is expected to be 2.09% in 2020 as compared to the current year.

**Inflation**

It is the measure of the rate at which average prices of goods and services increase for a specific period. It influences the economy of a country by a decreased power of purchasing of its currency. Prices of goods and services rise due to the increased production costs. Inflation can be controlled through a decrease in government expenditure or a reduction in private spending. Consumer price index (CPI) is the measure of average change in prices of certain goods and services over time. It is used to measure inflation. CPI is measured monthly for all goods and services in the country. It increased recently by 0.3% in November for all consumers living in cities. Over the year, this increase counts 2.1 percent. A press release published in CNBC informed that US consumer prices have increased in November more than the expected level. The percentage of CPI rise given by US Bureau of Labor Statistics is 0.3 percent (*CPI Home*). It articulated that the borrowing costs have been reduced three times this year and, therefore, the data obtained suggest that interest rates should not be cut in the near term. The reason for the rise in CPI by 0.3 percent was that the consumers paid more for gasoline for the household use (“US Consumer Prices Increase More than Expected in November”).

**Unemployment**

Unemployment is considered to occur when people actively search for employment but cannot find work. Economists calculate the unemployment rate by dividing the number of unemployed persons by the number of employed persons. Unemployment is not an accurate measure of joblessness because it does not take into consideration every person without a job; it only considers unemployed individuals actively involved in job search. The unemployment rate of the country remained little changed in November, standing at 3.5 percent (*Employment Situation Summary*). The number of long-term unemployed persons, 1.2 million, remain unchanged in November. The little decrease of 0.1 percent in unemployment rate can be attributed to the nonfarm payroll employment rise as 266000 individuals got jobs.

**Monetary Policy**

It is a macroeconomic policy given by the central bank, comprising actions and communications of the central bank to manage money supply. It contributes to economic growth by increasing liquidity. To prevent inflation to occur, the monetary policy reduces liquidity. Monetary policy is conducted by the central bank to attain stability in prices and manage fluctuations in the economy. Central banks adjust the supply of money, usually by the open market operations (“Monetary Policy and Central Banking”). The Federal Reserve is responsible for conducting the monetary policy. It manages the short-term interest rates and has an impact on the cost and availability of credit. The Federal Reserve System decided to lower the interest rates to 1.55 percent that are effective since October 31, 2019 (*Monetary20191030a1.Pdf*). The Federal Reserve reduces interests’ rates to stimulate the economy. Consequently, it becomes cheaper to borrow money. It becomes subsequently easier for the consumers to spend more. When consumers borrow money on less interests, their buying power increases, ultimately causing increased spending throughout the economy. Like consumers, entrepreneurs can purchase large equipment as their profit margins increase.

**Fiscal Policy**

It is a policy that is used by a government to adjust the levels of its spending and rates of taxes for monitoring and influencing an economy. Together with the monetary policy, the central bank uses both policies to regulate and influence the money supply of a country. Expansionary fiscal policy happens when Congress cuts the rates of tax or increases spending of government. Contractionary fiscal policy occurs when Congress raises the rates tax or cuts the spending of government. Expansionary fiscal policy increases the level of aggregate demand, and Contractionary fiscal policy decreases it. The current US fiscal policy is Contractionary as the government levies taxes and lowers spending. An interesting report published on Congressional budget office website presents CBO's projections describing federal budget deficits to be huge for long periods in history (*An Update to the Budget and Economic Outlook: 2019 to 2029 | Congressional Budget Office*). It forecasts that federal debt would grow 95% of GDP in the next ten years. Economic growth will be slower to be 2.3 % in 2019.

**International Trade**

It refers to exchanging goods and services beyond the country's borders with two types of international trade relative to a particular country, export and import. The top exports of the United States are Cars ($56B), Planes, Helicopters, and/or Spacecraft ($54B), Refined Petroleum ($74.5B), Packaged Medicaments ($29.5B), and Gas Turbines ($31.6B). The top imports are Computers ($73.5B), Cars ($178B), Vehicle Parts ($67.1B), Crude Petroleum ($129B), and Broadcasting Equipment ($105B) (*OEC - United States (USA) Exports, Imports, and Trade Partners*). Further, the export destinations of the US on top include Japan ($66.9B), Germany ($61.6B), Canada ($149B), Mexico ($181B), and China ($133B). The import origins on top are Germany ($111B), Japan ($125B), Canada ($274B), Mexico ($307B), and China ($476B). The US should not engage in free trade with its trading partners. Protecting its domestic industries is essential for the economic growth. The US citizens would also find this reasonable as it aligns with their interests. People will feel secure about their businesses and find new ways to expand for growth and development.

**Conclusion**

The US business cycle in its first stage now that is in place since 2008's end of the year. Expansion is the growth of business. However, it is very likely to come to an end. GDP of the country is increasing which is a good sign for the economy. The experts are worried about solving the issues of inflation and unemployment. Monetary policy tends to decrease interest rates, whereas fiscal policy is contractionary. The country predominantly involves in international trade.

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