



The Daily Dish

August 19th Edition

DOUGLAS HOLTZ-EAKIN | AUGUST 19, 2014

Fannie Mae has downgraded their outlook for this year's housing market after reevaluating the effects of winter weather and the Federal Reserve's policies to ease stimulus programs. Their August 2014 Economic Outlook Report [states](#), "We currently estimate that 2014 will finish lower in total sales figures than 2013 — and that 2015, while stronger than 2013 and 2014, will not be the breakout year some are expecting."

Businesses are widely reporting their health care costs have increased since Obamacare. Two new surveys by the Federal Reserve Bank of New York found double digit increases for companies and most are expecting their costs to continue to rise. [CNBC reports](#), "More than a quarter of the manufacturing and service firms surveyed said they either have or will boost prices for goods and services 'because of the effects that the ACA is having on your business.'"

The [Associated Press is asking](#) the government to reconsider their decision rejecting a Freedom of Information Act request on the security systems for the government's health care site. The Centers for Medicare and Medicaid Services denied the request citing "that releasing this information would potentially cause an unwarranted risk to consumers' private information." According to the AP there are legitimate security concerns including "that state computers linking to a federal system that verifies the personal information of insurance applicants were vulnerable to attack."

Eakinomics: The Geopolitics of Oil

President Obama devoted much of his press conference yesterday to declaring an interim victory in Iraq, due to Kurds taking control of a key dam near the town of Mosul. The momentary relief from the threat posed by ISIS may or may not prove to be a significant foreign policy moment.

From an economic perspective, what's remarkable is how little global oil markets reacted to the news. Indeed, for those who have lived through the postwar history of oil shocks stemming from OPEC actions, geopolitical tensions, and outright military conflict in the Middle East it is striking that open conflict in Libya, Syria, Gaza, Israel, and elsewhere have not had a dramatic impact on global oil prices. In another age, one would have seen a spate of stories speculating about \$200 per barrel oil.

Those oil price spikes inflicted a double whammy on the U.S. economy. First, they acted directly as a tax on U.S. oil consumption. Paying another \$10 or \$25 per barrel for imported oil sent billions of dollars offshore, raised the cost of doing business, and drained household budgets of discretionary dollars. Oil price spikes made the U.S. poorer and a more costly place to do business.

The second impact was to place the Fed in a quandary. Did it tighten policy to offset the cost-push inflation? If so, it exacerbated the negative impact of the original shock. Or, did it accommodate the oil price shock, or even lower rates to reduce business costs? If so, it essentially blessed higher inflation and made its job harder in the long run.

Clearly, the world is a different place now, with a single explanation: the vast expansion of U.S. and North American production capacity (and the prospect of even more) makes the disruption of other sources a less threatening event. Prices have no reason to spike at the prospect of Middle East conflict.

The first benefit is that the Fed is relieved of its policy dilemma, and thank goodness — who wants to complicate the Fed’s exit strategy at this delicate juncture? The second benefit is that if global prices do rise, the U.S. earns more income on its production, not just pay more for its production. The result is a smaller “oil tax” with a more modest overall economic impact.

Markets are sensitive barometers of global conditions. There is much to be learned from the very different behavior of current global oil markets.

From the Forum

[Administration Misfires Cost Taxpayers, Failed to Fix Housing](#) by Andy Winkler, AAF Director Housing Finance Policy

[The Travel Promotion Act: A Public-Private Partnership in Practice](#) by Gordon Gray, AAF Director of Fiscal Policy