THE GINN ECONOMIC BRIEF

U.S. ECONOMIC SITUATION JUNE 2022 | VANCE GINN, Ph.D., CHIEF ECONOMIST

AVG HOURLY EARNINGS (INFLATION-ADJUSTED)

↓ 3.0%

YEAR-OVER-YEAR (LINK)

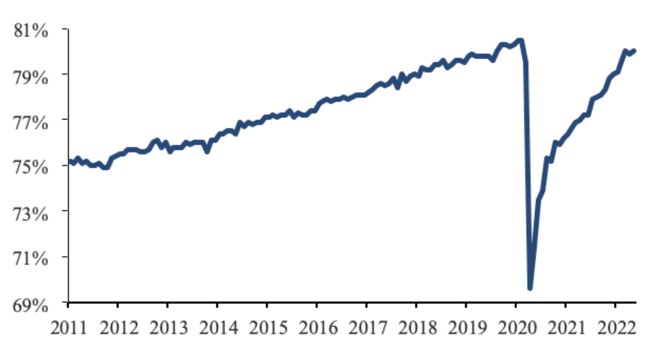
Small businesses cut 91,000 jobs across the nation in May 2022

Click here for details.

OVERVIEW: The economic destruction from the shutdown recession from February to April 2020 and subsequent policy mistakes has been persistent. The labor market has improved but this is not a "booming economy." Congress has added $6 trillion in deficit spending since January 2020 to reach the new high of $30.5 trillion national debt, which amounts to about $91,000 owed per American. And the Federal Reserve has monetized much of the new debt, leading to a 40-year high inflation rate. This has resulted in stagflation rearing its ugly head for the first time since the 1970s with rampant inflation and a stagnating economy, as output may decline in the first half of 2022. The Biden administration, Congress, and the Fed can correct this by not overregulating, overspending, and overprinting, respectively, but instead providing pro-growth policies for more productive private sector activity so that Americans can improve their livelihoods.

LABOR MARKET: The U.S. Bureau of Labor Statistics released a mixed U.S. jobs report for May 2022. Job creation slowed a bit to 390,000 total nonfarm jobs added last month, with 333,000 added in the private sector. And the official U3 unemployment rate stayed at a historically low 3.6%, but challenges remain. These challenges include a 3.0% decline in average hourly earnings (inflation-adjusted) over the last year, a 0.5 percentage point lower prime-age (25–54 years old) employment-population ratio than in February 2020, and a broader U6 underemployment rate of 7.1%—not to mention the at least 2 million drop in the labor force, which could increase the unemployment rate. Moreover, since the shutdown recession ended in April 2020, total nonfarm jobs have increased by 21.2 million but are down 822,000 from February 2020. About 60% of these total jobs gained were during the Trump administration from April 2020 to January 2021 and 40% of them during the Biden administration thereafter. Private nonfarm jobs have increased by 20.8 million but are down 207,000 from the peak. Similarly, about 6 out of 10 private jobs gained were during the Trump administration and the rest during the Biden administration. Adding to the concern is the potential for a "zombie economy." This includes "zombie labor" as many workers are sitting on the sidelines while there is a reported 5.5 million more unfilled jobs than unemployed people. And that demand for labor is likely inflated from many "zombie firms," which run on debt but are likely to close as interest rates rise. The 91,000 jobs lost at small businesses last month could be the start of a rapid decline.

EMPLOYMENT-POPULATION RATIO (25–54 YEARS OLD)



	JUNE 2009	FEBRUARY 2020	APRIL 2020	MAY 2022
Employment-population ratio (25–54 years old)	75.9%	80.5%	69.6%	80.0%
Unemployment rate (U6)	16.5%	7.0%	22.9%	7.1%
Private sector employment	108.4M	129.6M	108.6M	129.4M

Data compare the following: 1) June 2009—Dated trough of the 2007-09 U.S. recession, 2) February 2020—Dated peak of the last expansion, 3) April 2020 is dated trough of the 2021 recession, and 4) May 2022 is the latest period.

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ECONOMIC GROWTH: The U.S. Bureau of Economic Analysis reports the data below showing a comparison of real total gross domestic product (GDP), measured in chained 2012 dollars, and real private GDP, which excludes government consumption expenditures and gross investment.

	Q3:2009-Q4:2016	Q1:2017-Q4:2019	Q4/Q4 2020	Q4/Q4 2021	Q1:2022
Real GDP (end of period)	$17.8T	$19.2T	$18.8T	$19.8T	19.7T
Annualized growth (avg for period)	+2.2%	+2.5%	-2.3%	+5.5%	-1.5%
Real private GDP (end of period)	$14.7T	$15.9T	$15.4T	$16.5T	$16.4T
Annualized growth (avg for period)	+2.9%	+2.7%	-3.0%	+6.7%	-1.3%

The shutdown recession had historically large economic contractions of 31.2% in real total GDP and 37.4% in real private GDP in Q2:2020 because of individual responses and government-imposed shutdowns related to the COVID-19 pandemic. Economic activity has had booms and busts because of government influence since then as government inappropriately imposed restrictions in response to the pandemic even as there is little to no evidence that these restrictions helped. However, they did severely hurt people's ability to exchange and work. In 2021, the growth in nominal total GDP, measured in current dollars, was dominated by inflation, which distorts economic activity. The implicit GDP deflator measure of inflation was 6.3% for Q4-over-Q4 2021, representing more than half of the 11.8% increase in nominal total GDP. This measure was up by 8.1% in Q1:2022—the highest since Q2:1981—for a 6.5% increase in nominal total GDP. The latest Atlanta Fed GDPNow projection on June 15, 2022, for real total GDP growth in Q2:2022 was 0.0%.

For historical comparison, the last expansion from June 2009 to February 2020 had average annualized growth of 2.3% in real GDP and 2.8% in real private GDP. The earlier part of the expansion had slower total real GDP growth but had faster real private GDP growth. An explanation for this discrepancy is that government spending in the latter period grew faster, contributing to crowding-out of the productive private sector. With this excessive spending causing bloated national debt thereafter and especially since the shutdown recession, the Federal Reserve has monetized much of the new debt instead of allowing many interest rates to rise to a market-determined rate. This resulted in higher inflation as there has been too much money chasing too few goods. The consumer price index (CPI) is up by 8.6% over the last year—highest rate since December 1981. After adjusting total earnings in the private sector for CPI inflation, real total earnings are up only 0.2% since February 2020 as inflation reduces people's purchasing power. And elevated inflation will continue even as the Fed has been tapering its debt purchases and raised its federal funds rate target to a range of 1.5–1.75%.

High deficits and taxes are always and everywhere a spending problem. As the federal debt far exceeds U.S. GDP, and President Biden has proposed an irresponsible FY23 budget, the time is now to employ a fiscal rule like the Foundation's Responsible American Budget (RAB) with a maximum spending limit based on population growth plus inflation. If Congress had followed this approach from 2002 to 2021, the $19.8 trillion national debt increase would instead have been a $2.8 trillion decrease (surplus). The Republican Study Committee recently noted the strength of this type of fiscal rule in its FY 2023 "Blueprint to Save America." And the Federal Reserve should follow a monetary rule.

BOTTOM LINE: The U.S. economy and labor market have been improving, but bad policies out of D.C. have hindered more progress and will likely tip the scale to recession soon. The path forward should include pro-growth policies to combat the slowdown with policies that supported historic prosperity from 2017 to 2019, rather than the progressive policies of more spending, regulating, and taxing. The time is now for limited government with sound fiscal and monetary policy that provides more opportunities for people to work and have more paths out of poverty.

RECOMMENDATIONS

- Set a pro-growth policy path with less spending, regulating, and taxing at all levels of government.
- Reject new spending packages that America cannot afford nor needs; pass the RAB instead.
- Enact return-to-work policies; impose strict fiscal and monetary rules—with the Fed having a smaller balance sheet and higher federal funds rate target.