THE GINN ECONOMIC BRIEF

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

AVG HOURLY EARNINGS (INFLATION-ADJUSTED)

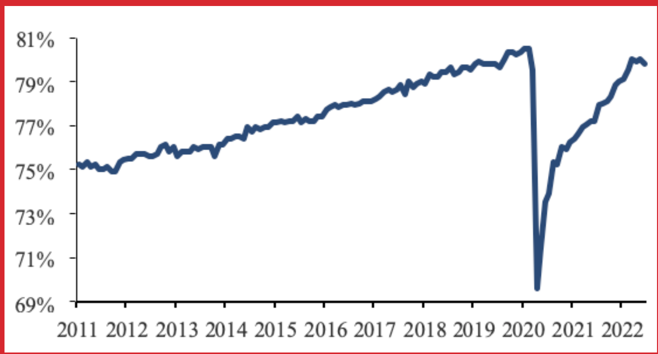
↓ 3.6%

YEAR-OVER-YEAR (LINK)

Total employment 524,000 jobs below pre-shutdown level.
Click here for details.

OVERVIEW: The shutdown recession from February to April 2020 and subsequent policy mistakes have caused substantial harm to Americans' livelihoods. It is now common to hear the dreaded words "stagflation" and "recession" as the economy stagnates from bad policies out of D.C. This includes Congress adding more than $6 trillion in deficit spending since January 2020 to reach the new high of $30.6 trillion in national debt, or nearly $243,000 owed per taxpayer. The Federal Reserve has monetized much of the new debt, contributing to 40-year high inflation rates. These bad policies have resulted in an inflated boom that is busting to a stagnating economy resulting in stagflation with the consequence of either now or soon a recession. The failed Keynesian policies out of the Biden administration, Congress, and the Fed must be replaced with a free-market approach so that Americans have more opportunities to prosper.

EMPLOYMENT-POPULATION RATIO (25–54 YEARS OLD)



LABOR MARKET: The U.S. Bureau of Labor Statistics released another mixed U.S. jobs report for June 2022. The recent total nonfarm job creation slowed to 372,000 last month, with 381,000 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 3.6% decline in average hourly earnings (inflation-adjusted) over the last year, a 0.7 percentage point lower prime-age (25–54 years old) employment-population ratio than in February 2020, and a lower labor-force participation rate at 62.2% with at least 2 million people out of the labor force. Moreover, since the shutdown recession ended in April 2020, total nonfarm jobs have increased by 21.5 million but remain 524,000 below 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 21.2 million and are now up 140,000 from the past peak. Similarly, 6 out of 10 private jobs gained were during the Trump administration. Adding to the concern is the "zombie economy." This includes "zombie labor" as many workers are sitting on the sidelines while there is a reported 5.3 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. Small businesses cutting jobs in recent months and their sentiment reaching a 48-year low are worrying signs that the bust is happening.

	JUNE 2009	FEBRUARY 2020	APRIL 2020	JUNE 2022
Employment-population ratio (25–54 years old)	75.9%	80.5%	69.6%	79.8%
Labor-force participation rate	65.7%	63.4%	60.2%	62.2%
Private sector employment	108.4M	129.6M	108.6M	129.8M

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) June 2022 is the latest period.

ECONOMIC GROWTH: The U.S. Bureau of Economic Analysis' data below show 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%	-1.6%
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 contracted sharply at annualized rates 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 GDP implicit price deflator 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 8.3% in Q1:2022—the highest since Q1:1981—for a 6.6% increase in nominal total GDP. The latest Atlanta Fed GDPNow projection on July 15, 2022, for real total GDP growth in Q2:2022 was -1.5%, resulting in what could be two consecutive quarters of negative real total GDP—commonly called a recession.

For historical comparison, the last expansion from June 2009 to February 2020 had average annualized growth of 2.3% in real total 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 deficit-spending in the latter period grew faster, contributing to crowding-out of the productive private sector. With excessive spending bloating the national debt thereafter, 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 as their production has been overregulated and overtaxed. The consumer price index (CPI) is up by 9.1% over the last year—highest rate since November 1981. After adjusting total earnings in the private sector for CPI inflation, real total earnings are up only 0.2% since February 2020 but down 1.1% since January 2022 as inflation reduces people's purchasing power. Elevated inflation will continue until the Fed more sharply reduces its balance sheet to provide a positive real federal funds rate target.

Just as inflation is always and everywhere a monetary phenomenon, 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, America needs 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 (updated) $17.7 trillion national debt increase would instead have been a $1.1 trillion decrease (i.e., surplus) for a $18.8 trillion swing to the positive that would reduce the cost to Americans. 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 are weakening, as bad policies out of D.C. have hindered growth and likely led to a recession now or soon. The path forward should include pro-growth policies to combat the slowdown similar to those 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 much smaller balance sheet and much higher federal funds rate target.