THE GINN ECONOMIC BRIEF

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

AVG HOURLY EARNINGS (INFLATION-ADJUSTED)

↓ 3.0%

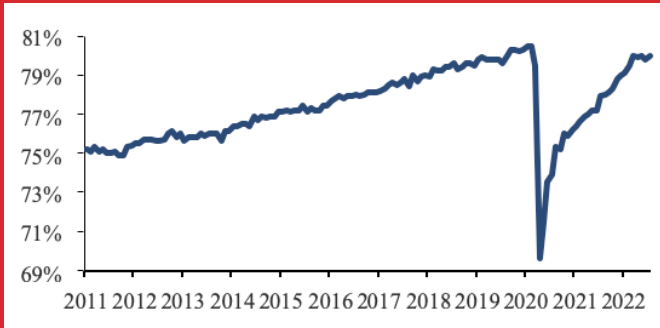
YEAR-OVER-YEAR (LINK)

Total employment only 32,000 jobs above pre-shutdown level.

Click here for details.

OVERVIEW: The shutdown recession from February to April 2020 and subsequent government failures have caused substantial harm to Americans' livelihoods, which include high inflation and a recession. One policy mistake was Congress adding more than $6.1 trillion in deficit spending since January 2020 to reach the new high of $30.6 trillion in national debt, or nearly $244,000 owed per taxpayer. Another mistake is the Federal Reserve monetizing much of the new debt, contributing to 40-year-high inflation rates. These bad policies have resulted in an inflated boom that is busting into what will likely be a long, deep recession with elevated inflation. 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 recently released another mixed U.S. jobs report for July 2022. This shows 528,000 net nonfarm jobs added last month, with 471,000 added in the private sector. The official U3 unemployment rate stayed at a historically low 3.5%, 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 lower labor-force participation rate at 62.1% with millions of people out of the labor force. Moreover, since the shutdown recession ended in April 2020, total nonfarm jobs have increased by 22.0 million. About 57% of these total jobs gained were during the Trump administration from April 2020 to January 2021 and 43% of them during the Biden administration thereafter. Private nonfarm jobs have increased by 21.6 million and are now up 629,000 from the past peak. Similarly, about 6 out of 10 private jobs gained were during the Trump administration. Adding to the concern is a "zombie economy." This includes "zombie labor" as many workers are sitting on the sidelines while there is a reported nearly 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. Small businesses cutting jobs and openings in recent months and their sentiment reaching a 48-year low are worrying signs during a recession.

	JUNE 2009	FEBRUARY 2020	APRIL 2020	JULY 2022
Employment-population ratio (25–54 years old)	75.9%	80.5%	69.6%	80.0%
Labor-force participation rate	65.7%	63.4%	60.2%	62.1%
Private sector employment	108.4M	129.6M	108.6M	130.3M

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) July 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	Q2:2022
Real GDP (end of period)	$17.8T	$19.2T	$18.8T	$19.8T	19.7T	19.7T
Annualized growth (avg for period)	+2.2%	+2.5%	-2.3%	+5.5%	-1.6%	-0.9%
Real private GDP (end of period)	$14.7T	$15.9T	$15.4T	$16.5T	$16.4T	$16.4T
Annualized growth (avg for period)	+2.9%	+2.7%	-3.0%	+6.7%	-1.3%	-0.7%

The shutdown recession contracted at historic annualized rates because of individual responses and government-imposed shutdowns related to the COVID-19 pandemic. Since then, economic activity has had booms and busts because of inappropriately imposed government 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 5.9% for Q4-over-Q4 2021, representing half of the 11.8% increase in nominal total GDP. This measure was up by 8.9% in Q2:2022—the highest since Q1:1981—for a 7.8% increase in nominal total GDP. There have now been two consecutive declines in real total (and private) GDP indicating a recession. This criteria has been used to date every recession since at least 1950. The Atlanta Fed's early GDPNow projection on August 10, 2022, for real total GDP growth in Q3:2022 was 2.5%.

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 real total 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 Fed 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 8.5% over the last year—highest rate since November 1981. After adjusting total earnings in the private sector for CPI inflation, real total earnings is down 0.4% in July 2022 since February 2020 or down 0.3% 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 have reduced 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: Americans are struggling from bad policies out of D.C., which have resulted in a recession with high inflation. Instead of passing massive spending bills, like the "Inflation Reduction Act" that will result in higher taxes, more inflation, and deeper recession, the path forward should include pro-growth policies. These policies ought to be 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 a much higher federal funds rate target.