THE GINN ECONOMIC BRIEF

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

AVG HOURLY EARNINGS (INFLATION-ADJUSTED)

↓ 2.6%

OVER LAST YEAR (LINK)

Total nonfarm employment down 1.2 million jobs since February 2020.

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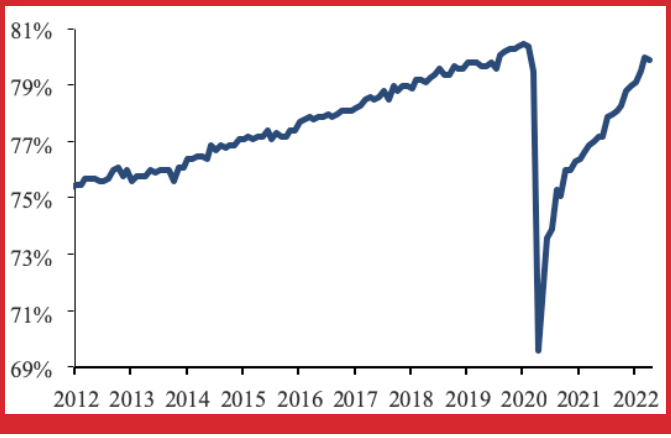
OVERVIEW: The economic costs of the shutdown recession from February to April 2020 and subsequent policy errors have been persistent and substantial across the nation. The U.S. labor market has been improving, but this is not a "booming economy" as weaknesses remain. This is in spite of Congress adding $6 trillion in deficit spending since January 2020 to reach the new high of $30 trillion national debt. And the Federal Reserve has monetized much of the new debt, leading to 40-year high inflation. Given rampant inflation and a stagnating economy, stagflation is here for the first time since the 1970s. Specifically, the Biden administration, Congress, and the Fed should stop overregulating, overspending, and over-printing, respectively, and instead provide pro-growth policies that support productive 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 April 2022. Although there were a robust 428,000 total nonfarm jobs added last month—406,000 added in the private sector—and the U3 unemployment rate stayed at a historically low 3.6%, challenges remain.

EMPLOYMENT-POPULATION RATIO (25–54 YEARS OLD)



These challenges include a 2.6% decline in average hourly earnings (inflation-adjusted) over the last year, a 0.6 percentage point lower prime-age (25–54 years old) employment-population ratio than in February 2020, and a broader U6 underemployment rate of 7.0%. Moreover, since the shutdown recession ended in April 2020, total nonfarm jobs have increased by 20.8 million but are down 1.2 million 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 20.5 million but are down 500,000 from the peak. Similarly, about 62% of these private jobs gained were during the Trump administration and 38% during the Biden administration. Adding to the concern in the labor market is a reported record high of 5.6 million more unfilled jobs than unemployed people, but this is a function of the labor force being down 537,000 since February 2020 and inflated demand with likely many zombie firms, which are open but on the verge of closing.

	JUNE 2009	FEBRUARY 2020	APRIL 2020	APRIL 2022
Employment-population ratio (25–54 years old)	75.9%	80.5%	69.6%	79.9%
Unemployment rate (U6)	16.5%	7.0%	22.9%	7.0%
Private sector employment	108.4M	129.6M	108.6M	129.1M

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) April 2022 is the latest period.

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%	-1.4%
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%	-1.1%

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 8.0% in Q1:2022—the highest since Q2:1981—for a 6.5% increase in nominal total GDP. The latest Atlanta Fed GDPNow projection on May 17, 2022, for real total GDP growth in Q2:2022 was 2.5%.

For historical comparison, the last expansion from June 2009 to February 2020 had average annualized growth of 2.3% in real 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, resulting in higher inflation as there has been too much money chasing too few goods. This can also be seen with the consumer price index (CPI) up by 8.3% over the last year—highest rate since January 1982. After adjusting total earnings in the private sector for CPI inflation, real total earnings are up only 1.0% 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 0.75–1%.

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. This would support an improved fiscal path and fewer policy distortions. 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). 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. The path forward should include pro-growth policies that look more like the policies that supported historic prosperity from 2017 to 2019, rather than the progressive policies of the more than $12 trillion in spending either authorized or proposed since the pandemic began and the massive tax hikes by the Biden administration and congressional Democrats. 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.
- Champion return-to-work policies, impose strict fiscal and monetary rules, and end mandates.