

THE GINN ECONOMIC BRIEF

U.S. ECONOMIC SITUATION JUNE 2021 | VANCE GINN, PhD, CHIEF ECONOMIST



5.8%
UNEMPLOYMENT
RATE IN MAY 2021

**How many states
have rejected federal
unemployment
bonuses?**
Click for the answer!

OVERVIEW: The COVID-19 pandemic and forced business closures by state and local governments over the last year left much economic destruction. Many Americans have been recovering as we near herd immunity and states reopen, but [fiscal](#) and [monetary policies out of D.C.](#) are distorting economic activity and the labor market. For example, the labor market has been improving more slowly in recent months even as Congress recently passed the American Rescue Plan Act (ARPA), which led to fewer people wanting to work due to more unemployment “[bonuses](#)”—up to \$1,200 per month—and [even more in handouts](#). This has contributed to a record high of [9.3 million](#) job openings with a [similar number unemployed](#). Fortunately, the economy continues to withstand these headwinds for now, which is why a [pro-growth approach](#) is necessary.

ECONOMIC GROWTH: The data below from the [U.S. Bureau of Economic Analysis](#) and Fed FRED show a comparison of [real gross domestic product](#) (GDP) and real private GDP, which excludes [government consumption expenditures and gross investment](#) as it can crowd out activity in the productive private sector (see [Mulligan, Alesina & Ardagna](#), and [Taylor](#)).

| | Q3:2009- Q4:2016 | Q1:2017- Q4:2019 | Q2:2020 | Q3:2020 | Q4:2020 | Q1:2021 |
|---|---------------------|---------------------|---------|---------|---------|---------|
| Real GDP (end of period) | \$17.9T | \$19.3T | \$17.3T | \$18.6T | \$18.8T | \$19.1T |
| Annualized Growth (avg for period) | +2.3% | +2.5% | -31.4% | +33.4% | +4.3% | +6.4% |
| Real Private GDP (end of period) | \$14.7T | \$15.9T | \$13.9T | \$15.3T | \$15.5T | \$15.7T |
| Annualized Growth (avg for period) | +3.0% | +2.6% | -37.4% | +44.2% | +5.5% | +6.5% |

The latest U.S. economic recession started in March 2020 from [individual responses](#) to the pandemic and associated [government lockdowns](#). These data show that the economy had a sharp rebound in Q3:2020 but slowed in Q4:2020 as states re-imposed [pandemic-related restrictions](#) on businesses because of increased COVID-19 cases. Then the economy expanded at a faster rate in Q1:2021 as many Americans returned to work, more people were vaccinated, and states appropriately reopened. While this trend should continue to support more economic growth and job creation, government policies in D.C. are hindering it.

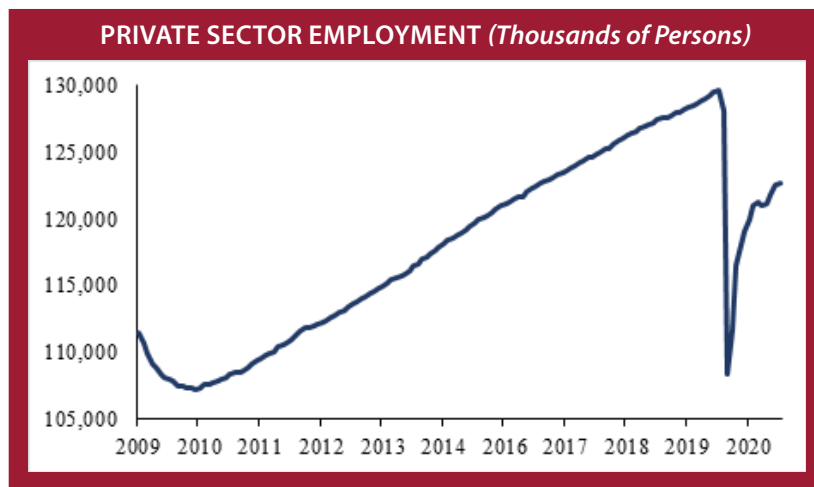
During the last expansion (June 2009 to February 2020), the average annualized growth per quarter was 2.5% in real GDP and 2.6% in real private GDP. The [Budget Control Act of 2011](#) helped restrain federal government spending in the early part of the expansion thereby reducing the crowding out of private sector resources. But Congress has avoided this restraint and approved skyrocketing government spending thereafter that contributed to slower private sector growth. Given the massive deficits issued, the Federal Reserve has more ammunition to throw at the economy resulting in [higher inflation](#) at a concerning [4.3% annualized rate in Q1:2021](#) per the [GDP implicit price deflator](#) and [4.9% annual rate in May 2021](#) per the [consumer price index](#). Elevated inflation will likely remain as the [Fed continues](#) to purchase about half of the [\\$250 billion per month increase](#) in the unsustainable U.S. budget deficit.

High deficits and taxes are always and everywhere a spending problem. As the federal debt, even excluding [unfunded liabilities](#), now exceeds the economy, and the Biden administration has issued an irresponsible FY22 budget, it is time to pass a [Responsible American Budget](#), which is similar to the Foundation's [Conservative Texas Budget](#), with a fiscal rule of a maximum spending limit based on population growth plus inflation. This would support an improved fiscal path and fewer policy distortions for Americans to have more opportunities to prosper.

LABOR MARKET: The U.S. Bureau of Labor Statistics recently released the second straight disappointing [U.S. jobs report](#) for May 2021 based primarily on [federal policy mismanagement](#). Despite this, the productive [private sector](#) has now added more than 14.9 million jobs since the trough in April 2020 after losing 21.4 million jobs over March and April 2020.

| | JUNE 2009 | FEBRUARY 2020 | APRIL 2020 | MAY 2021 |
|--|-----------|---------------|------------|----------|
| Prime-Age (25-54 years old) Employment Rate | 75.9% | 80.4% | 69.6% | 77.1% |
| Unemployment Rate (U3) | 9.5% | 3.5% | 14.8% | 5.8% |
| Private Sector Employment | 108.4M | 129.7M | 108.3M | 123.2M |

Data compare the following: 1) June 2009—Dated trough of the last U.S. recession, 2) February 2020—Dated peak of the last expansion, 3) April 2020 is the low for most labor market data, and 4) May 2021 is the latest period.



These data for private sector employment show how many Americans' livelihoods improved since the Great Recession through February 2020, then took a severe downturn through April 2020 due to the shutdown recession, and again improved starting in May 2020. The private sector had been improving quite robustly thereafter but was well below expectations in April and May 2021.

BOTTOM LINE: While the U.S. economy and labor market have been improving, more states should open as the COVID-19 vaccine helps them to reach herd immunity, and every level of government should pass pro-growth policies. The path forward should look more like the policies that supported [historic prosperity](#) under the Trump administration from 2017 to 2019, instead of the \$6 trillion authorized by Congress during the pandemic and potentially more spending and [tax hikes](#) noted in President Biden's [FY22 budget proposal](#). The time is now to return to work and to normal so the [cure stops hurting Americans](#).

RECOMMENDATIONS

to improve the economy and the livelihoods of Americans

- [Safely open](#) by ending state and local governments' restrictions, like in Texas and Florida, while protecting the vulnerable and Americans' livelihoods with a [targeted, temporary, and timely approach](#).
- Focus relief on vaccines and [those in need](#); avoid more "stimulus" that [stimulates more government](#).
- Set a pro-growth path: [End the federal unemployment bonuses](#) like 25 states have done and do [less spending, taxing, and regulating](#) as in the Foundation's [Responsible Recovery Agenda](#) in Texas, which includes a fiscal rule of a spending limit of the [Responsible American Budget](#).