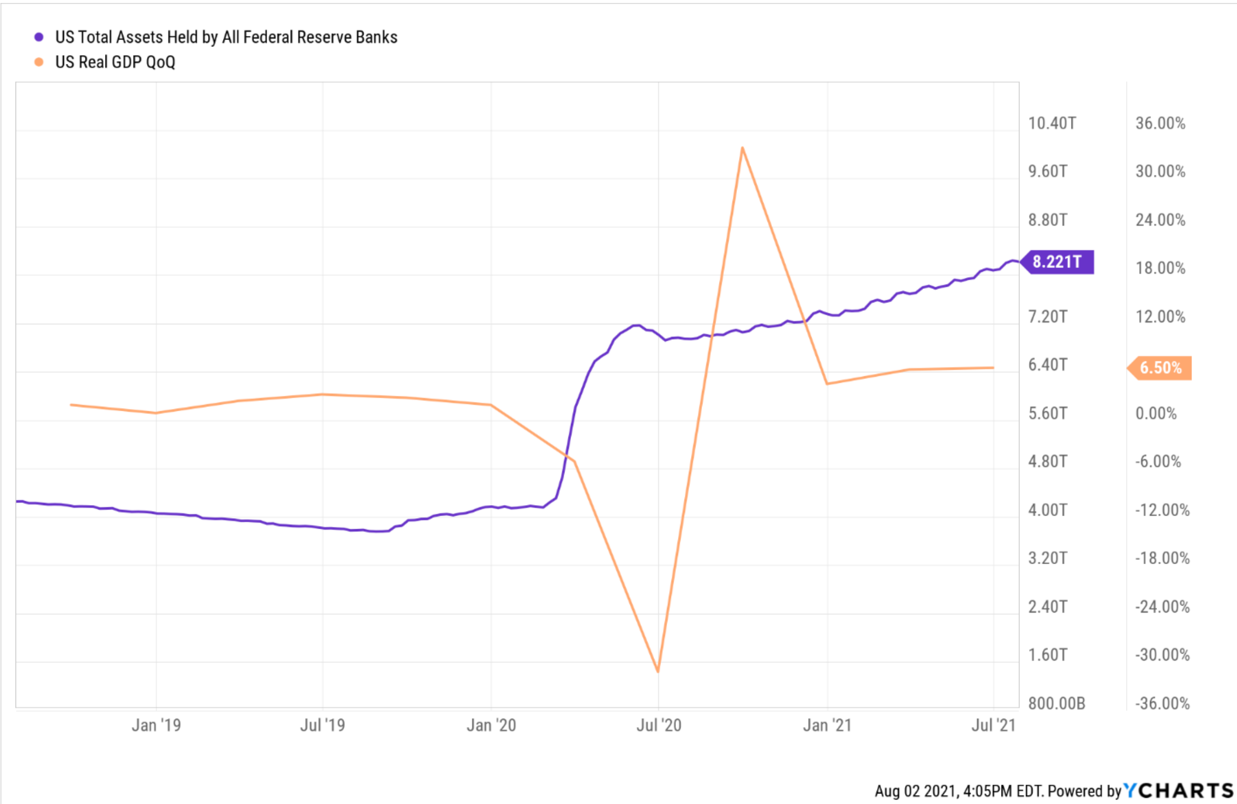
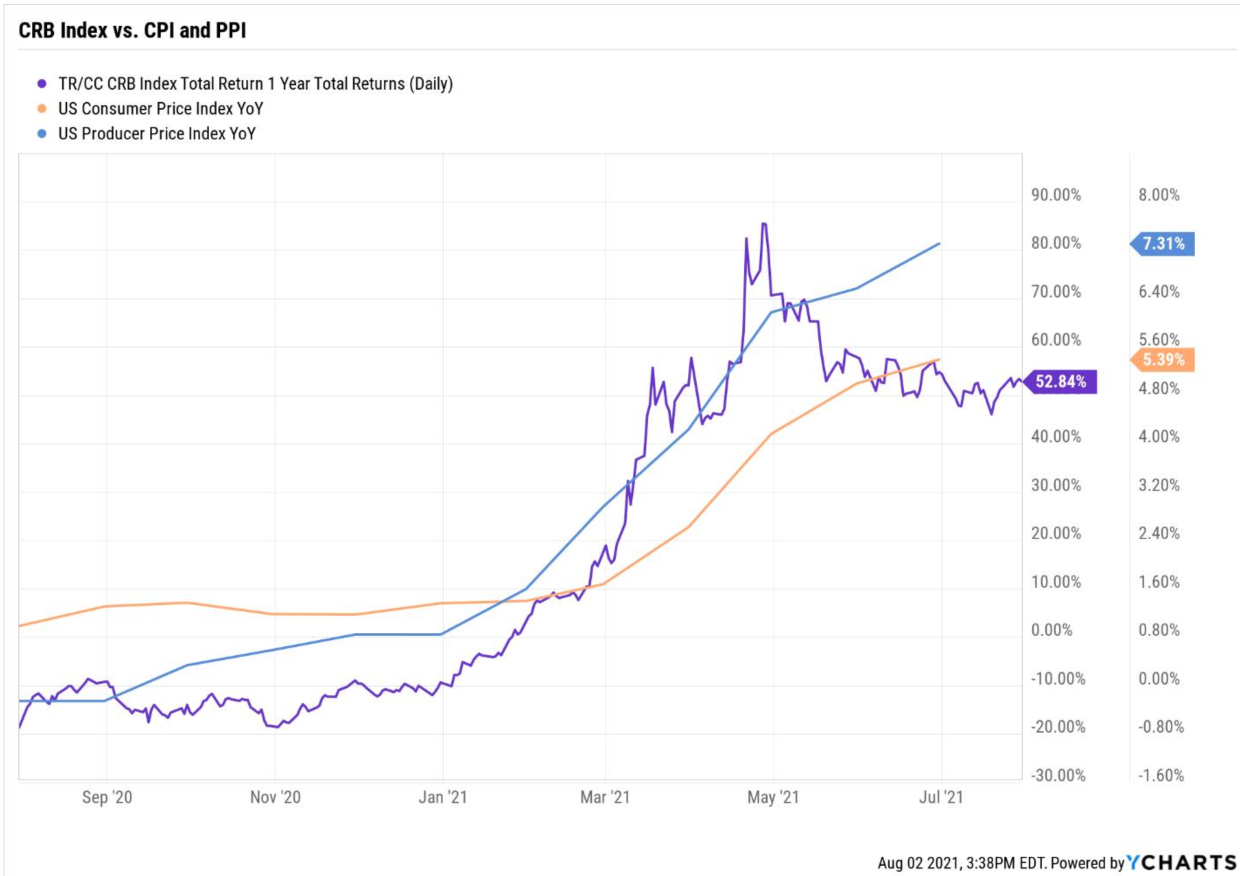
Economic Crosscurrents – 8/2/2021

by Robert G. Kahl, CFA, CPA, MBA

There are crosscurrents of economic data that make it more difficult to assess the health of the economy. For example, the US Bureau of Economic Analysis recently announced that US real GDP growth for the second quarter 2021 was +6.5% compared to the first quarter. Normally, that would be a healthy growth rate. However, real GDP is virtually the same as it was in February 2020 despite the Federal Reserve more than doubling its assets to support the economy and financial markets over that period.



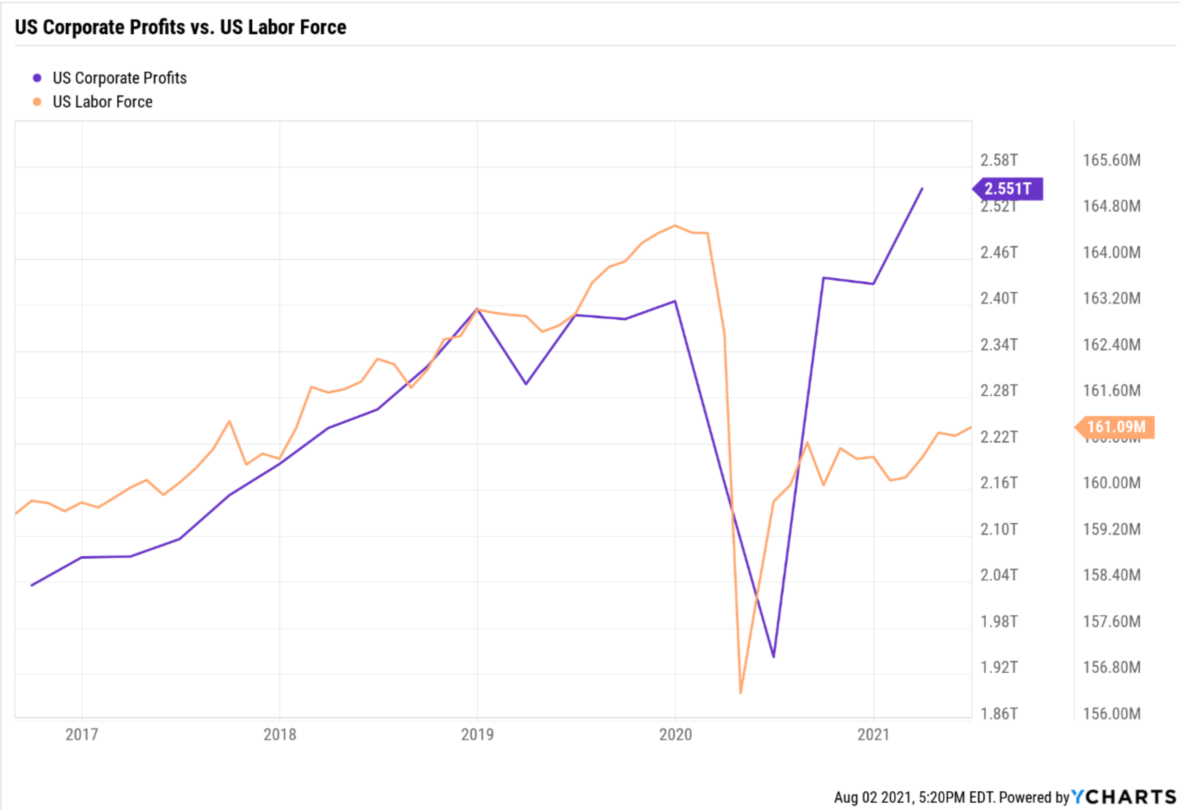
Inflation provides another anomaly. While the CRB Index is 52.8% higher than a year ago, the latest US Consumer Price Index and US Producer Price Index are 5.4% and 7.3% higher, respectively. John Williams, economist and publisher of Shadow Government Statistics, has documented the changes in methodology of calculating inflation by the Bureau of Labor Statistics over the years. He estimates that if we used the same methodology as the BLS did in 1980, inflation would now be about +13% rather than the 5.4% that was recently reported. A higher inflation number would reduce inflation-adjusted (real) GDP that is reported.

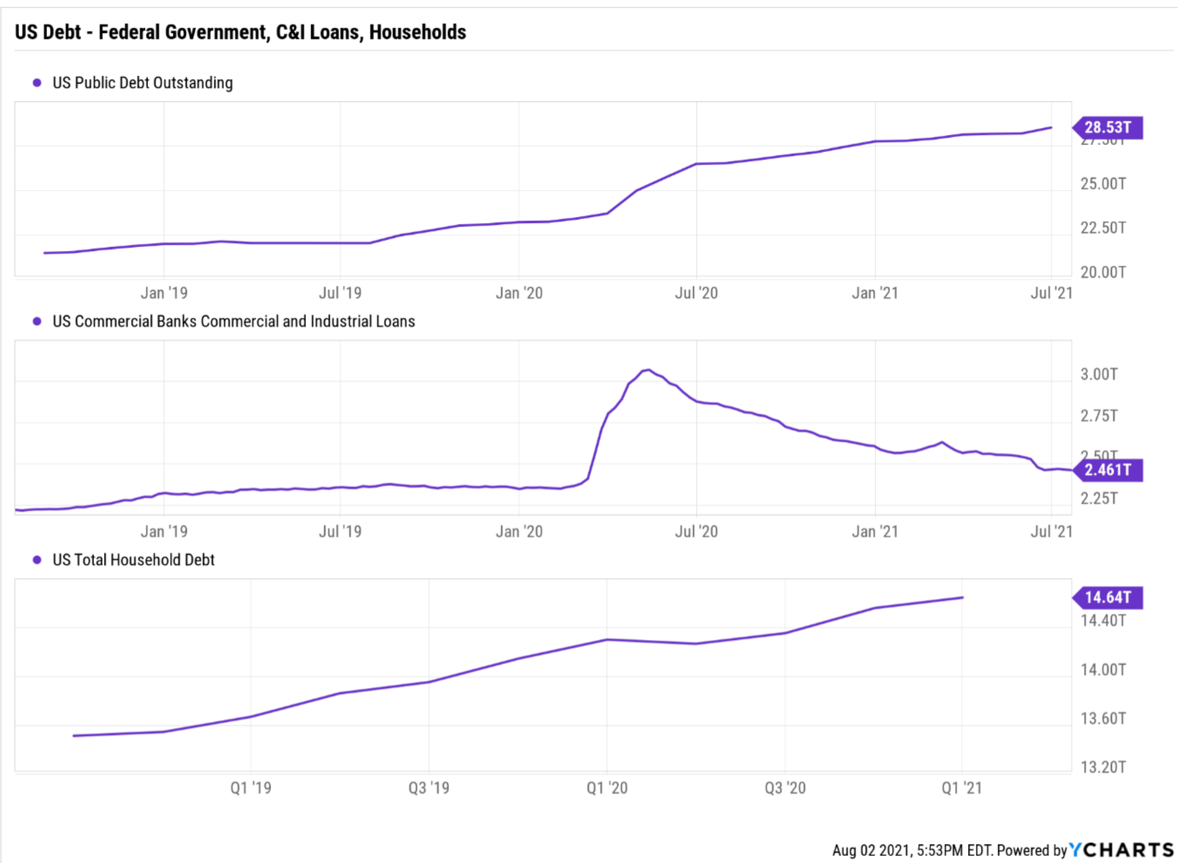


US corporate profits have managed to rise above pre-COVID levels, according to the Bureau of Economic Analysis. This is surprising given the economic upheaval of the last year and a decline in the US labor force, which is approximately 3 million people lower than January 2020.

When it comes to debt management, different sectors of the economy responded in different ways to the COVID economy. The chart below illustrates the point.

- US Government debt increased from $23.2 trillion at the end of January 2020 to $28.5 trillion at the end of June 2021. Large budget deficits and higher levels of federal government debt are expected in the future.
- US commercial bank commercial and industrial loans expanded at the beginning of COVID from $2.35 trillion at the end of January 2020 to over $3.0 trillion in May 2020 with the assistance of US Government guarantees. Commercial and industrial loans have since declined to a level consistent with the prior trend line.
- Household debt declined just slightly in 2Q-2020 but has maintained its trend line despite COVID.


US Corporate Profits vs. US Labor Force
US Corporate Profits
US Labor Force
2.58T
2.551T
2.46T
2.40T
2.34T
2.28T
2.22T
2.16T
2.10T
2.04T
1.98T
1.92T
1.86T
165.60M
164.80M
164.00M
163.20M
162.40M
161.60M
161.09M
160.00M
159.20M
158.40M
157.60M
156.80M
156.00M
2017
2018
2019
2020
2021
Aug 02 2021, 5:20PM EDT. Powered by YCHARTS


US Debt - Federal Government, C&I Loans, Households
US Public Debt Outstanding
28.53T
25.00T
22.50T
20.00T
Jan '19
Jul '19
Jan '20
Jul '20
Jan '21
Jul '21
US Commercial Banks Commercial and Industrial Loans
3.00T
2.75T
2.461T
2.25T
Jan '19
Jul '19
Jan '20
Jul '20
Jan '21
Jul '21
US Total Household Debt
14.64T
14.40T
14.00T
13.60T
13.20T
Q1 '19
Q3 '19
Q1 '20
Q3 '20
Q1 '21
Aug 02 2021, 5:53PM EDT. Powered by YCHARTS

The current yield on a 10-year US Treasury bond is 1.18% and the Fed funds rate is 0.08%. Interest rates do not reflect current inflation rates due to Federal Reserve policy. The economy has been heavily supported by US Government assistance programs for corporations, states, and households. The current economic situation is not sound, nor is it sustainable, but how it unravels, and the timing of its unraveling is uncertain.

If you have any questions or comments, please contact me.

Robert G. Kahl
CFA, CPA, MBA