Is the US Economy Heading for Recession?

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This past week the U.S. government announced the country's economy rose in the January-March 2016 at a mere 0.5 percent annual growth rate. Since the U.S., unlike other countries, estimates its GDP based on annual rates, that means for the first quarter 2016 the U.S. economy grew by barely 0.1 percent over the previous quarter in late 2015.

Growth this slow indicates the US economy may have "slipped into 'stall speed', that is, growth so weak that the economy loses enough momentum and slides into recession", according to economists at JPMorgan Chase.

Has the U.S. economy therefore come to a halt the past three months? If so, what are the consequences for a global economy already progressively slowing? What will an apparently stagnating US economy mean for Japan, already experiencing its fifth recession since 2008? For Europe, stuck in a long term chronic stagnation? And for emerging market economies, struggling with collapsing commodity prices and currencies, rising unemployment, and long term capital flight trends? Once heralded as the only bright spot in the global economy, the US economy now appears to have joined the slowing global trend.

Some Interesting Trends

Last quarter's 0.5 percent U.S. GDP may indicate the nation's economy is even weaker than it appears. The economy of the United States' recent 0.5 percent growth rate is the latest in a steady declining U.S. GDP growth trend over the past year. In the previous fourth quarter 2015, the US economy grew 1.4 percent, which was down from the preceding quarter's growth of 2 percent and before that 3.9 percent. So the U.S. economy appears to be slowing rapidly over the past year.

Over an even longer period of more than eight years, since the previous peak growth in late 2007, the U.S. economy has grown by a cumulative total of only 10.1 percent. That's a paltry annual growth of only 1.2 percent a year on average for the past 8+ years.

But even those figures are overestimated. In 2013, the U.S. redefined the way it estimated GDP, adding categories like R&D expenses and other intangibles that artificially boosted U.S. GDP estimates simply by redefining it. That "economic growth by redefinition" raised GDP by around 0.3 percent annually, and in dollar terms by roughly US$500 billion annually. So the real U.S. GDP may be actually growing by less than 1 percent on average per year since 2007; and during the most recent quarter, January-March 2016, the economy may not have grown at all, but may have stagnated, collapse, and come to a halt.

Behind the Wizard's Curtain

The media and press like to define recessions as two consecutive quarters of negative GDP growth. Actually, U.S. economists tasked with declaring when a recession has begun or has ended don't rely totally on GDP estimates, which are notoriously inaccurate and have become increasingly so, given U.S. and other governments' penchant for changing how they define GDP.

Redefining GDP to boost the appearance of growth is not just a problem in the US in recent years. For example, there are few independent research sources that think China is growing at its officially announced 6.8 percent GDP rate. To note but a couple, both Capital Economics and Lombard Street research estimate that China's GDP is growing at only around 4-4.5 percent based on close examination of other indicators like electricity usage, power generation, local transport volumes, and so forth. In recent years India officially nearly doubled its GDP overnight by redefining it. So did Nigeria. India bank researchers, whom this writer has talked to, say they have a rule of thumb: take the official government GDP rate and half it and that's probably close to India's actual GDP. In Europe, a number of economies, including Britain, which have been desperate to raise their GDP in recent years, now include drug smuggling and prostitution services in their estimates of GDP. How they come up with such estimates and the pricing of such services is, of course, interesting.

Not satisfied with the media-press definition of a recession as two consecutive quarters of negative GDP, US economists at the National Bureau of Economic Research, who are tasked with declaring the beginning and end of a recession, look at various economic indicators — like industrial production, retail sales, exports-import trends, and other sources. A recession may occur in just one quarter; or may require more than two.

Looking at these other indicators for this past January-March 2016 period, the US economy appears even more likely headed for a recession and sooner rather than later.

US industrial production (manufacturing, mining and utilities) declined at an annual rate of -2.2 percent this past quarter, after having declined -3.3 percent the preceding quarter. Industrial production has fallen six of the last seven months. US industrial capacity is now at its lowest point since 2010.

Business investment is another trouble spot. Investment in business structures fell by -10.7 percent and investment in new equipment by -8.6 percent, the latter the biggest drop since the 2007-09 recession. Business inventories rose barely, by the smallest amount in two years, continuing a slowing trend of the past nine months.

And what about consumption, which constitutes about two thirds of the total US economy? US consumer spending has been growing at an average monthly rate of only 0.1 percent. Retail sales, the largest element of consumer spending, has fallen every month on average during the quarter. After having sustained retail sales in previous years, auto sales, a large component of retail sales, declined for the second consecutive quarter during the January-March period. The outlook for U.S. consumer spending recovery is also not too bright. A recent Gallup poll reported that 60 percent of those interviewed indicated the U.S. economy was "getting worse." Reflecting the poor demand for consumer goods, U.S. consumer prices now hover on the brink of deflation, falling at an average monthly rate of -0.1 percent for the quarter.

Exports are declining, residential housing construction recently plummeted. In other words, not many of the economic indicators that comprise GDP show a promising picture. GDP should probably be even lower than the recently reported 0.5 percent annual and 0.1 percent quarter to quarter growth rates. The U.S. economy has obviously "stalled." But it's not the first time. In fact, it's the fifth time it has since the official end of the last recession in June 2009.

What's a Relapse?

The performance of the US economy this past January-March, a trend that appears is continuing into April, represents what this writer has called an 'economic relapse'. A relapse is a collapse of economic growth for a single quarter, to near zero or even negative growth.

The U.S. economy has experienced now five such single quarter relapses since the 2007-09 recession was officially declared over. The economy collapsed to 0.1 percent in early 2011, to 0.2 percent in late 2012, declined again by -2.2 percent in 2014 and collapsed to 0.2 percent in 2015.

Relapses are the consequence of "epic" recessions such as occurred in 2007-09, which are typically characterized by short, shallow recoveries that slip repeatedly into periodic bouts of renewed stagnation. They are the result of near total reliance on central bank monetary policies that are designed to boost stock, bond and other financial markets — and thus the incomes of rich investors — but which fail to generate a sustained real economic recovery. Fiscal policies designed to stimulate consumption and good paying jobs are rejected. That almost perfectly describes U.S. economic policy the past eight years.

Politicians Wearing Rose-Colored Glasses

Despite the facts, U.S. government politicians and Federal Reserve bank officials continue to run around declaring that the U.S. economy is performing well. They like to cite the 200,000 jobs allegedly created in recent months. But a closer examination shows the jobs being created are part time, temp, contract, low paid, no benefit service jobs. Jobs that generate no overall wage increase for the economy and no real income gains for working people.

Young workers 30 years old or less are especially hard hit by this "'well performing US economy." A recent study by the Center for American Progress, for example, showed that 30 year old workers earn today the same pay, adjusted for inflation, that 30 year olds earned back in 1984.

Despite all that, President Obama continues to tour the country complaining that he doesn't get enough credit for bringing the US back from the worst recession since the 1930s depression. He should tell that to the millions of millennial young workers, with low paid crappy service jobs, with no medical insurance, having to live at home with relatives because they can't afford to rent an apartment, loaded with debt and with no prospects for meaningful change on the horizon. No wonder they're rallying around Bernie Sanders, who continues to capture 85 percent of their votes in the presidential primaries. Obama (and Hillary) will have a hard time convincing them "all is well" — and an even harder time getting them to vote Democrat in the coming election in November.

Jack Rasmus is author of the recent, 2016 book "Systemic Fragility in the Global Economy," by Clarity Press, soon translated into a Chinese edition, and the forthcoming June 2016 book, "Looting Greece: The Emerging New

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