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US GDP Collapses and Economic Rebound Fades

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This past week US economy collapsed in the 2nd quarter by 32.9% at annual rate and nearly 10% just for the April-June period. Never before in modern US history—not even in the worse quarters of the 1930s great depression—has the US economy contracted so quickly and so deeply!

All the major private sectors of the US economy—Consumption, Business Investment, Exports & Imports—collapsed in ranges from -30% to -40% in the April-June period. That followed first quarter prior declines in single digits as well. More than $2 trillion in real economic activity was wiped from the economy. Consumption collapsed by more than -1.5 trillion. Business investment by nearly -$600 billion. Ditto net trade and even state & local government spending.

Even more foreboding is that the April-June collapse came as the economy opened up in June virtually everywhere and in many states even before in May. So the 2nd quarter collapse—as deep as unprecedented as it was—reflects a rebound of economic activity during the last six weeks of the quarter.

More worrisome still, even the weak May-June rebound has begun showing signs of stalling out as of mid-July, according to latest economic indicators.

Fading 3rd Quarter US Economy

Here's some emerging evidence of that stall-out now beginning:

Jobs Deteriorating Once Again

Weekly initial unemployment claims began to rise after mid-July. The numbers of new jobless claims are now consistently in the 2.2m-2.4m per week range as the economy enters August. Officially more than 32m are now collecting benefits. Millions more are still trying, or running out of them. Add to that the more than 5 million more workers who simply dropped out of the labor force since February. They're not even calculated in the unemployment rate, according to official US government practices. So there's easily 40m jobless out there in America—a number that's remained pretty constant for months now. 40m unemployed is roughly a 25% unemployment rate, same as that during the worst of the 1930s great depression.

On Friday, August 7 the US Labor Dept. will report jobs and unemployment numbers for July. The reported consensus among economists is that it will likely show only 1.6m new jobs created, according to a survey reported by Reuters—a sharp slowdown after June's numbers showed 4.8m. But 3 million of June's new jobs represented workers returning to restaurants, hospitality, and retail work as the economy was reopened (prematurely) in May-June. Now, as the Covid virus has surged again in July, many of those 3 million who returned to work in May-June are being re-laid off in July or returning to sheltering as 30 states have again re-initiated partial shutdowns.

In addition to the Covid surge effect on jobs, scores of large companies have, independently of the virus effect, begun announcing mass layoffs by the thousands and tens of thousands. They have determined the economy's situation is far worse than reported by the media or Trump administration and are planning for a long recession. Their layoffs will be mostly permanent due to long term restructuring.

If the 32m now collecting jobless benefits, plus those waiting to still get them, plus those who gave up and dropped out of work altogether equal 25% unemployment, how is it then that the US government keeps saying unemployment is only 11.1%?

It's because that 11.1% is a cherry-picked low ball number for public consumption that conveniently represents only full time workers unemployment. If part timers laid off were included, even per the government's own figures that's 18%. Those numbers also don't accurately count those who left the labor force or reflect the number of 'gig' jobs that are picked up as part of the 25% unemployed in the unemployment benefits numbers.

Another indicator of the renewed deterioration of the labor markets is the number of job openings reported by the government. That too has begun to trend down once again after mid- July just as the unemployment benefits claims began to rise in tandem.

US Manufacturing & Construction Stagnant At Best

Manufacturing and construction account for roughly 20% of the US economy and GDP. The spin since the US economic reopening began late May has been all sectors of the economy have been bouncing back—services, manufacturing, construction. Facts show otherwise.

In Manufacturing jobs have continued to decline every month, according to Purchasing Managers Indexes (PMI) More companies continued to lay off workers in manufacturing than hire them during May-June. Manufacturing output continued to contract through June, with a reading of 49.8 (less than 50 indicates contraction). That rose to 51.3 in first half of July, but contracted again at the close of July finishing the month of July essentially stagnant at 50.9, according to the business research firm, HIS Markit.

The condition was roughly the same for construction. Per the US Commerce Dept., construction activity continued to decline by -1.7% in May and another -0.7% in June during the period of the economy's reopening.

So with services' industries and occupations re-shutting down in July once again, and with Manufacturing and Construction, stagnating at best—by end of July 2020 the US is teetering on the edge of faltering and ending the brief, weak and tentative economic rebound of late May to early July.

Household Income & Consumption in Trouble

Consumption spending by households represents 70% of the US economy and GDP. The main determinant of household spending for the more than 100 million US working/middle class households is their wage income or, for working class retiree households, their pensions, social security benefits, & other income. Household income for tens of millions is now in a precarious state and is being reflected in reduced spending already.

According to a US Census Bureau report in July, 22% of households report that they now, as of July, can't make their rent or mortgage payments. There are roughly 70 million renting households in the US. That's more than 15 million US households and more than 30 million Americans!

According to Urban Institute research, it will cost $7.3B a month to keep renters and homeowners in their homes. That's a little more than $50B for the next six months. But Republicans—Mnuchin, McConnell & Trump—all adamantly refuse to provide any of the $7.3B assistance. On the other hand, they quickly approved roughly $20B in the March Cares Act for Defense corps making billions in profits, passed the $760B in new money for the Pentagon in one day last week, and now propose another $30B for their Pentagon-Defense Corp. friends in their HEALsAct stimulus proposal announced in July.

Apart from the $760B new record Pentagon budget just passed in the blink of a political eye, that's roughly $50B in new money for the Pentagon instead of $50B to keep tens of millions of working class households in their homes for another six months!

Already evictions of renters and foreclosures of homeowners are rising fast. It's something of a myth that even the Cares Act of last March introduced a moratorium on rent evictions. First of all, that addressed only one third of the available rents—i.e. those backed by US government financing. Two-thirds have always been exempt. Even the one-third was not enforceable, moreover. Many areas of the US have continued with evictions throughout the pandemic period.

And now evictions are accelerating even faster in July, now that the Cares Act measure expired on July 25. No fewer than 12.3 million renters covered by the Cares Act lost their moratorium late July. That evictions acceleration, now underway, has resulted in reduced spending and consumption since mid-July and will no doubt depress spending even more into August and beyond.

In addition to the Housing crisis depressing income and consumer spending, there's the parallel crisis of more than 15 million newly unemployed having no medical insurance. Studies show clearly those without insurance tend to spend less to save for medical expenses. A Commonwealth Health Care Fund survey in late June found that 21% of workers laid off lost all health insurance coverage from their employer and all sources during layoff since March. That means at least 8 million additional US households without health insurance since March. 8 million more—and rising as new unemployment claims also rise—who will spend less and compress consumption further and therefore US GDP in 3rd quarter.

Yet another major factor portends a slowing of household spending and consumption, further dampening any economic rebound: Congress's reduction of unemployment benefits.

Debate is now intensifying in Congress on the scope and magnitude of a so-called '5th stimulus' legislative package. At the heart of the debate is whether to continue the $600/week federal supplemental unemployment benefits instituted last March under the Cares Act. The cost of the $600/wk. benefit was estimated in March at $340 billion, for a period of four months. Were the $600 eliminated altogether, it would thus take roughly

$85B a month out of the US economy.

Republicans in the Senate have proposed an immediate reduction of the $600 benefit to $200. Hidden in the proposal is a further reduction after two months at $200, by integrating the federal benefit with state unemployment benefits and capping both at $500. So at least 3/4s of the $600 would end, taking nearly $65B a month in spending out of the economy starting in August and for however long the benefit continue.

It is not surprising given the rising unemployment claims, pending evictions, growing ranks of health uninsured, and prospects of ending significant unemployment benefits—not to mention the resurge of the virus and growing partial re-shutdowns across dozens of states—that household consumer confidence shows evidence of fading in July as well. University of Michigan's survey—considered the gold standard of the confidence research—recently reported that consumers' expectations for the US economy over the next six months continue to slip further. In March 2020 the overall index fell to only 72.5, a historic low (>100 means positive; <100 means failing confidence). That remained at 73.2 in June despite the economy reopening. The next six months expectations index in June was 72.3 but by mid-July had deeply contracted further to only 65.9. Clearly, consumers are not optimistic where the economy is about to go and, to the extent their expectations affect their spending, the latter is not likely to recover soon.

In short, escalating housing evictions, more loss of health insurance coverage, and reduction of weekly unemployment benefits for tens of millions of Americans and households can only further significantly depress household consumption—70% of the economy—and thus undermine the already weak and fading May-June economic rebound.

Fading US Economic Rebound in Historical Perspective

During the depths of the crash in March-April, Trump, his administration spokespersons, much of the mainstream media, and many economists were predicting the crash would soon produce a just as rapid snap back of the economy beginning in June. That was called the 'V-Shape' recovery.

But recoveries are sustained, whereas 'rebounds' are not. This writer was publicly predicting last March the V-shape prediction was a fiction. At best, the trajectory of the US economy would prove to be 'W-Shape'—as have all great recessions of which the current contraction has proven to be among the more severe. (Other 'great recessions' have occurred the last century in 1908-13, 1929-30, and 2008-11. None were V-shape. All were to some degree 'W-shape'. And in one case, the 'W' transformed into an extended 'U' and the great depression of the 1930s.

W-shape trajectories are typical of great recessions. W-shape means a deep initial contraction of the economy is followed by a weak rebound, which then dissipates and produces a subsequent economic relapse in terms of growth and GDP. The relapse may take the form of a dramatic slowdown in the rebound or in the economic growth rate totally stalling out and economic stagnation occur next quarter. Or, yet a third possibility is that the relapse may prove even more severe and result in a renewed contraction once again—i.e. a double dip recession. In a W-shape typical great recession trajectory, the stagnation or double dip is in turn followed by another brief and weak 'rebound'. And that rebound followed by yet another relapse. Triple dips are not impossible. That's what happened to Japan after 2008 and almost to Europe as well after 2014.

This ‘bouncing along the bottom’ trajectory following the deep initial crash may go on for months and years—as was the case in the US after 1908 and again after 2009 as well.

Or, alternatively, the stagnation or further economic contractions may lead to a subsequent financial and banking crash that drives the economy even deeper, ratchet-like, to become a de facto economic depression. That was the case after 1930.

What’s happened to date in the US, from early March through July 2020, shows the US economy has clearly fallen into a great recession again–and this time three times deeper than in 2008-09 and in one third less the time!

It is unprecedented. And it represents totally new territory that mainstream economists have no analog experience from which to speculate as to its medium and longer term trajectory into 2021. Indeed, the mainstream economics community has no clue. They are content, as they typically are won’t to be, with predicting the present instead of the future—although very few now bother to say it’s a V-shape recovery. Only the polyannas in the Trump administration still adhere to that nonsense and that fiction.

The first phase of the 2020 Great Recession has passed. That was the deep and rapid contraction of 10% (32.9% annualized). The second phase began with the weak June rebound that continued into early July. The question now is whether that weak rebound will transform into a relapse in the form of a rapid slowing of the economy once again—i.e. a third phase. Or perhaps just a second phase, with the weak rebound of May-June representing a juncture or transition between phases.

Beyond the coming 3rd quarter the central question is whether the US economy will experience yet another weak, short and shallow economic rebound? If so, the W-shape trajectory of the current Great Recession 2.0 will be further confirmed. Another possibility is the contraction will even out and settle into a longer term stagnation. Yet a third outcome is further shocks to the economy will drive it into yet another sharp and deep contraction.

There are three possible ‘drivers’ that would result in the latter outcome: a failure of Congress and policy makers to introduce a sufficient fiscal stimulus directed at household consumption stimulus; a major political and constitutional crisis occurring surrounding the November 3 national presidential elections; or a chain reaction contagion in financial markets provoked by spreading business defaults and bankruptcies—either in the US or abroad.

The nation should know fairly shortly whether Congress—driven by Republican and conservative-radical ideologues—fails to pass sufficient fiscal stimulus as the economy fades in the 3rd quarter.

The second outcome is becoming increasingly likely by the day. Trump clearly has no intention of leaving office by normal processes. A close electoral college vote will further ensure a political crisis in the US of dimensions never before experienced. The economic consequences will prove severe. Those possible scenarios will be described shortly in another article.

Third, although a major financial instability event is not yet imminent, the longer the W-shape great recession trajectory continues, the more likely such an instability event becomes. Moreover, when it does, it will appear swiftly, unexpectedly, and no less severely in terms of its impact on the real economy of households, workers, and even businesses in general.

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Dr. Jack Rasmus is a frequent contributor to Global Research.