IECONOMY

The economy's going to be hot this summer

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According to Chauncey Gardiner, played by Peter Sellers in the 1979 movie "Being There," this was all that you needed to know about the economy. While we are not gardeners, strong growth in the spring was the main message from our State of the Region presentation: We forecast growth rates of 5.5% for the first quarter 2021 in the U.S. and 7.4% for the year as a whole.

Regardless, even with growth this strong, it will take us until the second quarter of 2021 to reach pre-recession output levels of 2019, and even longer (until mid-2022) if we add the "normal" of 2.5% to end of 2019 output levels. This simply shows you how deep the abyss was that the U.S. economy fell into.

Why the optimism?

One major reason is the already existing pent-up demand of U.S. households, another lies in the increased coronavirus vaccination rates not only in California but elsewhere in the nation, and finally the $1.9 trillion stimulus package passed by the Biden administration and Congress. There have been some skeptical voices regarding each one of these points. For example, some have argued that even if households increase spending for leisure and hospitality, you cannot eat twice as much food in the restaurant as before (although some of us probably could), nor stay twice as long on vacation.

Regarding the rise in California vaccination rates, some are concerned that another wave will force a lockdown; but contrast that with the recently announced opening of the state economy by June 15.

Finally, some claim that the stimulus package will just produce high inflation that will then force the Federal Reserve to execute a monetary contraction which will choke off growth. We will deal with the first two arguments rather quickly so that we can focus on the third point regarding the stimulus package and inflation.

So, what about households spending significantly more in the crucial leisure and hospitality sector?

It is true that we won't eat twice as much when we finally return to our favorite full-service restaurant, but the important point is that we are going from zero to one sit-down meal, followed by more such meals in the future.

In the aggregate, this will trigger a jump in the demand for services, helping to get the overall economy to the growth path it was on before the pandemic. The process will accelerate if some of us "play catch up" in the coming weeks and months by dining out more frequently.

Regarding whether a new wave will force a lockdown. Italy and France, and even Germany, are examples of the epic failure of the European Union in the distribution of the vaccine. Most regions are far behind inoculation levels seen in the U.S. Fortunately for us, the Biden administration has, as promised for the first 100 days, demonstrated that it is possible to get a large fraction of the population vaccinated in a relatively short period of time. In fact, over 30% of Californians have been vaccinated by now, and if you add another 20%-30% of residents who had been infected (knowingly or not), then we are approaching the herd immunity level rather rapidly. It is better to look at Israel to envision the future here in the U.S. That country started vaccination somewhat earlier than the U.S. in mid-December and while infection rates initially increased, they have come down dramatically for all age groups. The country has reached 80% immunity by now.

That leaves the $1.9 trillion stimulus package. While it is true that economic output is already recovering, we still have some way to go before we reach pre-recession employment levels.

The country added over 1.4 million jobs over the last two months (February and March) and the unemployment rate has come down from a high of 14.7% in April of last year to 6% now, but we are still 8 million jobs below pre-pandemic employment levels from February 2020.

The worst job losses of the Great Recession pale in comparison to this magnitude.

While some forecasters predict full recovery in the job market by the end of the year, this will only materialize if monthly job gains match March's 900,000 monthly increase on a sustained level through the rest of the year.

While this would be a welcome development, job gains closer to 200,000 to 300,000 per month are more likely, based on the Great Recession recovery. This will take more than a few months and will likely stretch into 2022 nationally.

As for inflation concerns, the situation is similar to the post Great Recession years. While there may be a lot of pent-up demand, there is tremendous capacity on the supply side to respond to increases in spending.

Moreover, with interest rates continuing to be low by historical standards, the cost of financing the federal budget deficit will be low over the foreseeable future. Given these circumstances, we should focus on real variables such as output and employment, getting the economy back to its potential growth path sooner rather than later.

The Inland Empire Economic Partnership's mission is to help create a regional voice for business and quality of life in Riverside and San Bernardino counties. Its membership includes organizations in the private and public sector.