



Rodney's Take

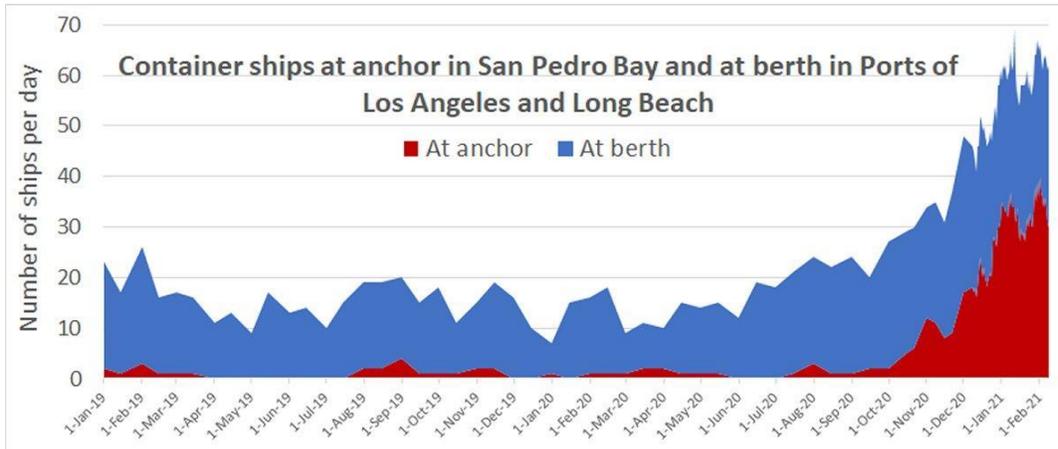
March 17, 2021

The Economy Will Zoom as We Spend on the National Credit Card... but Then What?

To no one's surprise, at last week's meeting Fed Chair Powell and his central bank compadres held monetary policy steady. While acknowledging economic optimism, they said they would wait for hard data showing an economic recovery before they began to think about what day, way in the future, that they might consider raising rates.

Maybe they should get out more, or at least do a little shopping online.

If Powell and his pals perused the websites of department stores, shoe companies, or even just Amazon, they would find that many sizes, colors, and styles of clothing and other items currently are unavailable. It's not that people aren't buying them, it's the opposite. We're buying so much stuff that retailers can't keep inventory in stock. Distributors can't get goods shipped fast enough from ports to keep up with demand, which has caused a container ship backup at places like Los Angeles and Long Beach. The chart shows the jump in ships both at anchor and at berth.



Freightwaves: Chart data: Marine Exchange of Southern California. Data bi-monthly Jan 2019-Nov 2020; daily Dec 2020-present).

Even the Fed acknowledged the brisk economic pace, as it forecast that GDP would jump to 6.5% this year, the fastest growth in four decades. Considering that GDP fell 3.5% last year, if it expands by the Fed's estimate this year, the two-year average will be just under 1.5%. Such a growth rate would make the U.S. the economic envy of the developed world, but we all know why it's happening.

We're using public debt for mostly private purchases.

Arguably, Uncle Sam can borrow more and at cheaper rates than any individual or company. We're taking on national debt at a current service rate of less than 2% on average, a lot cheaper than any of us can get on credit cards, and then sending checks to people, most of whom don't need the money.

How we spend the extra cash is a personal choice, but there's little doubt that the bulk of the money won't be used to increase productivity. We might upgrade our technology by purchasing a new laptop, but most of us won't invest the money in growing a business. As indicated by the ships lying at anchor waiting to offload, we're buying stuff. When restaurants, theme parks, and music venues open, we'll spend some of it on experiences and consumables.

But then what? What happens when Uncle Sam's largesse runs out?

Without a driving force for the next round of growth, we'll likely see GDP growth fall back to earth next year and beyond. Don't forget that before the pandemic, the Fed forecast long-term GDP growth to be a mere 1.8%. While the bankers don't have a great track record when forecasting GDP, they do have a consistent bias: they're almost always too optimistic.

To keep the economic motor humming at a faster pace, we'll need a nudge. President Biden and other politicians want to pass a massive infrastructure bill that calls for a mixture of higher taxes and more borrowing to pay for renovating our roads, bridges, etc. That might work, but as we found in 2009, there aren't many "shovel-ready" projects sitting around just waiting for a buck.

There is another way. Instead of waiting on the government to create another program or to borrow more money, we could see if our aging Millennial population is ready to have kids. As Harry's work and every parent's experience have shown, nothing forces greater spending like adding kids to a household. And we need the children.

The U.S. total fertility rate (TFR), which estimates the number of kids per woman of child-bearing age, dipped to 1.71 last year, well below the 2.1 necessary to replace both parents plus a little for mortality. The last time we reached replacement rate was 2007, and even then, it was just for a couple of years. With Millennials getting older and finally buying homes, now should be the right time for them to bite the bullet and start having kids.

I'm not saying that this is aimed at my own kids, but hey, I wouldn't mind a grandkid or two. Just remember, it's for the good of the nation.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.