Harry's Take

September 19, 2023

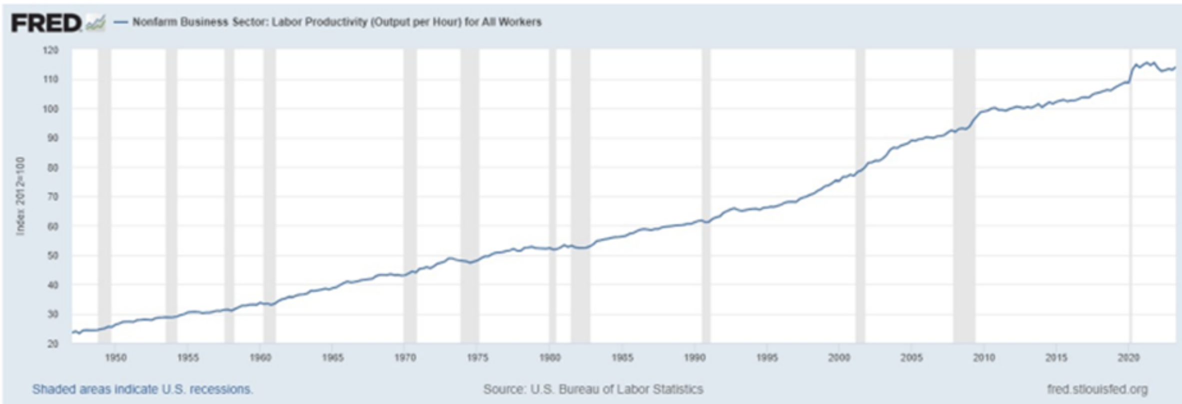
Another Sign of a Recession Ahead: Falling Productivity

The recession that many economists and leading indicators have been forecasting for late this year or early next year seemingly just keeps getting put off. The economy is so confused by the unprecedented 14 years of stimulus we've had since 2008 that it just keeps getting more perverted in every way possible. But this is the longest period in U.S. history we've had without a recession; it's been nearly 16 years since the last recession began in January 2008.

You know my view by now: recessions should not be fought at all costs. They are absolutely essential to ridding the economy of inefficiencies, bad investments, and excess capacity. They keep the economy healthy, while most economists (who have never run a business) see them as the biggest threat to prosperity. Shame on them, and the U.S. has had a recession every decade since World War II, until NOW!

Here is another brick in the wall in the case for recessions. This chart shows that productivity has flattened or started to fall before every recession. The present drop in productivity since late 2021 has been more pronounced than the drops in productivity before other U.S. recessions and is even worse than the one before the 1973-1974 recession, the first serious recession after World War II and the rise of the long Bob Hope generation Spending Wave from 1942 into 1968. The Baby Boom wave was from 1983 through 2007… and we've been living off escalating stimulus ever since that demographic boom peaked.

Labor Productivity Slowing Since Late 2021: Sign of Recession Ahead



Source: U.S. Bureau of Labor Statistics, Nonfarm Business Sector: Labor Productivity (Output per Hour) for All Workers [OPHNFB], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/OPHNFB, September 10, 2023.

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Unlike sustainable trends such as technology and demographics, using artificial stimulus to bump up the economy leads to diminishing returns and ends up creating imbalances such as inflation and excess capacity. Paradoxically, we have both today. And never have such stimulus programs lasted more than a few years at a time to relieve or ward off a recession.

We have been approaching zero workforce growth since the peak in the late 1970s and the unprecedented inflation rates that brought—and economists don't even understand the clear correlation between workforce growth and inflation! Hence, productivity is the only lever for real growth we have left, and now it is failing fast.

The stock market also finally had its worse crash since 2008, outside of the temporary COVID crisis in 2022. The markets have risen nearly to their late 2021 highs, despite the greatest Fed rate hike since the early 1980s. And those hikes don't seem to be having as strong an impact as expected… yet!

I say give this another few months. I think we will see clearer signs of a downturn by early 2024, and this indicator seconds that idea. We should see soon, but you should be on the defensive now, before this very extended bounce since late 2022 turns, likely quickly, into the more powerful third wave down likely just ahead! This is the last warning sign.

Harry

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