The Skipper & Gilligan

Economic Briefing

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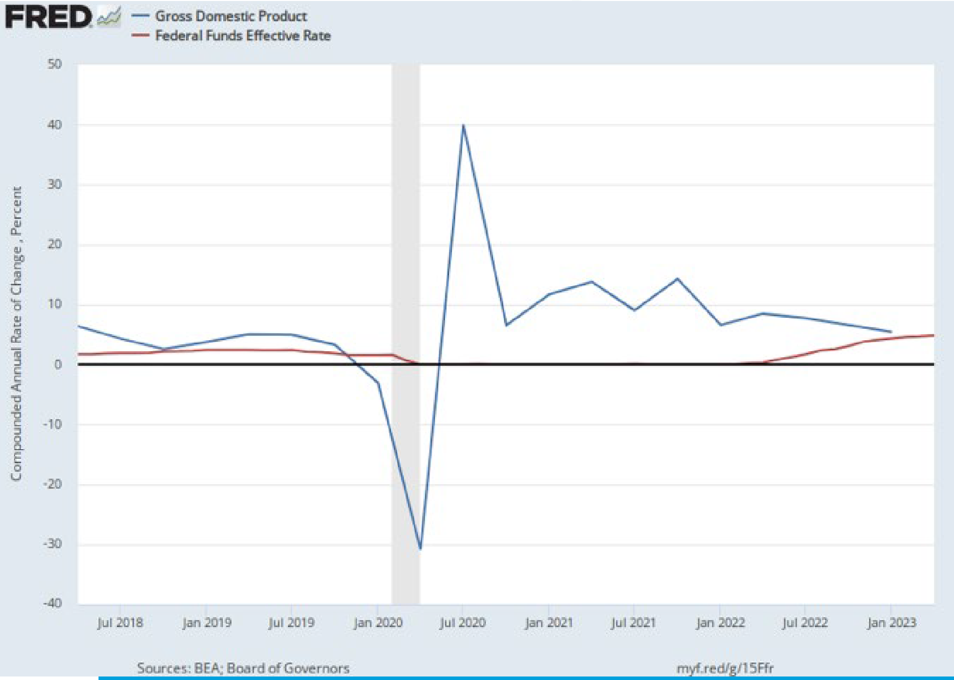
The debate amongst economists is centered around what kind of landing our economy will have. In the most recent NABE Outlook survey of business economists, real GDP growth estimates for 2023 were raised relative to last quarter's report, but 2024's estimates were lowered. In a widely dispersed field, **the lowest five forecasts anticipate a recession on the horizon, while the highest five forecasts anticipate growth**. The forecasts are based in part on the perceived willingness of the Federal Reserve (Fed) to slow U.S. economic activity past stall speed. At present, the tea leaf readers are parsing the difference between a pause and a skip in the rate hike cycle, with the Skippers gaining ground.

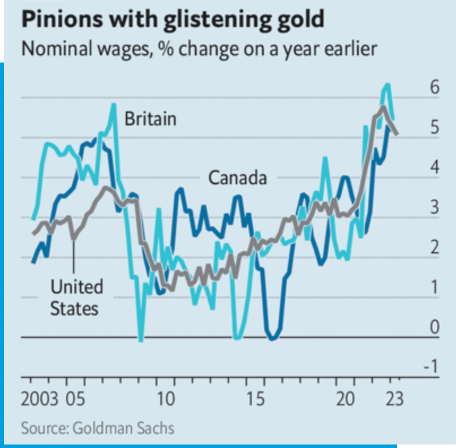
Looking past the Fed headlines, if the economy stalls, a more elementary issue regarding debt financed growth comes into play. **When the expense to finance an economy exceeds its growth, and that continues, debt levels can explode**. Since 2009, compounded nominal GDP growth in the U.S. has been higher than nominal interest rates (except for Q1 & Q2 2020). Interest rates have risen rapidly for the last 18 months, and U.S. economy has remained resilient. If economic activity continues to cool at its present rate, and the Fed remains steadfast on rates, nominal growth will likely drop below the Fed Funds rate (refer to the "FRED" chart).



We can then fall into the trap of financing costs increasing at a faster rate than growth, which cannot go on forever. The issue also impacts businesses and individuals, completing a negative feedback loop. A quarter or two is quite bearable, but if the more bearish growth forecasts come to fruition, with the mismatch lasting for a much longer period, visions of prior “hard landing” recessions come to mind.

The primary question is not whether the US economy can survive the medication needed to thwart inflation, but whether GDP growth will continue to outpace its financing costs, and if not, how long the mismatch will last. This is not new news to Fed governors and should add a little color as we all parse through Fed discussions and future policy decisions.

A renewed player in the economic equation is **immigration**, as a significant change from the past global populism and anti-migration waves experienced in many wealthy worlds, has reversed. Immigration to "wealthy" world countries is growing quickly (refer to the "Come from away" chart), and at a faster rate than the past 15 years. Part of the magnitude of the gains are likely attributable to a rebound, but economics remains the catalyst. The wealthy world’s average unemployment rate stands at 4.8%, the lowest in decades, and in the U.S., job openings exceed job seekers, resulting in a 3.7% unemployment rate. Opportunities for work are more plentiful and higher paying than in poorer countries. In addition, the average emerging-market currency has dropped by about 4% against the dollar since the end of 2020, enabling migrants to send more money at home than before.



The rate of influx should lessen as the post-pandemic rebound fades and the hot jobs market cools. However, yesterday’s migration brings tomorrow’s migration, as new arrivals are followed by their children and partners, and the economics remain. A popular belief is that additional workers attributed to migration brings some relief to wage pressure, as it increases the pool of workers. So far, however, the effect seems muted as wages have increased in many wealthy countries during this time (refer to the "Pinions with glistening gold" chart). Two arguments emerge: 1) Wage pressure could have been worse, but for migration, or 2) Wage pressure is unaffected by migration because migrant employment is not well distributed in high-demand and high-income positions.

Studies in March 2023 by the Migration Policy Institute, a slightly left-of-center non-profit funded by the Carnegie Endowment of International Peace, **find that immigrants tend to have very similar incomes to the native born**. In 2021, immigrant households had a median income of $69,622, compared to $69,734 for native-born households. 14 percent of immigrants had family incomes below the official poverty threshold of $27,500 (family of 4 with 2 children), compared to 13 percent of native born. The educational statistic comparisons with regard to college education and advanced degrees are also within a few percentage points of each other. Although an earlier dated (2020) study by Pew Research showed a wide gap between skill sets and job responsibilities of immigrants and native-born, the same study showed the gap narrowing since its last study. Based on the collection of recent data, **I would support the first argument, that wage pressure could have been worse, but for migration**. Fewer Gilligans...

Migrants also increase the demand for goods and services, which can raise inflation. With housing costs, the Economist reports that Britain’s migrants have pushed up rents in London, and Goldman Sachs estimates that migration to Australia has raised rents there by about 5%. Although I cannot put my fingers on similar U.S. research, some migrant related upward pressure on rents has likely been experienced here as well. Globally, this additional “migrant” demand may be part of the reason why, despite higher mortgage rates, house prices have not fallen by much. Migrant remittances to their home countries (the largest source of foreign income for many developing countries) would tend to lessen the impact on demand for goods and services in the country where migrants earn their income.

As noted in previous communications, the sharp drop in all types of economic activity, followed by a sharp rebound, caused a lot of dislocations. We seem to have worked through, or are working through the system, as economic activity is becoming a bit less volatile and a bit more predictable. It would be good to see higher participation from panelists in economic forecasts and industry surveys, and less dispersion in the related forecasts, but that may well be a lagging indicator to more predictable reported economic data.