The Return of Stagflation

October 17, 2021 - If you are old enough to remember the 1970's under the Carter Administration, then you probably remember the term "stagflation." It was a period of high inflation... in excess of 20% at times... and economic stagnation. For the vast majority of Americans, increases in income didn't keep up with the inflation rate. And because companies nationwide tapered or halted hiring, the ability to move up by moving on was difficult at best, and impossible for most. All indications are that those bad old days are back.

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Prices have been going up on virtually everything for months now. Food, gas prices and housing costs are all increasing rapidly. Gas alone has increase in price by more than $1.50 a gallon since the beginning of the year and all indications are that trend will continue.

The reasons for these increases are varied and they include the fact that the FED is basically printing money as fast as it can, supply chain issues and that the Biden Administration has done everything in its power to hamstring energy companies. There is absolutely no indication that anyone in Washington has a plan to deal with these issues to offer American households a financial break.

At the same time, the most recent employment report from the federal government was a huge miss. Most economists expected to see around 700,000 new jobs created. But the actual number was under 200,000 new jobs. That's not enough just to keep up with the number of people who enter the workforce on a monthly basis.

While the government did say that the unemployment number did go down, what they didn't say was that the reduction in the number of unemployed was because of the number of people who actually dropped out of the workforce. The government wants us all to believe that the unemployment rate nationally is under 5%. But when the number of people who have dropped out of the workforce and those who are "under-employed" are added to that, the number was actually 8.1% in September. This is known as the U6 number and it is the most accurate accounting of the number of people unemployed. If the number of jobs created continues to be under 200,000 per month, then the U6 number will continue to go up.

The combination of poor jobs numbers and high inflation is very bad for American consumers. If the trend continues, and there is no reason to believe that it won't, then millions of Americans are likely to face financial difficulty reminiscent of the 1970's.

All of the pain of the 1970's was driven by failed economic policies coming out of Washington, DC. And it would appear that what we're seeing now is history repeating itself. All of the pain that Americans are beginning to feel right now is being driven by economic policies that are doomed to fail.

by Jim Malmberg

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