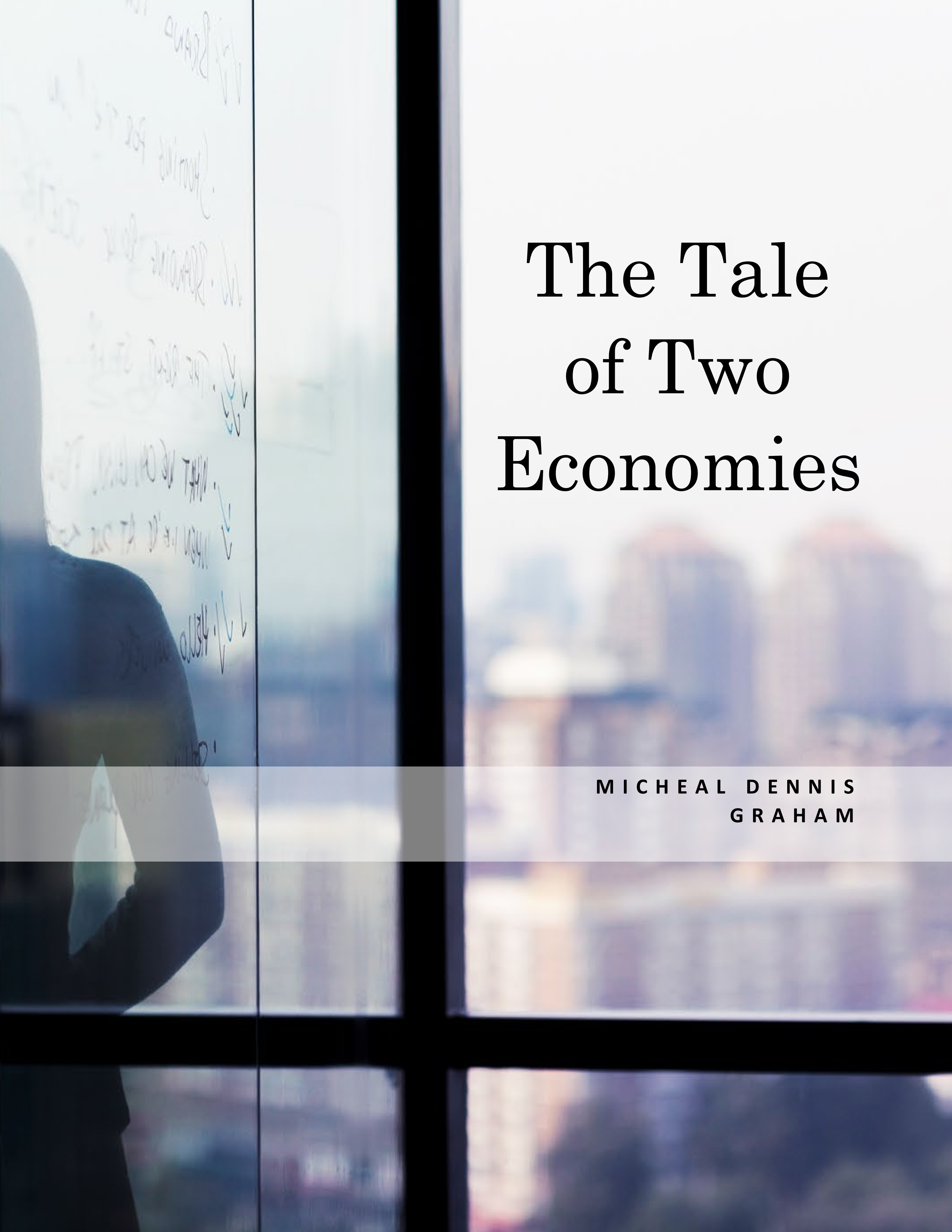


The Tale of Two Economies

MICHEAL DENNIS GRAHAM

The chest pounding of President Trump's State of the Union is behind us and the pundits on both sides have had their say but, really, what is the State of the Union?

A look at the leading economic indicators paints a pretty sunny picture. Job growth is strong with 225,000 jobs added in January, GDP is at a comfortable 2.1%, as is inflation year over year at 2.3%, interest rates are stable and the stock market is chugging along with far more ups than downs. But there is a "blip on the radar" when it comes to the stock market which is the potential economic fallout from the coronavirus. Now, three months into the health crisis, a picture is forming of the potential impacts. Certainly, China will bear the brunt but in our global economy, where many goods are manufactured in China, the world and most certainly the US will feel an impact. And it's not just retail stores whose shelves won't be filled but the US tourism and hospitality industry will be impacted as well, and let's not forget those companies whose products are manufactured in China, Apple, Starbucks, Nike, McDonalds and even Disney will be impacted by a governmental or self-imposed quarantine or curfew.

And by the way, have you tried to purchase face masks lately? On a recent earnings call, 3M said it is "…currently putting all its effort into organizing the manufacturing of face masks, and will do its best to maintain production during the Spring Festival."

The one leading indicator that is low is durable goods orders which fell by 2% in November (Thanks, in part to Boeing's Max jet debacle.)

So, what does this mean to Americans?

A recent article in Salon brings two American economies into sharp contrast. In case you forgot, or didn't know, here are some statistics that suggest just how this "booming" economy is impacting Americans.

"Since the crash of 2008, 75 percent of new jobs pay less than $50,000 a year, and a large percentage barely pay above minimum wage. Eighty-five percent of post-recession income growth has occurred among the top 1 percent of earners. [And the] richest 10 percent of Americans own 84% of stocks…" and the top 5% of Americans own 70% of all net worth. What do all of the economic forecasts mean for the 58 percent of Americans who have less than $1,000 in savings, or the 28 percent who have no savings at all? They are one misfortune away from financial obliteration."

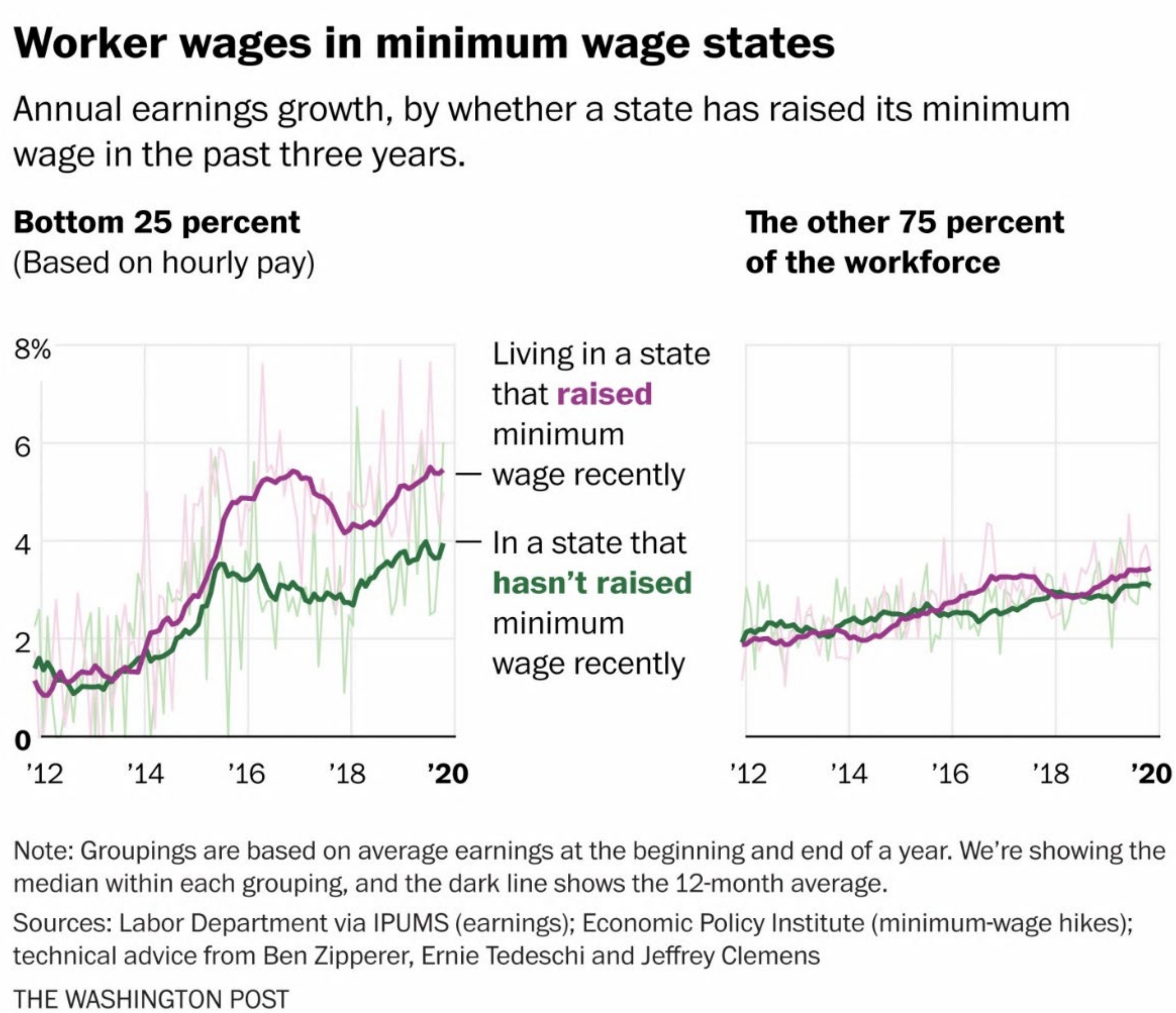
It is truly a tale of two economies. A robust and supportive economy for the top 10% and certainly the top 1% of Americans. But for the rest, not so much.

Trump, in his State of the Union speech lauded great outcomes for "blue color" Americans. Trump said, "This is a blue-collar boom." But fact checking by the Washington Post suggests that, "In the past year, things have gotten grimmer for many blue-collar workers. The manufacturing sector is in a technical recession, and only 9,000 manufacturing jobs have been gained since June... Job growth has slowed in many "blue-collar" sectors such as transportation, construction and mining."

Trump said, "After losing 60,000 factories under the previous two administrations, America has now gained 12,000 new factories under my administration, with thousands upon thousands of plants and factories being planned or built." But Trump failed to disclose that the Bureau of Labor Statistics data he used to support this claim shows that "more than 80% percent of these manufacturing establishments employ five or fewer people" and many are not even factories per se. They include businesses "that transform materials or substances into new products by hand or in the worker's home and those engaged in selling to the general public products made on the same premises from which they are sold, such as bakeries, candy stores, and custom tailors."

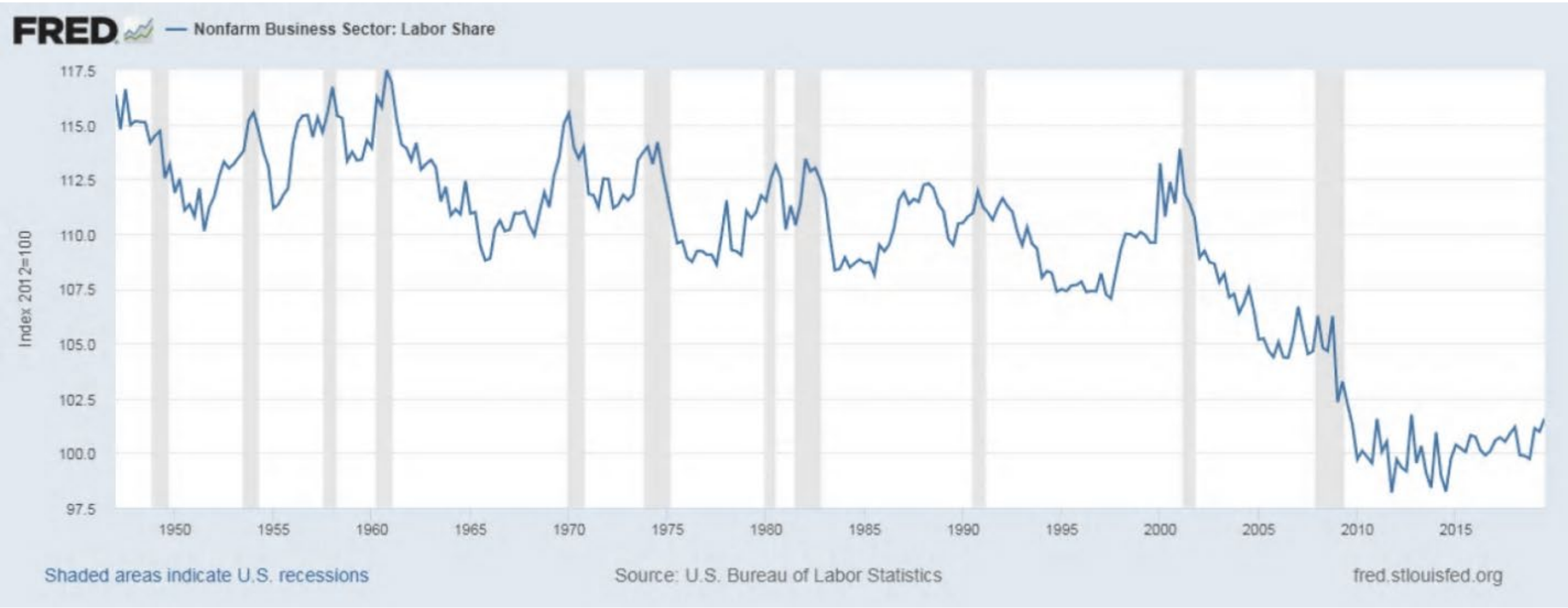
In this ultra-tight labor market where unemployment is now at 3.6% (full employment is considered to be 4%) one would expect to see significant upward pressure on wages. But wage growth has remained stubbornly low at just 3%. The good news there might be that it outpaces inflation but that is hardly saying much.

There is one bright spot though and that is for minimum wage workers (who are among the lowest paid workers in our economy). They have seen their paychecks increase at the fastest pace in more than a decade! And the credit for this goes almost entirely to the states and municipalities who have increased minimum wages, not to the fact that the unemployment rate is low and there is demand for workers as you can see in the chart below.



Another troubling factor for American workers is even with the stock market at record highs, the "share of the economic pie going to workers remains at a 70-year low. And it does not show any signs of rebounding, even in a hot job market."

This chart shows the disturbing trend…



Trump may boast that the economy under his leadership is the best it has even been, and for some it is. And for others it is not.

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