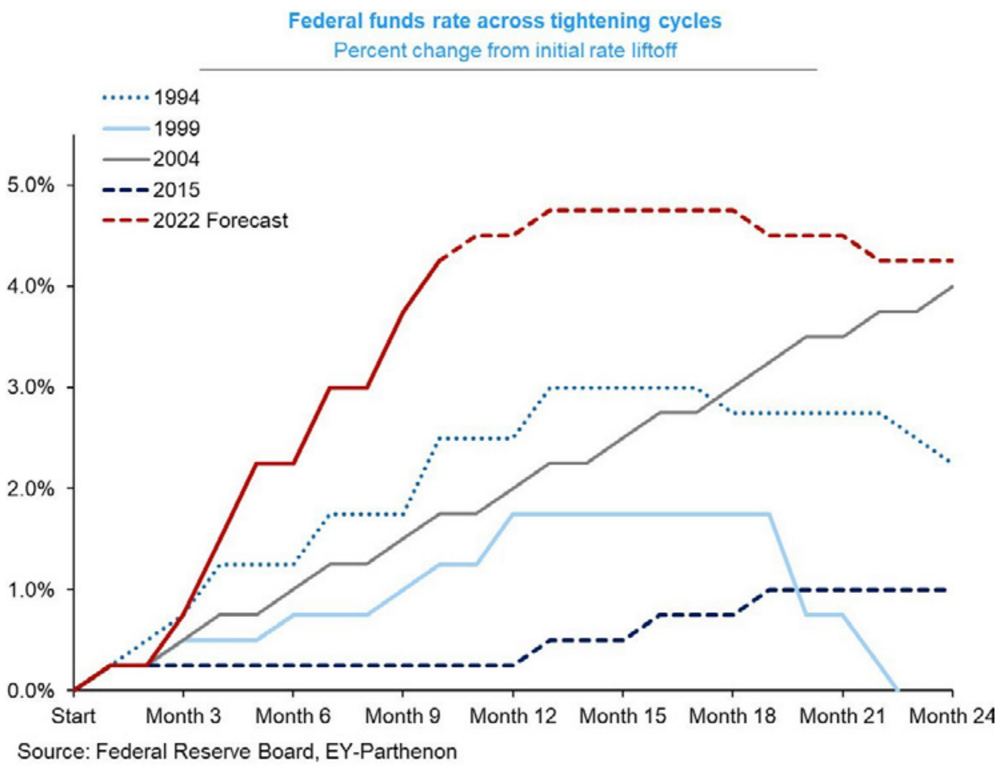
January 18, 2023

Rate Cycles

Here's a nice illustration comparing the Federal Reserve's current tightening cycle to the four most-recent versions. It shows how, as of month 10, this one has been far more aggressive than the others and will remain so even if they stop soon. That's true even without counting the effect of balance sheet reductions.



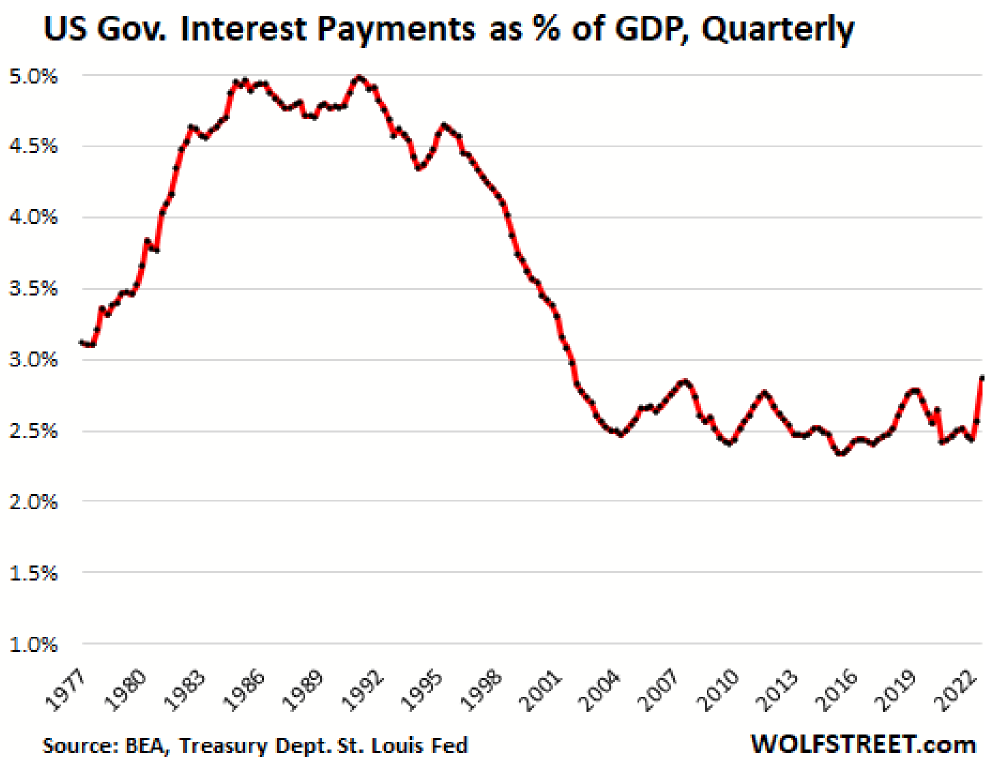
Source: Macro Daily

However, we should also note the cycle has some key differences. For one, inflation is a far greater threat now. Past Fed leaders also never faced anything like the COVID crisis with all its unknown effects and unprecedented interventions.

We know how the story ended in those other cycles. This one is still unfinished. Only with time will we know if the Fed administered the right medicine.

Interest Burden

Rising interest rates threaten to aggravate the already high federal debt, but, as this chart shows, interest payments are still lower as a percentage of nominal GDP than in the 1990s. The government debt burden has certainly grown, but the economy has grown even faster.



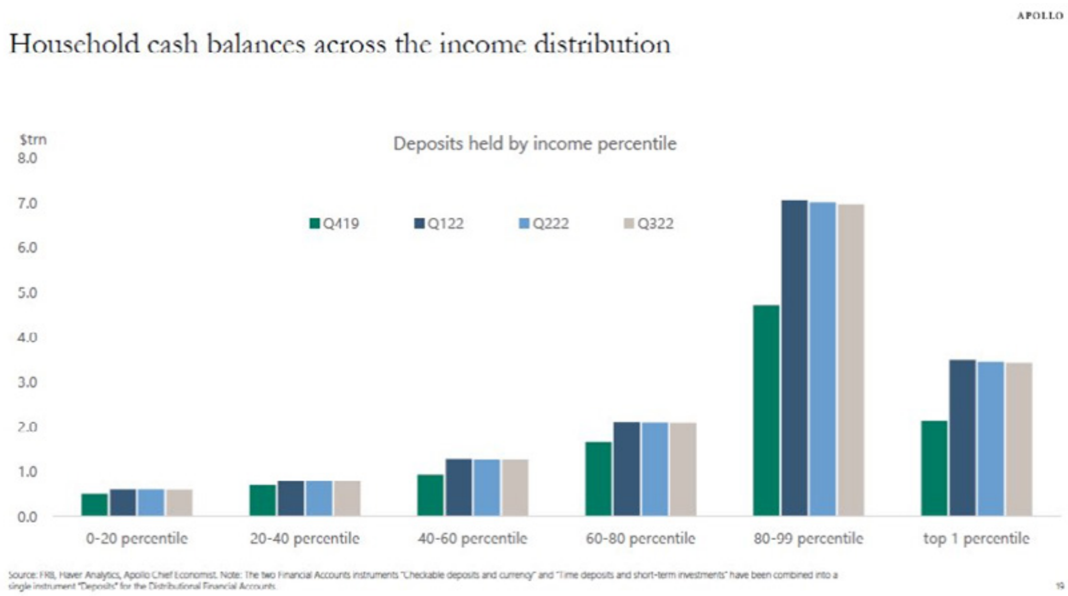
Source: [Wolf Richter]

It's also important to note inflation allows the government, like all debtors, to repay with depreciated dollars. This offsets some of the additional interest expense.

None of this means government debt is good, but it may not be as great a problem as it seems.

Household Cash

One reason the US has (so far) escaped recession is strong consumer spending. That spending has held up thanks to households having more cash on hand. This chart draws on Federal Reserve data to show household cash balances by income percentile. The first bar is Q4 2019 as a baseline, then the first three quarters of 2022.



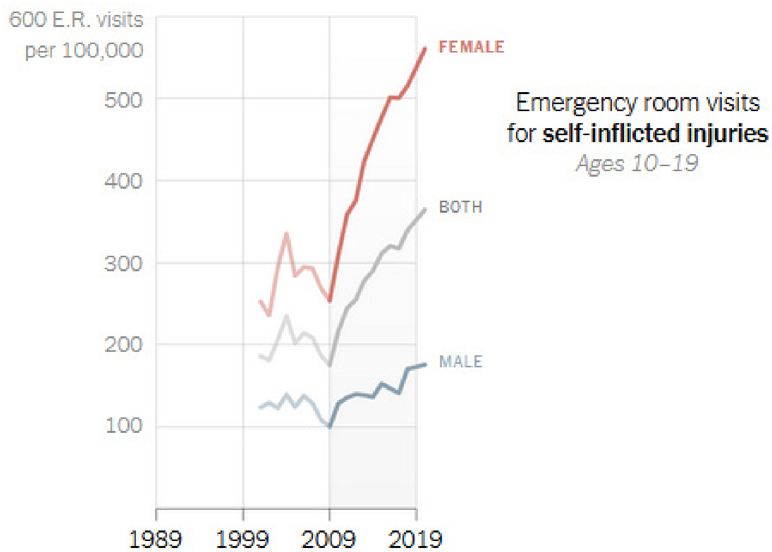
Source: Carl Quintanilla

We can see that people at all income levels had more cash on hand in 2022 than in 2019—though, of course, these are totals, and many households did better or worse.

The important point, economically, is that cash positions didn't shrink much as 2022 progressed, despite rising interest rates and the end of many COVID-era support programs. Consumer spending seems unlikely to weaken as long as this condition persists.

Teen Troubles

Recently, *The New York Times* reported on the mental health crisis among US teens. Depression, self-harm, and suicide rates are rising. It shows up in rising emergency room visits for self-inflicted injuries. Young females are much more likely than males to have had such experiences.



By The New York Times | Source: Centers for Disease Control and Prevention

Source: The New York Times

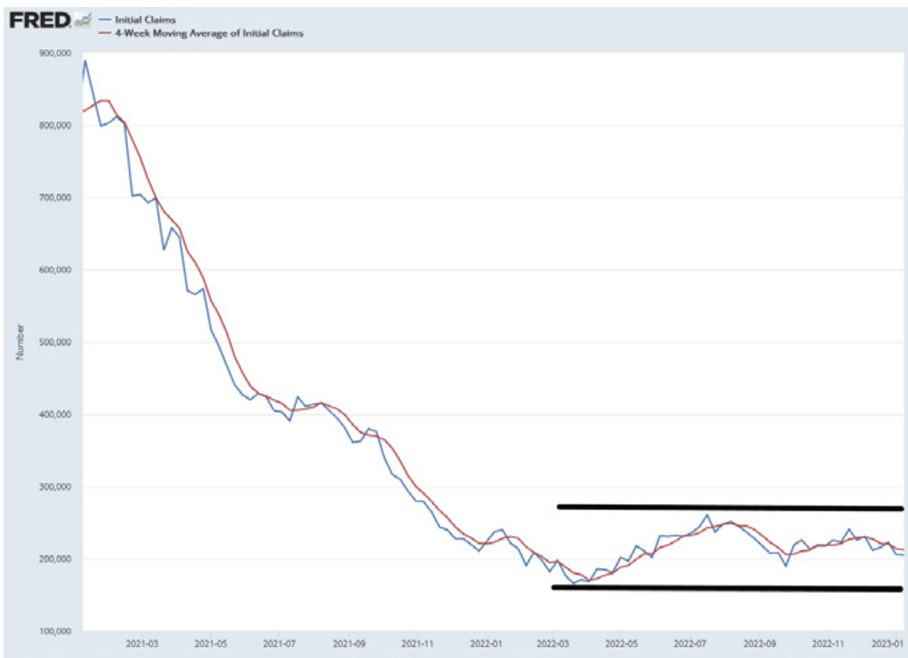
What's causing this? The timing may reveal something. ER visits began rising sharply in 2009, just as smartphones and social media apps became common. A recession was also underway at that point, creating difficult conditions for many families. The chart doesn't show the COVID era, but that experience likely worsened the problem.

This has an economic element, too. Today's teens are part of tomorrow's labor force. Something appears to be deeply amiss in their mental health condition. Finding solutions could be critical to future growth.

Weekly Claims

We've noted before that weekly unemployment benefit claims should offer some early warning of economic weakness. This chart shows the last two years. Claims fell steadily in 2021 as the COVID recovery proceeded. They seem to have bottomed in March 2022, just as the Fed began its rate hikes. But since then, weekly claims have stayed in a fairly tight range around 200,000.

The highest weekly claim total in 2022 was 261,000 for the week ending July 16. Watch for a move above that level. It won't necessarily mean recession is here, but it will signal we should watch more closely.



Source: FRED

Thanks for reading *CLIPS THAT MATTER*. We hope you enjoyed it. We welcome feedback and suggestions at oms@mauldineconomics.com.

Best regards,

John & Patrick

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