

## US Macroeconomics

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### Can the Economy Continue to Create Jobs Without Growth?

If we average gross domestic product (GDP) and gross domestic income (GDI) to create the best underlying proxy for total output, the economy has increased just 0.2% at an annualized rate over the last five quarters. This is essentially zero growth, or what economists call “stall” speed.

Yet over this time, nonfarm payrolls increased 4% or 371k on average per month. What gives? The answer is productivity growth, which is the basis for rising living standards and long-run wage gains.

According to recently released figures, **nonfarm productivity has declined -1.9% at an annualized rate since Q4 2021**. This is the worst five-quarter performance on record, eclipsed only by the five quarters ending Q3 1974 (-2.5%).

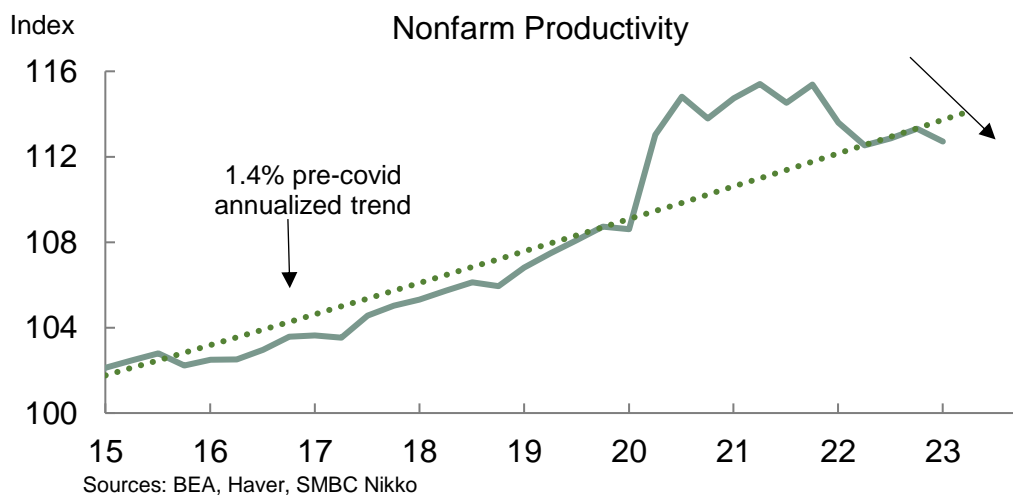
Admittedly, in level terms, the level of productivity does not look as poor considering that it is back to its underlying pre-covid trend. And right now, the momentum is clearly pointing downward. What will determine whether productivity growth slips further or rebounds? We see two likely scenarios.

One, the economy rebounds, evidenced by a recovery in real GDP (and GDI). However, with unemployment low and the Fed hawkish, this will simply lead to tighter policy and weaker growth. We end right back where we started.

Two, employment growth slows and slows massively. This is the only way to restore productivity gains, but it comes at a huge social cost — lost jobs. Maybe there is a middle ground.

The Fed has lifted rates at a record pace, bringing the funds rate to 5.25%, the same level it was in 2007. Back then, productivity growth was strong, rising 2.3% on the year. This warranted the 5%-plus funds rate but not today.

**While the unemployment rate is low, the economy clearly lacks vigor.** The Fed needs to stop raising interest rates and assess how past actions and the looming regional bank credit crunch impacts the economy. Whether the May employment report surprises to the upside should not matter.



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