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Analyzing the State of the U.S. Economy in the Post-Pandemic Era

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Abstract: With the normalization of the epidemic in the United States, the COVID-19 virus is increasingly regarded as a more contagious "big flu" with higher-fatality. The new coronavirus has mutated to make it more susceptible to multiple infections, and some patients may experience symptoms that last for months or years. Unlike previous direct economic crises, the COVID-19 epidemic has played a negative role in the transmission of economic policies in the process of economic recovery, reducing the pertinence of economic policies and the speed of full resumption of work and production. Given the accumulation of negative issues caused by economic policies in the U.S. since the epidemic, this article will discuss the current state of the U.S. industrial economy, high inflation and Fed policy, as well as the international environment and cooperation.

Keywords: industrial economy, inflation, federal reserves, international trade, economic policy

1. Introduction

Under the dual influence of the rapid spread of COVID-19 and expansionary fiscal and monetary policies, the author prefers to use the term "stagflation" to describe the U.S. economic development. Affected by the external factors of COVID-19 and sudden changes in the international environment, the U.S. secondary industry is overloaded, and the economic recovery is different from the previous economic crisis. The ability to transmit economic policies also depends on the speed at which jobs and production can be fully resumed. In other words, how to control the the virus's constant mutation, multiple transmissions, and associated severity and mortality. The international geopolitical war is in full swing, and other countries are choosing their sides one after another. The production of agricultural products, energy, and other related commodities, and even the disruption of national trade have exacerbated the instability of international trade flows, and commodity prices have soared. At the same time, with the U.S. unemployment rate at a high level and the U.S. government's widening fiscal deficit and increased the currency circulation in the market to stimulate the economy in the short term, the U.S. economy in the early recovery is more like the nominal development of "Number" GDP. This is an unhealthy approach to stimulating economic recovery.

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2. Secondary Industry Development Is the Key to the Economic Health

The sustainable development of the secondary industry plays a key role in the internal circulation of the economy. Generally speaking, the first two industries are the main components of the real economy, while the tertiary industry is an inevitable feature of a modern economy. The highly developed tertiary industry in the United States shows its highly developed modern economic level. However, it is unavoidable that with the development of economic globalization and the continuous innovation of financial derivatives, the total virtual economy in the world is growing at a geometric rate. The rapid development of the virtual economy not only brings prosperity to the real economy but also causes a lot of bubble risks.

As a big importer, the U.S. has a perennial trade deficit, and the contribution of international trade to the U.S. GDP is negative. To put it in another way, the creation of annual economic value is mainly determined by the domestic economic cycle. Judging from the total value created by different sectors, the economic development of the United States is highly dependent on the tertiary industry. In accordance with the quarterly data from the U.S. Bureau of Economic Analysis (BEA), the private sector's contribution to the economy, broken down by sector, is relatively stable, totaling around 88 percent, according to industry classifications. Taking the latest quarterly data (2021Q4 shown in Fig.1) as an example: the primary industry (agriculture) accounts for 1.1% of the total GDP, the secondary industry (manufacturing, construction, mining) accounts for 18.5%, and the tertiary industry (services) accounts for 18.5%. industry was 68.6% [1].

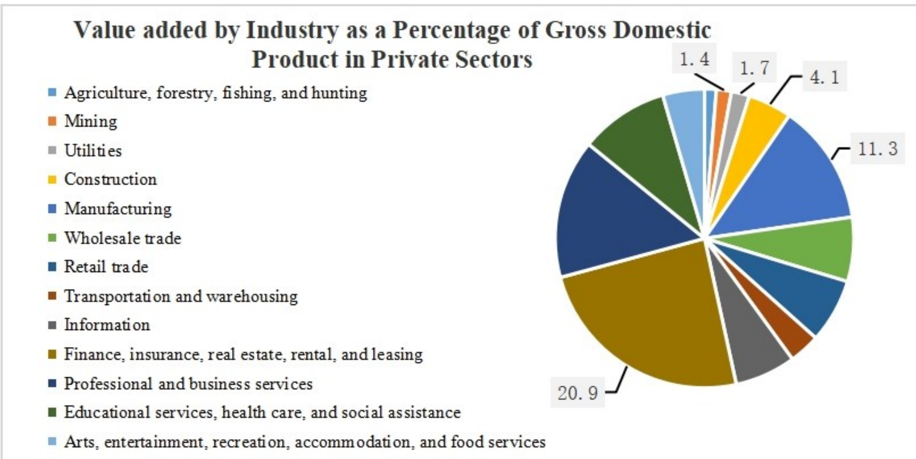

Figure 1: Value added by industry as a percentage of gross domestic product in private sectors in 2020Q4. (Sources: U.S. Bureau of Economic Analysis.)

The disadvantages of the unbalanced development pattern between the rapidly growing tertiary industry and the low-level secondary industry (especially the manufacturing industry) have been magnified during the COVID-19 outbreak. Take the plight of the manufacturing industry as an example: For more than two years from March 2020 when the U.S. economy was shut down to April this year, government officials kept pointing out in speeches that the virtual economy could not produce medical protective materials such as masks and oxygen cylinders. As a result, when the epidemic comes, we can only give priority to supplying a large number of critically ill patients in a short period, and then meet the huge market demand of the United States through mutual assistance and international trade between different state governments.

The prosperity of the secondary industry is crucial to the economic development of the United States, but it will be difficult to restore the dominant position in economic development in the middle of the last century. There are three reasons: First, the fundamental driving force of offshore

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manufacturing lies in production costs, mainly due to high labor costs. The state outsources all or part of the industrial chain to low-cost countries or carries out offshore production in low-cost countries. Second, technological progress has made the product value chain more knowledge-intensive, and the demand for simple labor in global production decreases, while the demand for skilled labor increases, thus changing the structure of labor demand. Third, the U.S. secondary industry (especially the manufacturing industry) giants are increasingly taking advantages of their own profits to manipulate the company's share prices rather than research and development of new technologies. The internal management of the company is chaotic, the middle management shirks responsibilities to each other, and the enthusiasm of the grass-roots staff is not high. This is because the management typically gets the bulk of their income from equity incentive plans. In addition, due to the nature of capitalist countries, most enterprises in the secondary industry in the United States come from the private sector, and the economic policies formulated by the government are relatively weak in the production-oriented degree of private enterprises. As for the United States, however, there is a huge bubble economy right now, and more employment opportunities can be tapped in the secondary industry.

3. The Causes of High Inflation and the Fed's Response

According to historical data from the U.S. Department of Labor, since the first U.S.$1.9 trillion economic stimulus bill was formally signed into office by President Biden, various CPI indices in the U.S. have soared (as shown in Fig. 2), with the most obvious increase It is Energy, Gasoline and Natural Gas, with the highest monthly increase of 33.3% (Nov/21), 56.2% (May/21) and 28.1% (Oct/21) [2]. With the increase of social and economic activities, the demand for energy recovered rapidly. Under the background of energy transformation, the investment in upstream traditional energy was insufficient, and the contradiction between global energy supply and demand was intensified, OPEC gradually reducing production, and traditional energy prices skyrocketing in turn, hitting record highs in recent years or history, and triggering an energy crisis. It is not difficult to see that since March 2021, the sharp increase in CPI is mainly caused by higher energy prices, while the increase in the CPI for commodities excluding food and energy items also indicates that U.S. inflation is broad-based.

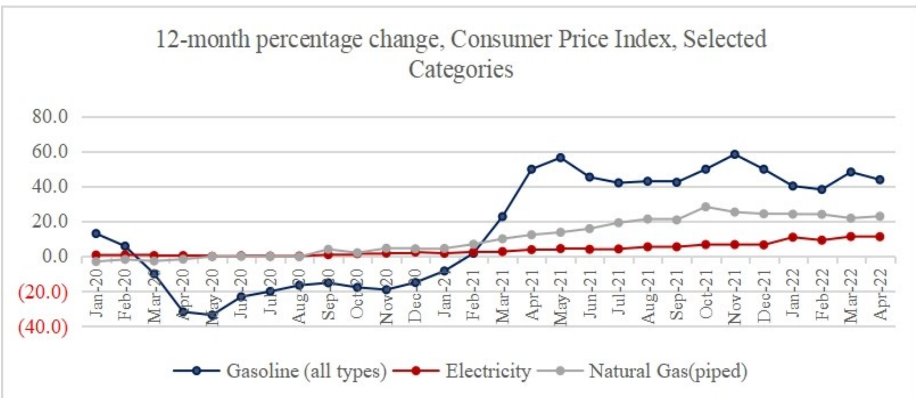

Figure 2: 12-month percentage change, consumer price index, selected categories. (Sources: U.S. Bureau of Labor Statistics)

In addition, according to the Federal Reserve's H.4.1 table, as of May 12, 2022, after counting the mid-month data, we found that since the outbreak of the epidemic was announced in March 2020, the Federal Reserve's total assets peaked (April 2022), reaching about 2.08 times the March 2020 data (in Fig. 3) [3]. The assets accumulated by the Fed's large-scale quantitative easing over the past two years have provided sufficient "quantitative" chips for economic recovery. However, this unhealthy

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approach to alleviating the economic crisis has not only led to lower returns on assets and bubbles, but also severely compressed the profit margins of the financial industry, resulting in the awkward situation of money not being transmitted to credit.

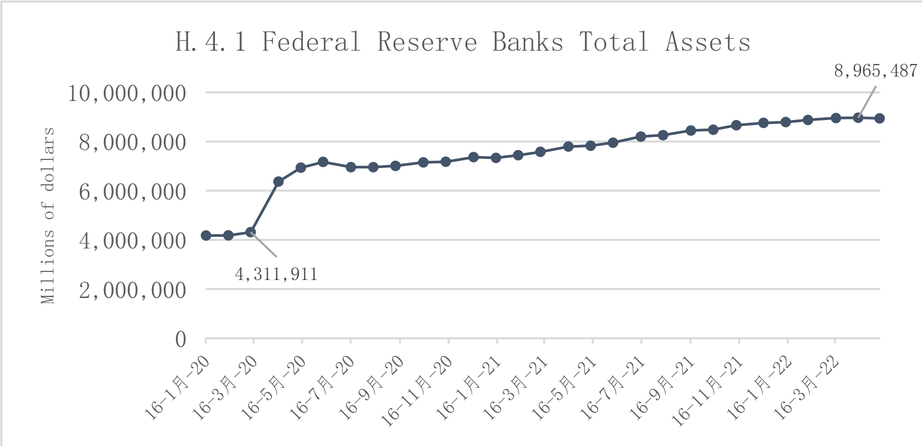

Figure 3: Statement of total assets of federal reserve bank. (Sources: Federal Reserve Banks)

Notes:1. Components may not sum to totals because of rounding 2. The Fed's asset-side subjects include: (1) gold accounts; (2) special drawing rights; (3) coins; (4) directly held securities, unamortized securities premiums/discounts, and repurchases Agreements and loans; (5) Net portfolio holdings of special purpose vehicles (SPVs), mainly referring to the New York Fed's establishment to rescue financial institutions that fell into bankruptcy.Net investment portfolio held by limited liability companies; (6) accounts receivable (funds in transit); (7) fixed assets; (8) central bank liquidity swaps; (9) foreign currency denominated assets; (10) other assets.

Generally speaking, the FOMC of the Federal Reserve committee tend to the unconventional monetary policy (shrink balance sheets) to stabilize the market and adjust the inflation, for two reasons: First, the federal reserve to purchase a large number of high-quality financial assets during the QE period, and the operation method of shrinking the balance sheet is to send money to the market. The release of high-quality financial assets and the recovery of speculative funds will contribute to enhancing the stability of financial markets. Second, shrinking the balance sheet can increase the supply of long-term bond assets, to enable an undistorted upward movement of the entire yield curve. Tightening the dollar liquidity of the U.S. dollar by issuing Treasury bonds, within the limits of fiscal deficits, would help reduce the speculative nature of the dollar and restore its international credibility.

This time, to achieve its dual goals of full employment and long-term inflation of 2%, the Federal Reserve FOMC officially raised interest rates in March this year. On May 4th, it announced a substantial 50 basis point interest rate hike, raising the target range of the federal funds rate to between 0.75% and 1%. At the same time, the Fed adopted policies to shrink its balance sheet by nearly $9 trillion, signaling its efforts to rein in soaring inflation. Multiple interest rate hikes in the short term will have a positive effect on curbing inflation and increase the value of U.S. dollar assets, but will be accompanied by a gradual weakening of the U.S. economic growth momentum in the later period, such as durable goods consumption and real estate sales. The short-term performance is less clear, but history suggests that in the long-term, rising interest rates will harm interest-rate-sensitive economic activity.

4. Geographical Wars Can Be a Turning Point for U.S. Economic Recovery

The impact of the geopolitical war between Russia and Ukraine and the lack of signs of a slowdown in U.S. domestic consumption growth have made it challenging for U.S. trade to return to normal levels in the short term, further exacerbating its domestic inflation. The Ukraine crisis took place in Europe, and European countries have no choice but to bear the brunt of the impact of the crisis. A large number of Ukrainian refugees have left for other European countries, and how to properly deal with them has become a difficult problem for European countries. Russia and Ukraine play a significant role in global food production and supply, according to United Nations news data for March. Specifically, Russia is the world's largest wheat exporter, while Ukraine is fifth. The two countries together account for 19% of global barley supply, 14% of wheat supply, and 4% of maize supply, and account for more than a third of global cereal exports. Apart from that, the two countries are also major suppliers of rapeseed, accounting for 52% of the world sunflower oil export market. In the same highly concentrated global fertilizer supply pattern, Russia is the main producer [4]. It shows that the immediate consequences of the Russia-Ukraine conflict will seriously affect global energy and agricultural trade, the disruption of the global food supply chain, disrupt the global food supply chain, tighten market supply, push up food prices sharply, and endanger the global economic recovery. The EU is heavily dependent on Russian energy. Energy prices continuing to rise after EU member states announced sanctions against Russia. Besides, Ukraine is the granary of Europe, coupled with the driving effect of rising energy prices, which has contributed to the recent rise in European food prices.

From the perspective of food, the United States is the most important food exporter in the world. With its vast land and sparse population, this food crisis will not affect the food supply in the United States. Moreover, the monthly food inflation rate shows little change. From a financial point of view, the United States, as a country with highly developed tertiary industry, especially the financial industry, achieves "economic prosperity", and the fastest way for "money generates money" is currency reproduction. Generally speaking, the way to make money with money is the most time-saving and labor-saving. As it turns out, sanctioning other countries are more inclined to financial sanctions for the purpose of economic sanctions. Understandably, the United States and EU countries have imposed financial sanctions on Russia and continue to ratchet up the weight. From a military point of view, huge profits are made from the sale and purchase of military equipment. In addition, the interest rate hike has further increased this part of the huge benefit. A combination of economic policies has been implemented to help the United States accumulate a large amount of overseas wealth, relieve the "nominal" economy of the United States and consolidate the absolute international status of the United States and the dollar.

5. Conclusion

First, from the status quo of U.S. economic development, based on the value creation distribution of U.S. industrial economics, it can be noted that the fastest way to restore the U.S. economy has nothing to do with agricultural development and industrial development. The government's policy is to replace the world's resources through the development of the tertiary industry represented by finance, real estate, and trade, which is the fastest way to revive its economy. The U.S. economy has reached an unhealthy over-saturation, based on the continuing spread of the virus and the dual expansion policy. The Fed's tough signals have indicated that the overall size of the money market will shrink, but the supply of the corresponding general commodity market remain dependent on international trade. The introduction of large-scale fiscal spending measures has boosted national savings and spurred consumers to buy more commodities, resulting in tight commodity inventories, including consumer goods, and accelerating the restocking of corporate inventories, which in turn boosted imports. On the premise of the hot money market, from the perspective of the commodity market, smoothing the internal economic cycle of the United States and driving the long-term development of the American economy comes from the development of the secondary industry.

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Second, from the perspective of containing high inflation, Fed officials once said that the Fed will raise interest rates seven times in 2022 to cool the U.S. economy. Federal Reserve Chairman Powell has also repeatedly said in public that he will raise interest rates, a sign of the Central bank's determination to tackle high core inflation. But if true, the frequency and scale are too aggressive for a country's economic recovery. The Federal Reserve has raised interest rates twice this year, and many central banks around the world have raised interest rates. Among them, the central banks of Australia, Canada, New Zealand, Argentina, and other countries all announced to raise interest rates, and the European Central Bank has also announced that it will raise interest rates shortly. This is a turning point in the flow of world funds. The author argues that the Fed is more likely to adjust its program in time to the uncertain domestic and international outlook depending on how the economy develops in the second half of the year.

Third, from the perspective of international cooperation, the current U.S. foreign policy is designed to serve the interests of the American middle class. After Biden taking office, he changed the previous "America First" policy, vigorously repaired the U.S. alliance system, and eased the relationship between allies. For example, the United States has recently established a new security partnership with Australia and the United Kingdom, and it has moved from a dialogue with the 11 ASEAN countries to a comprehensive strategic partnership. The major interest groups currently served by the United States can get long-time Allies into a lot of trouble, which may lead to alienating the possibility of economic cooperation. But at the same time, the alliance that squeezes China's development space makes little significance, as both China's domestic circular economy and its external circular economy operate effectively under the overall dynamic management of the epidemic. Most allied countries will still consider whether to strengthen uninterrupted cooperation with China in their national economic interests.

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