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ECONOMIC DATA, ECONOMIC PERFORMANCE
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Economic performance is defined and measured along three principal dimensions: prices, production, and human material well-being. By prices we refer to consumer prices, with higher prices indicating some retrenchment in human well-being. By production we mean gross domestic product, with a decline in GDP indicating a deterioration of human well-being. By human well-being we refer chiefly to employment and income, with a drop in employment or income pointing to a decline of human well-being. Thus, in the end economic performance reduces to human material well-being.

What then can we say about the performance of the U.S. economy over the last several years? Consumer prices for sure have been stable. However, real annual increases in GDP are well below the rate necessary to provide for normal improvements in employment and income. The number of payroll jobs today remains 2.8 million below the peak reached in December 2007. The latest estimates of median household income show a decline to the level reported in 1995. The rate of poverty, which is another measure of human well-being, is higher than at any time in the last 20 years.

There is one technical problem that is common to every one of principal performance measures: all of them are estimates based on samples. All, therefore, are subject to error. For example, a month-to-month change of less than 436,000 in the number of persons employed reported through the household survey is not statistically significant, though many news anchors confidently report smaller changes as if they were significant. In effect they treat an estimate as if it were a head count. A month-to-month change of 0.1 percent point in the jobless rate is not statistically significant, but economic commentators treat it as if it were. They make the same mistake of treating an estimate as if it were based on a headcount.

There are other important problems with measuring economic performance. For example, consumer prices are based on a fixed basket of consumer items that are priced month after month. Unless the basket is re-set, which happens only from time to time, the prices of new items that capture the fancy of consumers are not reflected in month-to-month changes in the price index.

There is a large underground economy that is not included in official estimates of GDP. One trusted researcher put unreported income recently at upwards of $2.4 trillion. This problem, in turn, influences the accuracy of official estimates of household income and poverty. Furthermore, poverty estimates are based on the annual income reported by a person or family compared to a threshold level that is thought to provide a minimal standard of living. Many countries use a different standard that measures the annual income of a person or family compared to the incomes of others.

What does all of this mean? We need to be much more careful about hanging economic analysis on any month-to-month change in prices, employment, and unemployment, on quarterly changes in production and income, and annual changes in poverty. ***What matters most is not the level of the estimate at any given point in time but the trend over a longer period of time.***

In that regard, data on median household income and the poverty rate are troubling because neither one is trending in the right direction. And even though the Great Recession ended nearly four years ago, the rate of improvement in GDP over the last three years has remained in the anemic 1.8 to 2.4 percent range. The trend in the jobless rate since the end of the recession has been downward but improvement has proceeded very slowly. It will take many more months to fall to a much more acceptable 5.0 percent.

And even though consumer prices are relatively stable, the amount of monetary easing over the last several years by the Federal Reserve runs the risk of serious inflation in the years ahead as the bank reserves it has been creating eventually lead to an upsurge in lending followed by a huge increase in spending.

The last time the Fed slammed on the brakes to head off galloping inflationary forces – in the late1970s and early 1980s -- the jobless rate climbed above 10 percent and the prime rate of interest above 20 percent. Earlier this week, the Fed stated that monetary easing would continue at least until unemployment drops to 6.5 percent, suggesting that the Fed is wary of the potential inflationary effects of fueling bank reserves. That target rate must look good to the Fed governors when compared to the present jobless rate of 7.5 percent. But it fares much worse when compared to the 33 consecutive months from June 2005 to February 2008 when unemployment was at or below 5 percent. The difference between 6.5 percent and 5.0 percent amounts to 2.3 million additional persons out of work.

Though it lasted 18 months, the Great Recession is like Hurricane Katrina or Super Storm Sandy. Both storms lasted just two or three days but the rebuilding has taken much, much longer. If employers were to add 150,000 payroll jobs every month, it would take another 19 months to return to the peak reached in December 2007. Put differently, it will have taken a total of 66 months since the official end of the Great Recession for payroll employment to recover fully.

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