The Japanification of the US economy

In the 1990s, Japan suffered a lost economic decade of highly disappointing economic growth and price deflation. It did so in the aftermath of the bursting of its massive equity and property market bubble. One has to wonder whether the U.S. might now be setting itself up for a decade of poor economic performance by allowing unusually large bubbles to once again form in its asset and credit markets and by throwing caution to the wind in the management of its public finances.

Even before the onset of the COVID-19 pandemic, the U.S. economy displayed troubling signs of Japanification. Following the 2008 bursting of its housing and credit market bubble, the United States experienced its slowest economic recovery on record while inflation remained consistently below the Federal Reserve's 2 percent inflation target.

Meanwhile, its highly leveraged companies borrowed heavily at very low interest rate spreads, and the country seemed to have lost any constituency for budget discipline on both sides of the political aisle. Republican administrations proved to be very keen to cut taxes but were loath to cut public spending. Meanwhile, Democratic administrations proved eager to raise public spending but were hesitant to raise taxes. The net result was that the country now finds itself saddled with a record budget deficit and on an unsustainable public debt path.

The excessively expansive U.S. monetary and fiscal policy response to last year's once-in-a-century health crisis makes it all too likely that in the years immediately ahead the Japanification of the U.S. economy will pick up pace.

By increasing the size of its balance sheet in less than a year by more than $4 trillion through its aggressive bond-buying program and by keeping interest rates at ultra-low levels, the Federal Reserve has created a troubling "everything" bubble in the U.S. equity, housing and debt markets. U.S. equity valuations are now more than double their long-term average and at lofty levels experienced only once before in the last 100 years.

Meanwhile, housing prices now well exceed their 2006 peak level and continue to increase by around 15 percent, while high-yield debt interest rate spreads are now close to their all-time lows.

By providing budget stimulus of as much as 12 percent of GDP in 2021 at a time that the Fed has its monetary policy pedal to the metal and that the Congressional Budget Office estimates that the country's output gap is only some 3 percent, the Biden administration has increased the risk of economic overheating and persistently high inflation by year end. At the same time, far from thinking about long-term budget consolidation to restore public debt sustainability, Biden is rushing through Congress an improperly funded $1 trillion infrastructure spending bill and a $3.5 trillion anti-poverty and climate control package. This has to heighten the risk of high budget deficits and an unsustainable debt path for as far as the eye can see.

With inflation already picking up to a level not experienced in the past 30 years and to a level that is more than twice the Fed's inflation target, it has to be only a matter of time before the Fed is forced to slam on the monetary policy brakes to meet its inflation objective. The Fed will do so first by tapering its bond-buying program and then by raising interest rates. That in turn is more than likely to burst the "everything" asset and credit market bubble, which has been premised on the assumption that ultra-low interest rates will last forever. It is also likely to worsen the country's public finances as tax revenue receipts are bound to be adversely impacted by another leg down in the economy that the bursting of today's asset and credit market bubbles will entail.

In much the same way as the bursting of its property and equity bubble in the early 1990s cost Japan a lost economic decade, the bursting of the U.S. "everything" bubble must be expected to usher in a prolonged period of disappointing economic growth, low inflation, unusually large budget deficits, the proliferation of zombie companies and yet another round of Fed quantitative easing. That is bound to increase the Japanification of the U.S. economy that already seems to be well underway.

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Report highlights Amazon's economic impact to the region

Amazon's arrival and expansion in the Spokane region generated more than $550 million in the local economy, according to a report released Wednesday.

In its 2021 U.S. Economic Impact Report, Amazon indicated it also created 4,000 direct jobs in the region, in addition to 3,300 indirect jobs related to its fulfillment center that opened in June 2020 on the West Plains.

The report, produced by economics consulting firm Keystone Strategies for Amazon, analyzed Amazon's U.S. investments last year.

After Amazon opens its 1.3-million-square-foot Spokane Valley fulfillment center this fall, it expects to add an additional 1,200 more jobs in the area, making the company the fourth-largest employer in Spokane County.

Amazon likely has created both direct and indirect effects to the local economy, said Grant Forsyth, Avista Corp.'s chief economist.

For instance, Amazon's jobs with health benefits can increase demand for local health care services, Forsyth said.

The company's continued expansion also will increase demand for labor in Spokane and potentially draw workers from Lincoln, Stevens and Kootenai counties, he said.

"When you draw employers in, it opens up more opportunities for people in the labor market," Forsyth said. "It also draws people in from out of the area, so you continue to see in-migration to the region. Because of the deepening labor market, there is more opportunity and reasons for people to move here."

The Seattle-based company already has hired 16 people for its leadership team at the Spokane Valley fulfillment center and plans to recruit for more positions via career fair, said Joe Wistos, general manager of the Spokane Valley fulfillment center.

"We were able to hire locally for most of our leadership positions, so we're bringing on people that have a lot of industry experience in the market to be operations managers for us and to lead teams," he said. "We've had a really easy time recruiting talent in this market."

Other positions at the fulfillment center include commercial drivers, supervisory roles, manifest clerks and process assistance workers, Wistos said.

"There's a lot of opportunity, depending on what you want to do – from data analytics to leading teams," Wistos said.

Amazon's presence in the Spokane area is growing rapidly, with plans for an air-cargo facility at Spokane International Airport, a delivery station on the West Plains and the fulfillment center in Spokane Valley.

The company's "last-mile" delivery station – also slated to open in the fall, at 11901 W. McFarlane Road – is bringing hundreds of jobs with an average starting wage of $17 per hour and a variety of benefits, according to the company.

Amazon's hourly employees have access to Amazon's Career Choice program, which prepays 95% of tuition for courses in such high-demand fields as game design, nursing and IT programming. They also have the option to apply for other internal jobs, including software engineering.

"We started a program for our associates internally at Amazon, where they can get paid to study Python and some of the other coding languages that we use extensively," Wistos said. "And we certainly see a lot of our associates go on to have really good careers with us as software engineers."

The company reported it has created more than 80,000 direct jobs and 258,000 indirect jobs in the state, according to the economic impact report, and it has invested more than $129 billion in the state and $530 billion in the U.S. since 2010.

spokesman

China's Covid lockdown could have economic costs to the world, says strategist

China has tightened Covid-19 measures to combat an uptick in daily cases — a move that could hold back the country's economic growth and hit its stock markets, said veteran strategist David Roche.

Investor sentiment toward Chinese stocks has been dampened by Beijing's regulatory crackdown on sectors including technology and after-school tutoring.

"Markets have got into the mode of thinking Covid is very ... bad, but economic recovery (is) taking away lockdowns, removing social restrictions — that's kind of the world recipe at the moment," Roche, president and global strategist at Independent Strategy, told CNBC's "Street Signs Asia" on Tuesday.

"Well it's very much not the world recipe in China for good reasons, and therefore markets have to come to terms with the fact that there are economic costs not only within China, but globally as a result of this," he added. The country's National Health Commission reported 143 new Covid cases in mainland China on Monday — the highest number of daily infections since January, according to Reuters. Chinese state media attributed the latest resurgence in infections to the highly transmissible delta variant. Chinese authorities last week ordered mass testing in Wuhan city — where the coronavirus was first detected — and imposed widespread movement restrictions in major cities including Beijing.

Some economists have raised concerns about China's "zero tolerance" approach to Covid, which refers to the country's aggressive clampdown on any flare-ups in Covid cases. cnbc

Inside the UK's Post-Brexit economy: Why investors should have an eye on London

Now, the worst excesses of COVID-19 seem to be abating, and parts of the world are starting to shake off the strictures of lockdown. We have found, perhaps to our surprise, that life goes on. It is very far from business as usual—adaptation is one of the key skills of the new economic landscape—nevertheless, the world keeps turning, and we must turn with it.

Related How COVID-19 Changed the Global Supply Chain

So, what is it like in the UK? What are the opportunities for entrepreneurs, investors and business leaders? How has the landscape changed? Is the UK economy different than it was before?

At the moment, London is a thriving center for the tech industry, home to more than 60 unicorns, according to the annual report of growth platform Tech Nation. Some are growing at an extraordinary rate: DivideBuy, a lending platform, reported average growth of 20,733 percent over a three-year period, while Popsa, a photobook specialist, went up 10,576 percent. And IPOs are on the rise, too; technology and consumer internet listings accounted for more than half of total capital raised in the first six months of 2021.

This development should be prominently on the radar of investors and others. London has traditionally lagged behind the U.S. for tech floatations, but the momentum is firmly on the eastern side of the Atlantic right now. One reason is that tech is becoming understood in a broader context; it is no longer just software and social media, but the heart which drives platforms in all sectors—and that is where London gains an advantage. The capital has strength in depth in areas like energy, telecommunications and financial services, and that infrastructure increasingly gives it the edge over not just Amsterdam or Frankfurt but even New York.

Observers from the U.S. should also be aware of the emerging regulatory environment. The UK government sponsored a review of how companies raise money on the capital markets, led by former cabinet minister and EU commissioner Lord Jonathan Hill of Oareford. Its recommendations were published with a distinctly deregulatory flavor and have been warmly welcomed by the UK Treasury. Chancellor Rishi Sunak remarked: "Our vision is for a more open, greener and more technologically advanced financial services sector." That vision is being delivered on a number of fronts. The prospectus regime for companies seeking finance will be reviewed and made "less burdensome" (code for less exhaustive and rigorous). The government also intends to relax the rules on dual-class shares, allowing differentiated voting rights but only for up to five years and with a maximum voting ratio limited to 20:1. The free float requirements will also be reduced from 25 percent to 15 percent.

All of this is a strong sign of intent. The political establishment has argued bitterly over a vision for the UK after Brexit, but a constant theme has been the creation of a free-market, light-touch-regulation, agile trading hub modelled in part on Singapore and the ghost of colonial Hong Kong. The current conservative administration, pandemic notwithstanding, has a buccaneering wind in its sails, and the effects on investment are clear.

However, there is something more, something besides share prices and rules and floatations. There is, unquestionably, a new mood in the City of London. Like any financial hub, it still bears the scars and the bloodied hands of the financial crisis. But financial services are growing in confidence, beginning to point to the contribution they make to the wider economy and realizing that they have somehow survived the worst of the pandemic.

This new mood combines relief—life, as I noted earlier, goes on—and eager openness. The UK has much to prove in the wake of Brexit, as witnessed by the hyperactivity of international trade secretary Elizabeth Truss, forging deals around the world. Early predictions of the collapse of UK financial services have been proved wrong. Fund managers are looking at new regulation changes; the overall European market is fracturing among Amsterdam, Frankfurt, Dublin, Luxembourg and Paris; and current estimates are that only 7,400 jobs have been relocated from London to other European centers.

London is firmly open for business, and that is a message emanating from the gleaming towers of the city, the corridors of government and the flashing screens of the stock exchange. There is a sense that anything is possible. Anyone who works in business or finance should pick up their ears, and maybe look at upcoming flights to London.

yahoo

Latest surge in COVID-19 could have major impact on South Florida's economy

MIAMI – Economists believe this is a crucial time for South Florida and the continued health of the economy.

Many local jobs are hinging on whether policies and public behavior promote transmission of COVID-19, or work to limit it.

"The real risk is that things start to flatline a little bit until the variant is brought under control," said Adam Kamins, Director of Economic Research at Moody's Analytics.

If policies are put in place that facilitate transmission rather than limit it, they could have trickle-down impacts to various aspects of the local economy.

"We could see workers going back to being remote, we could see local school closures if there are outbreaks, so I think all of that creates significant disruption in the economy and that could hurt south Florida," said Kamins.

Consumer confidence is also on the decline amid the summer 'pandemic of the unvaccinated' case surge.

"There is a lot of mounting risk now, so I think if the Delta Variant continues its surge in South Florida, that could significantly slow the pace of the recovery for now," Kamins said.

Economists said the rapid surge in cases could swiftly stifle economic gains as unmitigated contagion spooks consumers.

Mallory Newman of the global research company Ipsos says their research shows consumer confidence is in a steep decline.

"The level of perceived risk with certain activities, like dining out at a restaurant or going out to stores, is once again creeping upwards, so once again we are at this tough point where we have to deal with the rise in cases and uncertainly for what that means for the economy, while still trying to desire to push forward and re-open but do it safely," she said.

Newman said Ipsos' latest consumer confidence tracker shows that as of last week, consumer confidence is in "precipitous decline" amid the summer surge.