ECONOMIC UPDATE

October 1, 2021

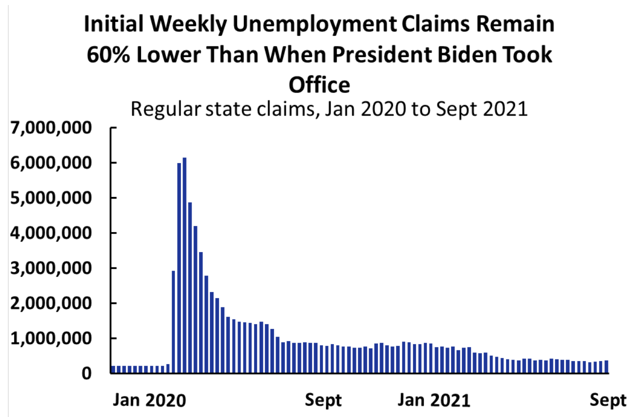
Economic Issue in Focus – Breaching the Debt Ceiling Could Harm Millions of Americans and Produce Economic Devastation

Without Congressional action, the U.S. Treasury expects that it will exhaust extraordinary measures and cash on hand by October 18th, thereby breaching the debt ceiling, which would directly harm millions of people and produce economic catastrophe. Defaulting on the federal debt would create a financial crisis on par with that of 2008, resulting in catastrophic economic damage with millions of jobs lost, businesses shuttered and a banking system in chaos. Nonpartisan Moody's Analytics economist Mark Zandi predicted that following a default, a global market panic on the scale of the 2008 financial crisis would ensue, which could result in a loss of six million jobs, an unemployment rate of nearly 9%, the elimination of $15 trillion in household wealth and a decline in real GDP of 4%.

Failure to raise the debt ceiling would make it impossible for the federal government to keep its commitments in areas of government spending such as the military, veterans, Medicare, Medicaid and Social Security. As a portion of the total debt, 97% of the debts were accrued prior to the Biden administration, many of which—including emergency pandemic relief measures, increased defense spending and continued government operations—were passed with bipartisan support. Congress, which has addressed the debt limit 78 times since 1960 to prevent default—29 times with a Democrat in the White House and 49 times under a Republican president—must act swiftly to prevent an economic catastrophe.

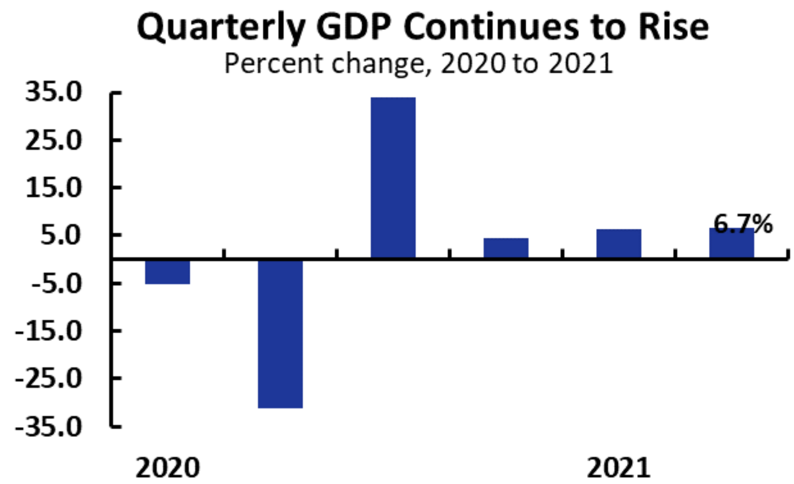
Key Economic Indicators to Track

- **Unemployment Insurance Claims:** Data released by the Department of Labor show that new unemployment claims rose slightly to 362,000 in the most recent week. Initial claims remain almost 60% lower than when President Biden took office and 94% lower than during the peak of the pandemic.



Source: Department of Labor
Note: Data are seasonally adjusted.

- **Gross Domestic Product (GDP):** The Bureau of Economic Analysis revised upwards its final estimate of Q2 GDP growth to 6.7% annualized, enabling the economy to surpass its pre-pandemic peak sooner than expected. The first half of 2021 has seen the fastest pace of economic growth in almost four decades, a testament to the effectiveness of the Biden administration's successful vaccination rollout and the American Rescue Plan, which provided an immediate financial lifeline to help families, businesses, and state and local governments ensure they survived the worst of the economic crisis.



Source: Bureau of Economic Analysis
Note: Data are seasonally adjusted, quarterly percent change at an annual rate.

- **Consumer Confidence:** The Conference Board's consumer confidence index dropped to 109.3 in September from 115.2 in August, below the consensus of 115.0. The headline index fell for the third straight month, a reflection of uncertainty stemming from the Delta variant. However, as the number of coronavirus cases dropped by 30% from their peak, restaurant diner and airline passenger numbers were back up, signaling to analysts that there is likely to be a rebound in consumer sentiment numbers over the next couple of months.
- **Personal Income and Core Personal Consumption Expenditures (PCE):** New data show that personal income increased by 0.2% in August and consumer spending rose 0.8%. For the third consecutive month, data from the Bureau of Economic Analysis showed the core PCE index (one of the two key measures of inflation along with the Consumer Price Index) remained stable, increasing just 0.3% in August.

JEC Spotlight –Build Back Better Will Help Level the Playing Field for Small Businesses

The Build Back Better revenue provisions will help boost the U.S. economy by enabling American small businesses to thrive and compete on a more level playing field. According to projections from the Treasury Department, 97% of small businesses owners will not pay more in income taxes under President Biden's plan, and more than 3.9 million entrepreneurs will get a tax cut. Small businesses structured as corporations will see a reduction in their taxes, as the corporate income tax rate is lowered to 18% on the first $400,000 of business income. In addition, the corporate tax rate will remain at 21% for the first $5 million, and only the most profitable corporations will pay the 26.5% rate.

Build Back Better will also help to better position small businesses to compete with large corporations for the most talented workers. Federal tax credits for paid leave and health insurance will lower the costs of employee turnover, and small businesses will be able to get up to $5,000 from the increased Work Opportunity Tax Credit through the end of 2023 for hiring qualifying individuals, including eligible veterans. In addition, the Build Back Better international tax provisions will make it easier for small businesses to compete globally with large multinational corporations.

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Selected JEC Resources

- *Education Can Help Narrow the Racial Wealth Gap, but Structural Solutions Are Needed to Close It*
- *National and State Level Data on the Economic Situation of Hispanic Americans*
- *Strong Care Infrastructure Is Critical to Increasing Labor Force Participation and Driving Future Economic Growth*
- *Updated SNAP Benefit Levels Will Help 42 Million People and Add $31.8 Billion in Local Economic Activity Every Year*
- *Hispanic Workers Kept the U.S. Economy Moving During the Coronavirus Pandemic but Face Lower Wages and Poor Working Conditions*

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