ECONOMIC UPDATE

March 18, 2022

Economic Issue in Focus: Fed Chair Jerome Powell Announced Interest Rate Hike to Fight Inflation While Maintaining Strong Economic Growth

As expected, Federal Reserve Chair Jerome Powell announced the decision by the Federal Open Market Committee (FOMC) to raise the federal fund interest rate by 0.25 percentage points. Fed Chair Powell said in his Wednesday press conference that “the economy is very strong” and the labor market was “very tight.” This interest rate hike is aimed at helping to tamp down inflation, which is straining household budgets and depriving workers of the full benefits of the strong economy and a healthy labor market.

Calls by former Treasury Secretary Larry Summers for the Fed to quickly and dramatically raise interest rates are inappropriate and could pose risks to the economy. Raising interest rates quickly and dramatically is the textbook solution to inflation in the economy of the 1960s and 1970s, when trade played a much smaller role in the U.S. economy and persistent inflation came from domestic demand persistently outstripping U.S. supply.

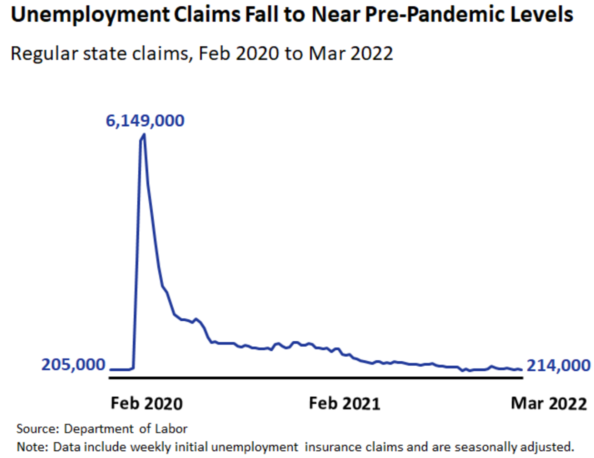
Today’s inflation is driven by different causes, many of which, such as supply chain constraints, exist outside U.S. borders. Quickly and dramatically raising interest rates would do little to ease these constraints, and instead would risk ending the economic recovery abruptly and unnecessarily. Not only could extreme interest rate hikes leave behind millions of American workers who still stand to benefit from the continued and strong economic growth of the past year, the effects would widen racial inequities in employment and wealth.

The Fed’s decision comes as the U.S. leads the world in economic growth and added a record 7.4 million jobs under President Biden. Confirming President Biden’s nominees to the Federal Reserve board will ensure it is fully staffed and prepared to fight inflation while ensuring that economic growth is stronger, stable and more broadly shared.

While the Fed is positioned to address short-term inflation, Congress is best positioned to address the weaknesses in the economy that are pushing up prices by making the necessary investments to lower household costs for families and to boost productivity. Making continued investments in children and families, workers and small businesses—through the Building a Better America agenda—would lower household costs and promote stronger and more broadly shared growth.

Key Economic Indicators to Track

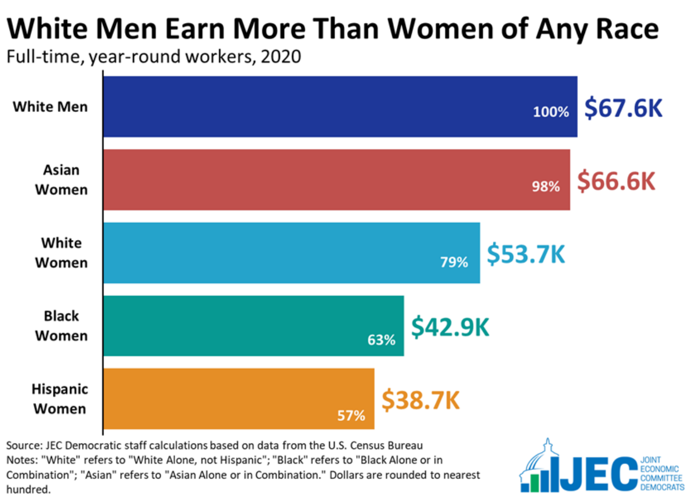
- **Initial Unemployment Insurance Claims Remain Near Pre-Pandemic Lows:** Data released from new unemployment claims fell by 15,000 to 214,000 for the week ending March 12. The four-week moving average (which smooths week-to-week volatility in the data) dropped to 223,000, down by 74% since President Biden took office. Unemployment claims reached a 50-year low under President Biden in December 2021.



- **Retail Sales Data Underscore that Consumers Continue to Have Confidence in the Economy's Strength:** Retail sales data from the Census Bureau show that retail sales rose by 0.3% in February, a slower pace than in January as Americans faced higher prices, exacerbated by a Russia's invasion of Ukraine. Retail sales are up by 18% since February 2021 and are now 25% above pre-pandemic levels. Sales at bars and restaurants are up by 2.5% and spending at clothing stores is up by 1.1%, which highlights that Americans are beginning to resume activity including eating at restaurants as cases have fallen since the Omicron variant eased.

JEC Spotlight: The Average Gender Pay Gap Hides Vast Racial Gender Pay Gap Differences

March 15 was Women's Equal Pay Day, the day that represents how far into the year an American woman has to work on average in order to earn as much as an American man earned on average in the past year. In 2020 women earned 83% of what men earned. The report highlighted that while the gender pay gap has shrunk over time, it has not closed. Furthermore, the average gender pay gap hides vast racial gender pay gap differences. One reason for the persistence of the gender wage gap is that women are overrepresented in the lowest paying occupations and underrepresented in the highest paying occupations. Women's Equal Pay Day is an opportunity to reflect on the progress that has been made towards the goal of ensuring that people are paid equally for equal work, but also how much work remains to be done.



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Selected JEC Resources

- *State-By-State Fact Sheets: January Employment Data*
- *Update: Six Months of Advance CTC Payments Dramatically Reduced Childhood Poverty and Improved Family Finances*
- *Decades of Manufacturing Decline and Outsourcing Left U.S. Supply Chains Vulnerable to Disruption*
- *Direct Investments Are Needed to Improve Upward Social Mobility*
- *The U.S. Added Manufacturing Jobs Across the Country in 2021*
- *The U.S. Economy Experienced a Record Rebound During President Biden's First Year in Office*

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