

ECONOMIC UPDATE

July 22, 2022

Economic Issue in Focus: New GDP Estimates and Expected Interest Rate Hikes Coming Next Week

Next week, two notable economic announcements are likely to receive significant attention: Thursday's release of second quarter gross domestic product (GDP) data and the Federal Reserve's expected decision to raise interest rates on Wednesday. But what do these indicators tell us about the state of our economy? Here is what we will be watching:

GDP: Last quarter, GDP showed a 1.6% contraction. But the topline number masked the strength of our economy, and the underlying data continued to indicate robust demand, which is what forecasters consider when evaluating recession risk.

While much attention is paid to GDP, it is important to note that it is only one indicator among many used to assess the overall strength of our economy. The most recent jobs report for June 2022 showed that the U.S. has recovered all of the private-sector jobs that were lost in the pandemic recession. The unemployment rate has remained at 3.6% for four consecutive months, barely higher than the 3.5% unemployment rate in February 2020, which was itself the lowest unemployment rate since 1969. Employer demand for workers remains strong with high levels of job openings and low levels of layoffs.

Bolstered by robust household balance sheets, broad measures of consumer activity also remain strong with consumer spending increasing 1.8% in the first quarter of 2022. Looking ahead, GDP forecasts for 2022 remain positive, and the Federal Reserve estimates [1.7%](#) growth for the year.

Interest rates: The Federal Reserve is expected to announce its decision to raise interest rates to help combat high levels of inflation, which remain a global challenge. As the U.S. institution best positioned to address short-term inflation, this will be the Federal Reserve's second recent action to promote price stability and advance full employment. Raising rates cools demand for interest sensitive purchases, particularly autos and home sales, which have been outsized contributors to inflation during this recovery.

Key Economic Indicators To Track

- **Retail Gas Prices Fell to Two-Month Low, Easing Pressure at the Pump for Millions of Americans:** According to data from AAA, the average retail price for gas fell below \$4.50 a gallon this week for the first time since mid-May. This drop marks a decline of approximately 10% from its June 14th high of \$5.01. This reduction of around 50 cents a gallon will help the average driver save

about \$25 per month, easing pressures at the gas pump for millions of U.S. drivers. According to some [estimates](#), gas prices could fall below \$4 a gallon by the end of summer.

- **The Pace of New Home Construction Slowed in June, But Remains Strong Compared to Prior Years:** Census Bureau [data](#) released this week showed that the number of permits for new houses decreased from 1,695,000 in May to 1,685,000 in June, and the number of housing starts fell slightly from 1,591,000 in May to 1,559,000 in June. While down month over month, both of these figures are significantly higher than the pre-pandemic norm, which was low due to the long recovery from the 2008 recession. At the same time, a record number of homes are currently under [construction](#) and awaiting completion, which when finished should increase the housing supply and offer some price relief for new buyers. Together, these indicators suggest that housing construction's contribution to the overall economy will moderate in the coming months, although new home construction continued to out-pace pre-pandemic trends in June.
- **States Continue to Add Jobs and See Their Unemployment Rates Decline:** According to data released today, in June, 48 states and the District of Columbia saw unemployment [decline](#) or remain stable, and 48 states and the District of Columbia added jobs or saw their payrolls hold steady. Fourteen states are currently experiencing their lowest unemployment rate in history.
- **The Number of Americans Receiving Unemployment Insurance Held Steady at the Lowest Level Since 1970:** The four-week moving average of Americans receiving unemployment insurance benefits remains near the lowest level since 1970. For the week ending July 16, the [number](#) of Americans who filed new claims for unemployment insurance was 251,000. Although the new claims number has ticked up recently, it remains 69% lower than when President Biden took office and is indicative of a strong labor market where workers are able to find jobs.

JEC Spotlight: Gun Violence Costs the U.S. Economy More than Half a Trillion Dollars Each Year

A new JEC [issue brief](#) outlines the significant economic impact of gun violence in the United States. The loss to the victims, families and communities directly affected by gun violence cannot be calculated, but the harms caused by gun violence cascade through the rest of the U.S. economy in real and measurable ways. From health care to education, business formation to housing, the economic effects of gun violence are widespread and long-lasting. According to Everytown for Gun Safety, gun violence costs the U.S. more than half a trillion dollars each year, which is equivalent to 2.6% of U.S. GDP and costs the economy more than the GDP of nearly 90% of countries.

Gun violence harms local economies, resulting in slower business growth and fewer jobs created. The Urban Institute [found](#) that communities experiencing increased gun violence saw business growth drop by 4%, and other [research](#) has shown that one additional gun homicide in a neighborhood resulted in 80 fewer jobs the following year.

Gun violence also negatively impacts the educational and life outcomes of children, particularly in instances of school shootings. A [study](#) of school shootings in Texas found that in schools that experience a shooting, absences rise by 12%, and chronic absenteeism increases by 28%. In the years following a school shooting, students were more likely to repeat a grade, and they were less likely to graduate from high school or attend college.

Selected JEC Resources

- [*Expanded ACA Tax Subsidies in the American Rescue Plan Helped 5.8 Million Americans Newly Enroll in ACA Plans*](#)
- [*LGBTQ+ Americans Make Important Contributions to the Economy Despite Facing Unique Challenges*](#)
- [*Democrats Are Working to Fight Inflation, Lower Costs and Address Supply Shortages*](#)
- [*Oil Companies Are Enjoying Market Influence and Record Profits, While U.S. Families Foot the Bill for High Gas and Energy Prices*](#)
- [*Investments in Wind Energy Will Help to Create A Fairer and More Resilient Economy*](#)

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