In that sense, this post-election pop in inflation expectations is tantamount to added – if belated – recognition of the inflation cycle upswing that ECRI predicted several months ago, based on the USFIG.

So the USFIG has been correct about the cyclical direction of actual inflation as well as inflation expectations. Given that the USFIG climbed further to a 101-month high in October *(↗USCO Index Pages, November 2016)*, and its weekly version has also been hovering around those highs in its latest readings (top line), this inflation cycle upswing, which is well underway, is set to persist.

For Whom the Bell Tolls With the economic expansion now in its eighth year, and over 15 million jobs added since the post-recession low in employment, alongside the steady decline in the jobless rate from its recessionary high of 10% to under 5% today, many mainstream economists were convinced that the U.S. economy was in pretty good shape. That misconception is a key reason so many were stunned by last week's election verdict.

For a long time, when the cheerleaders of the consensus sang the praises of globalization, ECRI pushed back against the happy talk. Nearly two decades ago, for example, an article in a widely-read journal proclaimed the end of the business cycle, partly in the belief that, in a globalized economy, weakness in one part of the world would be offset by strength elsewhere, damping out the cyclical swings. We pointed out that, on the contrary, "the most severe U.S. recessions have been international in scope, and greater globalization of trade may lead to greater synchronization of economic cycles worldwide [in which case] the concerted downturns can reinforce each other and deepen the recessions." With respect to globalized financial markets, we noted that they "may make the market more efficient but not necessarily more stable. In the event of an unexpected political or economic crisis of global proportions, it is entirely possible that such globalized markets that use derivatives with little-known characteristics may deepen economic cycles instead of dampening them" *(↗USCO, July 1997)*.

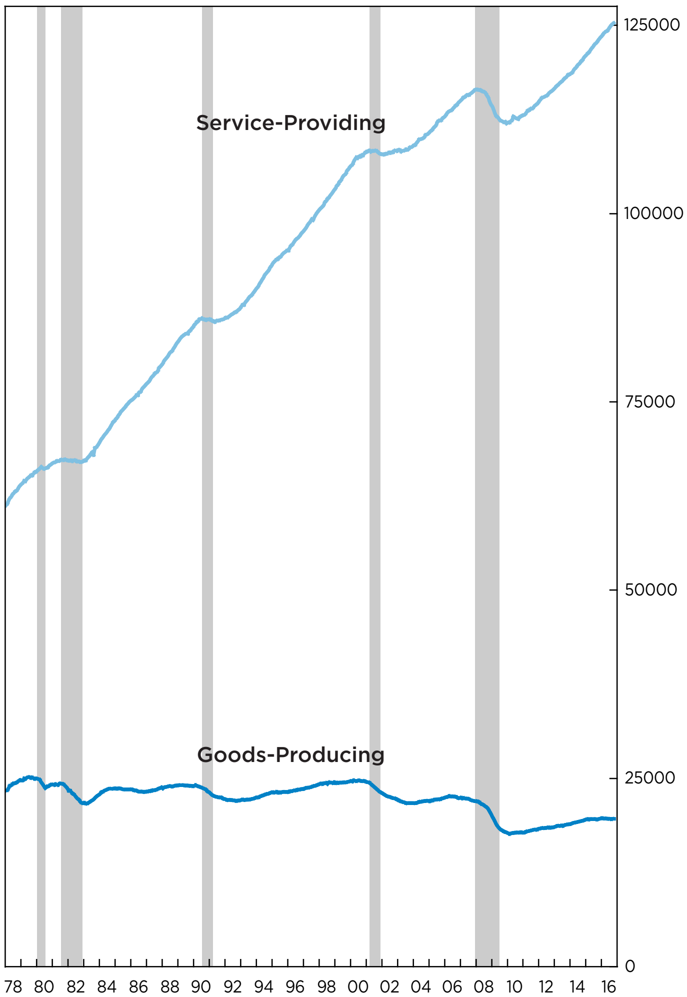
Four years later, during the recession of 2001 – the year China joined the World Trade Organization, opening the floodgates for Chinese imports – we observed that the state of the economy was demonstrating "the risks of globalization" discussed earlier. Companies were finding "no place to hide" in the midst of a synchronized global recession, "as profits plunge[d] simultaneously around the globe," inducing international firms to cut costs in whichever country they could, "helping to spread the weakness from country to country" *(↗ICO, July 2001)*.

Less than two years later, we noted the "overcapacity worldwide in the wake of the global recession," causing "deflationary pressures in tradable industrial goods, which ha[d] accelerated the shift of industrial capacity to China, spurring even more companies to follow suit in order to remain competitive. Of course, this results in a more rapid loss of U.S. manufacturing jobs, which are now at their lowest level since 1958" *(↗ICO, June 2003)*. Soon thereafter, flagging the fact that there had "never been a U.S. recovery during which manufacturing jobs [had] disappeared at such a rapid clip," we called the phenomenon "the globalization tsunami" *(↗ICO, February 2004)*.

But when the Fed cut the fed funds rate to a record low of 1% to insure against deflation risk, we asserted that, "because the danger of recession has now receded … deflation … is highly unlikely in the foreseeable future." Nevertheless, we observed, "the talk about deflation risk emanating from the Fed has succeeded in keeping long-term bond yields down, thus ensuring low mortgage rates that support the housing boom" *(↗ICO, June 2003)* – which, as we now know, culminated in a devastating bust. For millions who had switched to well-paying construction jobs after having lost well-paying manufacturing jobs, that was the ultimate disaster, from which they would never recover.

At the peak of the housing boom, long before the "new normal" had been attributed to the fallout from the Global Financial Crisis (GFC), we asked, "Is lackluster job growth the new normal?" We then showed how job growth had slowed relative to GDP growth going back at least to the early 1990s, explaining why structural changes in the U.S. labor market due to globalization and technology would prevent a reversion to the old norms *(↗USCO, July 2005)*. Three years later, on the eve of the GFC, we depicted how growth in GDP as well as jobs had been stair-stepping down at least since the 1970s *(↗USCO, August 2008)* – a stunning finding that did not gain much traction until a prominent economist mooted the notion of "secular stagnation" more than five years later. Shortly thereafter, ECRI showed how the "drop in capital intensity is largely responsible for the dismal rates of productivity growth in recent years" *(↗USCO, May 2014)*, and explained how the "simple math" combining

Chart 3: Employment by Sector (Thousands)



Shaded areas represent U.S. business cycle recessions.

that low productivity growth with low potential labor force growth dictates only around 1% longer-term trend GDP growth *(↗USCO Essentials, June 2015)*.

Well over five years ago we already understood the dire implications for employment, concluding that "the global recession's harshest legacy may be the staggering level of youth unemployment in most developed economies," resulting from "panicked businesses … embracing sweeping changes – whether by speeding up the adoption of already-available cost-saving technologies, or through outsourcing tasks to cheaper locations. There were simply not enough jobs left for those who lost their jobs or entered the labor force during a recession that triggered changes in the skills demanded at a much faster pace than it was possible to change the skills of job-seekers" *(↗ICO, March 2011)*.

This calamity is dispassionately laid bare in Chart 3, showing how employment in the goods-producing sector – encompassing manufacturing and construction – peaked in the summer of 1979 and then declined by less than half a million jobs by the summer of 2000 (bottom line), two decades later. But in the next 40 months, during the globalization tsunami triggered by the 2001 recession, the goods-producing sector lost more than three million jobs before the construction sector was able to offset those job losses, helping to claw back nearly a million goods-producing jobs in the 29 months ending in the spring of 2006, when the housing bust started taking its toll. Then, in less than four years, the housing bust and the Great Recession devoured five million of those "good jobs."

Nearly two million goods-producing jobs have since been regained during the current economic recovery. Yet, this vital sector has lost more than five million well-paying jobs since 2000, while the mostly low-wage service-providing sector has added nearly 18 million jobs (top line).

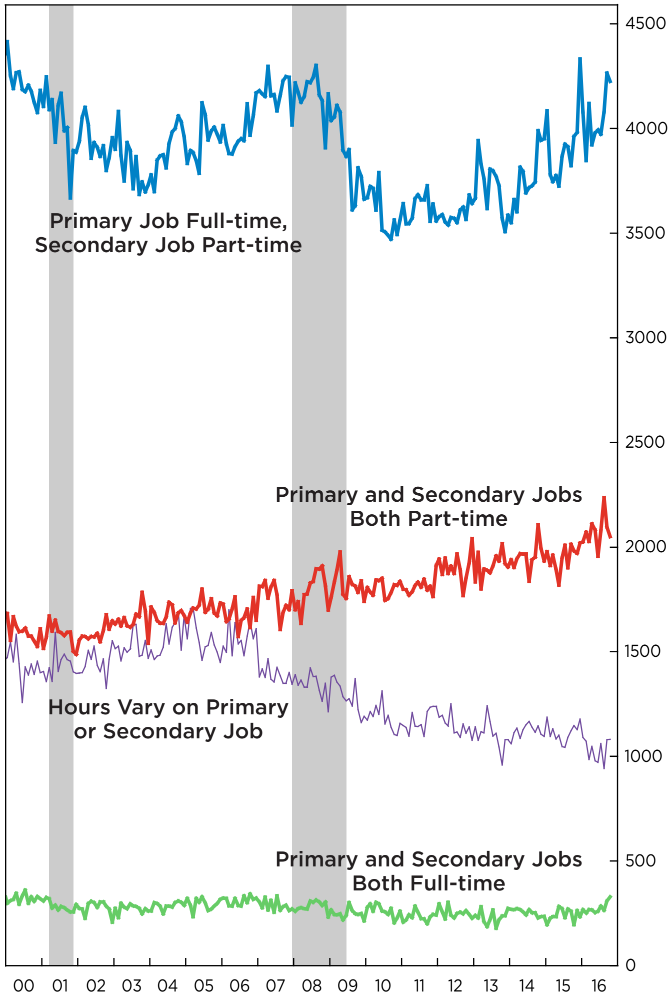
Many of these jobs pay so little that more workers have been "finding it necessary to cobble together a living with second and third jobs." So much so that, since March 2016 the majority of jobs has gone to multiple jobholders, who account for only about 5% of the workforce *(↗EWU, October 14, 2016)*.

In fact, there has been a recent surge in the number holding both a full-time and a part-time job (Chart 4, blue line). Meanwhile, the number of workers with two or more part-time jobs has trended inexorably upward since the beginning of this century, and now stands near record highs (red line), while the number holding multiple jobs with varying hours has been tapering off since the eve of the GFC (purple line). But it is extraordinary that the number of people with at least two full-time jobs has recently risen to a nine-year high (green line).

It is also important to understand just how unevenly distributed the job gains have been during the current business cycle. We pointed out nearly five years ago that, over the first two years of the jobs recovery, Whites accounted for less than 59% of the job gains, even though they made up over 81% of the labor force. Meanwhile, Blacks and Hispanics, who made up "about a quarter of the labor force, accounted for around five out of every eight jobs added" *(↗USCO, February 2012)*.

Last month, we again emphasized the skewed nature of this jobs recovery, noting that, "for seven long years, the majority of less-educated non-Hispanic White adults has not

Chart 4: Multiple Jobholders by Work Schedule
(Thousands)



Shaded areas represent U.S. business cycle recessions.

been employed. No wonder there is such angst in the lead-up to this presidential election" (↗*USCO Essentials, October 2016*).

A striking picture of this lopsided reality is evident from the shares of the total job gains since the November 2007 pre-recession peak in employment. As Chart 5 shows, of the five-million-plus net jobs added since that high-water mark nine years ago, some 56% went to Hispanics (rightmost green bar), about quadruple their 14% share of the labor force at the time (rightmost blue bar). Meanwhile, 29% of those job gains went to Asians, i.e., about six times their 5% share of the labor force (second set of bars from left). Moreover, 25% of those job gains went to Blacks, i.e., more than double their 11% share of the labor force (third set of bars from left).

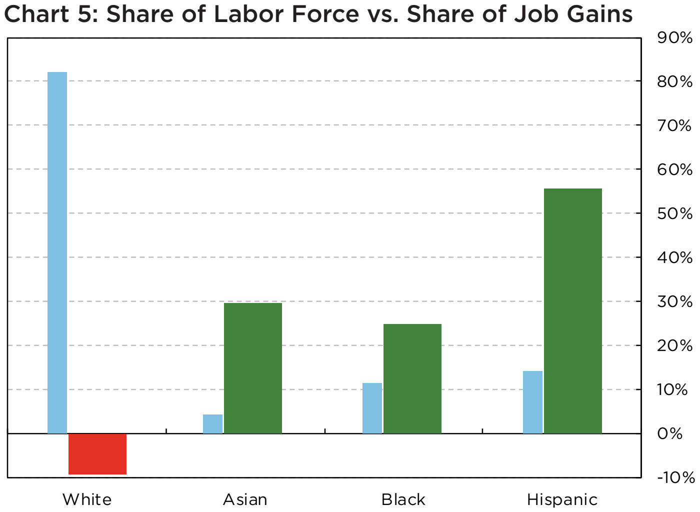
In sharp contrast, Whites, who made up over 81% of the labor force in 2007 (leftmost blue bar) accounted for *negative* 9% of the net job gains (red bar). While the percentage shares for these four groups add up to more than 100% because White Hispanics are double-counted as both White and Hispanic, and Black Hispanics are double-counted as both Black and Hispanic, the reality is stark. Whites actually have fewer jobs than nine years ago, while Hispanics, Blacks and Asians together gained all of the net jobs added, and more.

Part of the reason may be that these jobs, predominantly in services, were created in metropolitan areas, rather than in rural areas and small towns where factories were shuttered as the manufacturing jobs disappeared. There is little reason to expect that those jobs are coming back to those areas away from the urban centers.

Stepping back from the current outlook, as students of the business cycle, we are well-positioned to discern what is cyclical and, by elimination, what is not cyclical but structural. Digging deep into data that do not conform to cyclical patterns, we have been able to promptly highlight structural anomalies that economists wielding fancy macroeconomic models overlook for extended periods. The details of the data, properly scrutinized, have long revealed the sources of anger and despair with the way the 21st century has sorted winners and losers.

President-elect Trump's proposed tax cuts, along with major infrastructure spending, could well invigorate business

Chart 5: Share of Labor Force vs. Share of Job Gains



Blue bars represent labor force shares in 2007.
Green/red bars represent shares of job gains/losses since November 2007.

activity, but are unlikely to take effect for at least a year or so. Thus, they are unlikely to affect the economy's prospects over the coming months. To that extent, our cyclical outlook remains unchanged.

Of course, a reduction in regulations could have a nearer-term impact. The President also has the power to make major changes with regard to trade and tariffs in relatively short order. All in all, these could have positive or negative effects, though it is too soon to tell. But in any case, we will keep a close eye on our cyclical leading indexes for early objective indications of a shift in the outlook.

In any event, it will be difficult to change the plight of Mr. Trump's supporters from outside the metropolitan areas. They remain at the mercy of powerful winds of structural change that continue to sweep the globe. ■