

Deflationary Concerns Loom Over the U.S. and Advanced Economies, Threatening a Wave of Layoffs

While inflation remains a predominant concern, a dense and looming deflationary cloud is casting shadows over the U.S. and advanced economies. The first sign of this emerging trend is evident in the restaurant industry, where a price war has begun to unfold. This is symptomatic of broader deflationary pressures, proven by a lower-than-expected CPI and a negative month-over-month PPI reading. A long-awaited moderation in price growth could turn into deflation that threatens to disrupt the economic landscape.

One key risk lies in the growing disparity between prices and wages. As illustrated by the second graph, wages in the U.S. restaurant industry have been climbing. This trend is mirrored across various sectors, pressuring the private sector wage growth below that of the government sector for the first time since March 2010.

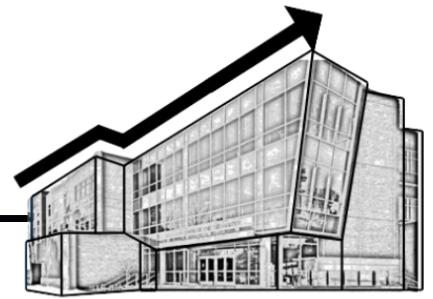
The inherent stickiness of wages exacerbates the problem. Businesses, unable to reduce wages easily, may resort to layoffs of existing workers and hiring new employees at lower wages to survive the deflationary environment. This dynamic could explain the apparent disconnect between the establishment survey, which reported 272,000 jobs added, and the household survey, which indicated a rise in unemployment. Furthermore, consumer sentiment has plummeted to 65.6 in June, marking the lowest level in 2024.

The deflationary risks are significant and multifaceted. The high level of debt will exacerbate the problem, as fiscal expansions face political challenges. This disruption could shake investor confidence, allowing the Federal Reserve to reduce interest rates without inflating asset prices, and potentially initiate another wave of quantitative easing if the problem persists.

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6/16/2024



Burger King relaunches \$5 value meal, entering price war with McDonald's and Wendy's

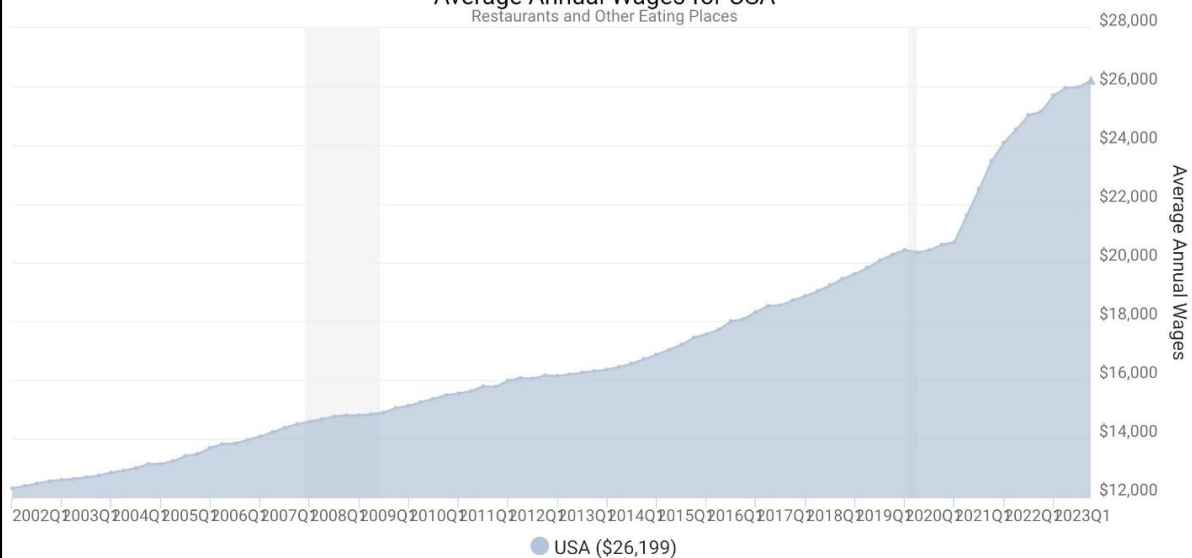
Updated: Jun. 04, 2024, 9:15 a.m. | Published: Jun. 04, 2024, 9:14 a.m.



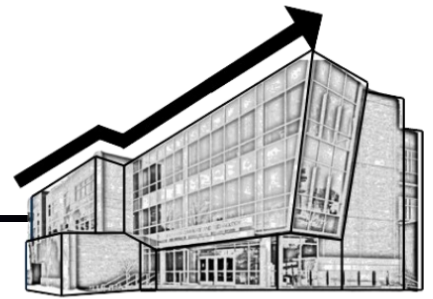
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Burger King is lowering prices on some of its meal combos, and will soon charge \$5 for a sandwich, chicken nuggets, French fries and a soft drink.
(AP Photo/Gene J. Puskar) AP

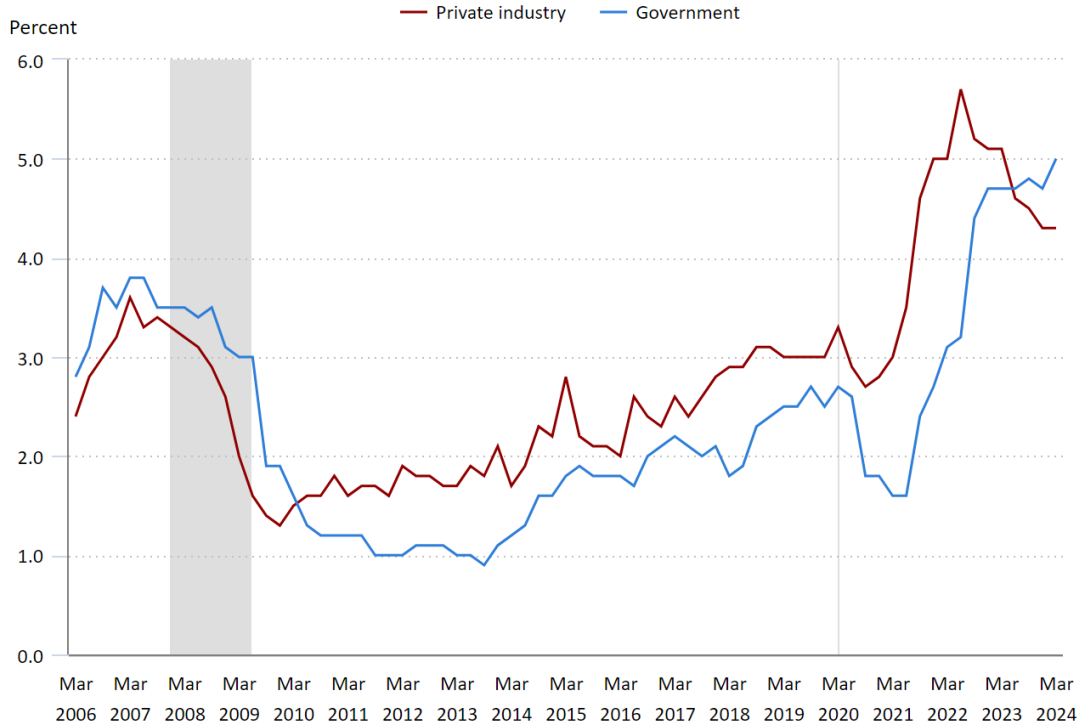
Average Annual Wages for USA
Restaurants and Other Eating Places



Source: Jobvite. Data as of 2023Q4. The shaded areas of the graph represent national recessions.



Wages and salaries in private industry and state and local government, 12-month percent change, not seasonally adjusted



Hover over chart to view data.
 Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
 Source: U.S. Bureau of Labor Statistics.

