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National Economic Education Delegation

- **Vision**
 - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
 - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States
- **NEED Presentations**
 - Are **nonpartisan** and intended to reflect the consensus of the economics profession

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The State of the Economy

- **For much of 2018, observers described US economy as a “Goldilocks Economy”**
 - Real GDP growth near 3.0%
 - Low unemployment (3.6%) and job creation (roughly 200k jobs added per month)
 - Low inflation (around 2.0%)
- **In 2019, the US economy showed some signs of slowing down. Reasons for the slower growth....**
 - Tariffs, Trade Policy and International Trade
 - Coming off the “sugar-high” of the tax cut in 2017.
- **What does the new year have in store?**



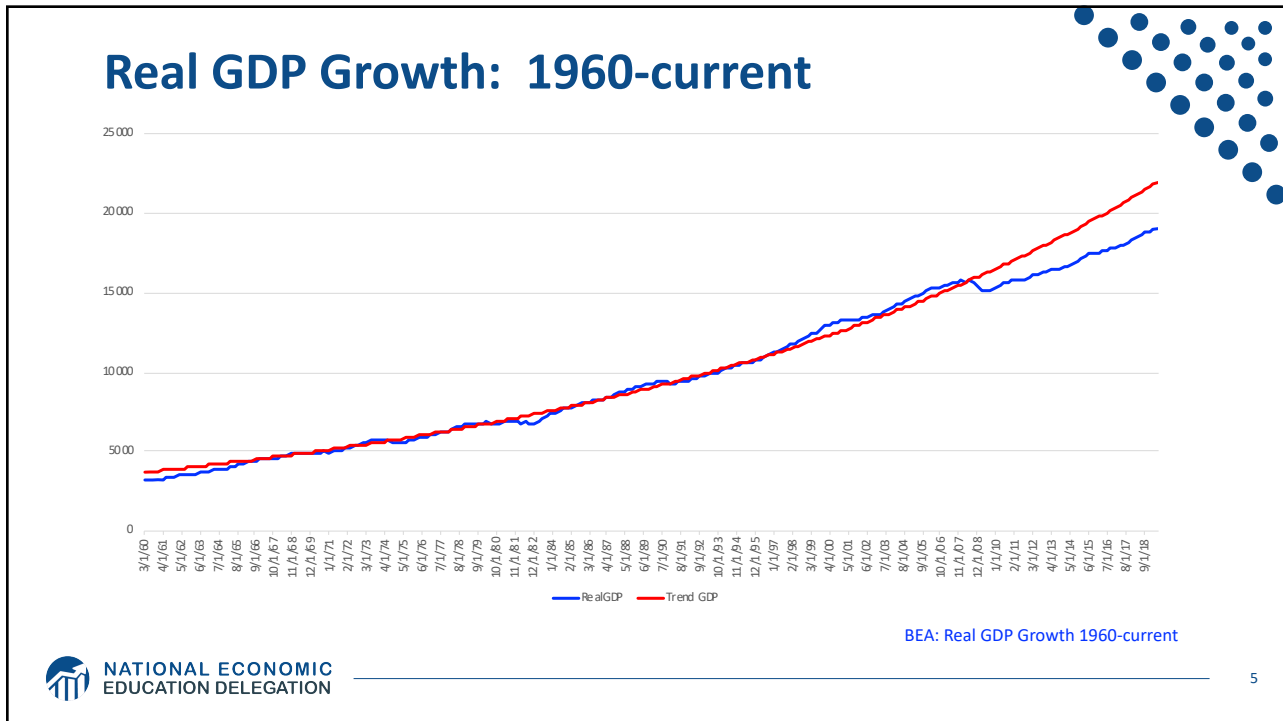
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The State of the Economy

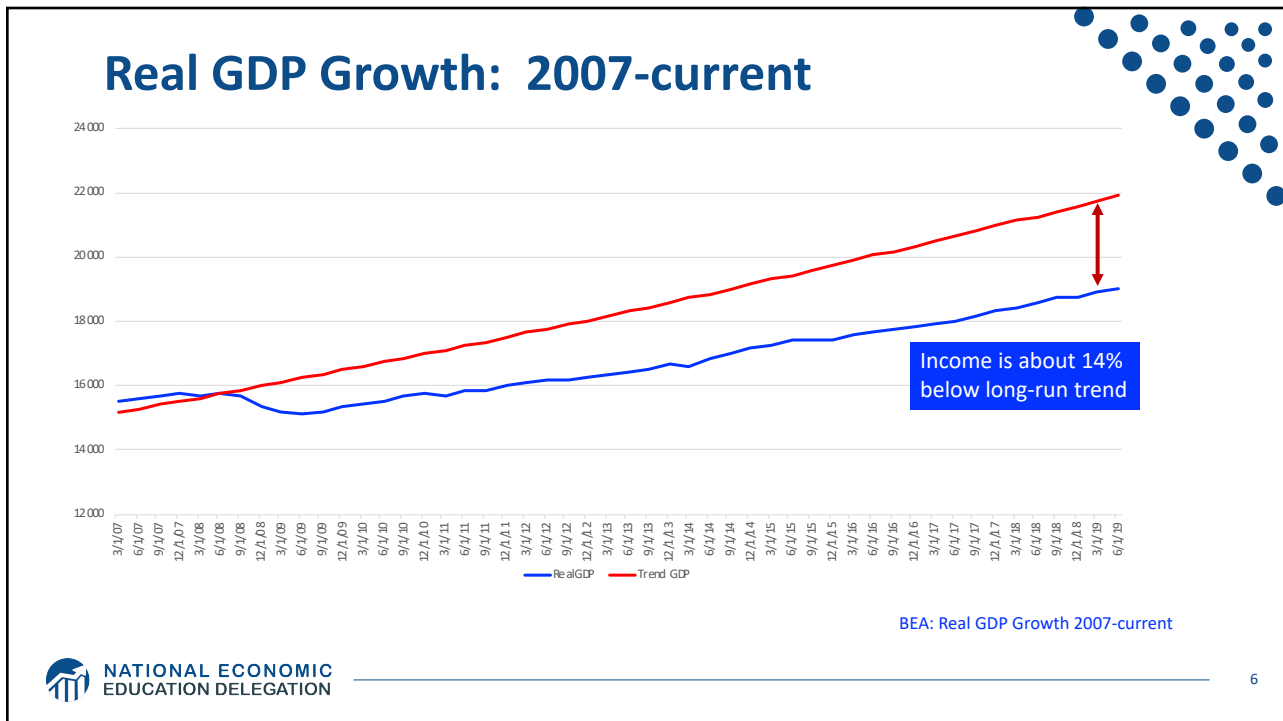
- **What does the new year have in store?**
 - Headwinds: Tariffs and trade tensions unresolved.
 - Headwinds: Slowing world production
 - Headwinds: Producer uncertainty
 - Tailwinds: Strong labor market
 - Tailwinds: Consumers
- **A useful backdrop for all of this is to look in the rear view mirror to assess the progress coming out of the great recession.**



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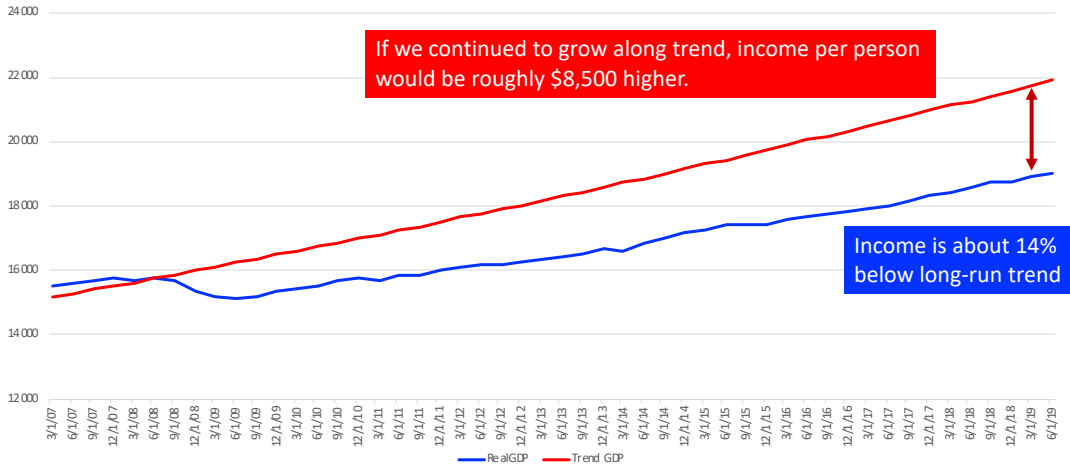


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Real GDP Growth: 2007-current

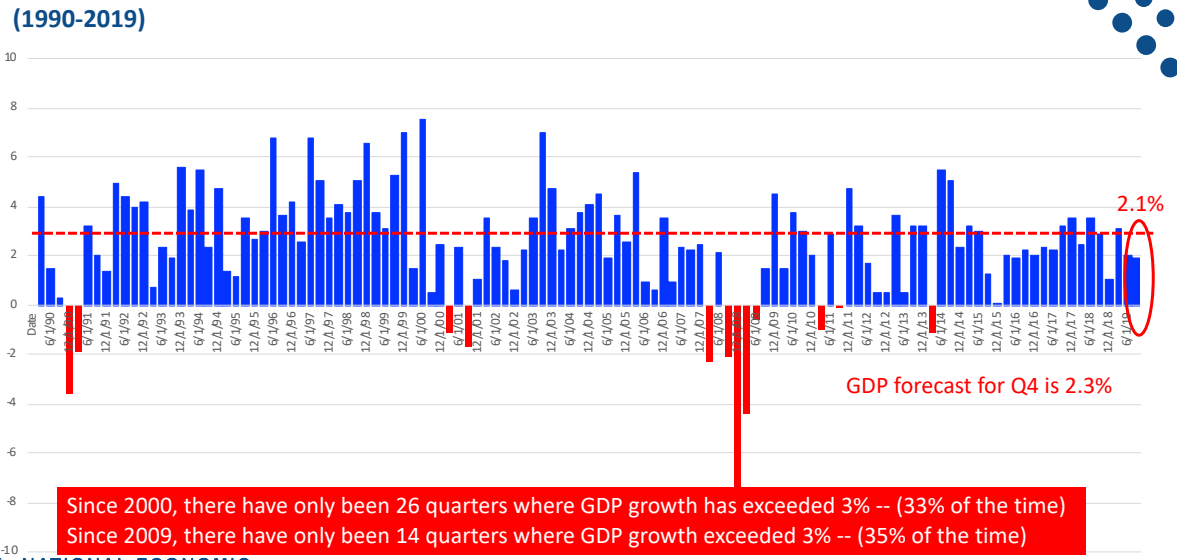


BEA: Real GDP Growth 2007-current



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Quarterly Real GDP Growth (1990-2019)



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What Is “Accounting” for the Slower Growth?

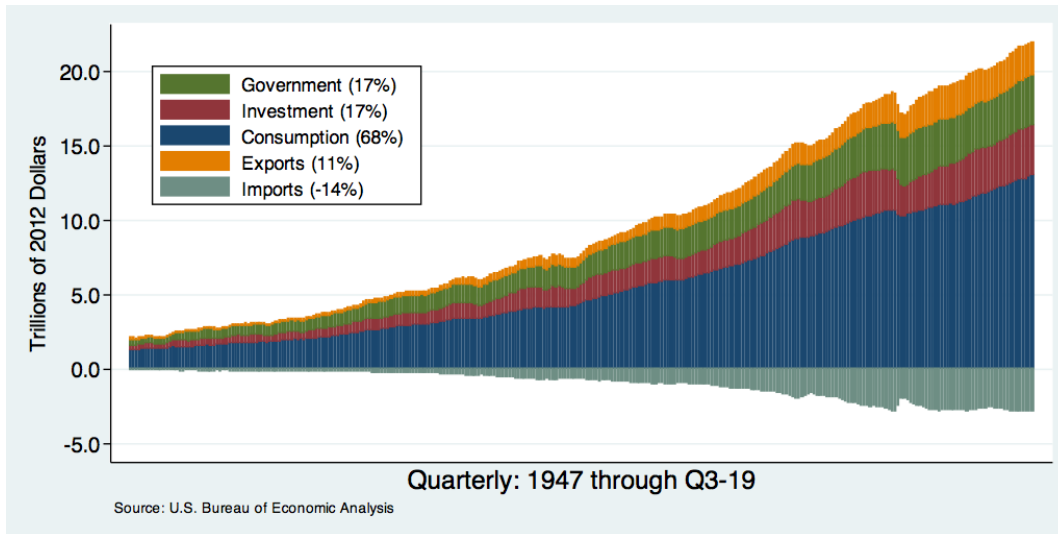
- **Expenditures Relationship to GDP growth.**

- GDP is the sum of four categories of spending:
 - o Consumption (C)
 - o Investment (I)
 - o Government spending (G)
 - o Net Exports: Exports – Imports (NX)

- **Productivity and Inputs as Drivers for GDP Growth.**

- Employment
- Productivity

Composition of Real GDP



Composition of GDP

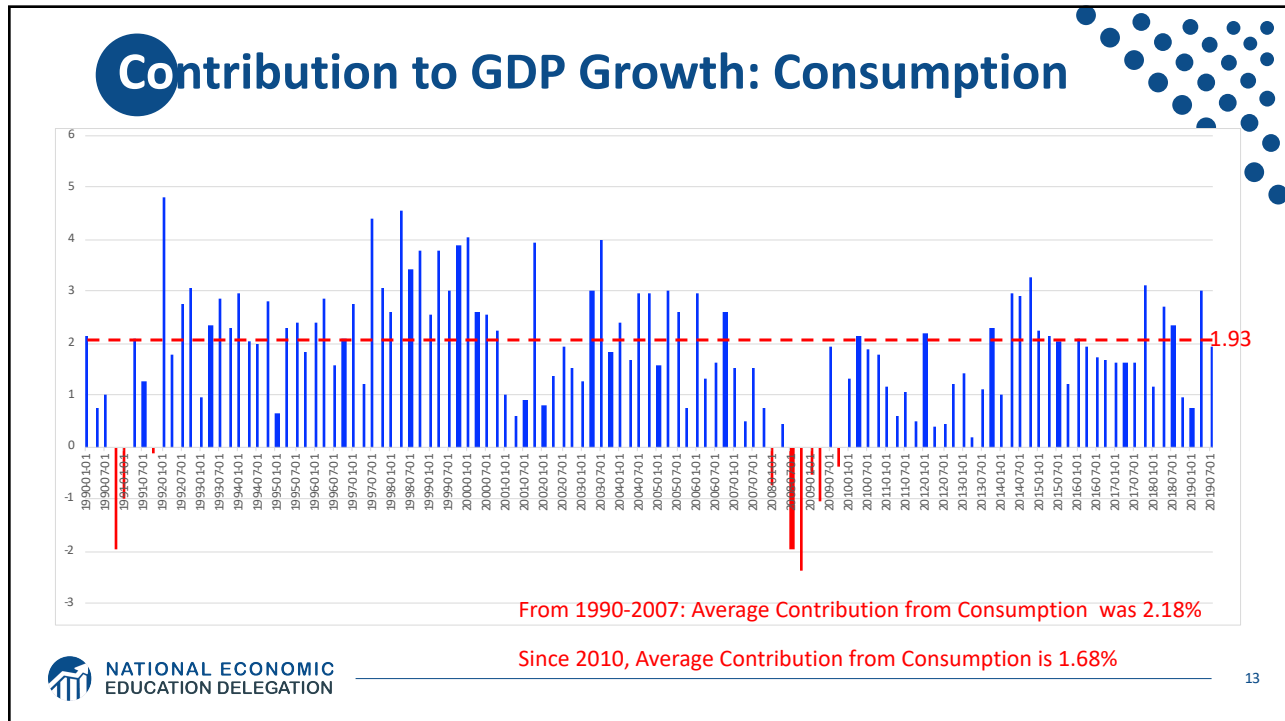
- Slow growth in any of these categories will slow overall GDP growth.
- How does each component account for changes in GDP growth pre- vs. post-recession?
- What explains current trends in each component?

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Understanding Contributions to GDP Growth

- **GDP Growth is a combination of the growth in its components:**
 - Consumption, Investment, Government, and Net Exports
 - It's a weighted average of these components
- **For example: Consumption**
 - If consumption accounts for **2/3** of the economy,
 - If consumption grew by **3%**,
 - It implies that consumption growth accounts for **2 percentage points** of GDP growth; that is, $2\% = \left(\frac{2}{3}\right) * 3\%$.

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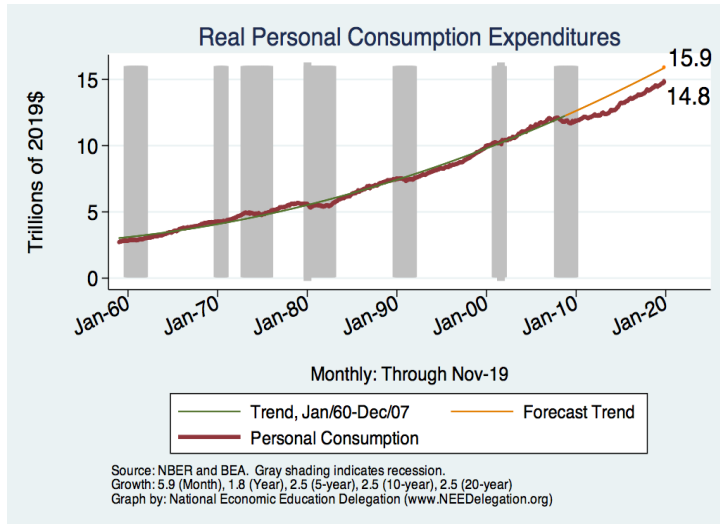
Personal Consumption Expenditures

- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
 - Post-crisis contribution is 1.7 percentage points.
- **In other words, its contribution to GDP growth is shaving about 0.5 ppt off GDOP growth**

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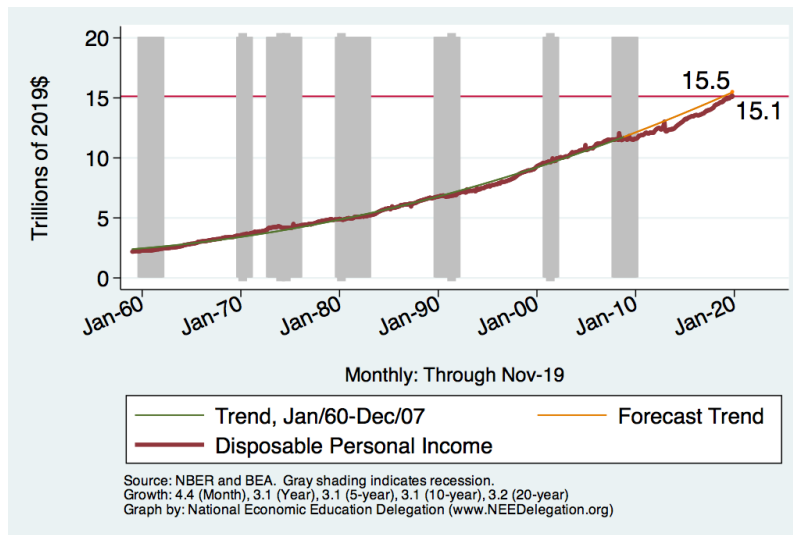
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Personal Consumption Expenditures



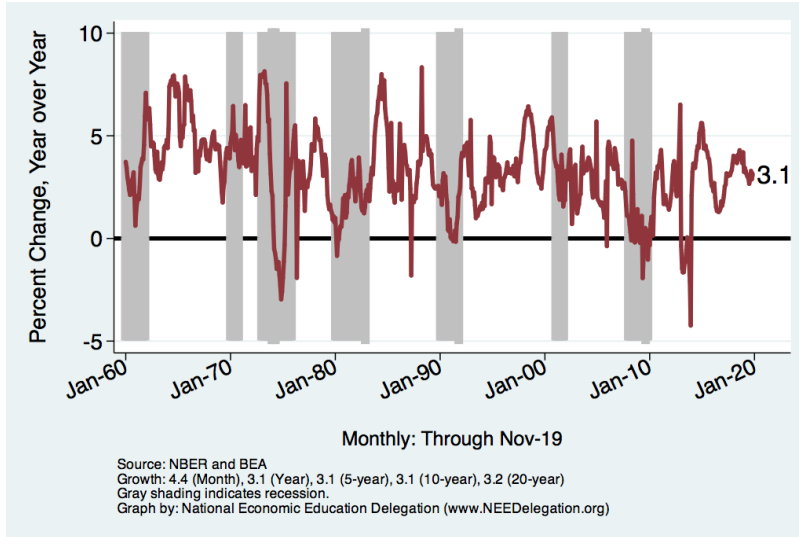
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Real Disposable Personal Income



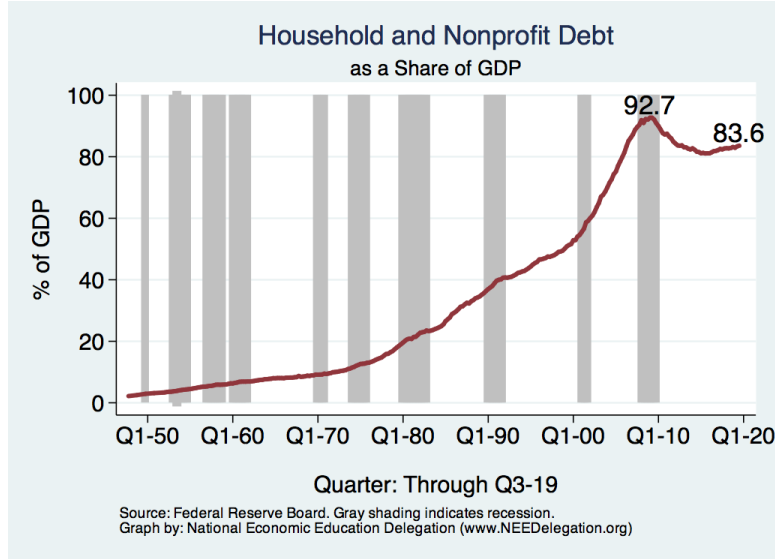
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Real Disposable Personal Income - Growth

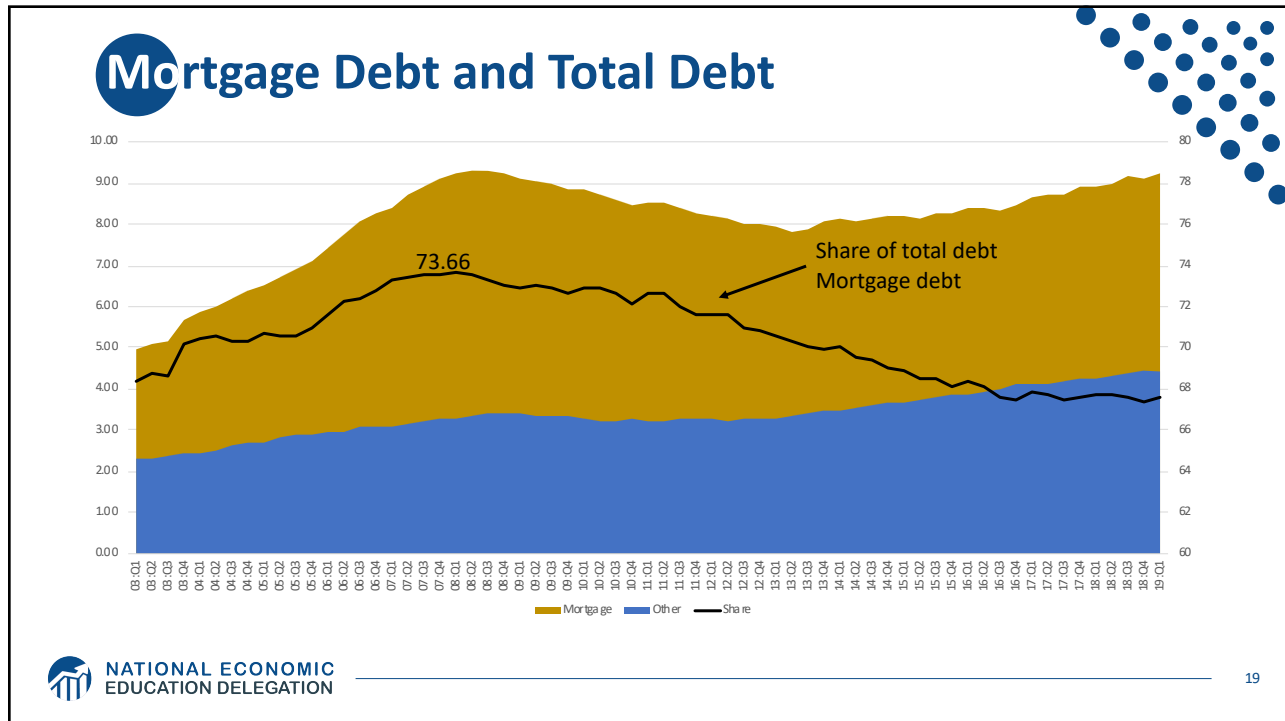


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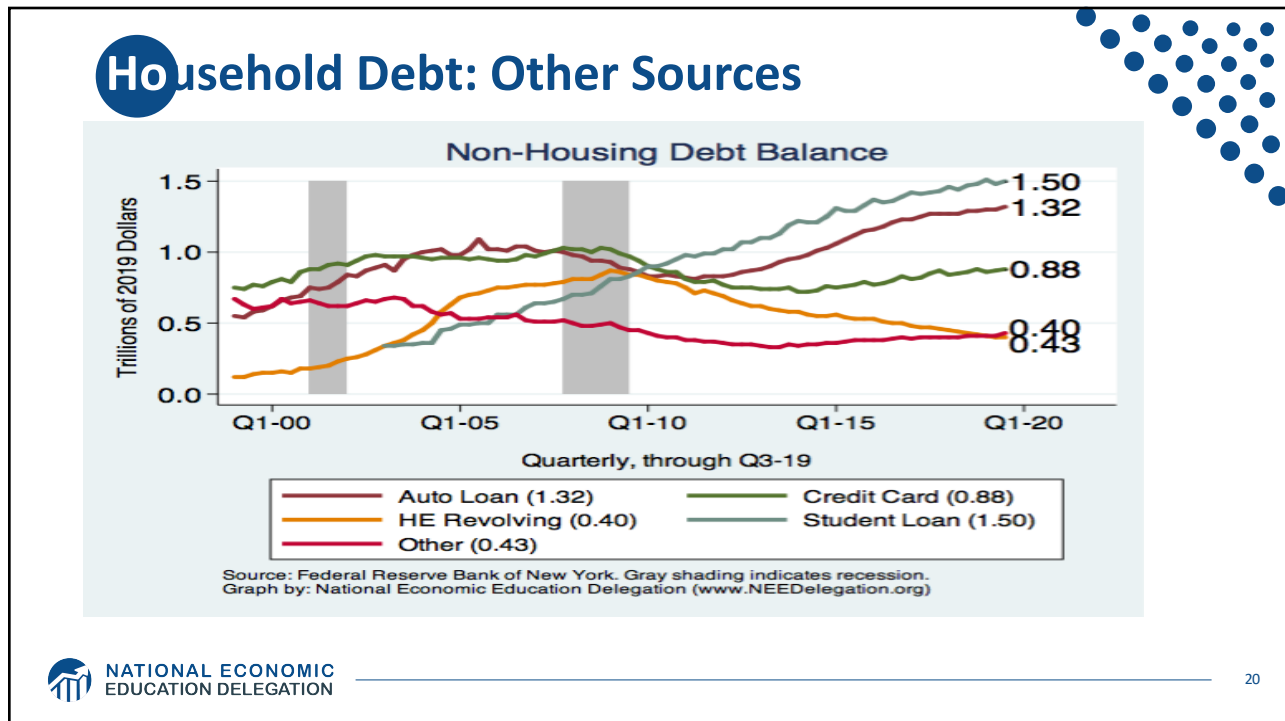
Household Debt as a Share of GDP



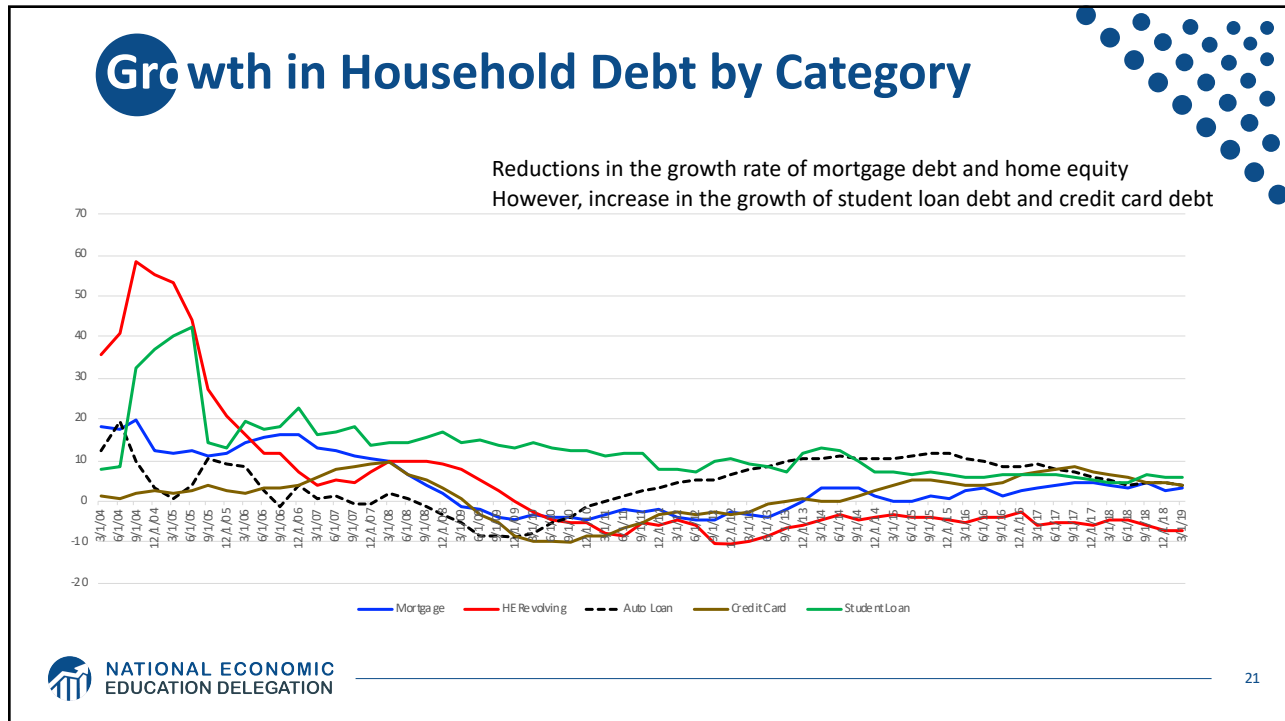
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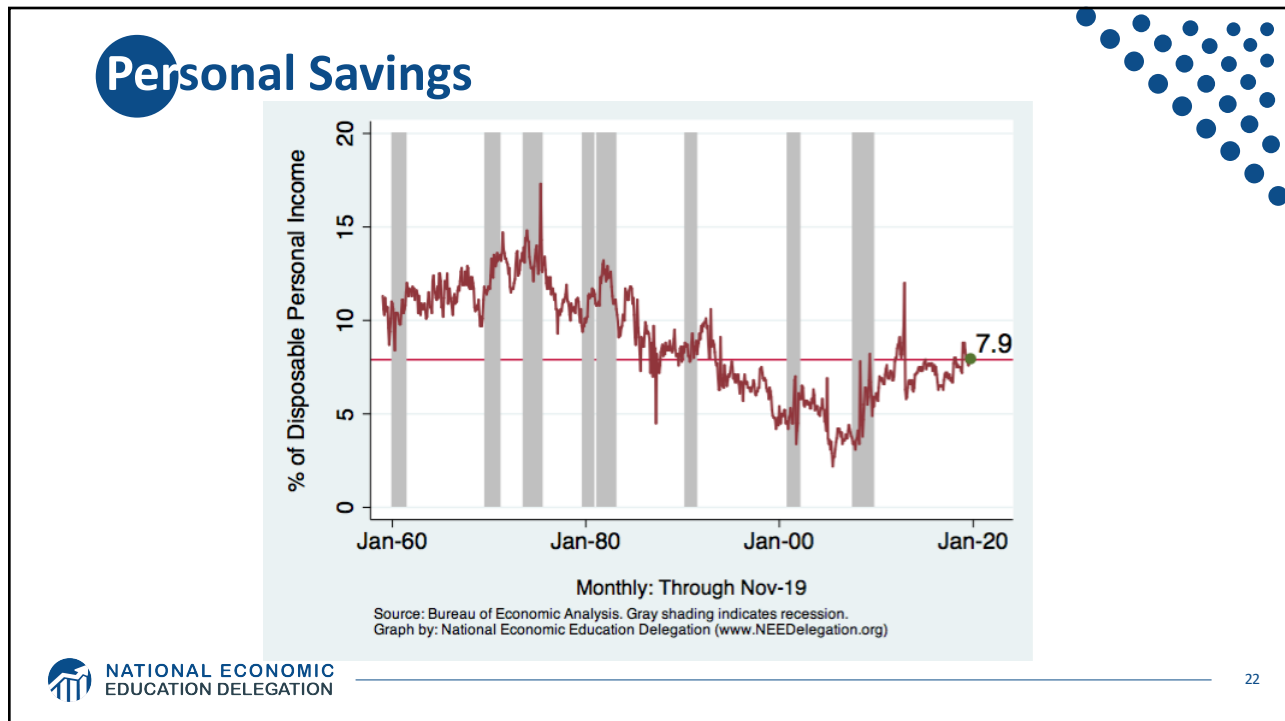
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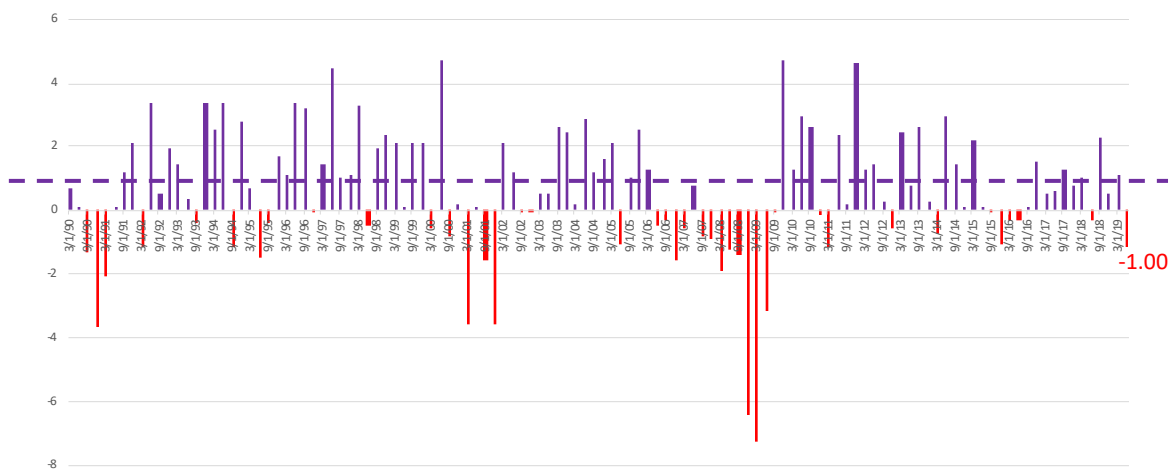
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Investment Expenditures

- Investment expenditures are composed of residential and non-residential spending.
- Residential spending refers to purchases of new homes.
- Non-residential spending refers to capital purchases and new inventory accumulation.
 - Tools, machinery, new factories, commercial real estate.

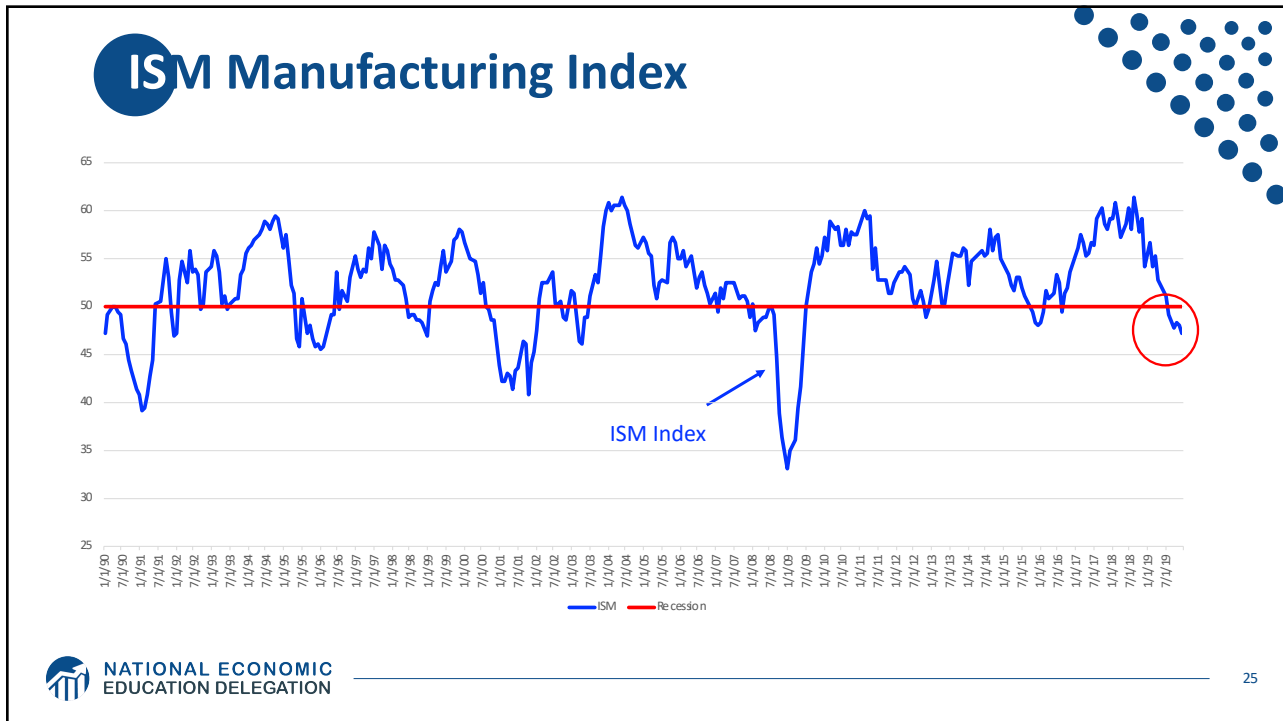
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Investment Expenditures

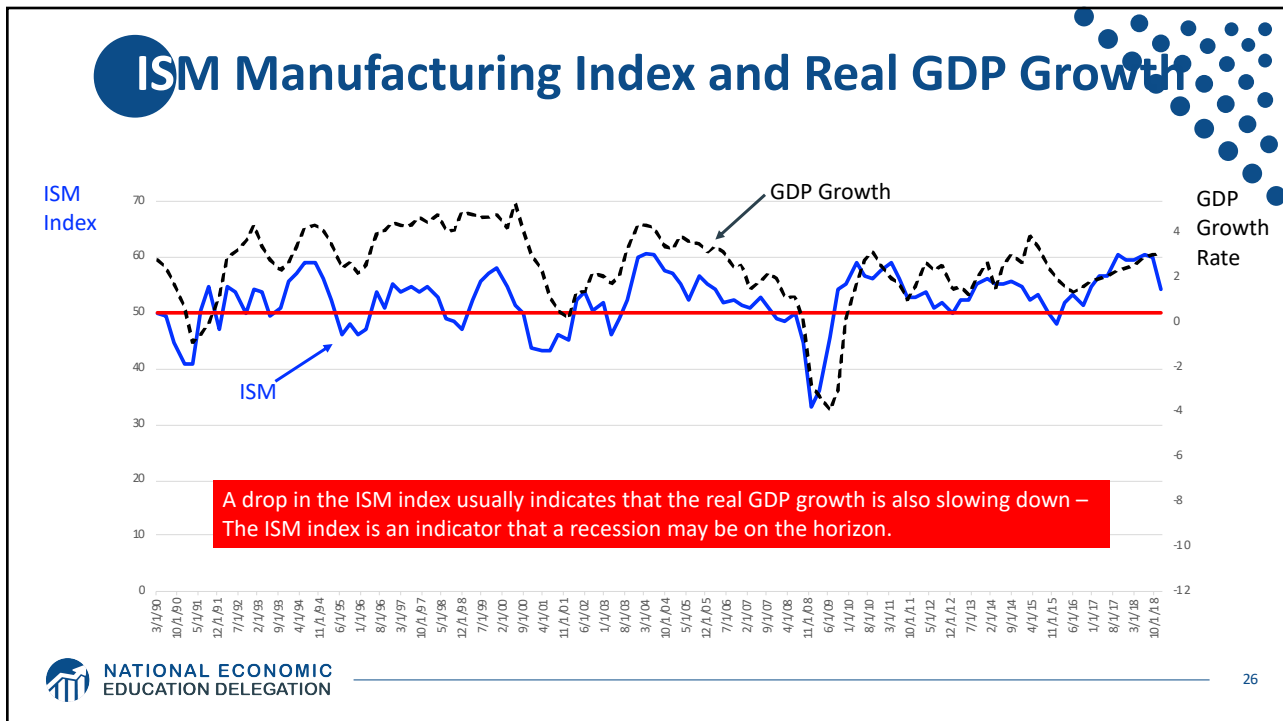


Investment's Average contribution to GDP growth is 0.80

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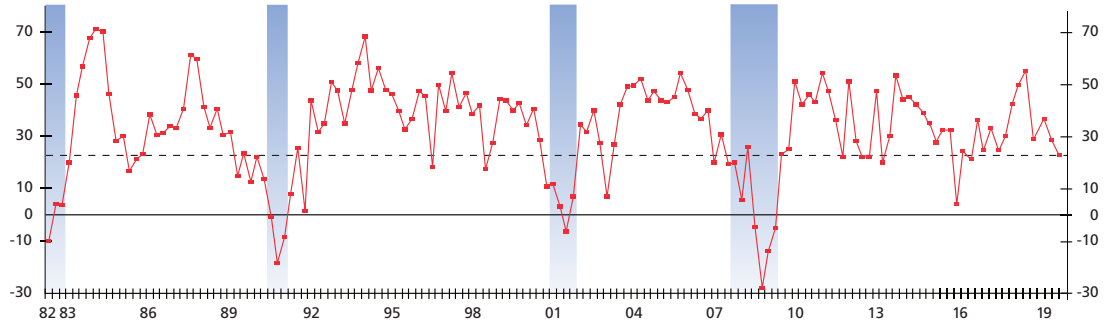
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NABE: Sales Net Rising Index

Figure 1 – Sales Net Rising Index

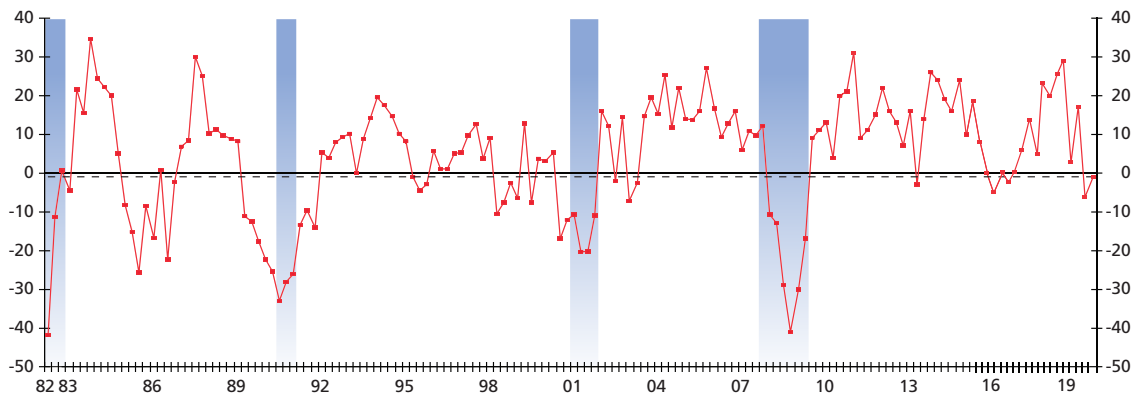


Note: In this and all figures, shaded areas represent recessions.
Dashed line indicates current NRI.

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NABE: Profit Margin Net Rising Index

Figure 2 – Profit Margins Net Rising Index



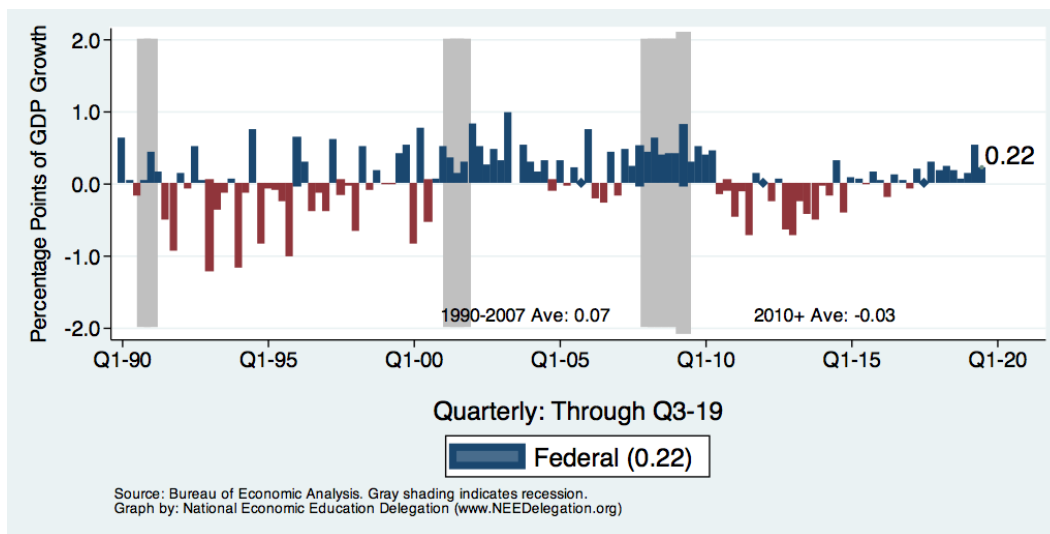
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What are Businesses Concerned About

- Trade: Tariffs / Uncertainty
- Slowing World Growth – sluggish demand in export markets
- Slowing Consumption Demand

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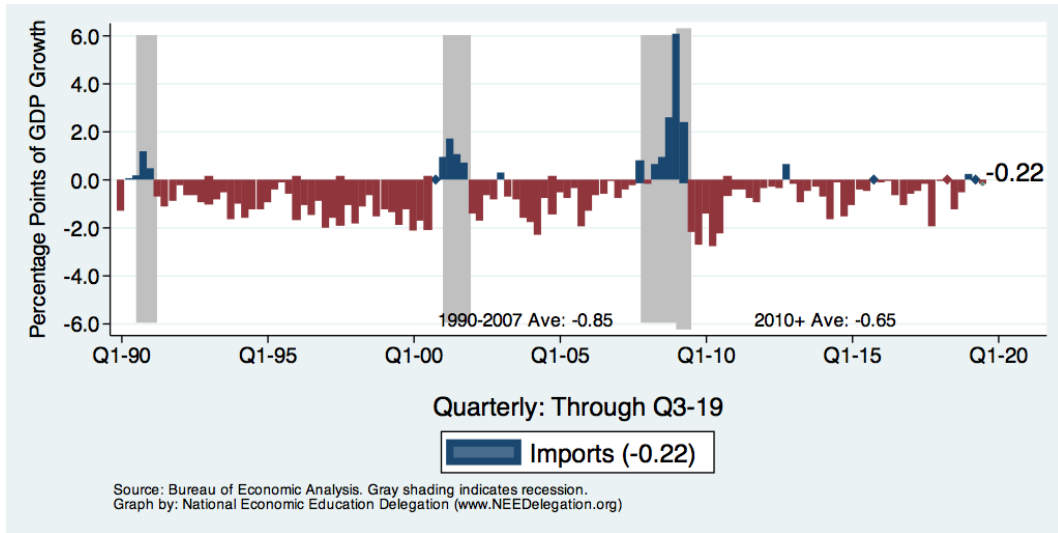
Contributions to GDP: Government



Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

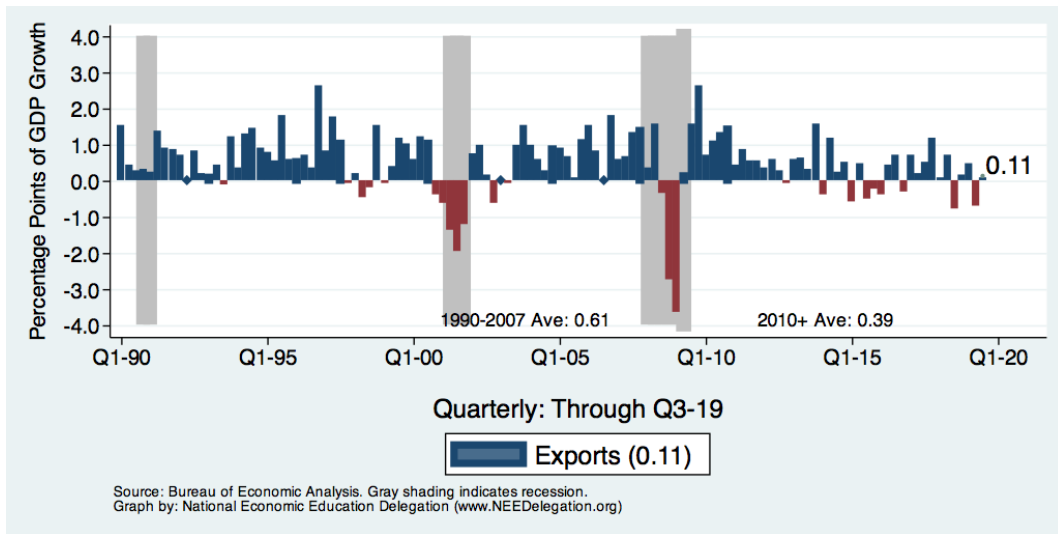
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Trade's Contribution to GDP: Imports



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Trade's Contribution to GDP: Exports



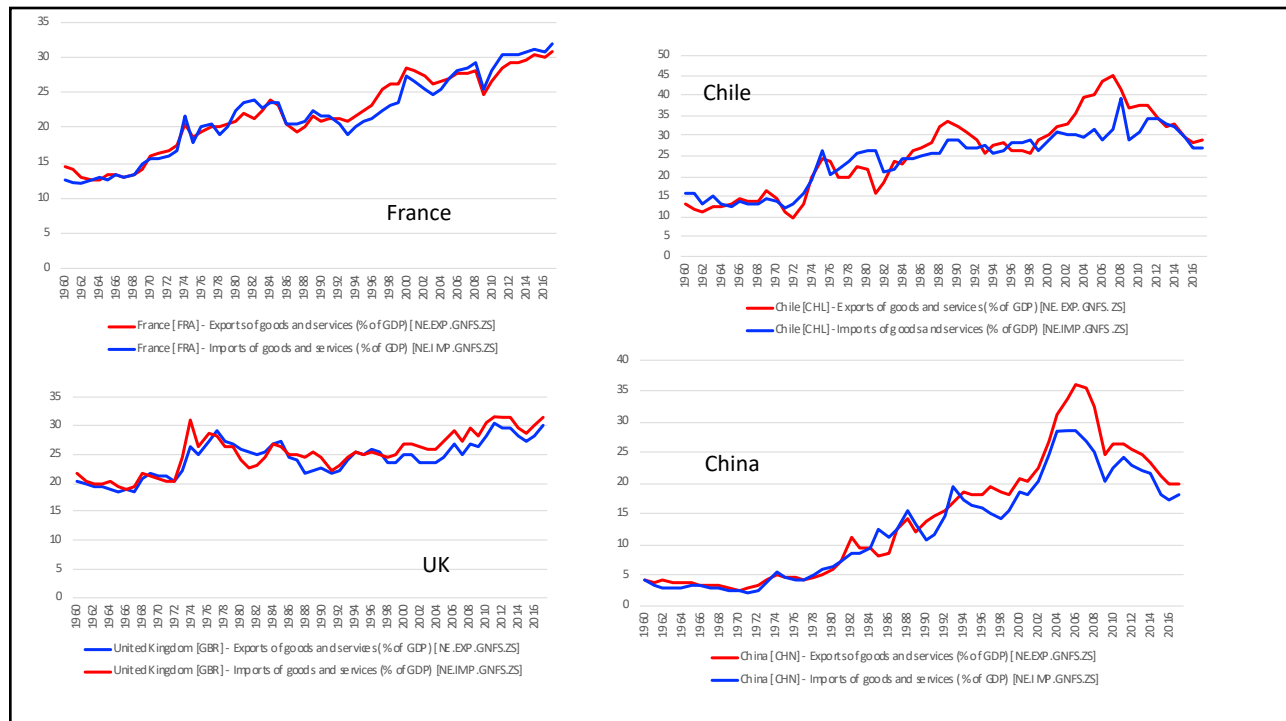
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Exports and Imports are Not Independent

- Consider an attempt to reduce imports through an increase in tariffs:
- First order effect would be a reduction in imports
- Because we buy fewer foreign produced goods and services, there are fewer dollars supplied in the foreign exchange market.
- Because the dollar becomes more *scarce*, the dollar appreciates in value.
- Because the dollar appreciation, exports are more expensive and we export less.

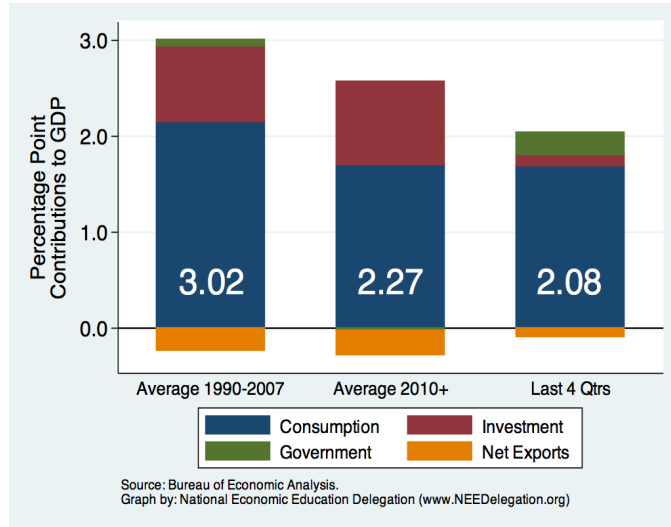


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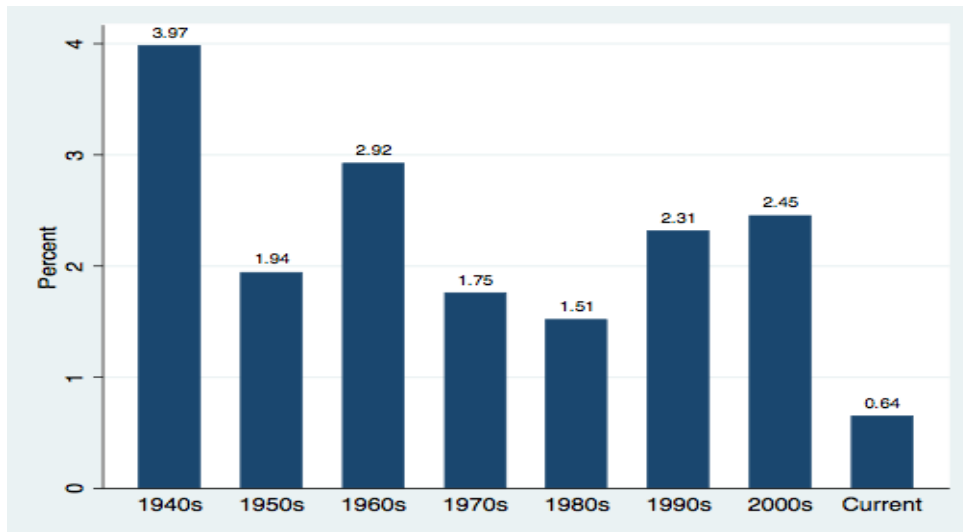
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Expenditure Summary



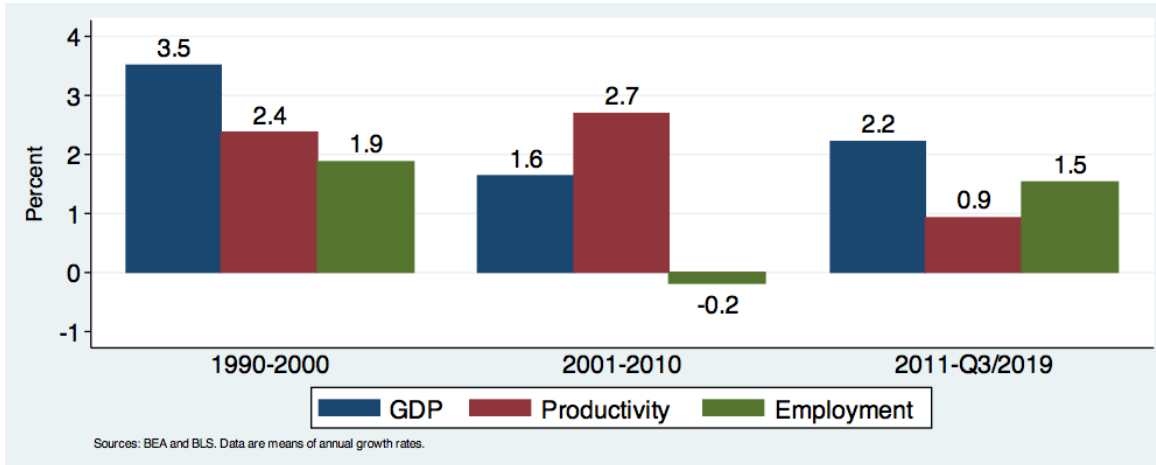
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History of Productivity Growth



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GDP Growth, Productivity, and Employment



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Labor Market Conditions

- **Unemployment rate is low – 3.5%**
- **Monthly employment gains have average about 180,000 over the last eleven months.**
- **Recent Labor Market Concerns:**
 - Lower employment to population ratio
 - Wage growth

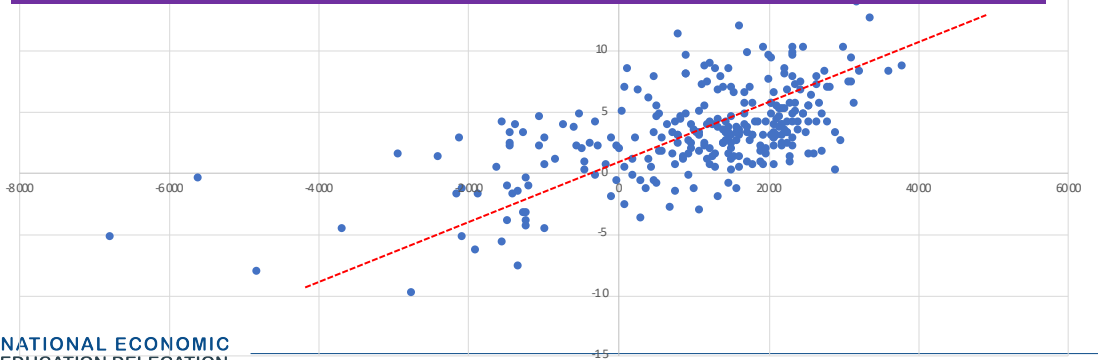


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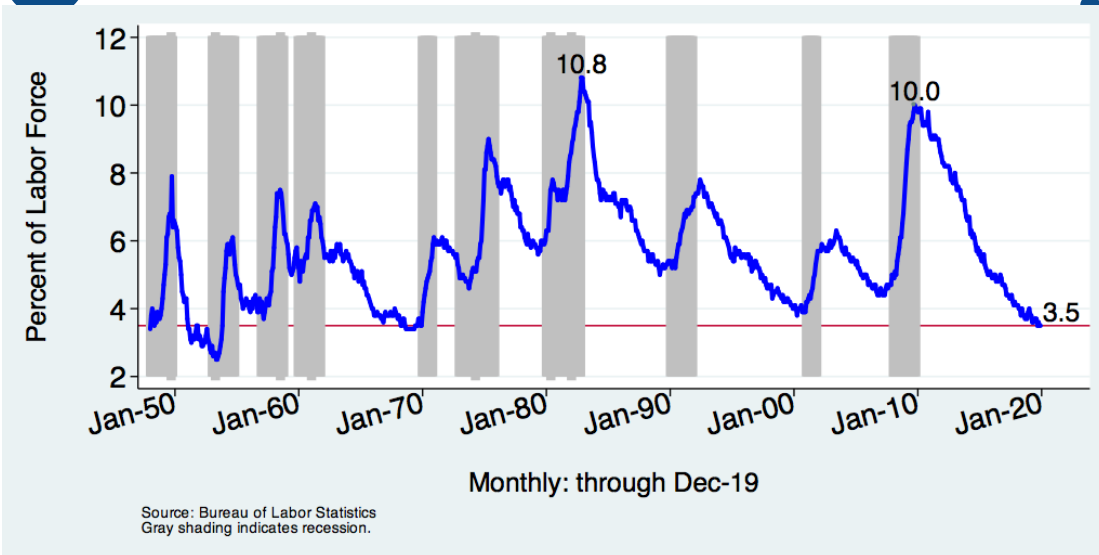
GDP Growth and Employment Changes

Back of the envelope calculation:
When employment growth is increasing by about 200,000 per month GDP growth will be about 2.5%
When employment growth is increasing by about 300,000 per month GDP growth will be about 3.0%



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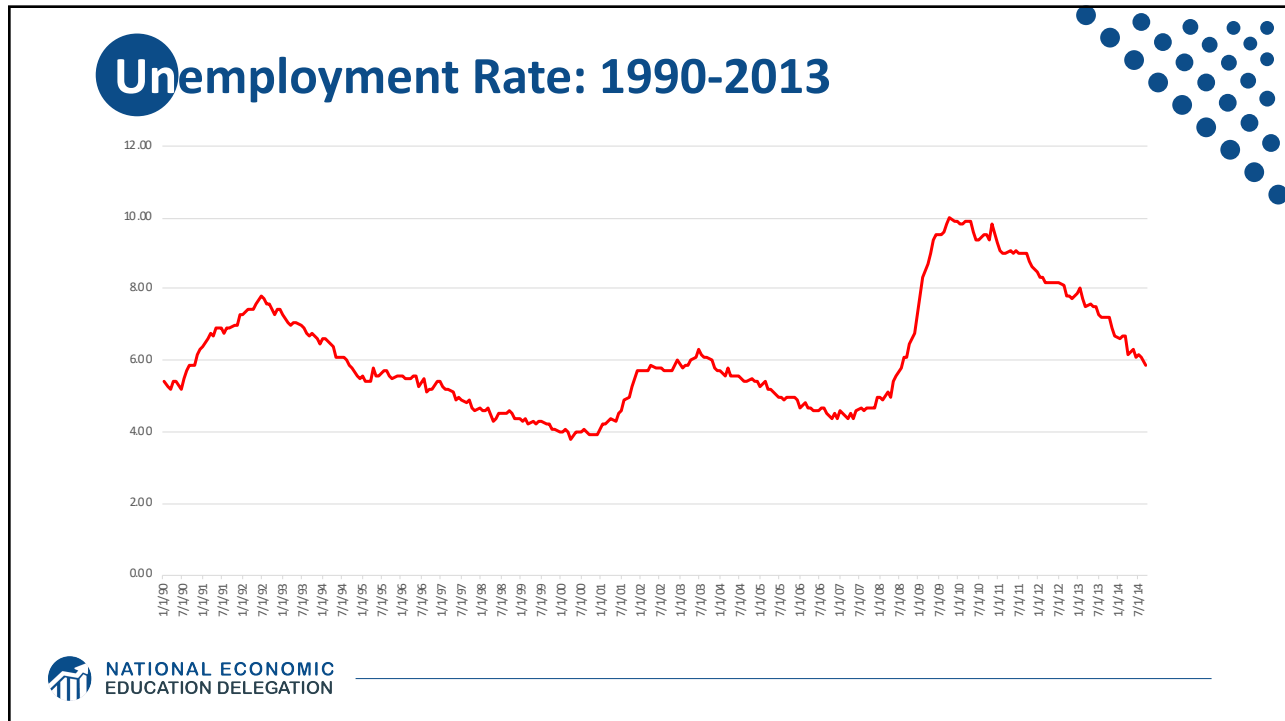
Unemployment Rate



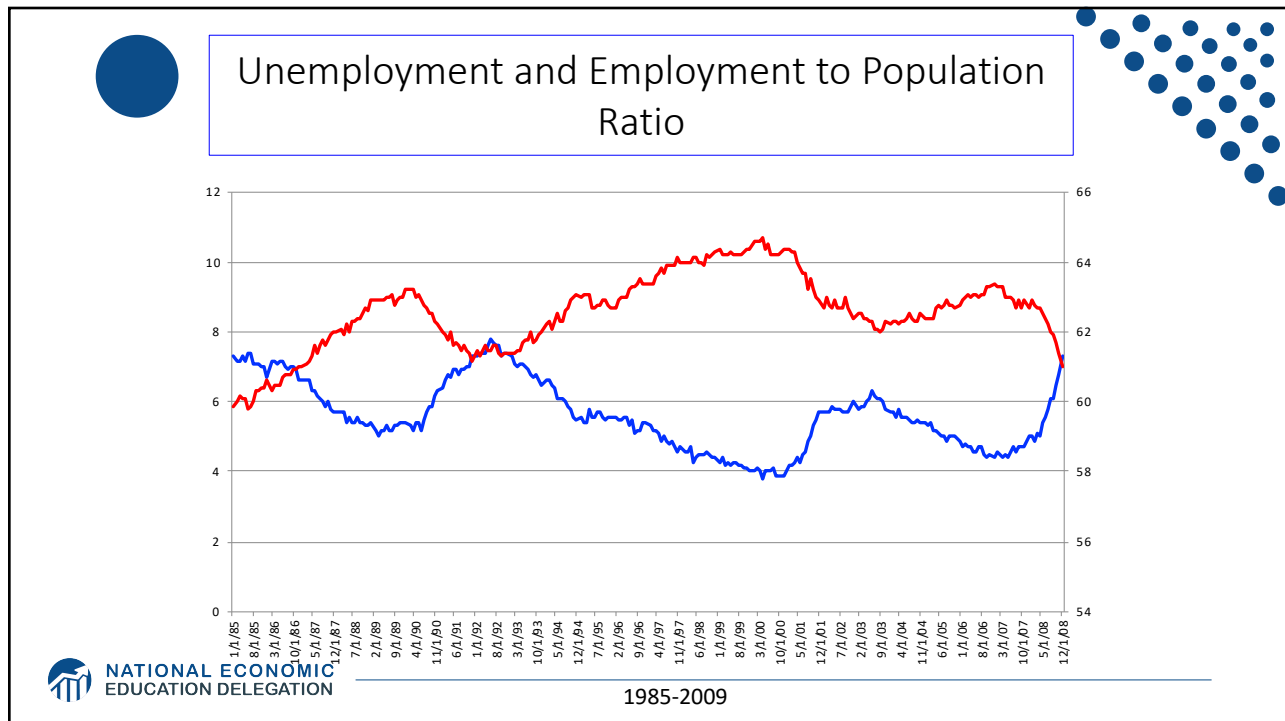
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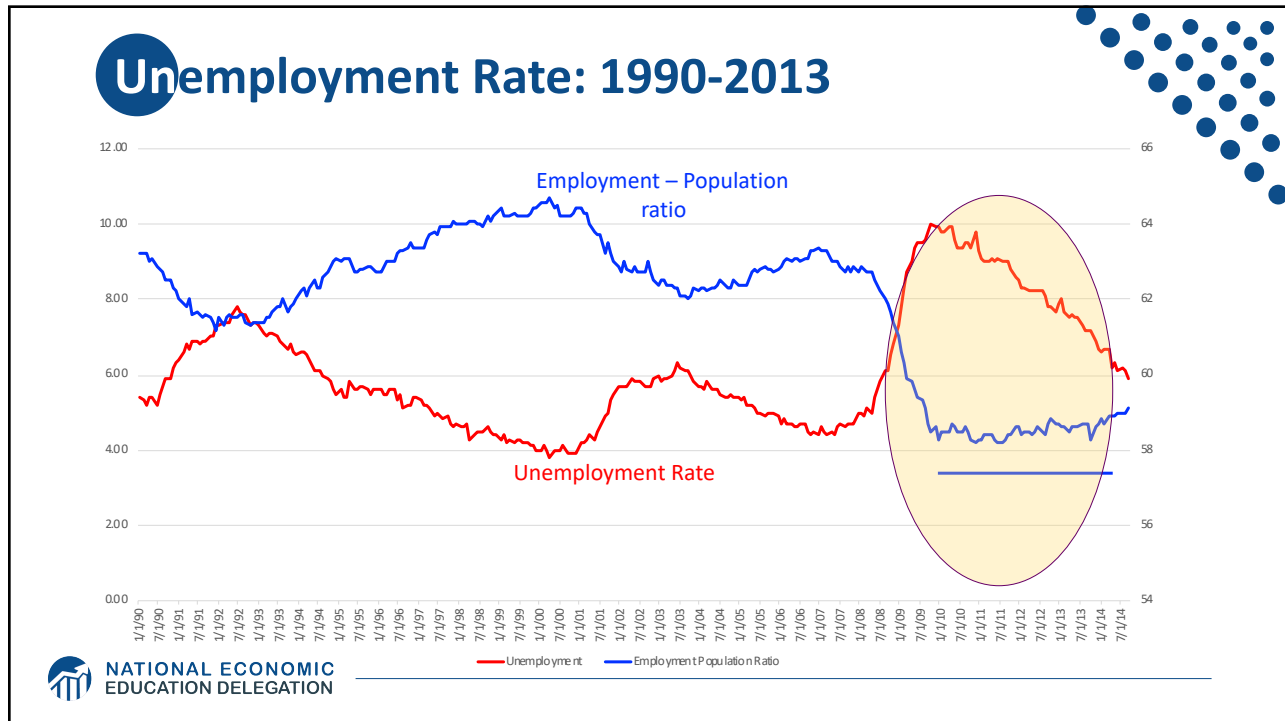
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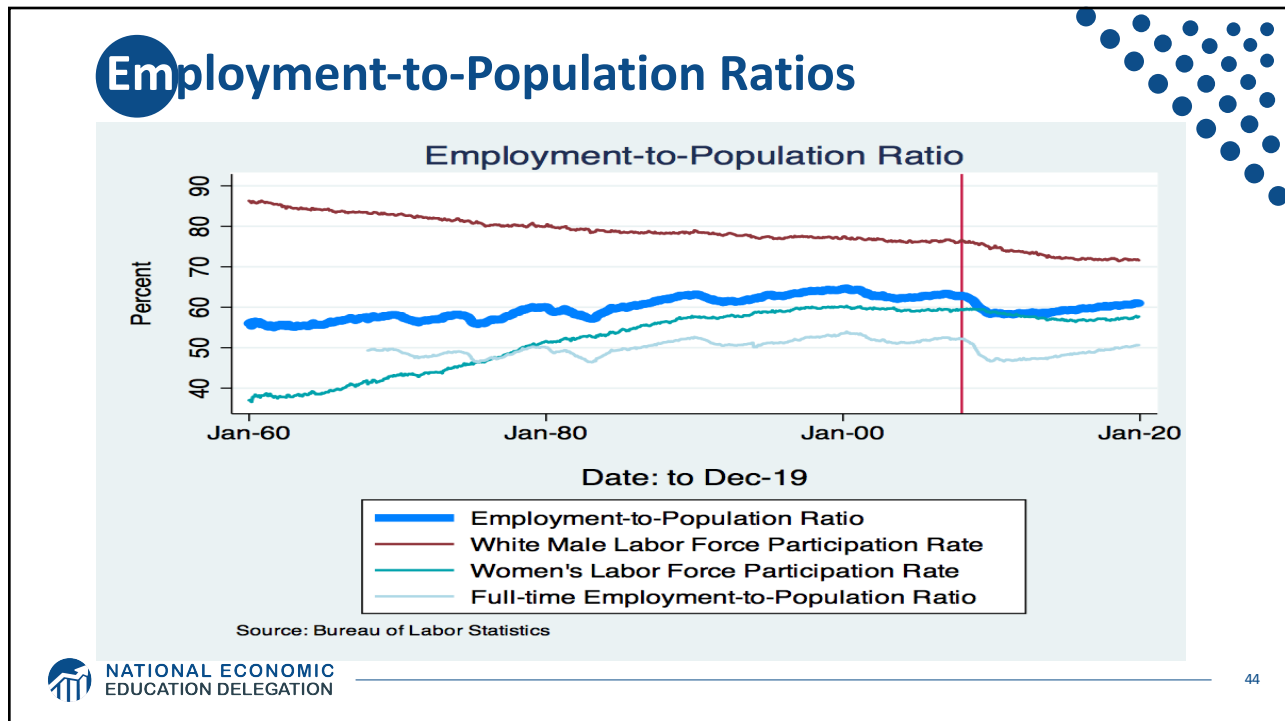
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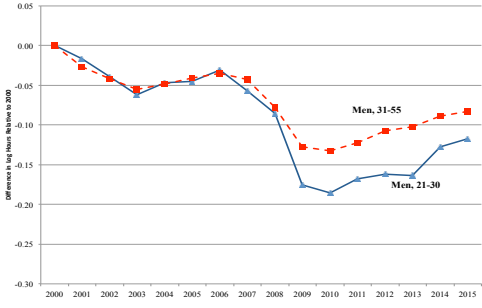
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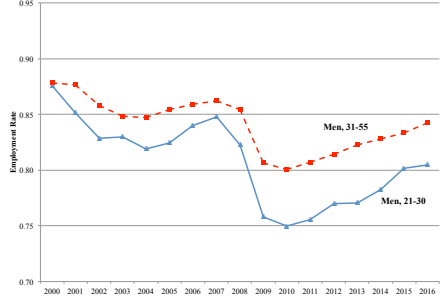
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Employment Trends

Figure 1: Market Hours
(a) Log Annual Hours (Index)



(b) Employment Rates



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Employment Trends

Figure 2: Fraction of Men With Zero Weeks Worked Over Prior Year by Age, March CP:

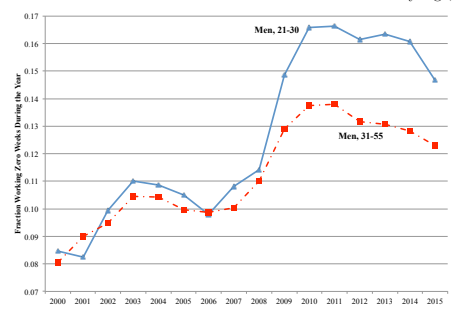
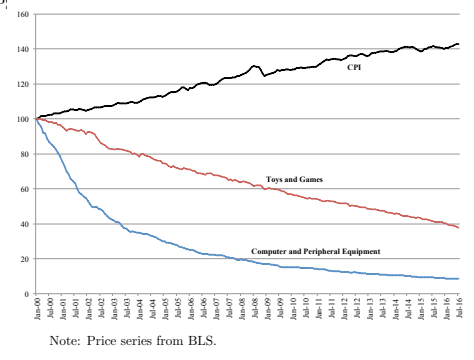
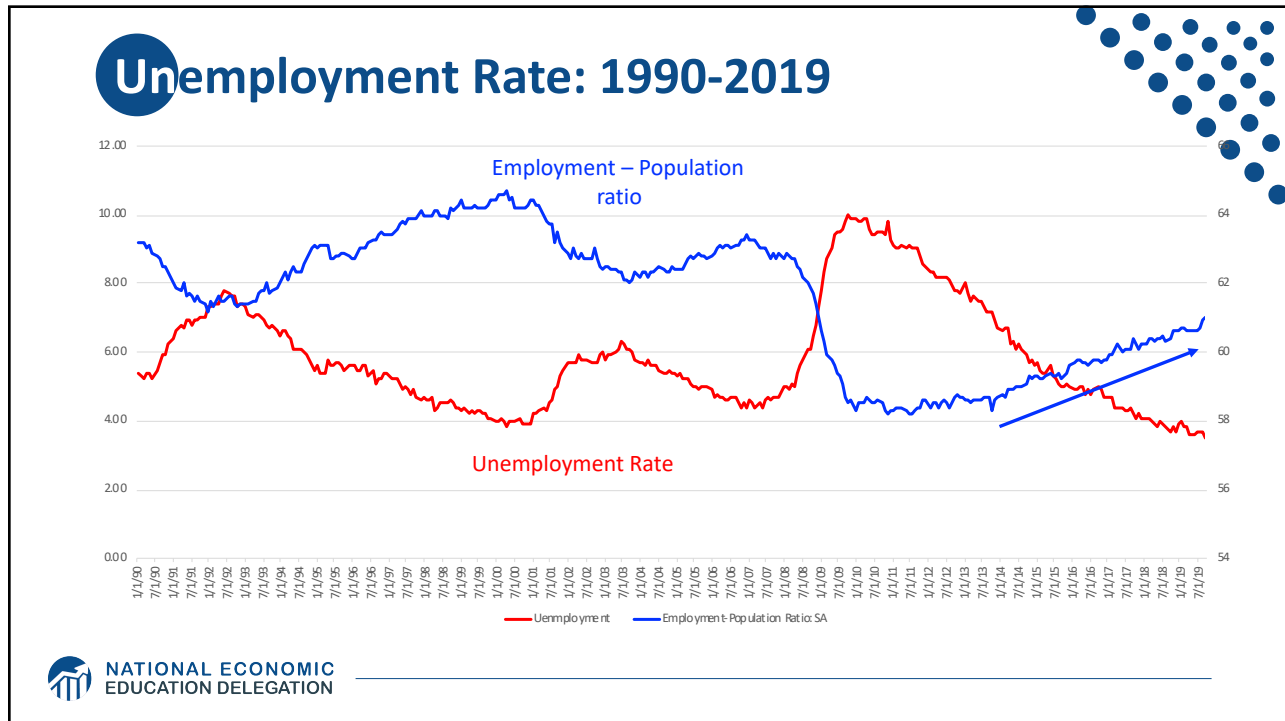


Figure 8: Prices

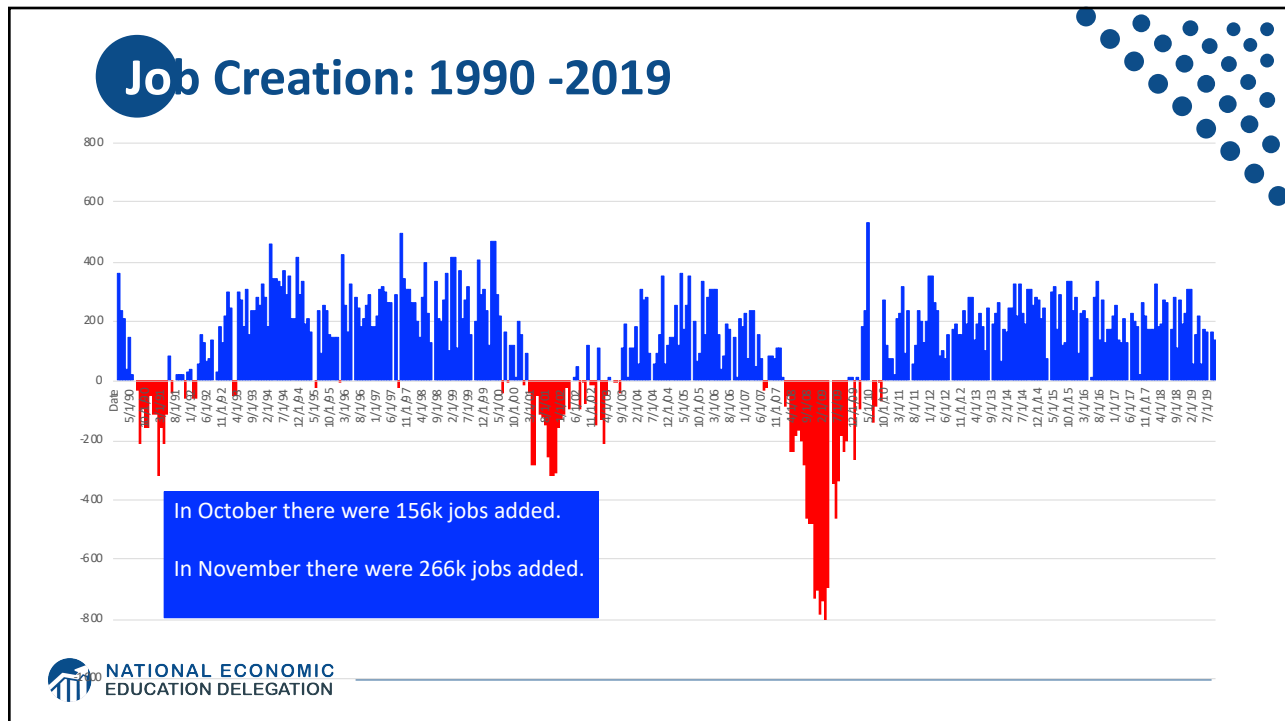


Note: Price series from BLS.

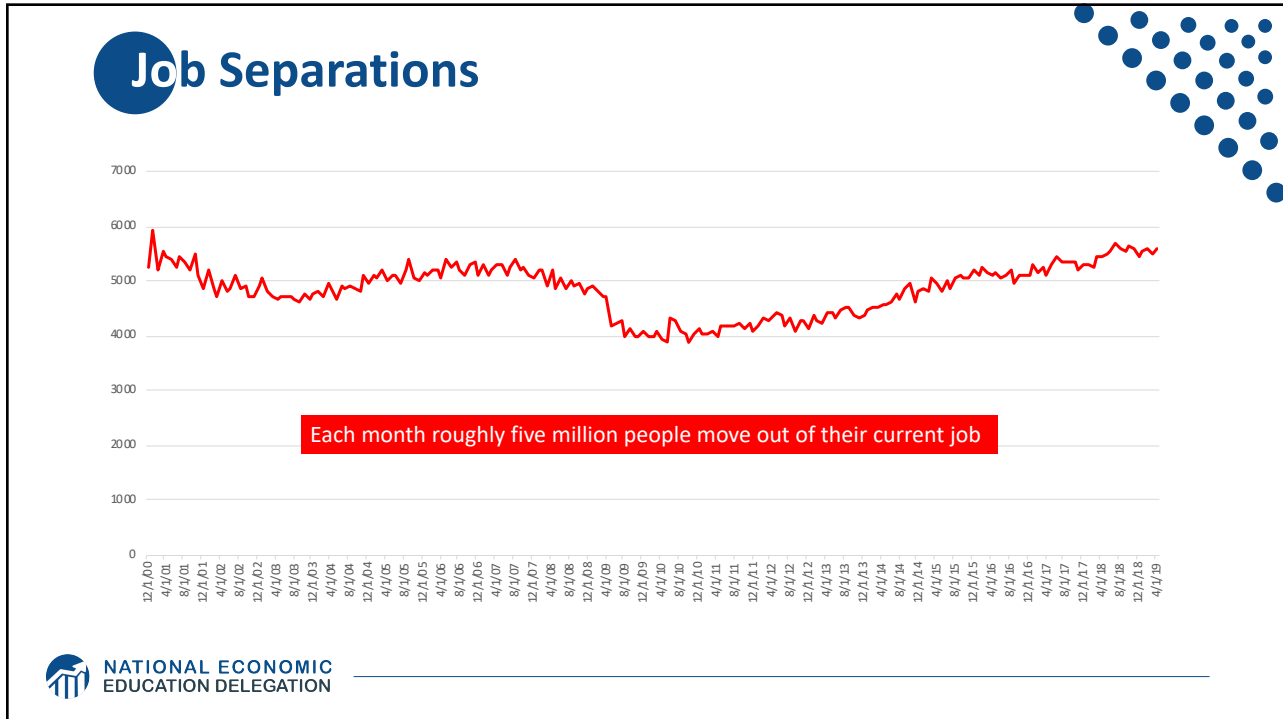
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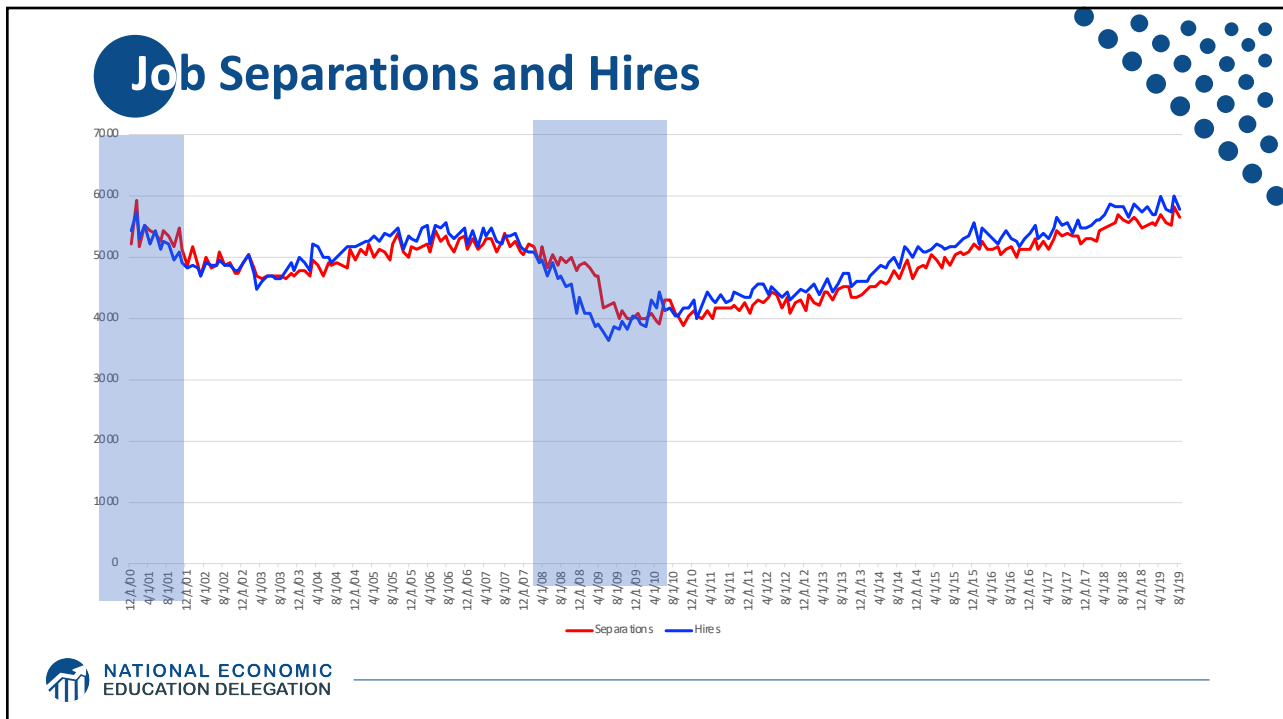
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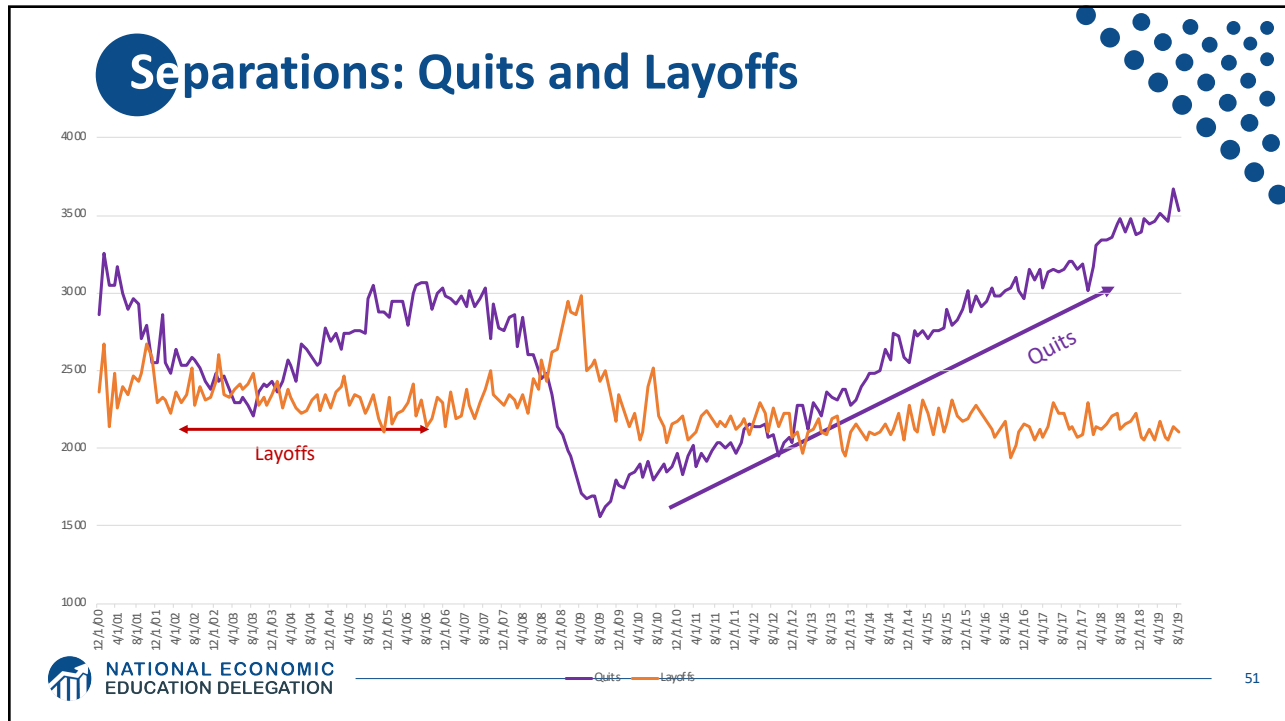
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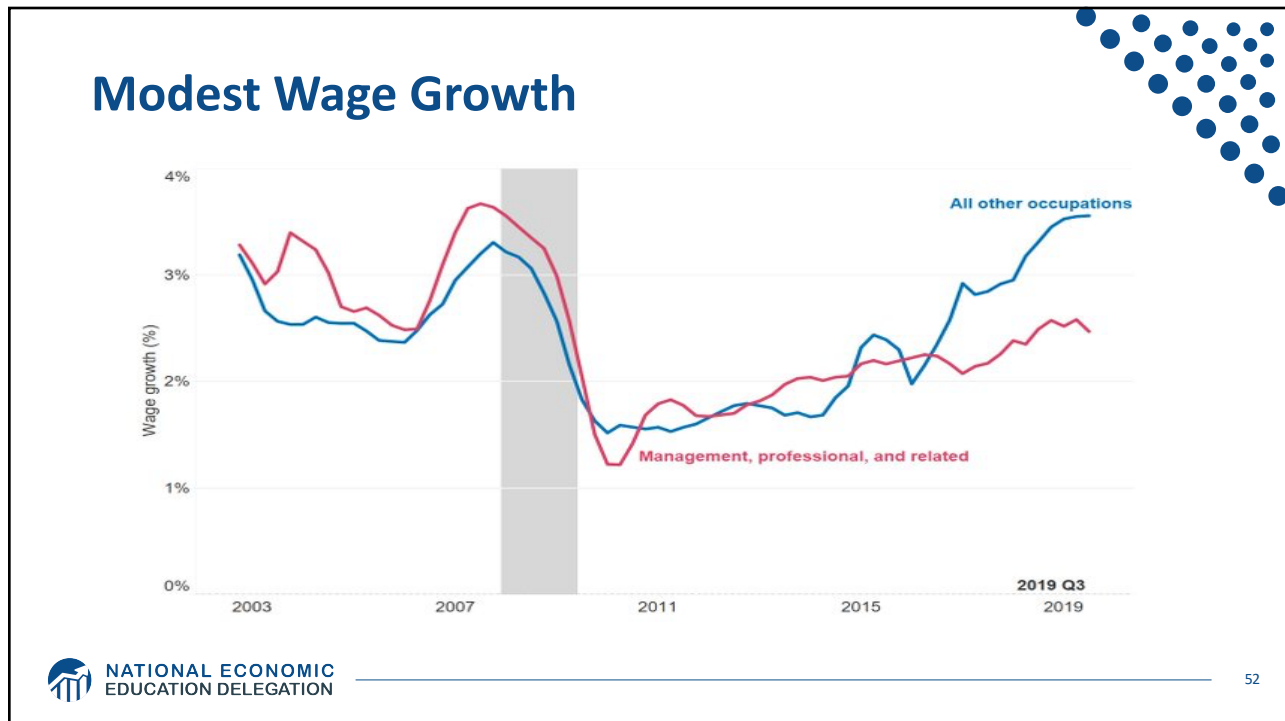
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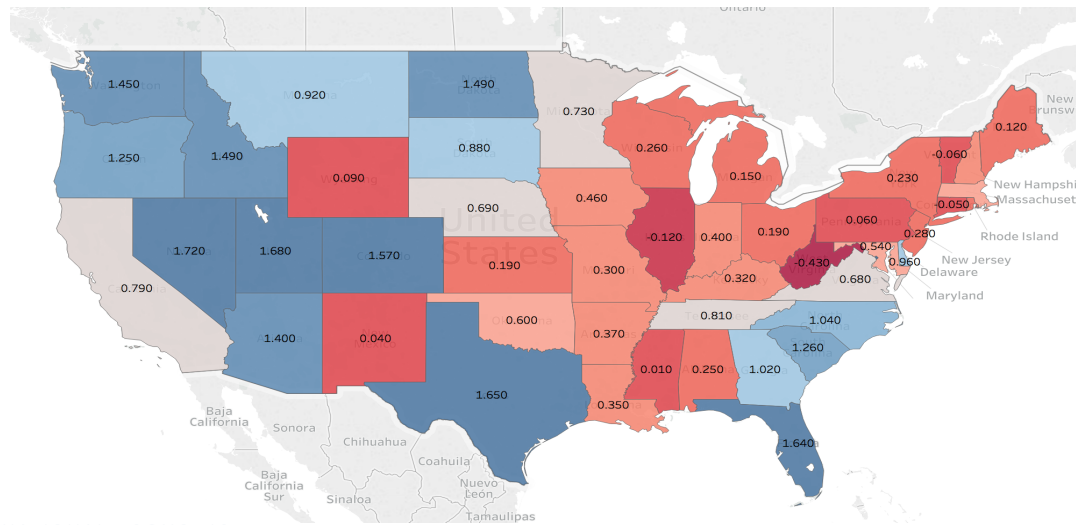


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Population Growth: 2010-2017



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Conclusion: Looking Forward

- **Most economists have lowered their projection for 2020– GDP growth in the 2.0-2.3% range.**
- **Most economist have lowered their growth forecasts for 2020.**
 - 67% NABE economists project growth to be between 1.1 and 2.0%
- **Most economists have increased their “probabilities” of recession in 2020.**
 - However, most do not think one will occur in the first half of the year
 - Most do not think it will happen in second half either.

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Consumer Confidence: Slipping?

