




State of the Economy --December 12, 2019--

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National Economic Education Delegation

1

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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2

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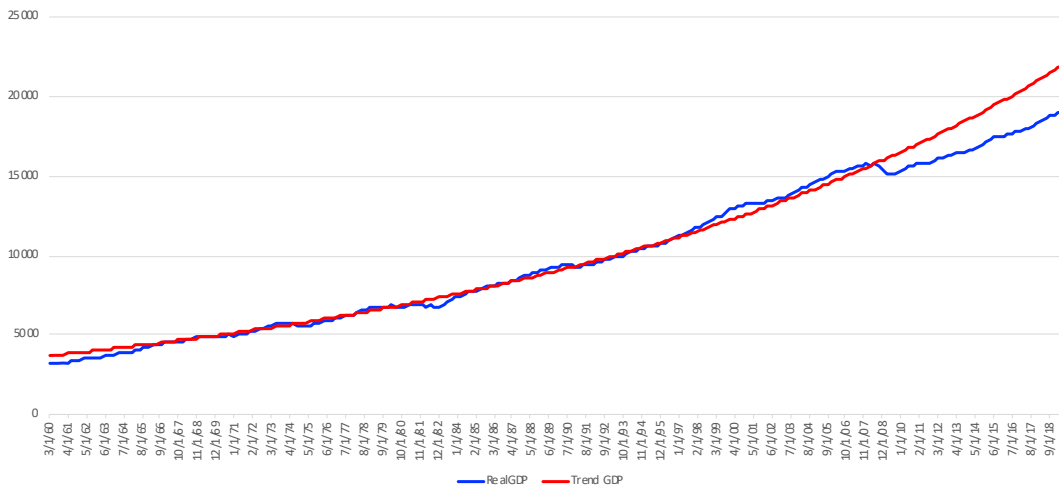
The State of the Economy

- 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%)
- By the end of 2018 and into 2019, the US economy shown some signs of slowing and there is some worry about potential *“bears”* on the horizon
 - Slowing industrial production
 - Tariffs, Trade Policy and International Trade
 - Slowing world economy.
- Like any story, we begin with a set-up and review progress since the end of *Great Recession*



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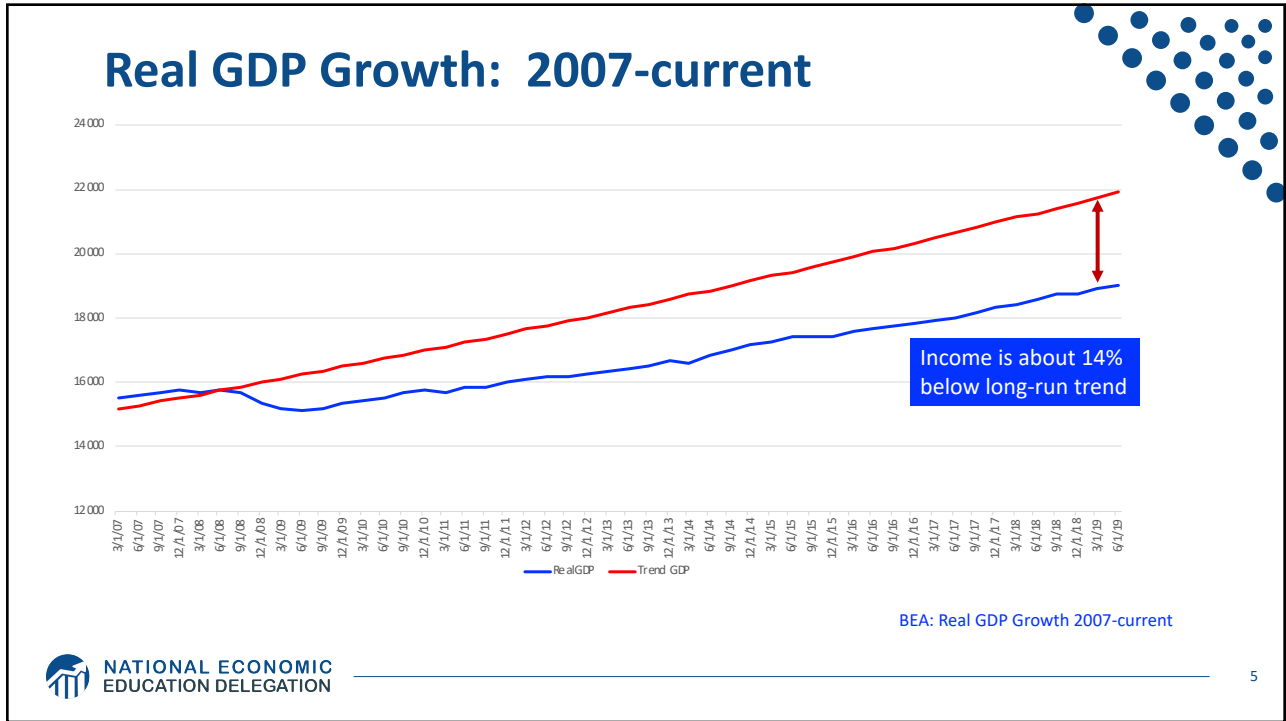
Real GDP Growth: 1960-current



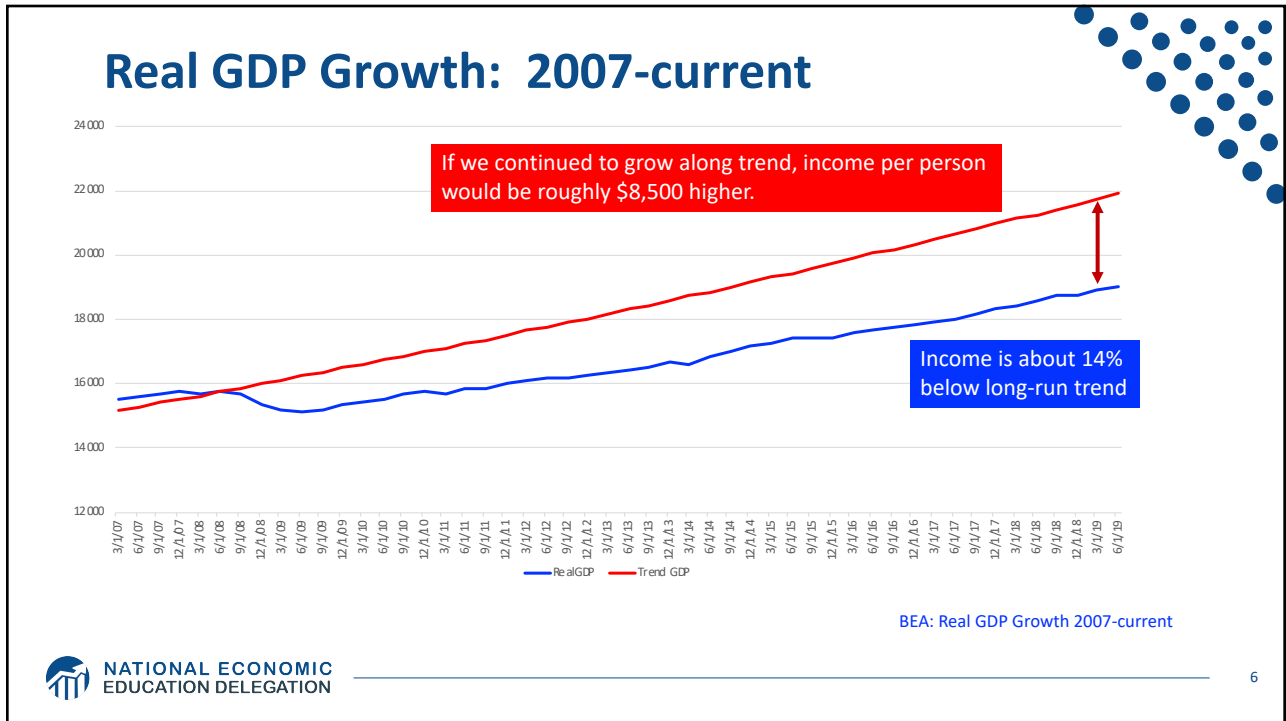
BEA: Real GDP Growth 1960-current



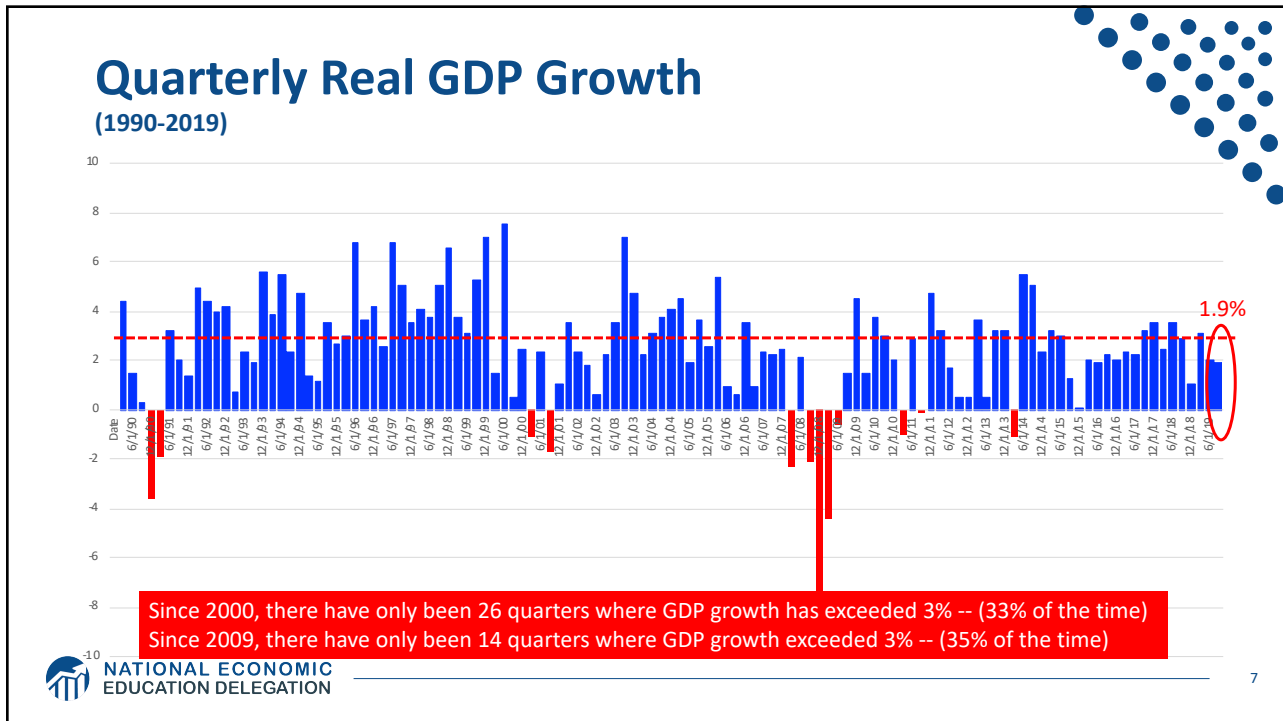
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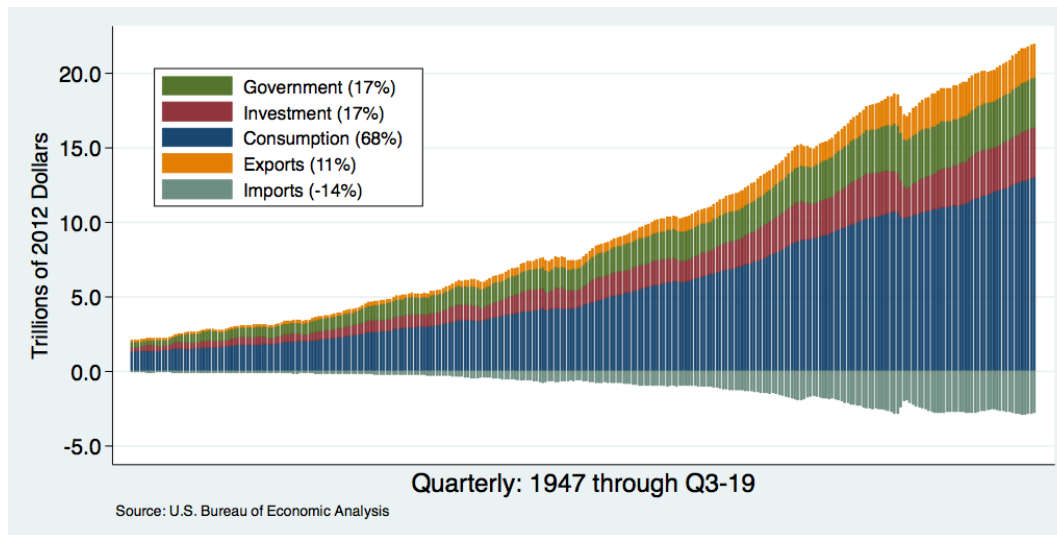
What Is “Accounting” for the Slower Growth?

- **Expenditures Relationship to GDP growth.**
 - GDP is the sum of four categories of spending:
 - Consumption (**C**)
 - Investment (**I**)
 - Government spending (**G**)
 - Net Exports: Exports – Imports (**NX**)
- **Productivity and Inputs as Drivers for GDP Growth.**
 - Employment
 - Productivity

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Composition of Real GDP



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9

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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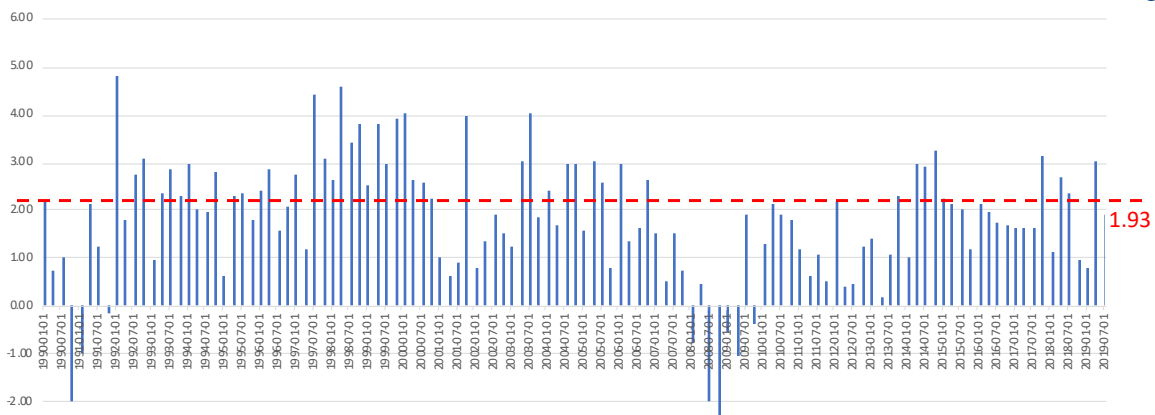
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Understanding Contributions to GDP Growth

- **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, $2\% = \left(\frac{2}{3}\right) * 3\%$.

11

Contribution to GDP Growth: Consumption

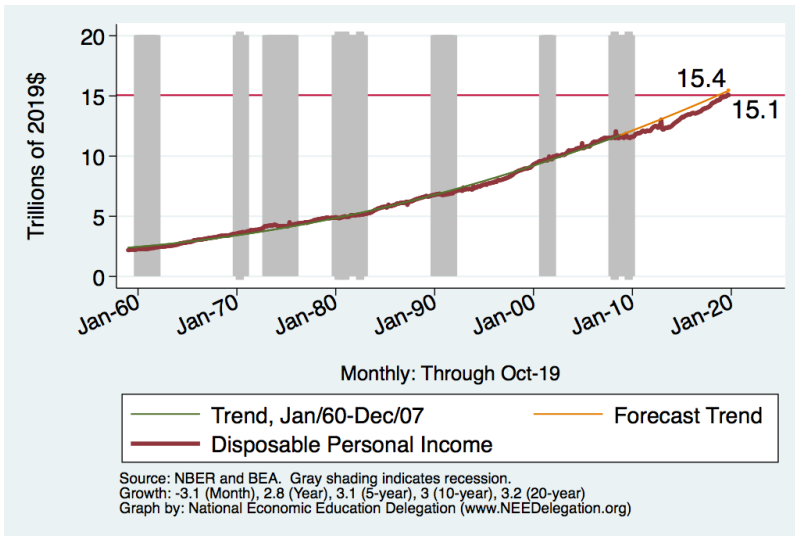


From 1990-2007: Average Contribution from Consumption was 2.18%

Since 2010, Average Contribution from Consumption is 1.68%

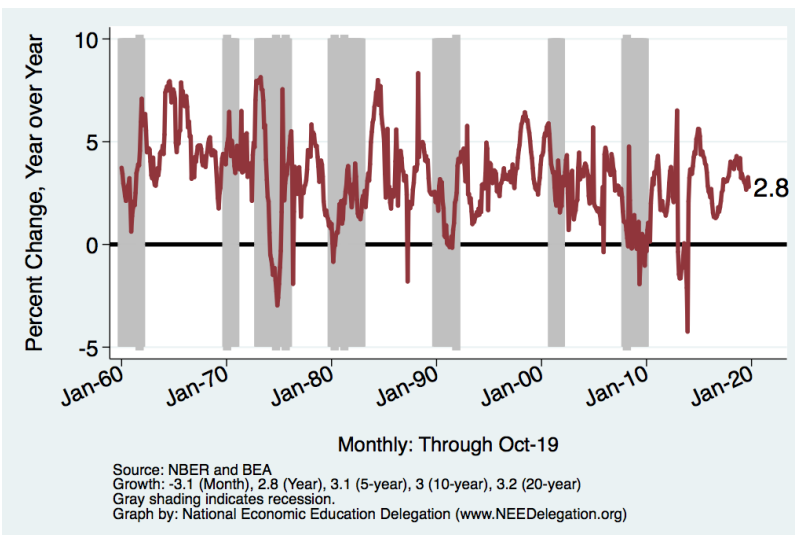
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Real Disposable Personal Income



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Real Disposable Personal Income - Growth



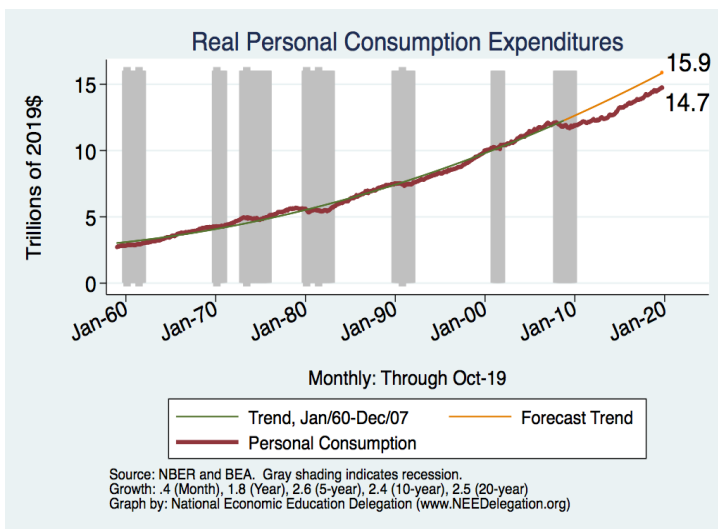
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Personal Consumption Expenditures

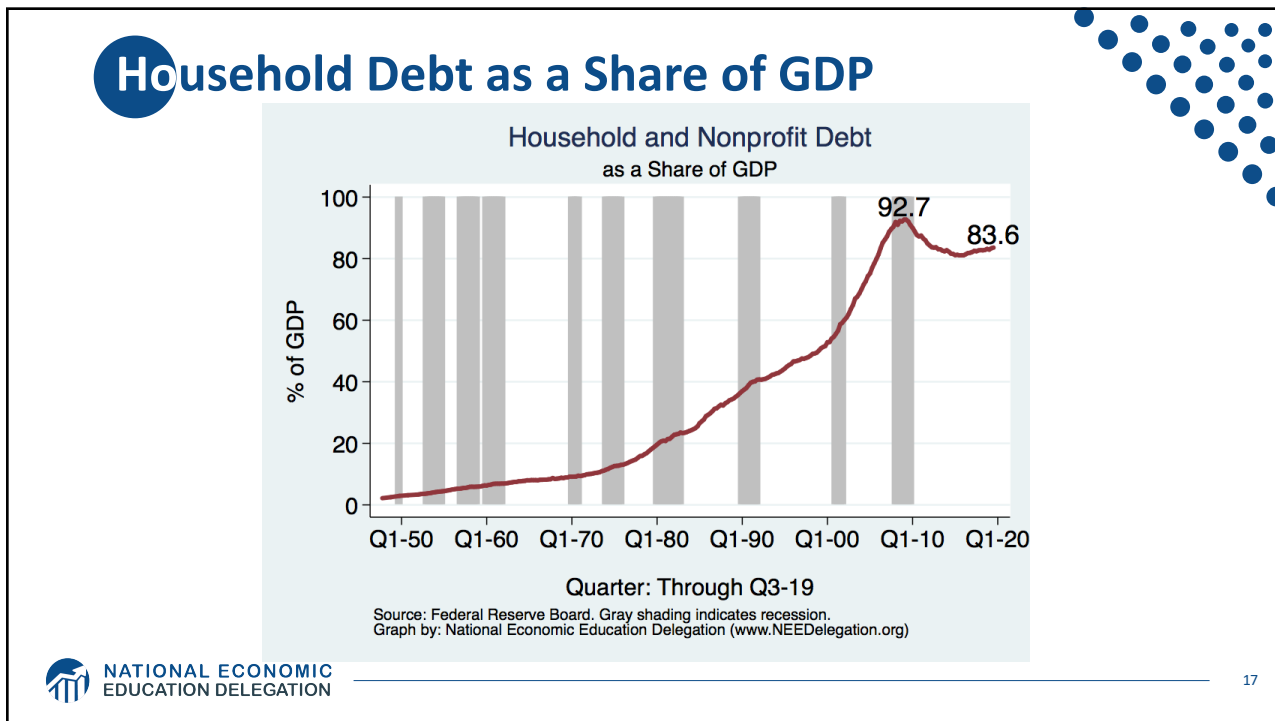
- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
 - Post-crisis contribution is 1.7 percentage points.
- **In other words, its contribution to GDP growth is shaving about 0.5 ppt off GDOP growth**

15

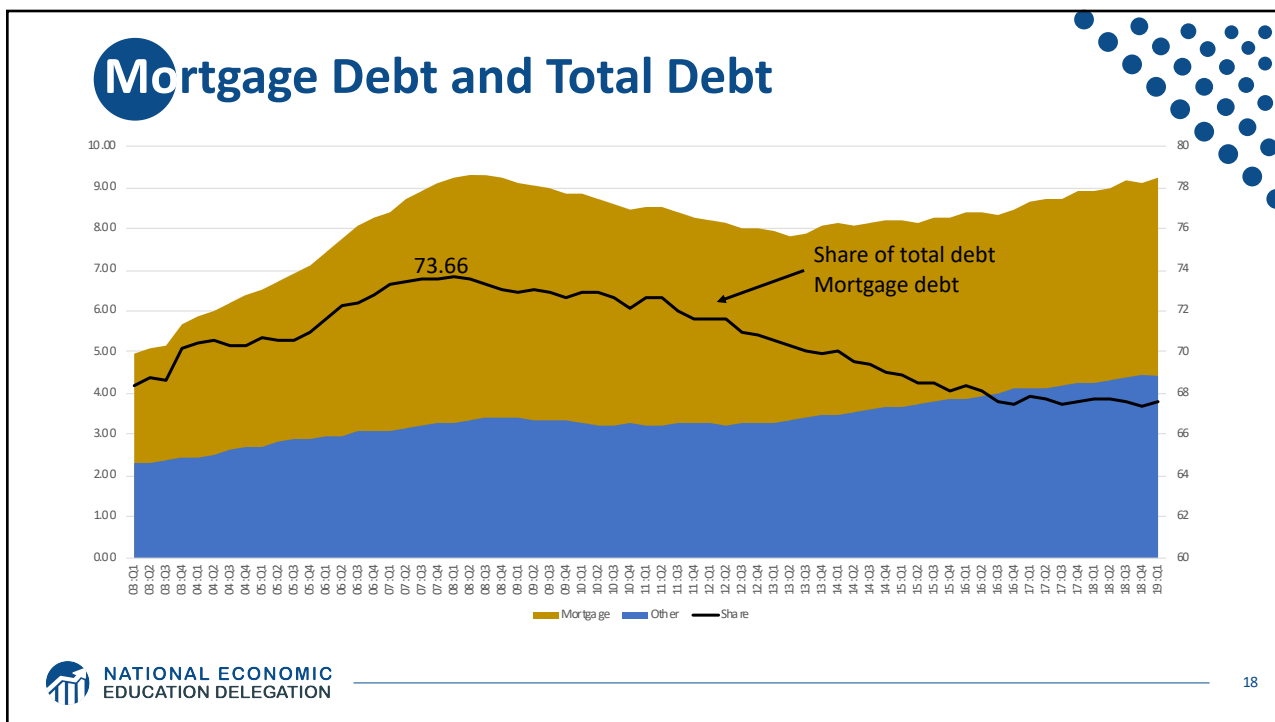
Personal Consumption Expenditures



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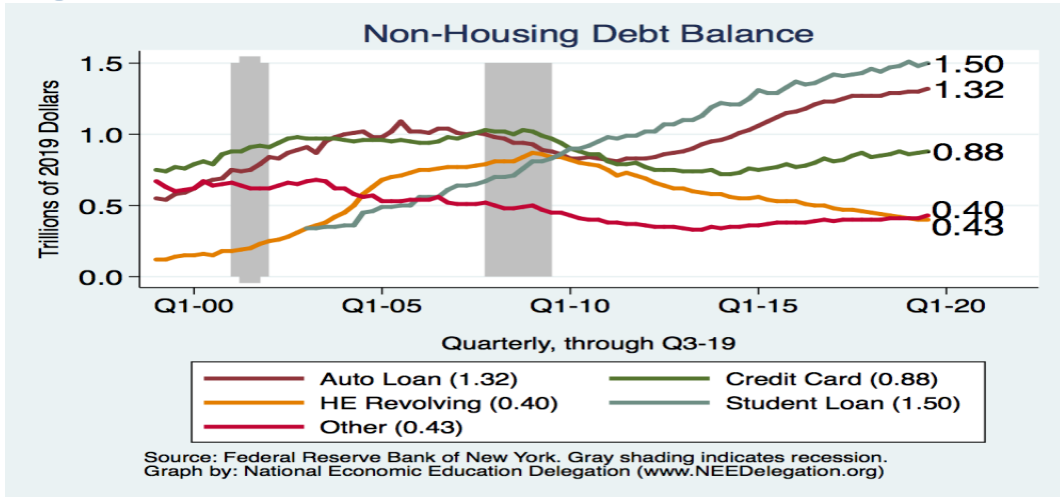


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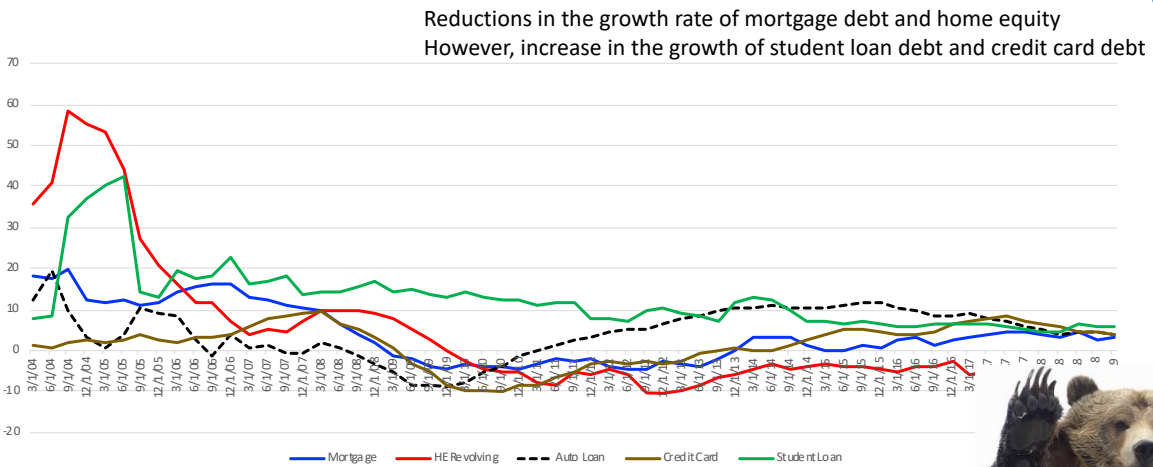
18

Household Debt: Other Sources



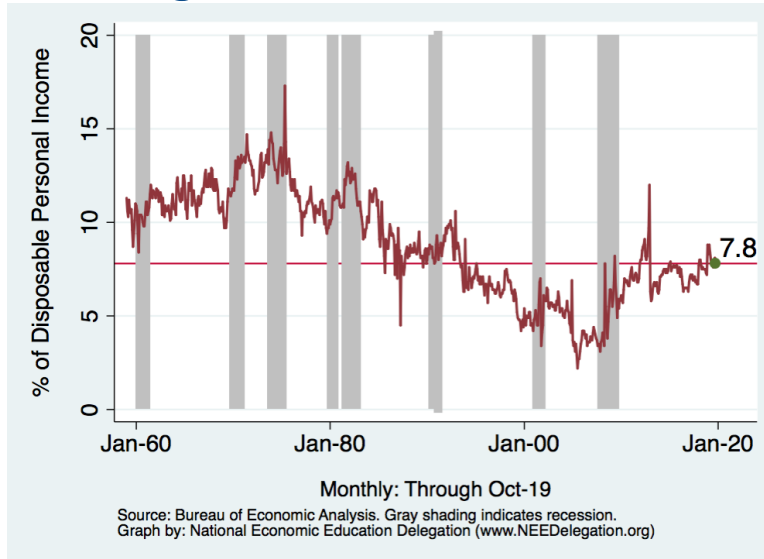
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Growth in Household Debt by Category



20

Personal Savings

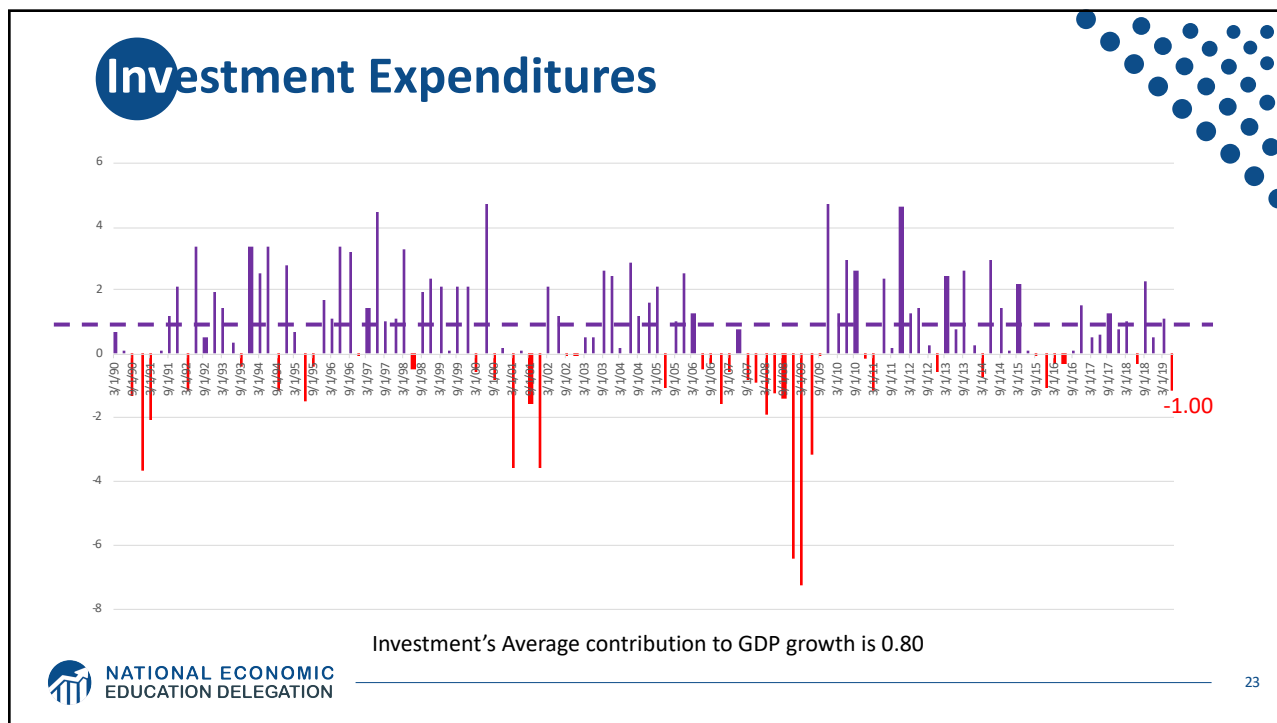


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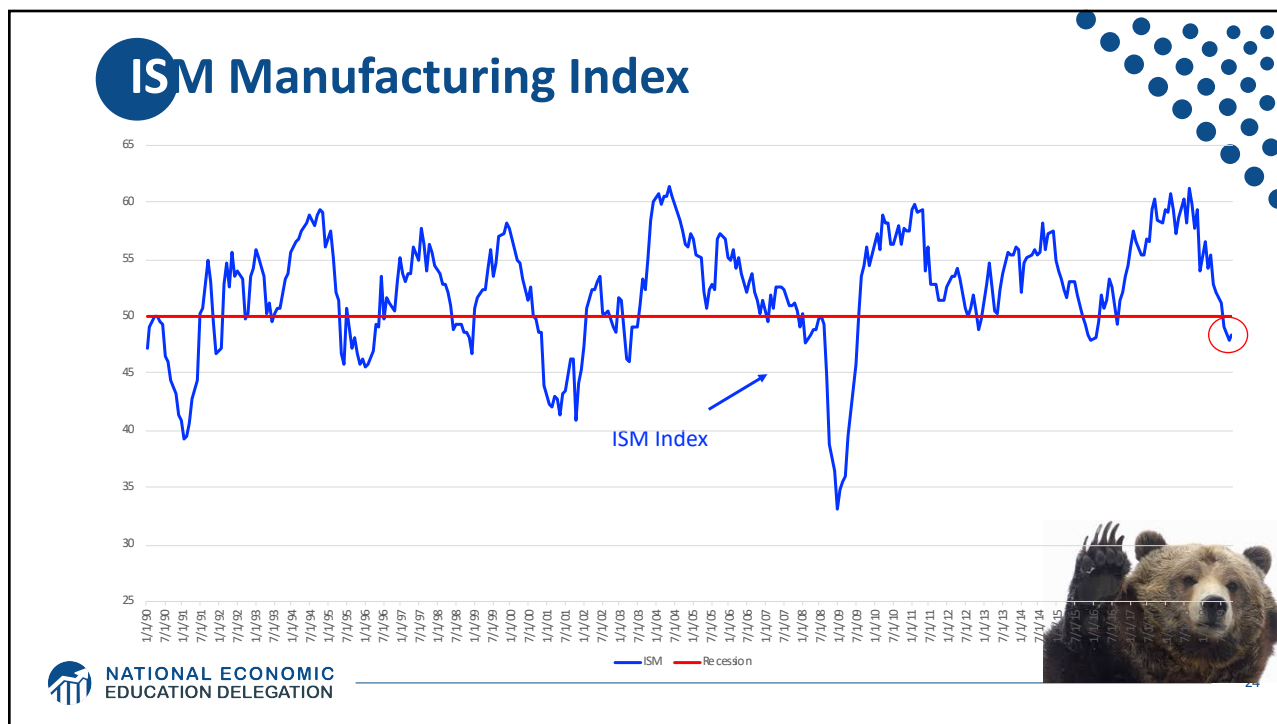
Investment Expenditures

- **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.

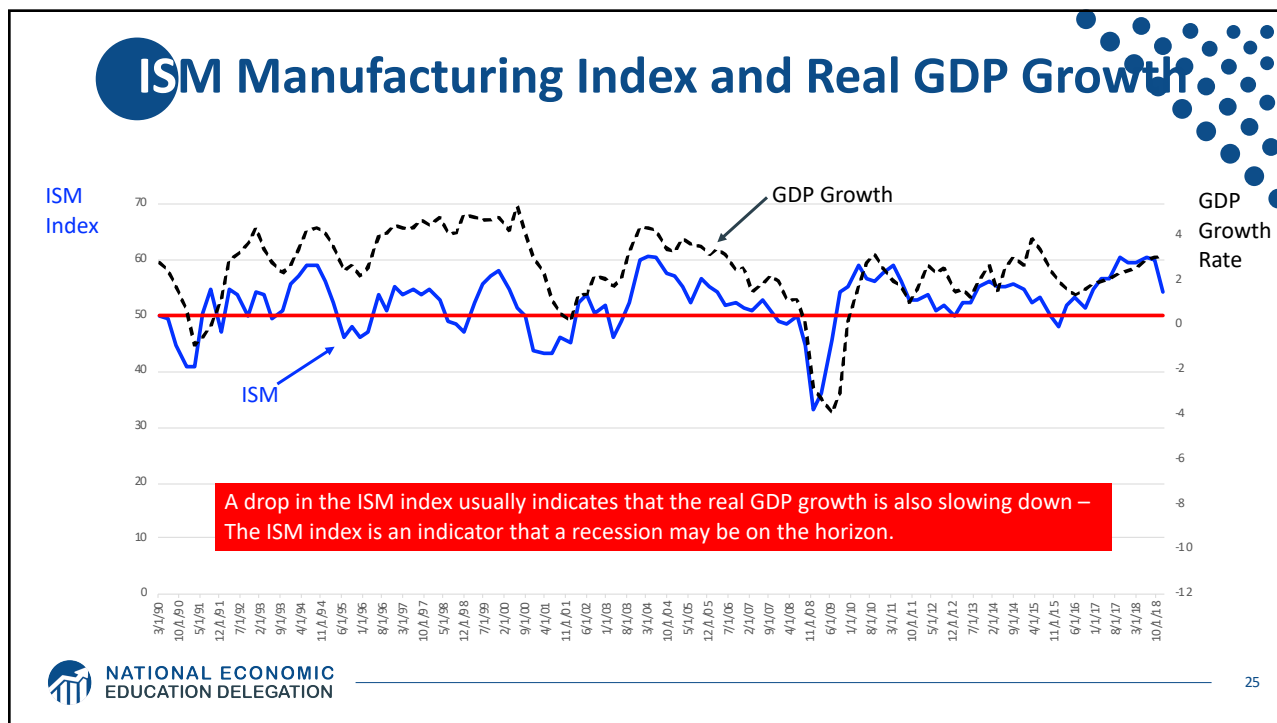
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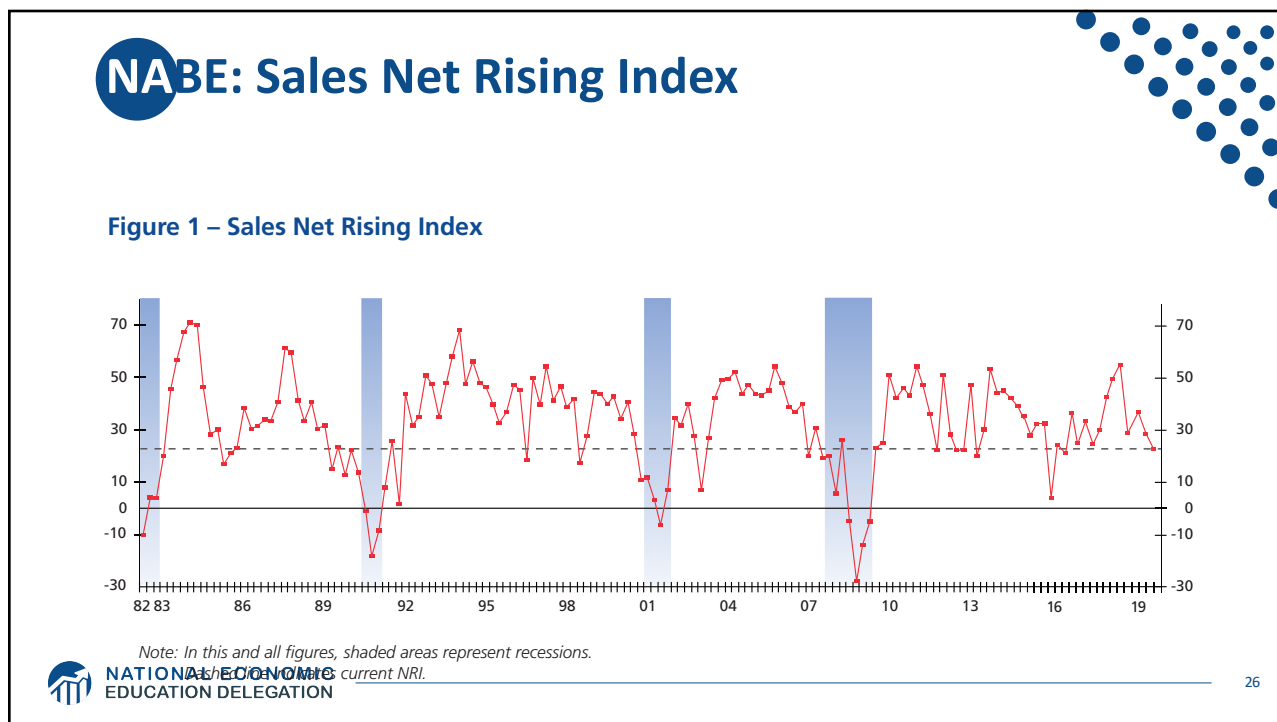
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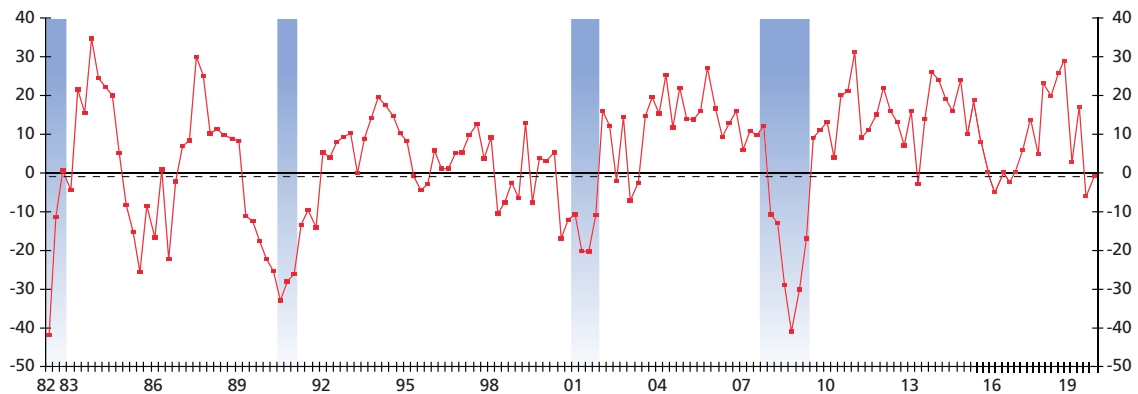
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26

NABE: Profit Margin Net Rising Index

Figure 2 – Profit Margins Net Rising Index



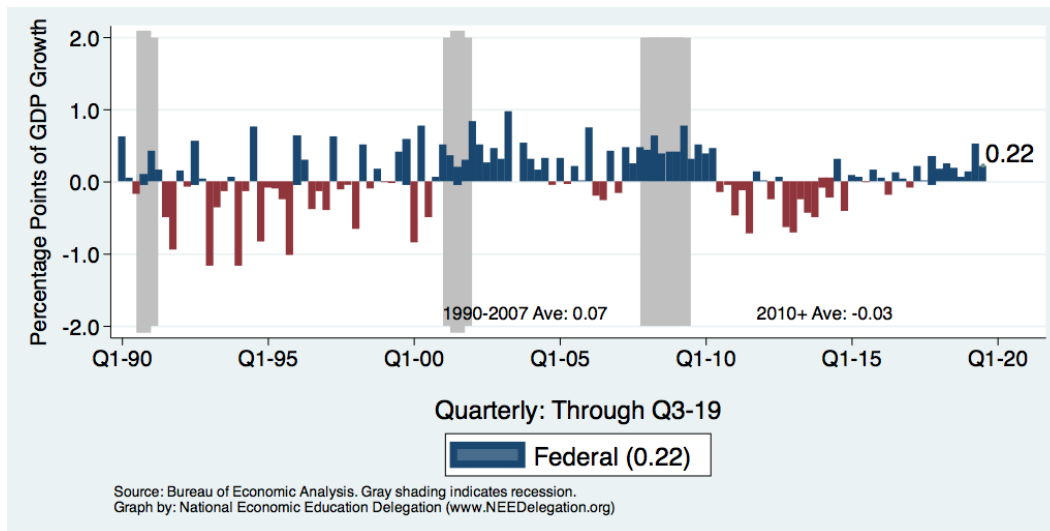
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What are Businesses Concerned About

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

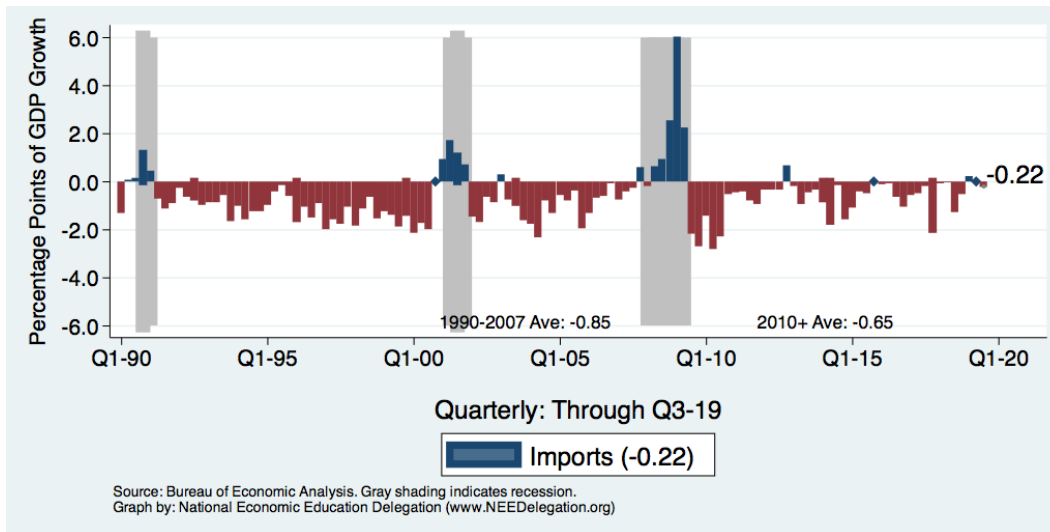
28

Contributions to GDP: Government



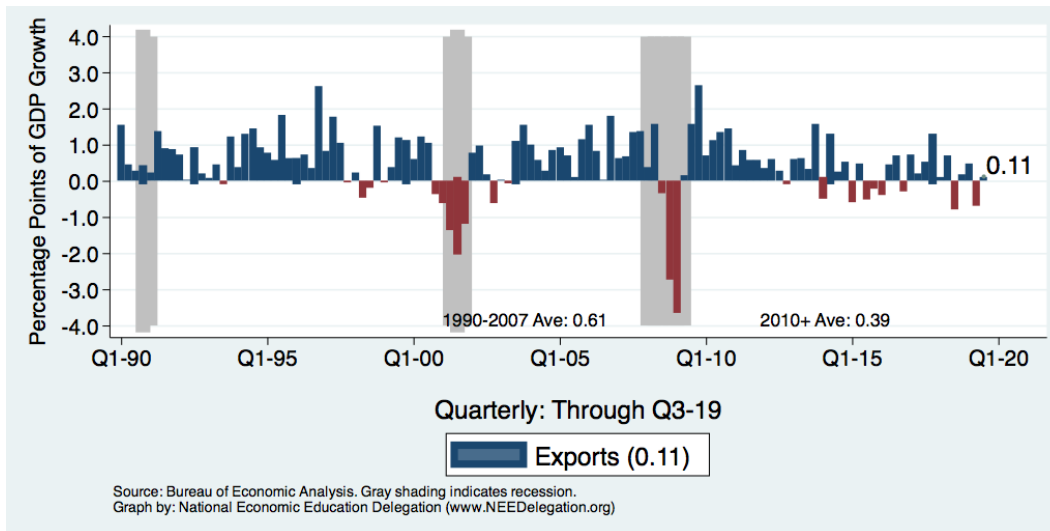
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Trade's Contribution to GDP: Imports

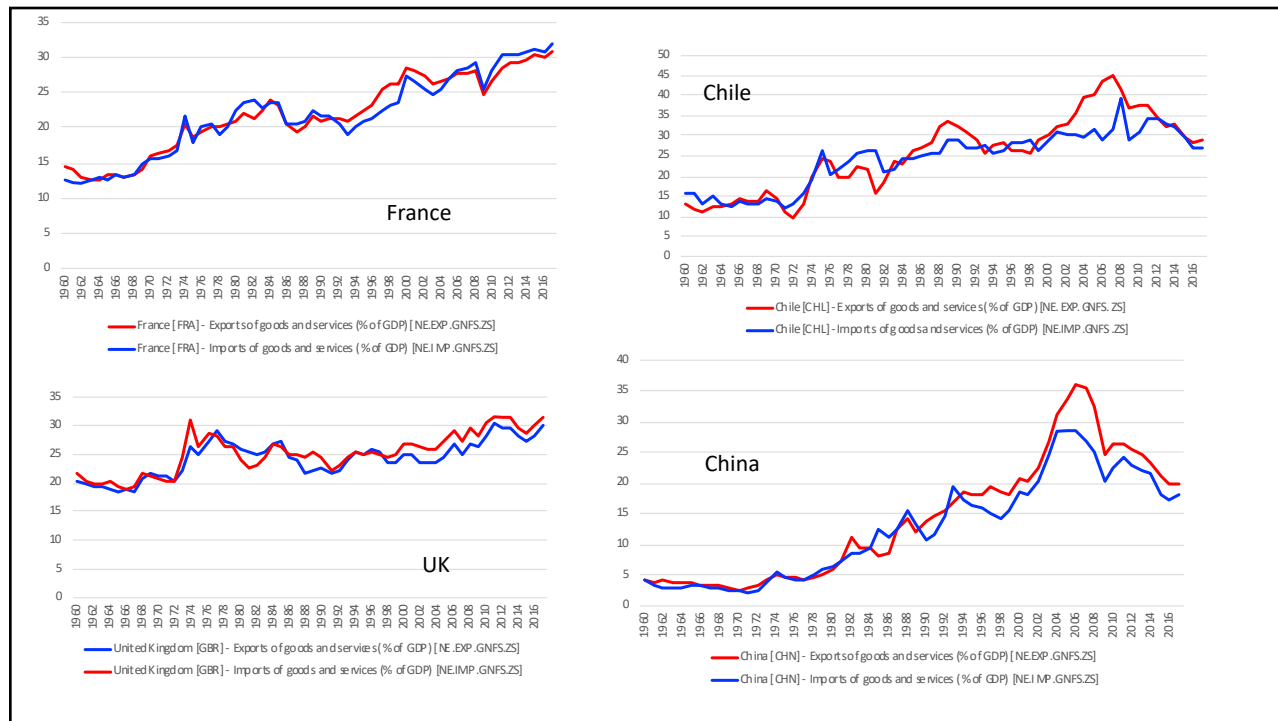


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Trade's Contribution to GDP: Exports



31

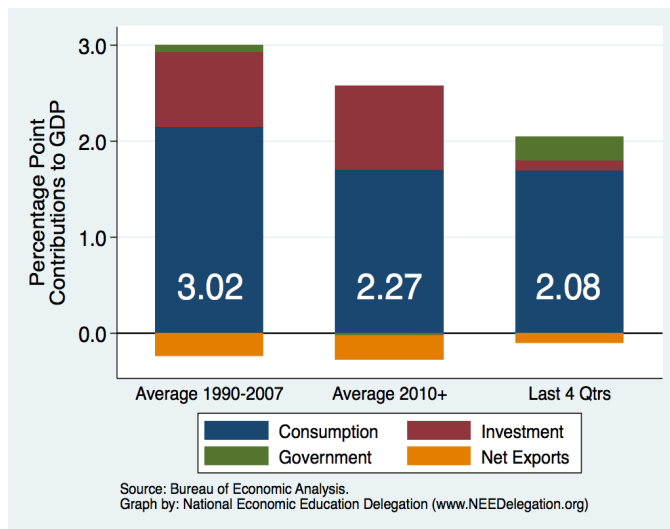


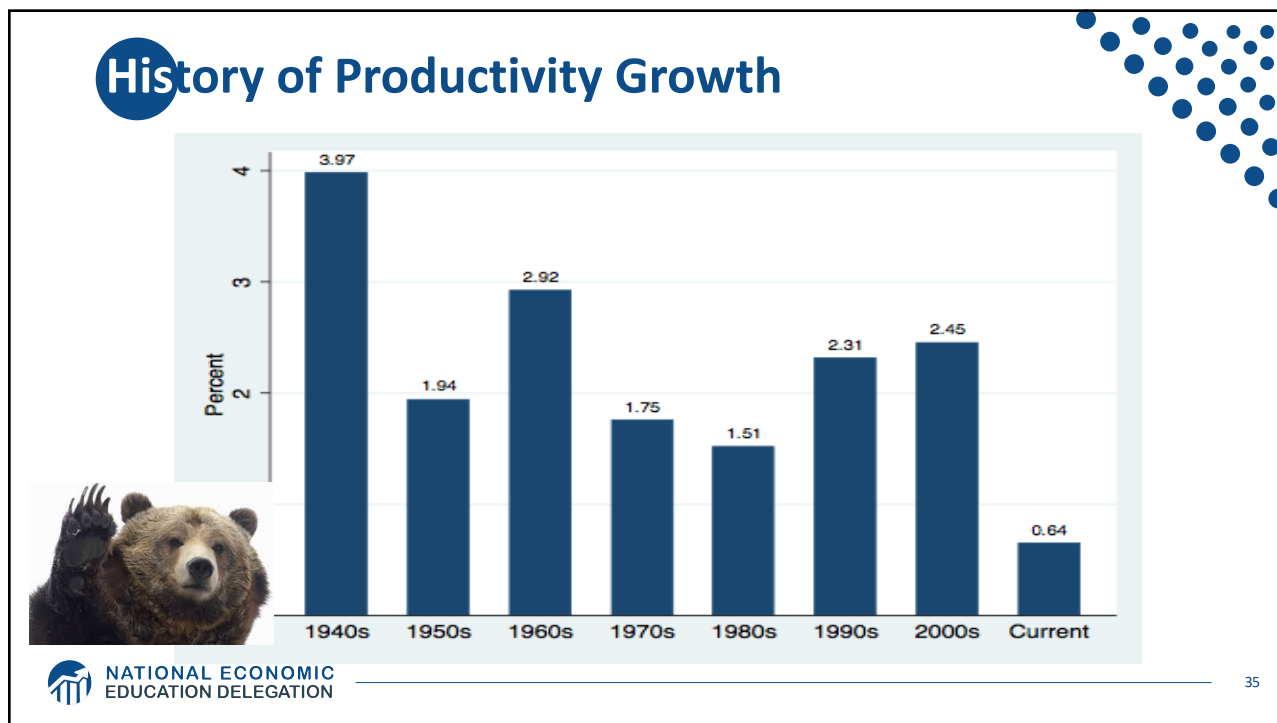
32

Exports and Imports are Not Independent

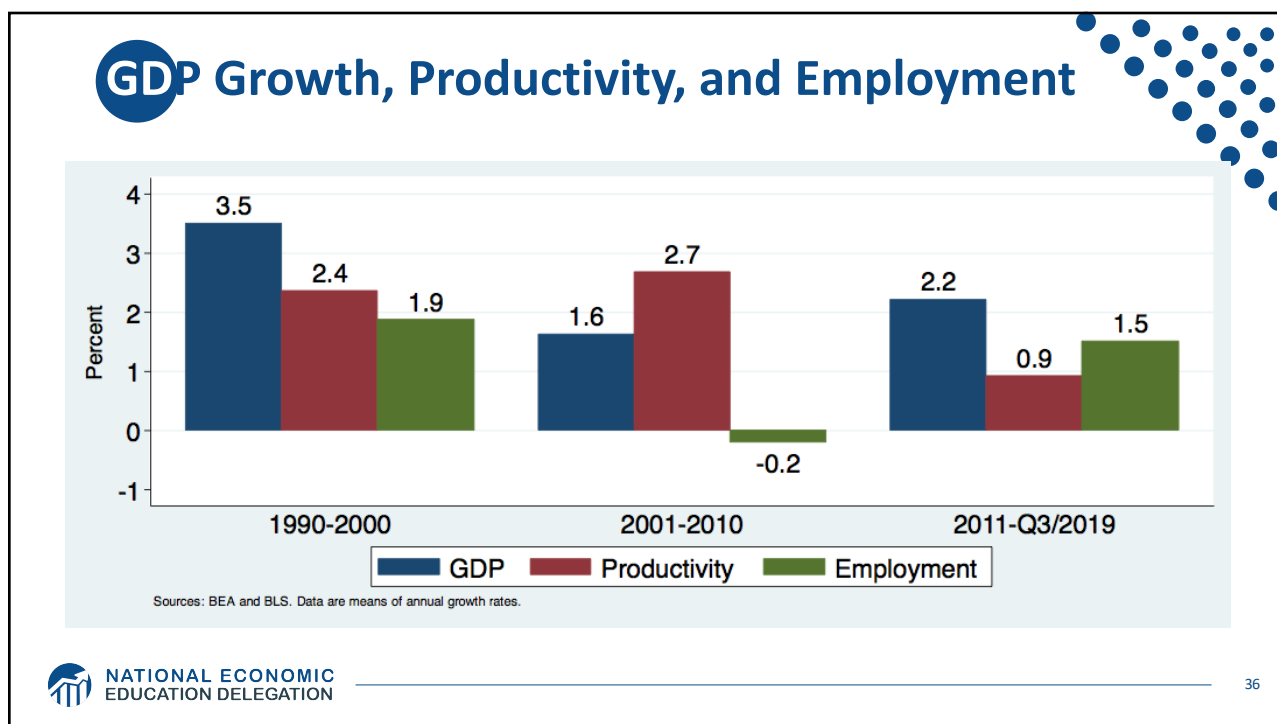
- Consider an attempt to reduce imports through an increase in tariffs:
- First order effect would be a reduction in imports
- Because we buy fewer foreign produced goods and services, there are fewer dollars supplied in the foreign exchange market.
- Because the dollar becomes more *scarce*, the dollar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

Expenditure Summary





35



36

Labor Market Conditions

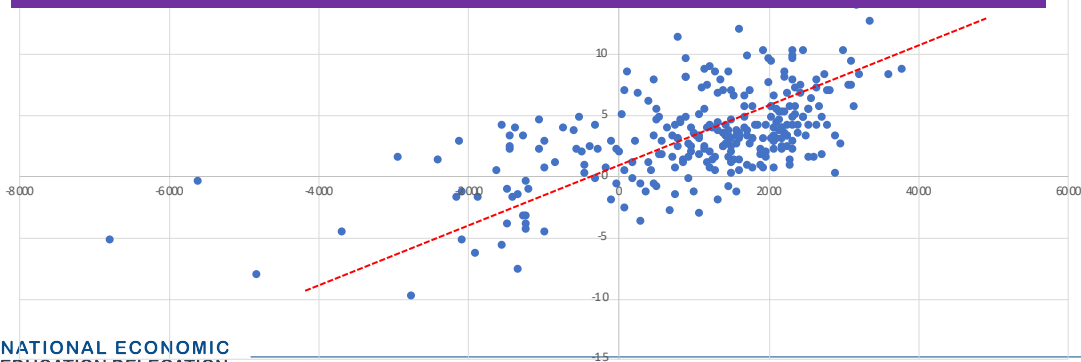
- Unemployment rate is low – 3.5%
- Monthly employment gains have average about 175,000 over the last six months.
- Recent Labor Market Concerns:
 - Lower employment to population ratio
 - Slow wage growth

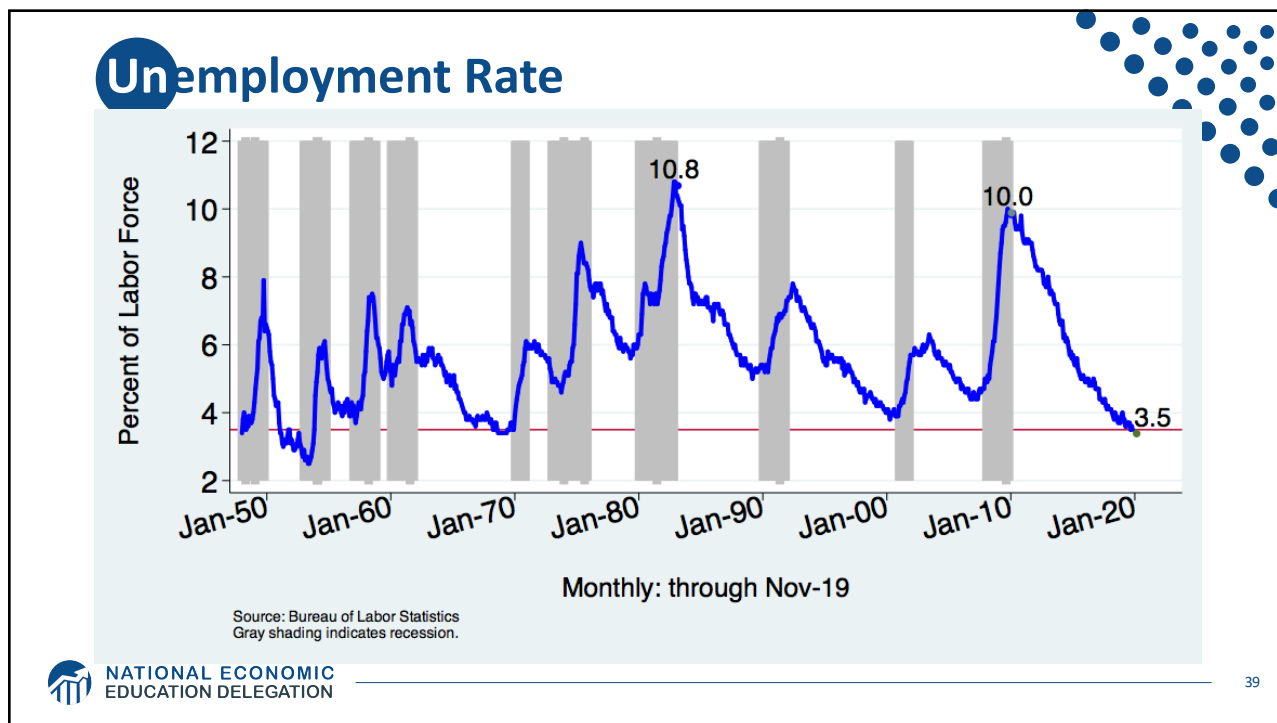
GDP Growth and Employment Changes

Back of the envelope calculation:

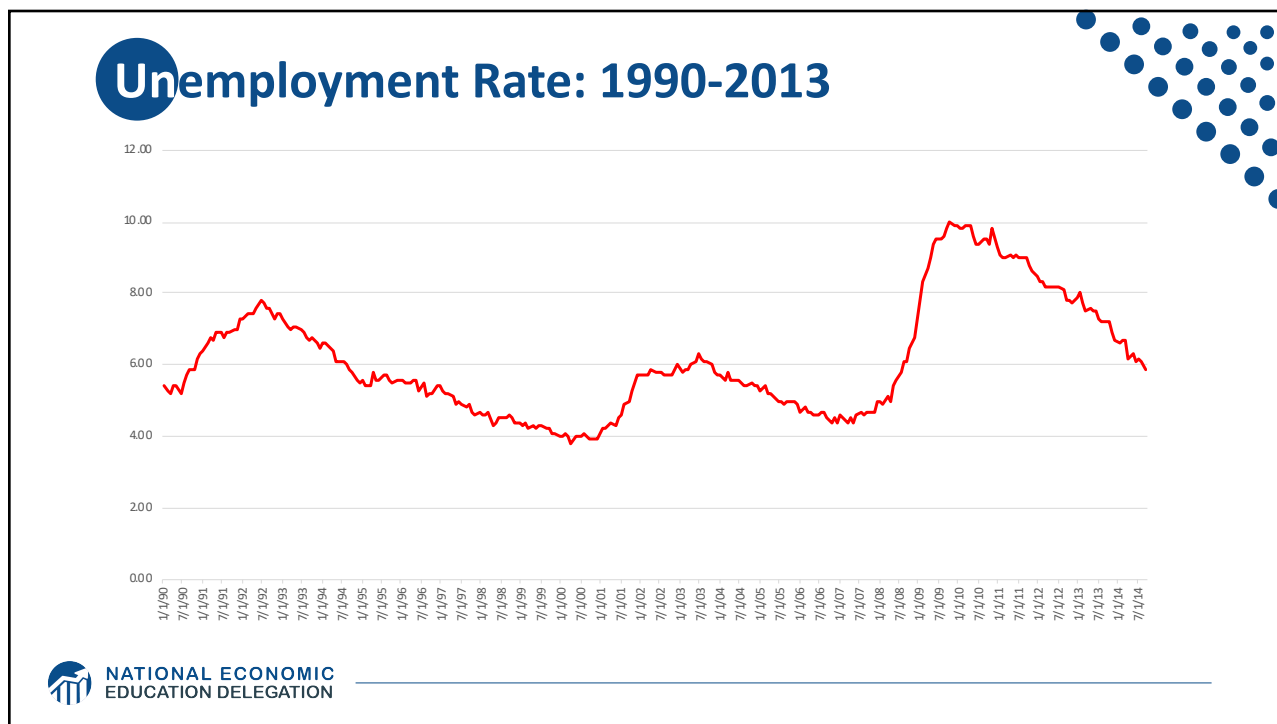
When employment growth is increasing by about 200,000 per month GDP growth will be about 2.5%

When employment growth is increasing by about 300,000 per month GDP growth will be about 3.0%

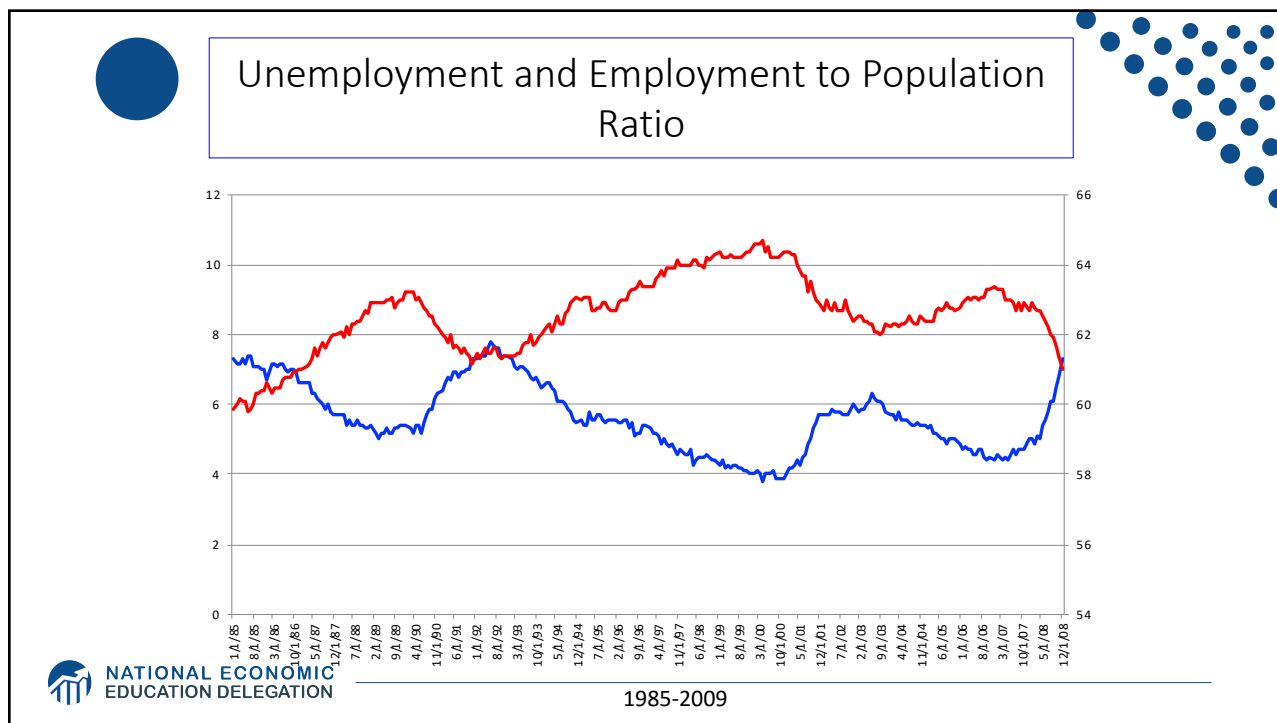




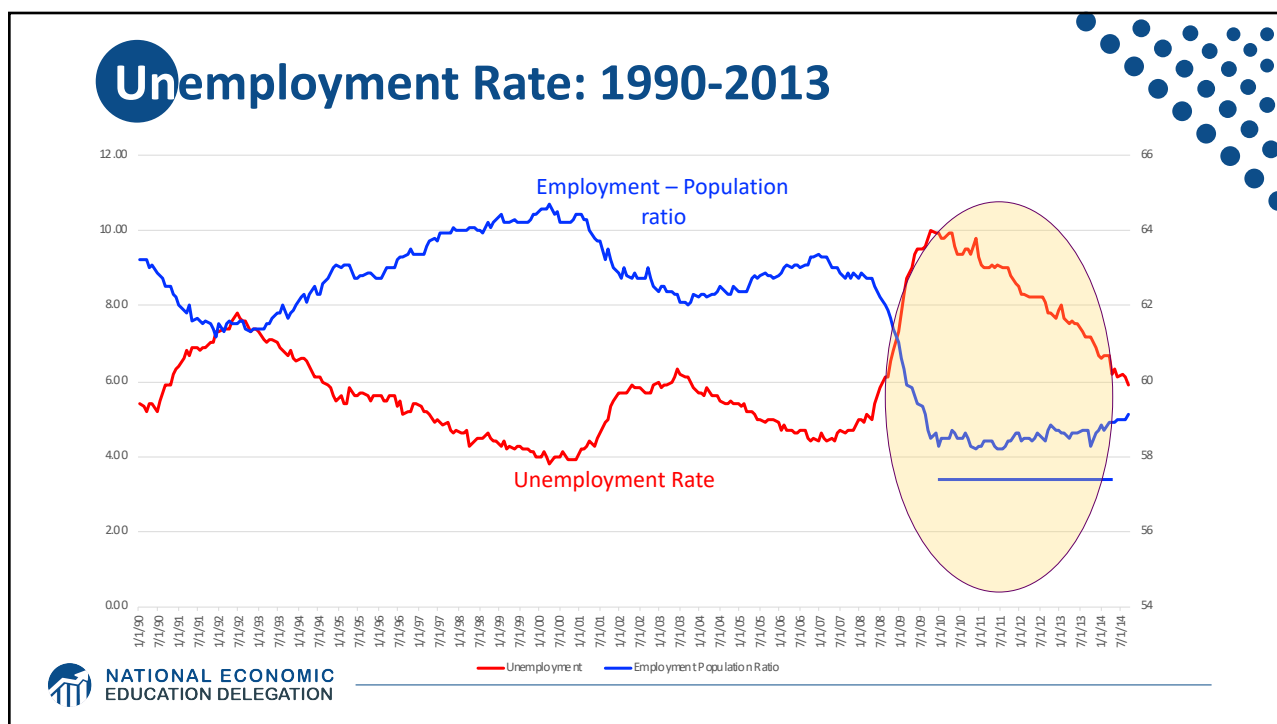
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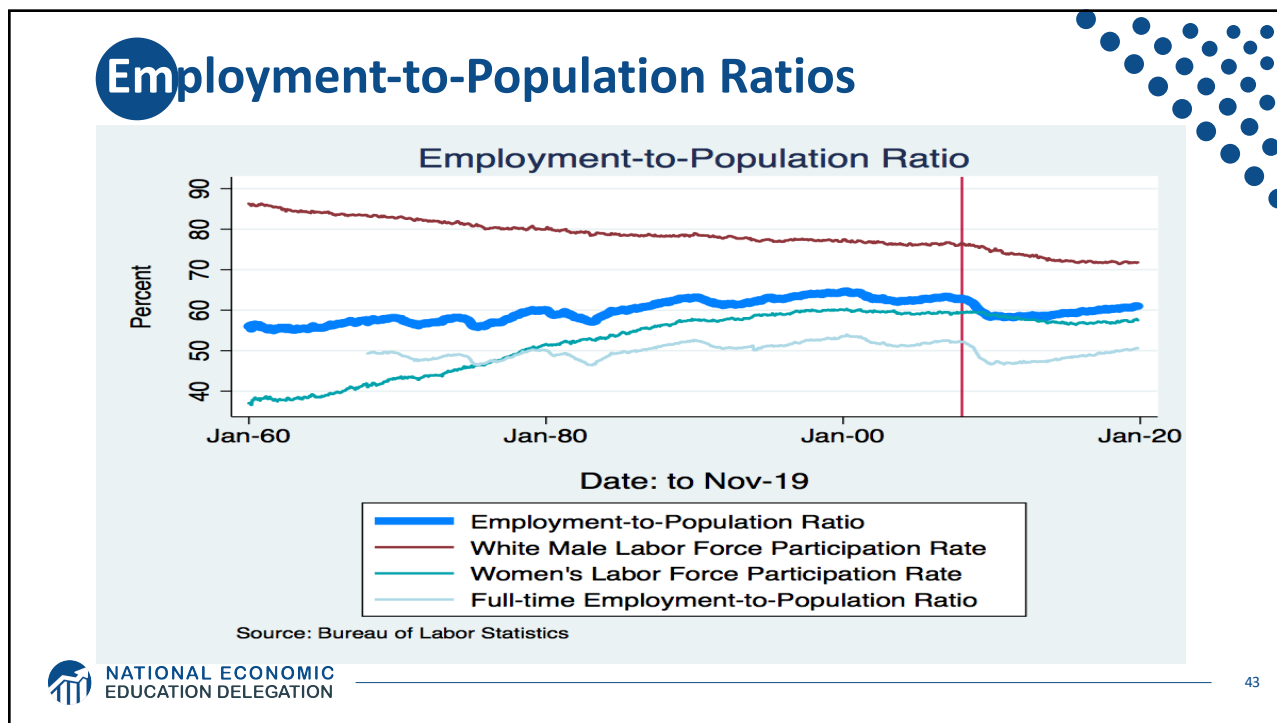
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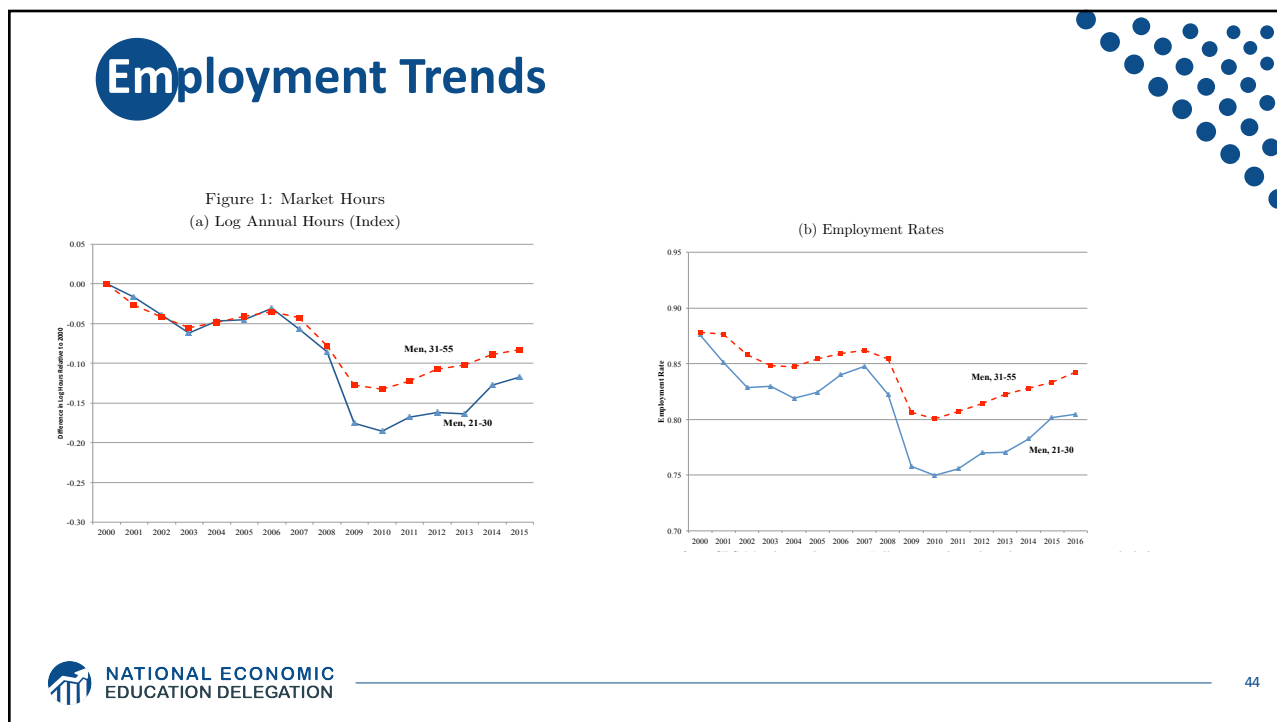
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Employment Trends

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

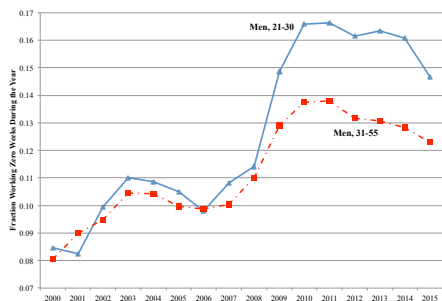
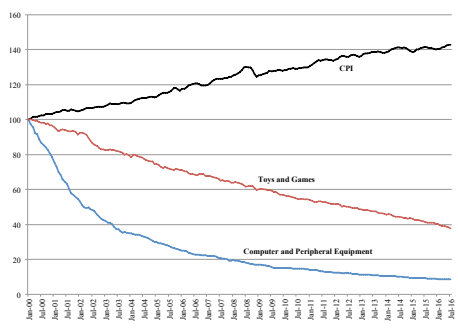


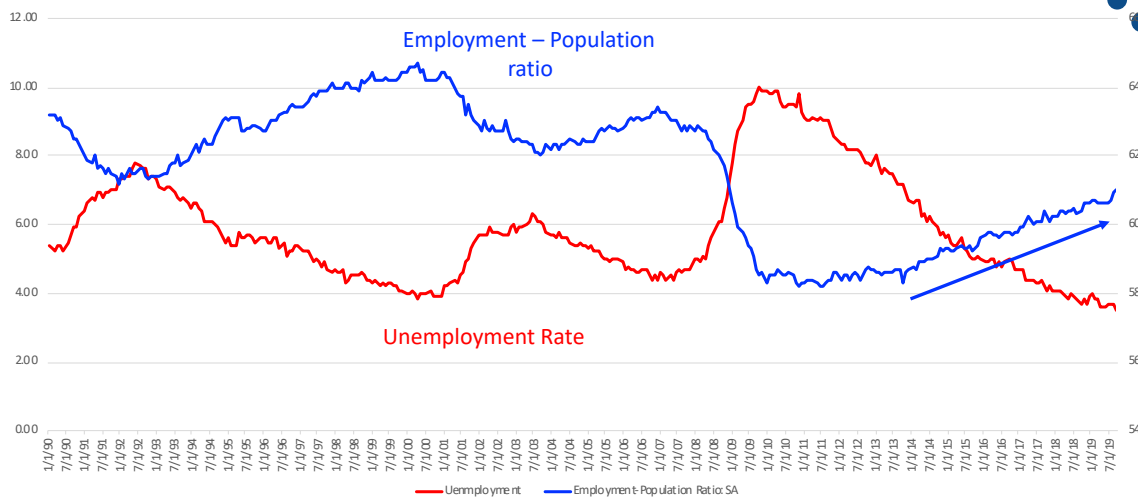
Figure 8: Prices



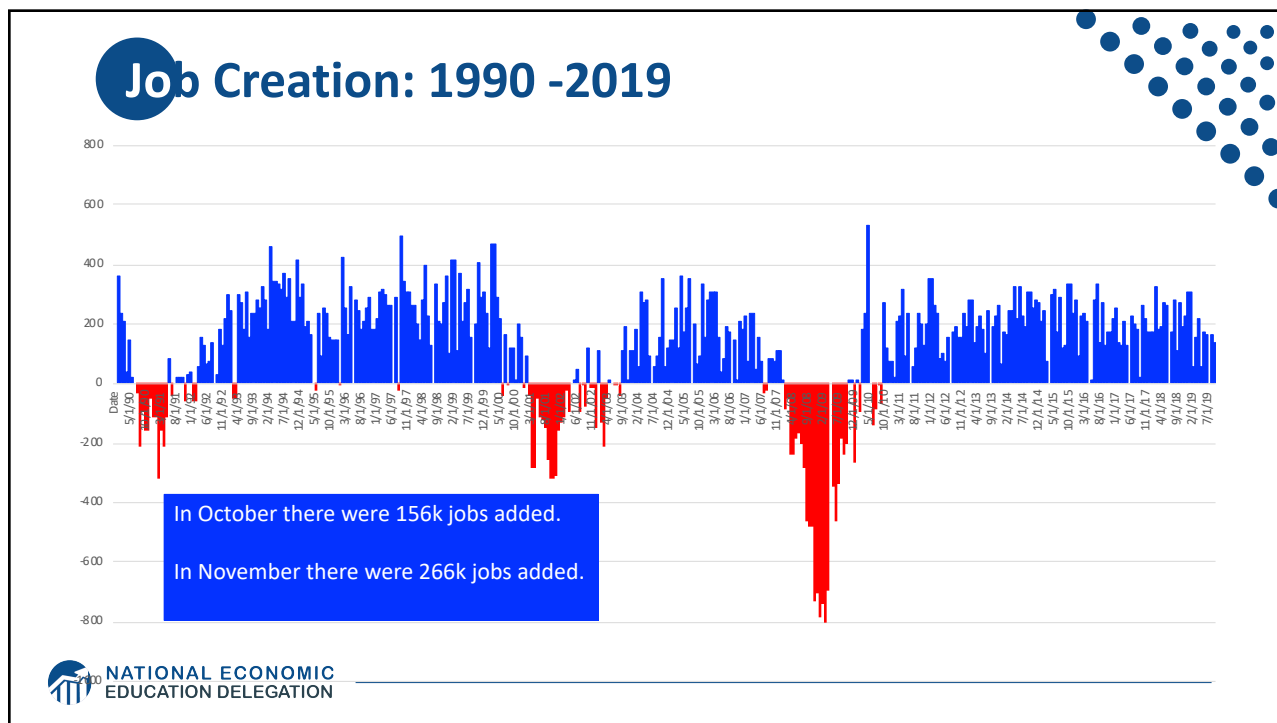
Note: Price series from BLS.

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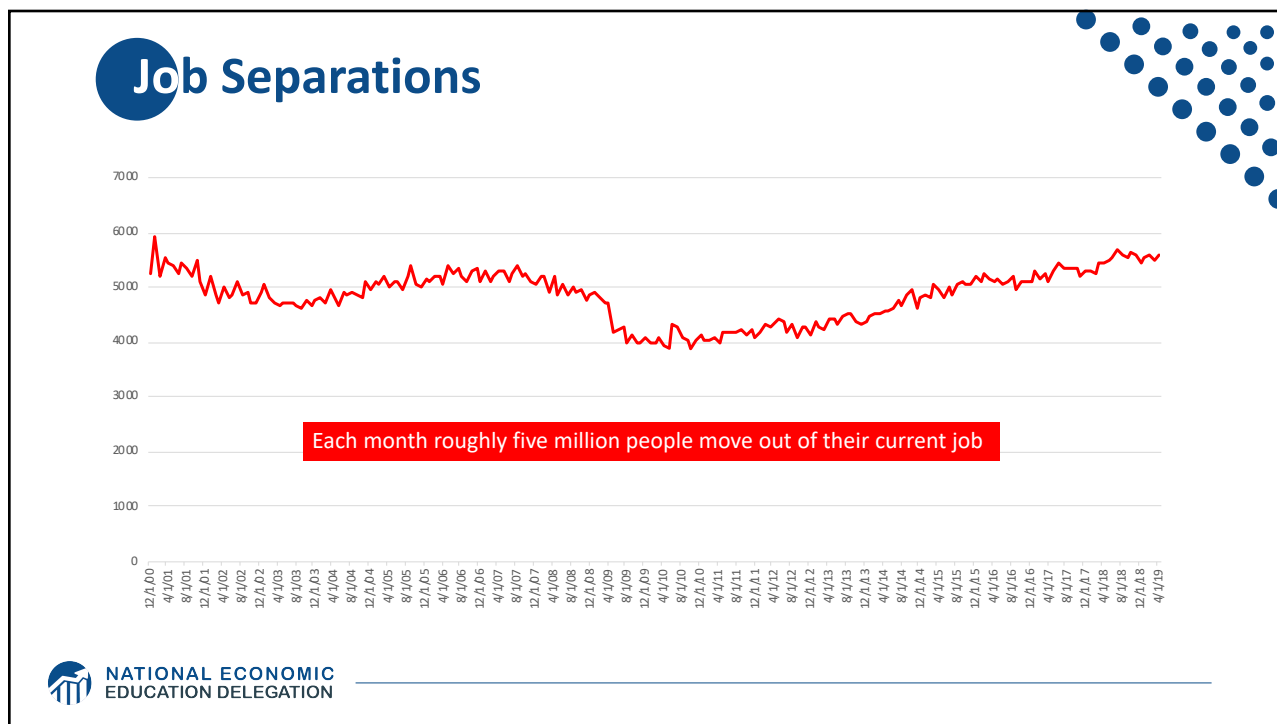
Unemployment Rate: 1990-2019



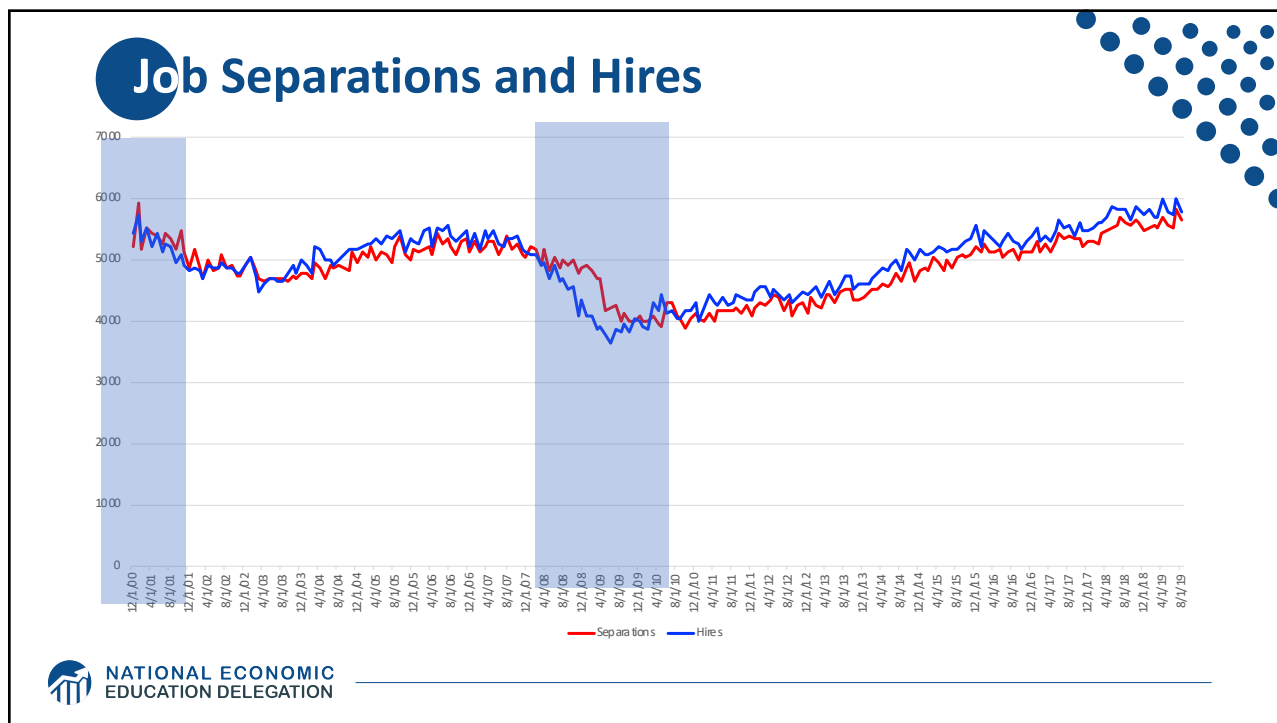
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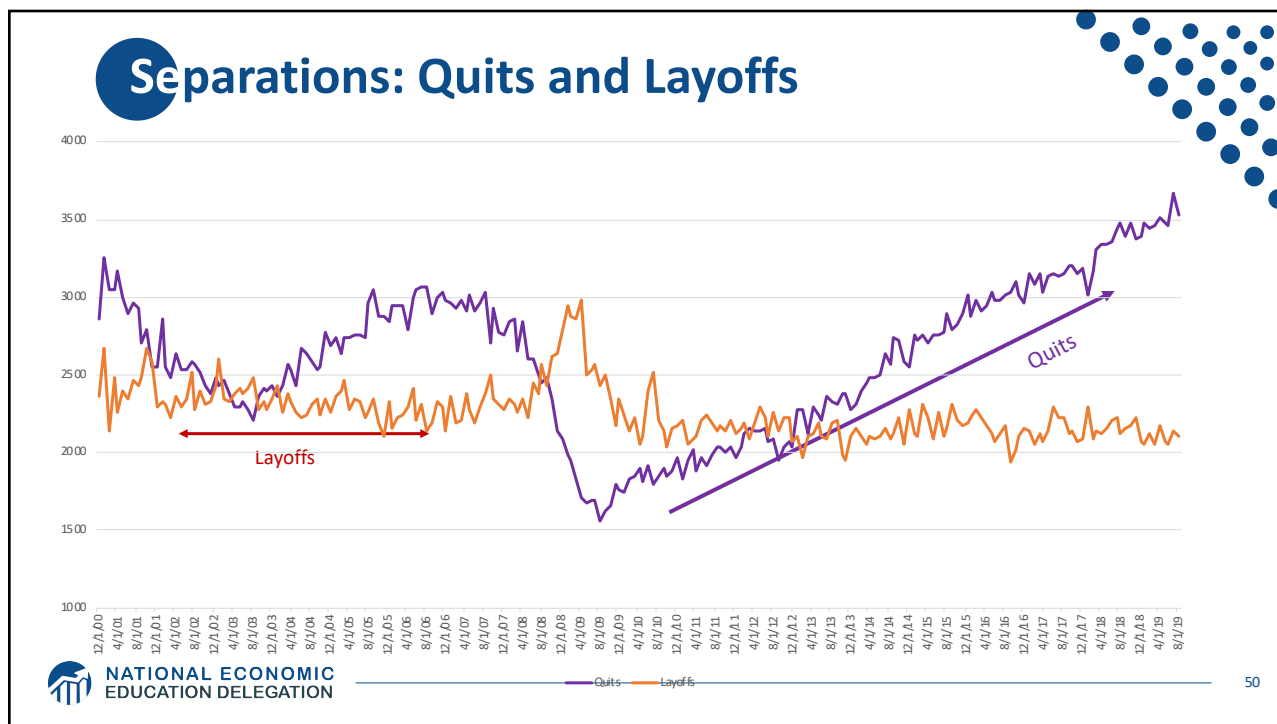
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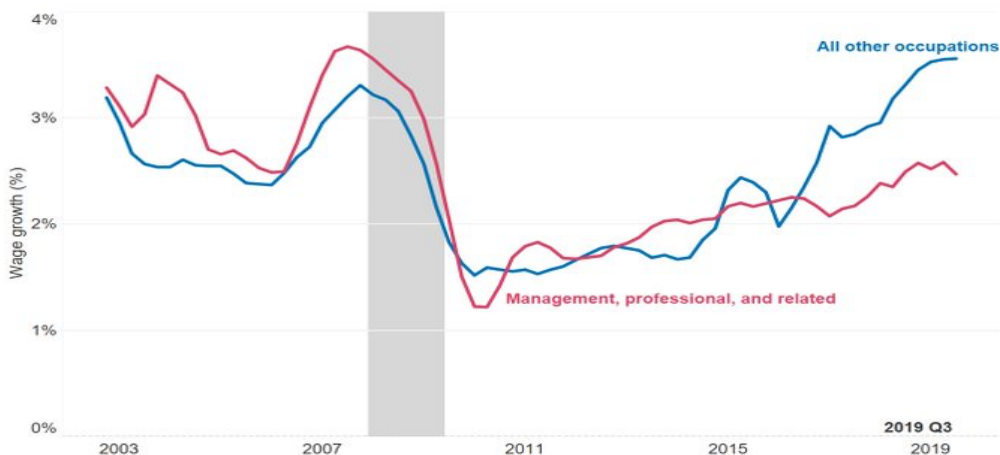
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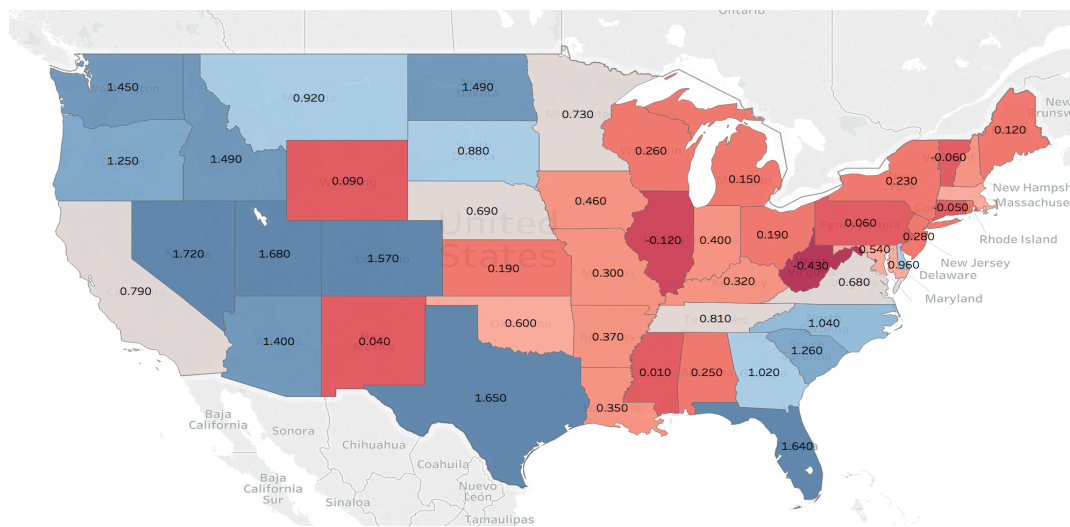
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Modest Wage Growth



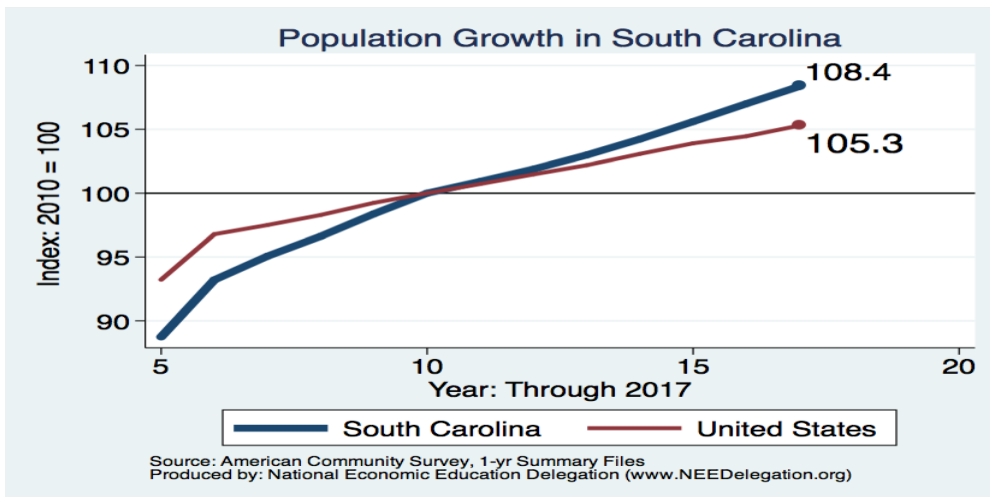
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Population Growth: 2010-2017



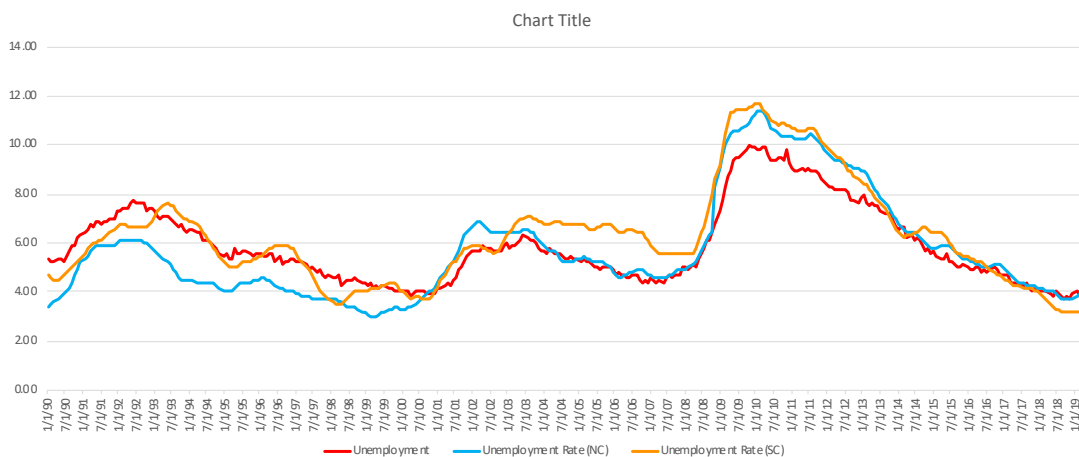
52

Population Growth: South Carolina and US



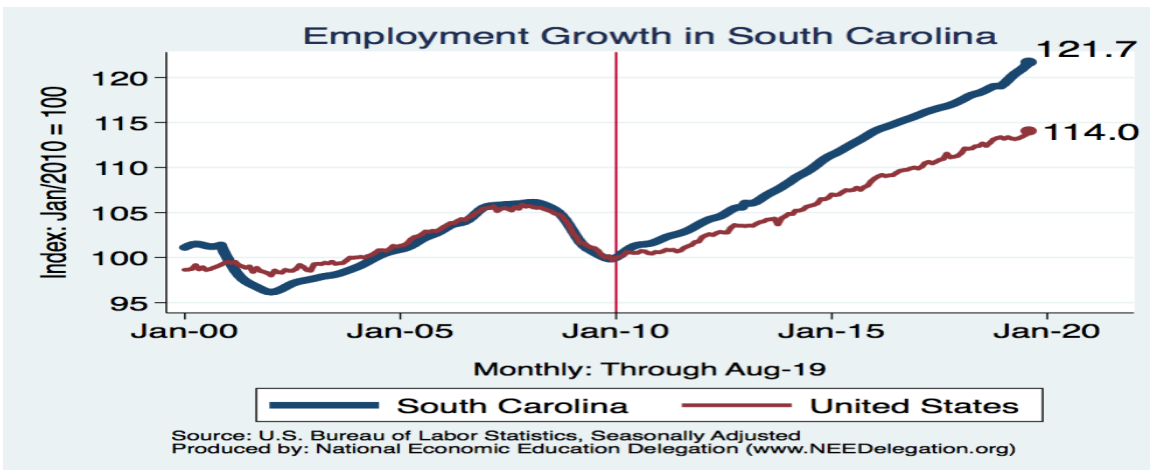
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Unemployment Rate: US, NC and SC



54

Employment Growth: South Carolina and US



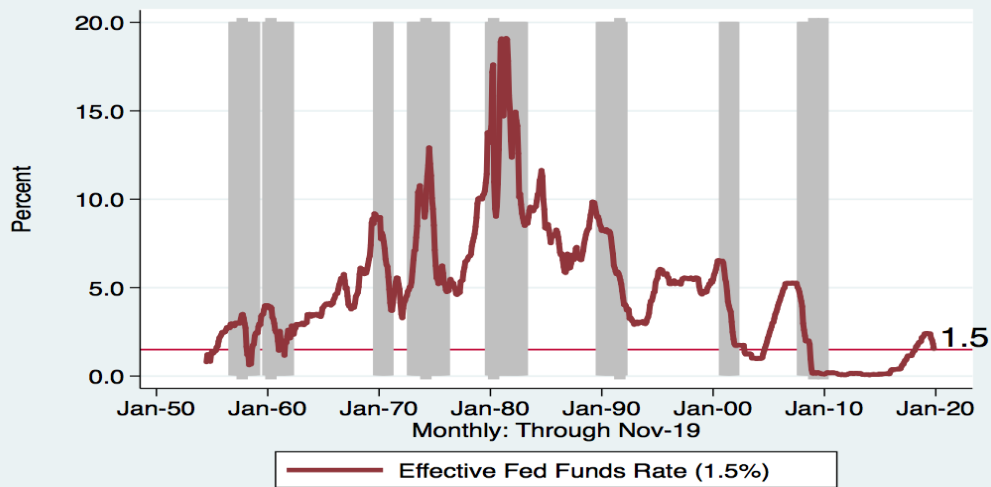
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Employment by Industry

Industry	Share 2010	Employ. 2010	Employ. 2019	Average Annual Growth
Mining and Logging	0	4	4.7	1.81
Construction	0.05	83.3	101.3	2.69
Manufacturing	0.11	207.3	256.8	2.41
Trade & Transportation	0.19	346.9	413.8	1.98
Information	0.02	25.6	27.3	0.72
Finance	0.05	91.5	104.6	1.50
Education and Health	0.14	210.5	258.1	2.29
Leisure and Hospitality	0.1	209.8	267.0	2.72
Professional and Business Service	0.12	220.4	292.7	3.20
Government	0.19	350.2	375.1	0.77

56

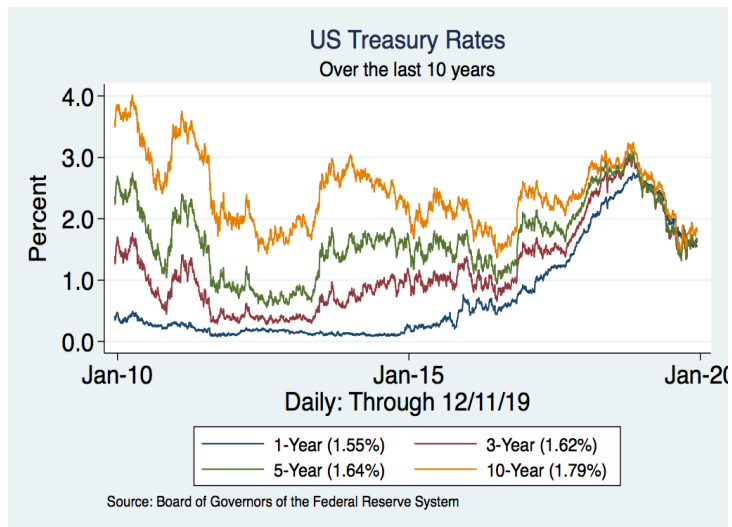
Federal Funds Rate



Source: NBER and Board of Governors
Gray shading indicates recession.

57

Treasuries



Source: Board of Governors of the Federal Reserve System

58

Conclusion: Looking Forward

- Most economists have lowered their projection for 2019 – 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.

Consumer Confidence: Slipping?

