

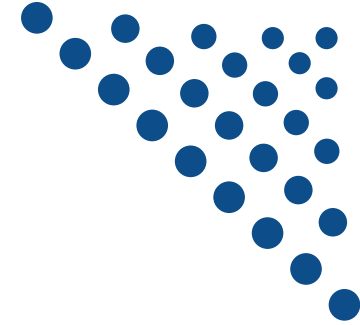
State of the Economy

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National Economic Education Delegation

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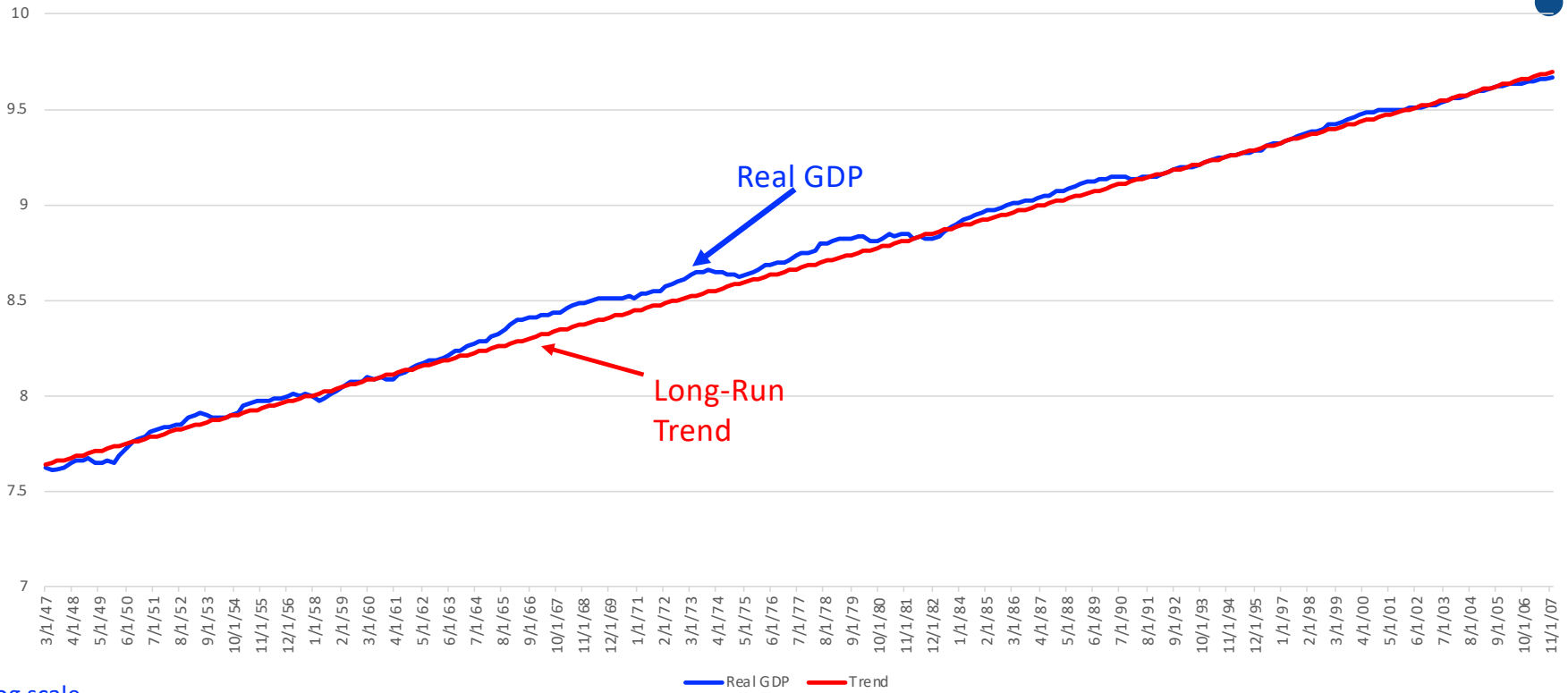
- **Who: Founded by Jon Haveman**
 - Honorary Board includes 2 Federal Reserve Chair, 6 CEA Chairs, 3 Nobel Laureates
 - Delegates: 361 Ph.D. Economists
- **Vision: NEED Presentations provide are intended to stimulate a discussion of economic policies based on economic principles and data.**
- **Non-Partisan and consensus view.**

The State of the Economy



- **For much of 2018, some observers argued that US economy was like 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%)
- **Much like the Goldilocks story, the US economy has to worry about the three bears**
 - 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***

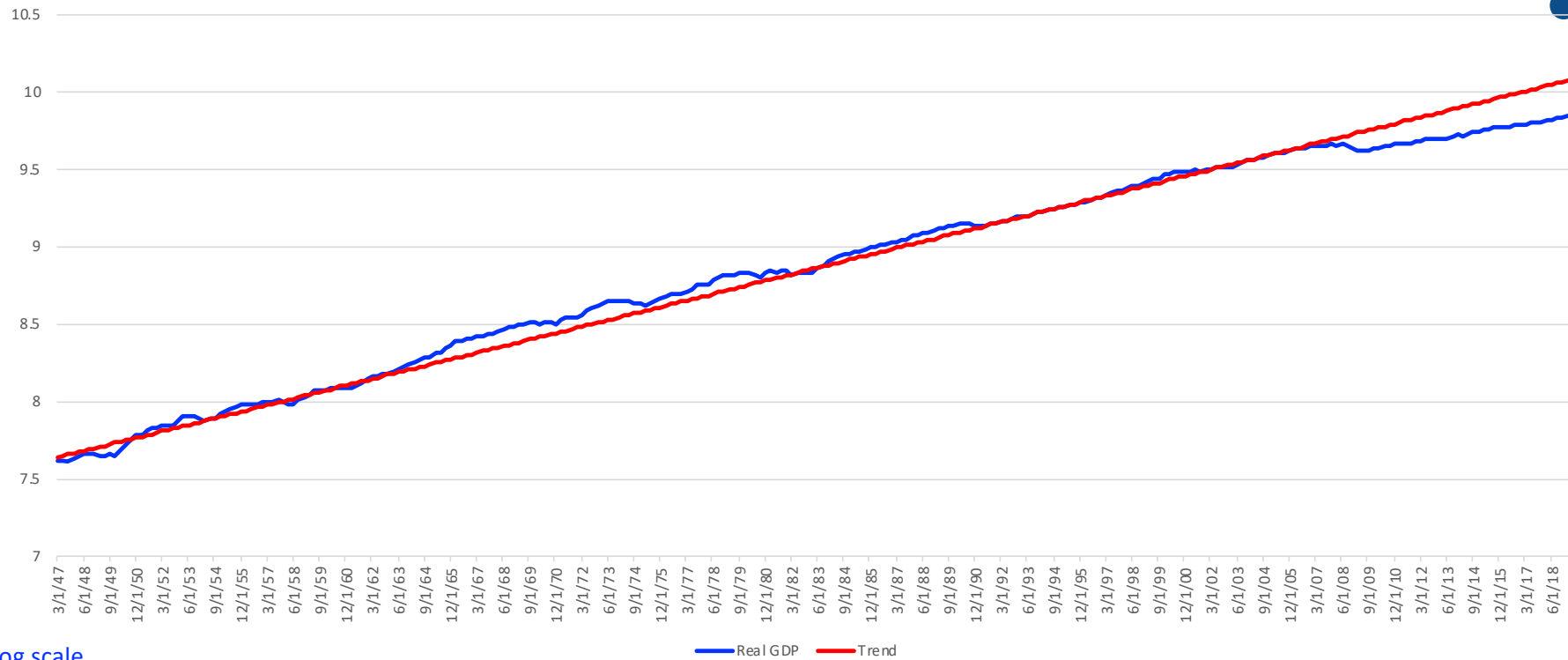
Real GDP: 1947 -2007



Log scale

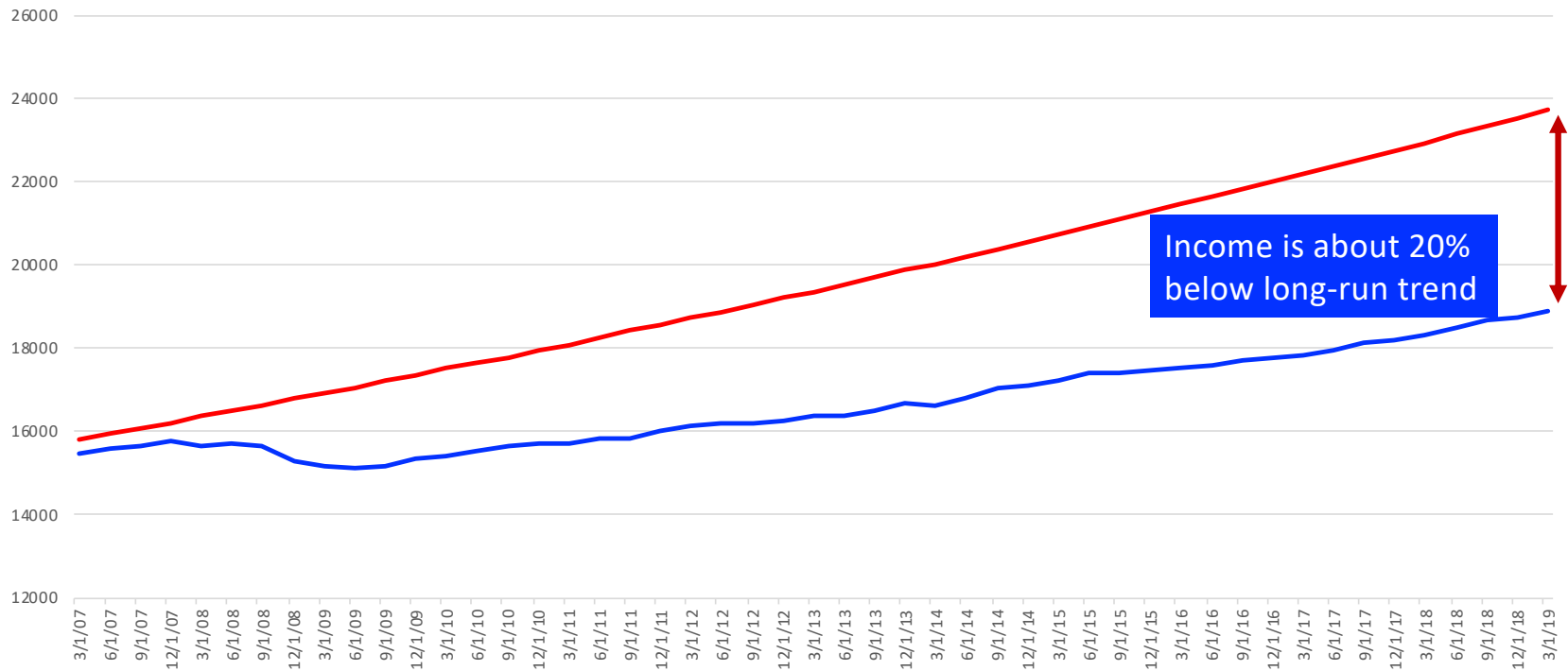
Bureau of Economic Analysis (BEA):Real GDP Growth 1947-2007

Real GDP Growth: 1947-current

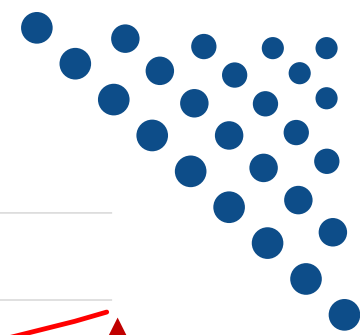


BEA: Real GDP Growth 1947-current

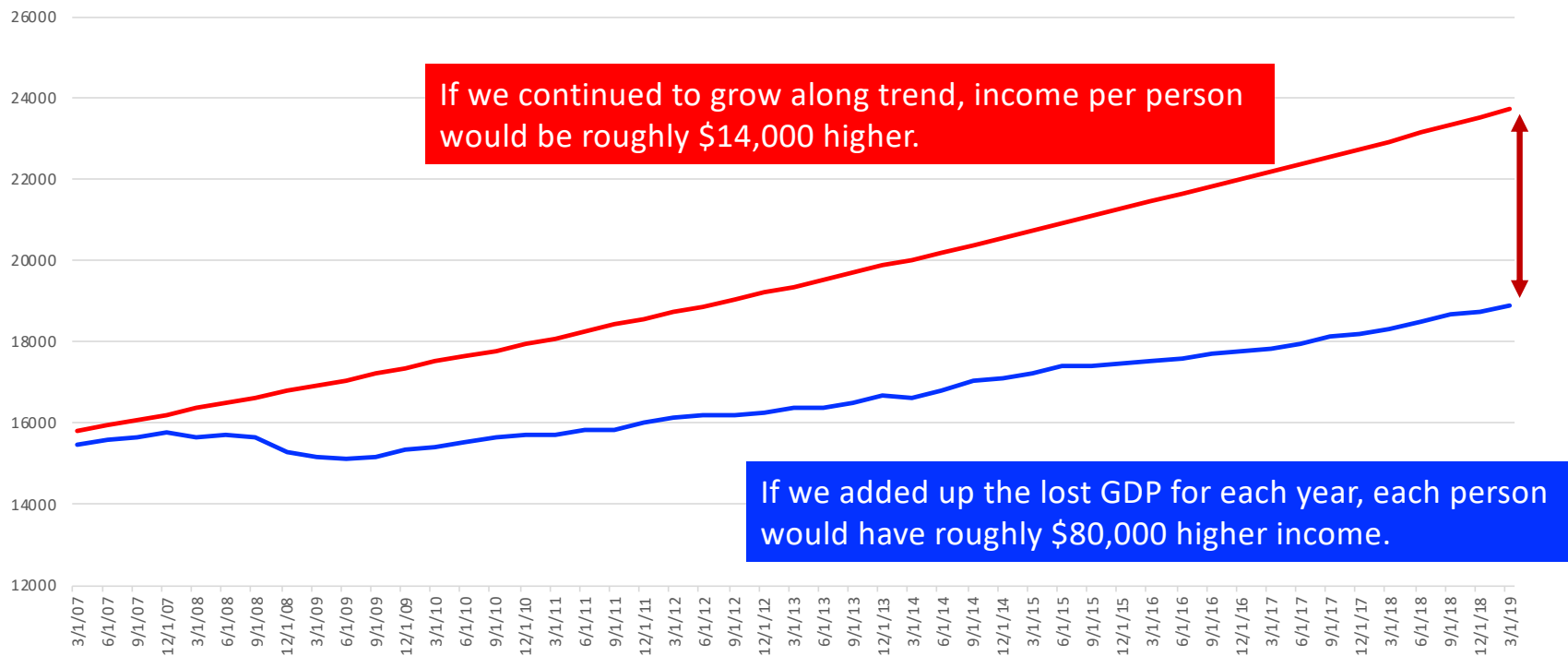
Real GDP Growth: 2007-current



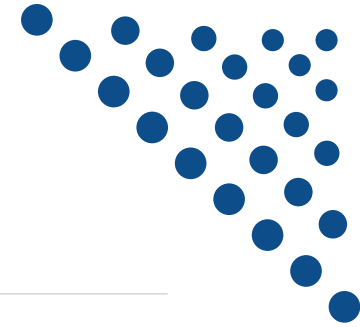
BEA: Real GDP Growth 2007-current



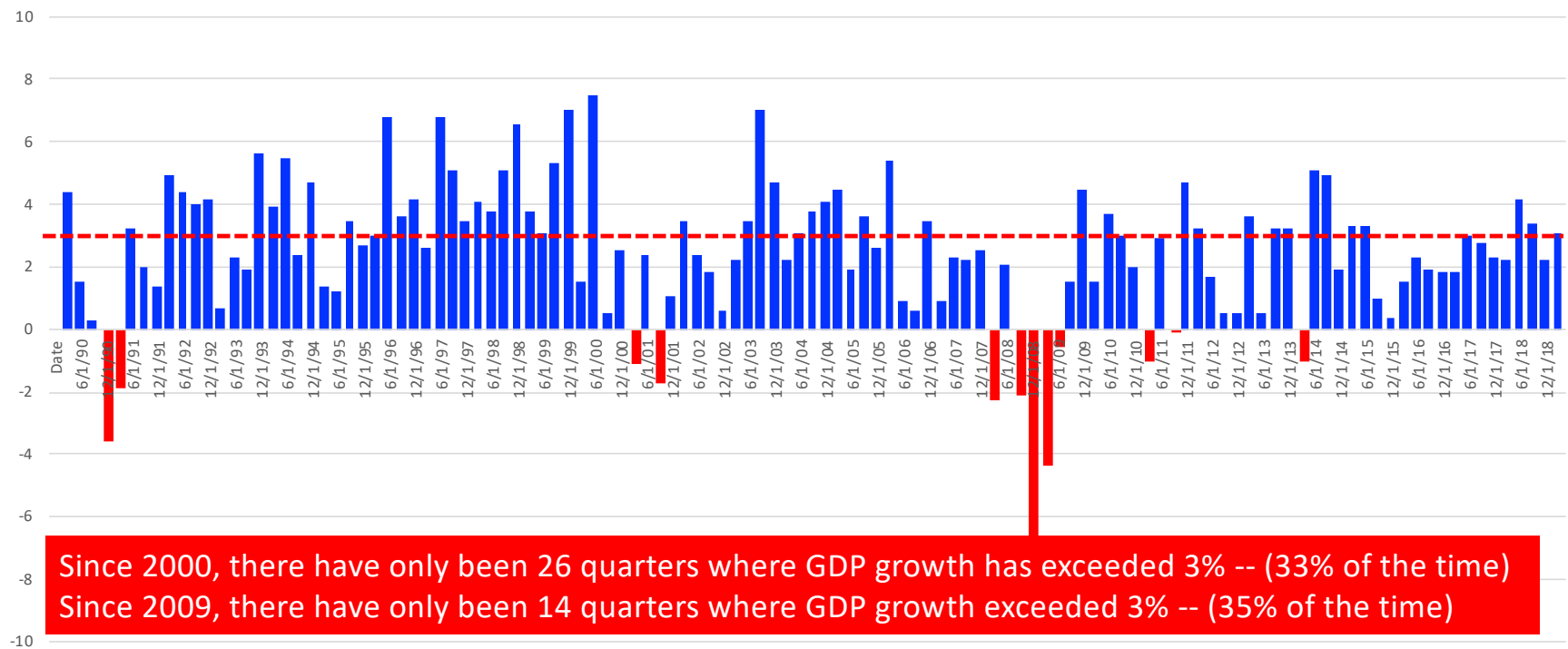
Real GDP Growth: 2007-current



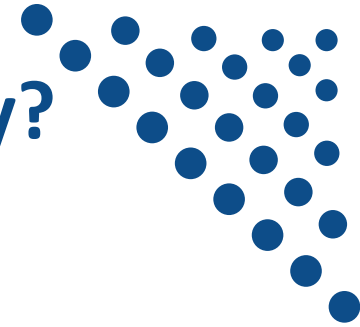
BEA: Real GDP Growth 2007-current



Quarterly Real GDP Growth



What Is “Accounting” for the Slow Recovery?

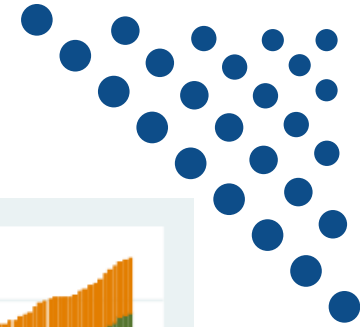


- **Expenditures drive GDP growth.**

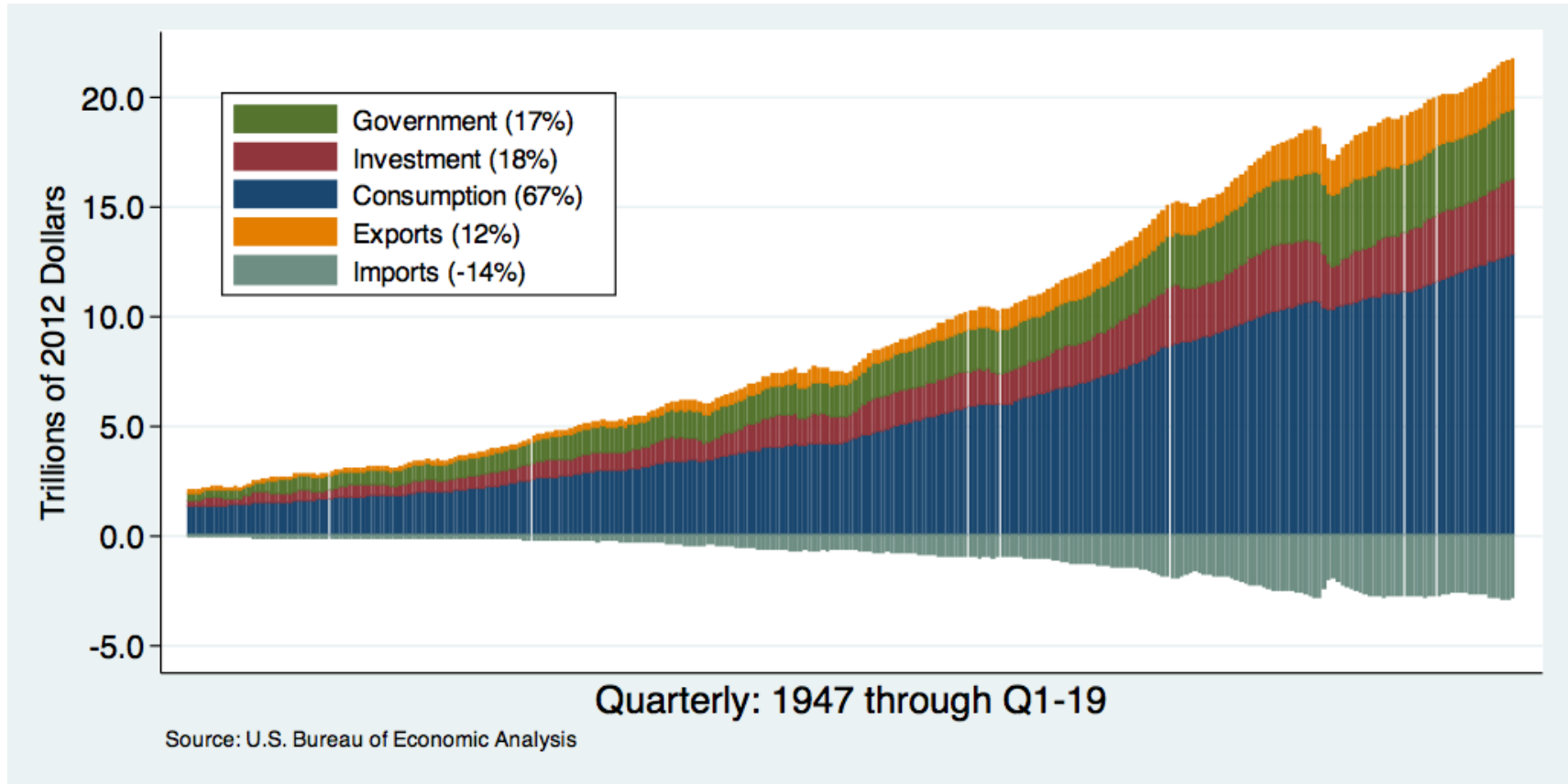
- GDP is the sum of four categories of spending:
 - Consumption
 - Investment
 - Government spending
 - Net Exports: Exports – Imports

- **Production also matters.**

- Employment
- Productivity



Composition of GDP – Inflation Adjusted



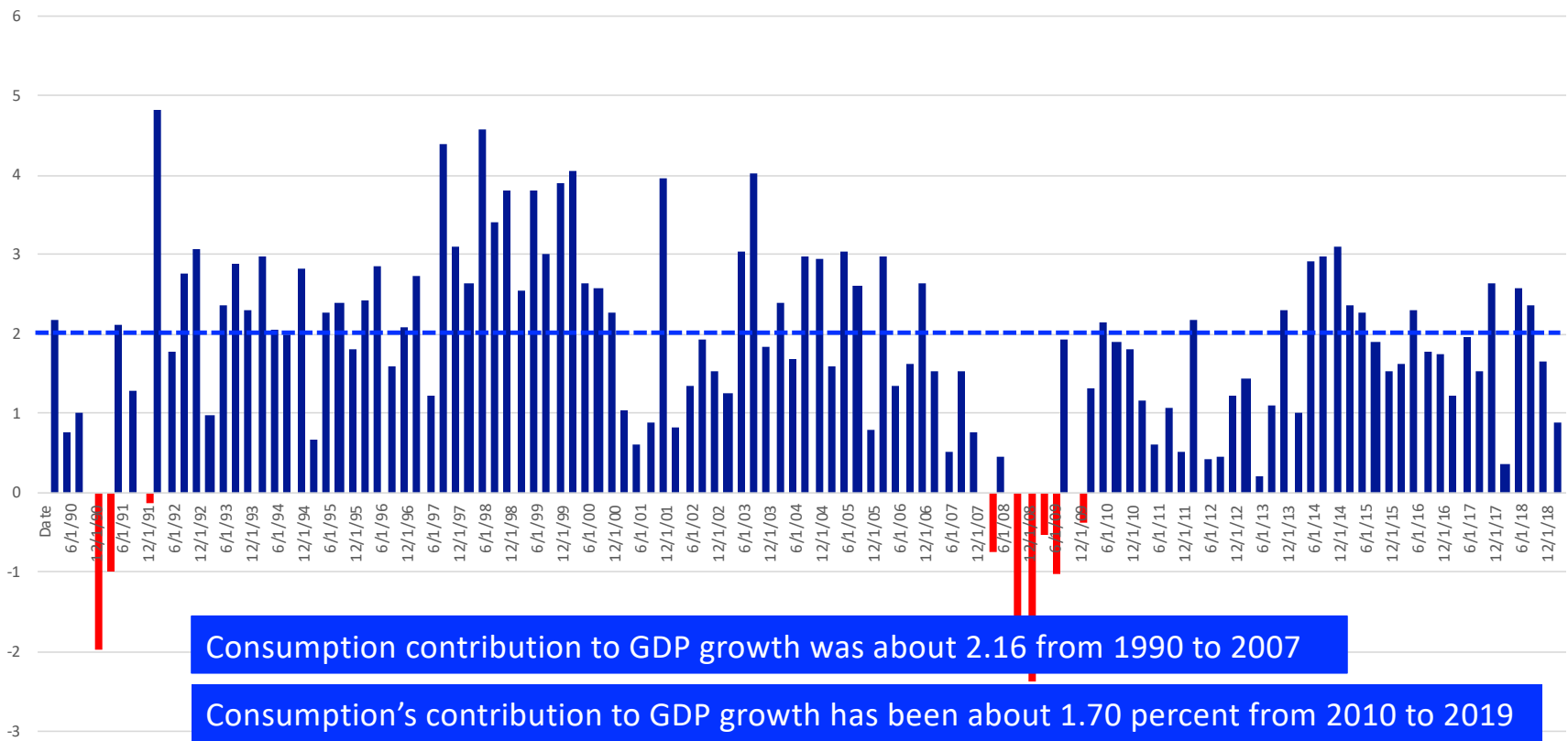
What “Accounts” for the Slower GDP Growth

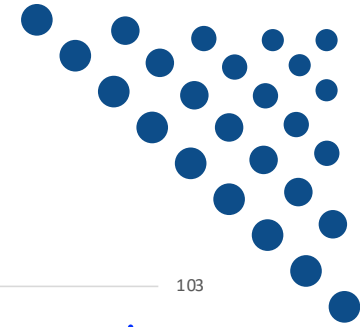


- **Expenditures: $Y = C + I + G + NX$**

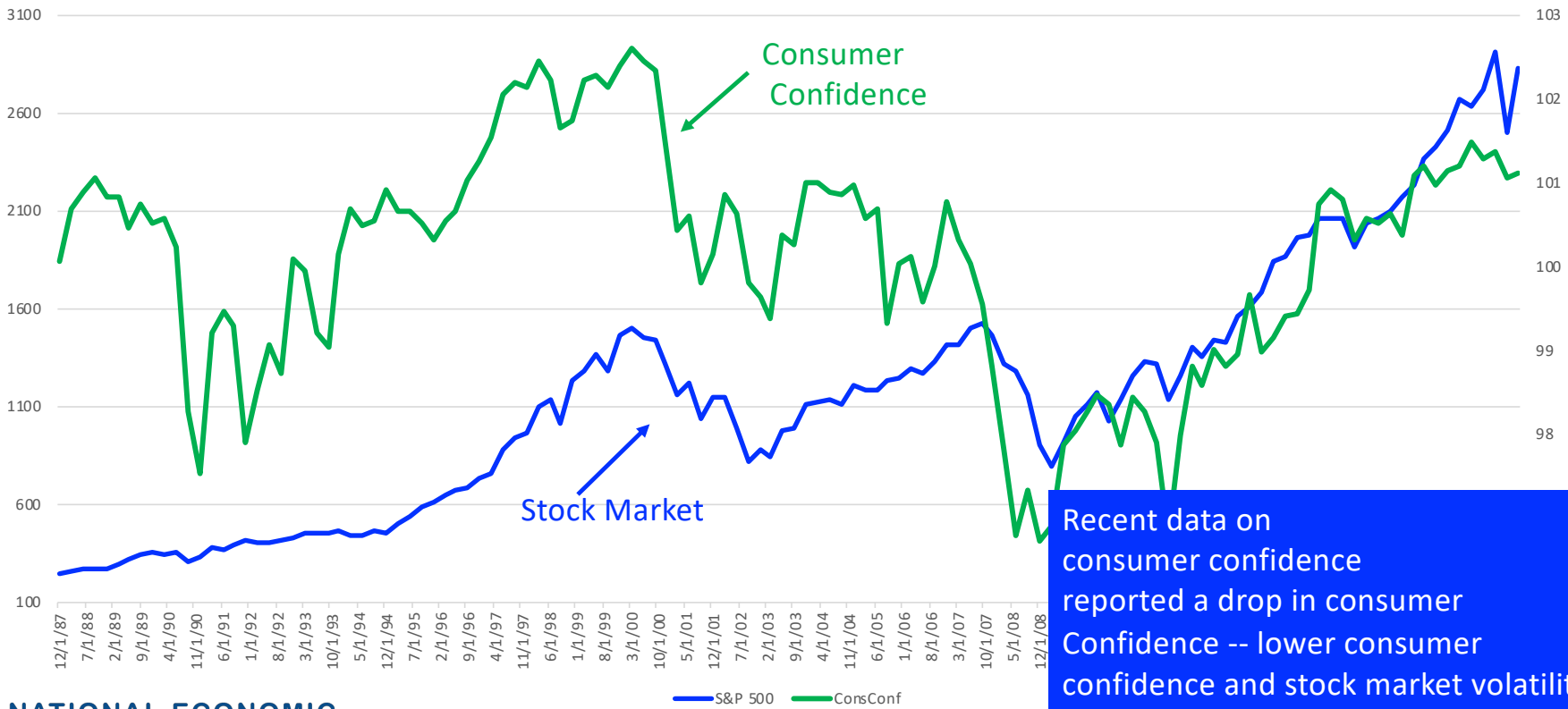
- We add up how much of each of these components of have contributed to GDP growth.
- Examples:
 - Suppose personal consumption expenditures (PCE) increased by 3%. Since consumption is $2/3$ of GDP, PCE growth accounts for 2% of GDP growth ($3\% * (2/3) = 2\%$)
 - Suppose investment decreased by 4% since investment is 20% of GDP, Investment growth accounts for -0.8% of GDP growth ($-4\% * (0.20) = 0.8\%$)

Personal Consumption Expenditures





Stock Market and Consumer Confidence



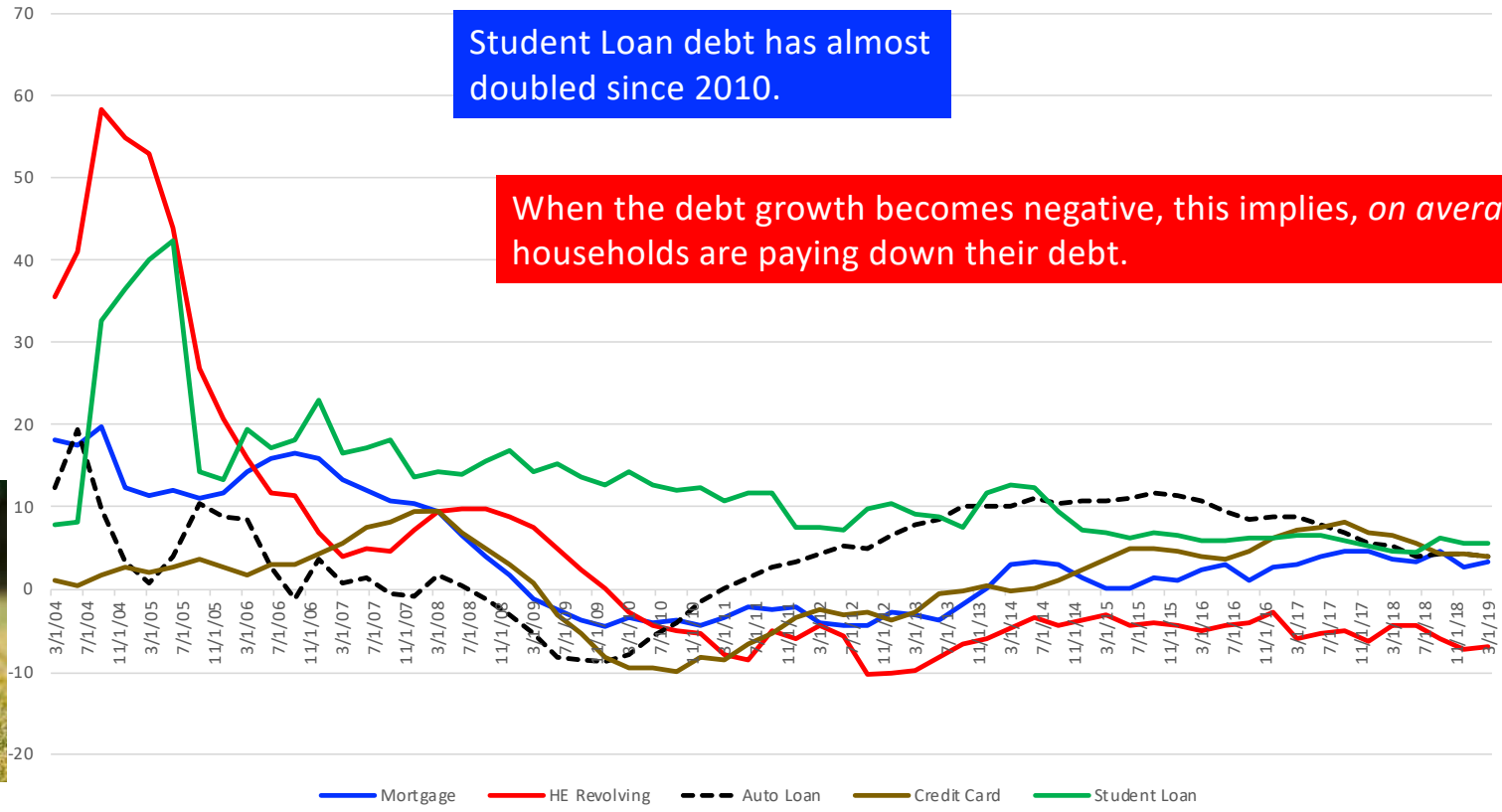
Recent data on consumer confidence reported a drop in consumer Confidence -- lower consumer confidence and stock market volatility may signal a cause for concern



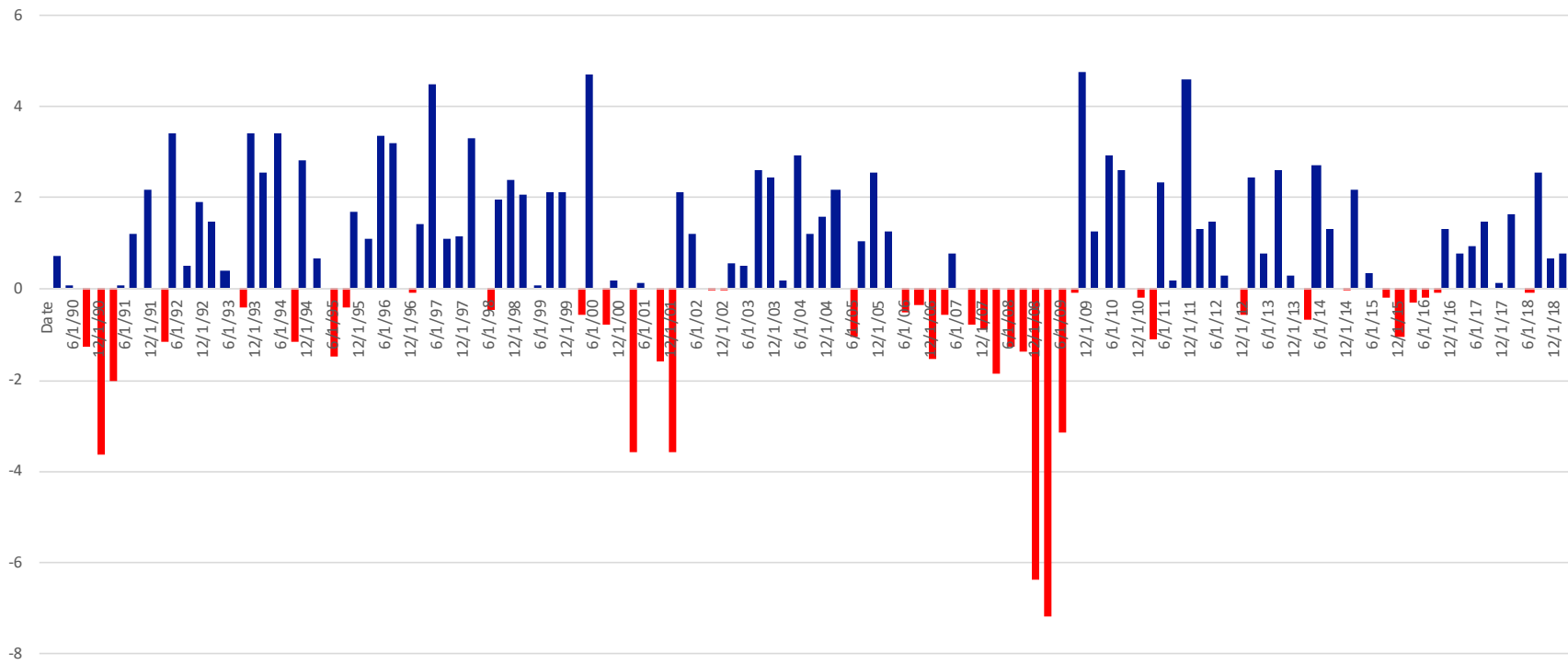
Household Debt: Growth in Debt

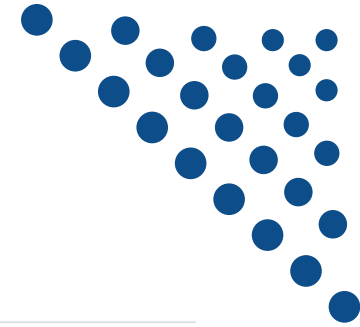
Student Loan debt has almost doubled since 2010.

When the debt growth becomes negative, this implies, *on average*, households are paying down their debt.

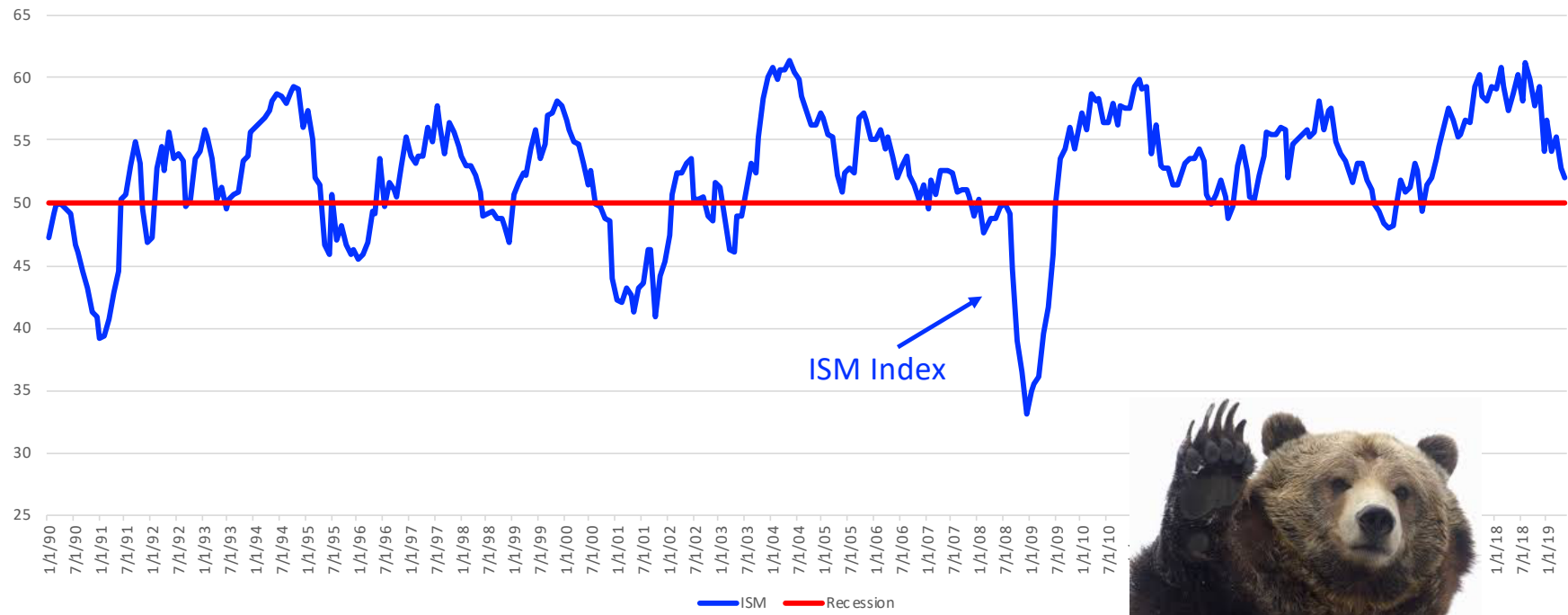


Investment: Plants, Machines and Equipment

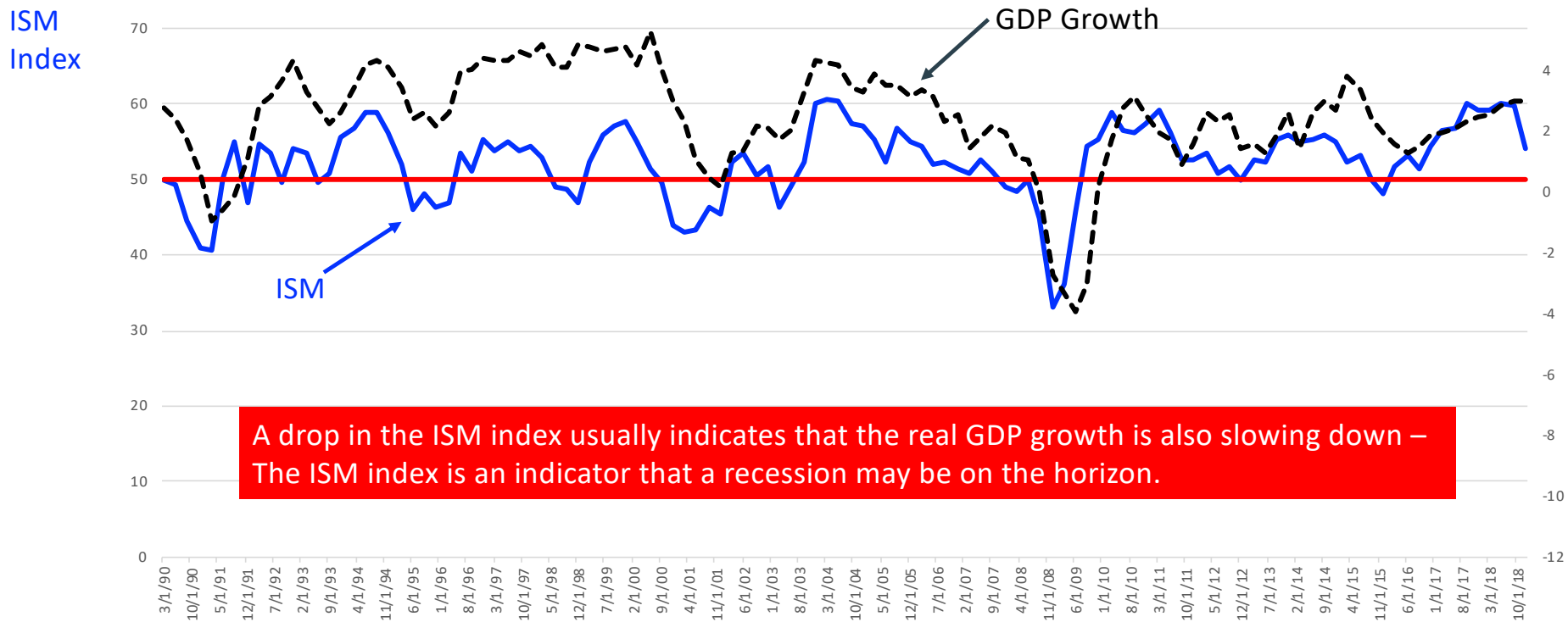




ISM Manufacturing Index



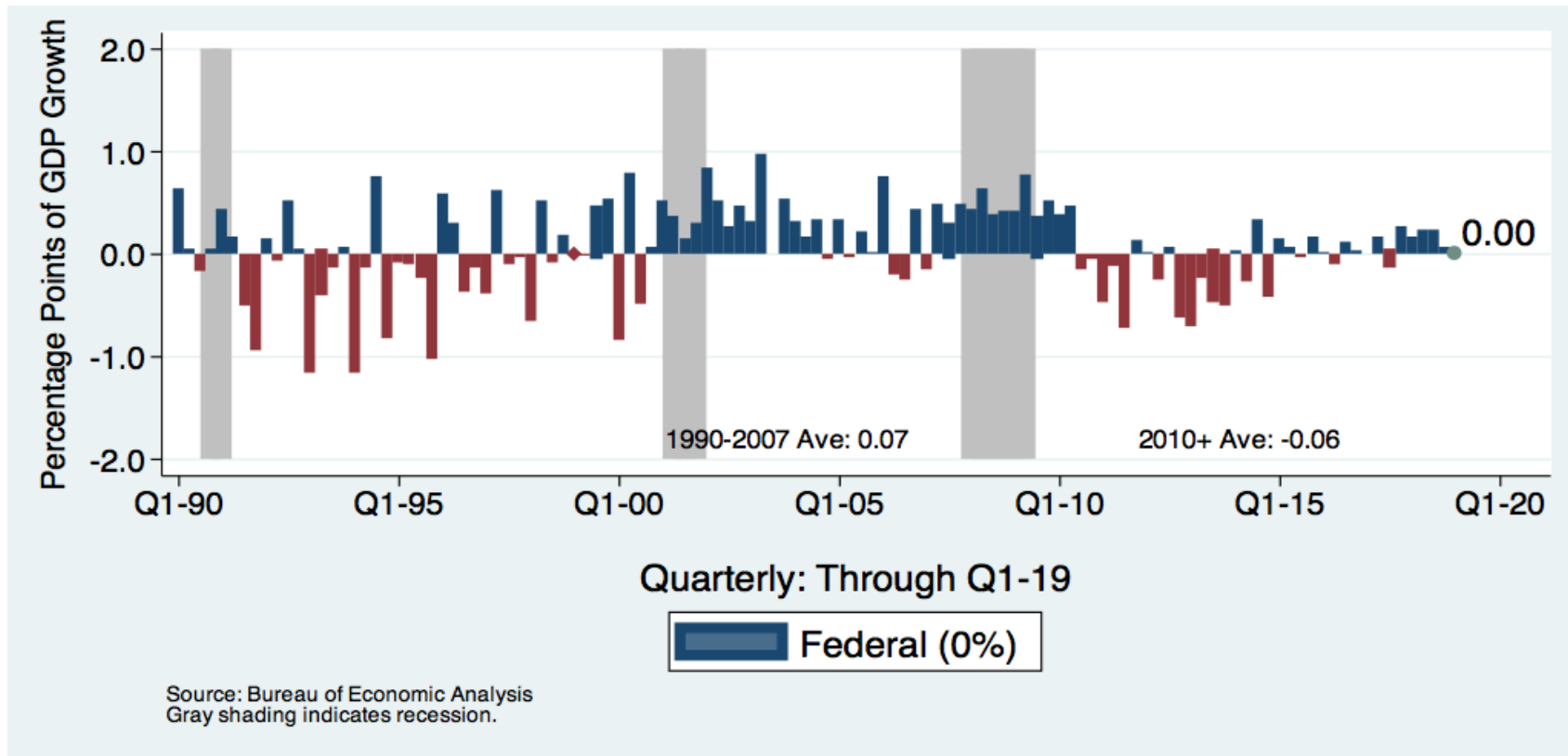
ISM Manufacturing Index and Real GDP Growth



A drop in the ISM index usually indicates that the real GDP growth is also slowing down – The ISM index is an indicator that a recession may be on the horizon.

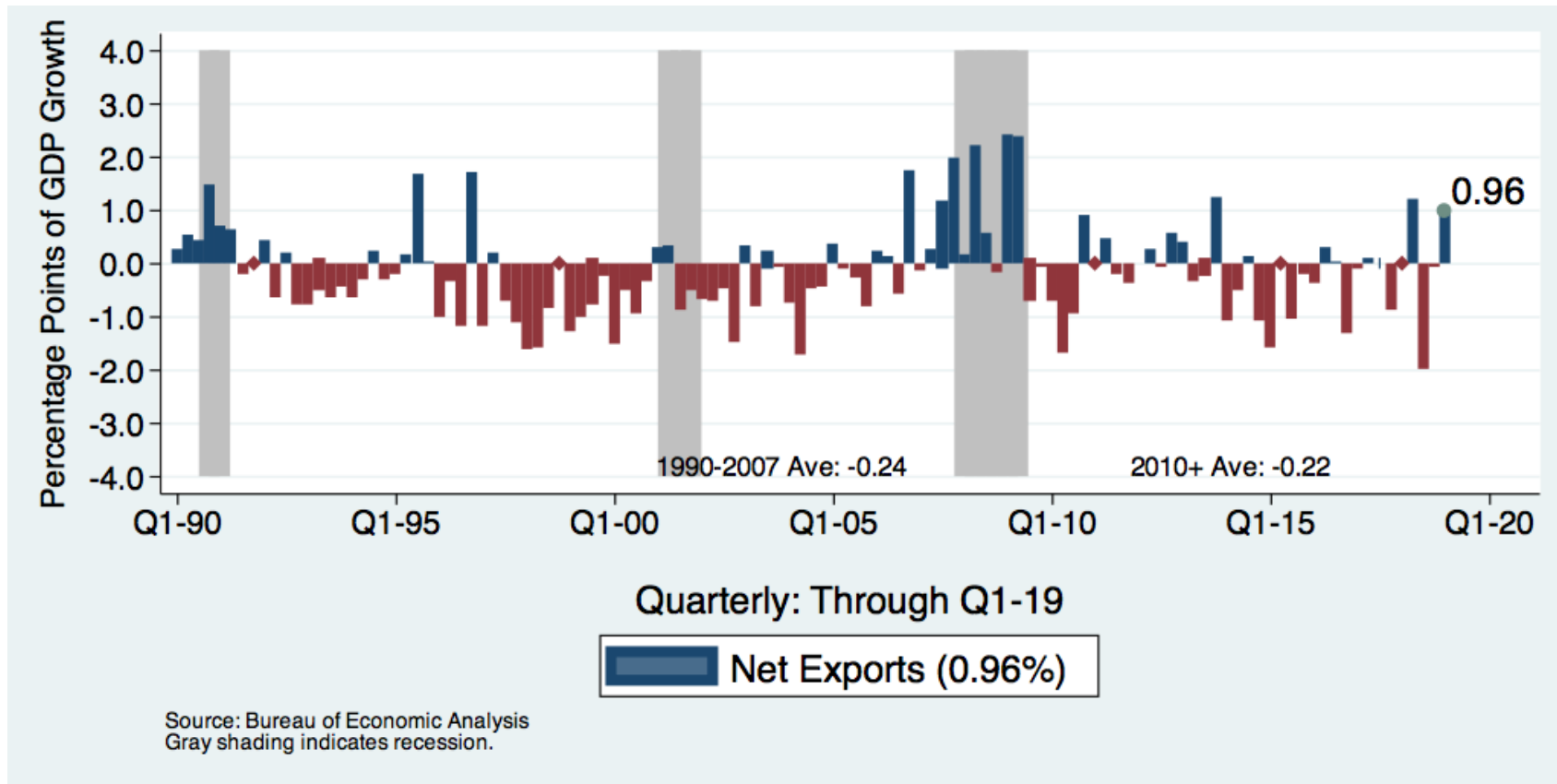


Contributions to GDP: Government

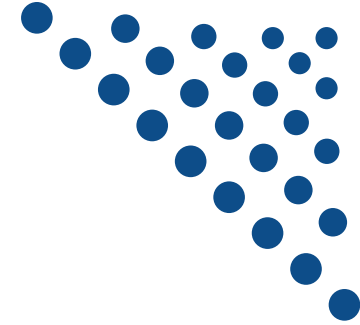




Contributions to GDP: Net Exports

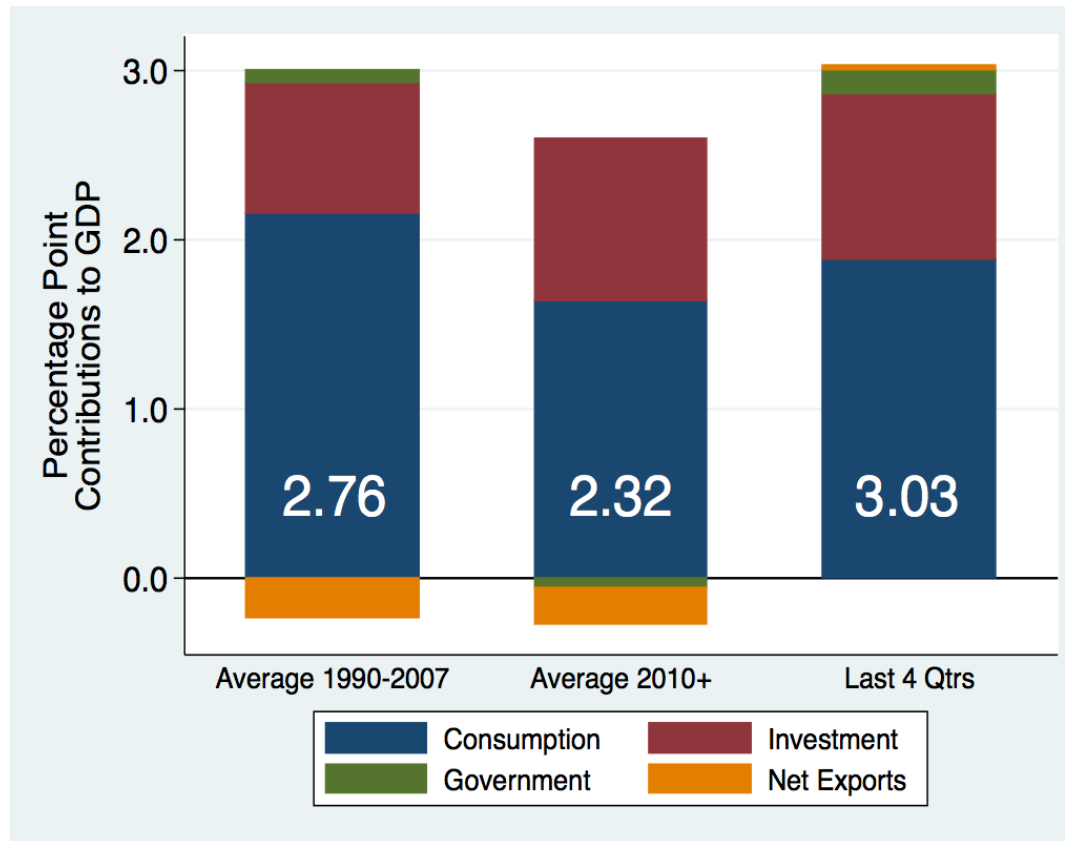
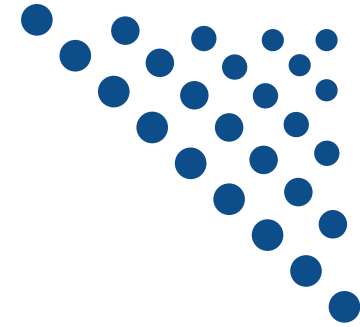


Expenditure Summary

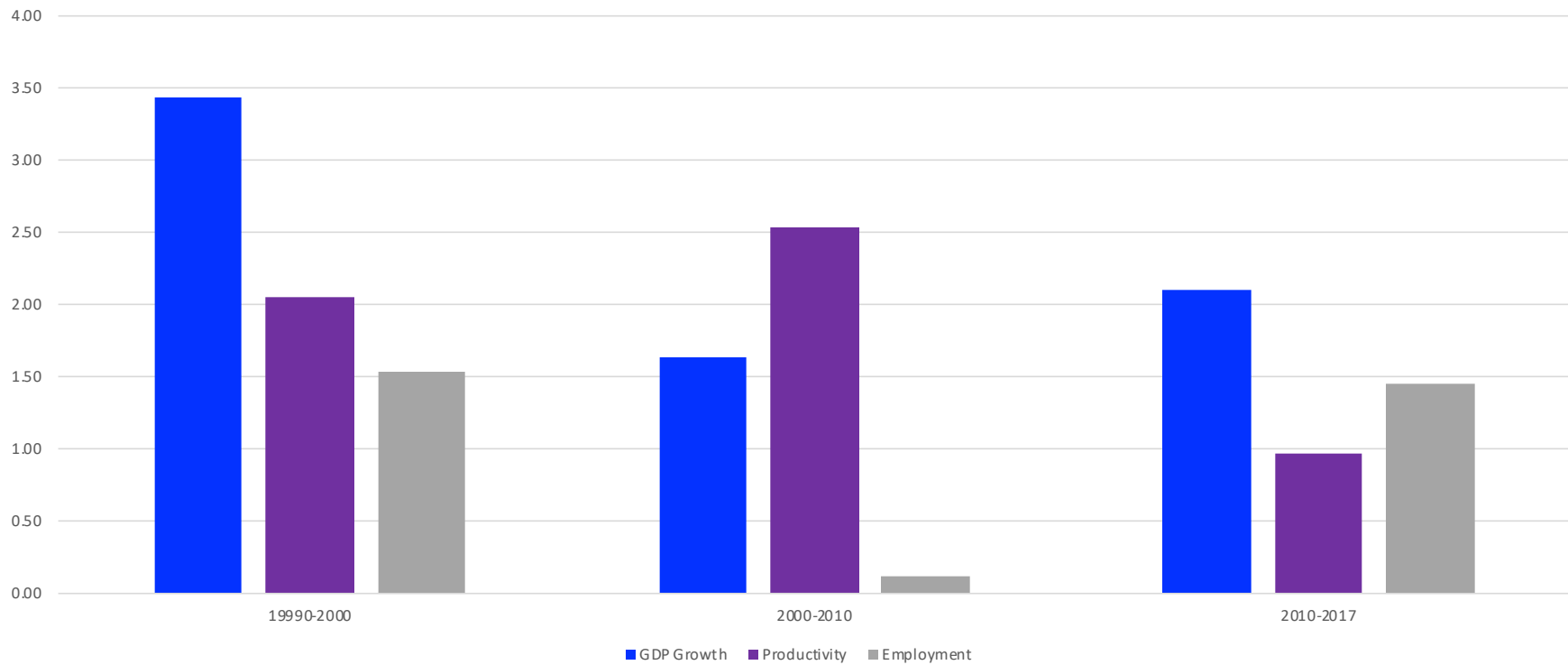
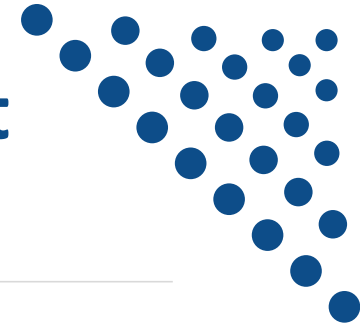


- **Post-recession consumption is down:**
 - Retail sales are returning to trend;
 - Household debt down, but climbing;
 - Personal savings is up.
- **Investment expenditures contributing to GDP growth.**
- **Post-recession government spending is down:**
 - But starting to pick up.
- **Net exports are relatively unchanged.**

Expenditure Summary

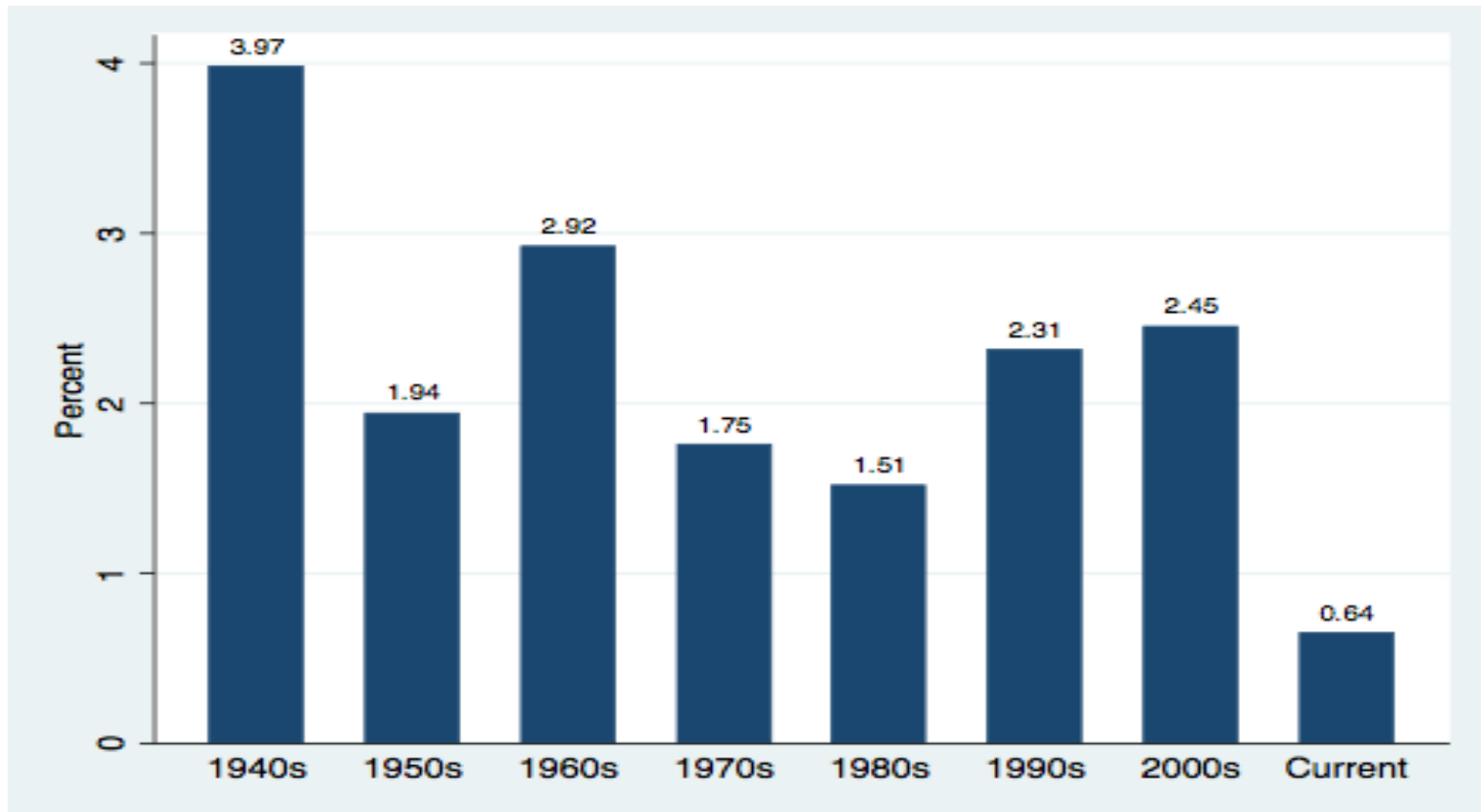


GDP Growth: Productivity and Employment

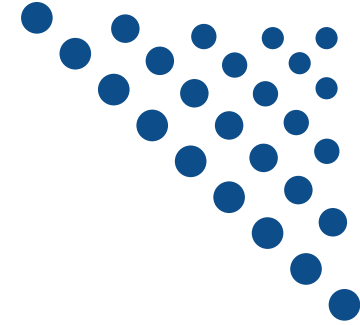




History of Productivity Growth



Labor Market Conditions

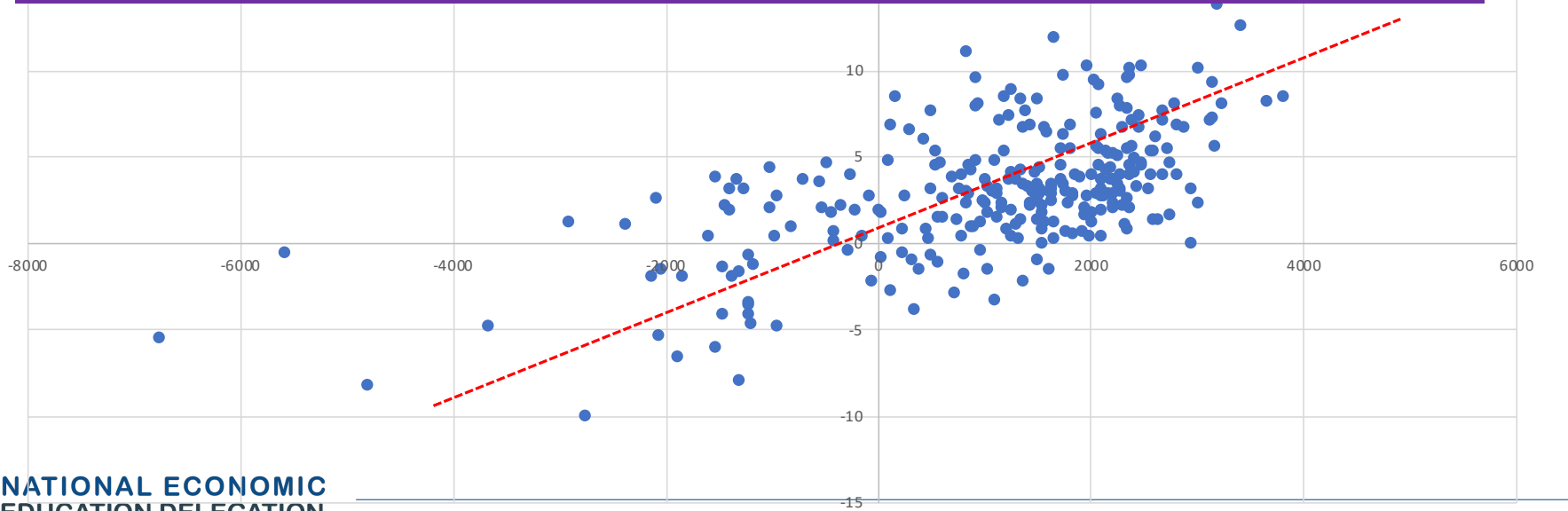


- Unemployment rate is low – 3.6%
- Monthly employment gains have averaged about 175,000 over the last six months.
- **Recent Labor Market Concerns:**
 - Lower employment to population ratio
 - Slow wage growth

GDP Growth and Employment Changes

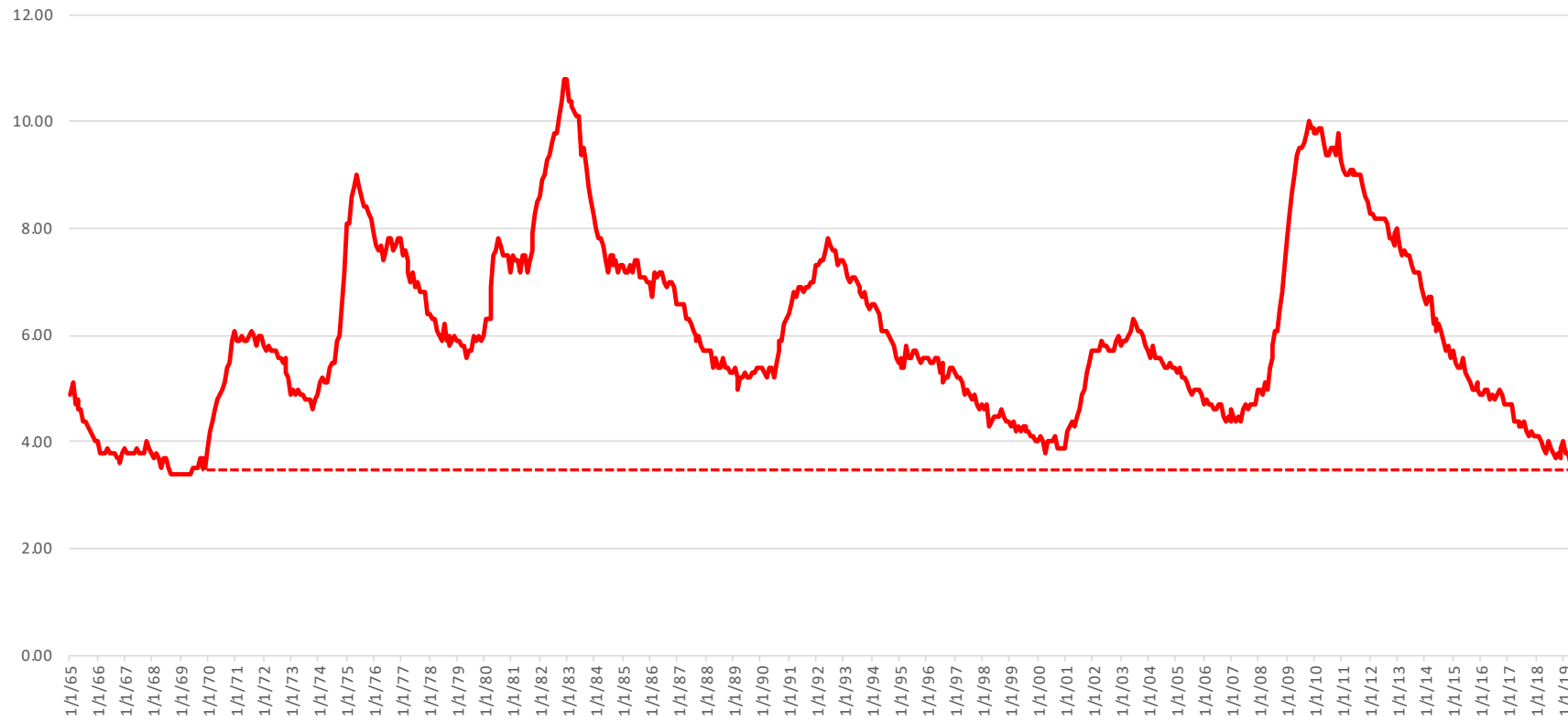


Back of the envelope calculation:
When employment growth is increasing by about 200,000 per month GDP growth will be about 2.5%
When employment growth is increasing by about 300,000 per month GDP growth will be about 3.0%

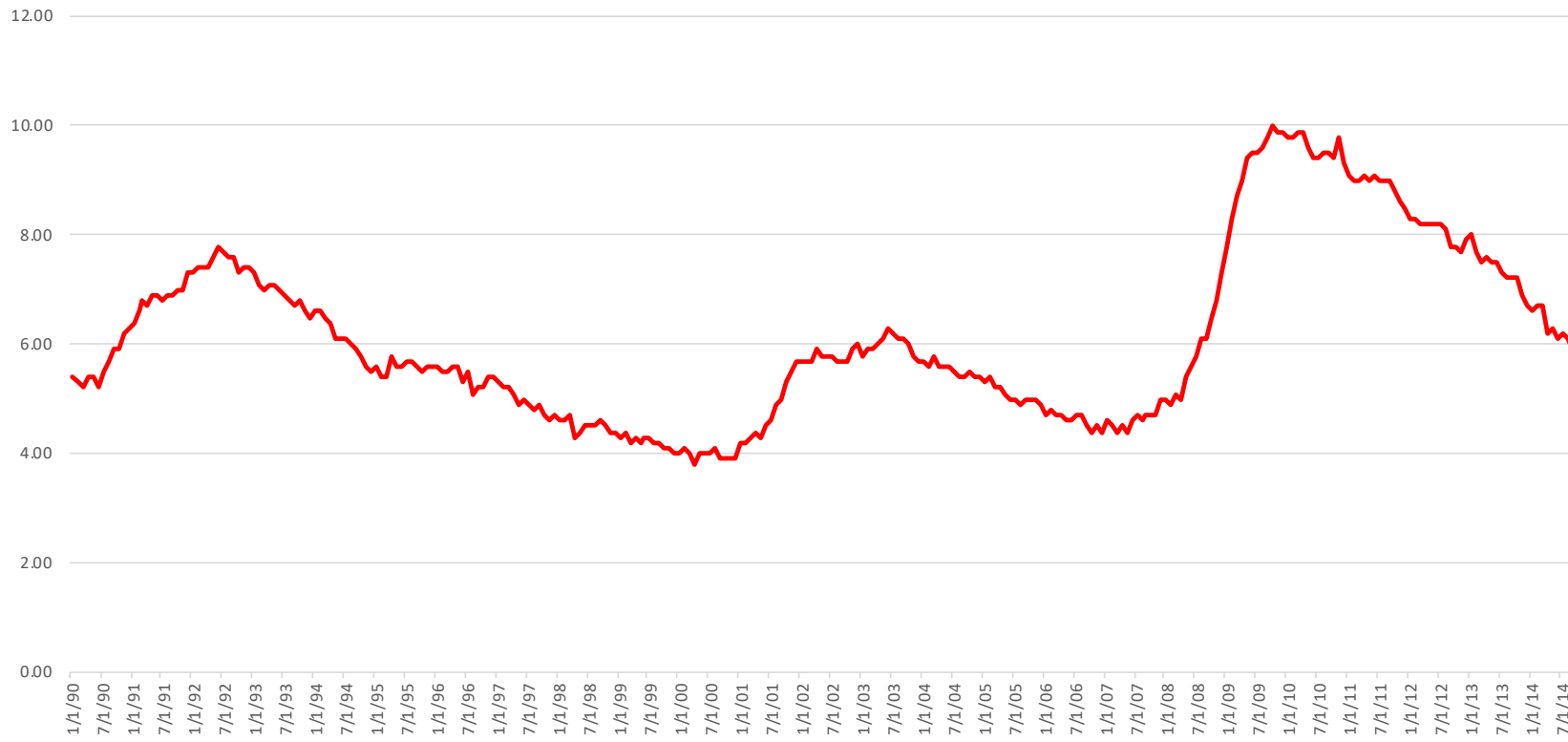




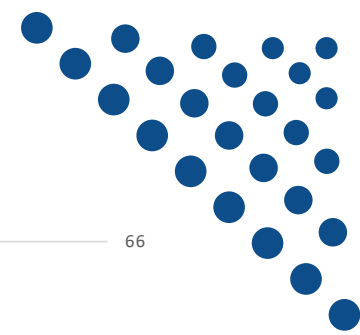
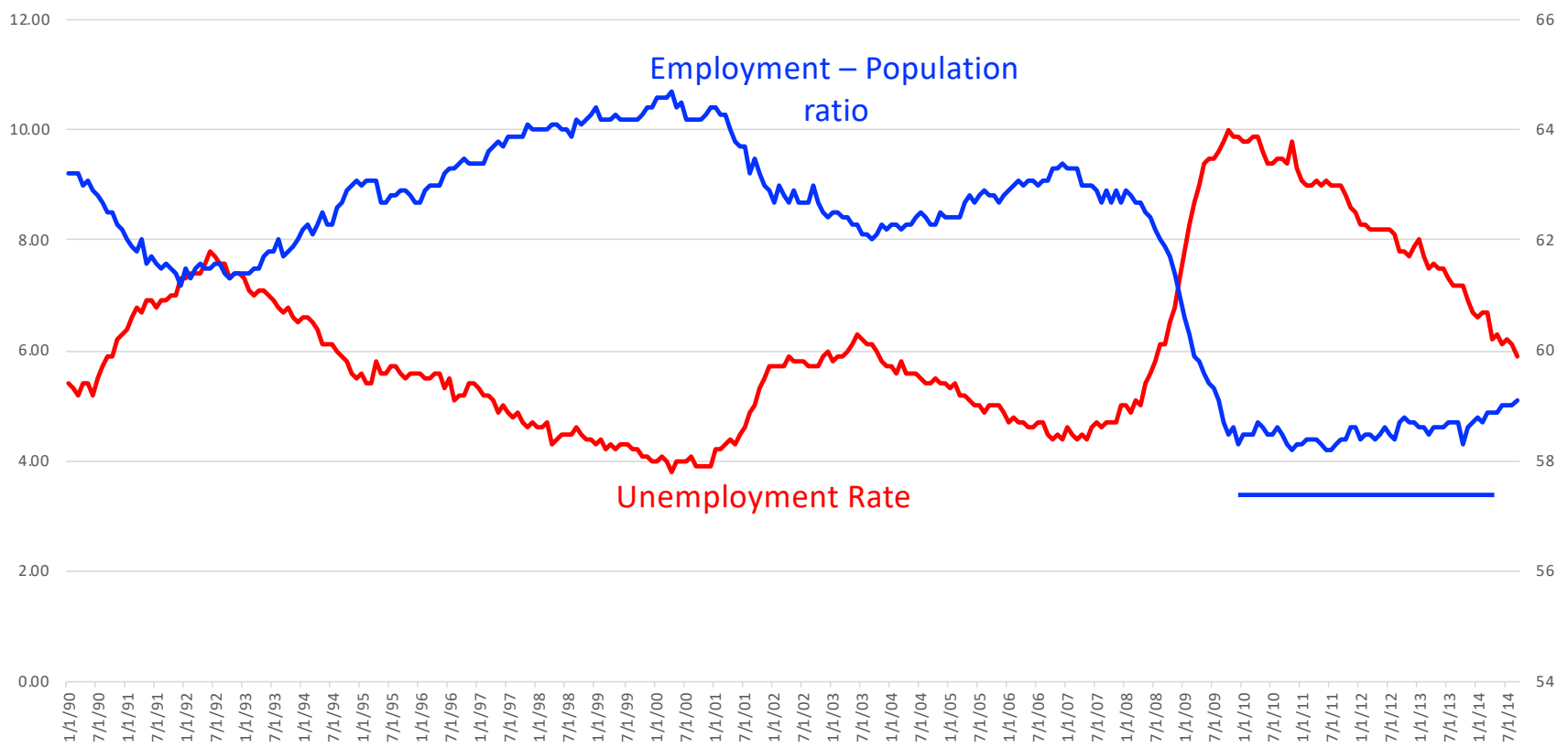
Unemployment Rate: 1965-2018



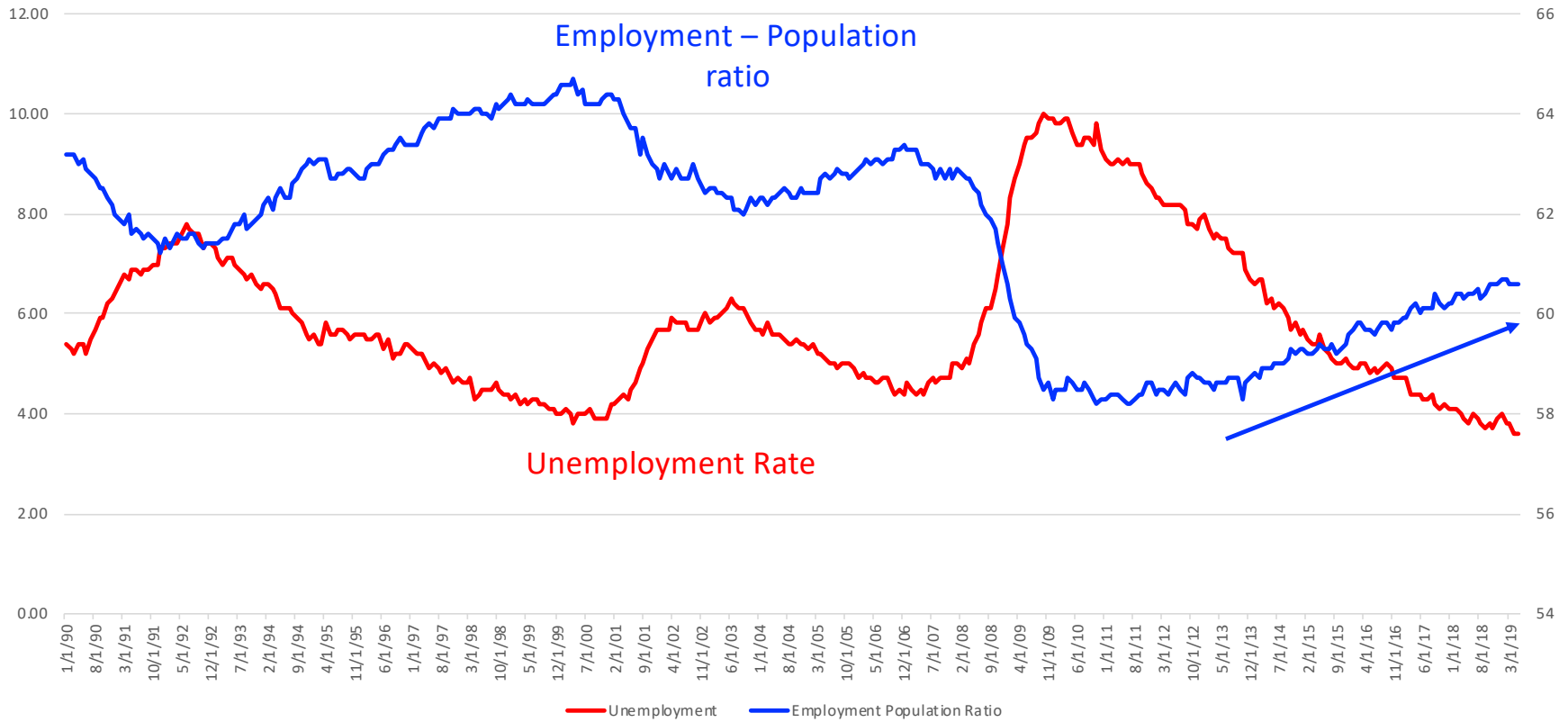
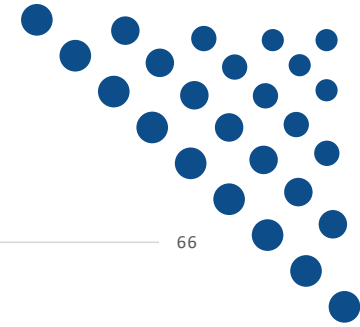
Unemployment Rate: 1990-2013



Unemployment Rate: 1990-2013

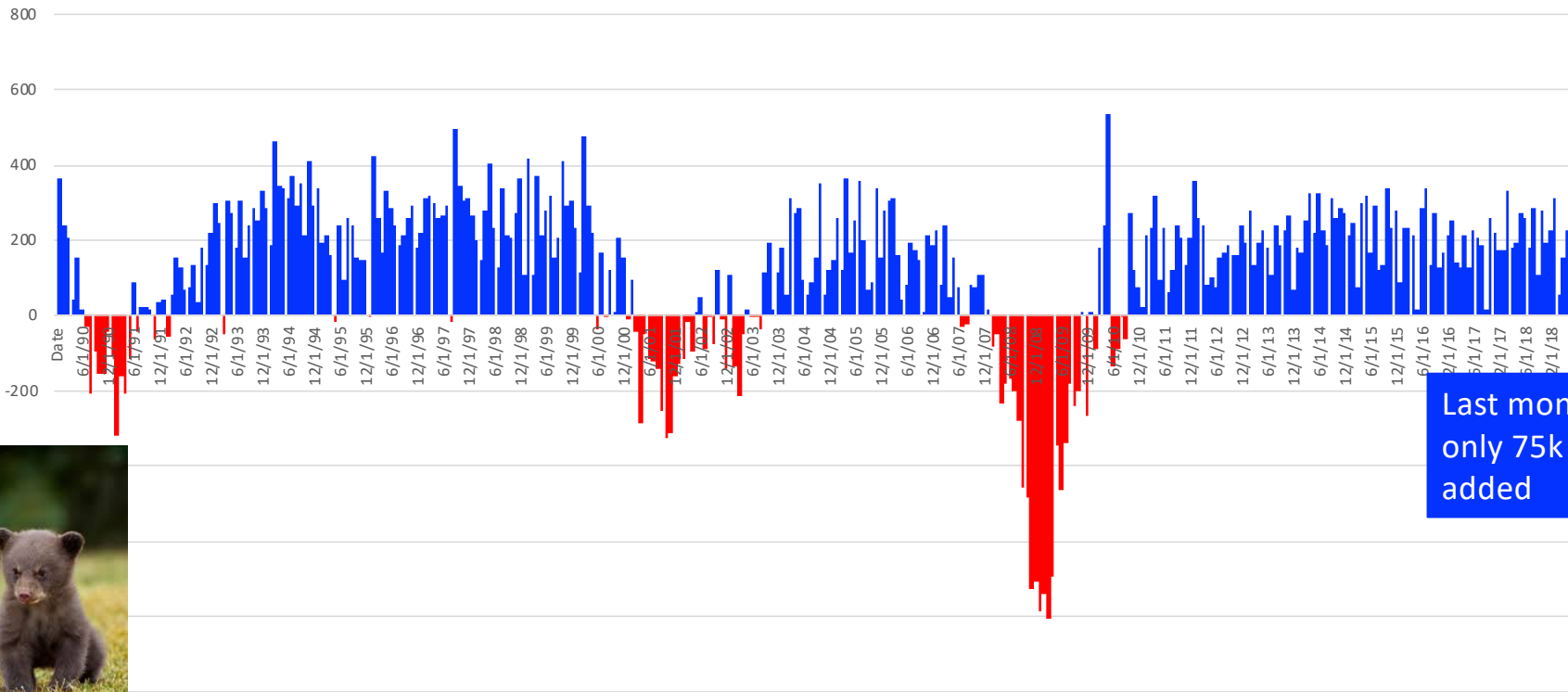


Unemployment Rate: 1990-2018





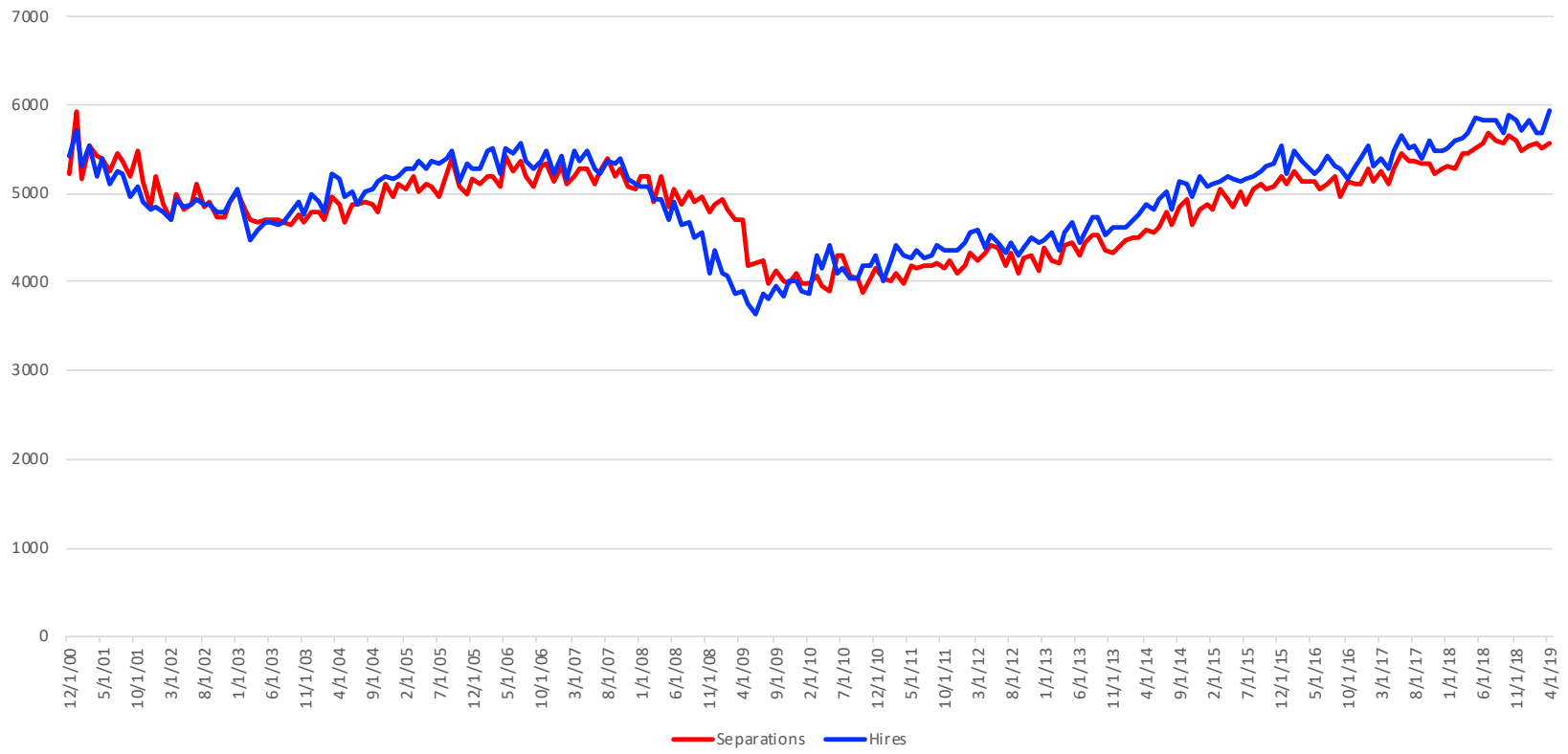
Job Creation: 1990 - 2019



Job Separations

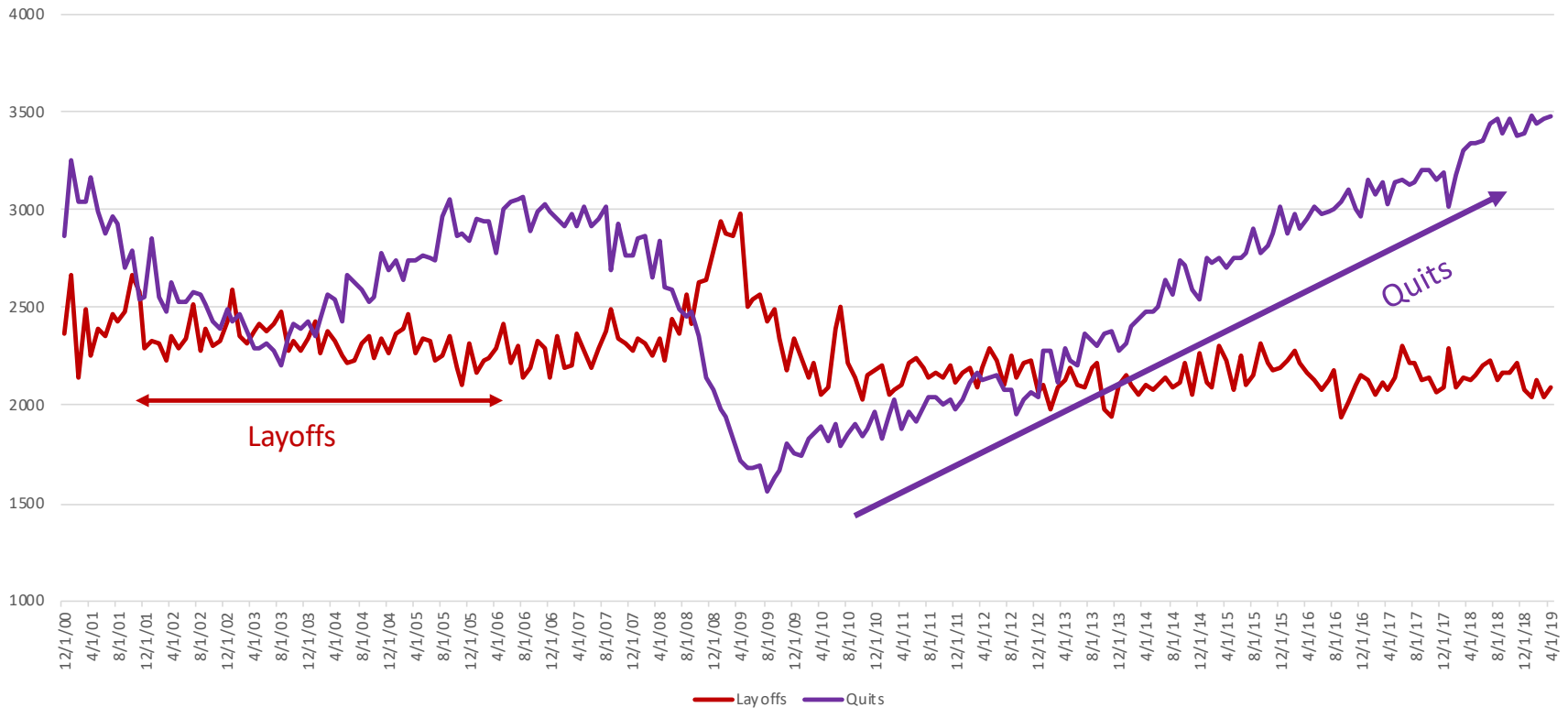


Job Separations and Hires





Separations: Quits and Layoffs



Unemployment Rate: US, NC and SC

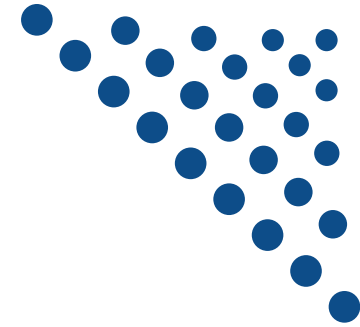
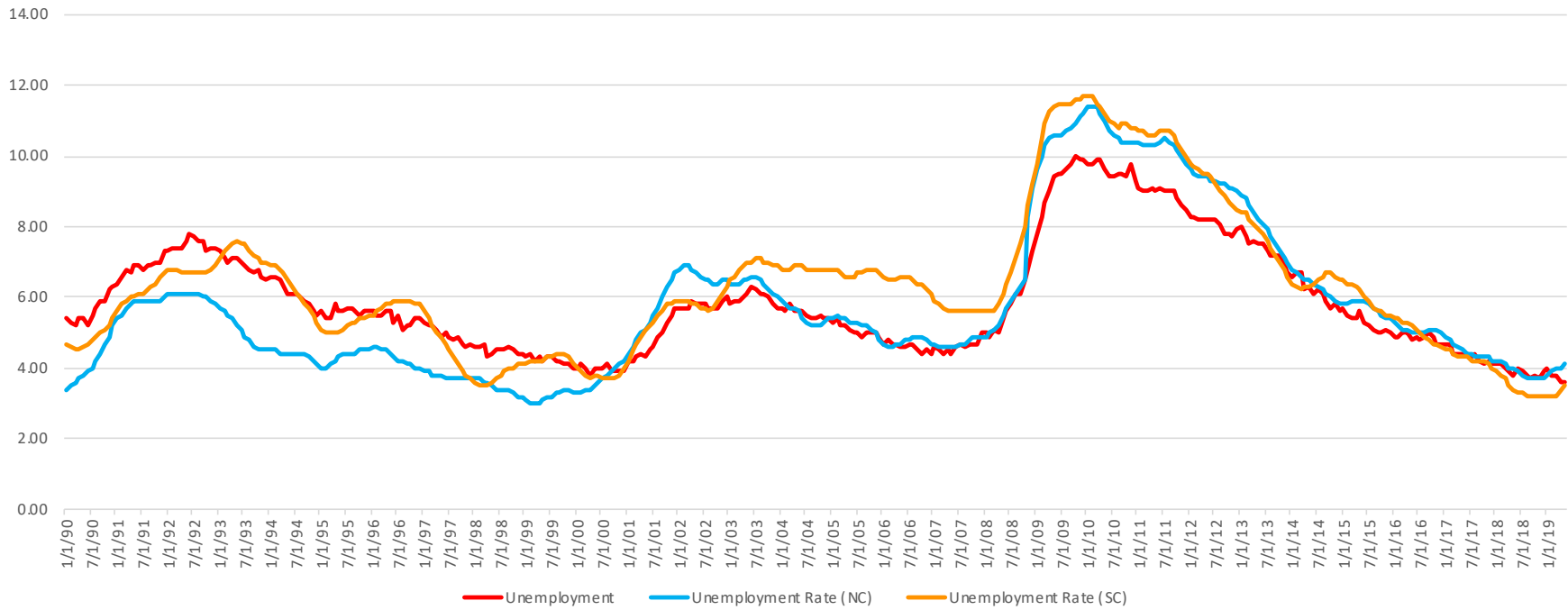
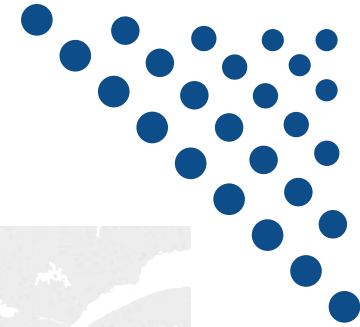
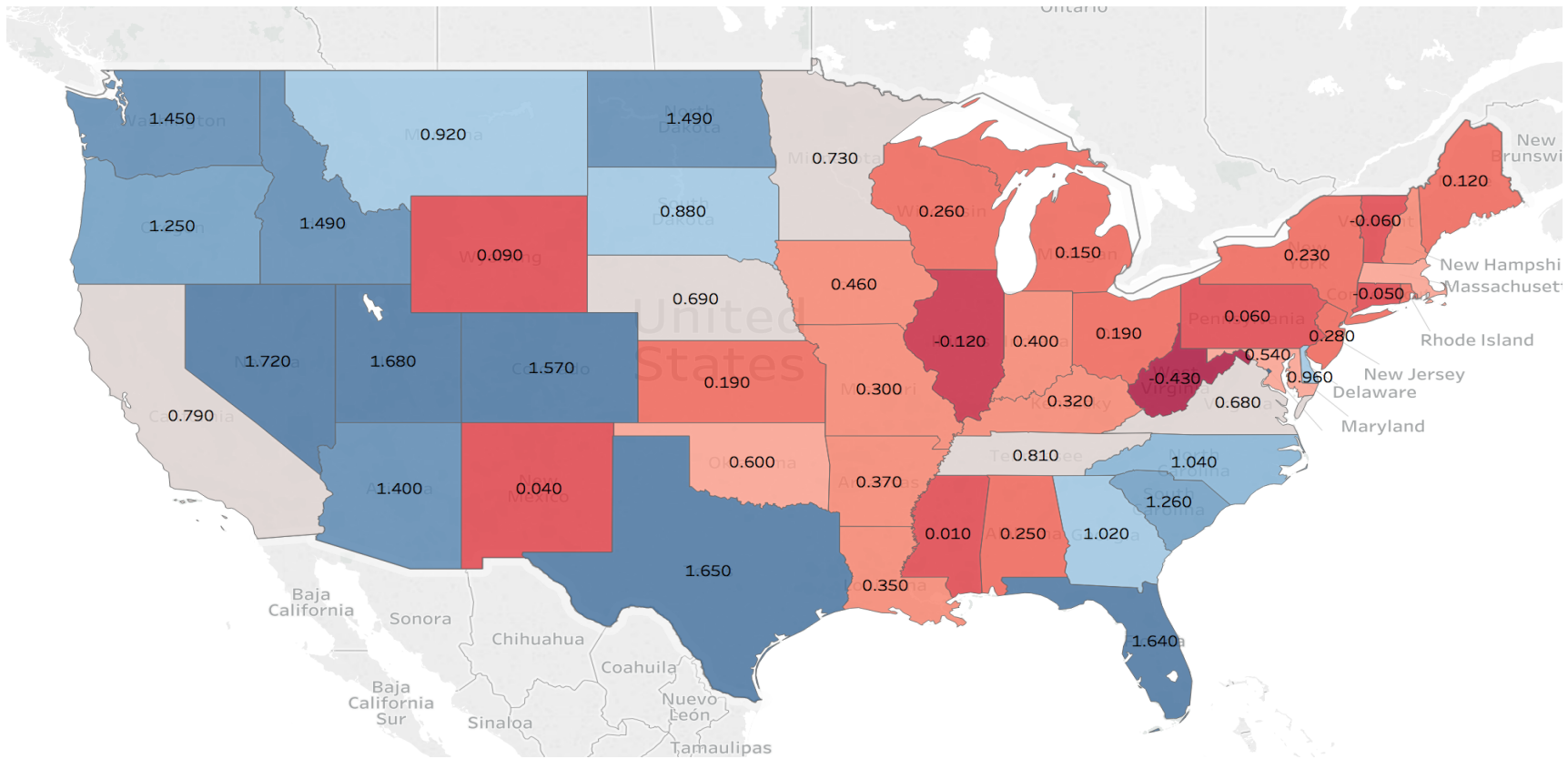


Chart Title

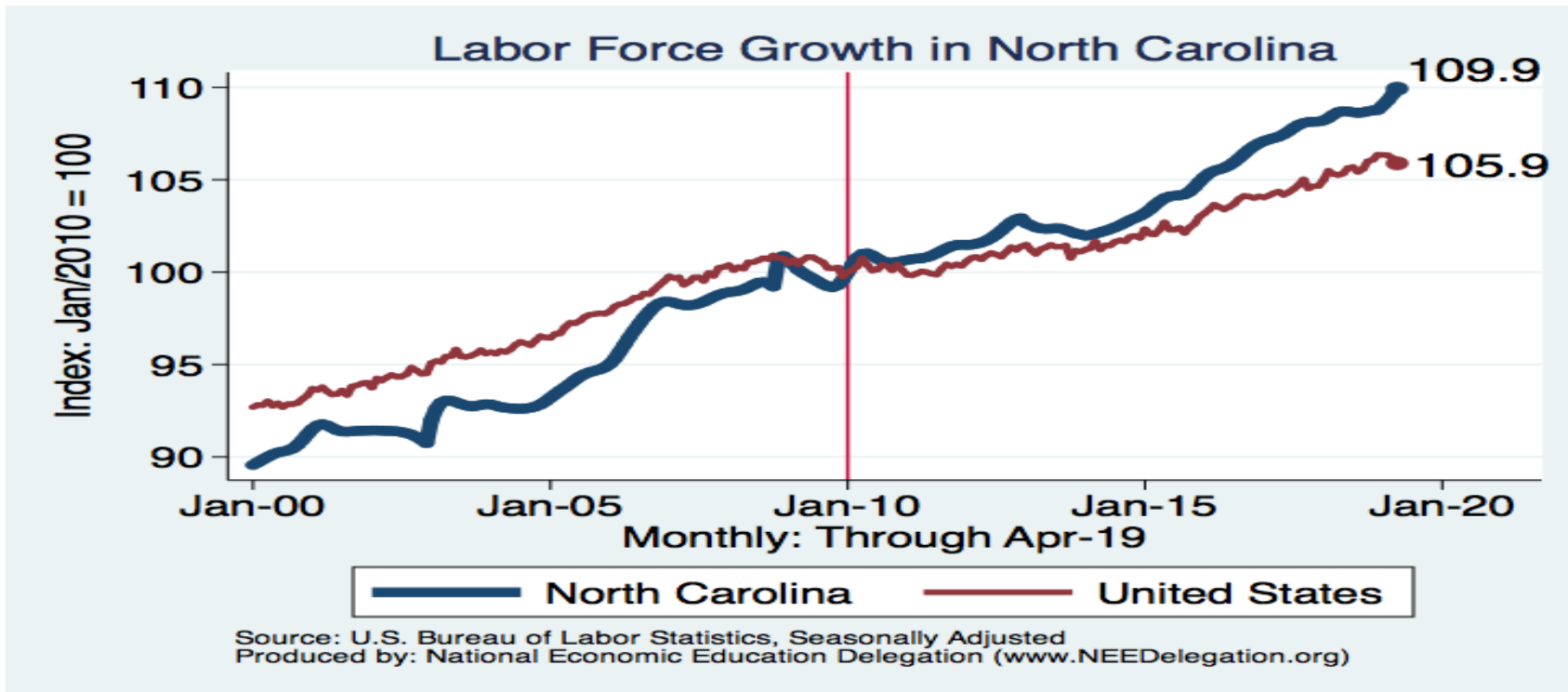




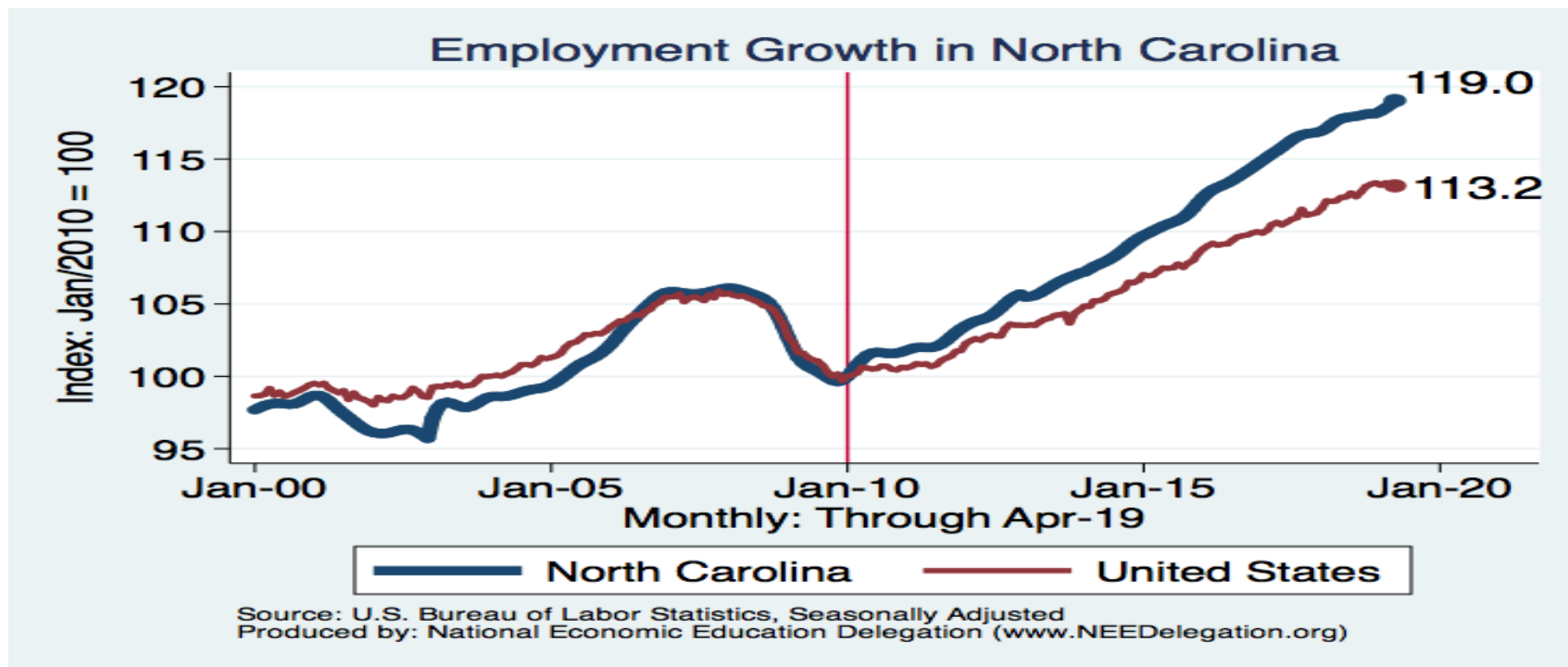
Population Growth: 2010-2017



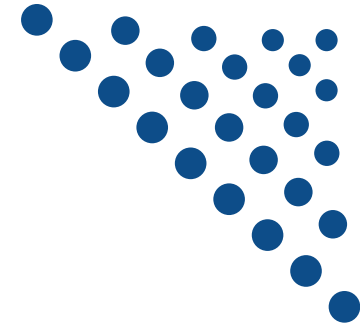
Labor Force Growth: North Carolina and US



Employment Growth: North Carolina and US

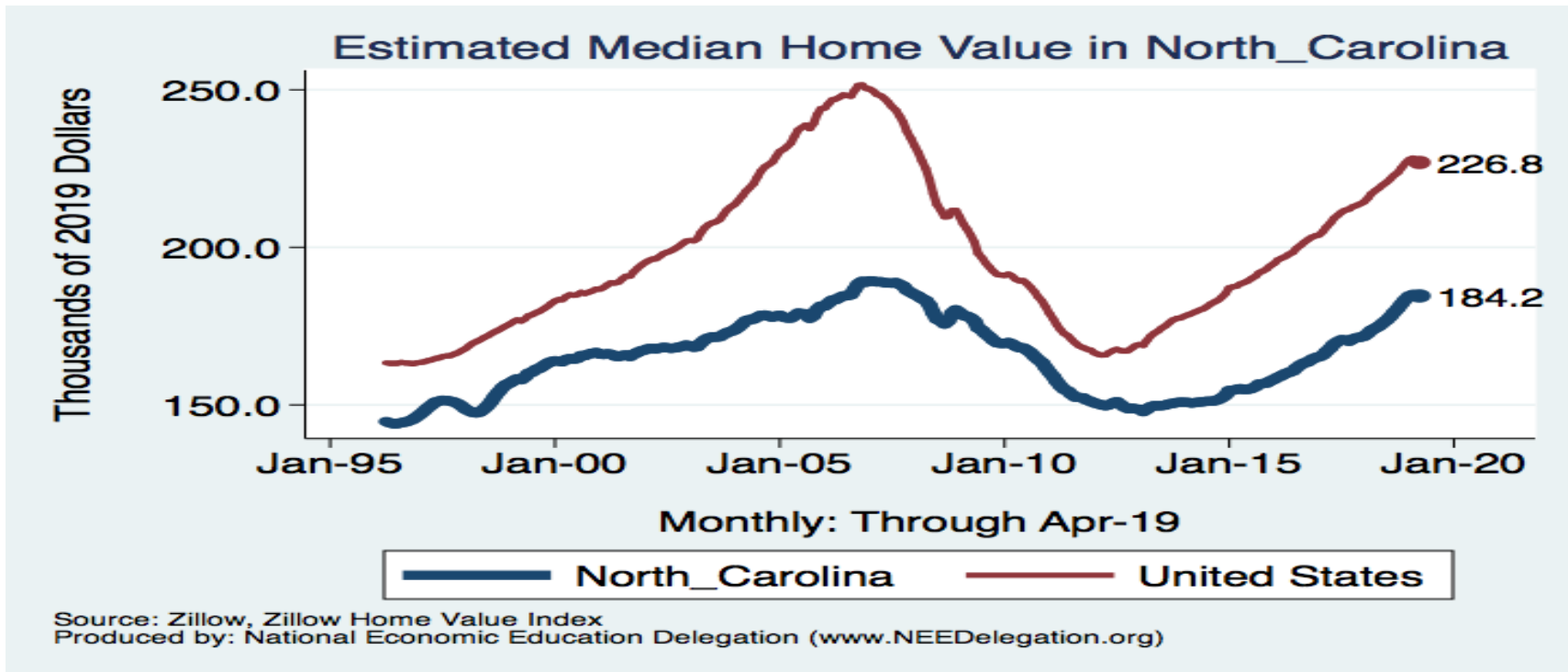


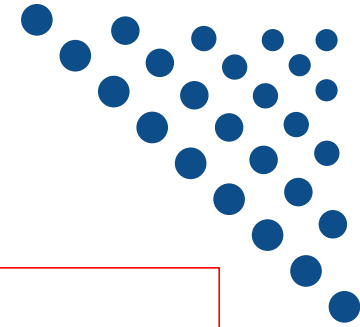
Employment by Industry: North Carolina



Industry	Employment Share 2010	Employment 2010	Employment 2019	Average Annual Growth
Mining and Logging	0	5.6	5.6	0
Construction	0.05	178	223.1	2.54
Manufacturing	0.11	431.8	475.6	1.08
Trade & Transportation	0.19	722.4	851.6	1.85
Information	0.02	70.4	80.2	1.46
Finance	0.05	199	244.8	2.33
Education and Health	0.14	537.1	625.4	1.71
Leisure and Hospitality	0.1	391.1	518.2	3.18
Professional and Business Service	0.12	480.2	644.8	3.33
Government	0.19	739.5	735.2	-0.06

Median Home Value: North Carolina and US





Assessing the Impact of Tariffs

- Six “waves” of tariffs in 2018-2019
- January 2018: Solar Panels and Washing Machines (\$10 billion)
- Steel and Aluminum Tariffs with country exemptions (\$18 billion)
- Steel and Aluminum Tariffs (\$22 billion)
- China 1 (\$34 billion)
- China 2 (\$16 billion)
- China 3 (\$200 billion)



Who sets Tariff Rates in the United States?

- The United States Constitution gave Congress the power to "... lay and collect taxes, duties, imposts and excises, pay the debts and provide for the common defense and general welfare of the United States." and to "To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes."
- More recently, the Executive Branch has been more involved in tariffs and the regulation of international commerce. How did the President obtain this authority?

More Traditional Approaches to Trade Protection



- **Safeguard Tariffs (Trade Act of 1974 Section 201):** Temporary trade barriers to protect an industry that is facing a surge in imports. In theory, it allows the industry time to restructure.
- **Ant-Dumping Countervailing Duties (Tariff Act of 1930), U.S.** industries may petition the government for relief from imports that are sold in the United States at less than fair value (dumped).



Washing Machines Tariff Impact

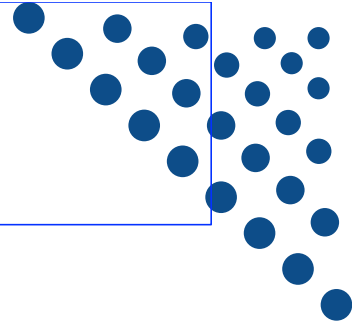
- Initially, tariffs on washing machines were imposed as “anti-dumping” duties on South Korea and Mexico because these were the low cost producers competing with US producers.
- Shortly after the anti-dumping duties were imposed, several production facilities moved to China. Anti-dumping duties were then imposed on imports from China as well.... but by this time some production had moved to other “low wage” countries.
- The current administration levied import tariffs on all imported washing machines (and solar panels) under the safeguard tariffs.
- **A recent study estimates that:**
 - the cost paid by consumer is approximately \$800,000 per job saved,
 - the price of washing machines have increased by 12% (\$60-\$75 per machine)
 - The price of dryers (perfect complement) has also increased by about 12%
 - Some producers are going to relocate in the US – including SC (1,000 jobs)

Section 232 Trade Act of 1962: National Security



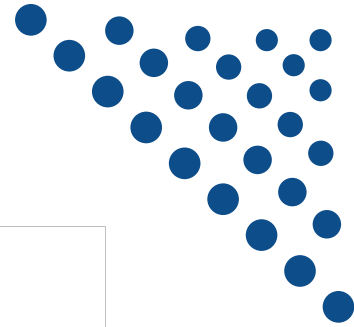
- Section 232 of the Act under certain circumstances allows the President to impose tariffs based on a recommendation from the US Secretary of Commerce if "an article is being imported into the United States in such quantities or under such circumstances as to threaten or impair the national security."
- Typically this has been interpreted for "national defense"
- The current administration has extended this to cover industries that are important for economic security.
 - Steel and aluminum tariffs
 - Autos and auto parts (being considered)

Section 301 Trade Act of 1974

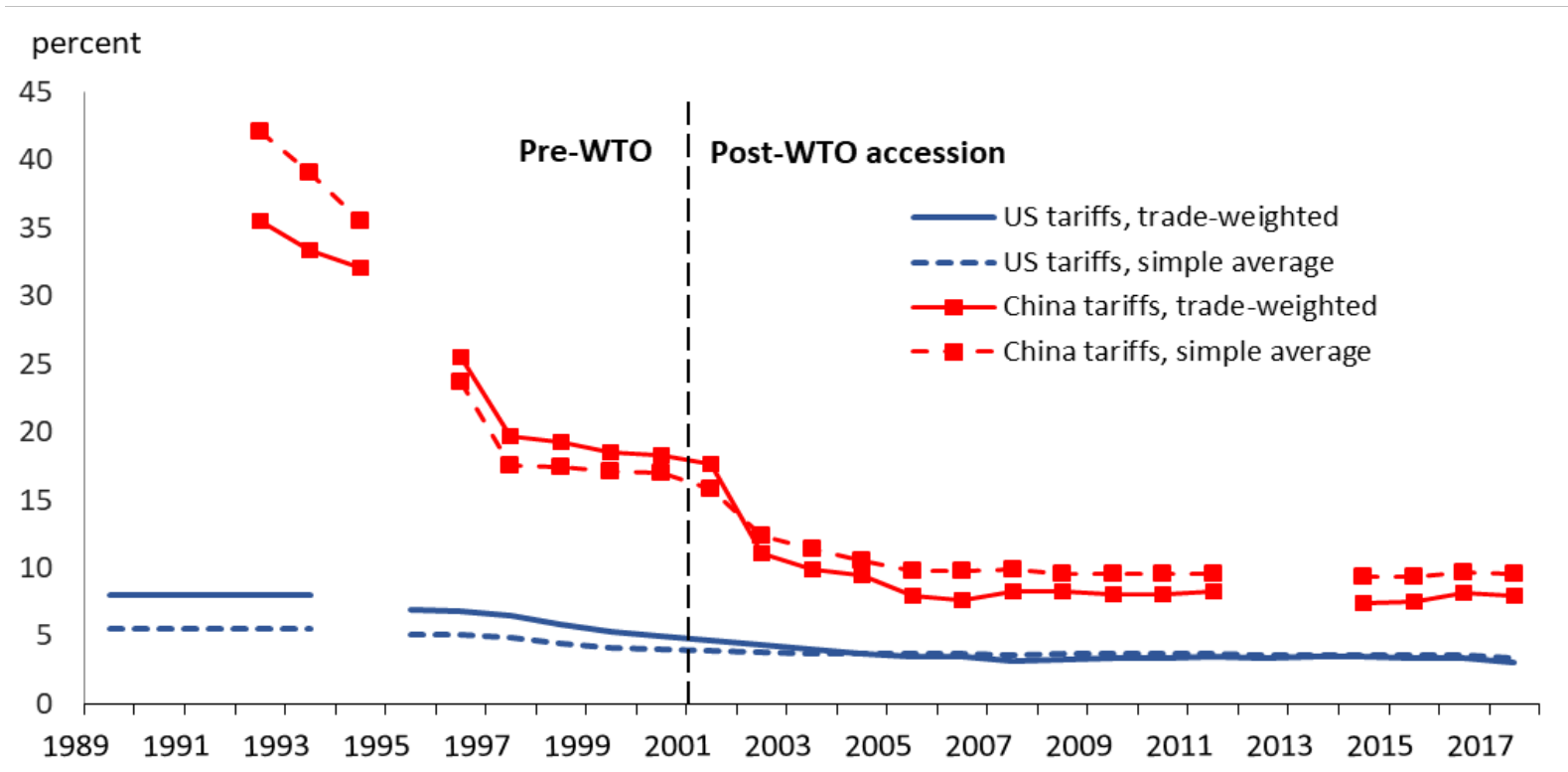


- Authorizes the President to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce.
- The current administration “the acts, policies, and practices of the Chinese government related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory and burden or restrict U.S. commerce.”
- President Trump also states that the 301 Tariffs are being used because of the large bilateral trade deficits with China.

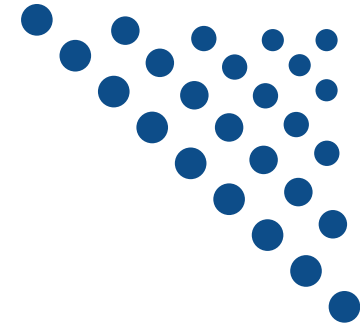




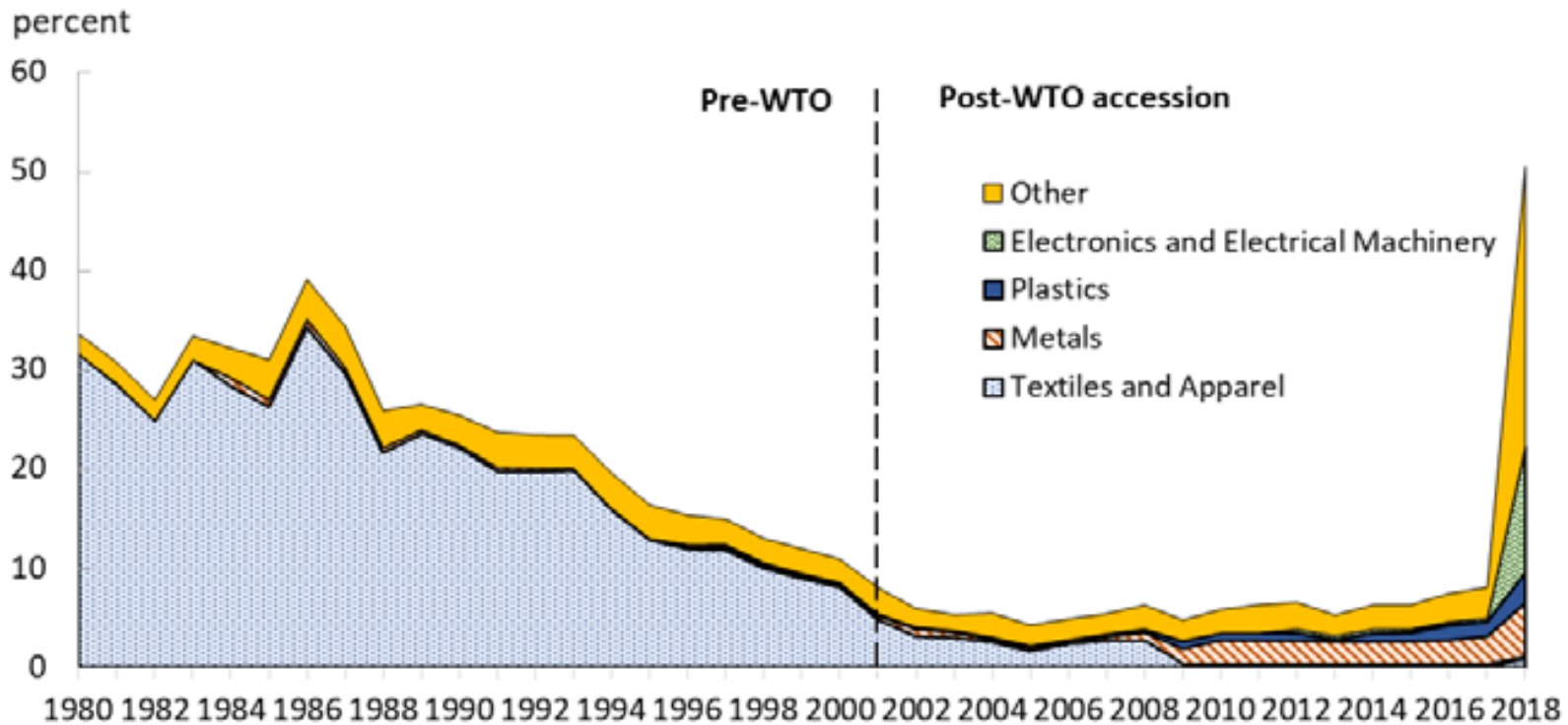
US-China Tariffs Rates



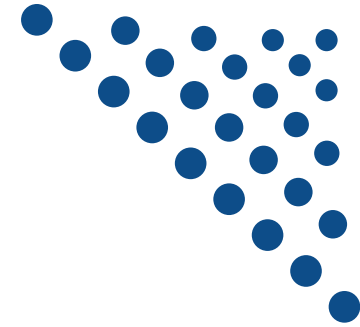
Source: Peterson Institute for International Economics



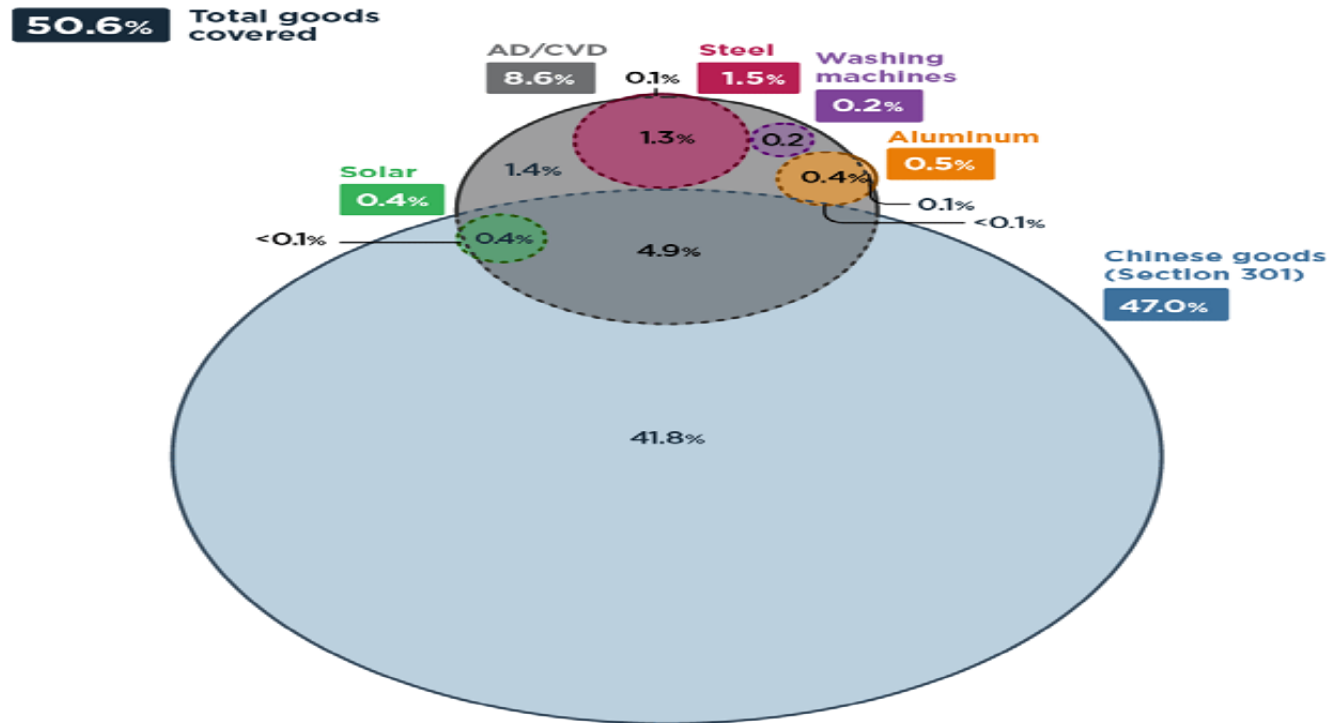
US China Trade: “Special” Trade Protection



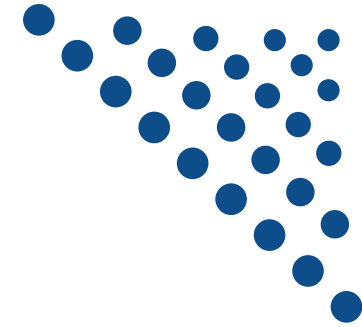
Source: Peterson Institute for International Economics



US China Trade: “Special” Trade Protection



Source: Peterson Institute for International Economics



Assessing the Impact of Tariffs

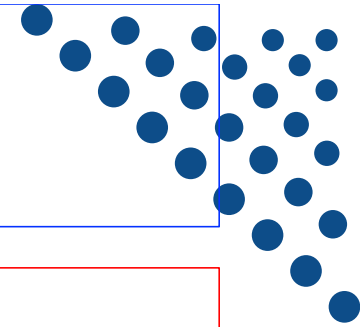
- Recent study finds that almost all of the tariffs have been passed on to the consumers and firms who import the product.
- Import tariffs cost consumers and firms that import goods an additional \$3 billion per month in higher costs.
- In addition, the deadweight loss from lost consumption are \$1.4 billion per month.
- The tariffs have reduced the number of varieties of goods consumed.
- If the tariffs continue beyond 2018 at this level then approximately \$165 billion trade per year will be redirected in order to avoid the tariffs.



Automotive Tariffs (Proposed)

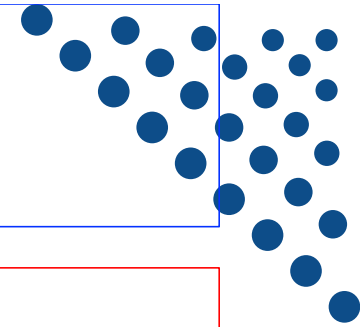
- **The Peterson Institute estimated that a 25% tariff on autos and automotive parts would, on average, increase the price of domestic compact cars by a little over \$1,400 (\$2,000) and luxury SUV's by nearly \$5,000 (\$7,000) if 66% (100%) of the tariff is passed through onto consumers.**
- **The Center for Automotive Research (CAR) finds that a 25% tariffs:**
 - would increase the average price of vehicles in the US between \$2,450 and \$4,400.
 - would reduce auto sales between 1.2 and 2.0 million,
 - would reduce auto employment in the U.S. between roughly 100,000 to 715,00 – in South Carolina could reduce employment in auto manufacturing by 1,000-2,000 workers.
 - would reduce revenues between \$2.3 and \$4.0 million per dealership.

USMCA (NAFTA 2.0): What is new?



- **Better access to Canadian dairy market (still limited)**
- **Chapter on Digital trade including bans on data localization and forced source code transfer.**
- **Improved legal framework for intellectual property right among U.S., Canada and Mexico.**
- **Energy: Not tariffs on raw and refined energy products.**

USMCA (NAFTA 2.0): What is new?



- **Rules of Origin:**

- Increased rules of origin from 62.5% to 75% for cars, light trucks and auto parts
- 70% of all steel and aluminum must be sourced from North America.
- 40% of autos and auto parts must be produced with production workers making \$16 an hour or higher.

- **Environment and labor provisions may limit trade**

- **Termination: After six years, each party shall confirm in writing that it want to extend the agreement. If all agree, it is extended another 16 years. The review process would occur again in another six years.**

Conclusion



- **The United States economy will likely grow around 2.5% for 2019.**
 - The Atlanta Fed project GDP growth in 2019:Q2 to be around 2.0%
 - GDP growth is likely to be modestly higher in in Q3 and Q4 if we can fend off the bears.
- **What to watch for?**
 - Escalation of tariff war
 - ISM manufacturing index and measures of Industrial Production
 - Response by the Federal Reserve
 - Most pundits believe the Fed will target a lower Federal Funds Rate.
 - (Increased) Political uncertainty that may spill over into economic uncertainty.



Steel and Aluminum Tariffs

- **The steel industry has been given tariff and other protection off-and-on again for more than 40 years.**
- **Why does the current administration think this time different?**
- **Industry experts and trade economists argue that China has produced an excess amount of steel and aluminum and this has pushed world prices down.**
 - The industries are subsidized directly and indirectly by the Chinese government and this has led to overproduction even when price signals should be telling them to produce less.
 - Because "downstream industries" use these subsidized materials they are effectively subsidized as well
- **Their argument is that the WTO is not able to remedy and Safeguard protection will not fix the problem.**

Tariffs as a Means for Concessions and Compliance



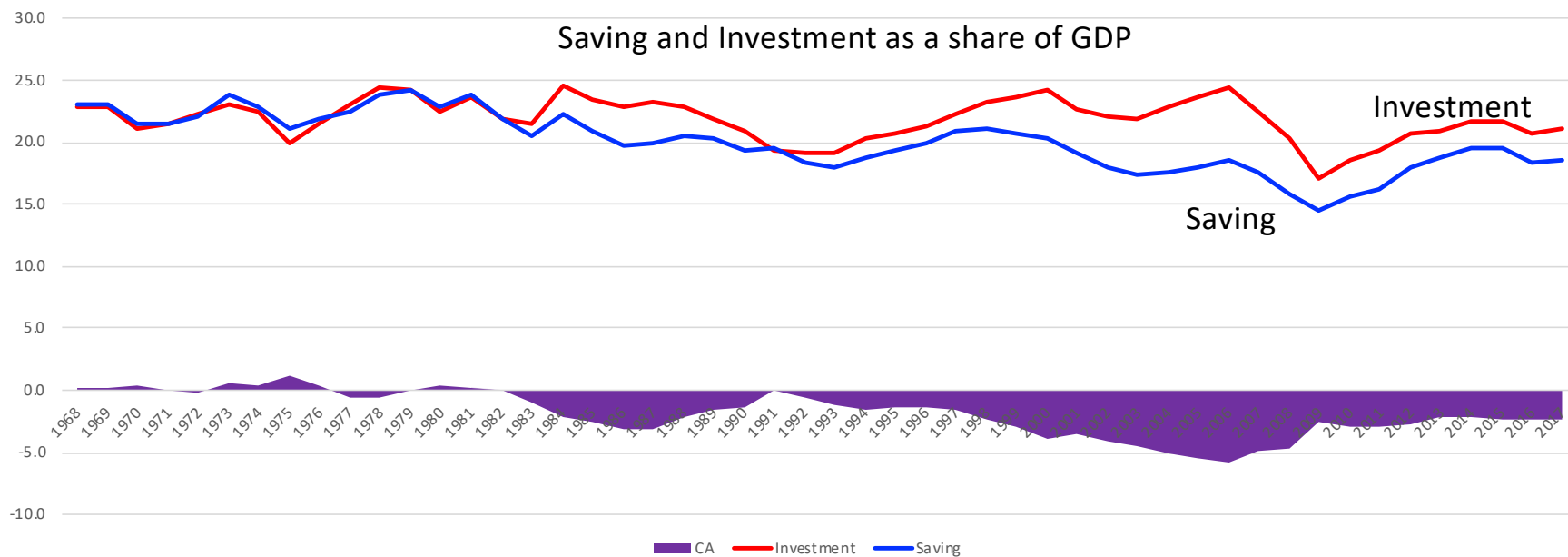
- Hufbauer and Elliot (1994) examined protection in 21 industries and found similar costs per job saved.
- Of the 21 sectors, only two sectors saw declining imports during the period of protection (softwood lumber and sugar).
- Of the 21 sectors, only six saw increased domestic employment. On average, employment in the industries declined by 1.14 percent per year.
- Conclusion by the authors: “...despite the import dampening effects of the trade barriers in these sectors the value of imports tend to continue increasing, while employment usually declines on average”

Trade Deficits

- **If an individual spends more than she earns in income, she must finance this by borrowing or selling assets. The same is true for a nation.**
 - In 2017, each dollar of imports was financed by \$0.90 in exports. The remaining \$0.10 was financed by selling assets and/or borrowing from abroad.
- **In a closed economy, capital formation is financed by total savings; that is,**
 - Saving = Investment
- **In an open economy, capital formation can be financed by borrowing abroad.**
 - Saving – Investment = Current Account
 - The current account is roughly equal to the trade deficit.
 - If the current account is negative, the economy is running a trade deficit.



US Current Account (Trade) Deficits:

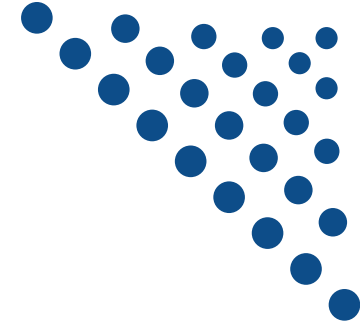


Difference between saving and investment (accumulation of physical capital) must be finance by “borrowing from abroad” -- trade deficit.

Trade Deficits are Driven by Macroeconomic Factors

- **Macroeconomic factors that influence national savings and investment drive the trade deficit.**
- **Globally: Since the 1997 Asian (Financial) crisis, savings rate in Asia have been extremely high and this has pushed down (world) interest rates.**
- **The recent tax bill has likely exacerbated the trade deficit.**
 - Lower taxes have increased spending by consumers ($S \downarrow$).
 - Lower taxes (and increased government spending) have reduced public saving (public deficit) ($S \downarrow$)
 - Tax bill has stimulated private capital formation ($I \uparrow$).

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.

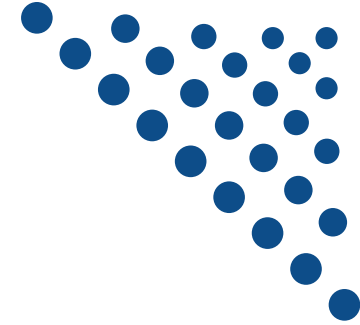
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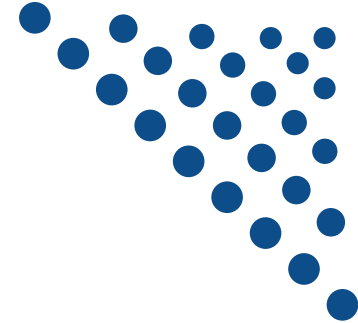
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Thank you!



Any Questions?

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