



Coronavirus Economics

Redwood High School

Jon Haveman, Ph.D.

NEED

September 30, 2022



NATIONAL ECONOMIC
EDUCATION DELEGATION

1

Outline

- **The State of the US Economy**
- **Global Comparisons**
- **Inflation**
- **On the policy response:**
 - To the pandemic
 - To inflation



NATIONAL ECONOMIC
EDUCATION DELEGATION

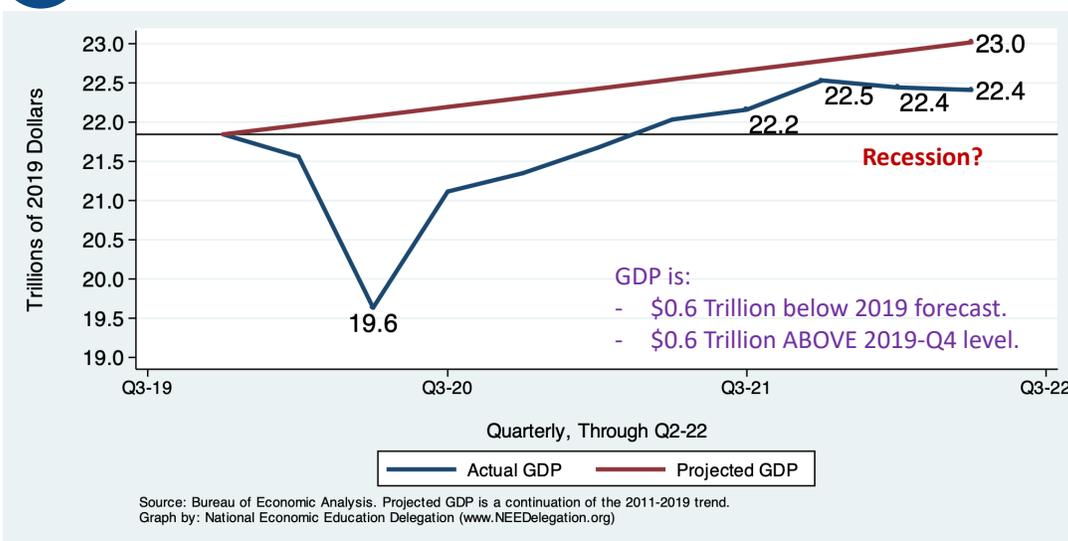
2

2

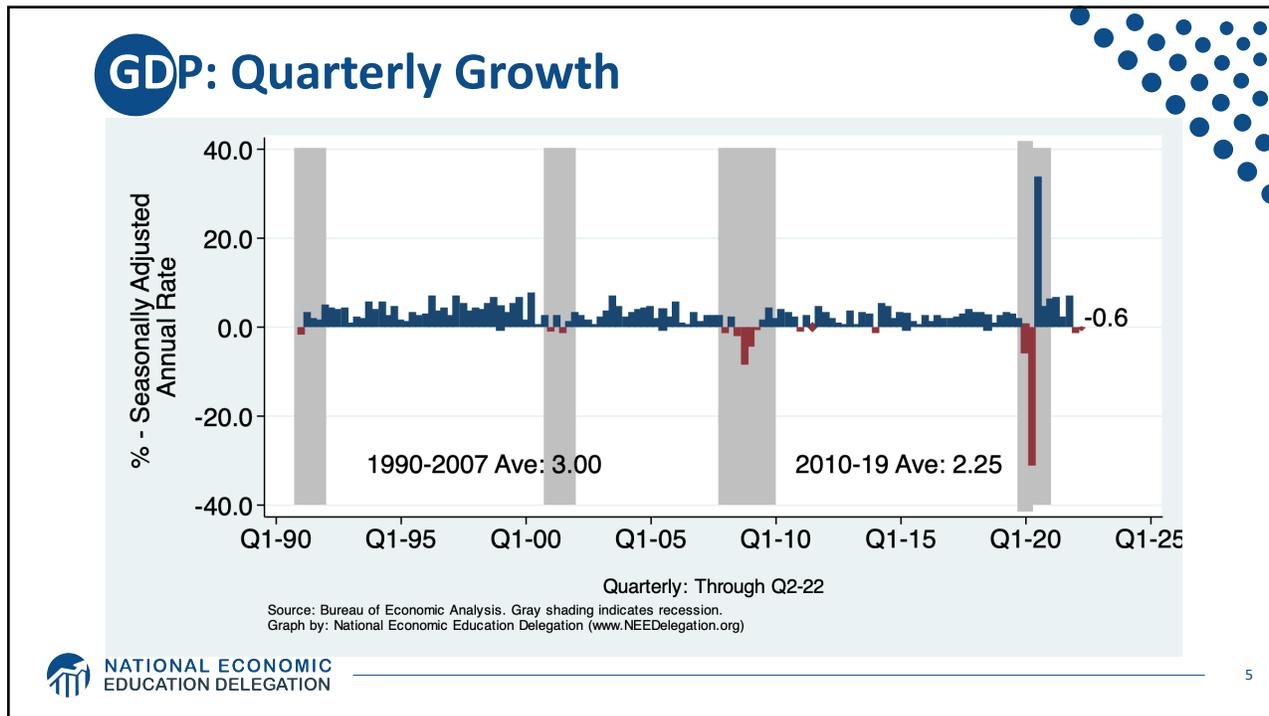
State of the US Economy

3

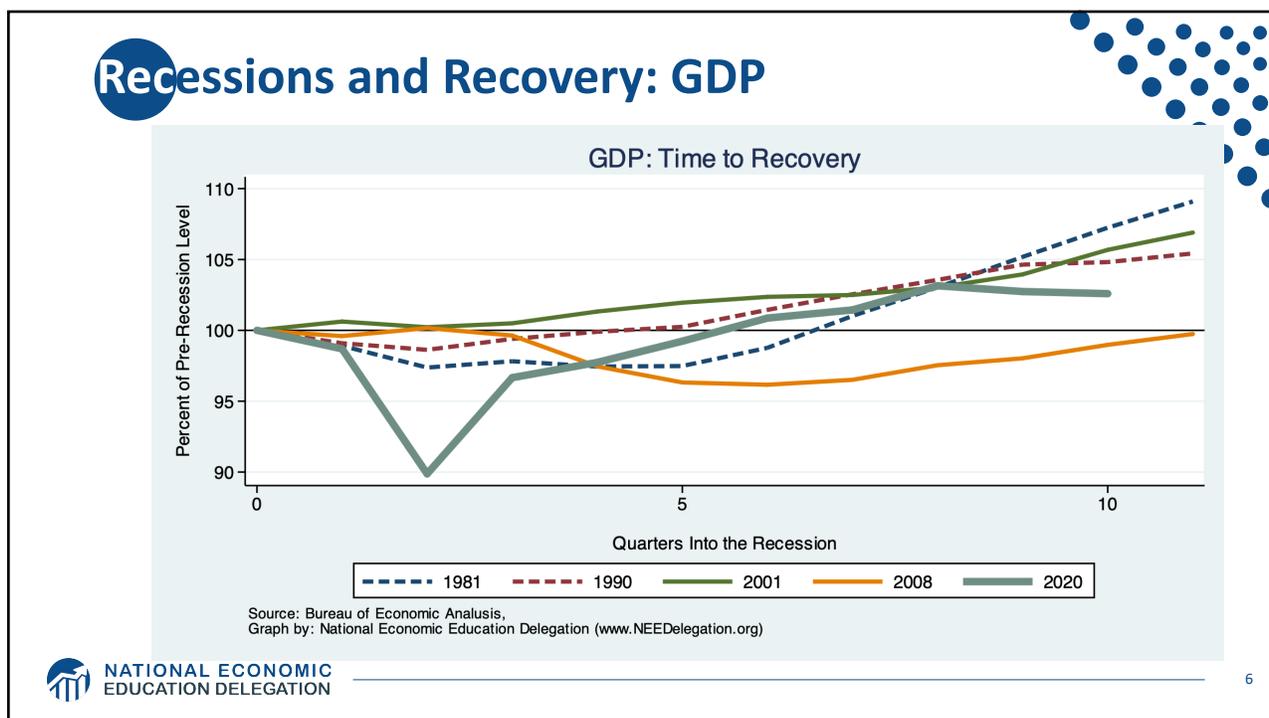
GDP Trajectory: Pandemic Plunge!



4



5



6

What Is “Accounting” for the Decline?

- **Expenditures drive GDP growth.**
 - GDP is the sum of four categories of spending:
 - Consumption
 - Investment – **housing/business/inventories**
 - **Government spending**
 - Net Exports: Exports – Imports



7

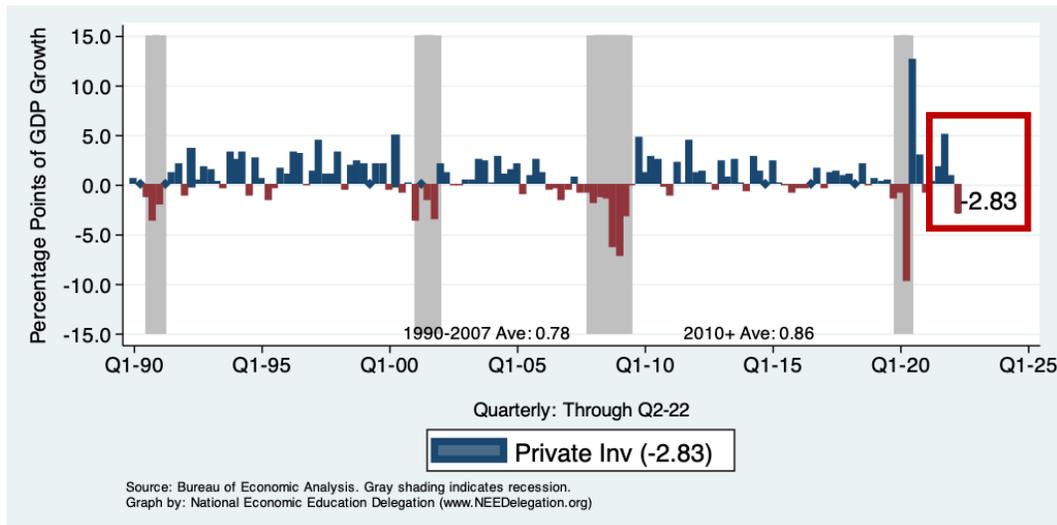
Recession? Two Quarters....

- **Depends on what is driving the drop.**
 - Inventories
 - Housing
 - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**



8

Contribution to GDP Growth: Inventories

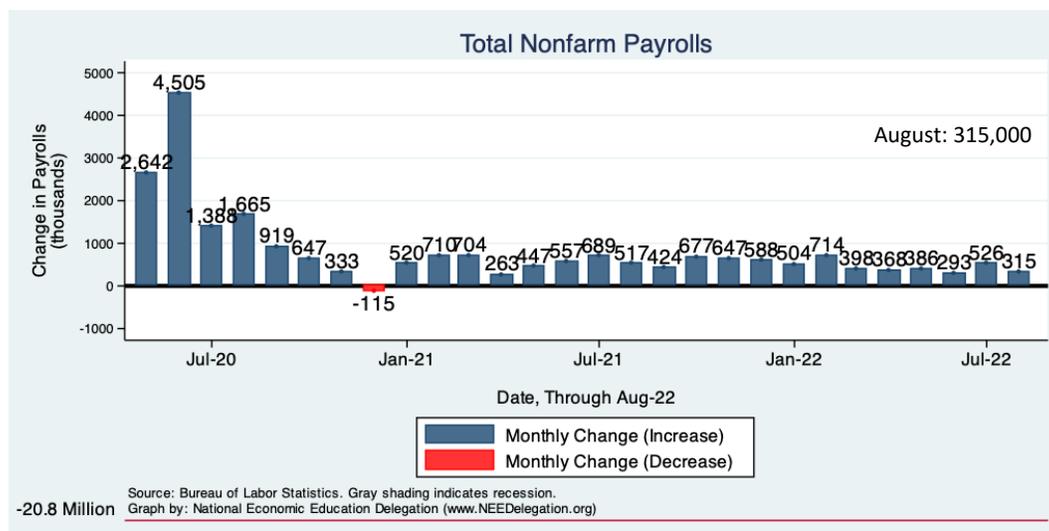


NATIONAL ECONOMIC EDUCATION DELEGATION

9

9

Monthly Changes in Nonfarm Employment

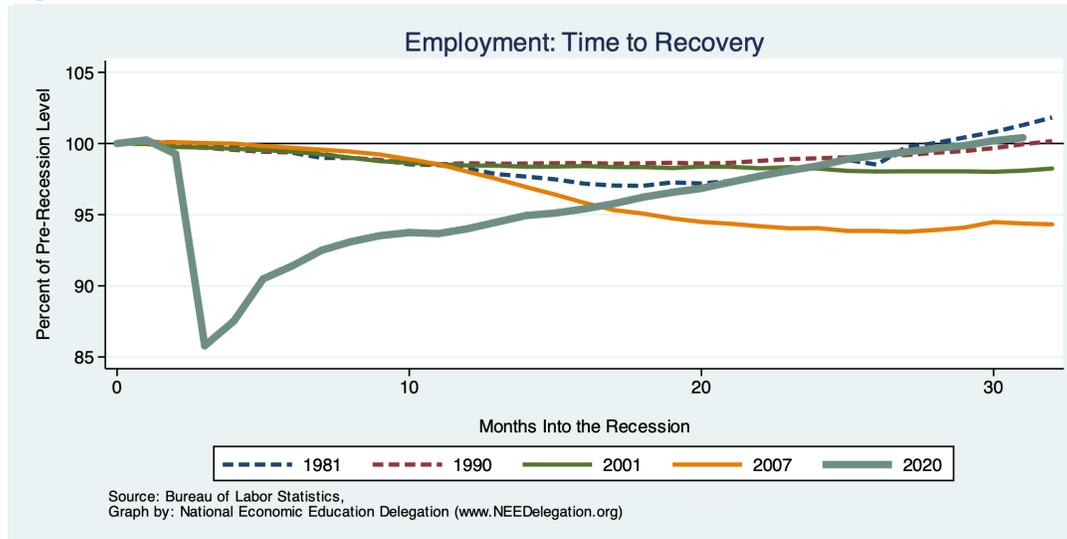


NATIONAL ECONOMIC EDUCATION DELEGATION

10

10

Recessions and Recovery: Employment

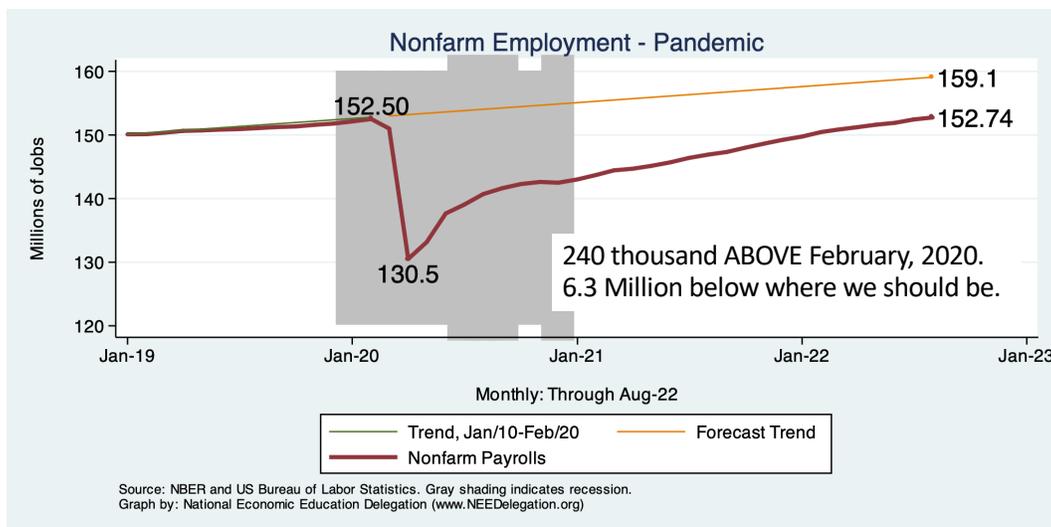


NATIONAL ECONOMIC EDUCATION DELEGATION

11

11

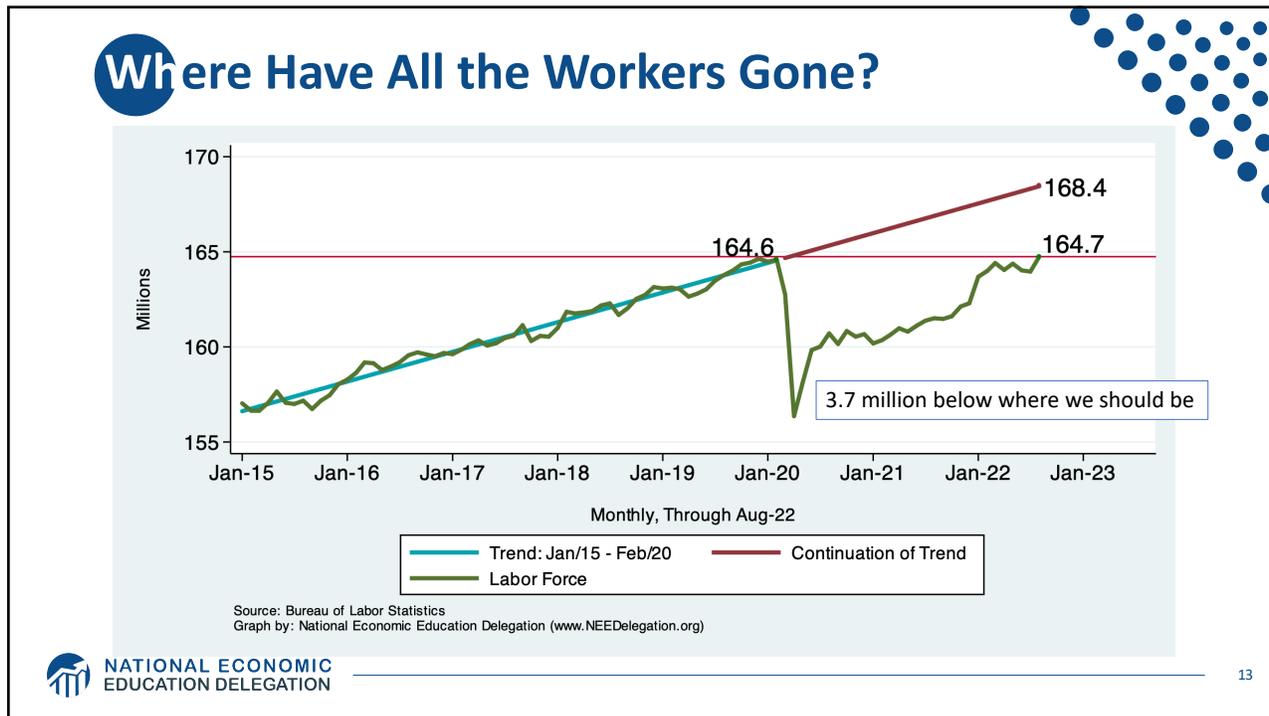
Employment Gap



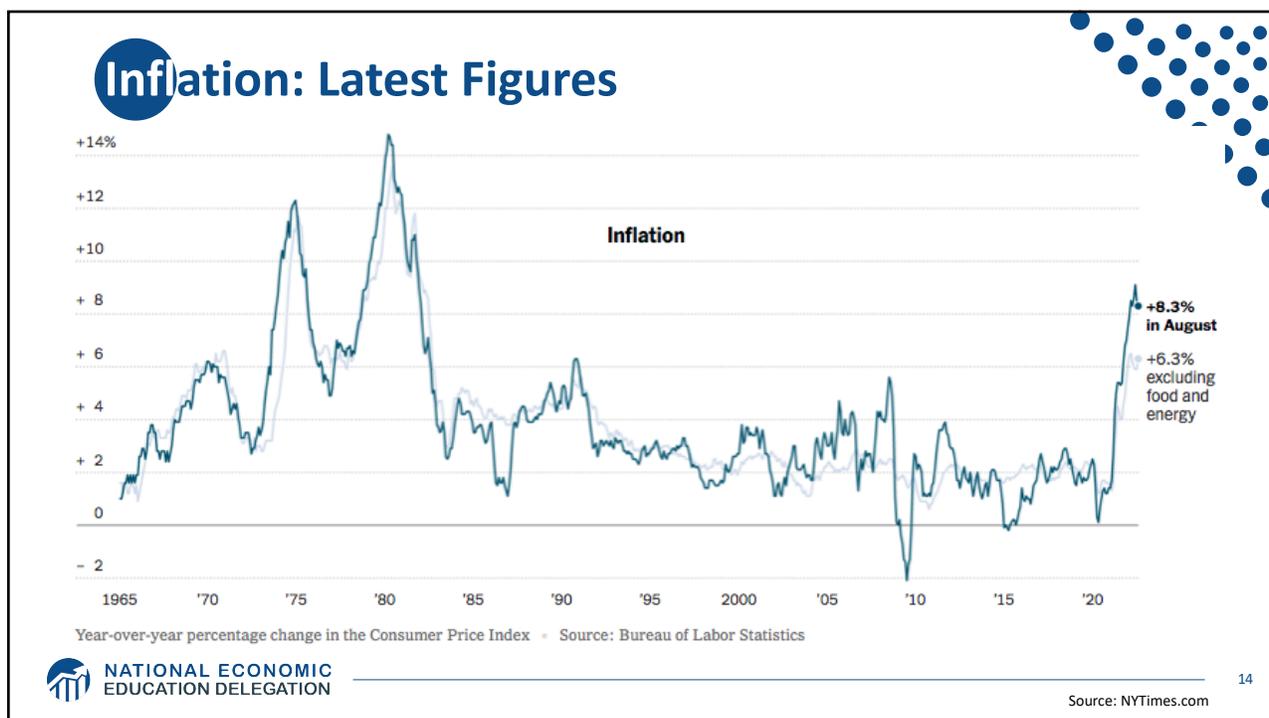
NATIONAL ECONOMIC EDUCATION DELEGATION

12

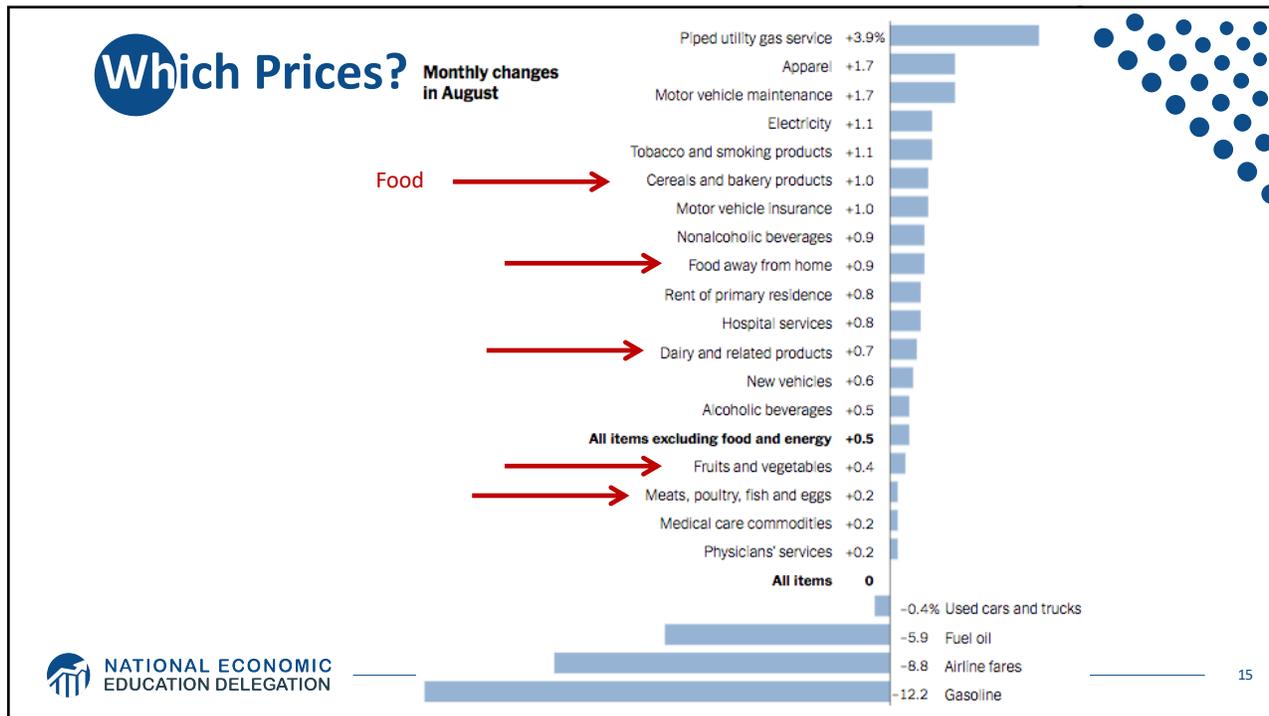
12



13



14



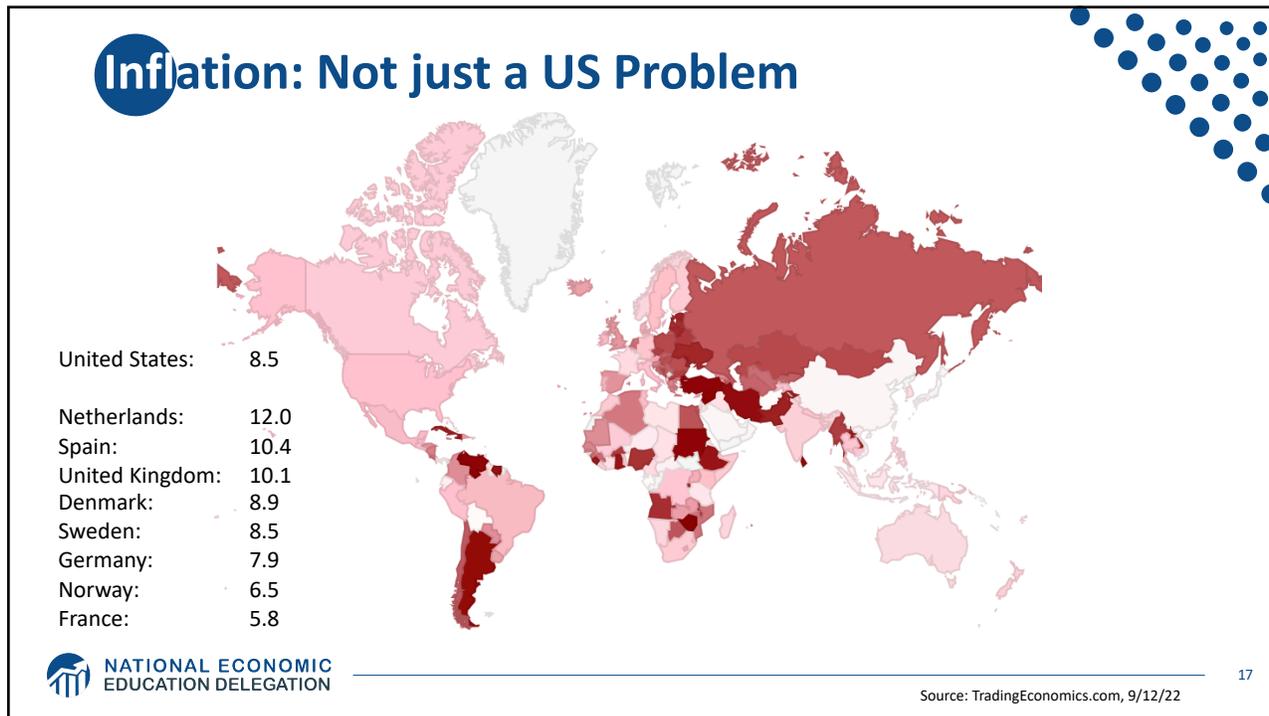
15

Global Evidence

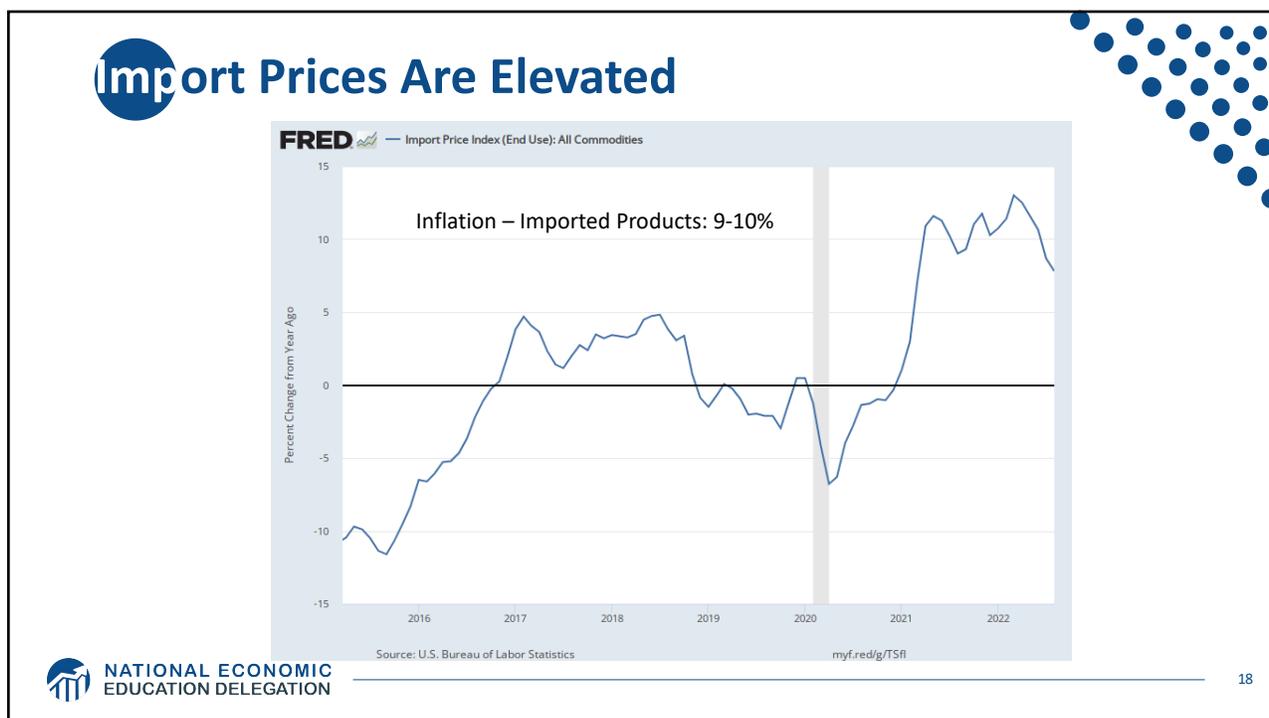
NATIONAL ECONOMIC EDUCATION DELEGATION

16

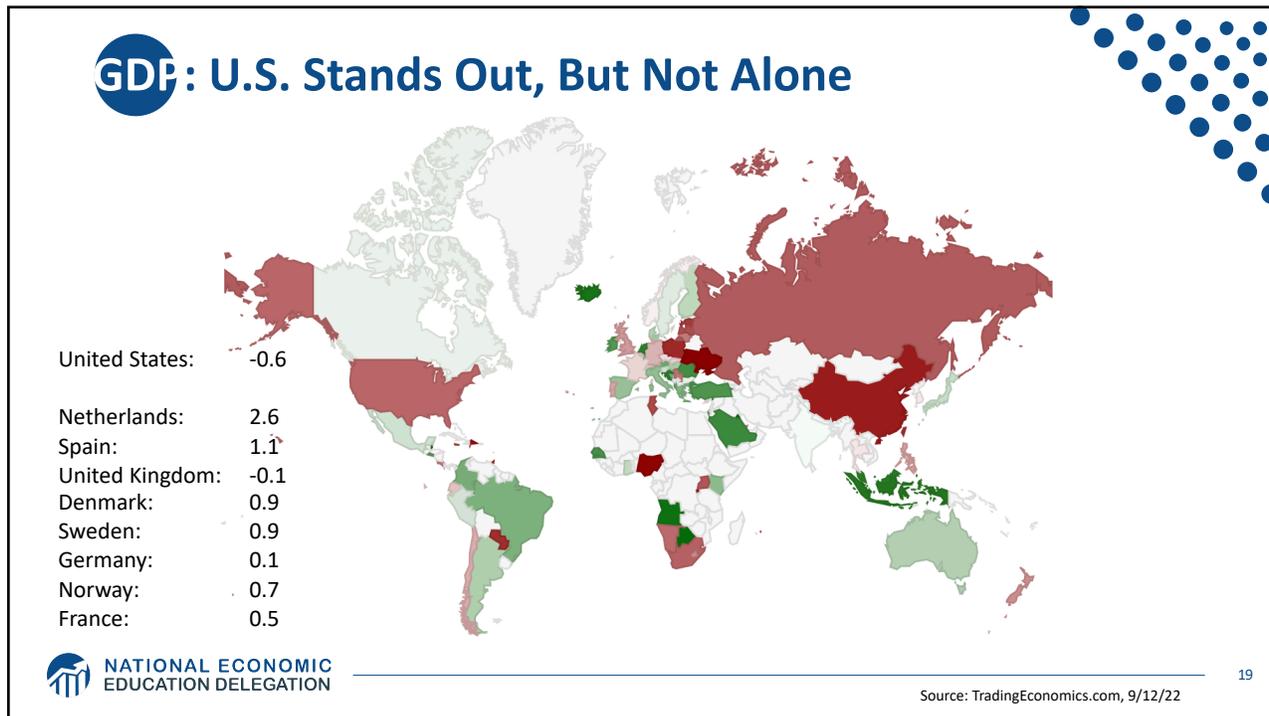
16



17



18

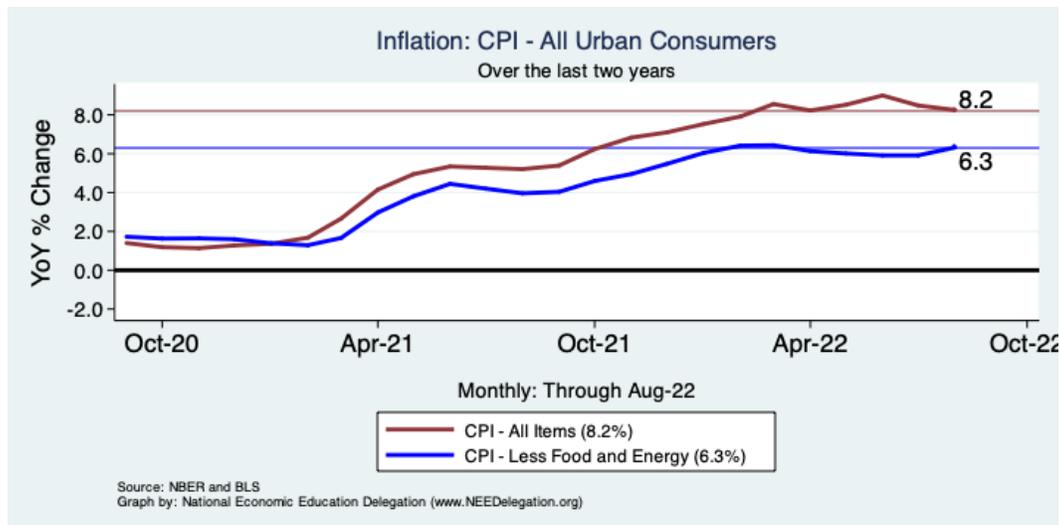


19



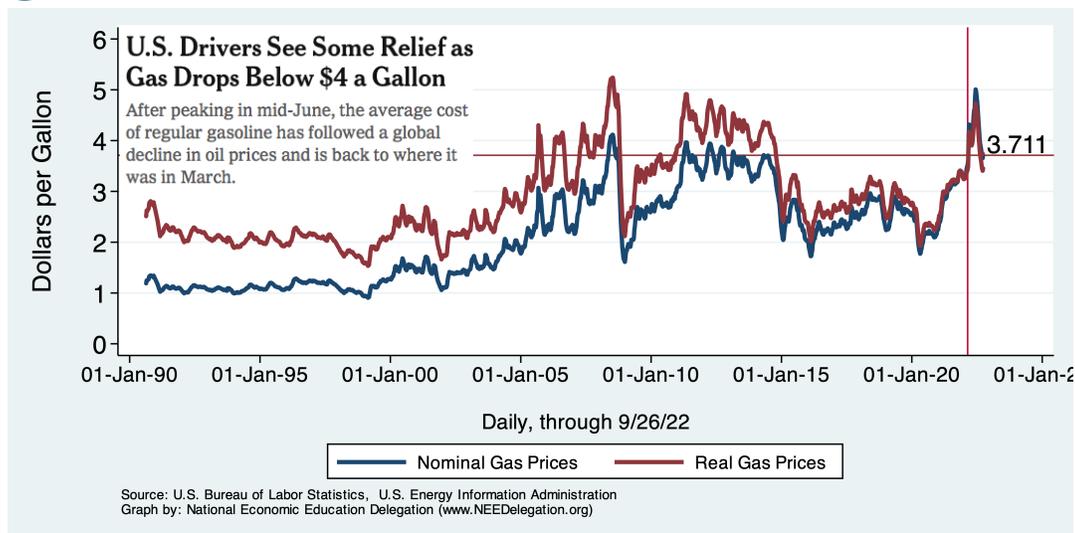
20

Inflation – Climbing! Or Turning Around?



21

Gas Prices: National Average at the Pump



22

How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

Demand-Pull

When demand for goods/service exceeds production capacity.

Cost-Push

When production costs increase prices.

Built-In

When prices rise, wages rise too, in order to maintain living costs.

NATIONAL ECONOMIC EDUCATION DELEGATION

23

Source: Investopedia

23

Spending Patterns Changed - More Goods!

Demand-Pull

Category	Start (Jan-18)	End (Jan-23)	Change
Goods	~95	114.3	Up 14.3%
Services	~96	100.7	Up 0.7%

Monthly: Through Jul-22

NATIONAL ECONOMIC EDUCATION DELEGATION

24

Source: U.S. Bureau of Economic Analysis
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

24

Supply Chains

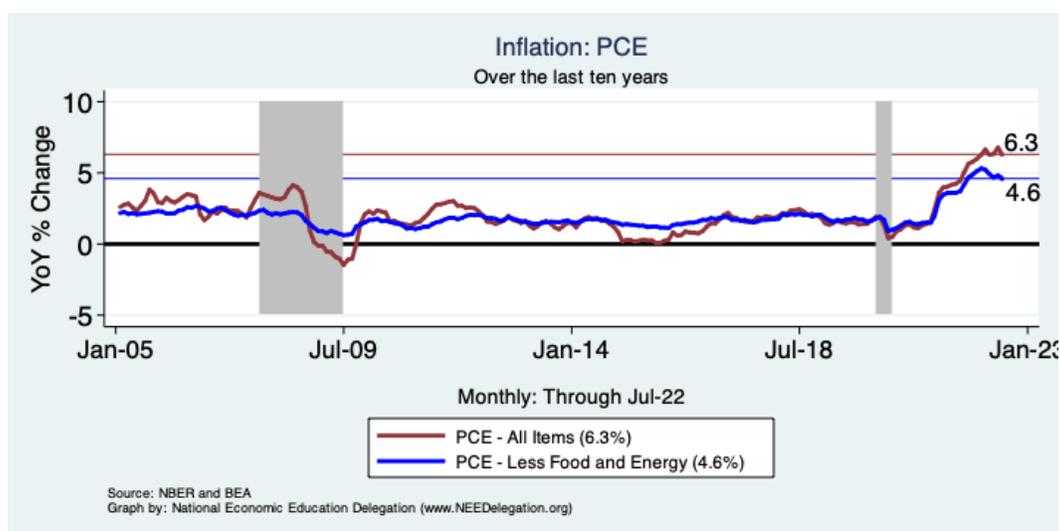


NATIONAL ECONOMIC EDUCATION DELEGATION

25

25

Fed's Preferred Measure of Inflation



NATIONAL ECONOMIC EDUCATION DELEGATION

26

26

My Diagnosis for the Uptick in Inflation

- Spending patterns have changed dramatically.
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was also too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.

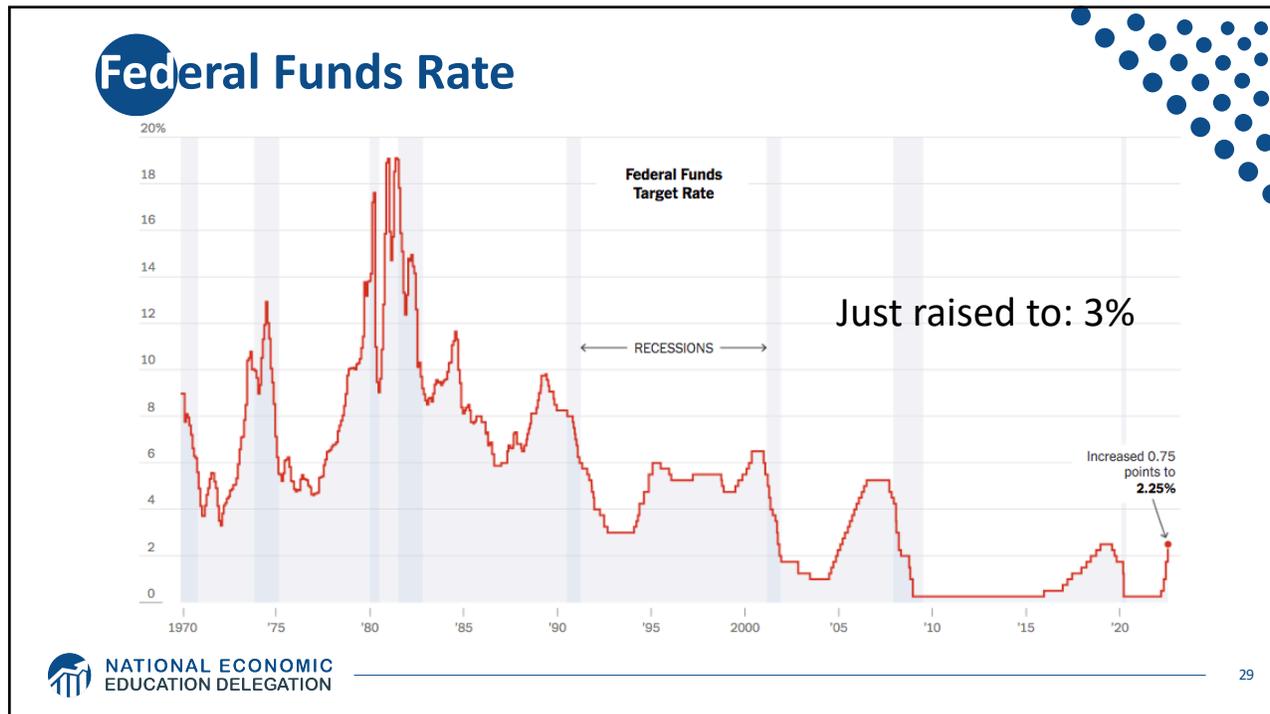


27

What's the Fed Doing About It?



28



29

Implications for Demand

- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

NATIONAL ECONOMIC EDUCATION DELEGATION

30

30

Takeaways

- **Is a recession on the horizon?**

- While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
 - Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
 - Job creation remains robust – 315k in August.

- **What about GDP?**

- 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
- Much of this lower growth was driven by lower inventory.
 - Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.

- **Still just the pandemic messing with the economy.**



NATIONAL ECONOMIC
EDUCATION DELEGATION