US Economic Update

CA Maritime Affairs & Navigation Conf.

September 30, 2021
Jon Haveman, Ph.D.
Executive Director, NEED

NATIONAL ECONOMIC
EDUCATION DELEGATION

1

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.

NATIONAL ECONOMIC
EDUCATION DELEGATION

2

2

Who Are We?

- **Honorary Board: 54 members**
  - 2 Fed Chairs: Janet Yellen, Ben Bernanke
  - 6 Chairs Council of Economic Advisers
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - Akerlof, Smith, Maskin
- **Delegates: 600+ members**
  - At all levels of academia and some in government service
  - All have a Ph.D. in economics
  - Crowdsource slide decks
  - Give presentations
- **Global Partners: 44 Ph.D. Economists**
  - Aid in slide deck development

NATIONAL ECONOMIC EDUCATION DELEGATION

3

3

Available NEED Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Minimum Wages**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**

NATIONAL ECONOMIC EDUCATION DELEGATION

4

4

Credits and Disclaimer

- **This slide deck was authored by:**
  - Jon D. Haveman, NEED
  - Scott Baier, Clemson University
  - Geoffrey Woglom, Amherst College (Emeritus)
  - Brian Dombeck, Lewis & Clark College
  - Doris Geide-Stevenson, Weber State

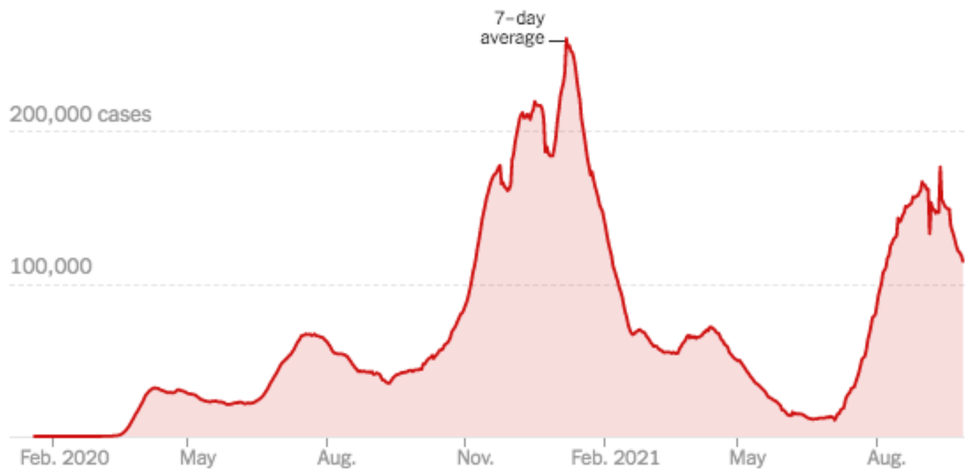
- **Disclaimer**
  - NEED presentations are designed to be nonpartisan.
  - It is, however, inevitable that the presenter will be asked for and will provide their own views.
  - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

Outline

- **State of the Pandemic**
- **Evidence of Impact**
- **Employment Growth**
- **Inflation**
- **The Debt**

COVID Cases: Trend is Reversing Nationwide

New reported cases by day



NATIONAL ECONOMIC EDUCATION DELEGATION

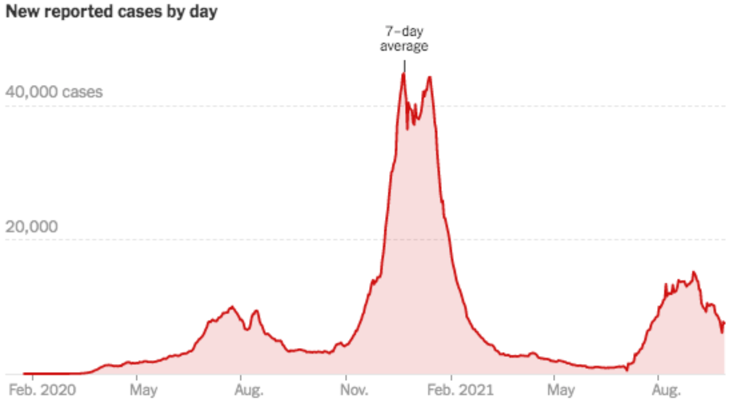
7

Source: NYTimes

7

California Cases Were Falling Nicely

New reported cases by day



Vaccinations

	AT LEAST ONE DOSE	FULLY VACCINATED
All ages	72%	59%
12 and up	84%	69%
65 and up	>99%	81%

NATIONAL ECONOMIC EDUCATION DELEGATION

8

Source: NYTimes

8

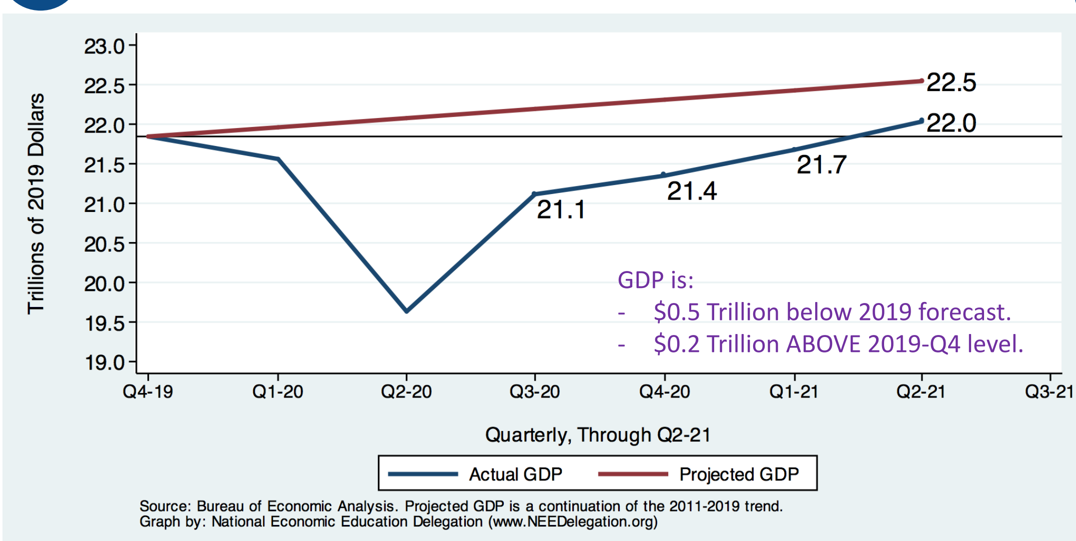
Evidence of Impact

NATIONAL ECONOMIC EDUCATION DELEGATION

9

9

GDP Trajectory: Pandemic Plunge!



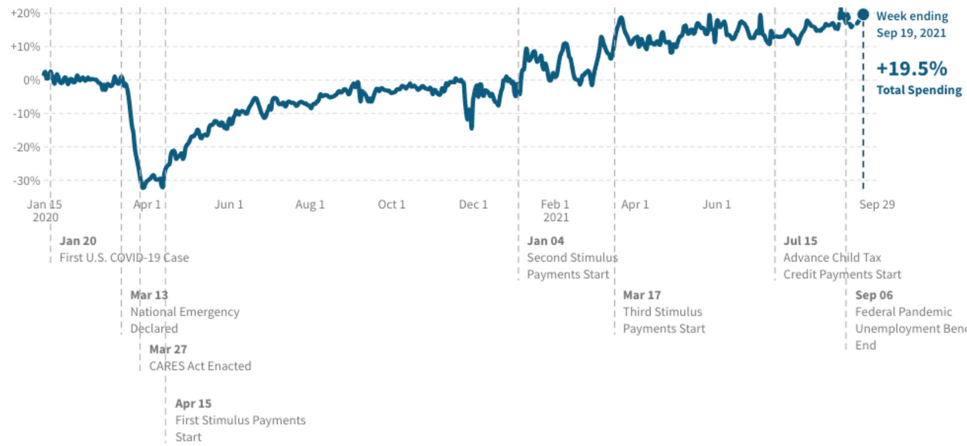
NATIONAL ECONOMIC EDUCATION DELEGATION

10

10

Spending Patterns Since First US Case

In **the United States**, as of September 19 2021, total spending by all consumers increased by **19.5%** compared to January 2020.



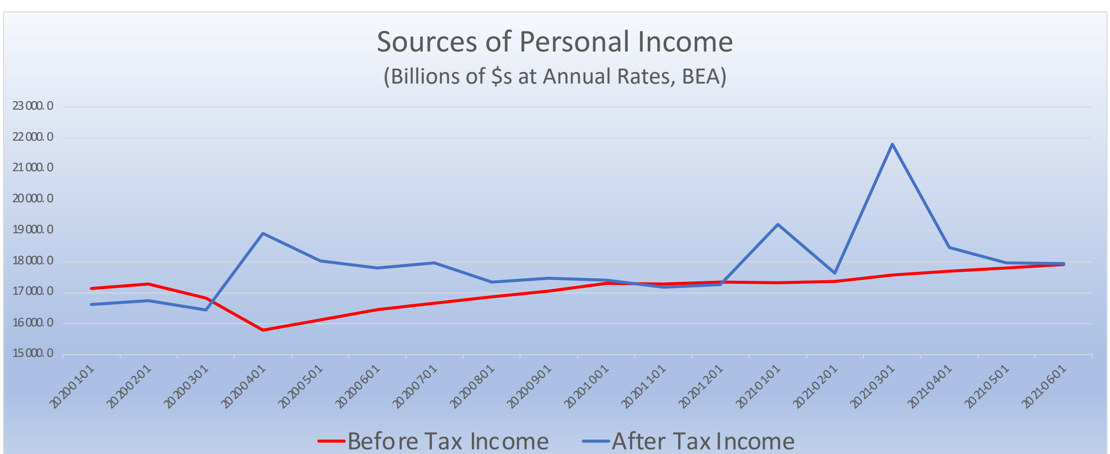
NATIONAL ECONOMIC EDUCATION DELEGATION

11

Source: https://tracktherecovery.org/

11

Recovery Due to Immense Fiscal Stimulus and Control of COVID

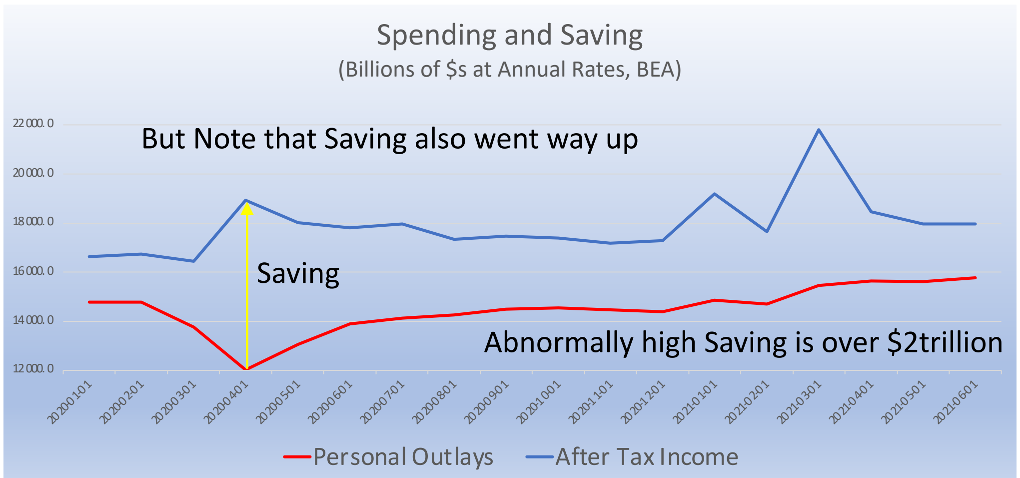


NATIONAL ECONOMIC EDUCATION DELEGATION

12

12

Stimulus allowed Spending to Recover

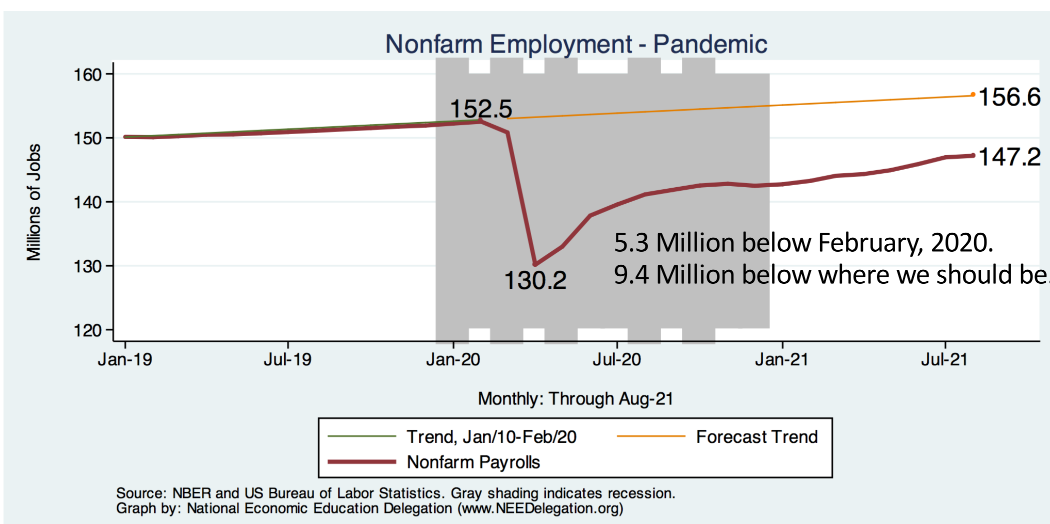


NATIONAL ECONOMIC EDUCATION DELEGATION

13

13

Employment Gap



NATIONAL ECONOMIC EDUCATION DELEGATION

14

14

Why Slow Employment Growth?

- **Is employment growth slow?**

- **It is not because of the generous unemployment checks.**
  - Low wage sectors are seeing solid employment growth.
    - Leisure and hospitality: +328k (July)
    - Professional services: +60k (July)
  - Lack of wage growth.

  - Low wage employment is growing faster in states WITH supplement than in states w/o.

NATIONAL ECONOMIC EDUCATION DELEGATION

15

15

Why Slow Employment Growth?

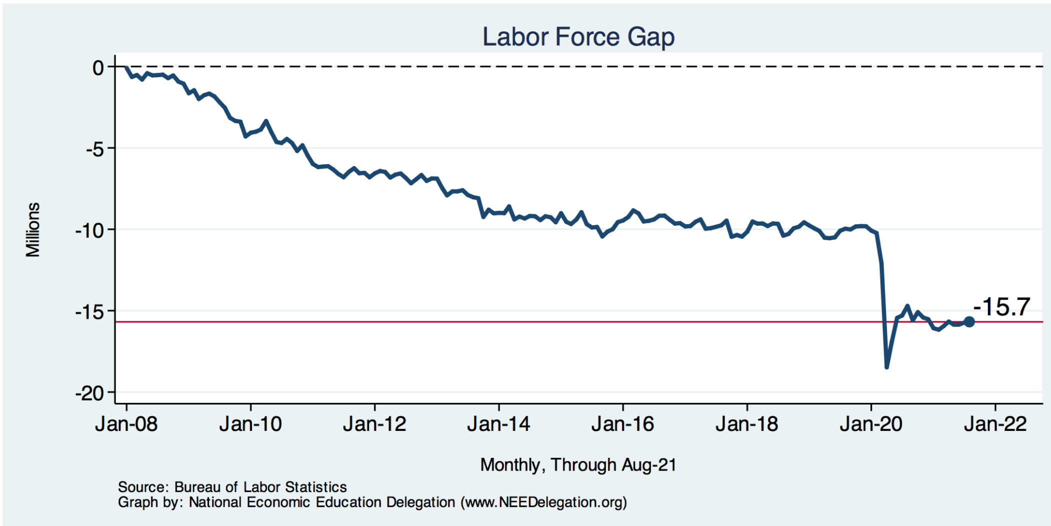
- **It might be:**
  - Continued fear of the virus.
  - Microchip shortages.
  - Geographic mismatch and an unwillingness to relocate…yet.
  - Childcare – lack of availability.
  - People wanting to do better.
    - Facilitated by additional UI payments.
  - People dropping out of the labor force.

NATIONAL ECONOMIC EDUCATION DELEGATION

16

16

Labor Force is Shrinking

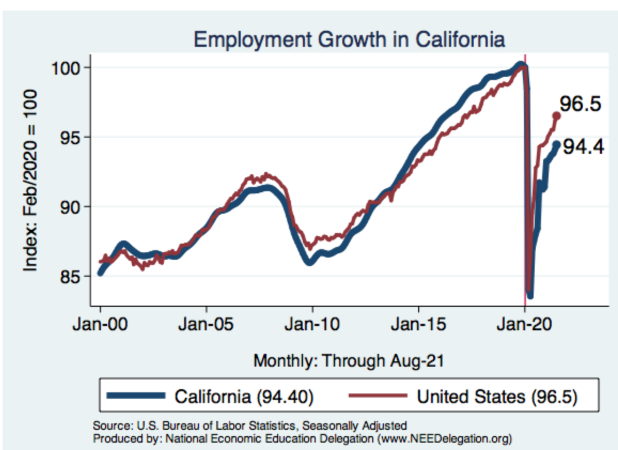


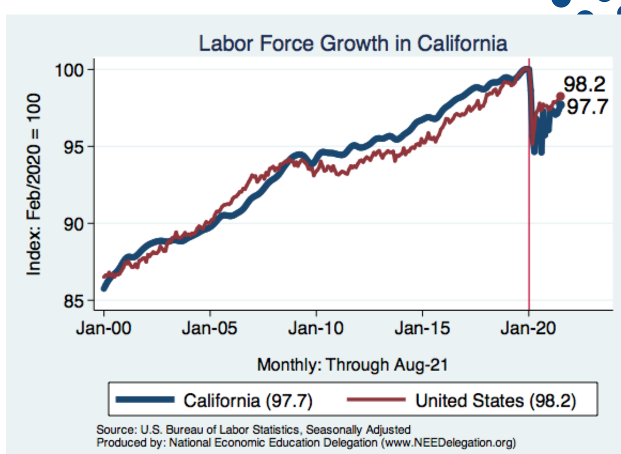
NATIONAL ECONOMIC EDUCATION DELEGATION

17

17

Employment in California





NATIONAL ECONOMIC EDUCATION DELEGATION

18

18

Government Policy

What Have Been Policy Effects

- **Monetary Policy (Fed) acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.**
- **Fiscal policy (Congress) acted quickly, but inevitably made some mistakes.**
  - Stimulus Checks, A ($268b)
  - Expanded Unemployment, B ($268b)
  - Paycheck Protection Program, C- ($525b)
- **Last two packages: $2.8 Trillion**

Is it a V or a K shaped recovery?

1. **Aggregate data look good because the government support for low income workers.**
2. **But, it doesn't look good everywhere. Bottom part of K**
   1. Employment of Low-Income workers.
   2. Small firms.
   3. Hard-hit Sectors: Restaurants, entertainment and transportations.
   4. State and Local Governments
3. **Nike swoosh**

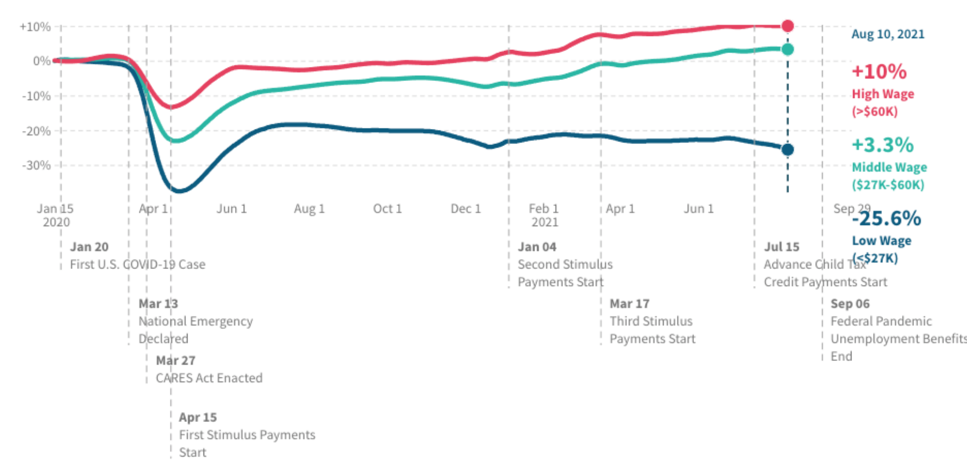
NATIONAL ECONOMIC EDUCATION DELEGATION

21

21

Not All Jobs Are Recovering

In **the United States**, as of August 10 2021, employment rates among workers in the bottom wage quartile decreased by **25.6%** compared to January 2020 (not seasonally adjusted).



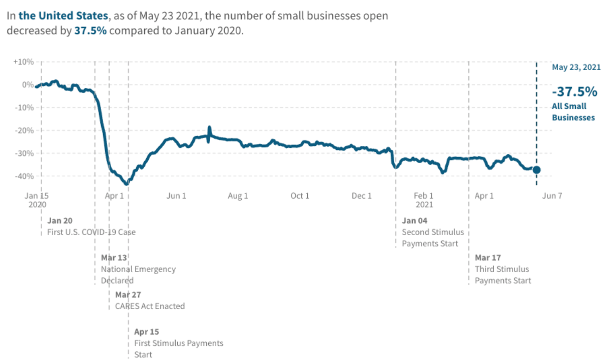
NATIONAL ECONOMIC EDUCATION DELEGATION

22

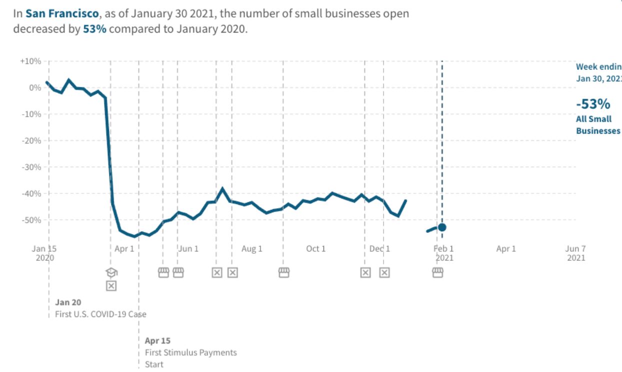
22

Another Hard-Hit Sector: Small Business

Small Biz Closures in the United States



Small Biz Closures in San Francisco

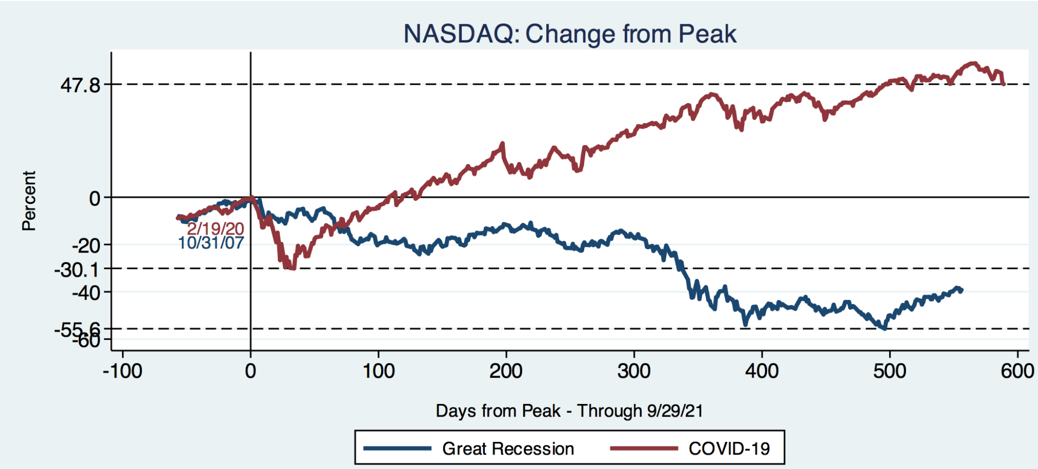


NATIONAL ECONOMIC EDUCATION DELEGATION

23

23

Stockholders doing Very Well



Source: NASDAQ OMX Group, via FRED. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

NATIONAL ECONOMIC EDUCATION DELEGATION

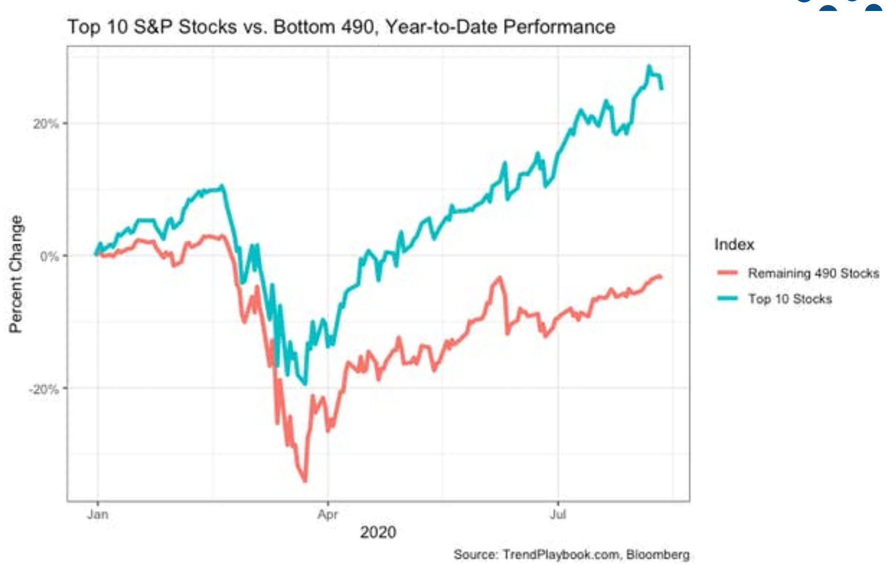
24

24

Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

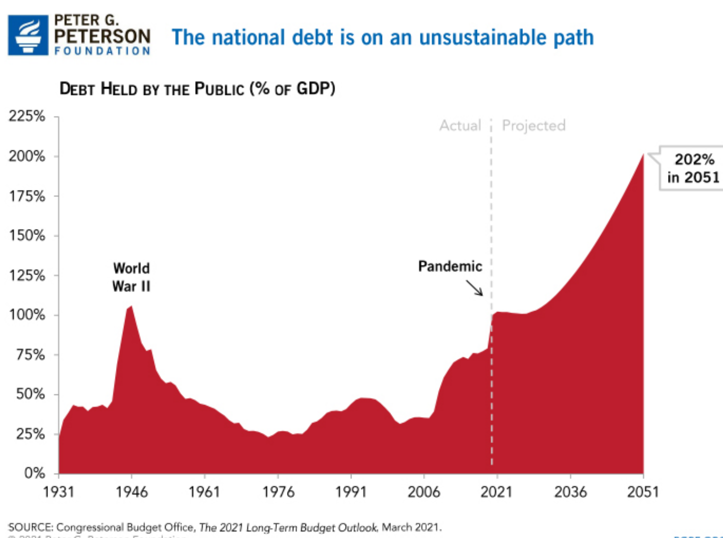


NATIONAL ECONOMIC EDUCATION DELEGATION

25

25

Debt: A Problem Exacerbated….Not Created



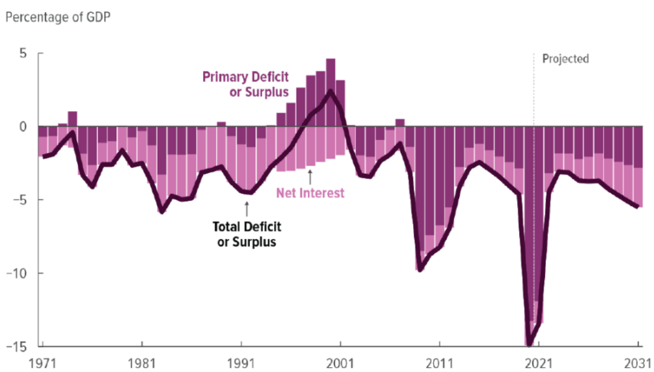
NATIONAL ECONOMIC EDUCATION DELEGATION

26

26

Past and Future of Deficits

Total Deficits, Primary Deficits, and Net Interest



Useful Deficit Decompositions:

Total Deficit= (Spending on Programs + Interest Expense)-Revenue

=(Programmatic Outlays – Revenue)+Interest Expense

*=**Primary Deficit** + **Net Interest***

NATIONAL ECONOMIC EDUCATION DELEGATION

Source: CBO, Updated Budget and Econo9mic Projections, 7/15/2021

27

27

Current Deficits in Perspective:

- **The budgetary cost of the 3 major fiscal packages during the pandemic was over $5 trillion. As a share of the economy this is almost the size of war production in 1943.**

  (Romer, *Brookings Papers on Economic Activity*, 3/25/2021.)

- **Since March of 2021, Fed net holdings of US Treasury bonds have increased by $2.7 trillion.**

NATIONAL ECONOMIC EDUCATION DELEGATION

28

28

What About Current Spending Packages?

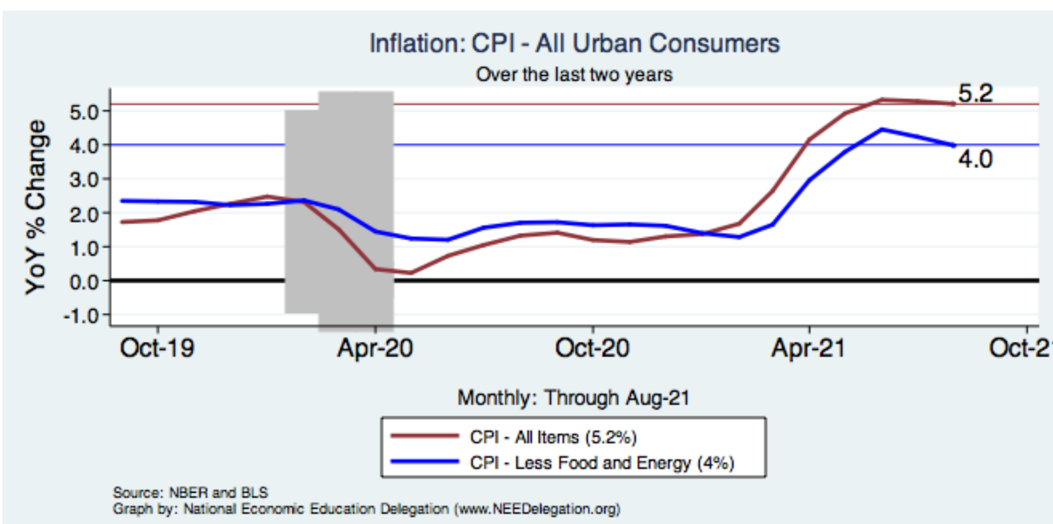
- **Infrastructure:** **$1.0 Trillion**
- **Plugging holes in the safety net:** **$3.5 Trillion**
- **More spending…troubling?**
  - Investments – our infrastructure is a C-
  - Inflationary?

NATIONAL ECONOMIC EDUCATION DELEGATION

29

29

Inflation – Climbing! Should we worry?



NATIONAL ECONOMIC EDUCATION DELEGATION

30

30

What Index to Follow: CPI or PCE?

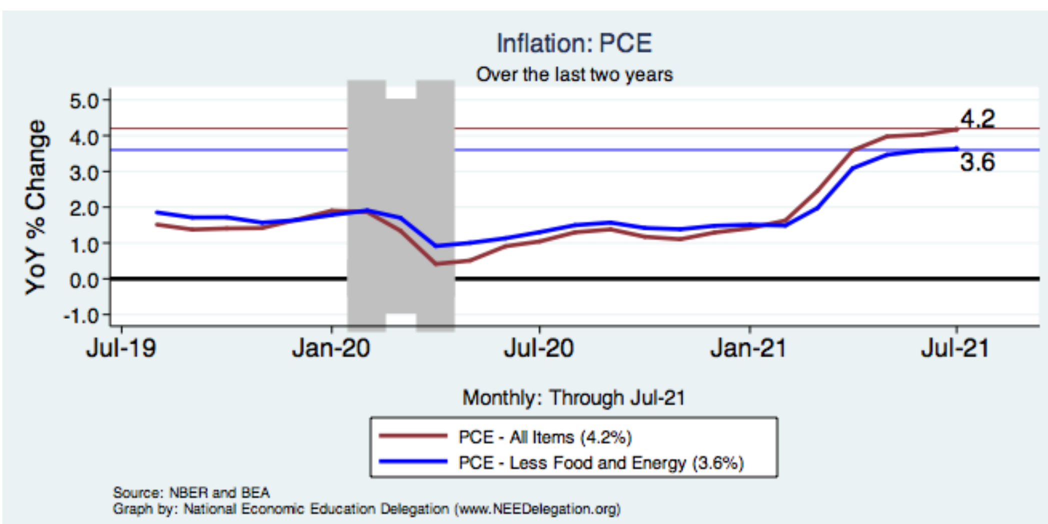
- **CPI is the headline statistic, followed by most newspapers.**
  - Allows more granularity – ability to look at specific products.
- **PCE is the one followed by the Fed.**
  - Why?
    - Accounts for short term fluctuations in consumer purchases.
    - Based on more reliable data.
- **Fed generally pays attention to the core inflation #s.**
  - Excluding food and energy.

NATIONAL ECONOMIC EDUCATION DELEGATION

31

31

Inflation – Climbing! Should we worry?

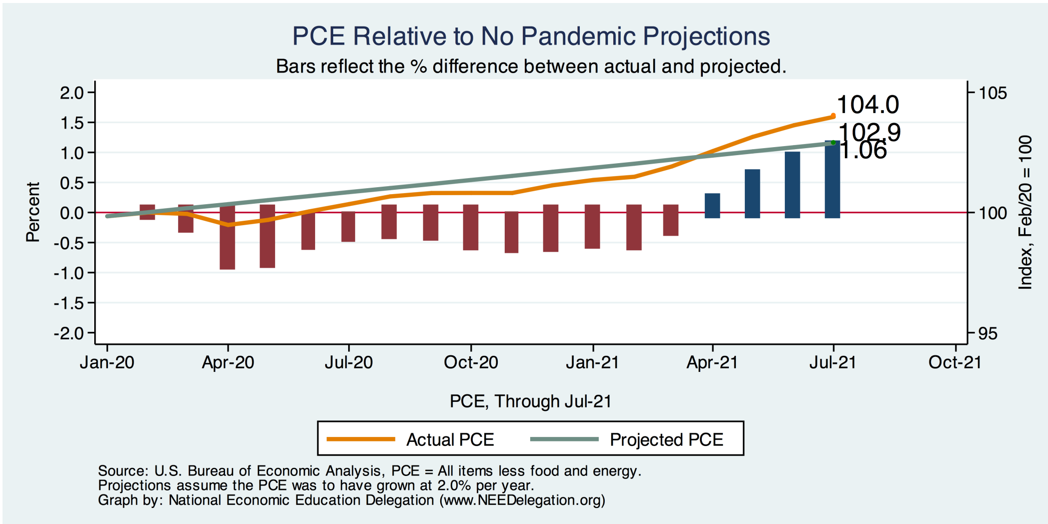


NATIONAL ECONOMIC EDUCATION DELEGATION

32

32

Inflation – PCE and Fed Suggest: No!

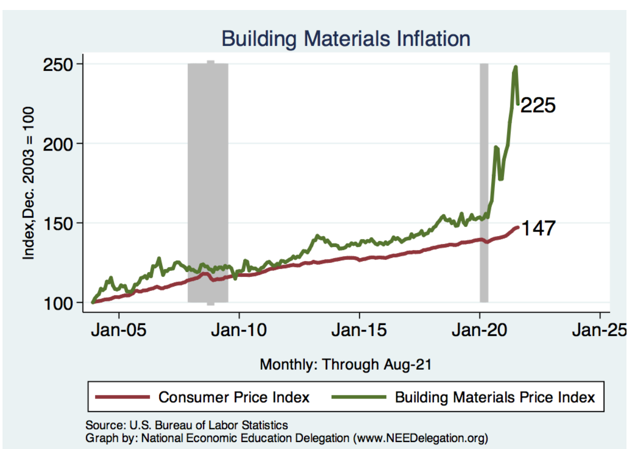


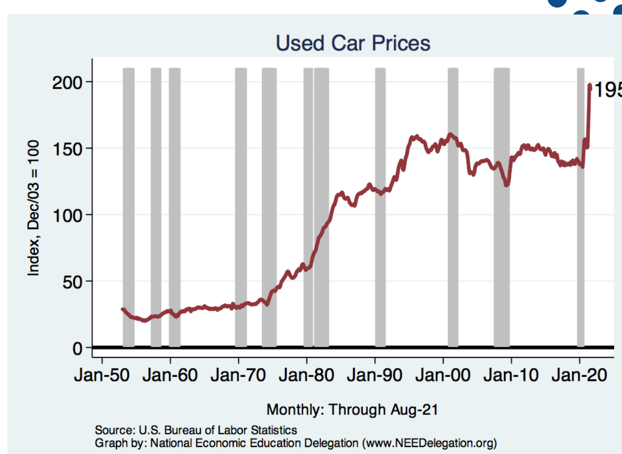
NATIONAL ECONOMIC EDUCATION DELEGATION

33

33

Inflation: Concentrated





NATIONAL ECONOMIC EDUCATION DELEGATION

34

34

Puzzle: Is Inflation Permanently Higher?

- **Fed: No. Price increases are**
  - 1) rebound from low prices last year;
  - 2) temporary due to supply chain disruptions; e.g., used cars, car rentals.

- **On the other hand: We are close to full employment and monetary and fiscal policies are very easy.**

NATIONAL ECONOMIC
EDUCATION DELEGATION

35

35

Inflation – Summary

- **Headline inflation story is troublesome.**
- **The Fed suggests that it is not.**
- **Inflation has been high, but has just recently started slowing.**
- **Powell: current high inflation is "transitory".**
  - That does not mean that price levels will come down.
  - It means that inflation is likely to return to its prior trajectory once the economy has worked out the pandemic kinks.
- **Fed targets 2.0%. We are currently just 1.1% above that.**

NATIONAL ECONOMIC
EDUCATION DELEGATION

36

36

Aggregate Data Looks Encouraging

- **Recovery has been *unexpectedly* rapid, albeit incomplete, but has started to pick up again.**
- **Why so rapid: There were no short-run macro problems at the start of the crisis.**
- **Obstacles to continued recovery:**
  1. Resurgence of the virus.
  2. China
  3. Foreclosures
  4. Economic damage due to prolonged job losses and business failures in specific sectors.
  5. Adapting to structural changes.

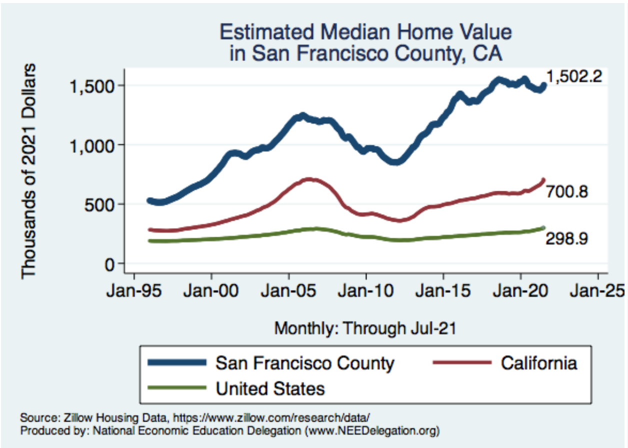
Structural Changes?

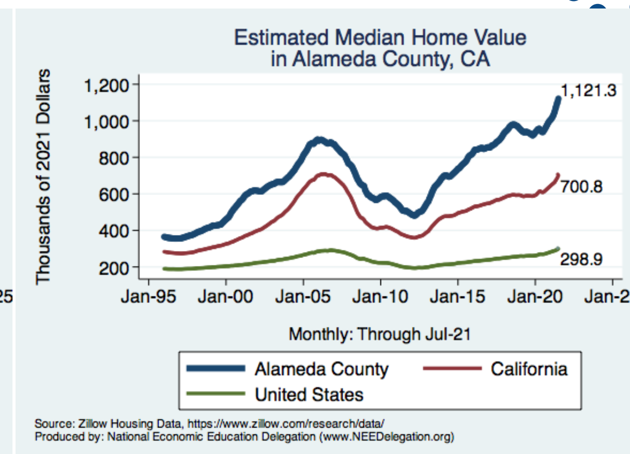
- **Pandemic has been an accelerant.**
  - Not a change agent.

- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**

- **Wealth concentration**
- **Industry concentration**
- **Automation**

RE Experiences Differ!





NATIONAL ECONOMIC
EDUCATION DELEGATION

39

39

Primary Topics Covered

- **GDP**
  - Recovered the decline, but not where it should be.
  - Won’t recover previous forecast until late 2022.
- **Employment**
  - Still down 9.6 million jobs relative to forecast. (5.3 million relative to Feb/20).
  - Labor force is 5.7 million smaller than at the beginning of the pandemic.
- **Inflation**
  - Going to be high for a little while, but transitory.
- **Federal Debt**
  - Has grown significantly, but economists are not worried…yet.

NATIONAL ECONOMIC
EDUCATION DELEGATION

40

40

Conclusion

- **Recovery is well underway, but may be slowing.**
- **Significant structural changes – accelerant.**
- **GDP will likely expand 6% percent this year, 3-4% next.**
- **Physical health determines economic health for the economy.**
  - Well on our way to recovery, both health and economic.
  - Variants may well slow our progress.
  - Gov't missteps may also hinder progress.

NATIONAL ECONOMIC EDUCATION DELEGATION

41

41

Thank you!

Any Questions?

www.NEEDelegation.org

Jon D. Haveman

Jon@NEEDelegation.org

Contact NEED: info@NEEDelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

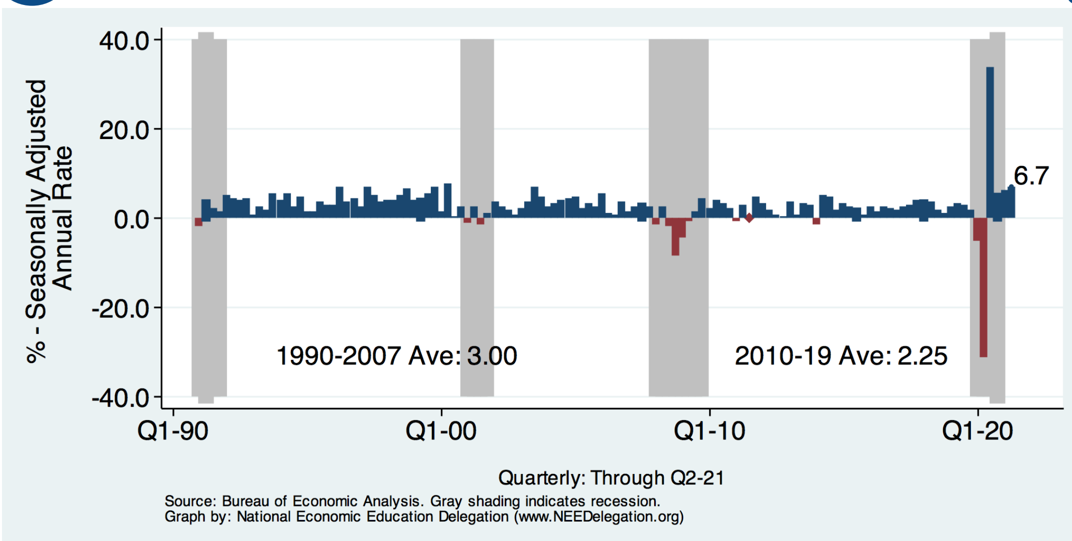
Become a Friend of NEED: www.NEEDelegation.org/friend.php

NATIONAL ECONOMIC EDUCATION DELEGATION

42

42

GDP: Quarterly Growth

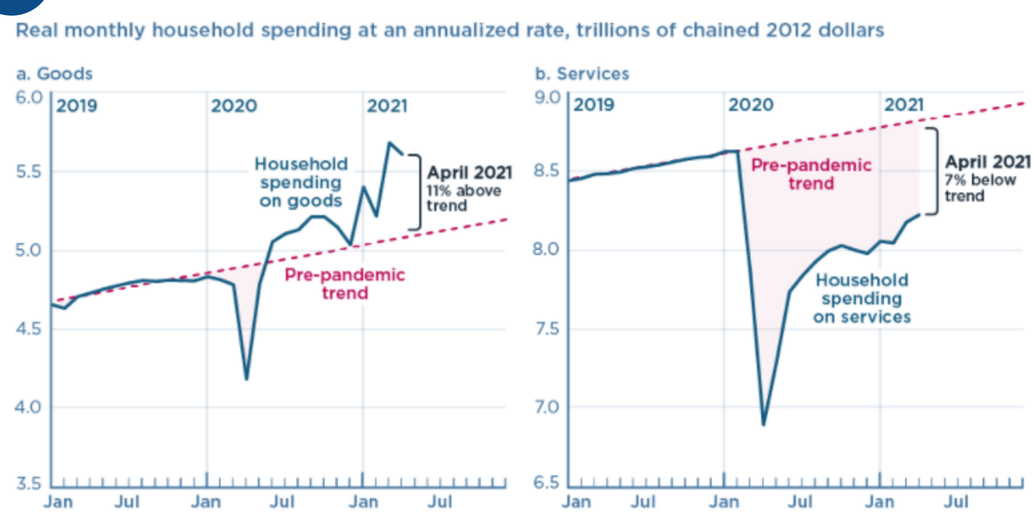


NATIONAL ECONOMIC EDUCATION DELEGATION

43

43

And We're Buying Mostly … Stuff



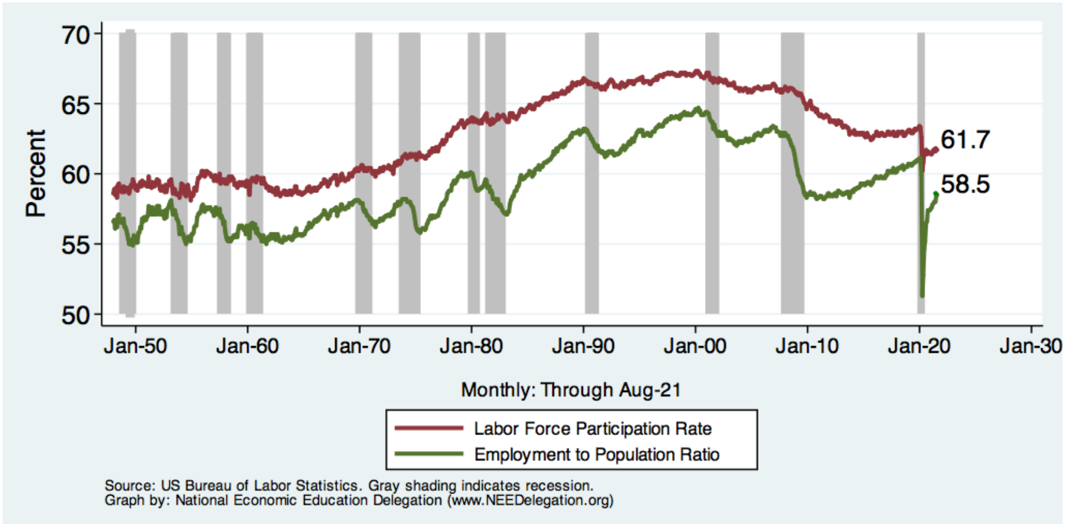
NATIONAL ECONOMIC EDUCATION DELEGATION

44

Source: Jason Furman, PIIE

44

Labor Force is Shrinking

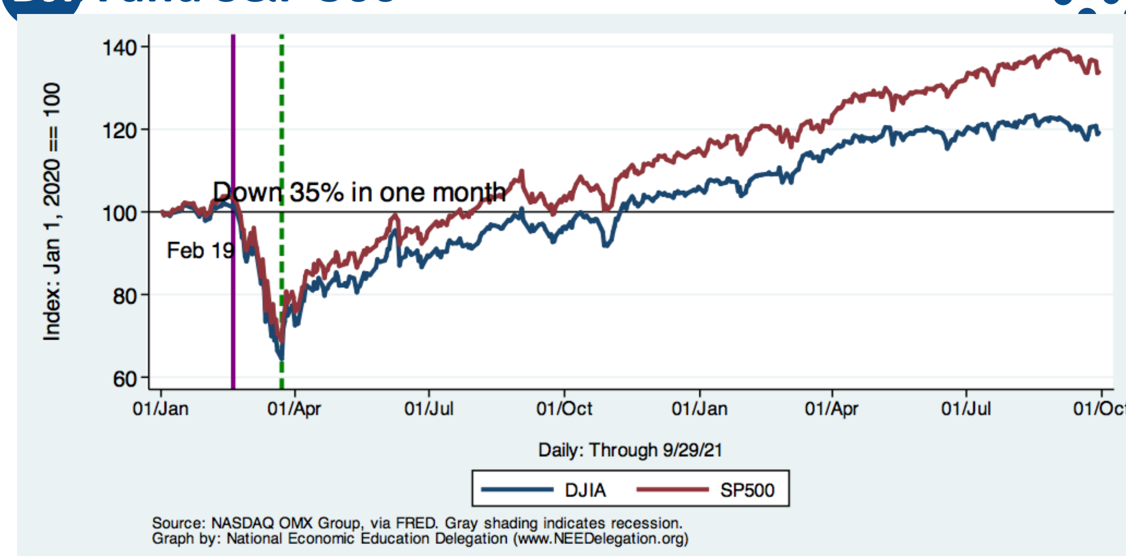


NATIONAL ECONOMIC EDUCATION DELEGATION

45

45

DJIA and S&P 500



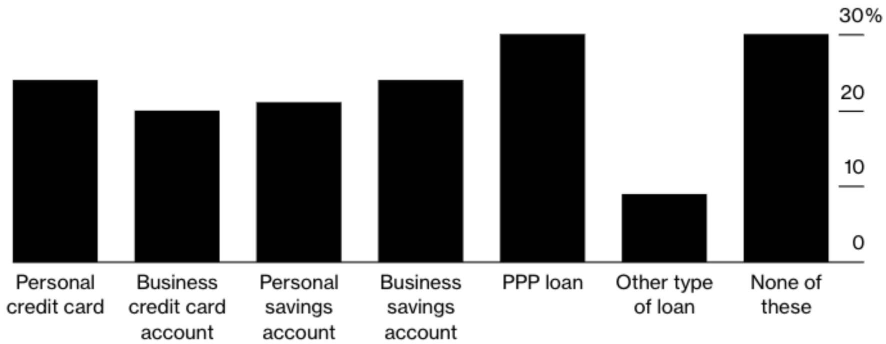
NATIONAL ECONOMIC EDUCATION DELEGATION

46

46

Small Businesses: They Didn't Get Enough PPP

Small Business Owners Turn to Their Own Funds
In total, 70% of respondents were using at least one form of financial support to get their business through the pandemic.

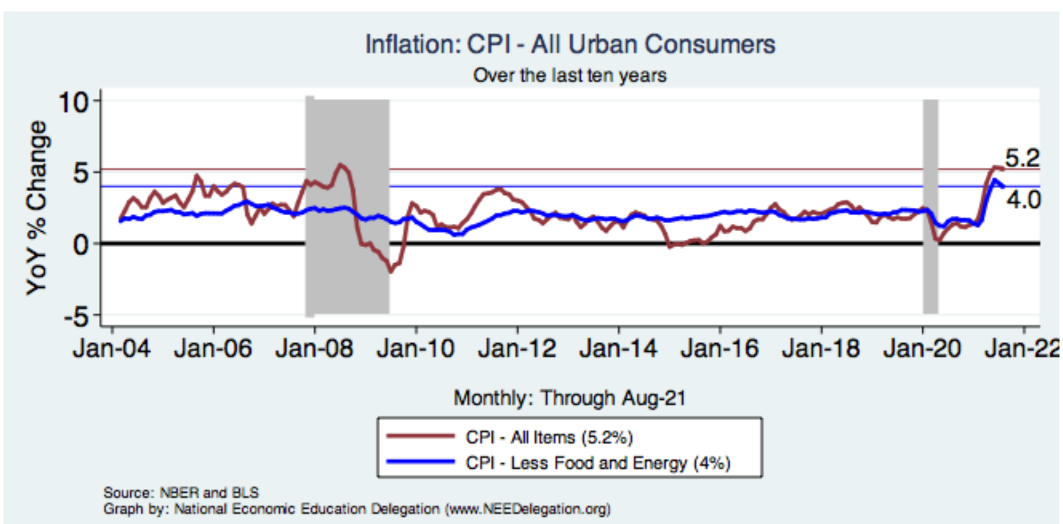


CreditCards.com
Respondents could choose more than one option.

NATIONAL ECONOMIC EDUCATION DELEGATION 47

47

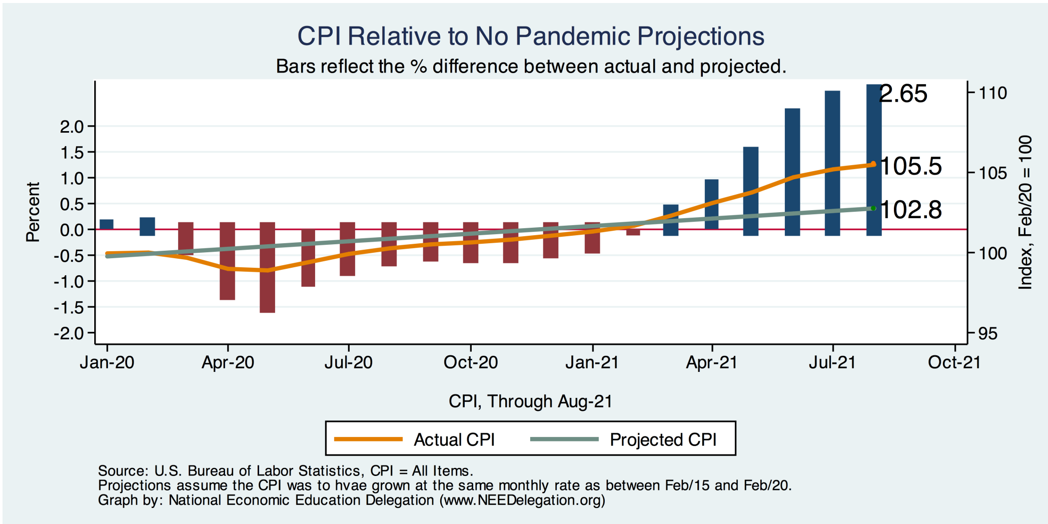
Inflation – Prepandemic Stability



NATIONAL ECONOMIC EDUCATION DELEGATION 48

48

Inflation – CPI Suggests: Yes!

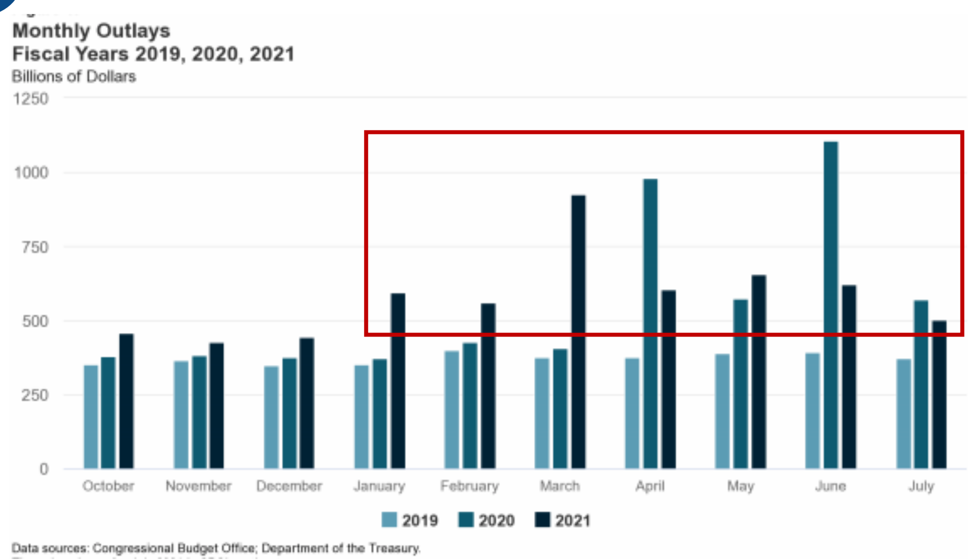


NATIONAL ECONOMIC EDUCATION DELEGATION

49

49

Trillions in Pandemic Spending



NATIONAL ECONOMIC EDUCATION DELEGATION

50

50

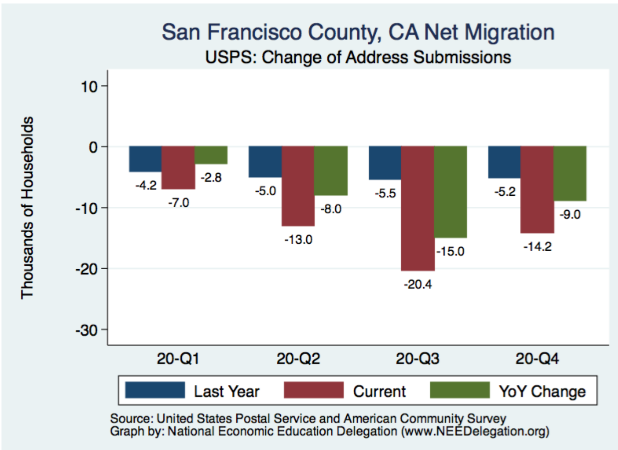
Why so Excited About Telecommunting?

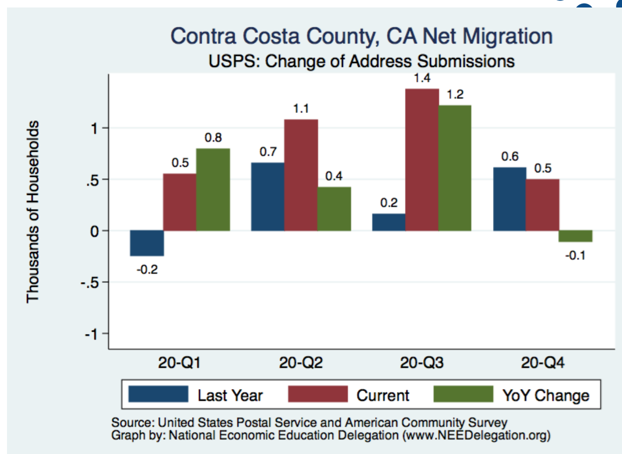
- **Productivity at home appears to be really high during pandemic.**
  - Nothing else to do.
  - Short term – corporate culture and new hires – visibility to the boss – camaraderie.
- **CEOs are salivating over reduced Comm RE costs.**

Telecommuting – Will it Stick?

- **Working from home is ALWAYS less productive than working in the office.**
  - But the gap has shrunk because of technology.
- **In the interest of workplace productivity, employers are likely to allow more working from home.**
  - Increased in-office moral and hence productivity.
  - But not 100% or even 50%. How much?
- **Has important implications for real estate.**

Population Change: San Francisco & CCC





NATIONAL ECONOMIC EDUCATION DELEGATION

53

53

www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.

Detailed graphs on employment, housing, moves, and other statistics.

NATIONAL ECONOMIC EDUCATION DELEGATION

54

54