U.S. Economic Update

Who Are We?

- **Honorary Board: 44 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: 361 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: 42 Ph.D. Economists**
  - Aid in slide deck development

Credits and Disclaimer

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- **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 – U.S. Economic Outlook

- **Behavior of GDP**
- **Labor Market**
- **Monetary Policy/Interest Rates**
- **Summary**

GDP During the Recovery

- *Real GDP* is a standard measure of production used by economists to assess the health and well-being of an economy
- *Potential GDP* is the level of production in an economy operating at full employment
- We use potential GDP to get a sense of what production should be in an economy

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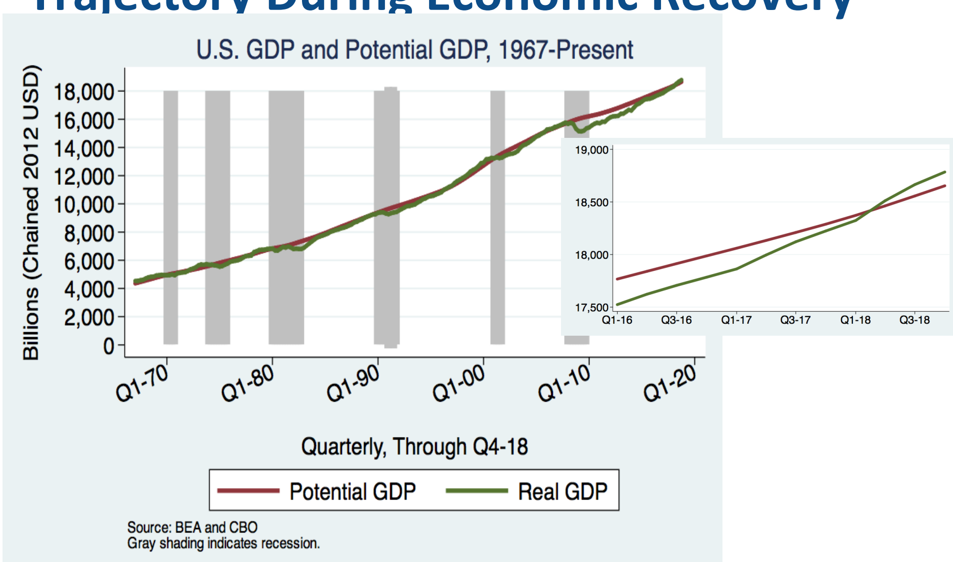
GDP Trajectory During Economic Recovery



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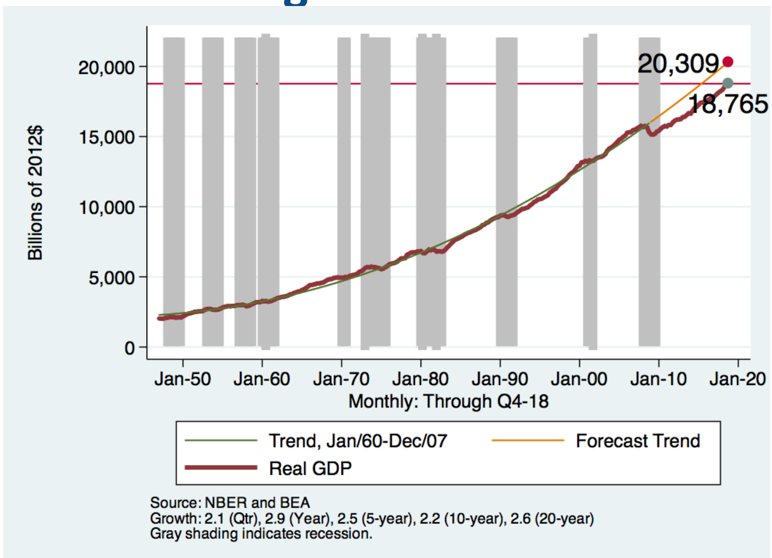
GDP Relative to Long-Term Trends



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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

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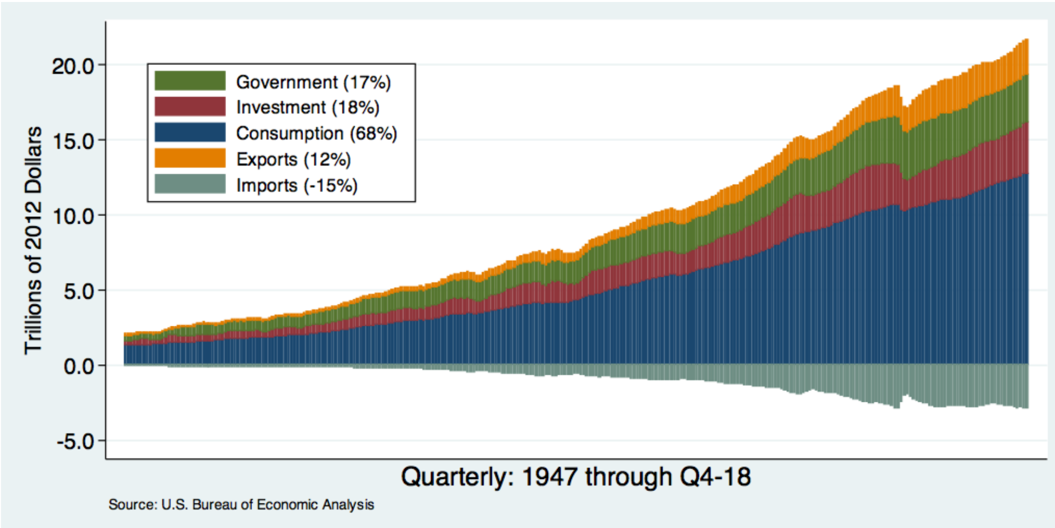
Composition of GDP – Inflation Adjusted



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Composition of GDP

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

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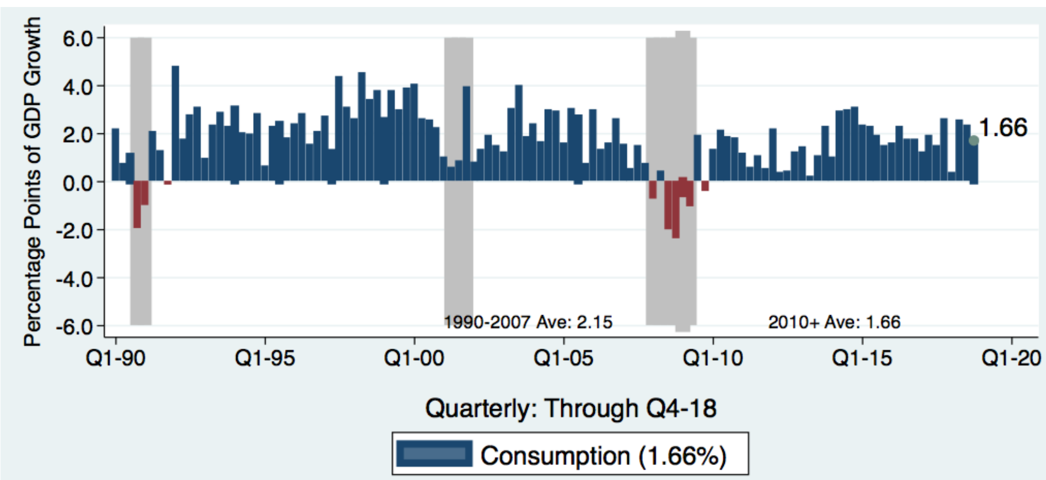
Understanding Contributions to GDP Growth

- **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 would cause GDP growth to be **2 percentage points** higher than it would otherwise be

$$2\% = 2/3 * 3\%$$

Contribution to GDP Growth: Consumption

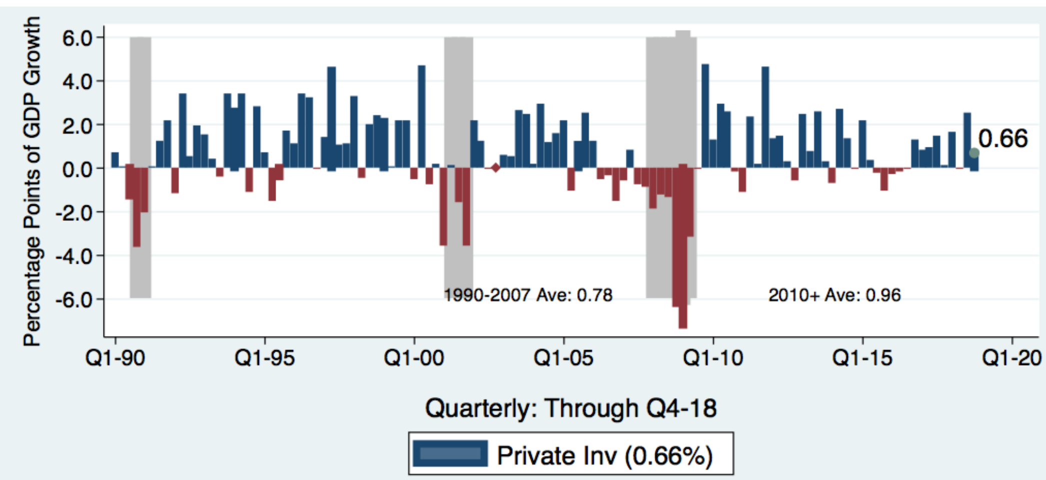


Source: Bureau of Economic Analysis
Gray shading indicates recession.

Investment Expenditures

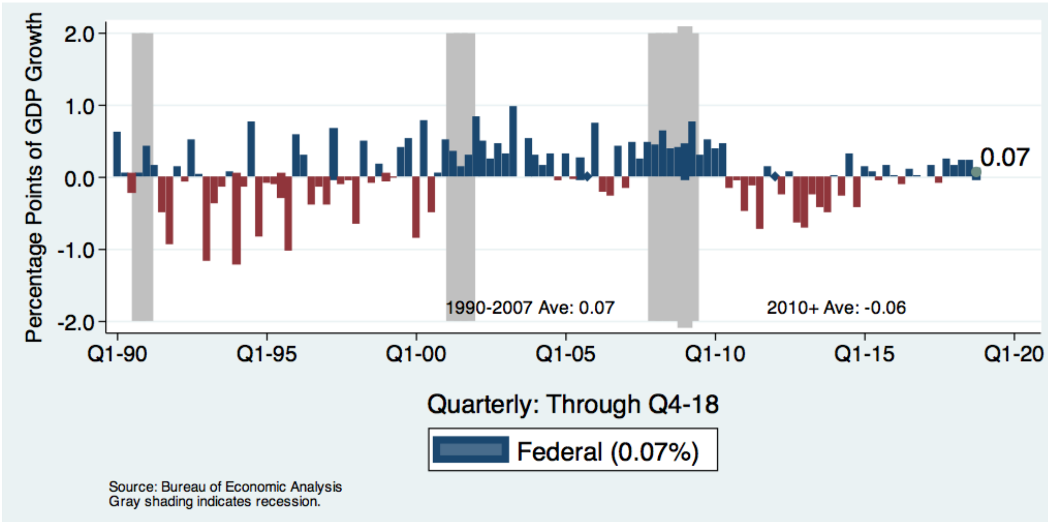
- **Investment expenditures are composed of residential and non-residential spending.**
- **Residential spending refers to purchases of new homes.**
- **Non-residential spending refers to capital purchases and new inventory accumulation.**
  - Tools, machinery, new factories, commercial real estate.

Contributions to GDP: Private Investment



Source: Bureau of Economic Analysis
Gray shading indicates recession.

Contributions to GDP: Government



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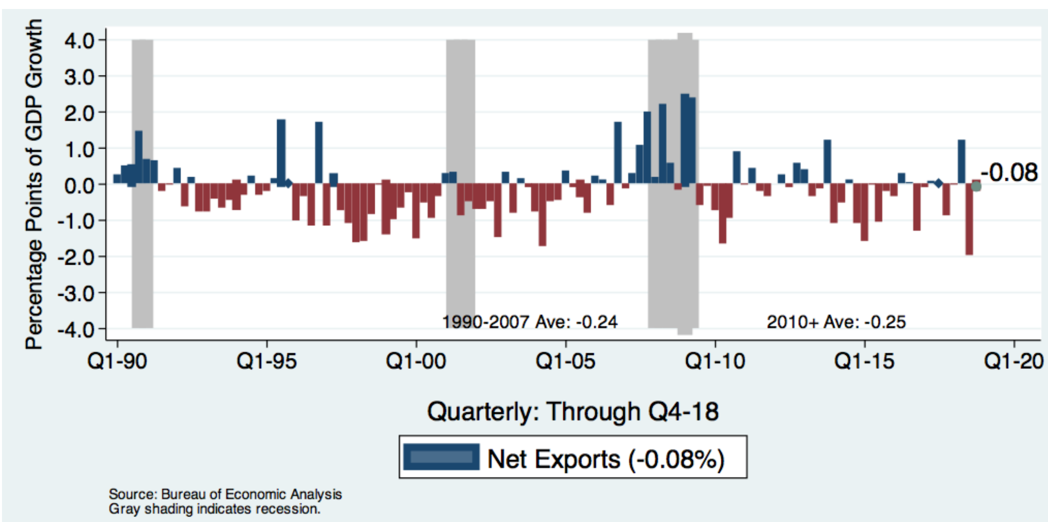
Contributions to GDP: Net Exports



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Expenditure Summary

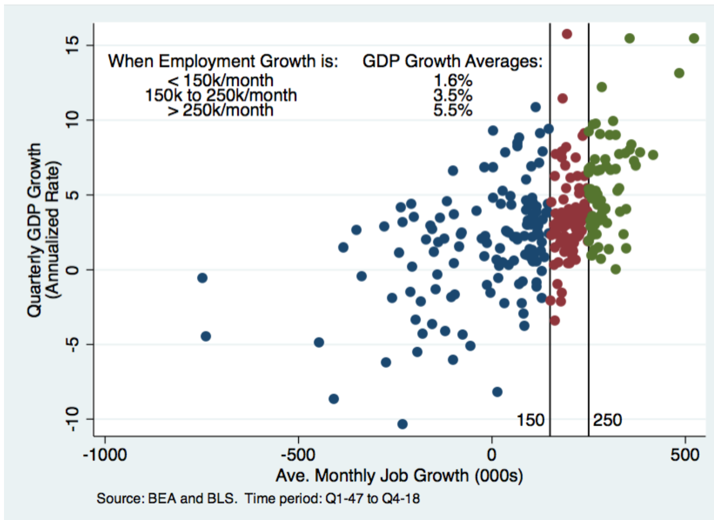
- **Post-recession consumption is down:**
  - Retail sales are returning to trend;
  - Household debt down, but climbing;
  - Personal savings is up.
- **Investment expenditures are contributing more to GDP growth.**
- **Post-recession government spending is down:**
  - But starting to pick up.
- **Net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

Labor Markets

- **In addition to the previously discussed components of GDP, the labor market is an important indicator of the health of the U.S. economy.**

- **We'll focus on employment and productivity.**
  - Trends in employment and labor force participation.
  - Trend in labor productivity.

GDP Growth and Employment Changes



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Labor Market Conditions

- **Unemployment rate is low, 3.8%, but up from low of 3.7%.**
- **Natural rate of unemployment is estimated to be 4.5% - 5.5%.**
- **Monthly employment gains have averaged 207,000 jobs over the last six months.**
- **Recent Labor Market Concerns:**
  - Low employment-to-population ratio
  - Falling labor force growth
  - Slow wage growth

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How is the Unemployment Rate Calculated?

- **It is not a simple thing:**

$$UR = \frac{\#\ \text{Unemployed}}{\text{Labor Force}} * 100$$

- **Why is that not simple?**
  - Because it can go up or down for a variety of reasons:
    - If the labor force shrinks – UR goes down
    - If employment grows – UR goes up
  - Not all employment is created equally
- **Not a good indicator of the overall well being of the US economy**

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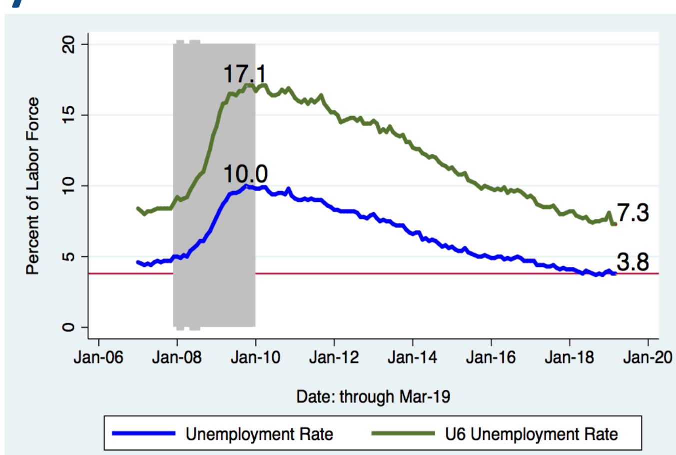
Unemployment Rate



Source: Bureau of Labor Statistics
U6: Total unemployed, plus all marginally attached workers plus total employed part time for economic reasons.
Gray shading indicates recession.

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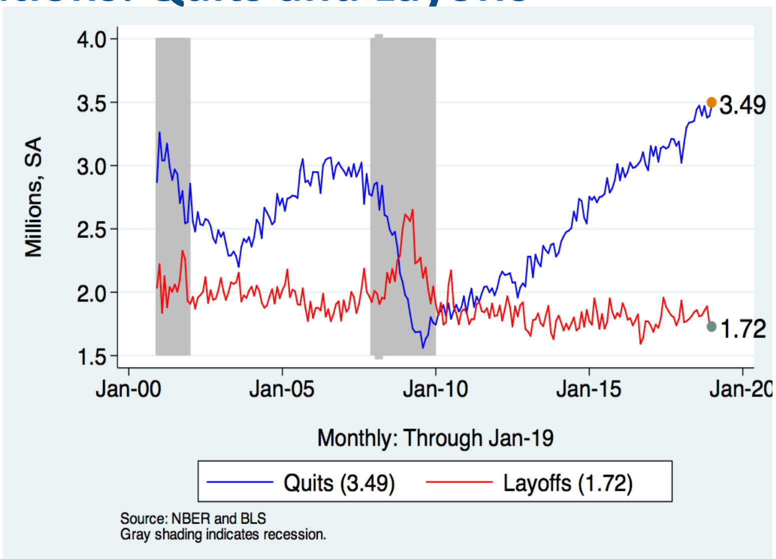
Separations: Quits and Layoffs



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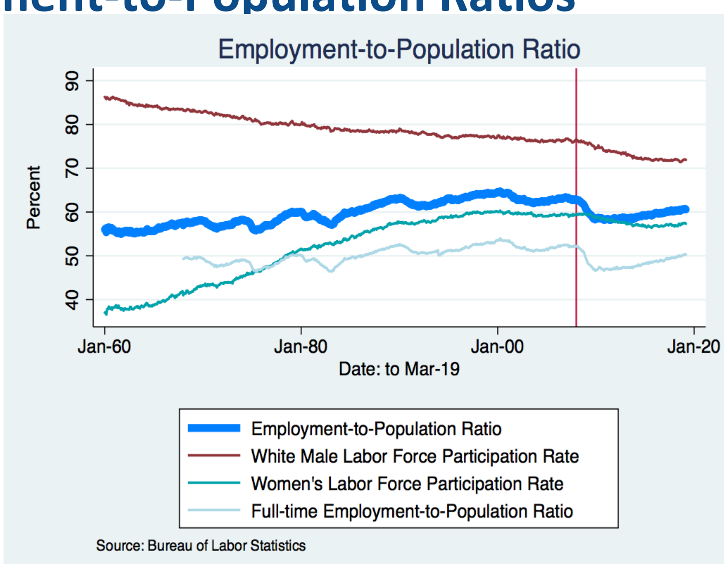
Employment-to-Population Ratios



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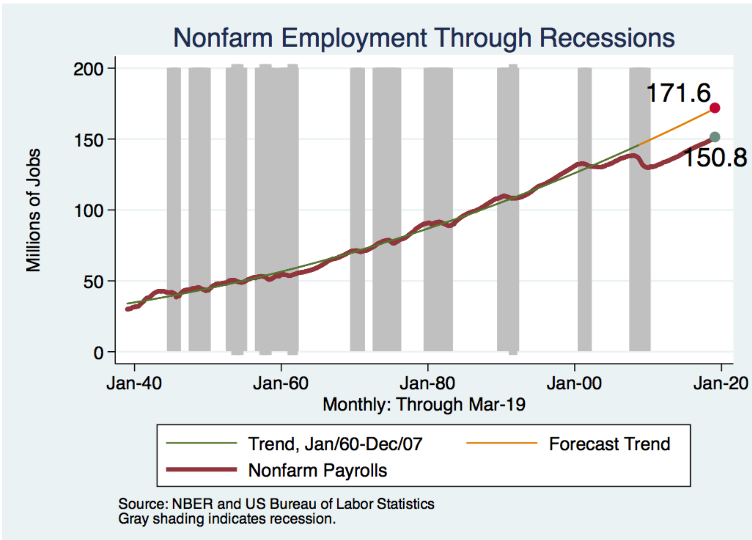
Employment Growth



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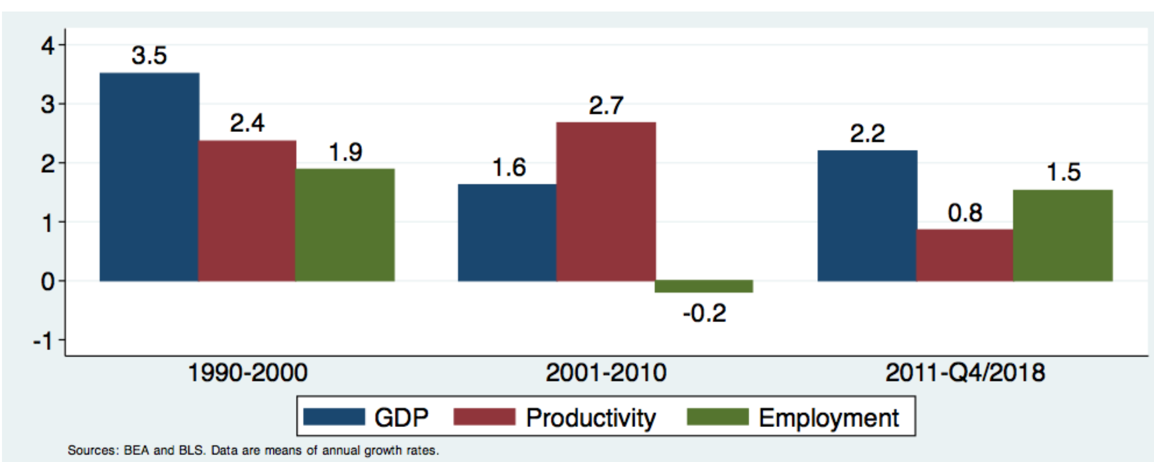
GDP Growth, Productivity, and Employment



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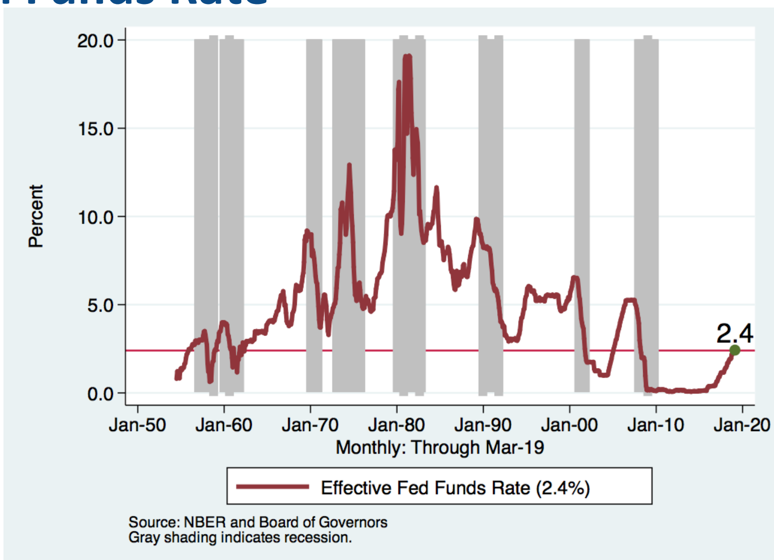
Summary

- **GDP growth is primarily fueled by increases in demand for output.**
- **This growth is supported by growth in employment and productivity of the labor force.**
- **Recent years have seen relatively tepid increases in demand for output.**
  - In particular, consumption and government spending have been slow relative to other periods.
- **This tepid growth has lead to slow increases in employment.**
  - Although labor markets have tightened, wages have not experienced rapid growth.
- **Productivity growth has played little role in growing GDP.**
  - Why this is so is not immediately clear.

Monetary Policy

Federal Funds Rate



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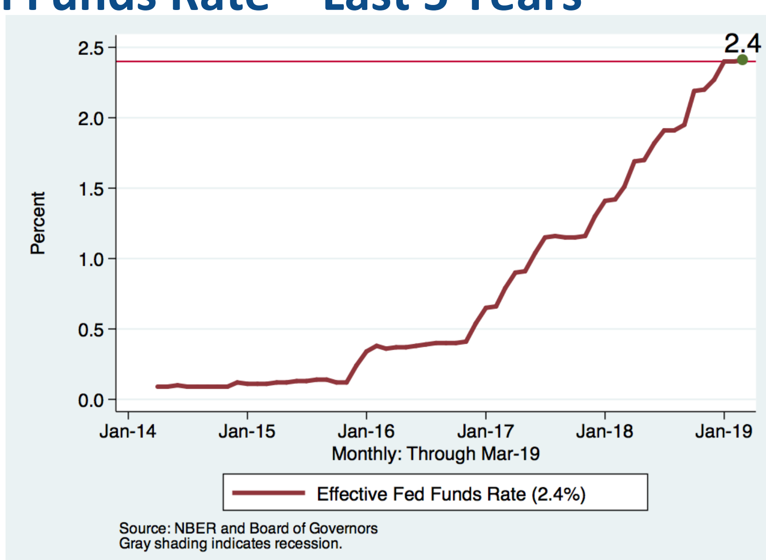
Federal Funds Rate – Last 5 Years



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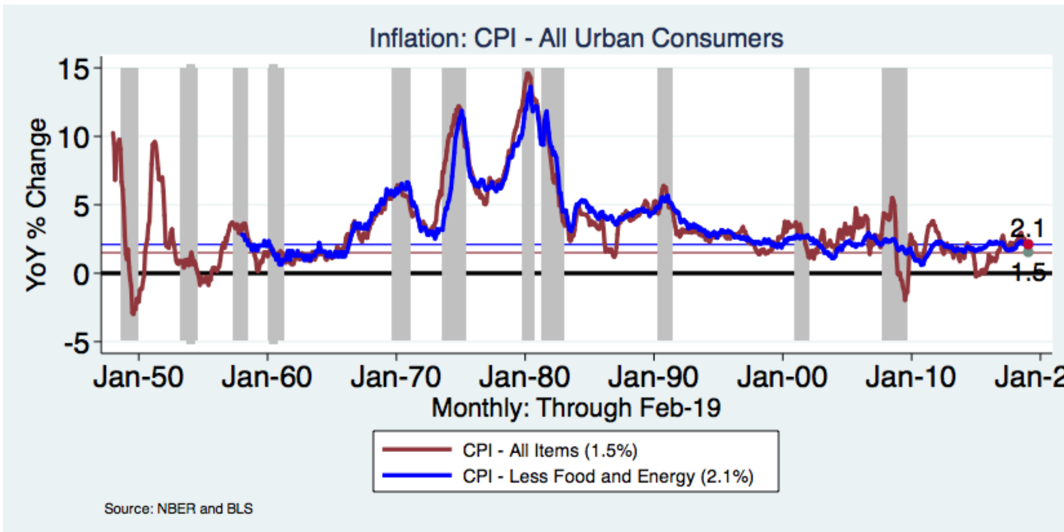
Inflation



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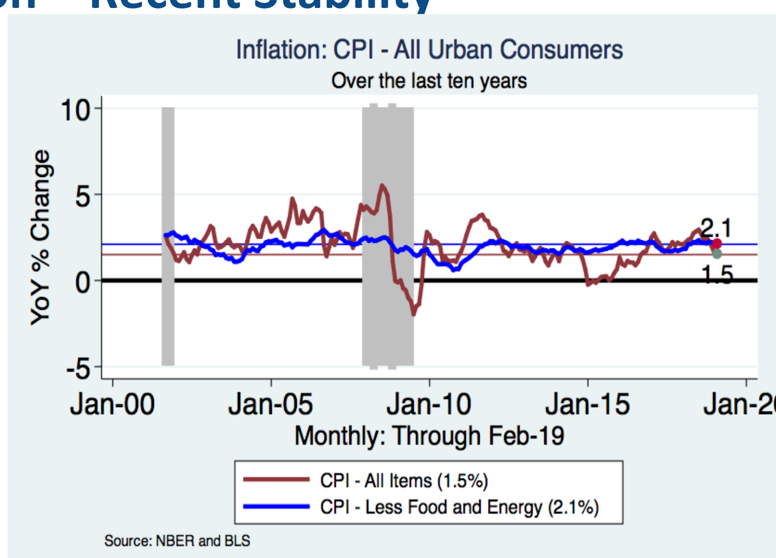
Inflation – Recent Stability



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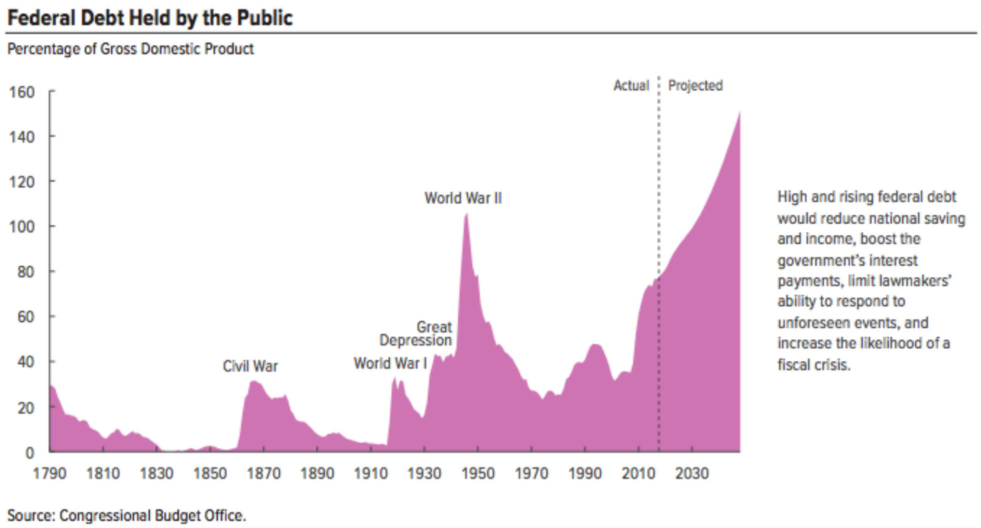
Summary of GDP, Labor Markets and Monetary Policy

- **Behavior of GDP**
  - Behavior of expenditure components matter.
  - On average, post-recession consumption, government, and export. expenditures are contributing less to GDP therefore slowing the recovery.
  - In contrast, investment expenditures are contributing more.
- **Labor Market**
  - Unemployment is low, labor force participation is stagnant
  - Real wages may be starting to grow.
- **Monetary Policy**
  - Interest rates are rising.
  - Policy normalization is underway.

Things to Be Worried About

- **Yield Curve**
- **Government Debt**
- **Declining Labor Force**
- **Income and Wealth Inequality**
- **Infrastructure**
- **Savings**
- **Policy Uncertainty**
  - Trade and immigration policy, especially

Federal Government Debt Projections



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Overall Summary

- **Tailwinds and headwinds both exist**
  - Economic forecasts for near term are favorable
  - Later 2019 and 2020 forecasts are less sanguine
- **There remains room for the economy to grow – cautious outlook**
  - Labor force growth is available
  - Consumption has room to grow, but there is evidence of slowing
  - Business investment may be slowing
  - Return to productivity growth? But how? What's the next big idea?
- **Long term concerns unaddressed**
  - Demographics, climate change
  - Federal government debt
  - International trade policy

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