



US Economic Update

SIRs 146, Walnut Creek
August 11, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation



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- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
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Outline

- **Recession – is we is?**
- **Inflation**
- **Federal Reserve**



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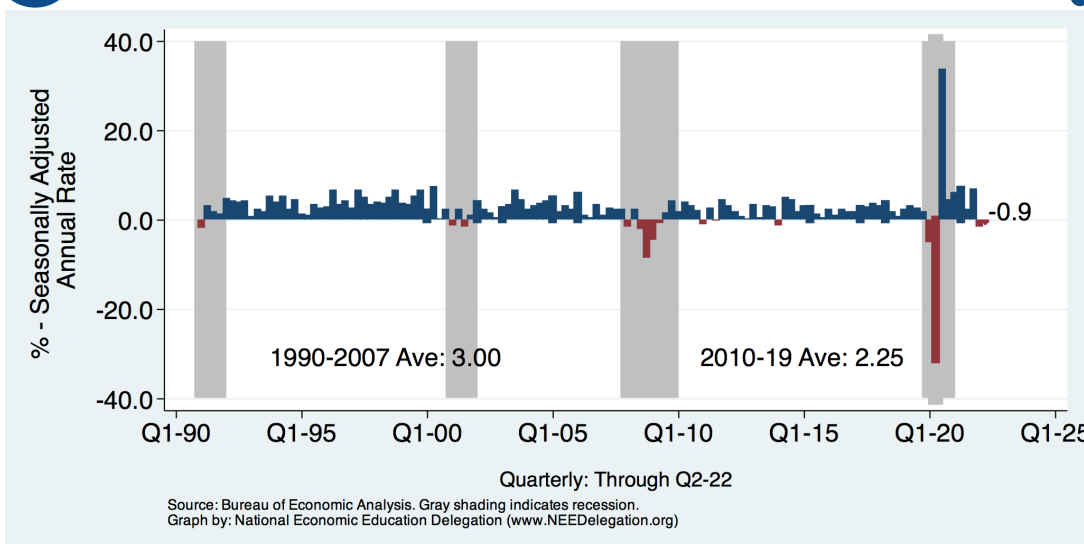
Headline:

G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

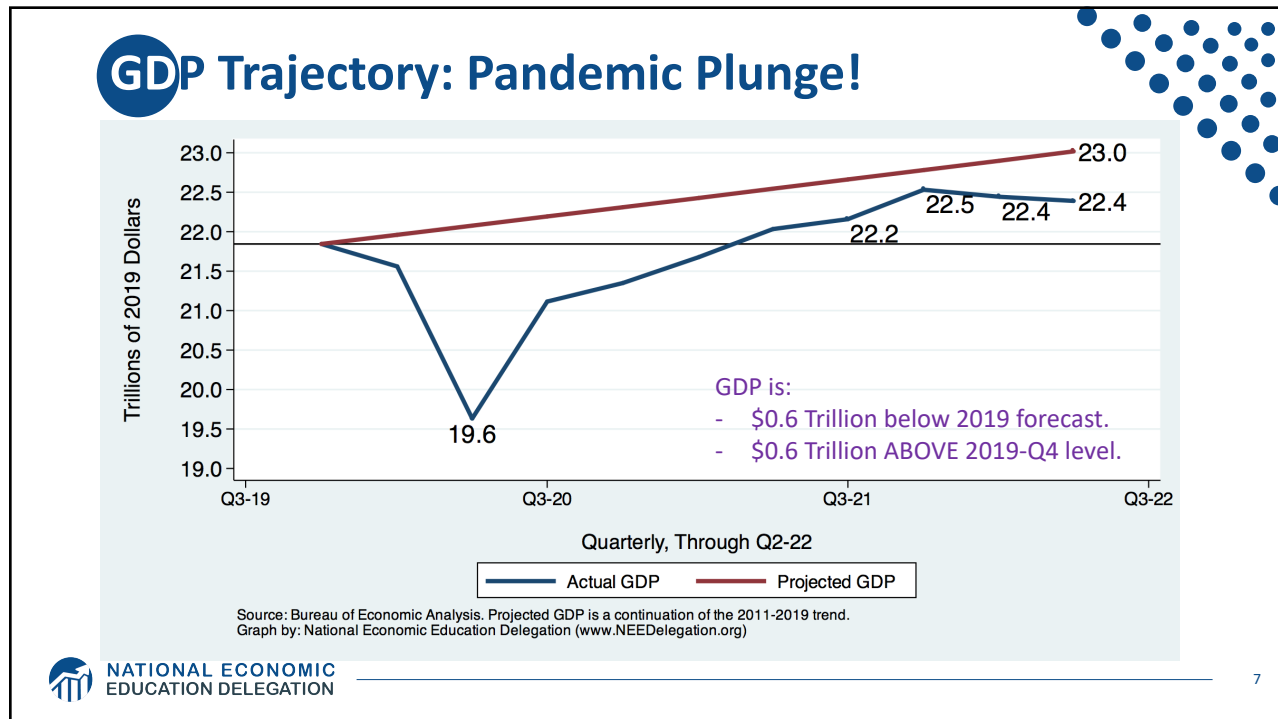
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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GDP: Quarterly Growth



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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

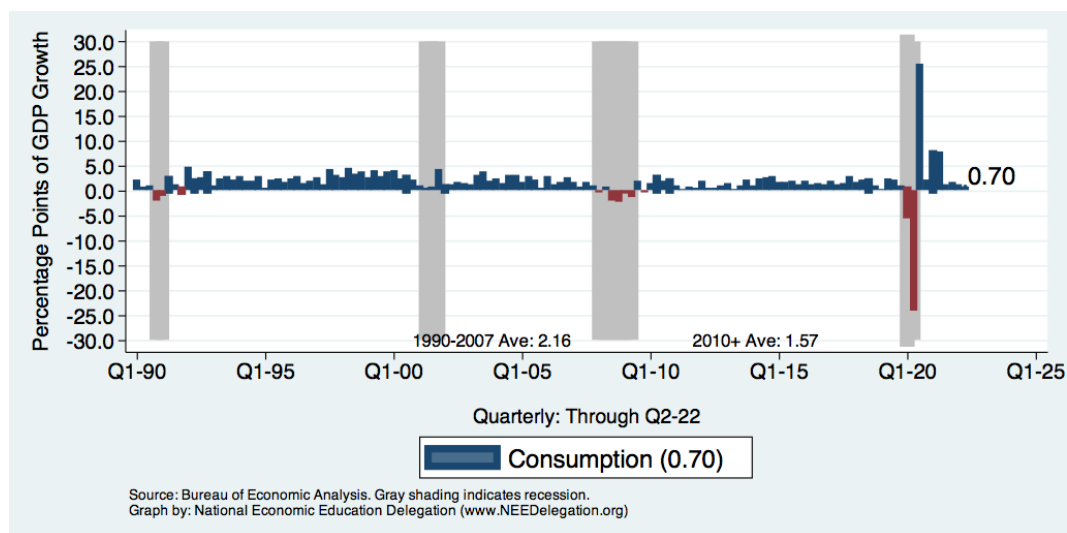
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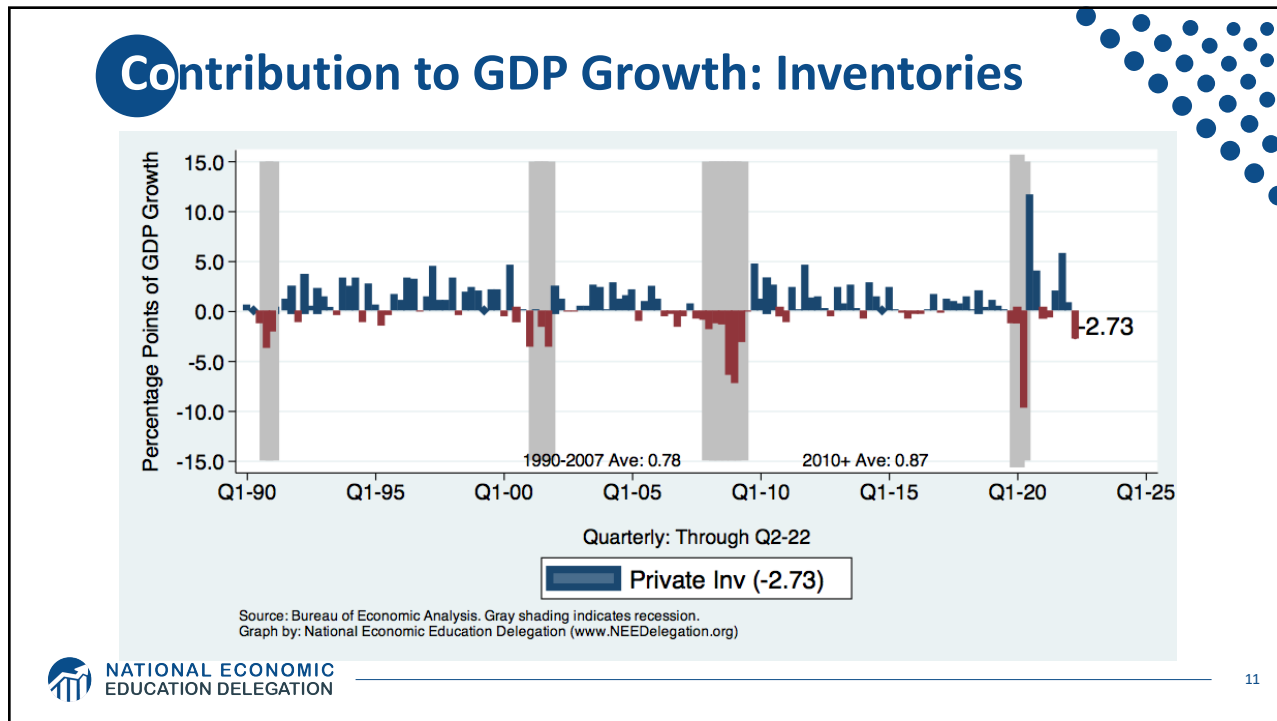
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Recession? Two Quarters....

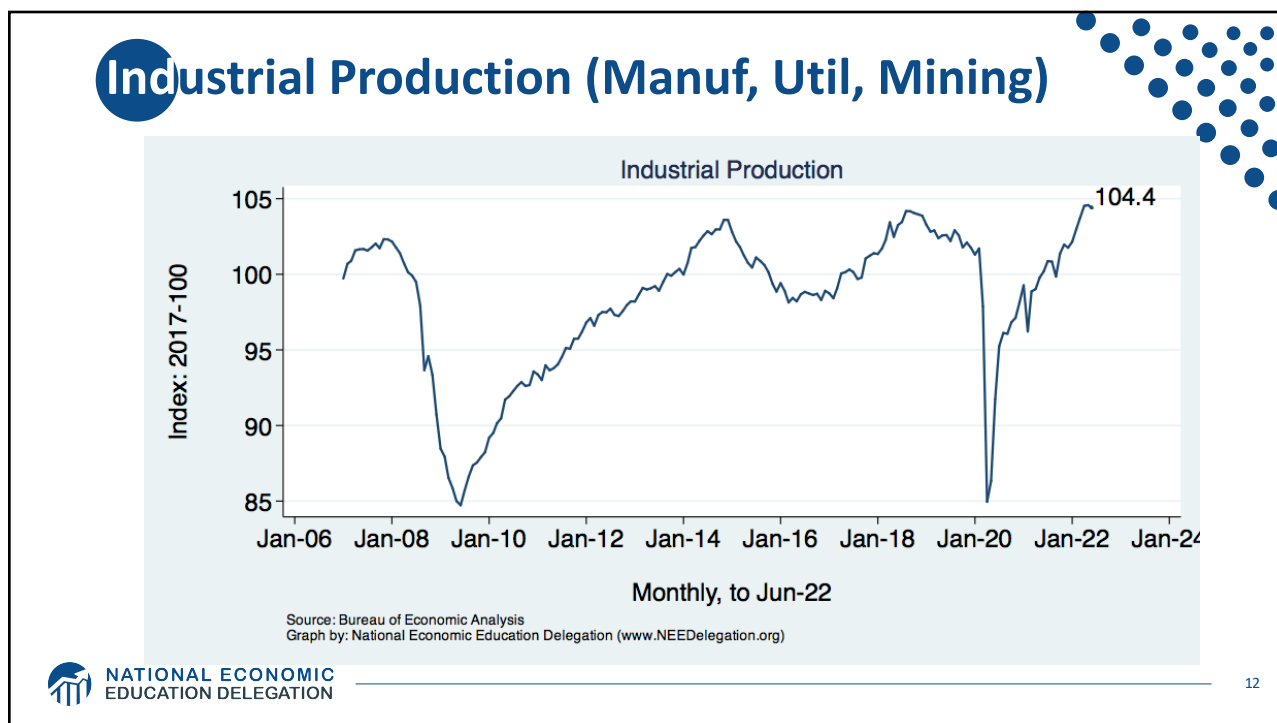
- **Depends on what is driving the drop.**
 - Inventories
 - Housing
 - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**

Contribution to GDP Growth: Consumption



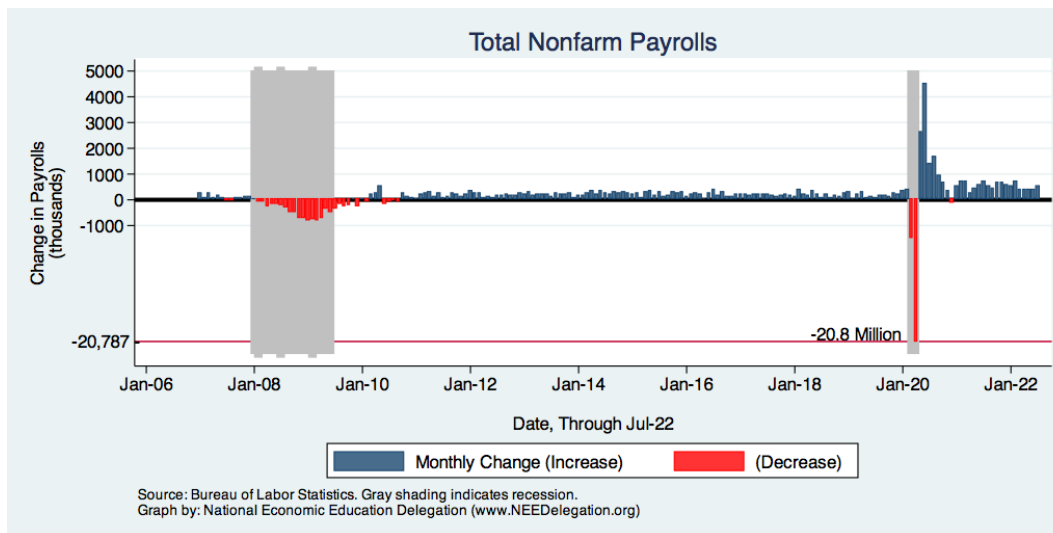


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Monthly Changes in Nonfarm Employment

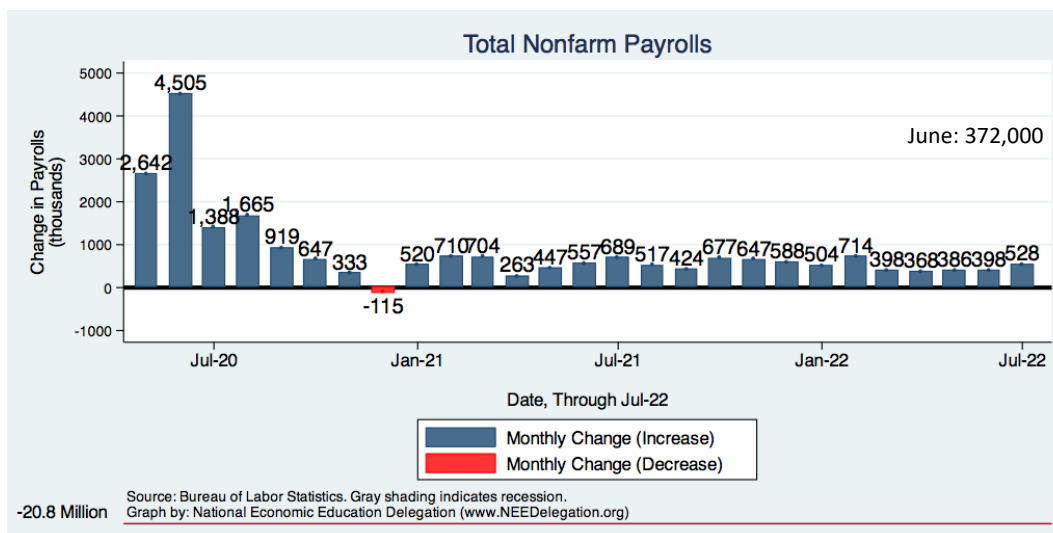


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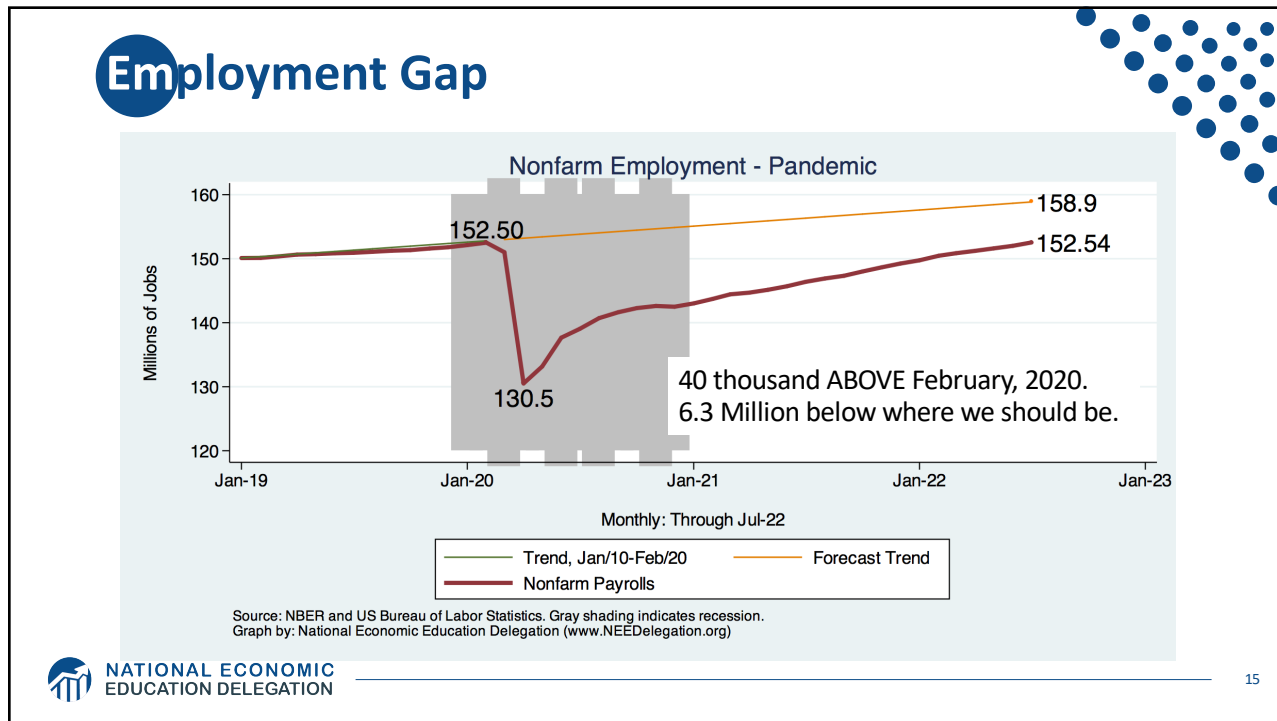
Monthly Changes in Nonfarm Employment



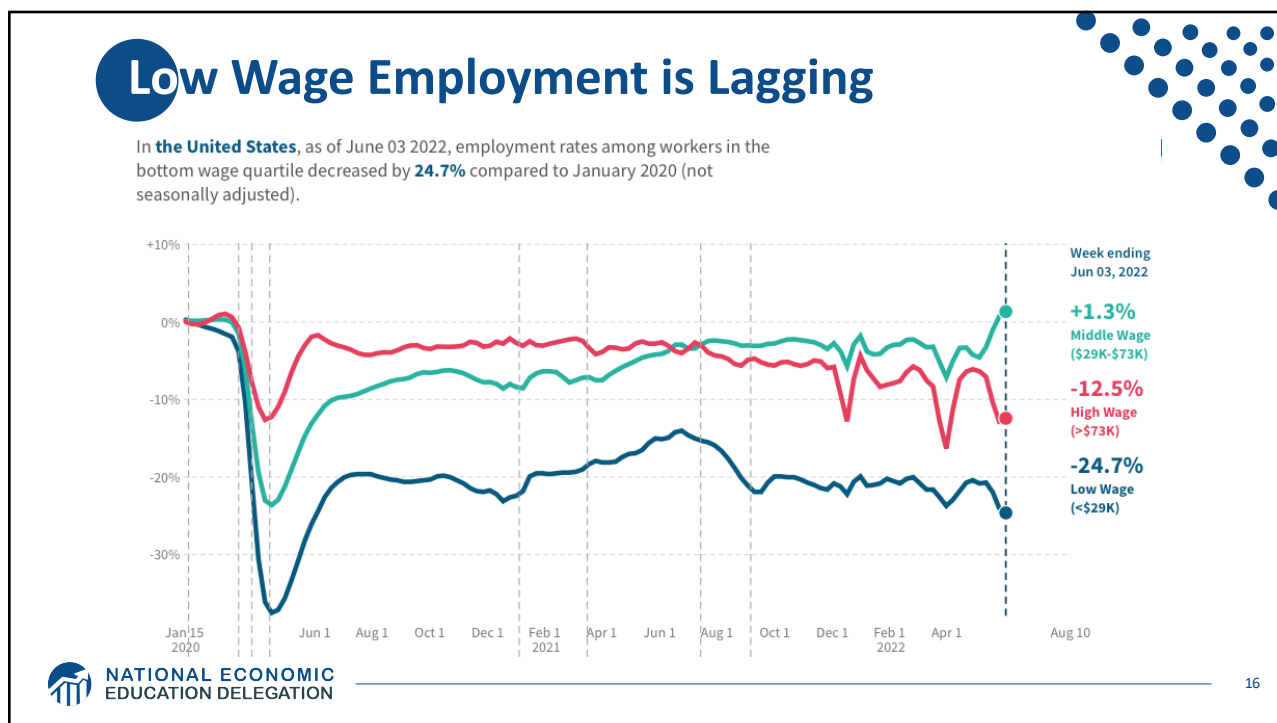
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Inflation



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Inflation: Latest Figures

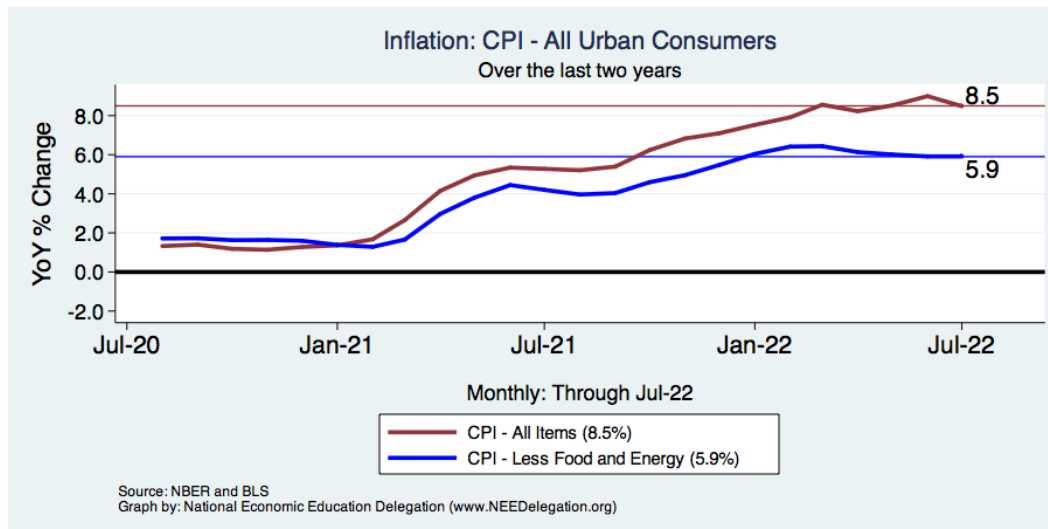


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Inflation – Climbing! Should we worry?

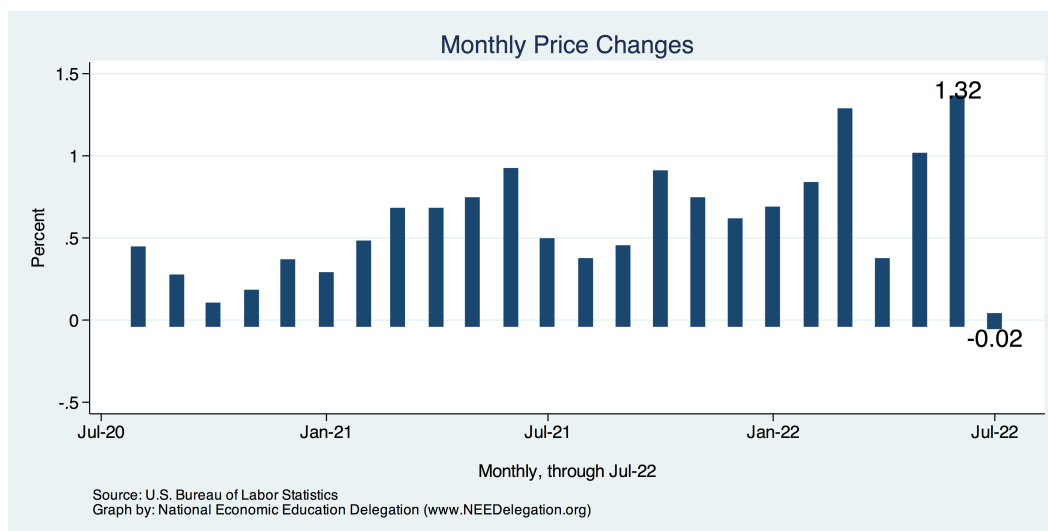


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Inflation: ZERO from June to July

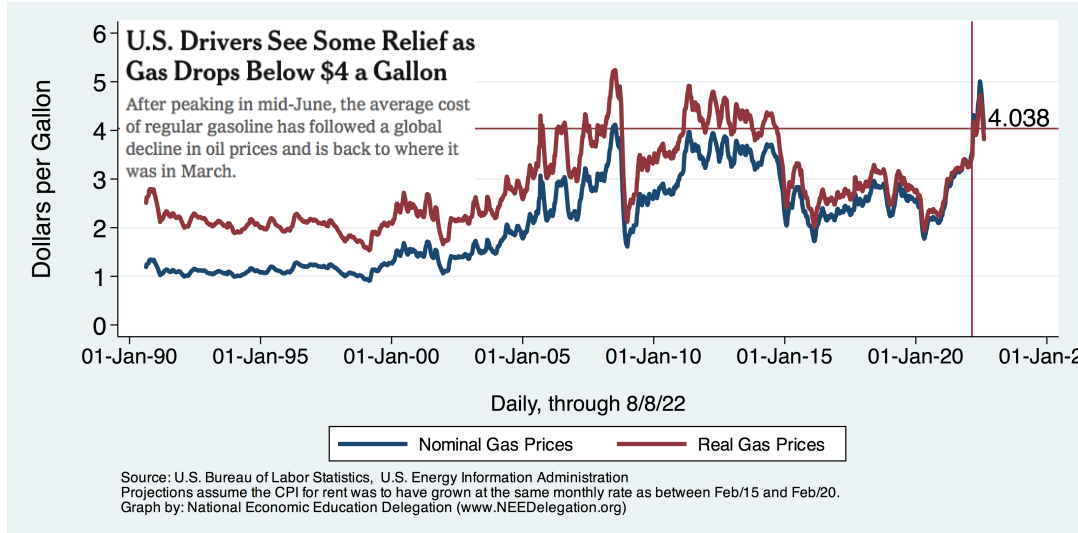


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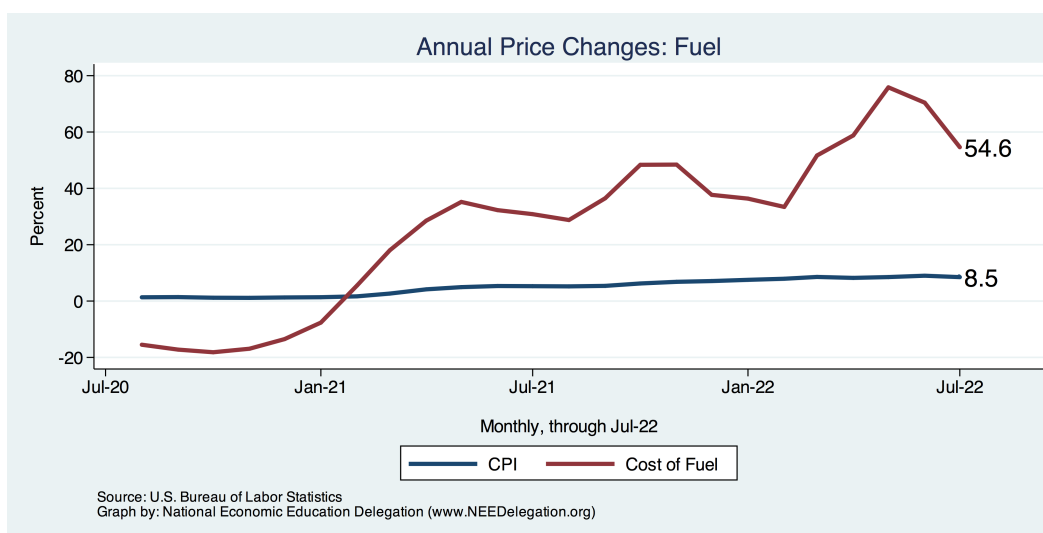
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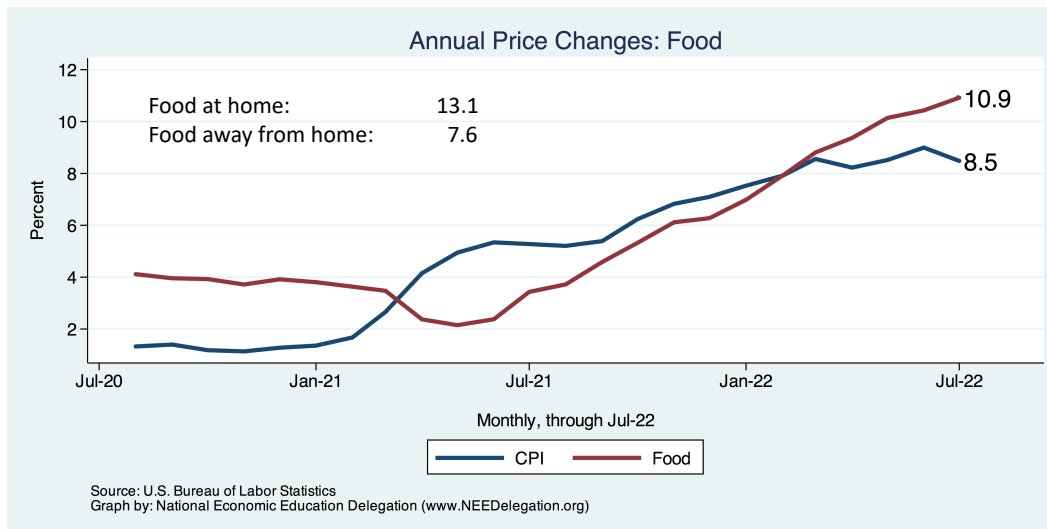
Gas Prices: National Average at the Pump



Fuel Costs Continue Are Still Elevated



Food Costs Continue to Rise



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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



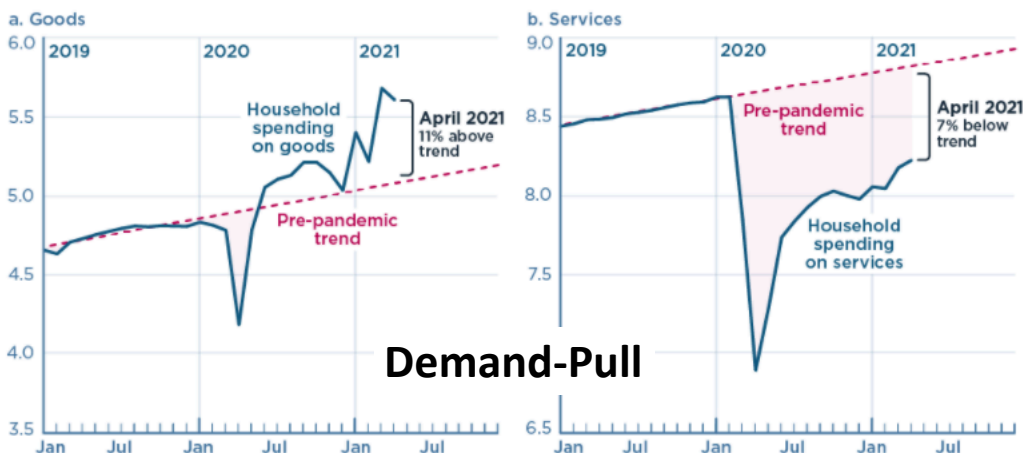
When prices rise, wages rise too, in order to maintain living costs.



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We Have Been Buying Mostly ... Stuff

Real monthly household spending at an annualized rate, trillions of chained 2012 dollars



Demand-Pull



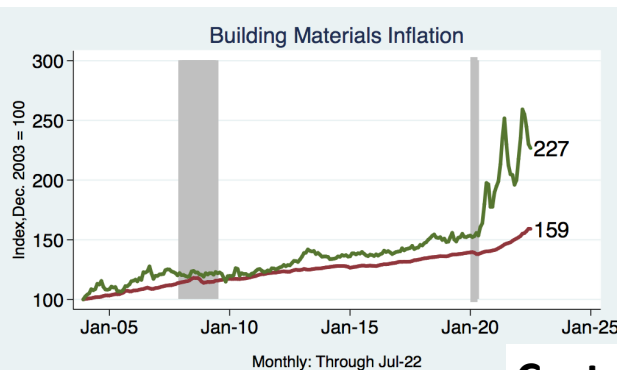
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Source: Jason Furman, PIIE

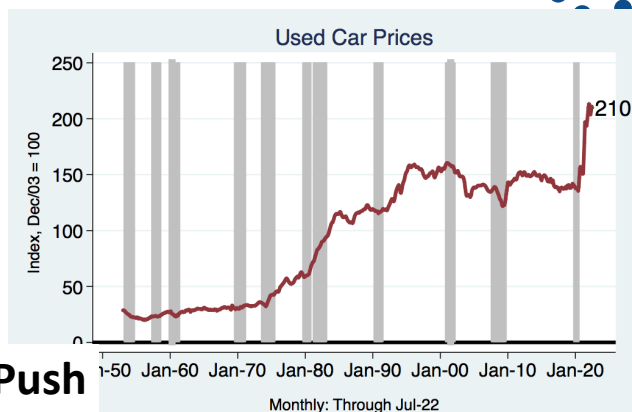
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Inflation: Concentrated



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



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

Cost-Push



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Supply Chains

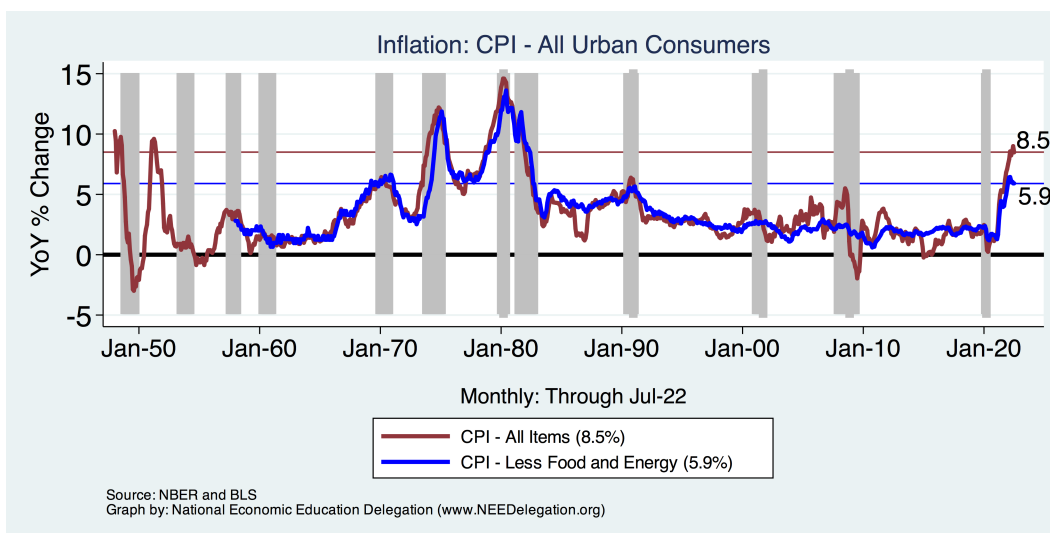


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Inflation in Historical Perspective

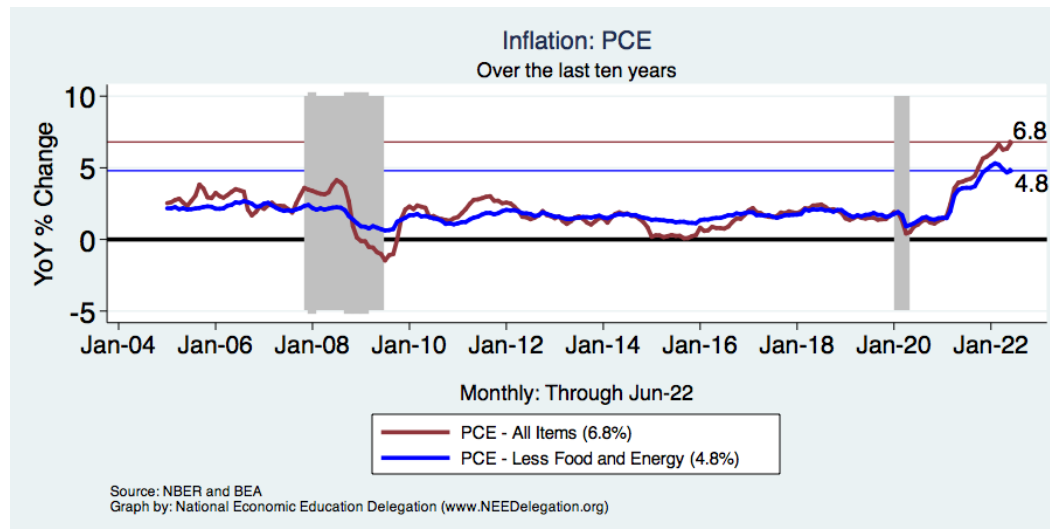


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Fed's Preferred Measure of Inflation



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My Diagnosis for the Uptick in Inflation

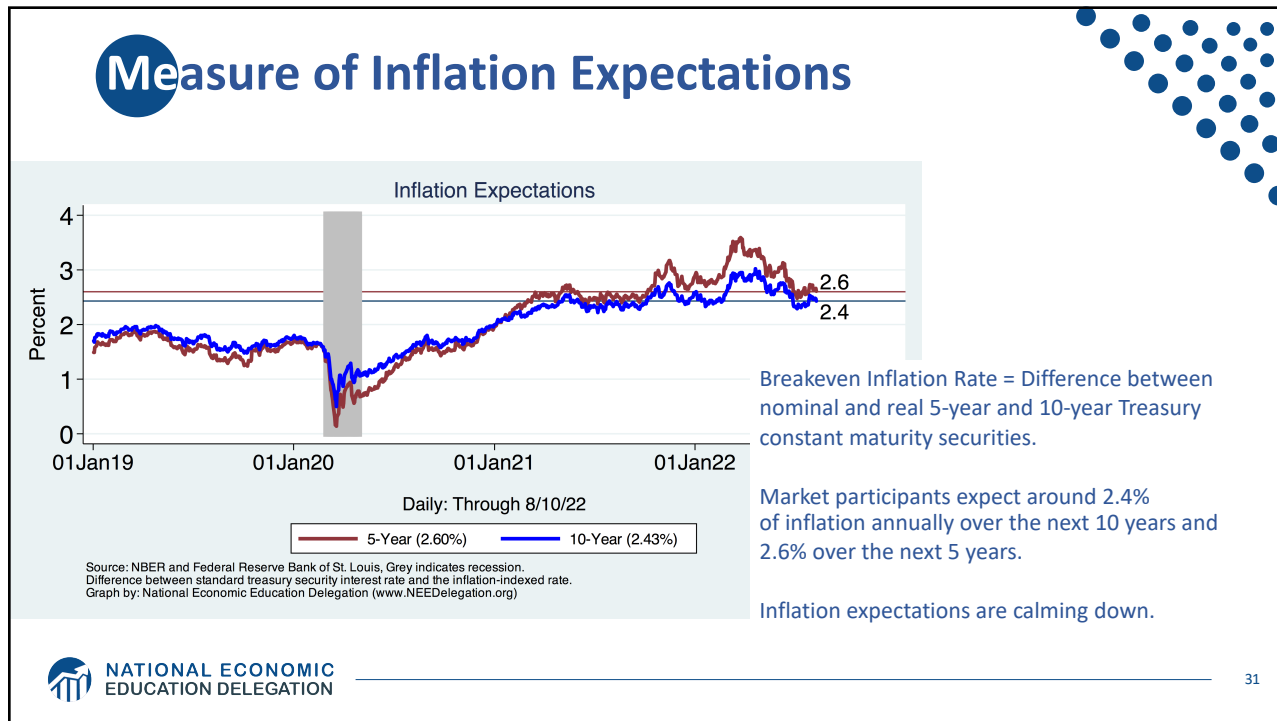
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- Whose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



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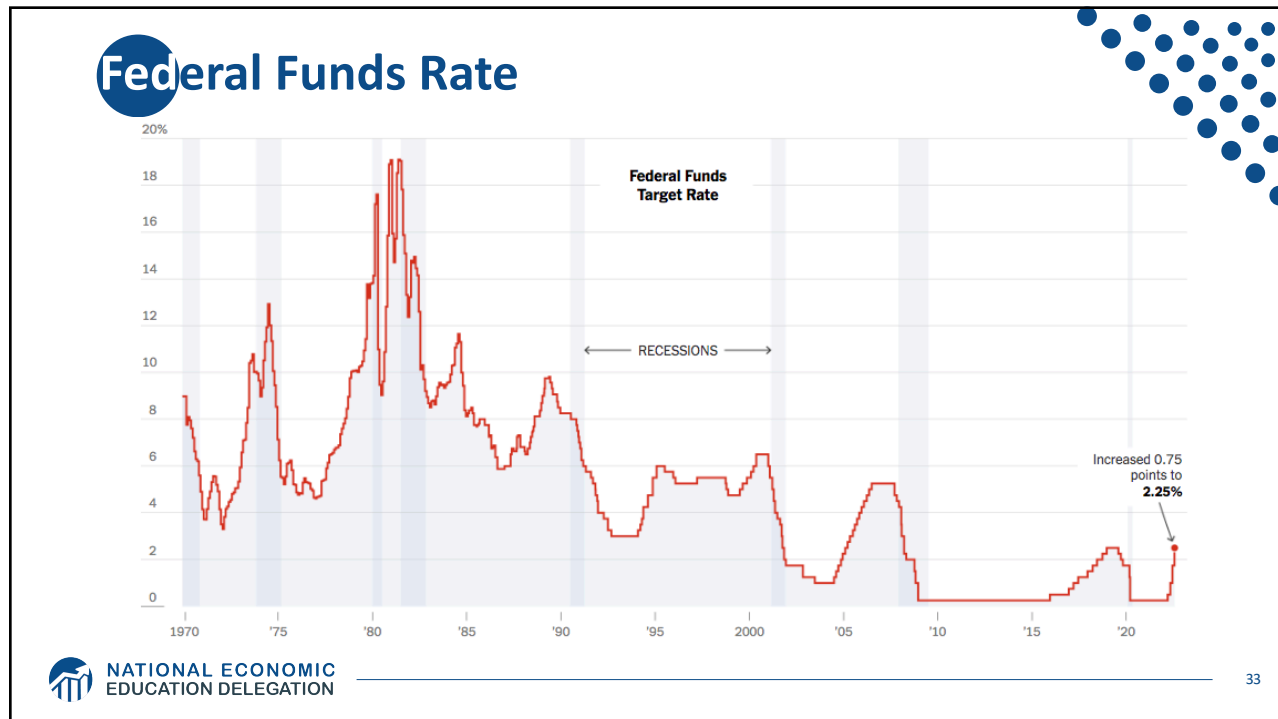
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What About the Fed?

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Implications for Demand

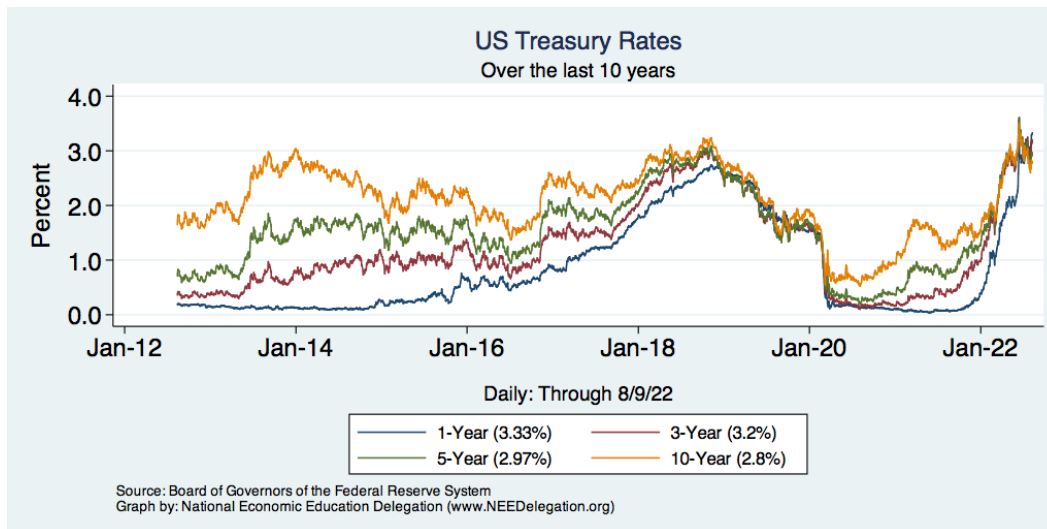
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

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Treasuries

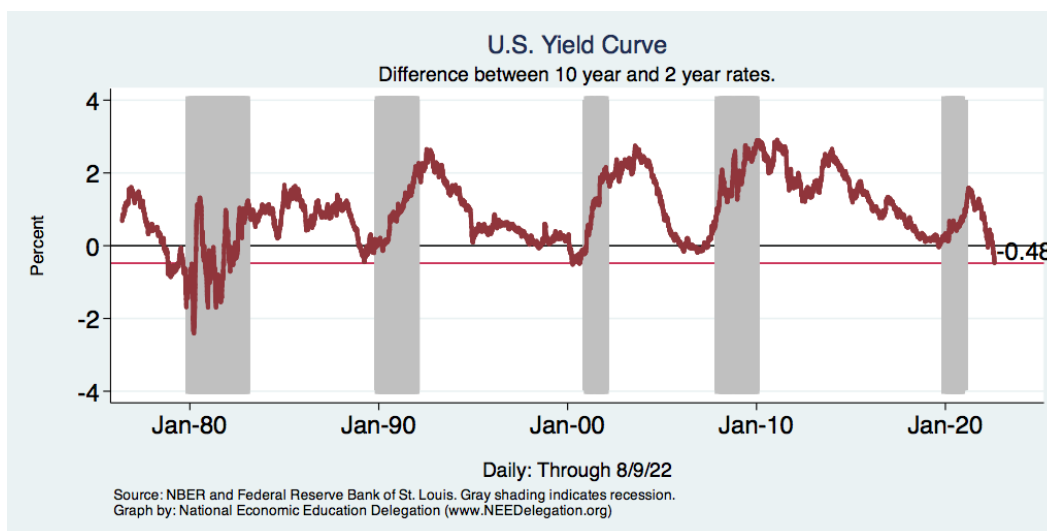


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Alarming Compression of Interest Rates

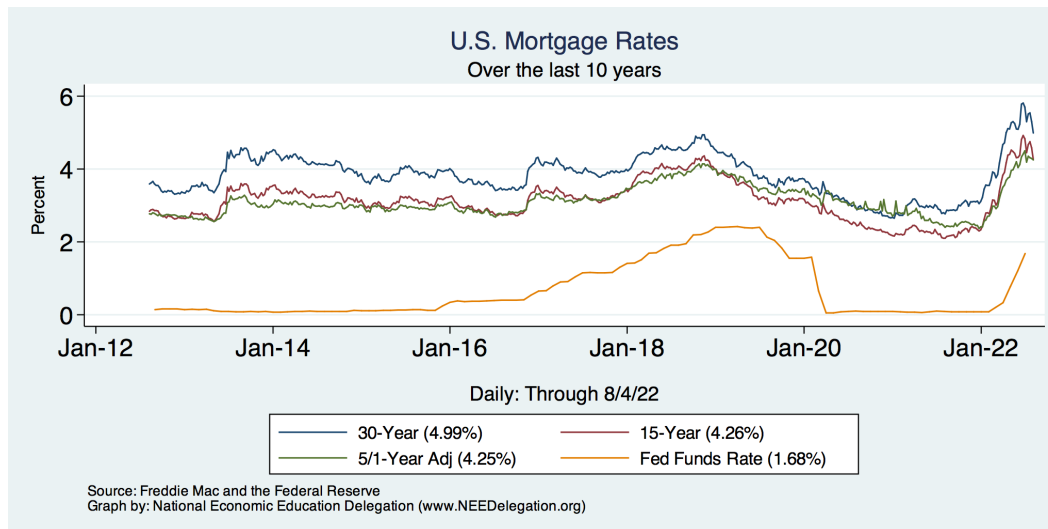


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Mortgage Rates



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Takeaways

• Is a recession on the horizon?

- Larry Summers, Jamie Dimon, and Elon Musk are worried about a recession.
- While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
 - o Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
 - o Job creation remains robust – 528k in July.

• What about GDP?

- 2022:Q1 was -1.6%, 2022:Q2 was -0.9.
- Much of this lower growth was driven by lower inventory.
 - o 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.



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Thank you!

Any Questions?

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Jon D. Haveman

Jon@NEEDelegation.org

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For every state and county in the United States.

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



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