



# US Economic Update

Sausalito Rotary Club  
July 28, 2022

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National Economic Education Delegation



1

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2

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3

## Outline

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



4

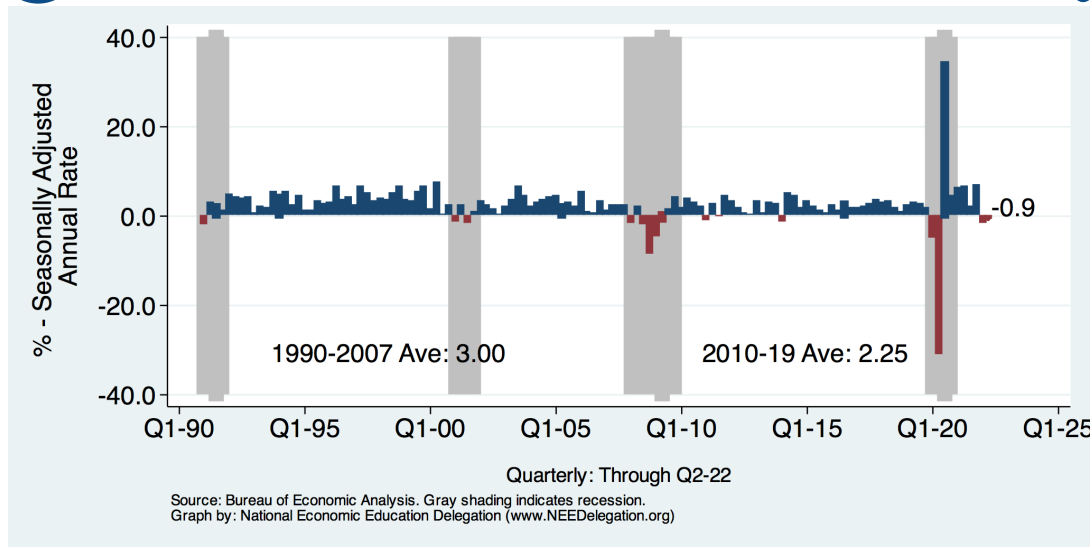
# Headline:

## 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.

5

# GDP: Quarterly Growth



6

## Recession? Two Quarters....

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



7

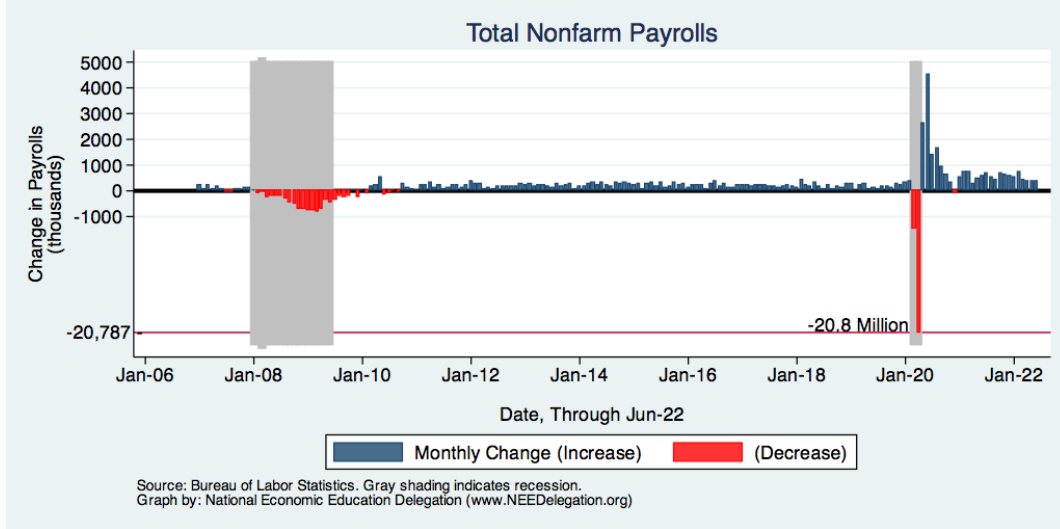
## What Is “Accounting” for the Decline?

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

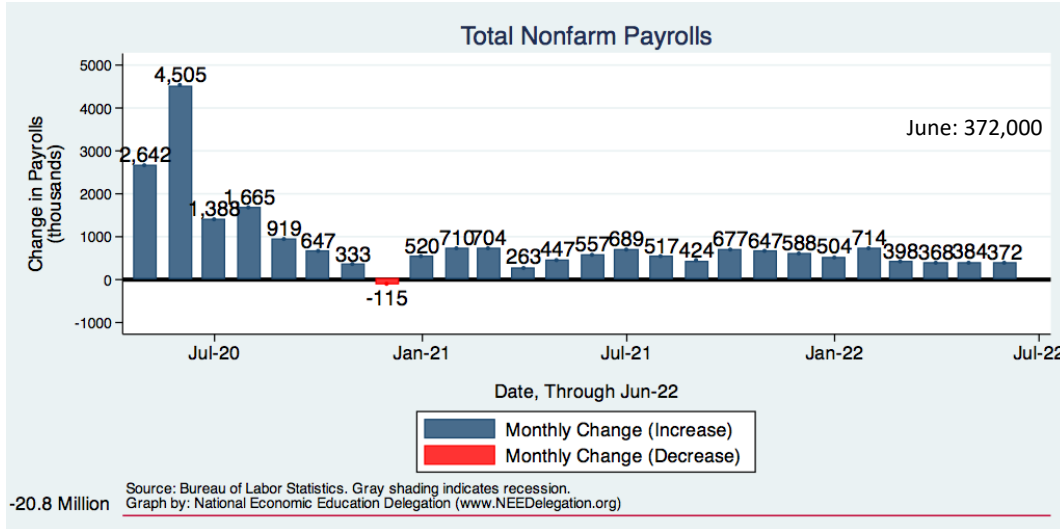


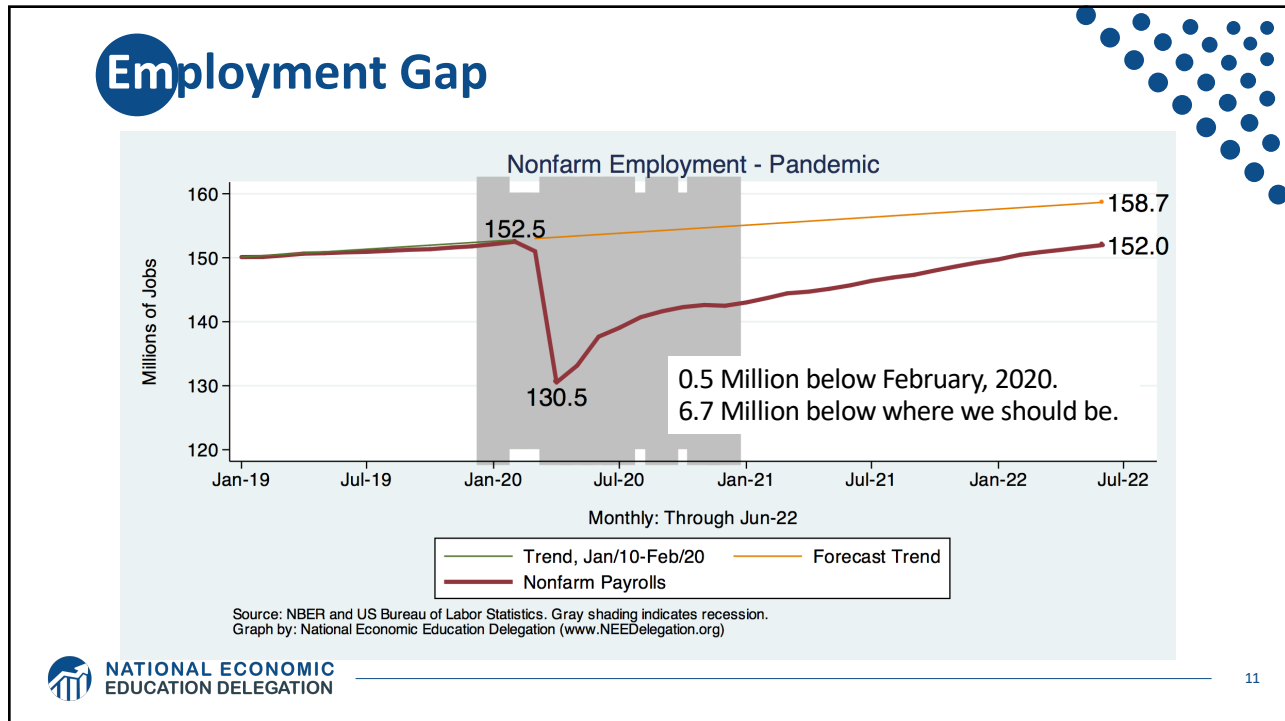
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# Monthly Changes in Nonfarm Employment

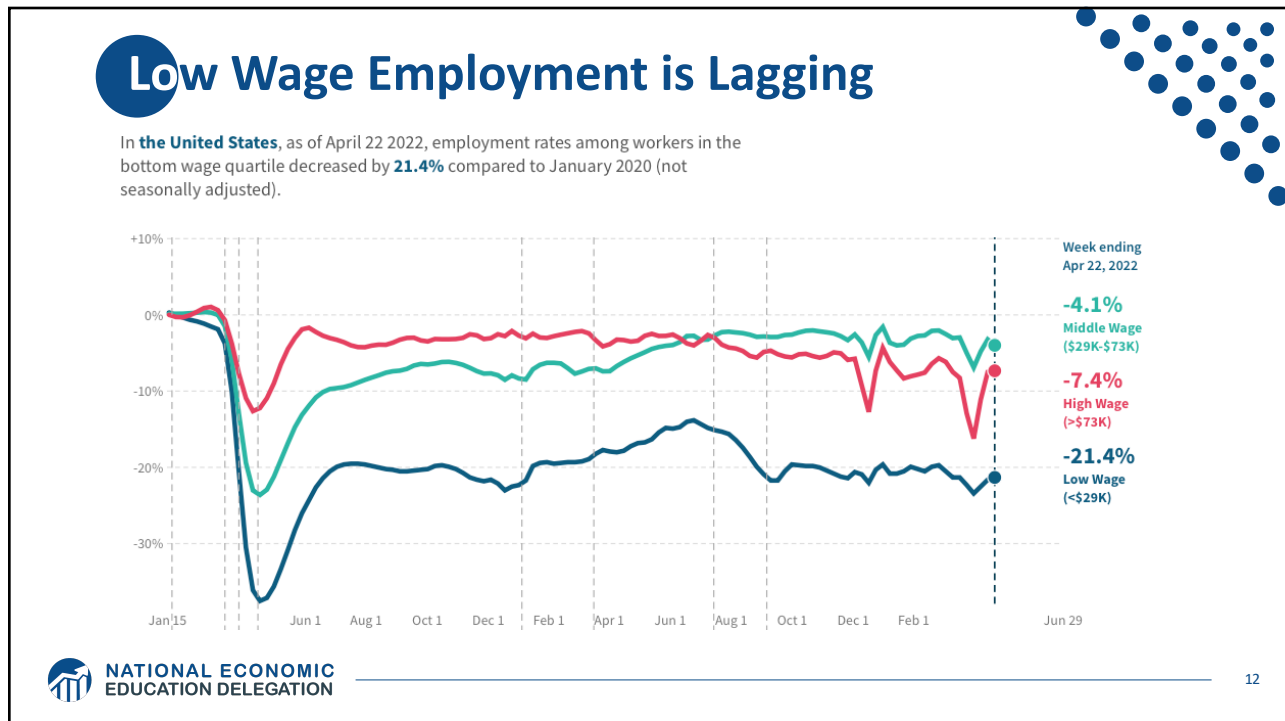


# Monthly Changes in Nonfarm Employment



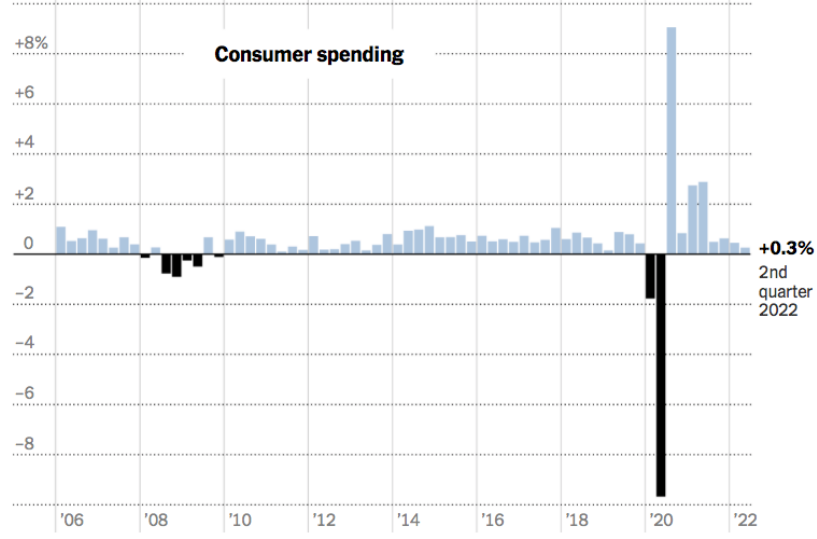


11



12

# Consumer Spending is Still OK

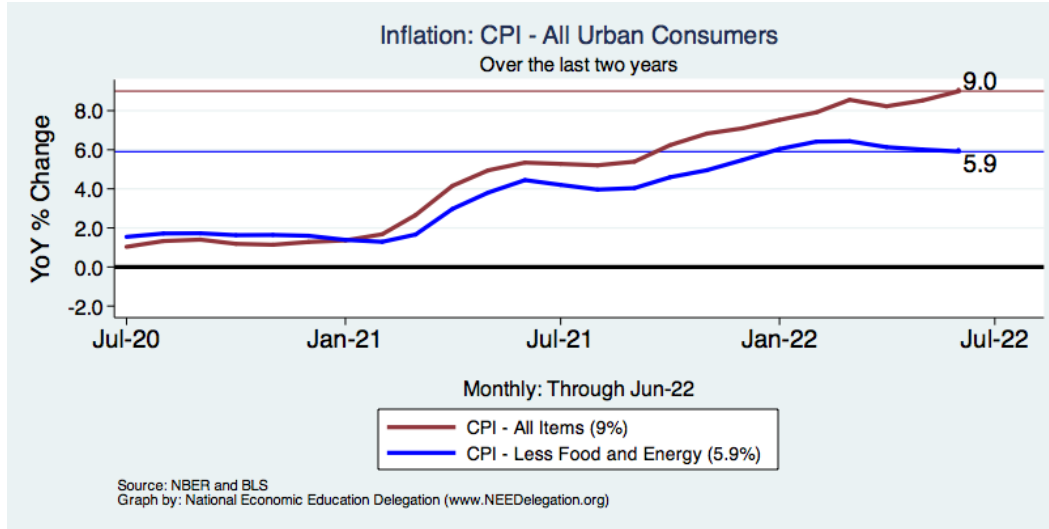


13

# Inflation

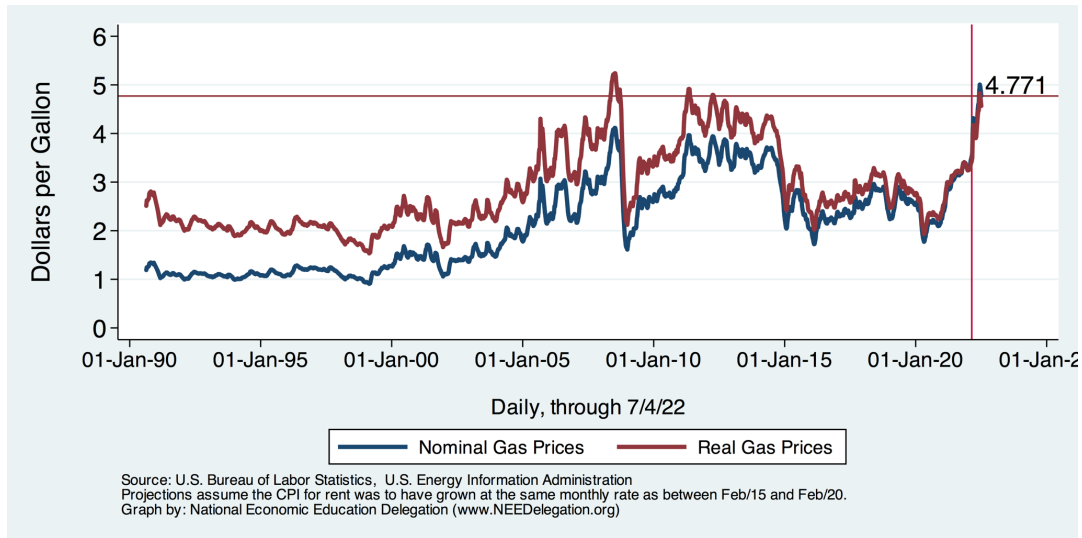
14

# Inflation – Climbing! Should we worry?



15

# Gas Prices: National Average at the Pump



16



## 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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17

Source: Investopedia

17

## We Have Been Buying Mostly ... Stuff

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

### a. Goods

Household spending on goods

Pre-pandemic trend

April 2021 11% above trend

### b. Services

Household spending on services

Pre-pandemic trend

April 2021 7% below trend

Demand-Pull

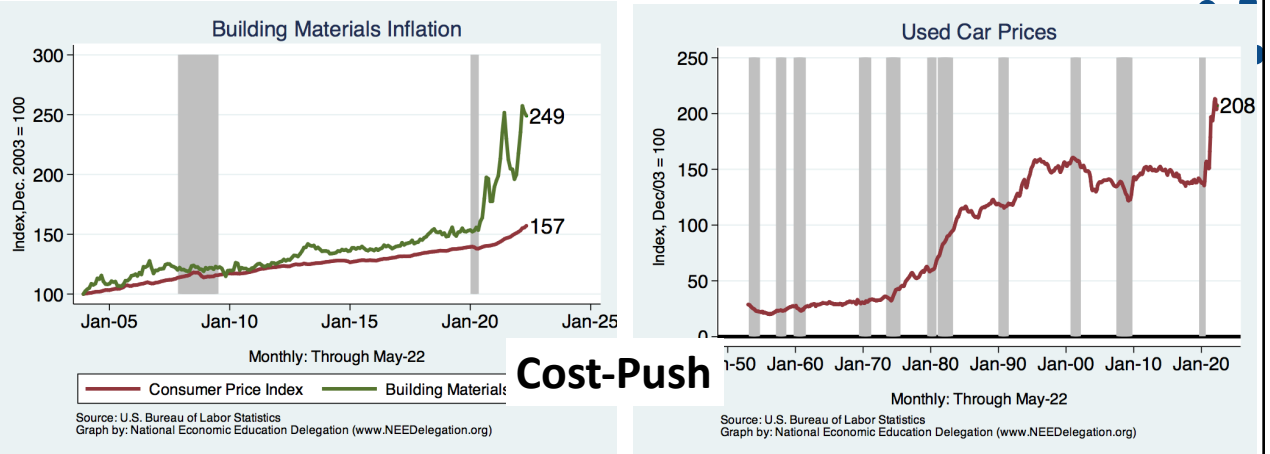
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18

Source: Jason Furman, PIIE

18

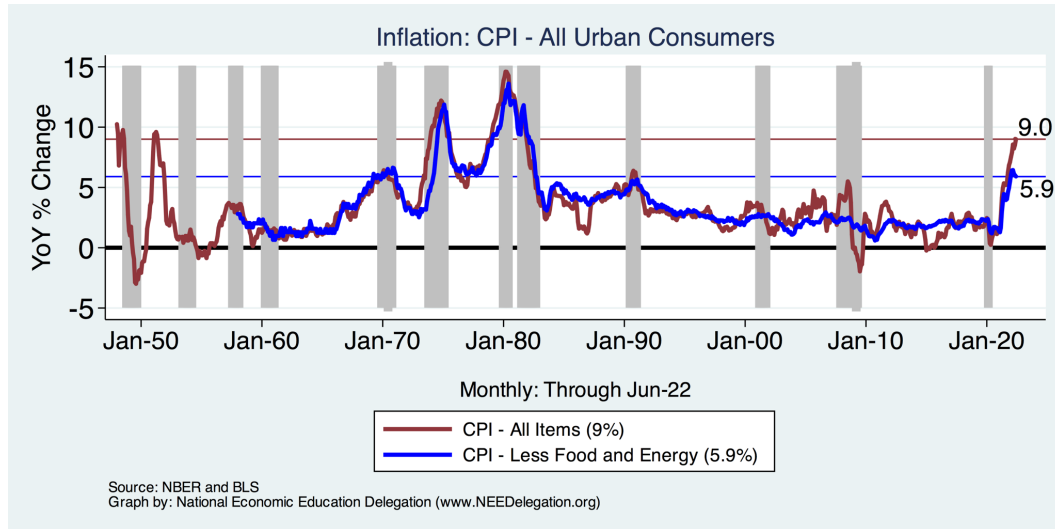
# Inflation: Concentrated



# Supply Chains



## Inflation in Historical Perspective



21

## 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.**

22

# Measure of Inflation Expectations



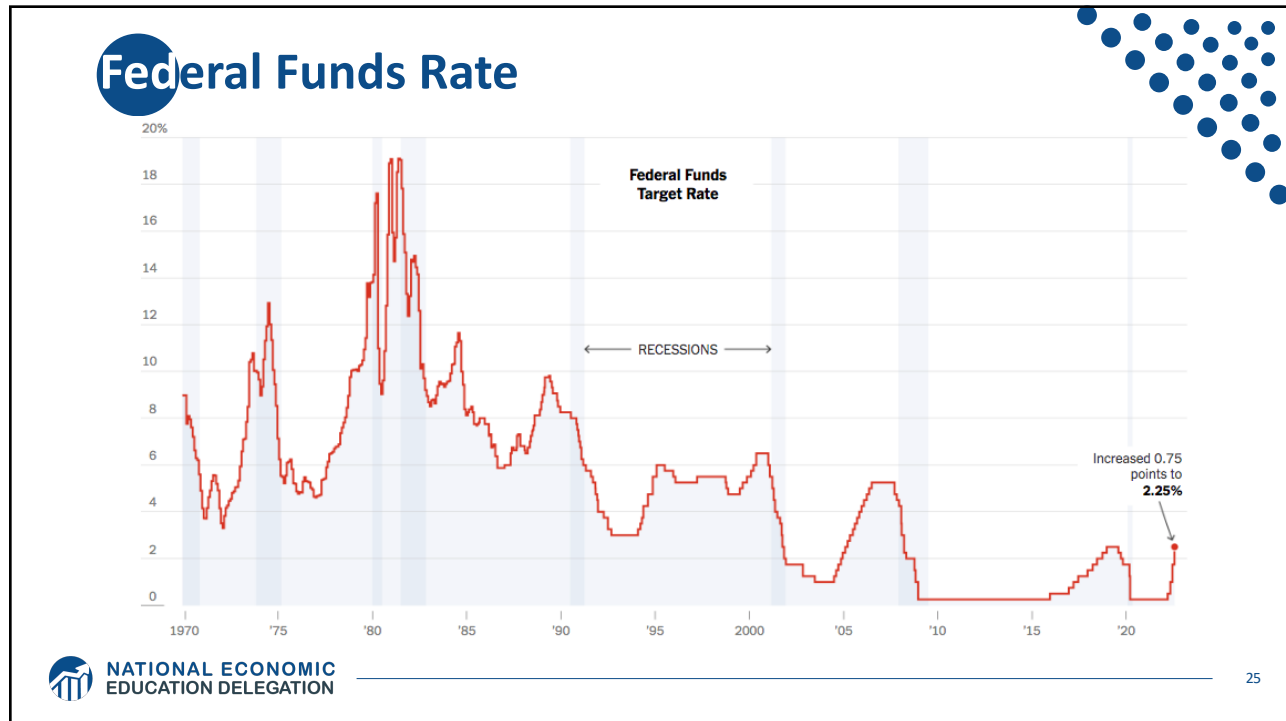
Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.4% of inflation annually over the next 10 years and 2.6% over the next 5 years.

Inflation expectations are calming down.

Source: NBER and Federal Reserve Bank of St. Louis. Grey indicates recession. Difference between standard treasury security interest rate and the inflation-indexed rate. Graph by: National Economic Education Delegation (www.NEEdelegation.org)

# What About the Fed?



25

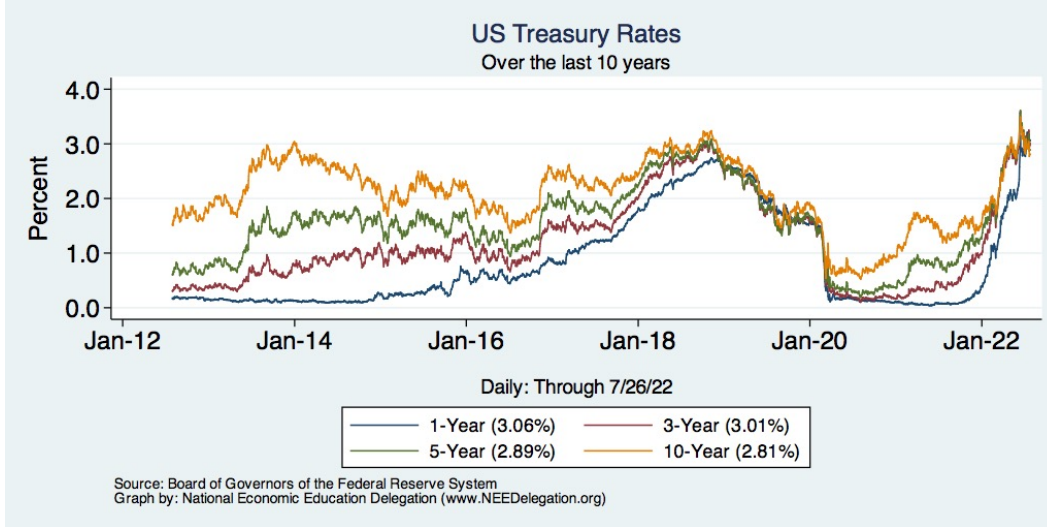
## Implications for Demand

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

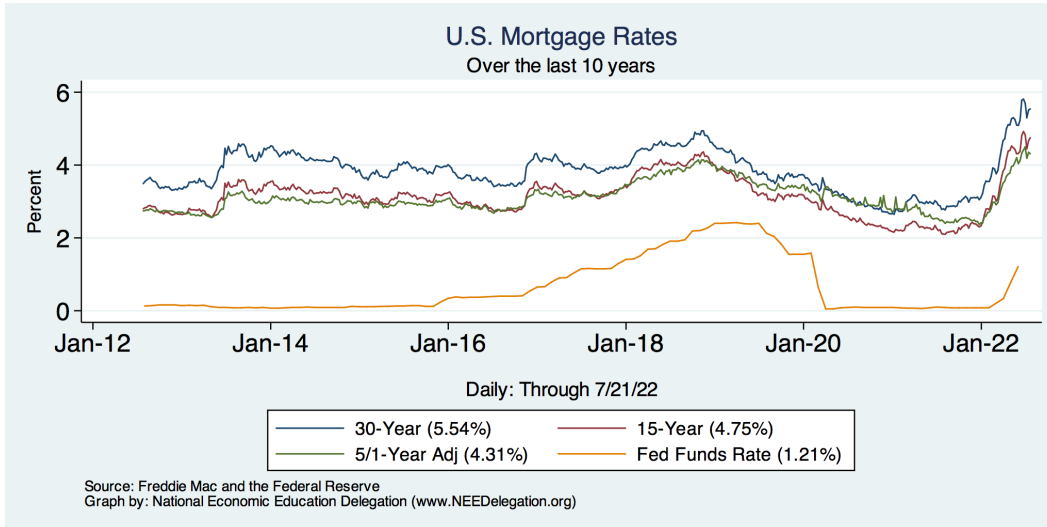
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26

# Treasuries



# Mortgage Rates



## 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 – 372k in June.

- **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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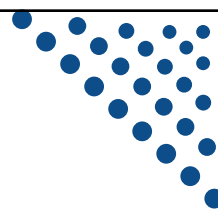
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30

30



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