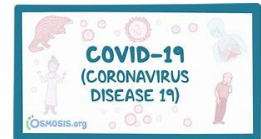




US Economy and Coronavirus Economics

American Individual Investors Association, Maine Chapter
April 6, 2022

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Weber State University, Ogden, UT



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.



Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 640+ 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: 48 Ph.D. Economists**

- Aid in slide deck development



Credits and Disclaimer

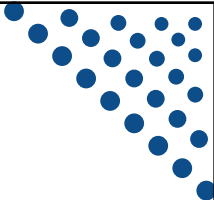
- **This slide deck was authored by:**

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





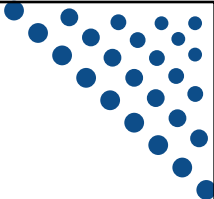
Outline

- **State of the pandemic**
- **The U.S. Economy**
 - Total Output - GDP
 - Policy Support
 - Labor Market
 - Inflation
 - Equity Markets
 - Housing Markets
 - Federal Debt


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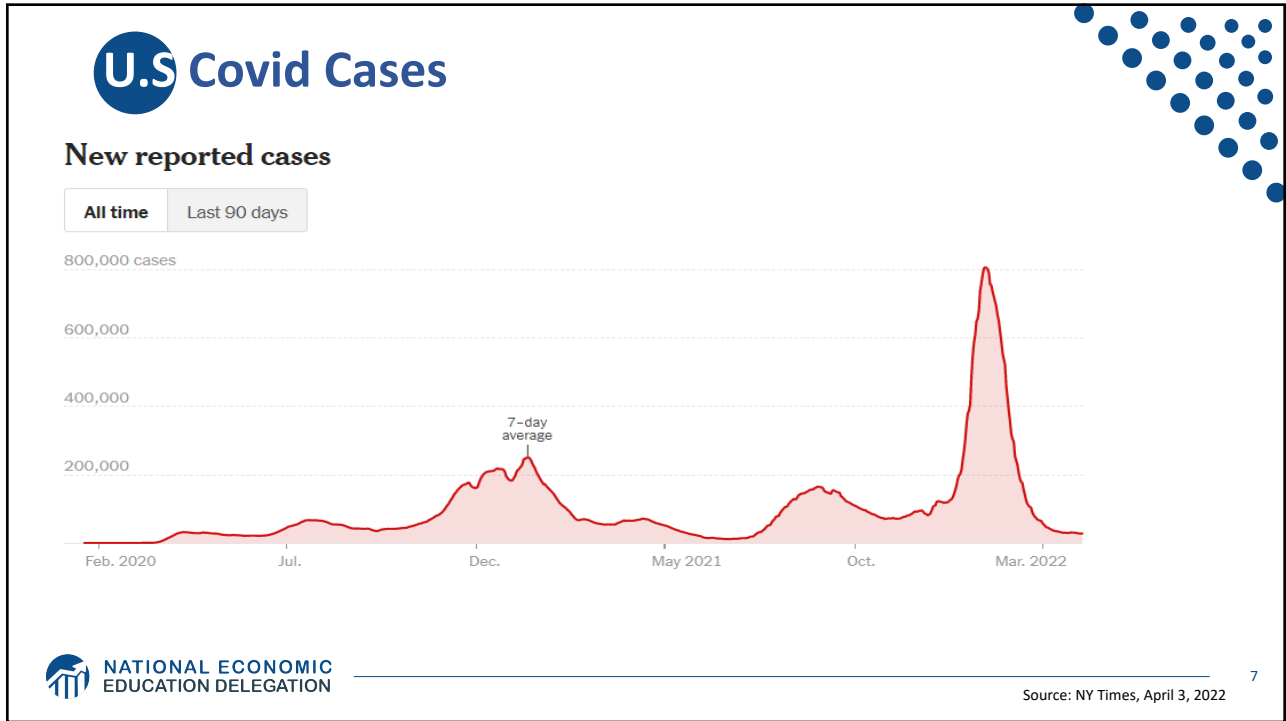


State of the Pandemic

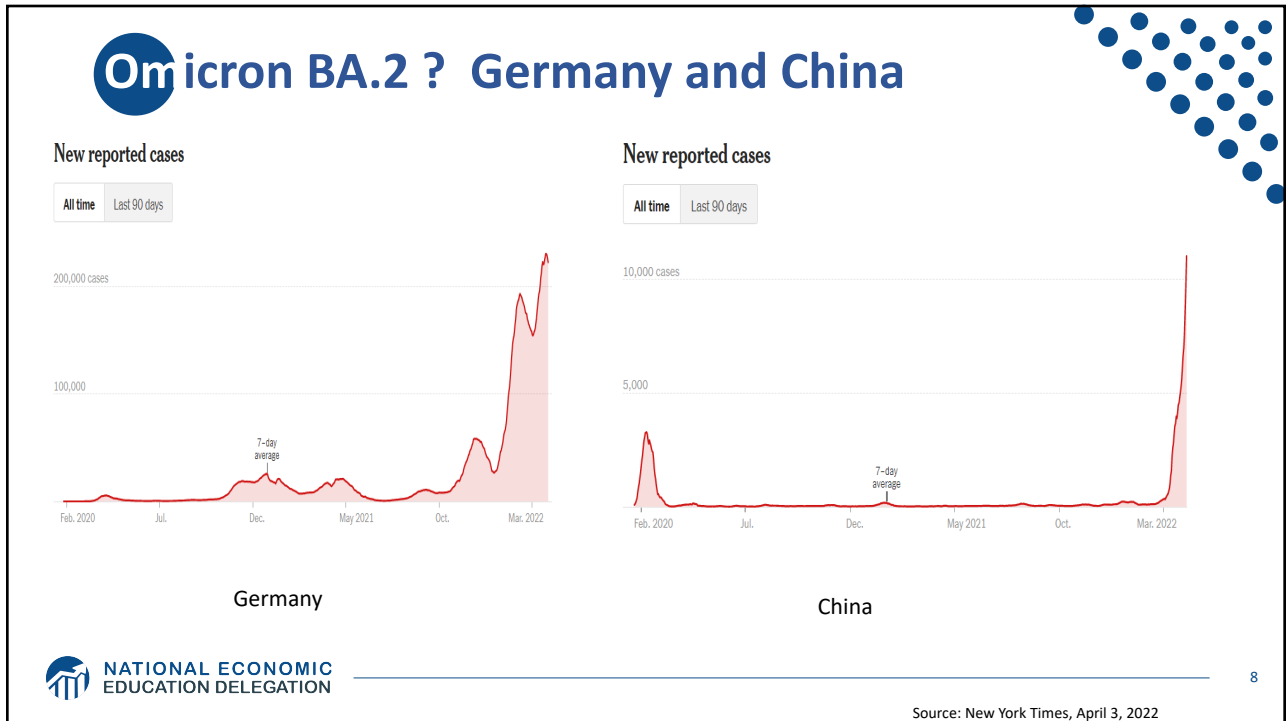
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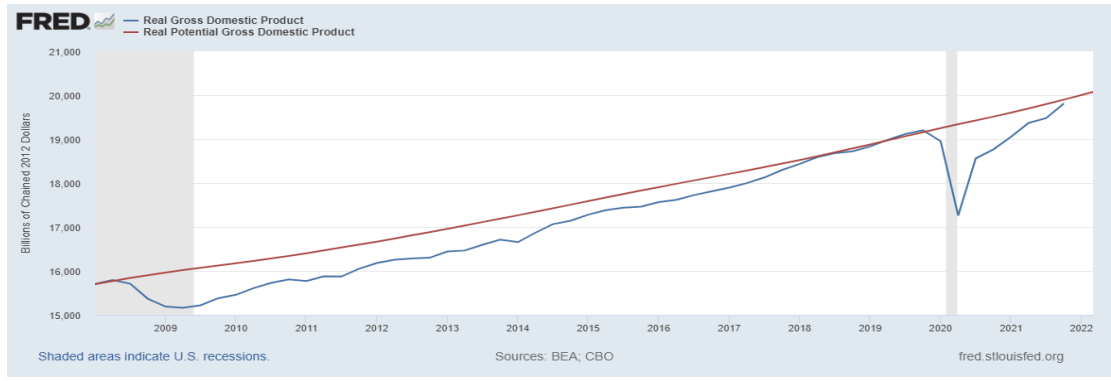
and now – the Russian invasion of Ukraine



The U.S. Economy

The Role of the Pandemic versus Policy Adjustments? And what now?

GDP Trajectory: Pandemic Plunge and Recovery

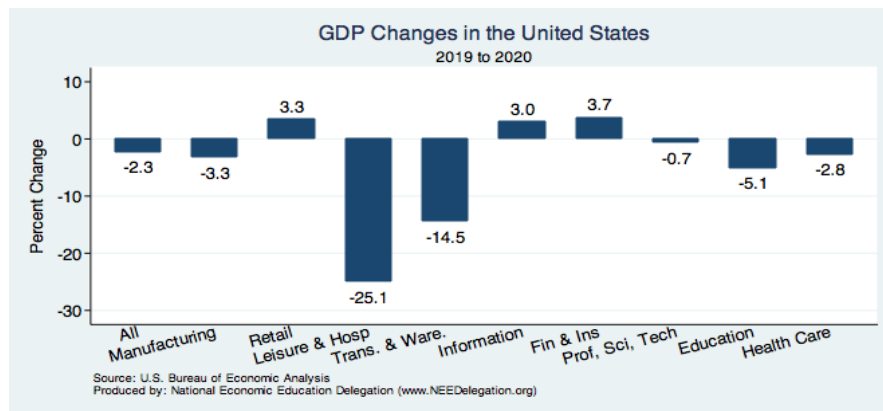


Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

Almost no **Output Gap** compared to the start of the pandemic, and a quick recovery.

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But Not All Industries Were Equally Harmed

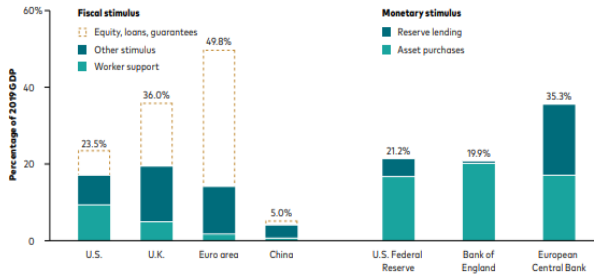


Source: U.S. Bureau of Economic Analysis
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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Unprecedented Policy Support

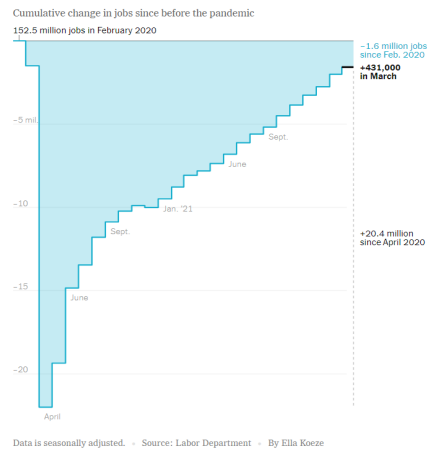
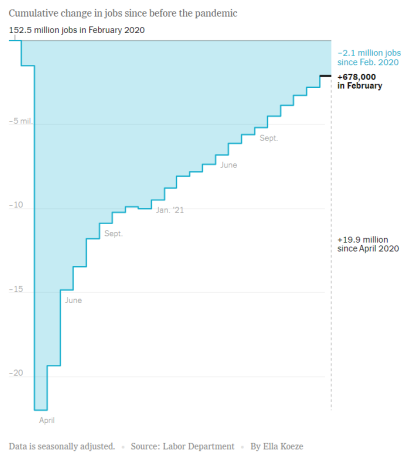
FIGURE I-1
A macroeconomic policy experiment in real time



Notes: All stimulus percentages are based on 2019 Nominal GDP. Fiscal stimulus: For worker support for the euro area, an average of spending for Germany, Italy, and Spain is

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Employment Changes - US

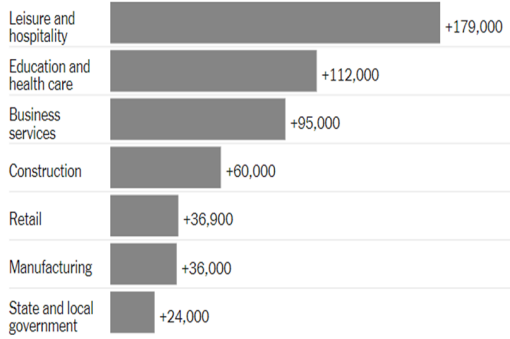


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Employment Changes - US

The leisure and hospitality sector gained the most jobs in February.

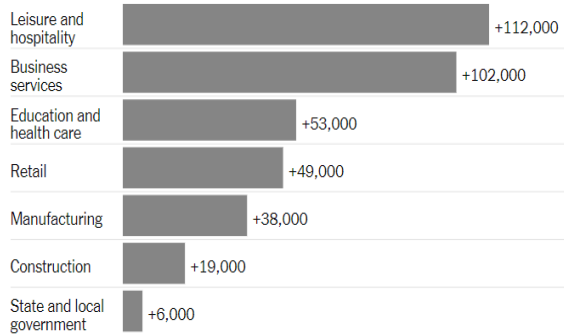
Change in jobs from January to February, by sector



Data is seasonally adjusted. Source: Bureau of Labor Statistics By Ella Koeze

The leisure and hospitality sector saw the largest gains in March.

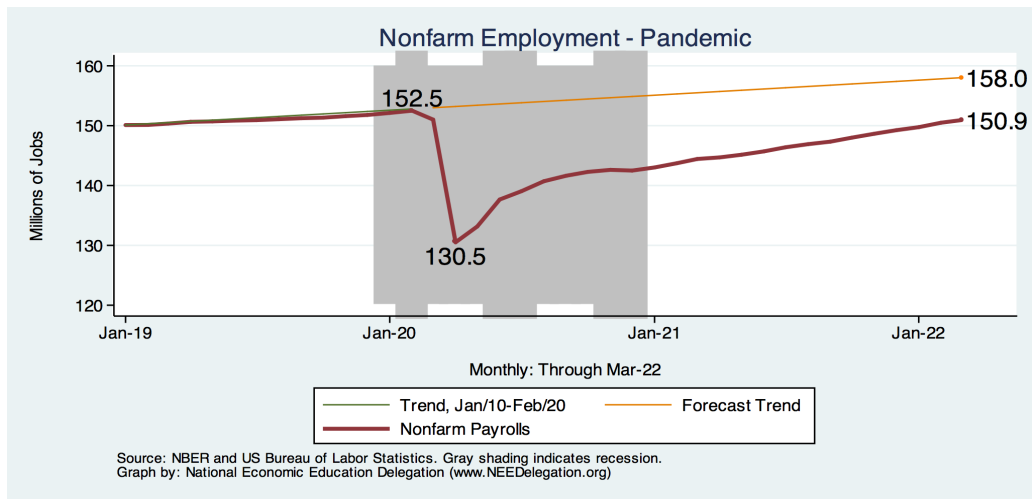
Change in jobs from February to March, by sector



Data is seasonally adjusted. Source: Bureau of Labor Statistics By Ella Koeze

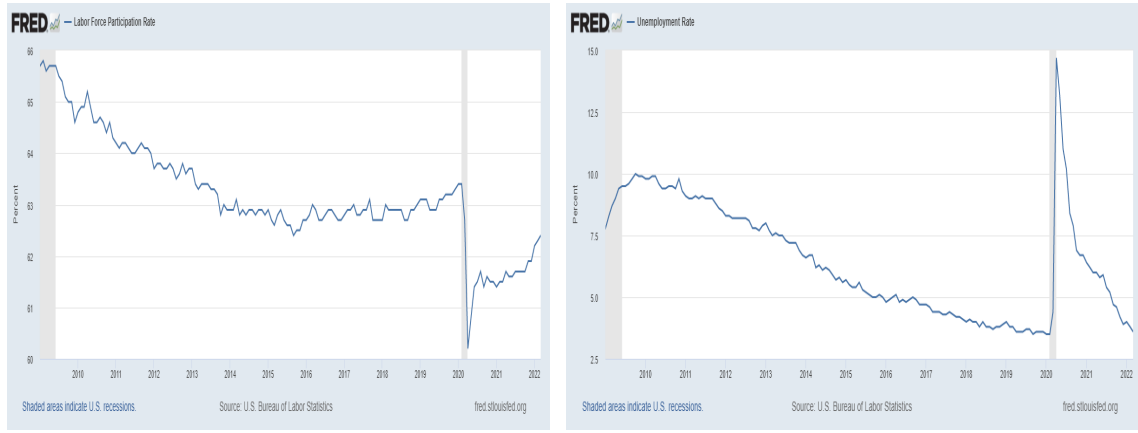
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Employment Gap: Pandemic



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Labor Force Participation and Unemployment



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Inflation and Asset Markets

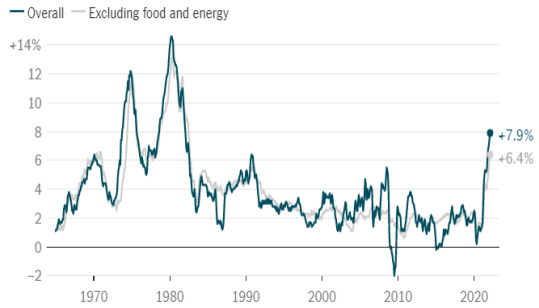
Inflation, Equity Markets, Housing Markets

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Inflation News

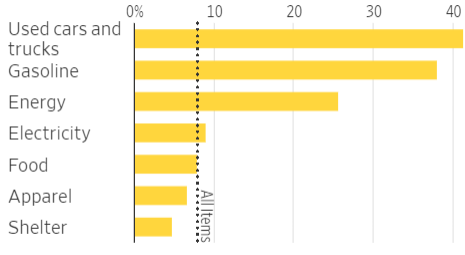
How Inflation Is Rising

Year-over-year changes in the Consumer Price Index



Seasonally adjusted • Source: Bureau of Labor Statistics • By The New York Times

CPI, 12-month change ending in February



Source: Labor Department

All items: 7.9% - new four decade high

Gas Prices in Perspective -

RETAIL GASOLINE PRICE IN 2022 DOLLARS APRIL 1993 - MARCH 2022



Sources: U.S. Energy Information Administration, Federal Reserve
EconoFact econofact.org

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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Source: Investopedia

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We're 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

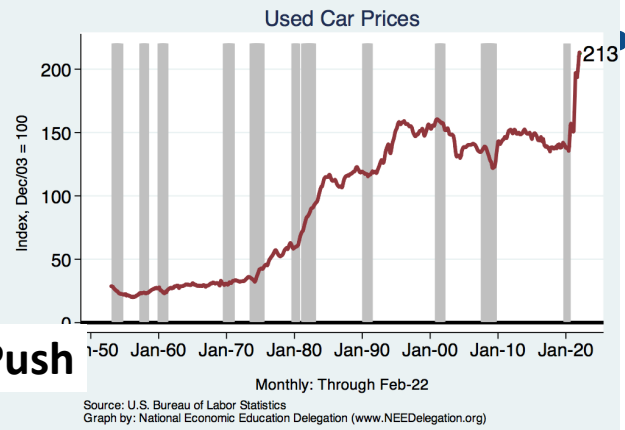
Demand-Pull

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Source: Jason Furman, PIIE

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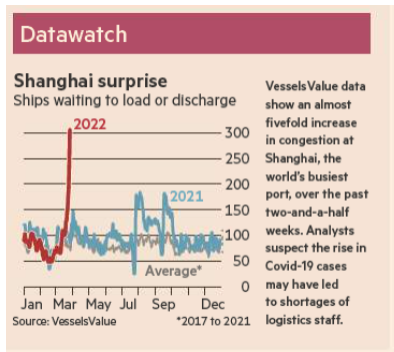
Inflation: Concentrated



Cost-Push

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Inflation: Cost-Push will continue



Egg farms face collapse as war feeds into rising costs

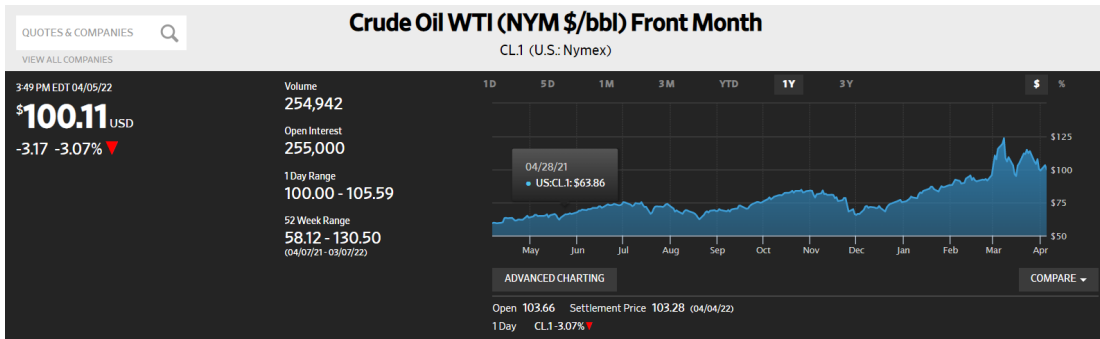
Hundreds of British egg farms are at risk of collapse after Russia's invasion of Ukraine forced surging input costs even higher. The British Egg Industry Council warned that input costs had risen about 30 per cent after the war exacerbated the rise in costs, since Russia and Ukraine are big exporters of cereal grains used to feed chickens. Eggs are the latest food to be hit by input cost inflation, which has tested retailers' ability to keep prices low.

Report » PAGE 3

Source: Financial Times, April 1, 2022

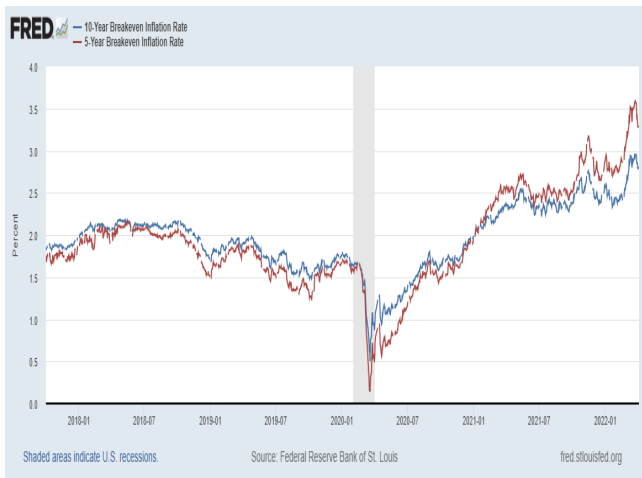
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More Cost-push, but with a twist



Effects of sanctions on Russia are somewhat countered by Covid-related lockdowns in China and Hongkong, and announcements to release strategic reserves in the U.S.

Measure of Inflation Expectations

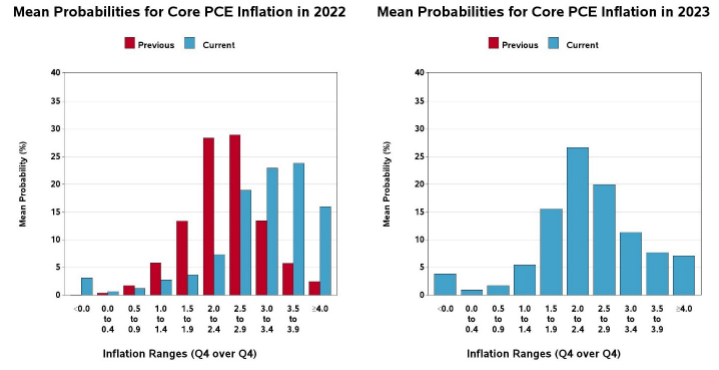


Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.8% of inflation annually over the next 10 years and 3.3% over the next 5 years.

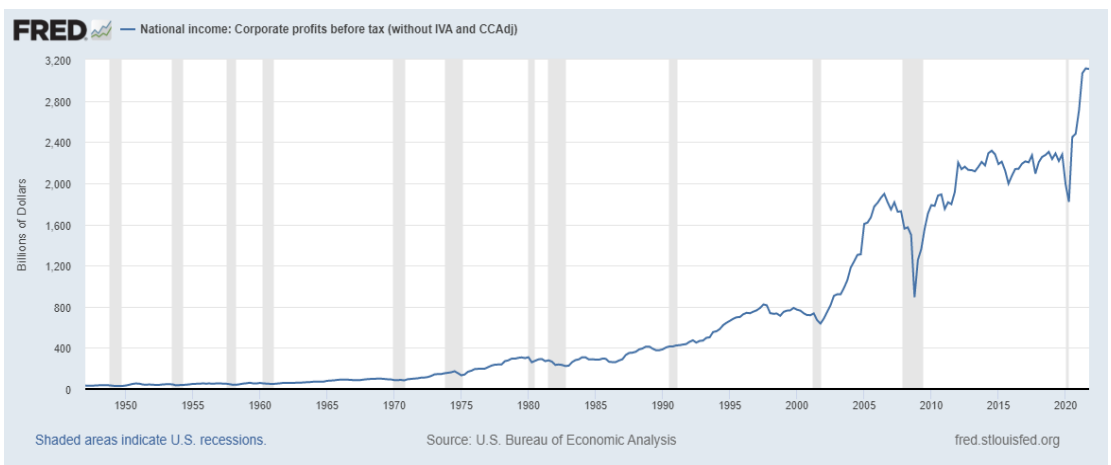
Inflation expectations were increasing – especially after the Russian invasion, but most recently have decreased.

Alternative Measure of Inflation Expectations



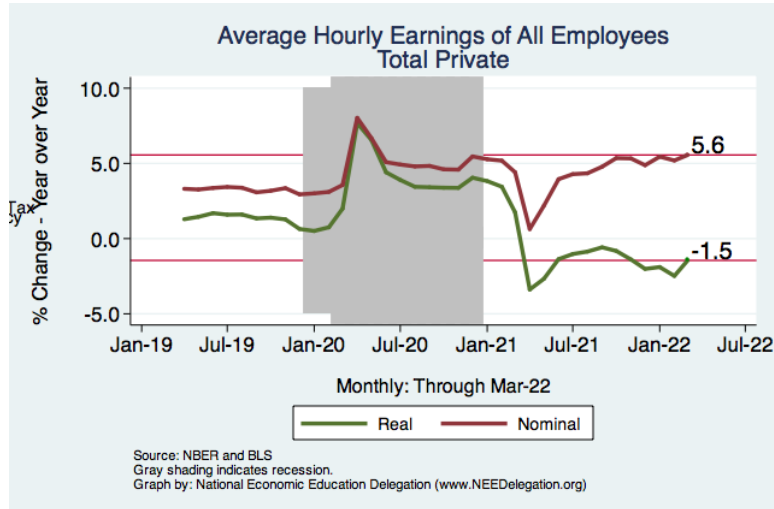
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Corporate Profits...Adding to Inflation?



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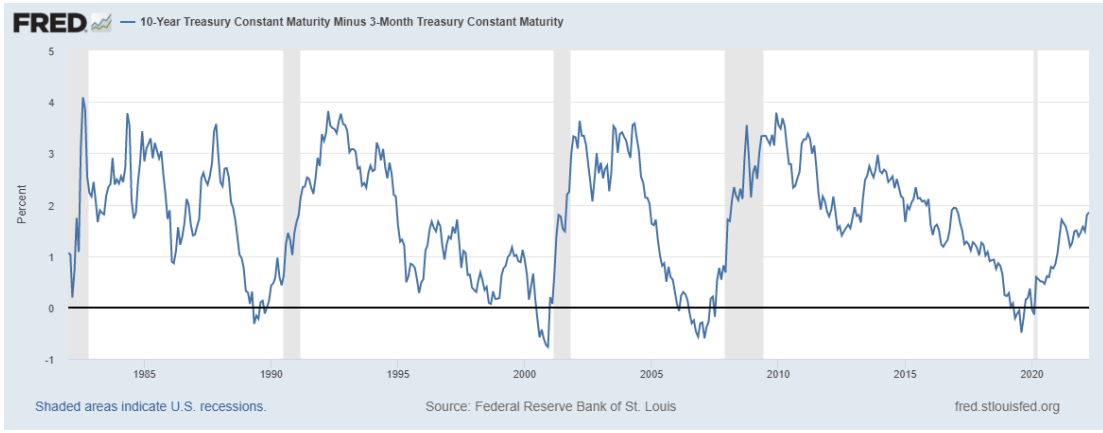
Wage Growth



Will Inflation continue to be elevated?

- Yes, at least through 2022 and 2023.
- Continued supply chain issues (China Covid strategy, US staff shortages, Russia-Ukraine conflict)
- Mitigated by a slower increase in demand (policy support decreased), but if consumers go back to substituting toward in-home consumption more bottlenecks will develop
- Will this lead to a recession, i.e. stagflation?

What Does the Yield Curve say?



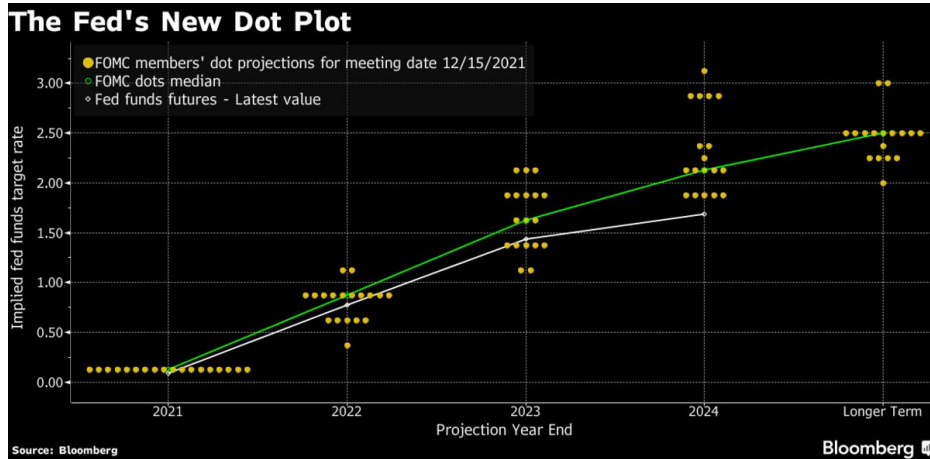
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What Does the Yield Curve say?



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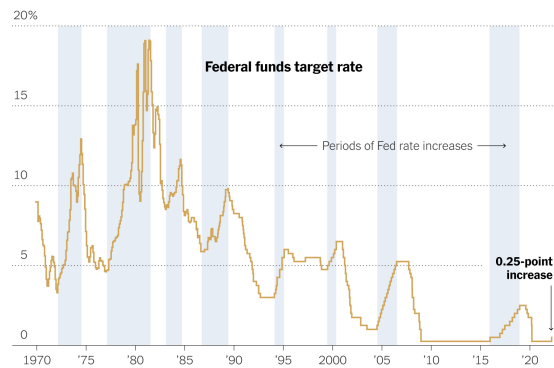
Projected Policy Changes - Fed



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Fed Reaction – Wed. March 17, 2022

- Fed is likely to raise interest rates faster than expected. Fed projects inflation at 4.3% for 2022.
- Monetary policy adjustment is necessary, but trying to avoid a 1980's scenario of causing a recession.
- Current situation likely more comparable to post-WWII than to the late 1970's.



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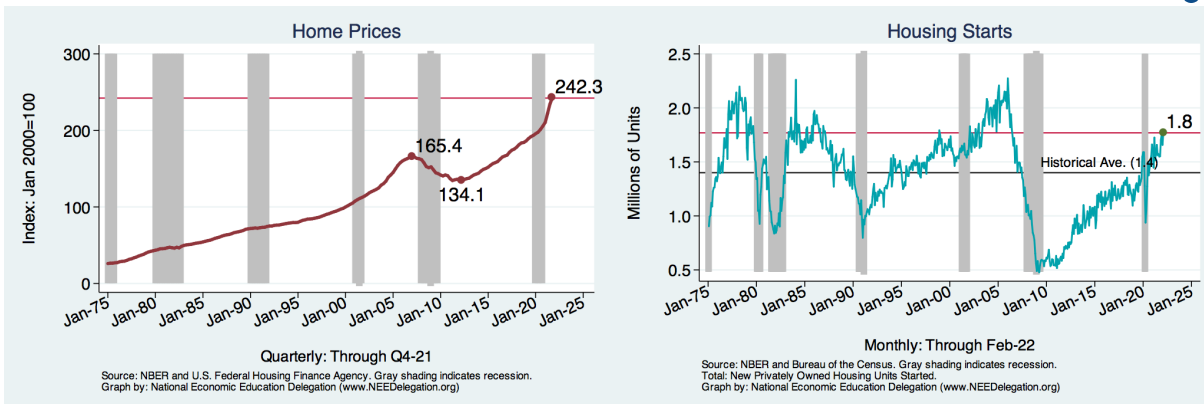
Equity Markets – Is there still Overvaluation?



Maybe yes – based on negative real earnings yields (inflation adjusted earnings per share) which indicates that profits are not keeping up with share price increases (even though corporate profits are increasing) at the peak of the market.

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Home Prices and Housing Starts

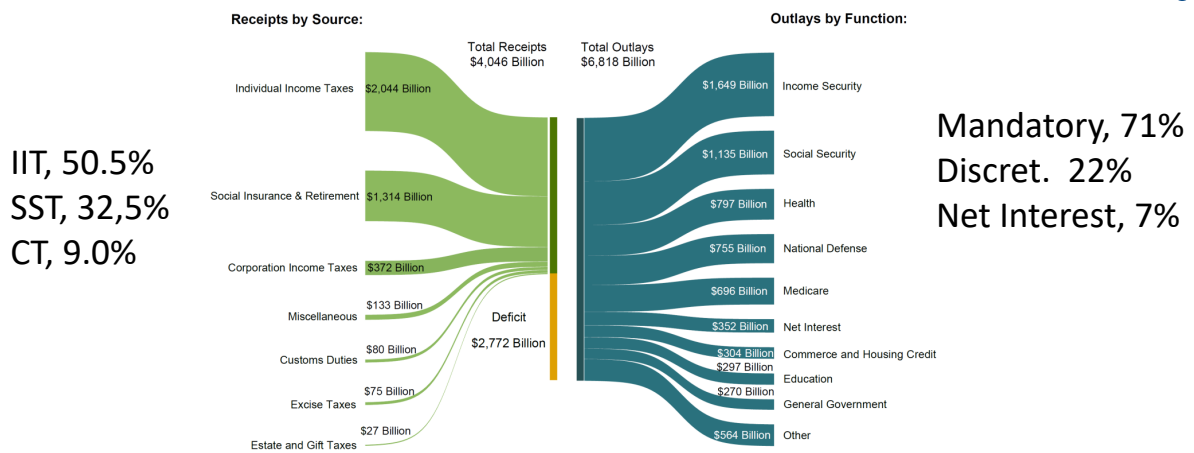


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Federal Debt

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The Federal Budget in FY2021



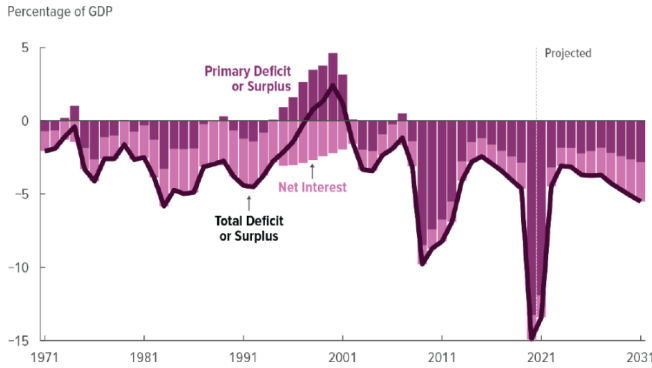
Programmatic Outlays = Mandatory + Discretionary

Source: Monthly Treasury Report, 9/2021

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Past and Future of Deficits

Total Deficits, Primary Deficits, and Net Interest



Useful Deficit Decompositions:

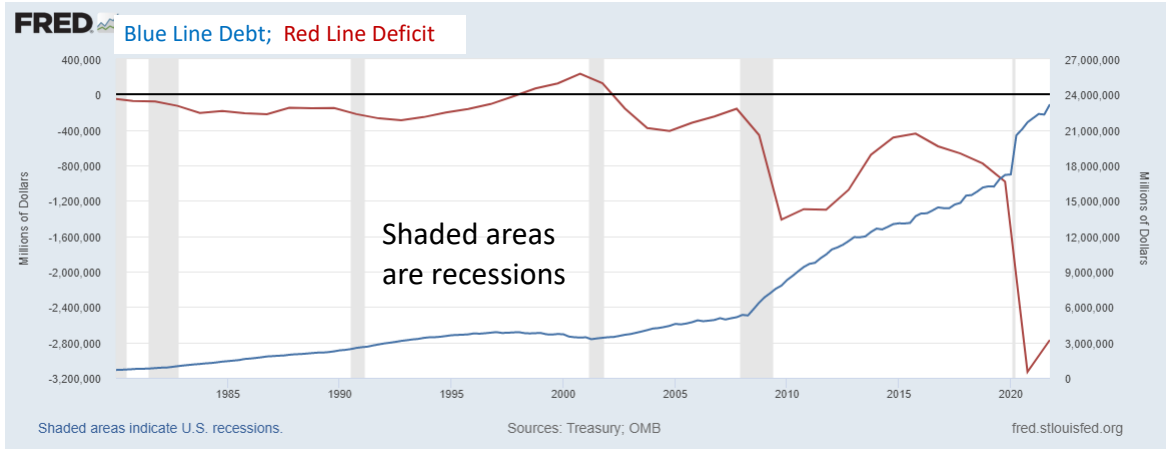
$$\text{Total Deficit} = (\text{Programmatic Outlays} + \text{Interest Expense}) - \text{Revenue}$$

$$= (\text{Programmatic Outlays} - \text{Revenue}) + \text{Interest Expense}$$

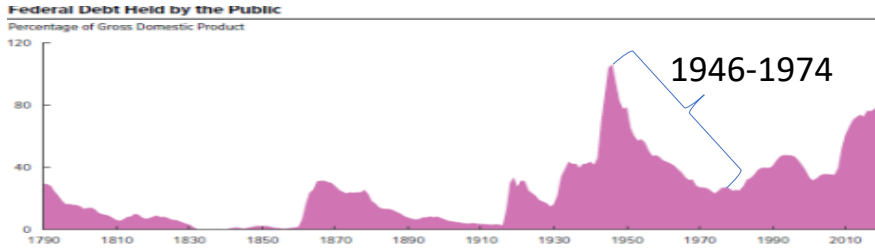
$$= \text{Primary Deficit} + \text{Net Interest}$$

Debt vs. Deficit

The Sum of All Past Deficits Less Surpluses Equals the Debt

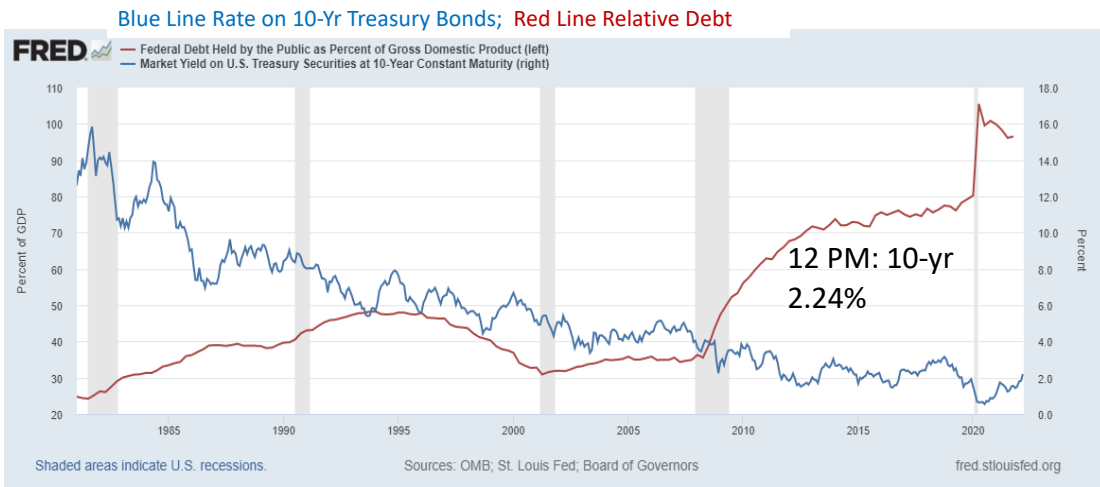


Key Points About the U.S. Relative Debt

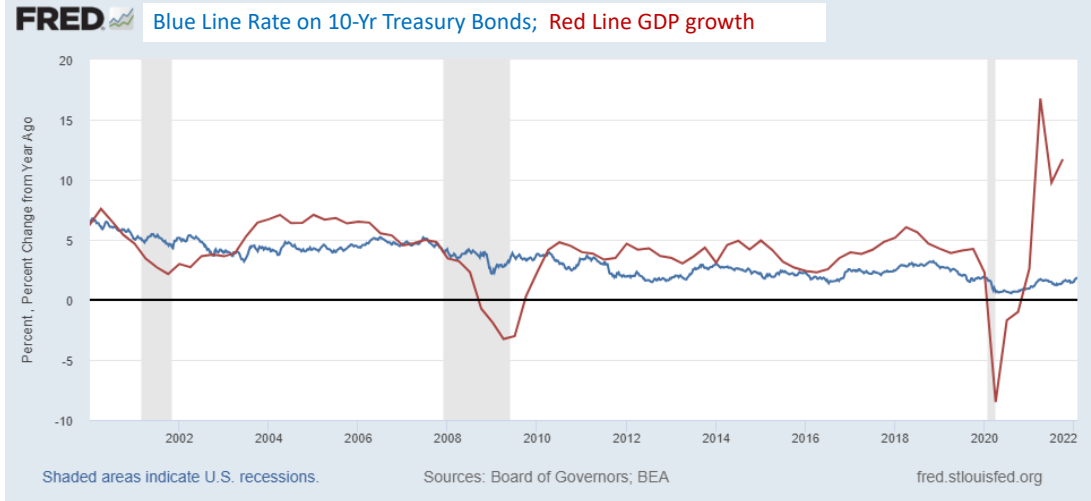


1. Relative debt peaked during WWII (106%) - followed by a steady decline until the 1980s.
2. Prior to 1983, relative debt rose purposefully (wars, recessions, public investment) and then fell.
3. What can we learn from the 46-74 period, where the relative debt fell continuously?

The Dog that Didn't Bark; Rising Interest Rates?



Blanchard's Evidence



Bottom Line: We Need to Worry about the Debt

1. Interest rates may not stay this low forever. In fact, economist don't really know why they have fallen to such low levels over the past 20 years
2. A fiscal crisis should be avoided at all costs.
3. The good news is we may be able to stabilize the relative debt without running a surplus.

Conclusion

- **Recovery was V-shaped!**
- **GDP will likely expand about 4% in 2022.**
- **Physical health determines economic health for the economy.**
 - Variants may well slow our progress: Omicron (see Europe and China)
 - Gov't missteps may also hinder progress.
- **Biggest problems:**
 - Supply chain bottlenecks.
 - Labor force participation.
 - Russian invasion of Ukraine.
 - Falling real wages



Best Measures of Progress – Conclusion

- **Inflation – getting it under control.**
- **Real wages – need to see progress.**
- **No further waves of Covid – State and federal plans to address future outbreaks**



Thank you!

Any Questions?

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Jon D. Haveman

Jon@NEEDelegation.org

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www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.

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



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- Housing Policy
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- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

