

US Economy: Update

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January 13, 2023



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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.



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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: 652+ 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: 49 Ph.D. Economists

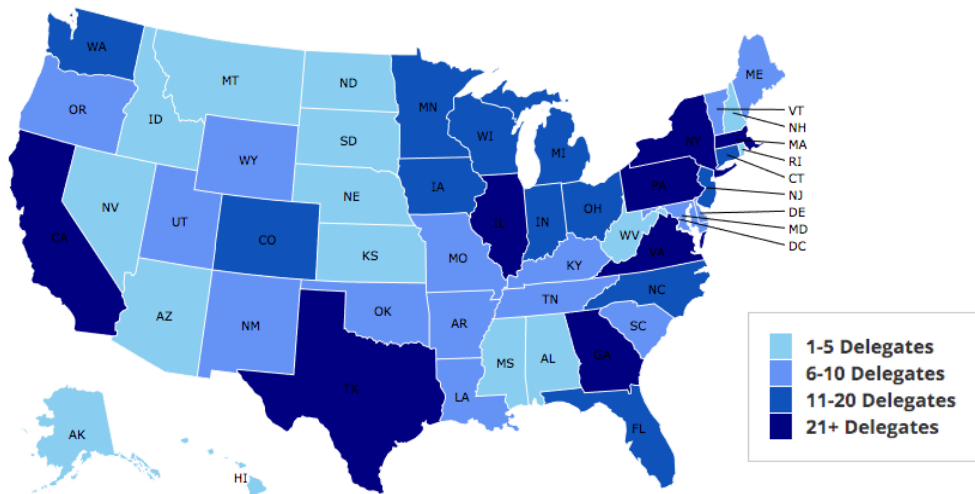
- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- US Economy
- Healthcare Economics
- 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
- Healthcare Economics



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Credits and Disclaimer

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



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Outline for the Talk

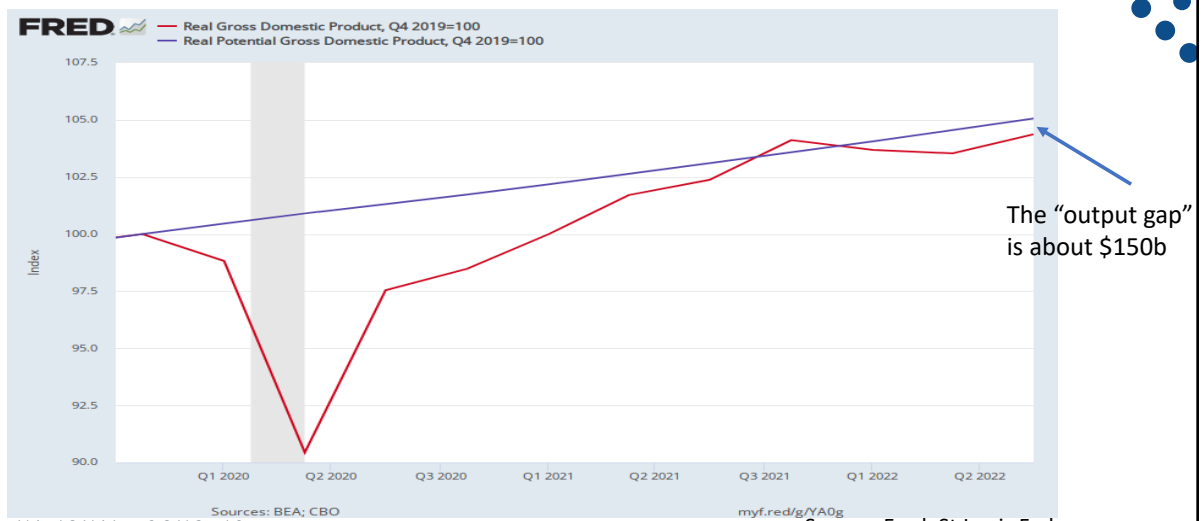
1. Quick summary of the state of the economy.
2. Into the weeds on inflation data.
3. What will the Fed do?

Questions welcome as we go along



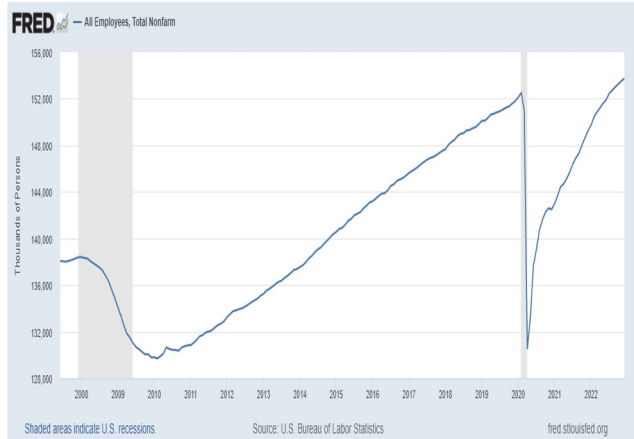
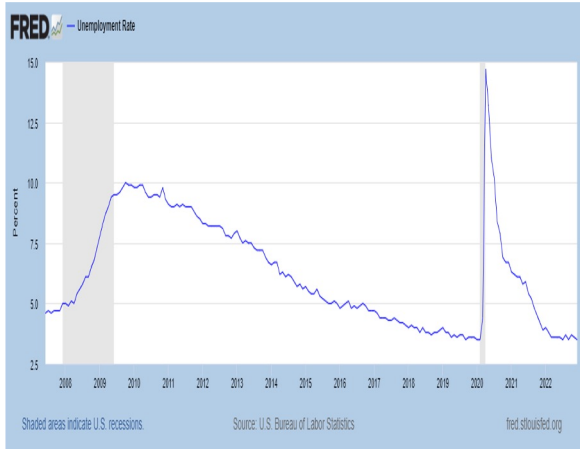
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Real GDP and 'Potential' during the Recovery



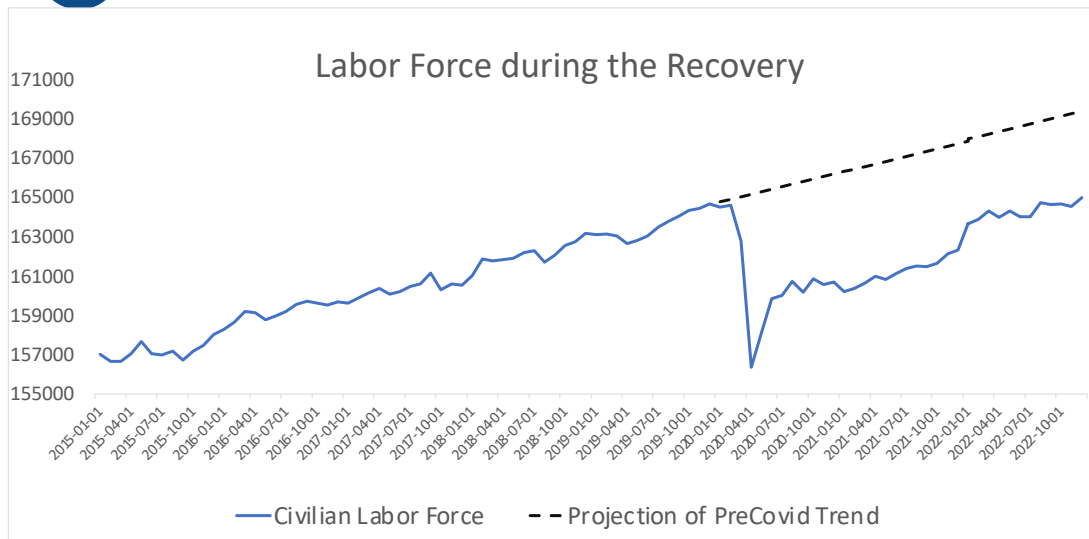
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Labor Market: Fully Recovered?



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Where Have All the Workers Gone?



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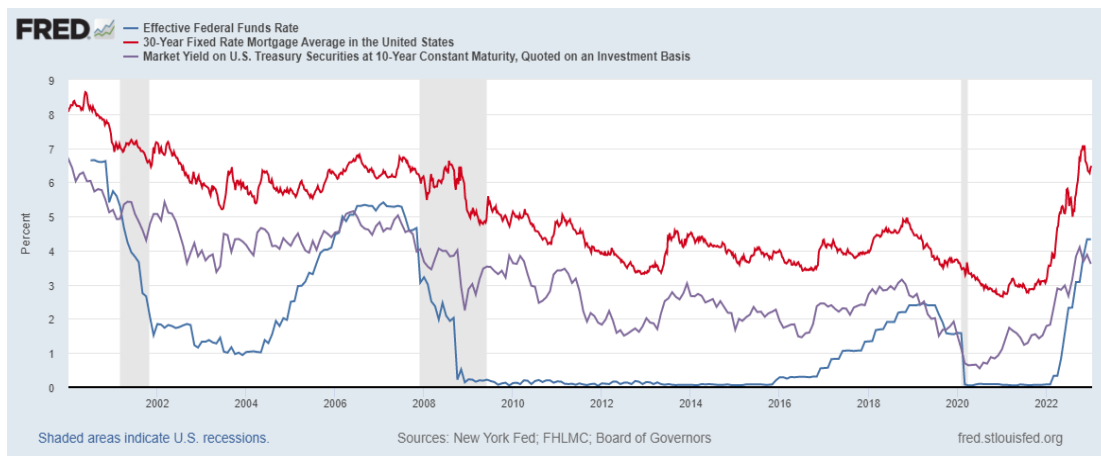
Overall Good News on the Real Side

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Fly in the ointment: labor force has lost over 1.5 million workers.
- But there is also a *nominal* side: interest rates, assets prices, inflation and wages.
- News isn't so good!



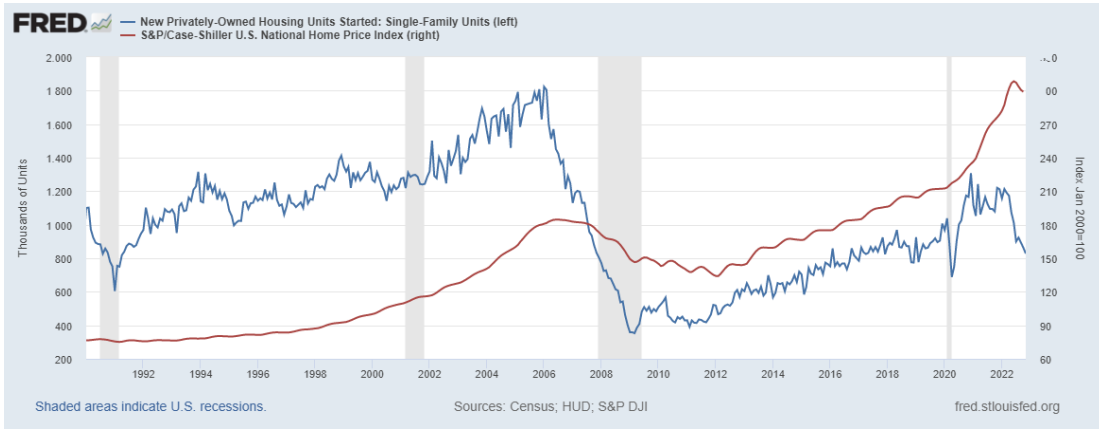
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Interest Rates: Era of Falling Rates Over?



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What about Housing?



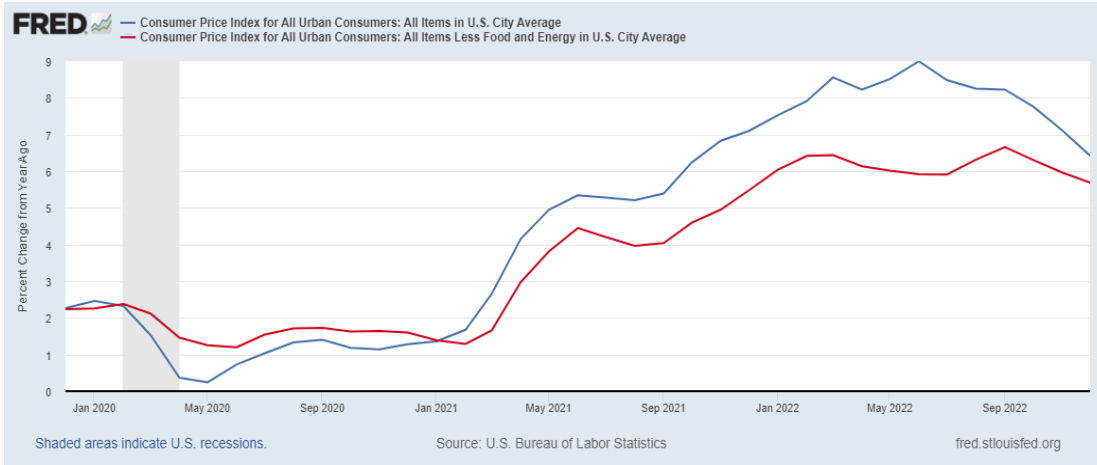
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Stock Prices: Rates and Recession?



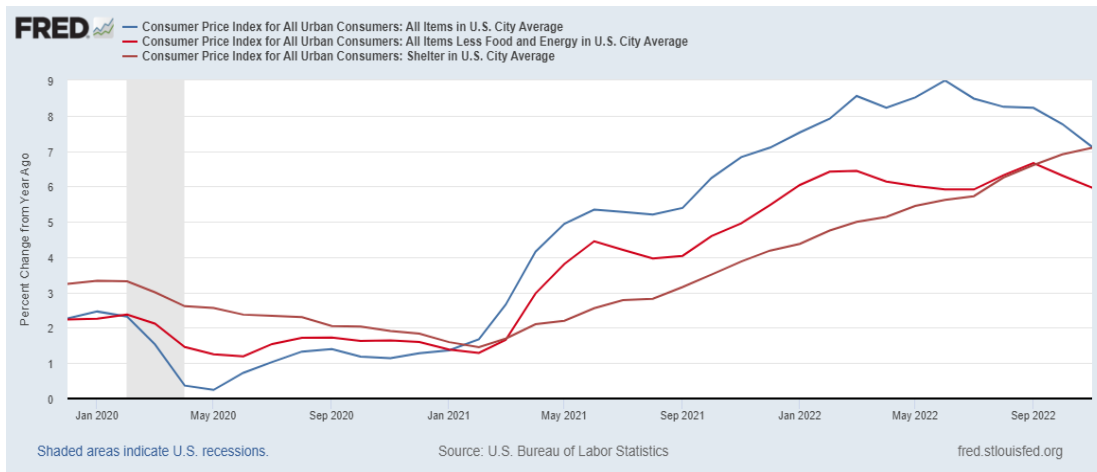
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Inflation during the Recovery



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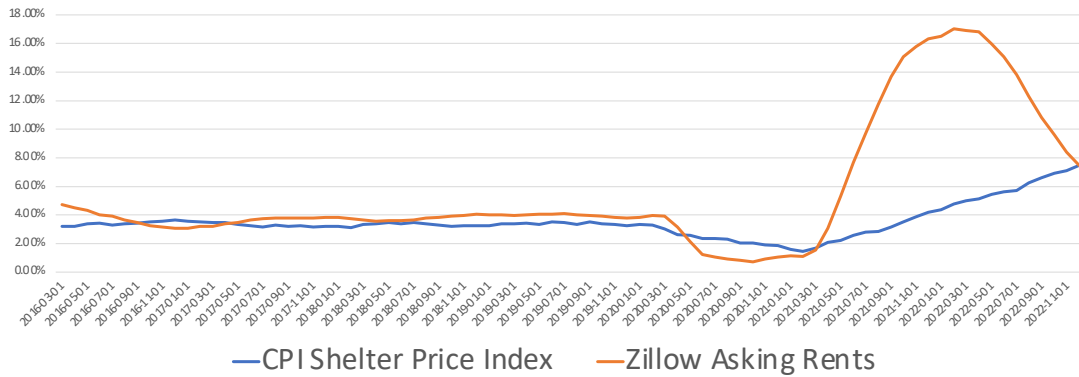
Inflation a Closer Look: Good News



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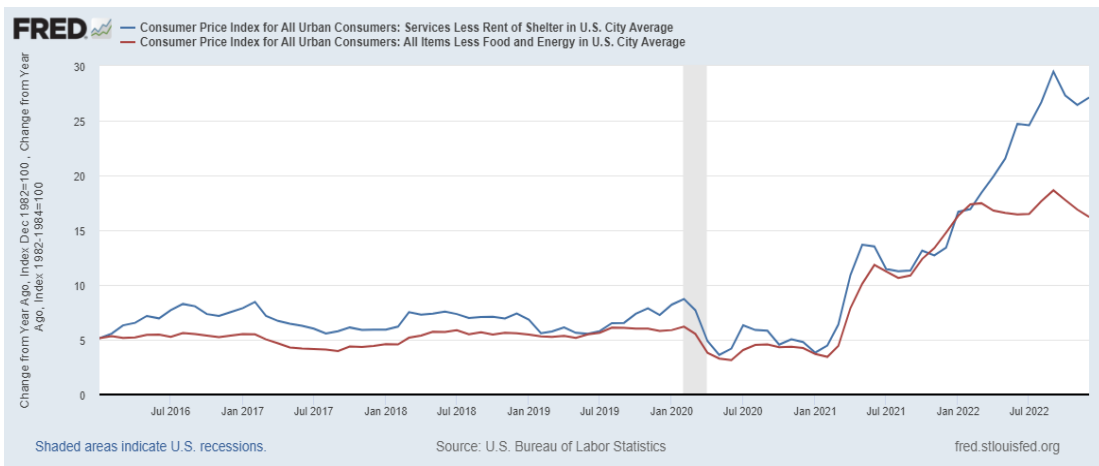
Rents Paid and Rents Asked For

Two Measures of Rents



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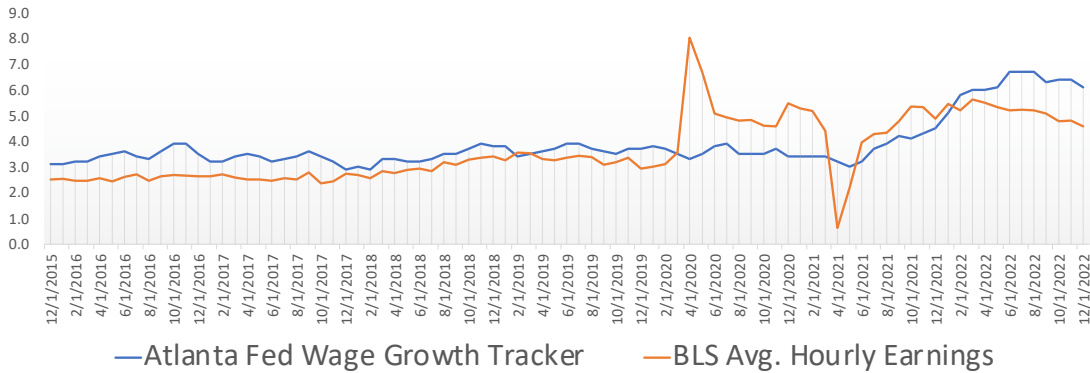
Inflation a Closer Look: Troubling News



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What is Happening to Wages?

Two Measures of Wages



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Where we Stand

- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Monetary policy was too easy for too long, but since March of last years has been much more restrictive.
- Yes, there were supply chain issues that temporarily raised inflation, but there was too much total spending.

So, where are we headed?

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What about the "R" Word?

Probability the U.S. is in a recession in next 12 months including today



Latest Observation,
10/2022: **63%**

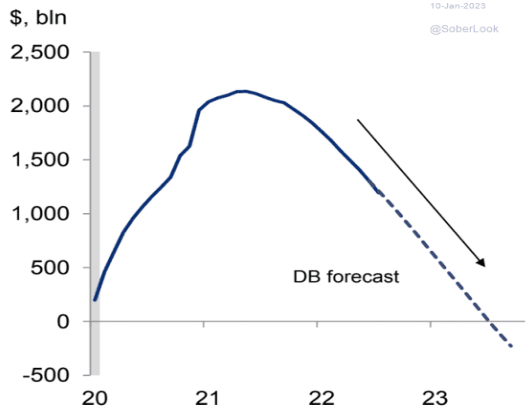
Note: Gaps indicate question not asked or data unavailable.

Source *Wall Street Journal*

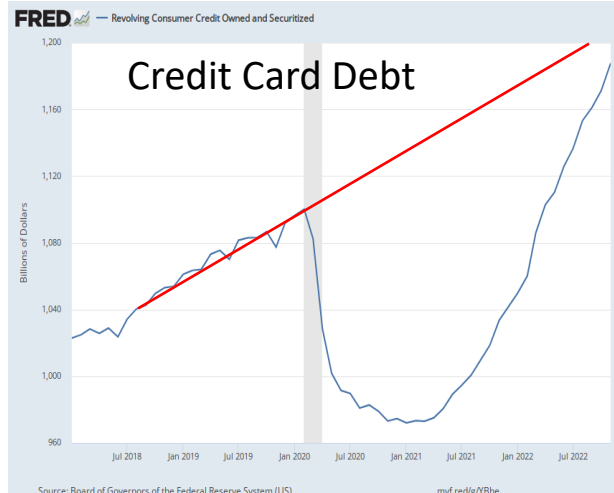


Prospects for Consumer Spending?

Household excess savings



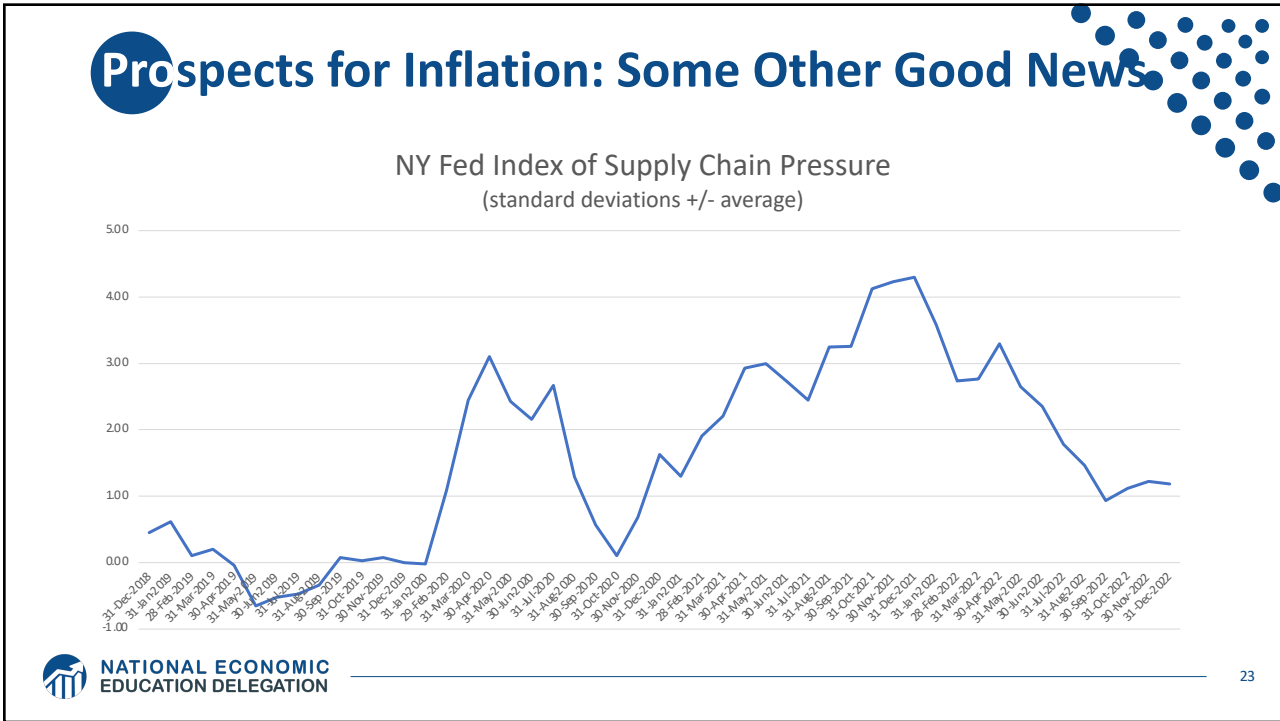
Deutsche Bank Research



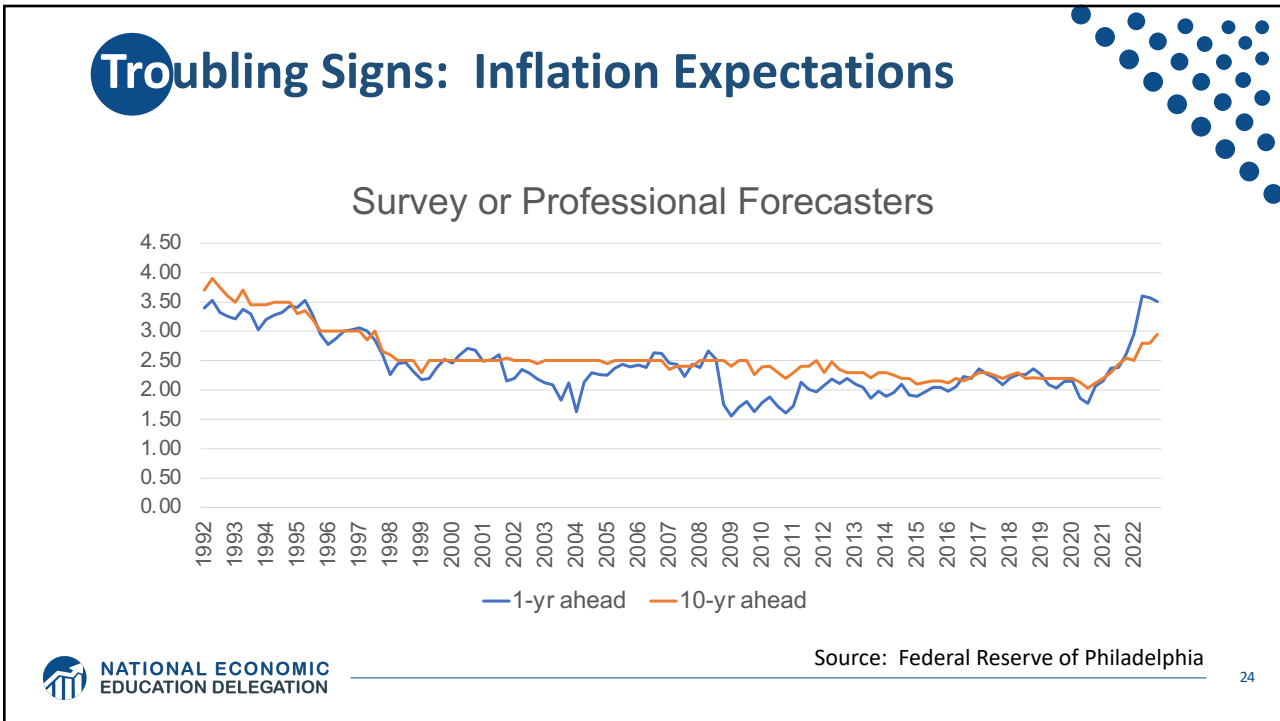
Source: Board of Governors of the Federal Reserve System (US)

myfredg/YBhe





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Things have changed at the Fed

Jerome Powell, Fed Chair

February 10, 2021: we will not tighten monetary policy solely in response to a strong labor market. .. [F]ollowing periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time

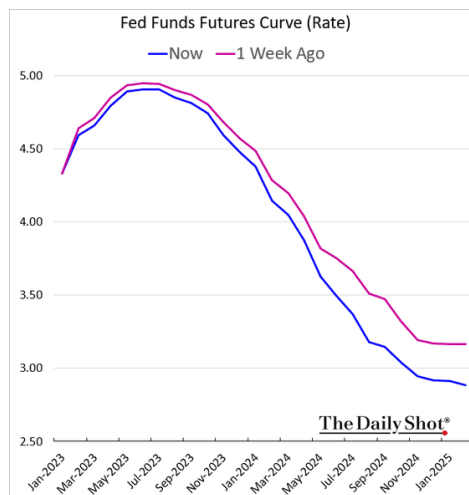
December 14, 2022: Price stability is the bedrock of a healthy economy and provides the public with immeasurable benefits over time... But restoring price stability when inflation is high can require measures that are not popular in the short term as we raise interest rates to slow the economy.

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What Will the Fed Do?

Here is what markets think:

Probability of 0.5 pct point rise: 10%



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Good News is Bad New for the Stock Market



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Summary of Where We are Headed

- The growth in total spending is at least slowing.
- Labor Market is still strong, but lagging indicator.
- Hard or Soft Landing: the Jury is out.
- Inflation is coming down, but how fast?

Known Unknowns: New Covid Variant, Ukraine War, Budget Fights.

Unknown, Unknowns!

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Olivier Blanchard 12/30 Twitter Post

Inflation is fundamentally the outcome of the distributional conflict, between firms, workers, and taxpayers... The source of the conflict may be too hot an economy. But in the end, forcing the players to accept the outcome, and thus stabilizing inflation, is typically left to the central bank... It is a highly inefficient way to deal with distributional conflicts...



Stay Tuned

- **January 26, BEA first estimate of fourth quarter GDP.**
- **January 27, BEA releases PCE inflation for December.**
- **January 31, next Federal Reserve meeting**





Let's Hear from You!
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