



US Economy and Coronavirus Economics

Aquinas College
January 18, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation



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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: 640+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

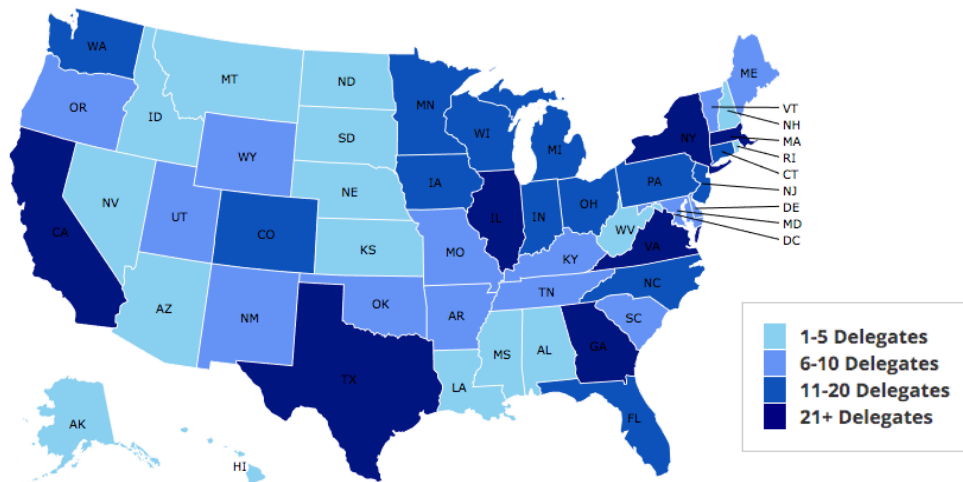
- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- Coronavirus Economics
- US Economy
- 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
- US Social Policy



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Course Outline

- Contemporary Economic Policy
 - Week 1 (1/18): US Economy & Coronavirus Economics
 - Week 2 (1/25): Federal Debt (Geoffrey Woglom, Amherst College)

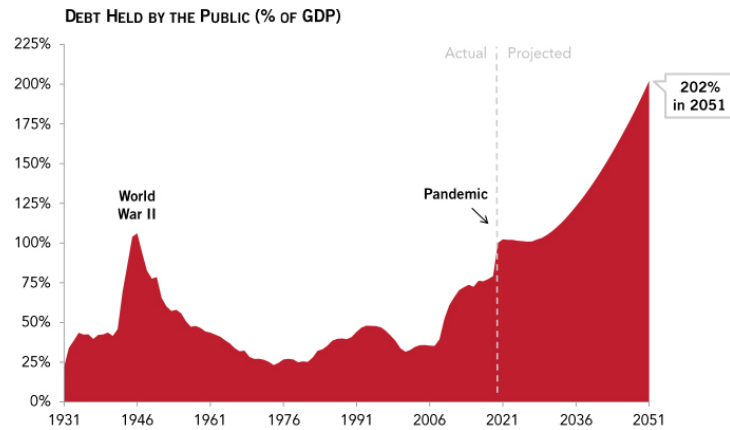


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The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.
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Credits and Disclaimer

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

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- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

- **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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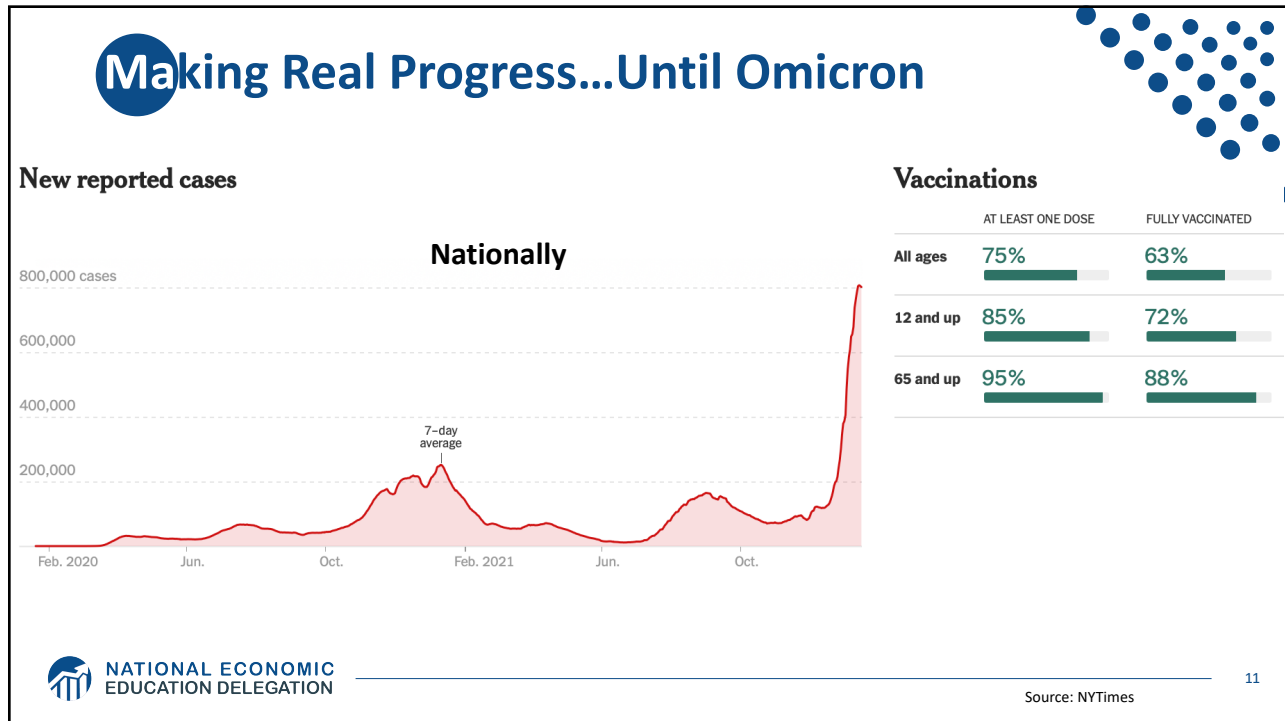
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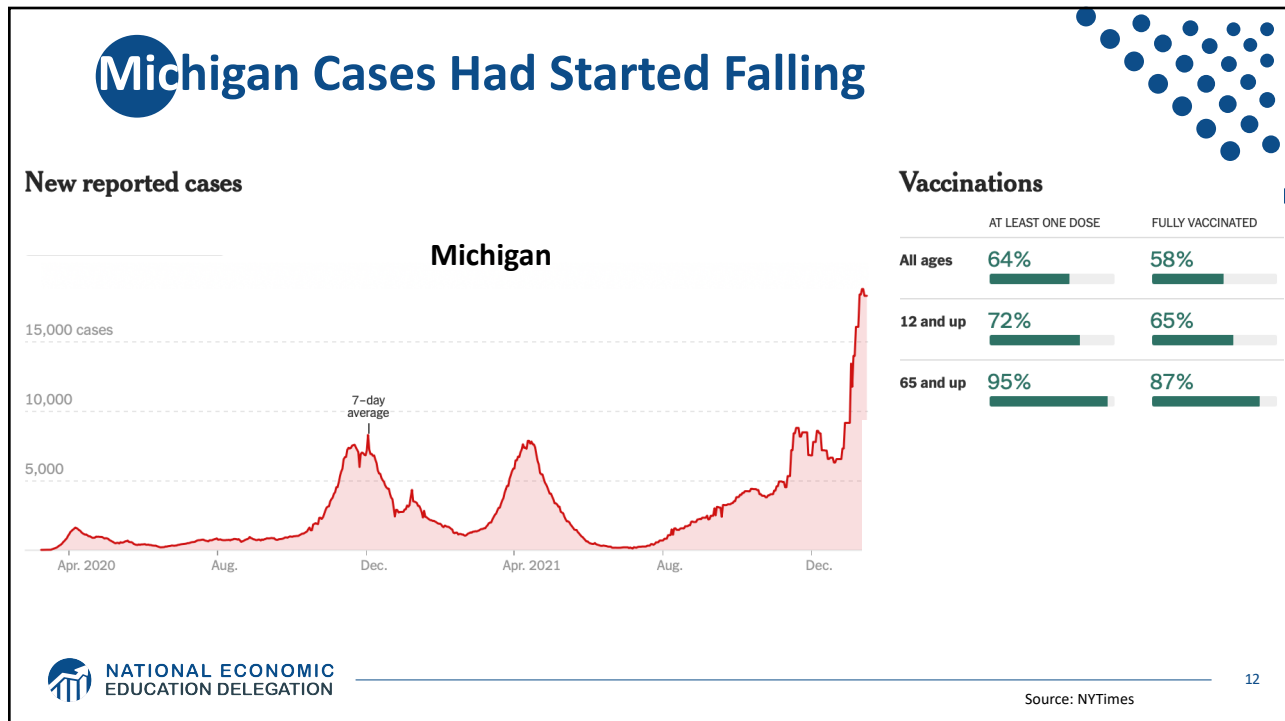
Outline

- **State of the pandemic**
- **The U.S. Economy**
- **Hot Topics**
 - Government policy
 - Debt
 - Inflation
 - Great resignation
 - Housing markets

State of the Pandemic



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The U.S. Economy



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Some Basic Statistics

Statistic:	Value
Population	331.1 Million
Labor Force	160.9 Million
Employment	144.9 Million
Gross Domestic Product (GDP)	\$22.1 Trillion
Income per Capita	\$35,805
Ave. Hourly Earnings	\$30.33



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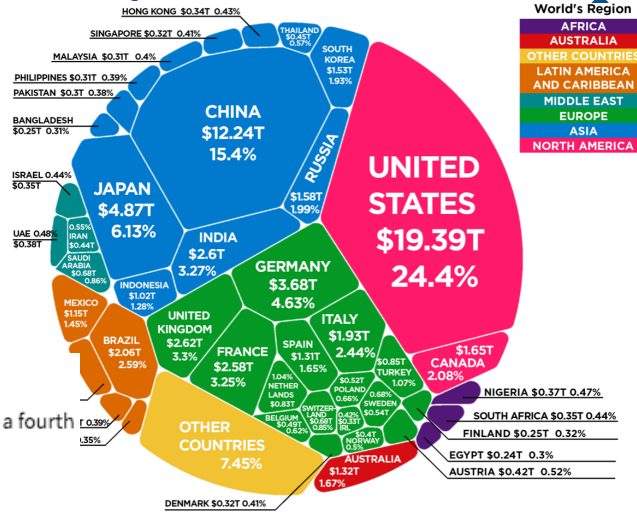
U.S. Economy in Global Perspective

U.S. Real GDP:

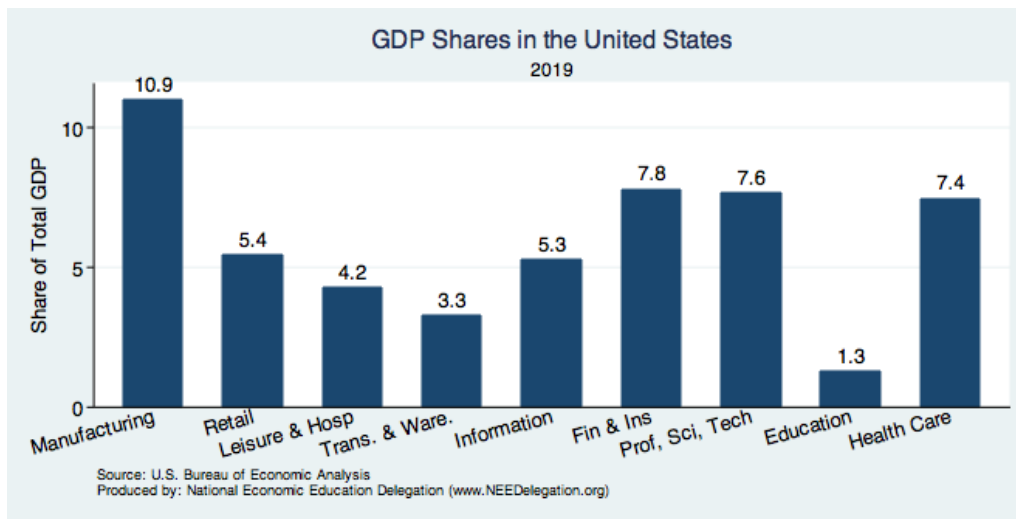
\$19.202 trillion in 2019-Q4
\$17.258 trillion in 2020-Q2
\$19.479 trillion in 2021-Q3

% Share of the Global Economy

The 173 countries outside the top 20 make up less than a fourth of the total global economy.

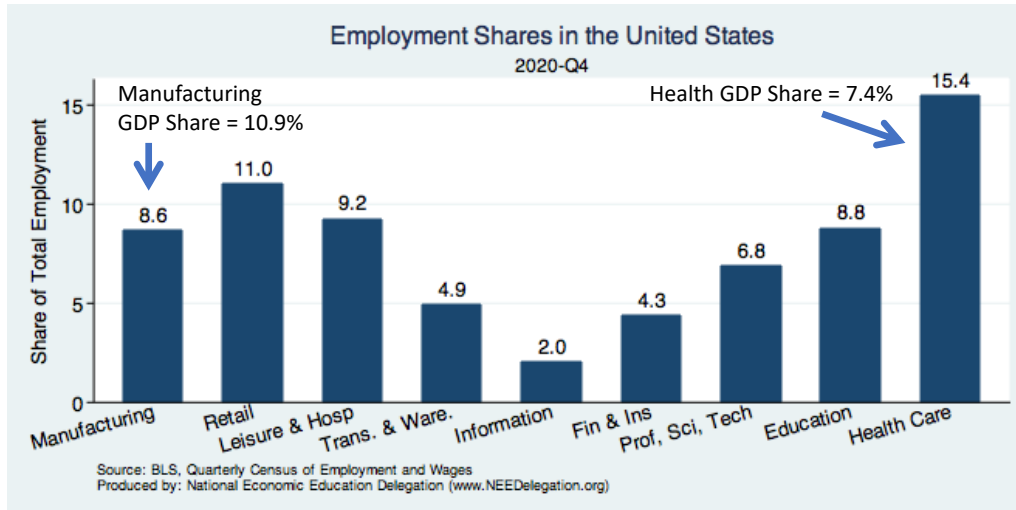


Composition of the U.S. Economy: GDP



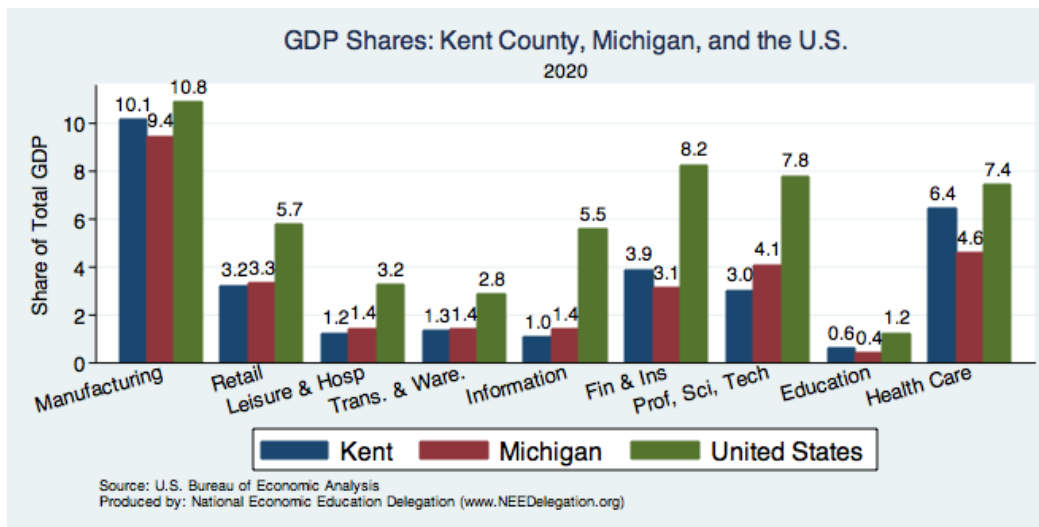
Source: U.S. Bureau of Economic Analysis
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Composition of the U.S. Economy: Employment



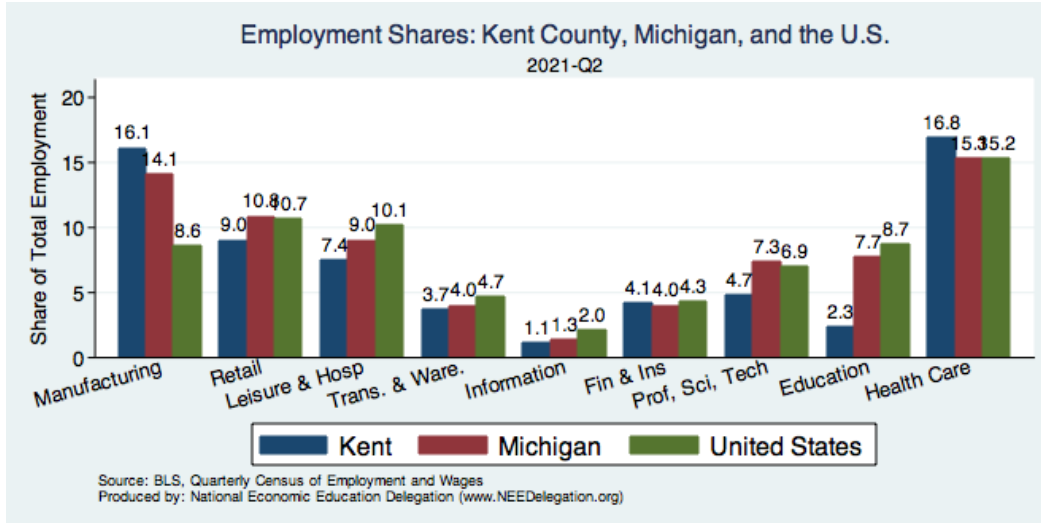
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Kent County GSP: Manuf. & Health

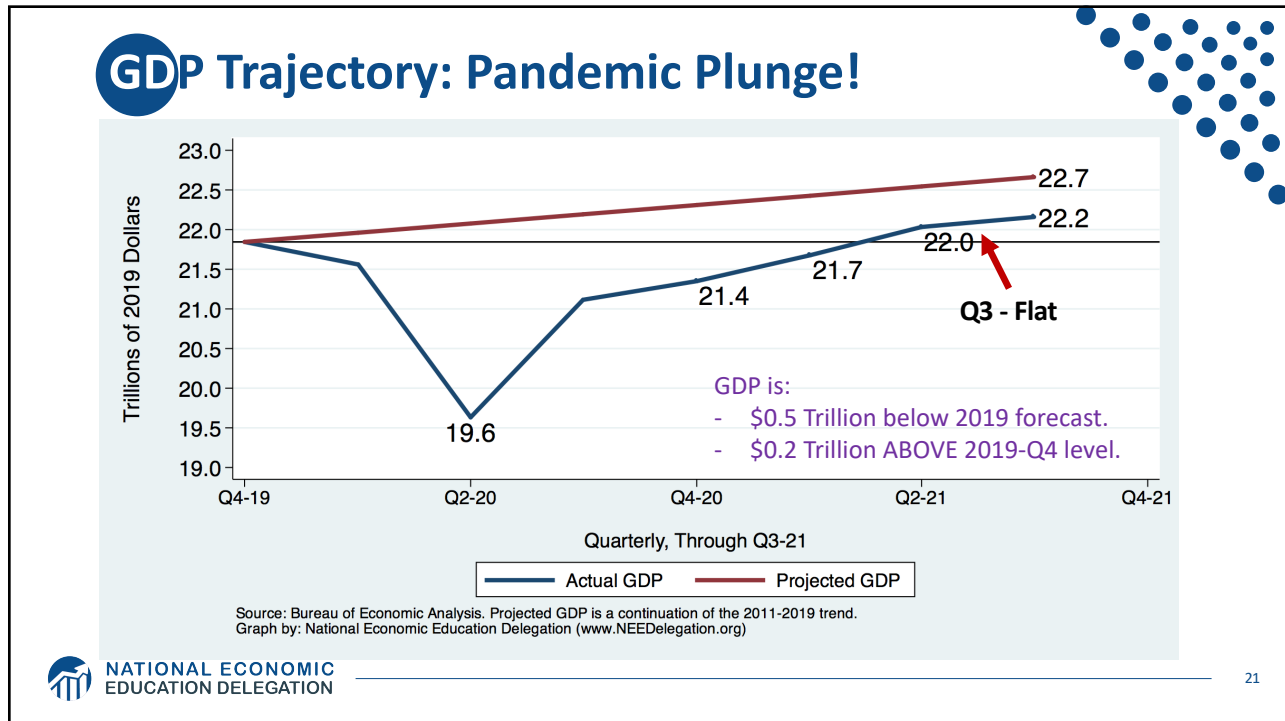


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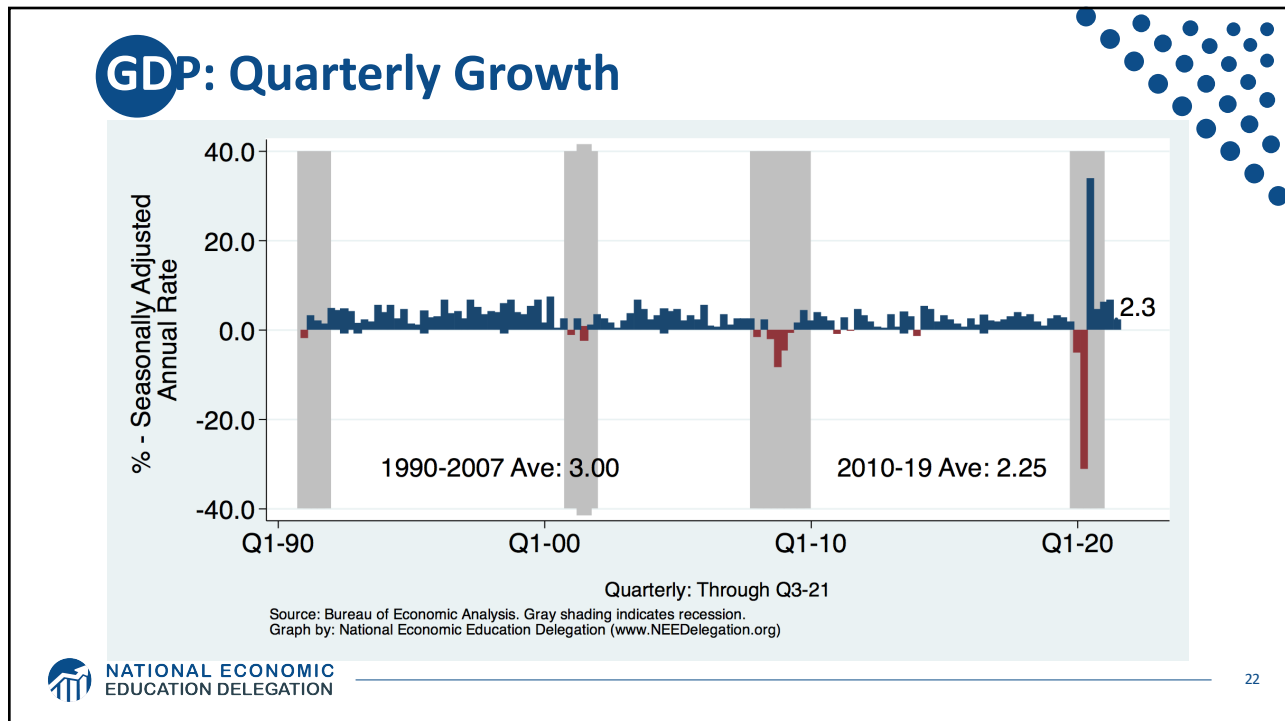
Kent County Employment



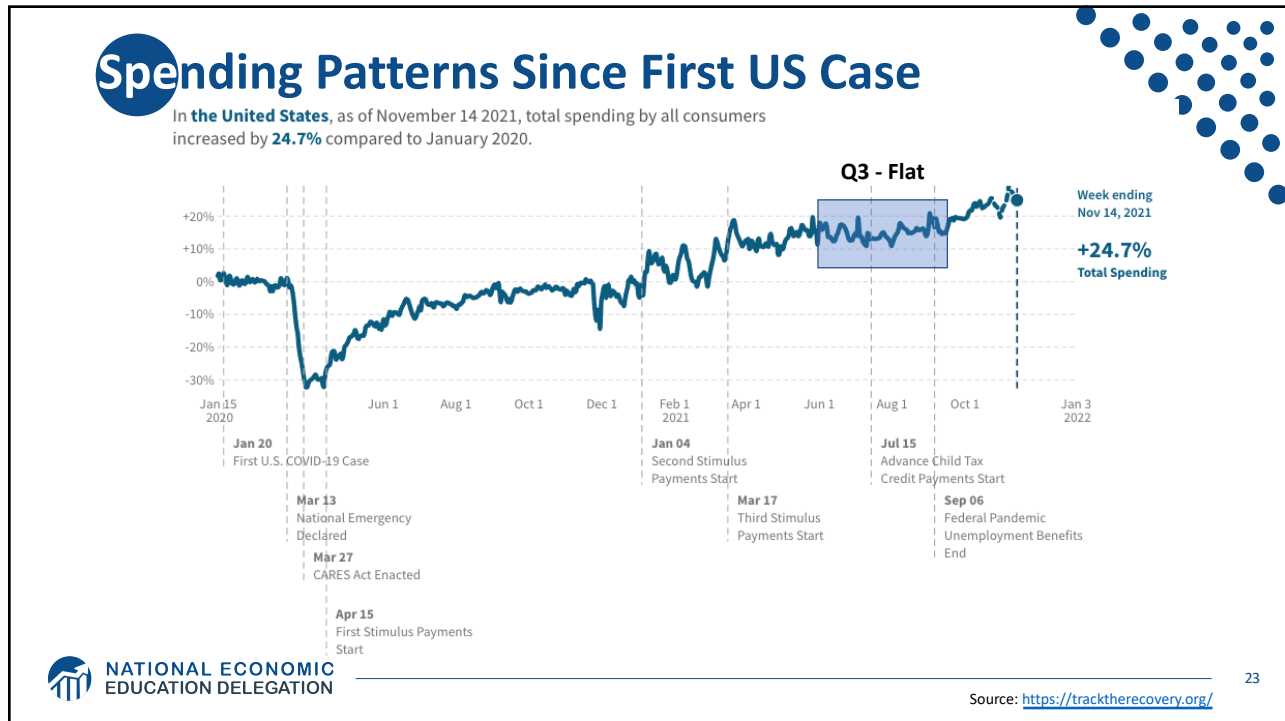
Evidence of Impact



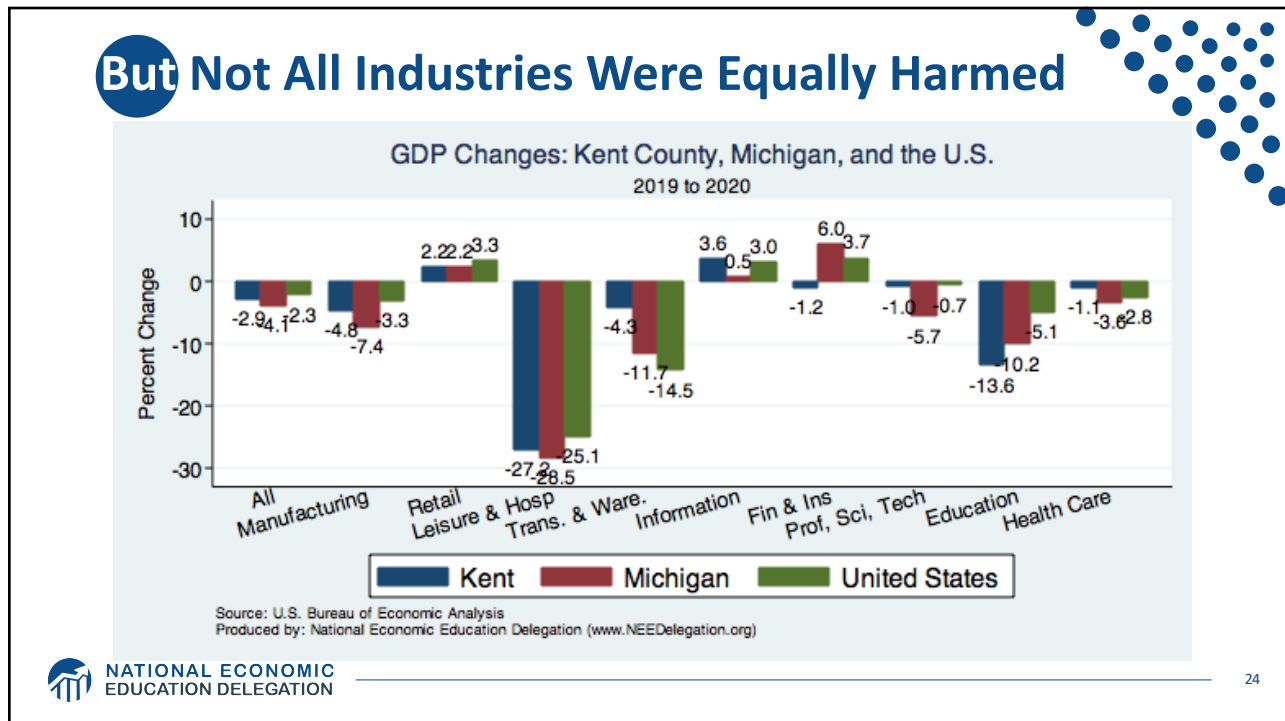
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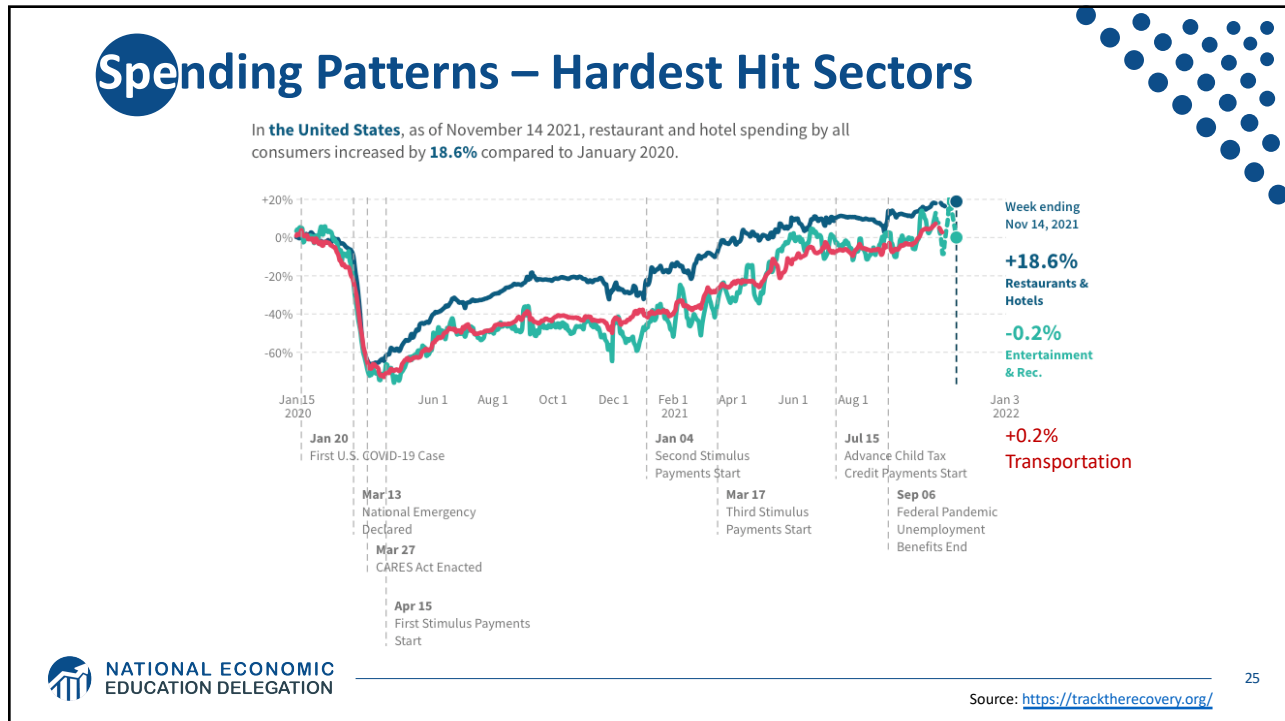
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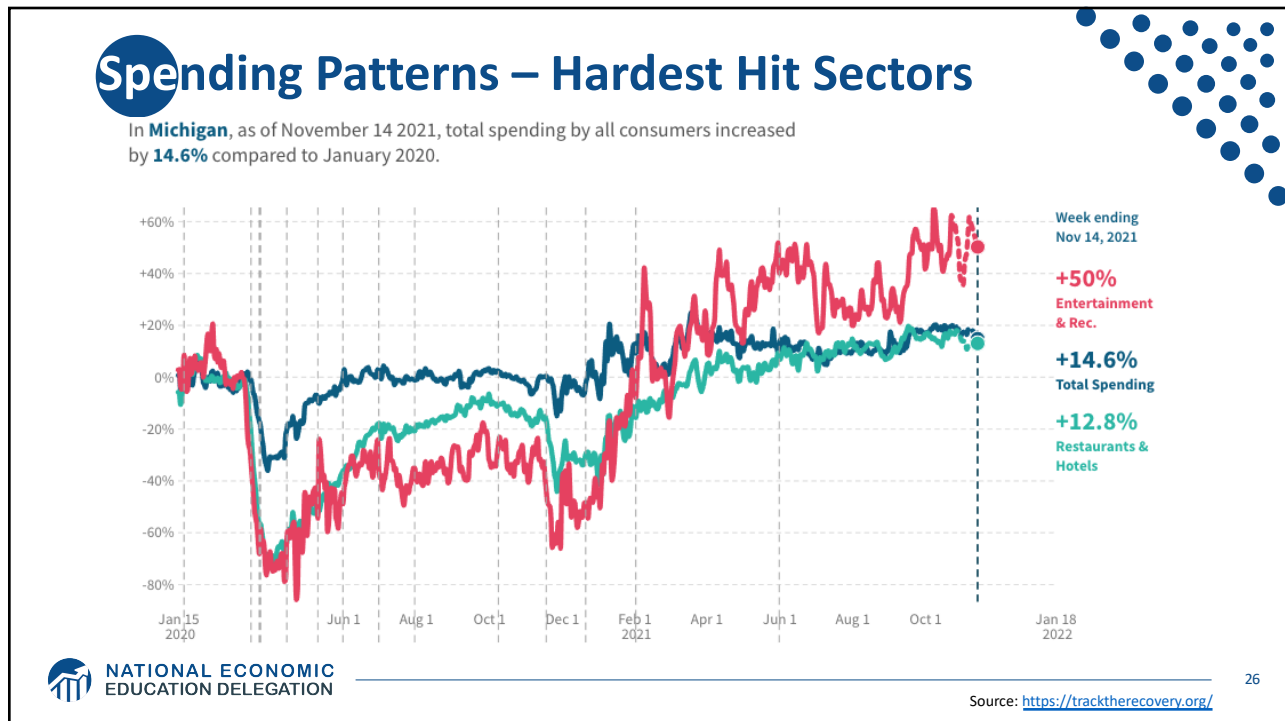
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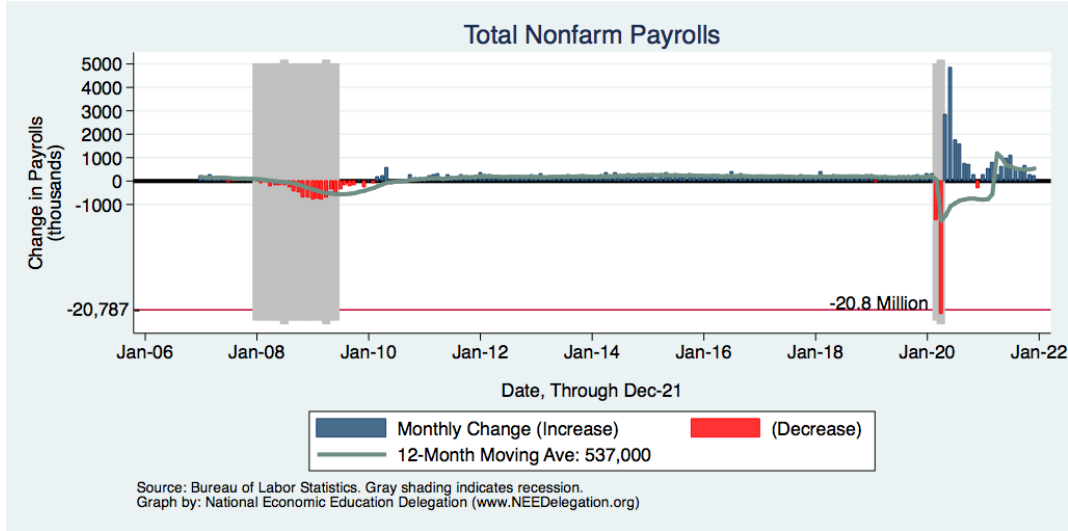


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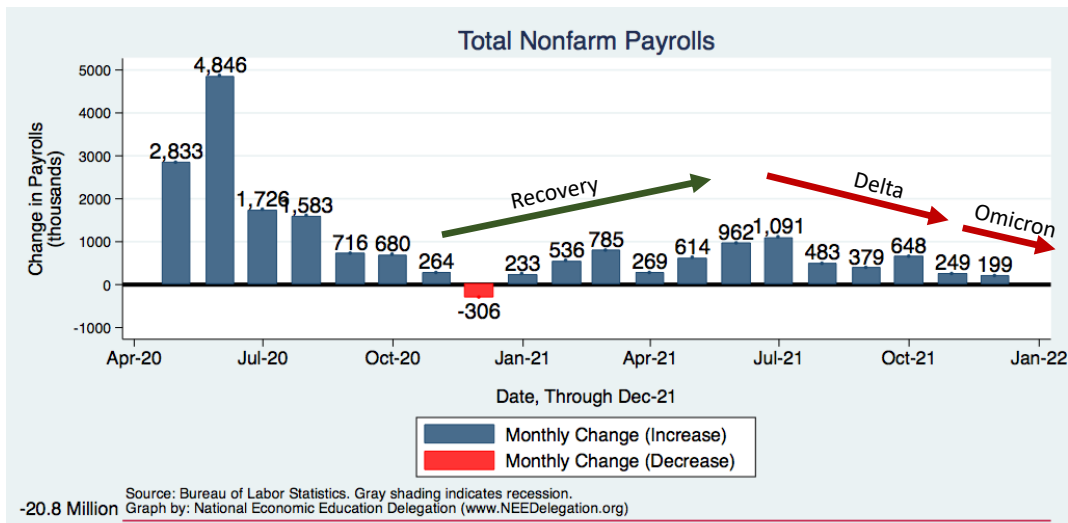
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Monthly Changes in Nonfarm Employment



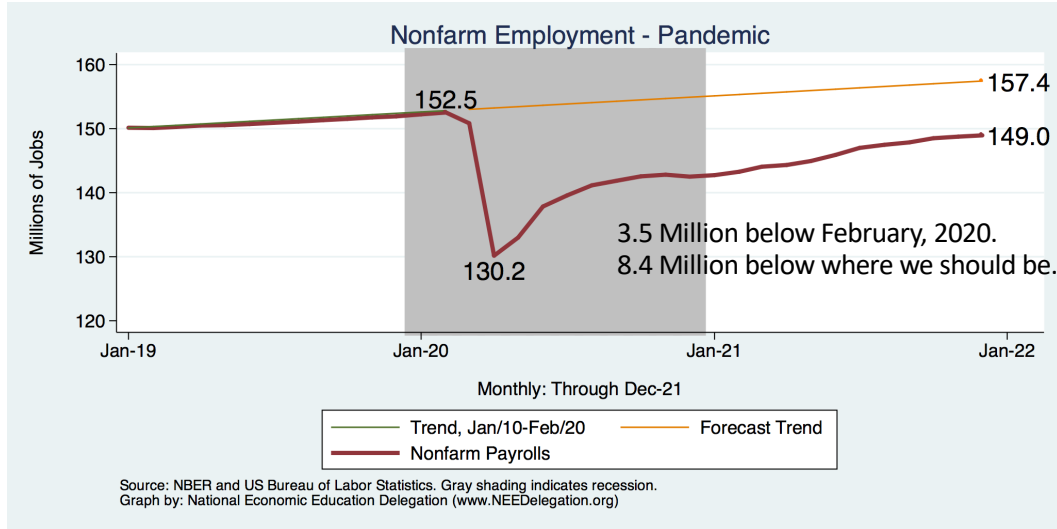
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Monthly Changes in Nonfarm Employment



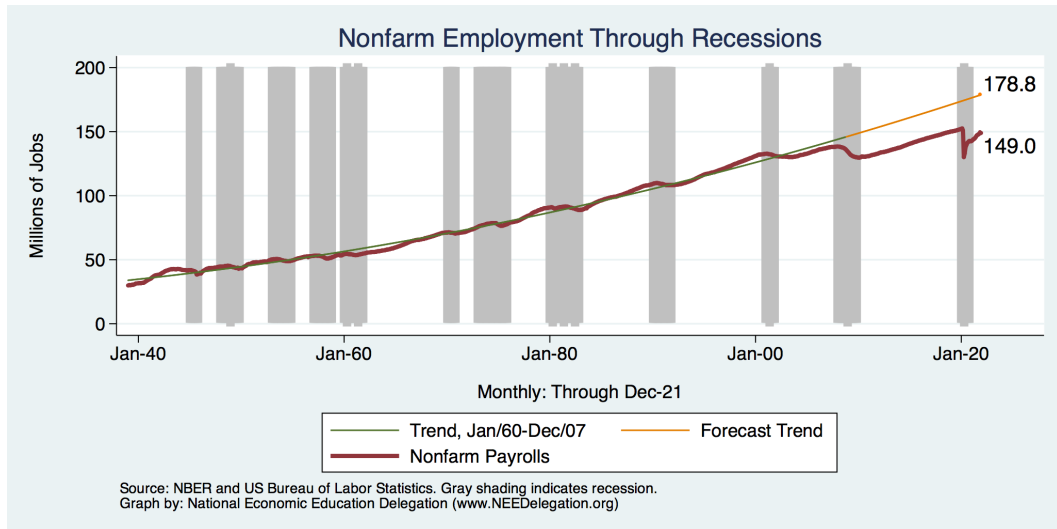
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Employment Gap

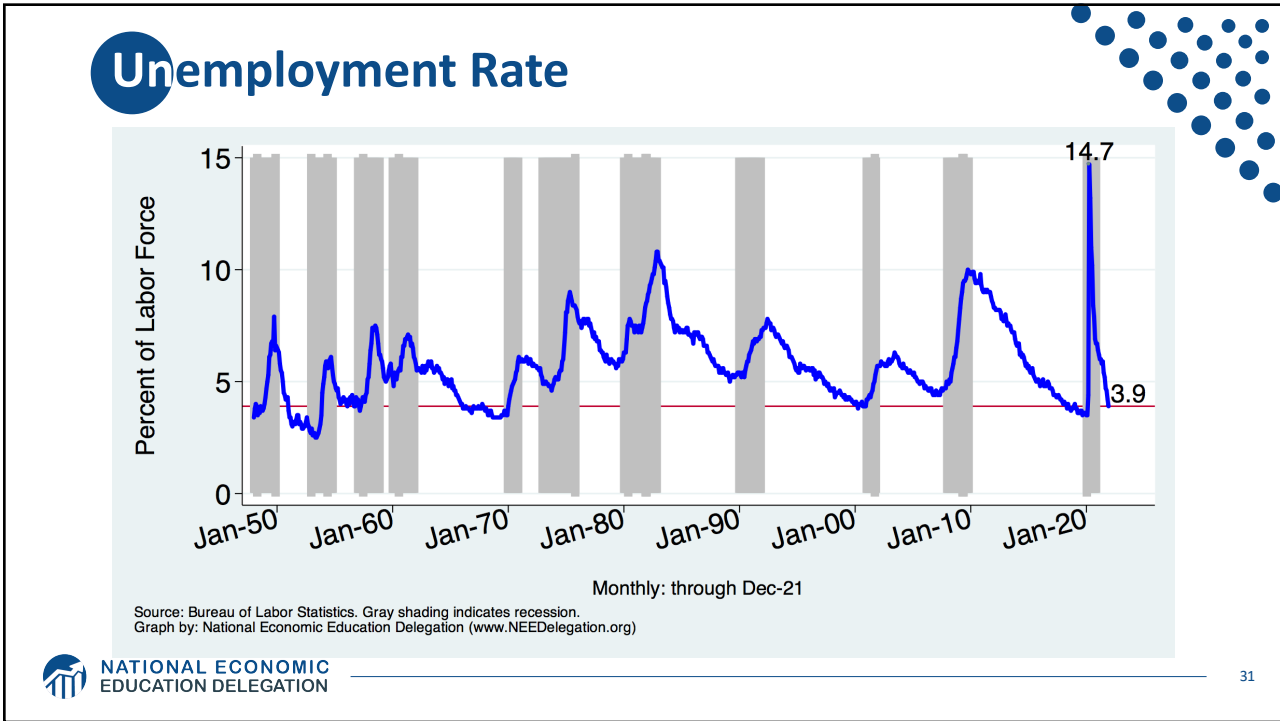


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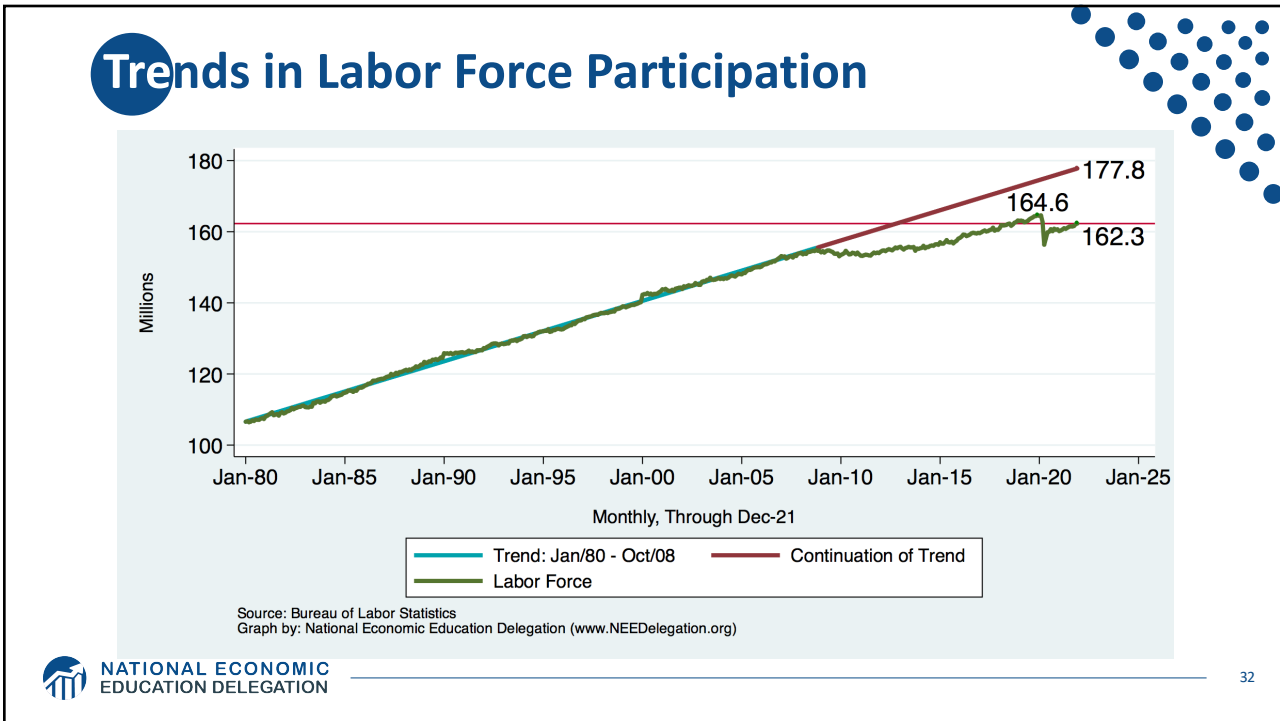
Employment Gap – In Historical Perspective



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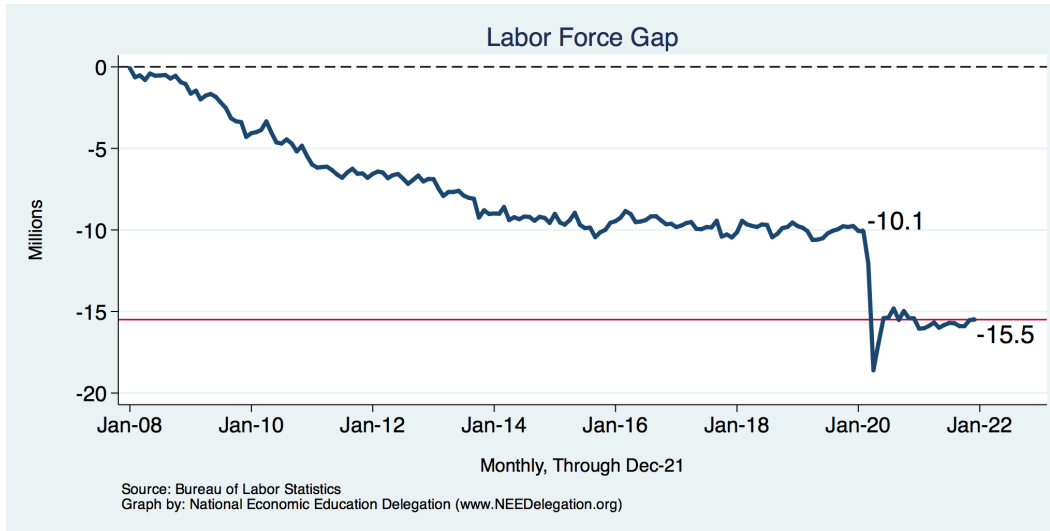


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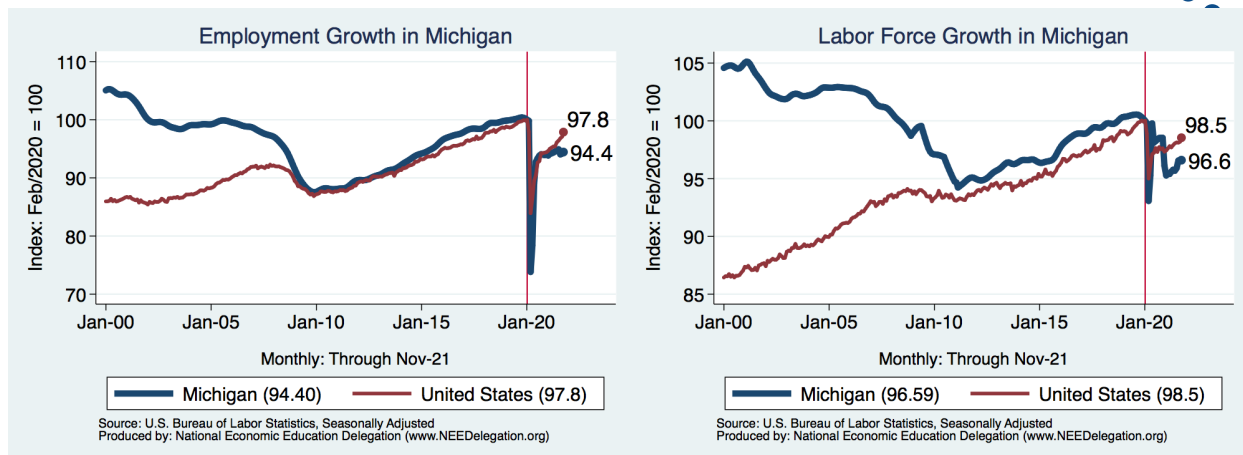
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Labor Force is Shrinking – Drives Down UR



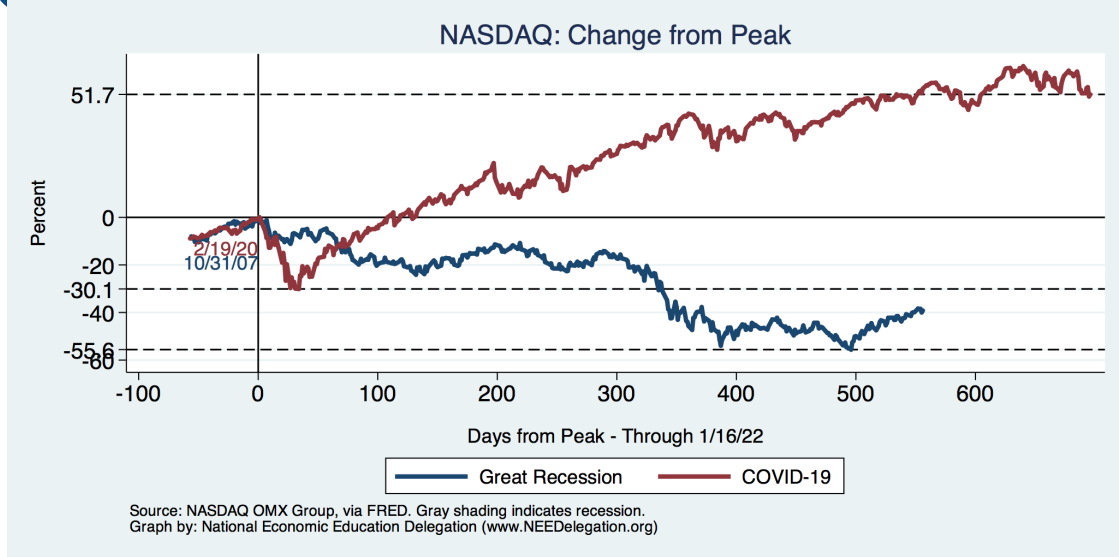
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Employment in Michigan



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Stocks: Bounced Back Quicker This Time



Hot Topics

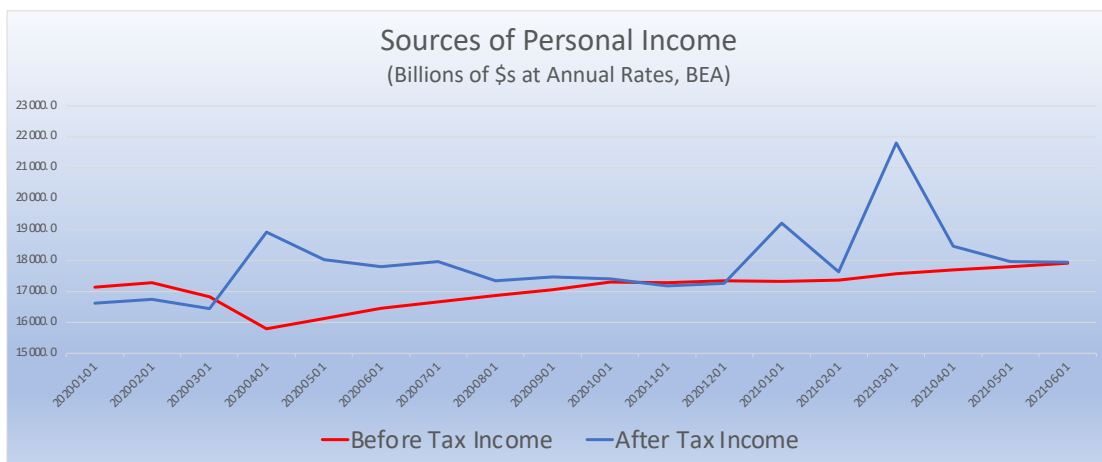
- Government policy
- Inflation
- Great resignation
- Housing markets
- Structural changes

What Have Been Policy Effects?

- **MONETARY POLICY (Fed)** acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.
- **FISCAL POLICY (Congress)** acted quickly, but inevitably made some mistakes.
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C- (\$525b)

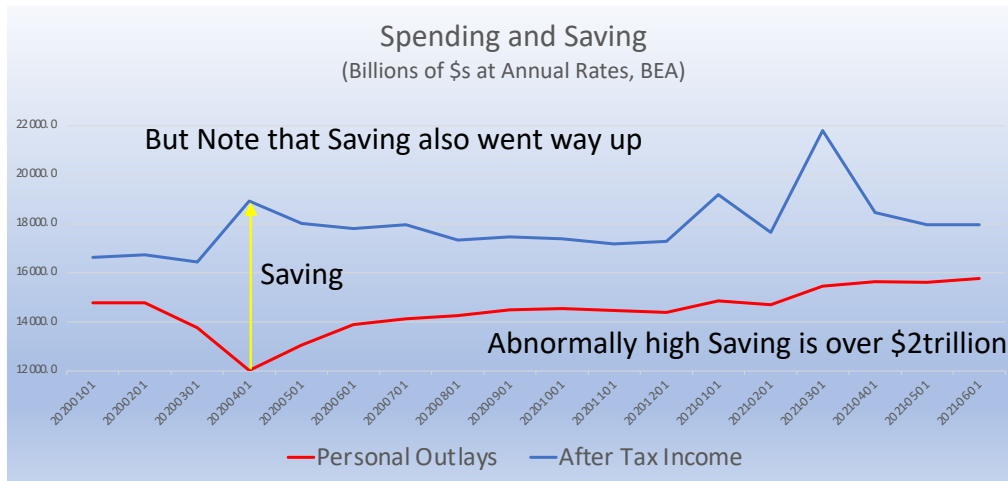
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Recovery Due to Immense Fiscal Stimulus and Control of COVID



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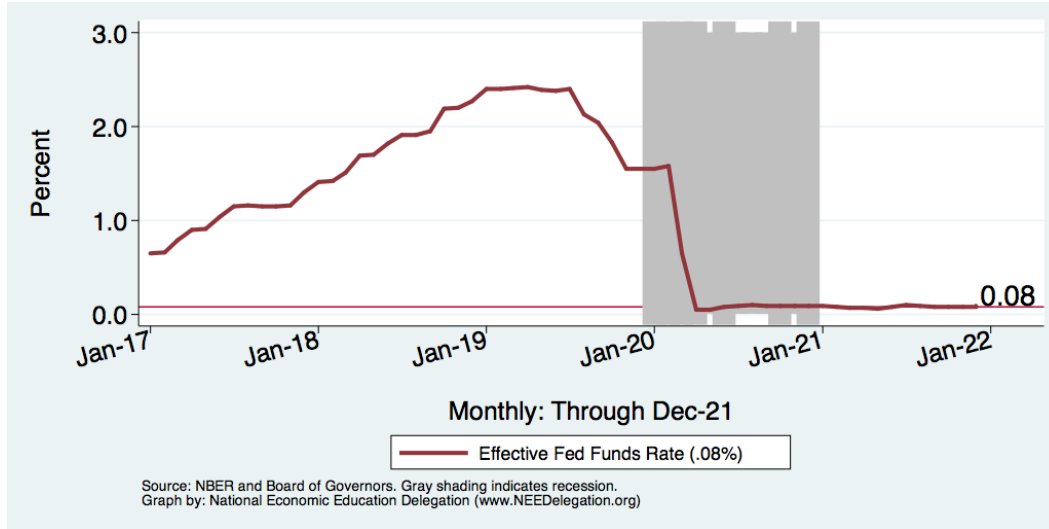
Stimulus allowed Spending to Recover



Monetary Policy: Federal Reserve

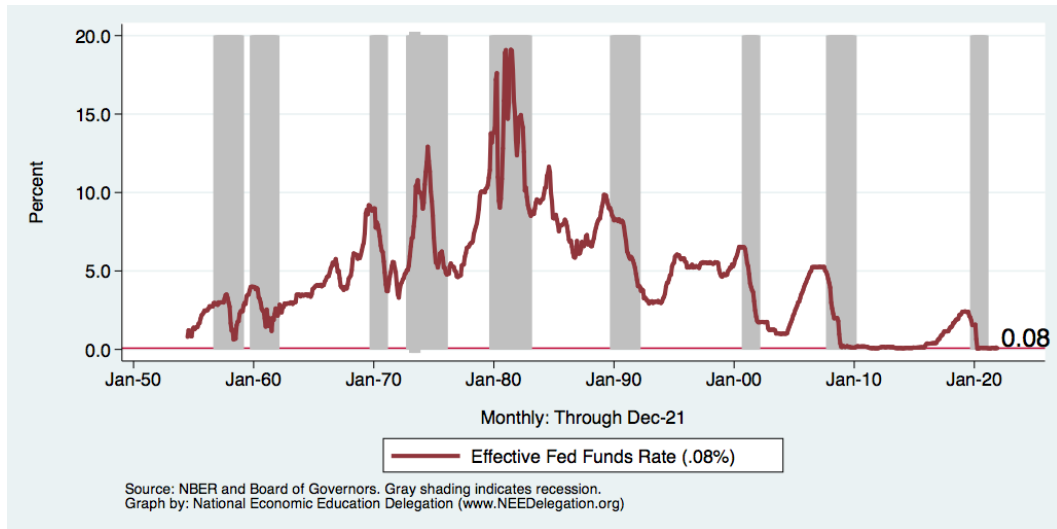
- **Primary goal is to keep interest rates low, to facilitate continued borrowing.**
 - Federal Funds Rate – rate at which banks lend to each other, usually overnight.
 - Purchases of U.S. Treasury securities – keep money flowing to the government at low rates of interest.

Federal Funds Rate – Last 5 Years



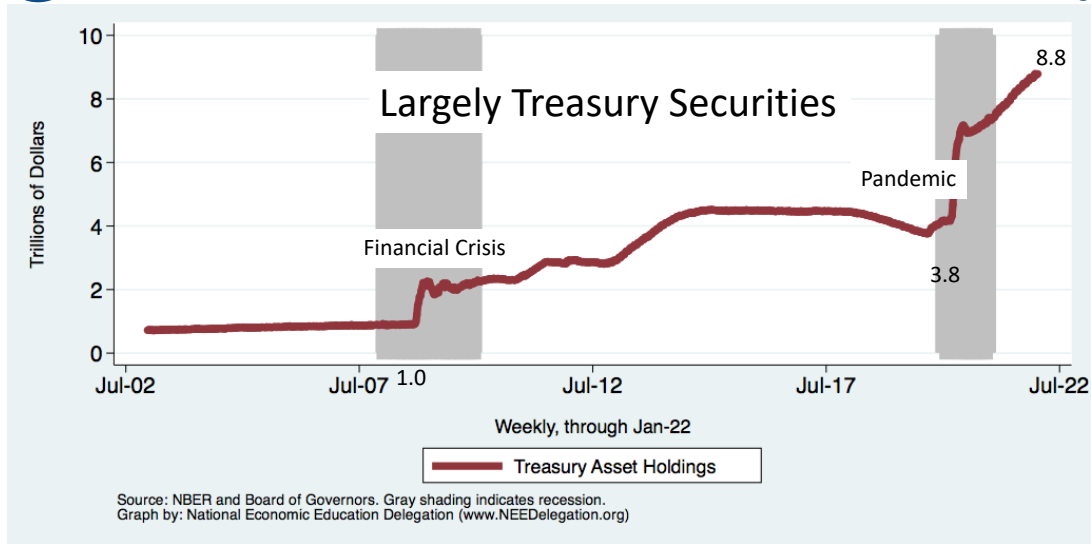
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Federal Funds Rate



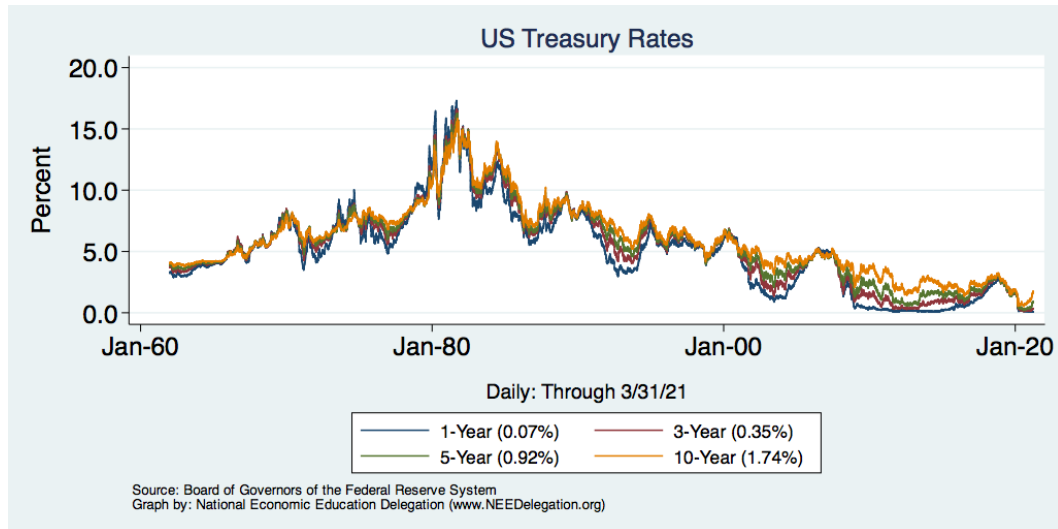
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Federal Reserve Assets



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Treasuries – Low Interest Rates



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Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance

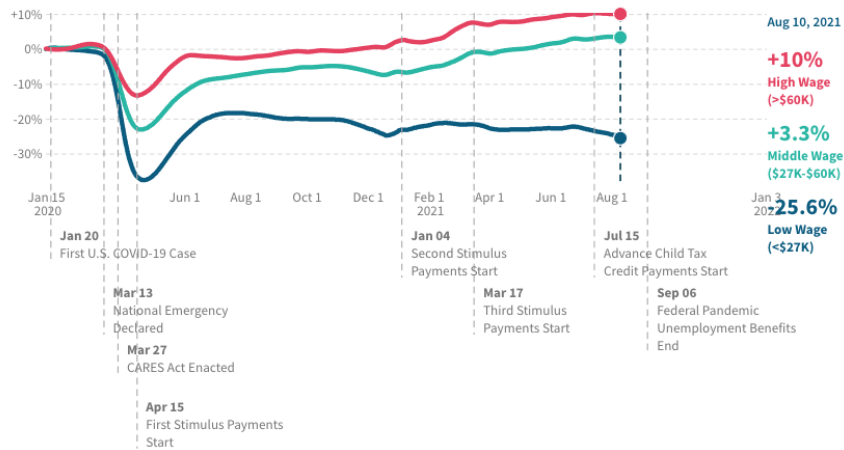


Source: TrendPlaybook.com, Bloomberg

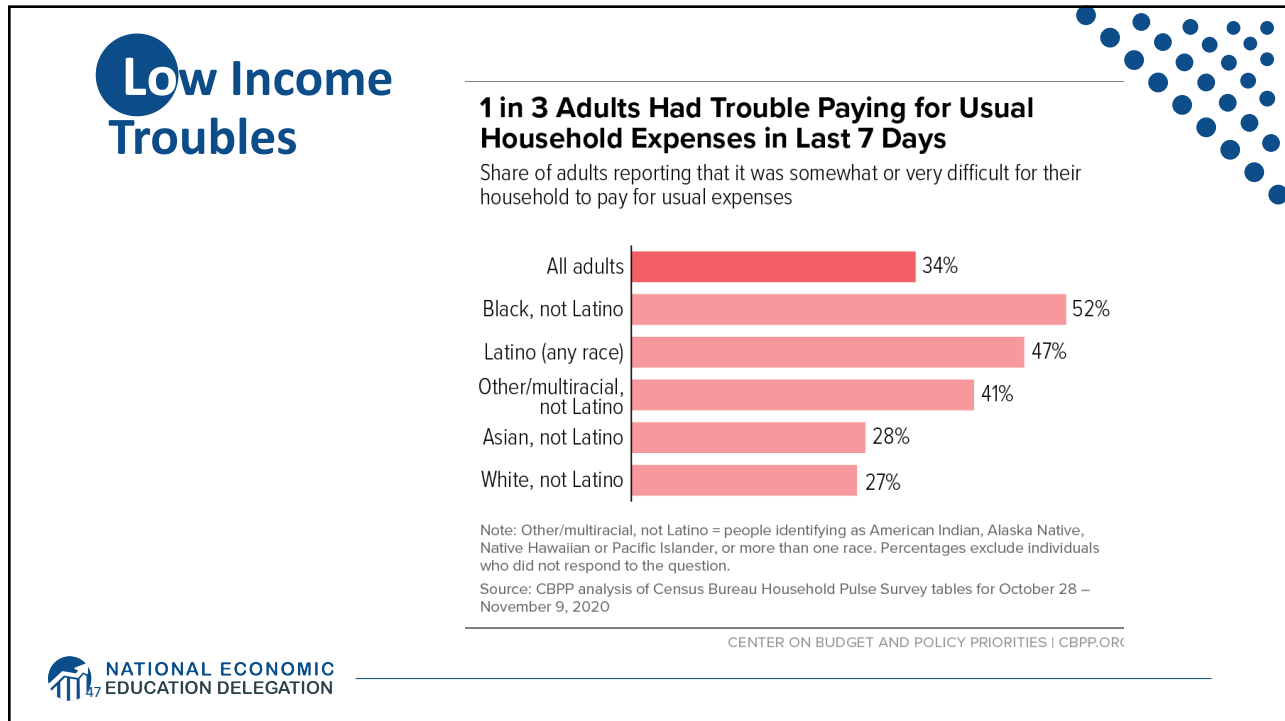
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Low Wage Employment is Lagging

In the United States, as of August 10 2021, employment rates among workers in the bottom wage quartile decreased by **25.6%** compared to January 2020 (not seasonally adjusted).



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Current Deficits in Perspective:

- **The budgetary cost of the 3 major fiscal packages during the pandemic was over \$5 trillion. As a share of the economy this is almost the size of war production in 1943.**
(Romer, *Brookings Papers on Economic Activity*, 3/25/2021.)
- **Since March of 2021, Fed net holdings of US Treasury bonds have increased by \$2.7 trillion.**

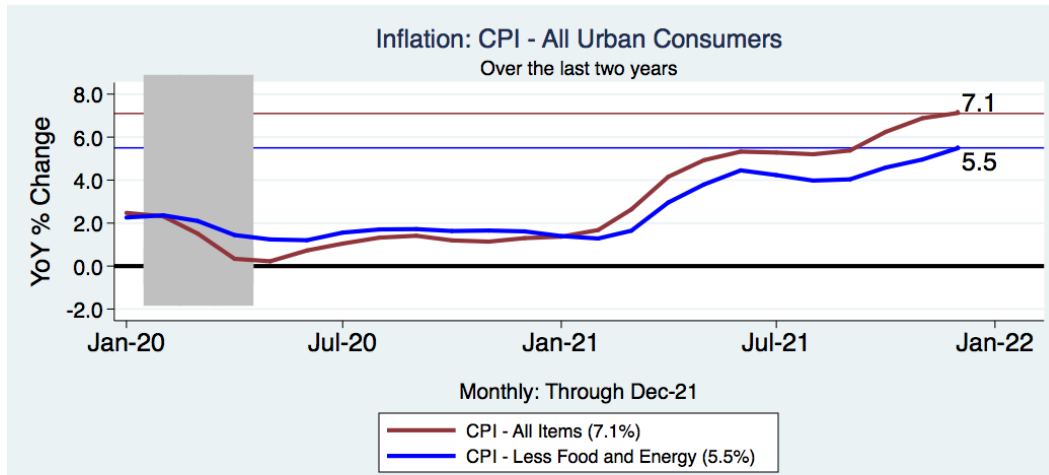
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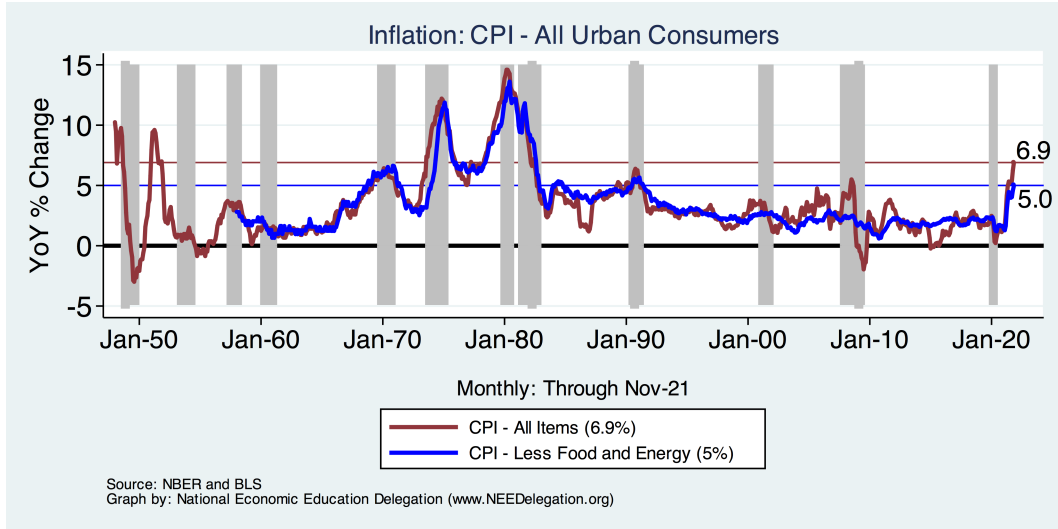
Inflation

Inflation – Climbing! Should we worry?



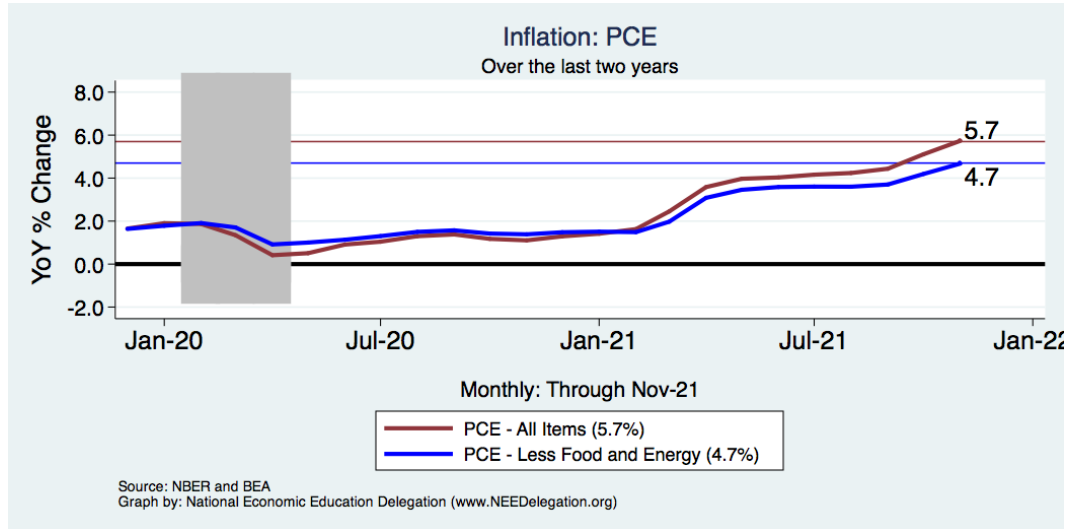
Source: NBER and BLS
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

Inflation in Historical Perspective



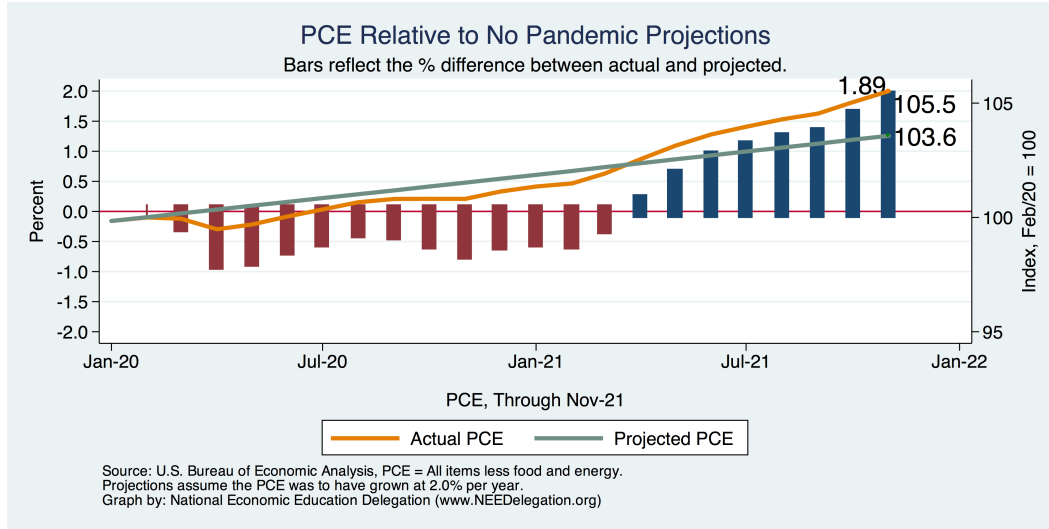
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Inflation – The Fed’s Metric! Should we worry?



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Inflation – PCE and Fed Suggest: I don't know.



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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

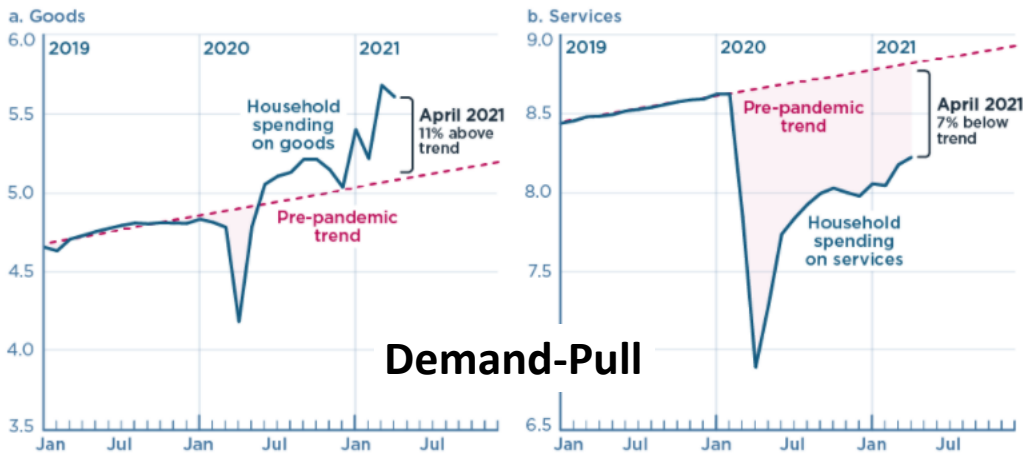


When prices rise, wages rise too, in order to maintain living costs.

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We're Buying Mostly ... Stuff

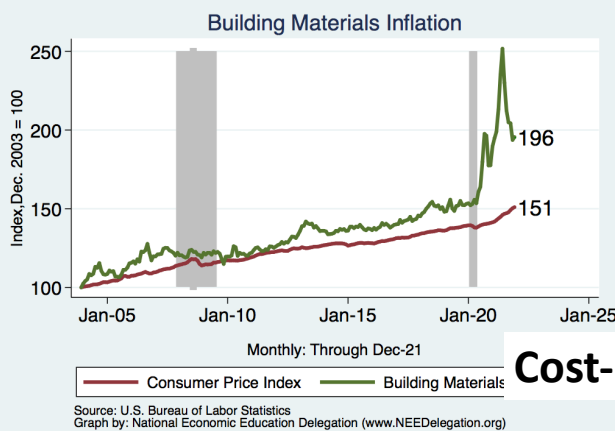
Real monthly household spending at an annualized rate, trillions of chained 2012 dollars



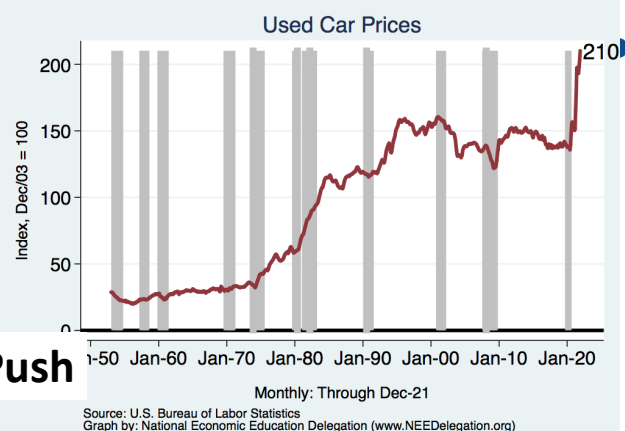
Demand-Pull

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Inflation: Concentrated

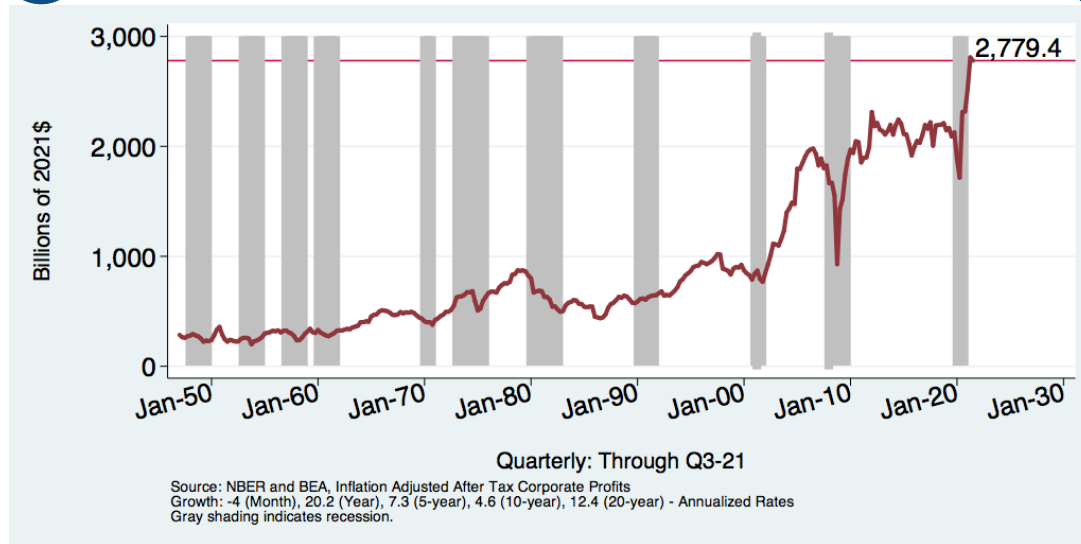


Cost-Push



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Corporate Profits...Adding to Inflation?



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Puzzle: Is Inflation Permanently Higher?

- **Fed: Price increases may be:**
 - 1) rebound from low prices last year;
 - 2) temporary due to supply chain disruptions; e.g., used cars, bldg supplies.
 - 3) influenced by rising wages in the future.
- **On the other hand: We are close to full employment and monetary and fiscal policies are very easy.**
- **Nobody knows, but Fed has wavered in its optimism.**



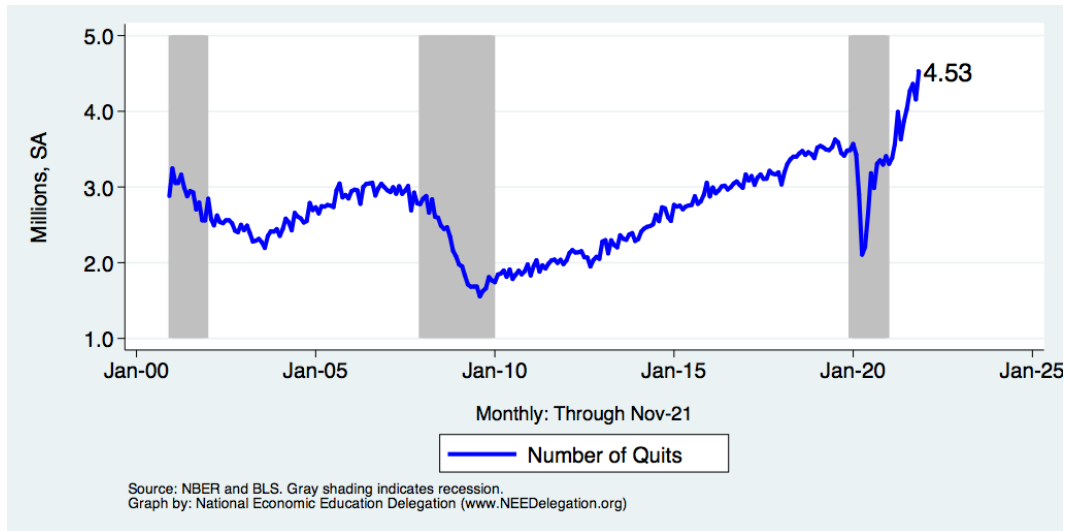
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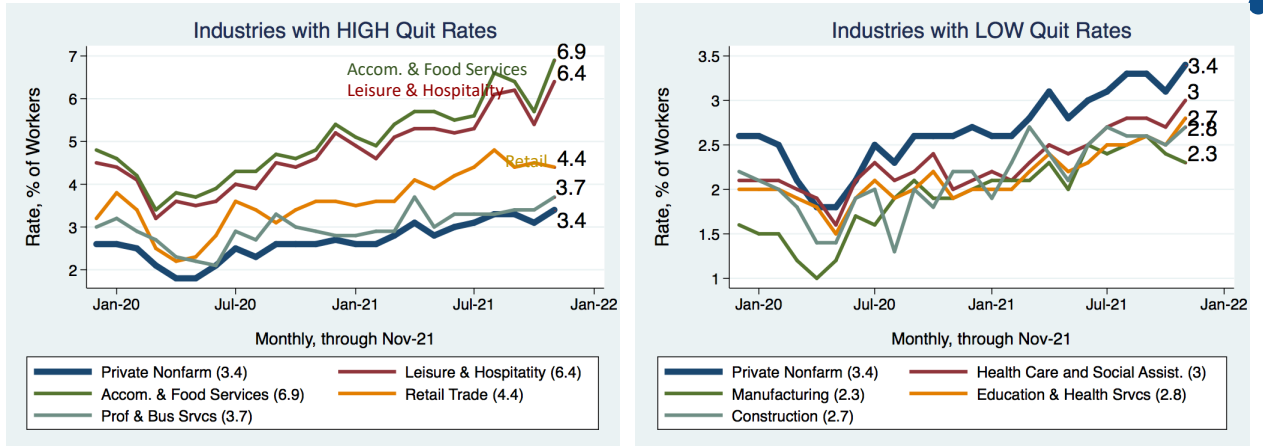
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The Great Resignation

Quits Are High! The Great Resignation

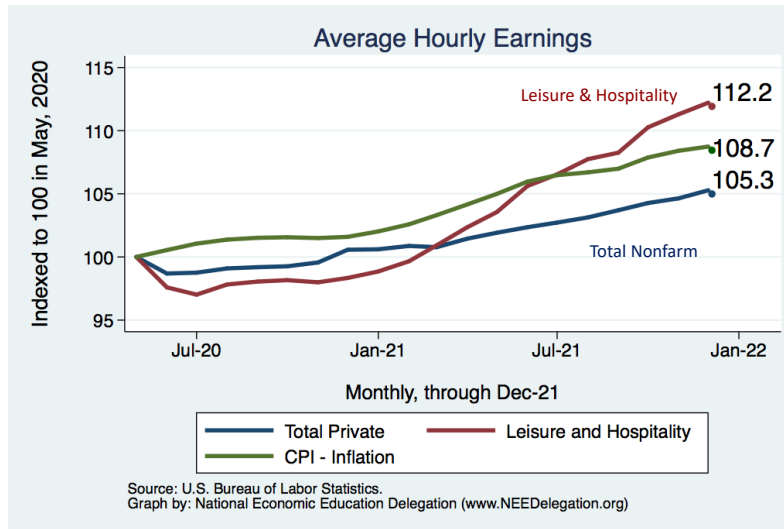


Quits – Rising, but More in Some Industries



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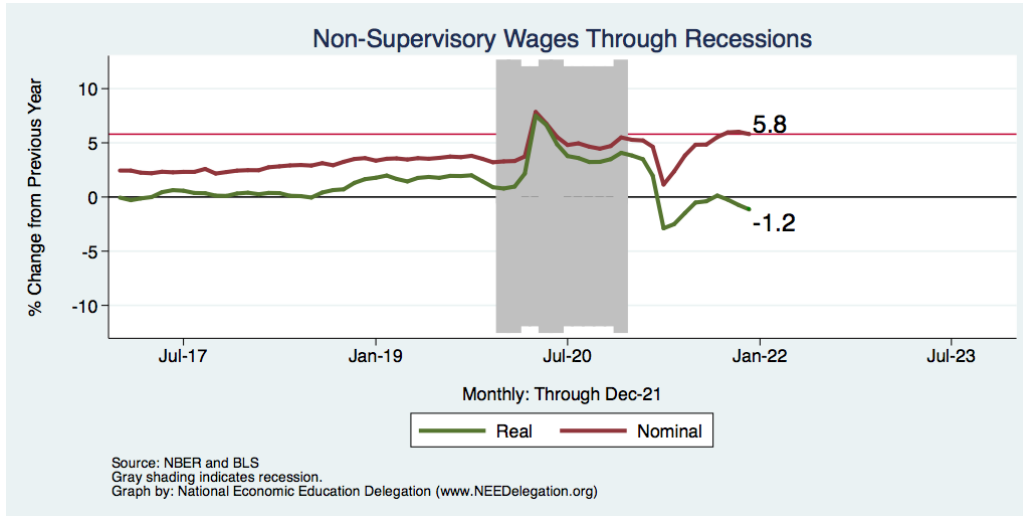
This is Happening Despite Rising Wages



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

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Inflation Adjusted Wages Are Falling



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Declining Resources May Change Things

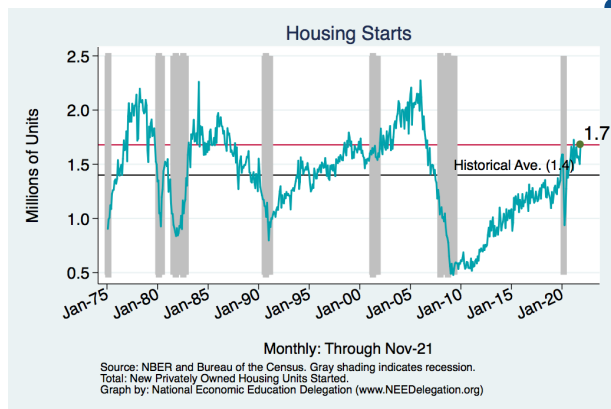
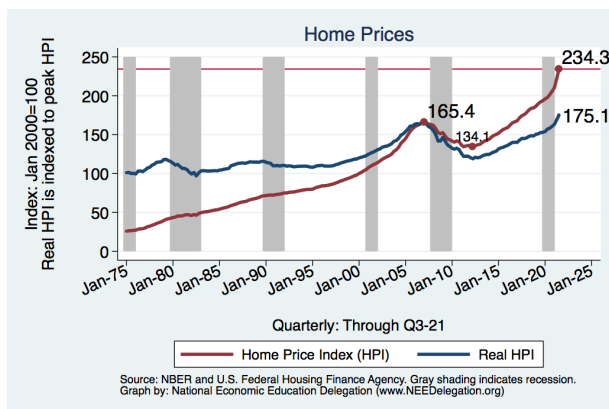


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Real Estate

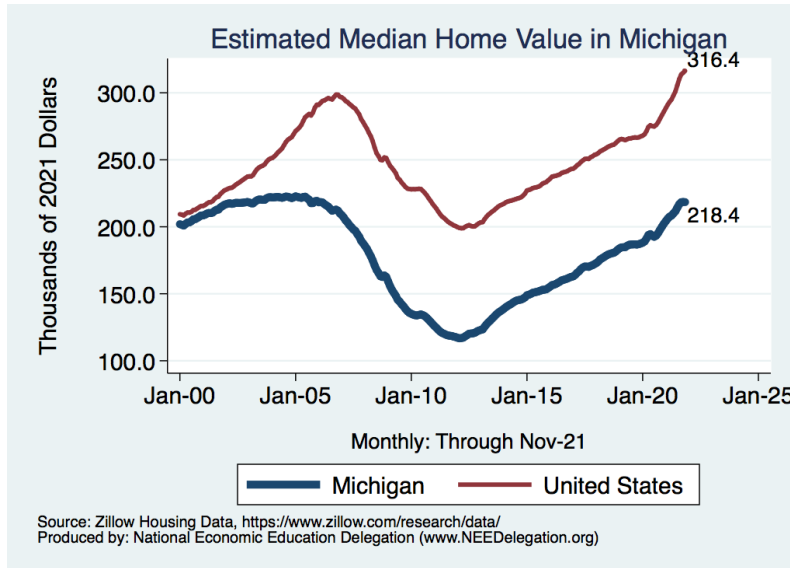
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Home Prices and Housing Starts



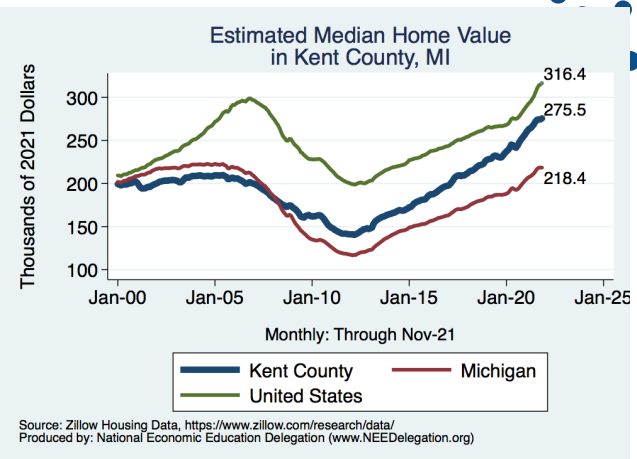
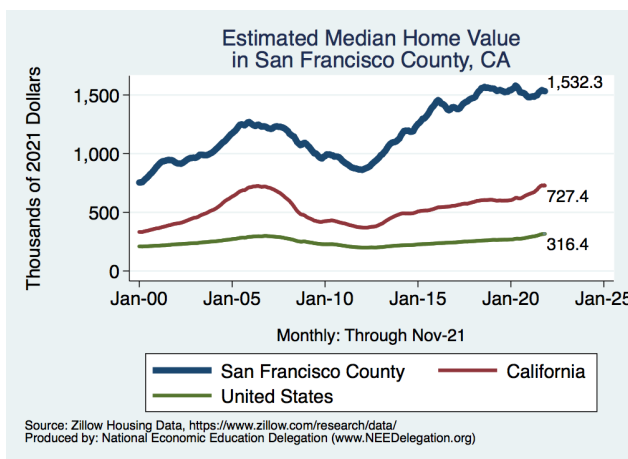
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Real Estate Prices



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RE Experiences Differ!



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Structural Changes?

- **Pandemic has been an accelerant.**
 - Not a change agent.
- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**
- **Wealth concentration**
- **Industry concentration**
- **Automation**



Primary Topics Covered

- **GDP**
 - Recovered the decline, but not where it should be.
 - Won't recover previous forecast until late 2022.
- **Employment**
 - Still down 8.4 million jobs relative to forecast. (3.5 million relative to Feb/20).
 - Labor force is 2.5 million smaller than at the beginning of the pandemic.
 - Rising wages are not enticing low-wage workers back to work.
- **Inflation**
 - Going to be high for a while, but transitory – maybe?



Conclusion

- Recovery is well underway, but may be slowing.
- GDP will likely have expanded 5% percent in 2021, 3-4% in 2022.
- 2021 was an odd year.
 - GDP recovered significantly.
 - Workers attained the upper hand.
 - Supply chains broke.
 - Inflation surged.
 - The economy rebuilt itself.
- Biggest problems:
 - Supply chain bottlenecks.
 - Labor force participation.



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Best Measures of Progress

- INFLATION – getting it under control.
- REAL WAGES– need to see progress.
- WORKFORCE PARTICIPATION – need growth here to get GDP growth.

Pay no attention to the unemployment rate.

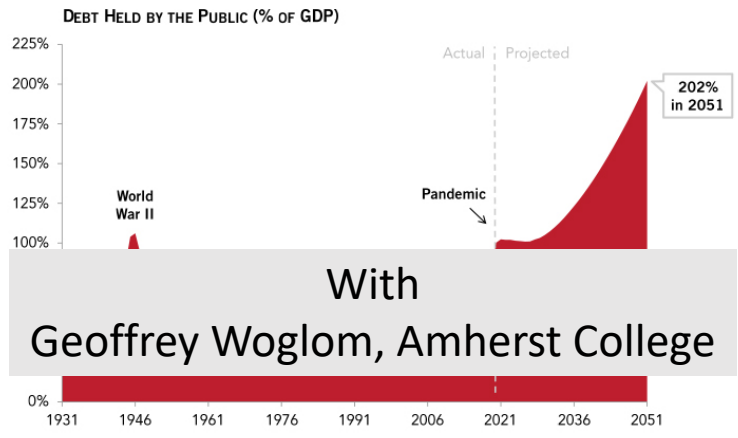


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Federal Debt – See you next week!



The national debt is on an unsustainable path



With
Geoffrey Woglom, Amherst College

SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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Thank you!

Any Questions?

www.NEEDelegation.org

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Contact NEED: info@NEEDelegation.org

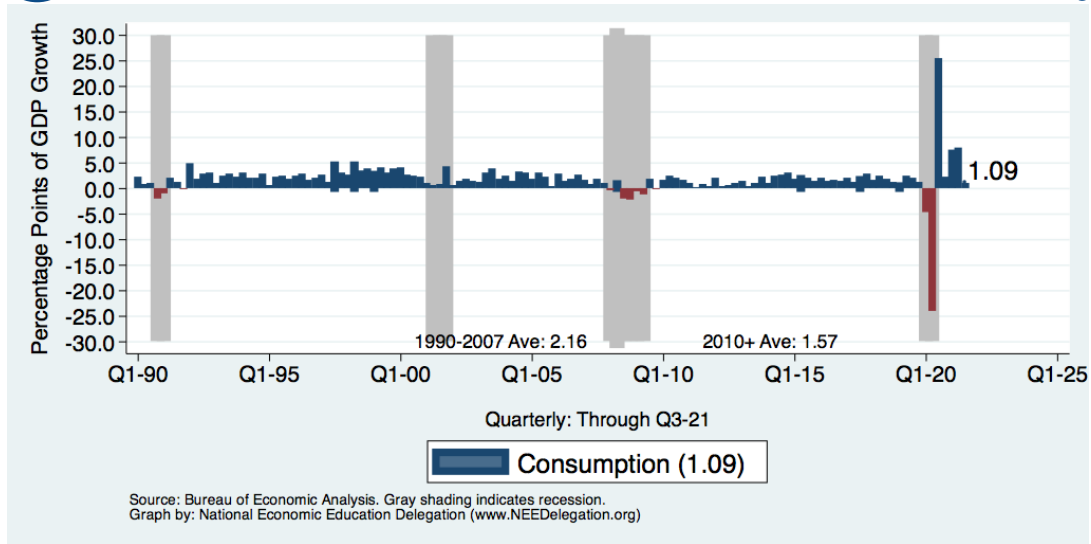
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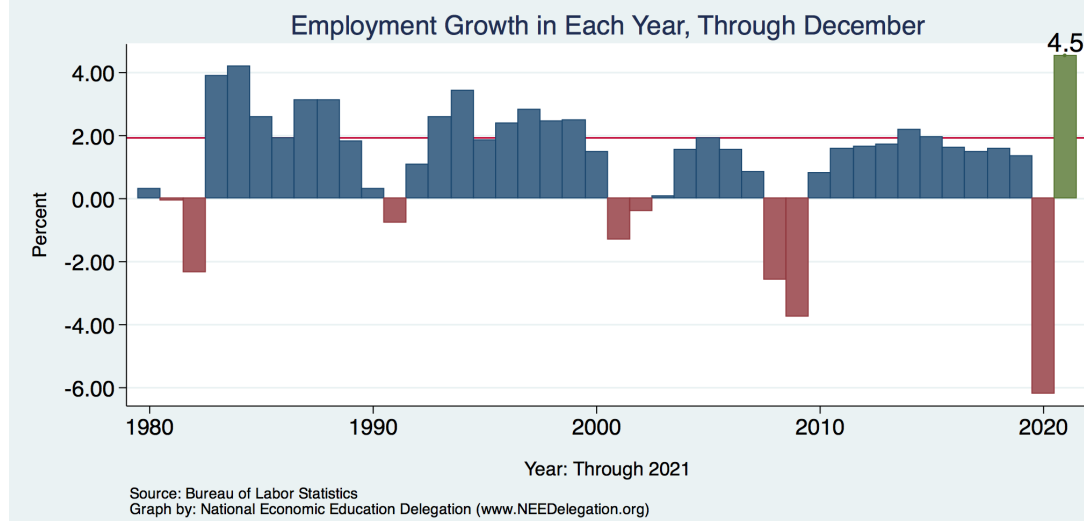
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Consumption: Quarterly Growth



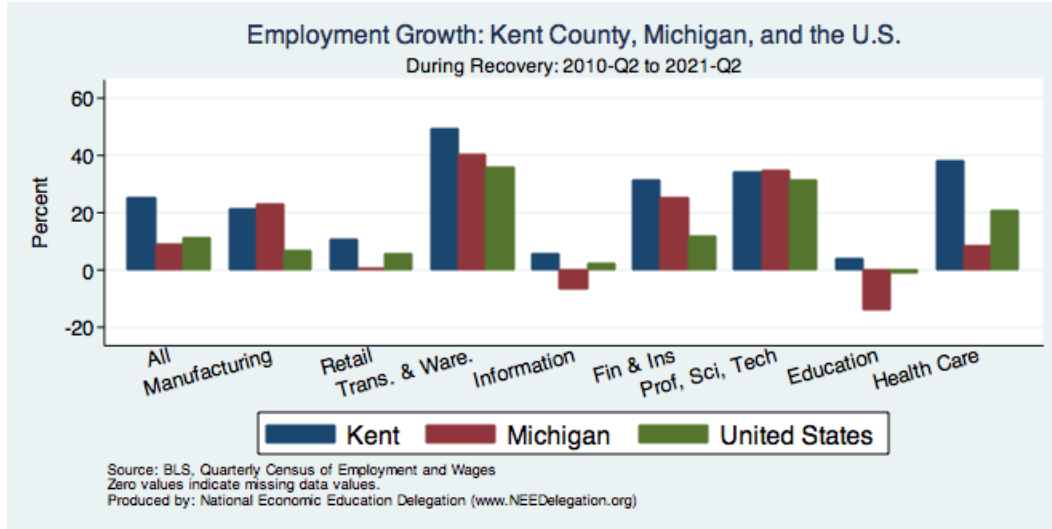
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Annual Changes in Nonfarm Employment



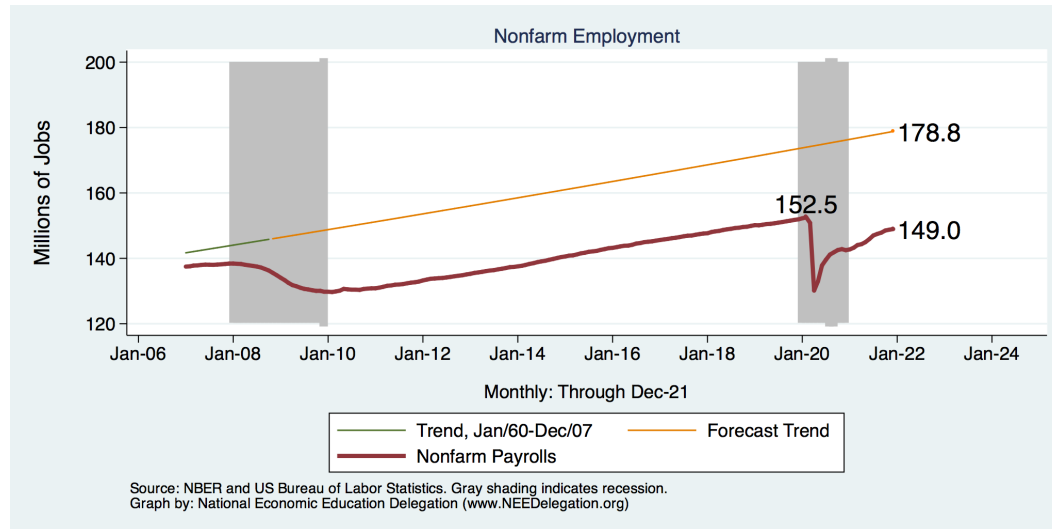
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Kent County Emp Growth: Tech and Health



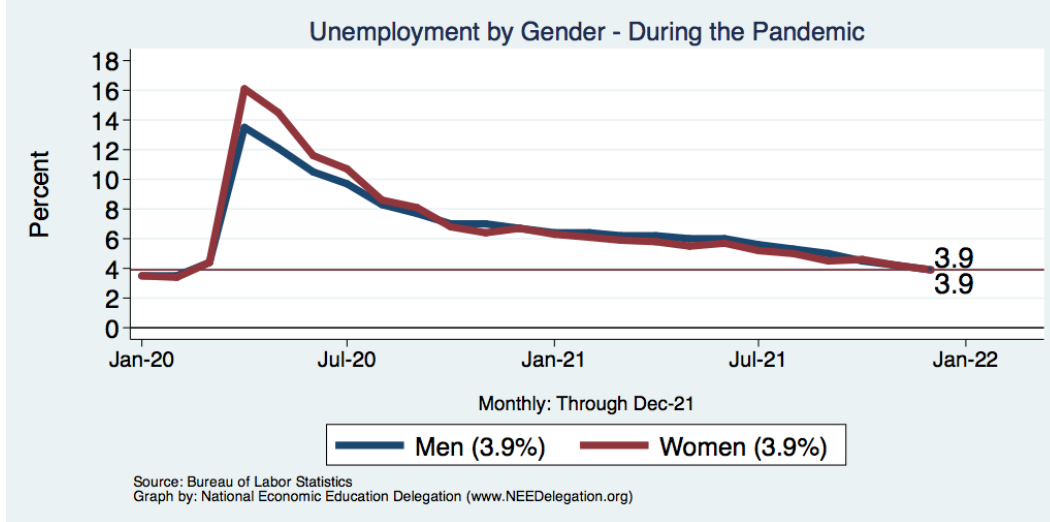
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Employment Gap



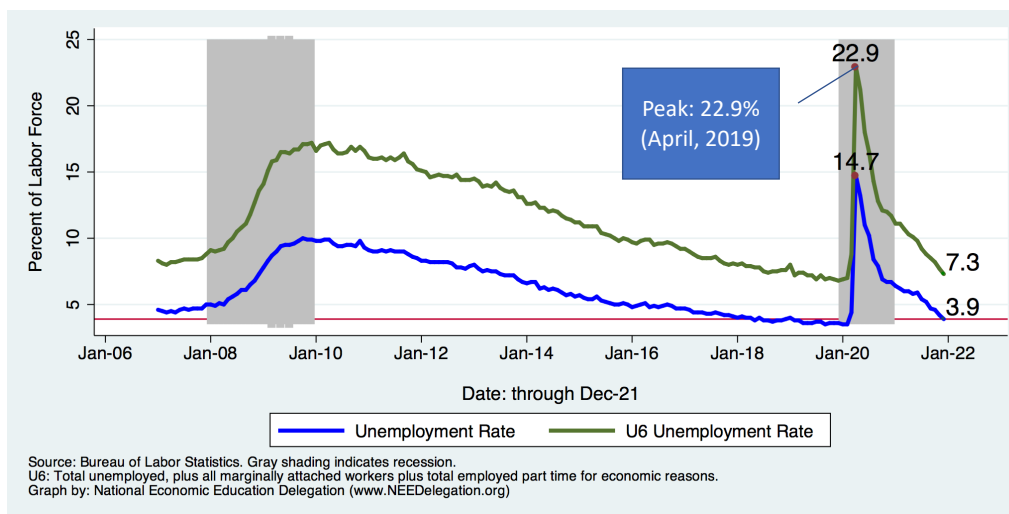
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Affected Women More Than Men?

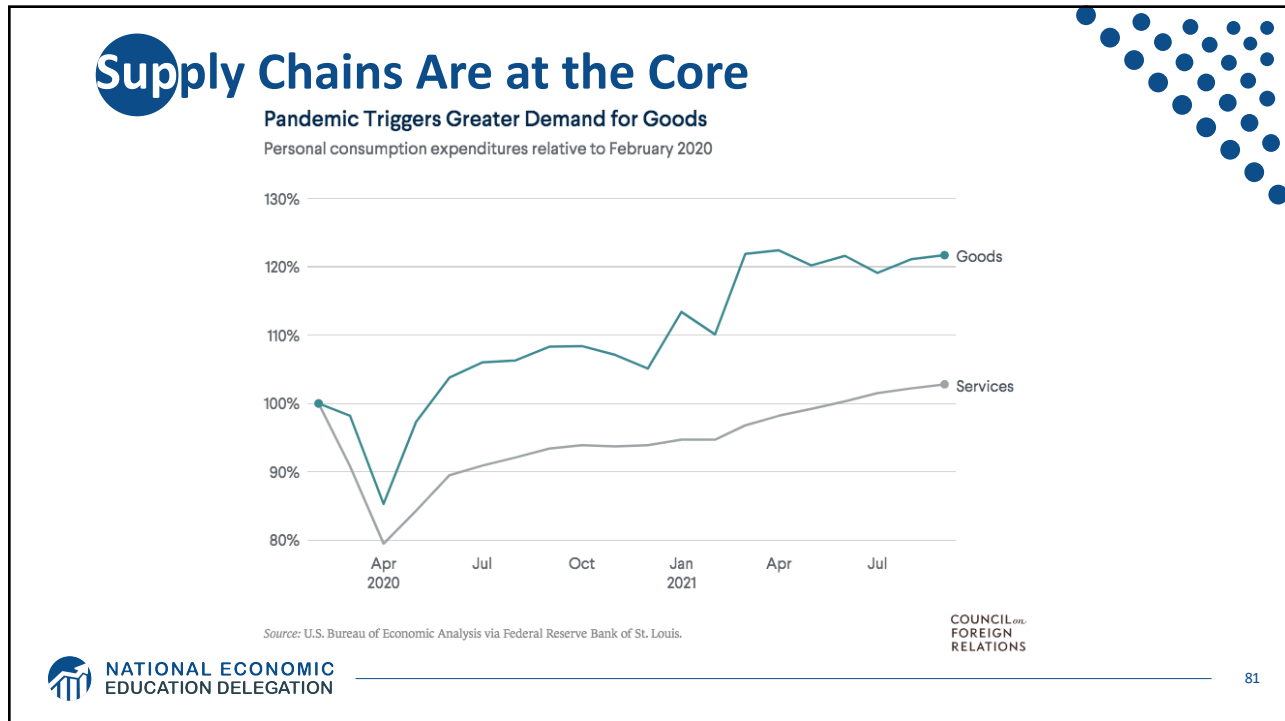


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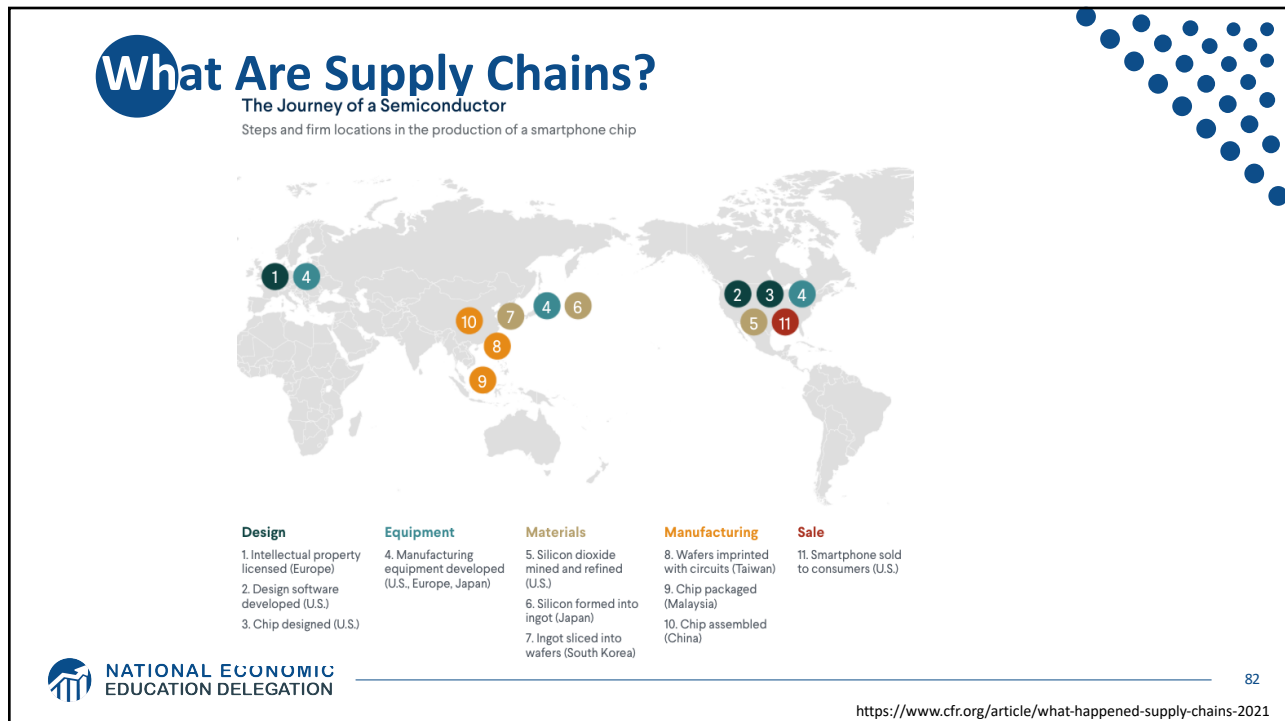
Another Measure: Unemployment



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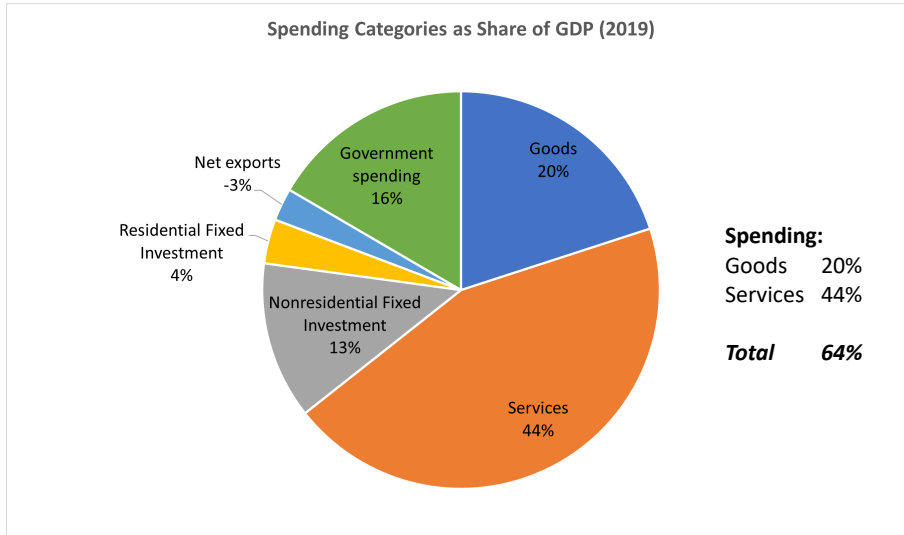


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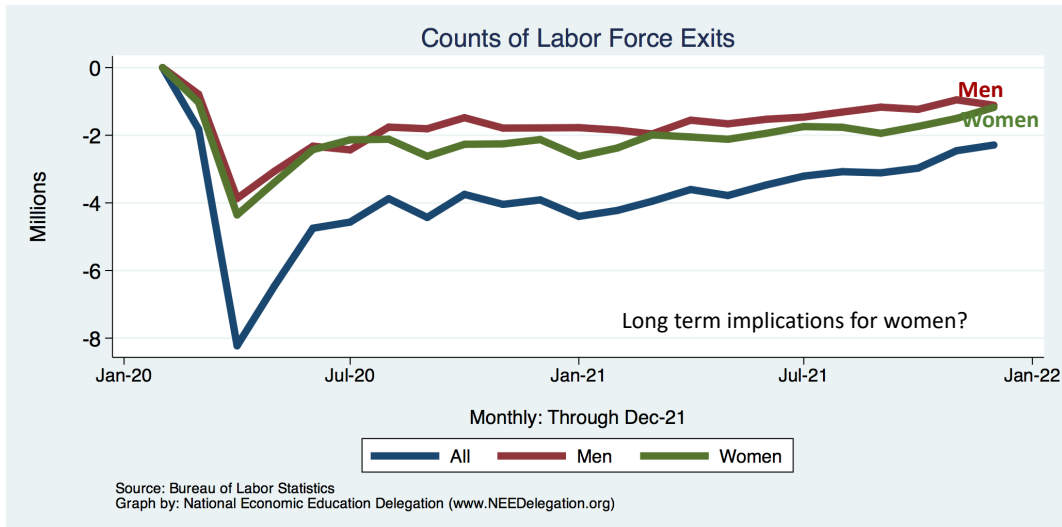
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Why does spending matter?



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Affected Women More Than Men

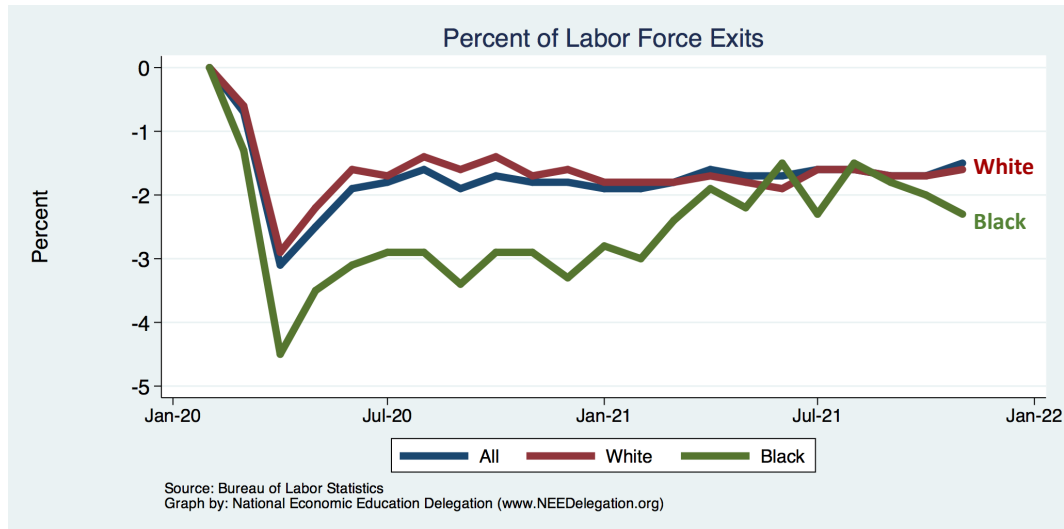


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Why Women More Than Men?

- Women are disproportionately represented in low-wage and face-to-face jobs.
- Our childcare and school systems don't meet the needs of working mothers.
- COVID-19 has upended the labor market, with disastrous consequences for working women and their families.
 - Many women continued working in high risk jobs.
- The difference in impact is waning.

Affecting Black Workers More than White



What Index to Follow: CPI or PCE?

- **CPI is the headline statistic, followed by most newspapers.**
 - Allows more granularity – ability to look at specific products.
- **PCE is the one followed by the Fed.**
 - Why?
 - Accounts for short term fluctuations in consumer purchases.
 - Based on more reliable data.
- **Fed generally pays attention to the core inflation #s.**
 - Excluding food and energy.



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Inflation: Critical Issues

- **Inequities**
 - Price changes vary wildly across goods.
 - How inflation hits you depends on what you buy and your level of income.
 - Some evidence that lower income individuals face higher inflation.
- **Online inflation is much lower than the CPI**
 - Estimates suggest about 2% lower.
- **Both have implications for the policy response.**
 - Safety net? Antitrust action?



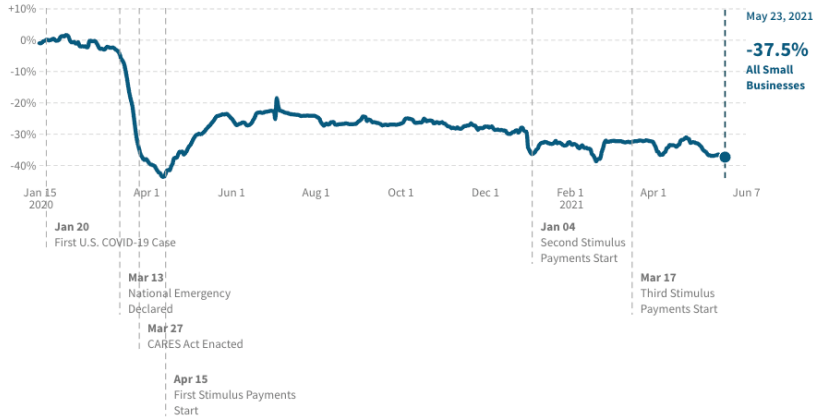
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A Hard-Hit Sector: Small Business

Small Biz Closures in the United States

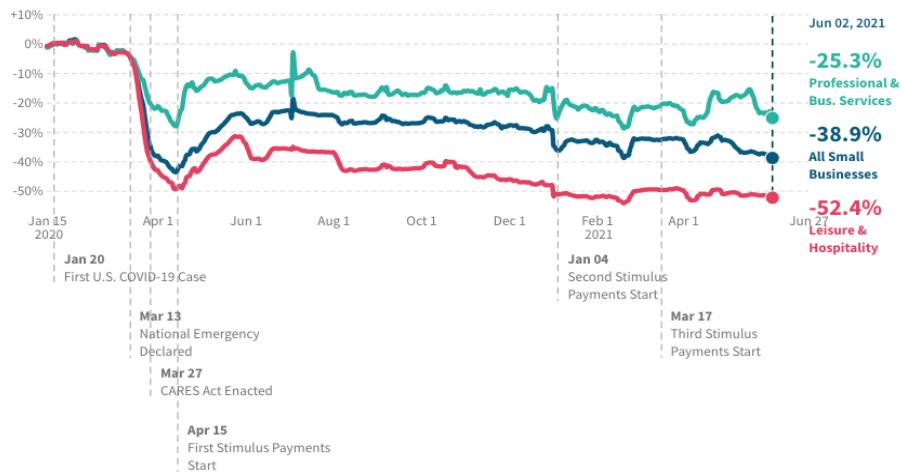
In the United States, as of May 23 2021, the number of small businesses open decreased by 37.5% compared to January 2020.

[DOWNLOAD CHART](#)



Small Businesses: They Didn't Get Enough PPP

In the United States, as of June 02 2021, the number of small businesses open decreased by 38.9% compared to January 2020.



A “K-shaped” recovery?

Executive Summary

- Those with financial wealth/residential real estate have seen its value grow in excess of inflation.
- High income earners (>60k/yr) have largely kept their jobs;
 - middle and low income earners have depressed employment rates
- Women are disproportionately exiting labor force.
- Food insecurity has been very high.



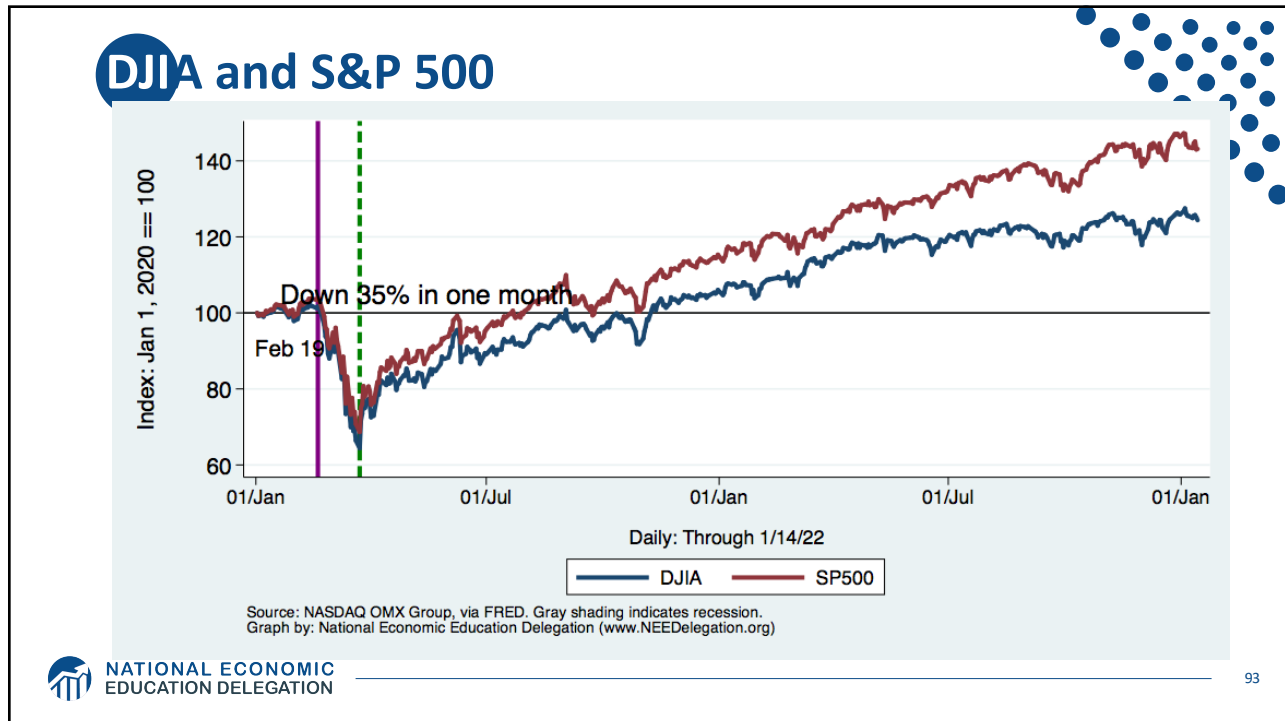
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Coronavirus and Inequality

- **Resources to weather the storm.**
- **Racial inequities.**
- **Educational inequities**
- **Telecommuting**
- **Low wage jobs are at risk.**



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