



Osher Lifelong Learning Institute, Winter 2022 **Contemporary Economic Policy**

Clemson University
February-March, 2022

National Economic Education Delegation



1

1



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 are intended to reflect the consensus of the economics profession.



2

2

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

Course Outline

- **Contemporary Economic Policy**
 - **Week 1 (2/28): US Economy & Coronavirus Economics**
 - Week 2 (3/7): Economic Inequality (Brian Peterson, Central College)
 - Week 3 (3/14): Cryptocurrencies (Geoffrey Woglom, Amherst College)
 - Week 2 (3/21): Autonomous Vehicles (Jon Haveman, NEED)

Submitting Questions

- **Please submit questions in the chat.**
 - I will try to handle them as they come up, but may take them in a bunch as time permits.
- **We will do a verbal Q&A once the material has been presented.**
 - And the questions in the chat have been addressed.
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**

7



US Economy and Coronavirus Economics

Simone Wegge, Ph.D.
City University of New York

National Economic Education Delegation



8

Credits and Disclaimer

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

- Simone Wegge, CUNY – Staten Island
- Jon D. Haveman, NEED
- 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).



Outline – U.S. Economic Outlook

- **Behavior of GDP**
- **Labor Market**
- **Monetary Policy/Interest Rates**
- **Other Indicators**
- **Summary**



U.S. Economy in Global Perspective

U.S. Nominal GDP:

\$21.747 trillion in 2019-Q4

\$19.487 trillion in 2020-Q2

\$23.202 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.



11

Behavior of GDP

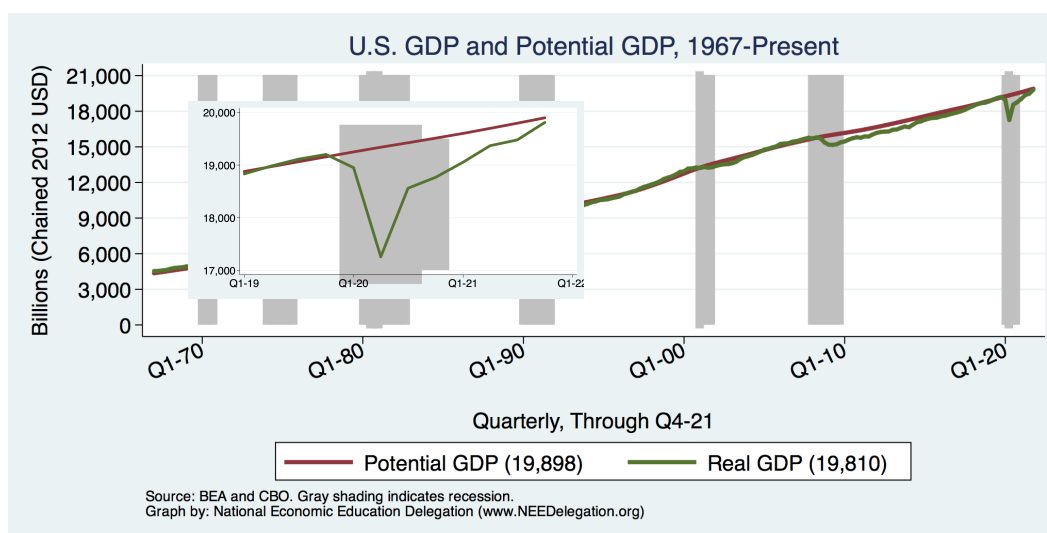
12

GDP During the Recovery

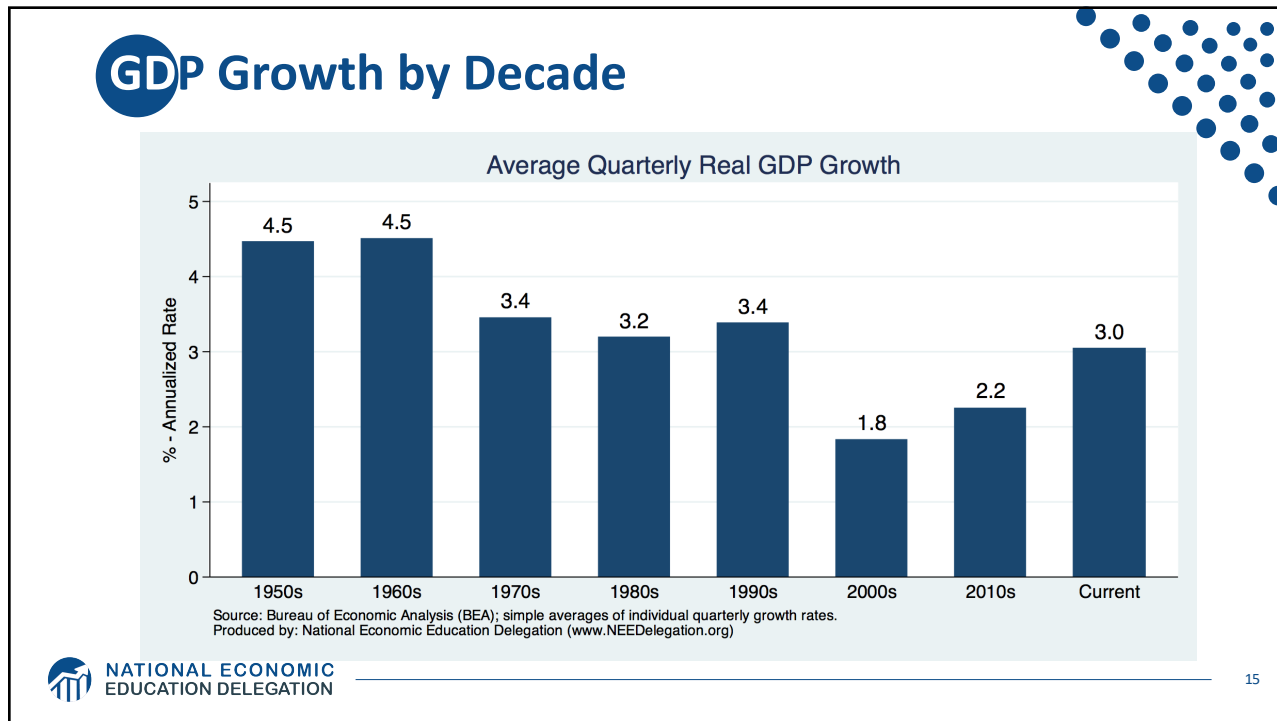
- **Real GDP** is a standard measure of production used by economists to assess the size, health, and well-being of an economy.
- **Potential GDP** is the level of production in an economy operating at full employment.
- We use potential GDP to get a sense of what production should be in an economy.

13

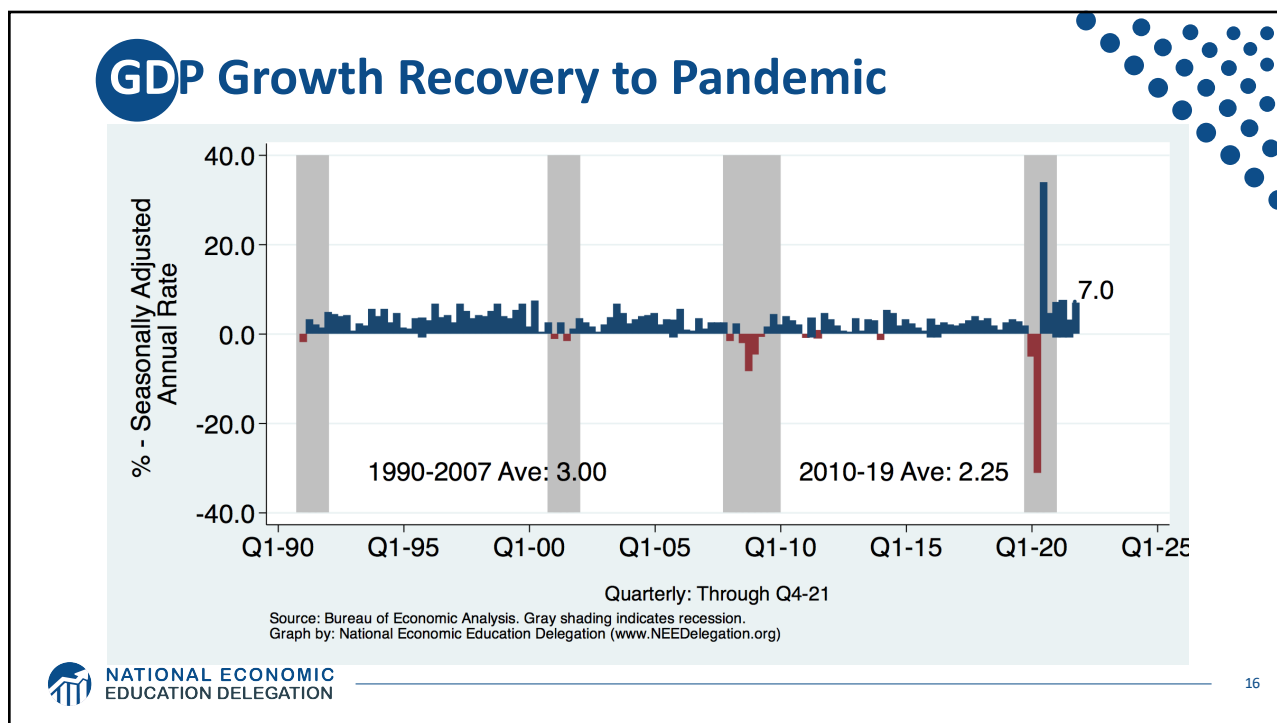
GDP Trajectory: Recovery to Pandemic



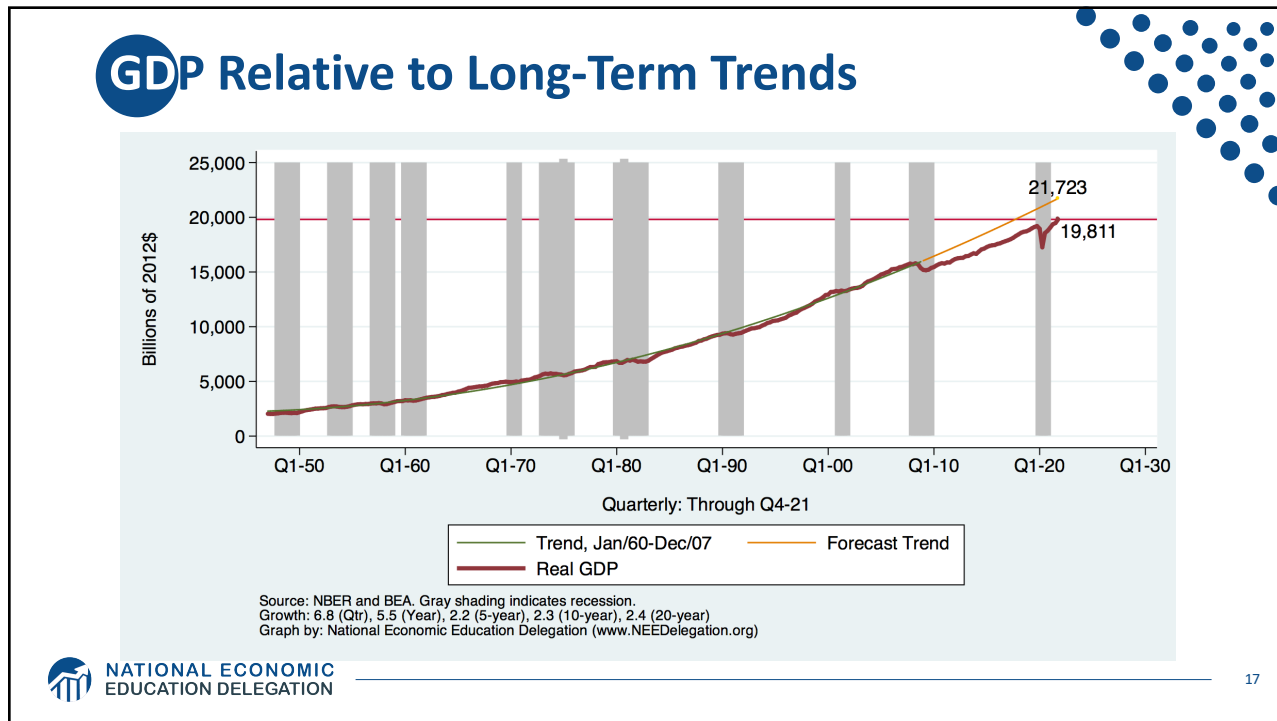
14



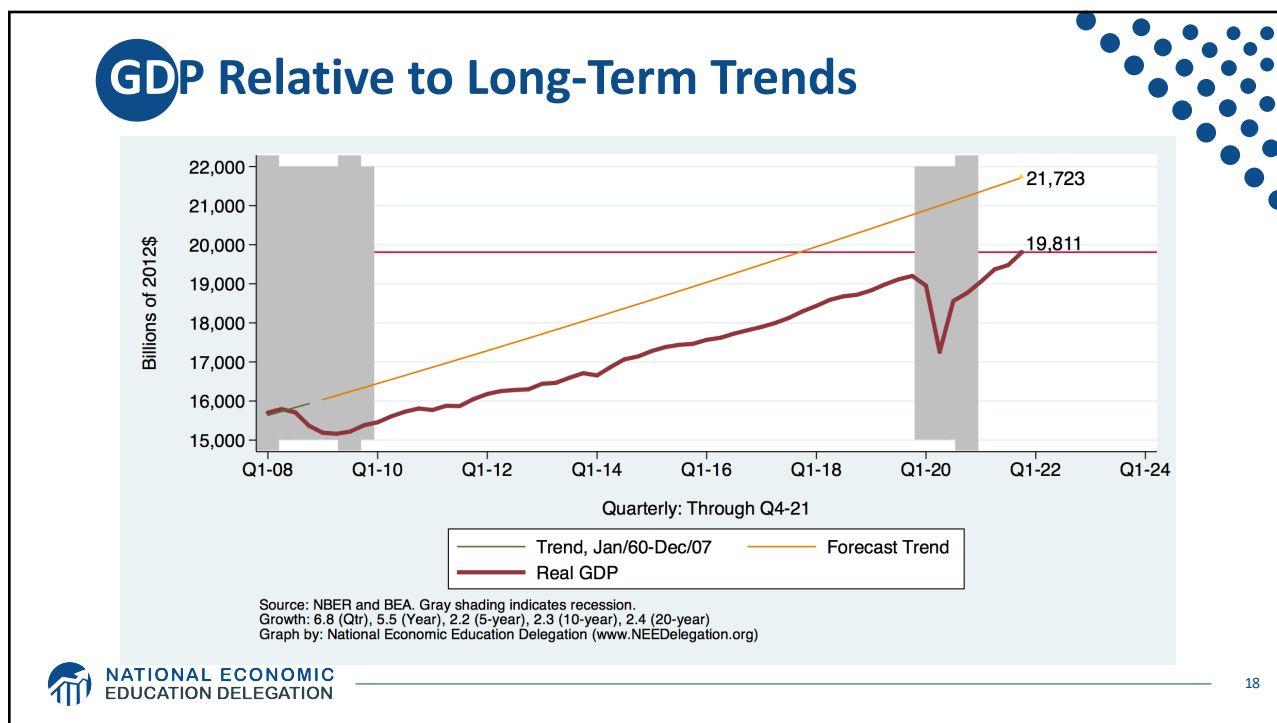
15



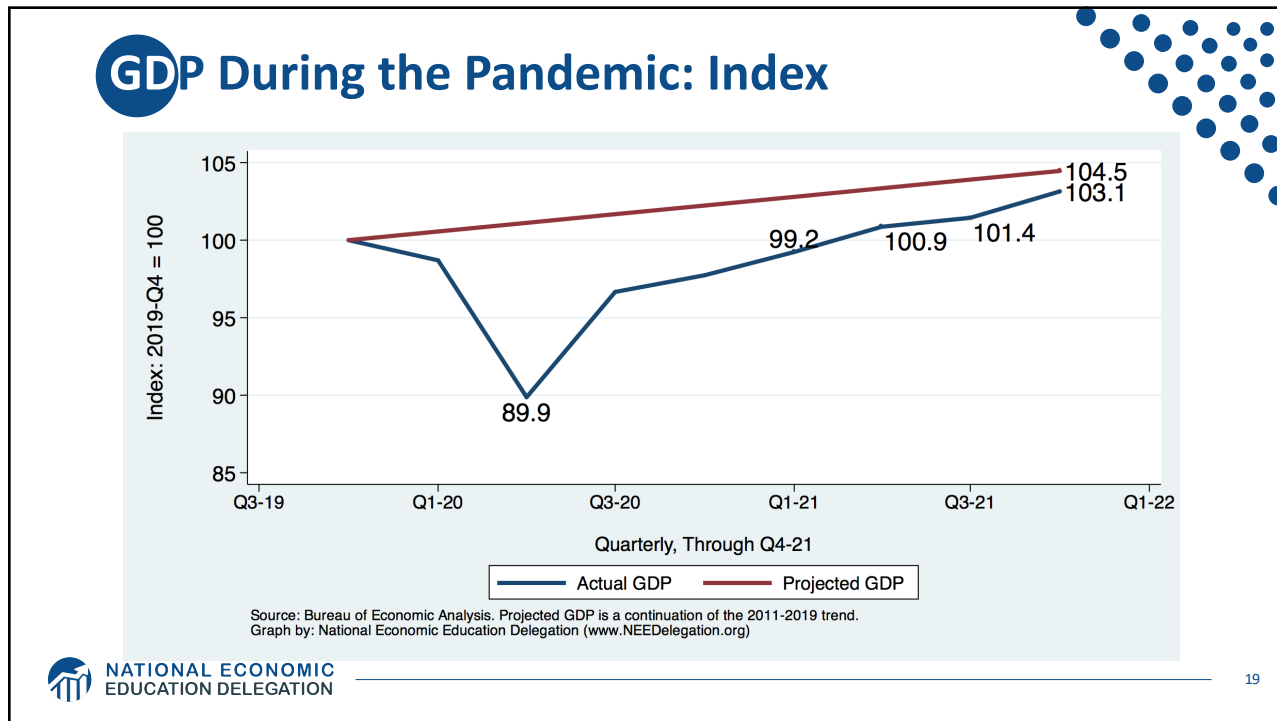
16



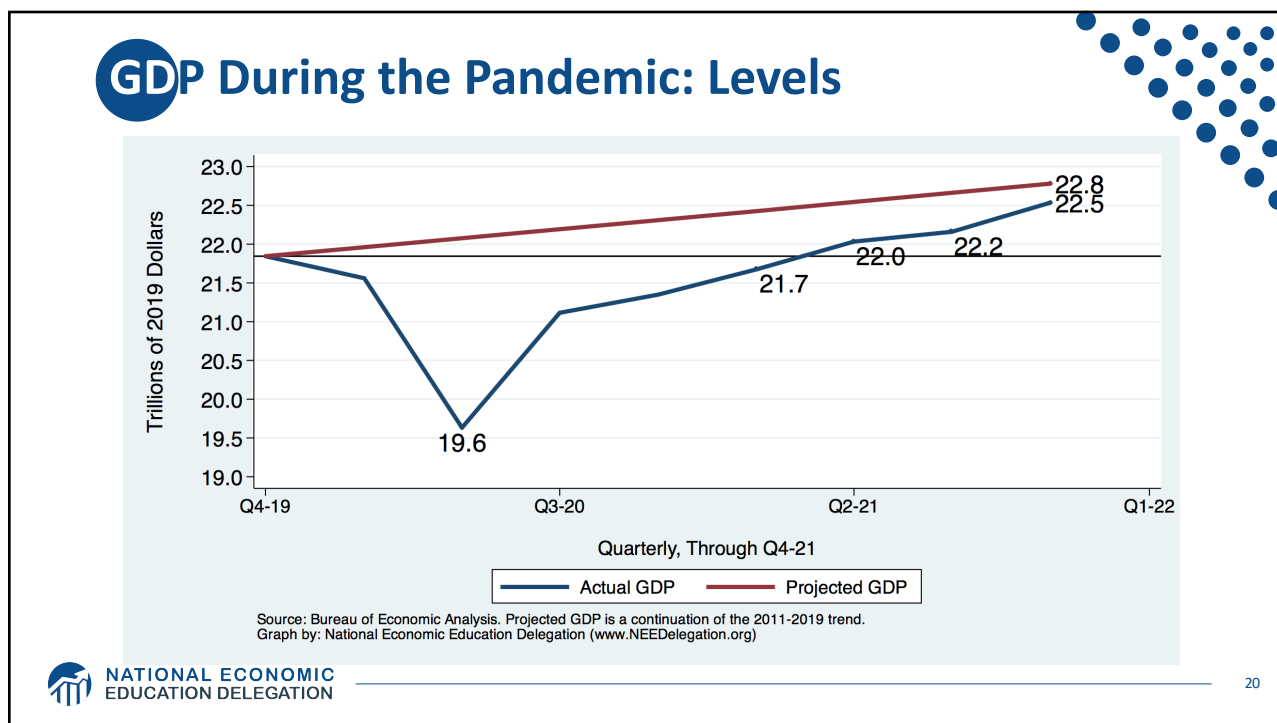
17



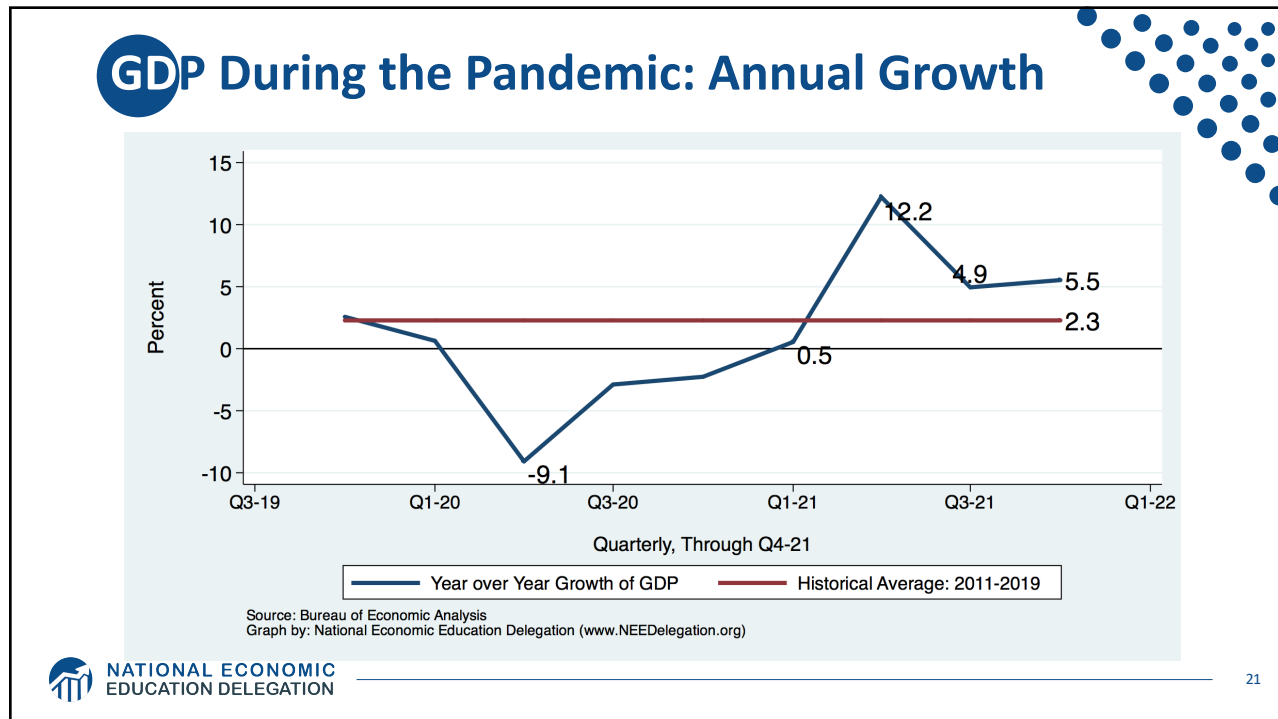
18



19



20



21

What Is “Accounting” for the Slow Recovery?

- **Expenditures drive GDP growth.**
 - GDP is the sum of four categories of spending:
 - Consumption
 - Investment
 - Government spending
 - Net Exports: Exports – Imports
- **Production also matters.**
 - Employment
 - Productivity

NATIONAL ECONOMIC EDUCATION DELEGATION

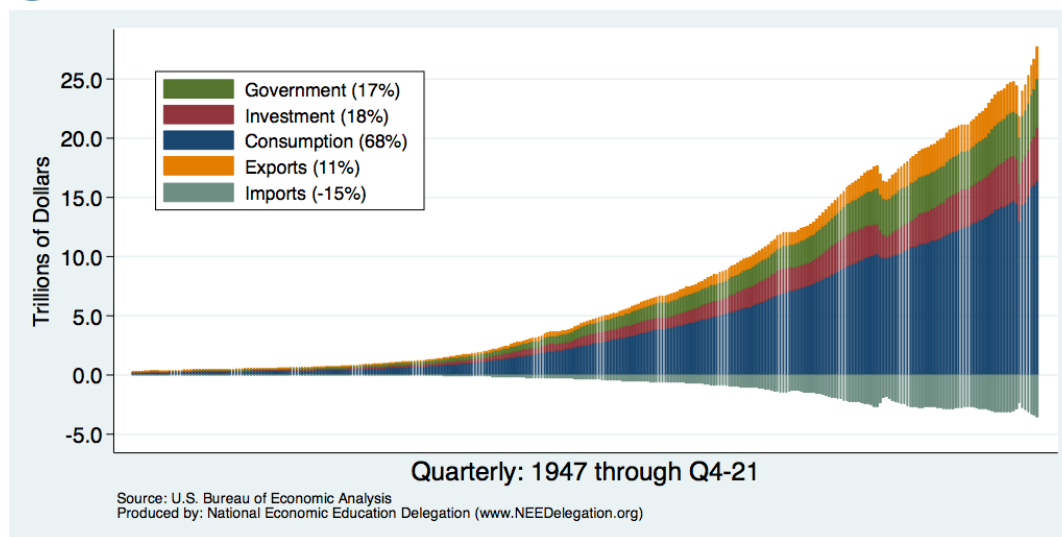
22

A Note on Imports and GDP

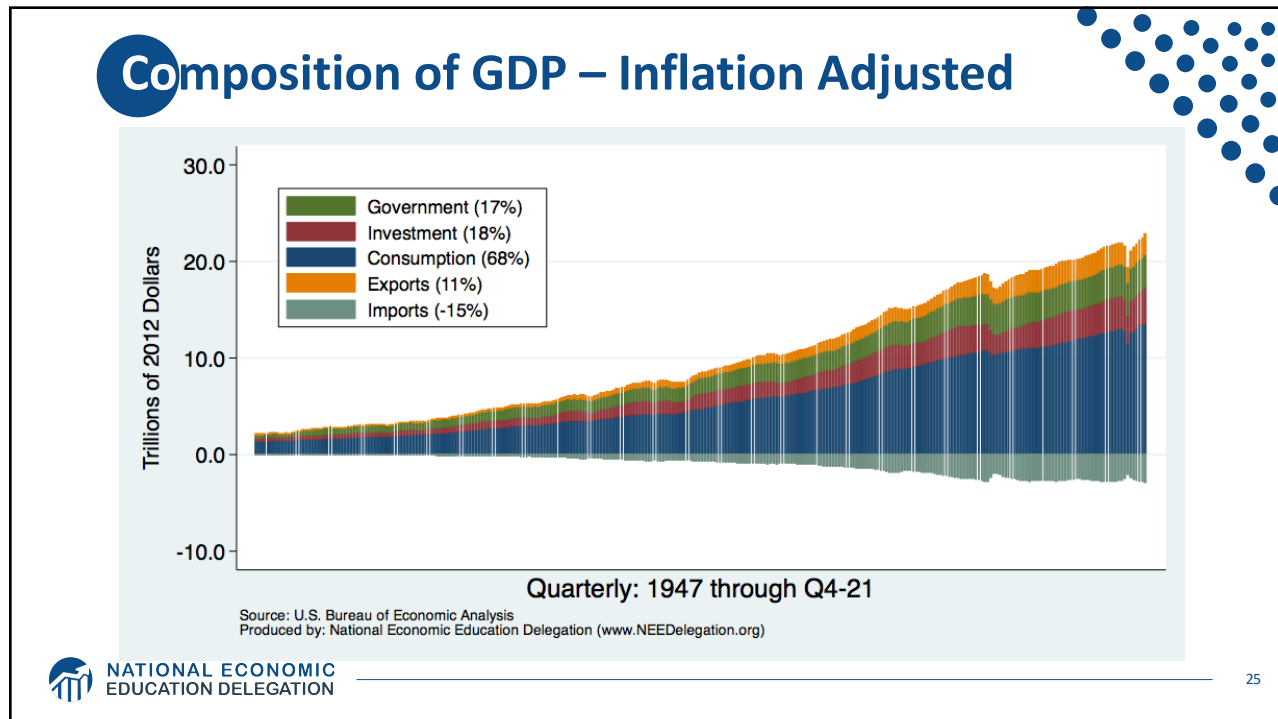
- **GDP = Consumption + Investment + Government + Net Exports**
 - Net Exports = Exports – Imports
- **Give the impression that IMPORTS are bad for GDP**
 - They are not.
 - They are merely subtracted from the equation because the measurement of consumption, investment, and government all include imports.
- **Calculating Gross DOMESTIC Production must exclude IMPORTS**
 - It is merely an accounting identity.

23

Composition of GDP



24



25

Composition of GDP

- **Slow growth in any of these categories will slow overall GDP growth.**
- **How does each component contribute to GDP growth pre- vs. post-recession?**
- **What explains current trends in each component?**

NATIONAL ECONOMIC EDUCATION DELEGATION

26

26

Understanding Contributions to GDP Growth

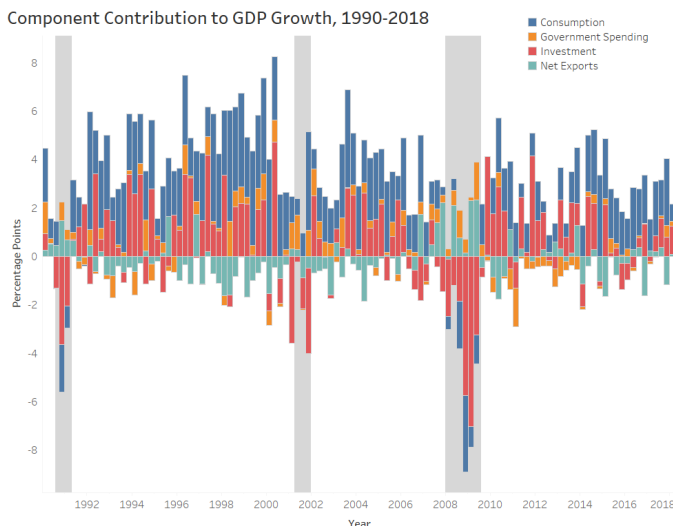
- **GDP Growth is a combination of the growth in its components:**
 - Consumption, Investment, Government, and Net Exports
 - It's a weighted average of these components
- **For example: Consumption**
 - If consumption accounts for **2/3** of the economy,
 - If consumption grew by **3%**,
 - It would cause GDP growth to be **2 percentage points** higher than it would otherwise be

$$2\% = 2/3 * 3\%$$

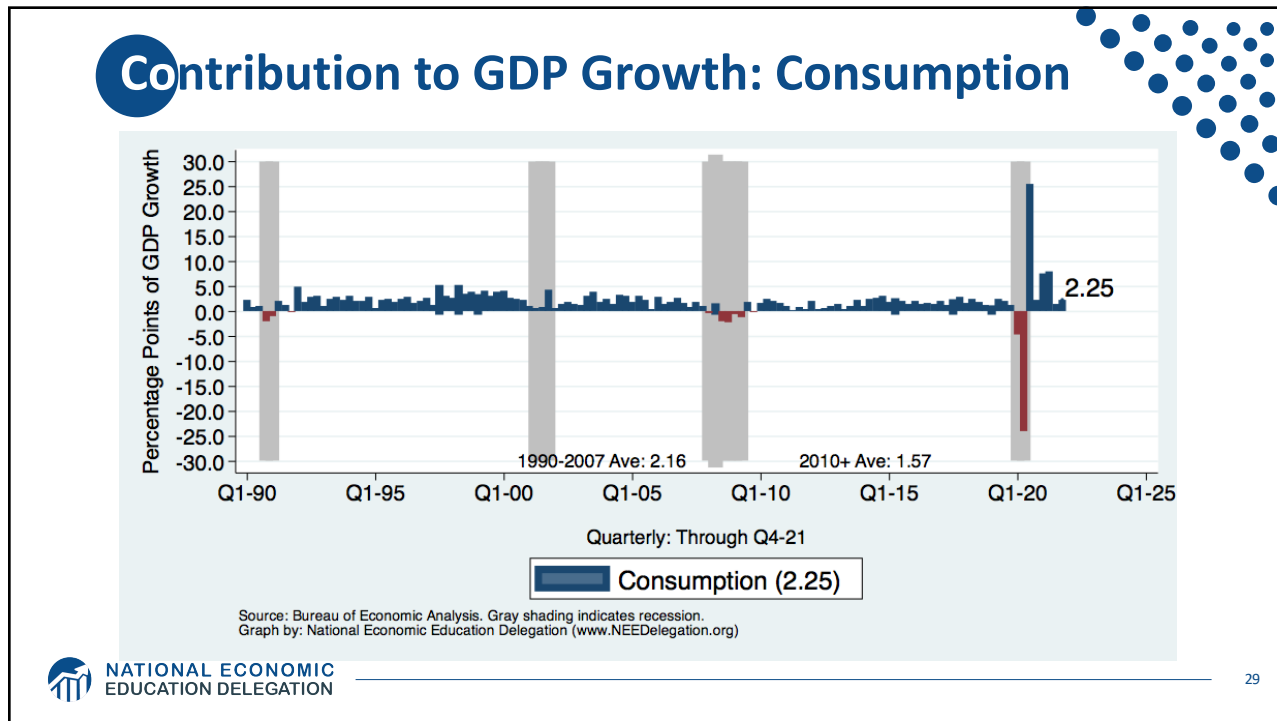
27

Contributions to GDP Growth

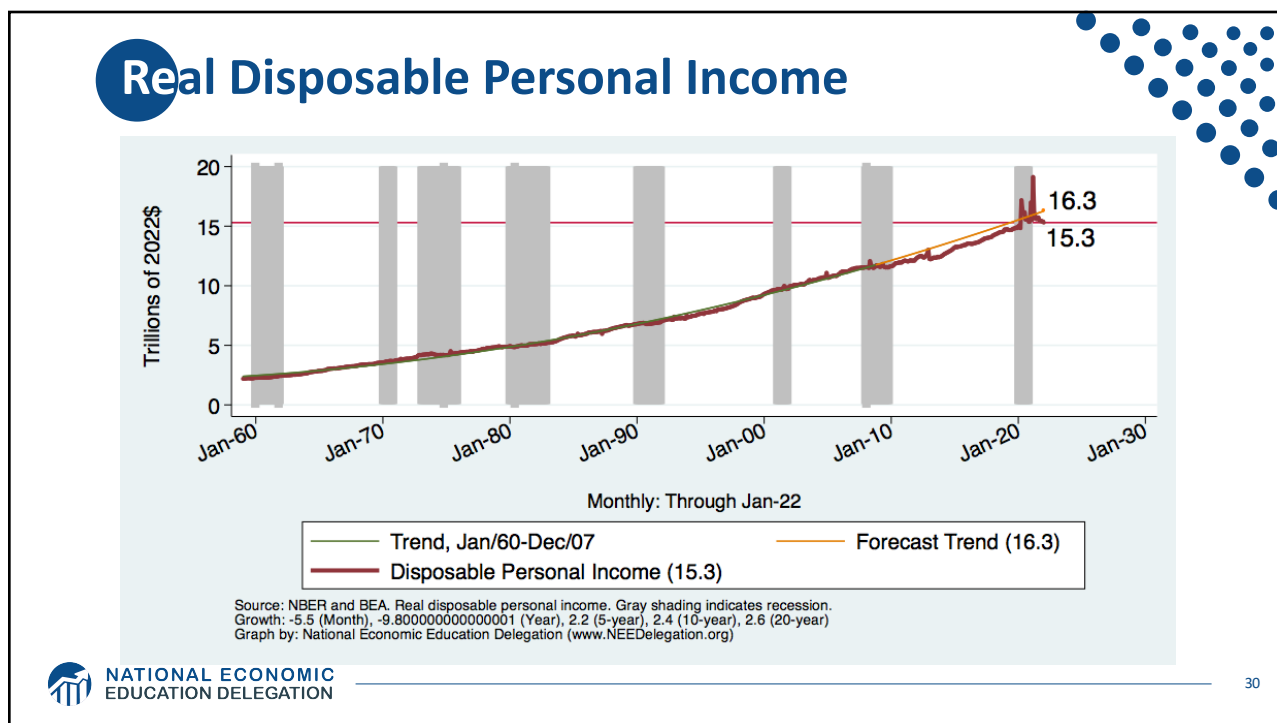
Component Contribution to GDP Growth, 1990-2018



28

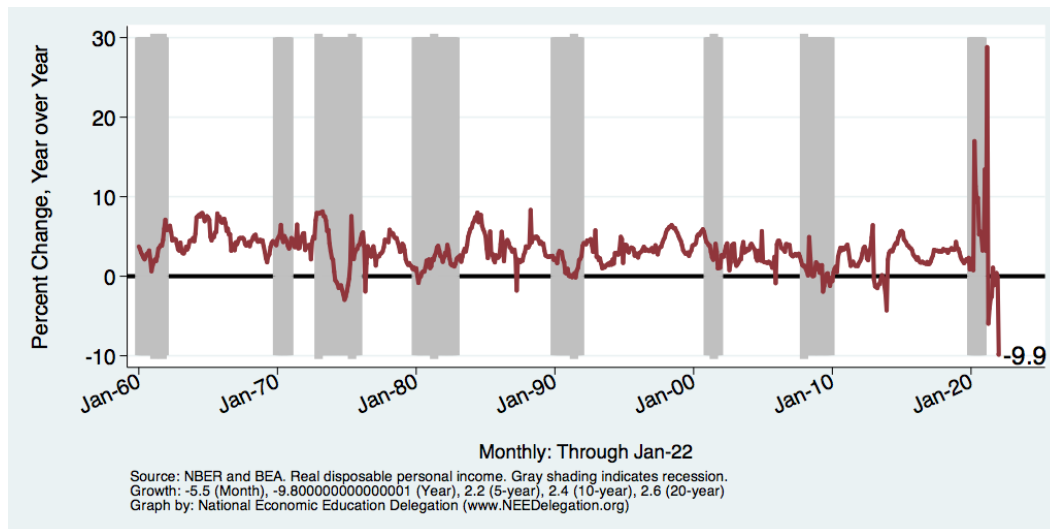


29



30

Real Disposable Personal Income - Growth

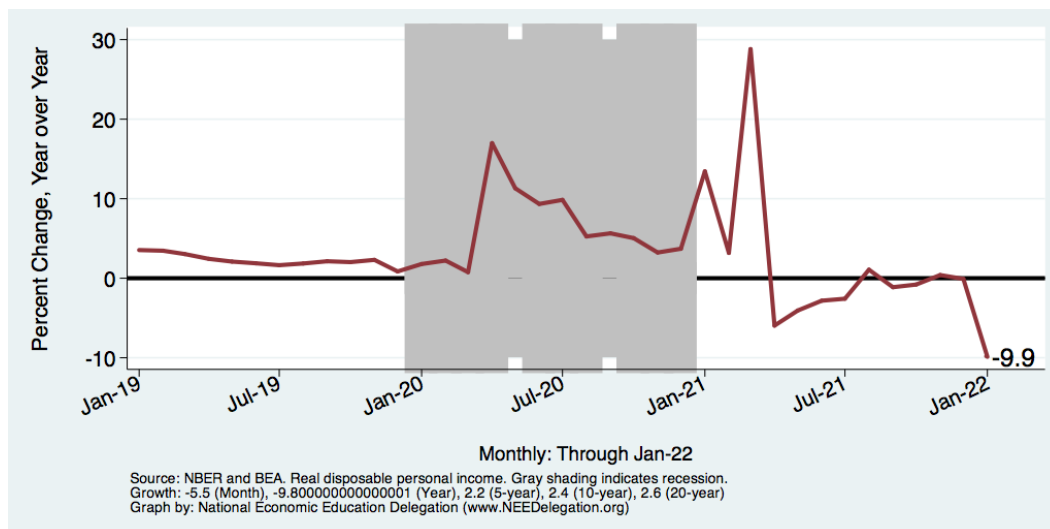


NATIONAL ECONOMIC
EDUCATION DELEGATION

31

31

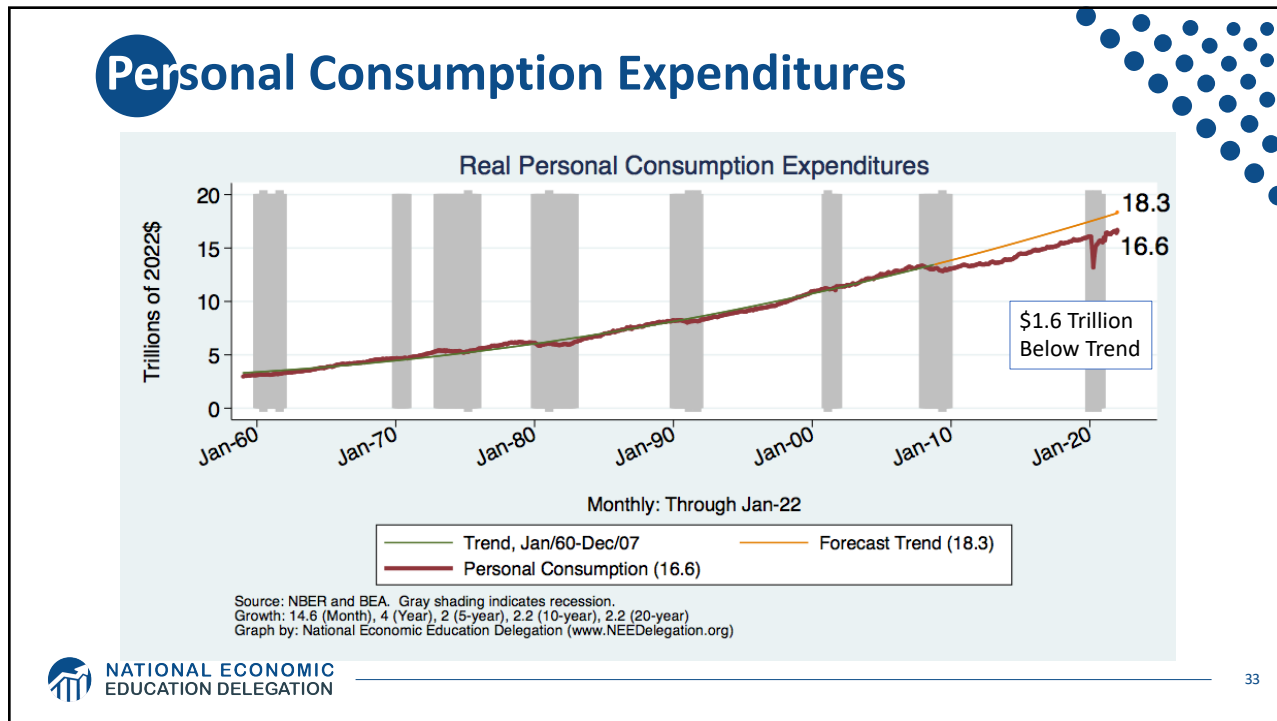
Real Disposable Personal Income - Growth



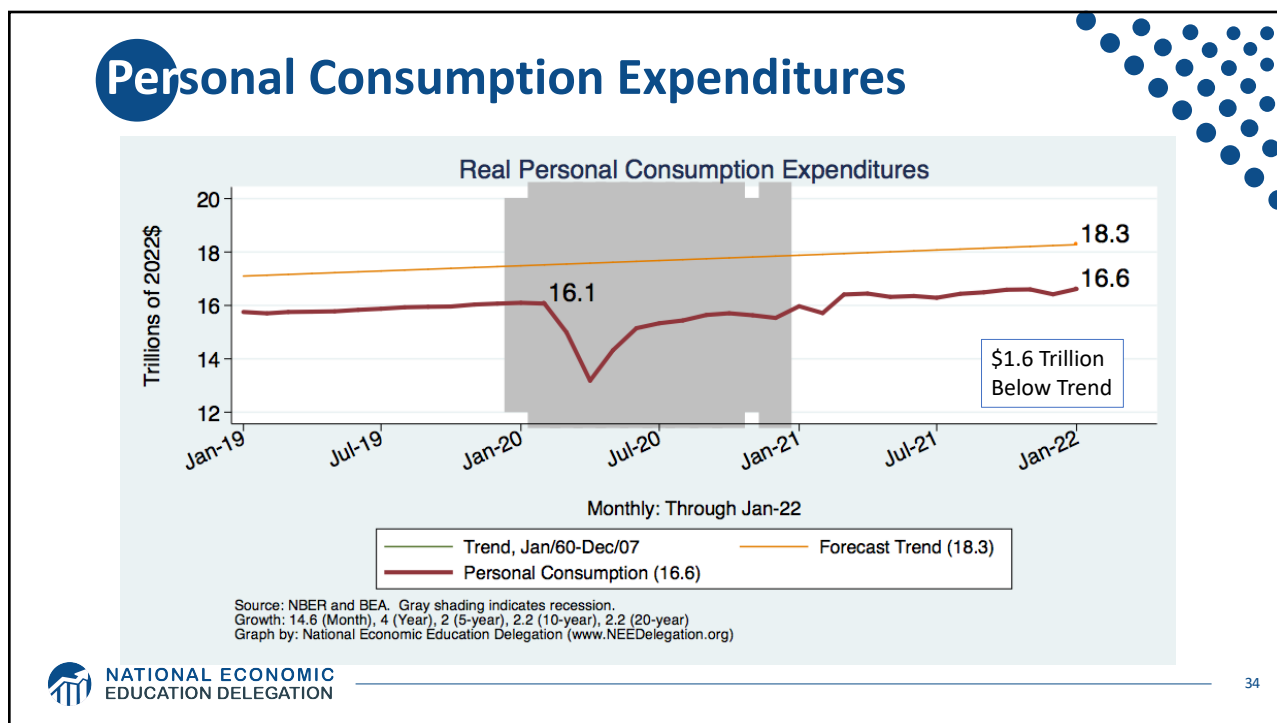
NATIONAL ECONOMIC
EDUCATION DELEGATION

32

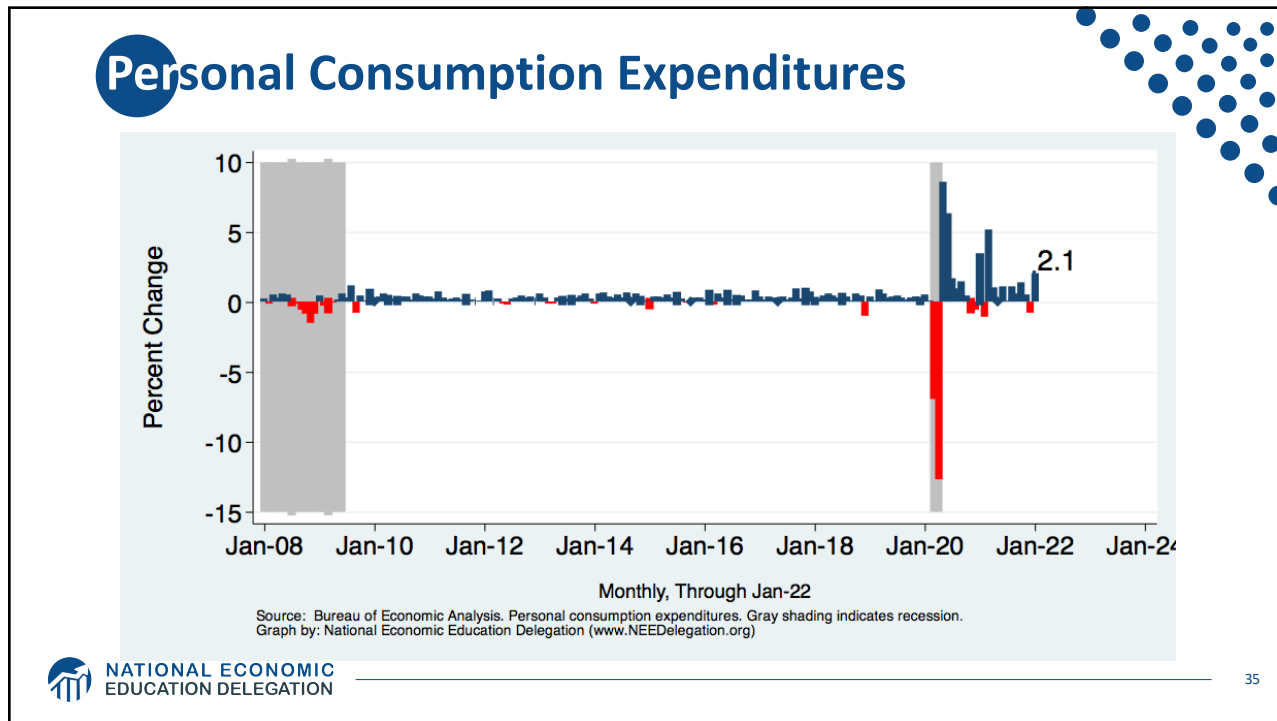
32



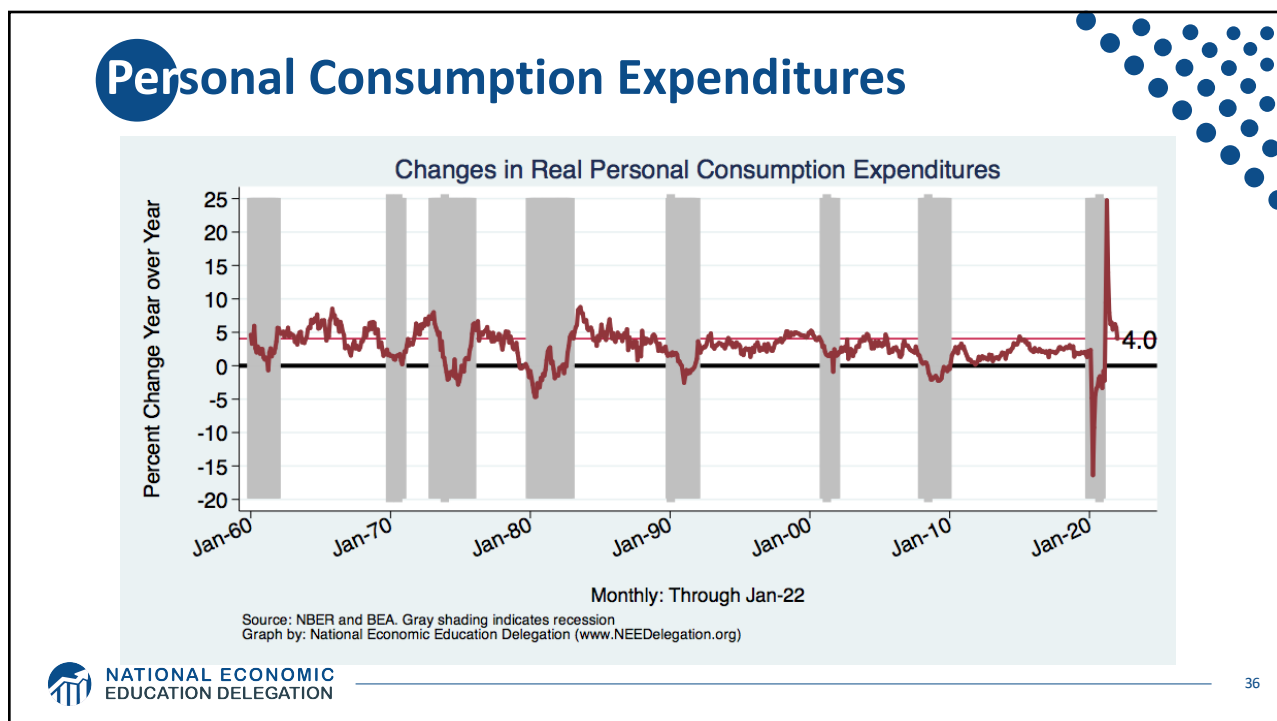
33



34



35



36

Personal Consumption Expenditures

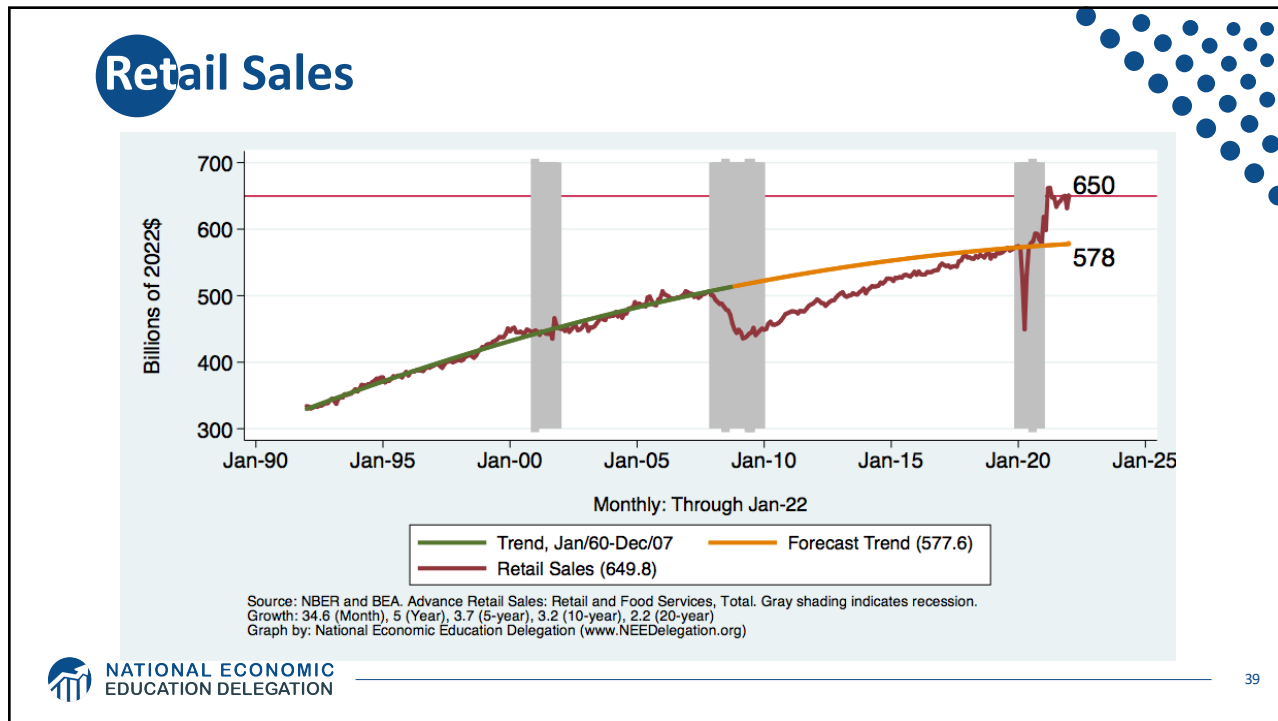
- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
 - Post-crisis contribution is 1.7 percentage points.
- **In other words, its contribution to GDP growth is down 21%.**



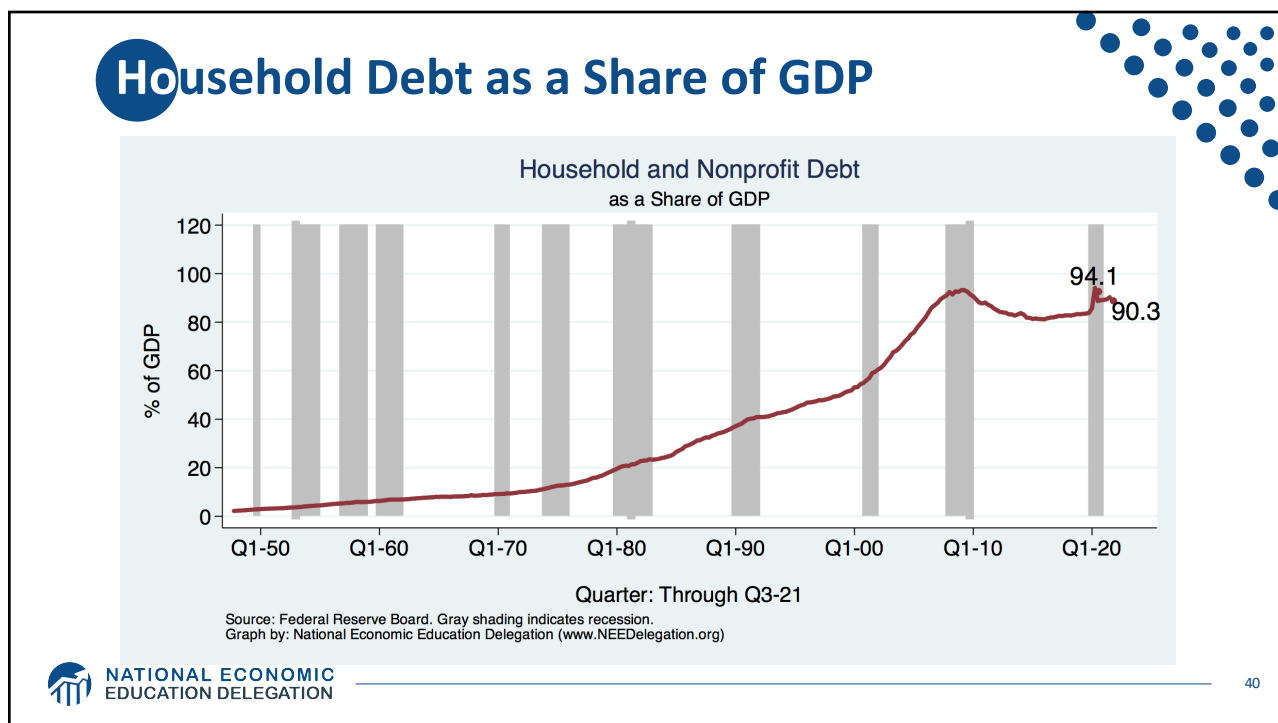
Explaining Consumption Expenditures

- **Retail sales, household debt, and personal savings help explain changes in consumption expenditures.**
- **Lower levels of retail sales and household debt and higher savings should be correlated with lower levels of consumption expenditure.**

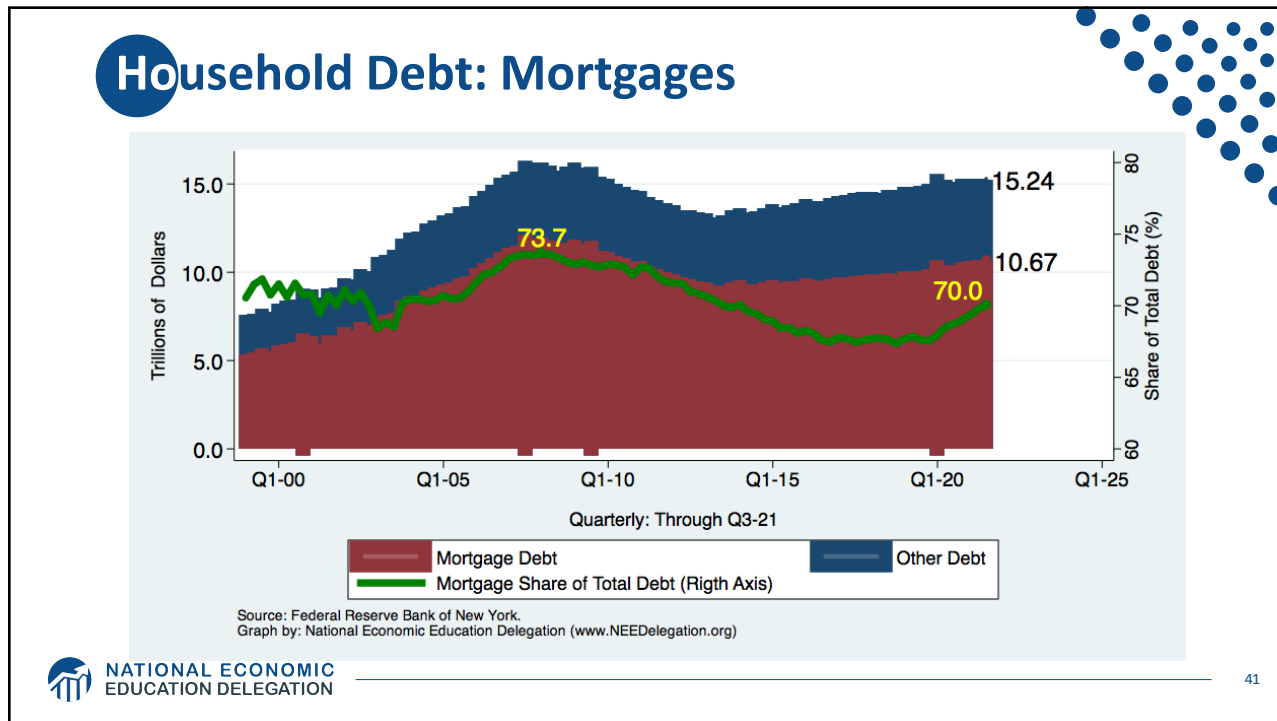




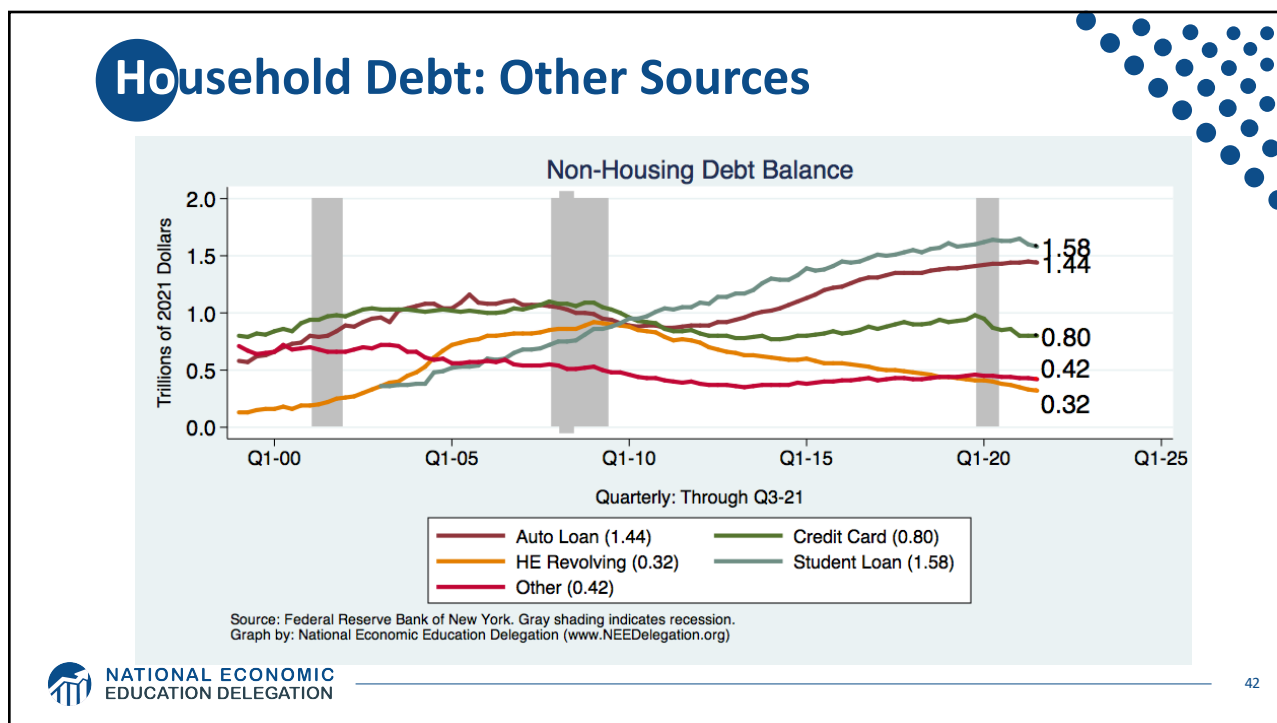
39



40

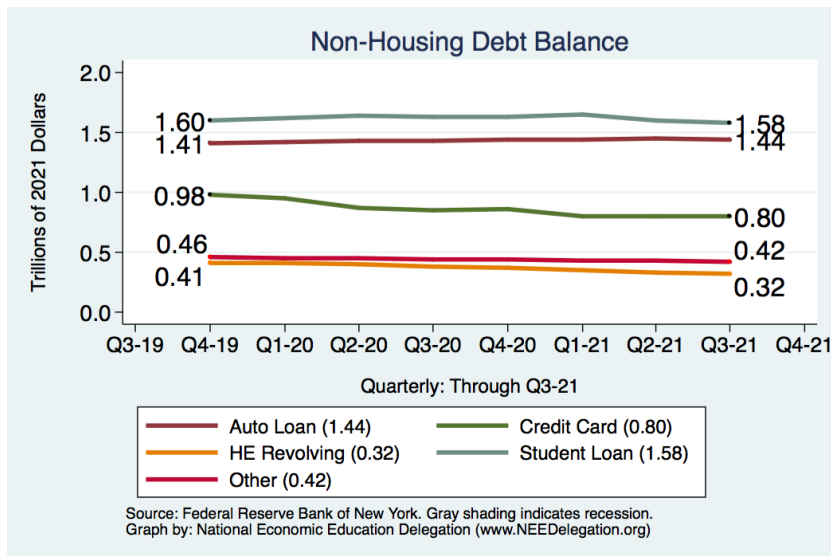


41



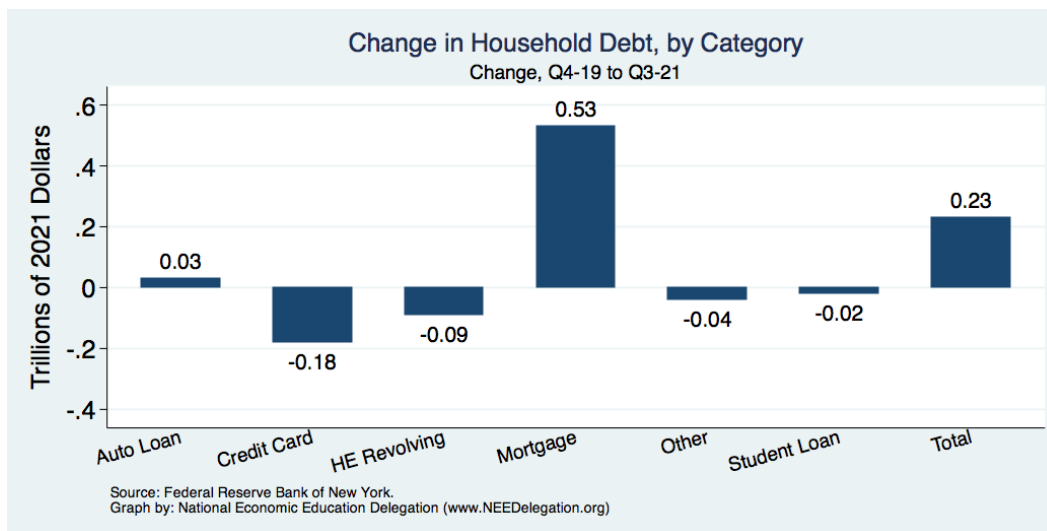
42

Household Debt: Other Sources - Pandemic



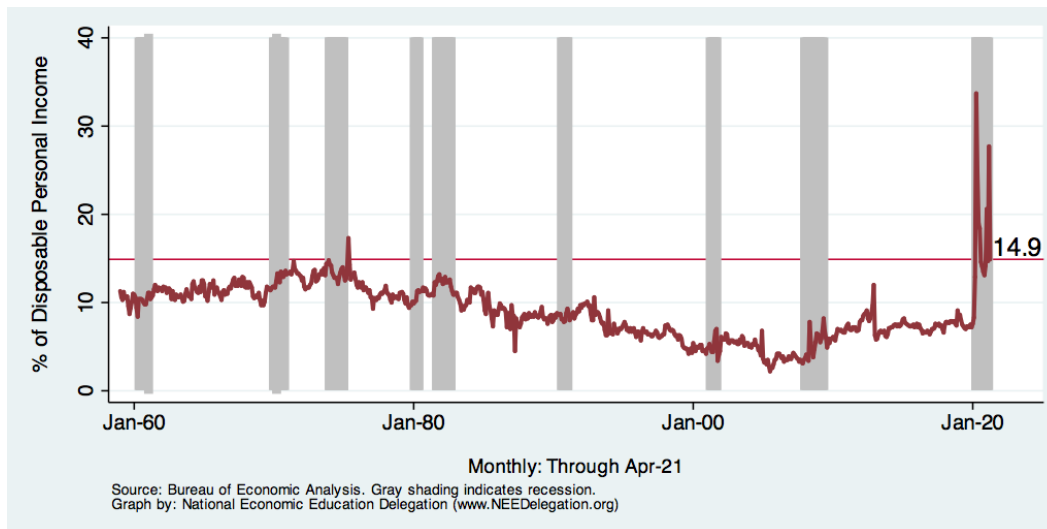
43

Household Debt: Change During the Pandemic



44

Personal Savings

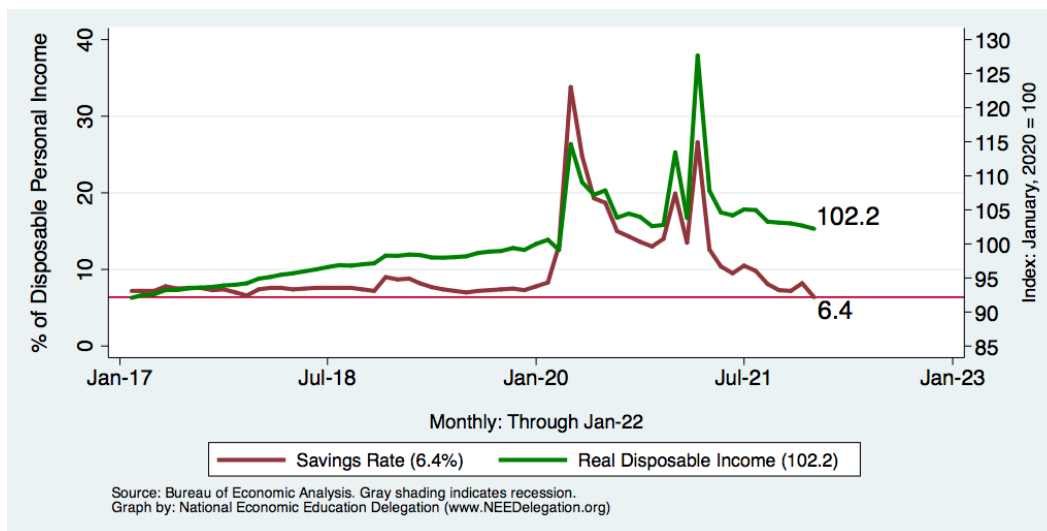


NATIONAL ECONOMIC
EDUCATION DELEGATION

45

45

Personal Savings & Disposable Income



NATIONAL ECONOMIC
EDUCATION DELEGATION

46

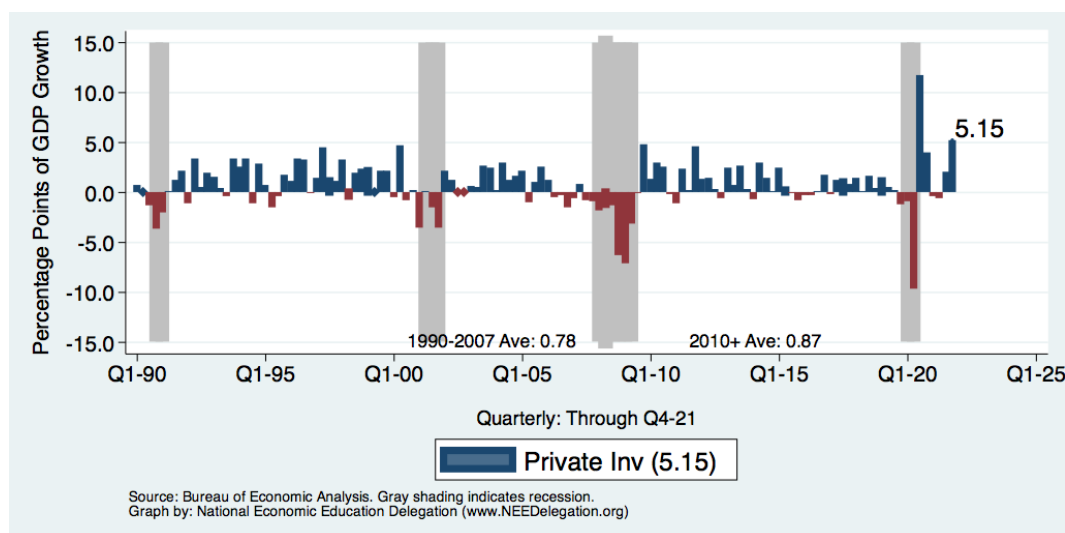
46

Investment Expenditures

- Investment expenditures are composed of residential and non-residential spending.
- Residential spending refers to purchases of new homes.
- Non-residential spending refers to capital purchases and new inventory accumulation.
 - Tools, machinery, new factories, commercial real estate.

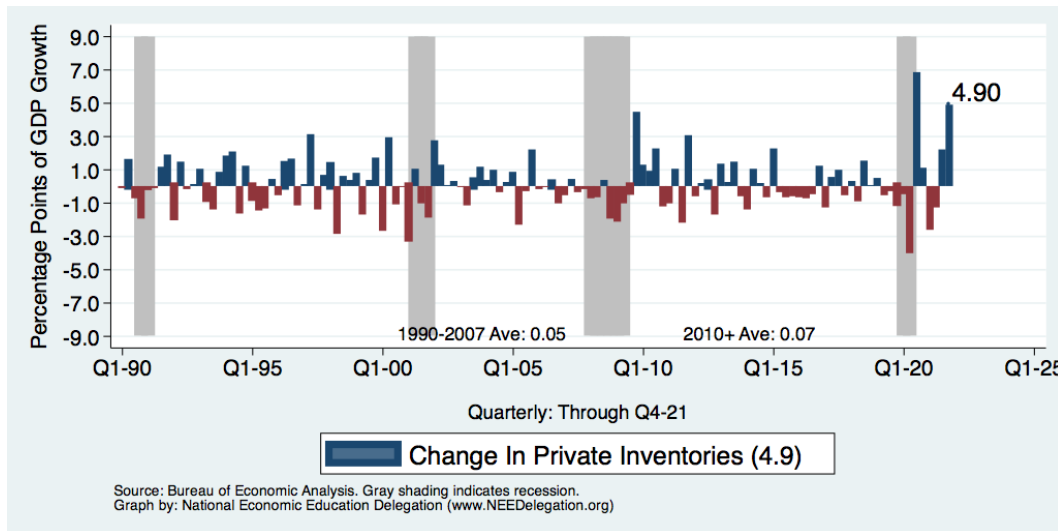
47

Contributions to GDP: Private Investment



48

Contributions to GDP: Change in Inventories

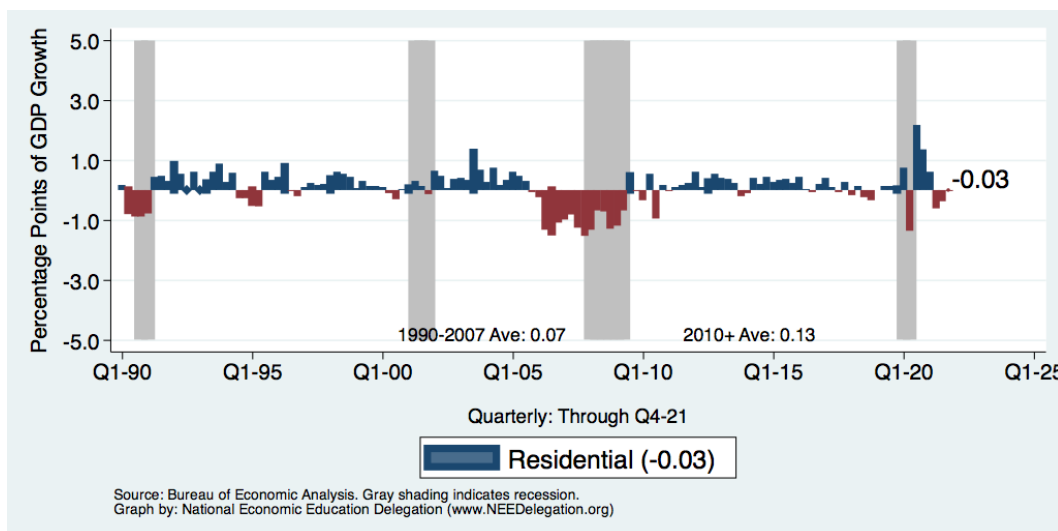


NATIONAL ECONOMIC
EDUCATION DELEGATION

49

49

Contributions to GDP: Residential Investment

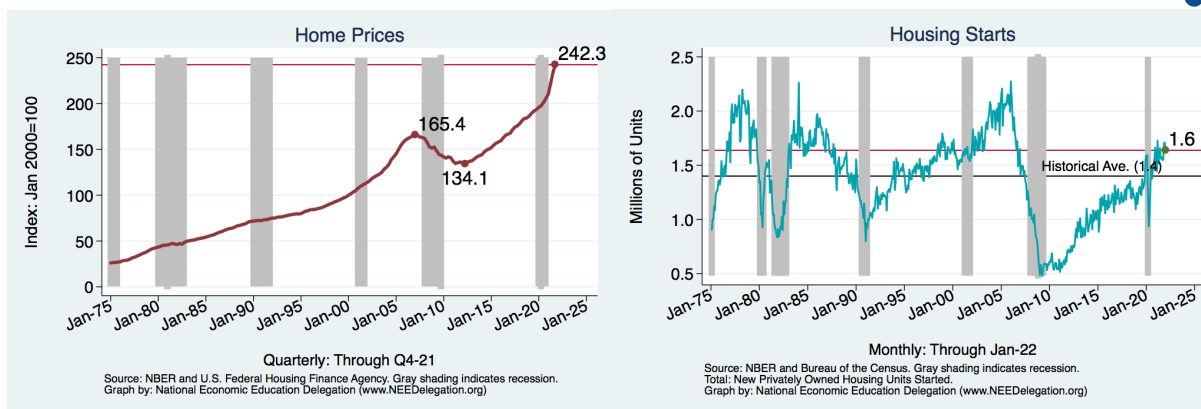


NATIONAL ECONOMIC
EDUCATION DELEGATION

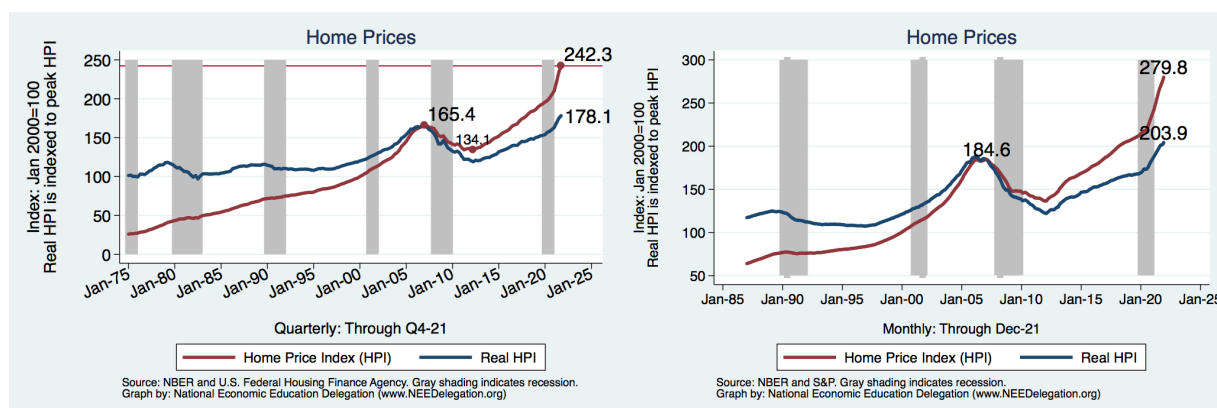
50

50

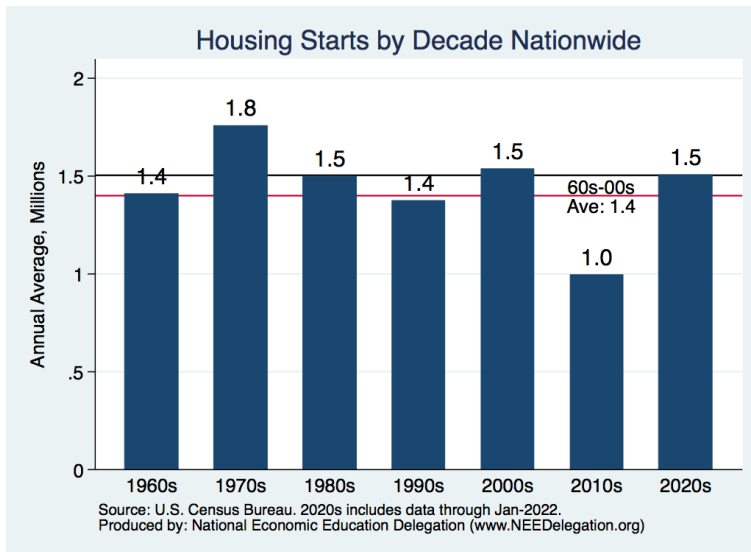
Home Prices and Housing Starts



Home Prices: Inflation Adjusted

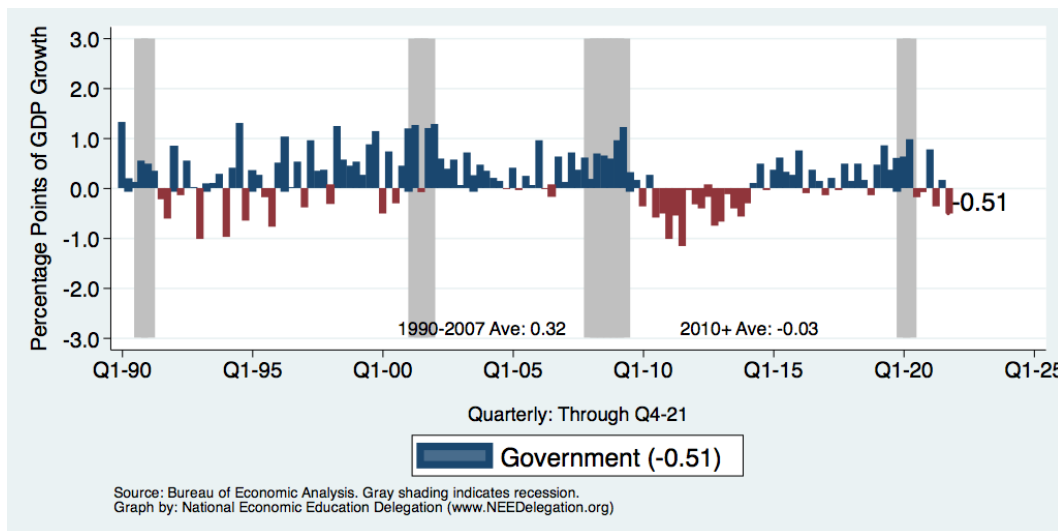


Housing Growth is Rebounding



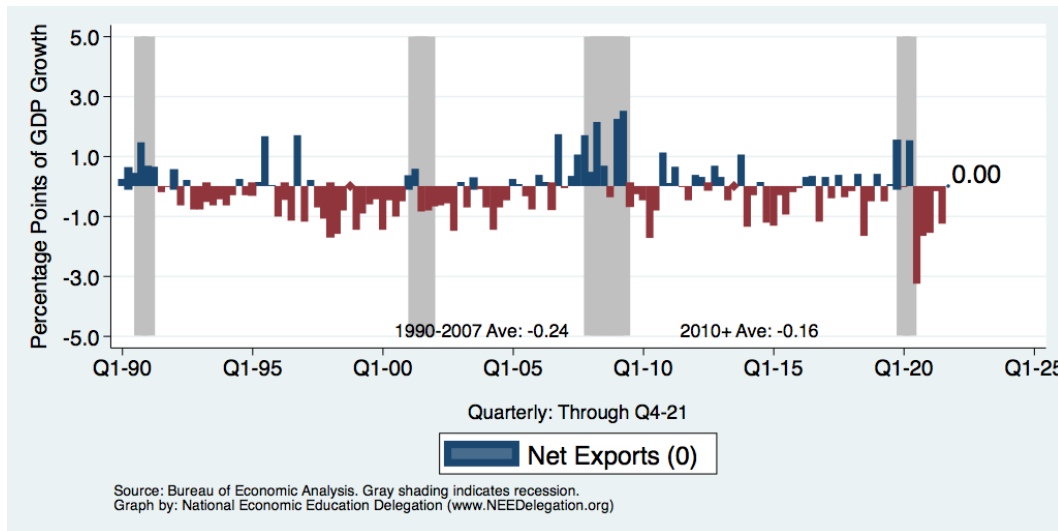
53

Contributions to GDP: Government



54

Contributions to GDP: Net Exports

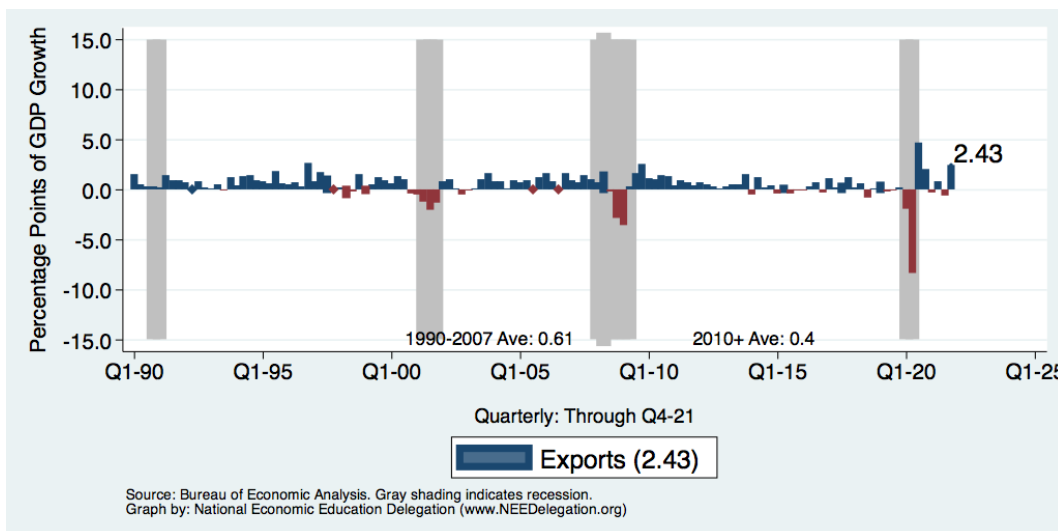


NATIONAL ECONOMIC
EDUCATION DELEGATION

55

55

Trade's Contribution to GDP: Exports

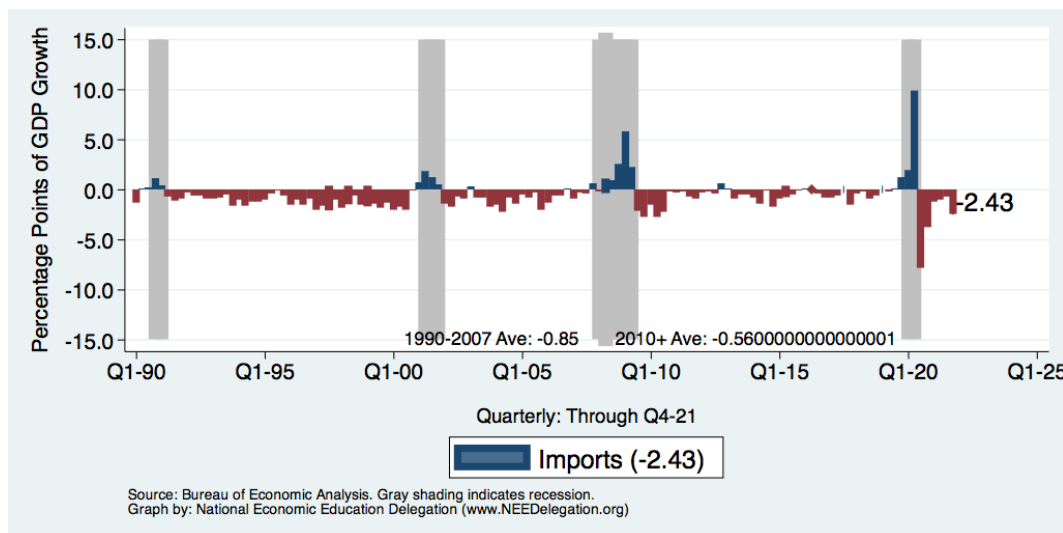


NATIONAL ECONOMIC
EDUCATION DELEGATION

56

56

Trade's Contribution to GDP: Imports



NATIONAL ECONOMIC
EDUCATION DELEGATION

57

57

Expenditure Summary

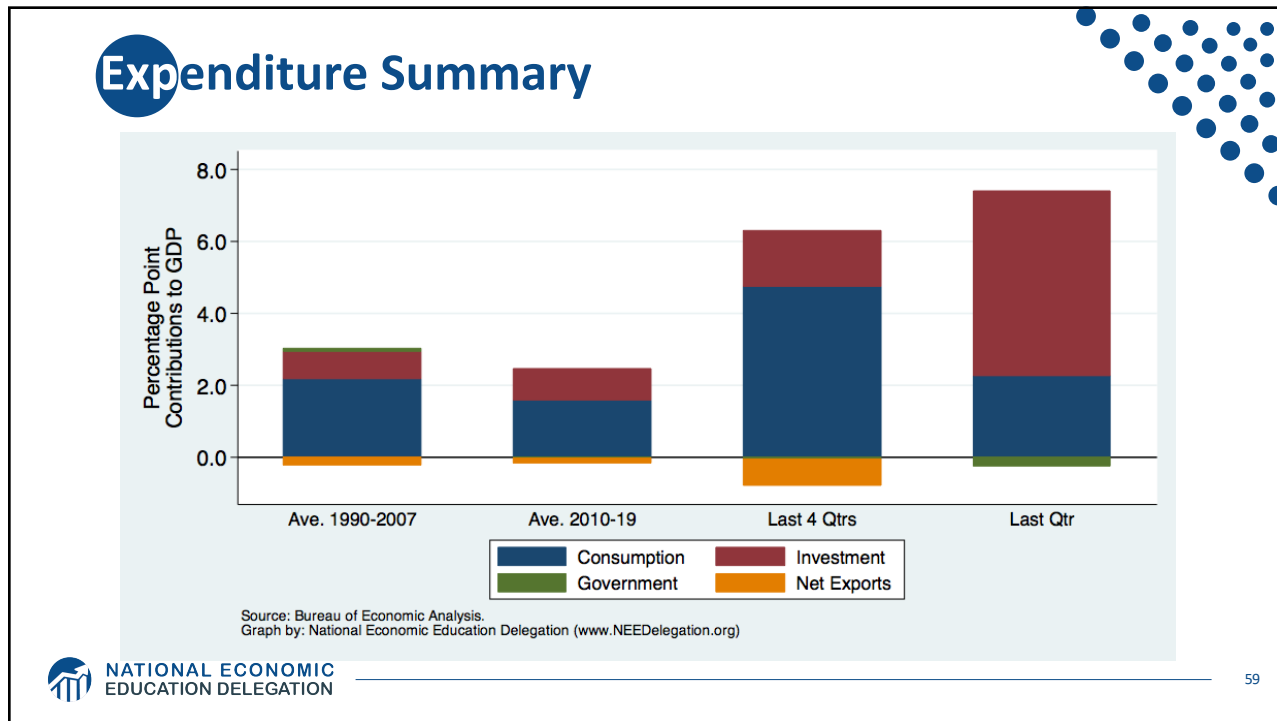
- **Post-recession consumption is down:**
 - Retail sales are returning to trend;
 - Household debt down, but climbing;
 - Personal savings is up.
- **Investment expenditures are contributing more to GDP growth.**
- **Post-recession government spending was down:**
 - But substantial during the Covid Recession.
- **Net exports are relatively unchanged.**



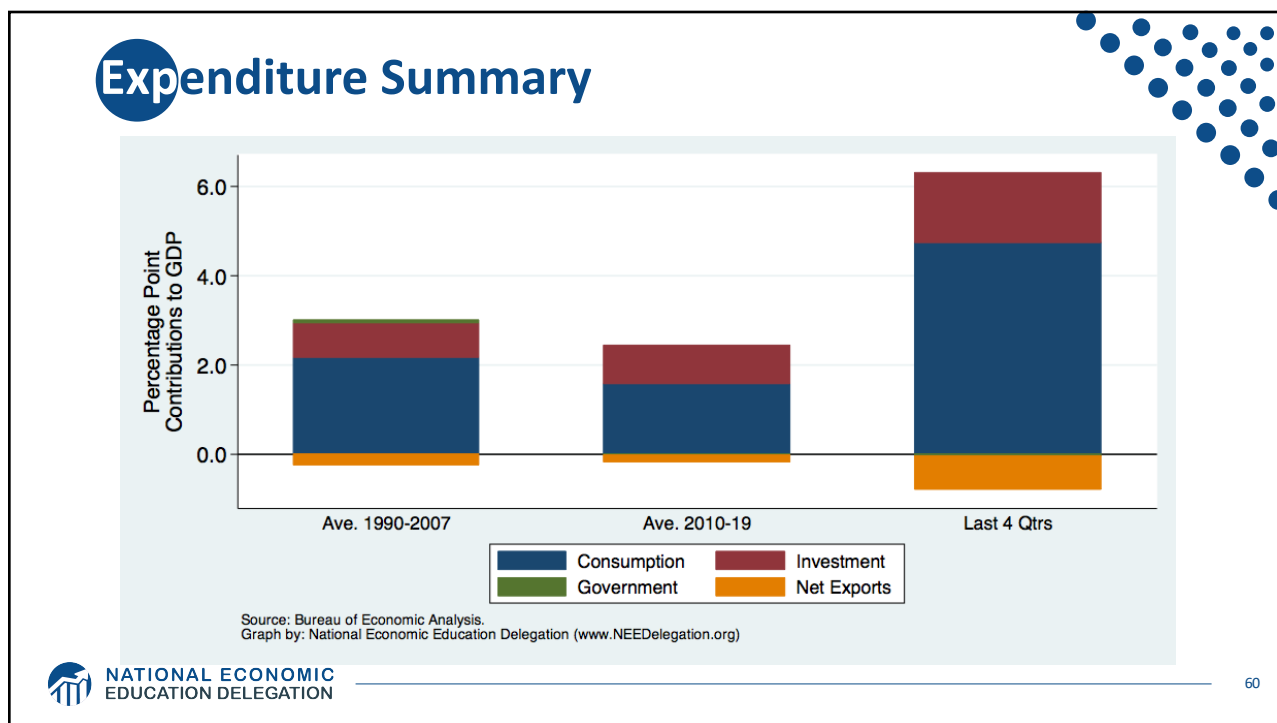
NATIONAL ECONOMIC
EDUCATION DELEGATION

58

58



59



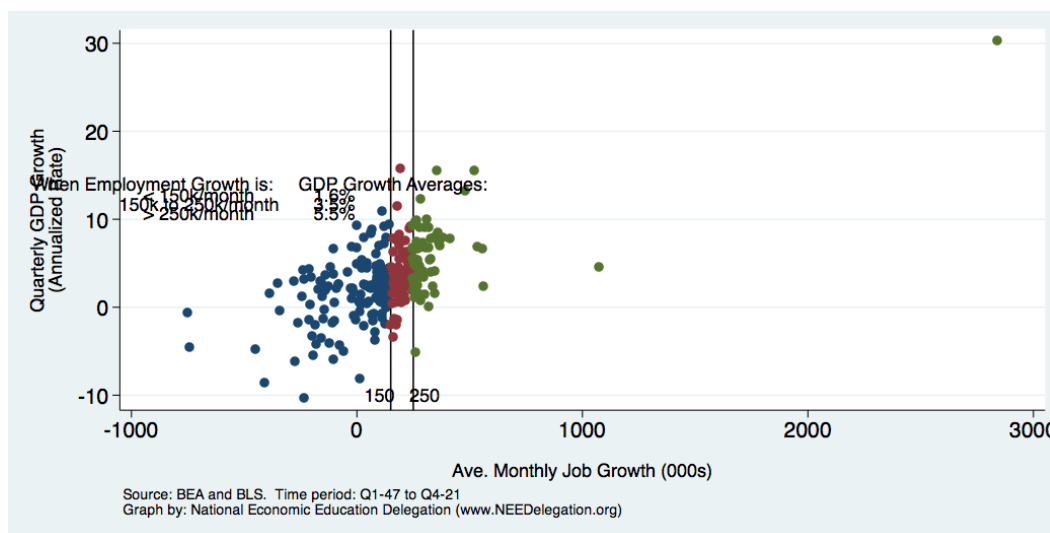
60

Labor Market



NATIONAL ECONOMIC
EDUCATION DELEGATION

GDP Growth and Employment Changes



NATIONAL ECONOMIC
EDUCATION DELEGATION

Production and Employment

- **In addition to the previously discussed components of GDP, the labor market is an important indicator of the health of the U.S. economy.**
- **We'll focus on employment and productivity.**
 - Trends in employment and labor force participation.
 - Trend in labor productivity.

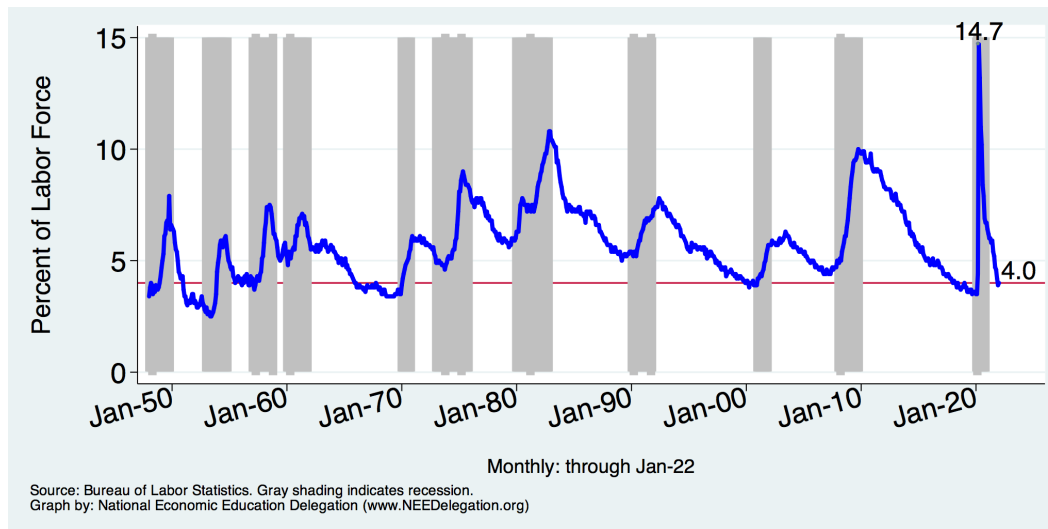
63

Labor Market Conditions

- **Unemployment rate is low, 4.0%, but rising rapidly.**
- **Natural rate of unemployment is estimated to be 4.5% - 5.5%.**
- **Monthly employment gains have averaged 7,000 jobs over the last six months.**
 - This measure has been growing through the second half of 2019. Will drop precipitously as we go into Q2-2020.
- **Recent Labor Market Concerns:**
 - Low employment-to-population ratio
 - Falling labor force participation
 - Slow wage growth

64

Unemployment Rate



NATIONAL ECONOMIC
EDUCATION DELEGATION

65

65

How is the Unemployment Rate Calculated?

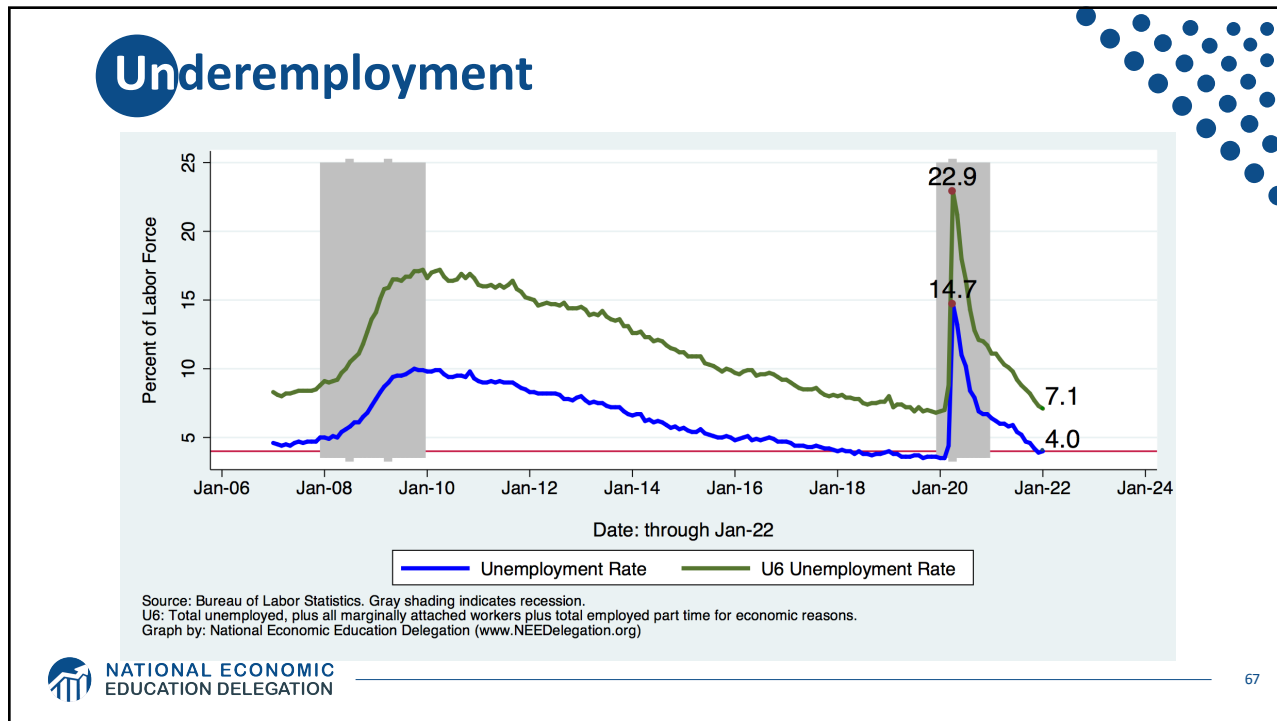
- It is not a simple thing:
$$UR = \frac{\# \text{ Unemployed}}{\text{Labor Force}} * 100$$
- Why is that not simple?
 - Because it can go up or down for a variety of reasons:
 - If the labor force shrinks – UR goes down
 - If employment grows – UR goes down
 - Not all employment is created equally
- Not a good indicator of the overall well being of the US economy.



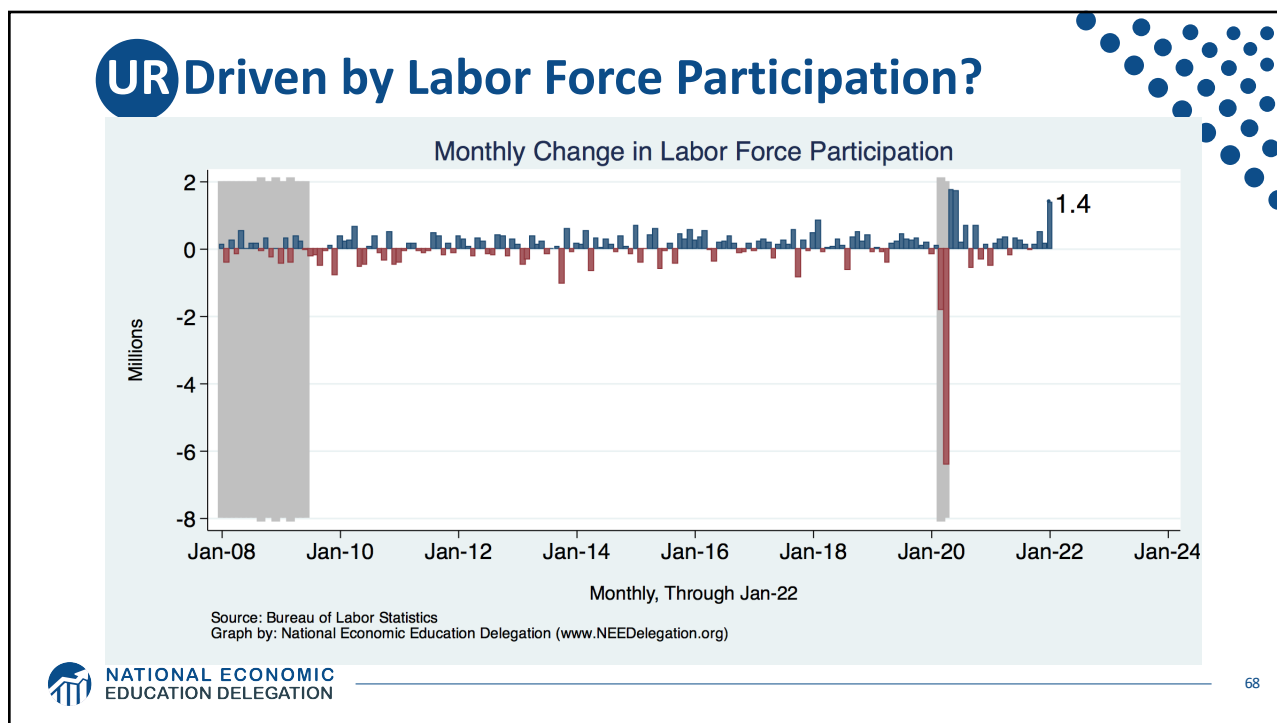
NATIONAL ECONOMIC
EDUCATION DELEGATION

66

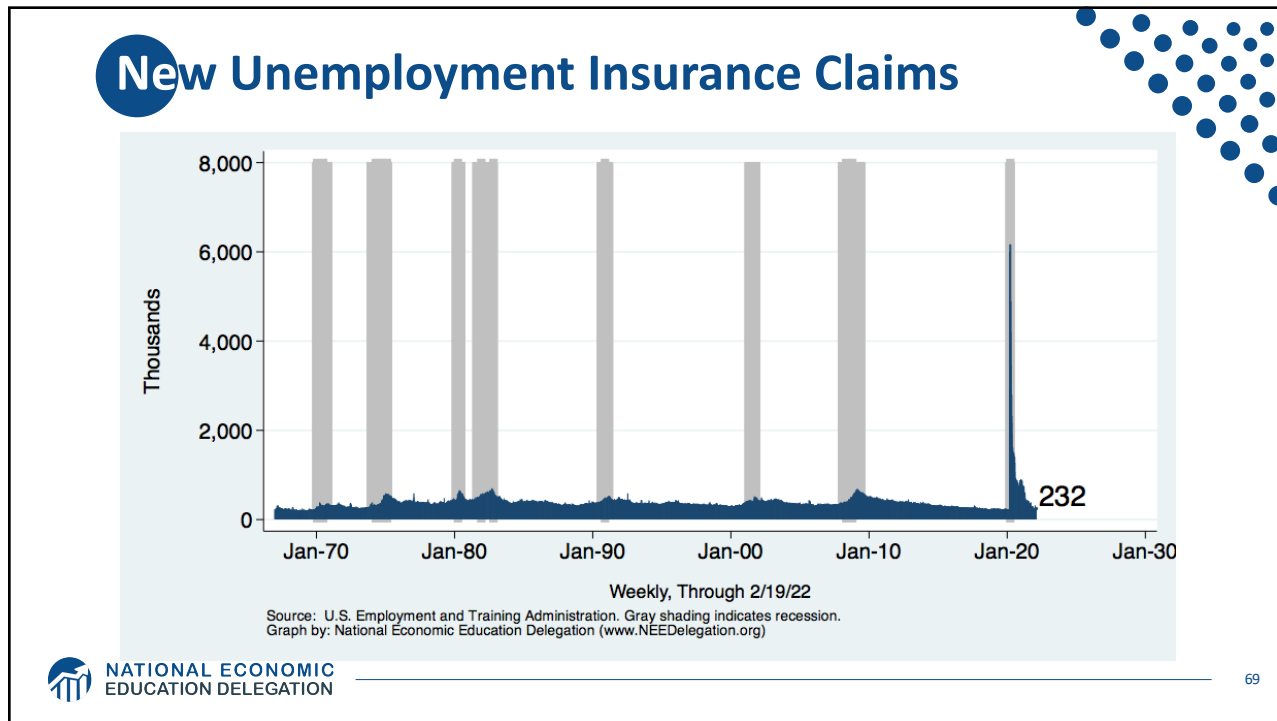
66



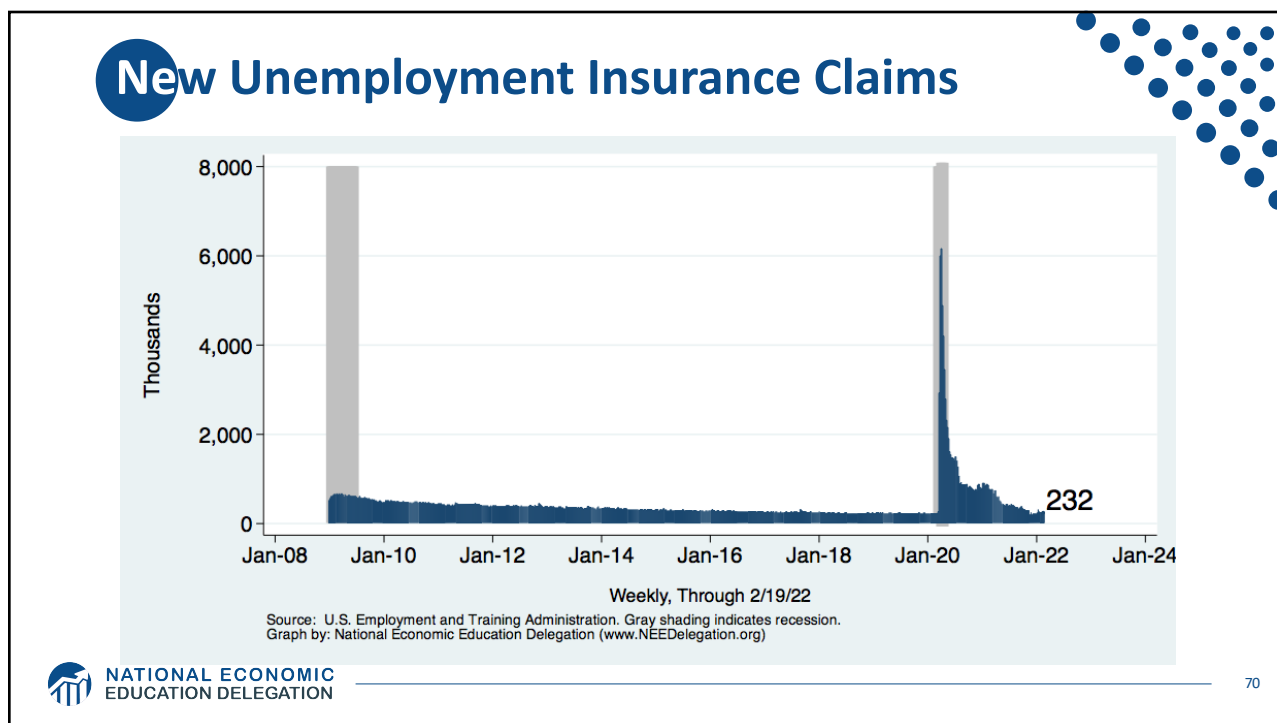
67



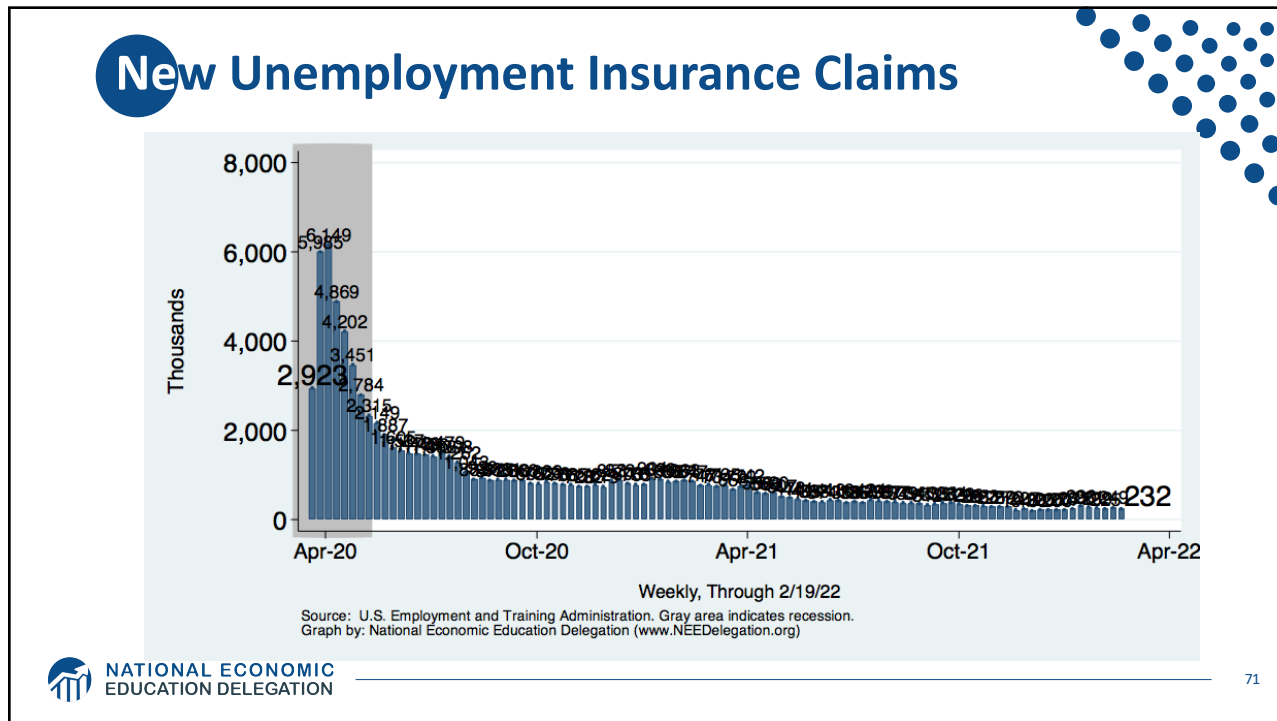
68



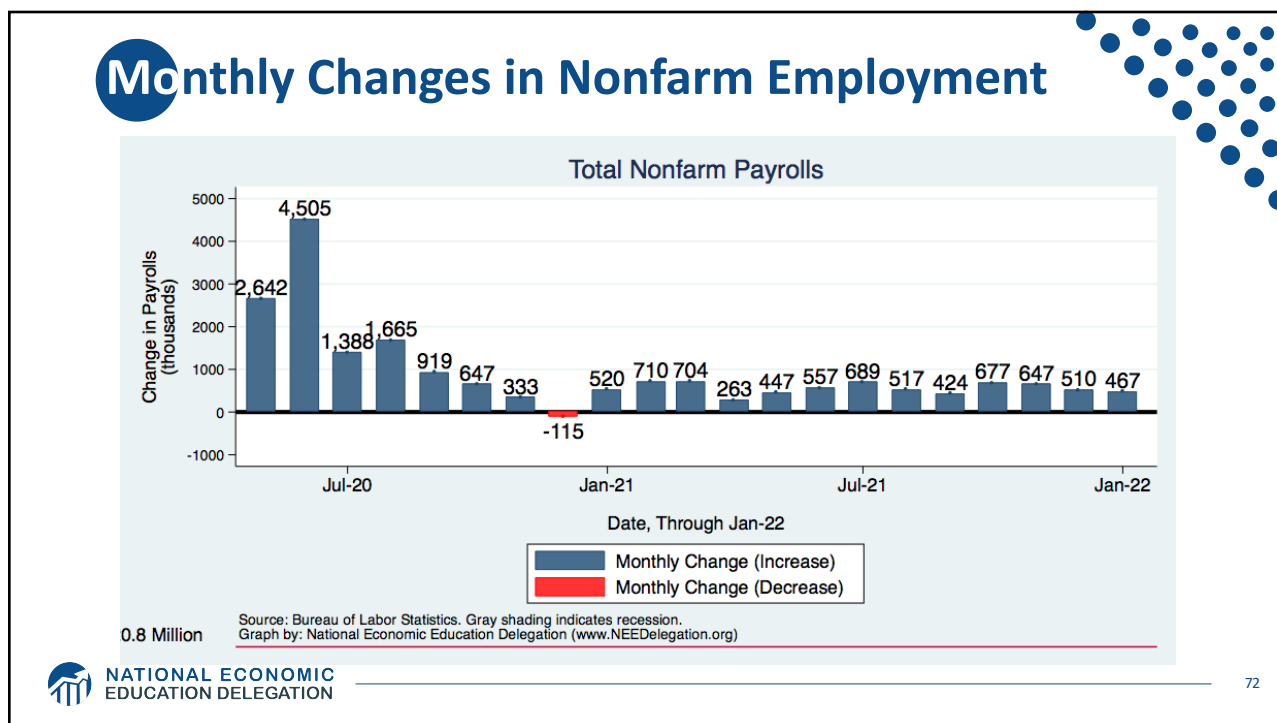
69



70

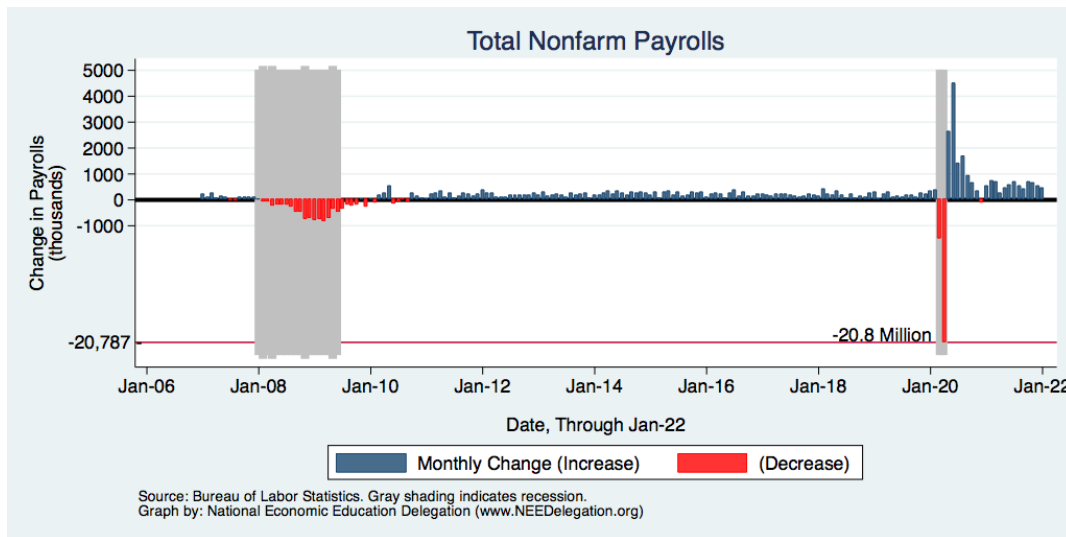


71



72

Monthly Changes in Nonfarm Employment



NATIONAL ECONOMIC
EDUCATION DELEGATION

73

73

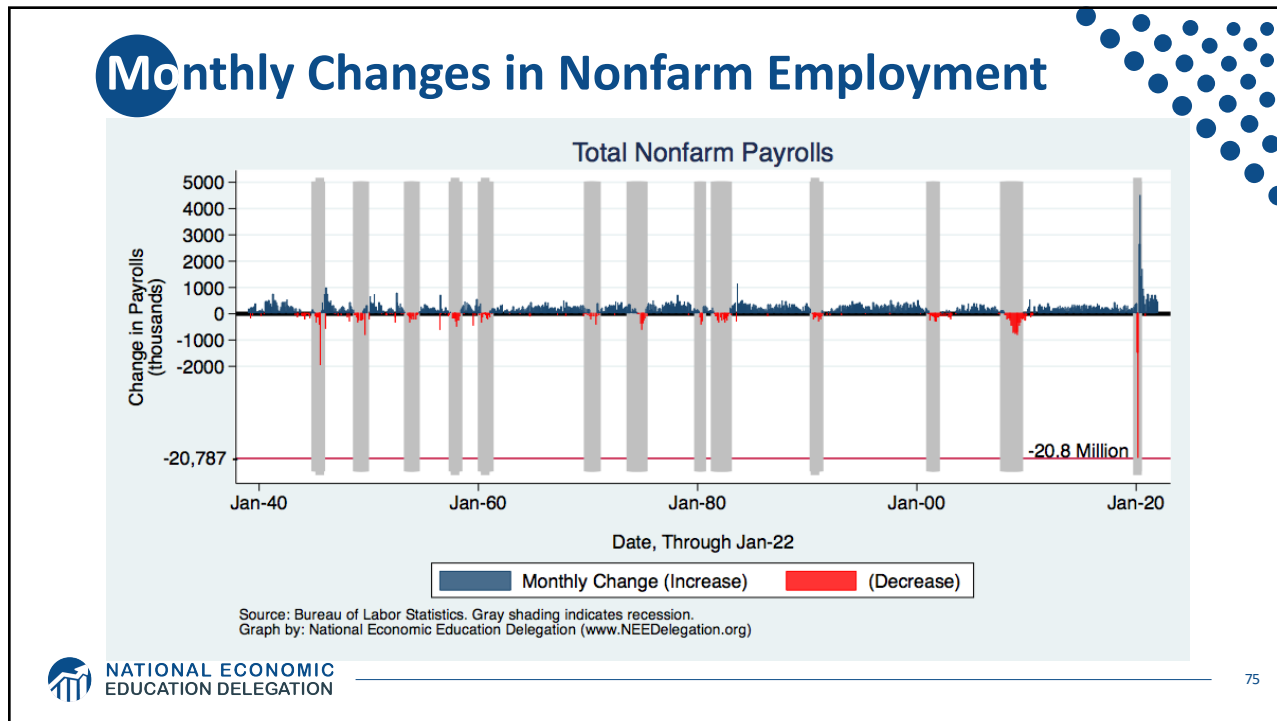
Part-Time Nonfarm Employment



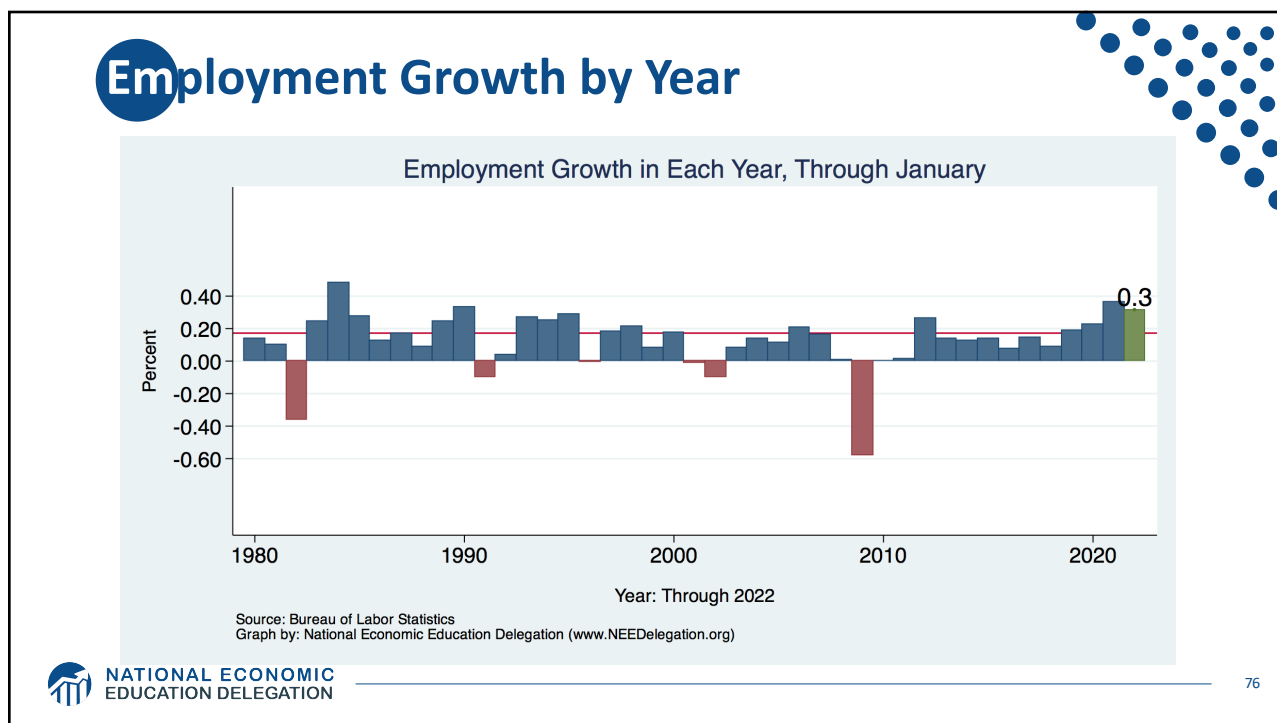
NATIONAL ECONOMIC
EDUCATION DELEGATION

74

74

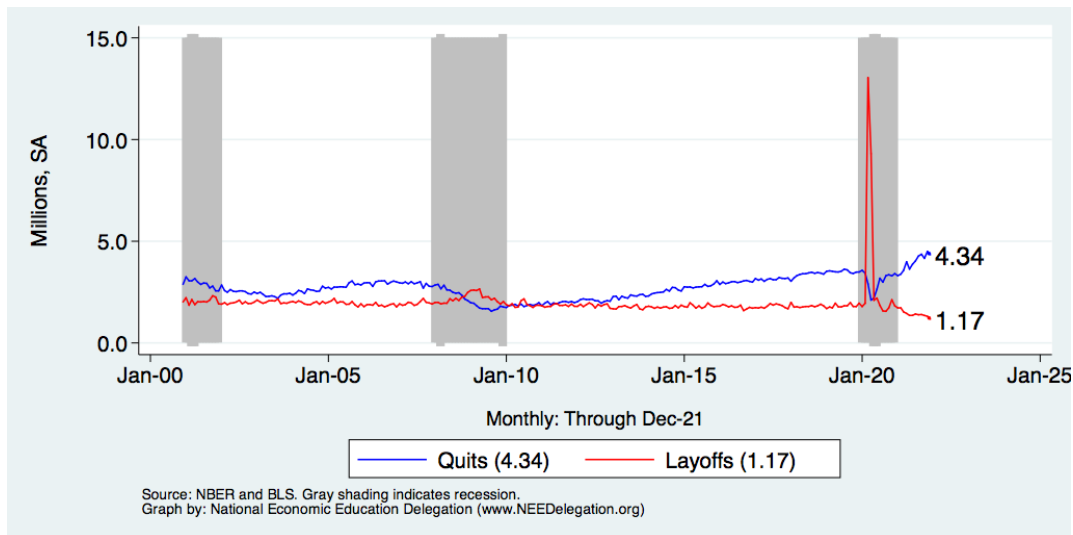


75



76

Separations: Quits and Layoffs

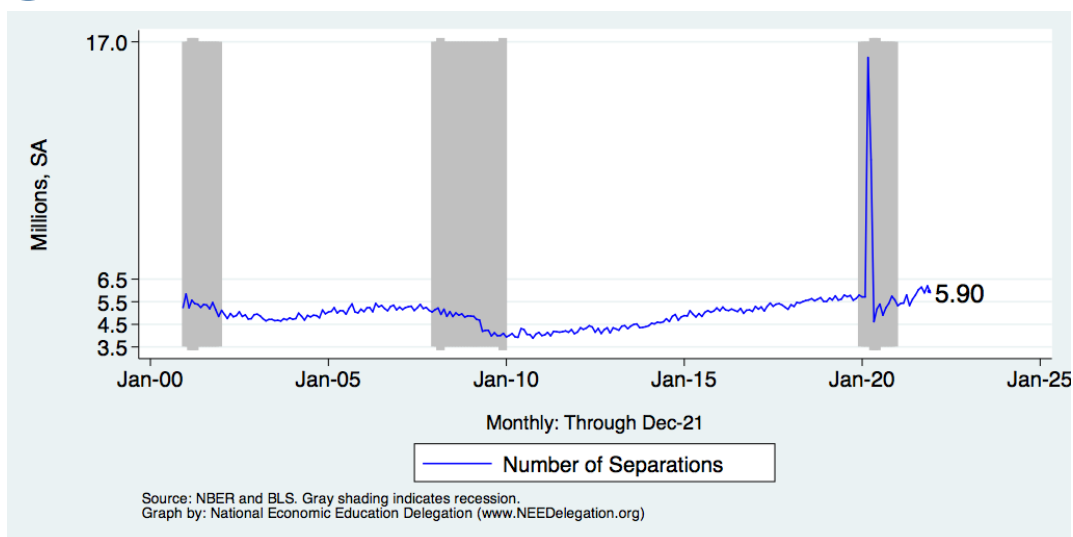


NATIONAL ECONOMIC
EDUCATION DELEGATION

77

77

Job Separations

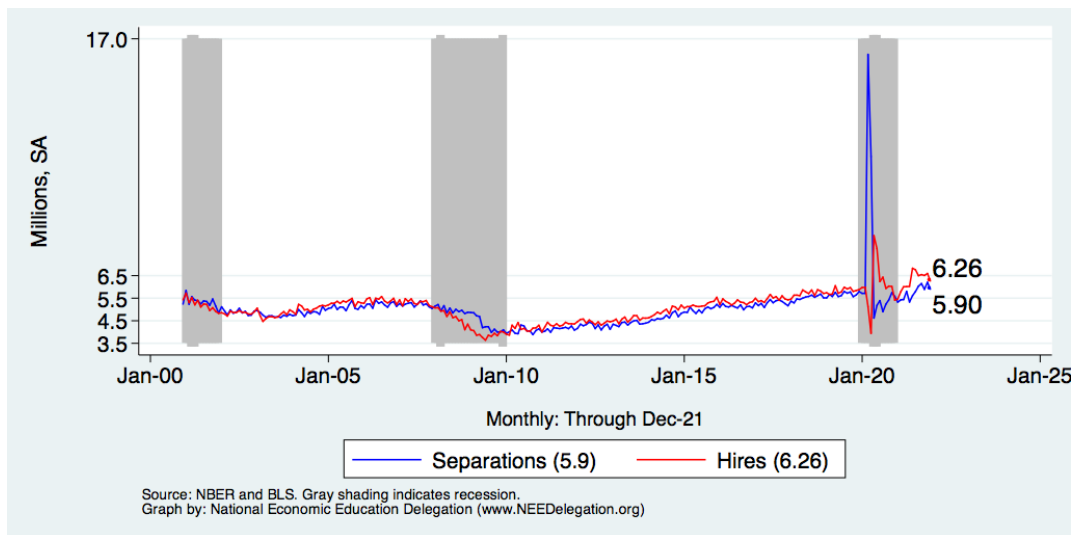


NATIONAL ECONOMIC
EDUCATION DELEGATION

78

78

Job Hires and Separations

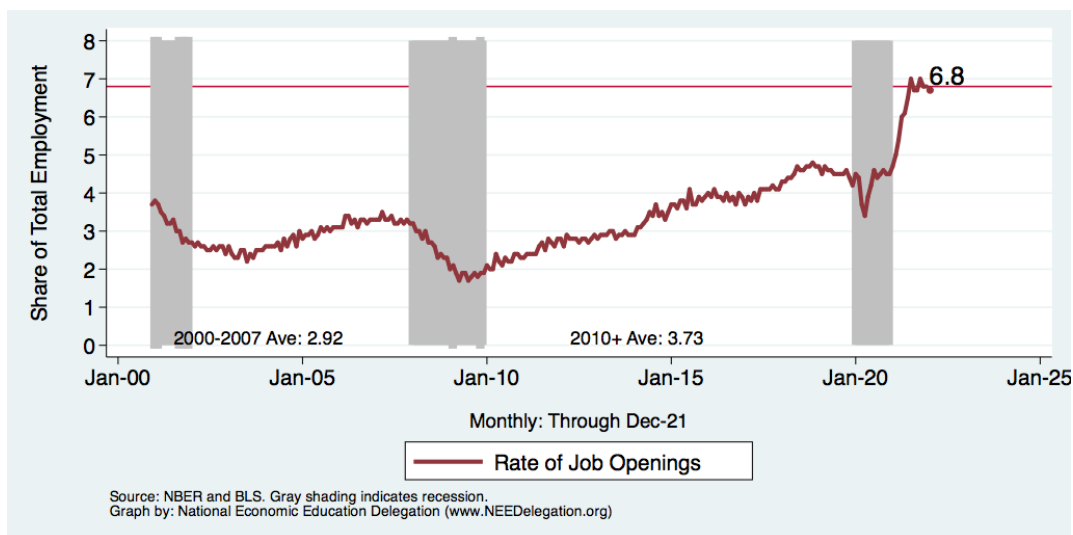


NATIONAL ECONOMIC
EDUCATION DELEGATION

79

79

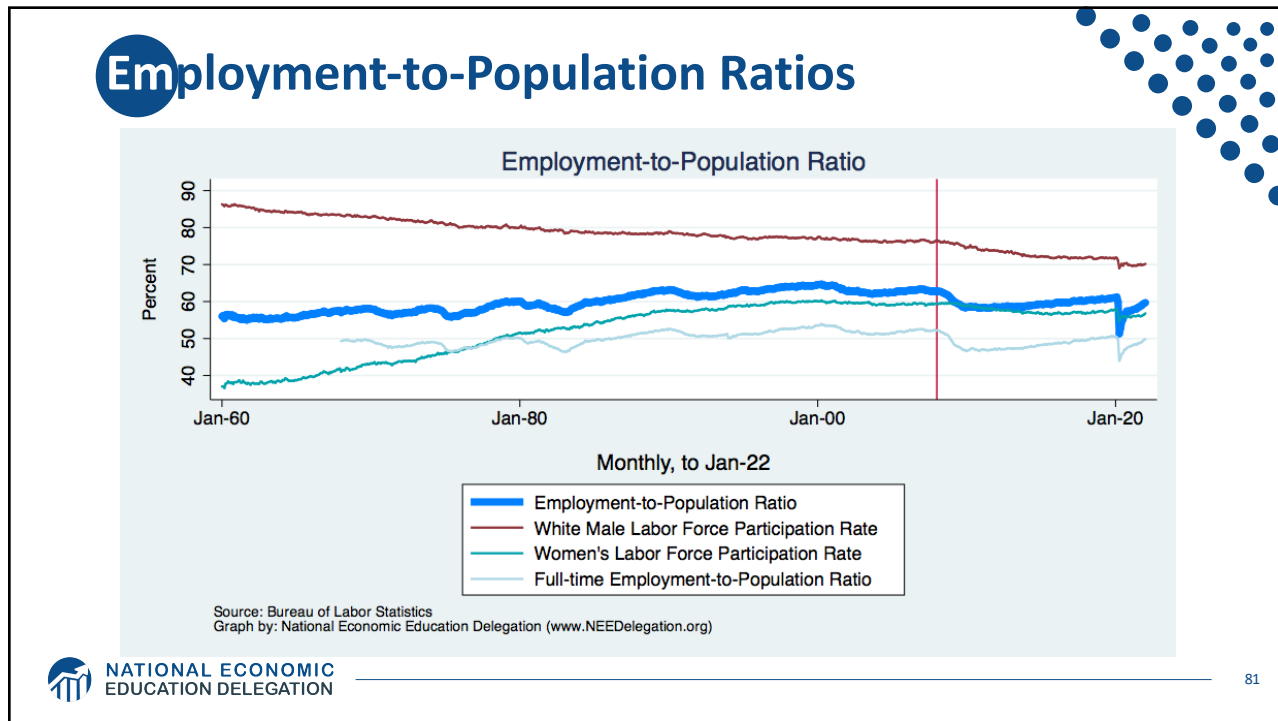
Job Openings: Share of Total Employment



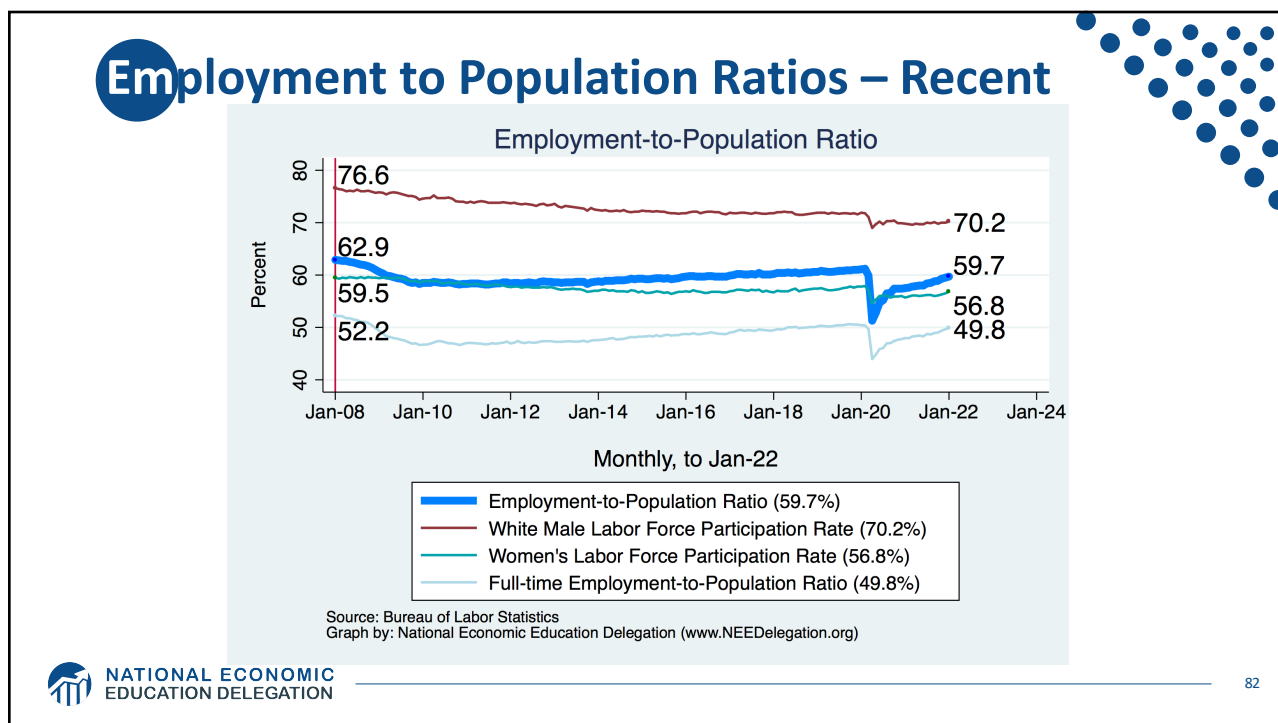
NATIONAL ECONOMIC
EDUCATION DELEGATION

80

80

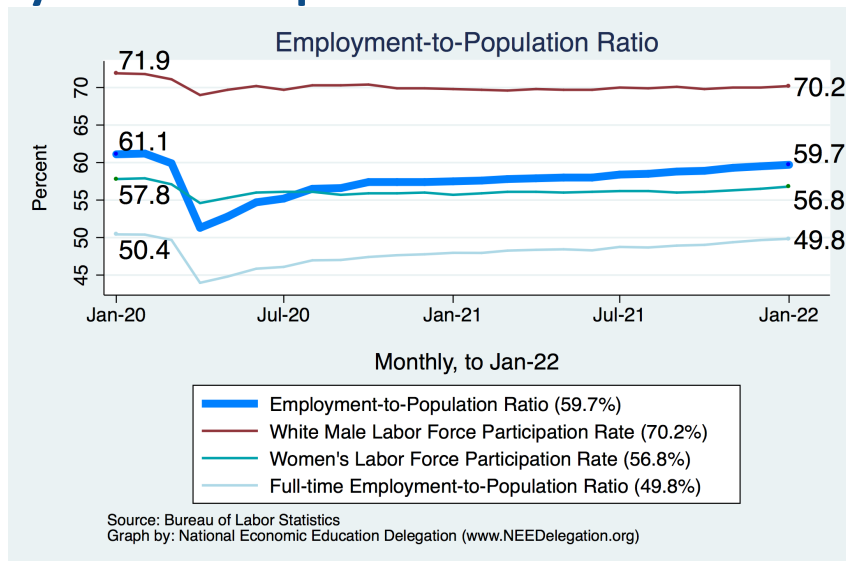


81

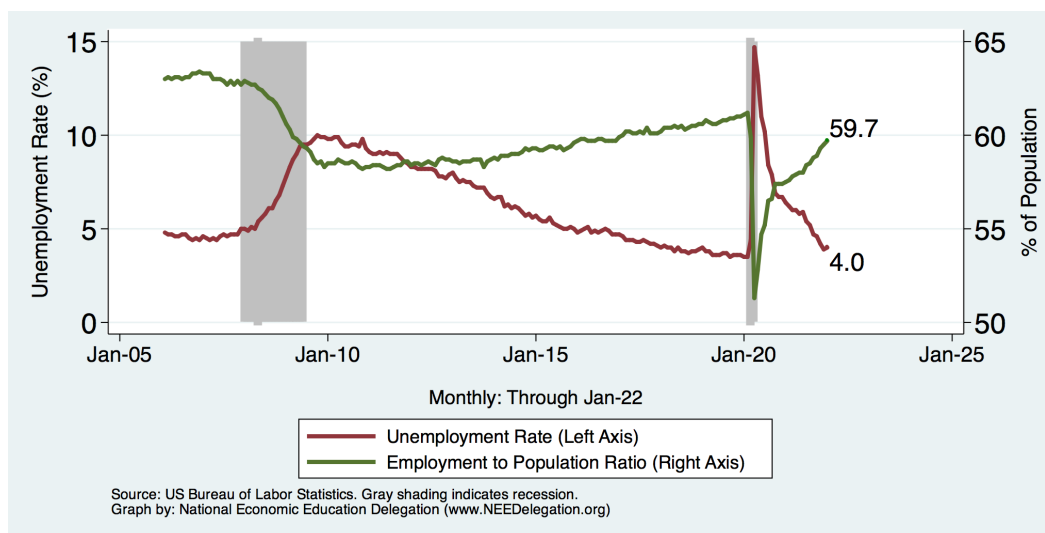


82

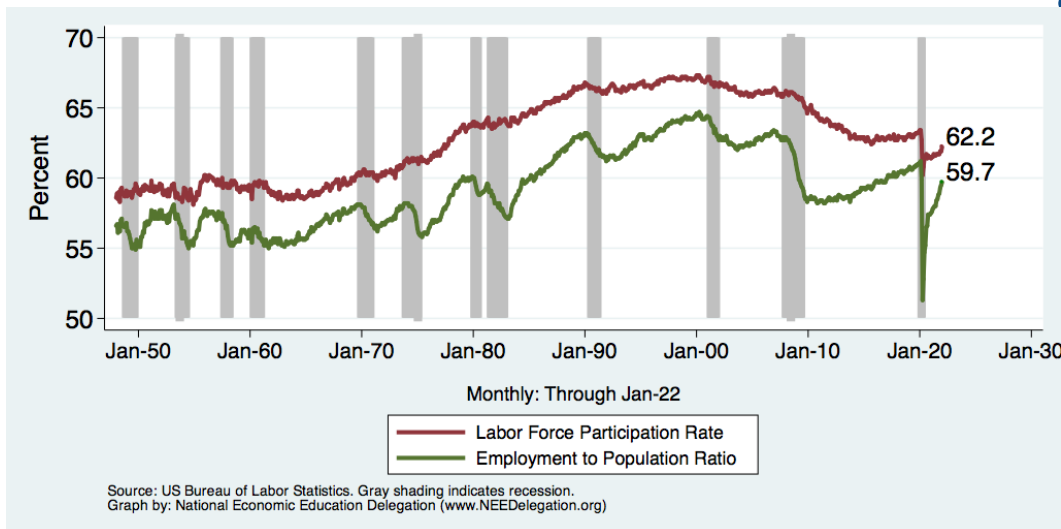
Employment to Population Ratios – COVID



Slow Employment Recovery

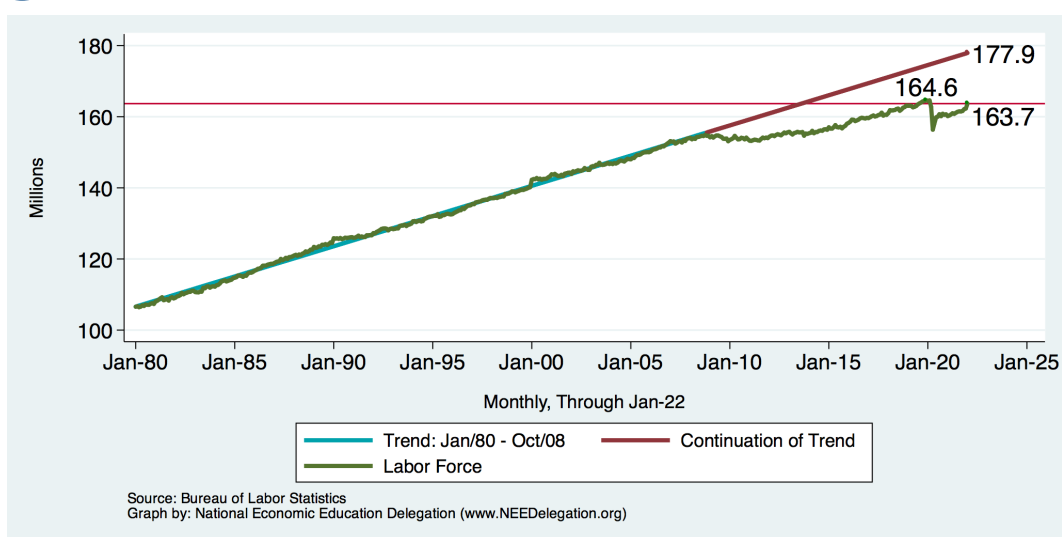


Labor Force Dropouts



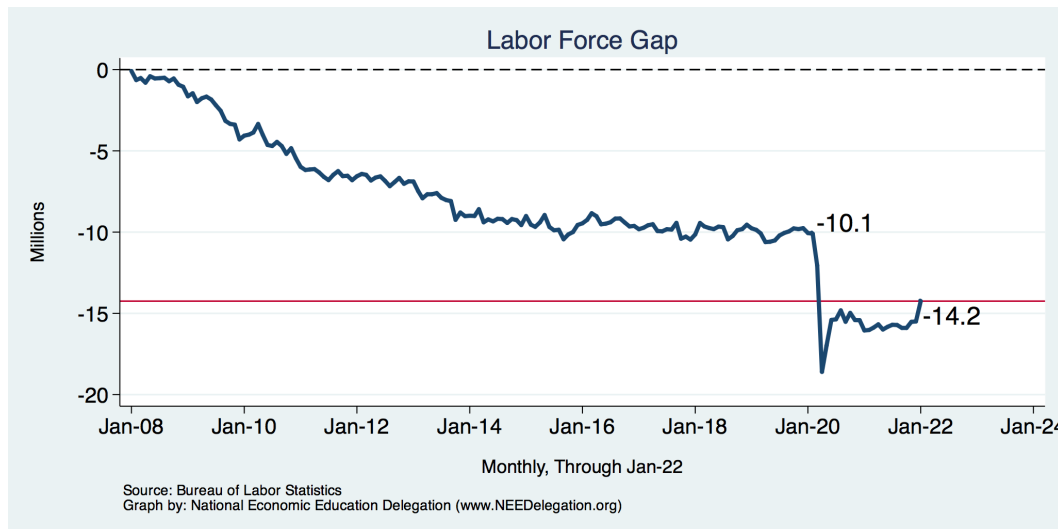
85

Trends in Labor Force Participation



86

There is a Persistent Labor Force Gap

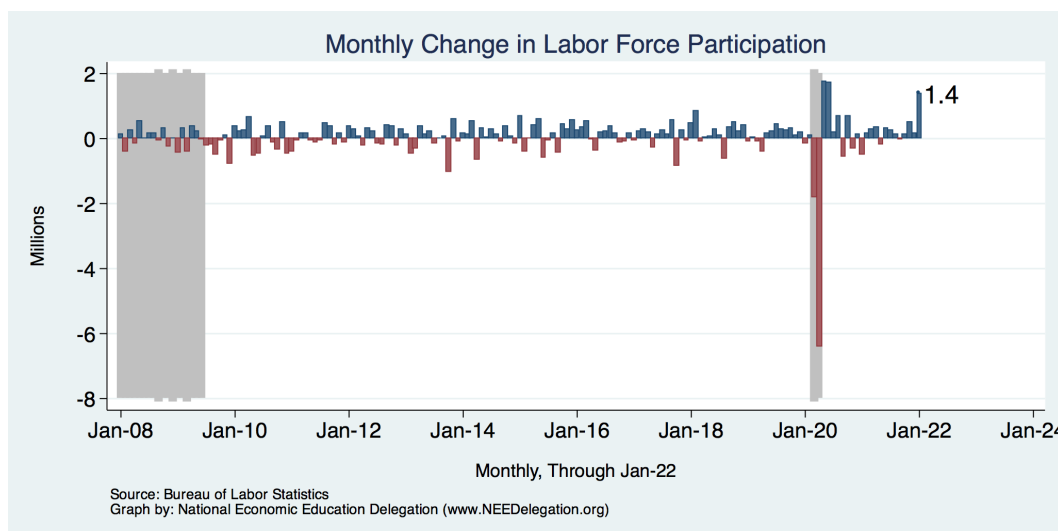


NATIONAL ECONOMIC
EDUCATION DELEGATION

87

87

Labor Force Growth Has Been Uneven

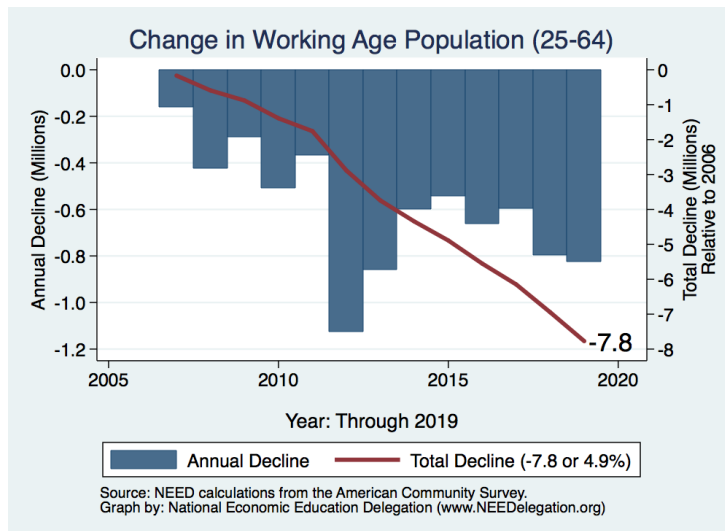


NATIONAL ECONOMIC
EDUCATION DELEGATION

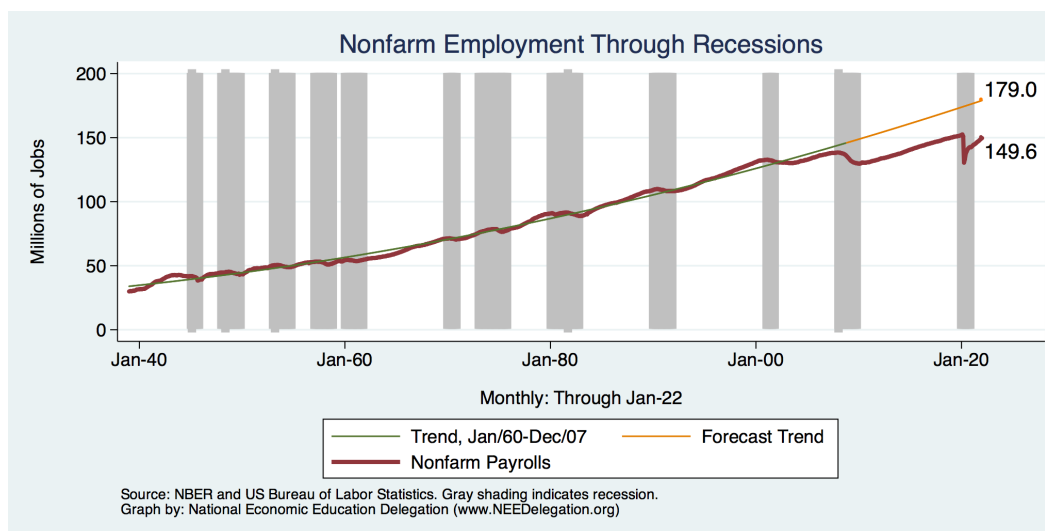
88

88

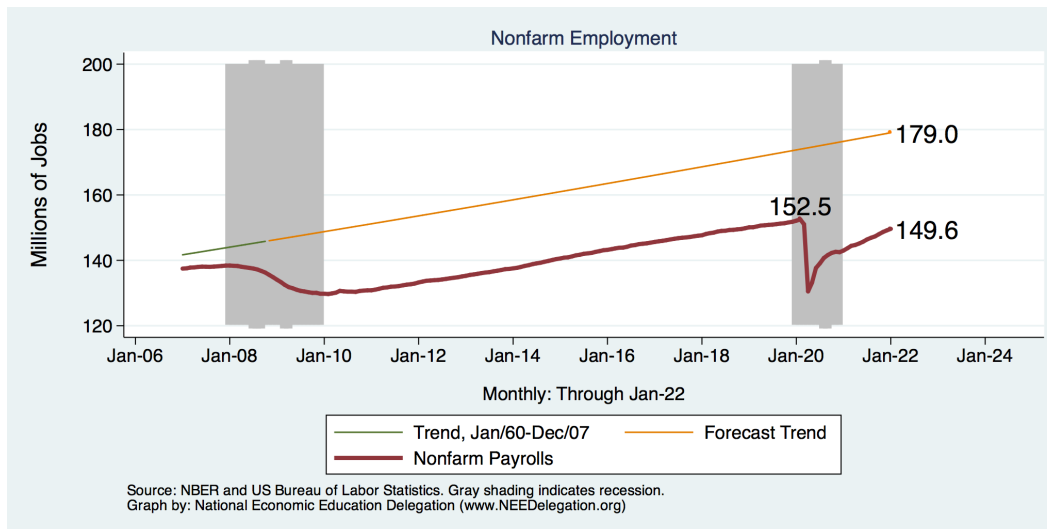
Baby Boomers Are Retiring!



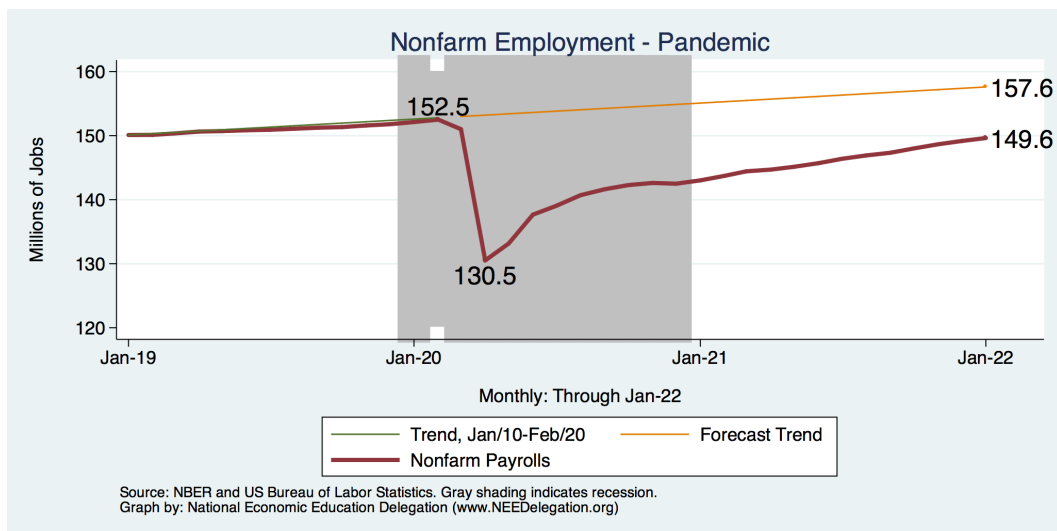
Employment Growth



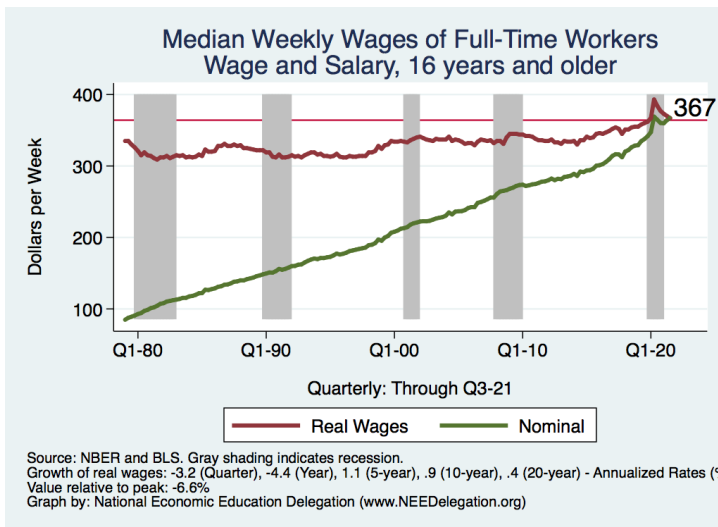
Employment Gap: Up Close



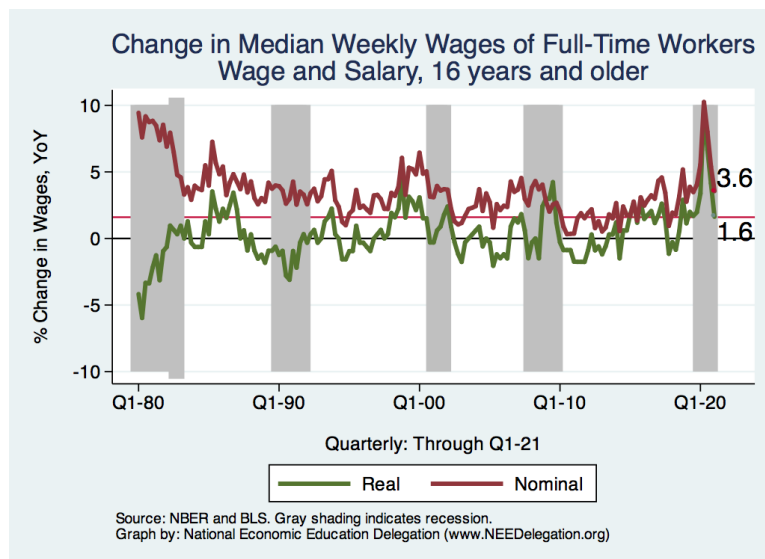
Employment Gap: Pandemic



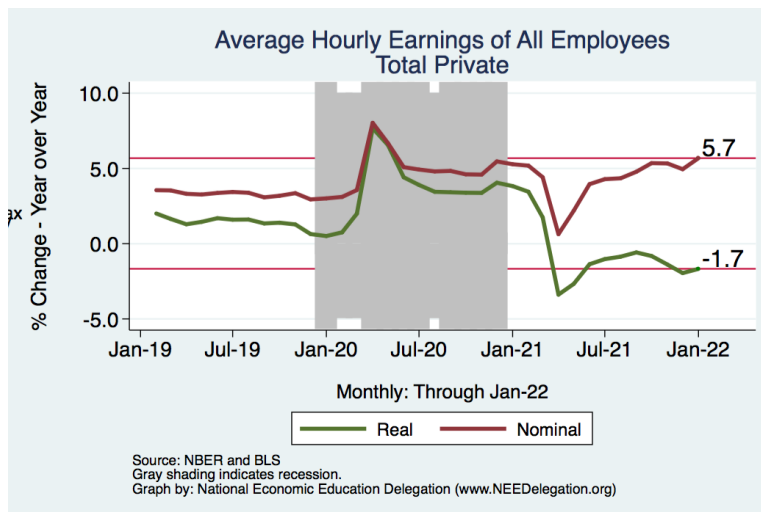
Wage Growth



Wage Growth

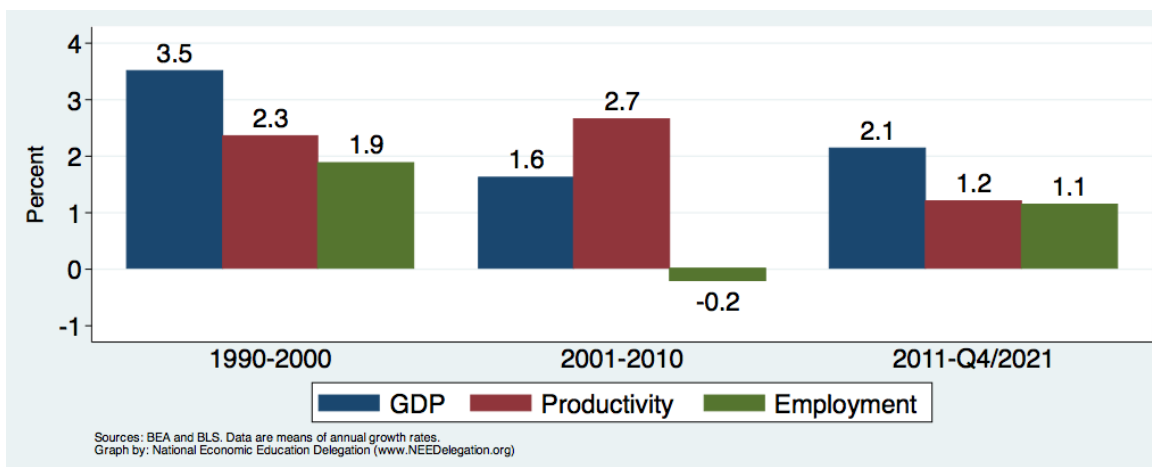


Wage Growth

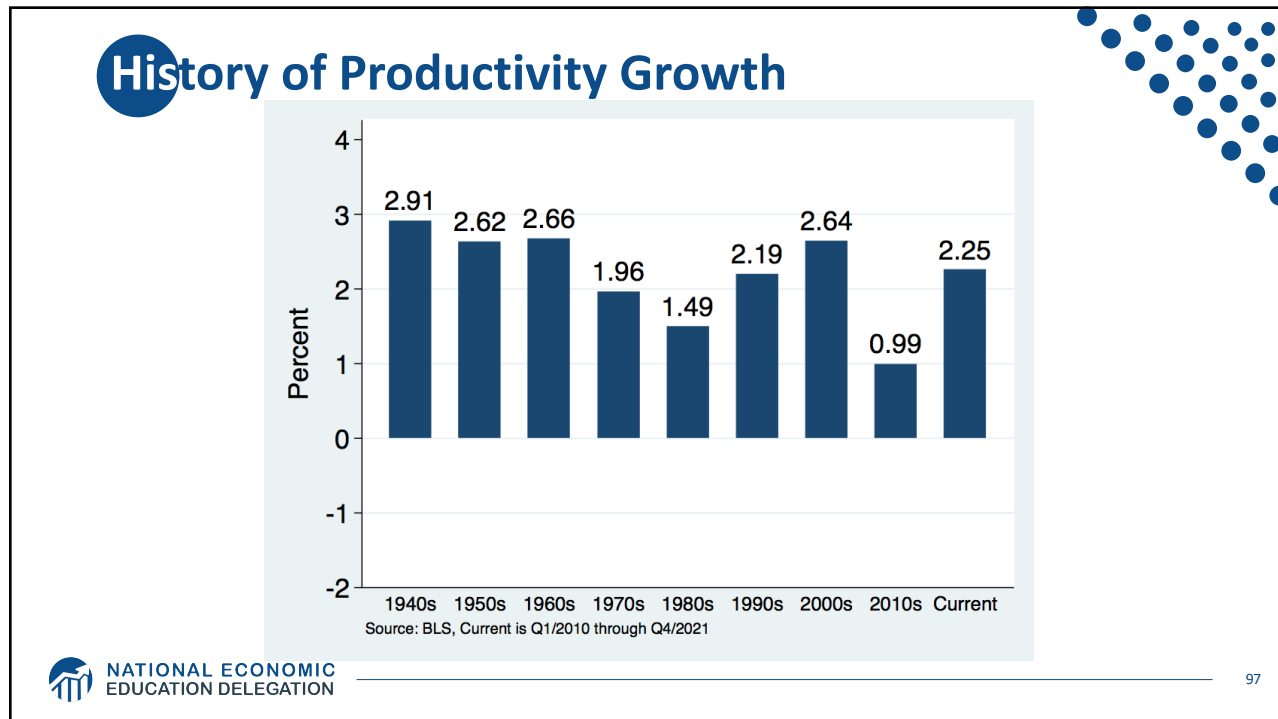


95

GDP Growth, Productivity, and Employment



96



97

Summary

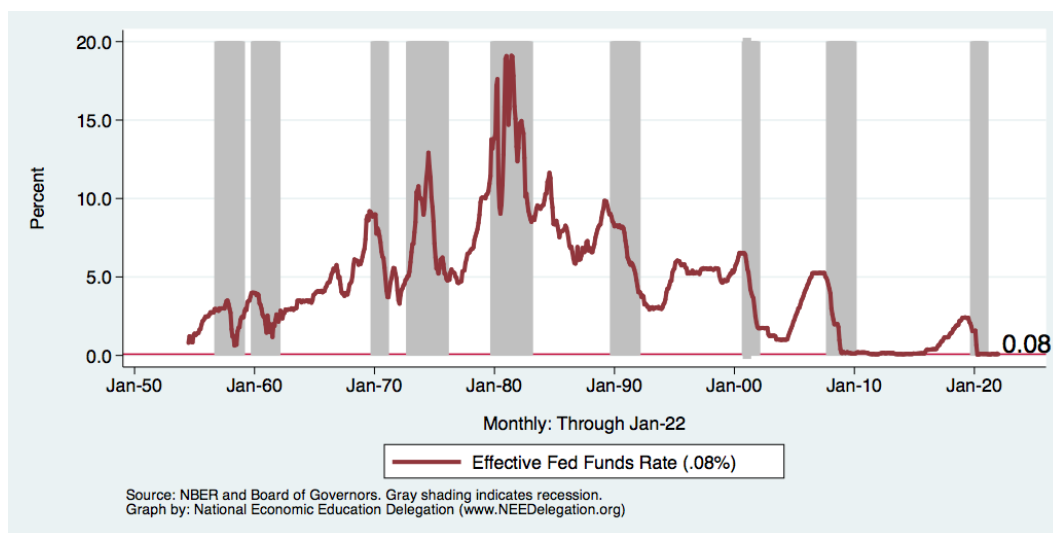
- **GDP growth is primarily fueled by increases in demand for output.**
- **This growth is supported by growth in employment and productivity of the labor force.**
- **Recent years have seen relatively tepid increases in demand for output.**
 - In particular, consumption and government spending have been slow relative to other periods.
- **This tepid growth has led to slow increases in employment.**
 - Although labor markets have tightened, wages have not experienced rapid growth.
- **Productivity growth has played little role in growing GDP.**
 - Why this is so is not immediately clear.

NATIONAL ECONOMIC EDUCATION DELEGATION

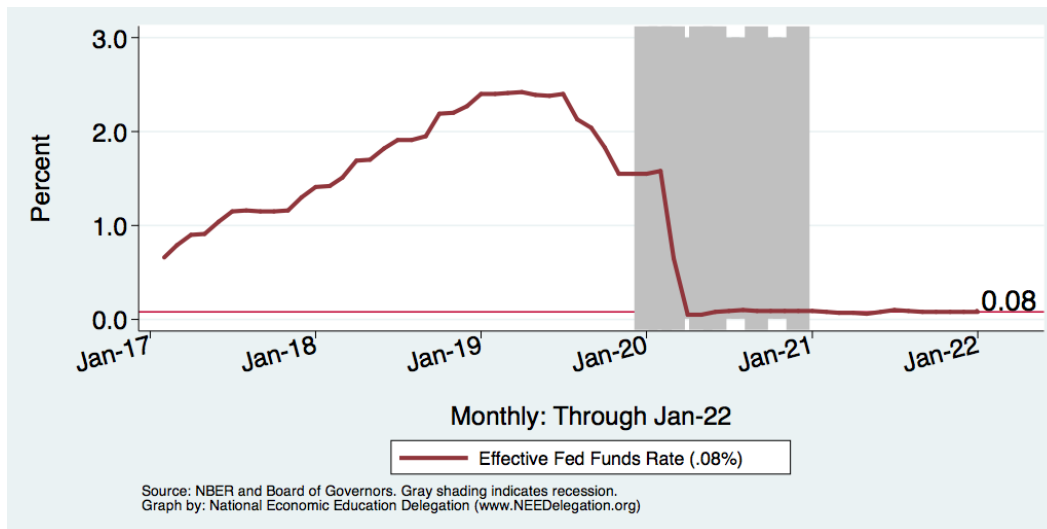
98

Monetary Policy

Federal Funds Rate



Federal Funds Rate – Last 5 Years

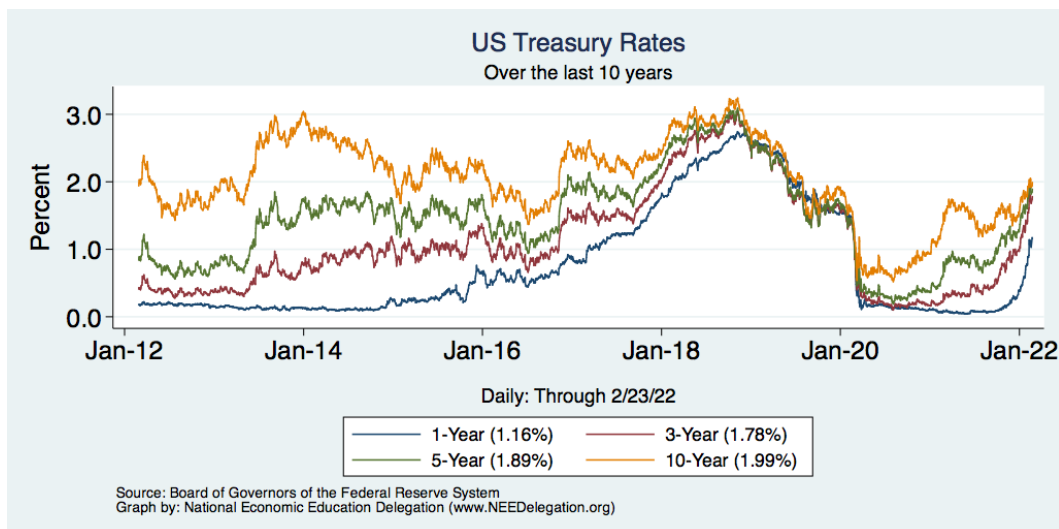


NATIONAL ECONOMIC
EDUCATION DELEGATION

101

101

Treasuries

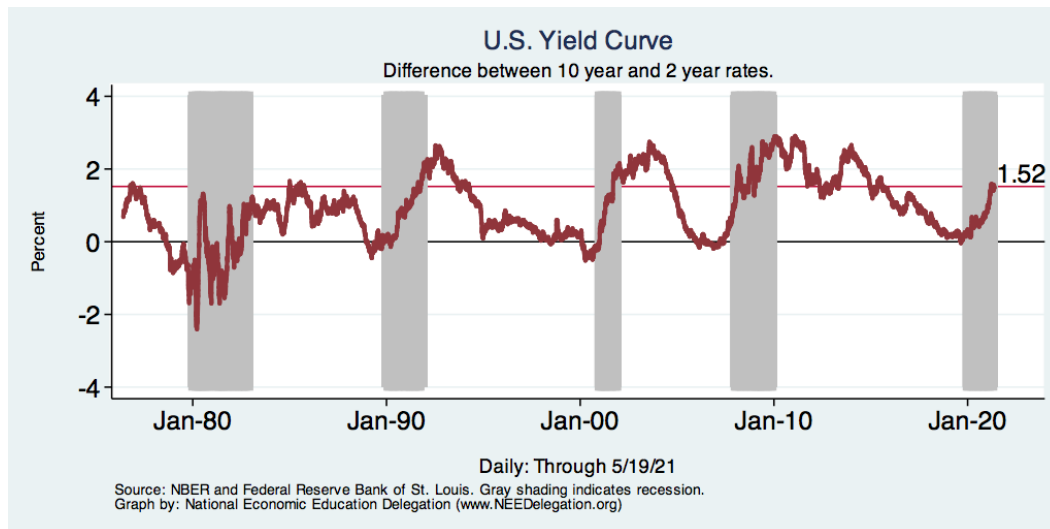


NATIONAL ECONOMIC
EDUCATION DELEGATION

102

102

Alarming Compression of Interest Rates

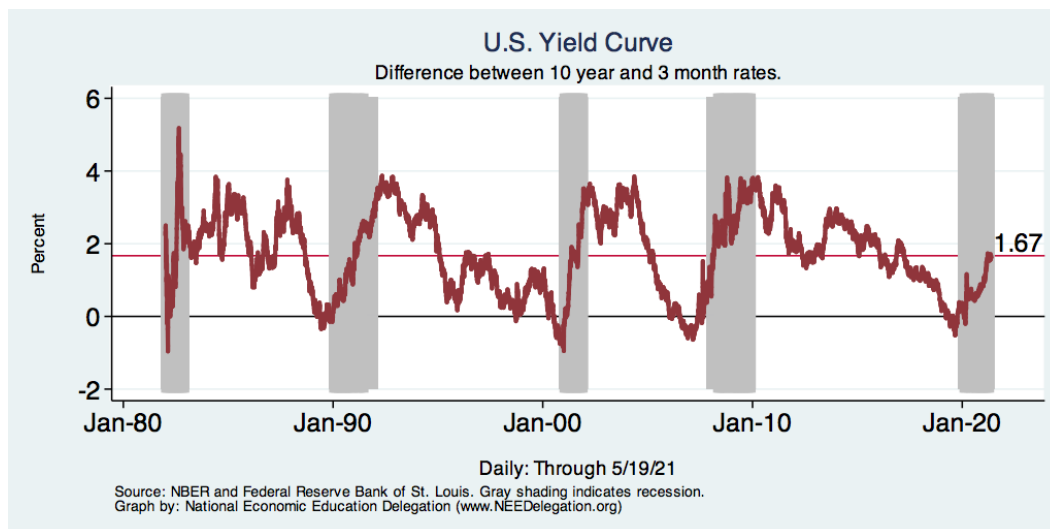


NATIONAL ECONOMIC
EDUCATION DELEGATION

103

103

Alarming Compression of Interest Rates

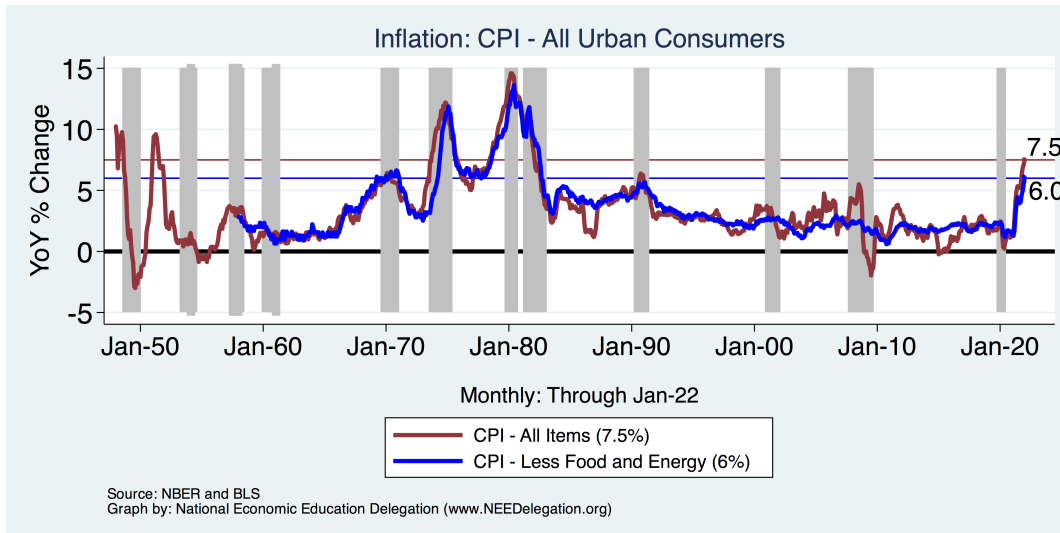


NATIONAL ECONOMIC
EDUCATION DELEGATION

104

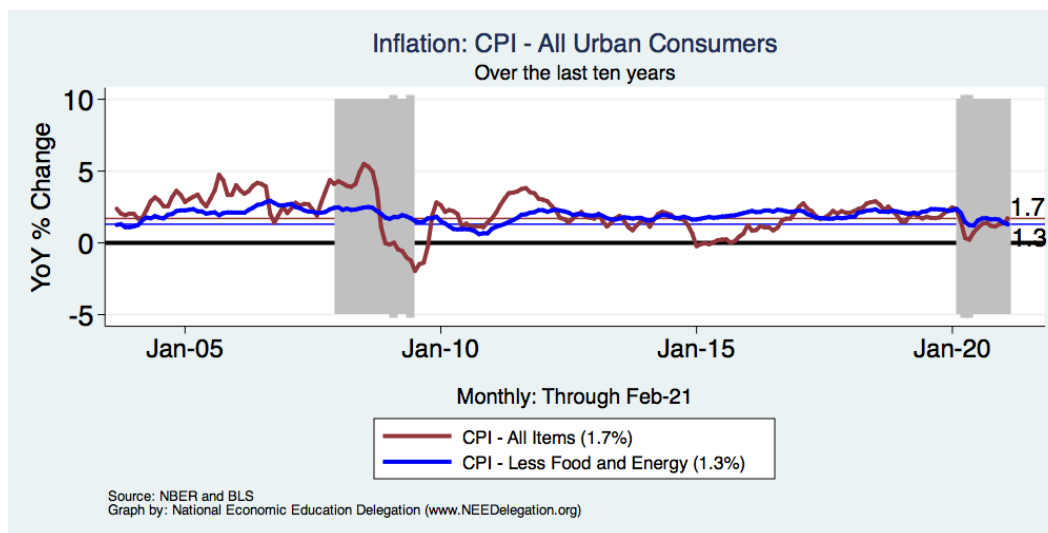
104

Inflation



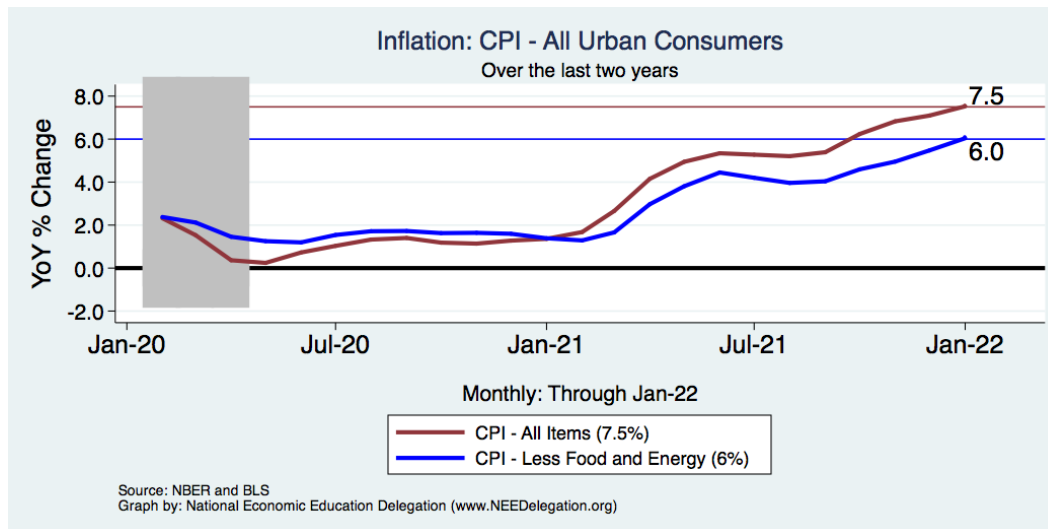
NATIONAL ECONOMIC EDUCATION DELEGATION

Inflation – Recent Stability



NATIONAL ECONOMIC EDUCATION DELEGATION

Inflation – Recent Stability

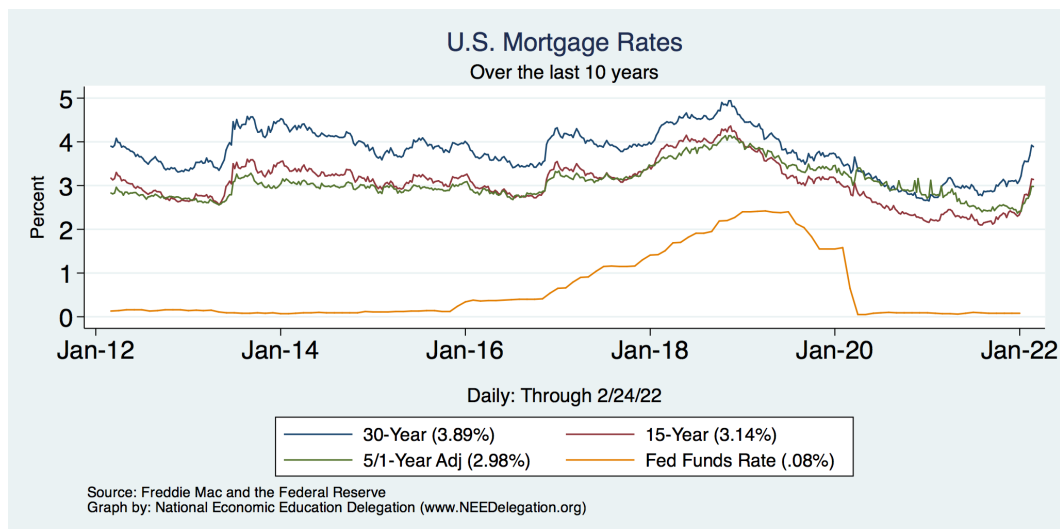


NATIONAL ECONOMIC
EDUCATION DELEGATION

107

107

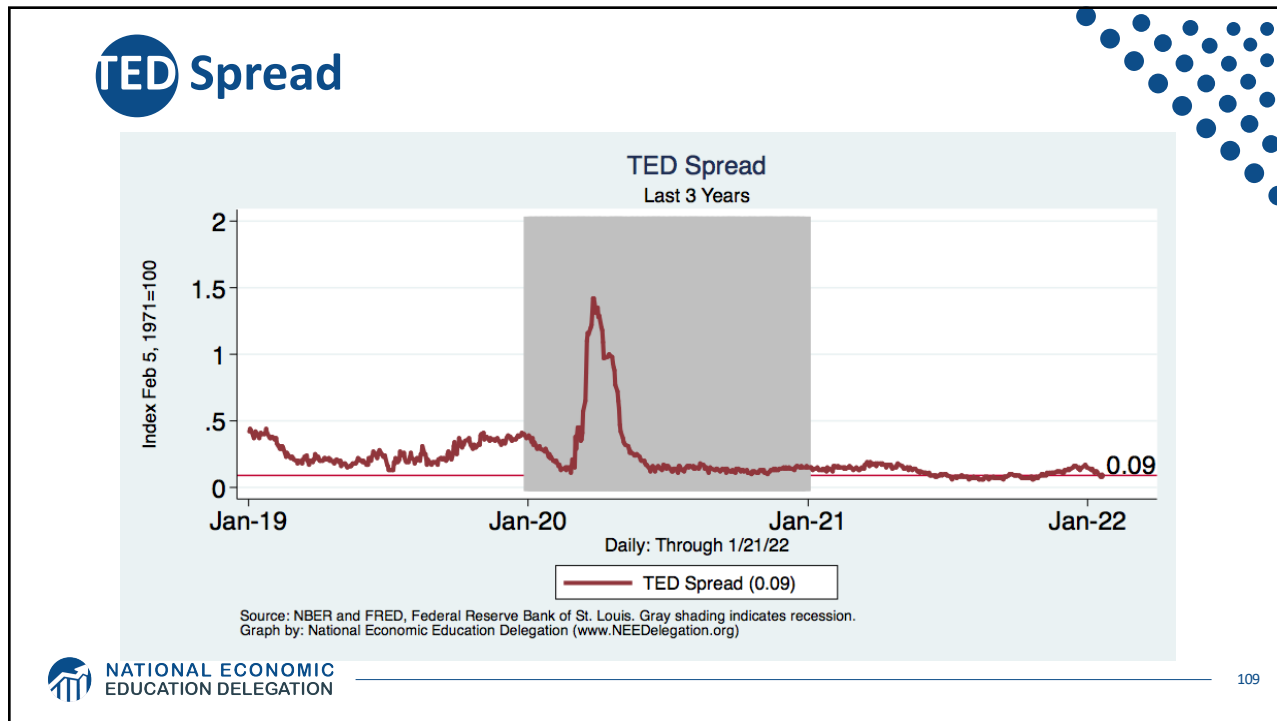
Mortgage Rates



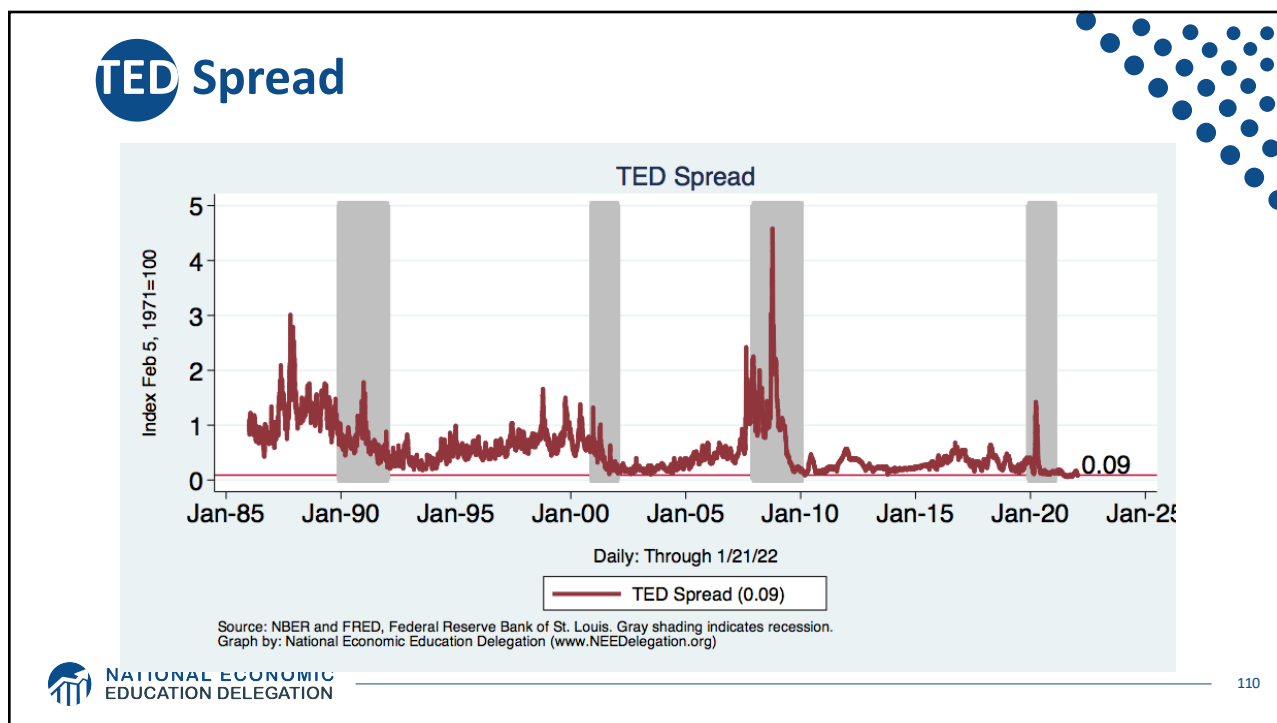
NATIONAL ECONOMIC
EDUCATION DELEGATION

108

108



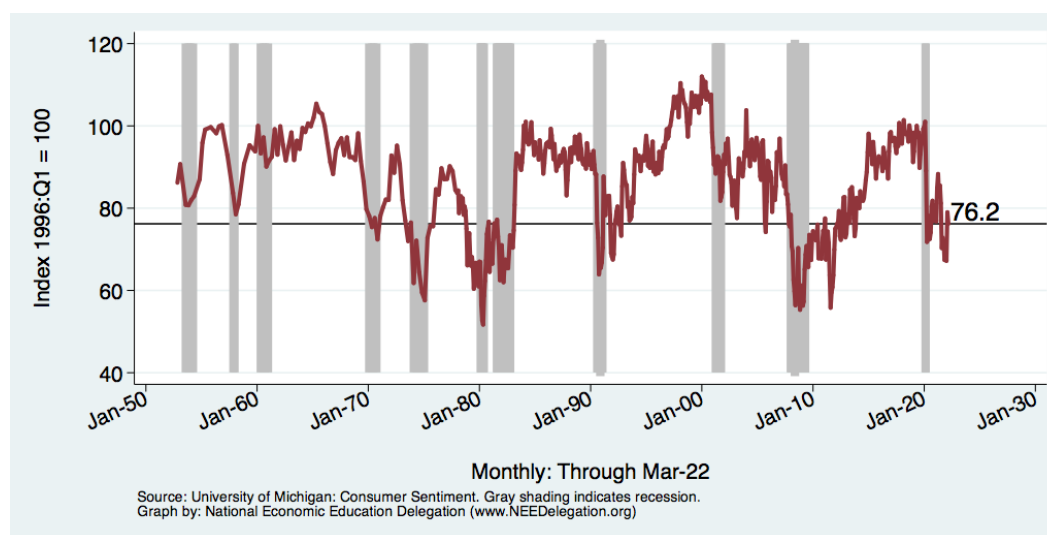
109



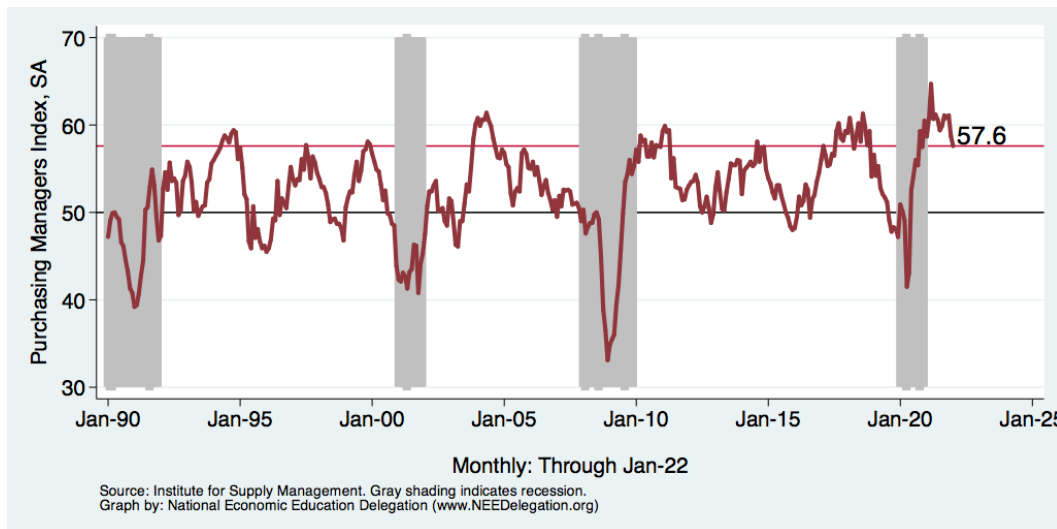
110

Other Indicators

Consumer Confidence: Waning?



Producer Confidence: Gaining Steam?

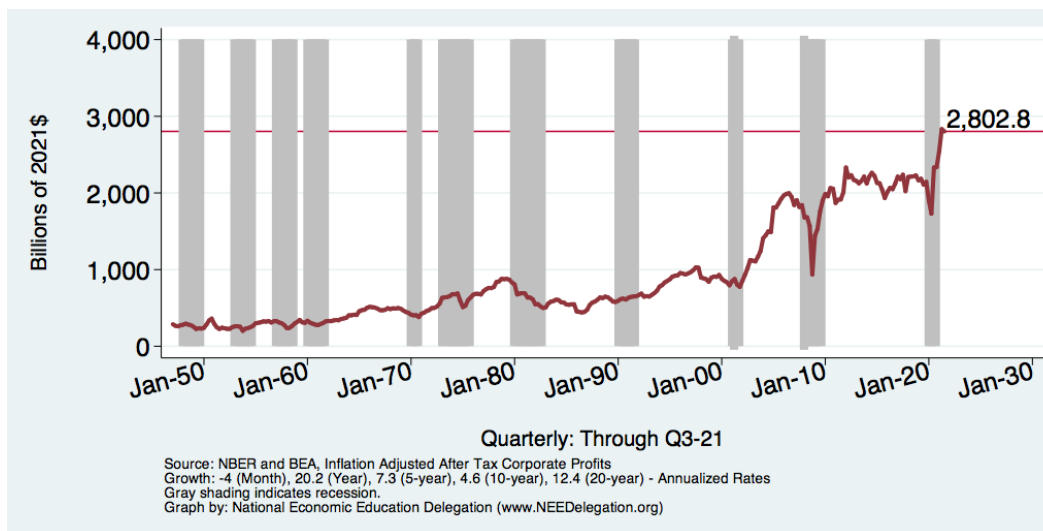


NATIONAL ECONOMIC
EDUCATION DELEGATION

113

113

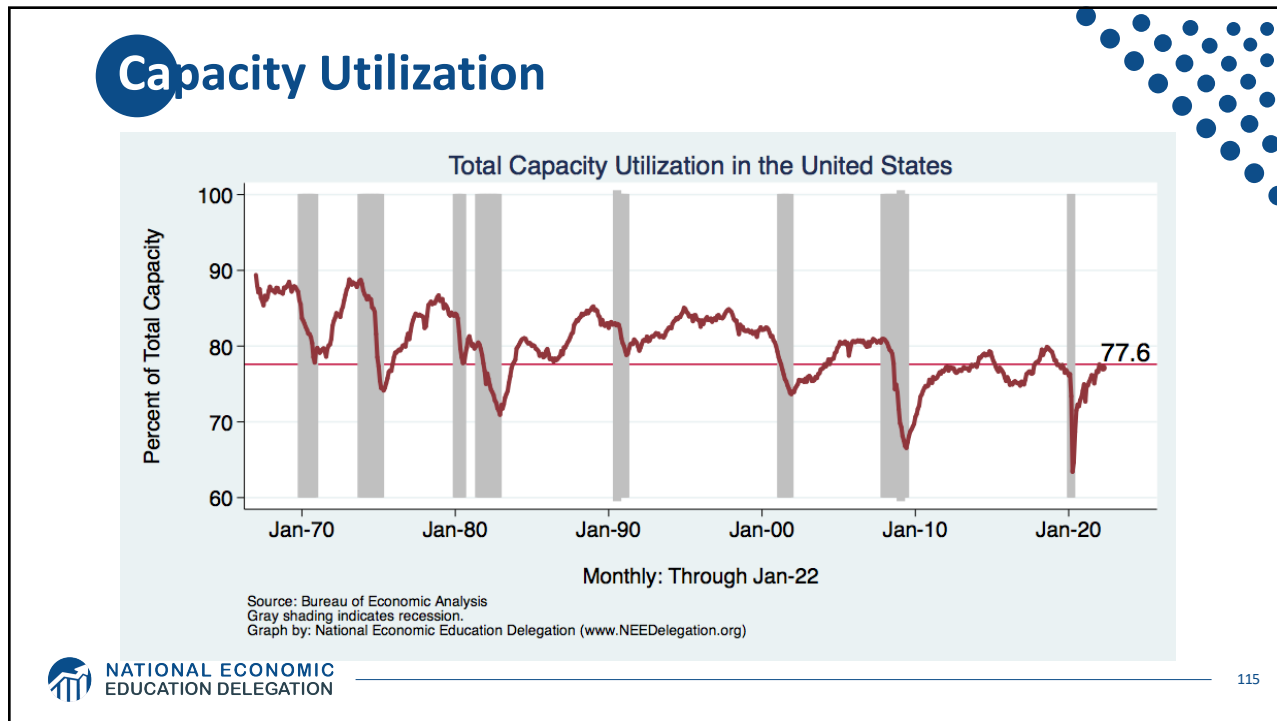
Corporate Profits – Inflation Adjusted



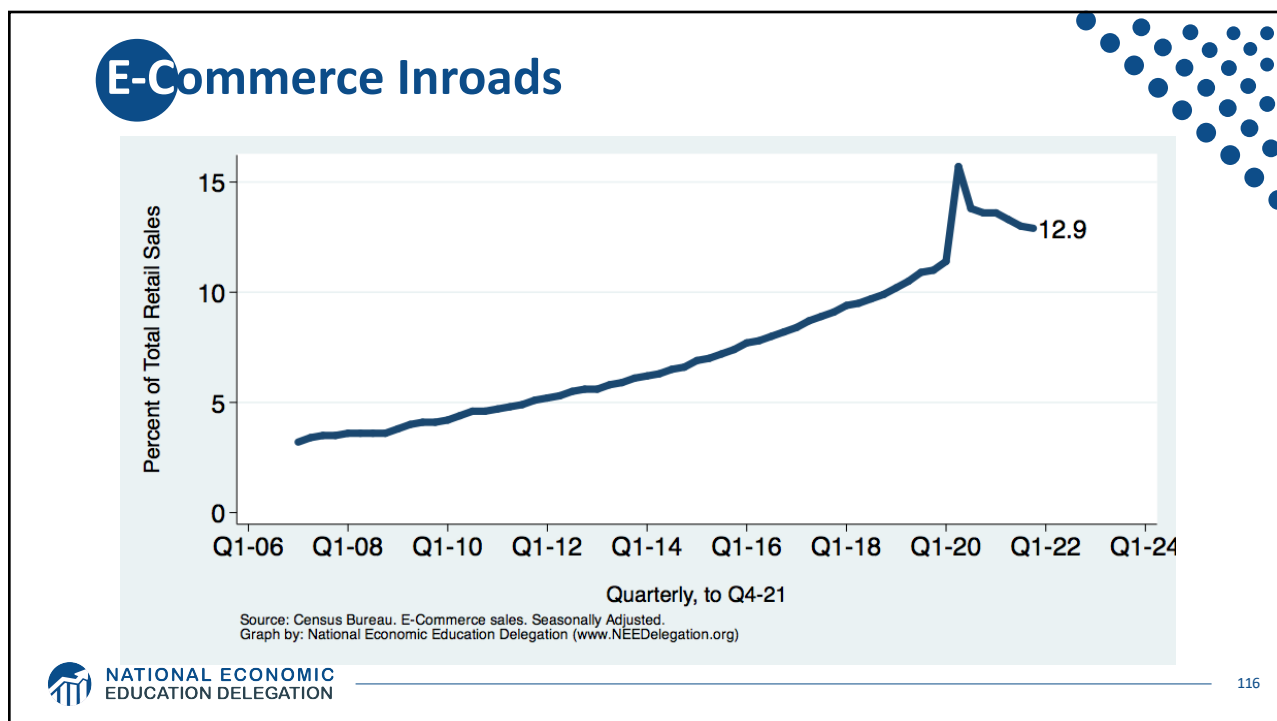
NATIONAL ECONOMIC
EDUCATION DELEGATION

114

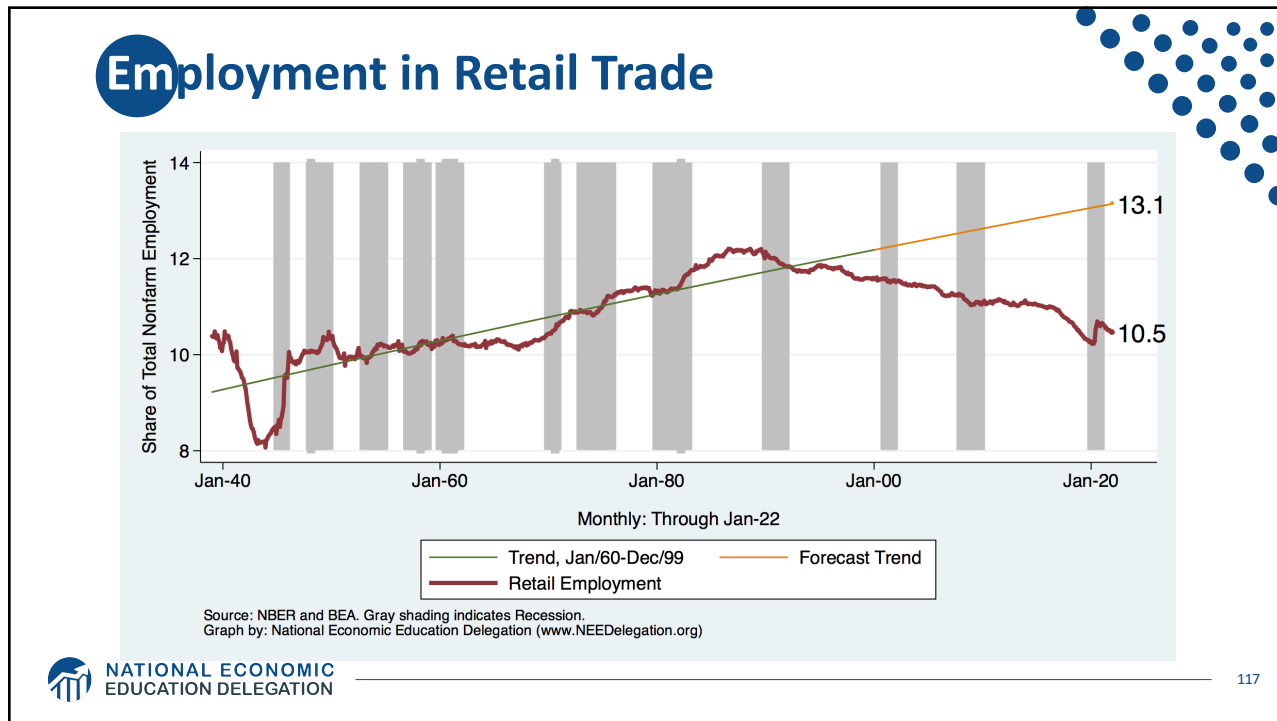
114



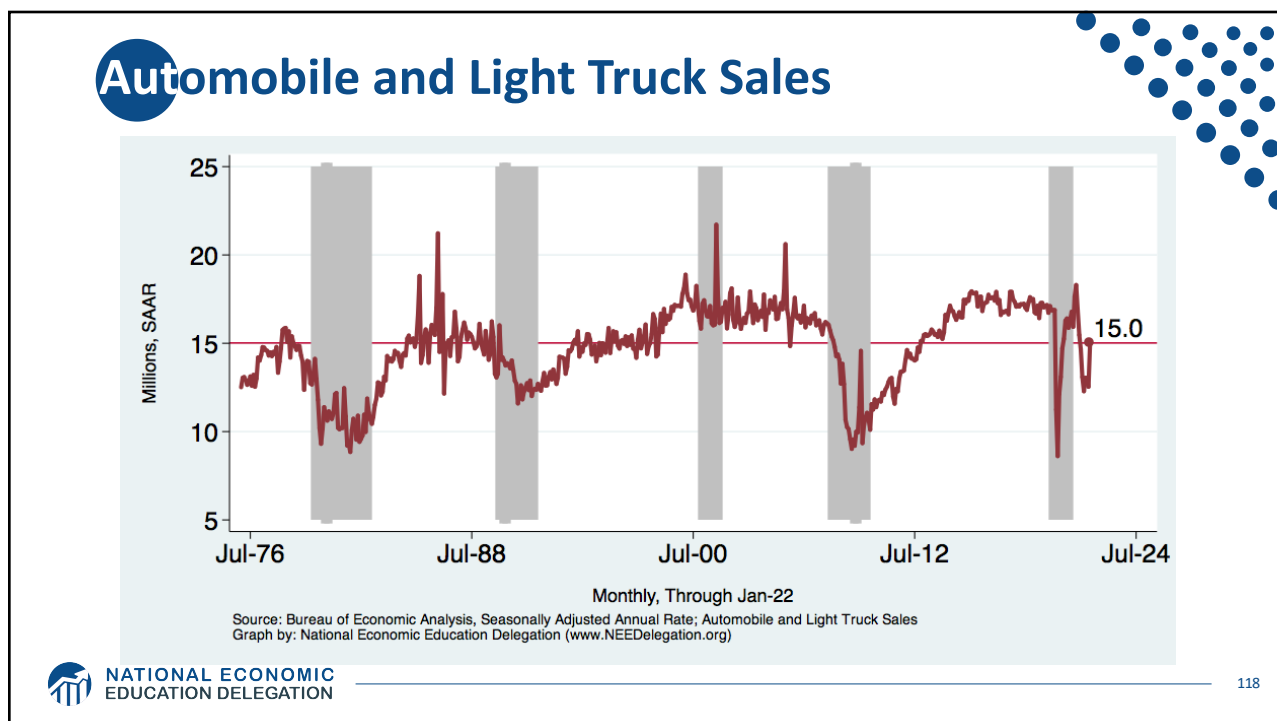
115



116



117



118

Stock Markets

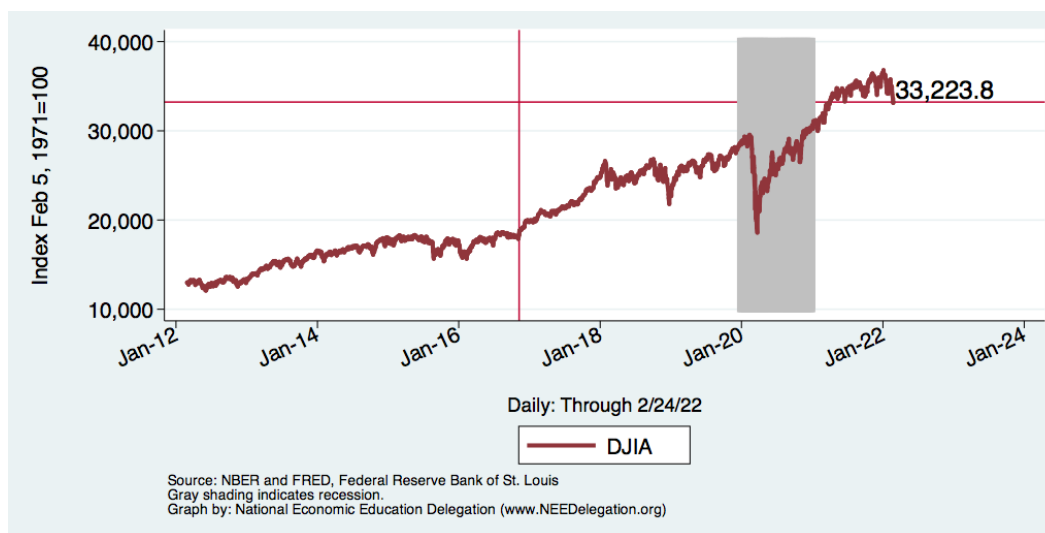


NATIONAL ECONOMIC
EDUCATION DELEGATION

119

119

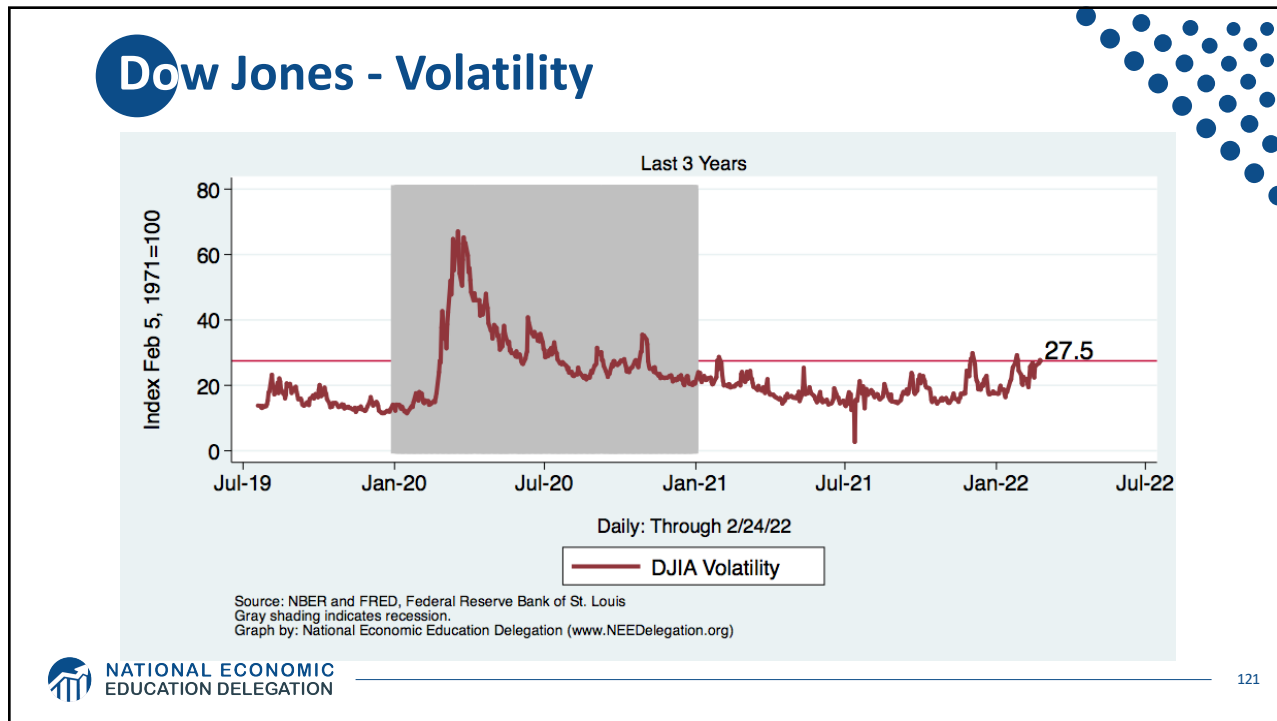
Dow Jones



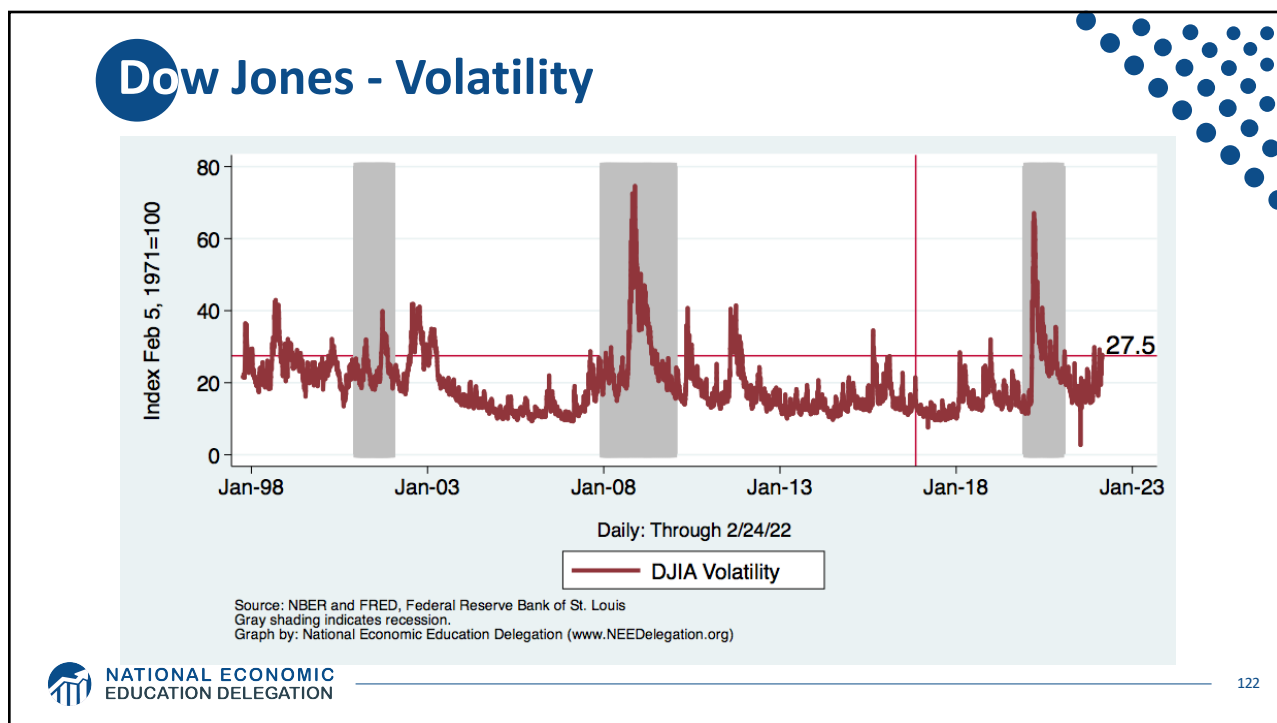
NATIONAL ECONOMIC
EDUCATION DELEGATION

120

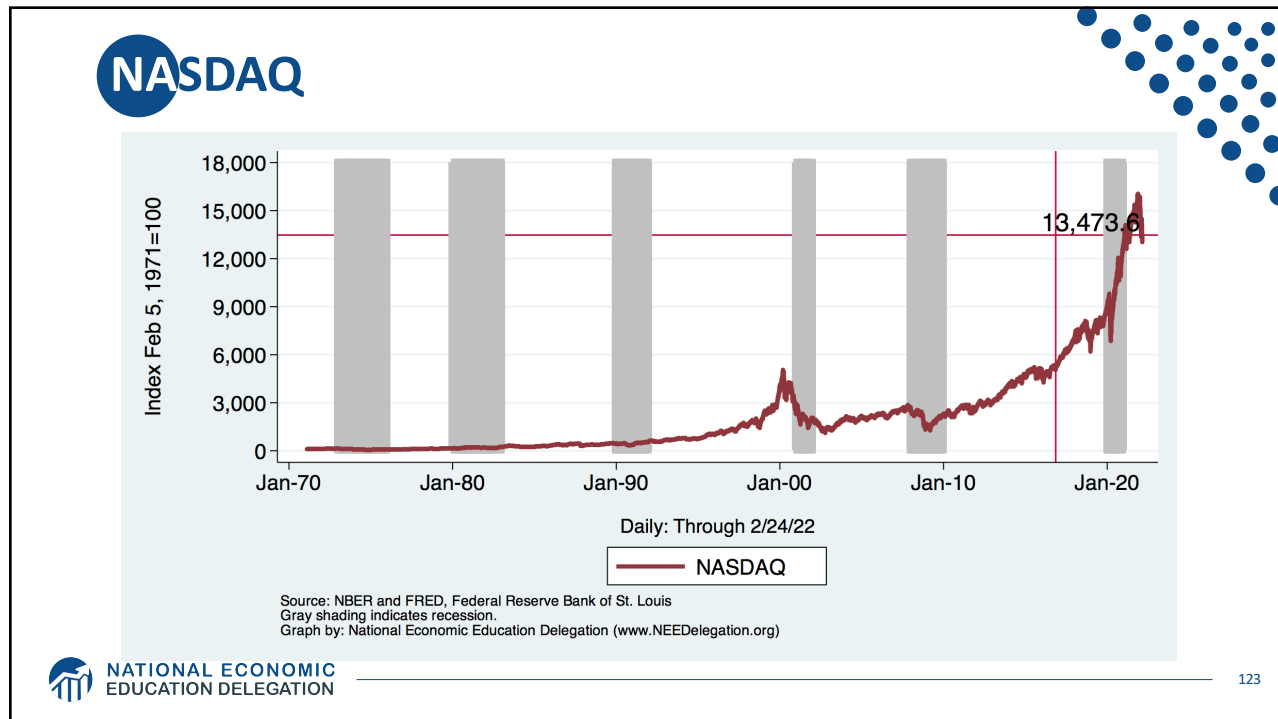
120



121



122



123

Summary of GDP, Employment and Monetary Policy

- **Behavior of GDP**
 - Behavior of expenditure components matter.
 - On average, post-recession consumption, government, and export expenditures are contributing less to GDP therefore slowing the recovery.
 - In contrast, investment expenditures are contributing more.
- **Labor Market**
 - Unemployment is low, labor force participation is stagnant
 - Real wages may be starting to grow.
- **Monetary Policy**
 - Interest rates are rising.
 - Policy normalization is underway.

NATIONAL ECONOMIC EDUCATION DELEGATION

124

124

Things to Be Worried About

- Yield Curve
- Government Debt
- Growth Abroad
- Income and Wealth Inequality
- Infrastructure
- Savings
- Policy Uncertainty
 - Trade and immigration policy, especially



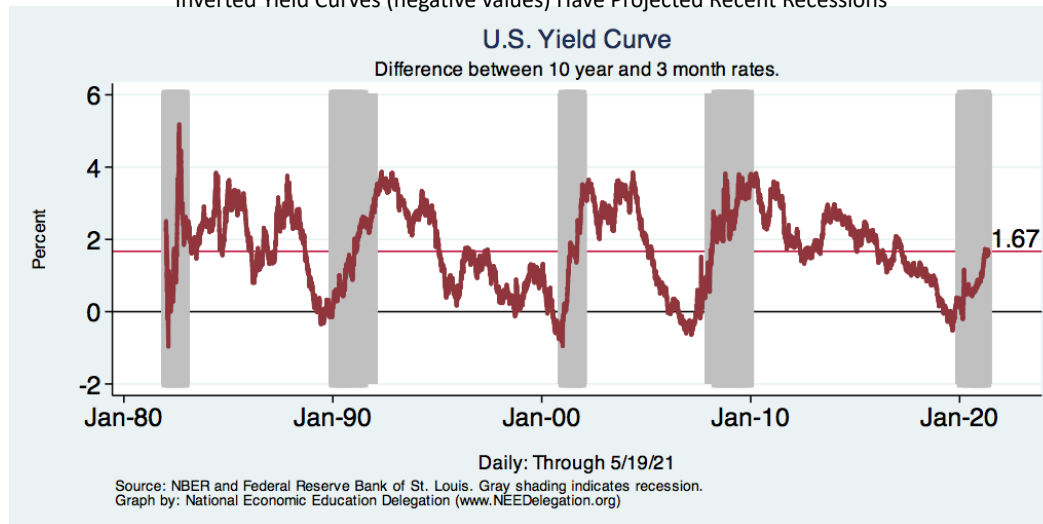
NATIONAL ECONOMIC
EDUCATION DELEGATION

125

125

Alarming Compression of Interest Rates

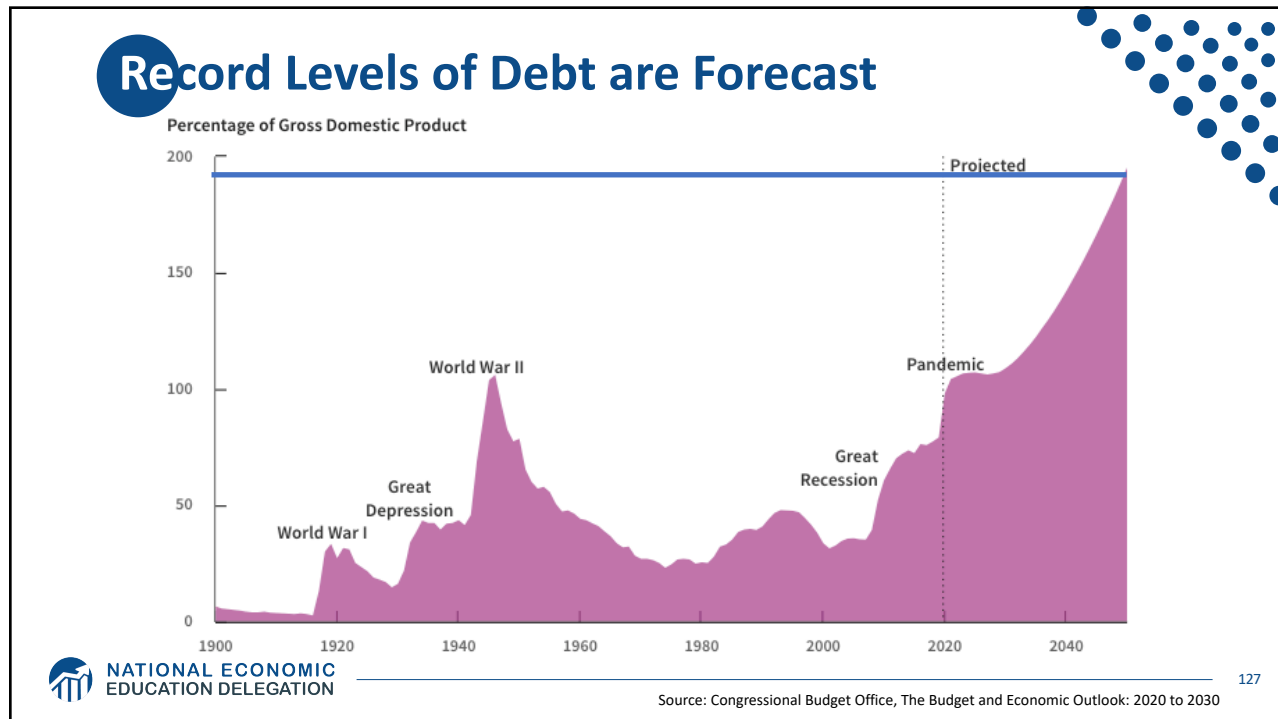
Inverted Yield Curves (negative values) Have Projected Recent Recessions



NATIONAL ECONOMIC
EDUCATION DELEGATION

126

126



127

Cautious Outlook

- Job growth remains robust
- Labor force is in decline
- Wage growth, but not too much
- Business investment is robust, but will uncertainty bite?
- Inflation and interest rates remain favorable
- Potential source of concern:
 - Auto and light truck sales are slowing
 - Home building is slowing

NATIONAL ECONOMIC EDUCATION DELEGATION

128

128

Overall Summary

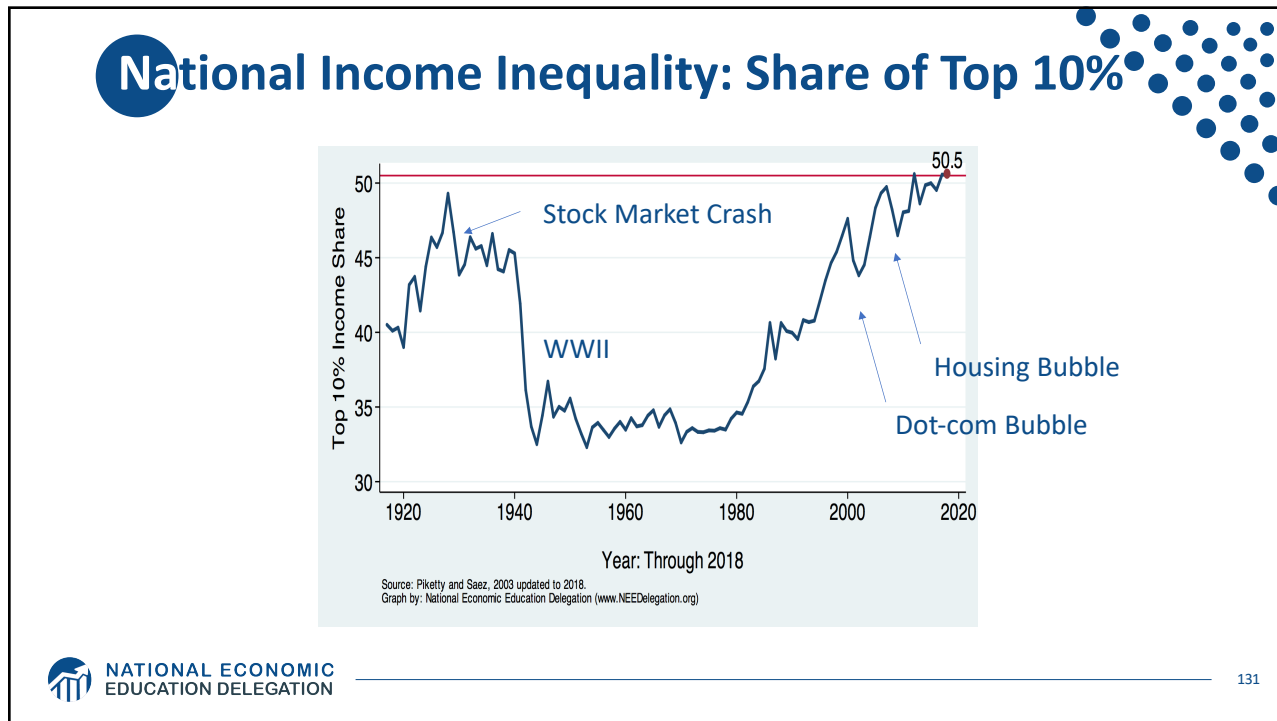
- **Tailwinds and headwinds both exist**
 - Economic forecasts for near term are favorable
 - Later 2019 and 2020 forecasts are less sanguine
- **There remains room for the economy to grow**
 - Labor force growth is available
 - Consumption has room to grow, but there is evidence of slowing
 - Business investment may be slowing
 - Return to productivity growth? But how? What's the next big idea?
- **Long term concerns unaddressed**
 - Demographics, climate change
 - Federal government debt
 - International trade policy

129

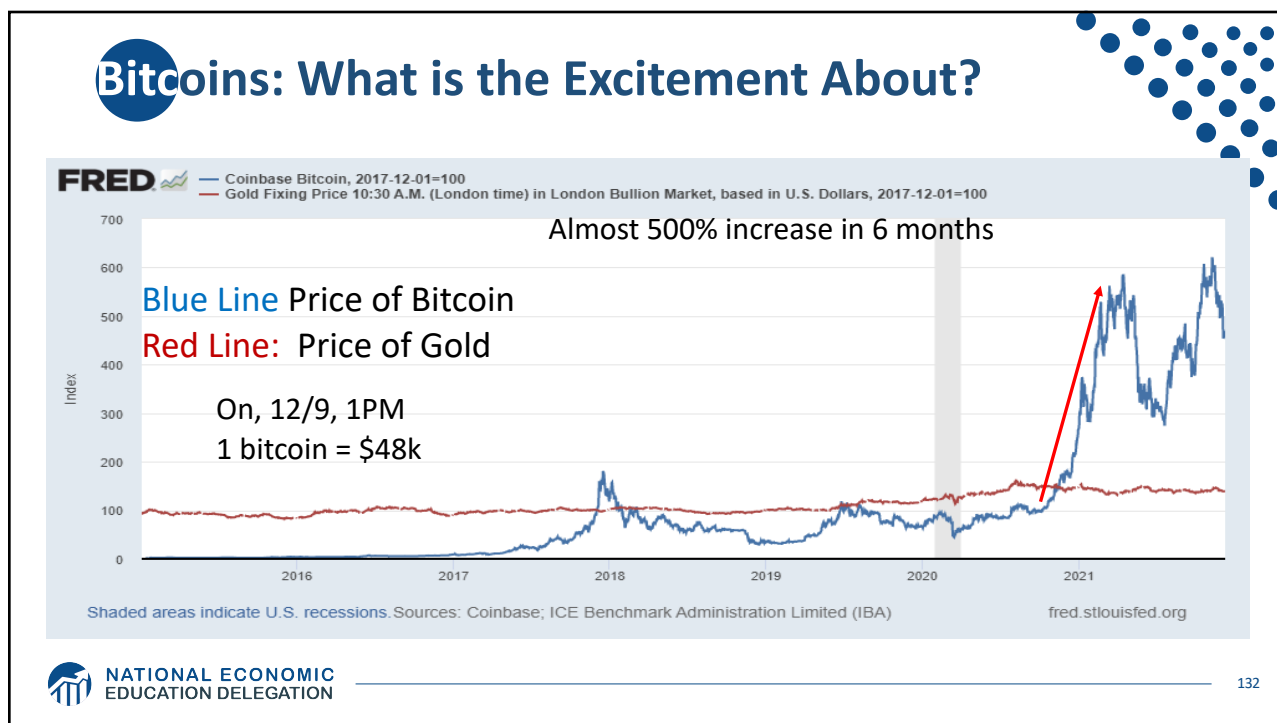
Course Outline

- **Contemporary Economic Policy**
 - **Week 1 (2/28): US Economy & Coronavirus Economics**
 - Week 2 (3/7): Economic Inequality (Brian Peterson, Central College)
 - Week 3 (3/14): Cryptocurrencies (Geoffrey Woglom, Amherst College)
 - Week 2 (3/21): Autonomous Vehicles (Jon Haveman, NEED)

130



131



132

Autonomous Vehicles



Thank you!

Any Questions?

www.NEEDelegation.org

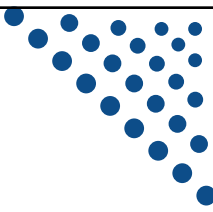
<presenter name>

<presenter email>

Contact NEED: info@needelegation.org


Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php



www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.

 NATIONAL ECONOMIC
EDUCATION DELEGATION

135

135



Available NEED Topics Include:

- US Economy
- Economic Inequality
- Climate Change
- US Social Policy
- Trade and Globalization
- Economic Mobility
- Trade Wars
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles

 NATIONAL ECONOMIC
EDUCATION DELEGATION

136

136