

INFLATION



The U.S. Economy - Overview

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NEED

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Outline

- The U.S. Economy
- Gross Domestic Product (GDP)
- Employment and Unemployment
- Inflation
- The Federal Reserve



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Some Basic Statistics, February 2024

Statistic:	Value
Population	336.1 Million
Labor Force	167.3 Million
Employment	157.7 Million
Gross Domestic Product (GDP)	\$27.9 Trillion
Income per Capita	\$69,329
Ave. Hourly Earnings	\$34.55



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How Do We Measure the Economy?

- **Gross Domestic Product (GDP)**

- GDP is the market value of all final goods and services produced within a country in a given period.
 - o (Value added)

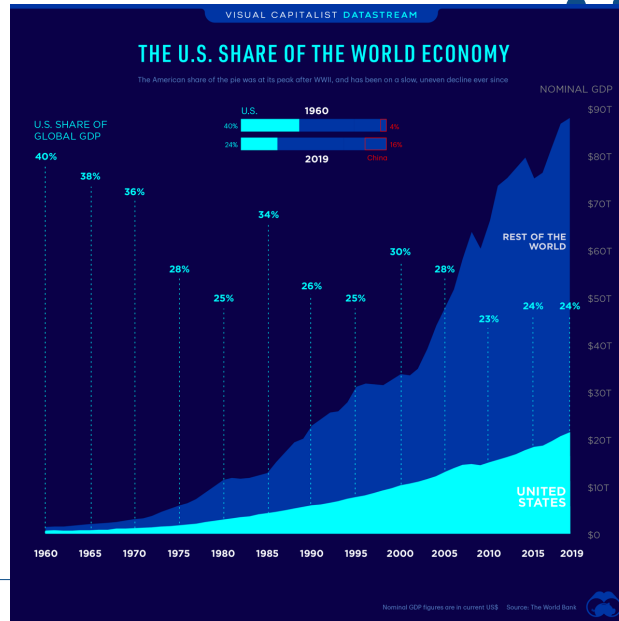


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U.S. Economy in Global Perspective

U.S. Nominal GDP:

\$21.901 trillion in 2019-Q4
\$19.913 trillion in 2020-Q2
\$27.939 trillion in 2024-Q1



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US States Renamed for Countries with Similar GDPs (2019)



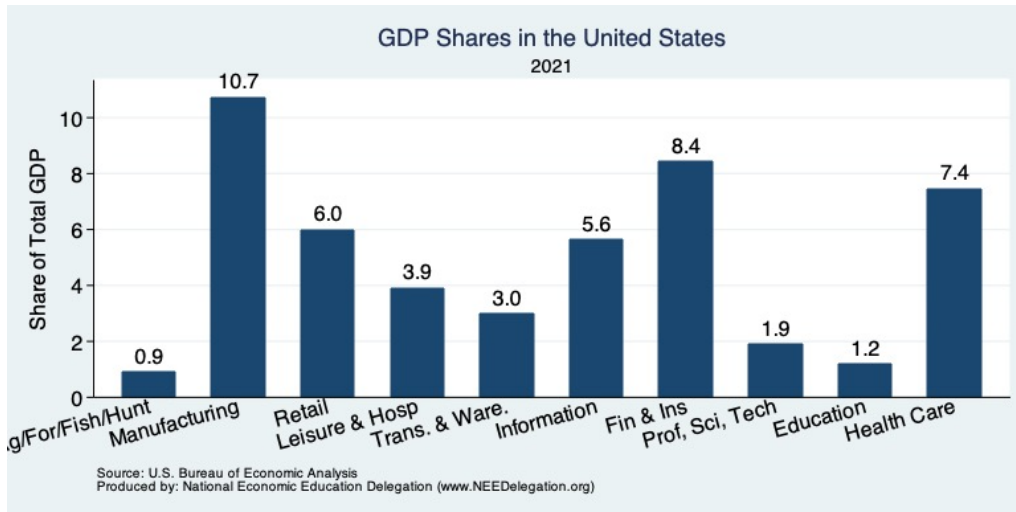
Sources: Bureau of Economic Analysis and International Monetary Fund.



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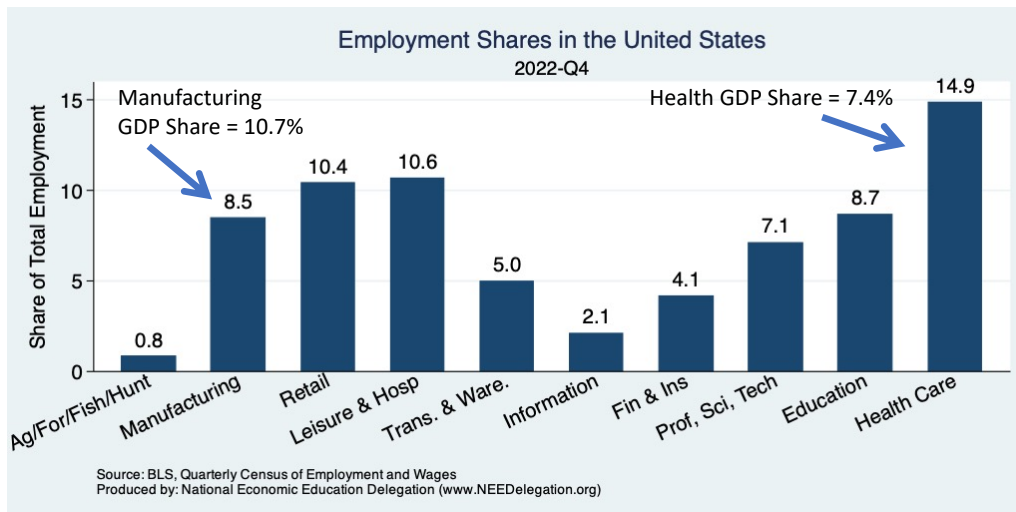
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Composition of the U.S. Economy: GDP



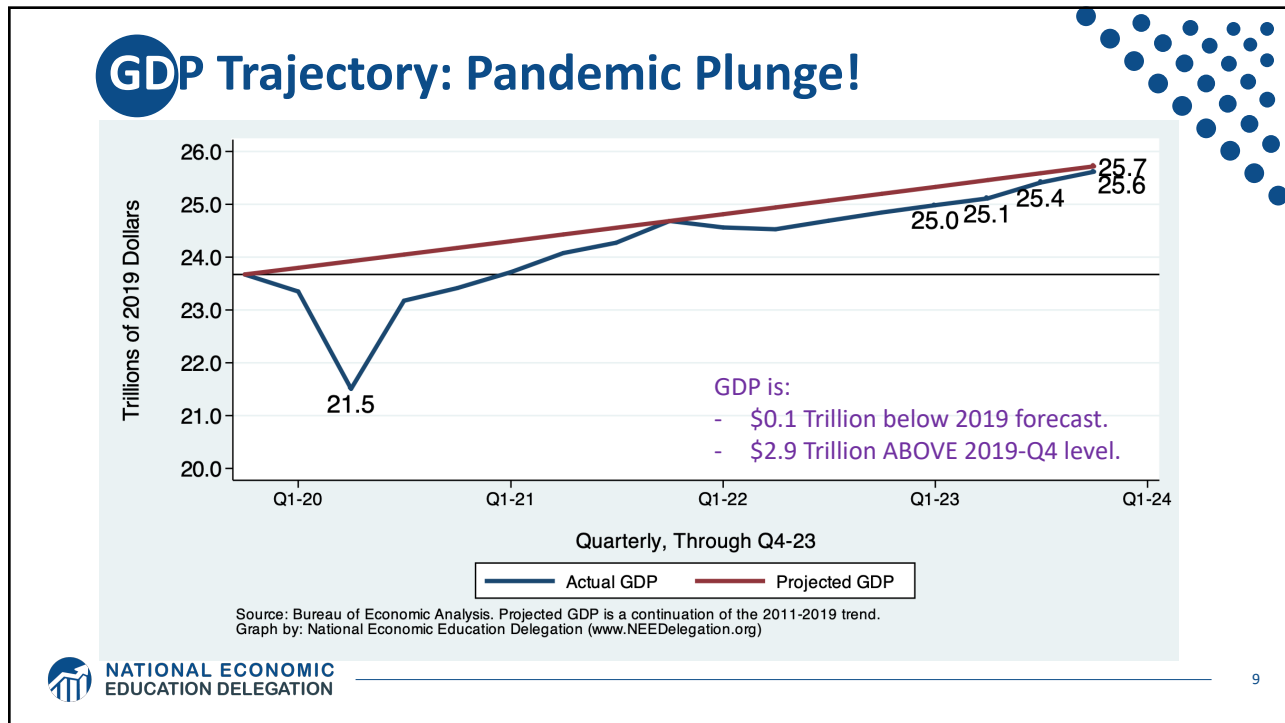
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Composition of the U.S. Economy: Employment

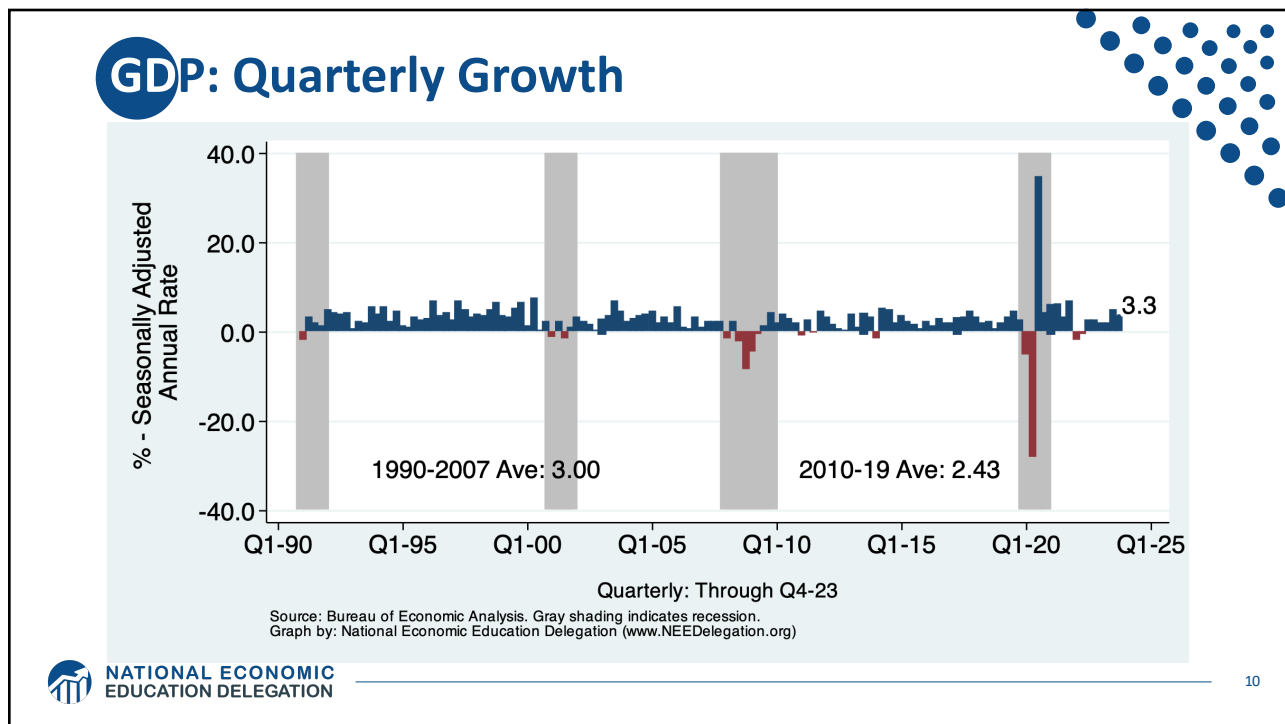


Note: Does not add to 100% because of omitted sectors.

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What Determines GDP?

Demand

- Consumption
- Investment
- Government
- International Trade

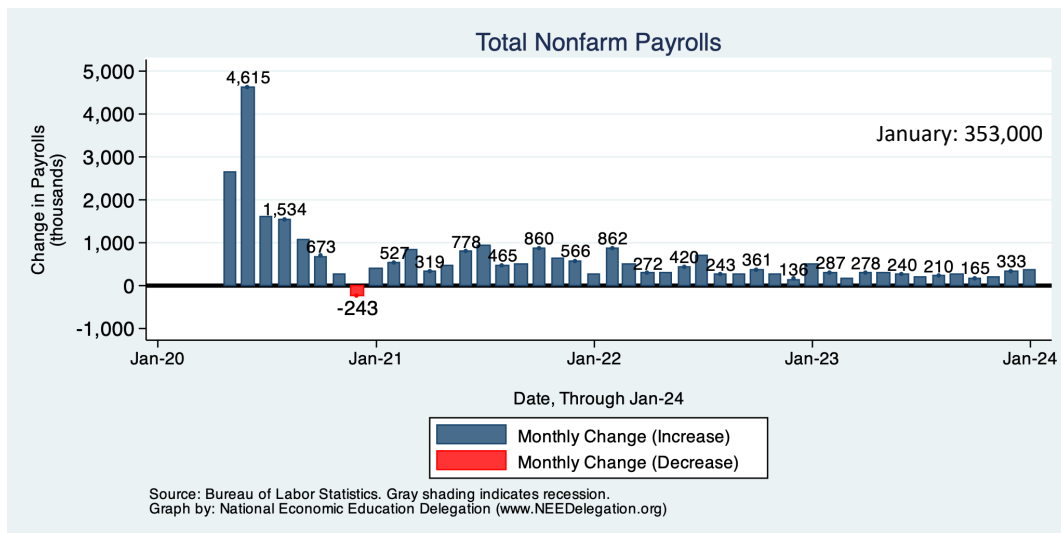
Supply

- Labor
- Capital
- Natural Resources
- Entrepreneurship

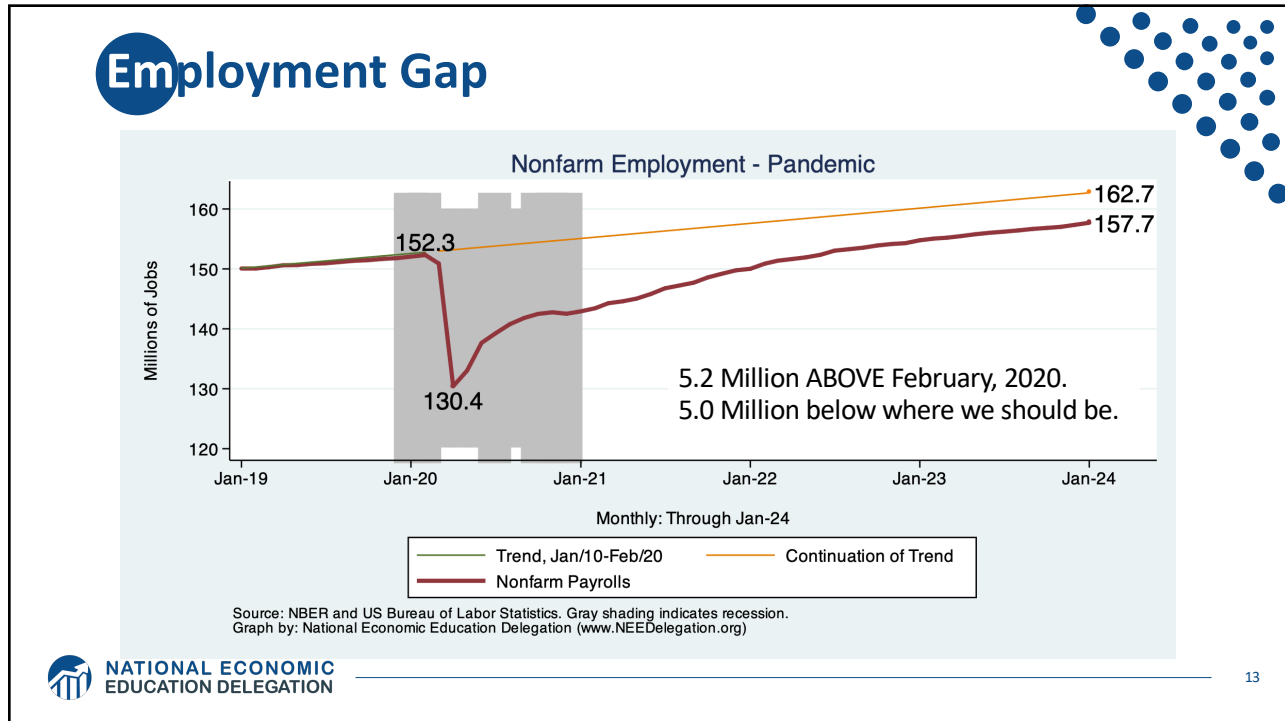


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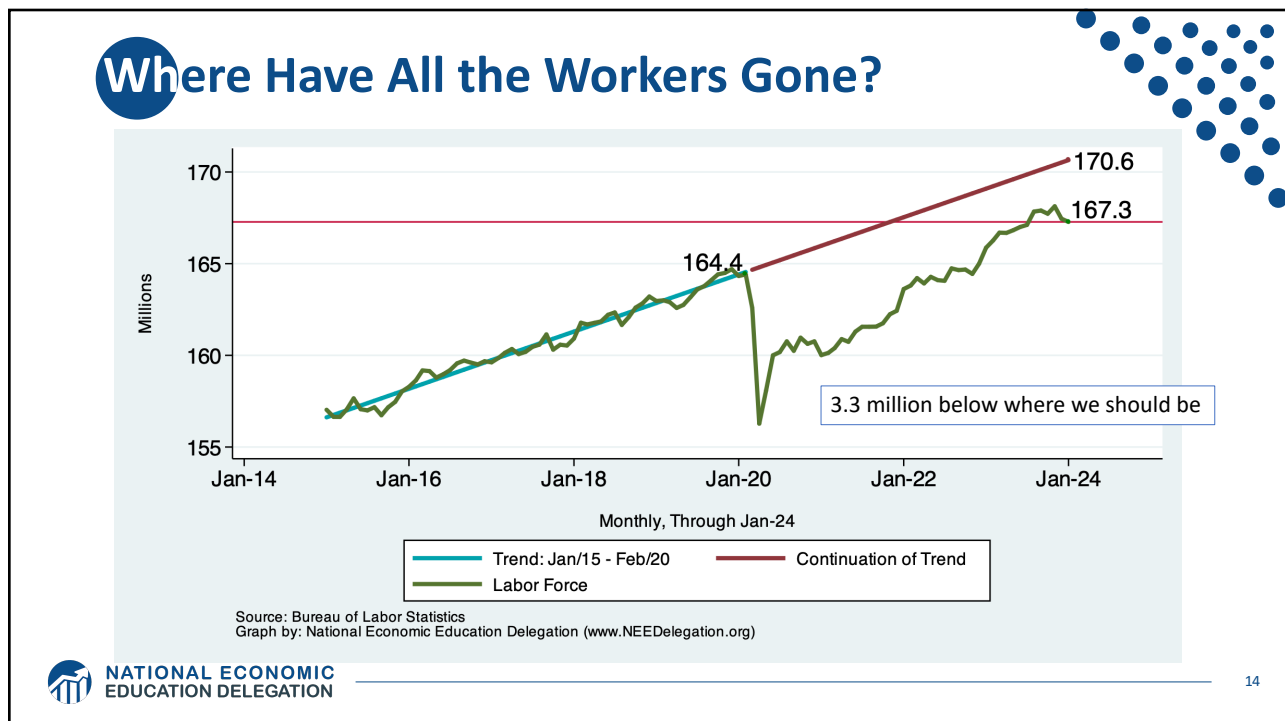
Monthly Changes in Nonfarm Employment



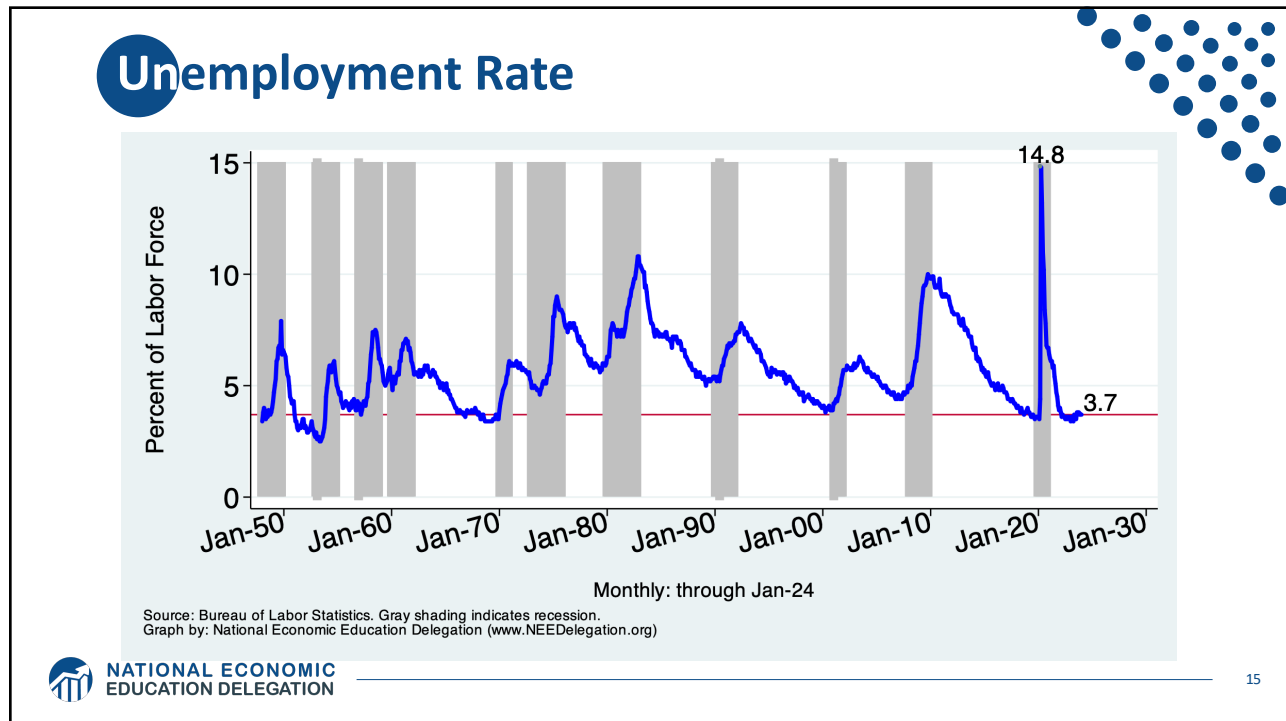
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How is the Unemployment Rate Calculated?

- 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.

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Inflation



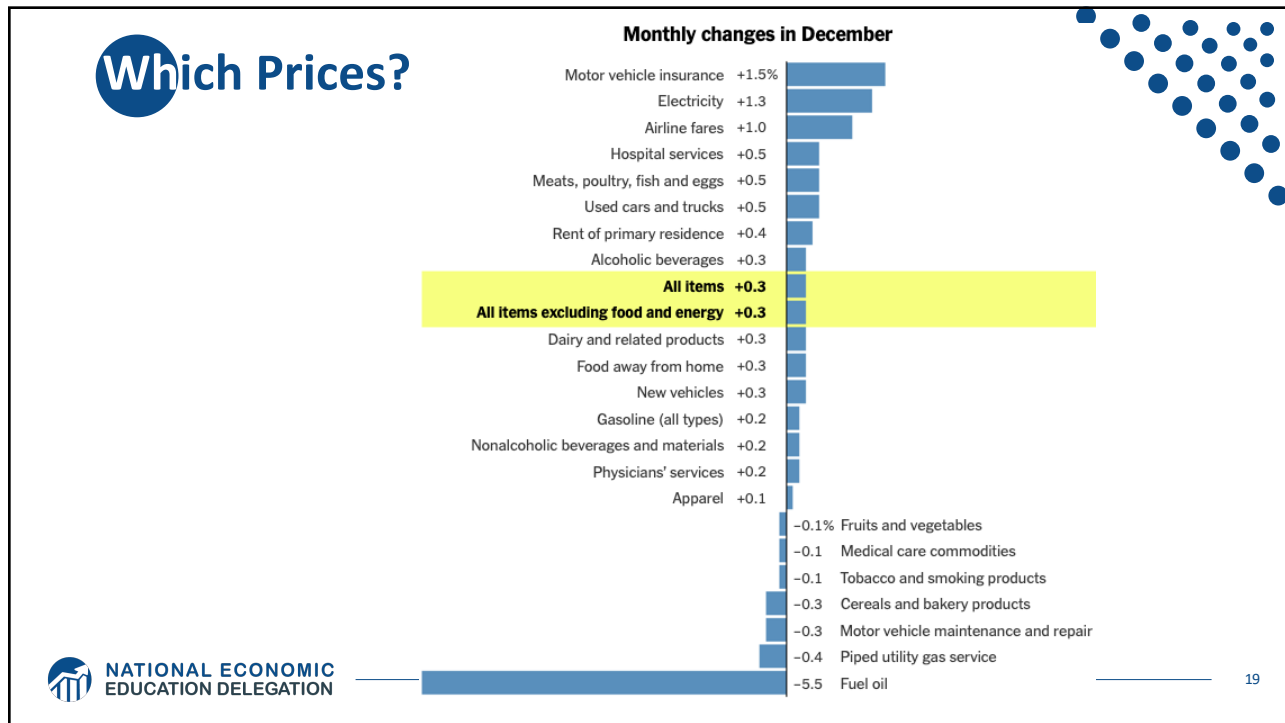
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Inflation: Latest Figures

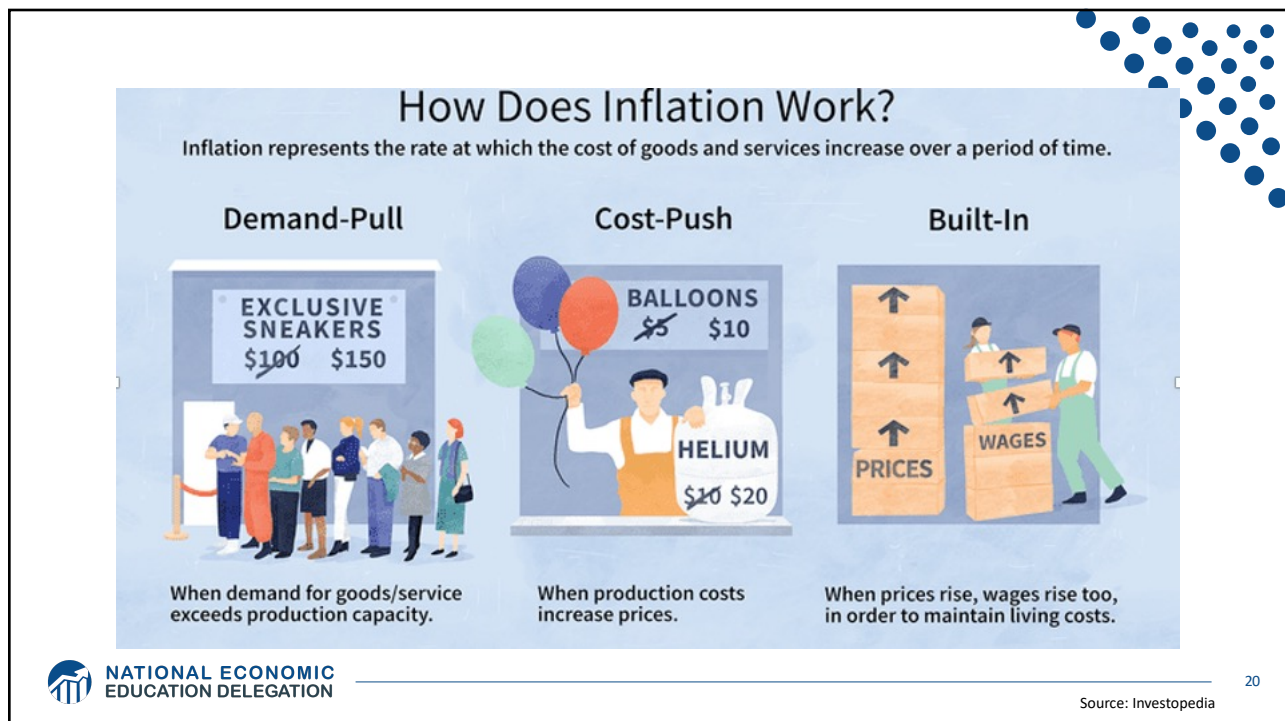


Year-over-year change in the Consumer Price Index - By Ella Koeze

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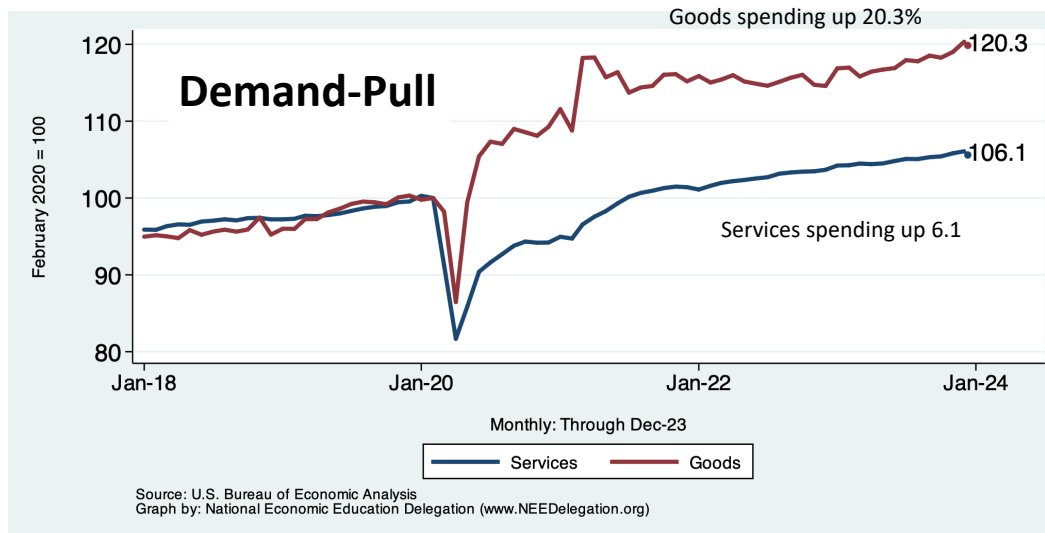


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Spending Patterns Changed - More Goods!

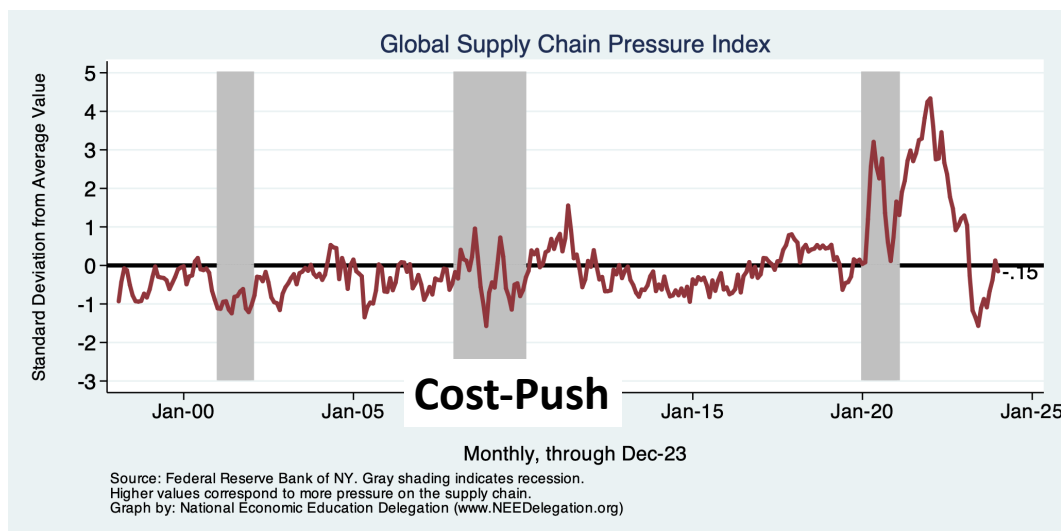


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Supply Chains



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Why Did we get the Surge in Inflation?

- **Spending patterns have changed dramatically. (Demand pull)**
- **Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips). (Cost push)**
 - Computer chips was also demand pull – Bitcoin!
- **But there was also too much total spending.**
 - The government spent \$5 TRILLion protecting us from the pandemic's effects.



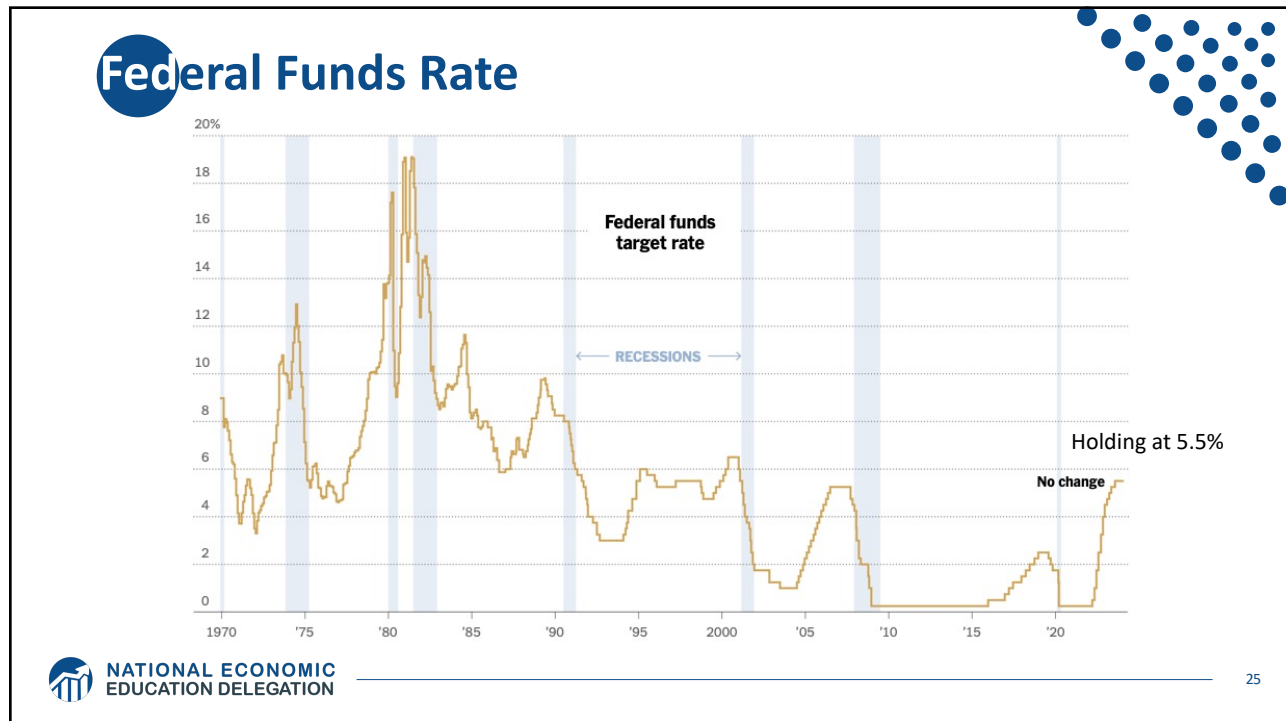
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What's the Fed Doing About It?

Fed = Federal Reserve




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Implications for Demand: Reduced

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

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Takeaways

- **The U.S. economy is in good shape!**

- GDP growth is strong.
- Employment growth is strong.
- Inflation is coming down – almost to the Fed’s target (2%).

- **Our biggest problems?**

- Labor force is not growing.
 - That slows the economy and creates cost-push inflation.
- War?



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