

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
- Uncertainty in Policy



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Some Basic Statistics, February 2025

Statistic:	Value
Population	341.3 Million
Labor Force	168.5 Million
Employment	159.5 Million
Gross Domestic Product (GDP)	\$29.7 Trillion
Income per Capita	\$51,822
Ave. Hourly Earnings	\$35.69



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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.

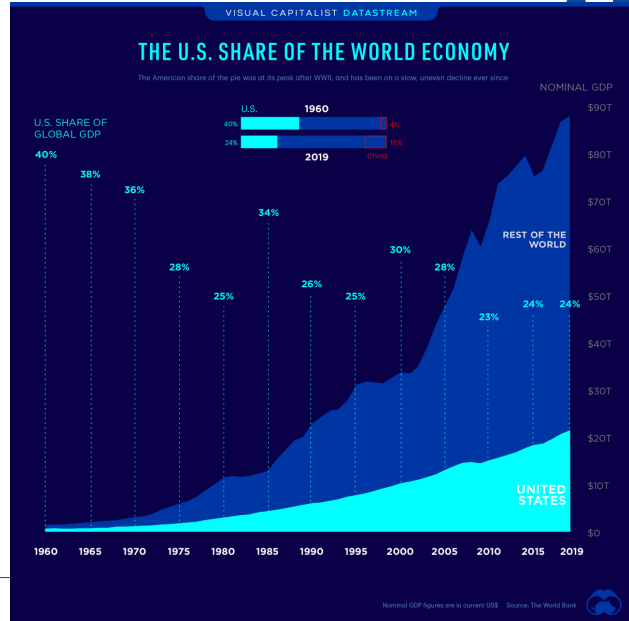


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U.S. Economy in Global Perspective

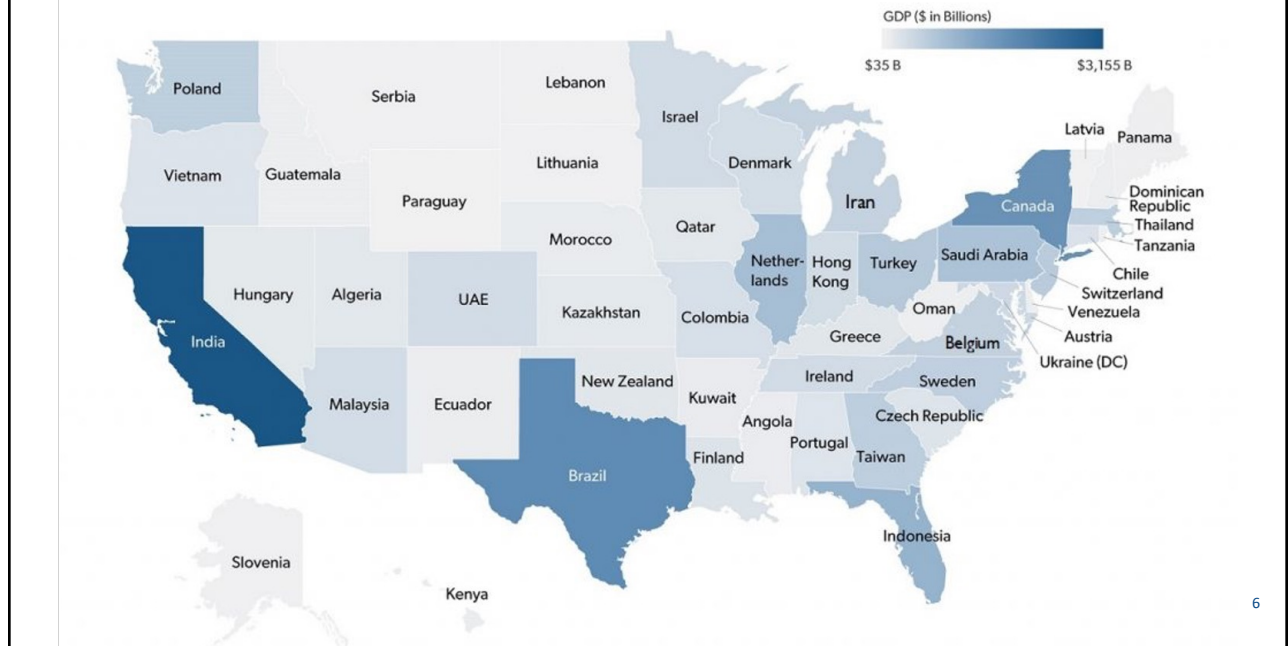
U.S. Nominal GDP:

\$21.901 trillion in 2019-Q4
\$19.913 trillion in 2020-Q2
\$29.701 trillion in 2024-Q4



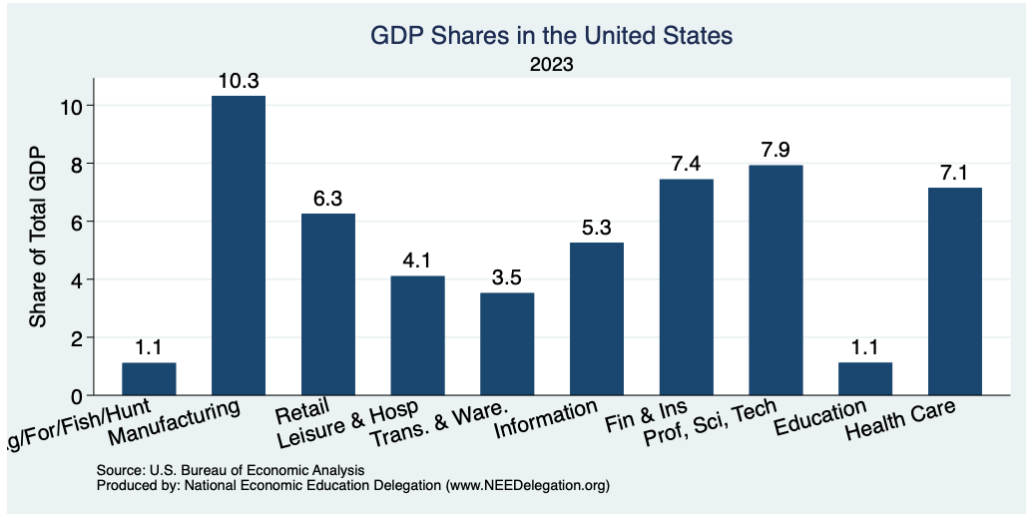
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US States Renamed for Countries with Similar GDPs (2019)



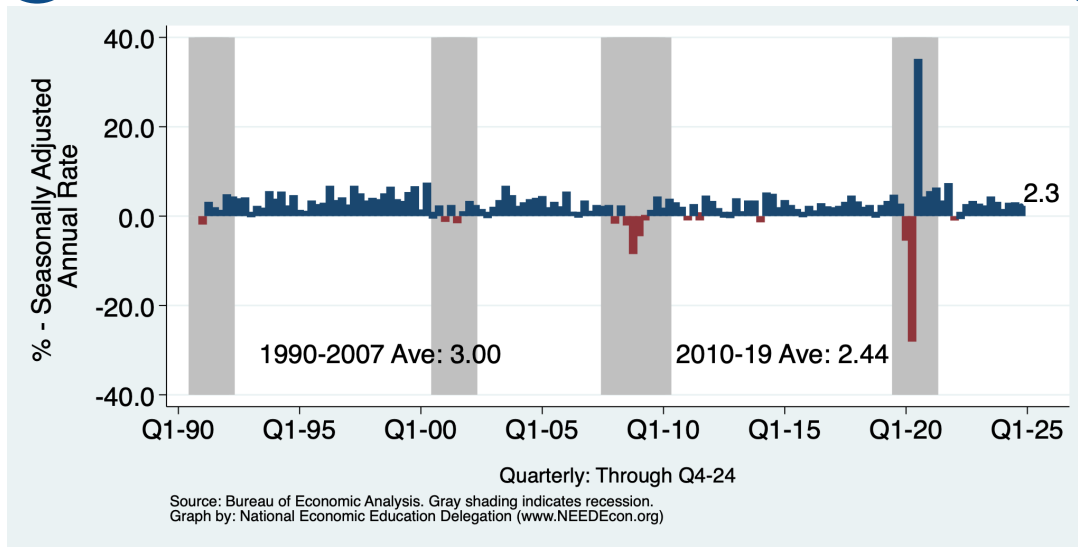
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Composition of the U.S. Economy: GDP



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GDP: Quarterly Growth



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What Determines GDP?

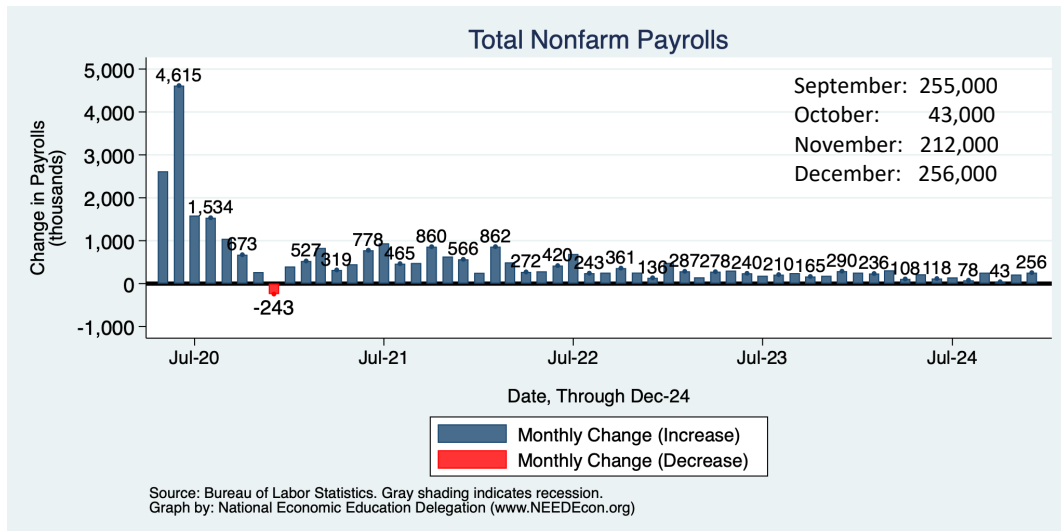
Demand

- Consumption
- Investment
- Government
- International Trade

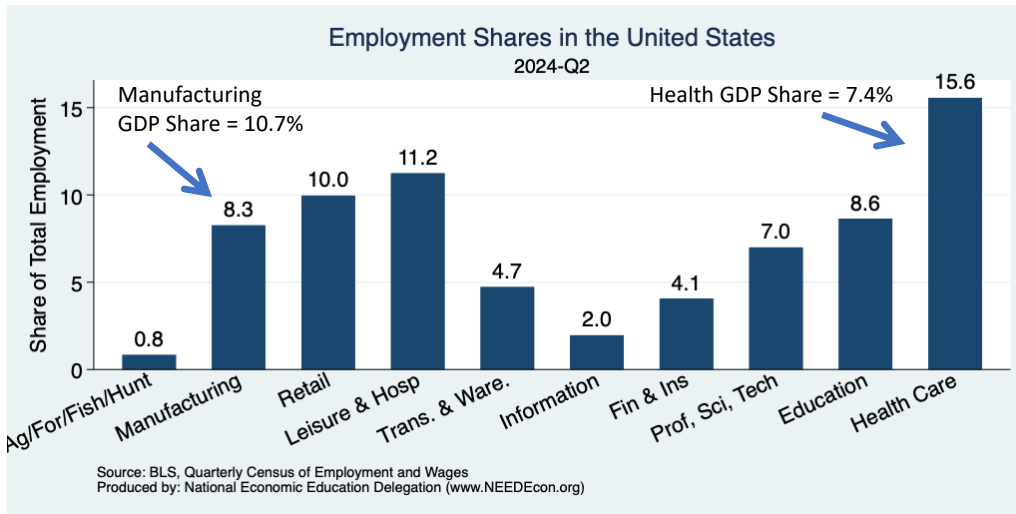
Supply

- Labor
- Capital
- Natural Resources
- Entrepreneurship

Monthly Changes in Nonfarm Employment



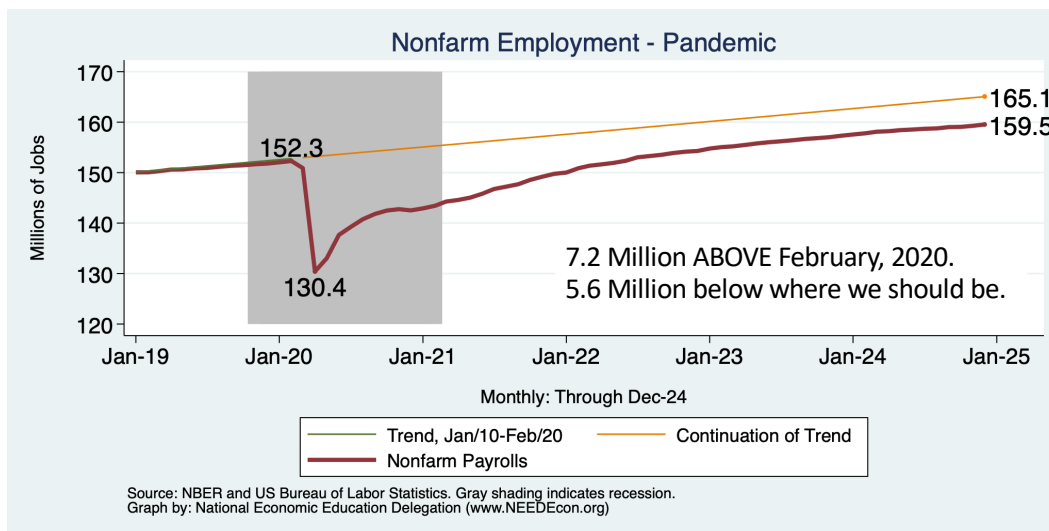
Composition of the U.S. Economy: Employment



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

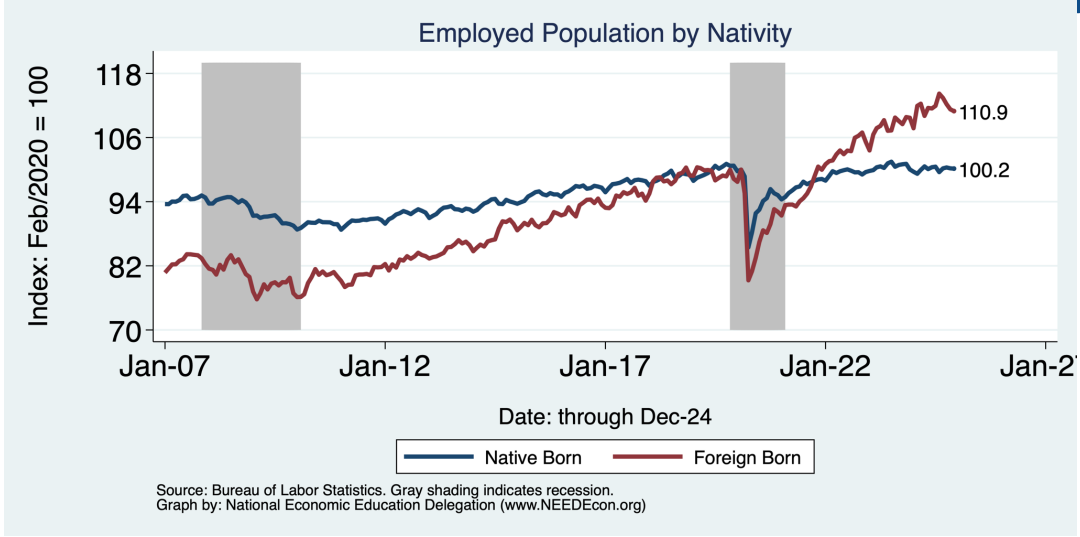
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Employment Gap



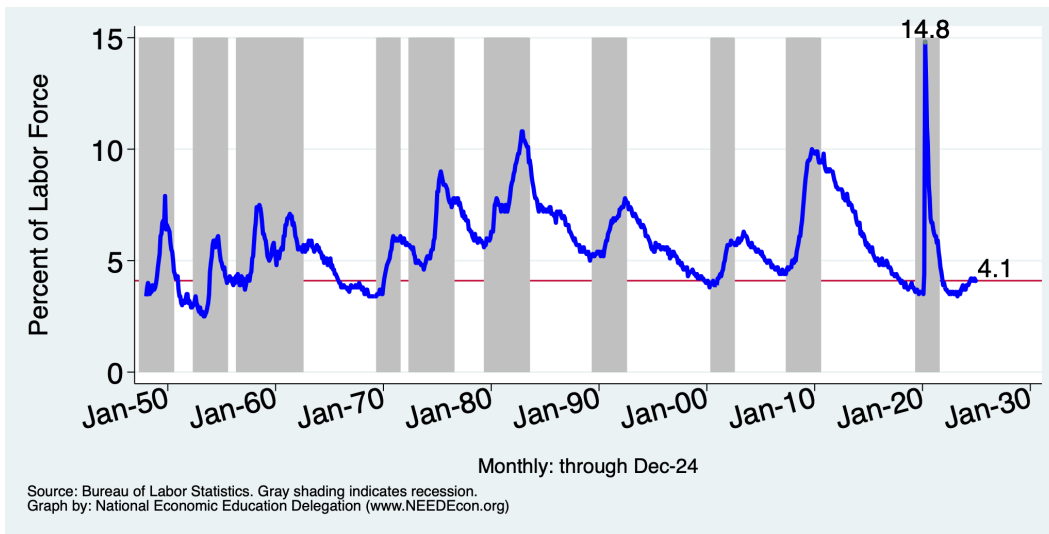
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Immigrants to the Rescue?



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Unemployment Rate



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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.

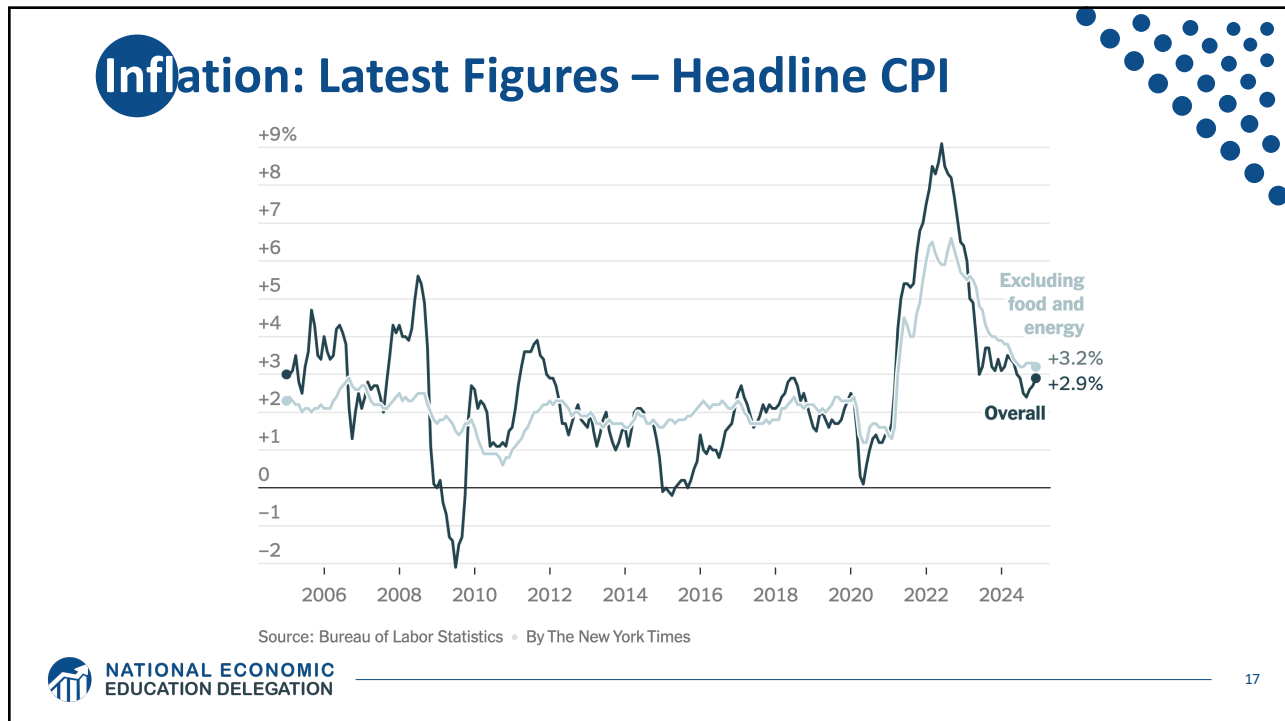


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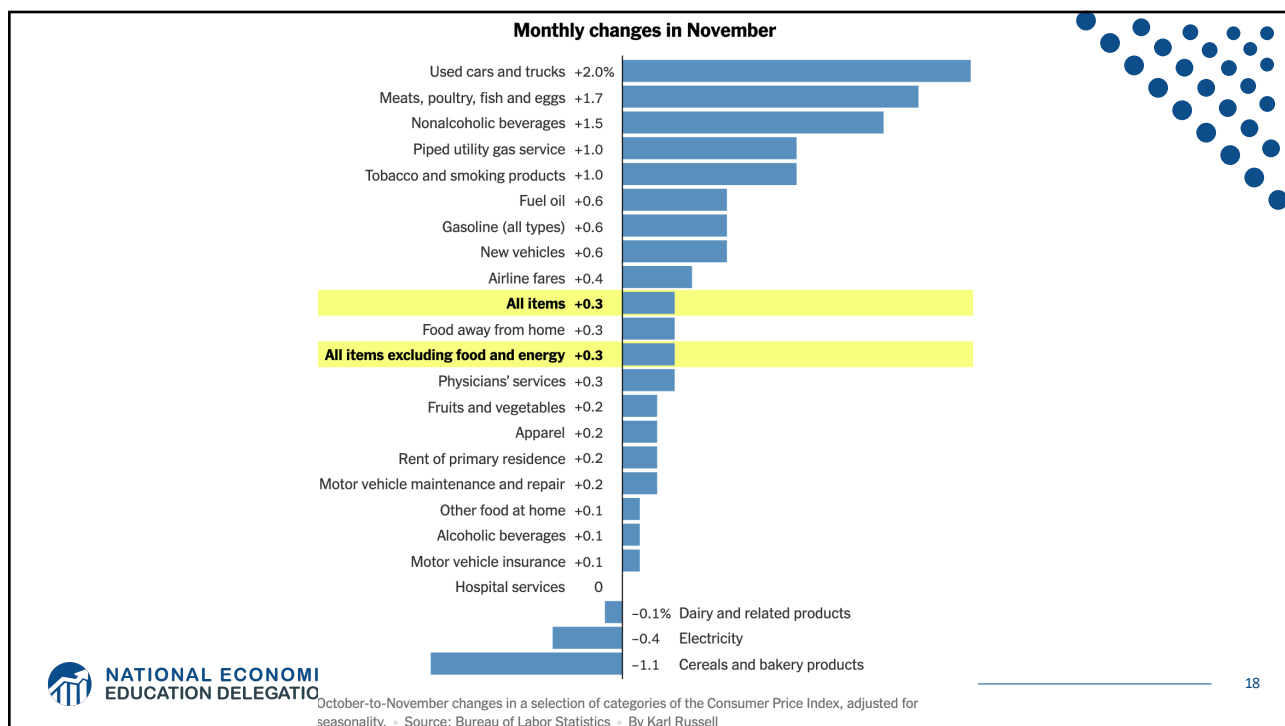
Inflation



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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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19 Source: Investopedia

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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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Takeaways

- **We have achieved a soft landing.**
 - Many indicators are well in the black.
 - 2024-Q3 GDP growth was quite good.
- **Inflation has been (largely) tamed.**
- **Fed is slowing its activity and cutting rates (pausing).**

- **Threats to continued growth:**



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Uncertainties

- **Conflicts in Ukraine and Israel.**
 - Global Supply Chains?
 - Oil Prices?
 - Aid to Ukraine?
- **Asset prices (stocks)**
- **Household balance sheets**
- **Resurgence of inflation**
 - Deportations
 - Tariffs
- **Massive cuts in government spending.**



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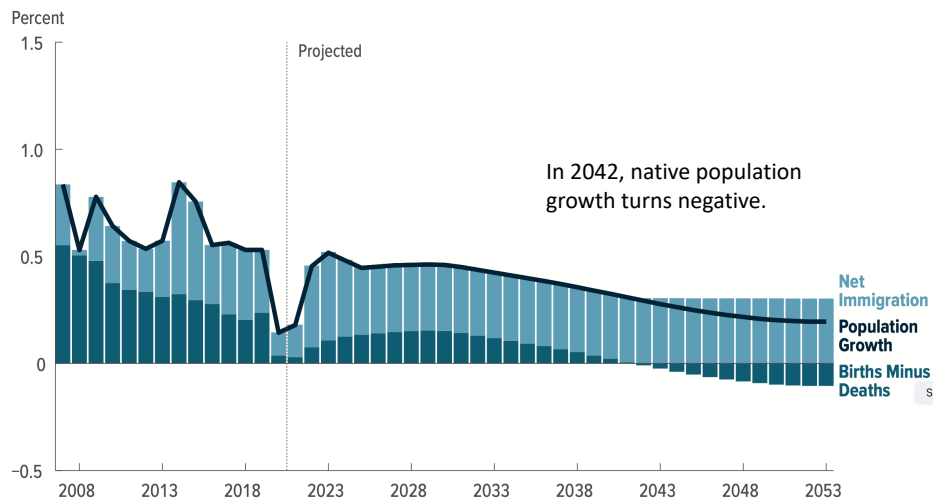
On Deportations

- Immigrants work different jobs than does the native-born population.
- Immigrants contribute to the local economy.
 - GDP losses of up to \$1.7 trillion annually.
- Immigrants keep prices low: in particular, food!
- Deportations impact tax revenues.
 - \$1,300 more in on average than out, annually.
 - Unauthorized immigrants: \$22.6 billion in social security and \$5.7 billion in Medicare payments.
- Deportations are expensive (\$13,000 each).
 - Total cost \$315 billion.



Is Immigration Saving the Day?

Population Growth and Its Underlying Factors



On Tariffs: What is a Tariff?

- **A tariff is a tax on imports.**
- **Much like, say, the 6.25% sales tax in Illinois,**
 - Whatever price the seller charges, the buyer pays an extra 6% that goes to the government.
- **A 10% tariff on imports (such as Trump proposes) will mean that**
 - Whatever the foreign exporter charges for a product,
 - US buyers will pay an extra 10% to the US government.
- **Might the seller charge a lower price because of the tariff?**
 - Perhaps, but when Trump used tariffs in 2018 on steel and China, they did not.



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On Tariffs: Effects

- **Higher prices in the U.S. – inflation**
- **More sales for domestic producers.**
- **Higher costs for domestic producers.**
 - e.g., automobile production
 - Parts go across borders several times.
 - Steel is more expensive.
- **Net job losses**
 - Estimates are that for every job created by previous Trump tariffs, eight jobs were lost.
- **Retaliation**
 - Lower sales for exporters.



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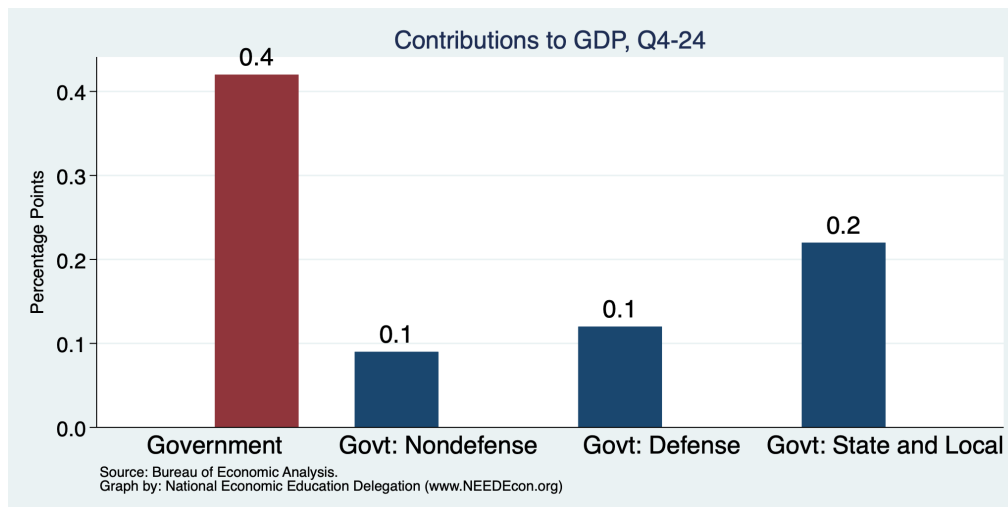
In The Name of Government Efficiency...

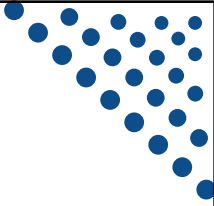
- **Elon Musk – who is the efficiency Czar under Trump:**
 - Thinks that he can identify \$2 trillion in cuts (out of \$6 trillion in spending).

- **Effect:**
 - Decimate government services. Defense? Social Security? Healthcare?
 - Deep recession.




On Government Spending





Bottom line:

- **Uncertainty...**

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Thank you!

Any Questions?

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