



U.S. Economic Recession: Should We worry?

Global Coworking Unconference Community

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Executive Director, NEED



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- Autonomous Vehicles
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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**

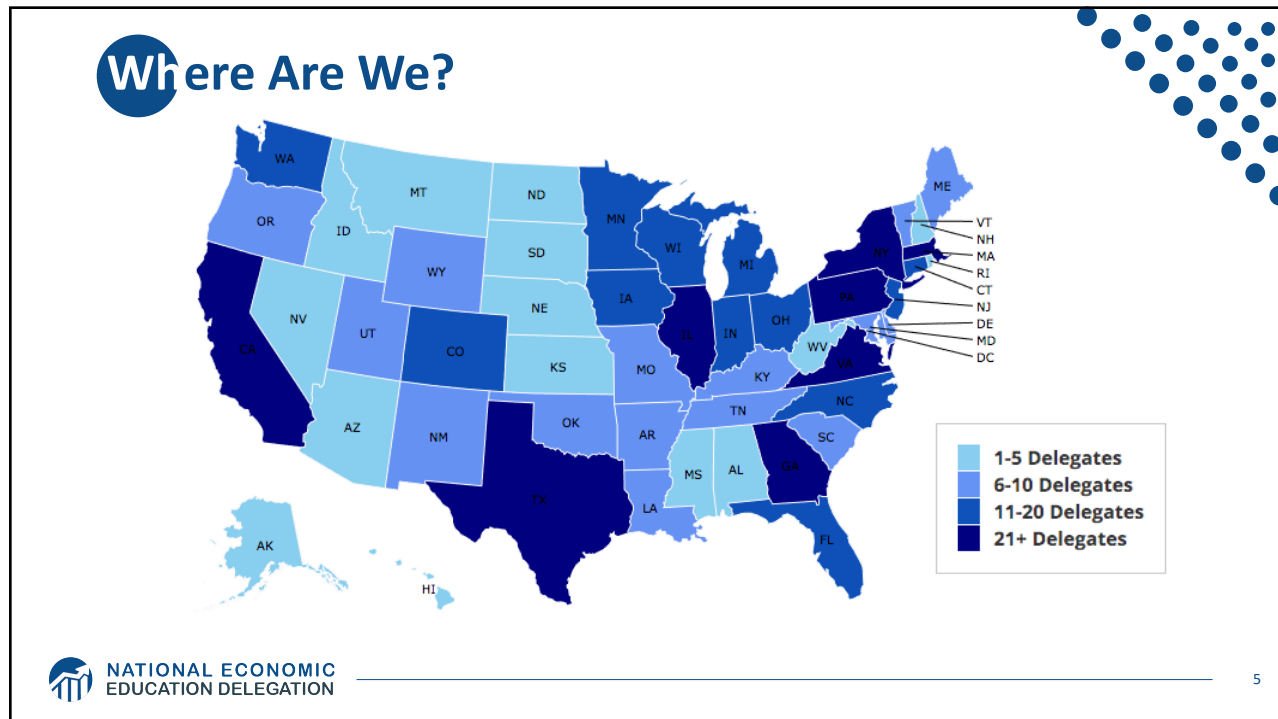
- Aid in slide deck development



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Credits and Disclaimer

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 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
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Outline

- Recession – is we is?
- Inflation
- Federal Reserve

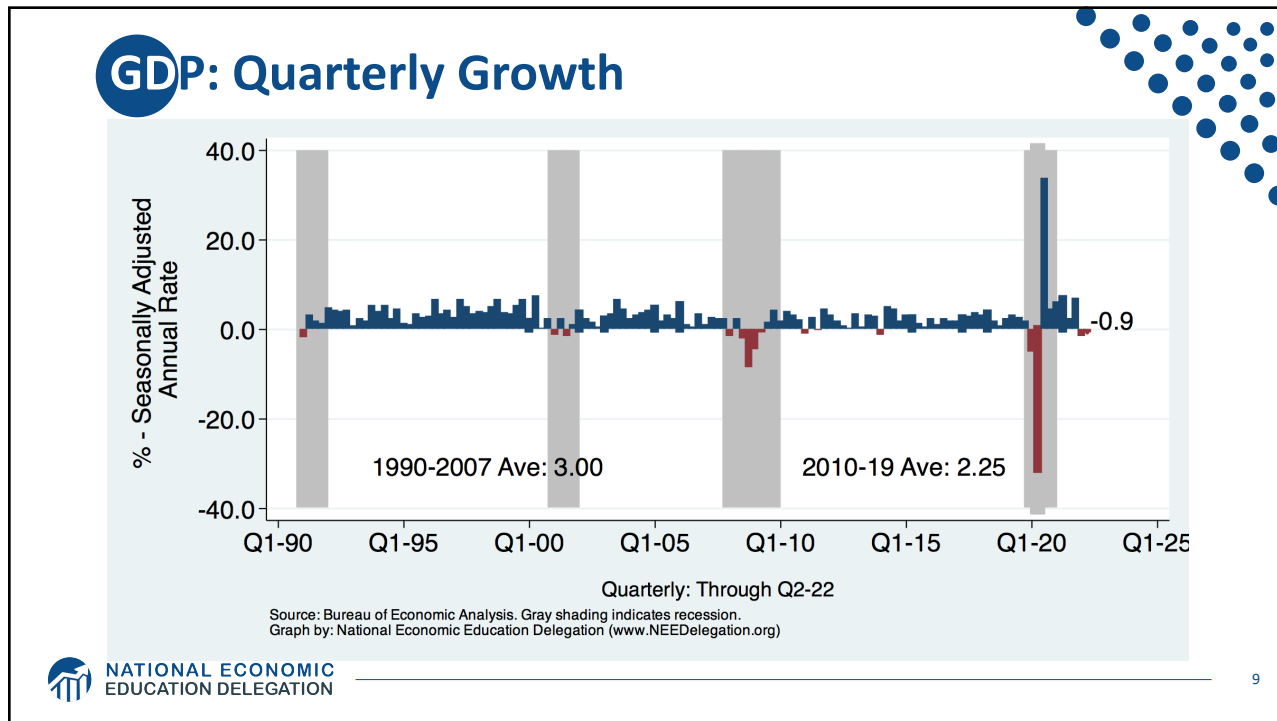
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Headline:

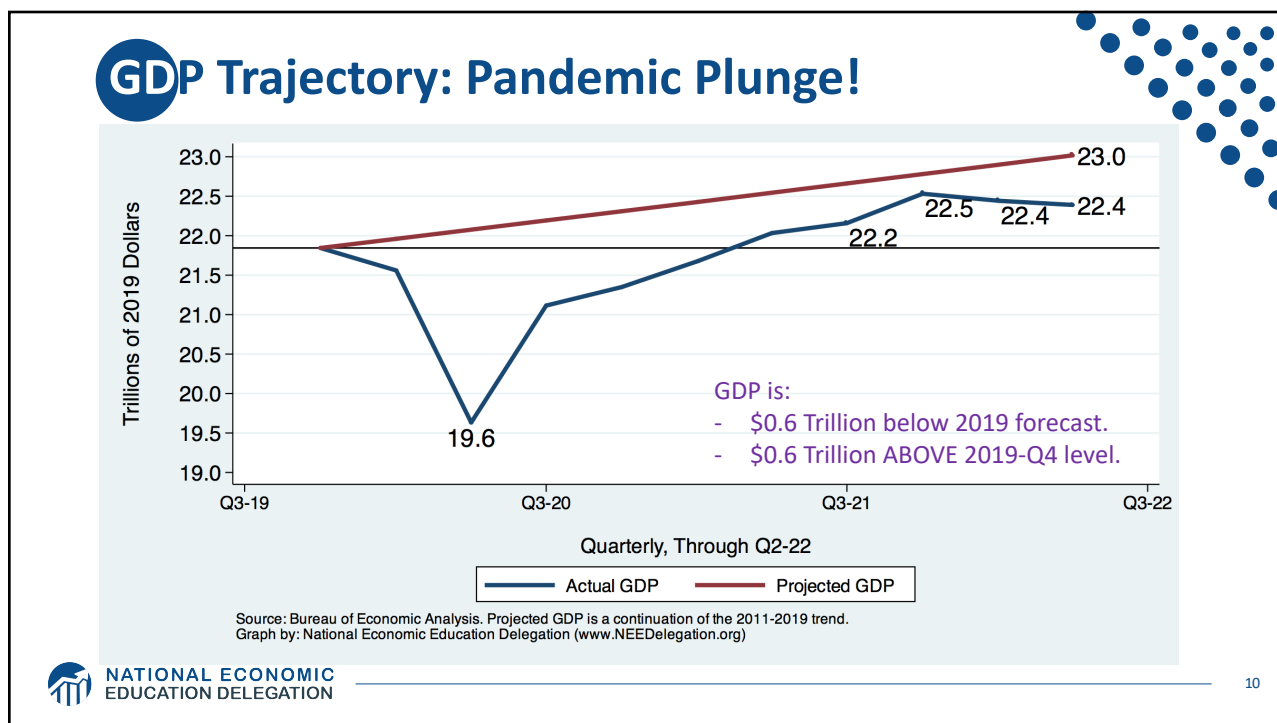
G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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What Is “Accounting” for the Decline?

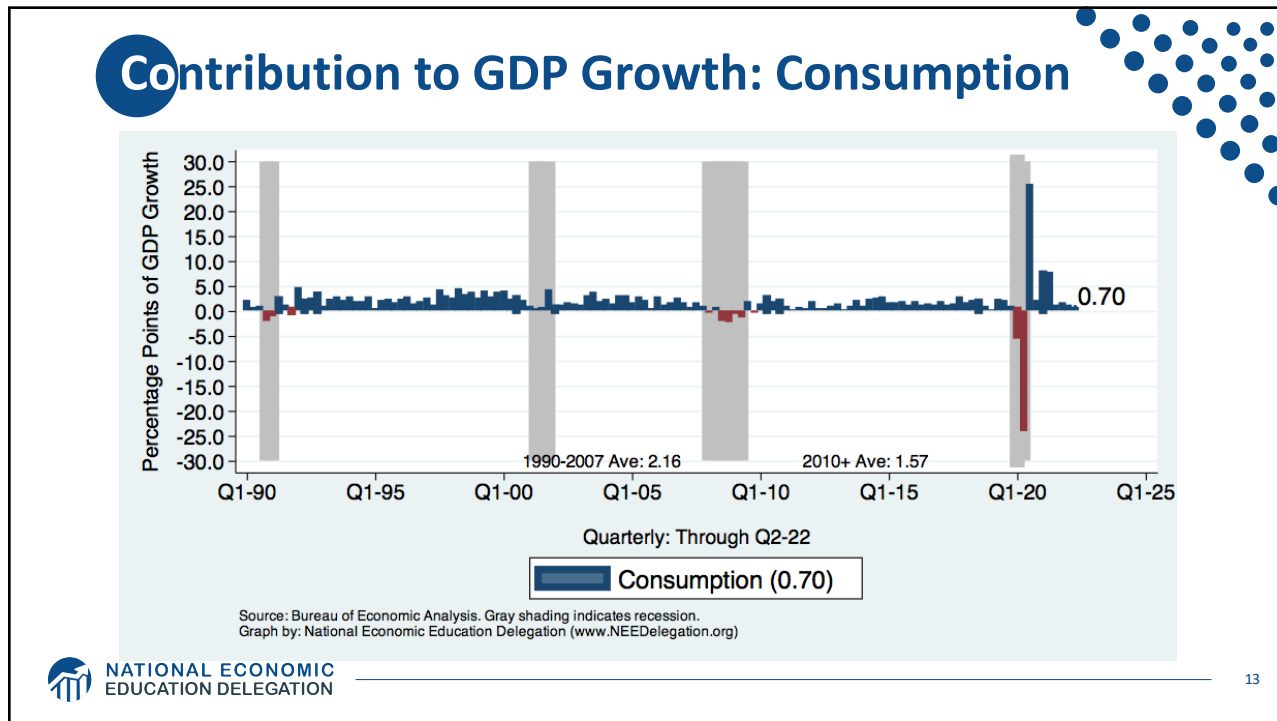
- **Expenditures drive GDP growth.**
 - GDP is the sum of four categories of spending:
 - Consumption
 - Investment – **housing/business/inventories**
 - **Government spending**
 - Net Exports: Exports – Imports

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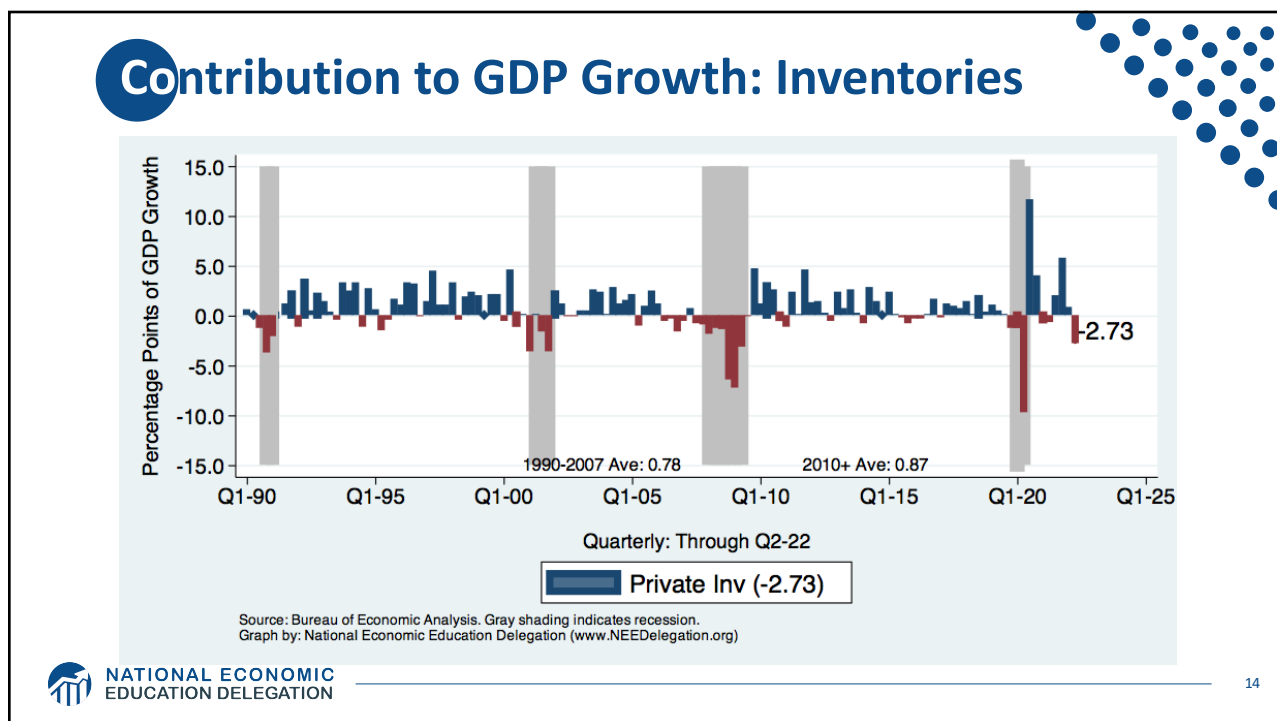
Recession? Two Quarters....

- **Depends on what is driving the drop.**
 - Inventories
 - Housing
 - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**

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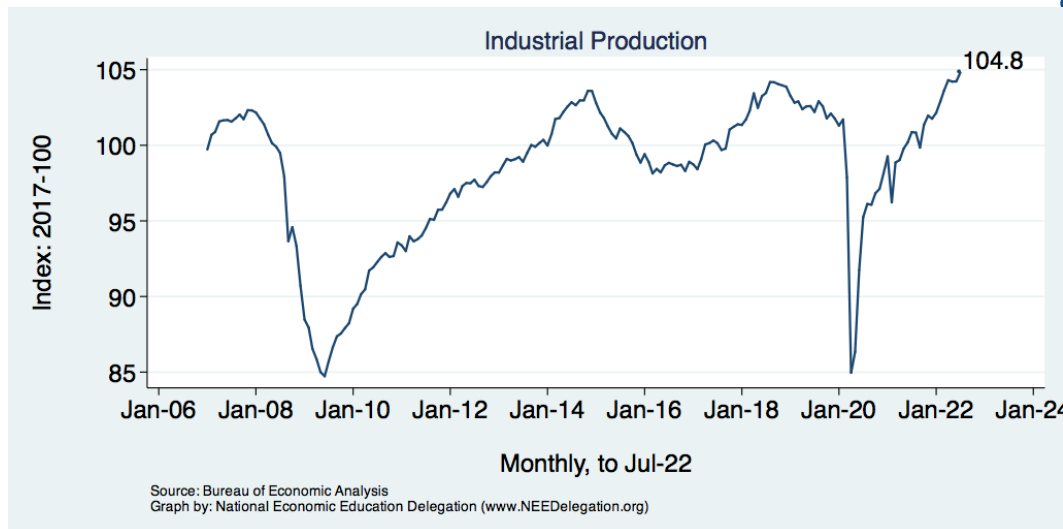


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Industrial Production (Manuf, Util, Mining)

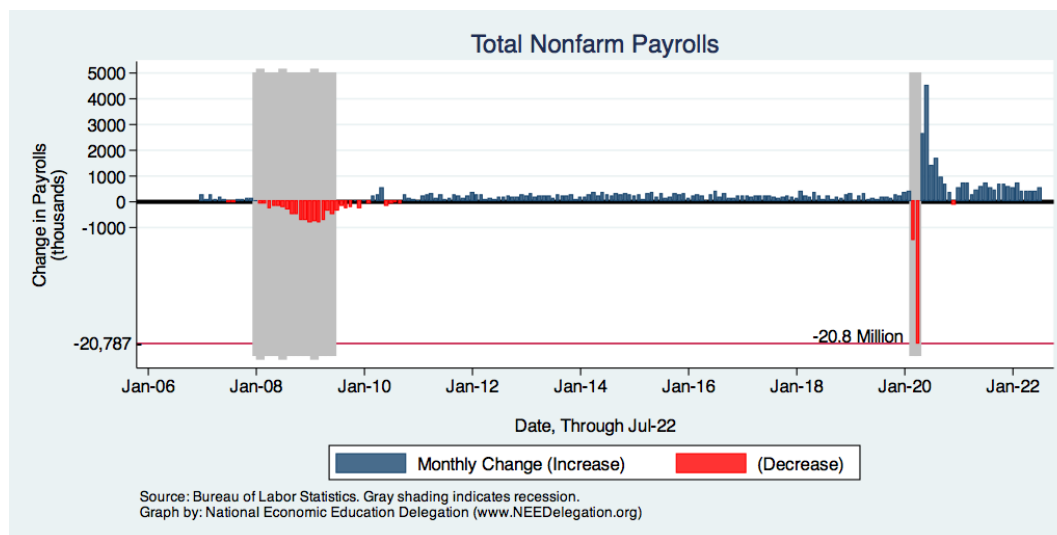


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Monthly Changes in Nonfarm Employment

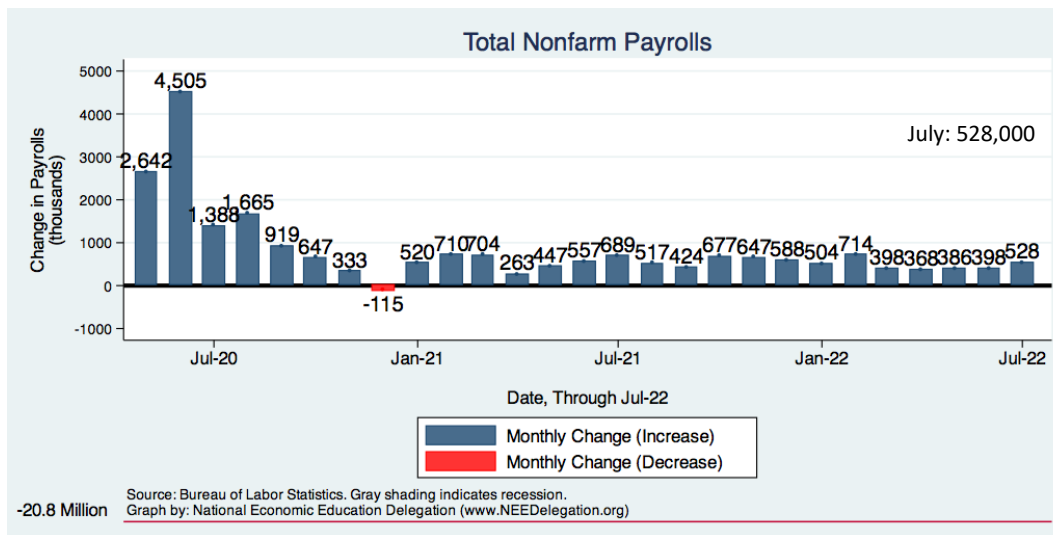


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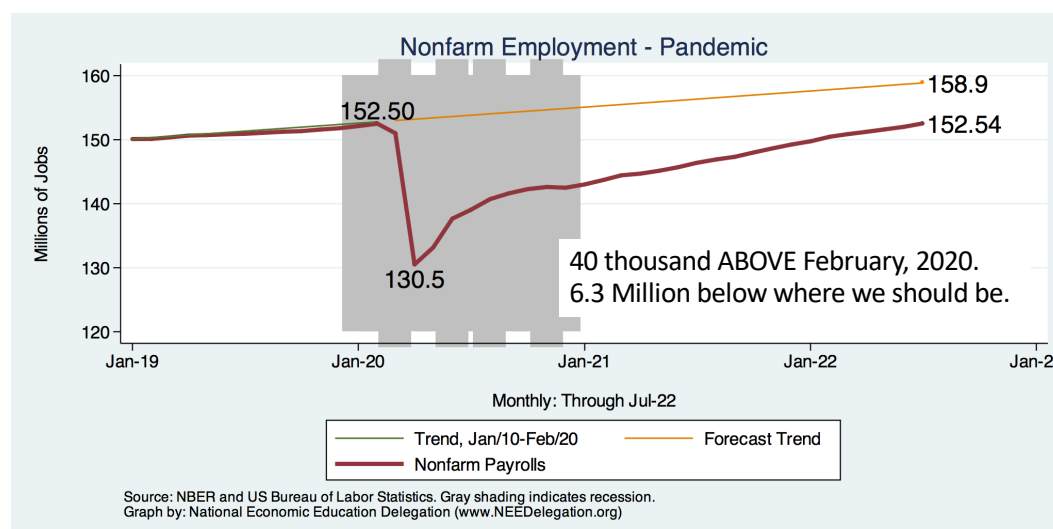
Monthly Changes in Nonfarm Employment



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Employment Gap

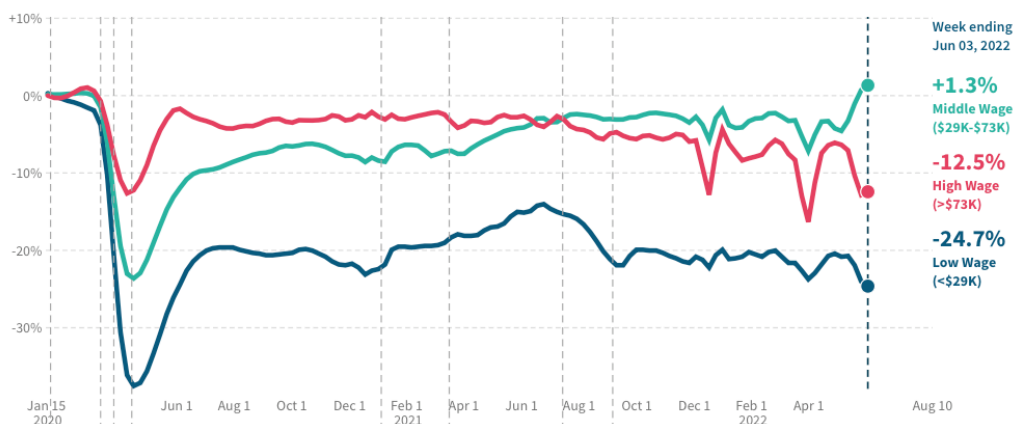


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Low Wage Employment is Lagging

In the United States, as of June 03 2022, employment rates among workers in the bottom wage quartile decreased by **24.7%** compared to January 2020 (not seasonally adjusted).



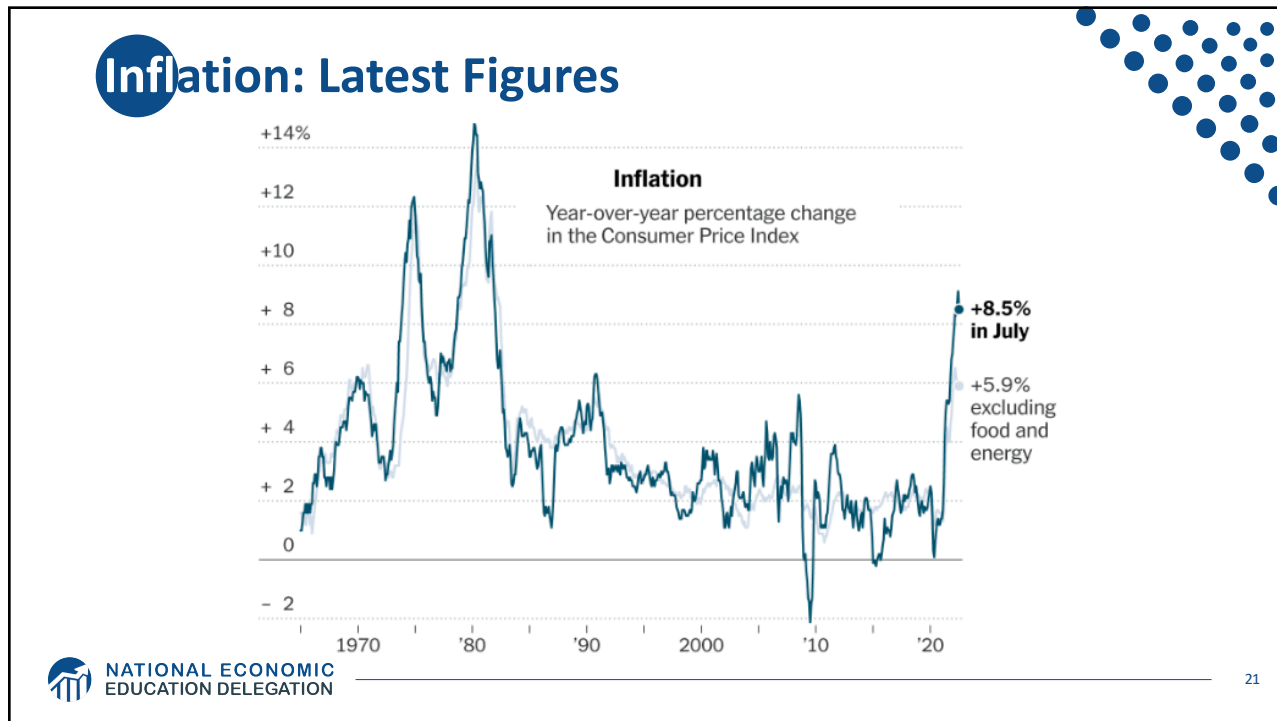
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Source: <https://tracktherecovery.org>

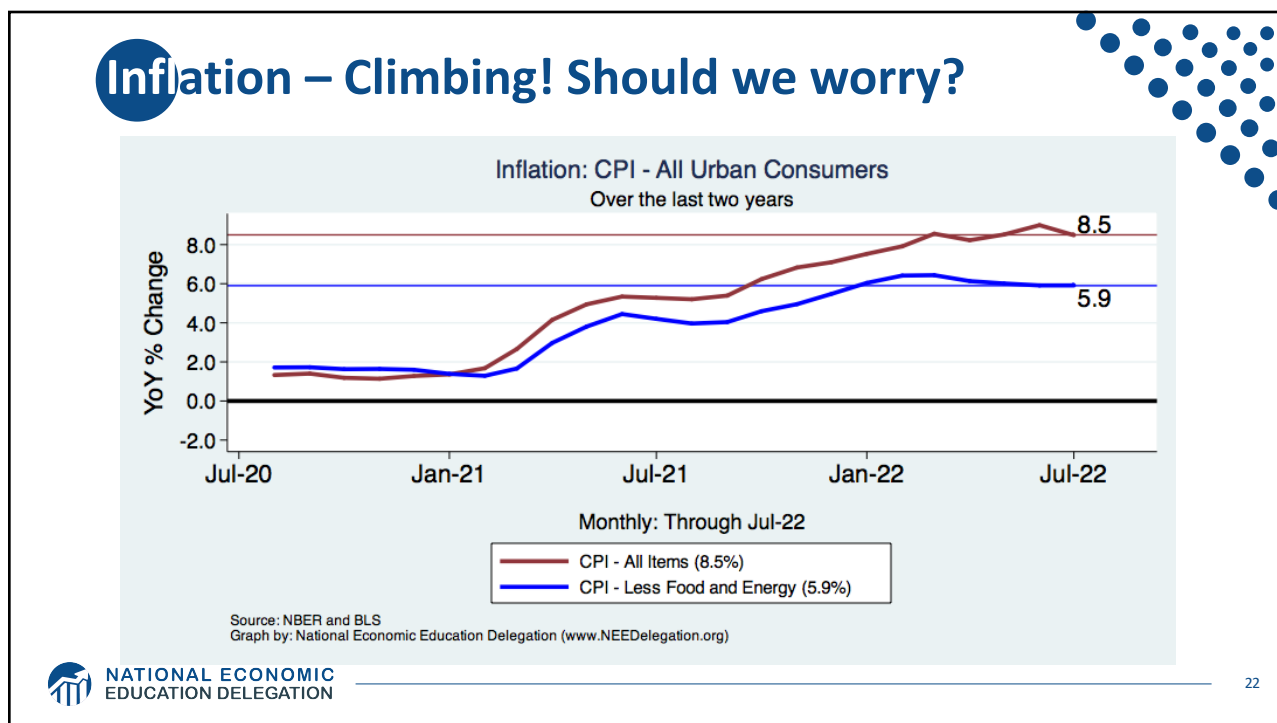
Inflation



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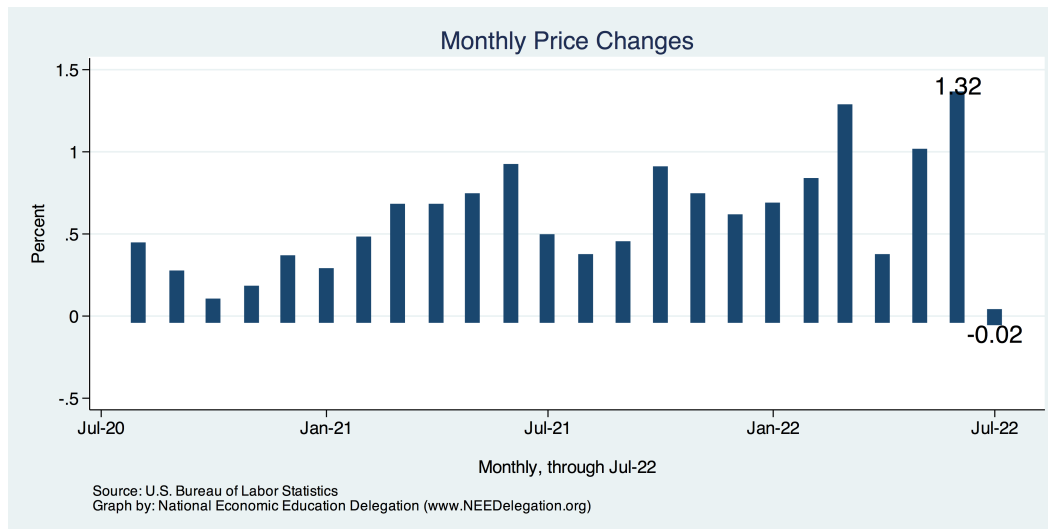


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Inflation: ZERO from June to July

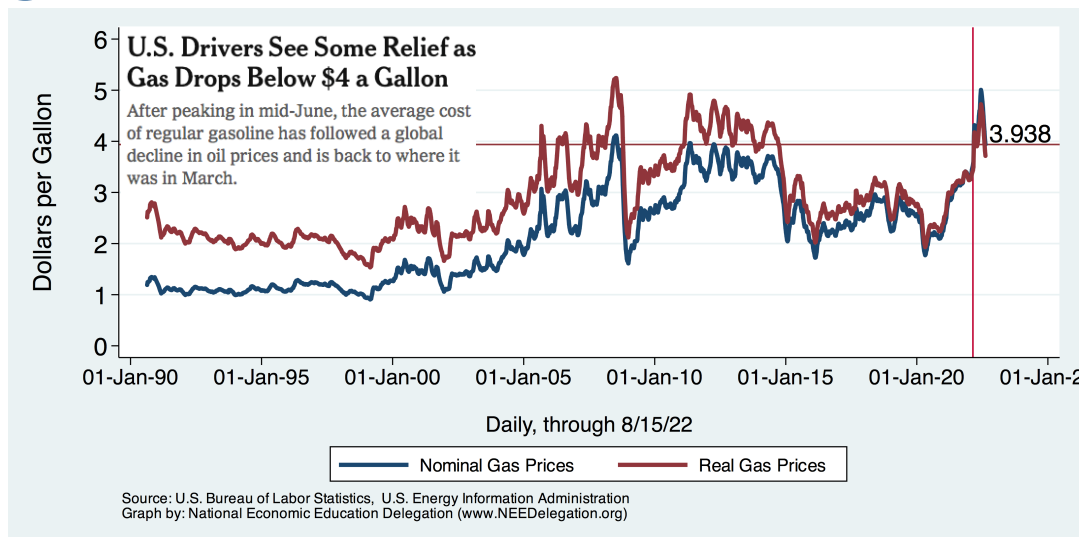


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Gas Prices: National Average at the Pump

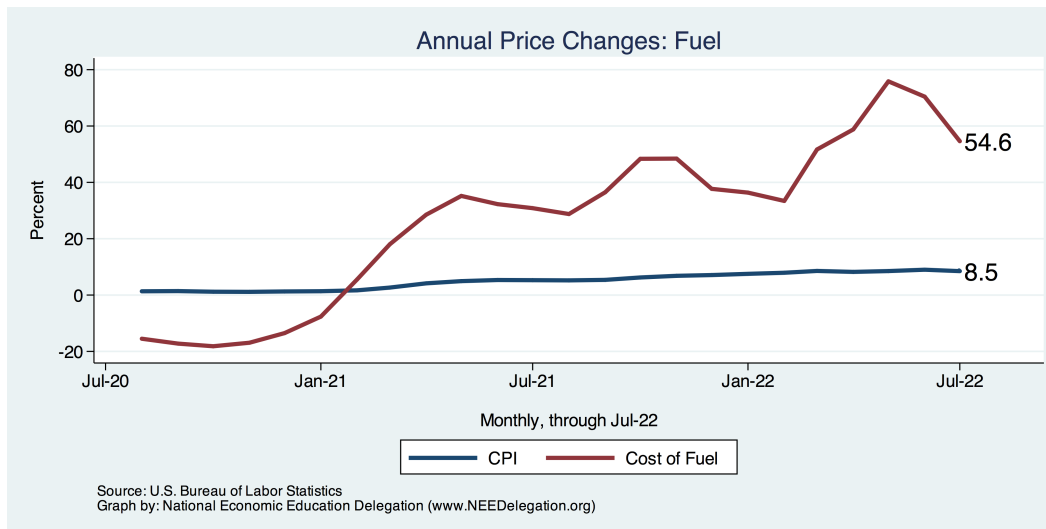


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Fuel Costs Are Still Elevated

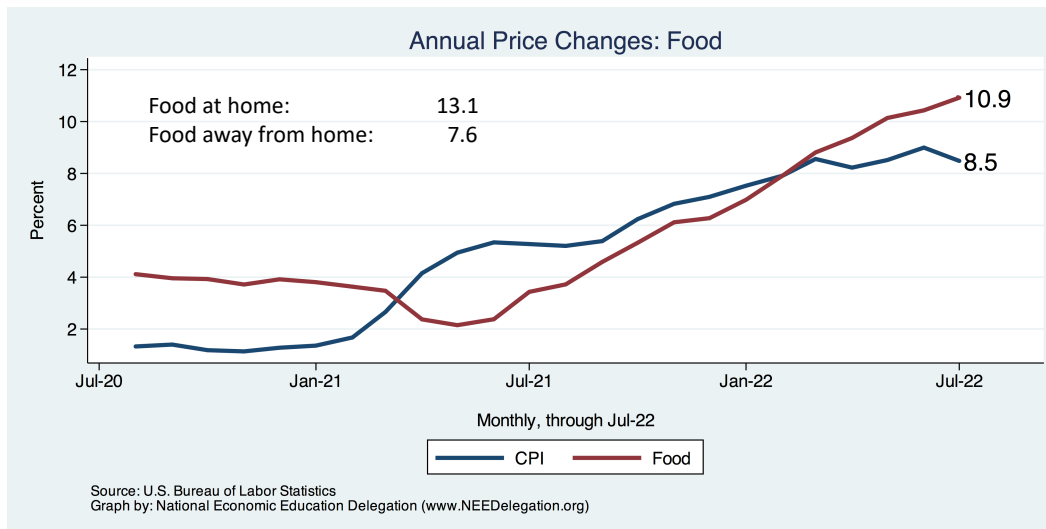


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Food Costs Continue to Rise



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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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Source: Investopedia

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We Have Been Buying Mostly ... Stuff

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

a. Goods

b. Services

Demand-Pull

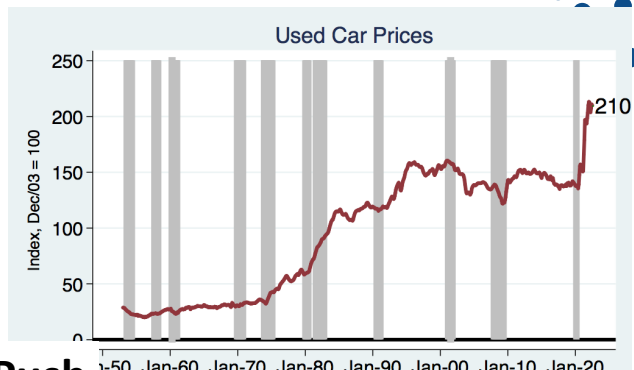
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Source: Jason Furman, PIIE

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Inflation: Concentrated

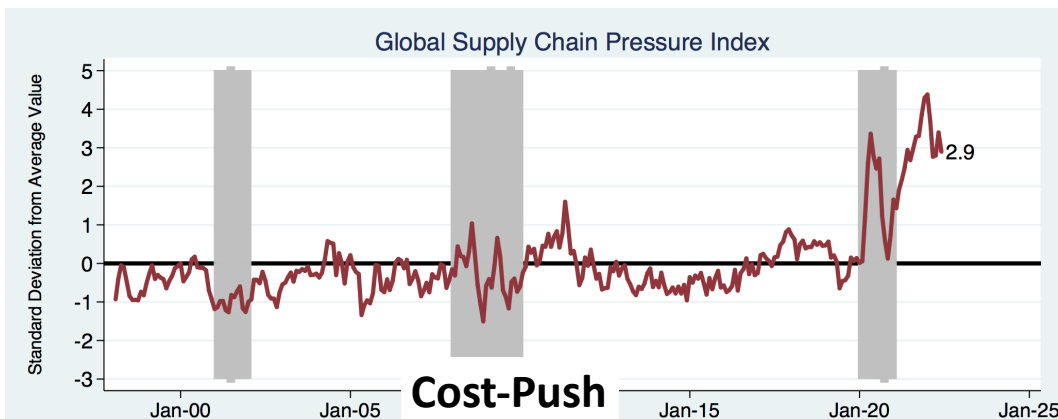


Cost-Push

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

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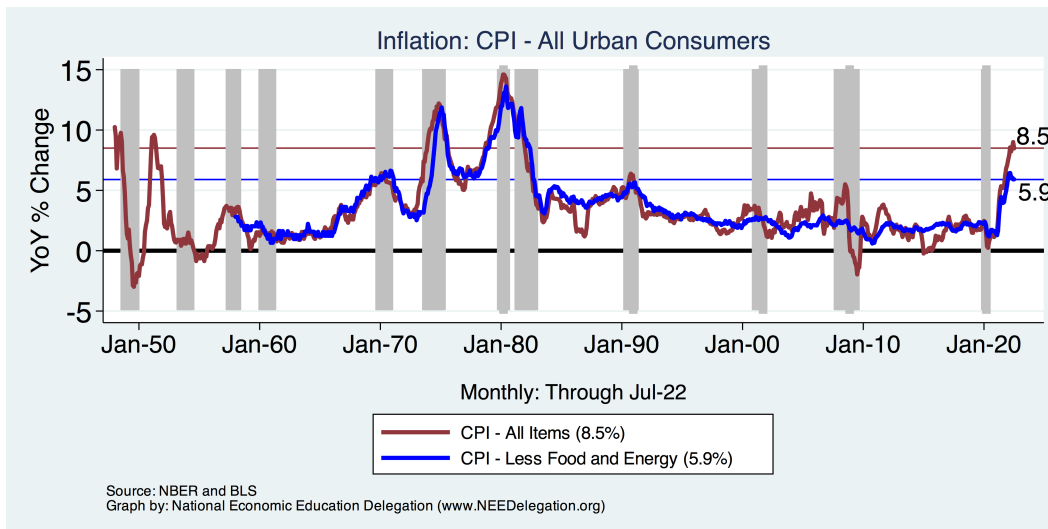
Supply Chains



Cost-Push

Source: Federal Reserve Bank of NY. Gray shading indicates recession.
Higher values correspond to more pressure on the supply chain.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

Inflation in Historical Perspective

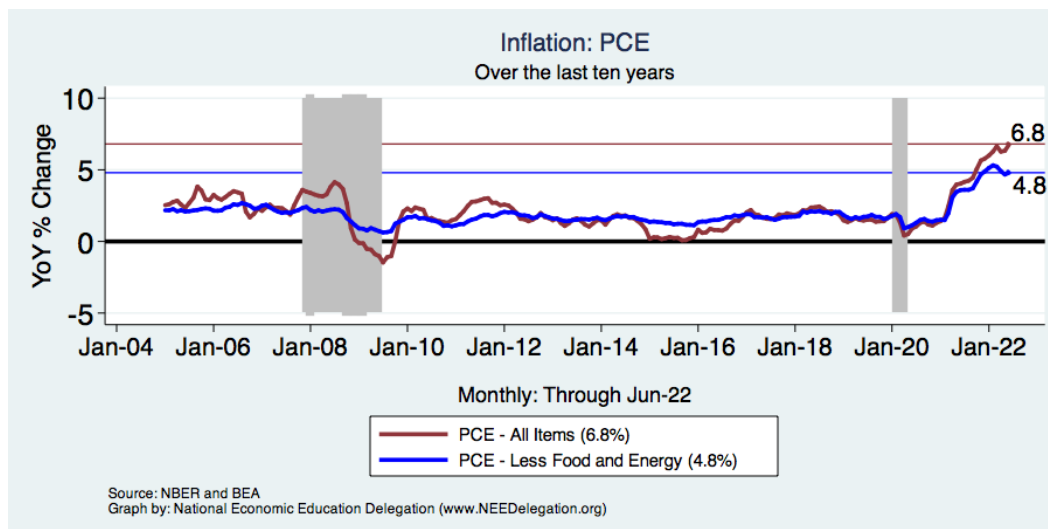


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Fed's Preferred Measure of Inflation



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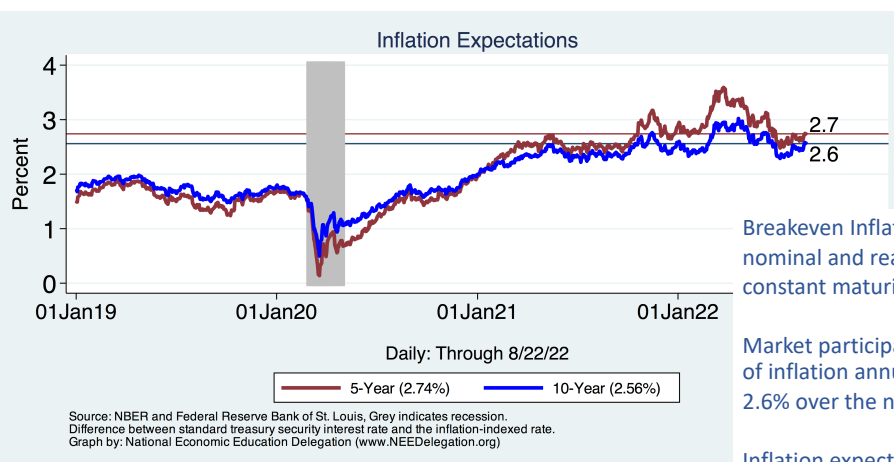
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My Diagnosis for the Uptick in Inflation

- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.

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Measure of Inflation Expectations



Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.4% of inflation annually over the next 10 years and 2.6% over the next 5 years.

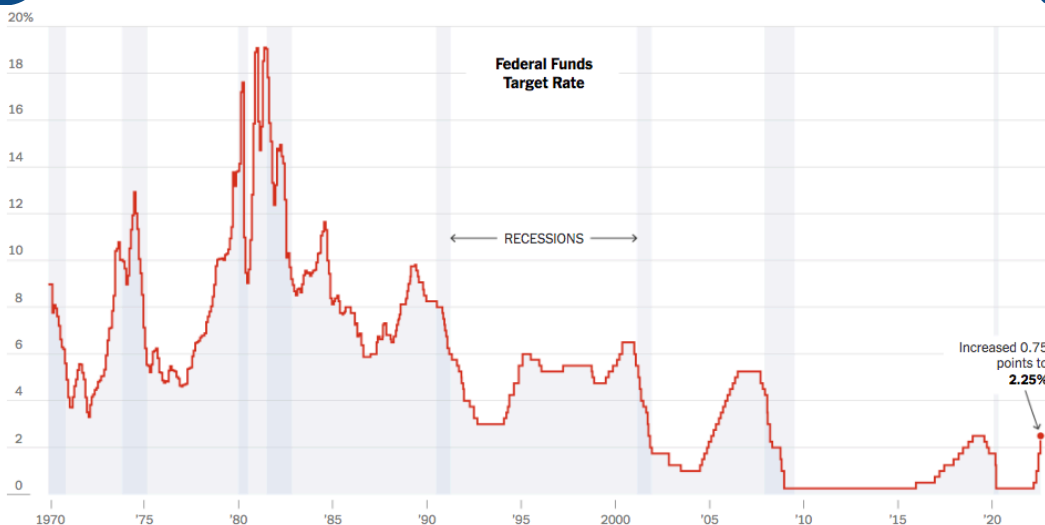
Inflation expectations are calming down.

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What About the Fed?

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Federal Funds Rate

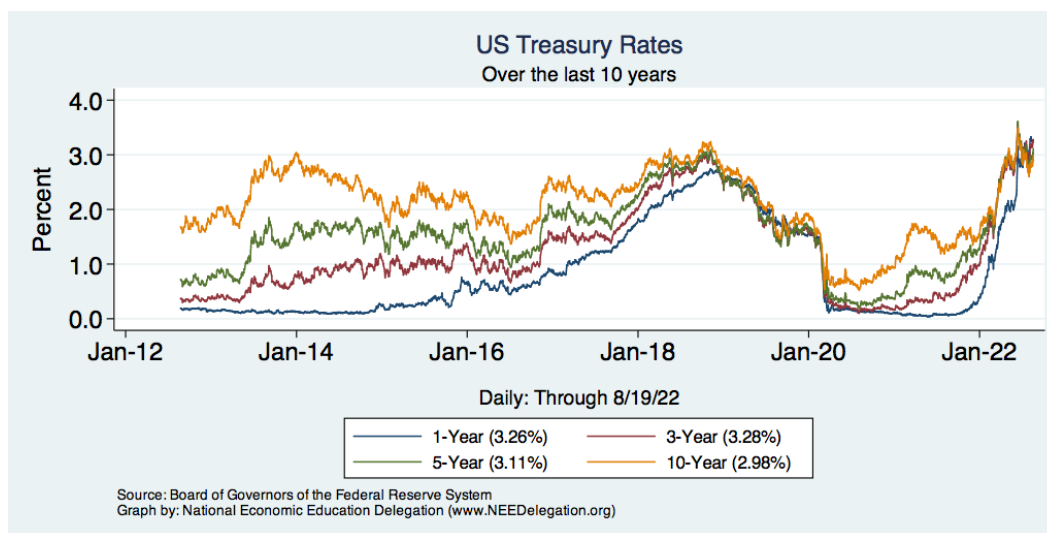


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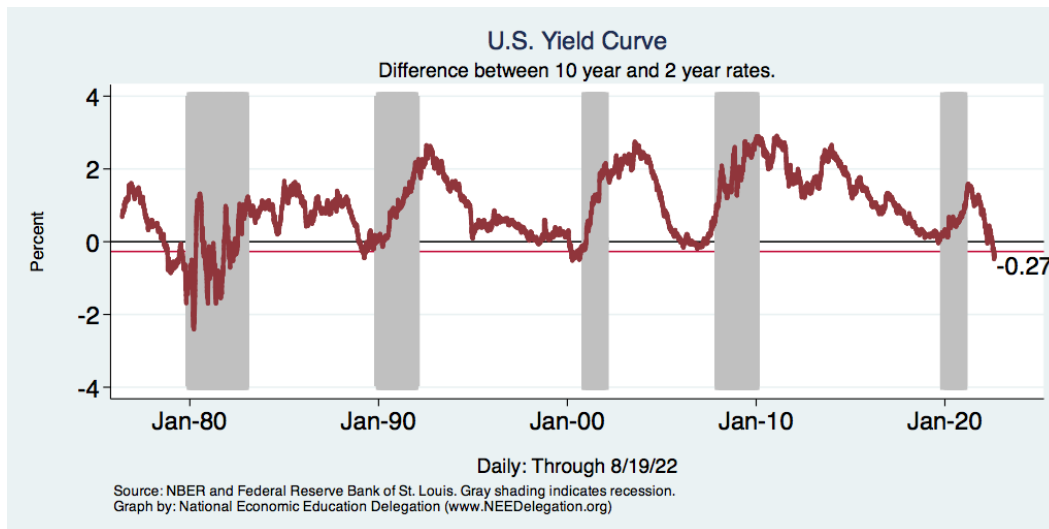
Implications for Demand

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

Treasuries



Alarming Compression of Interest Rates

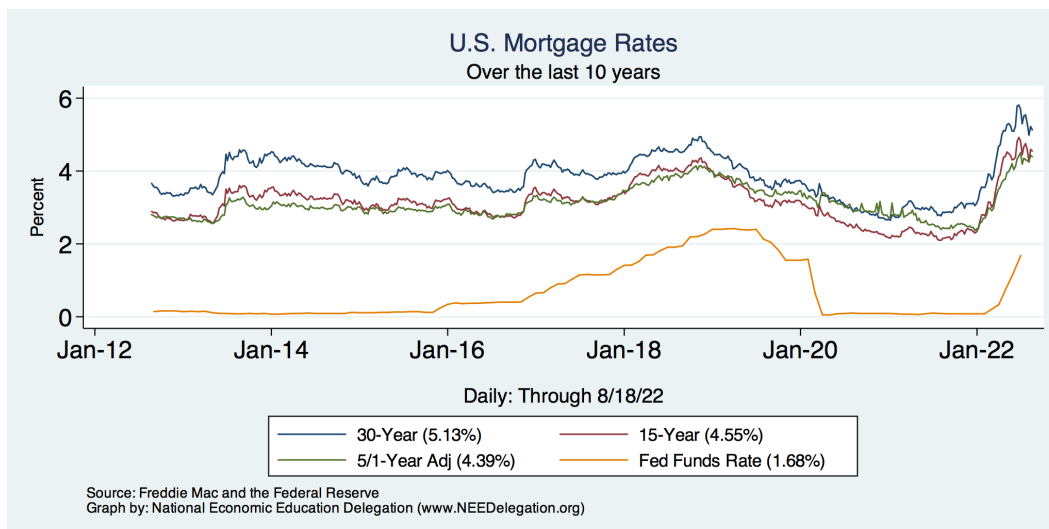


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Mortgage Rates



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Takeaways

- **Is a recession on the horizon?**

- Larry Summers, Jamie Dimon, and Elon Musk are worried about a recession.
- While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
 - o Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
 - o Job creation remains robust – 528k in July.

- **What about GDP?**

- 2022:Q1 was -1.6%, 2022:Q2 was -0.9.
- Much of this lower growth was driven by lower inventory.
 - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.

Real Estate

- **Residential**

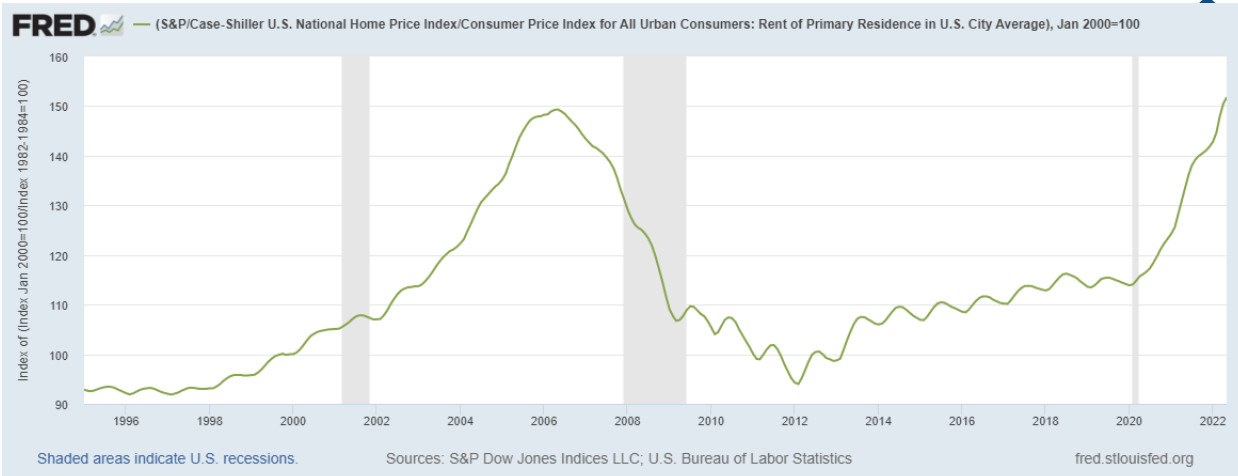
- **Commercial**

- **Coworking, specifically**

- **In either case:**

- Timing of what comes next: Who knows?
- Pay no attention to averages.
 - o The average applies to exactly nobody!

Residential RE



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Commercial RE

- **Implications of COVID**

- Telecommuting and slow reopenings are the story.

- **Long term implications**

- Things will look more like pre-pandemic than they do today.
 - o But with 20% of workdays from home rather than 5%.
- Still plenty of room for coworking opportunities.

- **When is the long term?**



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Coworking

- **Currently a suburban vs urban story.**
 - Suburbs are doing better than urbs.
 - Stairs, not elevators.
 - Lots of parking.
- **Longer term, will see more demand overall.**
 - Many companies will want to hedge their bets and will turn to coworking spaces in **urban** areas.
 - When this will happen at scale is up in the air.
- **When does the longer term start?**
 - Trend into it for the next 5 years.



Thank you!

Any Questions?

www.NEEDelegation.org

Jon D. Haveman

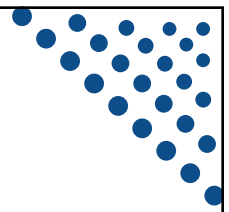
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