


# US Economy: Update

*Lockheed Martin Herschel Brown Club*

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NEED  
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# Outline

- **Recession? – The State of the US Economy**
- **Global Comparisons**
- **Inflation**
- **On the policy response:**
  - To the pandemic
  - To inflation

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# Recession(?)

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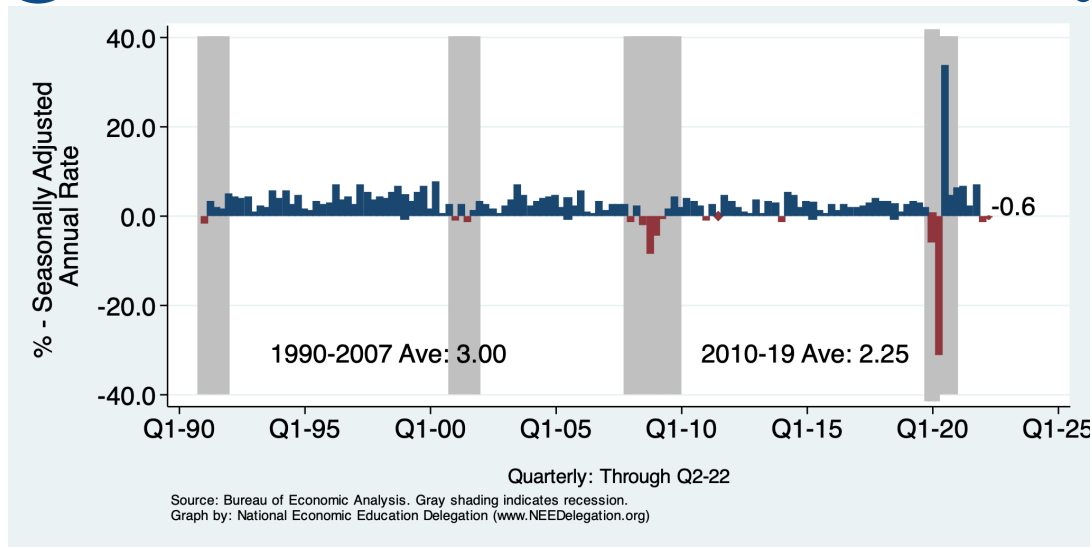
# Headline:

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

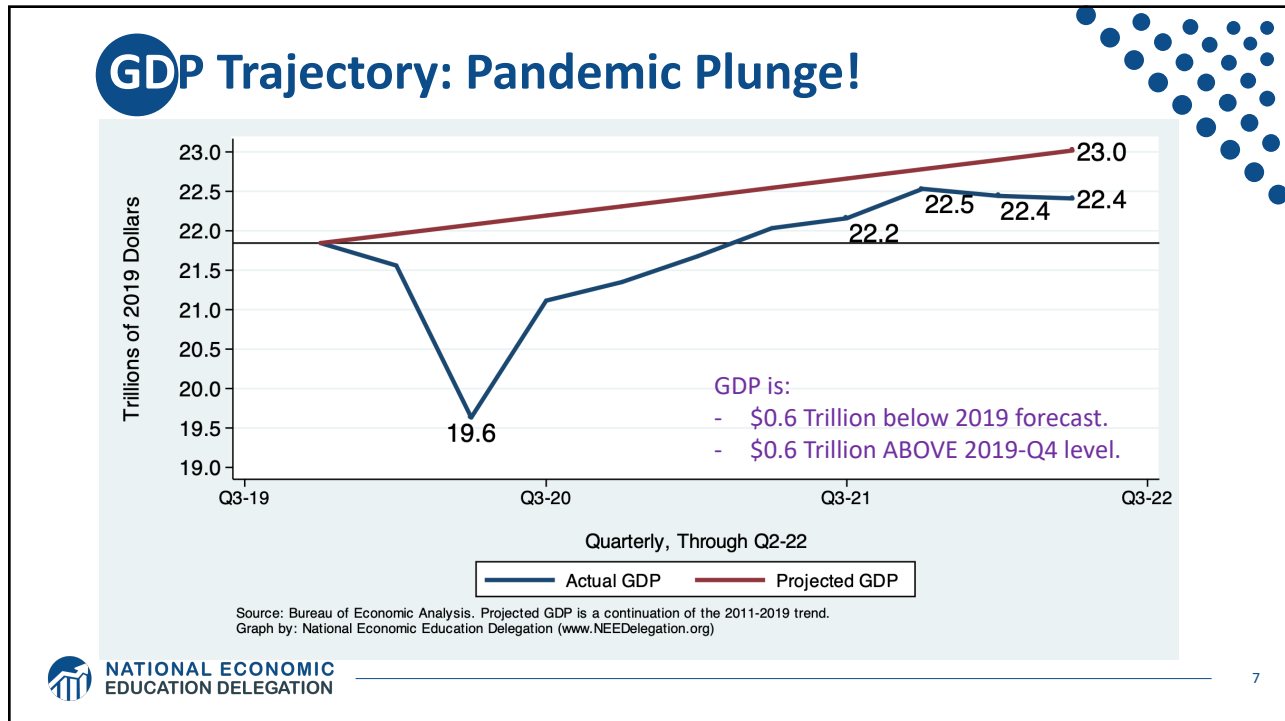
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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# GDP: Quarterly Growth



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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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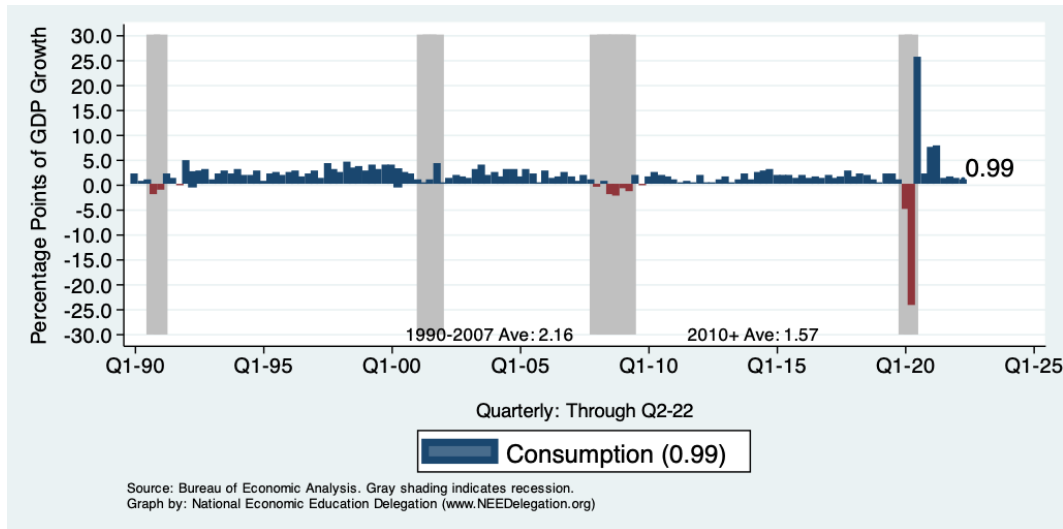
## Recession? Two Quarters....

- **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.**



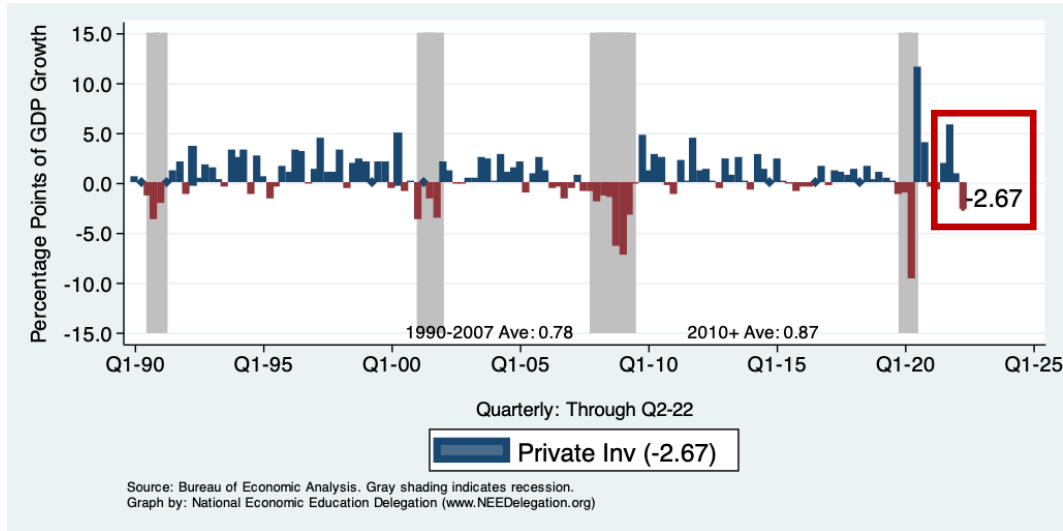
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## Contribution to GDP Growth: Consumption



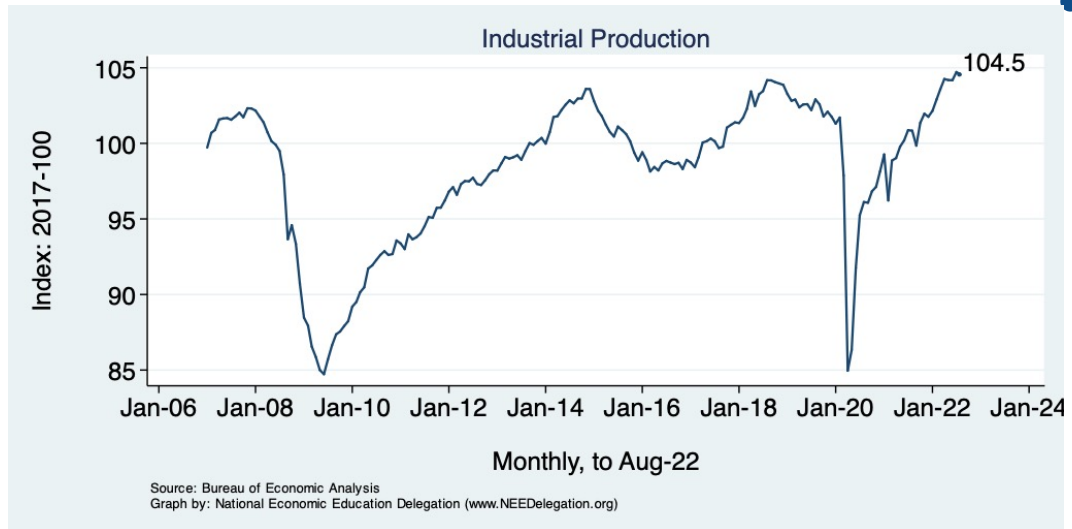
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## Contribution to GDP Growth: Inventories

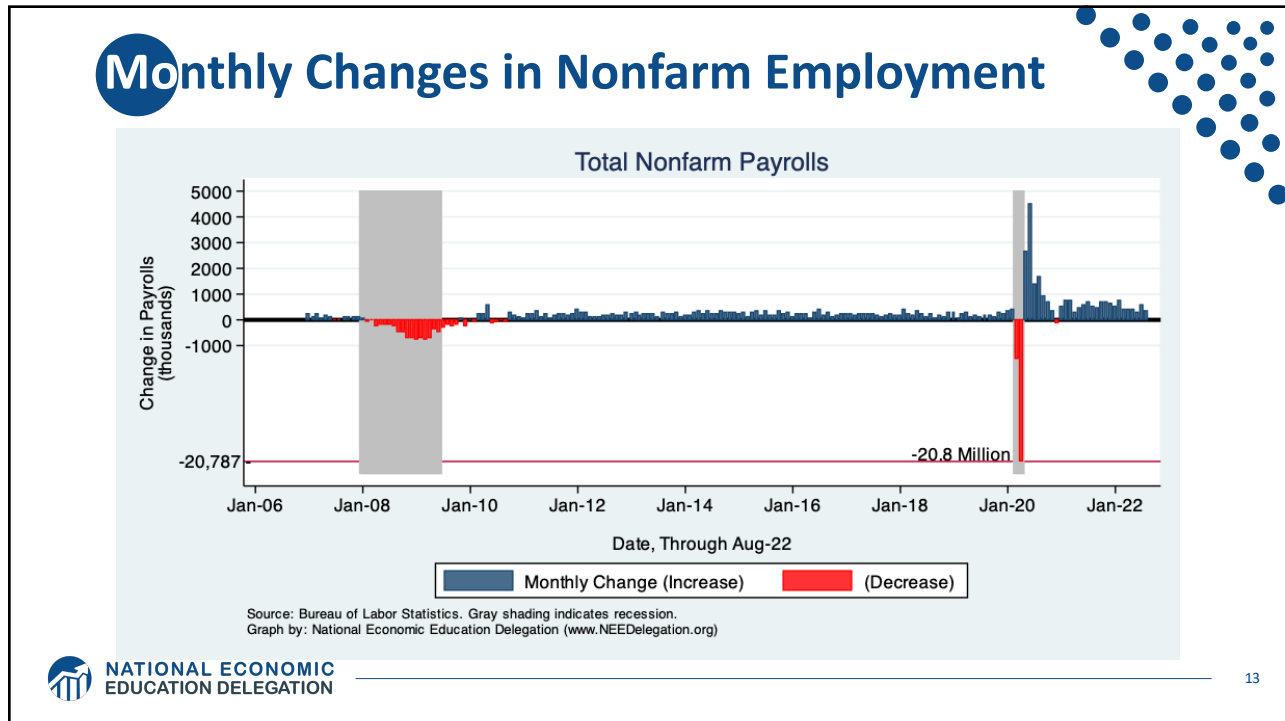


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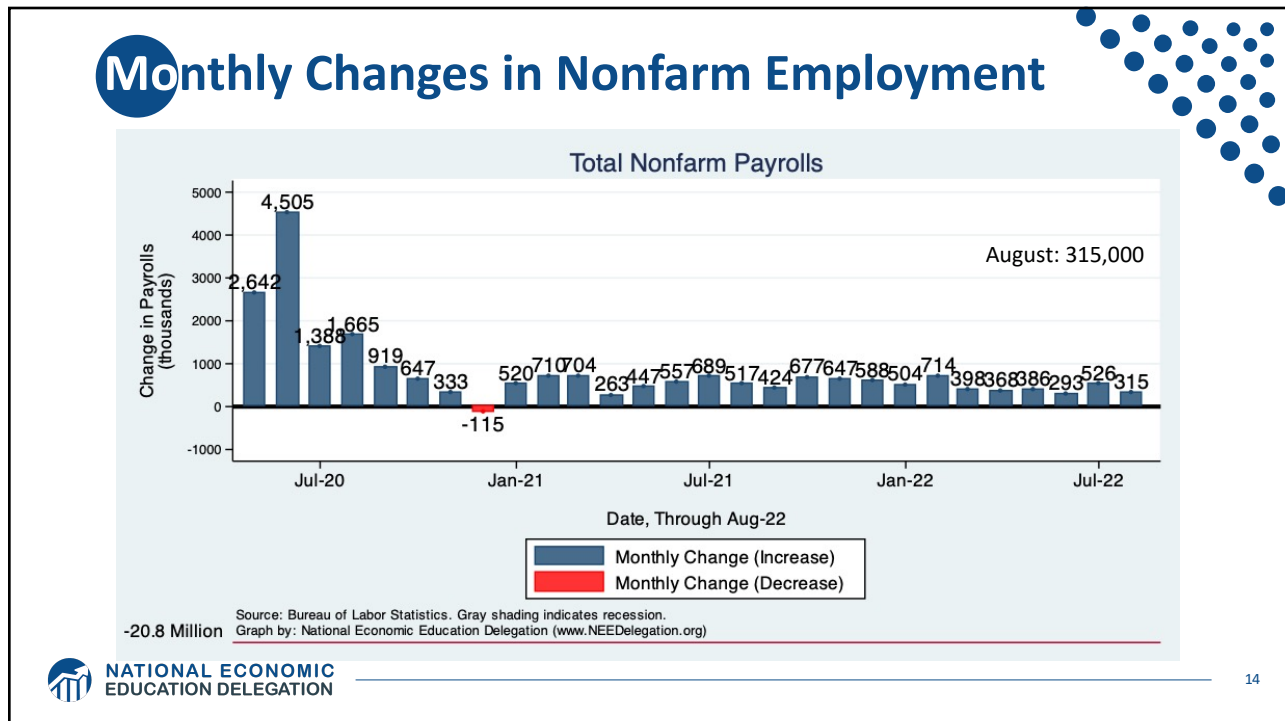
## Industrial Production (Manuf, Util, Mining)



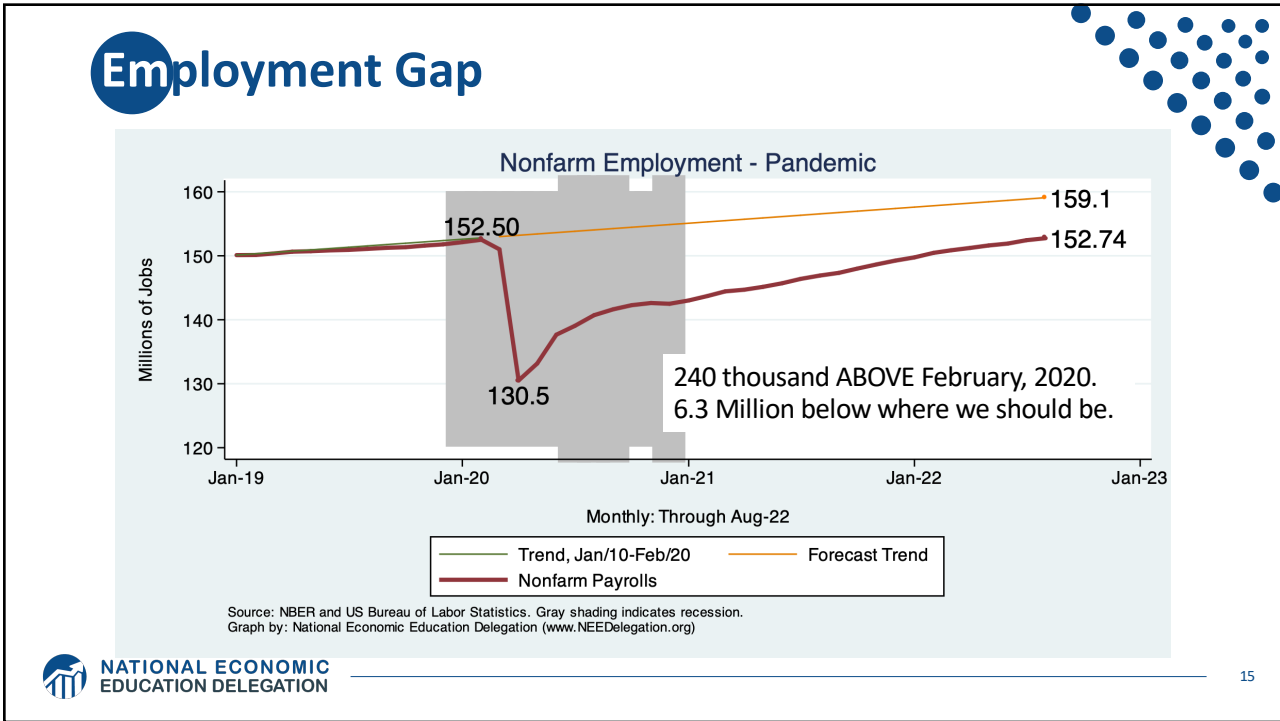
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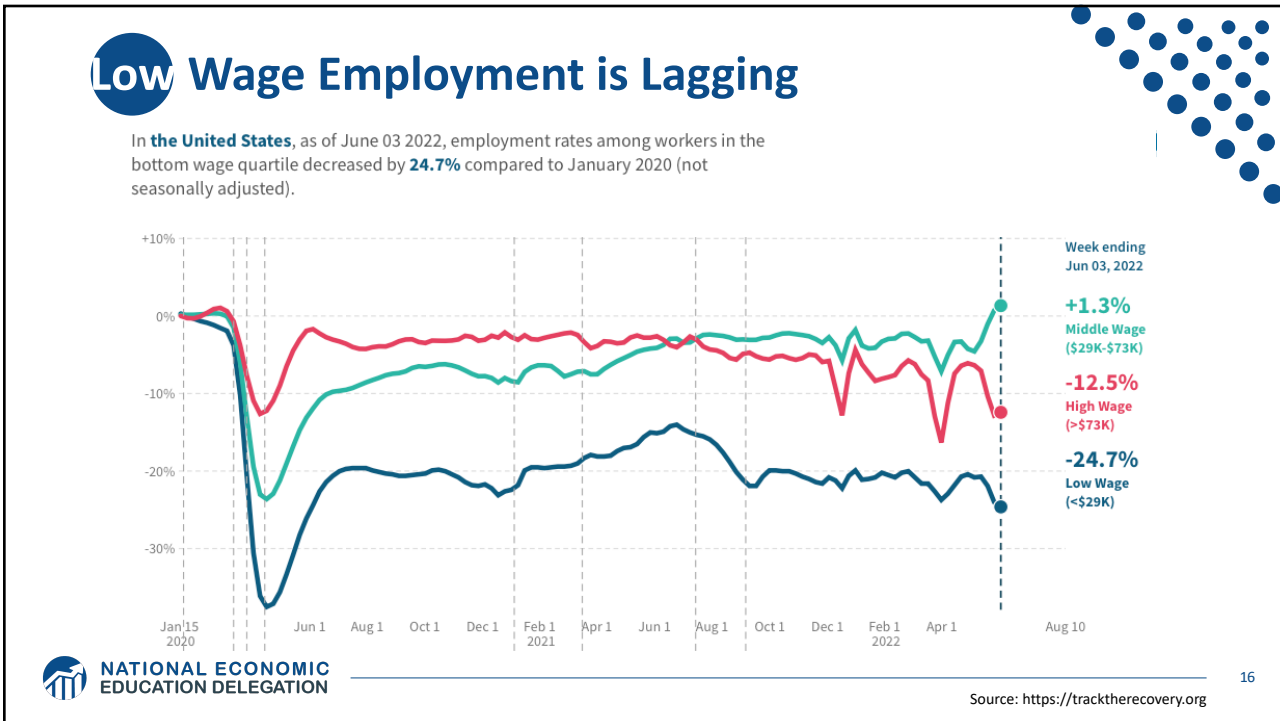
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# Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

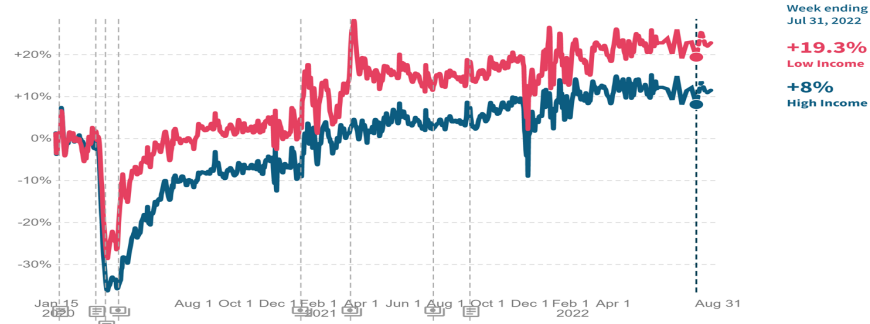
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## Percent Change in All Consumer Spending\*

In the United States, as of July 31 2022, total spending by high-income consumers increased by 8% compared to January 2020.



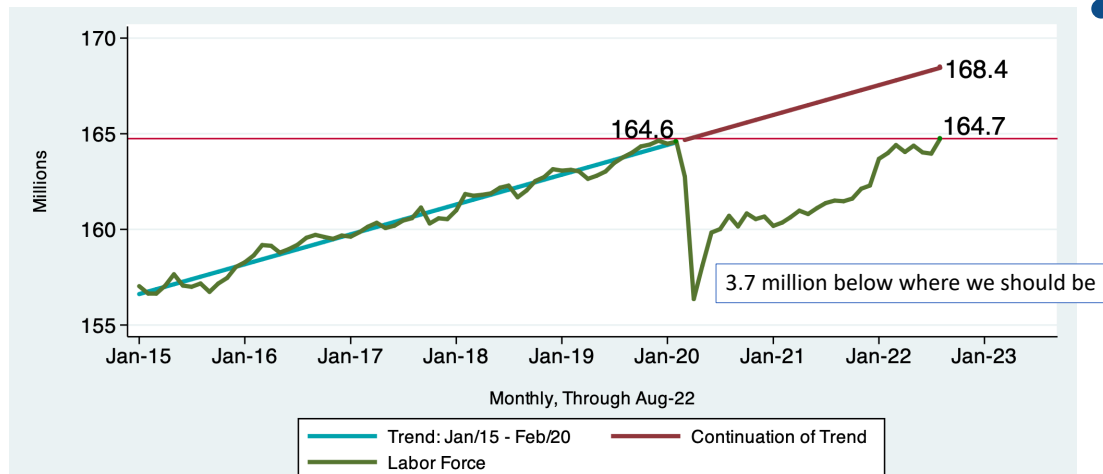
data source: Affinity

\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: August 30, 2022 next update expected: September 07, 2022

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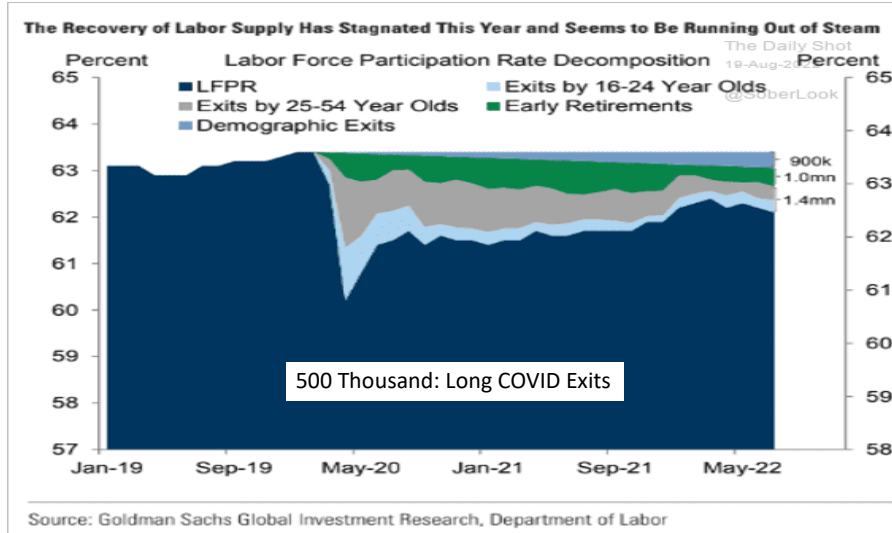
# Where Have All the Workers Gone?



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

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# Some Explanations



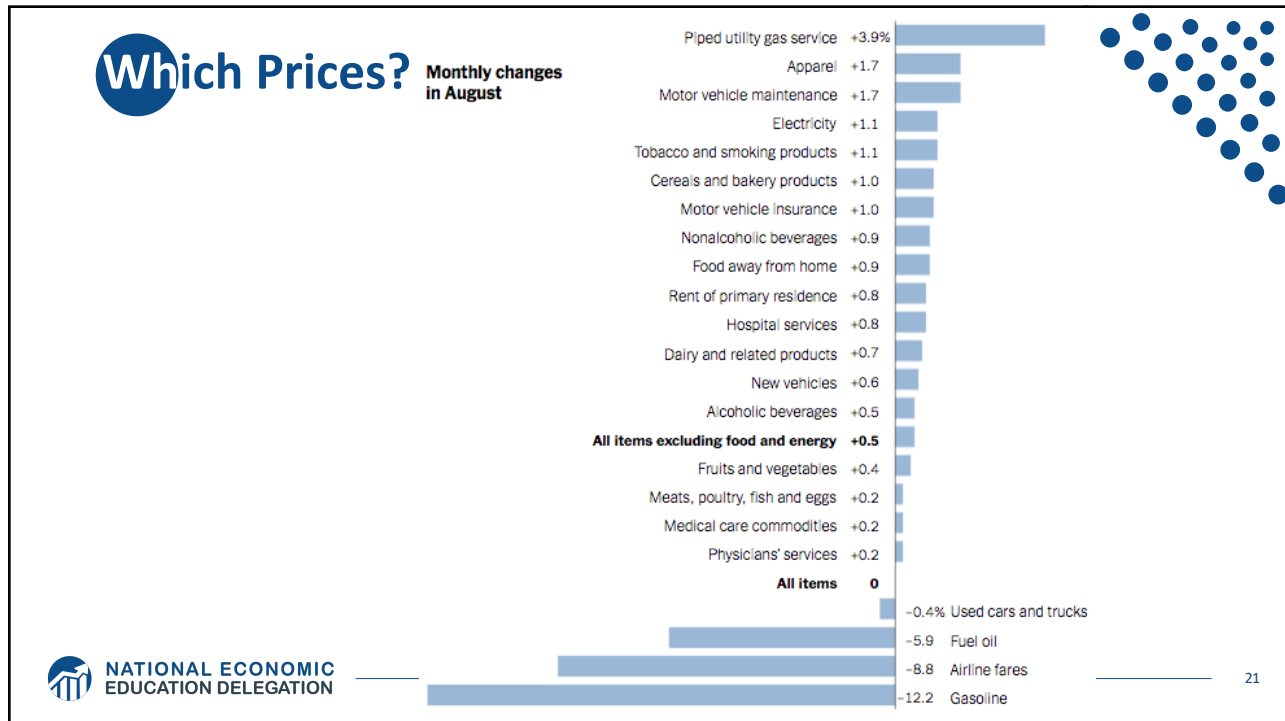
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# Inflation: Latest Figures

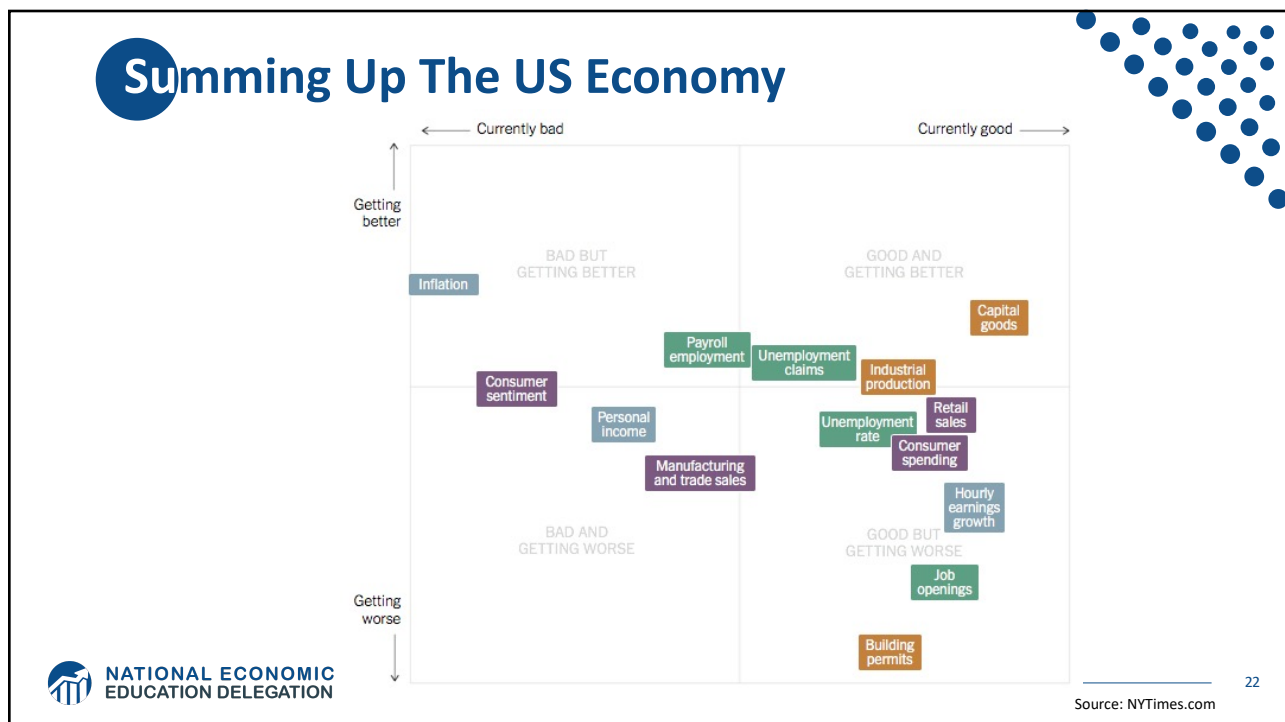


Year-over-year percentage change in the Consumer Price Index - Source: Bureau of Labor Statistics

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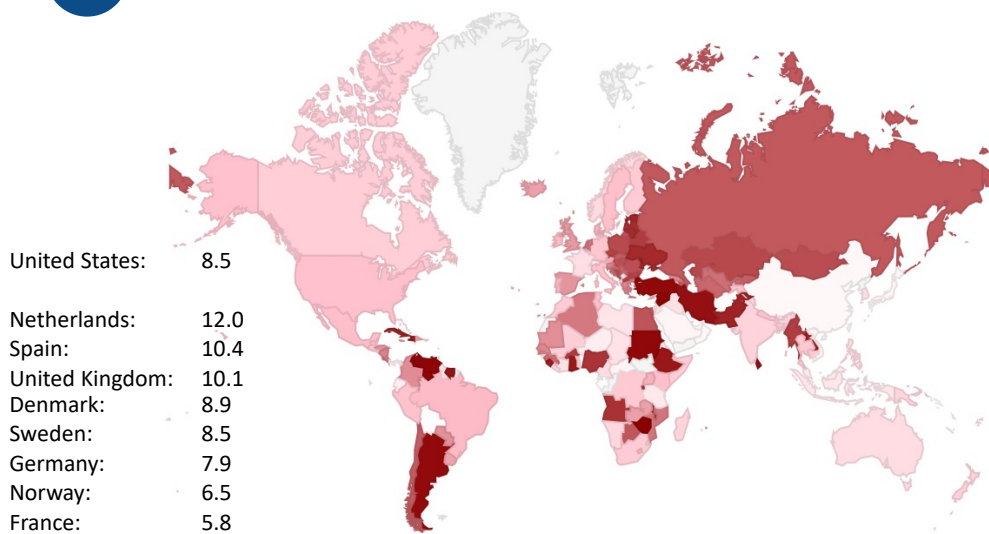


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# Global Evidence

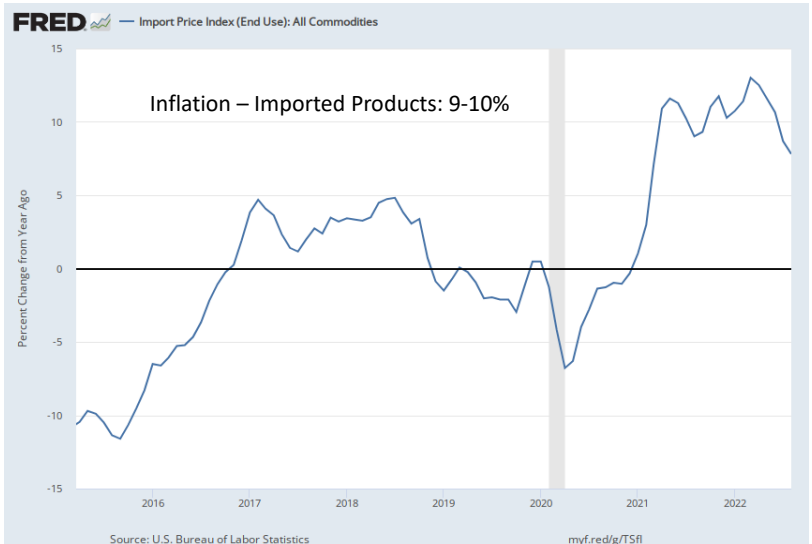
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## Inflation: Not just a US Problem



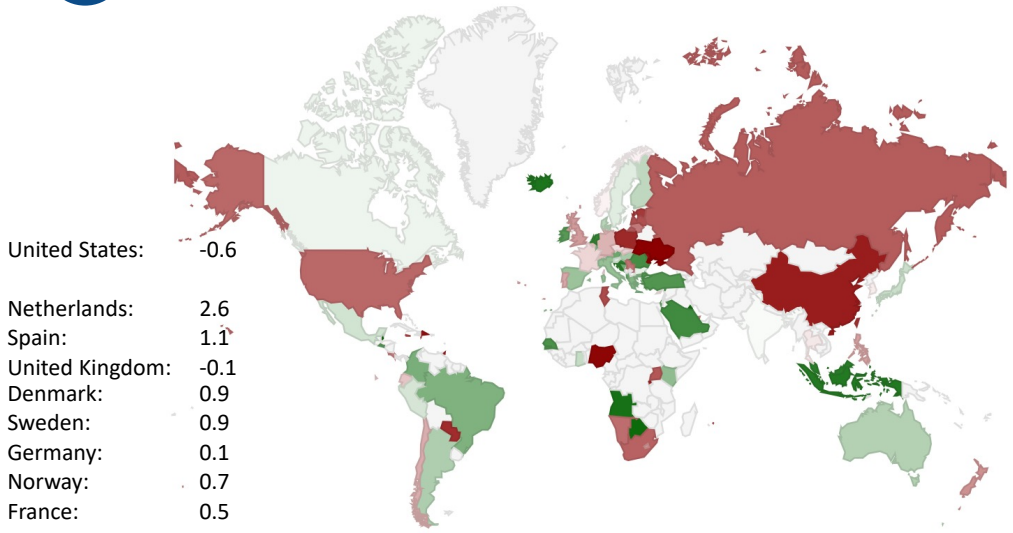
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# Import Prices Are Elevated



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# GDP: U.S. Stands Out, But Not Alone



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## Global Summary

- **Developed economies are uniformly down.**
  - Not entirely a surprise. The bounce back from the early closures was rapid.
- **We have very little experience with this type of a global shock.**
  - Entirely possible that interconnected economies will be on a similar cycle.
- **Somewhat surprising because the economic responses varied across countries. However:**
  - Significant stimulus was a common theme.
  - Supply chain issues are a common theme.
  - Shifts from purchases of services to goods was a common theme.
    - And now the shift back.



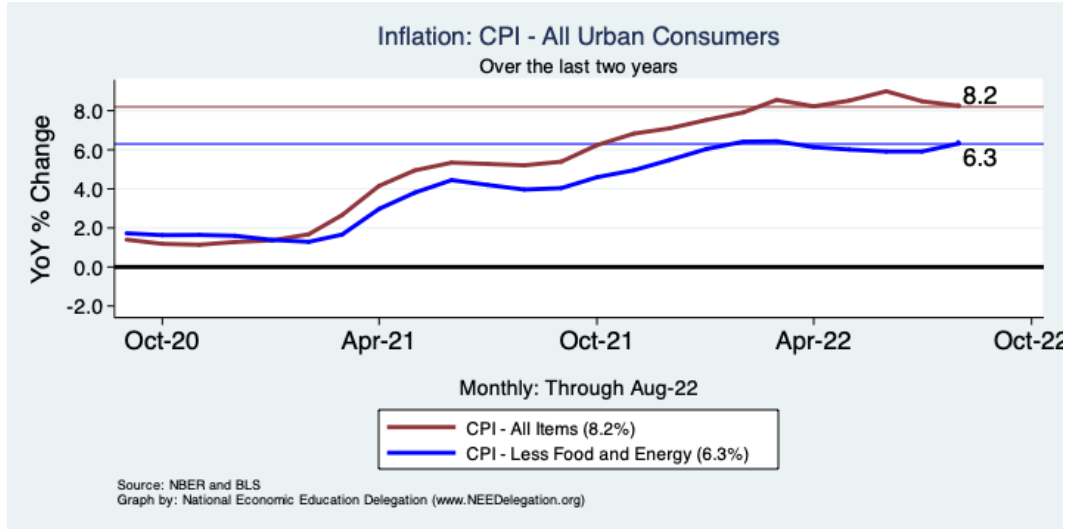
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## Inflation

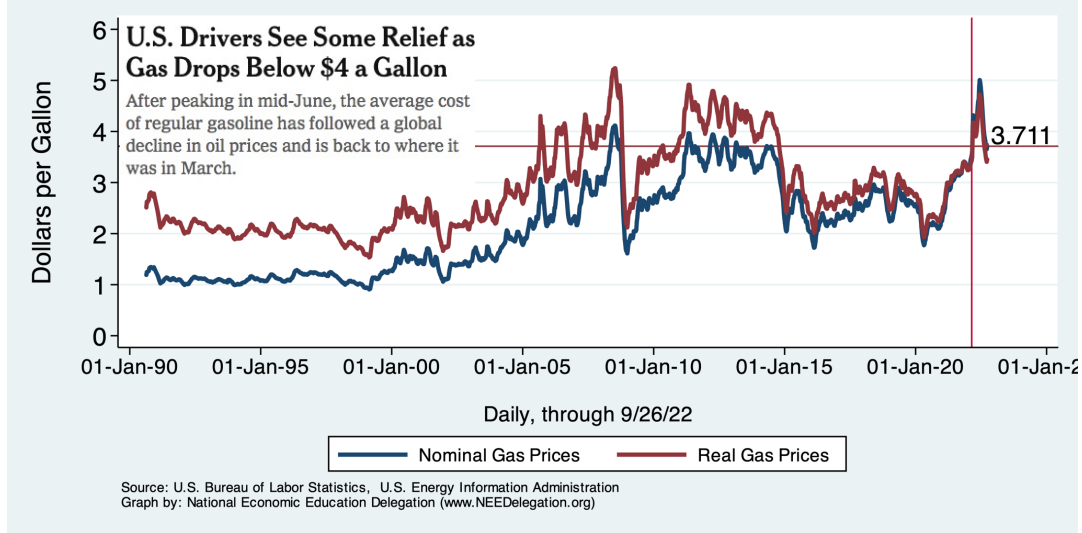


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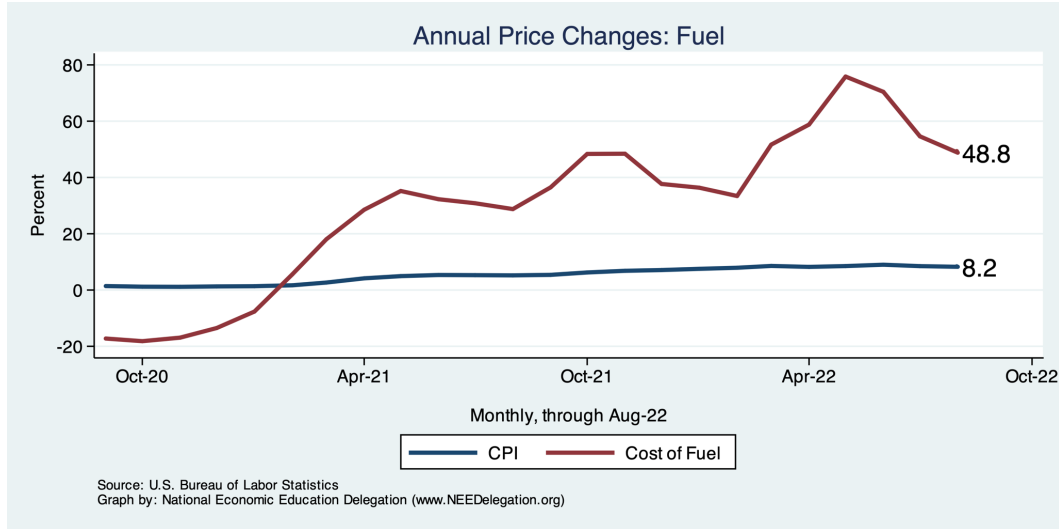
# Inflation – Climbing! Or Turning Around?



# Gas Prices: National Average at the Pump

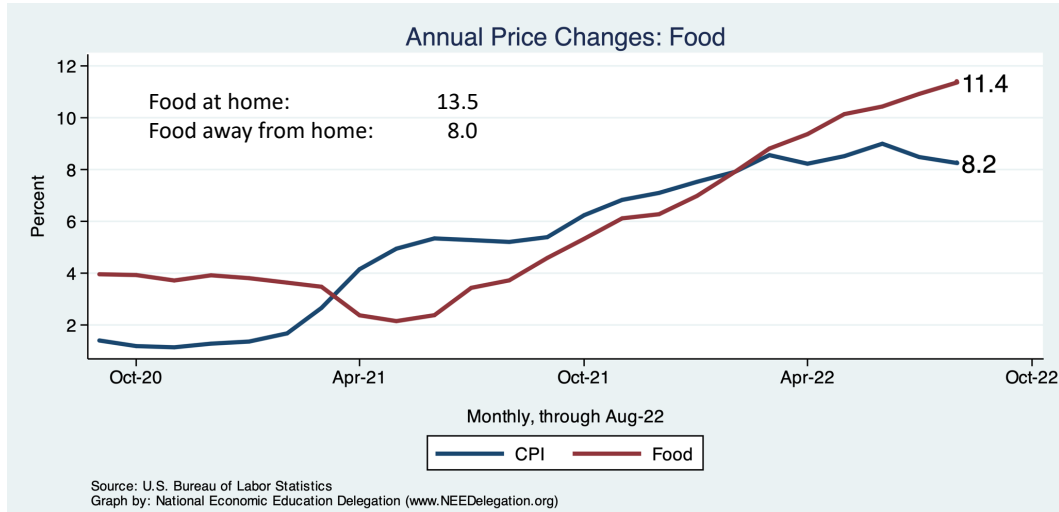


## Fuel Costs Are Still Elevated



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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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## Spending Patterns Changed - More Goods!

### Demand-Pull

Month	Services Index	Goods Index
Jan-18	~95	~95
Jan-19	~97	~97
Jan-20	~100	~100
Jan-21	~93	~115
Jan-22	~98	~110
Jan-23	100.7	114.3

Monthly: Through Jul-22

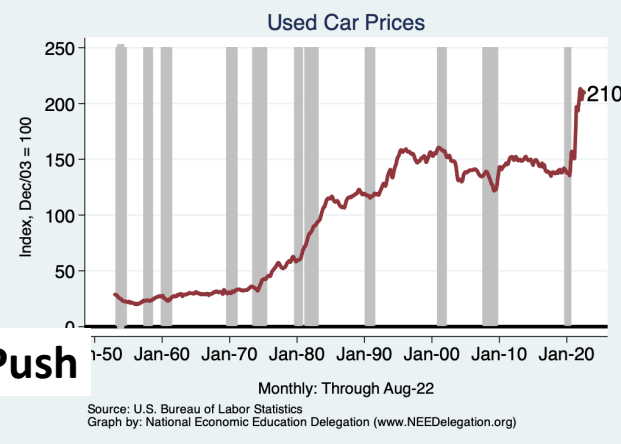
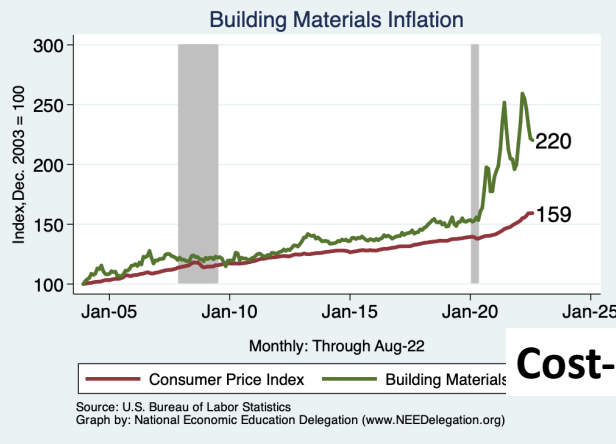
Legend: — Services — Goods

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

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# Inflation: Concentrated



**Cost-Push**

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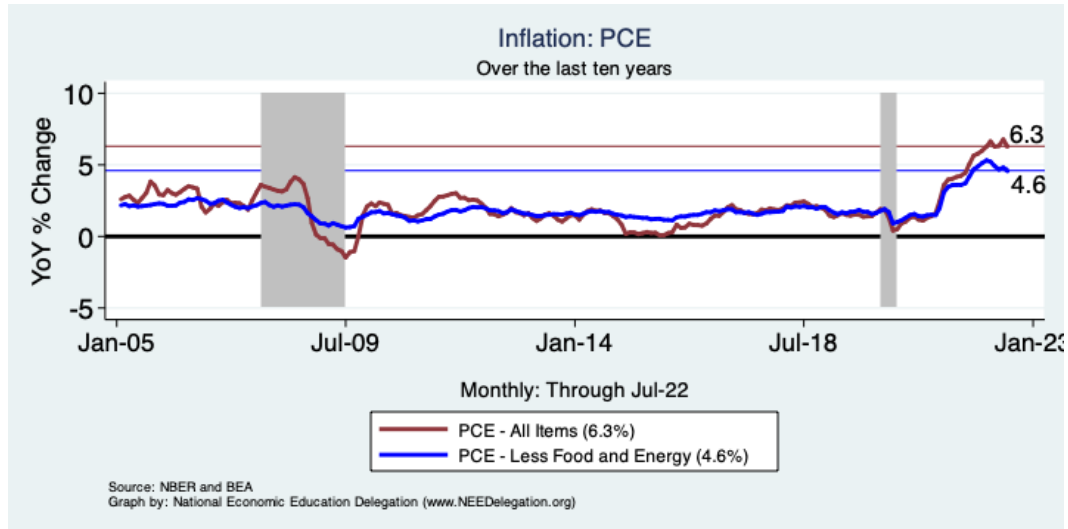
# Supply Chains



**Cost-Push**

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## Fed's Preferred Measure of Inflation



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## My Diagnosis for the Uptick in Inflation

- Spending patterns have changed dramatically.
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was also 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



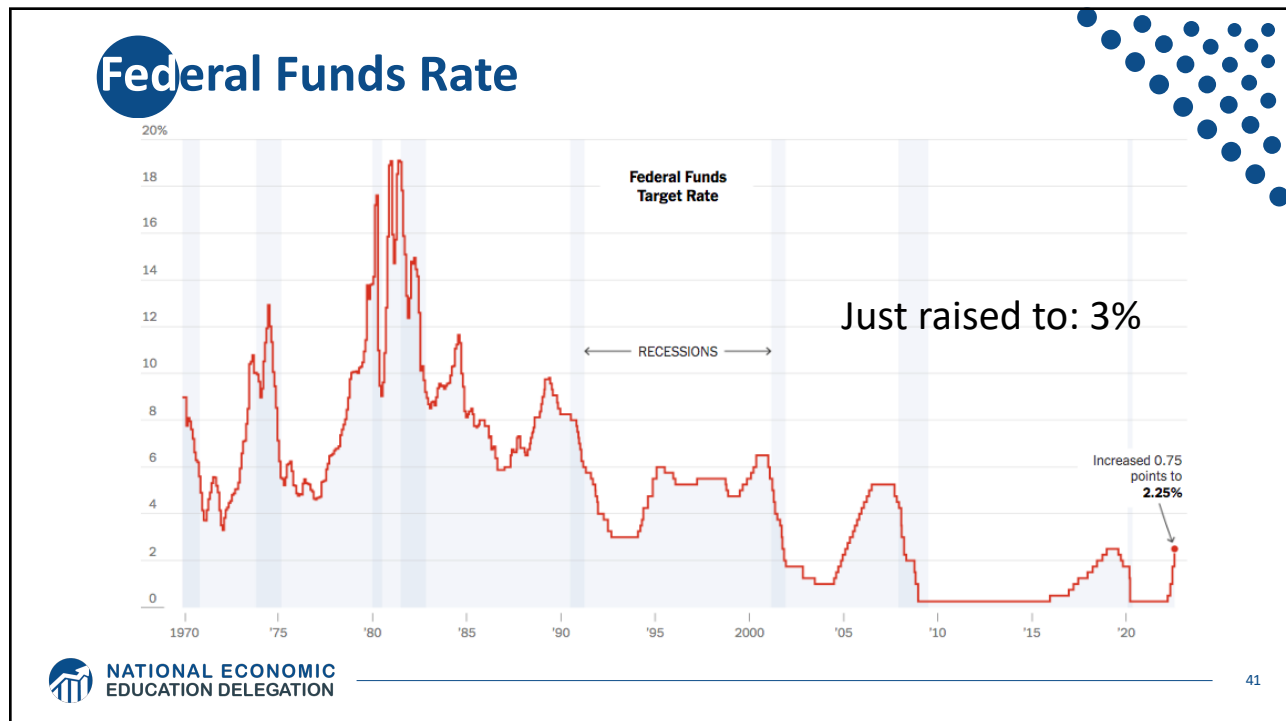
Source: NBER and Federal Reserve Bank of St. Louis. Grey indicates recession.  
 Difference between standard treasury security interest rate and the inflation-indexed rate.  
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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

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

Inflation expectations are calming down.


# What's the Fed Doing About It?



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## Implications for Demand

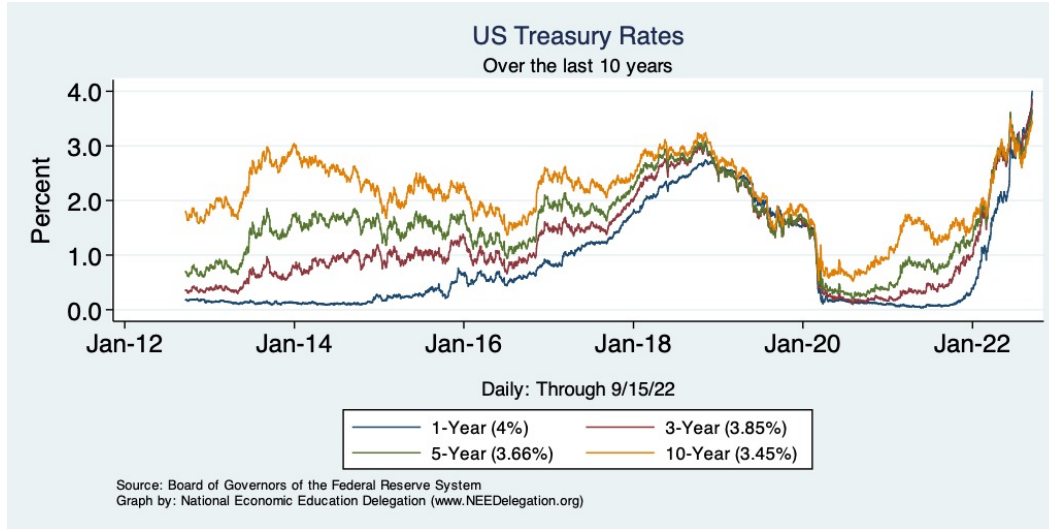
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

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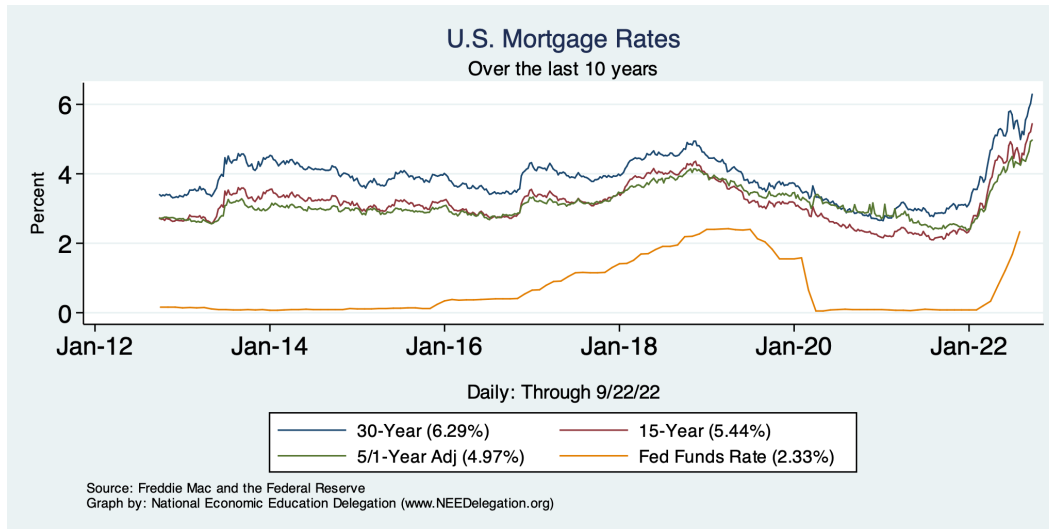
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# Treasuries



# Mortgage Rates



## 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 – 315k in August.

- **What about GDP?**

- 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
- 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.



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## Policy Response

To the pandemic

To inflation



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**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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For every state and county in the United States.

Detailed graphs on employment, housing, moves, and other statistics.



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