



Osher Lifelong Learning Institute, Fall 2023

Contemporary Economic Policy

American University
Fall, 2023

Jon Haveman, Ph.D.
National Economic Education Delegation



Course Outline

- **Contemporary Economic Policy**

- Week 1 (9/28): US Federal Budget (Jon Haveman, NEED)
- Week 2 (10/5): Trade and Globalization (Arkadiusz Mironko, Indiana Univ. East)
- Week 3 (10/12): International Institutions (Alan Deardorff U of Michigan)
- **Week 4 (10/19): Economic Update (Geoffrey Woglom Amherst College)**
- Week 5 (10/26): Monetary Policy (Geoffrey Woglom)
- Week 6 (11/02): Intro to Financial Economics (Geoffrey Woglom)

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.
- **After talk, I hope there will be time for more extended questions.**

INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
October 10, 2023



Credits and Disclaimer

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

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dornbeck, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

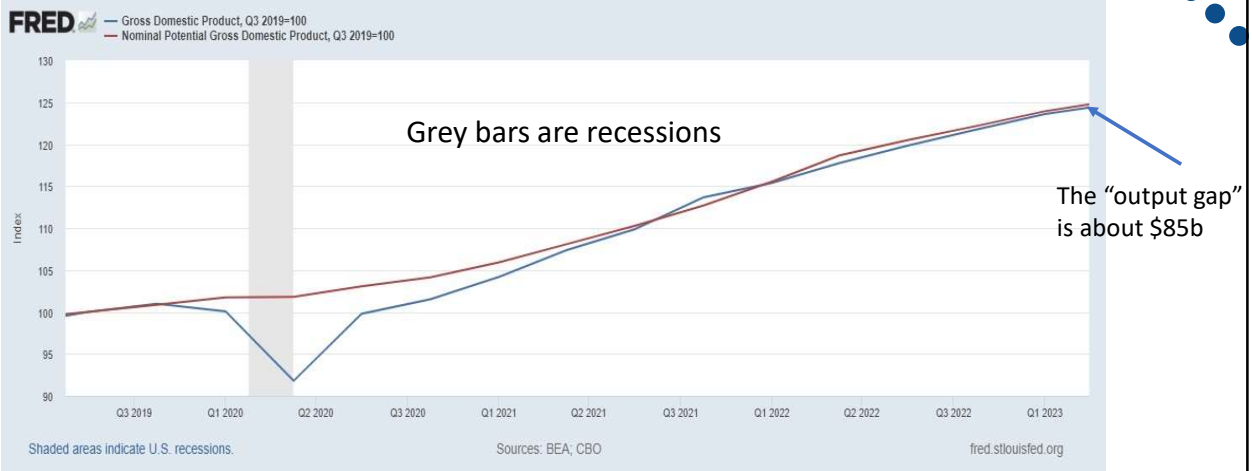
- **Disclaimer**

- 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 for the Talk

1. **Summary of the state of the macroeconomy.**
2. **The Effect of M&F policies.**
3. **What lies ahead for the economy.**
4. **What will the Fed do at its next policy meeting 10/31-11/1**

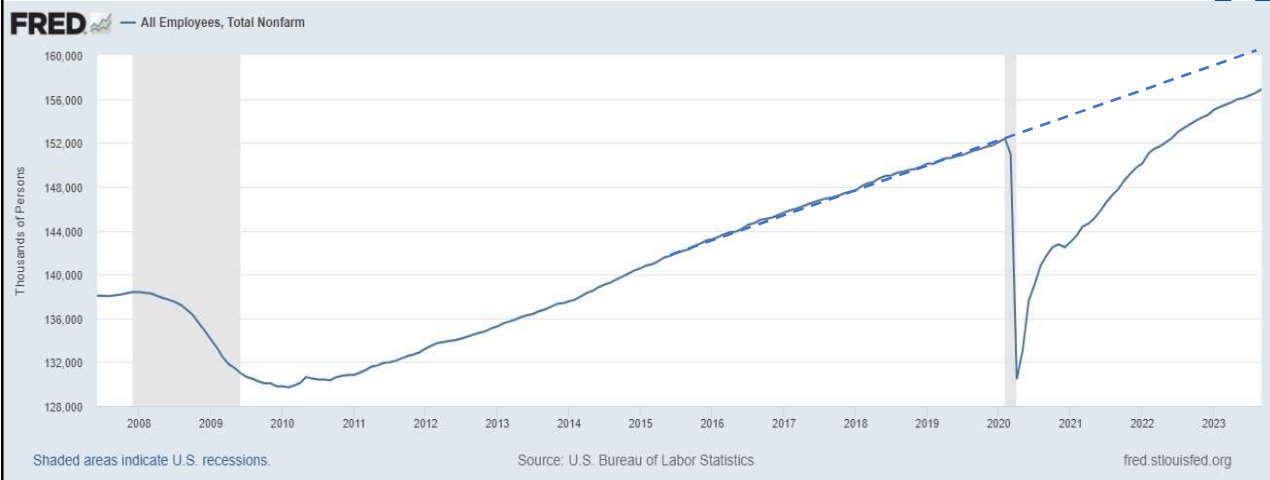
GD^P and 'Potential' during the Recovery



Unemployment is Near Record Lows



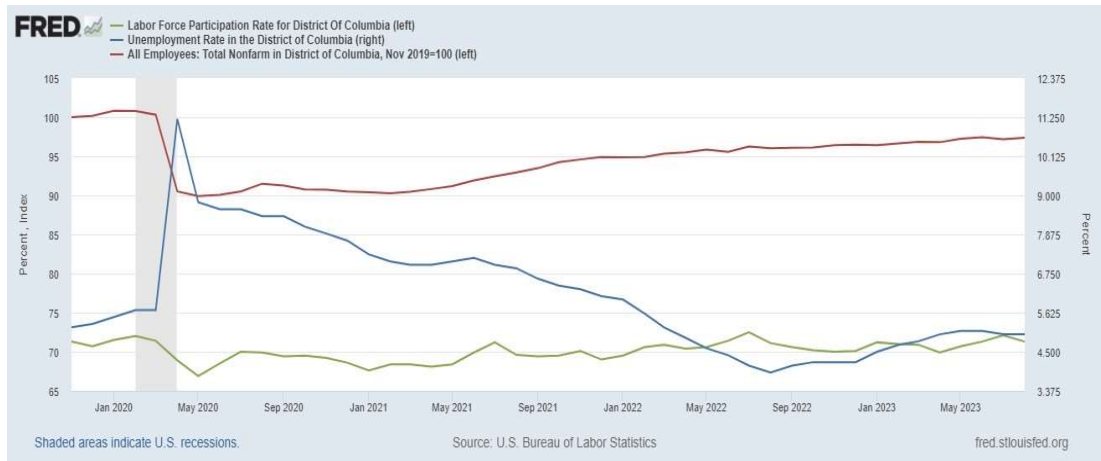
Where Have All the Workers Gone?



The Great Resignation?



Labor Market in the District



Overall Good News on the Real Side

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good!

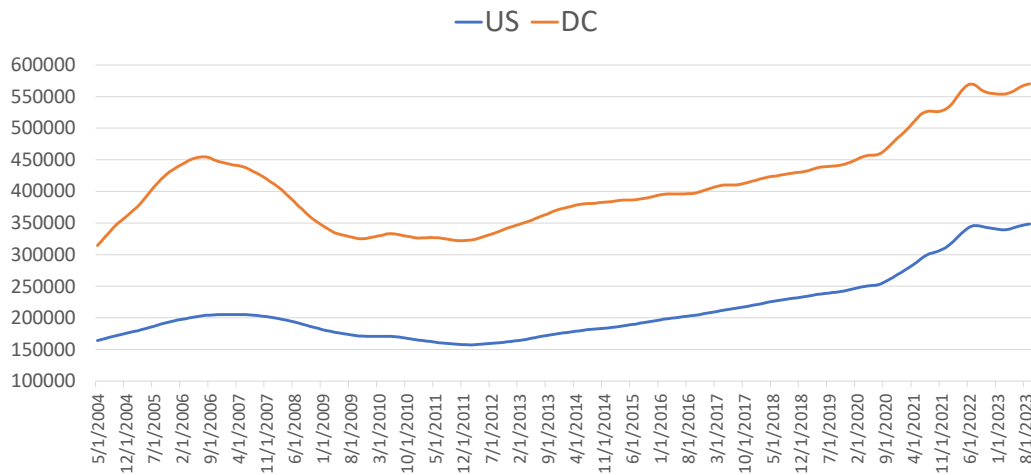


Interest Rates: Era of Falling Rates Over?

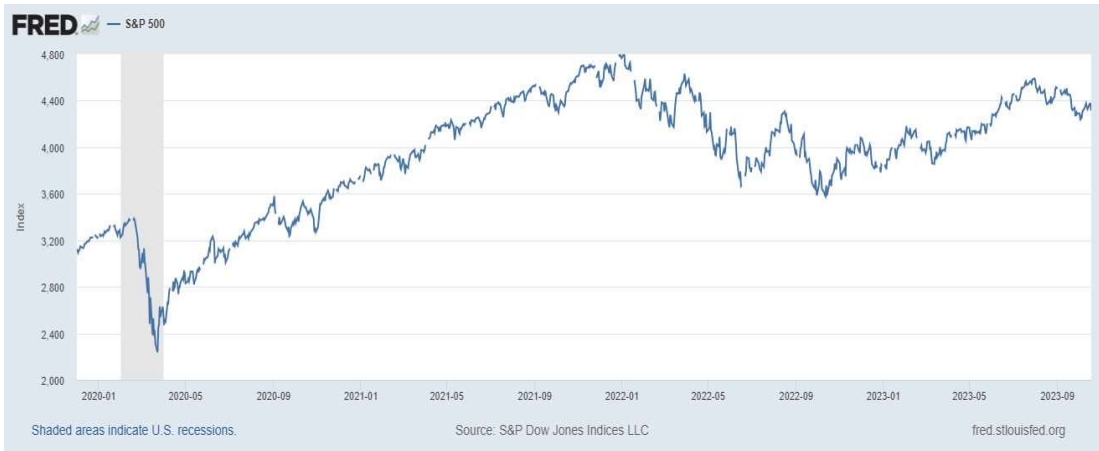


National Housing Market and Closer to Home

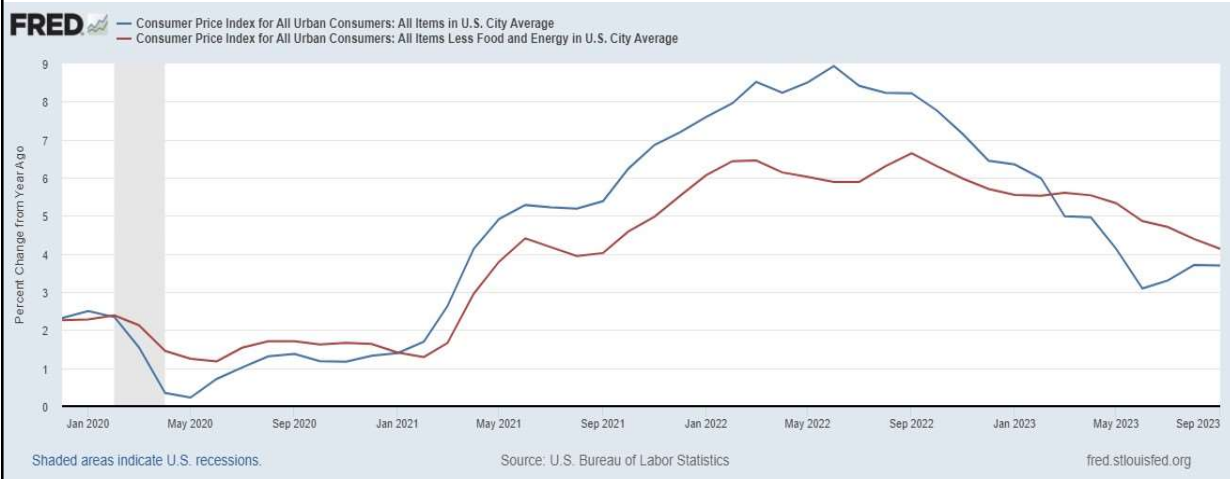
Single Family Home Prices



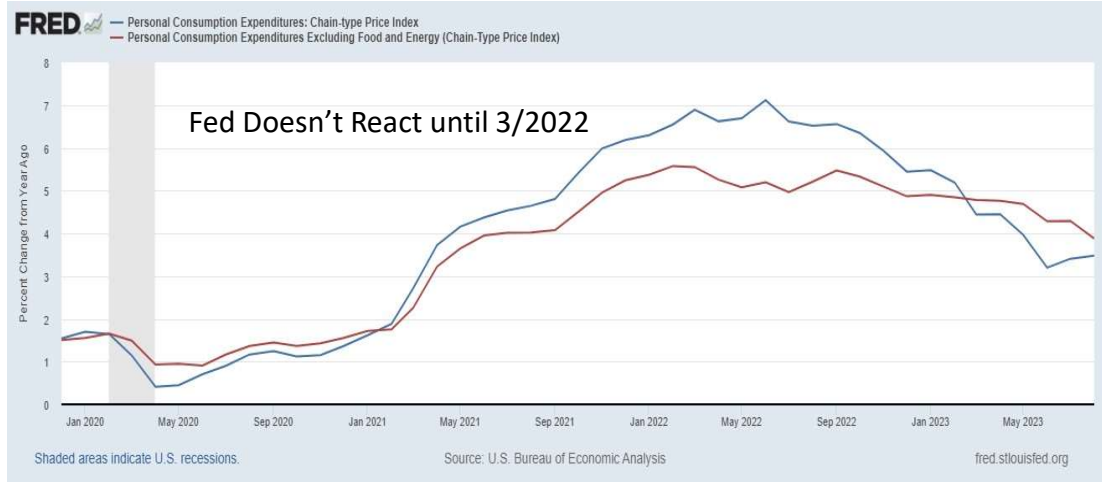
Stock Prices: Greed Giving Way to Fear?



Inflation during the Recovery (CPI)



Fed's Measure (PCE)



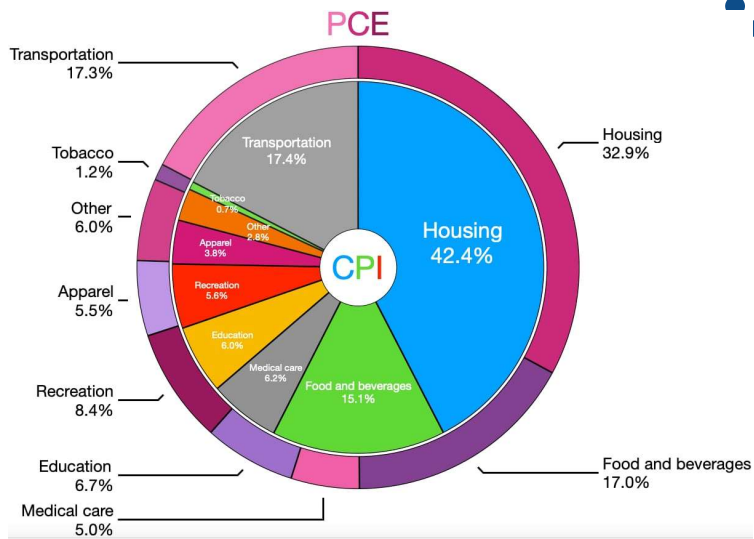
CPI vs. PCE: Differences

CPI tends to be higher (Aug):

CPI, 4.3%
 PCE, 3.5%

Core CPI, 3.7%
 Core PCE, 3.9%.

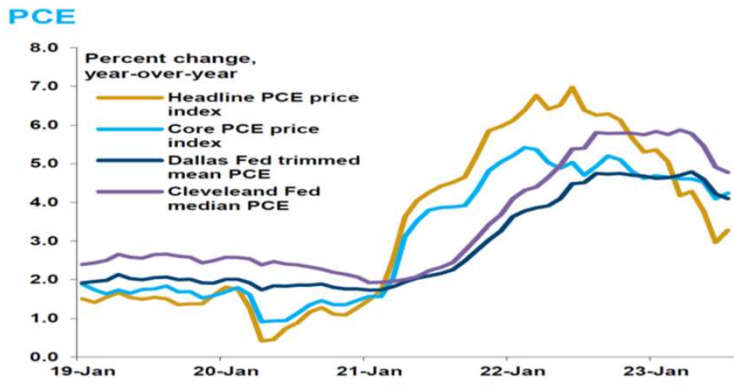
Typically more like
 0.5 % pts.



Measuring “Underlying” Inflation

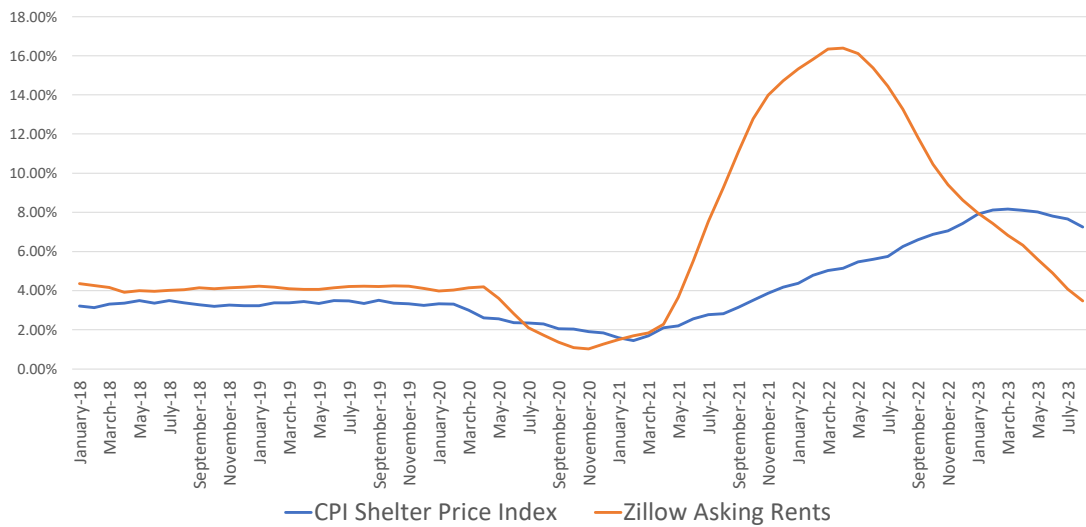
Two Reasons for Measuring Recent Inflation:

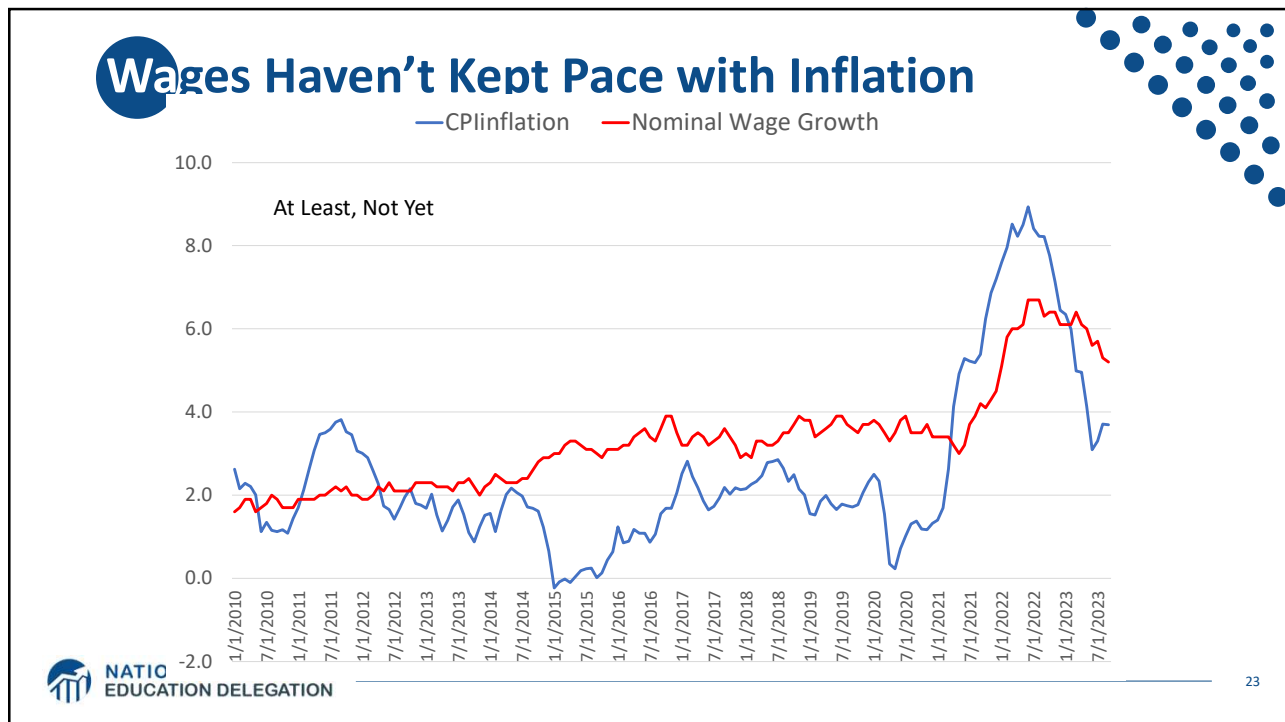
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?



Sources: Bureau of Economic Analysis, Federal Reserve Bank of Dallas, and Federal Reserve Bank of Cleveland via Haver Analytics

Rents Paid versus Asking Rents





The “Nominal” Side

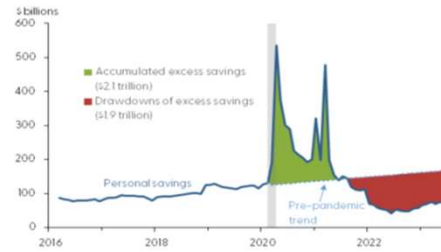
- **Inflation: There is a lot of work still to be done.**

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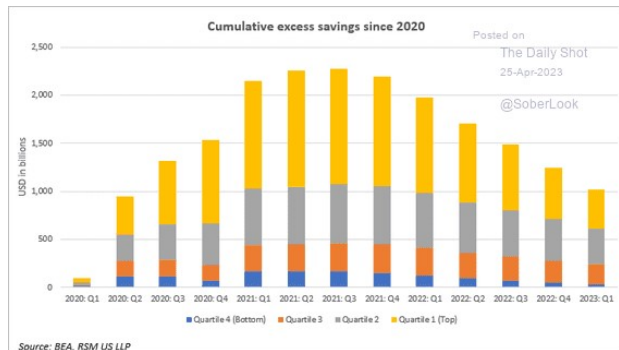
Policy Effects: Fiscal

- 2020-2021: massive stimulus. Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.

Aggregate Personal Savings



Source: Abdeirahman, Hamza et al., "Excess No More? Dwindling Pandemic Savings," Federal Reserve Bank of San Francisco, Aug. 2023. <https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/>

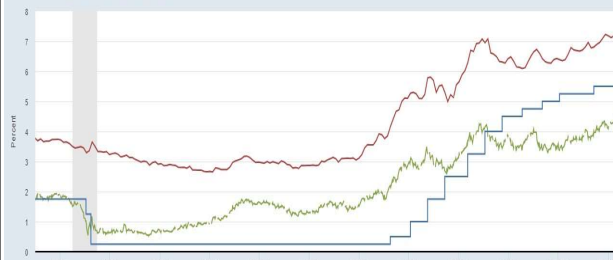


Source: BEA, RSM US LLP

Policy Effects: Monetary

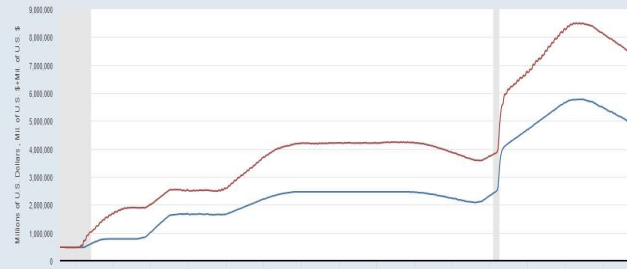
- 2020-2/2022: policy interest rate at zero, new round of quantitative easing.
- 3/2022-present: most rapid increase in interest rates since Paul Volcker

FRED — 30-Year Fixed Rate Mortgage Average in the United States
 — Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis
 — Federal Funds Target Range - Upper Limit



Shaded areas indicate U.S. recessions. Sources: FHLMC, Board of Governors. fred.stlouisfed.org

FRED — Assets: Securities Held Outright: U.S. Treasury Securities: All: Wednesday Level
 — Assets: Securities Held Outright: Mortgage-Backed Securities: Wednesday Level—Assets: Securities Held Outright: U.S. Treasury Securities: All: Wednesday Level



Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US). fred.stlouisfed.org

Where we Stand

- **Bidenomics?**

- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Chips Act
- Inflation Reduction Act.

More importantly, Presidents don't have much effect on the economy in the short run.

- **Monetary policy was too easy for too long, but since March of last year has been much more restrictive.**
- **Yes, there were supply chain issues that temporarily raised inflation, but there was (is?) too much total spending.**

So, where are we headed?

What will the Fed do?



Fed's View in September

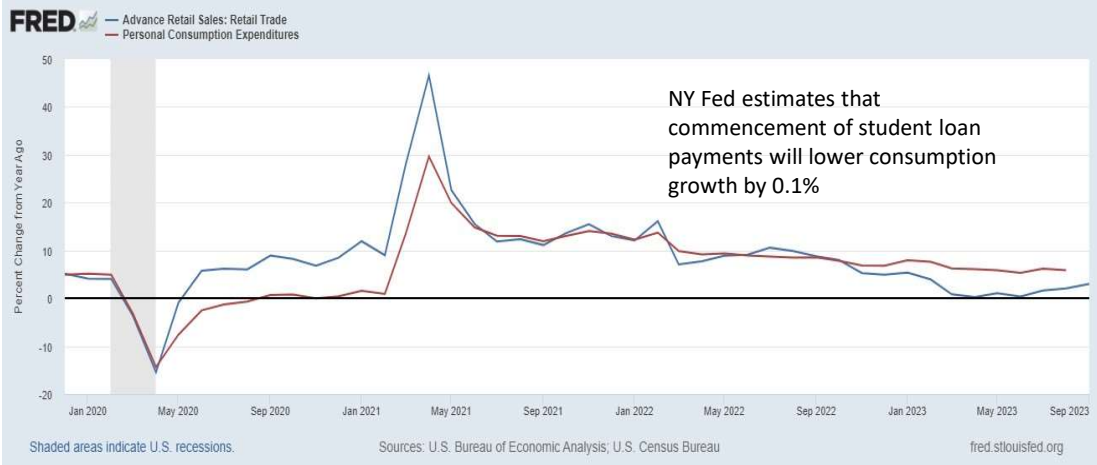
Percent

Variable	Median ¹				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.1	1.5	1.8	1.8	1.8
June projection	1.0	1.1	1.8		1.8
Unemployment rate	3.8	4.1	4.1	4.0	4.0
June projection	4.1	4.5	4.5		4.0
PCE inflation	3.3	2.5	2.2	2.0	2.0
June projection	3.2	2.5	2.1		2.0
Core PCE inflation ⁴	3.7	2.6	2.3	2.0	
June projection	3.9	2.6	2.2		
Memo: Projected appropriate policy path					
Federal funds rate	5.6	5.1	3.9	2.9	2.5
June projection	5.6	4.6	3.4		2.5

Austin Goolsbee, President of the Chicago Fed. The economy is on a "golden path" and will achieve the "mother of all soft landings."

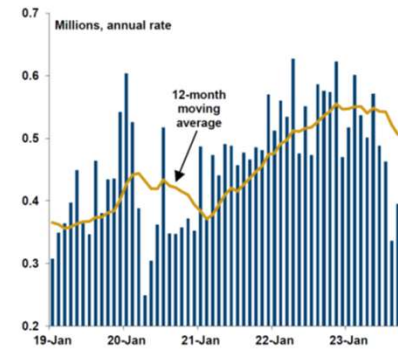


Latest Readings on Consumers



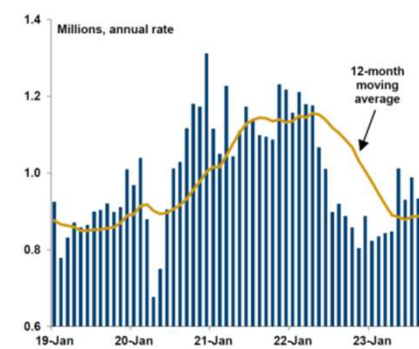
Mortgage Rates are Having an Effect

Multi-Family Housing Starts



Source: U.S. Census Bureau via Haver Analytics

Single-Family Housing Starts

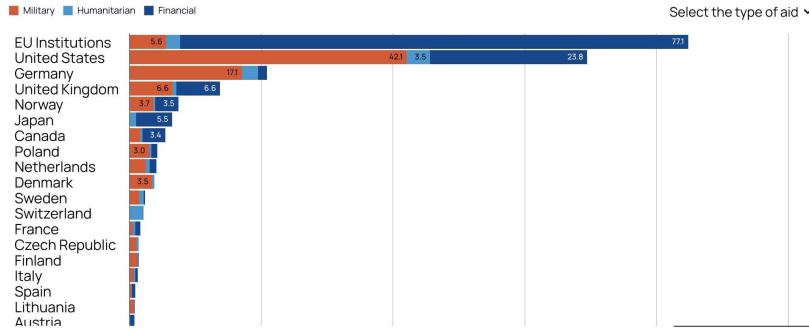


Source: U.S. Census Bureau via Haver Analytics

Aid to Ukraine: How Big?

Government support to Ukraine: Type of assistance, € billion

Commitments Jan. 24, 2022 to July 31, 2023. Data on 42 donors ; scroll to see more donors



10 % of FY 2023 Defense Budget
 1.3 % of FY 2023 Total Outlays;
 0.3% of GDP

Source: Trebesch et al. (2023) "The Ukraine Support Tracker" Kiel WP

ifw-kiel.de/ukrainetracker

Disclaimer

Wall Street Consensus: No Recession

Probability the U.S. is in a recession in next 12 months including today



Note: Gaps indicate question not asked or data unavailable.
 Source: Wall Street Journal surveys of economists

Key Players' Views on the Risk of a Recession

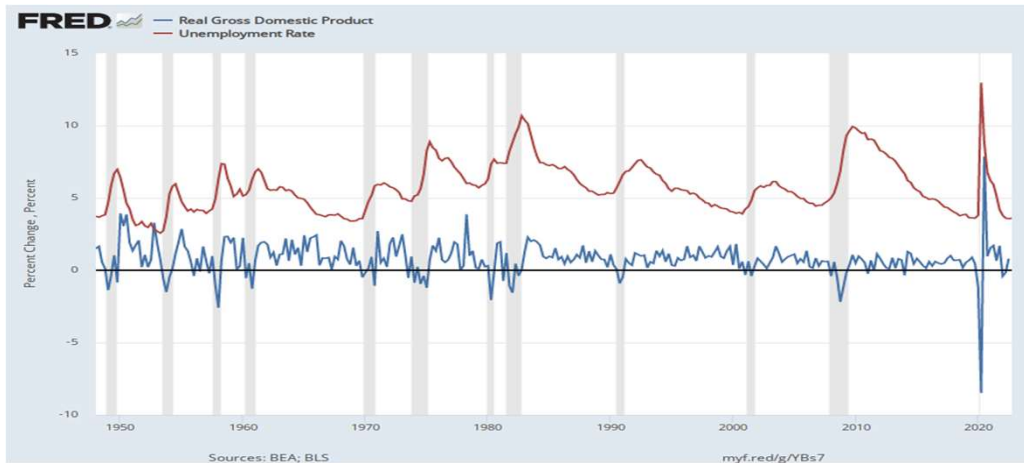
Forecaster	Estimated U.S. Recession Probability (Next 12 Months)
Federal Reserve Staff	0%
Yield Curve*	61%
Economists	48%
Consumers	69%
Goldman Sachs	15%
Bank of America	35-40%
CEOs**	84%

Source: Federal Reserve Bank of New York, Wolters Kluwer, The Conference Board, Goldman Sachs Investment Research, Bank of America. Data based on surveys and projections conducted August-September. *Based on a New York Fed model estimating recession probabilities using 10-year minus 3-month Treasury yield spreads, based on data from 1959-2009. **Conference Board Q3 CEO survey probability of a recession over the next 12-18 months.

What is a Recession?

- **Defined by the National Bureau of Economic Research (NBER)**
- **“The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”**
- **Popular Rule of Thumb: Two or more, consecutive quarters where Real GDP falls.**
- **Recessions are caused by decreases in total spending.**

Real GDP Growth and Recessions

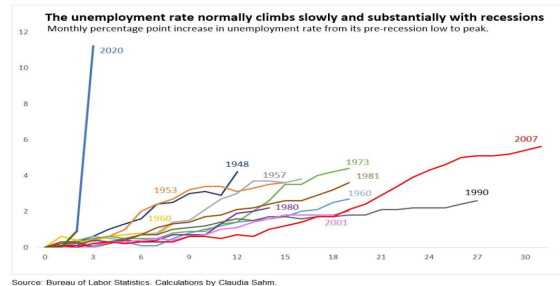


Monetary Policy is Tough



They are Both Right!

Warren:



Powell:

“We are taking the only measures we have to bring inflation down....Will working people be better off if we just walk away from our job and inflation remains at 5 or 6 percent?”



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And, It Will Only Get Harder

- **Biden has tied his campaign to the performance of the economy, but it is the Fed that can affect the economy between now and 11/24**
- **Known, Unknowns**
 - Congressional paralysis and possible government shutdown, 11/17.
 - Wars in Ukraine and Israel.



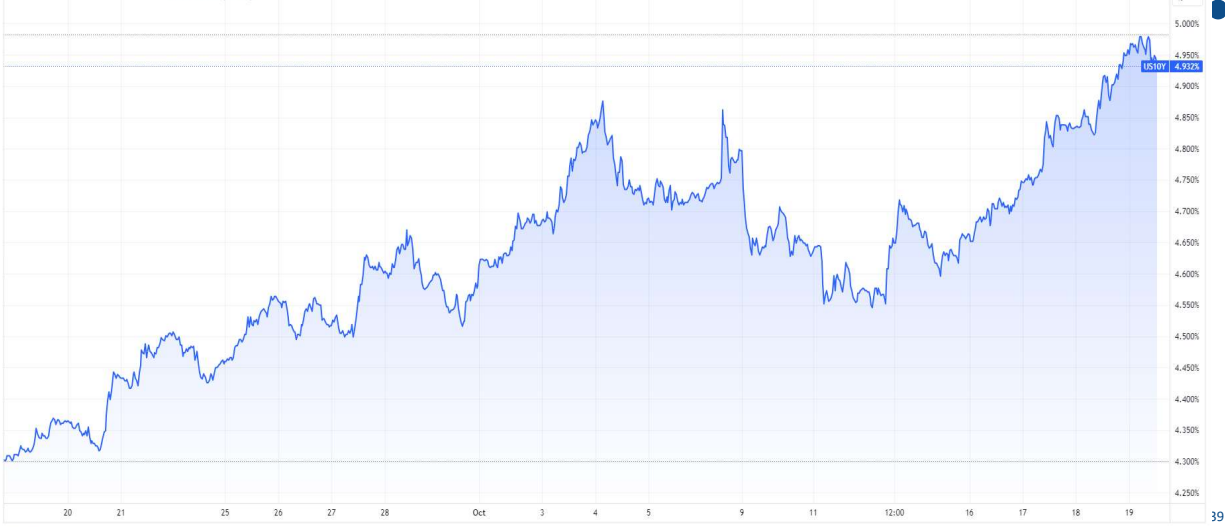
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Unknown Unknowns!

grvngiom published on TradingView.com, Oct 19, 2023 11:48 UTC-4

US Government Bonds 10 YR Yield, 30, TVC 4.932% -0.006 (-0.12%)



Stay Tuned!

This month's economic reports (8:30AM)

- 26th, Third Quarter GDP estimates.
- 27th, PCE inflation.
- 31st, Employment Cost Index
- 31st, Start of a Two-Day Fed Policy Meeting.

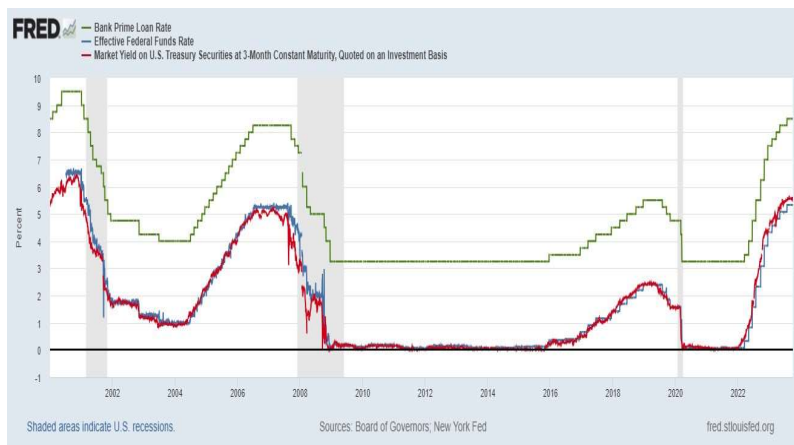


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Google Site

- <https://sites.google.com/view/macro-current-issues/home>

The Fed and Short-term Interest Rates



Blue is the fed funds rate.

Red is the rate on 3 month Treasuries.

Green is the prime bank lending rate

Let's Hear from You!

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