

Osher Lifelong Learning Institute, Fall 2022 **Contemporary Economic Policy Issues**

California State University, Dominguez Hills
Fall, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation



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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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Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics



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Course Outline

- **Contemporary Economic Policy**
 - **Week 1 (9/23): Economic Update (Jon Haveman, NEED)**
 - Week 2 (9/30): Trade and Globalization (Alan Deardorff, University of Michigan)
 - Week 3 (10/7): Autonomous Vehicles (Jon Haveman, NEED)
 - Week 4 (10/14): Climate Change Economics (Sarah Jacobson, Williams College)
 - Week 5 (10/21): The Federal Debt (Joseph Carolan, Oakland University)
 - Week 6 (10/28): Trade Deficit and Exchange Rates (Alan Deardorff, Univ. of Michigan)



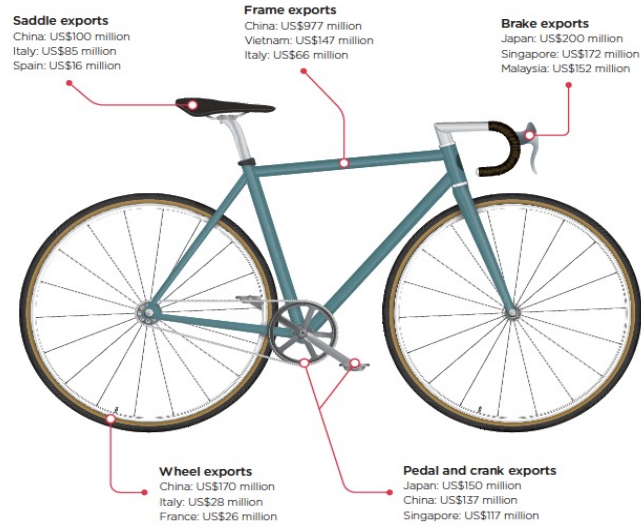
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Trade: Bicycle Supply Chain

Figure 1.1 Where do bicycles come from?

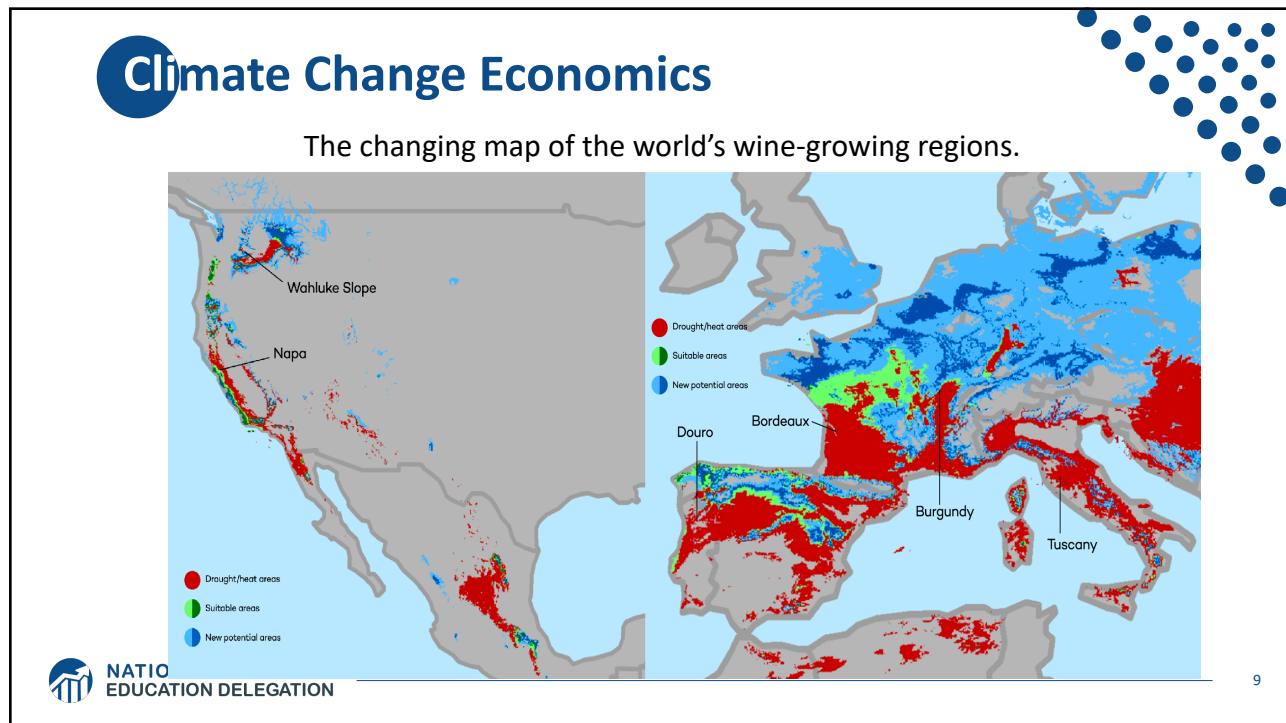


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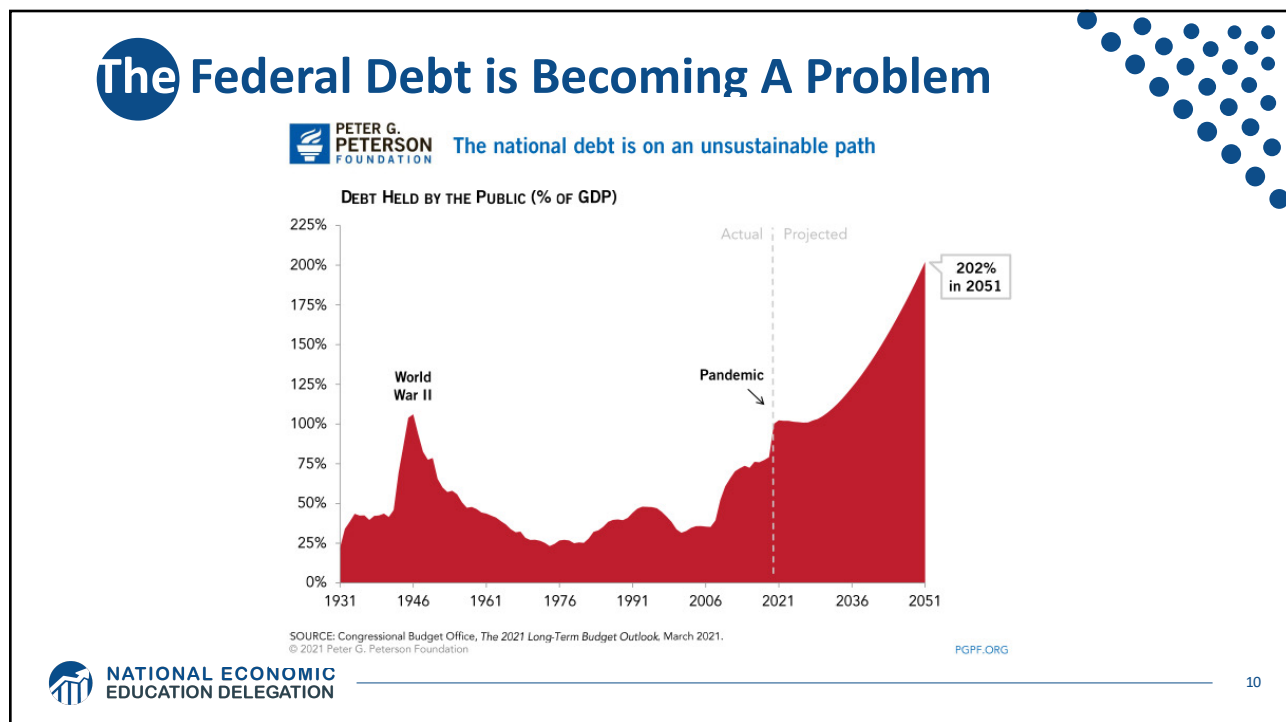
Autonomous Vehicles



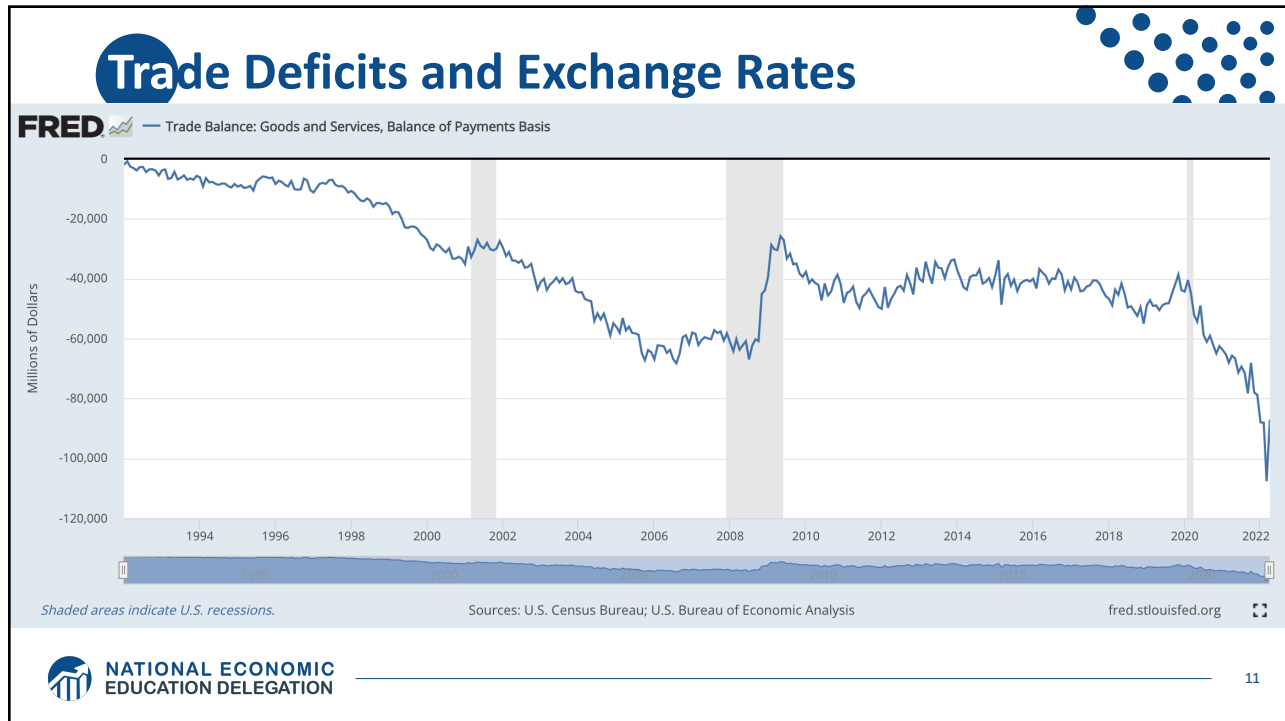
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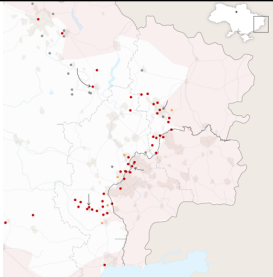
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US Economy: Update

Jon Haveman, Ph.D.
NEED
September 23, 2022



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Credits and Disclaimer

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

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- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, 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).



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Outline

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



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Some Basic Statistics

Statistic:	Value
Population	333.1 Million
Labor Force	164.7 Million
Employment	152.7 Million
Gross Domestic Product (GDP)	\$24.9 Trillion
Income per Capita	\$64,908
Ave. Hourly Earnings	\$32.36



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U.S. Economy in Global Perspective

U.S. Nominal GDP:

\$21.747 trillion in 2019-Q4

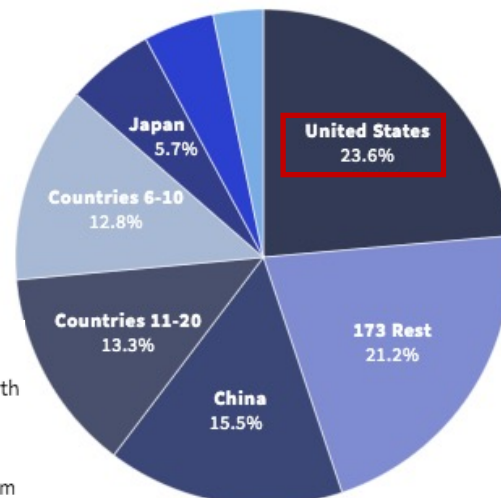
\$19.487 trillion in 2020-Q2

\$24.852 trillion in 2022-Q2

% Share of the Global Economy

The 173 countries outside the top 20 make up less than a fourth of the total global economy.

United States
 173 Rest
 China
 Countries 11-20
 Countries 6-10
 Japan
 Germany
 United Kingdom



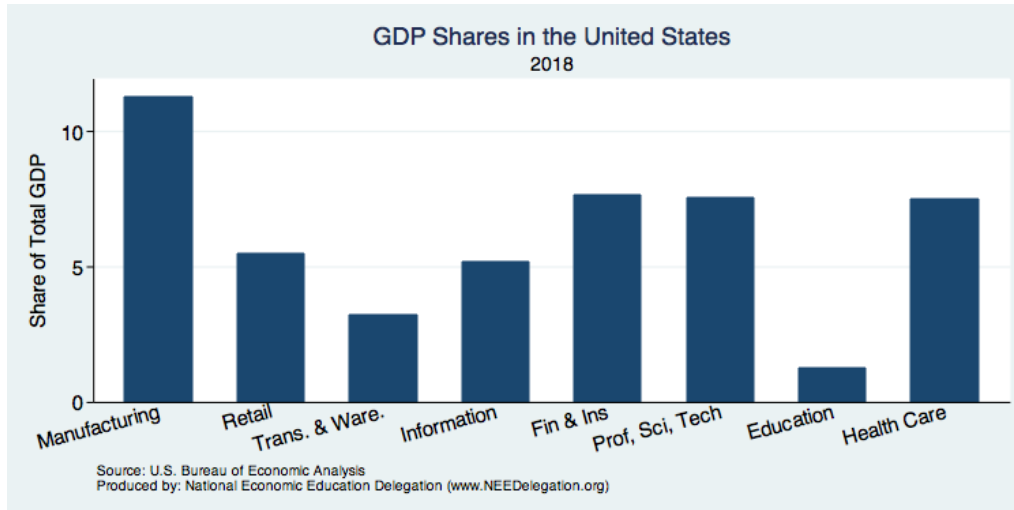
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Source: IMF

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Composition of the U.S. Economy: 2020

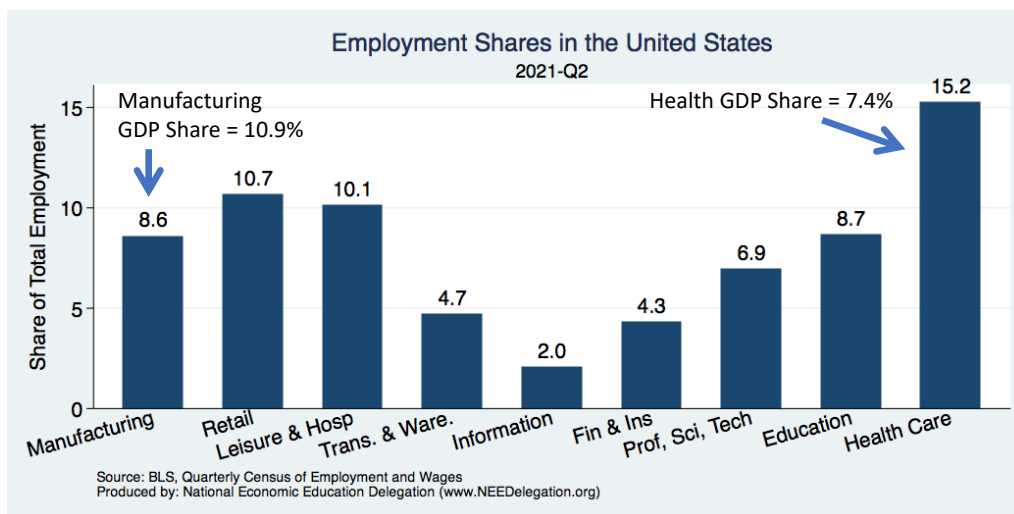


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Composition of the U.S. Economy: Employment



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

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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.

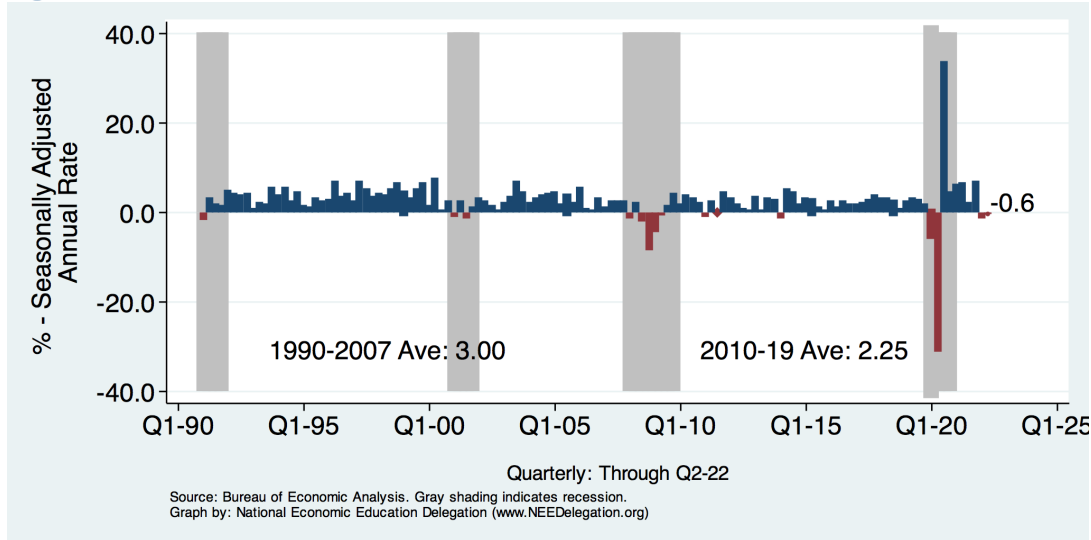


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GDP: Quarterly Growth

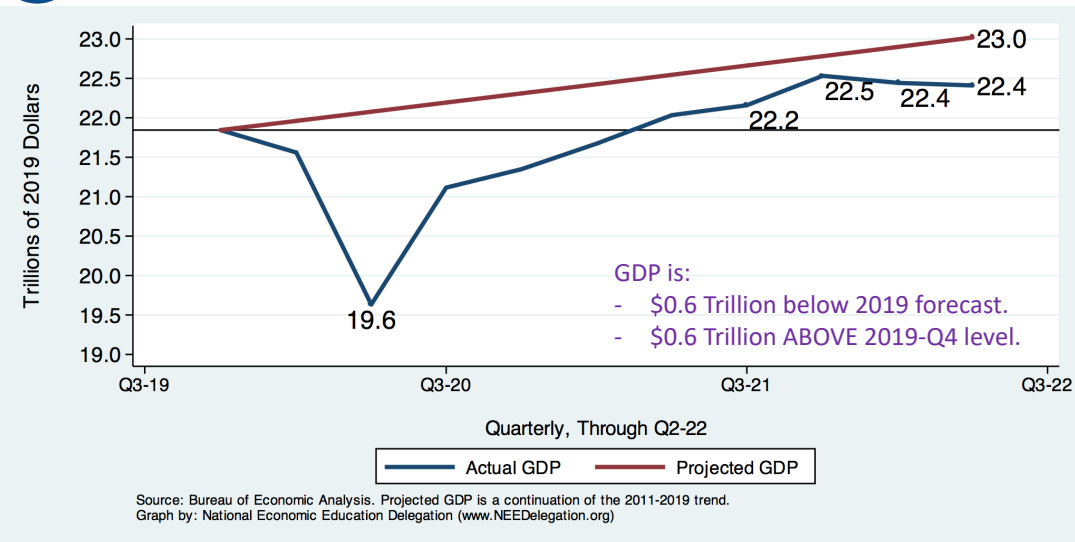


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GDP Trajectory: Pandemic Plunge!



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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.**

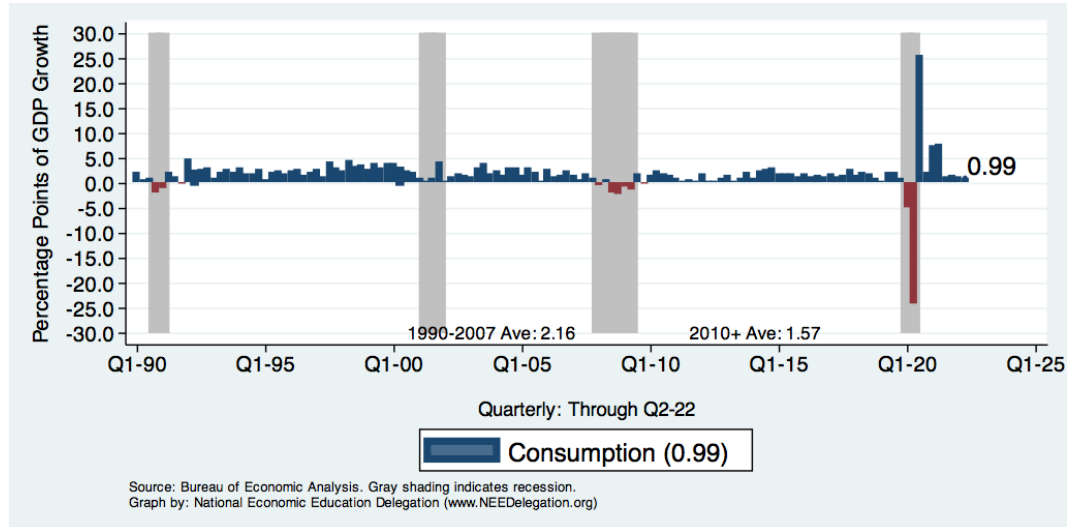


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Contribution to GDP Growth: Consumption

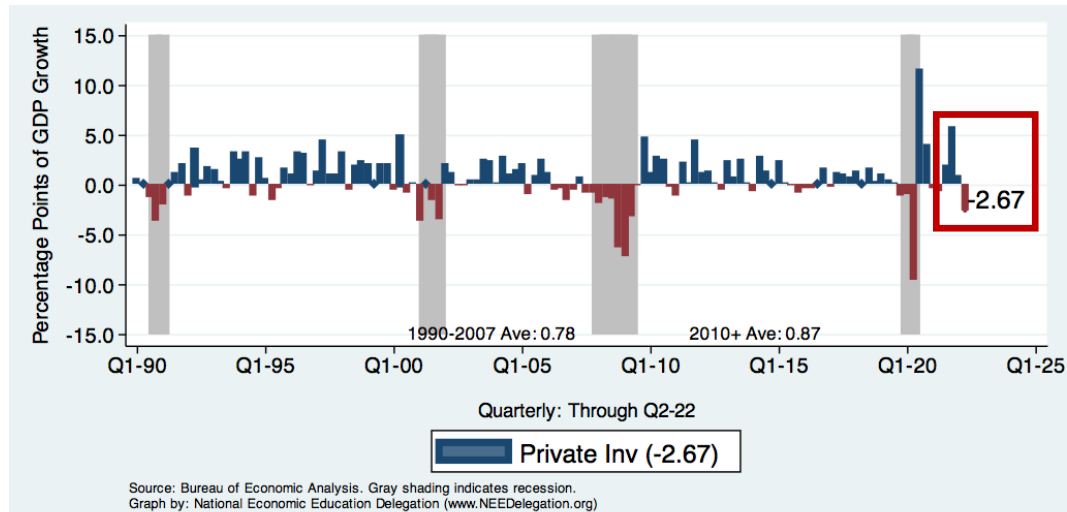


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Contribution to GDP Growth: Inventories

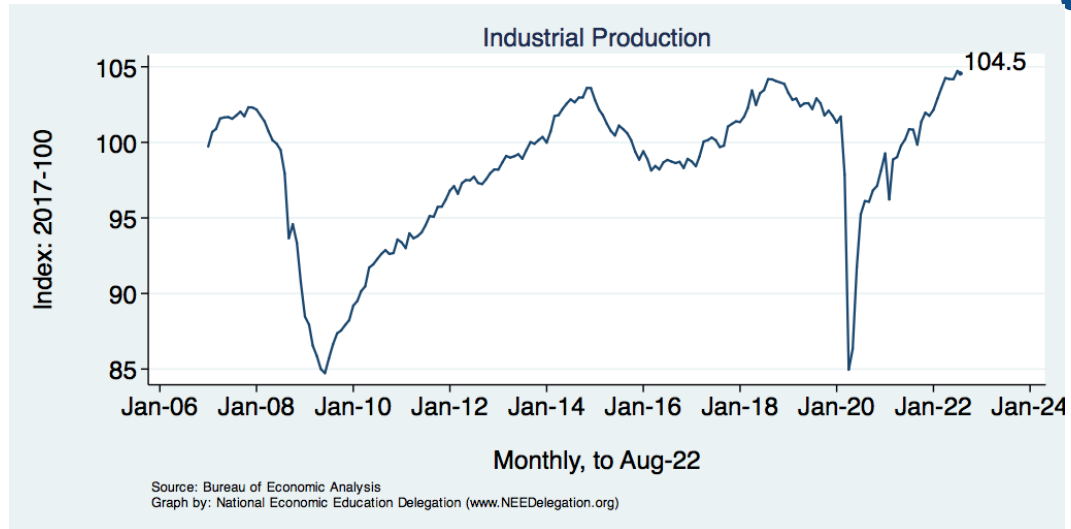


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Industrial Production (Manuf, Util, Mining)

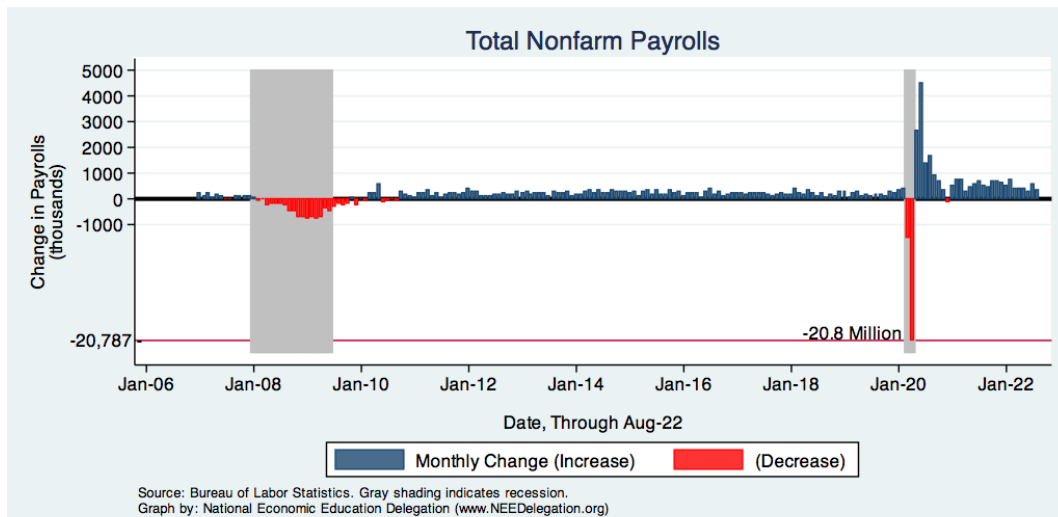


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Monthly Changes in Nonfarm Employment

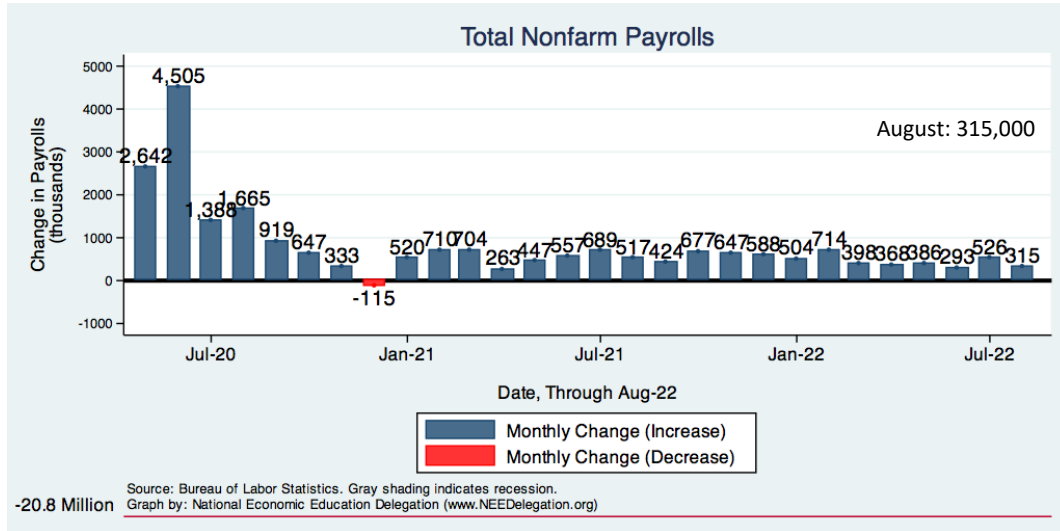


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Monthly Changes in Nonfarm Employment

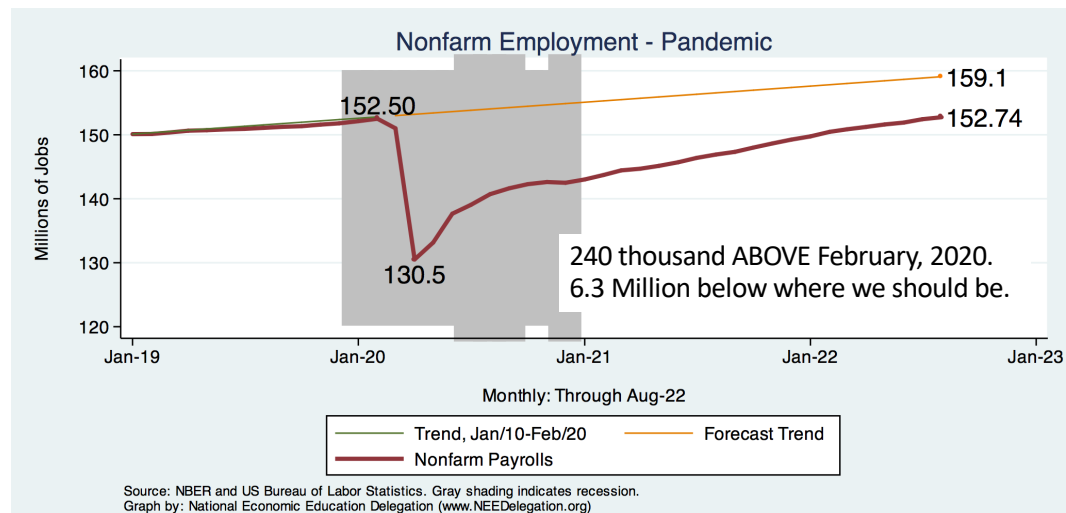


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Employment Gap



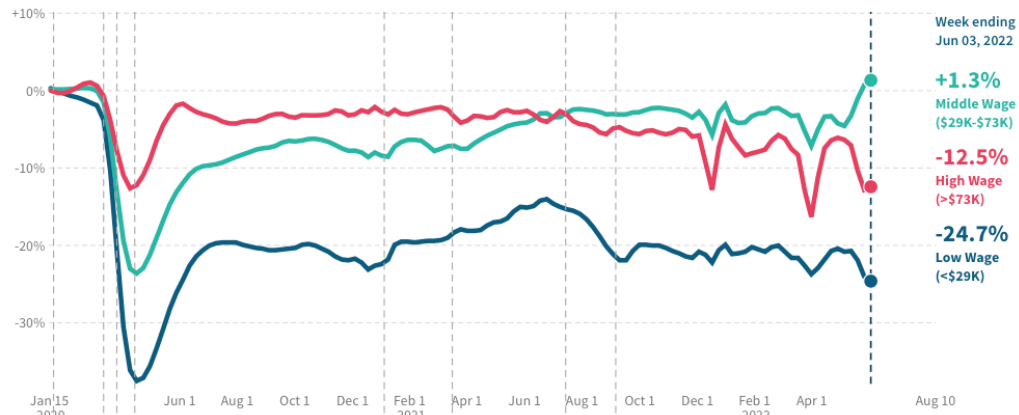
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Low Wage Employment is Lagging

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>

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Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

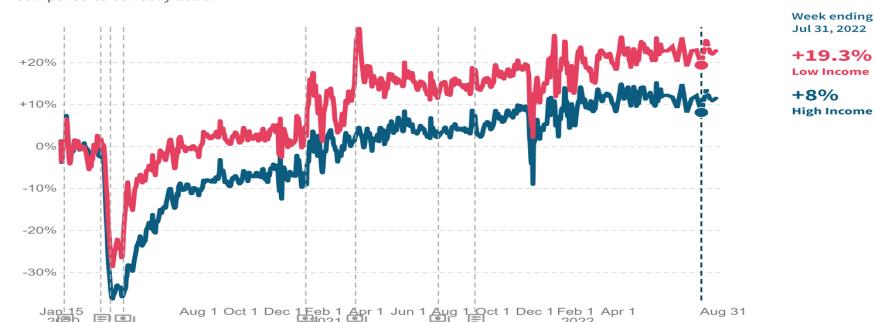
HARVARD UNIVERSITY

PIRELLA GÖTTSCHE LOWE

BILL & MELINDA GATES FOUNDATION

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

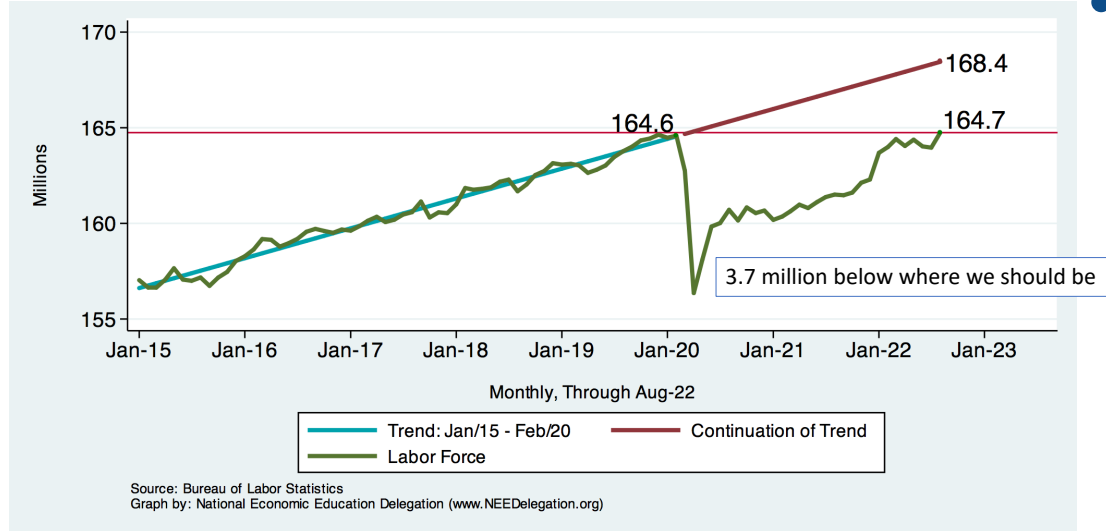


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Where Have All the Workers Gone?

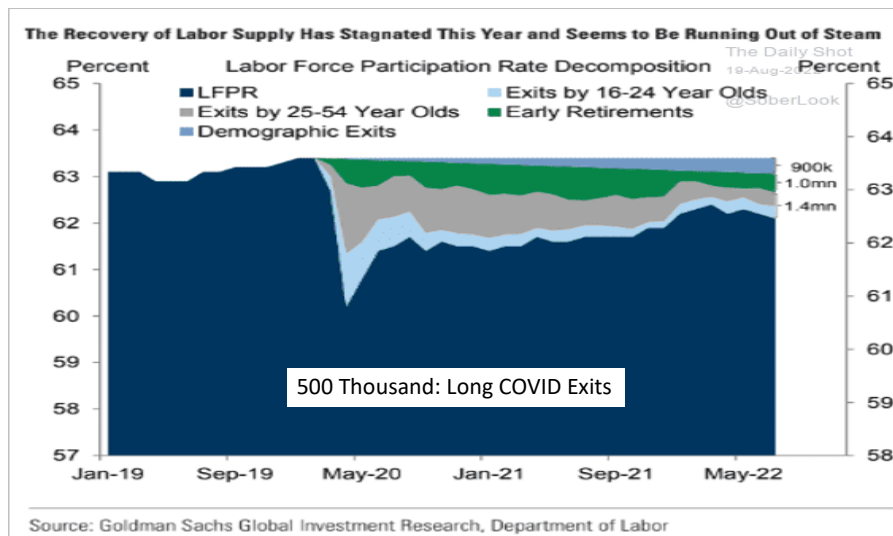


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Some Explanations



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Inflation: Latest Figures



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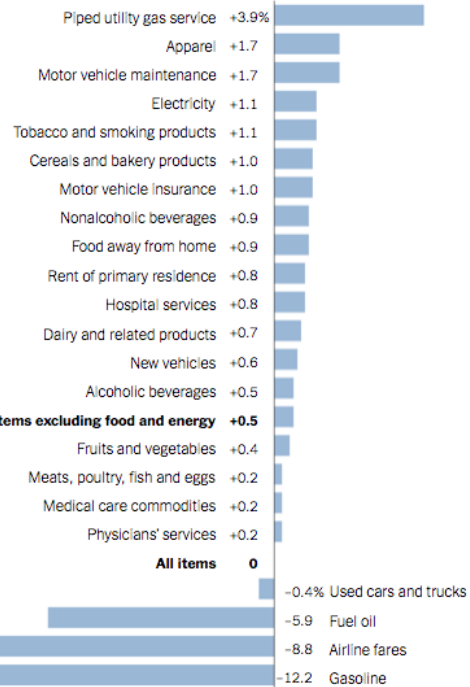
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Source: NYTimes.com

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Which Prices?

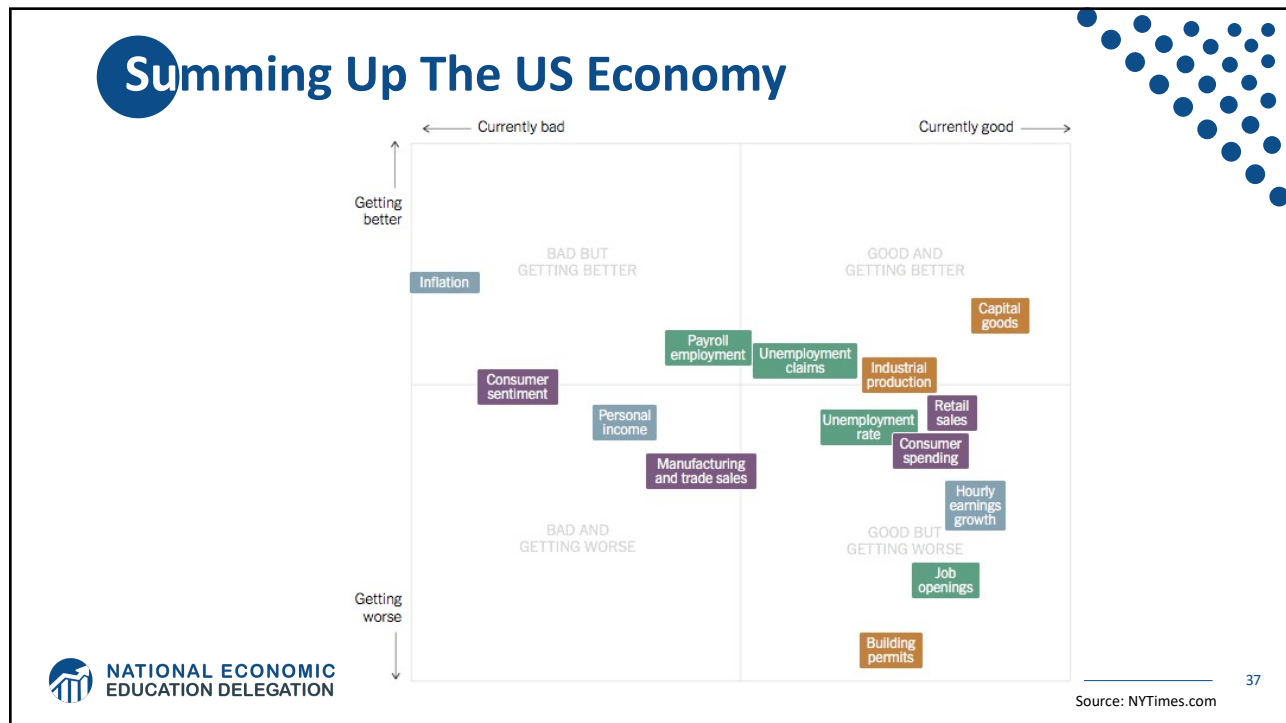
Monthly changes
in August



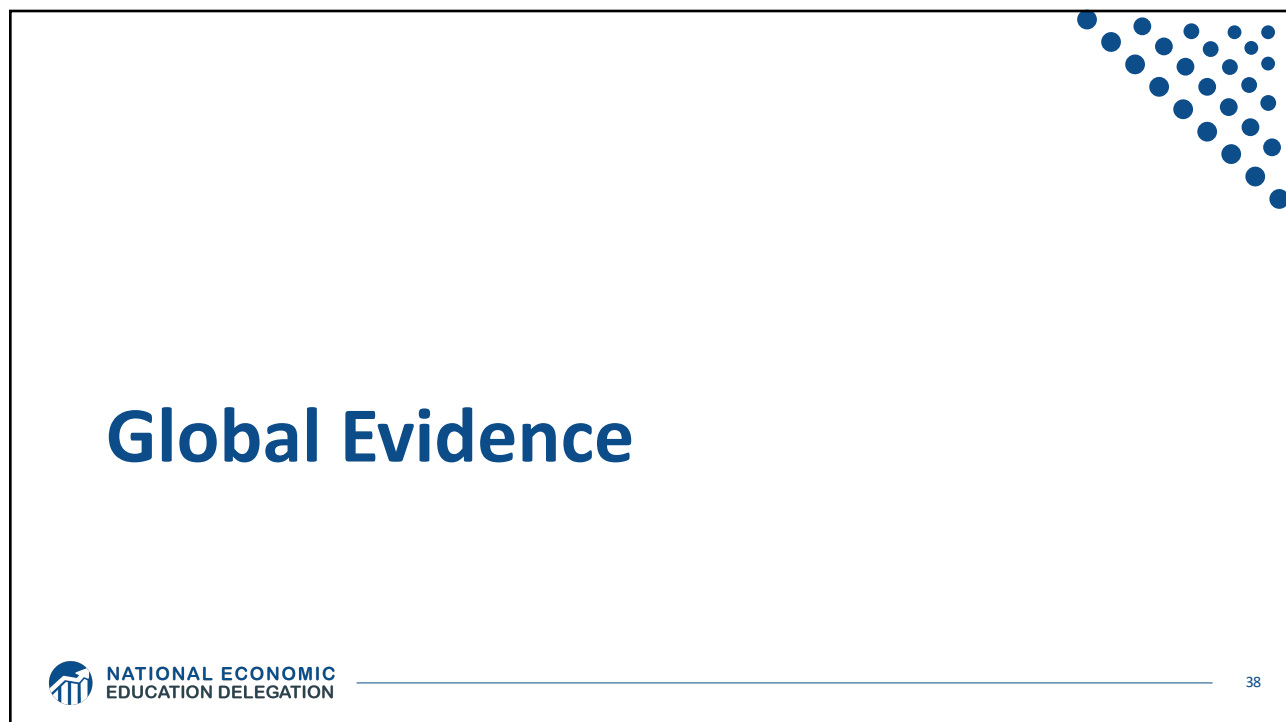
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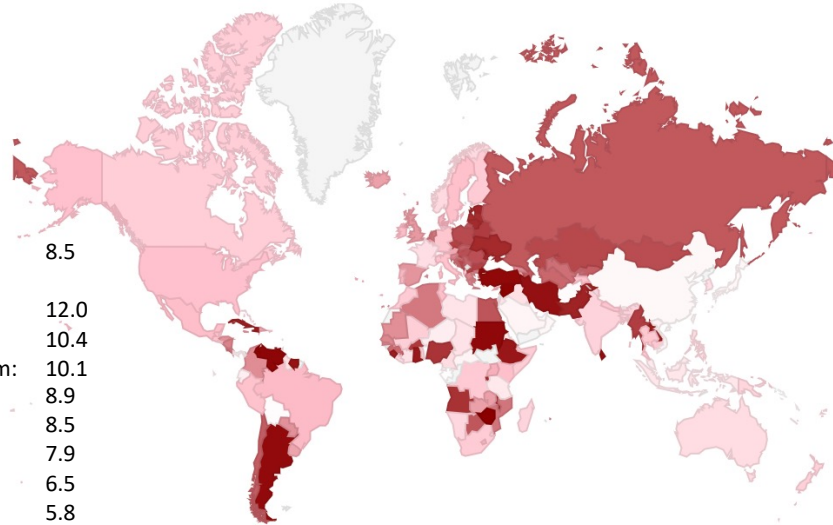
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Inflation: Not just a US Problem

United States:	8.5
Netherlands:	12.0
Spain:	10.4
United Kingdom:	10.1
Denmark:	8.9
Sweden:	8.5
Germany:	7.9
Norway:	6.5
France:	5.8



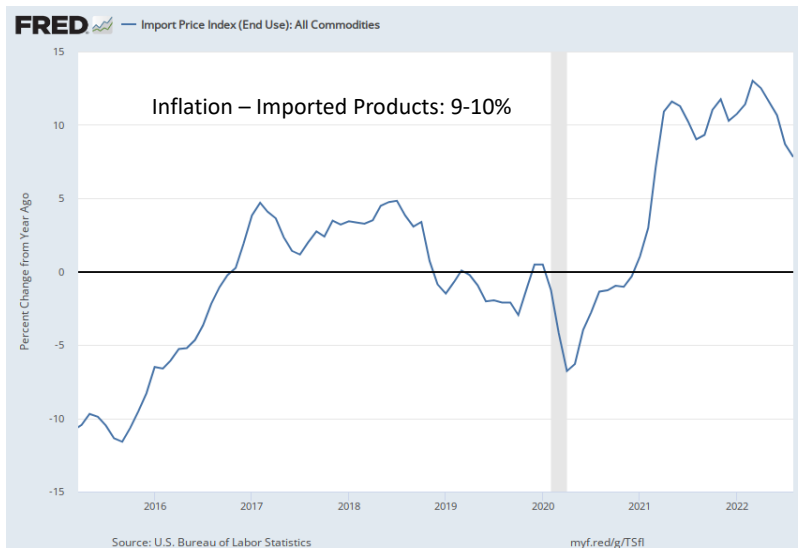
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Source: TradingEconomics.com, 9/12/22

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Import Prices Are Elevated

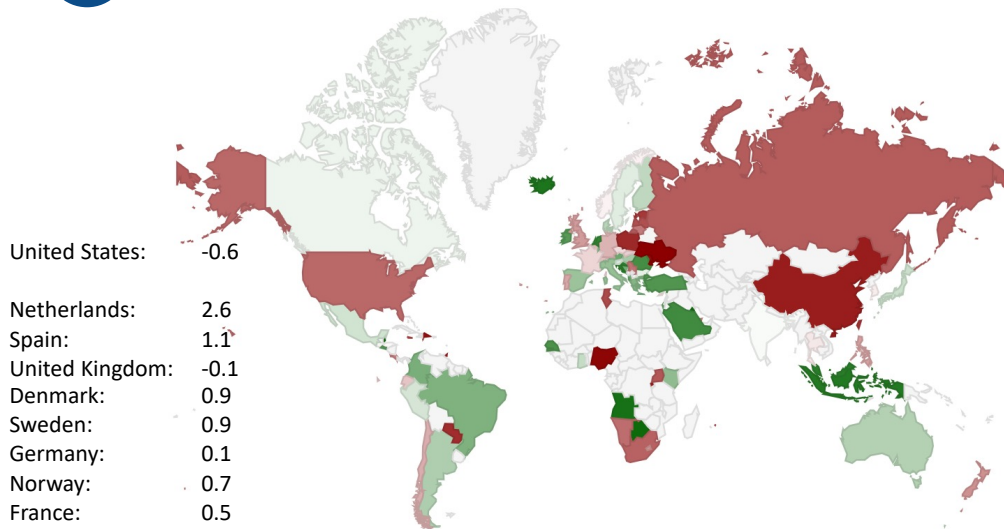


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GDP: U.S. Stands Out, But Not Alone



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Source: TradingEconomics.com, 9/12/22

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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

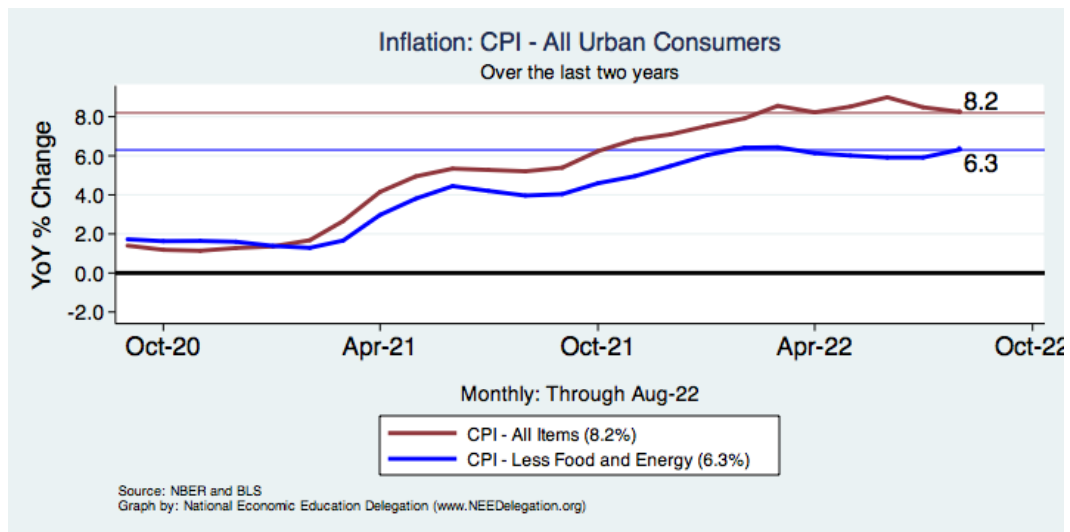


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Inflation – Climbing! Or Turning Around?

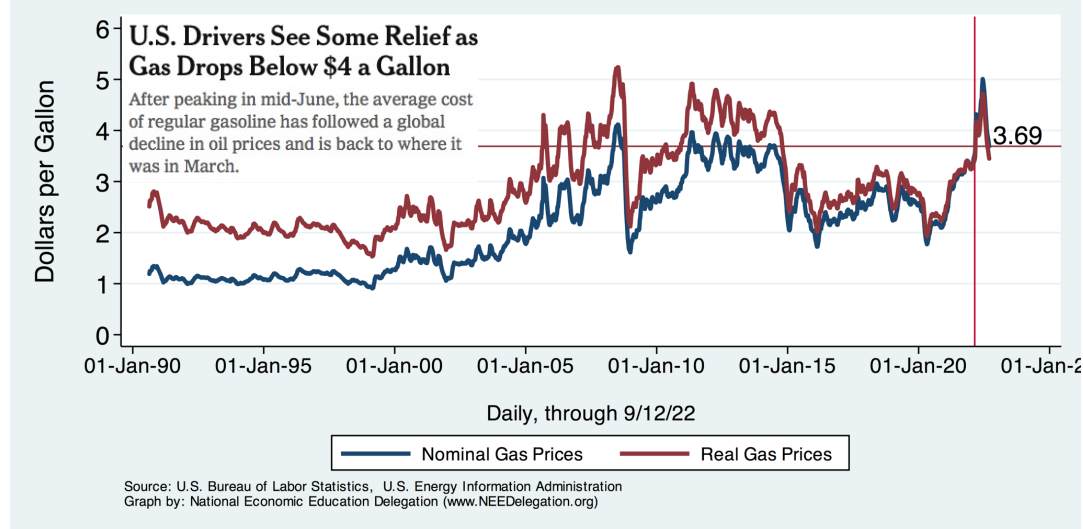


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Gas Prices: National Average at the Pump

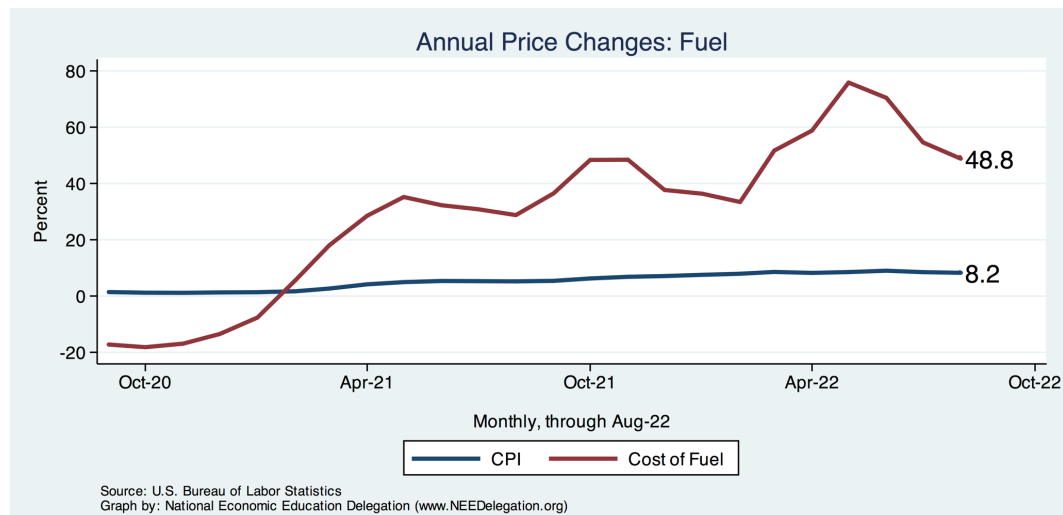


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Fuel Costs Are Still Elevated

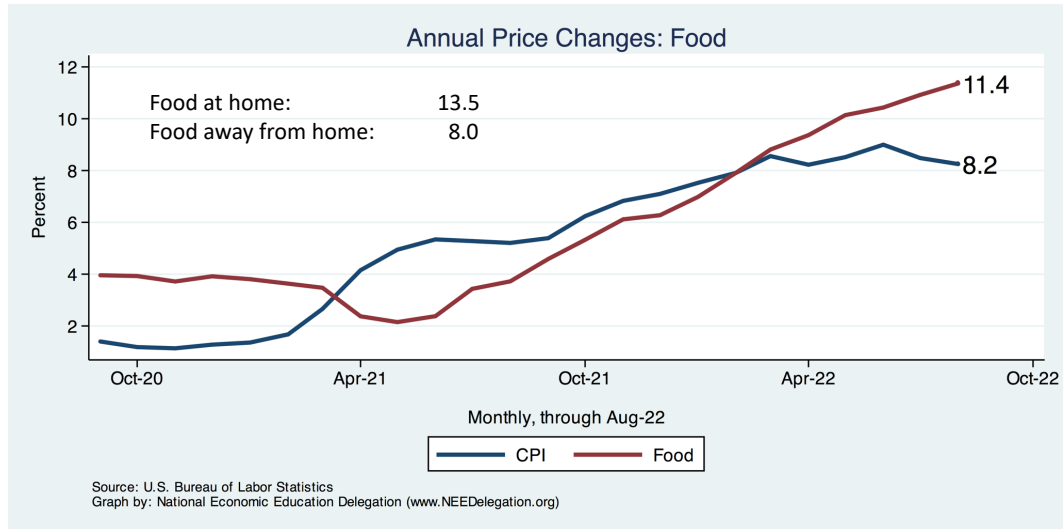


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Food Costs Continue to Rise



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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.



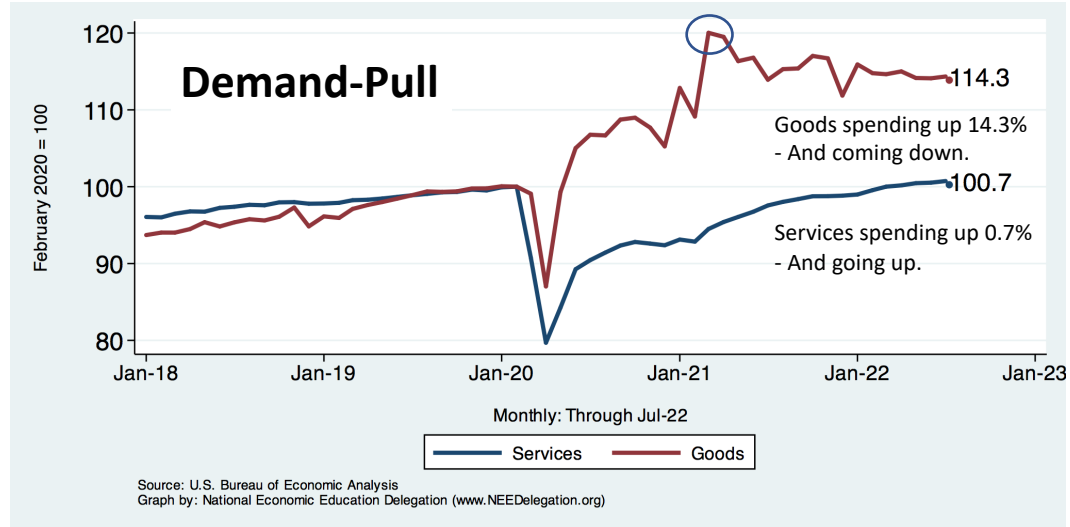
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Source: Investopedia

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Spending Patterns Changed - More Goods!

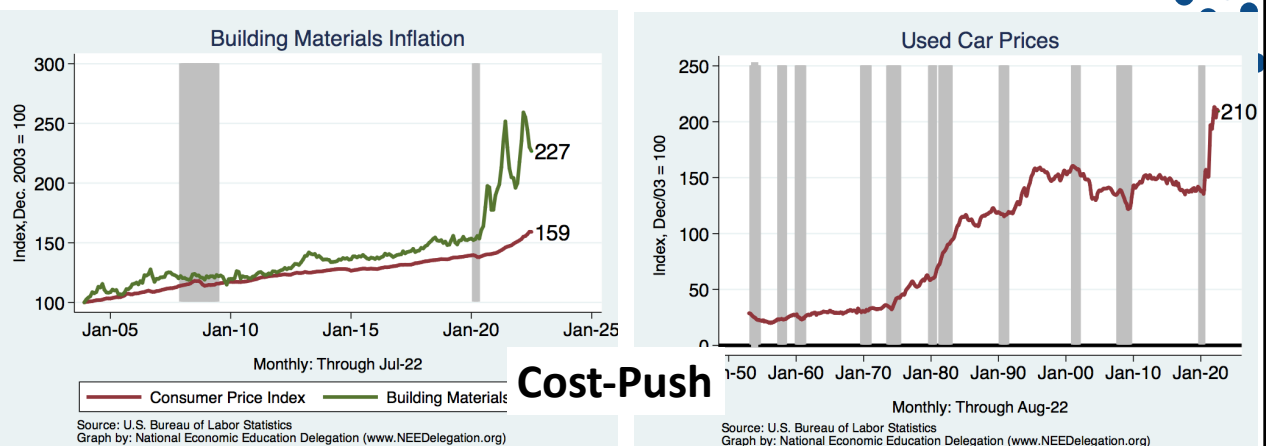


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Inflation: Concentrated

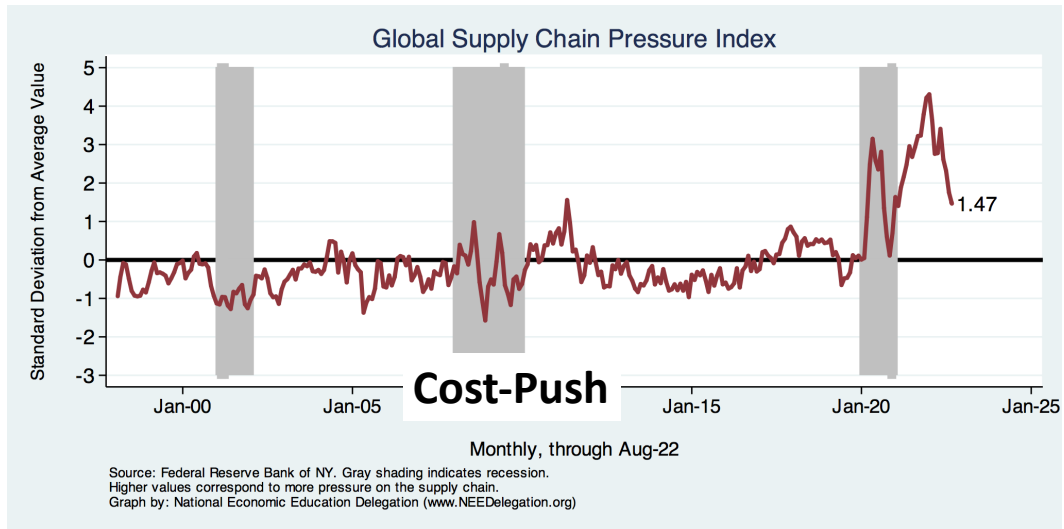


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Supply Chains

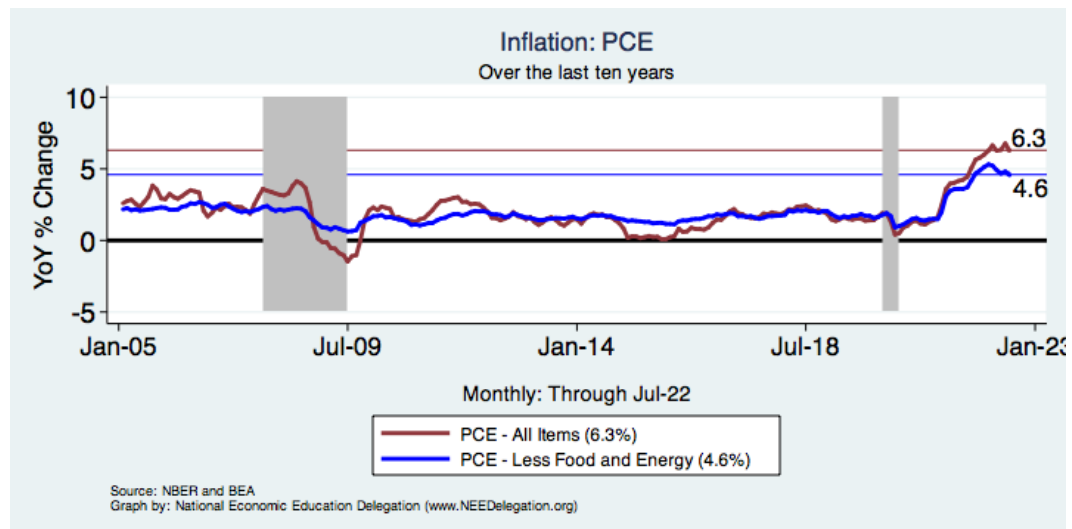


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Fed's Preferred Measure of Inflation



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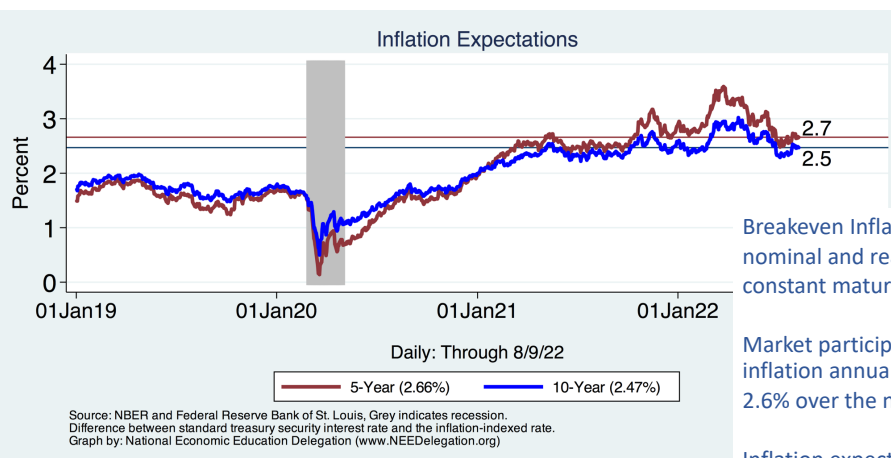
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My Diagnosis for the Uptick in Inflation

- 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



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.

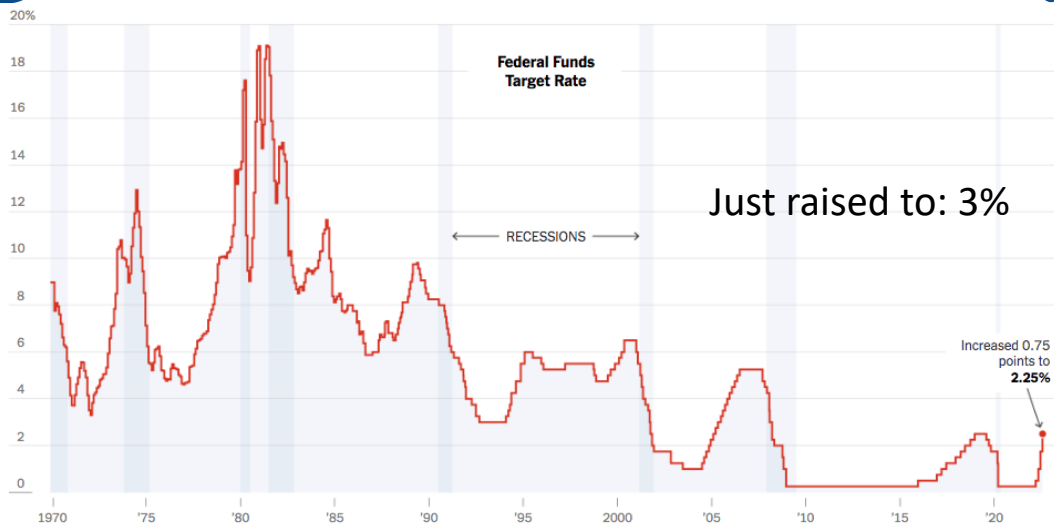
Inflation expectations are calming down.

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What's the Fed Doing About It?

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Federal Funds Rate



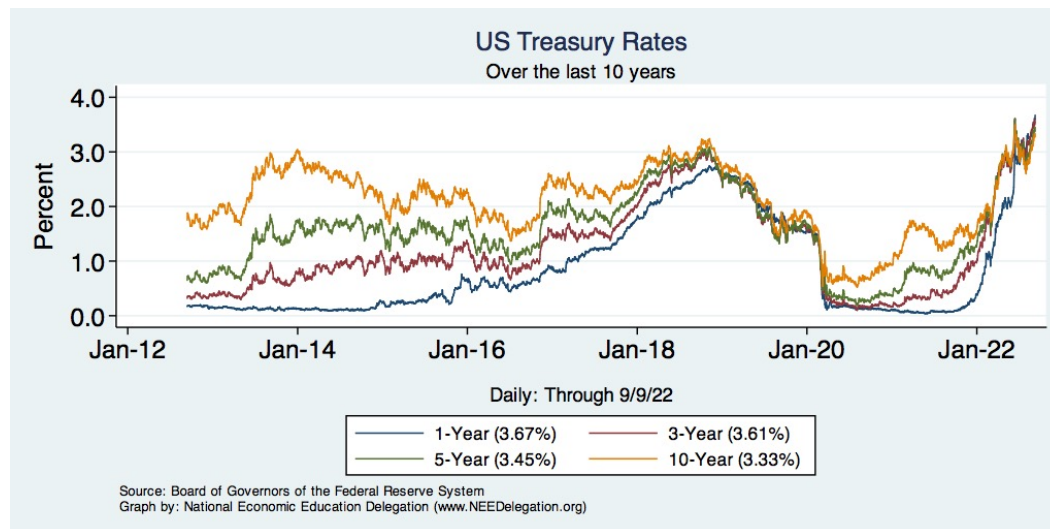
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Implications for Demand

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

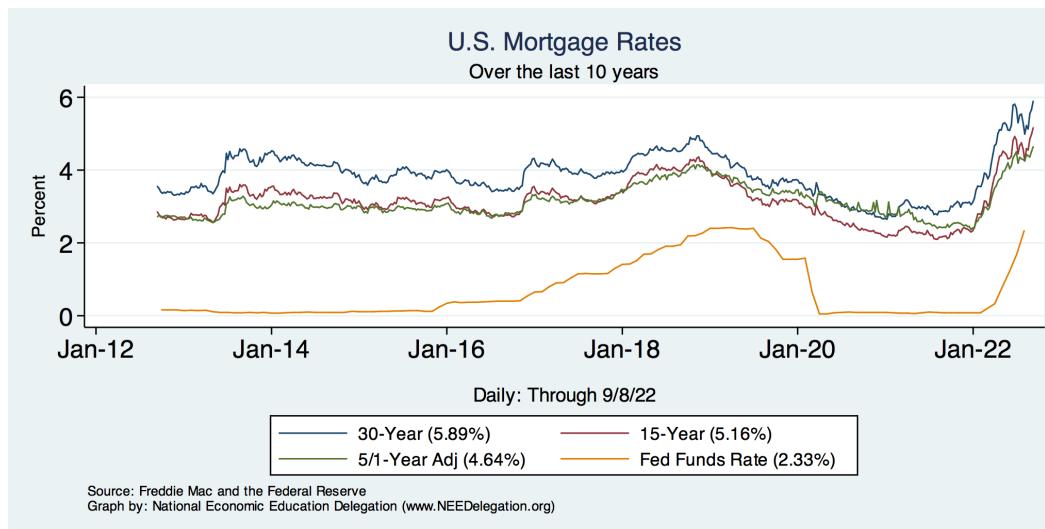
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Treasuries



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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 – 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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The Role of Policy

- Did it get us into this mess?
- Can it get us out?



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Policy-Induced Inflation/Downturn?

- **The big questions is: What is responsible for the cycles related to the pandemic?**
 - **Policies**
 - The United States spent \$5 trillion in pandemic related programs.
 - There remains \$2 trillion in excess savings.
 - What role did local shutdowns play?
 - What role did the nature of business support play?
 - In particular, the lack of support for small businesses.
 - **Natural fear and self preservation?**
 - More goods and less services.
 - Leaving the labor force.
 - Bouncing back to aggressively and optimistically (inventories)?
 - **Natural struggles of an economy to respond to changes?**



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Did Politicians Get Us Into This Mess?

- **Clear that policy played a significant role.**
 - Too much untargeted spending.
- **How should we think about that?**
 - Washington sausage making comes with tradeoffs:
 - Quality comes from moving slowly, but perhaps misses the window of opportunity.
 - Haste makes waste. Pandemic spending has clearly not been as thoughtful as it might have been.
- **But there is lots of blame to throw around.**
 - Economies just don't respond very well to significant shocks.



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Can Politicians/Polymakers Get Us Out?

- **Well, no.**
- **President Biden: Really has very little control over aggregate demand or prices.**
 - Could put price controls in place. But nobody wants that.
- **Congress: similarly hamstrung.**
- **Federal Reserve: Acting aggressively, which seems to be paying off.**



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Bottom Line:

- **Politicians did what they felt was necessary.**
 - They also did the best they could.
- **The pandemic threw spanners in the works that neither politicians nor economists had/have the answers to**
- **Blaming anybody for actions or inactions, for economic woes (inflation) is not reasonable.**
 - Though a case could be made that the Fed should have acted sooner.
 - o But we don't really know if that would have made a difference.
- **Really left with the Fed doing the best that it can...and being patient.**



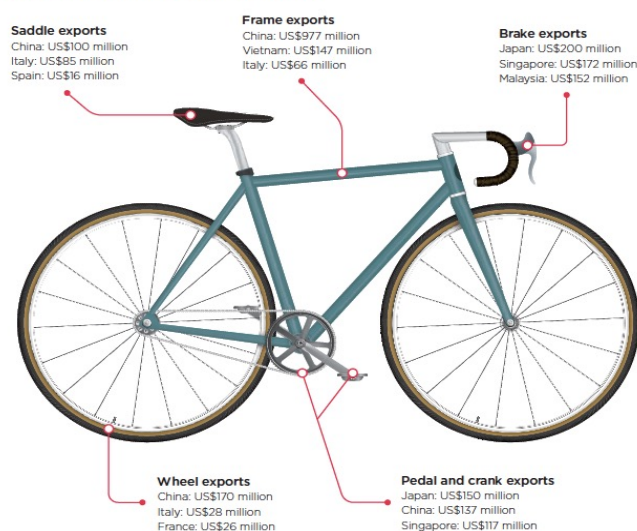
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Trade: Alan Deardorff

Figure 1.1 Where do bicycles come from?



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Source: World Development Report 2020

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Thank you!

Any Questions?

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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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