



Osher Lifelong Learning Institute, Fall 2022 **Understanding the Global Recession**

University of California, Berkeley
September 13, 2022

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National Economic Education Delegation



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.



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

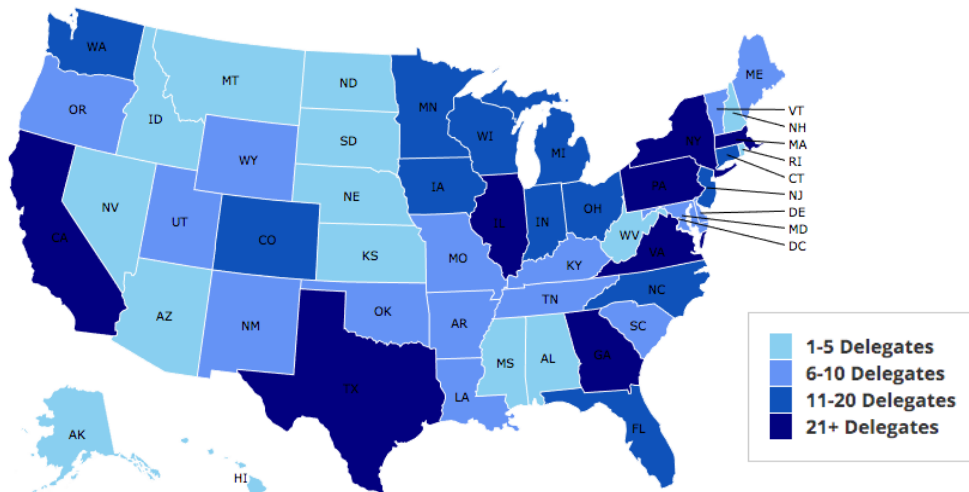


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Where Are We?



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Available NEED Topics Include:

- Healthcare Economics
- US Economy
- 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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Credits and Disclaimer

- **This slide deck was authored by:**
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 - Brian Dombeck, Lewis & Clark College
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- **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

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



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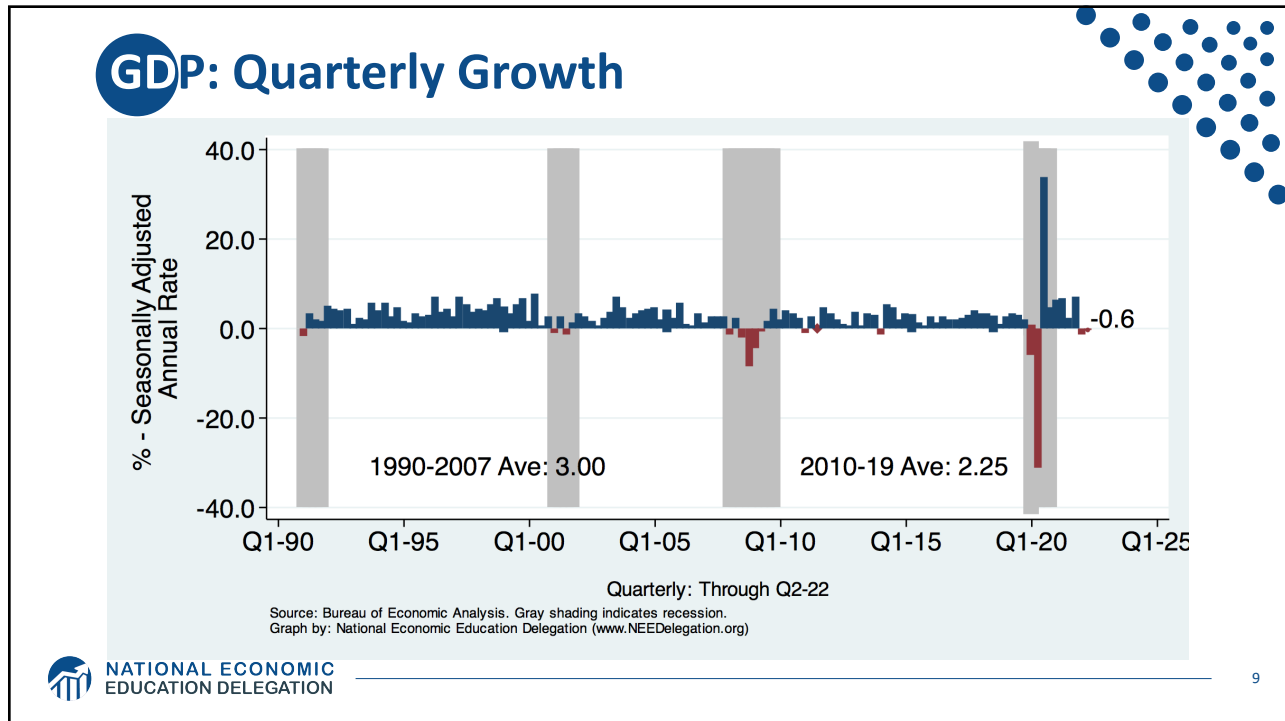
Headline:

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

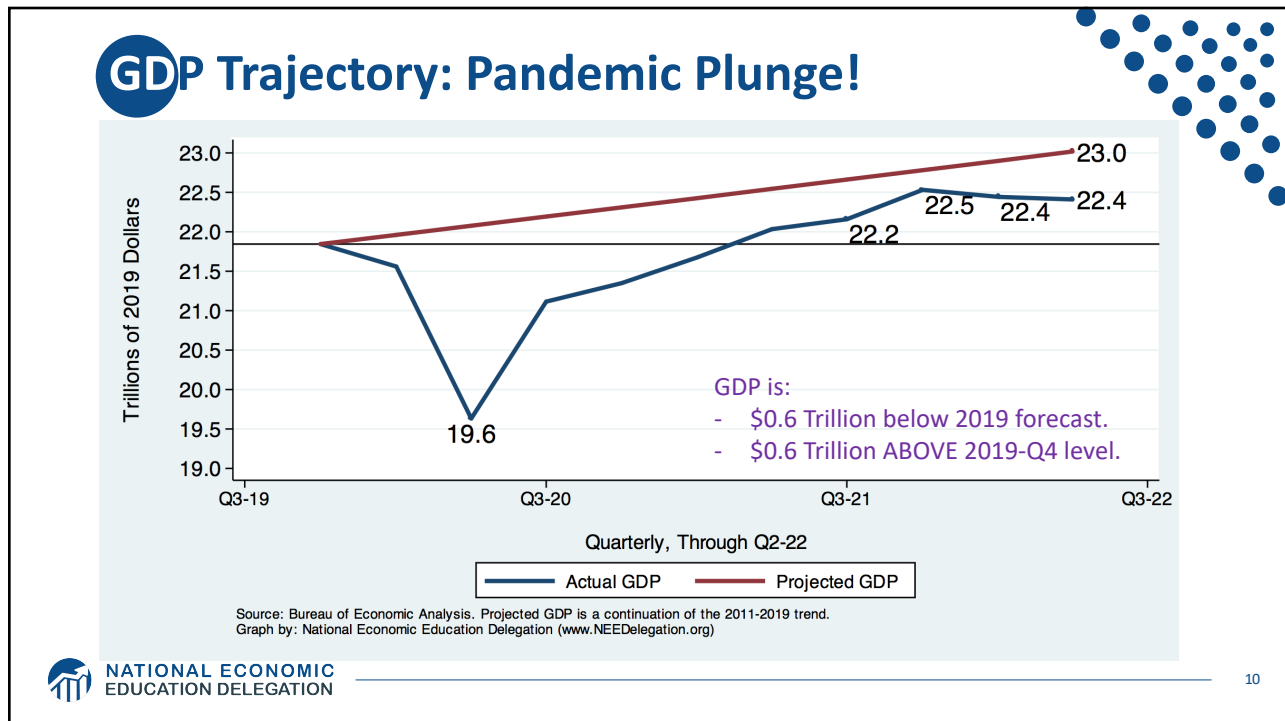
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.



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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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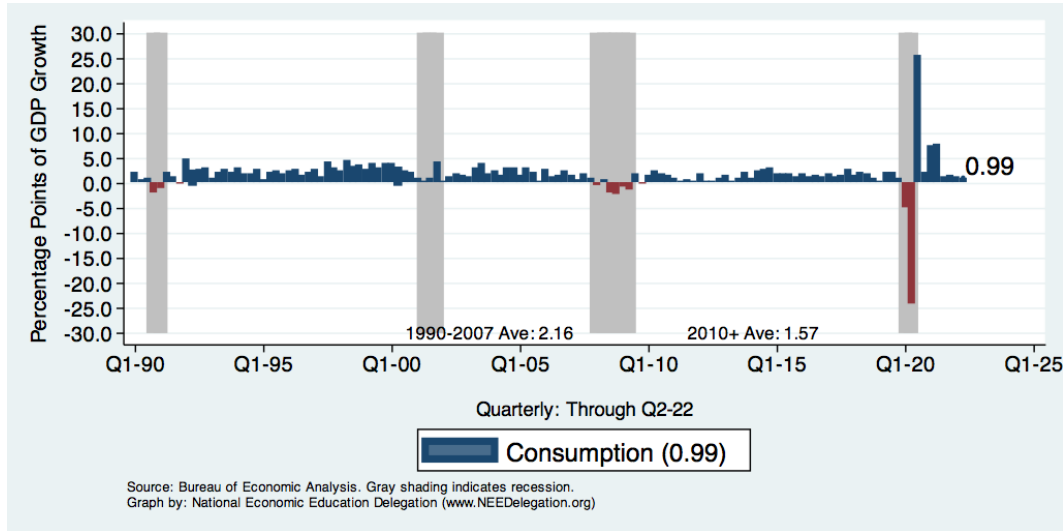
Recession? Two Quarters....

- **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.**



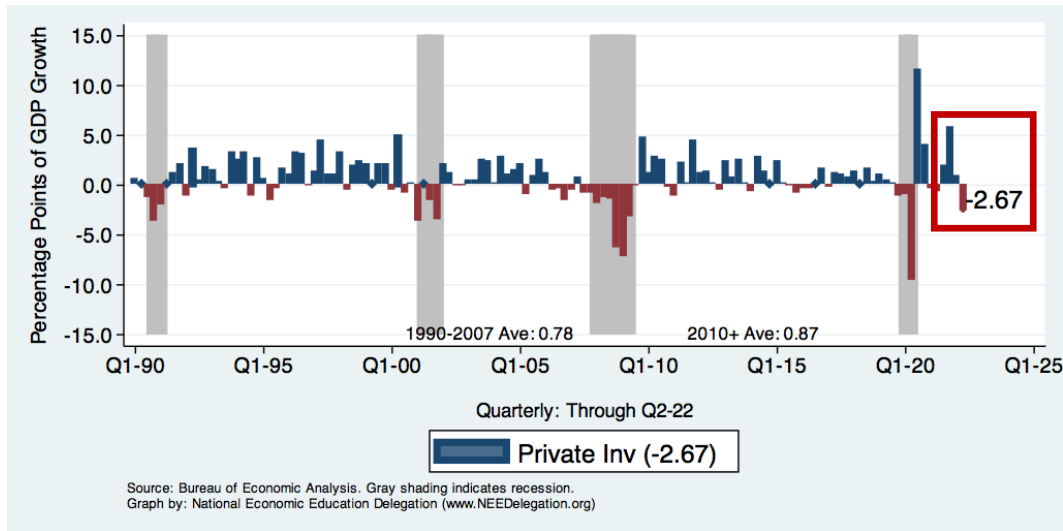
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Contribution to GDP Growth: Consumption



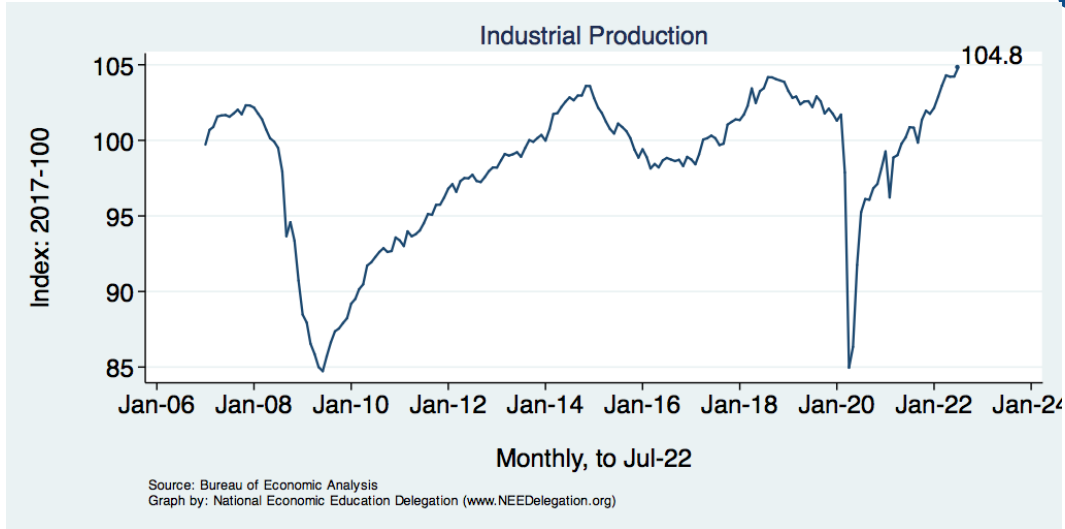
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Contribution to GDP Growth: Inventories



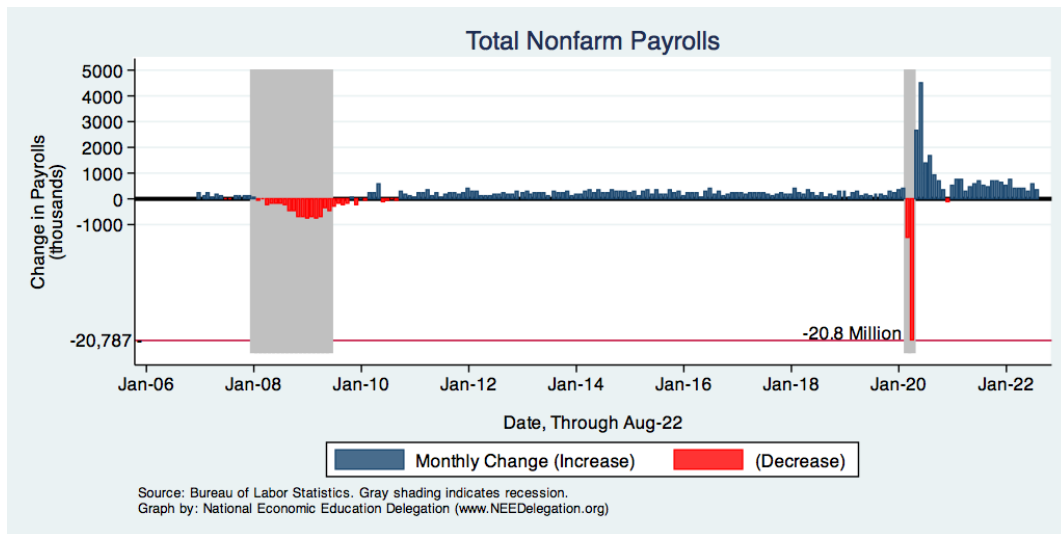
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Industrial Production (Manuf, Util, Mining)



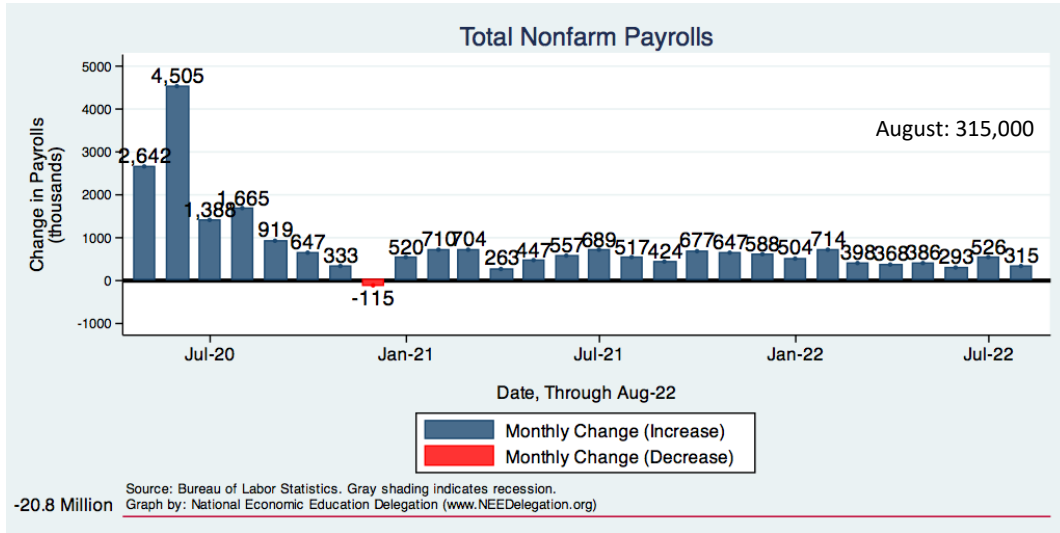
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Monthly Changes in Nonfarm Employment



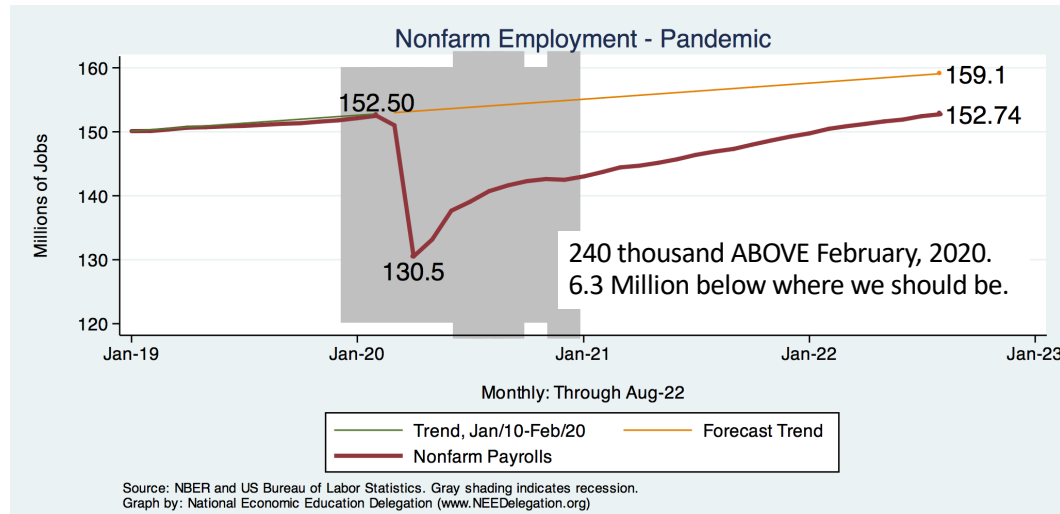
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Monthly Changes in Nonfarm Employment



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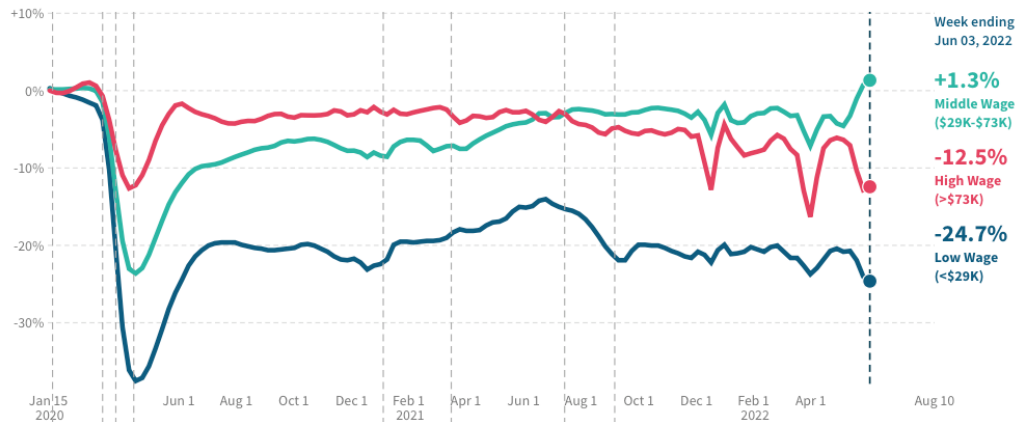
Employment Gap



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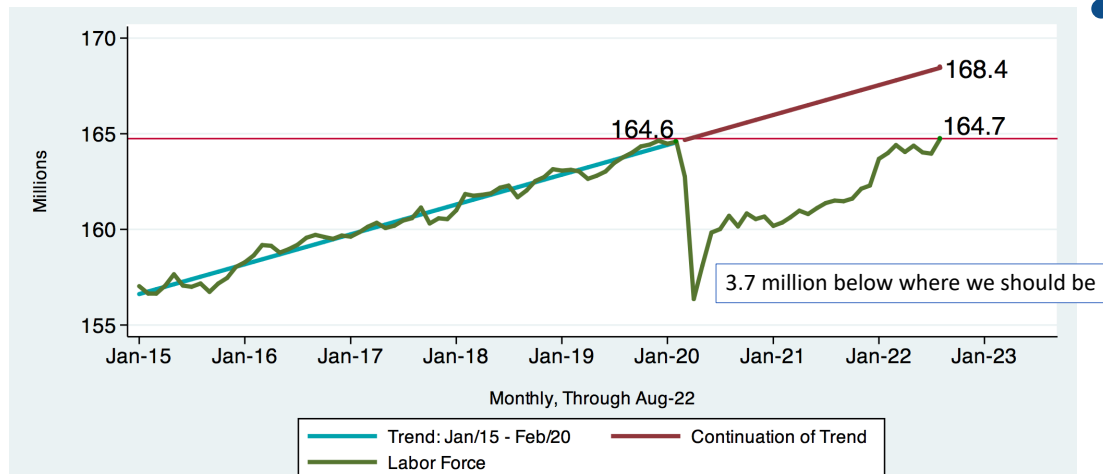
Low Wage Employment is Lagging

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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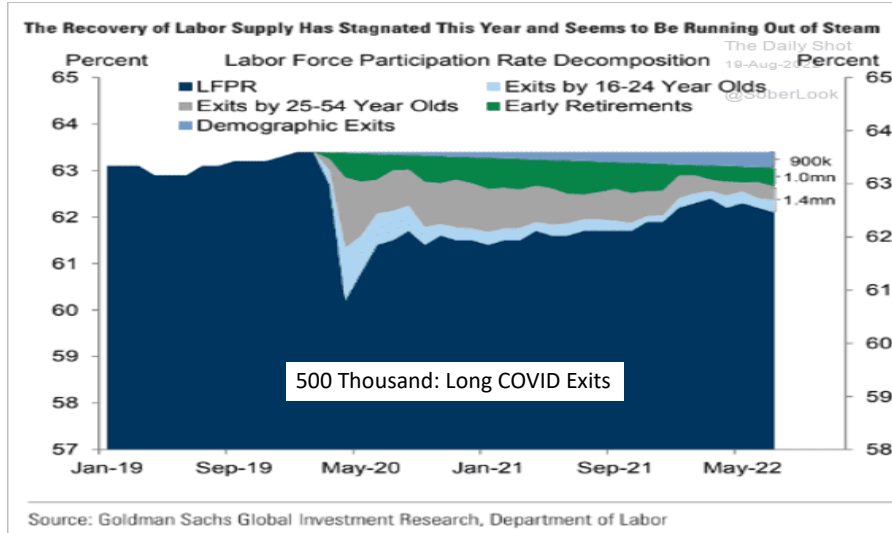
Where Have All the Workers Gone?



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

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Some Explanations



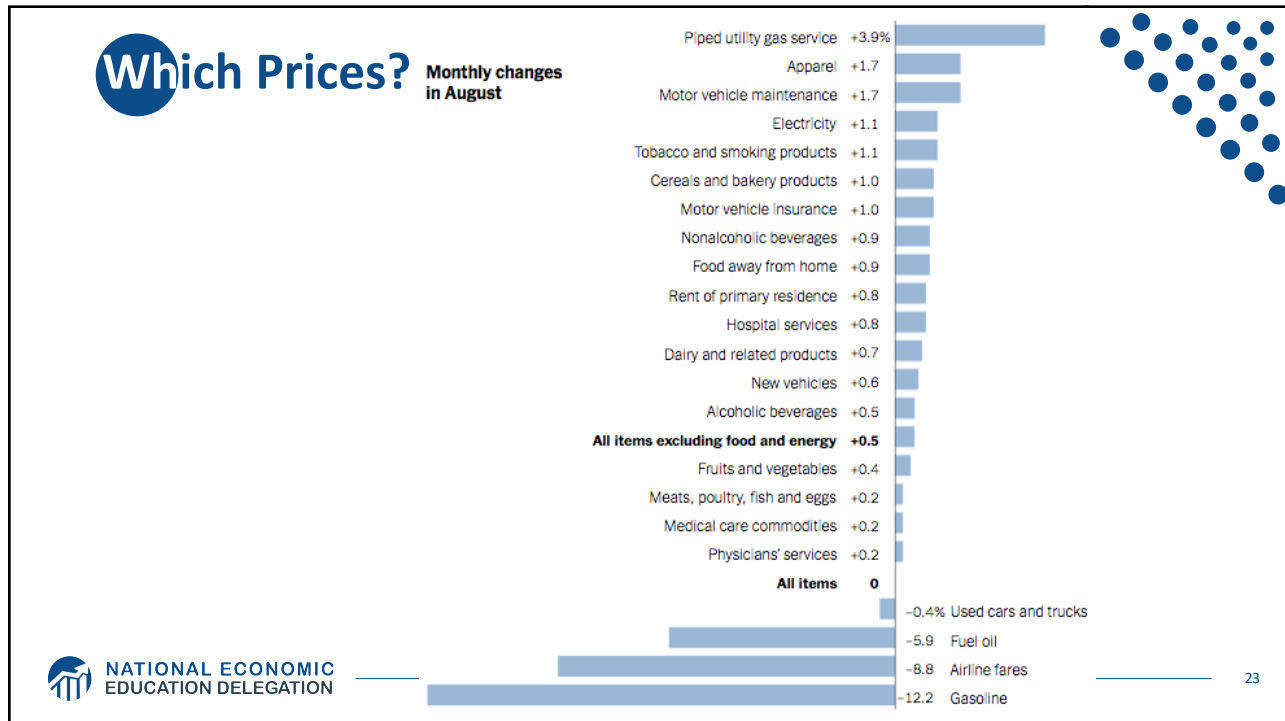
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Inflation: Latest Figures

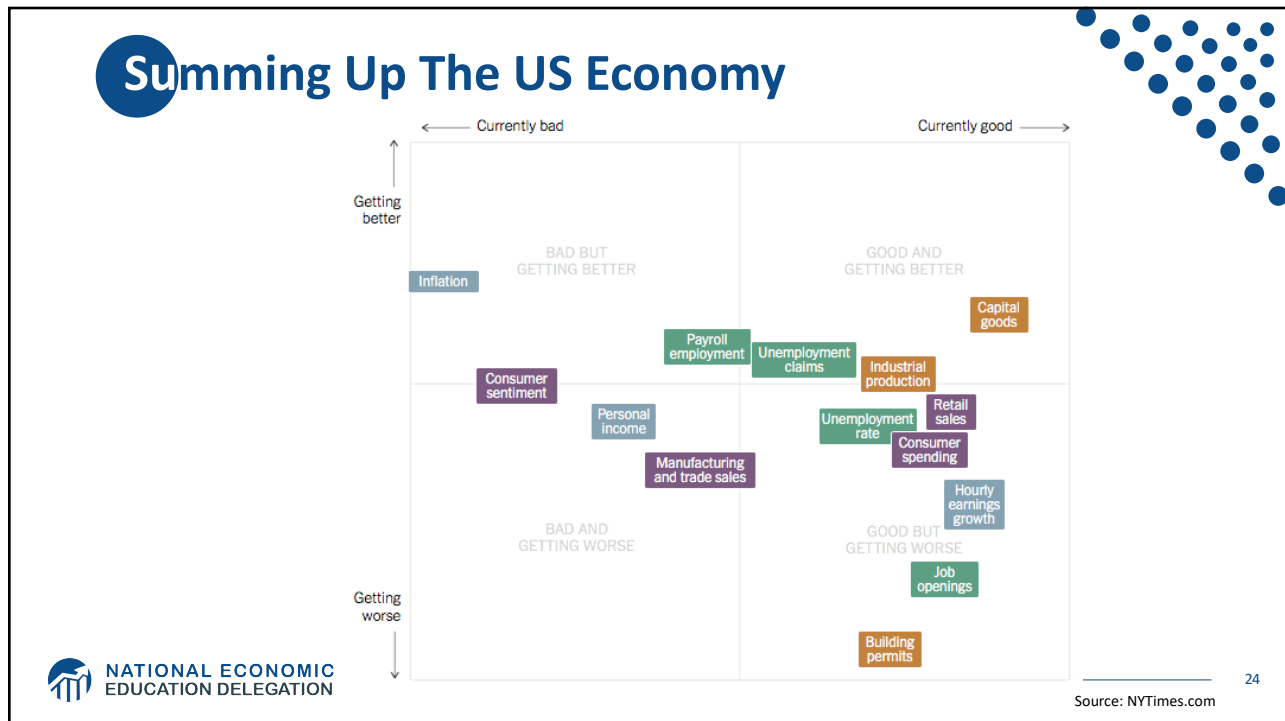


Year-over-year percentage change in the Consumer Price Index - Source: Bureau of Labor Statistics

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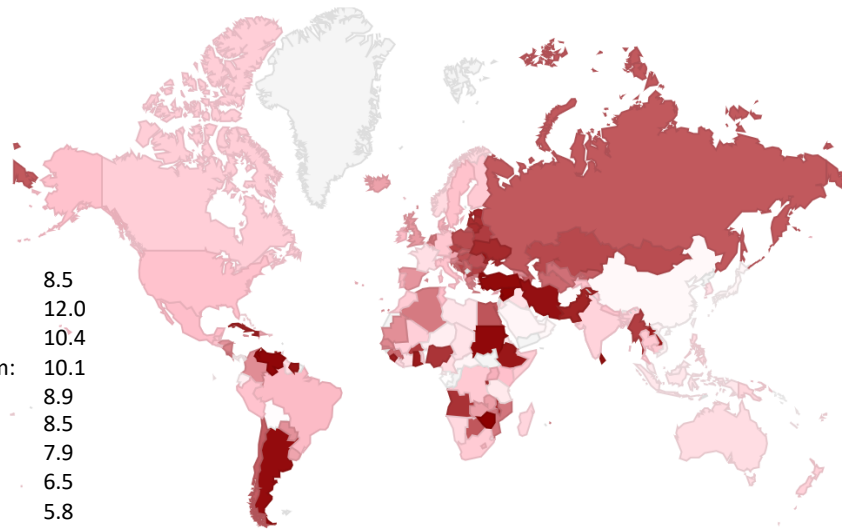


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Global Evidence

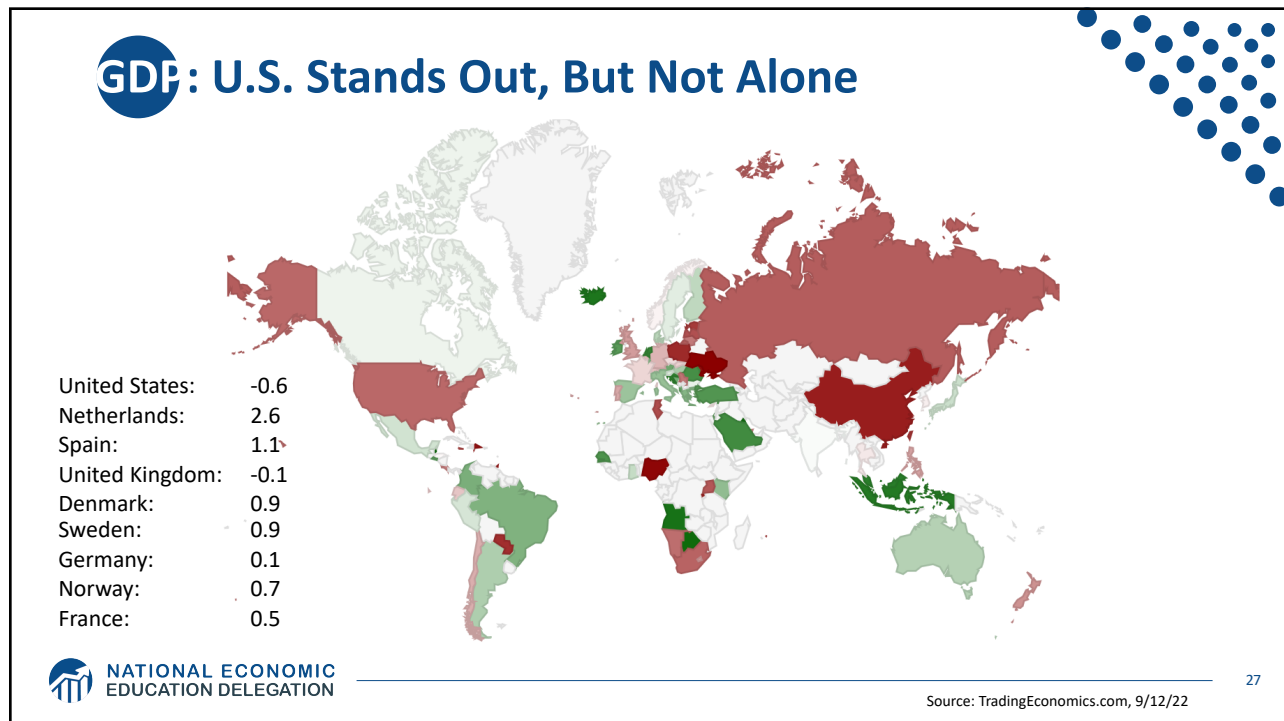
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Inflation: Not just a US Problem



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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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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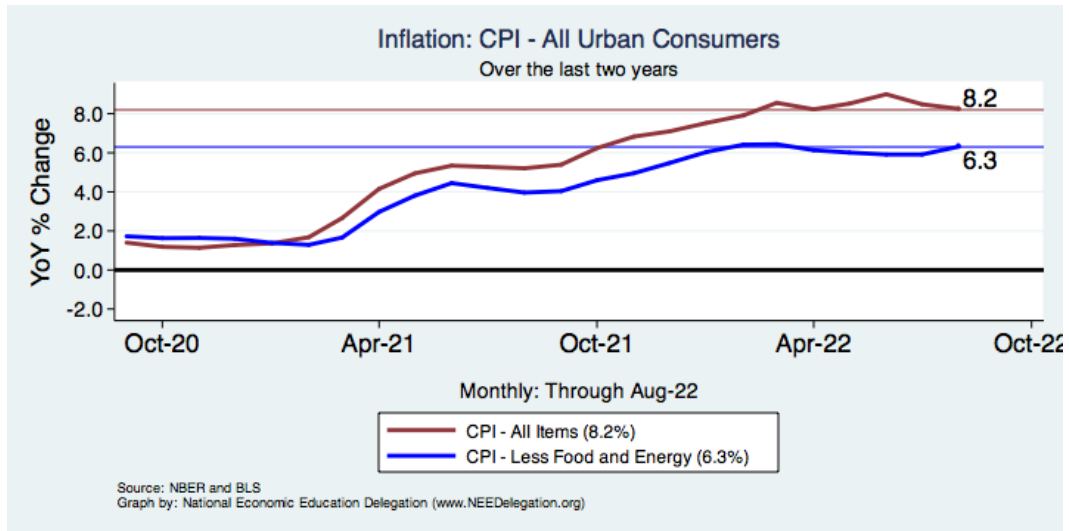
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Inflation



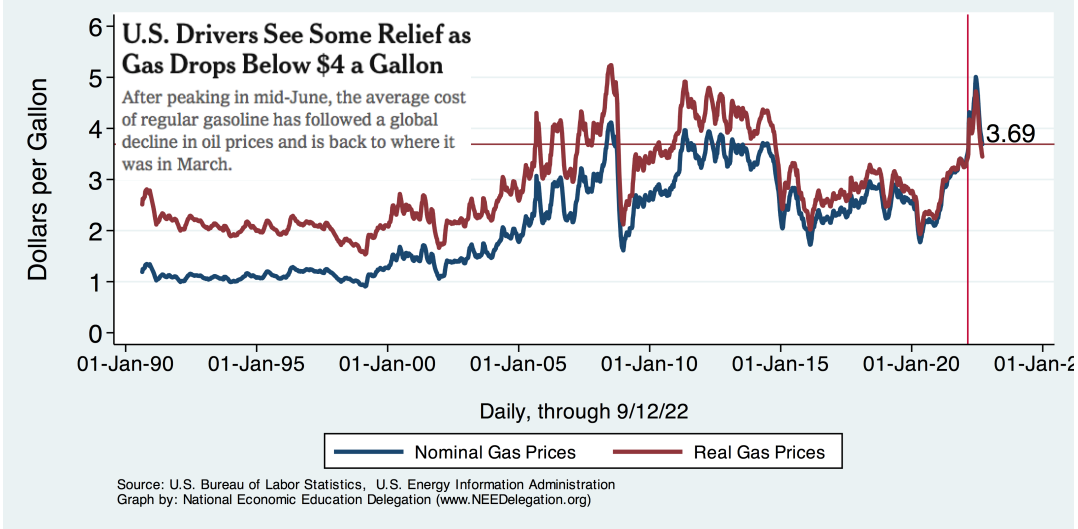
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Inflation – Climbing! Or Turning Around?



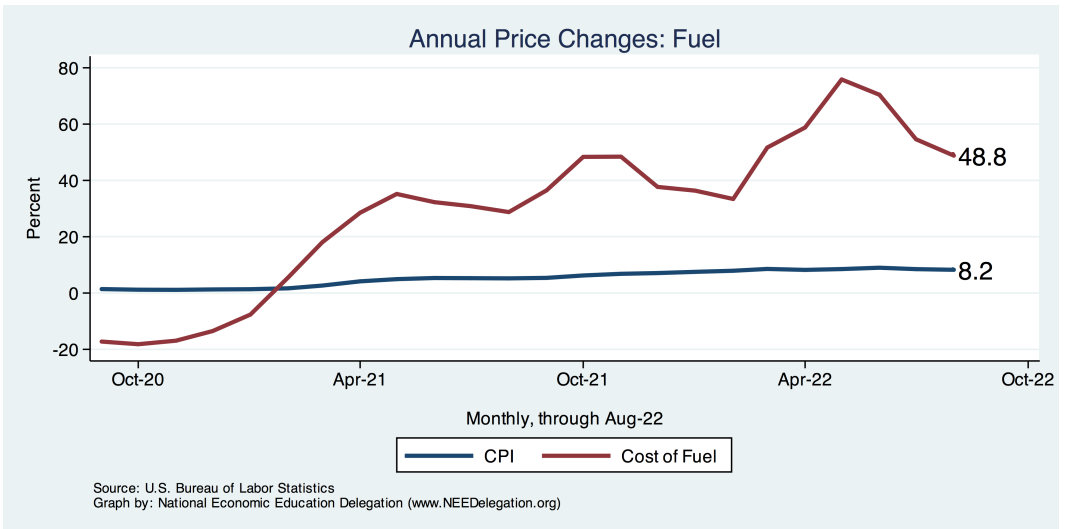
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Gas Prices: National Average at the Pump



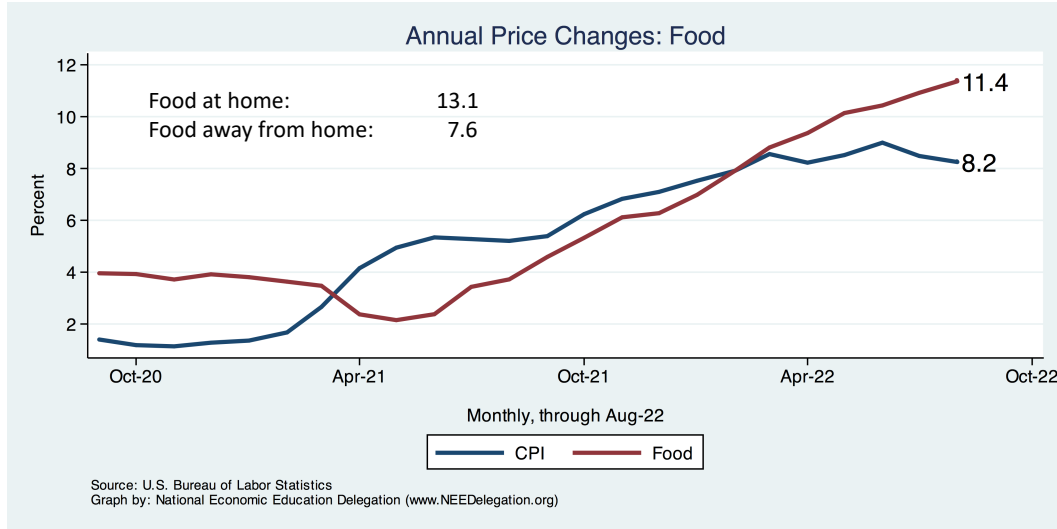
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Fuel Costs Are Still Elevated



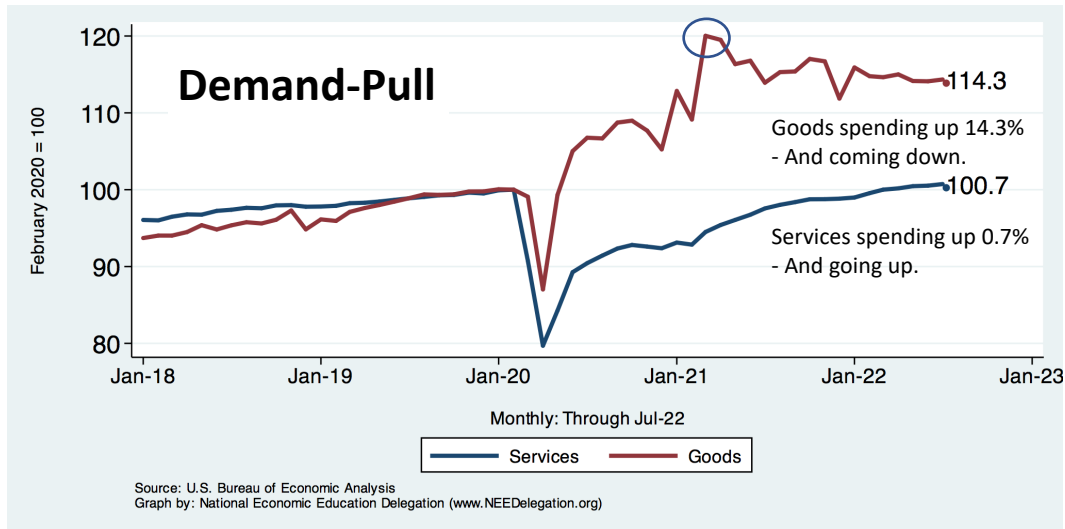
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Food Costs Continue to Rise



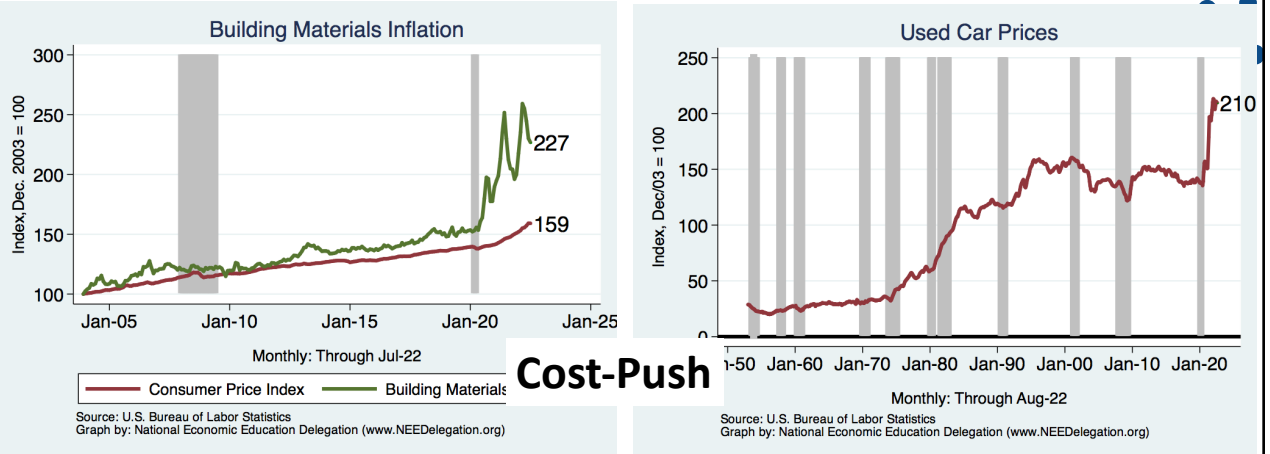
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Spending Patterns Changed - More Goods!



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Inflation: Concentrated



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Supply Chains



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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 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.

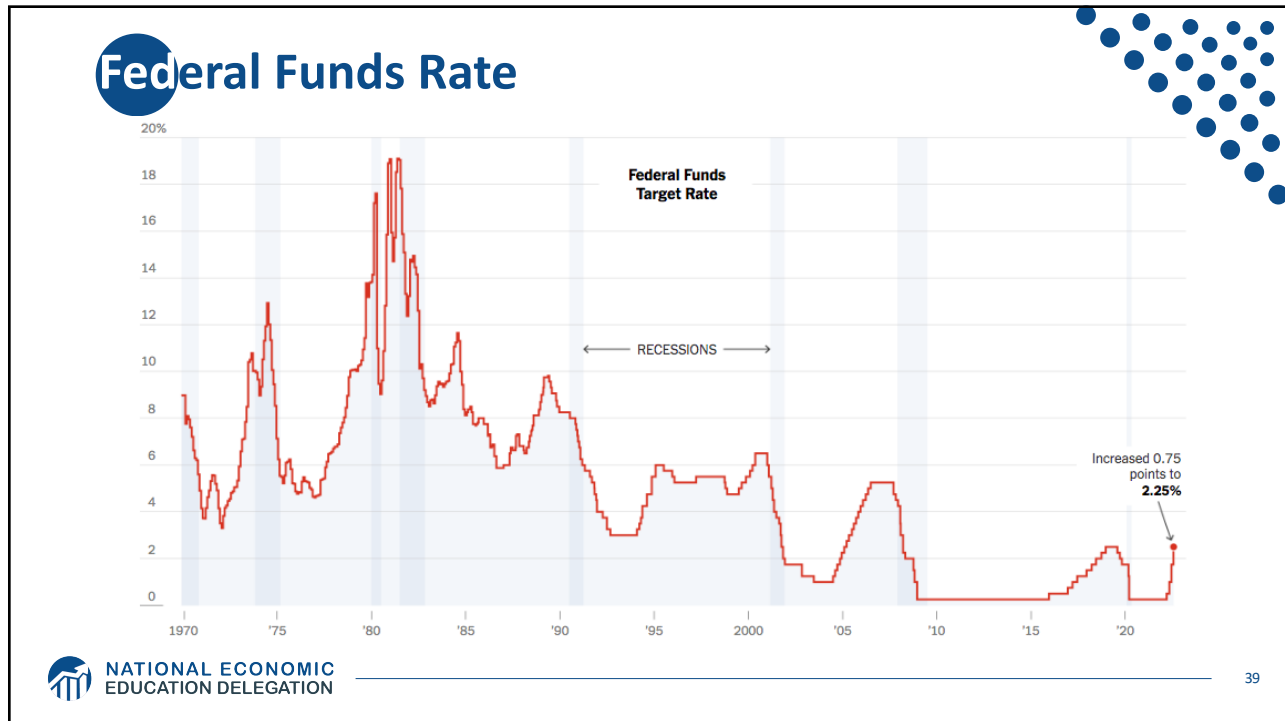


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What's the Fed Doing About It?



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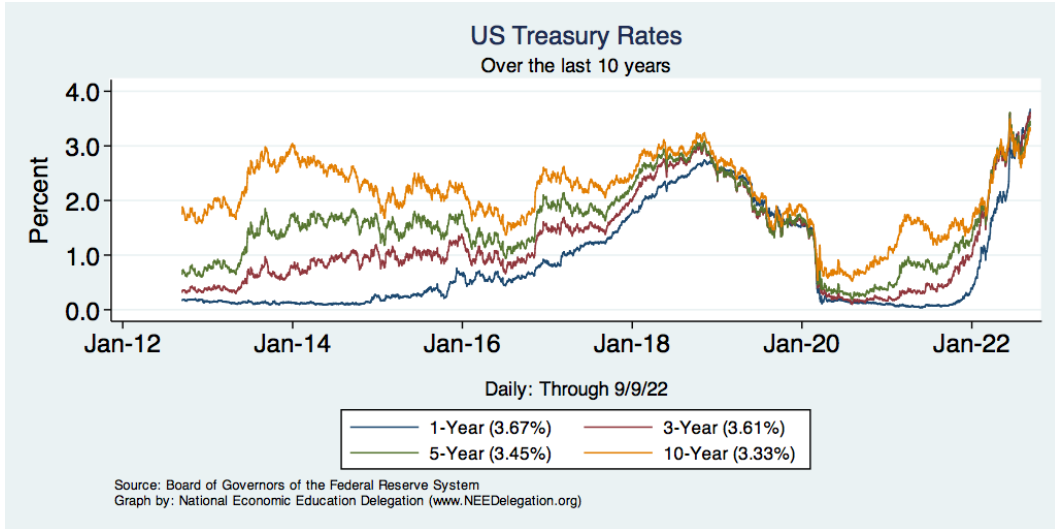
Implications for Demand

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

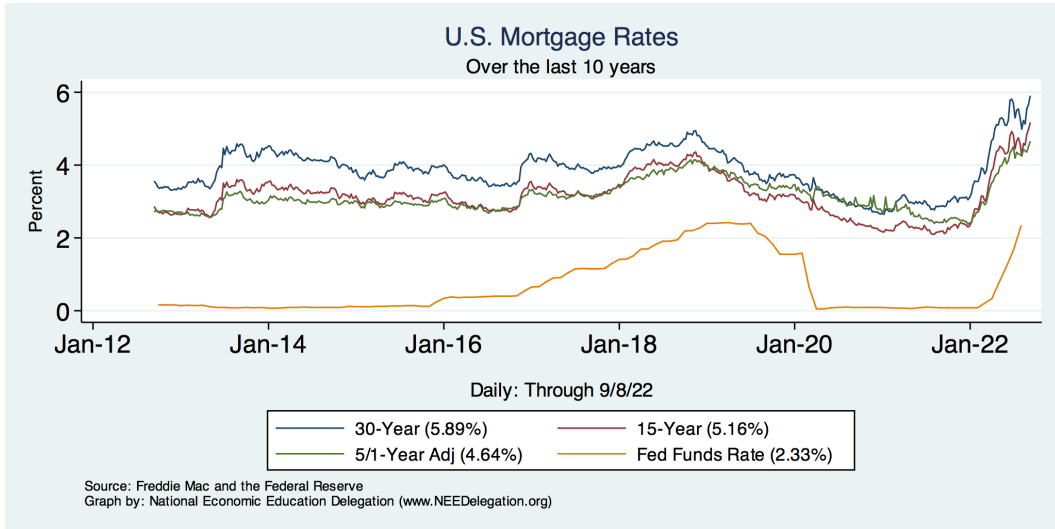
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Treasuries



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 July.

- **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 question 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 services and less goods.
- Leaving the labor force.
- Bouncing back to aggressively and optimistically (inventories)?

- **Natural struggles of an economy to respond to changes?**

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.

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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Thank you!

Any Questions?

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www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.

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



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