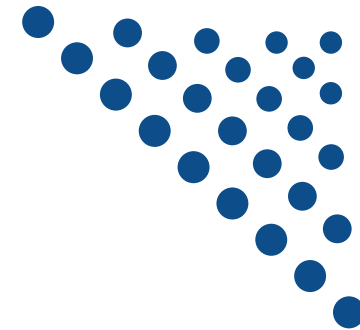


*Osher Lifelong Learning Institute, Fall 2022*  
**Current Issues in  
Macroeconomics & Finance**

**Brandeis University**  
April-May 2023

**Geoffrey Woglom,**  
Professor of Economics Emeritus, Amherst College  
National Economic Education Delegation



# National Economic Education Delegation

- **Vision**

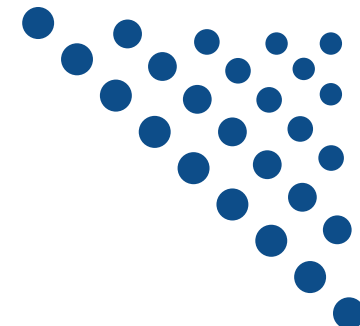
- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **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.



# National Economic Education Delegation

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# Who Are We?

- **Honorary Board: 54 members**

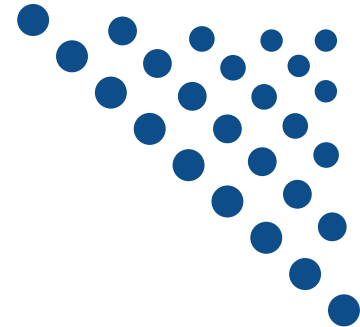
- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - Akerlof, Smith, Maskin

- **Delegates: 652+ members**

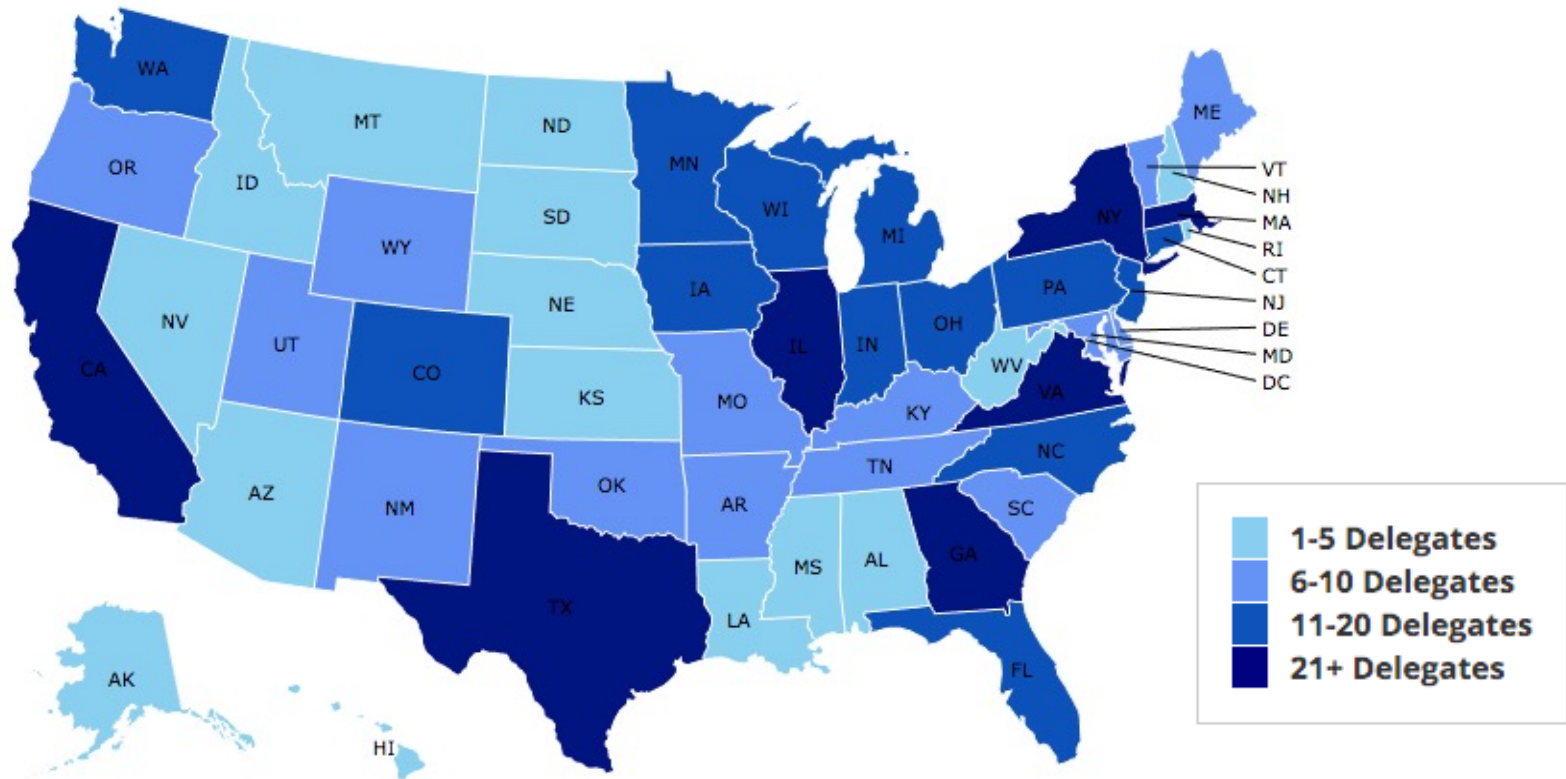
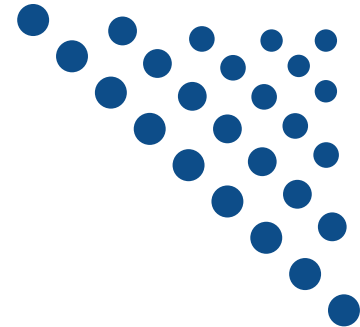
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdfund slide decks
- Give presentations

- **Global Partners: 48 Ph.D. Economists**

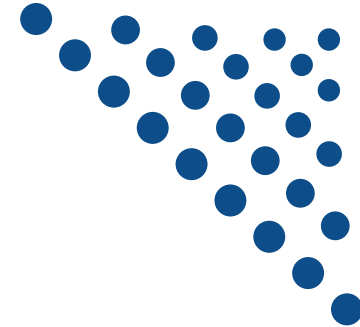
- Aid in slide deck development



# Where Are We?



# Available NEED Topics Include:



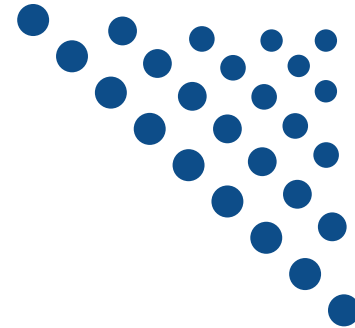
- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics

# Advisory about Recording



- Each week, our class sessions will be recorded to the cloud and distributed to those who request it or to all class members (depending on your preferences) within 24 hours. It will only be distributed to enrolled class members and for the sole purpose of enhancing our learning. I ask that you do not forward or share it with members outside of our classroom community. If any of you ever feel uncomfortable with my recording or distributing a recording of a class session, please notify me.

# Submitting Questions

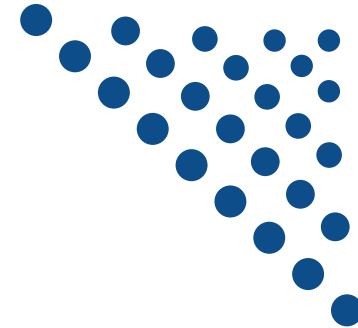


- **Please submit questions of clarification in the chat or raise your “digital” hand.**
  - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the at the course web site later today.**  
**<https://sites.google.com/view/macro-current-issues/home>**





# Credits and Disclaimer

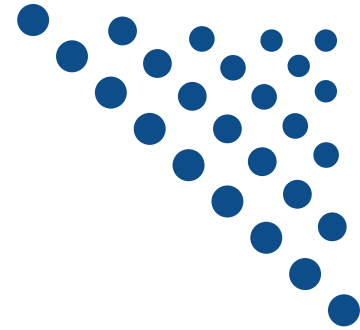


- **This slide deck was authored by:**

- Jon D. Haveman, NEED
- 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).

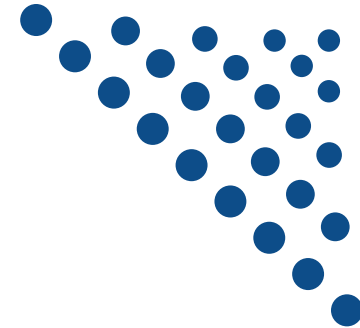


# US Economy: Update

**Geoffrey Woglom,**  
Professor of Economics  
Amherst College, emeritus  
April 13, 2023

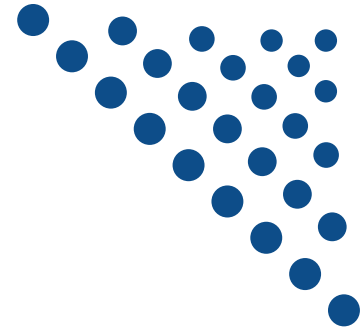


# Outline for the Talk

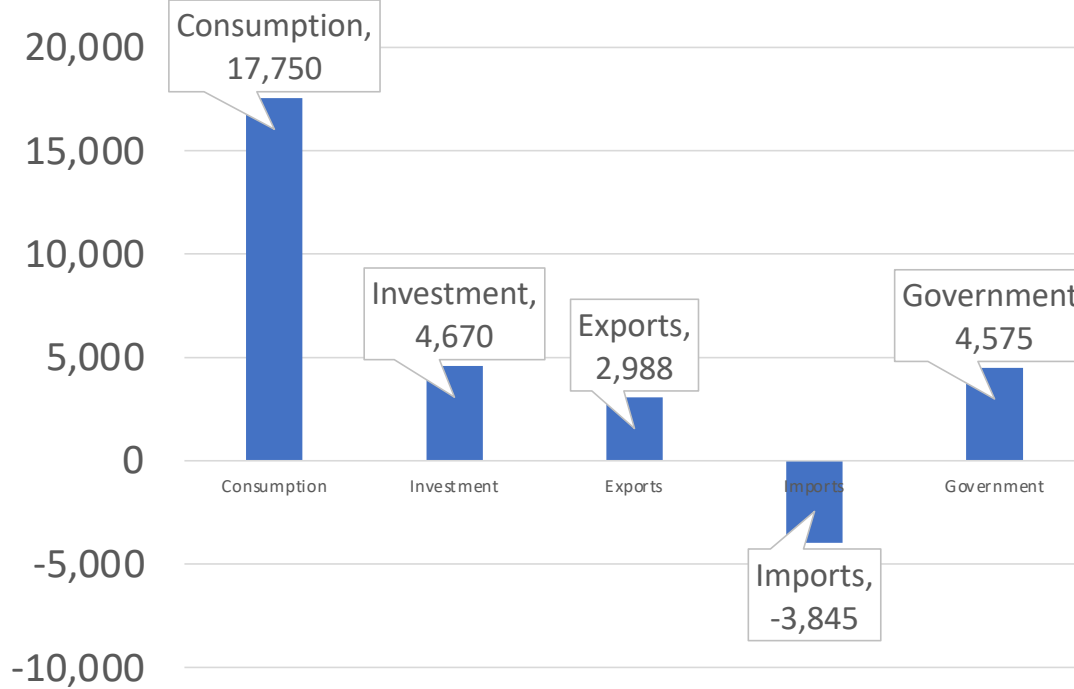


1. Summary of the state of the economy.
2. The Effect of M&F policies.
3. What lies ahead for the economy.
4. The implications of recent bank failures

# Gross Domestic Product

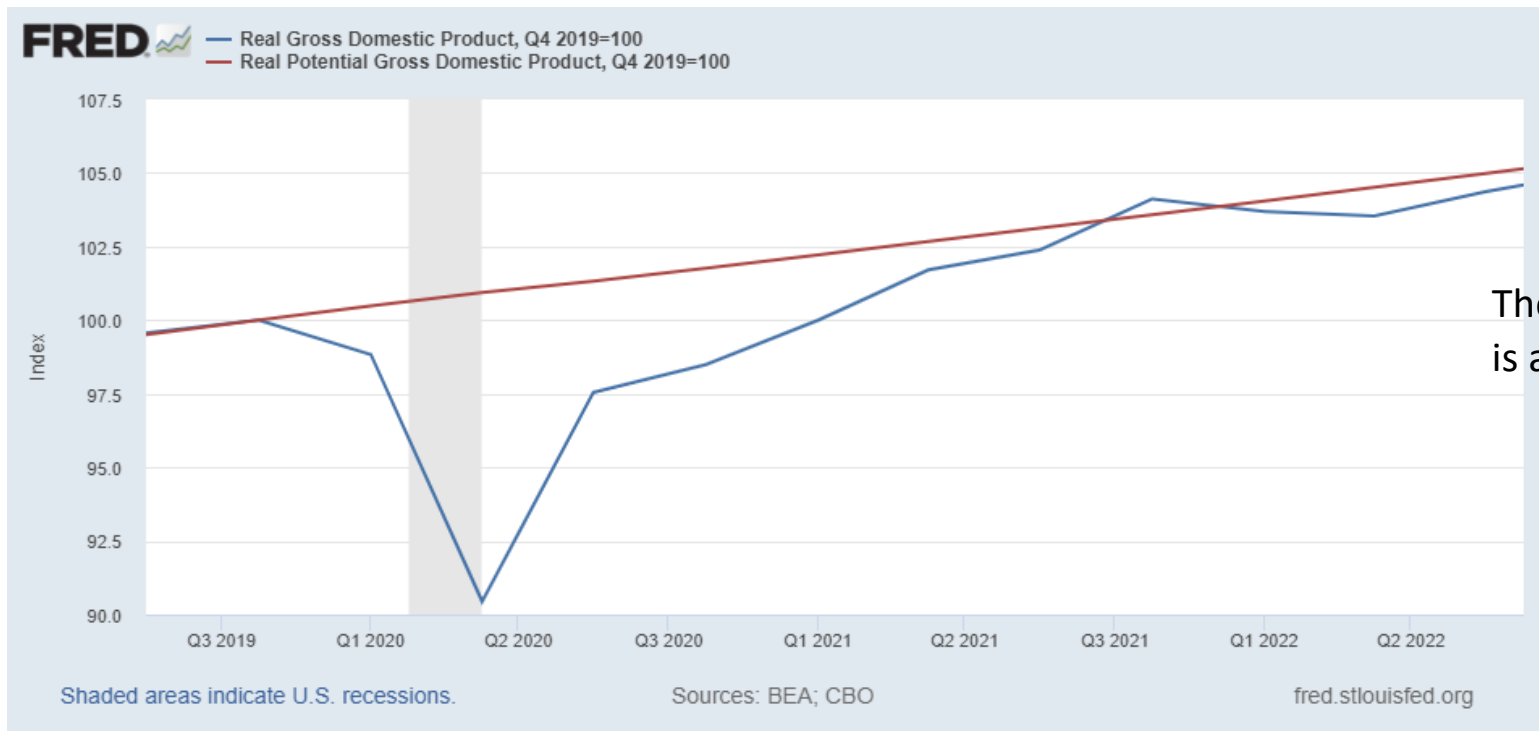


Components of 2022Q4 GDP, \$26.1 tr

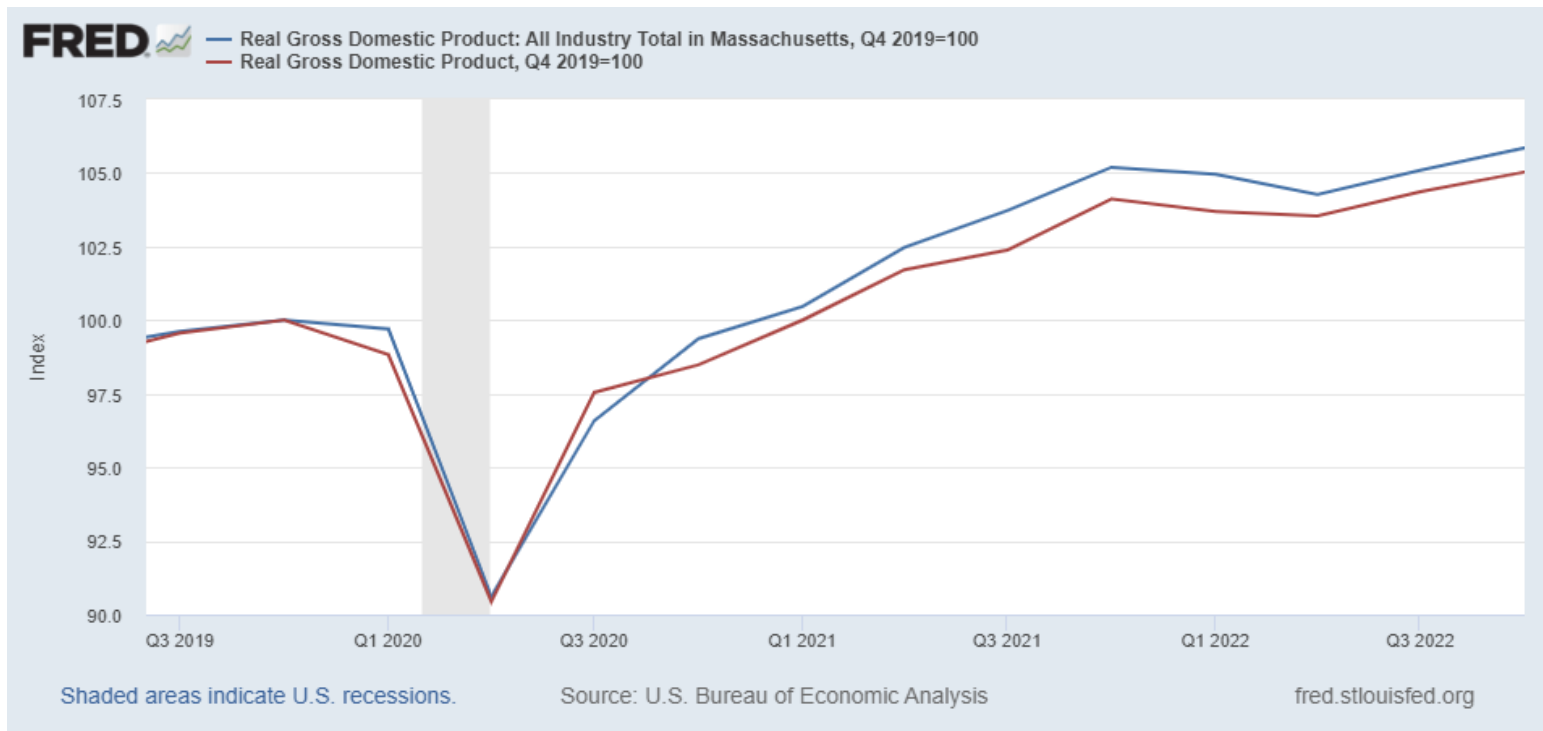


Consumption	68.0%
Investment	17.9%
Exports	11.4%
Imports	-14.7%
Government	17.5%
GDP	100.0%

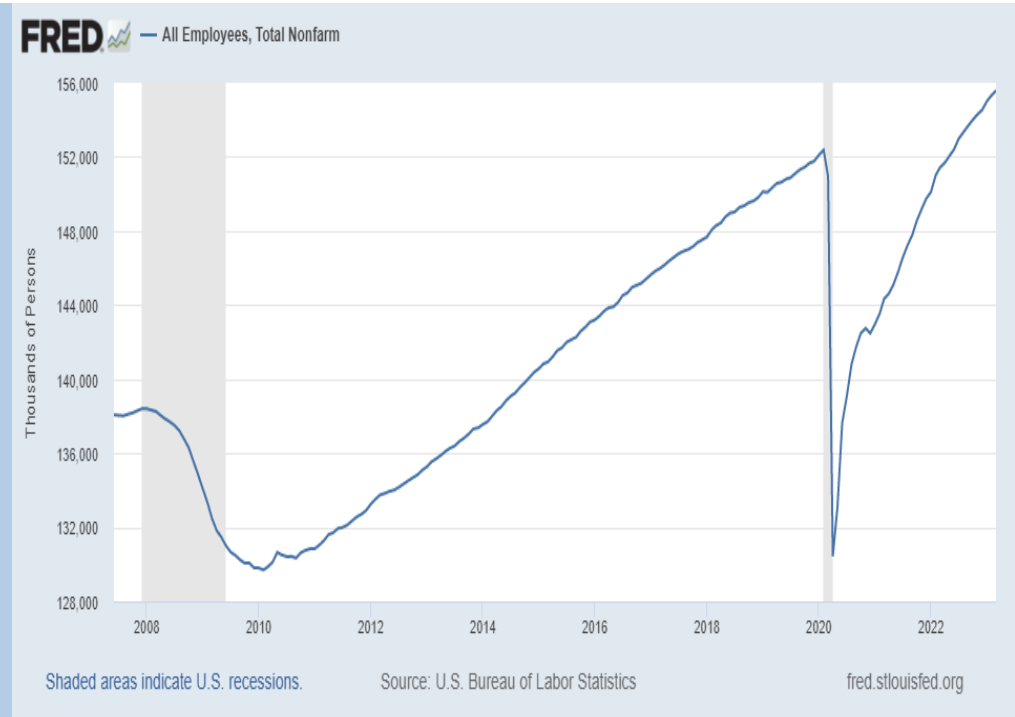
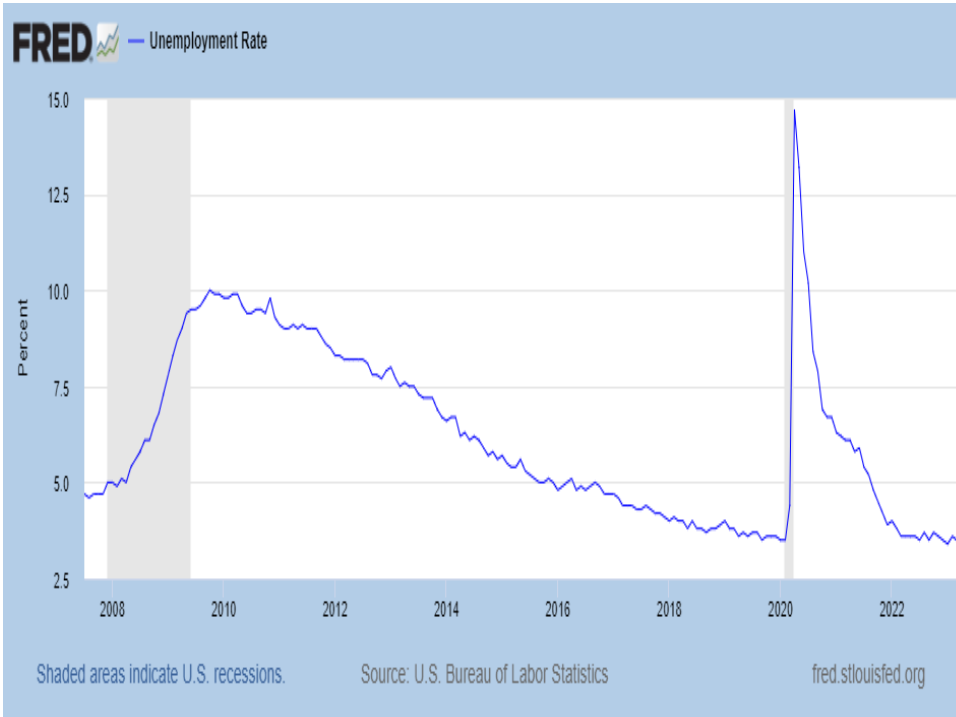
# Real GDP and 'Potential' during the Recovery



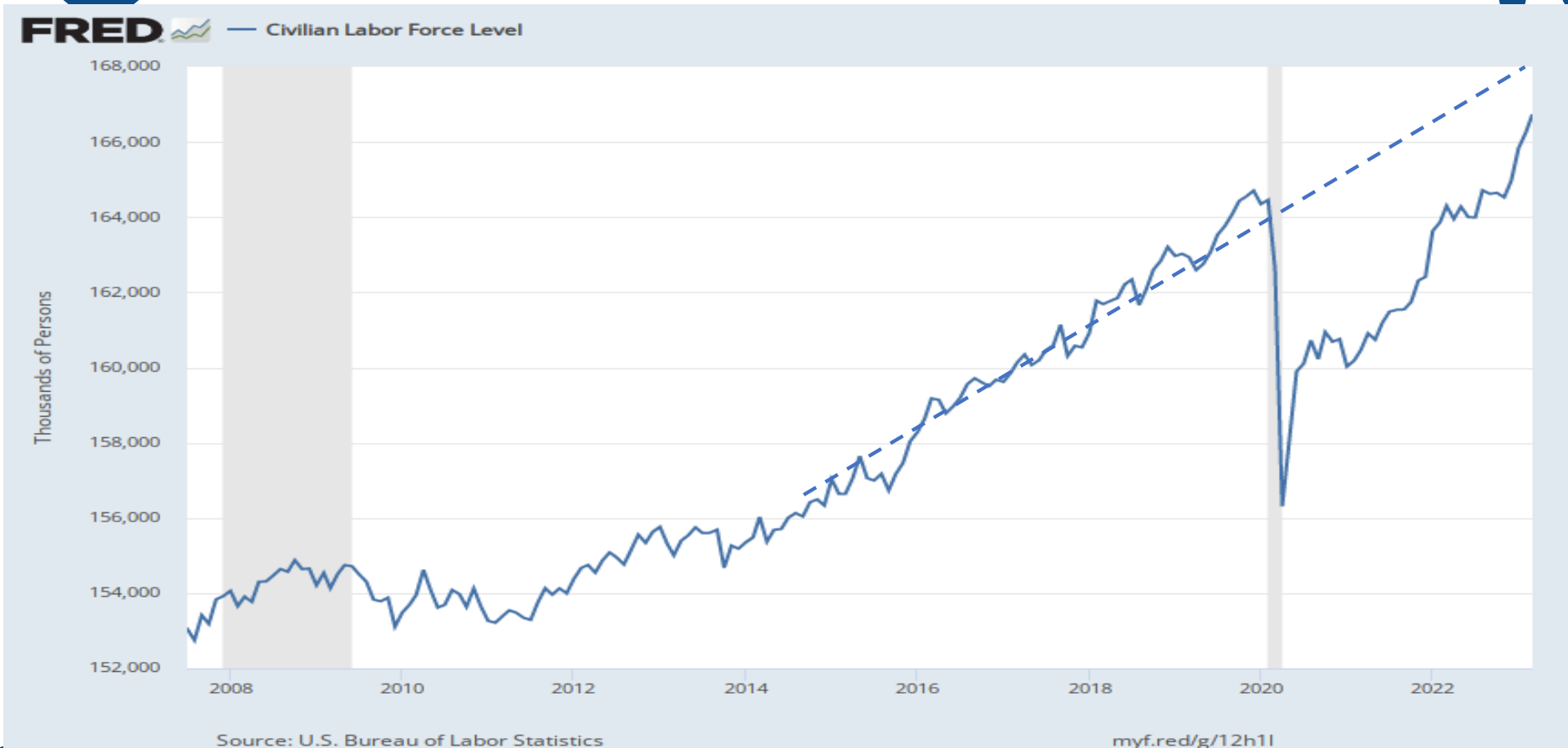
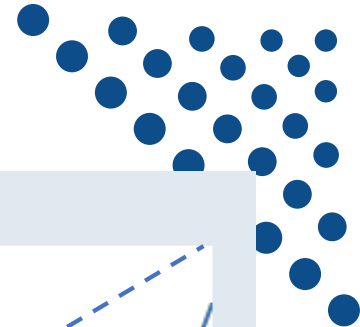
# The Bay State is Doing a Little Better



# Labor Market: Fully Recovered?

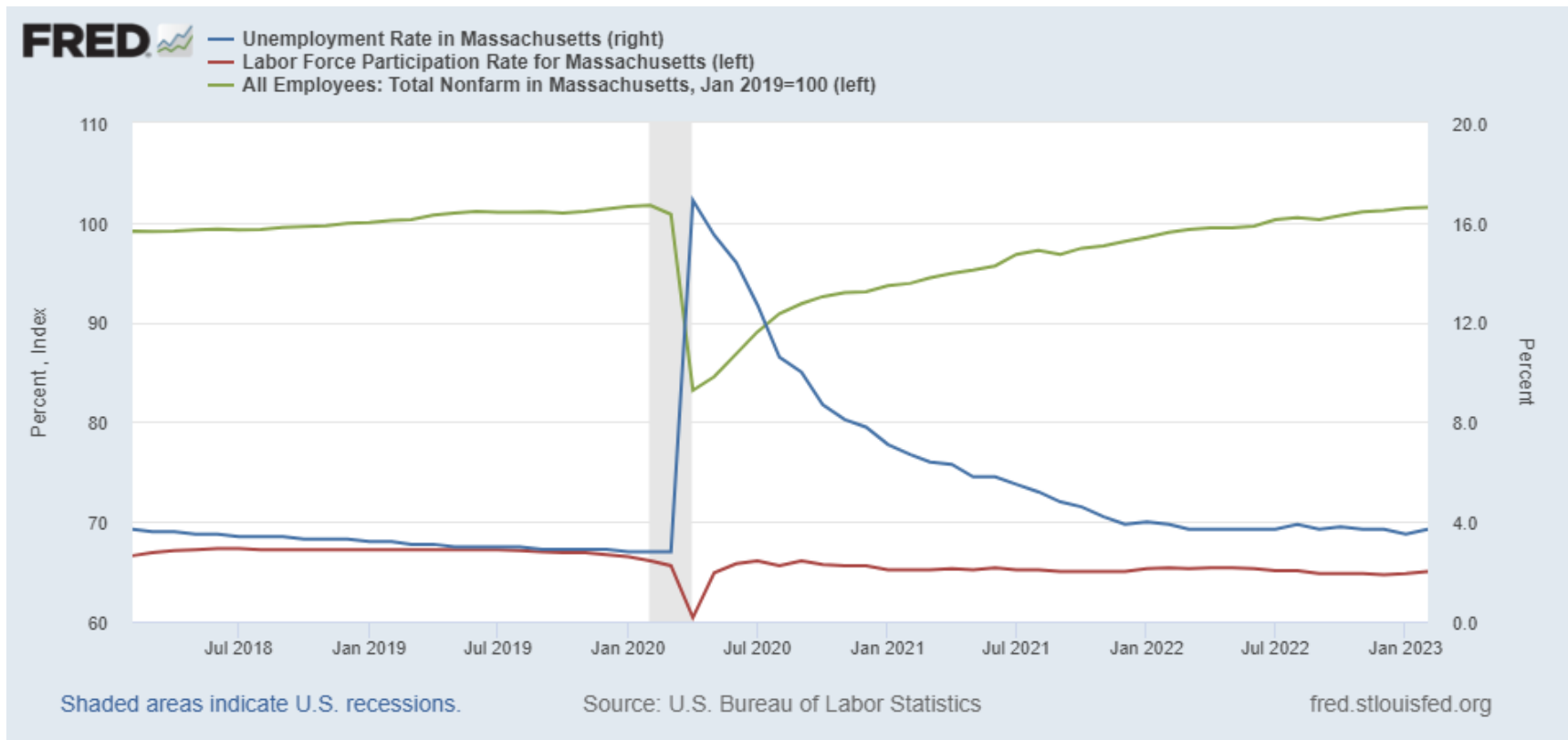


# Where Have All the Workers Gone?

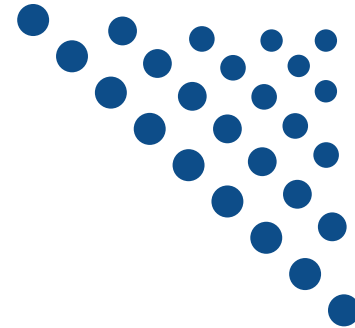




# Labor Market in Massachusetts

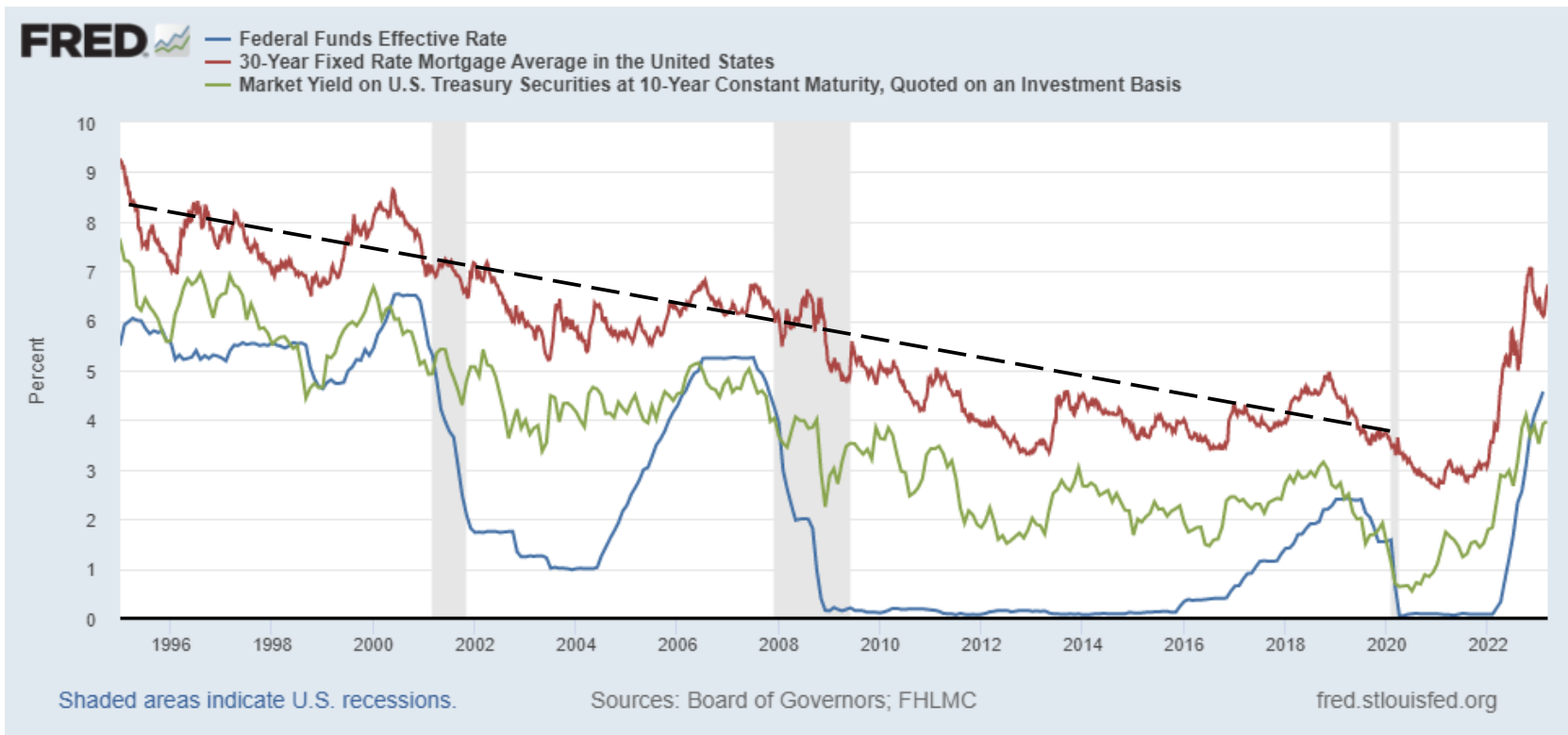


# Overall Good News on the Real Side

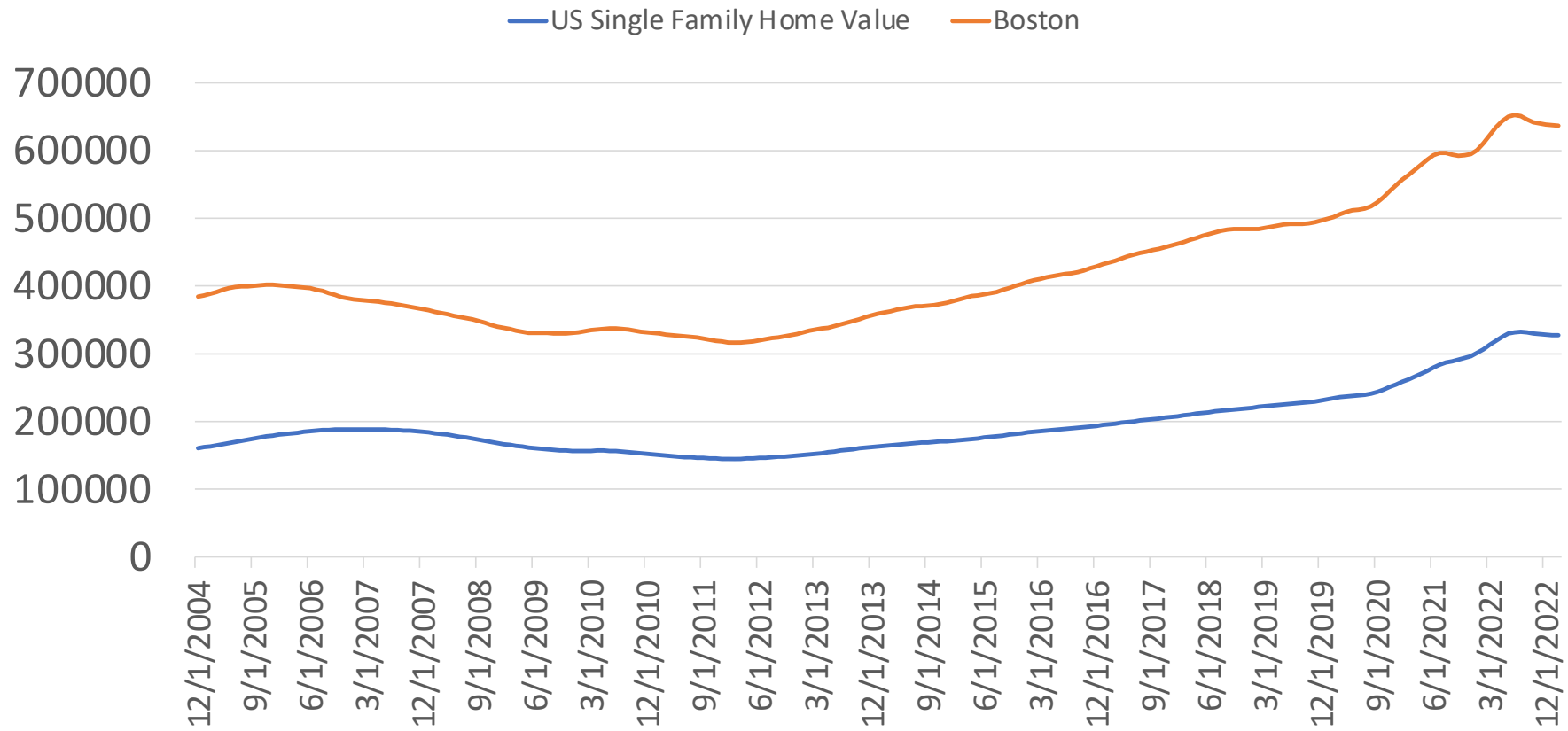


- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Fly in the ointment: labor force has lost about 900 thousand workers.
  
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good!

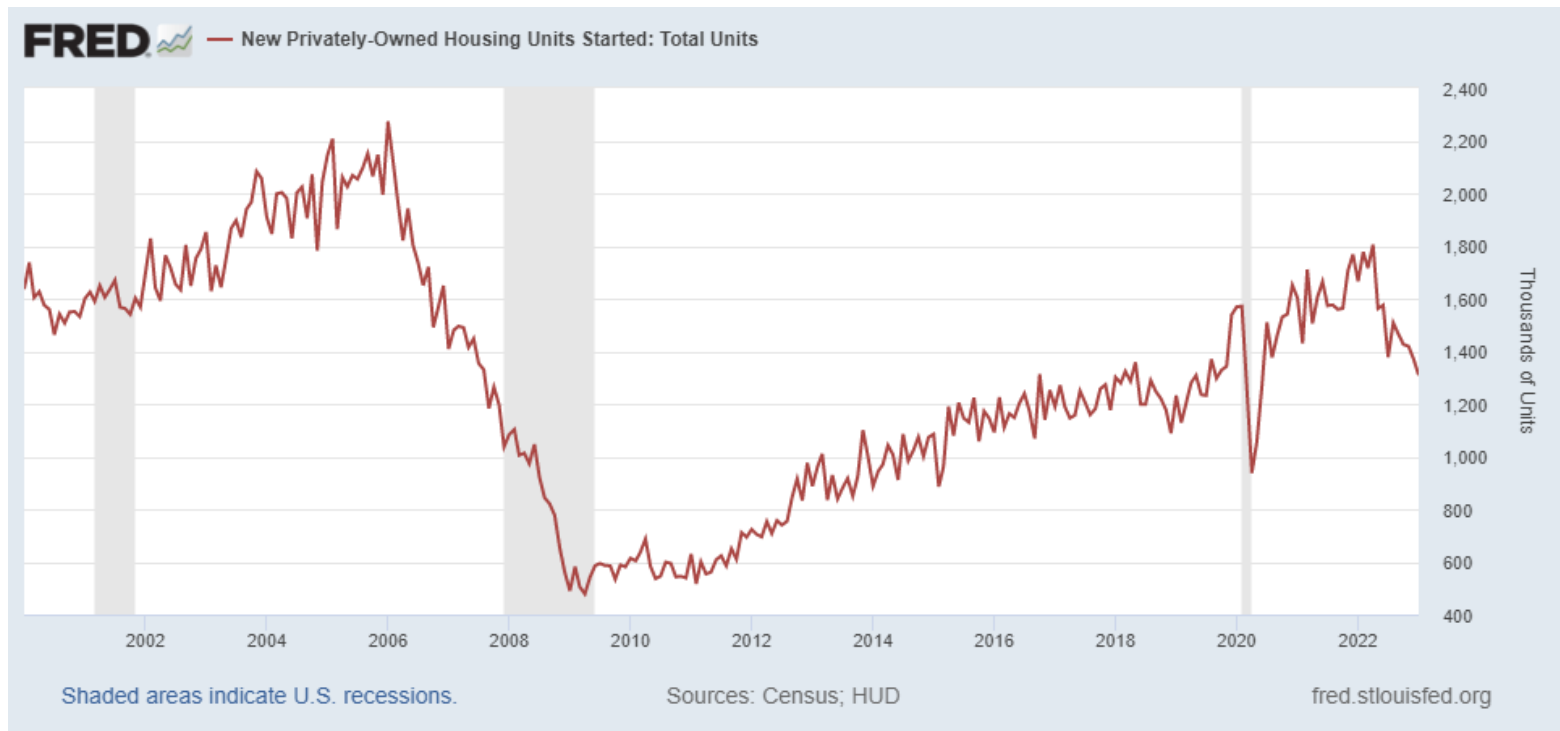
# Interest Rates: Era of Falling Rates Over?



# National Housing Market and Closer to Home



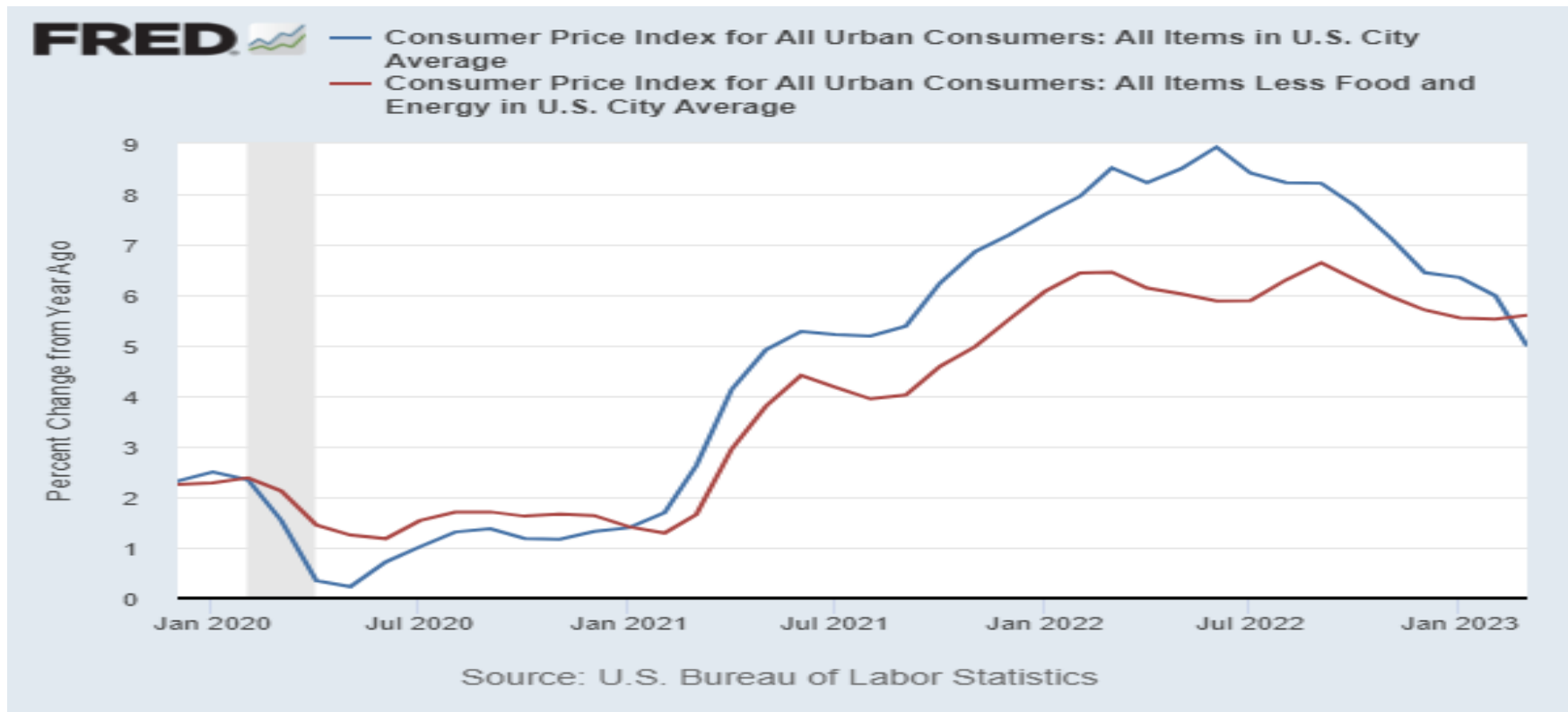
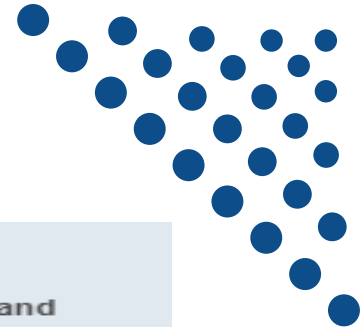
# The Fall in Prices is Having an Effect



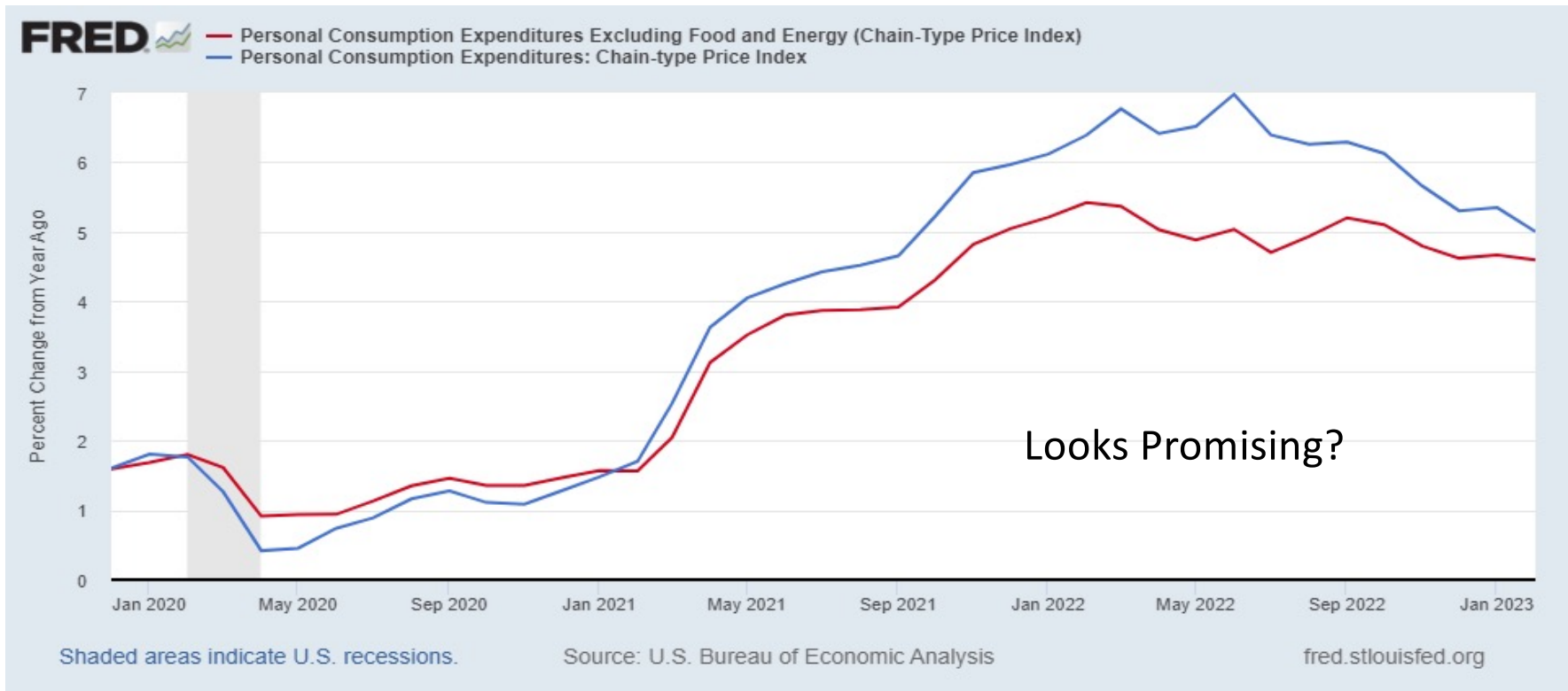
# Stock Prices: Fear about Rates and Recession



# Inflation during the Recovery (CPI)



# Fed's Measure (PCE)

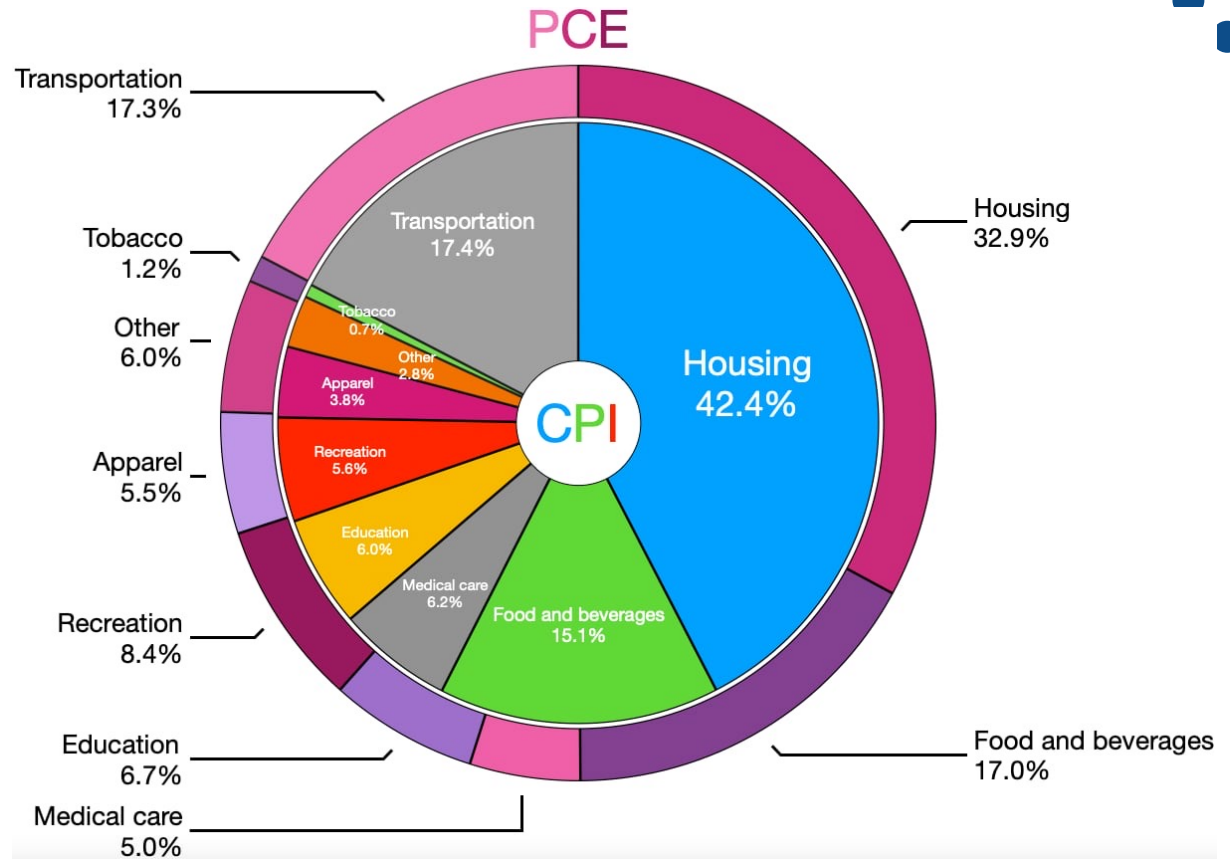




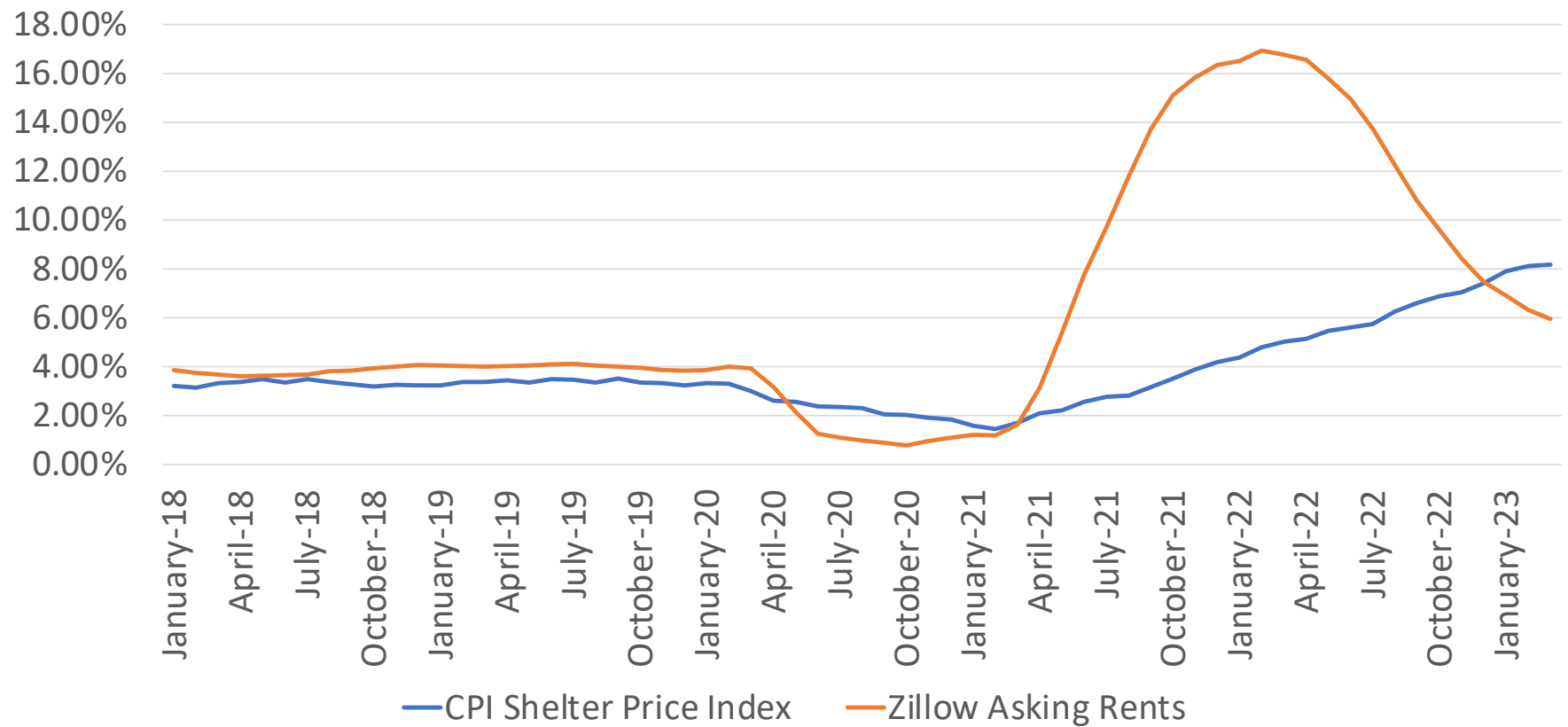
# CPI vs. PCE: Differences

CPI tends to be higher (Feb):  
 CPI, 6.0%  
 Core CPI, 5.5%  
 PCE, 5.0%  
 Core PCE, 4.6%.

Typically more like  
 0.5 % pts.



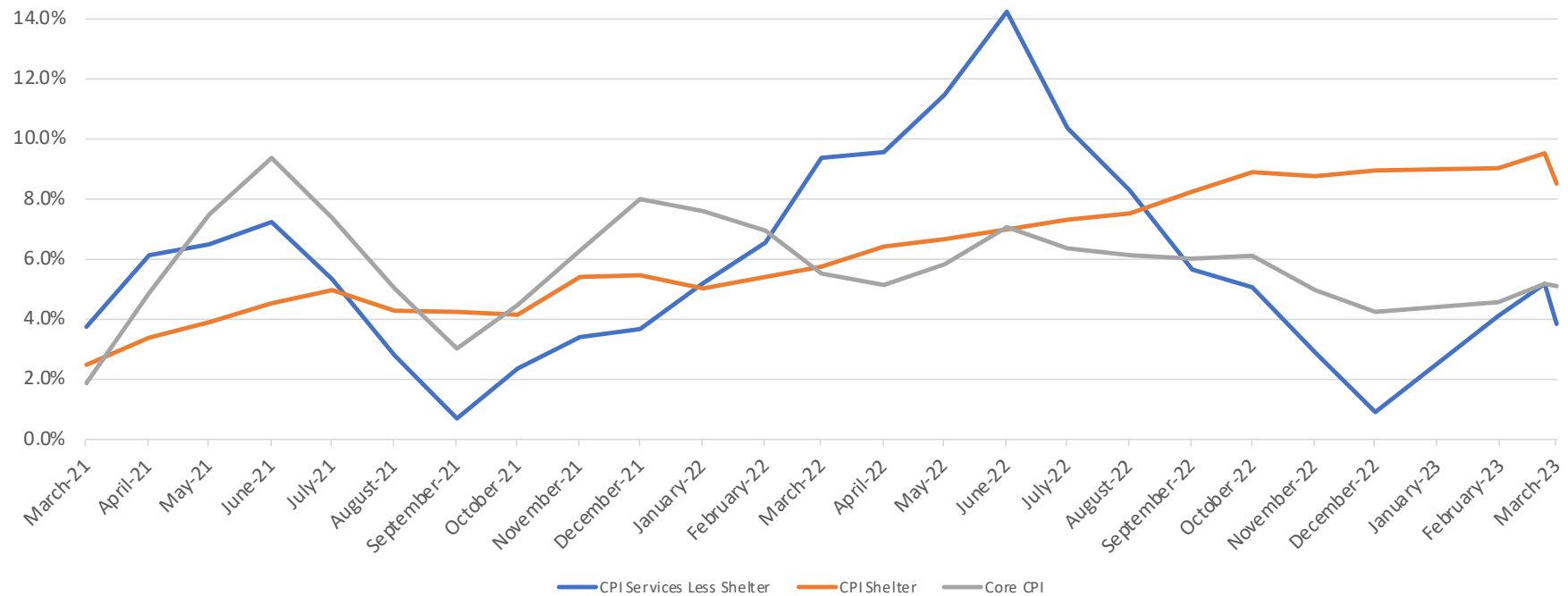
# Rents Paid versus Asking Rents



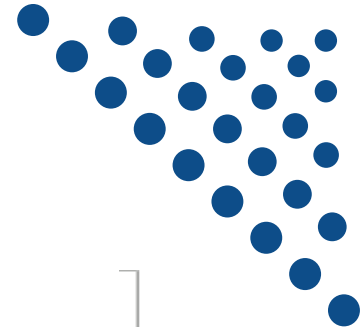
# Inflation: A Closer Look



### 3-Month Inflation Annualized

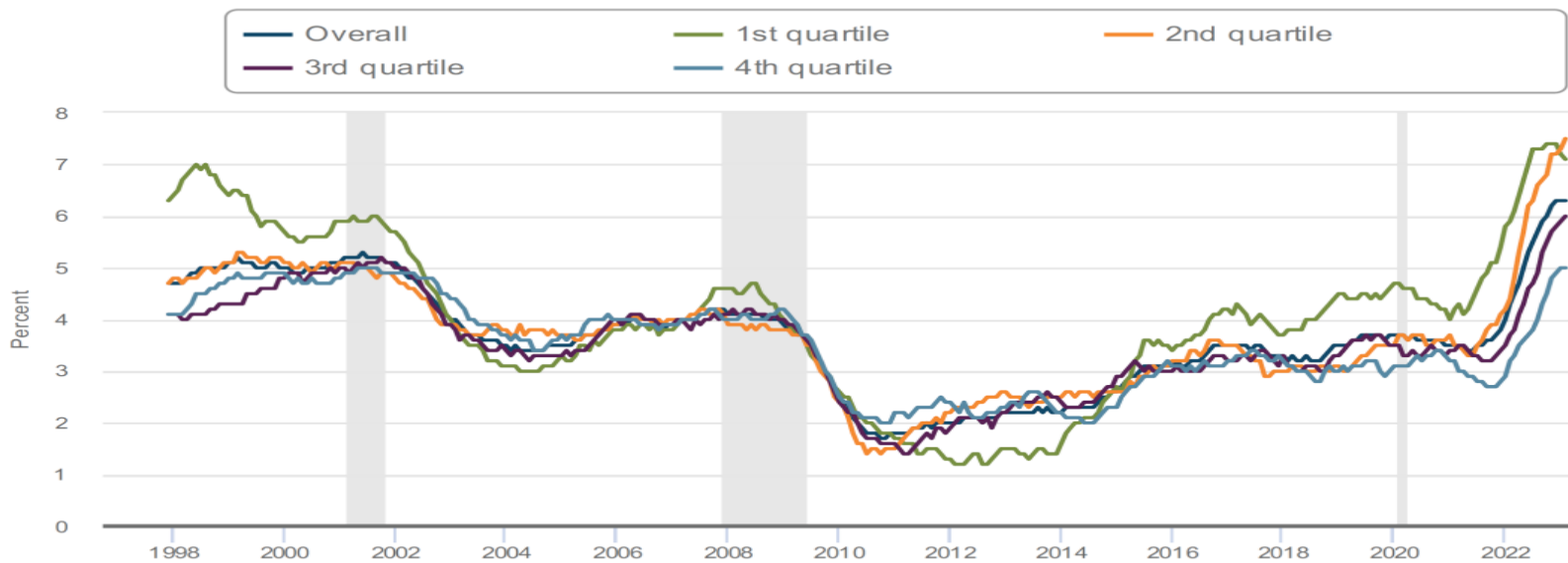


# Wages Haven't Kept Pace with Inflation



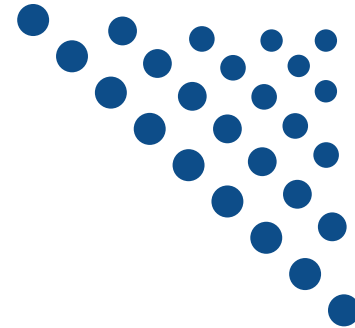
## Wage Growth Tracker by Wage Level

12-month moving average of median wage growth for each category, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

# The “Nominal” Side



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

# Policy Effects: Fiscal

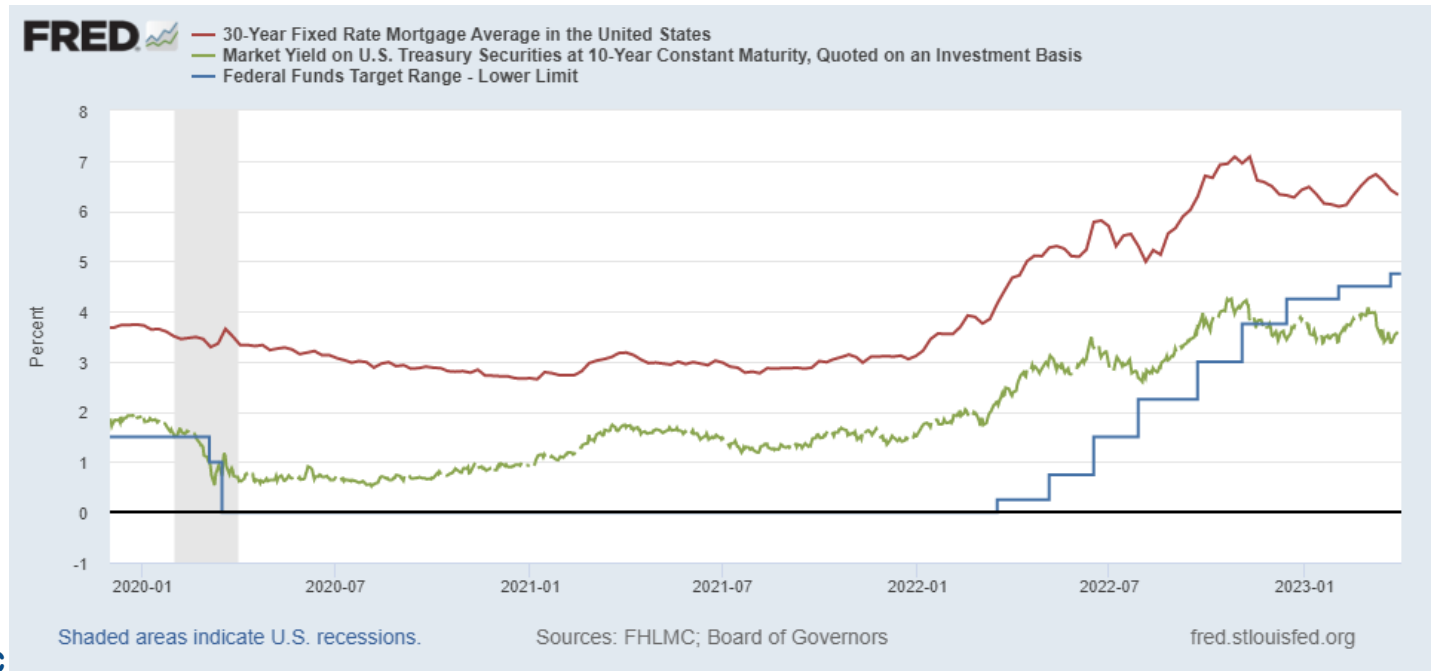


- **2020-2021: massive stimulus. Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.**



# 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



# Where we Stand



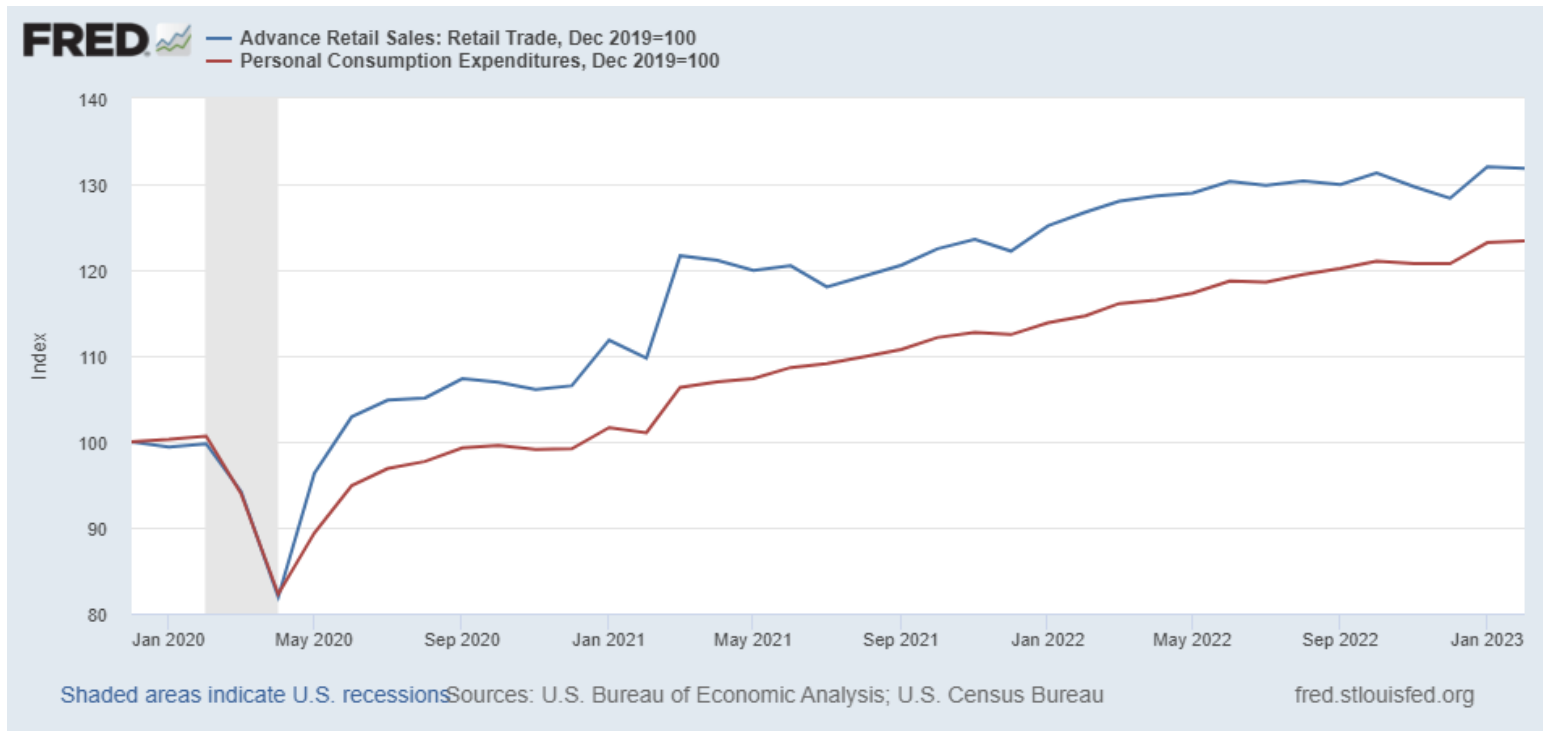
- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Monetary policy was too easy for too long, but since March of last year has been much more restrictive.
- Yes, there were supply chain issues that temporarily raised inflation, but there was (is?) too much total spending.

So, where are we headed?

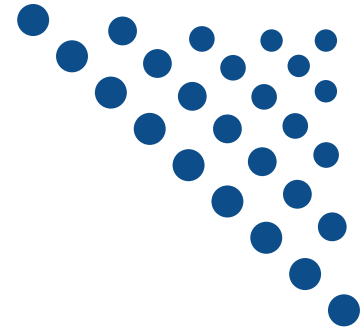
What will the Fed do?



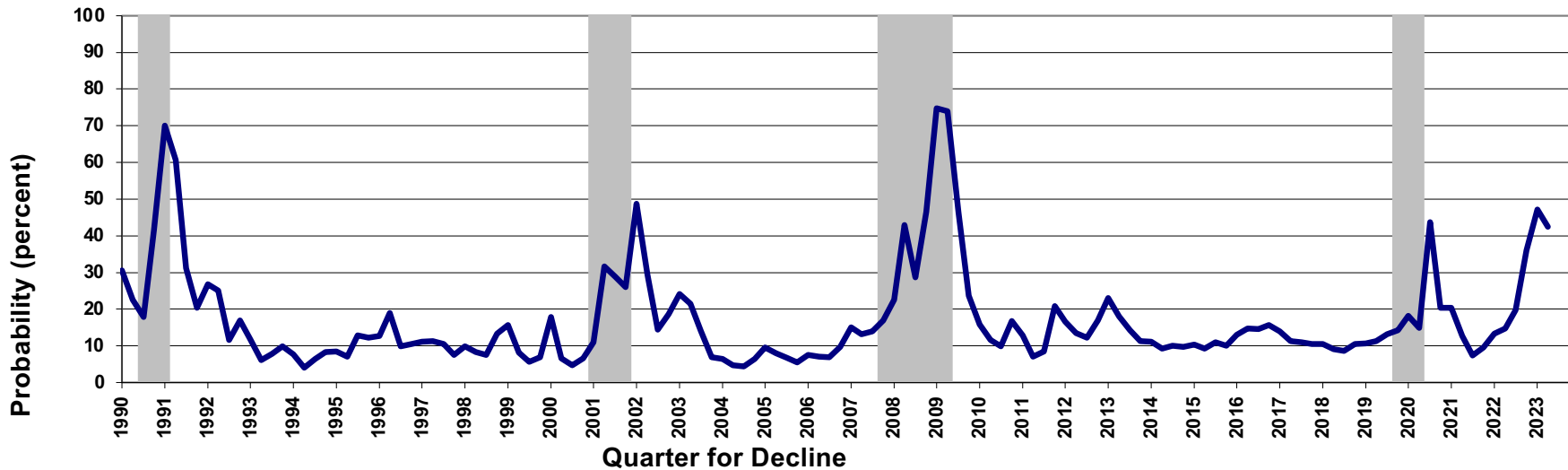
# Latest Numbers on Consumption



# Forecasters Are in fact Seeing the “R” Word

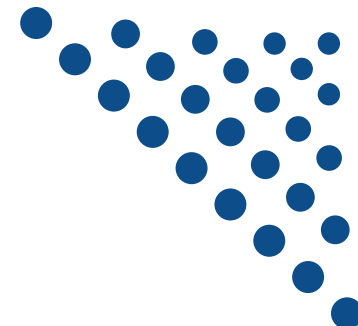


The Anxious Index  
One-Quarter-Ahead Probability of Decline in Real GDP  
Quarterly, 1990:Q1 to 2023:Q2



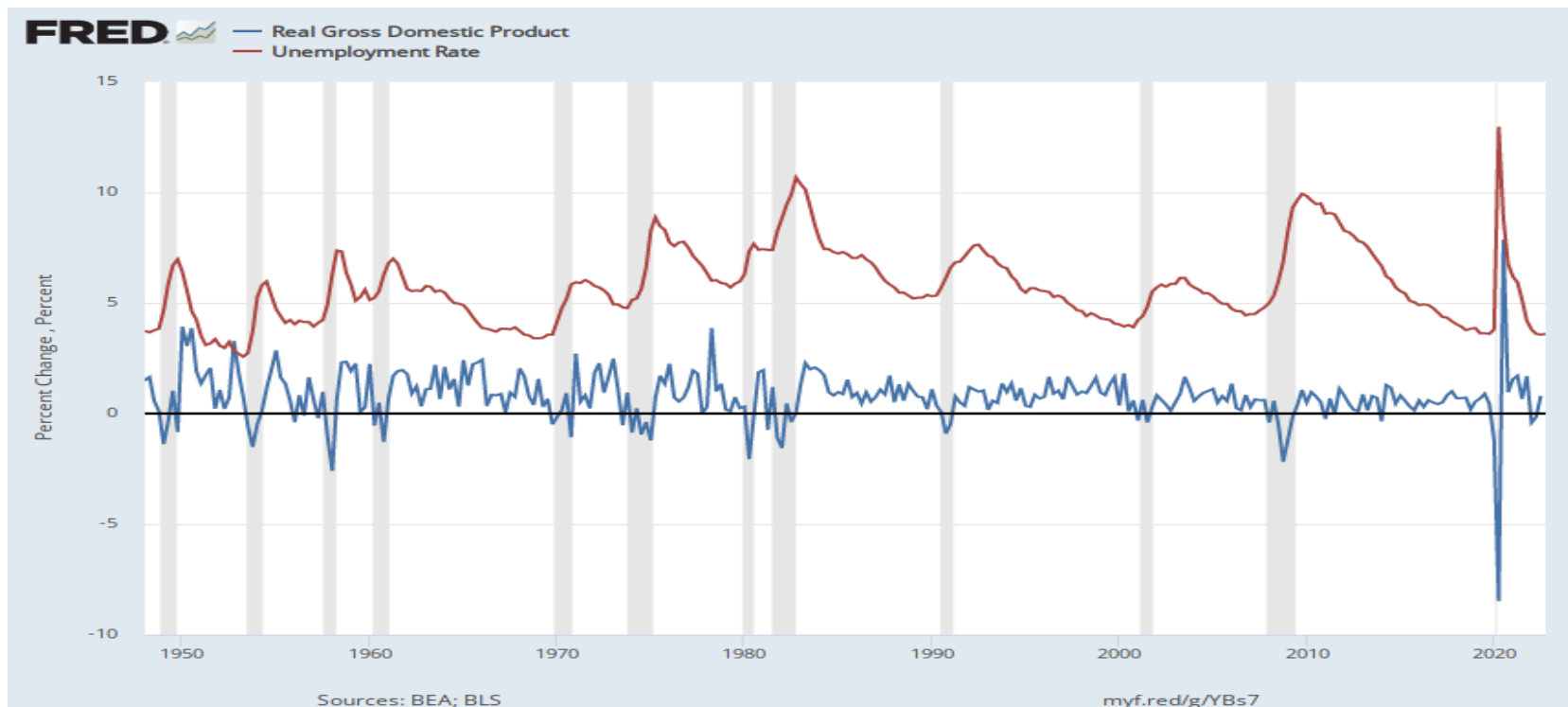
The shading shows the period beginning with each NBER peak and ending with the corresponding trough.

# What is a Recession?

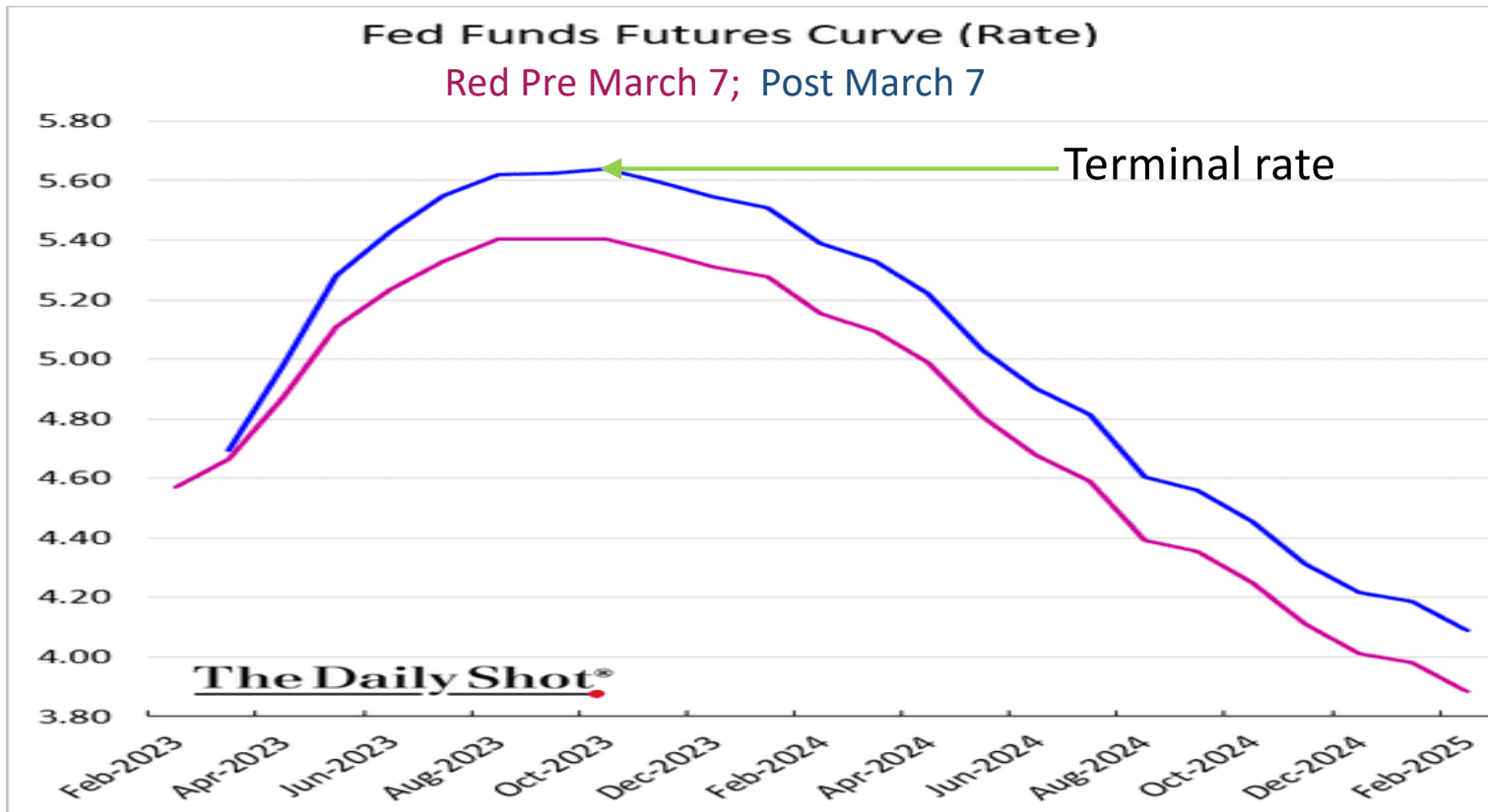


- **Defined by the National Bureau of Economic Research (NBER)**
- **“The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”**
- **Popular Rule of Thumb: Two or more, consecutive quarters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

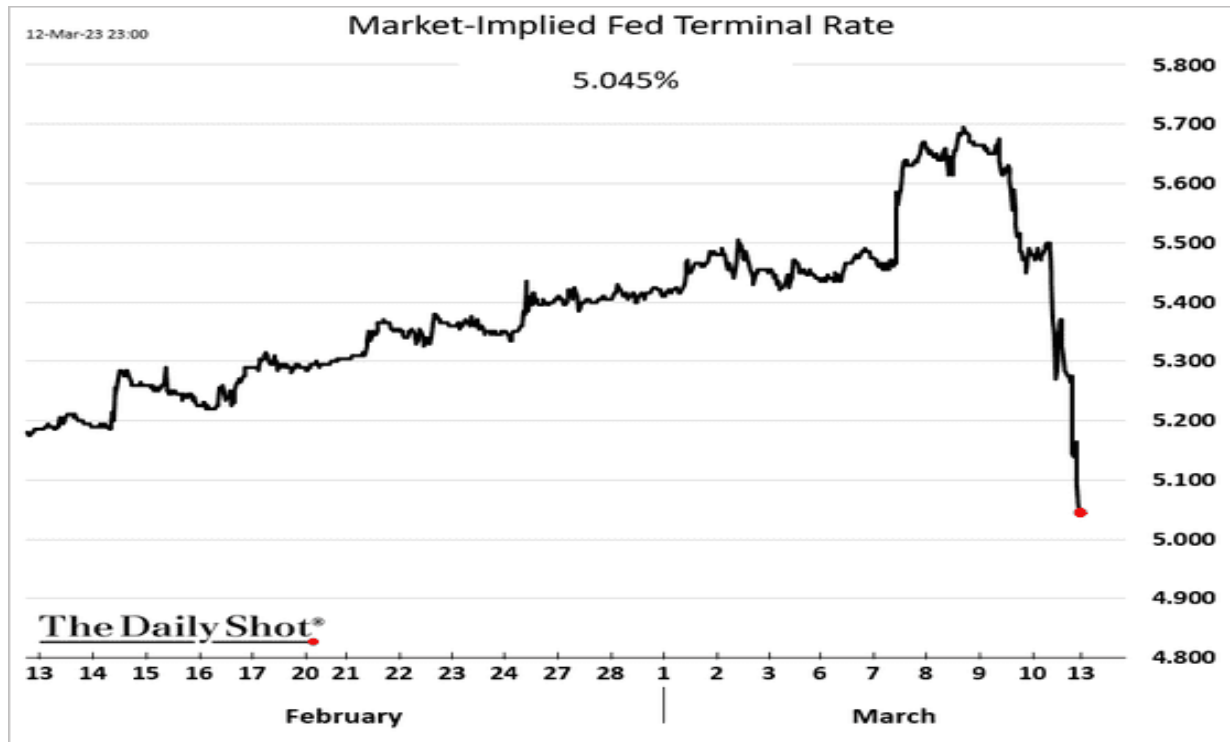
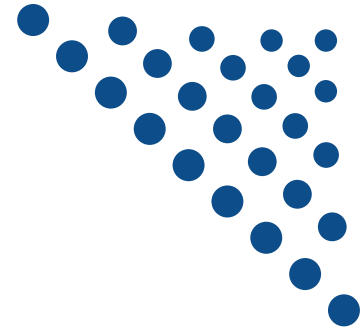
# Real GDP Growth and Recessions



# On March 7th Powell Emphasized Rate Hikes



# Something Happened the Next Weekend!



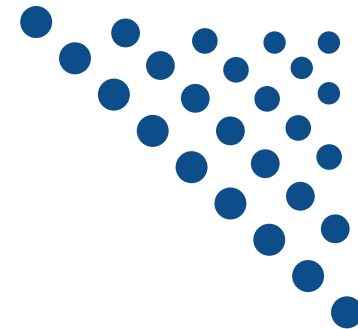
# Silicon Valley Bank



- Regional mid-sized bank with \$212b in assets; \$6billion in capitalization (15<sup>th</sup> largest).
- Focused on loans to venture capital and managing the desposit accounts of startups.
- Very rapid growth in deposits and assets between 2021 and 2022, which led to big investments in “safe” long term Treasury bond.
- The market value of these bonds fell drastically due to the Fed’s rise in interest rates.
- No problem! The bank does not incur “losses” unless it sells the bonds before maturity.



# Whoops!



- **Concentrated and sophisticated depositors see the problem and want to get their money out (FDIC insurance guarantees deposits up to \$250 thousand, and 90% above this amount!).**
- **Deposit withdrawals force SVB to sell those bonds.**
- **Precipitating a classic bank run and leading to the FDIC seizing the bank on Friday.**

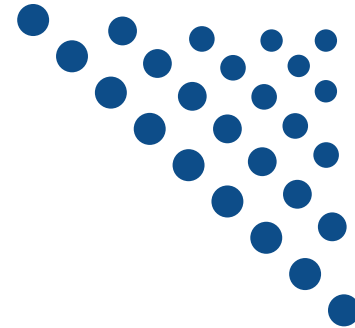




# Silicon Valley's Not So Wonderful Life



# FDIC Bank Closures, in General



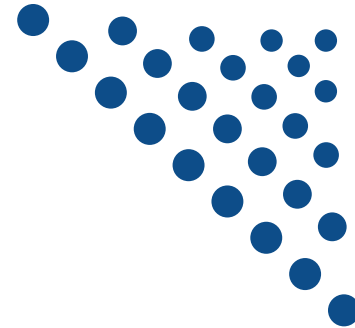
1. “Auction” off the failed bank; all depositors paid in full.
2. Payoff insured deposits and liquidate bank assets
  - Under Dodd-Frank, the FDIC is supposed to use the cheaper procedure.
  - In either case, funding comes from banks payments of deposit insurance premium.

## **But, in This Case:**



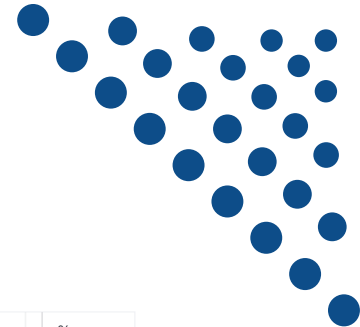
- Janet Yellen announced that all depositors would be paid in full, and there would be complete insurance of all bank deposits for a year.
- Senior Executives all fired.
- Fed created a new lending program, so that banks can borrow against Treasury bonds without realizing losses.
- The rationale was to prevent bank run spreading to other midsize banks.
  - Two other banks recently closed
  - Stock prices of a number of similar sized banks have plummeted.

# Problems with the Bailout



- **Political:**
  - Did political favoritism play a role in bailing out well connected, sophisticated silicon valley depositors.
  - Why didn't bank regulators see this coming?
- **Economic:** has the moral hazard of “too big to fail” been increased.
- **For the Fed:** Will the Fed have to scale back its interest rate increases to prevent wide scale financial crisis?

# Turbulence in the Treasury Market

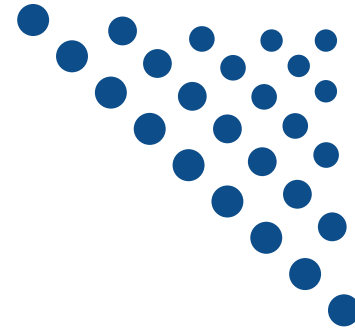


grwoglom published on TradingView.com, Apr 02, 2023 16:41 UTC-4



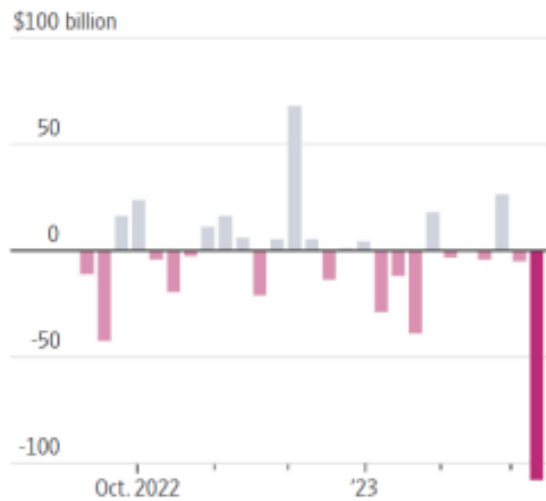
TradingView

# Is This a Problem?

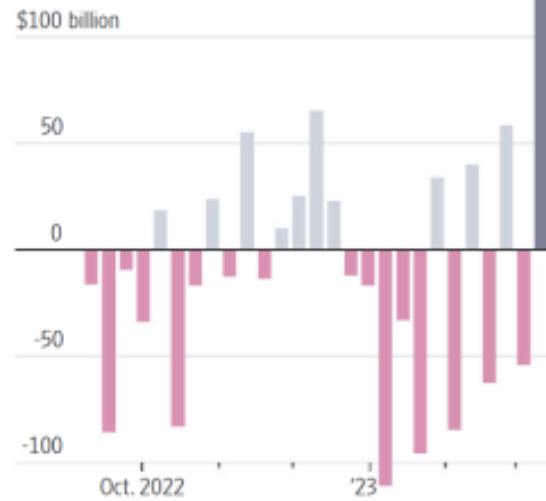


Deposits, change from a week earlier

## SMALL BANKS



## LARGE BANKS



Note: Includes domestically chartered commercial banks. Large banks are defined as the top 25 ranked by domestic assets. Small banks are those not in the top 25.  
Source: Federal Reserve  
Nate Rattner/THE WALL STREET JOURNAL

## Credit Crunch?

**Let's Hear from You!**

**Geoffrey Woglom**  
**grwoglom@amherst.edu**



**Contact NEED: [Info@NEEDelegation.org](mailto:Info@NEEDelegation.org)**

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