



*Osher Lifelong Learning Institute
Eckerd College, Spring 2022*

US Economy and Russia/Ukraine Conflict

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Amherst College
May 12, 2022



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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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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: 651+ members**

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

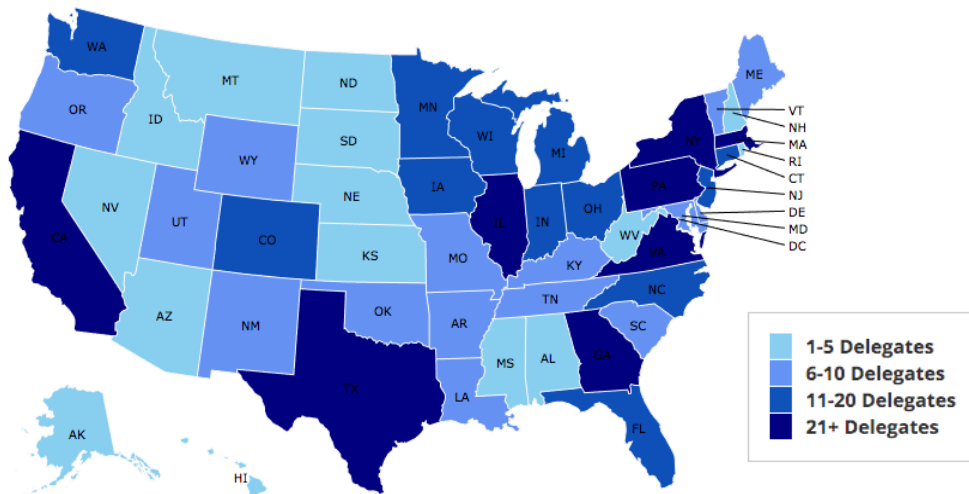
- **Global Partners: 49 Ph.D. Economists**

- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- Coronavirus 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
- US Social Policy



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Submitting Questions

- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**



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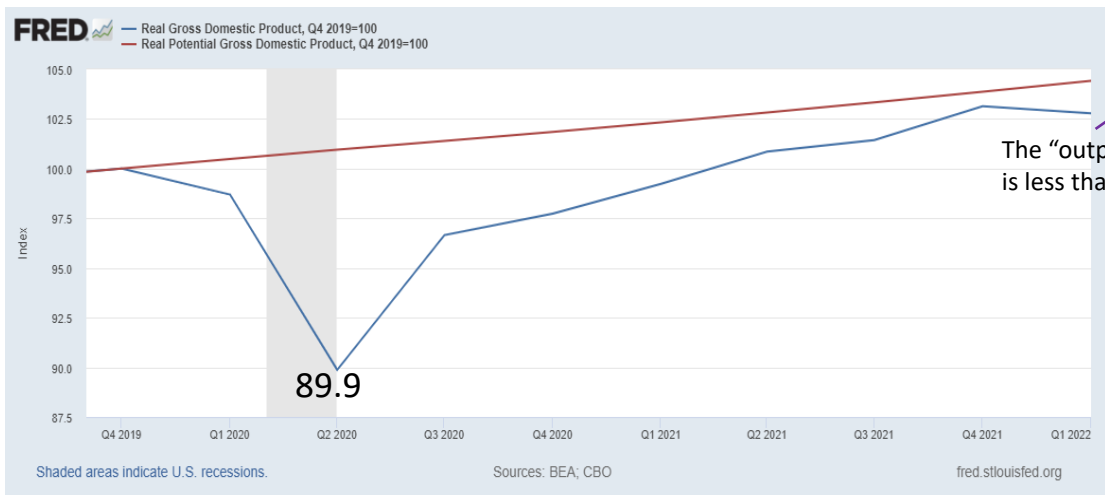
Outline for the Talk

1. Quick summary of the state of the economy.
2. Closer look at inflation and whose to blame (in my opinion).
3. What's at stake at controlling inflation.
4. Brief thoughts on the effects of the Ukraine crisis.



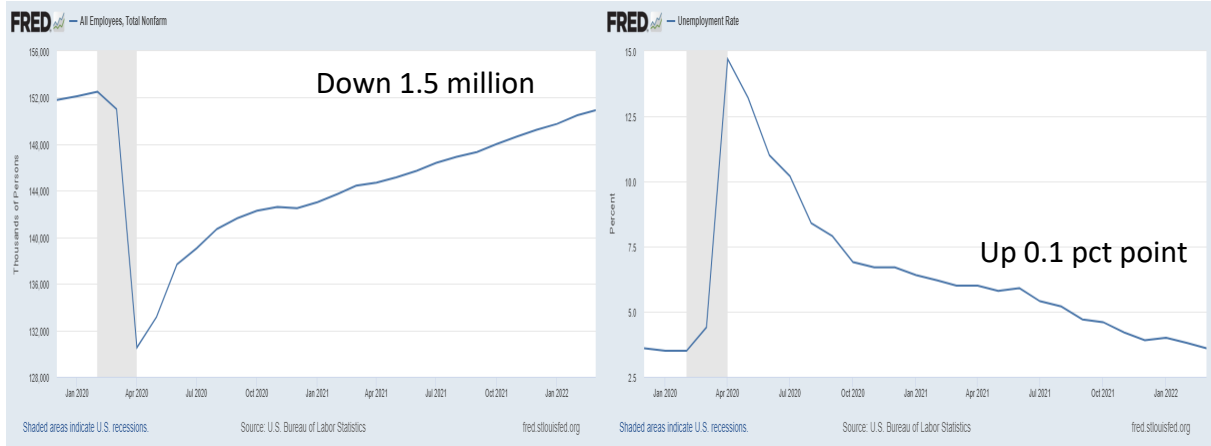
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Real GDP and 'Potential' during the Recovery



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Labor Market is Almost Fully Recovered

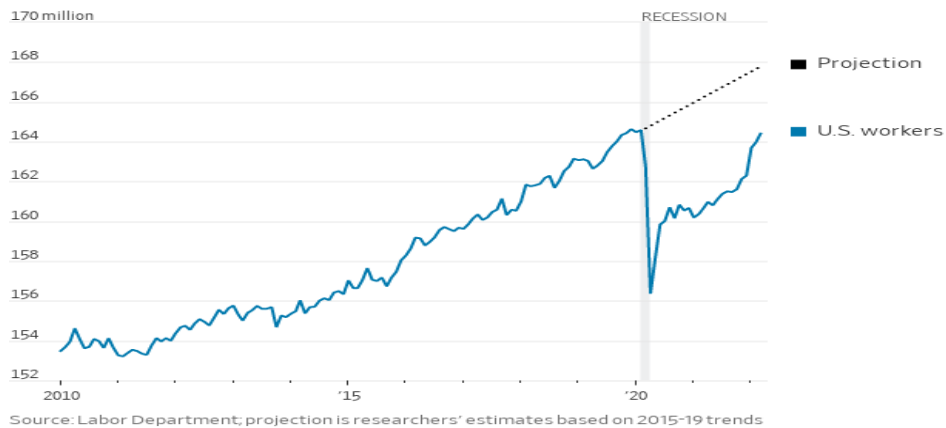


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Where Have all the Workers Gone?

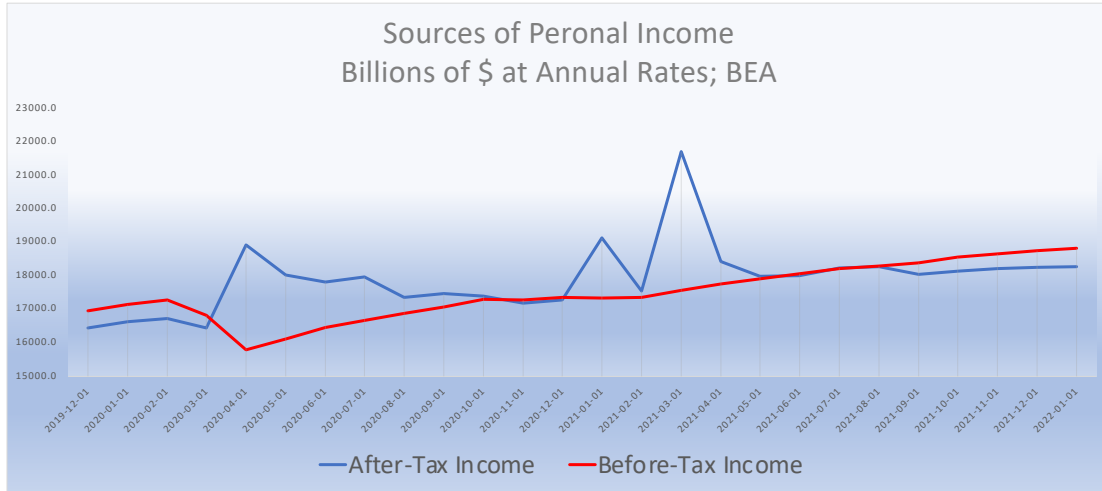
Missing Workers

Gap between U.S. labor force level and projection had the pandemic not occurred.



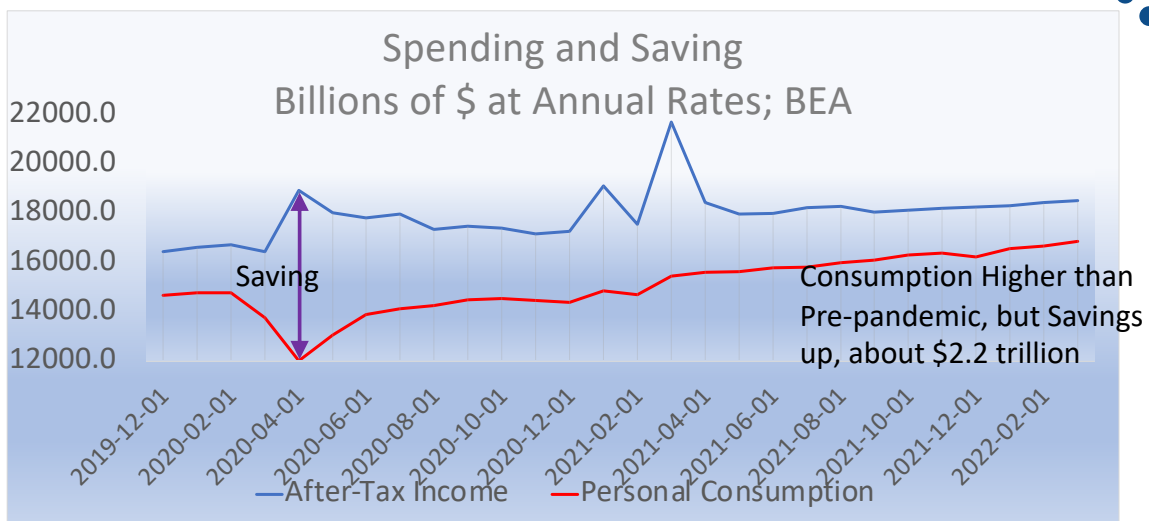
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Fiscally Driven Recovery



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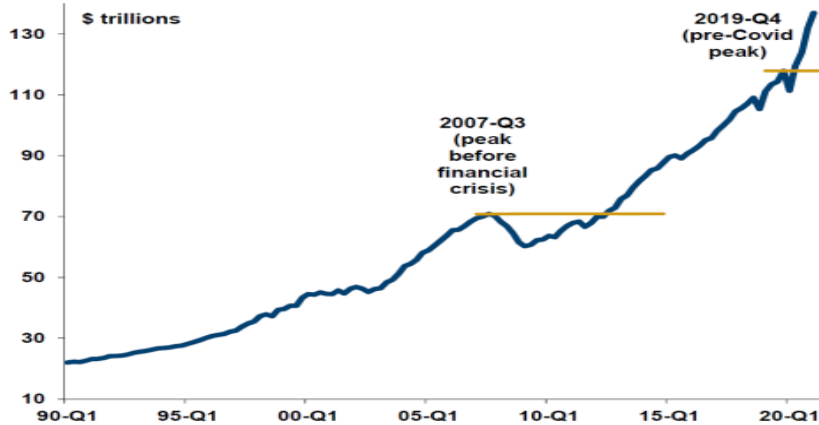
Households Lead the Way



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Overall Households Are Doing Well

Household Net Worth



Source: Financial Accounts of the United States, Federal Reserve Board via Haver Analytics

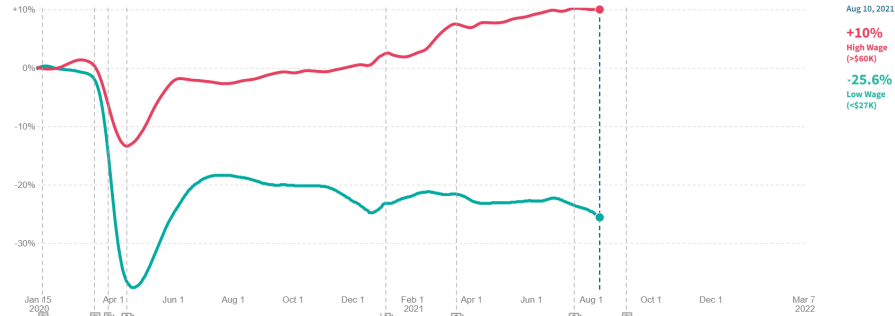
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K-Shaped Recovery

OPPORTUNITY FRONTIERS ECONOMIC TRACKER THE HARVARD CENTER FOR POLICY ANALYSIS BILL & MELINDA GATES FOUNDATION

Percent Change in Employment*

In the United States, as of August 10 2021, employment rates among workers in the bottom wage quartile decreased by 25.6% compared to January 2020 (not seasonally adjusted).



*Change in employment rates (not seasonally adjusted), indexed to January 4 31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Samsara, and time-series data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

last updated: September 24, 2021 next update expected: March 26, 2022

data source: Earnin, Intuit, Kronos, Paychex

visit tracktheeconomy.org to explore

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Stimulus Payments Saved Low Income Families

OPPORTUNITY INDICATORS ECONOMIC TRACKER HARVARD UNIVERSITY BROOKINGS INSTITUTION BILLY MELINDA LOUIS CONSULTANTS

Percent Change in All Consumer Spending*

In the United States, as of February 27 2022, total spending by high-income consumers increased by 7.9% compared to January 2020.



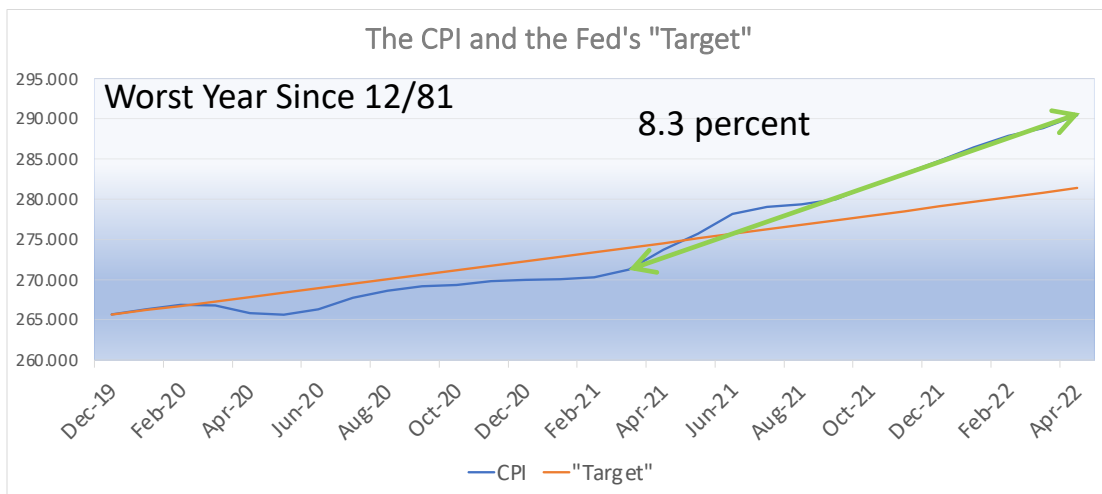
*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.
Series updated March 29, 2022. Inflation reported April 15, 2022.

data source: Affinity

visit tra.khmer.com to explore



Inflation during the Recovery



Stabilizer in Chief: the Fed

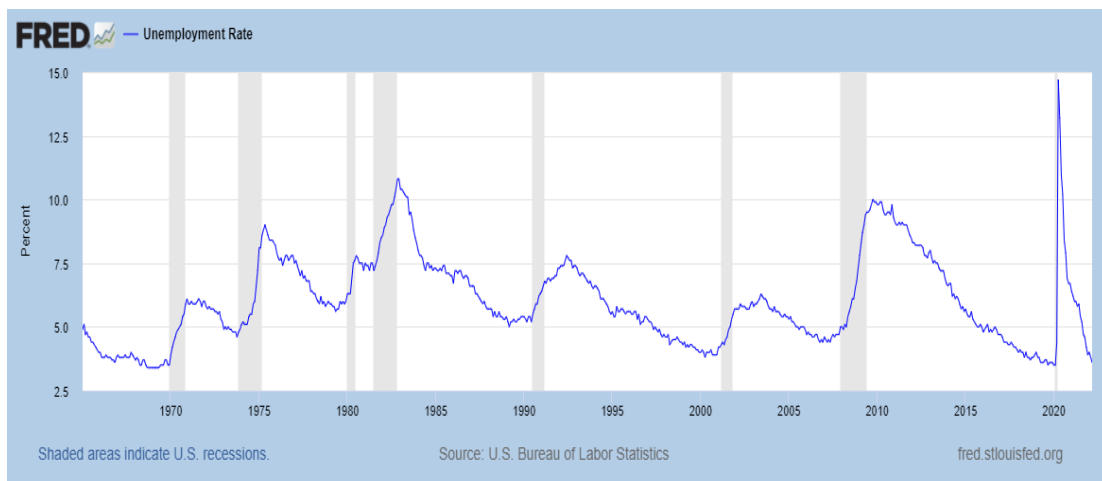


Jerome Powell
February 2018

- **The Fed’s Dual Mandate:**
 1. “Stable prices” which means 2% rate of inflation in the Personal Consumption Price Index (which corresponds to about 2.5% inflation in the more well-known CPI).
 2. “Maximum employment” which means the highest level of employment (lowest unemployment rate) consistent with mandate 1.
- **Fiscal Policy (taxes and spending, President and the Congress) can affect inflation and unemployment, but it is the Fed’s job to achieve the dual mandate**

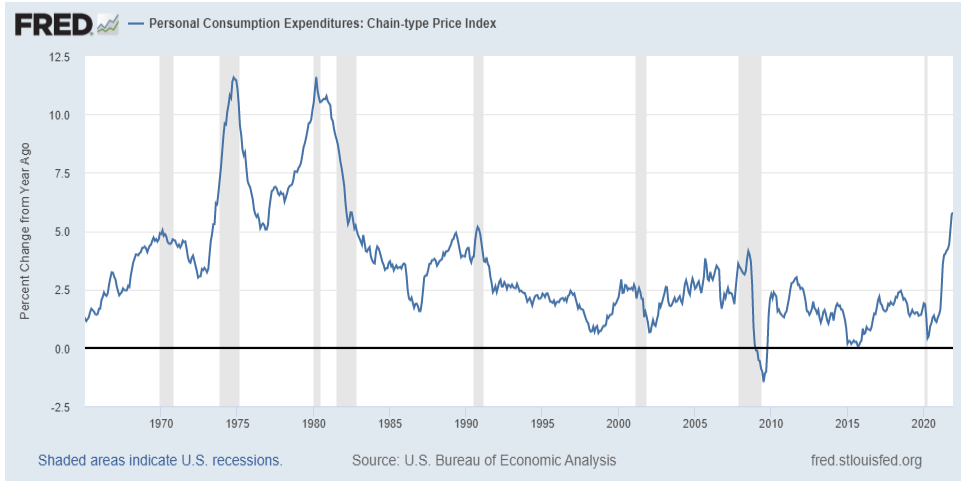
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Track Record on Unemployment



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Track Record on “Price Stability”



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Determinants of Unemployment & Inflation

- **Unemployment:** The higher the level of total spending, the lower the unemployment rate.
- **Inflation:**
 1. Too much spending and inflation rises (Vietnam).
 2. Increase in production costs (e.g., “supply chain bottlenecks.”)
 3. Expectations of high inflation can cause inflation to be high.



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The Fed's Affects the Economy via Interest Rates

- Higher Interest rates discourage firms from buying new plant and equipment, households from buying new homes and tend to lower stock and house prices (!).
- Reduced spending tends to lower production and employment and eventually lowers inflation.



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Become a Central Banker in One Slide!

- If you are more concerned that inflation is too high, raise interest rates.
- If you are more concerned that unemployment is too high, lower interest rates.
- Inflation and unemployment just right: keep rates the same.



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One Big Complication: Lags

- **Milton Friedman: Monetary Policy affects GDP and Inflation with Long and Variable (Unpredictable) Lags.**
- **Raising interest rates today does nothing to spending today nor to inflation.**
- **But over time spending slows and eventually inflation falls.**
- **Friedman believed that lags led to the Fed to “oversteering” the economy consistently.**



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The Great Moderation

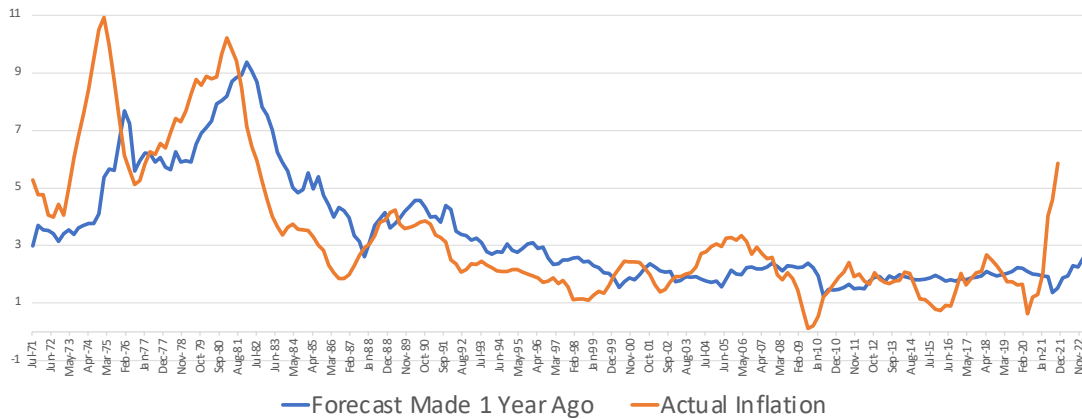
- **From 1990 until 2008, the performance of the US economy was extraordinary and even Milton Friedman gave kudos to the Alan Greenspan.**
- **We (economist) thought we knew why: Central Bankers finally listened to us on the importance of stabilizing inflationary **expectations**, starting with Paul Volcker.**
- **Volcker was determined to reduce inflationary expectations.**



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“Anchoring” Inflation Expectations

Expectations and Subsequent Inflation



Forecasts: Philadelphia Fed, “Survey of Professional Forecasters”

This Inflation is Different!

12-month, percentage price increase, selected items in the CPI

Category:	Weight in CPI, 2022	December 1981	March 2022
All Items	100%	8.9	8.3
Services	60.2	13.0	5.4
Commodities	39.8	6.0	13.0
Housing	41.0	10.2	6.5
Transportation	18.9	11.0	18.7
Food	14.3	4.3	9.0
Medical Care	8.4	12.5	4.2
Energy	8.3	11.9	30.3
Used Cars	4.0	20.3	22.7

Sources: BLS and Fred data from the St Louis Federal Reserve Bank



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 is too much total spending and in the absence of bold Fed actions is likely to continue.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion and today's 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.

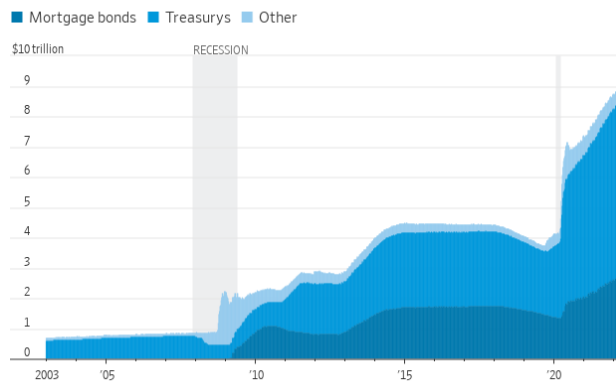
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Fed Policy during the Recovery

- Zero interest rates until March and a Big QE program

Bond Binge

The Federal Reserve's asset holdings have more than doubled since March 2020



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Fed Policy Statement, 3/16/2022

..., the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.

Editorial Comment: Big Deal!

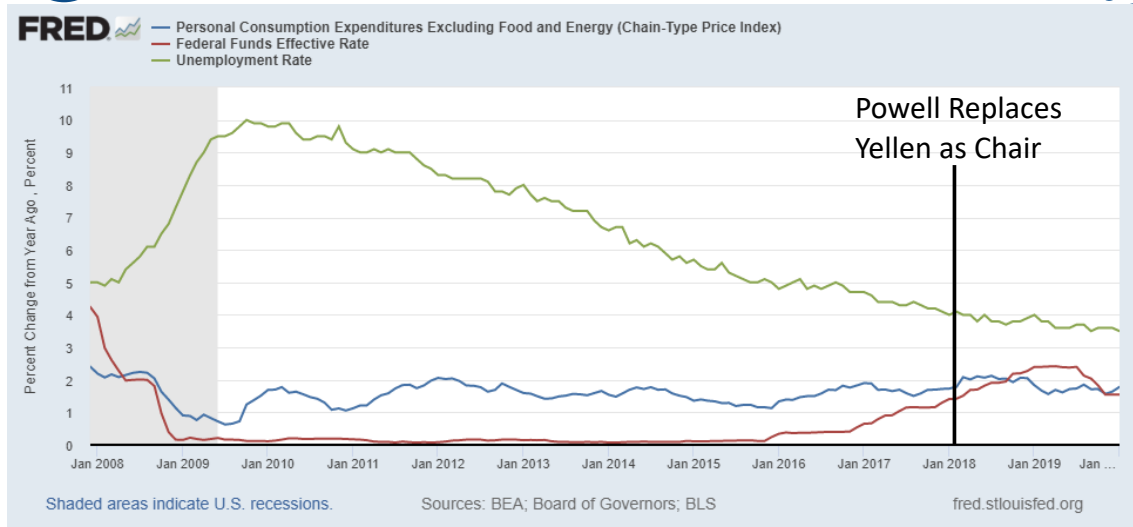


Better Late Than Never: FOMC 5/4/2022

- The Committee is highly attentive to inflation risks.... In support of these goals, [T]he Committee decided to raise the target range for the federal funds rate to 3/4 to 1 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee decided to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities on June 1,...
- But still room for some magical thinking:
With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong.



Why Did Powell Do It?



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Policy Changes under Powell

- In the Fed's dual mandate put more emphasis on the employment goal relative to the inflation goal.
- Inflation goal switched from targeting forecasted *future* inflation to trying to achieve average *realized* inflation of 2%

Have they forgotten about Lags!

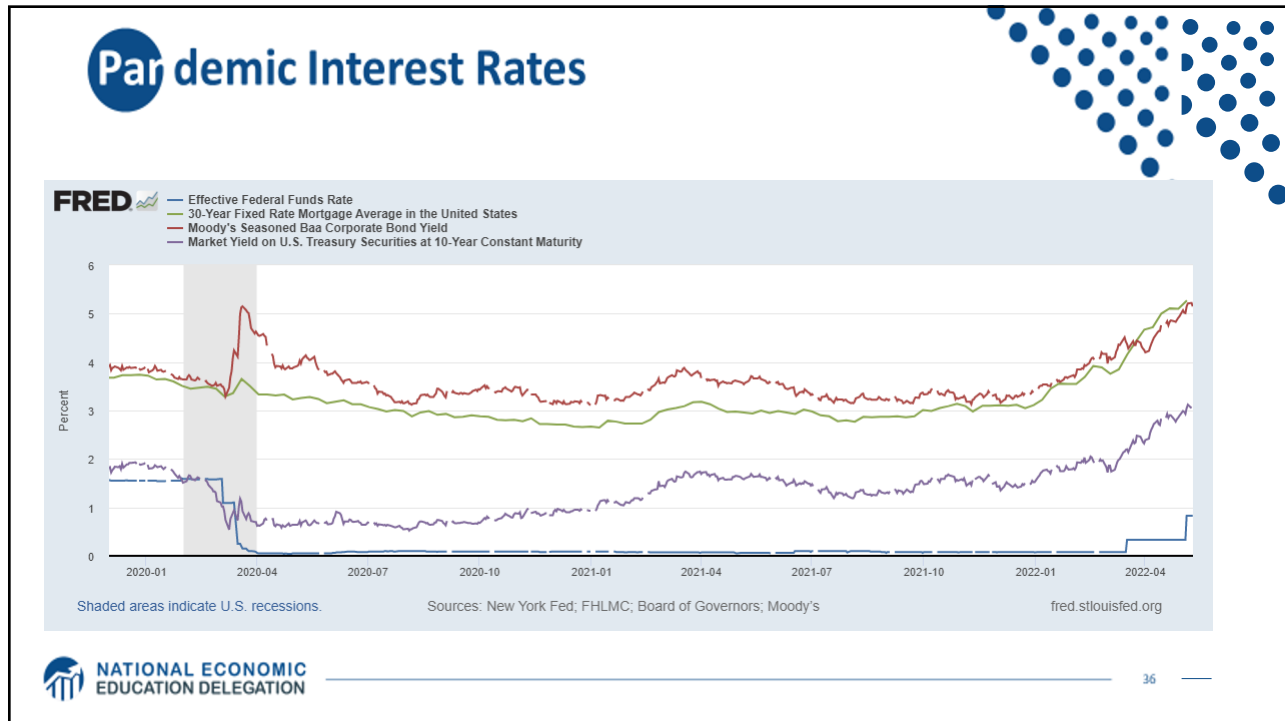
Nasty Comment: At the moment, the price level is 5 percent higher than the target level. Will Powell shoot for deflation?



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So Far Inflationary Expectations Look Stable

- Professional forecasters, financial markets and the Fed itself think that inflation in 2023 will be in the 2.5-3.3% range

Economic Projections of the FOMC, March 2022*

	2022	2023	2024	Longer Run
Change in Real GDP	2.8	2.2	2.0	1.8
December projection	4.0	2.2	2.0	1.8
Unemployment Rate	3.5	3.5	3.6	4.0
December projection	3.5	3.5	3.5	4.0
PCE Inflation	4.3	2.7	2.3	2.0
December projection	2.6	2.3	2.1	2.0
Core PCE Inflation	4.1	2.6	2.3	--
December projection	2.7	2.3	2.1	--
Federal Funds Rate	1.9	2.8	2.8	2.4
December projection	0.9	1.6	2.1	2.5

* Median projections
 Source: Federal Open Market Committee, Summary of Economic Projections, March 2022

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Good Luck with these Forecasts!

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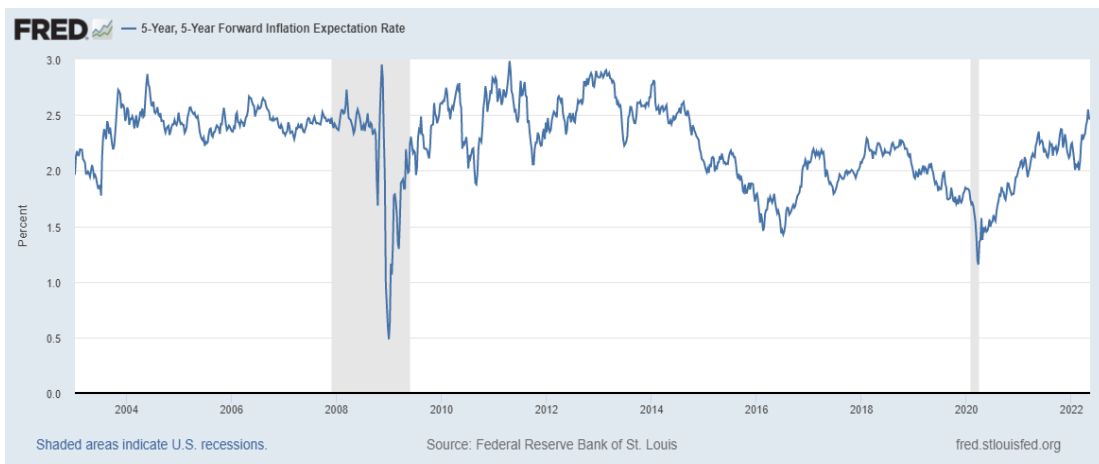
Even with the War in Ukraine!

WSJ, SURVEY OF PROFESSIONAL FORECASTERS (APRIL)

	2022	2023	2024
CHANGE IN REAL GDP	2.6	2.2	2.1
JANUARY FORECAST	3.3	2.4	2.2
UNEMPLOYMENT	3.4	3.6	3.7
JANUARY FORECAST	3.5	3.5	3.5
INFLATION	4.8	2.8	2.4
JANUARY FORECAST	3.0	2.4	2.3
FEDERAL FUNDS RATE	2.0	2.7	2.5
JANUARY FORECAST	0.3	0.9	1.6

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Put Your Money Where Your Mouth Is?



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If Expectations Start to Increase

The Fed will have a very difficult choice

- a) **Raise interest rates a lot (in an election year) to slow inflation**
 1. stalling the recovery.
 2. disrupting financial markets.
- b) **Raise interest rates slowly and moderately to cushion the effect on employment**
 1. avoids a recession (maybe).
 2. inflationary expectations become unanchored



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The Conflict in Ukraine and the US Economy

• Short run

- Uncertainty
- Recession?
- Increase in Cost of Food and Fuel

• Long run

- Decrease in Globalization
- The Role of the Dollar as a International Reserve Currency.



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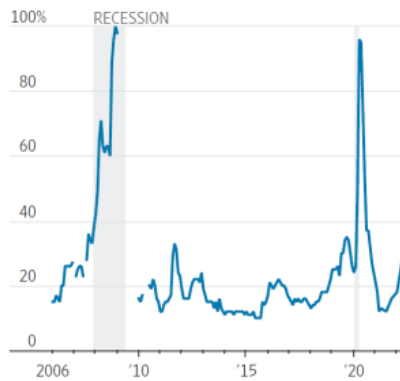
The Fear Index



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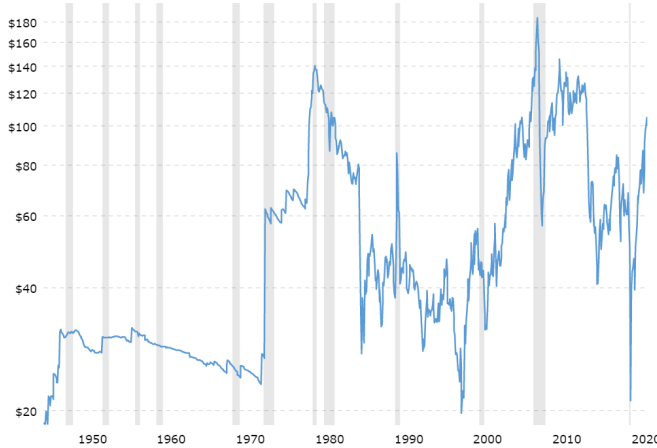
But, Economist Are Using the “R” Word

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



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Supply Shocks: Then and Now

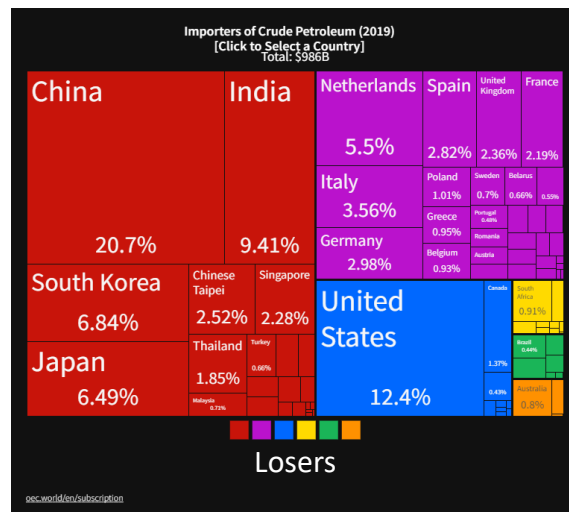
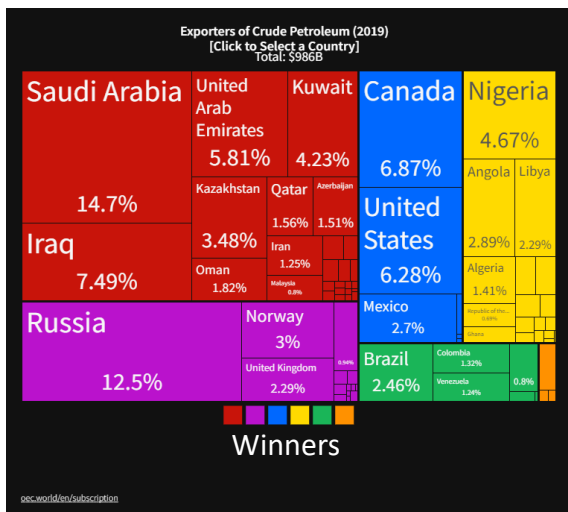


Historical Oil Price
 Source: <https://www.macrotrends.net/1369/crude-oil-price-history-chart>

Oil Price converted to 2022 dollars

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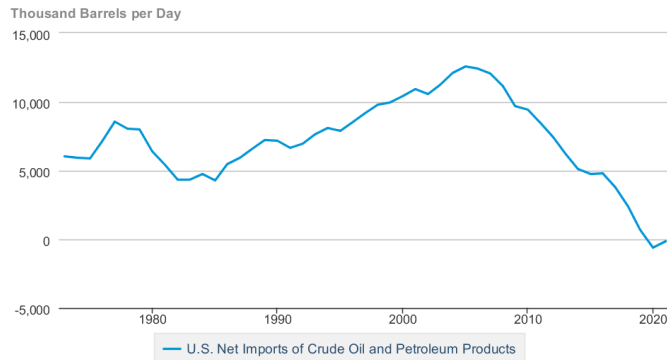
The Price of Oil is Likely to Rise (further)



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How Much Will the US be Hurt?

U.S. Net Imports of Crude Oil and Petroleum Products



Source: U.S. Energy Information Administration

In the 1970s, the US as a whole was less wealthy when oil price went up.

Not now (fracking)

But, unless you own an oil well, you are likely to feel the pinch!

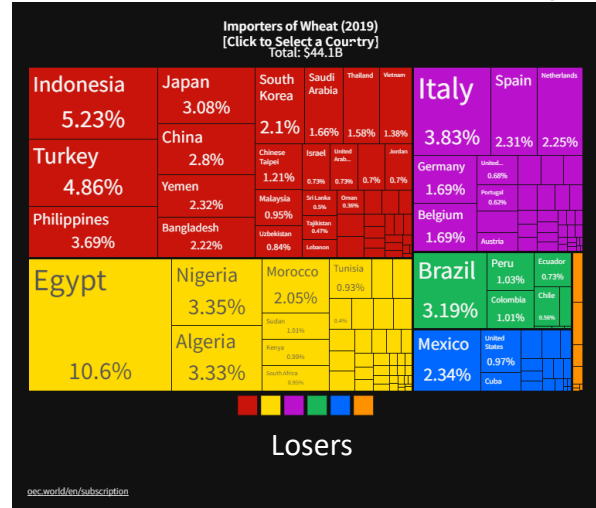
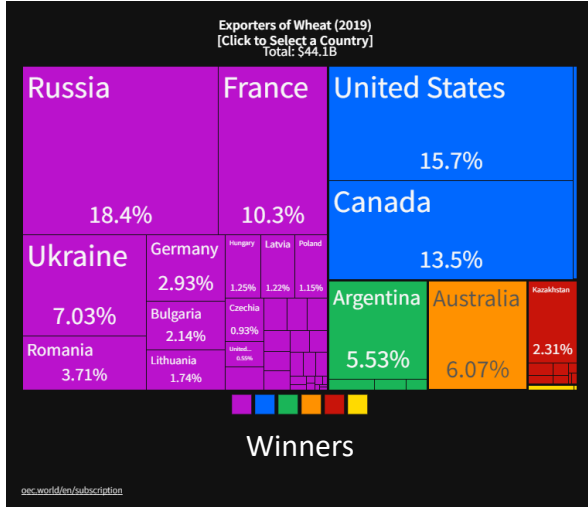
Wheat Prices Also Look Scary



Wheat Futures Prices

Source: <https://www.macrotrends.net/2534/wheat-prices-historical-chart-data>

The Price of Wheat: Winners and Losers



Shanghai Lockdown

- <https://www.visualcapitalist.com/satellite-maps-shanghais-supply-chain-standstill/>

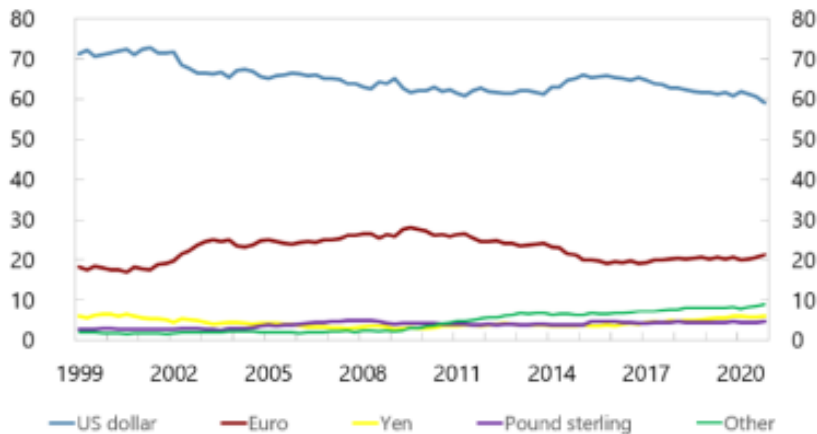
Long-run Effects

- **Deglobalization to Protect Supply Chains.**
- **New Developments to avoid-US imposed financial wars.**
 - China's alternative to SWIFT
 - Rise (or fall?) of crypto currencies
 - The Dollar's Role as a reserve Currency

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Demand for Dollars by Central Banks

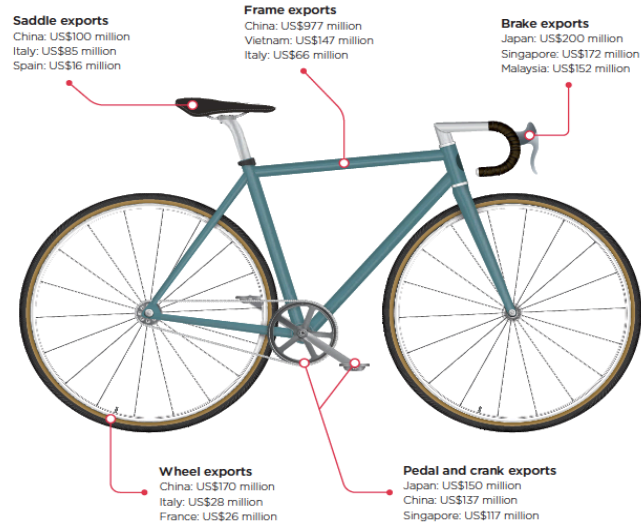
(currency composition of global foreign exchange reserves, percent)



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Trade: Alan Deardorff

Figure 1.1 Where do bicycles come from?



Questions?

www.NEEDelegation.org

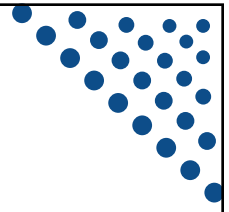
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