



Osher Lifelong Learning Institute, Fall 2022 Contemporary Economic Policy Issues

Eckerd College
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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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

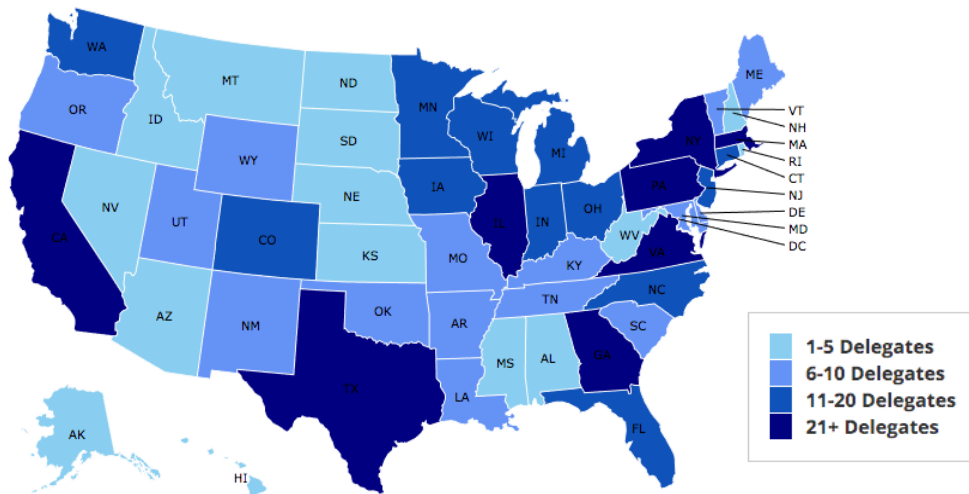


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Where Are We?



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Available NEED Topics Include:

- 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

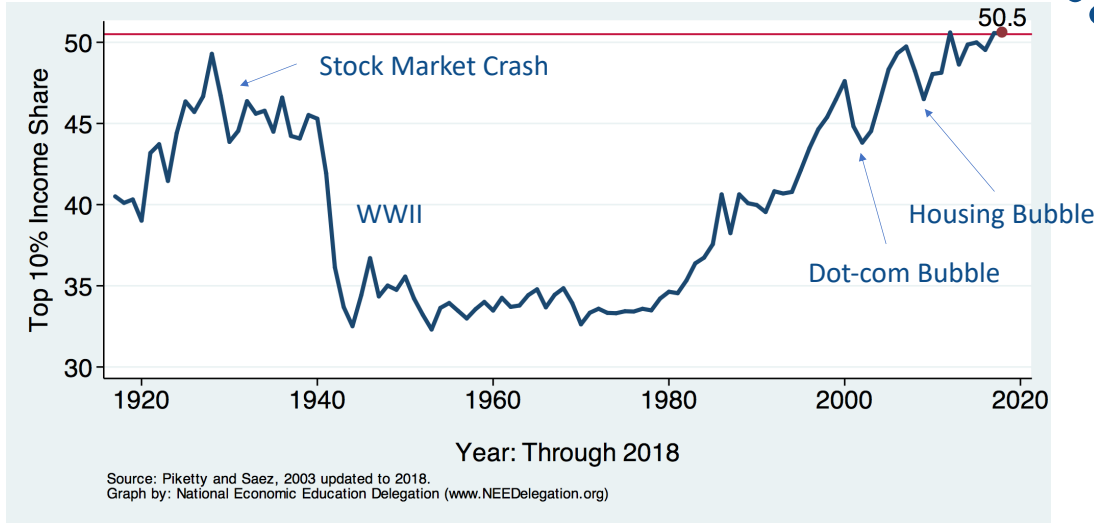
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Course Outline

- **Contemporary Economic Policy**
 - Week 1 (10/4): U.S. Economic Update
 - Week 2 (10/11): Economic Inequality
 - Week 4 (11/15): The Black-White Wealth Gap

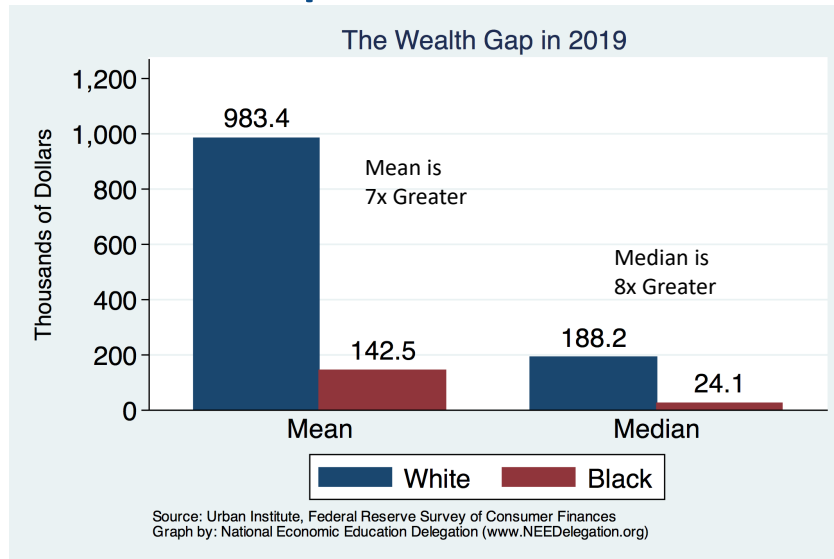
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Income Inequality: Share of Top 10%



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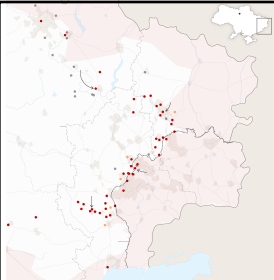
The B-W Wealth Gap



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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)**



US Economy: Update

Jon Haveman, Ph.D.
NEED
October 4, 2022



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**
- **Summary**



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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

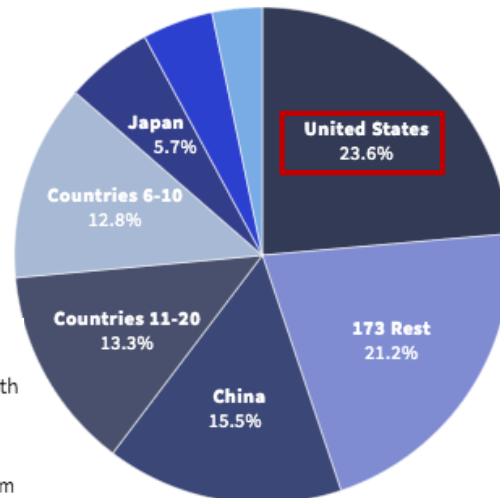
U.S. Nominal GDP:

\$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.

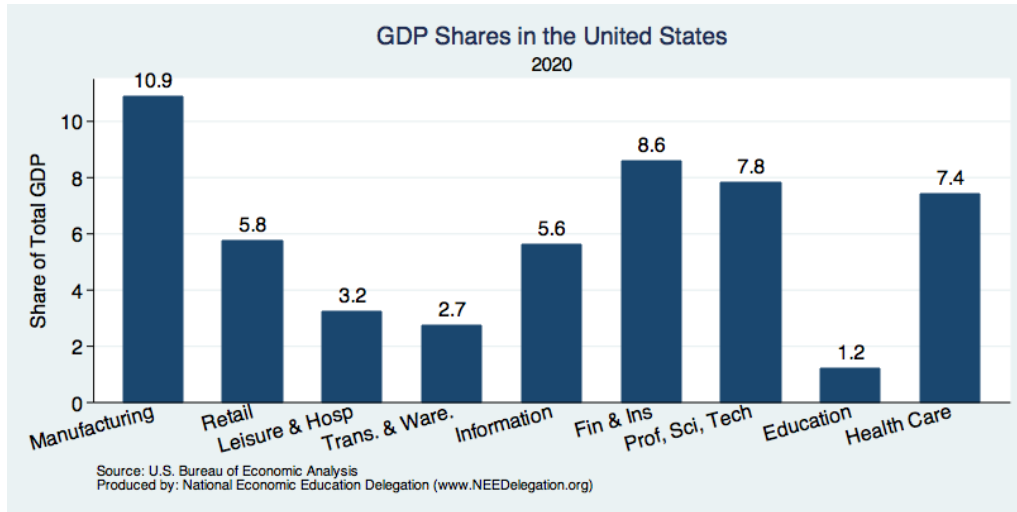
United States
 173 Rest
 China
 Countries 11-20
 Countries 6-10
 Japan
 Germany
 United Kingdom



Source: IMF

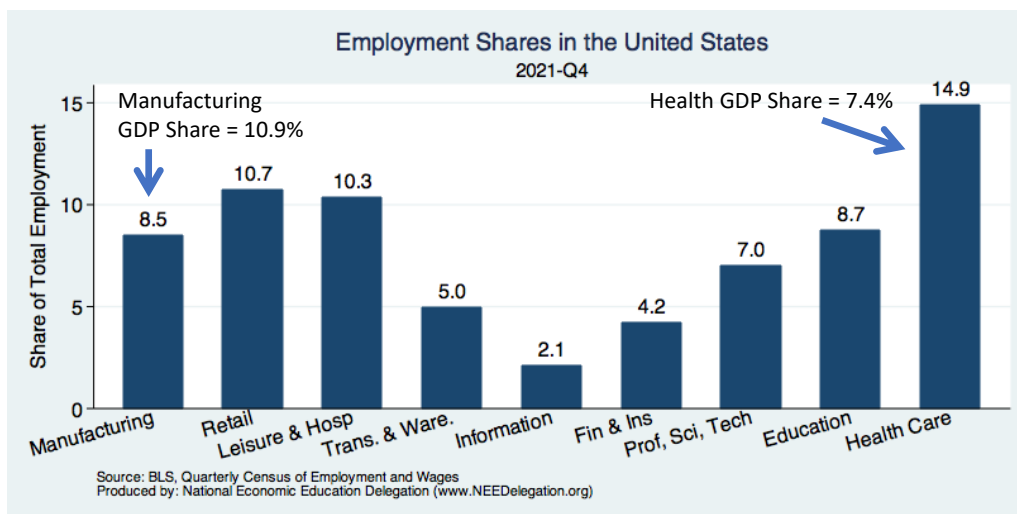
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Composition of the U.S. Economy: 2020



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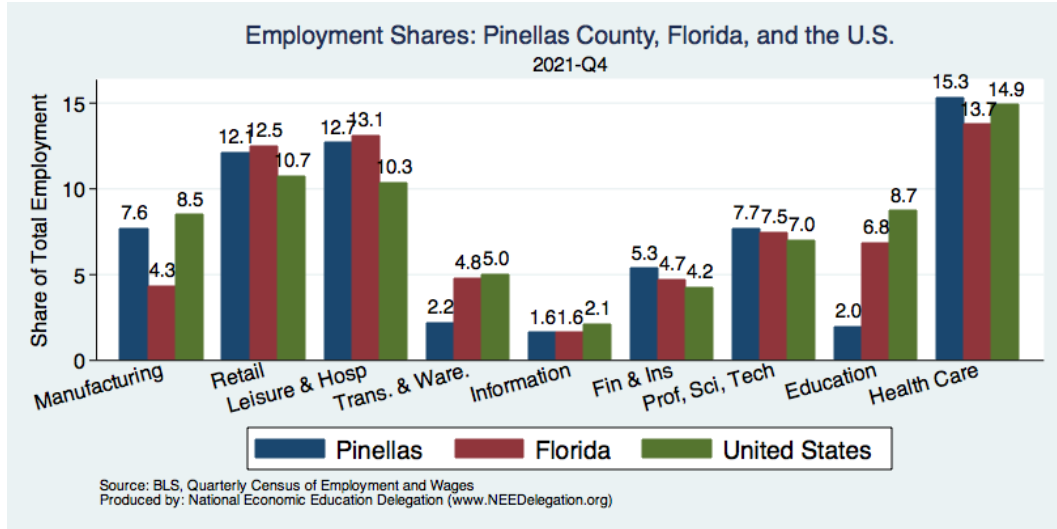
Composition of the U.S. Economy: Employment



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

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Employment in Pinellas County



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

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Recession(?)

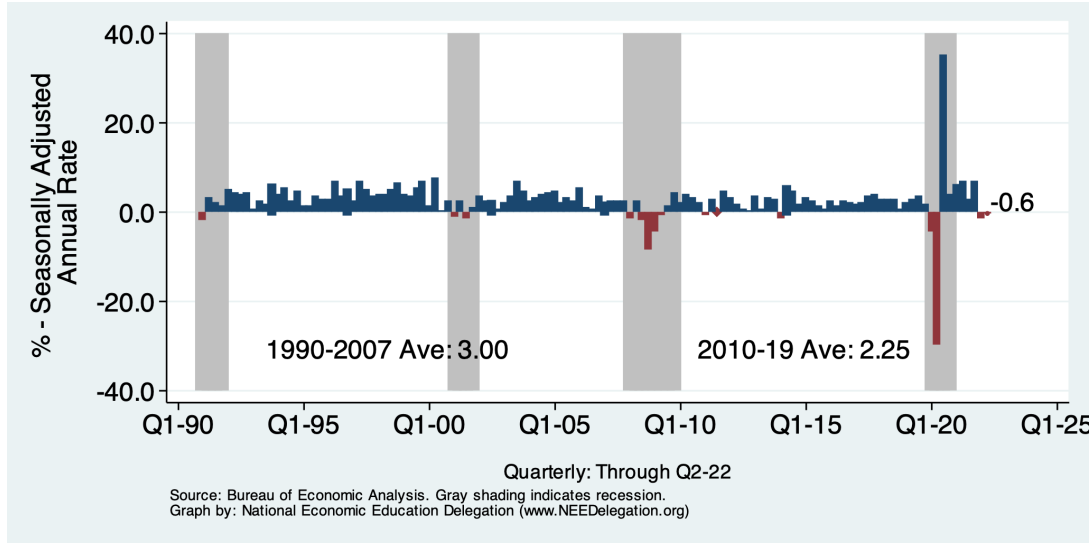
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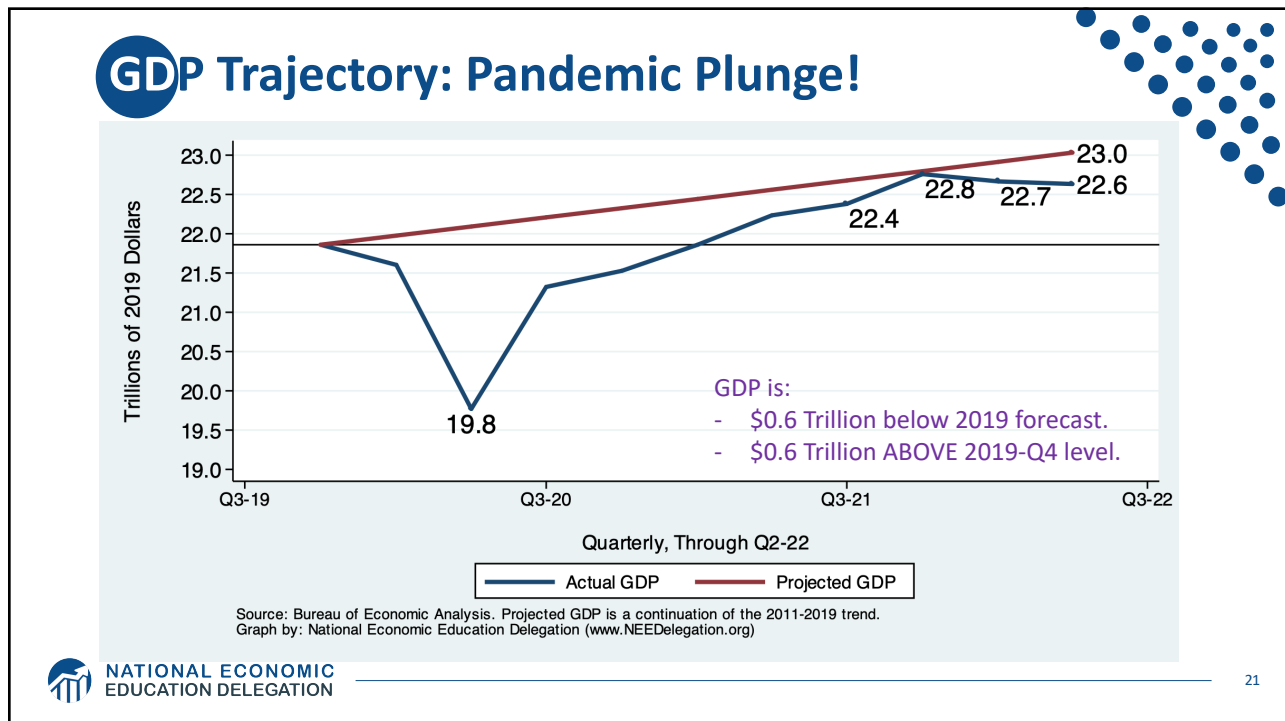
Headline:

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.

GDP: Quarterly Growth





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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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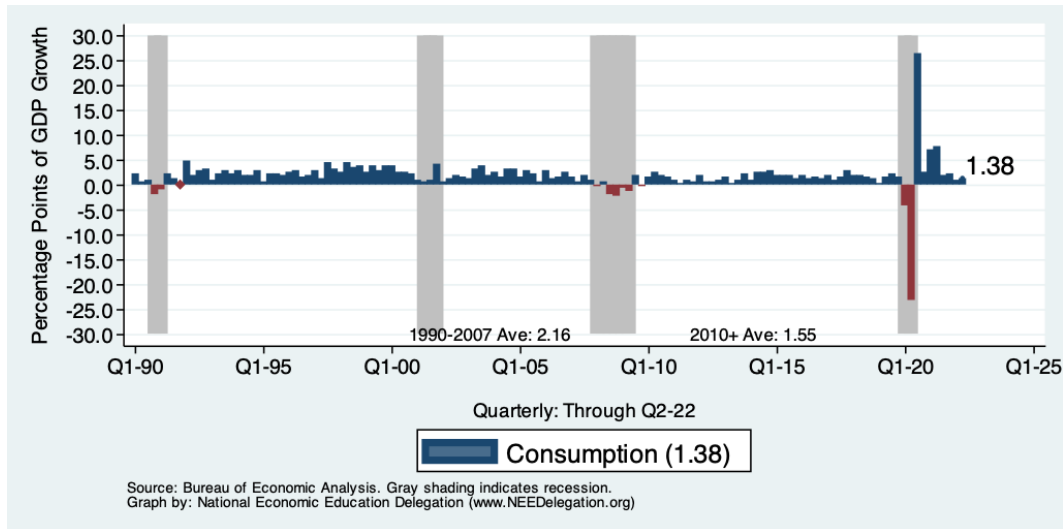
Recession? Two Quarters....

- **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.**



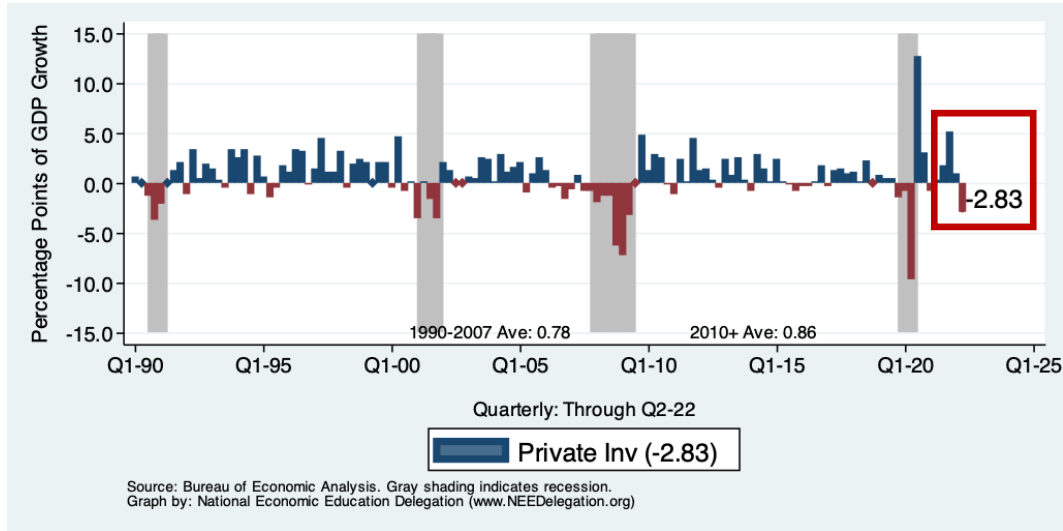
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Contribution to GDP Growth: Consumption



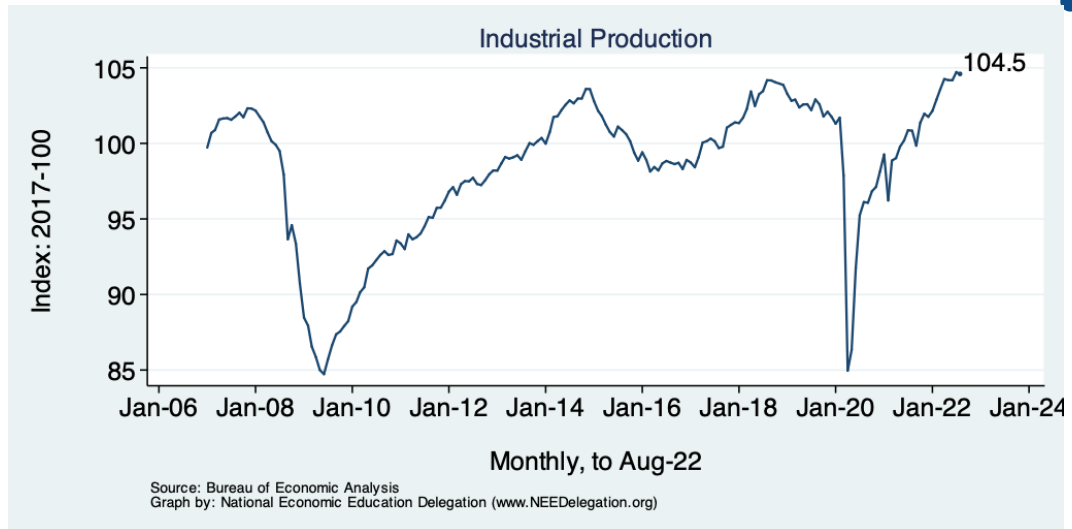
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Contribution to GDP Growth: Inventories



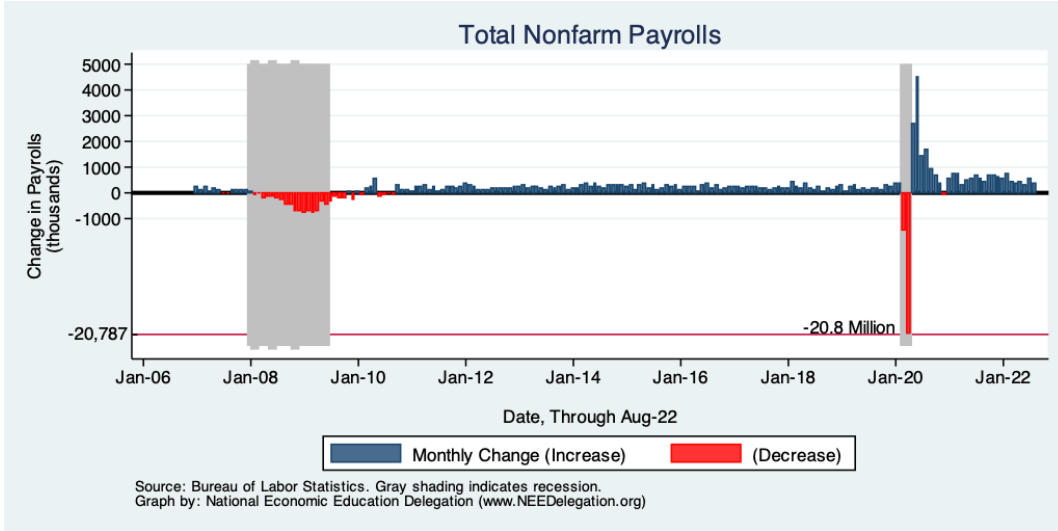
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Industrial Production (Manuf, Util, Mining)



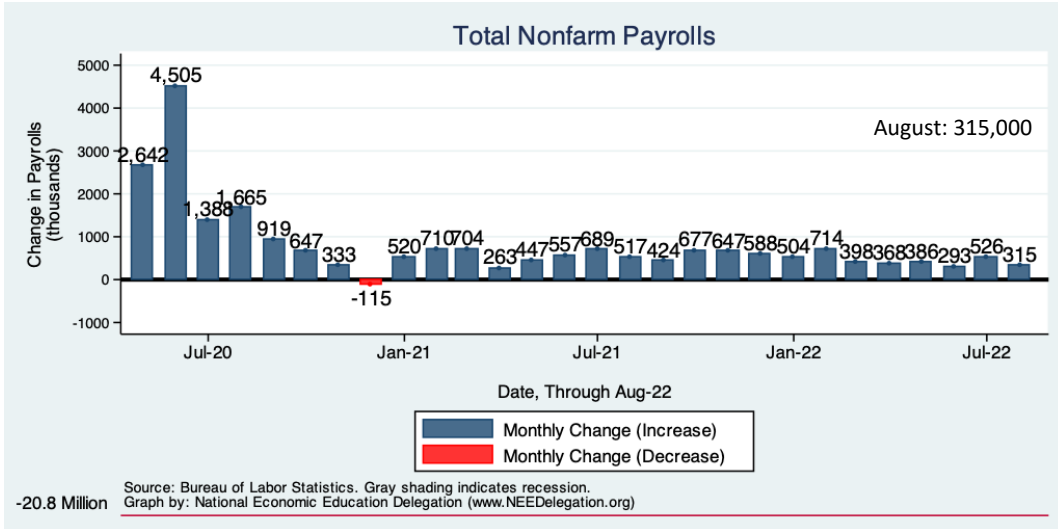
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Monthly Changes in Nonfarm Employment

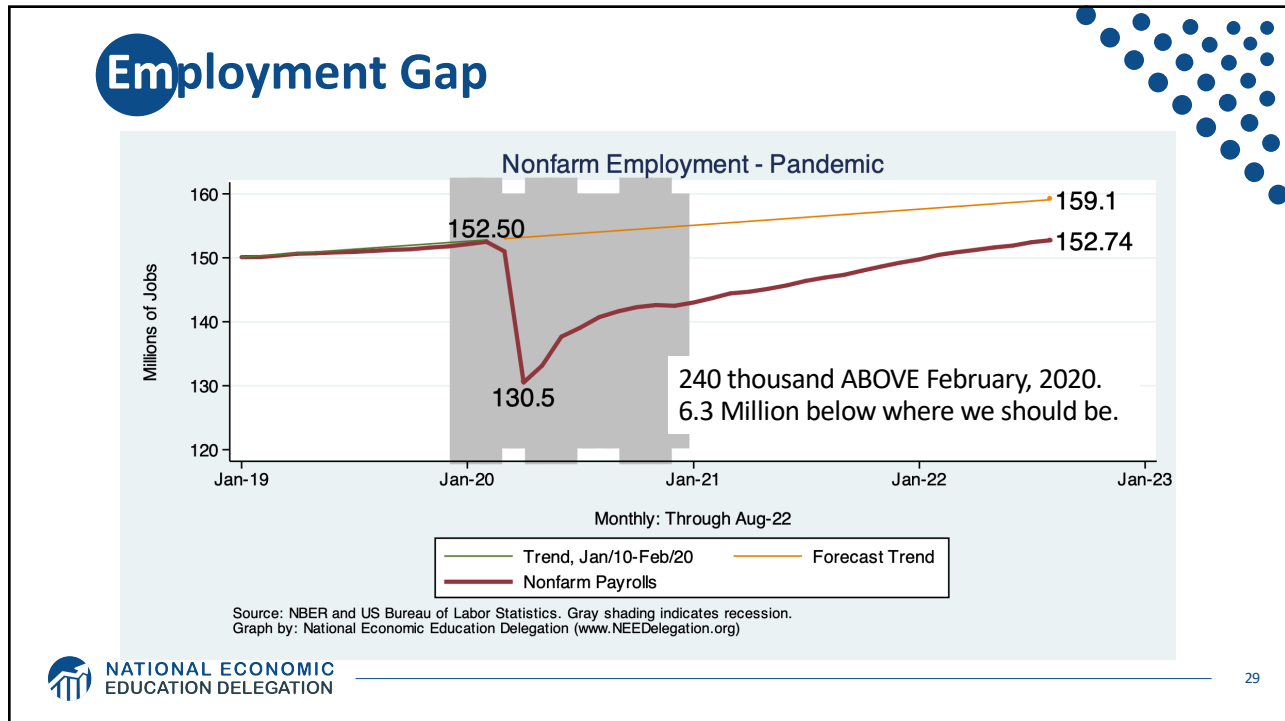


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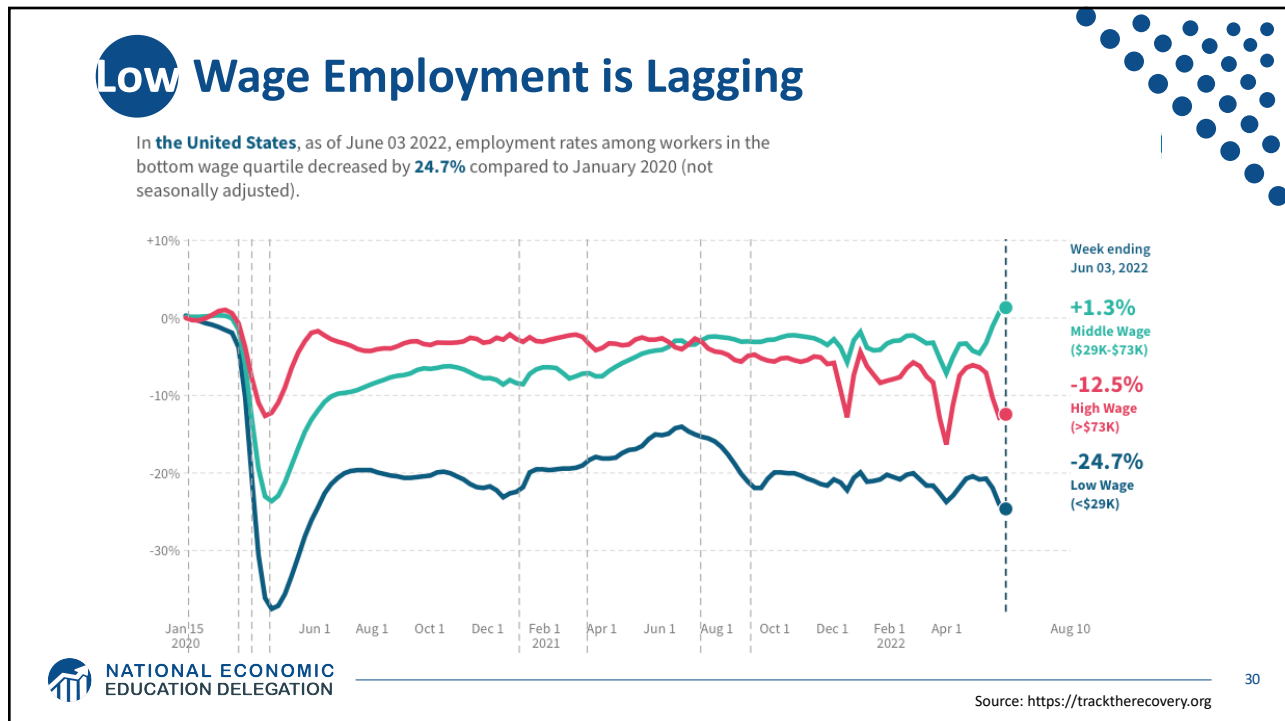
Monthly Changes in Nonfarm Employment



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Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

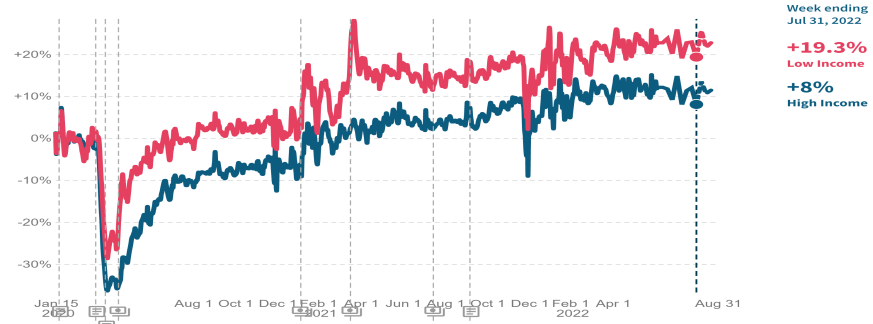
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BILL & MELINDA GATES FOUNDATION

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.



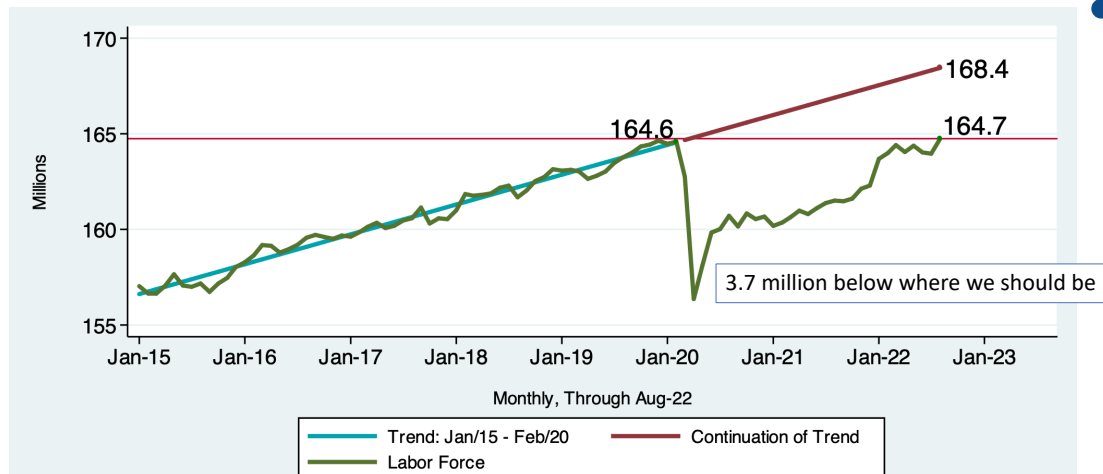
data source: Affinity

*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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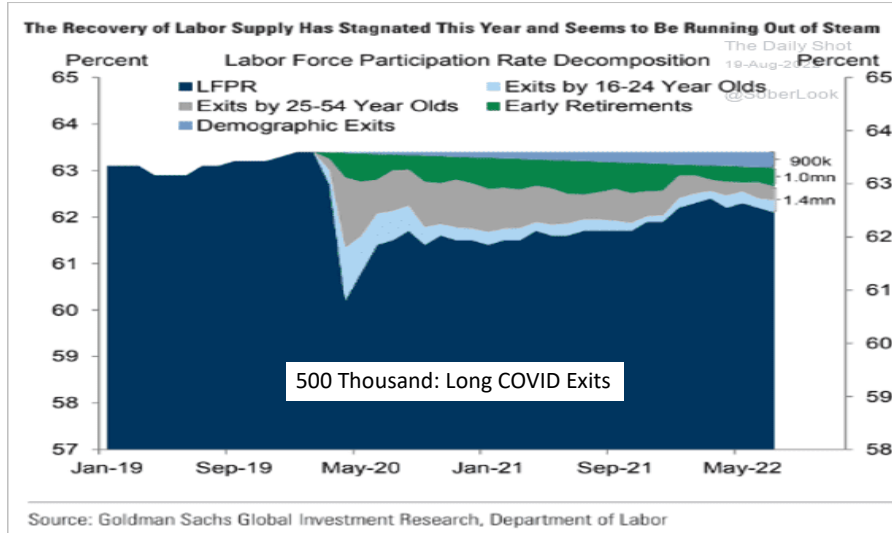
Where Have All the Workers Gone?



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

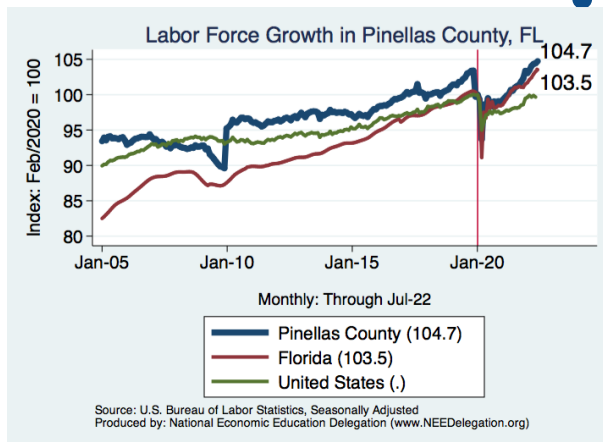
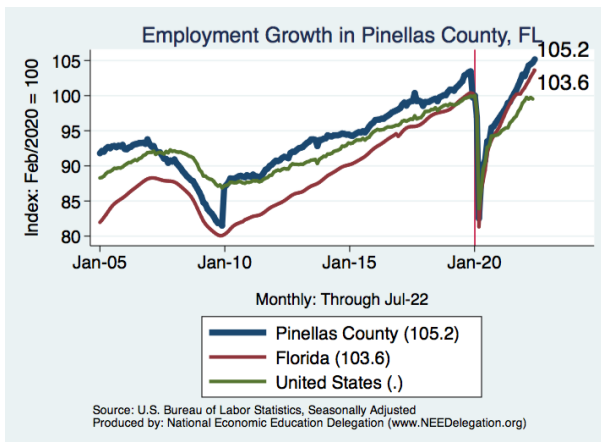
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Some Explanations



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How Are Things Where You Are?



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Inflation

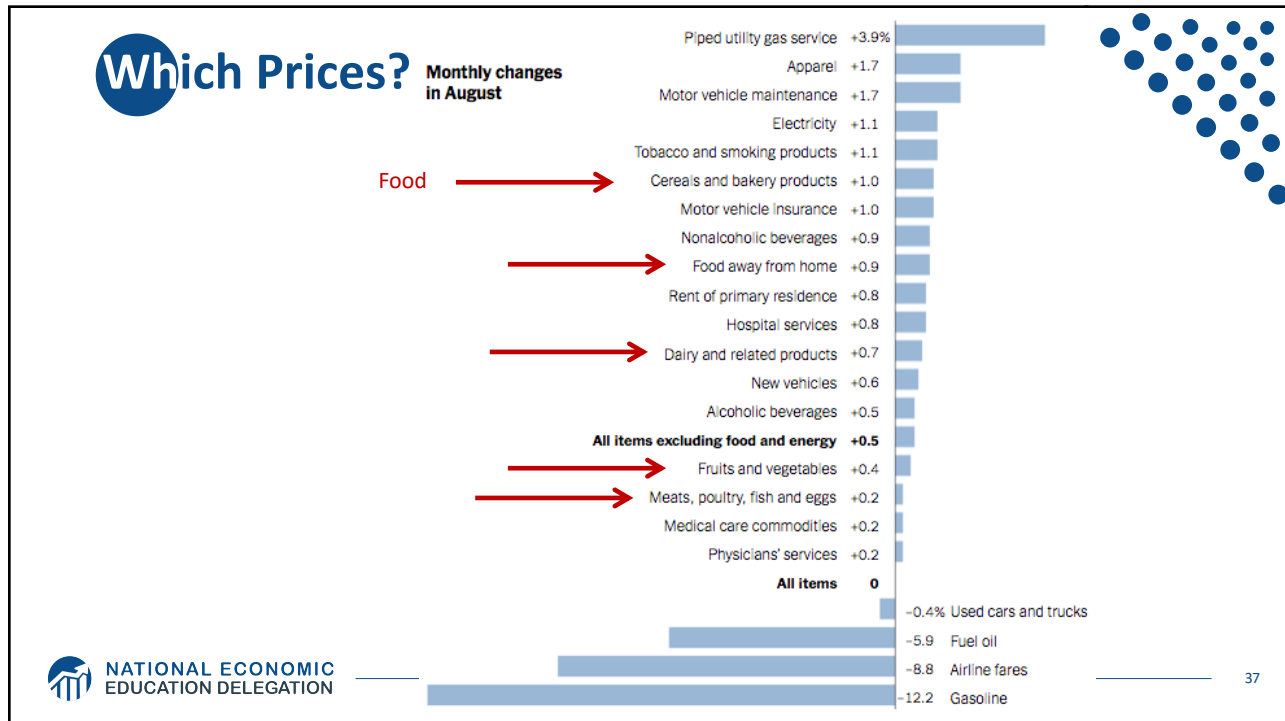
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Inflation: Latest Figures

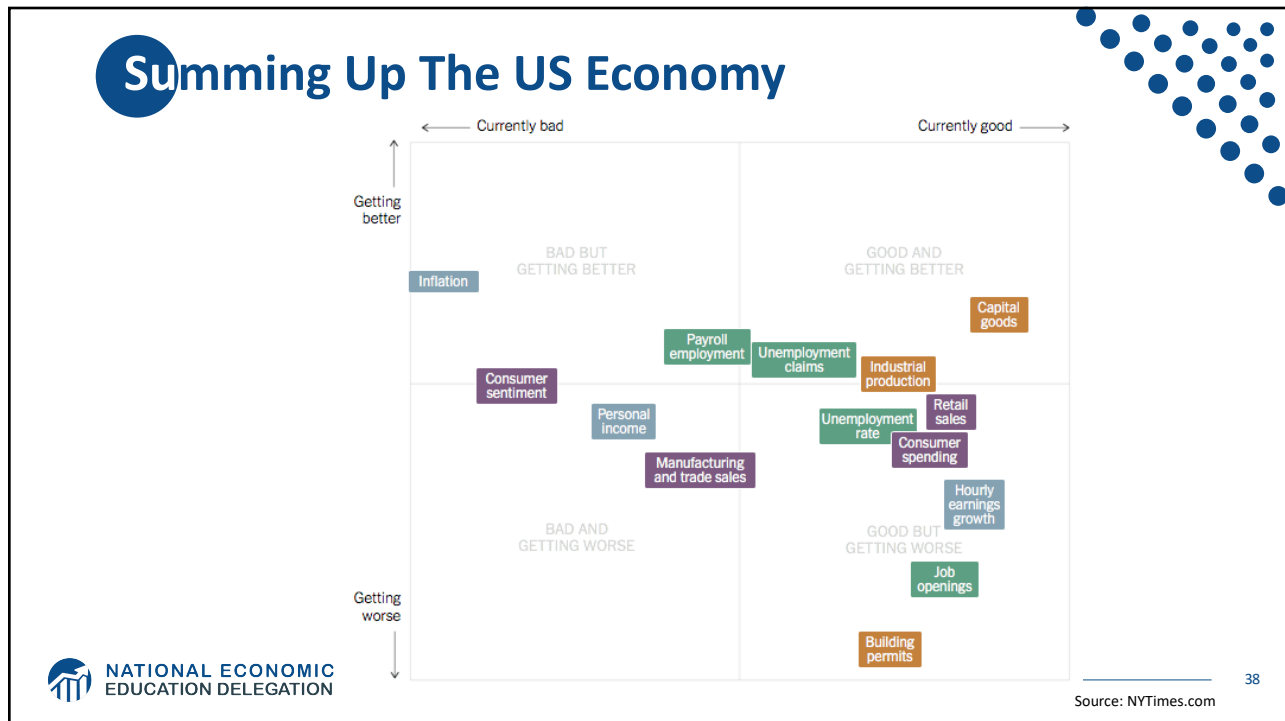


Year-over-year percentage change in the Consumer Price Index - Source: Bureau of Labor Statistics

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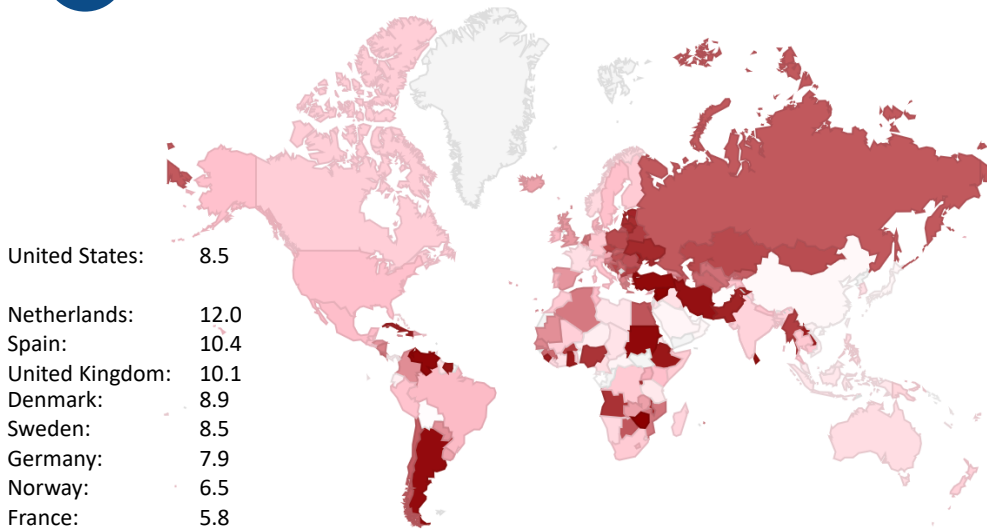


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Global Evidence

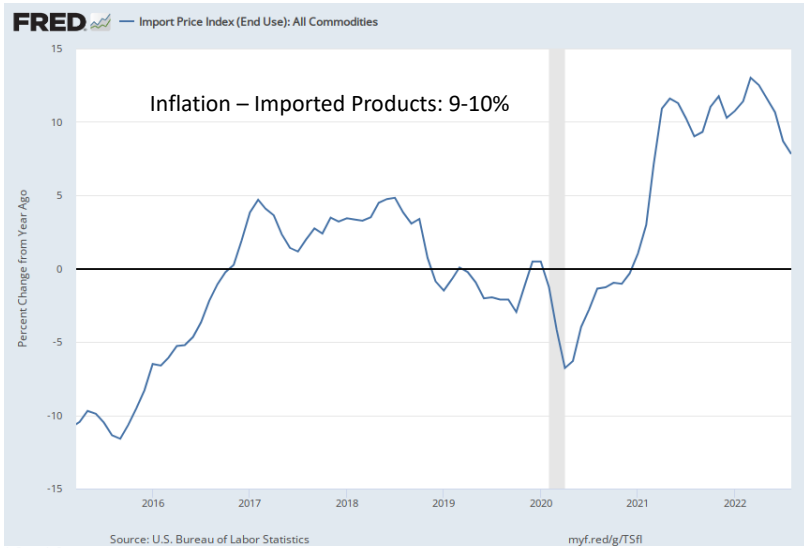
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Inflation: Not just a US Problem



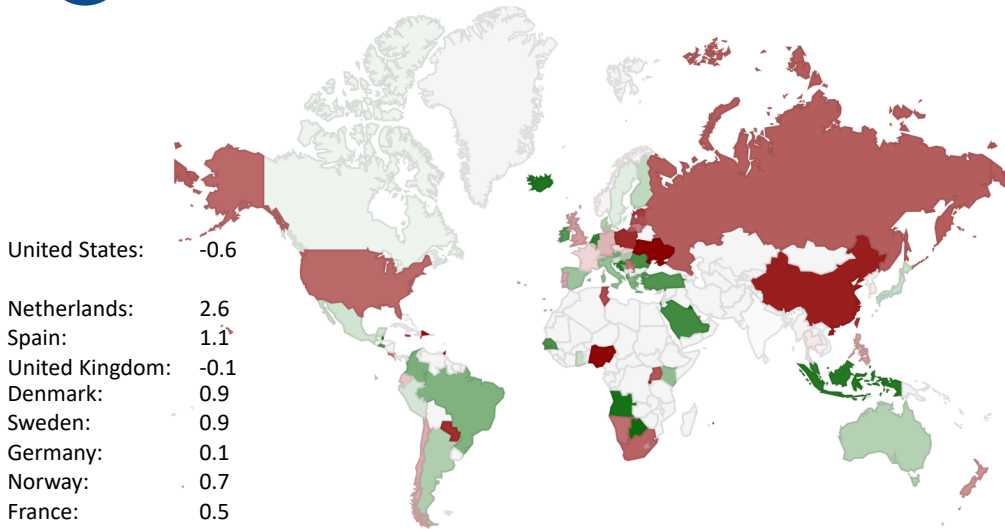
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Import Prices Are Elevated



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



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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.



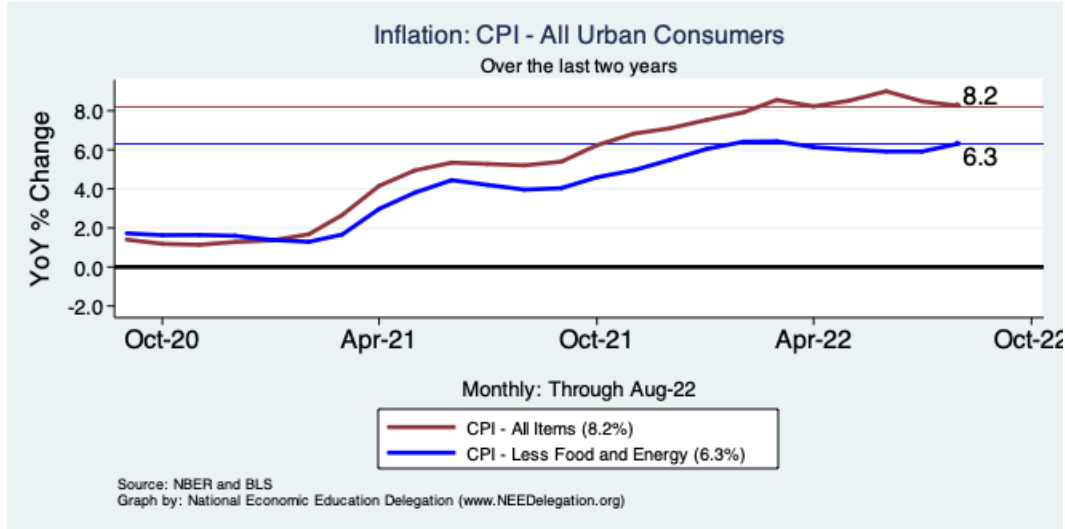
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Inflation: A Closer Look



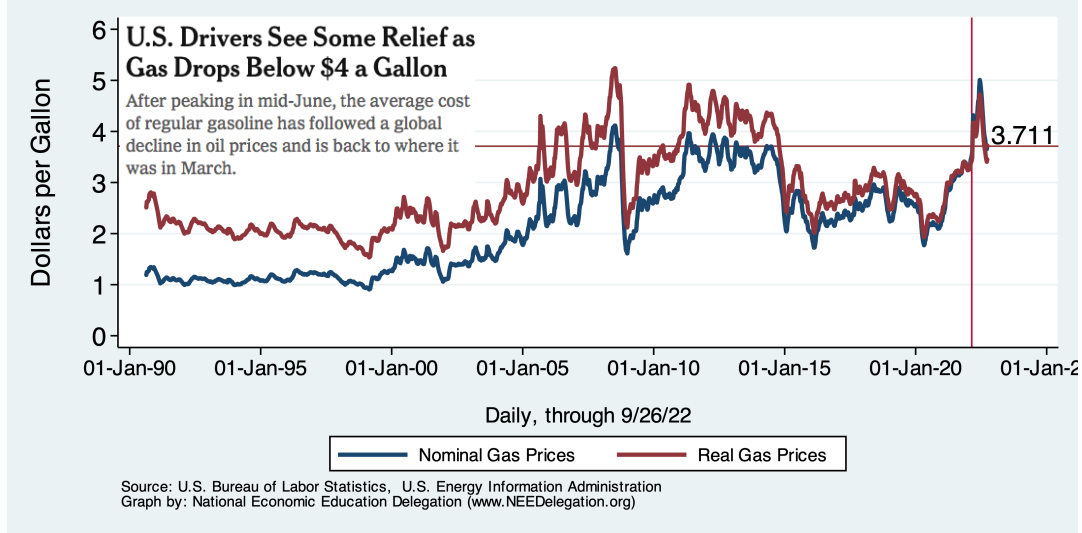
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Inflation – Climbing! Or Turning Around?



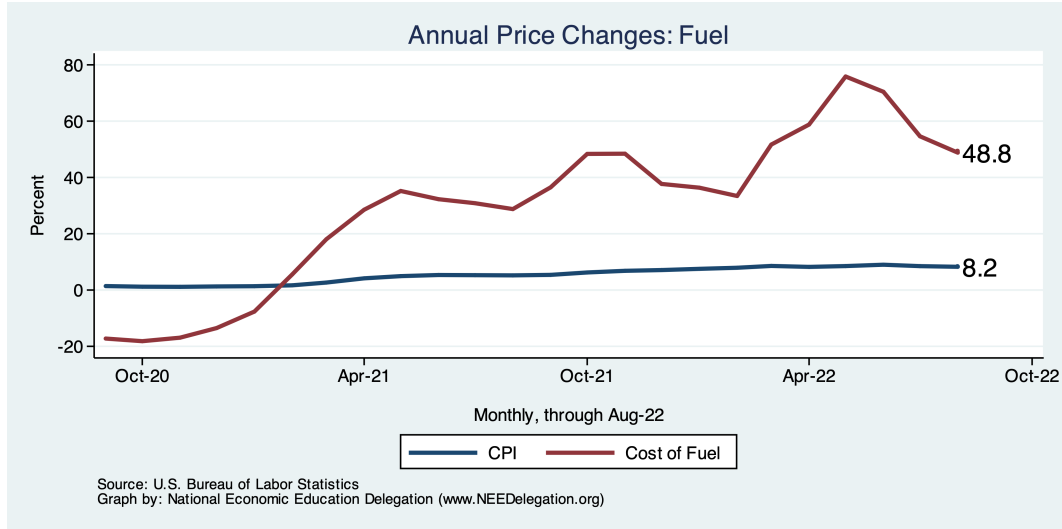
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Gas Prices: National Average at the Pump



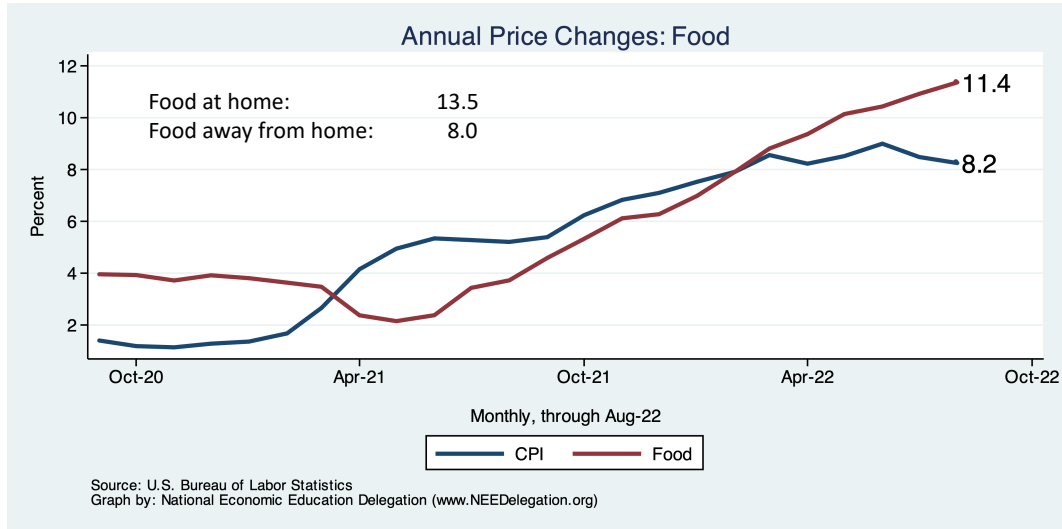
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Fuel Costs Are Still Elevated



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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!

Demand-Pull

Category	Change
Goods spending	up 14.3% - And coming down.
Services spending	up 0.7% - And going up.

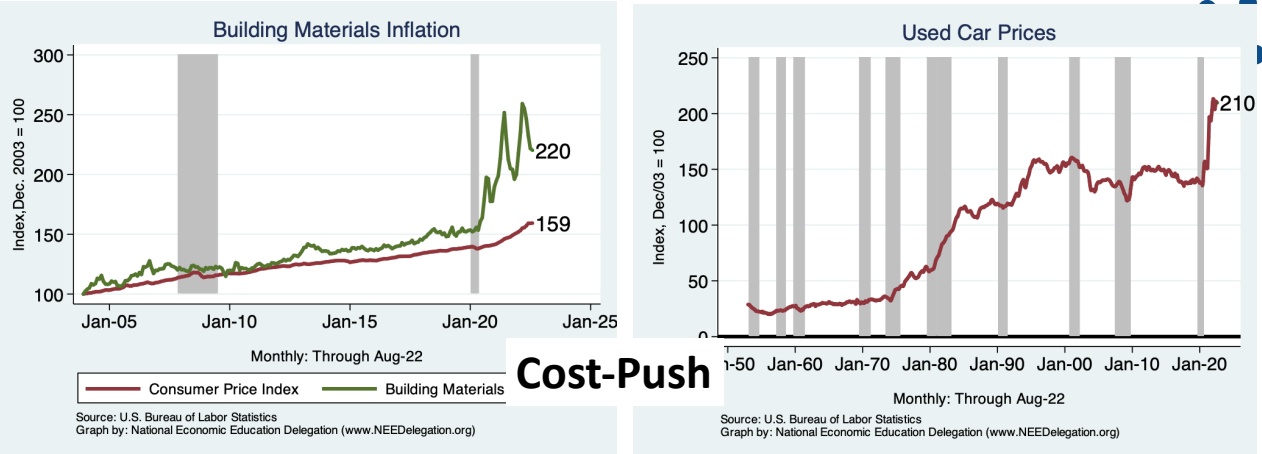
Source: U.S. Bureau of Economic Analysis
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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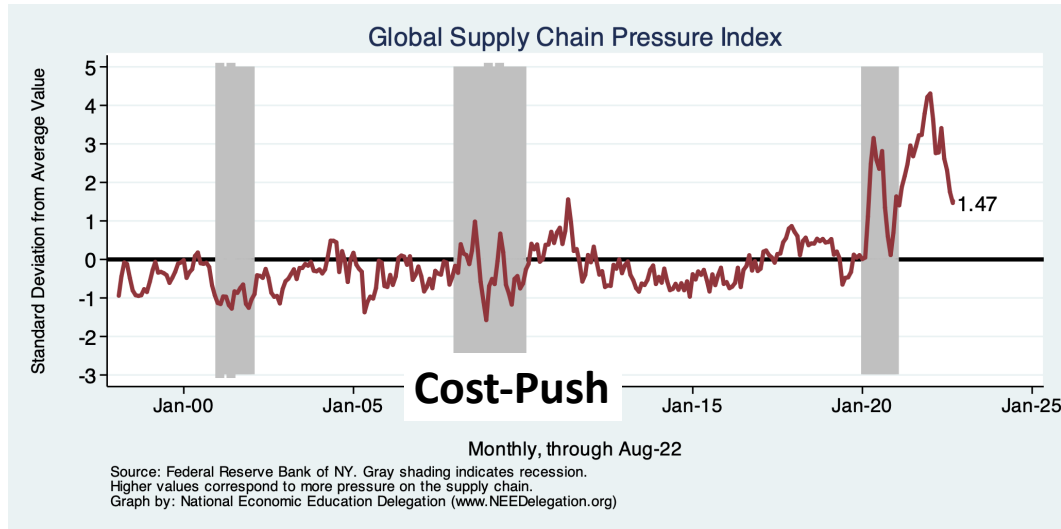
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Inflation: Concentrated



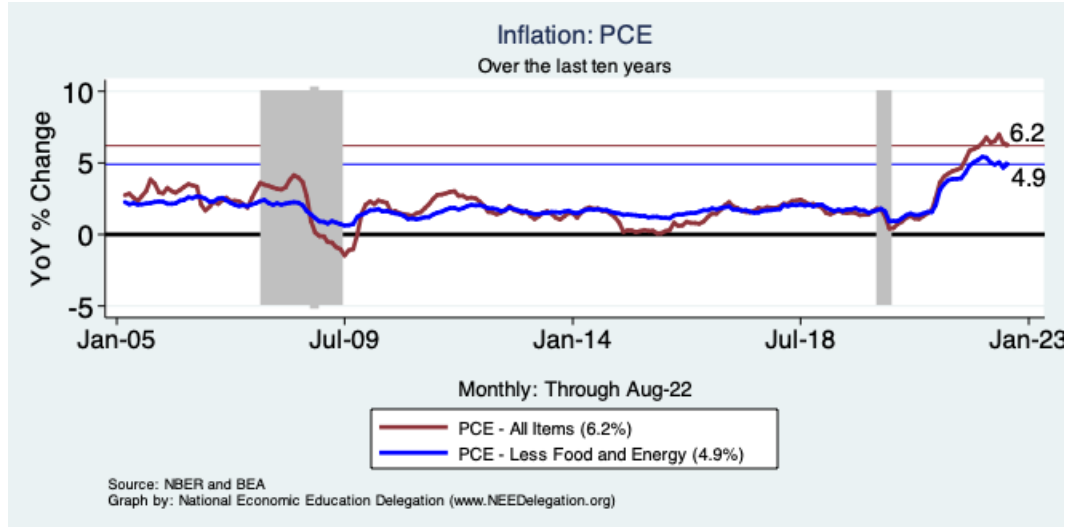
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Supply Chains



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Fed's Preferred Measure of Inflation



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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



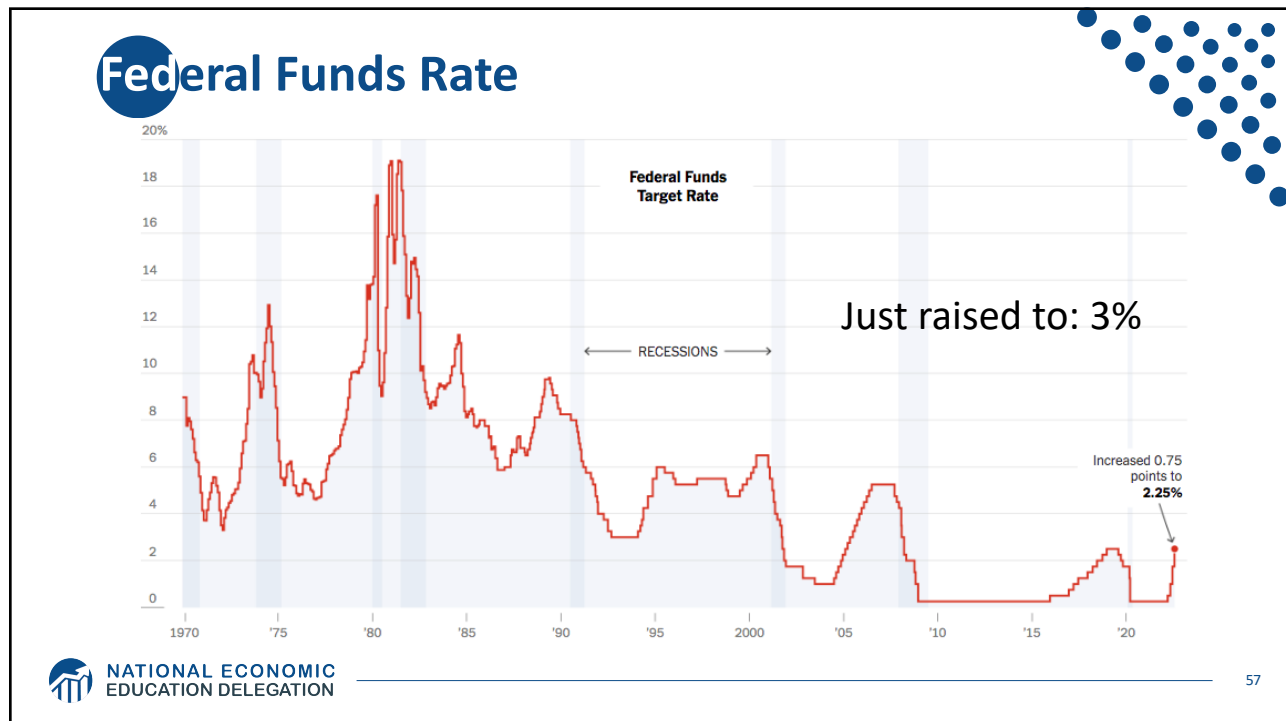
Source: NBER and Federal Reserve Bank of St. Louis. Grey indicates recession.
 Difference between standard treasury security interest rate and the inflation-indexed rate.
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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.


What's the Fed Doing About It?



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Implications for Demand

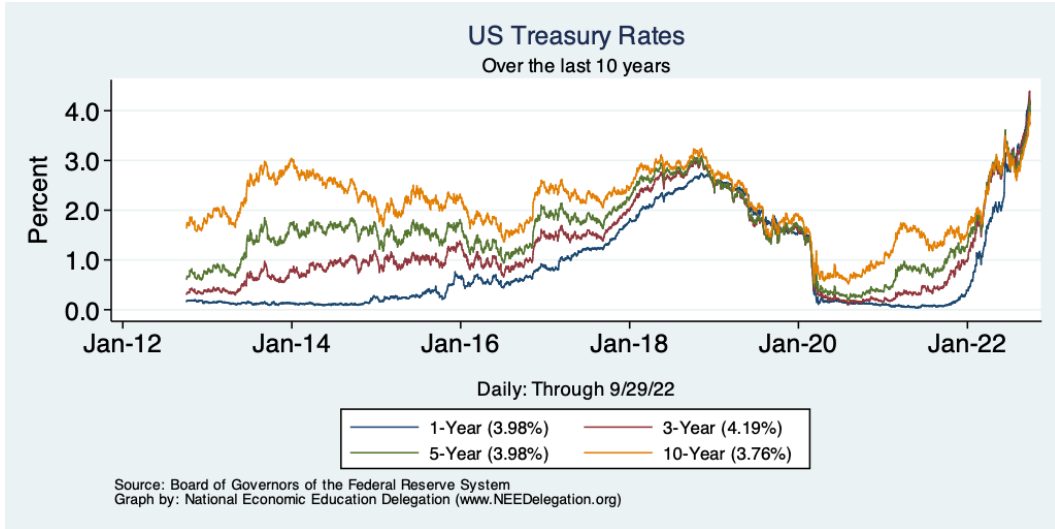
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

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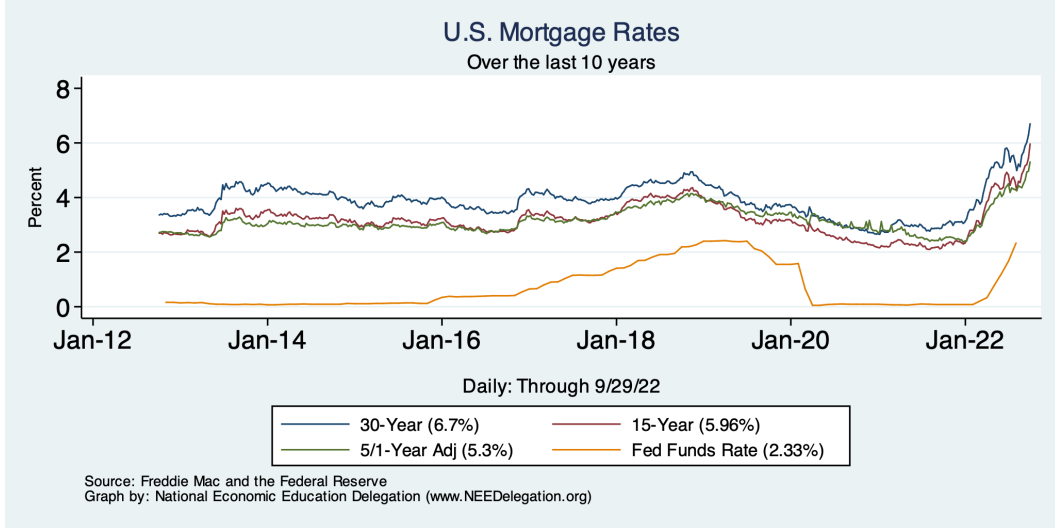
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Treasuries



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 August.

- **What about GDP?**

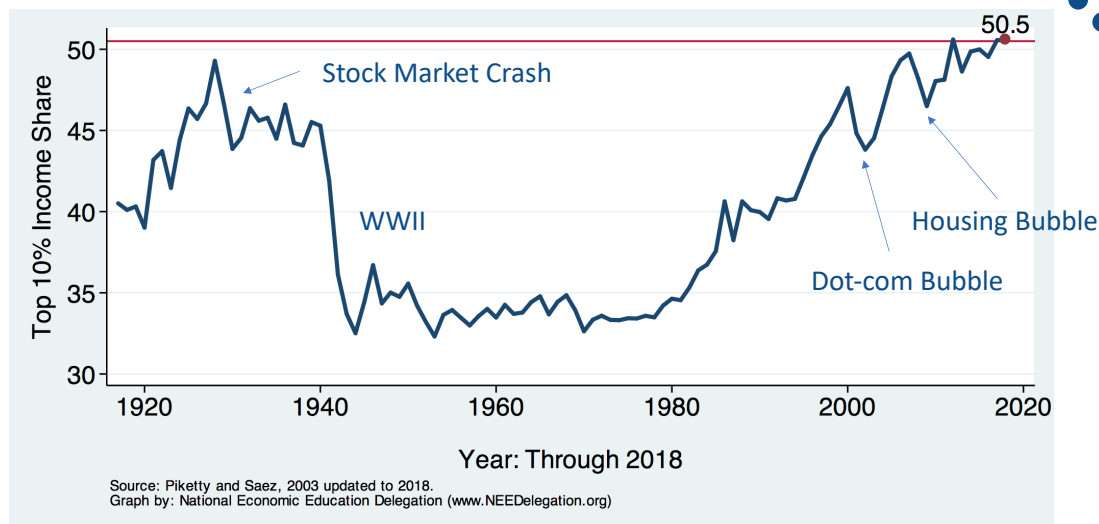
- 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
- Much of this lower growth was driven by lower inventory.
 - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.



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Income Inequality: Share of Top 10%



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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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