



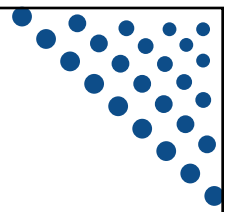
# Osher Lifelong Learning Institute, Fall 2022 Contemporary Economic Policy Issues

University of Minnesota  
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

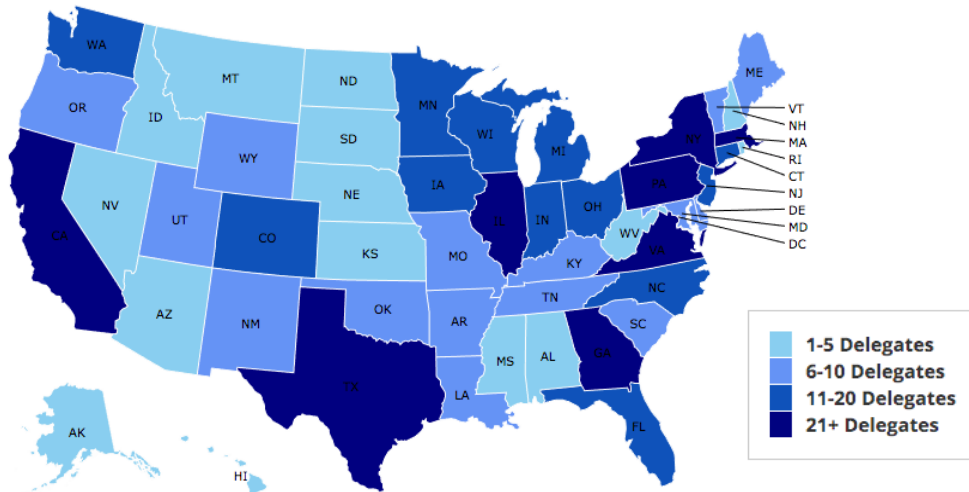
- Aid in slide deck development



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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 (Jon Haveman, NEED)
  - Week 2 (10/11): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
  - Week 3 (10/18): Federal Debt (Joseph Carolan, Oakland University)
  - Week 4 (10/25): Economic Inequality (Jon Haveman, NEED)
  - Week 5 (11/1): Climate Change Economics (Sarah Jacobson, Williams College)
  - Week 6 (11/8): Trade Deficits and Exchange Rates (Alan Deardorff, Univ. of MI)

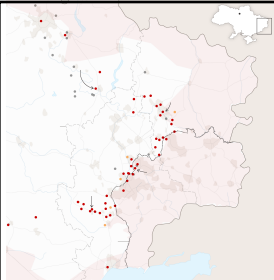


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# Submitting Questions

- **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](https://needelegation.org/delivered_presentations.php))**

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# US Economy: Update

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



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## 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).



## Outline

- **About the U.S. Economy**
- **Recession – The State of the US Economy**
- **Global Comparisons**
- **Inflation**
- **Summary**



## 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

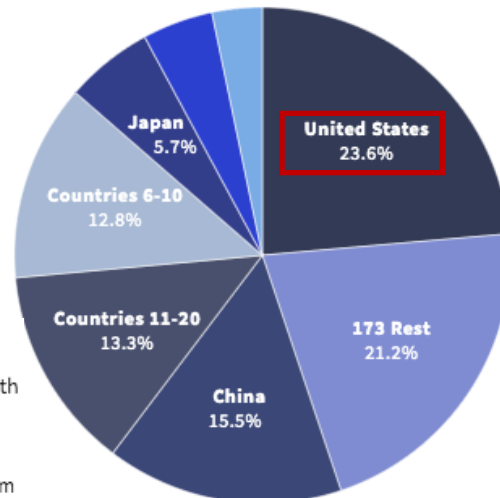
### U.S. Nominal GDP:

**\$21.747 trillion** in 2019-Q4  
**\$19.487 trillion** in 2020-Q2  
**\$24.852 trillion** in 2022-Q2

### % Share of the Global Economy

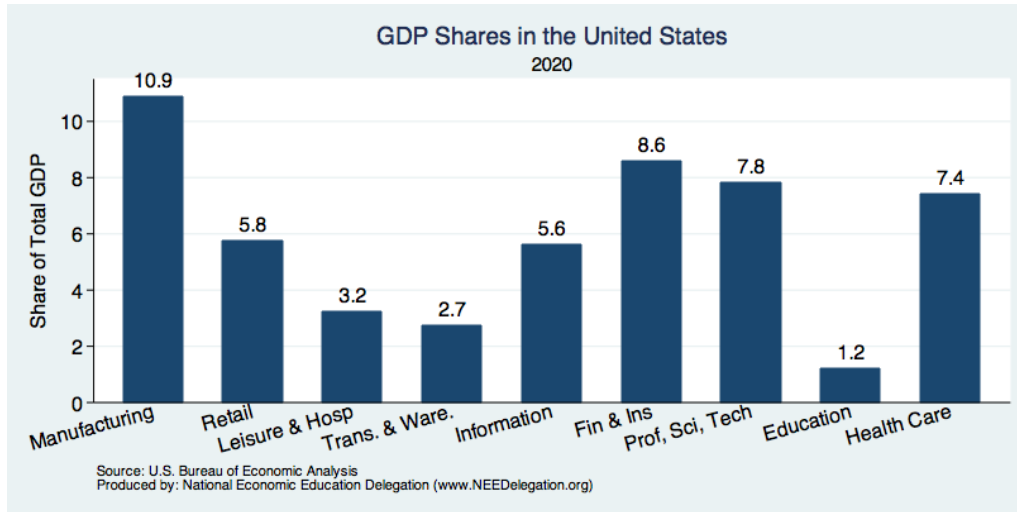
The 173 countries outside the top 20 make up less than a fourth of the total global economy.

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



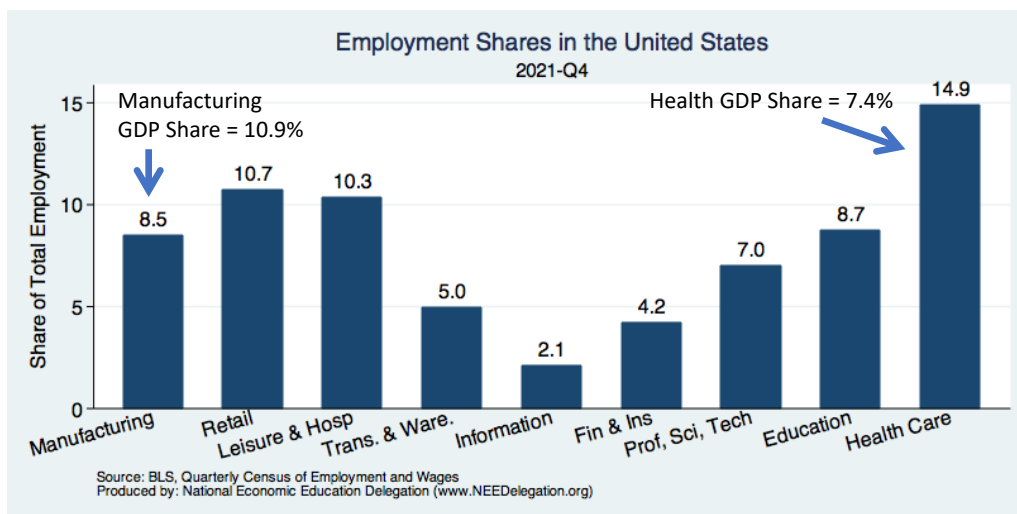
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# Composition of the U.S. Economy: 2020



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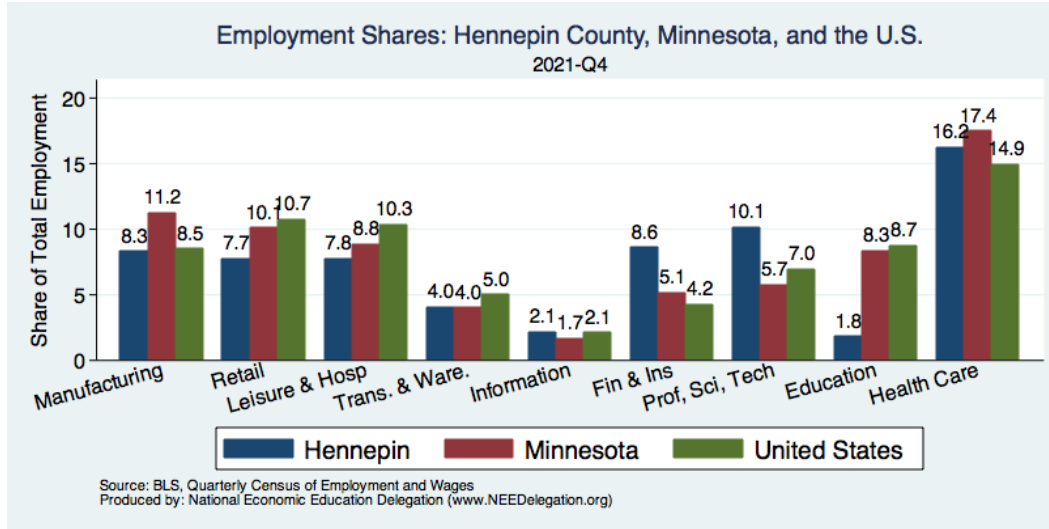
# Composition of the U.S. Economy: Employment



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

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# Employment in Hennepin County



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

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# Recession(?)

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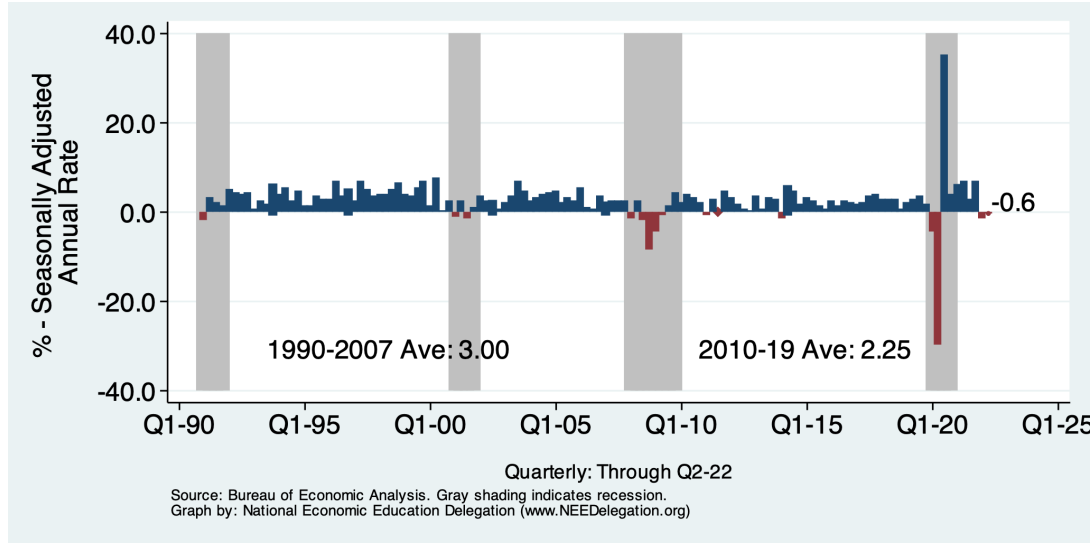
# Headline:

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

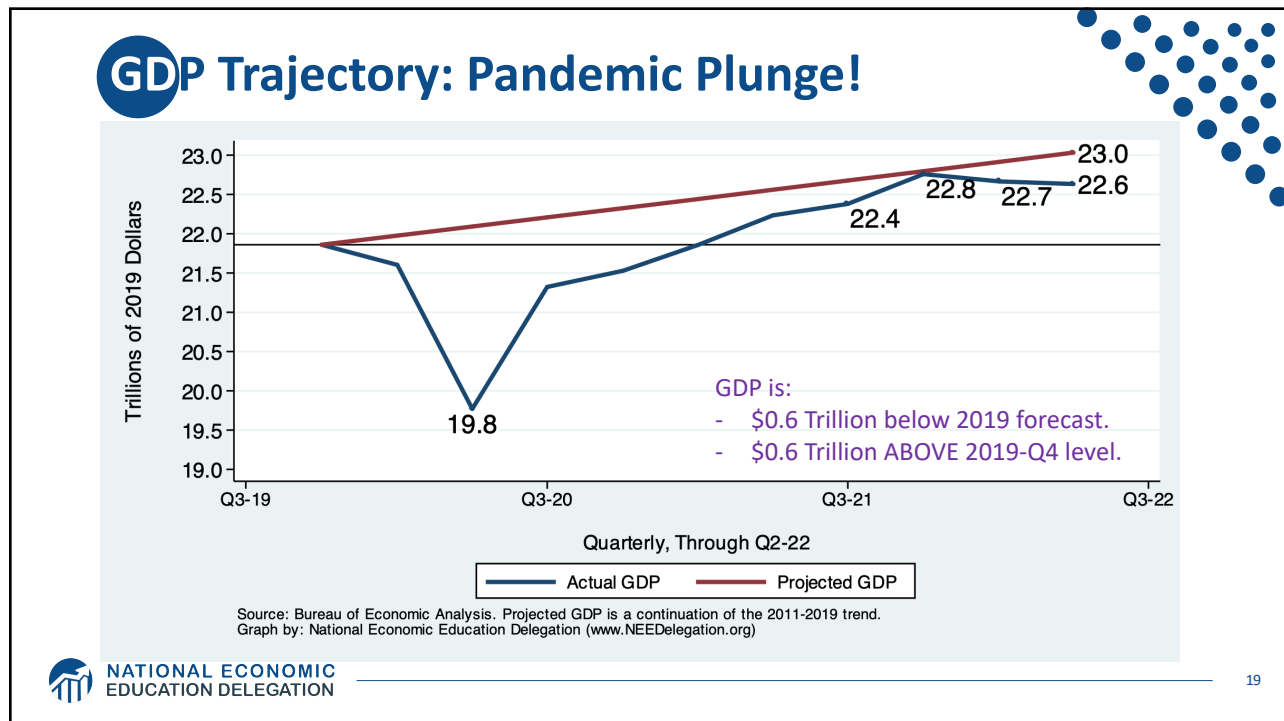
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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# 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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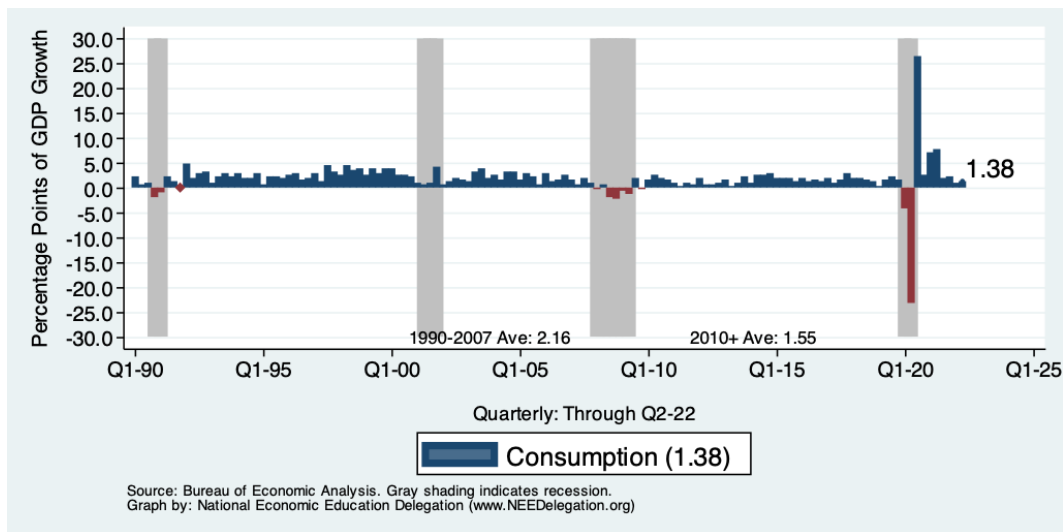
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## Recession? Two Quarters....

- **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.**

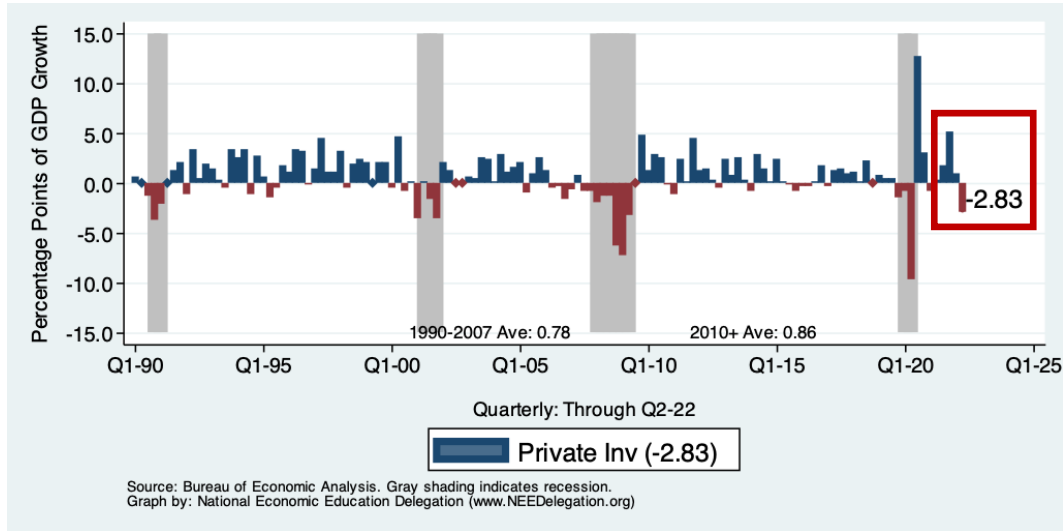
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## Contribution to GDP Growth: Consumption



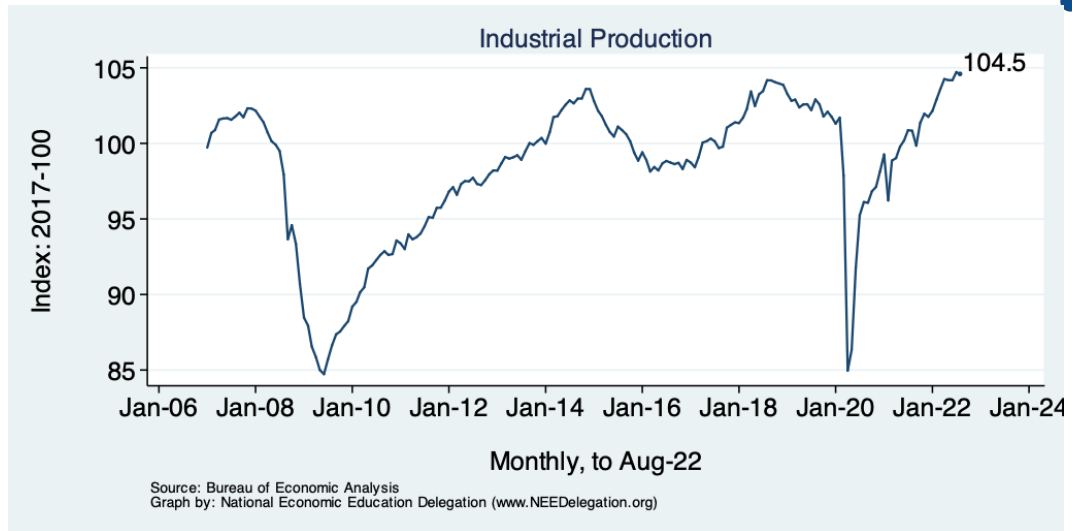
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## Contribution to GDP Growth: Inventories

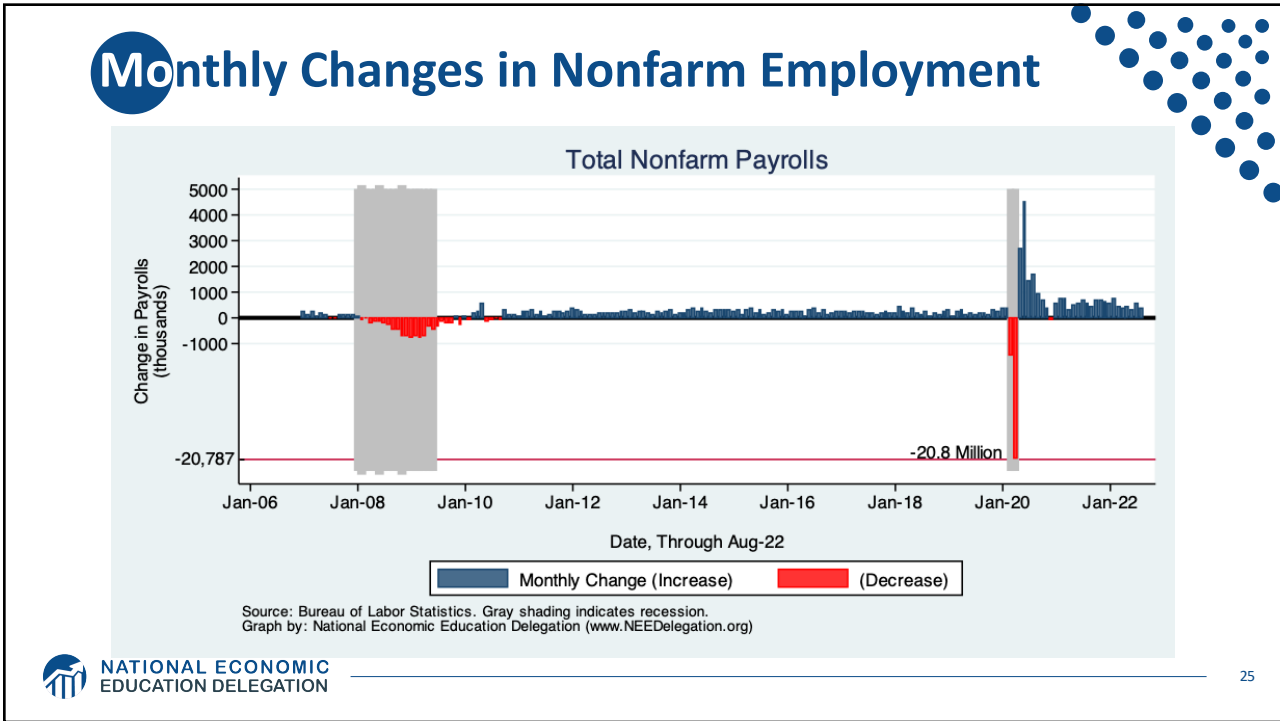


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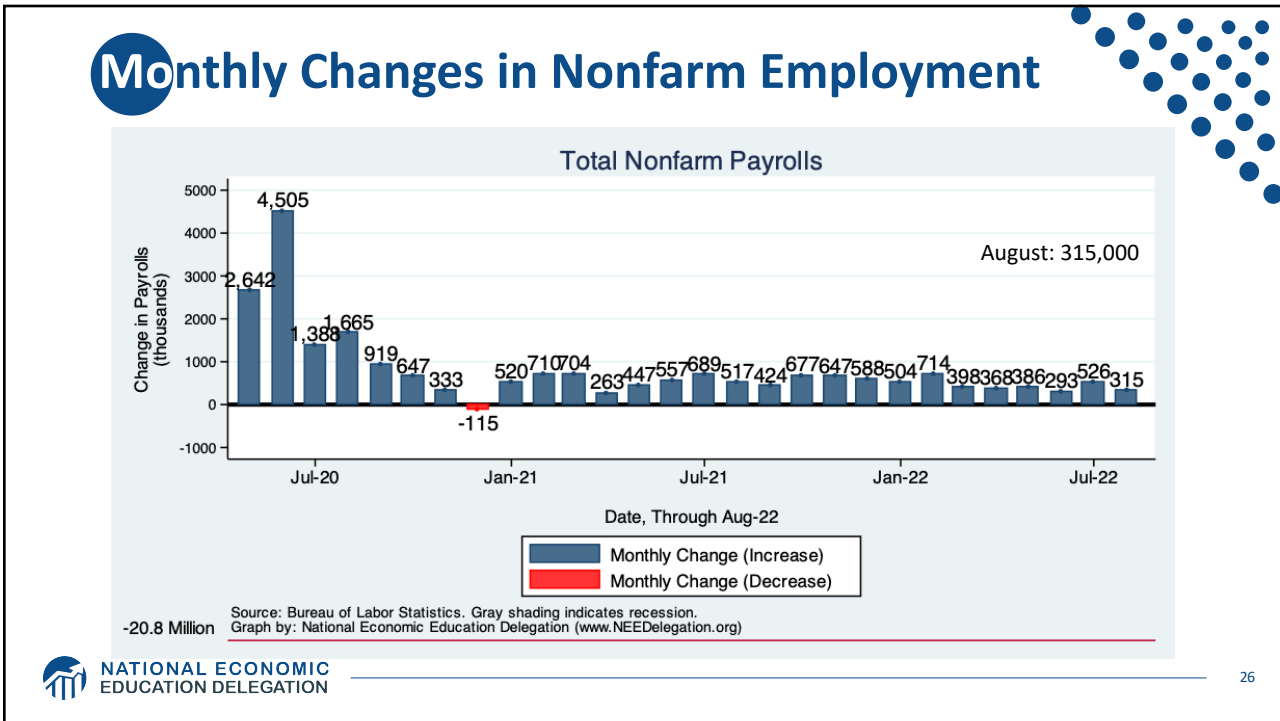
## Industrial Production (Manuf, Util, Mining)



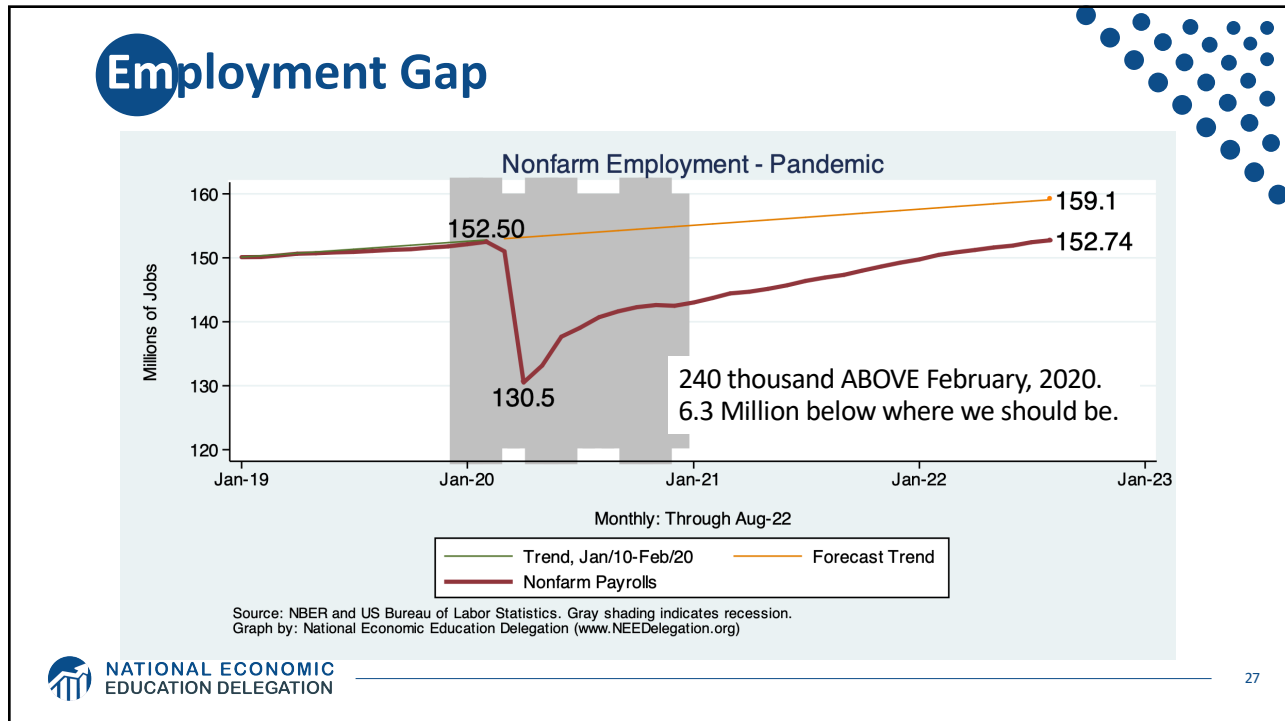
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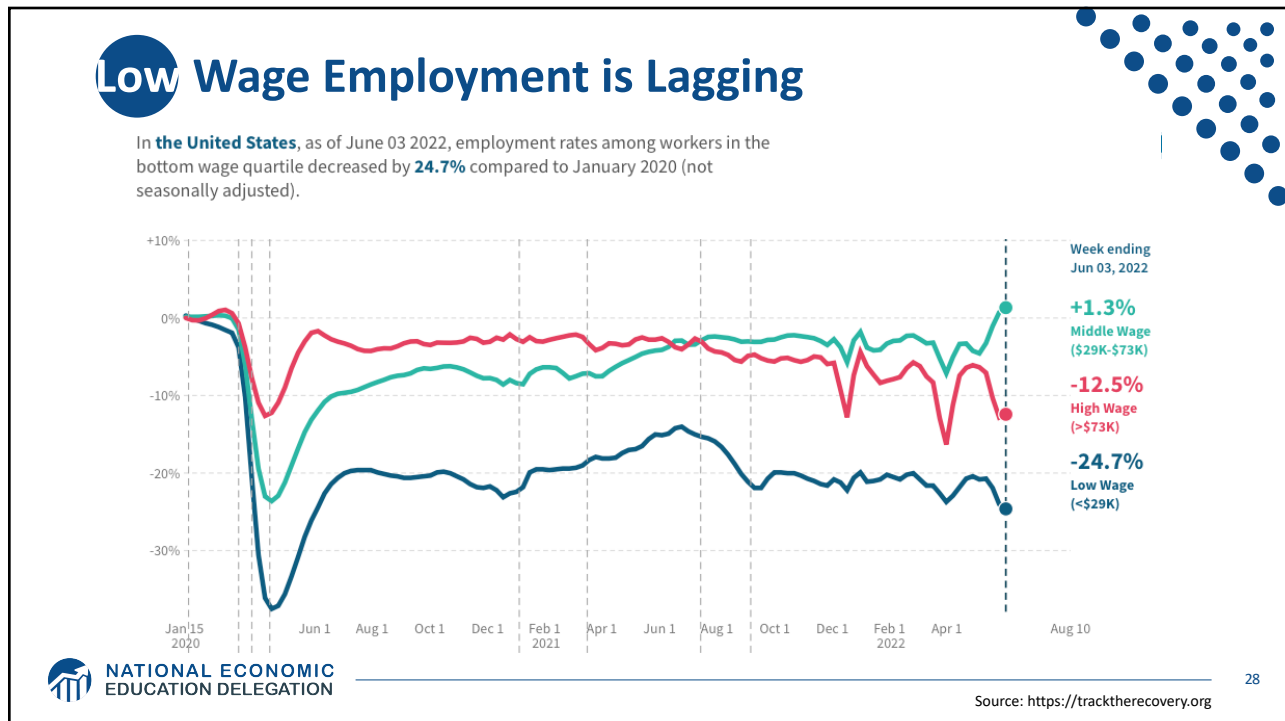
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# Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

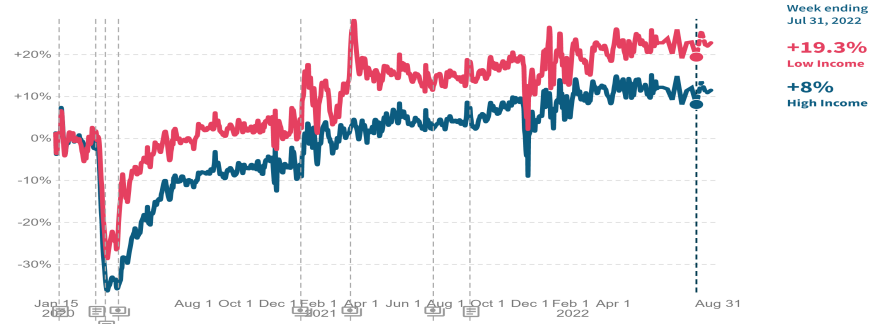
HARVARD UNIVERSITY

BROWN UNIVERSITY

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

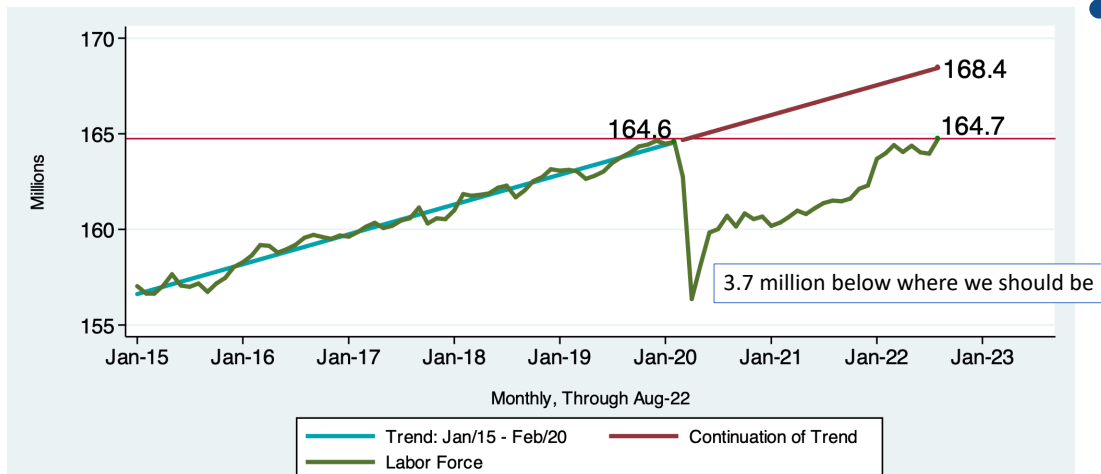
\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: August 30, 2022 next update expected: September 07, 2022



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# Where Have All the Workers Gone?

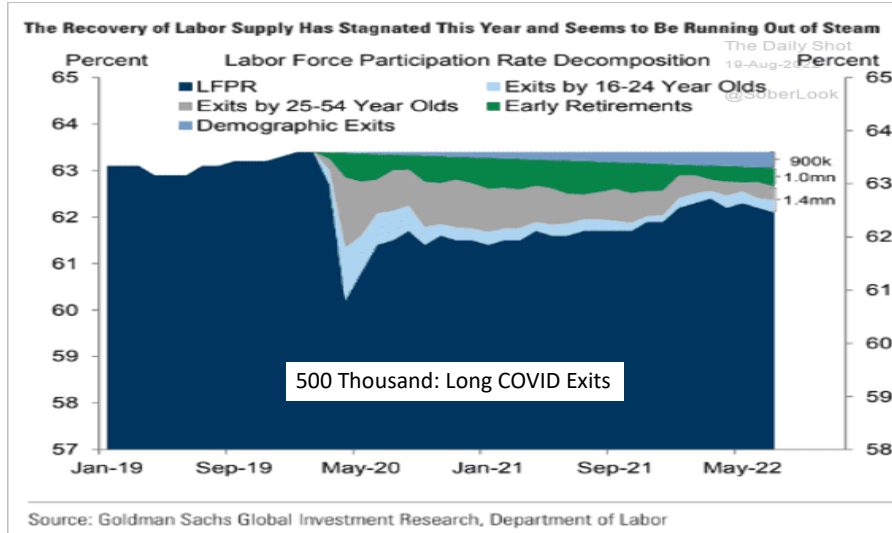


Source: Bureau of Labor Statistics  
 Graph by: National Economic Education Delegation (www.NEEdelegation.org)



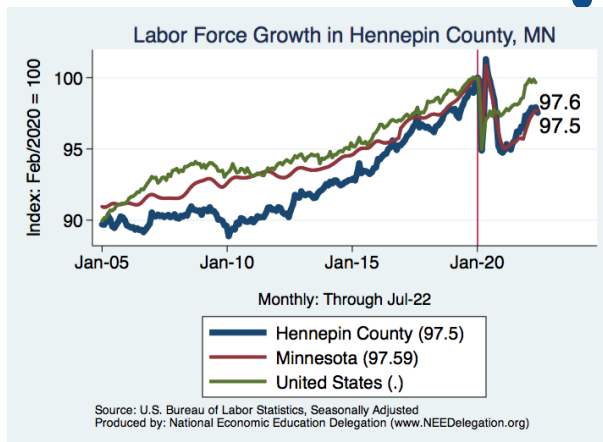
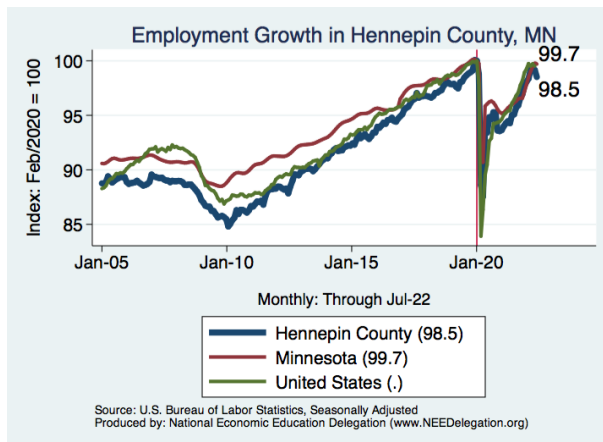
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# Some Explanations



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# How Are Things Where You Are?



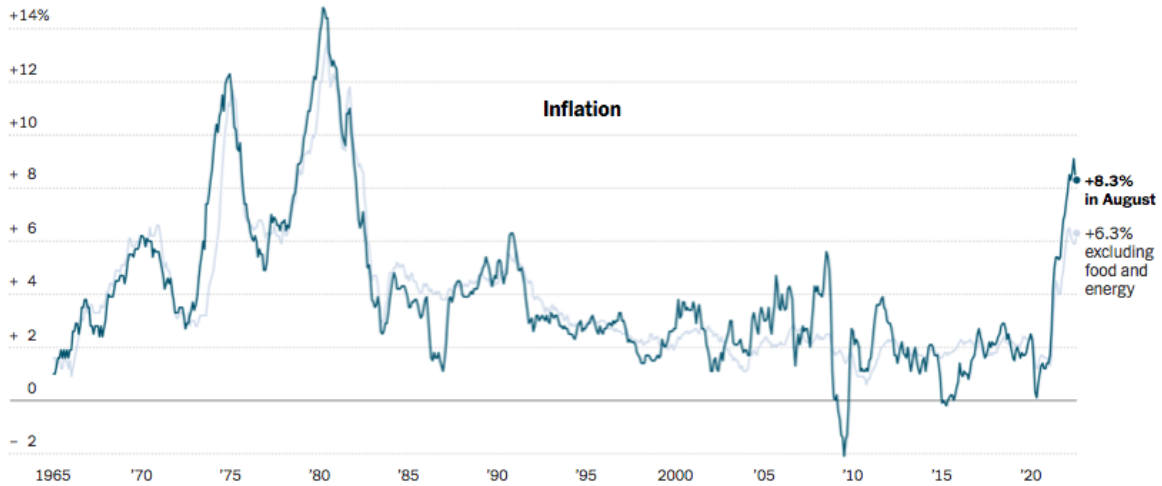
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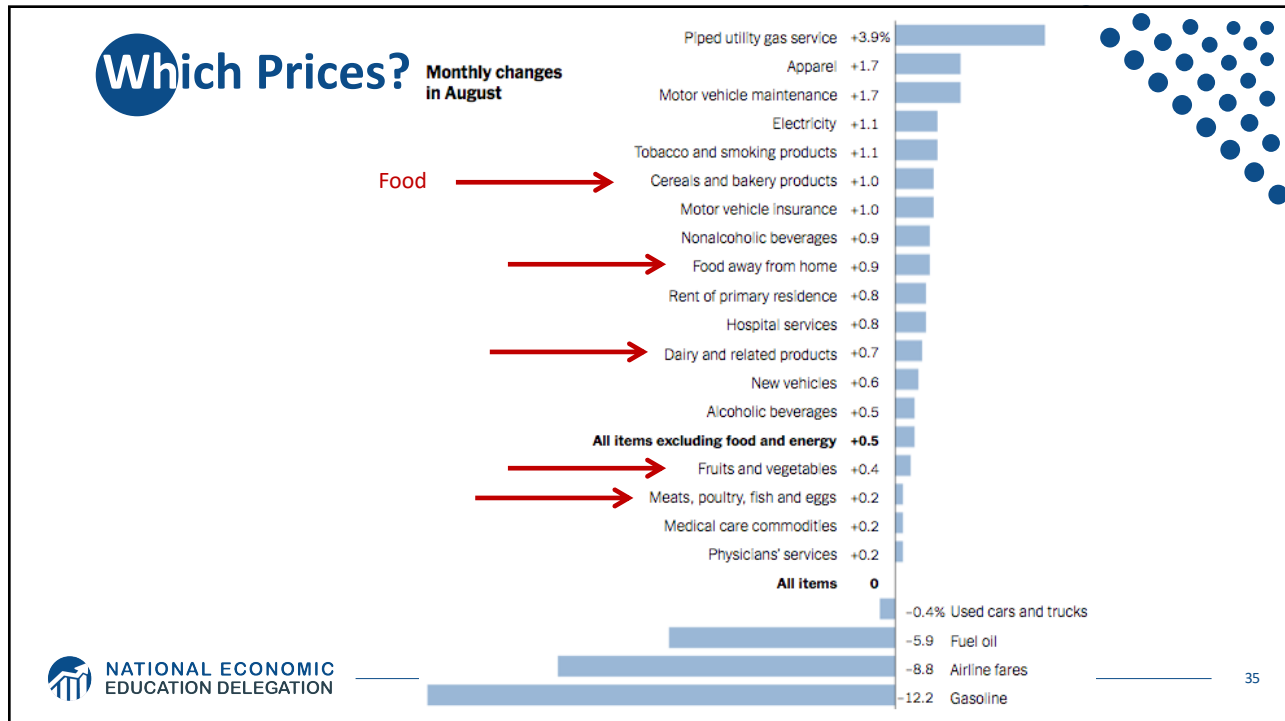
# Inflation

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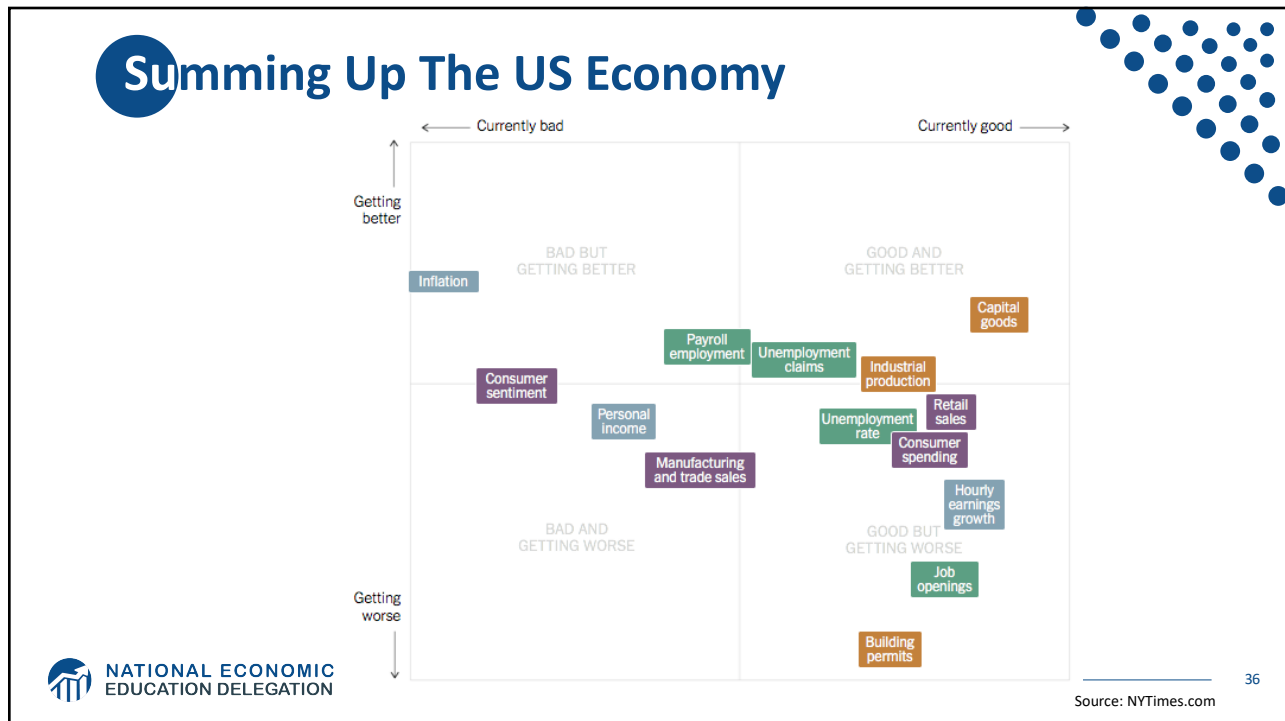
## Inflation: Latest Figures



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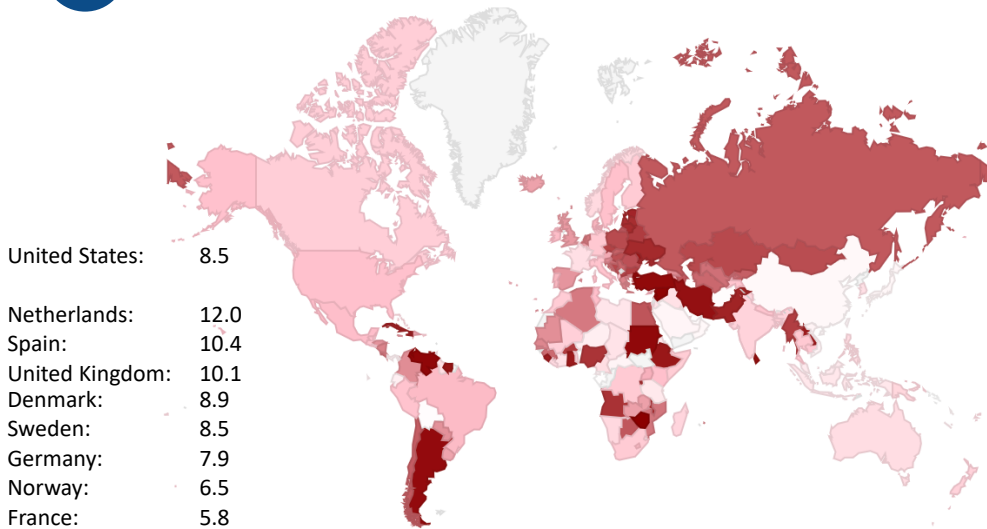


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# Global Evidence

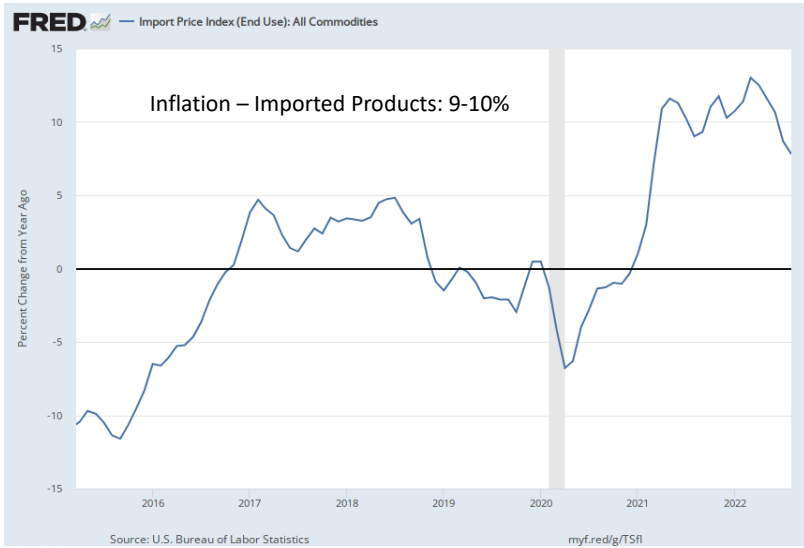
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## Inflation: Not just a US Problem

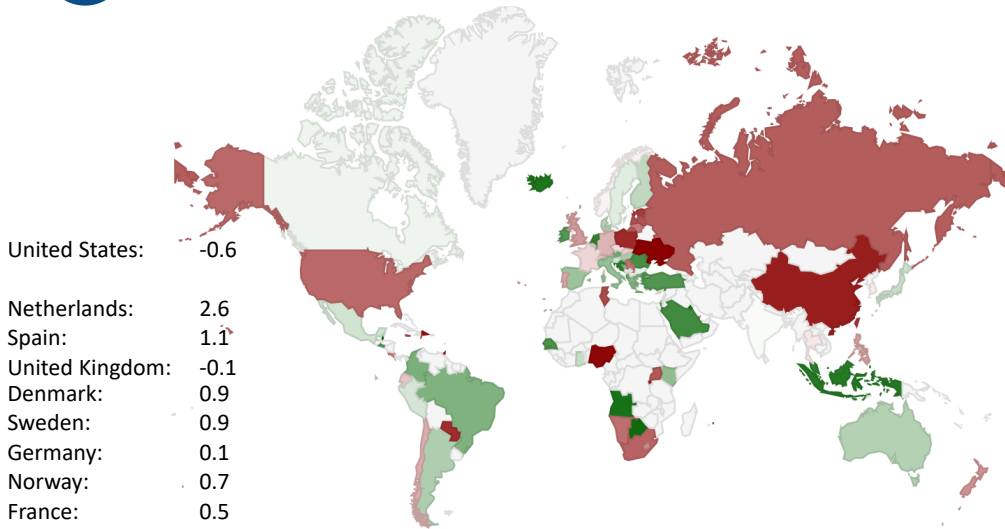


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# Import Prices Are Elevated



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



## 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.



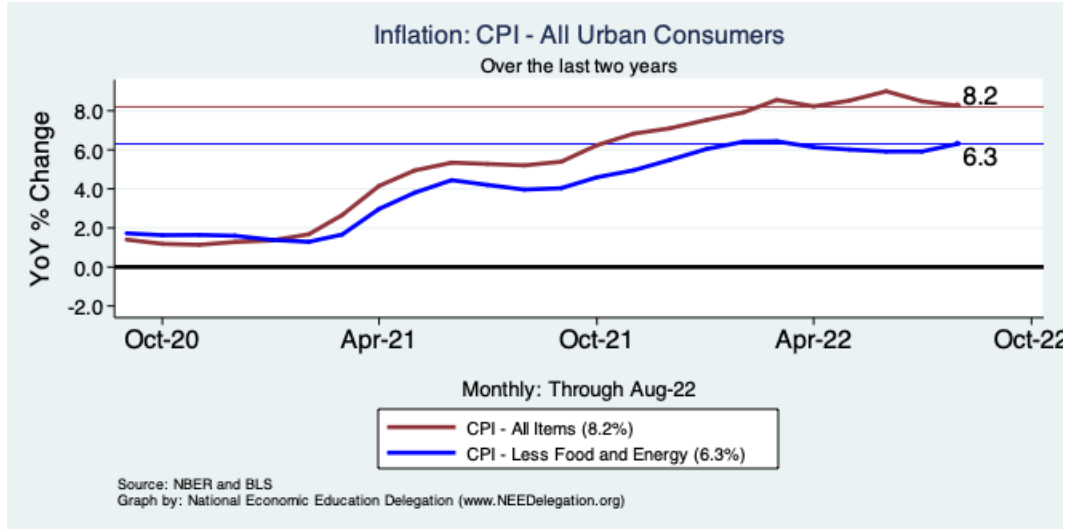
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## Inflation: A Closer Look



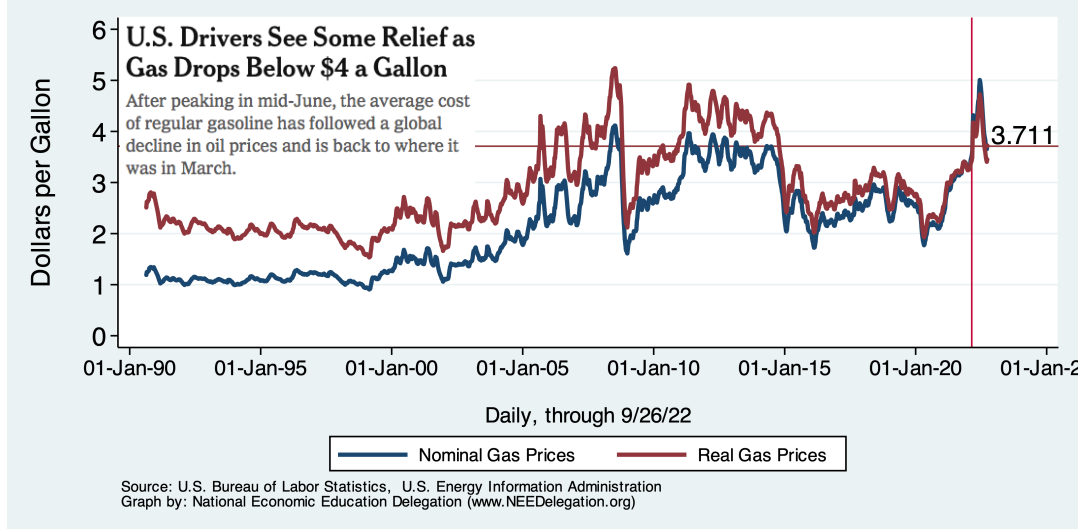
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# Inflation – Climbing! Or Turning Around?



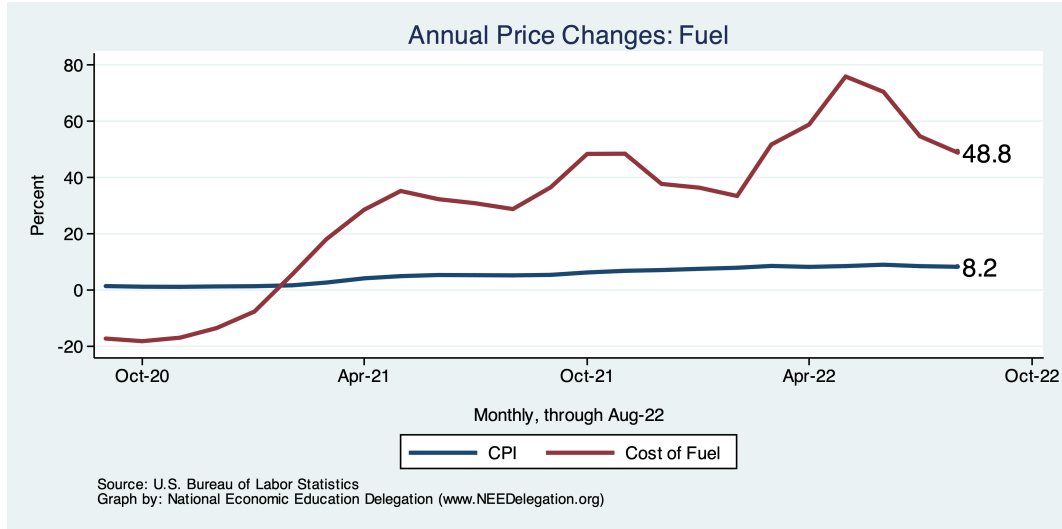
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# Gas Prices: National Average at the Pump



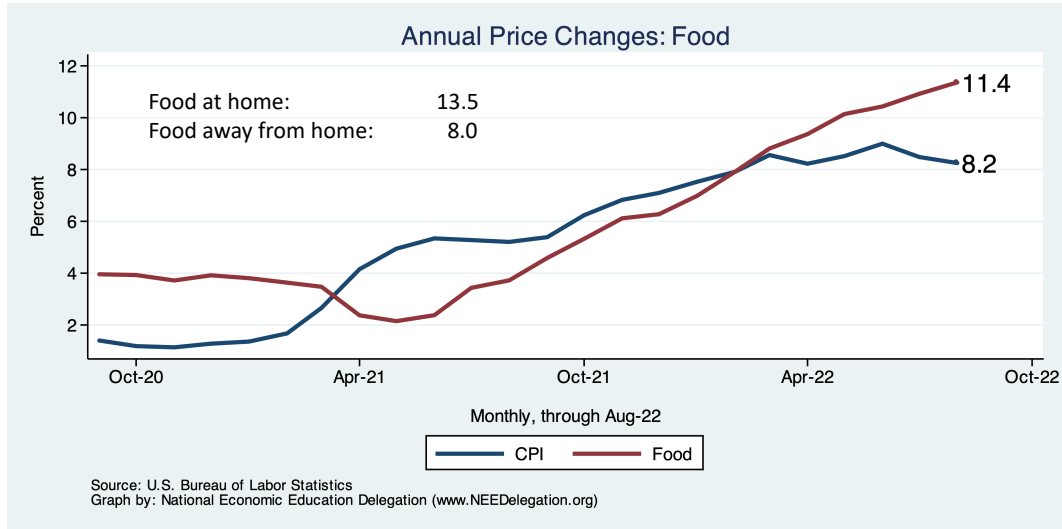
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## Fuel Costs Are Still Elevated



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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	Direction
Goods	14.3%	up
Goods	-	coming down
Services	0.7%	up
Services	-	going up

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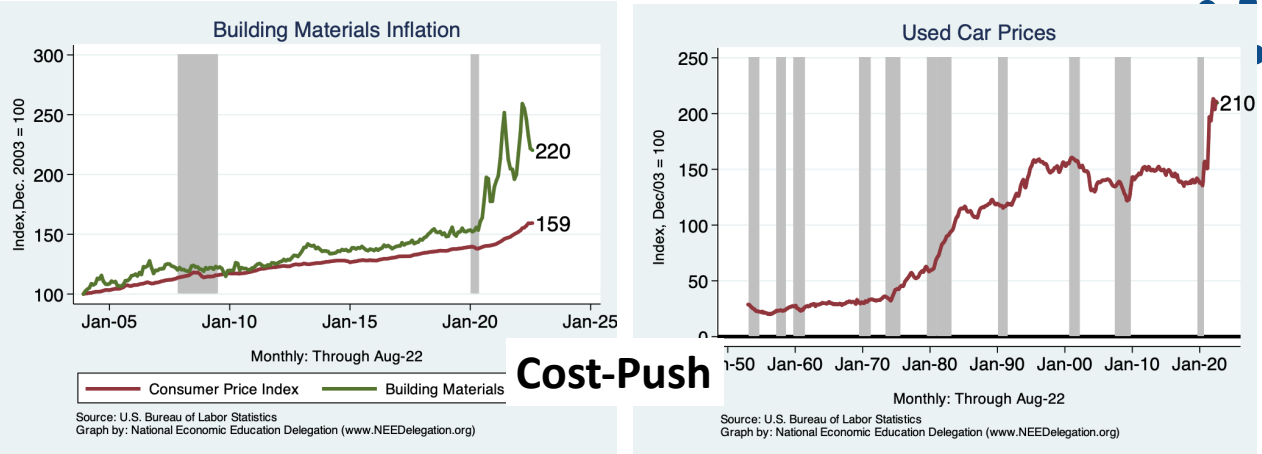
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Source: U.S. Bureau of Economic Analysis  
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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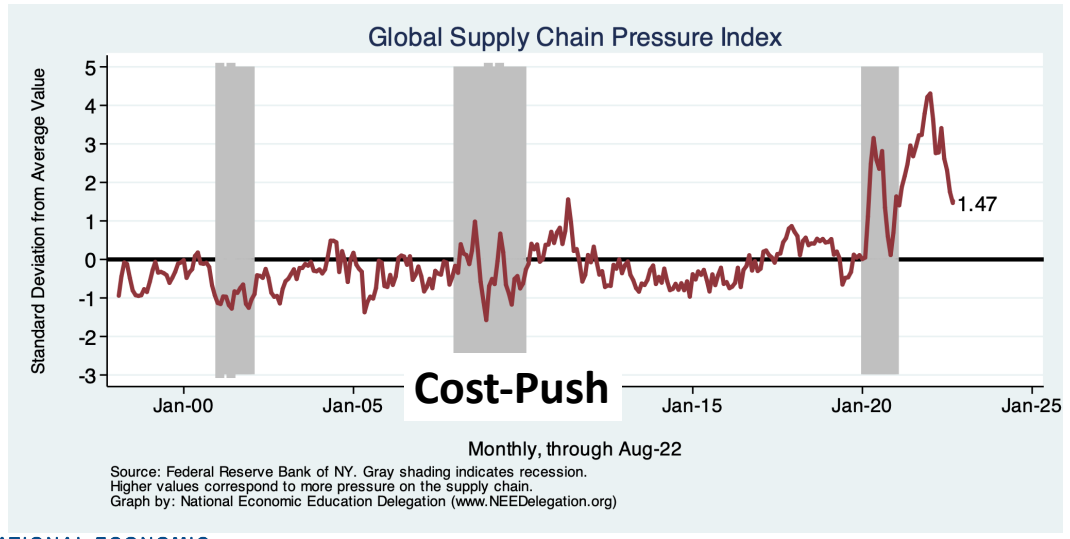


# Inflation: Concentrated



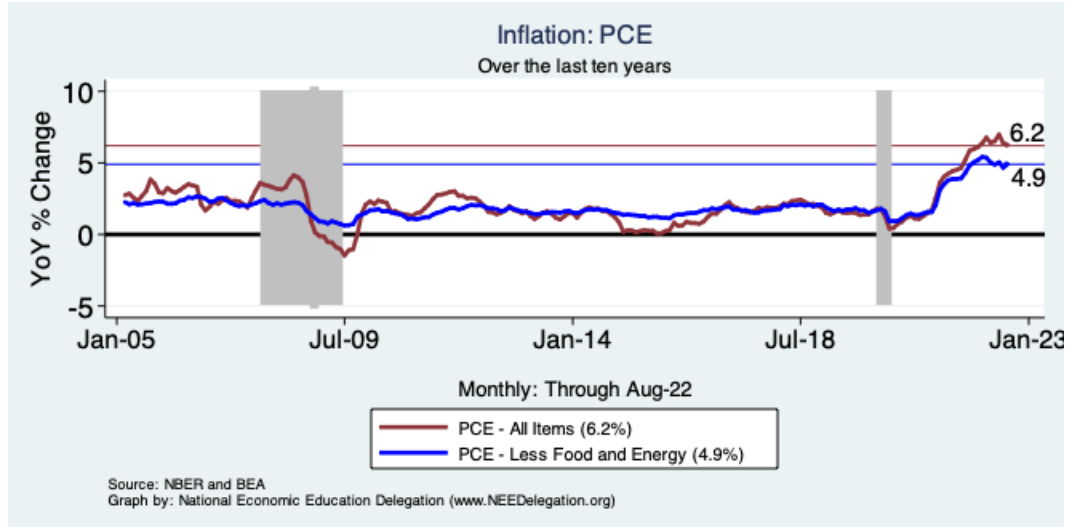
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# Supply Chains



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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



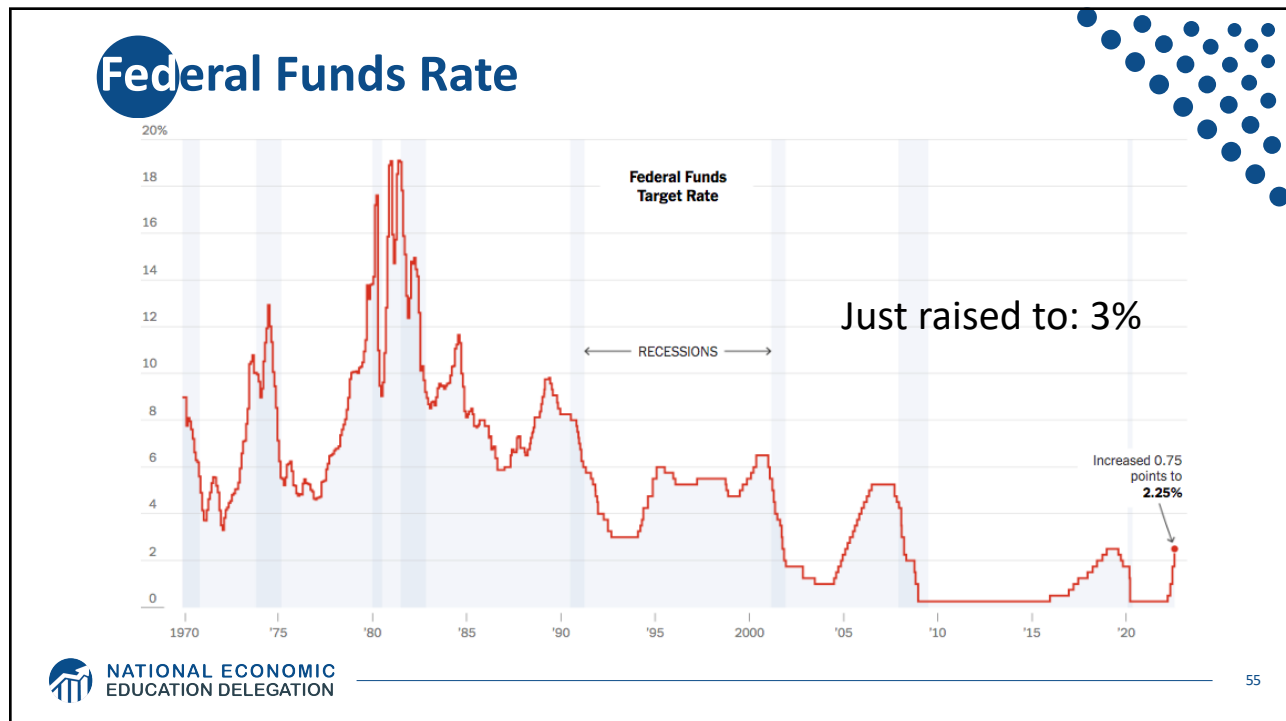
Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

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.

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)


# What's the Fed Doing About It?



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## Implications for Demand

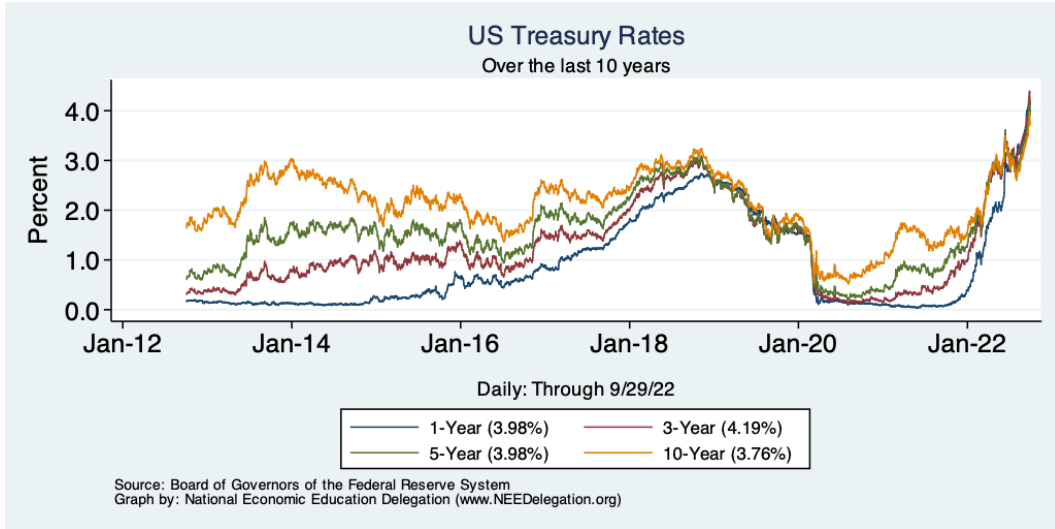
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

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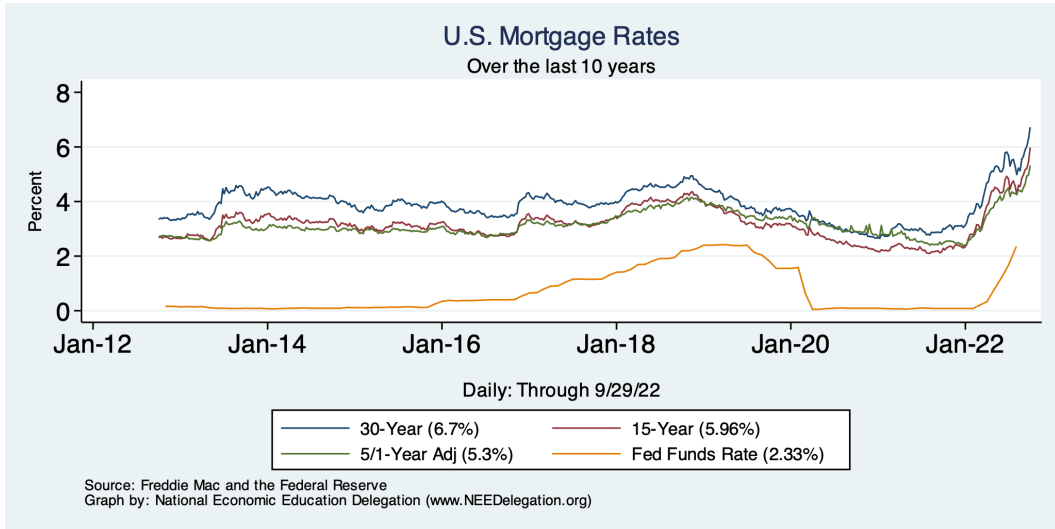
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# Treasuries



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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.

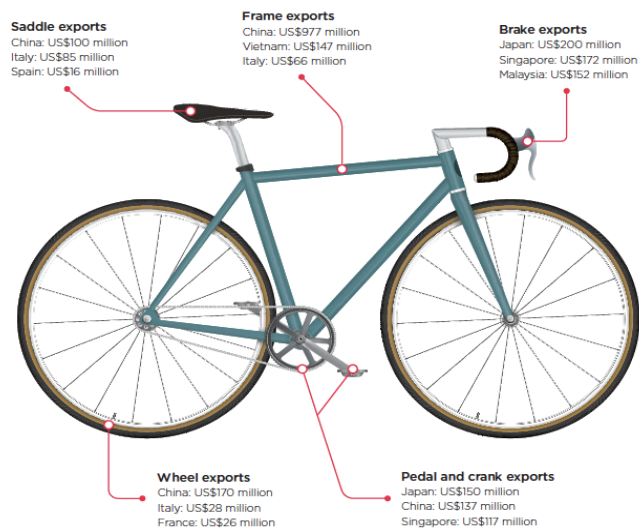
## • What about GDP?

- 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.



# Trade and Globalization: Alan Deardorff

Figure 1.1 Where do bicycles come from?



Source: World Development Report 2020

**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

Jon D. Haveman

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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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