



# US Economy and Coronavirus Economics

OLLI, San Francisco State University  
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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.





## 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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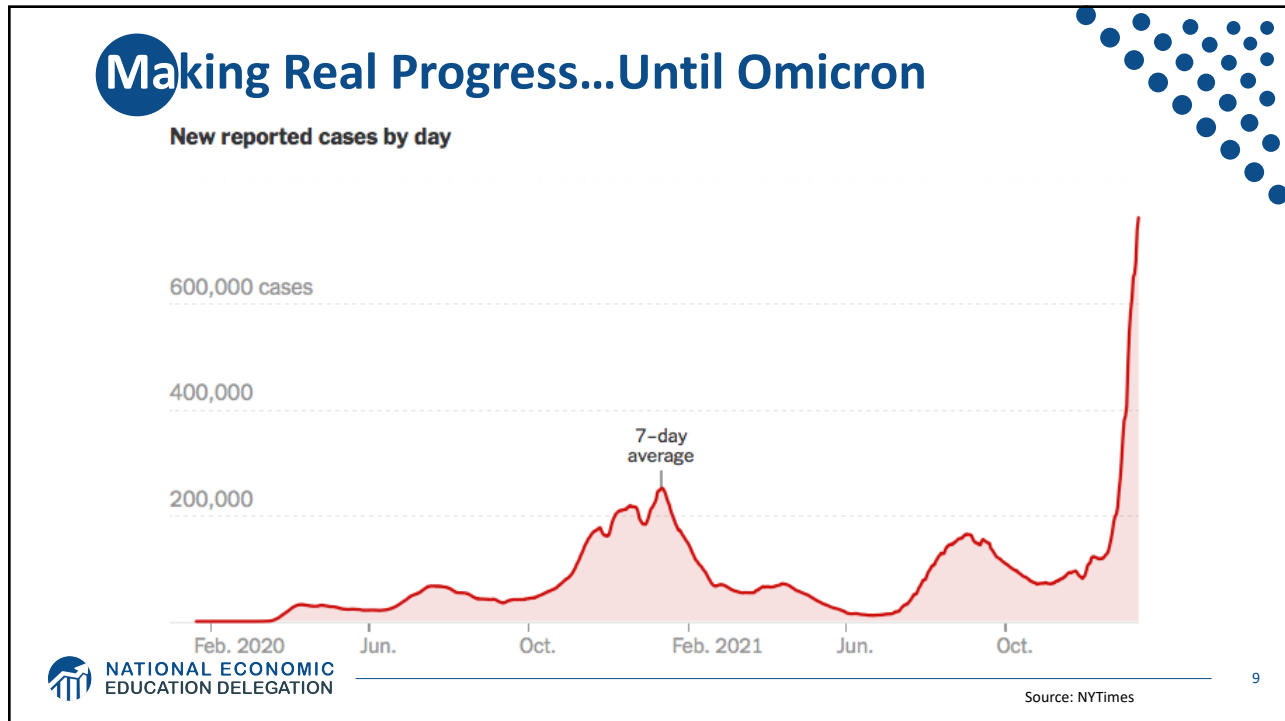
# Outline

- **State of the pandemic**
- **The U.S. Economy**
- **Hot Topics**
  - Government policy
  - Debt
  - Inflation
  - Great resignation
  - Housing markets

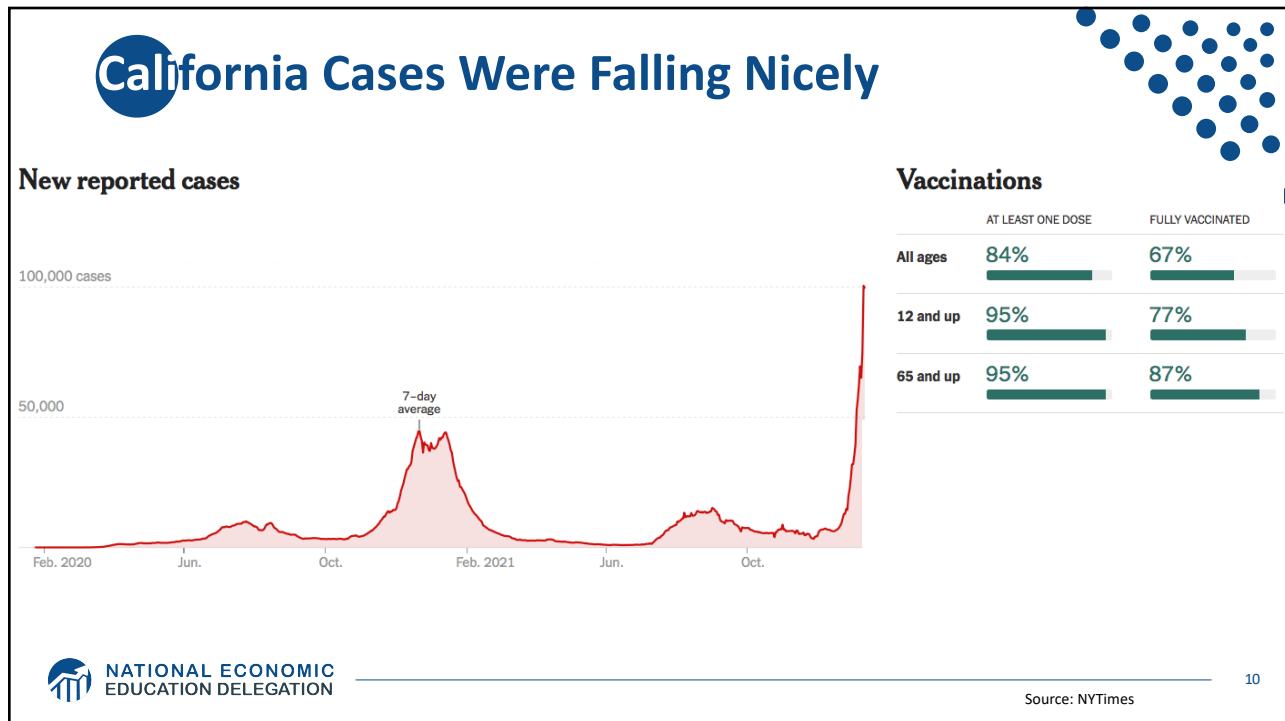
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# State of the Pandemic

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## What is this?

- **A natural disaster – with important twists:**
  - Global
  - Duration is unpredictable
  - Economic toll is enormous and potentially durable
- **A health crisis that spilled over onto the economy.**
  - A perfect storm of economic difficulty
    - Supply side
    - Demand side
    - Financial
  - Without a culprit



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## The U.S. Economy



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## Some Basic Statistics

Statistic:	Value
Population	331.1 Million
Labor Force	160.9 Million
Employment	144.9 Million
Gross Domestic Product (GDP)	\$22.1 Trillion
Ave. Hourly Earnings	\$30.33

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## U.S. Economy in Global Perspective

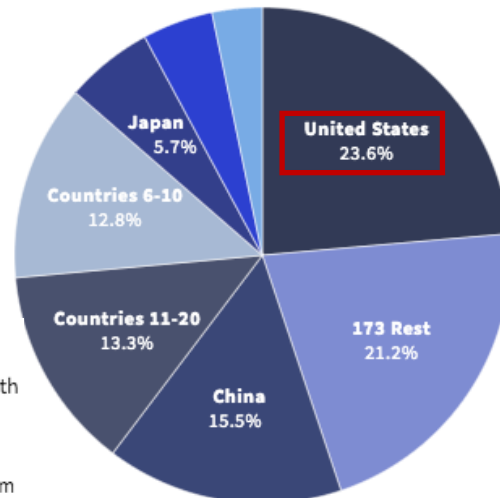
### U.S. Real GDP:

**\$19.202 trillion** in 2019-Q4  
**\$17.258 trillion** in 2020-Q2  
**\$19.479 trillion** in 2021-Q3

### % Share of the Global Economy

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

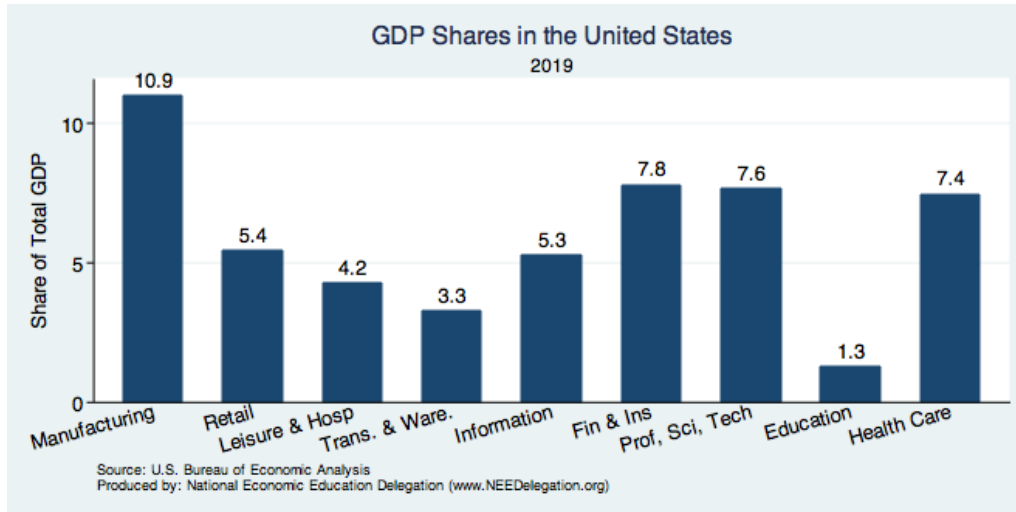
United States
  173 Rest
  China
  Countries 11-20
  Countries 6-10
  Japan
  Germany
  United Kingdom



Source: IMF

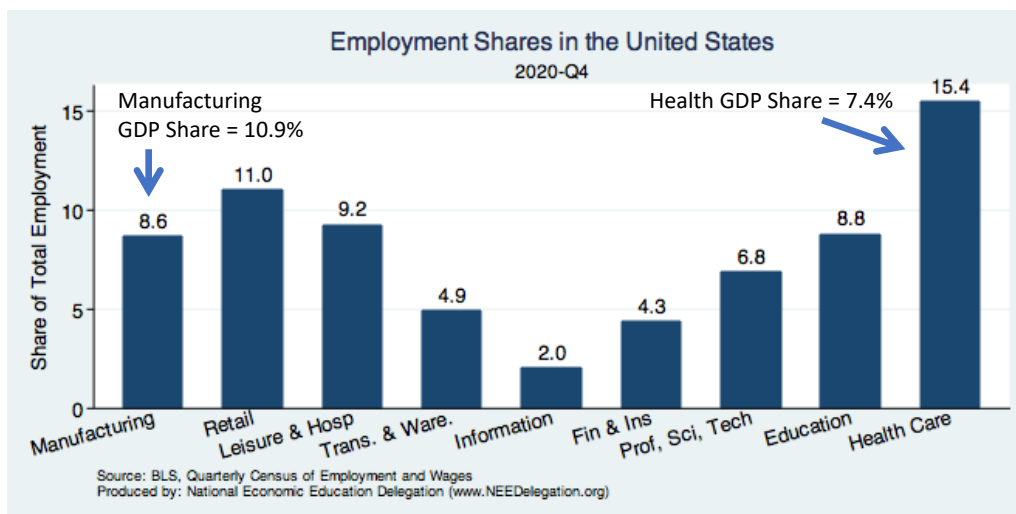
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## Composition of the U.S. Economy: GDP



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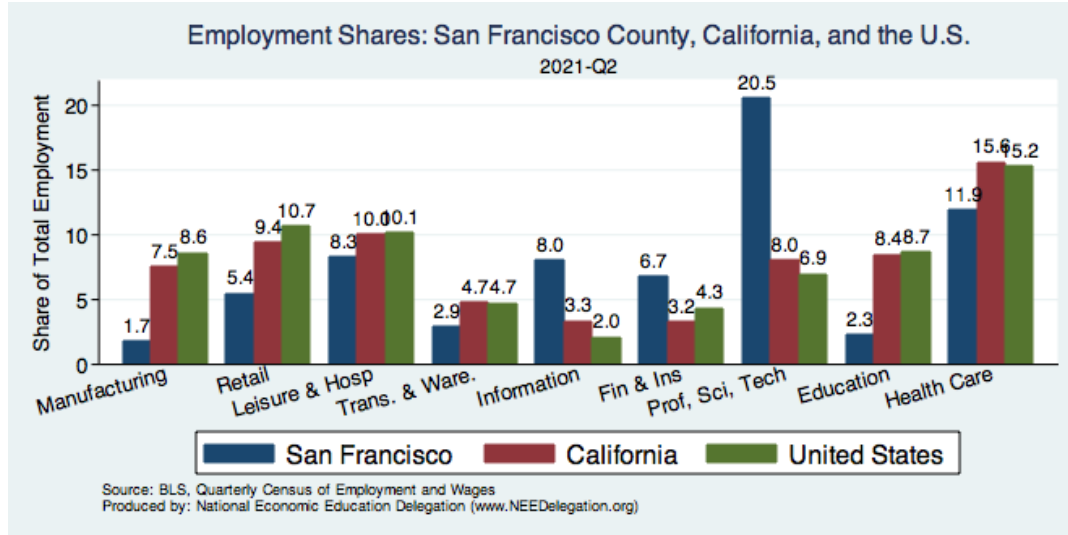
## Composition of the U.S. Economy: Employment



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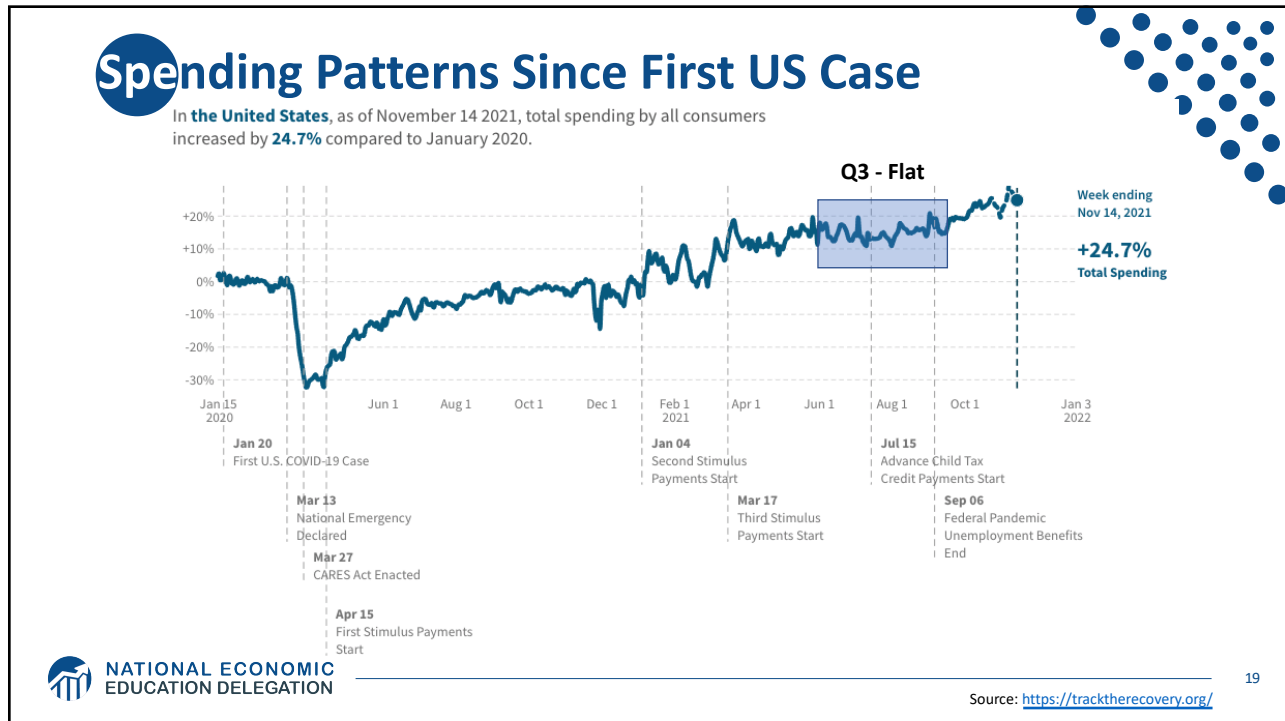
# SF County: Tech and Finance Intensive



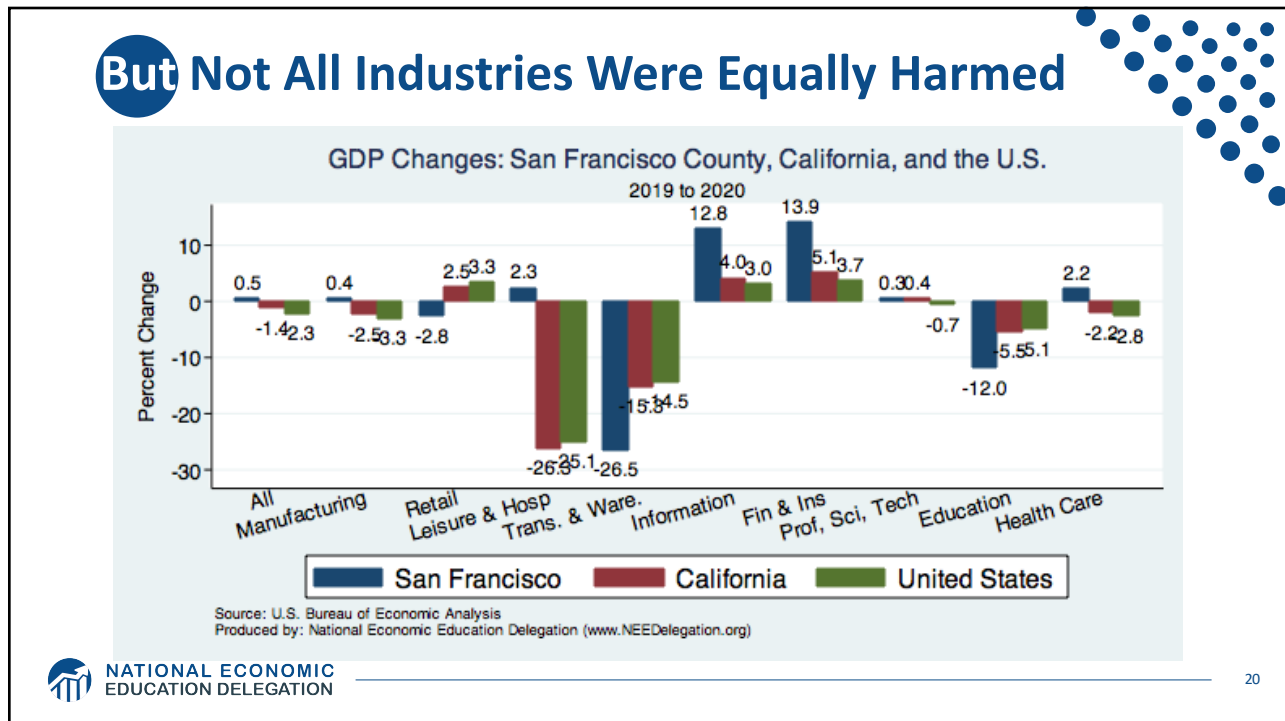
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# Evidence of Impact

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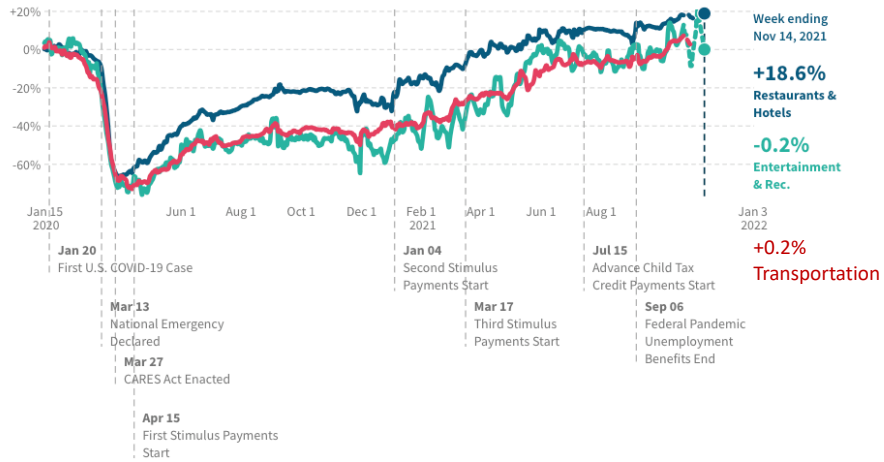
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# Spending Patterns – Hardest Hit Sectors

In **the United States**, as of November 14 2021, restaurant and hotel spending by all consumers increased by **18.6%** compared to January 2020.

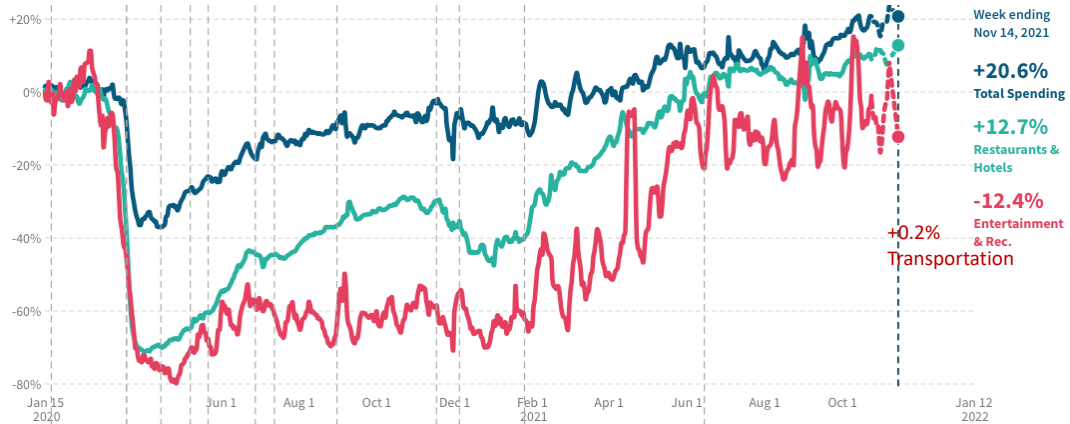


Source: <https://tracktherecovery.org/>

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# Spending Patterns – Hardest Hit Sectors

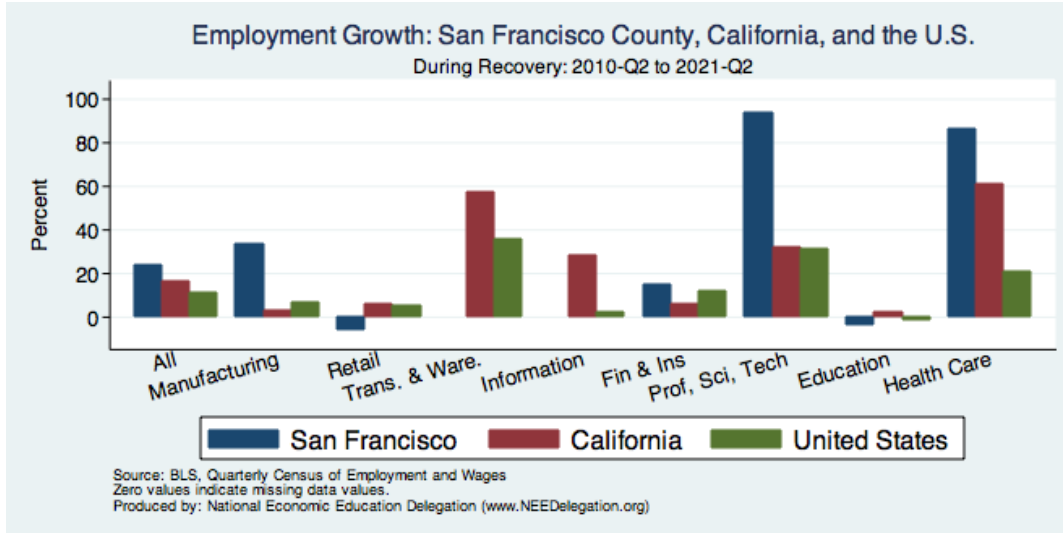
In **California**, as of November 14 2021, total spending by all consumers increased by **20.6%** compared to January 2020.



Source: <https://tracktherecovery.org/>

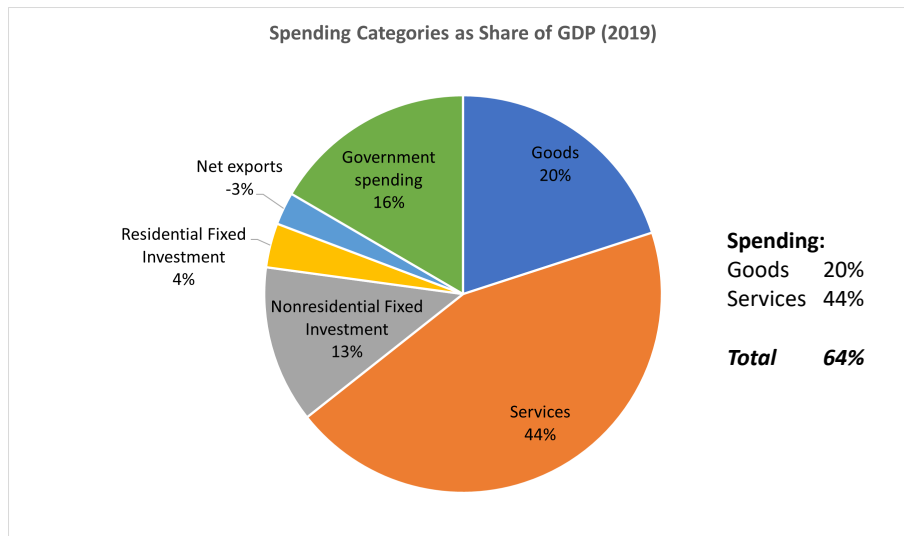
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## SF County Emp Growth: Tech and Health

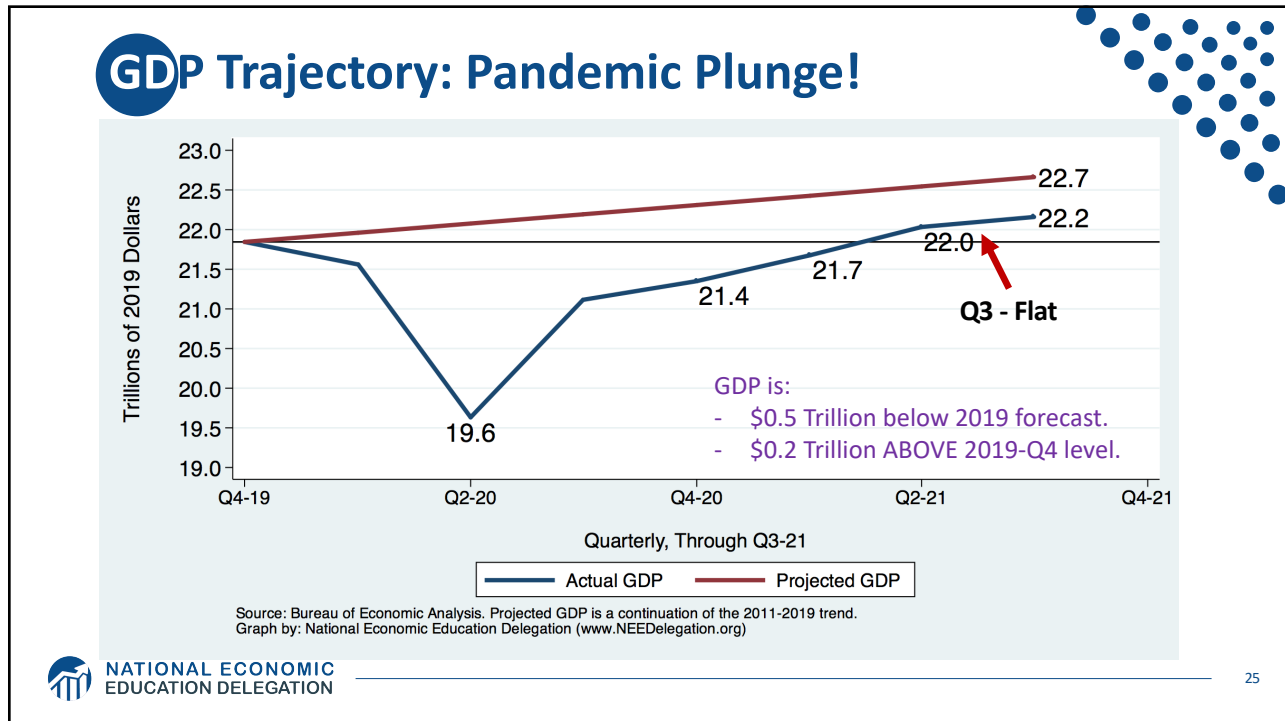


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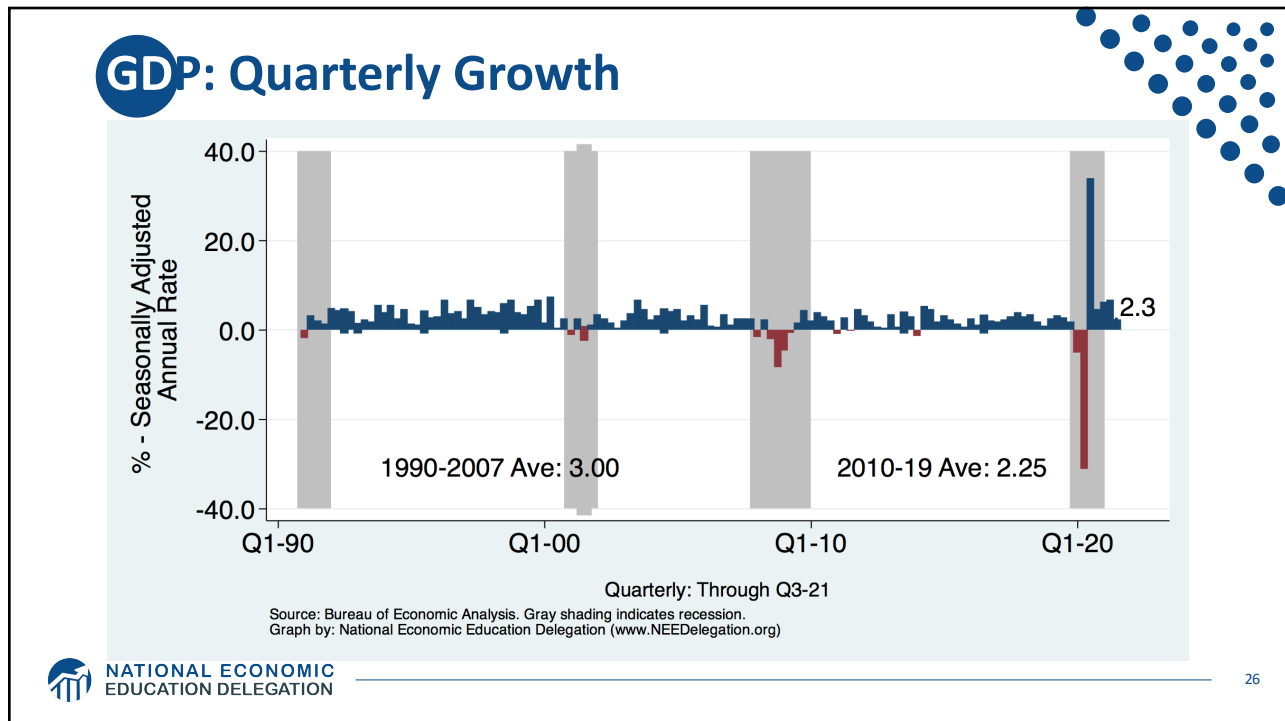
## Why does spending matter?



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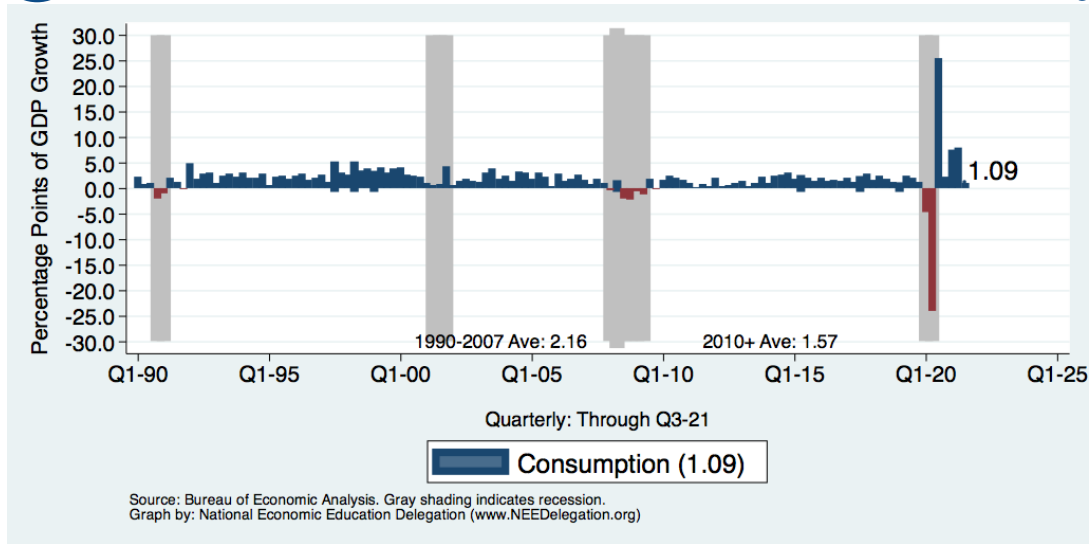


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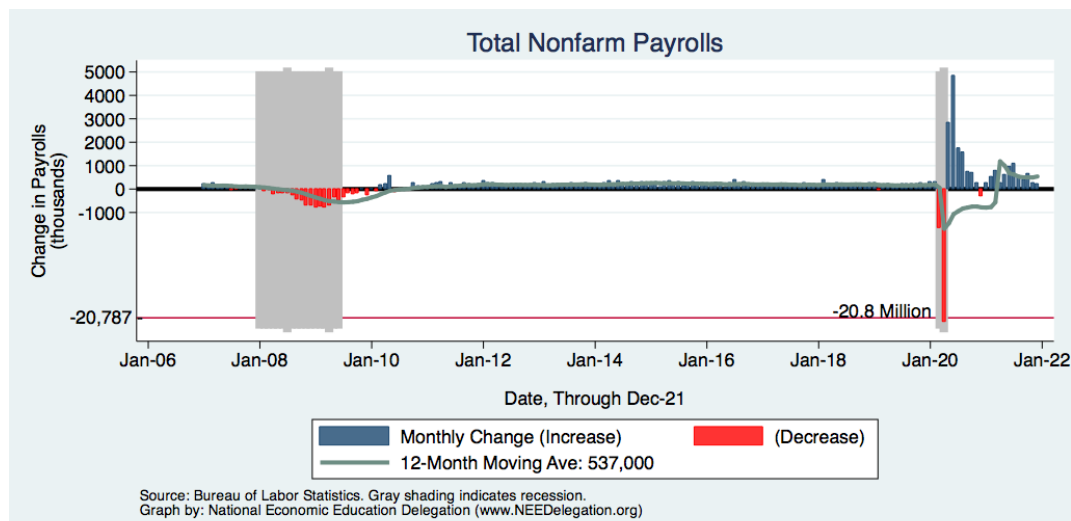
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## Consumption: Quarterly Growth

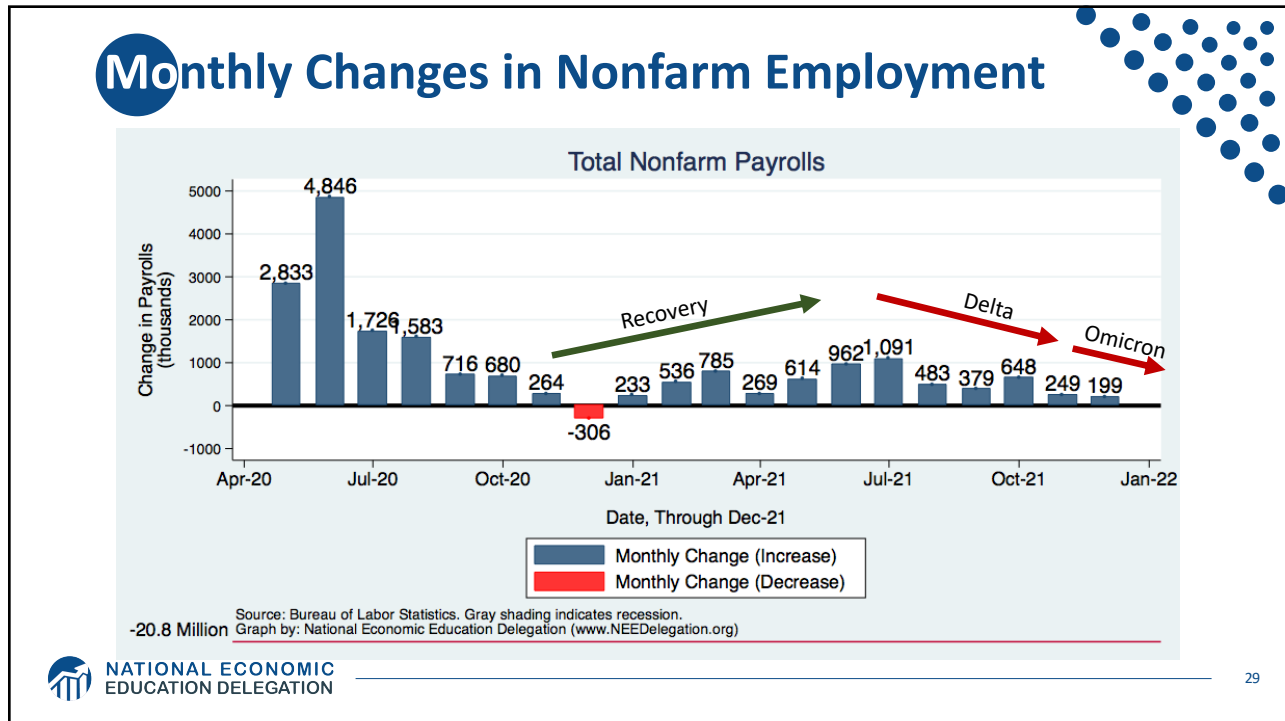


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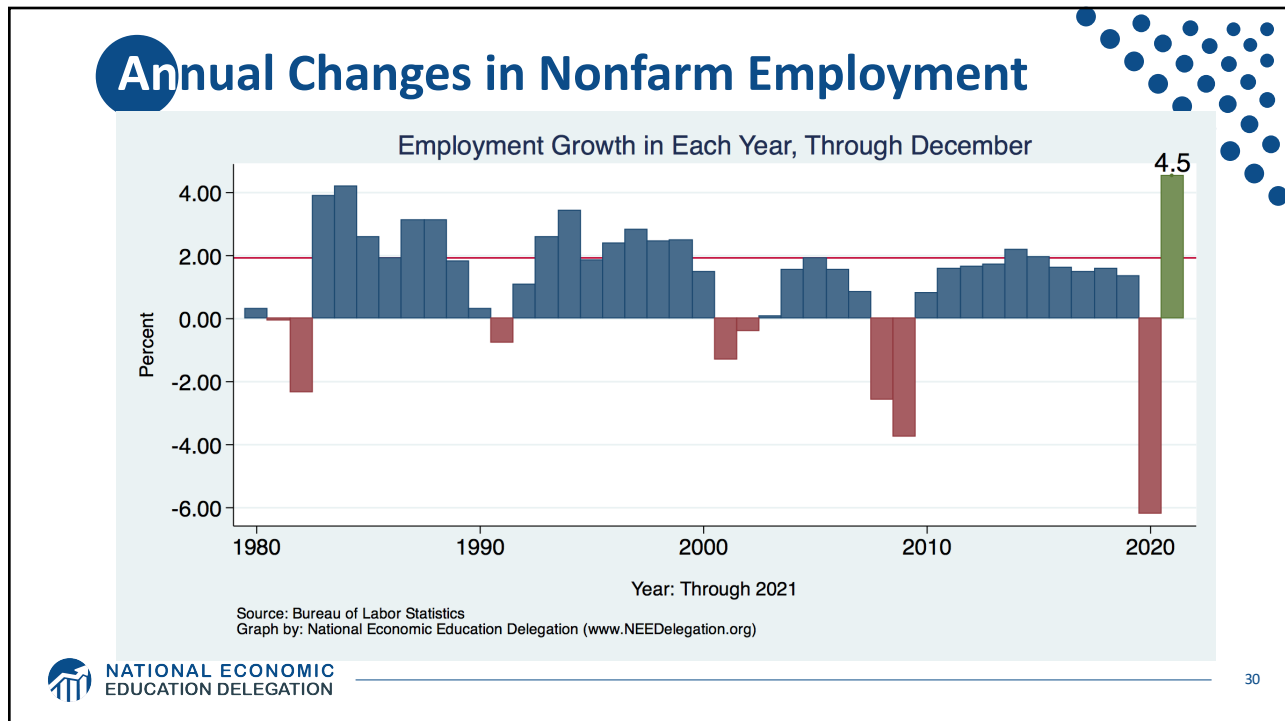
## Monthly Changes in Nonfarm Employment



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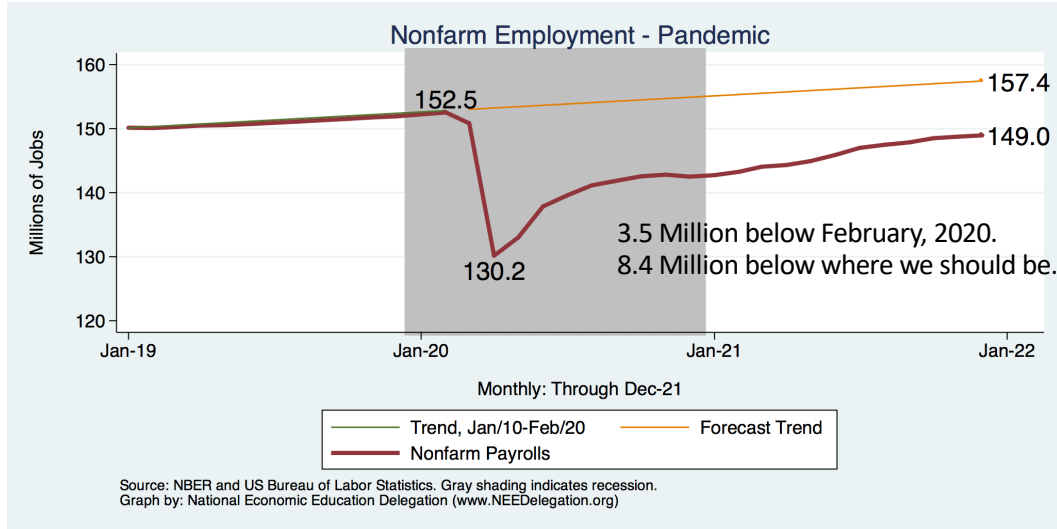


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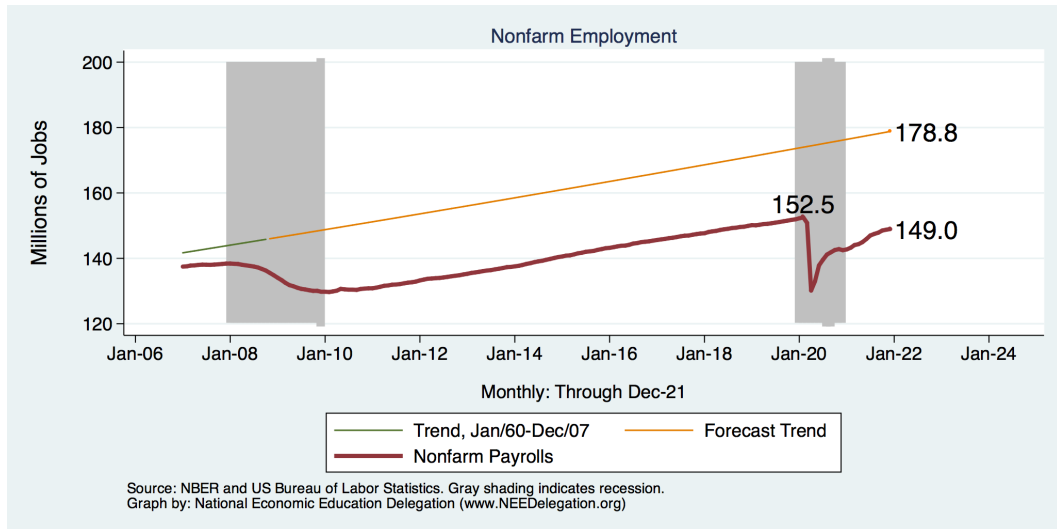
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# Employment Gap



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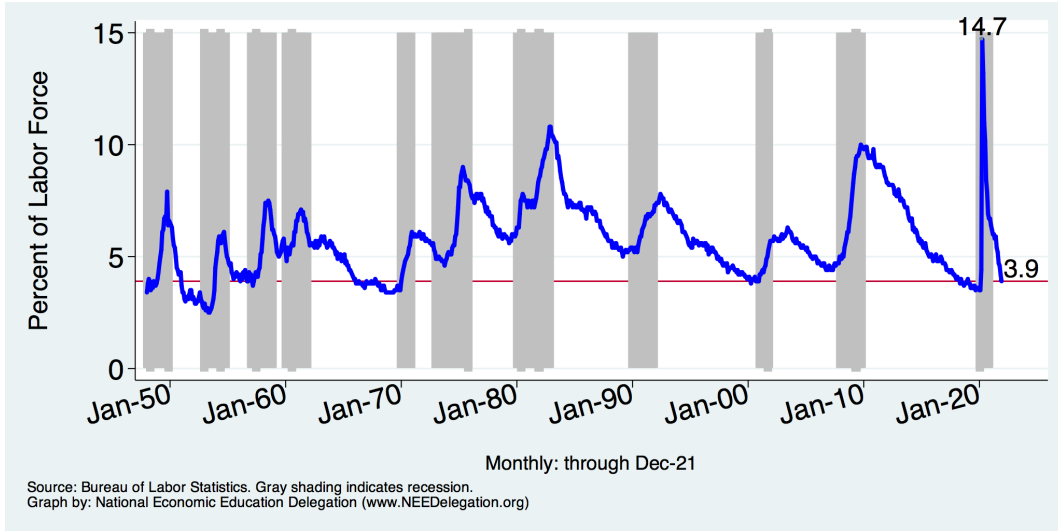
# Employment Gap



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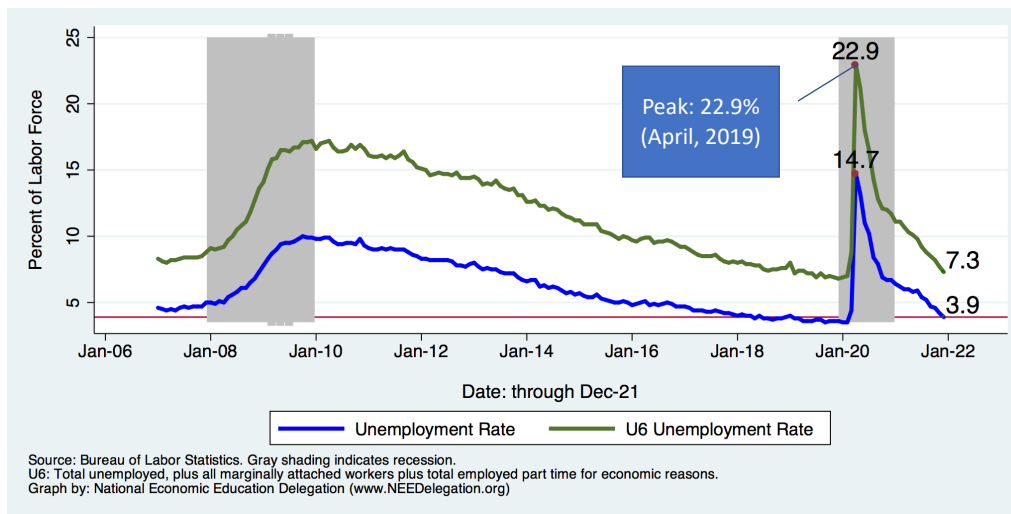


# Unemployment Rate



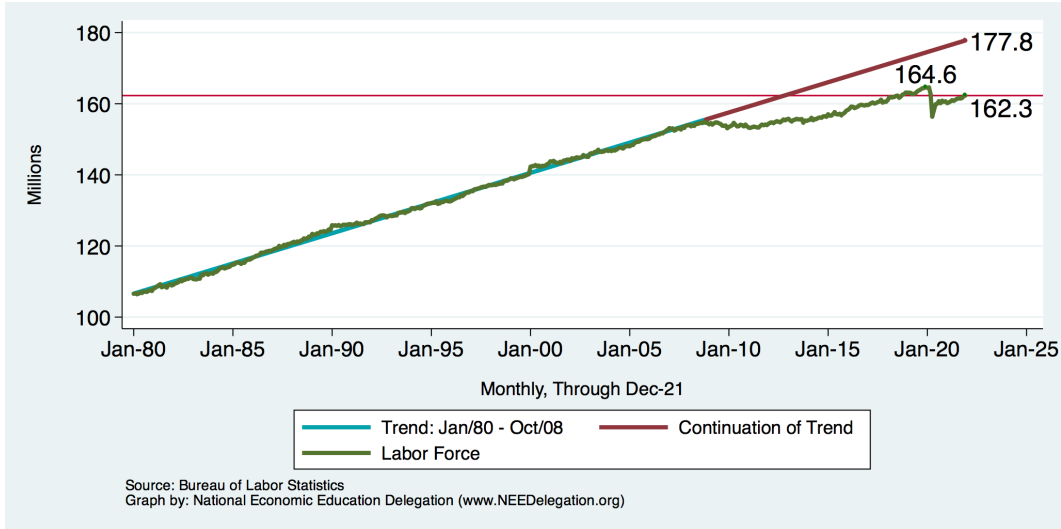
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# Reduced Spending: Unemployment



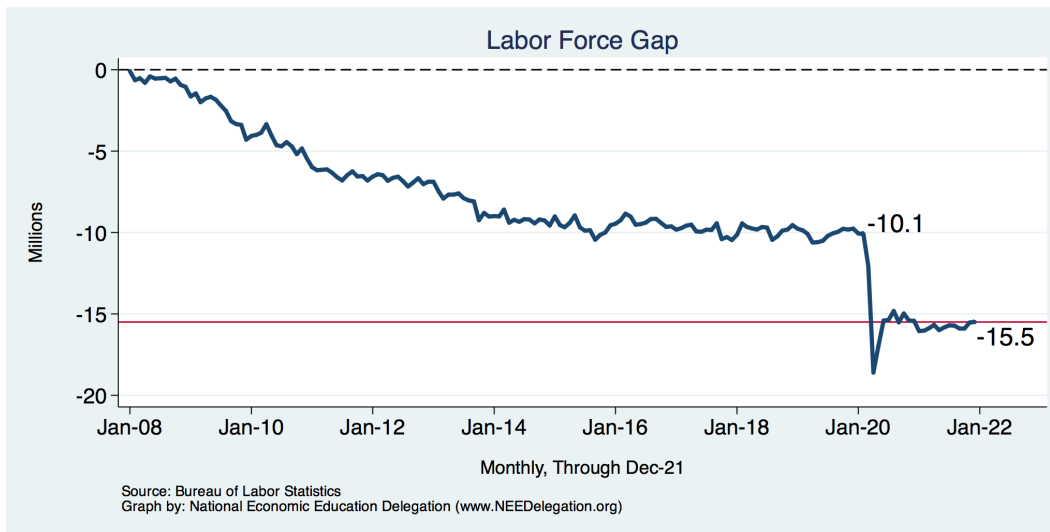
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## Trends in Labor Force Participation



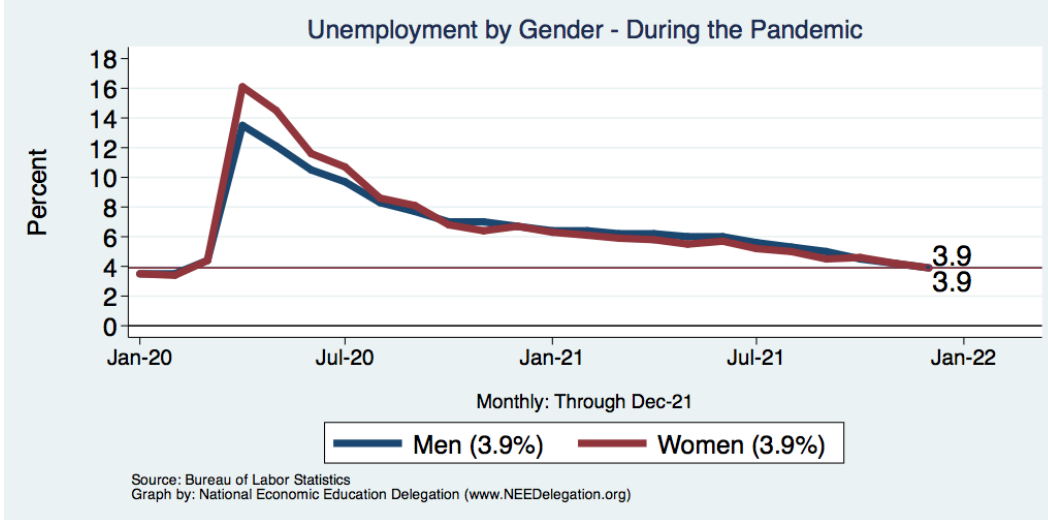
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## Labor Force is Shrinking – Drives Down UR



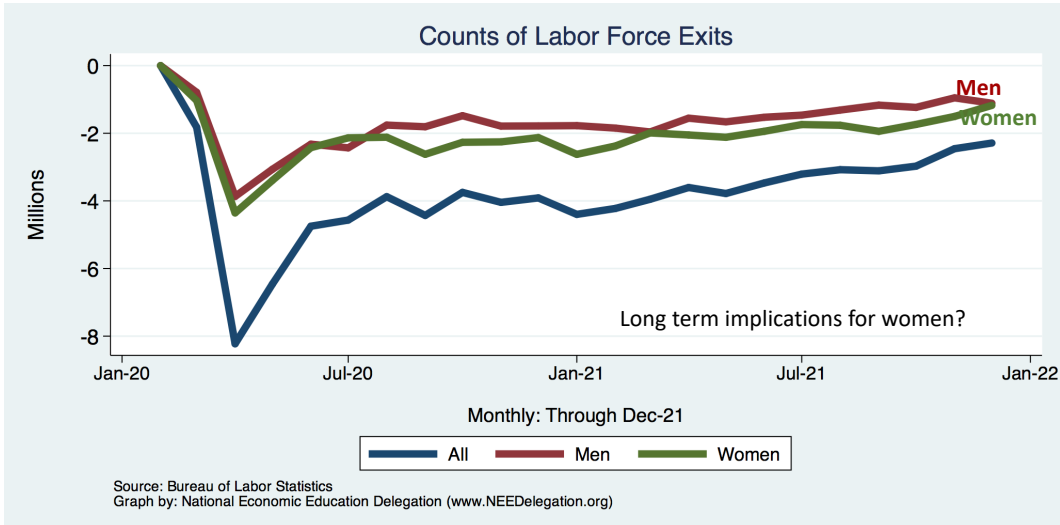
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## Affected Women More Than Men?



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## Affected Women More Than Men

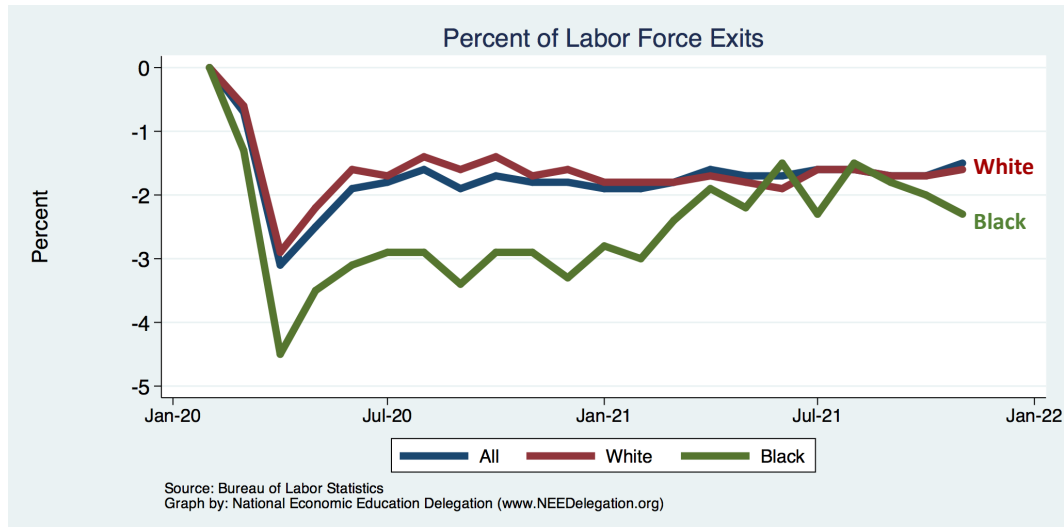


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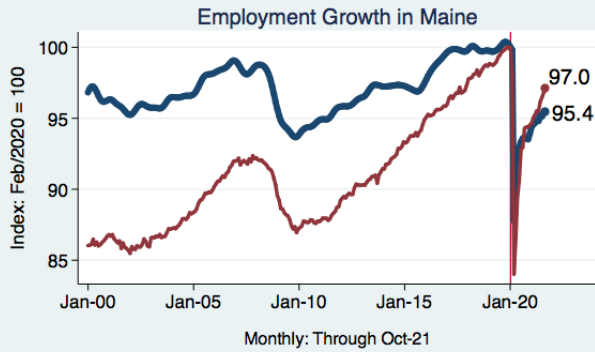
## Why Women More Than Men?

- Women are disproportionately represented in low-wage and face-to-face jobs.
- Our childcare and school systems don't meet the needs of working mothers.
- COVID-19 has upended the labor market, with disastrous consequences for working women and their families.
  - Many women continued working in high risk jobs.
- The difference in impact is waning.

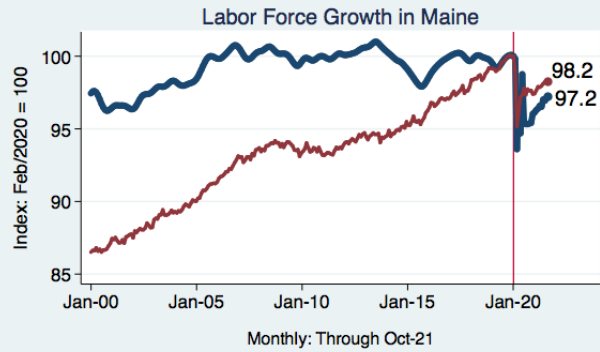
## Affecting Black Workers More than White



# Employment in Maine



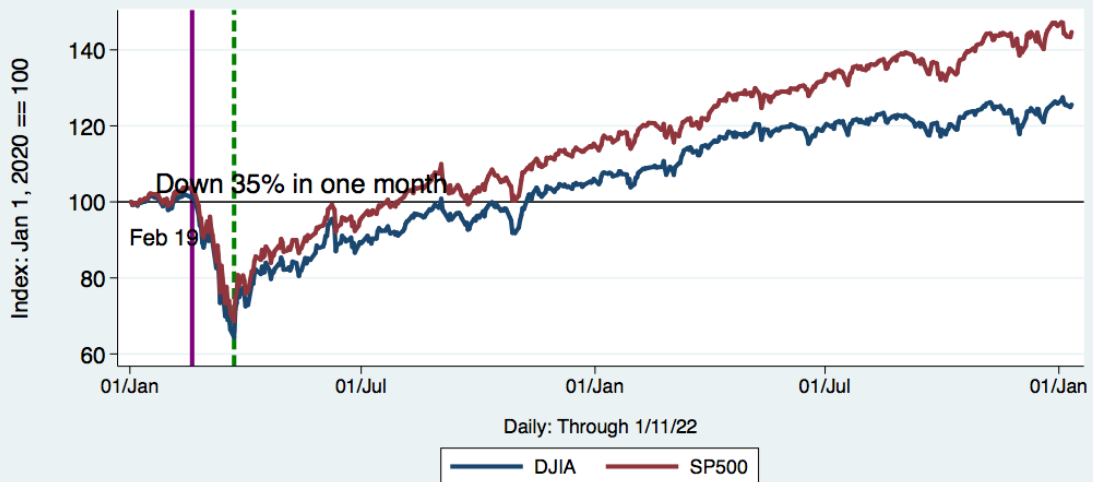
Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted  
Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))



Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted  
Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

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# DJIA and S&P 500



Source: NASDAQ OMX Group, via FRED. Gray shading indicates recession.  
Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

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## Hot Topics

- Government policy
- Debt
- Inflation
- Great resignation
- Structural changes
- Housing markets
- Inequality



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## What Have Been Policy Effects?

- **MONETARY POLICY (Fed)** acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.
- **FISCAL POLICY (Congress)** acted quickly, but inevitably made some mistakes.
  - Stimulus Checks, A (\$268b)
  - Expanded Unemployment, B (\$268b)
  - Paycheck Protection Program, C- (\$525b)

**Last two packages: \$2.8 Trillion**



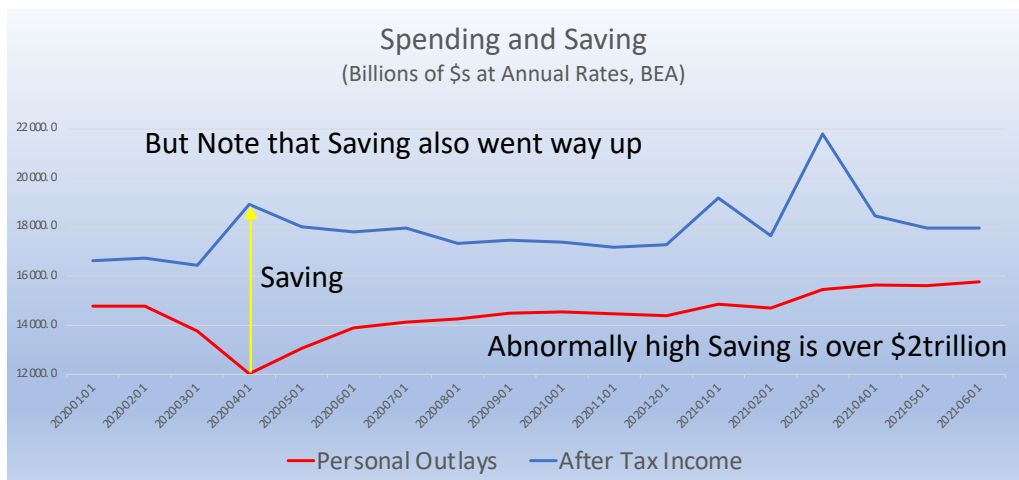
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## Recovery Due to Immense Fiscal Stimulus and Control of COVID



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## Stimulus allowed Spending to Recover

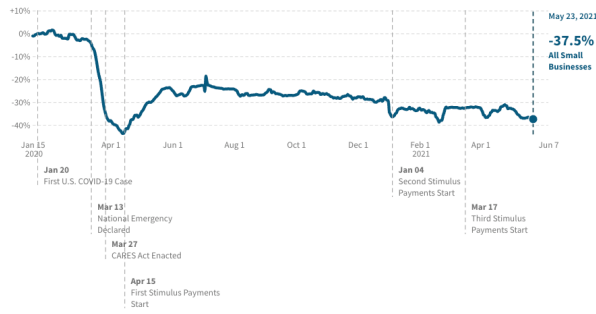


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# A Hard-Hit Sector: Small Business

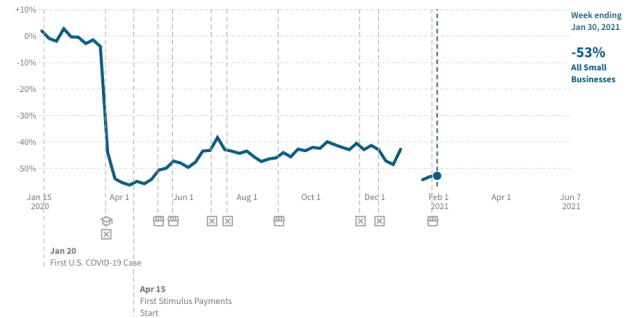
## Small Biz Closures in the United States

In the United States, as of May 23, 2021, the number of small businesses open decreased by 37.5% compared to January 2020.



## Small Biz Closures in San Francisco

In San Francisco, as of January 30, 2021, the number of small businesses open decreased by 53% compared to January 2020.



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# Small Businesses: They Didn't Get Enough PPP

## Small Business Owners Turn to Their Own Funds

In total, 70% of respondents were using at least one form of financial support to get their business through the pandemic.



CreditCards.com  
Respondents could choose more than one option.

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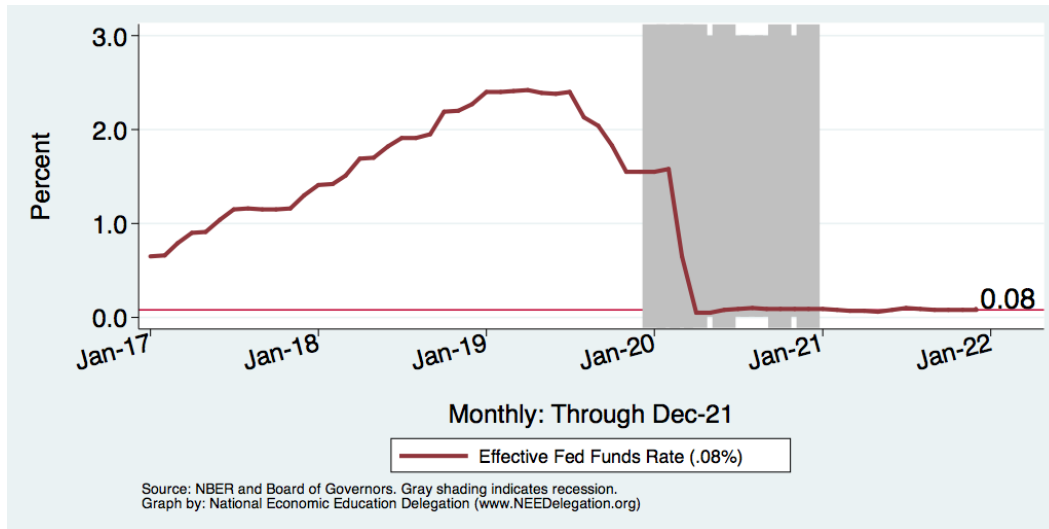


# Monetary Policy: Federal Reserve

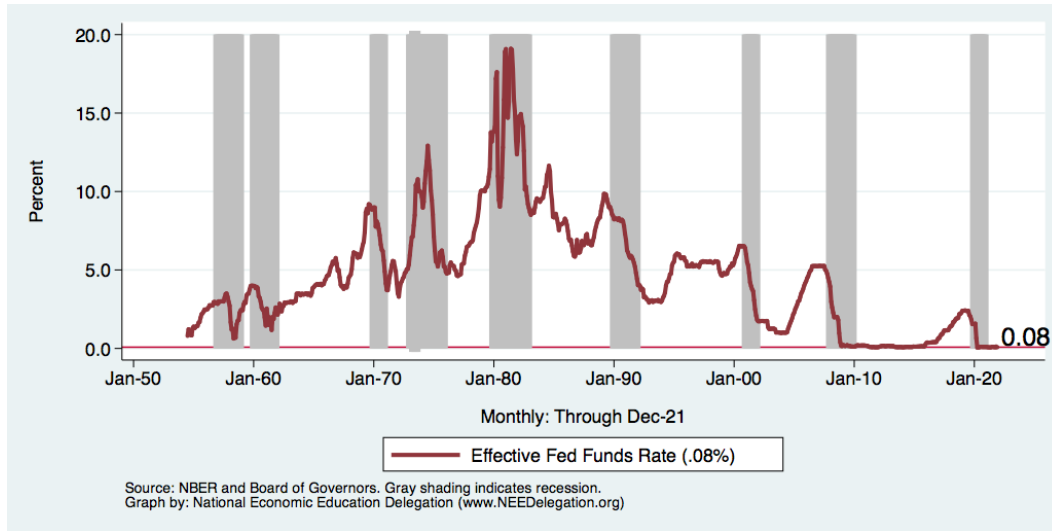
- **Primary goal is to keep interest rates low, to facilitate continued borrowing.**

- Federal Funds Rate – rate at which banks lend to each other, usually overnight.
- Purchases of U.S. Treasury securities – keep money flowing to the government at low rates of interest.

# Federal Funds Rate – Last 5 Years

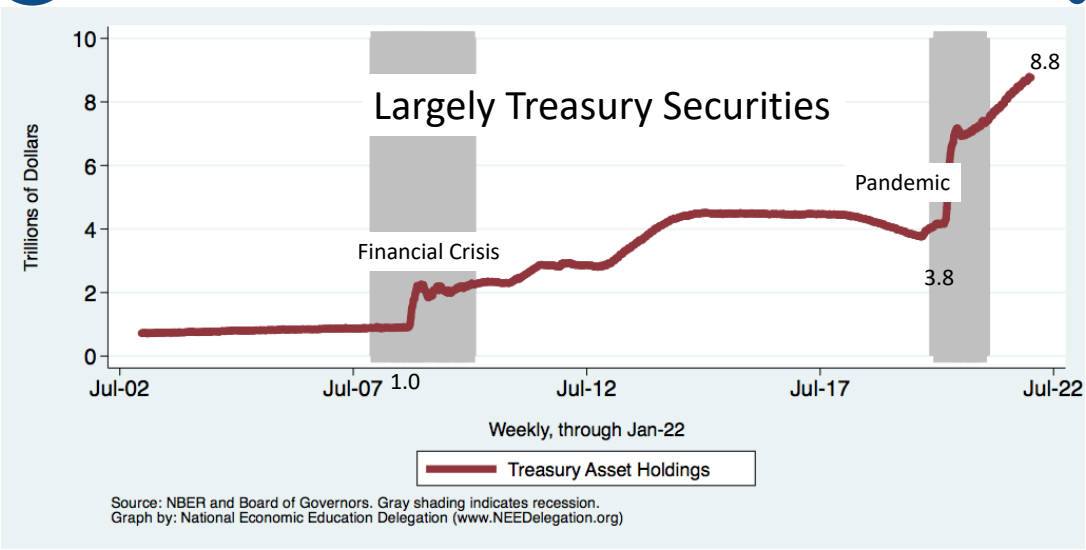


## Federal Funds Rate



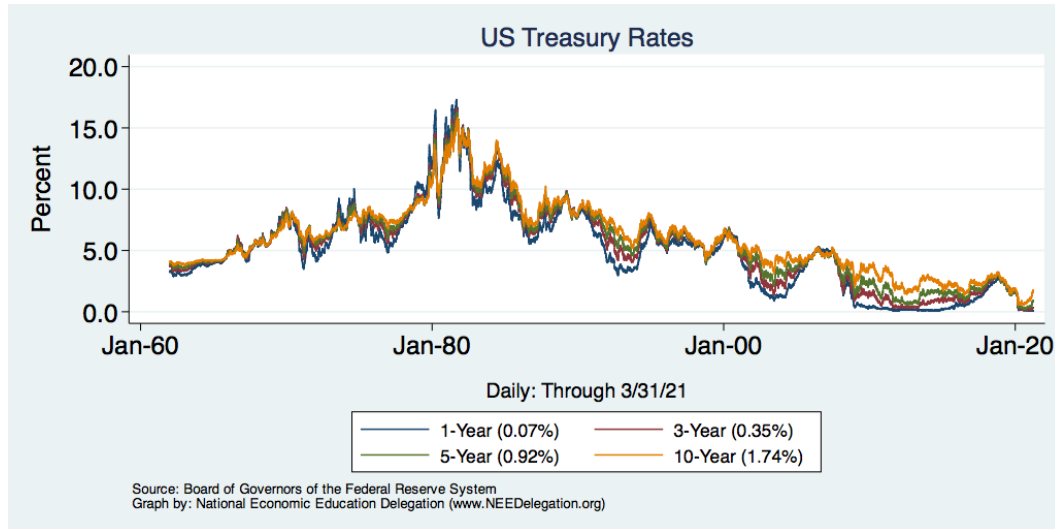
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## Federal Reserve Assets



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## Treasuries – Low Interest Rates



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## A “K-shaped” recovery?

### Executive Summary

- Those with financial wealth/residential real estate have seen its value grow in excess of inflation.
- High income earners (>60k/yr) have largely kept their jobs;
  - middle and low income earners have depressed employment rates
- Women are disproportionately exiting labor force.
- Food insecurity has been very high.



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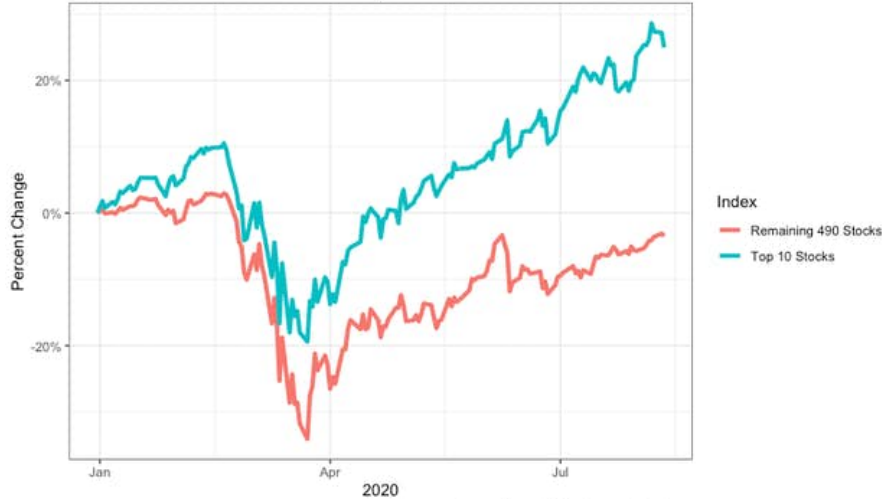
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# Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance

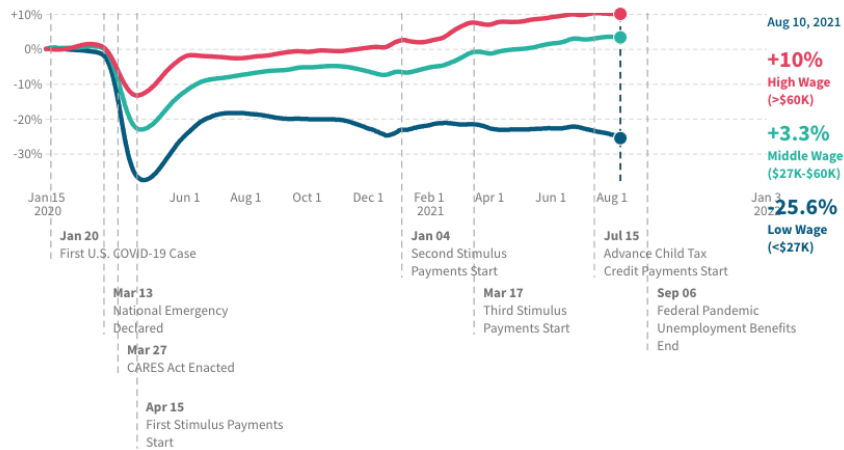


Source: TrendPlaybook.com, Bloomberg

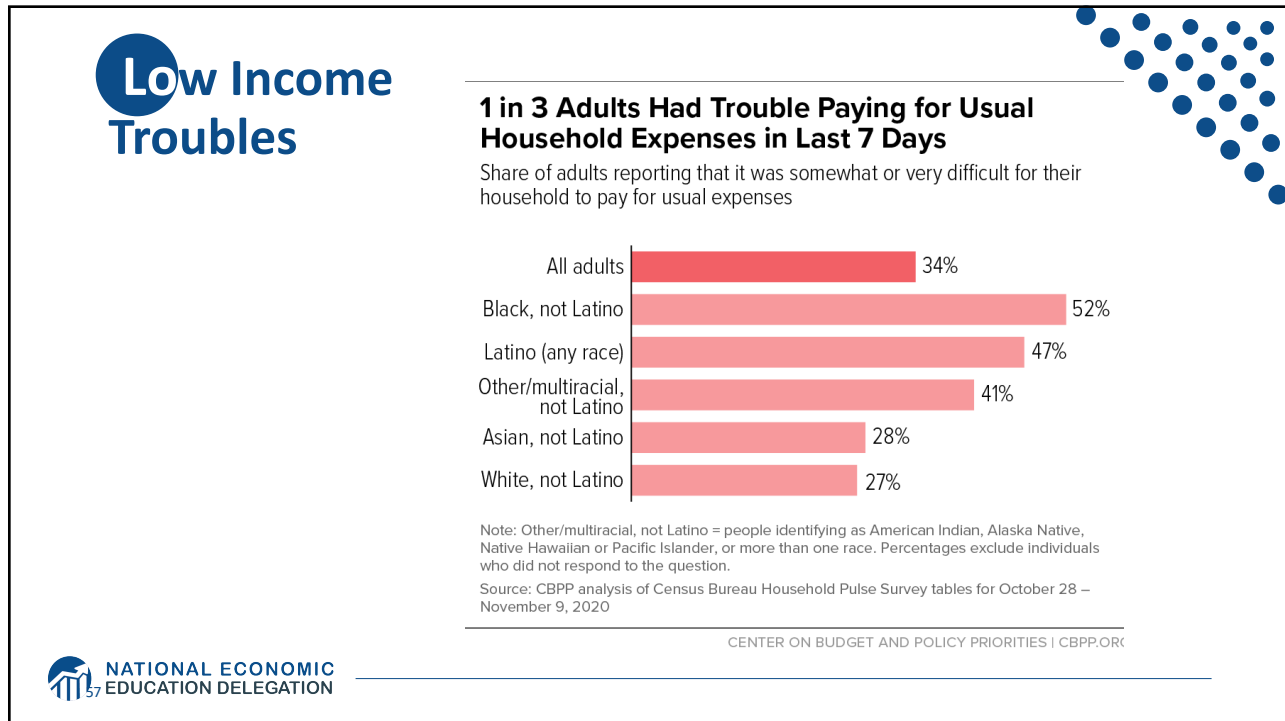
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# Low Wage Employment is Lagging

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).



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## Coronavirus and Inequality

- Resources to weather the storm.
- Racial inequities.
- Educational inequities
- Telecommuting
- Low wage jobs are at risk.

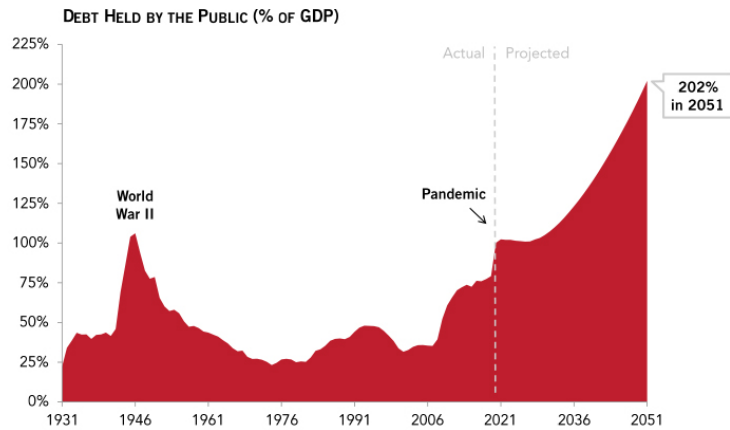
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# A Problem Exacerbated...Not Created

**PETER G. PETERSON FOUNDATION** The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.  
© 2021 Peter G. Peterson Foundation

PGPF.ORG

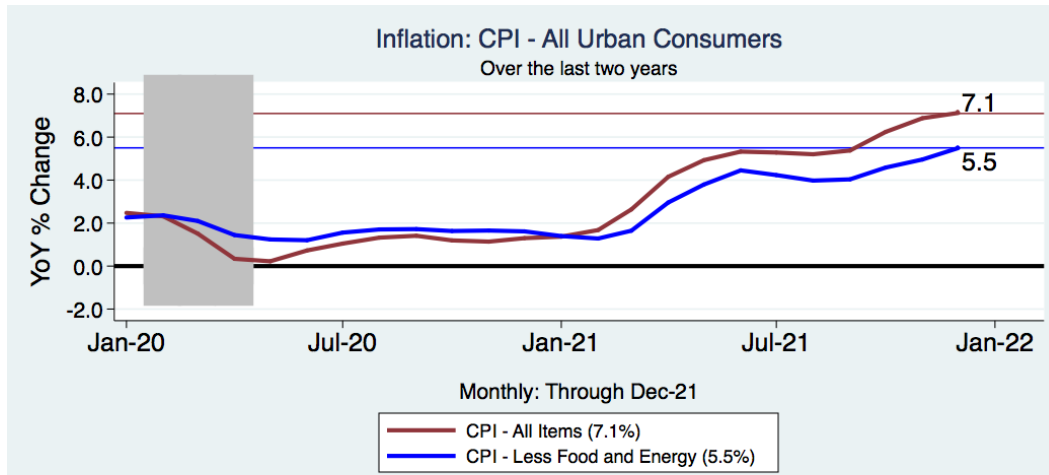
# Current Deficits in Perspective:

- **The budgetary cost of the 3 major fiscal packages during the pandemic was over \$5 trillion. As a share of the economy this is almost the size of war production in 1943.**  
*(Romer, Brookings Papers on Economic Activity, 3/25/2021.)*
- **Since March of 2021, Fed net holdings of US Treasury bonds have increased by \$2.7 trillion.**

# Inflation

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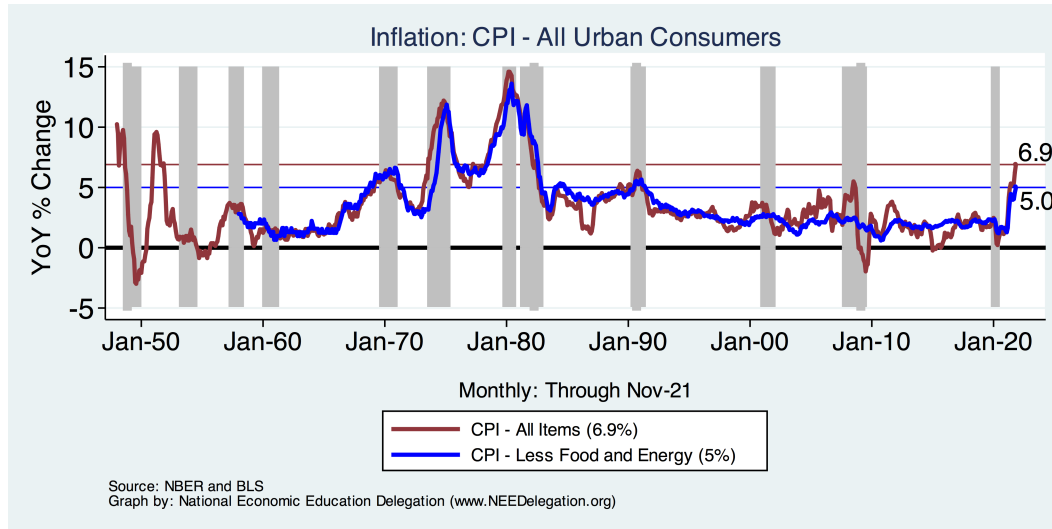
## Inflation – Climbing! Should we worry?



Source: NBER and BLS  
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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## Inflation in Historical Perspective



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## What Index to Follow: CPI or PCE?

- **CPI is the headline statistic, followed by most newspapers.**
  - Allows more granularity – ability to look at specific products.
- **PCE is the one followed by the Fed.**
  - Why?
    - Accounts for short term fluctuations in consumer purchases.
    - Based on more reliable data.
- **Fed generally pays attention to the core inflation #s.**
  - Excluding food and energy.



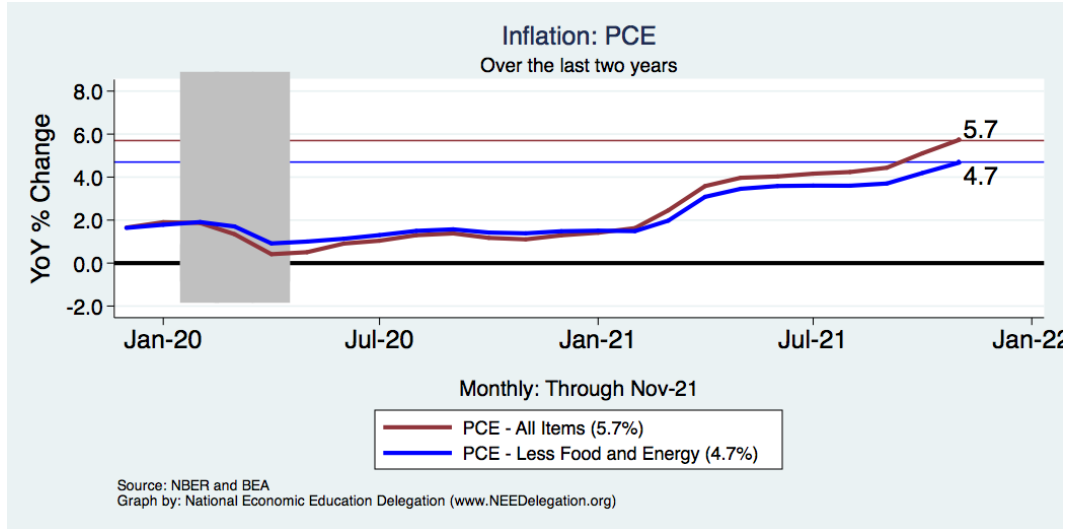
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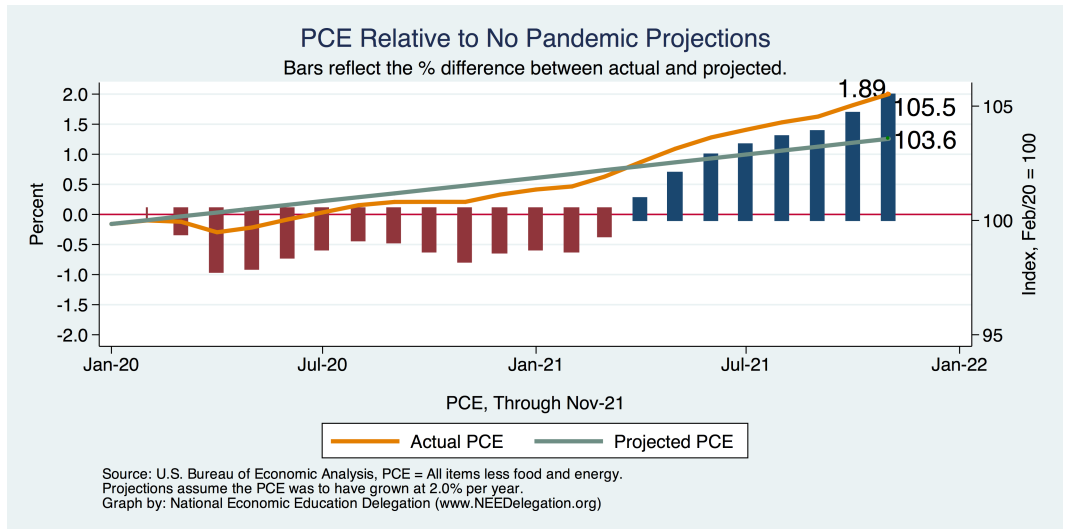


## Inflation – The Fed’s Metric! Should we worry?



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## Inflation – PCE and Fed Suggest: I don't know.



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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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67 Source: Investopedia

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## We're Buying Mostly ... Stuff

Real monthly household spending at an annualized rate, trillions of chained 2012 dollars

### a. Goods

Household spending on goods

Pre-pandemic trend

April 2021 11% above trend

### b. Services

Household spending on services

Pre-pandemic trend

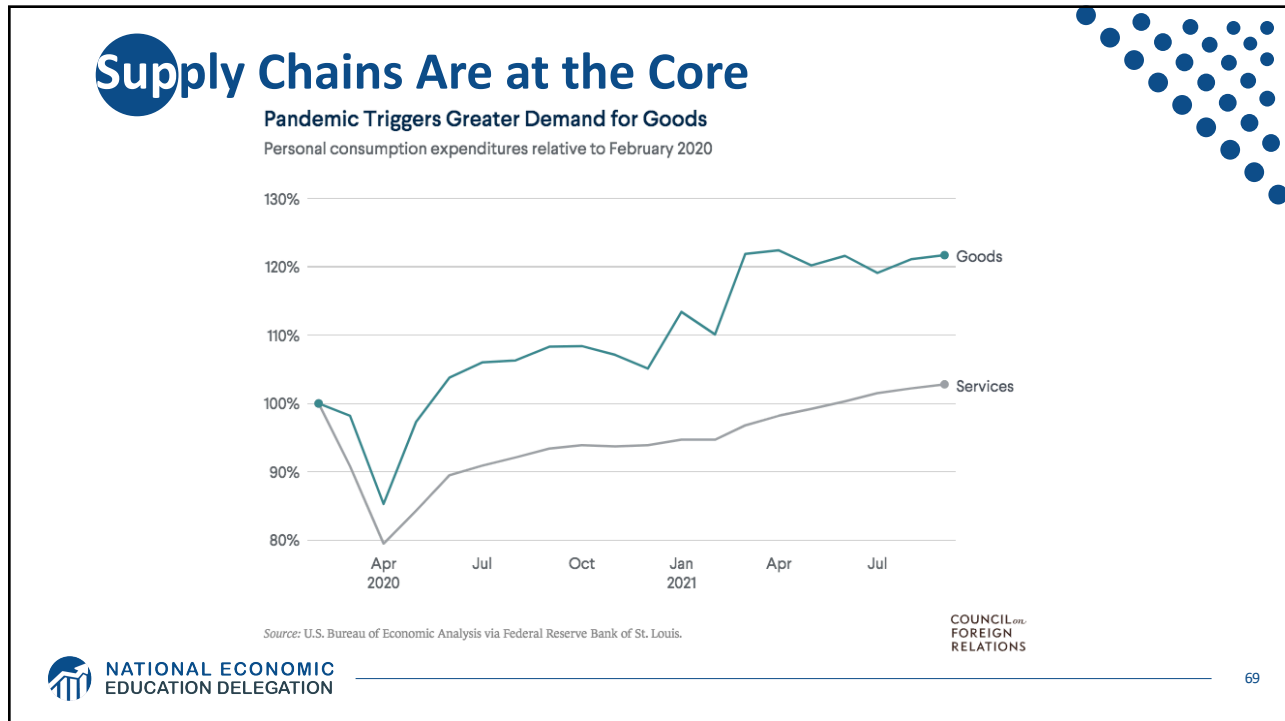
April 2021 7% below trend

Demand-Pull

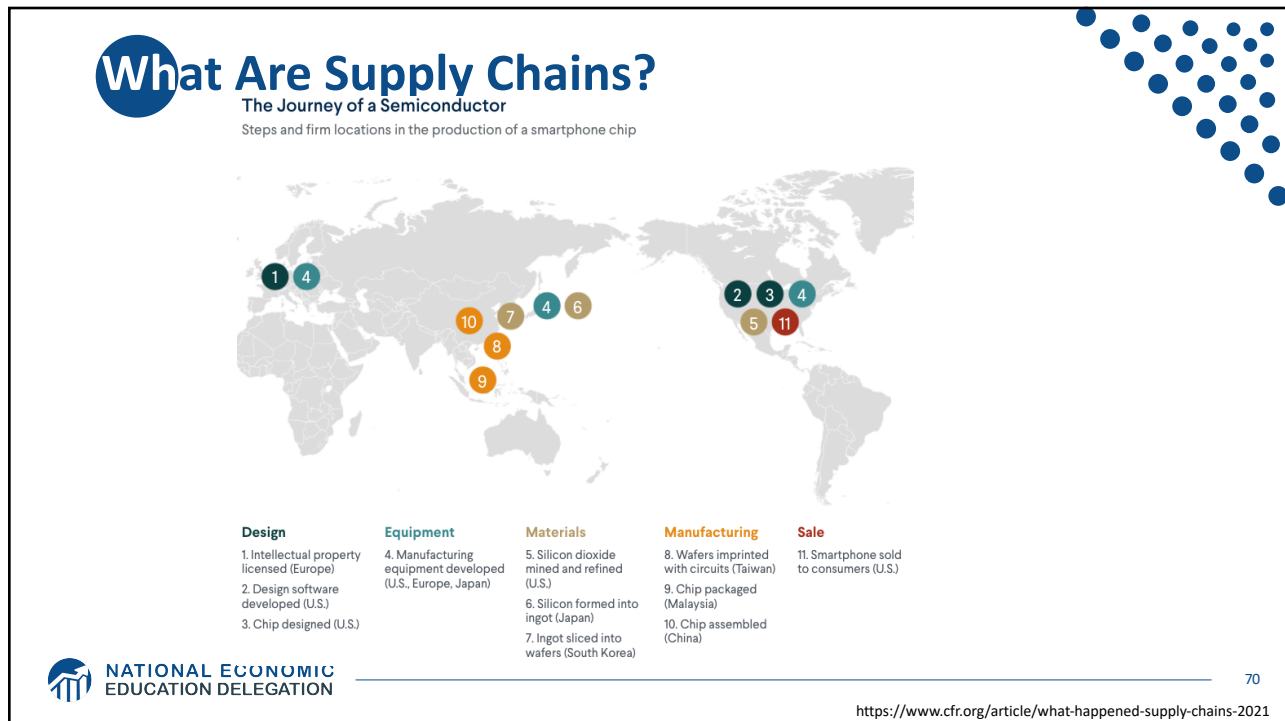
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68 Source: Jason Furman, PIIIE

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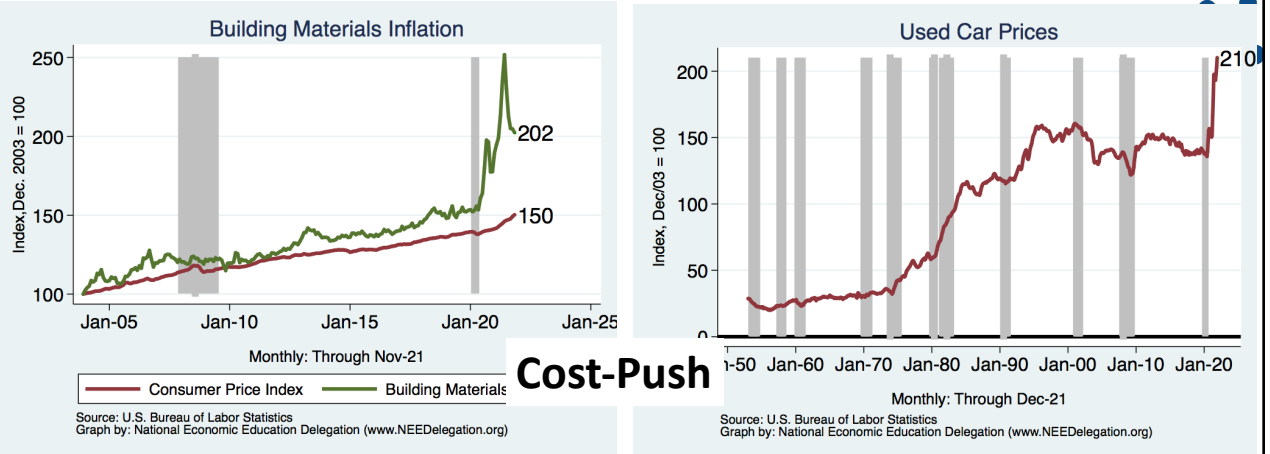


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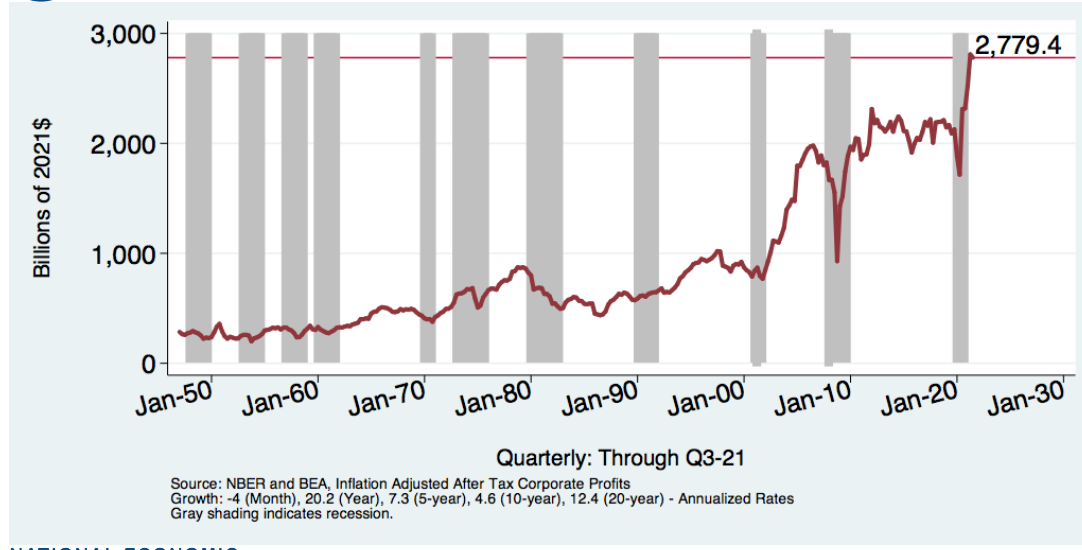
# Inflation: Concentrated



## Cost-Push

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# Corporate Profits...Adding to Inflation?



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## Puzzle: Is Inflation Permanently Higher?

- **Fed: Price increases may be:**
  - 1) rebound from low prices last year;
  - 2) temporary due to supply chain disruptions; e.g., used cars, bldg supplies.
  - 3) influenced by rising wages in the future.
- **On the other hand: We are close to full employment and monetary and fiscal policies are very easy.**
- **Nobody knows, but Fed has wavered in its optimism.**



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## Inflation: Critical Issues

- **Inequities**
  - Price changes vary wildly across goods.
  - How inflation hits you depends on what you buy and your level of income.
    - o Some evidence that lower income individuals face higher inflation.
- **Online inflation is much lower than the CPI**
  - Estimates suggest about 2% lower.
- **Both have implications for the policy response.**
  - Safety net? Antitrust action?

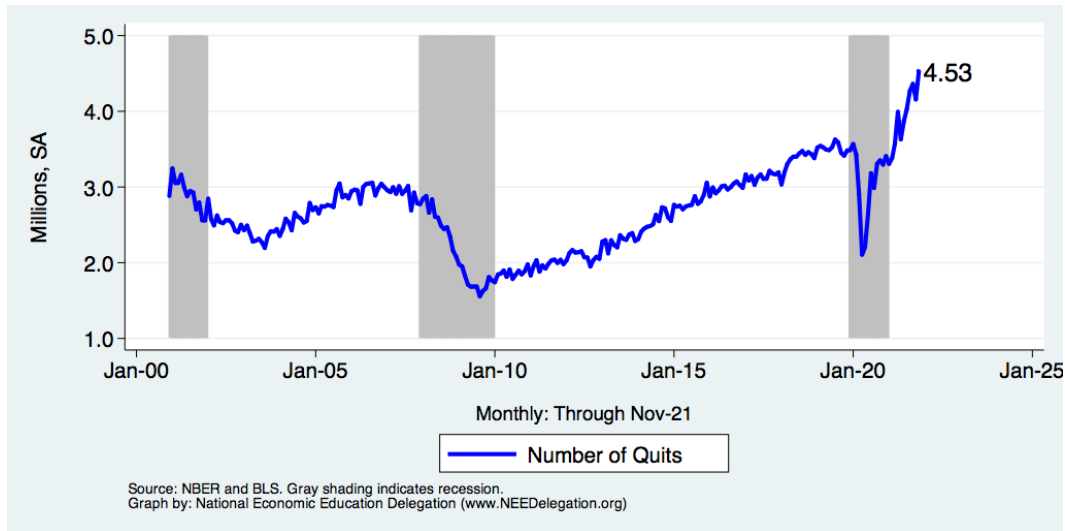


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# The Great Resignation

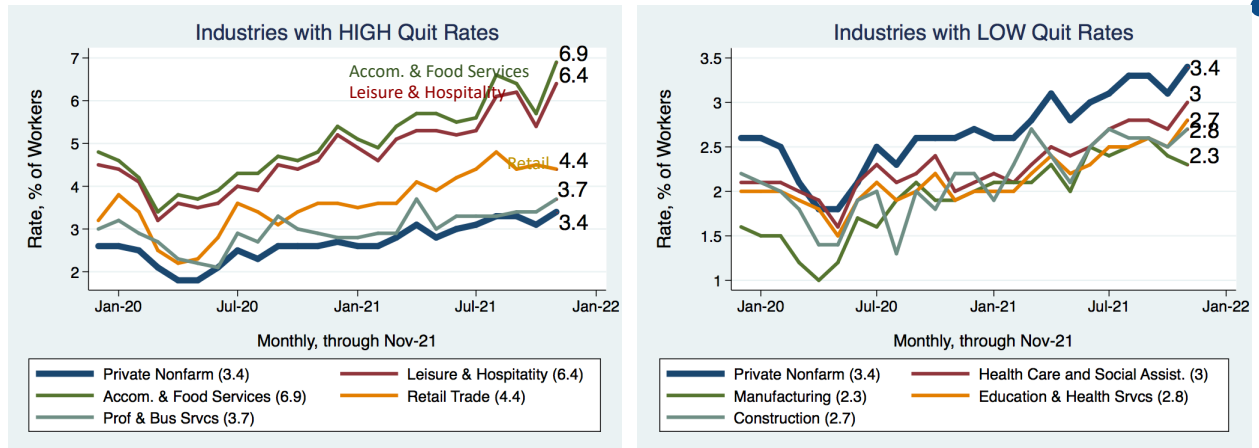
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## Quits Are High! The Great Resignation



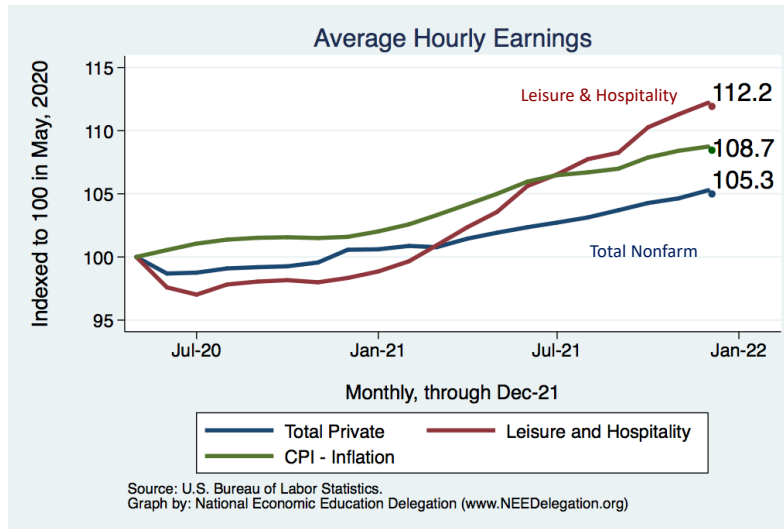
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# Quits – Rising, but More in Some Industries



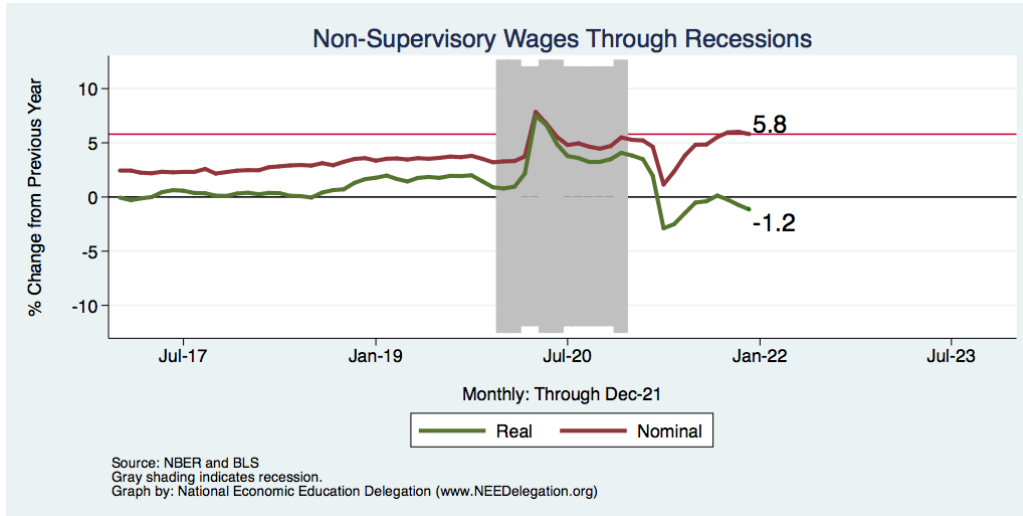
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# This is Happening Despite Rising Wages



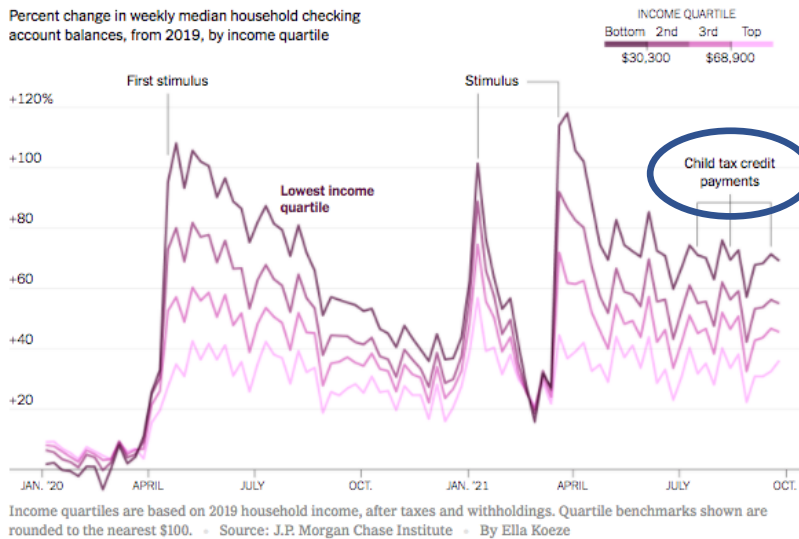
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# Inflation Adjusted Wages Are Falling



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# Declining Resources May Change Things



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## Structural Changes?

- **Pandemic has been an accelerant.**
  - Not a change agent.
- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**
- **Wealth concentration**
- **Industry concentration**
- **Automation**



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## Why so Excited About Telecommuting?

- **Productivity at home appears to be really high during pandemic.**
  - Nothing else to do.
  - Short term – corporate culture and new hires – visibility to the boss – camaraderie.
- **CEOs are salivating over reduced Comm RE costs.**



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## Telecommuting – Will it Stick?

- **Working from home is ALWAYS less productive than working in the office.**
  - But the gap has shrunk because of technology.
- **In the interest of workplace productivity, employers are likely to allow more working from home.**
  - Increased in-office moral and hence productivity.
  - But not 100% or even 50%. How much?
- **Has important implications for real estate.**



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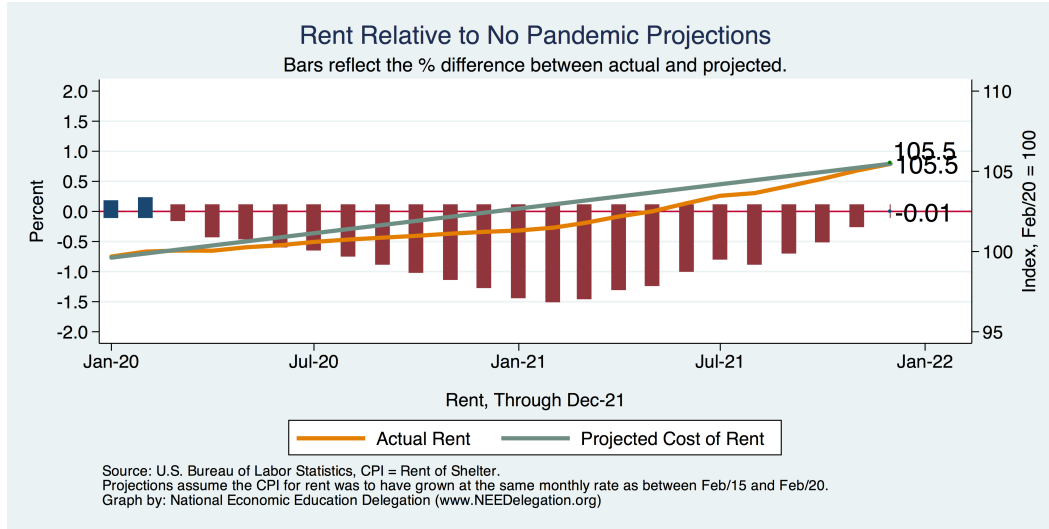
## Residential Real Estate

- **Rental markets**
  - Eviction moratoria are over.
  - Not enough in the American Rescue Plan.
  - Reports of rents rising significantly.
- **Owned homes**
  - Depends on location.
    - San Francisco – recovering.
    - Maine – continued strength.
  - Size matters: large homes are selling particularly well.

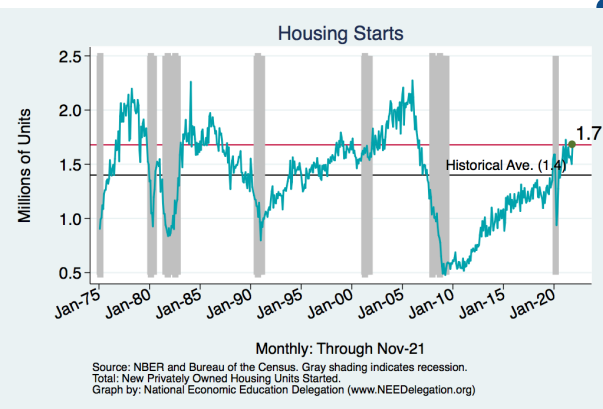
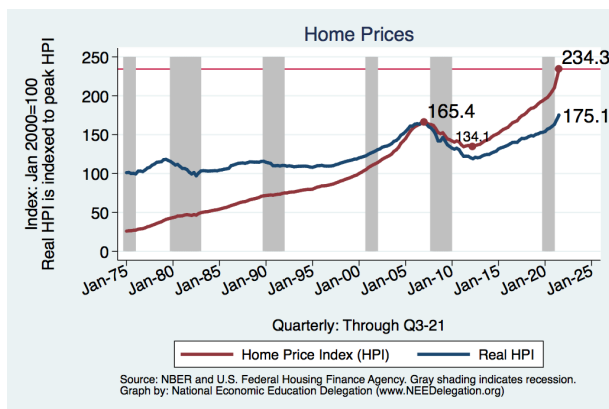


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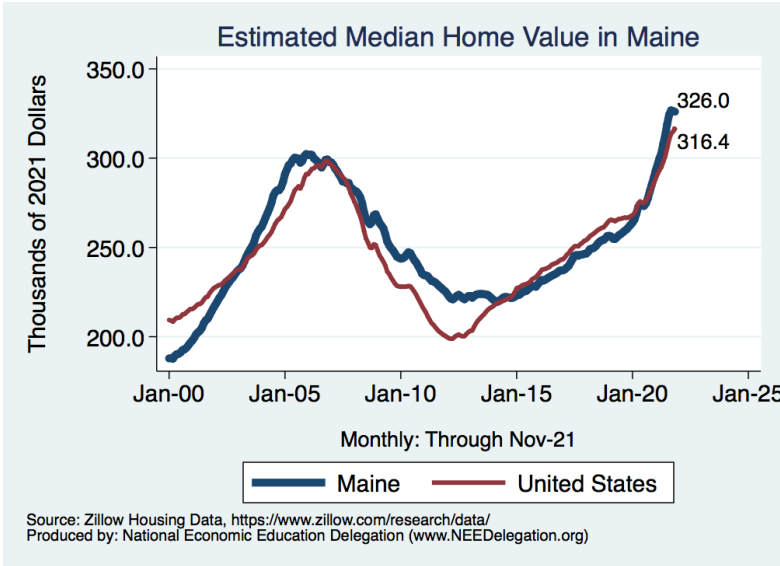
# Inflation – Cost of Rent



# Home Prices and Housing Starts

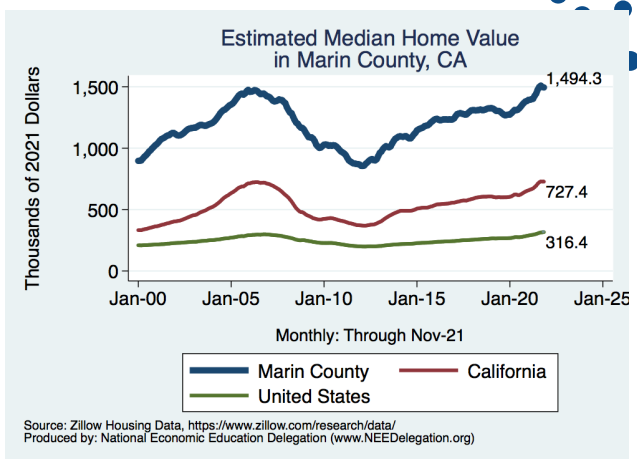
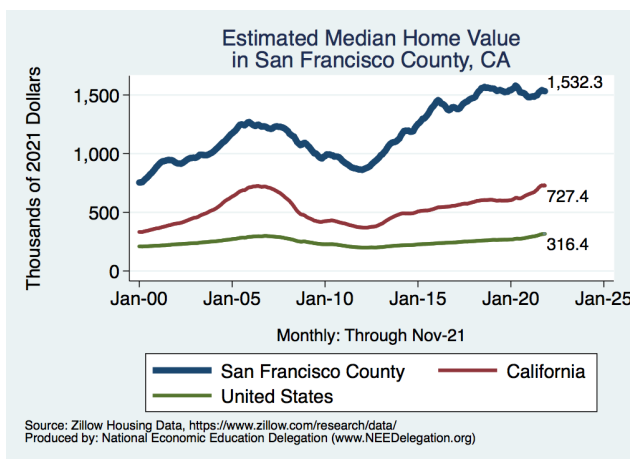


# Real Estate Prices



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# RE Experiences Differ!



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## Primary Topics Covered

- **GDP**

- Recovered the decline, but not where it should be.
- Won't recover previous forecast until late 2022.

- **Employment**

- Still down 8.4 million jobs relative to forecast. (3.5 million relative to Feb/20).
- Labor force is 2.5 million smaller than at the beginning of the pandemic.
- Rising wages are not enticing low-wage workers back to work.

- **Inflation**

- Going to be high for a while, but transitory – maybe?



## Conclusion

- **Recovery is well underway, but may be slowing.**
- **GDP will likely have expanded 5% percent in 2021, 3-4% in 2022.**
- **2021 was an odd year.**
  - GDP recovered significantly.
  - Workers attained the upper hand.
  - Supply chains broke.
  - Inflation surged.
  - The economy rebuilt itself.
- **Biggest problems:**
  - Supply chain bottlenecks.
  - Labor force participation.



## Best Measures of Progress

- INFLATION – getting it under control.
- REAL WAGES– need to see progress.
- WORKFORCE PARTICIPATION – need growth here to get GDP growth.

Pay no attention to the unemployment rate.



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## Thank you!

## Any Questions?

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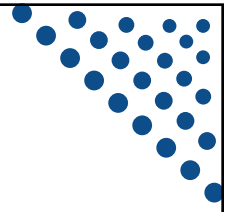
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