



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

University of Connecticut
Fall, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation

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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 (10/3): Economics of Immigration (Roger White, Whittier College)
- **Week 2 (10/10): US Economic Update (Jon Haveman, NEED)**
- Week 3 (10/17): Cryptocurrencies (Geof Woglom, Amherst College)
- Week 4 (10/14): Trade and Globalization (Avik Chakrabarti, UW-Milwaukee)



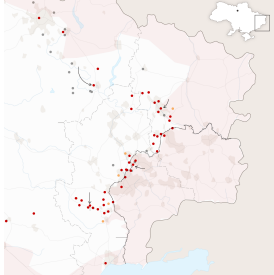
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Submitting Questions

- **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.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**




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US Economic Update

Jon Haveman, Ph.D.
NEED
October 10, 2022



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Credits and Disclaimer

- **This slide deck was authored by:**
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 - 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	333.2 Million
Labor Force	164.7 Million
Employment	152.7 Million
Gross Domestic Product (GDP)	\$25.2 Trillion
Income per Capita	\$64,953
Ave. Hourly Earnings	\$32.36



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Source: fred.stlouisfed.org

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U.S. Economy in Global Perspective

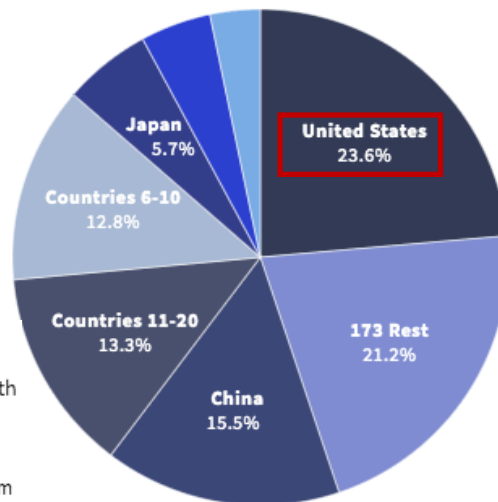
U.S. Nominal GDP:

\$21.538 trillion in 2019-Q4
\$19.637 trillion in 2020-Q2
\$25.248 trillion in 2022-Q2

% Share of the Global Economy

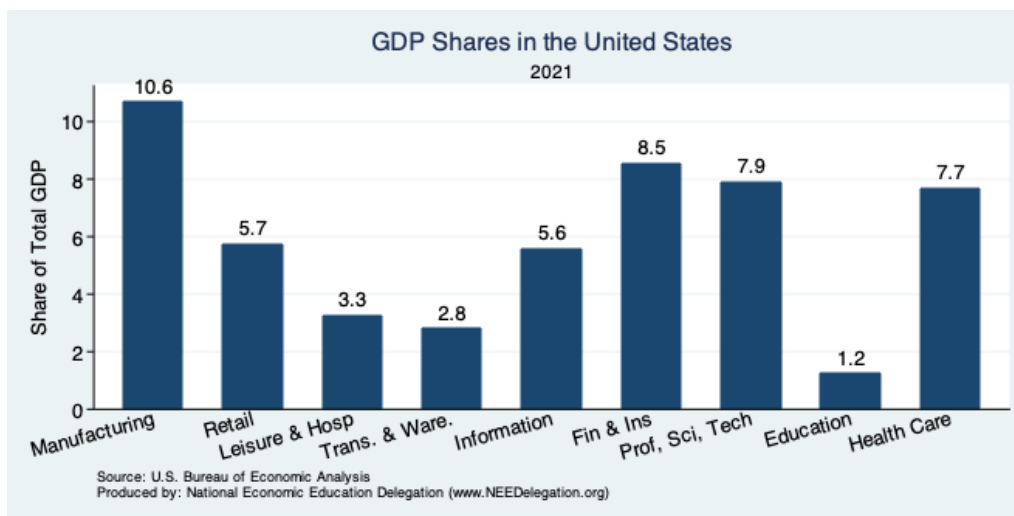
The 173 countries outside the top 20 make up less than a fourth of the total global economy.

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



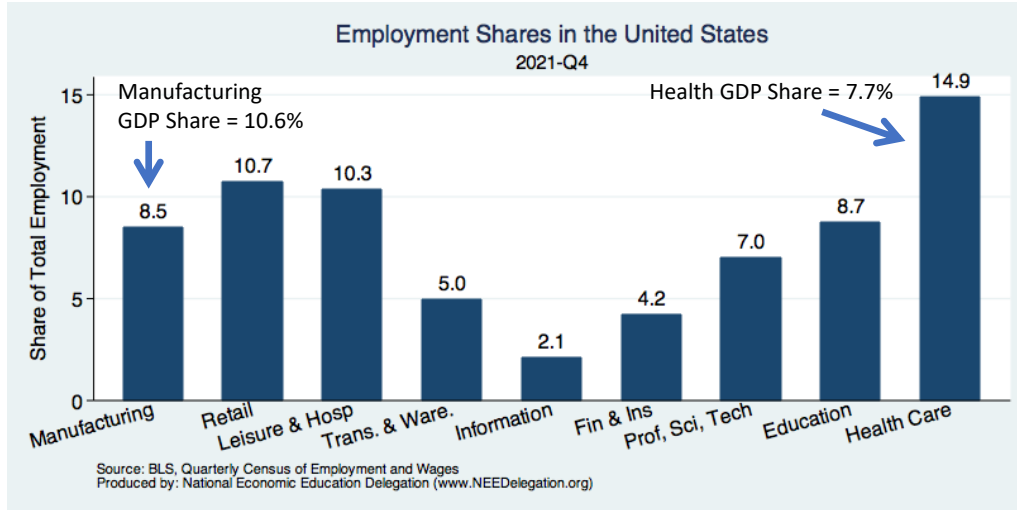
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Composition of the U.S. Economy: 2020



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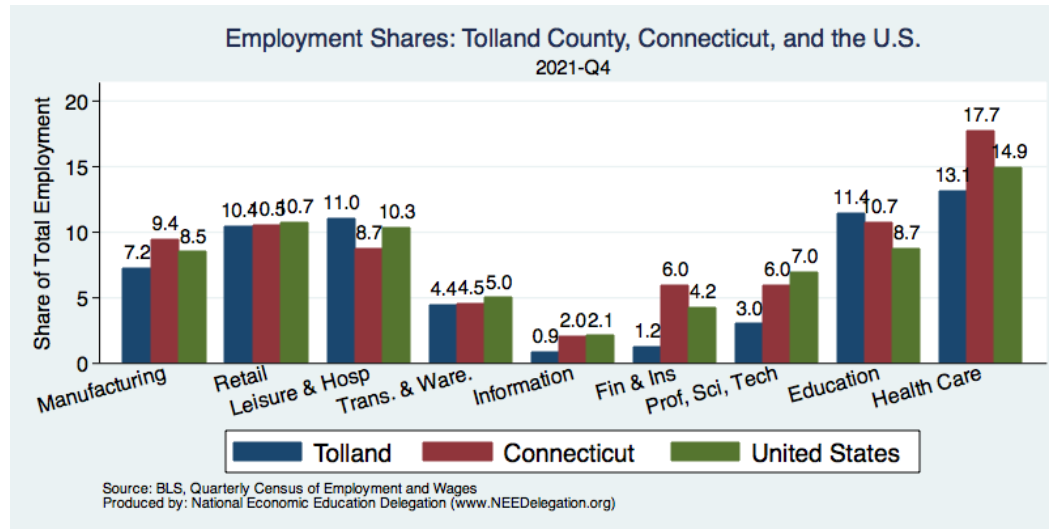
Composition of the U.S. Economy: Employment



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

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Employment in Tolland 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

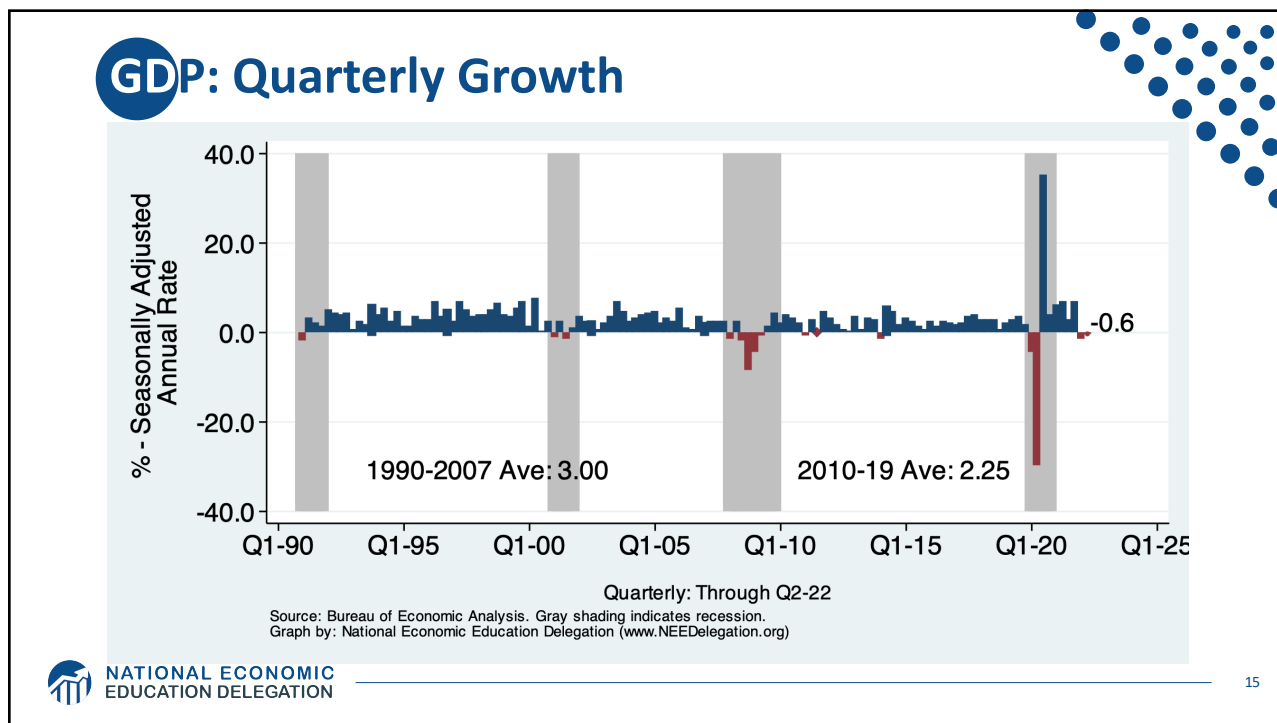
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.



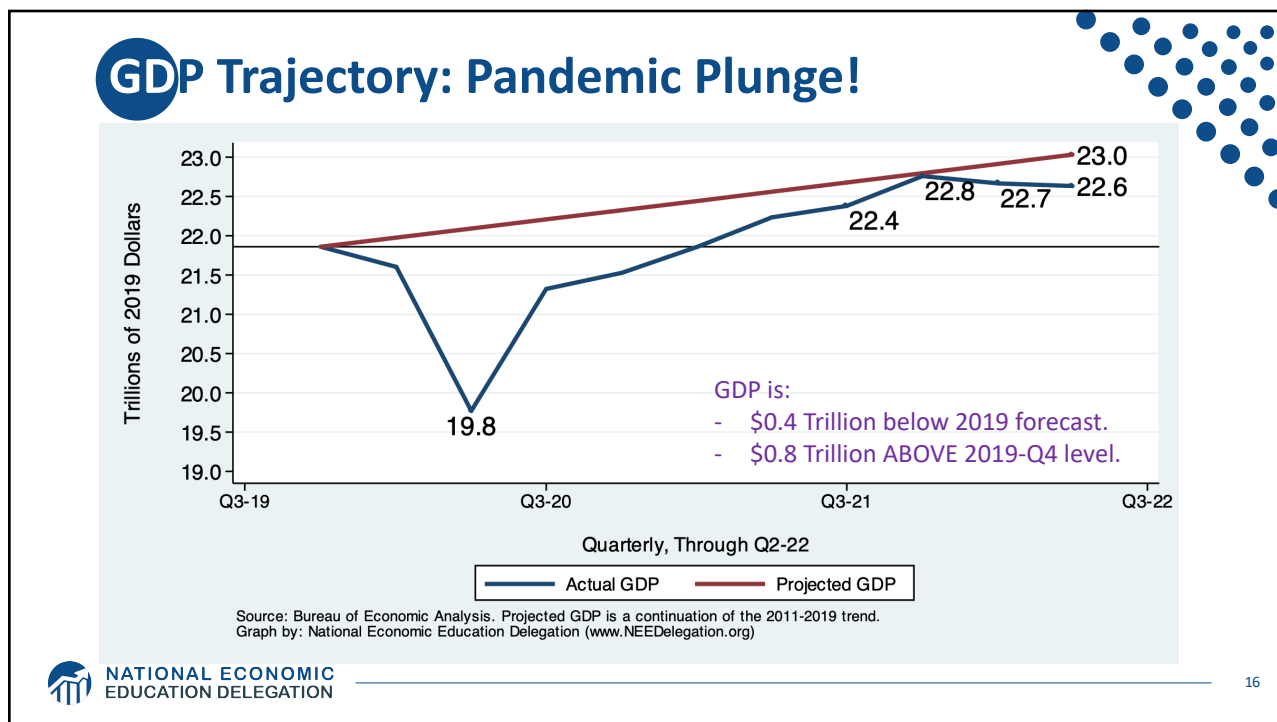
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What Is “Accounting” for the Decline?

- **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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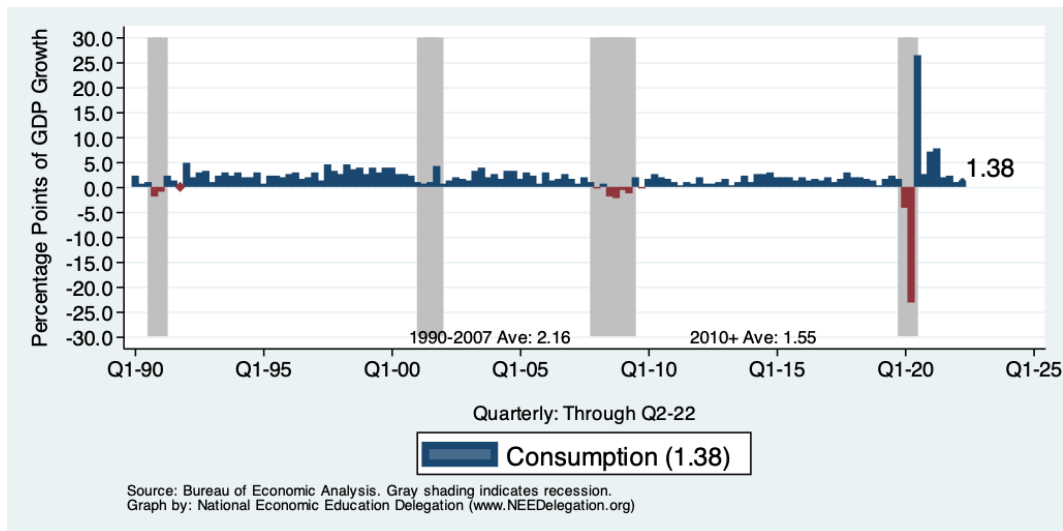
Recession? Two Quarters....

- **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.**



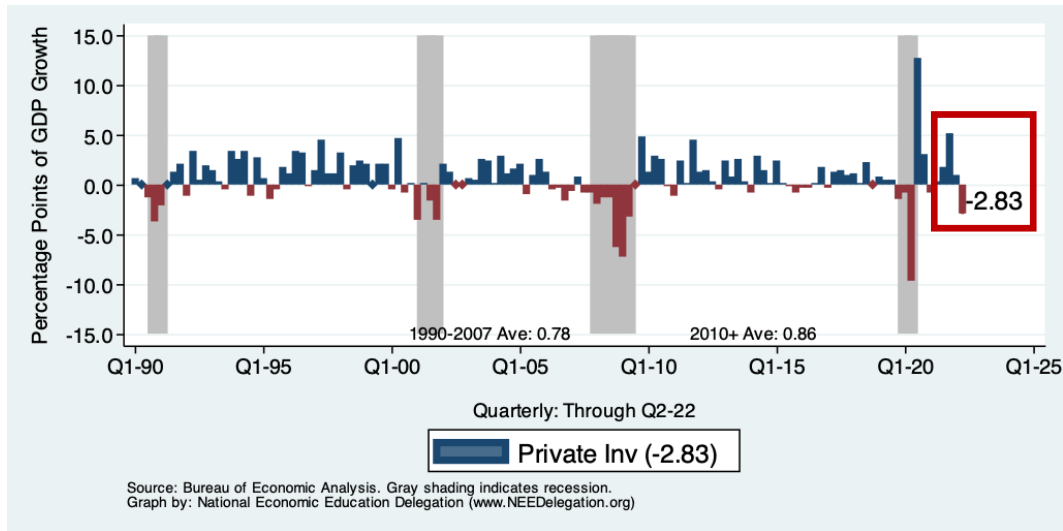
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Contribution to GDP Growth: Consumption



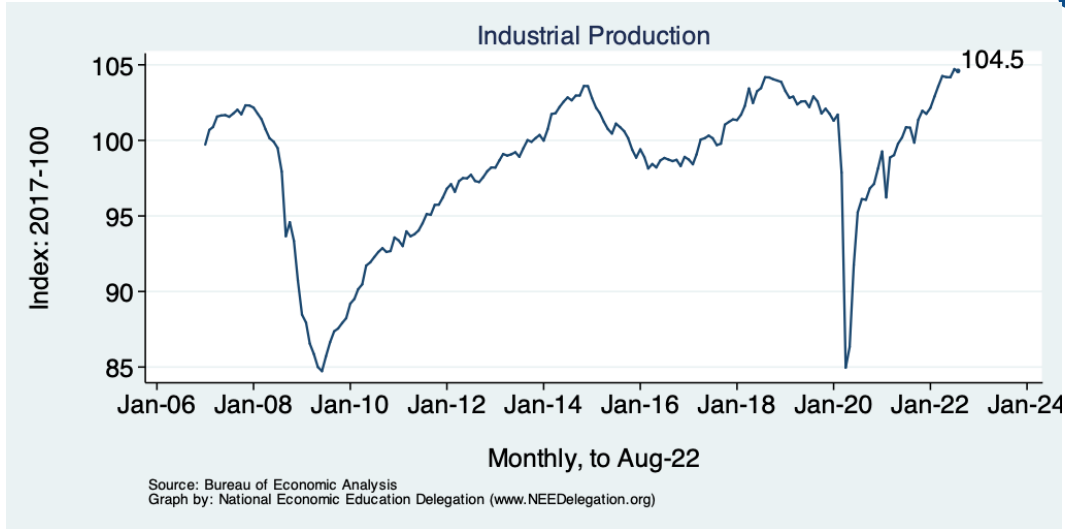
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Contribution to GDP Growth: Inventories



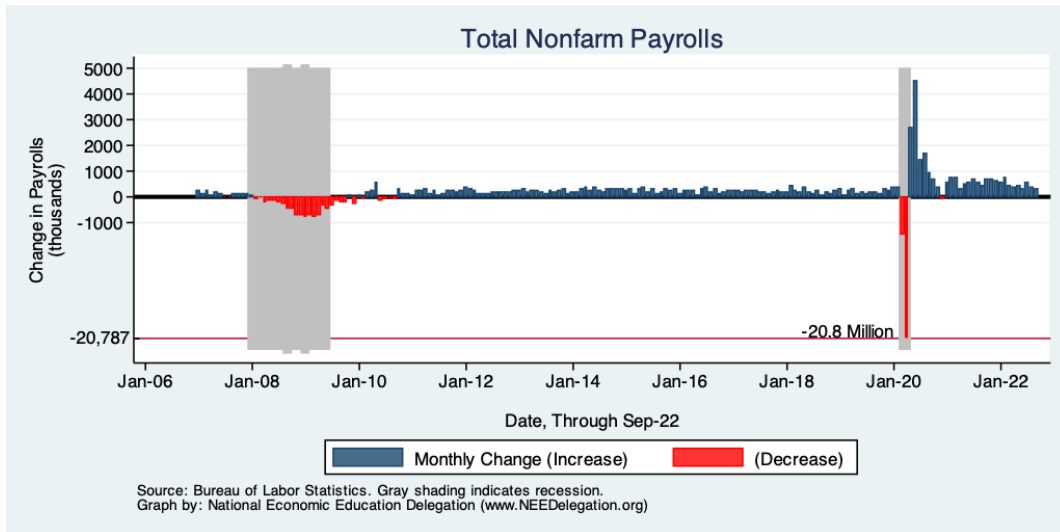
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Industrial Production (Manuf, Util, Mining)



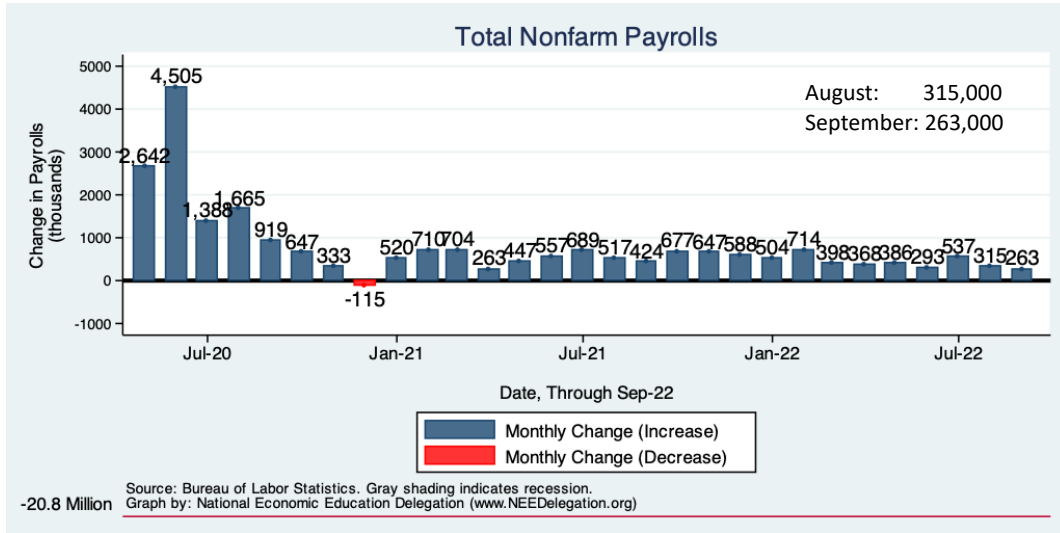
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Monthly Changes in Nonfarm Employment



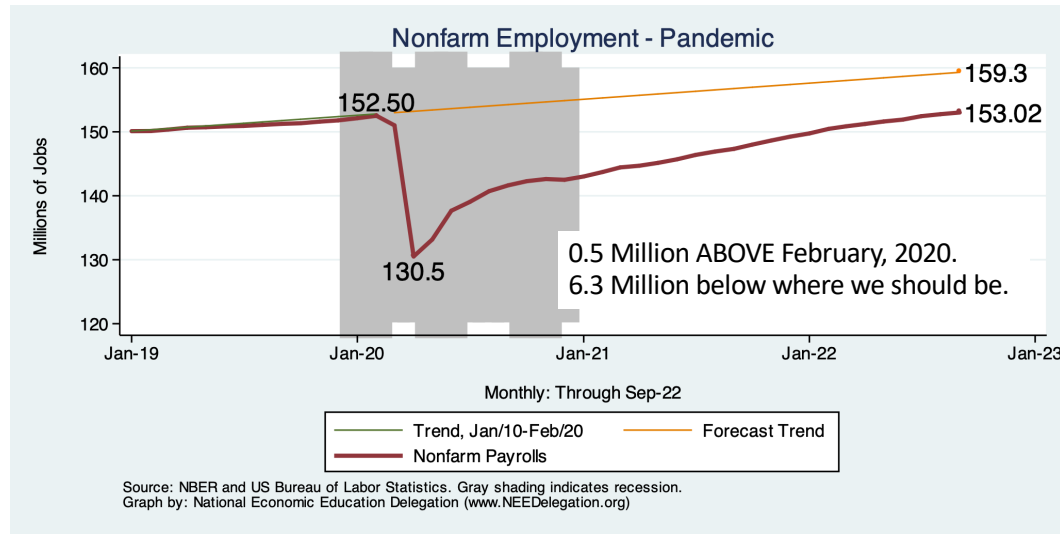
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Monthly Changes in Nonfarm Employment



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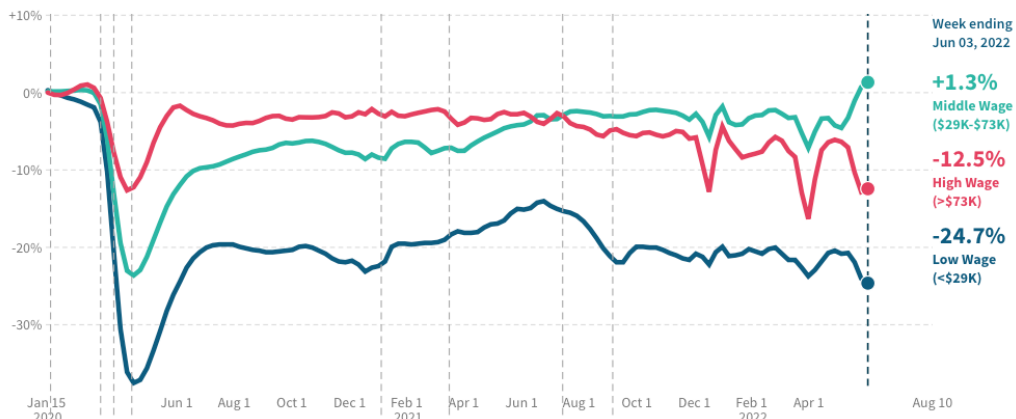
Employment Gap



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Low Wage Employment is Lagging

In the United States, as of June 03 2022, employment rates among workers in the bottom wage quartile decreased by **24.7%** compared to January 2020 (not seasonally adjusted).



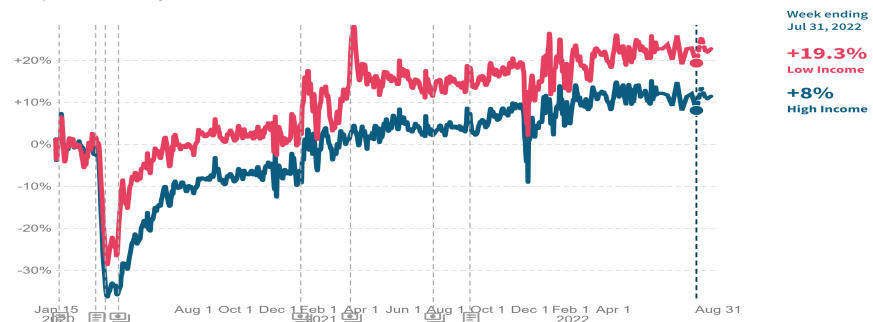
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Stimulus Payments Saved Low Wage Workers

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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.

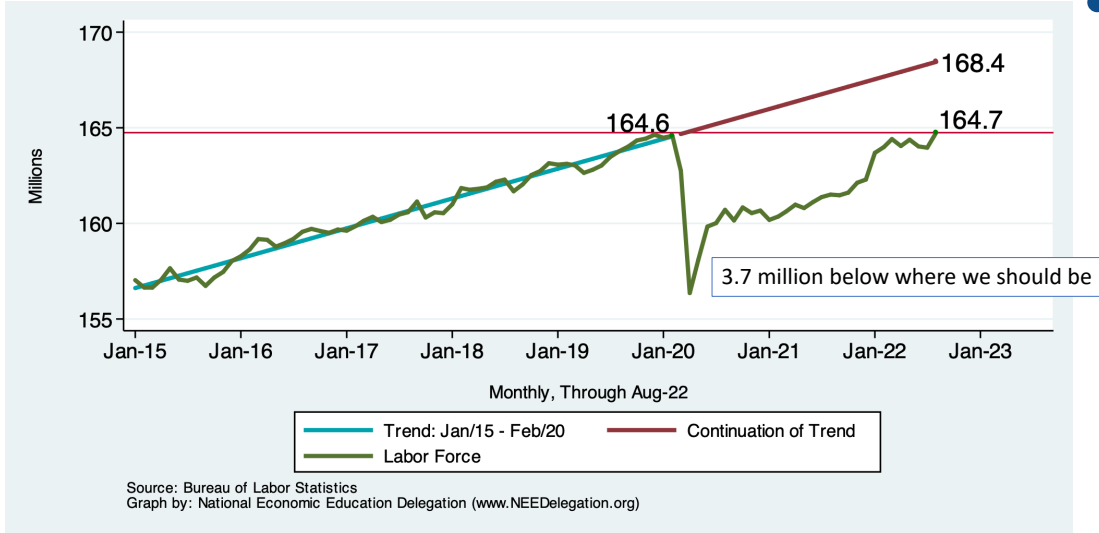


data source: Affinity

*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

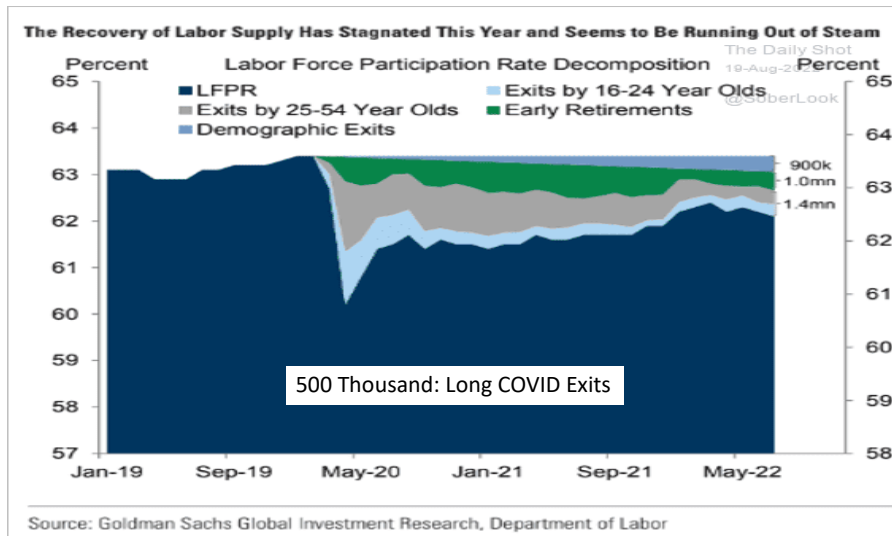
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Where Have All the Workers Gone?



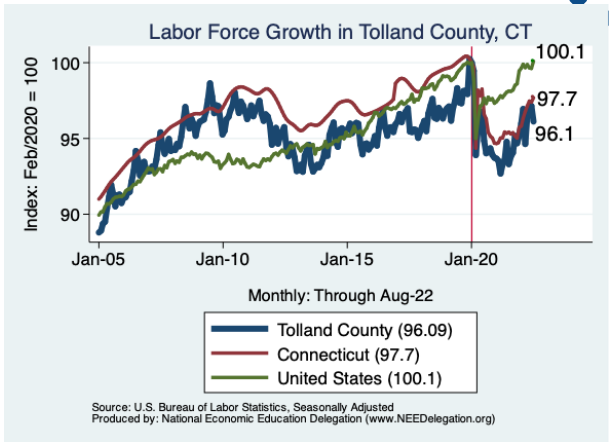
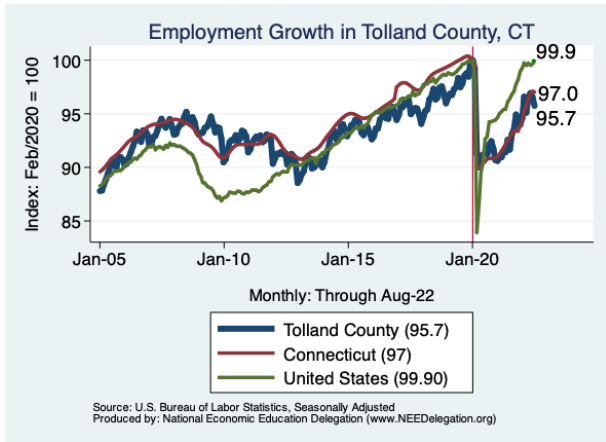
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Some Explanations

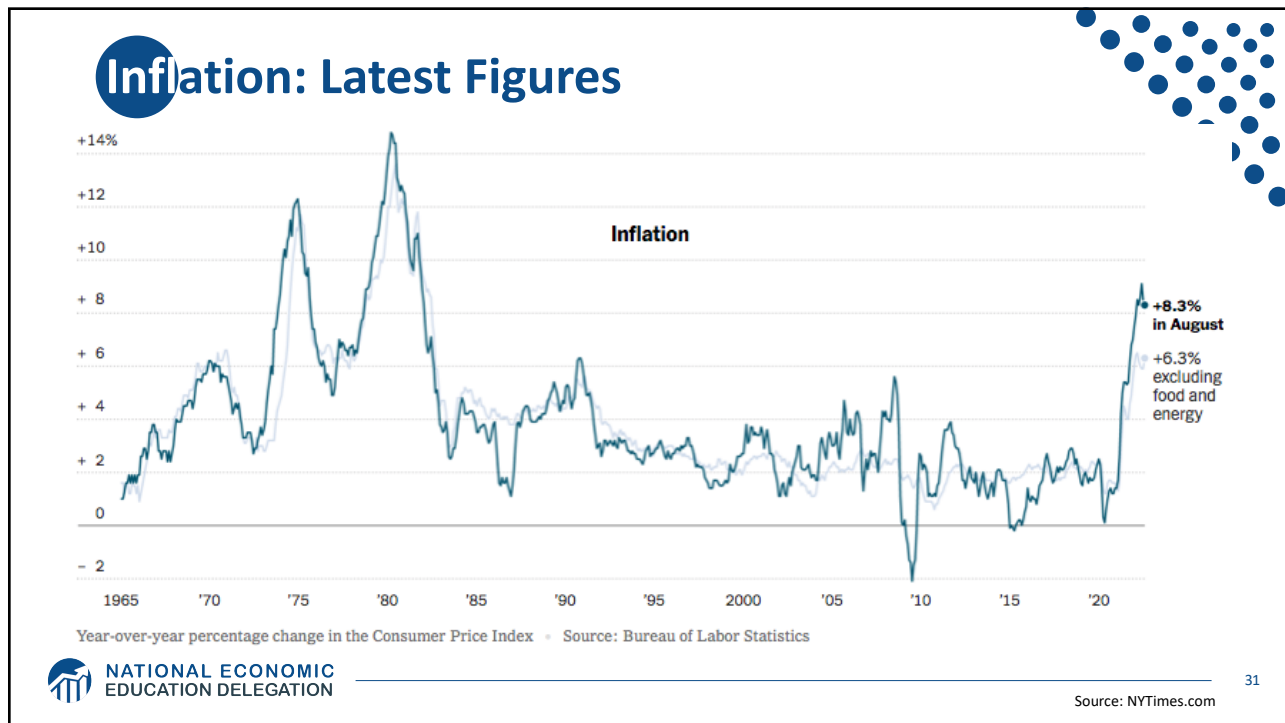


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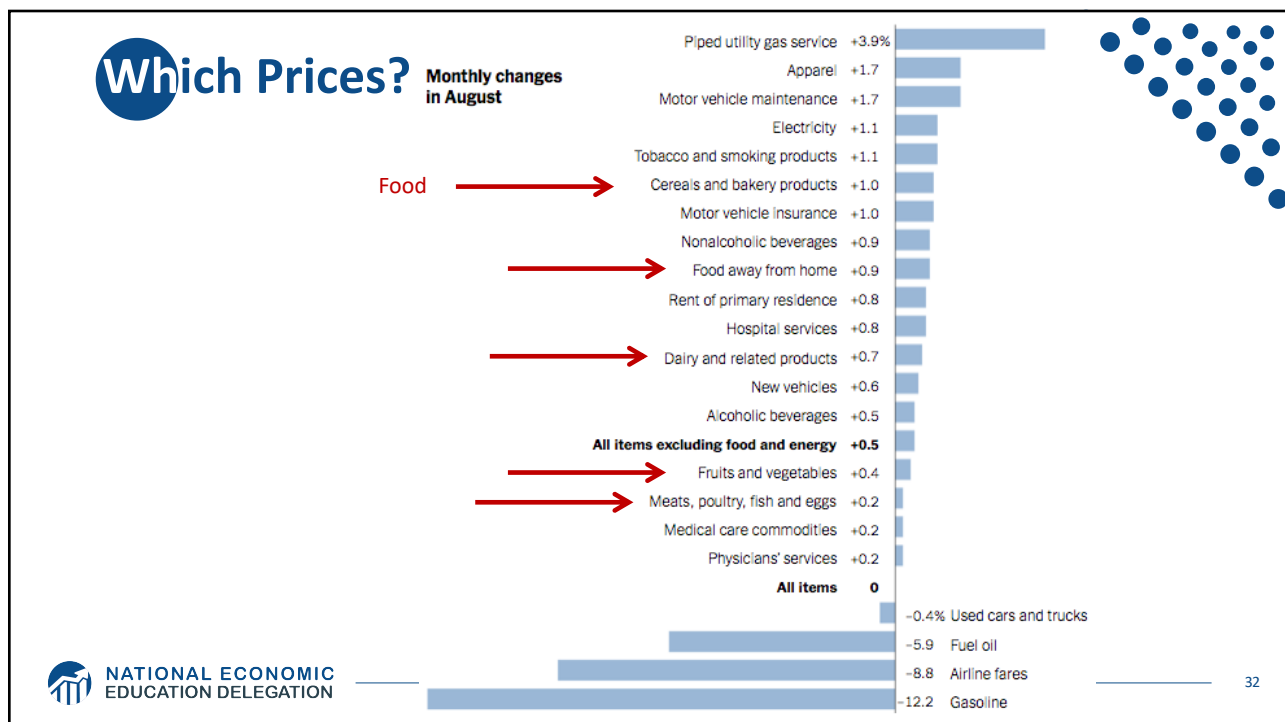
How Are Things Where You Are?



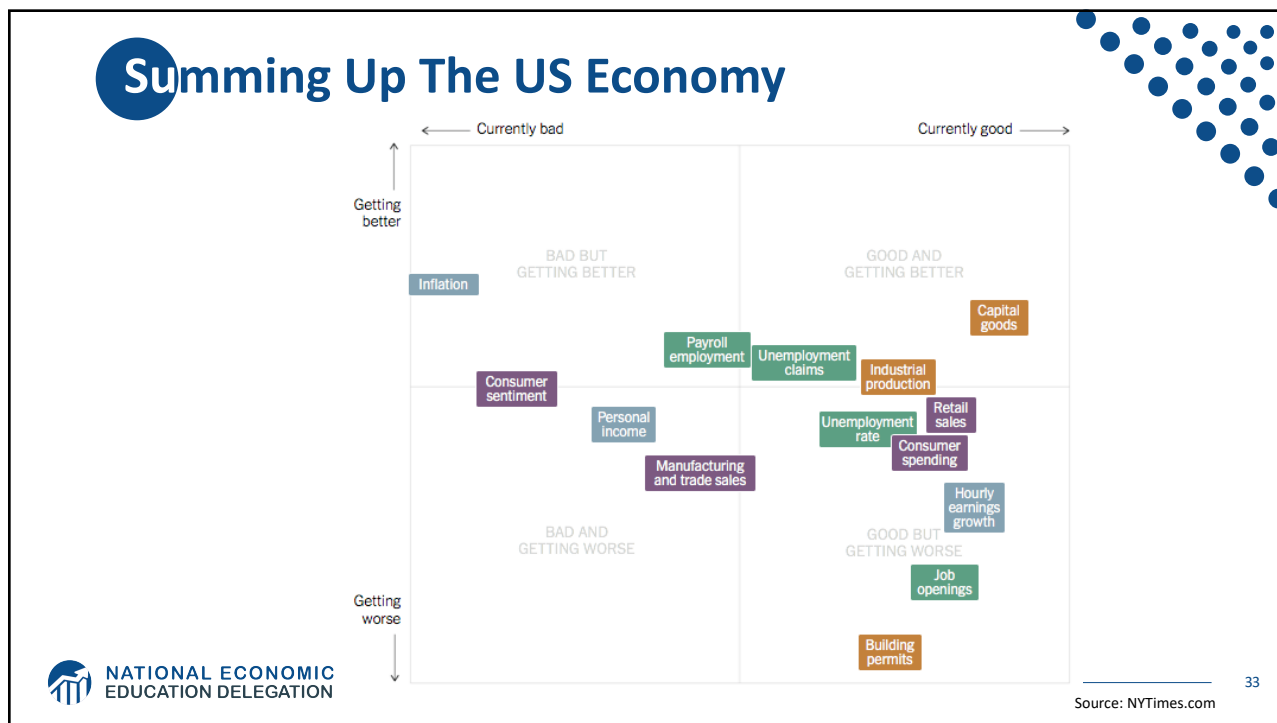
Inflation



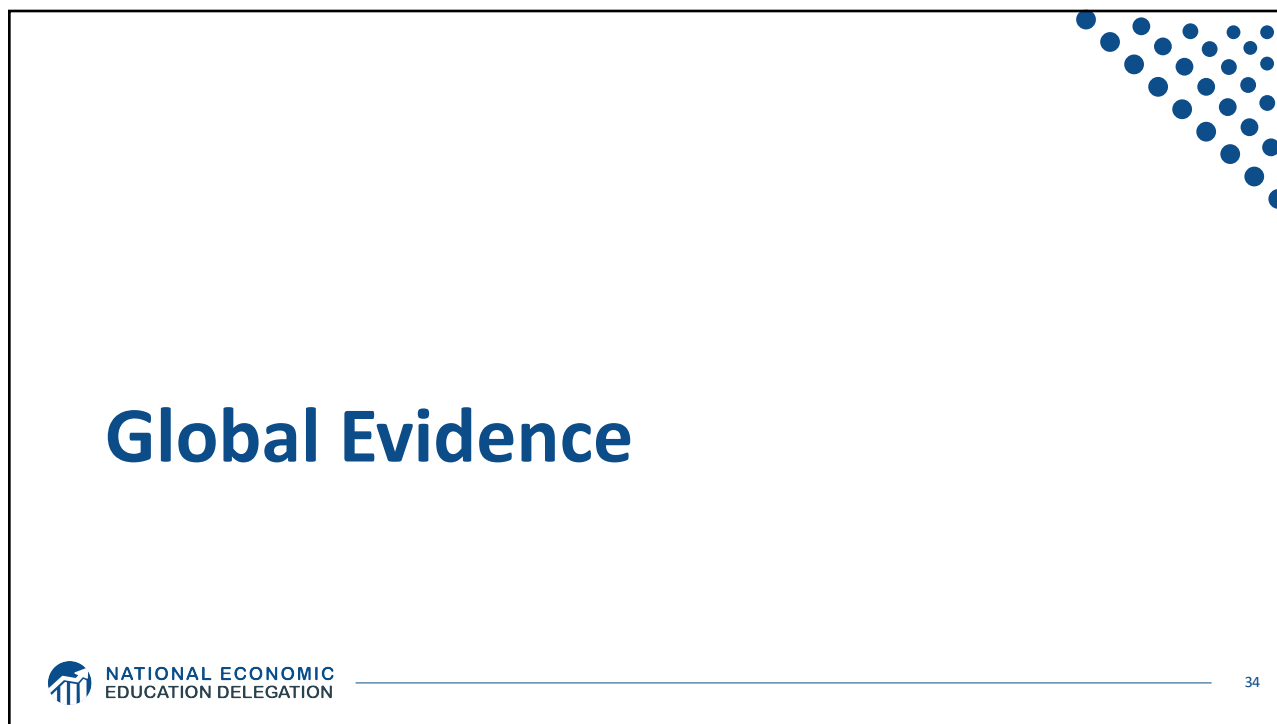
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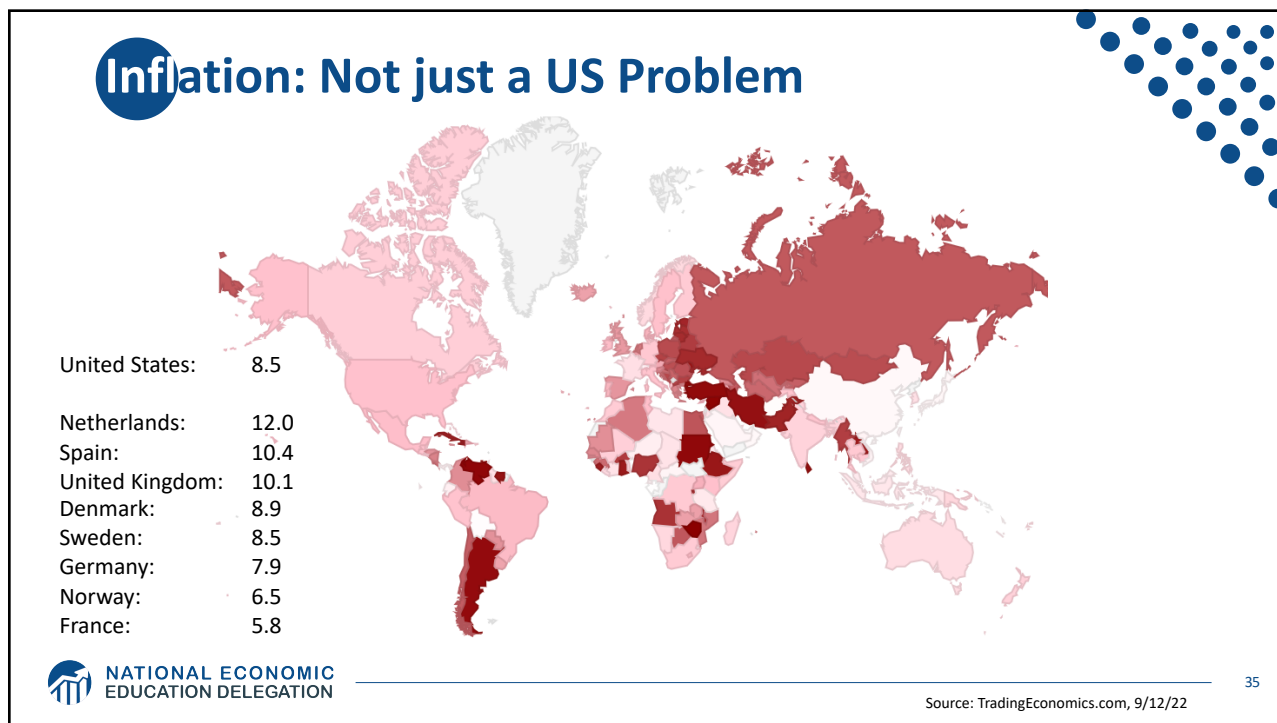
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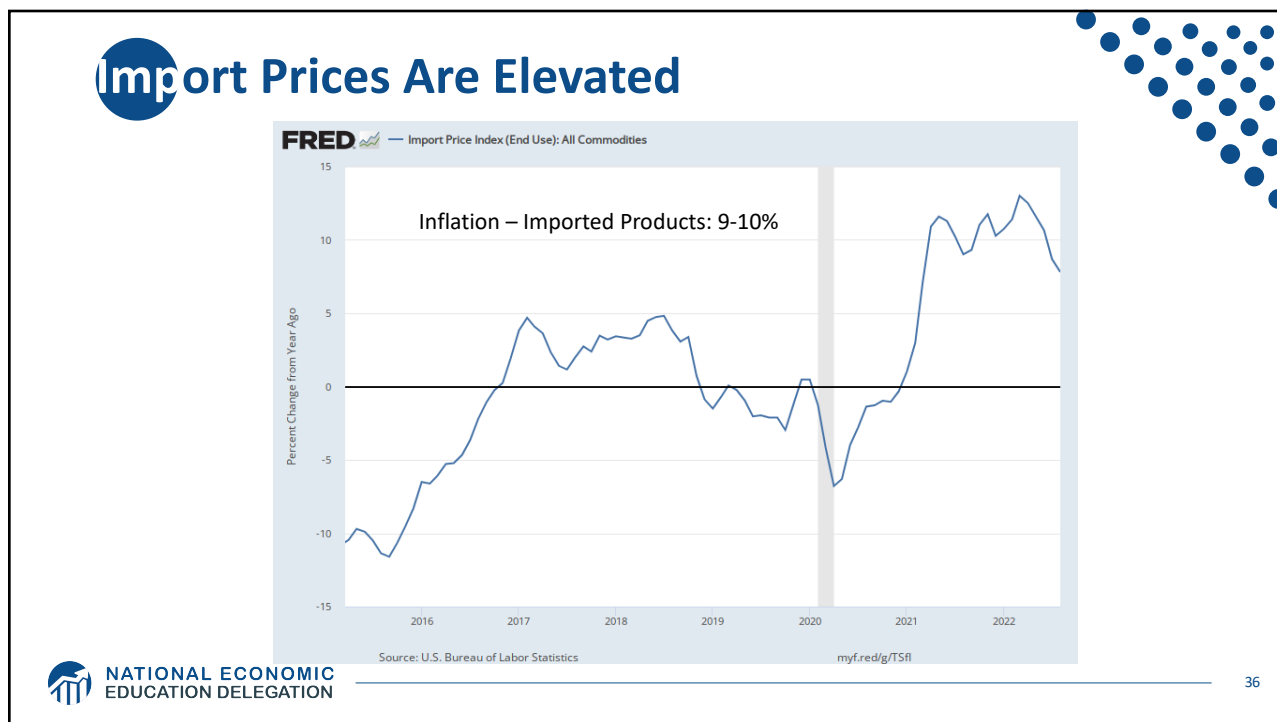
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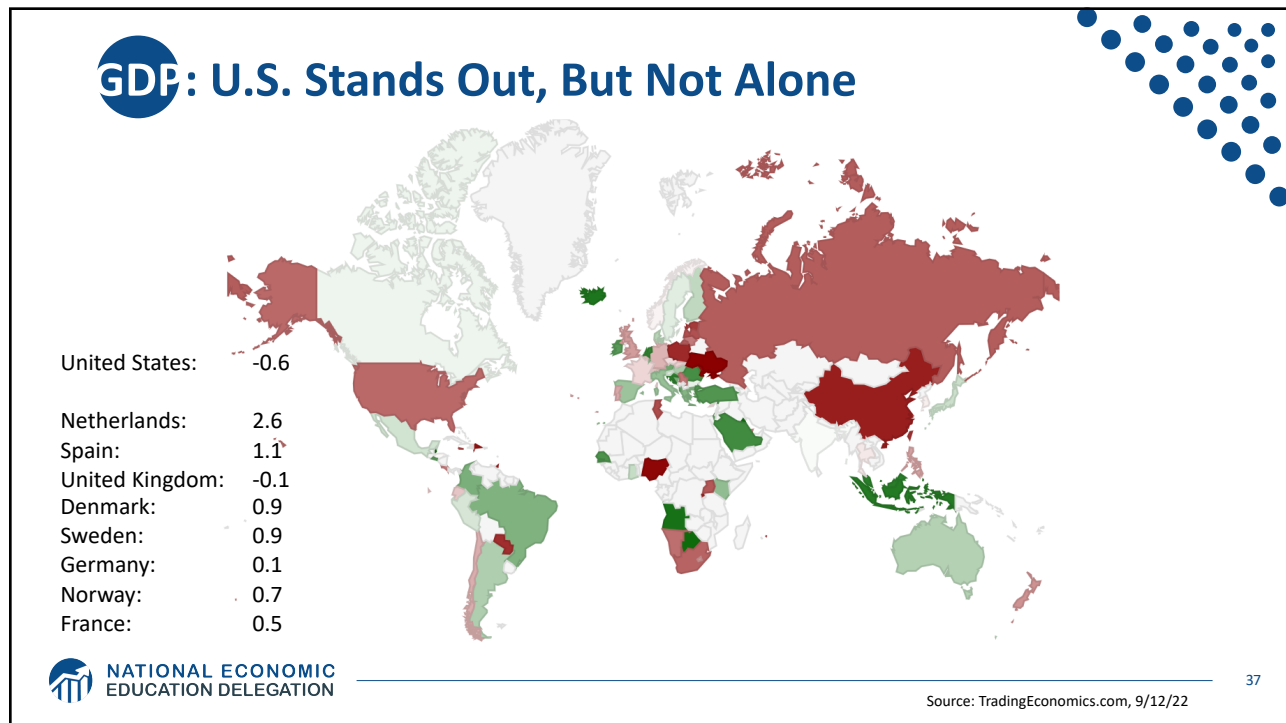
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Global Summary

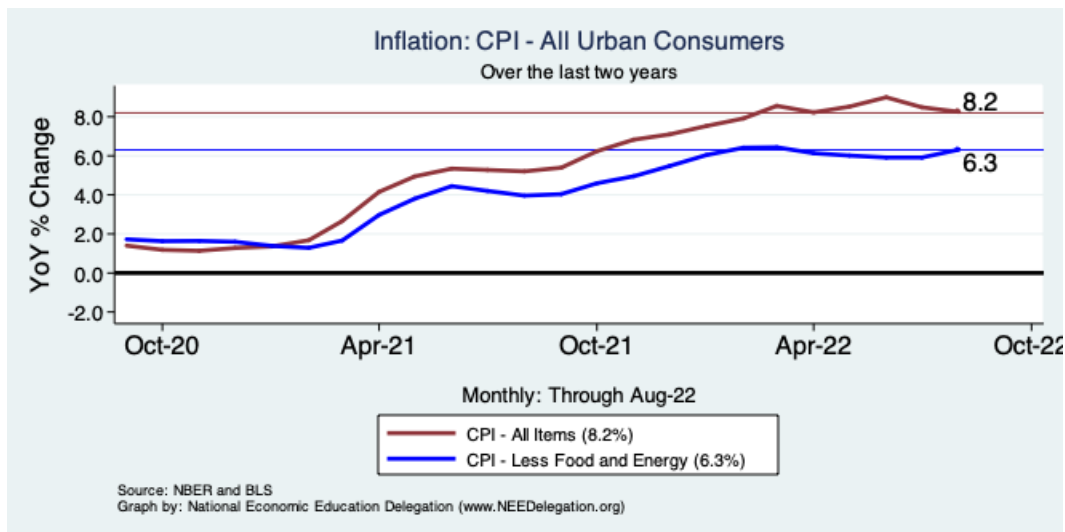
- **Developed economies are uniformly down.**
 - Not entirely a surprise. The bounce back from the early closures was rapid.
- **We have very little experience with this type of a global shock.**
 - Entirely possible that interconnected economies will be on a similar cycle.
- **Somewhat surprising because 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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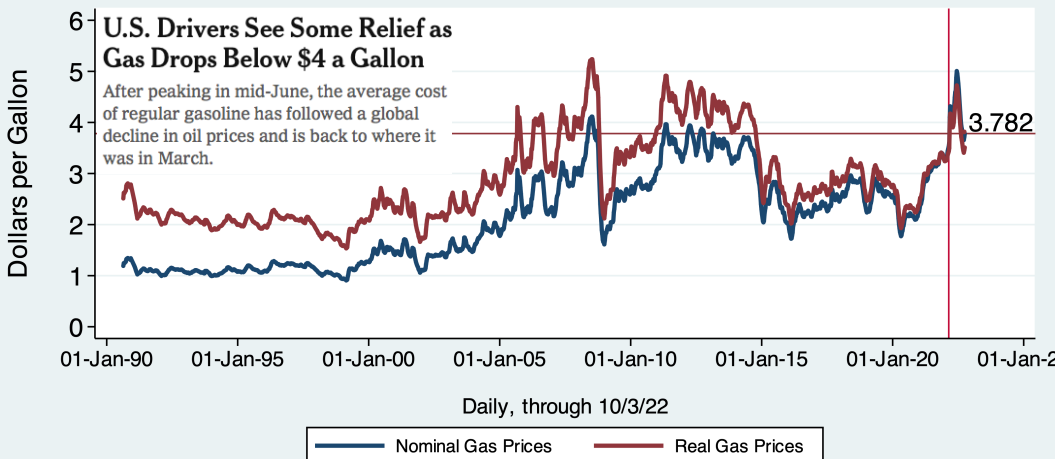
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Inflation: A Closer Look

Inflation – Climbing! Or Turning Around?



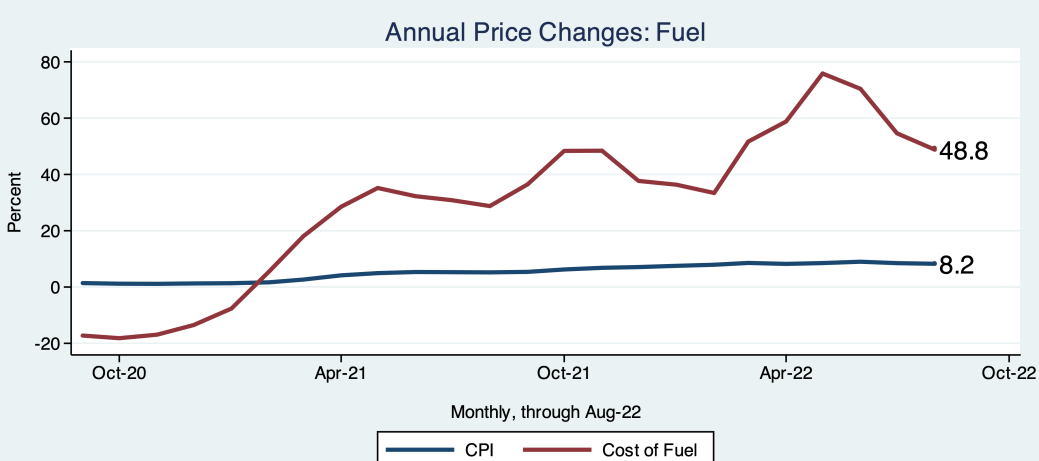
Gas Prices: National Average at the Pump



Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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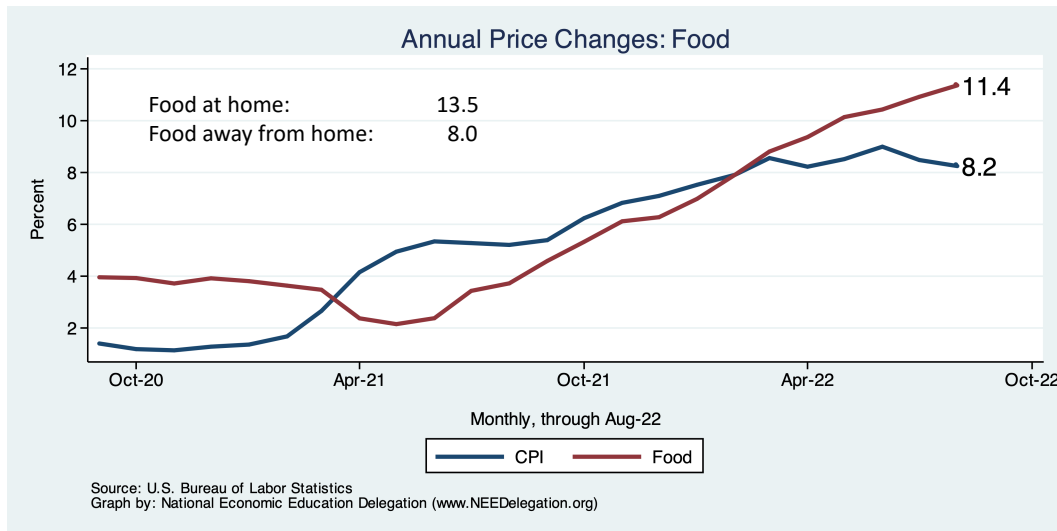
Fuel Costs Are Still Elevated



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

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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.

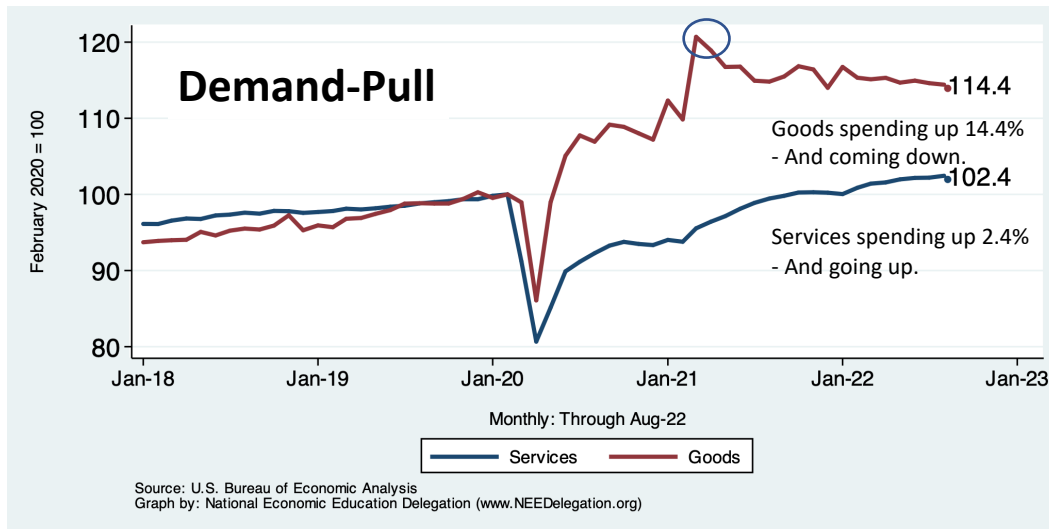
Built-In



When prices rise, wages rise too, in order to maintain living costs.

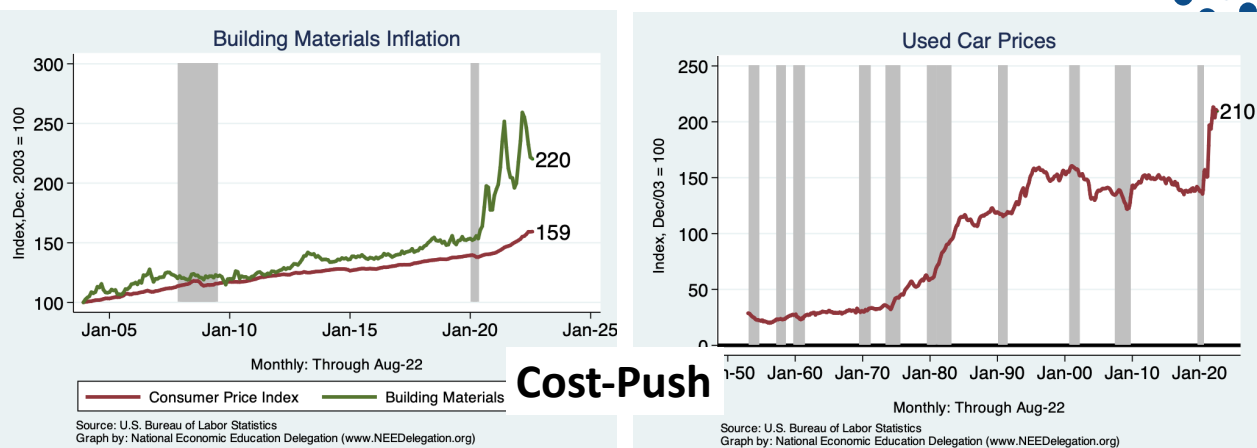
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Spending Patterns Changed - More Goods!



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Inflation: Concentrated



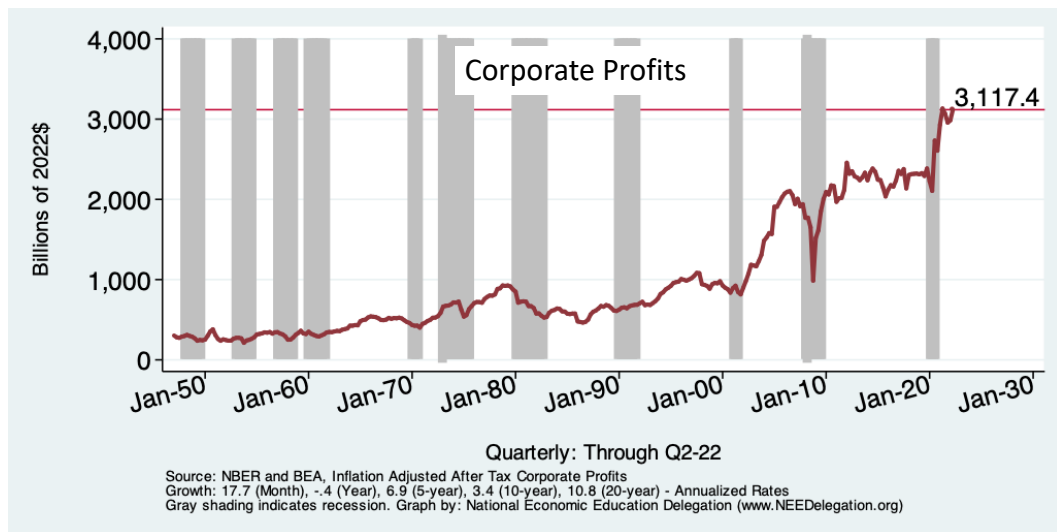
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Supply Chains



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Corporations Have Pricing Power!



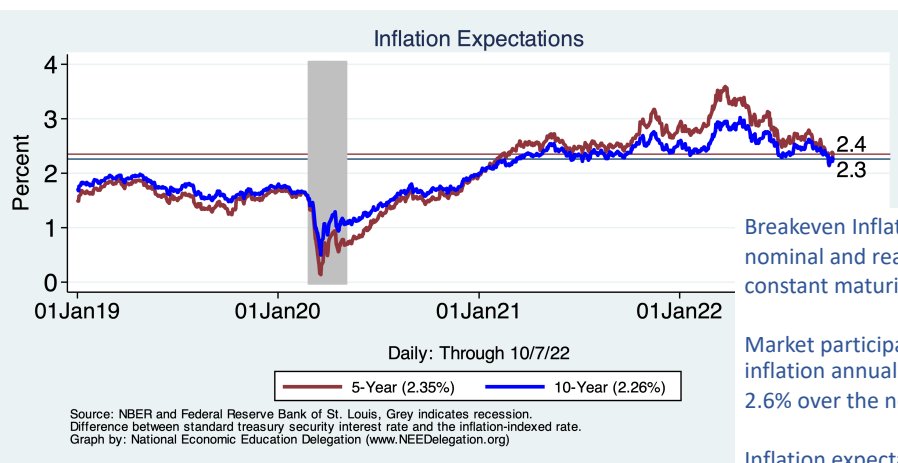
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My Diagnosis for the Uptick in Inflation

- 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.



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.



What's the Fed Doing About It?

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Federal Funds Rate



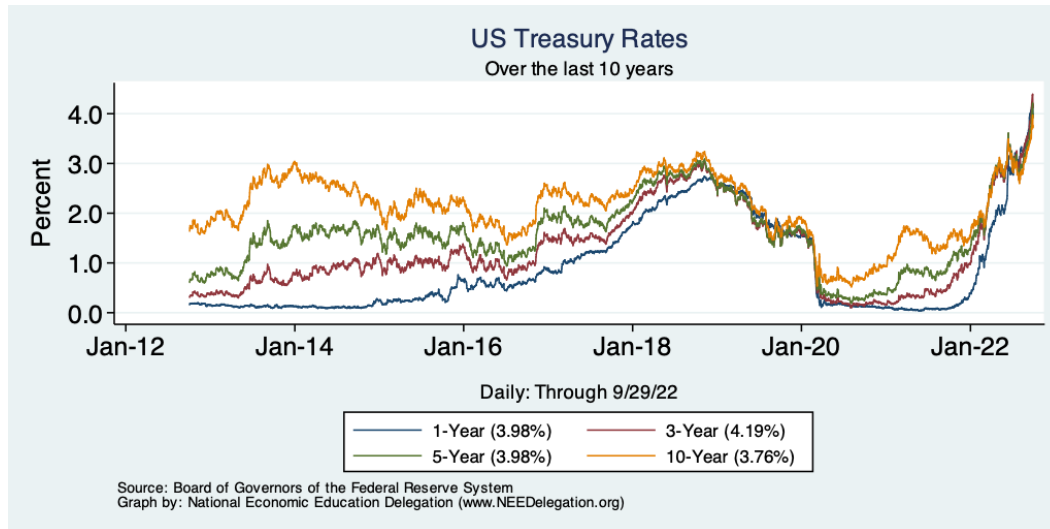
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Implications for Demand

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

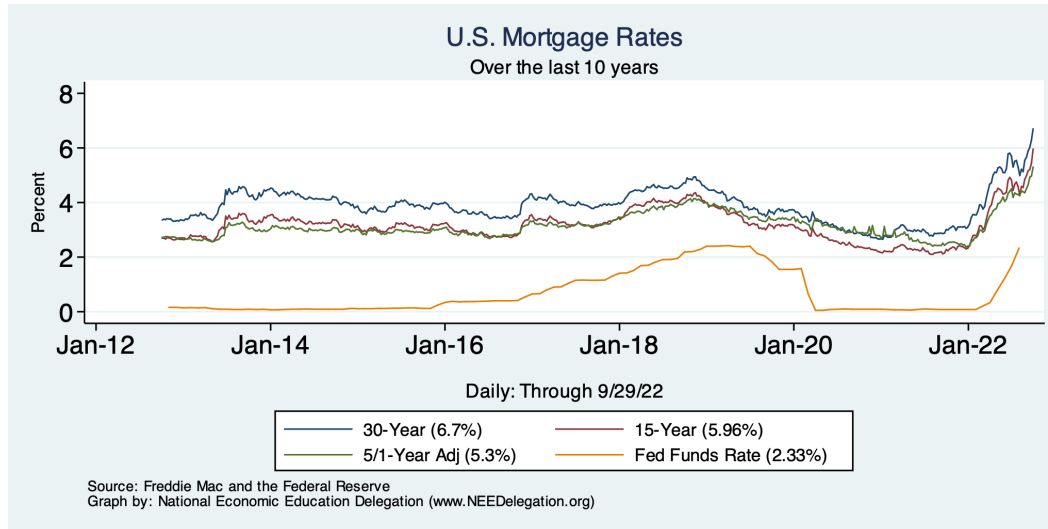
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Treasuries



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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?

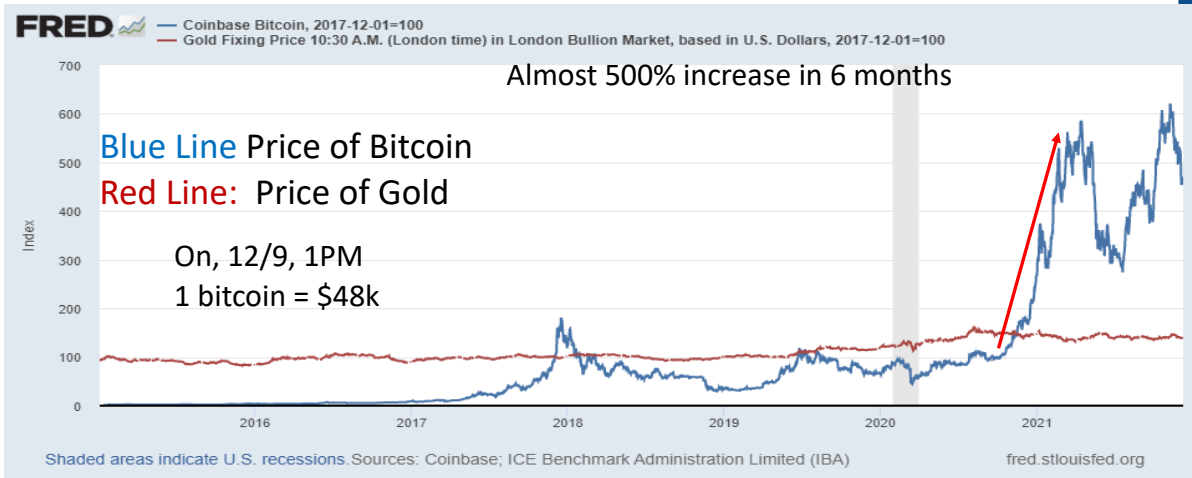
- 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
- Much of this lower growth was driven by lower inventory.
 - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.



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Cryptocurrencies: Geoffrey Woglom



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Thank you!

Any Questions?

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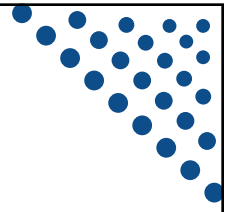
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