

Osher Lifelong Learning Institute, Winter 2022

Contemporary Economic Policy

University of Southern Maine
January-February, 2023

Host: Jon Haveman, Ph.D.
National Economic Education Delegation

1

Course Outline

• Contemporary Economic Policy

- Week 1 (1/10): Trade and Globalization (Alan Deardorff, Univ. Michigan)
- Week 2 (1/17): Trade Deficits and Exchange Rates (Alan Deardorff)
- **Week 3 (1/24): US Economic Update (Geoffrey Woglom, Amherst College)**
- Week 4 (1/31): Monetary Economics (Geoffrey Woglom)
- Week 5 (2/7): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 6 (2/14): Autonomous Vehicles (Jon Haveman)

2

Submitting Questions

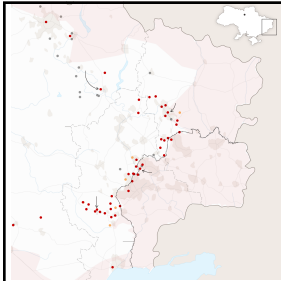
- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**

3

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).

4



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
January 24, 2023



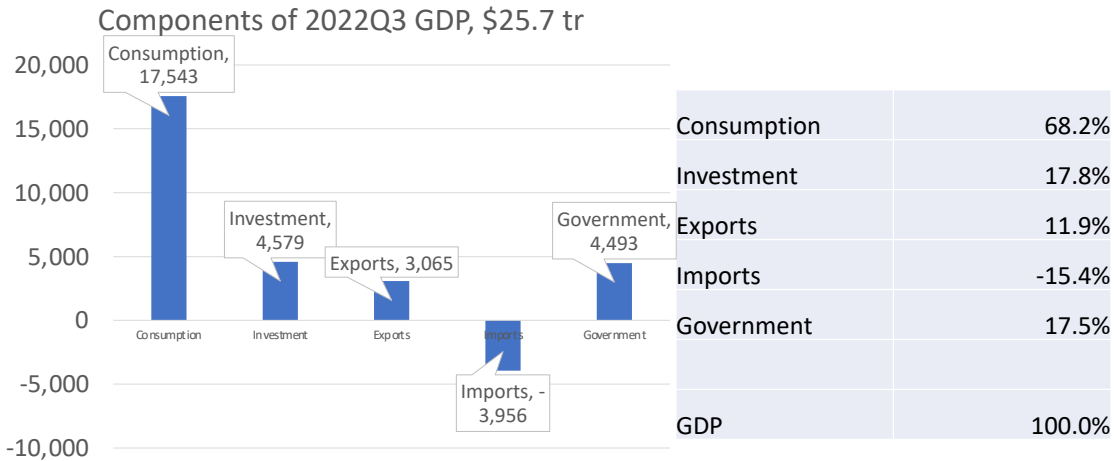
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Outline for the Talk

1. Quick summary of the state of the economy.
2. The Effect of M&F policies.
3. What lies ahead for the economy.
4. What's at stake in controlling inflation.

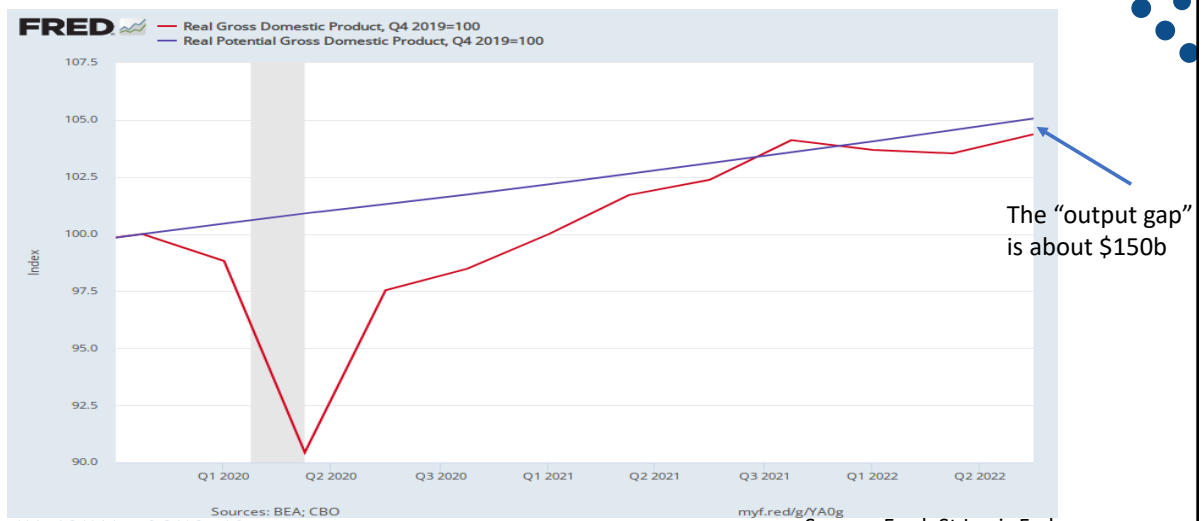
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Gross Domestic Product



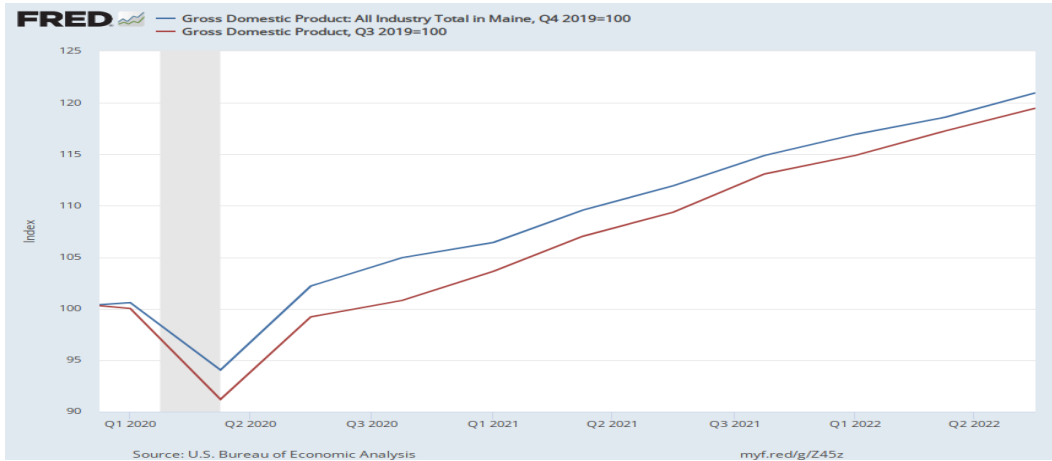
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Real GDP and 'Potential' during the Recovery



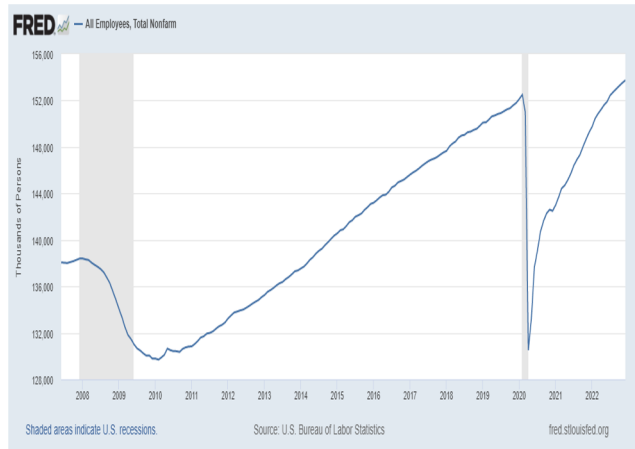
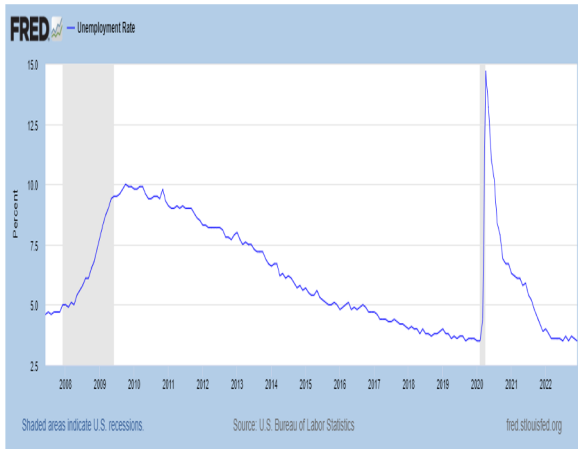
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GDP in Maine



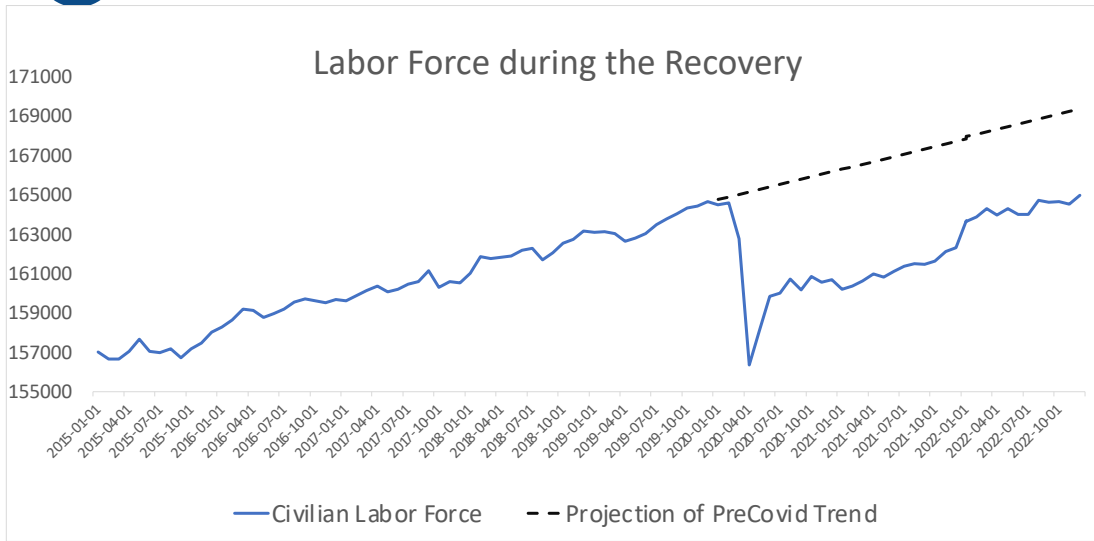
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Labor Market: Fully Recovered?



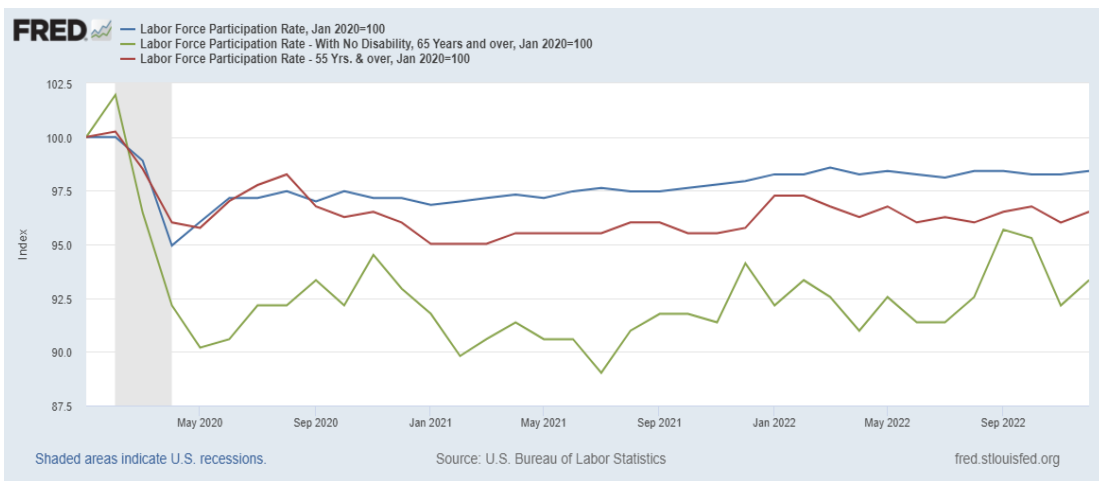
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Where Have All the Workers Gone?



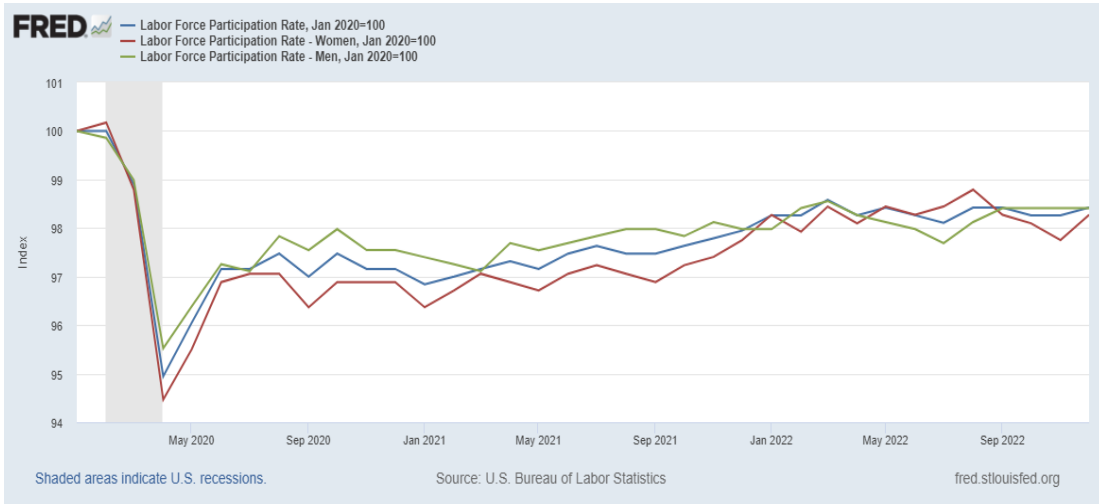
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Age Seems to Matter



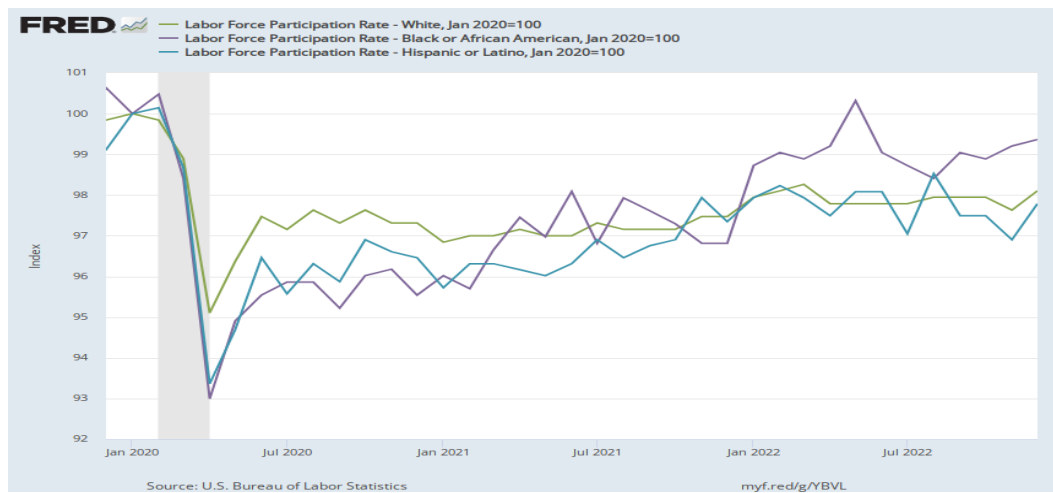
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Gender Doesn't Seem to Matter



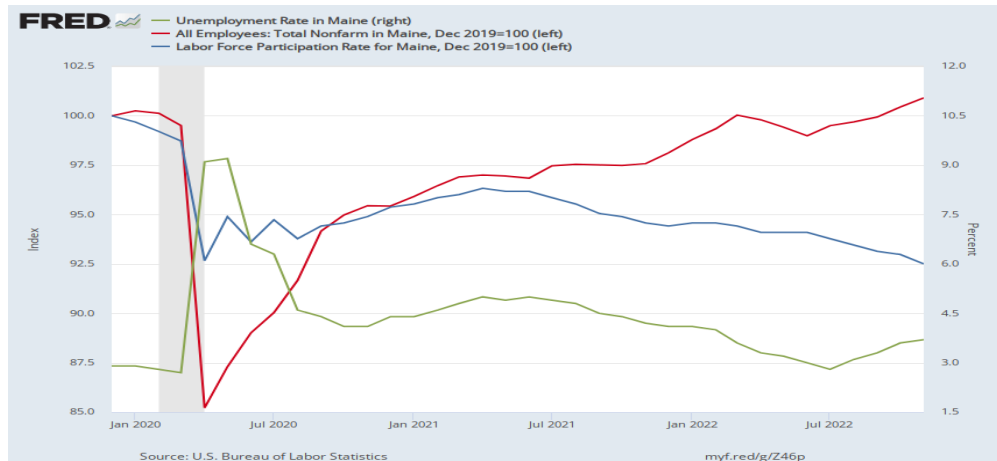
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Race?



14

Labor Market in Maine



15

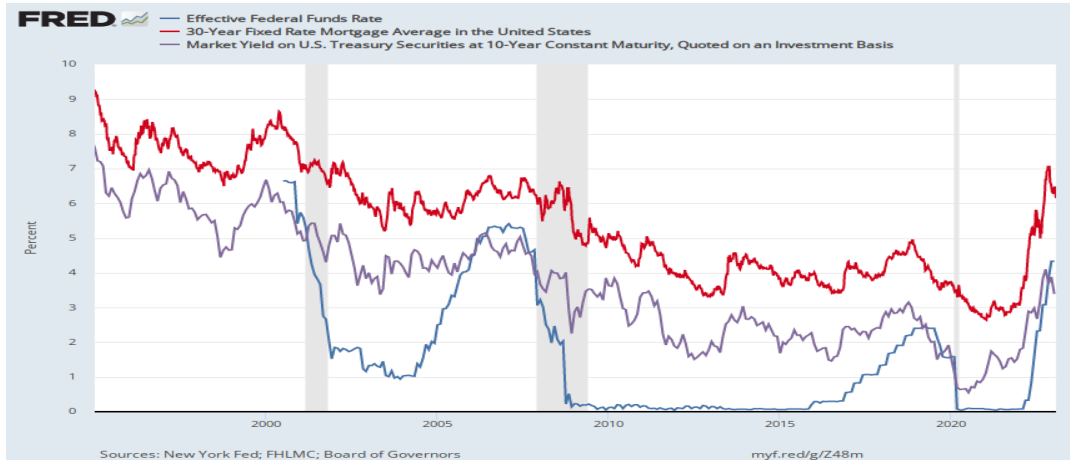
Overall Good News on the Real Side

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Fly in the ointment: labor force has lost over 1.5 million workers.
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good!



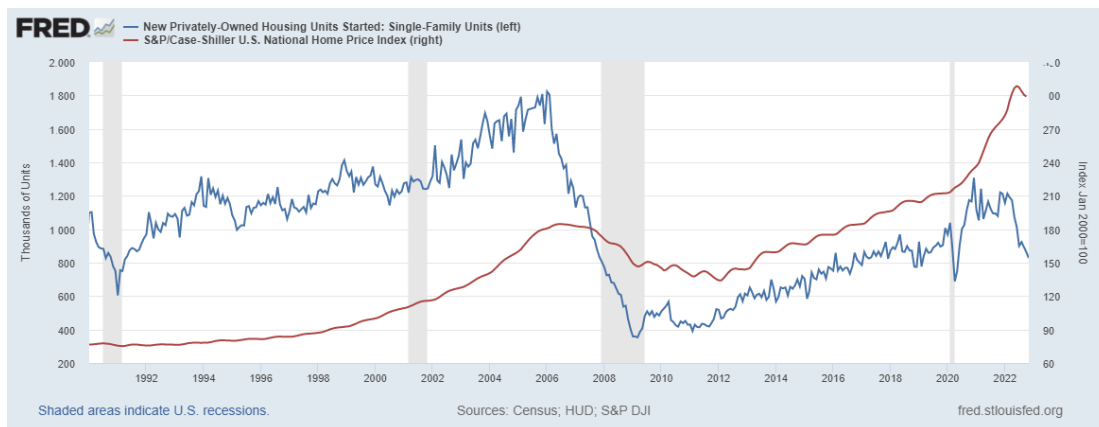
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Interest Rates: Era of Falling Rates Over?



17

What about Housing?



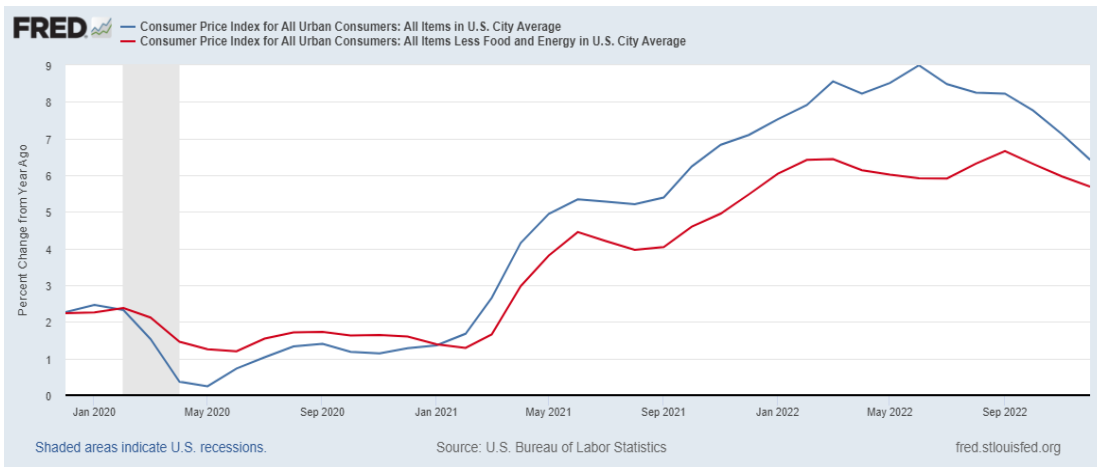
18

Stock Prices: Rates and Recession?



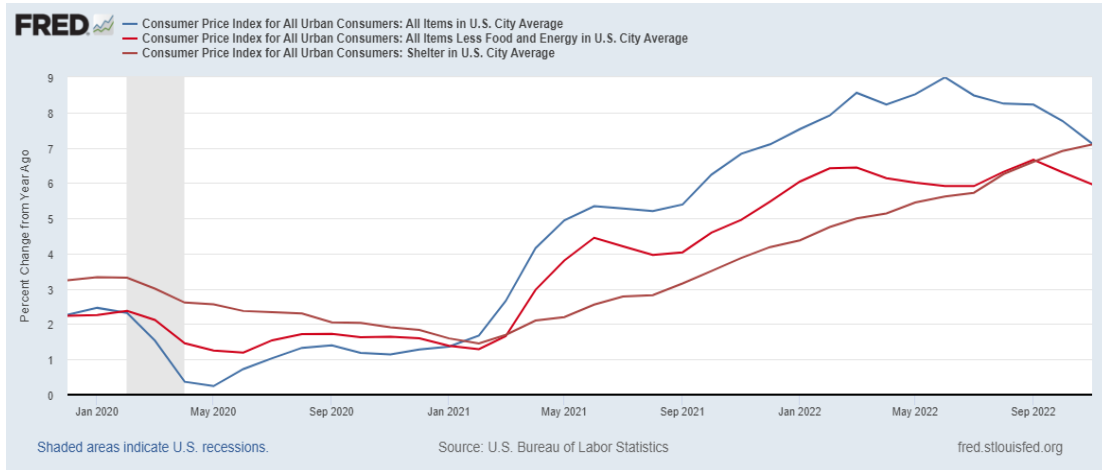
19

Inflation during the Recovery



20

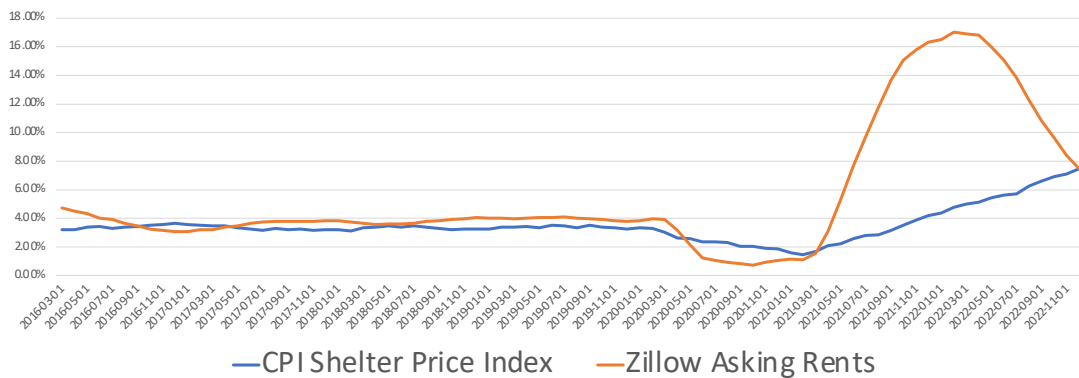
Inflation a Closer Look: Good News



21

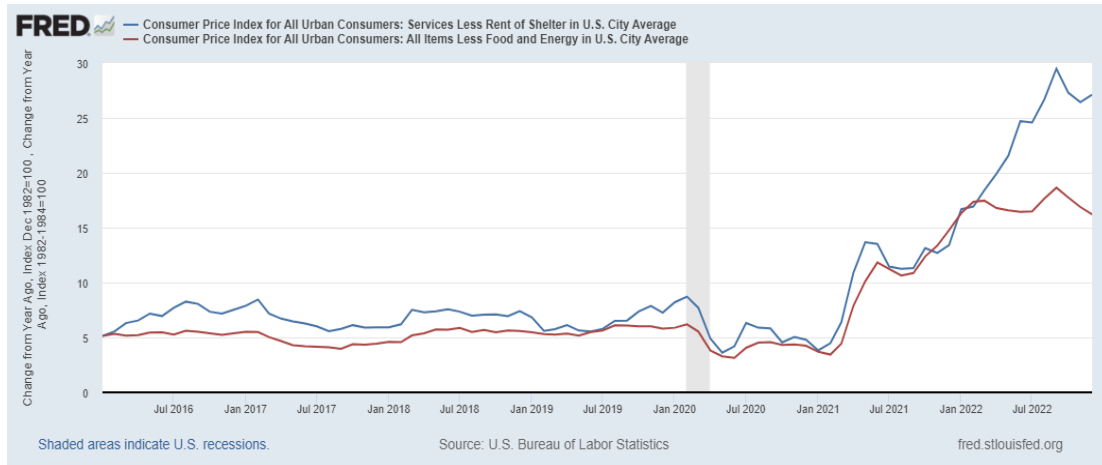
Rents Paid and Rents Asked For

Two Measures of Rents



22

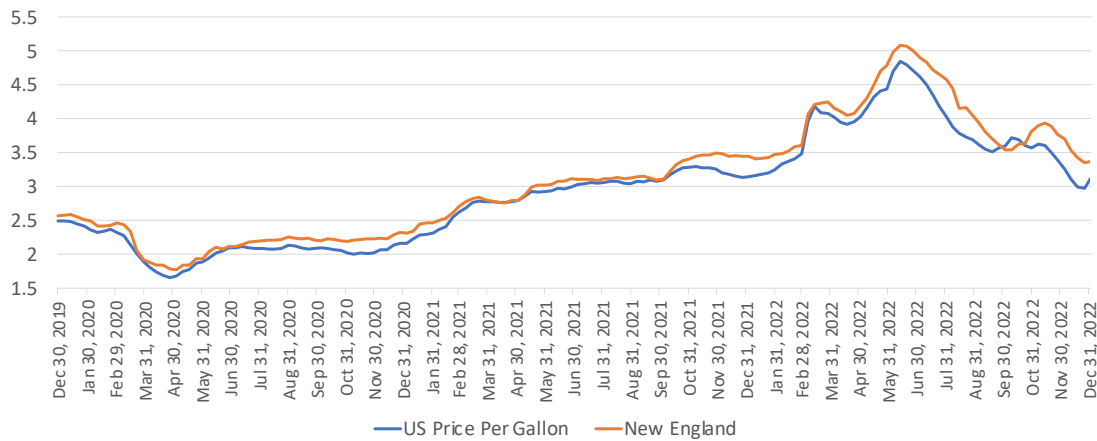
Inflation a Closer Look: Troubling News



23

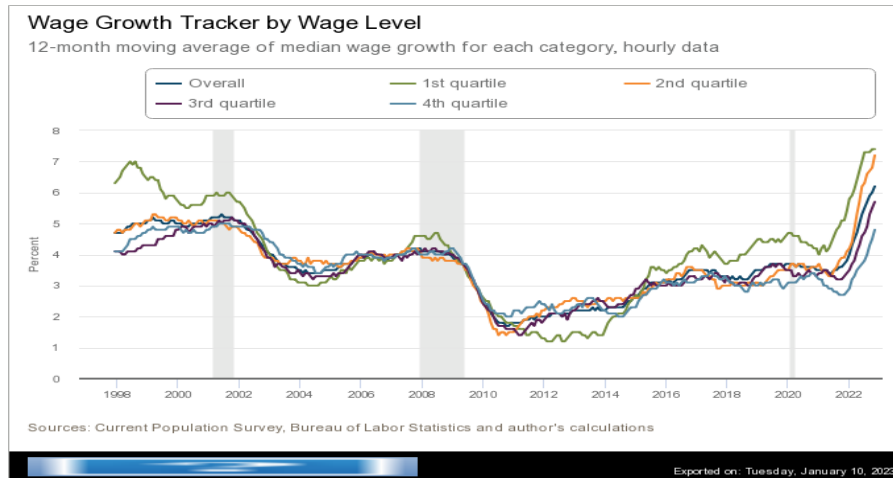
Gasoline Prices

Less Pain at the Pump



24

Wages Haven't Kept Pace with Inflation



25

Policy Effects

Fiscal:

- **2020-2021: massive stimulus. Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.**

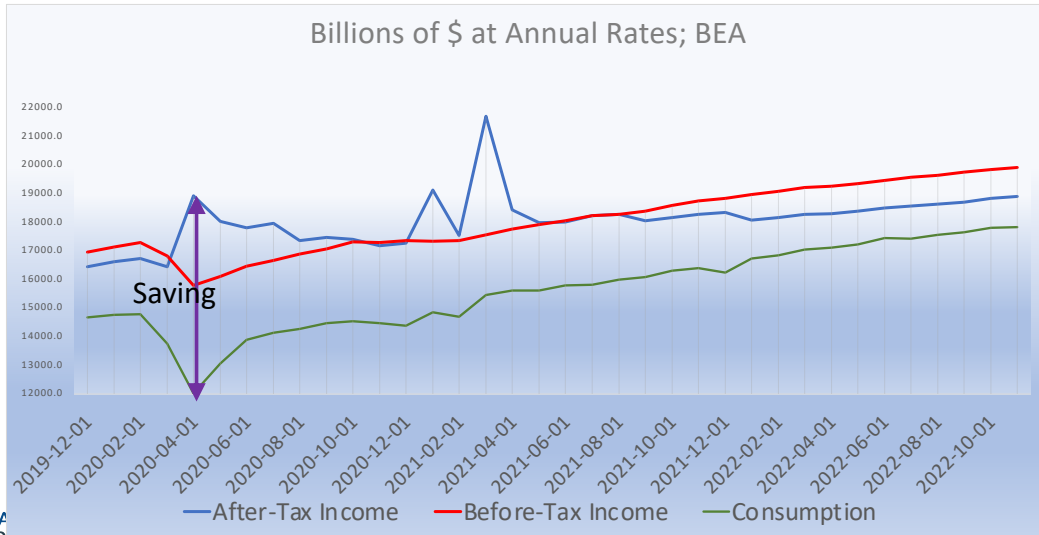
Monetary:

- **2020-2/2022: policy interest rate at zero, new round of quantitative easing.**
- **3/2022-present: most rapid increase in interest rates since Paul Volcker**



26

Fiscally Driven Recovery



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27

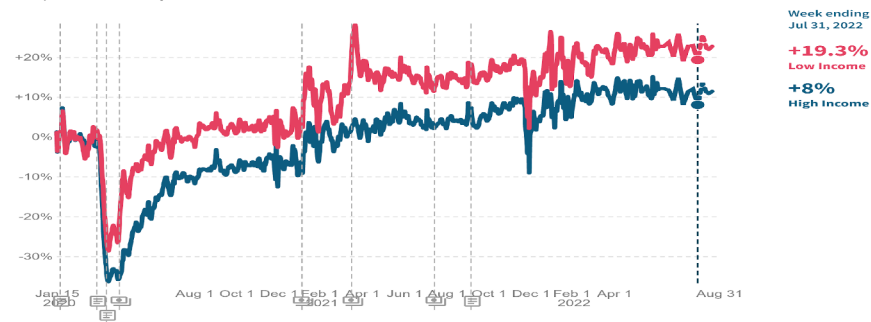
Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

HARVARD BROWN 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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28

K-Shaped Recovery

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

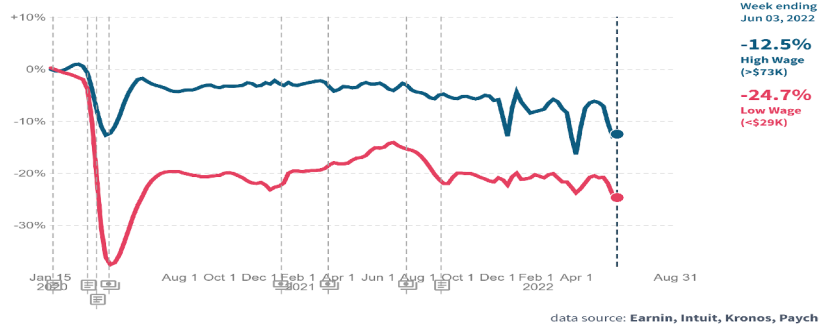
HARVARD

BROWN

BILL & MELINDA GATES FOUNDATION

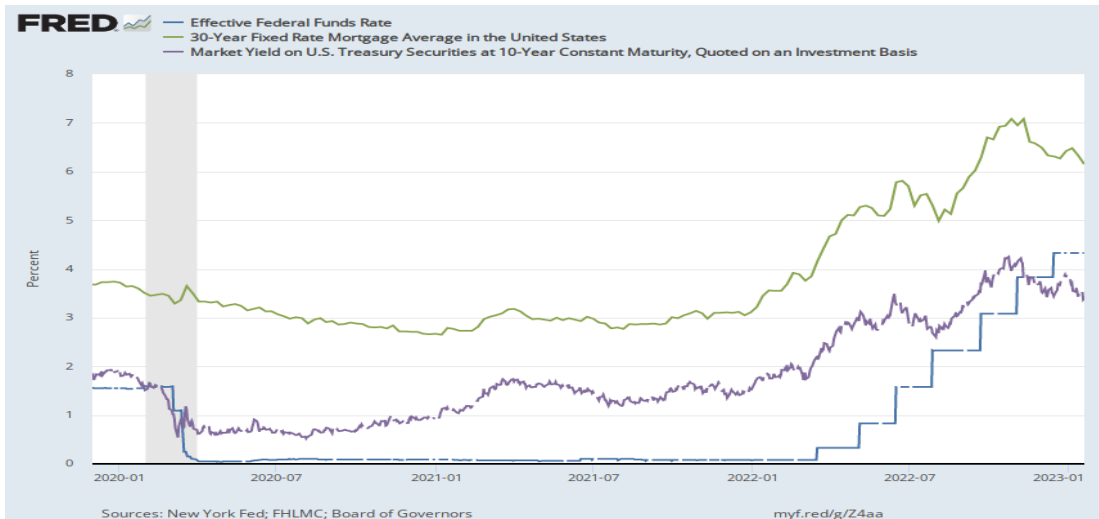
Percent Change in Employment*

In the United States, as of June 03 2022, employment rates among workers in the top wage quartile **decreased** by **12.5%** 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 Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.
last updated: July 21, 2022 next update expected: September 02, 2022

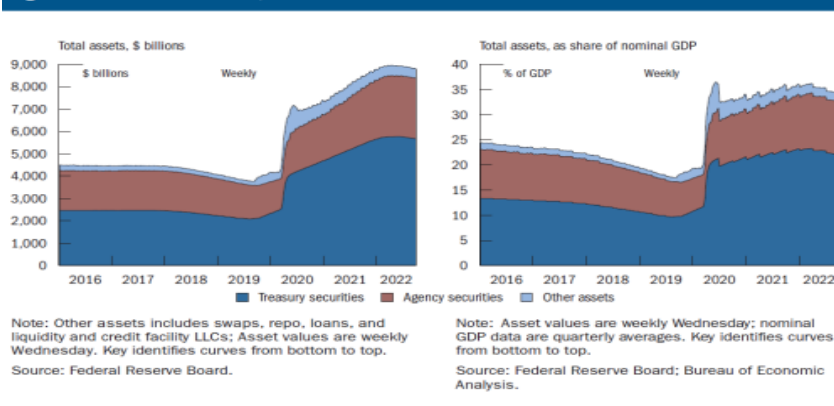
Accommodative Monetary Policy until 3/2022



Fed QE during the Recovery

- Zero interest rates until March and a Big QE program

Figure 1. Balance sheet assets, 2016–22



31

Where we Stand

- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Monetary policy was too easy for too long, but since March of last years has been much more restrictive.
- Yes, there were supply chain issues that temporarily raised inflation, but there was (is?) too much total spending.

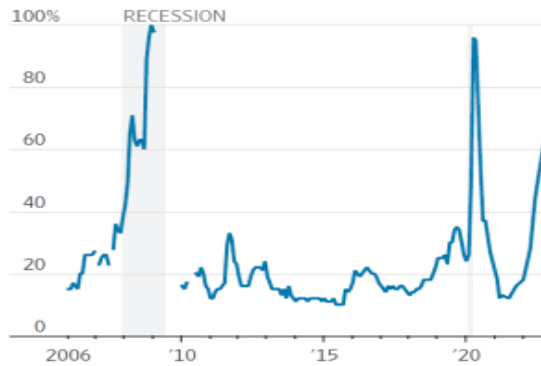
So, where are we headed?



32

What about the “R” Word?

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



Note: Gaps indicate question not asked or data unavailable.

Latest Observation,
10/2022: **63%**



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Source *Wall Street Journal*

33

33

What is a Recession?

- Defined by the National Bureau of Economic Research (NBER)
- “The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”
- Popular Rule of Thumb: Two or more, consecutive quarters where Real GDP falls.
- Recessions are caused by decreases in total spending.

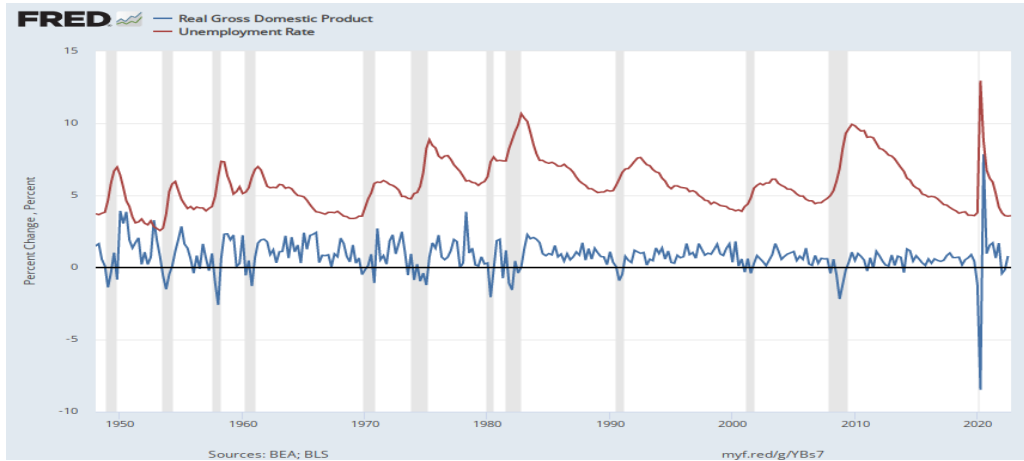


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34

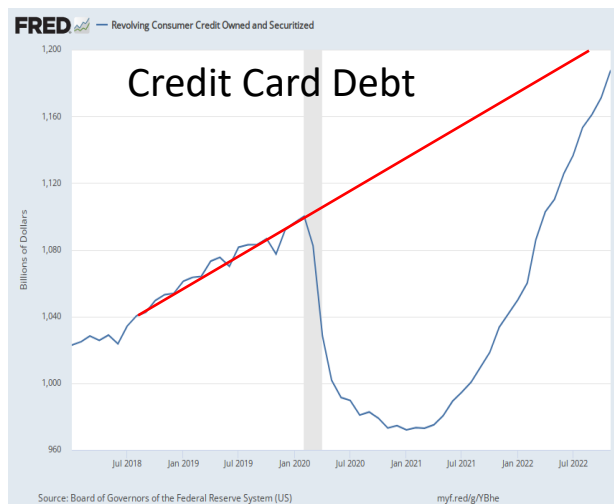
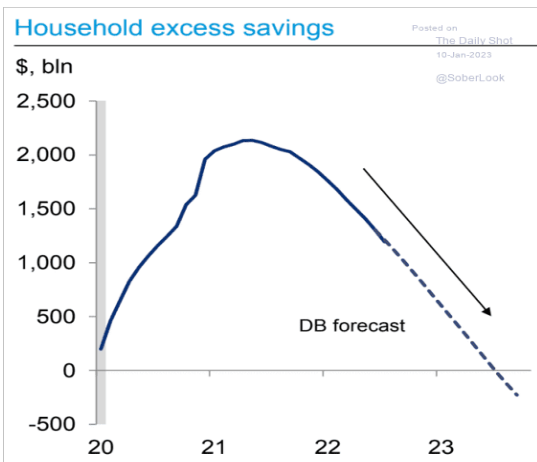
34

Real GDP Growth and Recessions

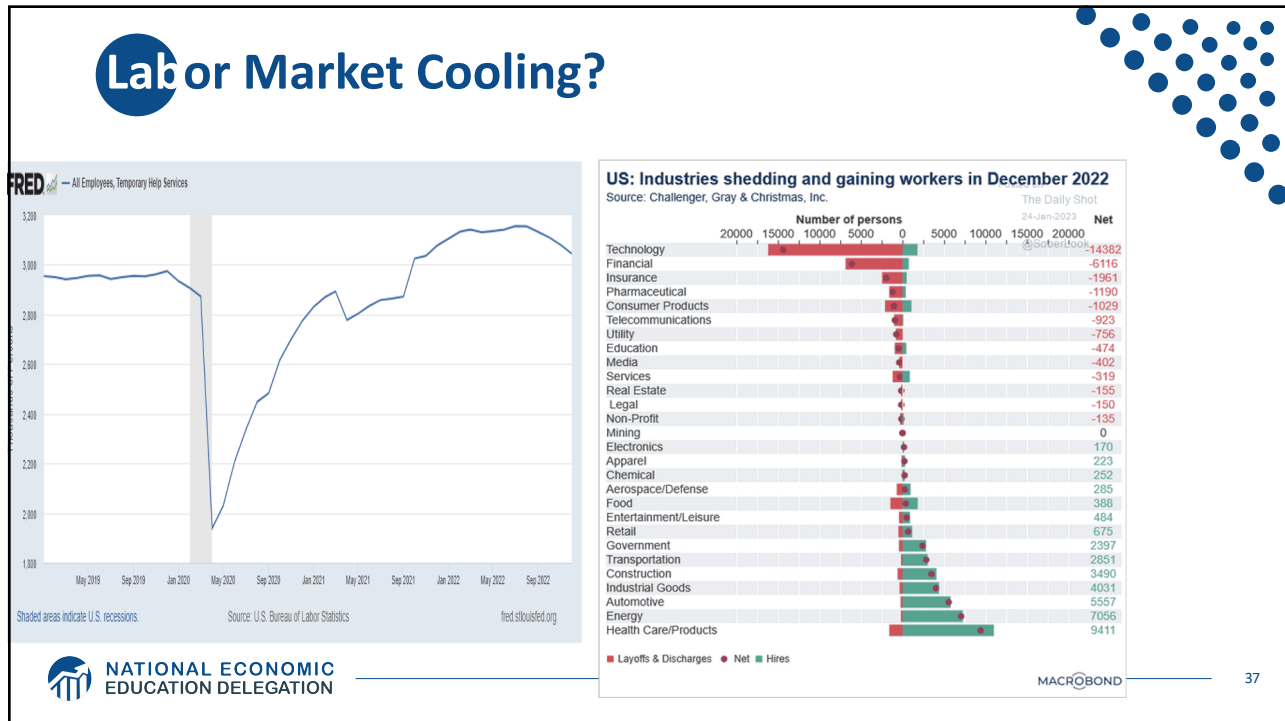


35

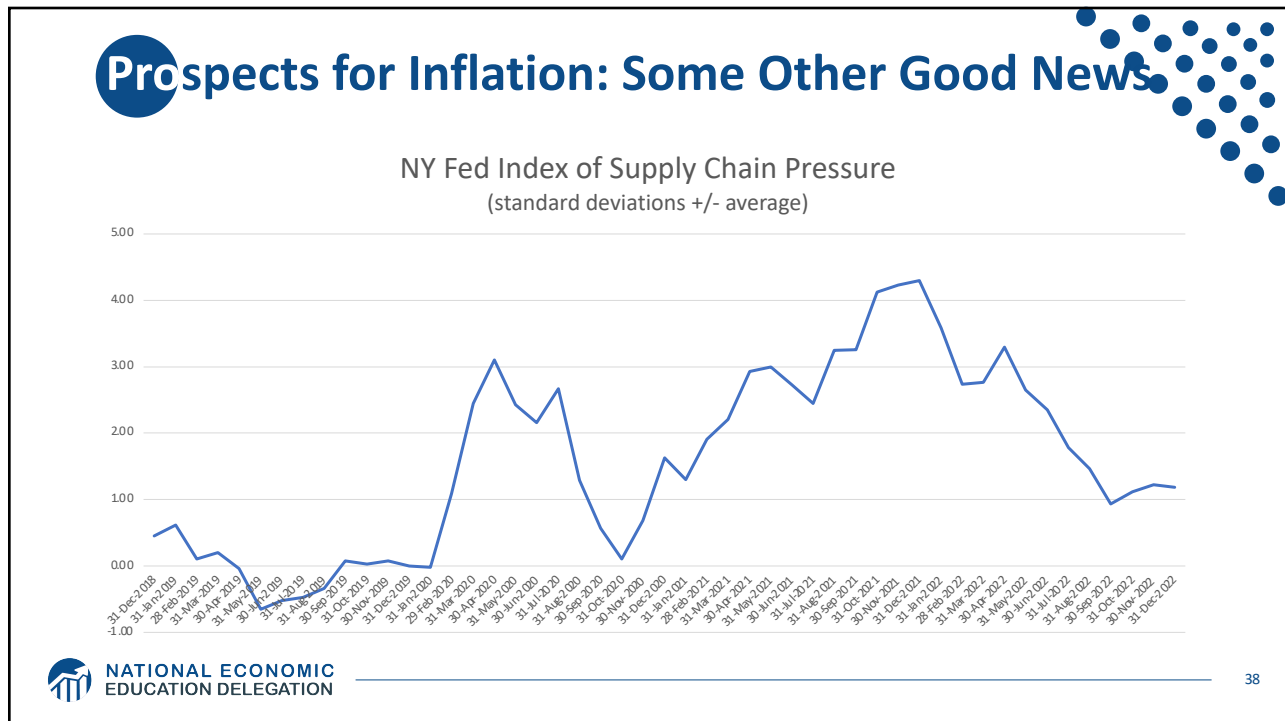
Prospects for Consumer Spending?



36



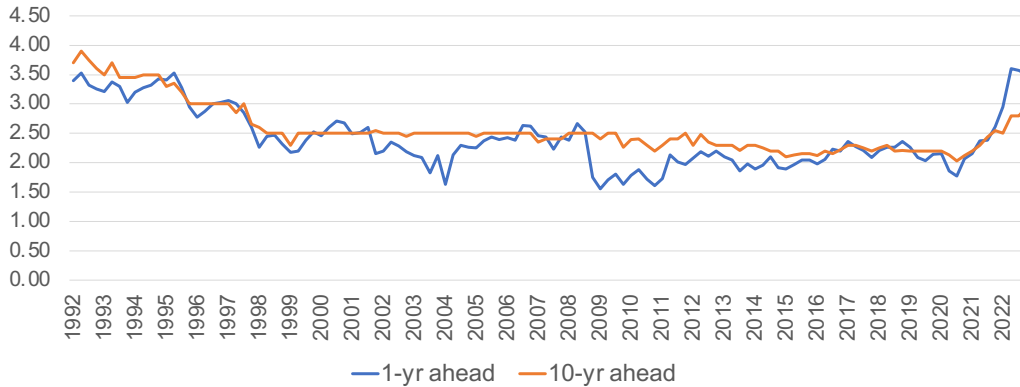
37



38

Troubling Signs: Inflation Expectations

Survey or Professional Forecasters



Summary of the Fed's View

- Economy is stronger than had been anticipated in September, but real GDP growth will remain positive.
- Unemployment will have to rise by about 1 percentage point.
- Short-term interest rates will have to rise some more, to above 5 percent.
- Inflation will slowly return to the Fed's target of 2 percent: sort of a "soft landing."

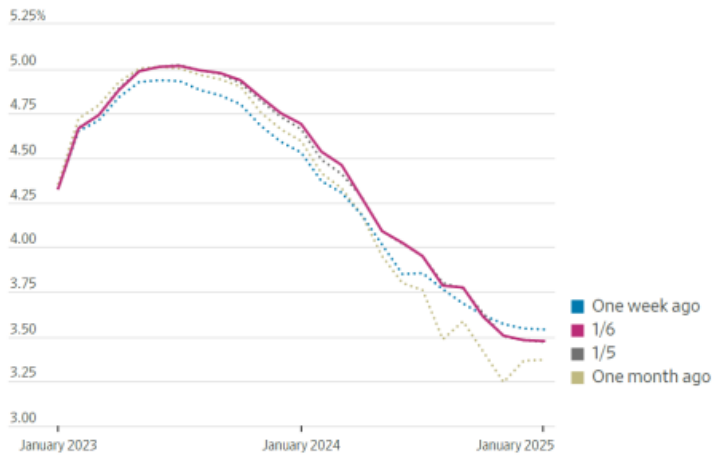
FOMC Forecasts, December 14, 2022

Variable (in percent)	Medians				
	2022	2023	2024	2025	Longer Run
RGDP growth	0.5	0.5	1.6	1.8	1.8
Sept.	0.2	1.2	1.7	1.8	1.8
Unemployment	3.7	4.6	4.6	4.5	4.0
Sept.	3.8	4.4	4.4	4.3	4.0
Inflation	5.6	3.1	2.5	2.1	2.0
Sept.	5.4	2.8	2.3	2.0	2.0
Core Inflation	4.8	3.5	2.5	2.1	2.0
Sept.	5.4	2.8	2.3	2.0	2.0
Federal Funds	4.4	5.1	4.1	3.1	2.5
Sept	4.4	4.6	3.9	2.9	2.5

41

Market's Expectations of Future Fed Actions

Expected federal funds rate, implied by derivatives markets



Source: FactSet

43

Summary of Where We are Headed

- The growth in total spending is at least slowing.
- Labor Market is still strong, but lagging indicator.
- Hard or Soft Landing: the Jury is out.
- Inflation is coming down, but how fast?

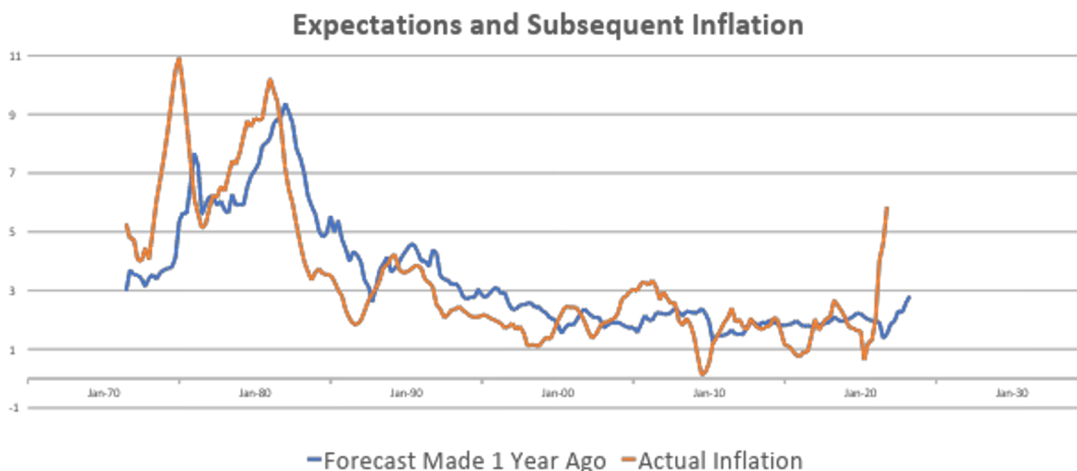
Known Unknowns: New Covid Variant, Ukraine War, Budget Fight, Fed Actions.

Unknown, Unknowns!

What's at Stake?

- If people expect inflation, that can lead to high actual inflation.
- Paul Volcker in 1981 realized this point and wrung inflation out of the system with a massive recession.
- Unemployment peaked at 11%.
- Europe's lost decade.
- Latin America Debt Crisis.
- But, (for the US) it worked!

“Anchoring” Inflation Expectations



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Forecasts: Philadelphia Fed, “Survey of Professional Forecasters”

46

46

How Did We Get Here? The Fed?

September 22, 2021: inflation, 5.2%; unemployment 5.2%

Inflation is elevated, largely reflecting transitory factors. ...With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent.

December 14, 2022: inflation, 7.1%, unemployment 3.6%

[T]he Committee decided to raise the target range for the federal funds rate to 4-1/4 to 4-1/2 percent. The Committee anticipates that ongoing increases in the target range will be appropriate ...to return inflation to 2 percent over time. ... The Committee is strongly committed to returning inflation to its 2 percent objective.



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47

47

Stay Tuned

- January 26, BEA first estimate of fourth quarter GDP.
- January 27, BEA releases PCE inflation for December.
- January 31, next Federal Reserve meeting.

Next week we will look in more depth at the Fed and their current policy stance.



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48

Let's Hear from You!

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49

49