

Osher Lifelong Learning Institute, Winter 2023

Contemporary Economic Policy

University of Vermont
February-March, 2023

Host: 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: 48 Ph.D. Economists**

- Aid in slide deck development

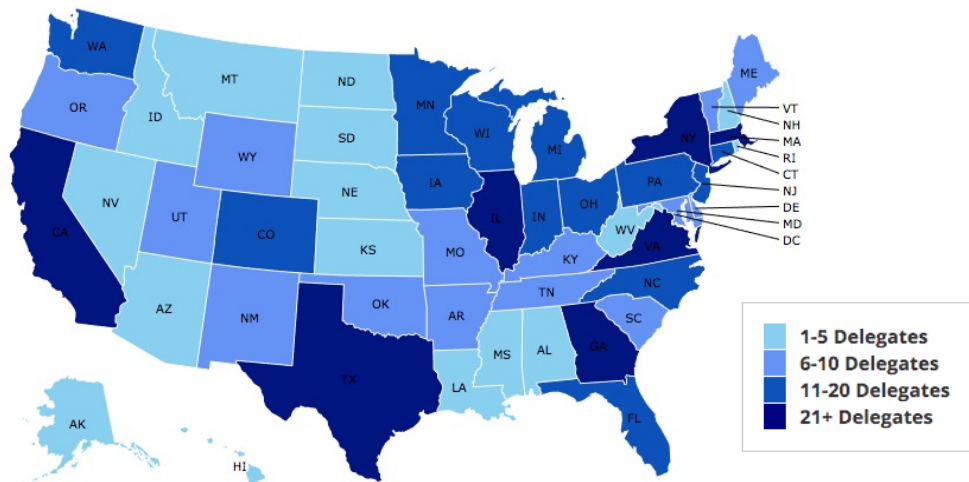


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Where Are We?



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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



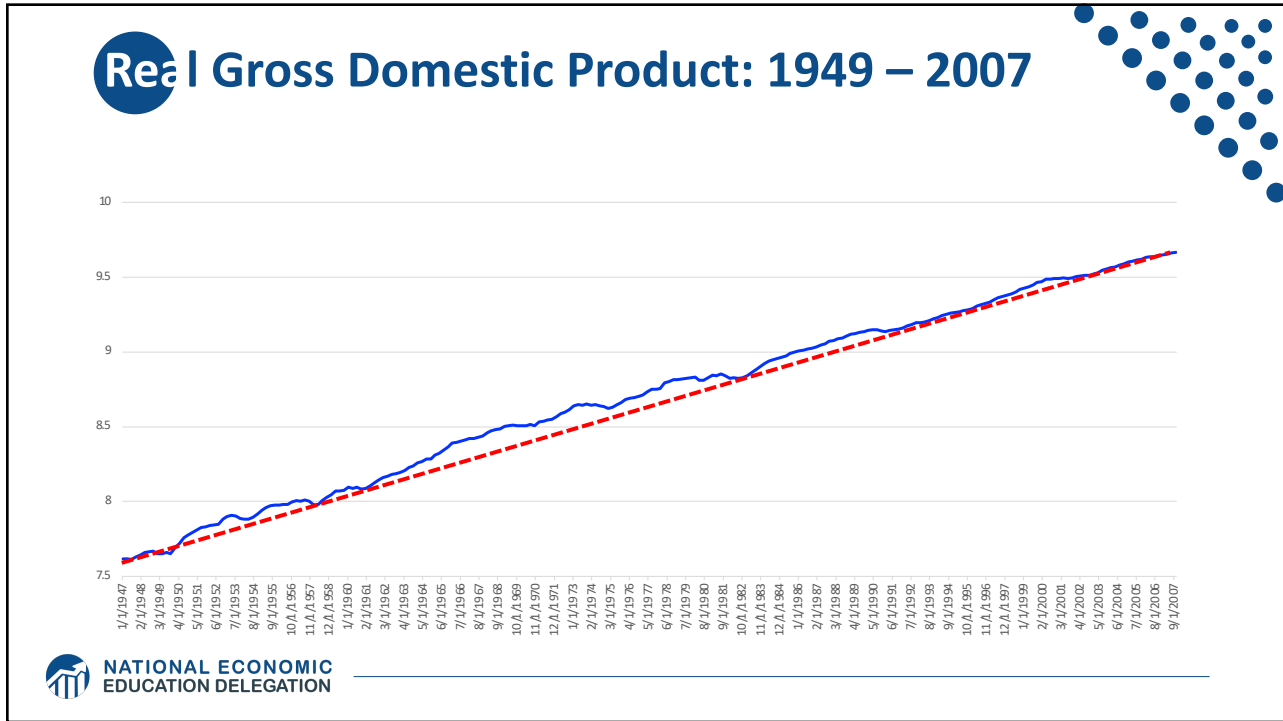
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Course Outline

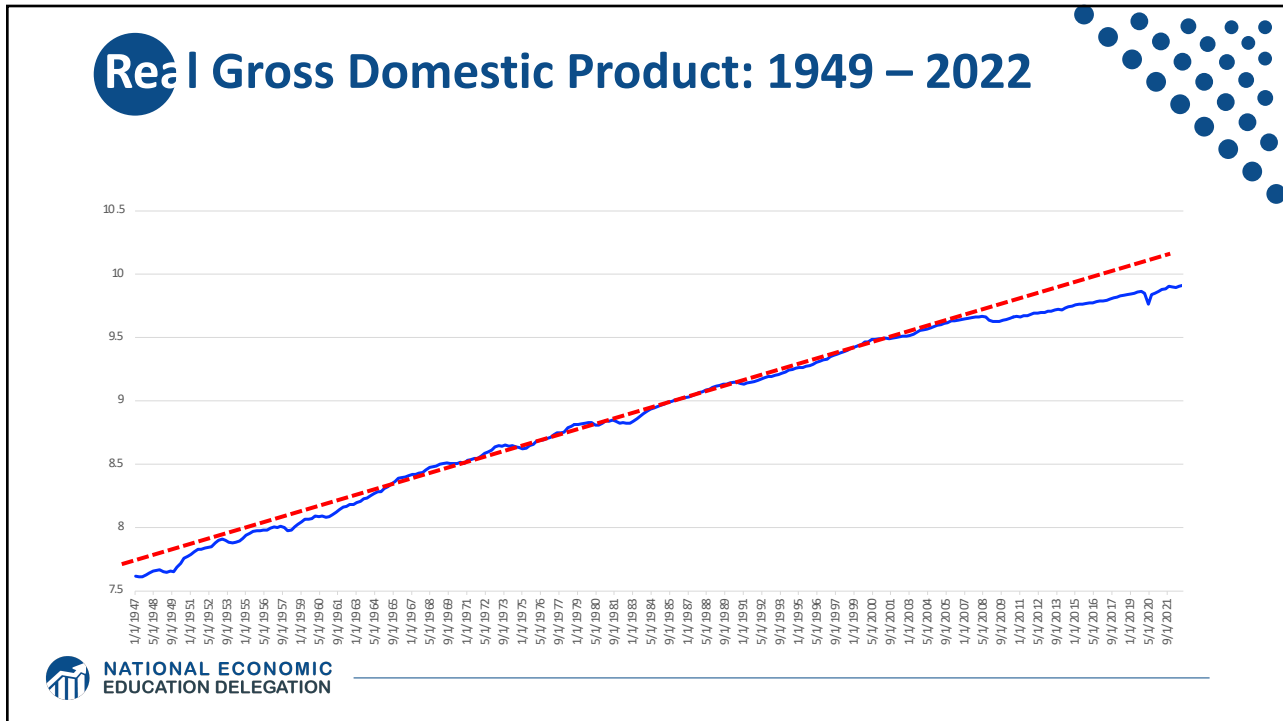
- **Contemporary Economic Policy**
 - Week 1 (3/9): US Economic Update (Scott Baier, Clemson University)
 - Week 2 (3/16): Trade and Globalization (Alan Deardorff, Univ. Michigan)
 - Week 3 (3/23): Trade Deficits and Exchange Rates (Alan Deardorff)
 - Week 4 (3/30): Cryptocurrencies (Jon Haveman, NEED)



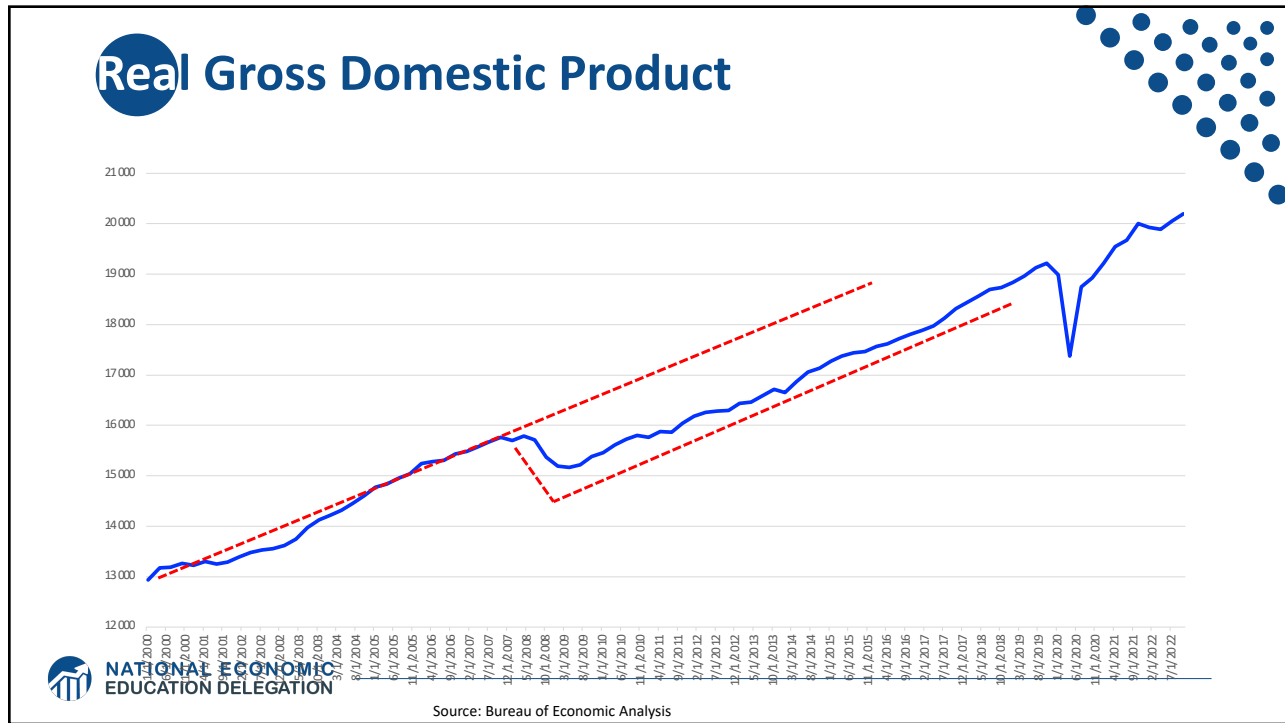
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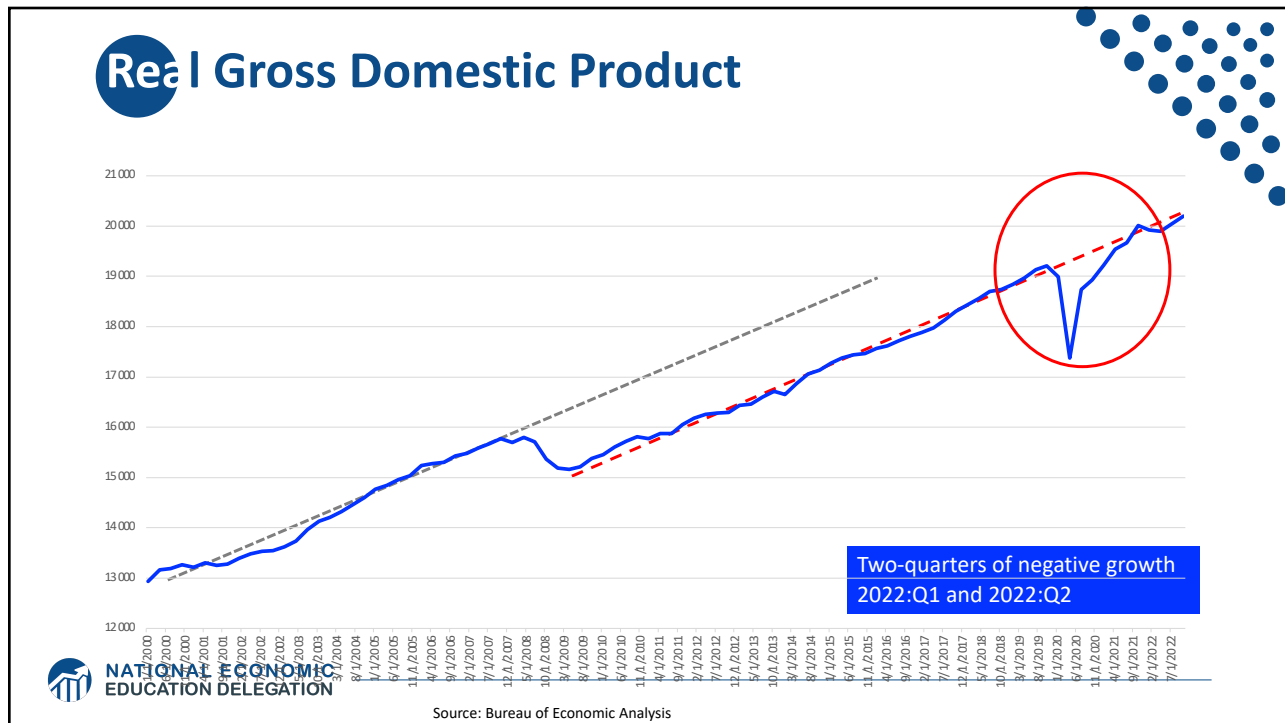
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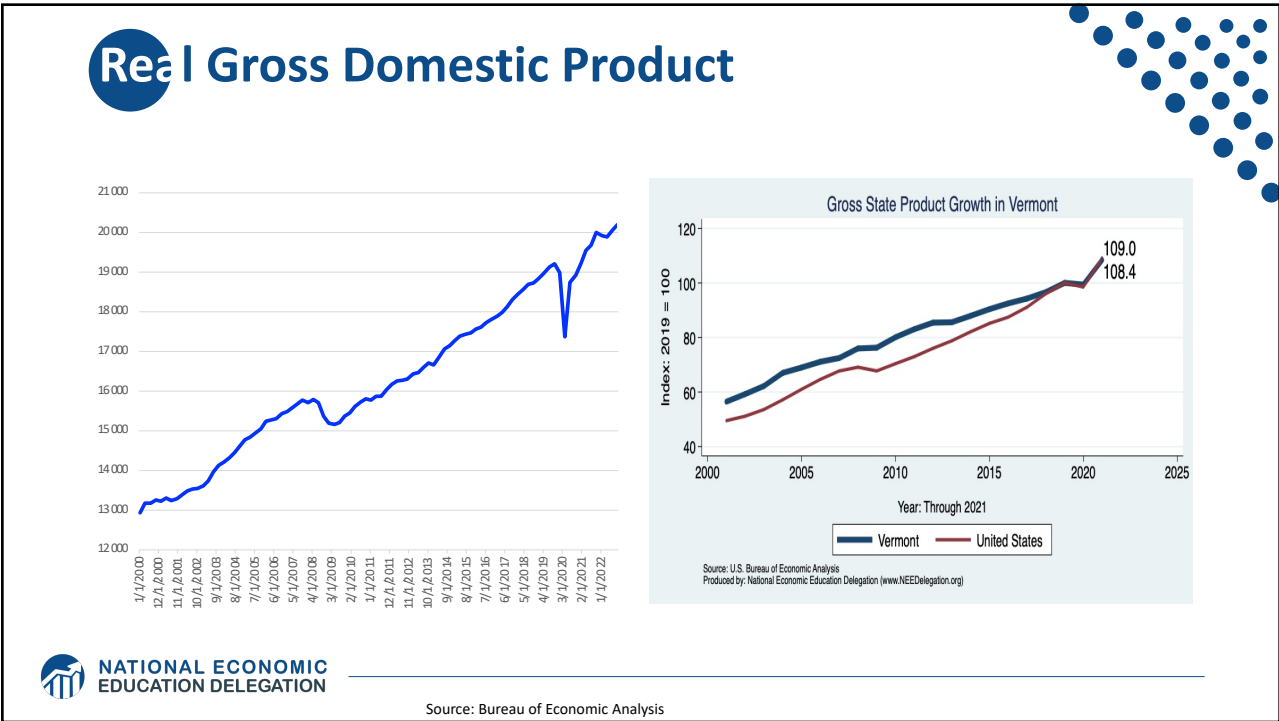
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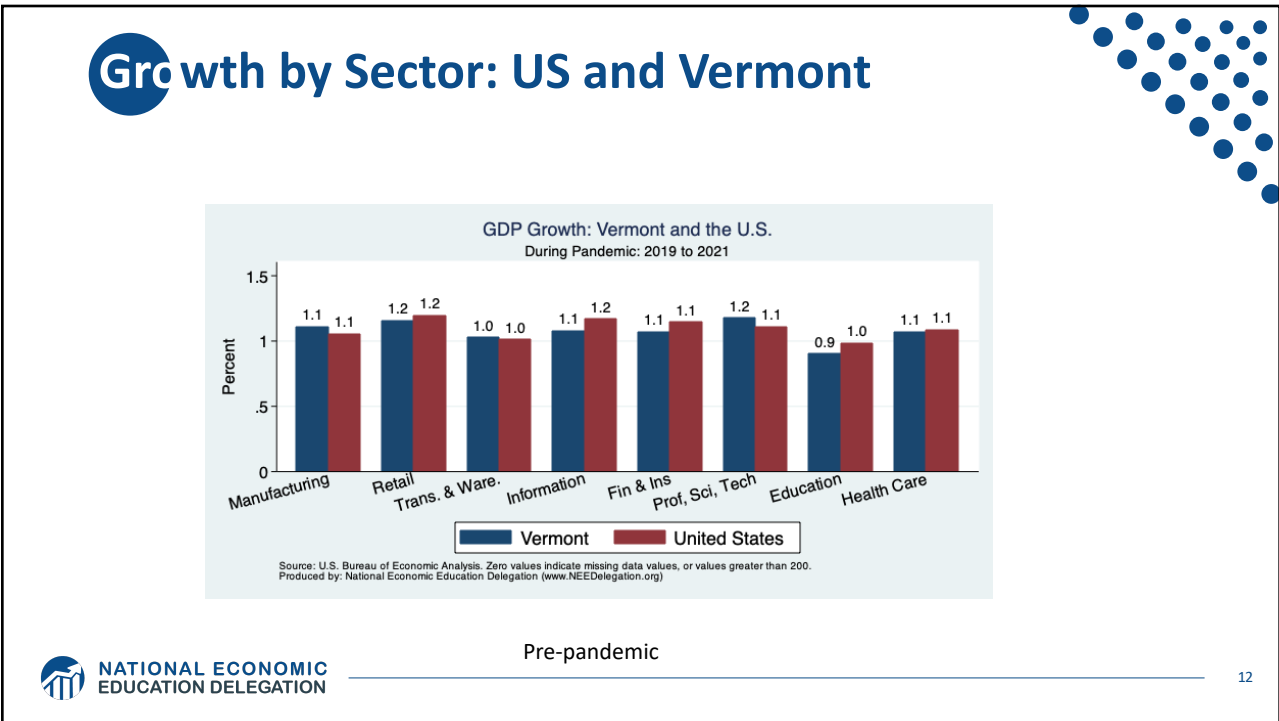
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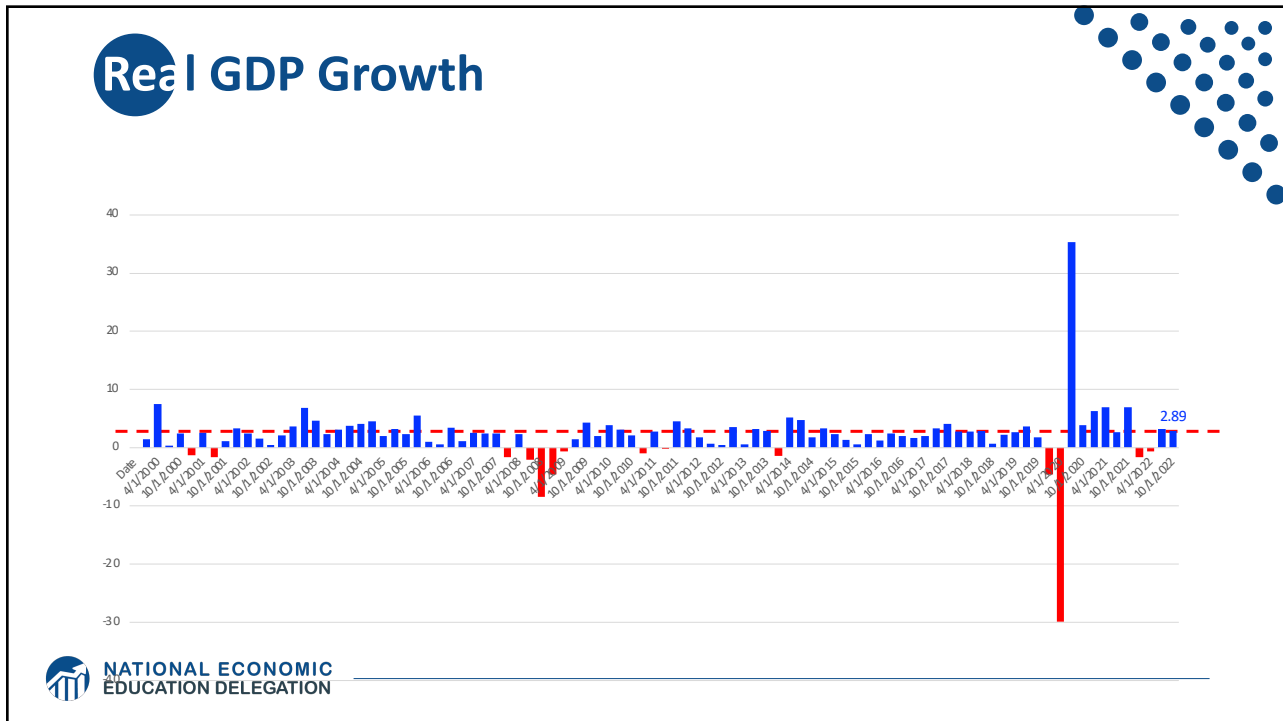
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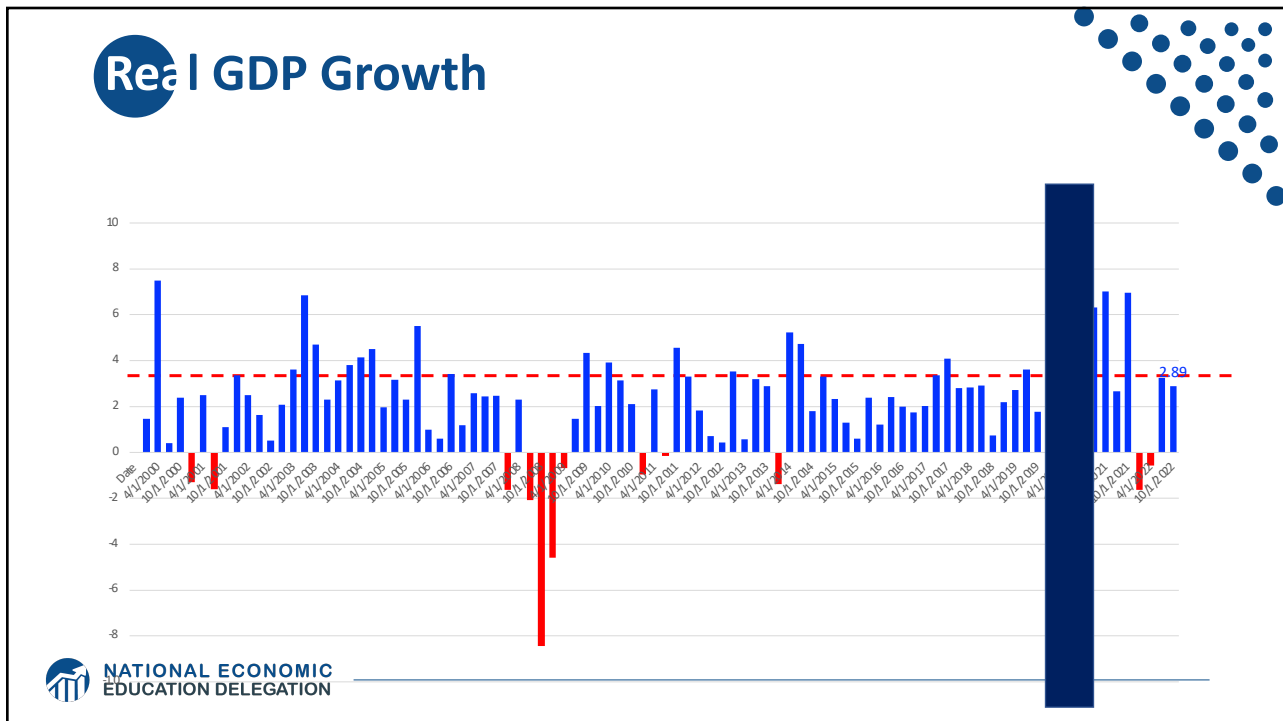
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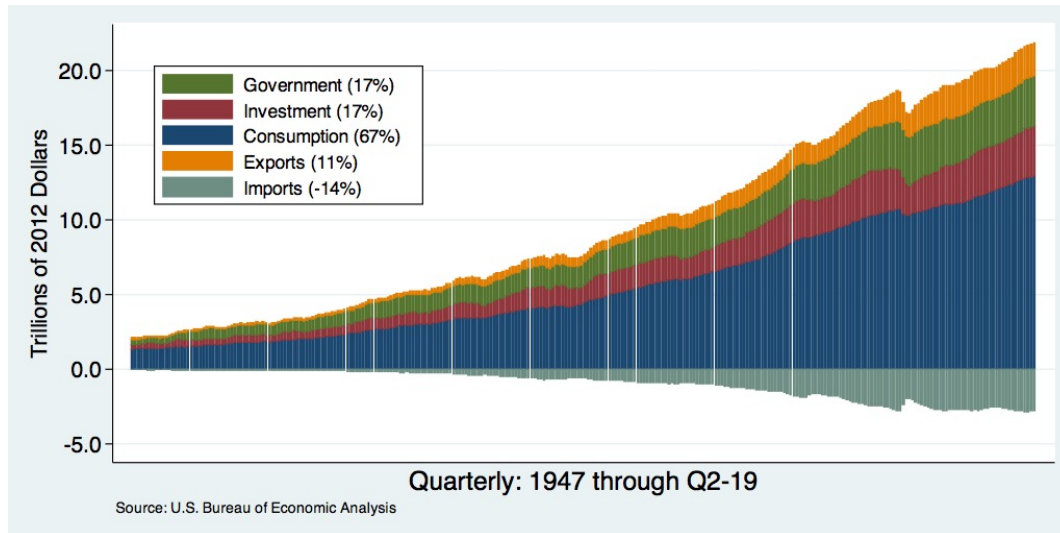


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Composition and Contribution of Real GDP



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Understanding Contributions to GDP Growth

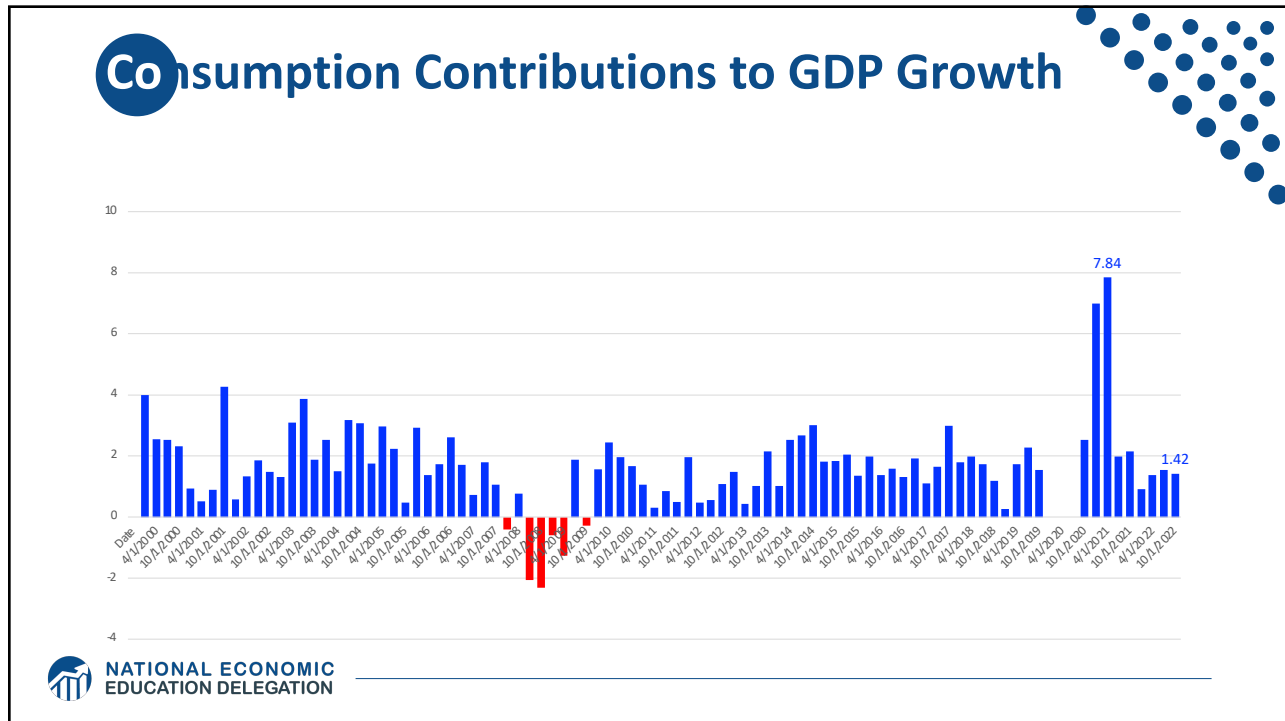
- **GDP Growth is a combination of the growth in its components:**
 - Consumption, Investment, Government, and Net Exports
 - It's a weighted average of these components
- **For example: Consumption**
 - If consumption accounts for **2/3** of the economy,
 - If consumption grew by **3%**,
 - It implies that consumption growth accounts for **2 percentage points** of GDP growth; that is, $2\% = \left(\frac{2}{3}\right) * 3\%$.



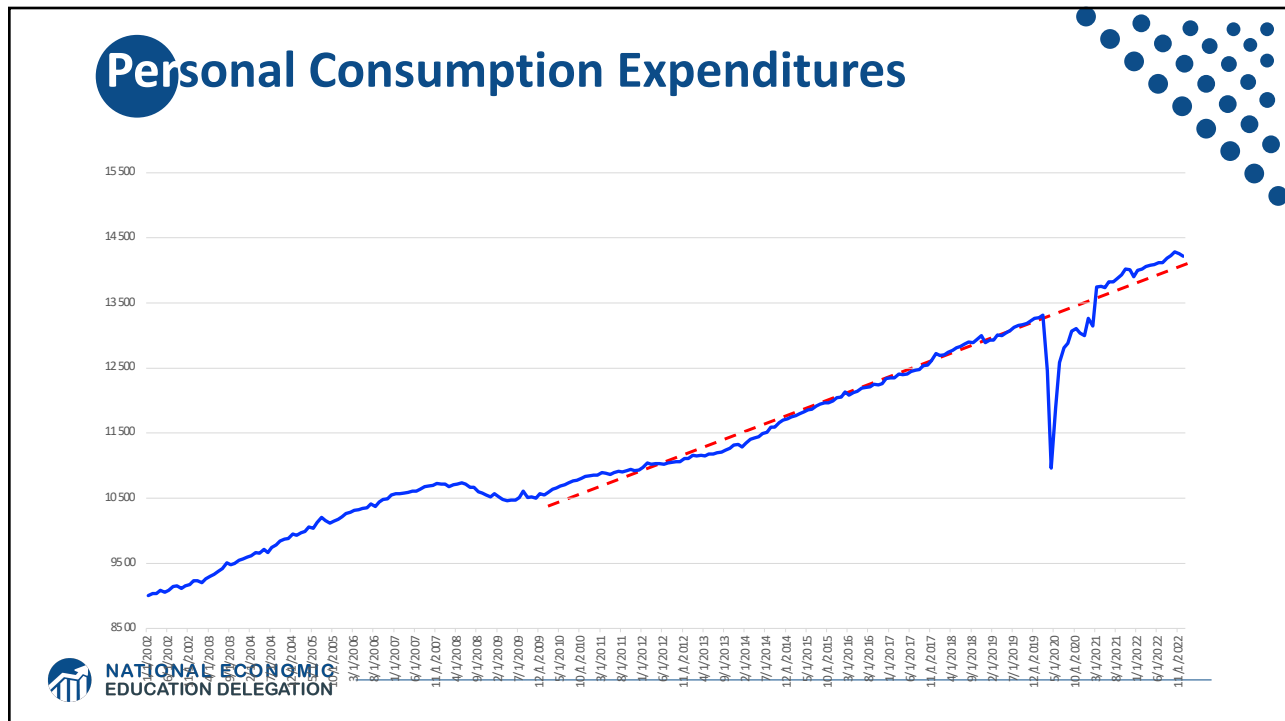
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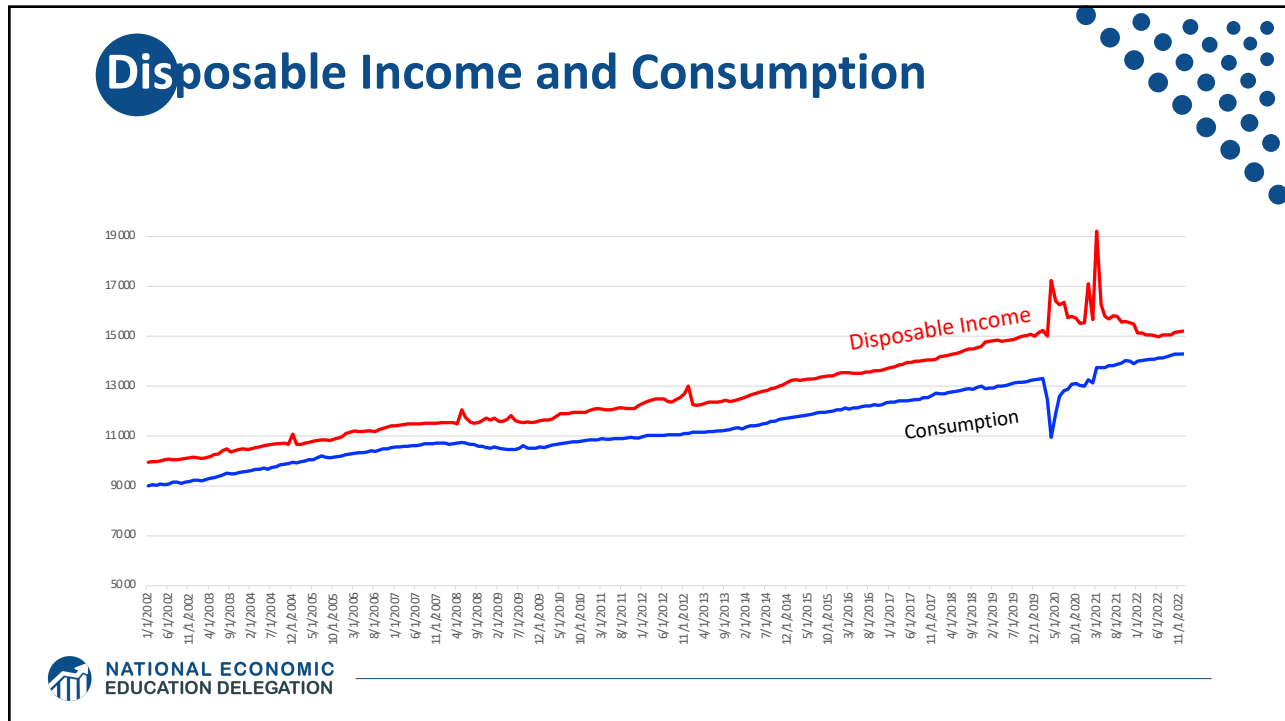
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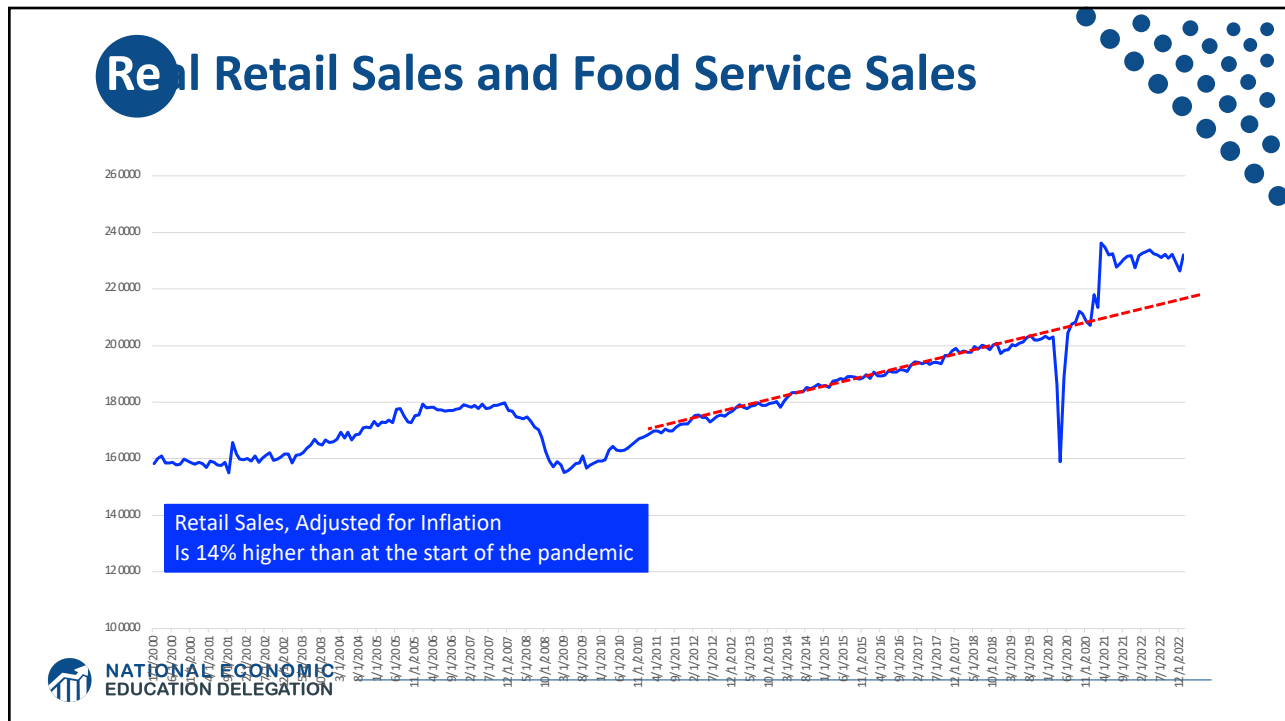
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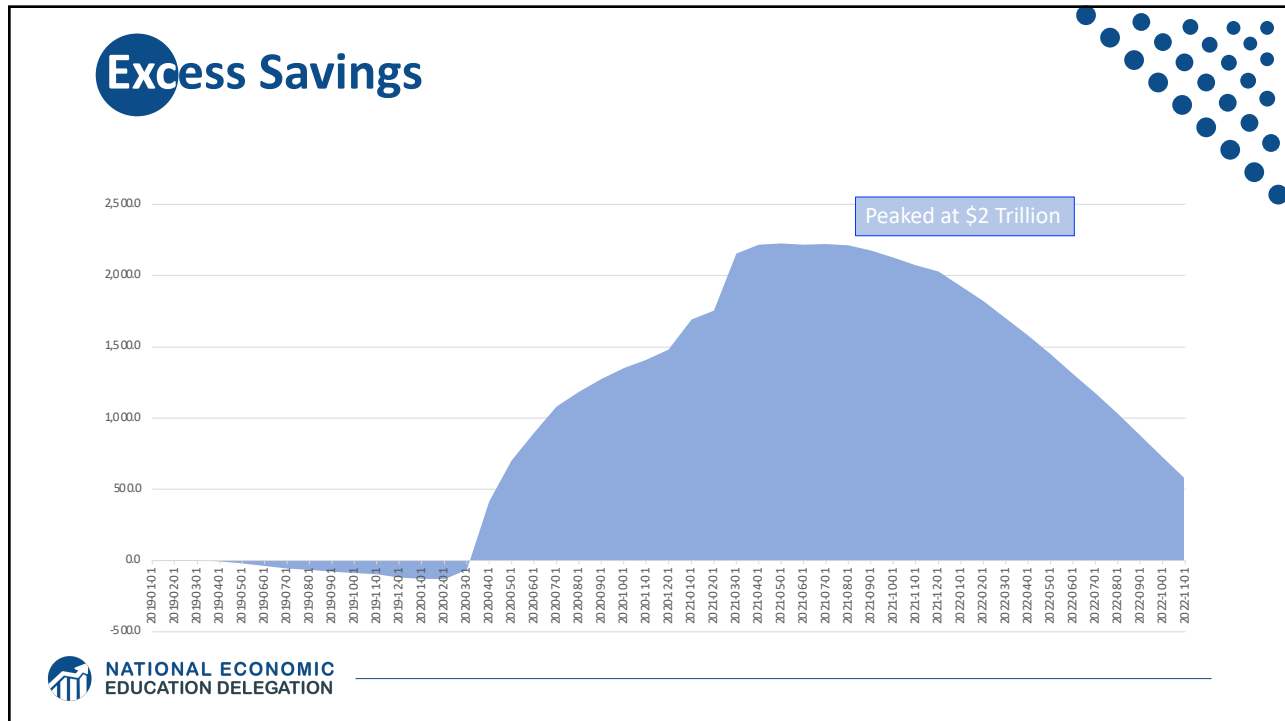
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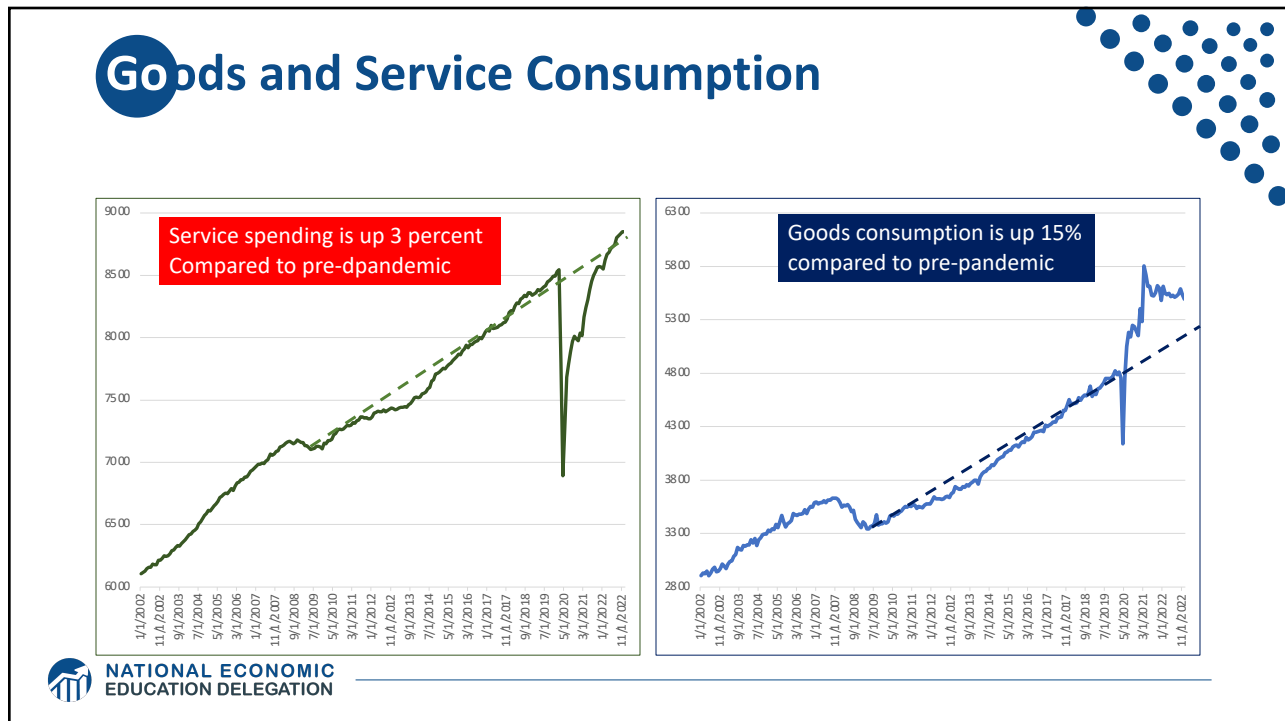
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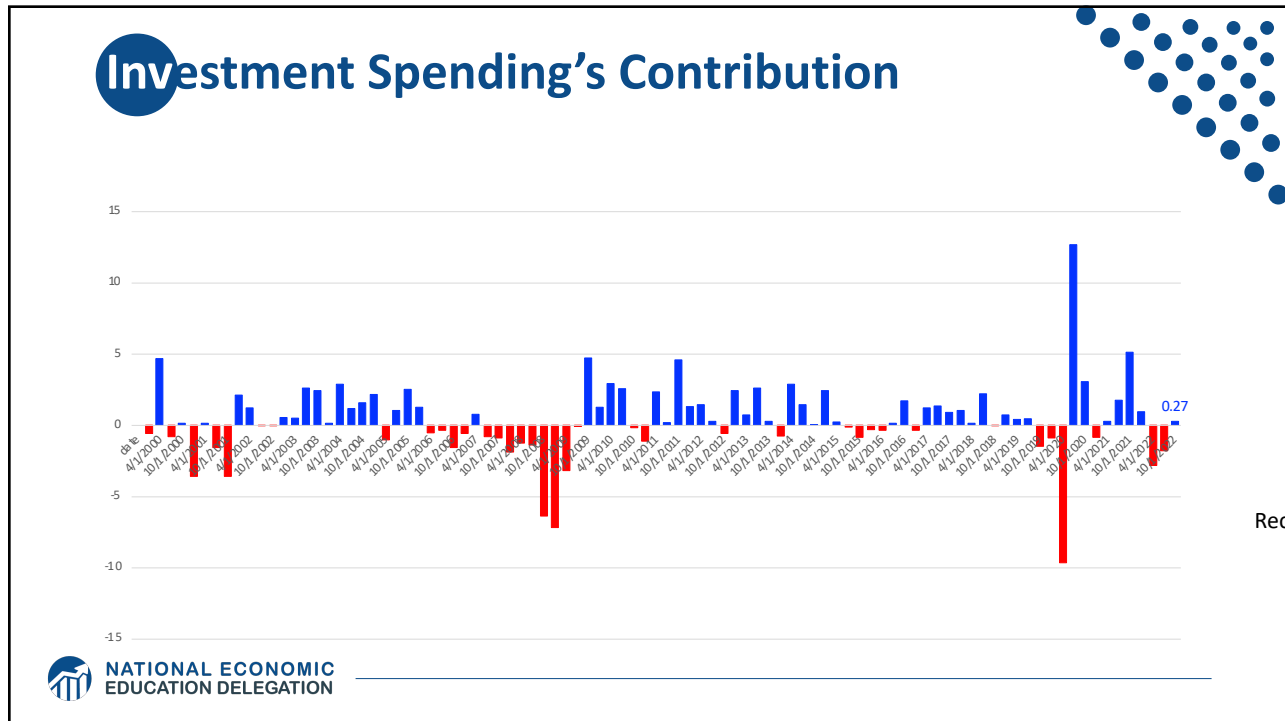
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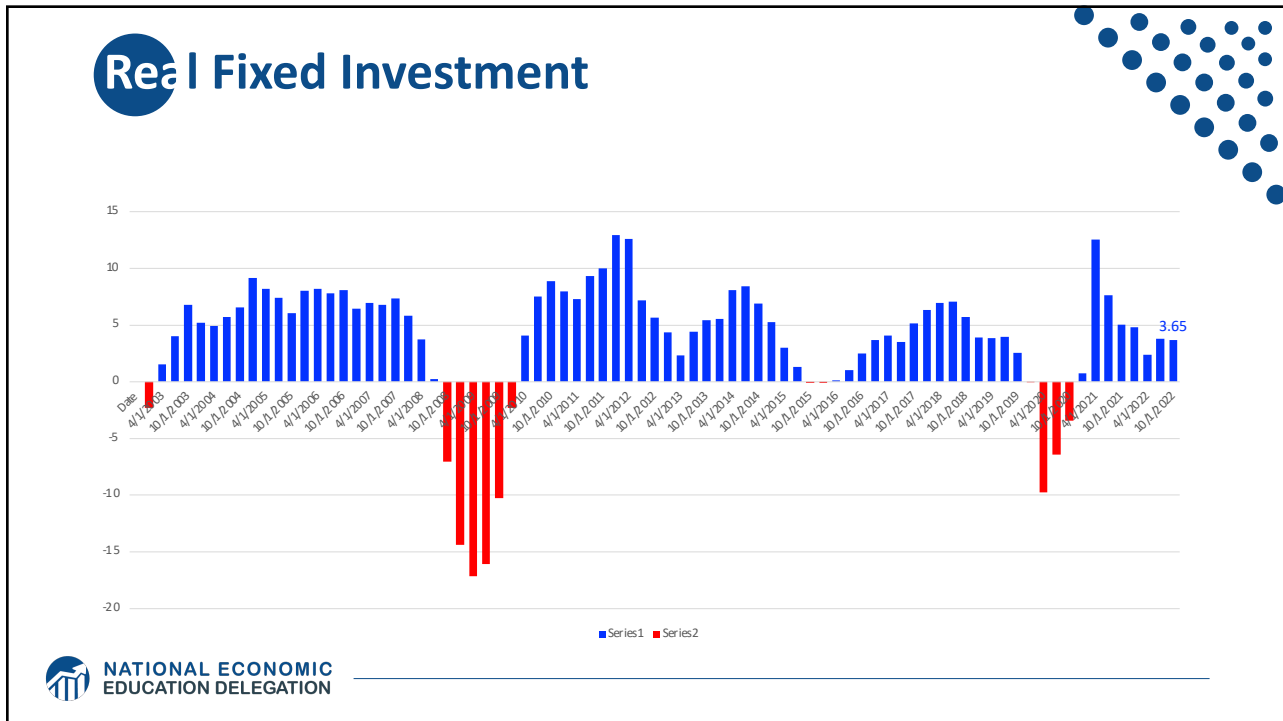
Investment Spending:

- **Investment includes the:**
 - purchase of plants machines and equipment,
 - changes in business Inventories,
 - and residential investment

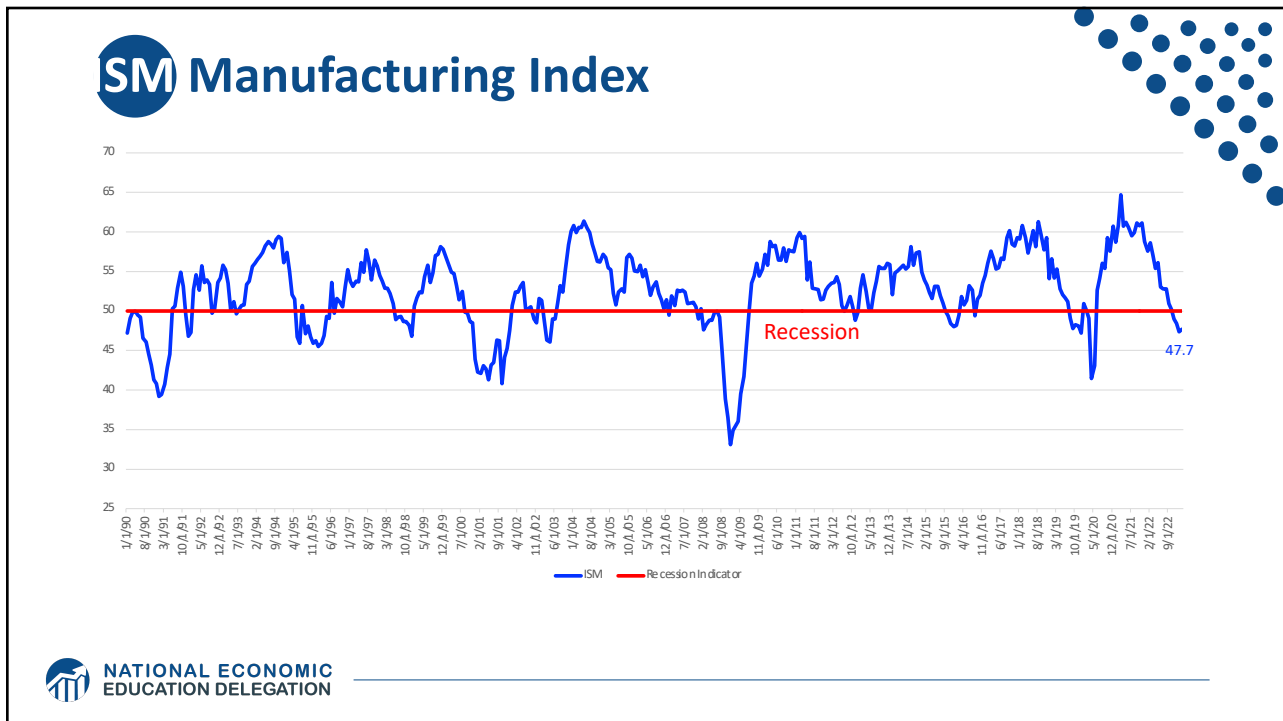
- **The drivers of each of these components are different.**

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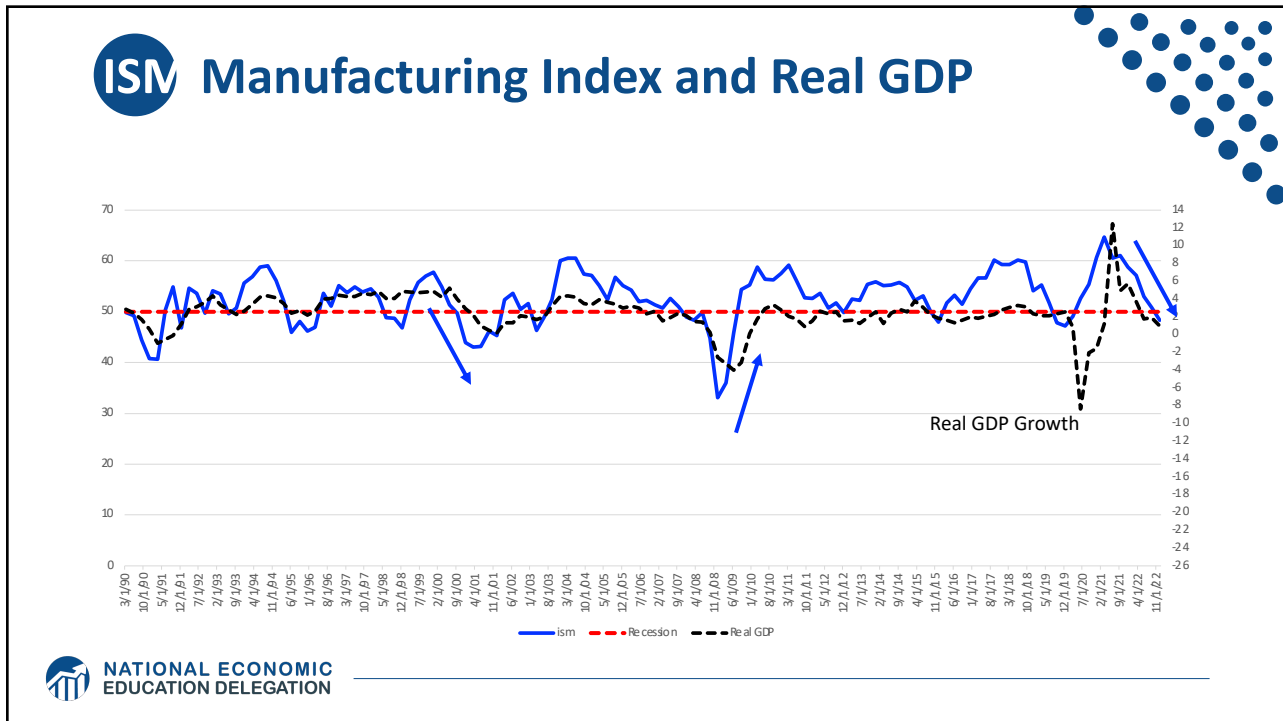
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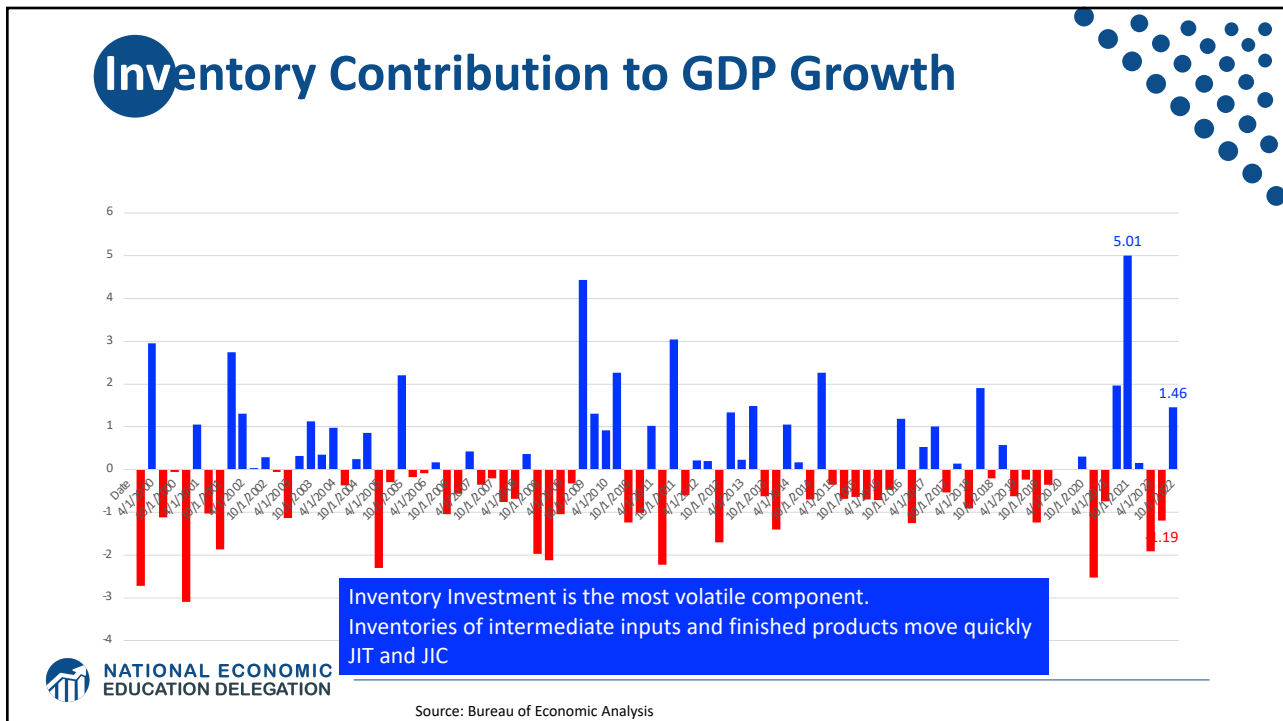
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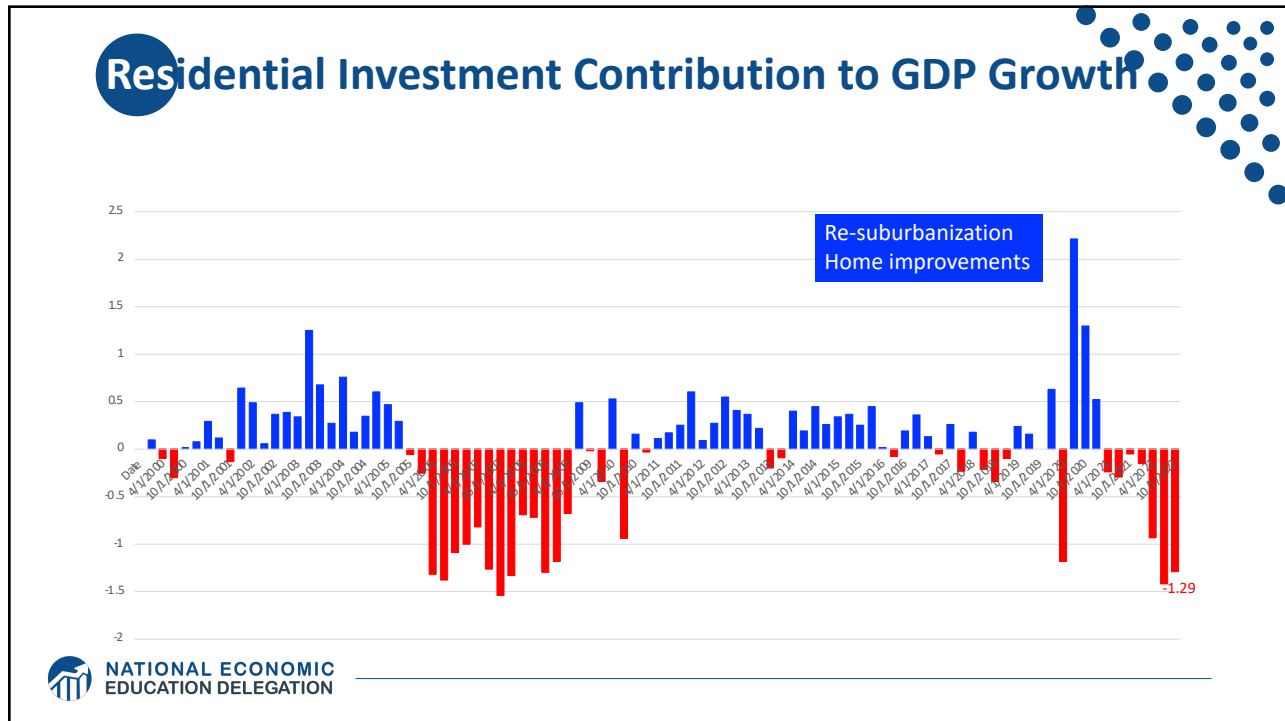
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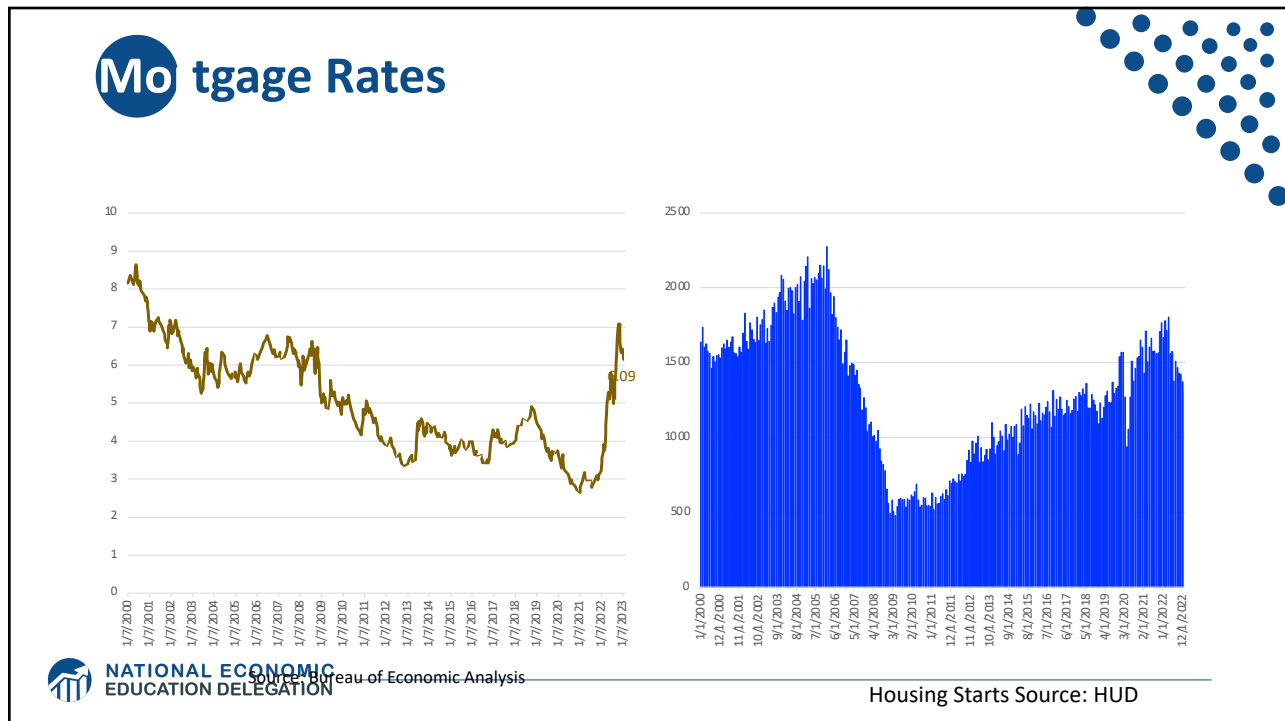
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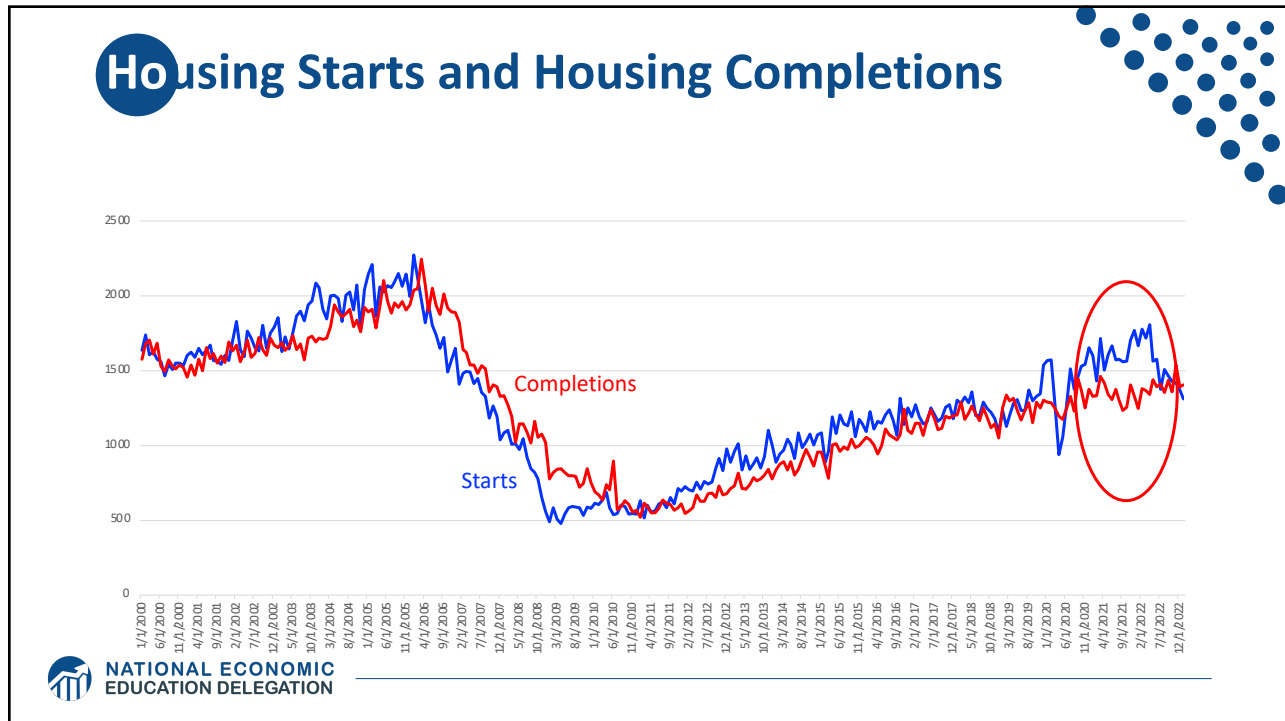
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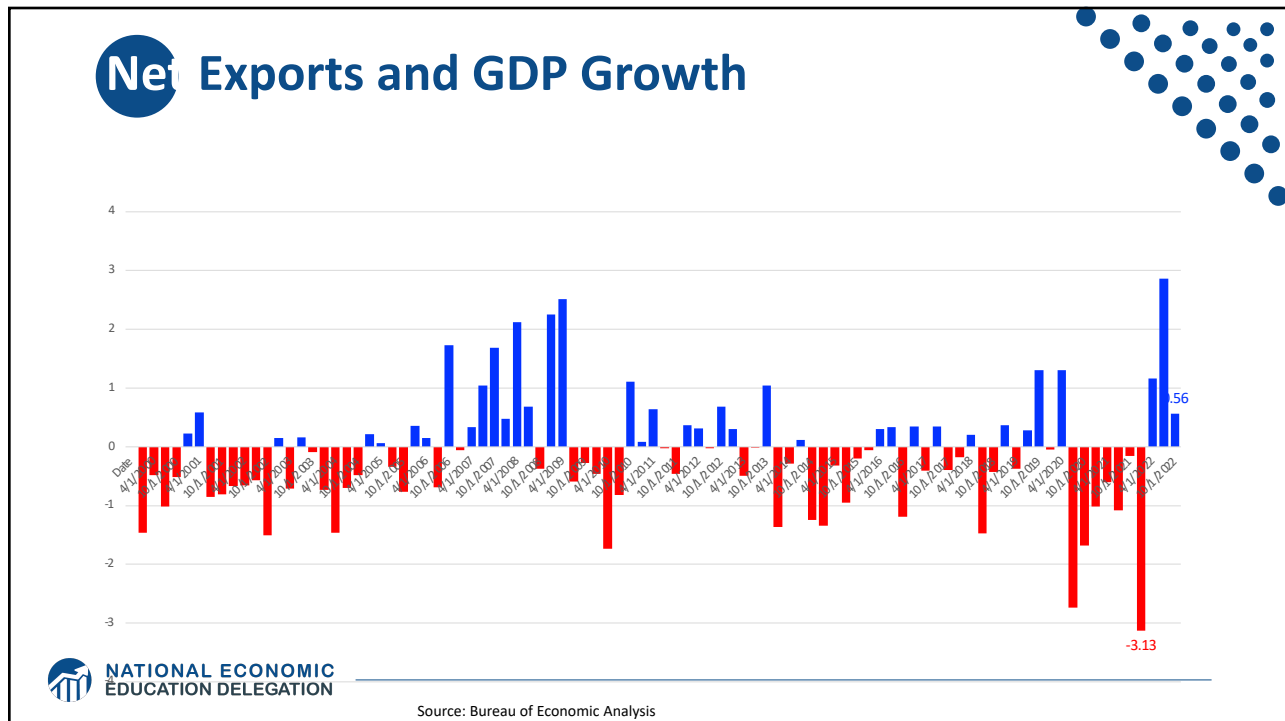
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Takeaways from GDP and Components

- **GDP growth has been supported by relatively strong consumption growth.**
 - Consumption remains “tilted” toward goods rather than services
 - Consumers are spending through the excess savings that accumulated during the pandemic.
- **Investment spending**
 - Higher mortgage rates will likely slow residential investment.
 - Fixed investment remains uncertain -- PMI index seems to indicate investment will slow.
- **Net Exports**
 - Exports will depend on world GDP growth– if the GDP growth slows globally, it will likely reduce exports.



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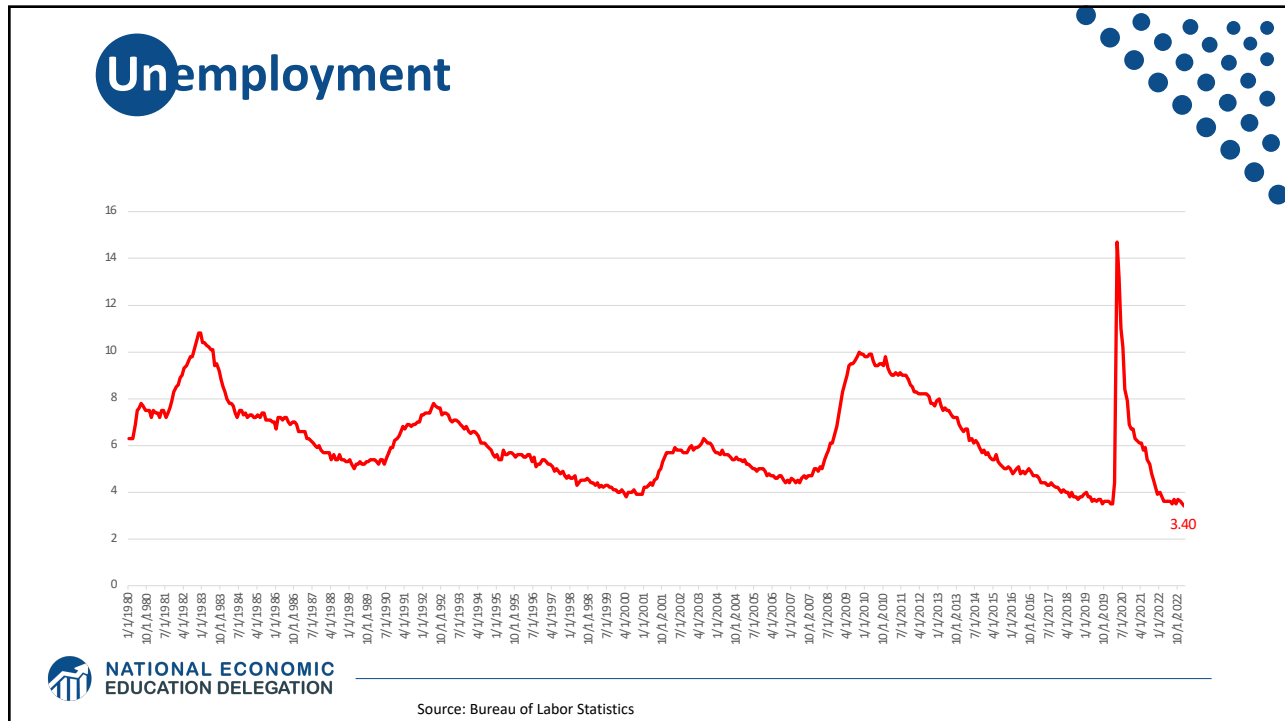
What is the Data Telling Us Now?

- **Fourth Quarter GDP was 2.89 percent!**
 - Positive contributions from consumption
 - What happens with fixed business investment and residential investment is key.
 - Net exports and government expenditures contributed a modest amount as well.
- **Going forward**
 - Depends on how difficult it is for the Federal Reserve to bring inflation down.
 - Also depends on supply-side factors like productivity growth and innovation
 - In the long-run, economic growth is driven by productivity growth, but it is difficult to project where and when the productivity growth is going to come from.

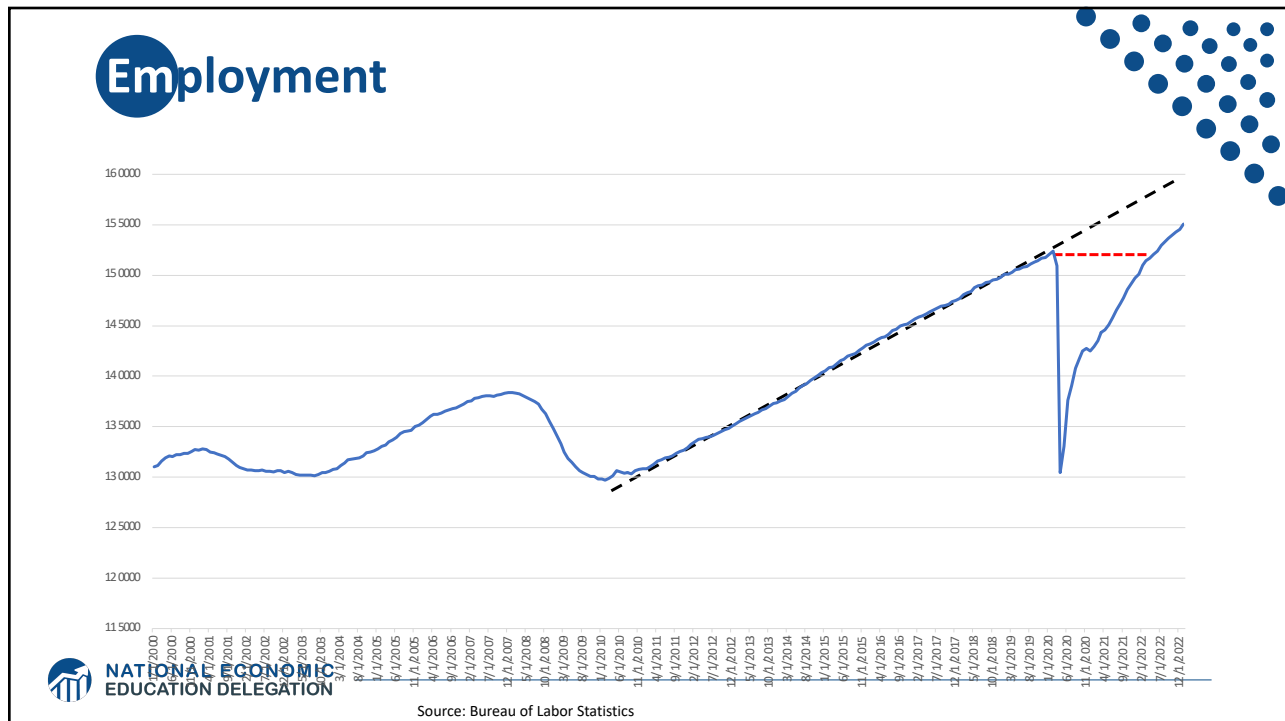


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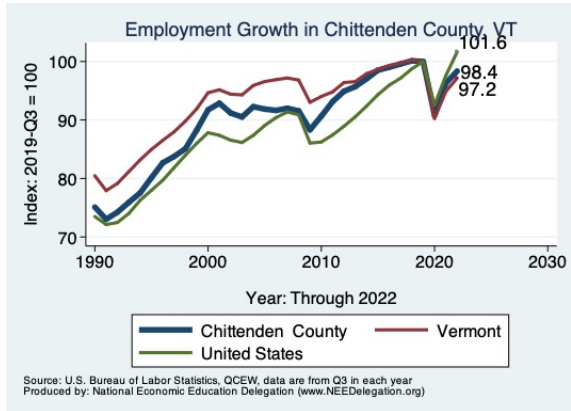
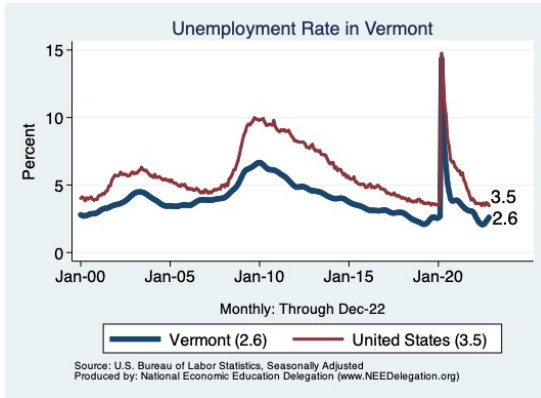


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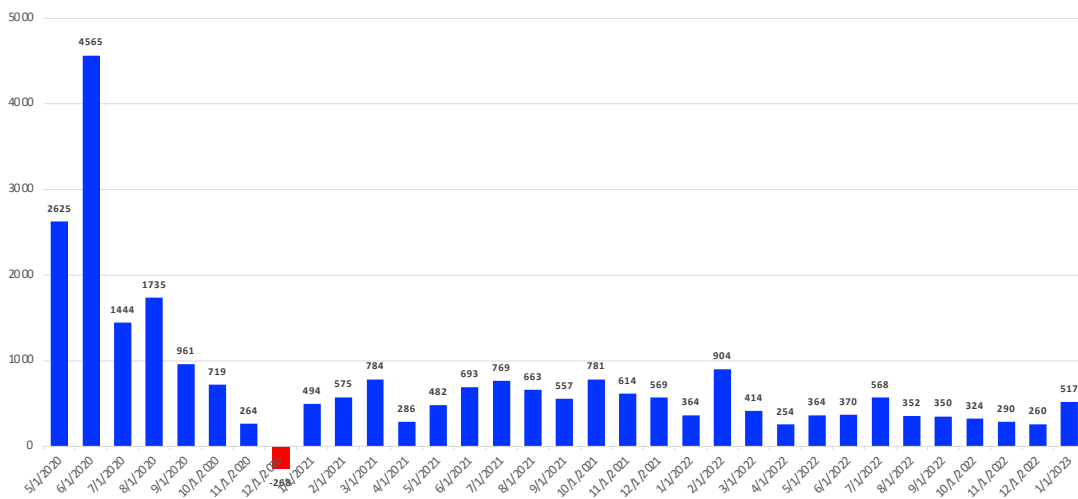
Employment: US and Vermont



Source: Bureau of Labor Statistics

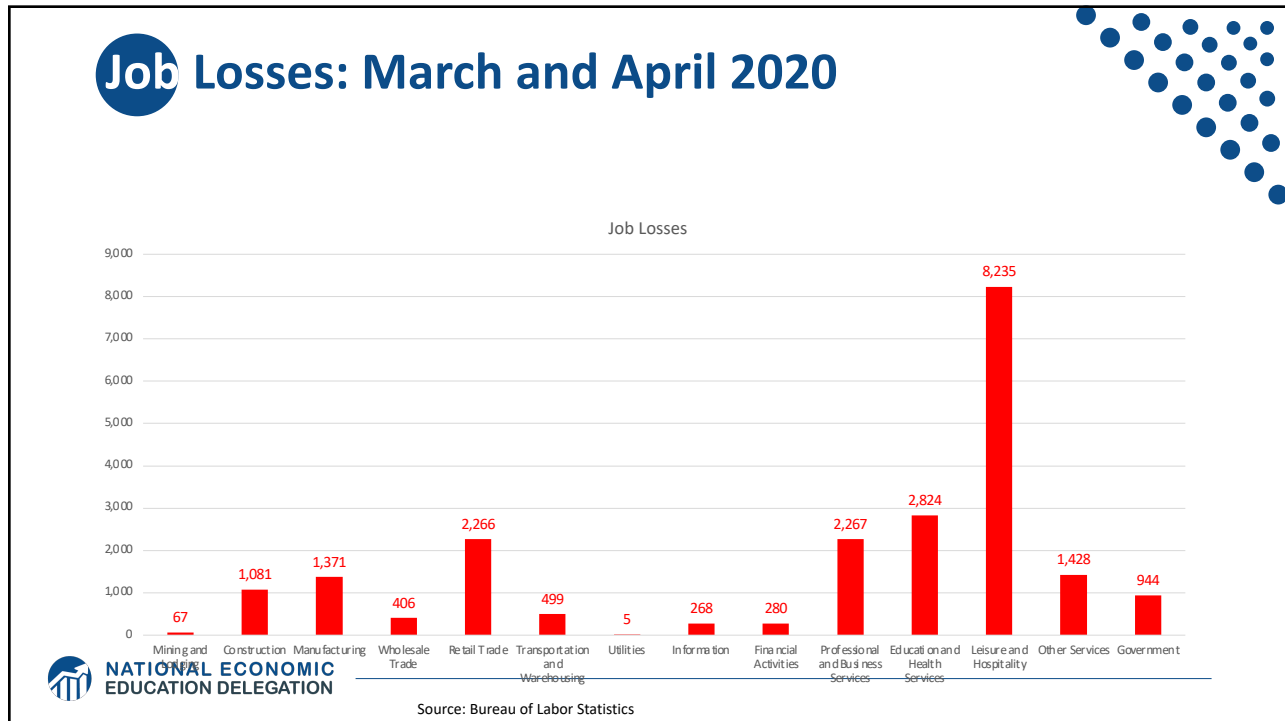
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Employment Changes in US

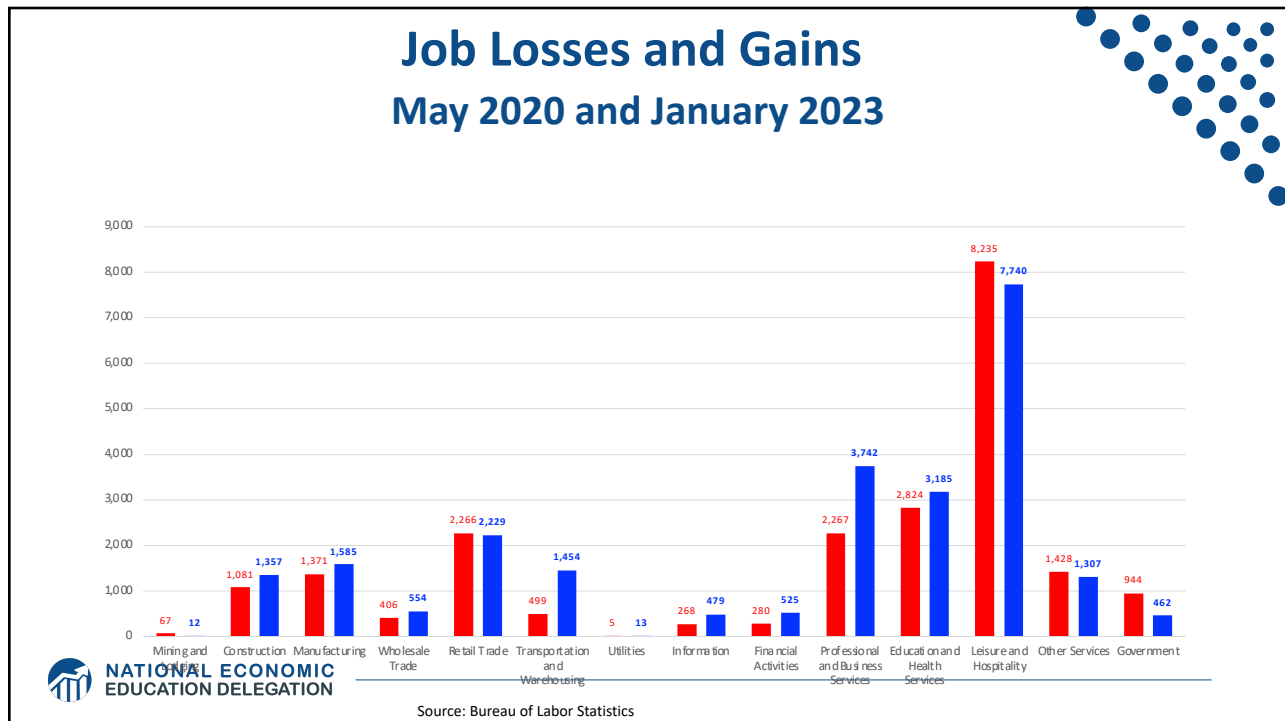


Source: Bureau of Labor Statistics

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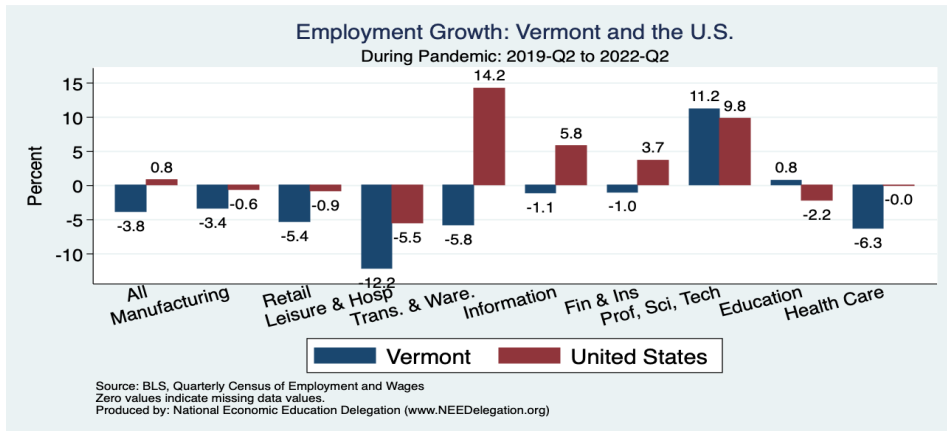


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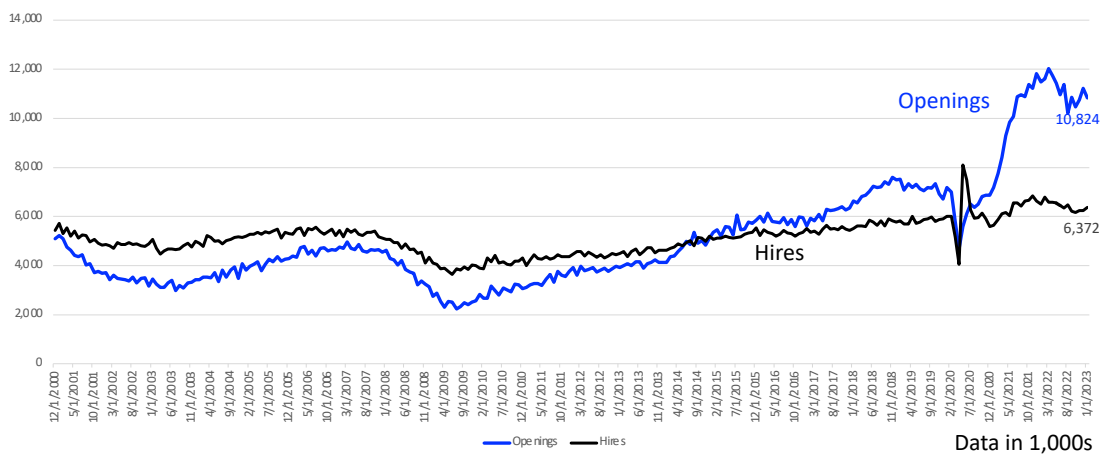
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Employment Growth: Vermont and US

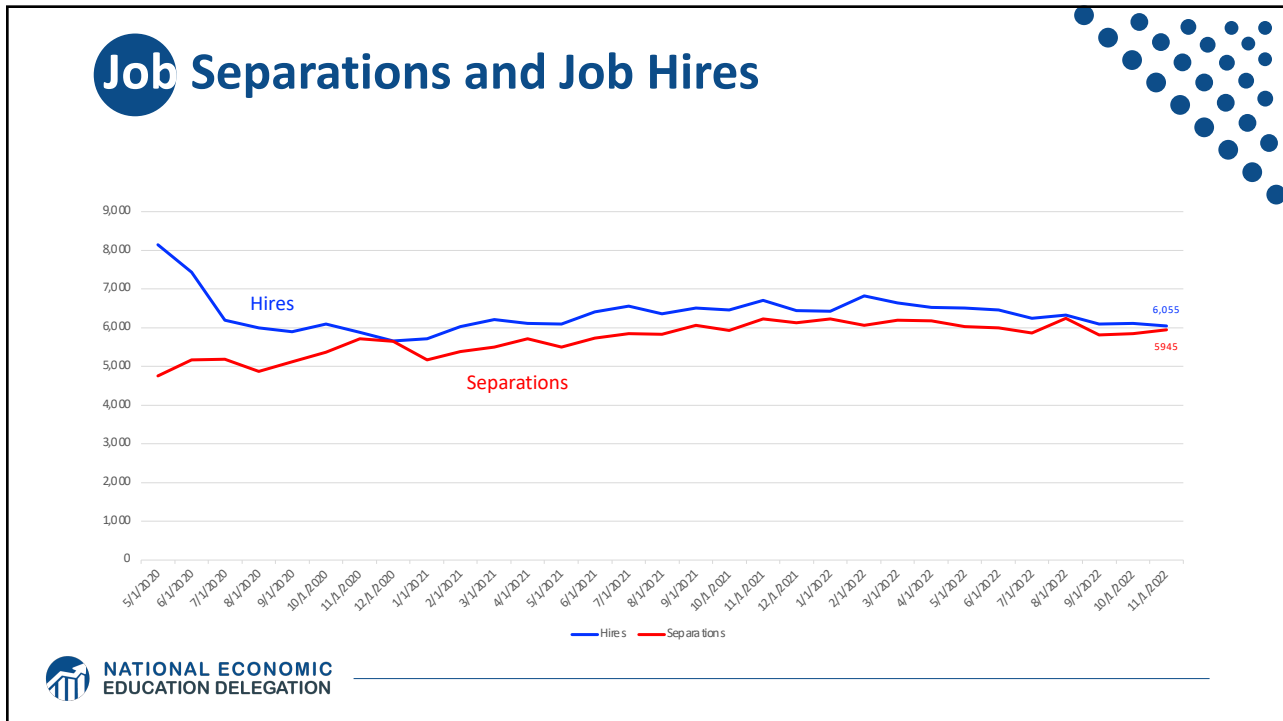


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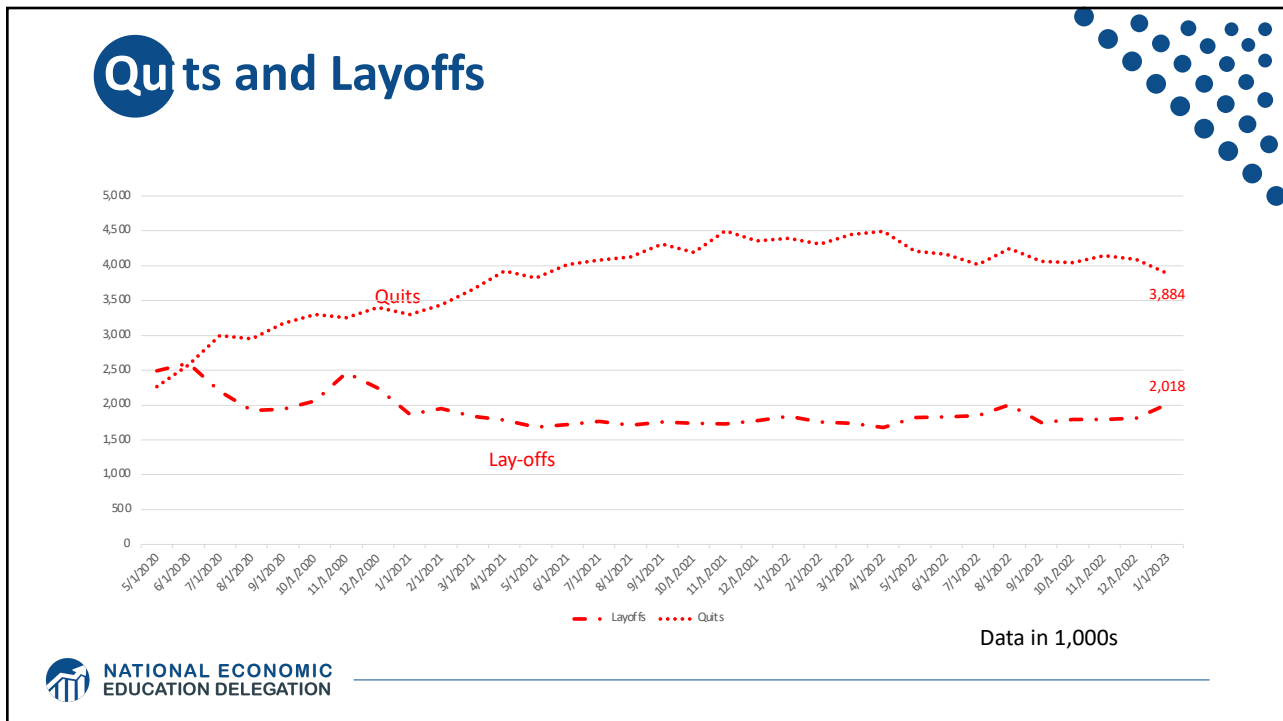
Openings and Hires



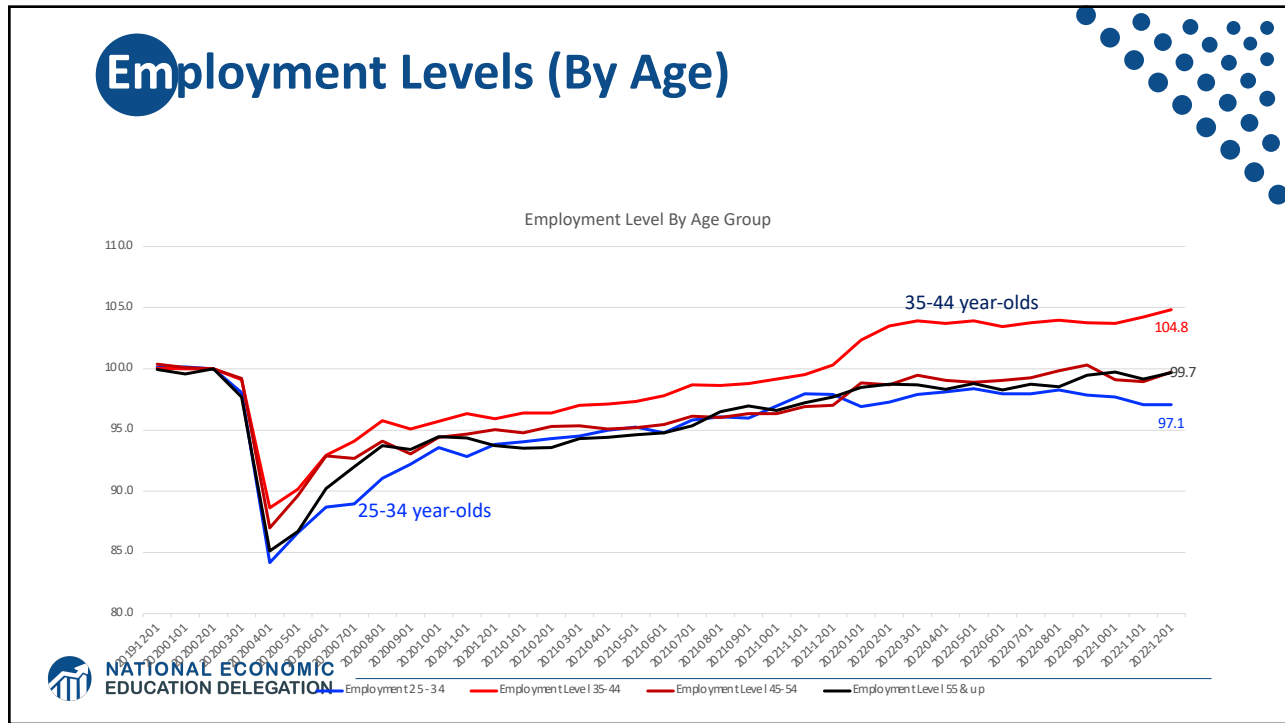
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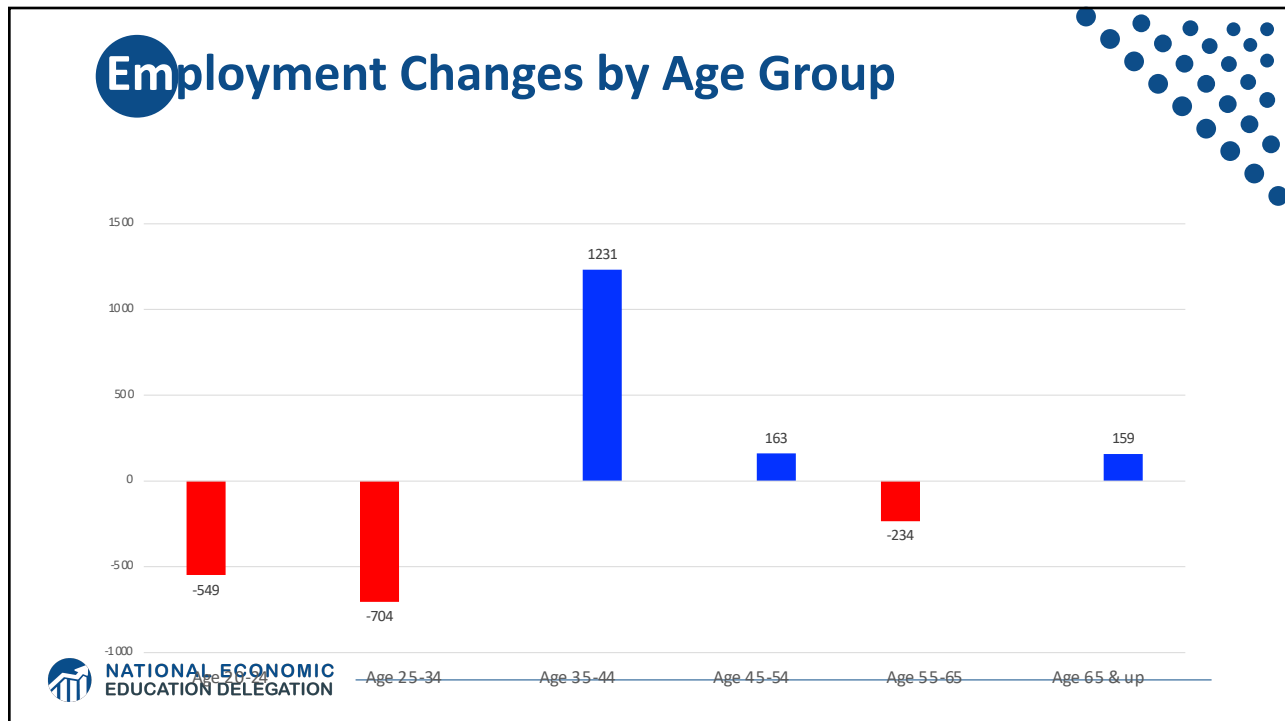
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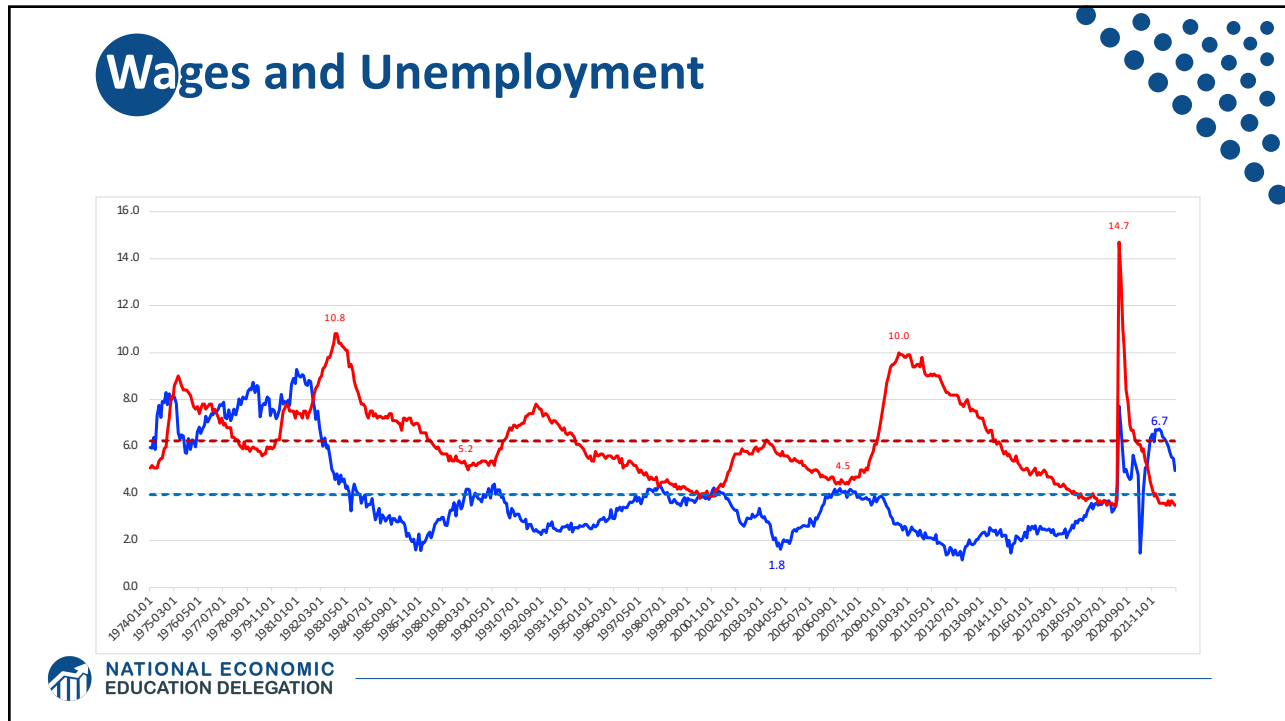
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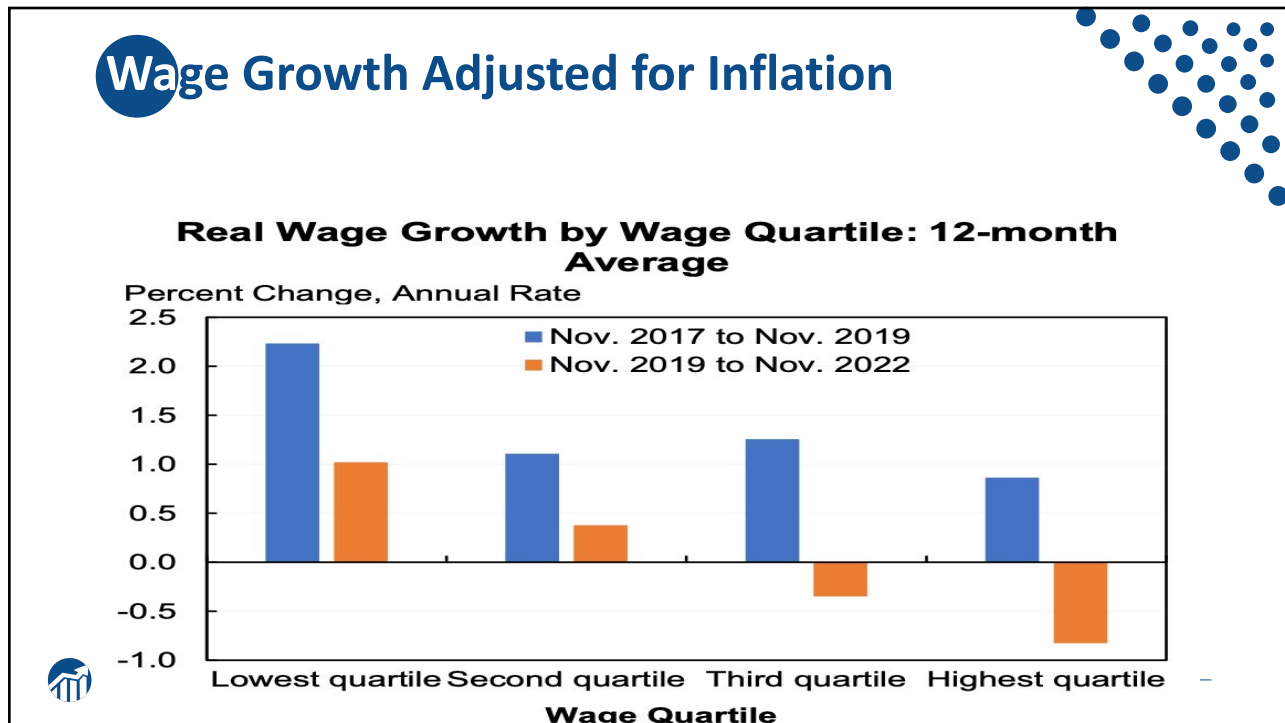
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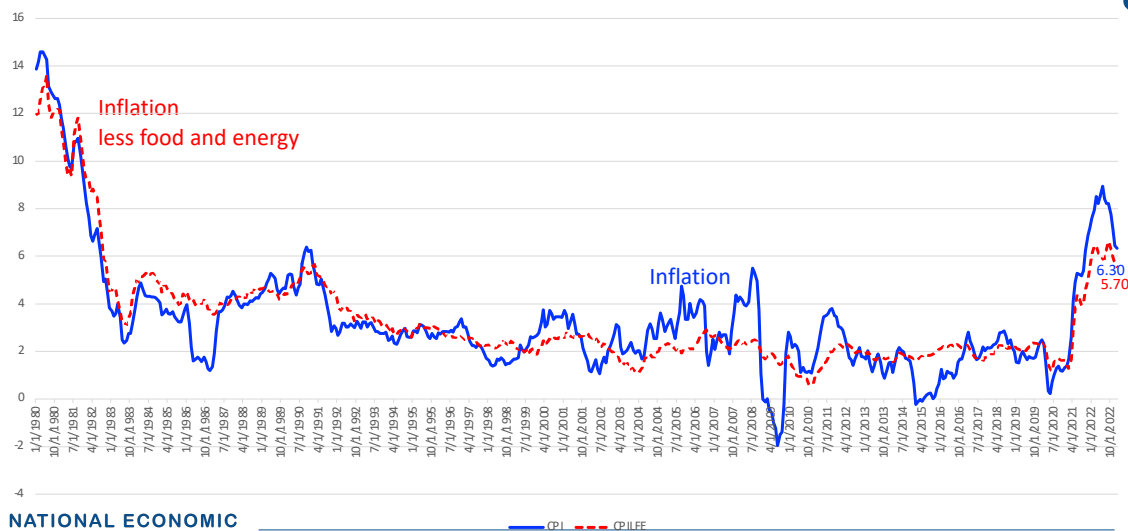
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Employment Situation

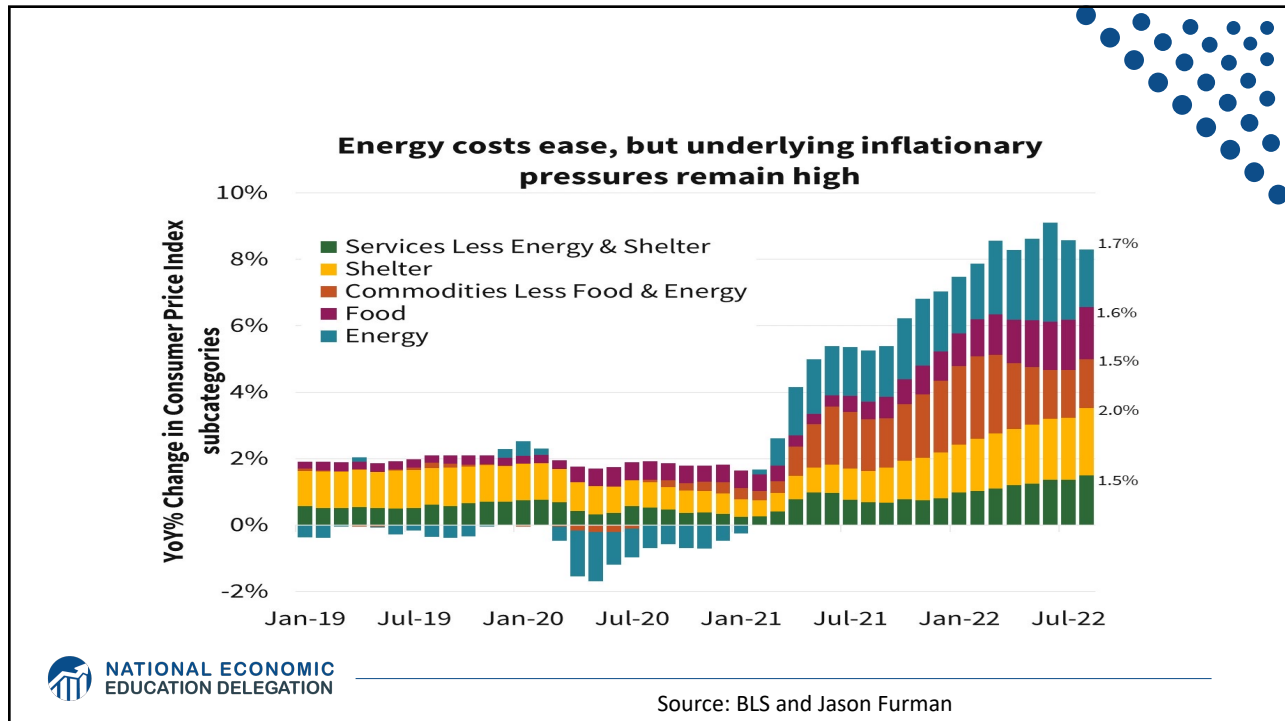
- **Employment: Economy continues to add jobs (January added 517k)**
- **The challenge has been for employers to fill vacancies.**
- **Why?**
 - Extended (or expected continuation) unemployment benefits and other stimulus payments
 - Workers reluctant to work in certain industries and occupations
 - Workers looking for different career opportunities.
 - Workers looking for better employment opportunities withing their industry/occupation – non-pecuniary benefits
 - Increased desire to have the option to work from home.
 - Better working conditions
 - Recognition of accomplishments



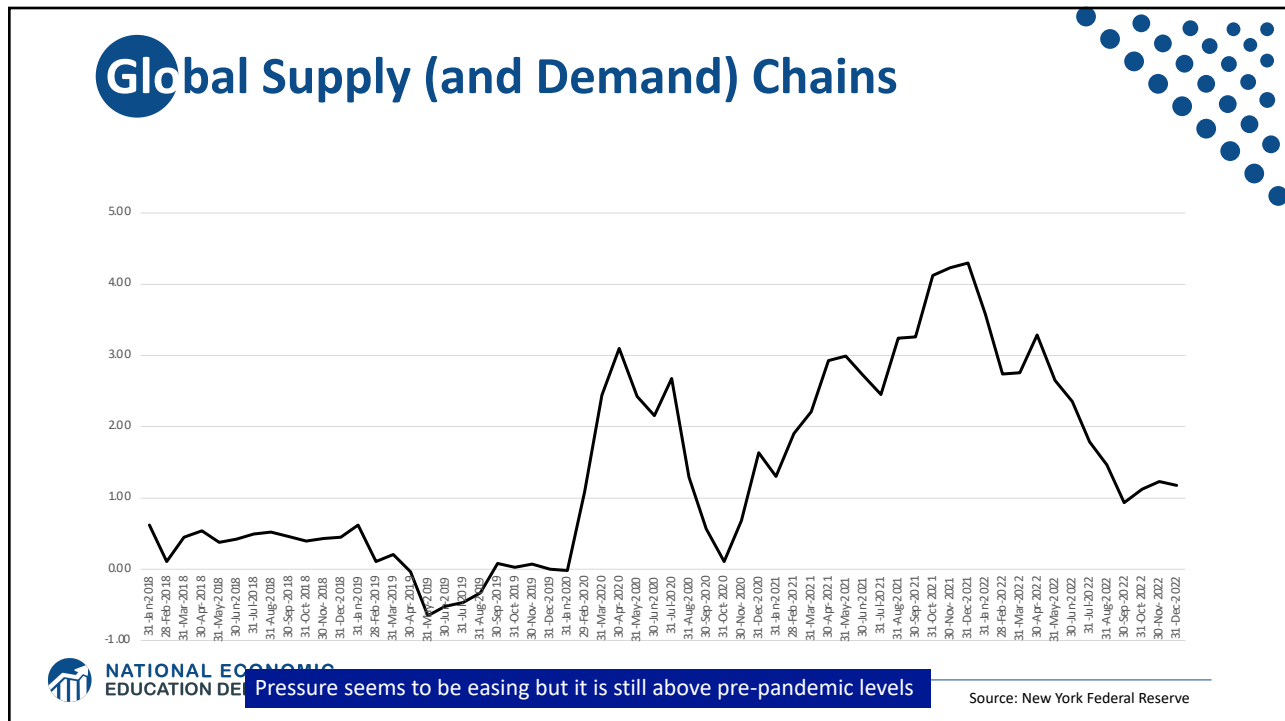
Inflation



Source: Bureau of Labor Statistics



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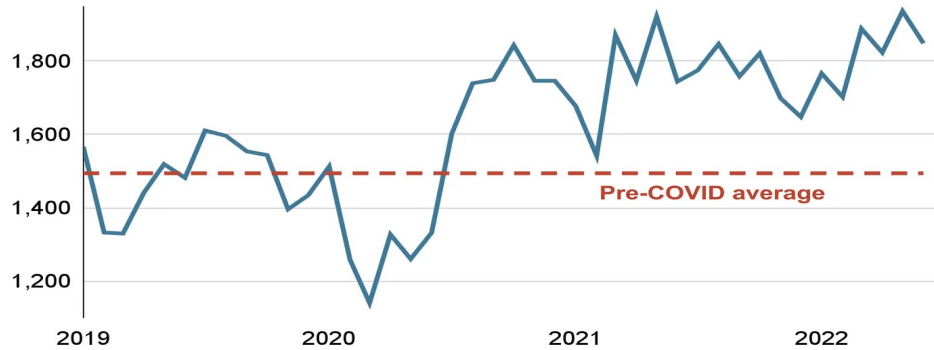


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Not all Supply Disruptions

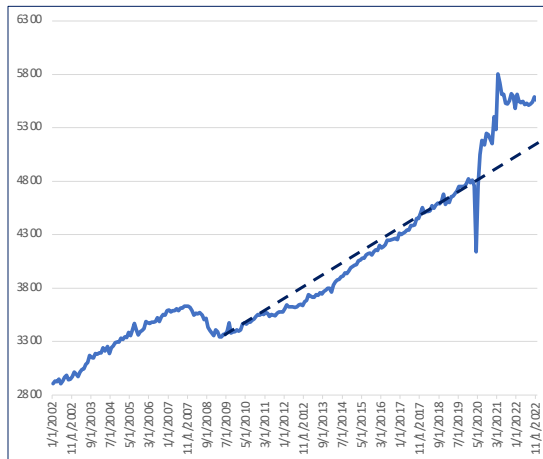
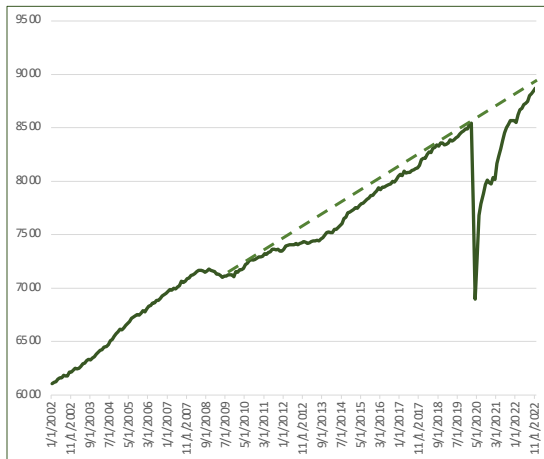
Imports are up significantly since the pandemic

Thousands of TEUs of containerized imports through six major US ports

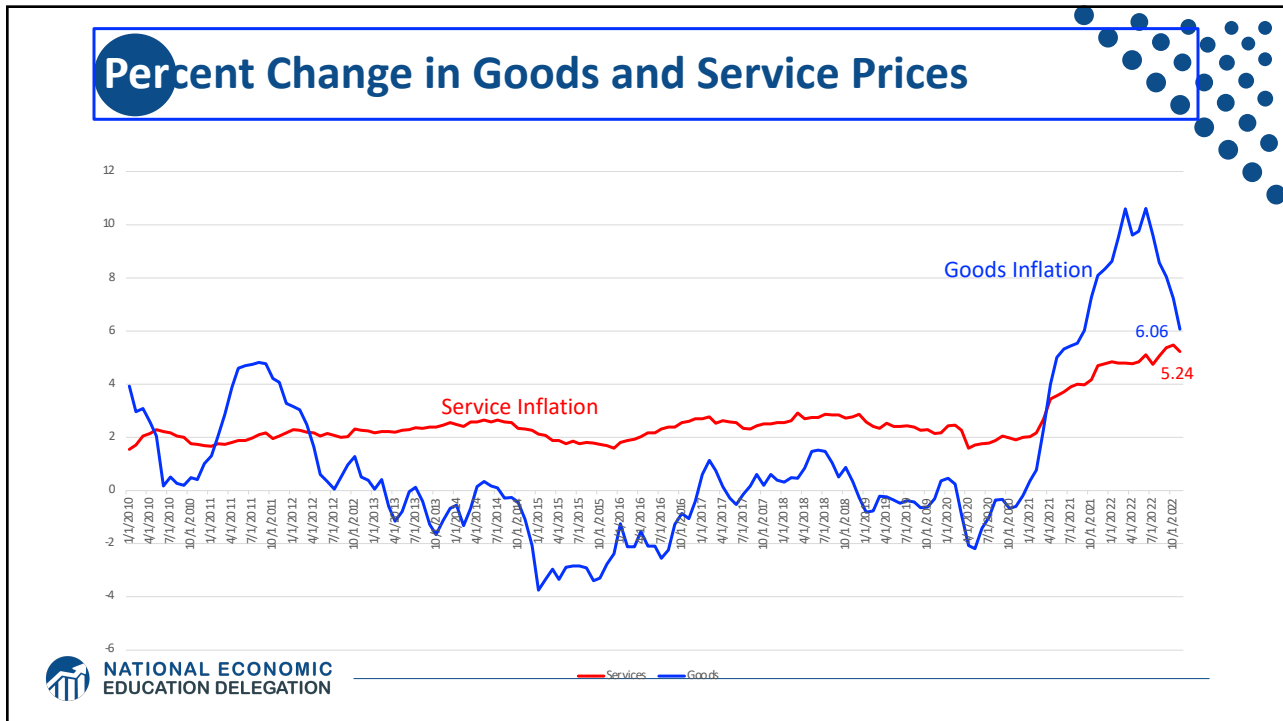


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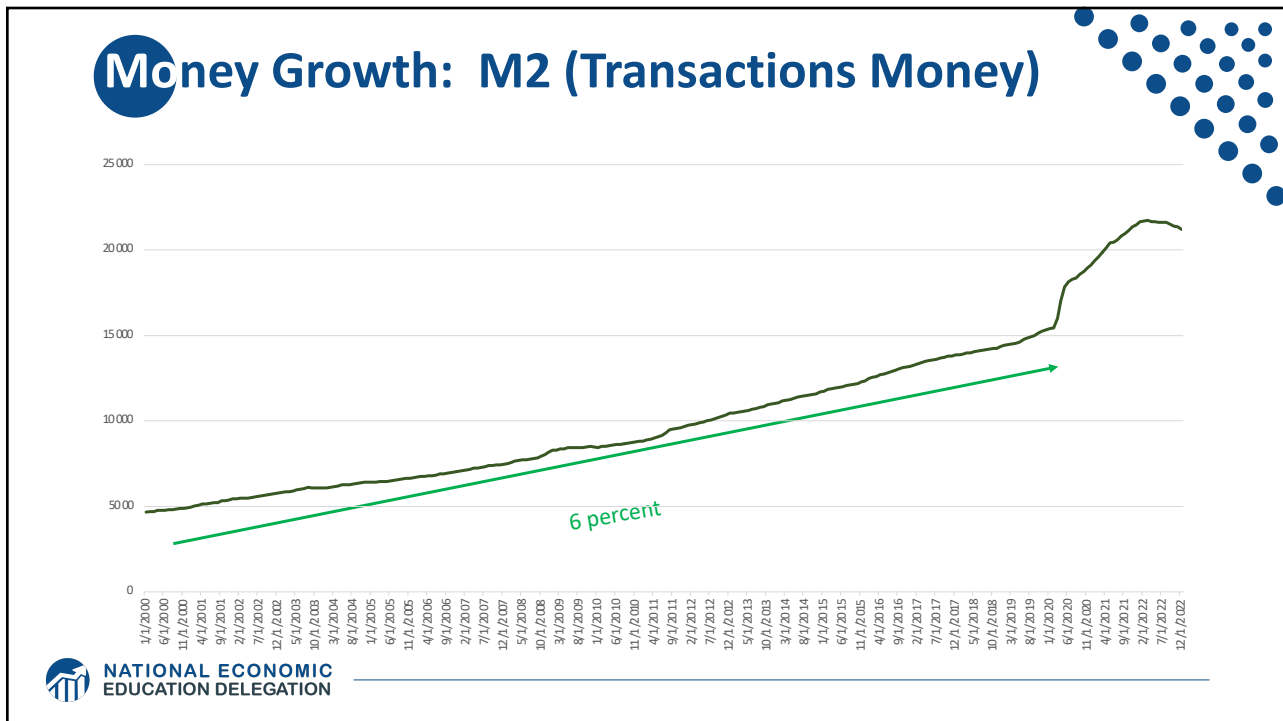
Goods and Service Consumption



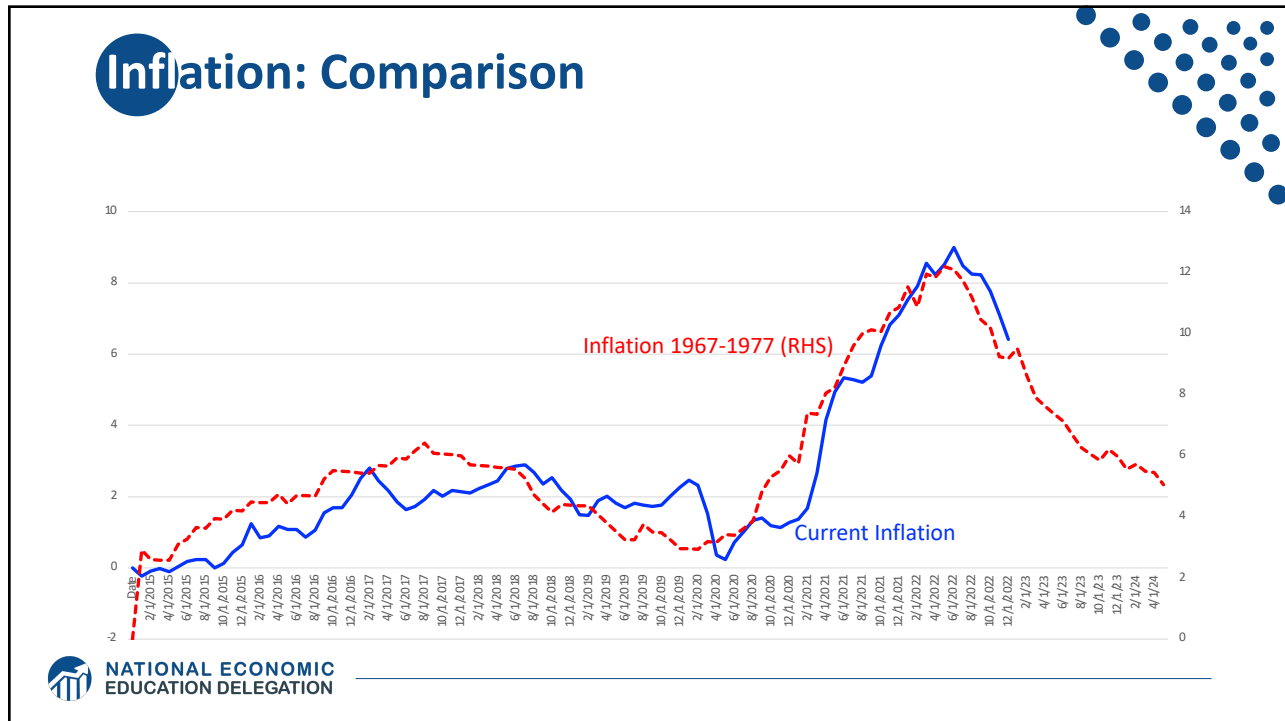
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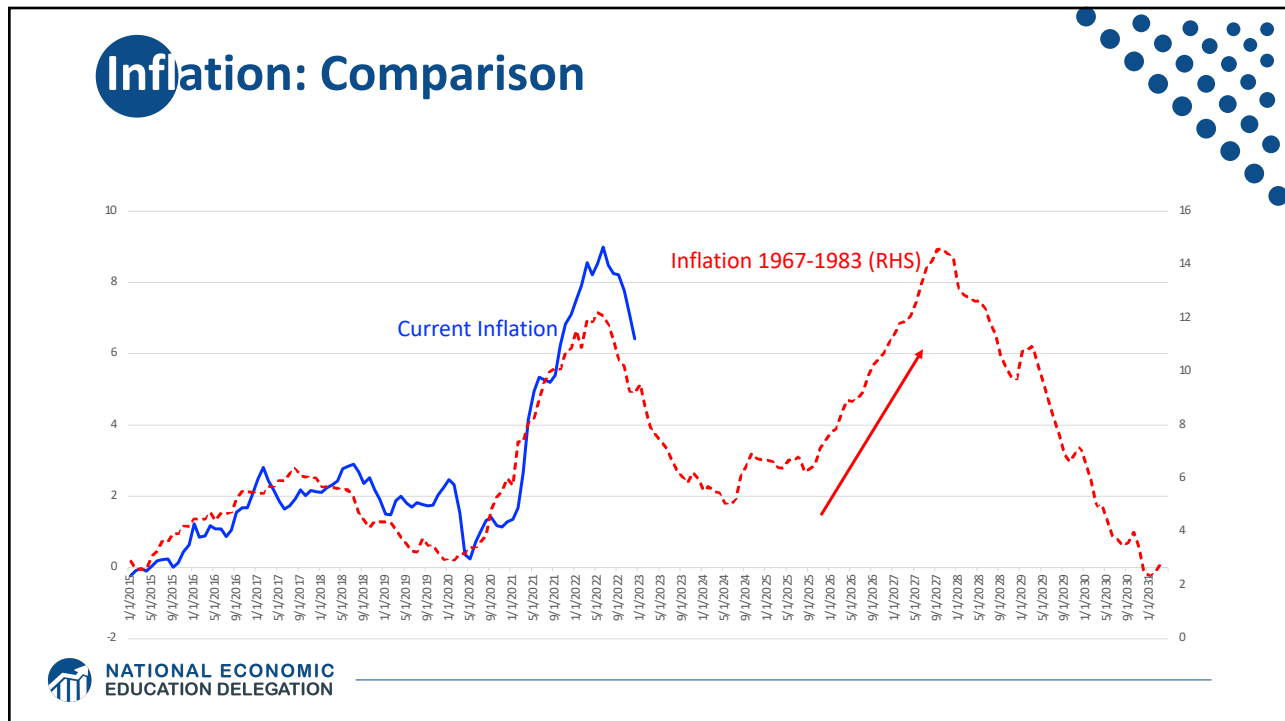
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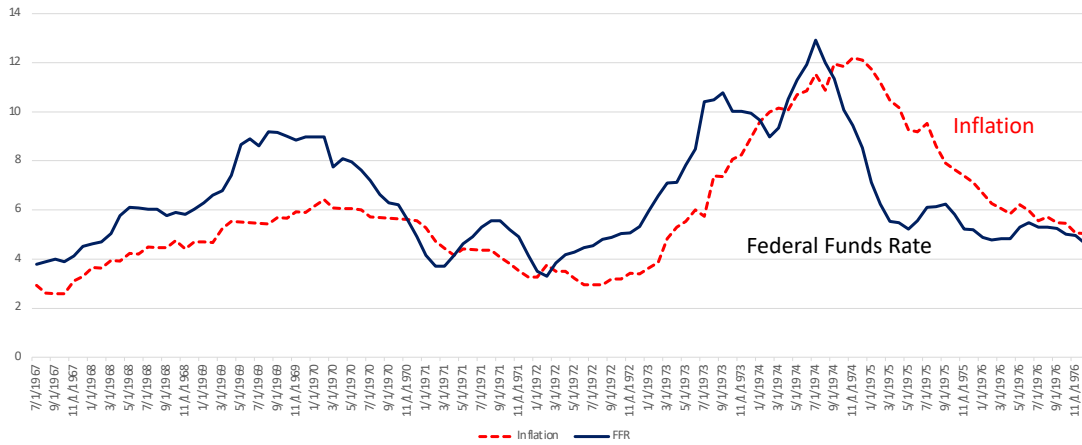


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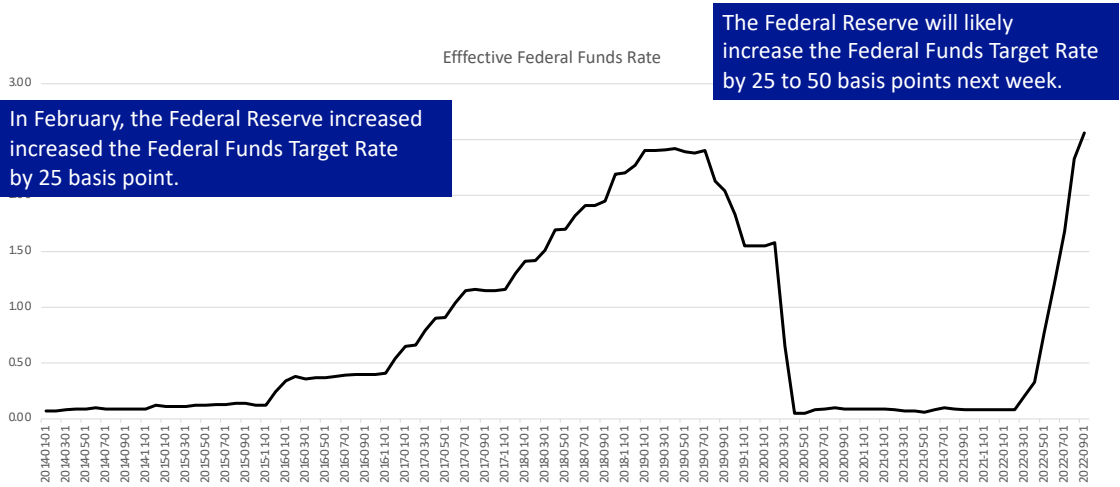


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Inflation and Federal Funds Rate: 1967-1976



Federal Funds Rate



Inflation Outlook

- **The inflation outlook is improved:**
 - Falling commodity prices,
 - Supply chain improvements,
 - Higher interest rates cooling demand,
 - Reduction of the money supply.
- **Still issues – inflation has been very high in the last year.**
- **Main question: How much lower does inflation have to go before the Fed takes off the breaks?**

Is Inflation a Global Phenomenon?

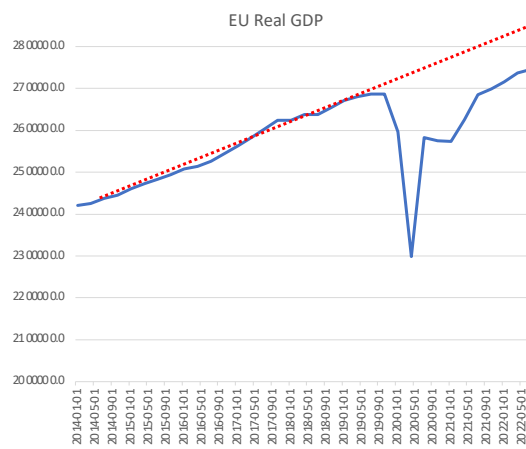
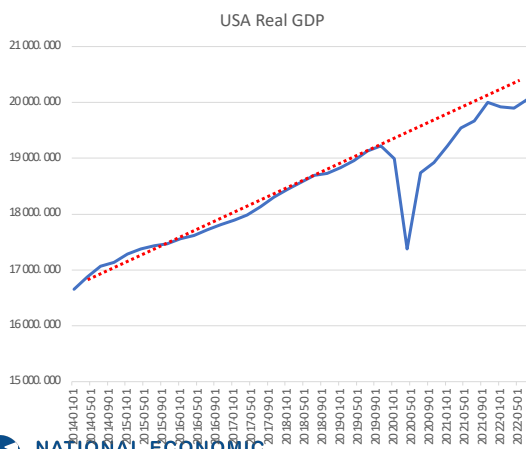
- ~~Yes, but the sources may be different.~~
- **In terms of basic supply and demand**
 - the price increases are supply-driven, we will see **higher** prices and **lower** quantities – negative supply shocks --> real GDP below trend.
 - If the price increases are demand-driven, we will see **higher** prices and **higher** quantities – positive demand shocks -> higher nominal GDP.
- **We can look at real GDP and Nominal GDP**
 - If real GDP is at or above trend, demand shocks are likely to be more important.
 - If nominal and real GDP are above trend, it is likely the case that demand shocks are also more important.

Is Inflation a Global Phenomenon?

- Why do we care?
- If the shocks are demand-driven, it means that the government response (stimulus) to the pandemic is, at least, partially responsible for the higher inflation.
- If the inflation is demand-driven, the Central Bank is better equipped to respond to higher demand than supply-side shocks.

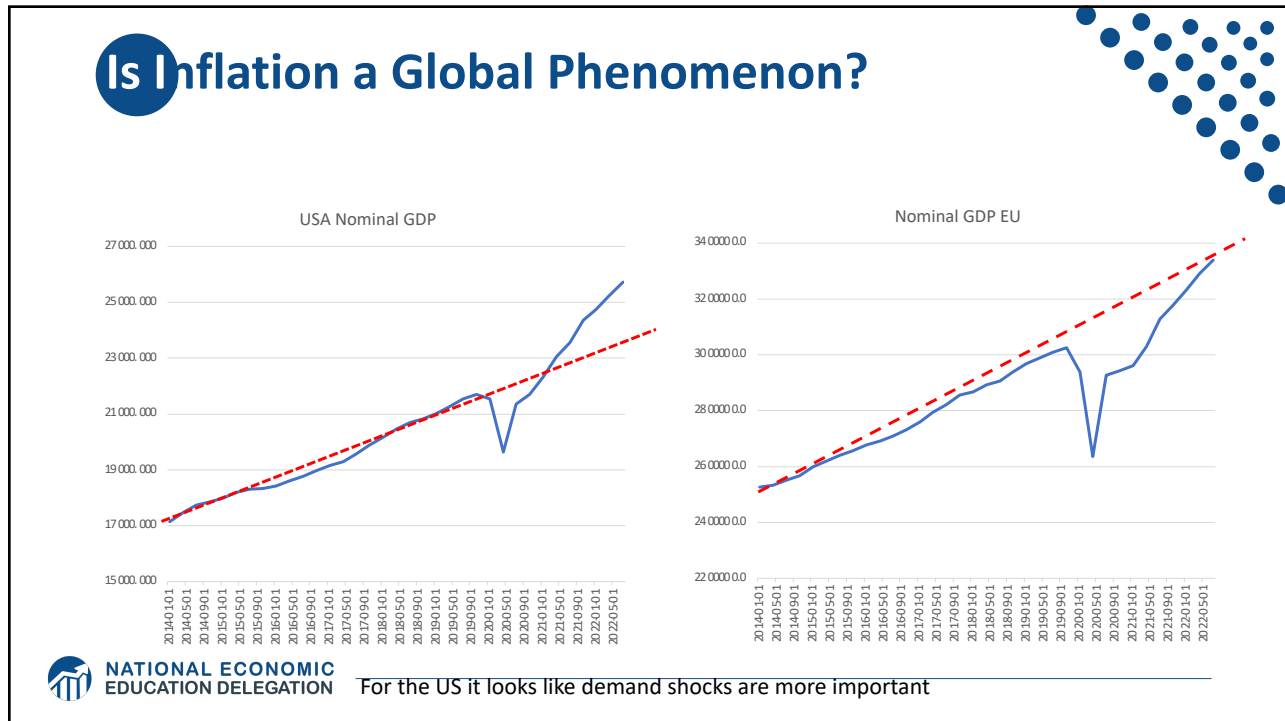


Is Inflation a Global Phenomenon?



It looks like Supply shocks are more important in the EURO area

Source: BLS / FRED



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Takeaways

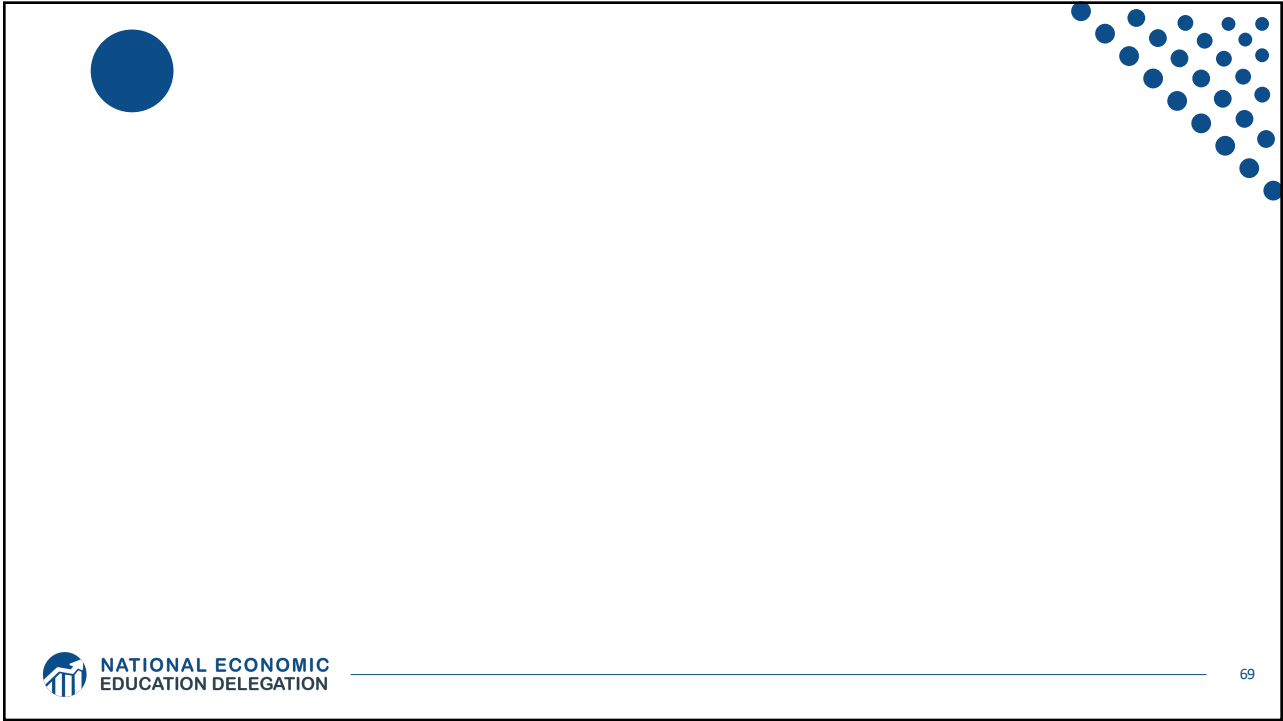
- **Economic Growth: The recovery has been a V-shaped recovery**
- **The economic recovery should continue through 2022.**
 - Atlanta Fed predicts US growth to be 3.8% in 2022:Q4
 - Tailwinds: Strong consumer demand (until excess savings are gone?)
 - Headwinds: Inflation, supply chain disruptions (?), rising commodity prices, labor market challenges
- **The labor market still faces some challenges**
 - The unemployment rate is low.
 - We have just recently reached the pre-pandemic levels of employment.
 - In some (service) sectors, we have not reached pre-pandemic employment levels
- **Inflation: Can the Fed bring down inflation without sending the economy into a recession.**
- **Political Uncertainty**

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Annualized Money Growth

Growth Rate of Money Stock (percent per year)	Beginning of Period	End of Period
6.15	January 2000	March 2020
37.3	March 2020	July 2020
12.44	July 2020	December 2021



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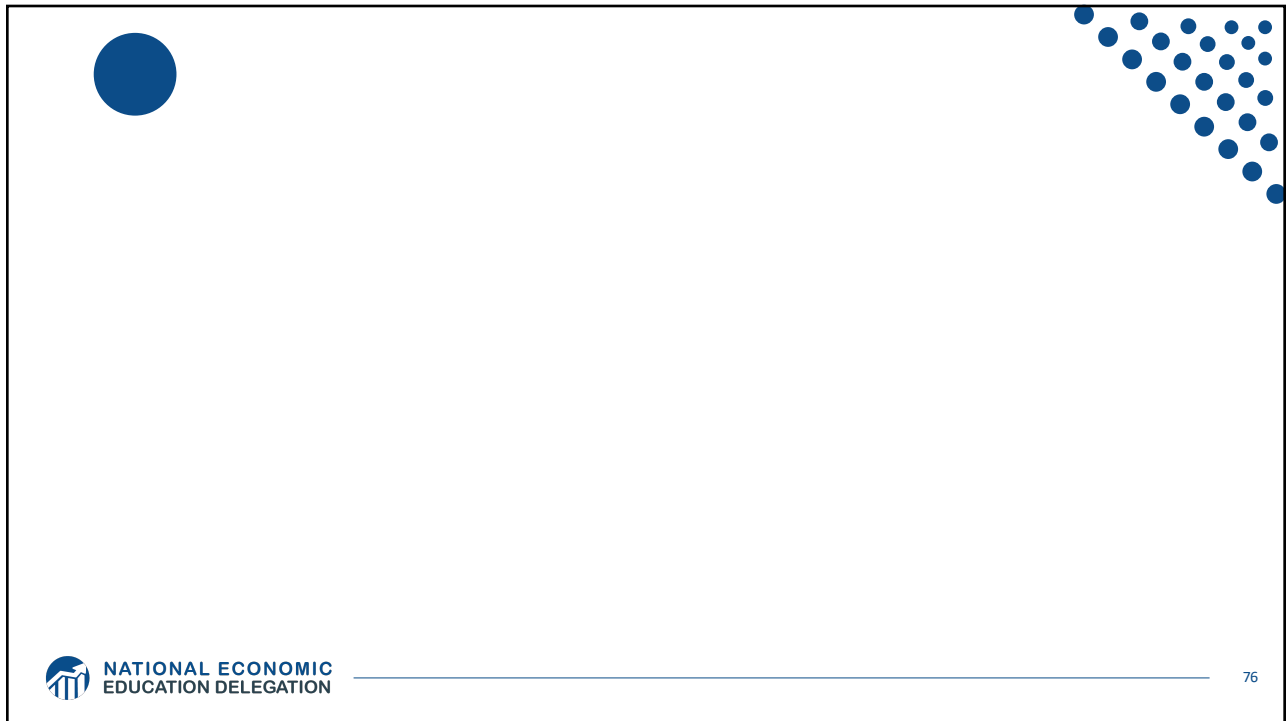
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