



US Economy and Russia/Ukraine Economics

Vistage – Corte Madera
March 24, 2022

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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: 651+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

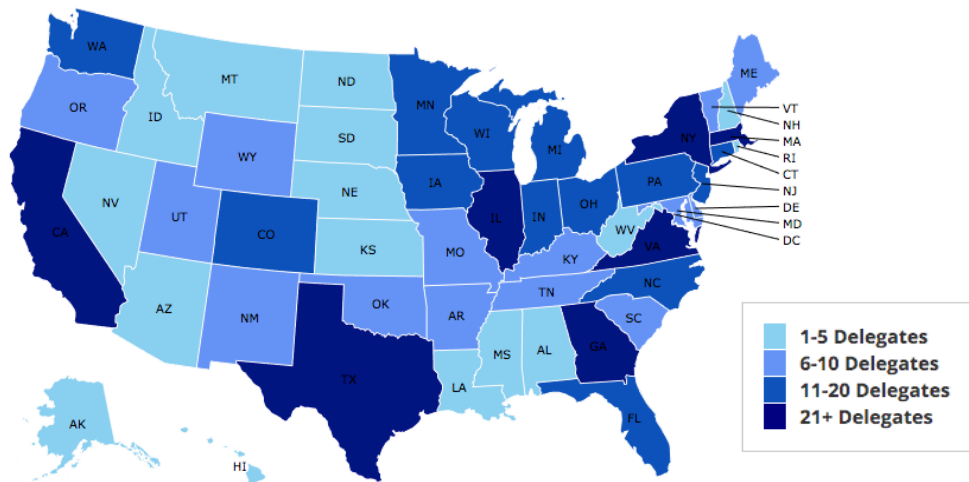
- **Global Partners: 49 Ph.D. Economists**

- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- 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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Credits and Disclaimer

- **This slide deck was authored by:**
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- **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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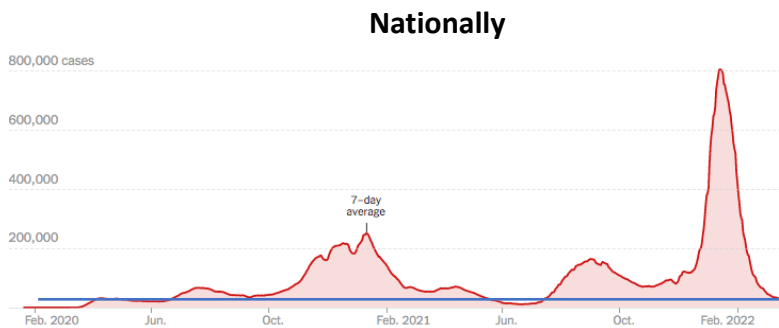
Outline

- State of the pandemic
- The U.S. Economy
- Hot Topics
 - Russia/Ukraine
 - Inflation
 - Monetary Policy

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Making Real Progress!

New reported cases



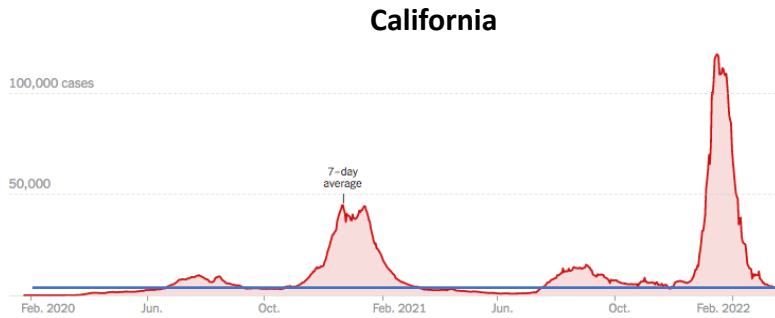
Vaccinations

	AT LEAST ONE DOSE	FULLY VACCINATED
All ages	77%	65%
5 and up	82%	70%
65 and up	95%	89%

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California Cases Are Falling Nicely

New reported cases



Vaccinations

	AT LEAST ONE DOSE	FULLY VACCINATED
All ages	82%	71%
5 and up	88%	76%
65 and up	95%	89%

and now: Russian Invasion of Ukraine

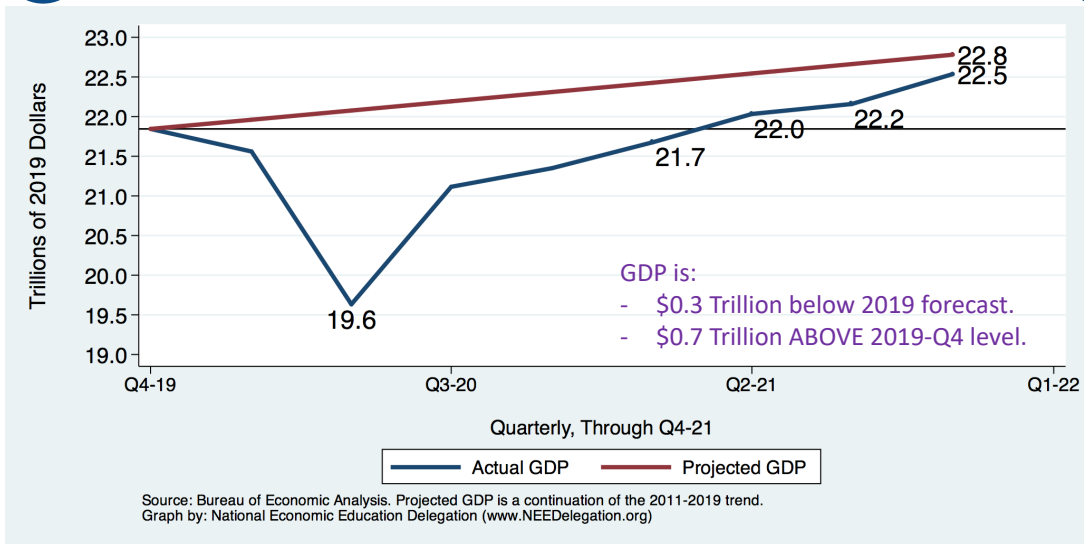


Source: Institute for the Study of War with American Enterprise Institute's Critical Threats Project (Russian-occupied areas) - Note: Occupied areas are as of 3 p.m. Eastern on March 7. Russian forces in eastern Ukraine include Russian-backed separatists. - The New York Times

The U.S. Economy

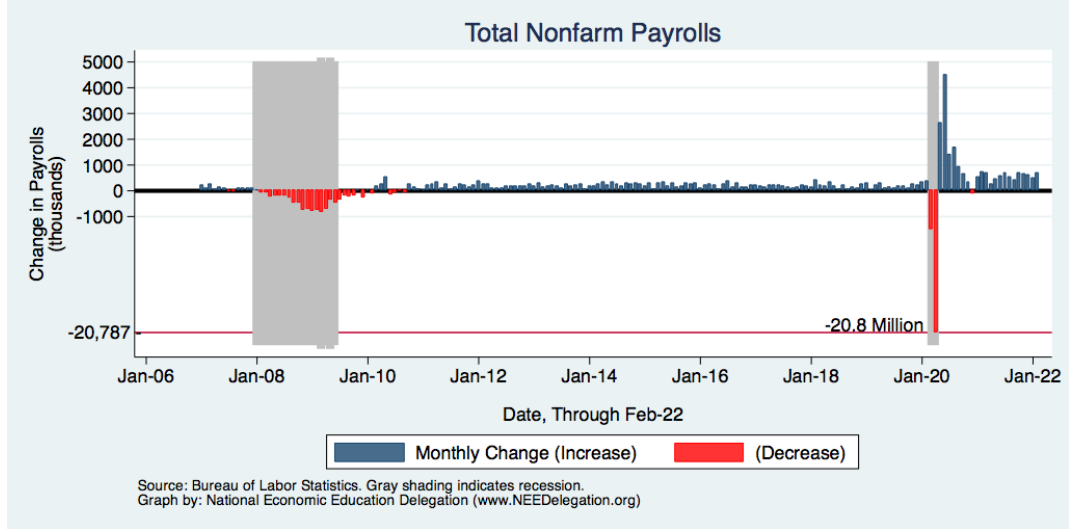
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GDP Trajectory: Pandemic Plunge!



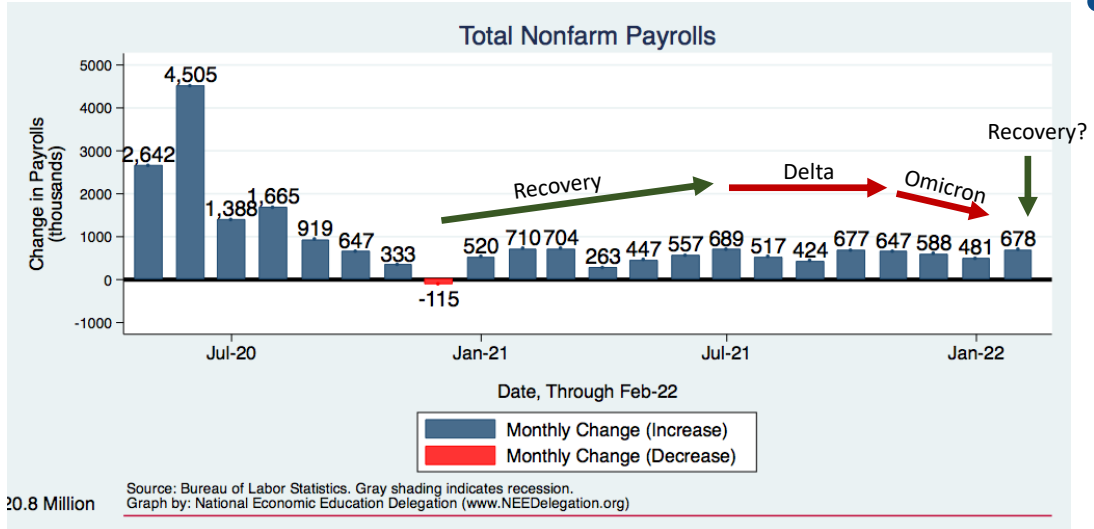
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Monthly Changes in Nonfarm Employment

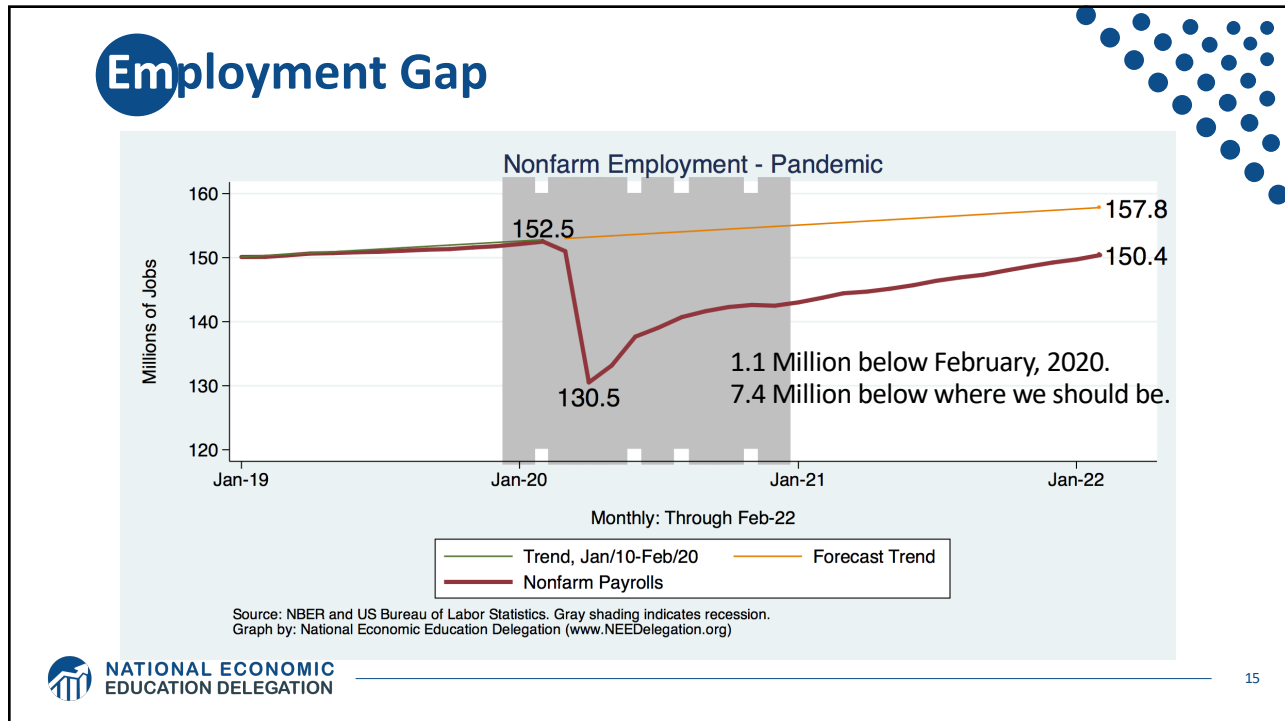


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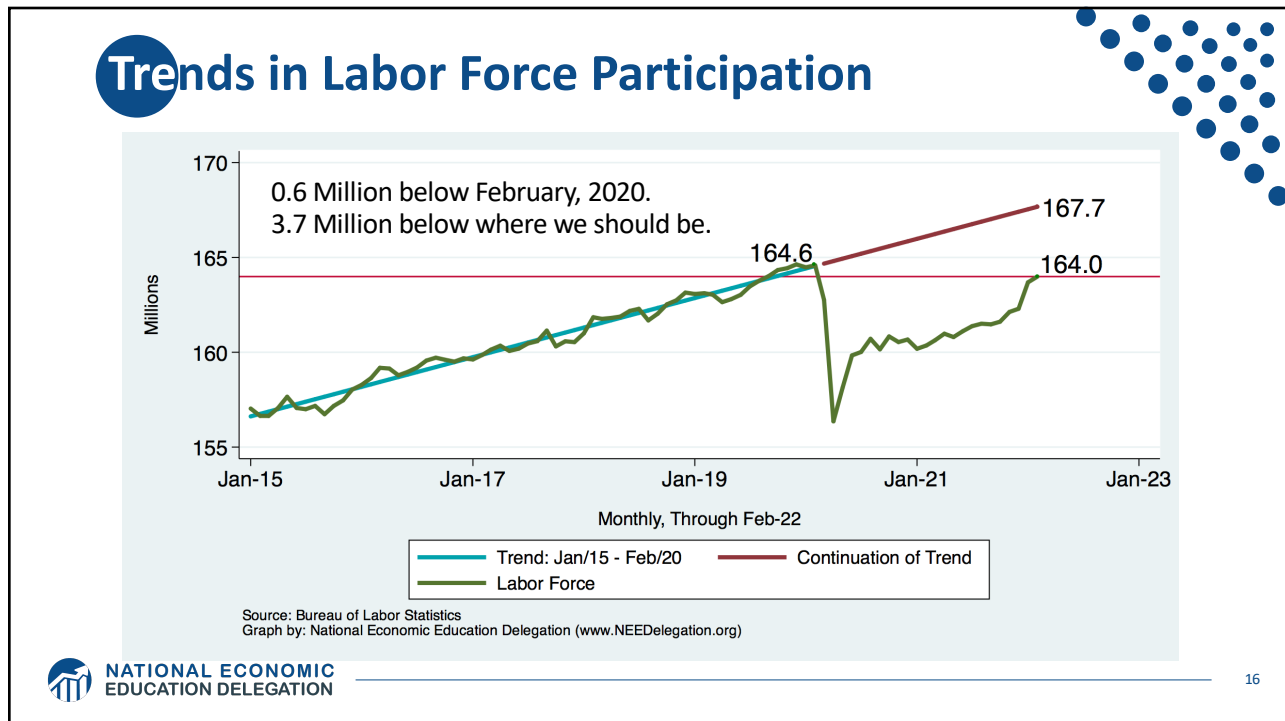
Monthly Changes in Nonfarm Employment



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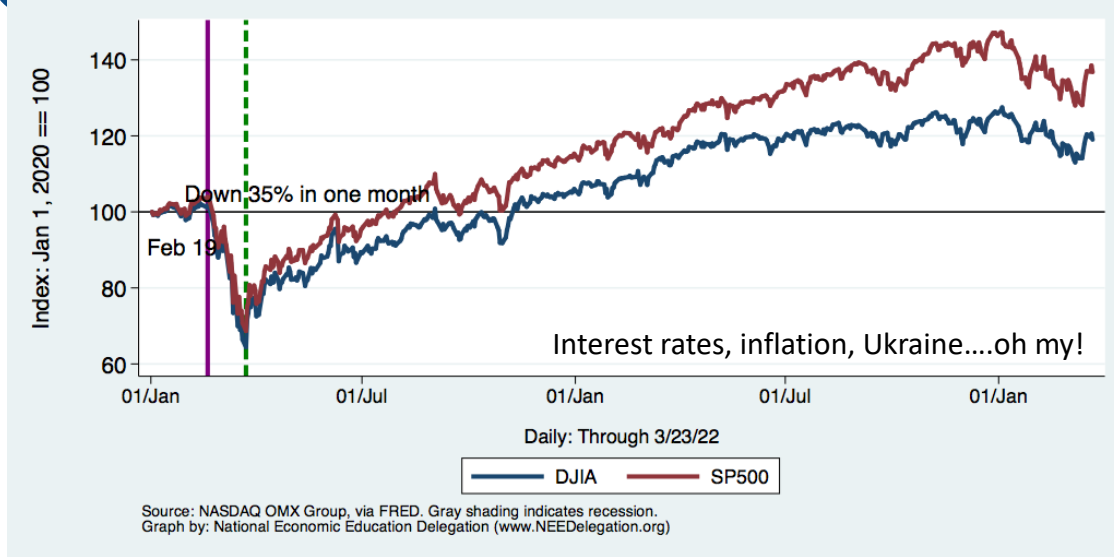


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Stocks: Jittery



Hot Topics

- **Russia/Ukraine**
 - Oil
 - Wheat
- **Inflation**
- **Monetary Policy**

Russia/Ukraine(/Belarus)

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THE WALL STREET JOURNAL



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Impact of Russia-Ukraine War

- **How Russia-Ukraine war impacts globalization**

- War itself disrupts trade, especially exports of
 - o Ukraine: wheat
 - o Russia: wheat, oil
- Economic sanctions by governments disrupt
 - o Financial linkages
 - o Trade
- Private companies stop dealing with Russia



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Impact of Russia-Ukraine War

- **Financial sanctions by US, EU, UK, and others**

- Frozen foreign-held assets of individuals, Putin and dozens of others
- Restrictions on Russia's Central Bank's use of international reserves
- Several Russian banks removed from the Swift international payments system
- Cut off many Russian banks from transactions and operations
- Long list of Russian companies banned or restricted
- Possible restrictions on Russia borrowing from IMF and World Bank



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Impact of Russia-Ukraine War

- **Trade sanctions by governments**
 - Oil and other energy
 - o Germany puts Nord Stream 2 gas pipeline on hold
 - o US bans from Russia
 - o UK to phase out Russian oil by end of 2022
 - o EU to become independent from Russia by 2030
 - EU bans steel imports from Russia
 - US restricts exports to Russia, especially technology and military; later also to Belarus; later also luxury goods
 - EU and UK impose export restrictions similar to US
 - Ban on Russian air carriers by Canada, EU, US, UK
 - G-7 to revoke Russia's most favored nation status
 - o Permits them to raise tariffs on Russian goods



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Impact of Russia-Ukraine War

- **Private Companies Stop Dealing in Russia, per NBC News Mar 11:**
 - Automotive: Ford, GM, Toyota, ...
 - Aviation: Airbus, Boeing, American, Delta, United, ...
 - Energy: BP, ExxonMobil, Shell
 - Equipment: Caterpillar, Honeywell, Deere
 - Food & Bev: Burger King, Coke, McDonalds, Starbucks,...
 - Finance: Citigroup, Deutsche Bank, Vanguard, ...
 - Consumer goods: Proctor & Gamble, Unilever, Mars, ...
 - Leisure: Airbnb, Hilton, Expedia, ...
 - Logistics: DHL, FedEx, Maersk, UPS
 - Media: Netflix, Roku, Disney, ...
 - Payment services: Amex, Visa, Western Union, ...
 - And many more: Consulting, Retail, Technology



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Consequences for the Russian Economy

- Devaluation of the Ruble
- High interest rates
- Shortages
- Massive inflation
- Not to mention the Oligarchs
 - Sanctions on 100 specific individuals.
- Fear of renewed “Iron Curtain”

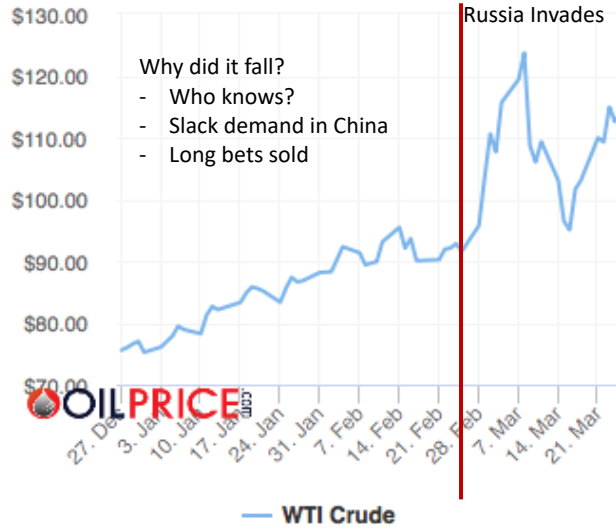
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Consequences for the Global Economy

- **Primarily:**
 - Oil
 - Wheat
- **Why?**
 - Major suppliers of each
 - 29% of world wheat production
 - 20-40% of Europe’s oil and gas
 - Russia part of OPEC+
 - Russian and Ukranian combined economies are small.
 - Don’t forget Belarus.

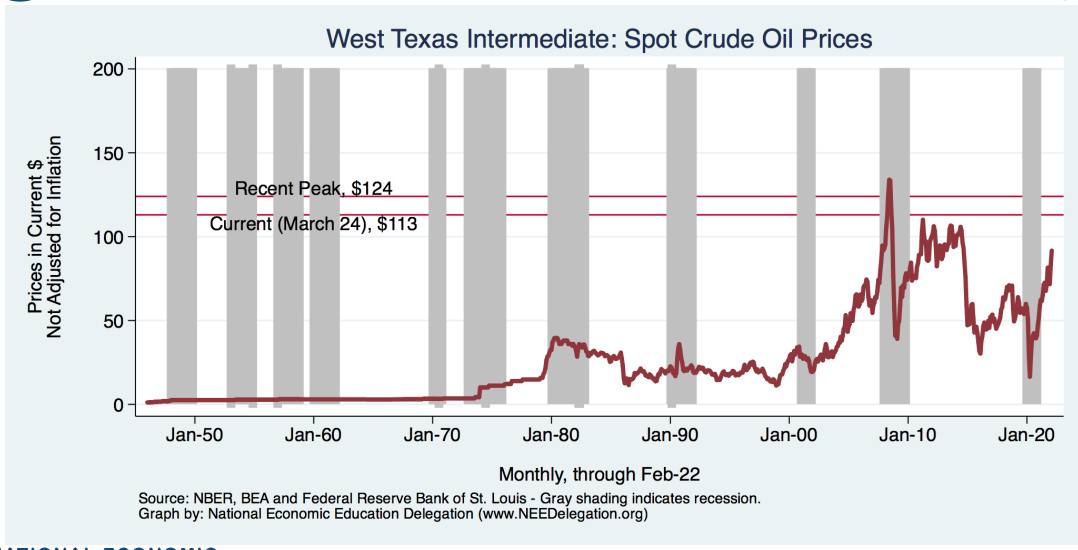
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Oil - West Texas Intermediate



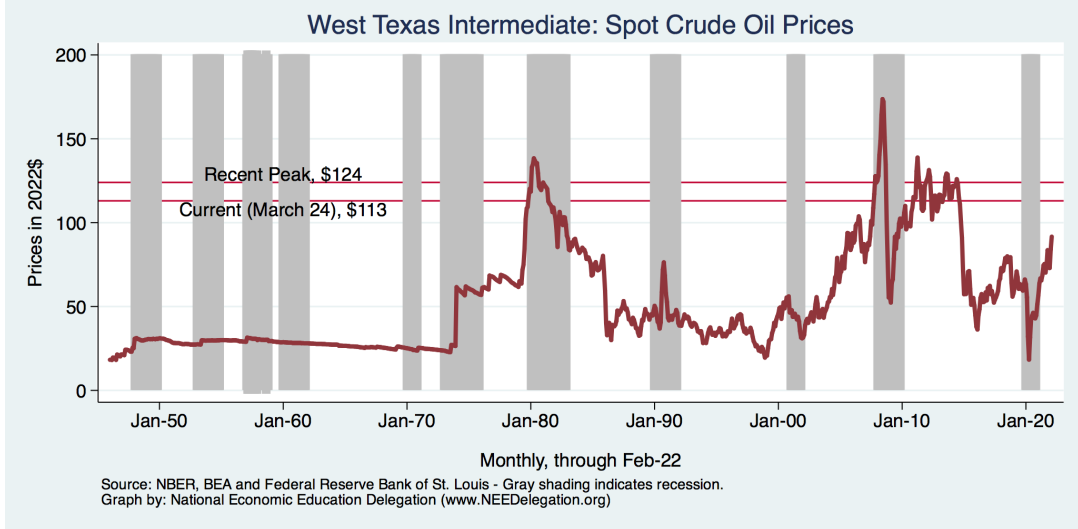
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Oil Prices in Historical Context



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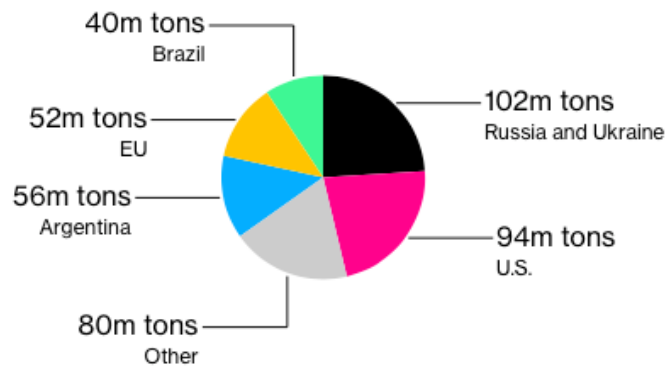
Oil Prices in Historical Context – Inflation Adj.



Grains

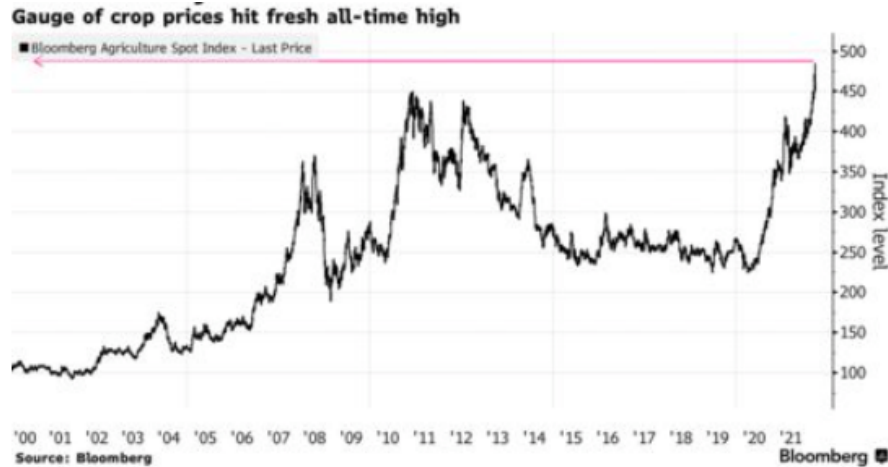
Breadbasket to the World

Russia and Ukraine account for a quarter of global grains trade



Source: International Grains Council
Note: Estimates for the 2021-22 season, for wheat and coarse grains

Grain Prices: All-Time High



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Oh, and...

- **40% of the world's PALLADIUM comes from Russia.**
 - Used in catalytic convertors.
- **70% of the world's NEON comes from Ukraine.**
 - Used in production of semiconductors.
- **Fertilizer: Russia is the world's largest supplier.**
 - Prices are 3-4x their 2020 levels.
- **Therefore: more supply chain issues, more inflation, food insecurity.**

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Inflation



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Inflation News

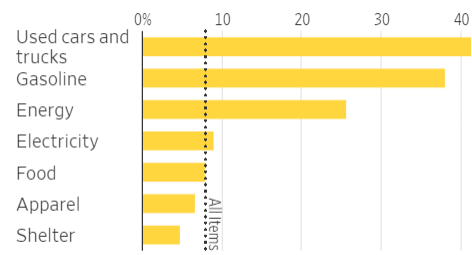
Consumer-price index, percent change from a year earlier



Source: Labor Department

January 2022

CPI, 12-month change ending in February



Source: Labor Department

All items: 7.9% - new four decade high



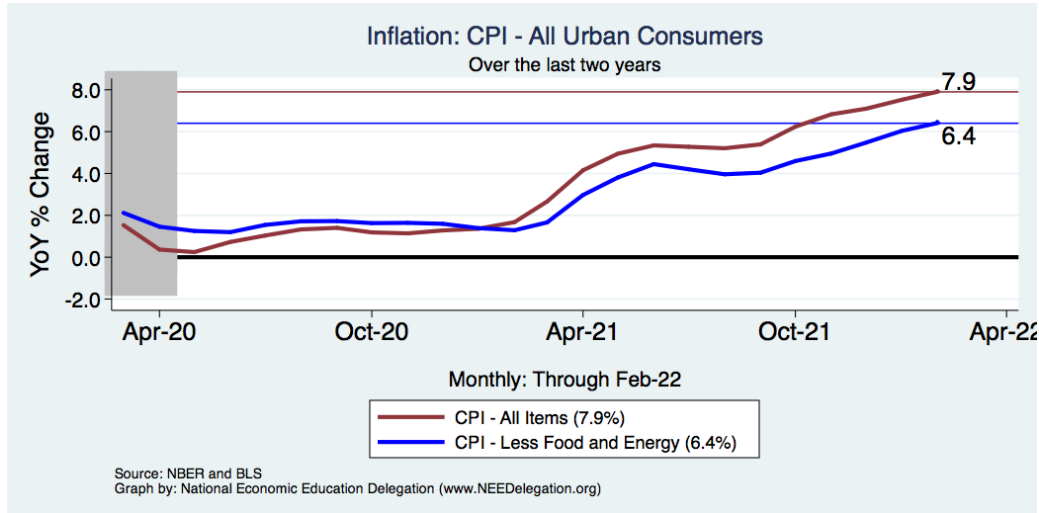
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Source: Wall Street Journal

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Food and Fuel are A Big Part of the Story



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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



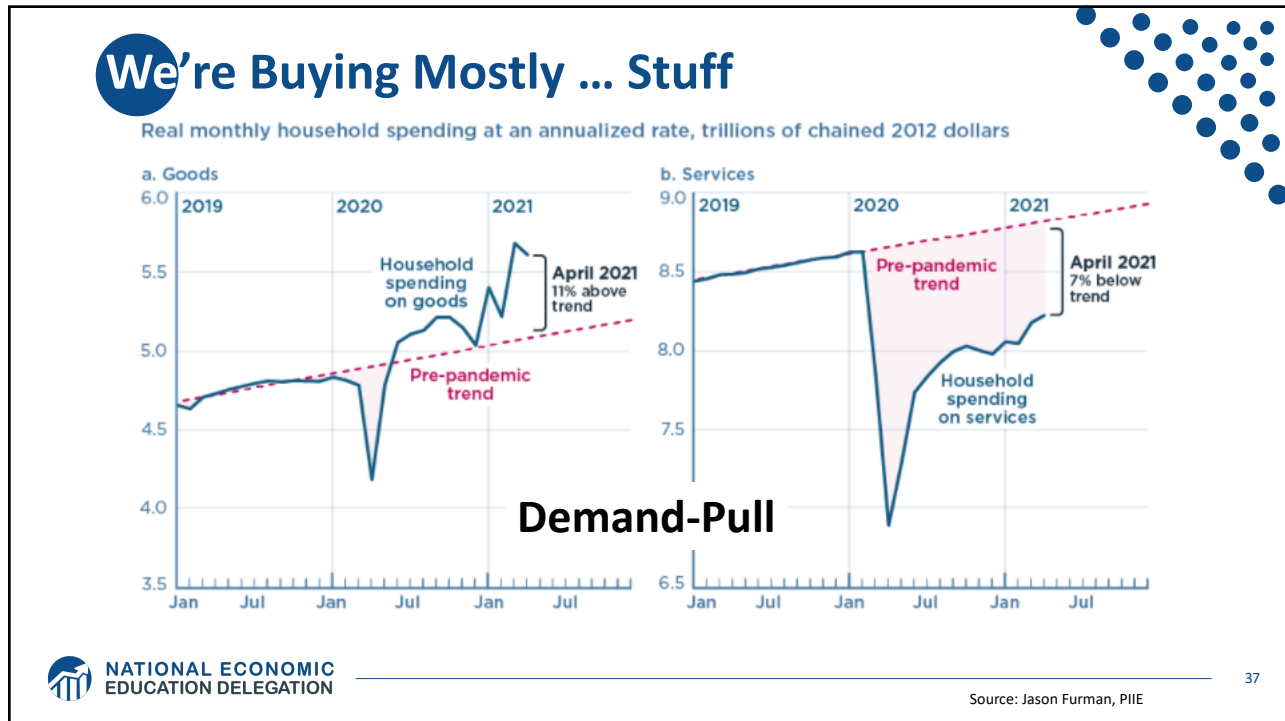
When production costs increase prices.

Built-In

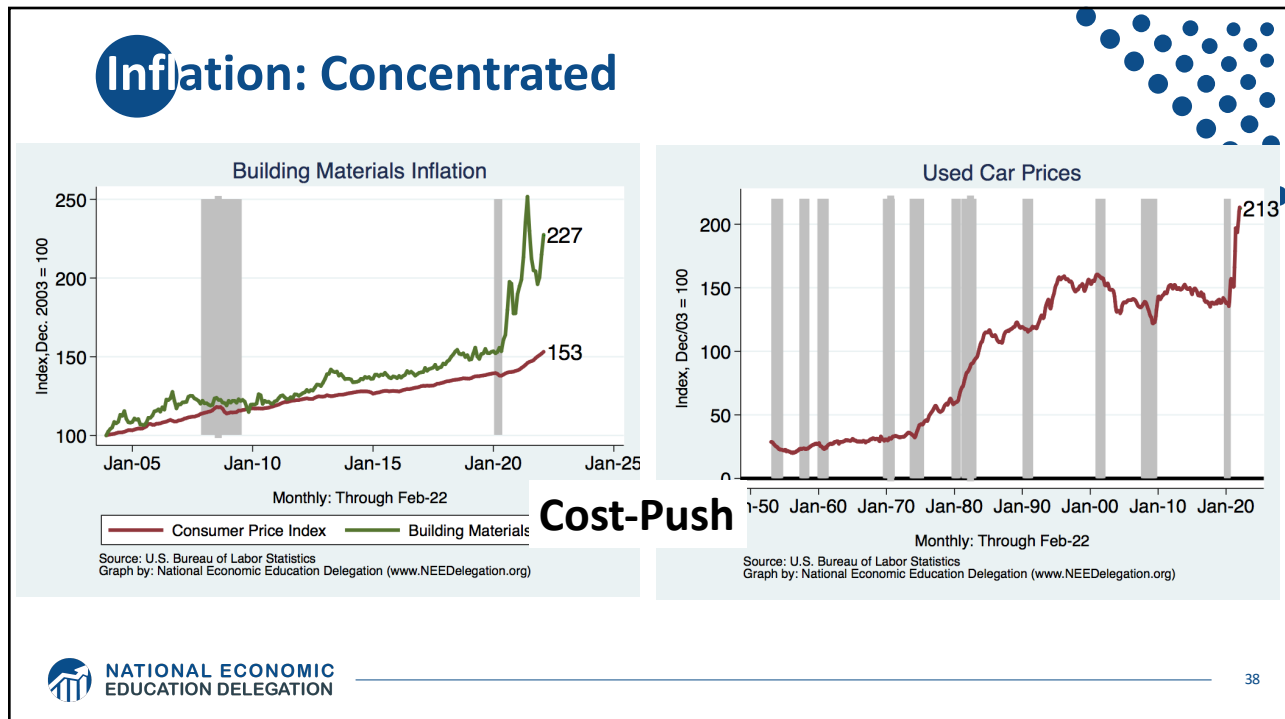


When prices rise, wages rise too, in order to maintain living costs.

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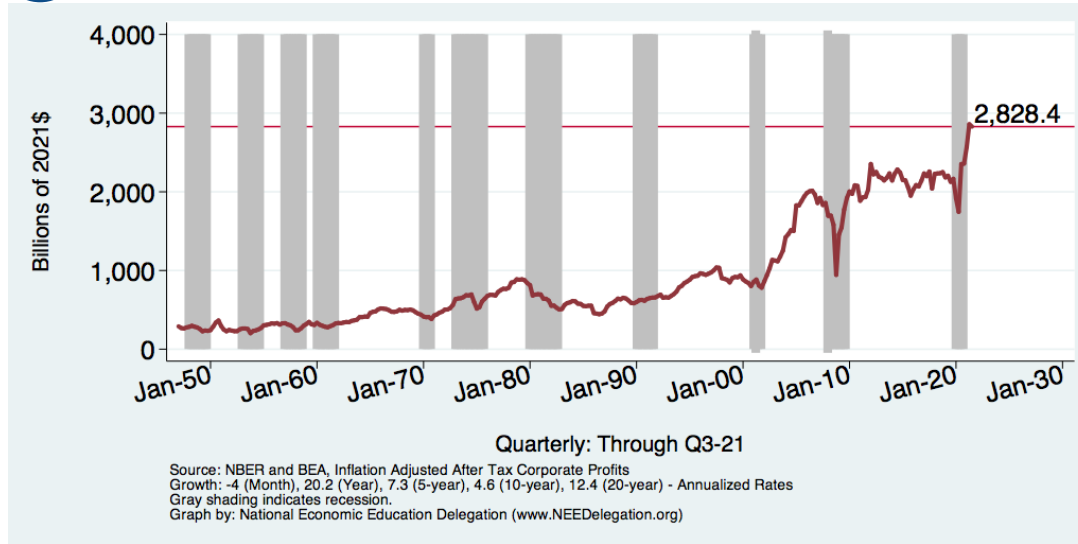


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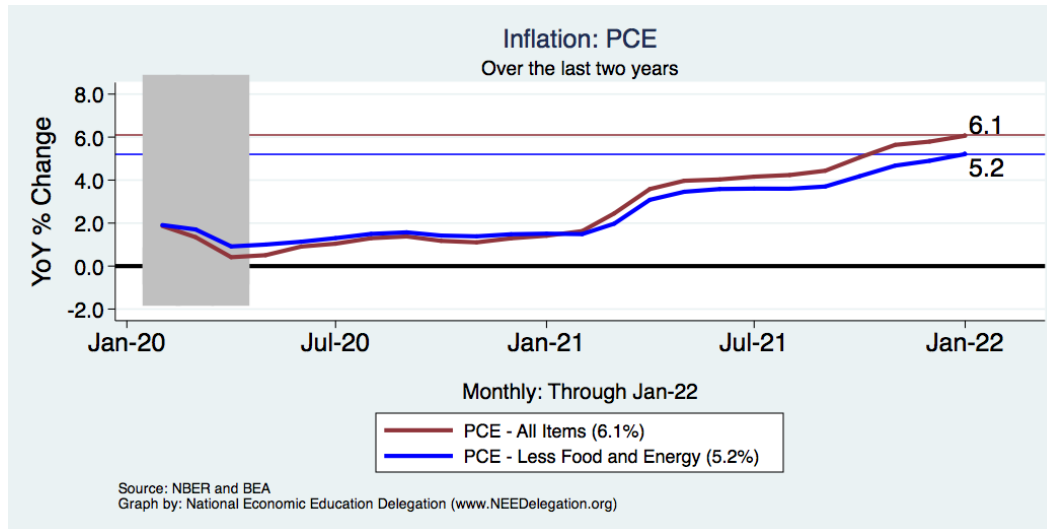


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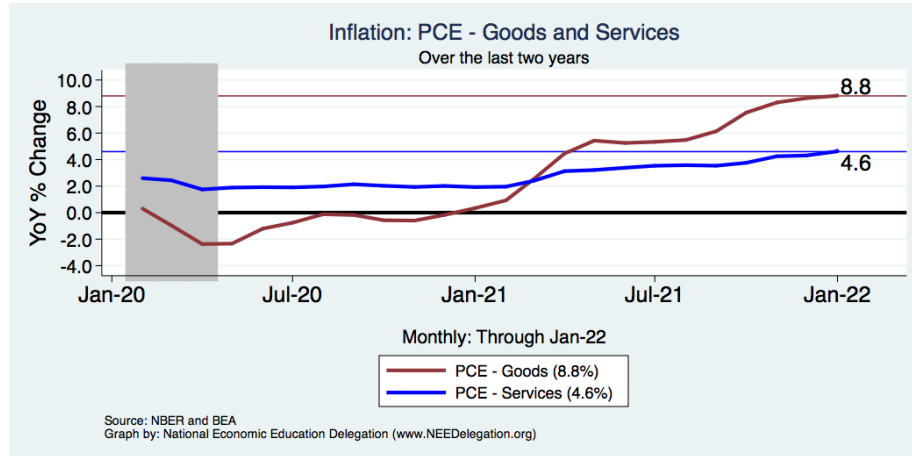
Corporate Profits...Adding to Inflation?



Inflation – The Fed’s Metric! Not Sooo High.

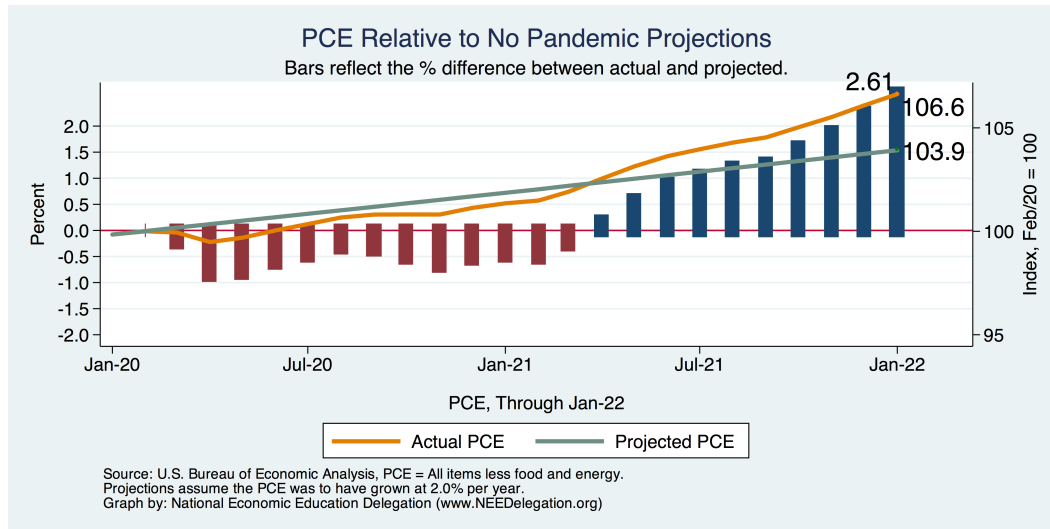


Goods are Driving Inflation



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



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So Far Inflationary Expectations Look Stable

- Professional forecasters, financial markets and the Fed itself think that inflation in 2022 will be in the 2.5-3%, range

	Median Fed Forecasts from 12/15/21 FOMC Meeting			
	2022	2023	2024	Longer run
Unemployment rate	3.5	3.5	3.5	4.0
Inflation	2.6	2.3	2.1	2.0
Interest rate	0.9	1.6	2.1	2.5

Russia/Ukraine conflict may well raise these forecasts.

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 2.9% of inflation annually over the next 10 years and 3.5% over the next 5 years.

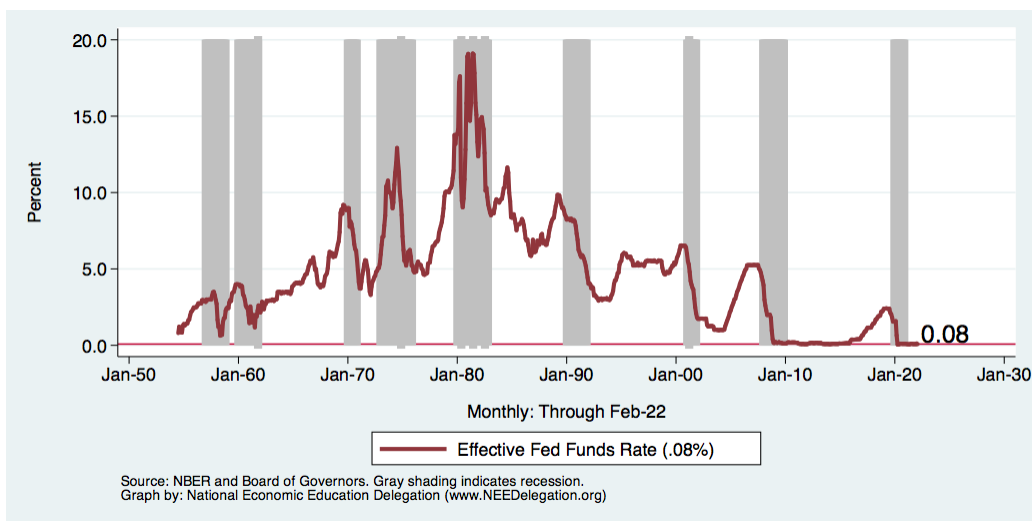
Inflation expectations are increasing – especially after the Russian invasion.

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)

Monetary Policy

- Fed has raised interest rates by 25 basis pts. (1/4%)
- Is this enough or too much?
 - Nobody knows.
 - Likely not too much.
- Should Fed be more aggressive?
 - Recessions tend to follow Fed aggression.
 - Inflation of 2010-11 says Fed should play it cool.

Federal Funds Rate



Conclusion

- **Recovery is well underway, but may be slowing.**
- **GDP expanded by 5.7% percent in 2021, 3-4% in 2022.**
- **2021 was an odd year.**
 - Workers attained the upper hand.
 - Supply chains broke.
 - Inflation surged.
 - The economy rebuilt itself.
- **Biggest problems:**
 - Supply chain bottlenecks.
 - Labor force participation.
 - Russian war in Ukraine



Where Are We Headed?

- **Economic fallout of the Russia/Ukraine conflict ... will be modest?**
 - Recession is a remote possibility, but not out of the question.
- **At best, back to where we were before the pandemic.**
 - Economic growth of ~2%/year.
 - Low interest rates.
 - Inflation back in the 2% range.
- **How long is it going to take to get there and what will we endure?**
 - Could be 5 years before we are back to equilibrium. NOT back to normal.
- **Next year: elevated inflation and interest rates.**
- **2023: GDP growth relatively slow, but perhaps greater than recent averages.**



Thank you!

Any Questions?

www.NEEDelegation.org

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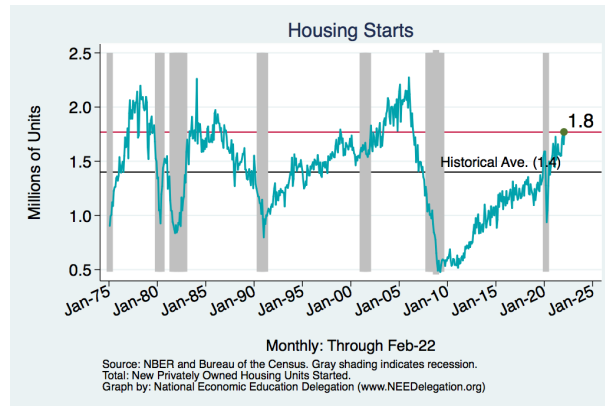
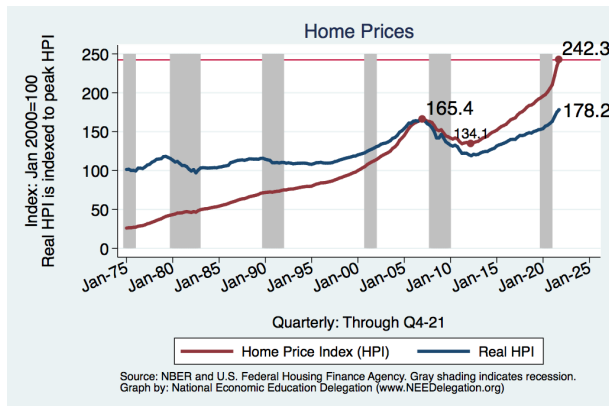
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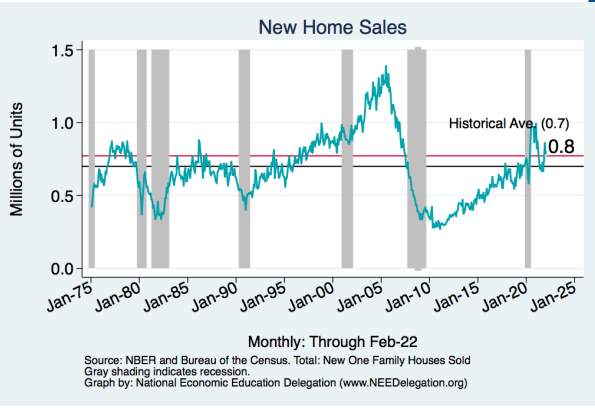
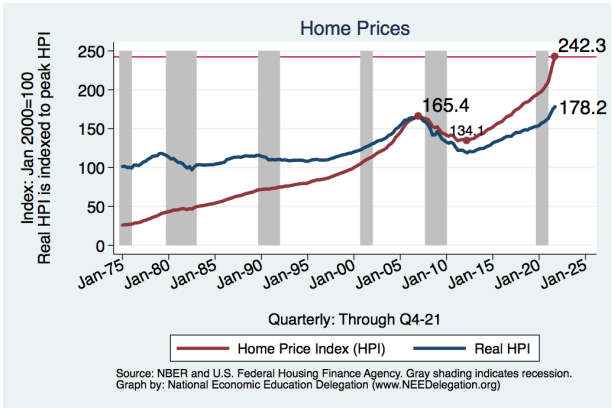
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Home Prices and Housing Starts



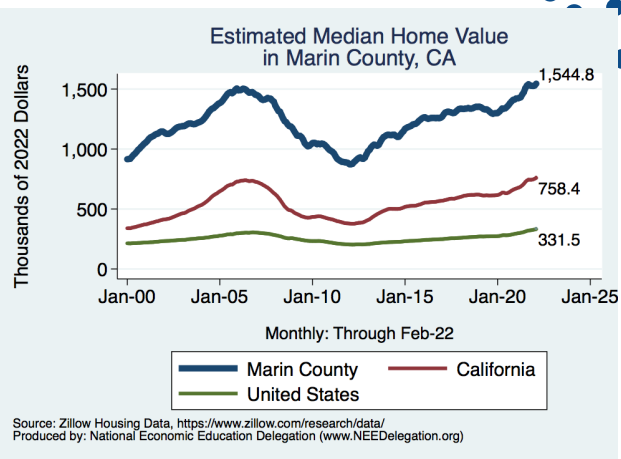
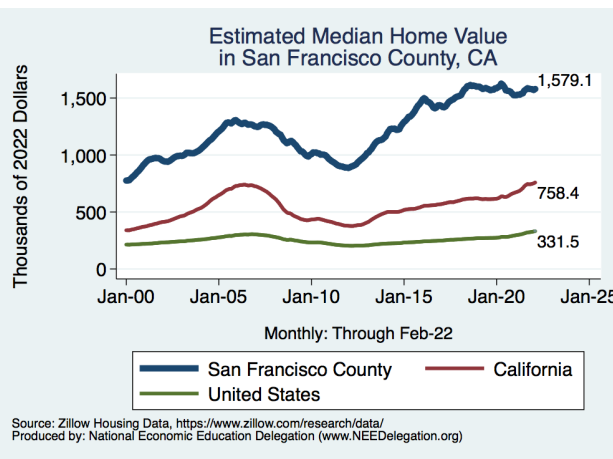
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Home Prices and Home Sales

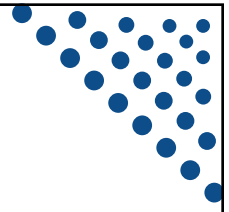


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RE Experiences Differ!



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www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.

