



# US Economy and Russia/Ukraine Economics

Vistage – Corte Madera  
March 16, 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**

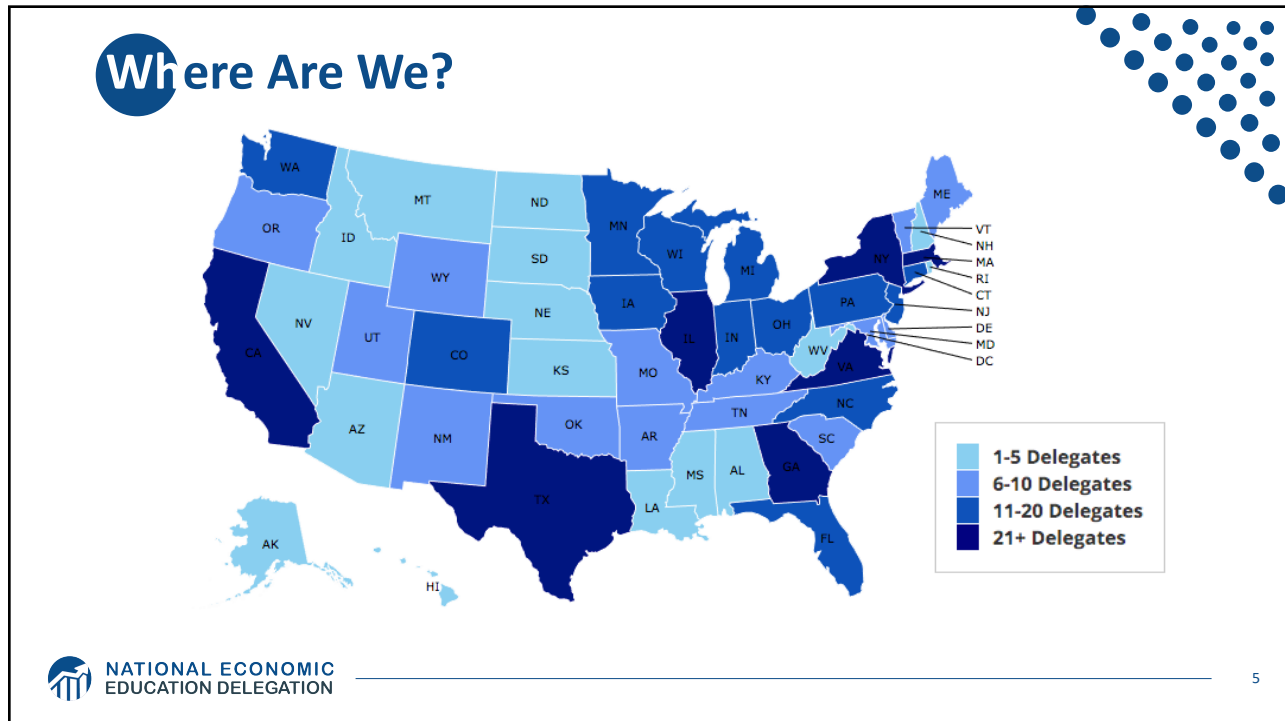
- Aid in slide deck development



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## 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**
  - Russia/Ukraine
    - o Oil
    - o Wheat
  - Inflation

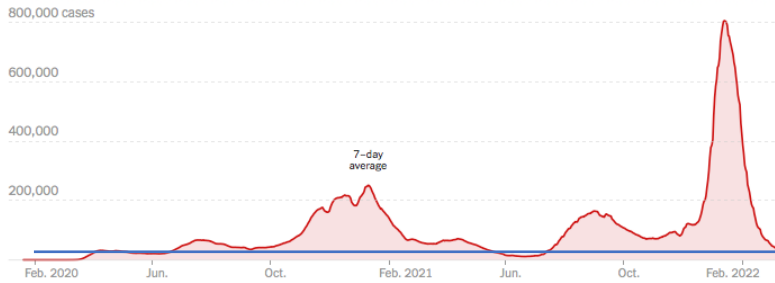


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# Making Real Progress!

## New reported cases

### Nationally



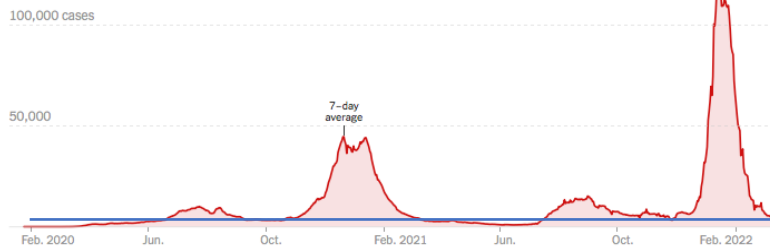
## Vaccinations

|           | AT LEAST ONE DOSE | FULLY VACCINATED |
|-----------|-------------------|------------------|
| All ages  | 77%               | 65%              |
| 5 and up  | 82%               | 69%              |
| 65 and up | 95%               | 89%              |

# California Cases Are Falling Nicely

## New reported cases

### California



## Vaccinations

|           | AT LEAST ONE DOSE | FULLY VACCINATED |
|-----------|-------------------|------------------|
| All ages  | 82%               | 71%              |
| 5 and up  | 87%               | 75%              |
| 65 and up | 95%               | 89%              |

# and now: Russian Invasion of Ukraine

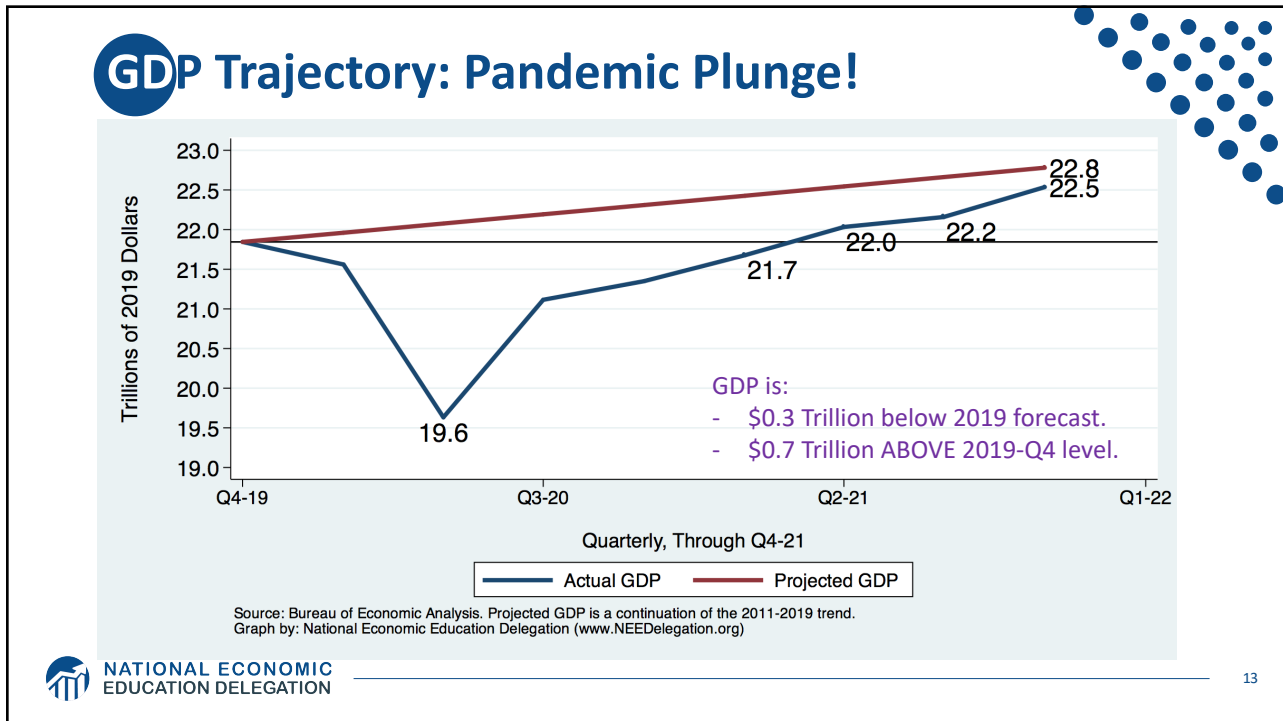


Source: Institute for the Study of War with American Enterprise Institute's Critical Threats Project (Russian-occupied areas). Note: Occupied areas area of 2.9m. Eastern on March 7. Russian forces in eastern Ukraine include Russian-backed separatists. - The New York Times

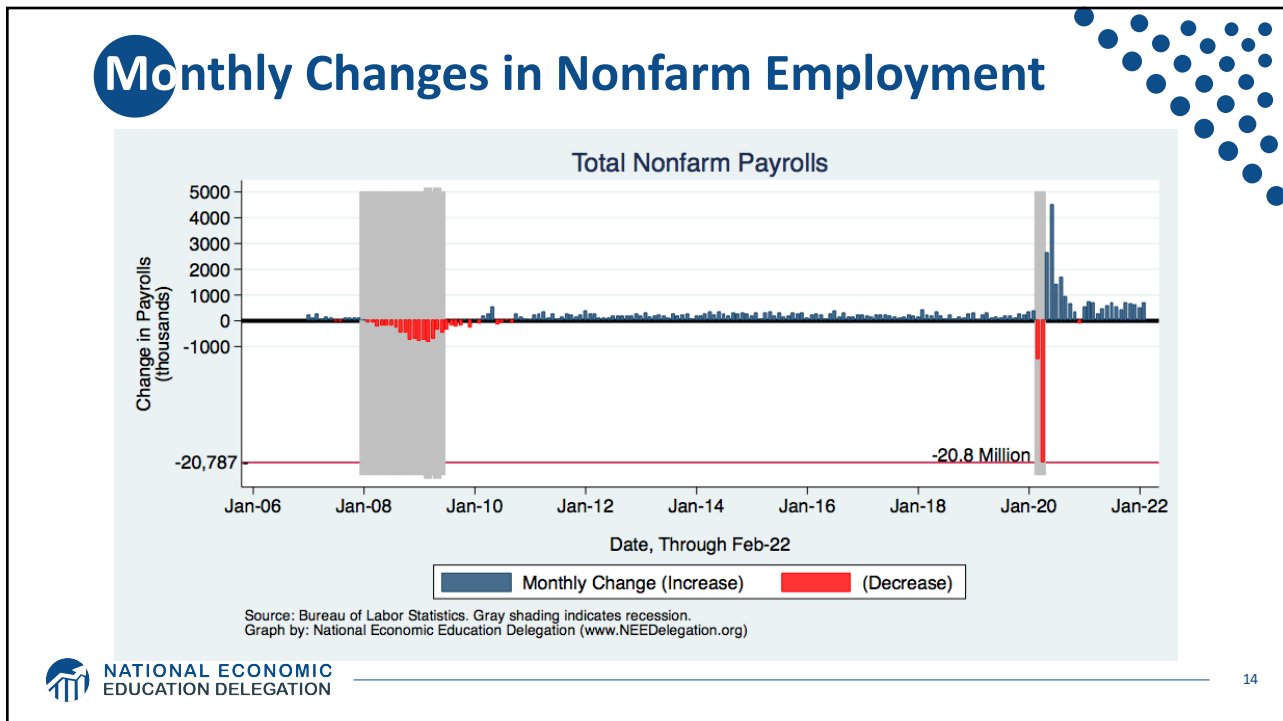
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# The U.S. Economy

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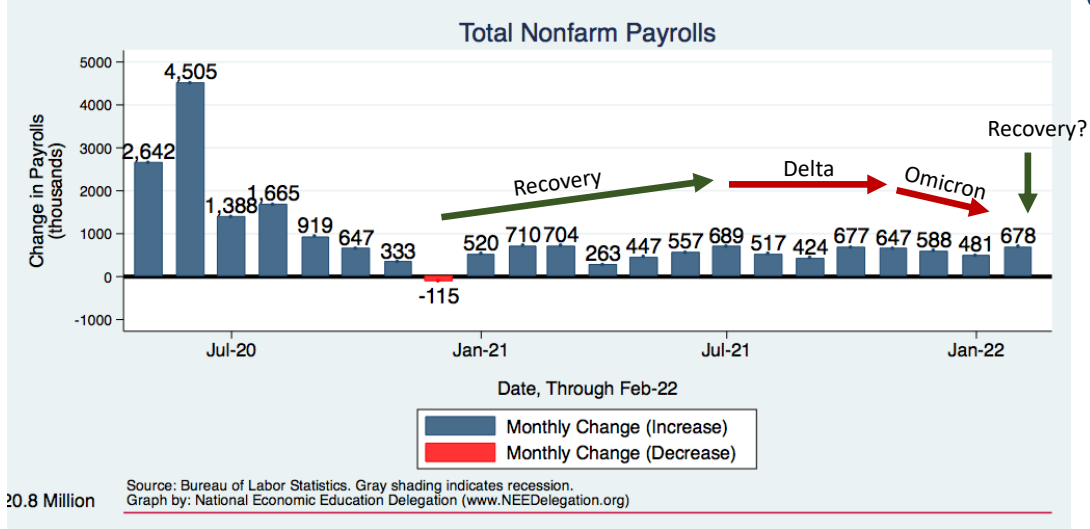


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# Monthly Changes in Nonfarm Employment

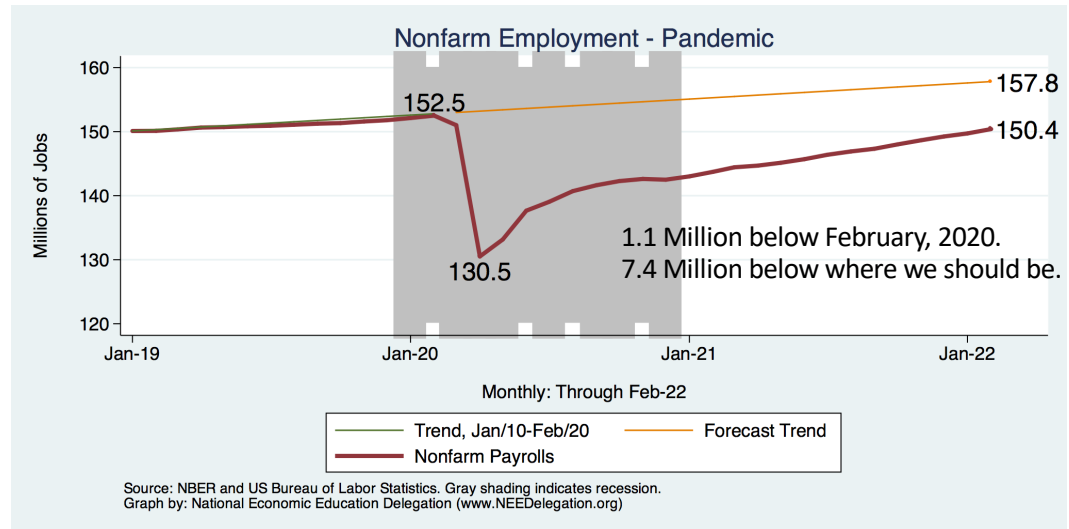


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# Employment Gap



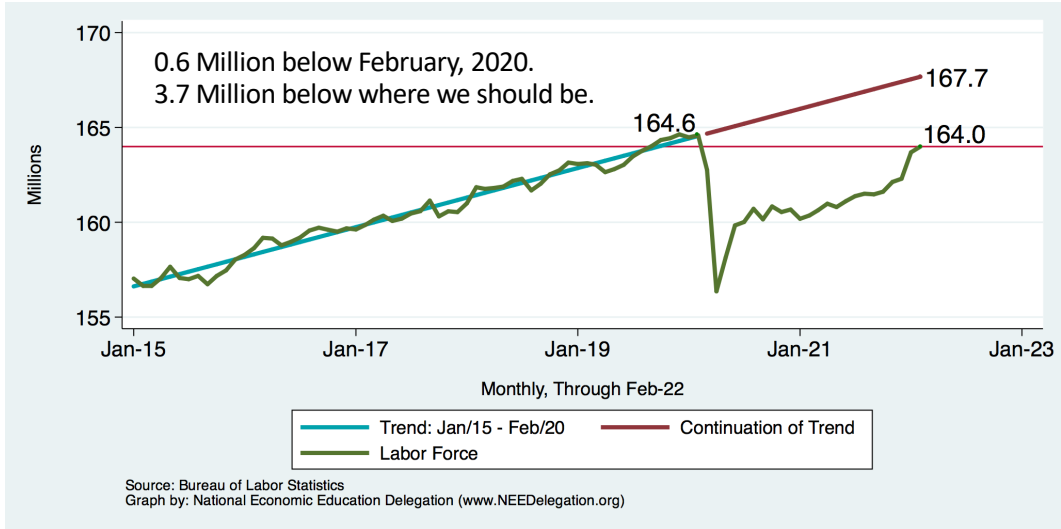
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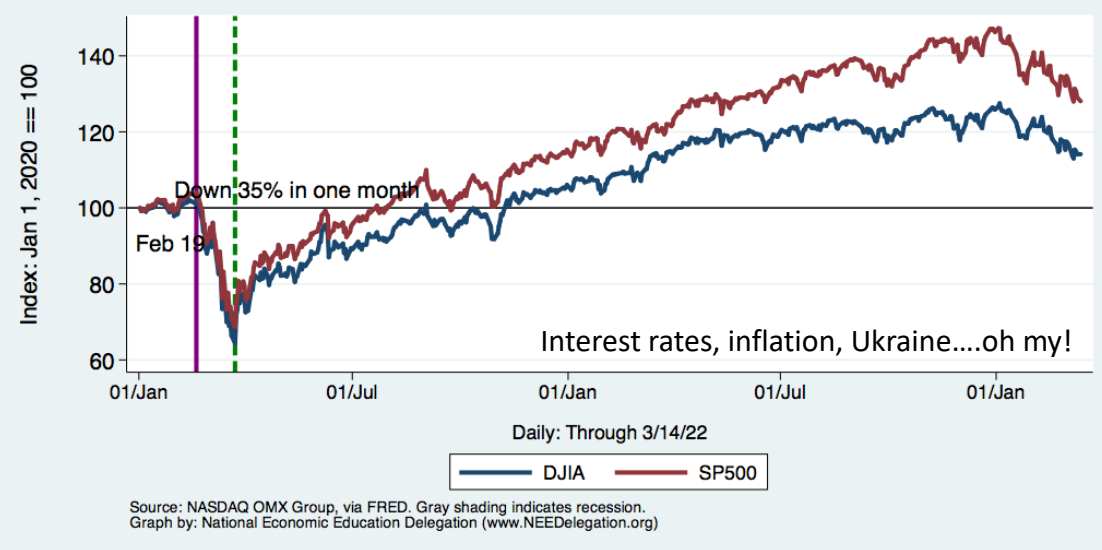


## Trends in Labor Force Participation



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## Stocks: Jittery



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## Hot Topics

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



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## Russia/Ukraine(/Belarus)



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## Impact of Russia-Ukraine War

- **How Russia-Ukraine war impacts globalization**
  - War itself disrupts trade, especially exports of
    - Ukraine: wheat
    - Russia: wheat, oil
  - Economic sanctions by governments disrupt
    - Financial linkages
    - 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
    - o 29% of world wheat production
    - o 20-40% of Europe's oil and gas
    - o Russia part of OPEC+
  - Russian and Ukrainian combined economies are small.
    - o Don't forget Belarus.

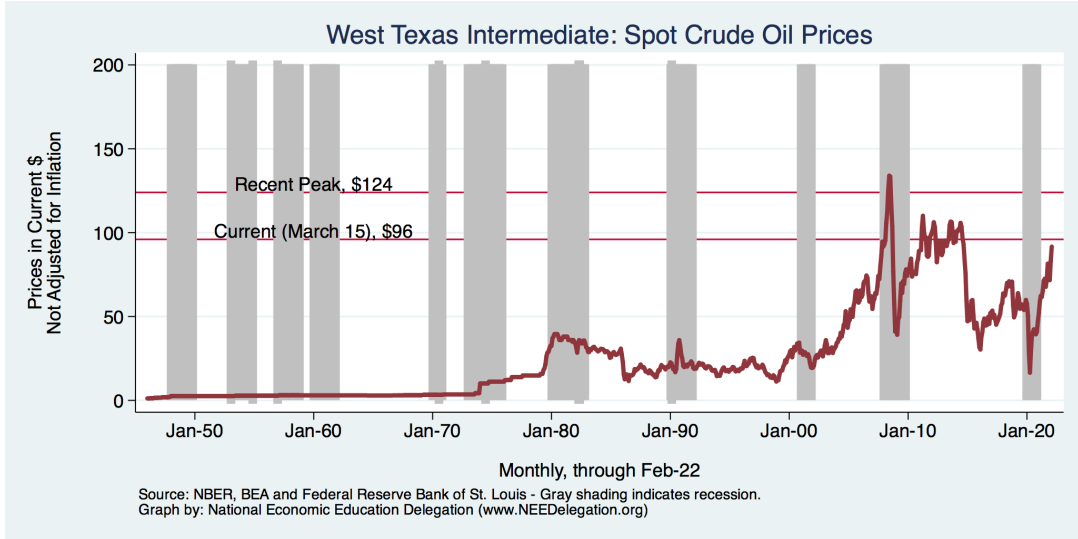
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# Oil - West Texas Intermediate

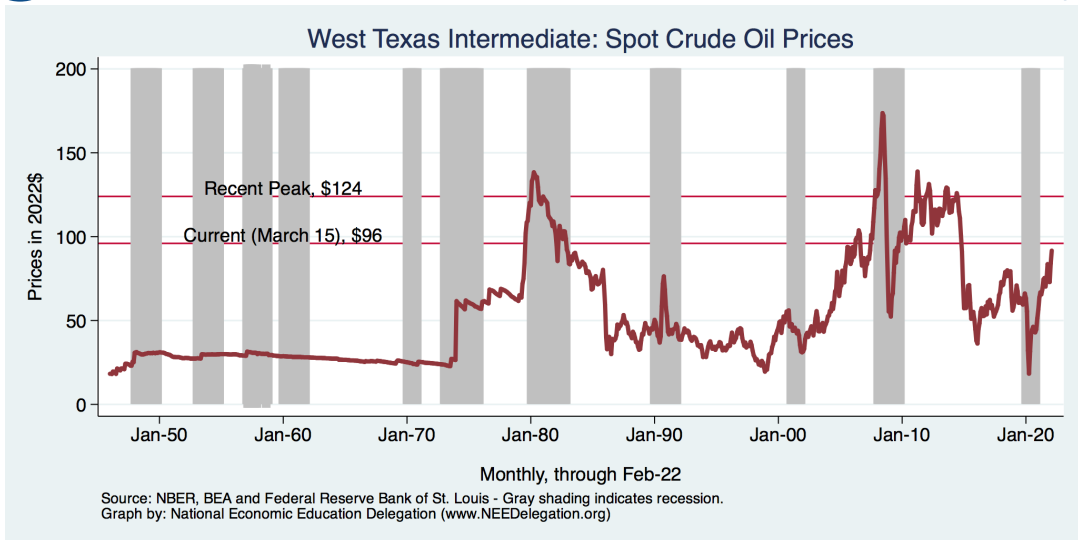


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# Oil Prices in Historical Context



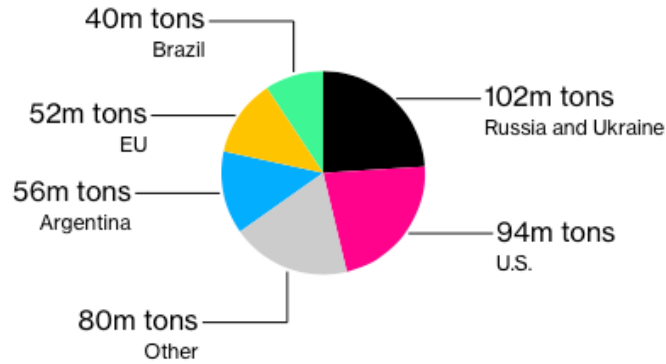
# Oil Prices in Historical Context – Inflation Adj.



# 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

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# Grain Prices: All-Time High

Gauge of crop prices hit fresh 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
- **Therefore: more supply chain issues and more inflation.**



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## Inflation



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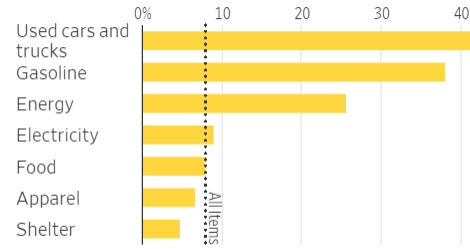
# Inflation News

Consumer-price index, percent change from a year earlier



Source: Labor Department

CPI, 12-month change ending in February



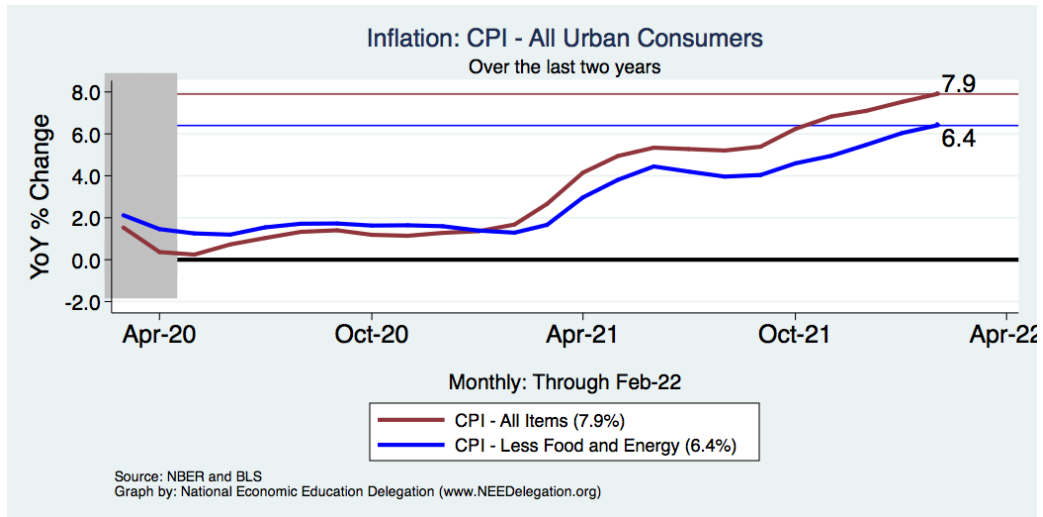
Source: Labor Department

January 2022

All items: 7.9% - new four decade high

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# Food and Fuel are A Major 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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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

### b. Services

Demand-Pull

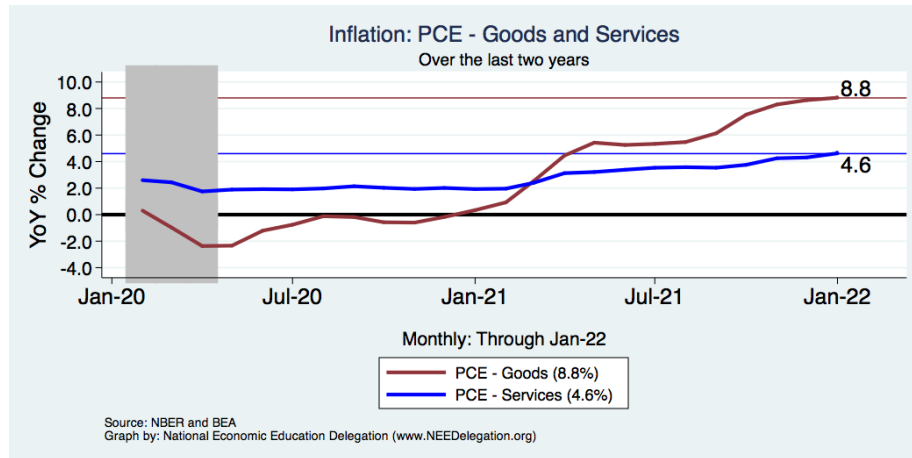
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Source: Jason Furman, PIIIE

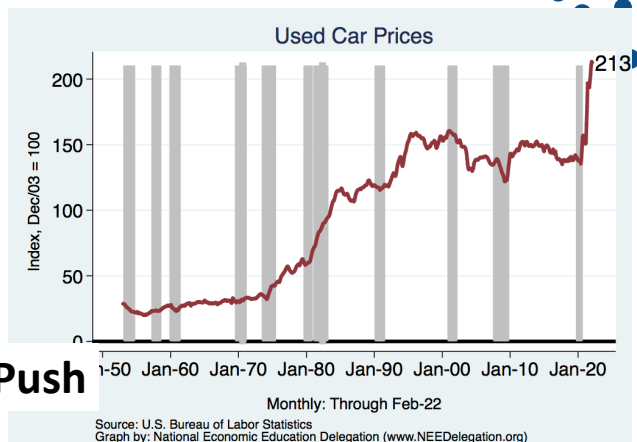
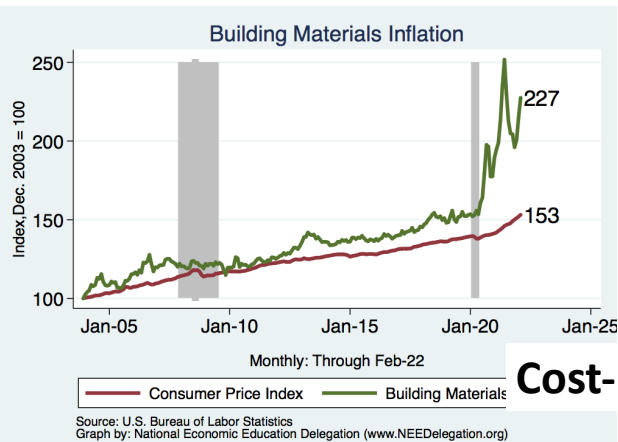
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# Goods are Driving Inflation



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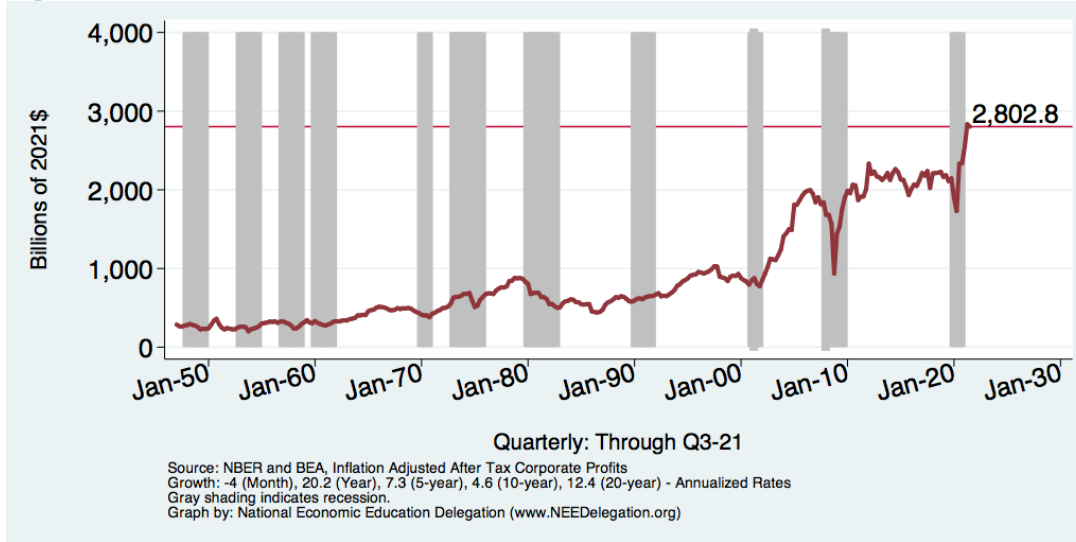
# Inflation: Concentrated



## Cost-Push

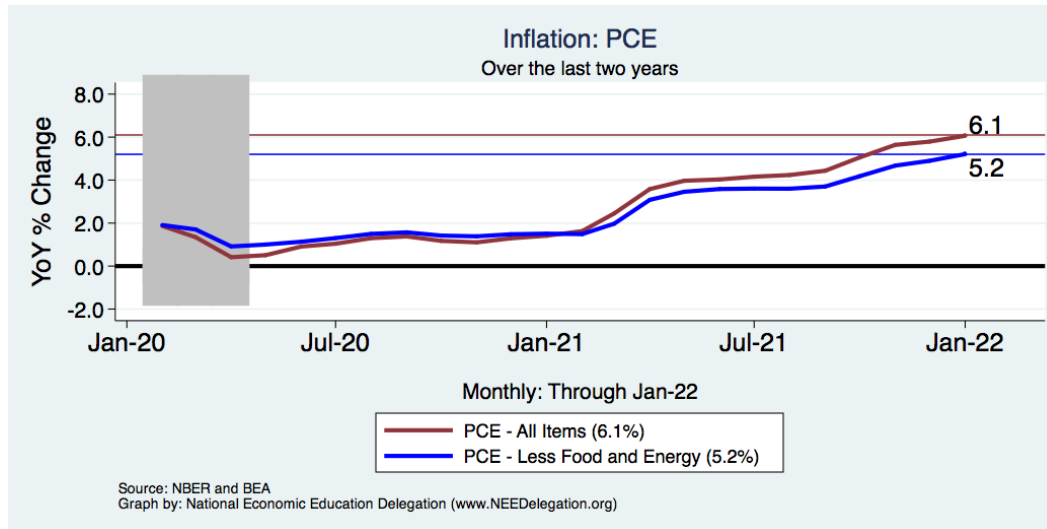
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## Corporate Profits...Adding to Inflation?



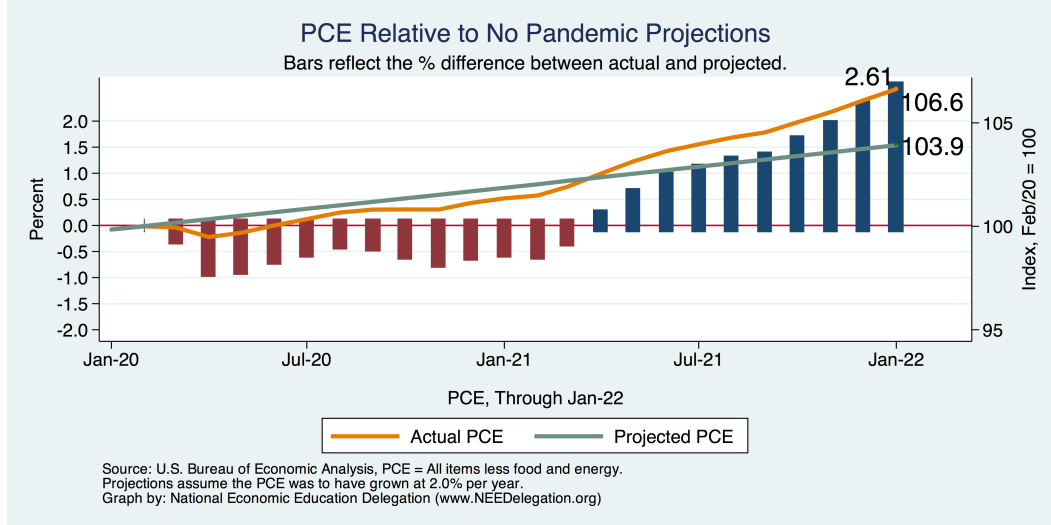
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## Inflation – The Fed’s Metric! Should we worry?



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



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# 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.

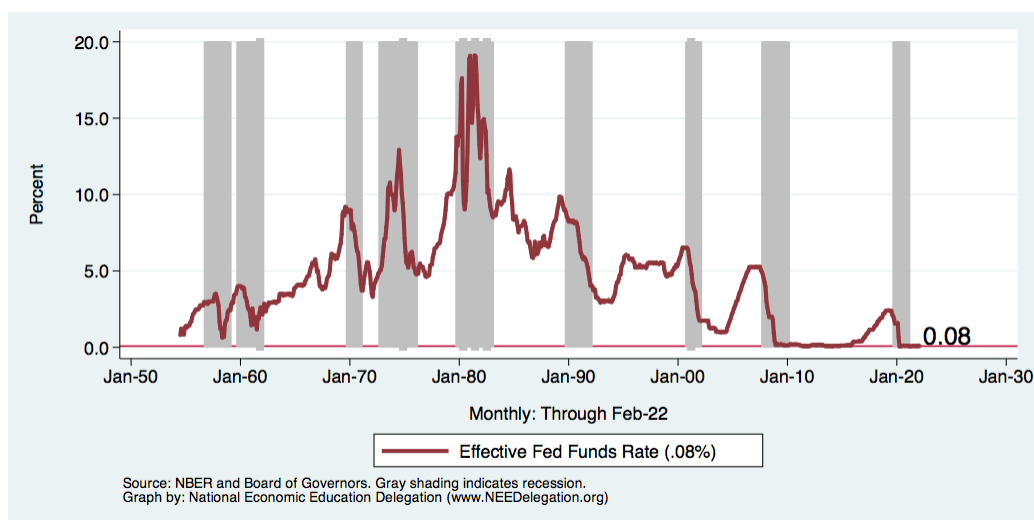
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## Monetary Policy

- Fed will raise interest rates by 25 basis pts. (1/4 pt.)
- 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.

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## Federal Funds Rate



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## 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](http://www.NEEDelegation.org)

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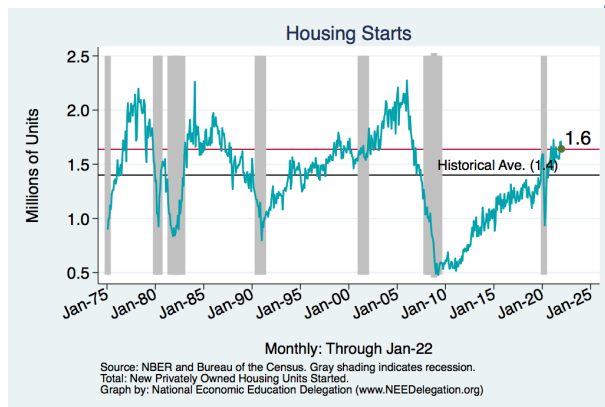
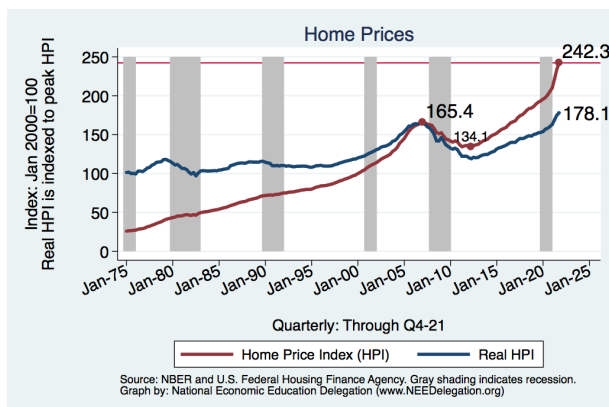
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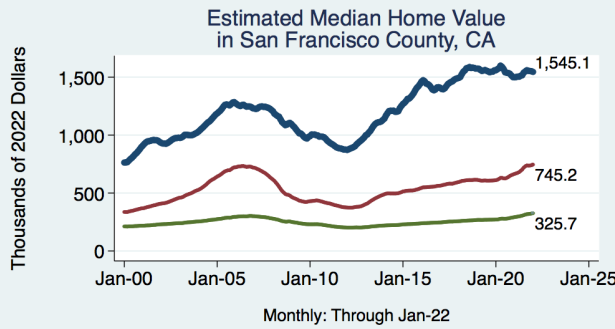
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# Home Prices and Housing Starts

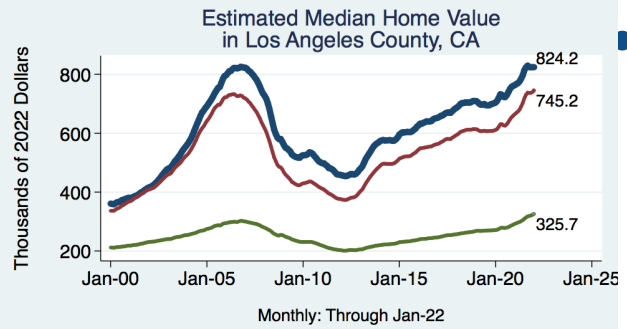


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## RE Experiences Differ!



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>  
Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))



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