



# US Economy and Coronavirus Economics

Central Coast Chapter of the CSMFO,

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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: 640+ 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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## Credits and Disclaimer

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

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- Brian Dombeck, Lewis & Clark College
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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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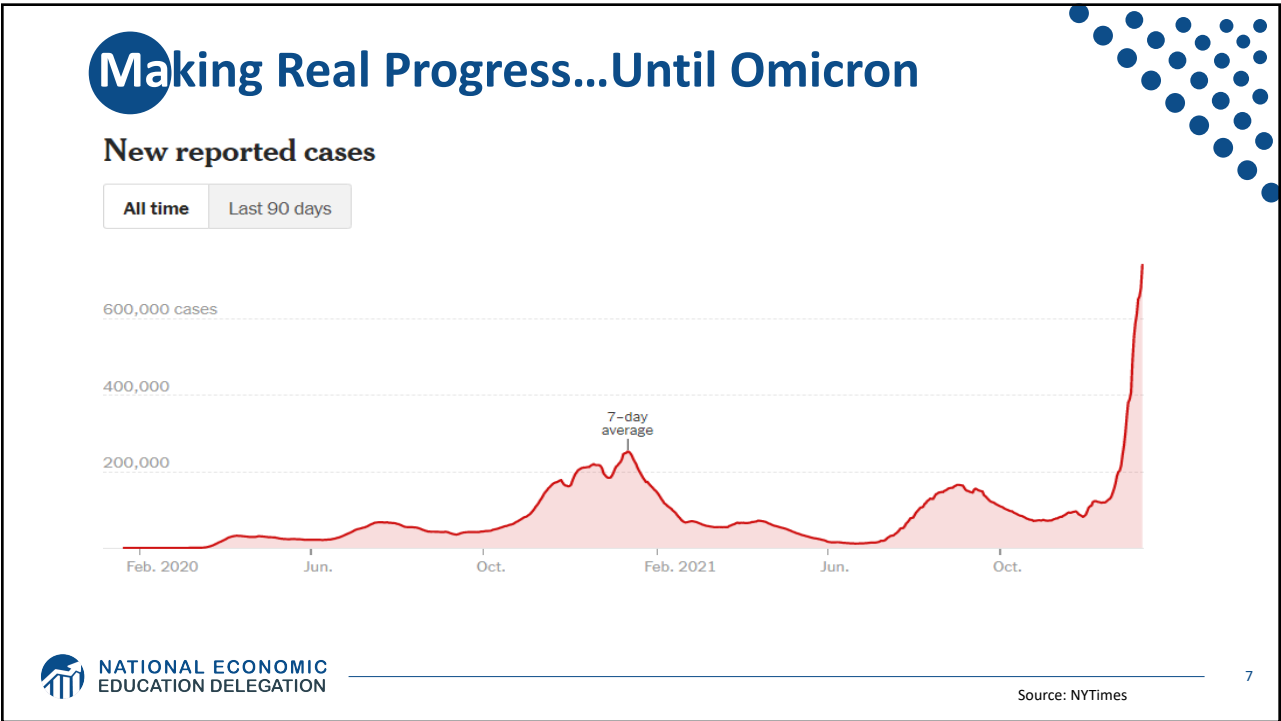
# Outline

- **State of the pandemic**
- **The U.S. Economy**
  - Total Output
  - Policy Support
  - Labor Market
  - Inflation
  - Great Resignation
  - Equity Markets

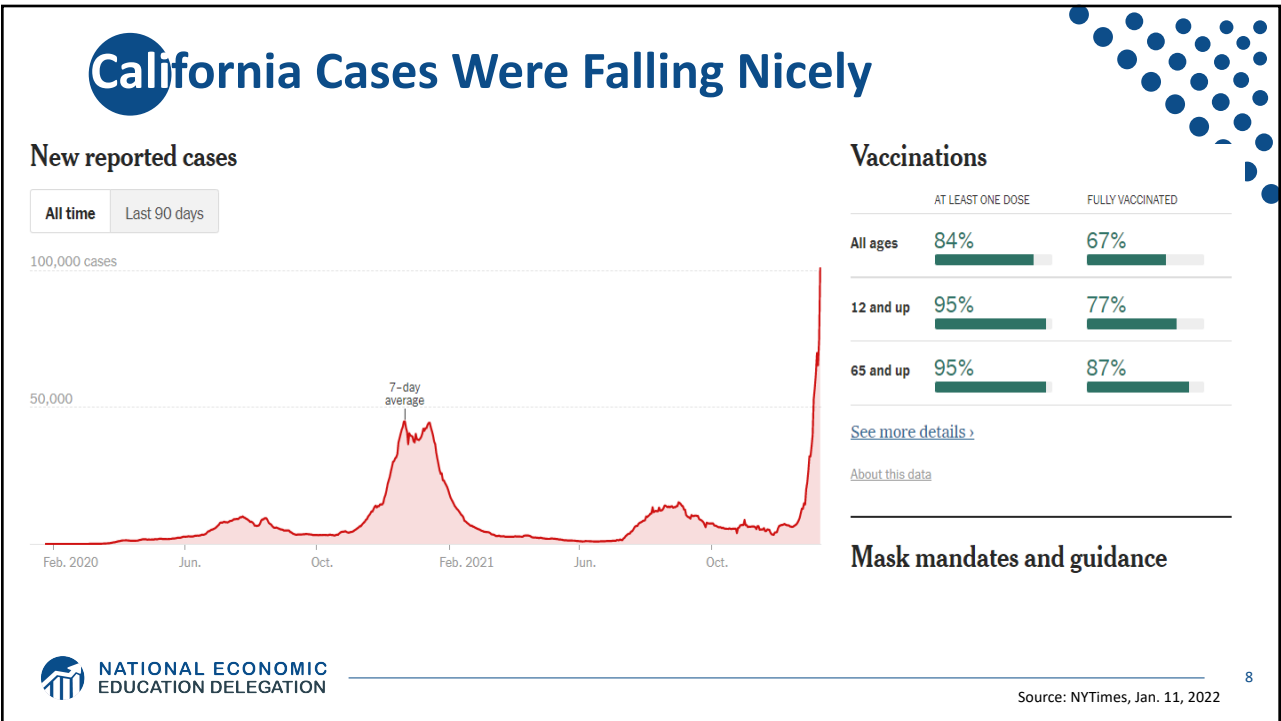
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# State of the Pandemic

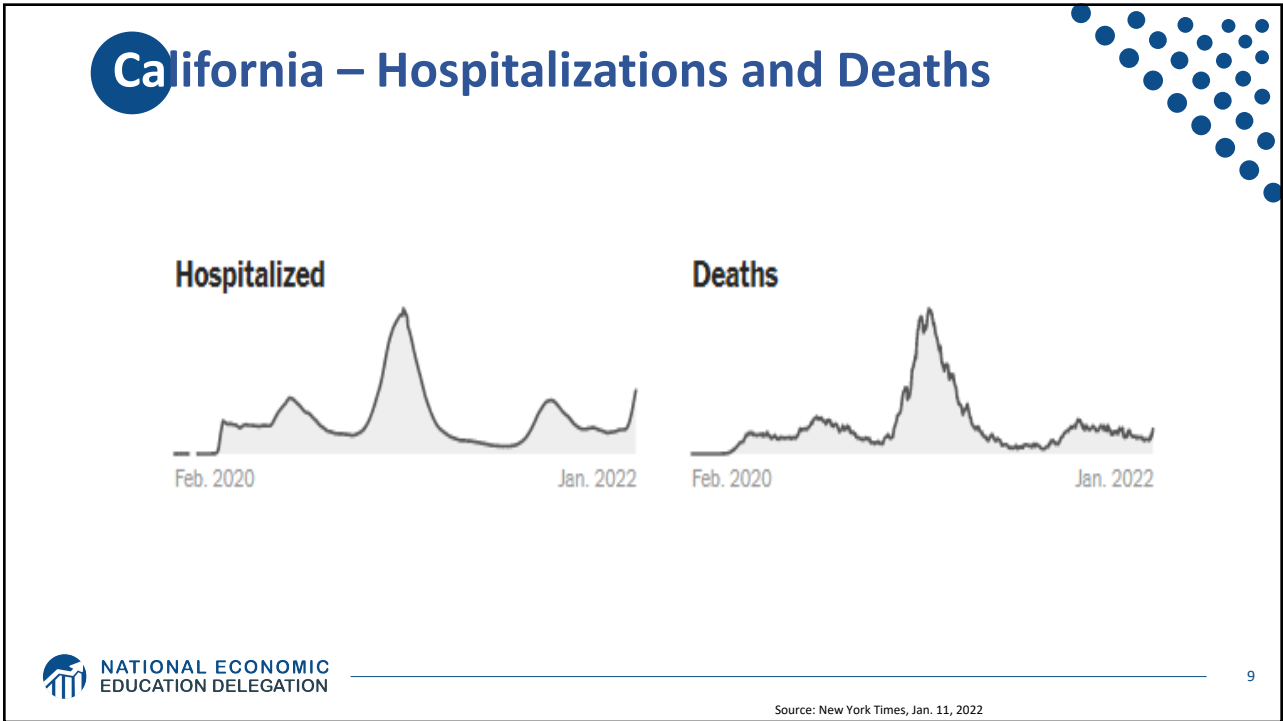
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# The U.S. Economy

The Role of the Pandemic versus Policy Adjustments?

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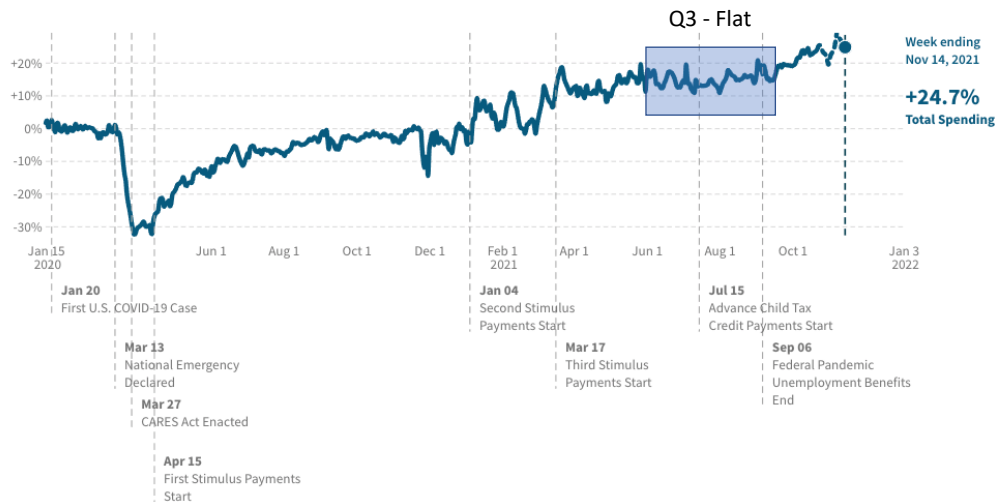
# GDP Trajectory: Pandemic Plunge and Recovery



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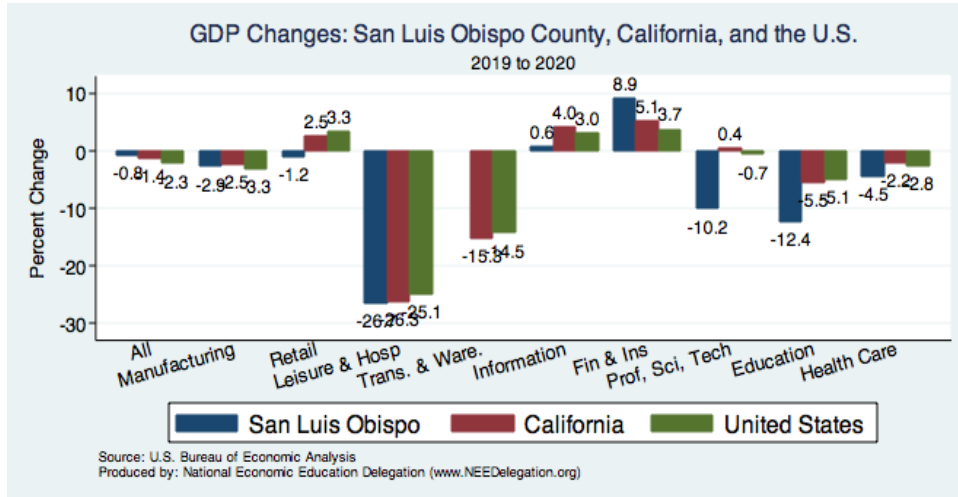
# Spending Patterns Since First US Case

In the United States, as of November 14, 2021, total spending by all consumers increased by **24.7%** compared to January 2020.



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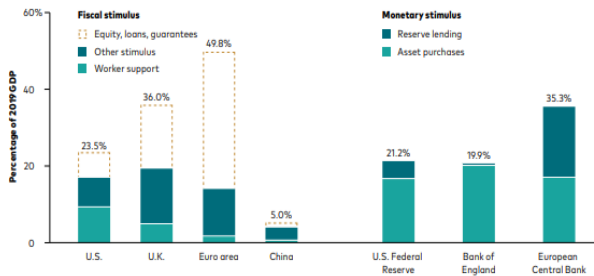
# But Not All Industries Were Equally Harmed



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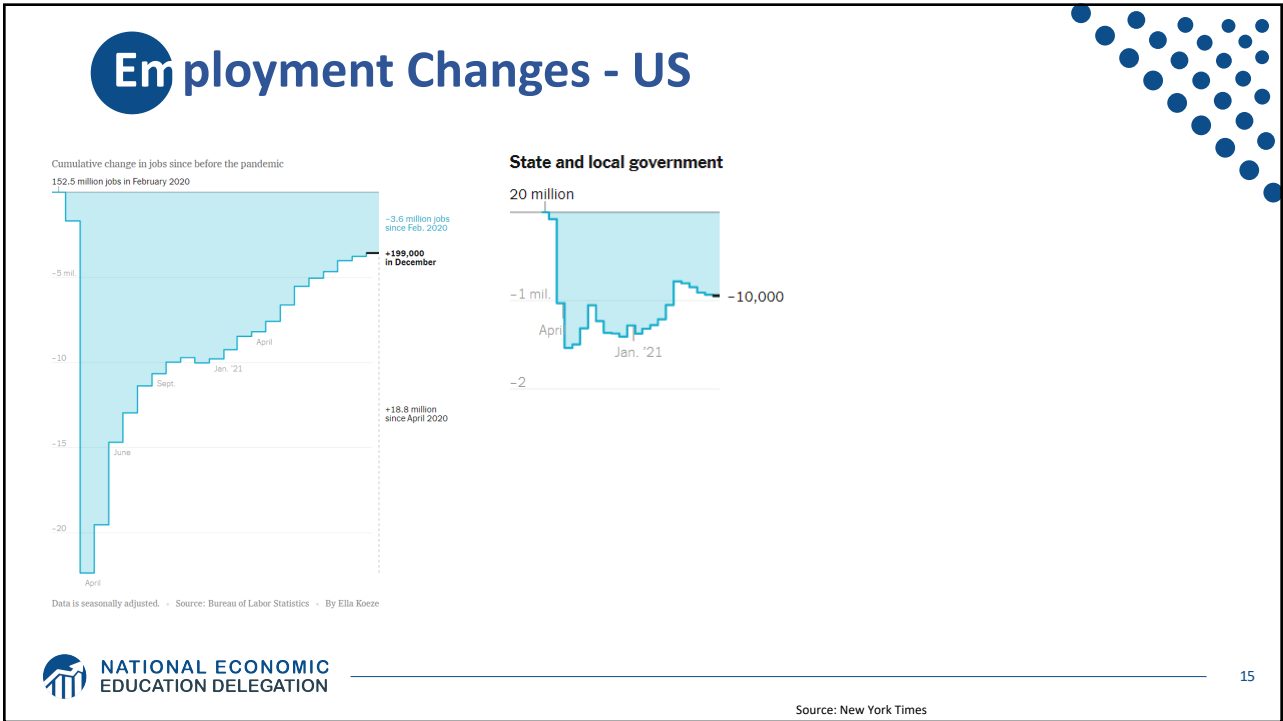
# Unprecedented Policy Support

FIGURE I-1  
A macroeconomic policy experiment in real time

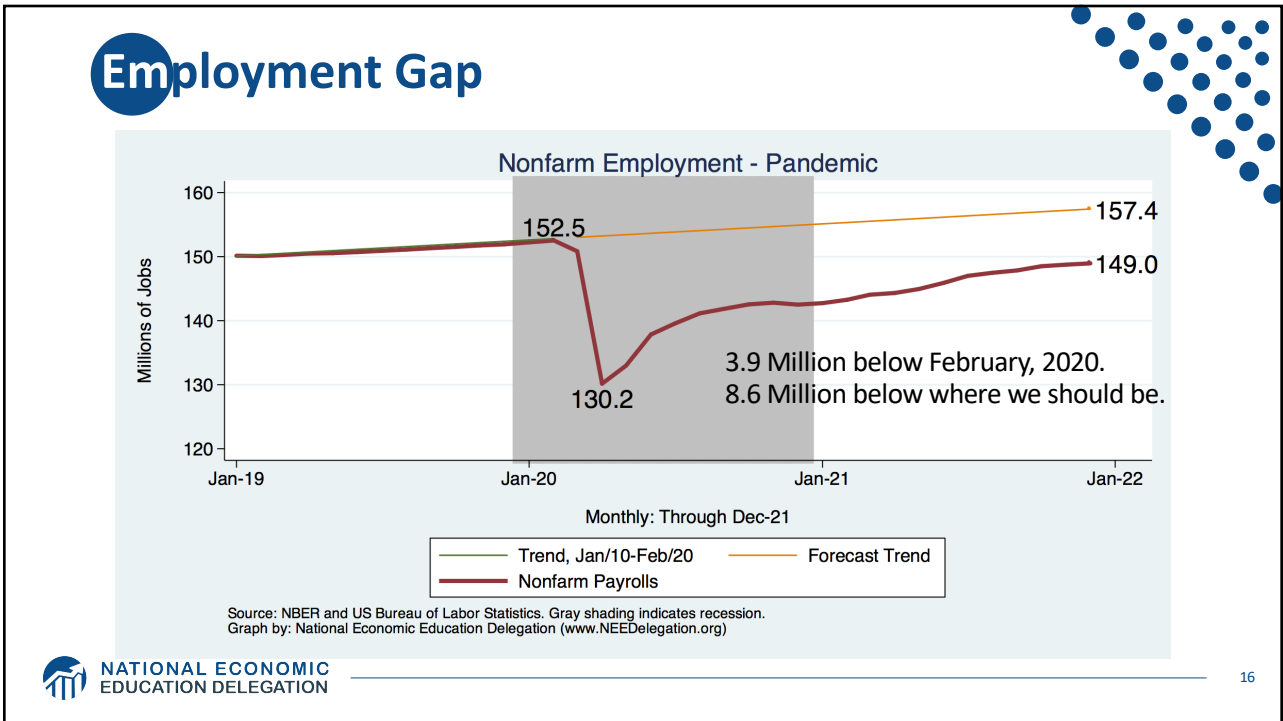


Notes: All stimulus percentages are based on 2019 Nominal GDP. Fiscal stimulus: For worker support for the euro area, an average of spending for Germany, Italy, and Spain is

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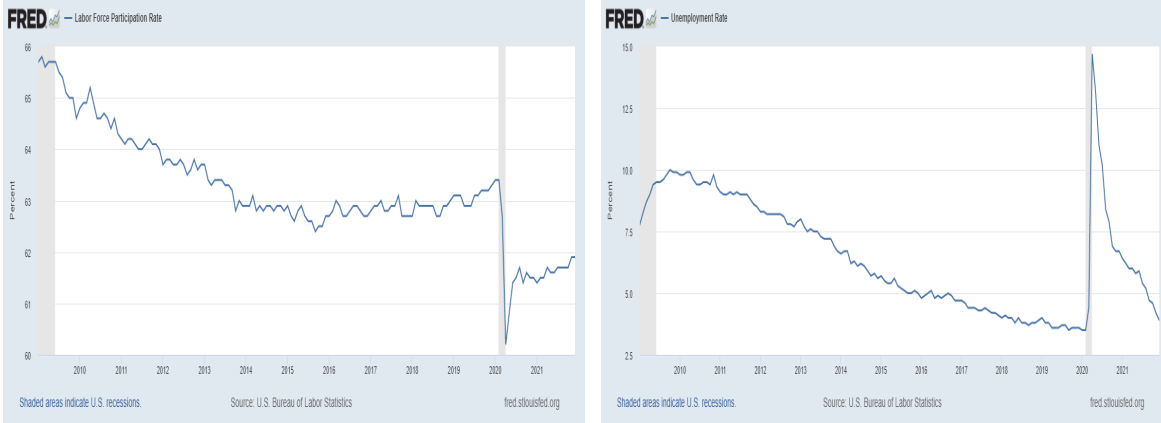
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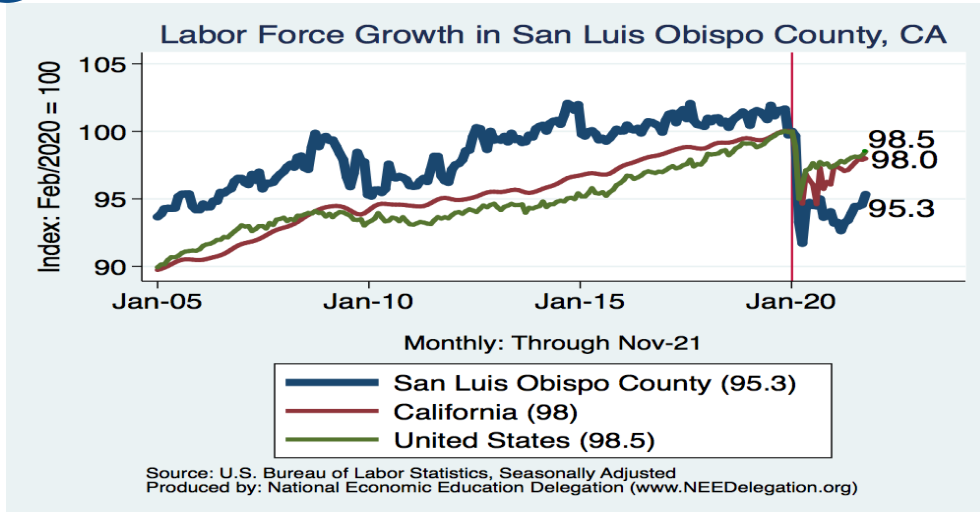


# Labor Force Participation and Unemployment



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# Labor Force Growth in San Luis Obispo Co.



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# Inflation News – Today

Consumer-price index, percent change from a year earlier



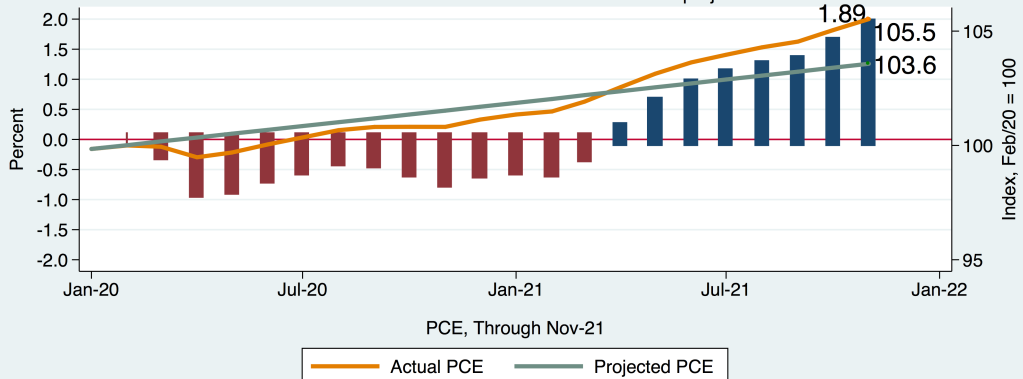
Source: Labor Department

Source: Wall Street Journal

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

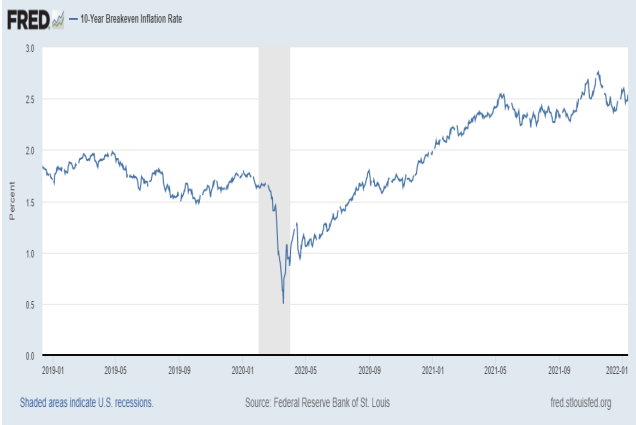
PCE Relative to No Pandemic Projections  
Bars reflect the % difference between actual and projected.



Source: U.S. Bureau of Economic Analysis, PCE = All items less food and energy. Projections assume the PCE was to have grown at 2.0% per year. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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# Measure of Inflation Expectations



Breakeven Inflation Rate = Difference between nominal and real 10-year Treasury constant Maturity securities.

Market participants still expect around 2.5% of inflation annually over the next 10 years.

Inflation expectations are still 'anchored'.

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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



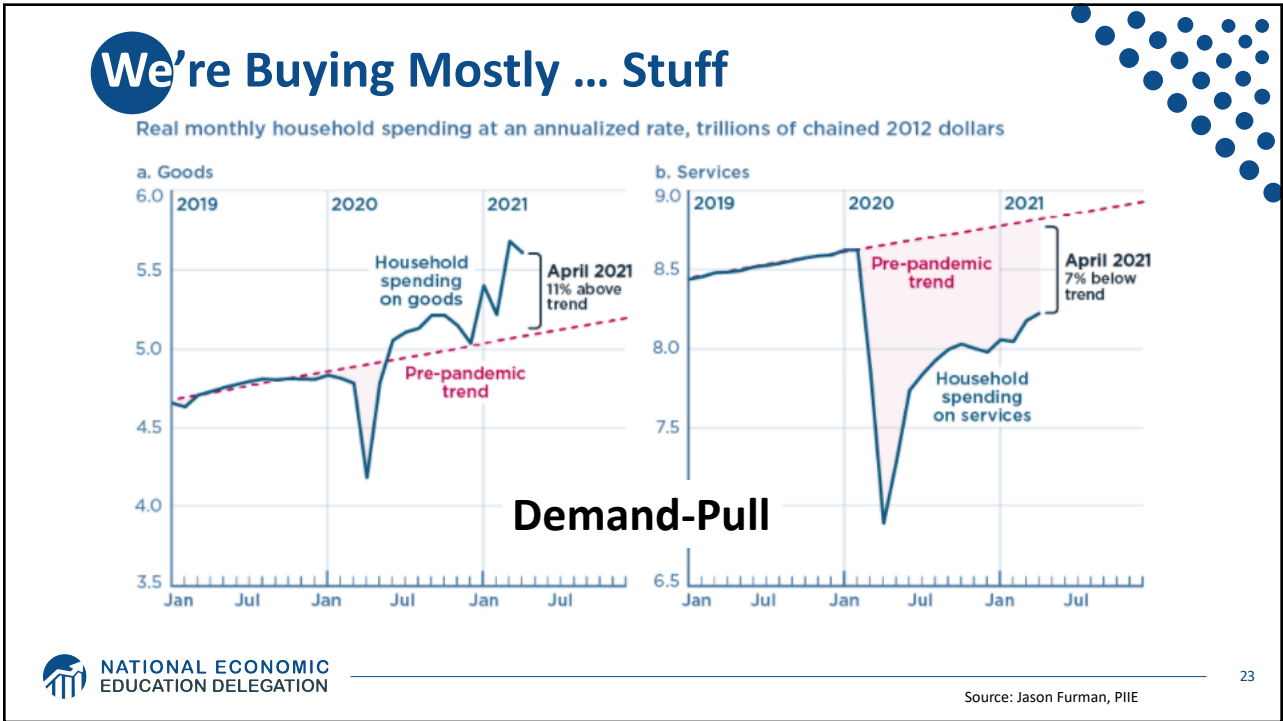
When production costs increase prices.

## Built-In

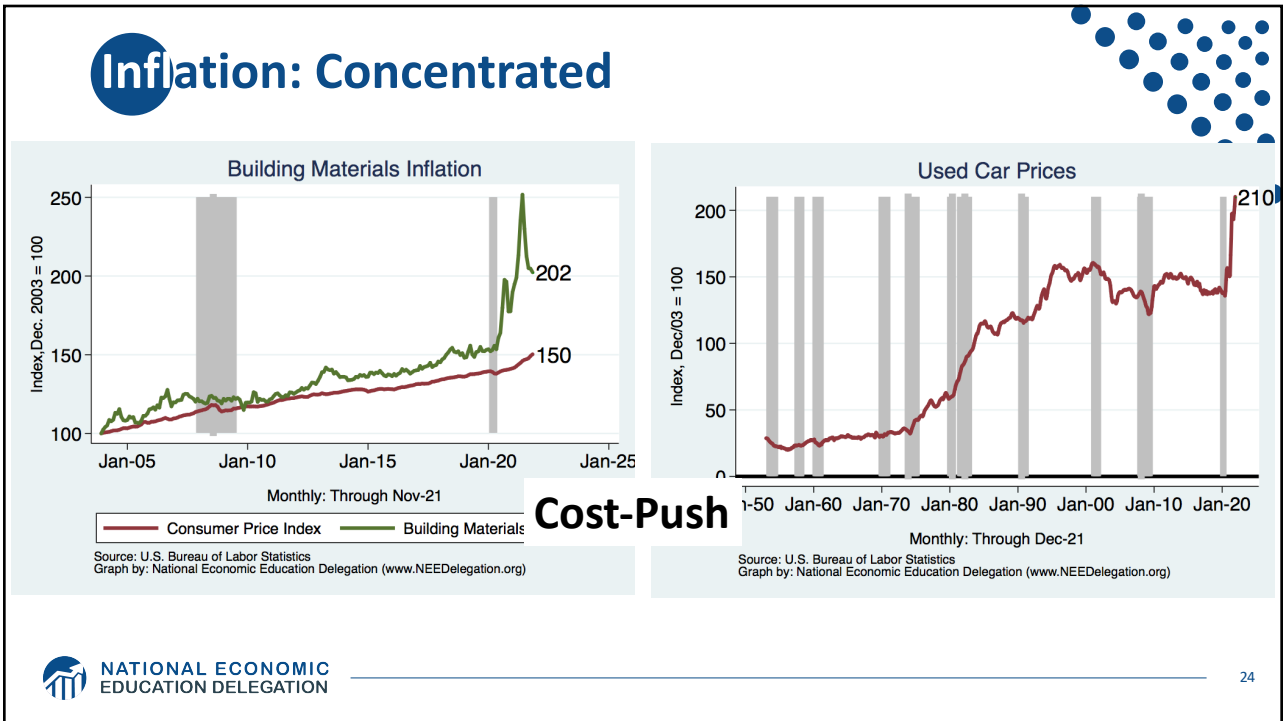


When prices rise, wages rise too, in order to maintain living costs.

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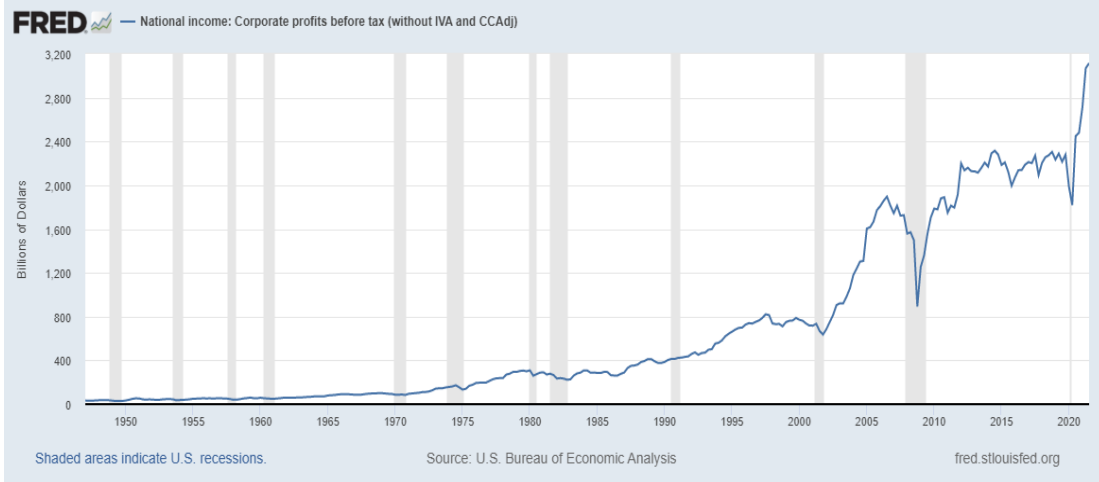


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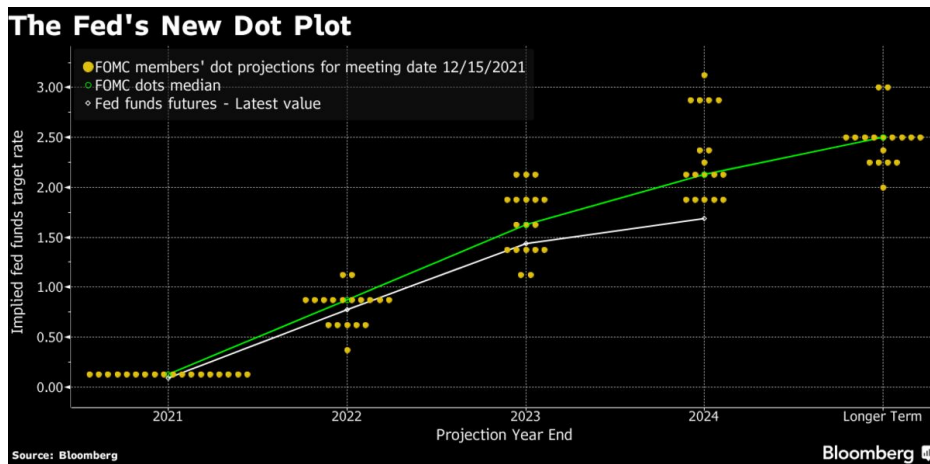
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# Corporate Profits...Adding to Inflation?



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# Projected Policy Changes - Fed



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# Fed Reaction

- Likely to raise interest rates faster than expected – especially if the labor market keeps recovering (fewer demand/supply imbalances, continued recovery of the labor force participation rate and low unemployment rate).



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# Equity Markets – Is there Overvaluation?



Likely yes – based on negative real earnings yields (inflation adjusted earnings per share) which indicates that profits are not keeping up with share price increases (even though corporate profits are increasing).

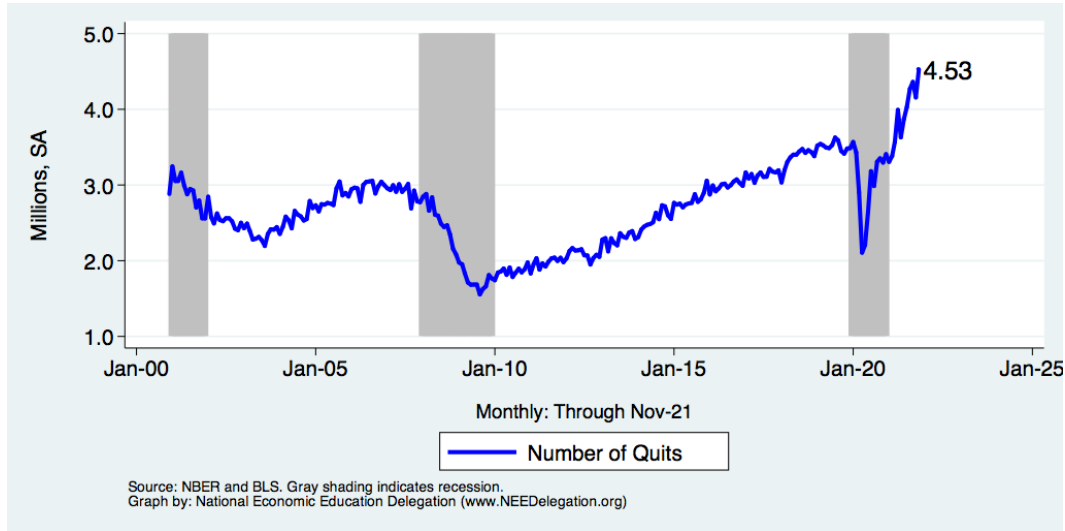


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# The Great Resignation

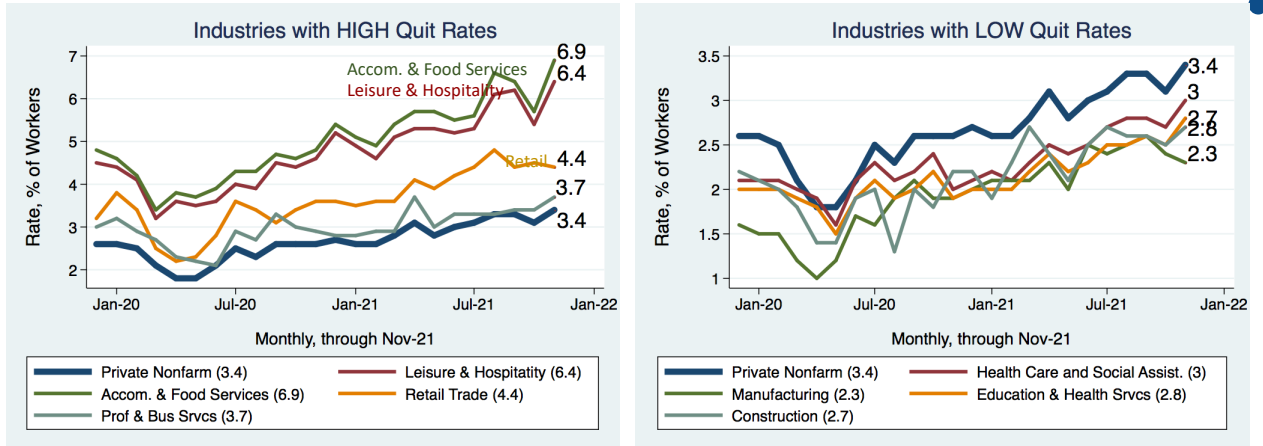
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## Quits Are High! The Great Resignation



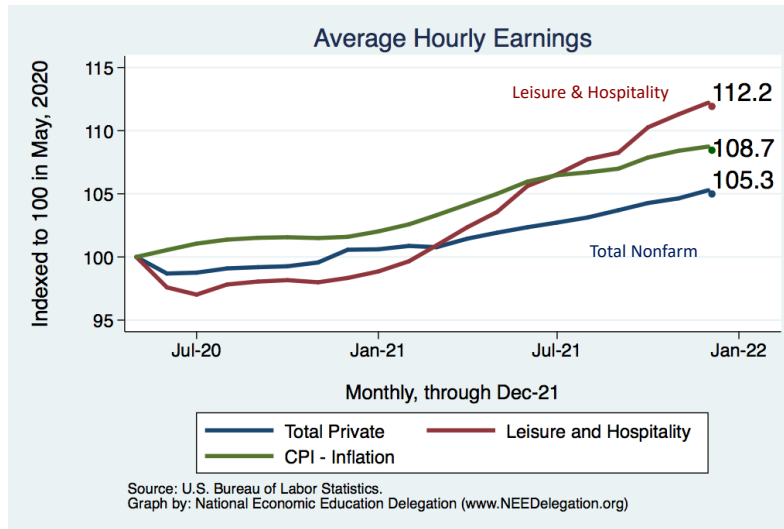
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# Quits – Rising, but More in Some Industries



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# This is Happening as Nominal Wages Rise

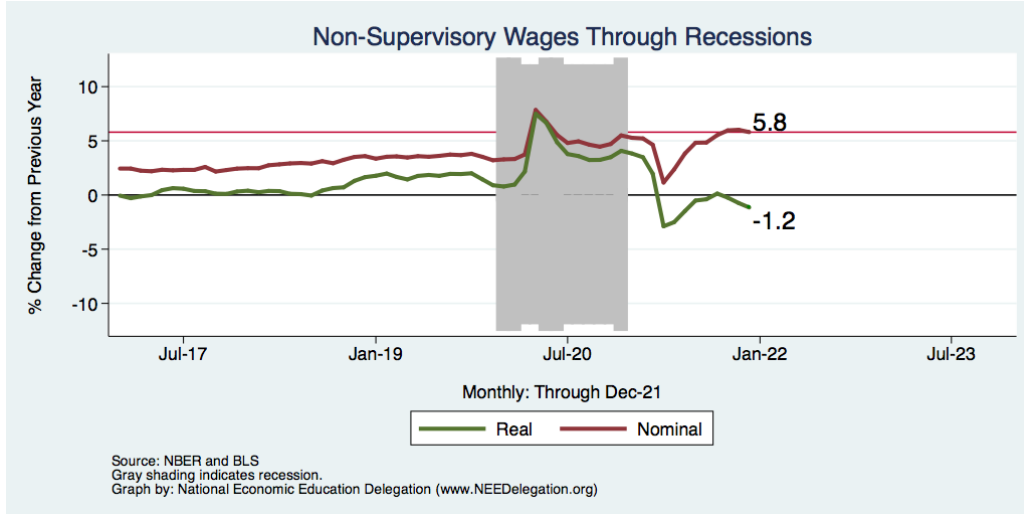


Source: U.S. Bureau of Labor Statistics.  
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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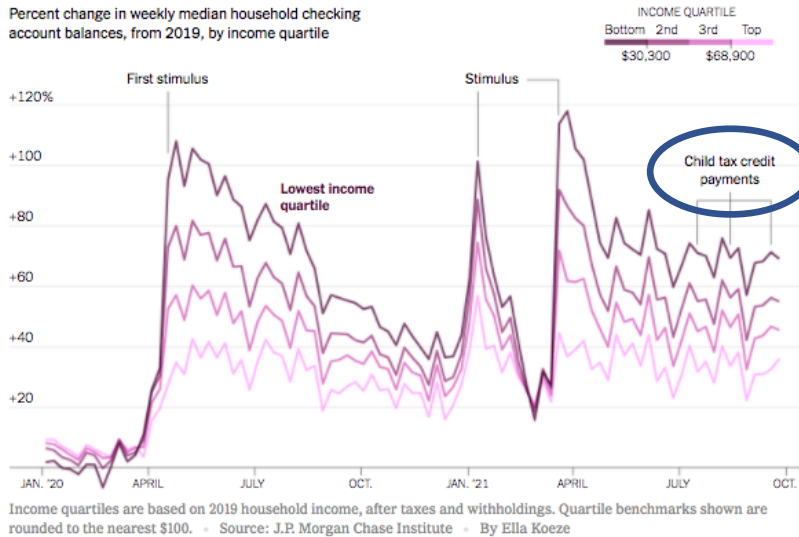


# Inflation Adjusted Wages Are Falling



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# Declining Resources May Change Things



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## Primary Topics Covered

- **GDP**

- Recovered the decline, but not where it should be.
- Won't recover previous forecast until late 2022. Growth: 4.0%

- **Employment**

- Still down 8.6 million jobs relative to forecast. (3.9 million relative to Feb/20).
- Labor force is 2.5 million smaller than at the beginning of the pandemic.
- Rising wages are not enticing low-wage workers back to work.

- **Inflation**

- Going to be high for a while, but transitory – maybe?



## Conclusion

- **Recovery is well underway, but will be slowing.**

- **GDP will likely have expanded 5.5% percent in 2021, about 4% in 2022.**

- **Physical health determines economic health for the economy.**

- Variants may well slow our progress: Omicron.
- Gov't missteps may also hinder progress.

- **Biggest problems:**

- Supply chain bottlenecks.
- Labor force participation.



## Best Measures of Progress

- Inflation – getting it under control.
- Real wages – need to see progress.
- Workforce participation – need growth here to get GDP growth.

Pay less attention to the unemployment rate.



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## Thank you!

## Any Questions?

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

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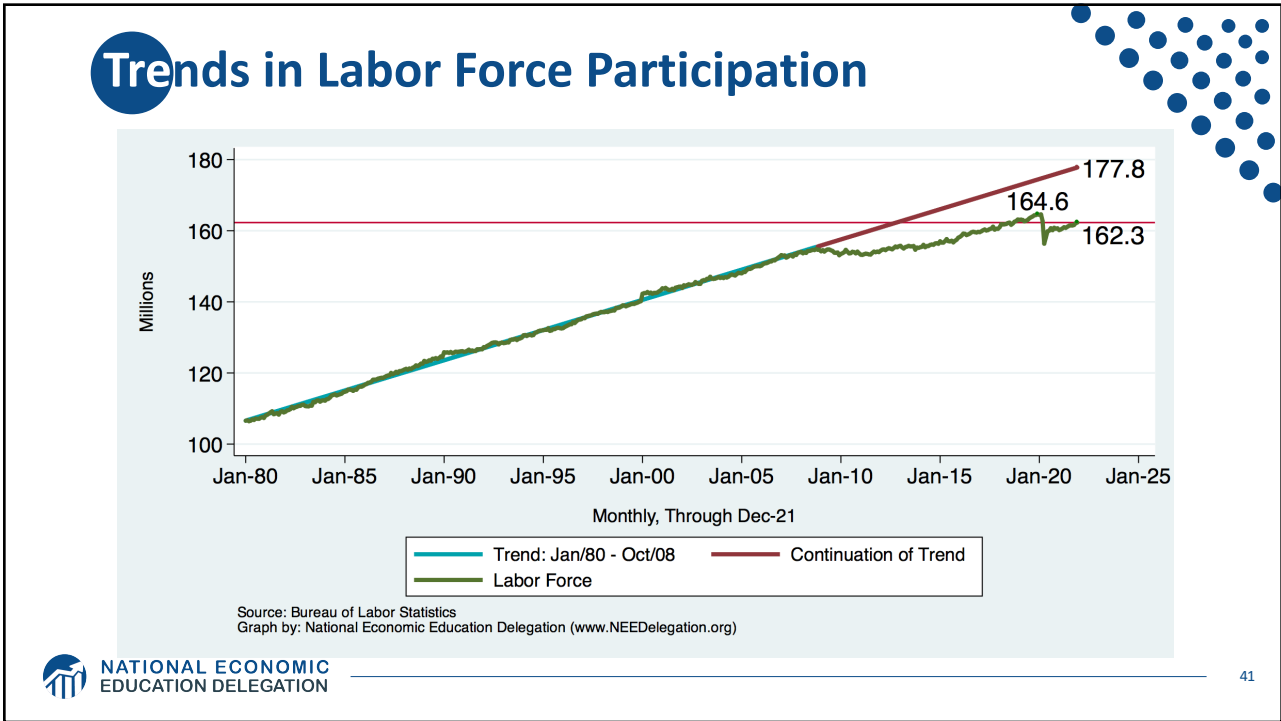
**Available NEED Topics Include:**

- 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

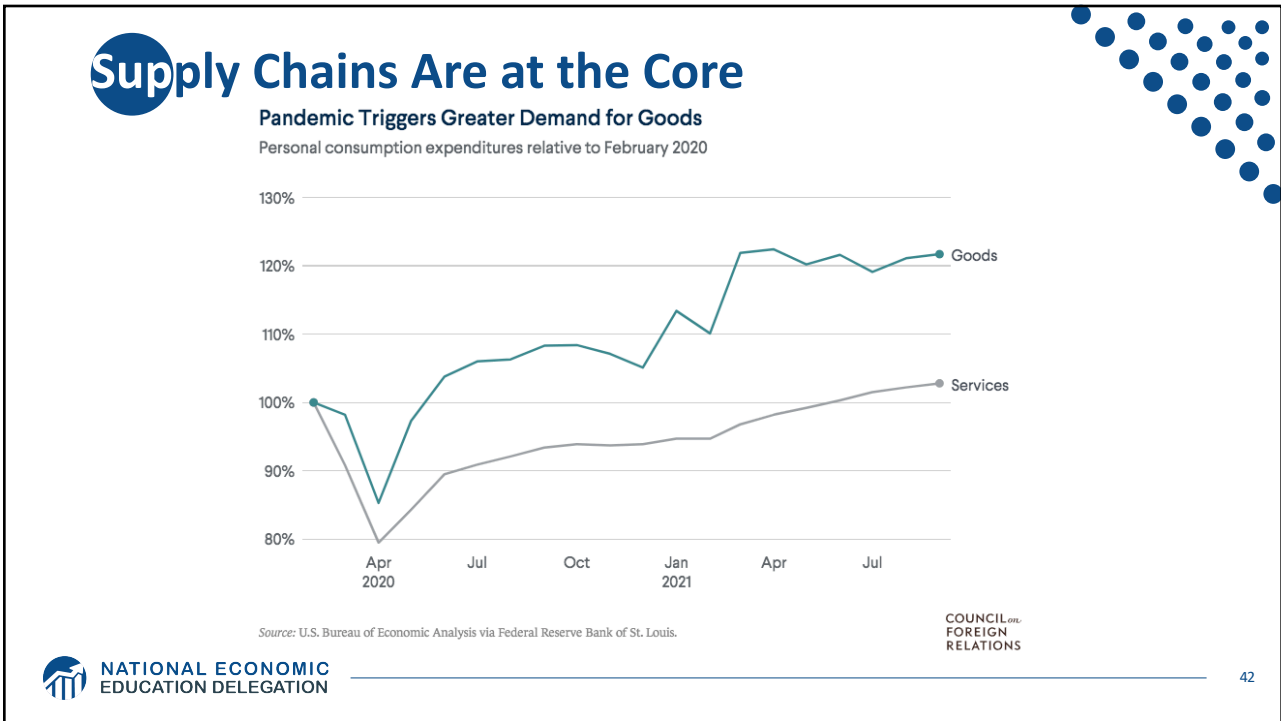
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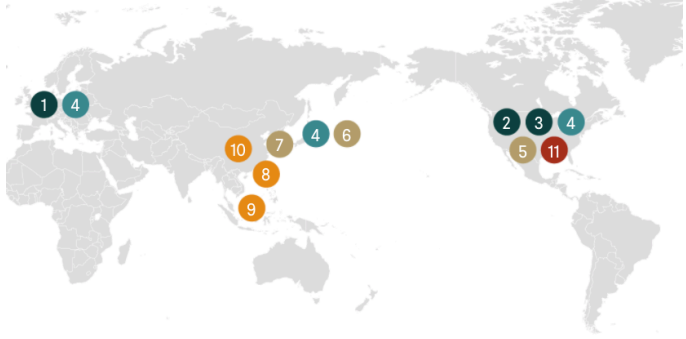


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## What Are Supply Chains?

### The Journey of a Semiconductor


Steps and firm locations in the production of a smartphone chip



The map shows the following locations for the 11 steps:

- 1: Europe
- 2: U.S.
- 3: U.S.
- 4: U.S.
- 5: U.S.
- 6: Japan
- 7: South Korea
- 8: Taiwan
- 9: Malaysia
- 10: China
- 11: U.S.

Design	Equipment	Materials	Manufacturing	Sale
1. Intellectual property licensed (Europe)	4. Manufacturing equipment developed (U.S., Europe, Japan)	5. Silicon dioxide mined and refined (U.S.)	8. Wafers imprinted with circuits (Taiwan)	11. Smartphone sold to consumers (U.S.)
2. Design software developed (U.S.)		6. Silicon formed into ingot (Japan)	9. Chip packaged (Malaysia)	
3. Chip designed (U.S.)		7. Ingot sliced into wafers (South Korea)	10. Chip assembled (China)	

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<https://www.cfr.org/article/what-happened-supply-chains-2021>

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## Puzzle: Is Inflation Permanently Higher?

- **Fed: Price increases may be:**
  - 1) rebound from low prices last year;
  - 2) temporary due to supply chain disruptions; e.g., used cars, bldg supplies.
  - 3) influenced by rising wages in the future.
- **On the other hand: We are close to full employment and monetary and fiscal policies are very easy.**
- **Nobody knows, but Fed has wavered in its optimism.**

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## Telecommuting – Will it Stick?

- **Working from home is ALWAYS less productive than working in the office.**
  - But the gap has shrunk because of technology.
- **In the interest of workplace productivity, employers are likely to allow more working from home.**
  - Increased in-office moral and hence productivity.
  - But not 100% or even 50%. How much?
- **Has important implications for real estate.**

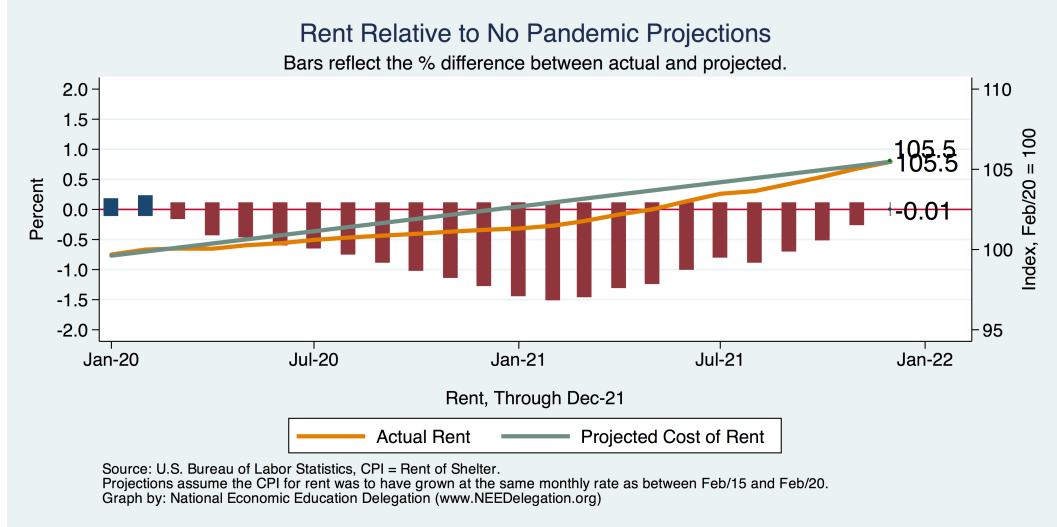


## Residential Real Estate

- **Rental markets**
  - Eviction moratoria are over.
    - o CA: Making payments can stay + 25%.
    - o Self-evictions?
  - Not enough in the American Rescue Plan.
  - Reports of rents rising significantly.
- **Owned homes**
  - Depends on location.
    - o San Francisco – recovering.
    - o Los Angeles County – continued strength.
  - Size matters: large homes are selling particularly well.

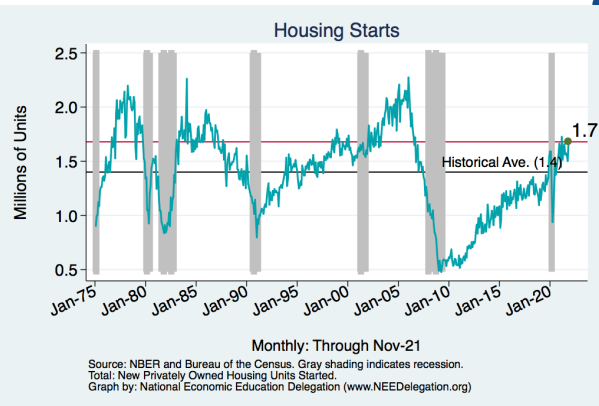
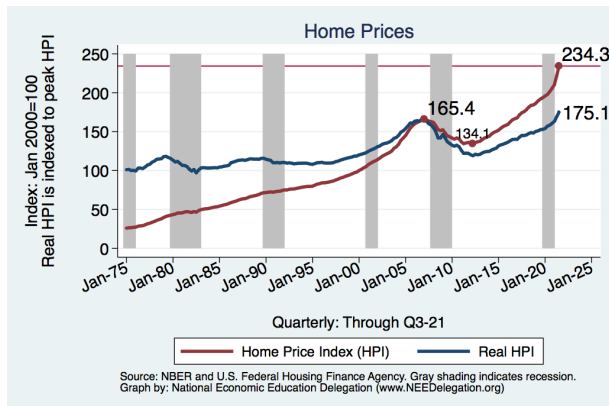


# Inflation – Cost of Rent



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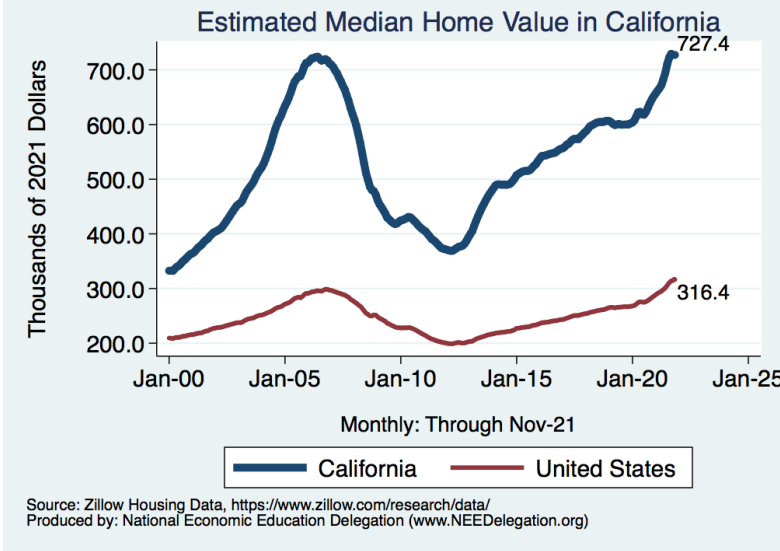
# Home Prices and Housing Starts



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# Real Estate Prices



# RE Experiences Differ!

