



US Economy and Coronavirus Economics

Orange County 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.



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
- 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).

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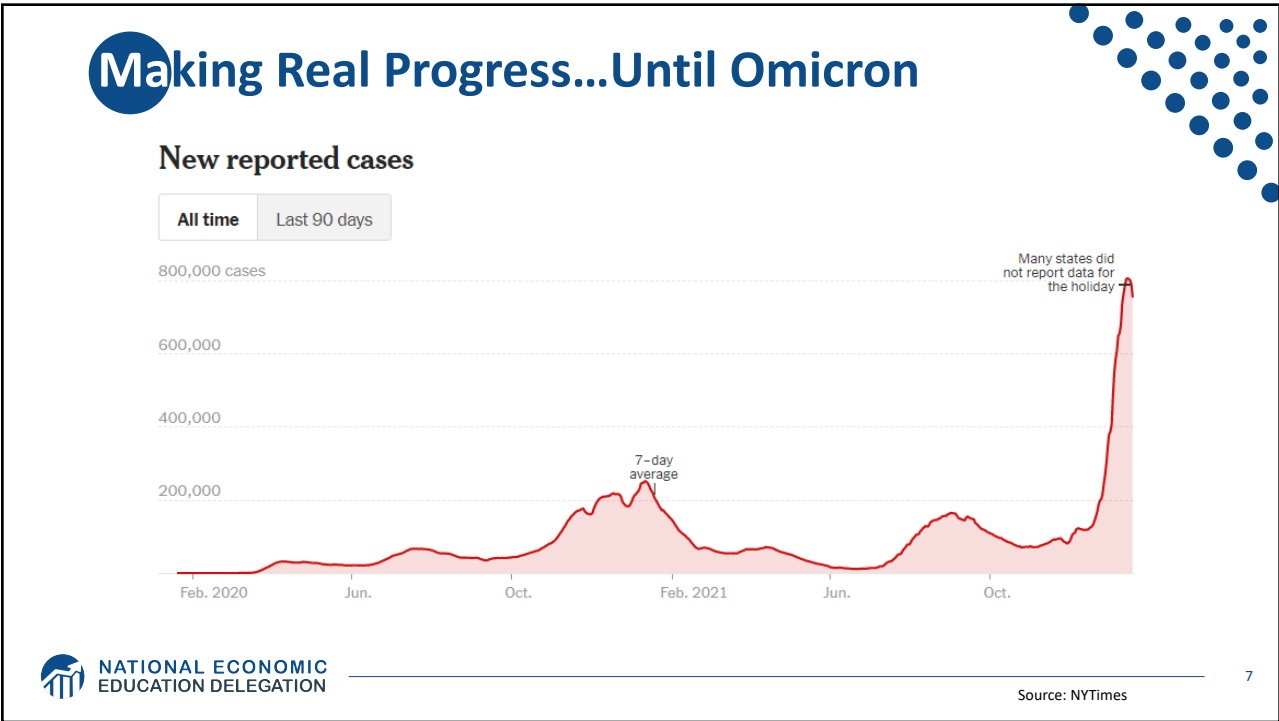
Outline

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

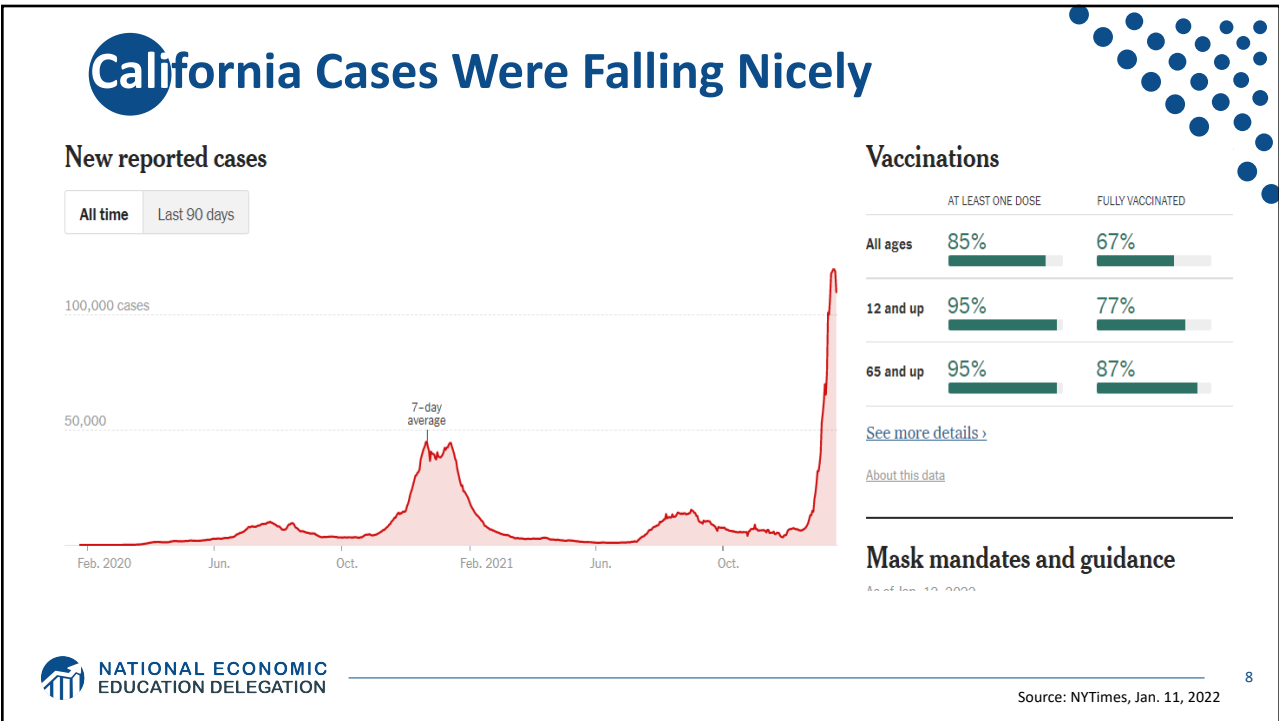
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State of the Pandemic

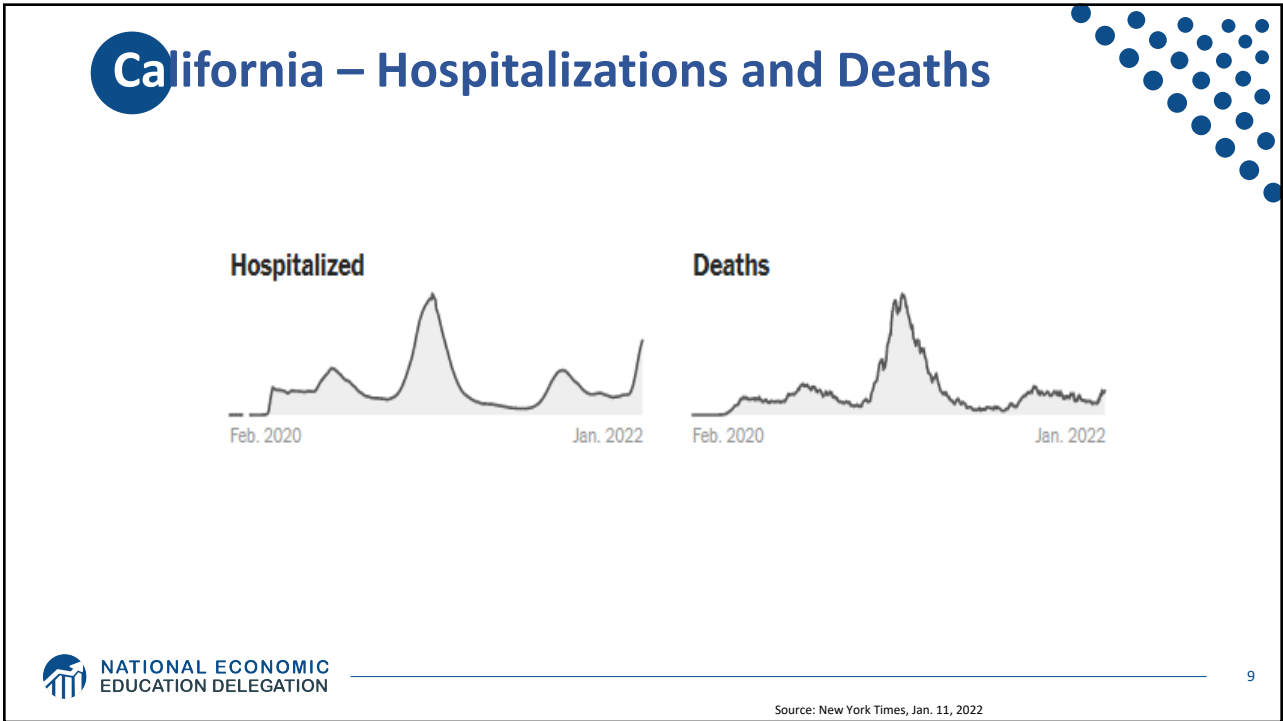
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The U.S. Economy

The Role of the Pandemic versus Policy Adjustments?

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GDP Trajectory: Pandemic Plunge and Recovery



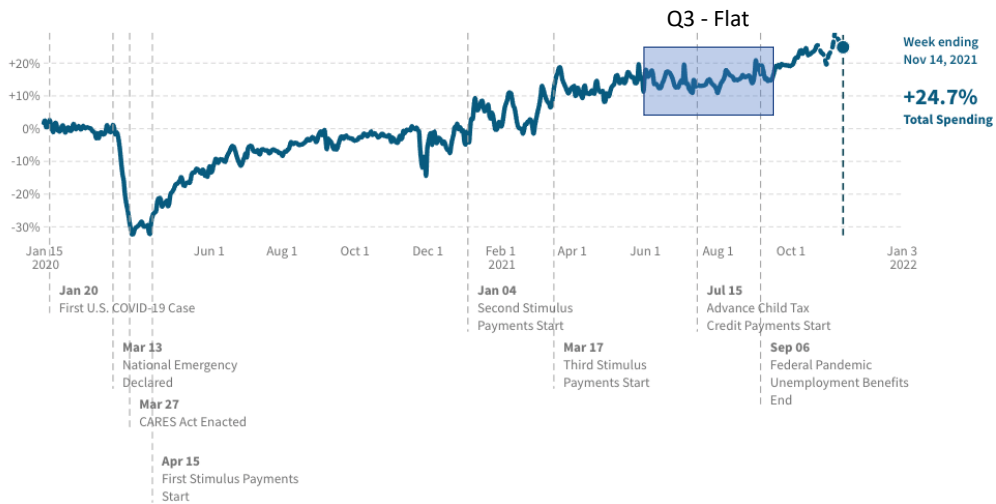
Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

Still a negative Output Gap compared to the start of the pandemic, but a quick recovery.



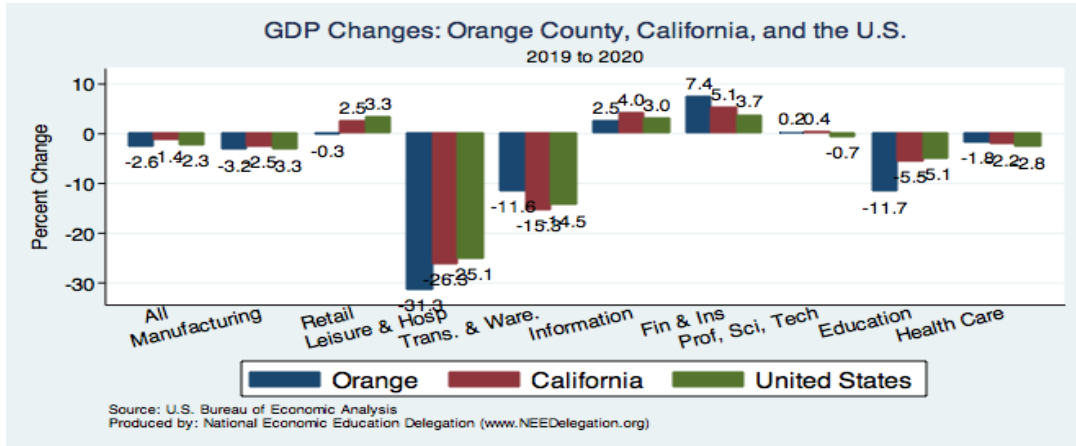
Spending Patterns Since First US Case

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



Source: <https://tracktherecovery.org/>

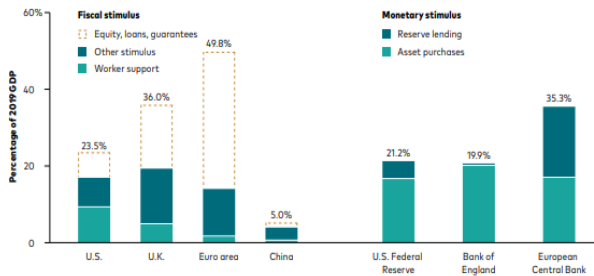
But Not All Industries Were Equally Harmed



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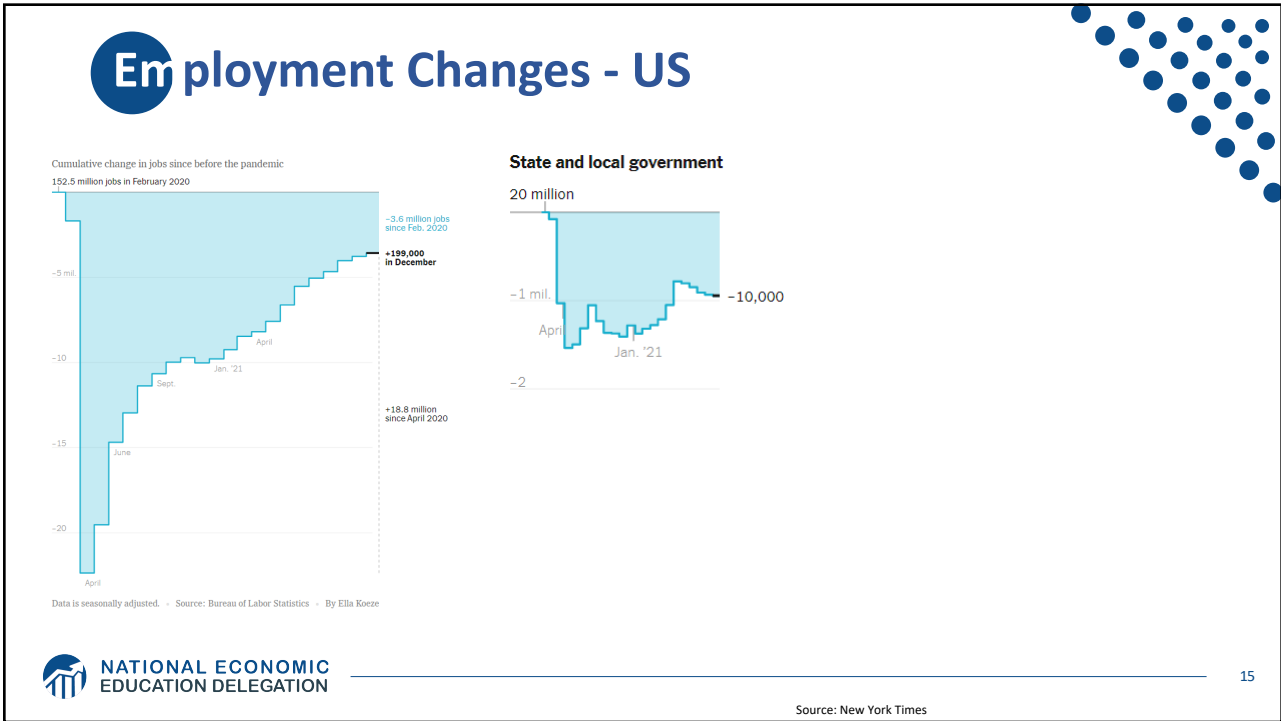
Unprecedented Policy Support

FIGURE I-1
A macroeconomic policy experiment in real time

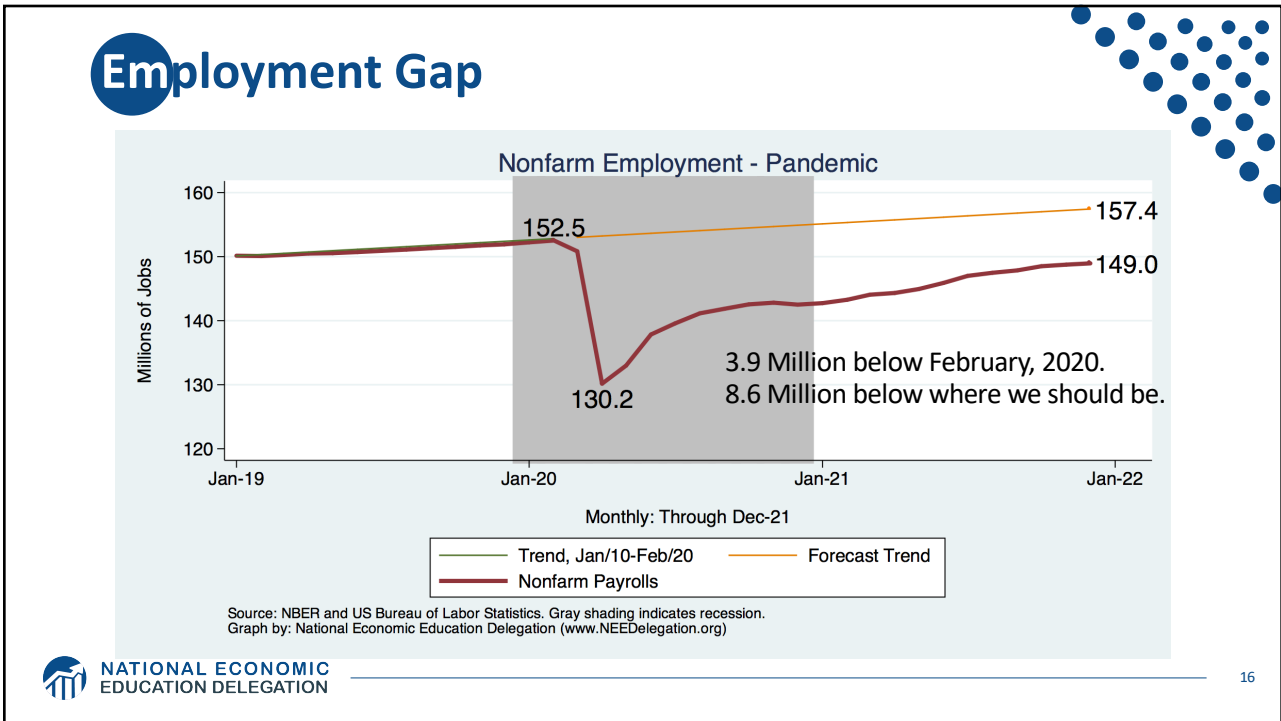


Notes: All stimulus percentages are based on 2019 Nominal GDP. Fiscal stimulus: For worker support for the euro area, an average of spending for Germany, Italy, and Spain is

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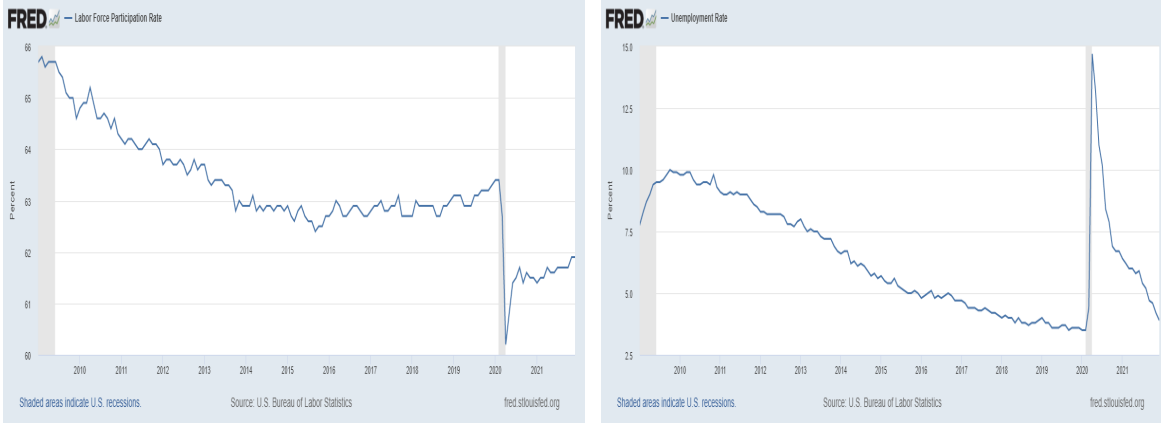


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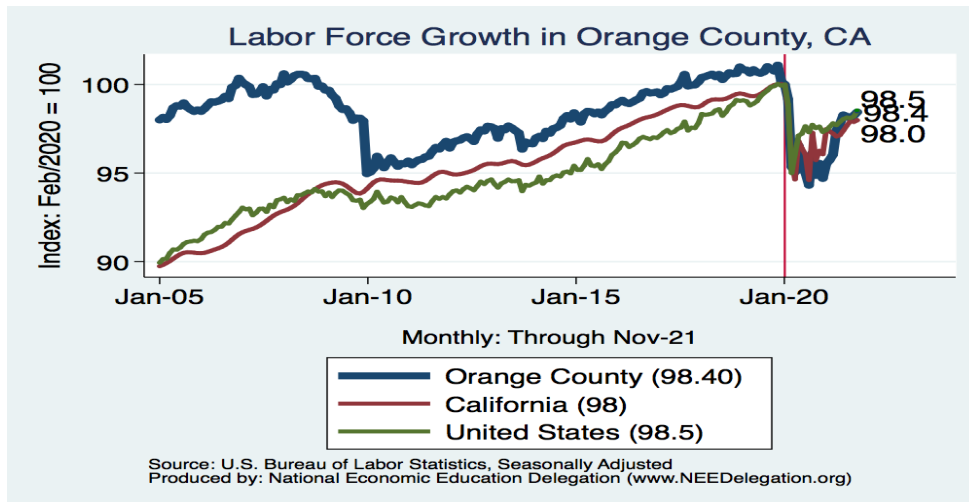
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Labor Force Participation and Unemployment



Unemployment rate is somewhat misleading.

Labor Force Growth in Orange Co.



Inflation and Asset Markets

Inflation, Equity Markets, Housing Markets

Inflation News – Jan. 12, 2022

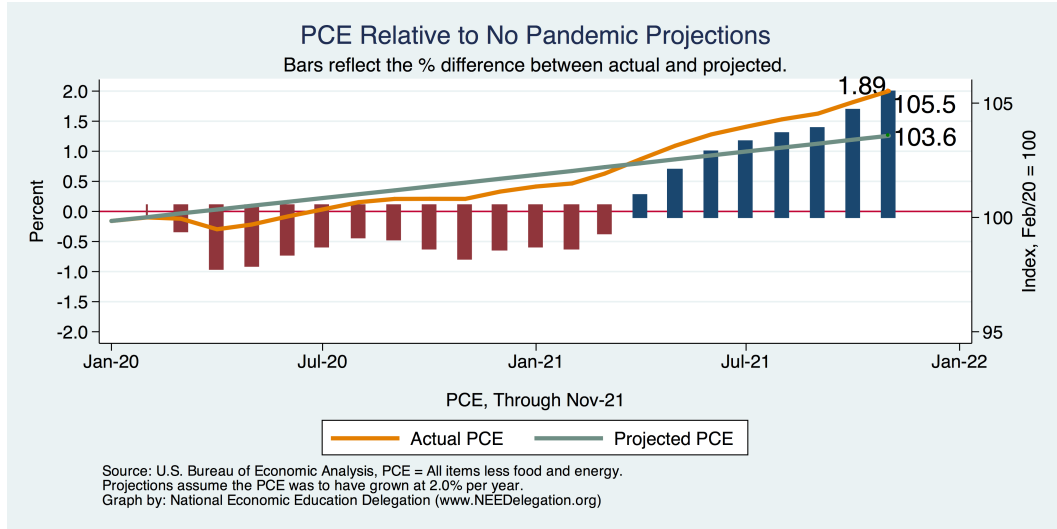
Consumer-price index, percent change from a year earlier



Source: Labor Department

Source: Wall Street Journal

Inflation Targeting over the longer term?



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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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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

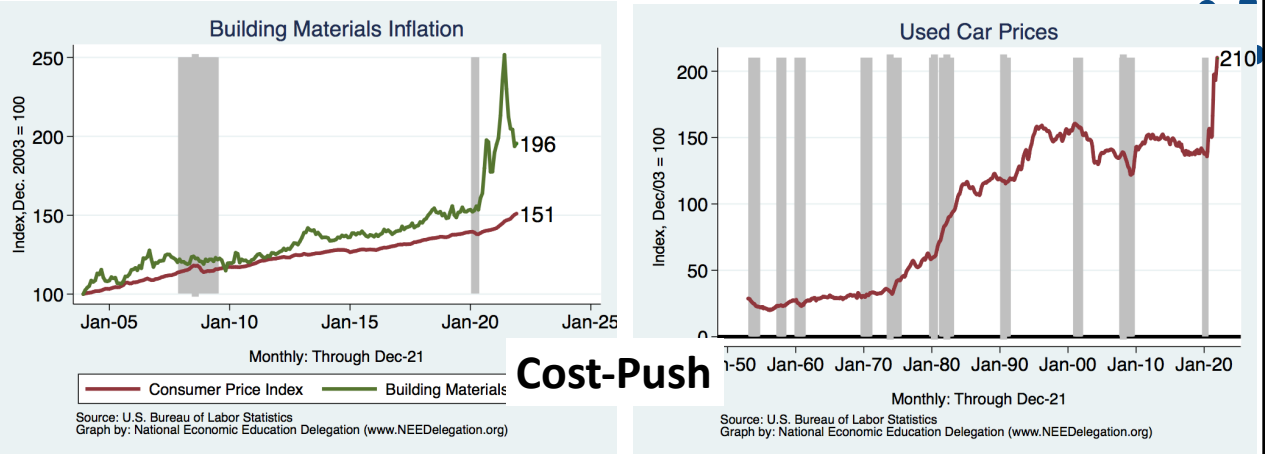
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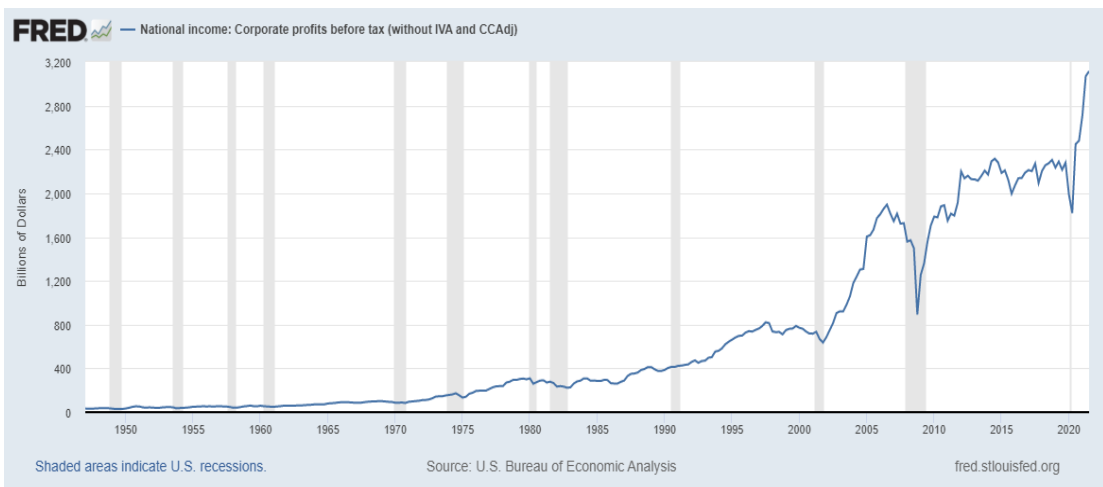
Source: Jason Furman, PIIE

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Inflation: Concentrated



Corporate Profits...Adding to Inflation?

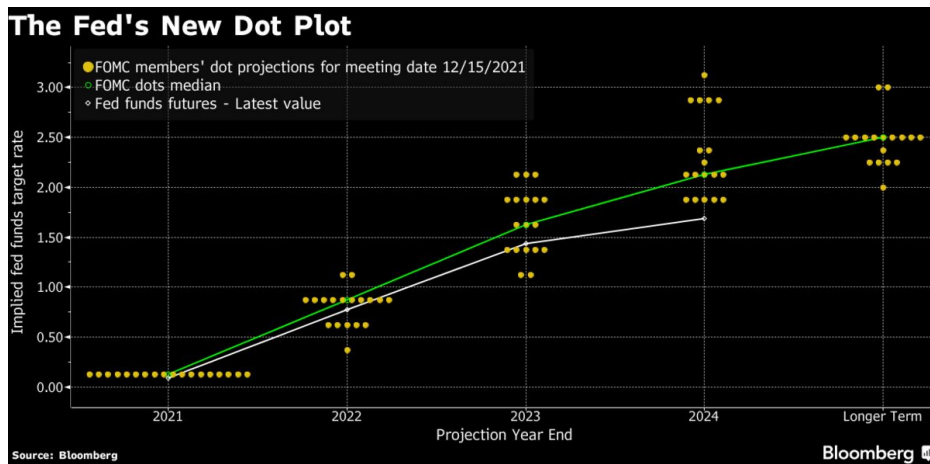


Will Inflation continue to be elevated?

- Likely yes, through 2022.
- Continued supply chain issues (China, US staff shortages)
- Mitigated by decrease in demand (policy support decreased), but consumers are back to substituting toward in-home consumption which can create bottlenecks

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Projected Policy Changes - Fed



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Fed Reaction

- **Very 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?

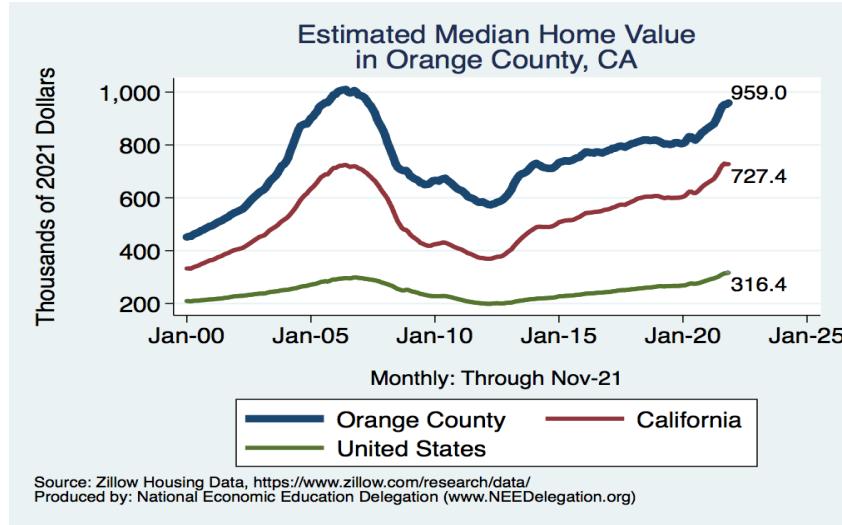


Likely yes – based on negative real earnings yields (inflation adjusted earnings per share) which indicates that profits are not keeping up with share price increases (even though corporate profits are increasing).



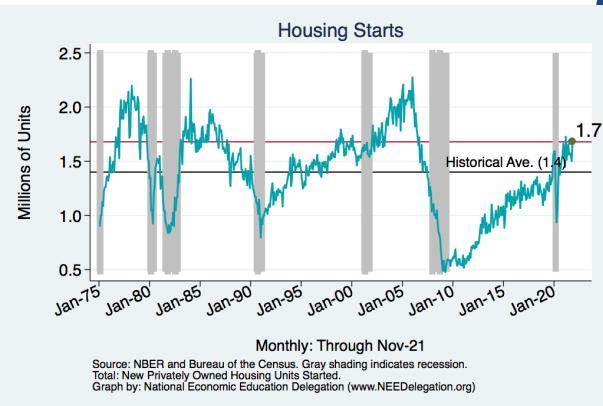
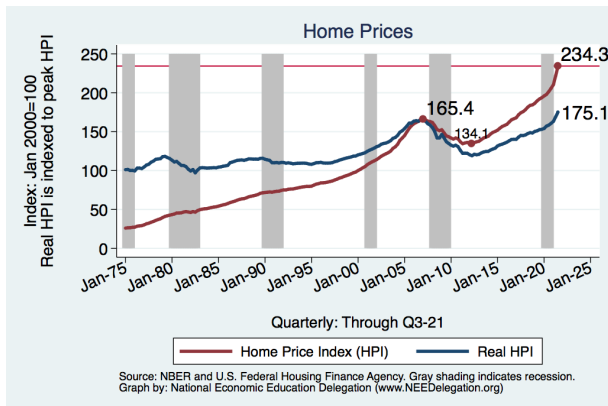
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Real Estate Prices



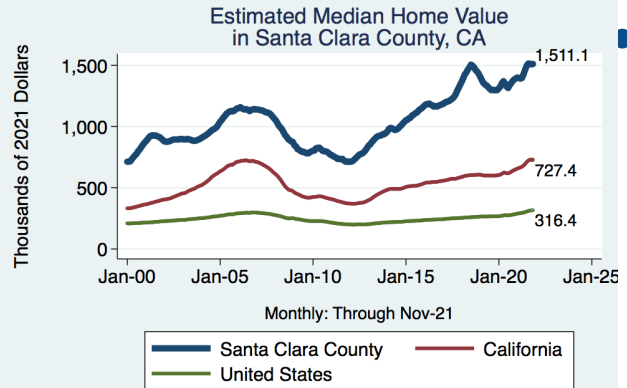
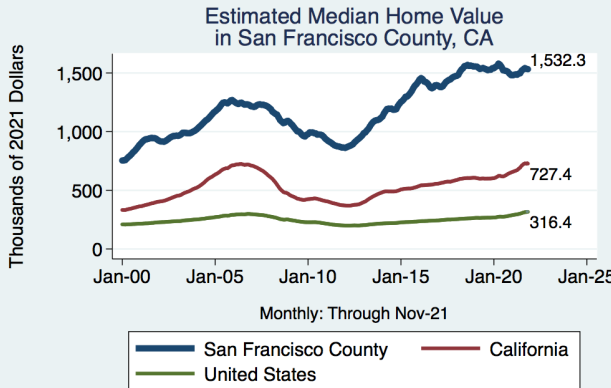
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Home Prices and Housing Starts



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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)

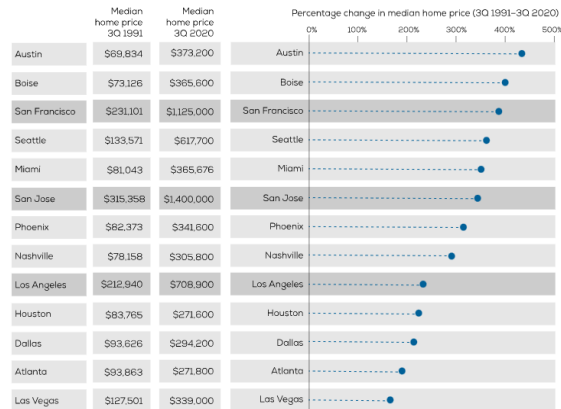
Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

An End to California Outmigration?

California's out-migration in search of cheaper housing may, in fact, be dying down, according to Nickelsburg's research. Housing in San Francisco, Los Angeles and San Jose is actually becoming relatively more affordable than homes in Boise, Phoenix, Austin and a handful of other competing cities, the study finds. Within a few years, the research suggests, California's excessive housing costs could cease to be a noticeable factor in the state's population trends. (Remote work is a wild card going forward.)

Percentage Change in Median Home Prices, 1991-2020

Home prices rose more steeply in Austin and Boise than in San Francisco. Increases in Seattle and Miami exceeded those in San Jose and Los Angeles.

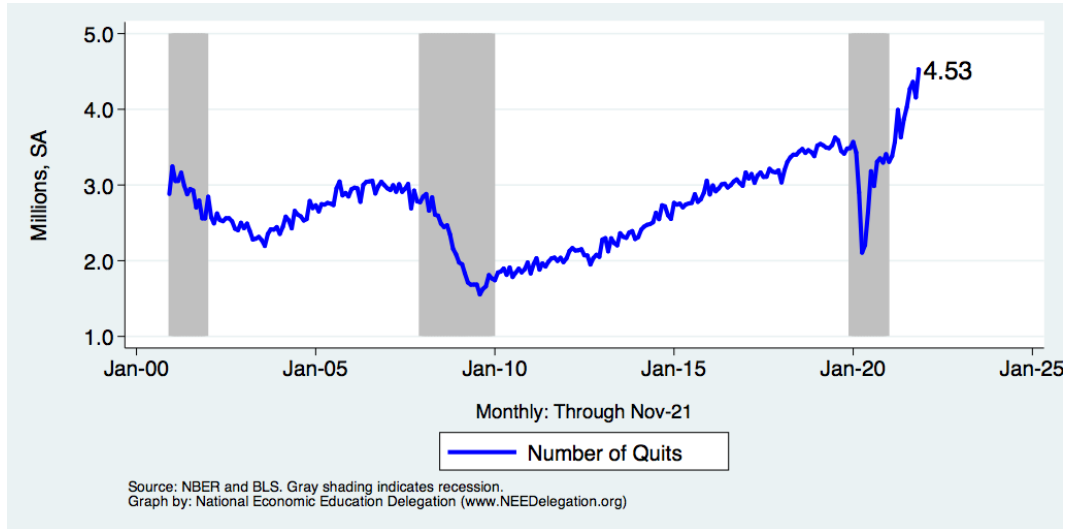


Sources: National Association of Realtors and FHFA

The Great Resignation

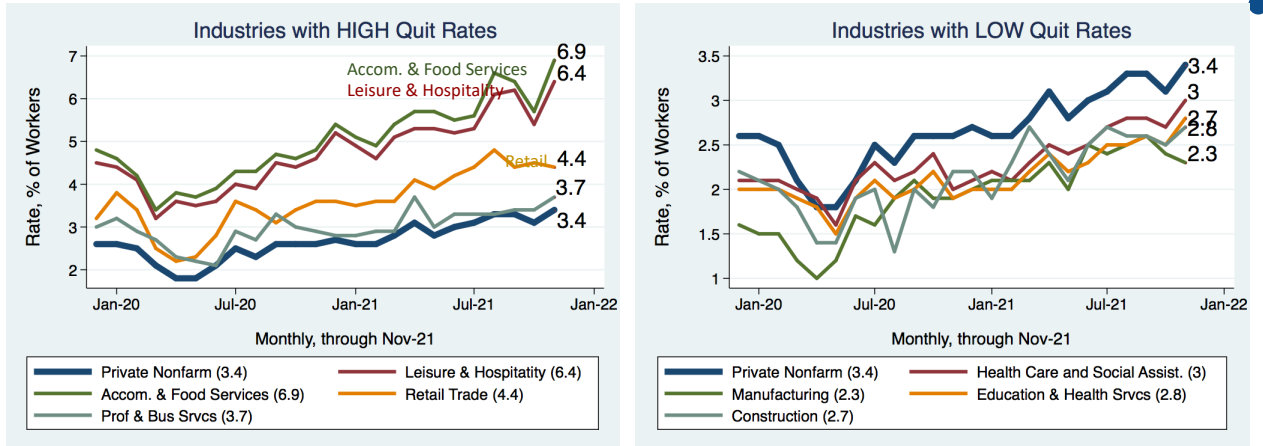
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Quits Are High! The Great Resignation



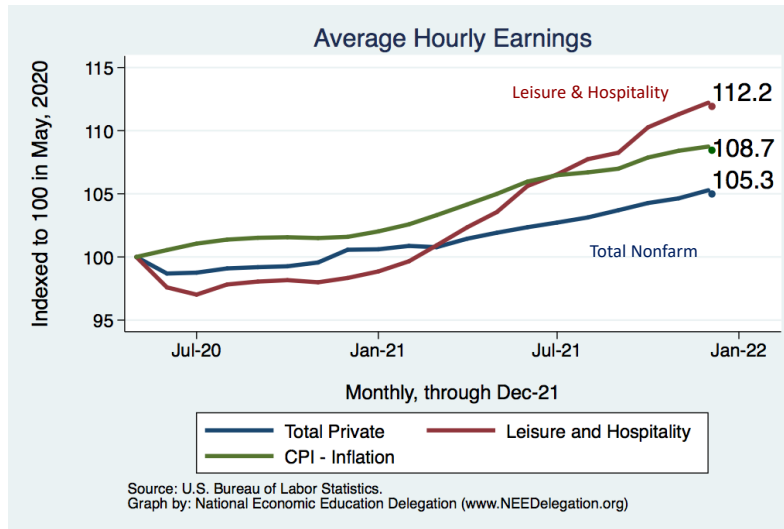
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Quits – Rising, but More in Some Industries



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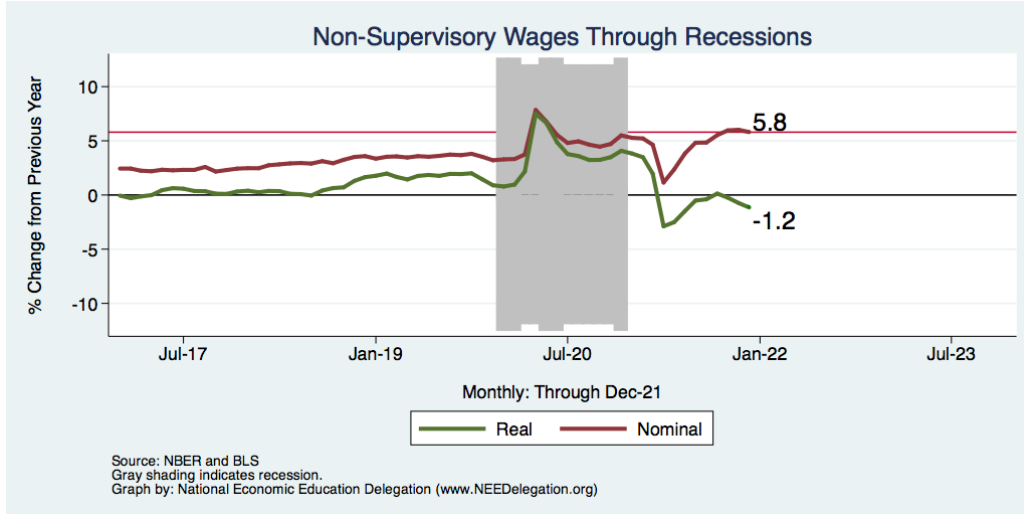
This is Happening as Nominal Wages Rise



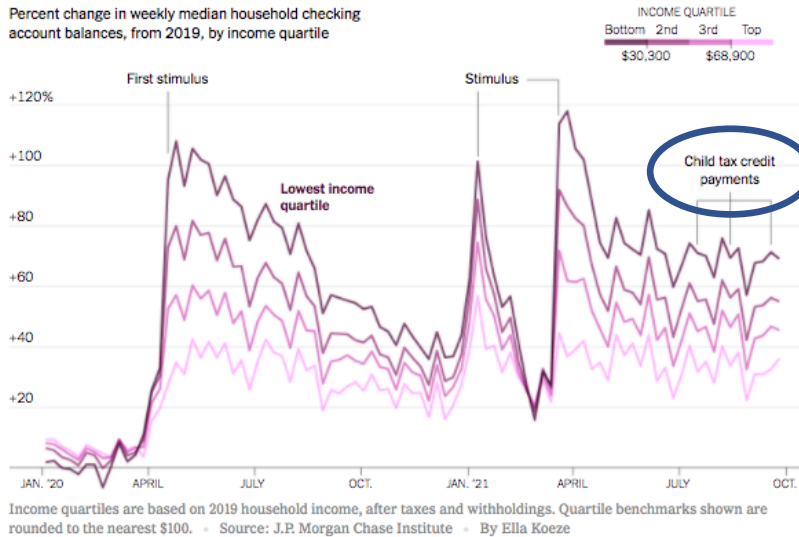
Source: U.S. Bureau of Labor Statistics.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Inflation Adjusted Wages Are Falling



Declining Resources May Change Things



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 – Conclusion

- 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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www.NEEDelegation.org/LocalGraphs

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

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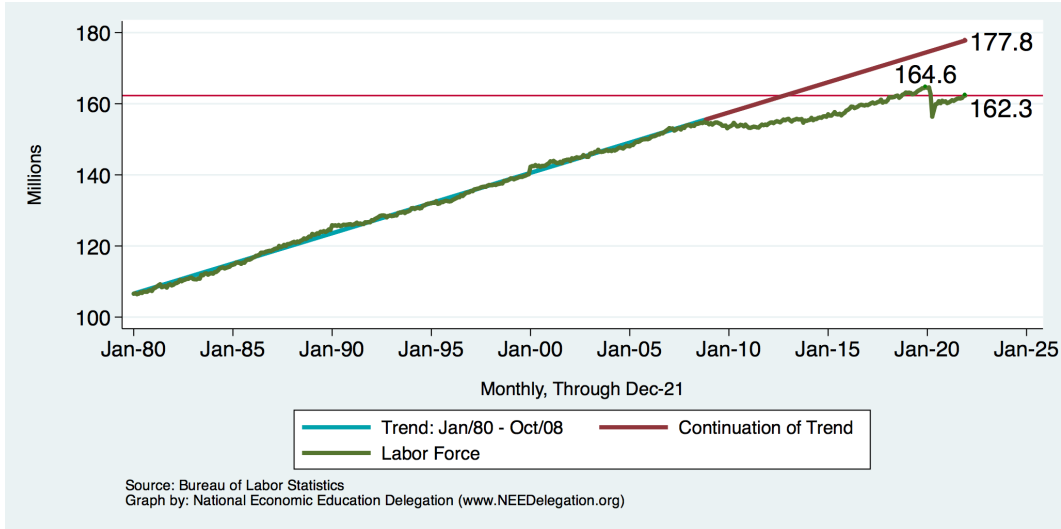


Available NEED Topics Include:

- 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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Trends in Labor Force Participation

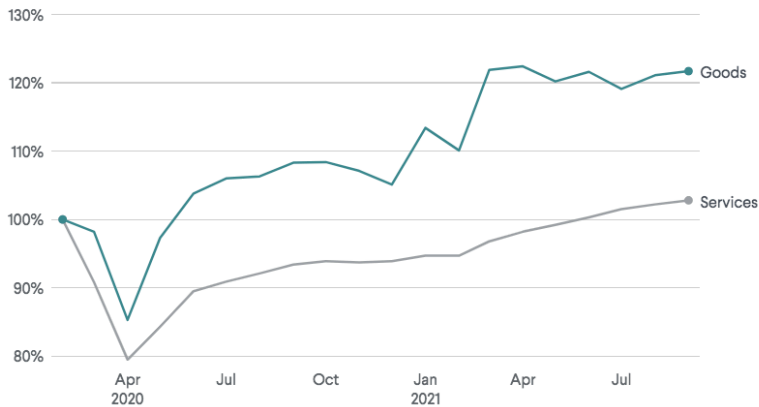


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Supply Chains Are at the Core

Pandemic Triggers Greater Demand for Goods

Personal consumption expenditures relative to February 2020



Source: U.S. Bureau of Economic Analysis via Federal Reserve Bank of St. Louis.

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What Are Supply Chains?

The Journey of a Semiconductor

Steps and firm locations in the production of a smartphone chip

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.**

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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.

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Inflation – Cost of Rent

