



US Economy and Coronavirus Economics

Inland Empire, Coachella, Desert Mountain Chapters of the CSMFO

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1

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.



2

2

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



3

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).



4

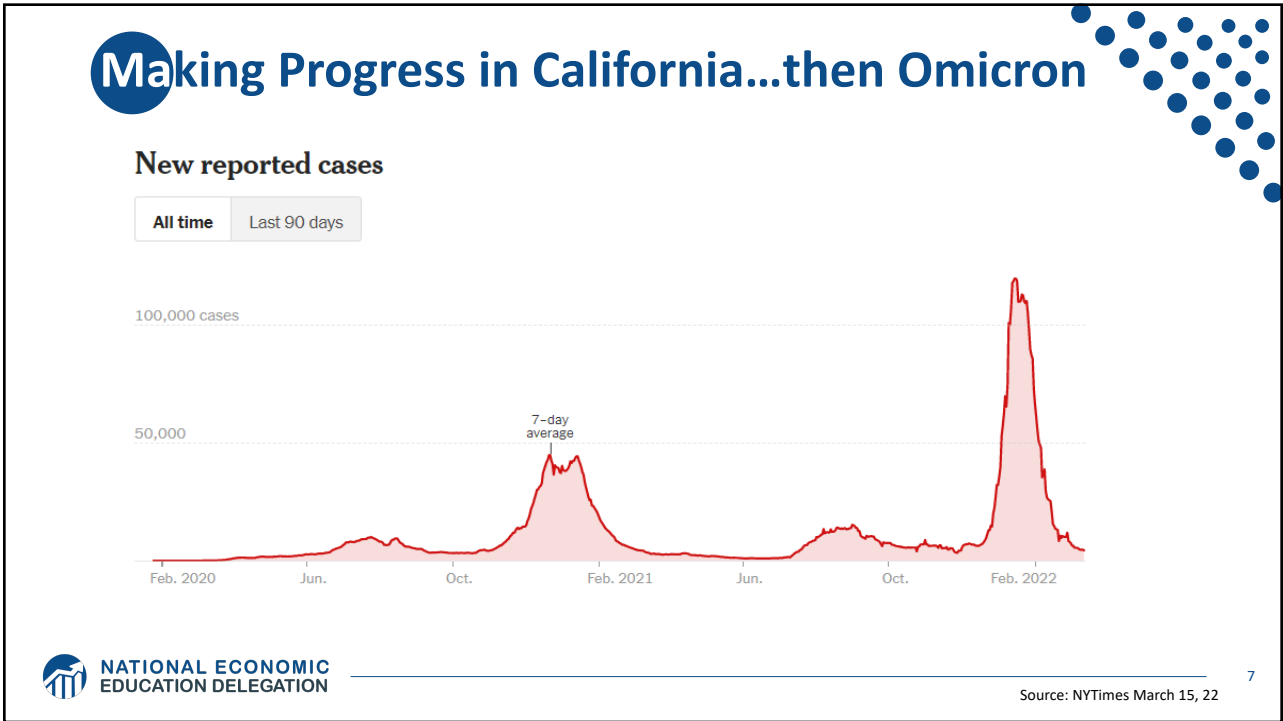
Outline

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

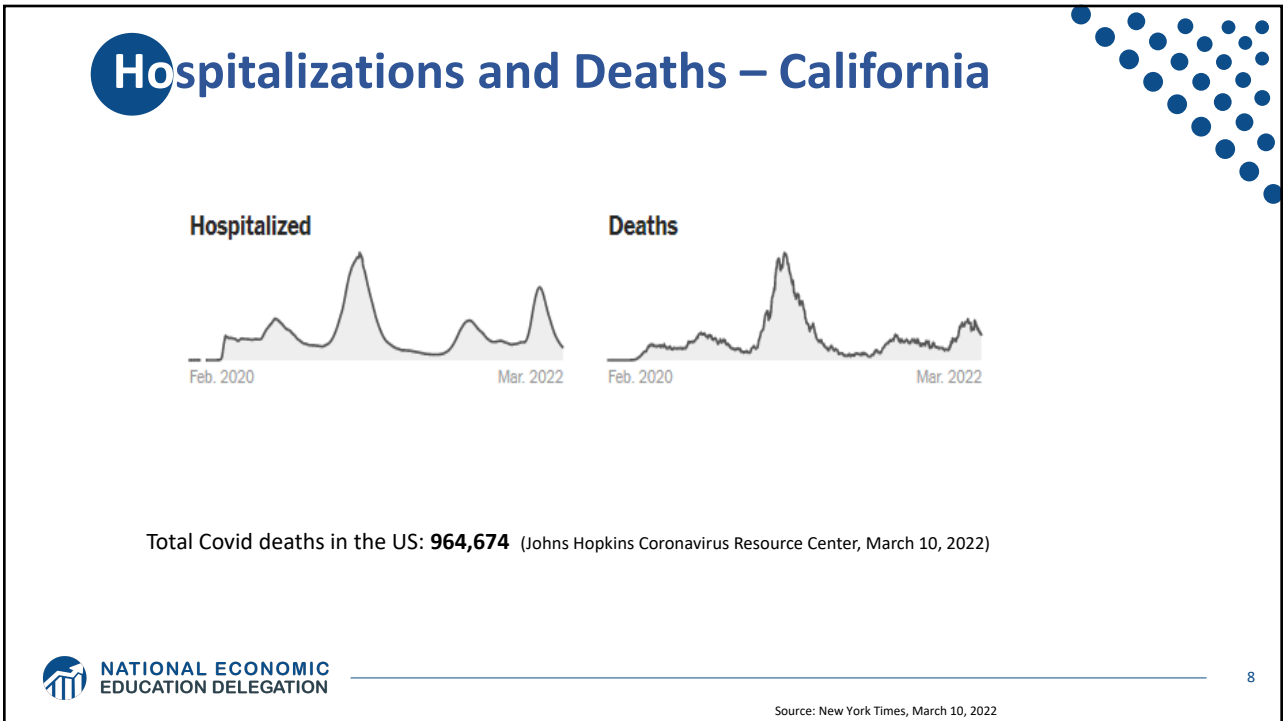
5

State of the Pandemic

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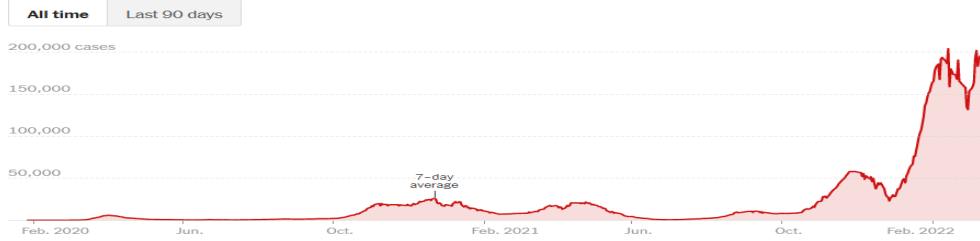
7



8

Omicron BA.2 ? Europe and China

New reported cases



Coronavirus in Germany

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and now – the Russian invasion of Ukraine

How far have Russian troops advanced?



Source: Institute for the Study of War (as of 23:00 GMT, 2 March)



10

The U.S. Economy

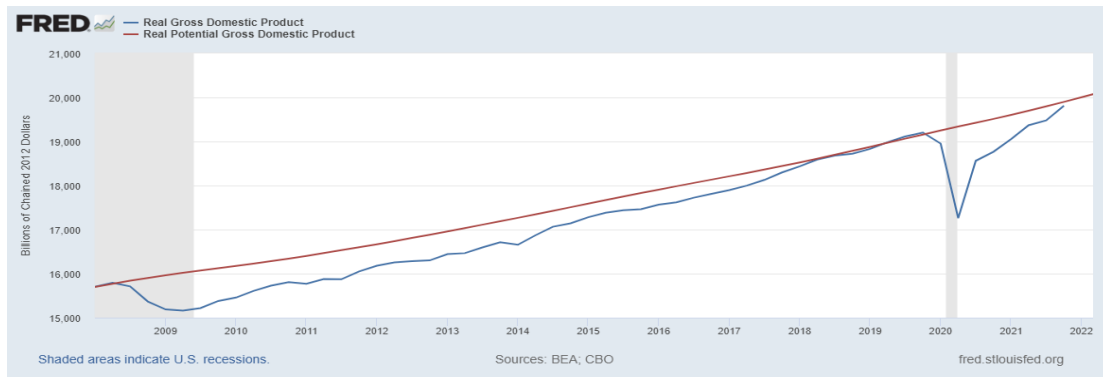
The Role of the Pandemic versus Policy Adjustments? And what now?



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GDP Trajectory: Pandemic Plunge and Recovery



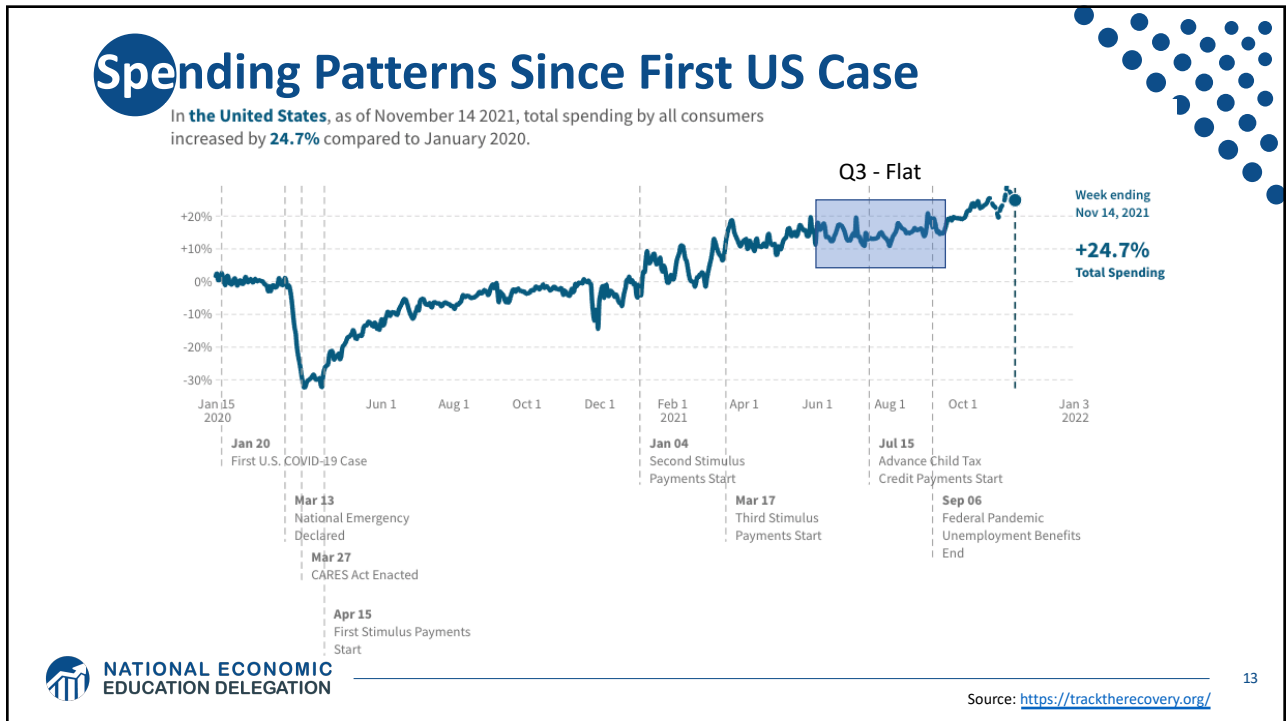
Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

Almost no **Output Gap** compared to the start of the pandemic, but a quick recovery.

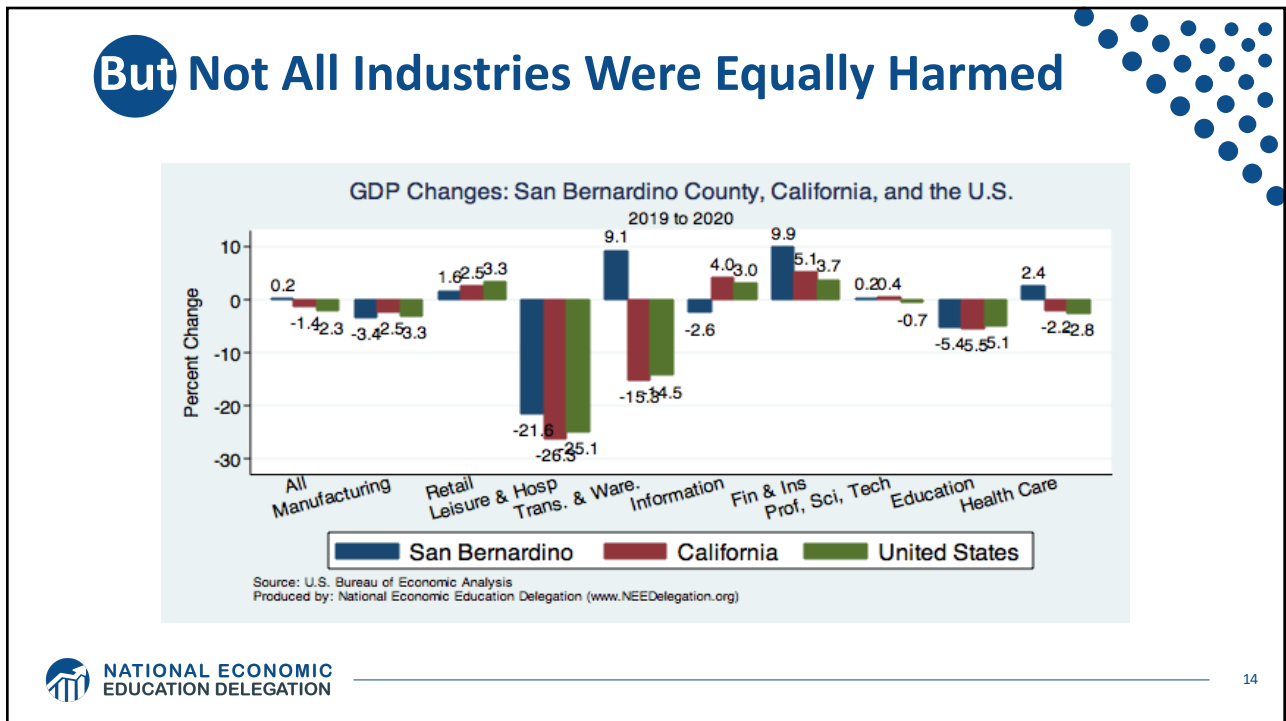


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12

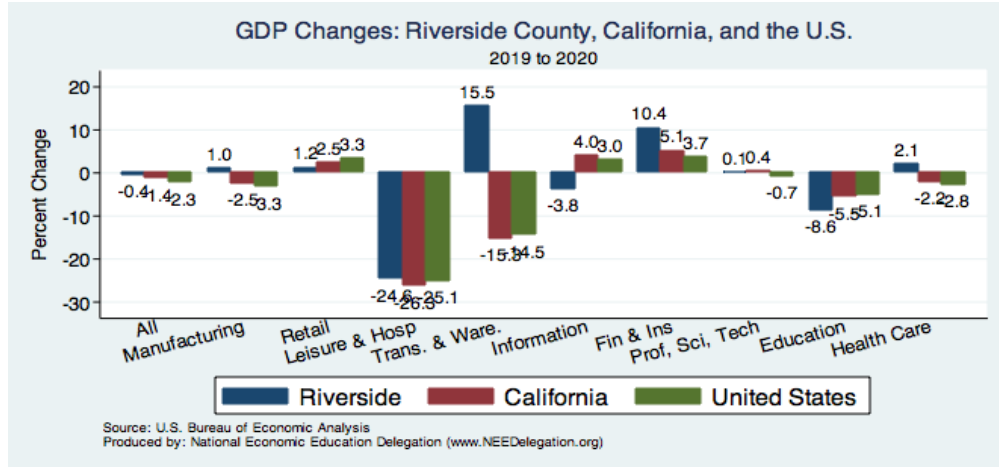


13



14

But Not All Industries Were Equally Harmed



15

Poll Question

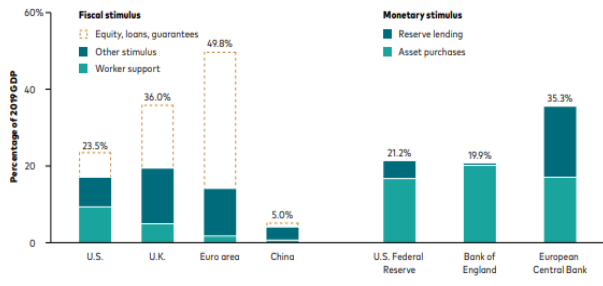
1. Which of the following industries saw the largest decline in output at the beginning of the pandemic?

- Retail
- Leisure and Hospitality
- Education
- Health Care

16

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

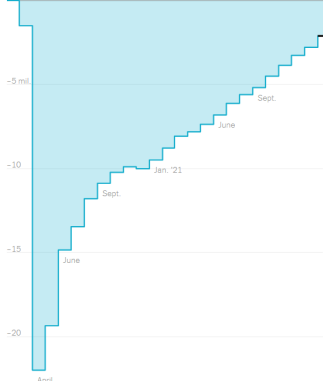


Source: Vanguard Economic and Market Outlook for 2022: Striking a better balance

17

Employment Changes - US

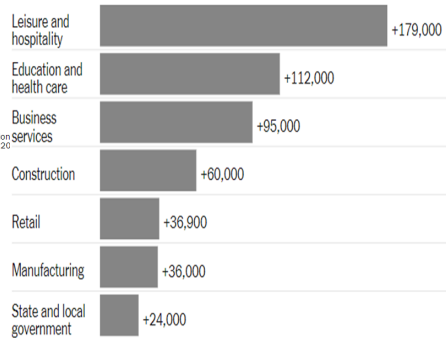
Cumulative change in jobs since before the pandemic
152.5 million jobs in February 2020



Data is seasonally adjusted. Source: Labor Department By Ella Koeze

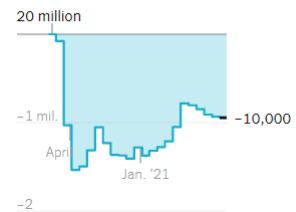
The leisure and hospitality sector gained the most jobs in February.

Change in jobs from January to February, by sector



Data is seasonally adjusted. Source: Bureau of Labor Statistics By Ella Koeze

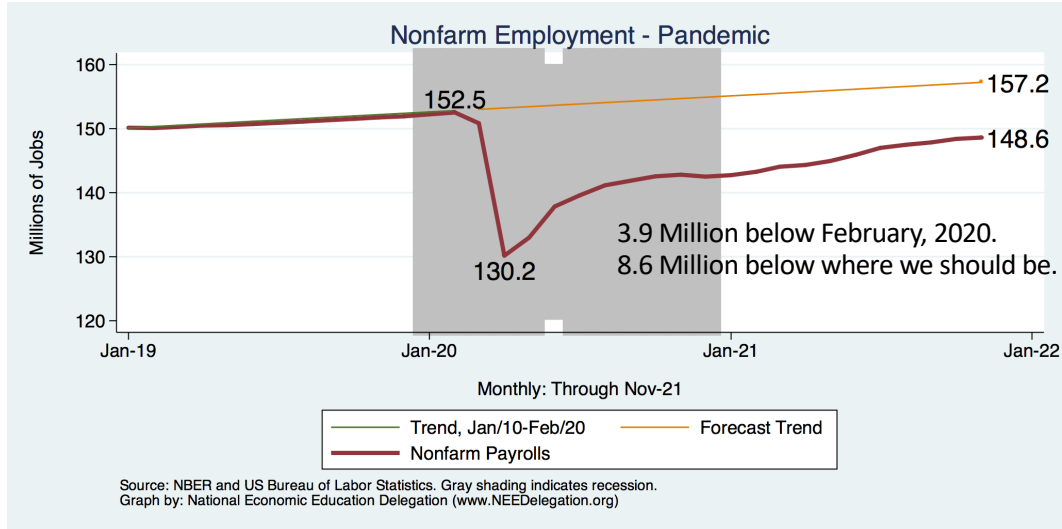
State and local government



Source: New York Times

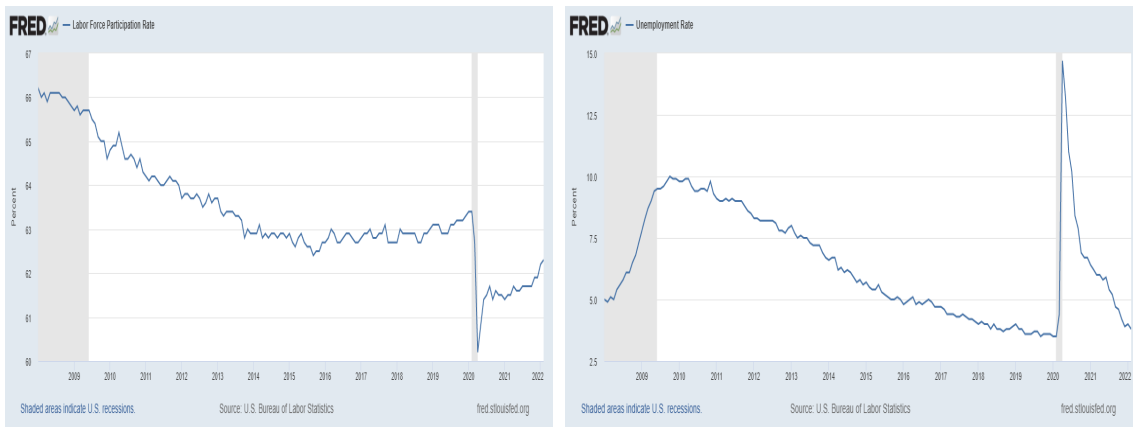
18

Employment Gap



19

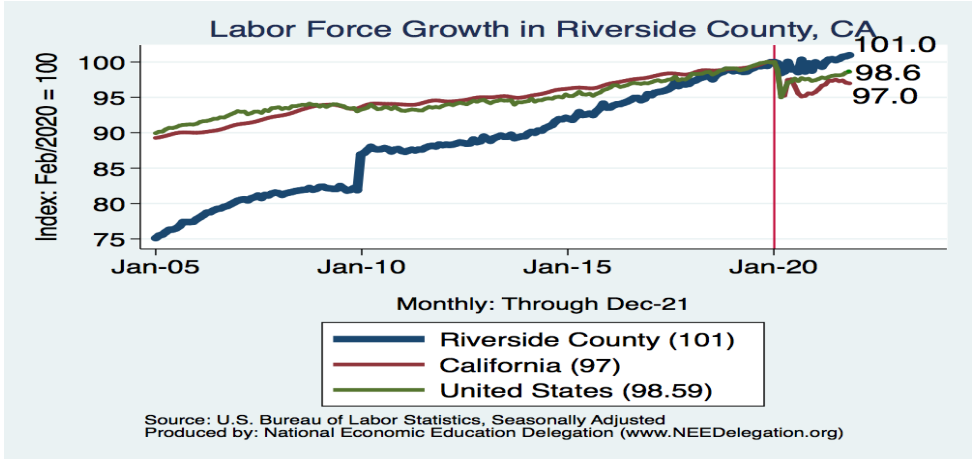
Labor Force Participation and Unemployment



Unemployment rate is still somewhat misleading.

20

Labor Force Growth in Riverside



21

Poll Question

2. Employment in state and local governments:

- fell at the start of the pandemic, but has fully recovered to pre-pandemic levels.
- fell at the start of the pandemic, and is slower to recover to pre-pandemic level than employment in other sectors.
- did not fall at the start of the pandemic and has increased since then.
- did not fall at the start of the pandemic and has stayed constant.

22

Inflation and Asset Markets

Inflation, Equity Markets, Housing Markets

23

Inflation News

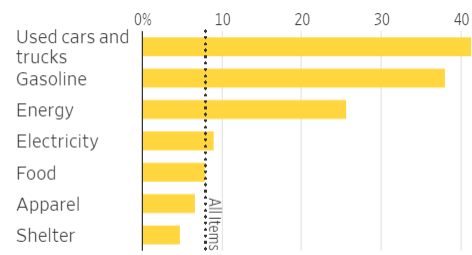
Consumer-price index, percent change from a year earlier



Source: Labor Department

January 2022

CPI, 12-month change ending in February



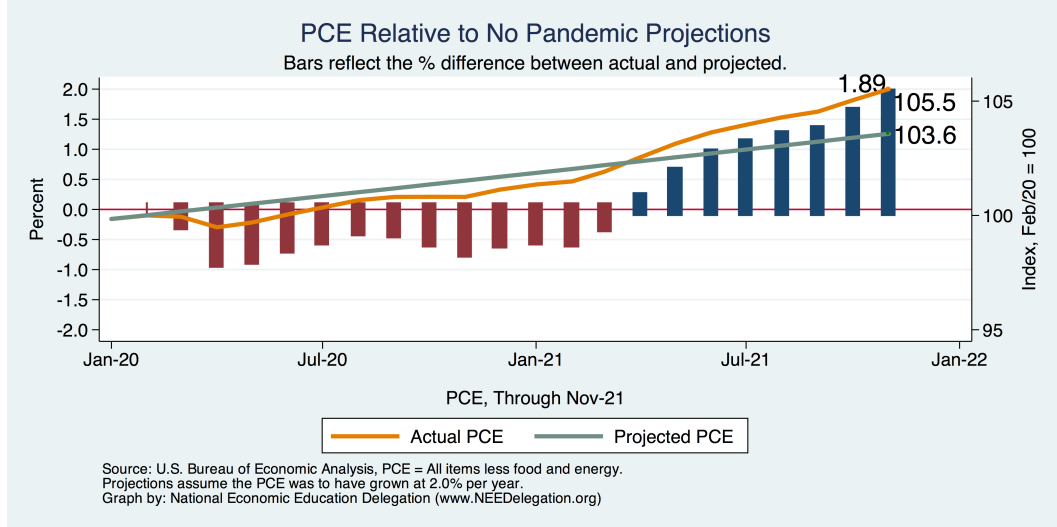
Source: Labor Department

All items: 7.9% - new four decade high

Source: Wall Street Journal

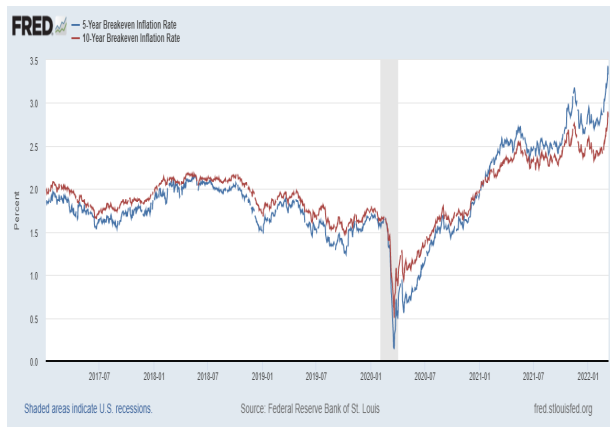
24

Inflation Targeting over the longer term?



25

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 3.4% over the next 5 years.

Inflation expectations are increasing – especially after the Russian invasion.

26

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

27

We're Buying Mostly ... Stuff

Real monthly household spending at an annualized rate, trillions of chained 2012 dollars

a. Goods

b. Services

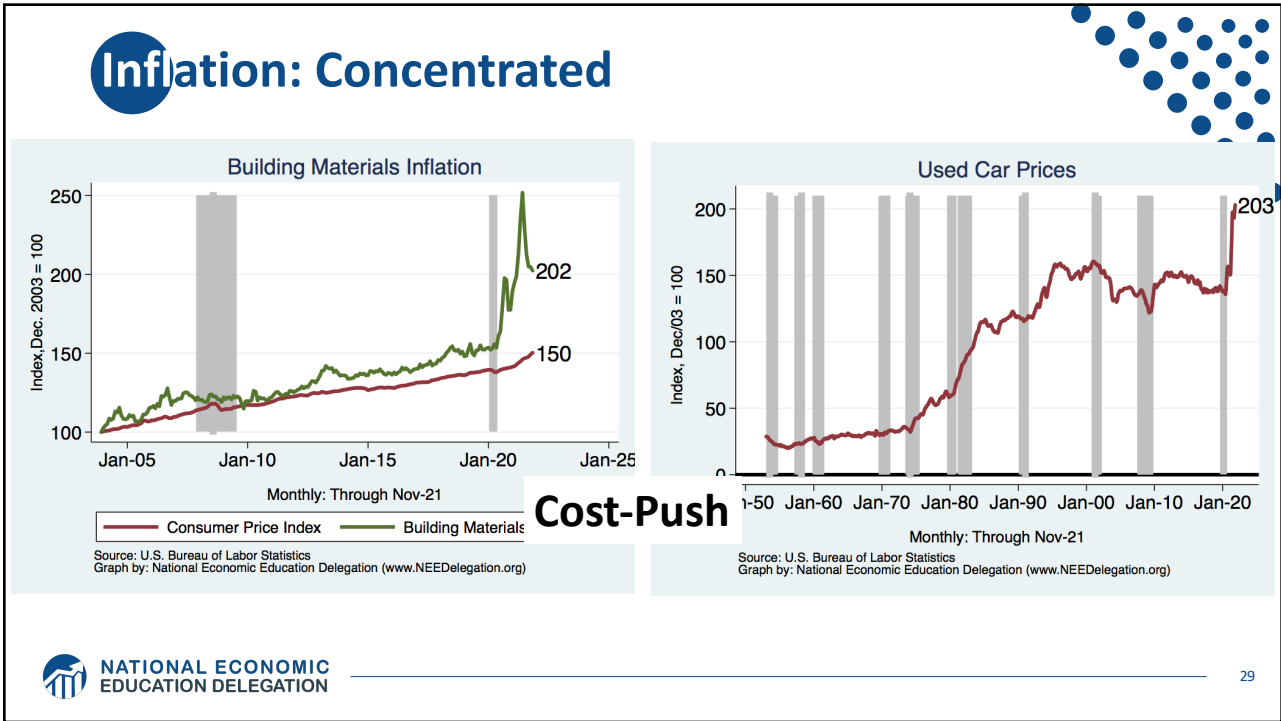
Demand-Pull

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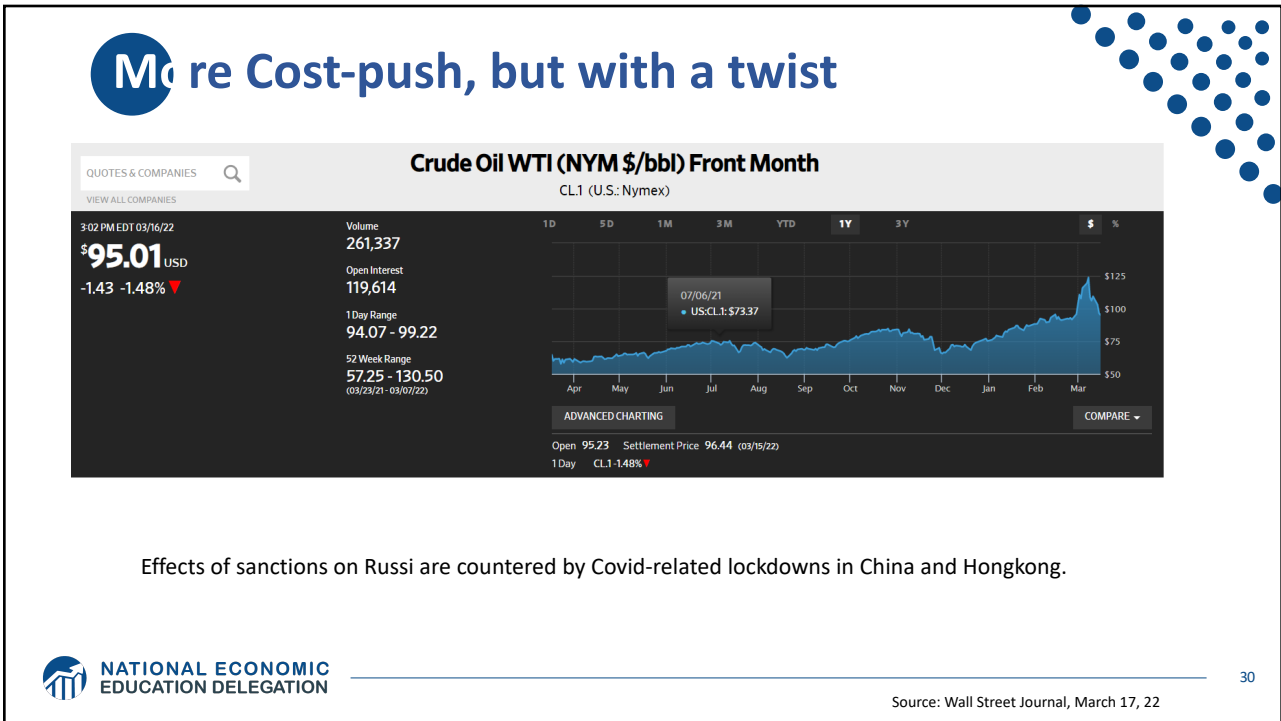
28

Source: Jason Furman, PIIIE

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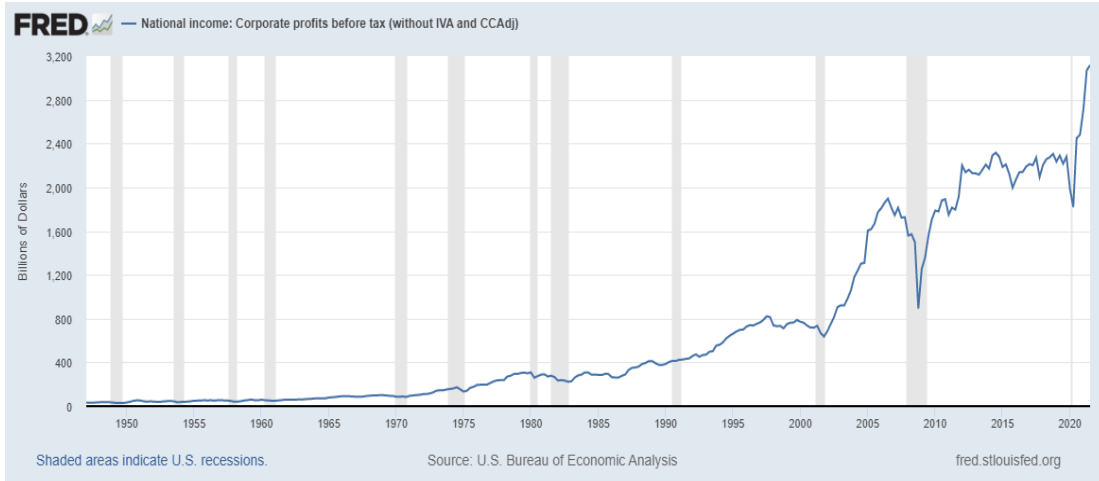


29



30

Corporate Profits...Adding to Inflation?



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31

31

Will Inflation continue to be elevated?

- **Yes, at least through 2022 and 2023.**
- **Continued supply chain issues (China Covid strategy, US staff shortages, Russia-Ukraine conflict)**
- **Mitigated by decrease in demand (policy support decreased), but if consumers go back to substituting toward in-home consumption more bottlenecks will develop**
- **Sanctions on Russia will impact energy markets.**



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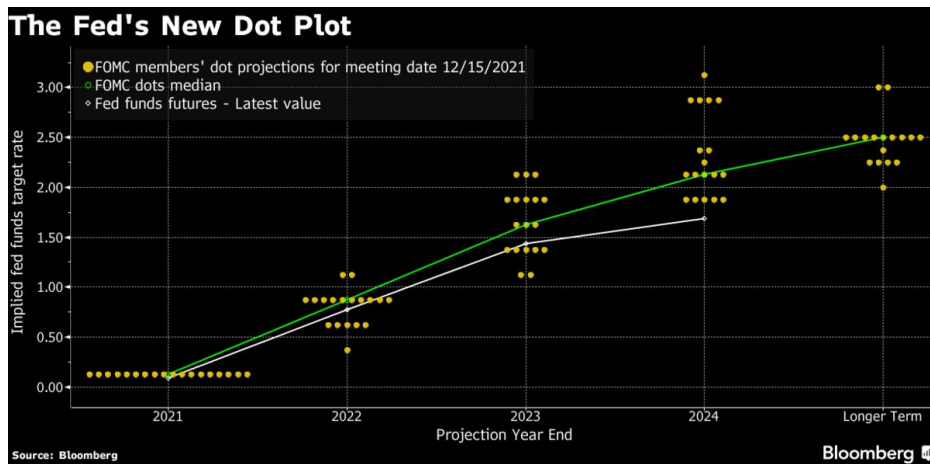
32

Poll Question

3. The current causes of inflation are best described as:
- Demand-pull inflation
 - Cost-push inflation
 - Built-in inflation
 - All of the above

33

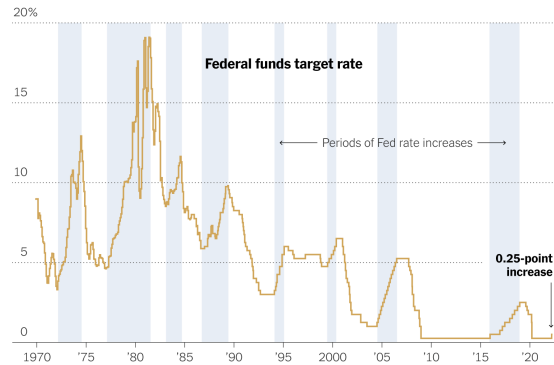
Projected Policy Changes - Fed



34

Fed Reaction – Wed. March 17, 2022

- Fed is likely to raise interest rates faster than expected. Projects inflation at 4.3% for 2022.
- Monetary policy adjustment is very unlikely to cause a recession.



35

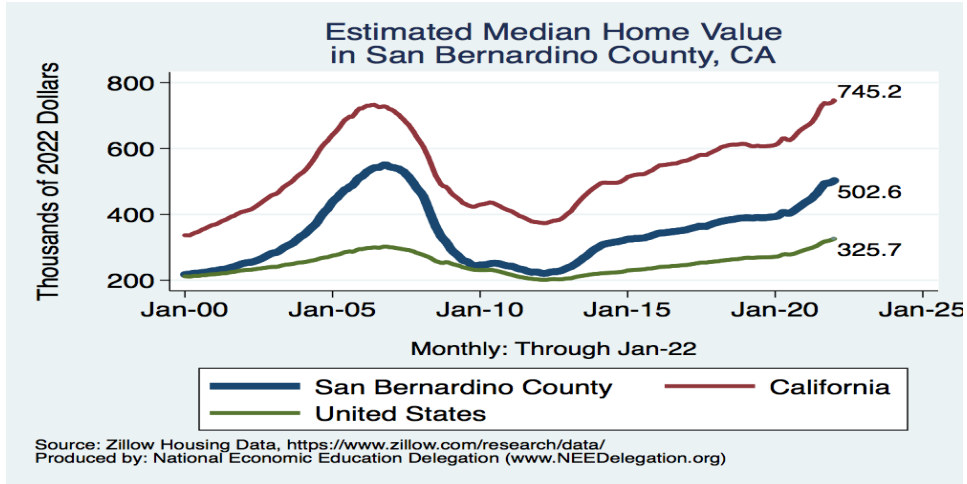
Equity Markets – Is there still Overvaluation?



Maybe 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) at the peak of the market.

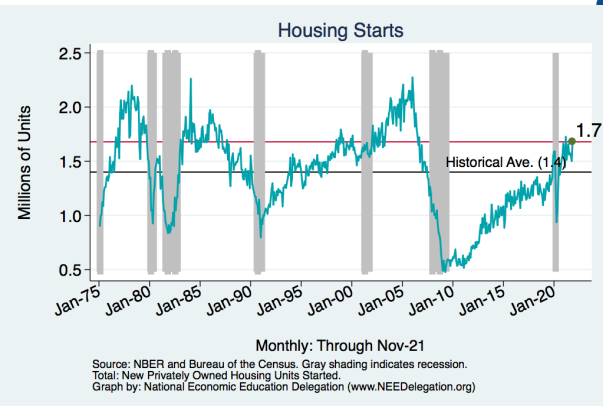
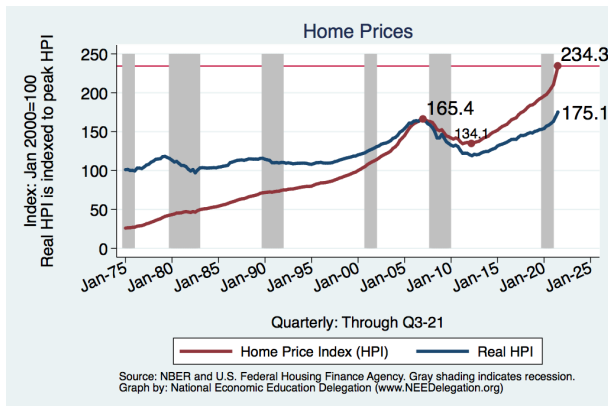
36

Real Estate Prices – Both counties



37

Home Prices and Housing Starts



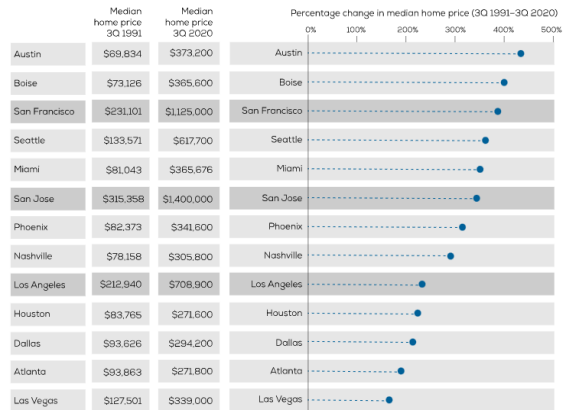
38

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

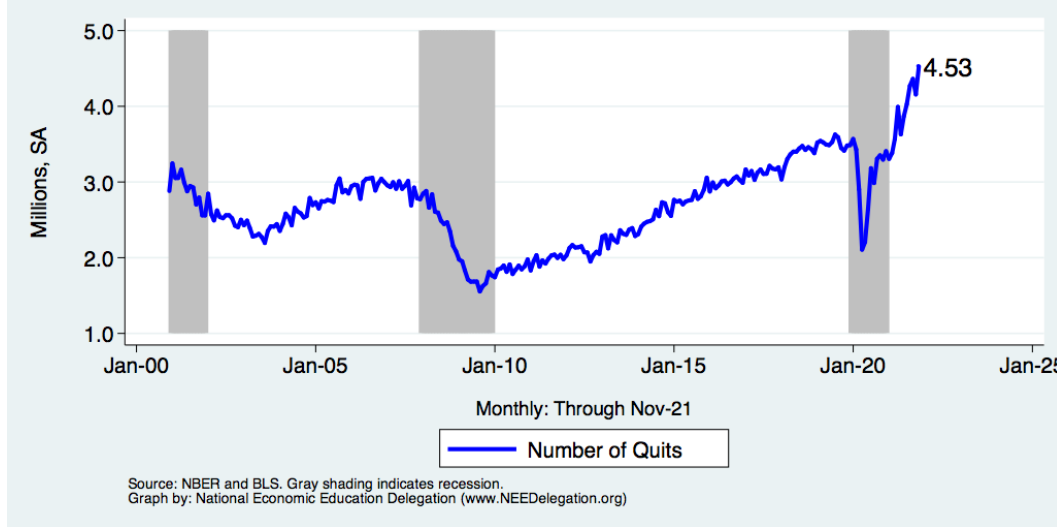
Home prices rose more steeply in Austin and Boise than in San Francisco. Increases in Seattle and Miami exceeded those in San Jose and Los Angeles.



Sources: National Association of Realtors and FHFA

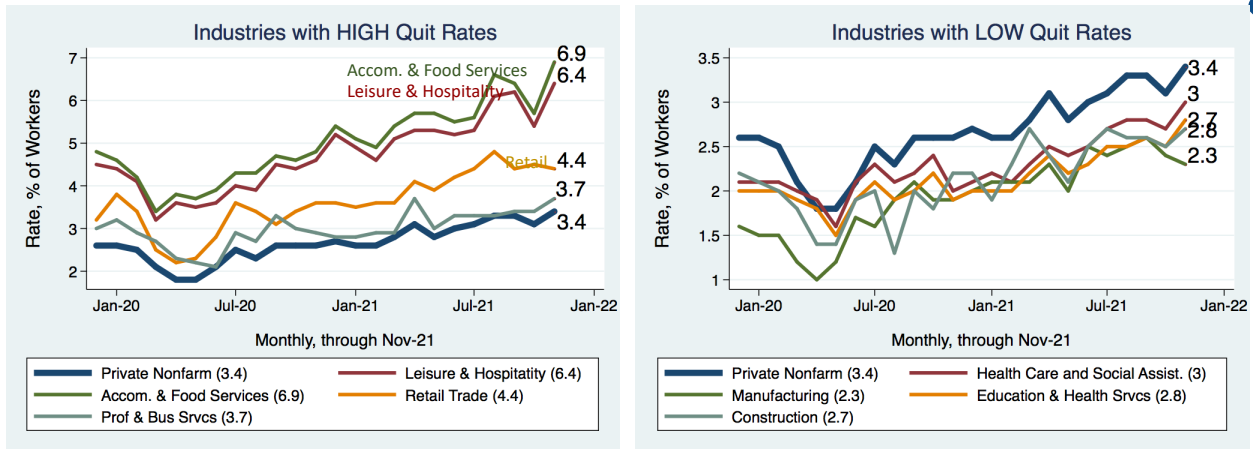
The Great Resignation

Quits Are High! The Great Resignation



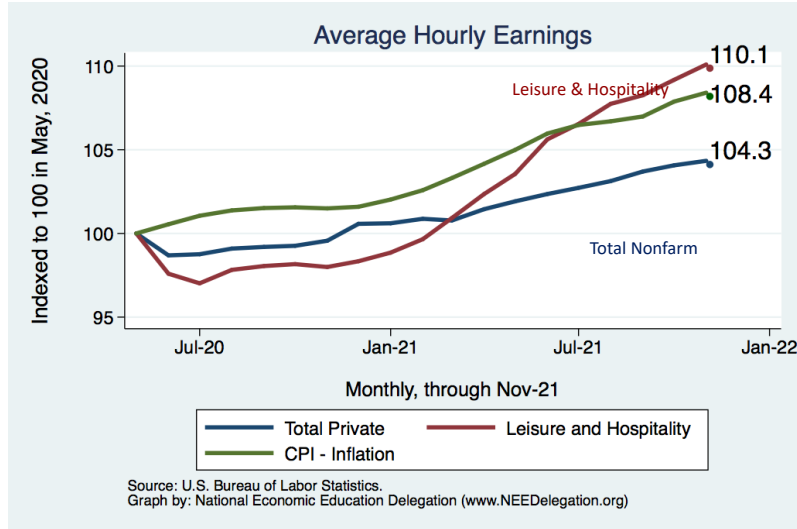
41

Quits – Rising, but More in Some Industries



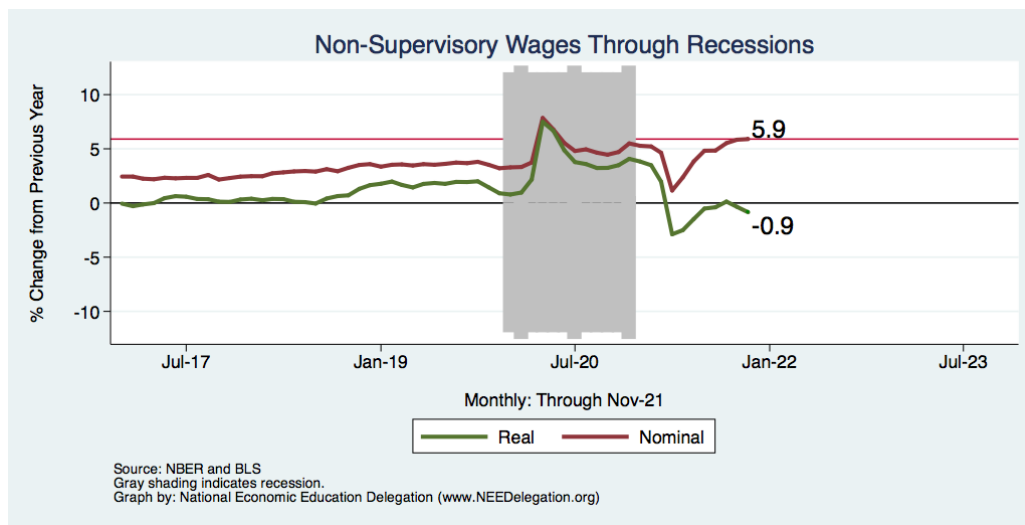
42

This is Happening as Nominal Wages Rise



43

Inflation Adjusted Wages Are Falling



44

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 just now starting to entice low-wage workers back to work.

- **Inflation**

- Going to be high for a while – definitely not transitory.



Conclusion

- **Recovery was V-shaped!**

- **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.
- Russian invasion of Ukraine.



Best Measures of Progress – Conclusion

- Inflation – getting it under control.
- Real wages – need to see progress.
- No further waves of Covid – State and federal plans to address future outbreaks



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47

47

Thank you!

Any Questions?

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48

48

www.NEEDelegation.org/LocalGraphs

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



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

