

Rotary of Campbellsville

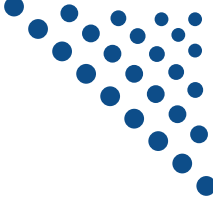

U.S. Economic Outlook

National Economic Education Delegation
Scott Baier Ph.D.
Professor and Department Chair, Clemson University
December 8, 2021




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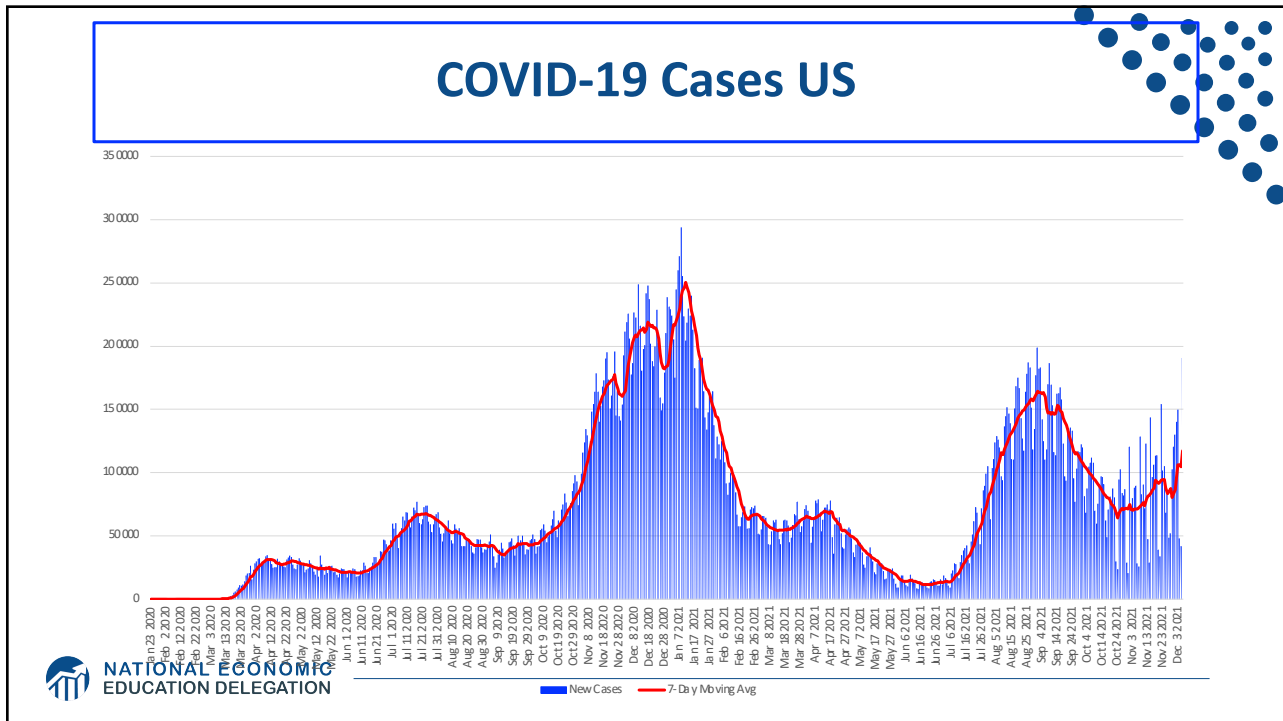
- **Vision**
 - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
 - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.
- **NEED Presentations**
 - Are **nonpartisan** and are intended to reflect the consensus of the economics profession.



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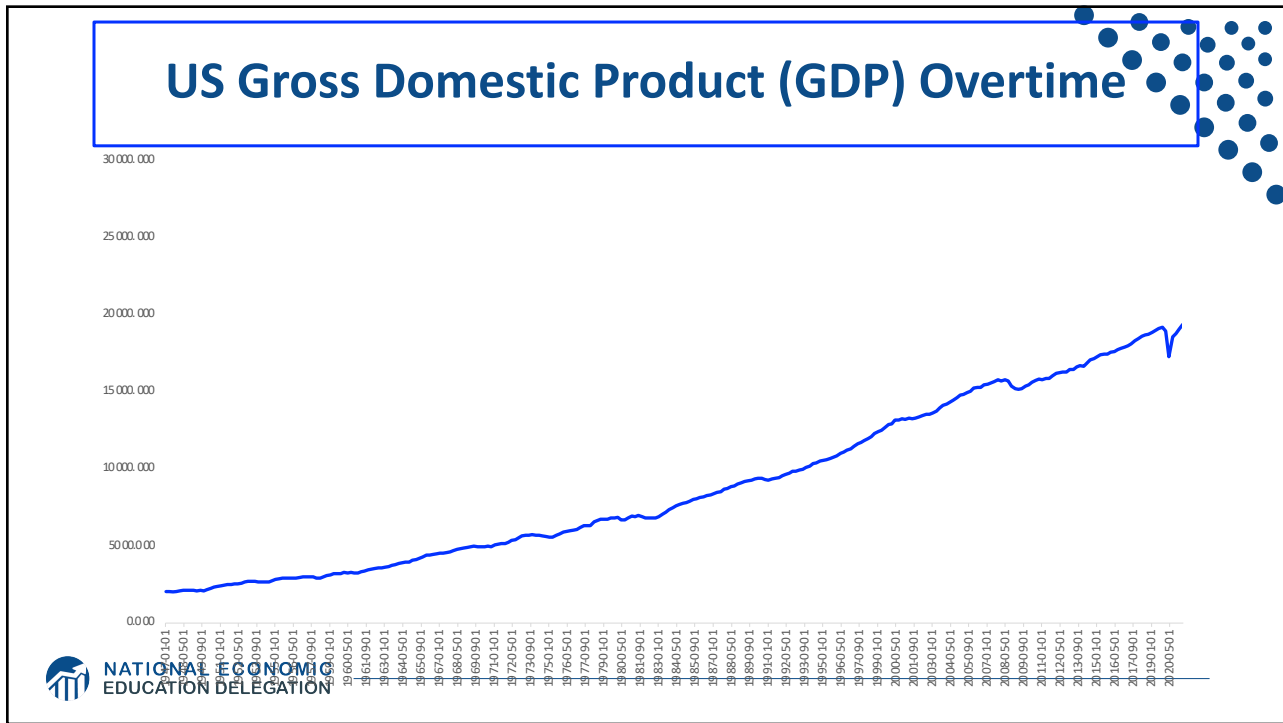
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Brief Outline

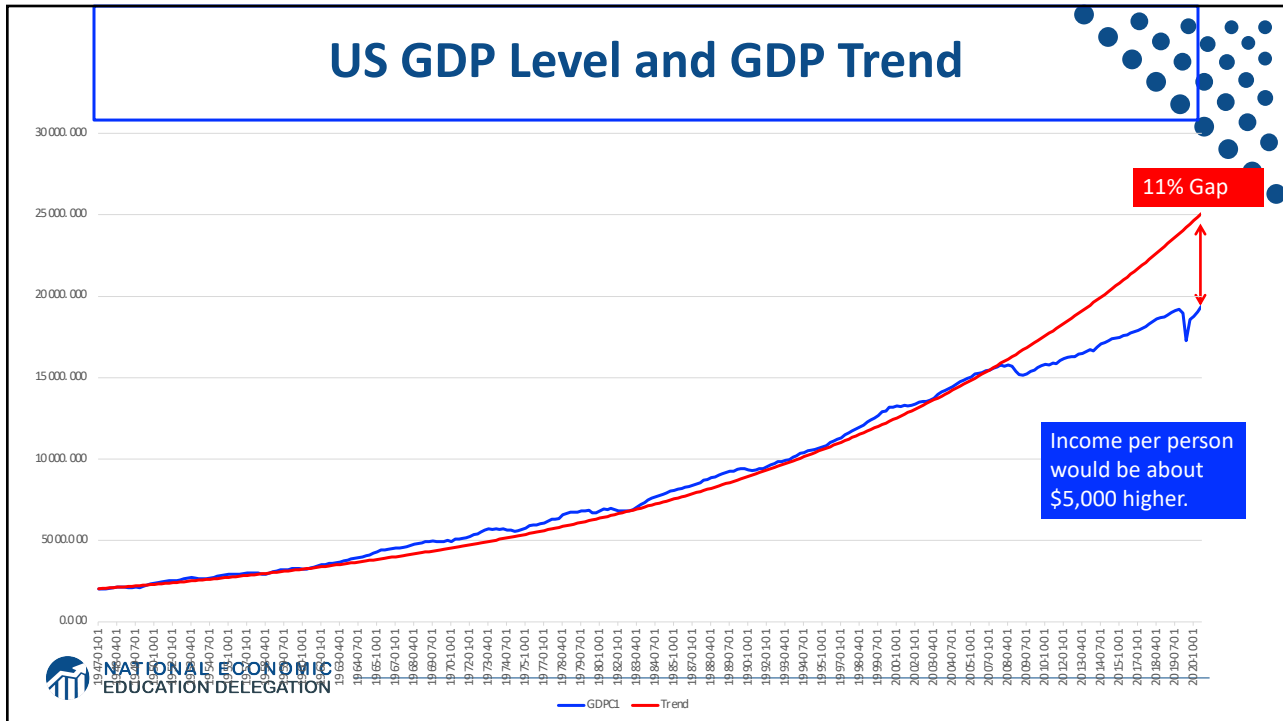
- **GDP and its components --- what is supporting the economic recovery.**
- **Labor Markets and Employment Dynamics**
- **Inflation and Supply Chain Disruptions**
- **Debt and Deficit**
- **Infrastructure package**
- **Conclusion**

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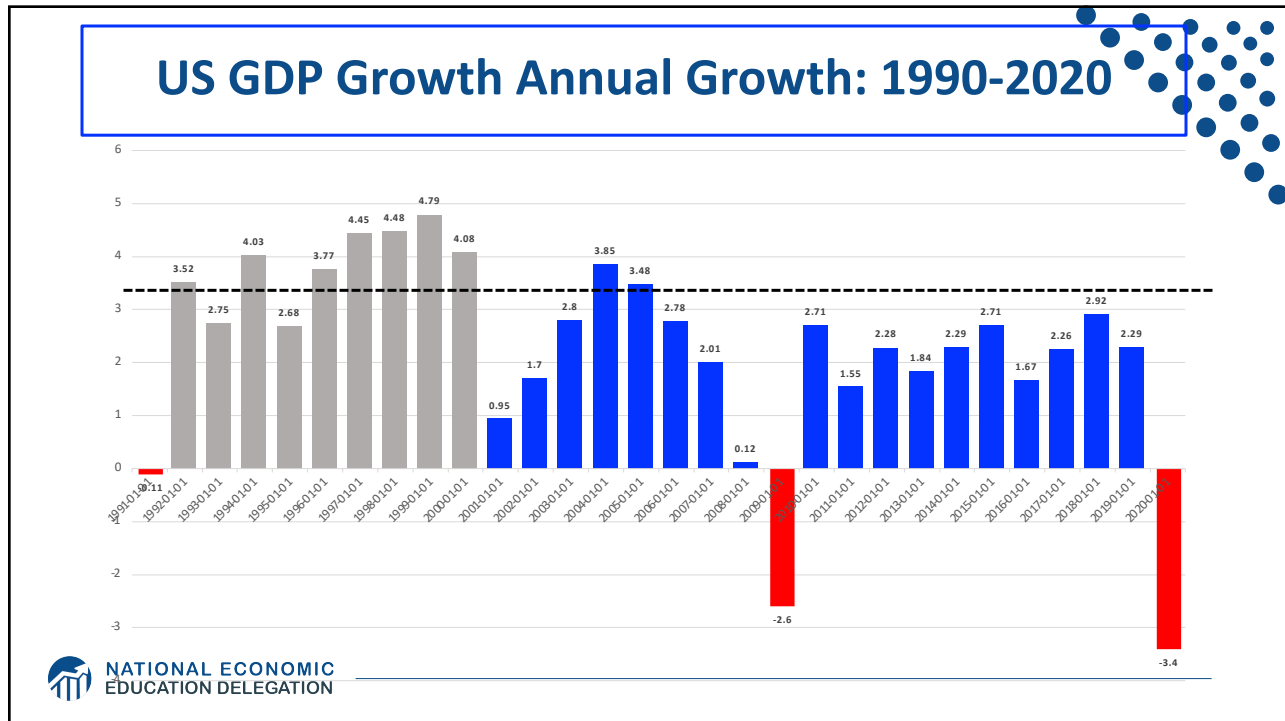
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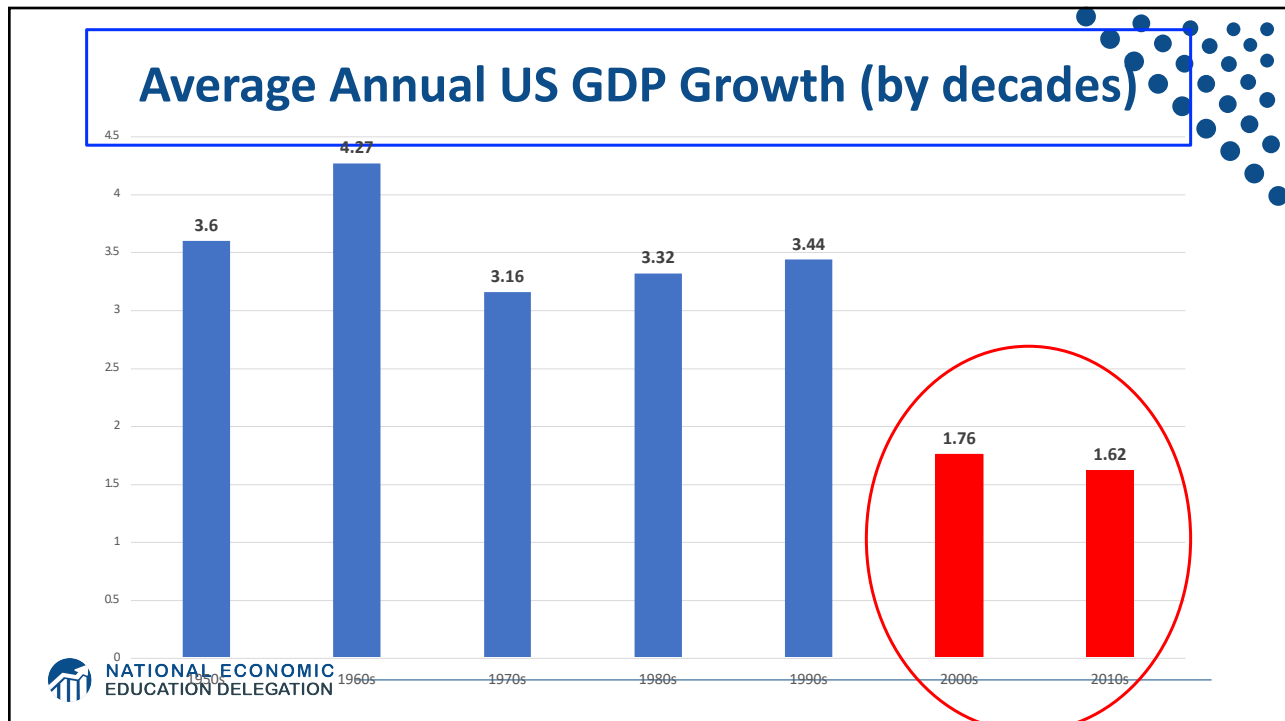
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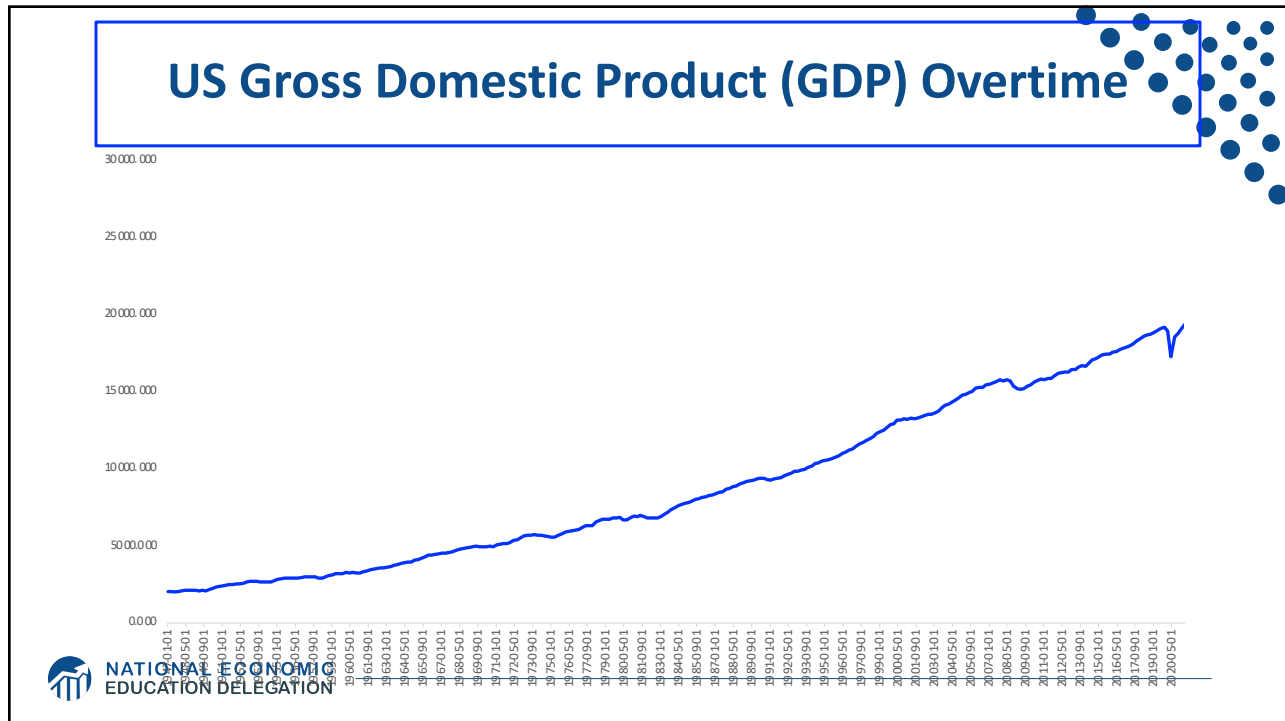
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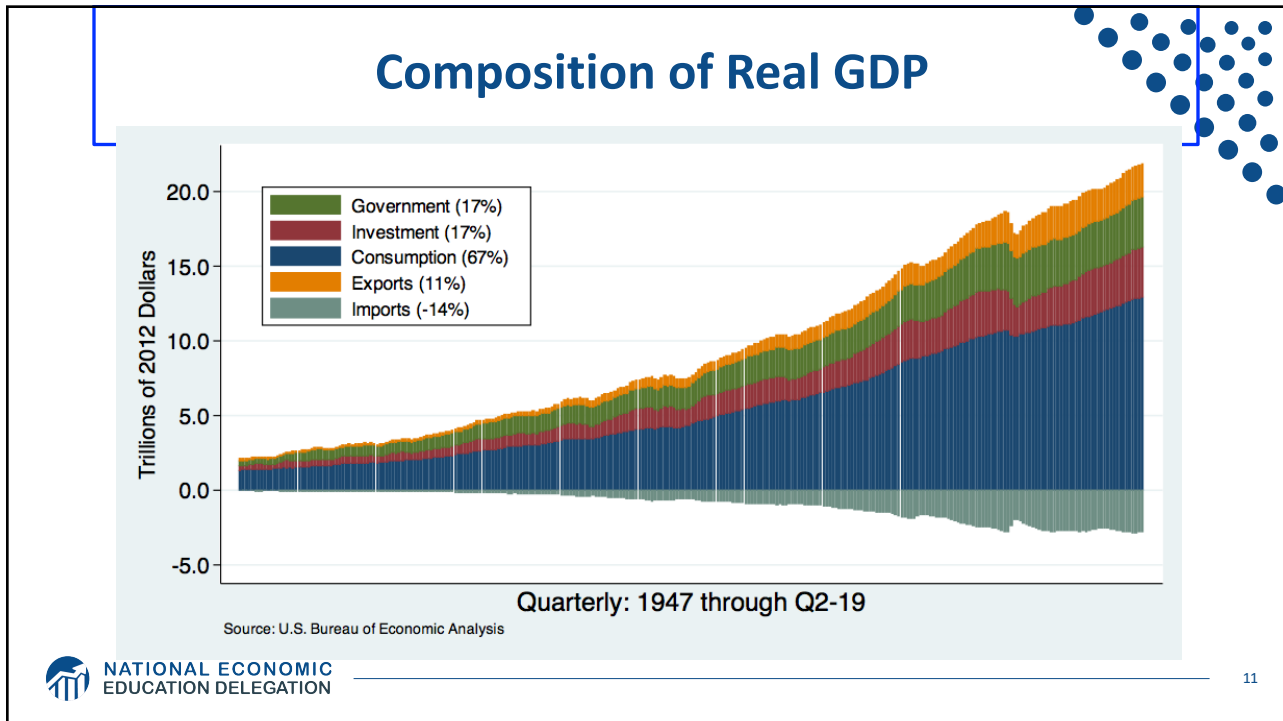
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Understanding Contributions to GDP Growth

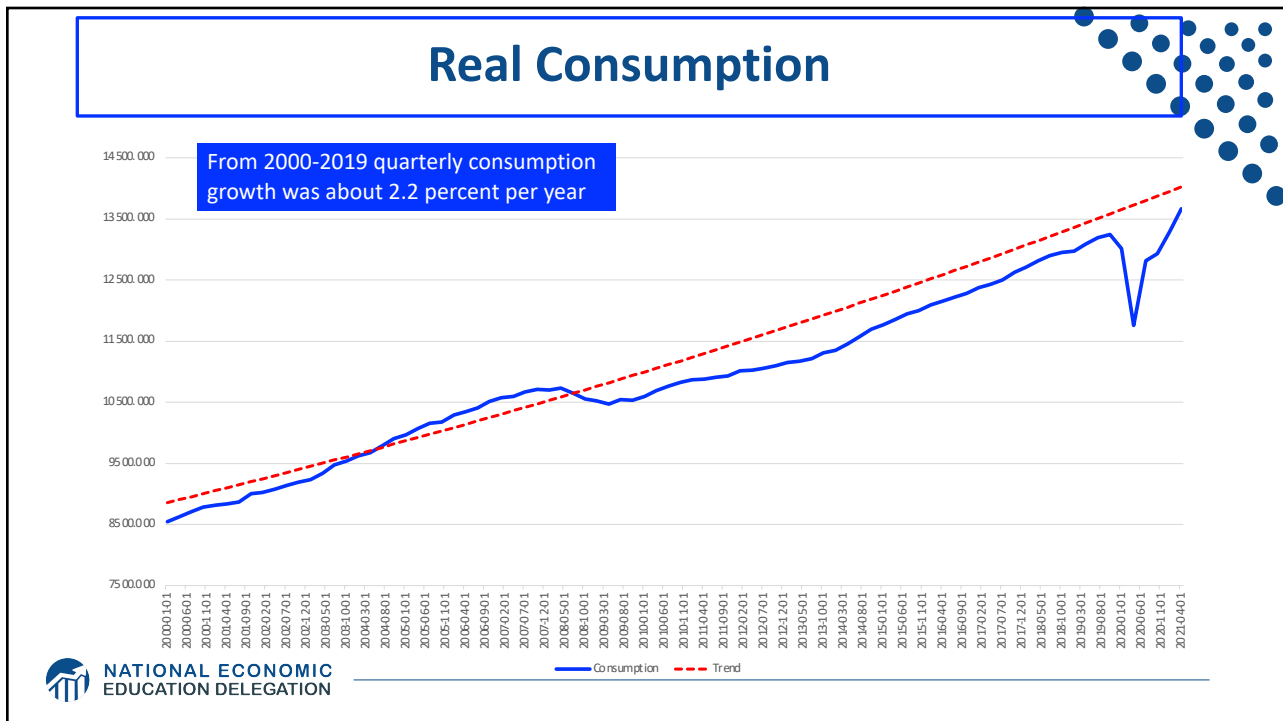
- **GDP Growth is a combination of the growth in its components:**
 - Consumption, Investment, Government, and Net Exports
 - It's a weighted average of these components

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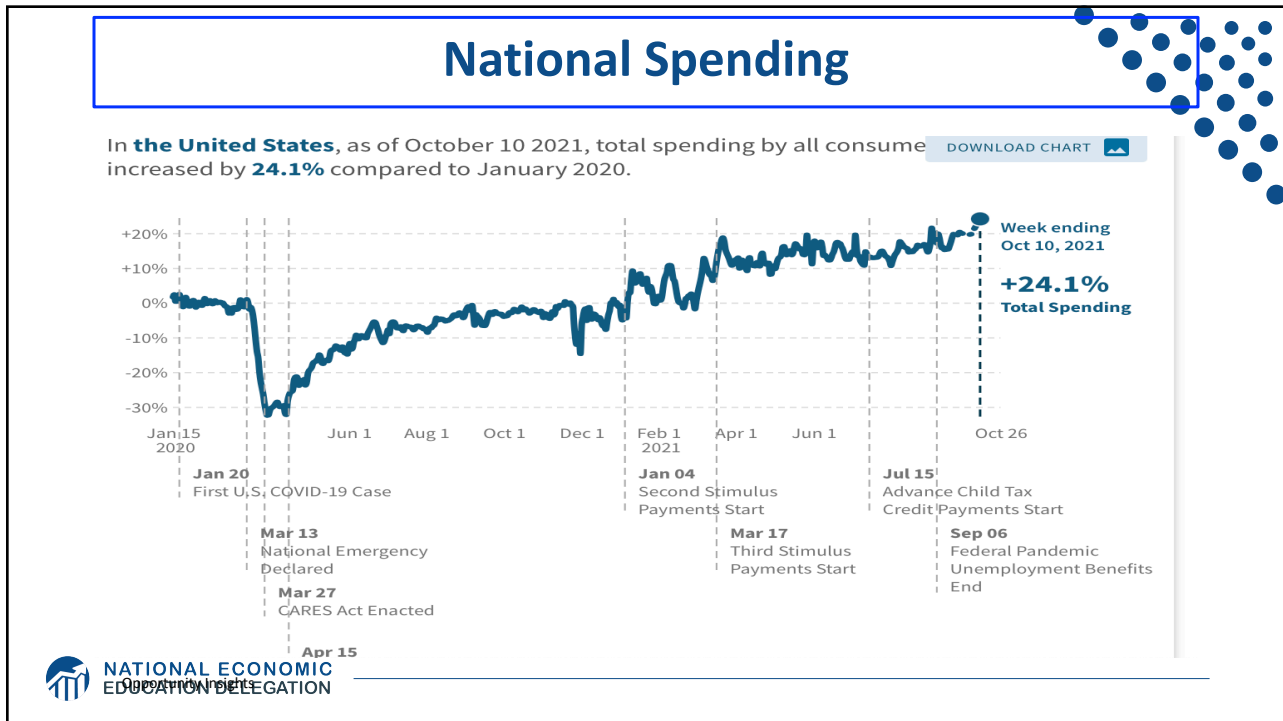
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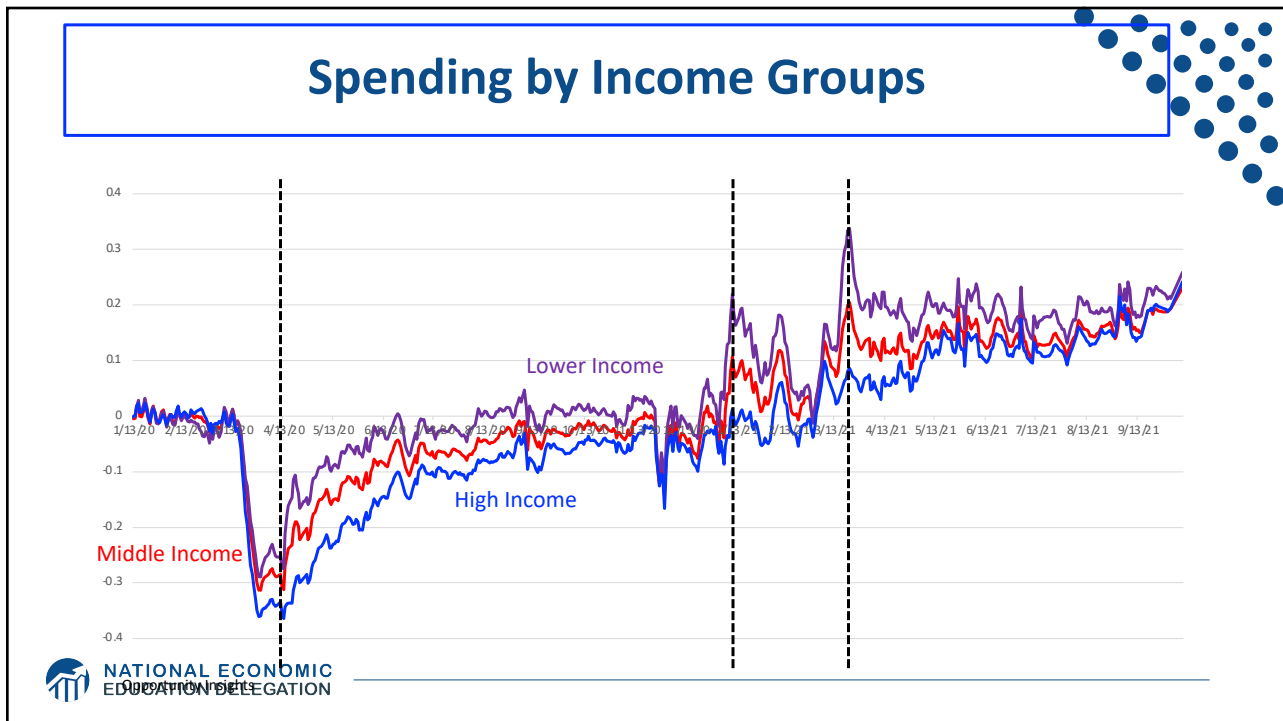
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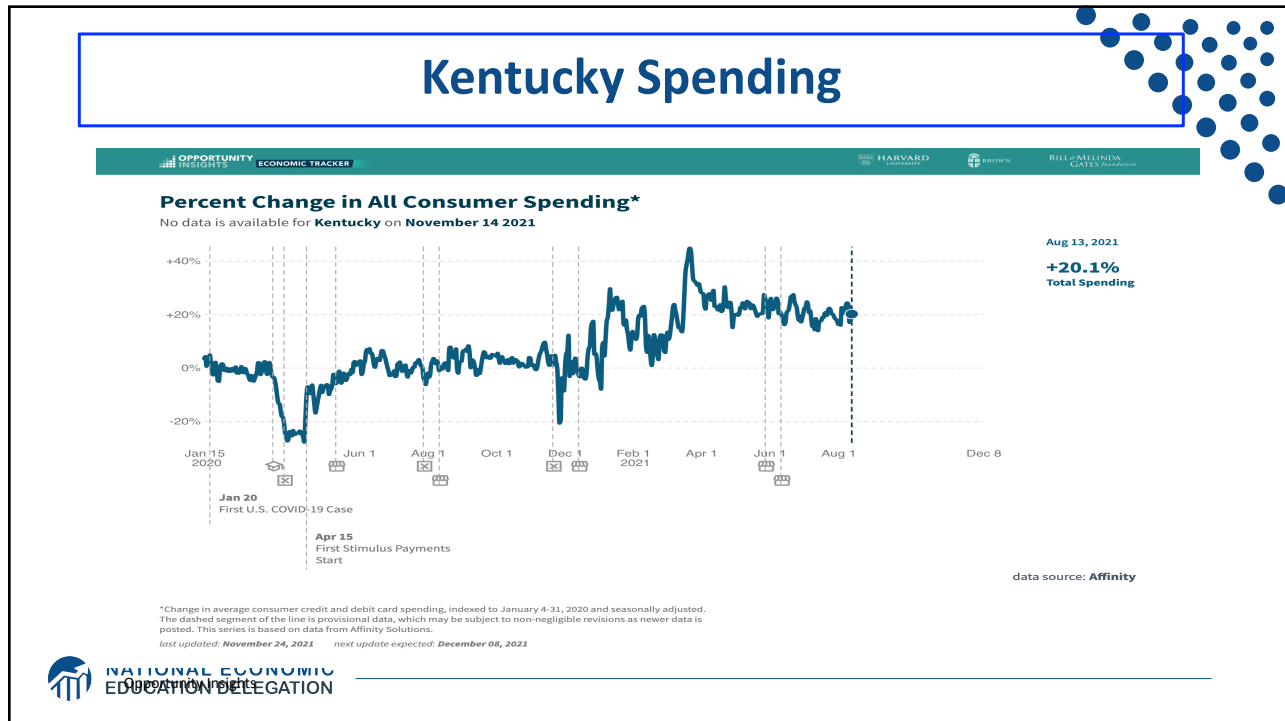
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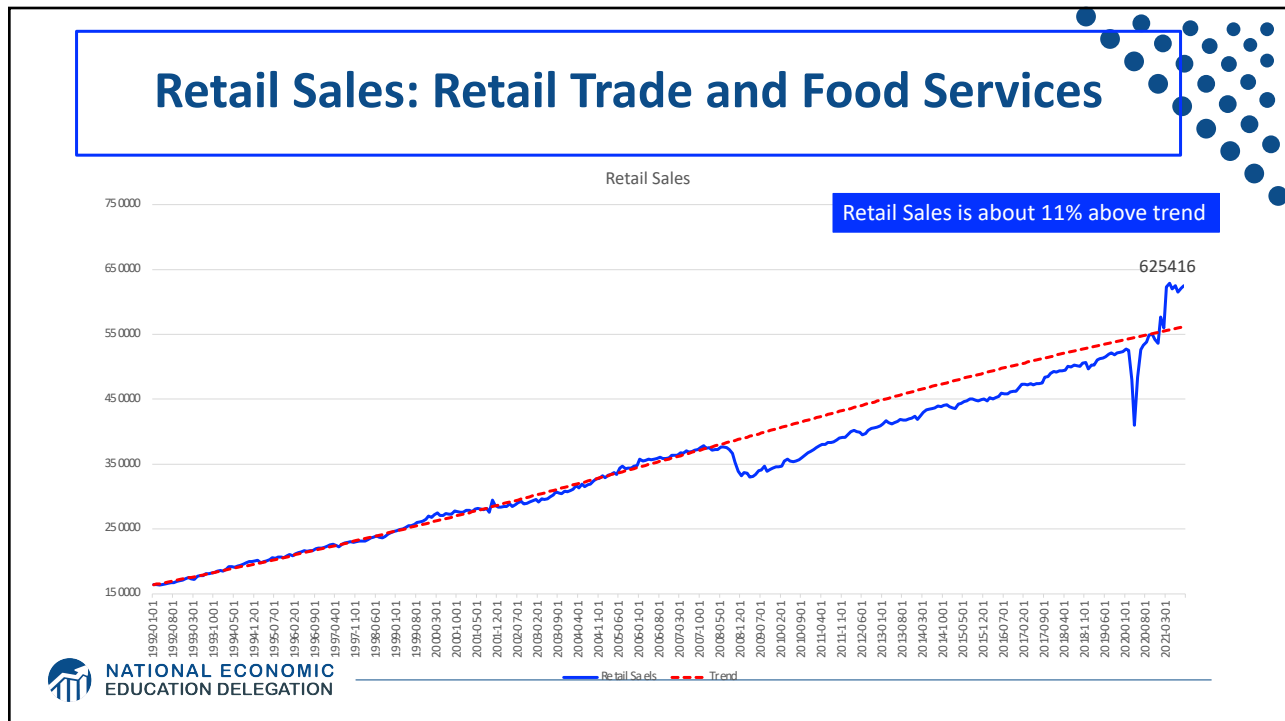
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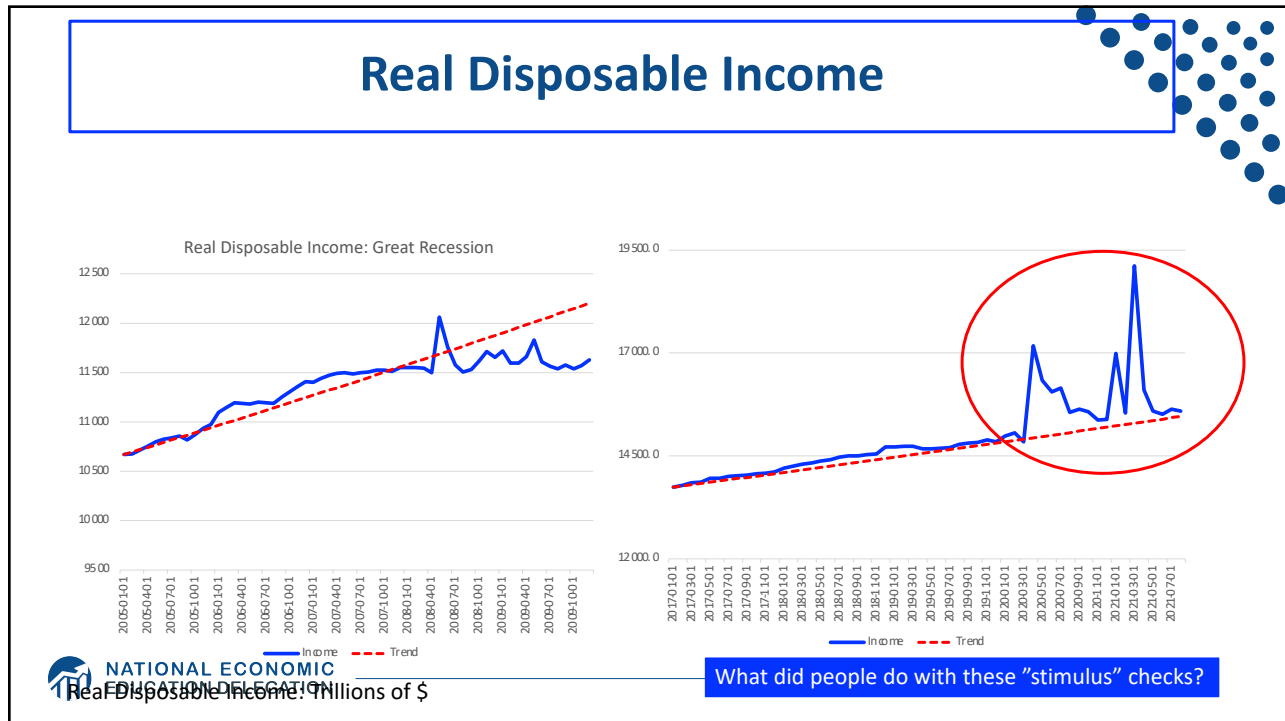
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Take Away: Consumption

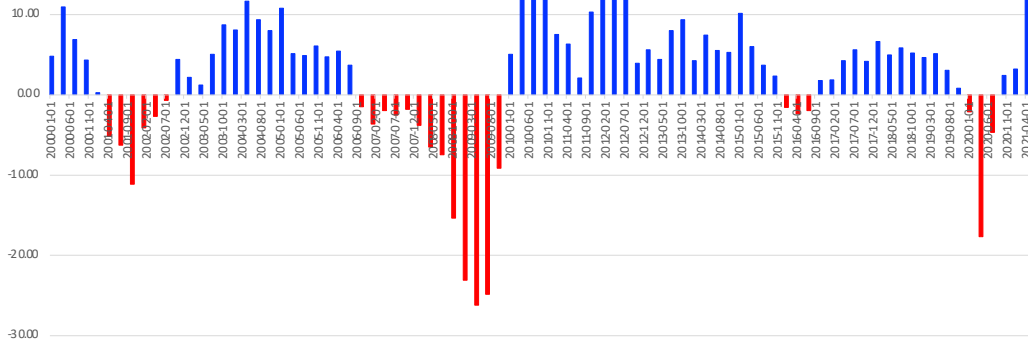
- consumption has rebounded rapidly coming out of the recession.
- The rebound in consumption was supported by the stimulus packages that were passed by the Trump and Biden Administration.
- Compared to before the pandemic consumption has shifted more toward the consumption of goods and away from services.
 - This a demand effect that is causing some of the supply chain disruptions

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Investment

Uncertainty clouds investment decisions:
I would not anticipate strong growth from
Investment until there is more clarity on direction
of the pandemic.



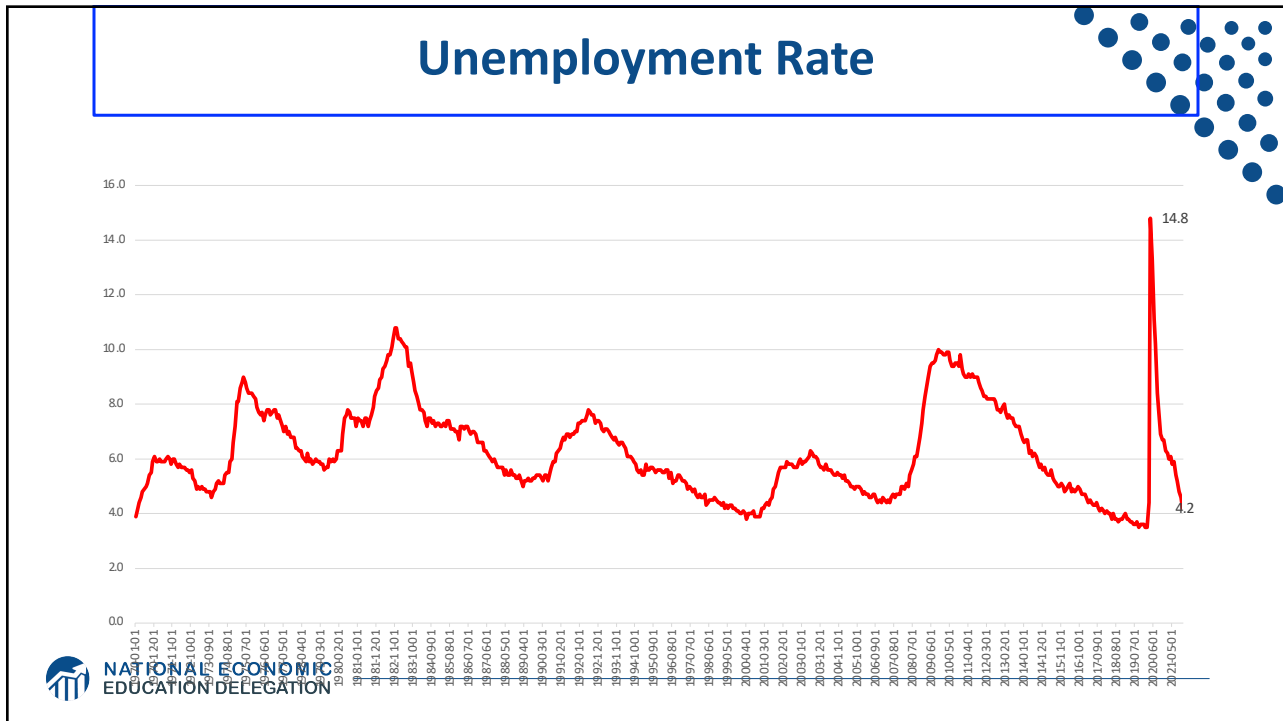
Year-over-year growth in purchase of plants machine and equipment



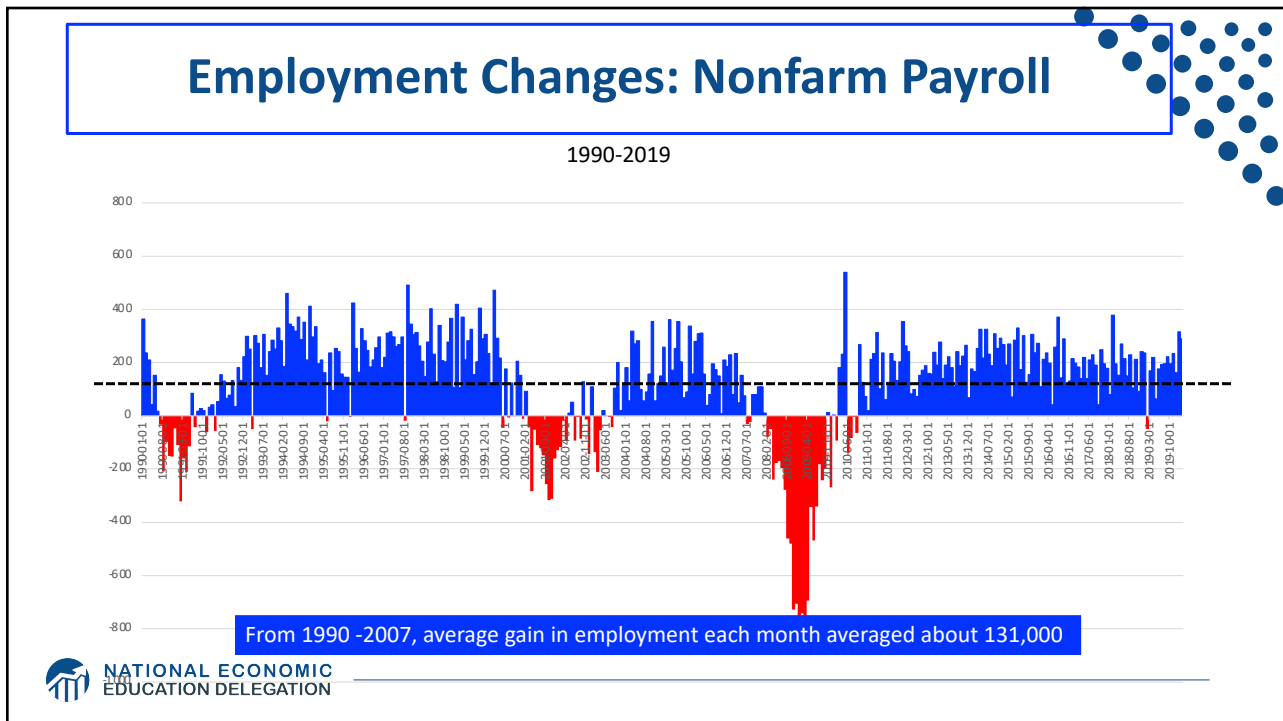
Employment

- Unemployment
- Employment Growth
- Employment by Sector

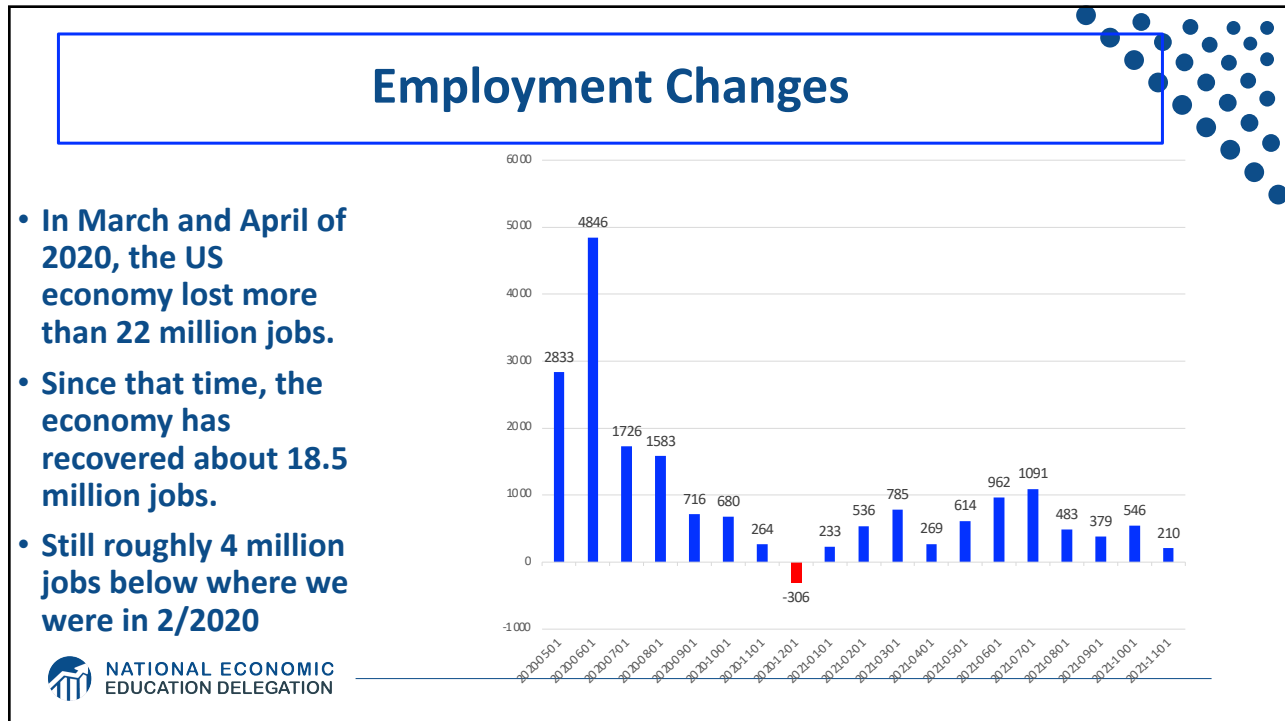




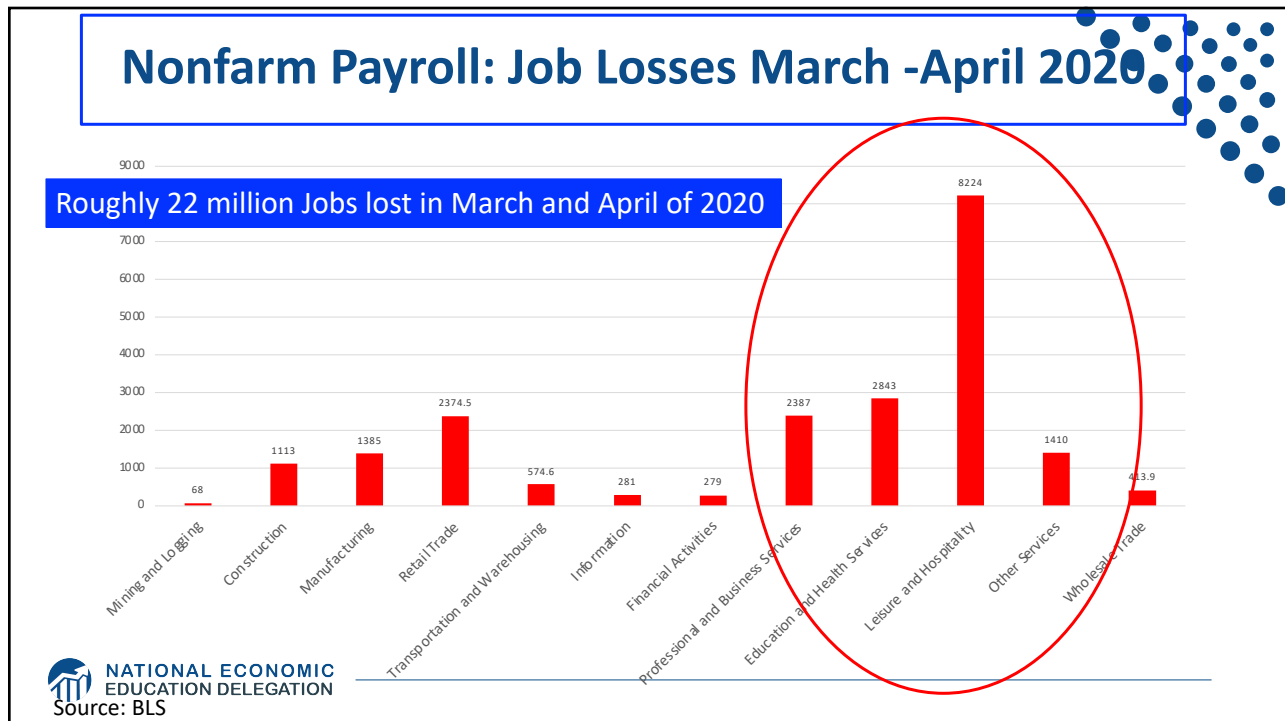
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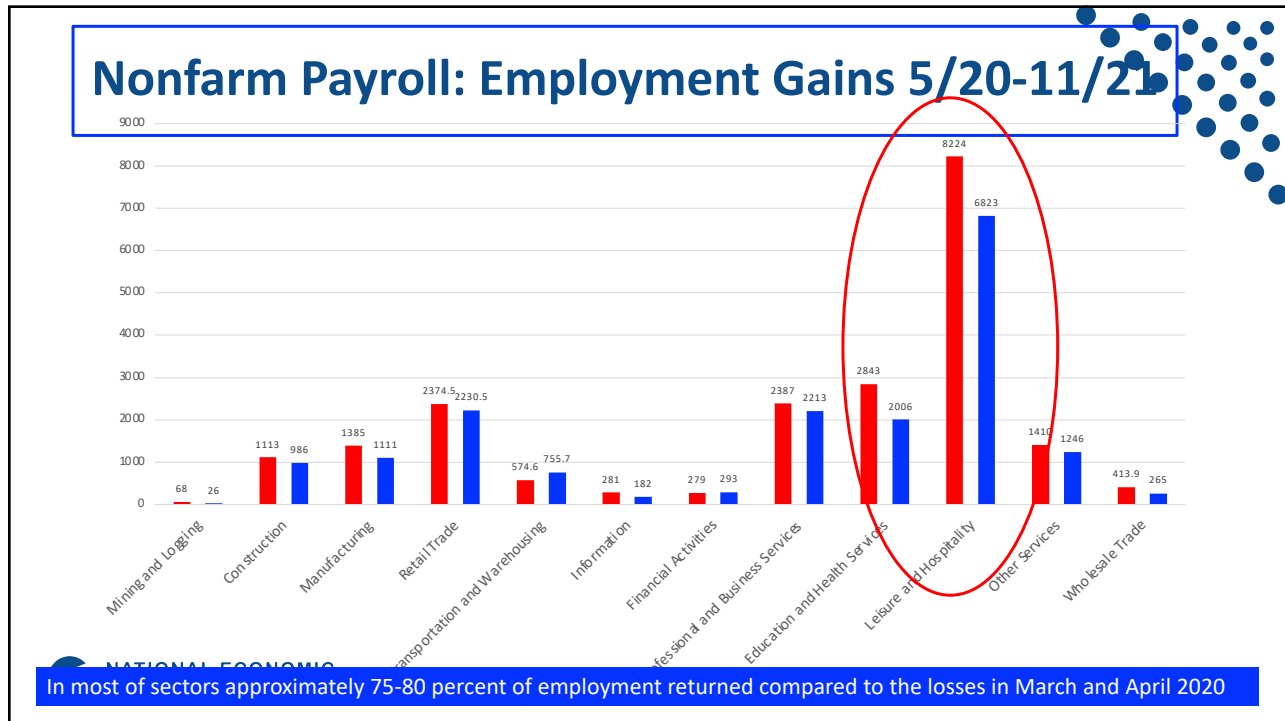
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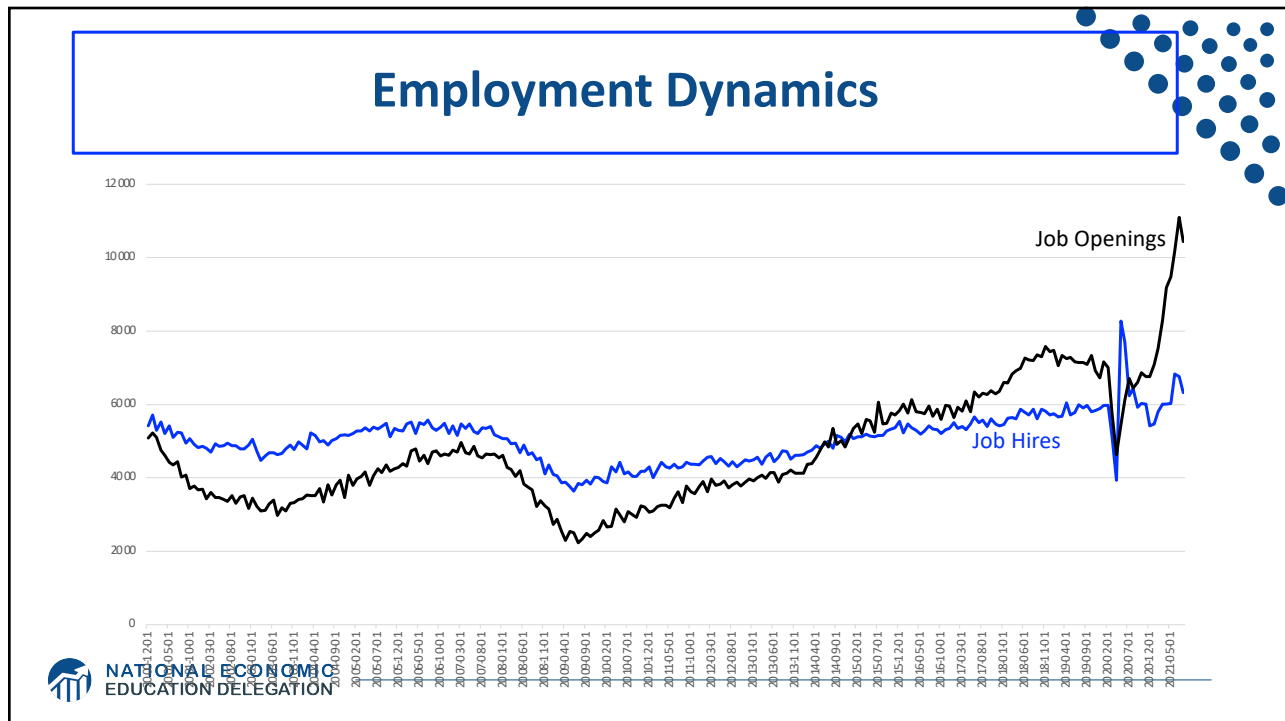
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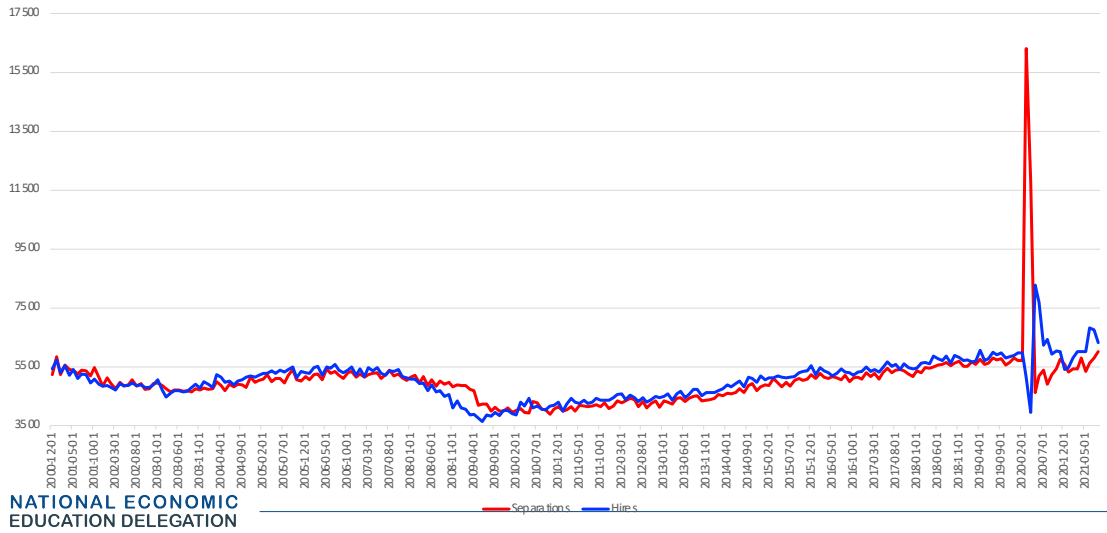


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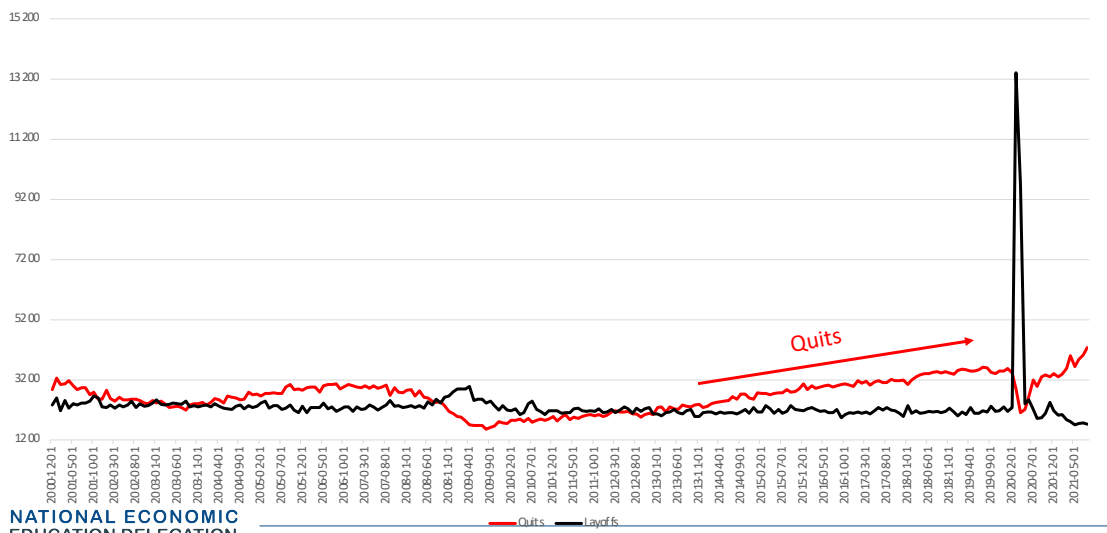
Employment Dynamics: Separations and Hires



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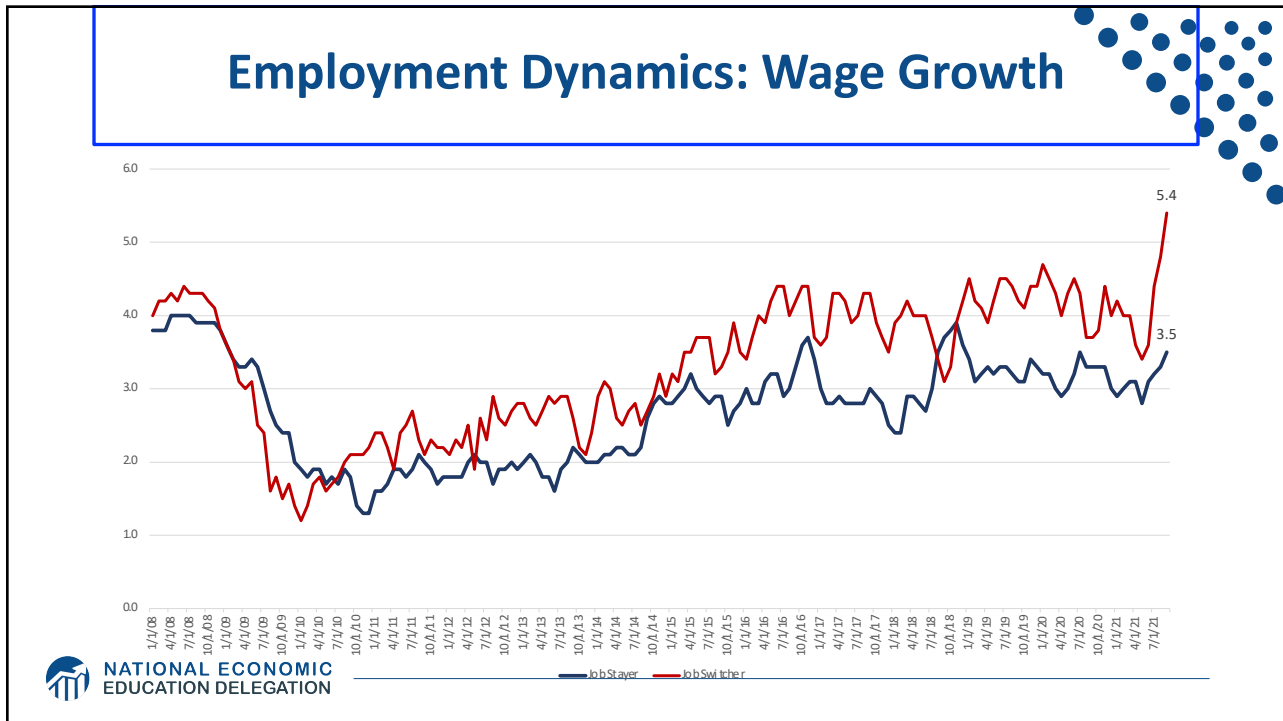
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Employment Dynamics: Quits and Layoffs

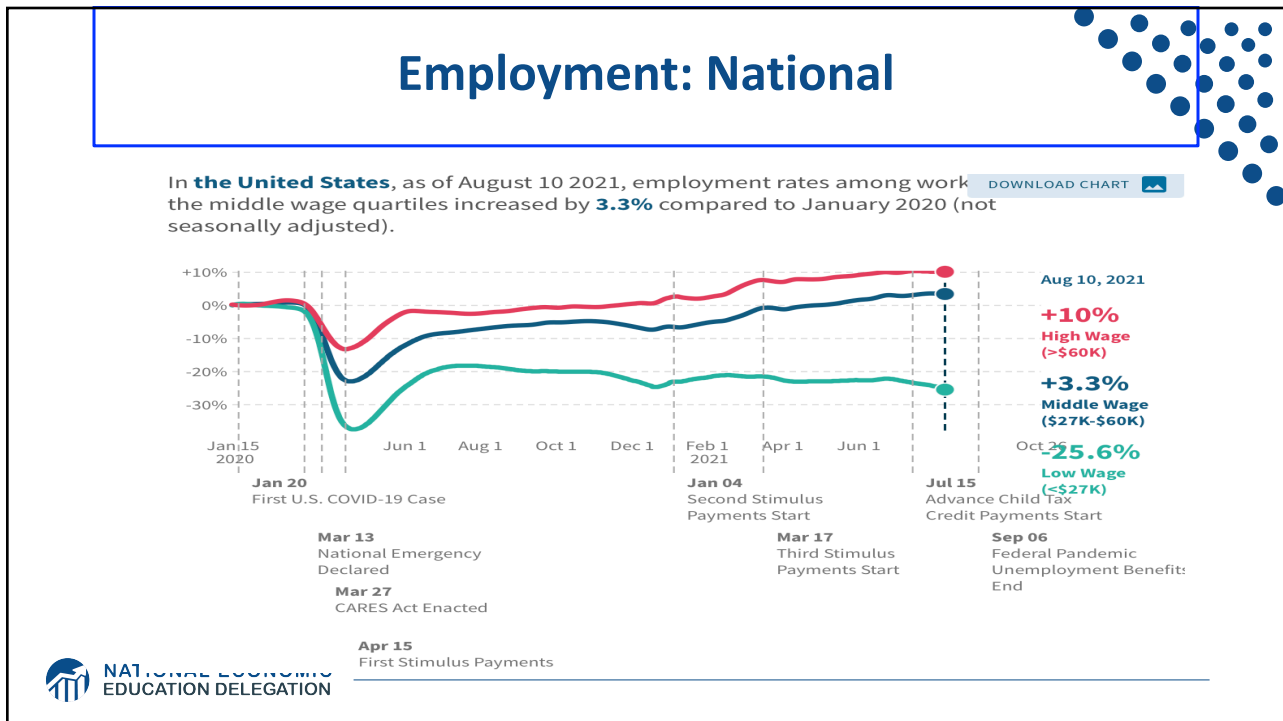


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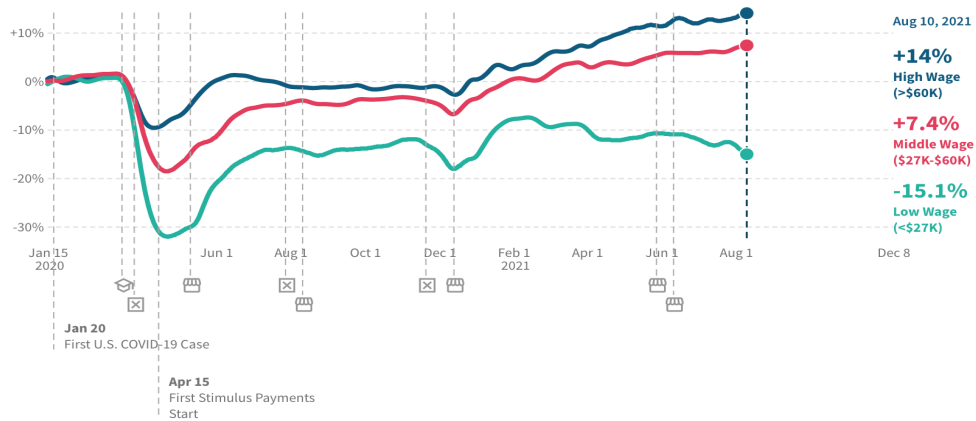


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Employment: Kentucky

In **Kentucky**, as of August 10 2021, employment rates among workers in the top wage quartile increased by **14%** compared to January 2020 (not seasonally adjusted).

DOWNLOAD CHART 

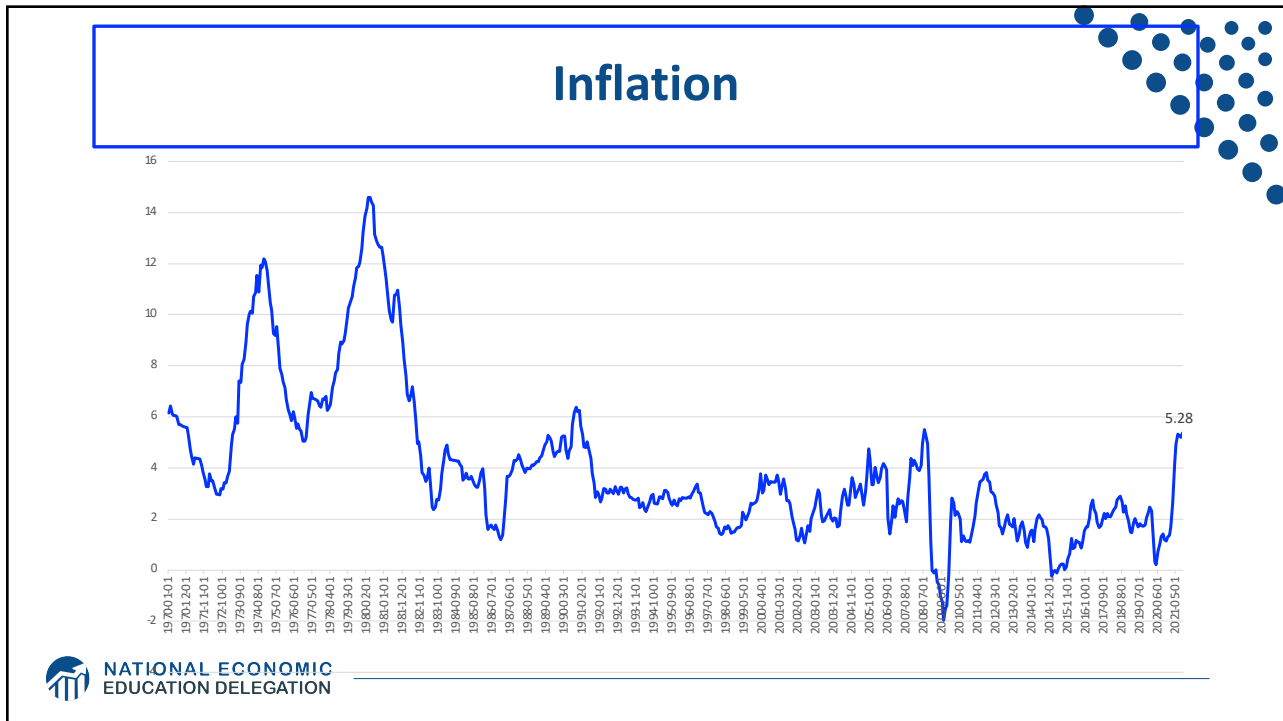


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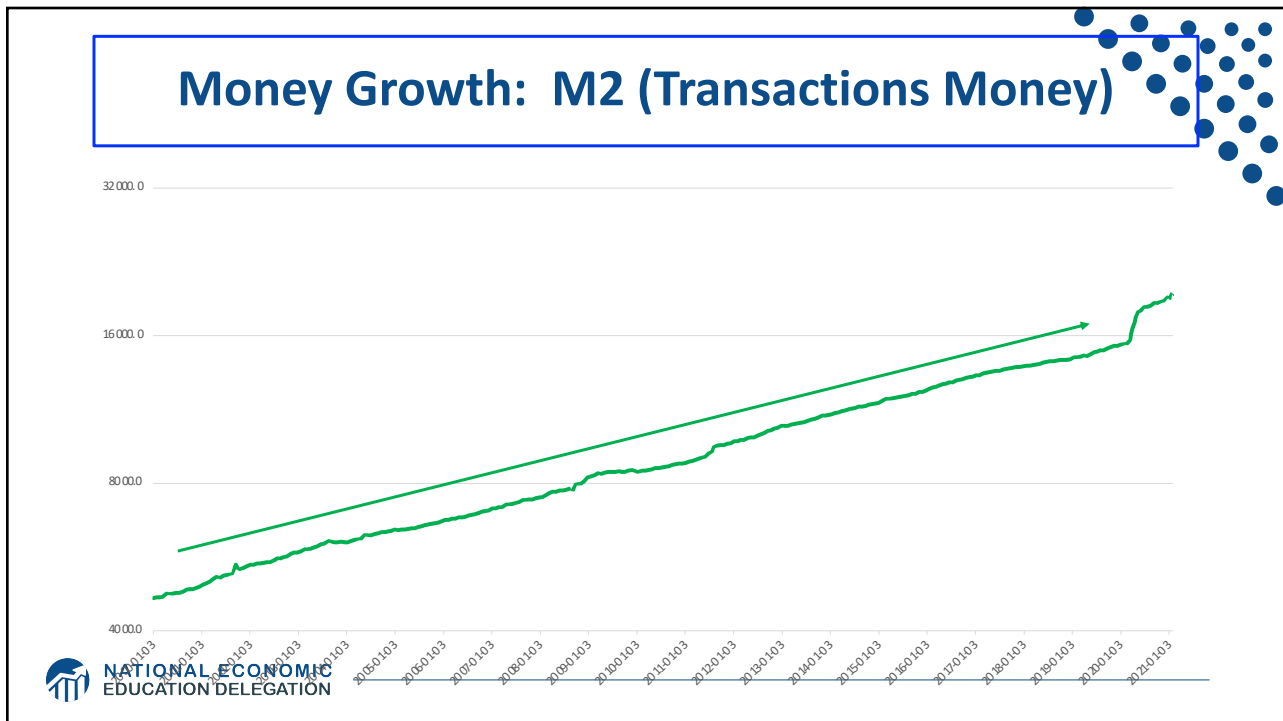
Employment Situation

- **Employment has been slow to rebound**
- **More recently, The real challenge has been for employers to fill vacancies.**
- **What gives?**
 - Extended (or expected continuation) unemployment benefits
 - Parents with young children at home.
 - Workers reluctant to work in certain industries and occupations
 - Workers looking for different career opportunities.
 - Increased desire to have the option to work from home.

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Annualized Money Growth

Growth Rate of Money Stock (percent per year)	Beginning of Period	End of Period
6.1	January 2000	March 2020
48.3	April 2020	June 2020
11.5	July 2020	August 2021



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Monetary Policy

- **Fed does not control M2**
- **What generally determines the growth of M2?**
 - Expected inflation
- **Recent increase is something different**
 - Federal government transfers to checking accounts
 - Helicopter drop
- **Generally, faster growth of M2 associated with higher inflation**
 - Here?



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CPI Inflation So Far This Year

- **6.20 percent year-over-year from October**
- **5.52 percent from the start of the year.**
- **6.74 percent at end of December 2021 given Federal Reserve Bank of Cleveland's Nowcasts**

Inflation Over the Next Few Years

- **Reasonable to expect prices continue to rise**
- **What will happen to expected inflation?**
 - Stay at 2 percent per year?
 - Increase to quite a bit more?
- **What will happen to inflation given the current monetary policy framework?**
 - Inflation will be about two percent
 - Inflation will increase quite a bit, say 5 to 10 percent per year

Thinking About Infrastructure Package

- **Key components are:**

1. **Efficiency:** Is the government spending (infrastructure) undertaken efficiently?
2. **Multiplier:** Does the government spending raise the productivity of the private sector (human capital and physical capital)?
 - a) Think of this like a multiplier .
 - b) Depends on the nature of private capital: Complements or Substitutes
3. **Resource Use:** Does the spending pull use “idle” resources or is their crowding out.
 - a) If the infrastructure pulls workers and capital from other uses the net effect on GDP is likely to be smaller.
4. **Funding Distortions DWL:** Effect of Infrastructure depends on how the funds are raised.
 - a) If raised by taxes, what private sector activities are reduced because of the taxes.
 - b) If the infrastructure package is financed by borrowing will there be crowding out through higher interest rates.
 - c) If it is financed by printing money (MMT) will this be inflationary



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Conclusion

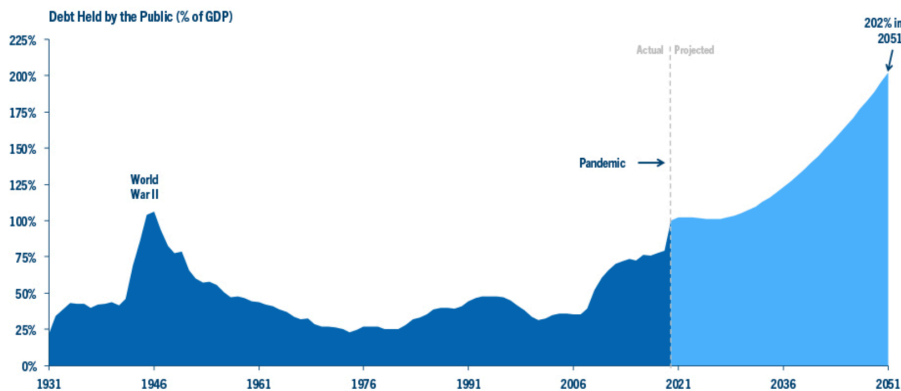
- The economy continues to recover from the pandemic.
- Until there is clarity on the health side, I would not anticipate the labor market to fully recover.
- The actions that the government took helped the recovery, but may have also planted the seeds for higher inflation.
- The increased deficit and debt is not expected to be permanent, but ...



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Path of the Debt

FEDERAL DEBT IS ON AN UNSUSTAINABLE PATH

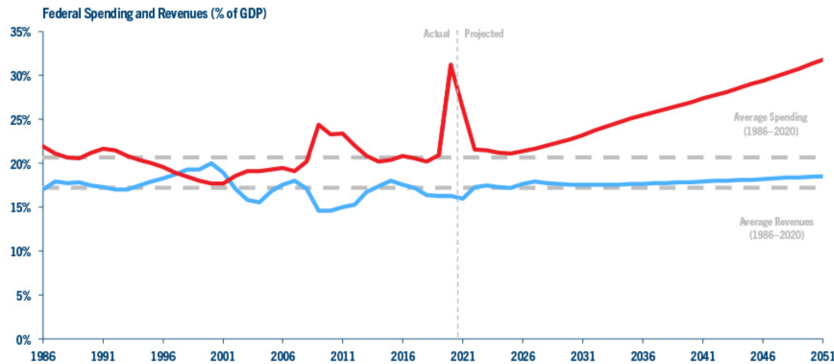


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Source: Congressional Budget Office, Additional Information About the Budget Outlook: 2021 to 2031

Path of the Debt: Spending and Revenues

THE GROWING DEBT IS CAUSED BY A STRUCTURAL MISMATCH BETWEEN SPENDING AND REVENUES



SOURCES: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021; and Office of Management and Budget, Historical Tables, Budget of the United States Government: Fiscal Year 2021, February 2020.

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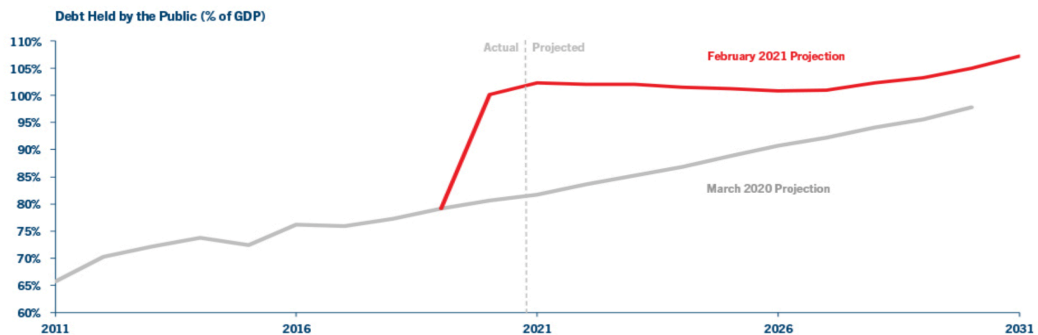
Source: Congressional Budget Office, Additional Information About the Budget Outlook: 2021 to 2031

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Path of the Debt: Spending and Revenues

CBO'S LATEST PROJECTIONS SHOW THAT THE COVID PANDEMIC HAS MADE OUR FISCAL TRAJECTORY WORSE



SOURCES: Congressional Budget Office, The Budget and Economic Outlook: 2021 to 2031, February 2021, and Baseline Budget Projections as of March 6, 2020, March 2020.

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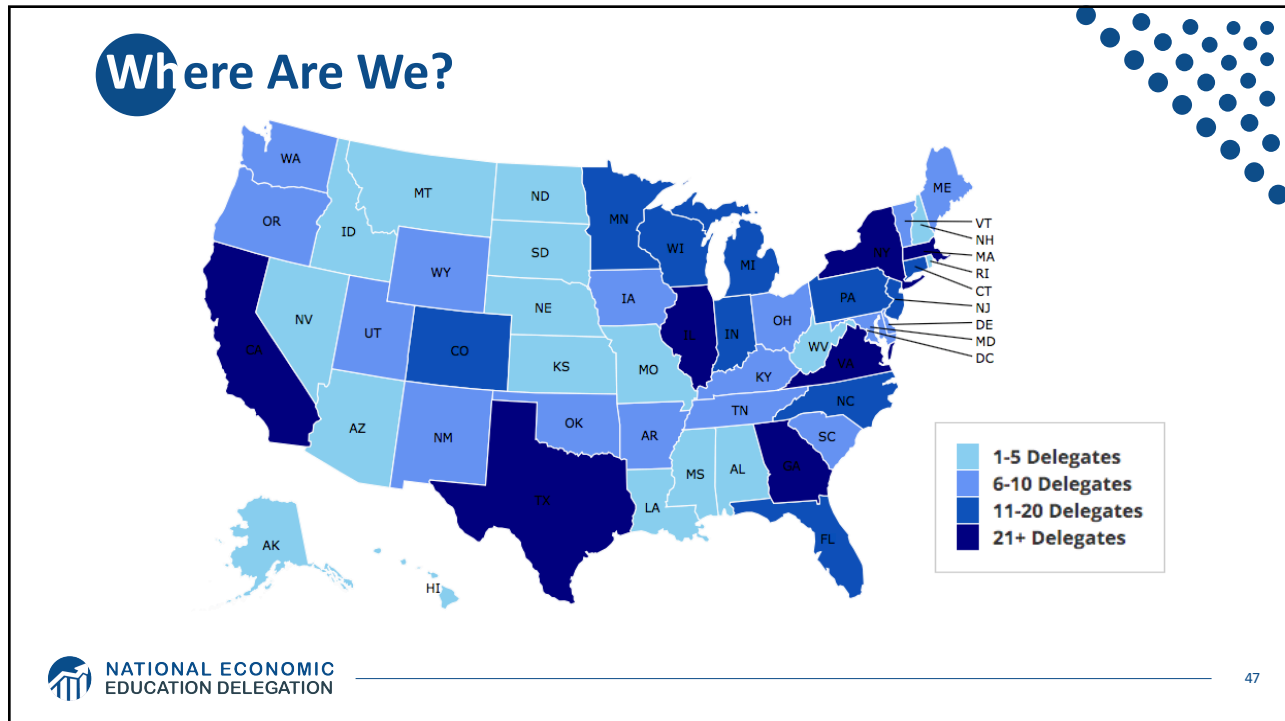
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Infrastructure Package

- **Thinking of infrastructure broadly the US has \$40 trillion in non-defense, non-residential fixed assets (infrastructure).**
 - The private sector owns 65% of the infrastructure.
 - State and local governments own 30%
 - Federal government 5%
- **Administrative claims that infrastructure package has zero cost**
 - Difference between net and gross.
- **Physical infrastructure: Airports and Broadband**
- **Since the private sector own much of the infrastructure, how much will an increase in taxes reduces private investment.**

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: 600+ 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: 45 Ph.D. Economists**
 - Aid in slide deck development



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- **This slide deck was authored by:**
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 - Rob Eyler, Sonoma State University
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