



US Economic Update

Vistages, Santa Rosa

December 15, 2021
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Executive Director, NEED



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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: 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: 44 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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Credits and Disclaimer

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

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- 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).



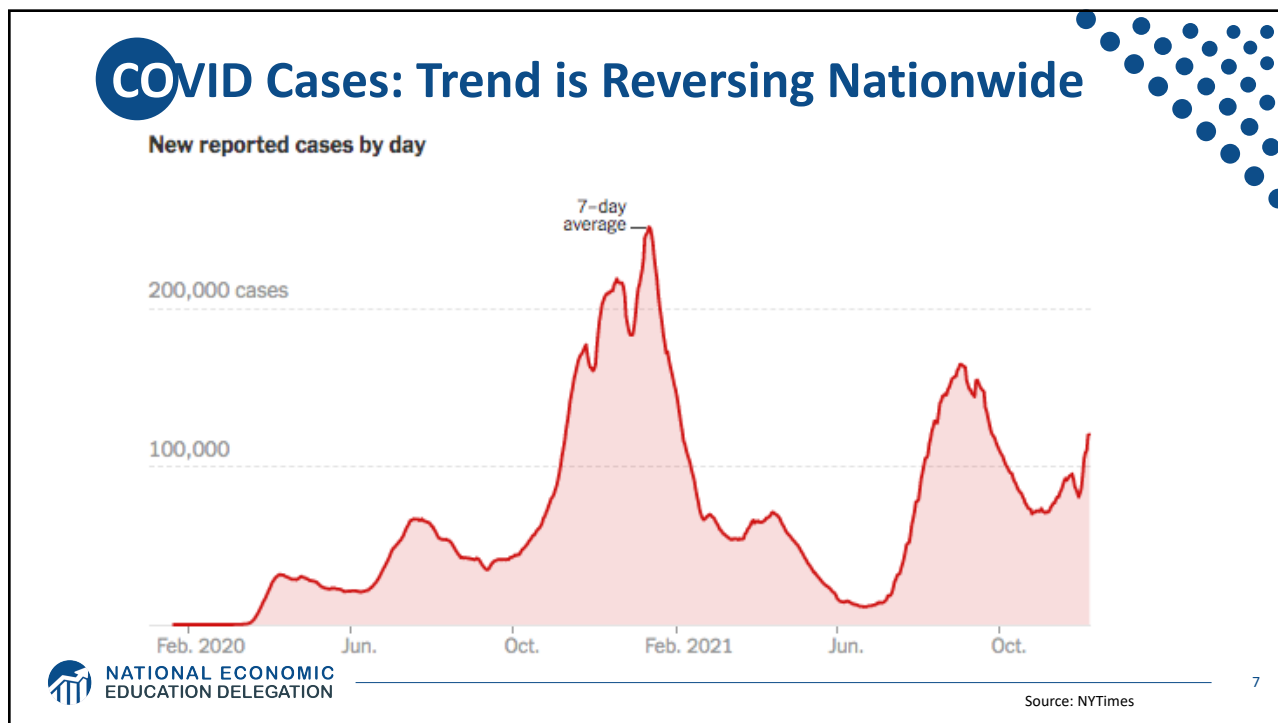
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Outline

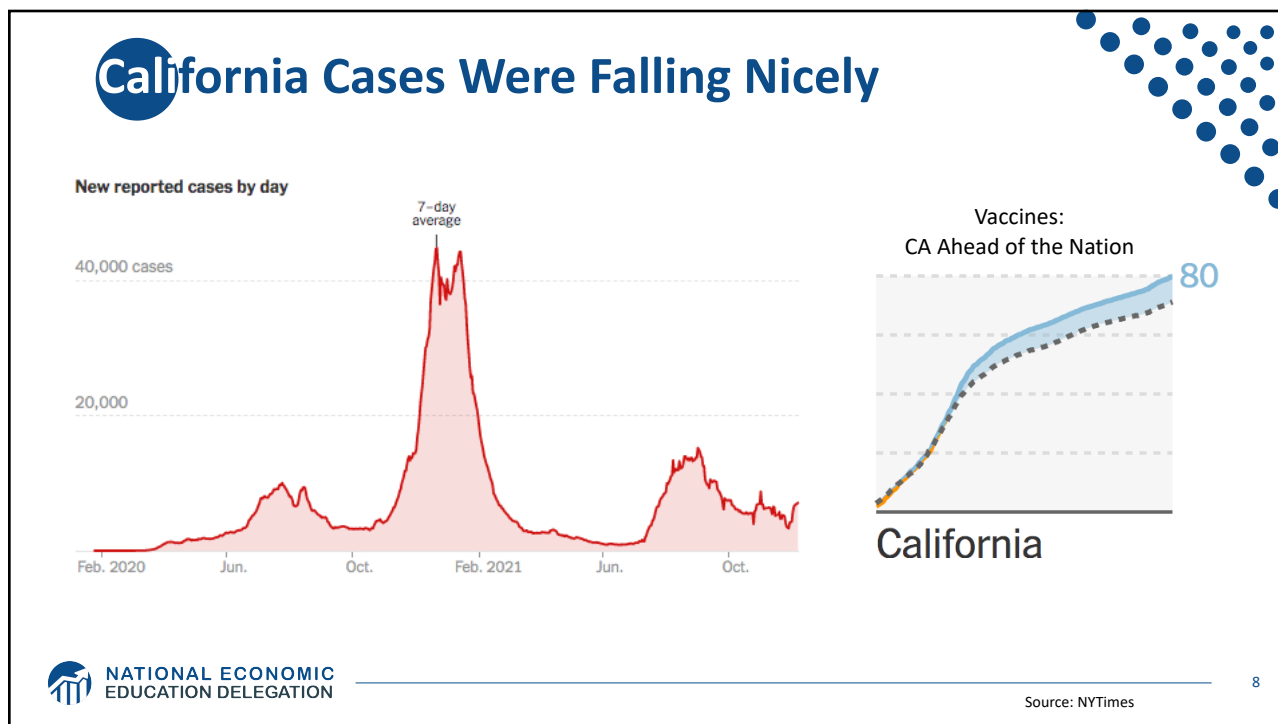
- **State of the Pandemic**
- **Evidence of Impact**
- **Employment Growth**
- **Inflation**



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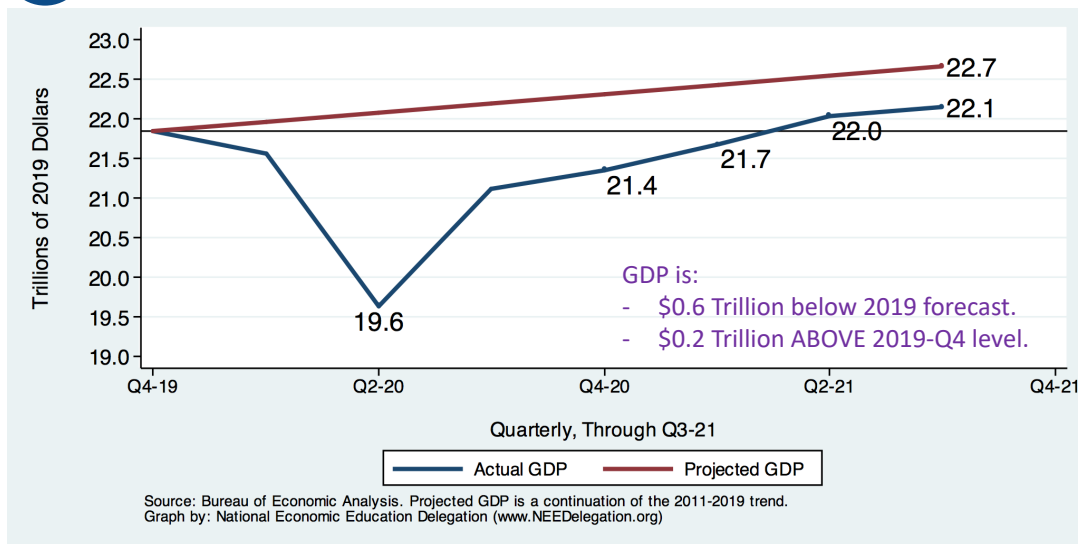
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Evidence of Impact

GDP Trajectory: Pandemic Plunge!



GDP Growth & Forecast

Quarter	Growth (%), SAAR
2020-Q3	33.8
2020-Q4	4.5
2021-Q1	6.3
2021-Q2	6.7
2021-Q3	2.1
2021-Q4	5.1*

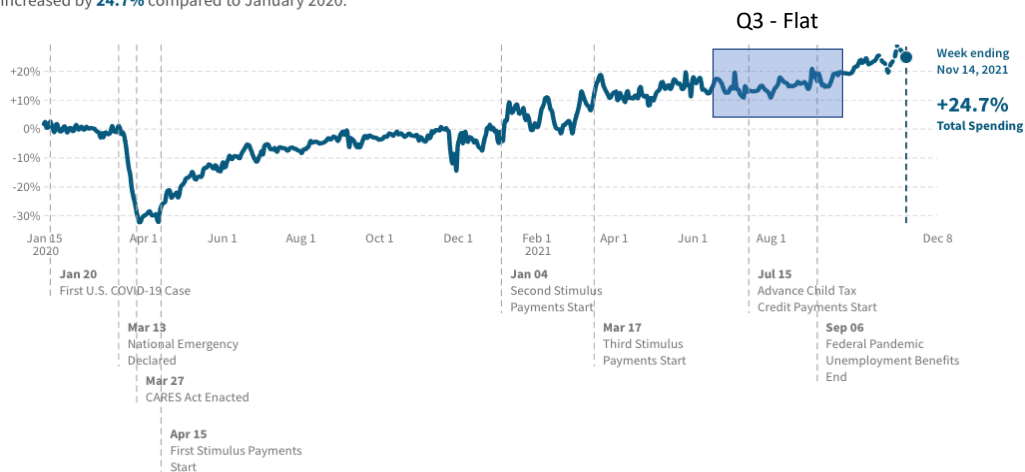
Growth has slowed significantly.
Coincidentally, so has government COVID spending.

* Average of Blue Chip forecasts.

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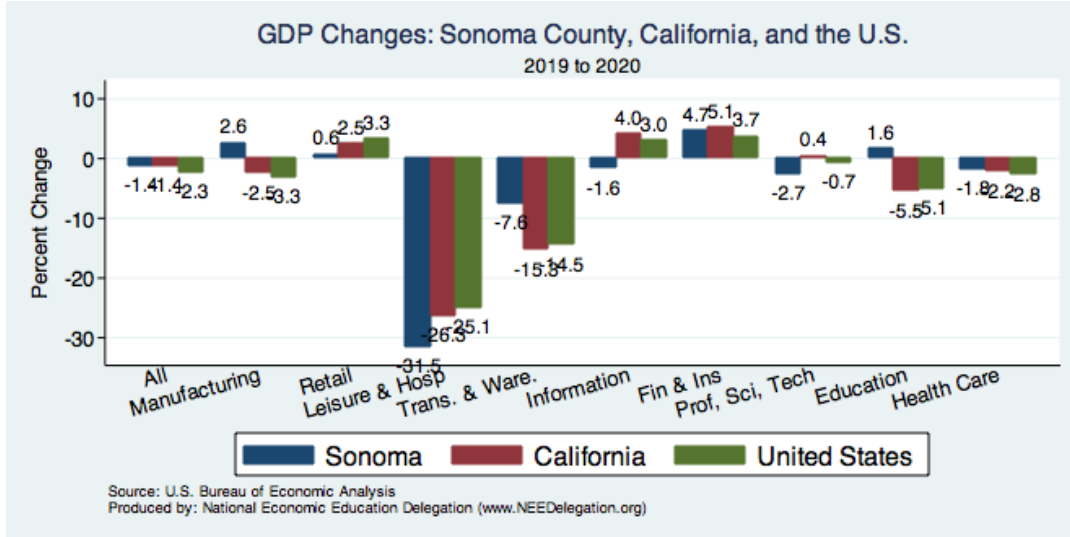
Spending Patterns Since First US Case

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



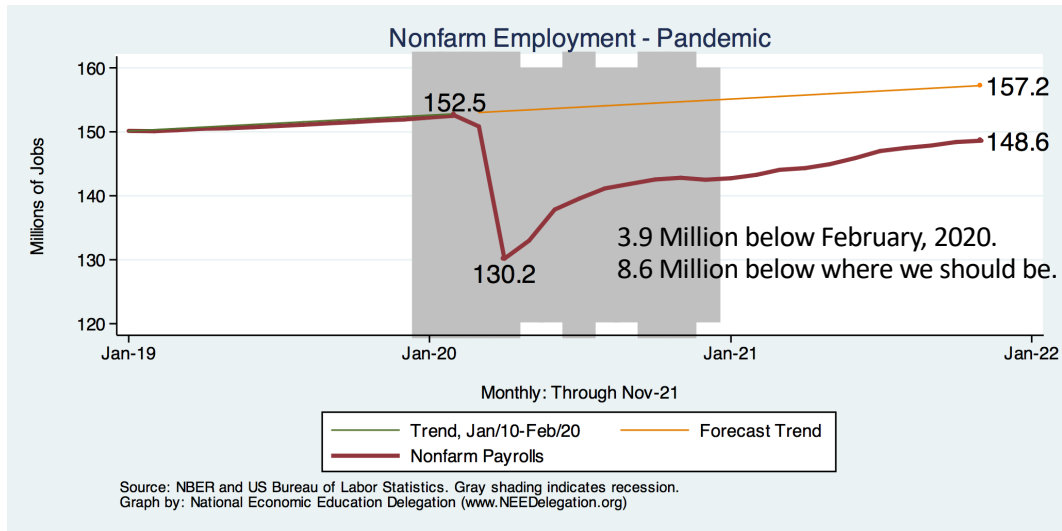
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But Not All Industries Did



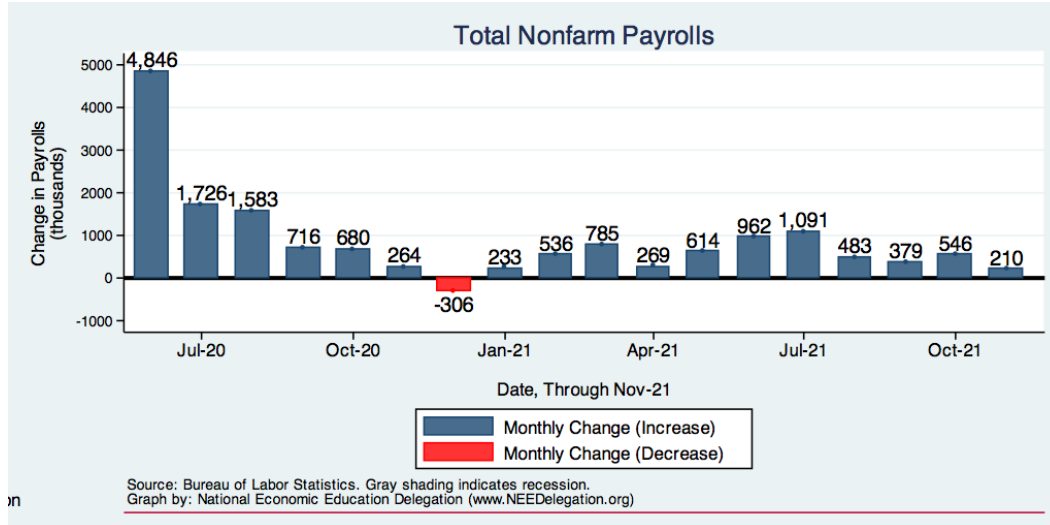
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Employment Gap



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Employment Growth Has Been Disappointing



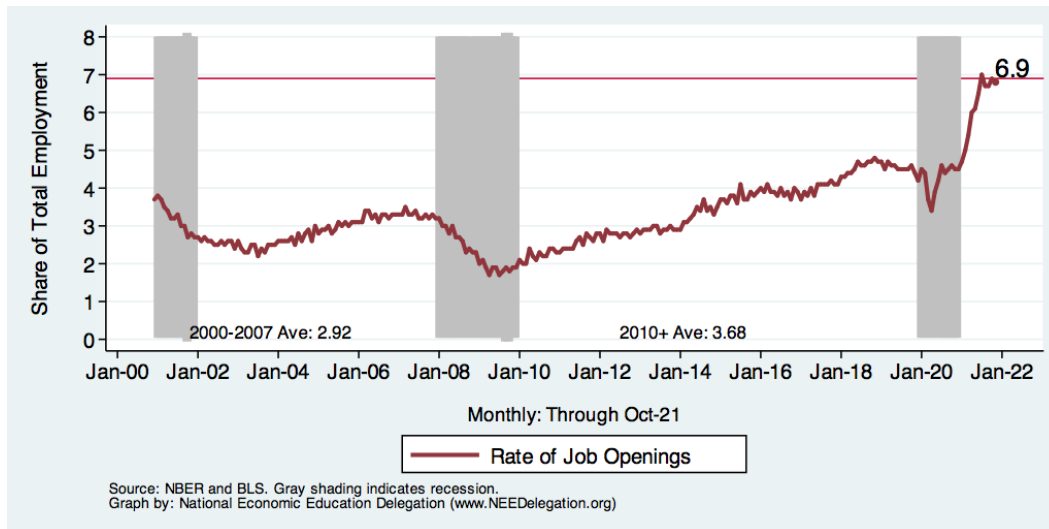
Why Slow Employment Growth?

• It might be:

- Continued fear of the virus – now Omicron.
- Microchip shortages.
- Geographic mismatch and an unwillingness to relocate...yet.
- Childcare – lack of availability.
- People wanting to do better.
 - o Facilitated by additional UI/Child Tax Credit payments.
- People dropping out of the labor force.



Job Openings Are Up

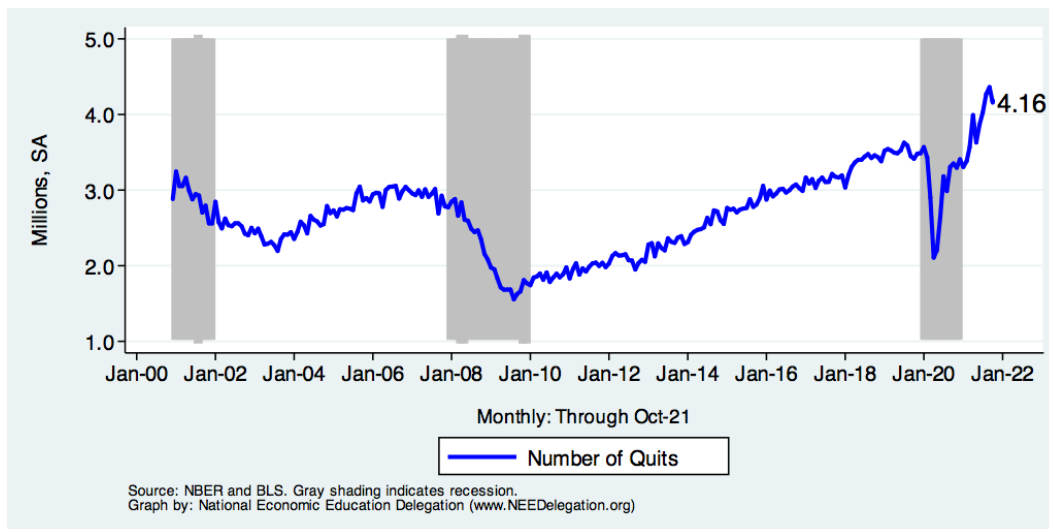


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Quits Are High! The Great Resignation



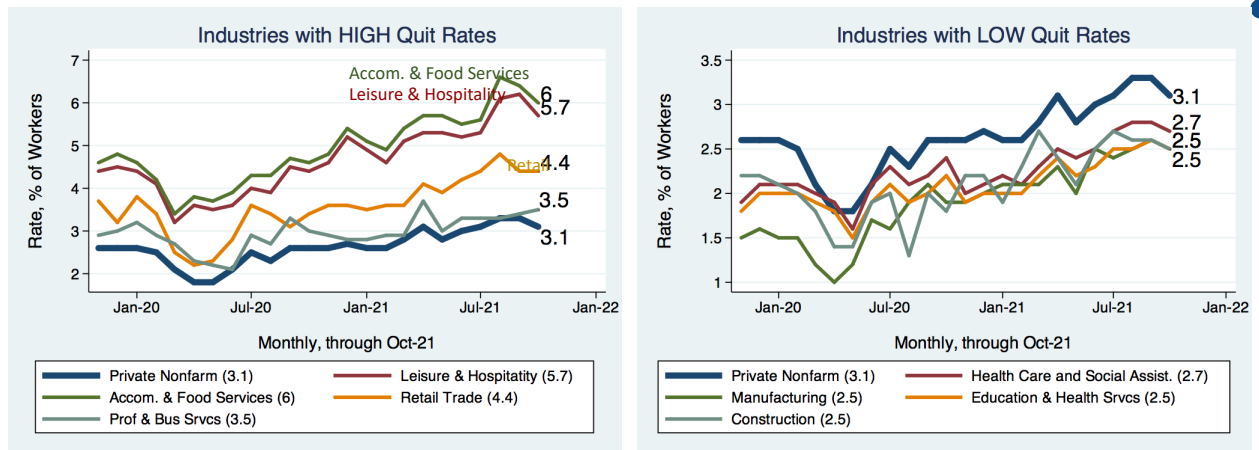
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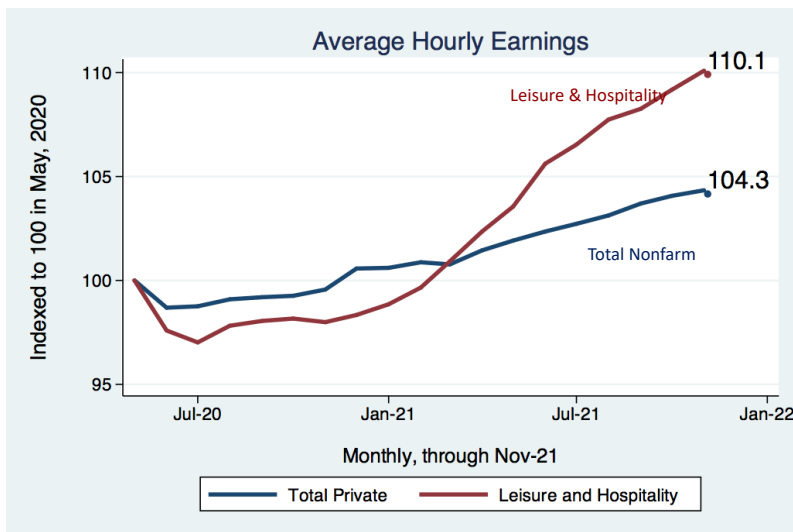
Quits – Rising, but More in Some Industries

Reached a peak?



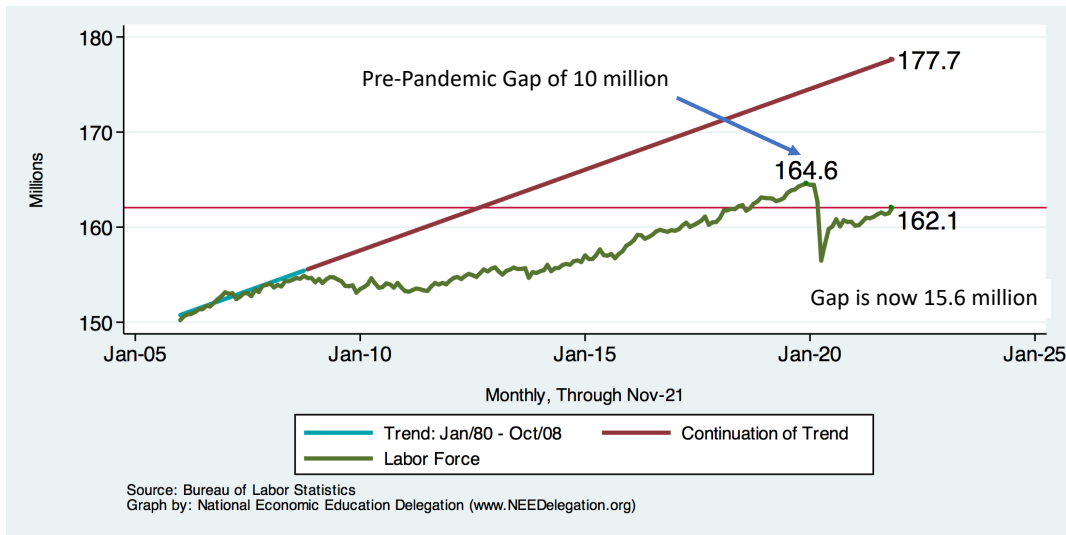
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This is Happening Despite Rising Wages



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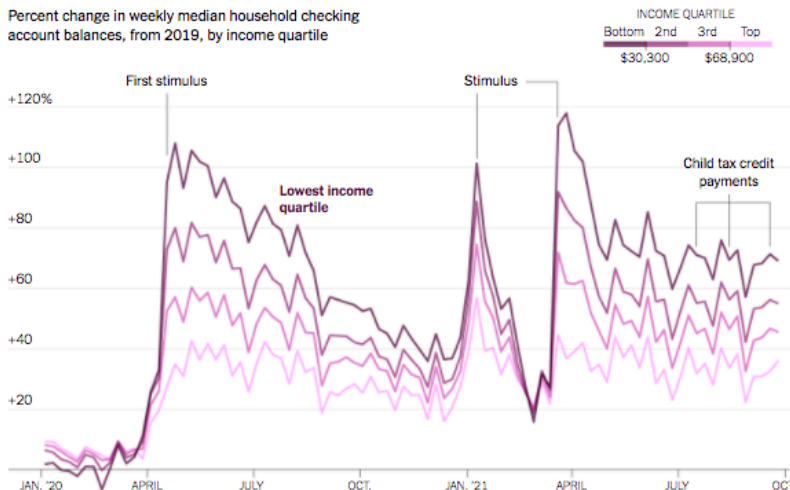
Labor Force Gap is Widening



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Rising Wages and Declining Resources

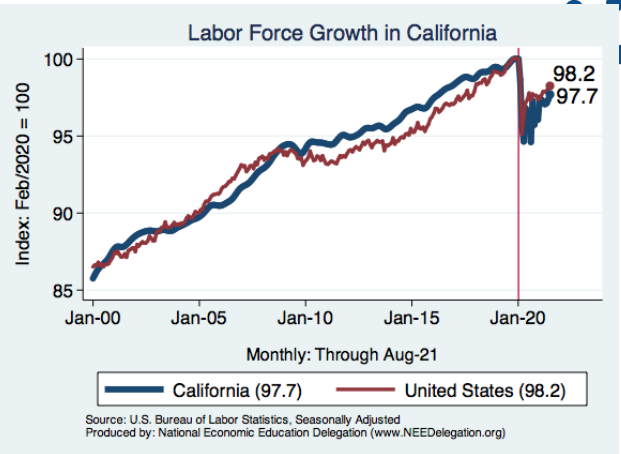
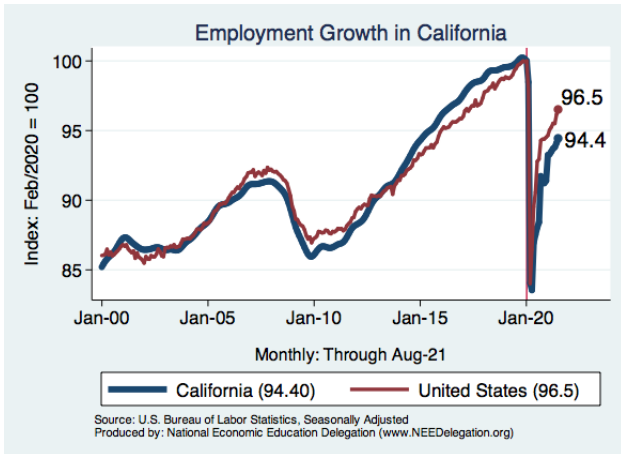
Percent change in weekly median household checking account balances, from 2019, by income quartile



Income quartiles are based on 2019 household income, after taxes and withholdings. Quartile benchmarks shown are rounded to the nearest \$100. - Source: J.P. Morgan Chase Institute - By Ella Koeze

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Employment in California

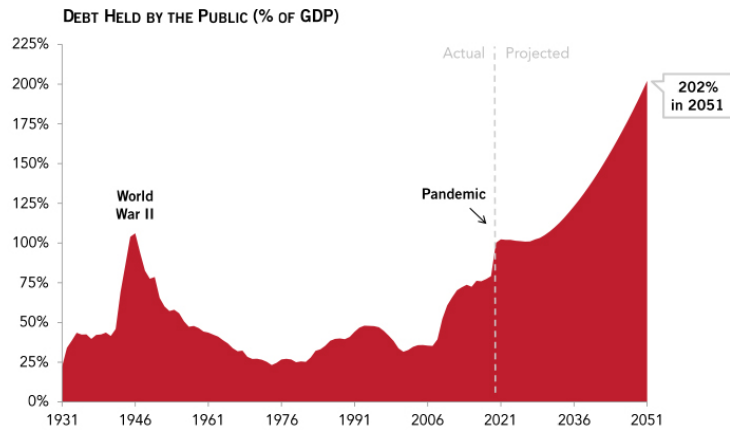


Concerns: Debt, Inflation & Structural Changes

Debt: A Problem Exacerbated...Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.
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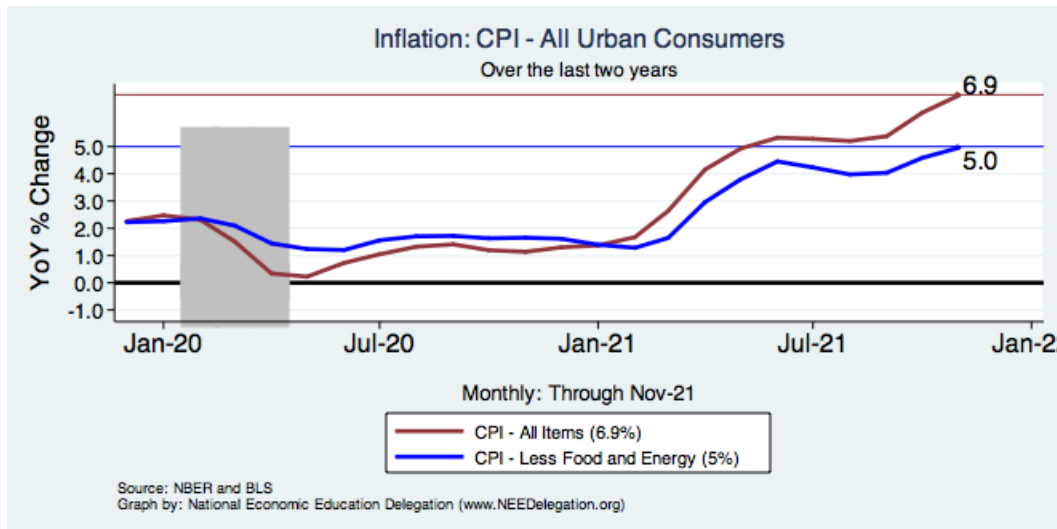
Current Deficits in Perspective:

- The budgetary cost of the 3 major fiscal packages during the pandemic was over \$5 trillion. As a share of the economy this is almost the size of war production in 1943.
(Romer, Brookings Papers on Economic Activity, 3/25/2021.)
- Since March of 2021, Fed net holdings of US Treasury bonds have increased by \$2.7 trillion.



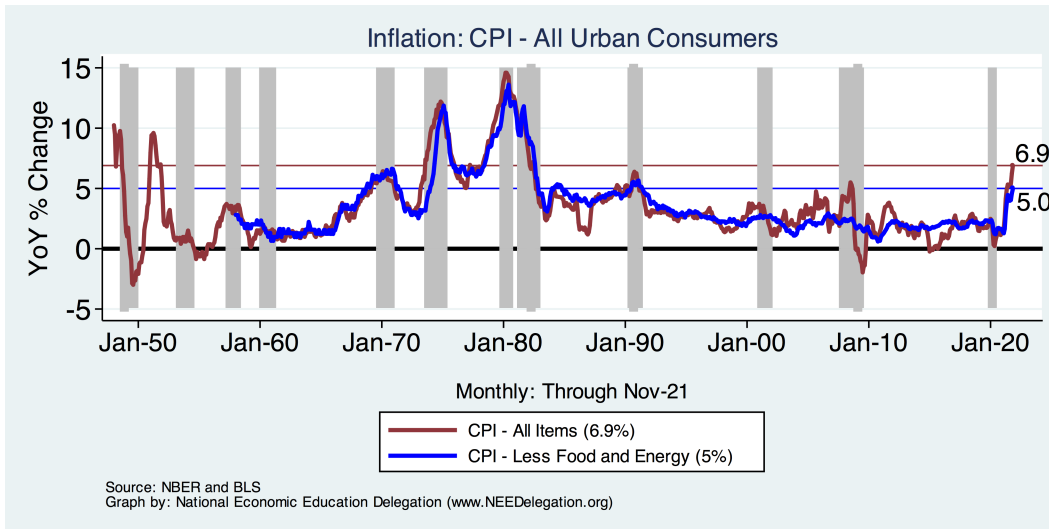
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Inflation – Climbing! Should we worry?



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Inflation in Historical Perspective



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What Index to Follow: CPI or PCE?

- **CPI is the headline statistic, followed by most newspapers.**
 - Allows more granularity – ability to look at specific products.

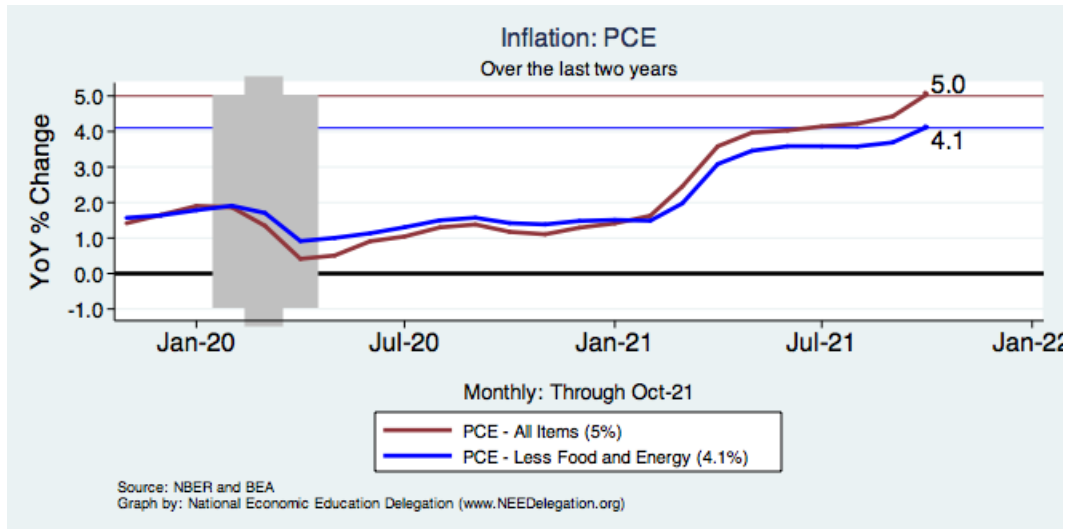
- **PCE is the one followed by the Fed.**
 - Why?
 - Accounts for short term fluctuations in consumer purchases.
 - Based on more reliable data.

- **Fed generally pays attention to the core inflation #s.**
 - Excluding food and energy.



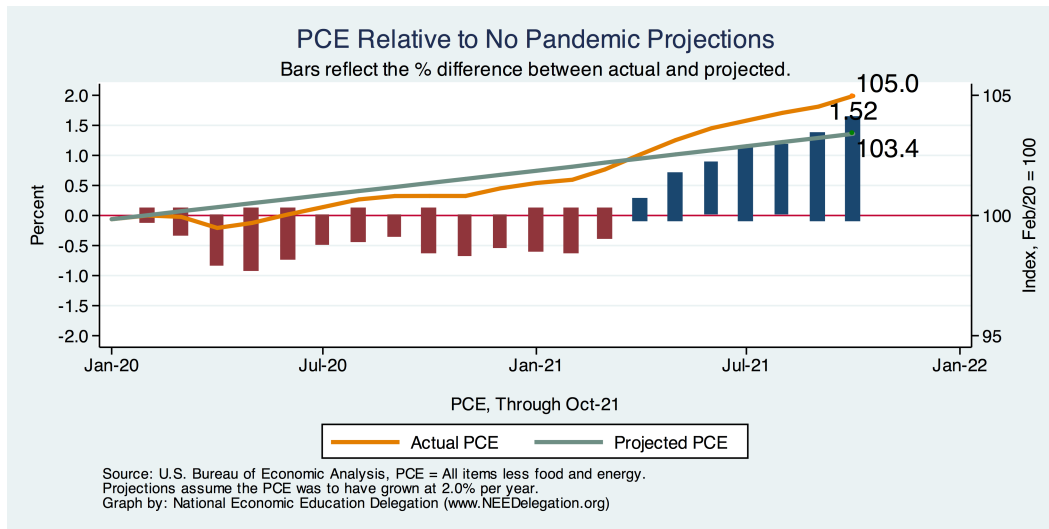
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Inflation – The Fed’s Metric! Should we worry?



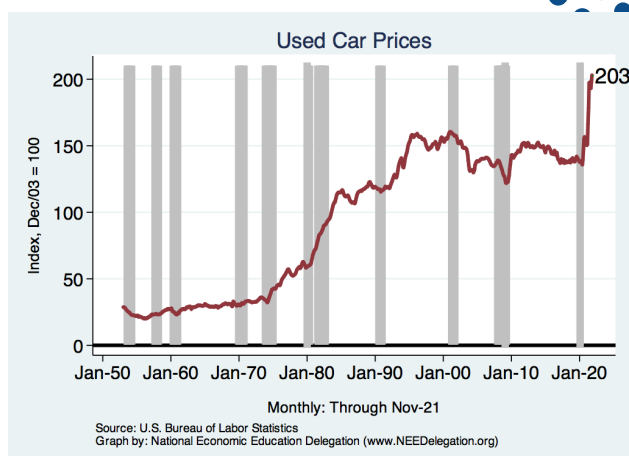
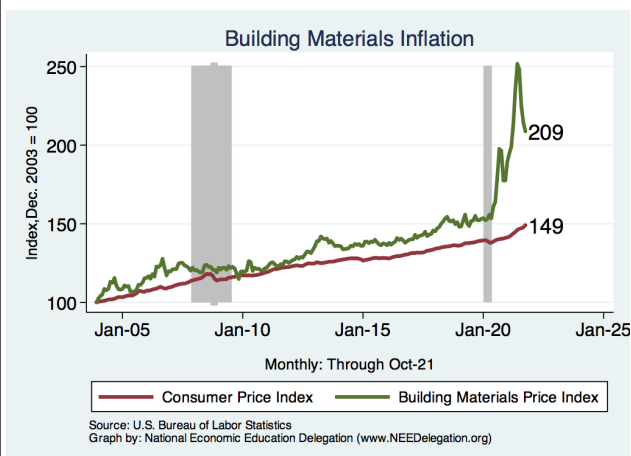
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Inflation – PCE and Fed Suggest: I don't know.



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Inflation: Concentrated



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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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Structural Changes Contributing?

- **Pandemic has been an accelerant.**
 - Not a change agent.
- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**
- **Wealth concentration**
- **Industry concentration**
- **Automation**



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Residential Real Estate

• Rental markets

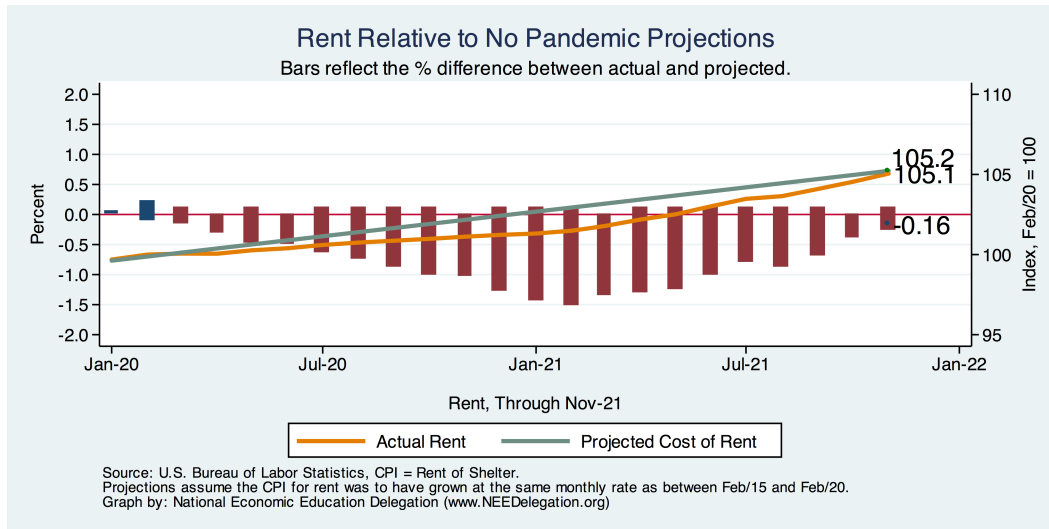
- Eviction moratoria are over.
 - o CA: Making payments can stay + 25%.
 - o Self-evictions?
- Not enough in the American Rescue Plan.
- Reports of rents rising significantly.

• Owned homes

- Depends on location.
 - o San Francisco – recovering.
 - o Los Angeles County – continued strength.
- Size matters: large homes are selling particularly well.

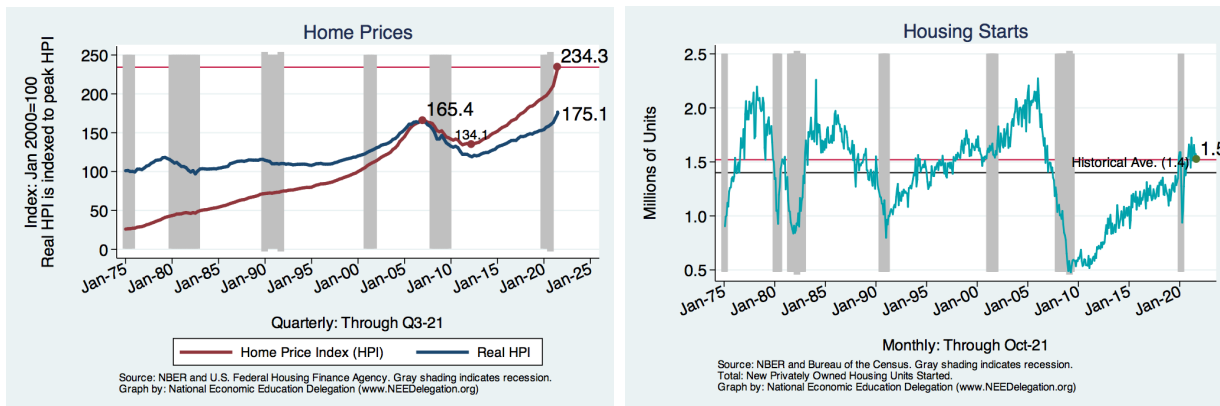
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Inflation – Cost of Rent



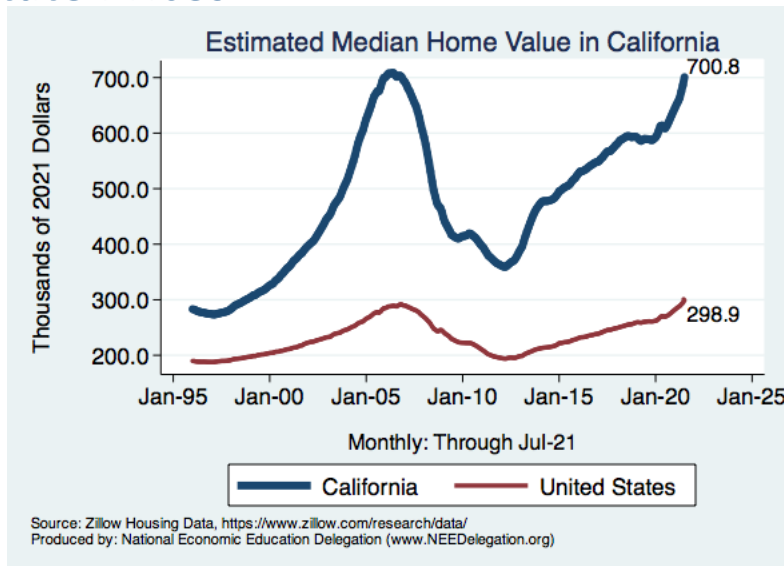
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Home Prices and Housing Starts



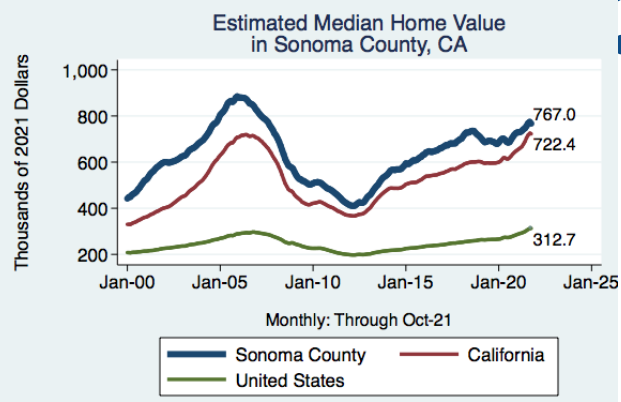
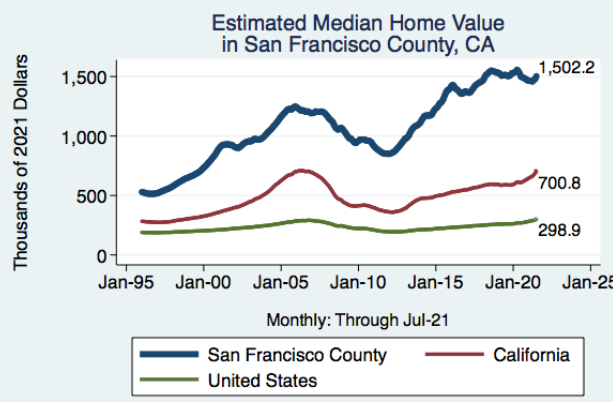
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Real Estate Prices



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RE Experiences Differ!

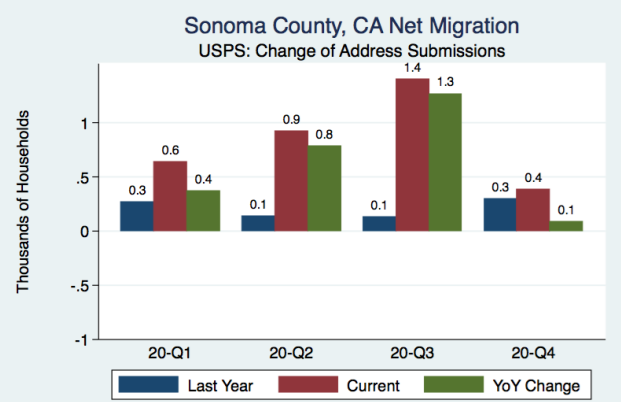
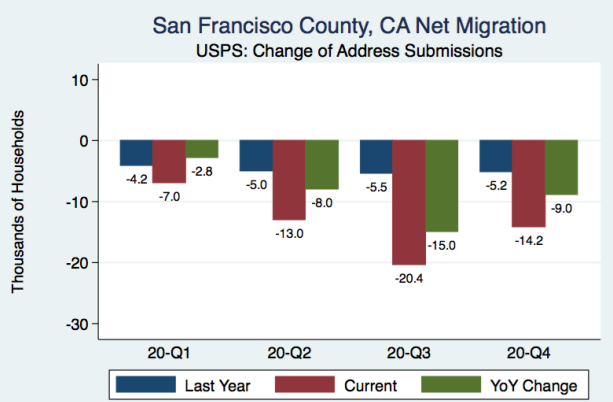


Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
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Population Change: San Francisco & Sonoma Counties



Source: United States Postal Service and American Community Survey
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

Source: United States Postal Service and American Community Survey
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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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.
- **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?
- **Federal Debt**
 - Has grown significantly, but economists are not worried...yet.
- **Real Estate**
 - Residential, strong. Commercial, less so...for some time.



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Conclusion

- **Recovery is well underway, but may be slowing.**
- **Significant structural changes – accelerant.**
- **GDP will likely expand 5% percent this year, 3-4% next.**
- **Physical health determines economic health for the economy.**
 - Well on our way to recovery, both health and economic.
 - Variants may well slow our progress: Omicron.
 - Gov't missteps may also hinder progress.
- **Biggest problems:**
 - Supply chain bottlenecks.
 - Labor force participation.



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Thank you!

Any Questions?

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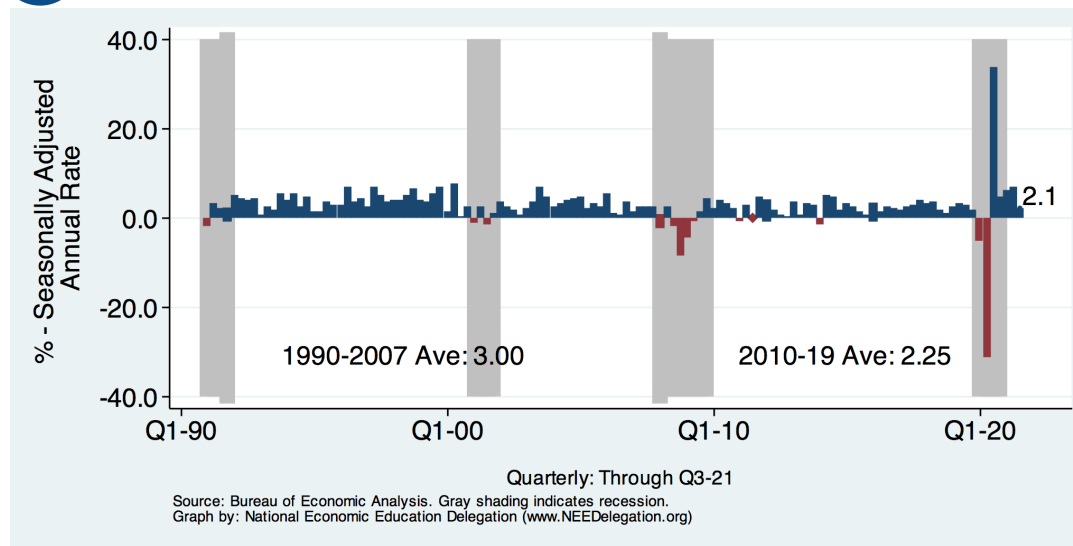


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GDP: Quarterly Growth

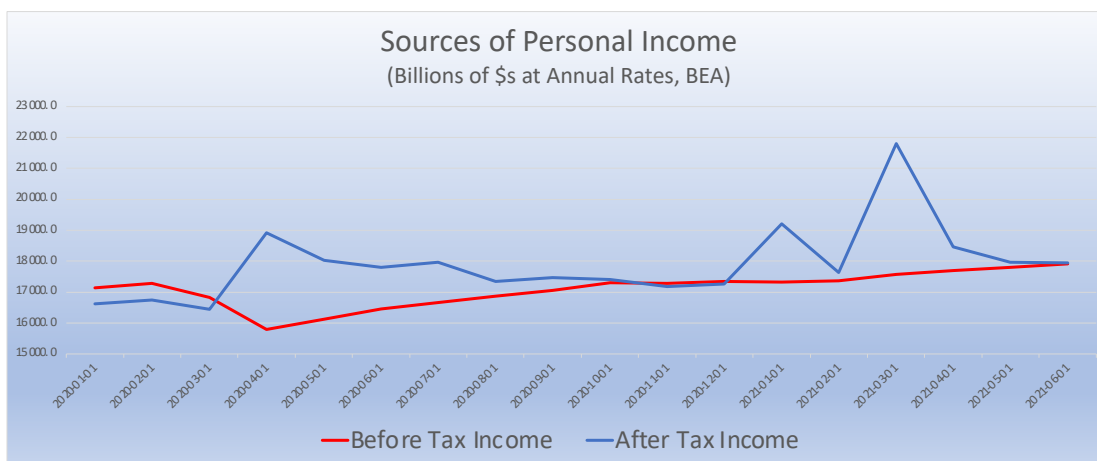


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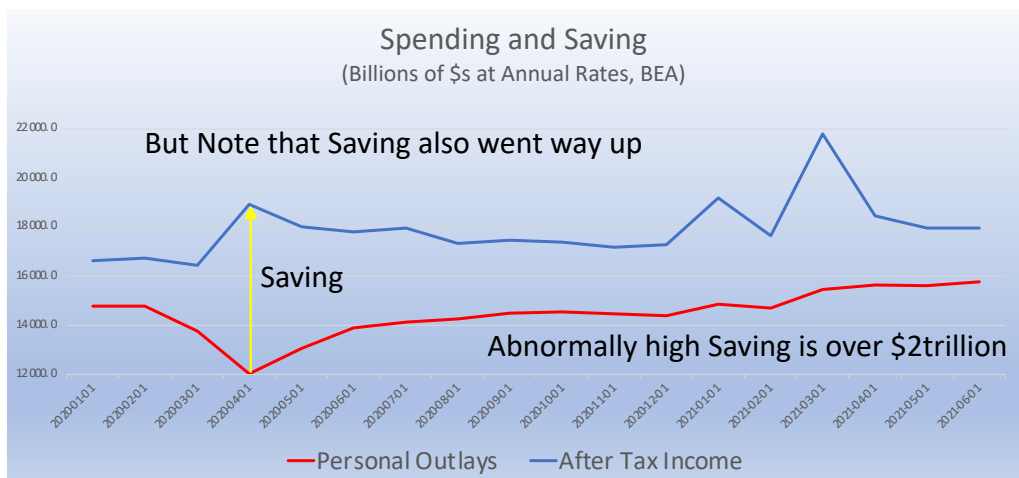
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Recovery Due to Immense Fiscal Stimulus and Control of COVID

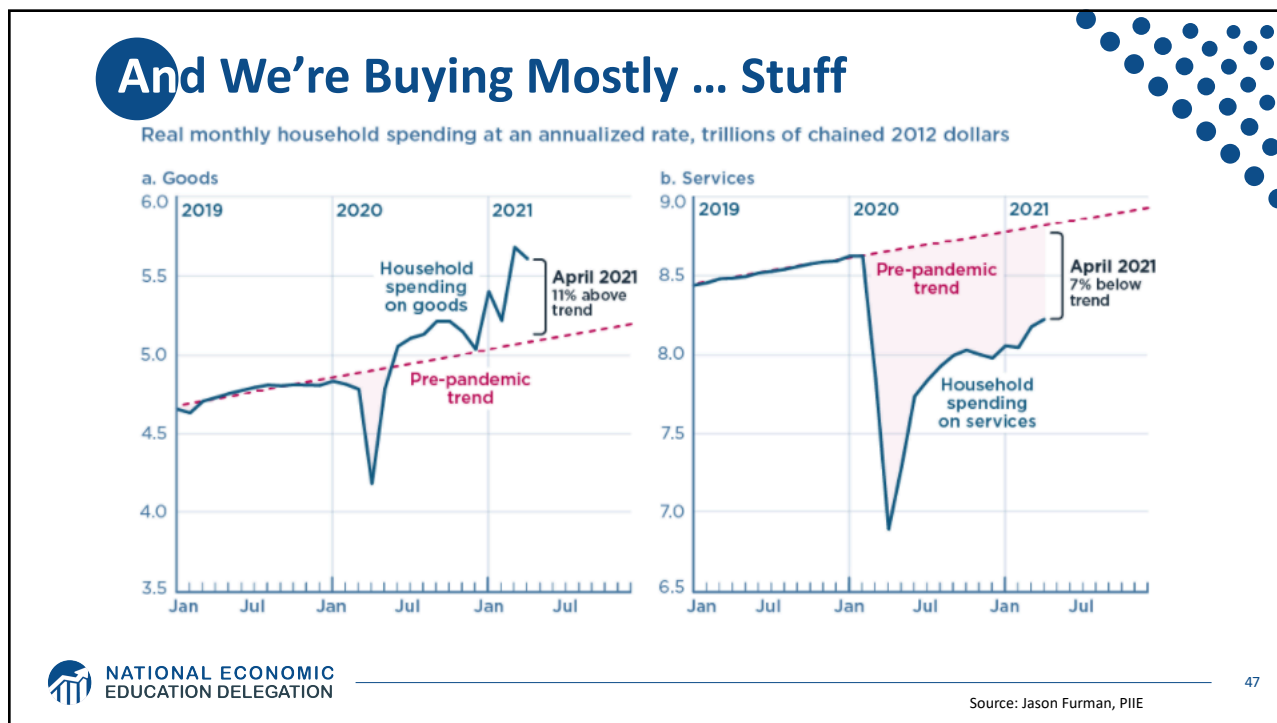


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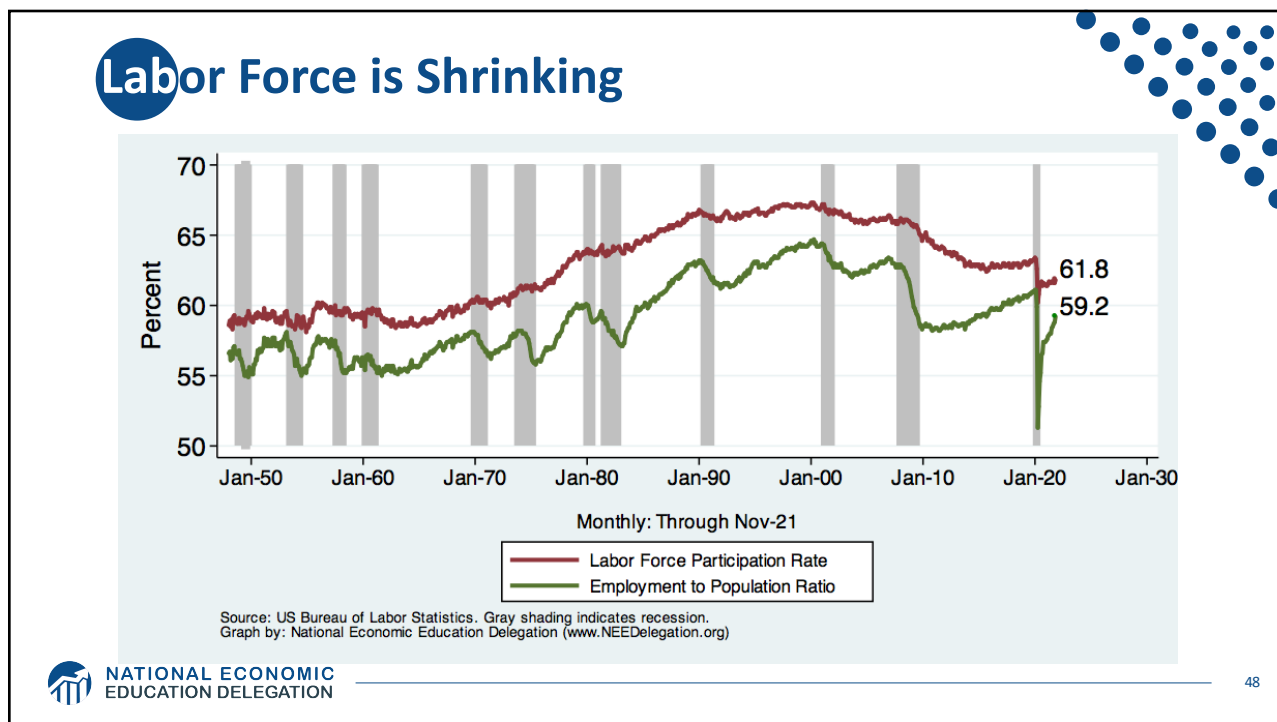
Stimulus allowed Spending to Recover



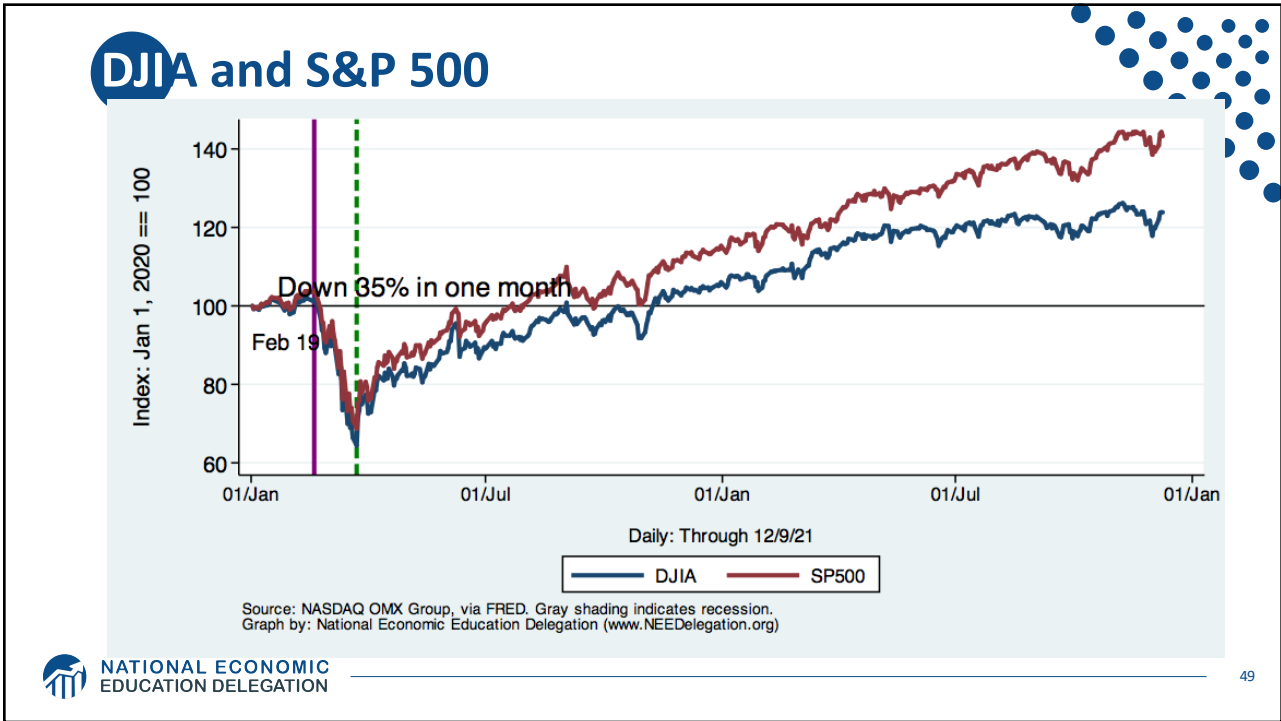
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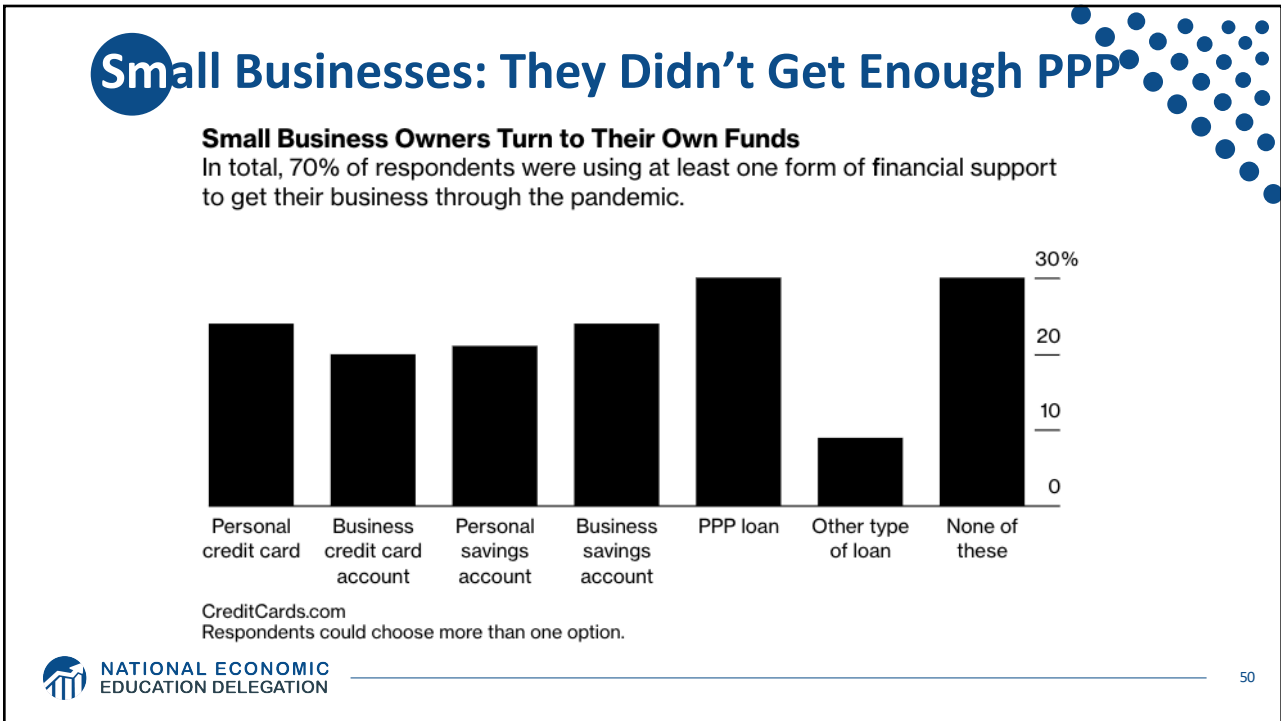
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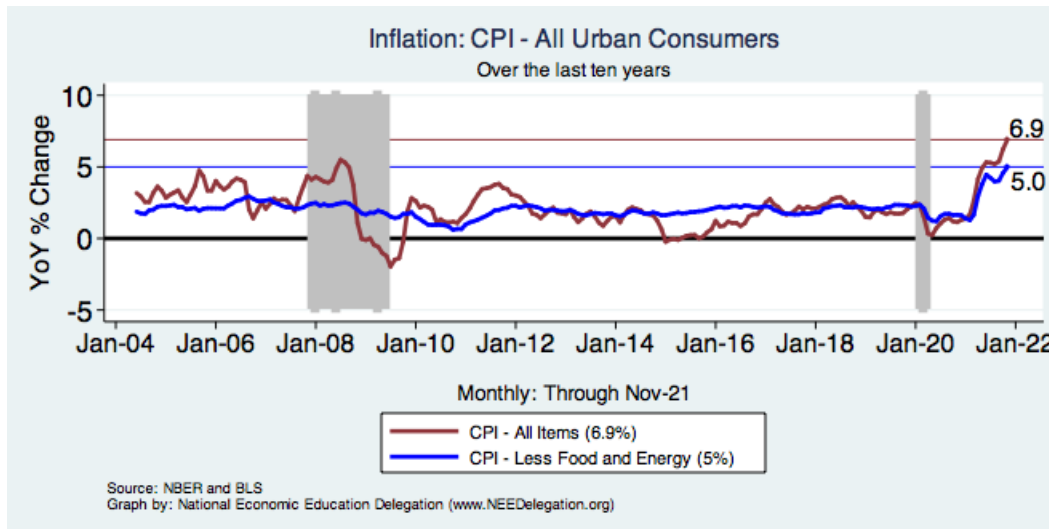


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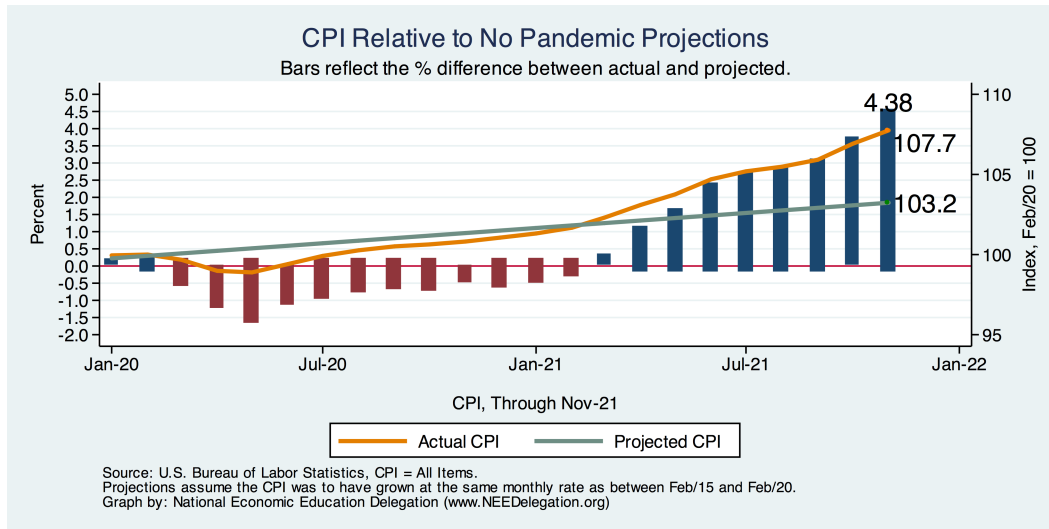
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Inflation – Prepandemic Stability

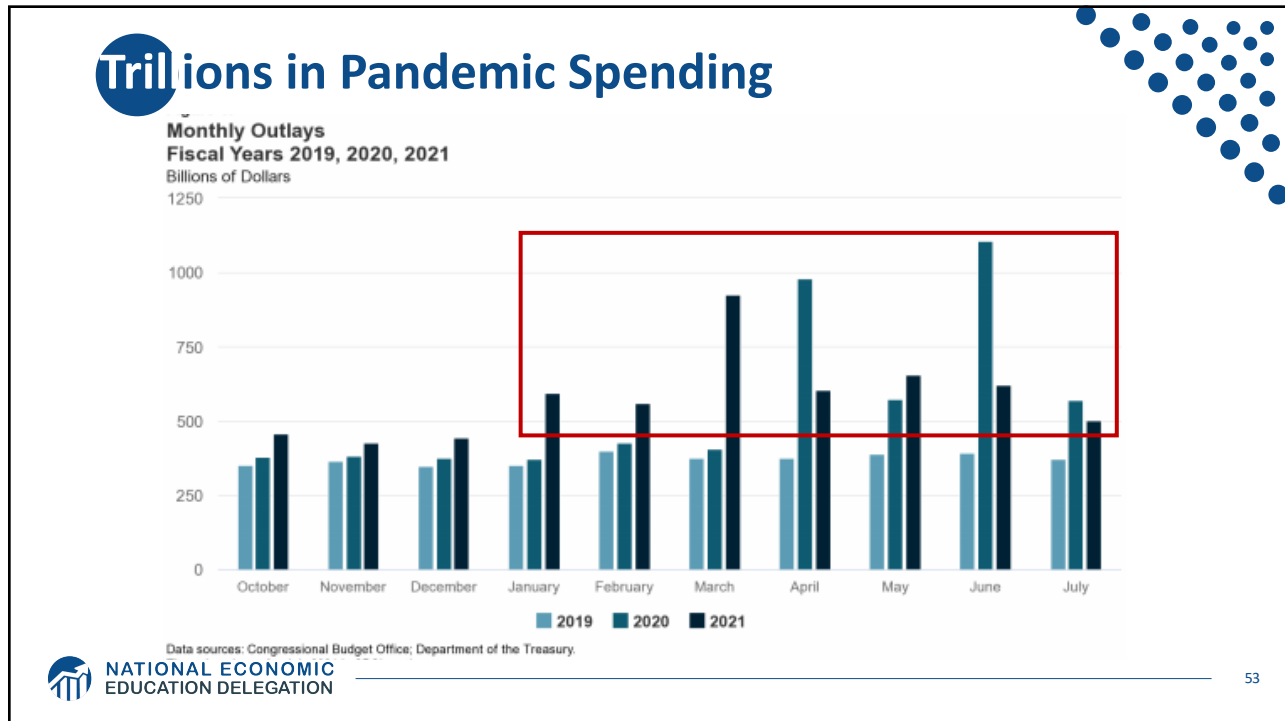


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Inflation – CPI Suggests: Yes!



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Why so Excited About Telecommuting?

- **Productivity at home appears to be really high during pandemic.**
 - Nothing else to do.
 - Short term – corporate culture and new hires – visibility to the boss – camaraderie.
- **CEOs are salivating over reduced Comm RE costs.**

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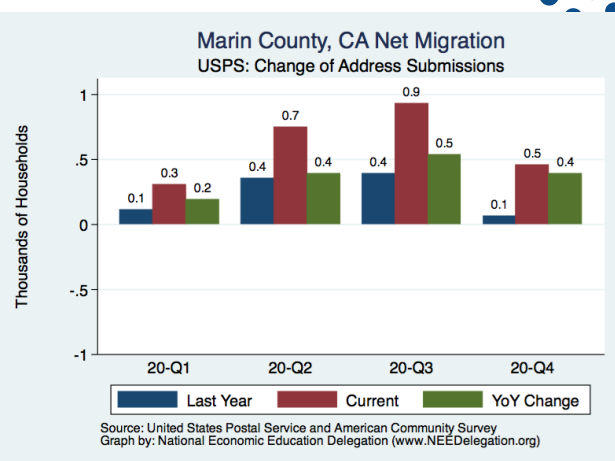
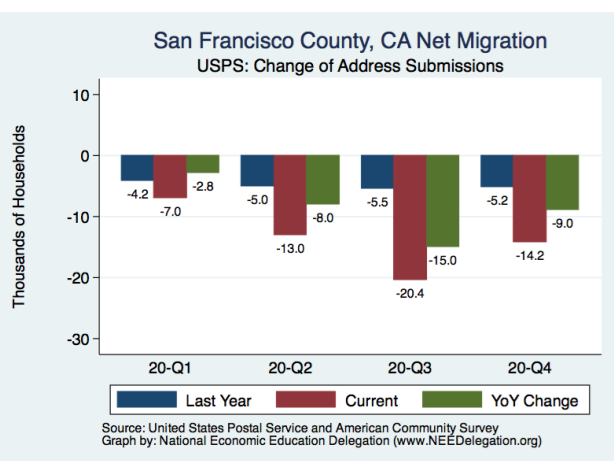
Telecommuting – Will it Stick?

- 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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Population Change: San Francisco & Marin Counties



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Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance

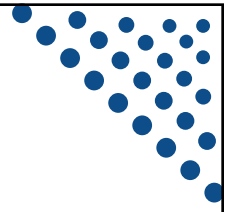


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Inflation – Summary

- **Headline inflation story is troublesome.**
- **The Fed suggests that it is not.**
- **Powell: current high inflation is “transitory”.**
 - That does not mean that price levels will come down.
 - It means that inflation is likely to return to its prior trajectory once the economy has worked out the pandemic kinks.
- **Fed targets 2.0%. We are currently just 1.2% above that.**

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www.NEEDelegation.org/LocalGraphs

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Detailed graphs on employment, housing, moves, and other statistics.