The U.S. Economy: Indicators

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Redwood High School
Mike Kelemen's Econ Class
September 21, 2018

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Outline – U.S. Economic Indicators

- Gross Domestic Product
- Labor Market
- Other Indicators

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GDP During the Recovery

- *Real GDP* is a standard measure of production used by economists to assess the health and well-being of an economy
- *Potential GDP* is the level of production in an economy operating at full employment
- We use potential GDP to get a sense of what production should be in an economy

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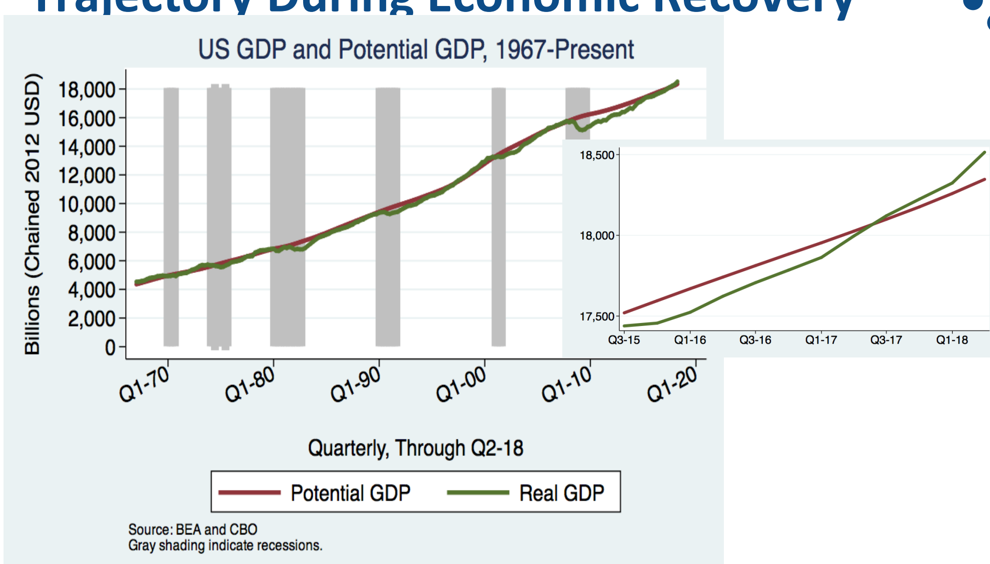
GDP Trajectory During Economic Recovery



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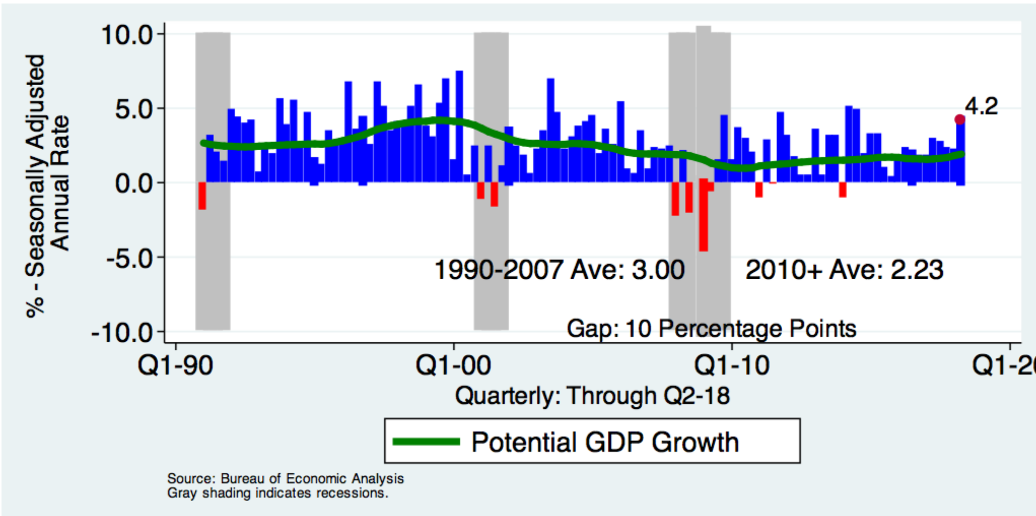
GDP Growth During Economic Recovery



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What Is "Accounting" for the Slow Recovery?

- **Expenditures drive GDP growth.**
  - GDP is the sum of four categories of spending:
    - Consumption
    - Investment
    - Government spending
    - Net Exports: Exports – Imports
- **Production also matters.**
  - Employment
  - Productivity

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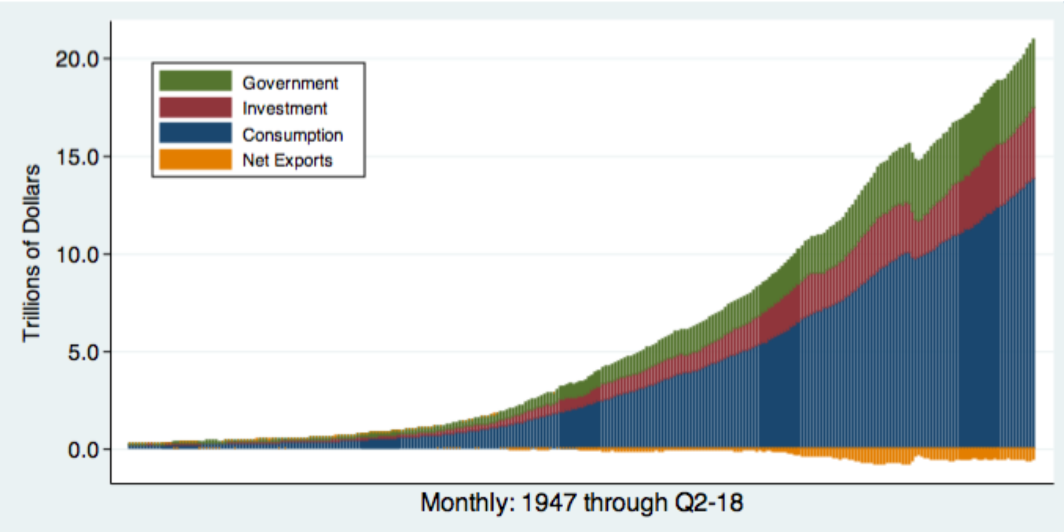
Composition of GDP



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Composition of GDP

- Slow growth in any of these categories will slow overall GDP growth.
- How does each component contribute to GDP growth pre- vs. post-recession?
- What explains current trends in each component?

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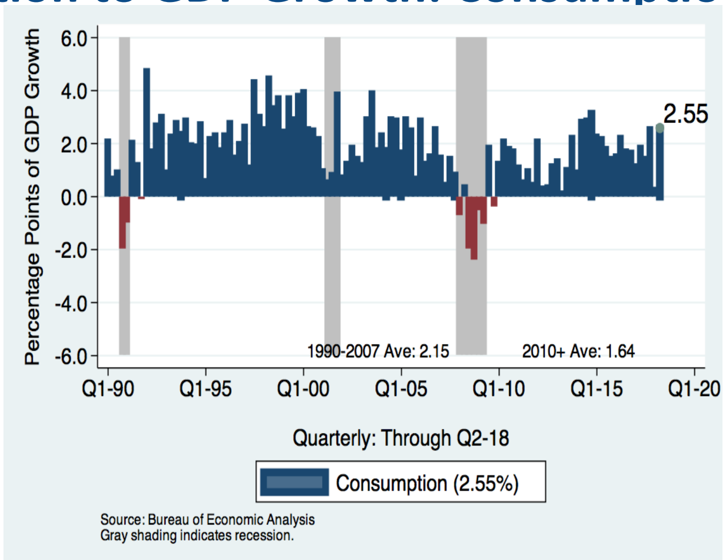
Contribution to GDP Growth: Consumption



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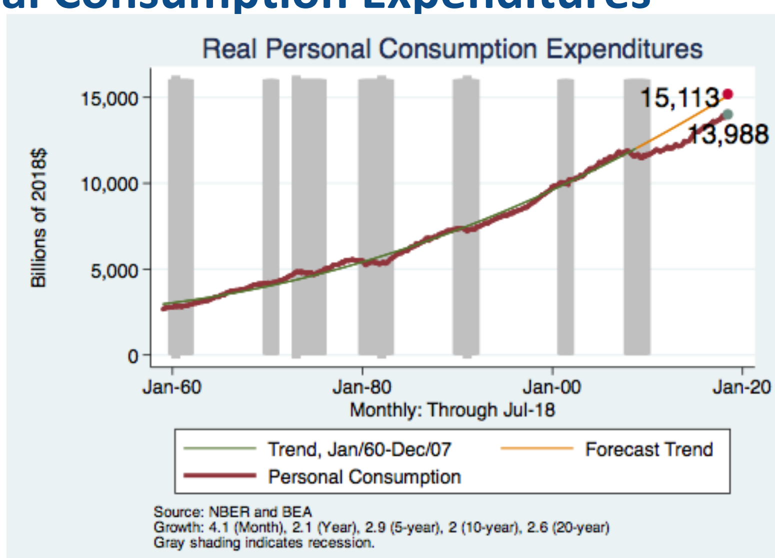
Personal Consumption Expenditures



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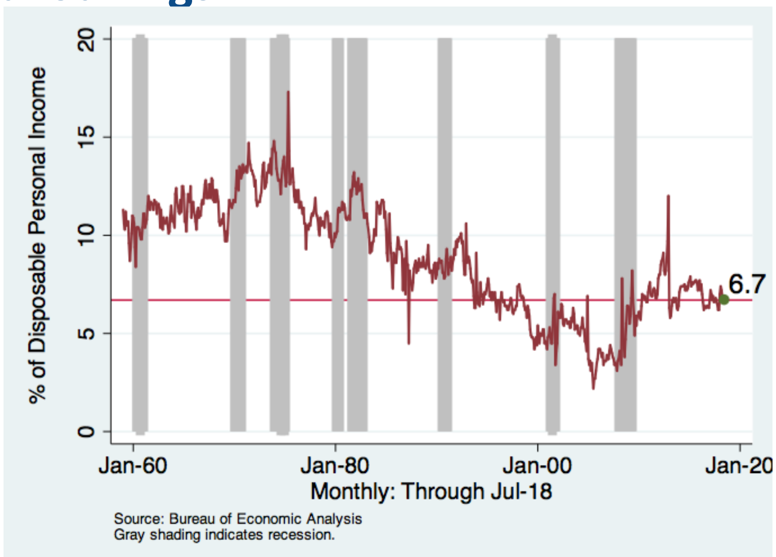
Personal Consumption Expenditures

- **Consumption has been slow to recover.**
  - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
  - Post-crisis contribution is 1.64 percentage points.
- **In other words, its contribution to GDP growth is down 24%.**

Household Debt as a Share of GDP

Personal Savings



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Investment Expenditures

- Investment expenditures are composed of residential and non-residential spending.
- Residential spending refers to purchases of new homes.
- Non-residential spending refers to capital purchases and new inventory accumulation.
  - Tools, machinery, new factories, commercial real estate.

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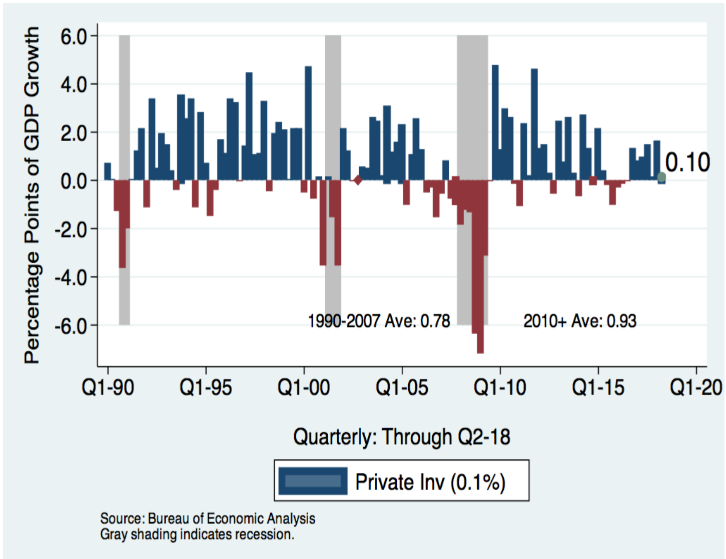
Contributions to GDP: Private Investment



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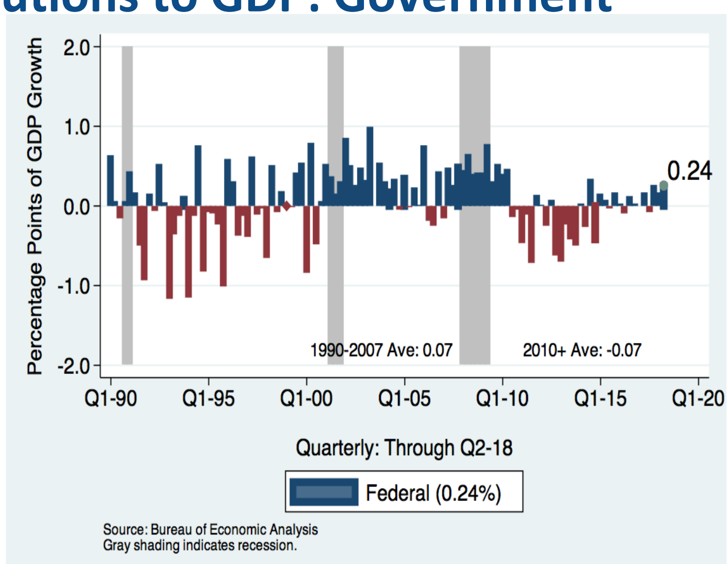
Contributions to GDP: Government



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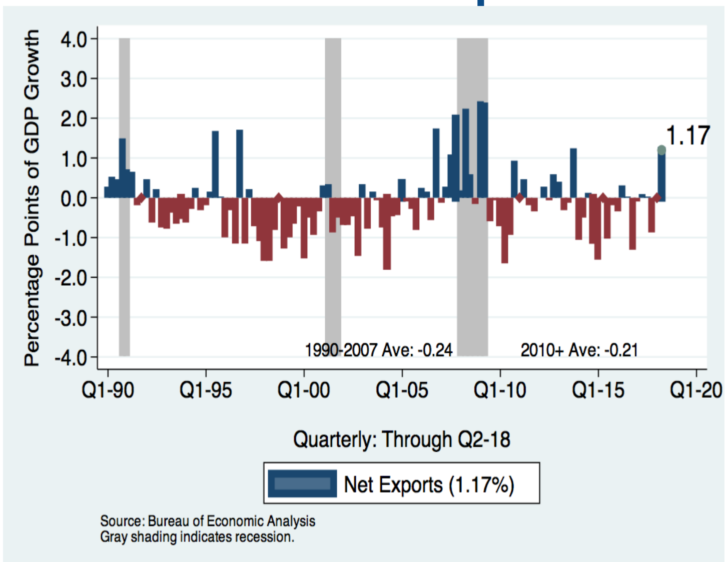
Contributions to GDP: Net Exports



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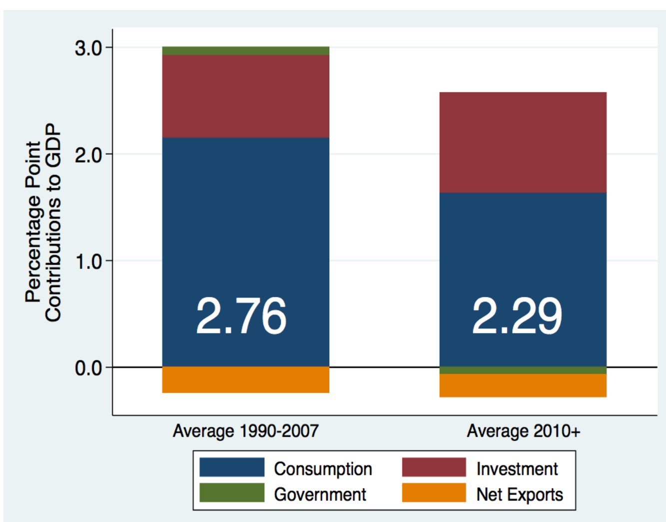
Expenditure Summary



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Labor Market

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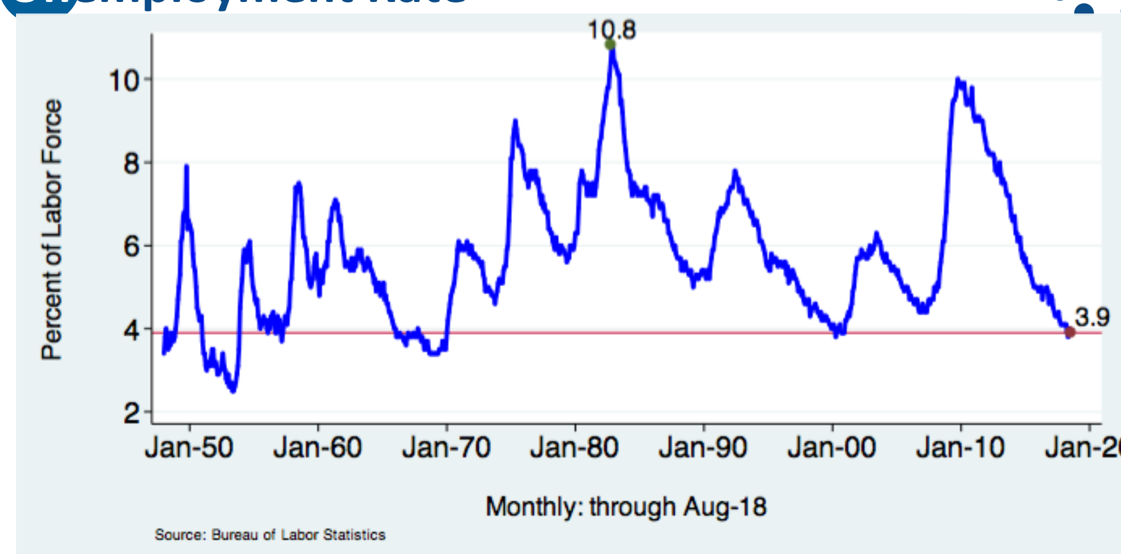
Unemployment Rate



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How is the Unemployment Rate Calculated?

- **It is not a simple thing:** $UR = \frac{\#\ \text{Unemployed}}{\text{Labor Force}} * 100$
- **Why is that not simple?**
  - Because it can go up or down for a variety of reasons:
    - If the labor force shrinks – UR goes down
    - If employment grows – UR goes up
  - Not all employment is created equally
- **Not a good indicator of the overall well being of the US economy**

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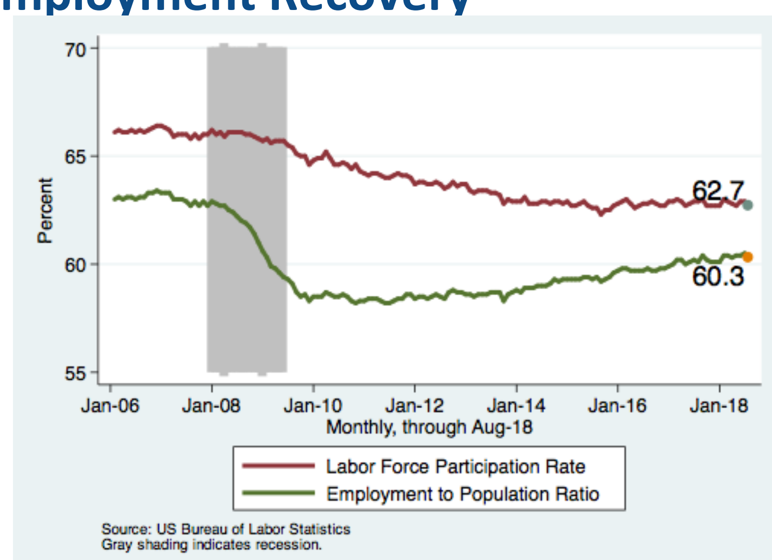
Slow Employment Recovery



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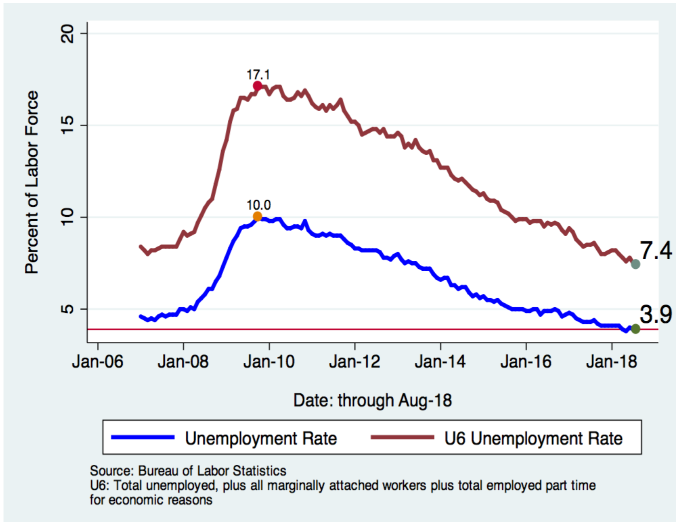
Unemployment Rate



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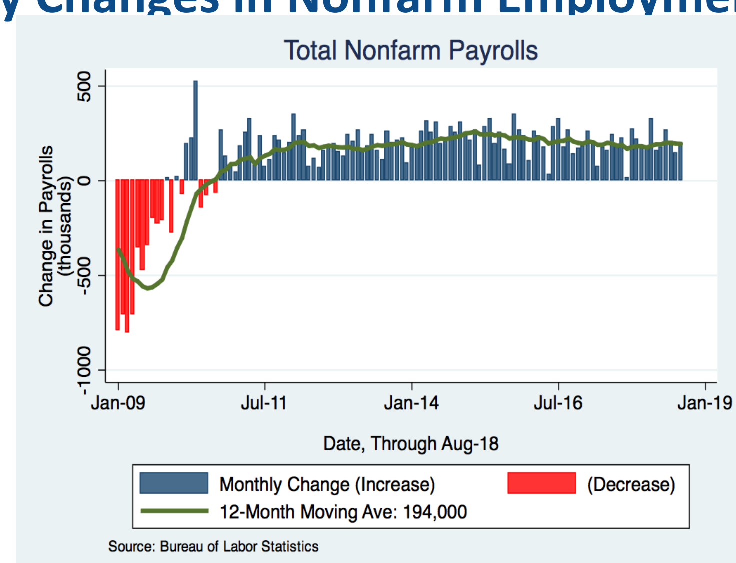
Monthly Changes in Nonfarm Employment



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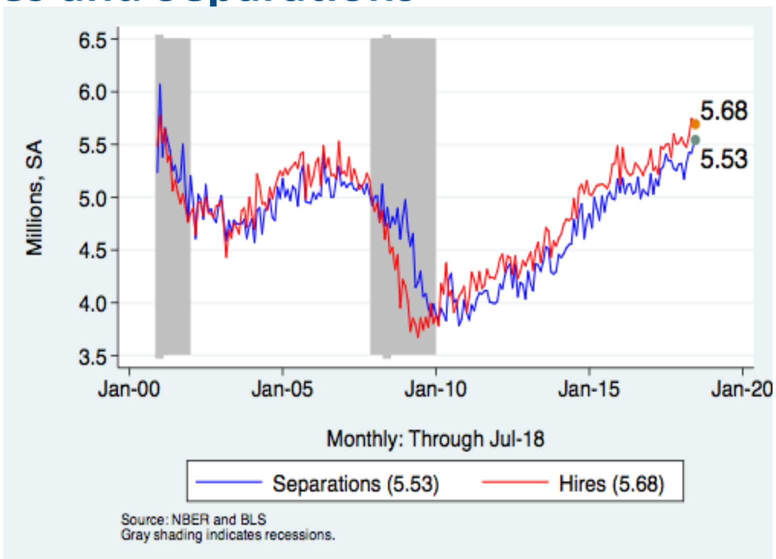
Job Hires and Separations



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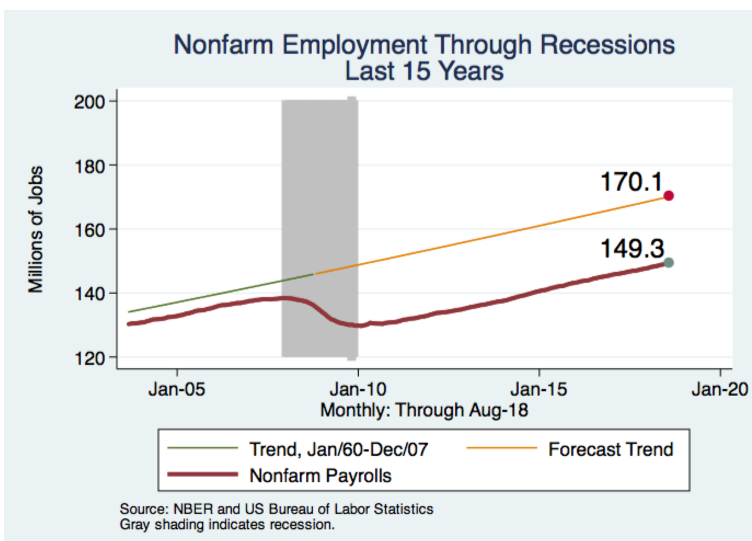
Employment Gap



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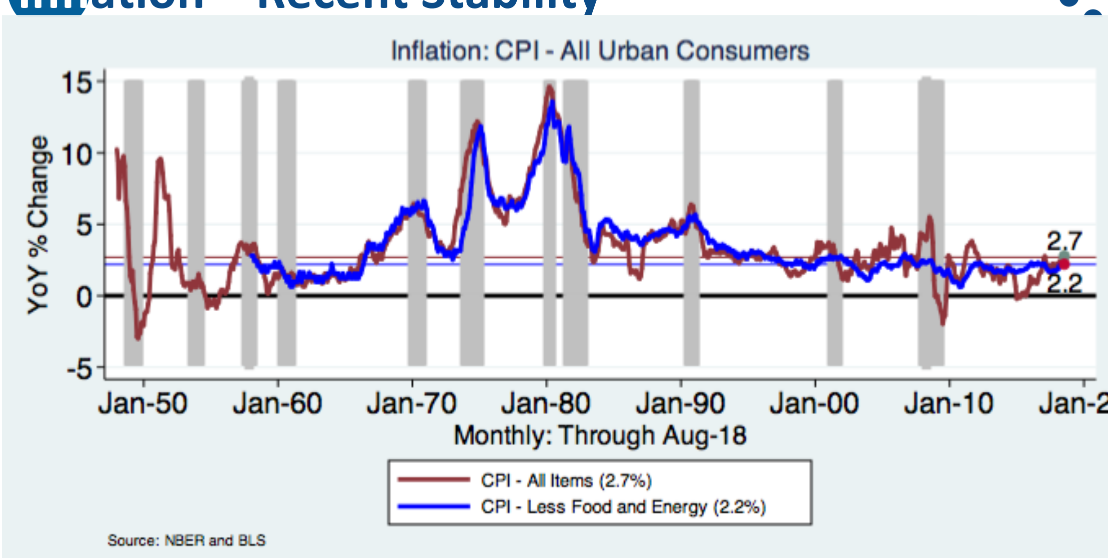
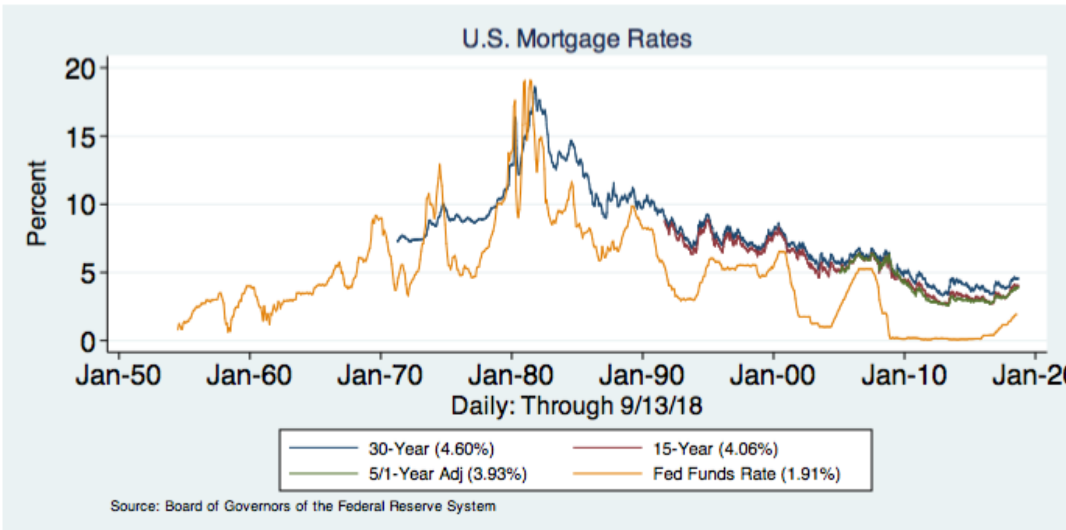
Other Indicators

Inflation – Recent Stability



Mortgage Rates



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Consumer Confidence: High!

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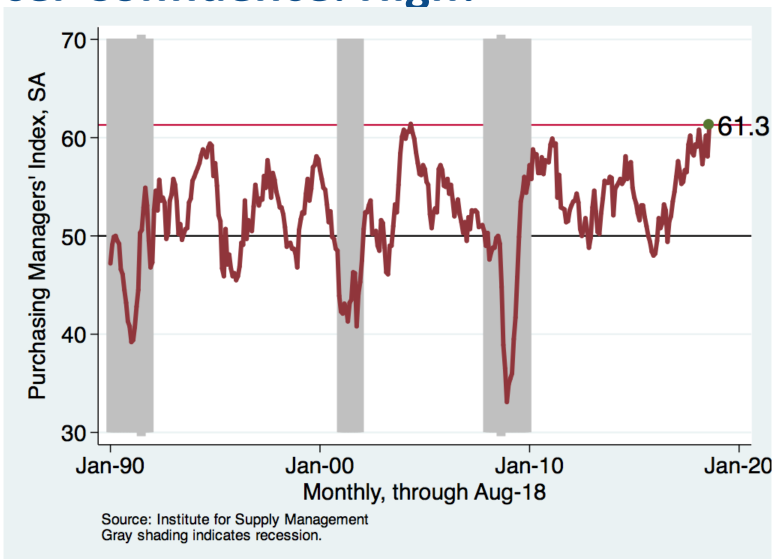
Producer Confidence: High!



Summary of GDP, Labor Markets and Monetary Policy

- **Behavior of GDP**
  - Behavior of expenditure components matter.
  - On average, post-recession consumption, government, and export. expenditures are contributing less to GDP therefore slowing the recovery.
  - In contrast, investment expenditures are contributing more.
- **Labor Market**
  - Unemployment is low, labor force is shrinking, real wages are stagnant.
- **Monetary Policy**
  - Interest rates are rising.
  - Policy normalization is underway.

Positive Outlook

- Job growth remains robust
- Wage growth, but not too much
- Business investment is robust
- Inflation and interest rates remain favorable

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Things to Be Worried About

- Government Debt
- Declining Labor Force
- Income and Wealth Inequality
- Infrastructure
- Savings
- Policy Uncertainty
  - Trade and immigration policy, specifically

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Overall Summary

- **Tailwinds appear to dominate headwinds**
  - Economic forecasts for near term are favorable
  - 2018 more promising than subsequent years
- **There remains room for the economy to grow**
  - Labor force growth is available
  - Consumption has room to grow
  - Business investment is robust
- **Long term concerns**
  - Declining labor force
  - Federal government debt
  - International trade policy

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Thank you!

Any Questions?

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