



US Economy and Russia/Ukraine Conflict

Ross Valley Rotary Club
May 11, 2022
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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: 651+ 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: 49 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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Outline

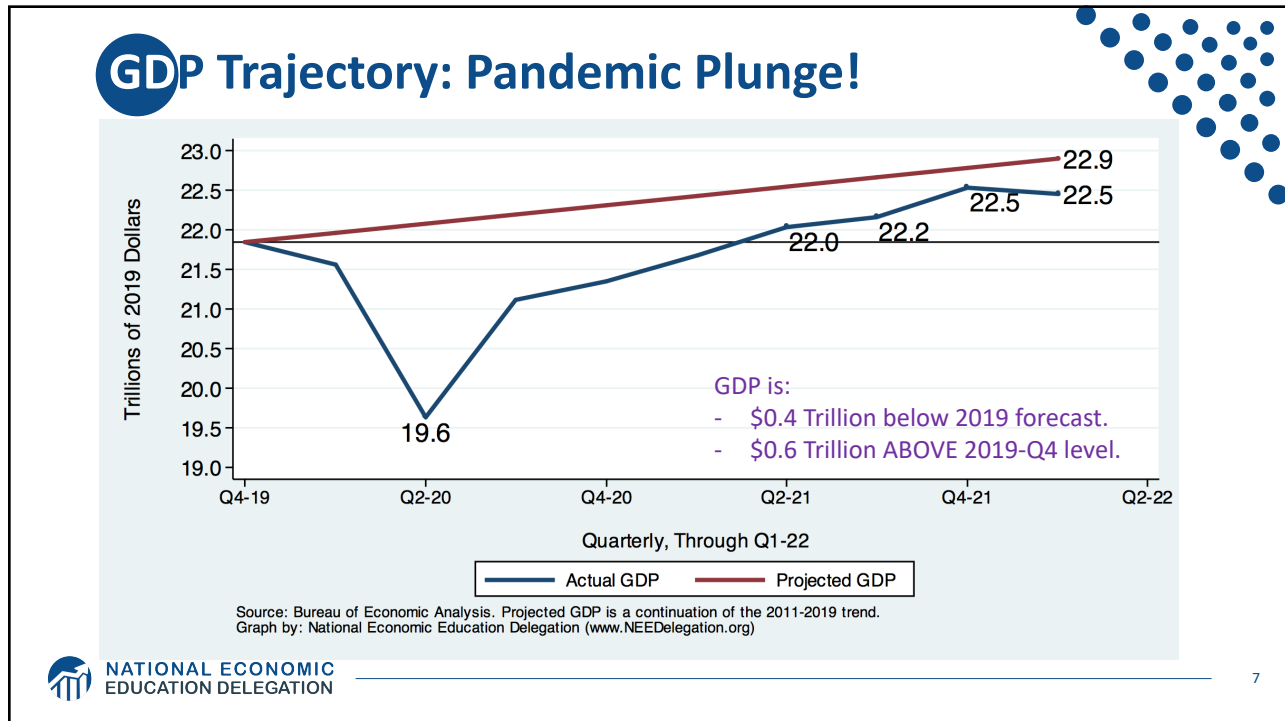
- The U.S. Economy
- Inflation
- Russia/Ukraine
- Housing Markets

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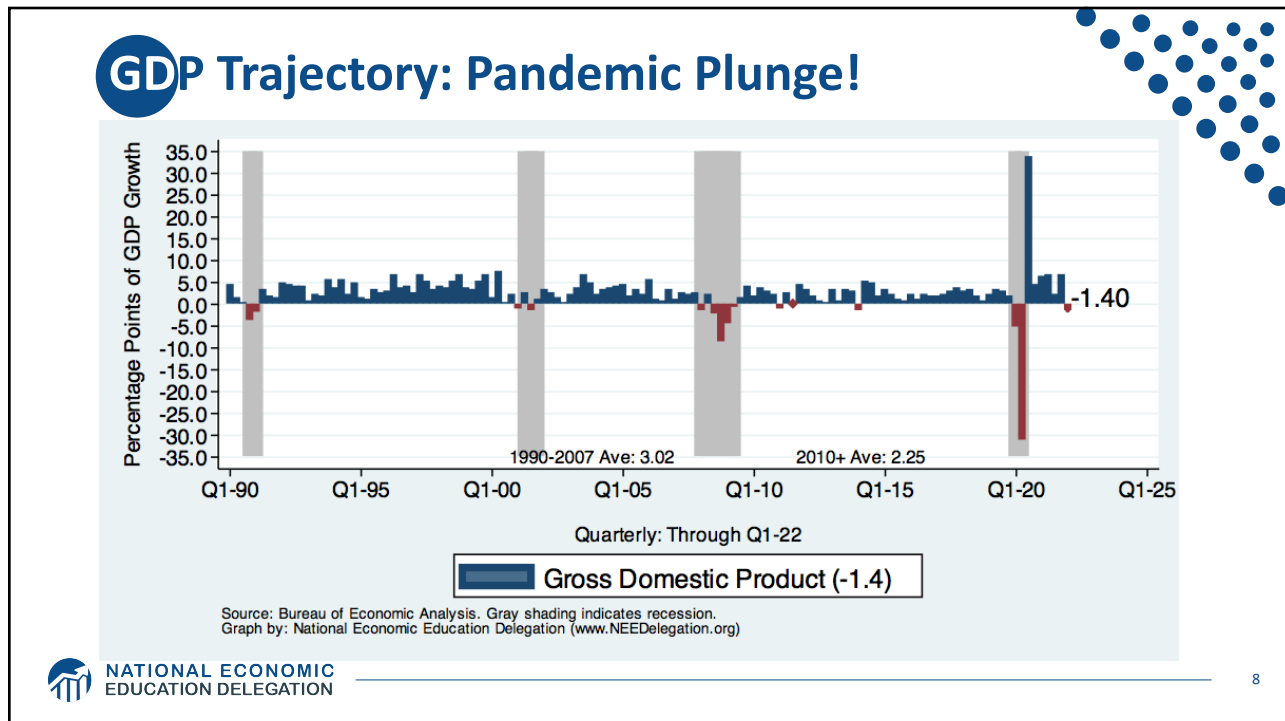
The U.S. Economy

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

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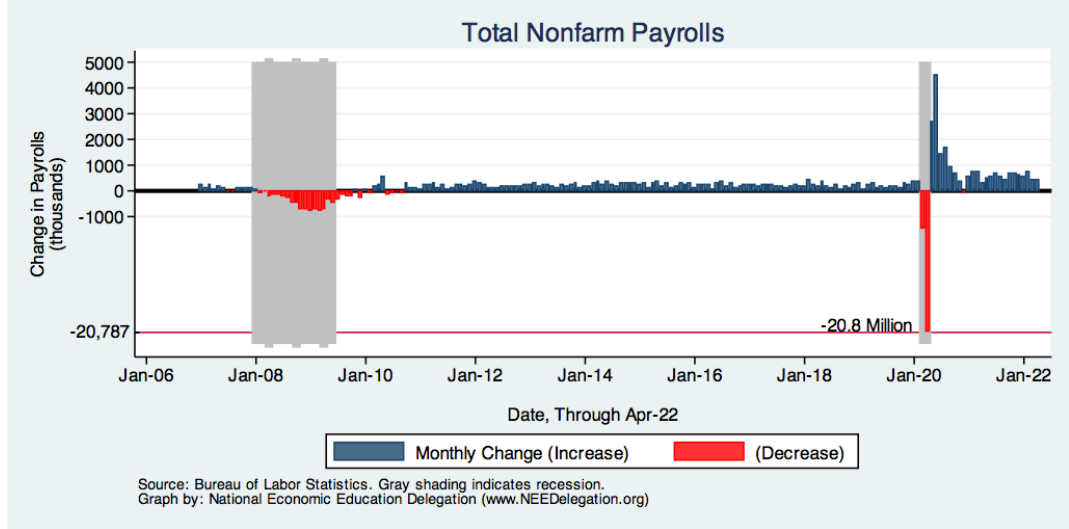


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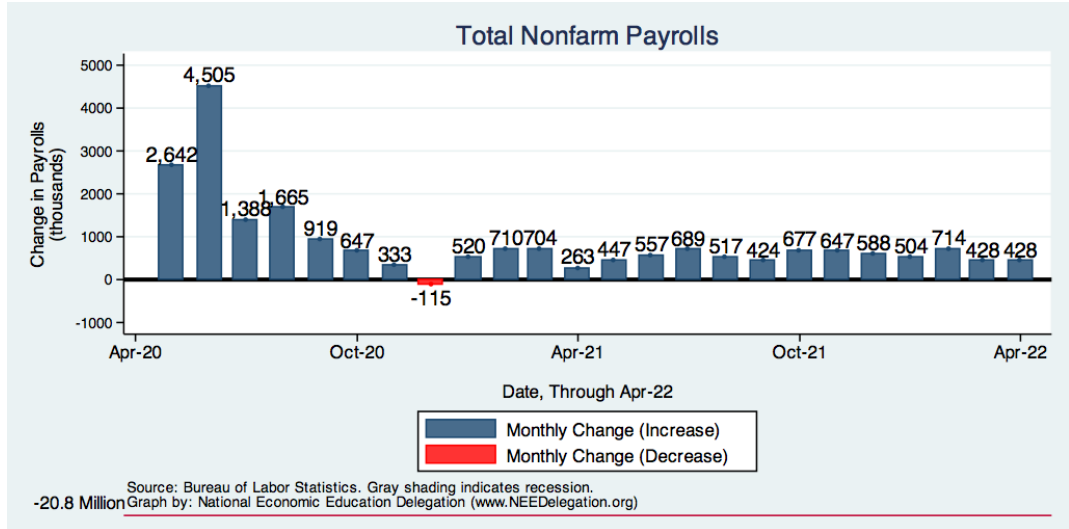
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Monthly Changes in Nonfarm Employment

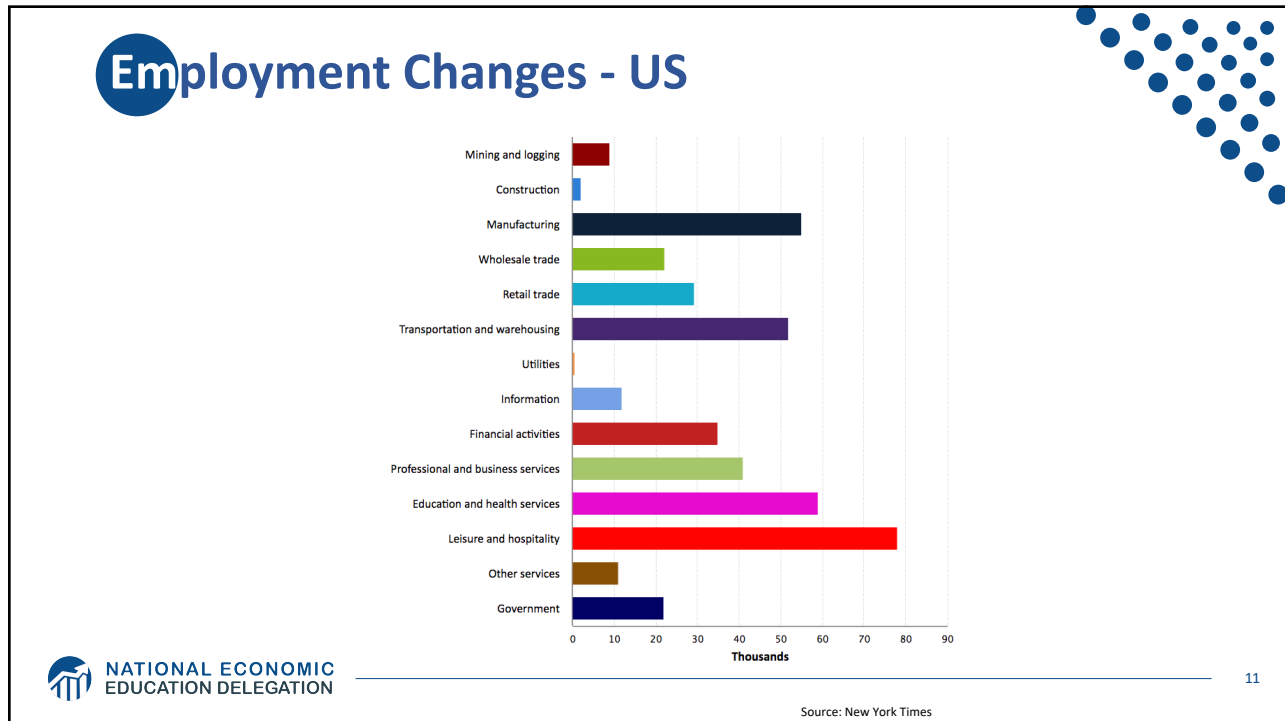


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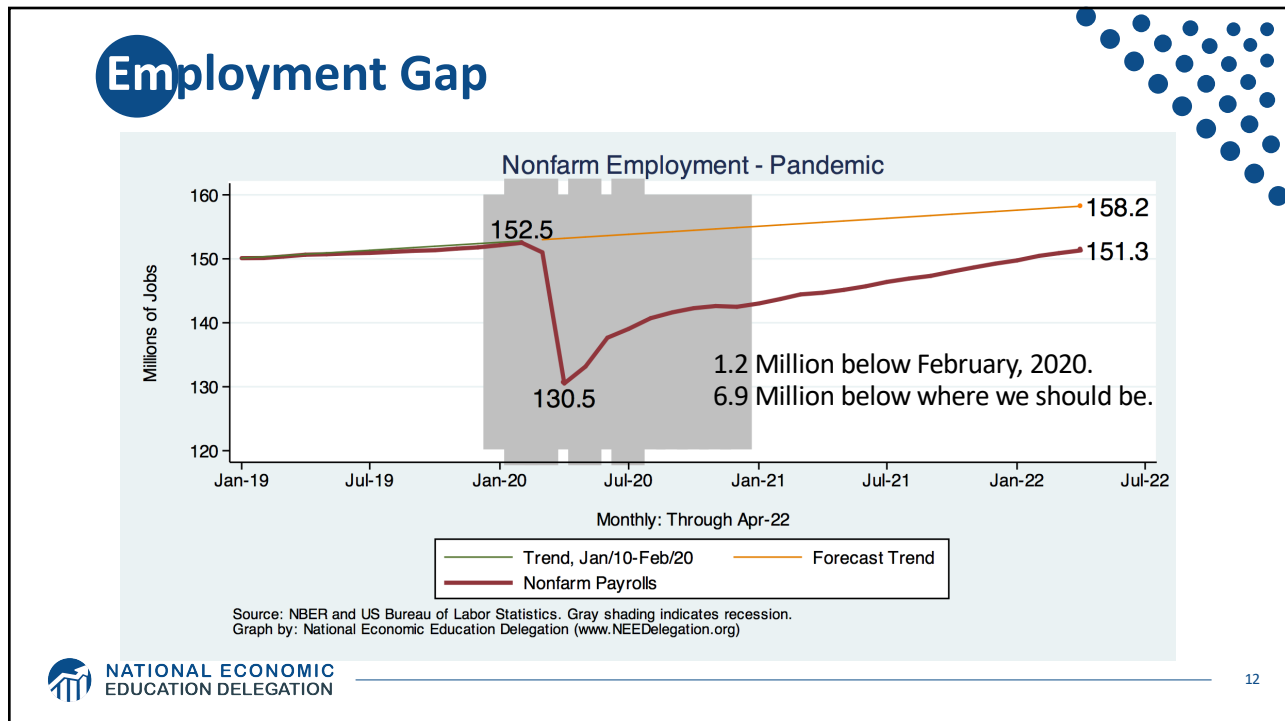
Monthly Changes in Nonfarm Employment



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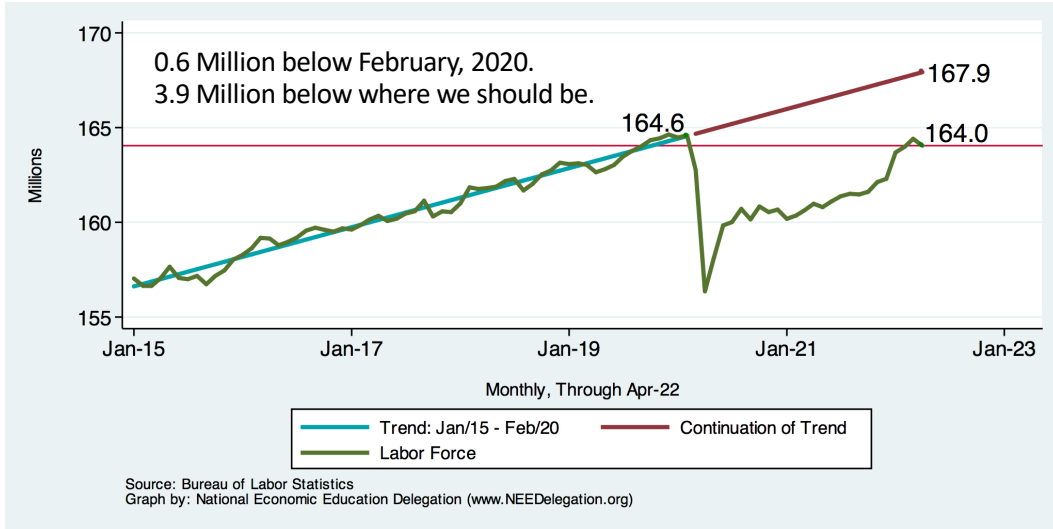


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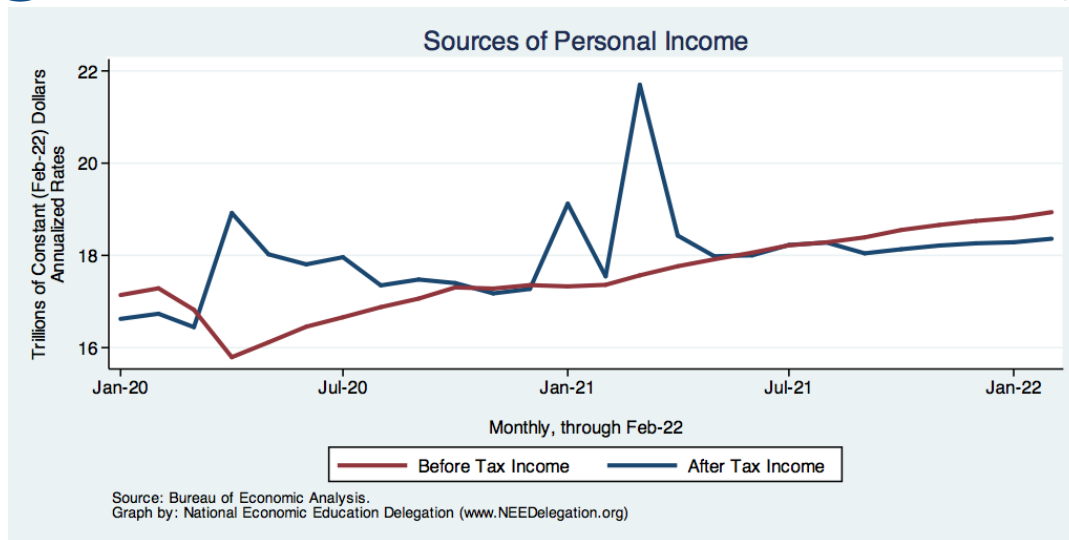
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Trends in Labor Force Participation



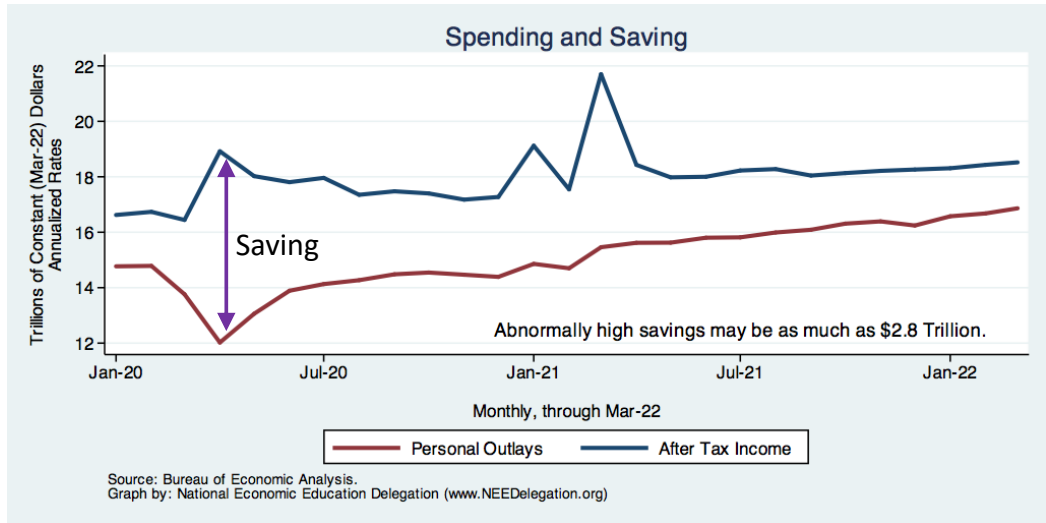
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Fiscally Driven Recovery



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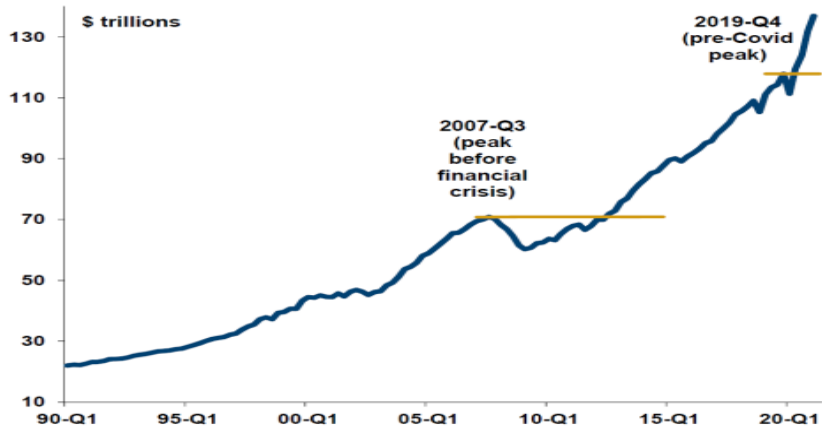
Households Lead the Way



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Overall Households Are Doing Well

Household Net Worth



Source: Financial Accounts of the United States, Federal Reserve Board via Haver Analytics

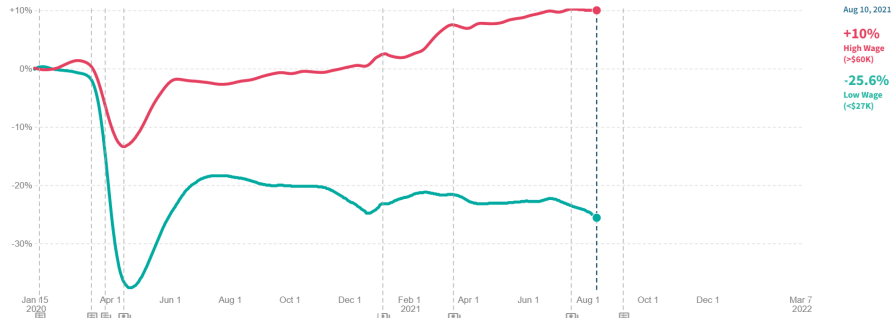
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K-Shaped Recovery

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Percent Change in Employment*

In the United States, as of August 10 2021, employment rates among workers in the bottom wage quartile decreased by 25.6% compared to January 2020 (not seasonally adjusted).



*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

data source: Earnin, Intuit, Kronos, Paychex

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Stimulus Payments Saved Low Income Families

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Percent Change in All Consumer Spending*

In the United States, as of February 27 2022, total spending by high-income consumers increased by 7.9% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

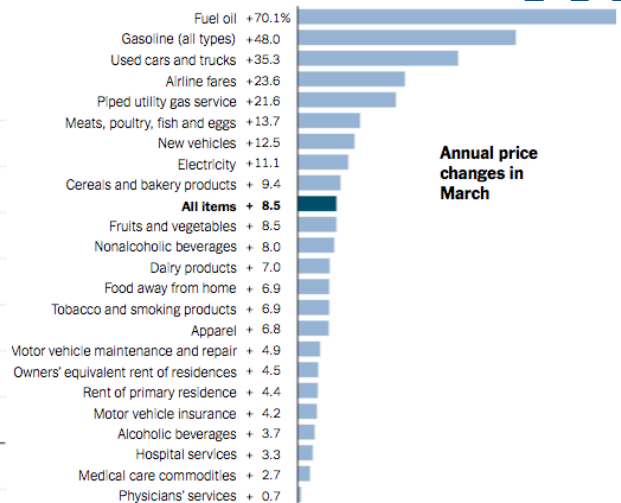
data source: Affinity

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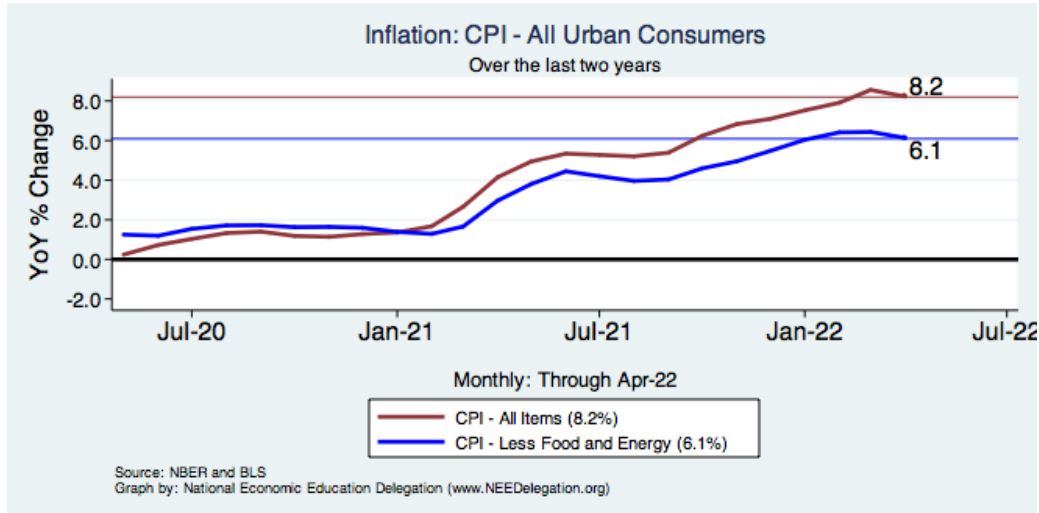
Inflation

Inflation News



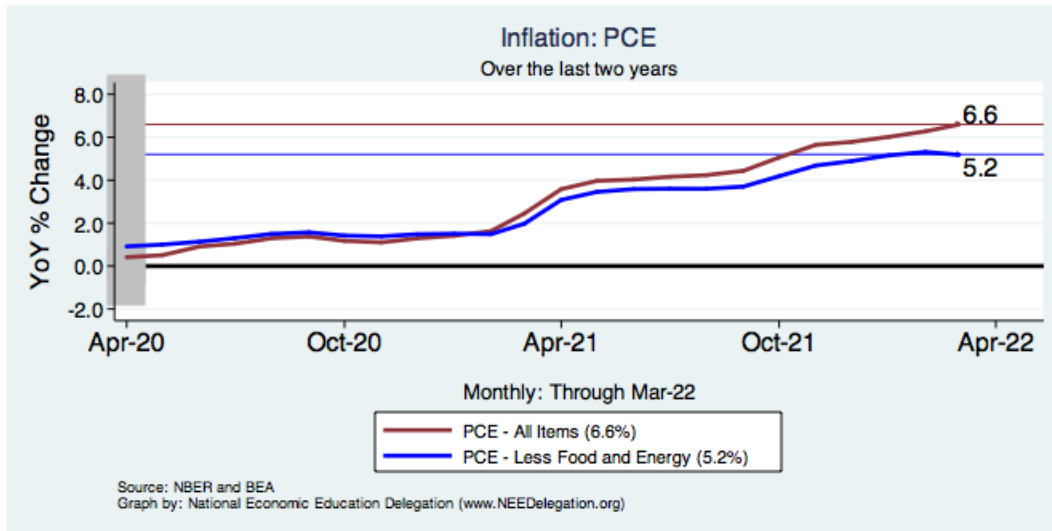
Year-over-year changes in a selection of categories of the Consumer Price Index - Source: Bureau of Labor Statistics - By The New York Times

Food and Fuel are A Big Part of the Story



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Inflation – The Fed’s Metric! Not Sooo High.



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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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23 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

Household spending on goods

Pre-pandemic trend

April 2021 11% above trend

b. Services

Household spending on services

Pre-pandemic trend

April 2021 7% below trend

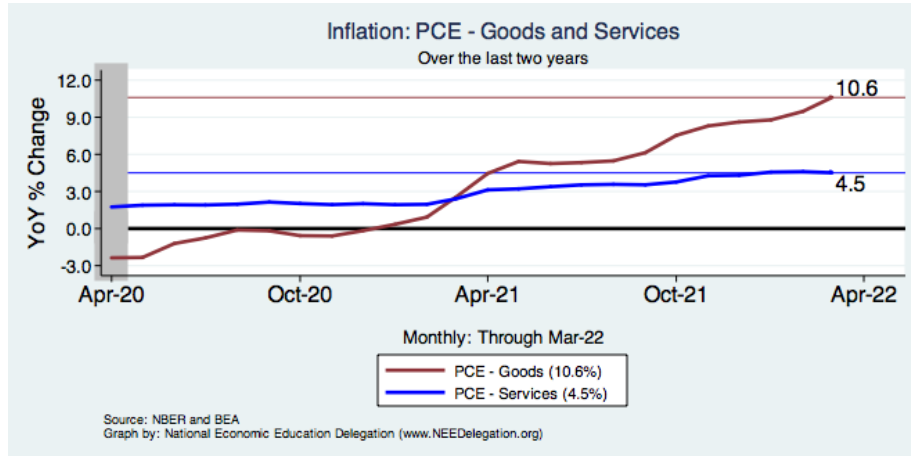
Demand-Pull

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24 Source: Jason Furman, PIIE

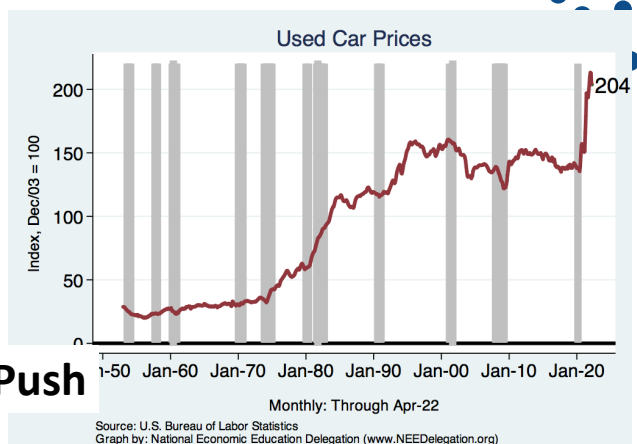
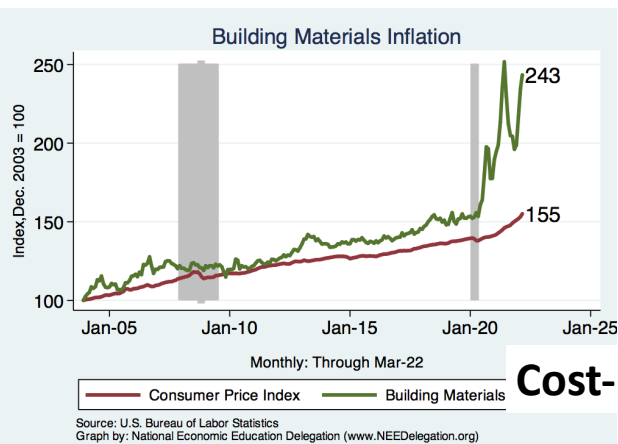
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Goods are Driving Inflation



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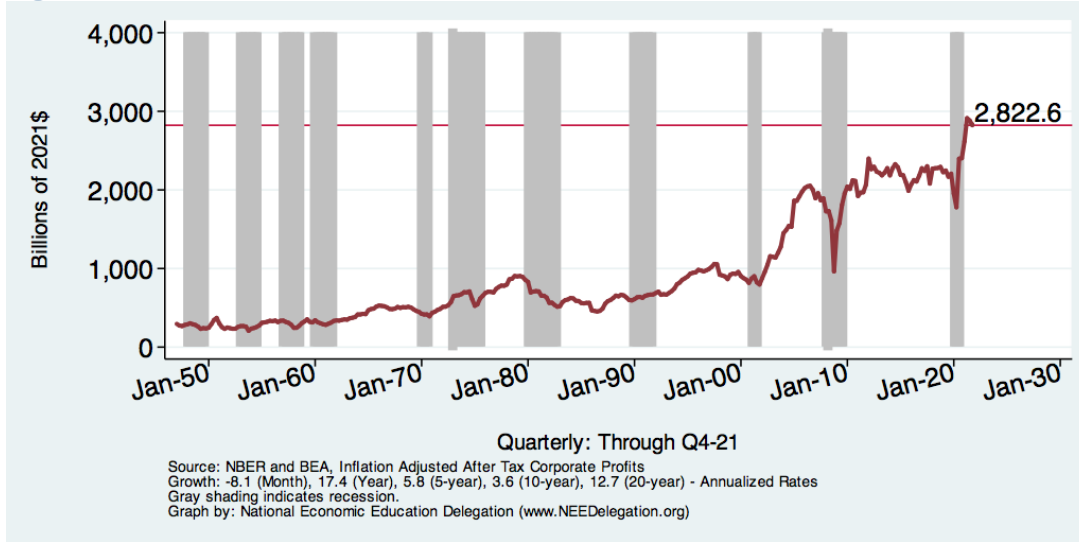
Inflation: Concentrated



Cost-Push

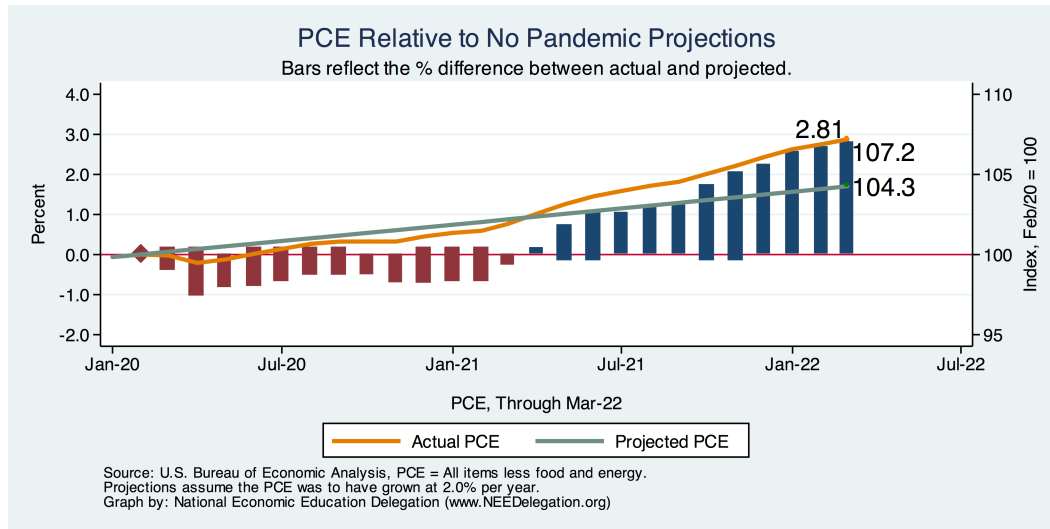
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Corporate Profits...Adding to Inflation?



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



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This Inflation is Different!

12-month, percentage price increase, selected items in the CPI			
Category:	Weight in CPI, 2022	December 1981	March 2022
All Items	100%	8.9	8.5
Services	60.6	13.0	5.4
Commodities	39.3	6.0	15.0
Housing	42.2	10.2	6.8
Transportation	18.3	11.0	23.2
Food	14.3	4.3	8.5
Medical Care	8.4	12.5	2.9
Energy	7.5	11.9	33.3
Used Cars	4.2	20.3	31.4

Sources: BLS and Fred data from the St Louis Federal Reserve Bank



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My Diagnosis for the Uptick in Inflation

- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there is too much total spending and in the absence of bold Fed actions is likely to continue.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.

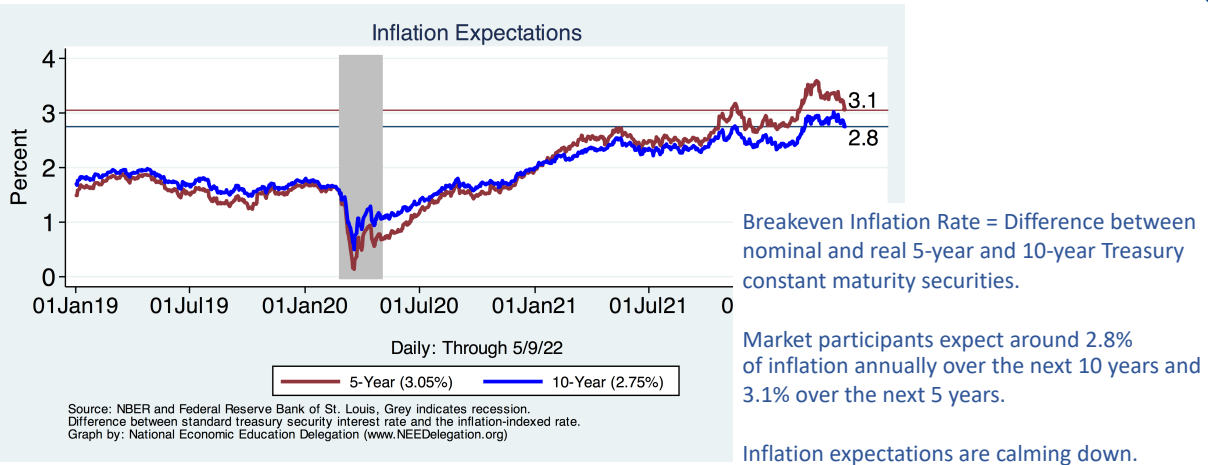


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Measure of Inflation Expectations



Russia/Ukraine(/Belarus)

Consequences for the Global Economy

- **Primarily:**
 - Oil
 - Wheat
- **Why?**
 - Major suppliers of each
 - 29% of world wheat production
 - 20-40% of Europe's oil and gas
 - Russia part of OPEC+
 - Russian and Ukrainian combined economies are small.
 - Don't forget Belarus.



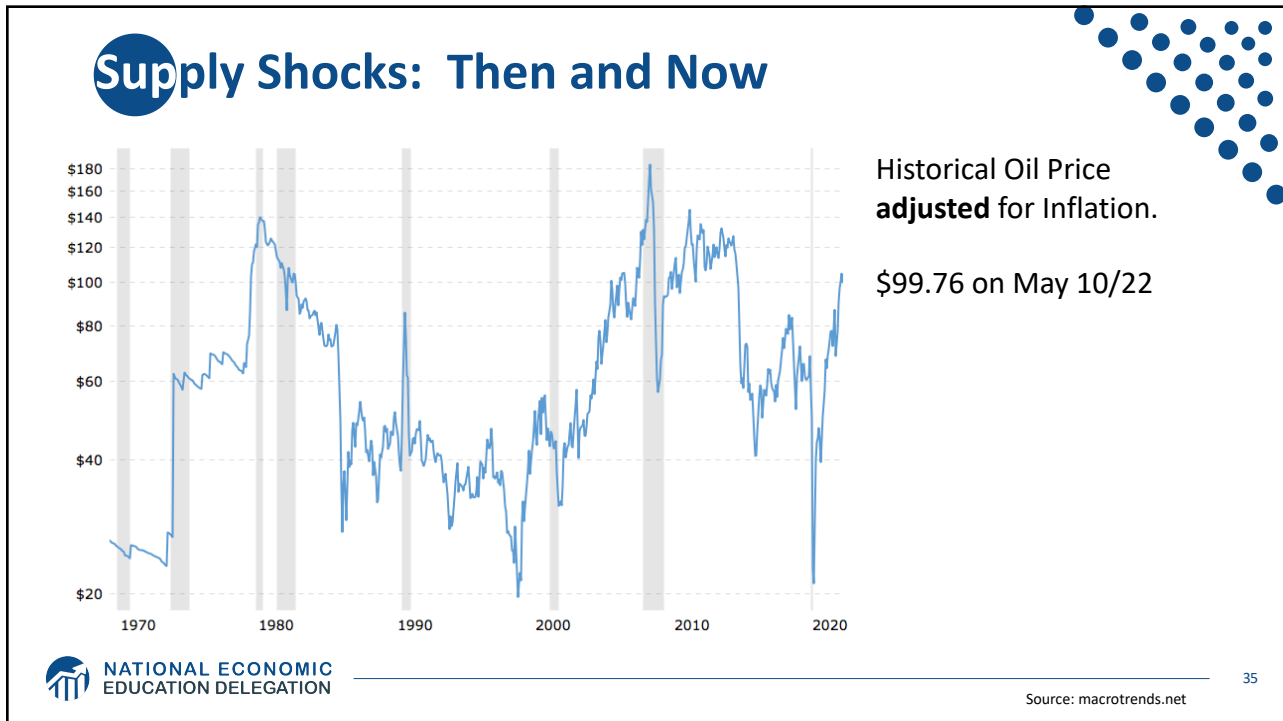
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The Conflict in Ukraine and the US Economy

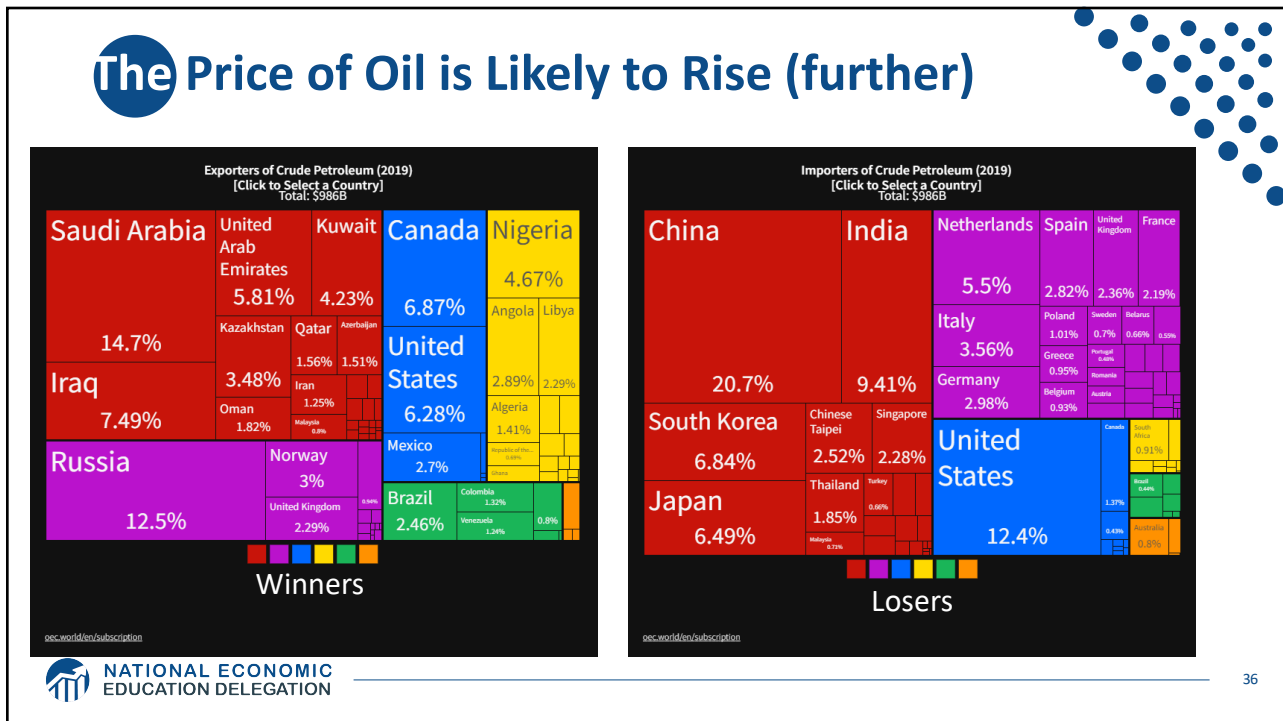
- **Short run**
 - Uncertainty
 - Recession?
 - Increase in cost of food and fuel
- **Long run**
 - Decrease in globalization



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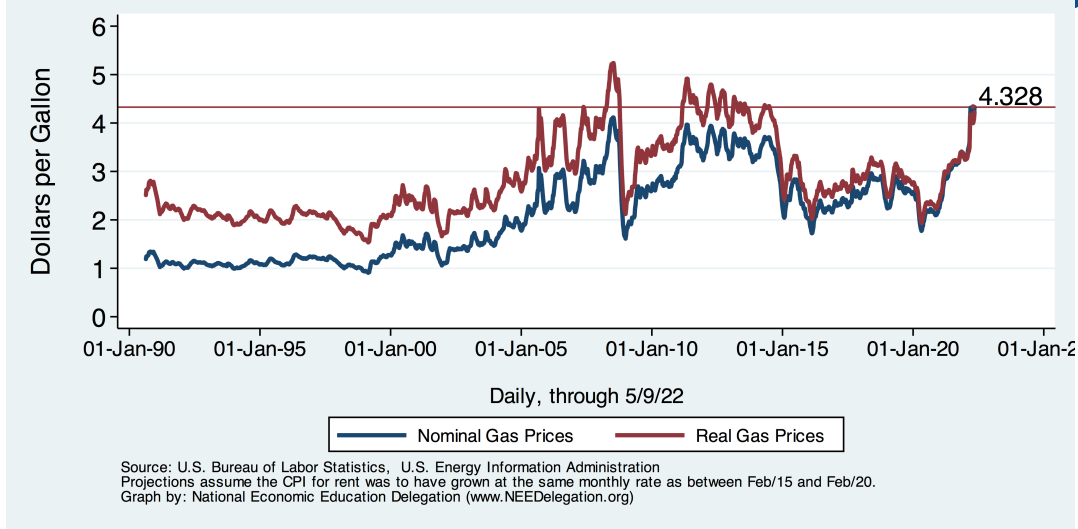


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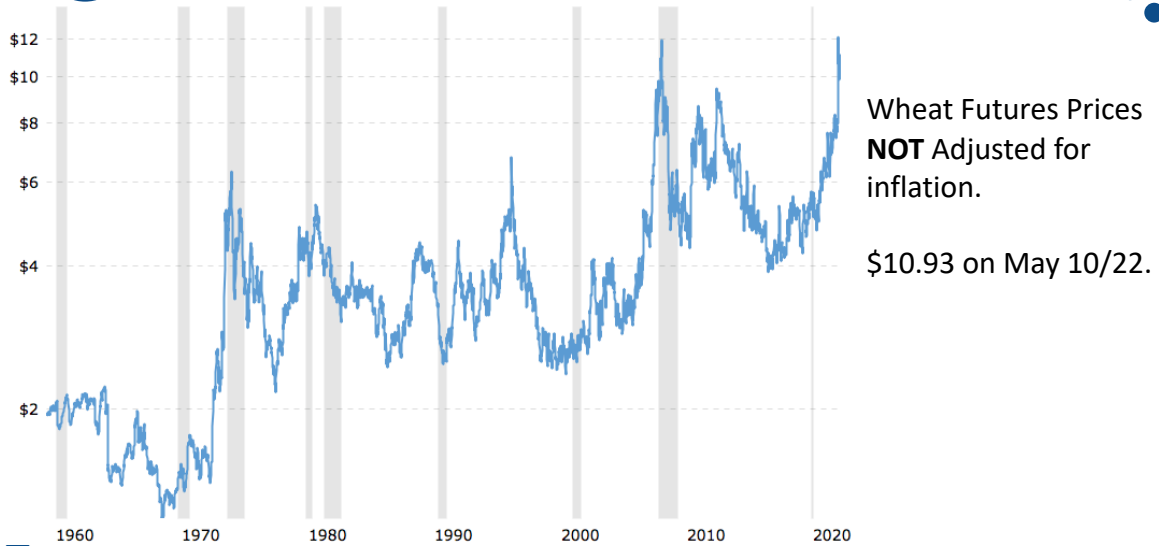
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Gas Prices at the Pump

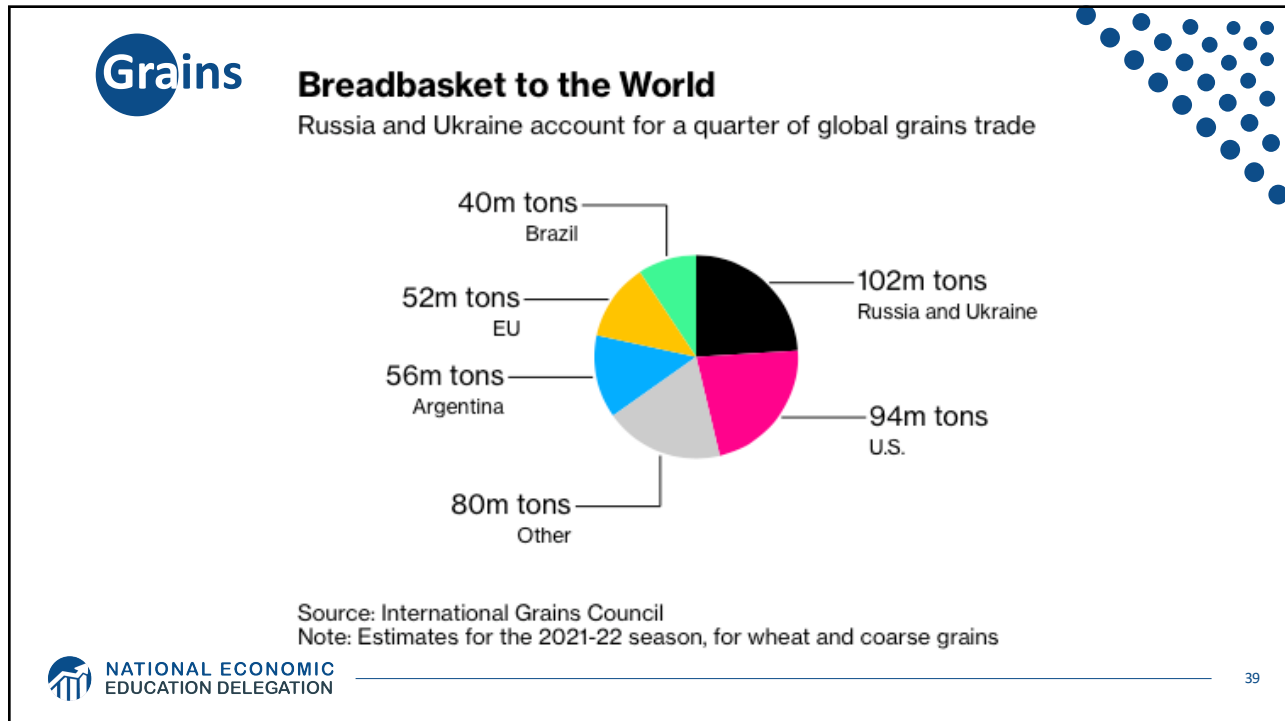


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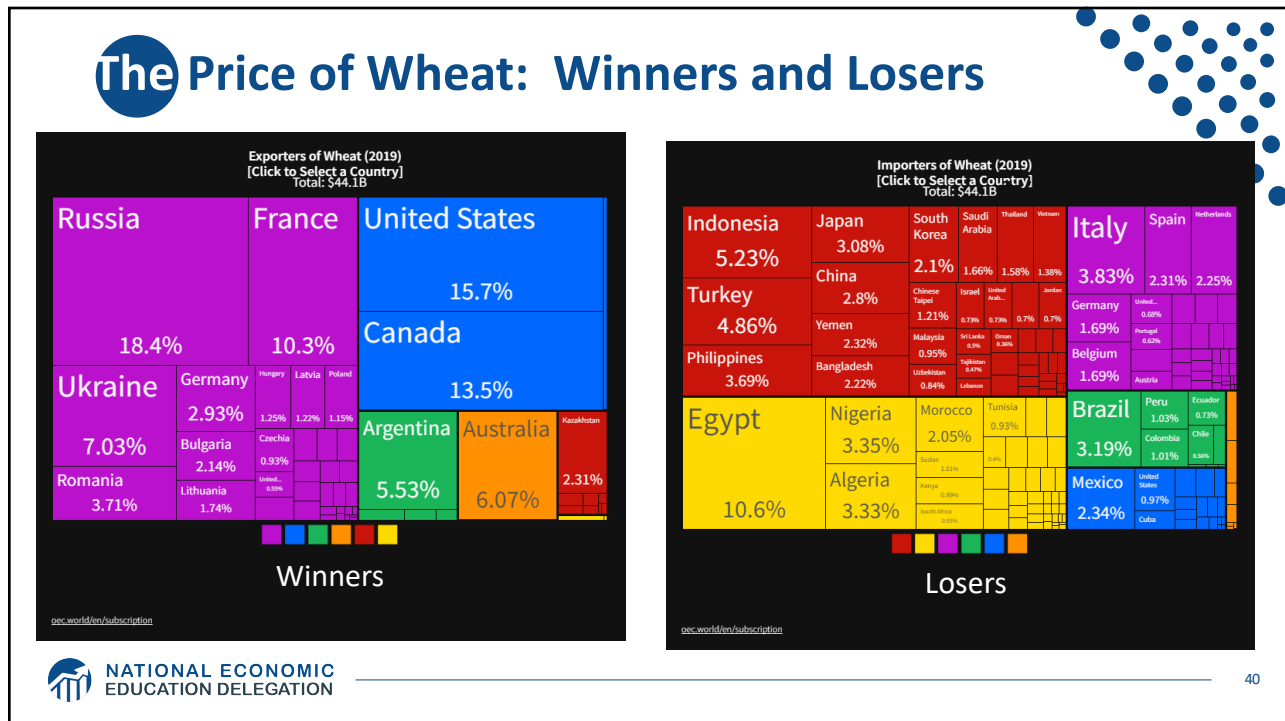
Wheat Prices Also Look Scary



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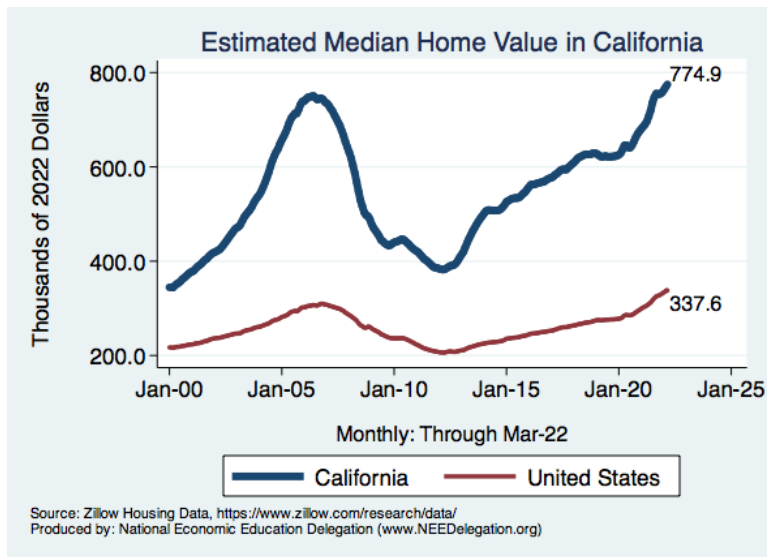
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Oh, and...

- **40% of the world’s PALLADIUM comes from Russia.**
 - Used in catalytic convertors.
- **70% of the world’s NEON comes from Ukraine.**
 - Used in production of semiconductors.
- **Fertilizer: Russia is the world’s largest supplier.**
 - Prices are 3-4x their 2020 levels.
- **Therefore: more supply chain issues, more inflation, food insecurity.**

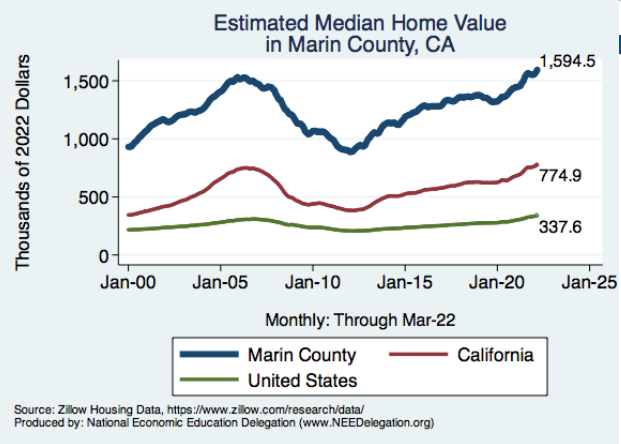
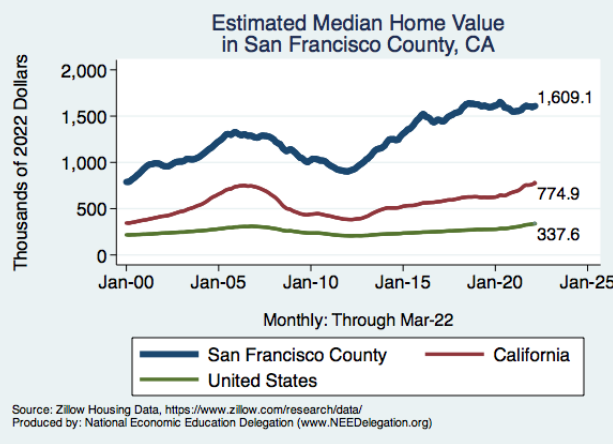
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Real Estate Prices



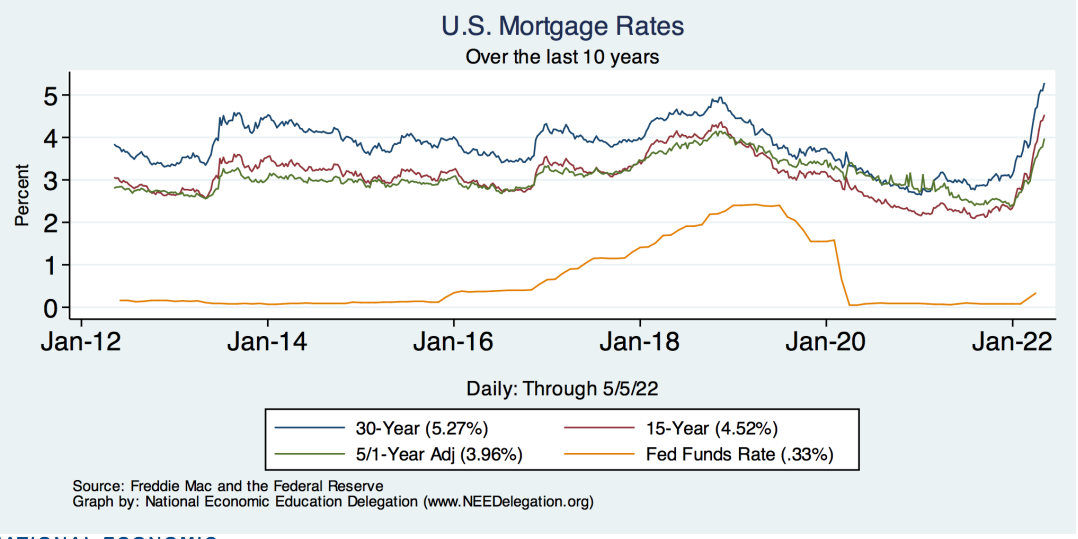
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RE Experiences Differ!



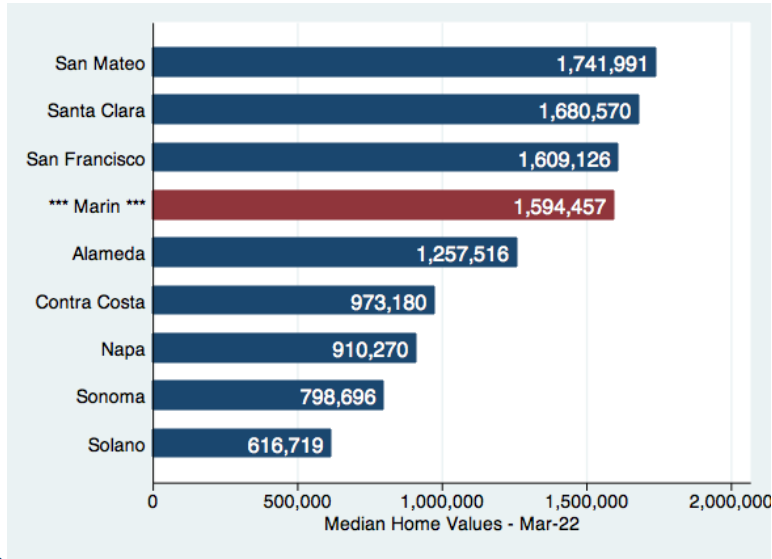
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Interest Rates are Rising!



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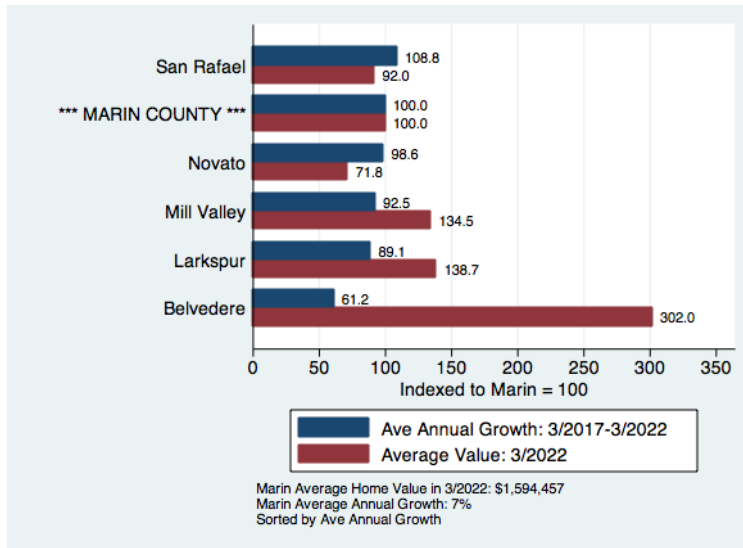
Marin's Home Price Position



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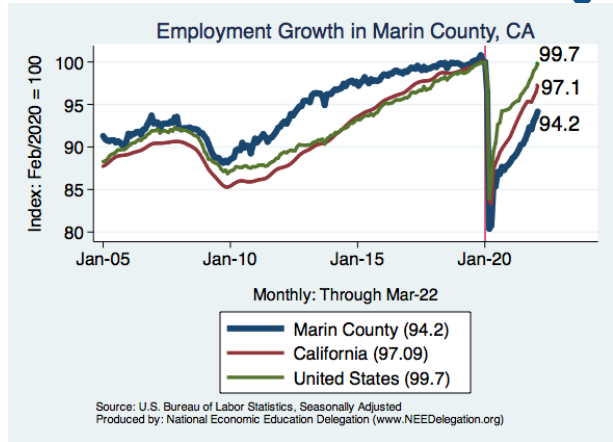
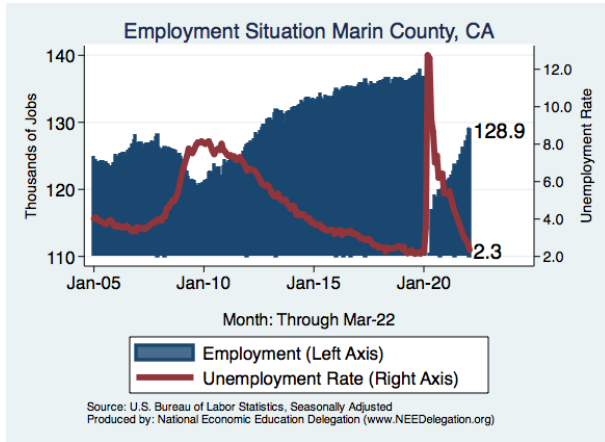
Home Price Appreciation w/in Marin



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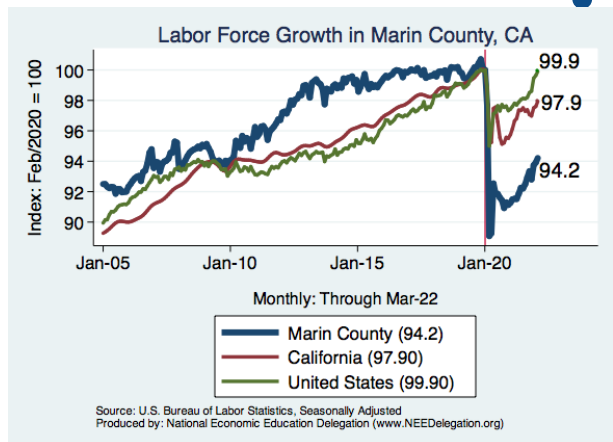
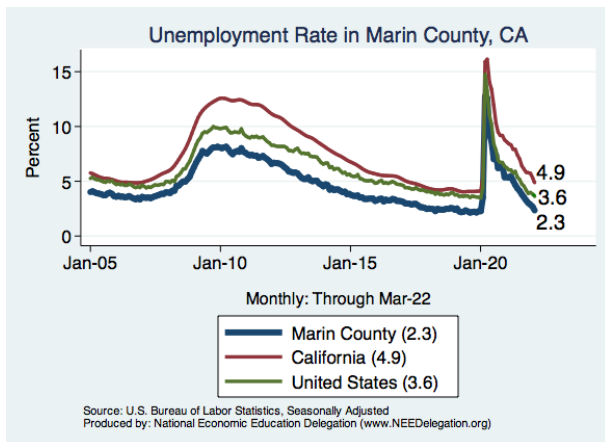
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Employment Situation: Marin County



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Employment Situation: Marin County



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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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Conclusion

- **GDP will likely expand about 4% in 2022.**
 - Completing the recovery.
- **Employment is still lagging.**
- **Real estate markets likely to cool.**
- **Physical health determines economic health for the economy.**
 - Variants may slow our progress: Omicron BA.2 (see Europe and China)
 - Gov't missteps may also hinder progress.
- **Biggest problems:**
 - Supply chain bottlenecks.
 - Labor force participation.
 - Russian invasion of Ukraine.
- **There is much uncertainty.**



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Thank you!

Any Questions?

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