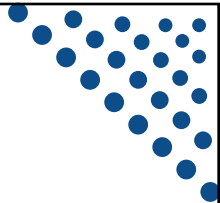


U.S. Economic Update

Ogden League of Women Voters
January 21, 2020
Doris Geide-Stevenson, Ph.D.
Weber State University

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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 are intended to reflect the consensus of the economics profession.

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Who Are We?

• Honorary Board: 46 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: 486 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

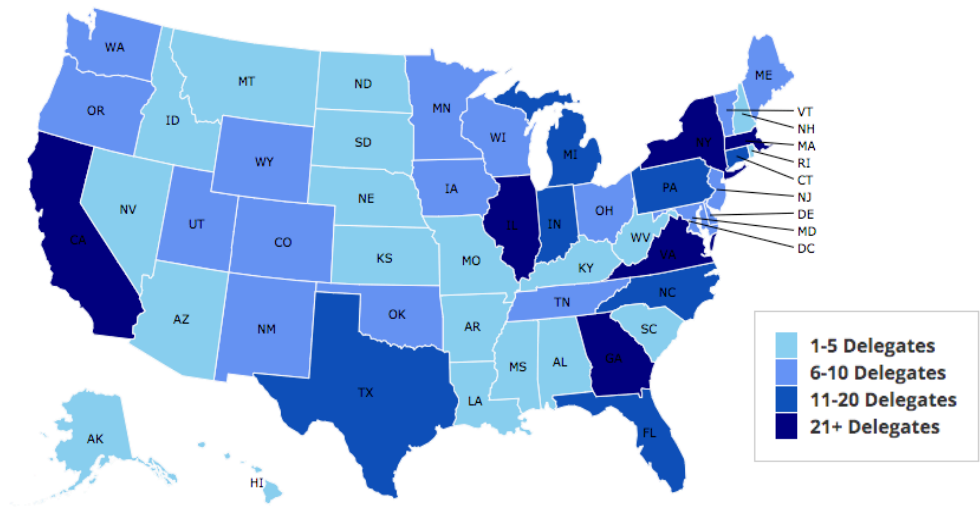
- Aid in slide deck development



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Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**
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 - Allison Roehling, DePauw University
- **This slide deck was reviewed by:**
 - Jeffrey Frankel, Harvard University
 - Scott Baier, Clemson University
 - Rob Eyler, Sonoma State University
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Outline – U.S. Economic Outlook

- **Behavior of GDP**
- **Labor Market**
- **Monetary Policy/Interest Rates**
- **Other Indicators**
- **Summary**



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Behavior of GDP



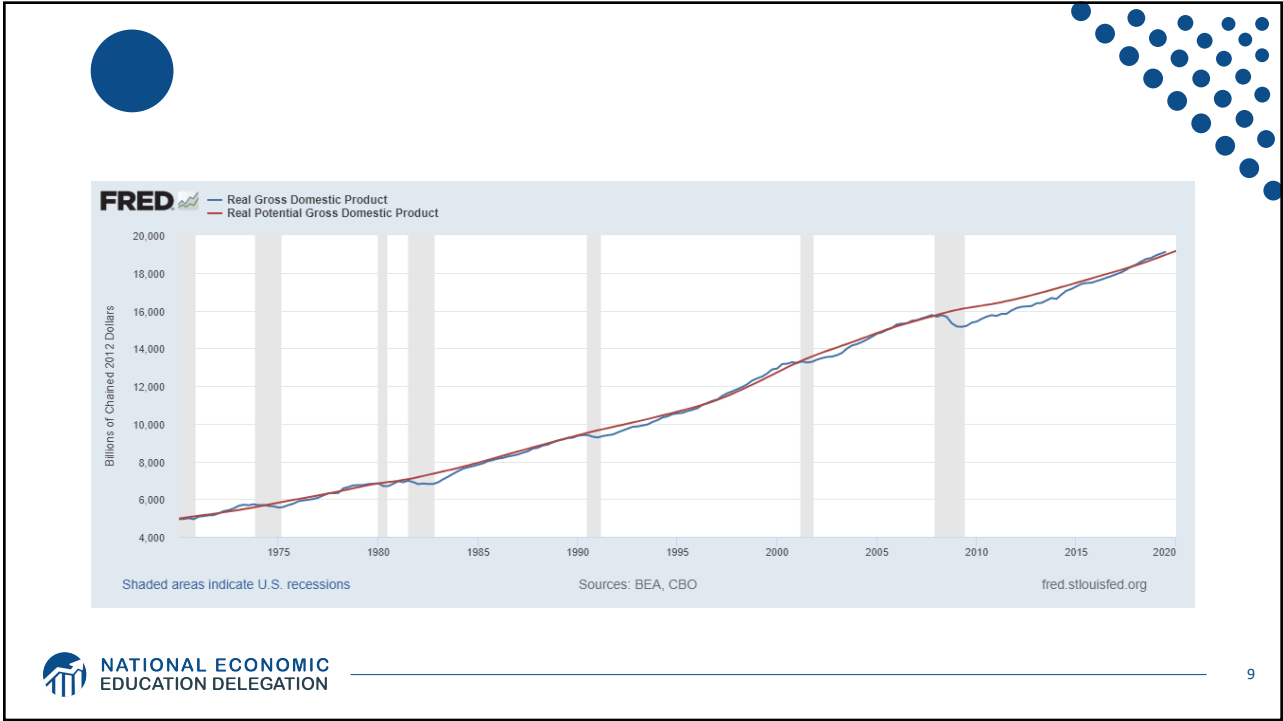
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GDP During the Recovery

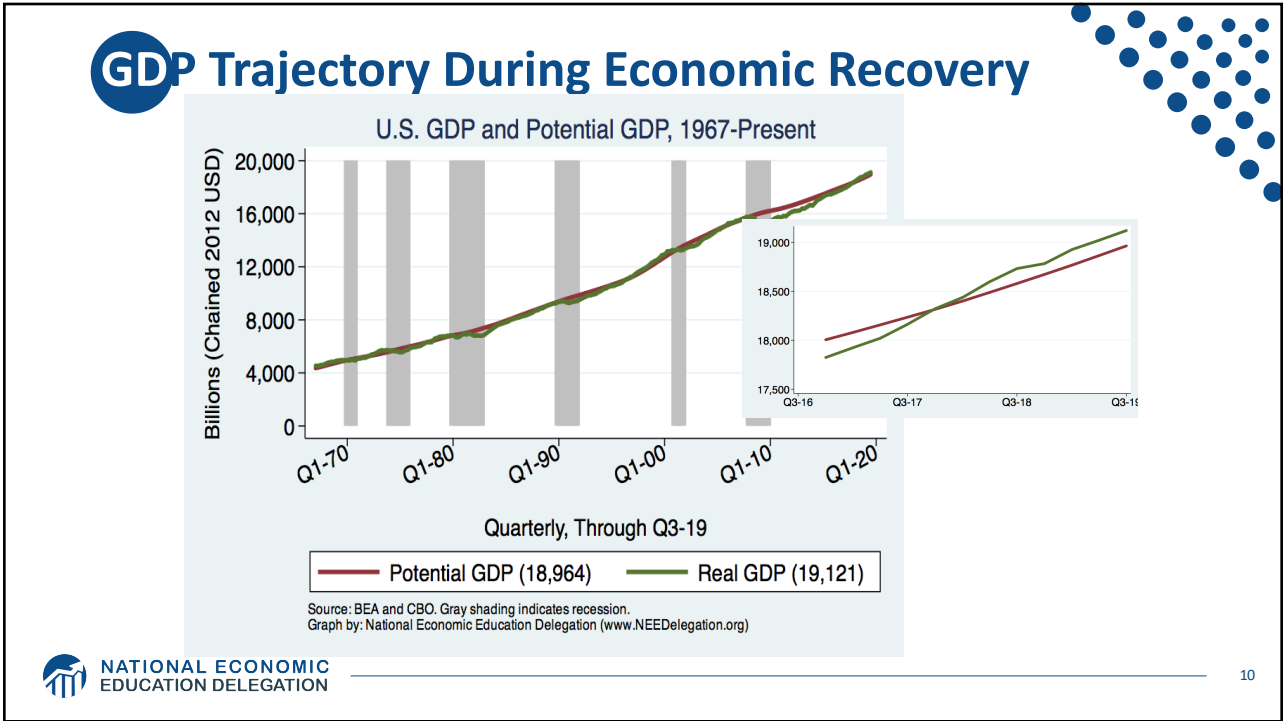
- *Real GDP* is a standard measure of production used by economists to assess the health and well-being of an economy
- *Potential GDP* is the level of production in an economy operating at full employment
- We use potential GDP to get a sense of what production should be in an economy



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A Note on Imports and GDP

- **GDP = Consumption + Investment + Government + Net Exports**
 - Net Exports = Exports – Imports
- **Give the impression that IMPORTS are bad for GDP**
 - They are not.
 - They are merely subtracted from the equation because the measurement of consumption, investment, and government all include imports.
- **Calculating Gross DOMESTIC Production must exclude IMPORTS**
 - It is merely an accounting identity.

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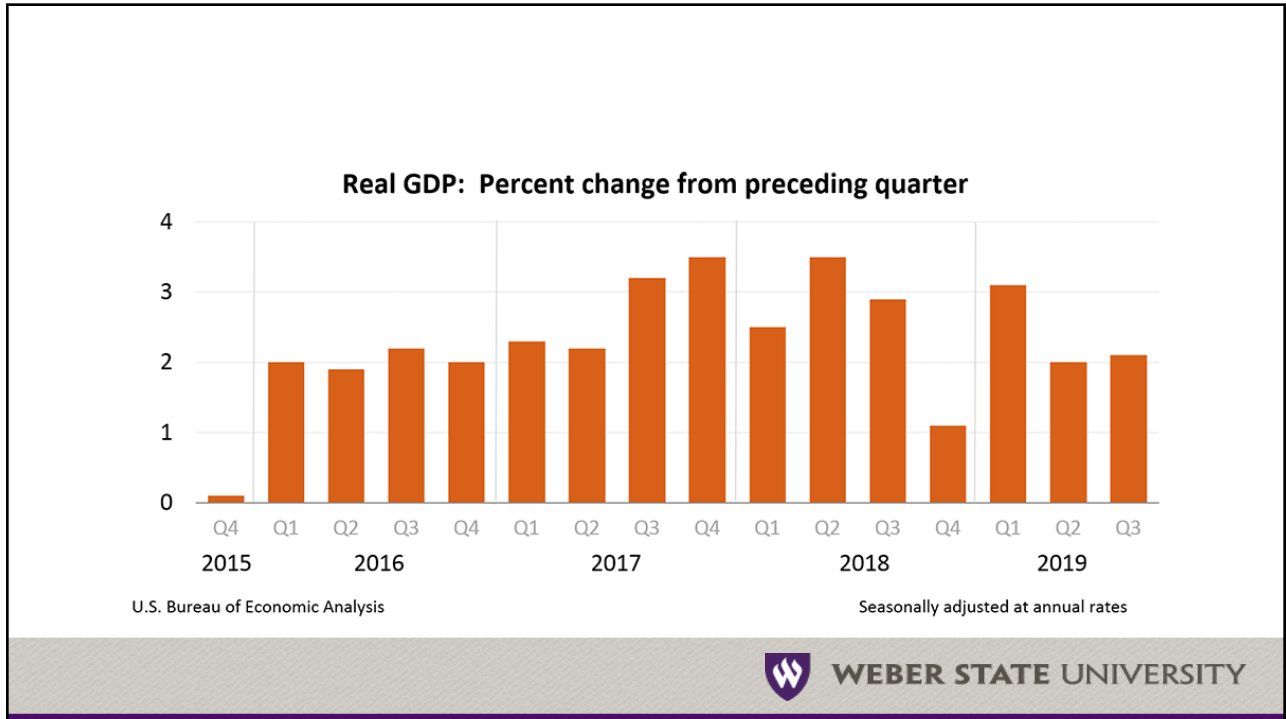
Composition of GDP – Inflation Adjusted

Spending Component	2019 Q3 (2012 dollars)	As a percent of RGDP
Consumer Spending (C)	\$13,353.1	69.8 %
Gross Private Domestic Investment (I)	\$3,416.2	17.9 %
Government Consumption Expenditures and Gross Investment (G)	\$ 3,310.4	17.3 %
Net Exports (X-M)	\$ -990.1	-5.2 %
Real GDP (Y)	\$19,121.1	100 %

Data from BEA.gov

$$\text{Real GDP} = C + I + G + (X-M)$$



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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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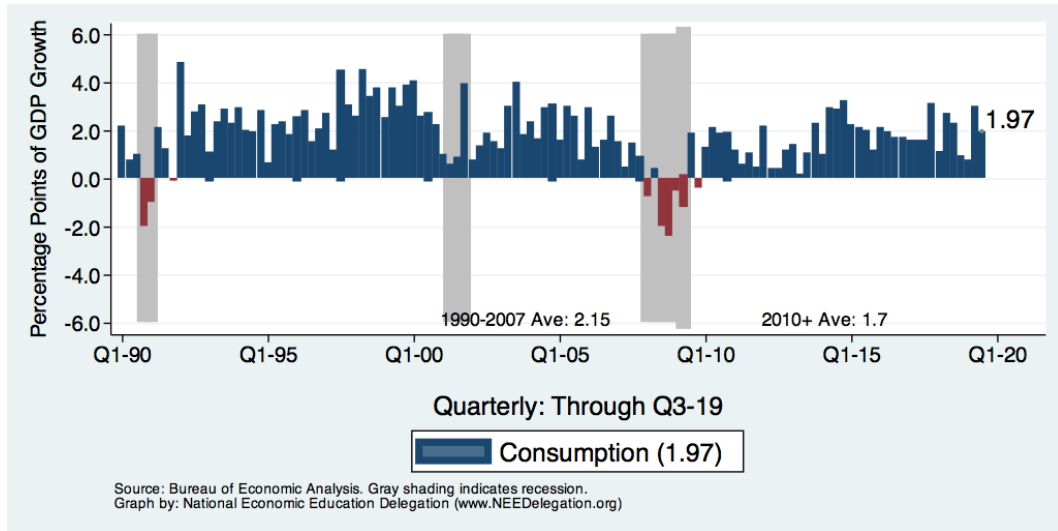
Understanding Contributions to GDP Growth

- **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
- **For example: Consumption**
 - If consumption accounts for **2/3** of the economy,
 - If consumption grew by **3%**,
 - It would cause GDP growth to be **2 percentage points** higher than it would otherwise be

$$2\% = 2/3 * 3\%$$

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Contribution to GDP Growth: Consumption



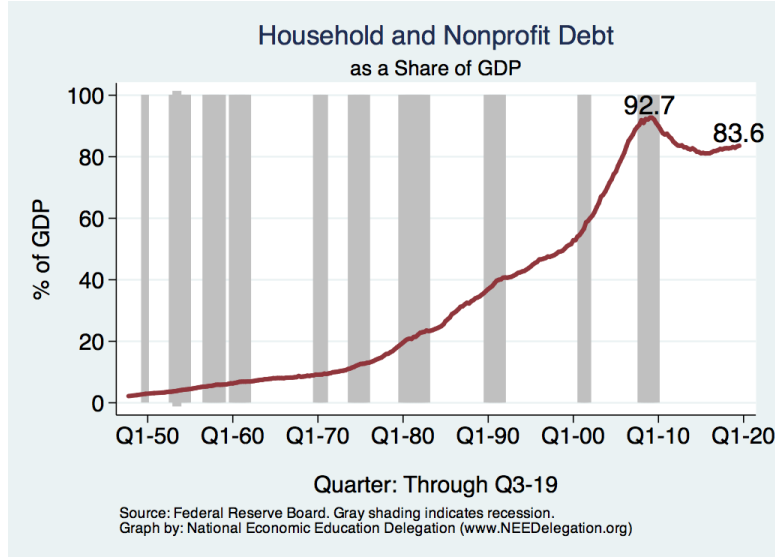
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Personal Consumption Expenditures

- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
 - Post-crisis contribution is 1.7 percentage points.
- **In other words, its contribution to GDP growth is down 21%.**

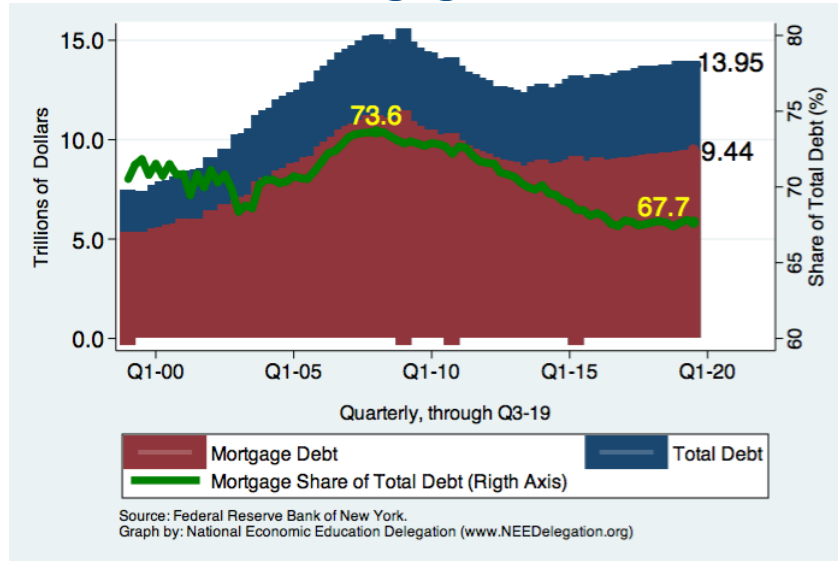
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Household Debt as a Share of GDP

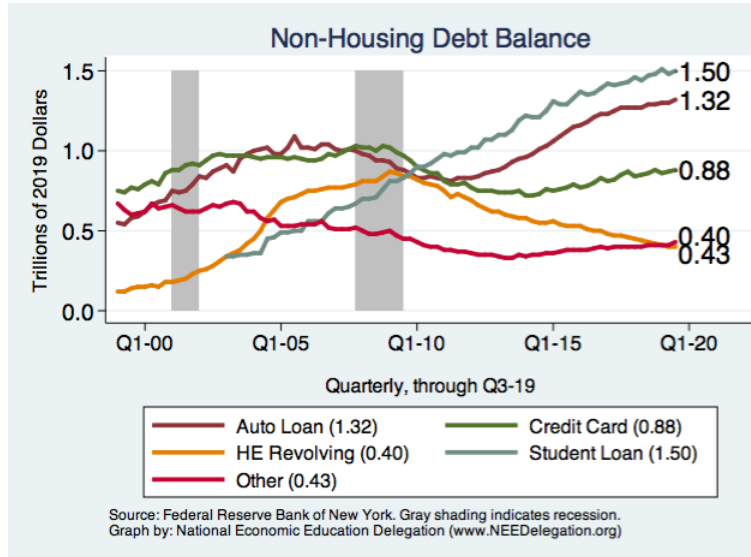


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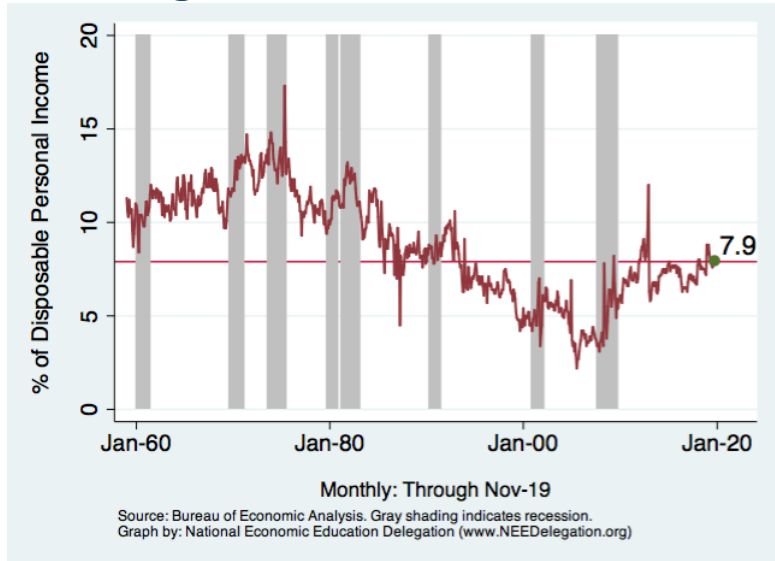
Household Debt: Mortgages



Household Debt: Other Sources



Personal Savings



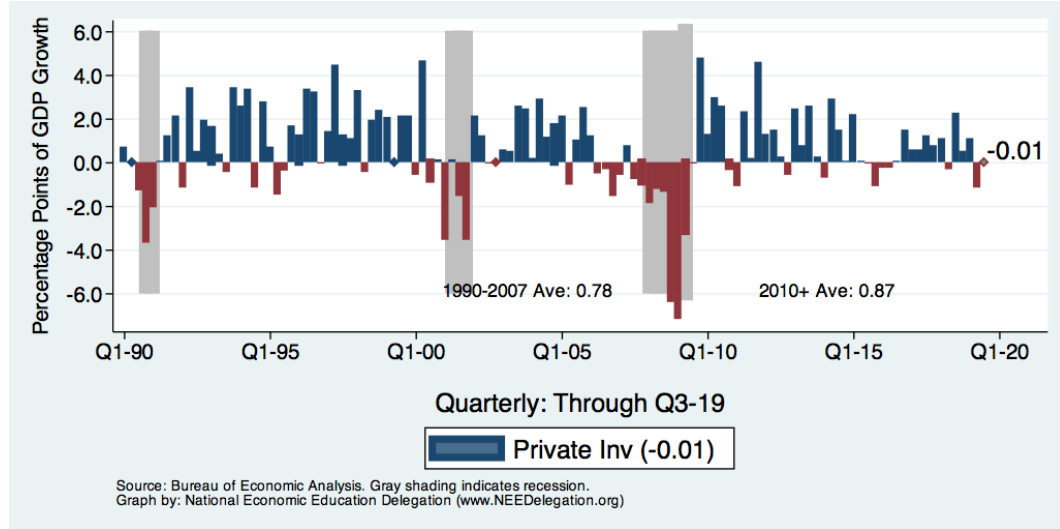
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Investment Expenditures

- **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.

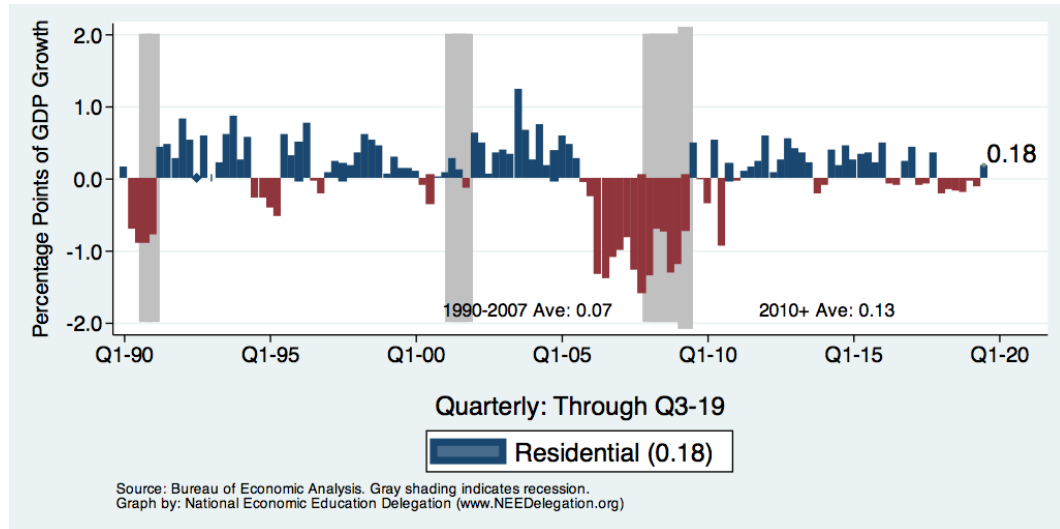
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Contributions to GDP: Private Investment



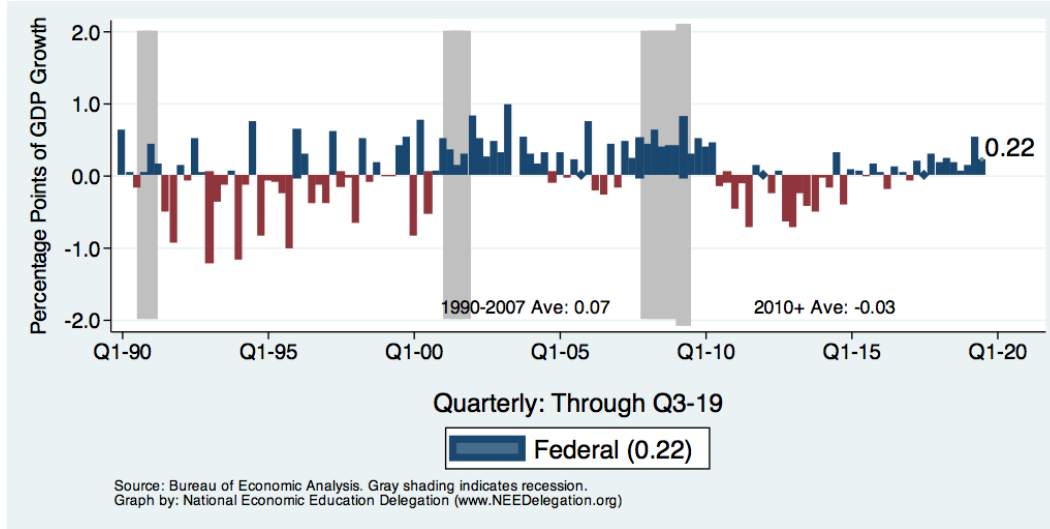
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Contributions to GDP: Residential Investment



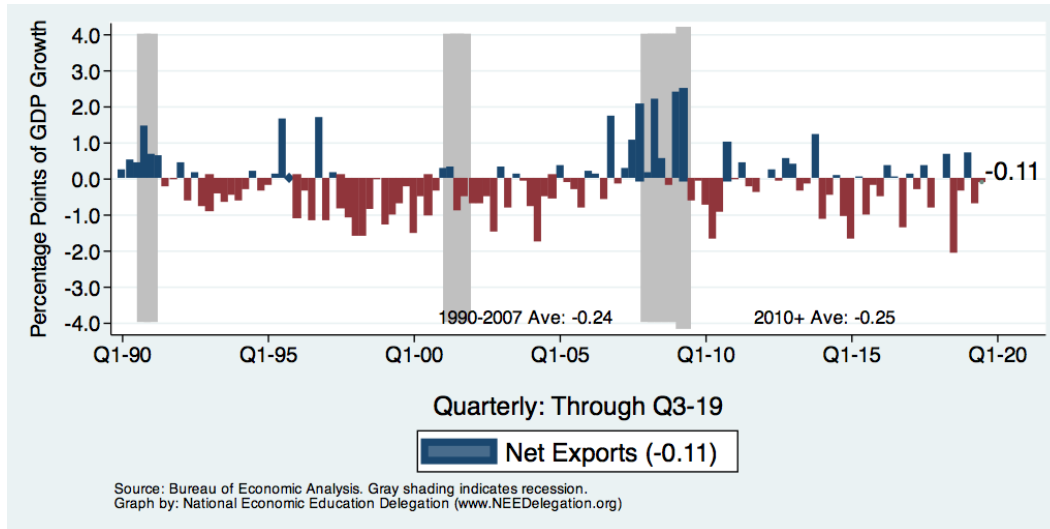
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Contributions to GDP: Government



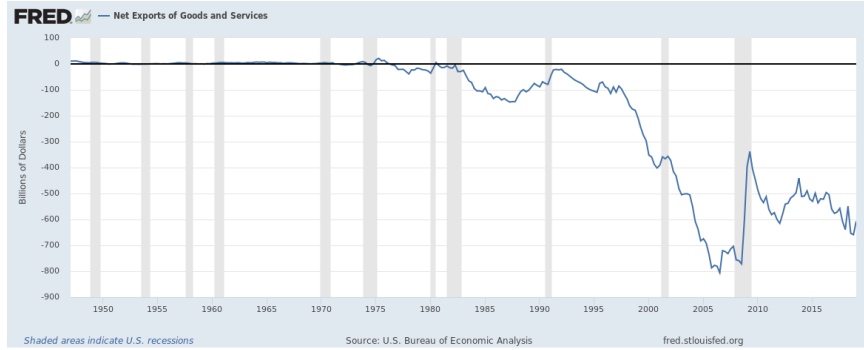
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Contributions to GDP: Net Exports



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Trade Balance in Goods and Services

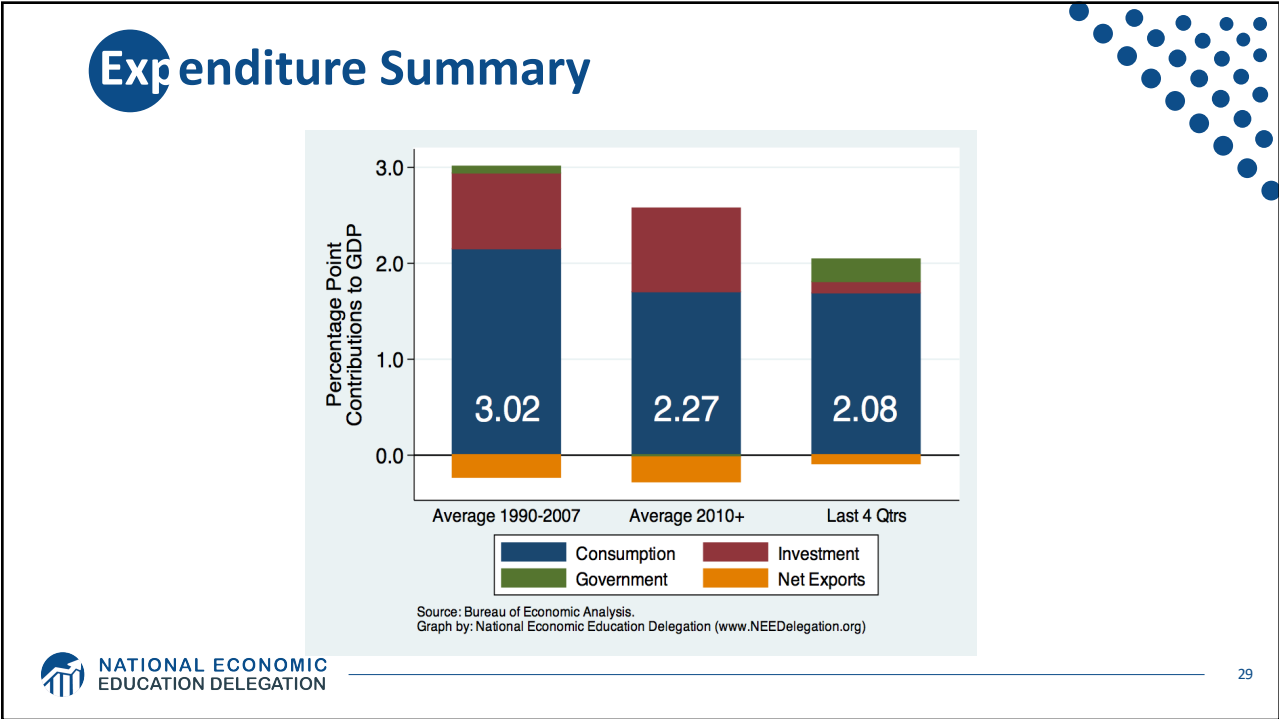


RGDP = Income = Output

US. Exports



- U.S. Exports < U.S. Imports
- Or:
 $C + I + G > RGDP$
US Expenditures exceed income



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- ## Expenditure Summary
- **Post-recession consumption is down:**
 - Household debt down, but climbing;
 - Personal savings is up.
 - **Investment expenditures are contributing more to GDP growth, but slowing**
 - **Post-recession government spending is down:**
 - But starting to pick up.
 - **Net exports are relatively unchanged.**
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Labor Market



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Labor Market Conditions

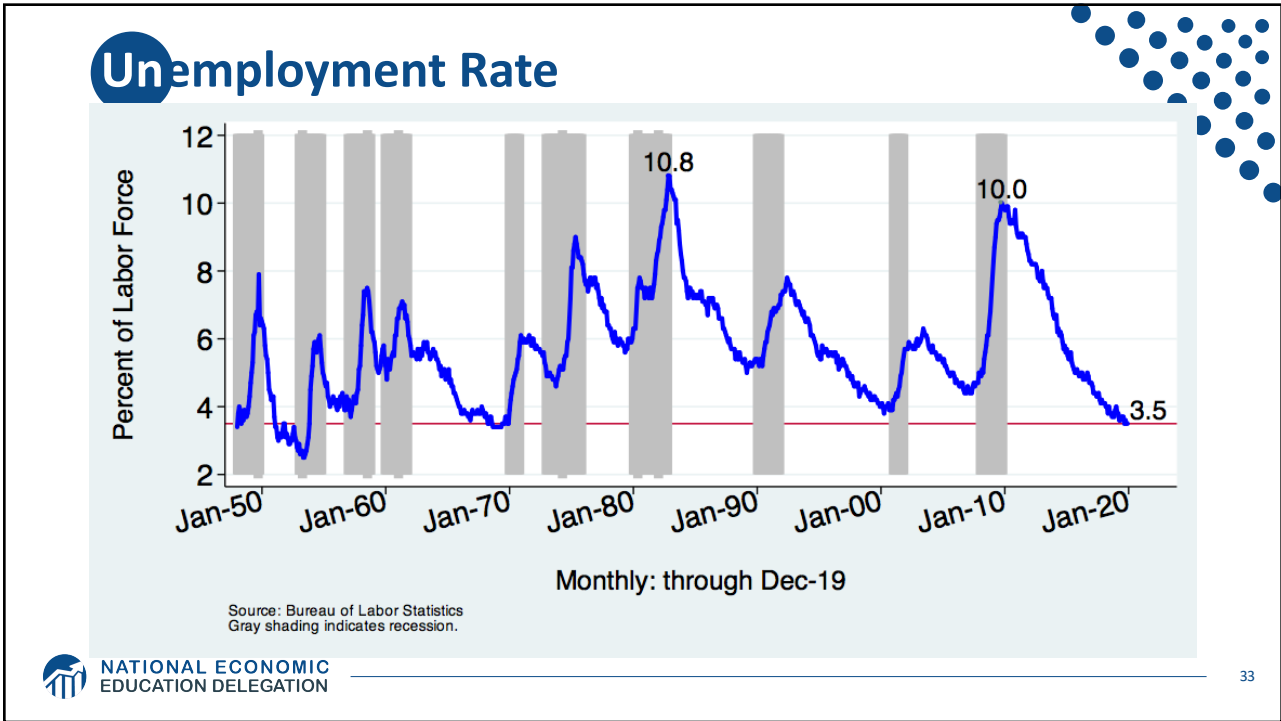
- **Unemployment rate is low, 3.5%, a level not seen since the 1960s.**
- **Natural rate of unemployment is estimated to be 4.5% - 5.5%.**
- **Monthly employment gains have averaged 189,000 jobs over the last six months.**
 - This measure has been declining throughout 2019.
- **Recent Labor Market Concerns:**
 - Low employment-to-population ratio
 - Falling labor force participation
 - Slow wage growth



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How is the Unemployment Rate Calculated?

- It is not a simple thing:

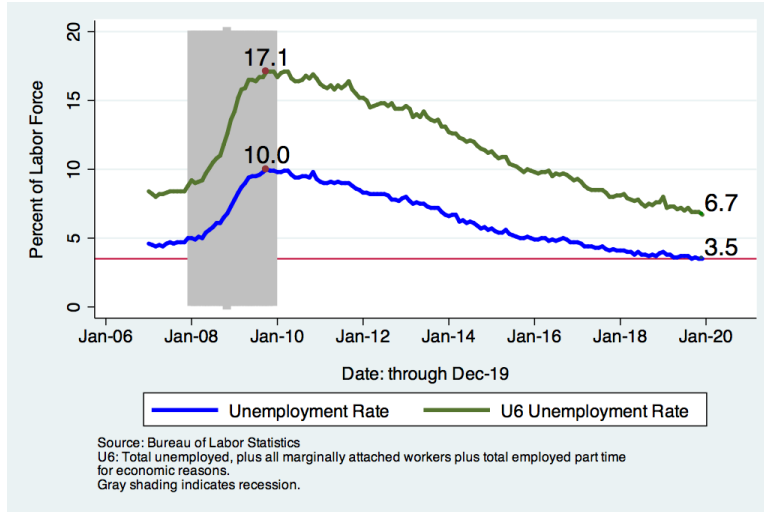
$$UR = \frac{\# \text{ Unemployed}}{\text{Labor Force}} * 100$$
- Why is that not simple?
 - Because it can go up or down for a variety of reasons:
 - If the labor force shrinks – UR goes down
 - If employment grows – UR goes up
 - Not all employment is created equally
- Not a good indicator of the overall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

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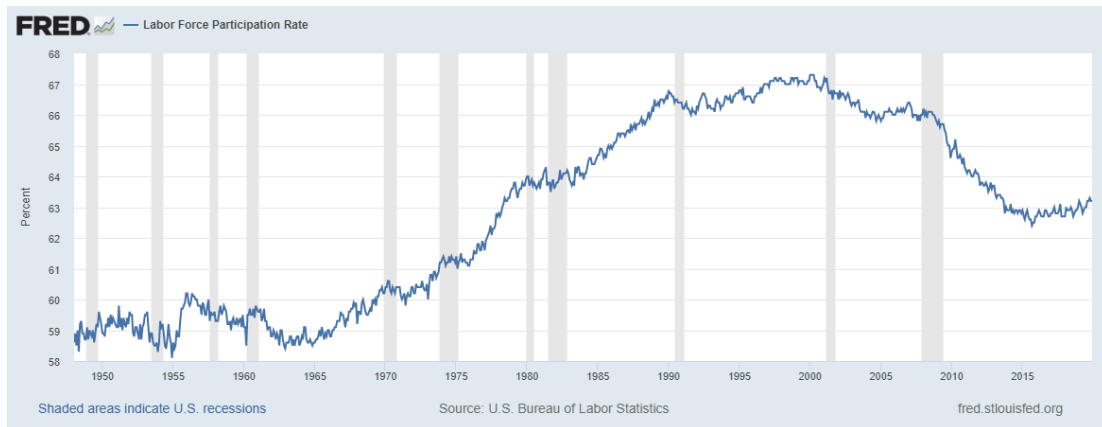
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Unemployment Rate



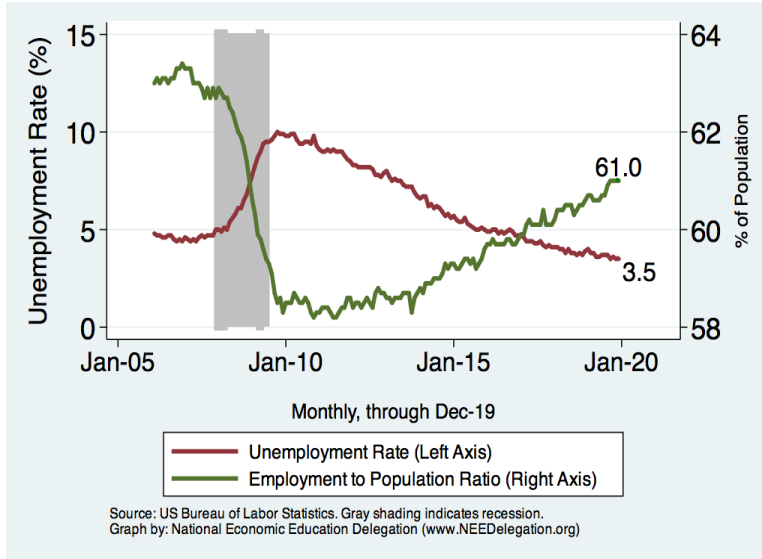
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Labor Force Participation Rate



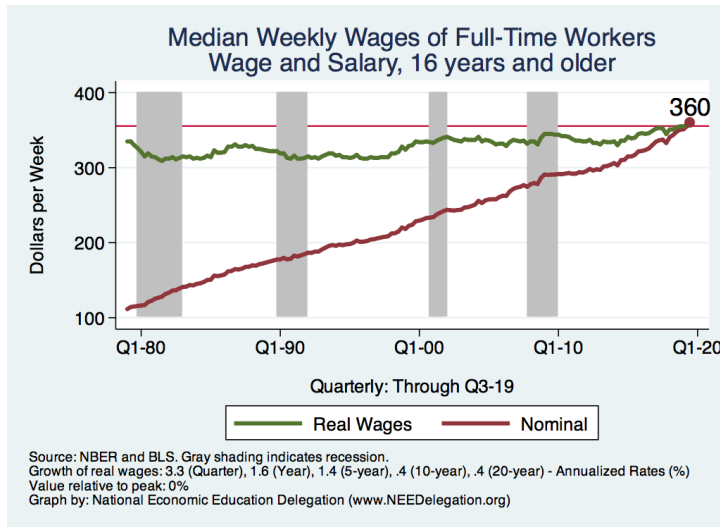
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Slow Employment Recovery



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Wage Growth



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Summary

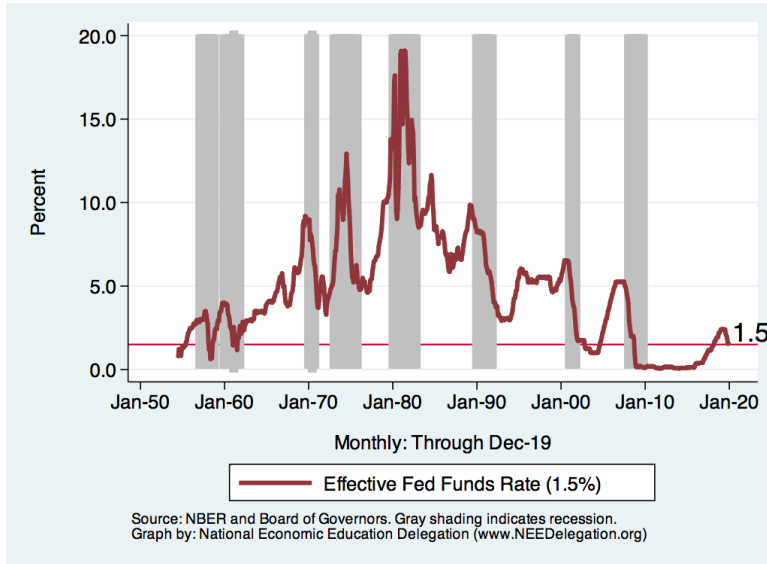
- **GDP growth is primarily fueled by increases in demand for output.**
- **This growth is supported by growth in employment and productivity of the labor force.**
- **Recent years have seen relatively tepid increases in demand for output.**
 - In particular, consumption and government spending have been slow relative to other periods.
- **This tepid growth has lead to slow increases in employment.**
 - Although labor markets have tightened, wages have not experienced rapid growth.
- **Productivity growth has played little role in growing GDP.**
 - Why this is so is not immediately clear.

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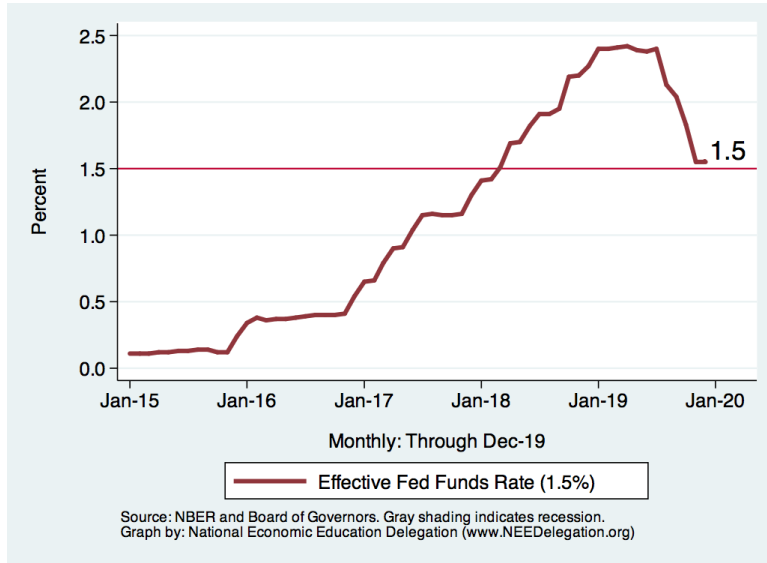
Monetary Policy

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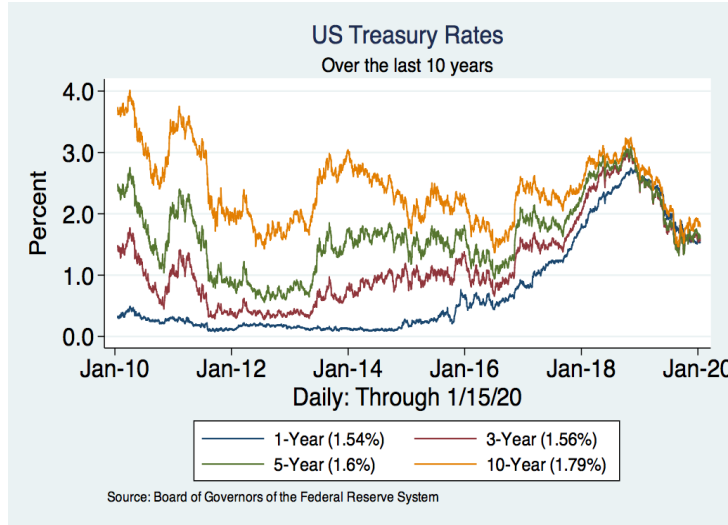
Federal Funds Rate



Federal Funds Rate – Last 5 Years



Treasuries



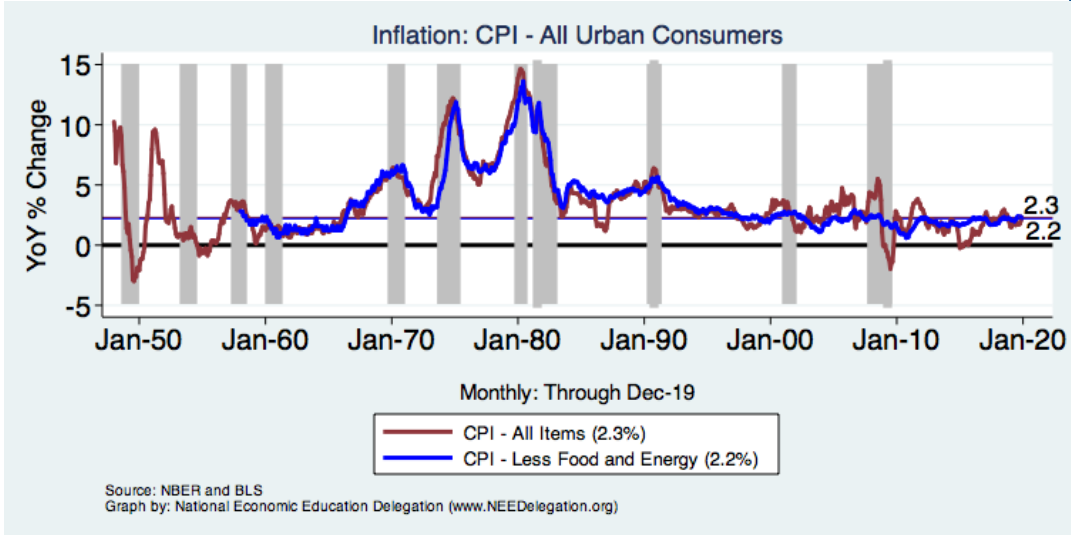
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Compression of Interest Rates



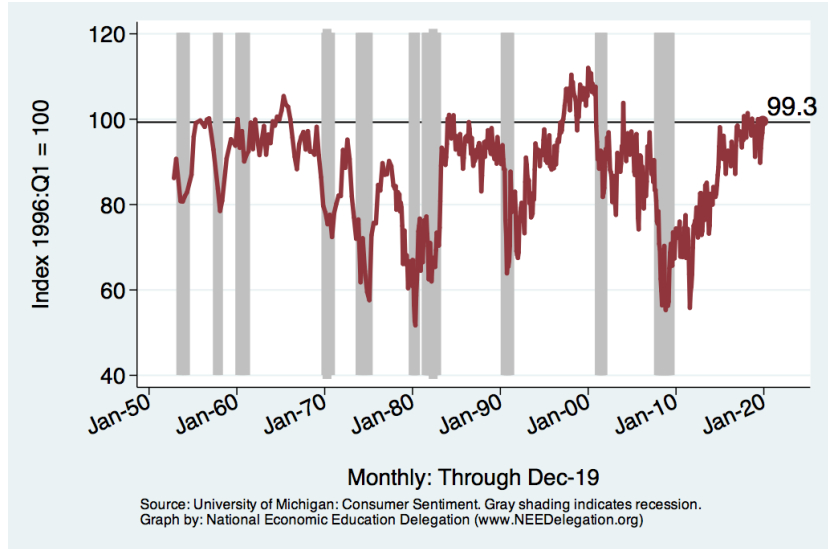
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Inflation

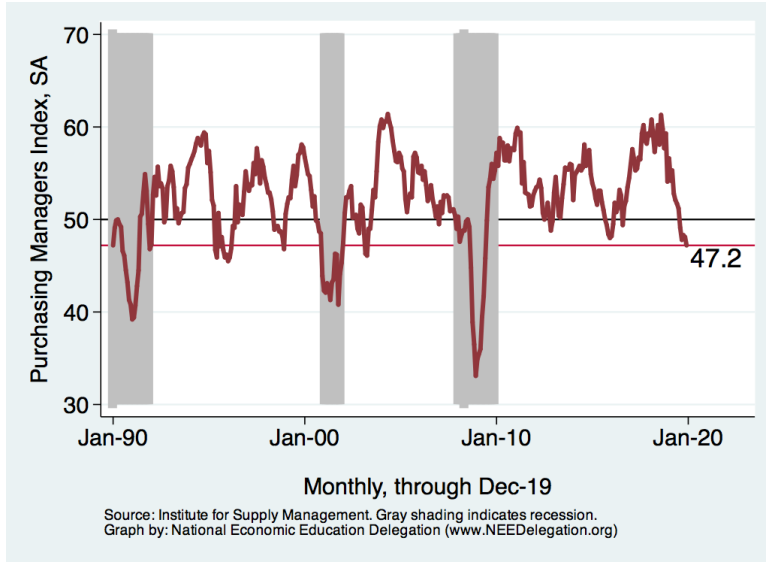


Other Indicators

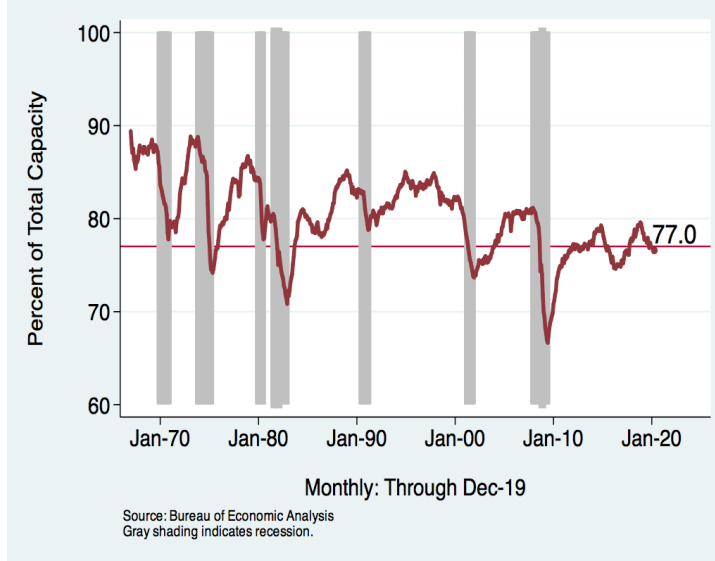
Consumer Confidence: Waning?



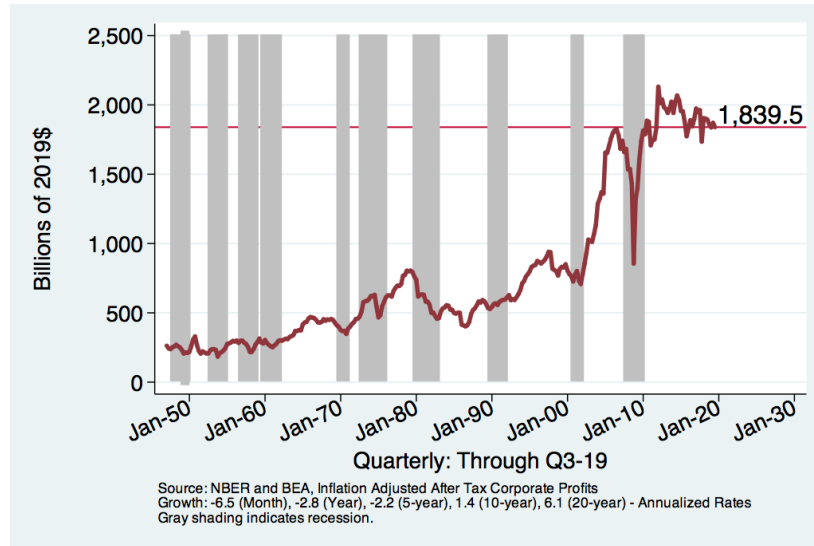
Producer Confidence: Not What it Used to be!

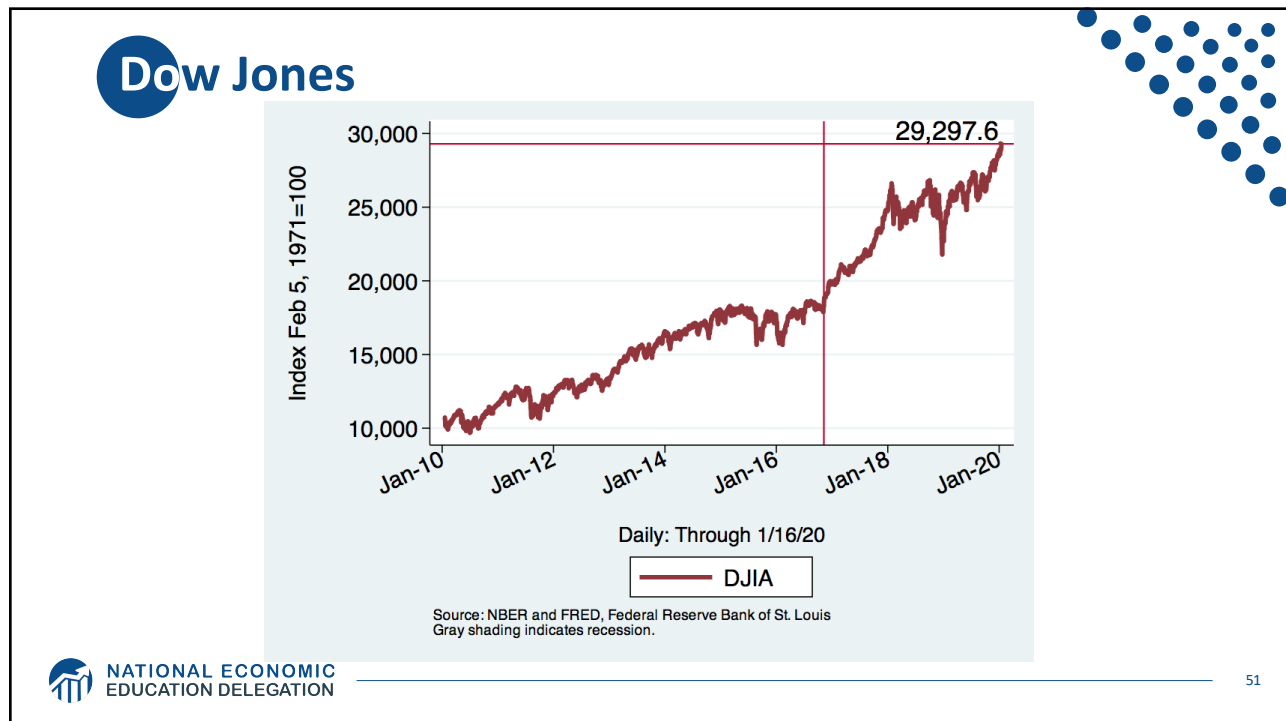


Capacity Utilization



Corporate Profits – Inflation Adjusted





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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 participation is stagnant
 - Real wages may be starting to grow.
- **Monetary Policy**
 - Interest rates are rising.
 - Policy normalization is underway.

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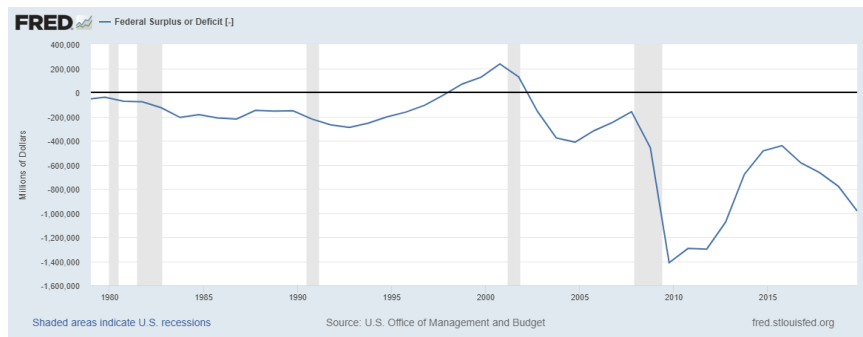
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Things to Be Worried About

- Yield Curve
- Government Deficits and resultant Debt Accumulation
- Growth Abroad – Geopolitical Risk
- Income and Wealth Inequality
- Infrastructure
- Savings
- Policy Uncertainty
 - Trade and immigration policy, especially

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Federal Surplus or Deficit

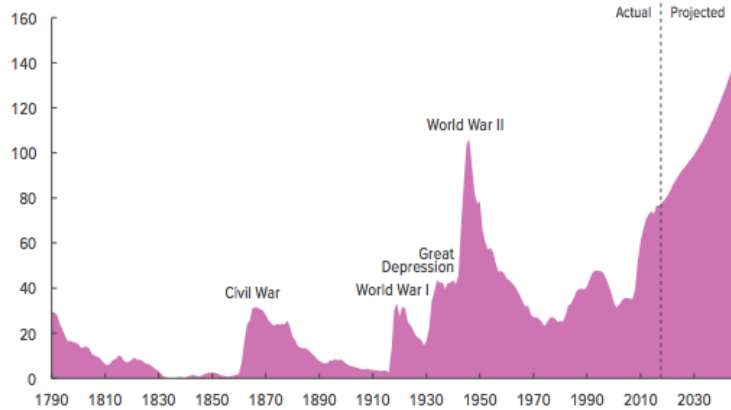


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Federal Government Debt Projections

Federal Debt Held by the Public

Percentage of Gross Domestic Product



High and rising federal debt would reduce national saving and income, boost the government's interest payments, limit lawmakers' ability to respond to unforeseen events, and increase the likelihood of a fiscal crisis.

Source: Congressional Budget Office.



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Cautious Outlook

- Job growth remains robust
- Labor force is in decline
- Wage growth, but not too much
- Business investment was robust, but looks flat now
- Inflation and interest rates remain favorable
- Potential source of concern:
 - Auto and light truck sales are slowing
 - Home building is slowing
 - Corporate Debt Levels



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Overall Summary

- **Tailwinds and headwinds both exist**
 - 2020 forecasts predict slowing growth, but probably no recession
 - Waning of cyclical forces – growth tapers off as the economy is close or above potential output.
- **There remains room for the economy to grow**
 - Labor force growth is available
 - Consumption has room to grow, but there is evidence of slowing
 - Business investment is slowing
- **Long term concerns unaddressed**
 - Demographics, climate change
 - Federal government debt
 - International trade policy



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Thank you!

Any Questions?

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