

Rotary of Campbellsville

U.S. Economic Outlook

National Economic Education Delegation

Scott Baier Ph.D.

Professor and Department Chair, Clemson University

January 26, 2022

<https://needelegation.org/>

1

National Economic Education Delegation (NEED)

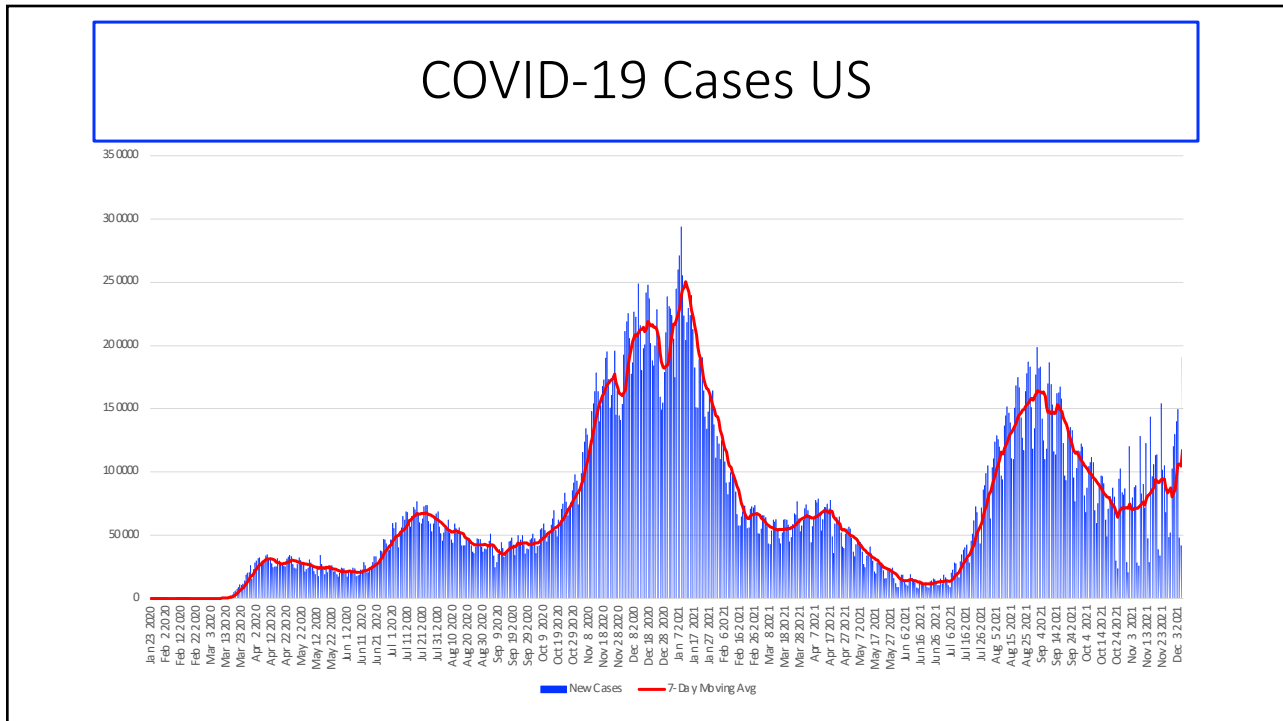
- **Vision**
 - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
 - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy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

2

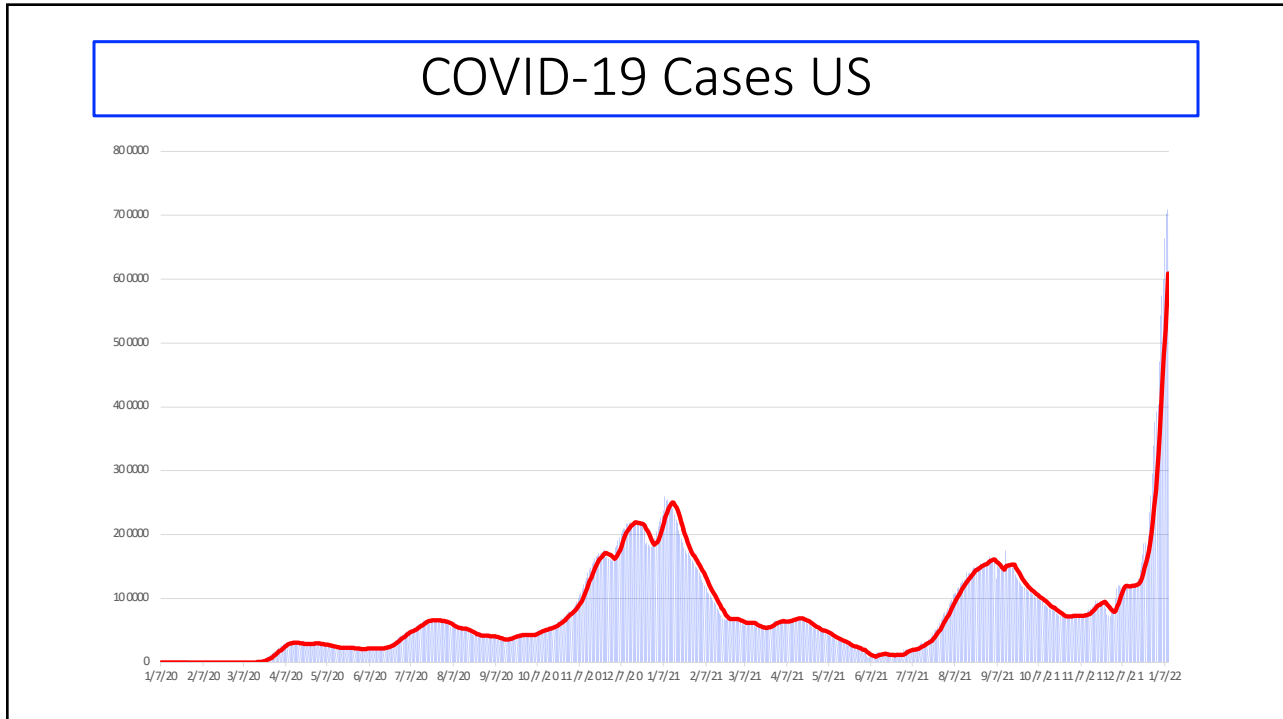
2



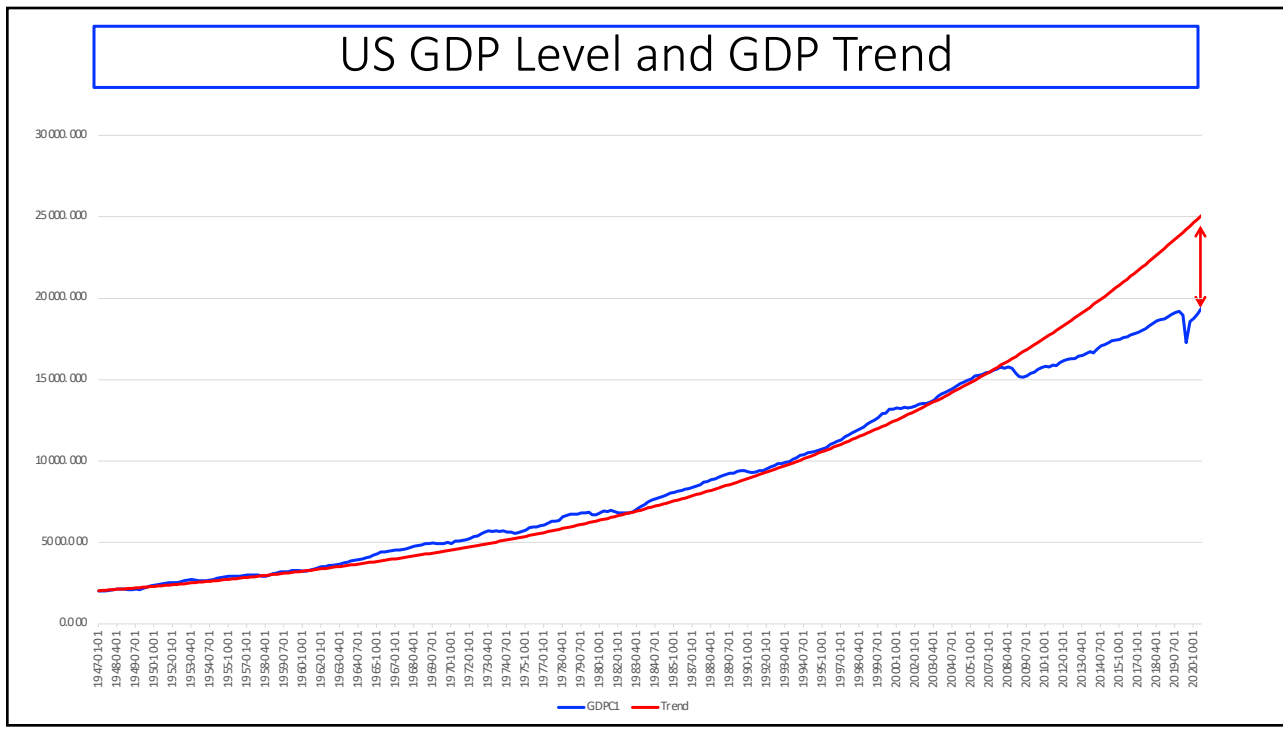
3



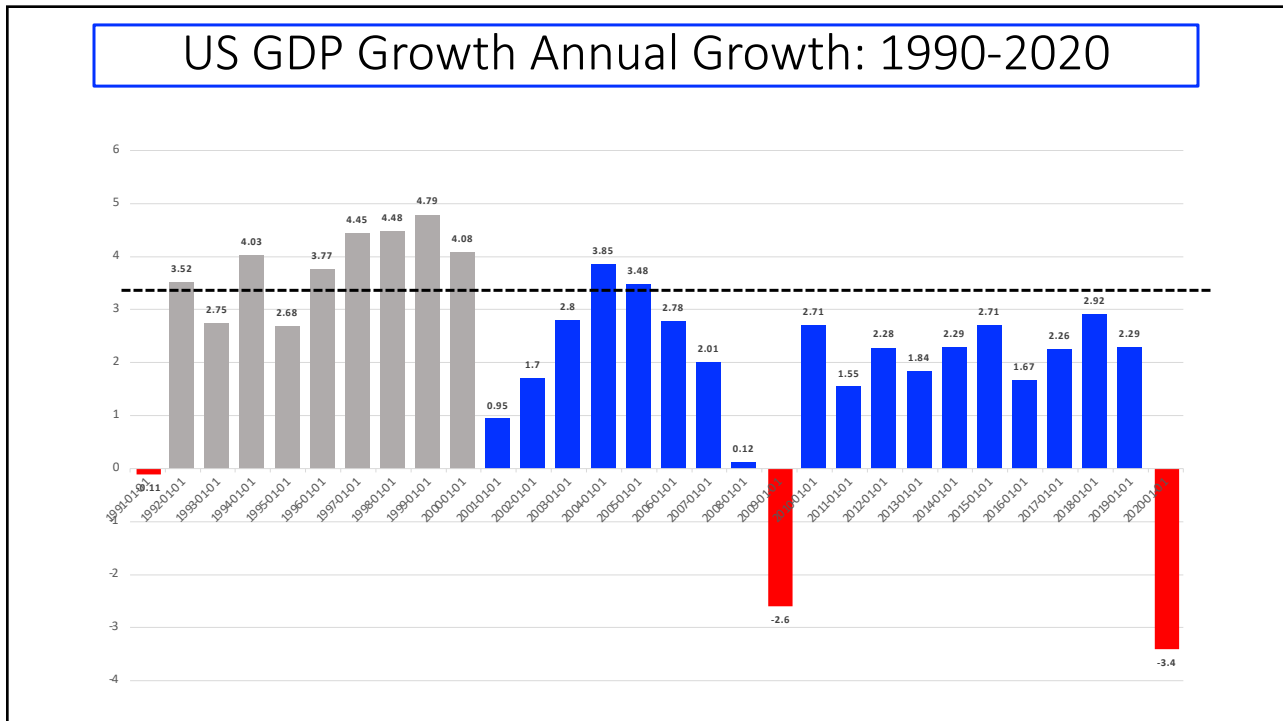
4



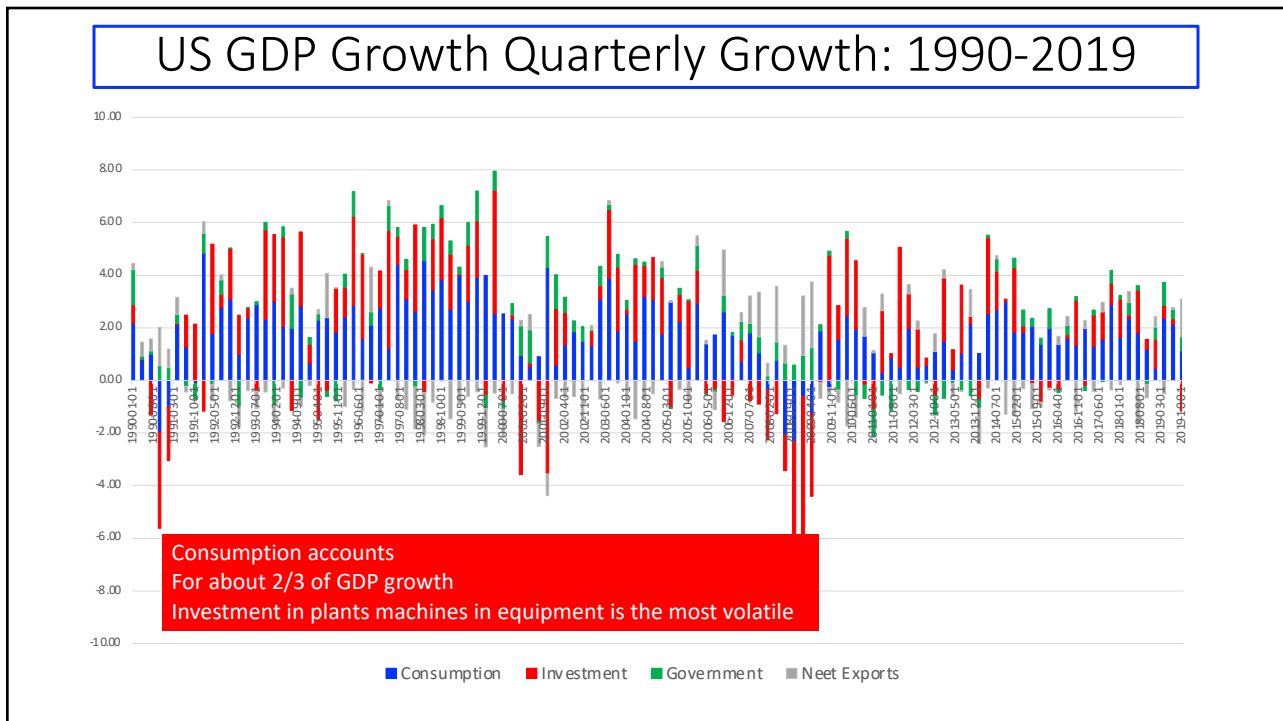
5



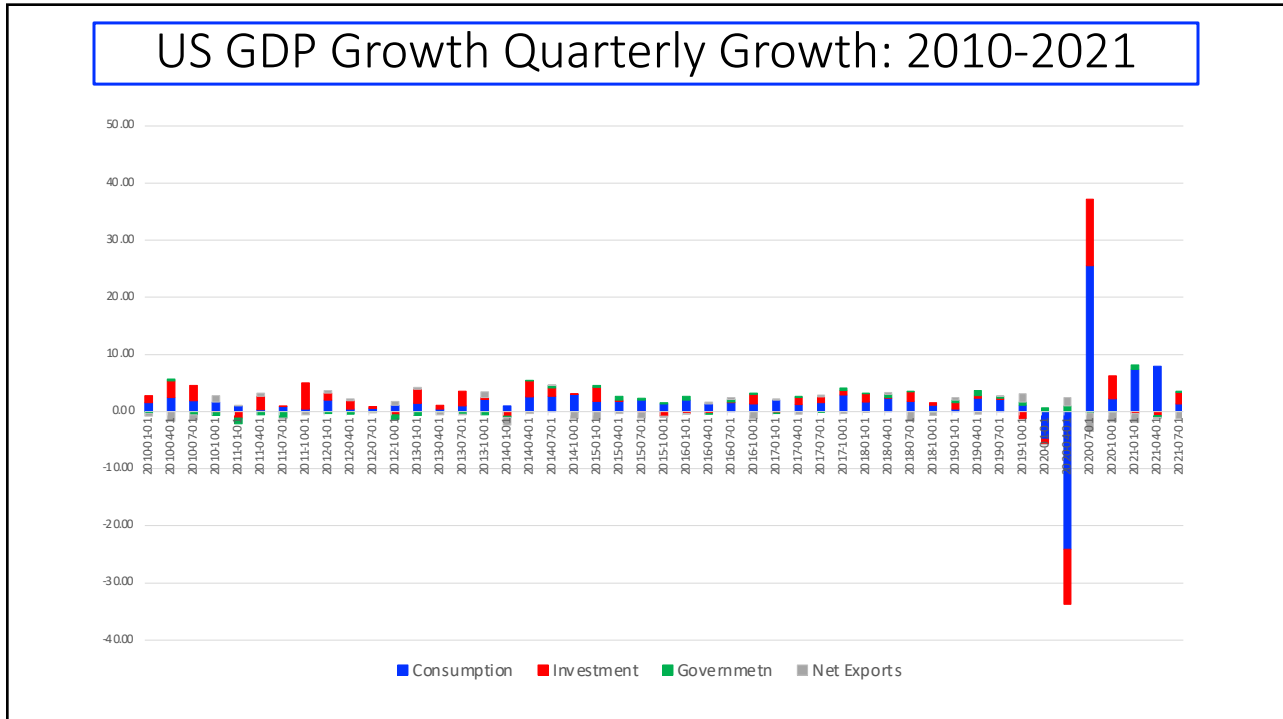
6



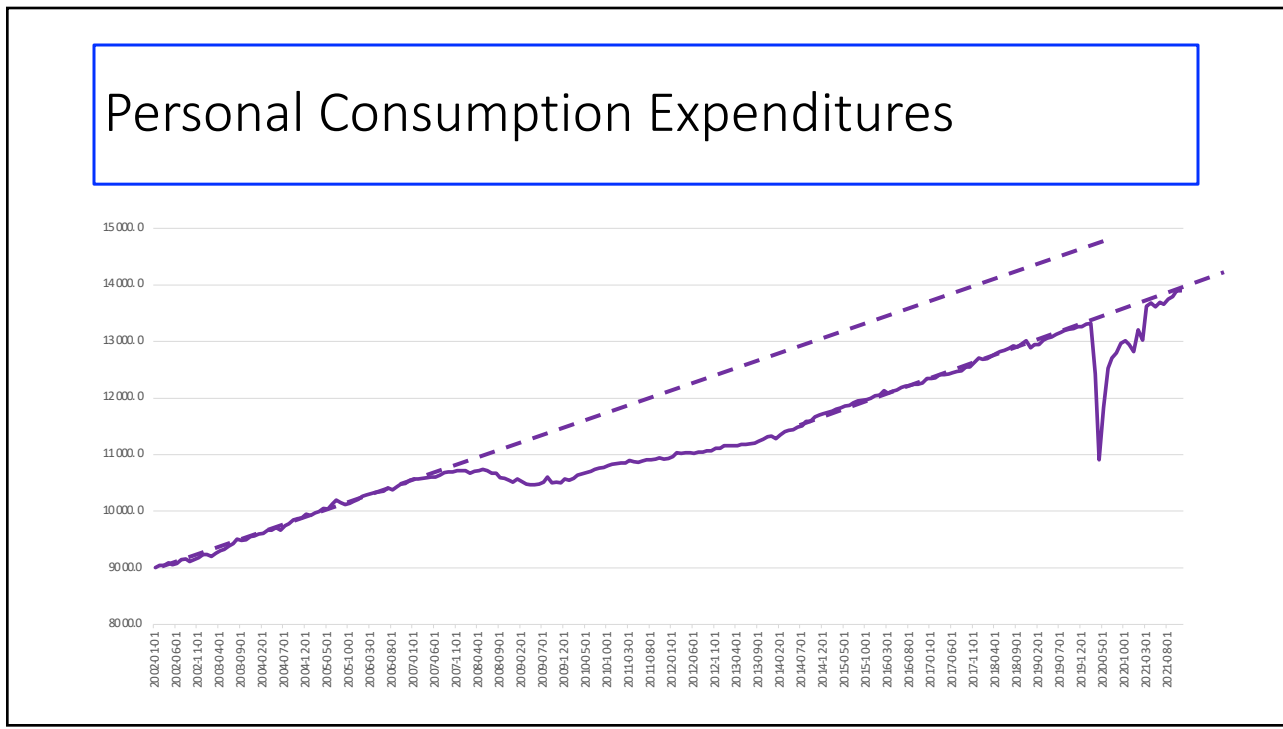
7



8

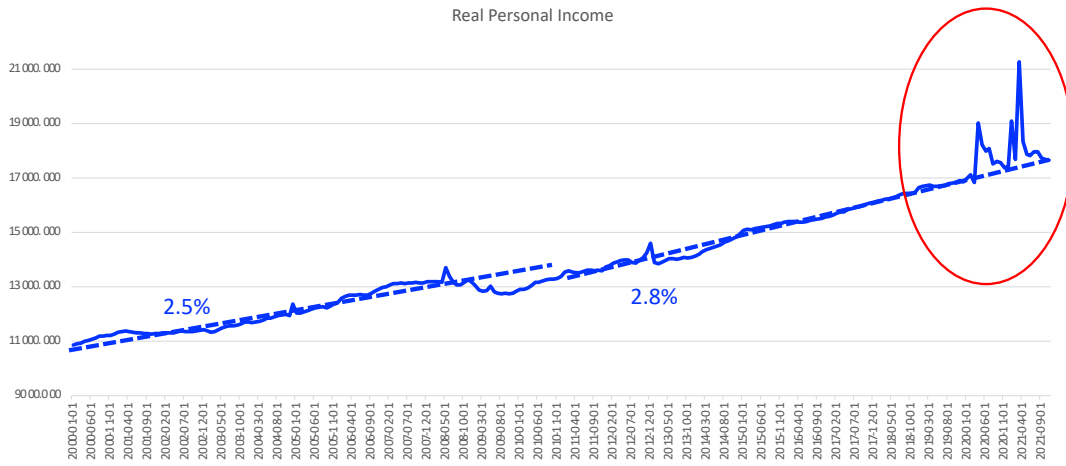


9



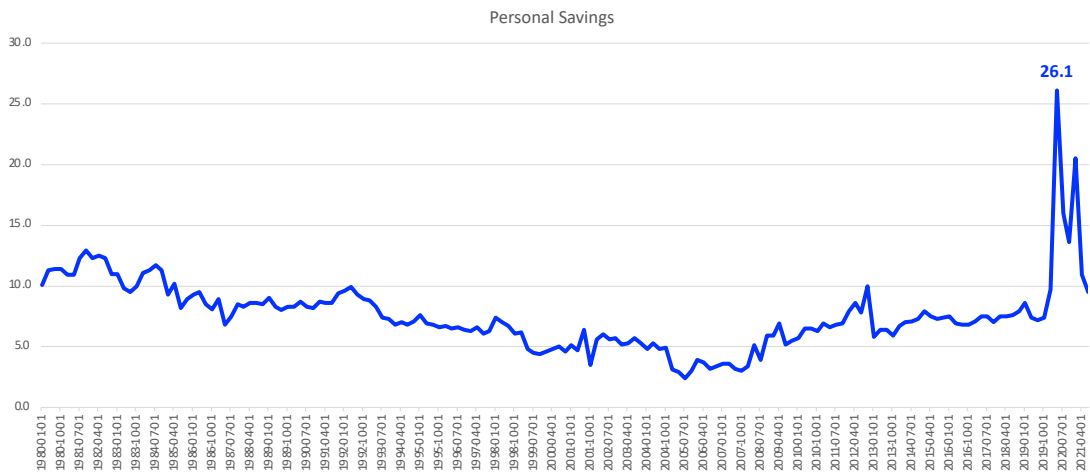
10

Real Personal Disposable Income



11

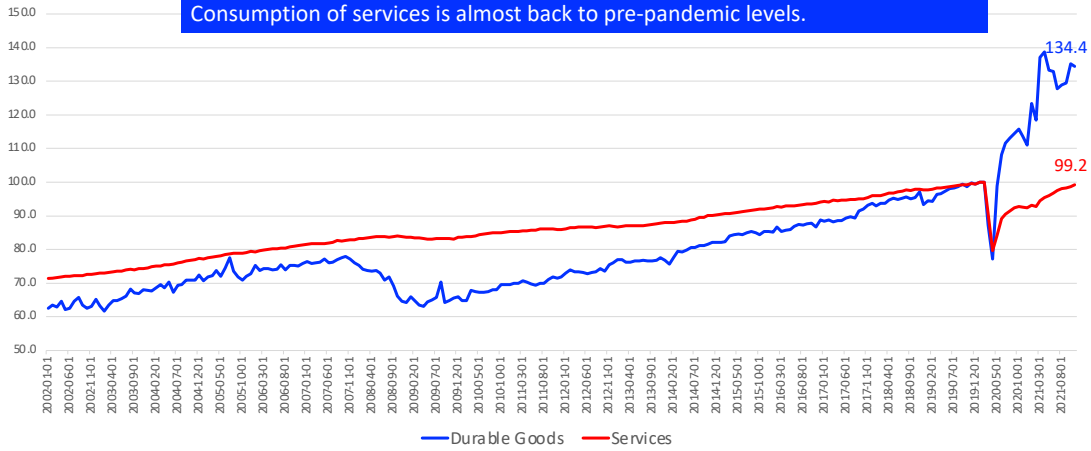
Personal Savings as a Fraction of Disposable Income



12

Durable Goods and Service Consumption

Consumption of durable goods is about 35% higher than its pre-pandemic levels
 Consumption of services is almost back to pre-pandemic levels.



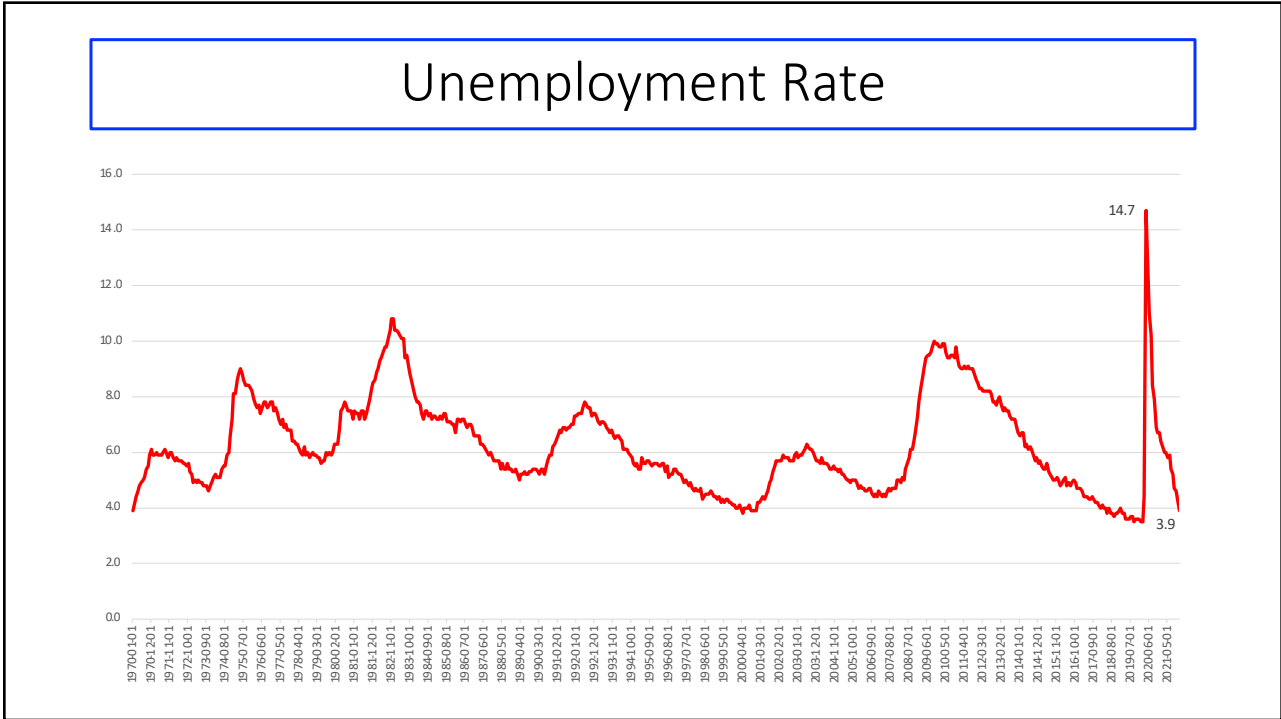
Note: PC Expenditures Services are nearly 6.5 times greater than PC expenditures on Durables

13

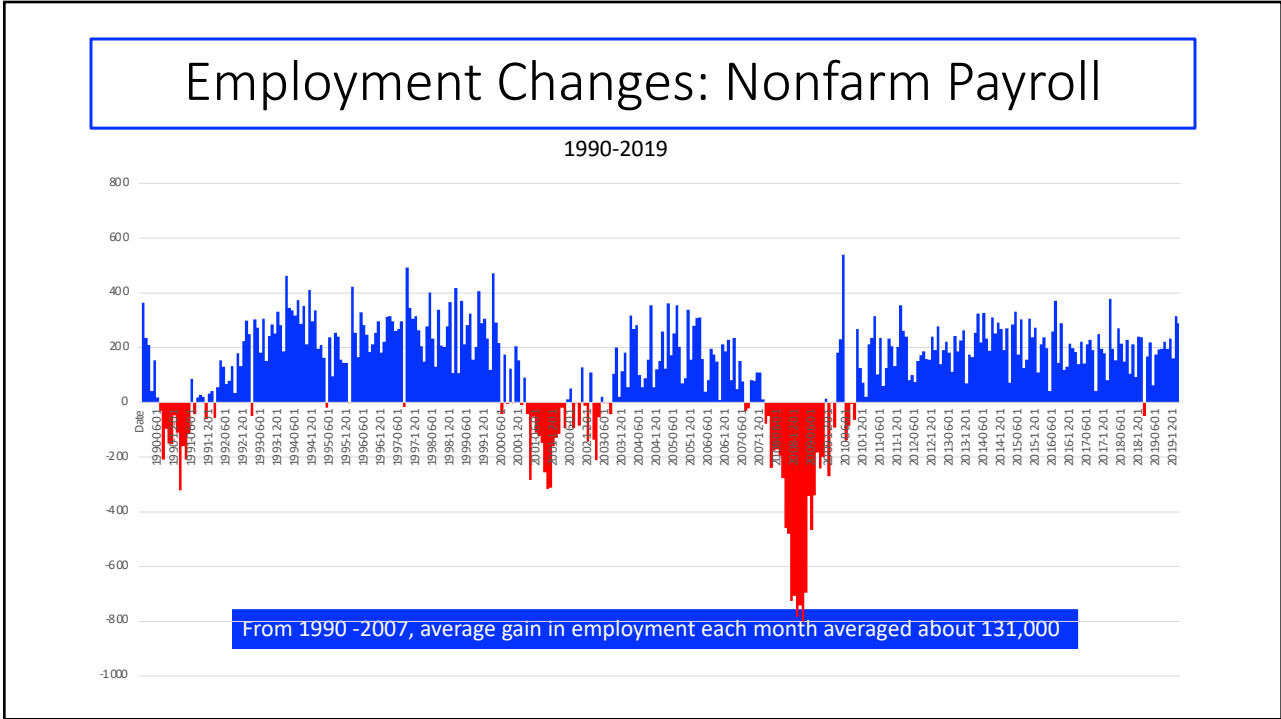
Employment

- Unemployment
- Employment Growth
- Employment by Sector

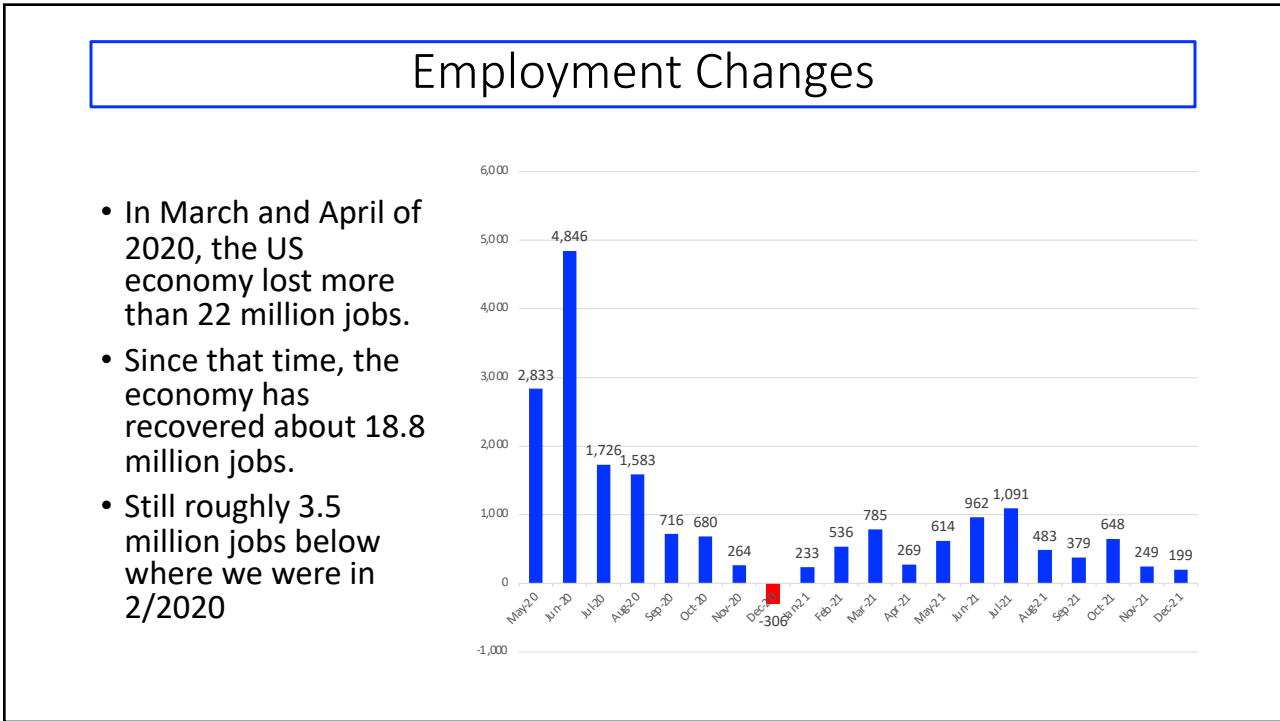
14



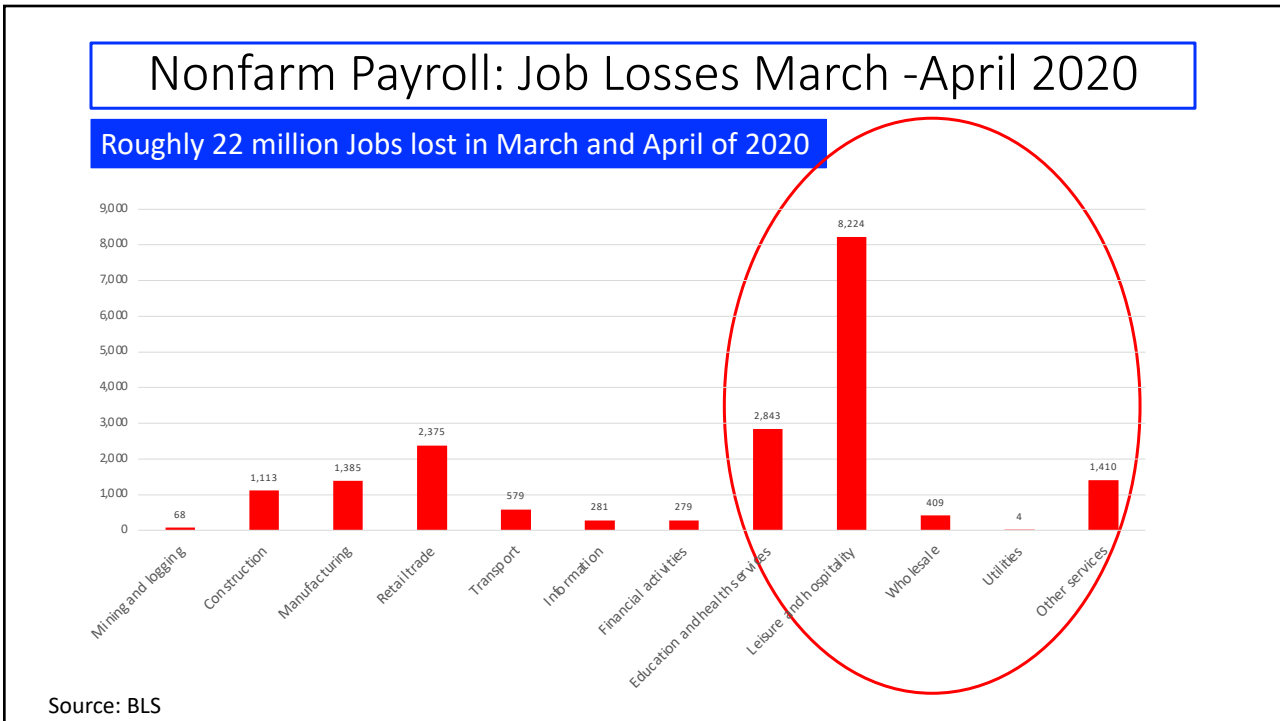
15



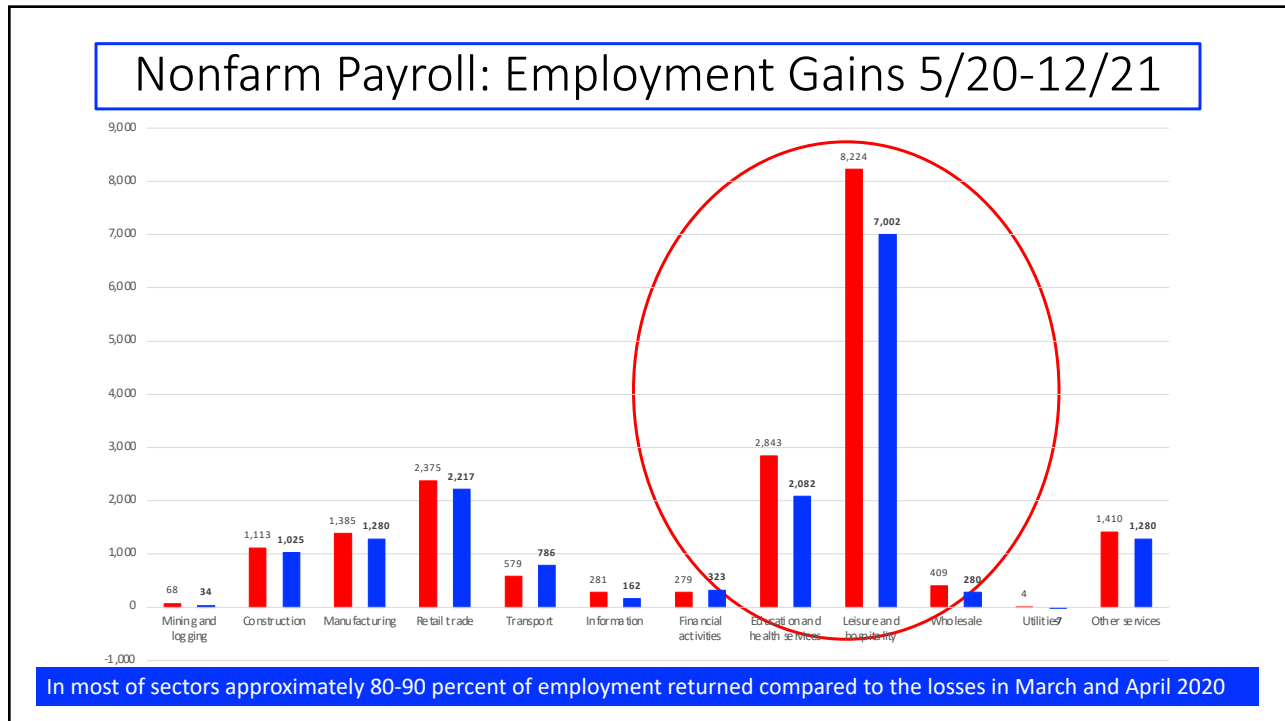
16



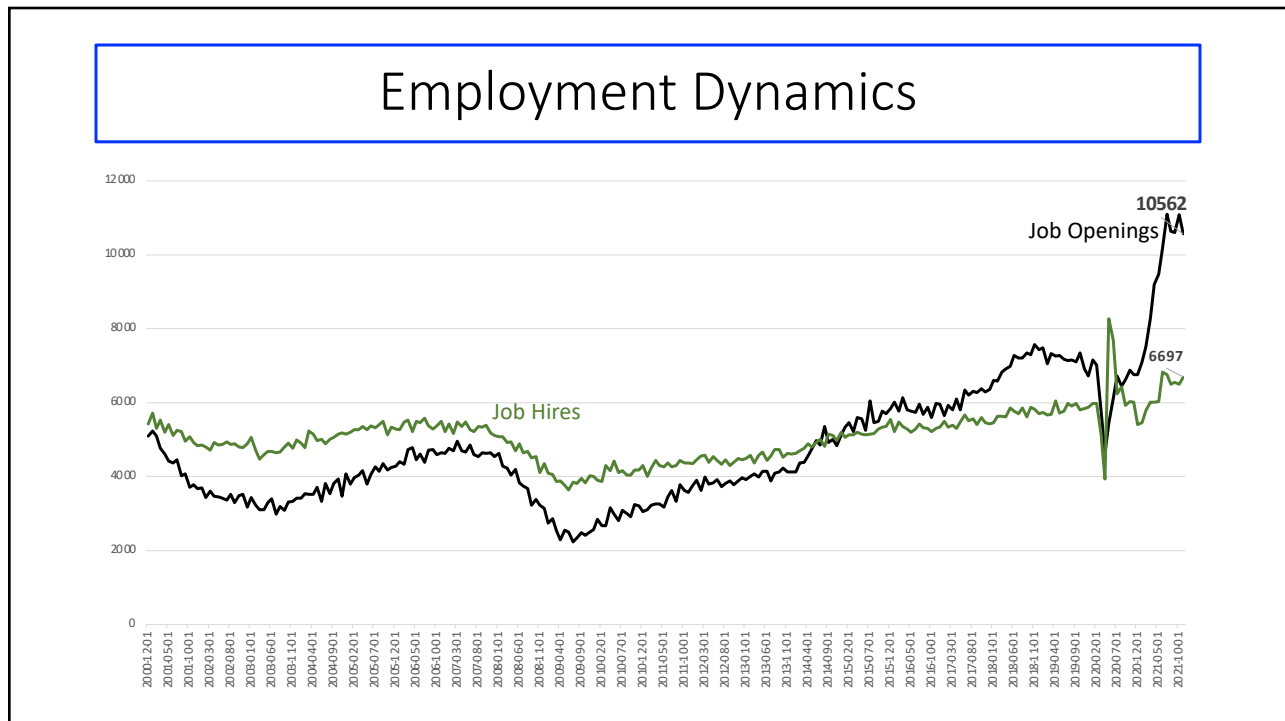
17



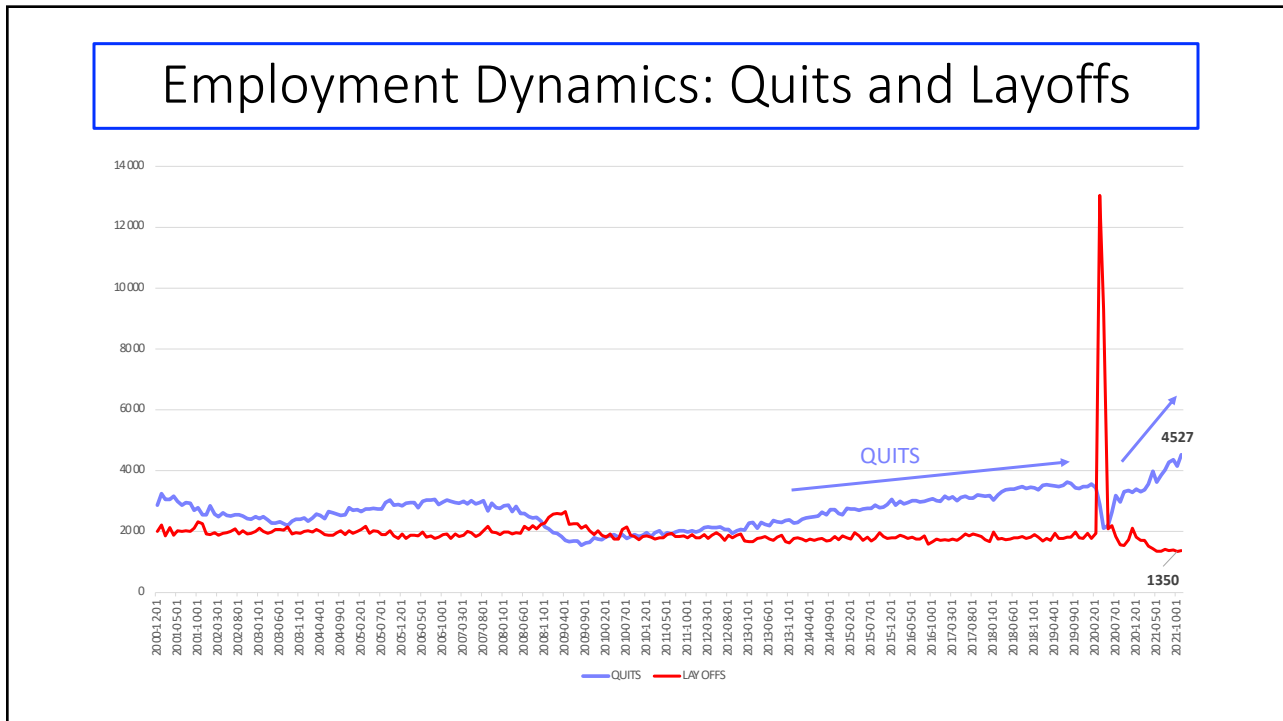
18



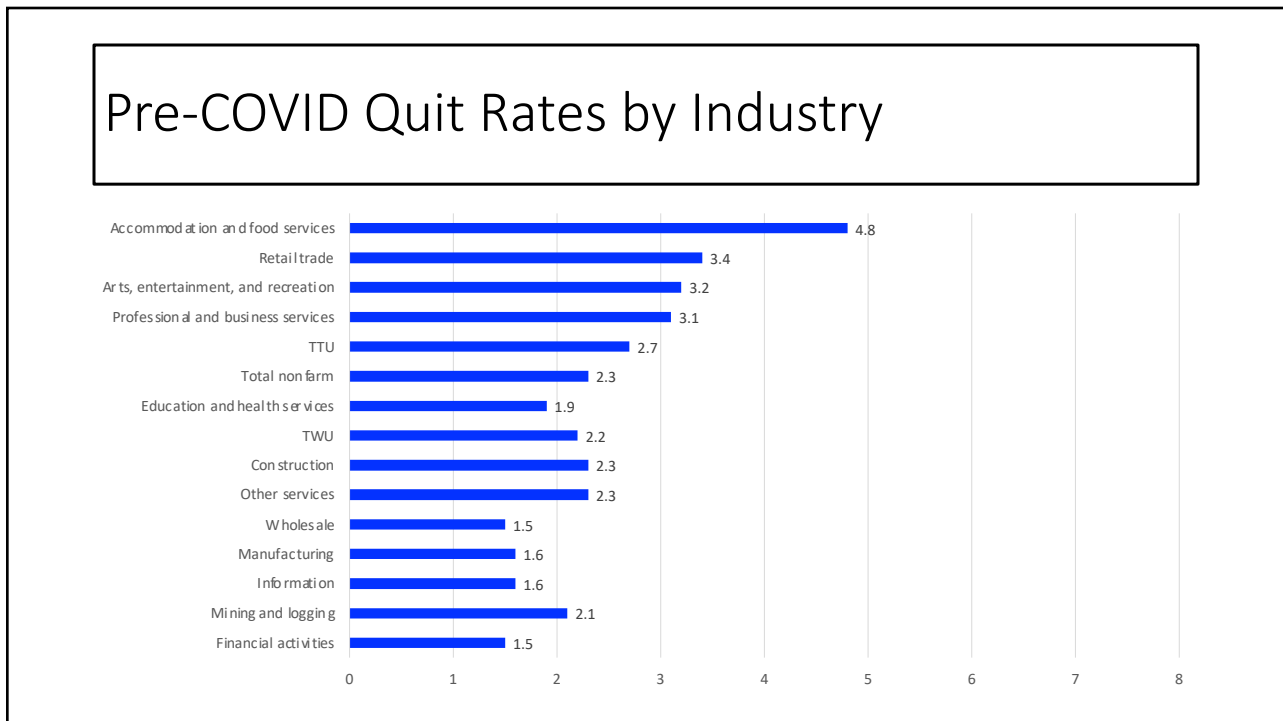
19



20

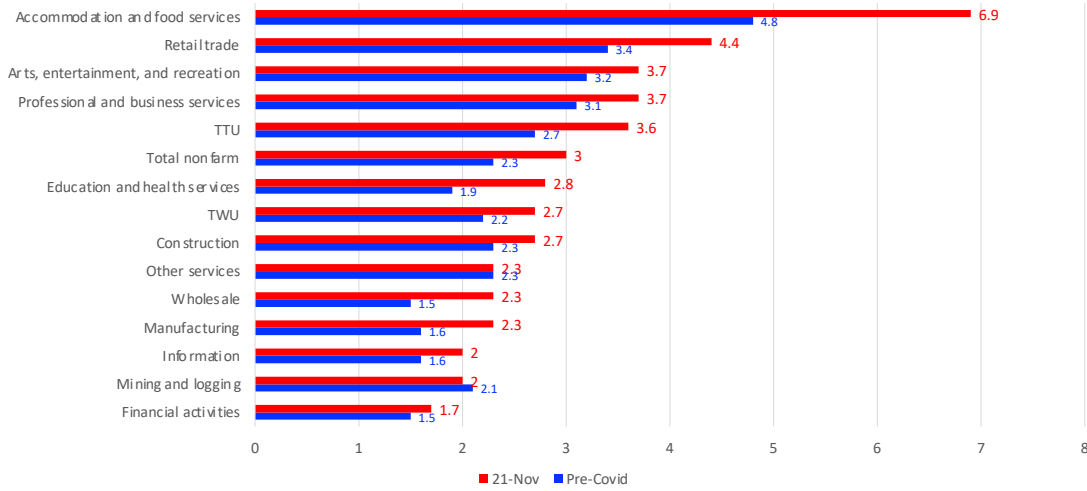


21



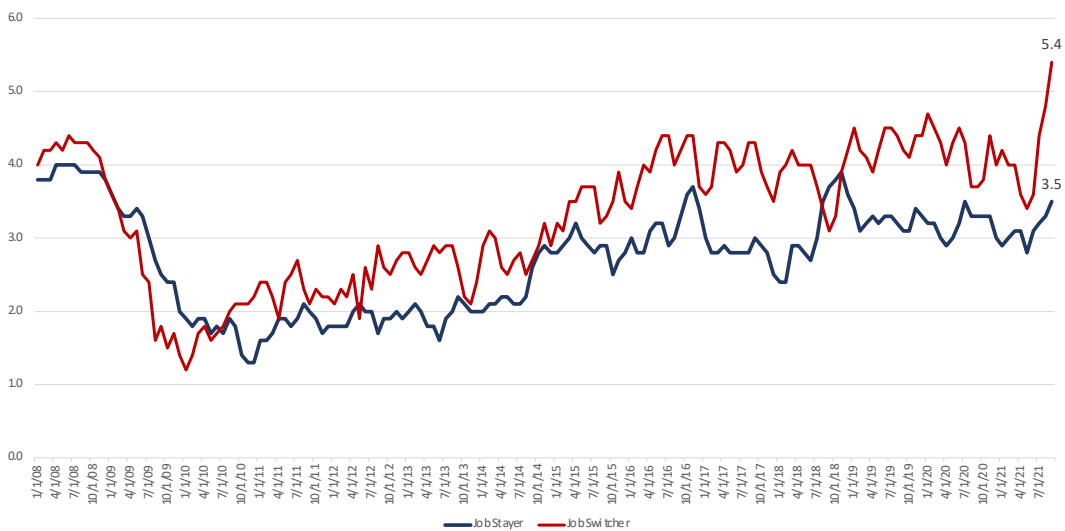
22

Pre & Post COVID Quit Rates by Industry

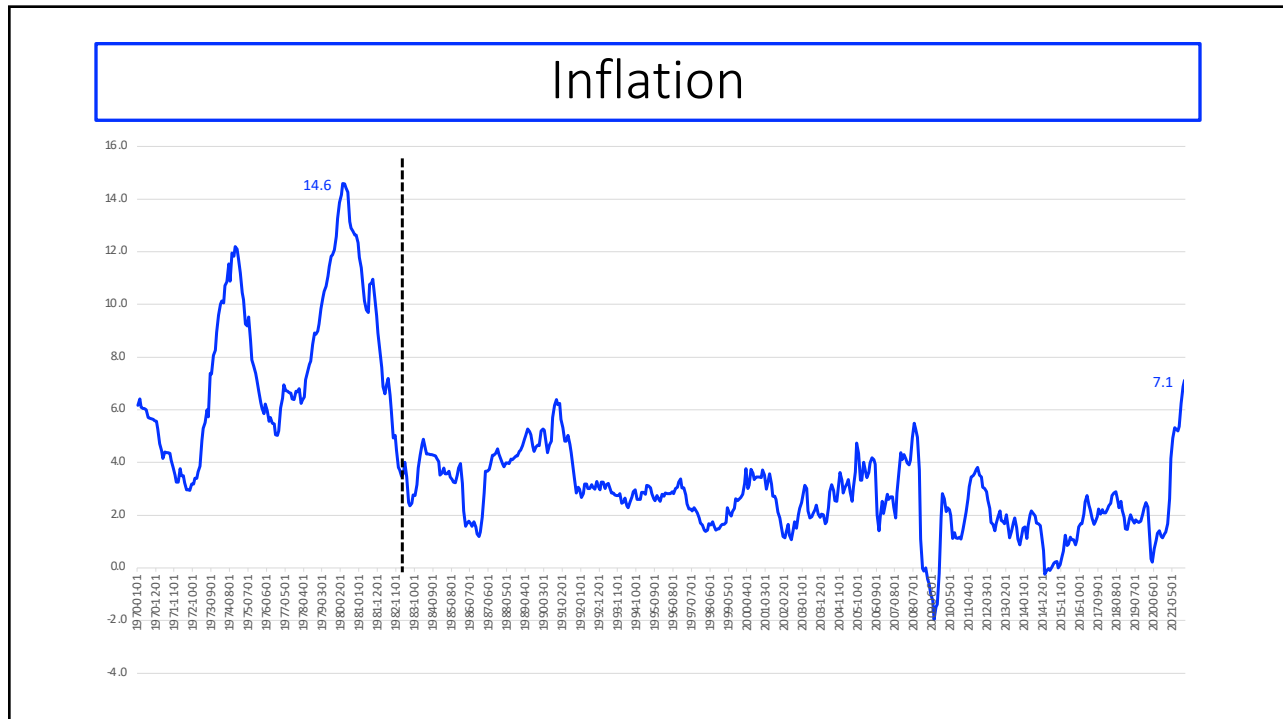


23

Employment Dynamics: Wage Growth



24



25

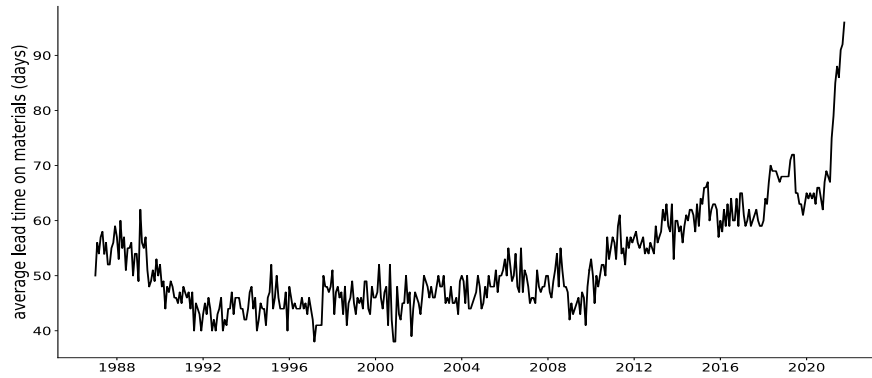
What is Driving Inflation?

- **Profiteering / Greed:** President Biden and Senator Elizabeth Warren.
- **Supply Chains Disruptions:**
 - the pandemic has impacted the ability to get parts and supplies.
 - Labor shortages and rising wages have raised costs and help push up prices.
- **Increased Demand:**
 - During the pandemic there has been an increase in demand for goods. For many of these goods, it is not easy to ramp up production.
 - The fiscal and monetary authorities have provided lots of stimulus.

26

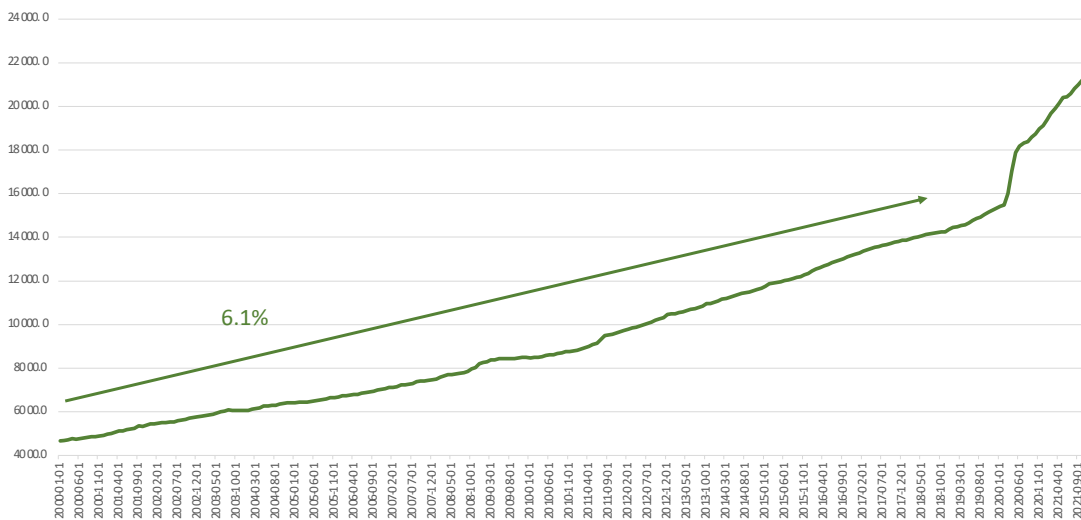
ISM Survey Delivery Delays

Figure 2: Delivery Delays

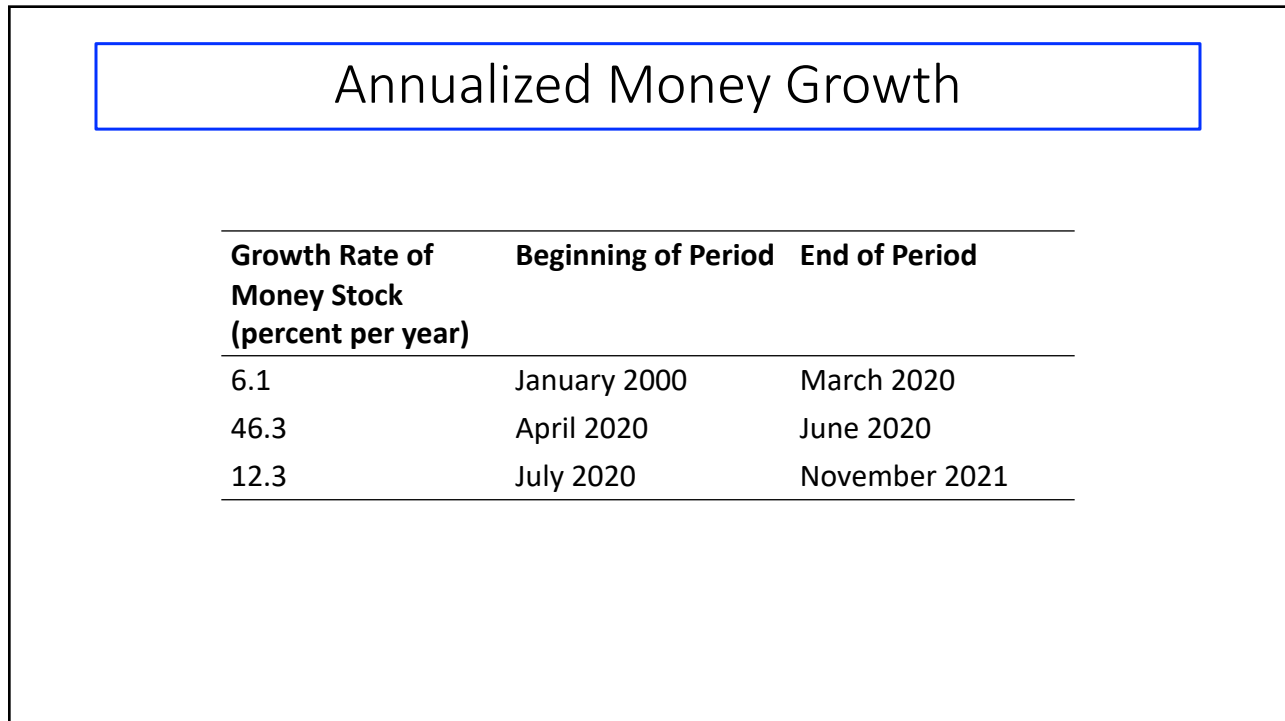


27

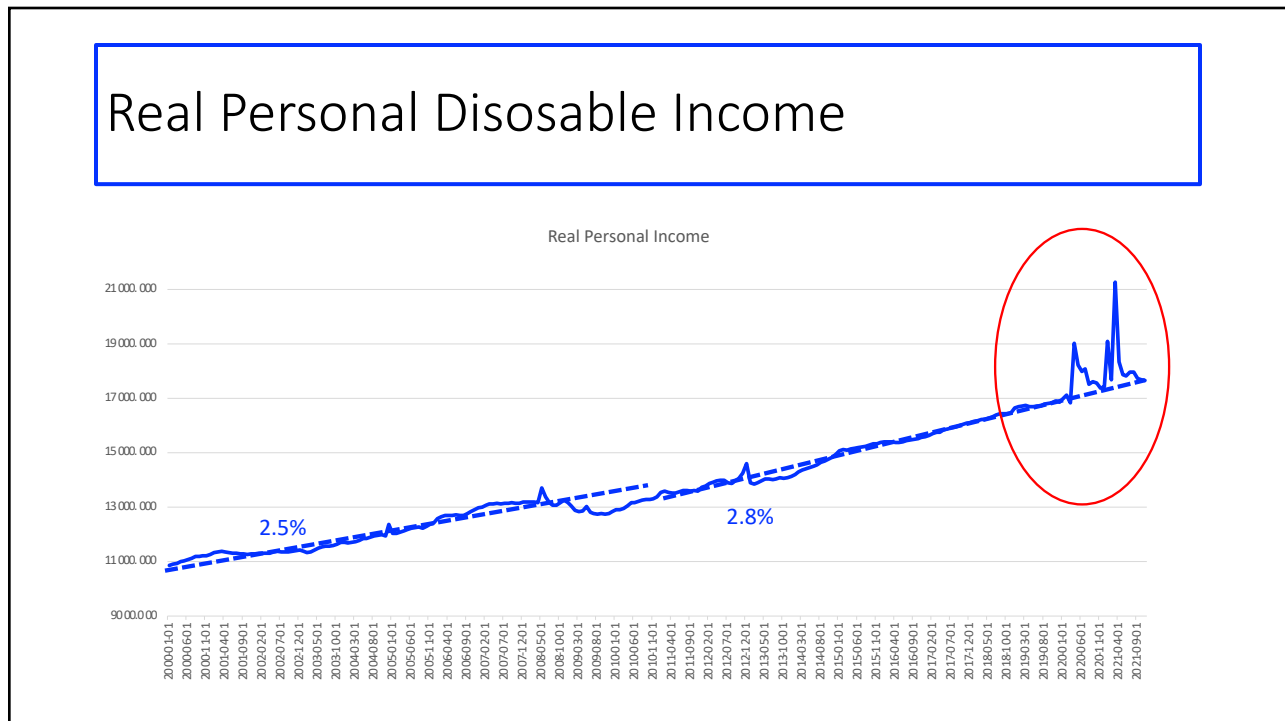
Money Growth: M2 (Transactions Money)



28



29



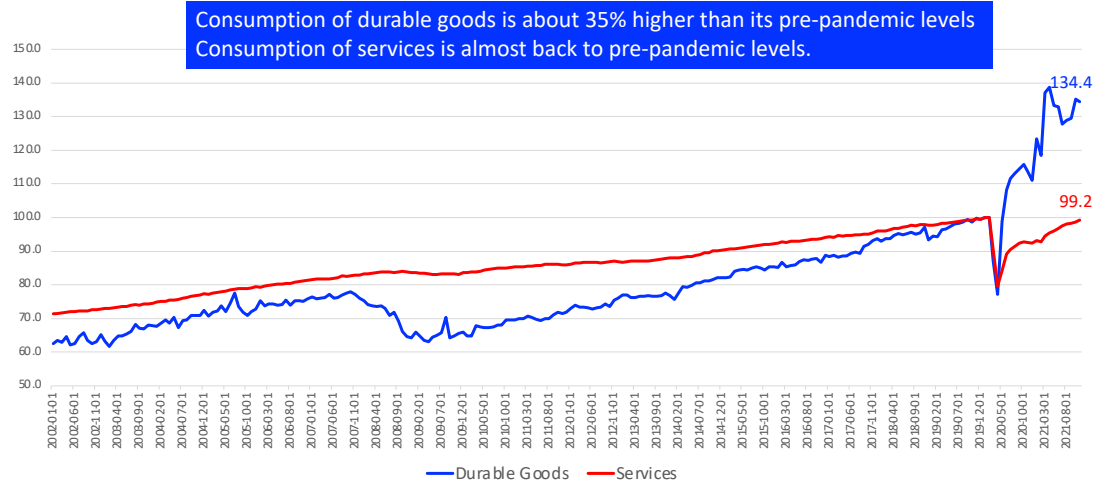
30

Personal Savings as a Fraction of Disposable Income



31

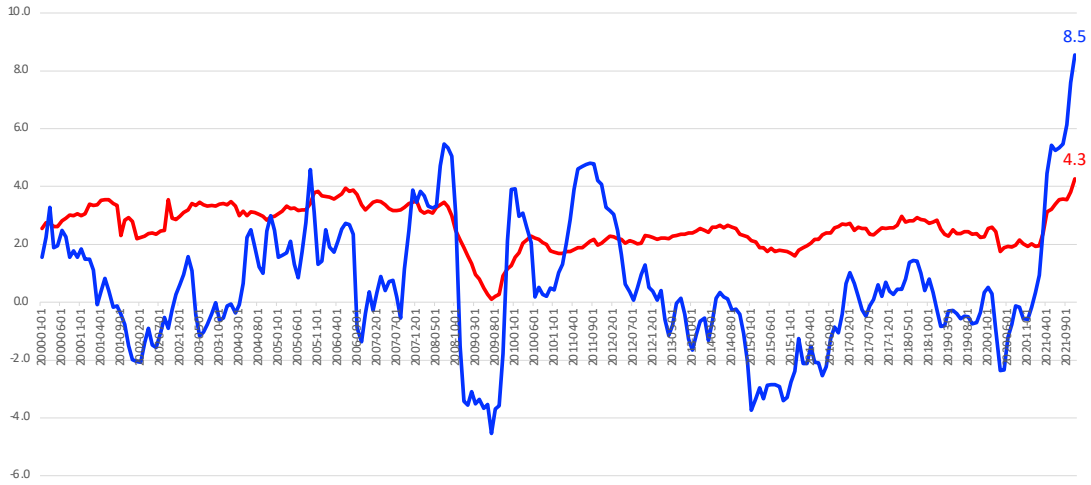
Durable Goods and Service Consumption



Note: PC Expenditures Services are nearly 6.5 times greater than PC expenditures on Durables

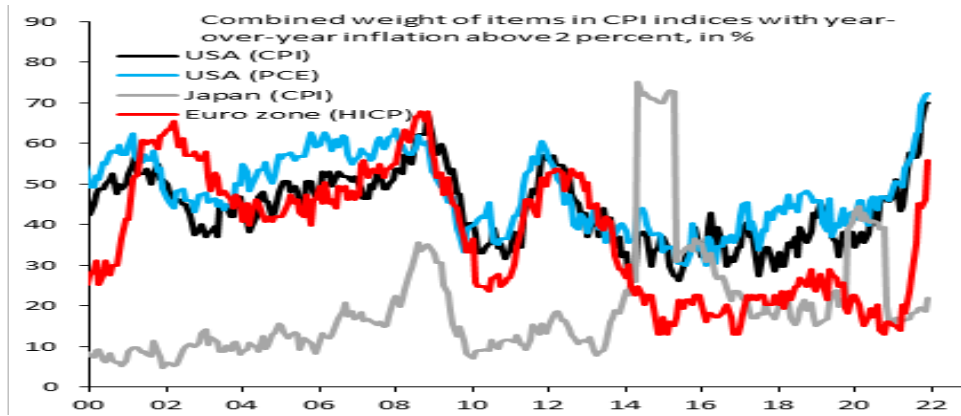
32

PCE Inflation: Goods and Services



33

Is Inflation Occurring in Just a Few Categories?



34

Monetary Policy

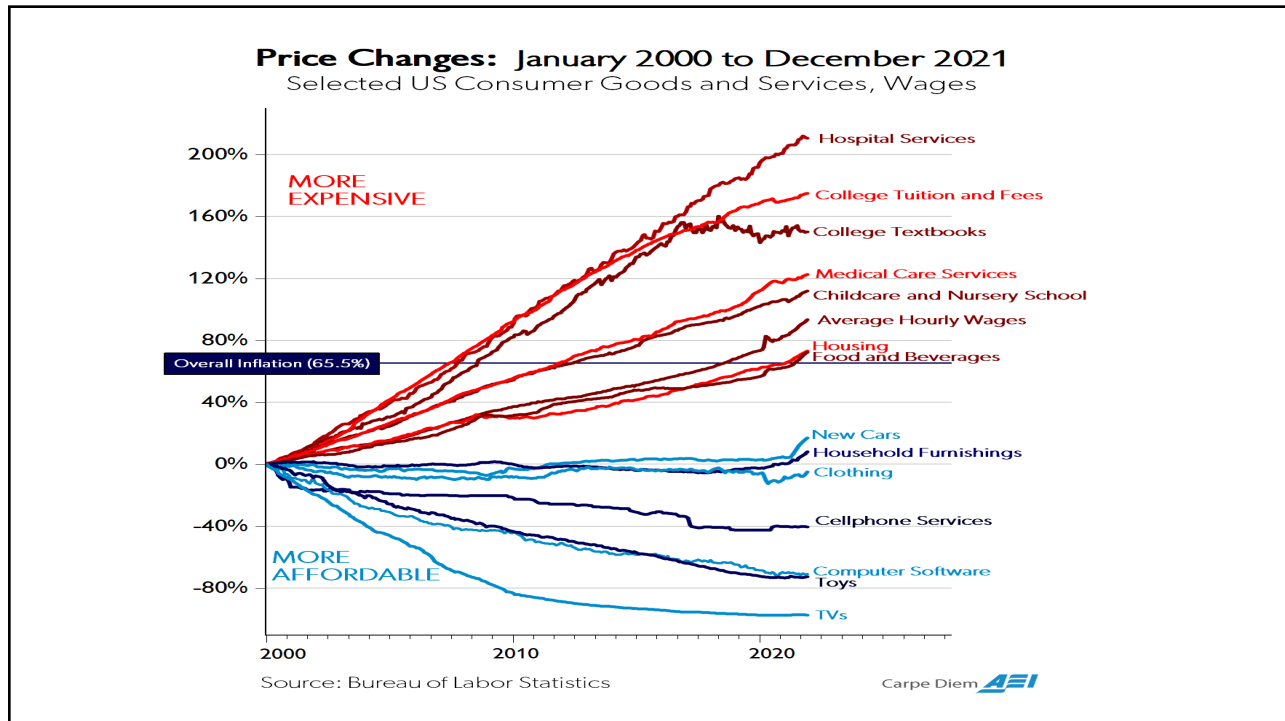
- Fed does not control M2
- What generally determines the growth of M2?
 - Expected inflation
- Recent increase is something different
 - Federal government transfers to checking accounts
 - Helicopter drop
- Generally, faster growth of M2 associated with higher inflation
 - Here?

35

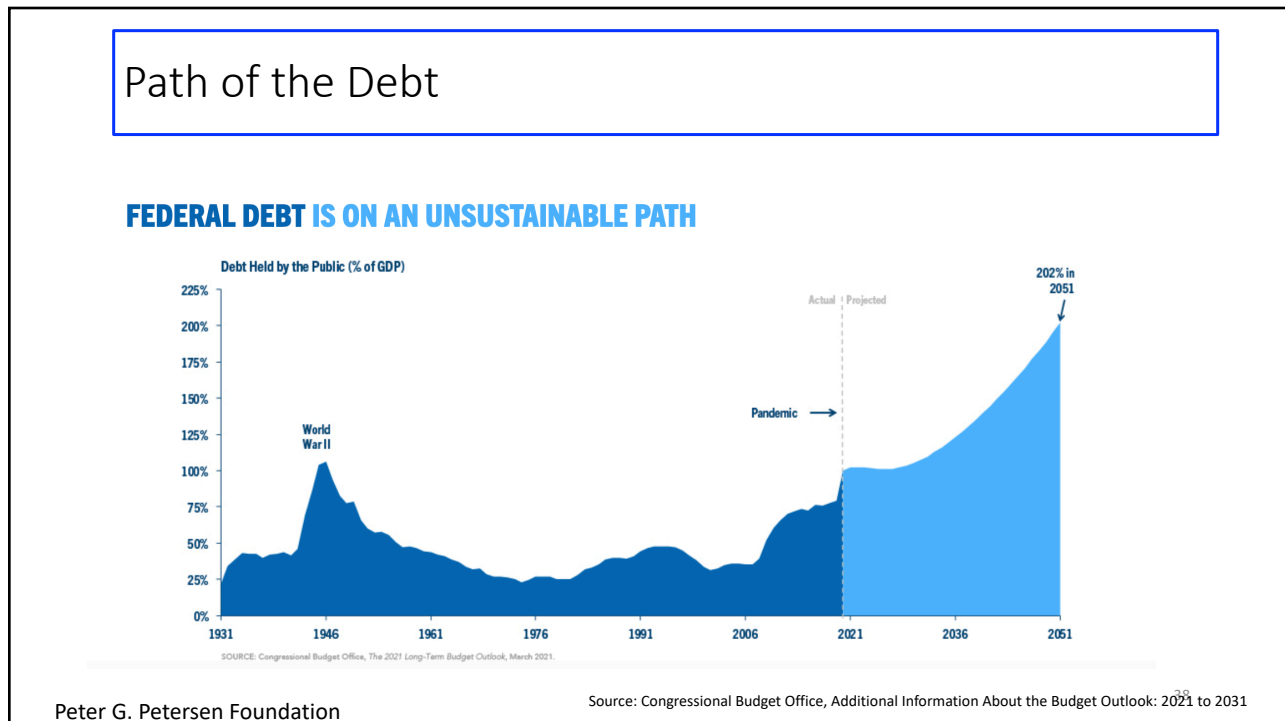
Inflation Over the Next Few Years

- Reasonable to expect prices continue to rise
- What will happen to expected inflation?
 - Stay at Federal Reserve target rate of 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

36



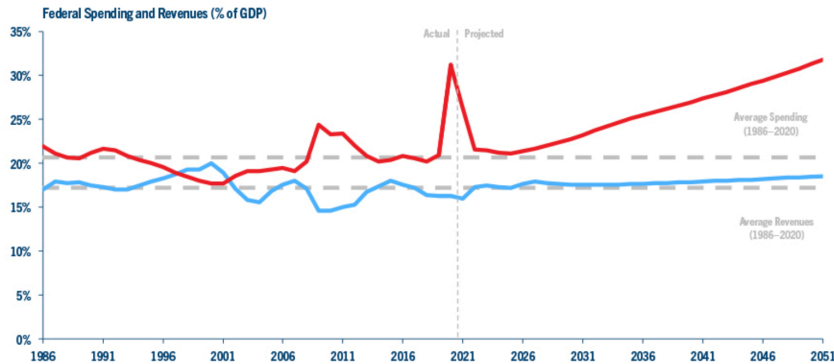
37



38

Path of the Debt: Spending and Revenues

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



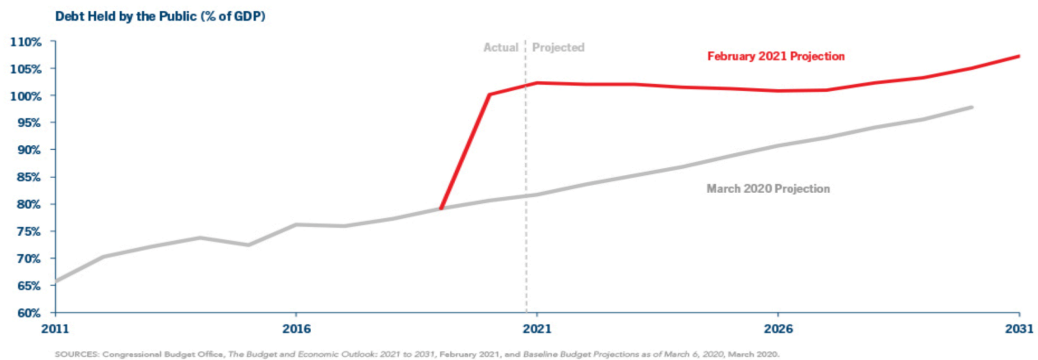
Peter G. Petersen Foundation

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

39

Path of the Debt: Spending and Revenues

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



Peter G. Petersen Foundation

40

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 ...

41

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

42

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