

# U.S. Economic Outlook

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National Economic Education Delegation



1

1

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- **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

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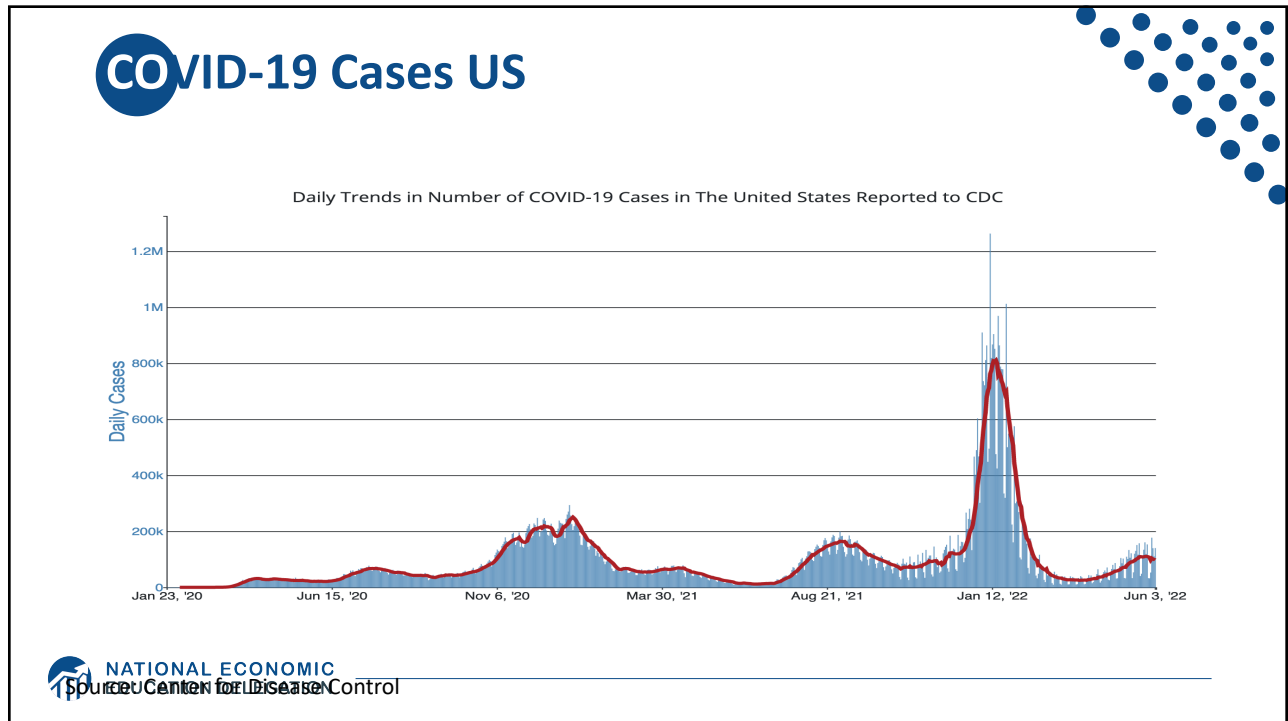
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## Outline – U.S. Economic Outlook

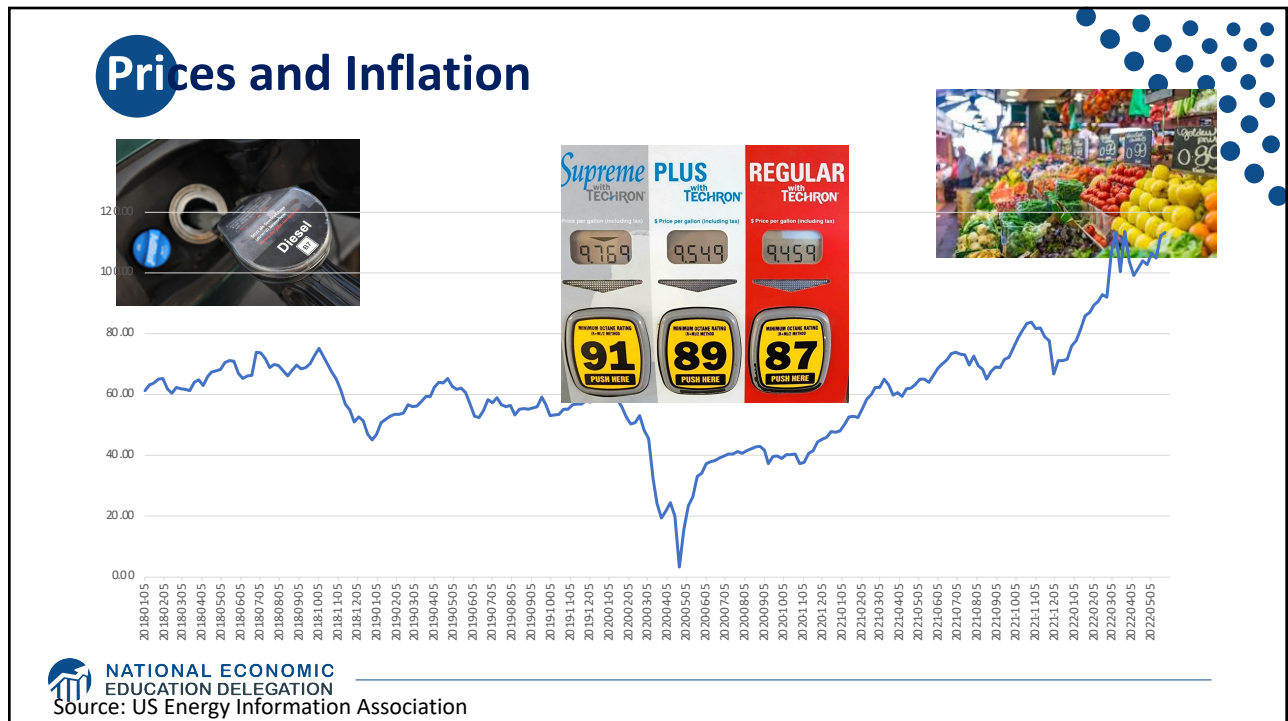
- **Behavior of GDP**
- **Labor Market**
- **Monetary Policy/Interest Rates**
- **Other Indicators**
- **Summary**



4



5



6

## Takeaways

- **Economic Growth: The recovery has been a V-shaped recovery**
- **The economic recovery should continue through 2022.**
  - IMF expects US growth to be 3.78% -- downward revision from 5.2%
  - Economic growth in 2022:Q1 was muted for the reasons discussed below.
  - Tailwinds: Strong consumer demand
  - Headwinds: Inflation, supply chain disruptions, rising commodity prices, labor market challenges
- **The labor market still faces some challenges**
  - The unemployment rate is low.
  - In many sectors, we have not reached pre-pandemic employment levels.
- **Inflation: What is fueling inflation?**
  - Supply chain disruptions
  - Changes in the composition of demand



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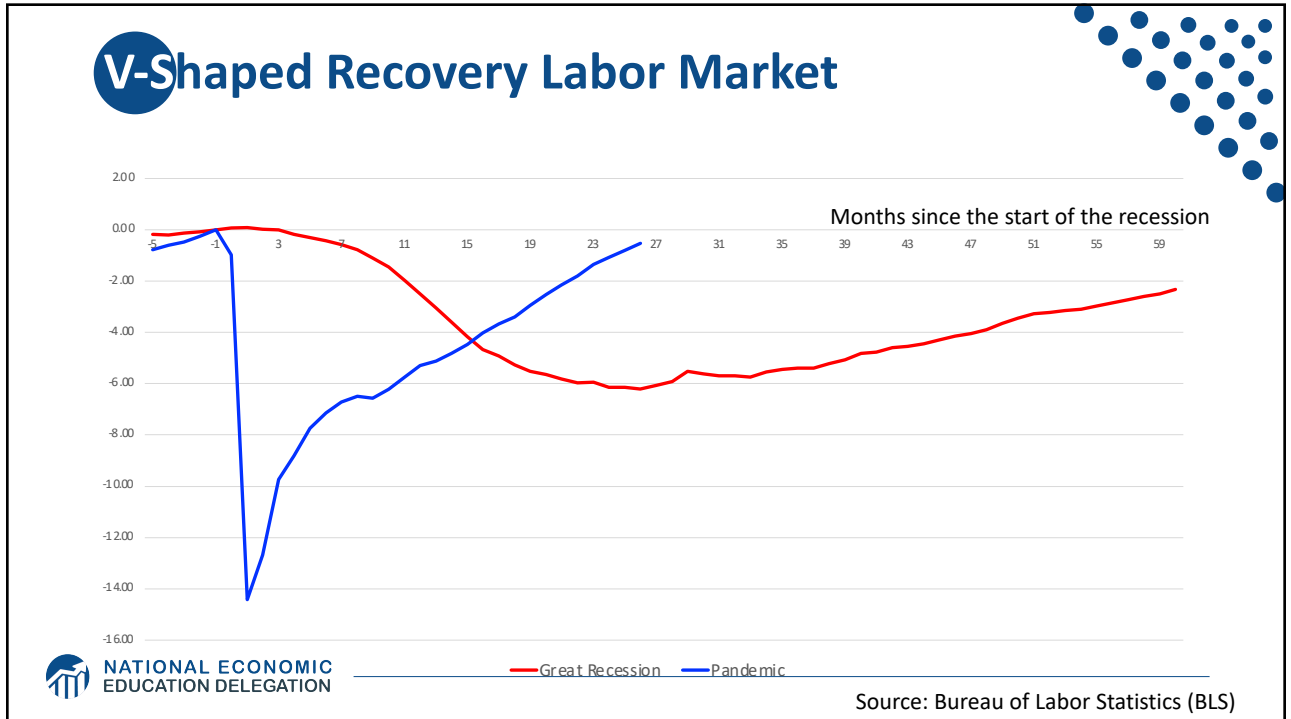
## Takeaways

- **Is a recession on the horizon?**
  - Larry Summers, Jamie Dimon, and Elon Musk are worried about a recession.
  - While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
    - o Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
    - o Job creation remains robust – Friday's job report indicated that the US added 390k jobs.
- **What about first-quarter GDP?**
  - 2022:Q1 was -1.5%
  - Some of this lower growth was driven by Omicron variant.
  - Much of this lower growth was driven by reversions, the pandemic, and seasonality.



8

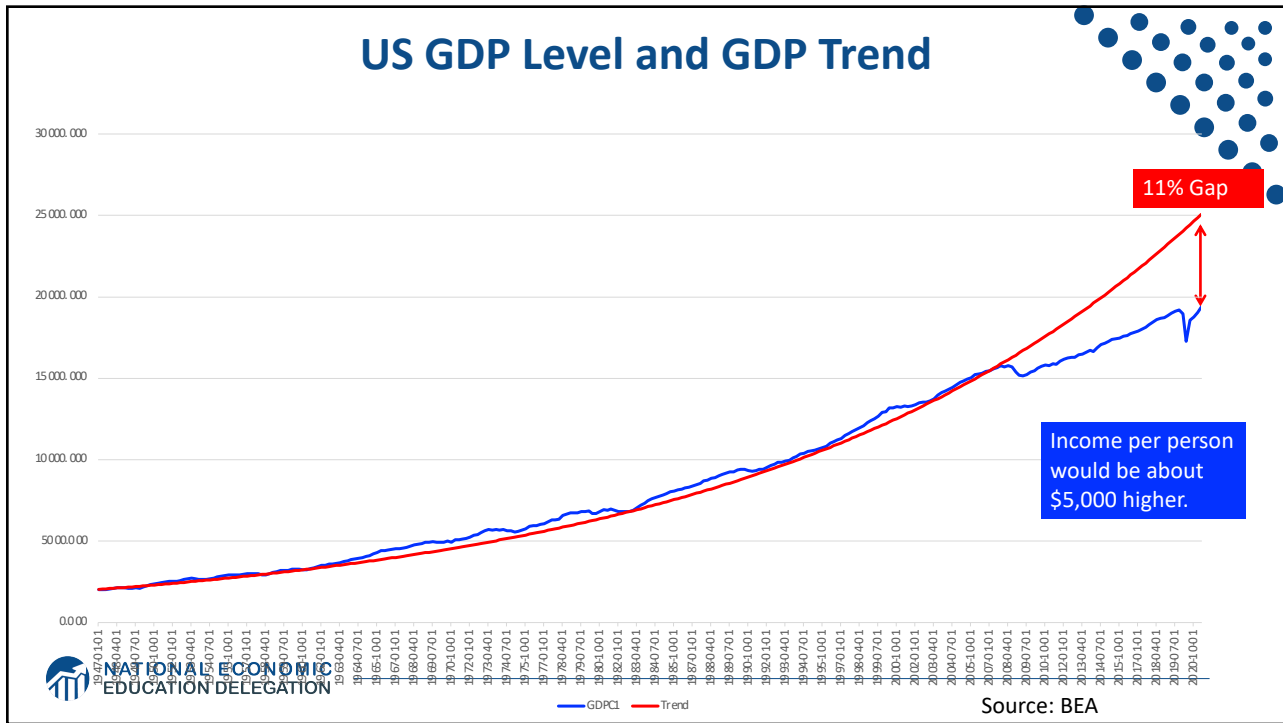




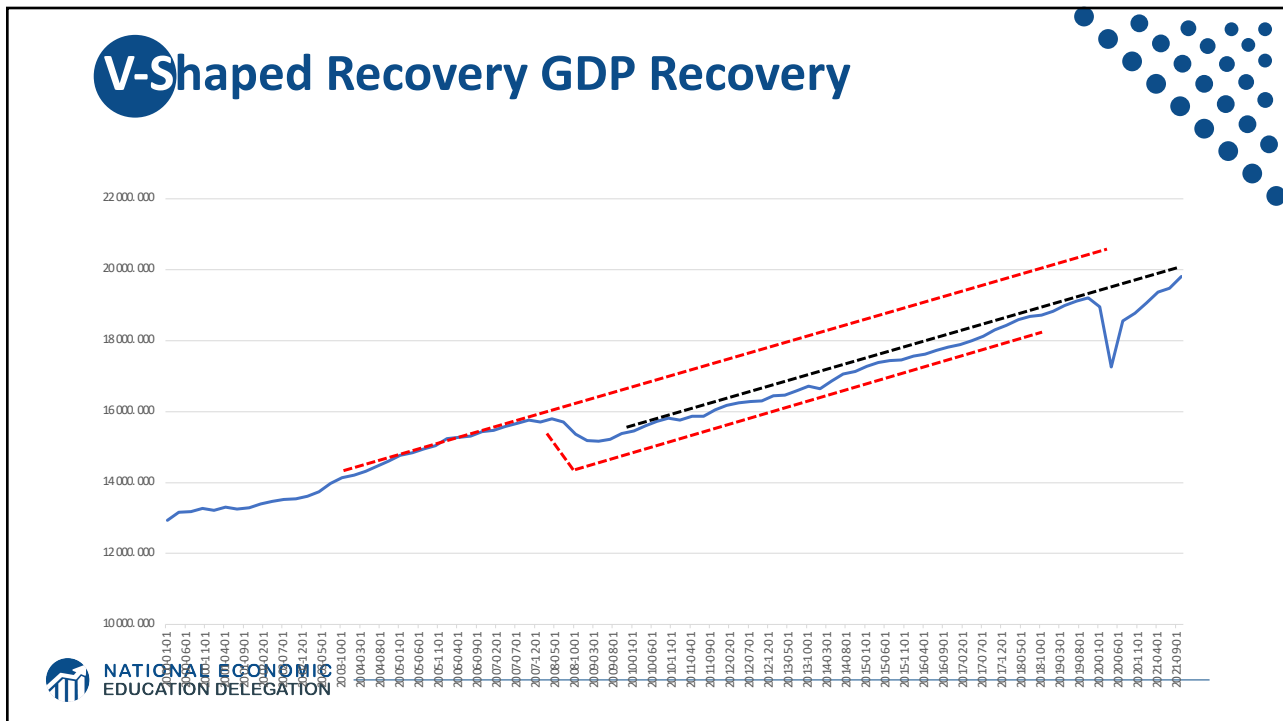
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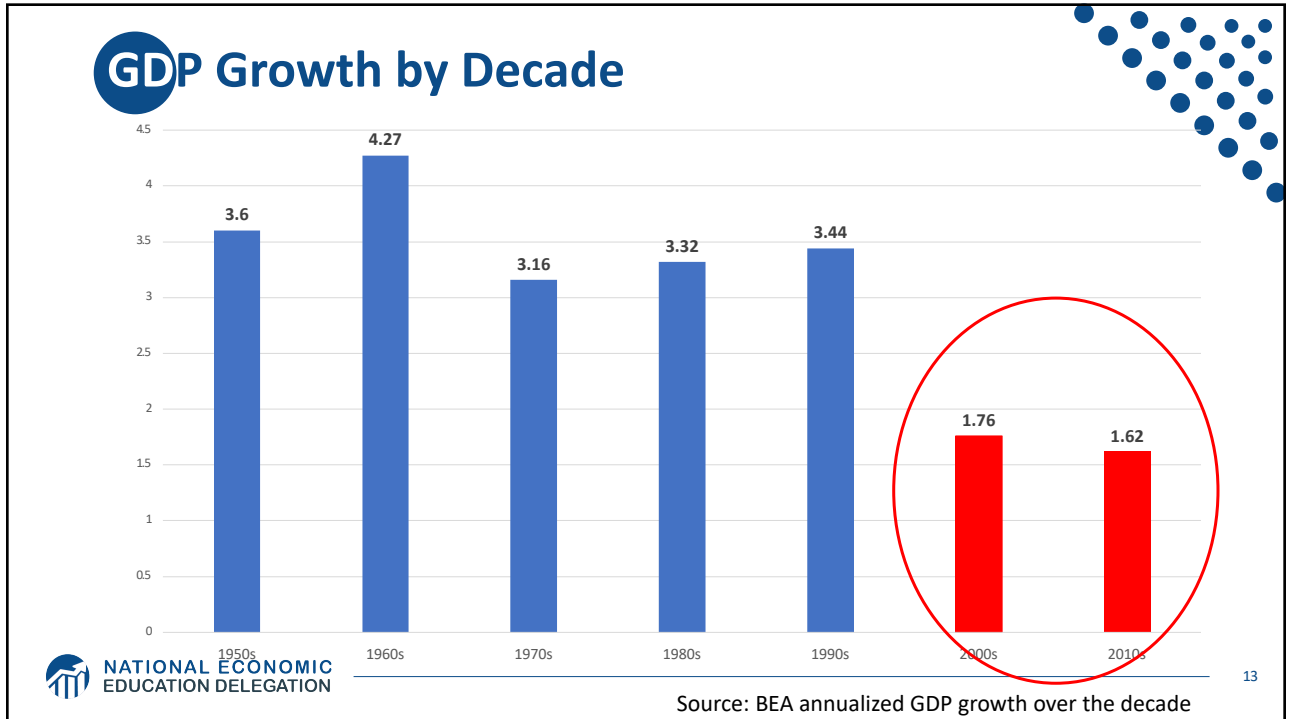
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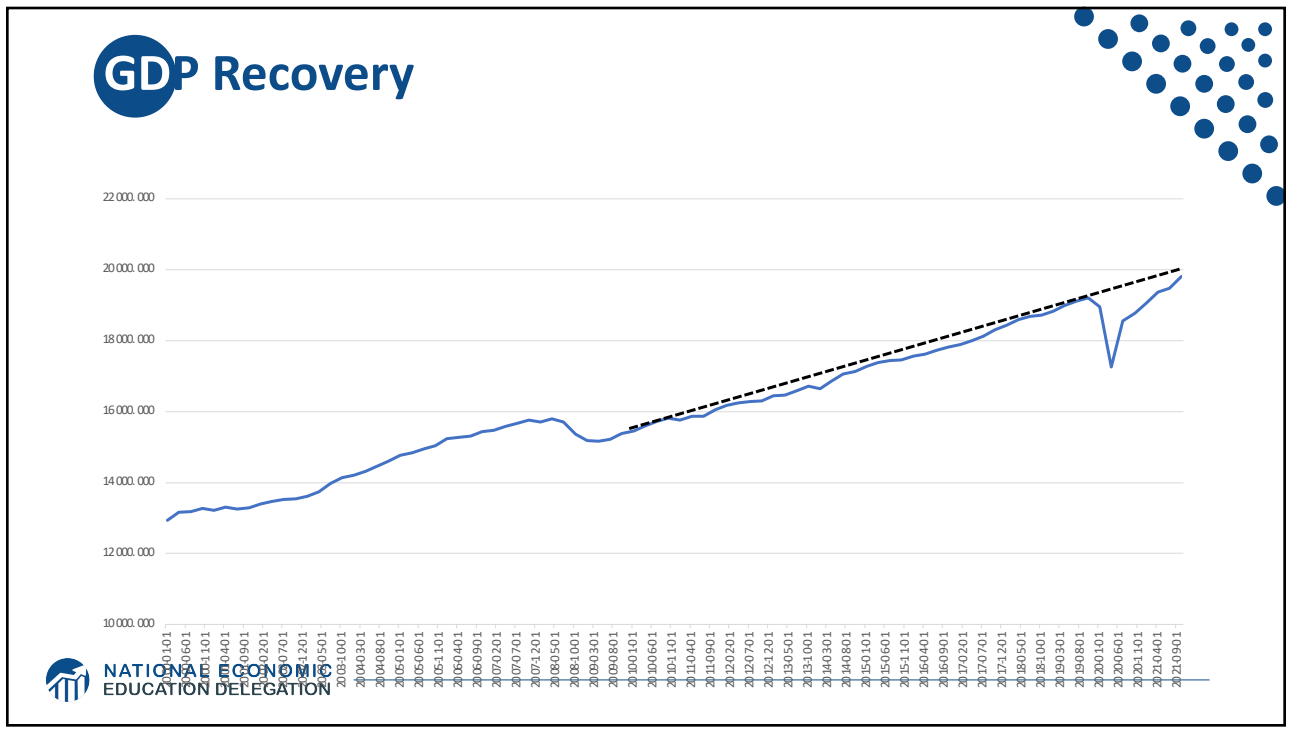
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14

## What Is “Accounting” for the Recovery?

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



15

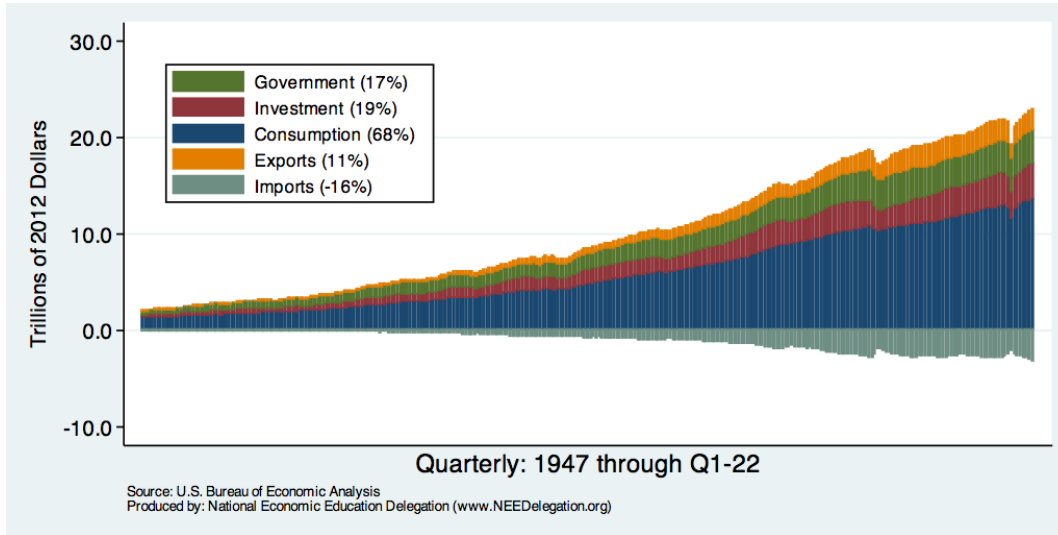
## A Note on Imports and GDP

- **GDP = Consumption + Investment + Government + Net Exports**
  - Net Exports = Exports – Imports
- **Give the impression that IMPORTS are bad for GDP**
  - They are not.
  - GDP measures domestic production / income.
  - From a practical, it easier to measure everything we buy at the stores (consumer, business, or government purchases).
  - and then subtract off the value of imports.
- **Calculating Gross DOMESTIC Production must exclude IMPORTS**
  - It is merely an accounting identity.



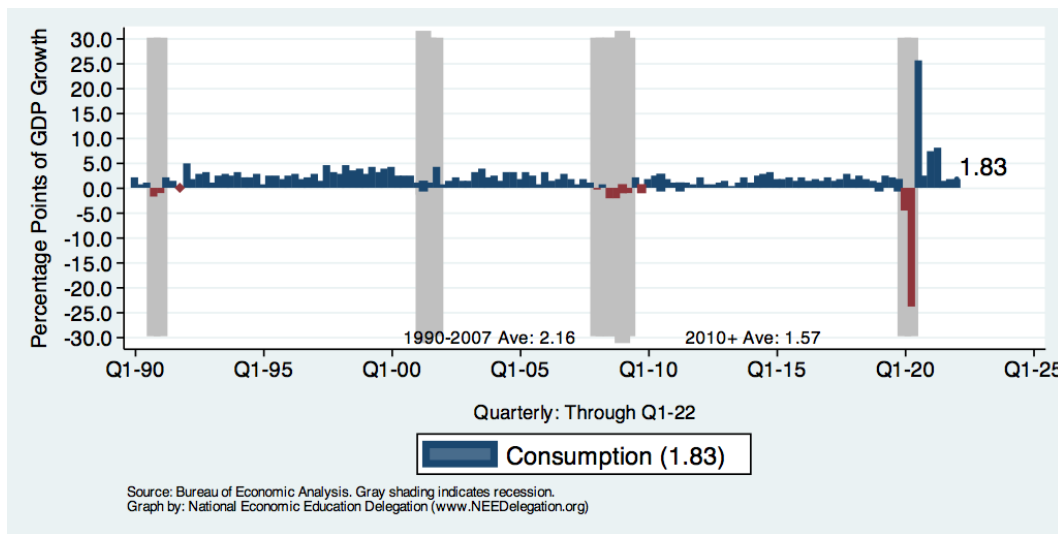
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## Composition of GDP – Inflation Adjusted

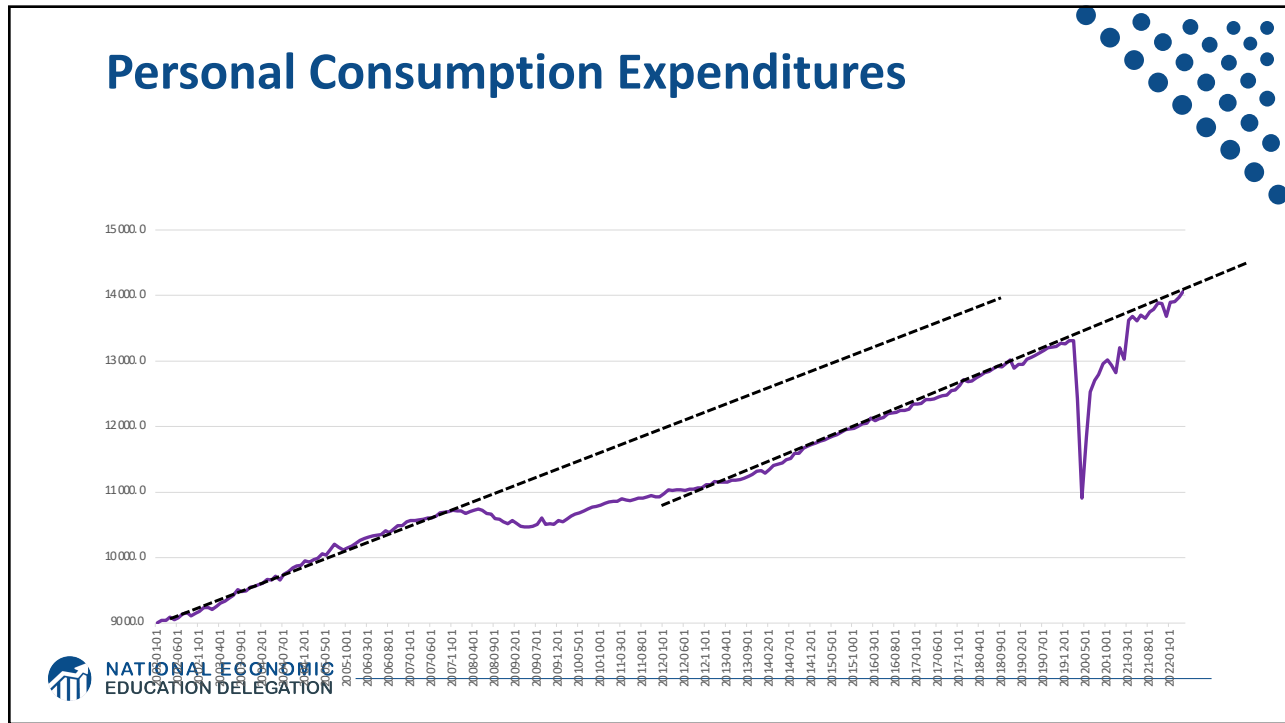


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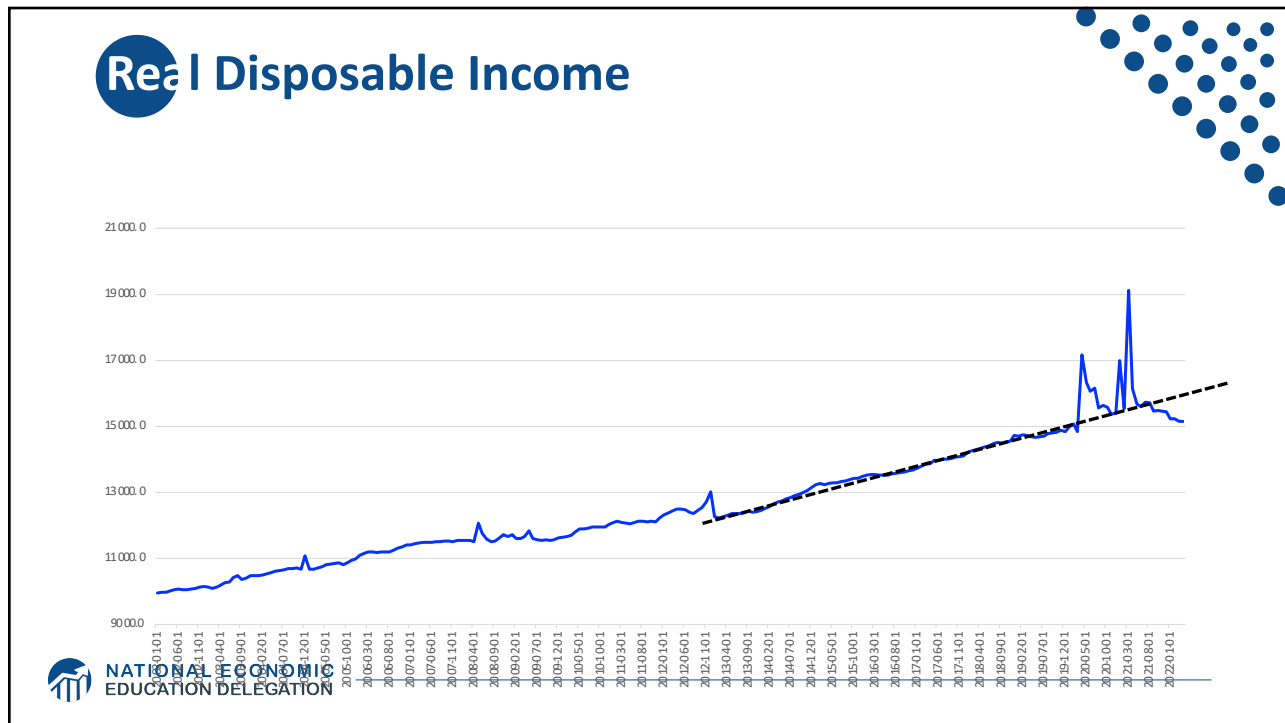
## Contribution to GDP Growth: Consumption



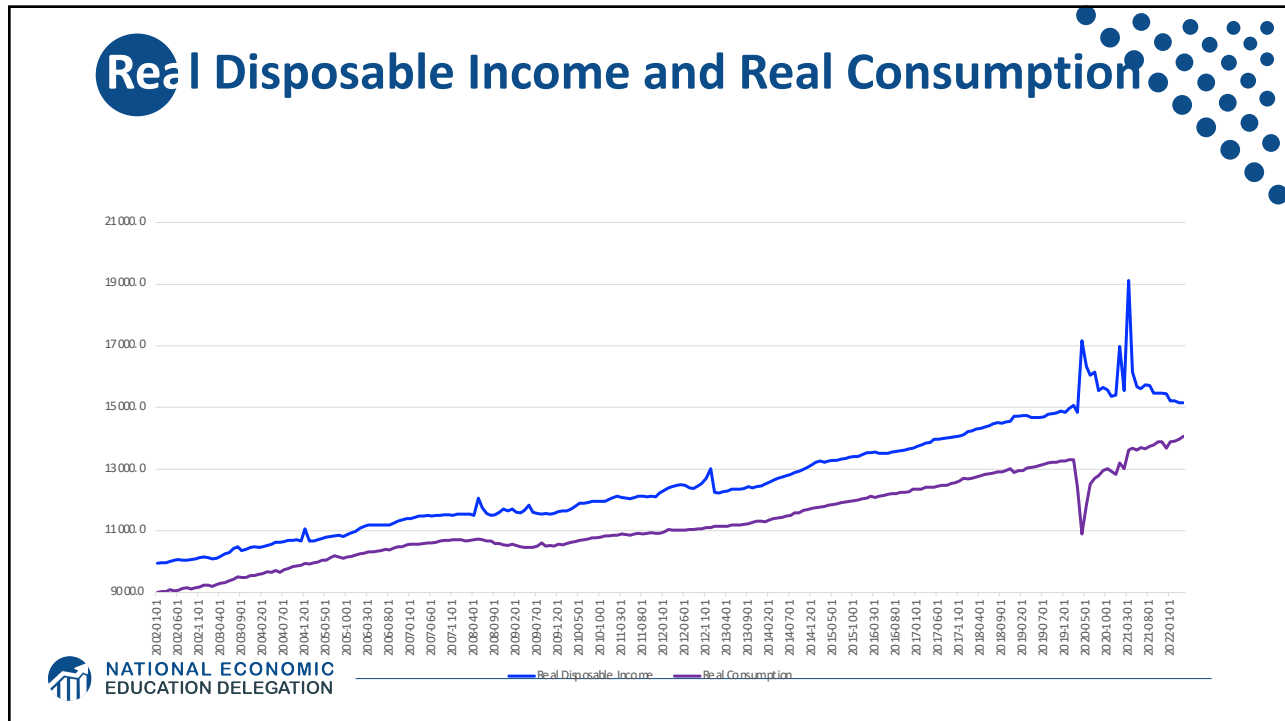
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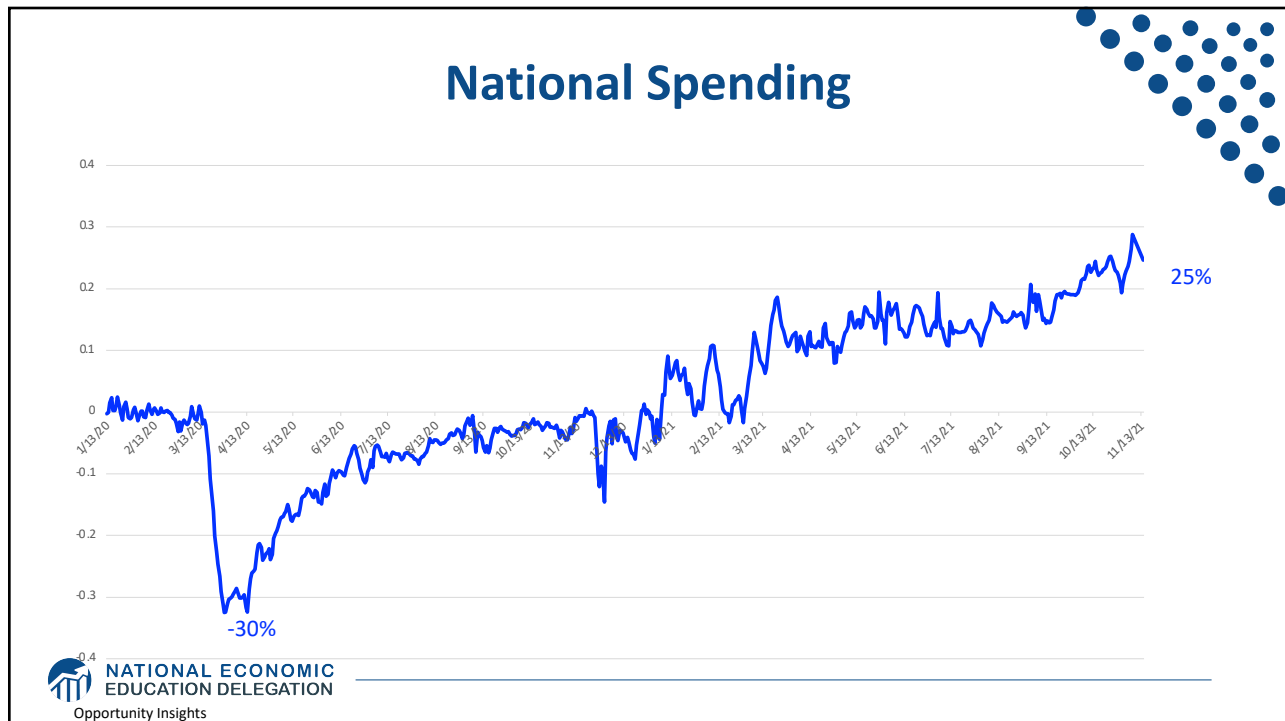
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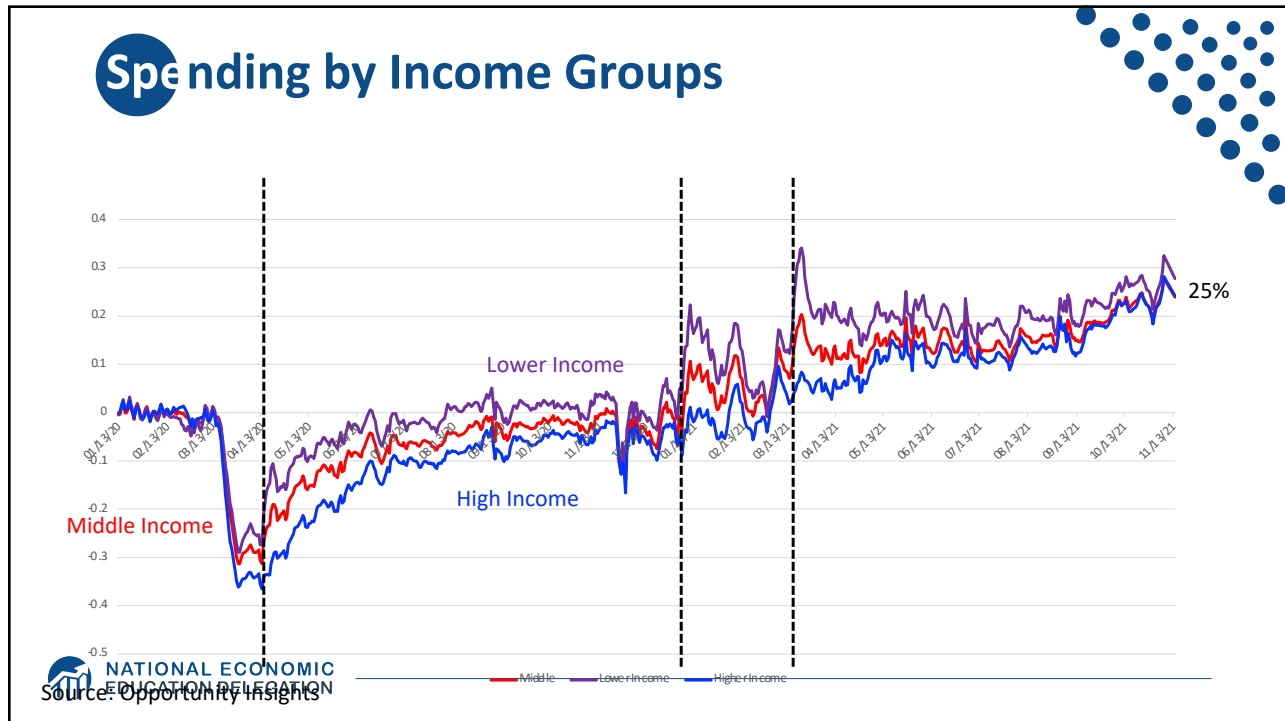
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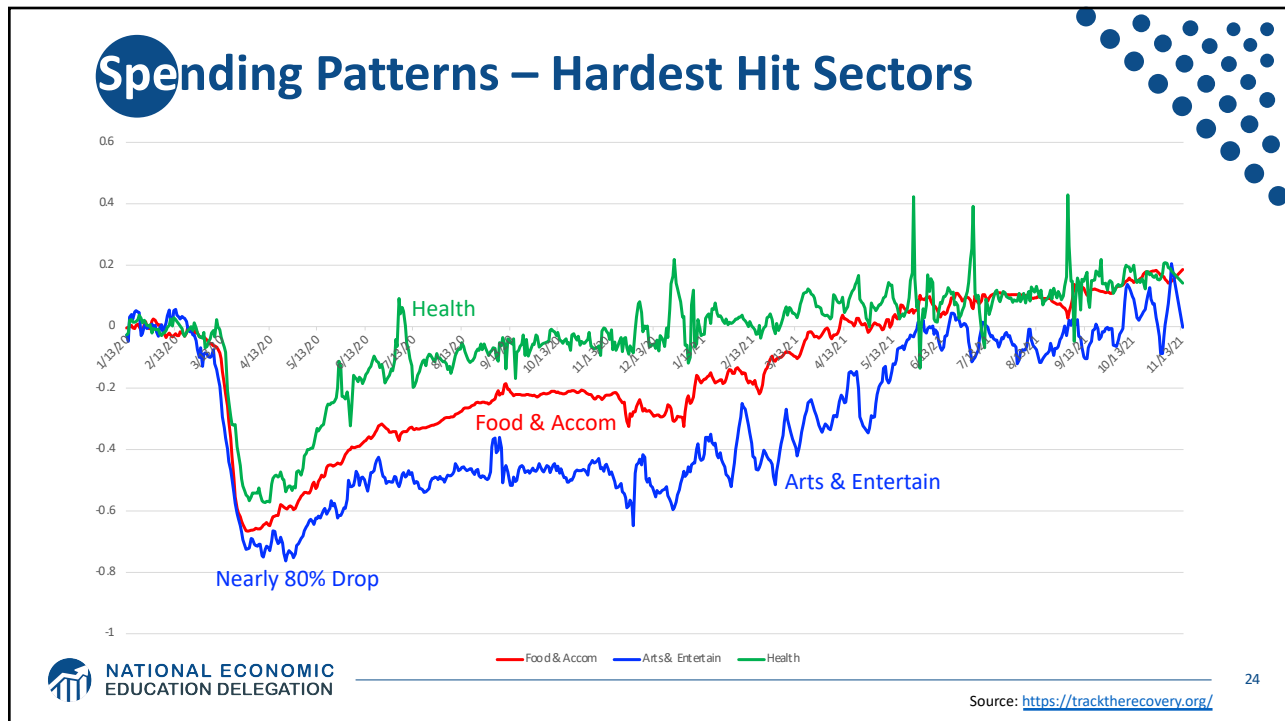
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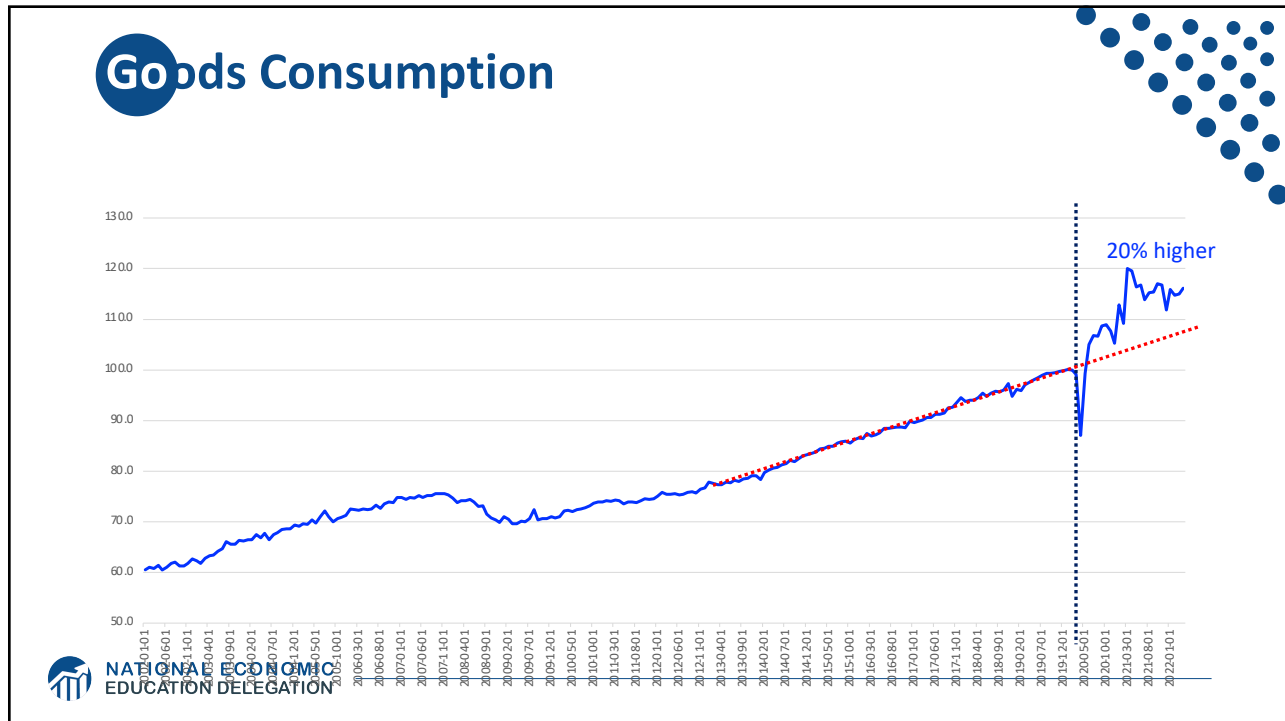


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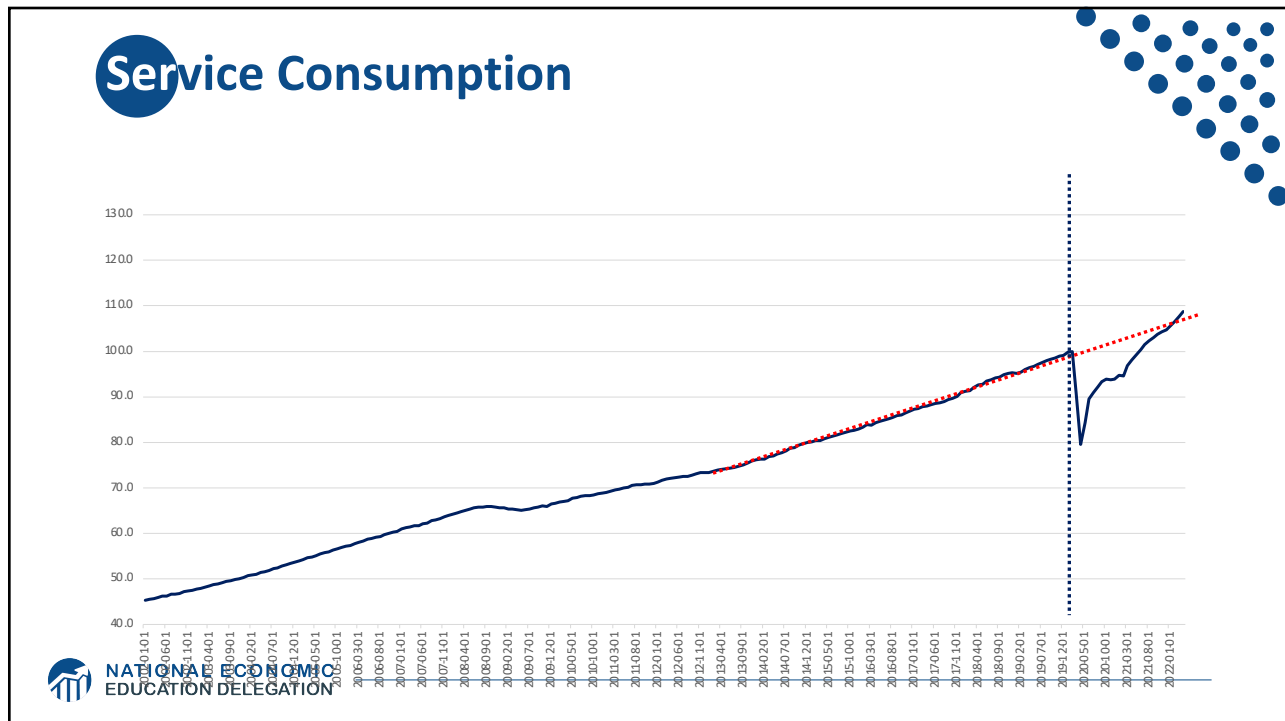


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## Take Away: Consumption

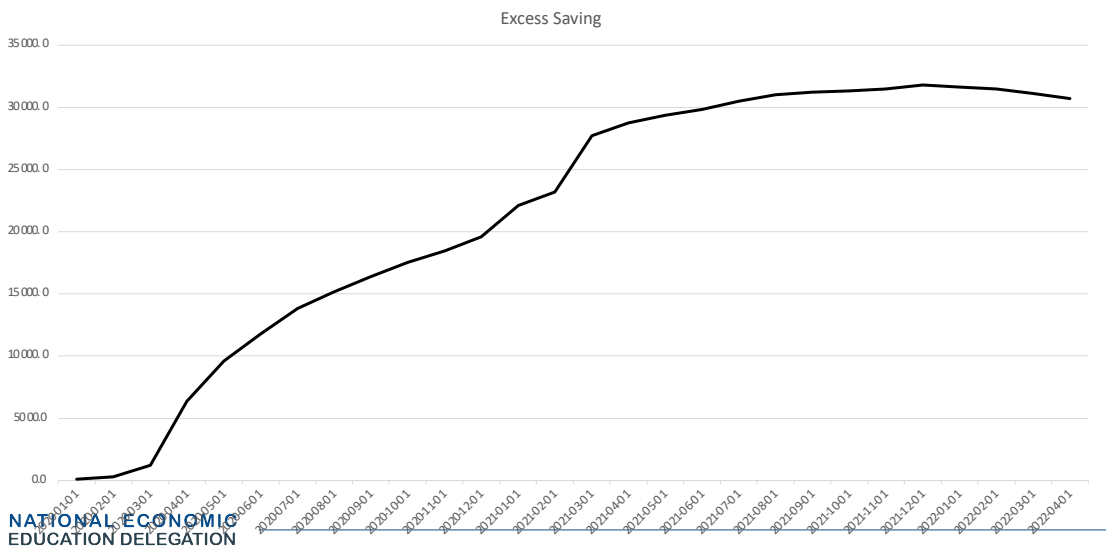
- Consumption has rebounded rapidly coming out of the recession.
- The rebound in consumption was supported by the stimulus packages that were passed by the Trump and Biden Administration.
- Compared to before the pandemic consumption has shifted more toward the consumption of goods and away from services.
  - This a demand effect that is causing some of the supply chain disruptions
- Can consumers continue to help drive GDP growth?



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27

## Consumers: Excess Saving

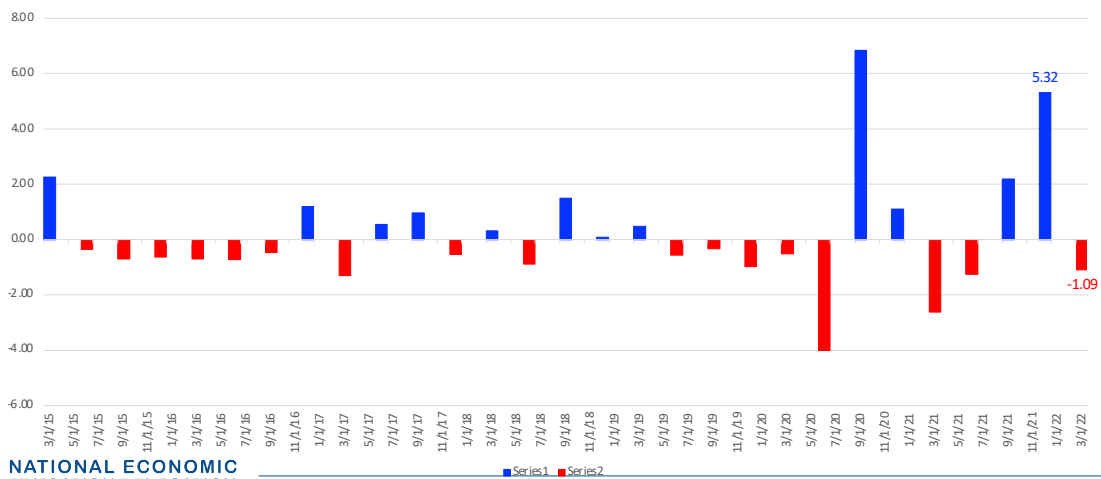


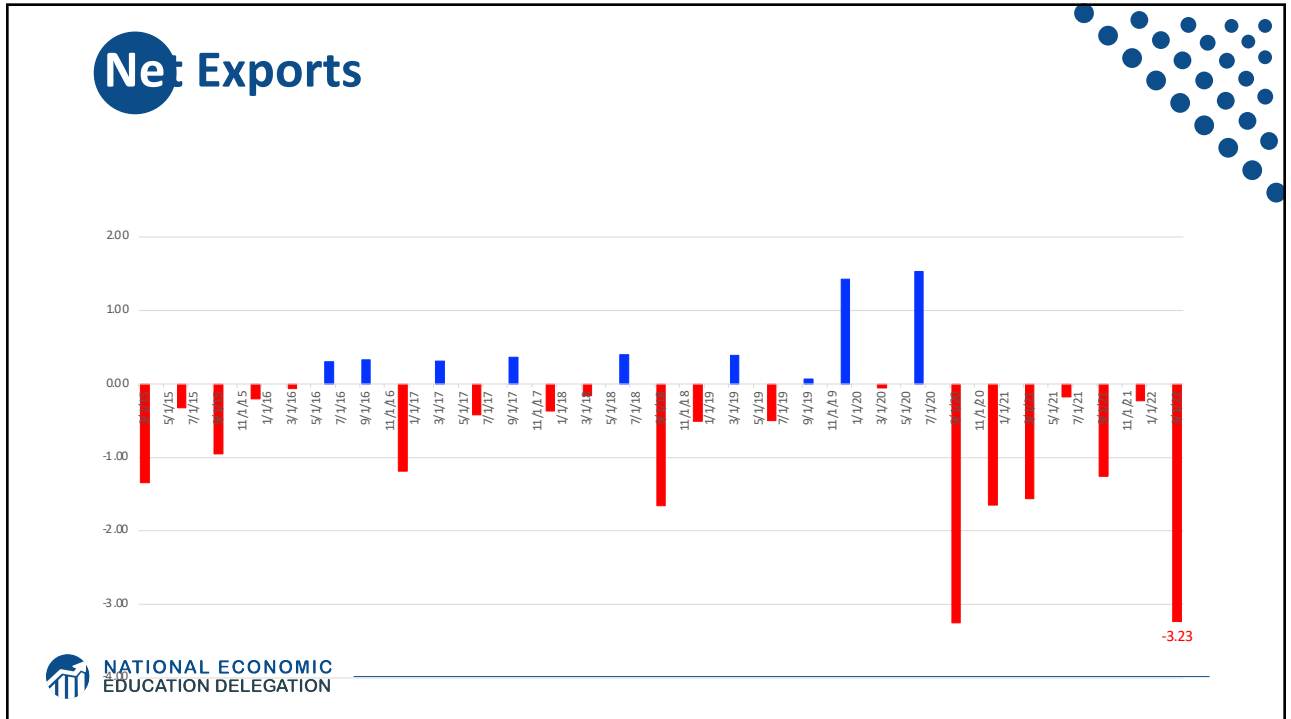
28

## Why was GDP Growth So Low in 2022:Q1

- **Omicron Variant impacted GDP growth**
- **Changes in Business Inventories (part of Investment) has less persistence than other components of GDP.**
  - In 2021:Q4 Changes in Business Inventories were one of the main drivers of GDP growth.
  - It seemed likely that this would slow in 2022:Q1.
- **Net Exports also were one of the reasons that GDP growth was slow.**
  - Much of this had to do with increased processing of imports at the ports.

## Contributions to GDP Growth Business Inventories



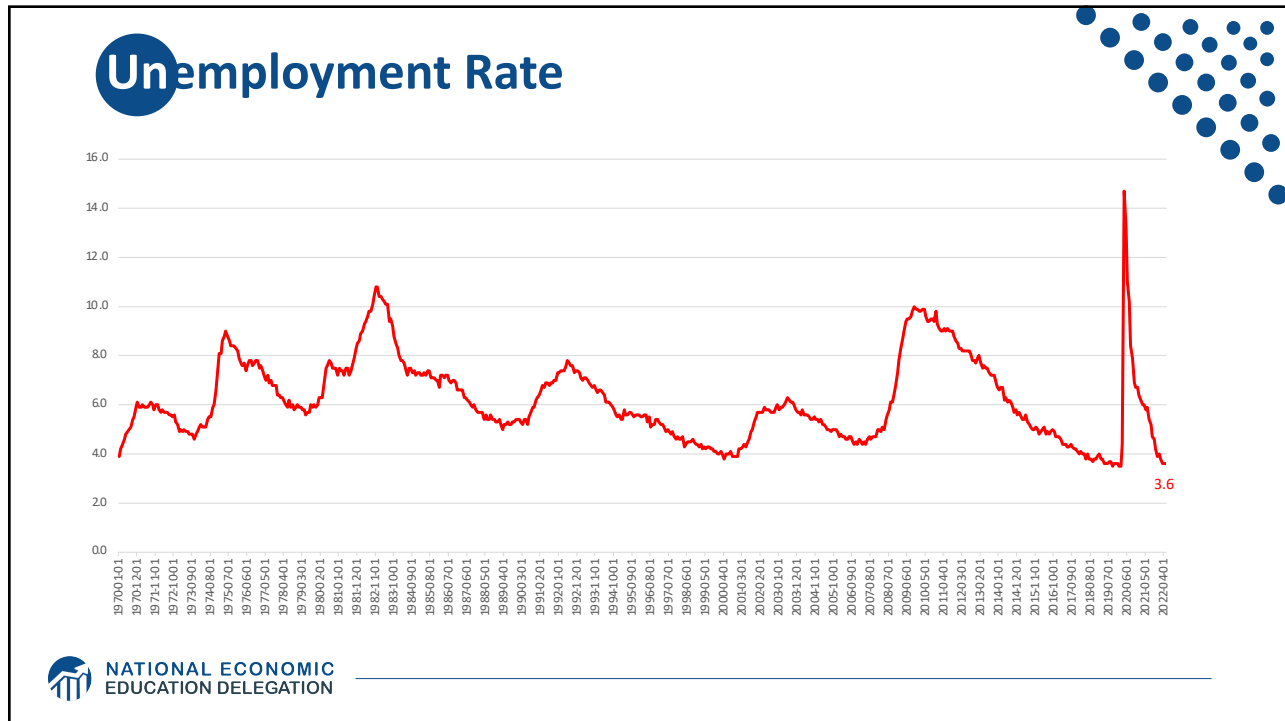


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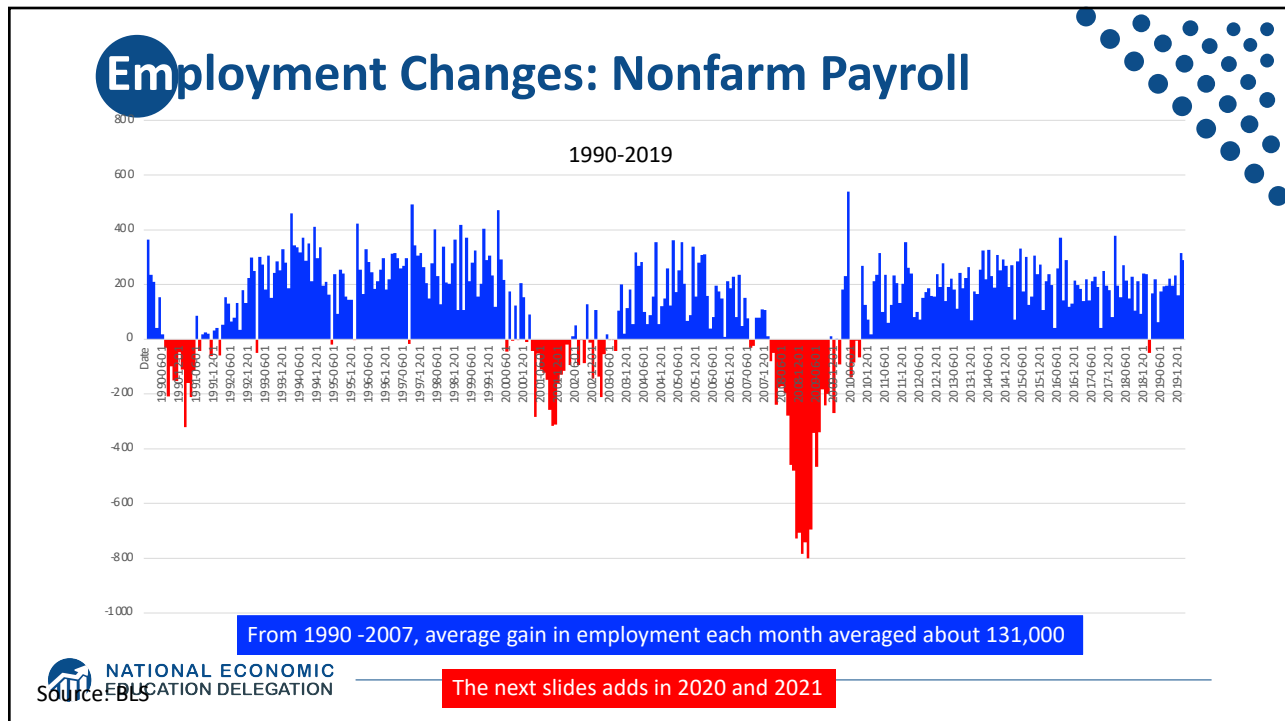


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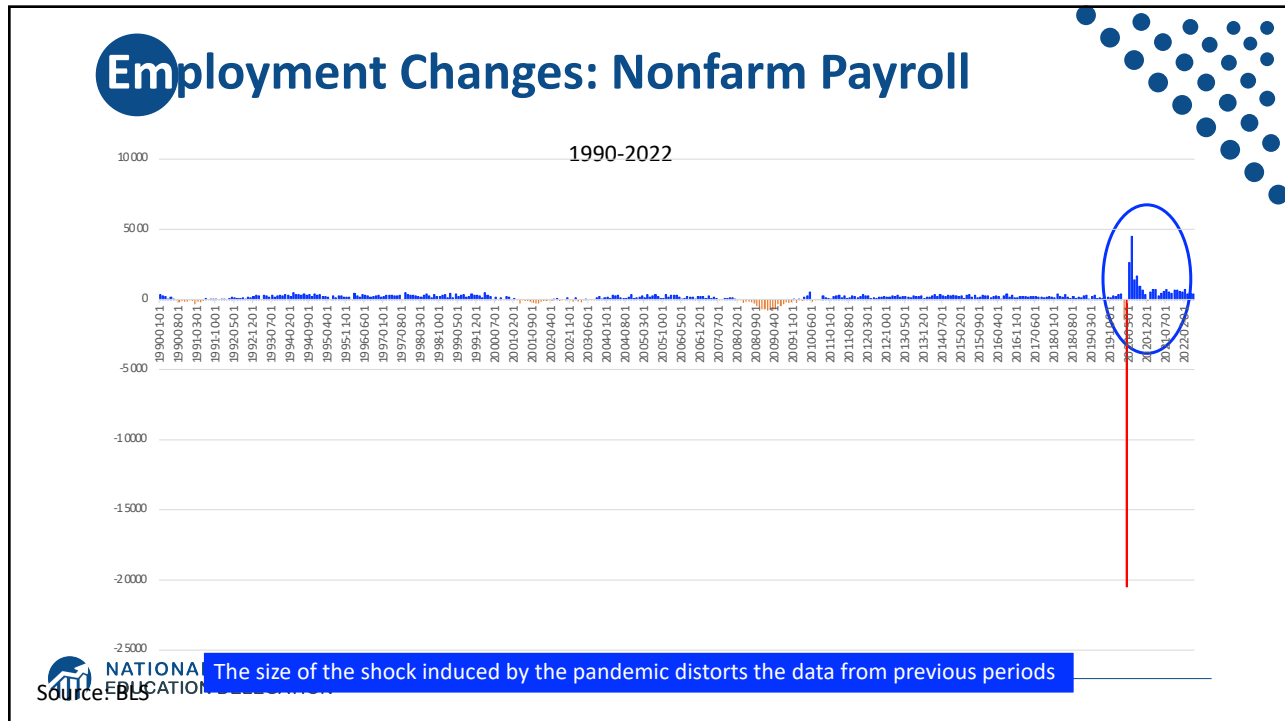
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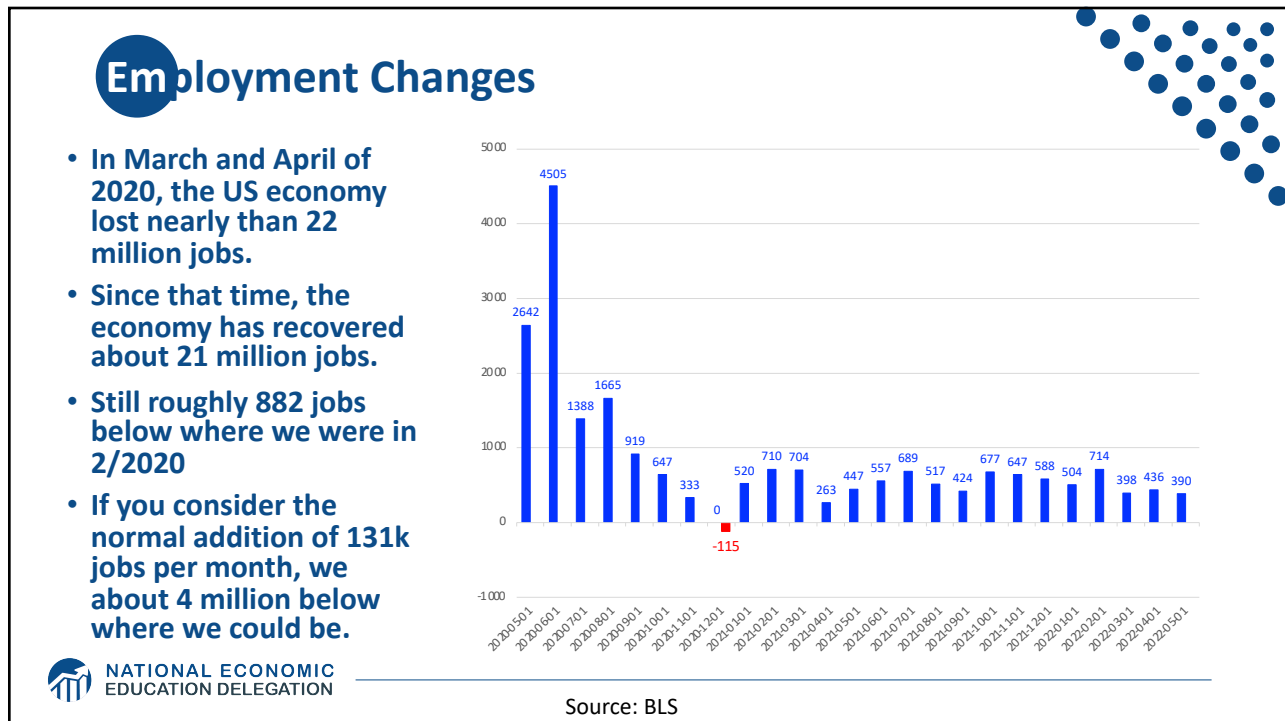
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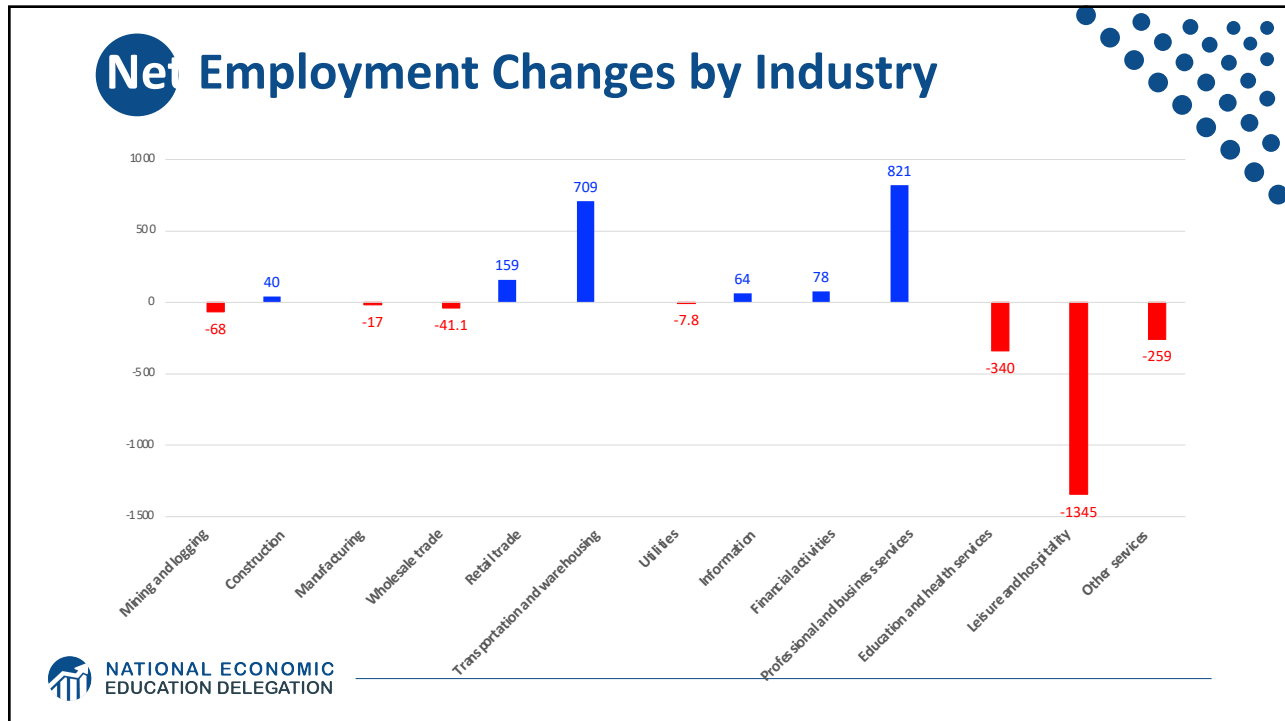
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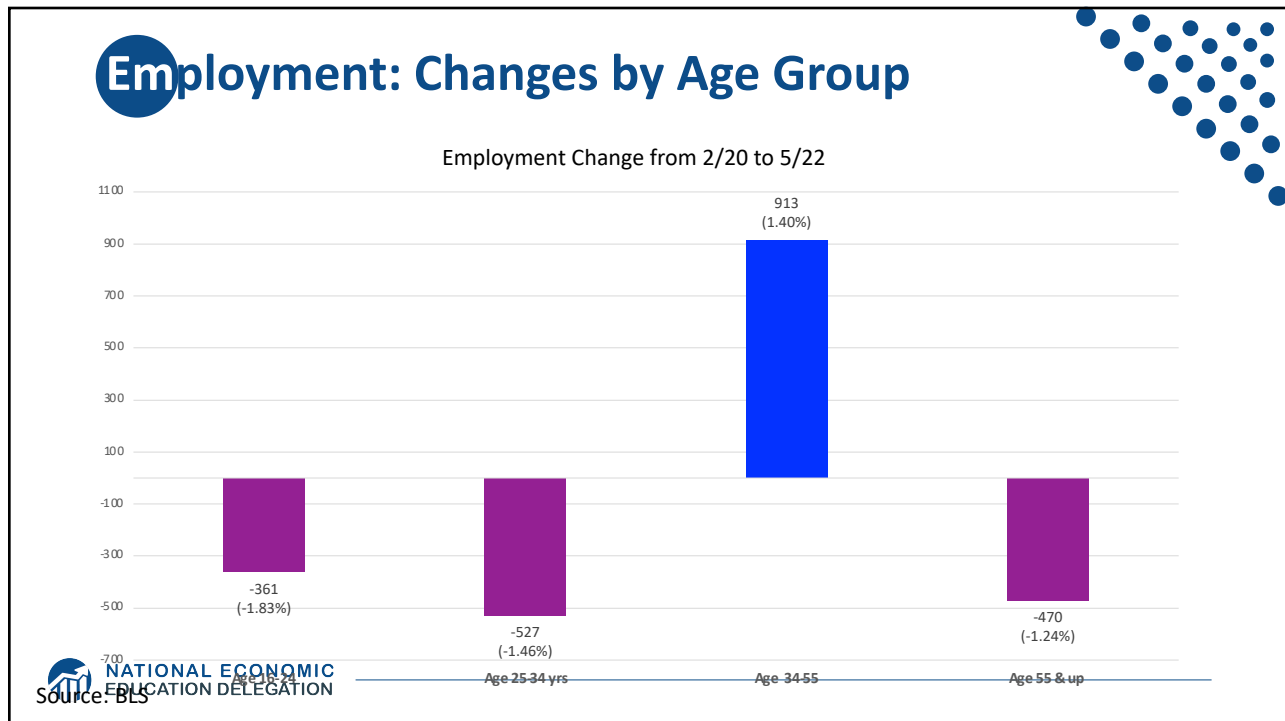
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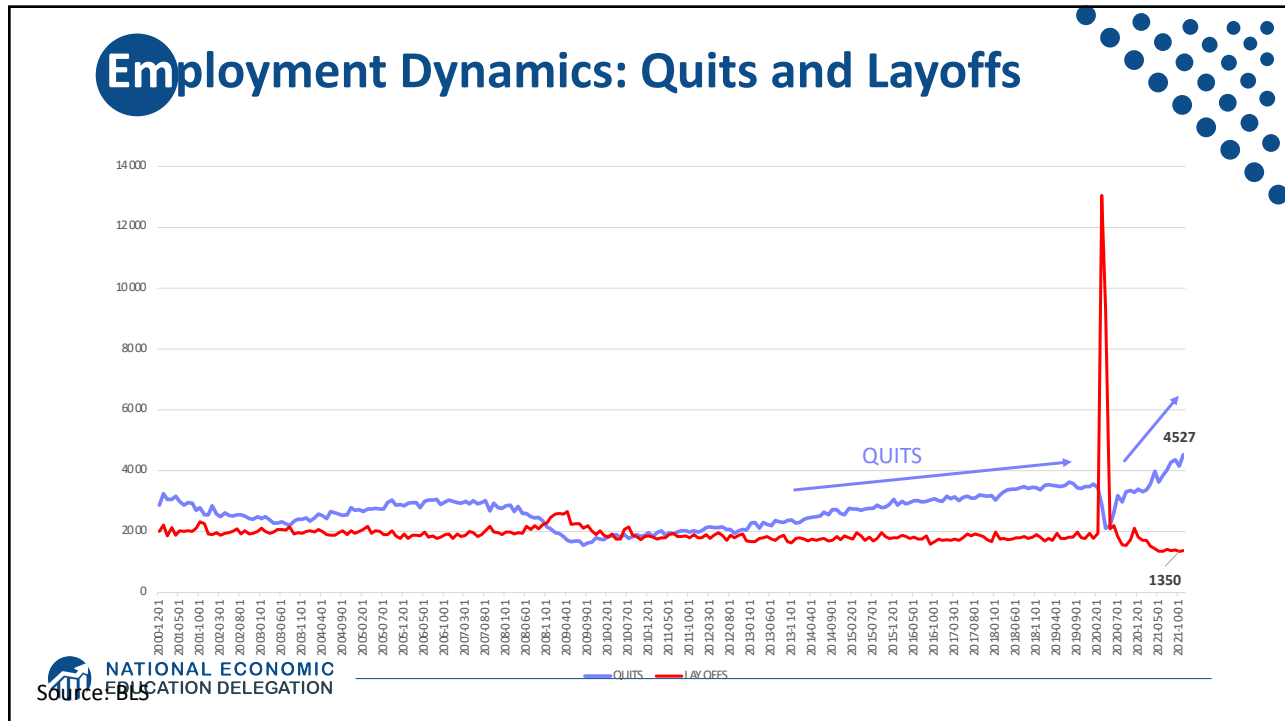
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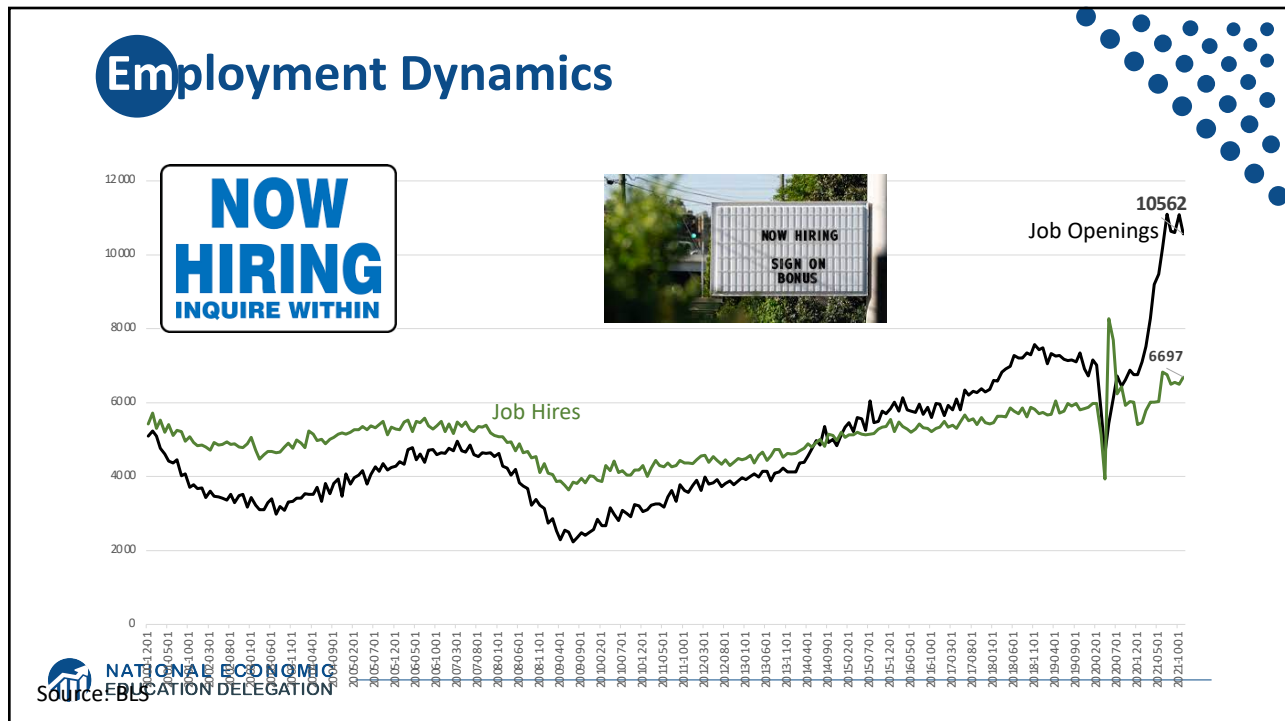
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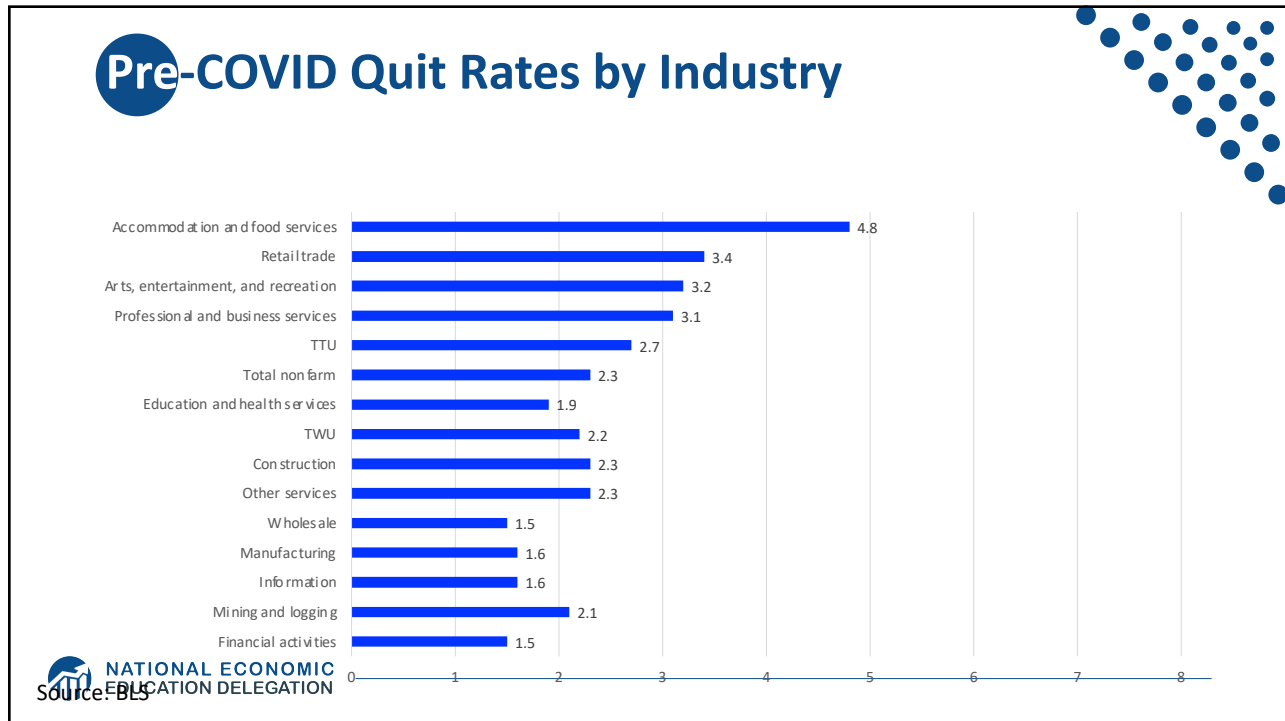


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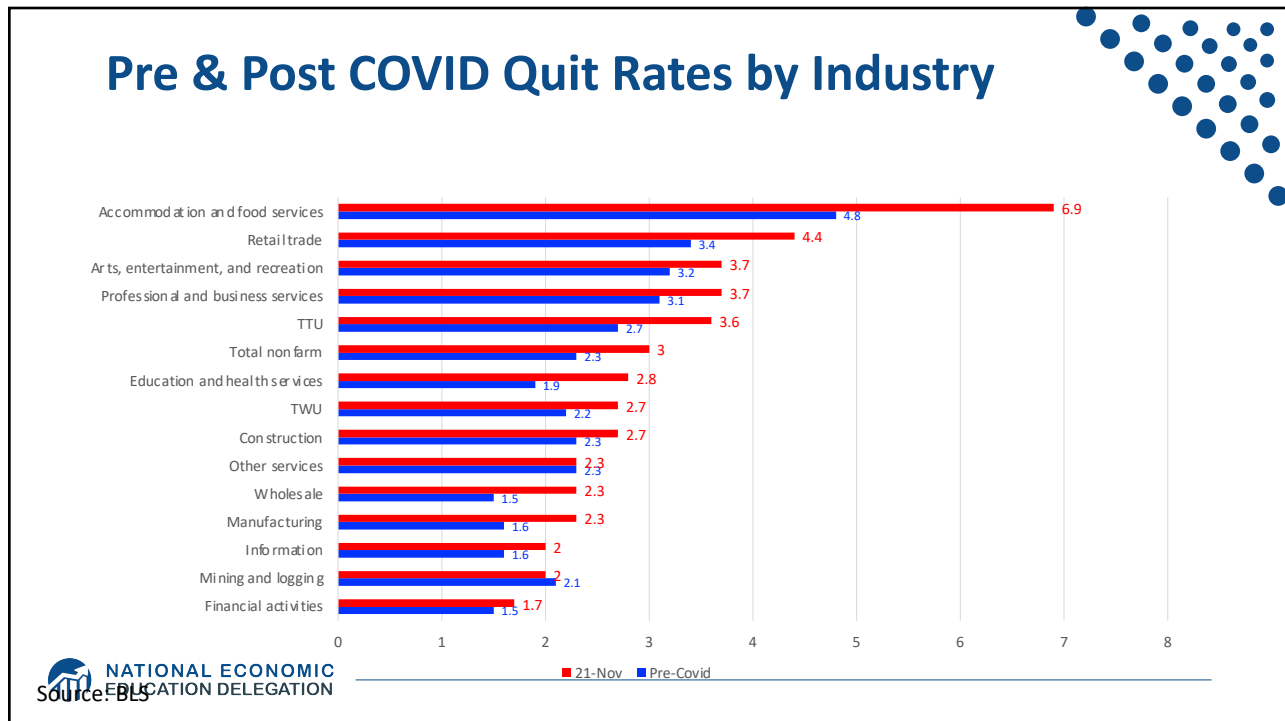


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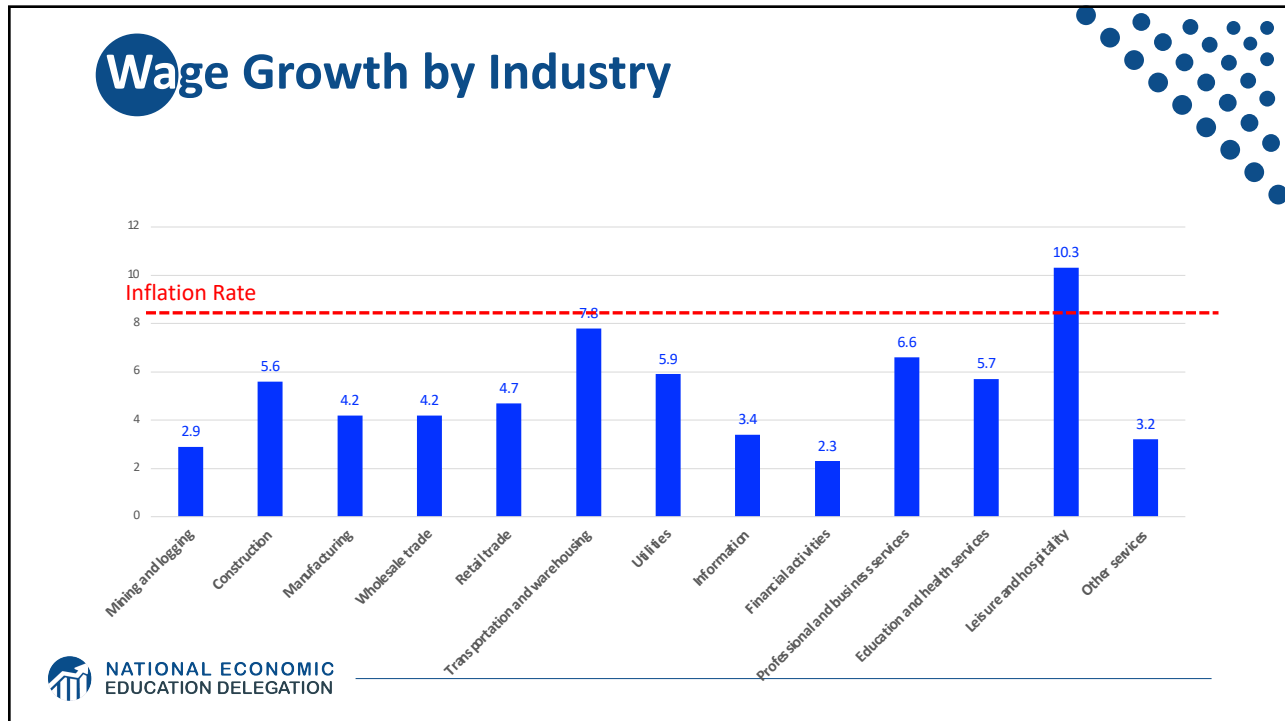




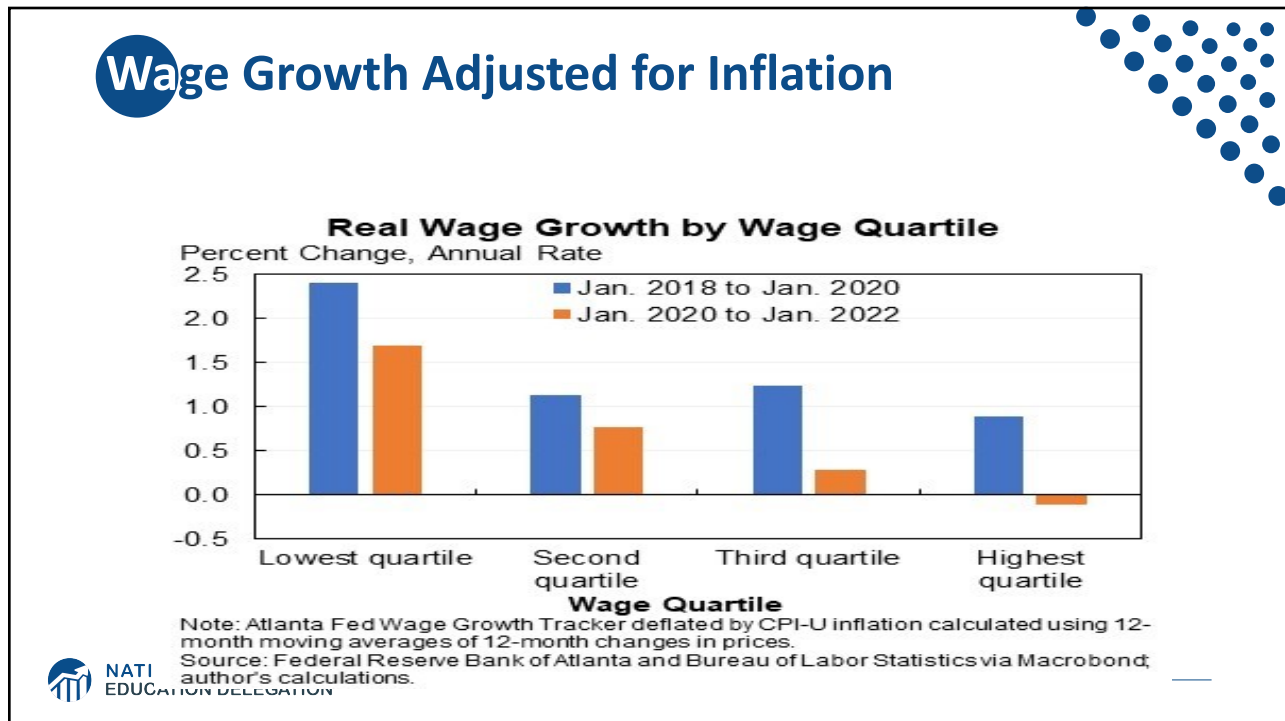
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42



43



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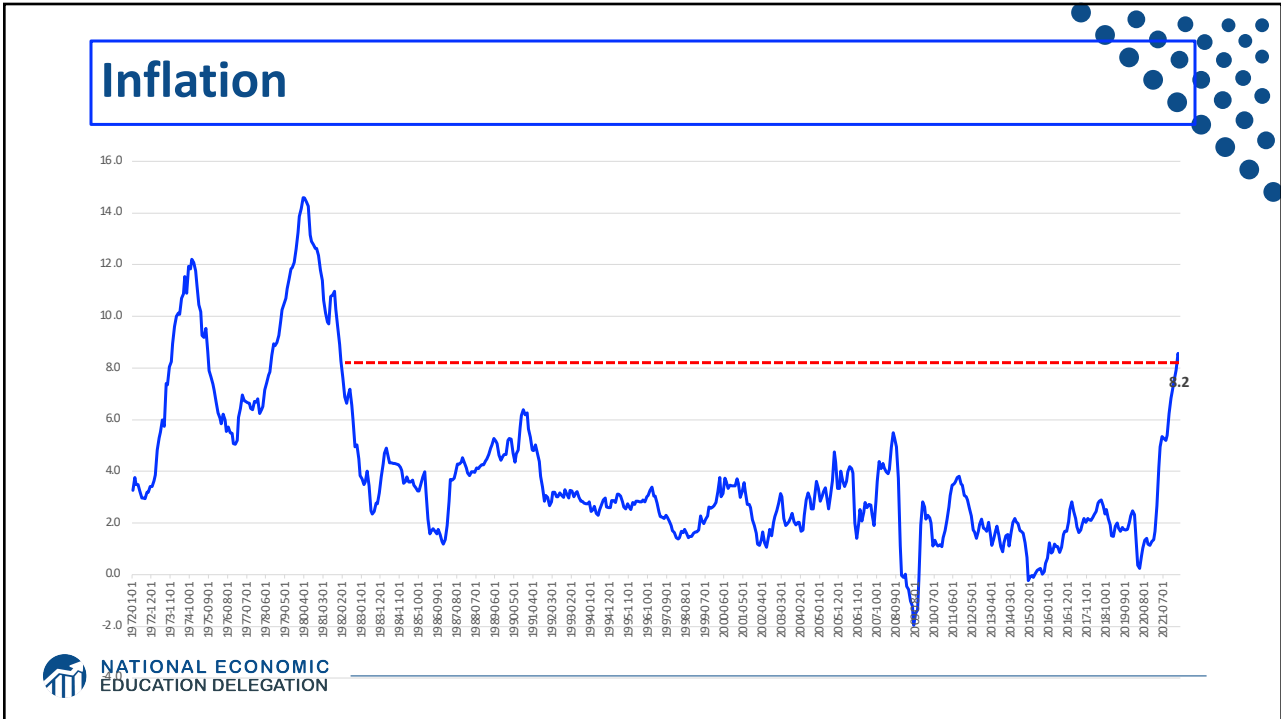
# Inflation



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45

45



46

# What is Driving Current 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.
- **Increase in Cost of Producing Goods and Transportation (future)**



# Profits: Profit Margins

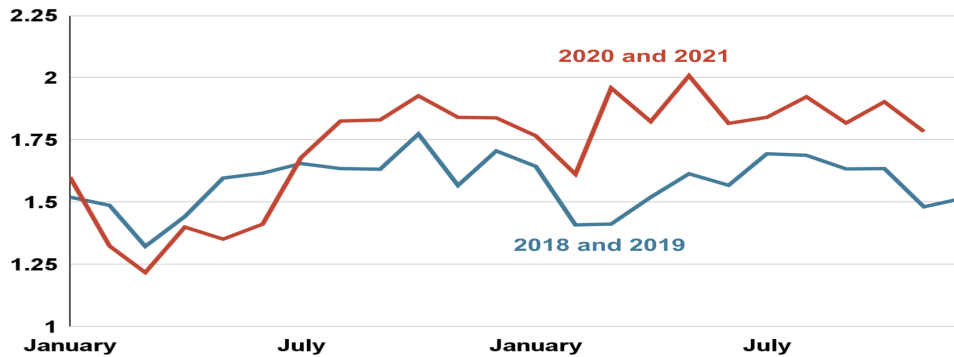
No historical correlation between profit margins and inflation



# Supply Chain Delays: It is Not All Supply Shortages

## Containerized imports rose after the pandemic

Millions of TEUs of containerized imports through six major US ports

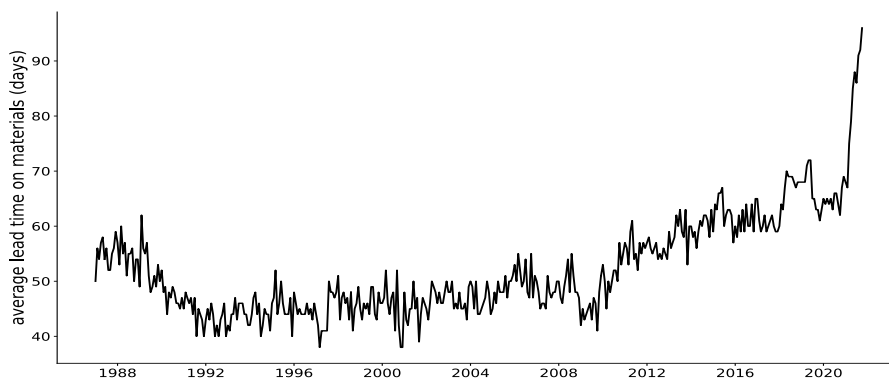


Source: Port Authorities of Los Angeles, Long Beach, Houston, New York and New Jersey, Savannah, Seattle and Tacoma. Author's calculations.

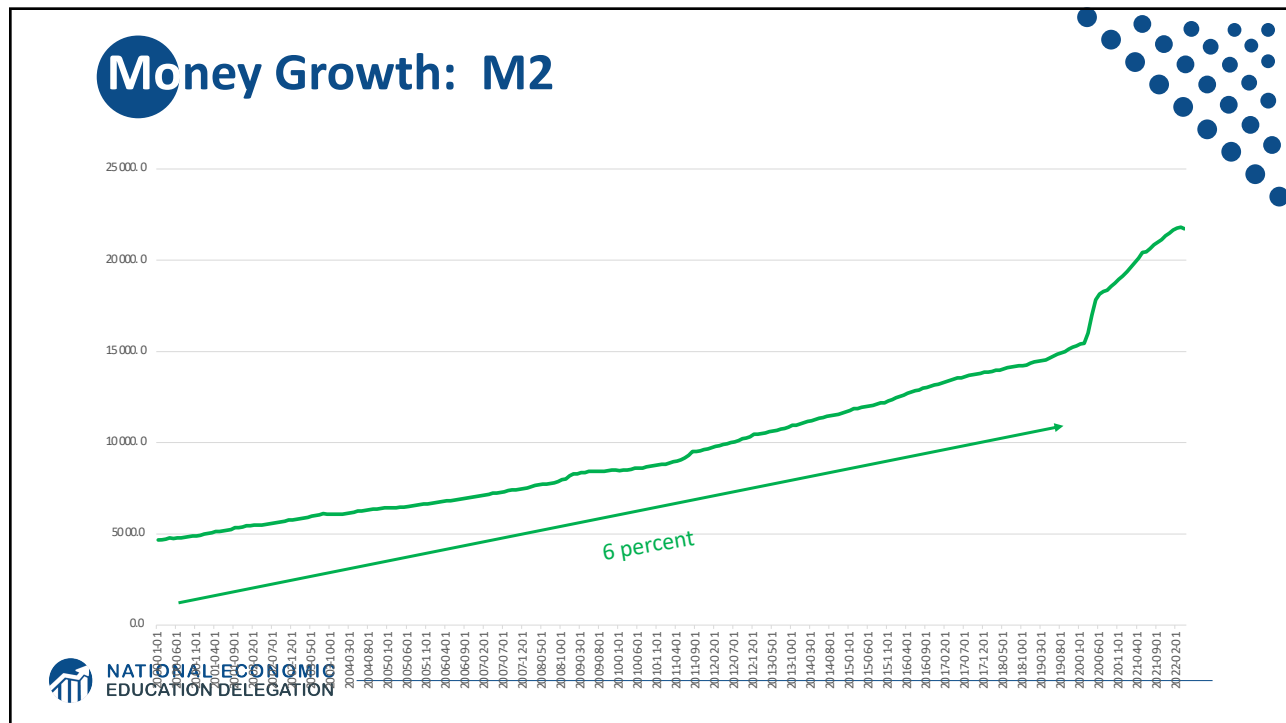


# Supply Chain Delays: ISM Delivery Days

Figure 2: Delivery Delays



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51

## Pandemic Monetary Policy

- **Historically, the Federal Reserve does not have direct control of M2**
- **Recent increase is something different**
  - Federal government transfers to checking accounts
  - Helicopter drop
- **Generally, faster growth of M2 associated with higher inflation**
  - Here?
- **The Federal Reserve has started to increase interest rates.**
  - Over the next year, it is predicted we will see 5-7 interest rate increases
  - Designed to slow down inflation by increasing the cost of borrowing

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52

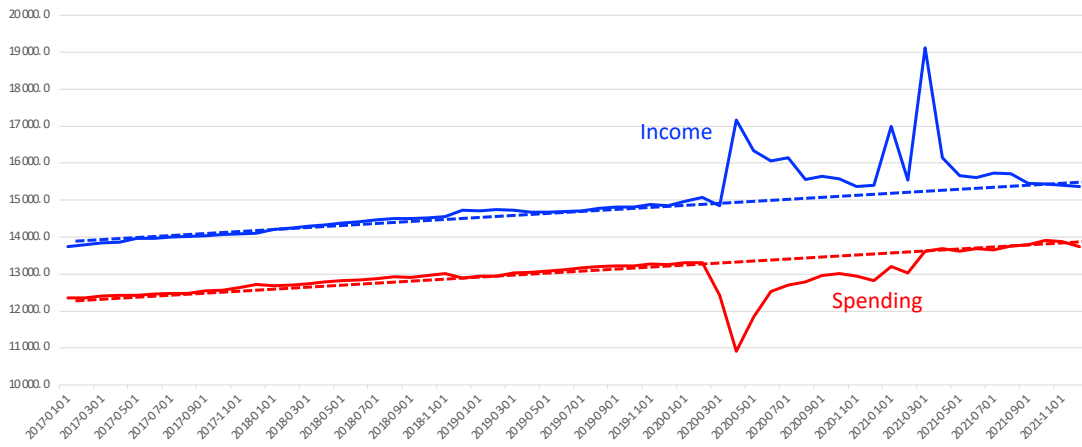
## Annualized Money Growth

Growth Rate of Money Stock (percent per year)	Beginning of Period	End of Period
6.15	January 2000	March 2020
37.3	March 2020	July 2020
12.44	July 2020	December 2021

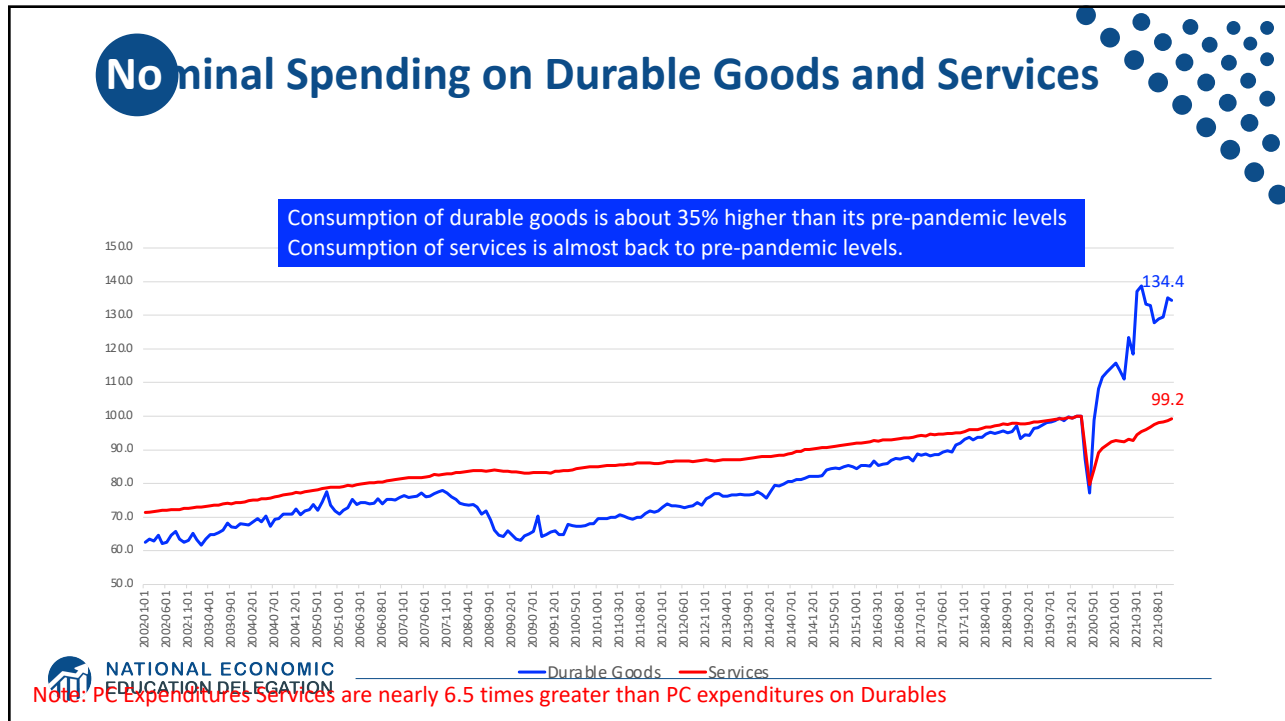


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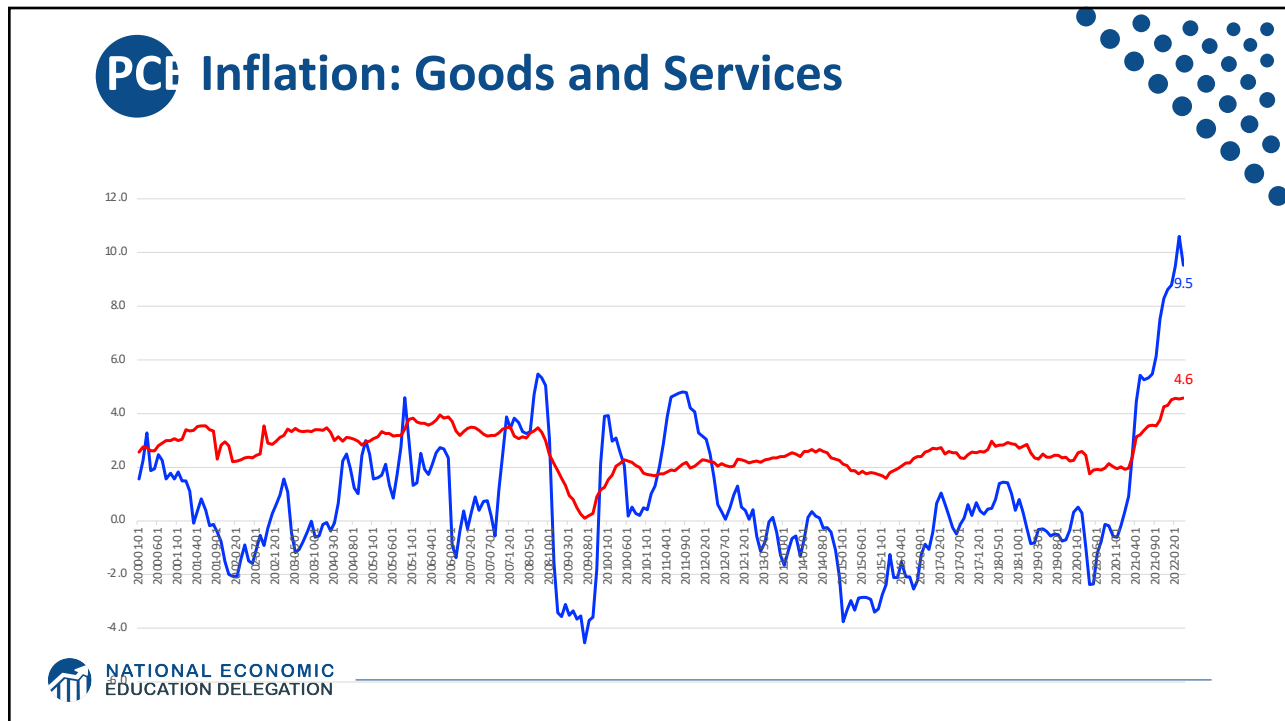
## Disposable Income and Expenditures



54



55



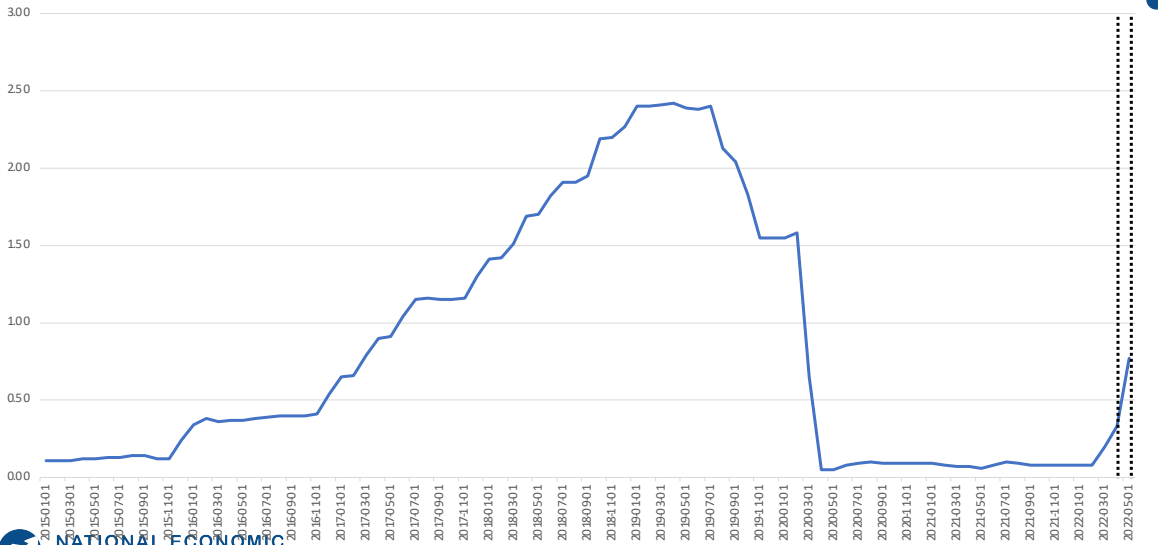
56



# Monetary Policy

57

## Federal Funds Rate



58

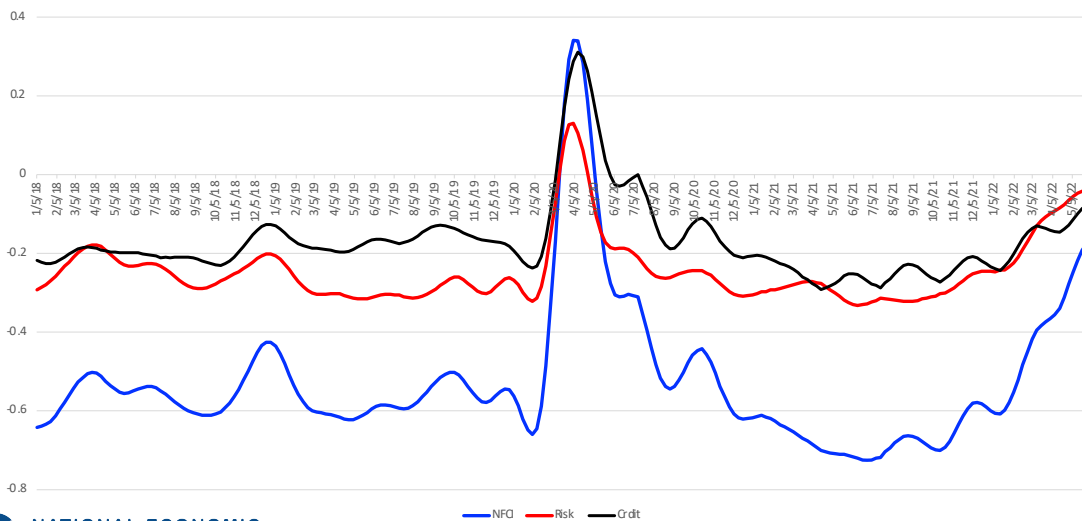
## Future Fed Rate Hikes

- **The Federal Reserve will likely continue to raise interest rates this summer**

- Half-percentage point in June and July → Federal Funds rate 1.75-2.00 range.
- Whether they pause in September will depend on the economic data between now and then.
- The higher interest rates may slow down (Consumer and Business) spending and cool inflation.

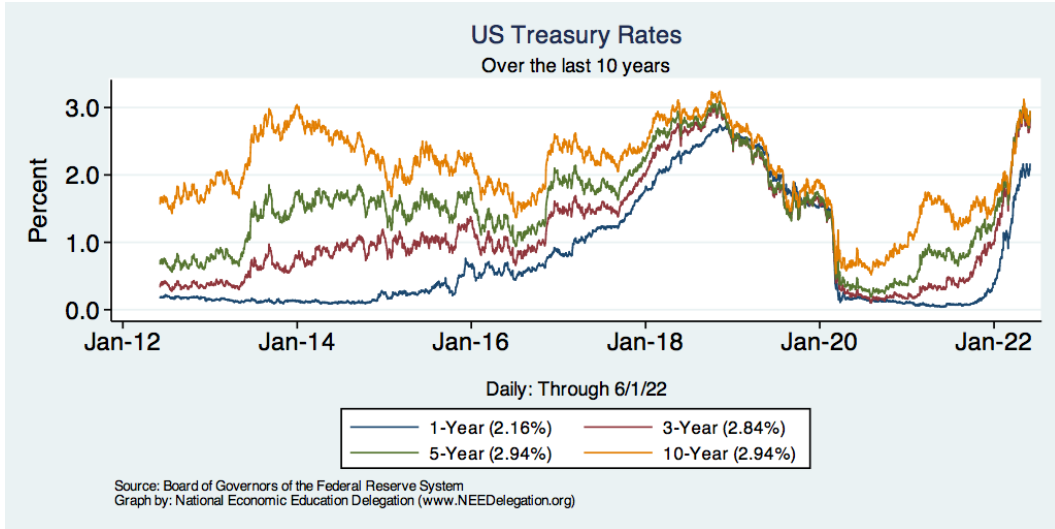
59

## Credit Risk: Chicago Fed NFCI



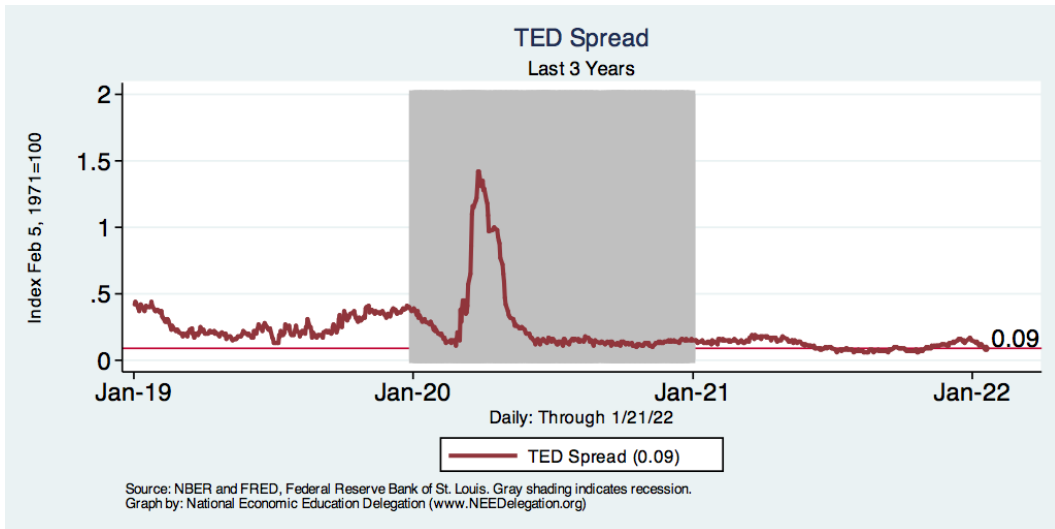
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# Treasuries



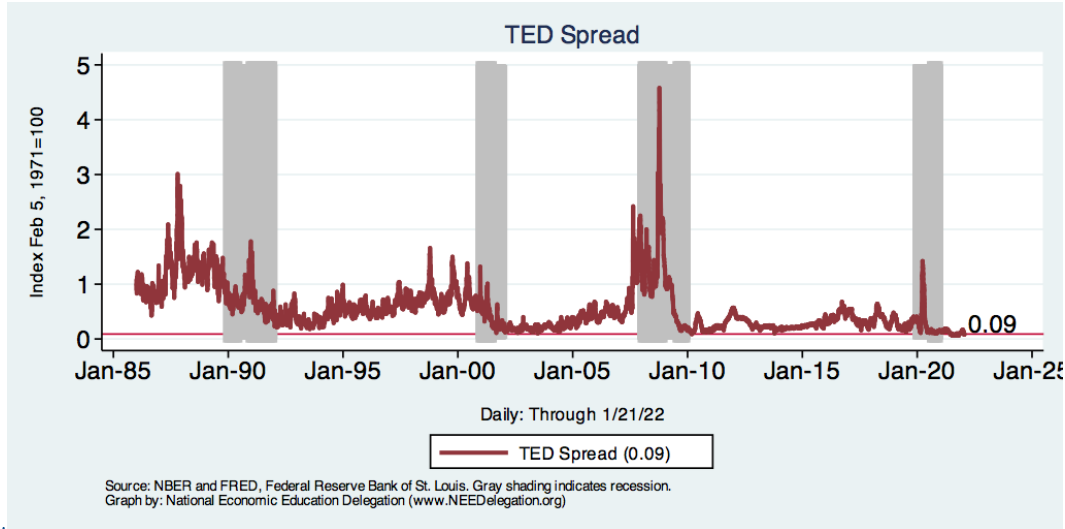
61

# TED Spread



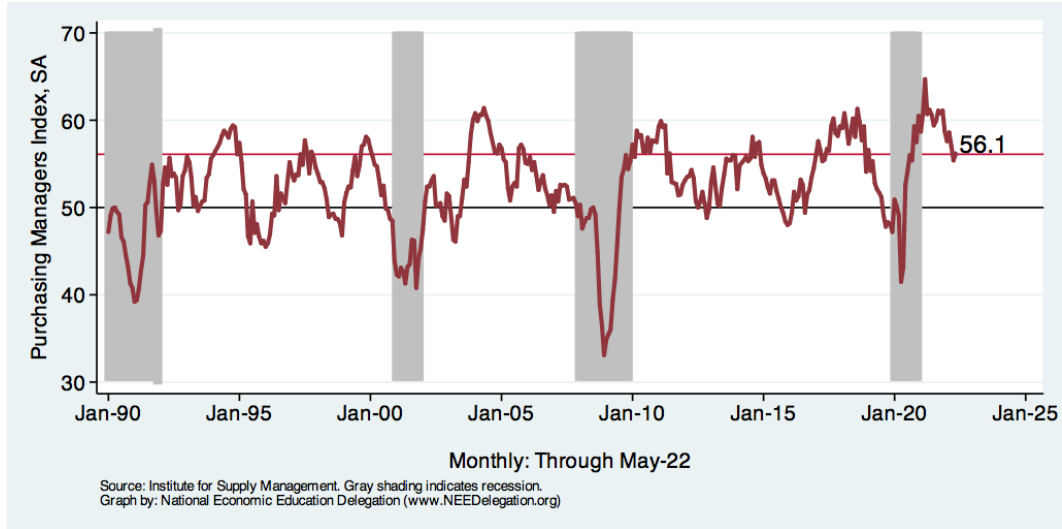
62

# TED Spread



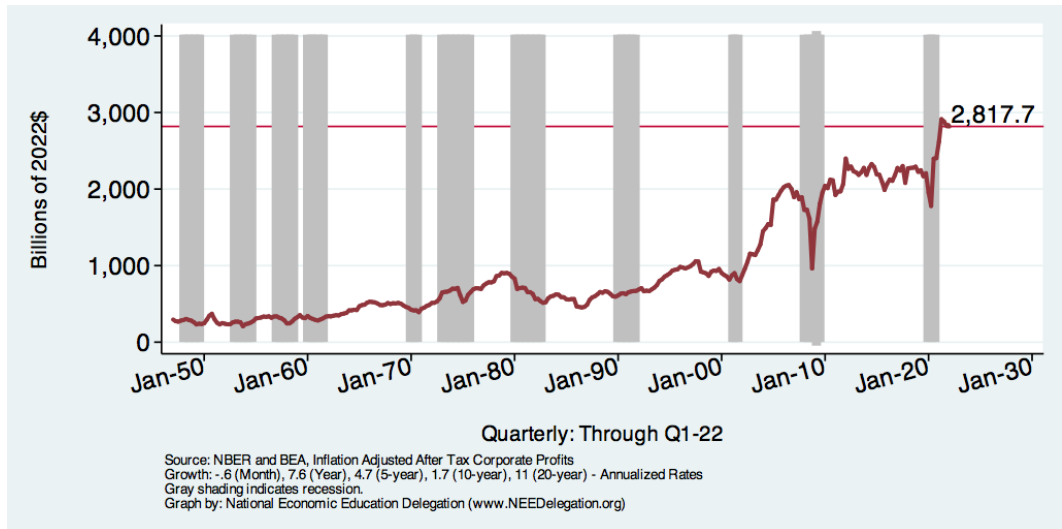
# Other Indicators

## Producer Confidence: Gaining Steam?



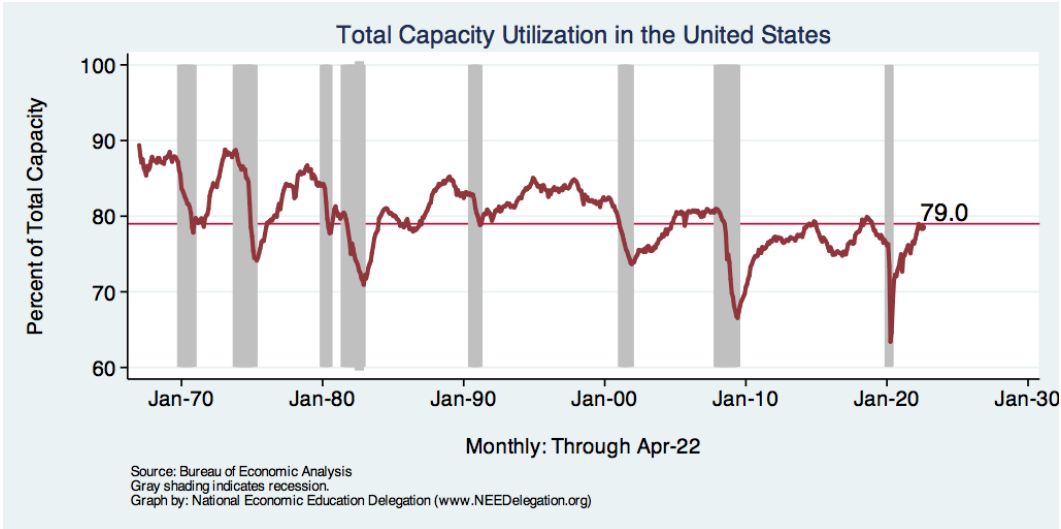
65

## Corporate Profits – Inflation Adjusted



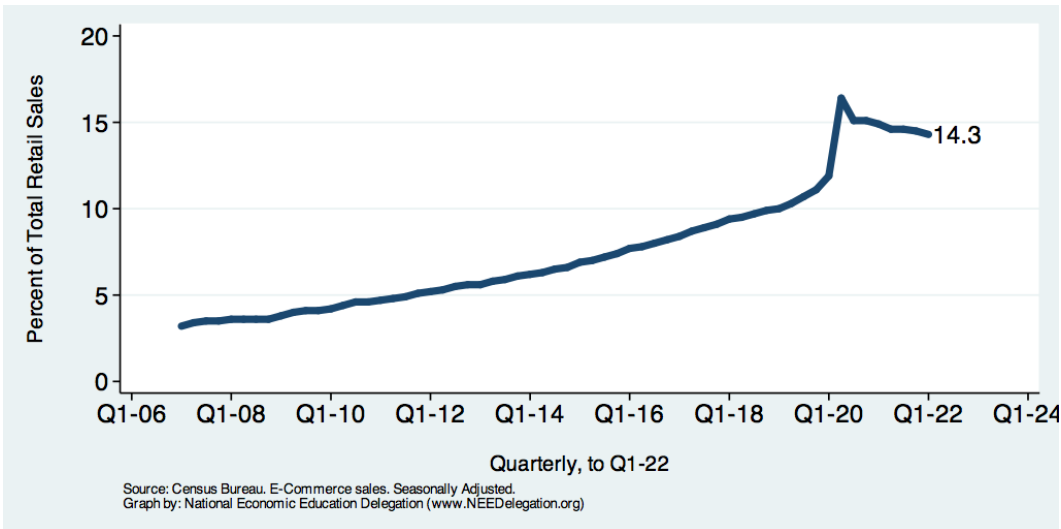
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## Capacity Utilization



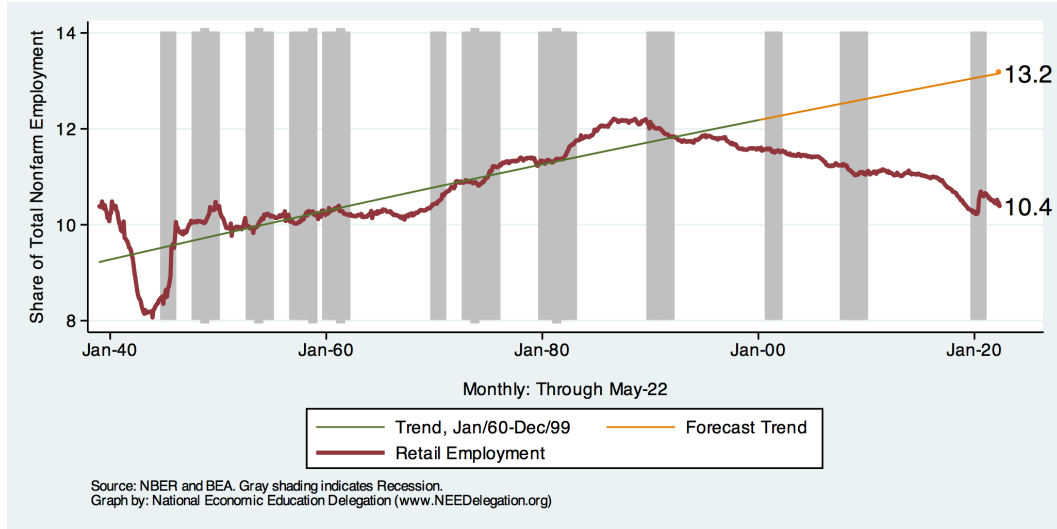
67

## E-Commerce Inroads



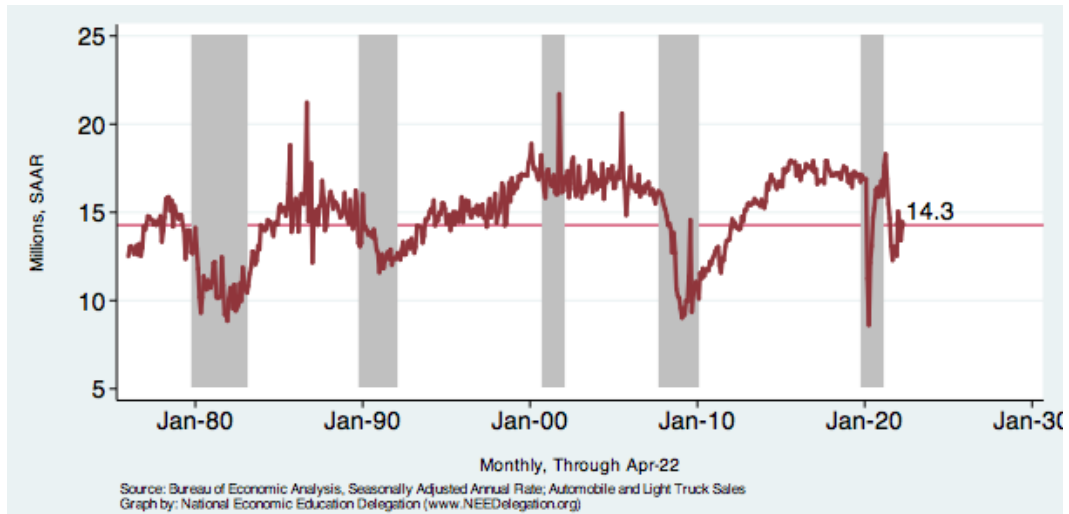
68

## Employment in Retail Trade



69

## Automobile and Light Truck Sales

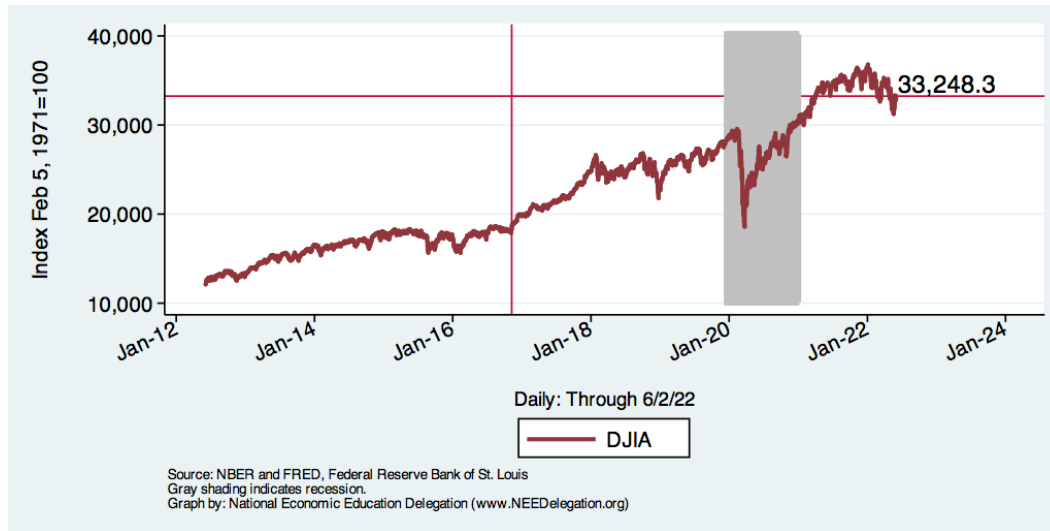


70

# Stock Markets

71

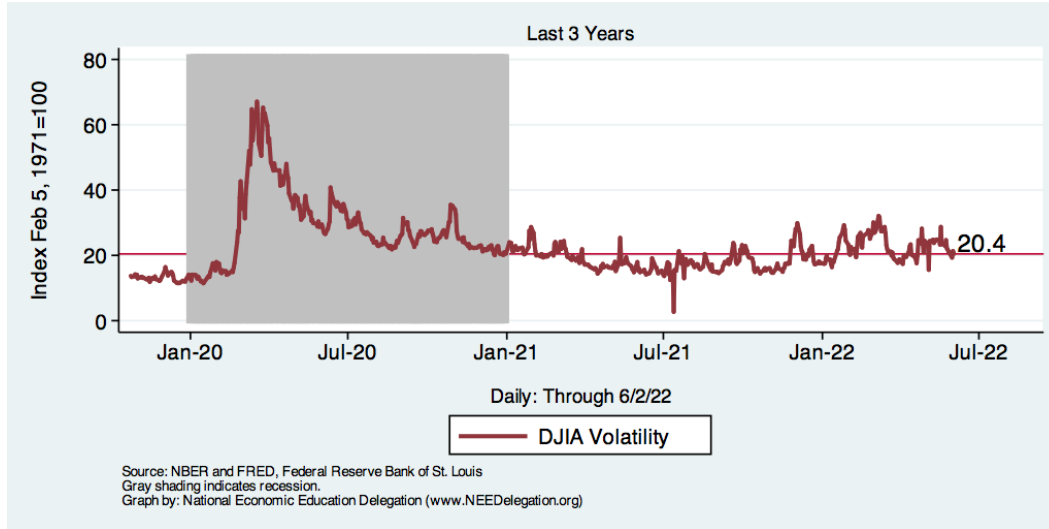
## Dow Jones



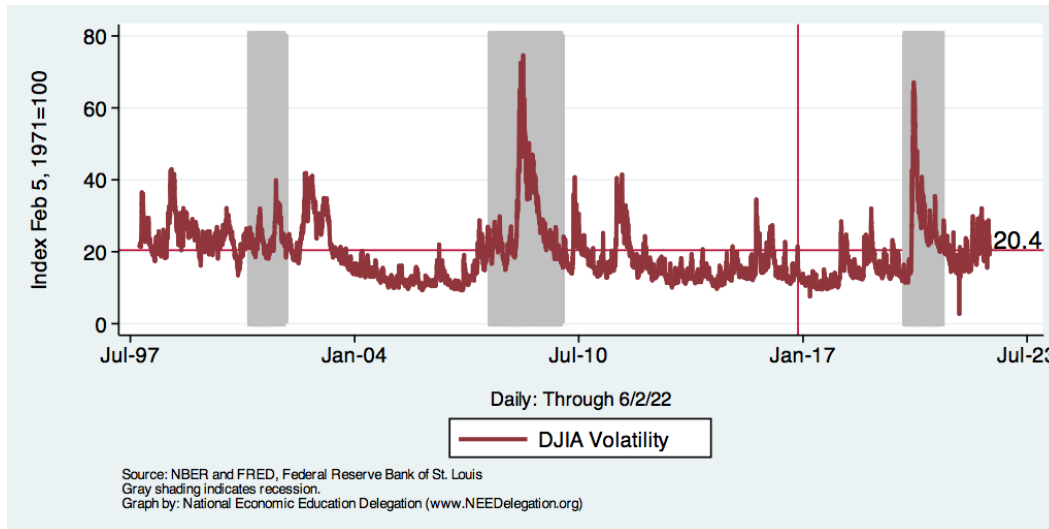
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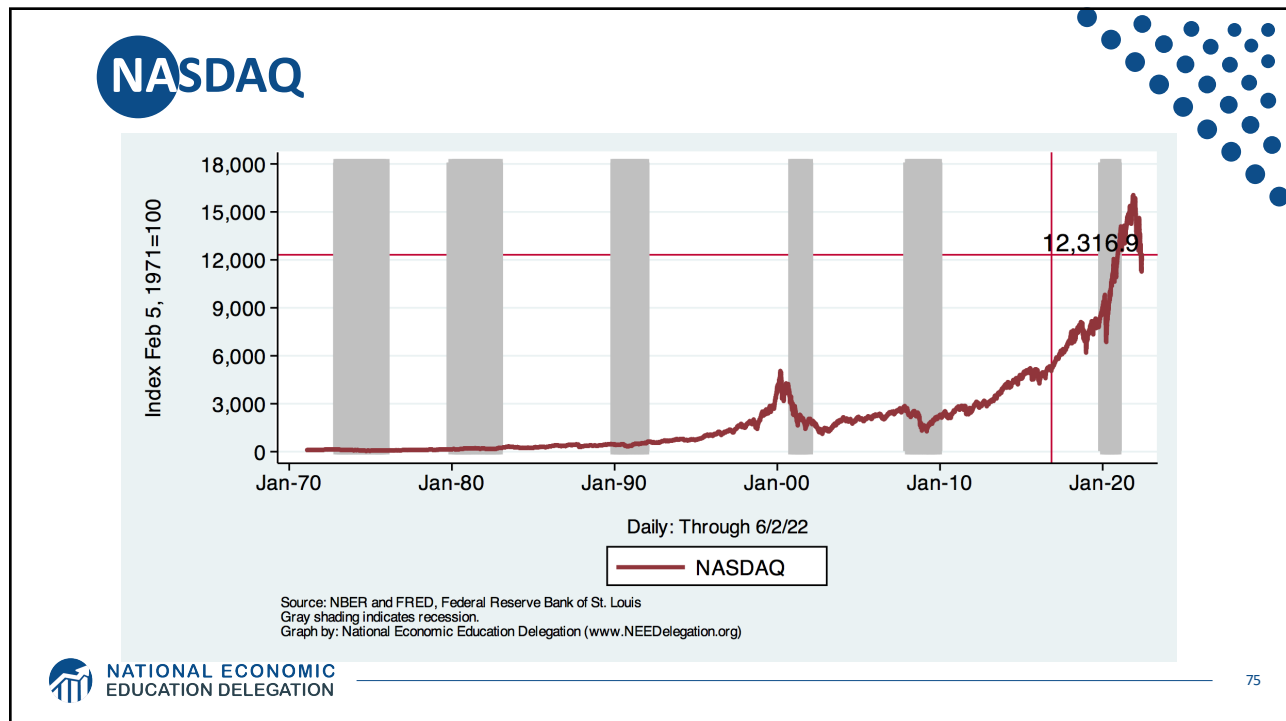


# Dow Jones - Volatility



# Dow Jones - Volatility





75

**Summary of GDP, Employment 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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76

76

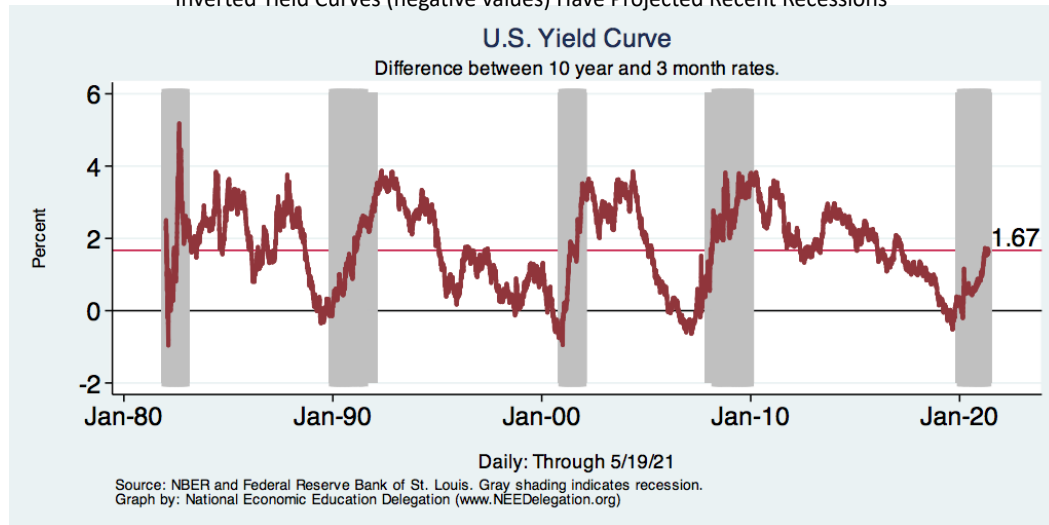
## Things to Be Worried About

- Yield Curve
- Government Debt
- Growth Abroad
- Income and Wealth Inequality
- Infrastructure
- Savings
- Policy Uncertainty
  - Trade and immigration policy, especially

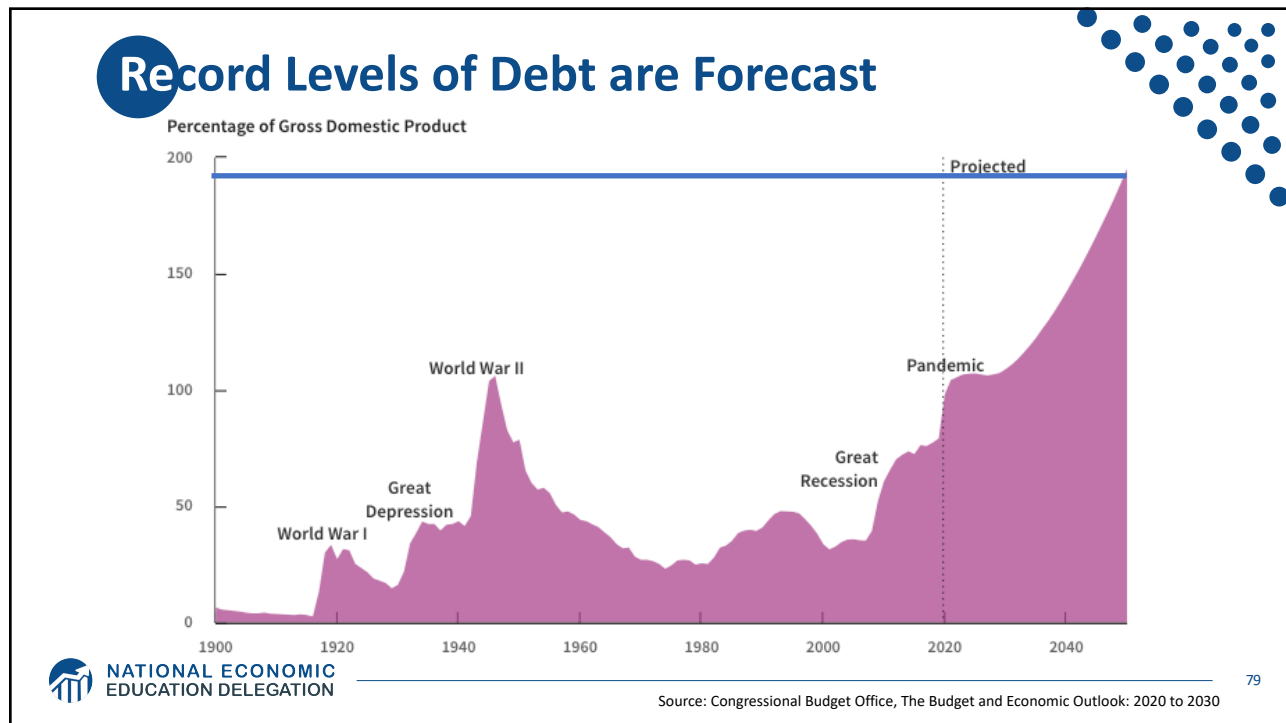
77

## Alarming Compression of Interest Rates

Inverted Yield Curves (negative values) Have Projected Recent Recessions



78



79

## Cautious Outlook

- Job growth remains robust
- Labor force is in decline
- Wage growth, but not too much
- Business investment is robust, but will uncertainty bite?
- Inflation and interest rates remain favorable
- Potential source of concern:
  - Auto and light truck sales are slowing
  - Home building is slowing

80

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80

## Overall Summary

- **Tailwinds and headwinds both exist**
  - Economic forecasts for near term are favorable
  - Later 2019 and 2020 forecasts are less sanguine
- **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 may be slowing
  - Return to productivity growth? But how? What's the next big idea?
- **Long term concerns unaddressed**
  - Demographics, climate change
  - Federal government debt
  - International trade policy



81

## Thank you!

## Any Questions?

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82

## Available NEED Topics Include:

- US Economy
- Economic Inequality
- Climate Change
- US Social Policy
- Trade and Globalization
- Economic Mobility
- Trade Wars
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles

83

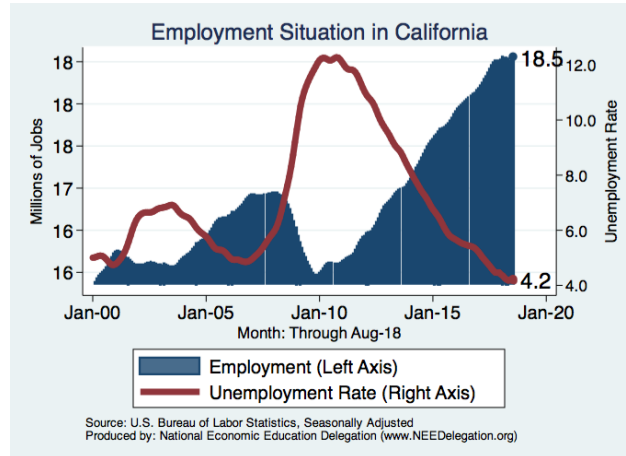
## The Local Economy

These graphs are available for your local area at [www.NEEDelegation.org/LocalGraphs](http://www.NEEDelegation.org/LocalGraphs)

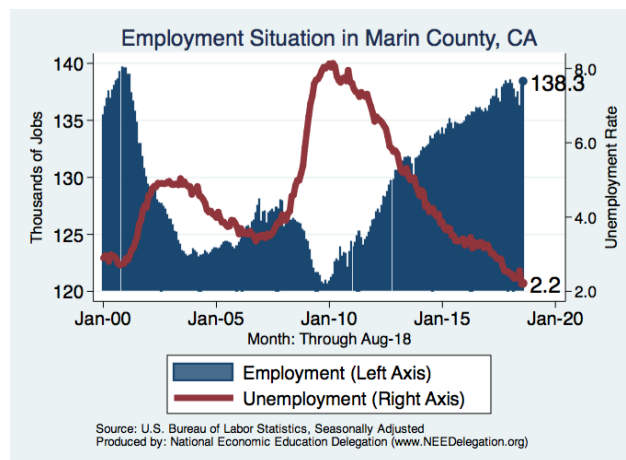
They are not up to date in this deck, but the graphs online are kept constantly up to date. If they are not, please let me know.

84

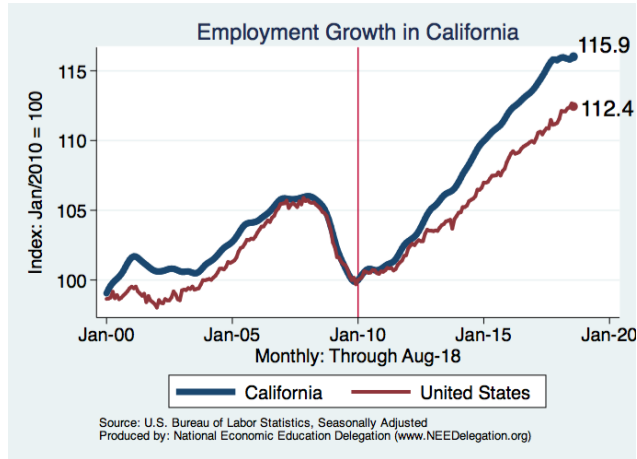
# Employment Situation: California



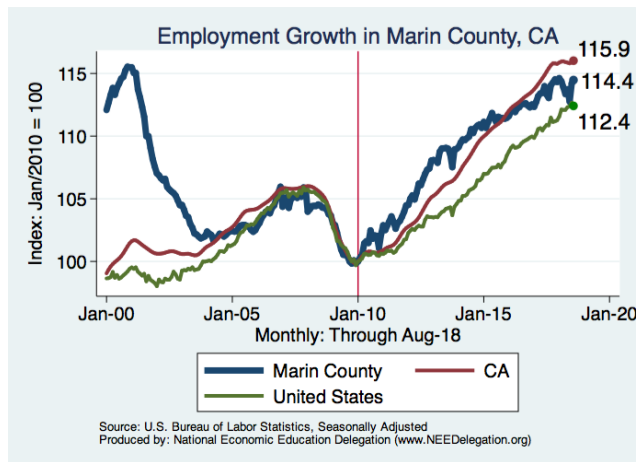
# Employment Situation: Marin County



# Employment Growth: California

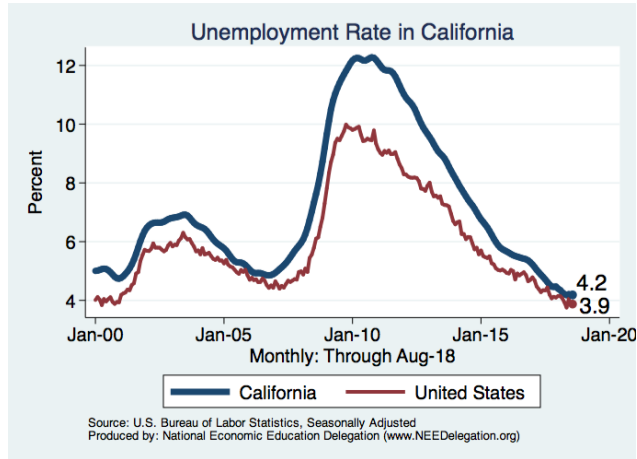


# Employment Growth: Marin County

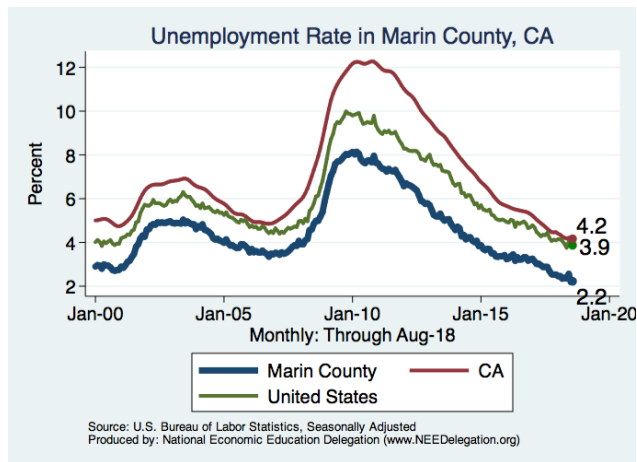




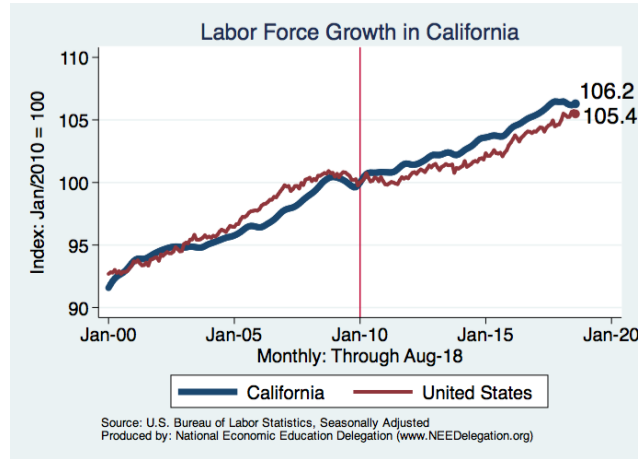
# Unemployment: California



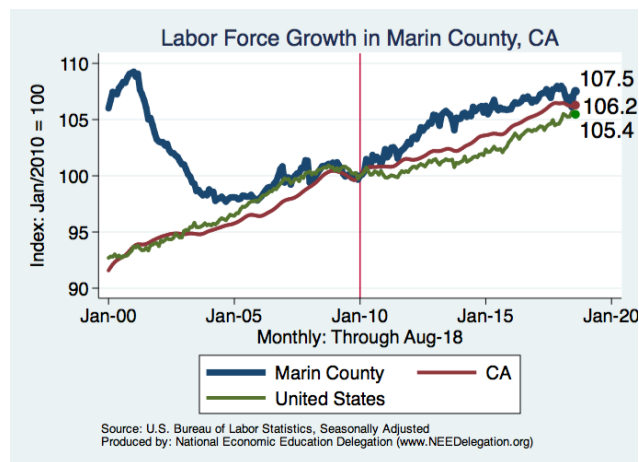
# Unemployment: Marin County



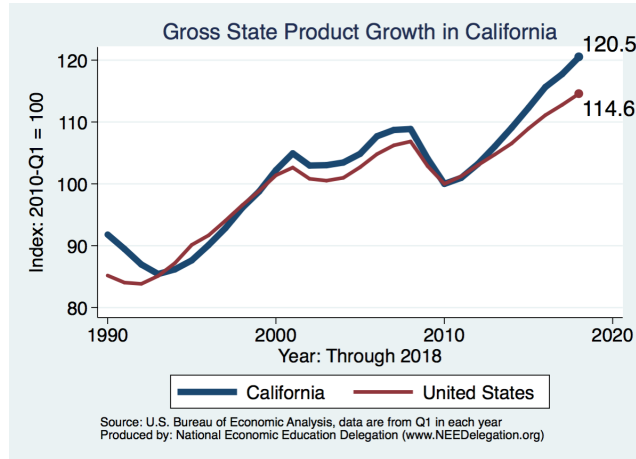
# Labor Force: California



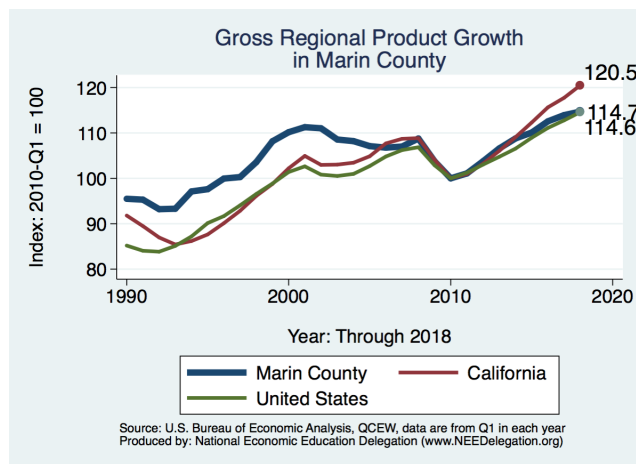
# Labor Force: Marin County



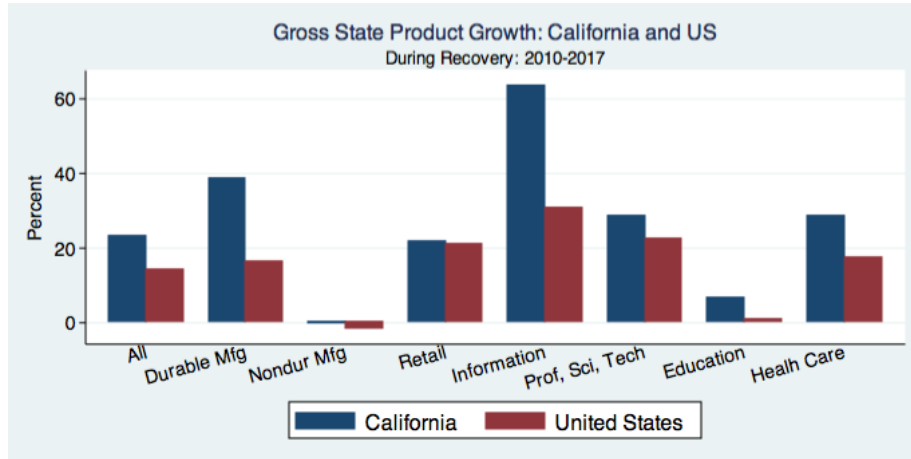
## Gross Regional Product: California



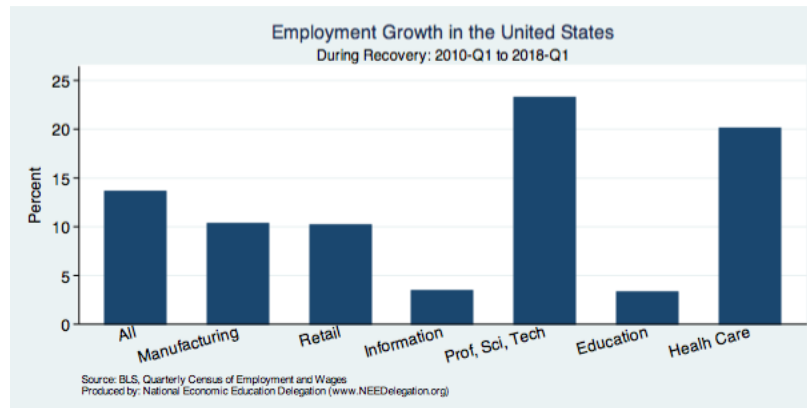
## Gross Regional Product: Marin County



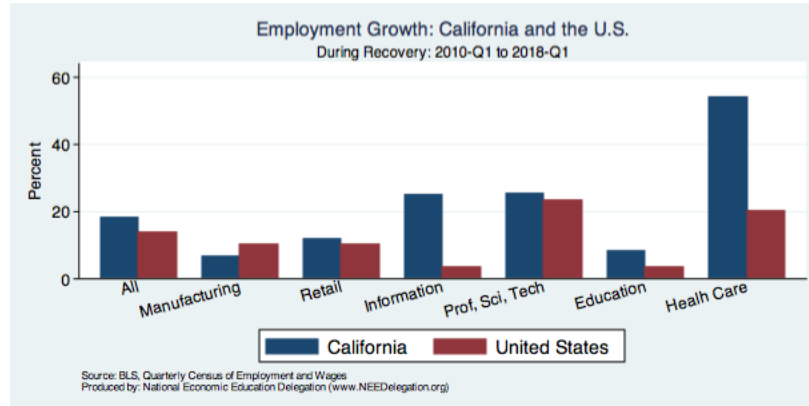
# Gross Regional Product Detail: California



# Employment Growth Detail

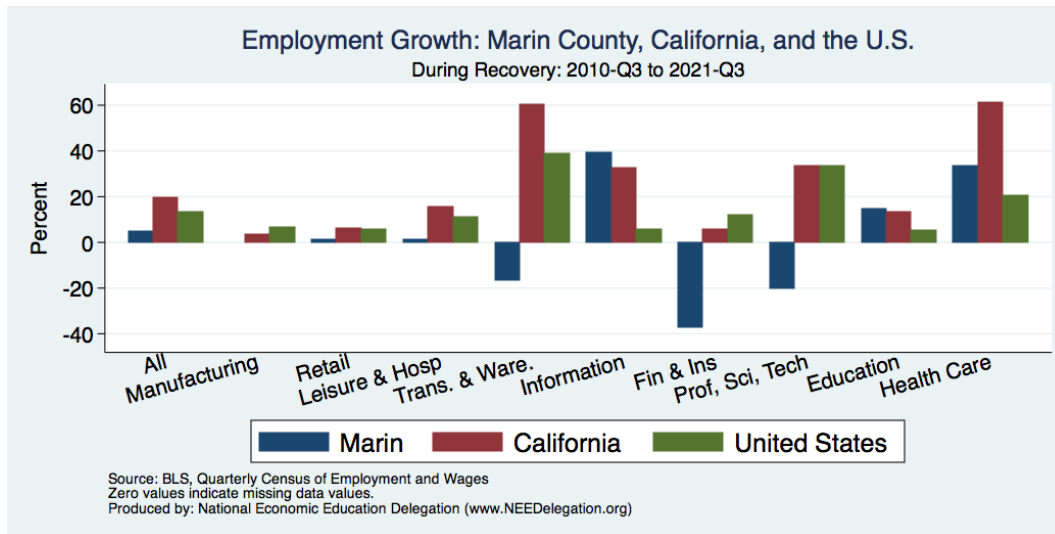


# Employment Growth Detail: California



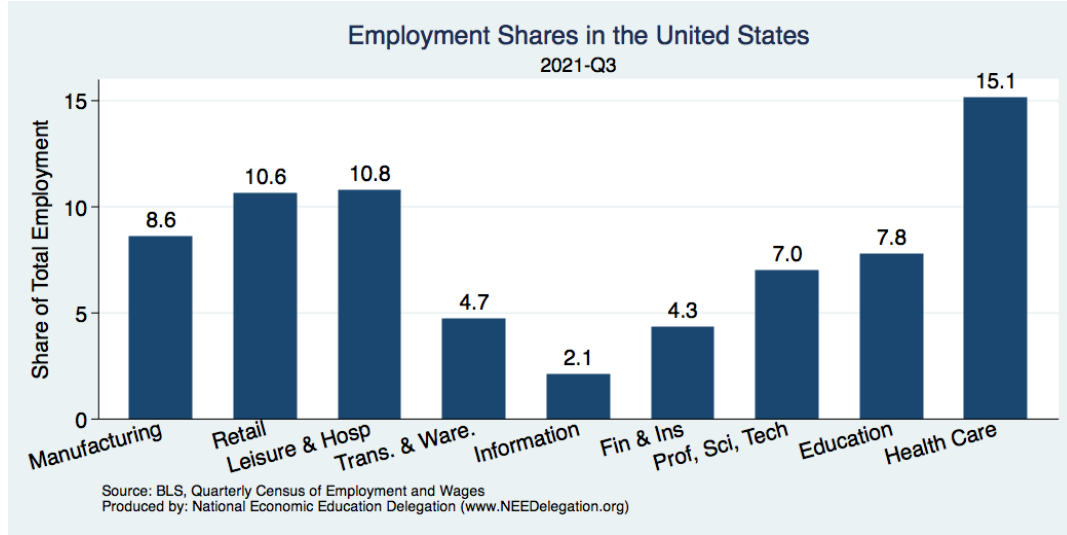
97

# Employment Growth Detail: Marin County

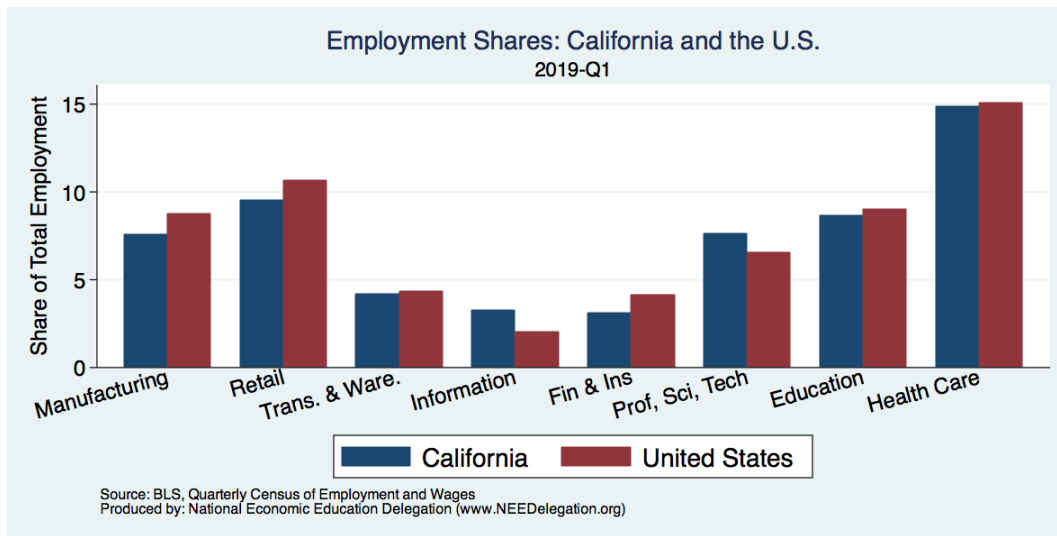


98

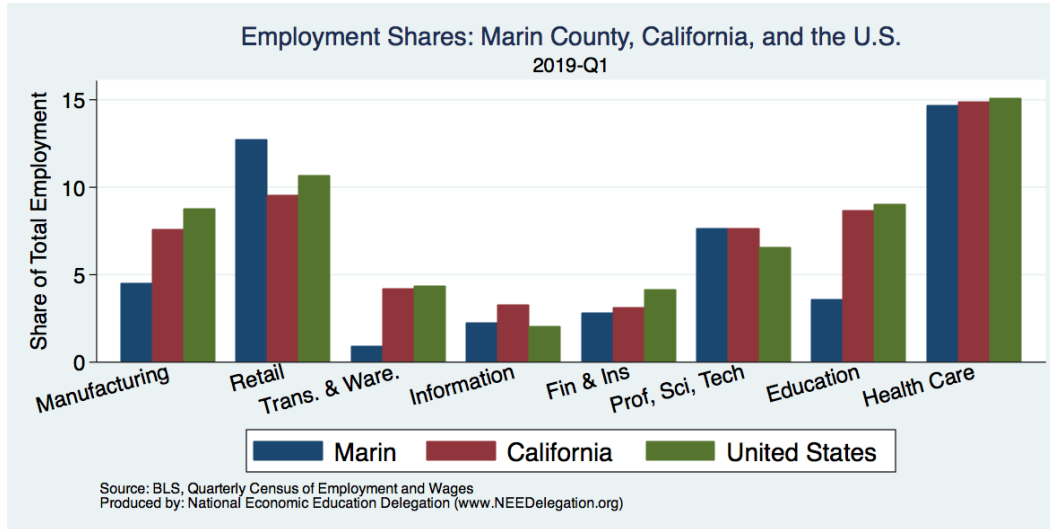
# Employment Shares



# Employment Shares: California

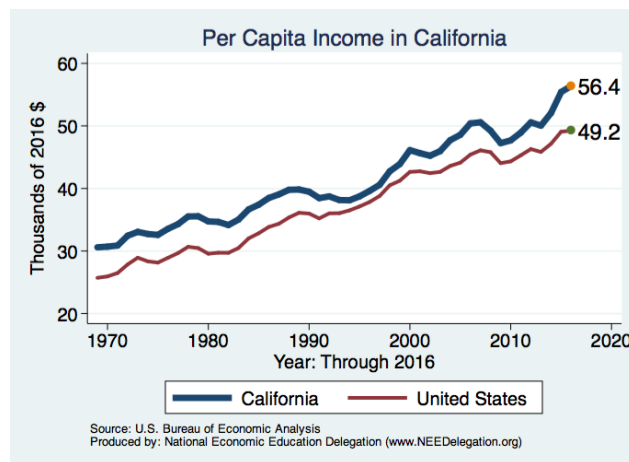


## Employment Shares: Marin County



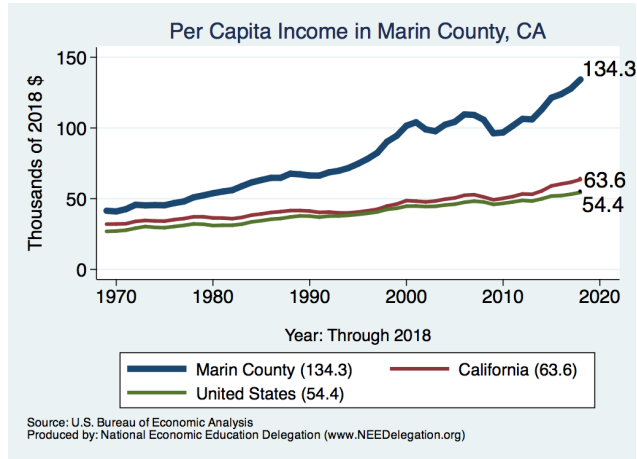
101

## Per Capita Income: California



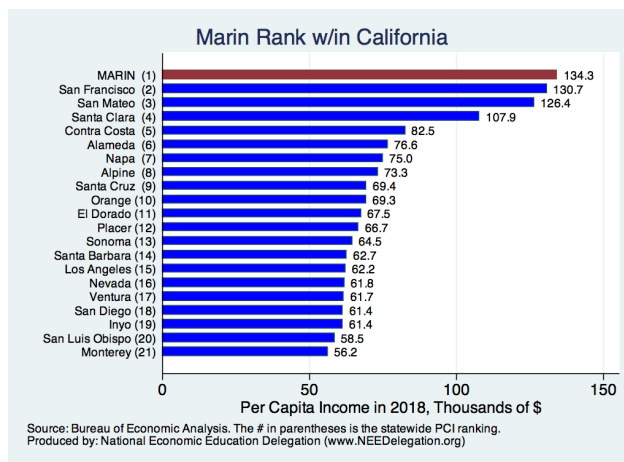
102

# Per Capita Income: Marin County



103

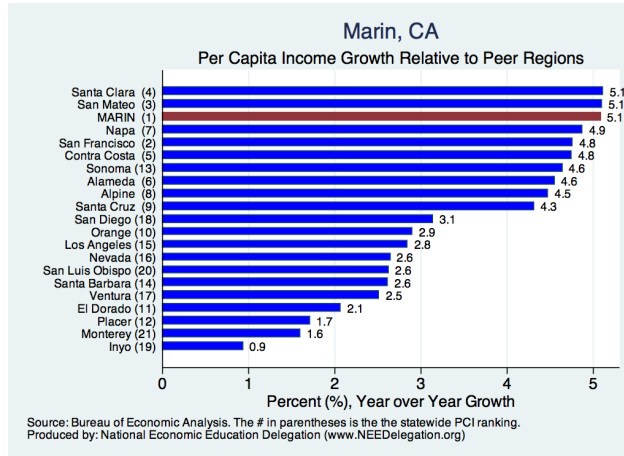
# Per Capita Income: Marin County



104



# Per Capita Income: Marin County



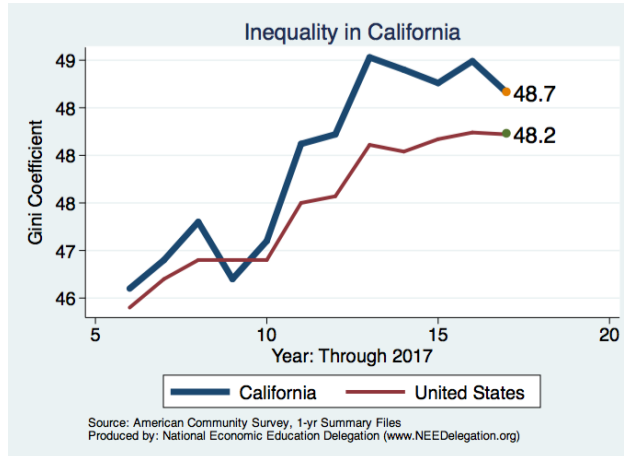
105

# Income Inequality: Nationwide

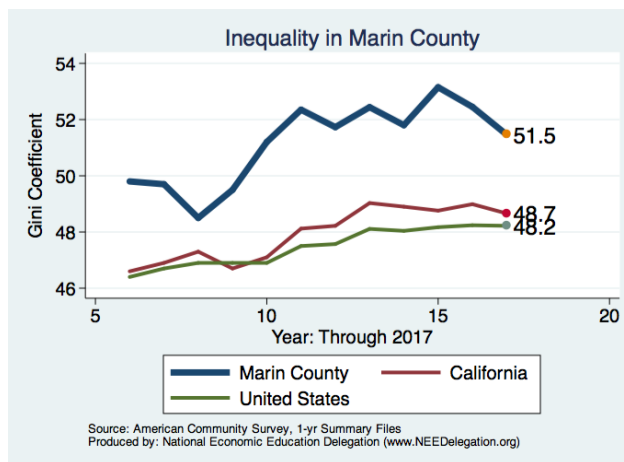


106

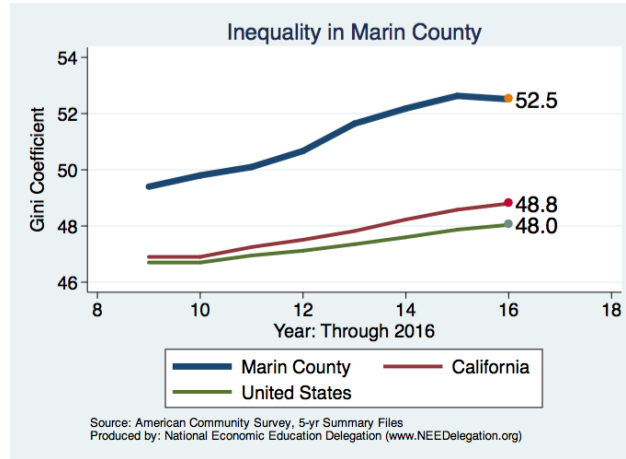
# Income Inequality: California



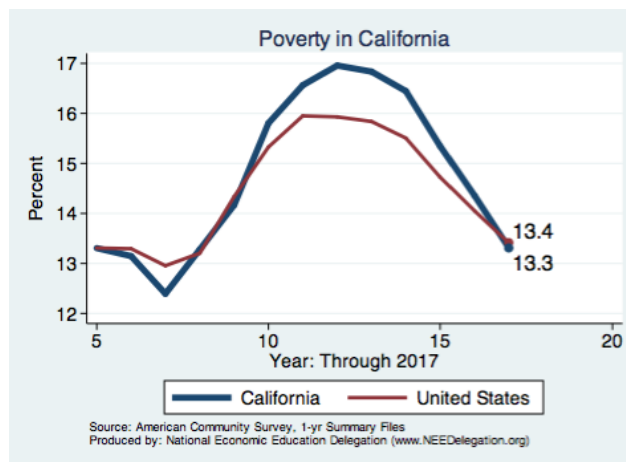
# Income Inequality: Marin County



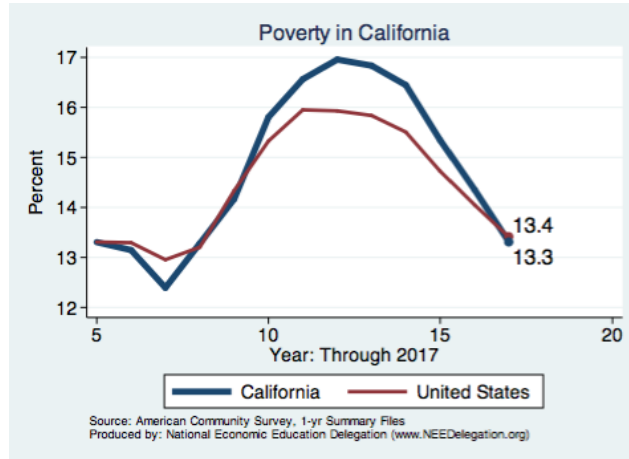
# Income Inequality: Marin County (5-yr ACS)



# Poverty: California

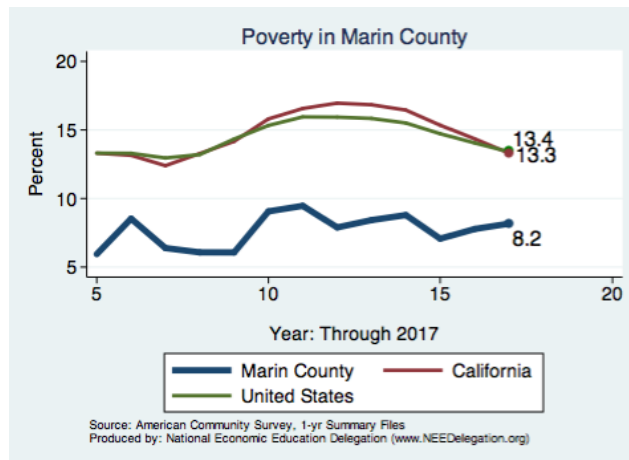


# Child Poverty: California



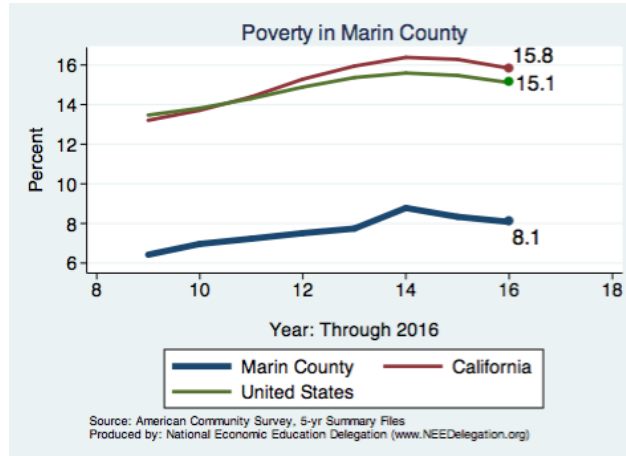
111

# Poverty: Marin County (1-yr ACS)



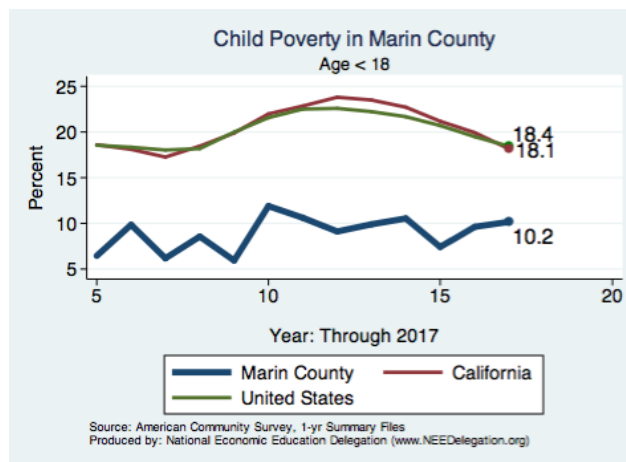
112

## Poverty: Marin County (5-yr ACS)



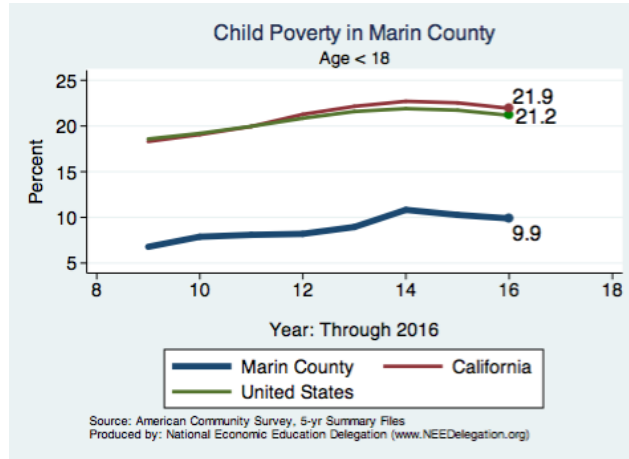
113

## Child Poverty: Marin County (1-yr ACS)



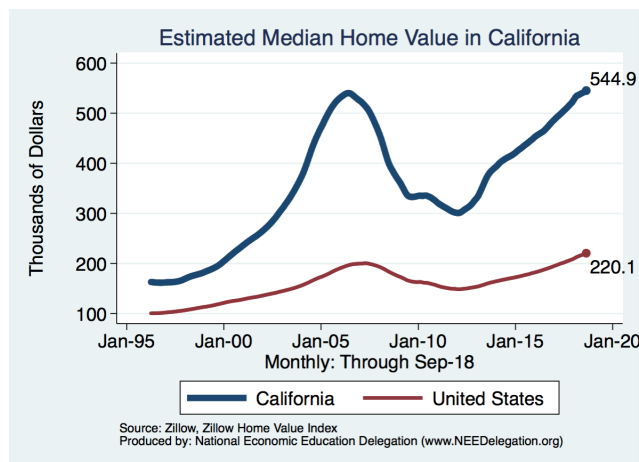
114

# Child Poverty: Marin County (5-yr ACS)



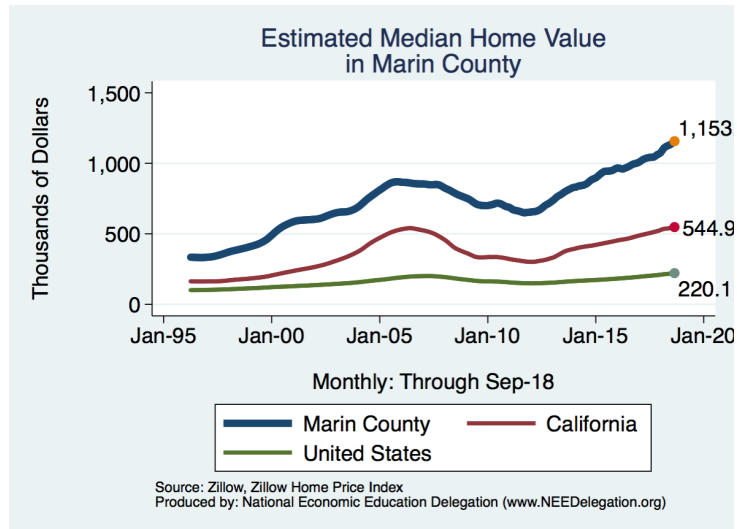
115

# Home Prices: California



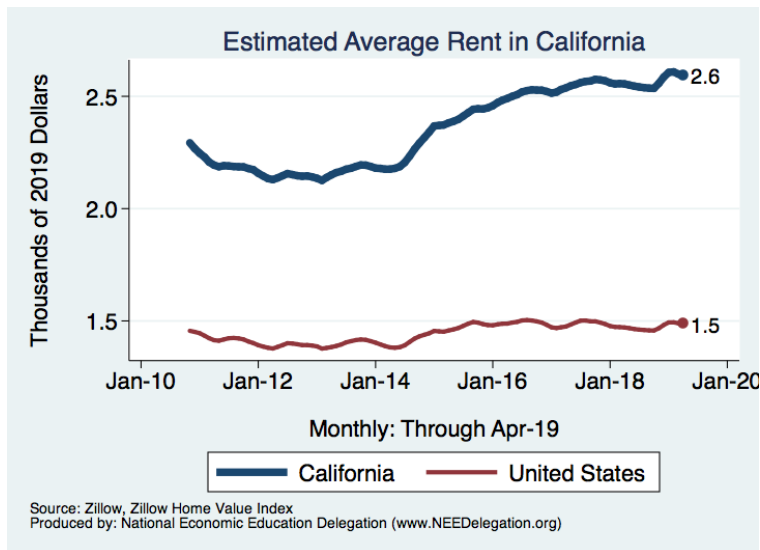
116

# Home Prices: Marin County



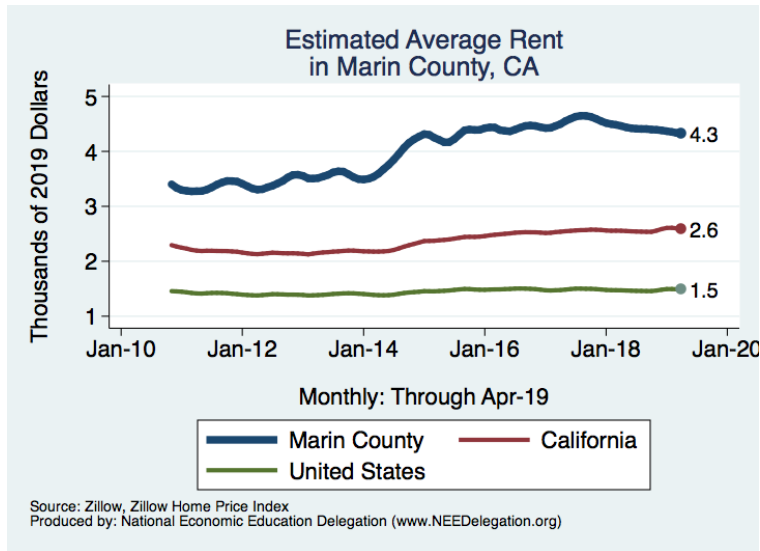
117

# Rents: California



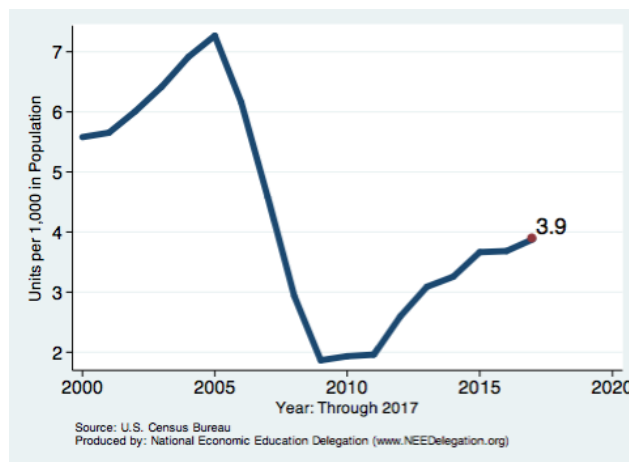
118

## Rents: Marin County



119

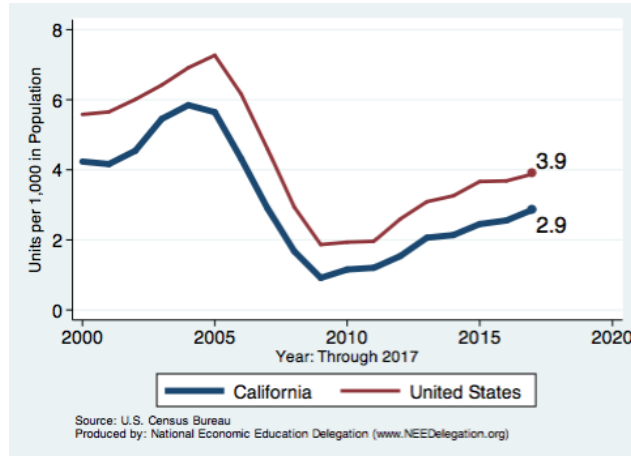
## Home Permitting: Nationwide



120

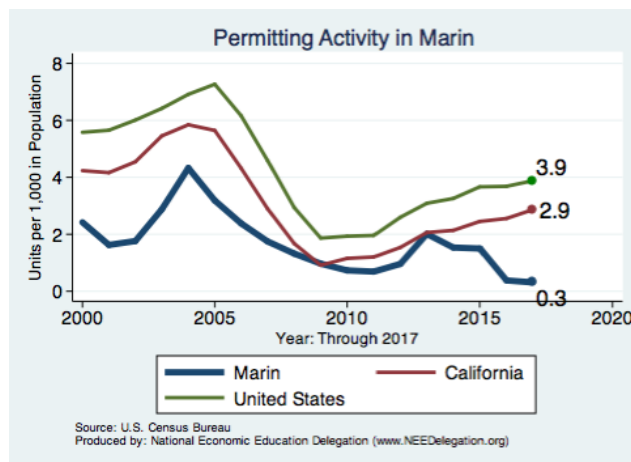


# Home Permitting: California



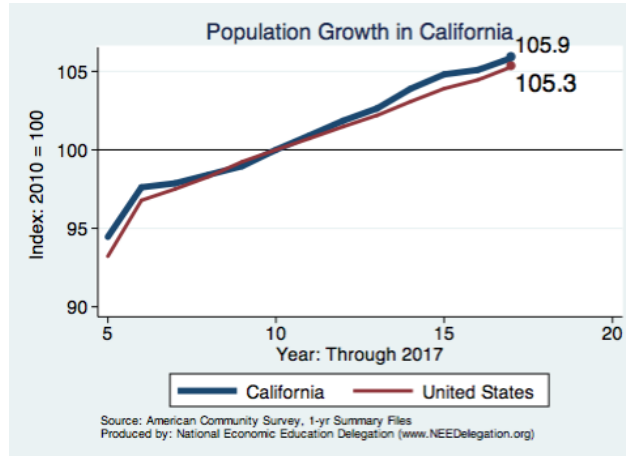
121

# Home Permitting: Marin County



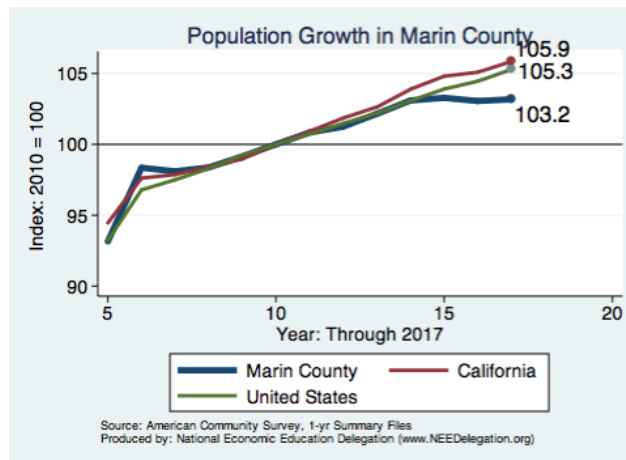
122

# Population Growth: California



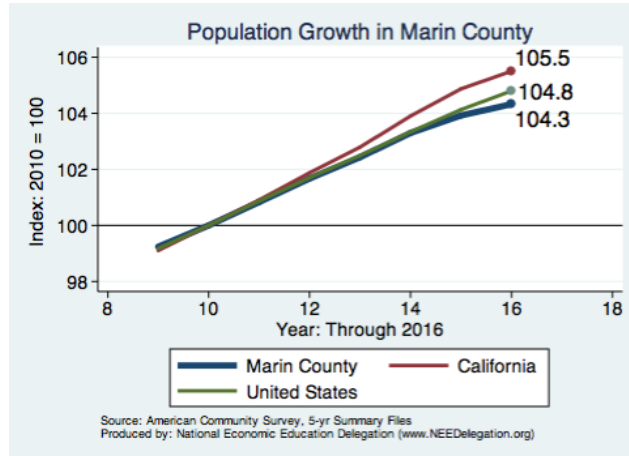
123

# Population Growth: Marin County (1yr ACS)



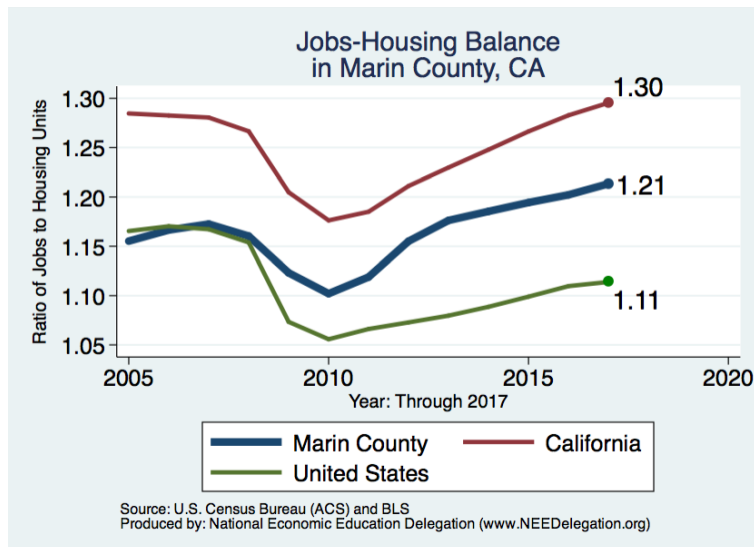
124

## Population Growth: Marin County (5yr ACS)



125

## Jobs-Housing Ratio



126