

U.S. Economic Update

February 26, 2019
Converse Free Library, Lyme NH

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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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 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
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Outline – U.S. Economic Outlook

- **Behavior of GDP**
- **Labor Market**
- **Monetary Policy/Interest Rates**
- **Other Indicators**
- **Bonus Round: Grafton County**



Behavior of GDP

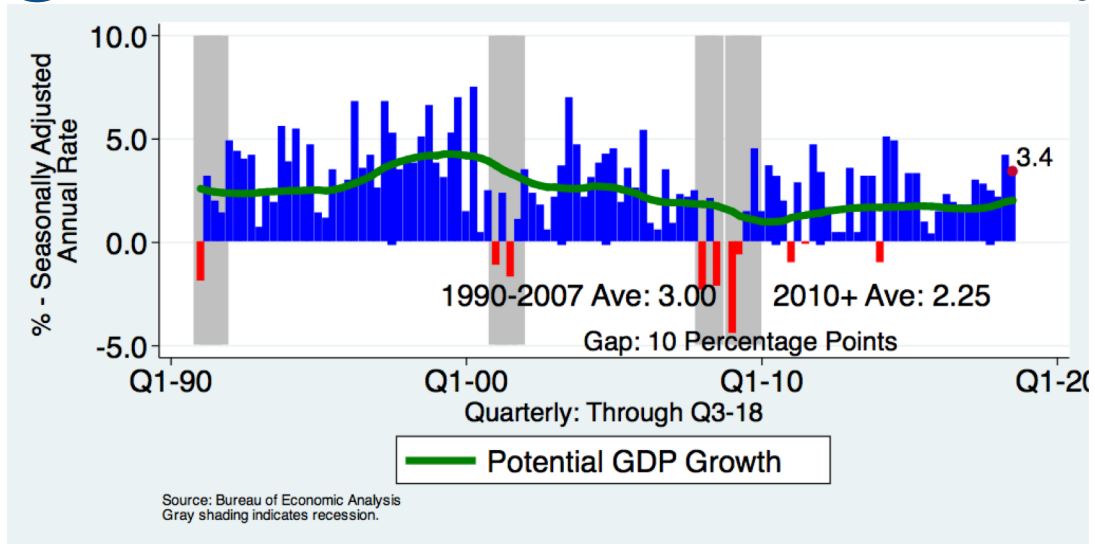


GDP During the Recovery

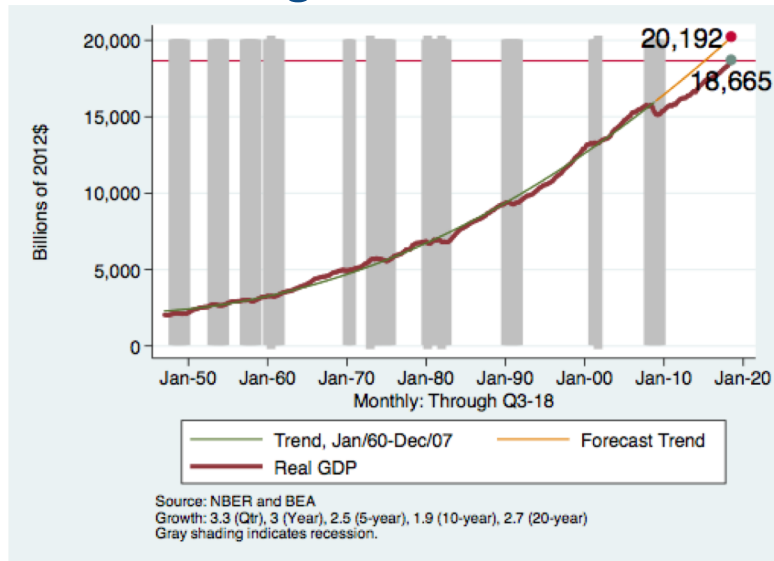
- *Real GDP* is a standard measure of production used by economists to assess the health and well-being of an economy
- *Potential GDP* is the level of production in an economy operating at full employment
- We use potential GDP to get a sense of what production should be in an economy



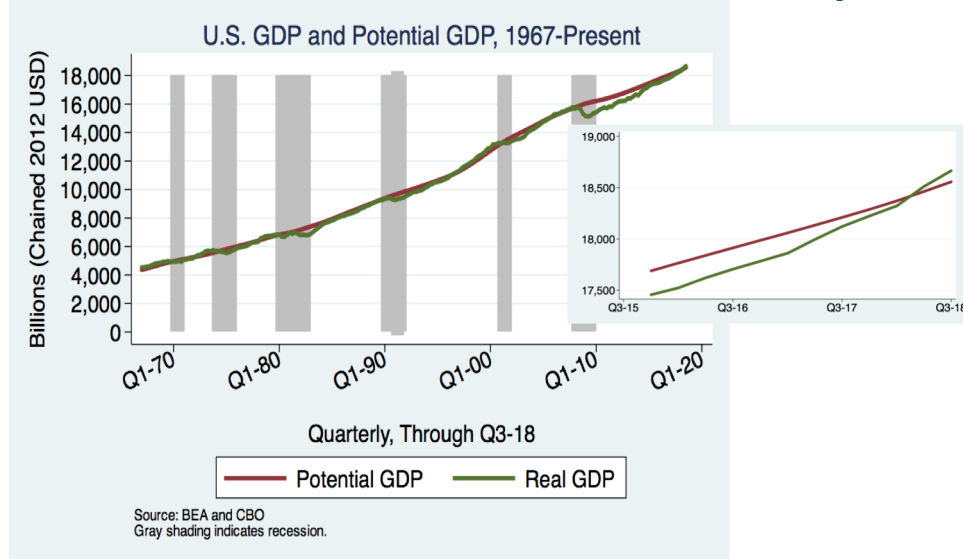
GDP Growth During Economic Recovery



GDP Relative to Long-Term Trends



GDP Trajectory During Economic Recovery



What Is Responsible for the Slow Recovery?

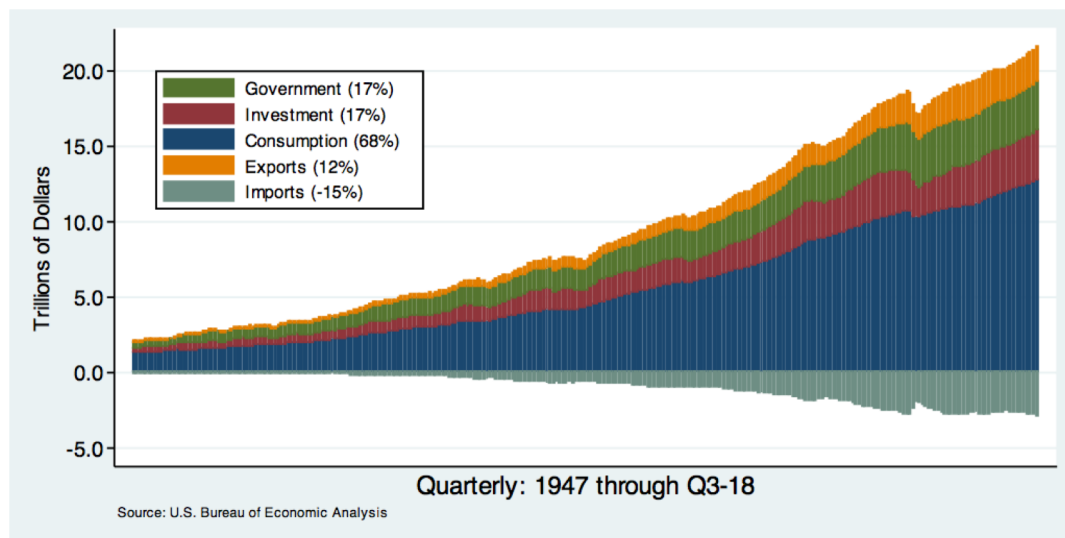
- **Expenditures drive GDP growth.**
 - GDP is the sum of four categories of spending:
 - Consumption
 - Investment
 - Government spending
 - Net Exports: Exports – Imports
- **Production also matters.**
 - Employment
 - Productivity

A Note on Imports and GDP

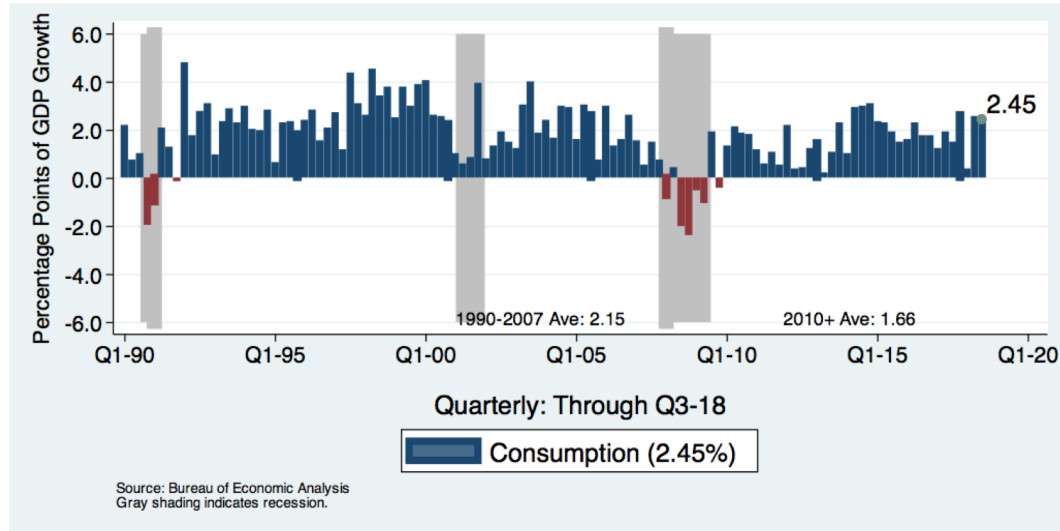
- **GDP = Consumption + Investment + Government + Net Exports**
 - Net Exports = Exports – Imports
- **Give the impression that IMPORTS are bad for GDP**
 - They are not.
 - They are merely subtracted from the equation because the measurement of consumption, investment, and government all include imports.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



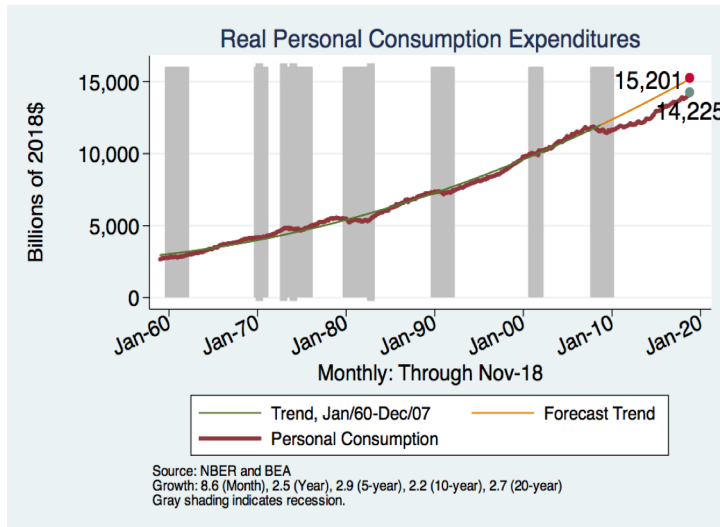
Composition of GDP – Inflation Adjusted



Contribution to GDP Growth: Consumption



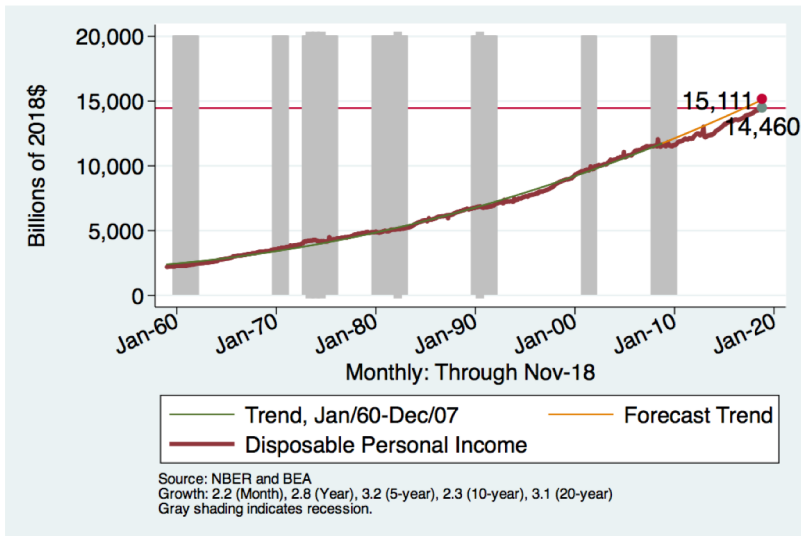
Personal Consumption Expenditures



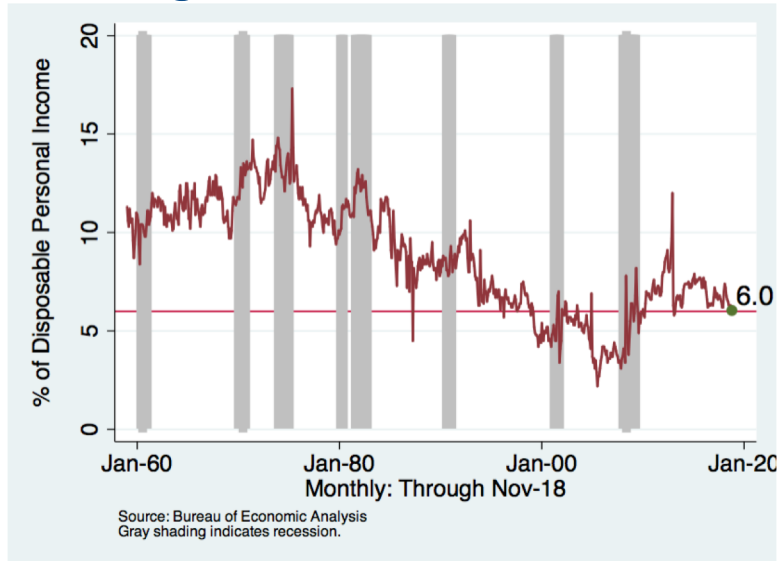
Explaining Consumption Expenditures

- Consumption depends on the level of income and on how much we save or spend.
- So changes in household debt, and personal savings help explain changes in consumption expenditures.

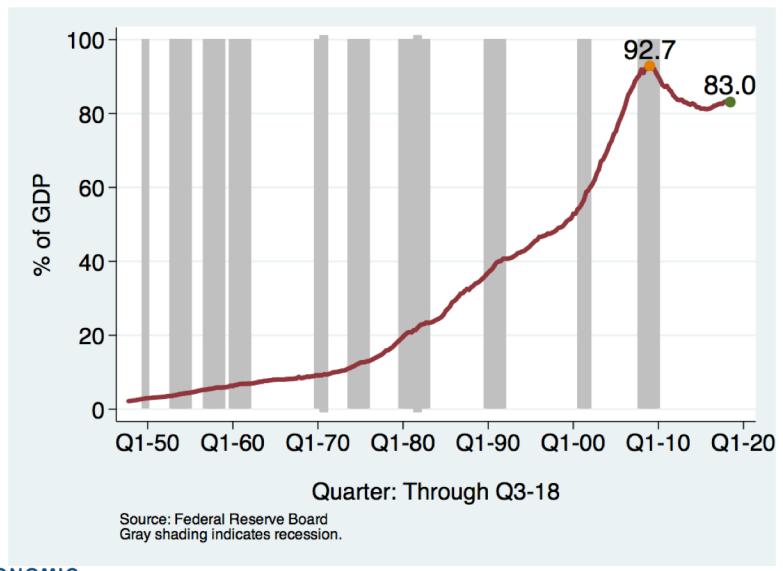
Real Disposable Personal Income



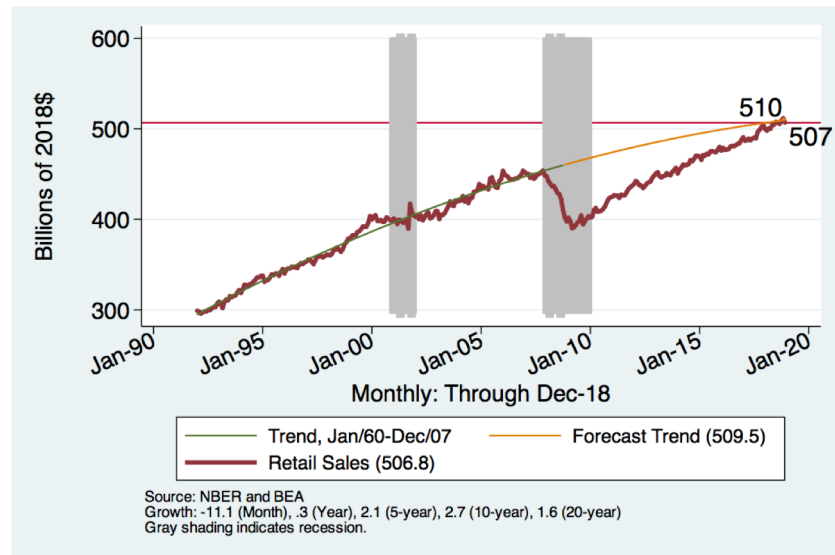
Personal Savings



Household Debt as a Share of GDP



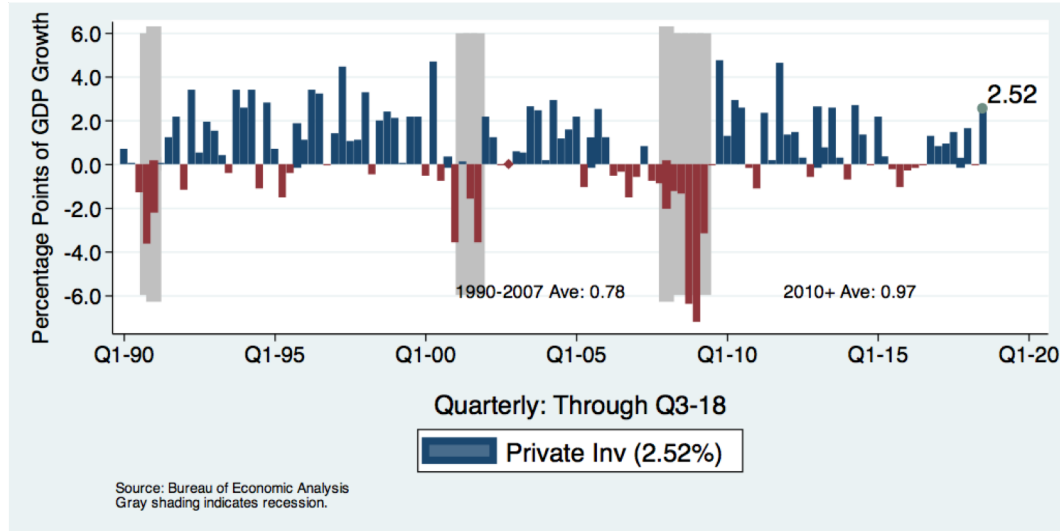
Retail Sales



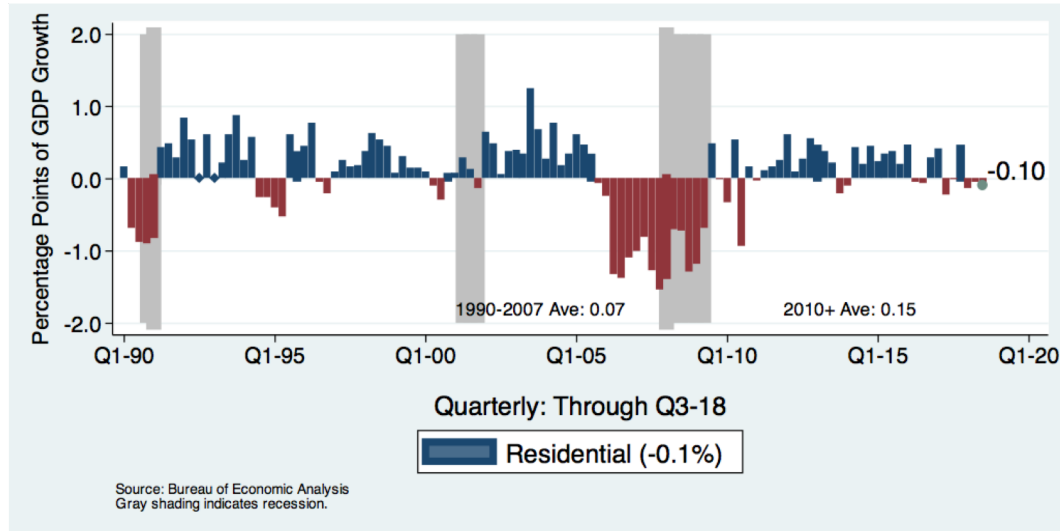
Investment Expenditures

- 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.

Contributions to GDP: Private Investment



Contributions to GDP: Residential Investment

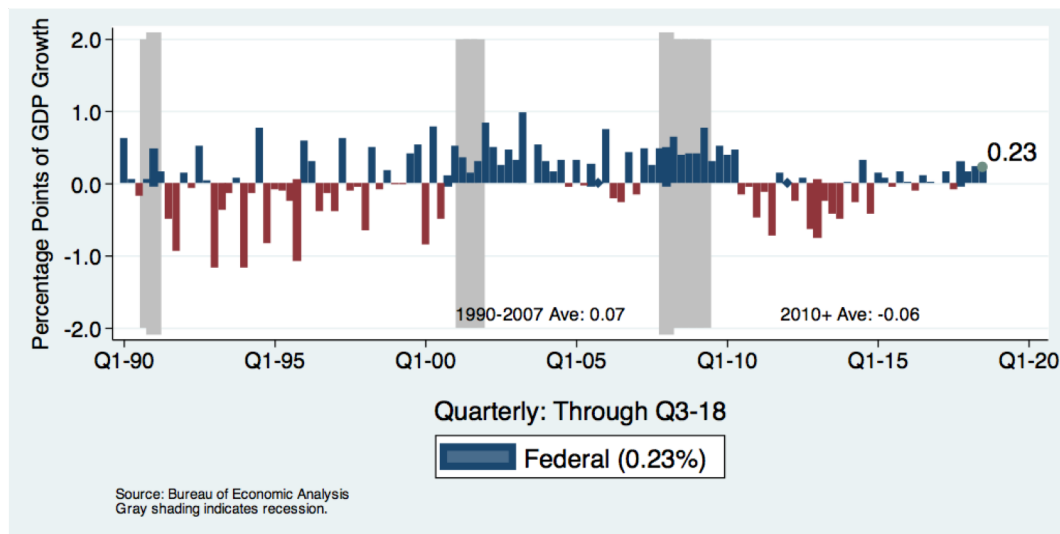


Government Spending

- Note that an increase in government spending will cause GDP to increase – all else equal.
- But all else is not equal: we have to pay for government spending.
 - When spending is financed by taxes, consumption and investment fall (exactly how much depends on context).
 - *When government spending is financed by borrowing, domestic and foreign saving (i.e. current account deficit) will rise and/or private investment will fall (again, how much depends on context).*
- So: there's no free lunch.
- Right now, the government is borrowing and our debt is rising fast.



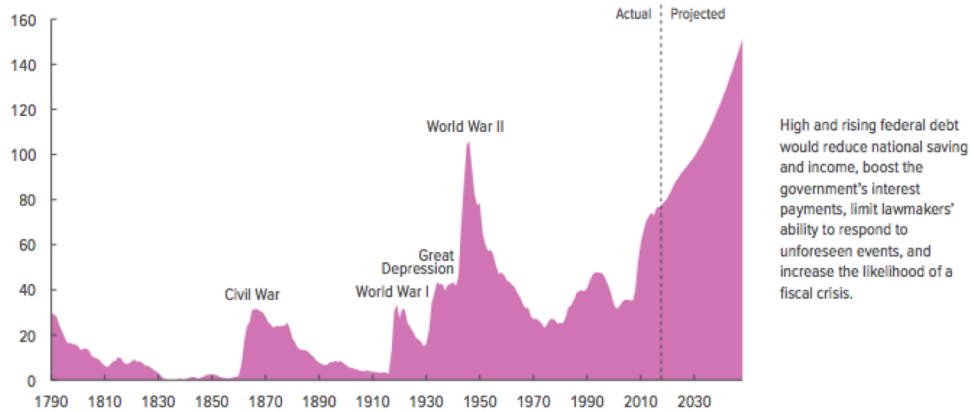
Contributions to GDP: Government



Federal Government Debt Projections

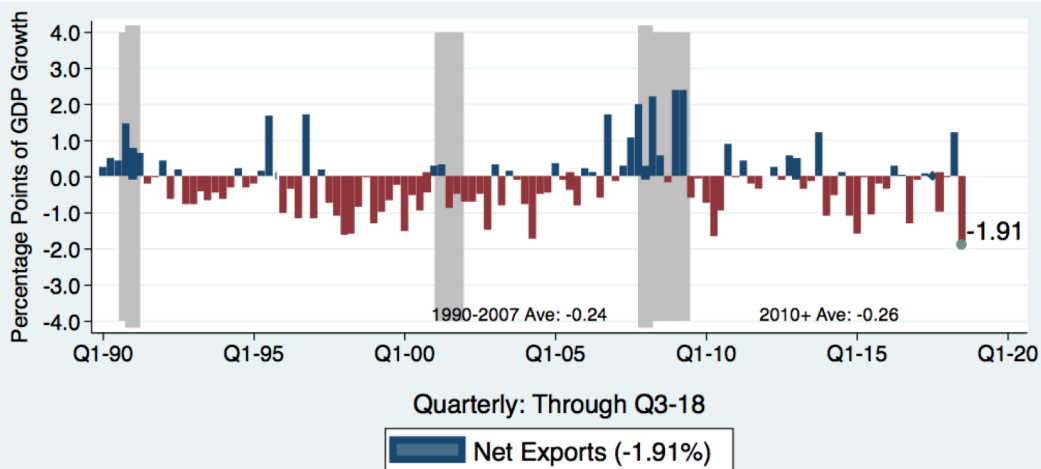
Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Contributions to GDP: Net Exports = foreign purchases of US assets



Source: Bureau of Economic Analysis
Gray shading indicates recession.

Expenditure Summary

- Post-recession consumption and export expenditures are contributing less to GDP growth than during 2000-2007.
- Very recently, government spending has been revving up.
- Investment expenditures are contributing more to GDP growth, but residential investment is flagging.
- The US Trade (Current Account) Deficit is in line with pre-recession levels, but has increased markedly since mid-2018.



Labor Market

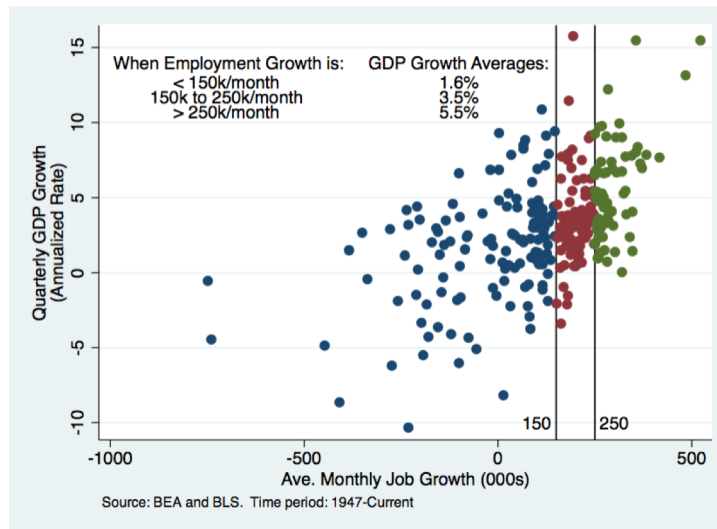


Production and Employment

- In addition to the previously discussed components of GDP, the labor market is an important indicator of the health of the U.S. economy.

- We'll focus on employment and productivity.
 - Trends in employment and labor force participation.
 - Trend in labor productivity.

GDP Growth and Employment Changes



Labor Market Conditions

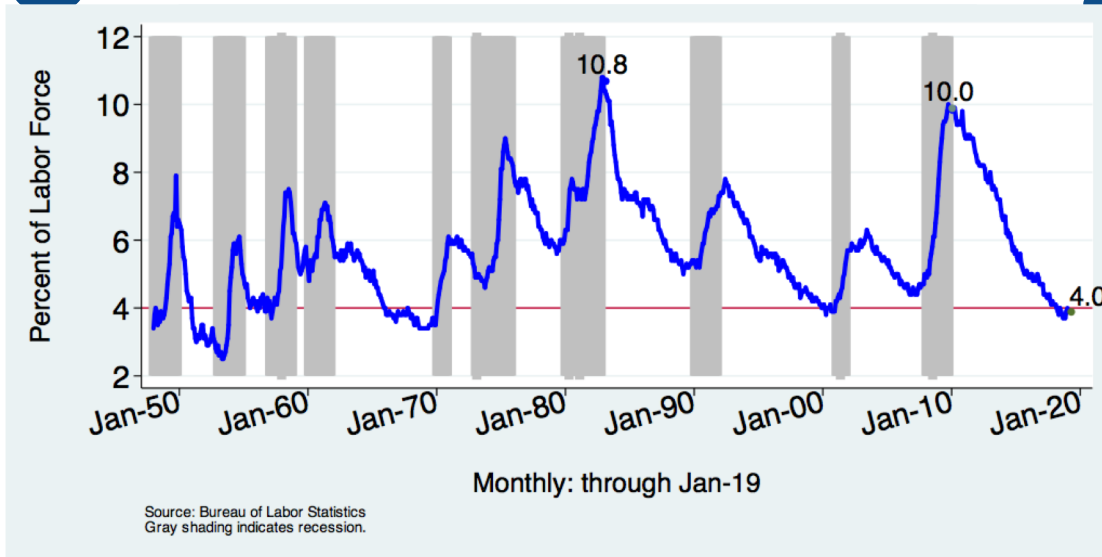
- Unemployment rate is low, 4.0%, but up from 3.7%.
- Natural rate of unemployment is estimated to be 4.5% - 5.5%.
- Monthly employment gains have averaged 234,000 jobs over the last six months.
- **Recent Labor Market Concerns:**
 - Low employment-to-population ratio
 - Falling labor force growth
 - Slow wage growth



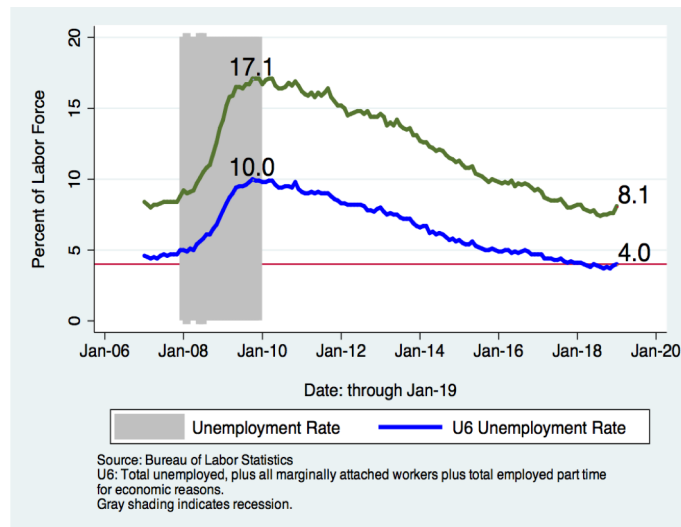
Employment & Unemployment



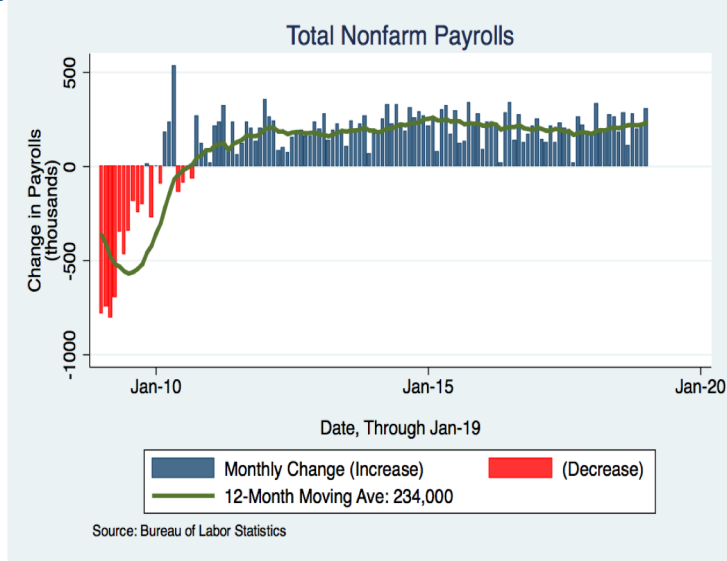
Unemployment Rate



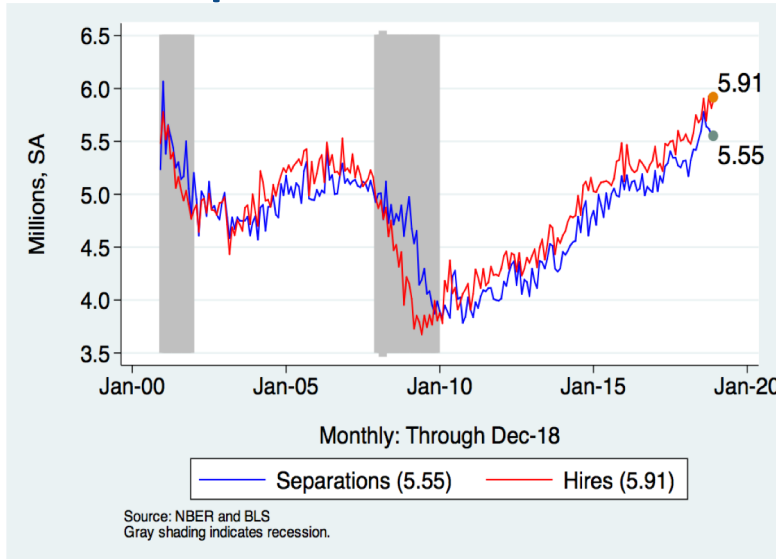
Unemployment Rate: Another measure (U6)



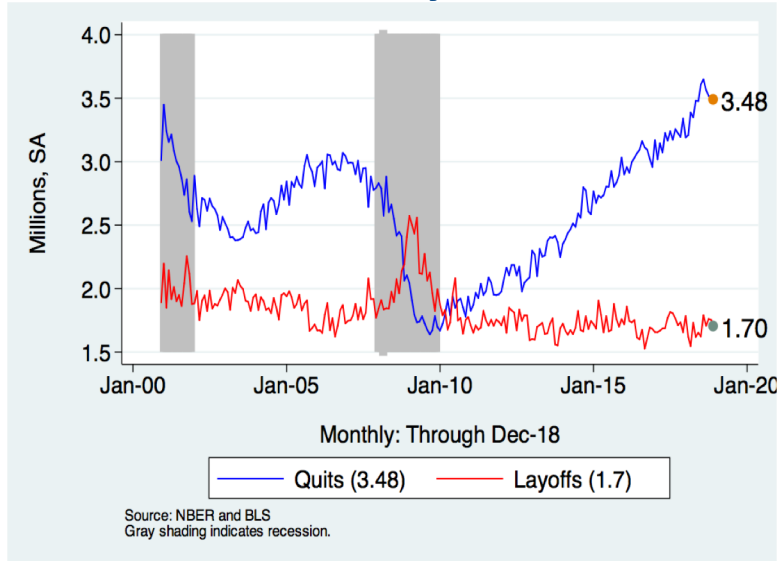
Monthly Changes in Nonfarm Employment



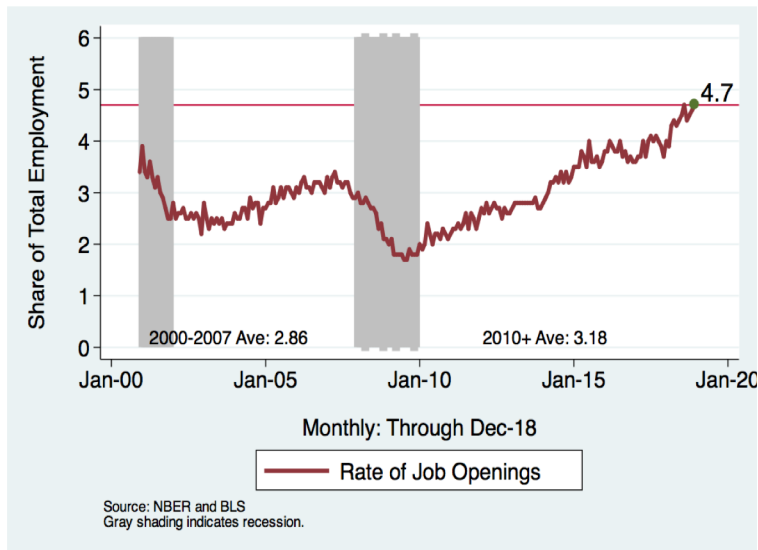
Job Hires and Separations: Active Labor Mkt



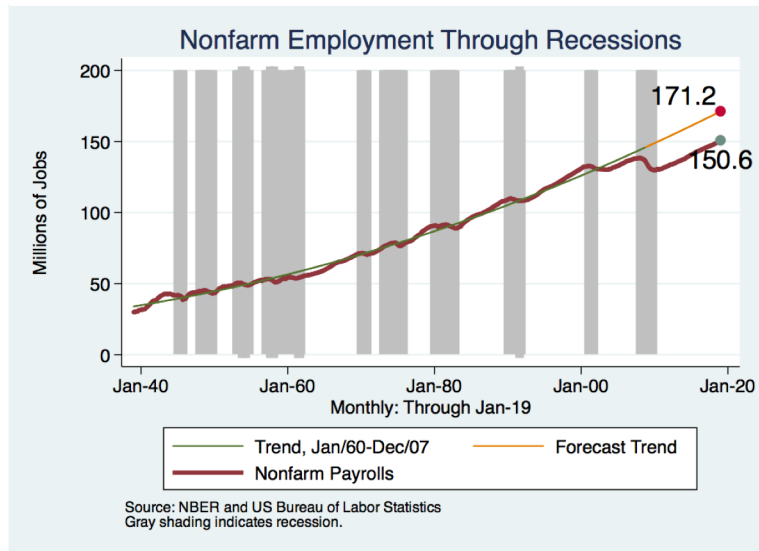
Separations: Quits and Layoffs



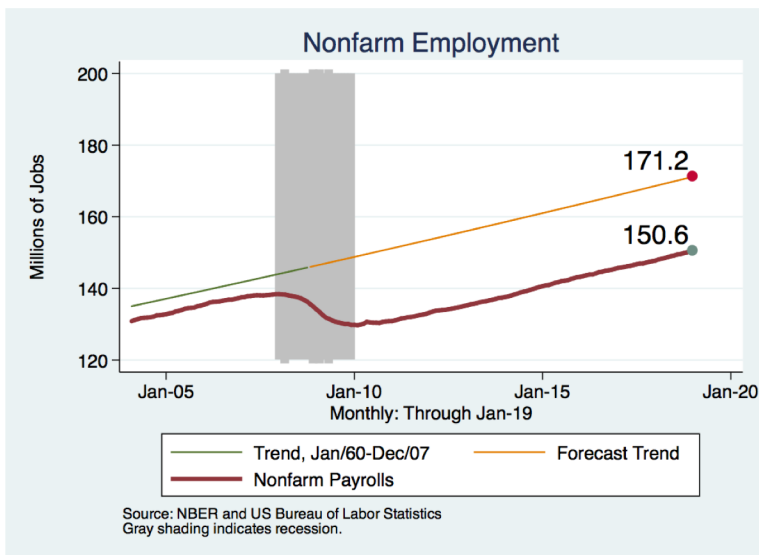
Job Openings: Share of Total Employment



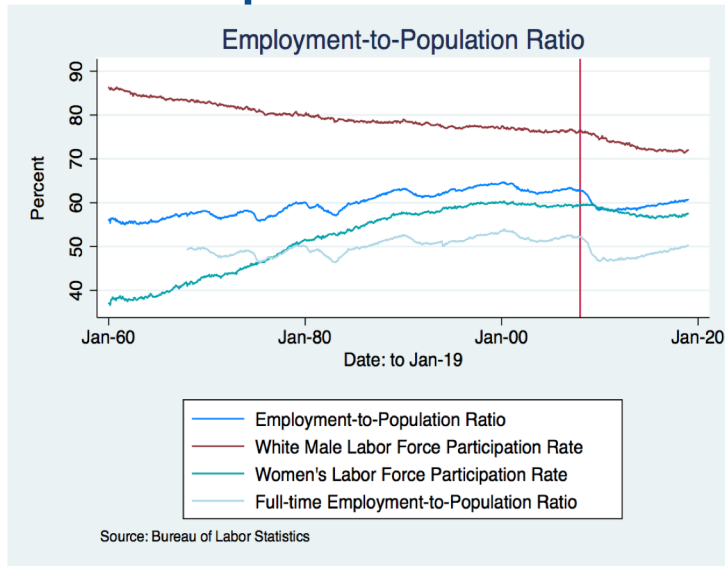
Employment Growth



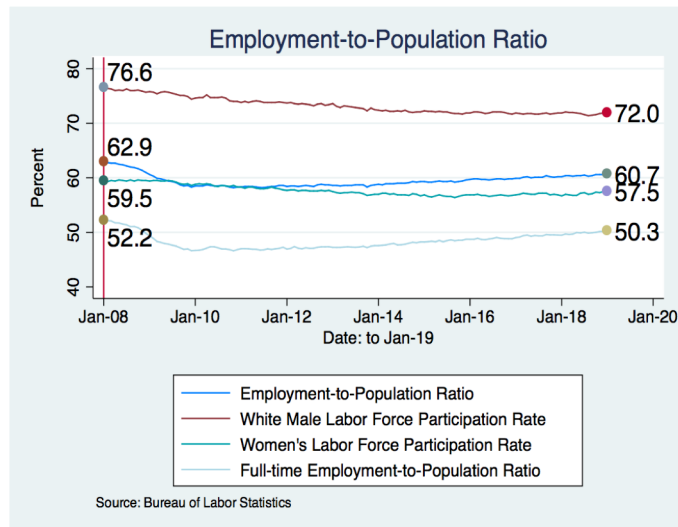
Employment Gap: Up Close



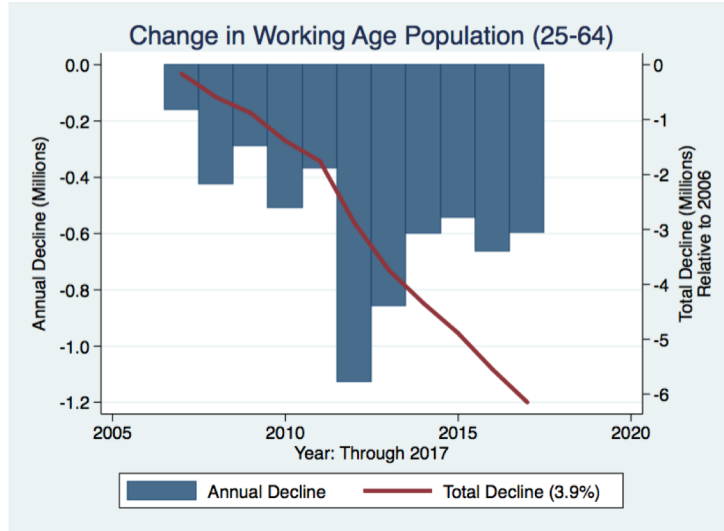
Employment-to-Population Ratios



Employment to Population Ratios – Recent

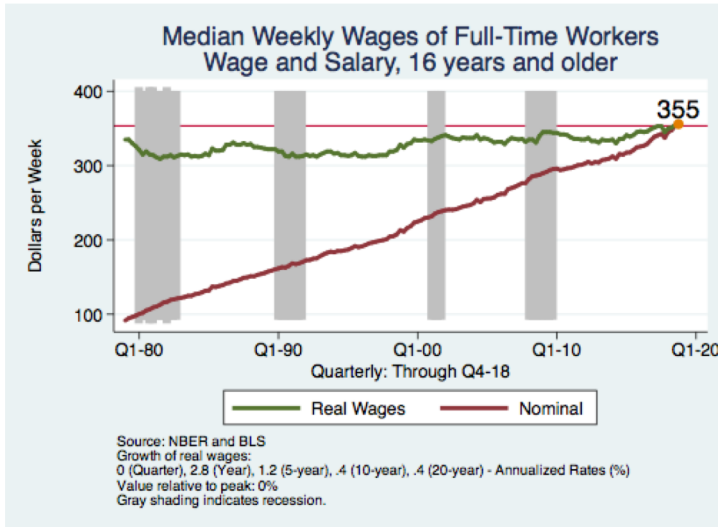


Baby Boomers Are Retiring!

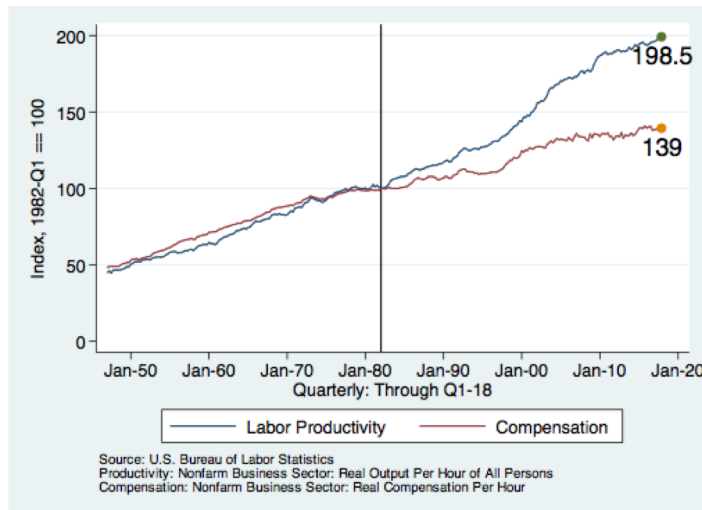


Wages

Wage Growth



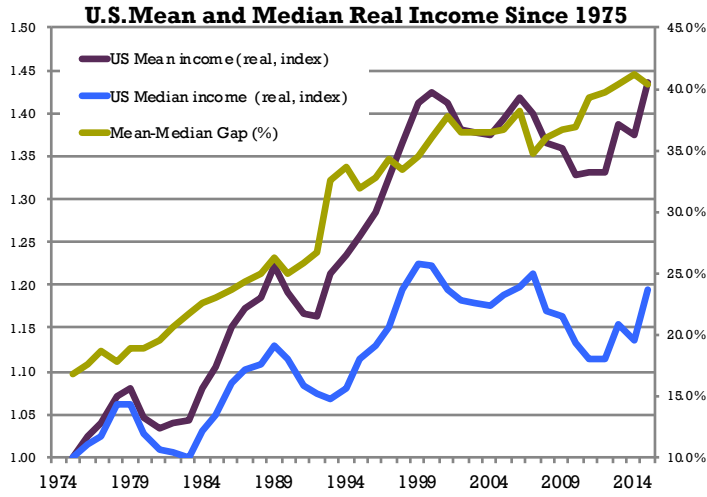
Labor Income Growth: Tepid for a while



Why?

- Declining unionization
- Globalization
- Immigration
- Competition policy
- Cheap technology

Rising Income Inequality

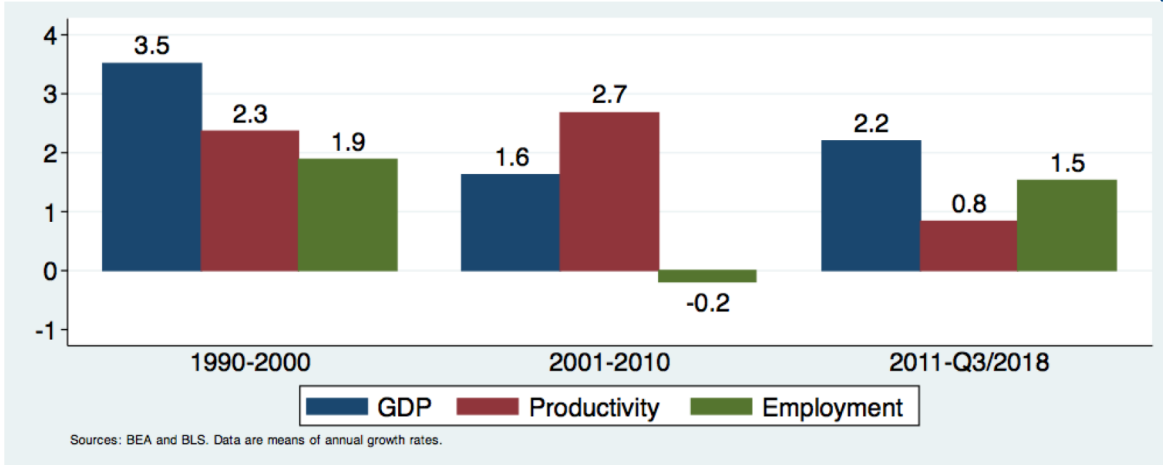


Source: Blanchard and Willmann (2018); U.S. Census

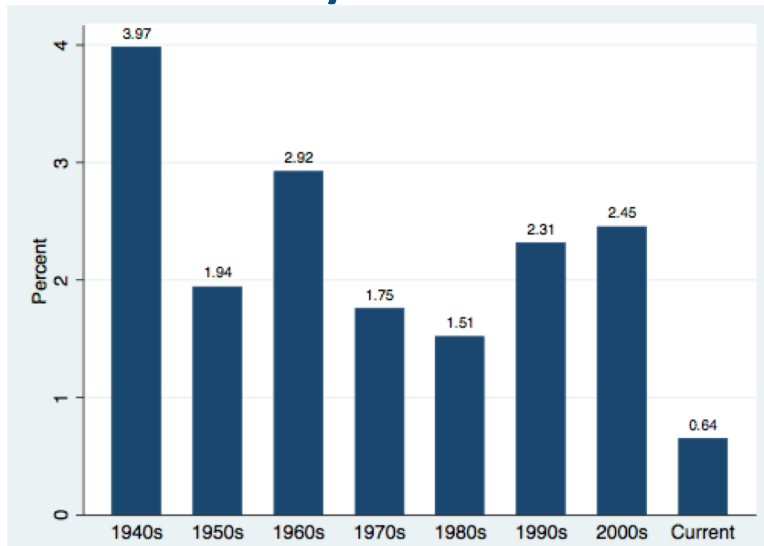
Productivity



GDP Growth, Productivity, and Employment



History of Productivity Growth



Summary

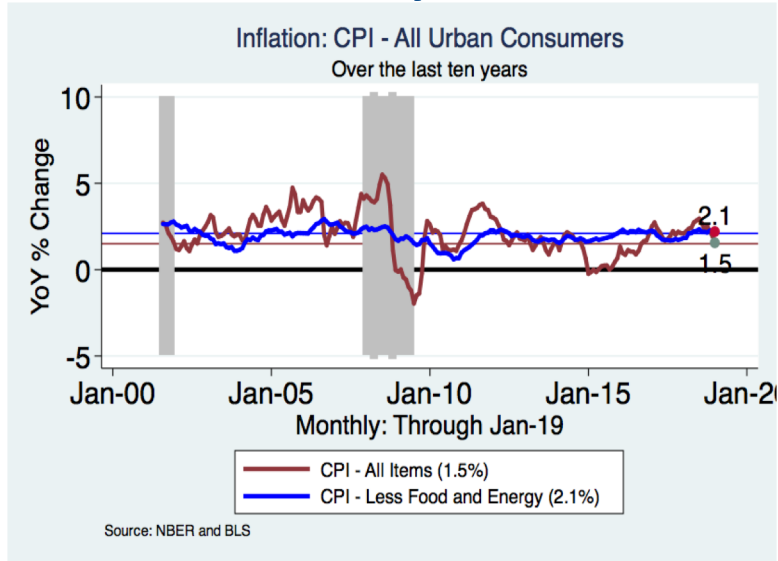
- **GDP growth is primarily fueled by increases in demand for output.**
- **This growth is supported by growth in employment and productivity of the labor force.**
- **Recent years have seen relatively tepid increases in demand for output.**
 - In particular, consumption and government spending have 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.



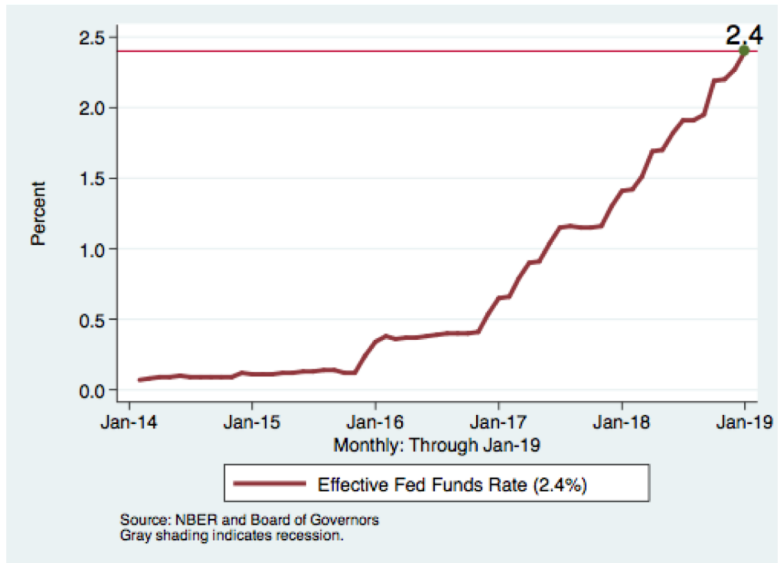
Monetary Policy



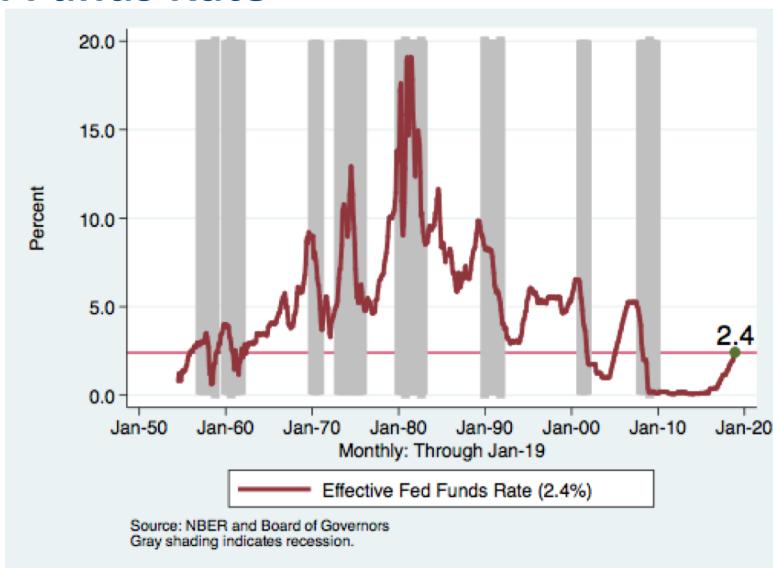
Inflation – Recent Stability



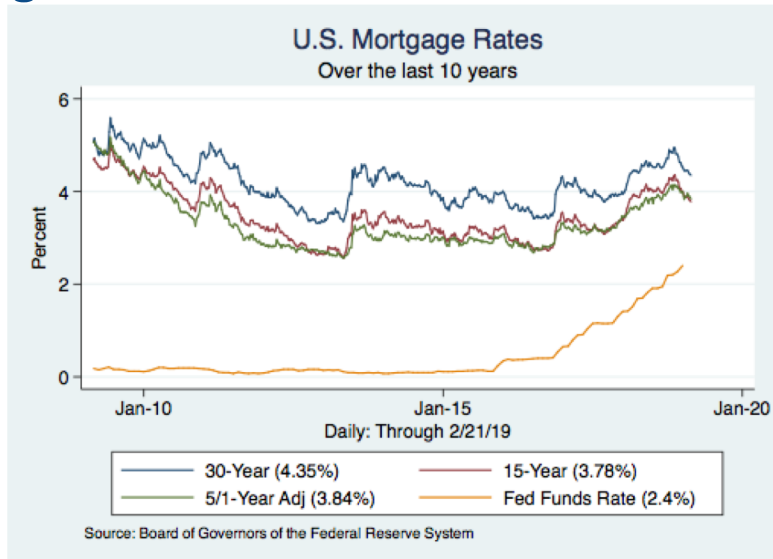
Federal Funds Rate – Last 5 Years



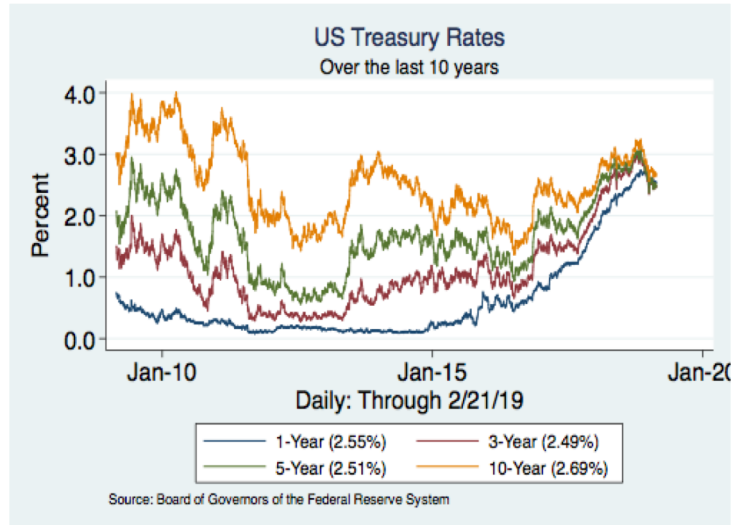
Federal Funds Rate



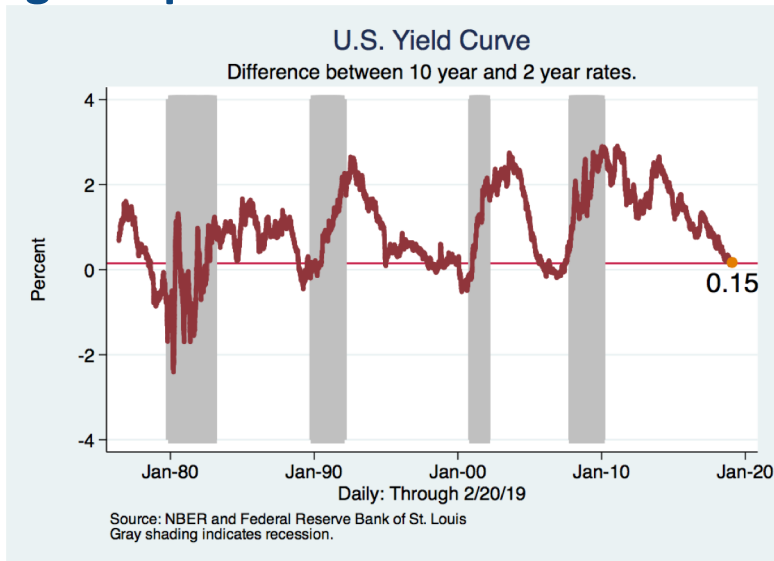
Mortgage Rates



Treasuries

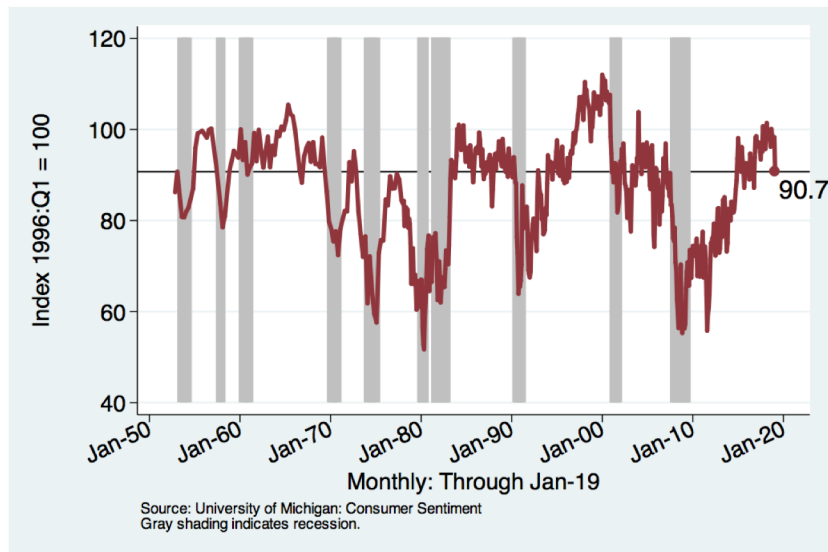


Alarming Compression of Interest Rates

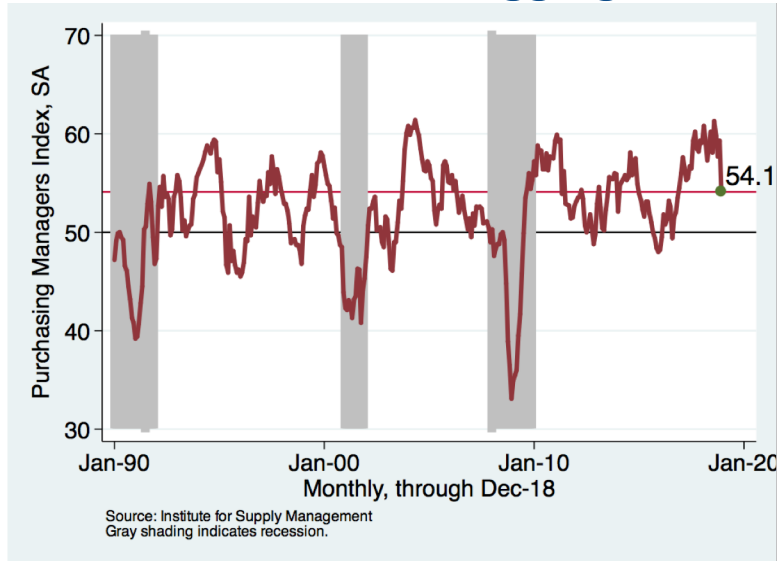


Other Indicators

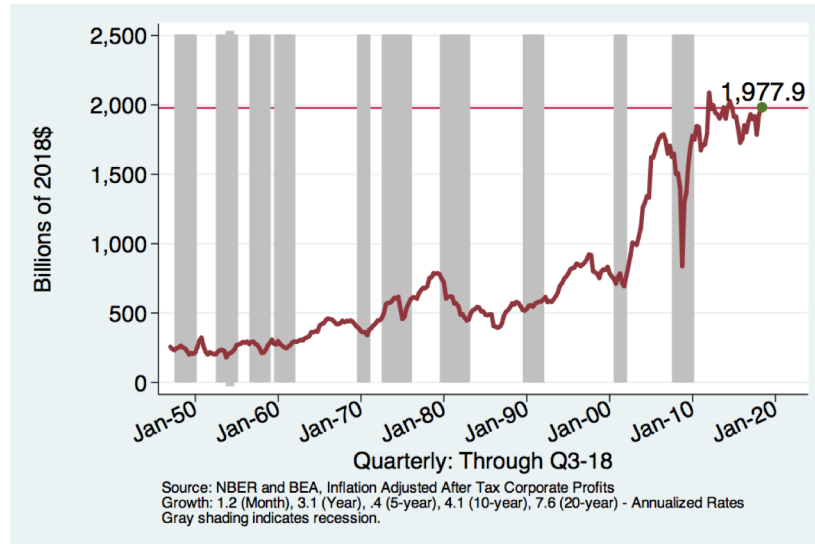
Consumer Confidence: Waning?



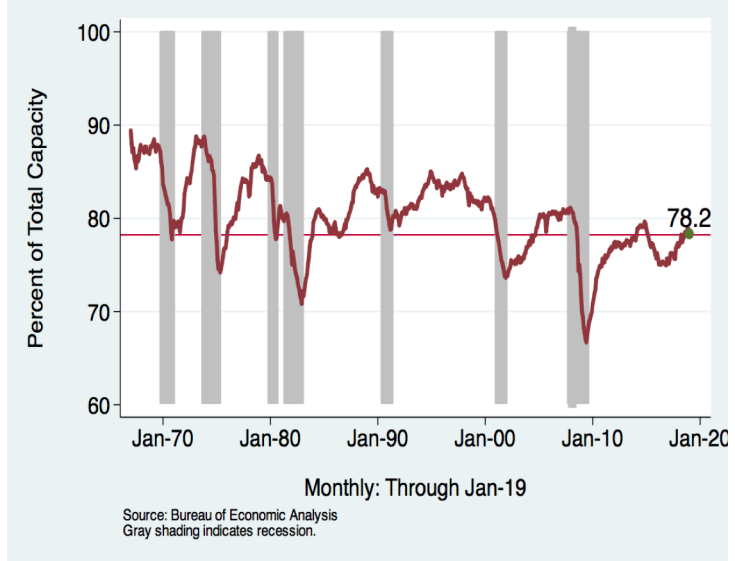
Producer Confidence: Also flagging



Corporate Profits: Robust

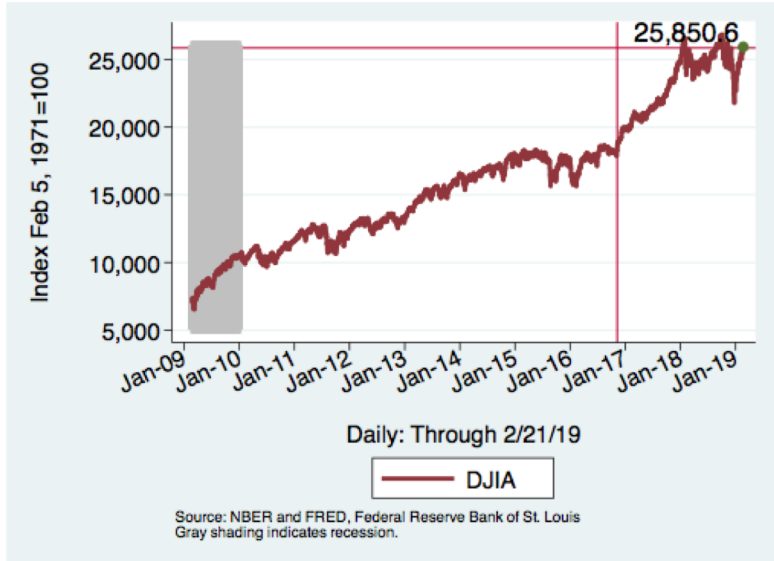


Capacity Utilization

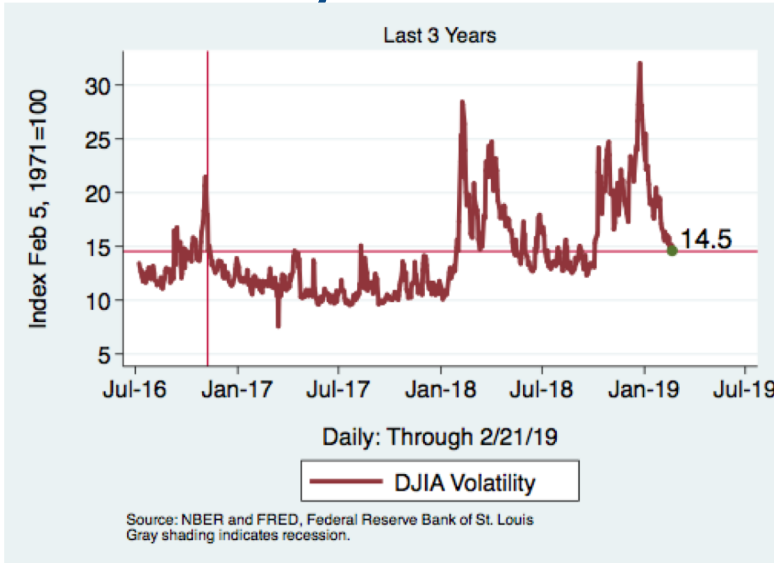


Stock Markets

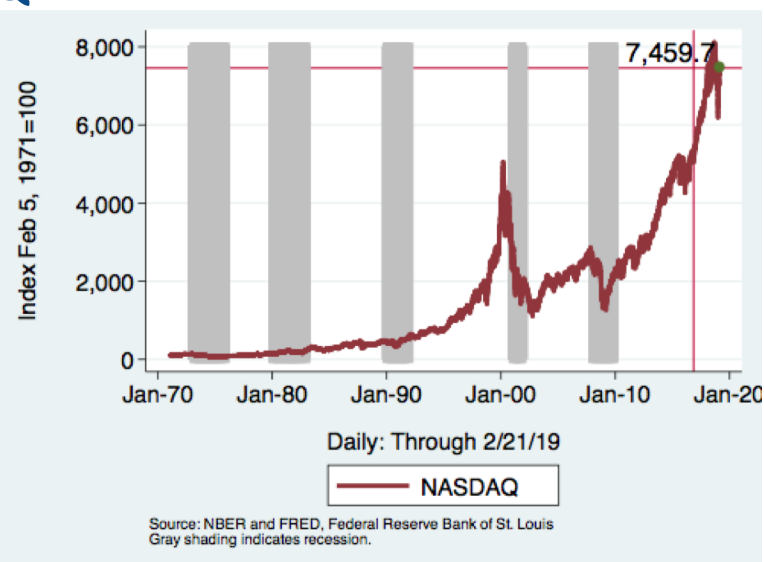
Dow Jones



Dow Jones - Volatility



NASDAQ



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.

Cautious Outlook

- Job growth remains robust, but not quality-adjusted
- Wage growth continues, but modestly
- Business investment is robust, but will uncertainty bite?
- Inflation and interest rates remain favorable



Things to Be Worried About

- Declining Labor Force and still-low Labor Force Participation
- Income and Wealth Inequality; Changing Labor Markets
- Deteriorating Infrastructure
- Climate Change
- Policy Uncertainty
 - Trade and immigration policy, especially
- Recession ahead?
 - Yield curves, business confidence, housing a
 - Current strength due in part to fiscal stimulus (2017 tax cut): How long will it last?
 - US economy depends on the ROW: growing concern of slowdown (esp in China)
- Low Rates and Rising Government Debt:
 - Is there "room" for policy to respond to the next recession?



Overall Summary

- **Tailwinds and headwinds both exist**
 - Economic forecasts for very 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 some 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 economic policy



The Local Economy



Executive Summary: Grafton County Snapshot

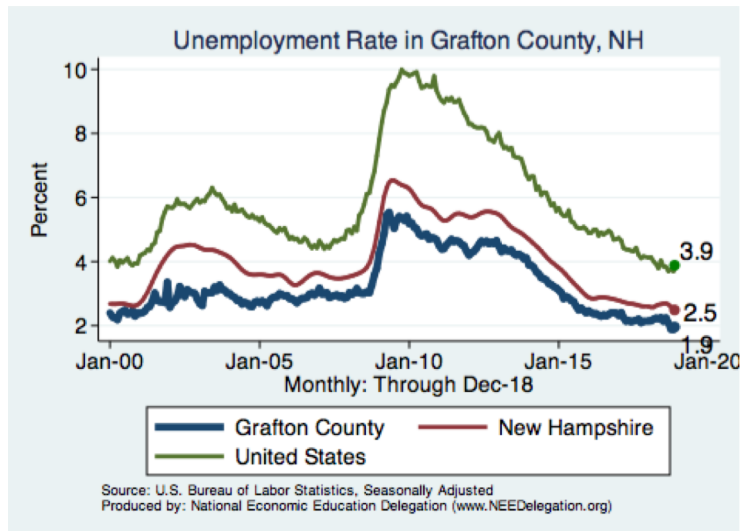
• Good News

- Very low unemployment, even relative to the rest of NH and the US
- High per-capita income relative to the US (like the rest of NH)
- Housing prices have recovered from 2008 housing bust

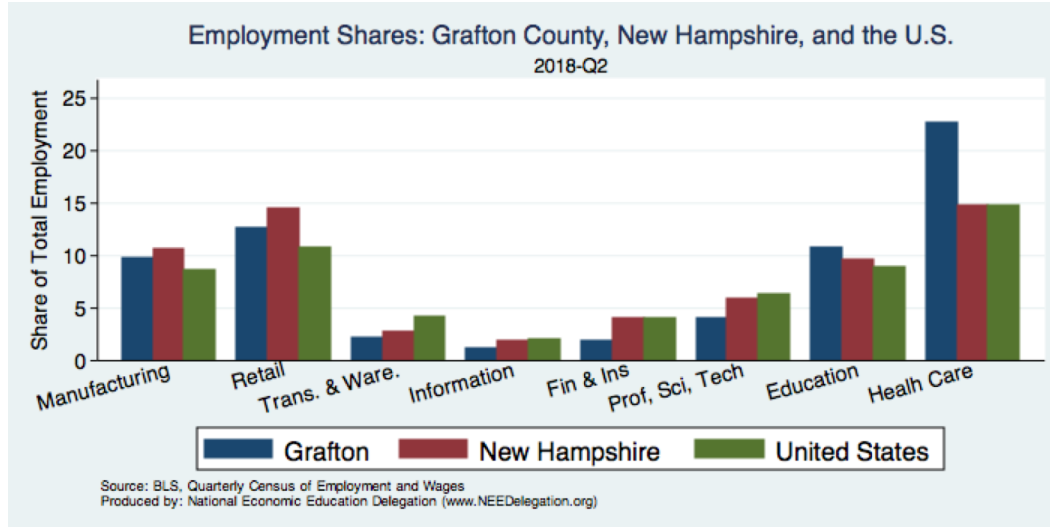
• Sobering News

- Inequality higher than the rest of NH and trending up
- Poverty higher than the rest of NH and trending up
- Child poverty higher than the rest of NH and trending up
- Labor force (and population) growth very low: demographic challenges loom

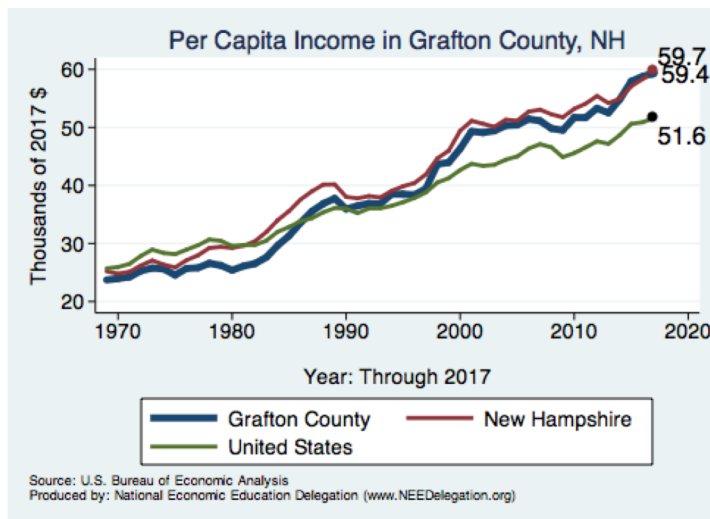
Unemployment Rate: Grafton County



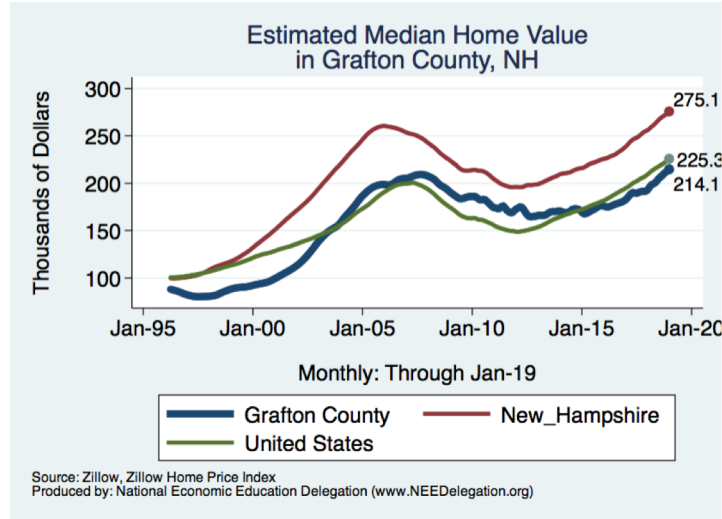
Employment Shares: Grafton County



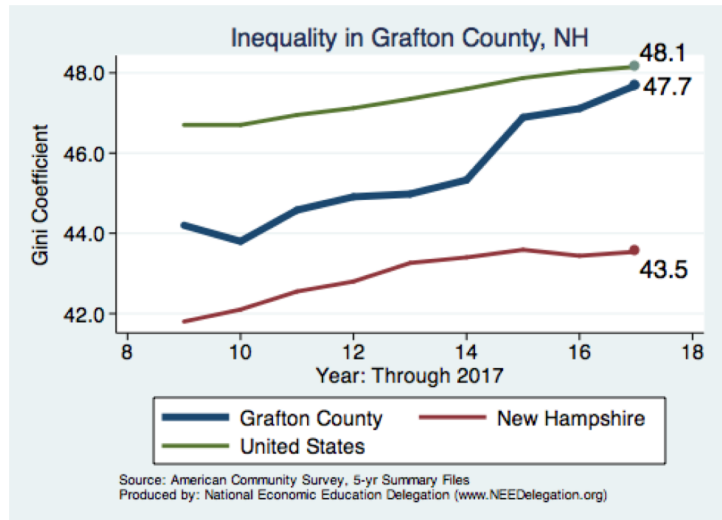
Per Capita Income: Grafton County



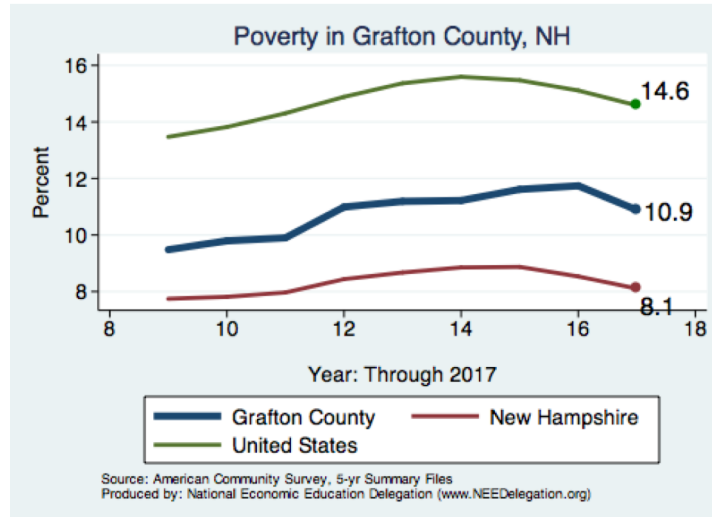
Home Prices: Grafton County



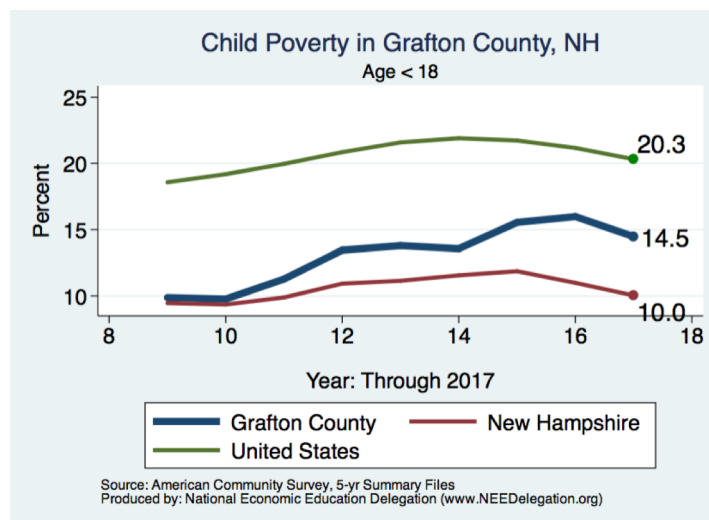
Income Inequality: Grafton County



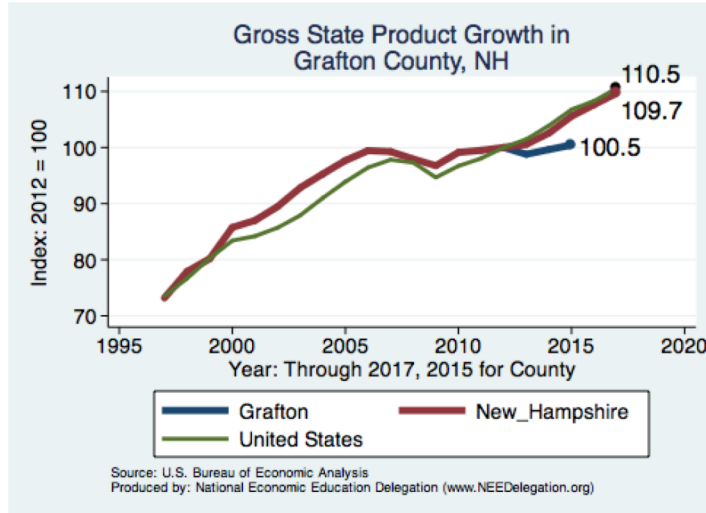
Poverty: Grafton County



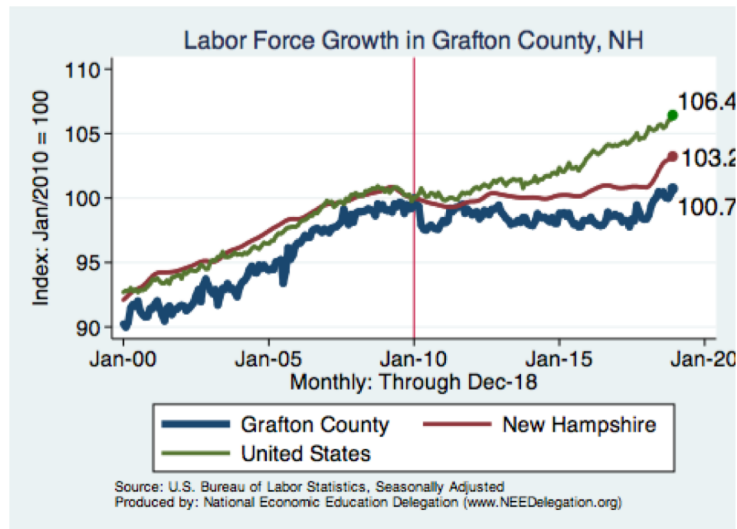
Child Poverty: Grafton County



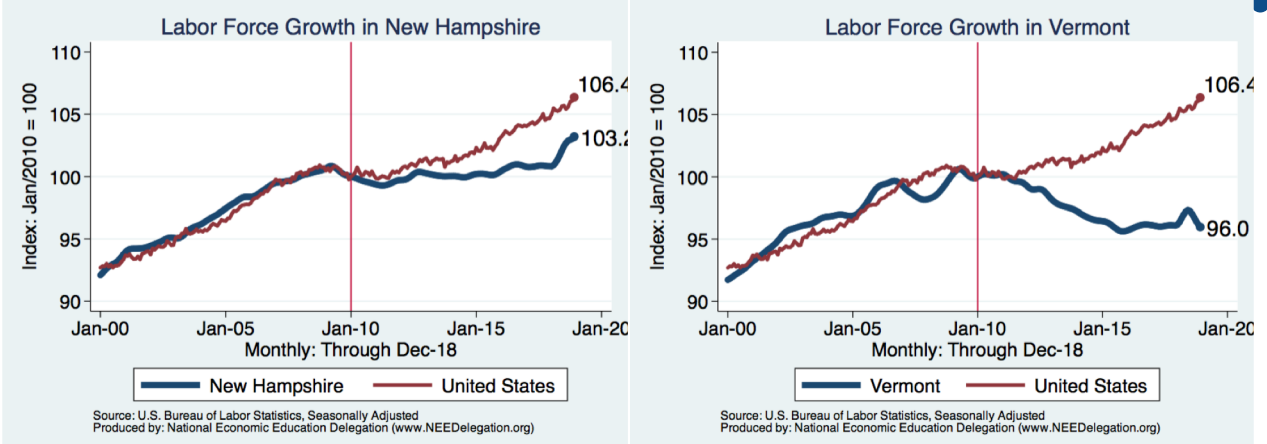
Gross Regional Product: Grafton County



Labor Force: Grafton County



Labor Force Growth: NH and VT



Overall Summary

Thanks for your attention and engagement!

Any questions?

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https://needelegation.org/delivered_presentations.php