

Osher Lifelong Learning Institute, Spring 2019
**What Economists Know About Important
Policy Issues**

Lecture 1: The U.S. Economy

March, 19, 2019

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National Economic Education Delegation

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.

Who Are We?

- **Honorary Board: 44 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: 361 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: 42 Ph.D. Economists**

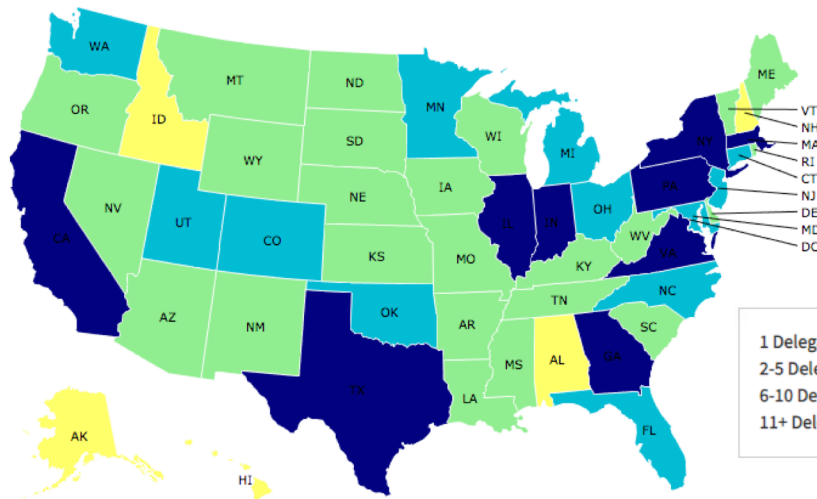
- Aid in slide deck development



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Where Are We?



1 Delegate - Yellow
2-5 Delegates - Green
6-10 Delegates - Light Blue
11+ Delegates - Blue



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Credits and Disclaimer

- **This slide deck was authored by:**
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 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



Course Outline

- **What Economists Know About Important Policy Issues**
 - Week 1 (3/19): US Economic Update
 - Week 2 (3/26): Government Budgets
 - Week 3 (4/2): Social Safety Net
 - **Week 4 (4/9): NO CLASS**
 - Week 5 (4/16): Income Inequality
 - Week 6 (4/23): Climate Change
 - Week 7 (4/30): Trade and Globalization
 - Week 8 (5/7): Housing Policy



Outline – U.S. Economic Outlook

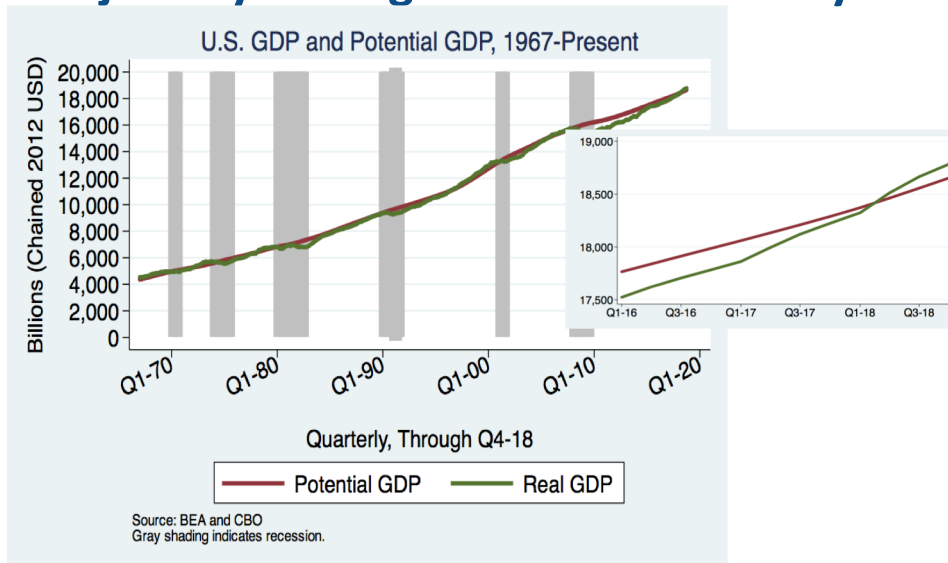
- Behavior of GDP
- Labor Market
- Monetary Policy/Interest Rates
- Other Indicators
- Summary

Behavior of GDP

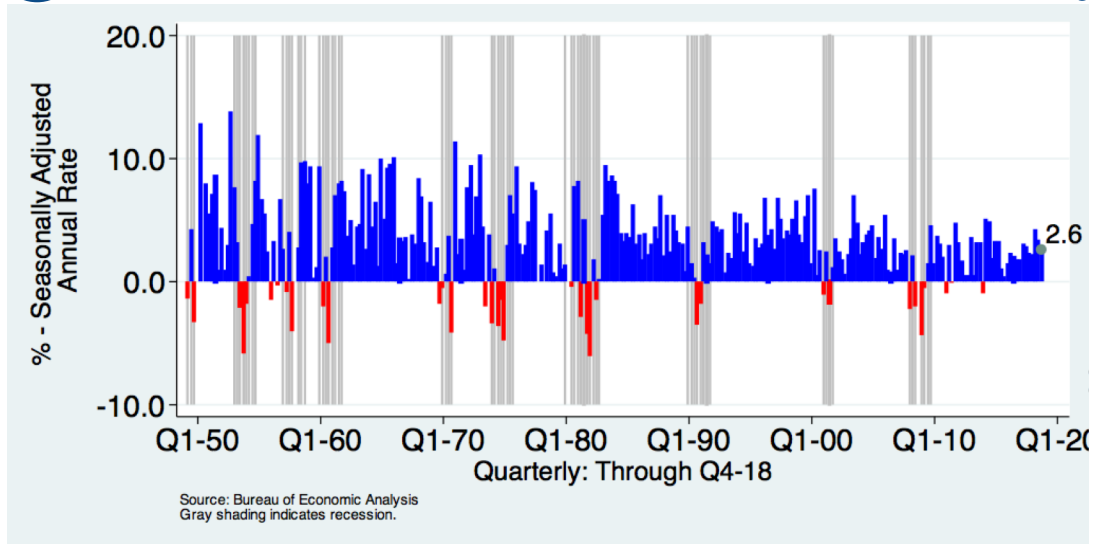
GDP During the Recovery

- *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

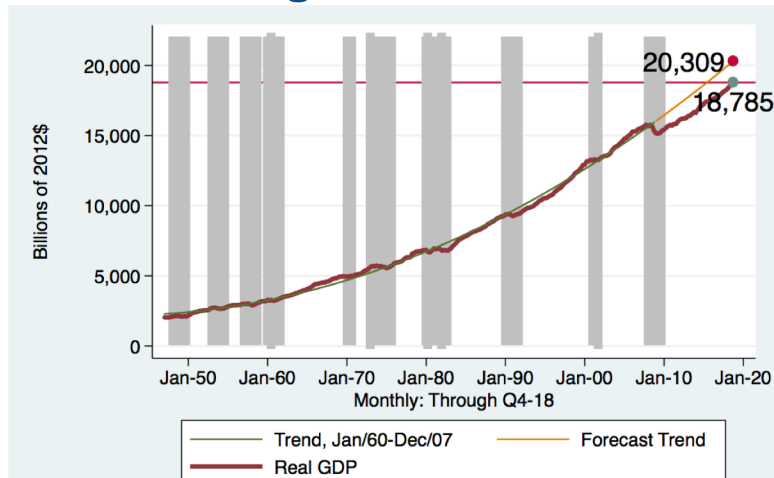
GDP Trajectory During Economic Recovery



GDP Growth During Economic Recovery



GDP Relative to Long-Term Trends



What Is “Accounting” for the Slow Recovery?

- **Expenditures drive GDP growth.**

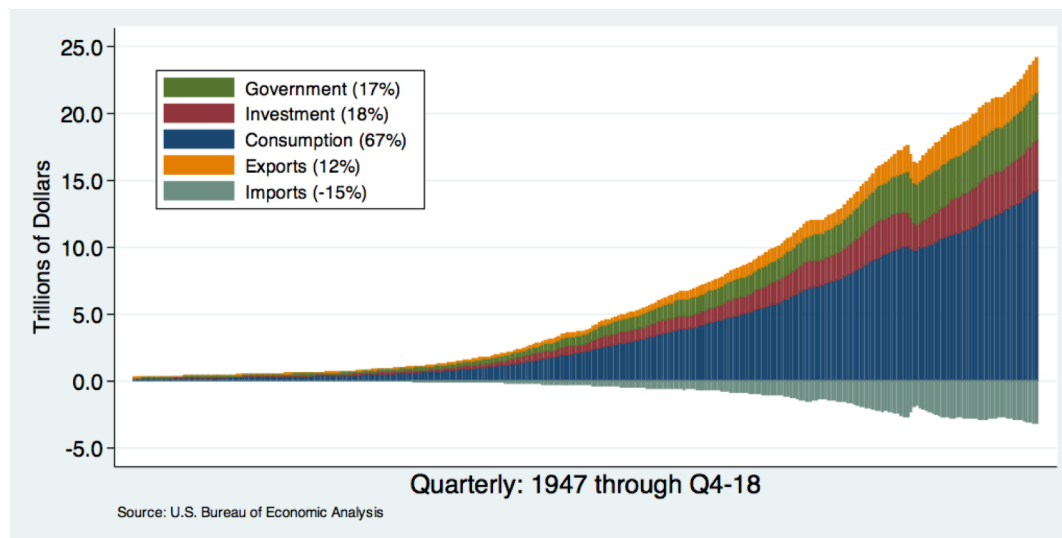
- GDP is the sum of four categories of spending:
 - o Consumption
 - o Investment
 - o Government spending
 - o Net Exports: Exports – Imports
 - Exports add to GDP
 - Imports are subtracted because they are included in the other categories

- **Production also matters.**

- Employment
- Productivity



Composition of GDP



Composition of GDP

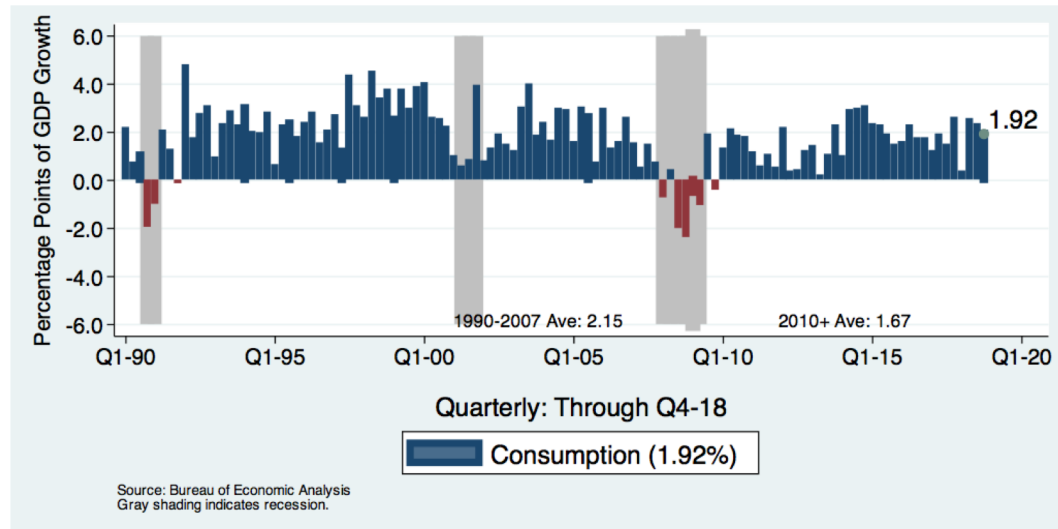
- Slow growth in any of these categories will slow overall GDP growth.
- How does each component contribute to GDP growth pre- vs. post-recession?
- What explains current trends in each component?

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

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

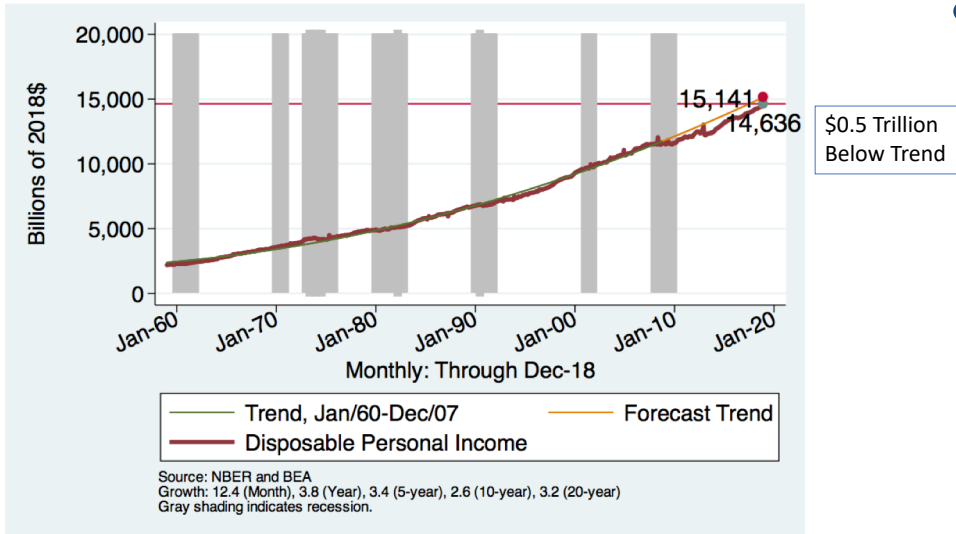
Contribution to GDP Growth: Consumption



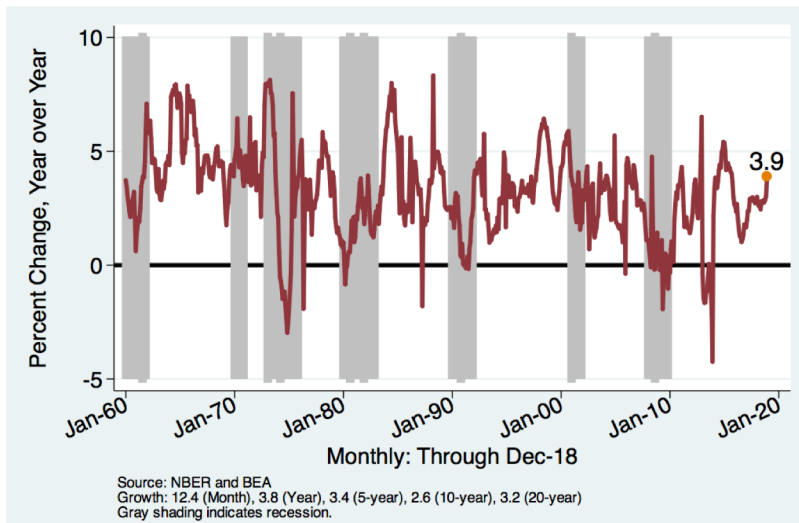
Personal Consumption Expenditures

- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures was 2.15 percentage points.
 - Post-crisis contribution is 1.67 percentage points.
- **In other words, its contribution to GDP growth is down 22%.**
 - Let's explore why

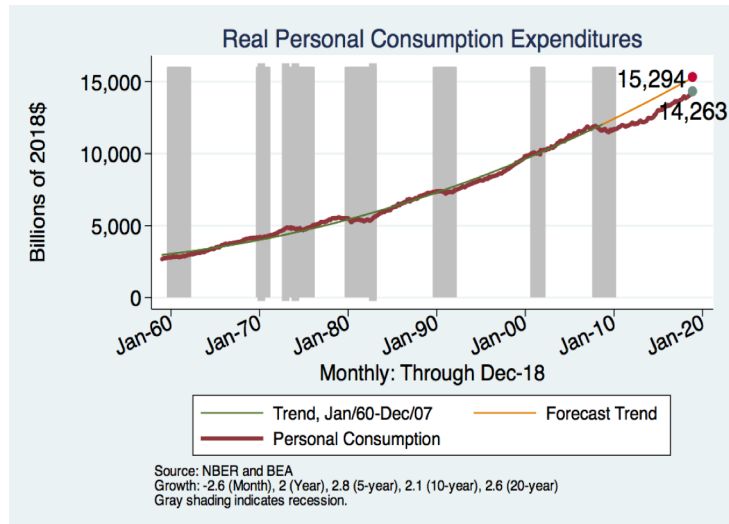
Real Disposable Personal Income



Real Disposable Personal Income - Growth



Personal Consumption Expenditures

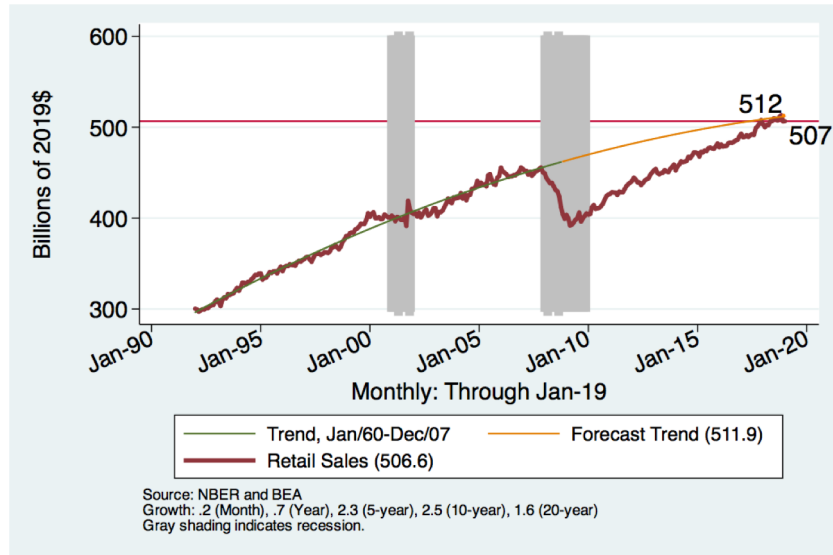


\$1.0 Trillion
Below Trend

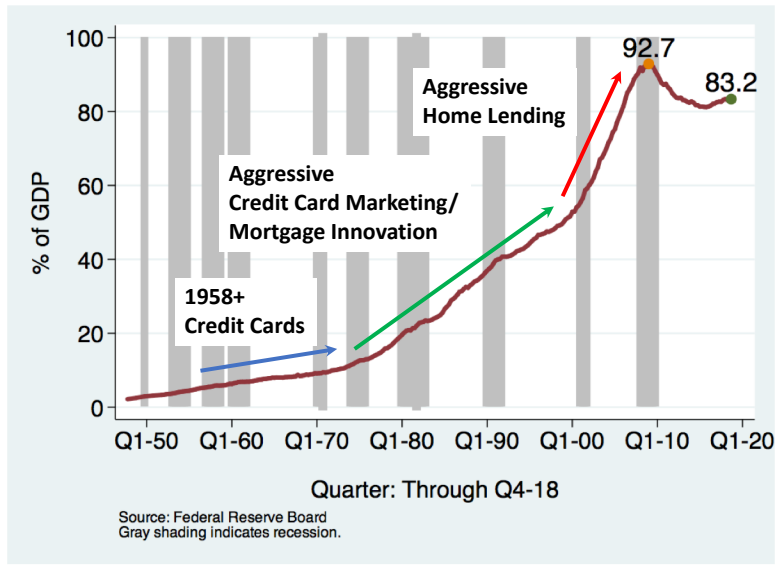
Explaining Consumption Expenditures

- Retail sales, household debt, and personal savings help explain changes in consumption expenditures.
- Lower levels of retail sales and household debt and higher savings should be correlated with lower levels of consumption expenditure.

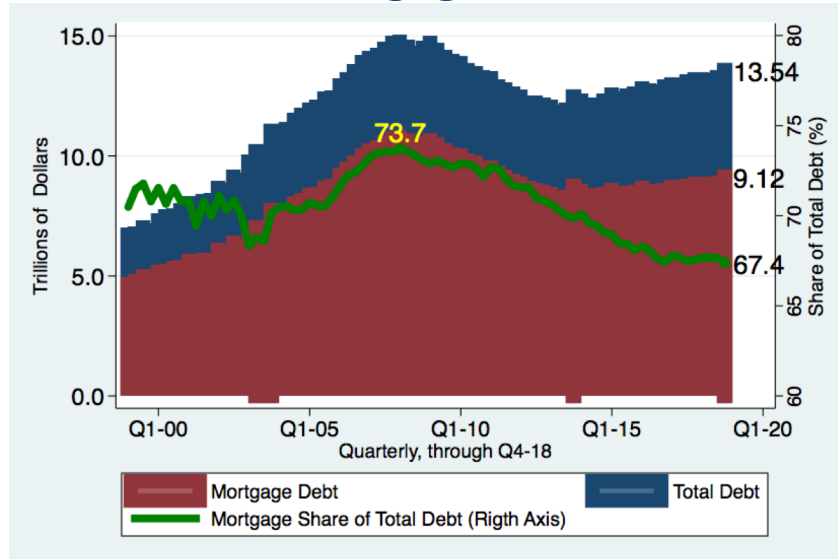
Retail Sales



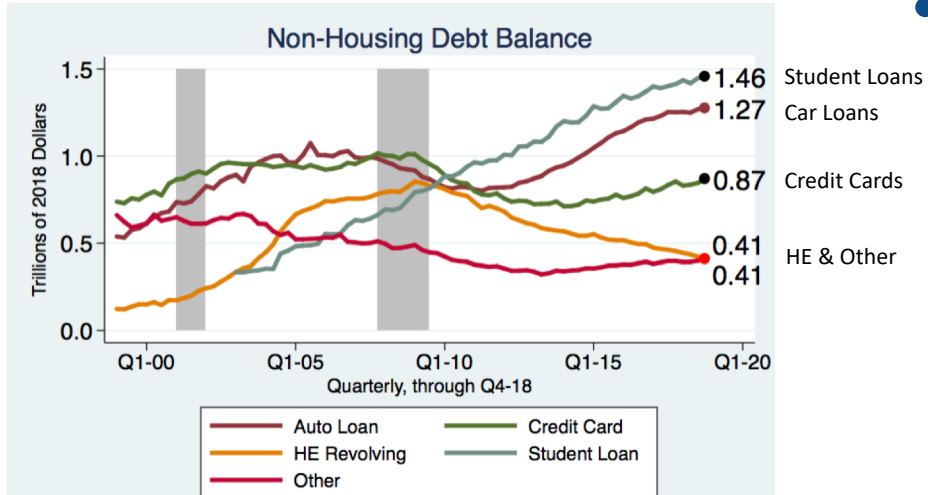
Household Debt as a Share of GDP



Household Debt: Mortgages

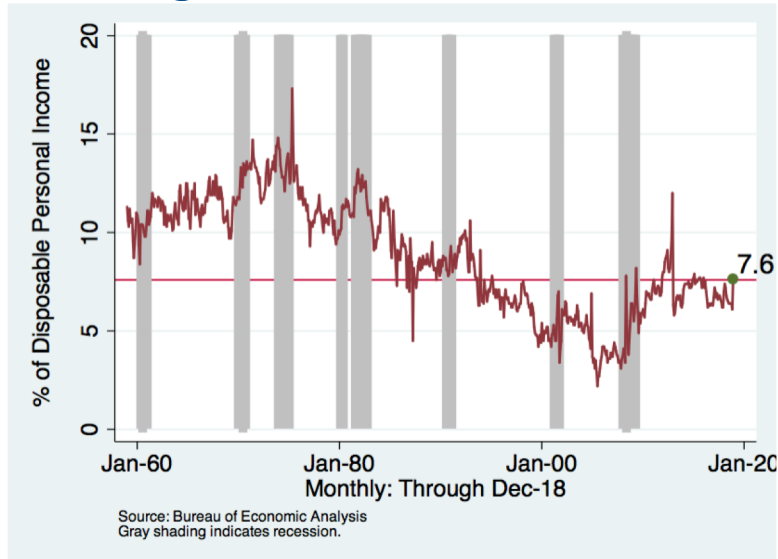


Household Debt: Other Sources



Source: Federal Reserve Bank of New York
Gray shading indicates recession.

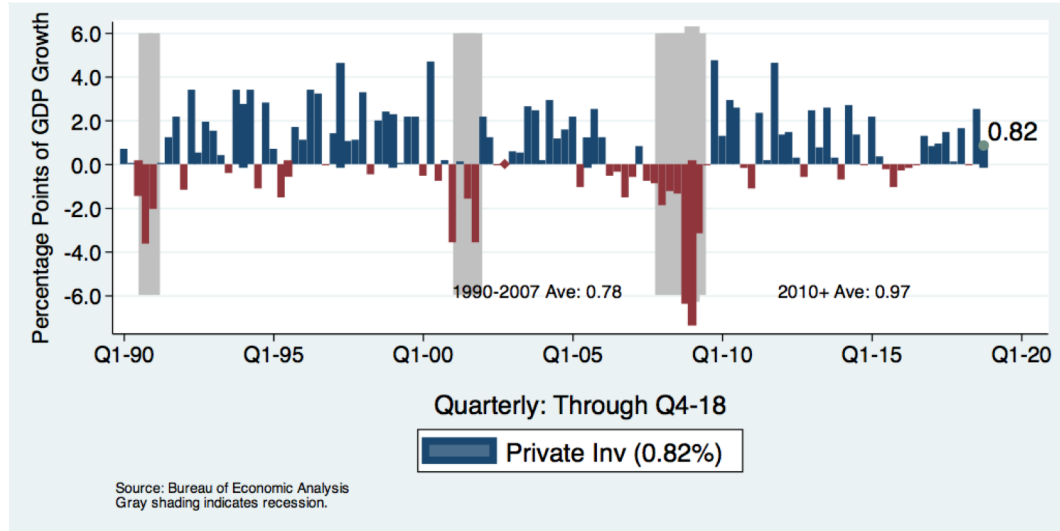
Personal Savings



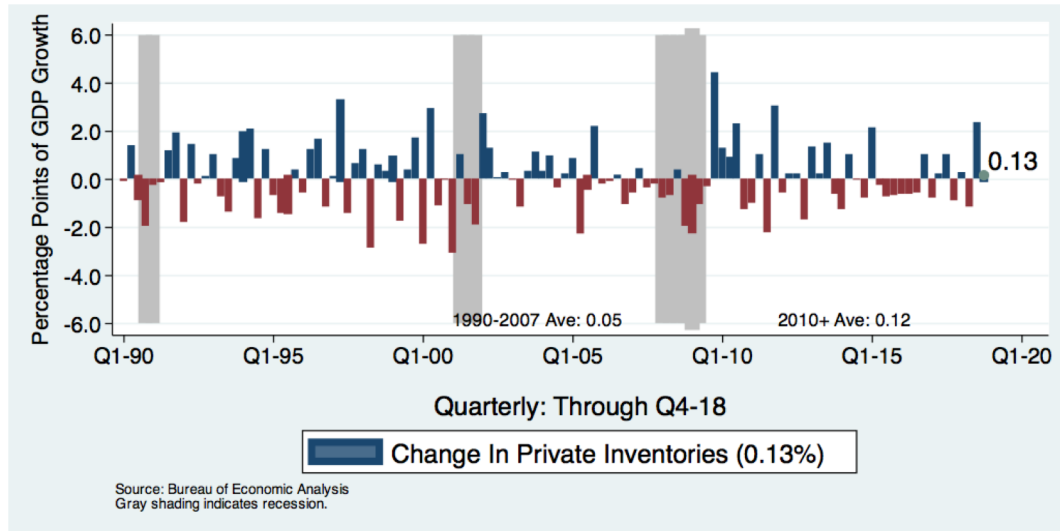
Investment Expenditures

- **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.

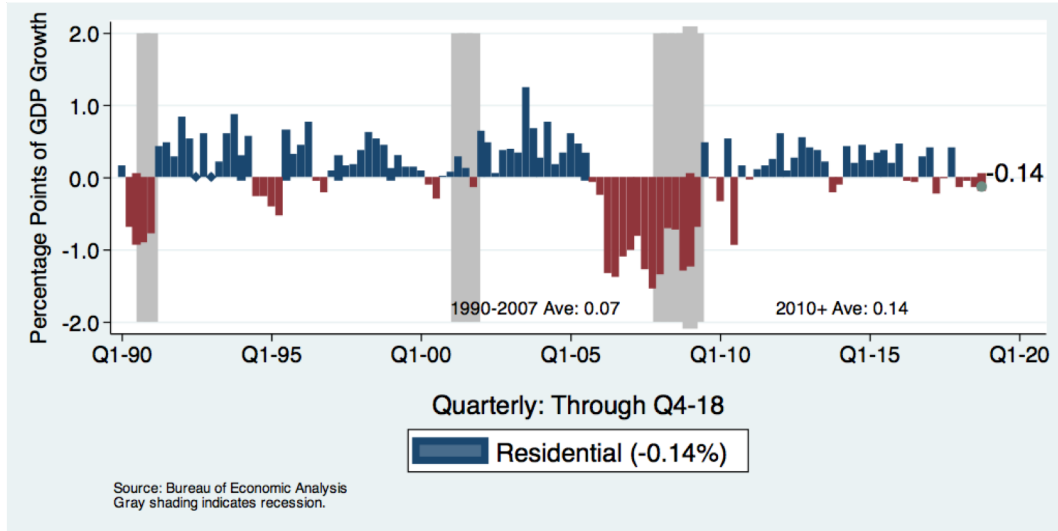
Contributions to GDP: Private Investment



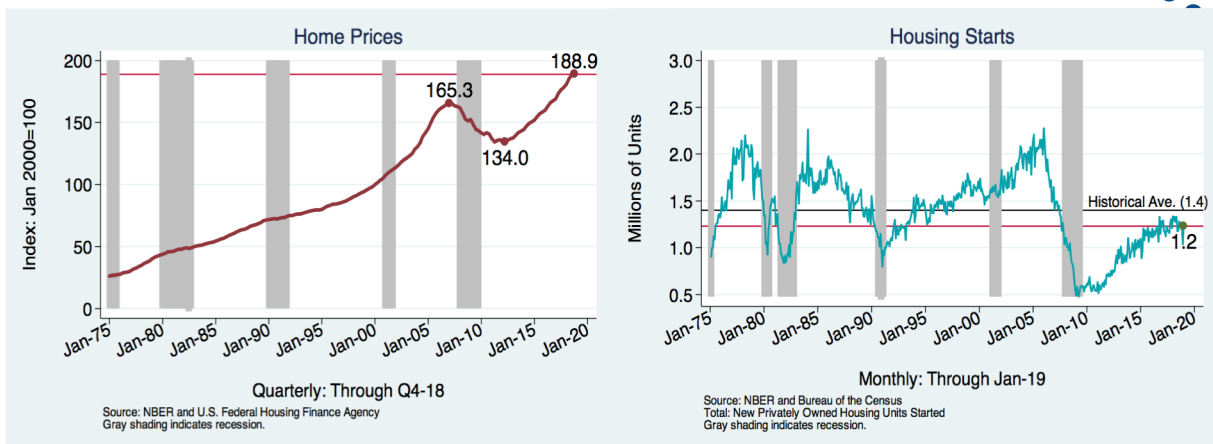
Contributions to GDP: Change in Inventories



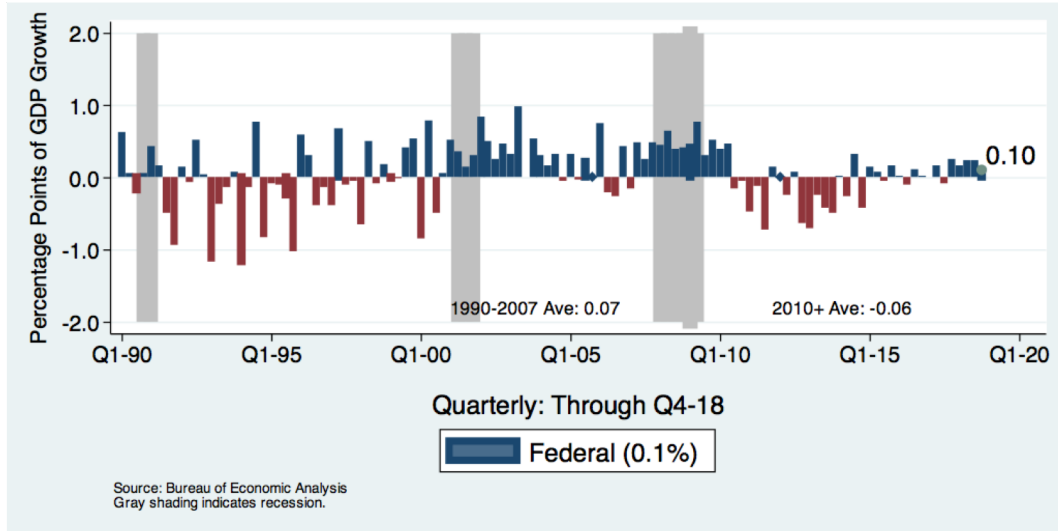
Contributions to GDP: Residential Investment



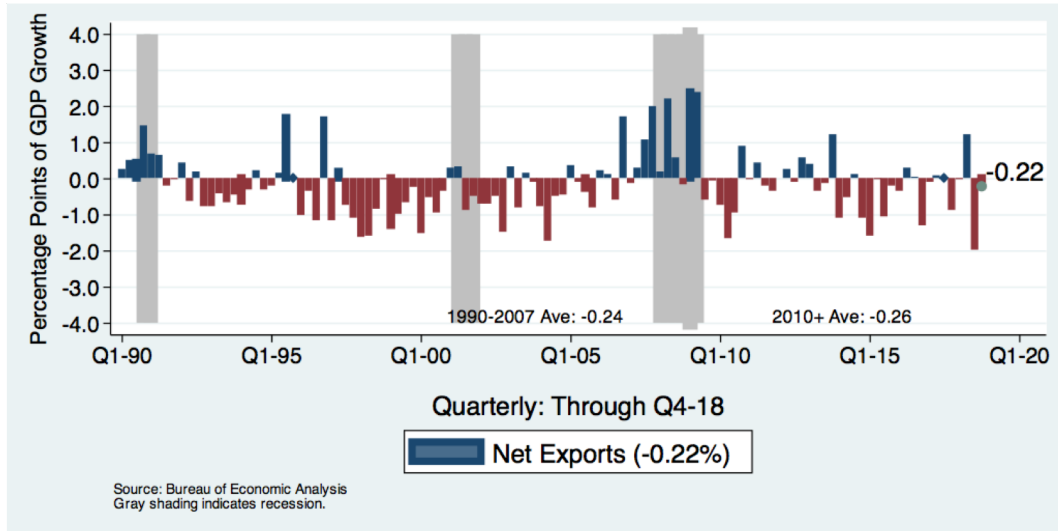
Home Prices and Housing Starts



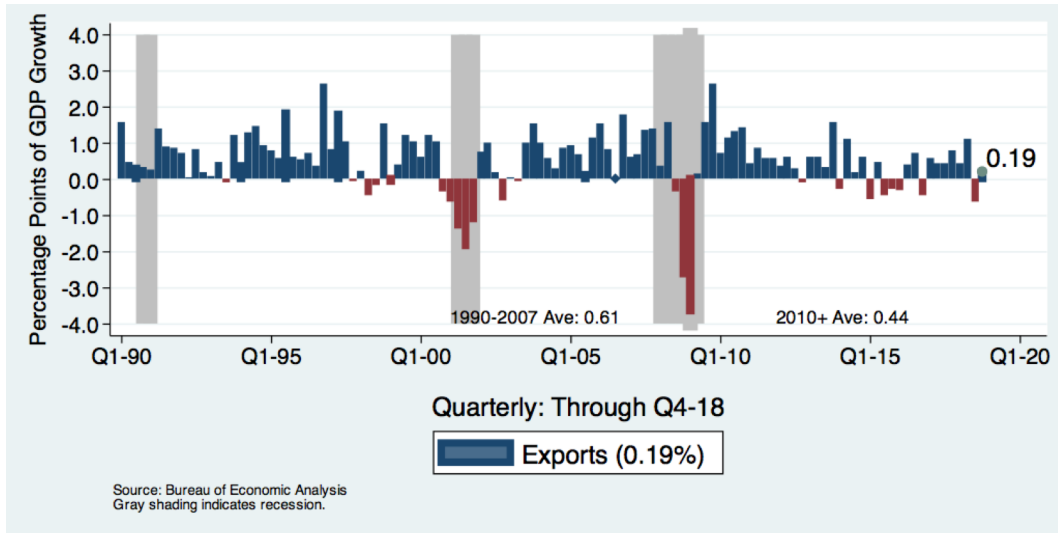
Contributions to GDP: Government



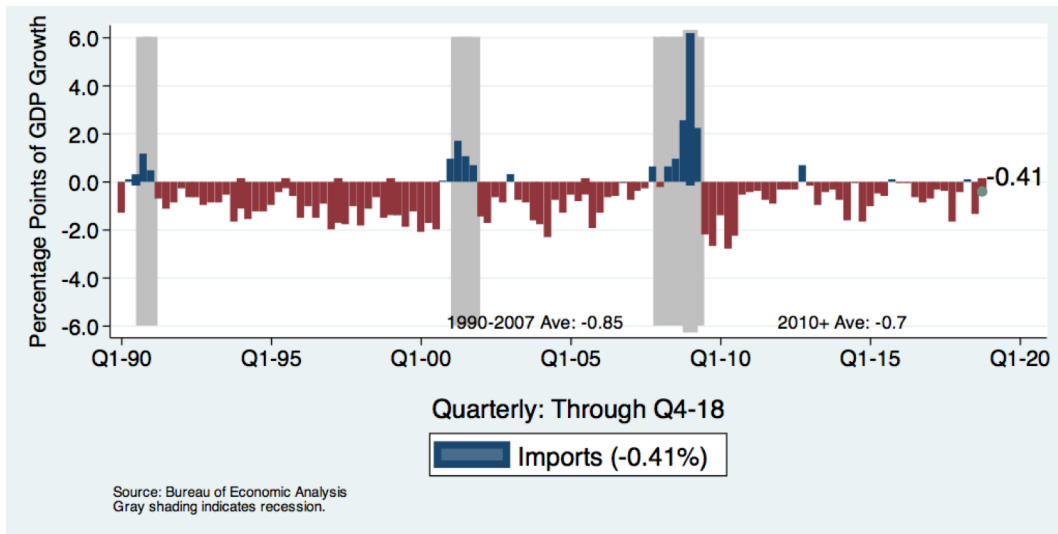
Contributions to GDP: Net Exports



Trade's Contribution to GDP: Exports



Trade's Contribution to GDP: Imports

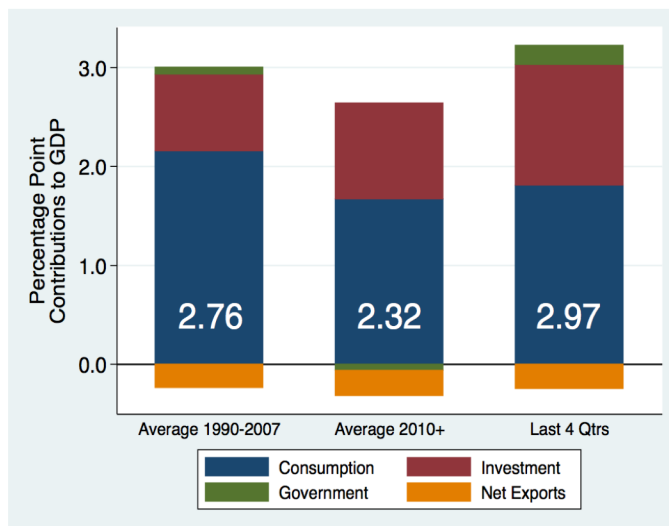


Expenditure Summary

- **Post-recession consumption is down:**
 - Retail sales are returning to trend;
 - Household debt down, but climbing;
 - Personal savings is up.
- **Investment expenditures are contributing more to GDP growth.**
- **Post-recession government spending is down:**
 - But starting to pick up.
- **Net exports are relatively unchanged.**



Expenditure Summary



Labor Market



Productivity and Employment

- **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.
 - Trends in labor productivity.



Labor Market Conditions

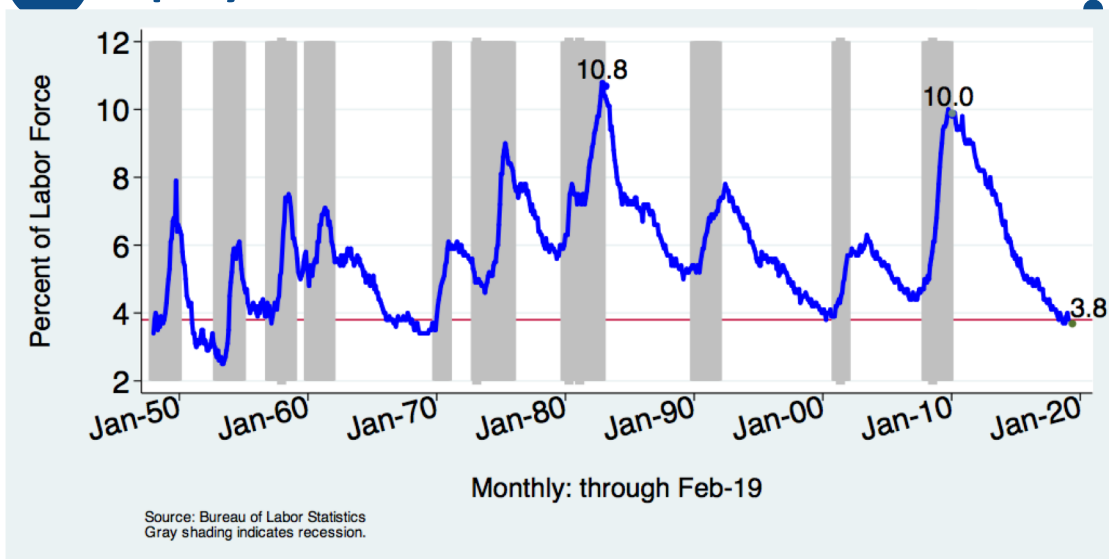
- Unemployment rate is low, 3.8%, but up from low of 3.7%.
- Natural rate of unemployment is estimated to be 4.5% - 5.5%.
- Monthly employment gains have averaged 190,000 jobs over the last six months.
- **Recent Labor Market Concerns:**
 - Low employment-to-population ratio
 - Falling labor force growth
 - Slow wage growth



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Unemployment Rate



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How is the Unemployment Rate Calculated?

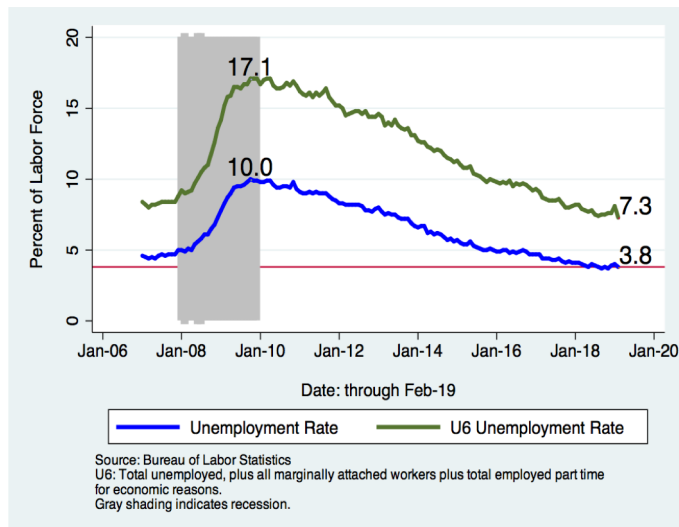
• It is not a simple thing:
$$UR = \frac{\# \text{ Unemployed}}{\text{Labor Force}} * 100$$

• Why is that not simple?

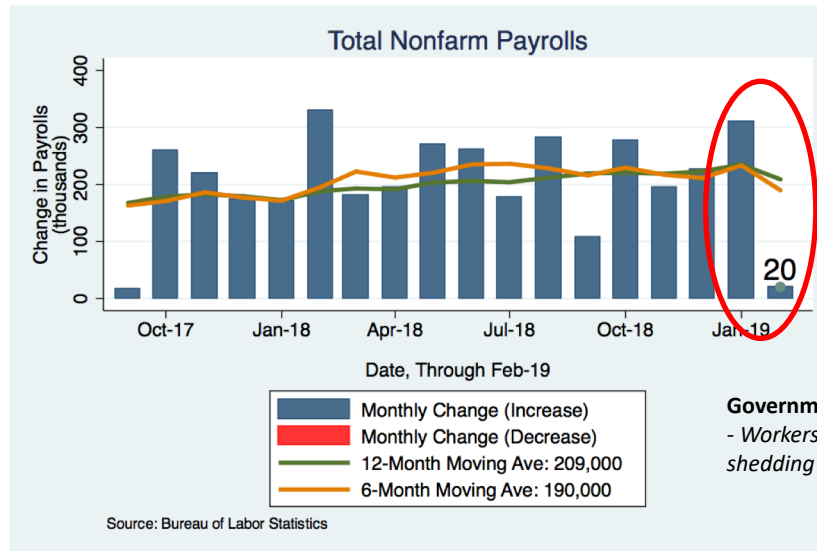
- Because it can go up or down for a variety of reasons:
 - o If employment shrinks – UR goes up
 - o If the labor force grows – UR could go up
- Not all employment is created equally.

• Not a good indicator of the overall well being of the US economy

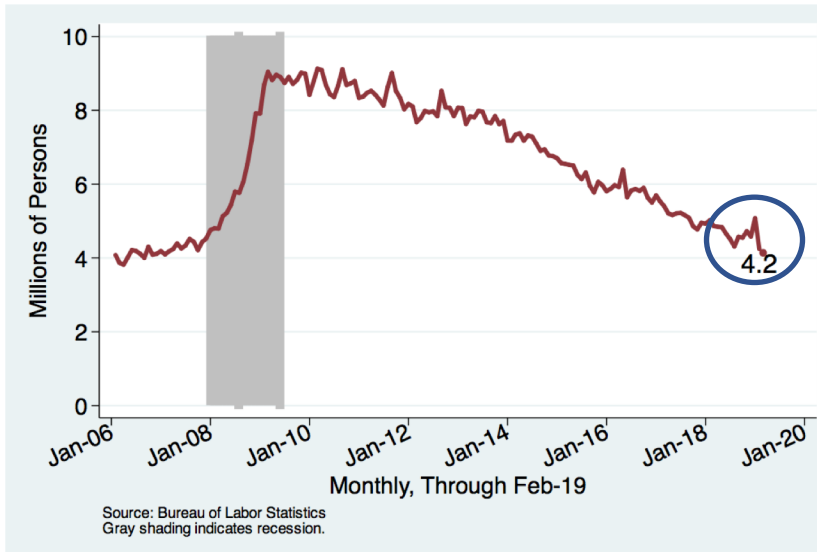
Unemployment Rate



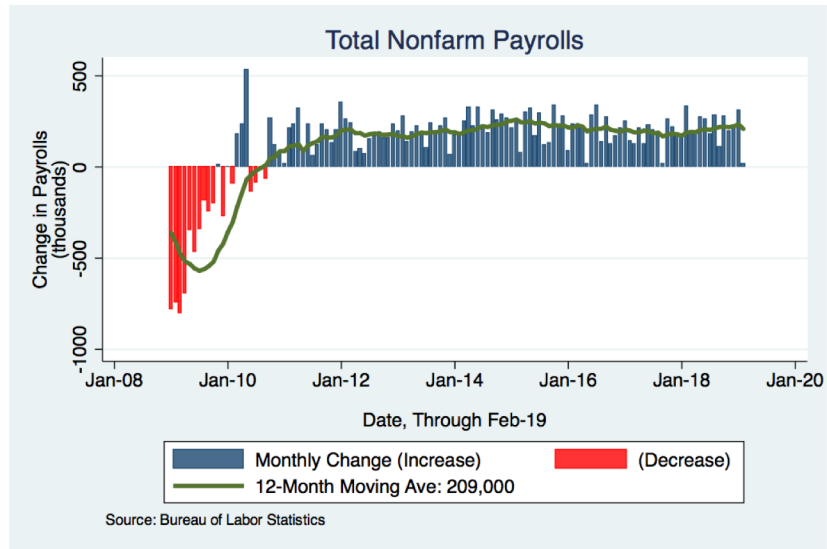
Monthly Changes in Nonfarm Employment



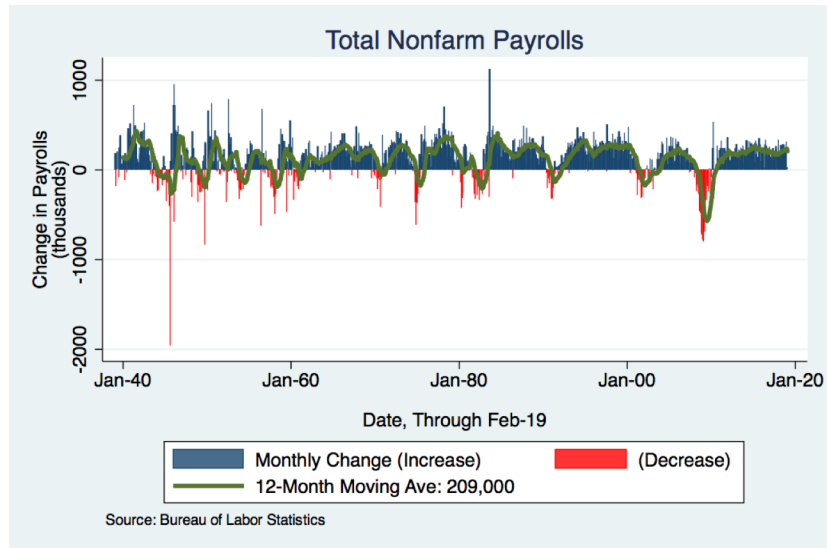
Part-Time Nonfarm Employment



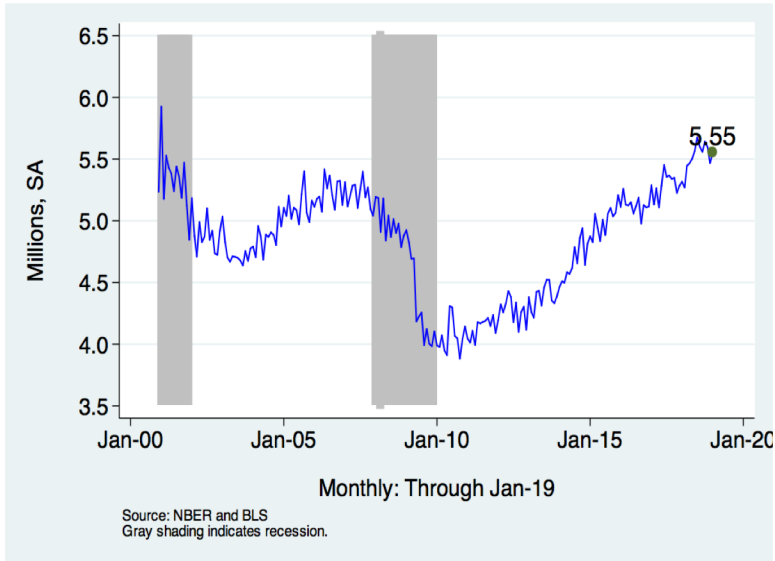
Monthly Changes in Nonfarm Employment



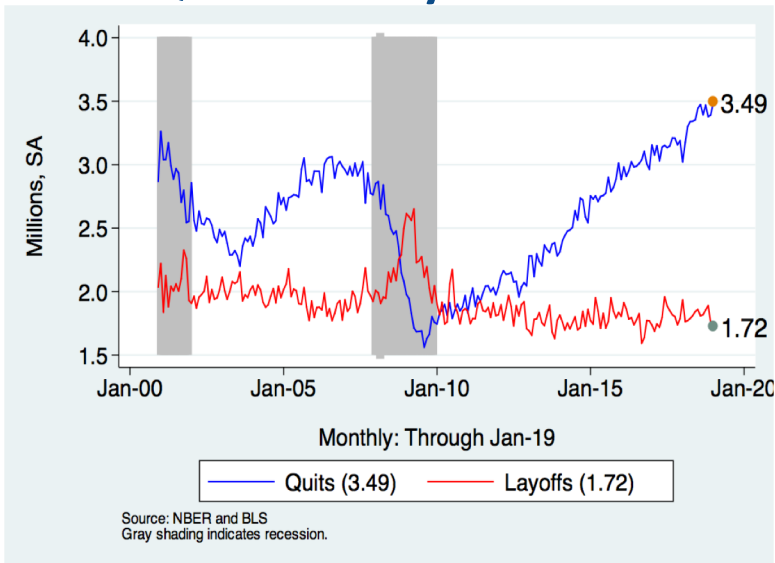
Monthly Changes in Nonfarm Employment



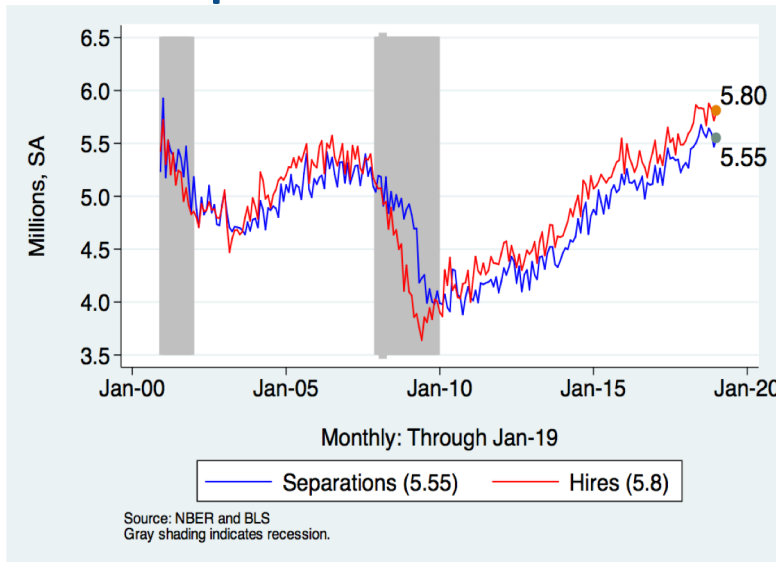
Job Separations



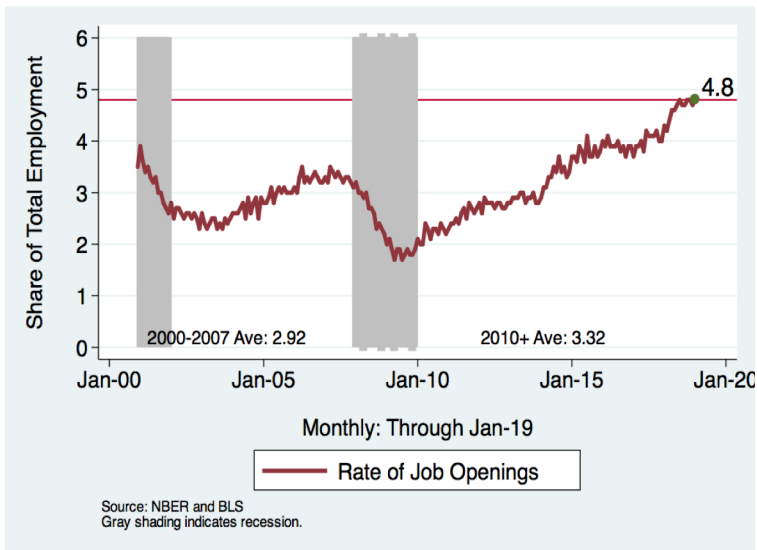
Separations: Quits and Layoffs



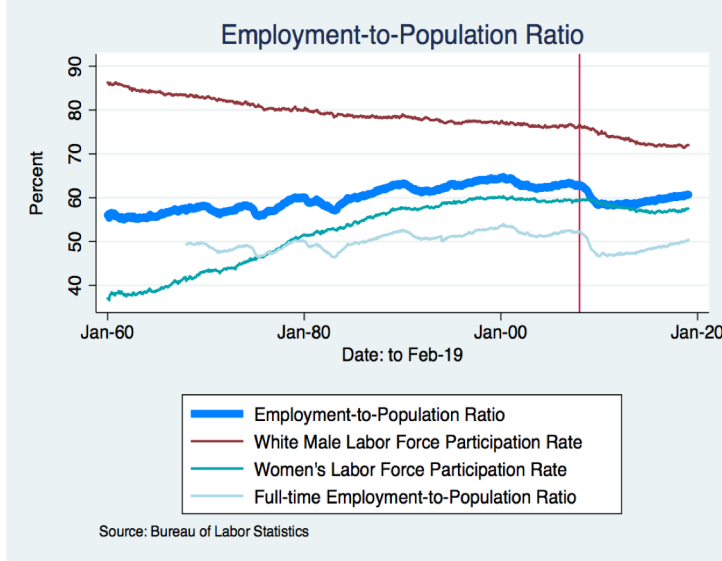
Job Hires and Separations



Job Openings: Share of Total Employment



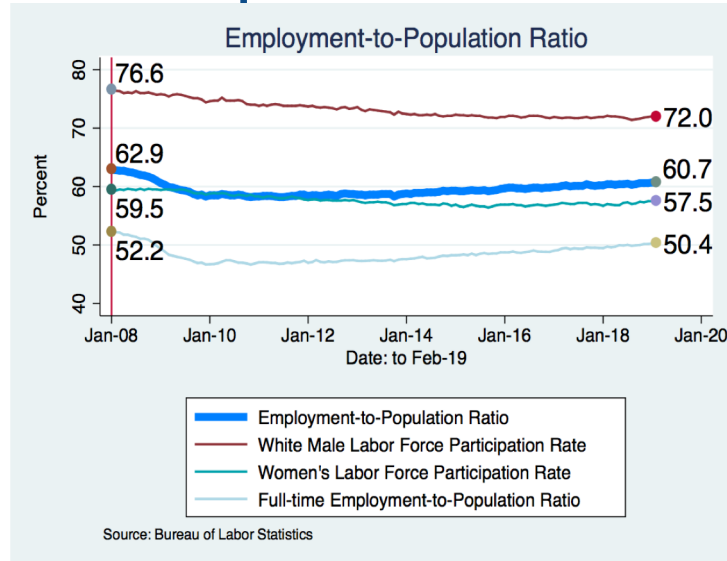
Employment-to-Population Ratios



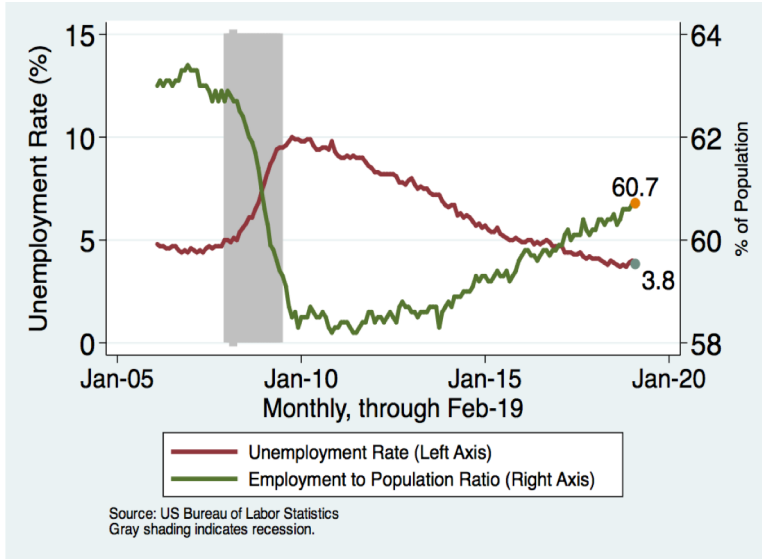
Labor Force Participation Rate

% of working age population (16-64) actively looking for work

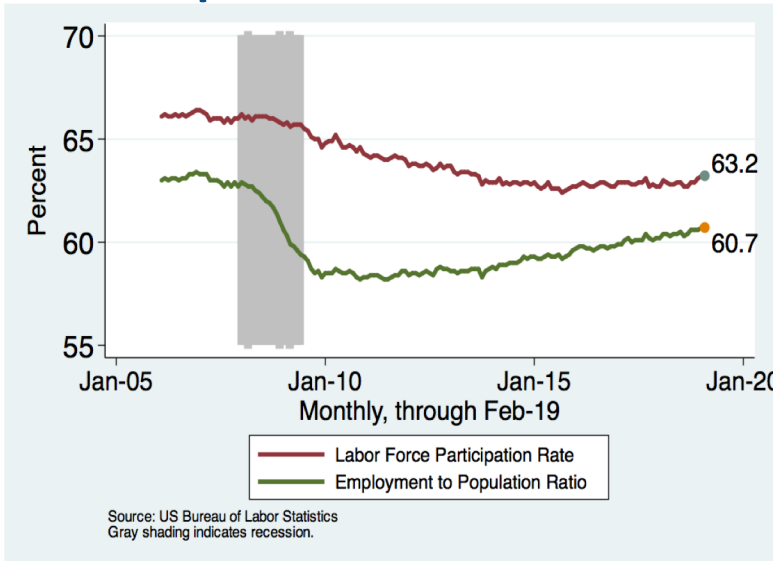
Employment to Population Ratios – Recent



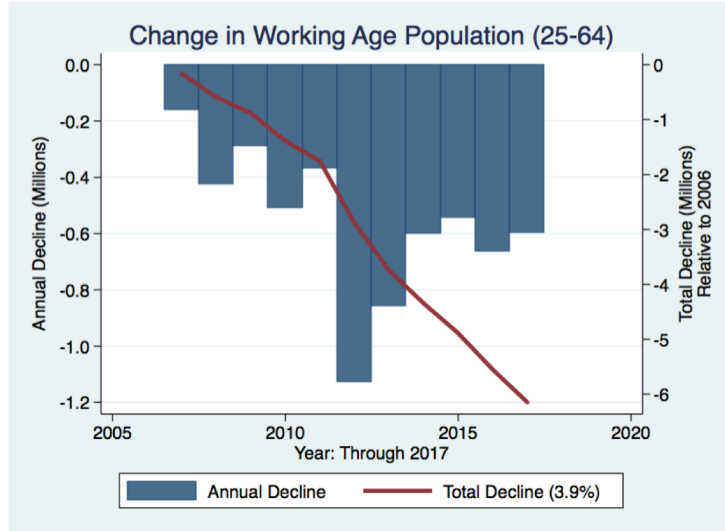
Slow Employment Recovery



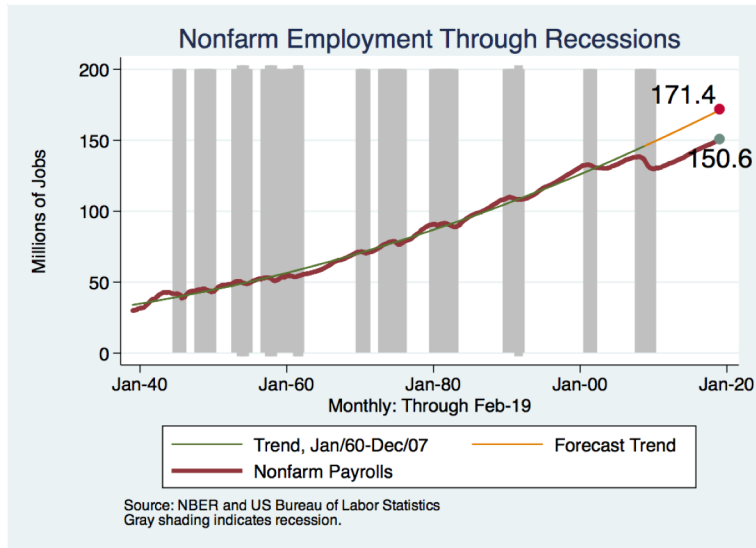
Labor Force Dropouts



Baby Boomers Are Retiring!

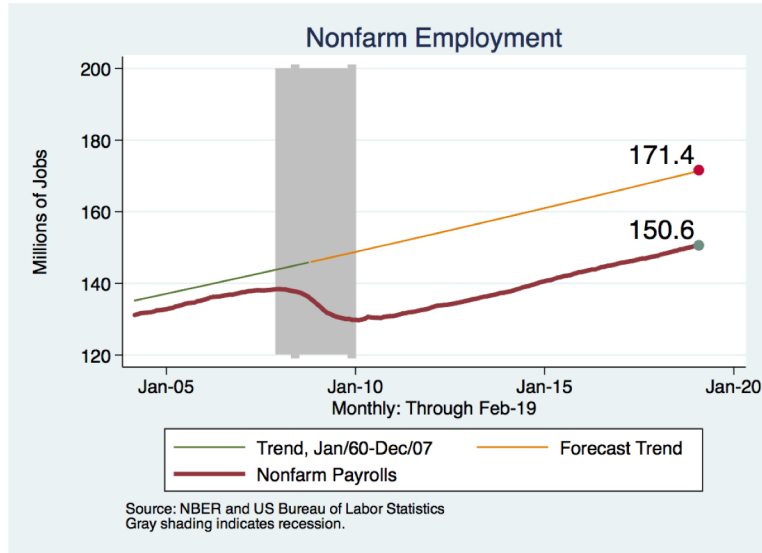


Employment Growth

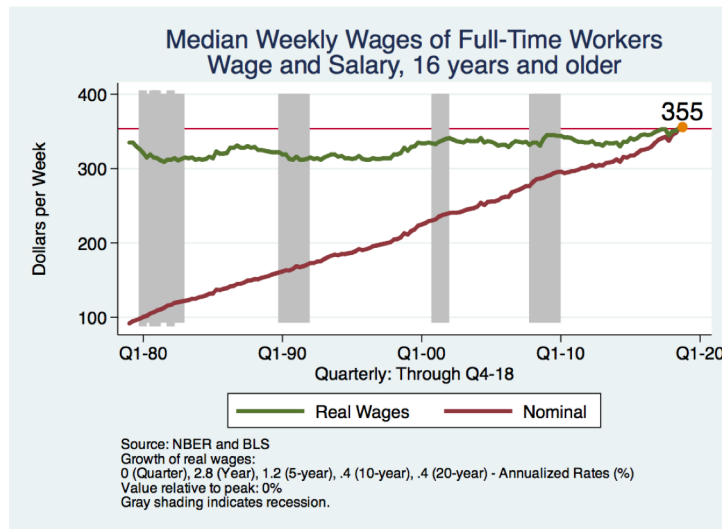


Source: NBER and US Bureau of Labor Statistics
Gray shading indicates recession.

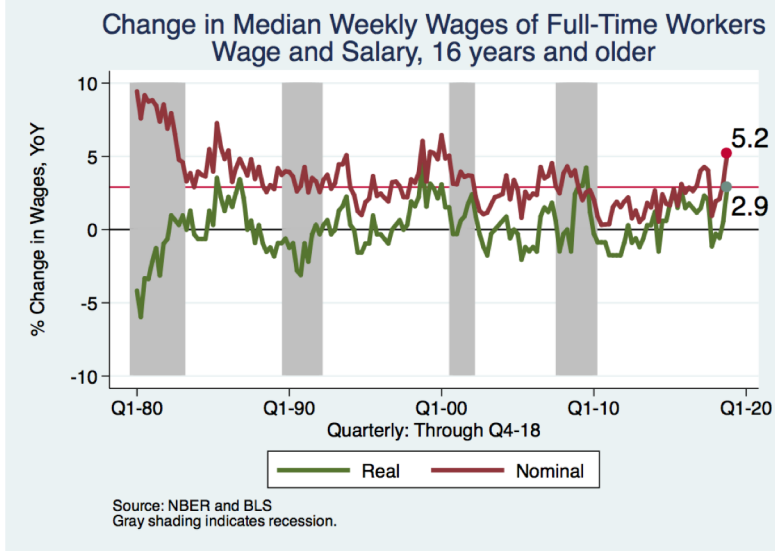
Employment Gap: Up Close



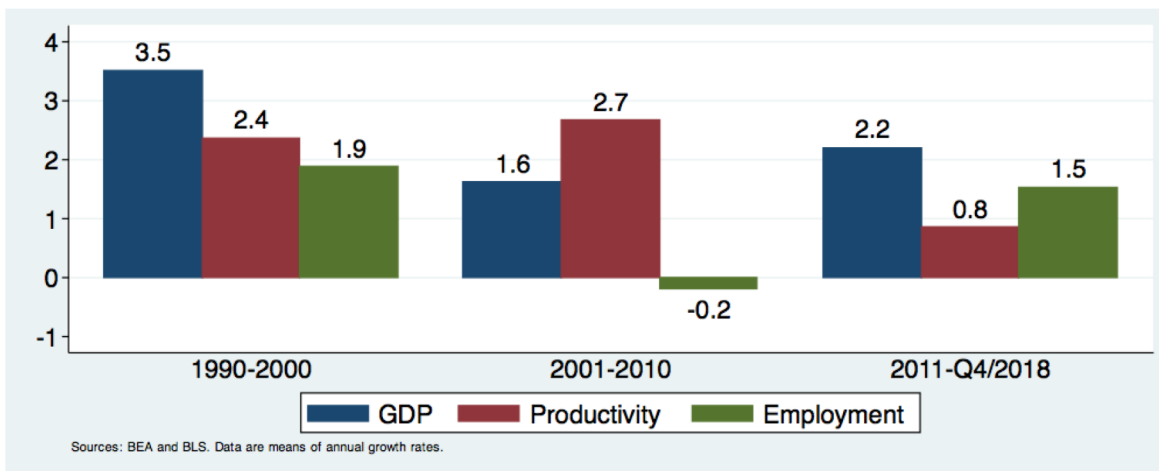
Wage Growth



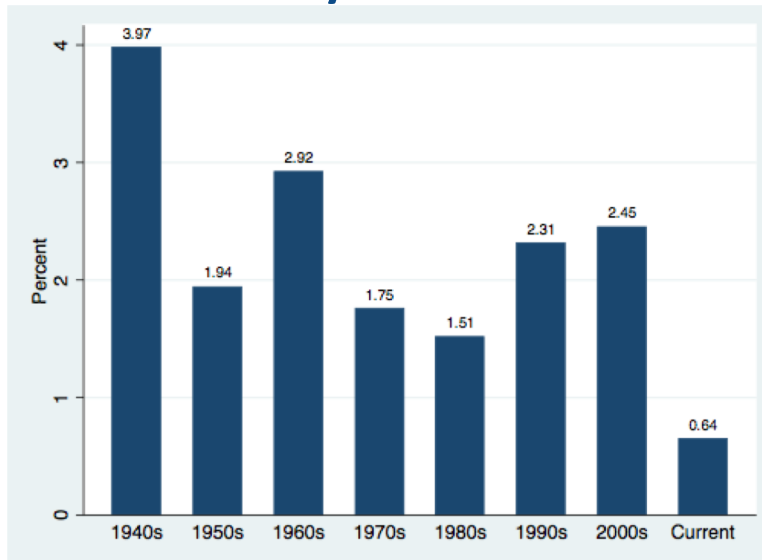
Wage Growth



GDP Growth, Productivity, and Employment



History of Productivity 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 led 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.

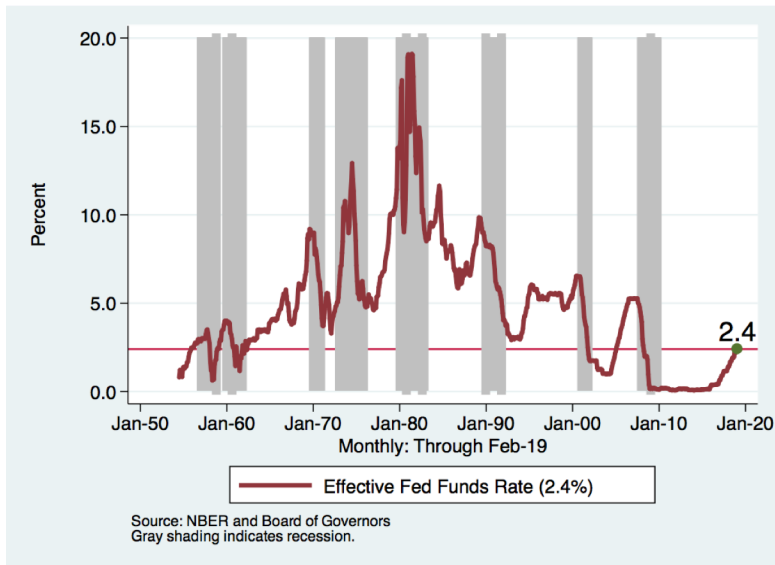


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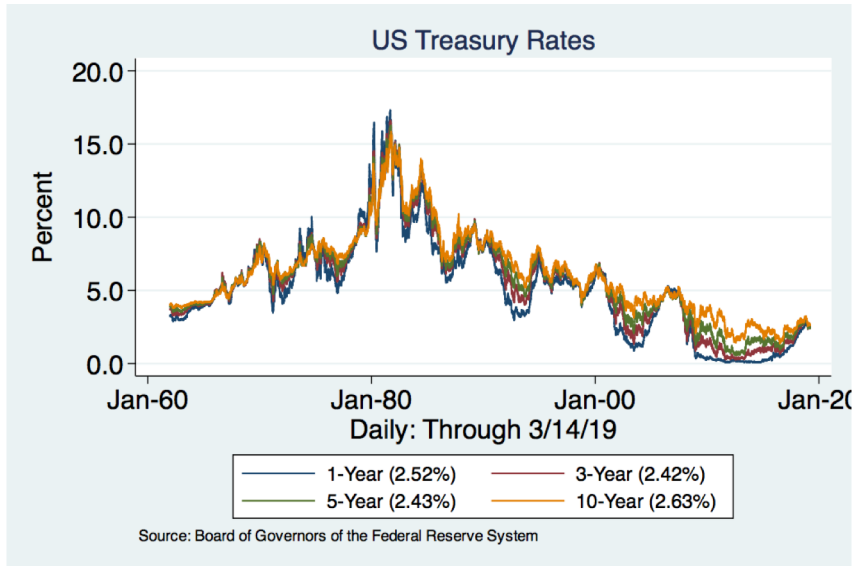
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Monetary Policy

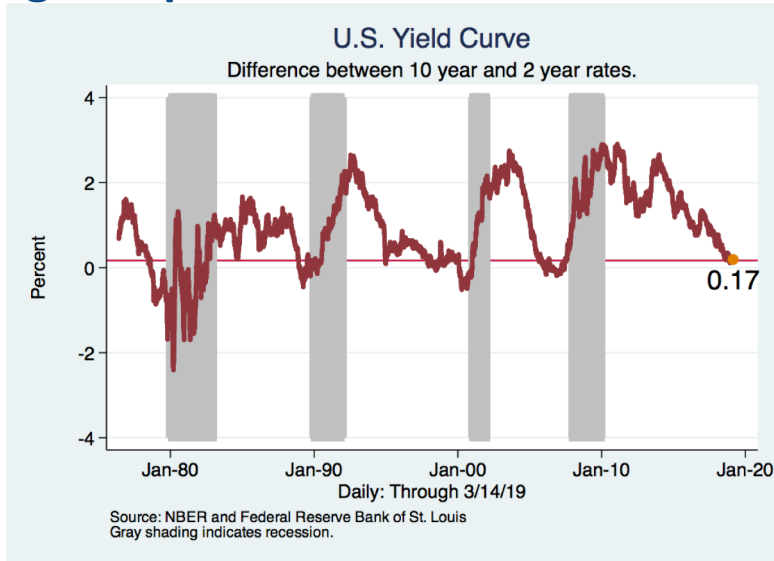
Federal Funds Rate



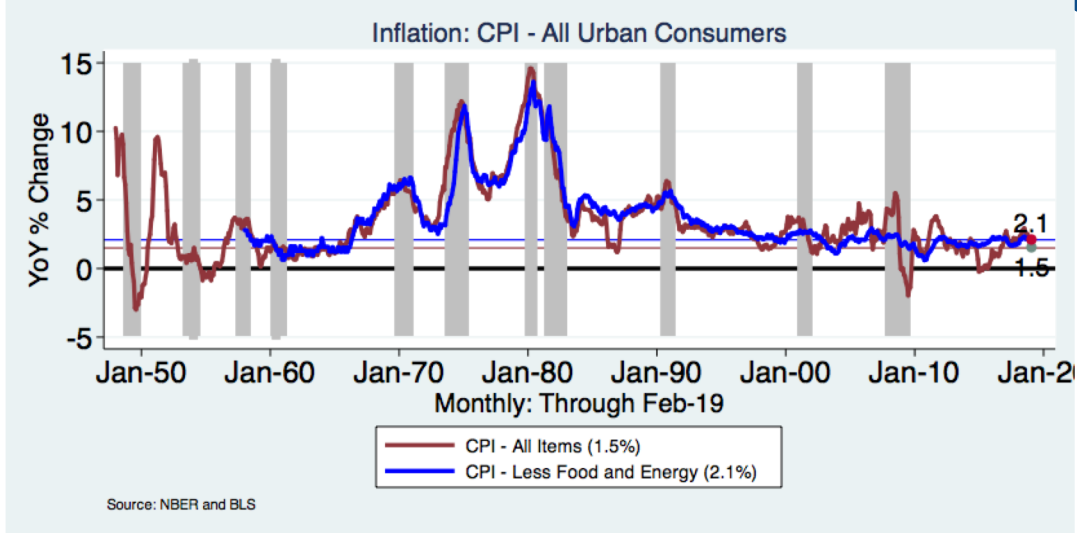
Treasuries



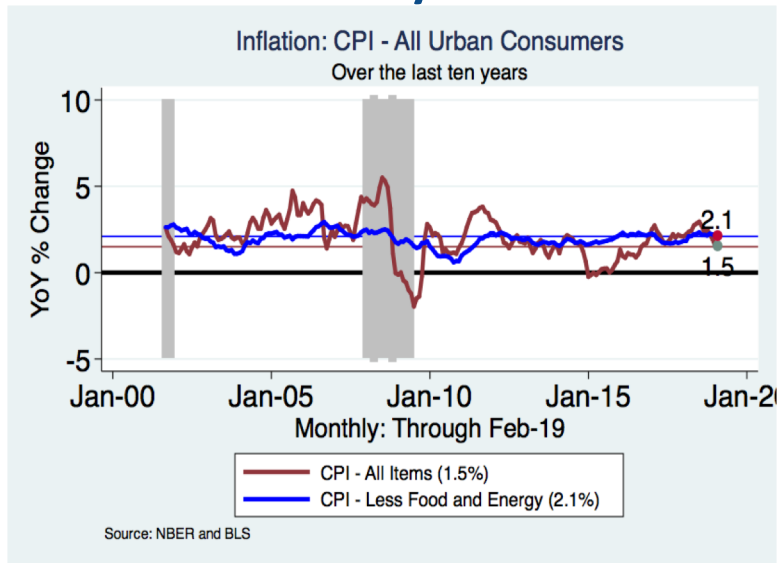
Alarming Compression of Interest Rates



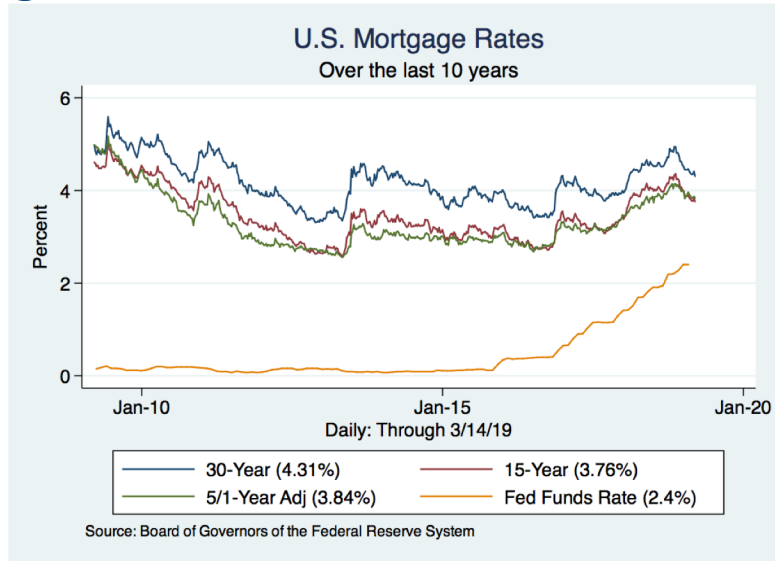
Inflation



Inflation – Recent Stability

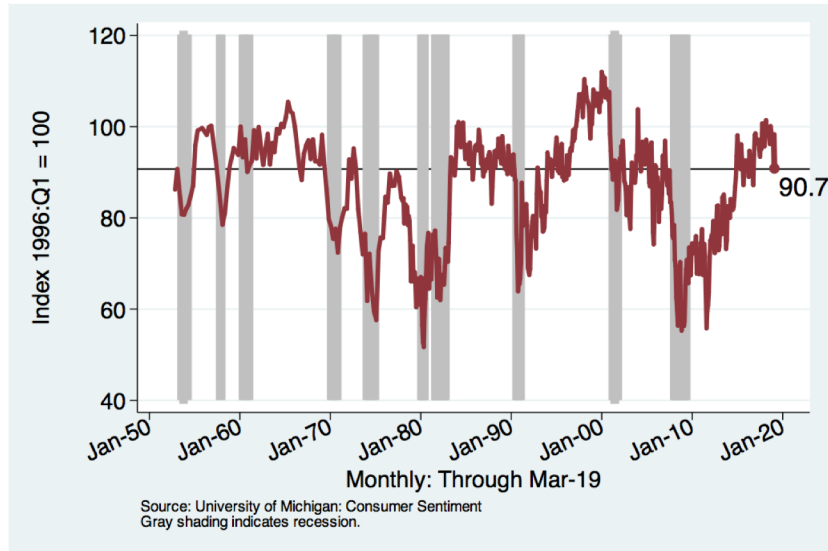


Mortgage Rates

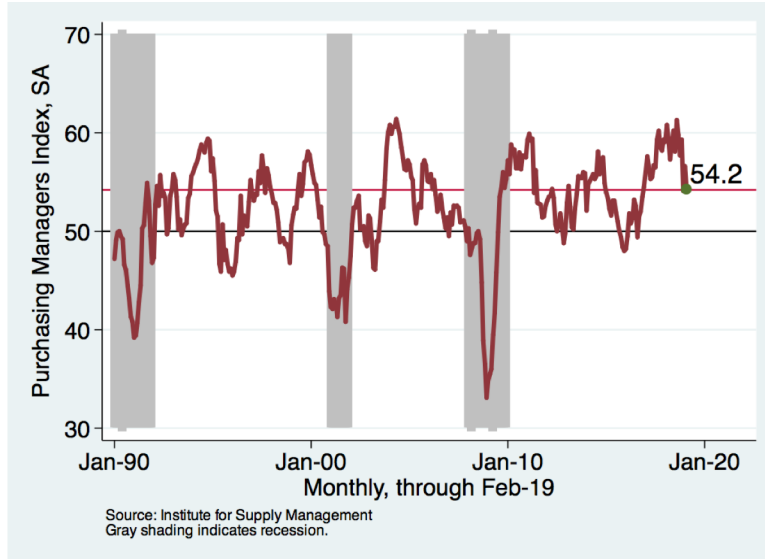


Other Indicators

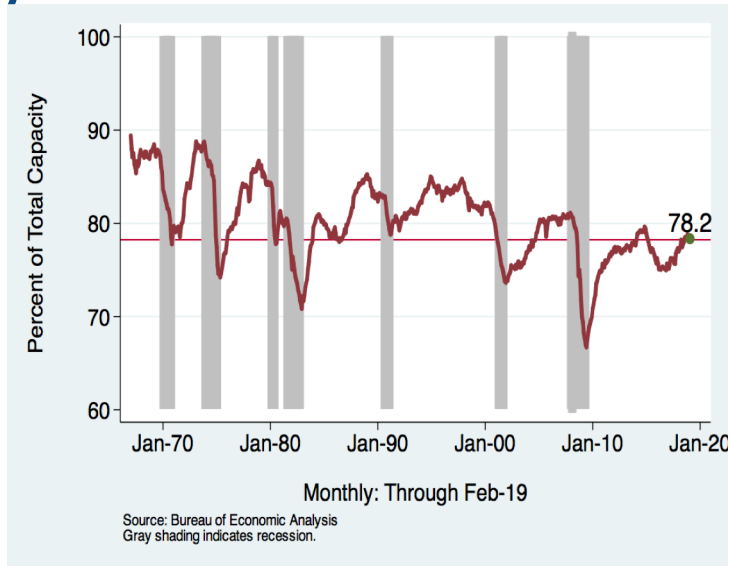
Consumer Confidence: Crashing?



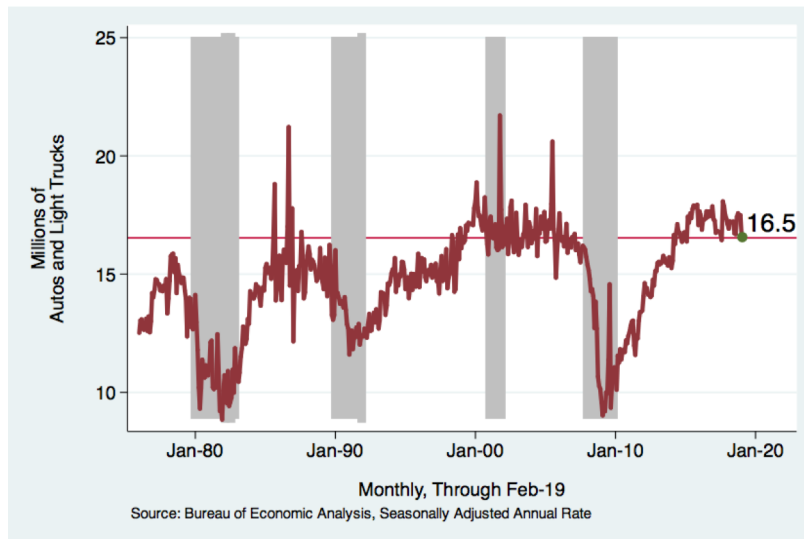
Producer Confidence: Not What it Used to be!



Capacity Utilization

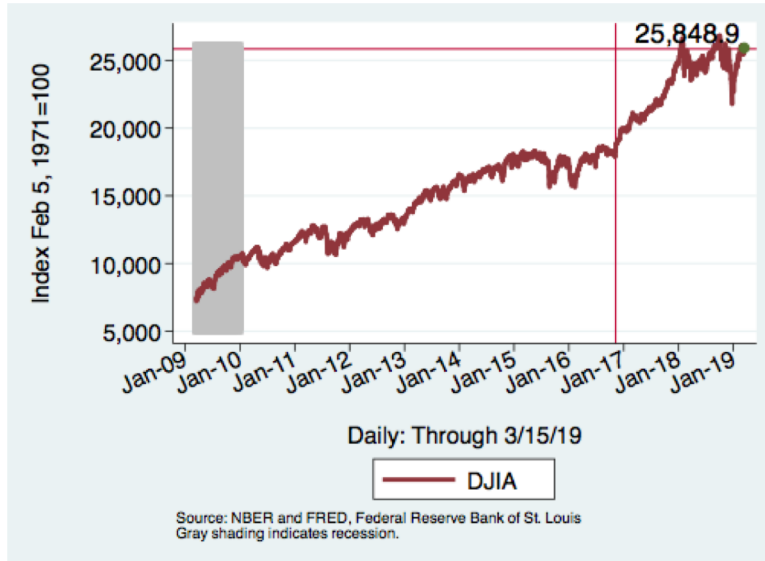


Automobile and Light Truck Sales



Stock Markets

Dow Jones



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.



Things to Be Worried About

- **Stock Markets**

- **Yield Curve**

- **Government Debt**

- **Declining Labor Force**

- **Income and Wealth Inequality**

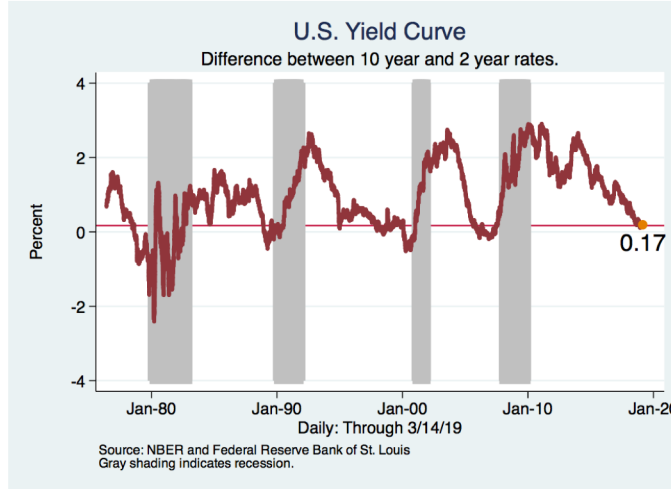
- **Policy Uncertainty**

- Trade and immigration policy, especially



Alarming Compression of Interest Rates

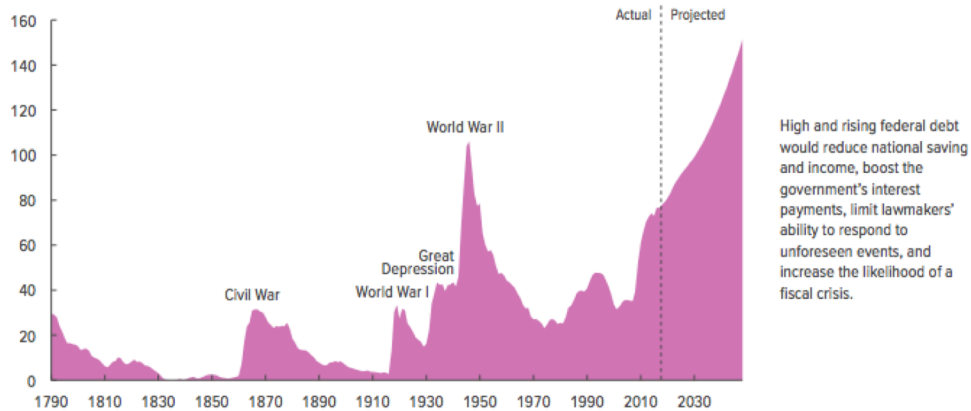
Inverted Yield Curves (negative values) Have Projected Recent Recessions



Federal Government Debt Projections

Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

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

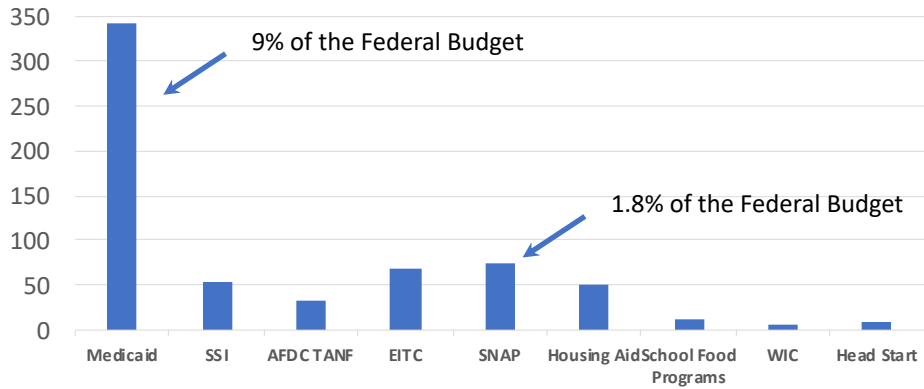


Teasers: Upcoming Lectures

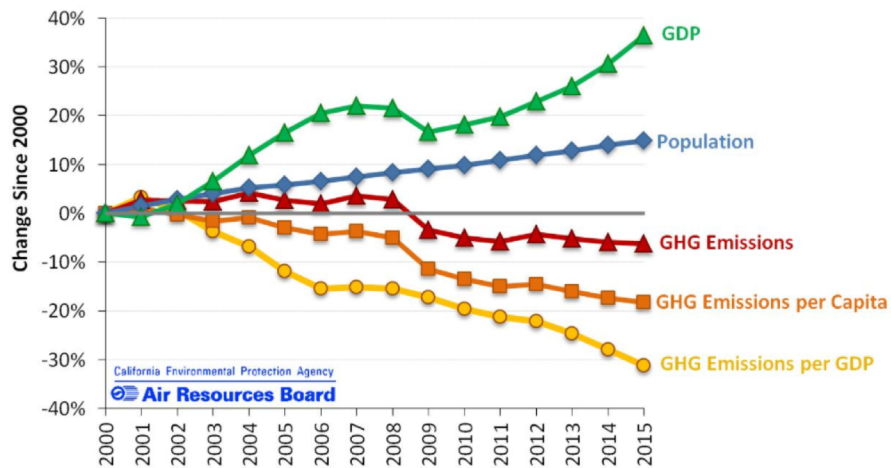
- **Government Budgets**
- **Social Safety Net**
- **Climate Change**
- **Income Inequality**
- **Trade and Globalization**
- **Housing Policy**



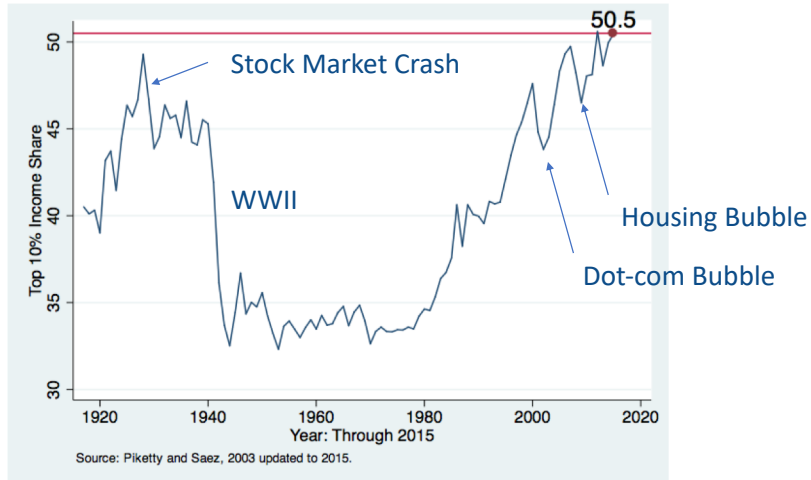
U.S. Safety Net Programs, Federal Expenditures 2014 or 2015 (\$ Billions)



Change in California GDP, Population, and GHG Emissions since 2000

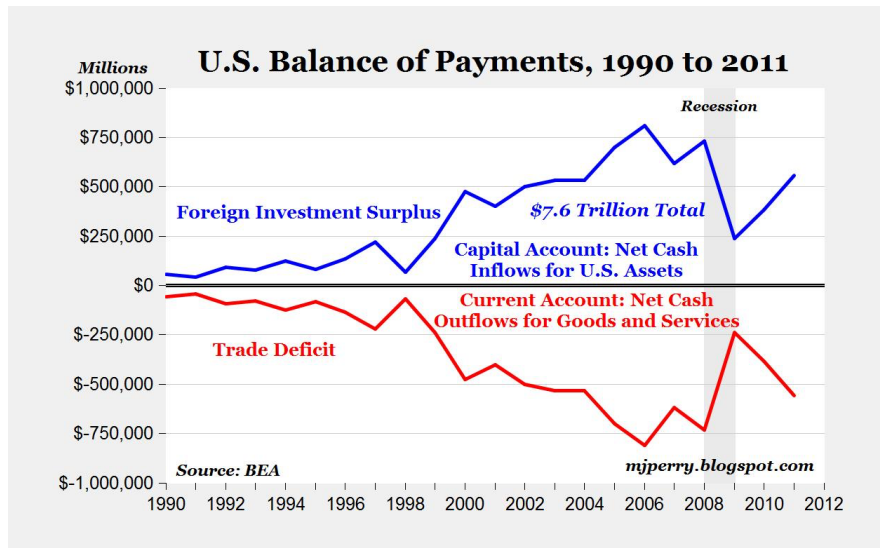


National Income Inequality: Share of Top 10%

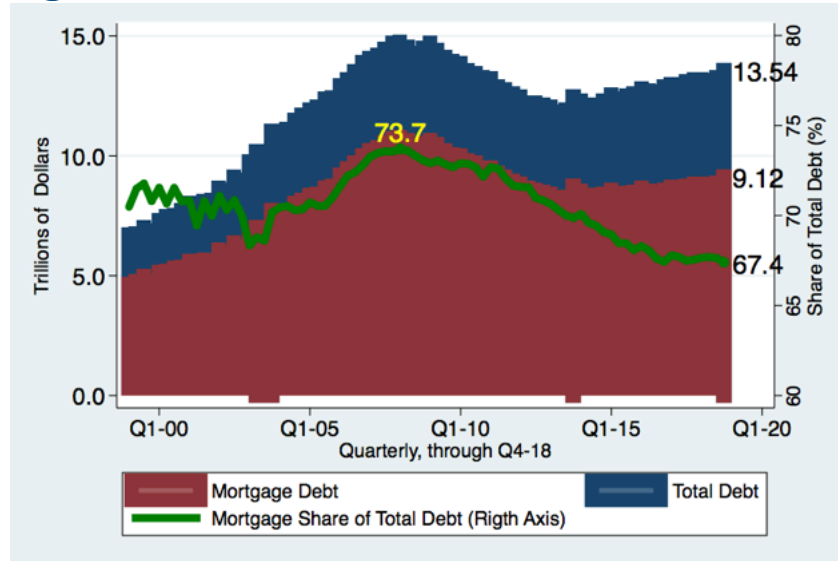


Source: Piketty and Saez, 2003 updated to 2015. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

Trade and Investment Flows Balance Out

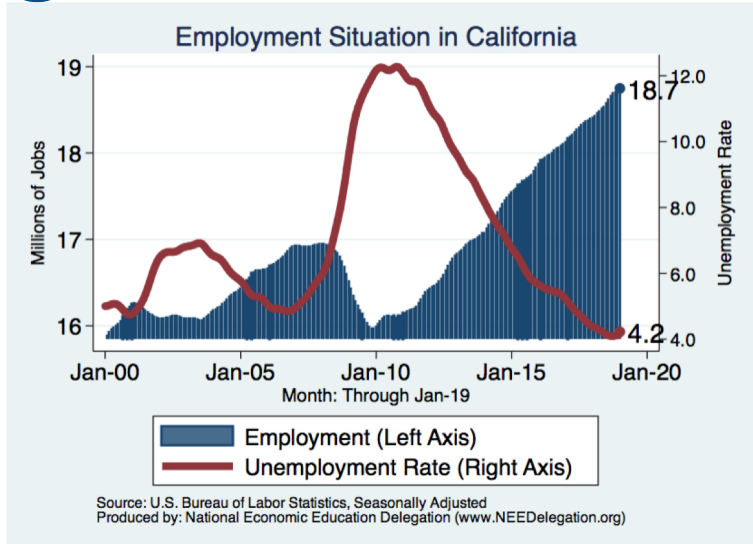


Housing Debt



The Local Economy

CA Employment Growth is Slowing

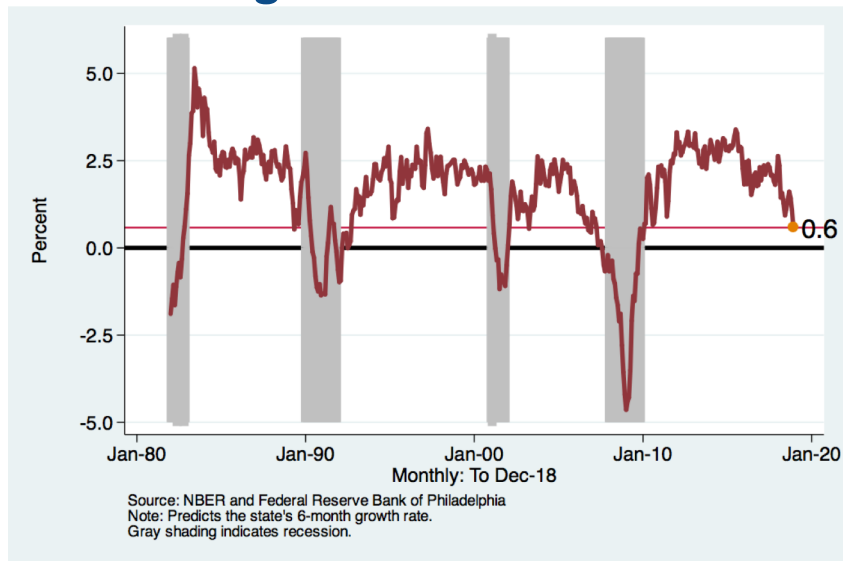


Growth Rate:

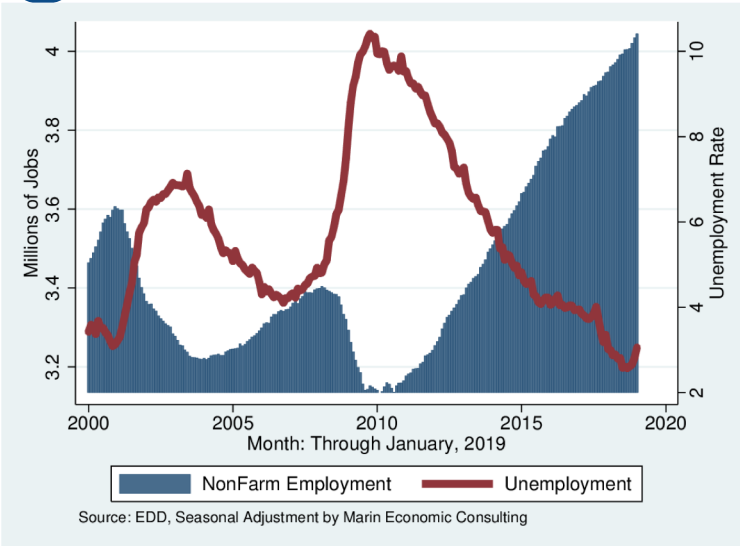
- Last Month: 0.2%
- Last Year: 1.4%
- Last 3 Years: 2.0%
- Last 5 Years: 2.5%



California Leading Index



Bay Area is Growing Well: Employment



Growth Rate:

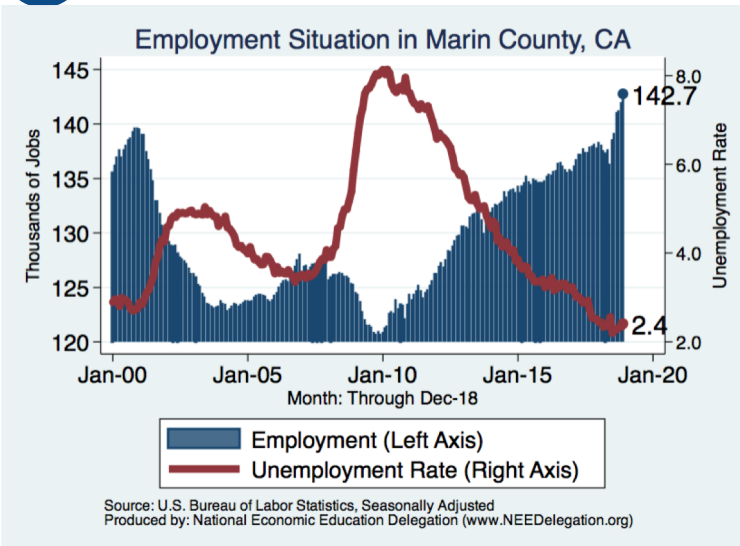
Last Month: 3.1%

Last Year: 2.5%

Last 3 Years: 2.4%

Last 5 Years: 3.0%

Employment Situation: Marin County



Growth Rate:

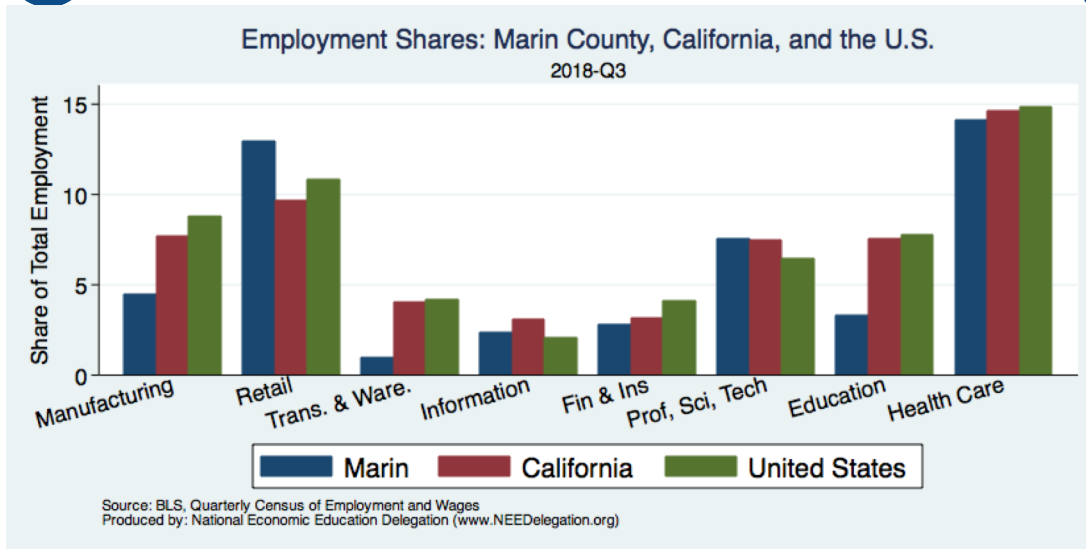
Last Month: 3.3%

Last Year: 1.4%

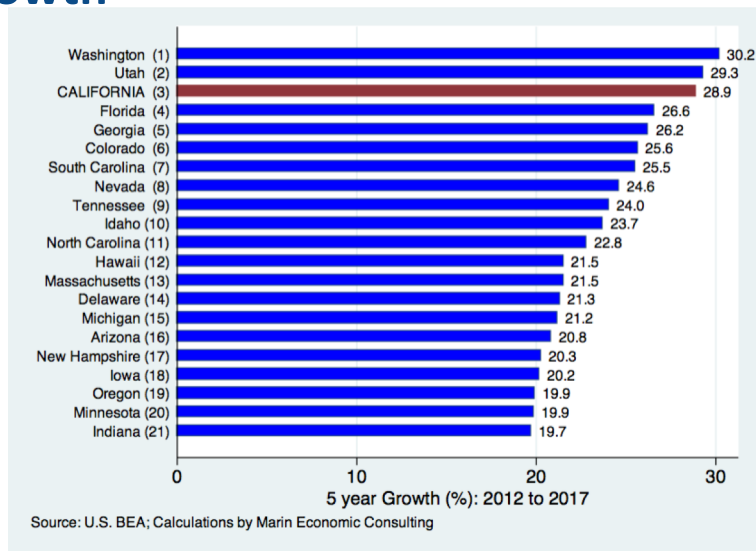
Last 3 Years: 1.3%

Last 5 Years: 1.4%

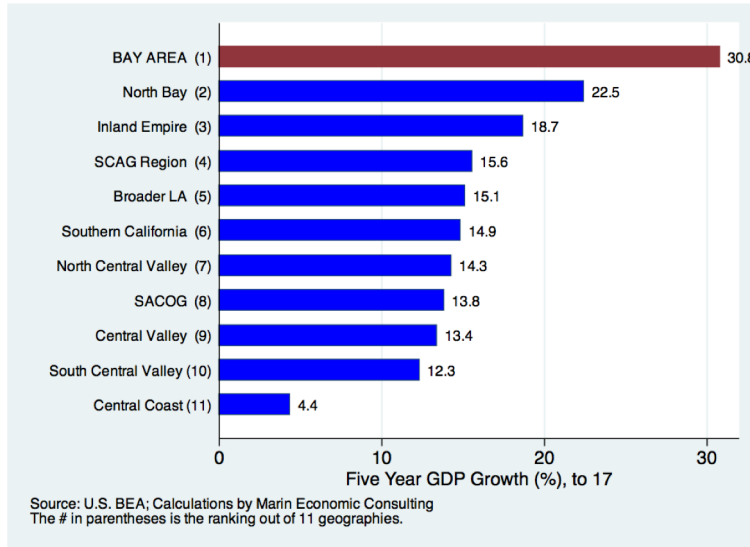
Marin Employment Shares



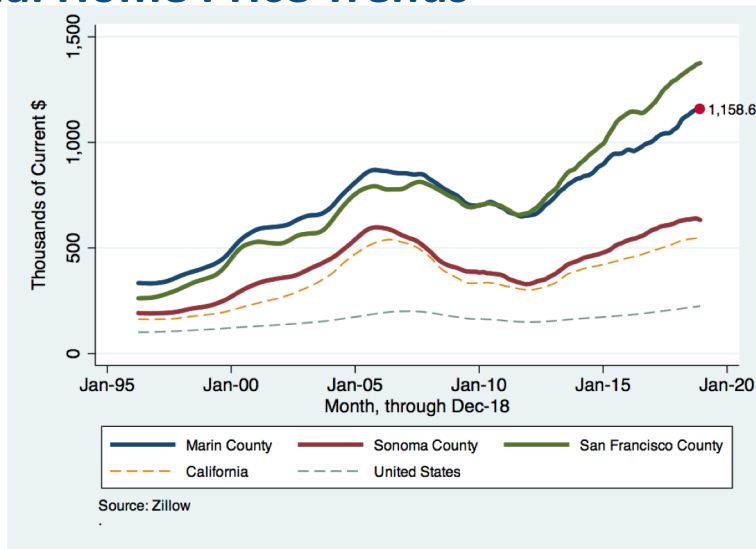
GSP Growth



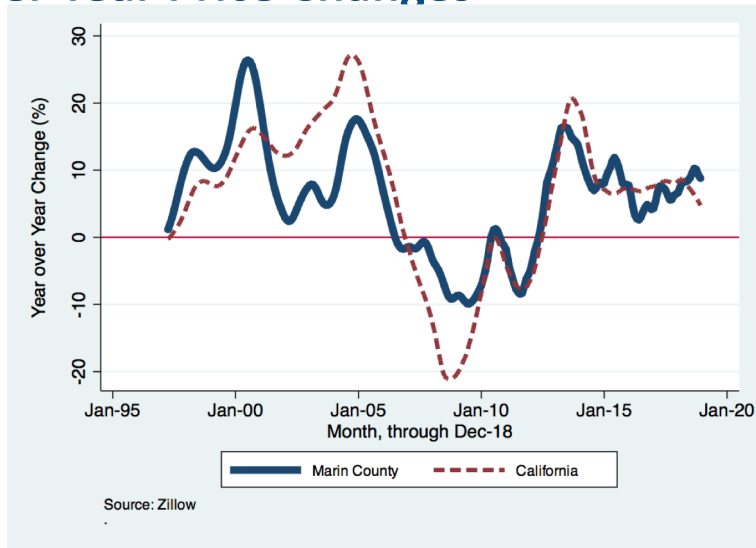
Bay Area is Growing Well: GSP – Over 5 Years



Regional Home Price Trends

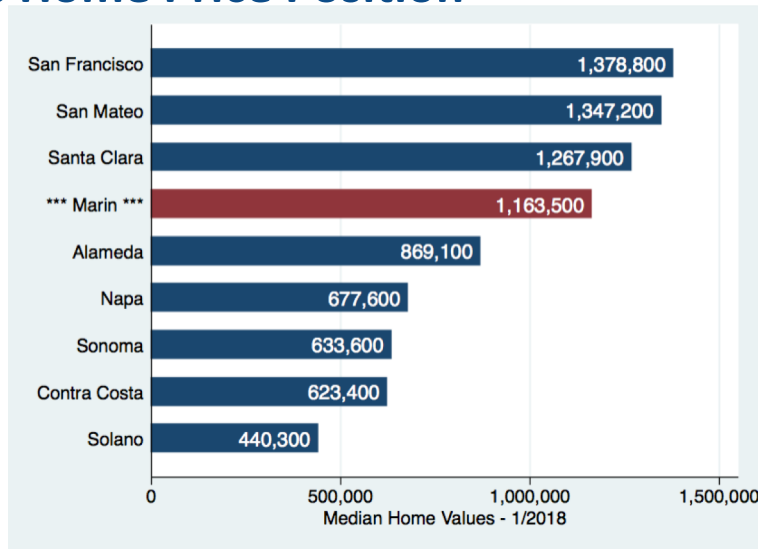


Year over Year Price Changes



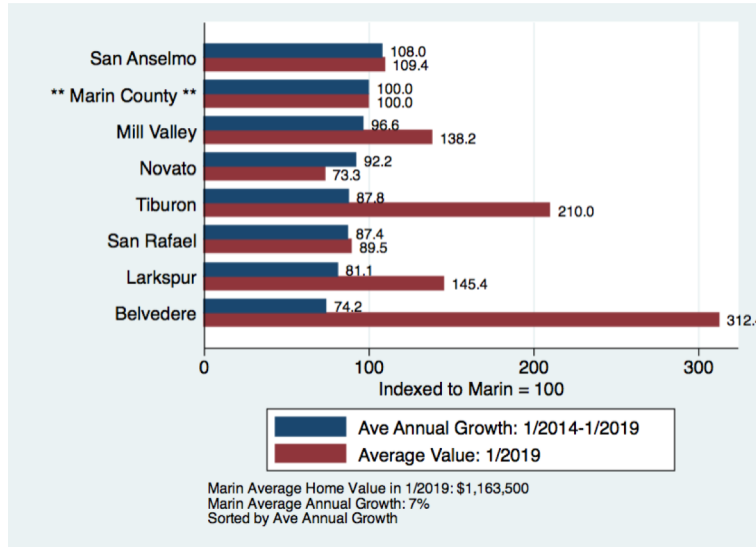
 NATIONAL ECONOMIC EDUCATION DELEGATION

Marin's Home Price Position



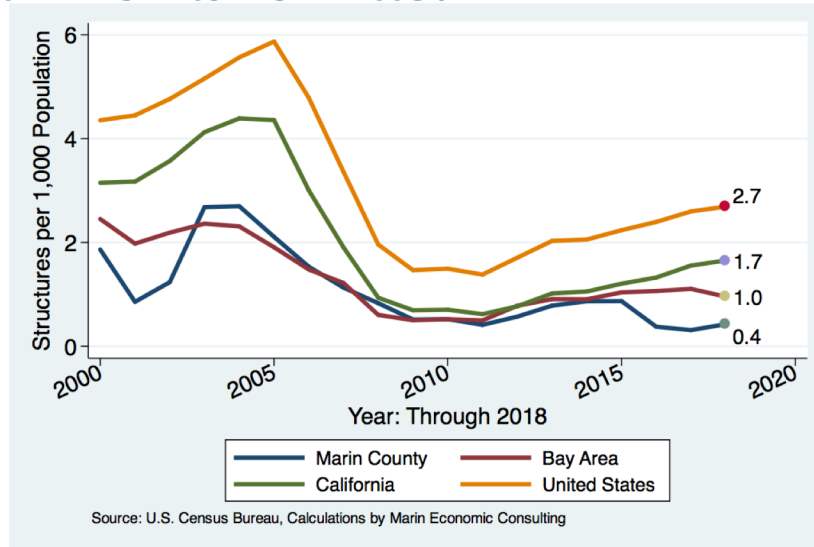
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Home Price Appreciation w/in Marin



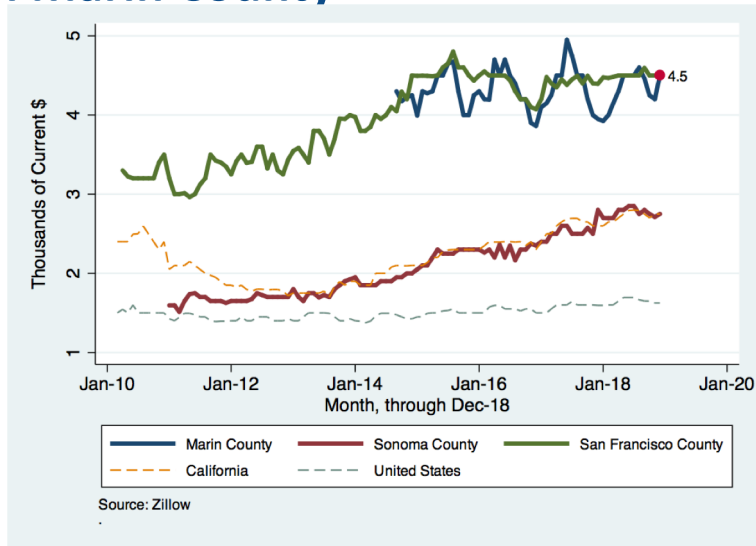
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Growth in Units Permitted

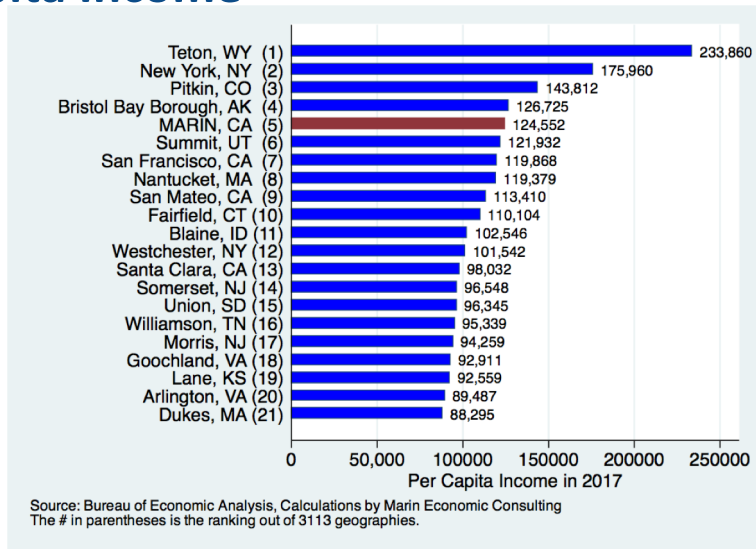


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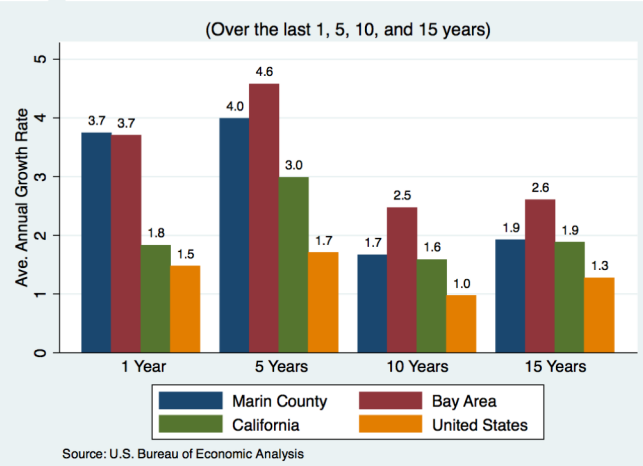
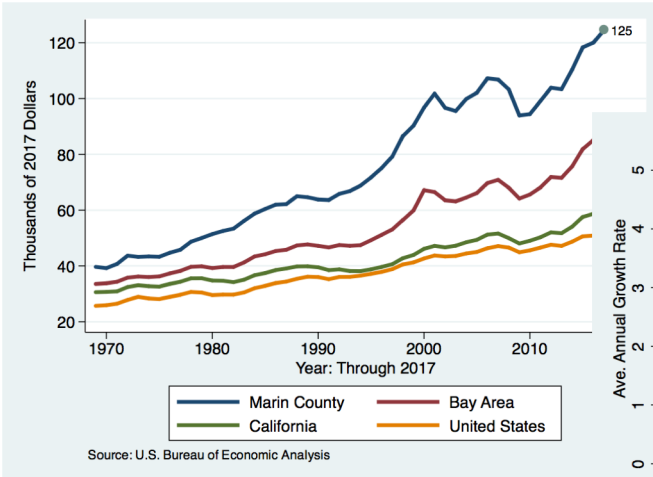
Rents in Marin County



Per Capita Income

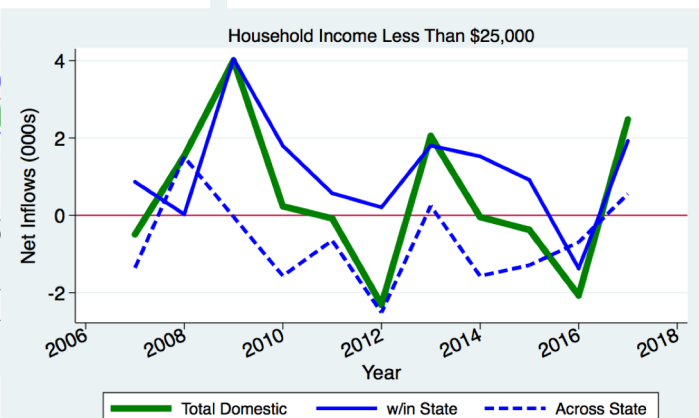
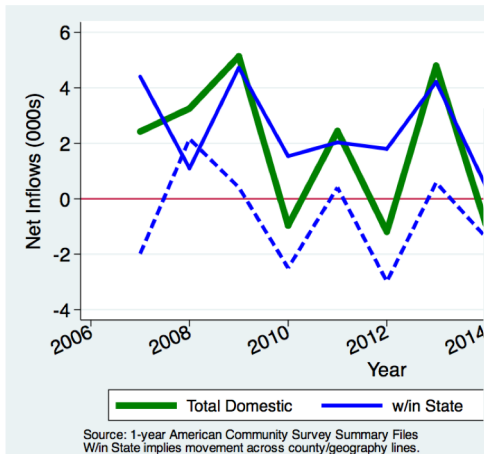


Per Capita Income is High and Growing Quickly



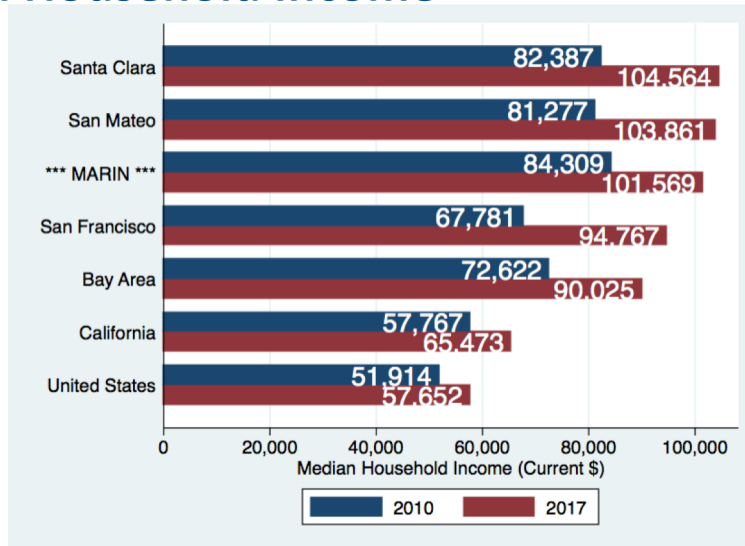
NATIONAL ECONOMIC EDUCATION DELEGATION

Migration into Marin



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Median Household Income



Educational Attainment

