

# U.S. Economic Update

## ThinkTank Tuesdays: Wine, Water, and Policy Whimsy

August 7, 2018



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1

## 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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2

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## Outline – U.S. Economic Outlook

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



# Behavior of GDP

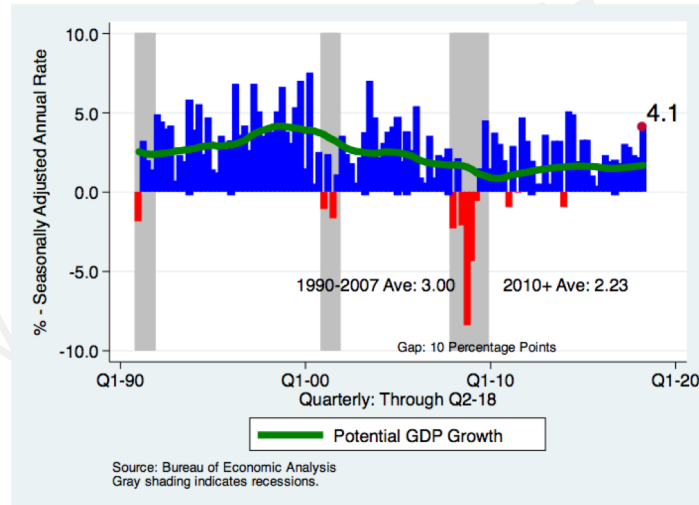


## GDP During the Recovery

- *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



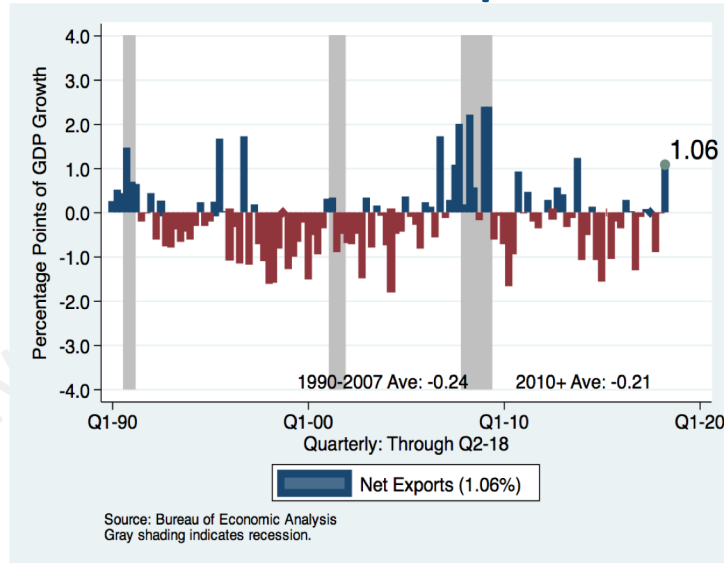
## GDP Growth During Economic Recovery



## Personal Consumption Expenditures

- **Consumption has been slow to recover.**
  - Pre-crisis average contribution of consumption expenditures is 2.16 percentage points.
  - Post-crisis contribution is 1.67 percentage points.
- **In other words, its contribution to GDP growth is down 22%.**

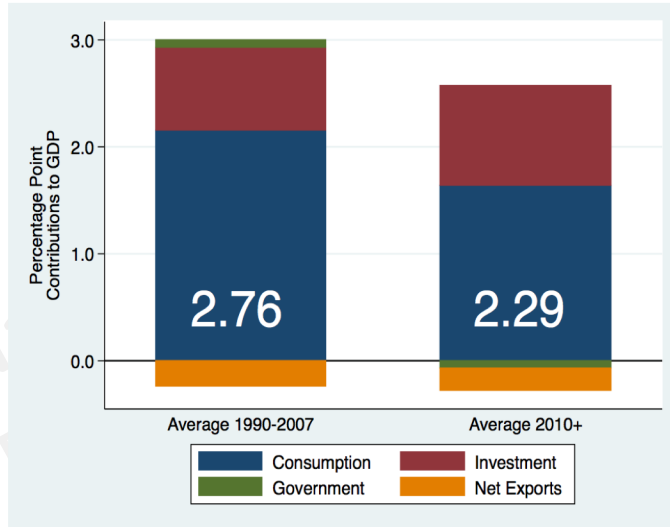
## Contributions to GDP: Net Exports



## Expenditure Summary

- **Post-recession consumption, government, and export expenditures are contributing less to GDP growth:**
  - Retail sales are returning to trend; household debt and personal savings are down.
  - Government budget deficit is falling.
  - Net exports are lower.
- **Investment expenditures are contributing more to GDP growth**
- **Import expenditures are a little bit less of a restraining force on GDP than they have been in the past**

# Expenditure Summary



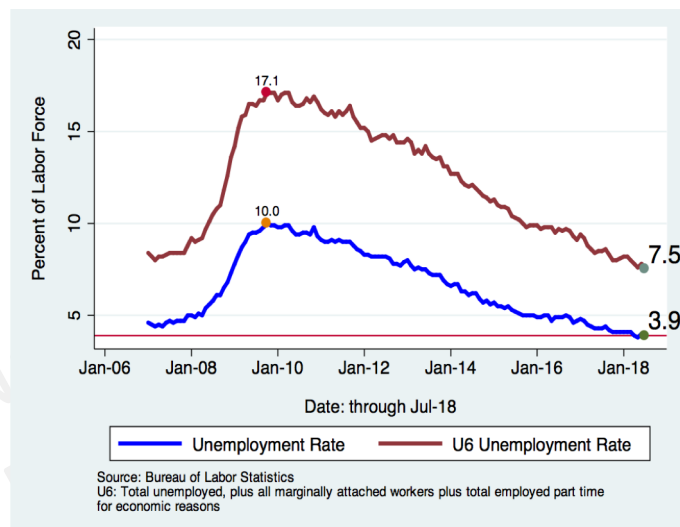
# Labor Market

## Labor Market Conditions

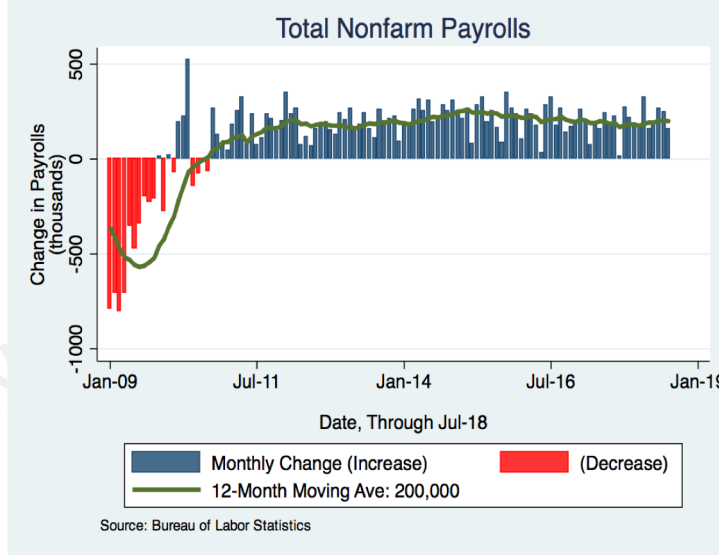
- Unemployment rate is low, 3.9%.
- Natural rate of unemployment is estimated to be 4.5% - 5.5%.
- Monthly employment gains have averaged 221,000 jobs over the last six months.
- **Recent Labor Market Concerns:**
  - Falling employment-to-population ratio
  - Falling labor force growth
  - Slow wage growth



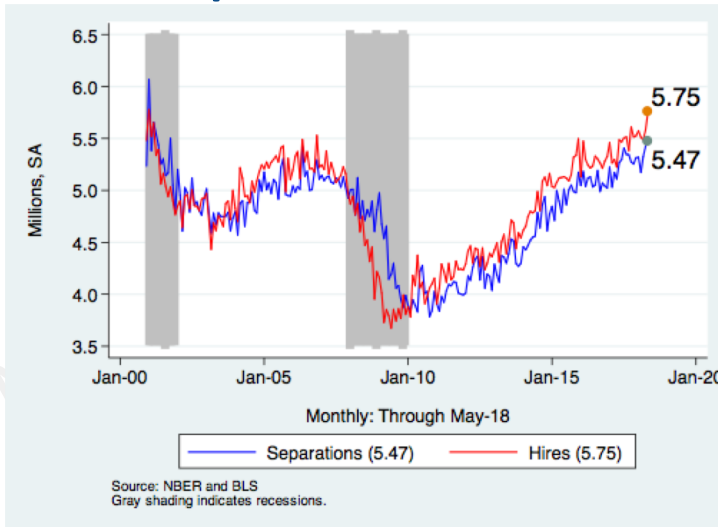
## Unemployment Rate



# Monthly Changes in Nonfarm Employment

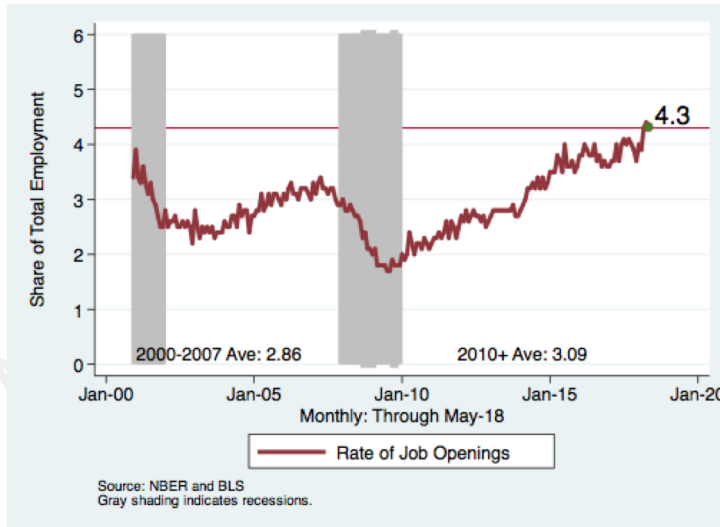


# Job Hires and Separations

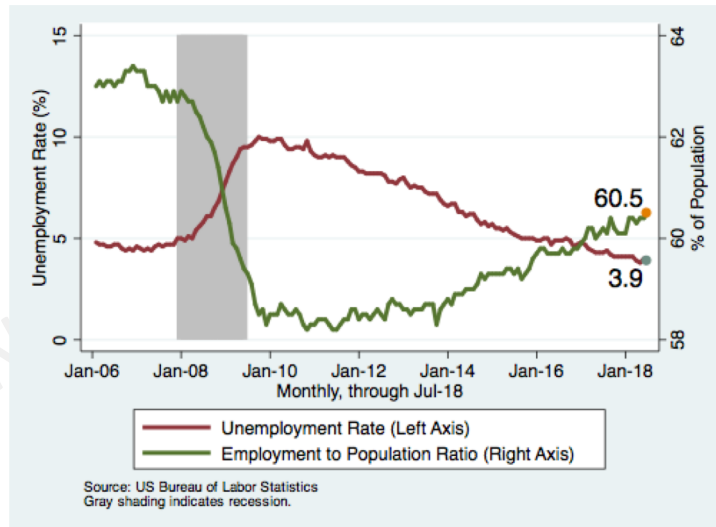




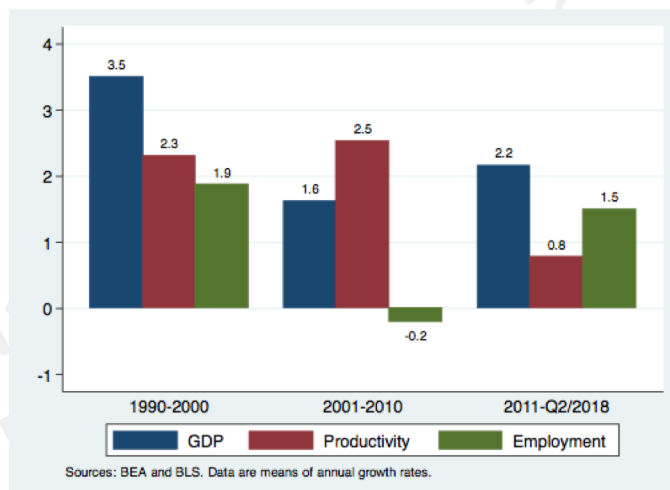
## Job Openings: Share of Total Employment



## Slow Employment Recovery



## GDP Growth, Productivity, and Employment



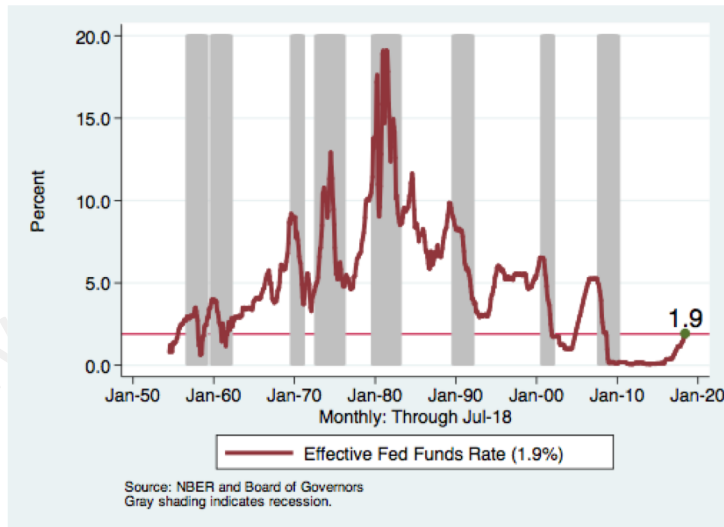
## Summary

- **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 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.

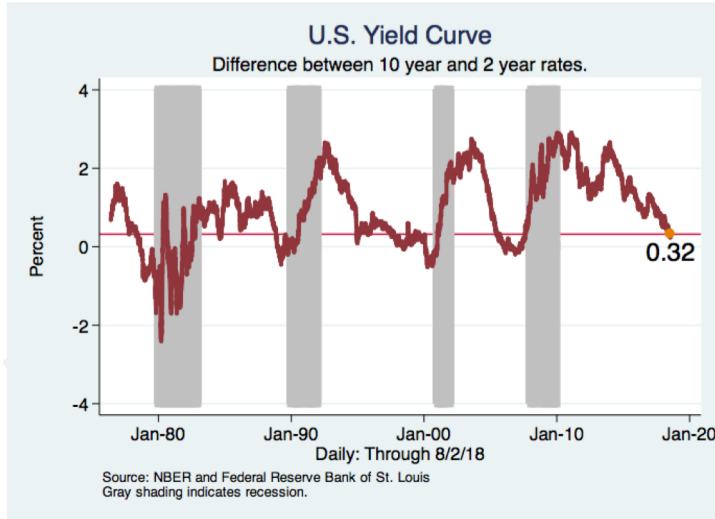


# Other Indicators

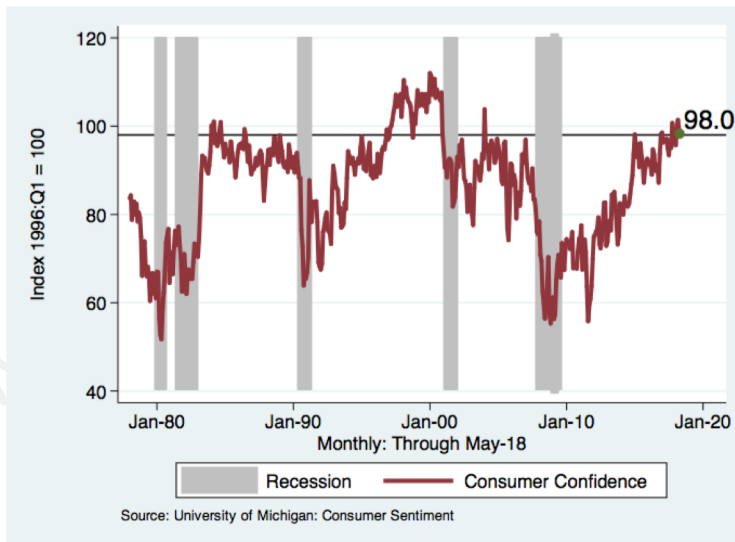
## Federal Funds Rate



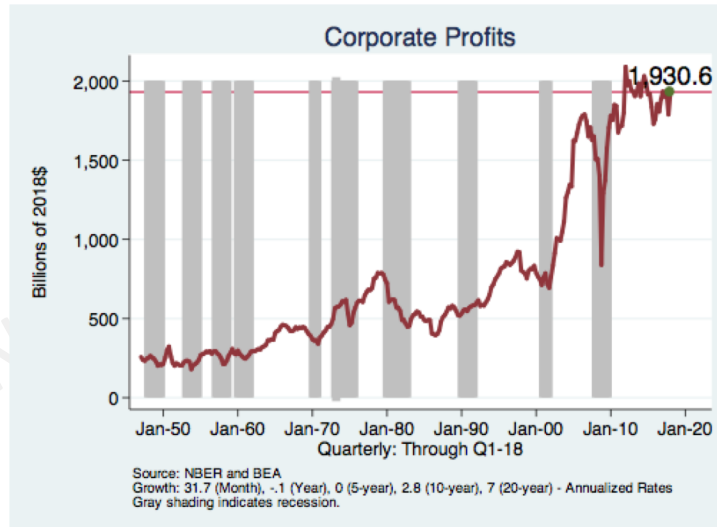
# Alarming Compression of Interest Rates



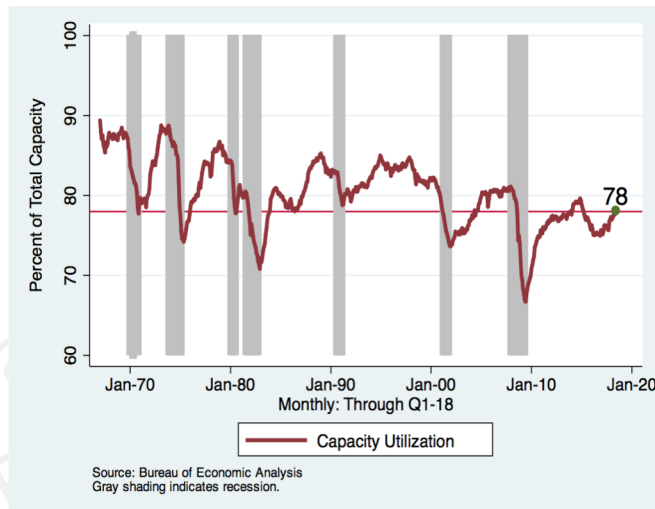
# Consumer Confidence: High!



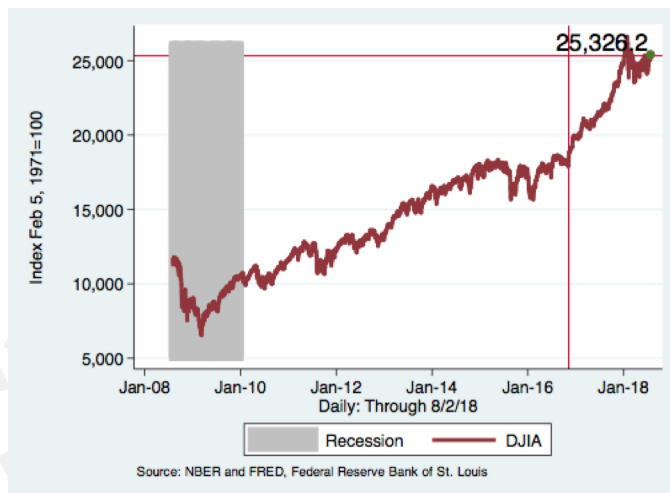
## Corporate Profits – Inflation Adjusted



## Capacity Utilization



## Dow Jones



## Summary of GDP, Labor Markets and Other Indicators

### • 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 is shrinking, real wages are stagnant.

### • Monetary Policy

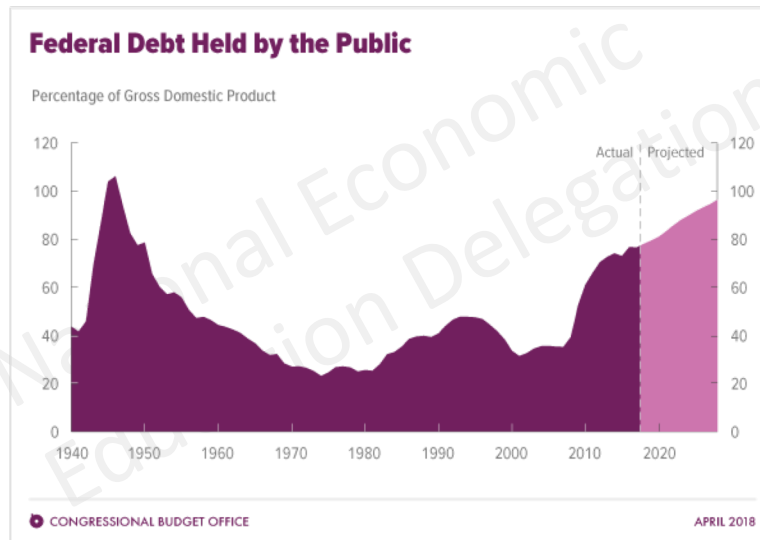
- Interest rates are rising.
- Policy normalization is underway.



## Things to Be Worried About

- Yield Curve
- Government Debt
- Declining Labor Force
- Income and Wealth Inequality
- Infrastructure
- Savings
- Policy Uncertainty
  - Trade and immigration policy, specifically

## Federal Government Debt Projections



## Positive Outlook

- **Job growth remains robust**
- **Wage growth, but not too much**
- **Business investment is robust**
- **Inflation and interest rates remain favorable**



## Overall Summary

- **Tailwinds appear to dominate headwinds**
  - Economic forecasts for near term are favorable
  - 2018 more promising than subsequent years
- **There remains room for the economy to grow**
  - Labor force growth is available
  - Consumption has room to grow
  - Business investment is robust
  - Return to productivity growth
- **Long term concerns**
  - Declining labor force
  - Federal government debt
  - International trade policy

