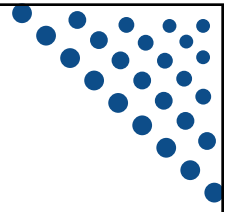


**INFLATION**



# US Economic Update

## Marin County Dept of Education Property Tax Forum

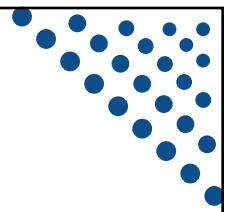
May 2, 2023  
Jon Haveman, Ph.D.  
Executive Director, NEED



1

## Outline

- The U.S. Economy
- Inflation/The Fed/Banks
- The Debt Ceiling
- The Budget



2



# The U.S. Economy

 NATIONAL ECONOMIC EDUCATION DELEGATION

---

3

3



**Headline:**

## G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

- A key measure of economic output fell for the second straight quarter, fanning fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

*Last July*

 NATIONAL ECONOMIC EDUCATION DELEGATION

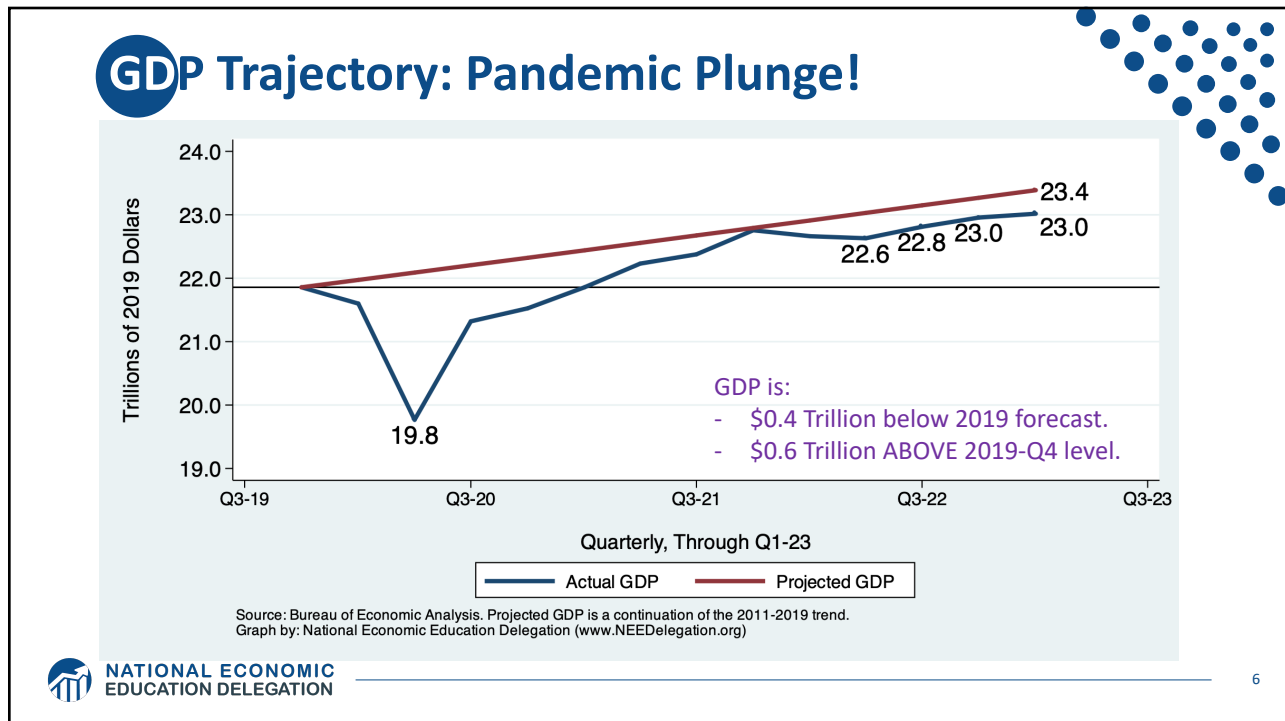
---

4

4

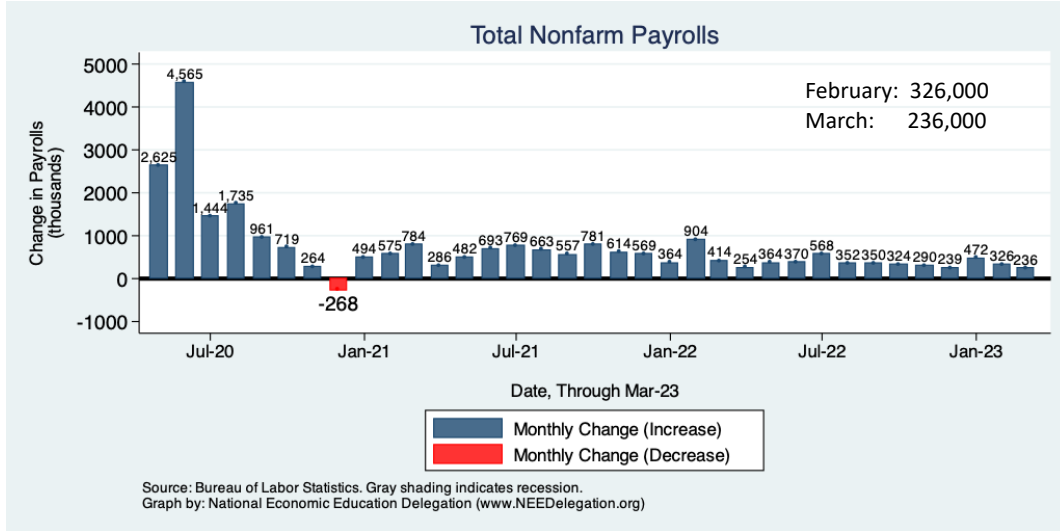


5



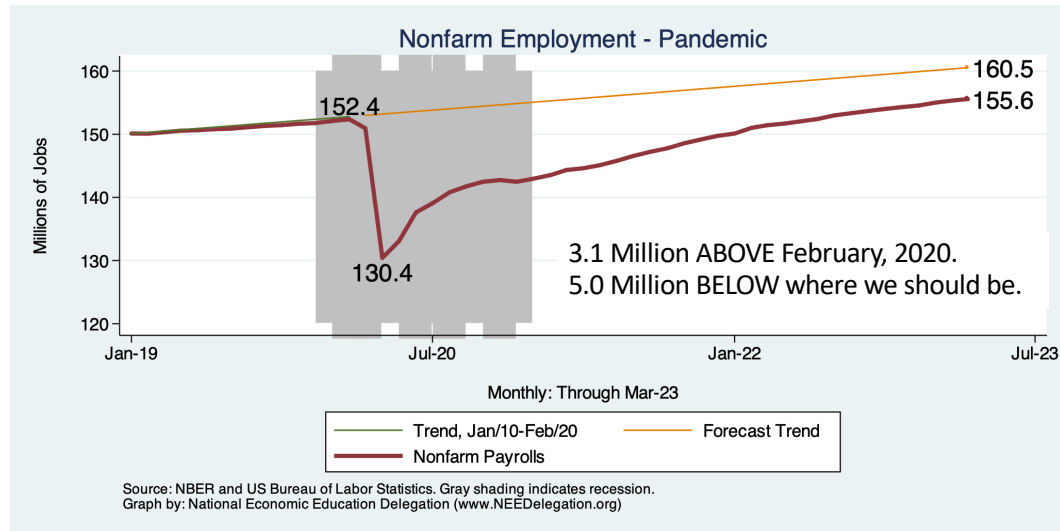
6

# Monthly Changes in Nonfarm Employment



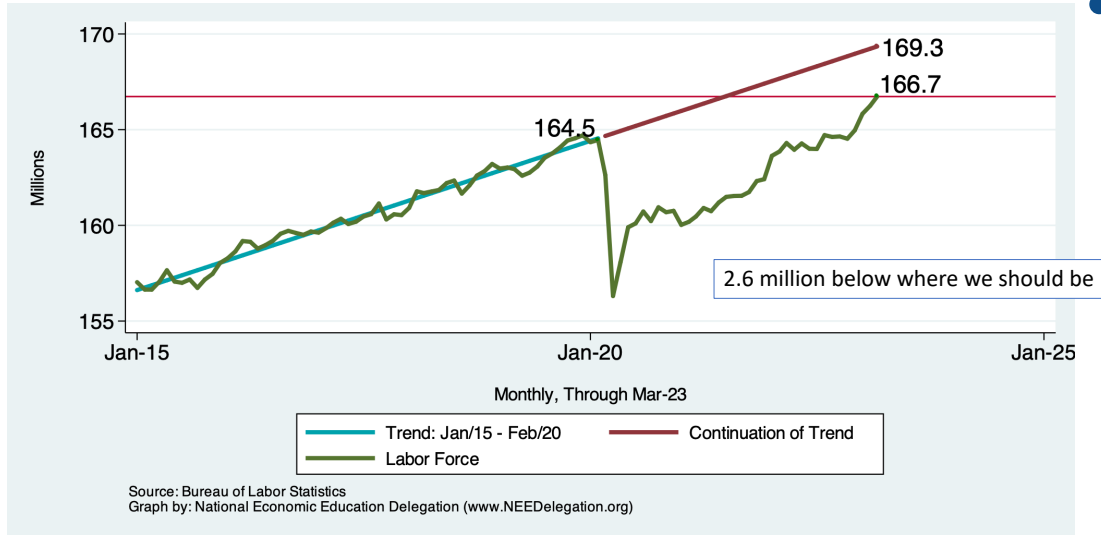
7

# Employment Gap

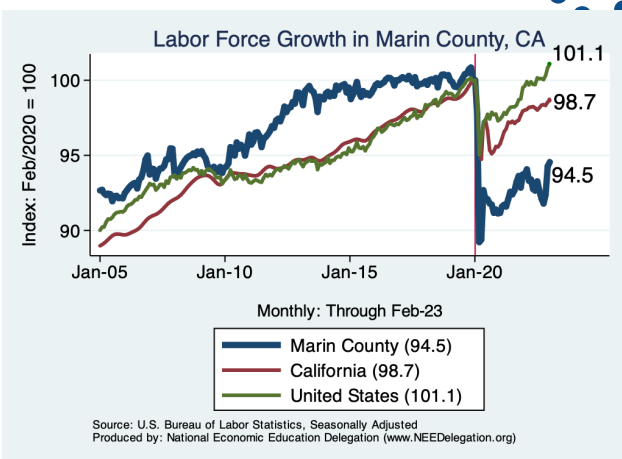
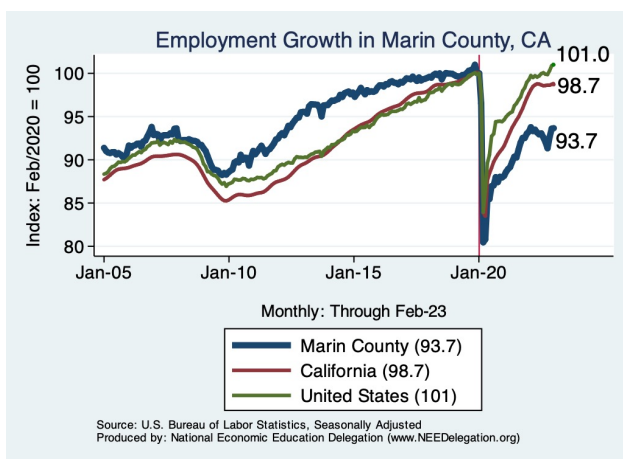


8

# Where Have All the Workers Gone?



# Labor Market Experience: Marin County





[www.NEEDEcon.org/LocalGraphs](http://www.NEEDEcon.org/LocalGraphs)

For every state and county in the United States.  
Detailed graphs on employment, housing, moves, and other statistics.

 NATIONAL ECONOMIC  
EDUCATION DELEGATION

---

11

11



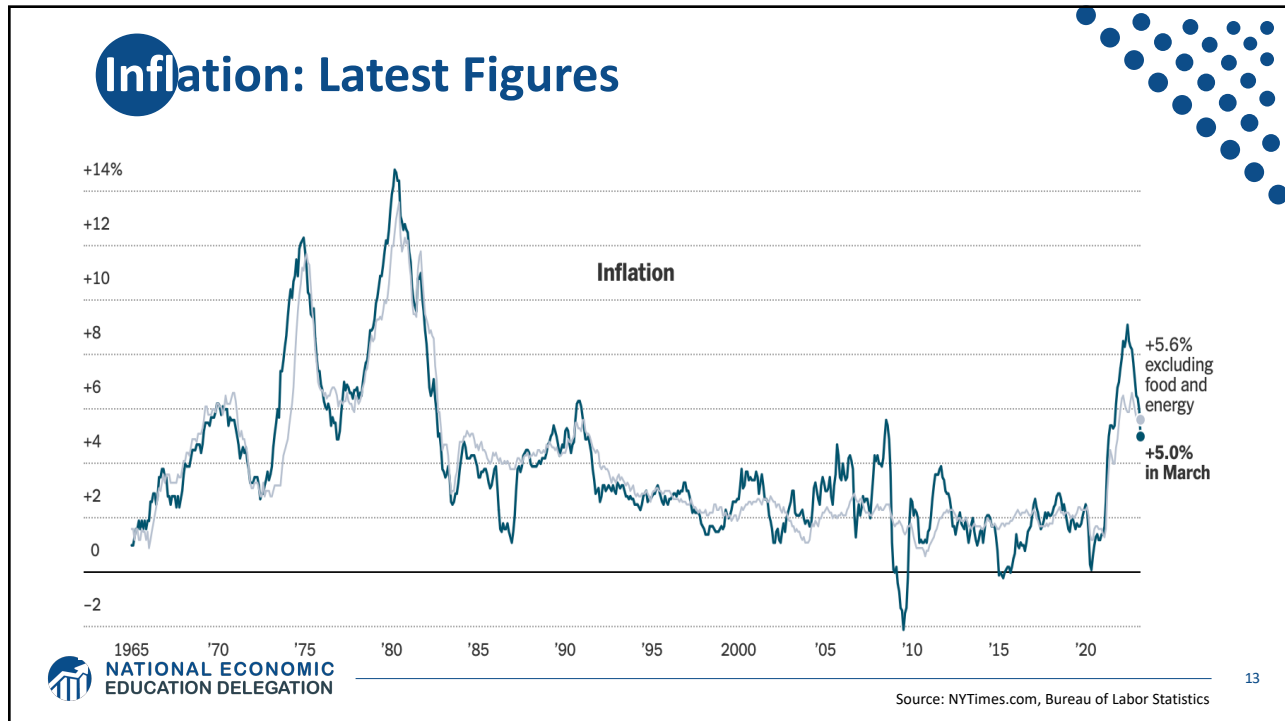
**Inflation**

 NATIONAL ECONOMIC  
EDUCATION DELEGATION

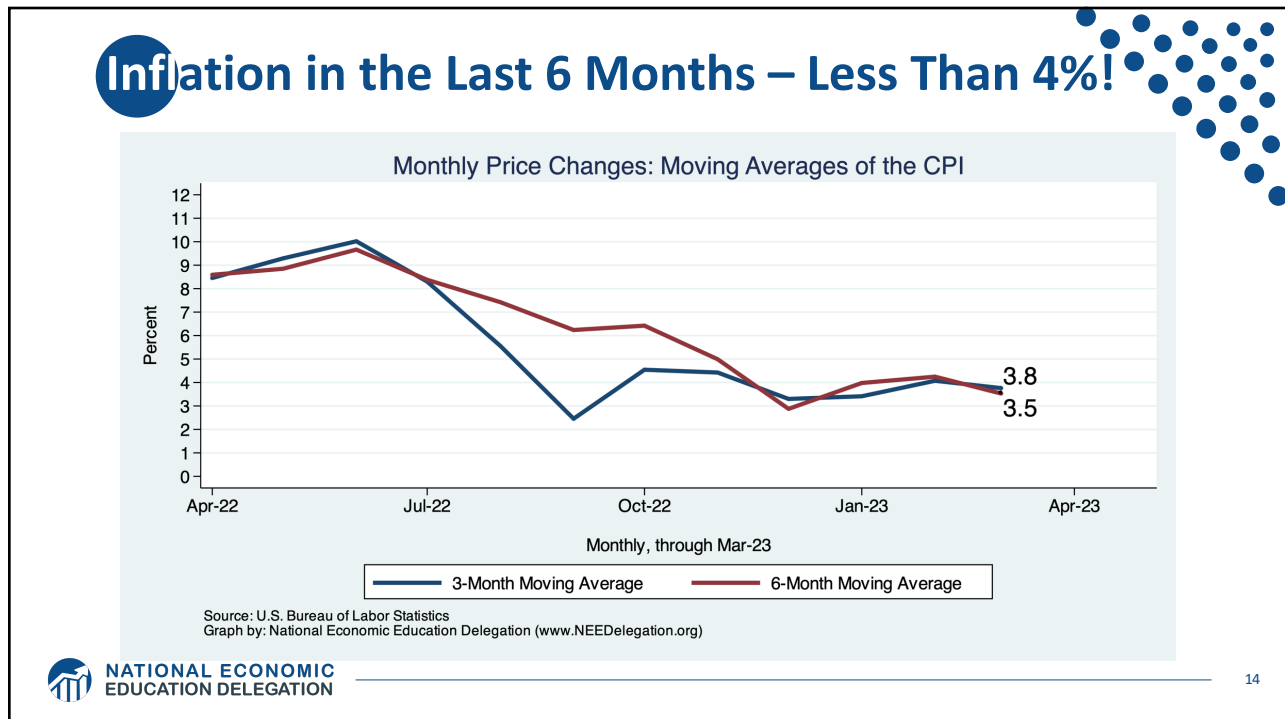
---

12

12

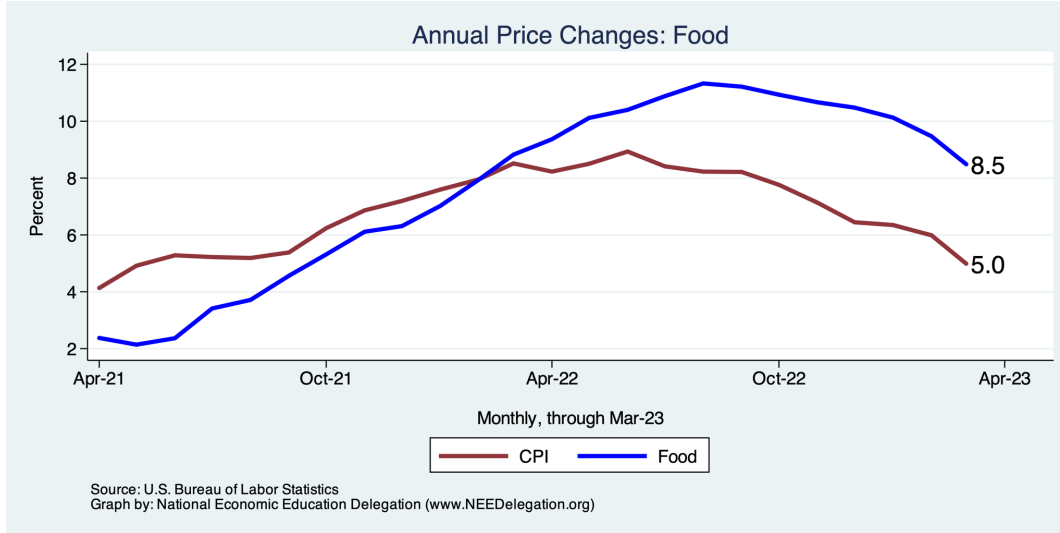


13



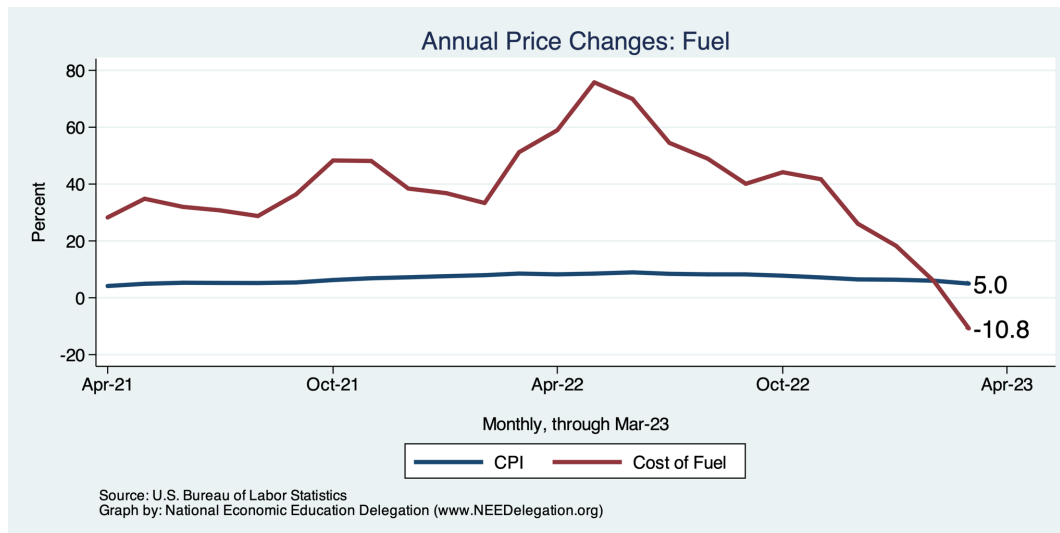
14

# Food Prices Are Coming Down



15

# As Are Fuel Prices



16



# Inflation is Not just a U.S. Problem

Year-over-year change in consumer prices in the eurozone

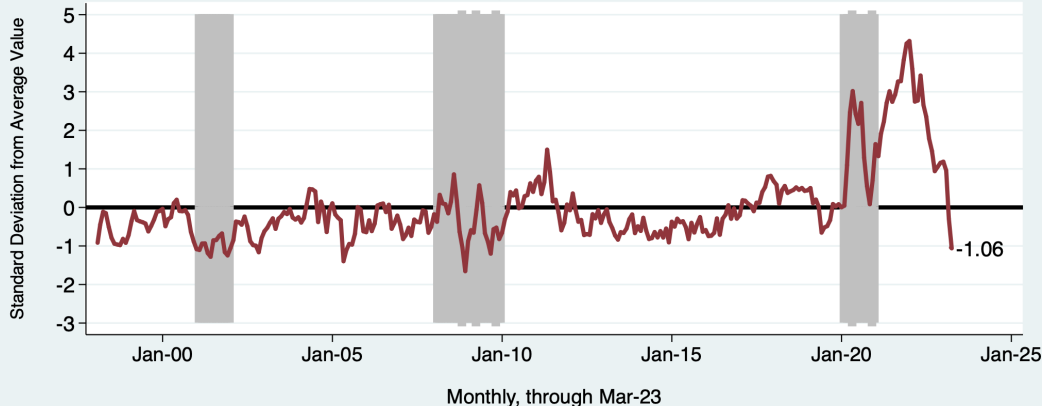


Source: Eurostat • By The New York Times

17

# Supply Chains

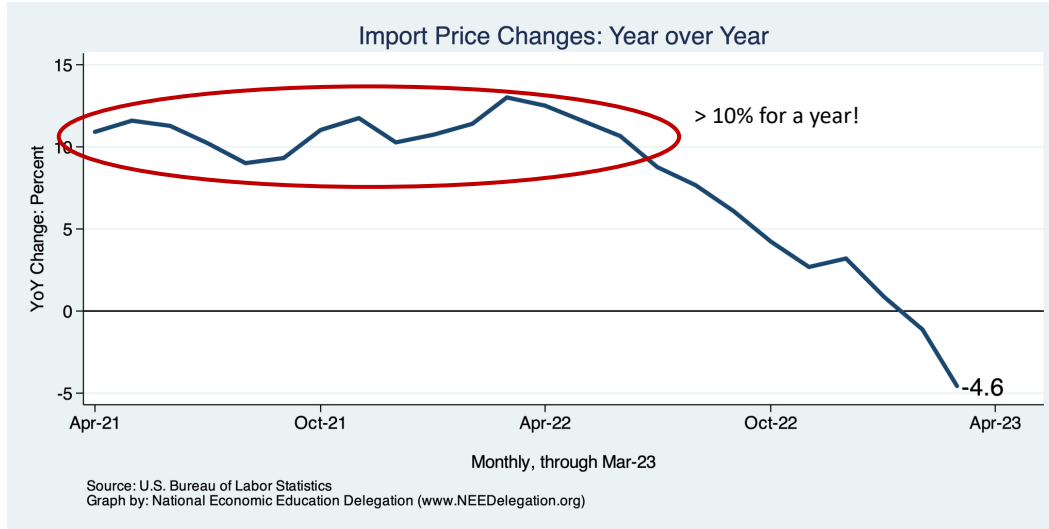
Global Supply Chain Pressure Index



Source: Federal Reserve Bank of NY. Gray shading indicates recession. Higher values correspond to more pressure on the supply chain. Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

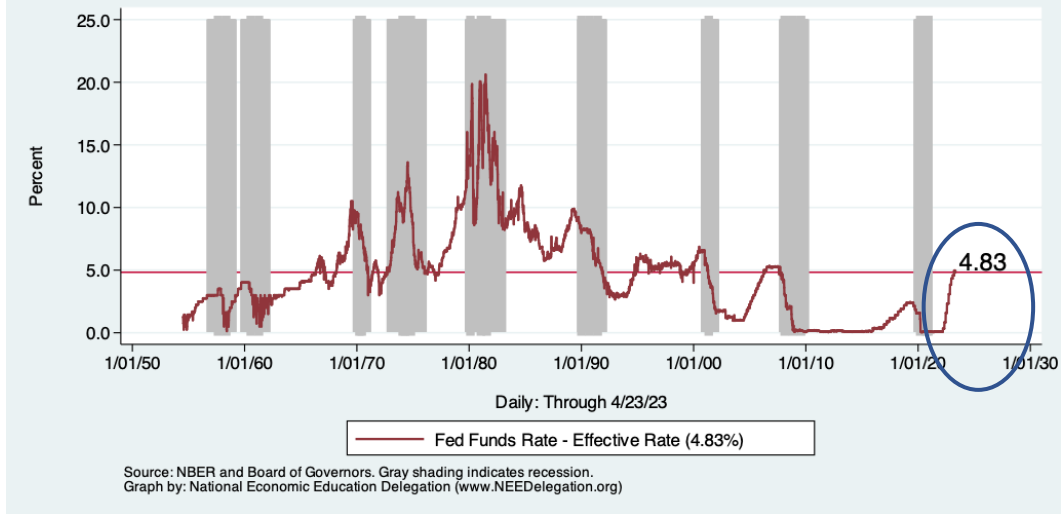
18

# Import Price Inflation WAS Very High



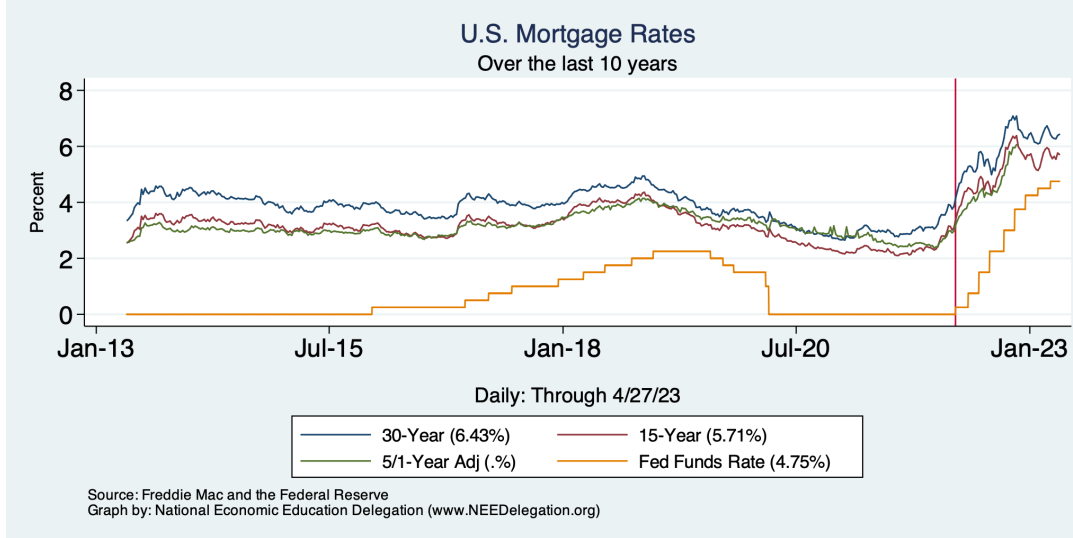
# What's the Fed Doing About It?

## Raising the Federal Funds Rate



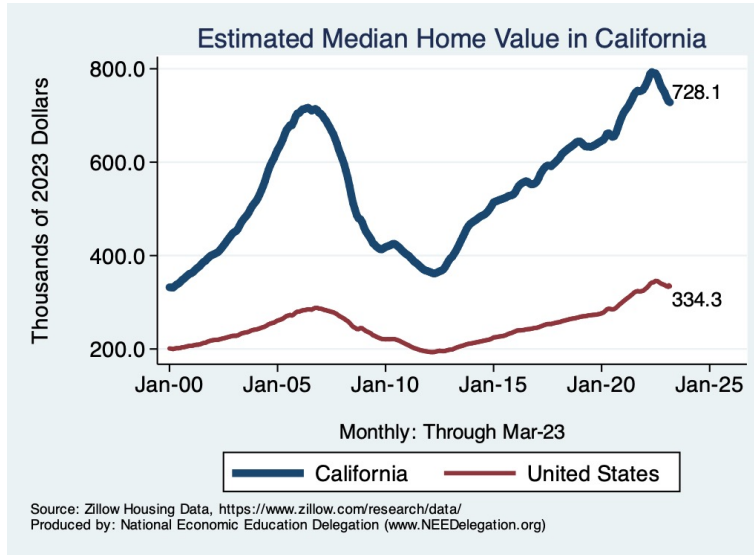
21

## Interest Rates are Rising!



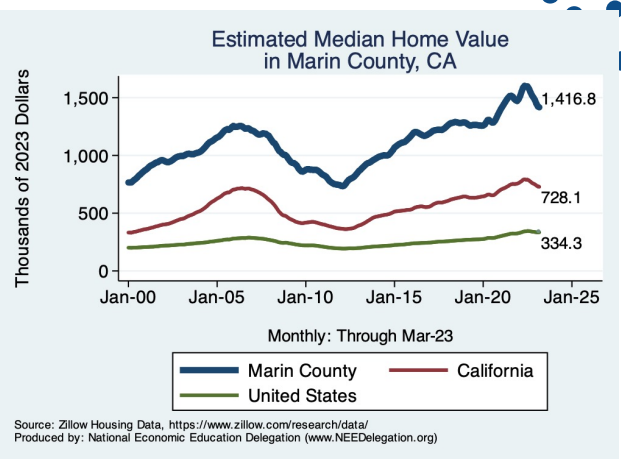
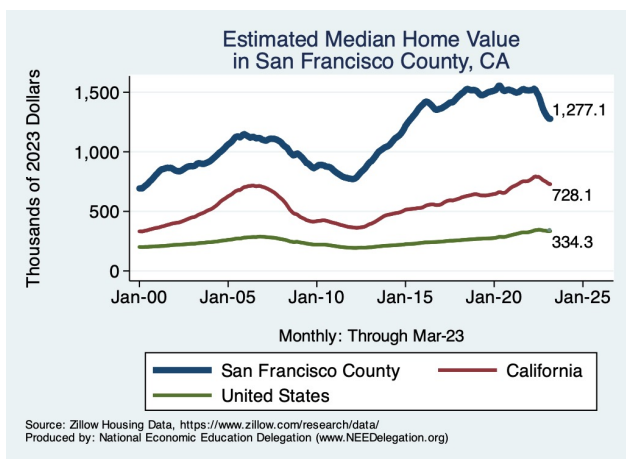
22

# Real Estate Prices

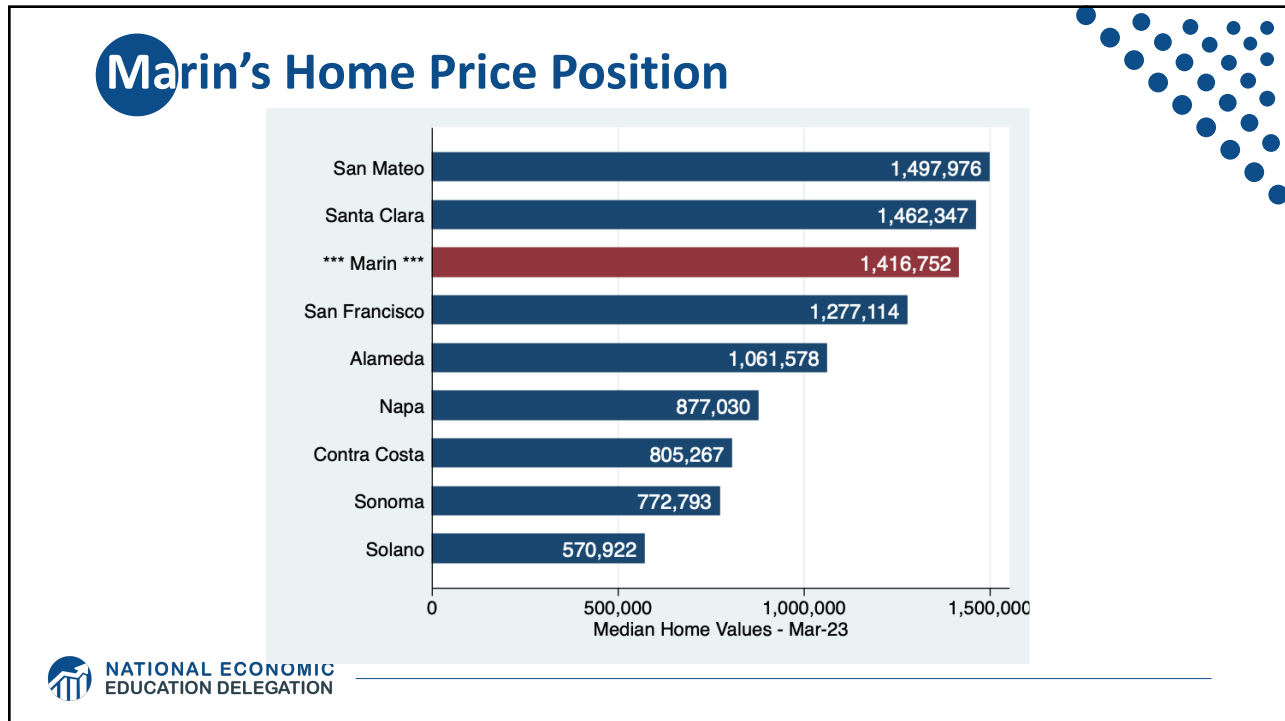


23

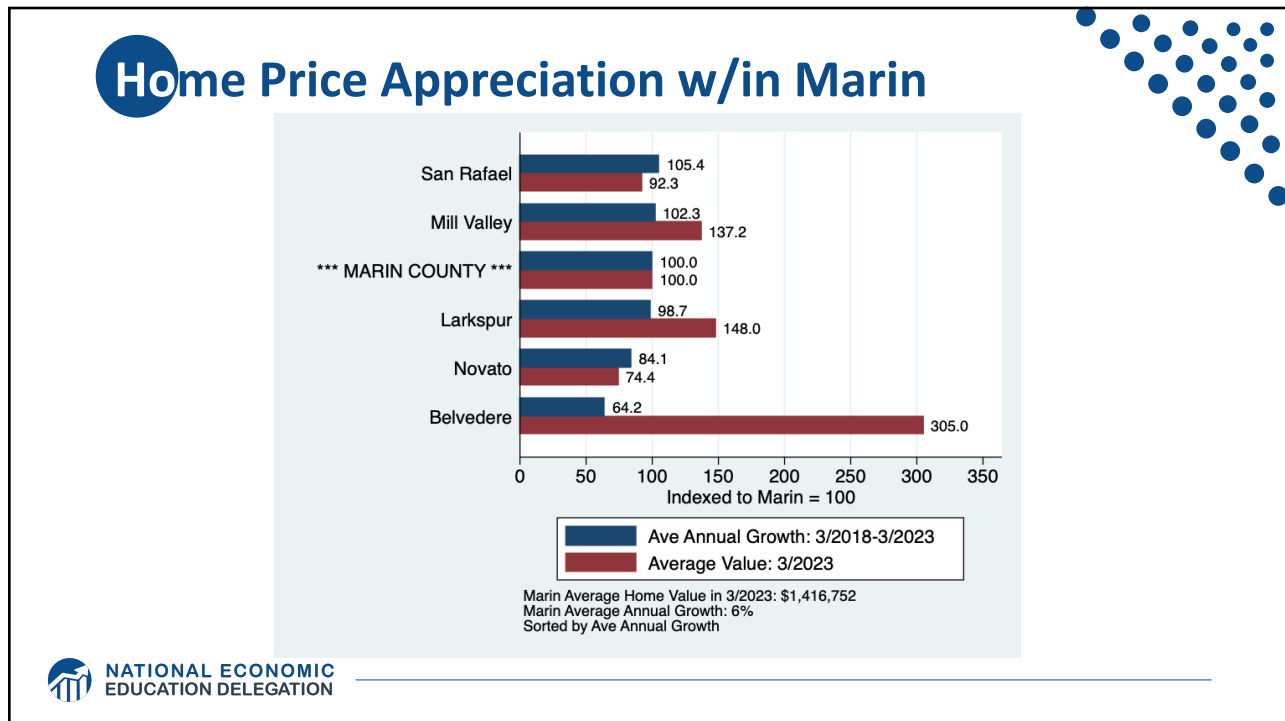
# RE Experiences ... Similar And Not Good



24



25



26

## Banks...

- **Silicon Valley Bank**
- **Signature Bank**
- **First Republic Bank**
  
- **Rising interest rates are like the tide going out....**
  - They expose who is swimming with no clothes on.
  - The tide isn't completely out.



27

## Existential Threat: Coming This June!



28

## 5 Things to Know about the Debt Ceiling

1. The debt limit has been raised continually for more than a century.
2. Raising the debt limit is not about new spending; it is about paying for previous choices policymakers legislated.
3. The uselessness of a debt limit is exhibited by the fact that only one other advanced country—Denmark—has a separate debt limit rule like ours.
4. Now that the debt hit the ceiling, the Treasury Department is using several extraordinary measures to postpone the day of reckoning, but these typically last only a few months.
5. The economic consequences of a large-scale, intentional default are unknown, but predictions range from bad to catastrophic.



NATIONAL ECONOMIC  
EDUCATION DELEGATION

Source: <https://www.brookings.edu/2023/01/19/7-things-to-know-about-the-debt-limit/>

29

29

## Lessons from 2011

- **Government shutdown was very costly:**
  - Stock markets plunged (17%).
  - Employment growth stuttered.
  - Treasuries – downgraded credit ratings.
  - Borrowing costs rose.
- **The Debt Ceiling may be a very effective bargaining tool, but...**
  - It is costly.
  - It is unnecessary.
- **Accidental partial default in 1979:**
  - increased borrowing costs by \$40 Billion!



NATIONAL ECONOMIC  
EDUCATION DELEGATION

30

30

## A Recent Estimate of the Potential Damage:

- **Moody's:**

- Could cost up to 6 million jobs,
- Drive unemployment up to 9%, and,
- Wipe out \$15 trillion in household wealth.

31

## Countdown to Default

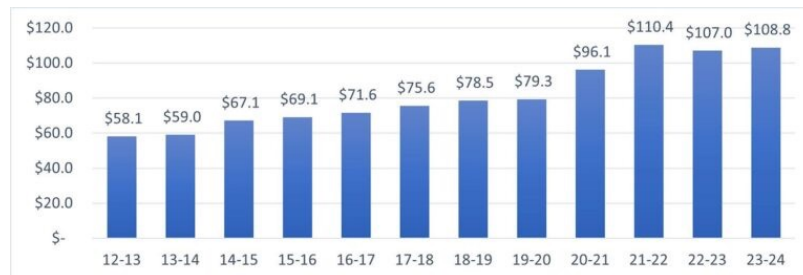


32



## California Budget

- Really too soon to tell - tax deferment to October.
- \$9B in School fund (PSSSA).
- Prop 98 Funding:



NATIONAL ECONOMIC  
EDUCATION DELEGATION

33

33

## Takeaways

- **Is a recession on the horizon?**
  - Perhaps, but shallow?
  - Many indicators are still in the black.
    - o 2022-Q4 GDP growth was pretty good!
- **Threats to continued growth:**
  - If inflation starts to rise again, which seems unlikely.
  - Layoff contagion.
  - Broader banking crisis.
  - Borrowing and lending seem to be low and shrinking.
  - Debt ceiling negotiations
    - o Significant cuts to government budgets may well result.
- **Everything changes with a default on the U.S. debt.**



NATIONAL ECONOMIC  
EDUCATION DELEGATION

34

**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

Jon D. Haveman

[Jon@NEEDelegation.org](mailto:Jon@NEEDelegation.org)

Contact NEED: [info@NEEDelegation.org](mailto:info@NEEDelegation.org)

Submit a testimonial: [www.NEEDelegation.org/testimonials.php](http://www.NEEDelegation.org/testimonials.php)

Become a Friend of NEED: [www.NEEDelegation.org/friend.php](http://www.NEEDelegation.org/friend.php)



NATIONAL ECONOMIC  
EDUCATION DELEGATION