



Osher Lifelong Learning Institute, Fall 2022 **Contemporary Economic Policy Issues**

Johns Hopkins University
November-December, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation

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Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics

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Course Outline: Johns Hopkins University

- **Contemporary Economic Policy**

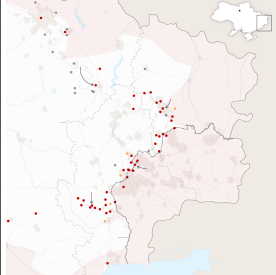
- Week 1 (11/3): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 2 (11/10): Economic Inequality (Adina Ardelean, Santa Clara Univ.)
- Week 3 (11/17): Economics of Immigration (Jennifer Alix-Garcia, Oregon State Univ.)
- **Week 4 (12/1): U.S. Economic Update (Jon Haveman, NEED)**
- Week 5 (12/8): Trade and Globalization (Adina Ardelean, Santa Clara Univ.)
- Week 6 (12/15): Climate Change Economics (Sarah Jacobson, Williams College)

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Submitting Questions


- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
 - We can also do 5 minutes of verbal Q&A following the break.
- **Slides will be available from the NEED website soon.**
(https://needelegation.org/delivered_presentations.php)


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US Economic Update

Jon Haveman, Ph.D.
NEED
December 1, 2022




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Credits and Disclaimer

- **This slide deck was authored by:**
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 - Scott Baier, Clemson University
 - Geoffrey Woglom, Amherst College (Emeritus)
 - Brian Dombeck, Lewis & Clark College
 - Doris Geide-Stevenson, Weber State
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - 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).

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Outline

- About the U.S. Economy
- Recession – The State of the US Economy
- Global Comparisons
- Inflation
- Summary



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Some Basic Statistics

Statistic:	Value
Population	333.3 Million
Labor Force	164.7 Million
Employment	153.3 Million
Gross Domestic Product (GDP)	\$25.7 Trillion
Income per Capita	\$65,627
Ave. Hourly Earnings	\$32.58



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Source: fred.stlouisfed.org

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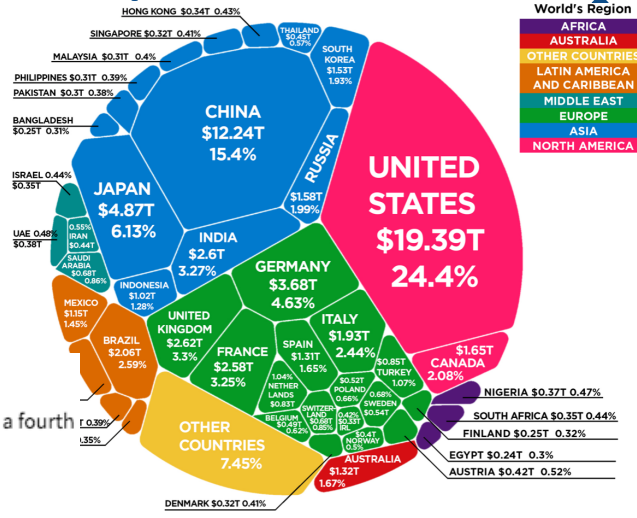
U.S. Economy in Global Perspective

U.S. Nominal GDP:

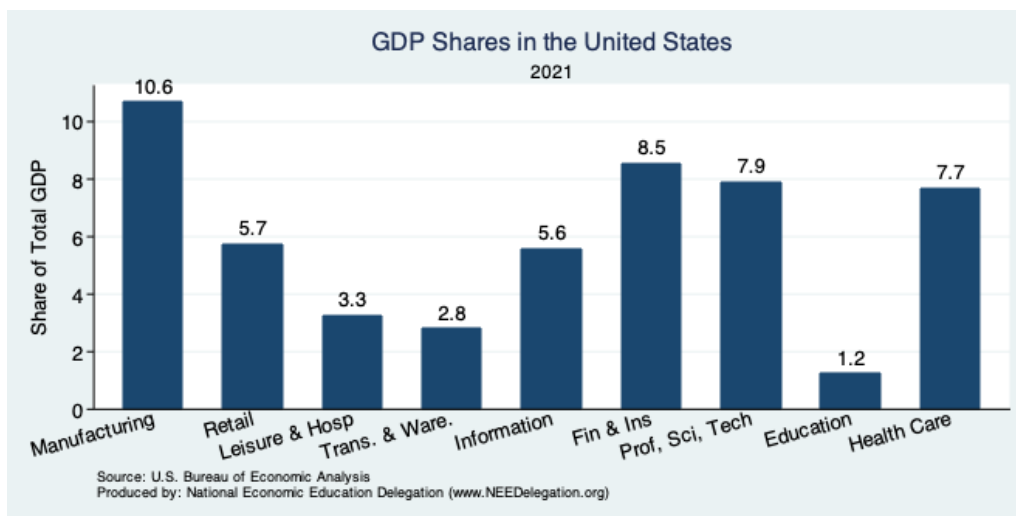
\$21.538 trillion in 2019-Q4
\$19.637 trillion in 2020-Q2
\$25.699 trillion in 2022-Q3

% Share of the Global Economy

The 173 countries outside the top 20 make up less than a fourth of the total global economy.

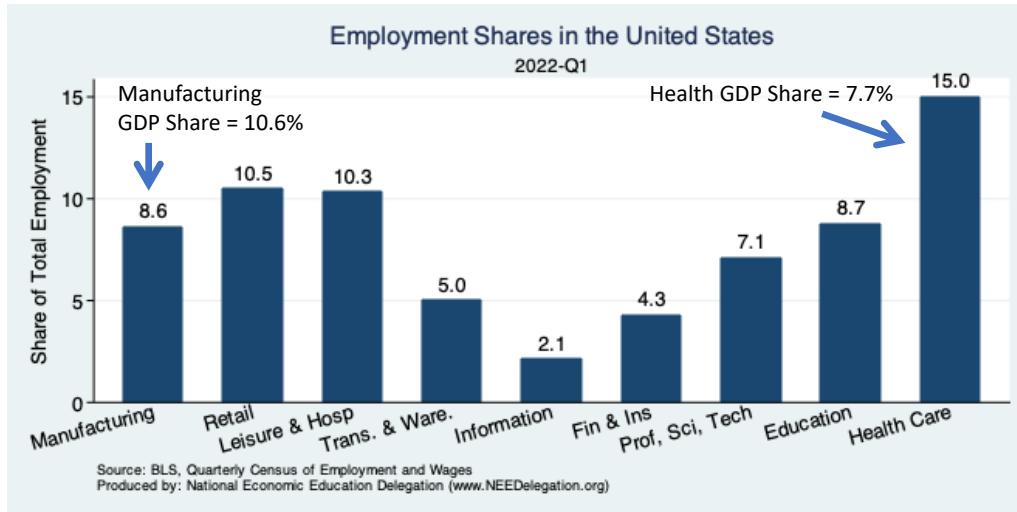


Composition of the U.S. Economy: 2021



Source: U.S. Bureau of Economic Analysis
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

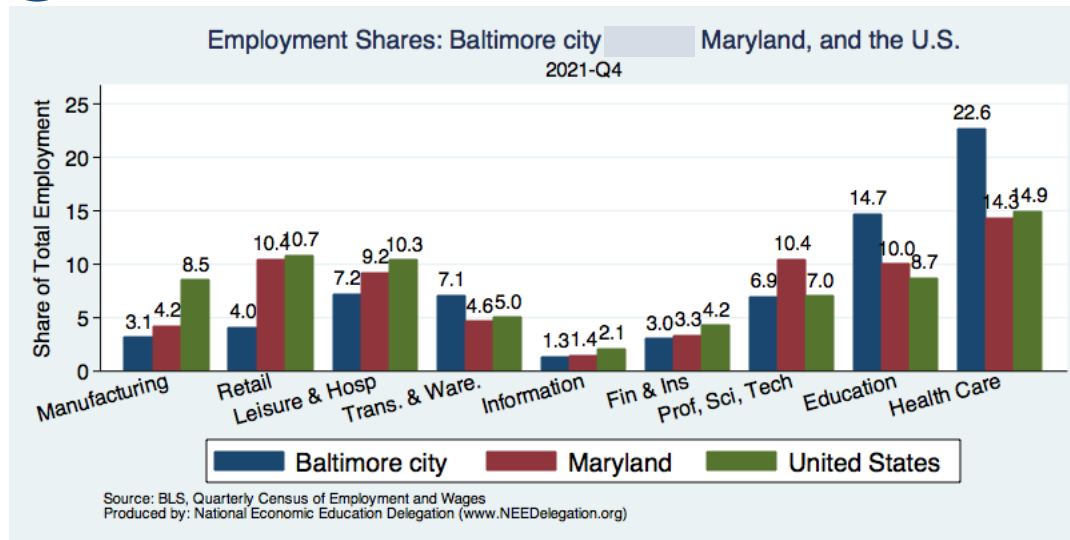
Composition of the U.S. Economy: Employment



Note: Does not add to 100% because of omitted sectors.

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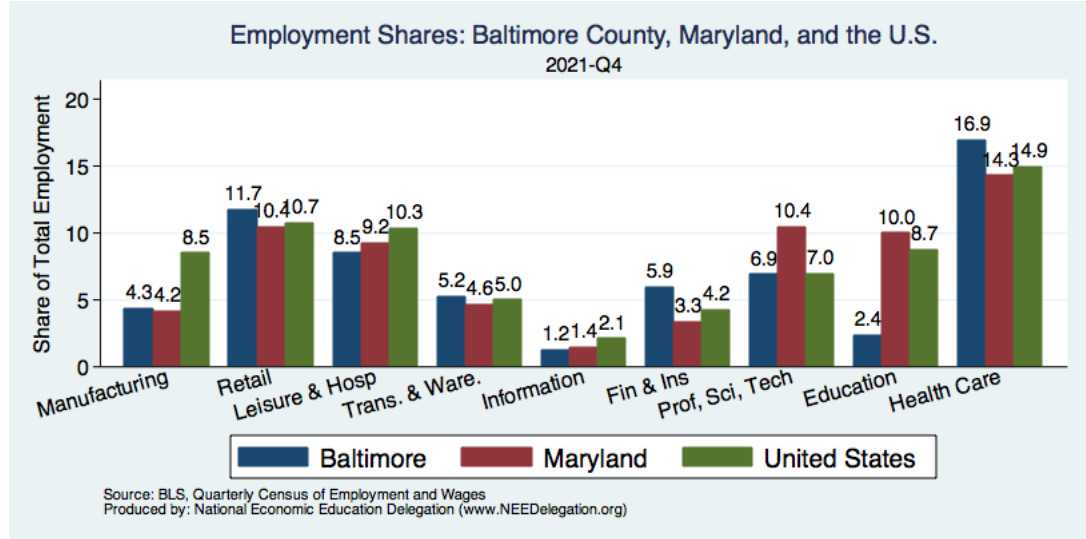
Employment in Baltimore CITY



Note: Does not add to 100% because of omitted sectors.

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Employment in Baltimore COUNTY



Note: Does not add to 100% because of omitted sectors.

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Recession(?)

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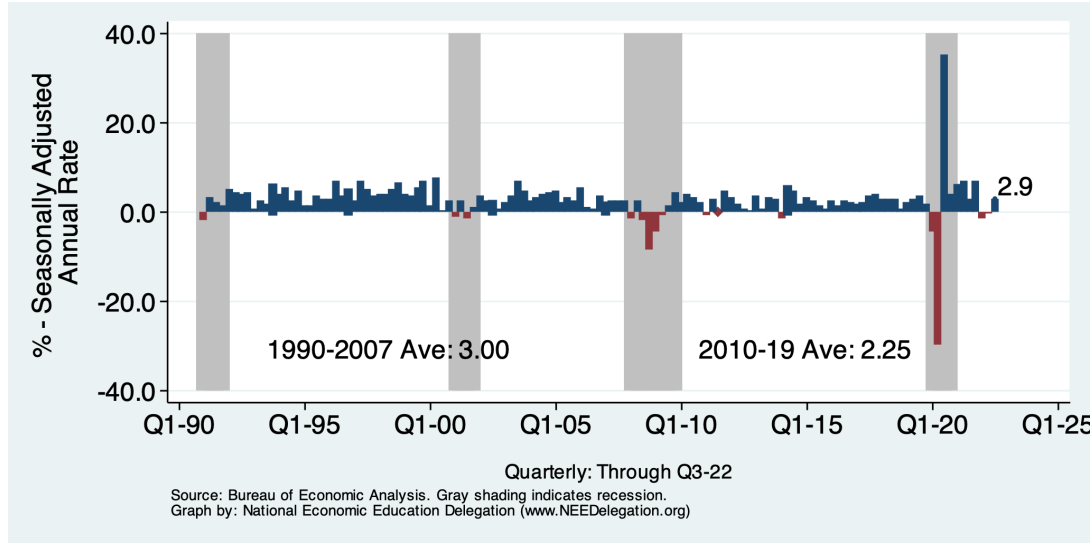
Headline:

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

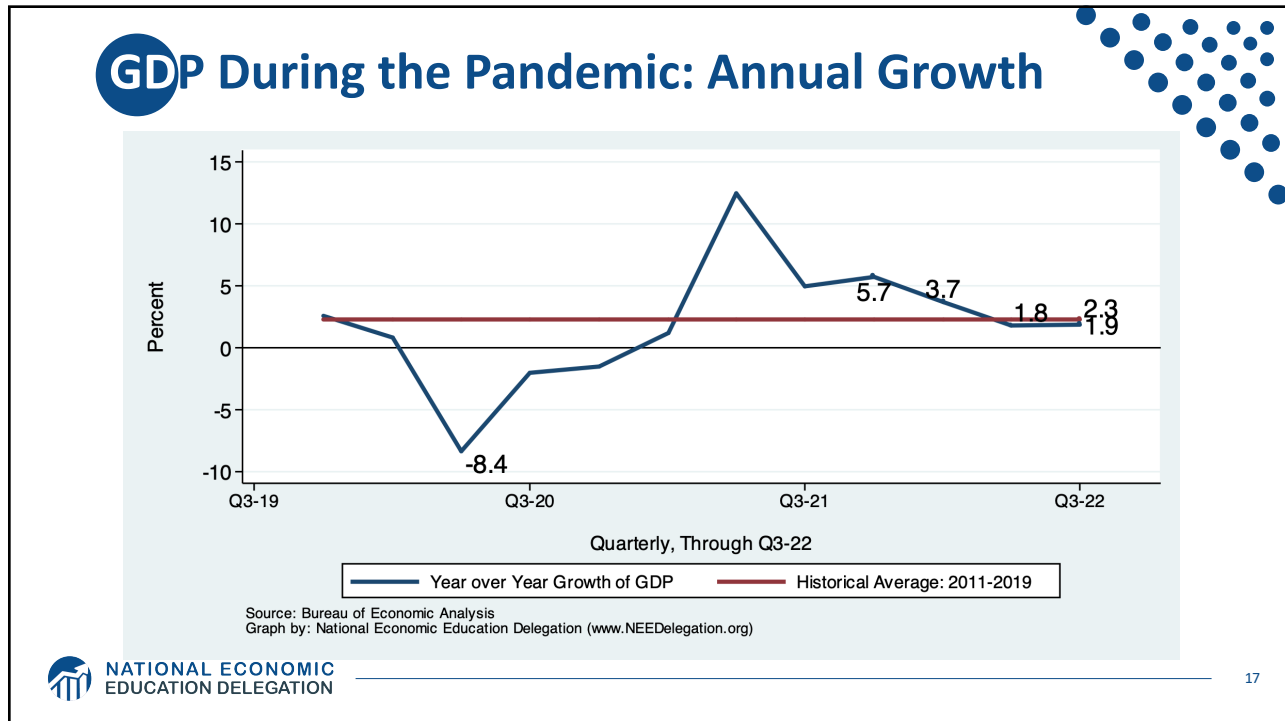
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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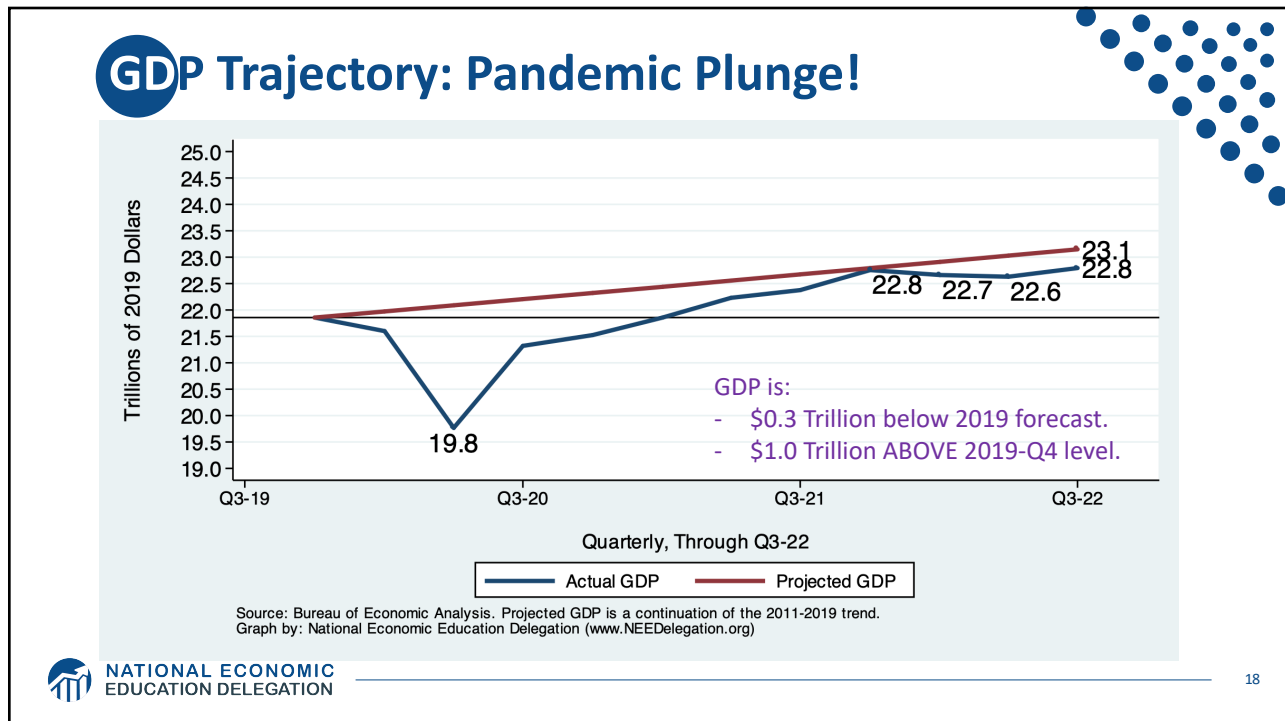
GDP: Quarterly Growth



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What “Accounted” for the Decline in Q1 & Q2?

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

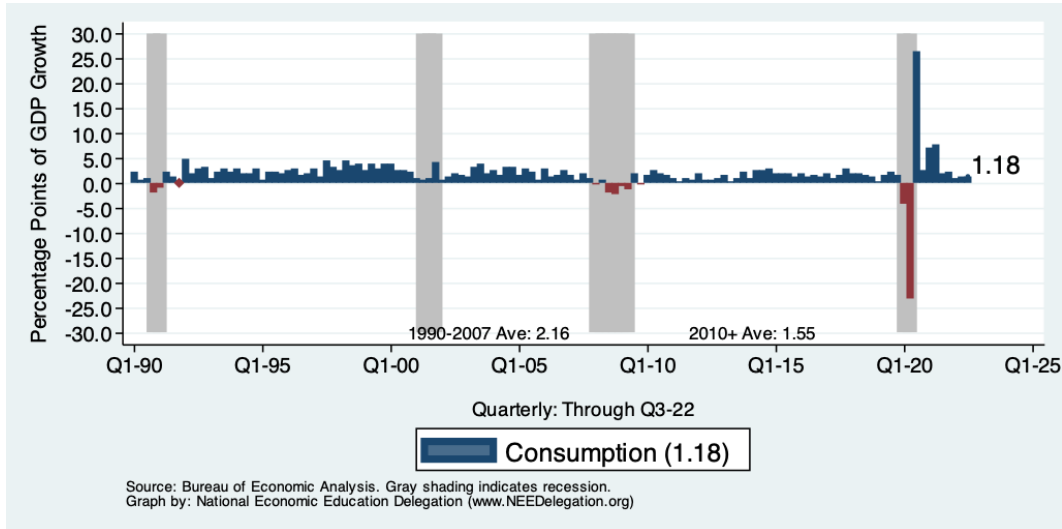


Recession? Two Quarters....

- **Depends on what is driving the drop.**
 - Inventories
 - Housing
 - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**

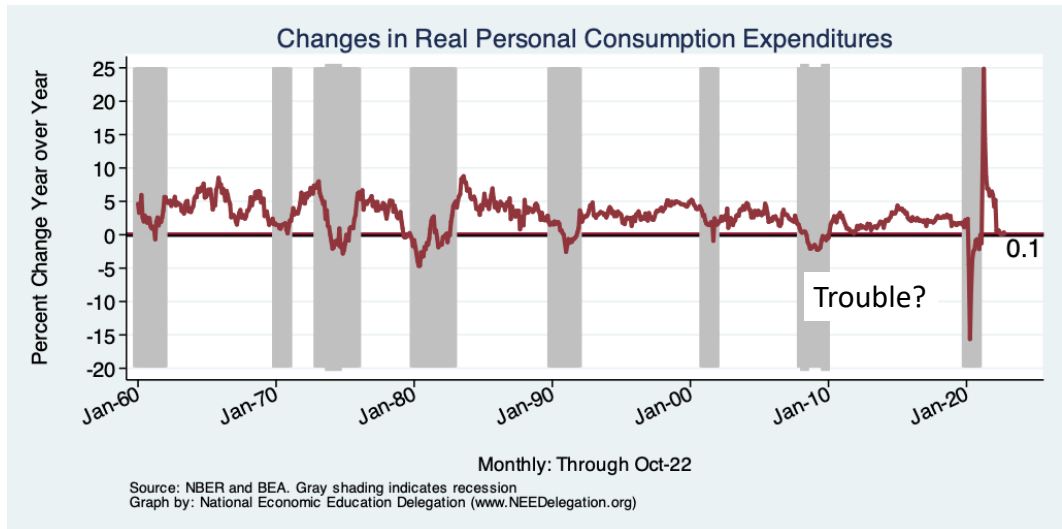


Contribution to GDP Growth: Consumption



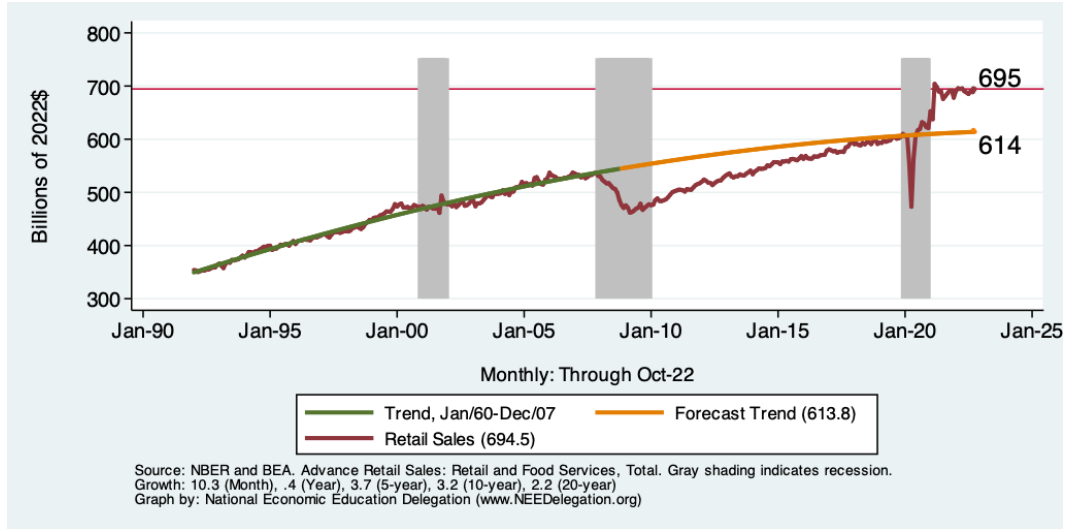
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Personal Consumption Expenditures



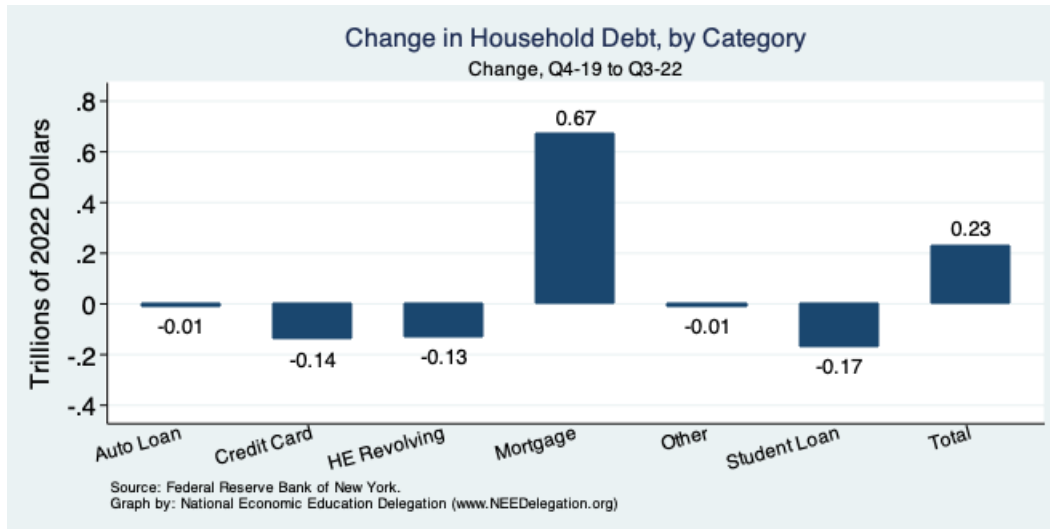
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Retail Sales



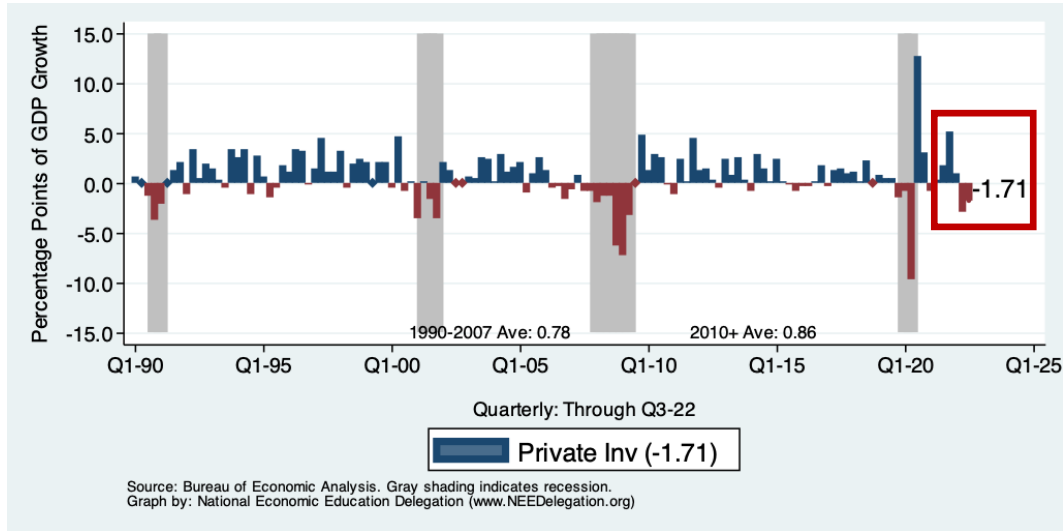
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Household Debt: Change During the Pandemic



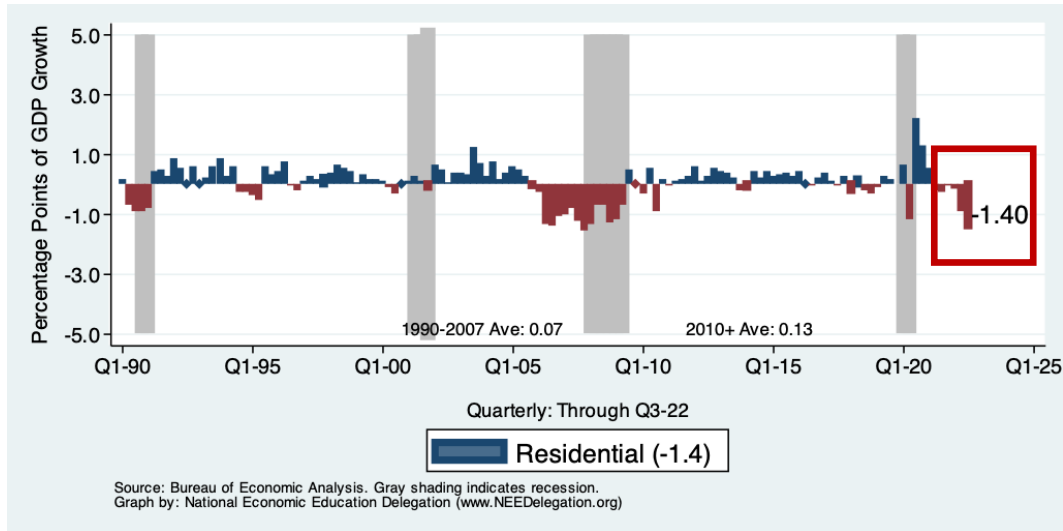
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Contribution to GDP Growth: Inventories



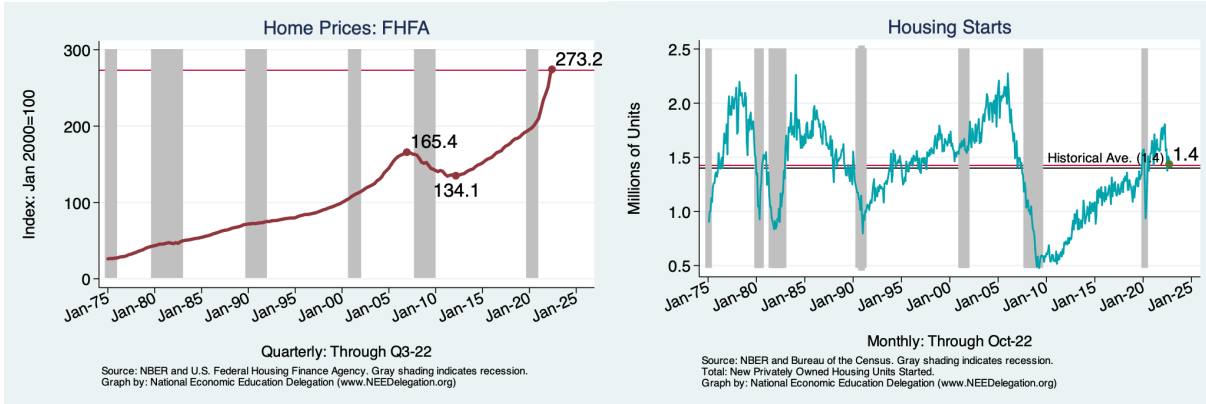
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Contributions to GDP: Residential Investment



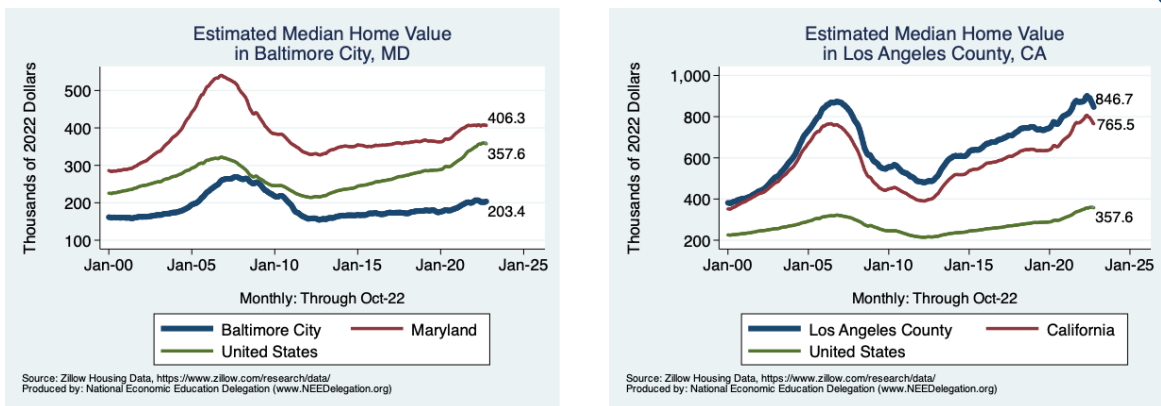
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Home Prices and Housing Starts



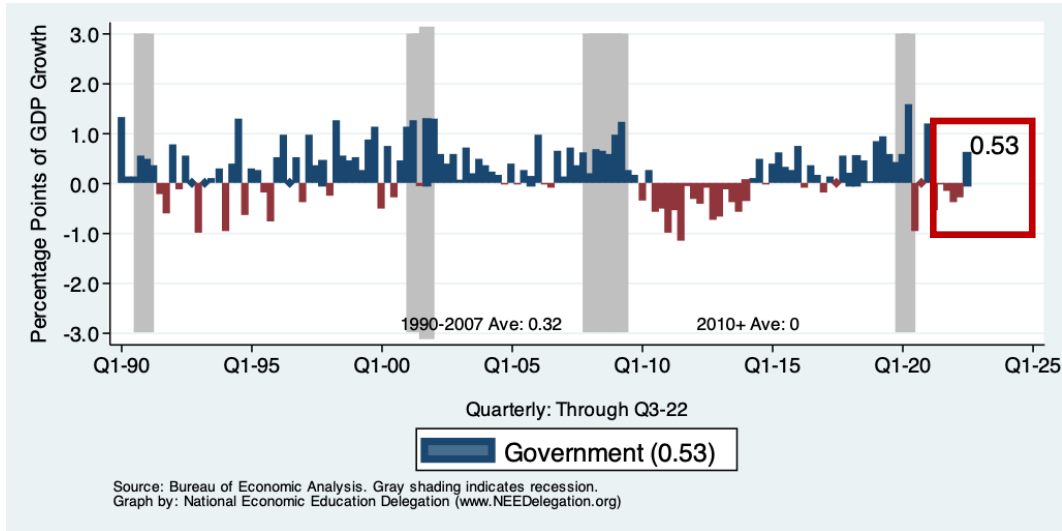
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Home Prices ... Depends on Where You Are



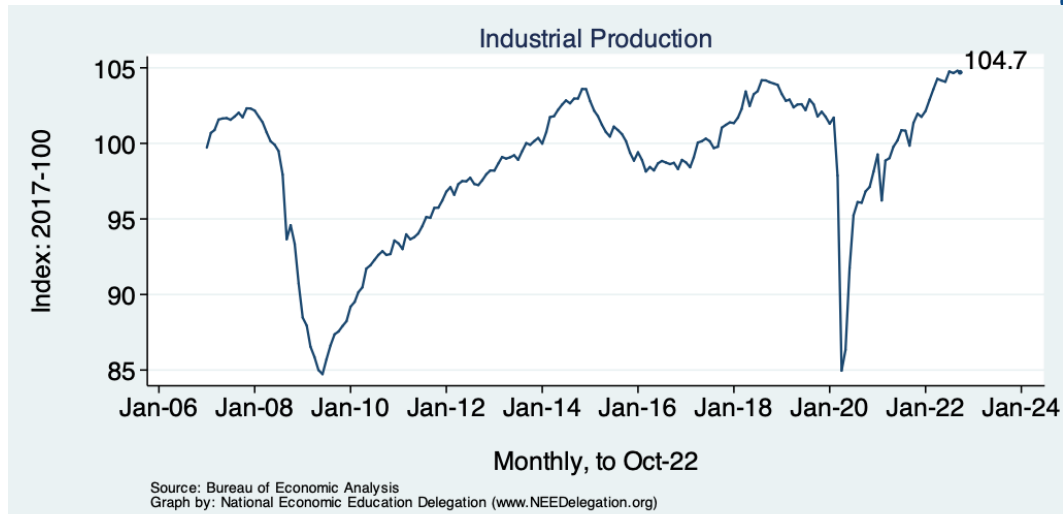
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Contributions to GDP: Government



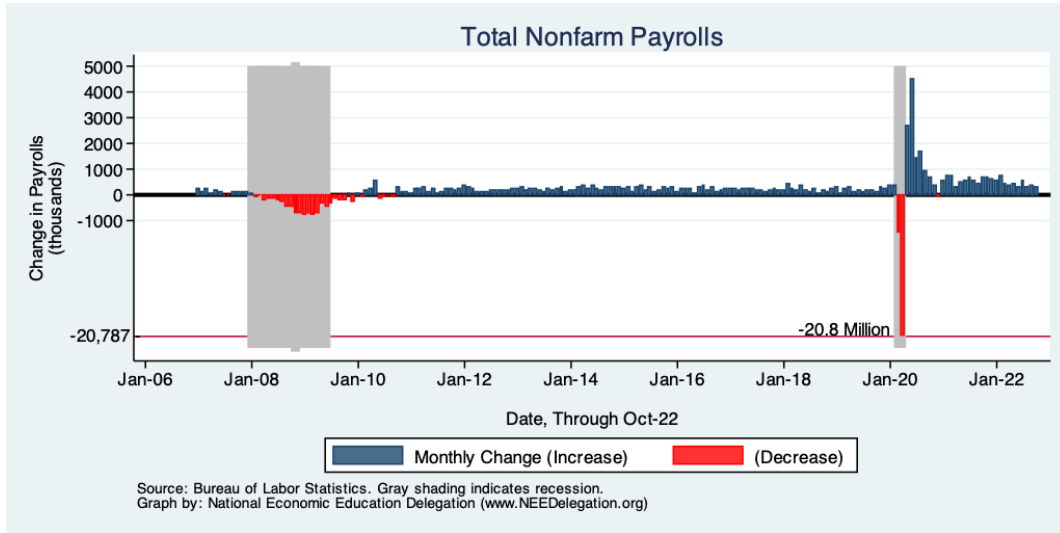
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Industrial Production (Manuf, Util, Mining)



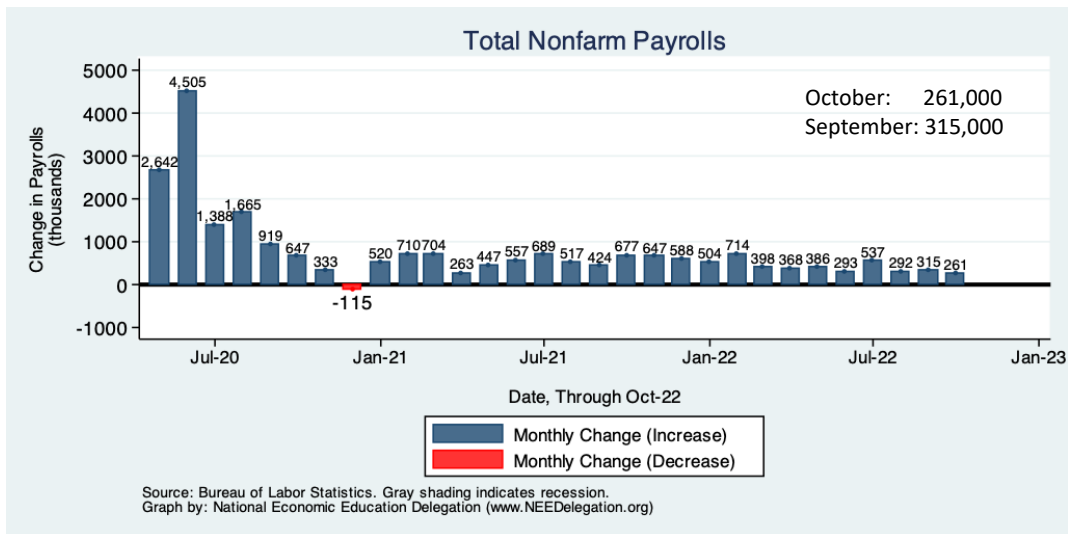
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Monthly Changes in Nonfarm Employment



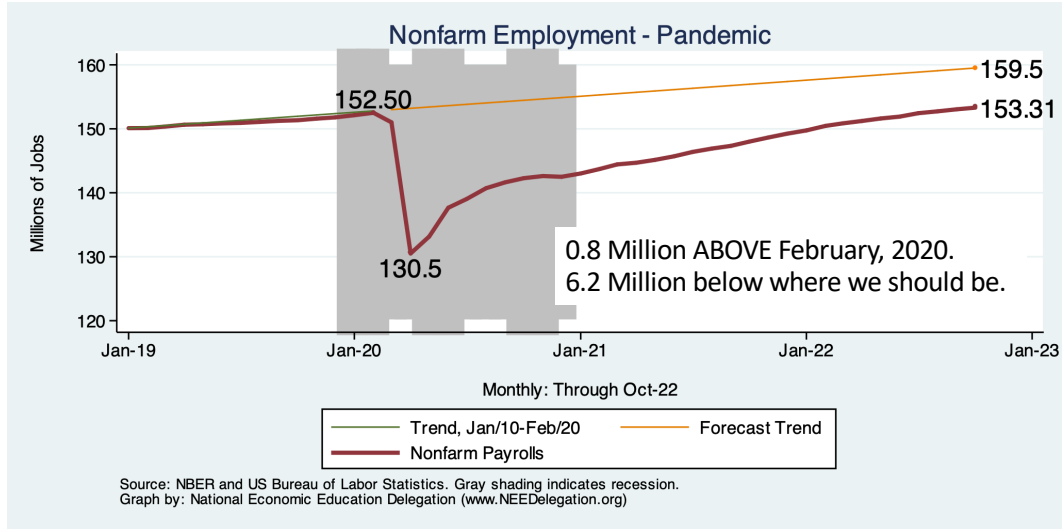
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Monthly Changes in Nonfarm Employment



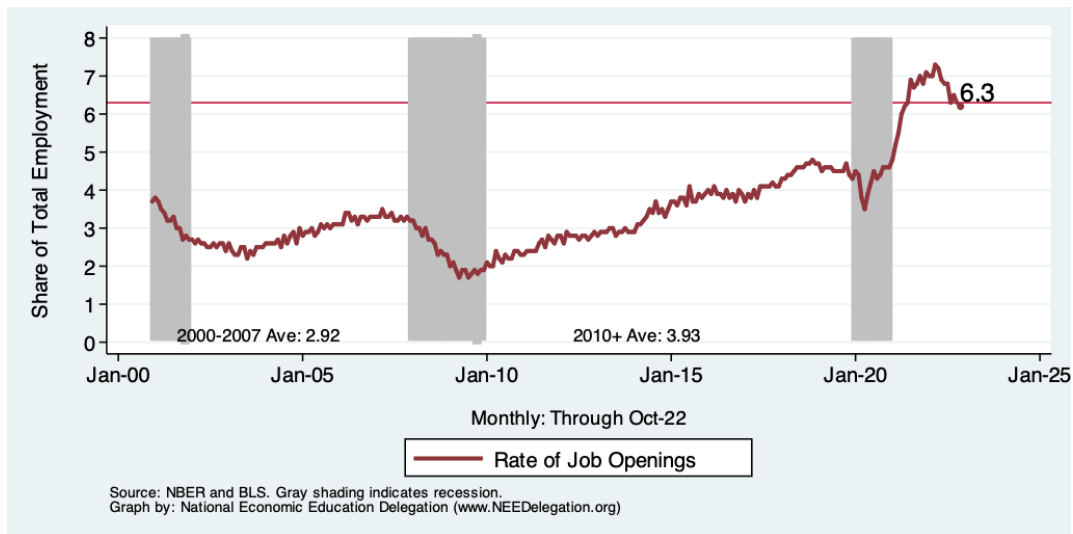
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Employment Gap



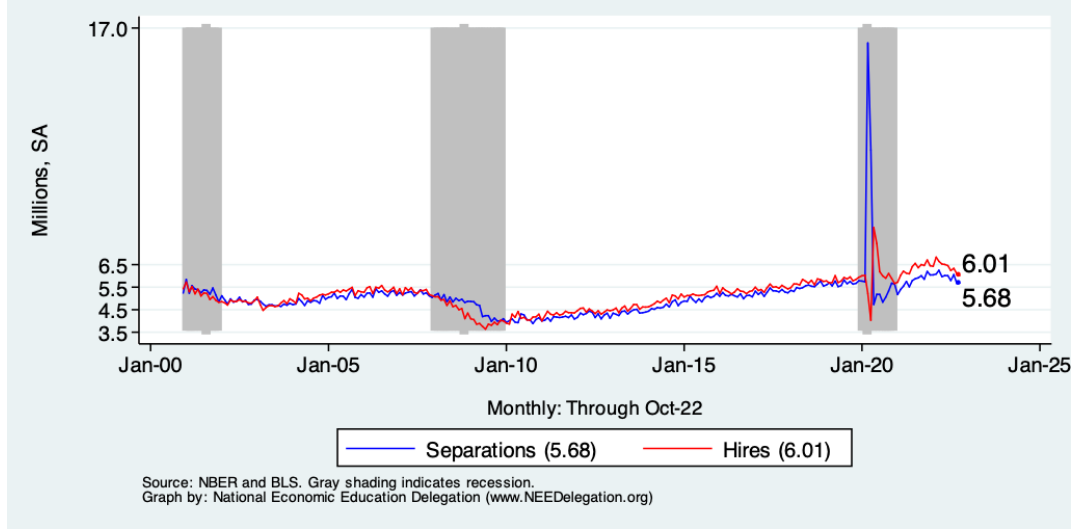
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Job Openings: Share of Total Employment



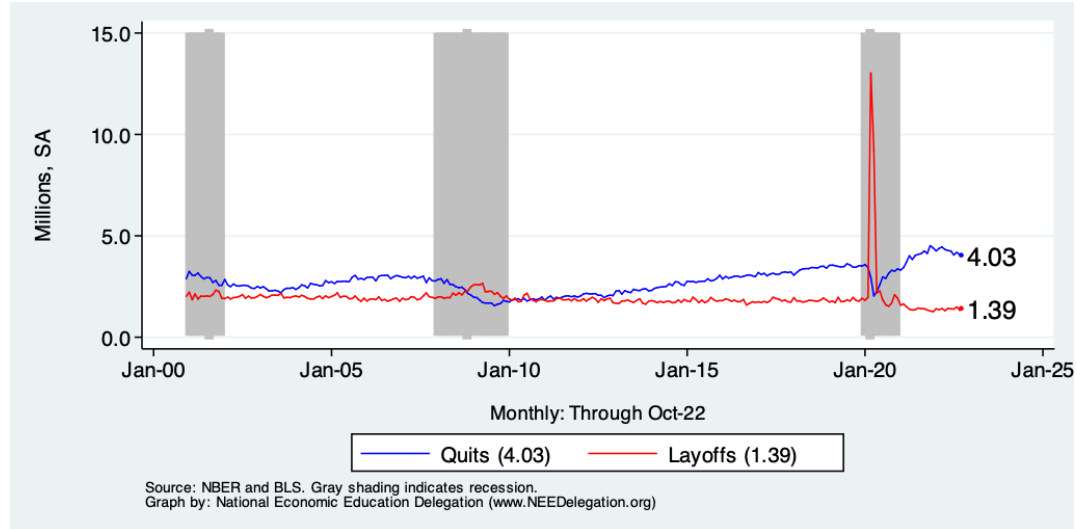
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Job Hires and Separations

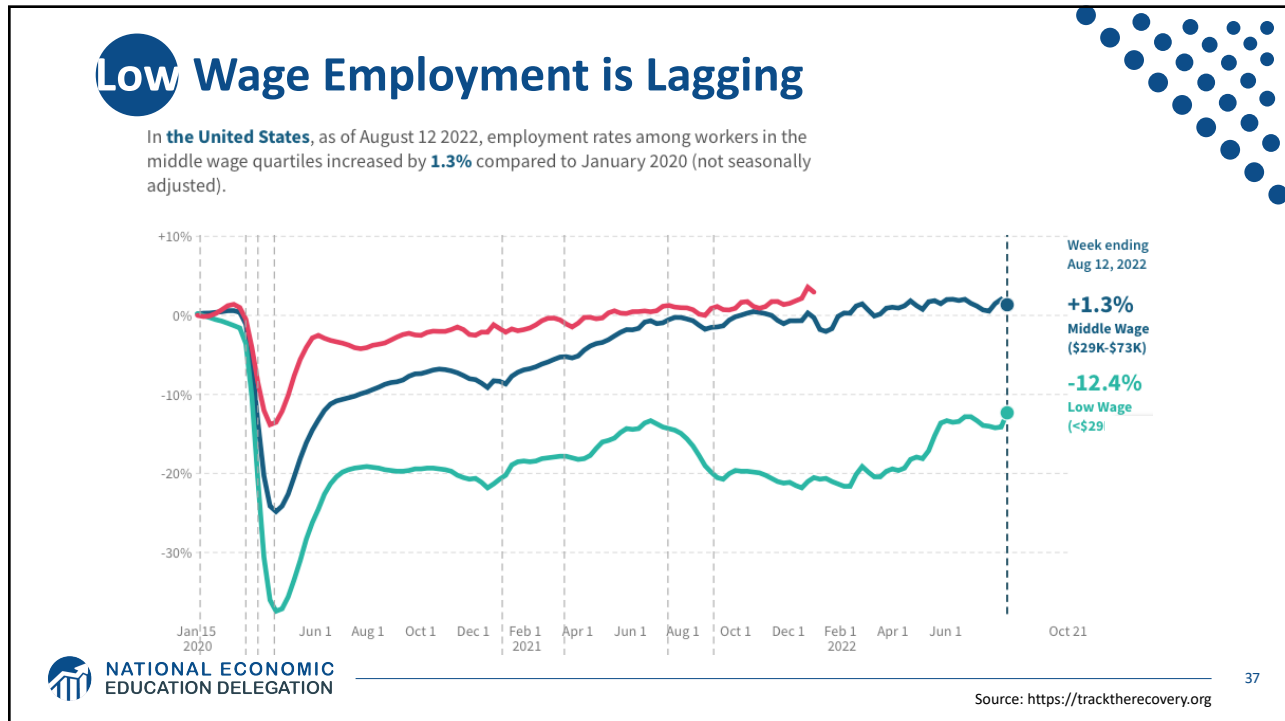


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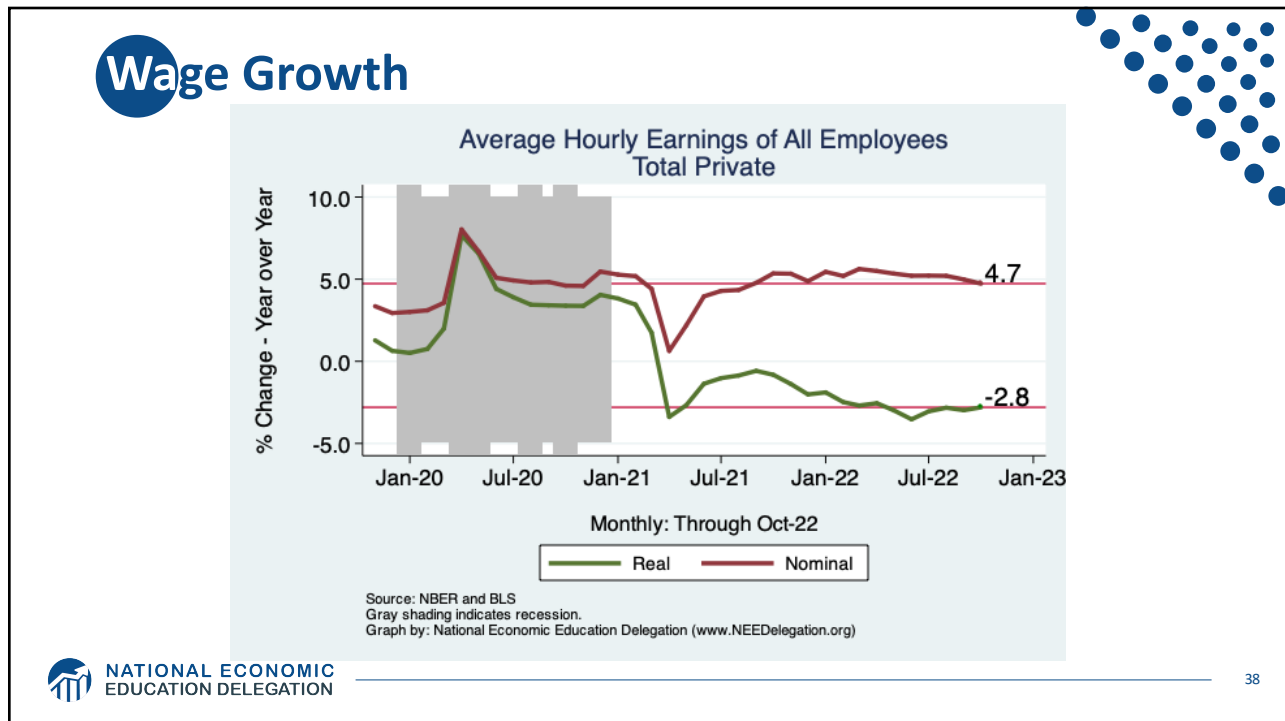
Separations: Quits and Layoffs



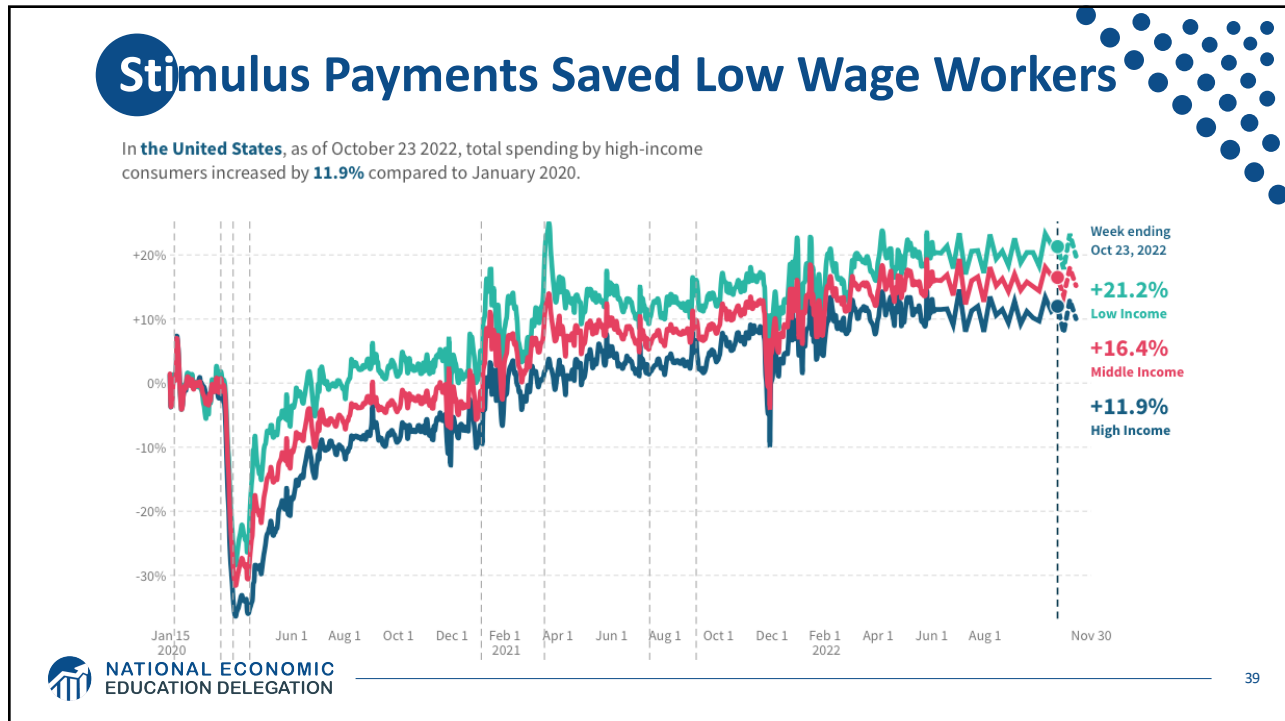
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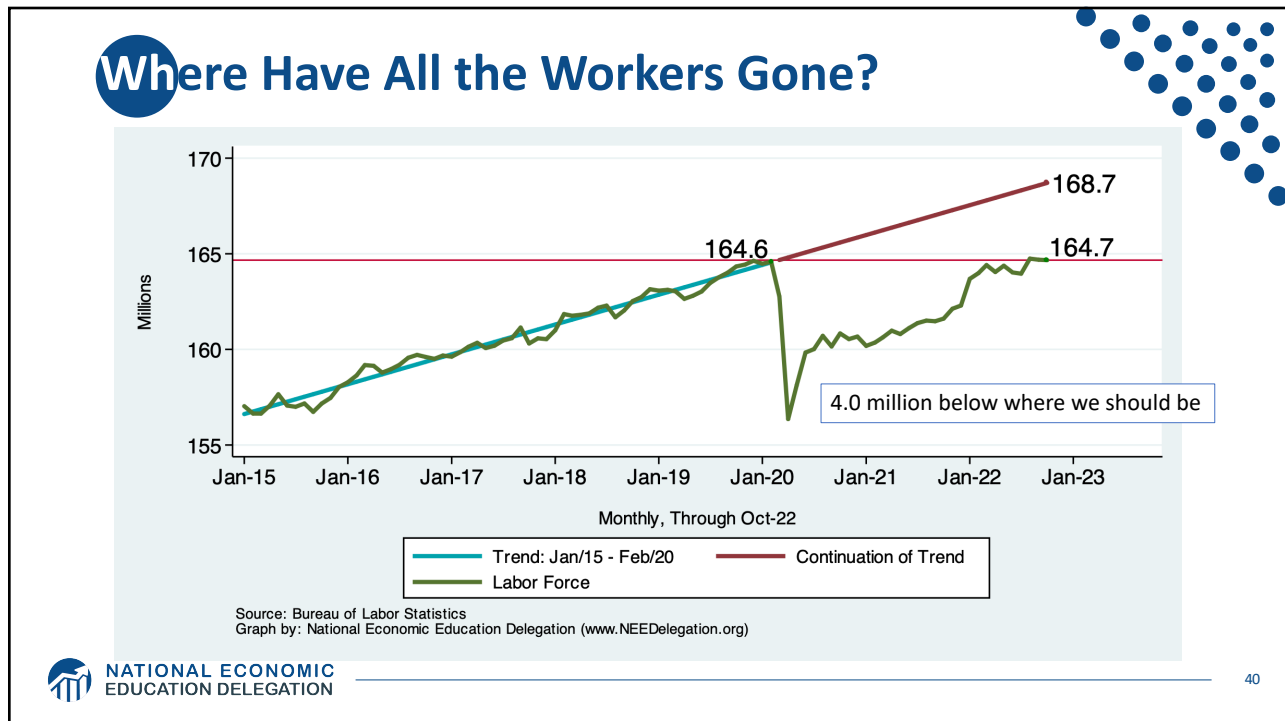
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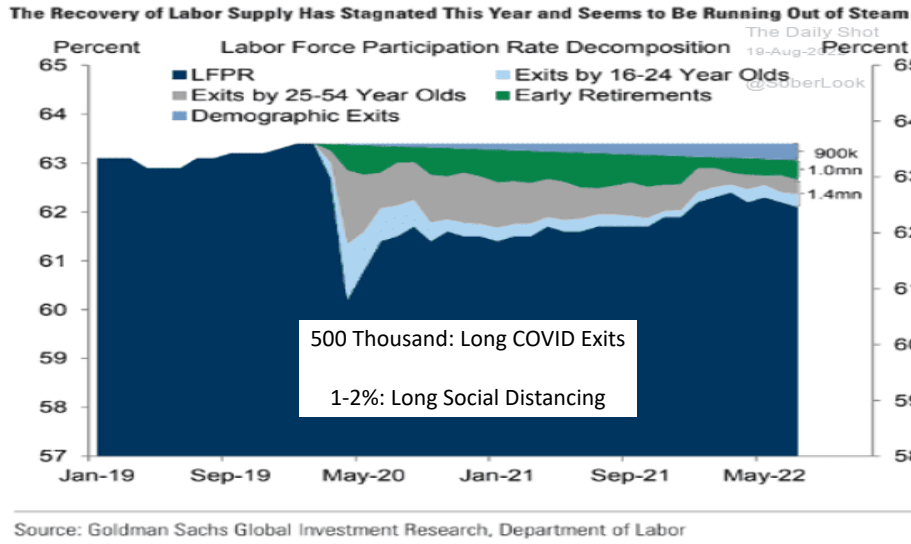


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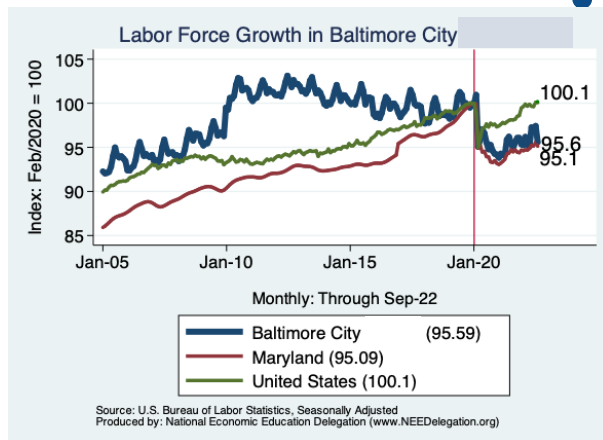
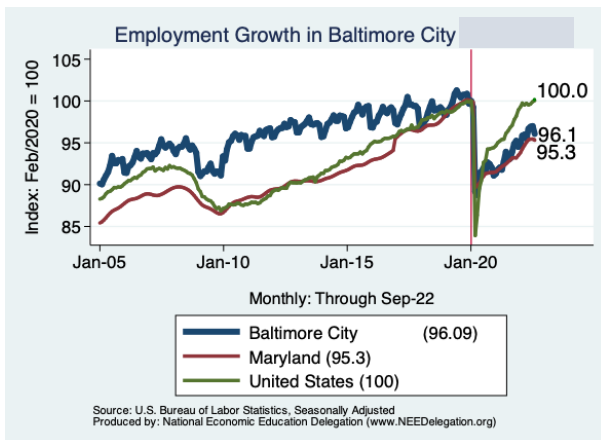
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Some Explanations



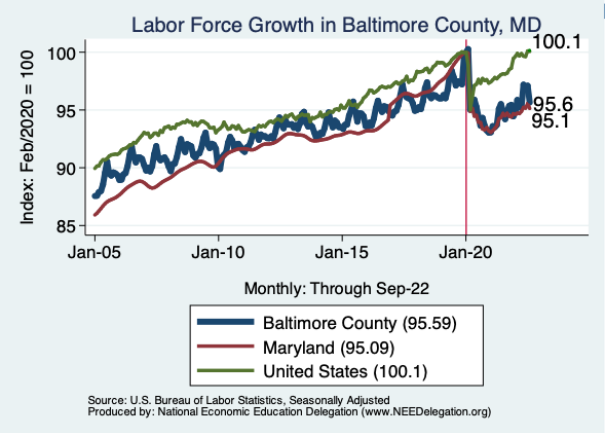
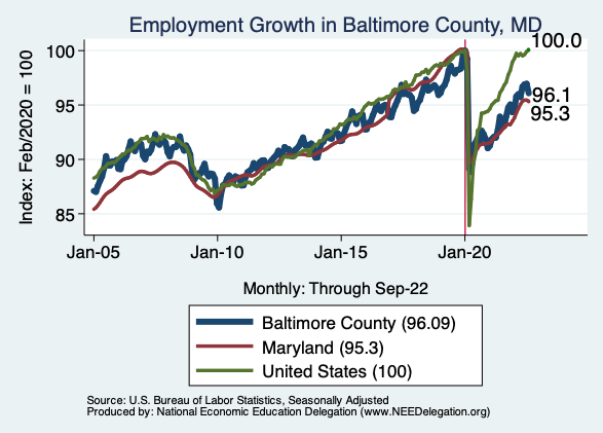
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How Are Things Where You Are?



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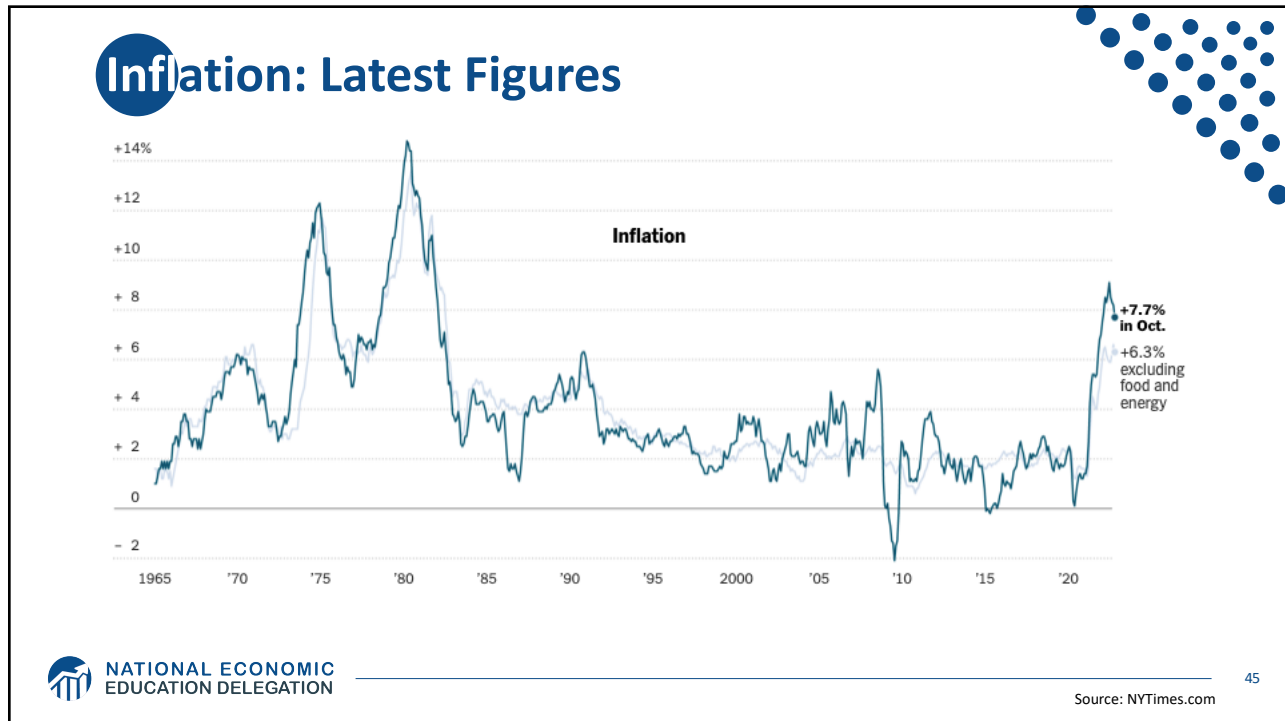
How Are Things Where You Are?



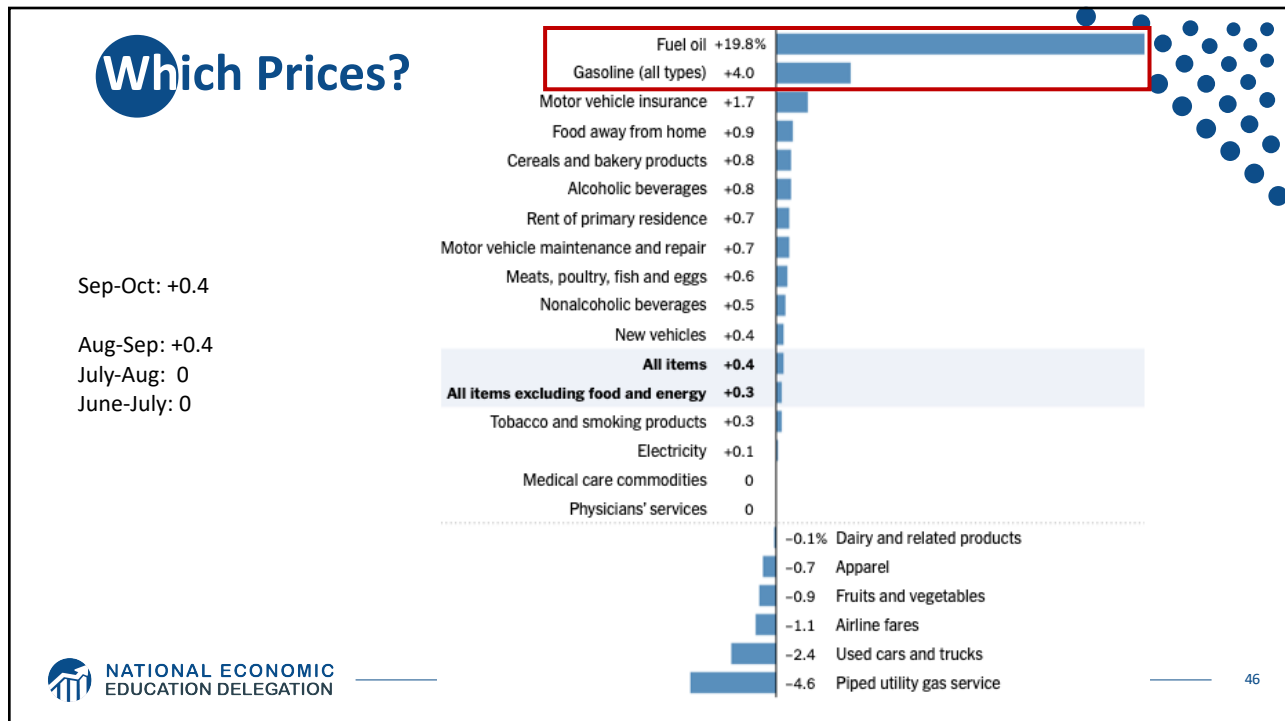
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Inflation

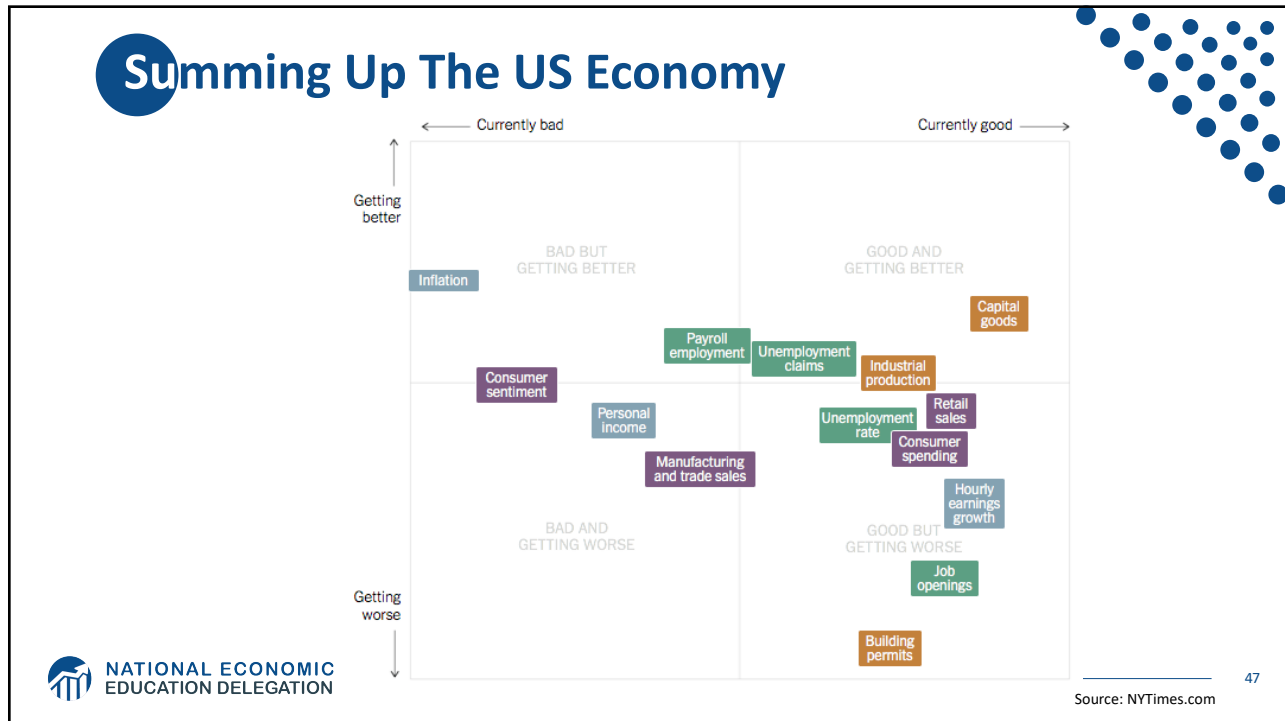
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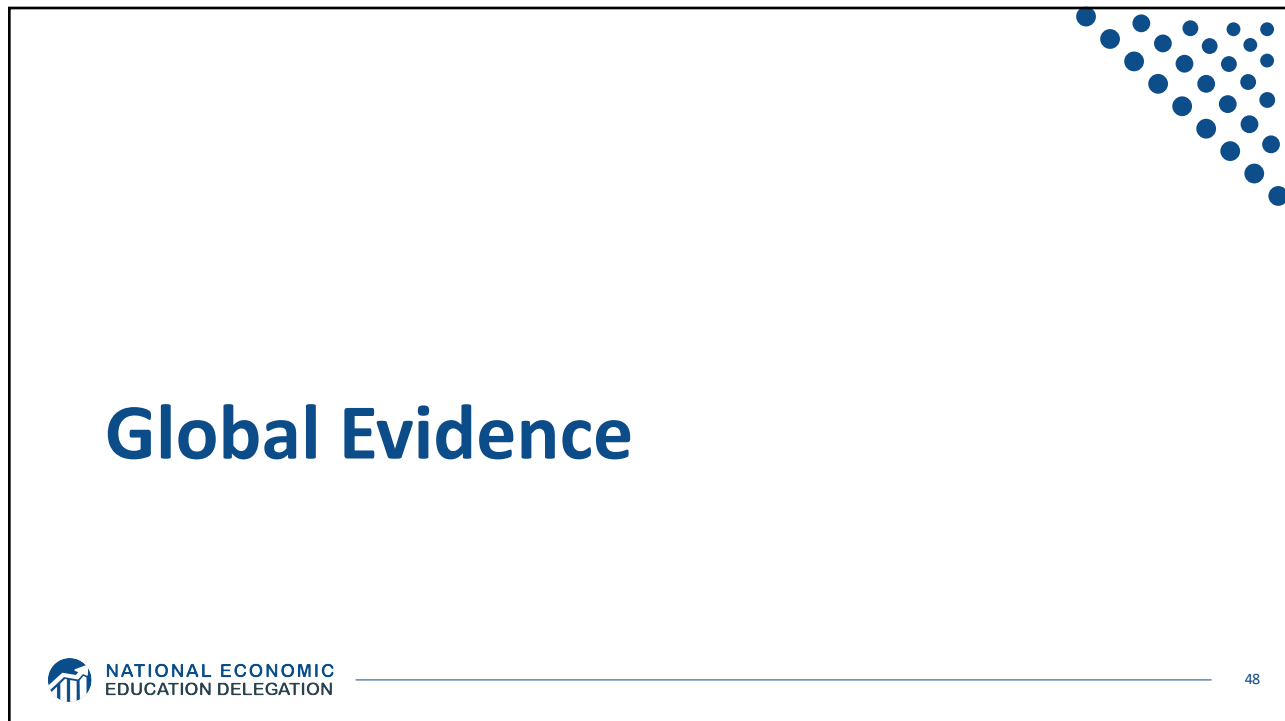
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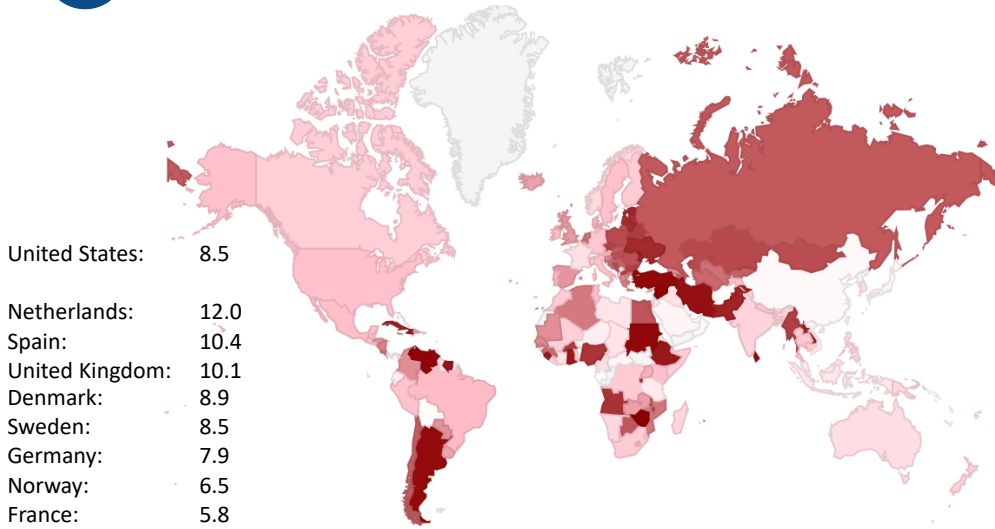


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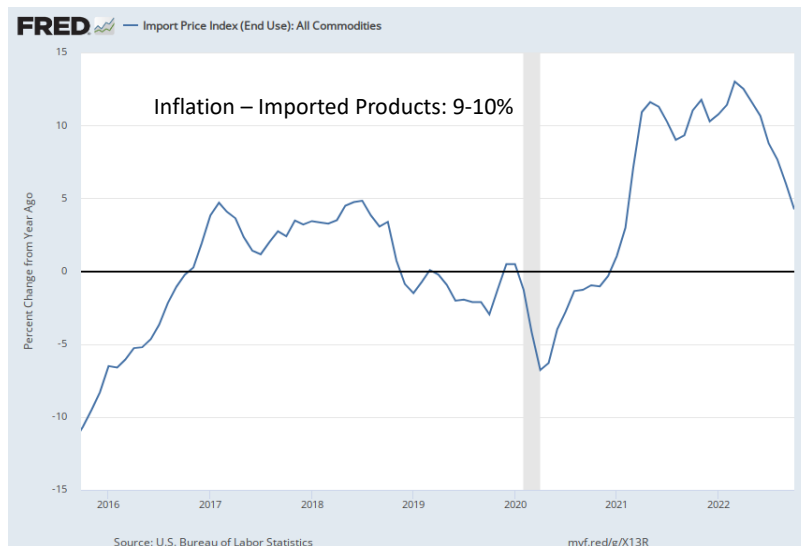
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Inflation: Not just a US Problem

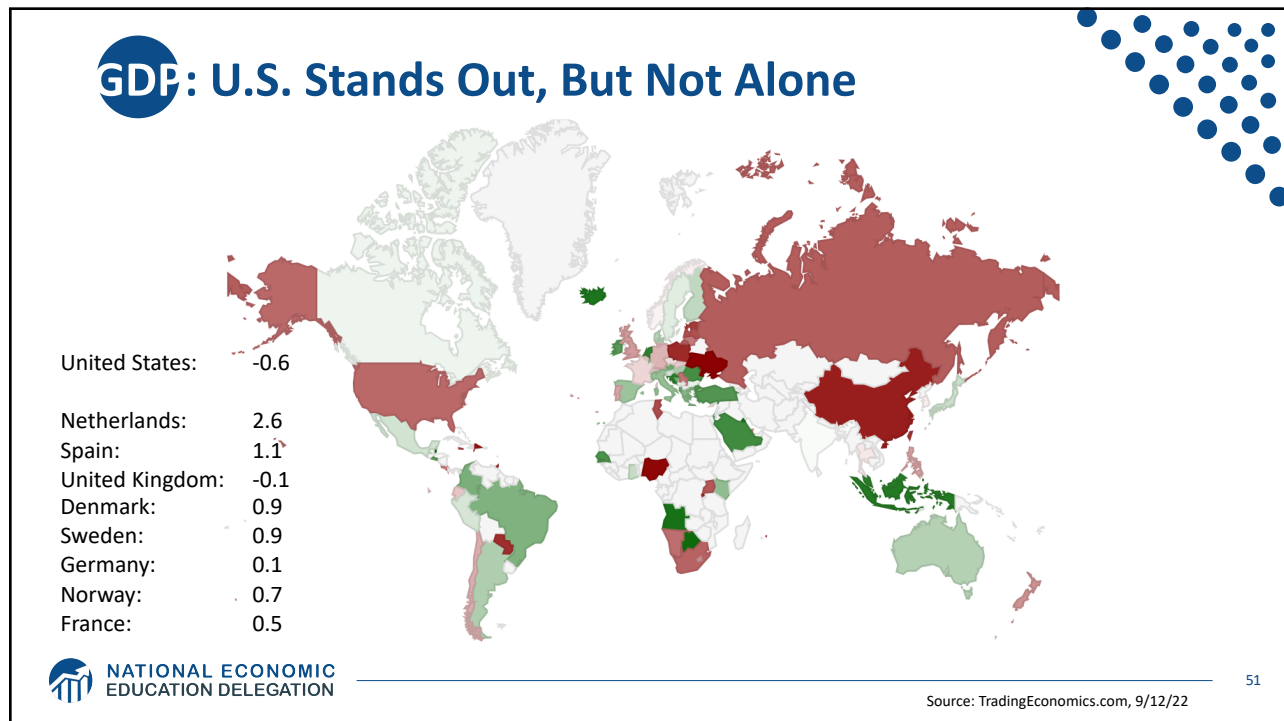


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Import Prices Are Elevated



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Global Summary

- **Developed economies are uniformly down.**
 - Not entirely a surprise. Went through the same pandemic gyrations:
 - Supply chain issues.
 - Import prices are way up.
- **Somewhat surprising because the economic responses varied across countries.**
 - All used stimulus, but US used MUCH more.
- **Inflation – tale of two sources:**
 - United States – much more one of elevated demand.
 - Europe – much more one of food and energy prices (war).

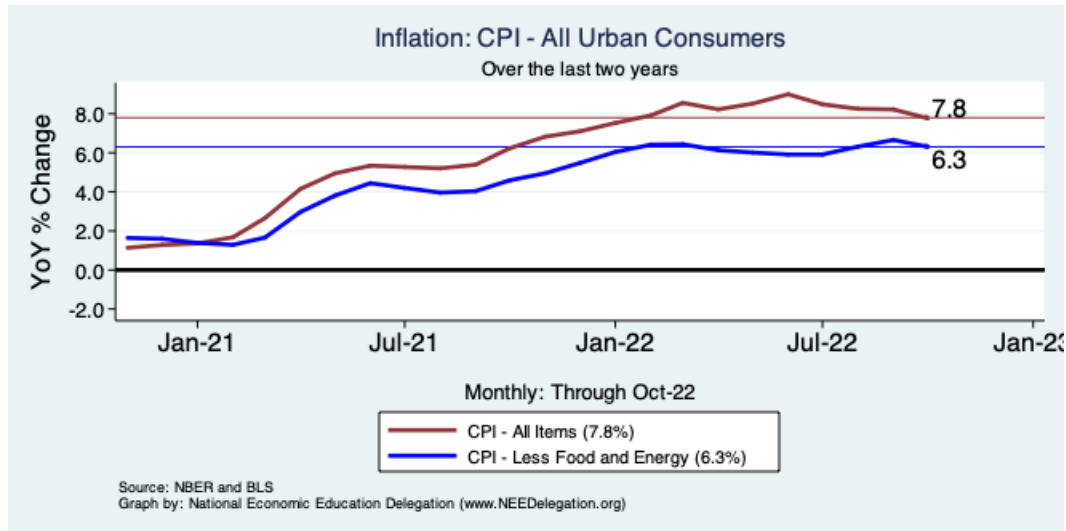
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Inflation: A Closer Look

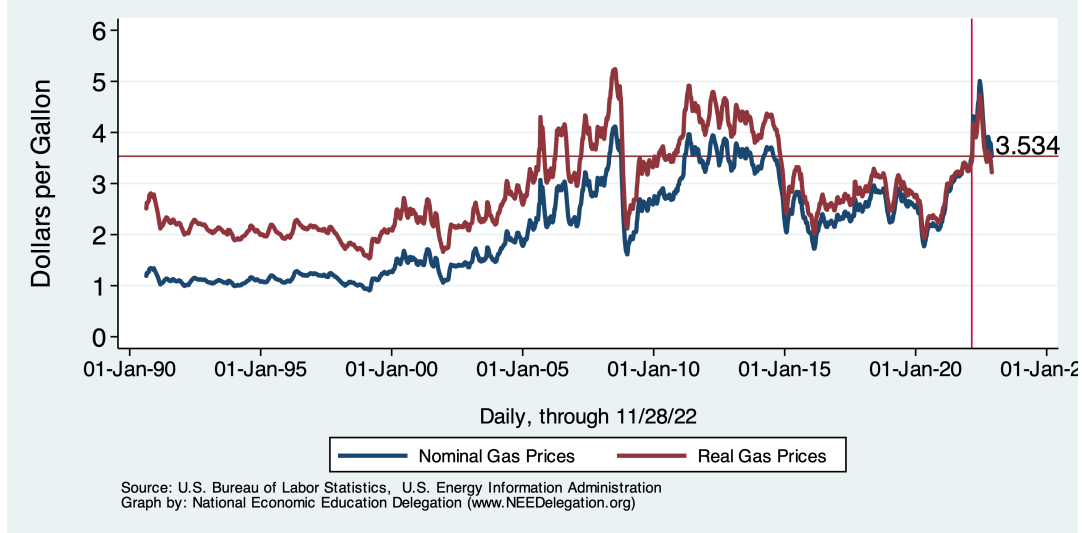
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Inflation – Climbing! Or Turning Around?



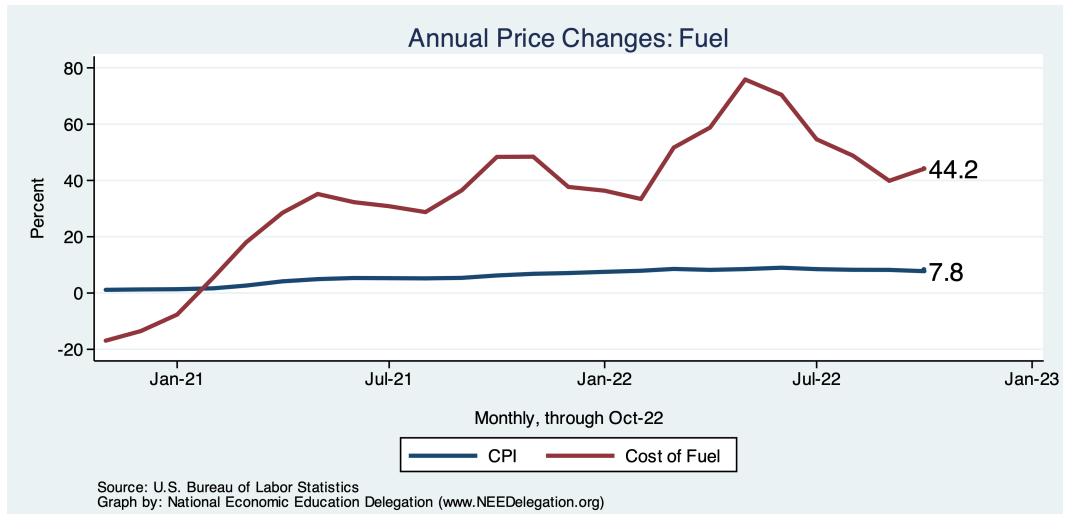
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Gas Prices: National Average at the Pump



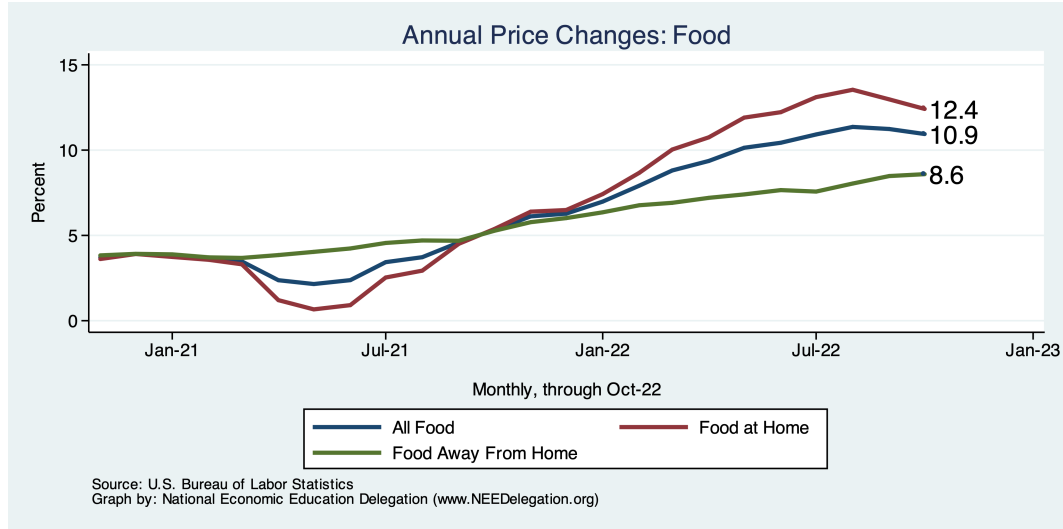
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Fuel Costs Are Still Elevated



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Food Costs Continue to Rise



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How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

Demand-Pull



When demand for goods/service exceeds production capacity.

Cost-Push



When production costs increase prices.

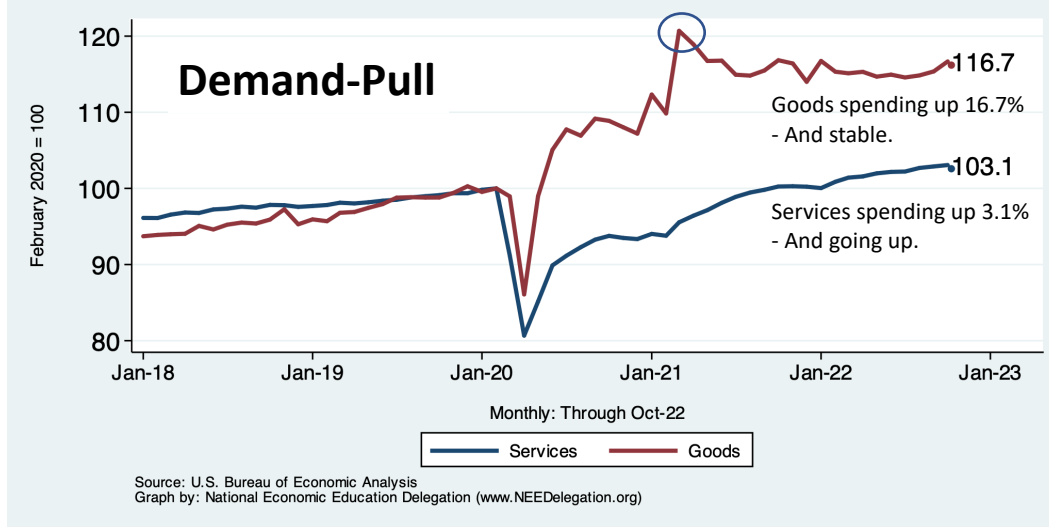
Built-In



When prices rise, wages rise too, in order to maintain living costs.

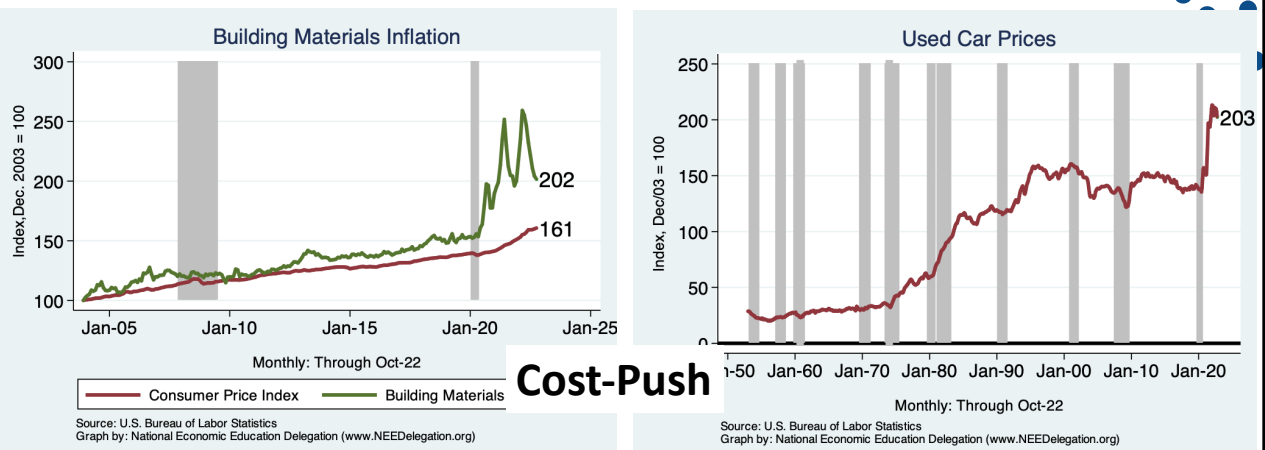
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Spending Patterns Changed - More Goods!



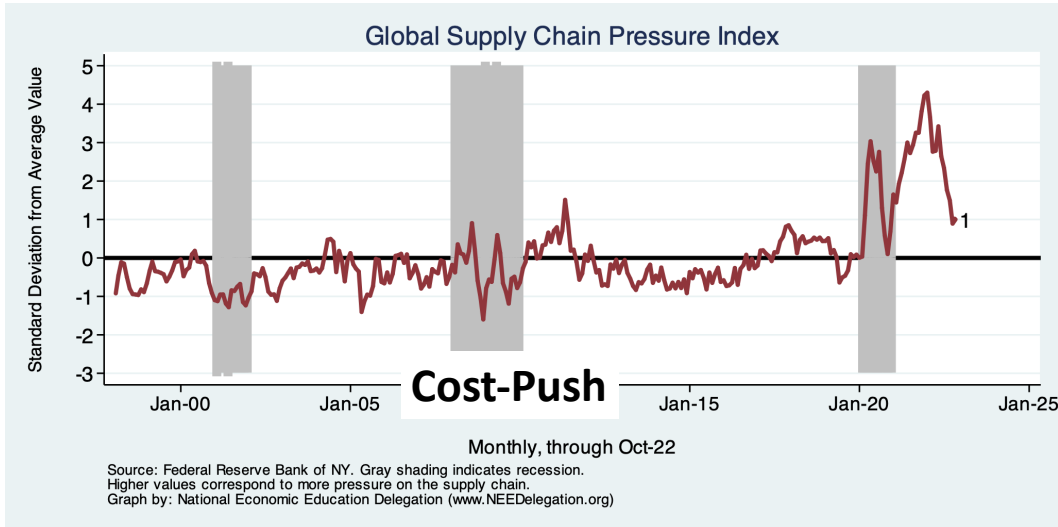
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Inflation: Concentrated



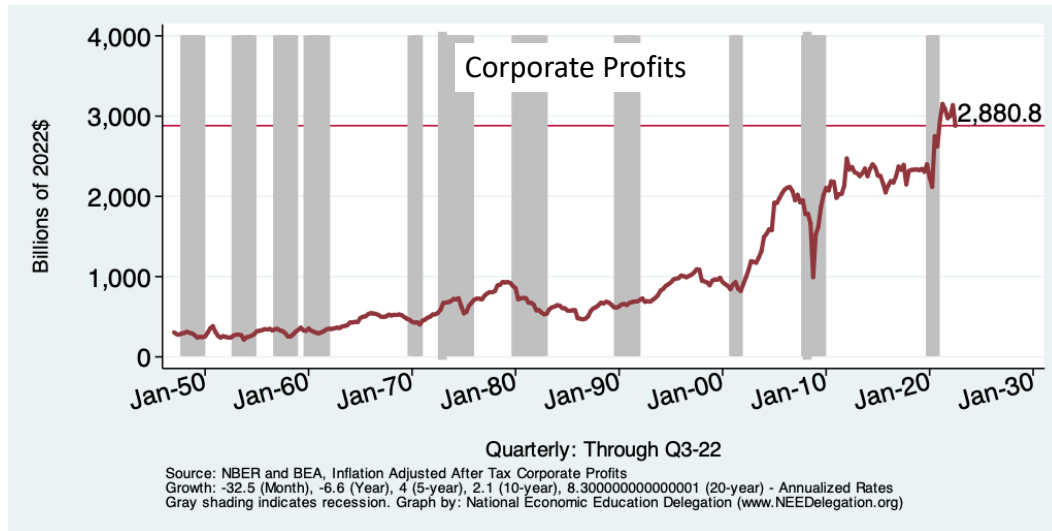
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Supply Chains



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Corporations Have Pricing Power!



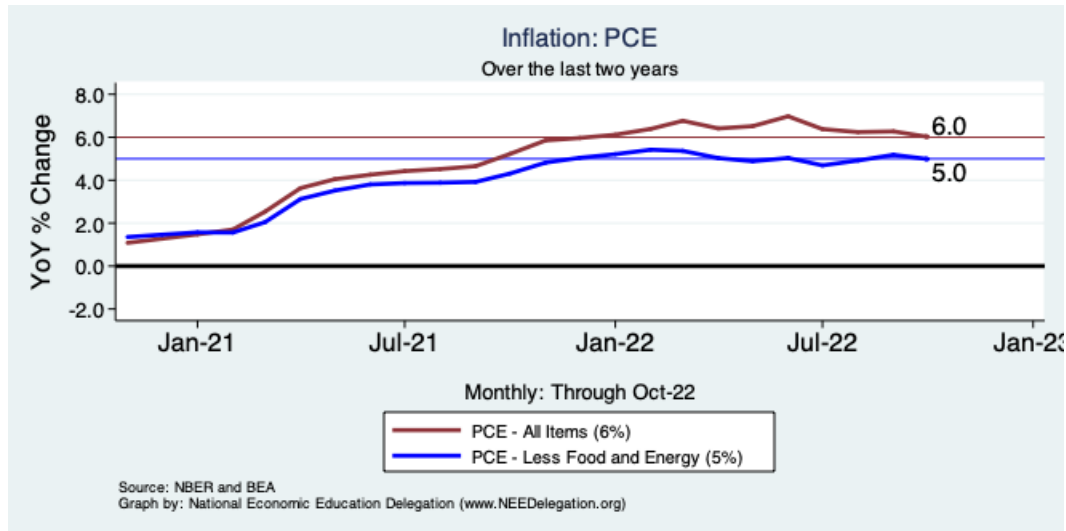
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My Diagnosis for the Uptick in Inflation

- Spending patterns have changed dramatically.
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- Corporations have used the cover of inflation to raise prices more.
- But there was also too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.
 - International forces.

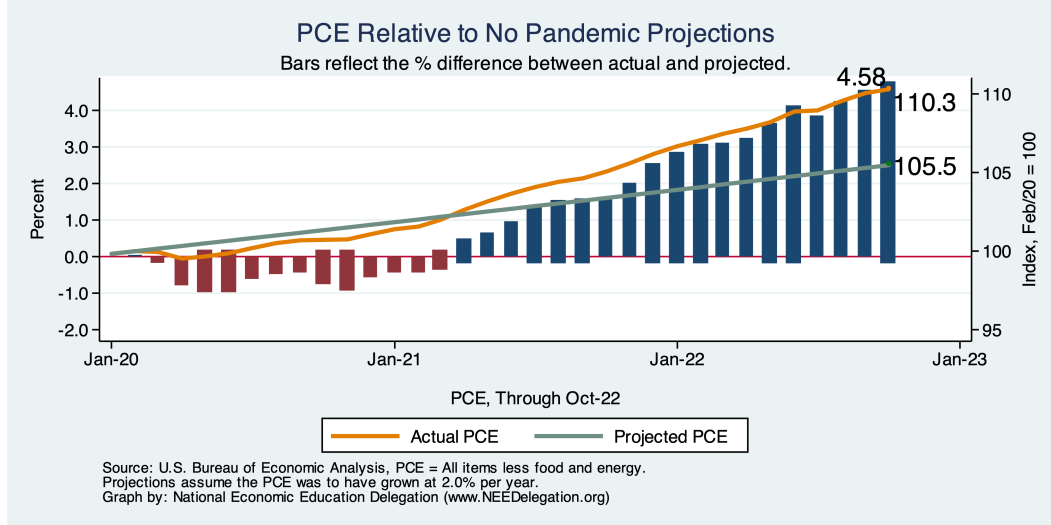
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Inflation – The Fed’s Metric



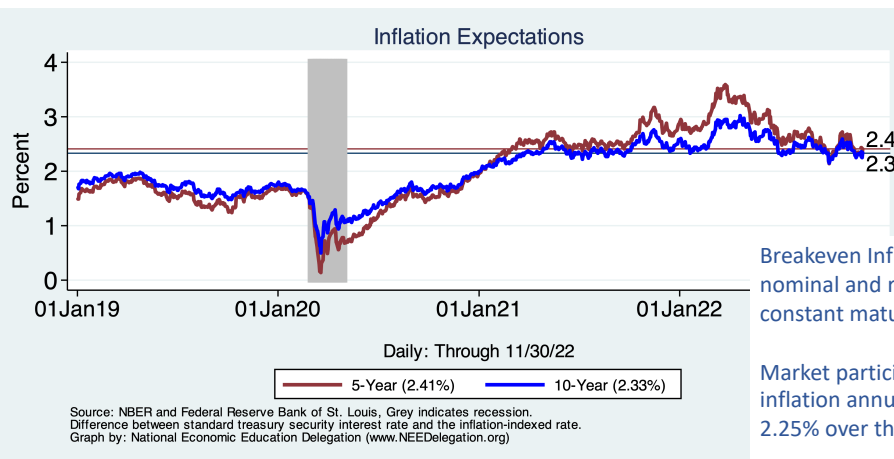
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Inflation – PCE and Fed Suggest: I don't know.



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Measure of Inflation Expectations



Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.2% inflation annually over the next 10 years and 2.25% over the next 5 years.

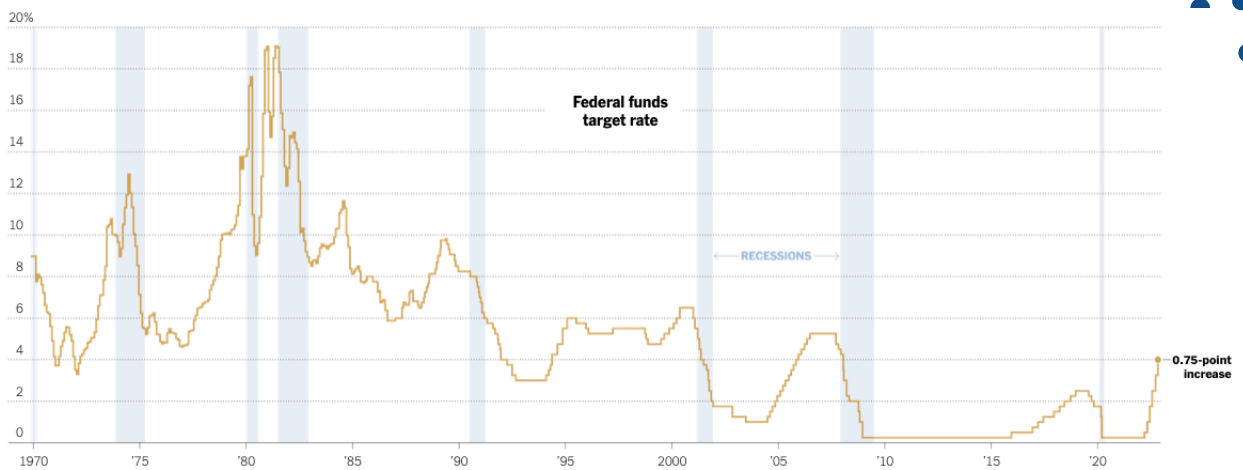
Inflation expectations are calming down.

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What's the Fed Doing About It?

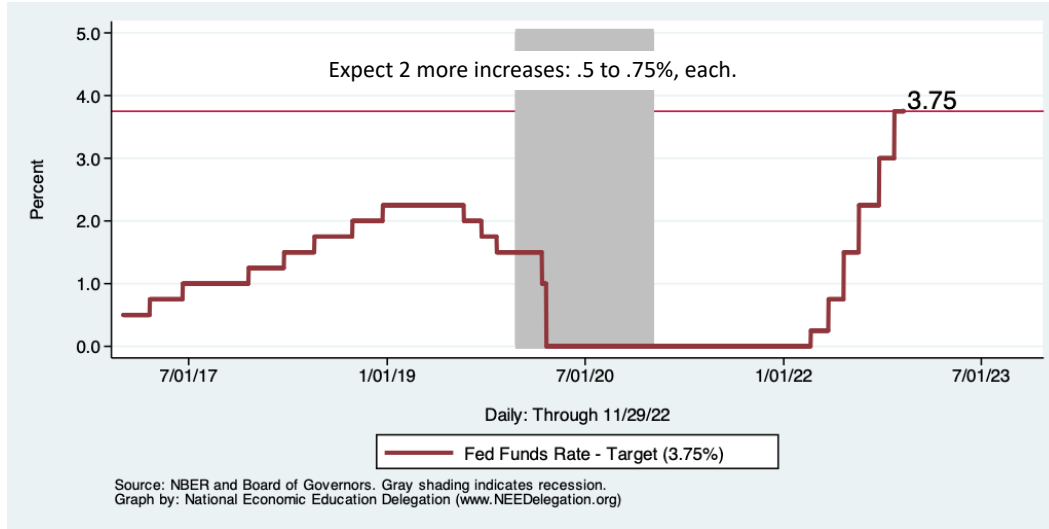
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Federal Funds Rate

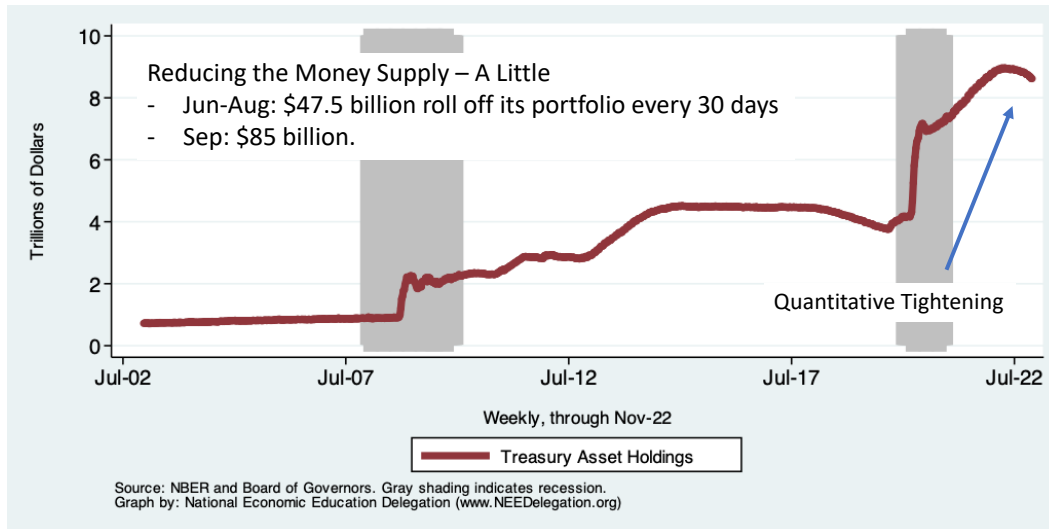


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Federal Funds Rate – Recent Activity



Fed: Also Reducing its Asset Holdings

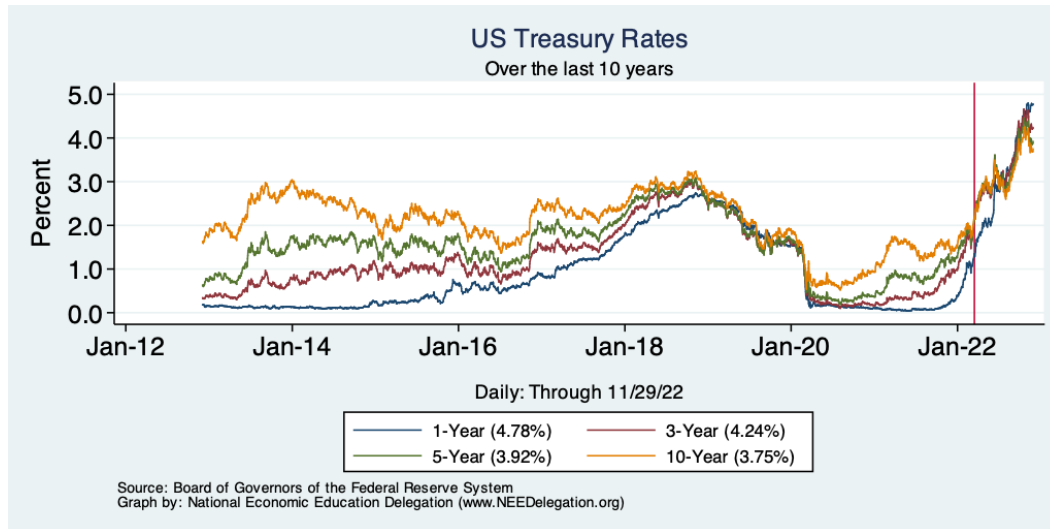


Implications for Demand

- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

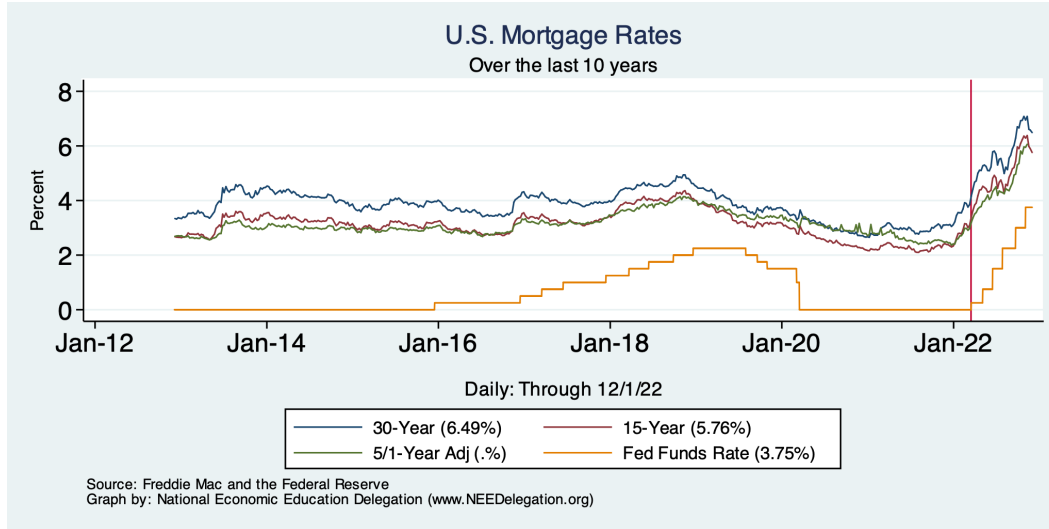
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Treasuries



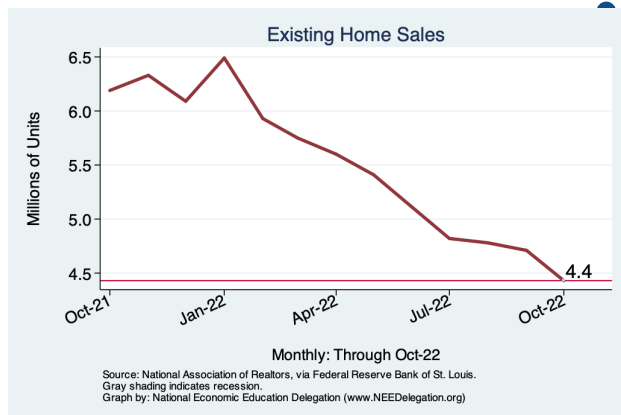
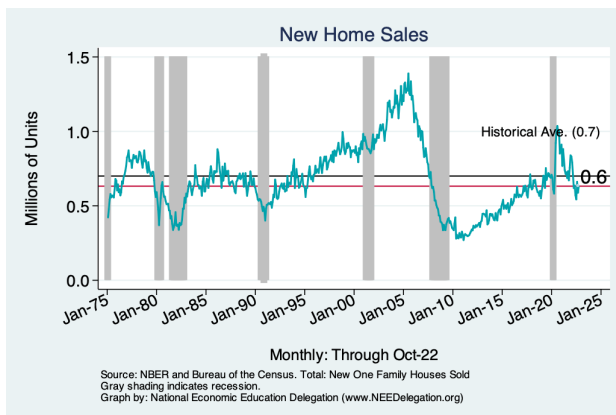
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Mortgage Rates



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Home Sales Falling

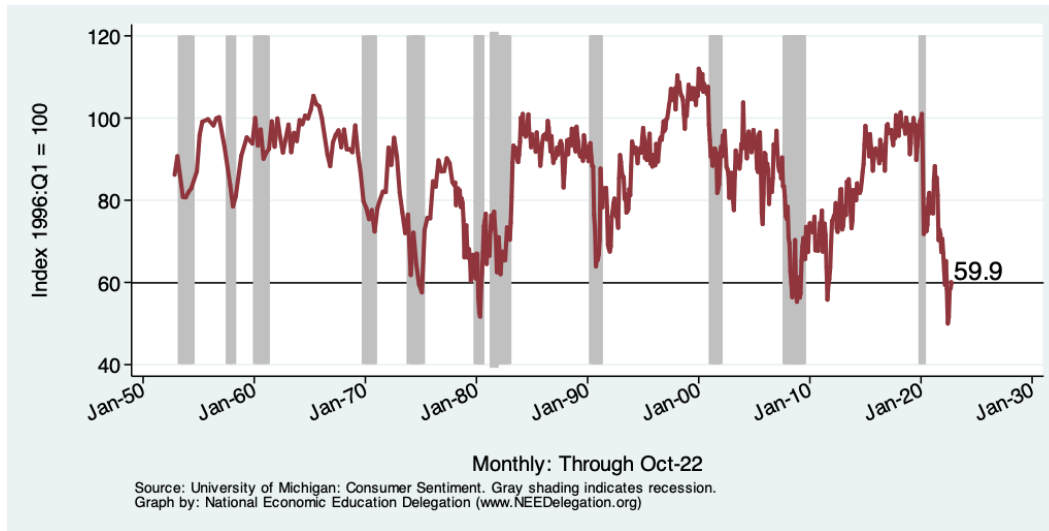


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Other Indicators

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Consumer Confidence: Not High



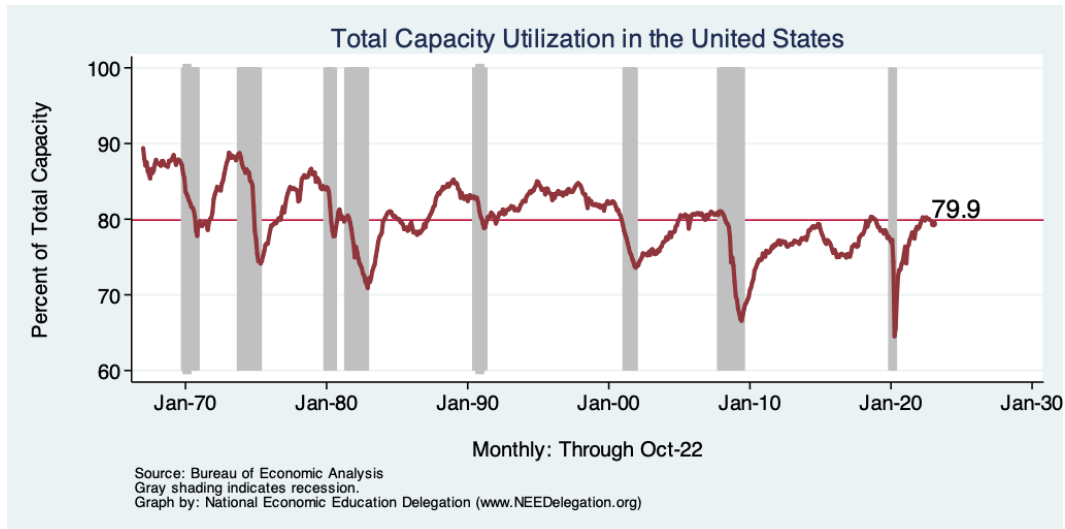
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Producer Confidence: In Trouble



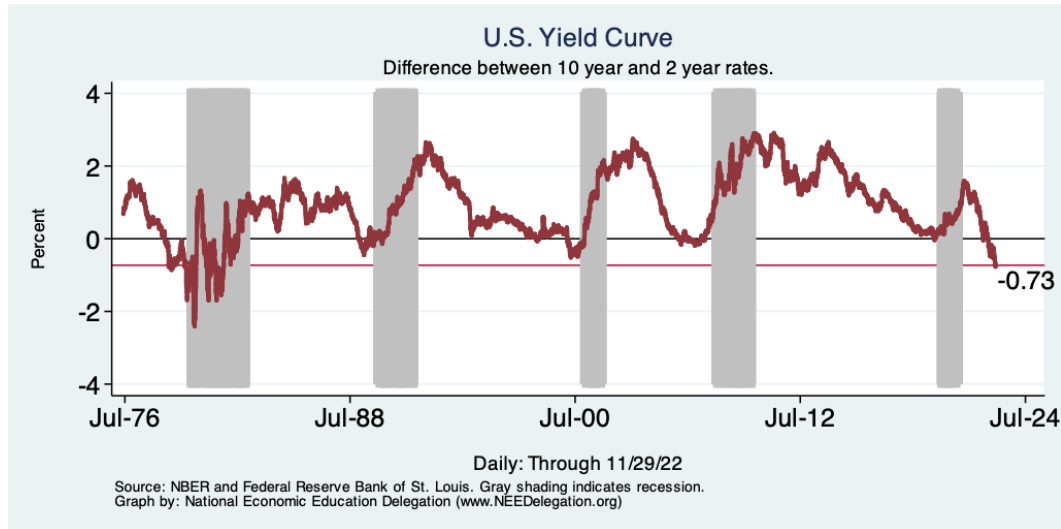
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Capacity Utilization



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Alarming Compression of Interest Rates



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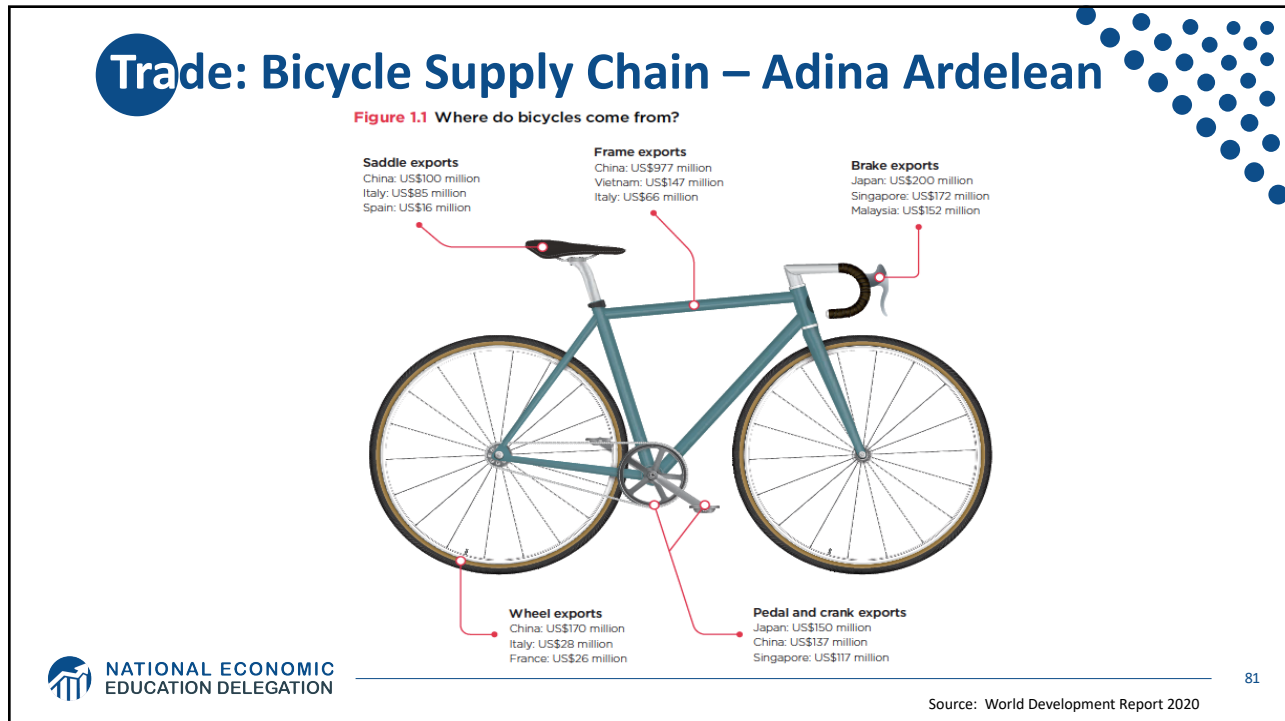
Takeaways

- **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 Consumers have been driving the recovery, and consumers account for two-thirds of GDP.
 - o Job creation remains robust – 261k in October. (September revised upwards by 100k)
- **What about GDP? Looking OK!**
 - 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
 - Much of this lower growth was driven by lower inventory.
 - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
 - Housing markets – very tightly linked to interest rates – softened ... A LOT.
 - Government spending is now rising!
 - Q3 – looks good!
- **Other Indicators suggest slowing.**
 - A real mixed bag. Great uncertainty. News reports aren't helping.



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Thank you!

Any Questions?

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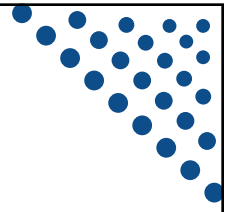
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Detailed graphs on employment, housing, moves, and other statistics.

