

Osher Lifelong Learning Institute, Fall 2022

Contemporary Economic Policy Issues

University of New Mexico
November, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation



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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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Who Are We?

- **Honorary Board: 54 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: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

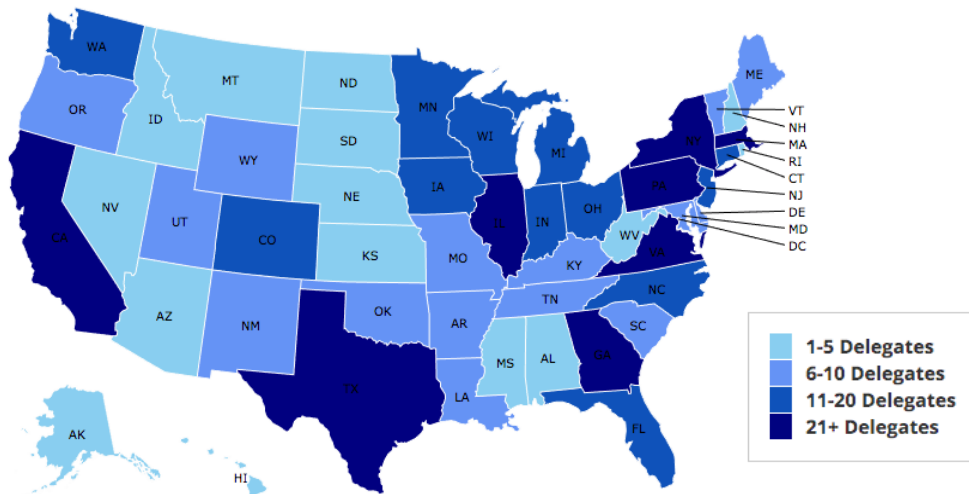
- **Global Partners: 49 Ph.D. Economists**

- Aid in slide deck development



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Where Are We?



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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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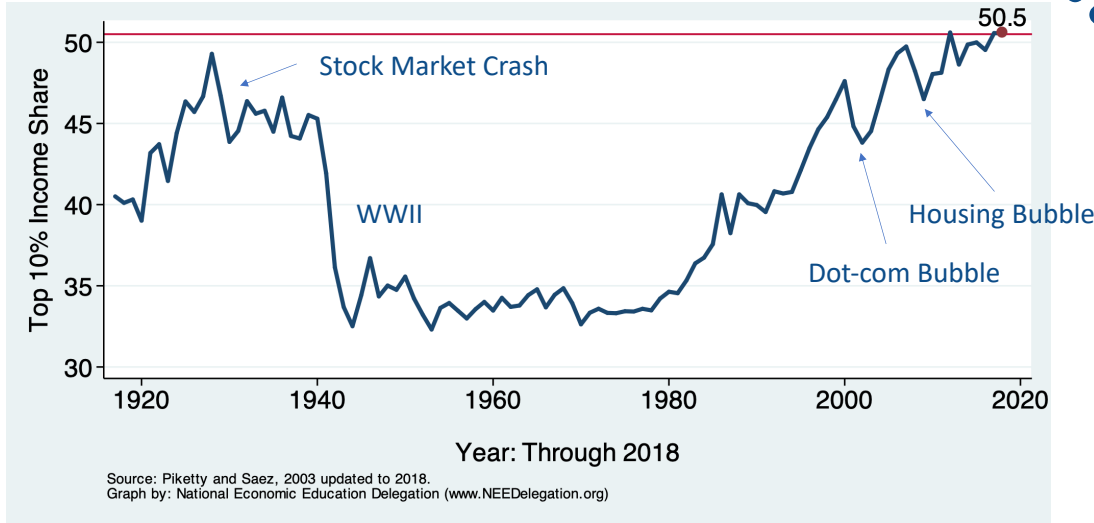
Course Outline

- **Contemporary Economic Policy:**
 - Week 1 (11/1): US Economic Update (Jon Haveman, NEED)
 - Week 2 (11/8): Economic Inequality (Adina Ardelean, Santa Clara University)
 - Week 3 (11/15): The Black-White Wealth Gap (Jon Haveman, NEED)
 - Week 4 (11/22): Economic Mobility (Kathryn Wilson, Kent State University)



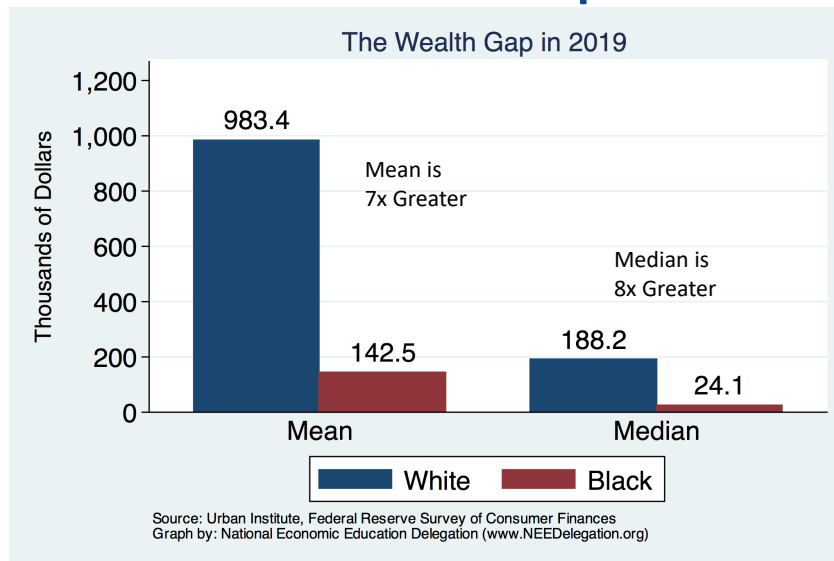
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Income Inequality: Share of Top 10%

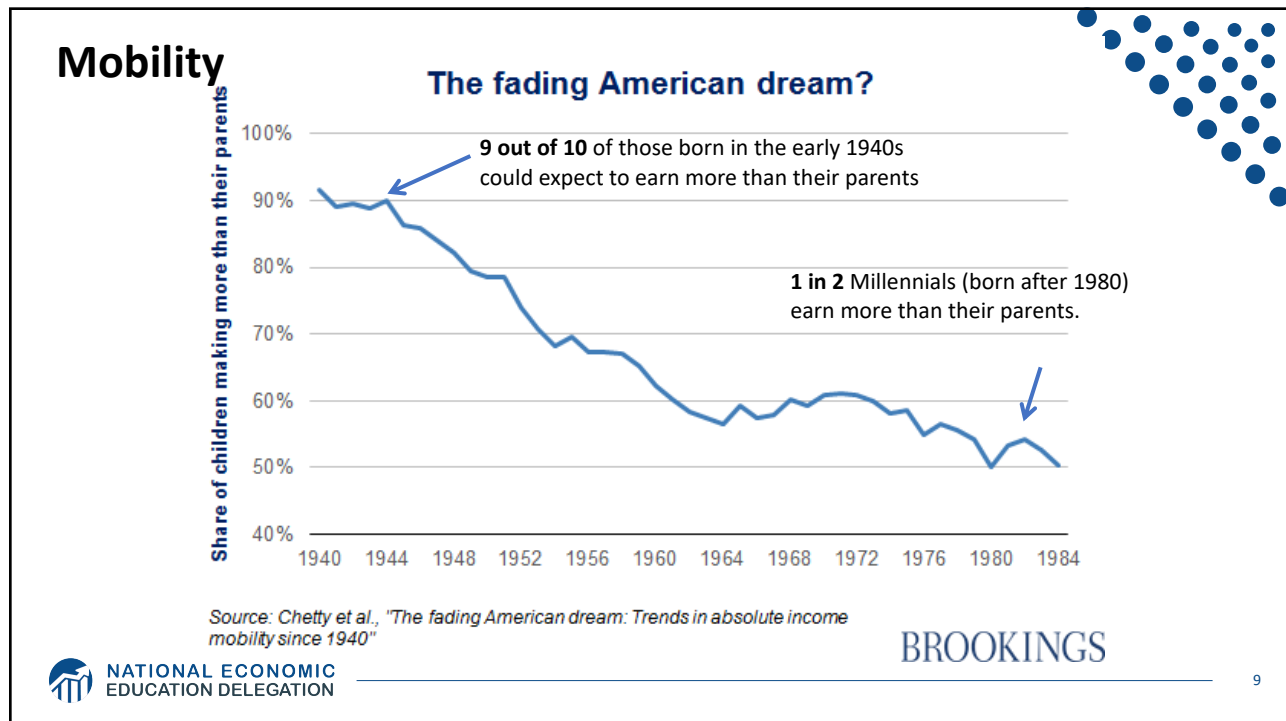


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Evidence of the B-W Wealth Gap



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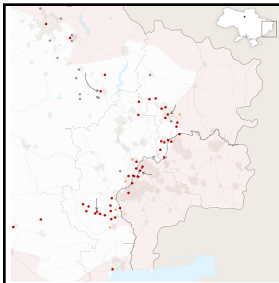
Submitting Questions

- **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
November 1, 2022



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Credits and Disclaimer

- **This slide deck was authored by:**
 - Jon Haveman, Executive Director of NEED
 - Allison Roehling, DePauw University
- **This slide deck was reviewed by:**
 - Jeffrey Frankel, Harvard University
 - Scott Baier, Clemson University
 - Rob Eyler, Sonoma State University
- **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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Credits and Disclaimer

- **This slide deck was authored by:**

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

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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	333.2 Million
Labor Force	164.7 Million
Employment	153.0 Million
Gross Domestic Product (GDP)	\$25.7 Trillion
Income per Capita	\$65,769
Ave. Hourly Earnings	\$32.46

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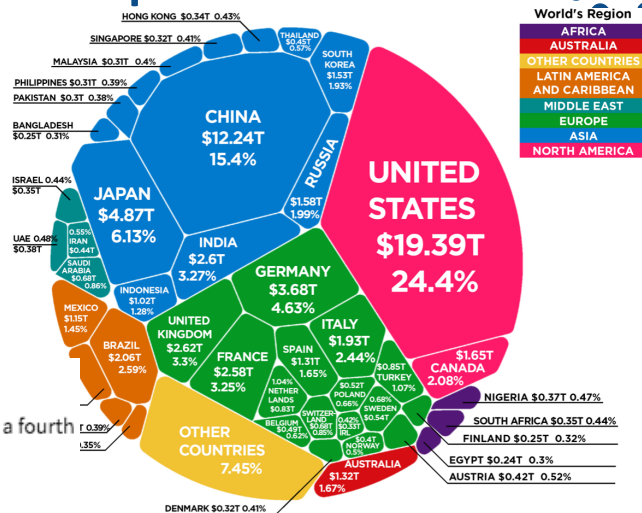
U.S. Economy in Global Perspective

U.S. Nominal GDP:

\$21.538 trillion in 2019-Q4
\$19.637 trillion in 2020-Q2
\$25.663 trillion in 2022-Q3

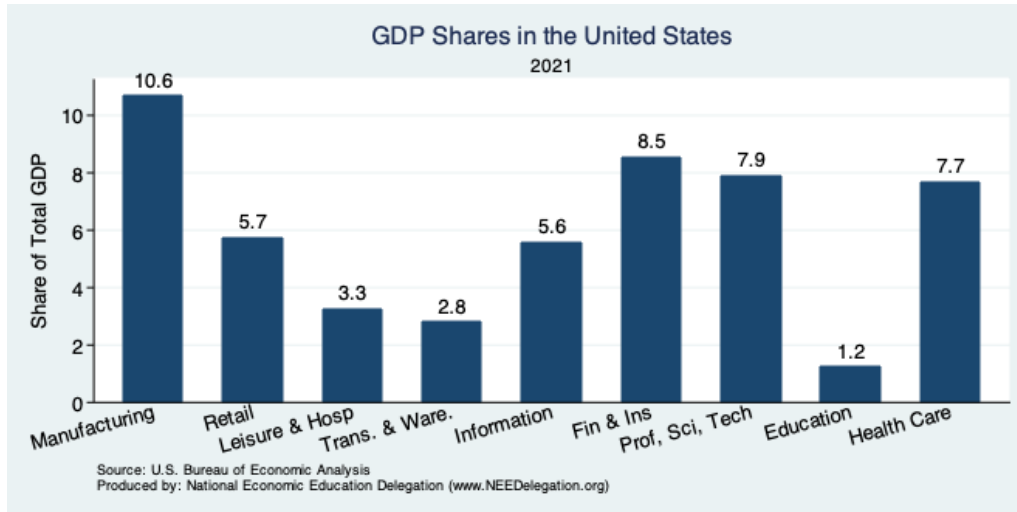
% Share of the Global Economy

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



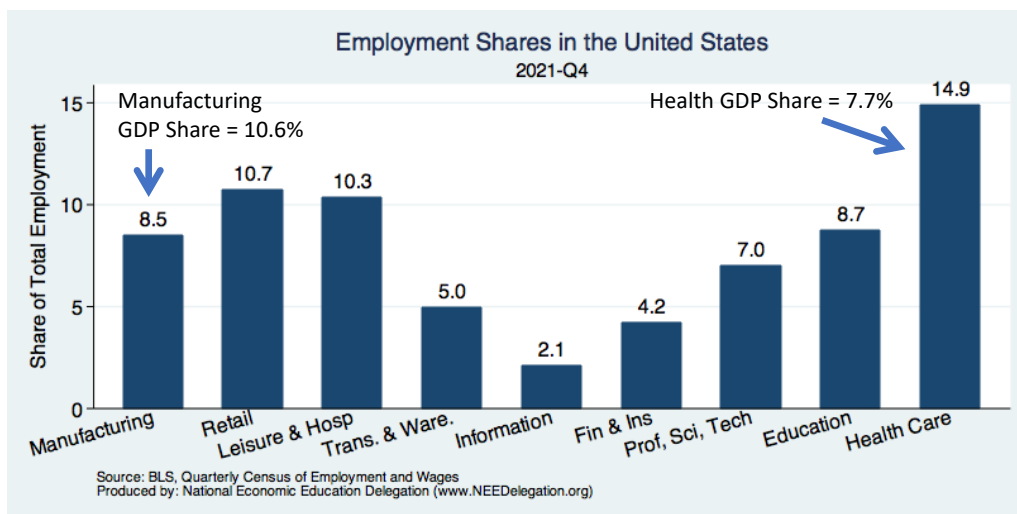
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Composition of the U.S. Economy: 2020



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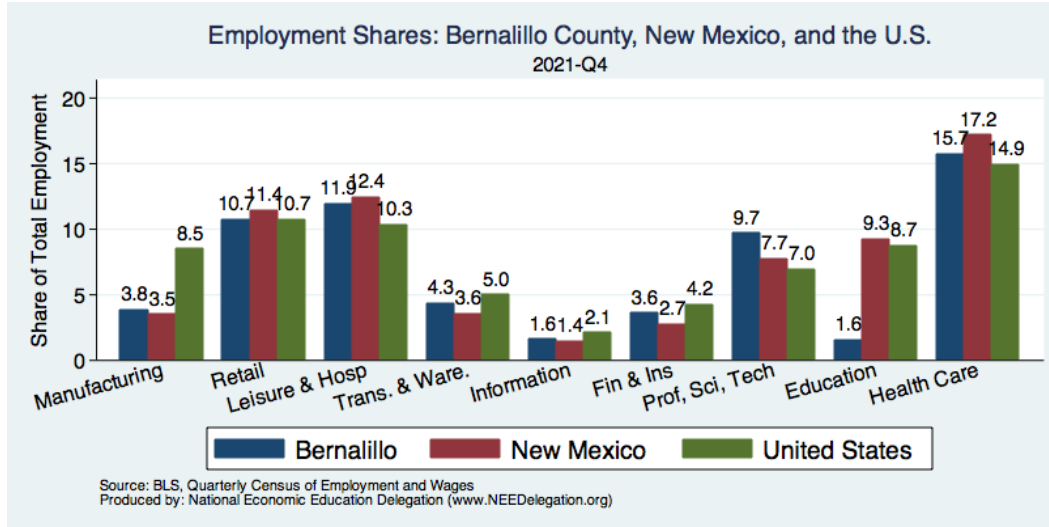
Composition of the U.S. Economy: Employment



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

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Employment in Bernalillo County



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

Recession(?)

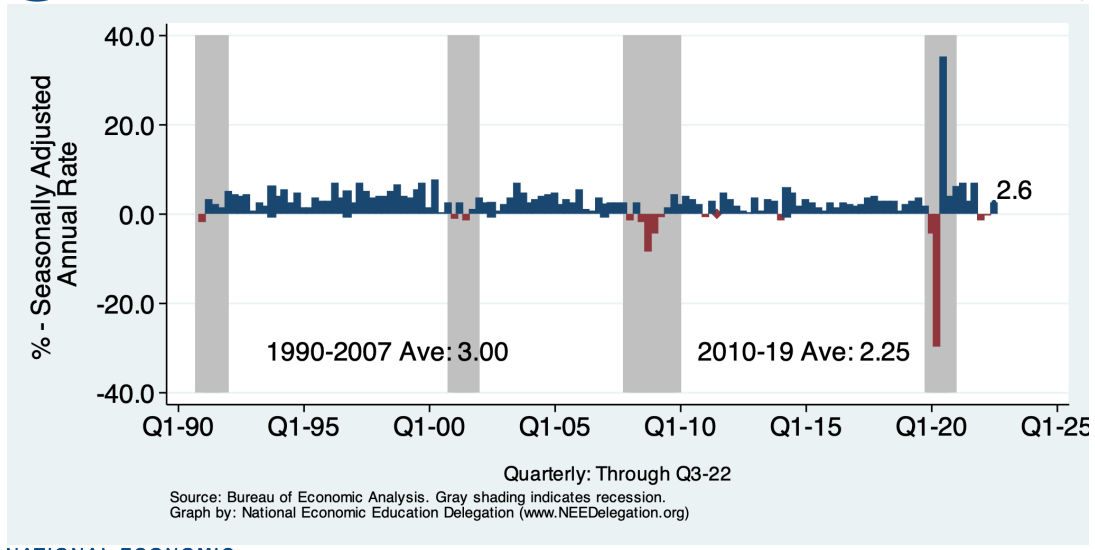
Headline:

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

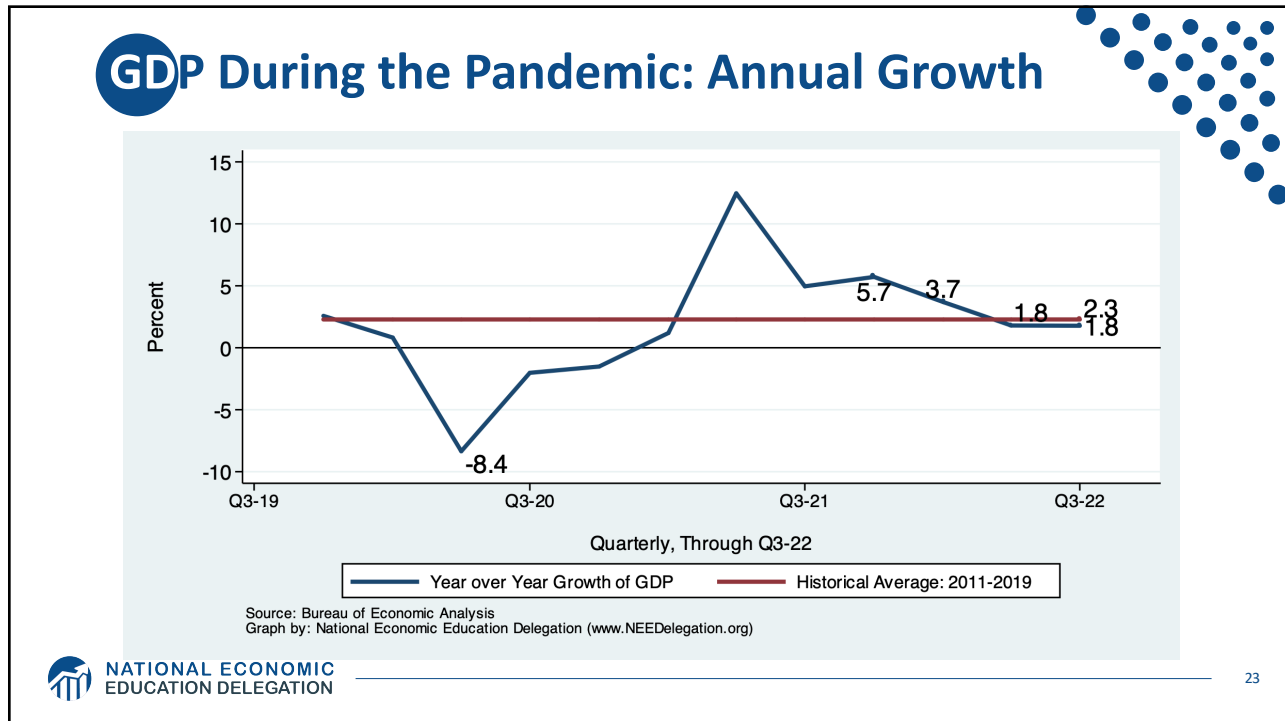
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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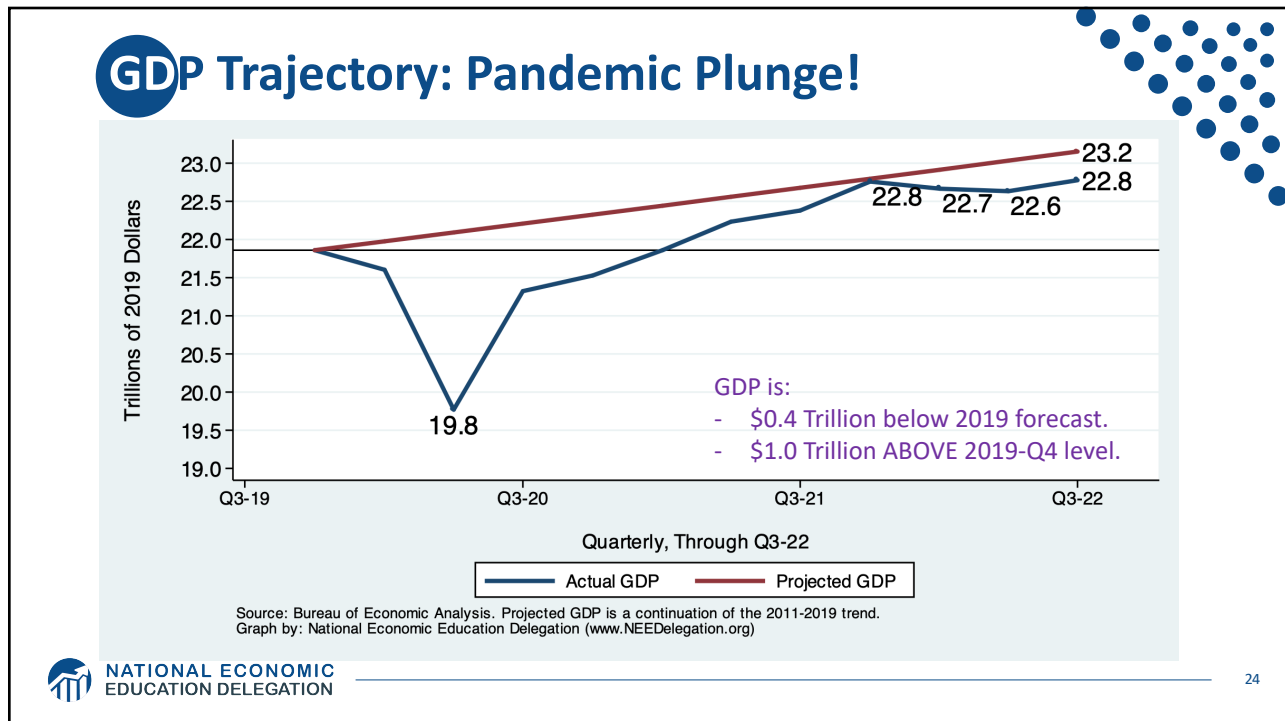
GDP: Quarterly Growth



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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



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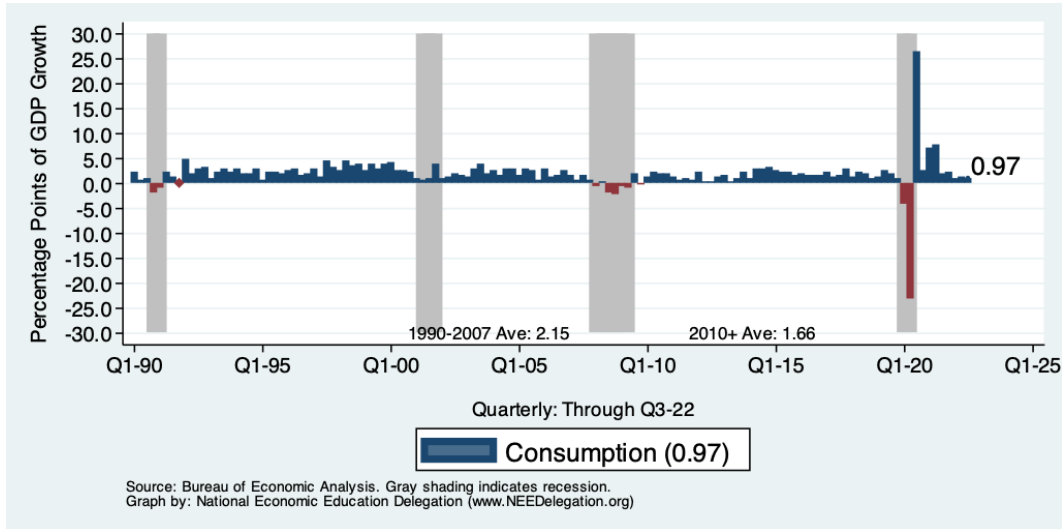
Recession? Two Quarters....

- **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.**



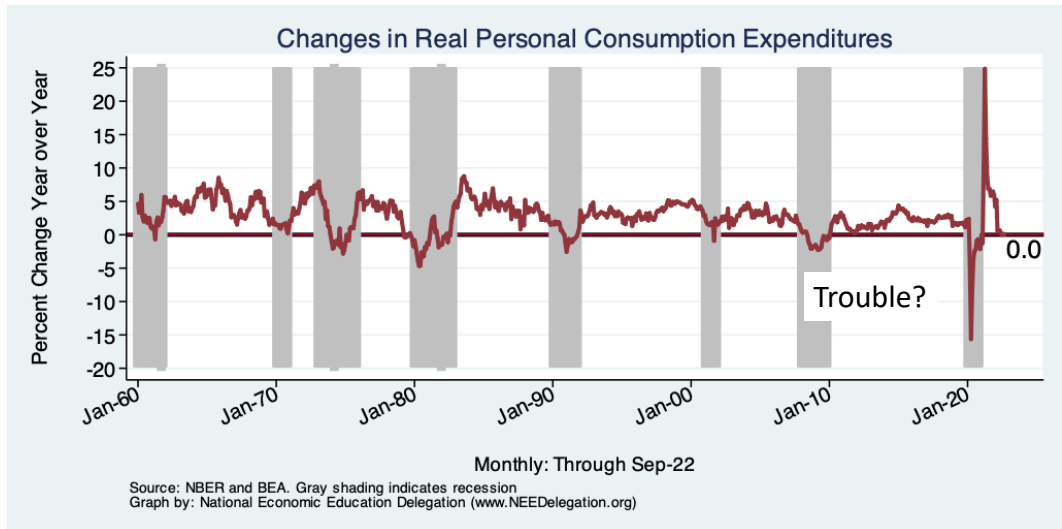
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Contribution to GDP Growth: Consumption



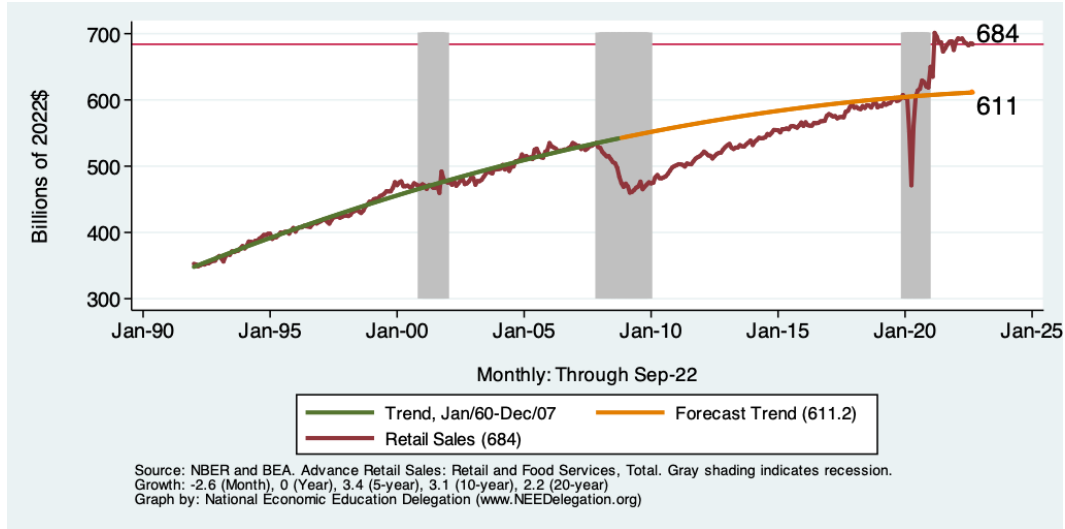
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Personal Consumption Expenditures



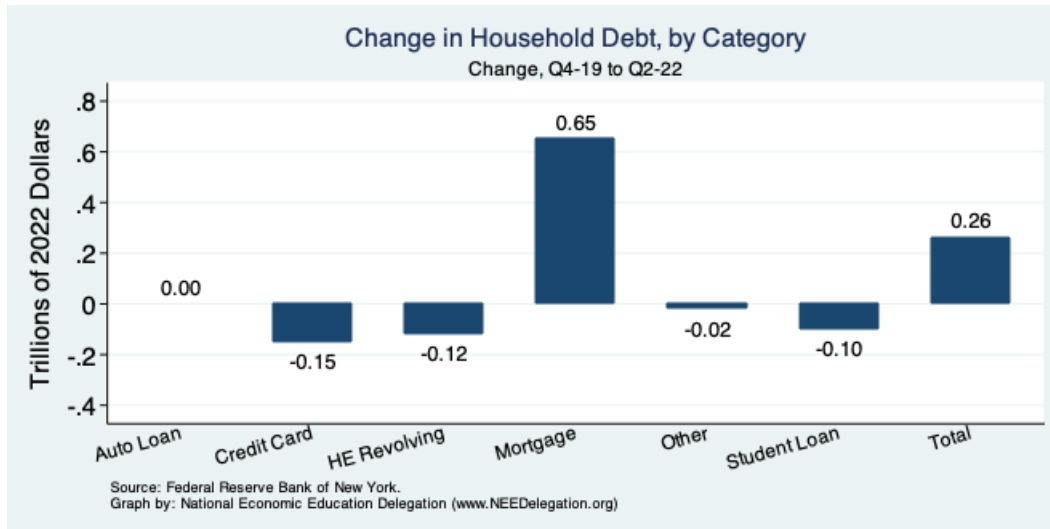
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Retail Sales



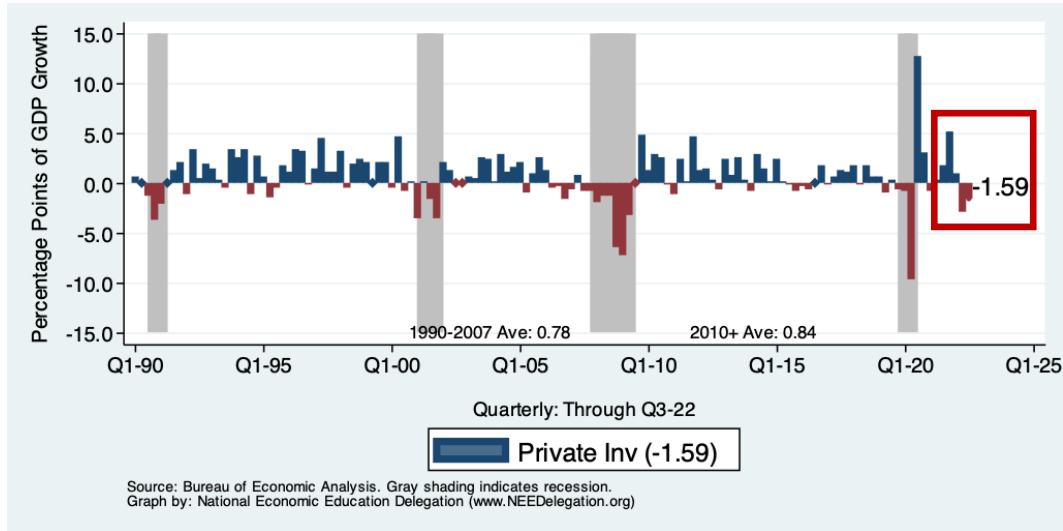
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Household Debt: Change During the Pandemic



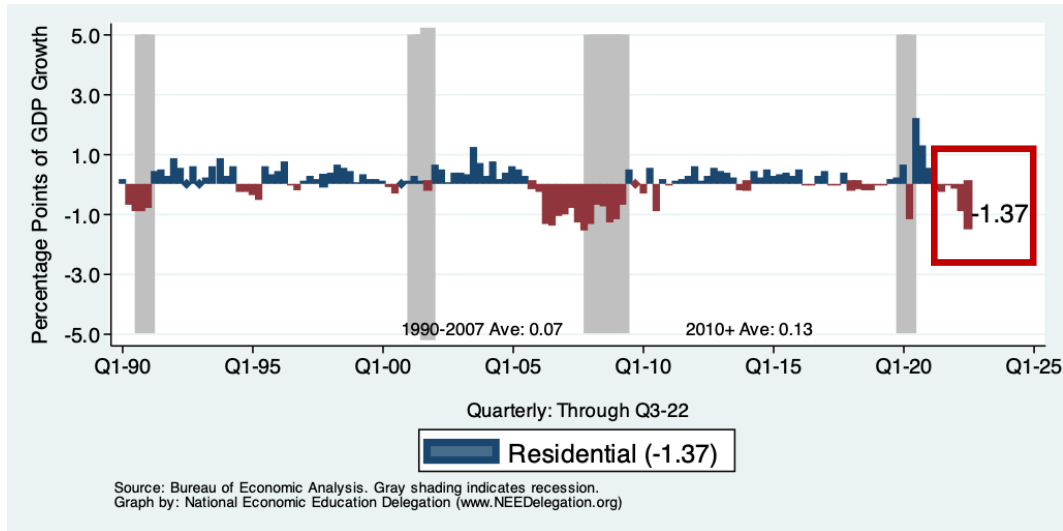
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Contribution to GDP Growth: Inventories



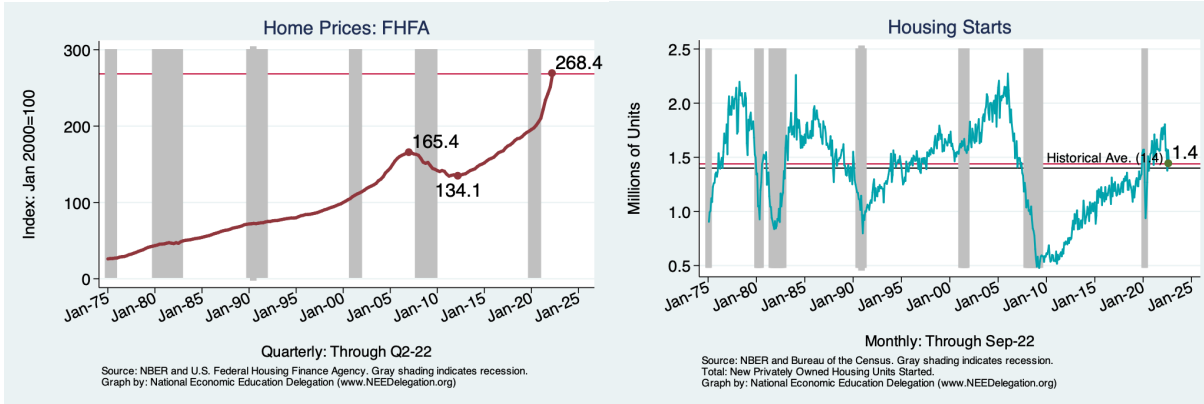
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Contributions to GDP: Residential Investment



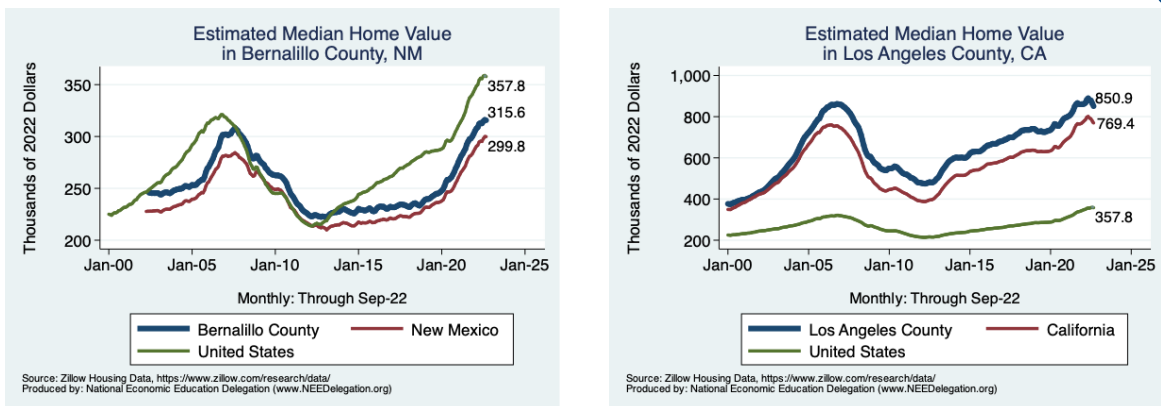
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Home Prices and Housing Starts



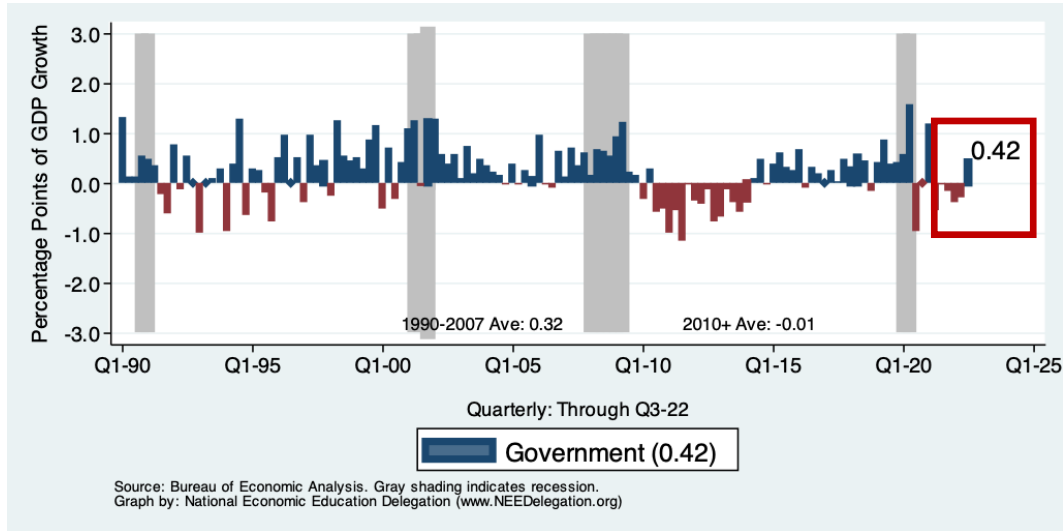
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Home Prices ... Depends on Where You Are



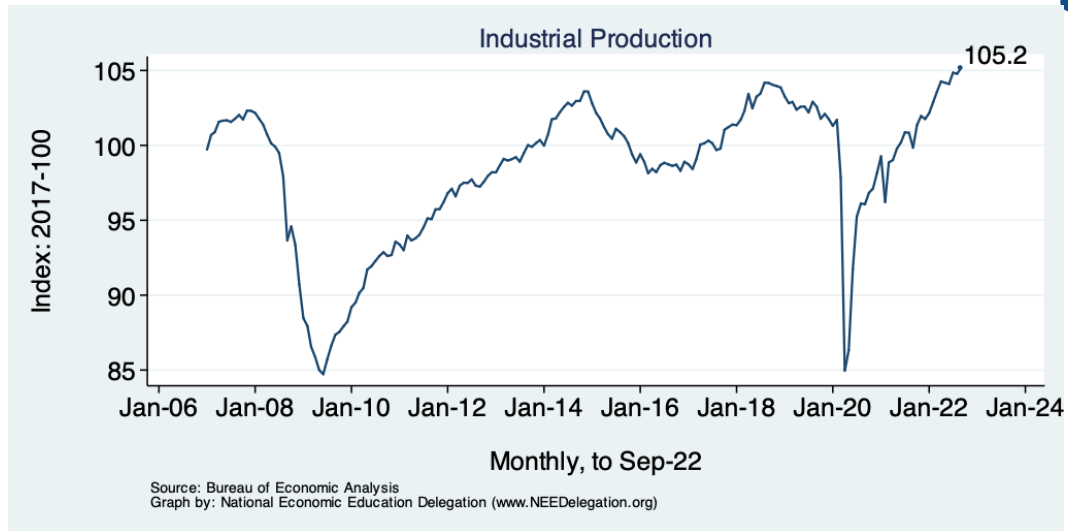
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Contributions to GDP: Government

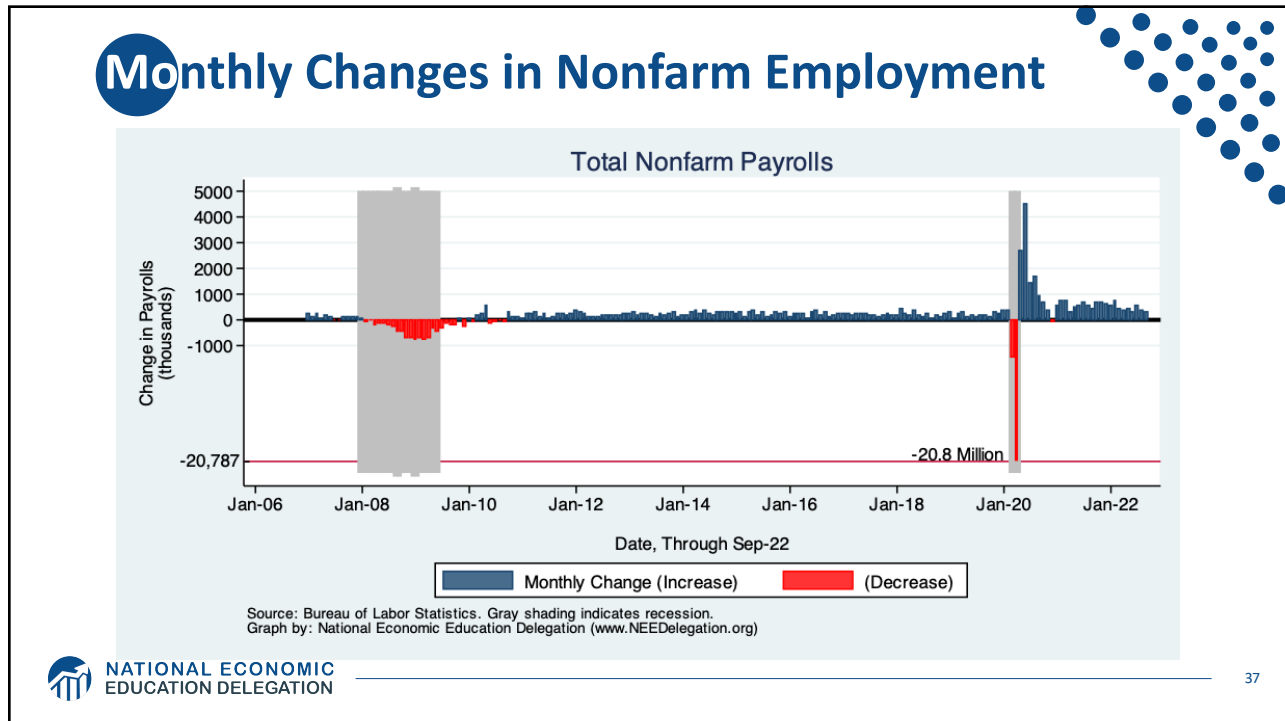


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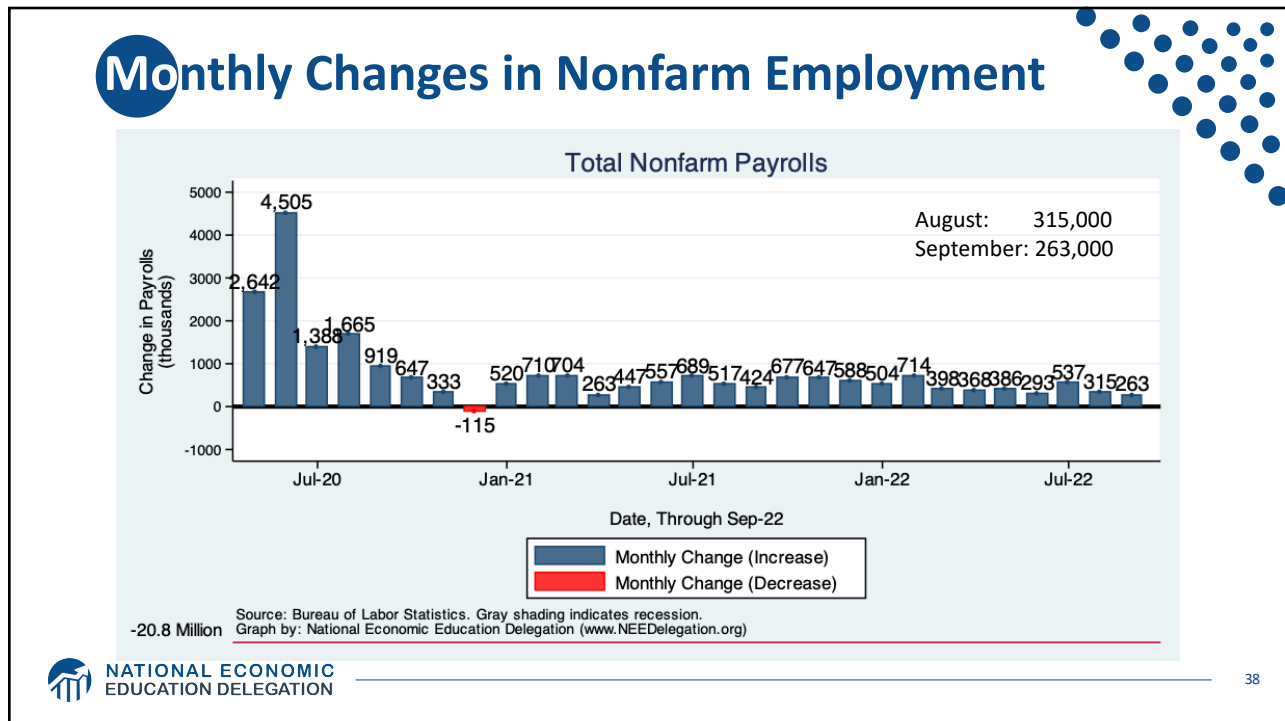
Industrial Production (Manuf, Util, Mining)



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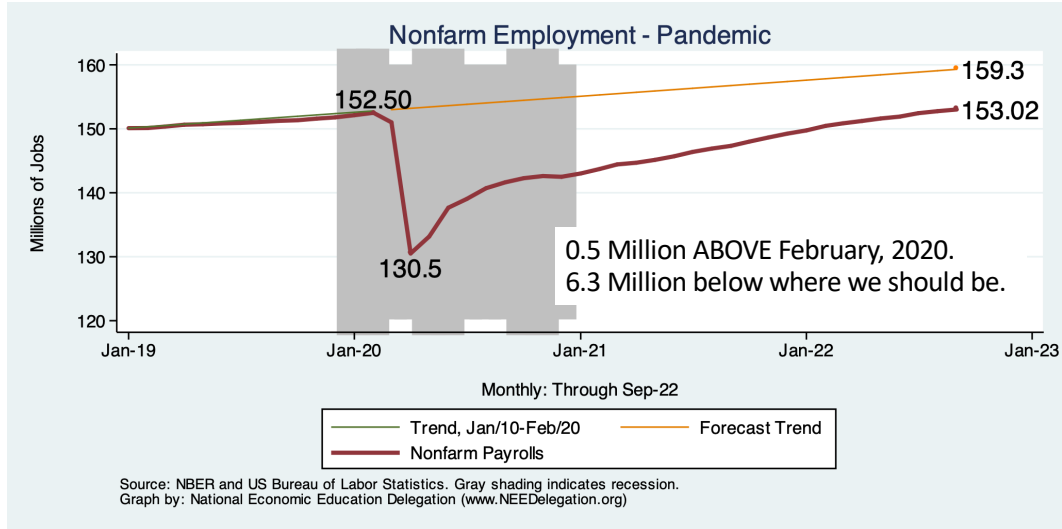


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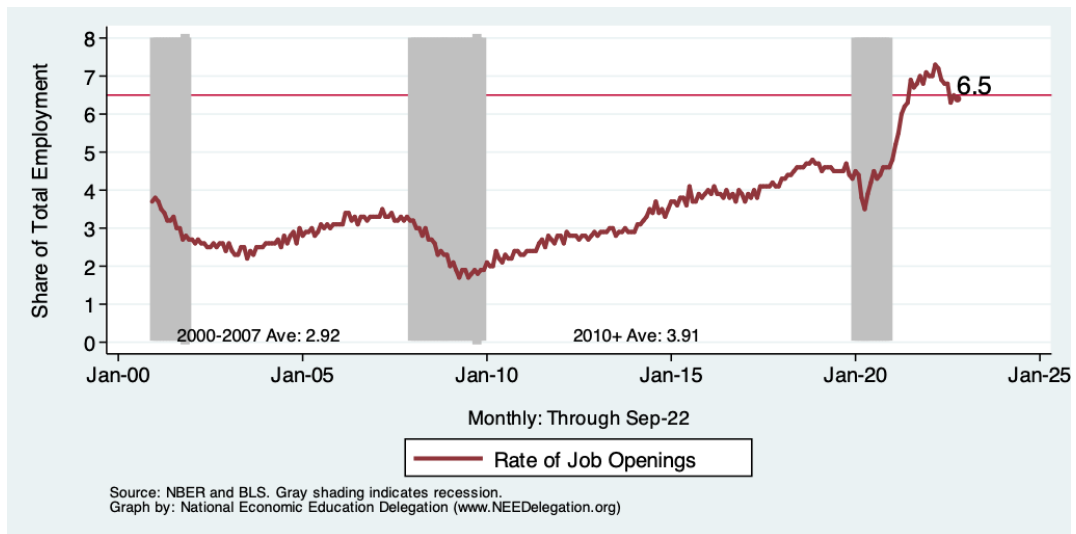
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Employment Gap



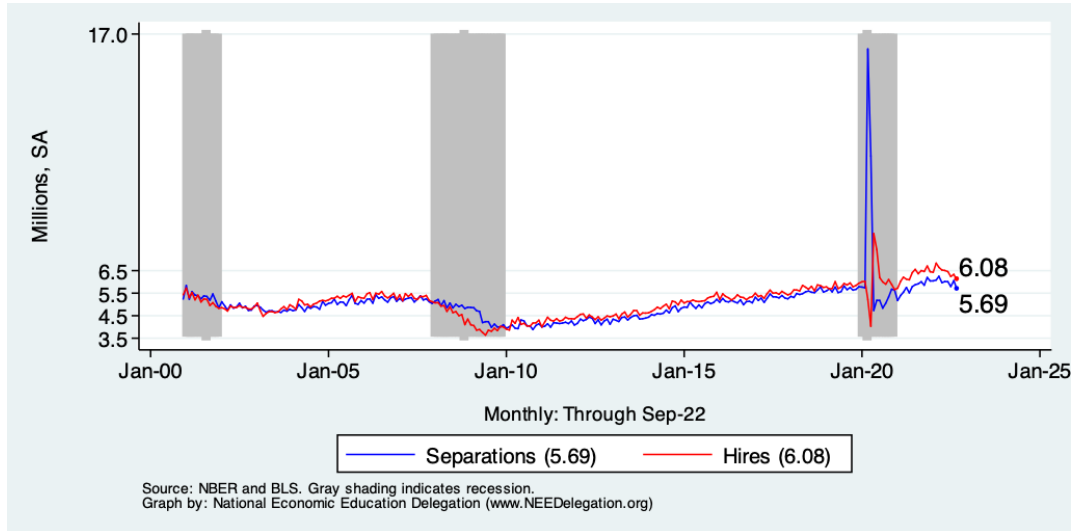
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Job Openings: Share of Total Employment



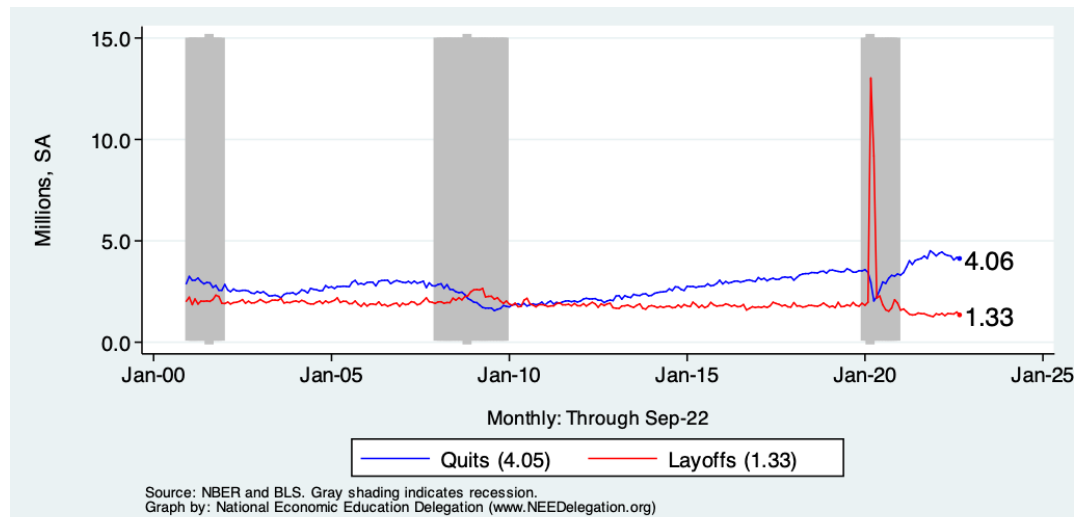
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Job Hires and Separations



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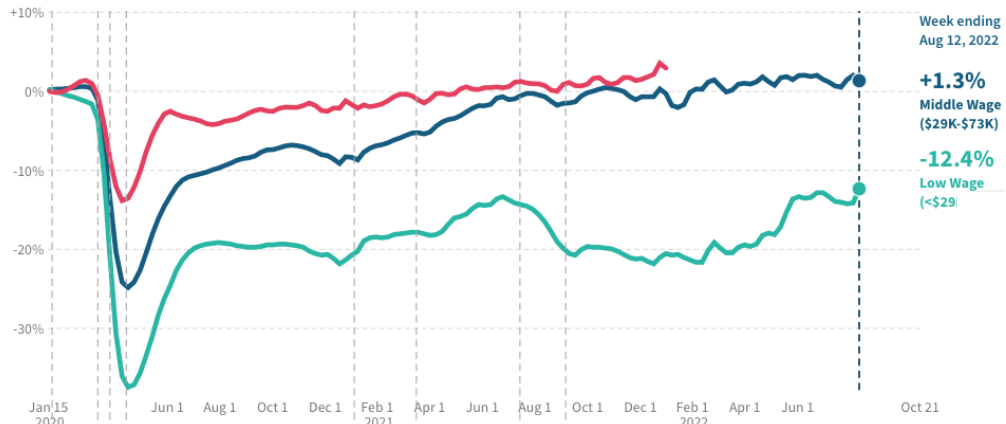
Separations: Quits and Layoffs



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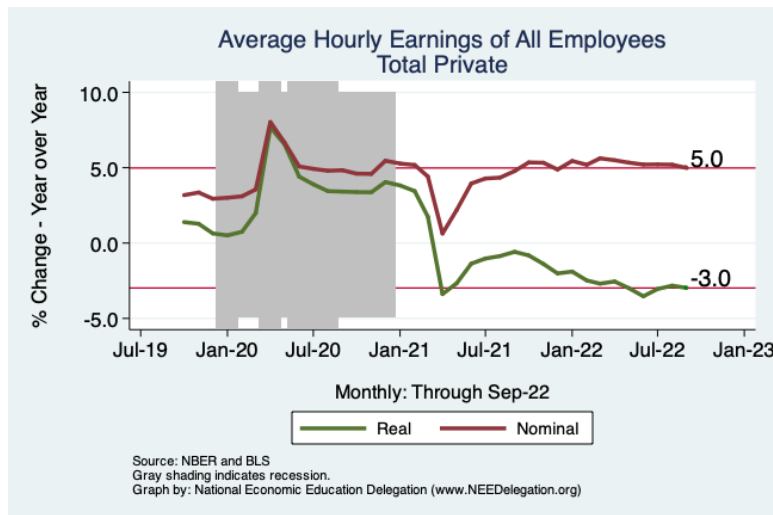
Low Wage Employment is Lagging

In the United States, as of August 12 2022, employment rates among workers in the middle wage quartiles increased by **1.3%** compared to January 2020 (not seasonally adjusted).



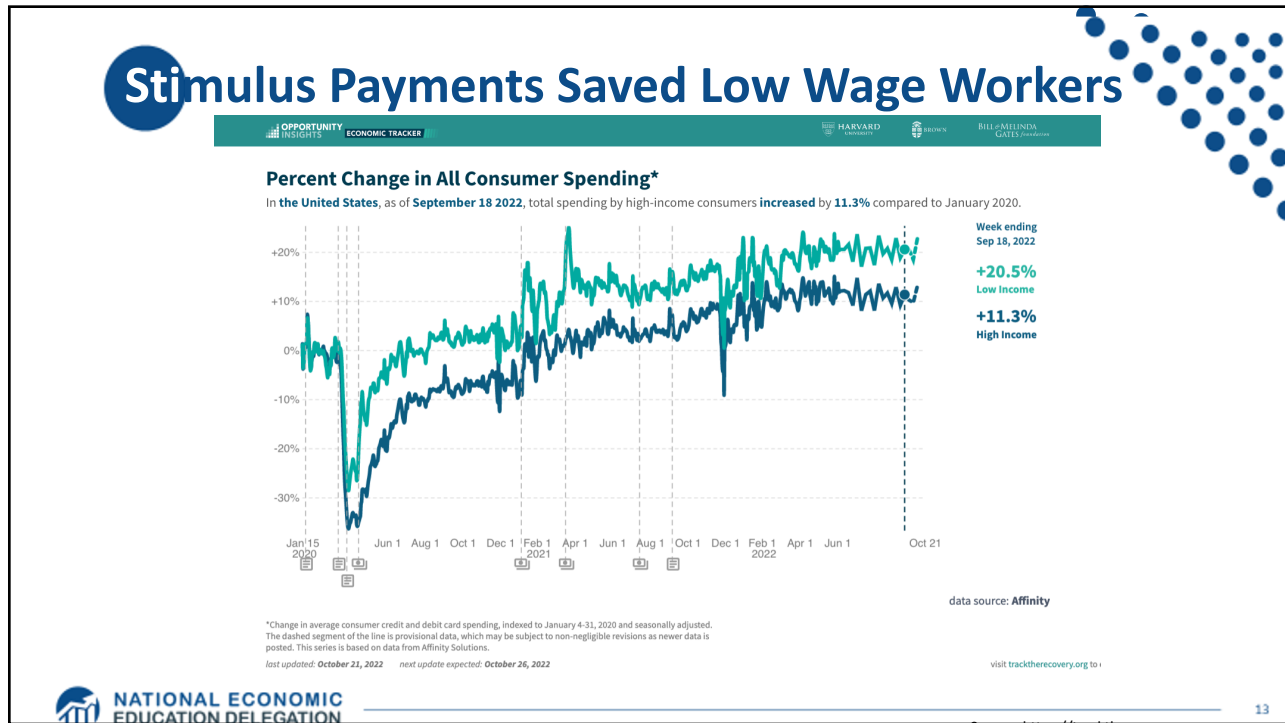
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Wage Growth

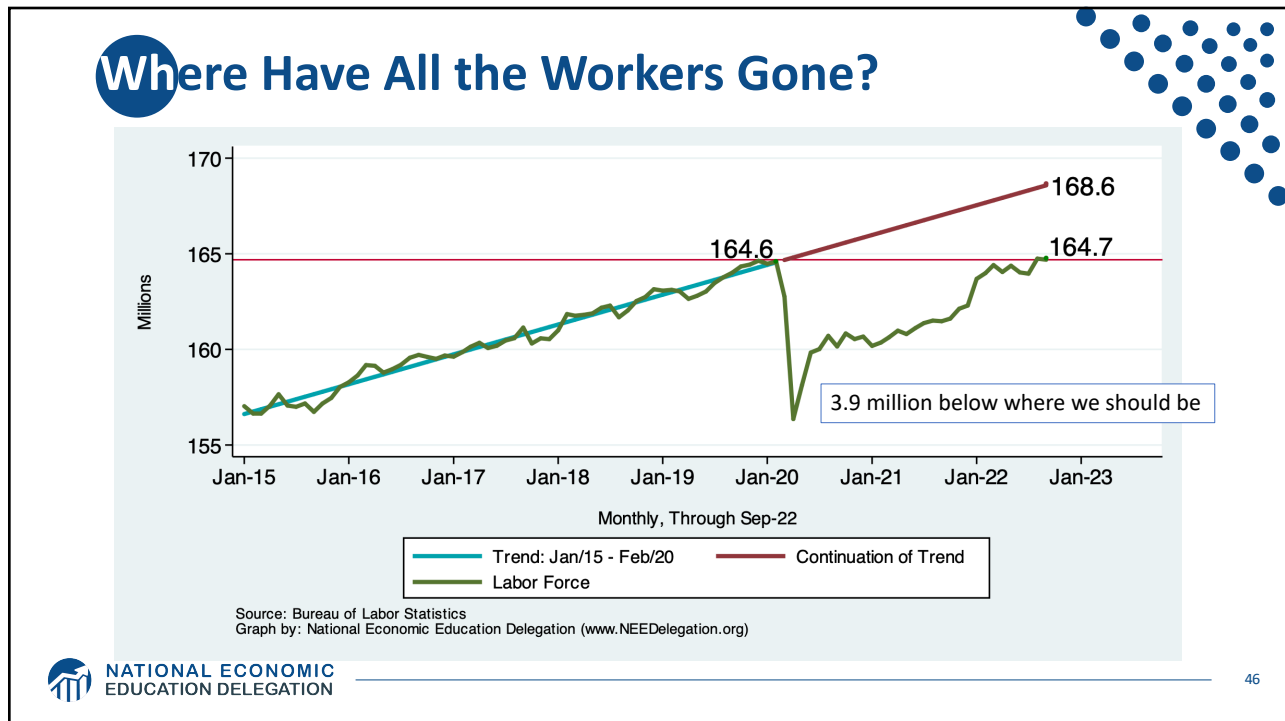


Source: NBER and BLS
 Gray shading indicates recession.
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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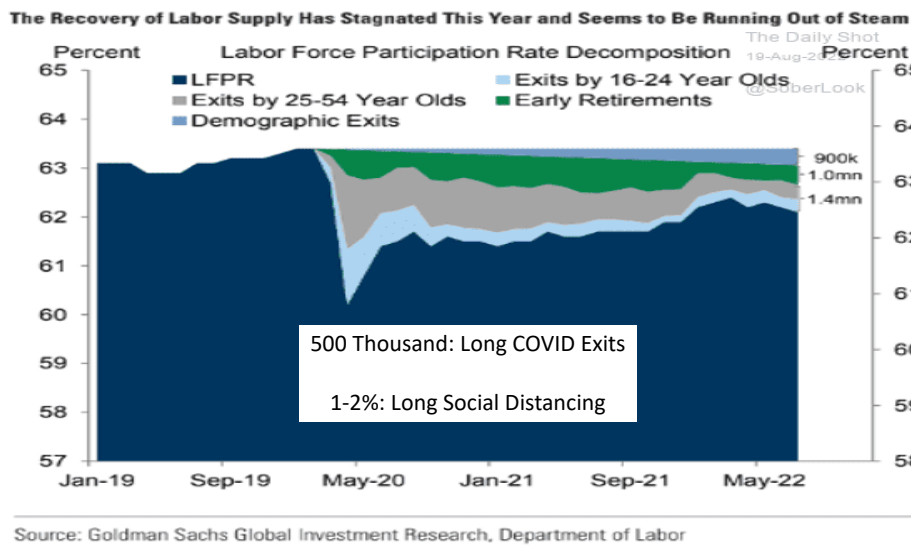


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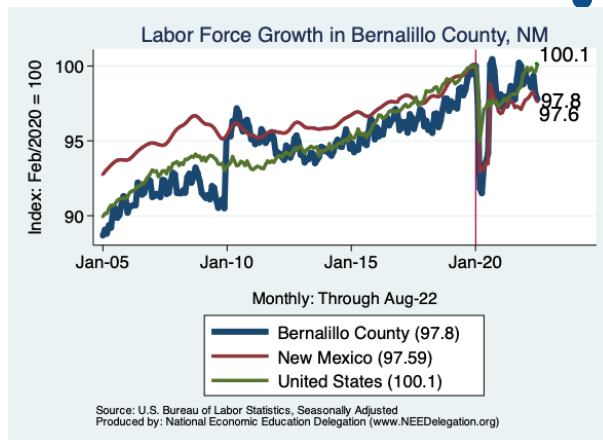
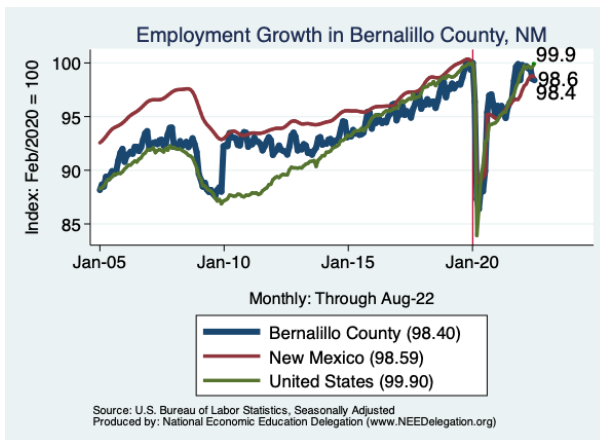
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Some Explanations



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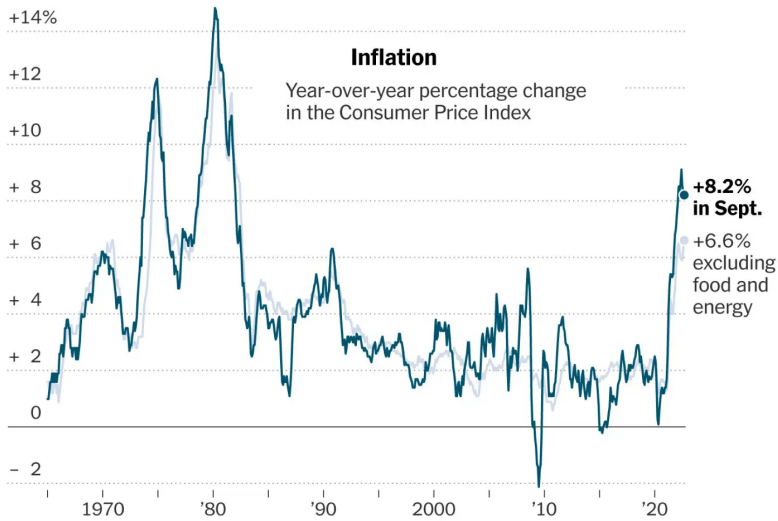
How Are Things Where You Are?

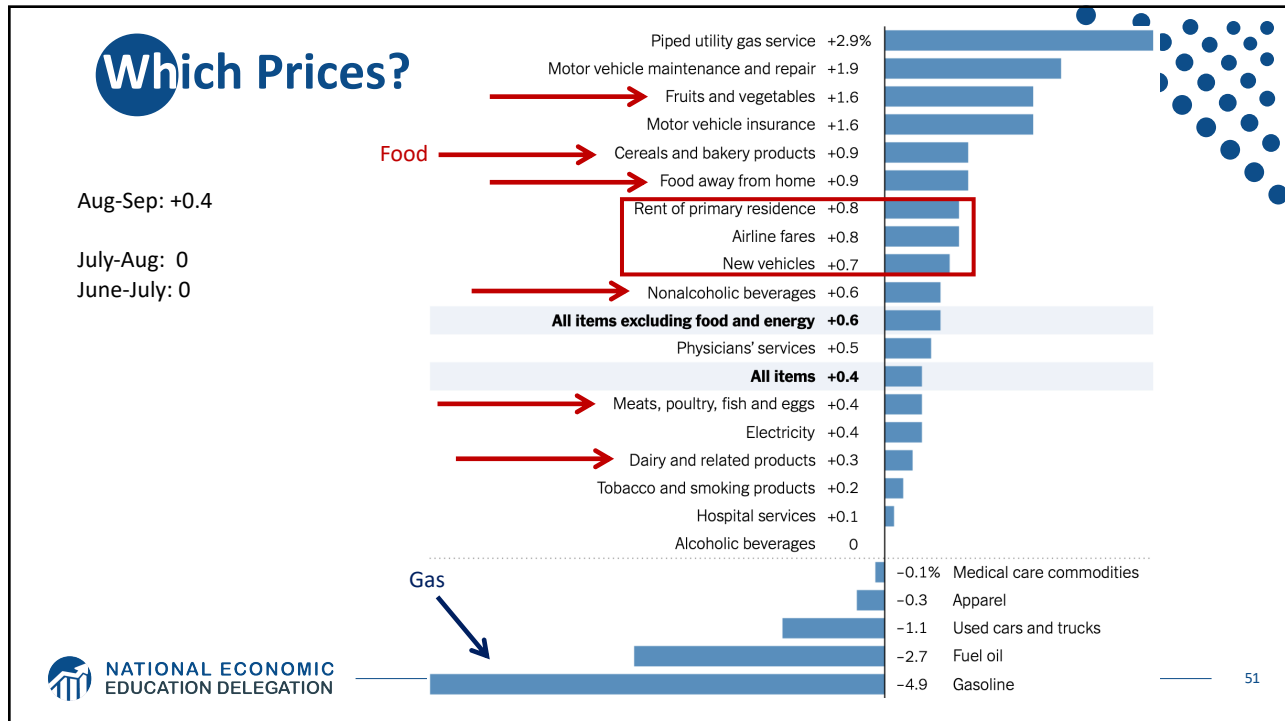


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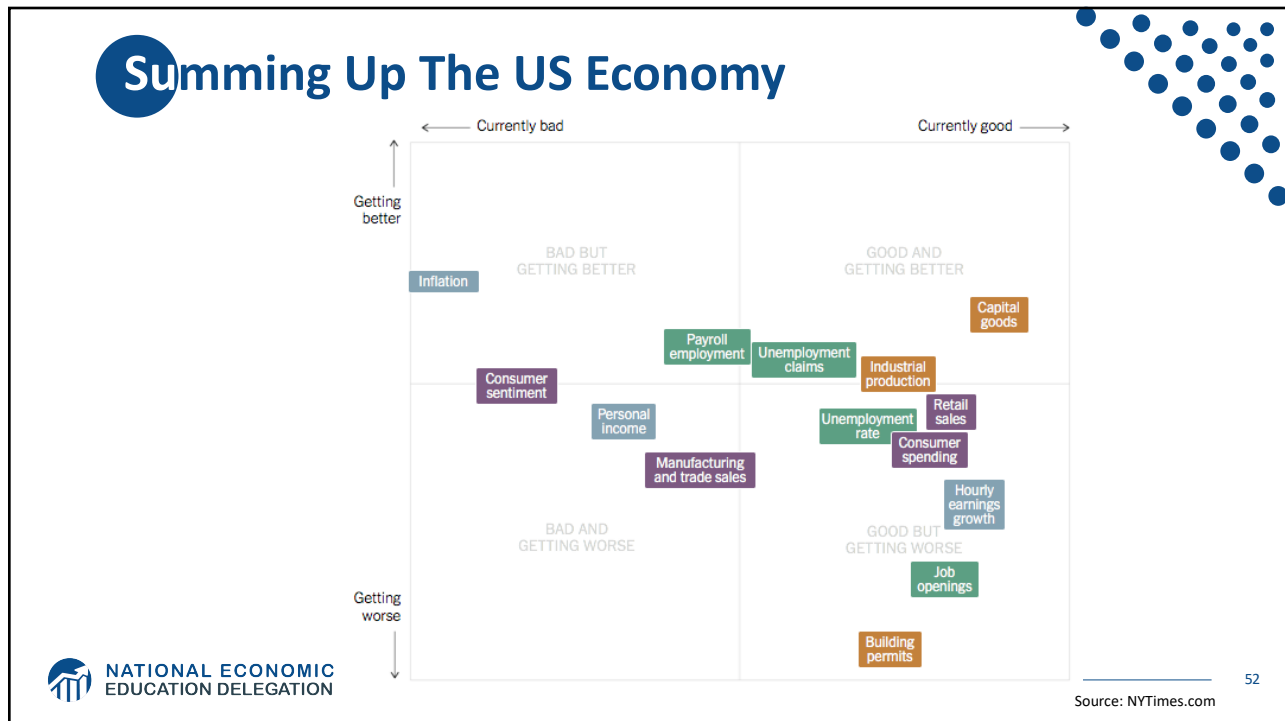
Inflation

Inflation: Latest Figures





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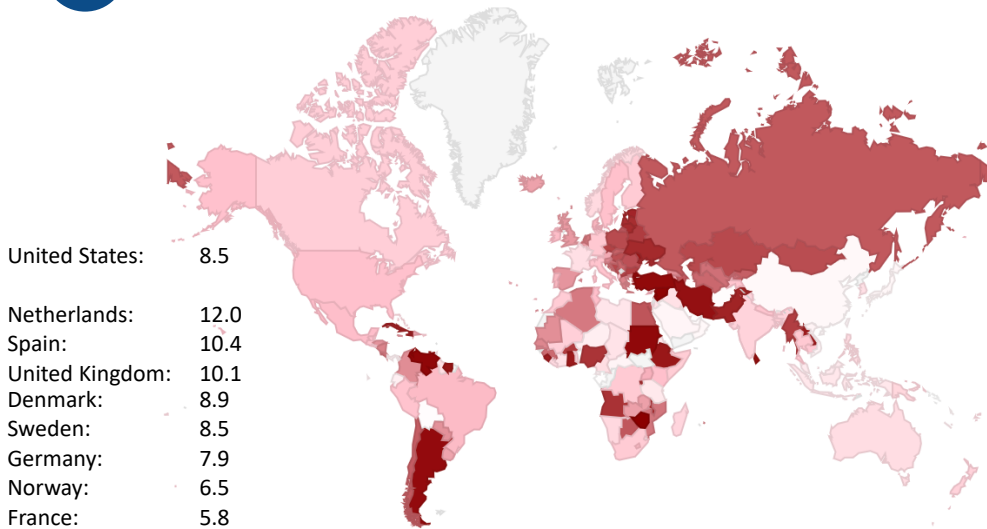


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Global Evidence

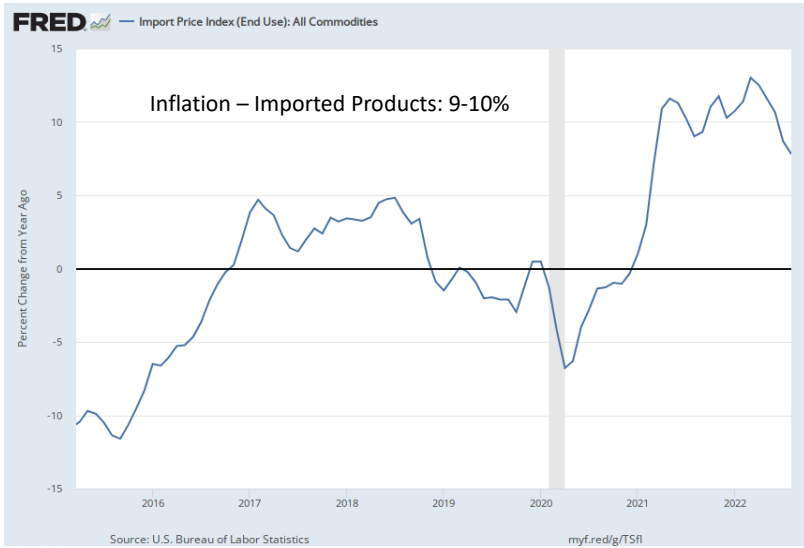
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Inflation: Not just a US Problem



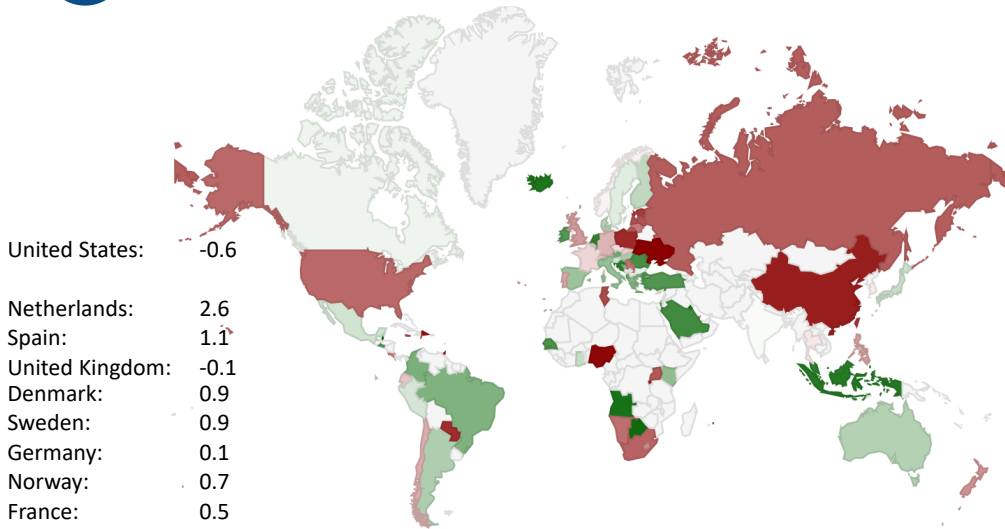
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Import Prices Are Elevated



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GDP: U.S. Stands Out, But Not Alone



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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).



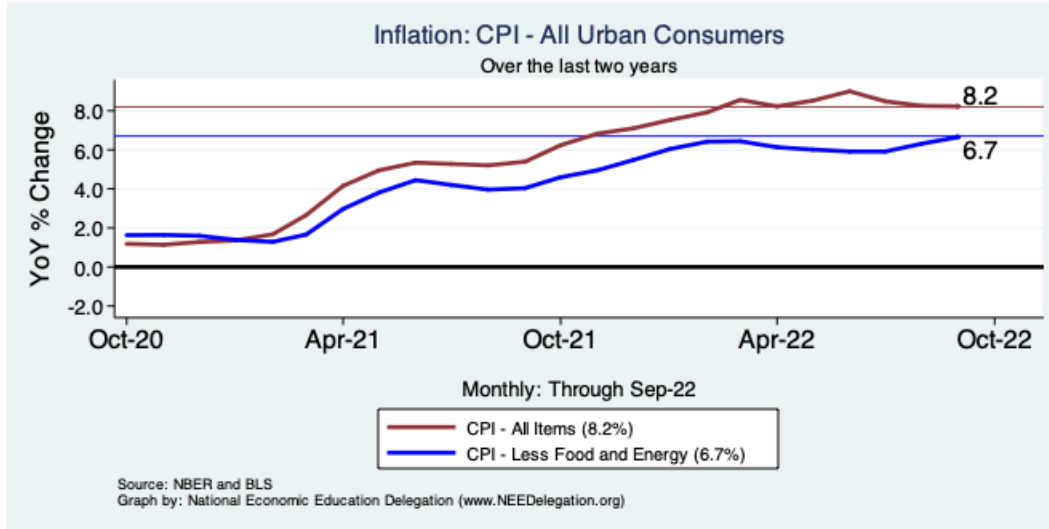
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Inflation: A Closer Look

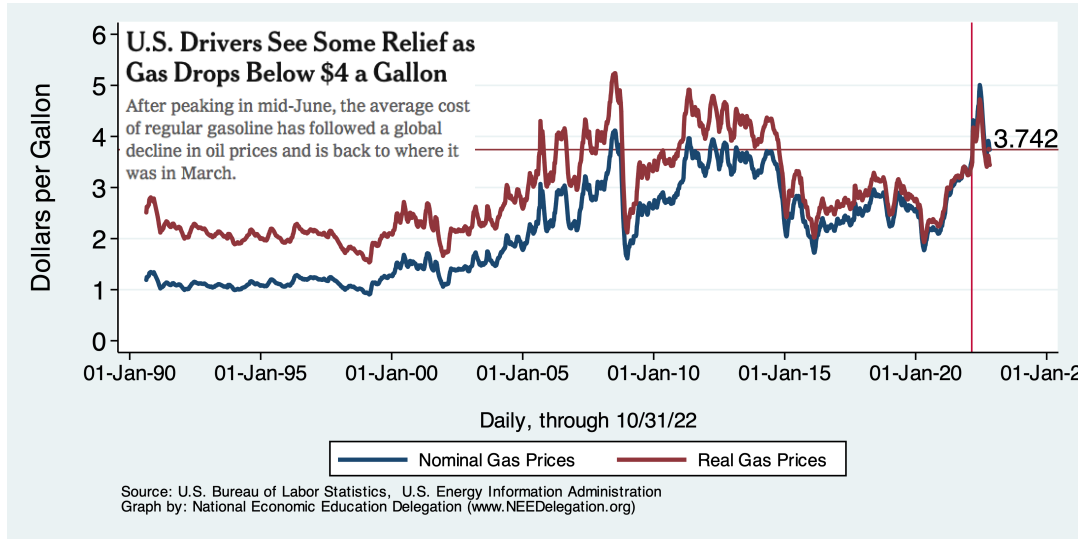


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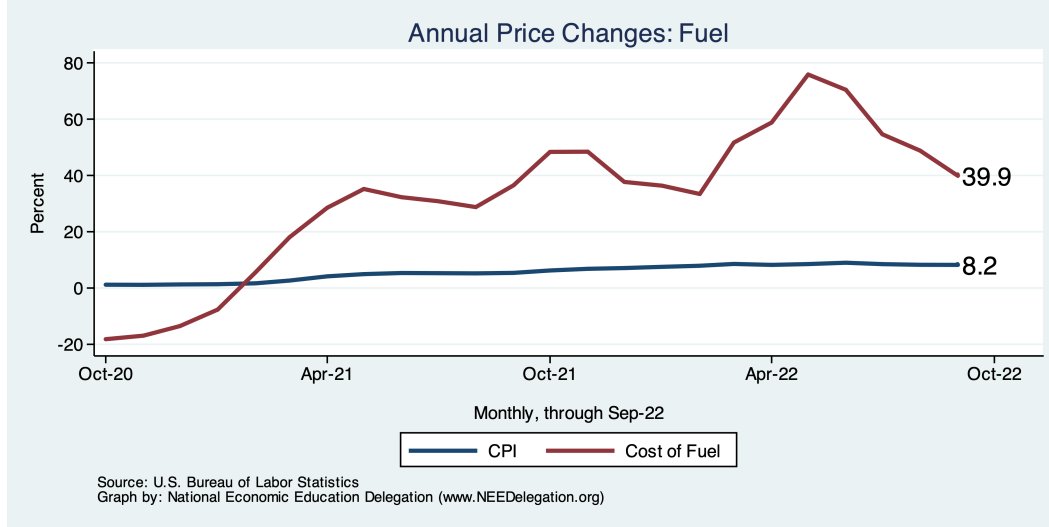
Inflation – Climbing! Or Turning Around?



Gas Prices: National Average at the Pump

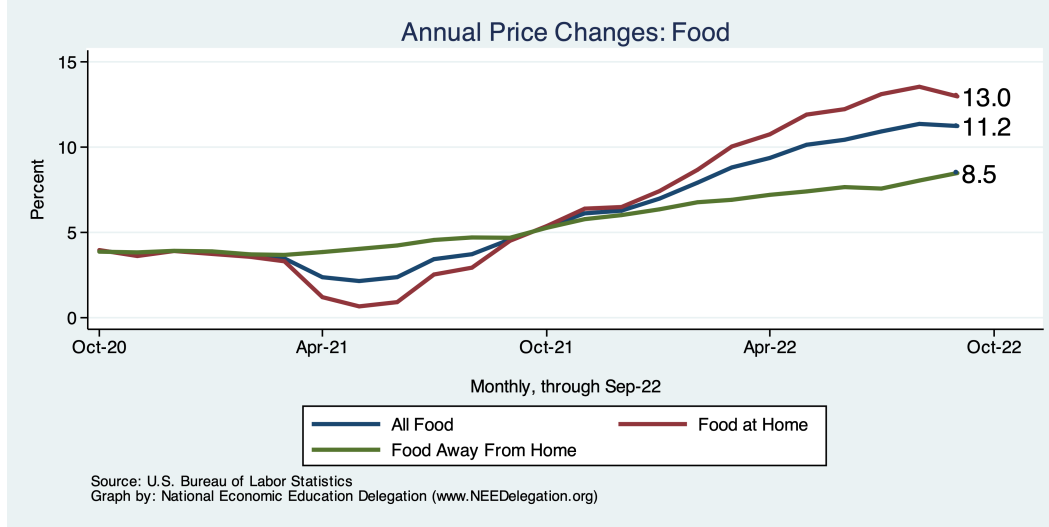


Fuel Costs Are Still Elevated



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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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Source: Investopedia

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Spending Patterns Changed - More Goods!

Demand-Pull

Category	Change
Goods	up 14.9% - And coming down.
Services	up 2.9% - And going up.

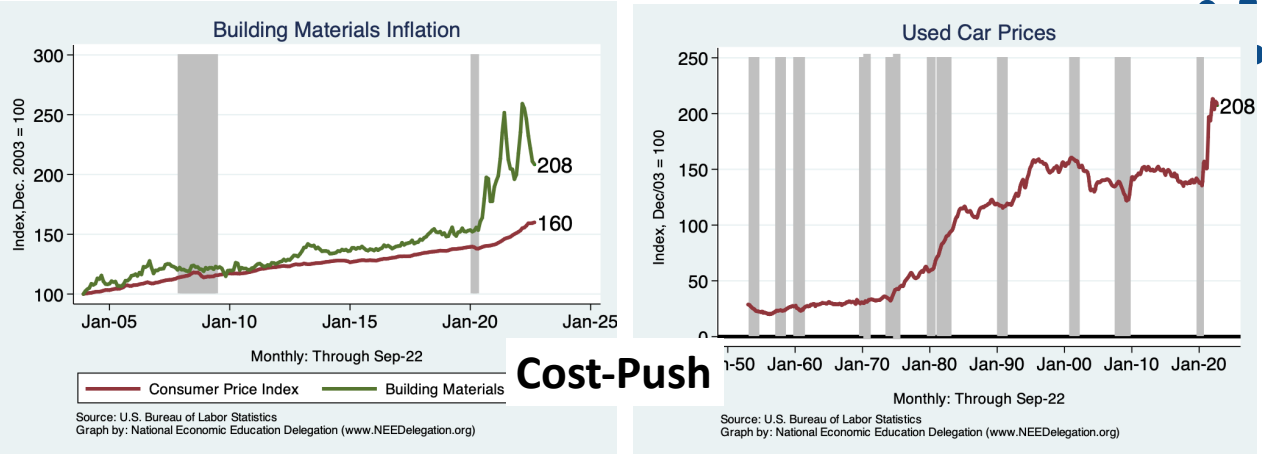
Source: U.S. Bureau of Economic Analysis
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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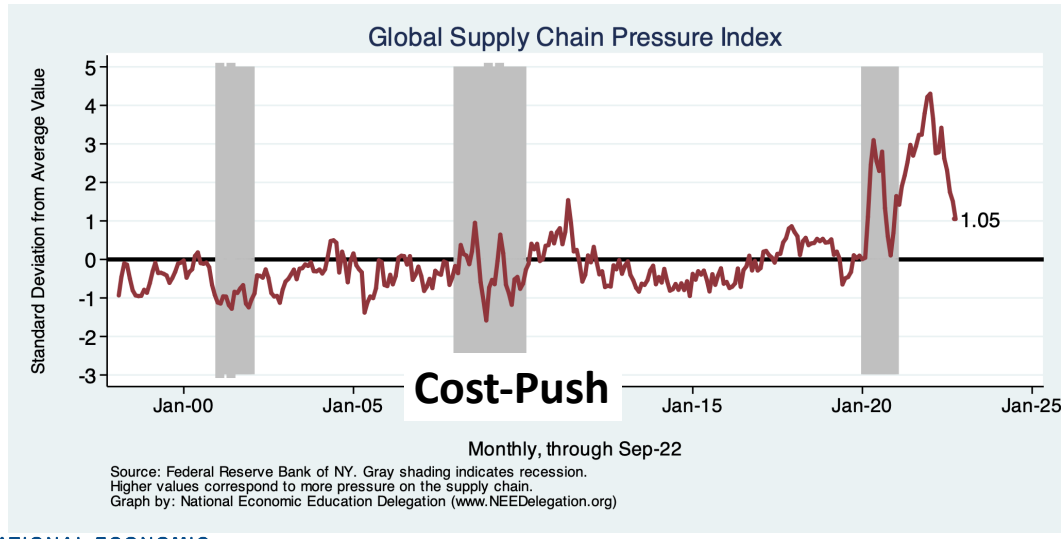
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Inflation: Concentrated



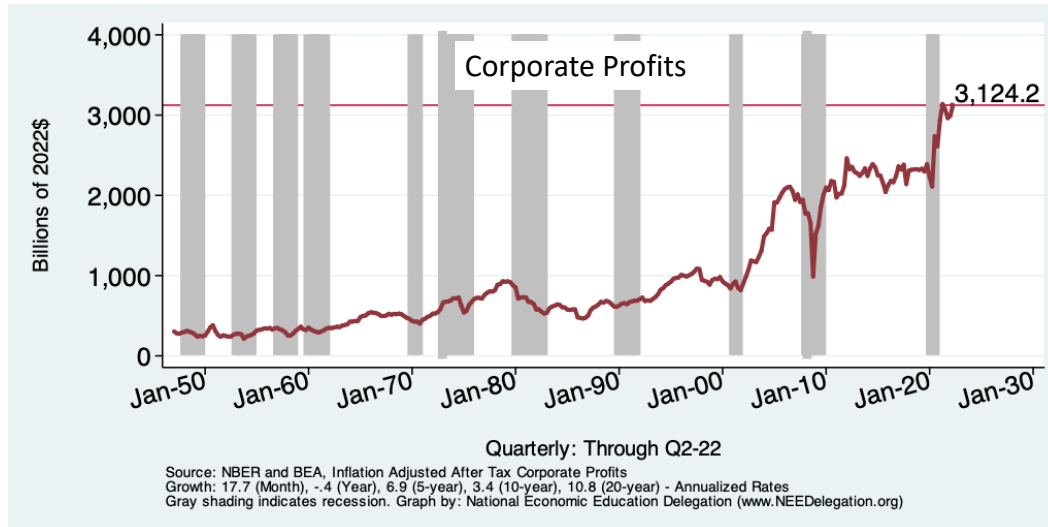
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Supply Chains



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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.

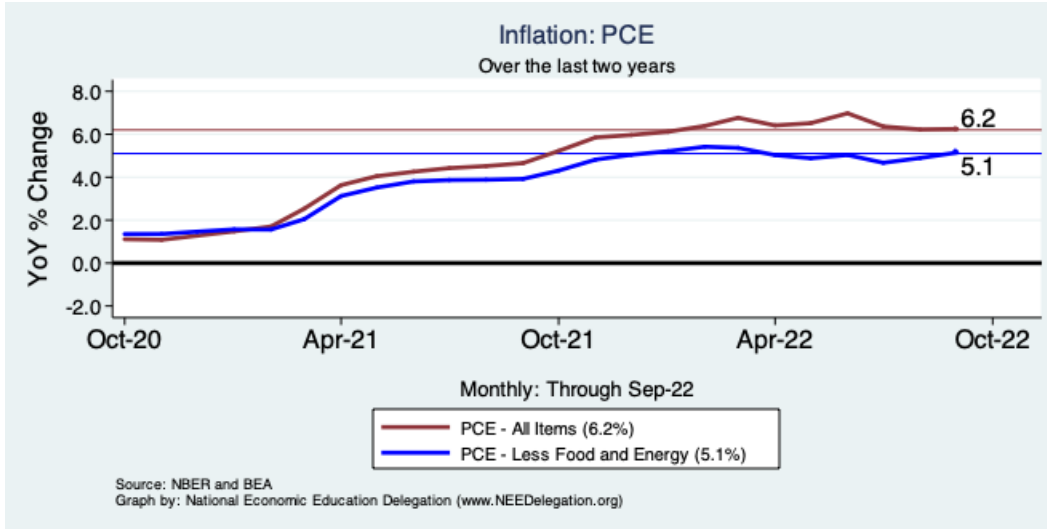


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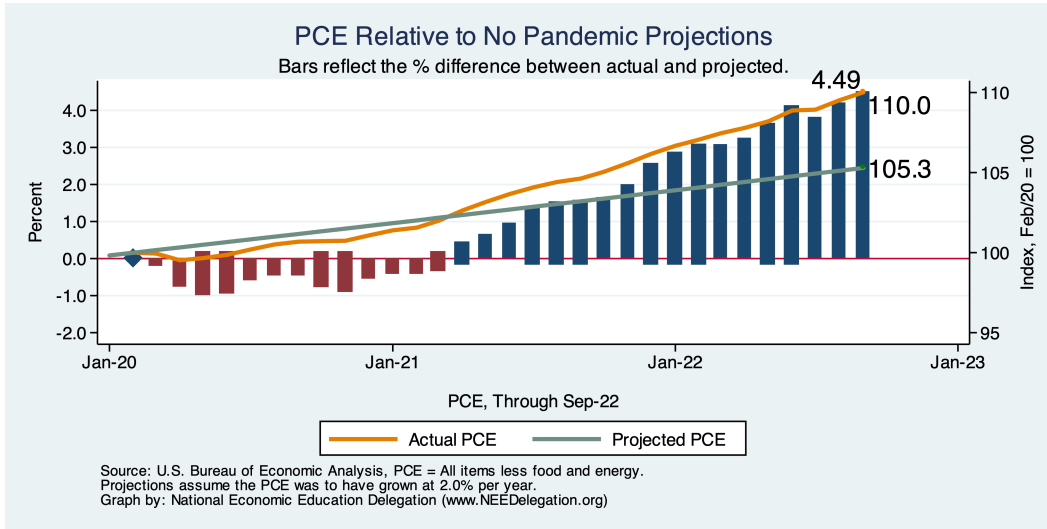
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Inflation – The Fed’s Metric



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



Measure of Inflation Expectations



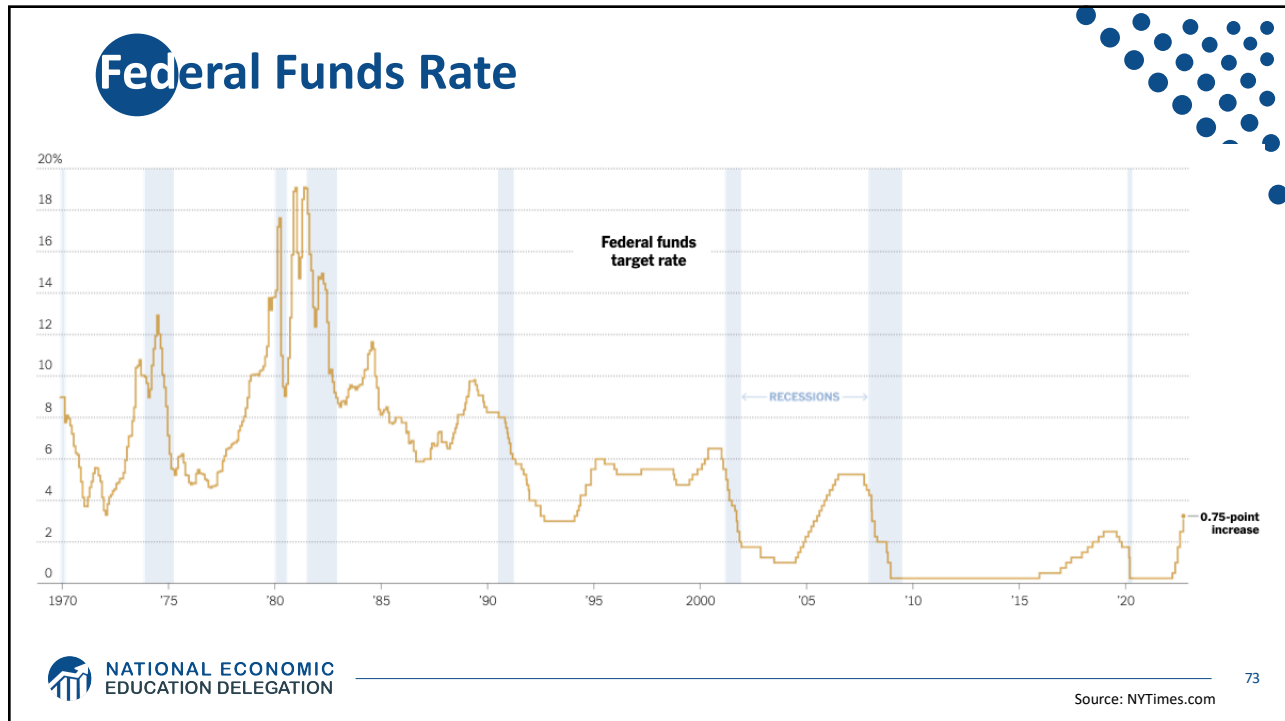
Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.5% inflation annually over the next 10 years and 2.7% over the next 5 years.

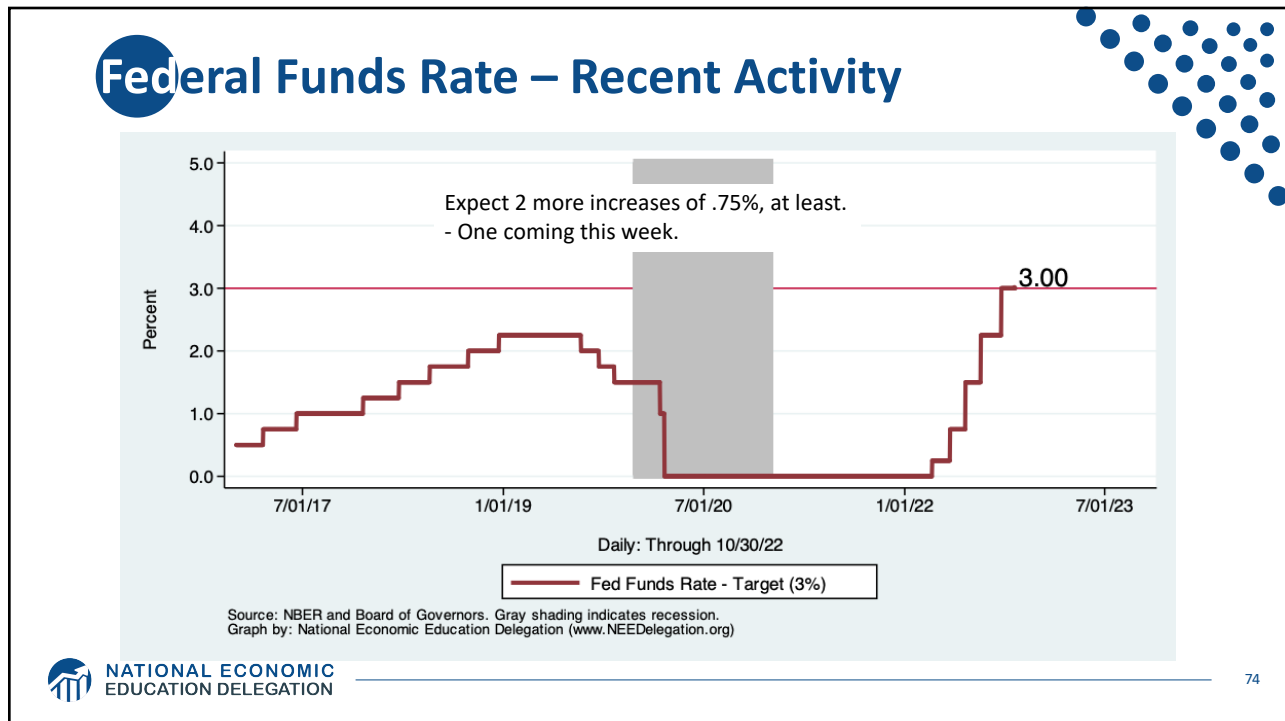
Inflation expectations are calming down.

Source: NBER and Federal Reserve Bank of St. Louis. Grey indicates recession. Difference between standard treasury security interest rate and the inflation-indexed rate. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

What's the Fed Doing About It?

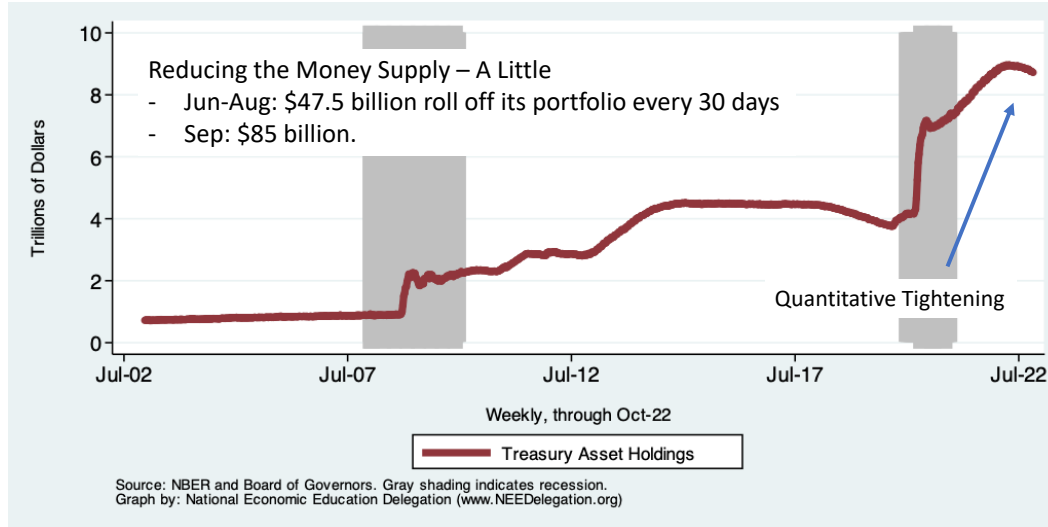


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Fed: Also Reducing its Asset Holdings



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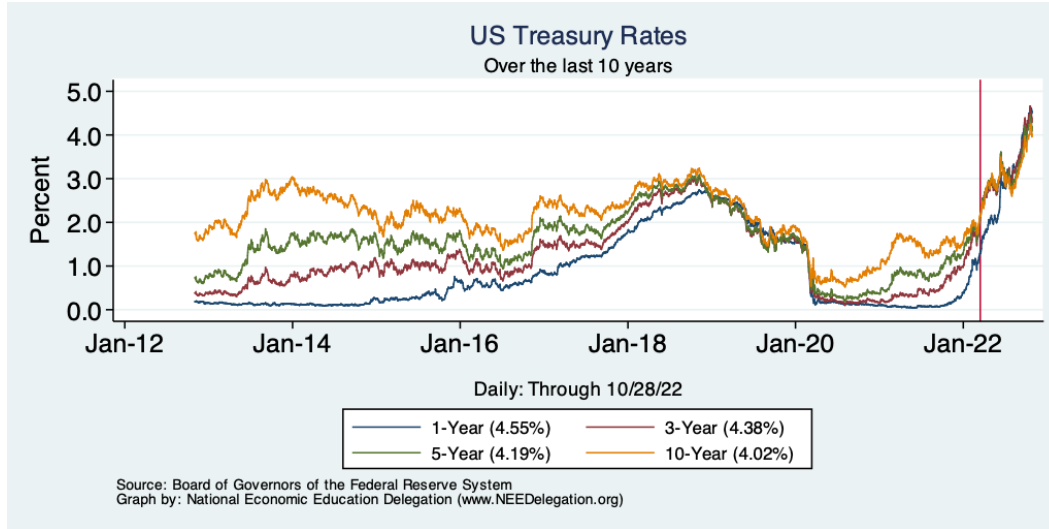
Implications for Demand

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



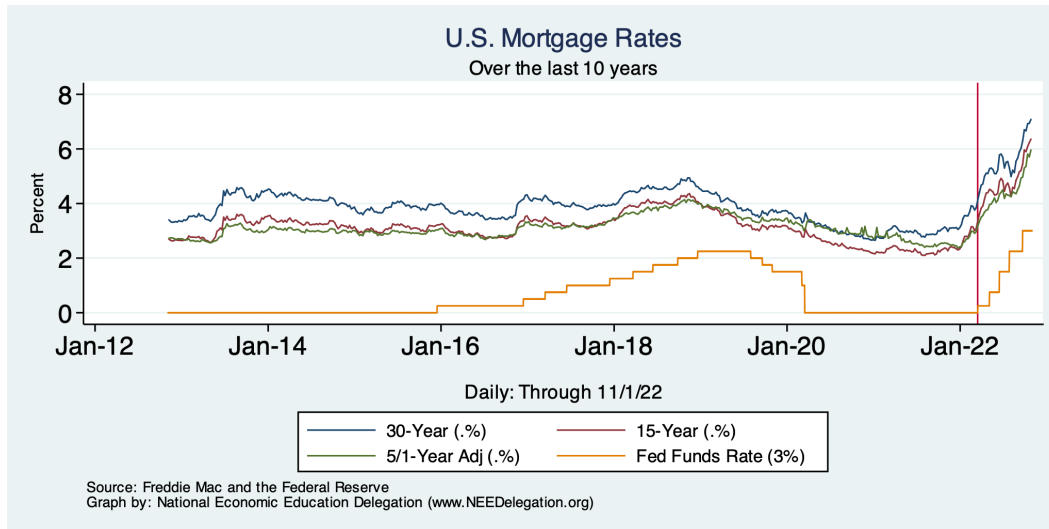
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Treasuries



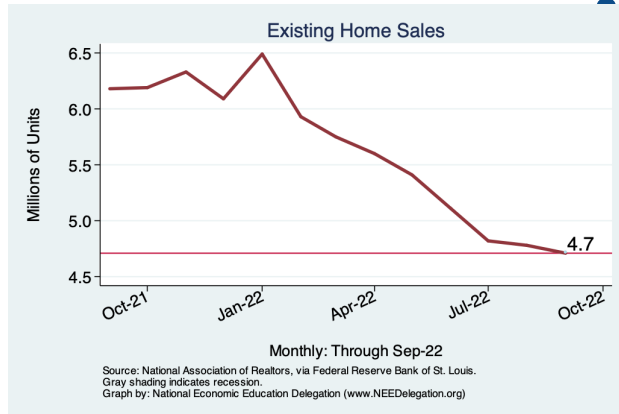
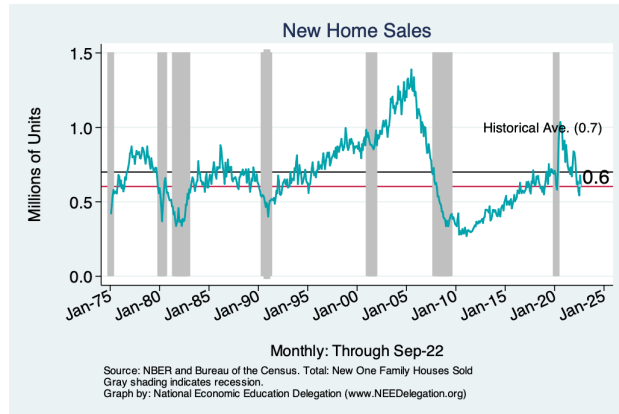
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Mortgage Rates



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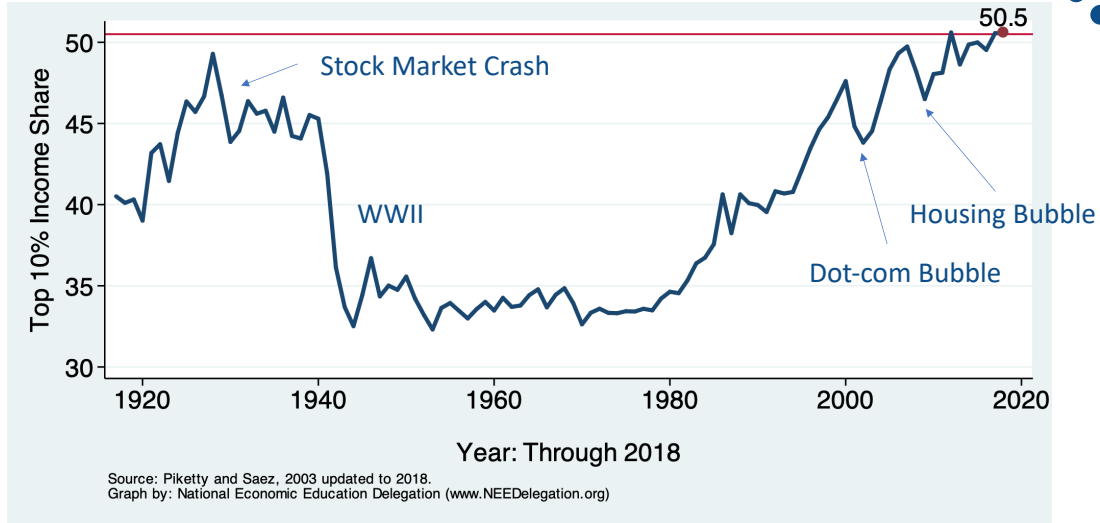
Home Sales Falling



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 – 263k in September.
- **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 – came in ok!
- **Other Indicators suggest slowing.**
 - A real mixed bag. Great uncertainty. News reports aren't helping.

Income Inequality: Adina Ardelean



Thank you!

Any Questions?

www.NEEDelegation.org

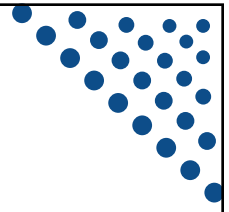
Jon D. Haveman

Jon@NEEDelegation.org

Contact NEED: info@NEEDelegation.org

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