



Osher Lifelong Learning Institute, Winter 2023 **Contemporary Economic Policy**

Sonoma State University
February-March, 2023

Host: Jon Haveman, Ph.D.
National Economic Education Delegation



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



Course Outline

- **Contemporary Economic Policy**

- Week 1 (2/1): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- **Week 2 (2/8): US Economic Update (Jon Haveman, NEED)**
- Week 3 (2/15): Trade Deficits and Exchange Rates (Alan Deardorff)
- Week 4 (2/22): Economic Mobility (Jon Haveman)
- Week 4 (3/1): Cryptocurrencies (Jon Haveman)
- Week 6 (3/8): Autonomous Vehicles (Jon Haveman)



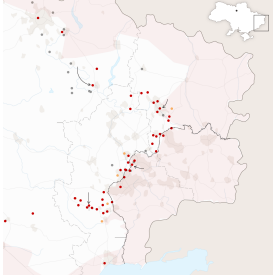
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Submitting Questions

- **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.**
 - Will also answer questions during 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
February 8, 2023




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Credits and Disclaimer

- **This slide deck was authored by:**
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 - 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
- Economic Indicators
- Global Comparisons
- Inflation/Federal Reserve
- Debt Ceiling



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Some Basic Statistics

Statistic:	Value
Population	334.4 Million
Labor Force	165.8 Million
Employment	155.1 Million
Gross Domestic Product (GDP)	\$26.1 Trillion
Income per Capita	\$66,329
Ave. Hourly Earnings	\$33.03



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Source: fred.stlouisfed.org

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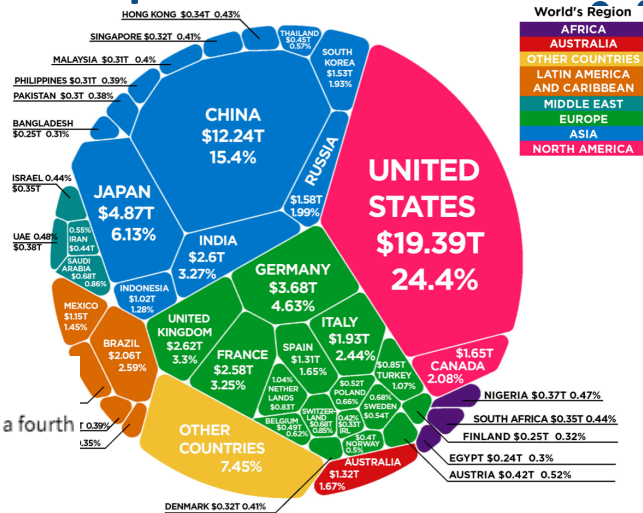
U.S. Economy in Global Perspective

U.S. Nominal GDP:

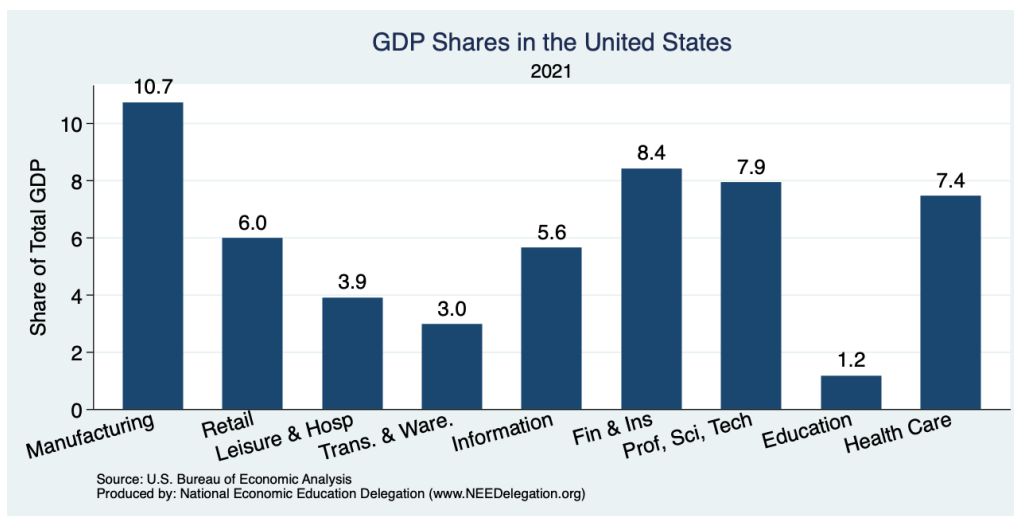
\$21.538 trillion in 2019-Q4
\$19.637 trillion in 2020-Q2
\$26.132 trillion in 2022-Q3

% Share of the Global Economy

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

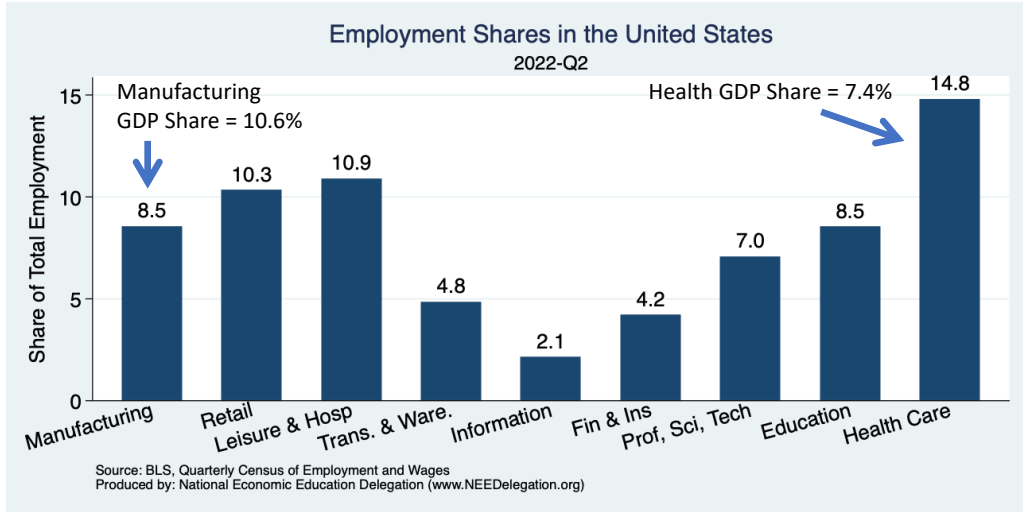


Composition of the U.S. Economy: 2021



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

Composition of the U.S. Economy: Employment



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Economic Indicators

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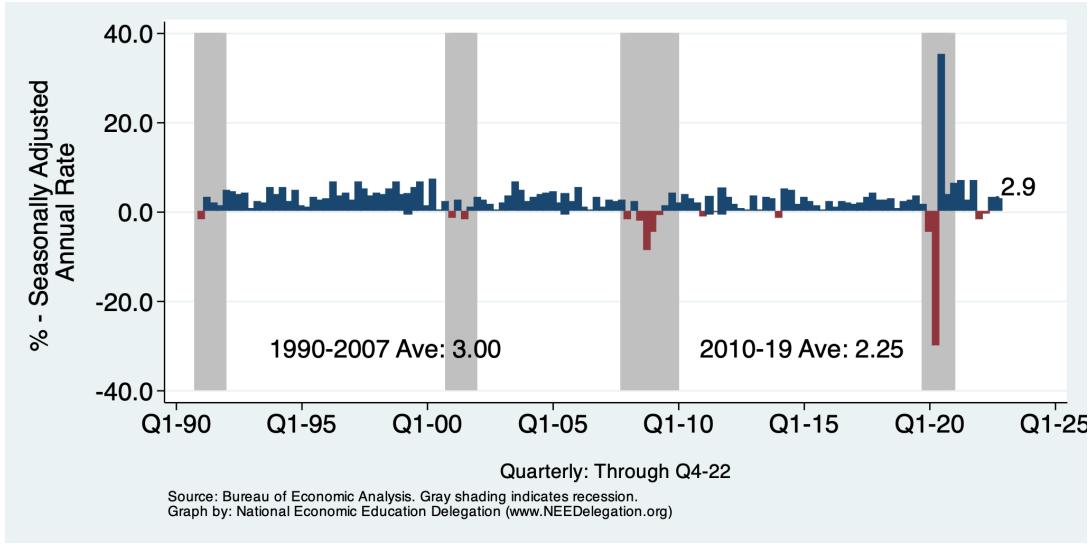
Headline: July 28, 2022

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

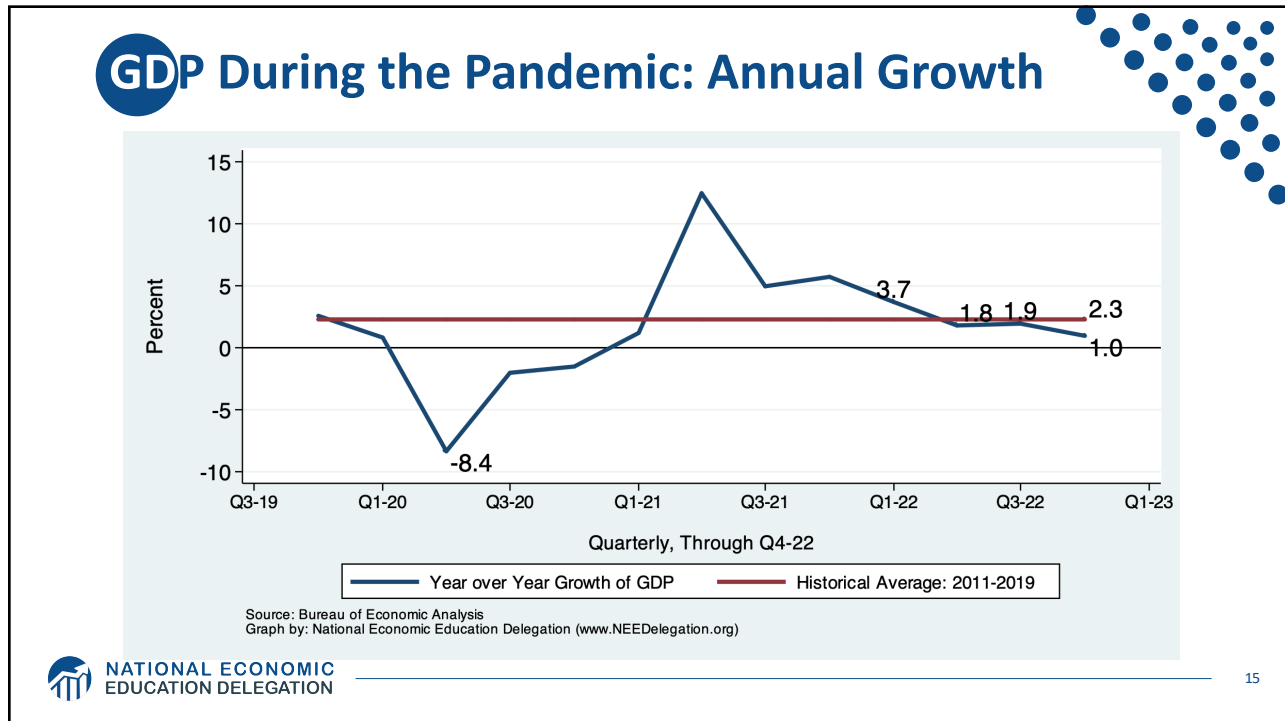
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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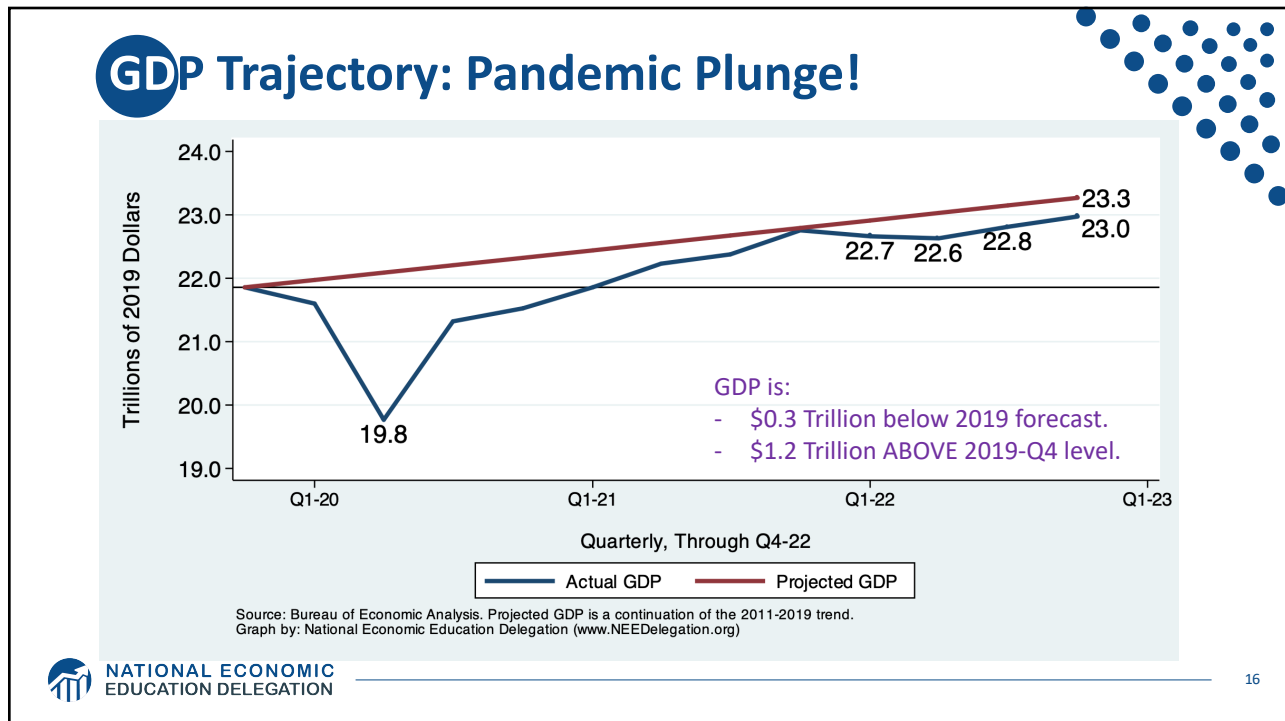
GDP: Quarterly Growth



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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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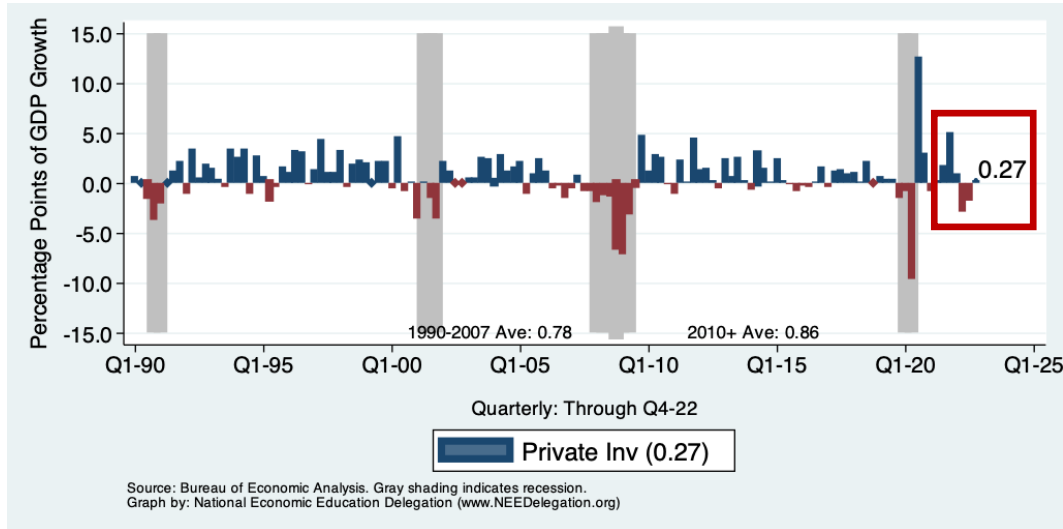
Recession? Two Quarters....

- **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, but perhaps faltering.**



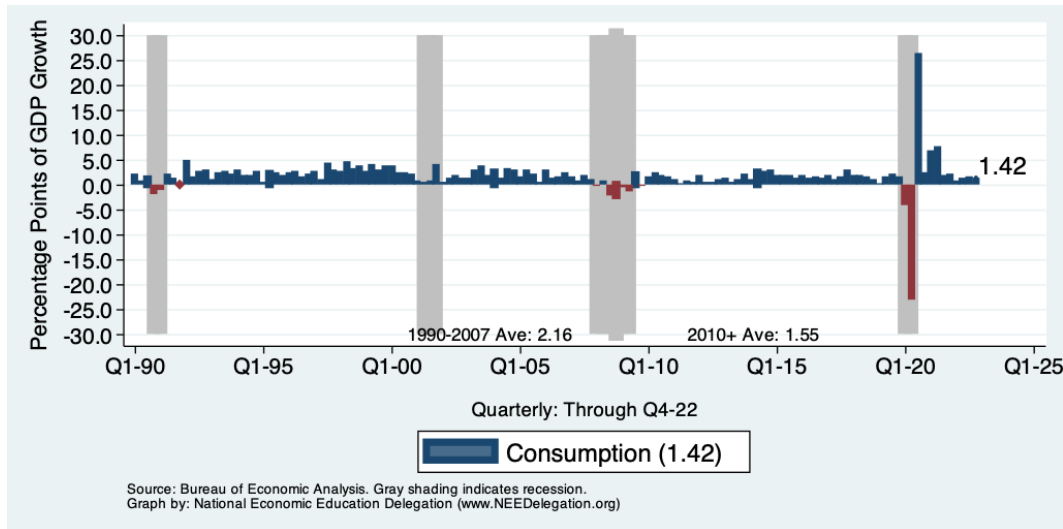
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Contribution to GDP Growth: Inventories



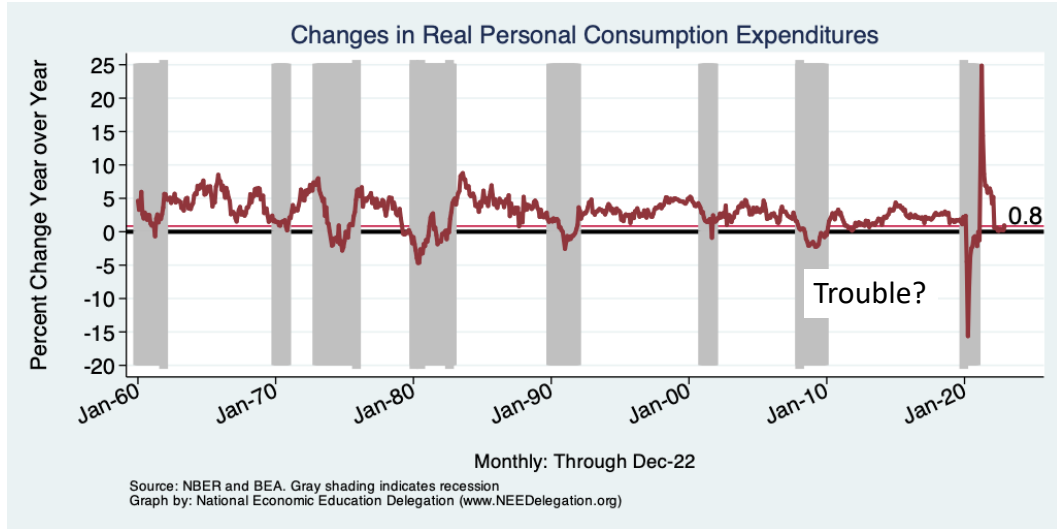
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Contribution to GDP Growth: Consumption



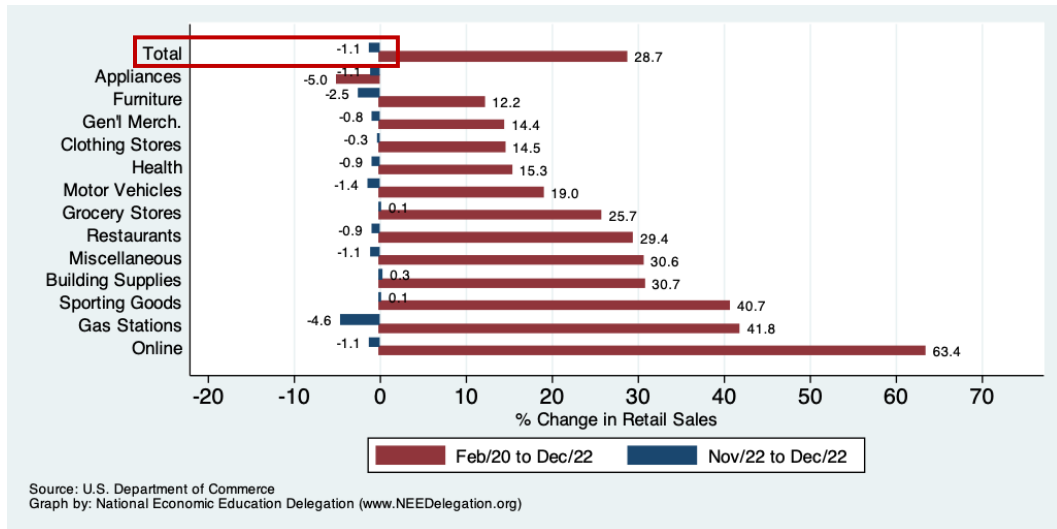
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Personal Consumption Expenditures



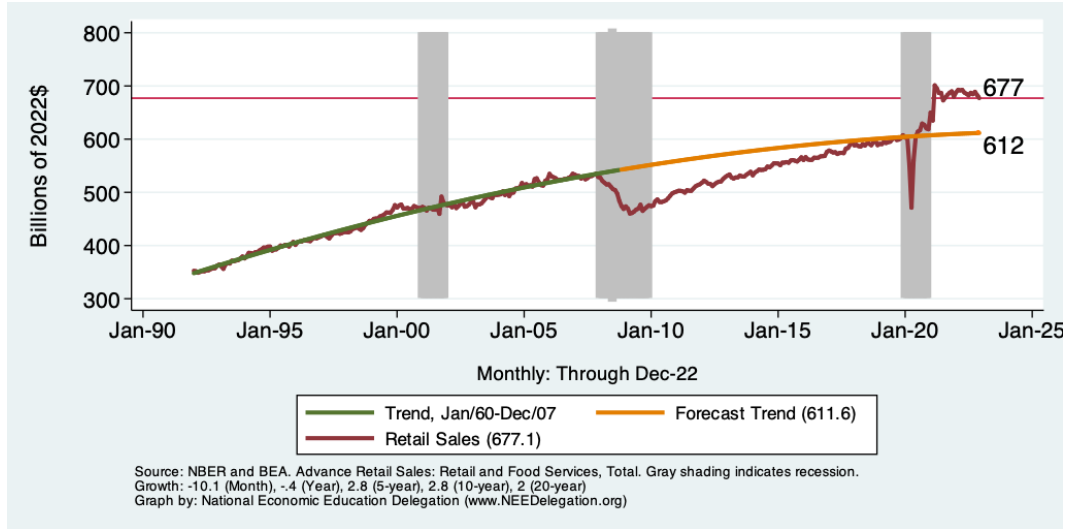
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Retail Sales Fell in December



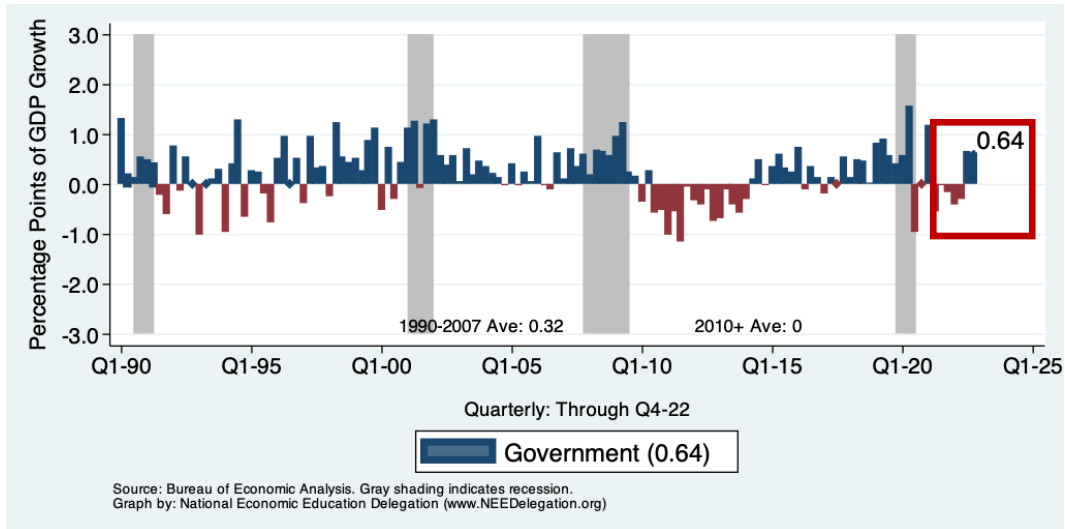
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But SUPER High to Begin With!



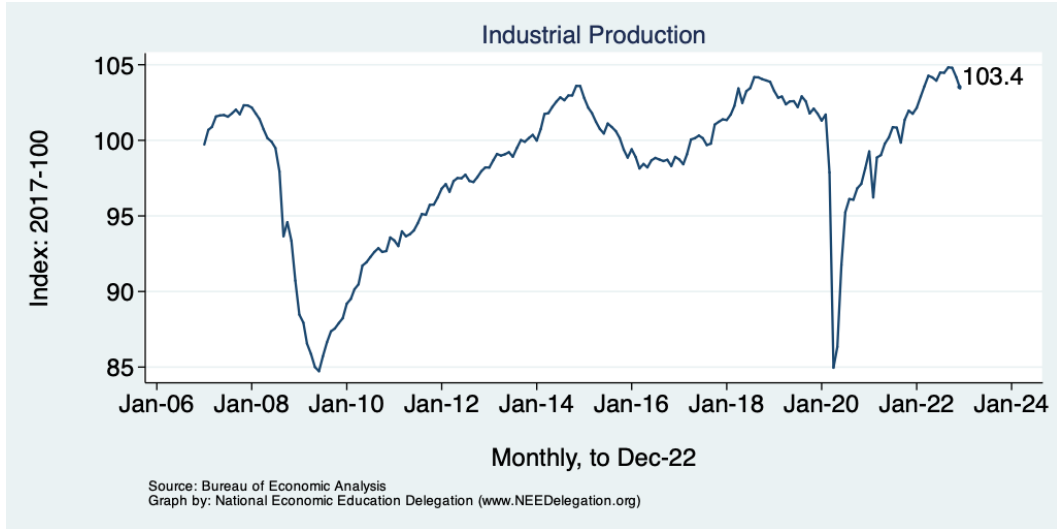
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Contributions to GDP: Government

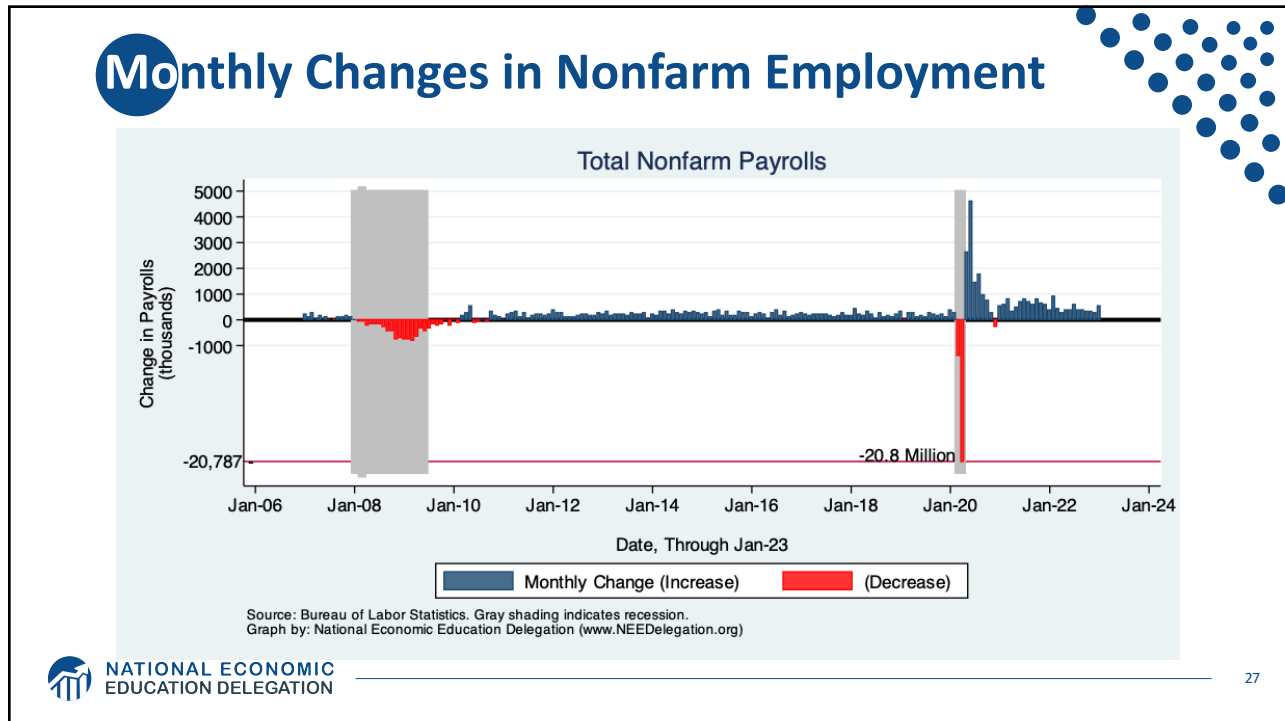


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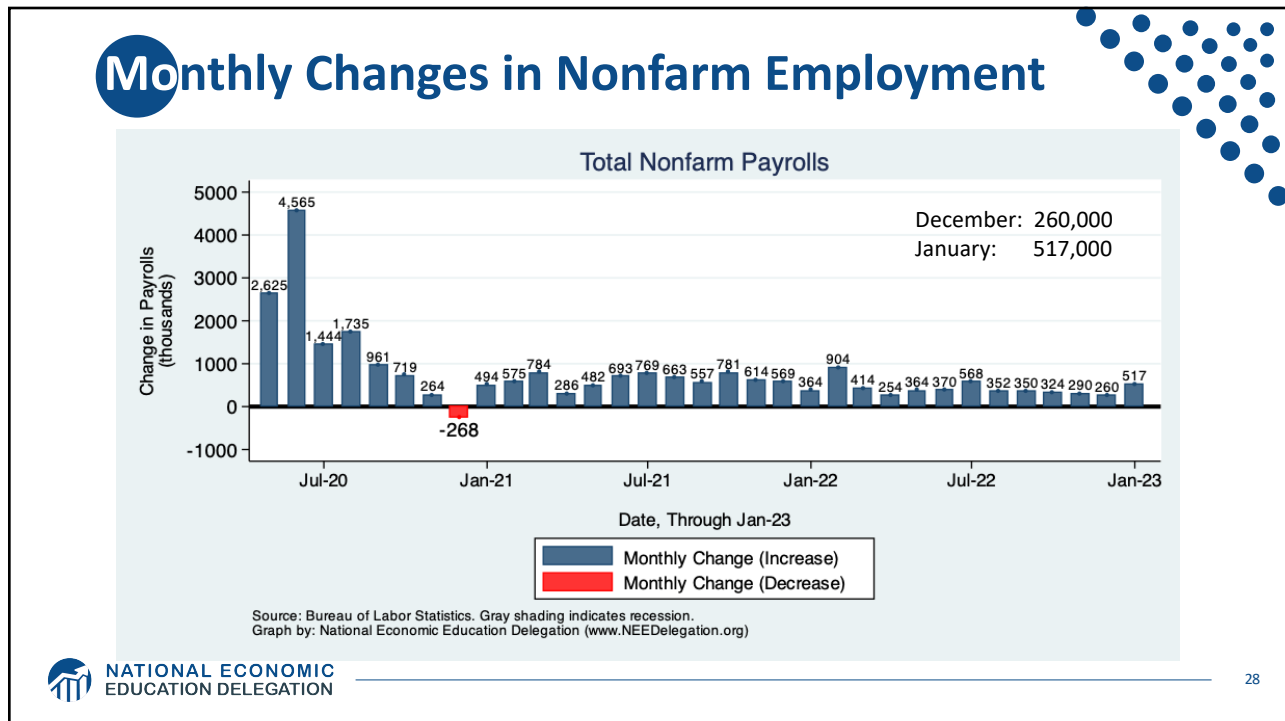
Industrial Production (Manuf, Util, Mining)



Employment

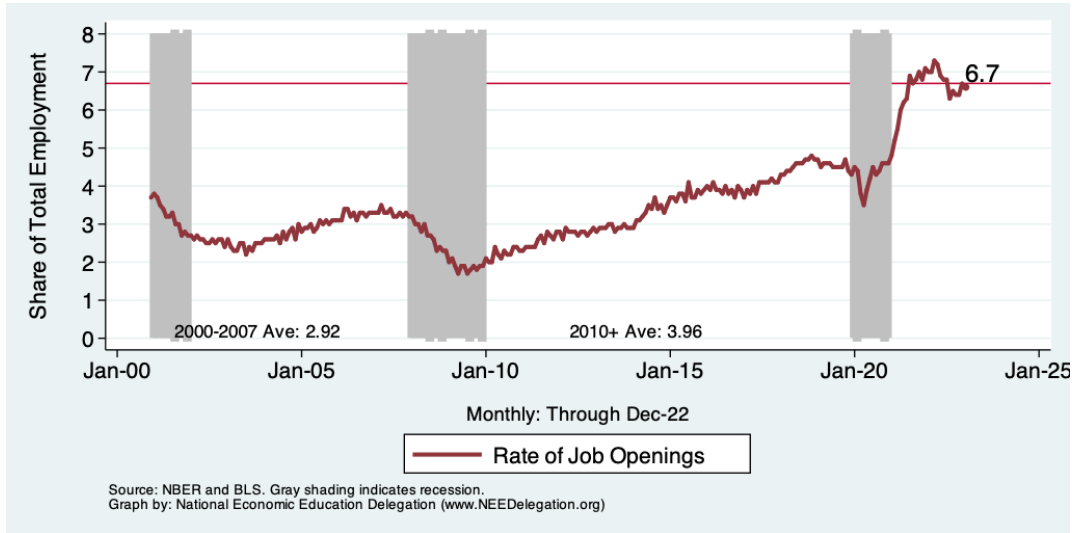


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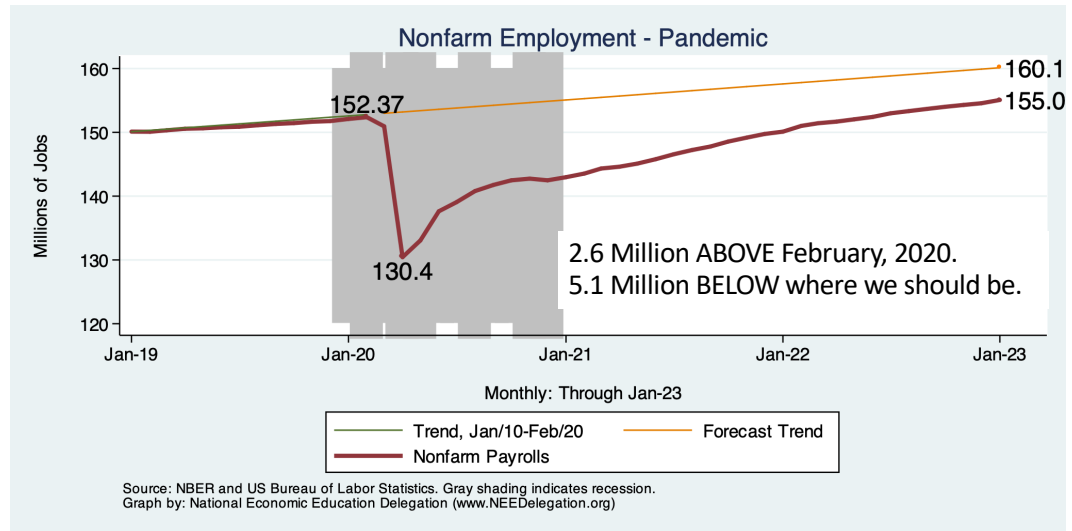
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Job Openings: Share of Total Employment



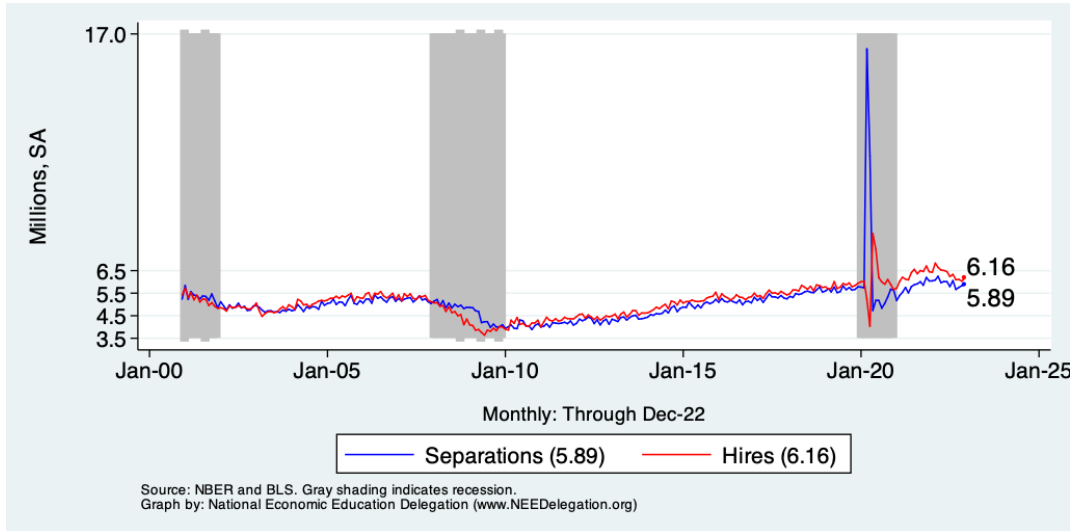
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Employment Gap



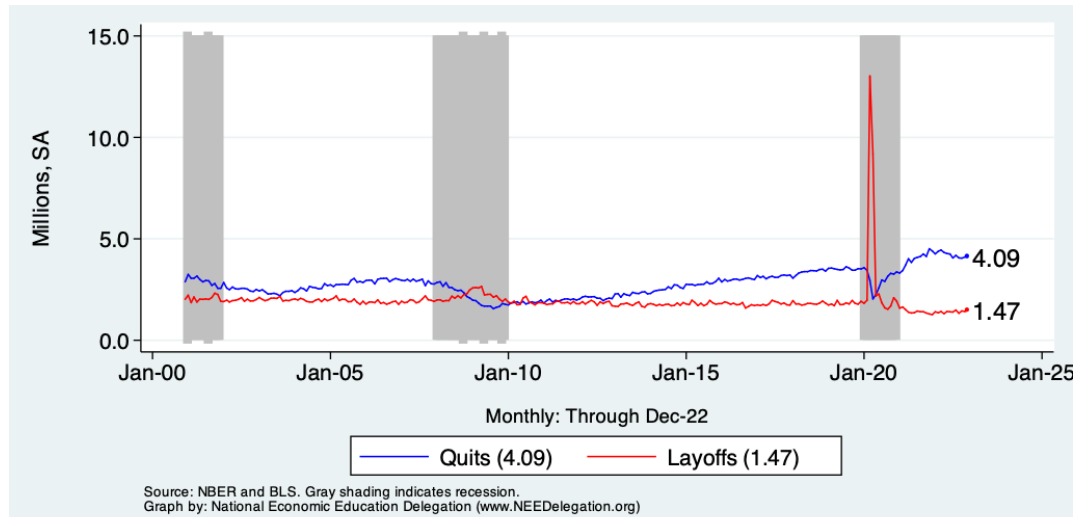
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Job Hires and Separations



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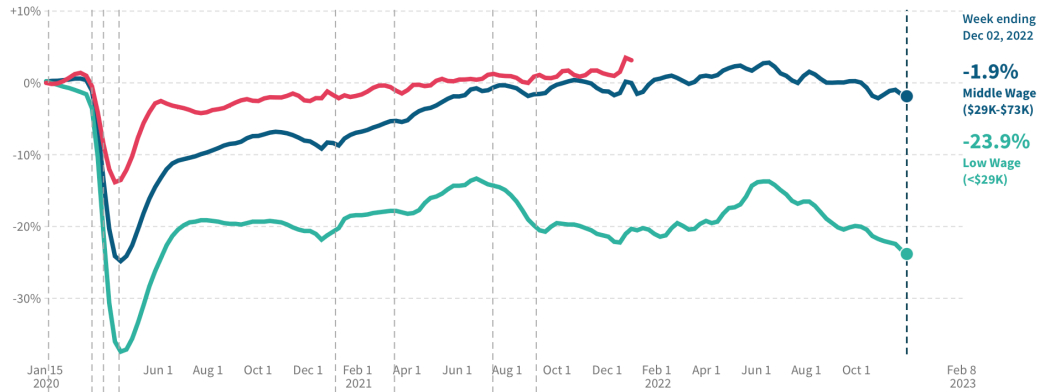
Separations: Quits and Layoffs



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Low Wage Employment is Lagging

In the United States, as of December 02, 2022, employment rates among workers in the middle wage quartiles decreased by **1.9%** compared to January 2020 (not seasonally adjusted).



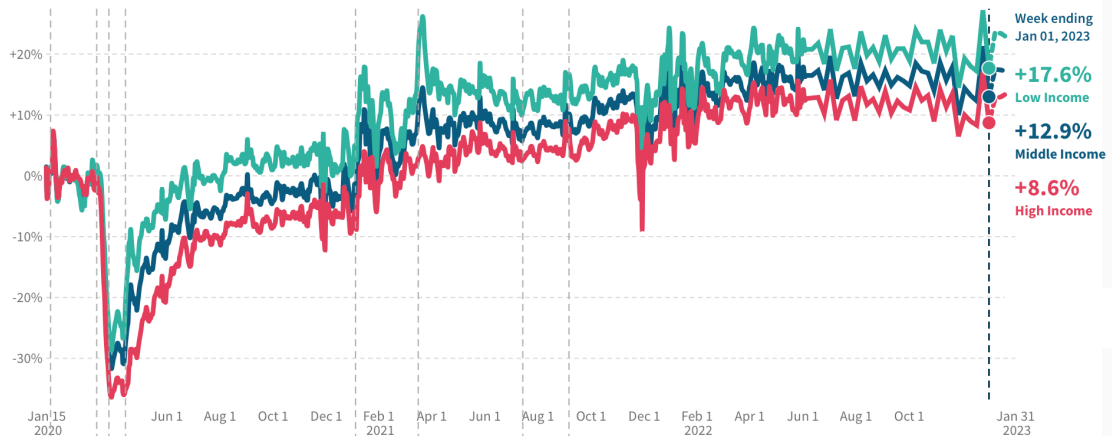
Source: <https://tracktherecovery.org>

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Low Wage Spending is NOT!

In the United States, as of January 01, 2023, total spending by middle-income consumers increased by **12.9%** compared to January 2020.

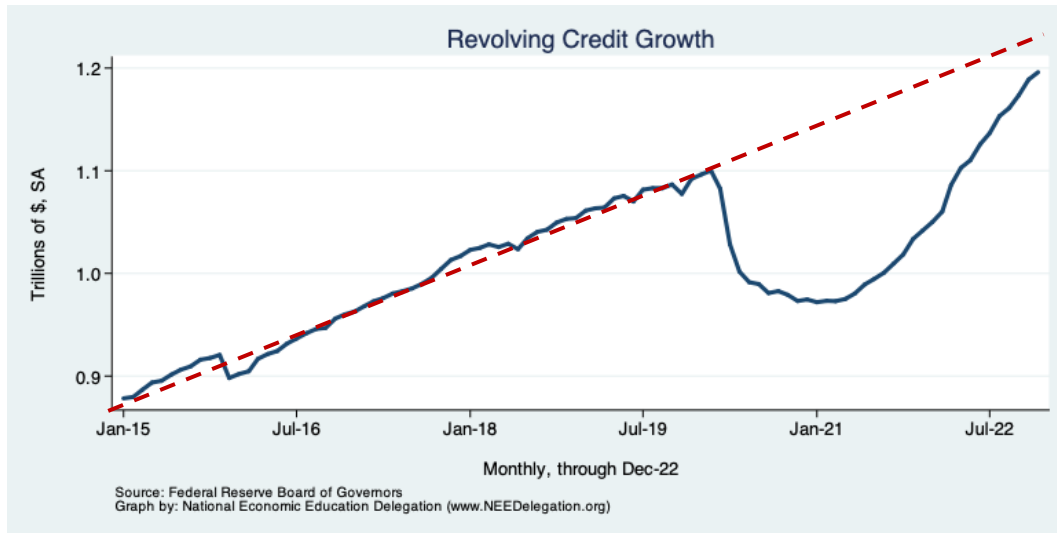


Source: <https://tracktherecovery.org>

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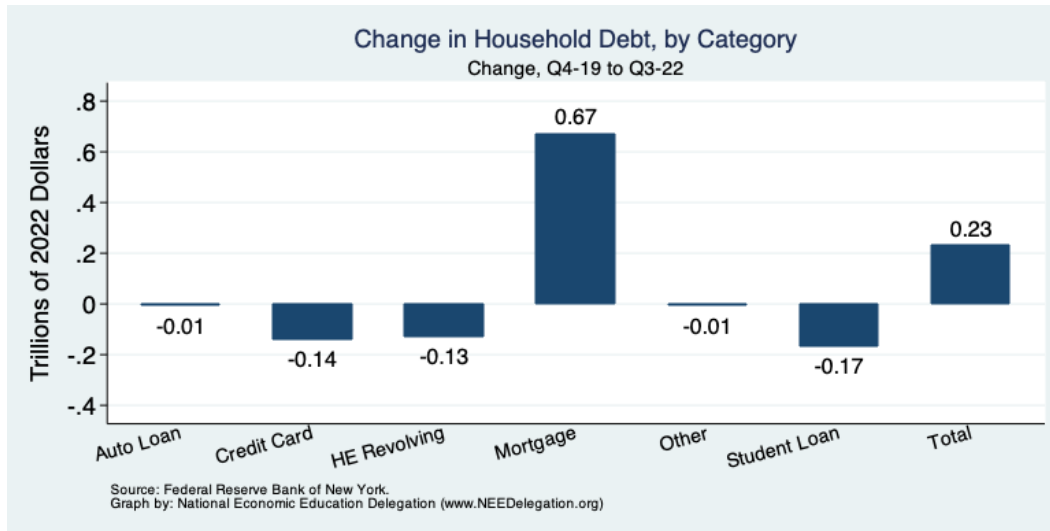
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Now is Borrowing on Credit

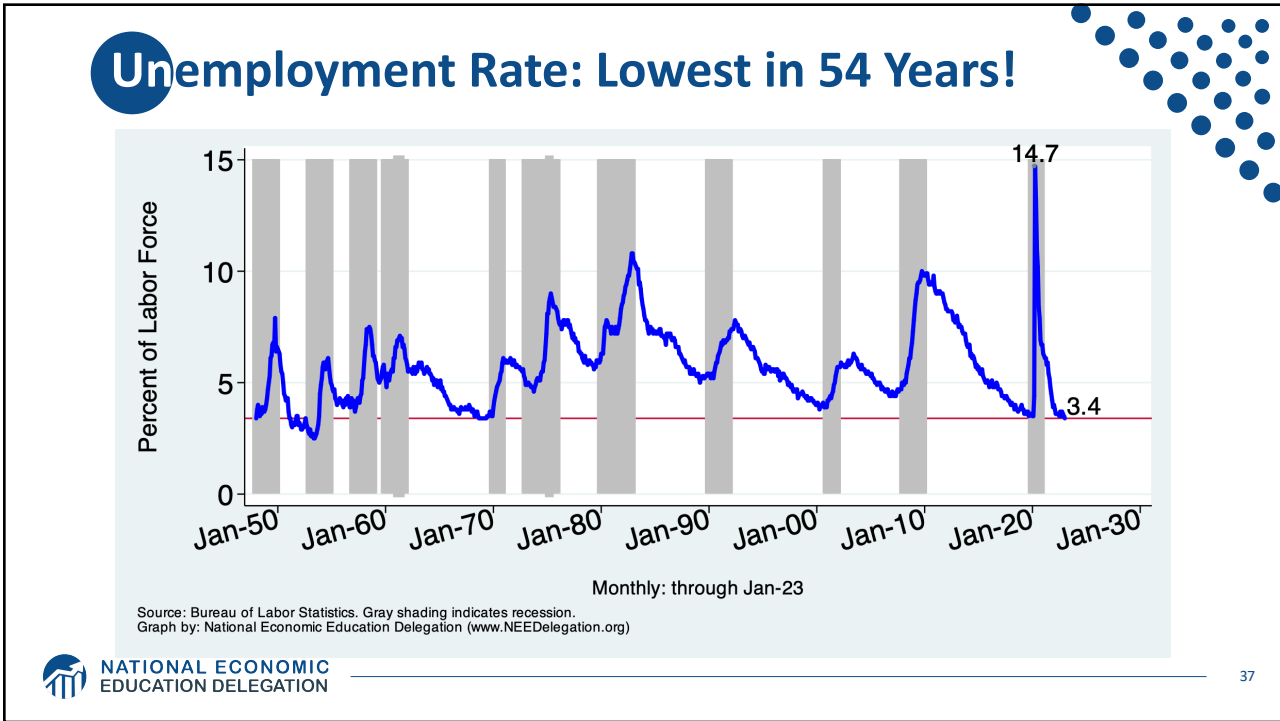


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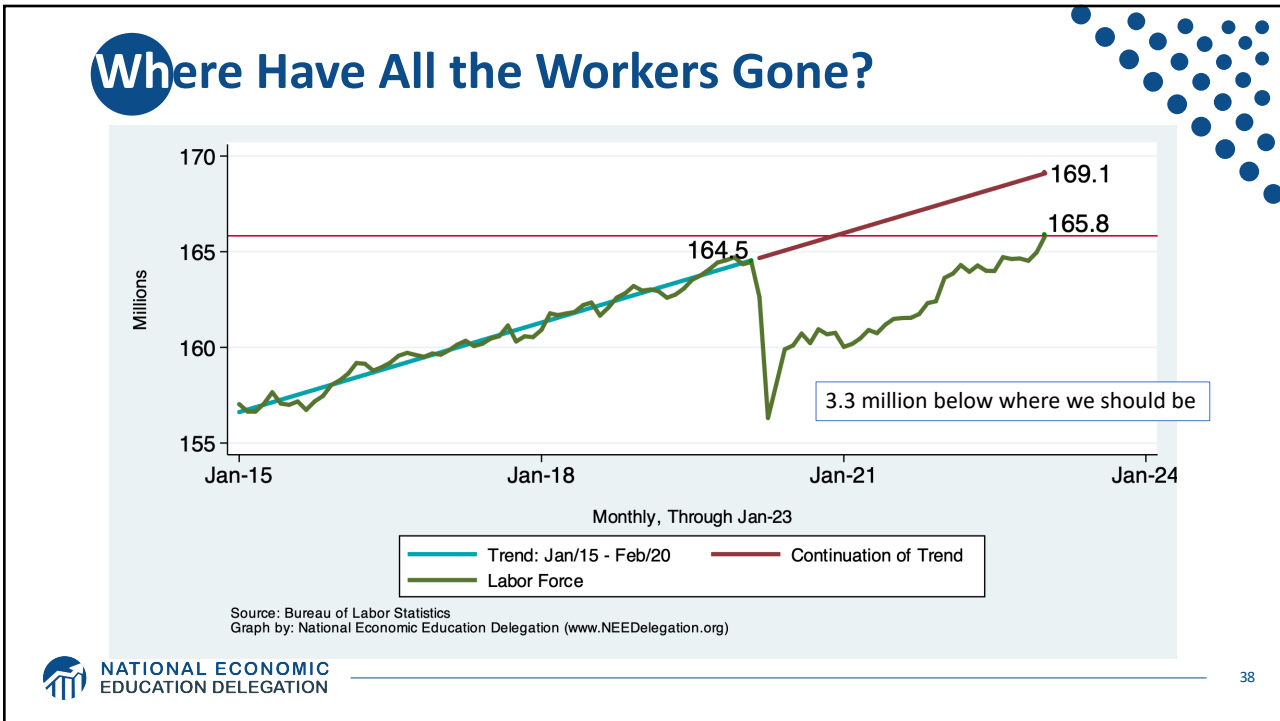
Household Debt: Change During the Pandemic



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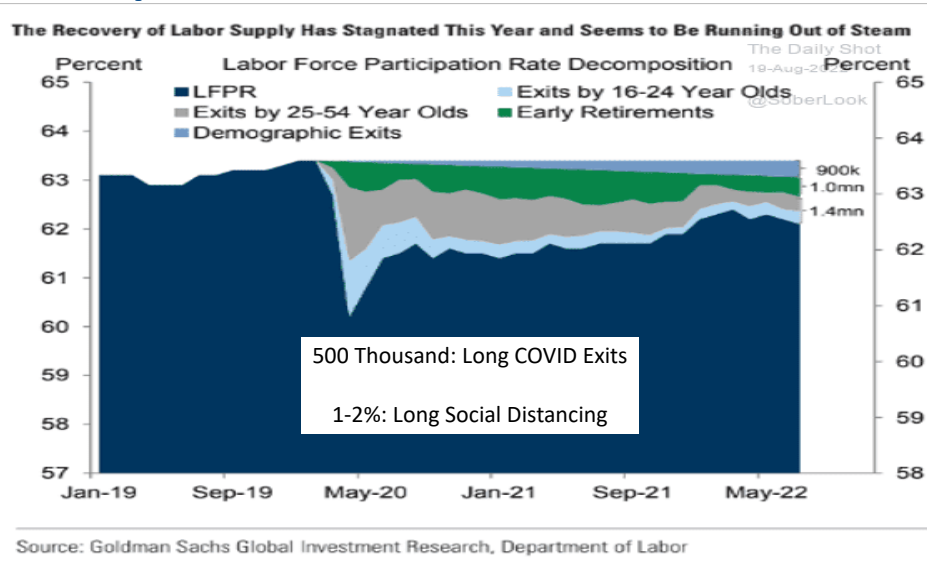


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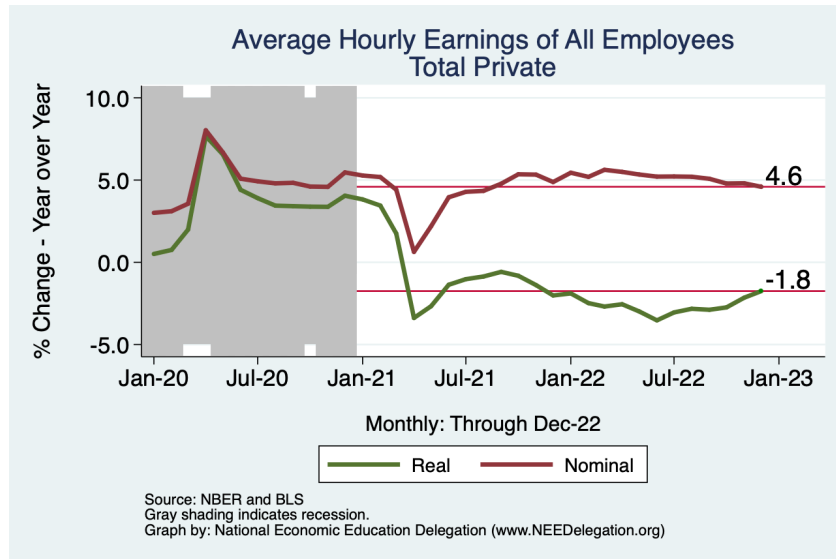
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Some Explanations



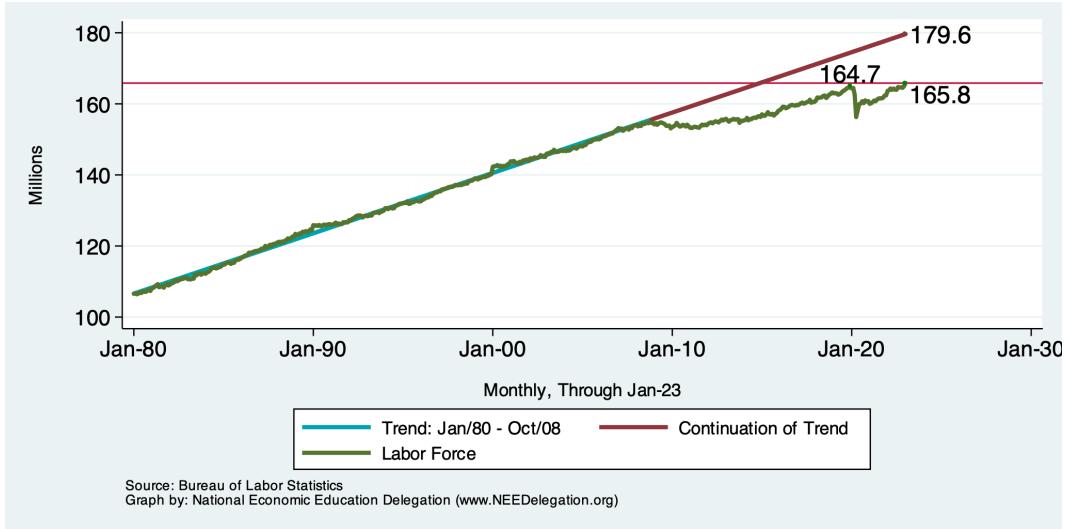
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Wage Growth



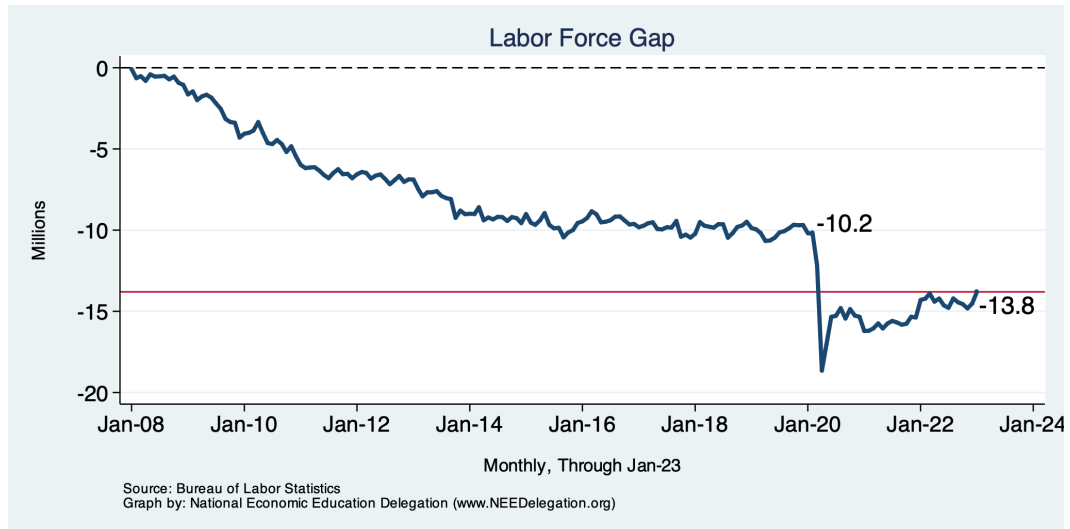
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Trends in Labor Force Participation



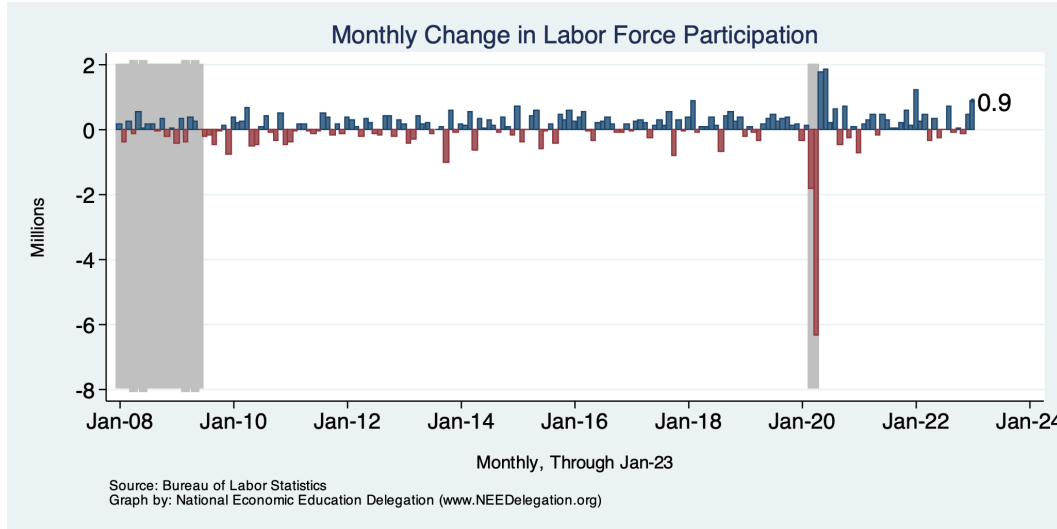
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There is a Persistent Labor Force Gap



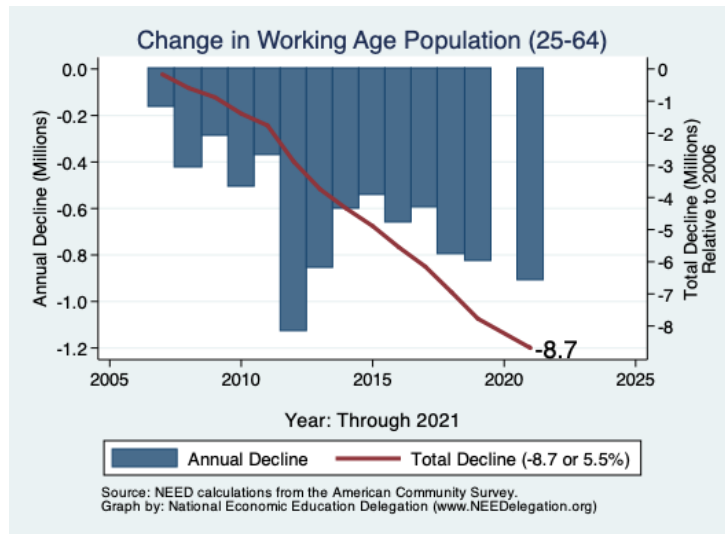
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Labor Force Growth Has Been Uneven



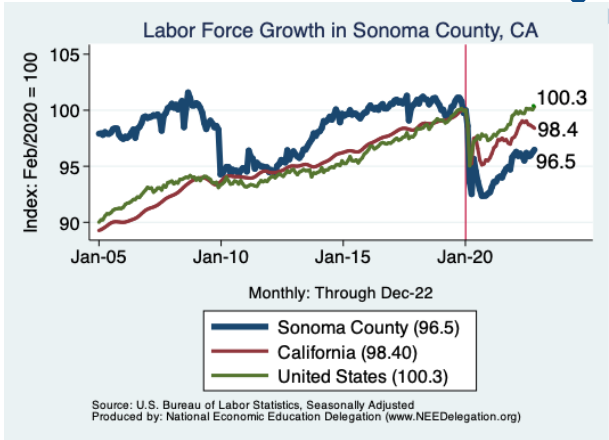
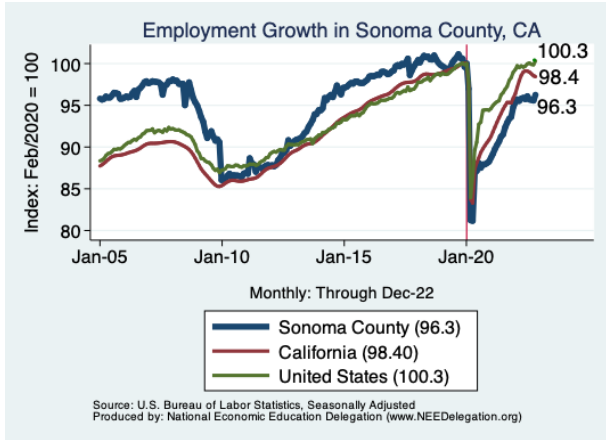
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Baby Boomers Are Retiring!



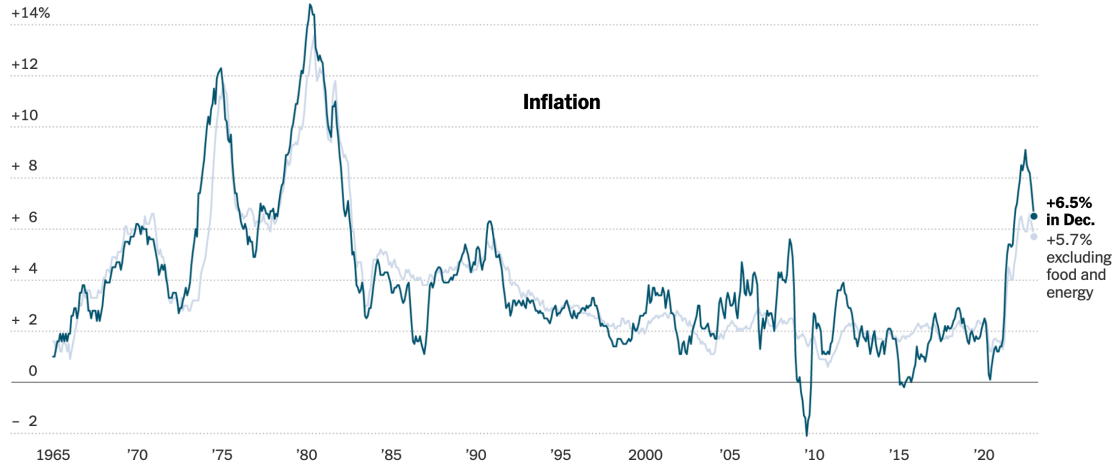
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How Are Things Where You Are?

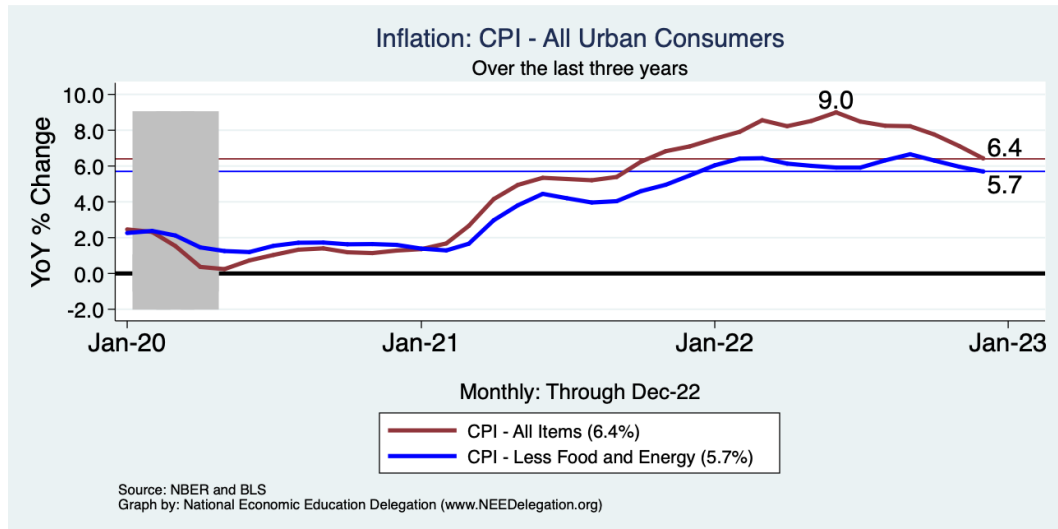


Inflation

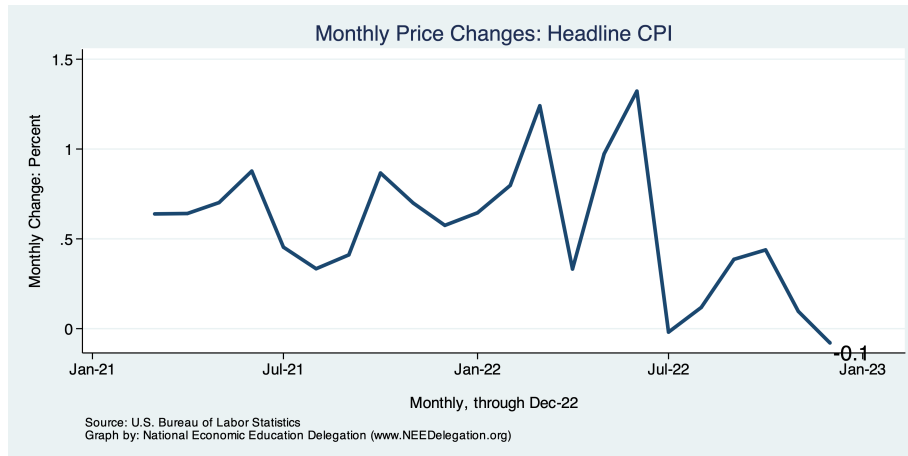
Inflation: Latest Figures



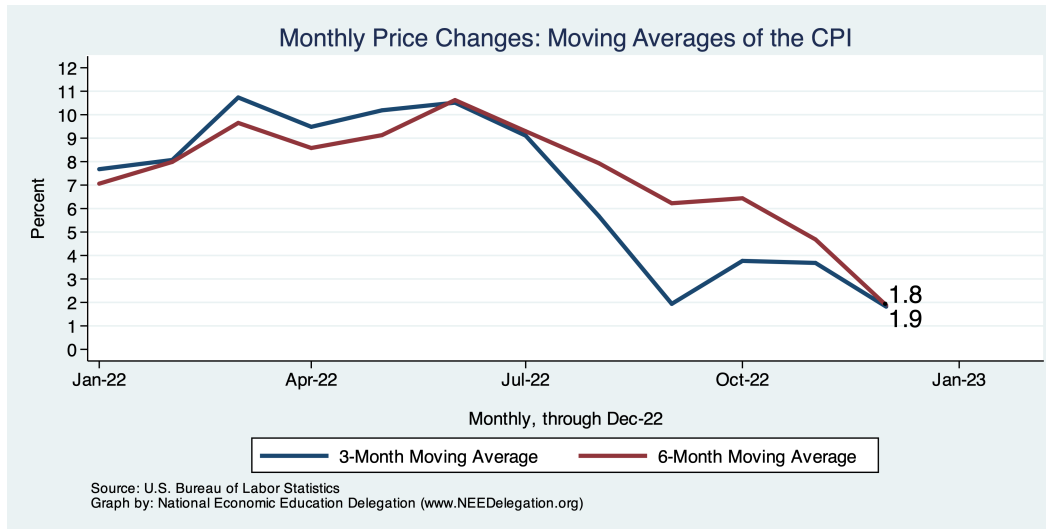
Inflation – Falling! Job done? Maybe.

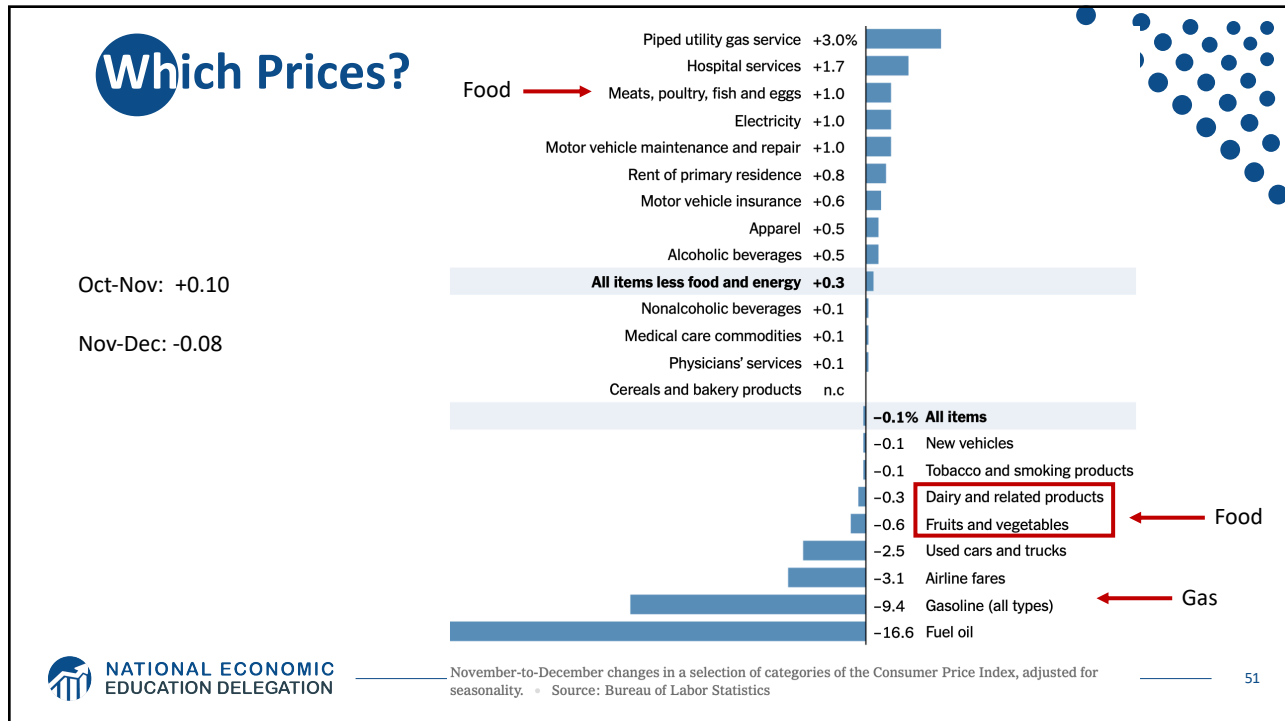


Inflation: Monthly Changes

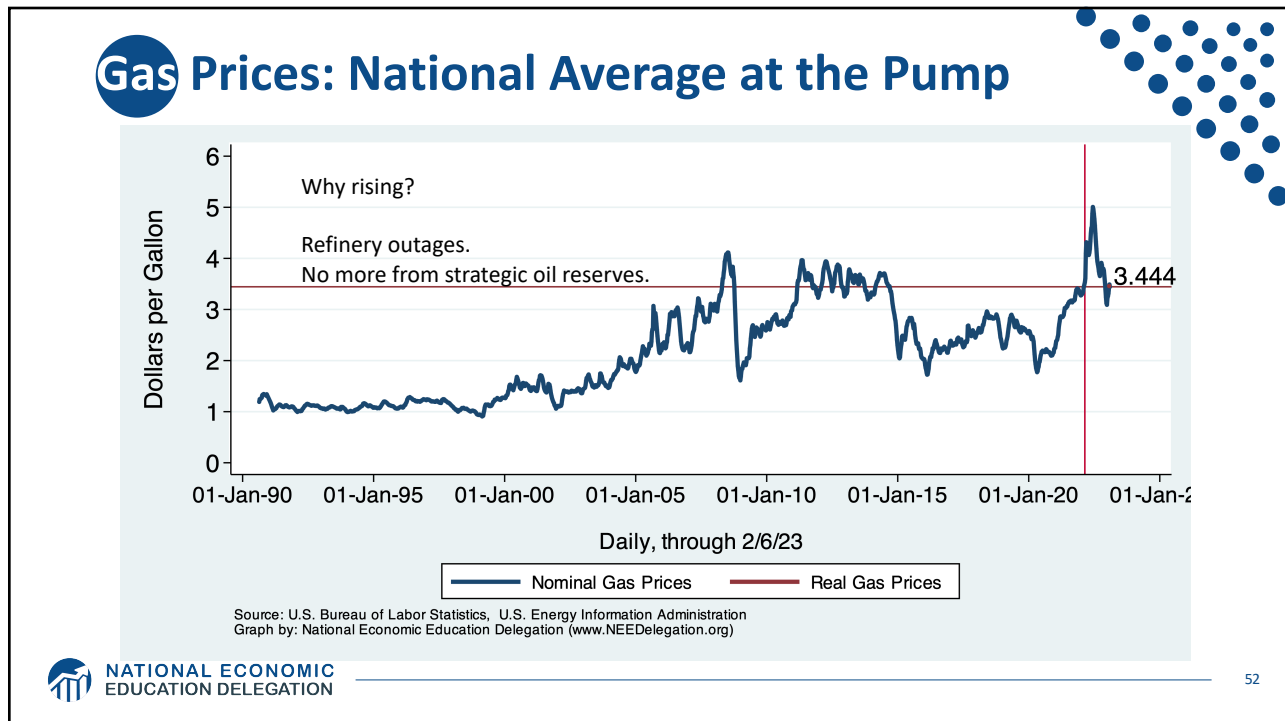


Inflation in the Last 6 Months – On Target!



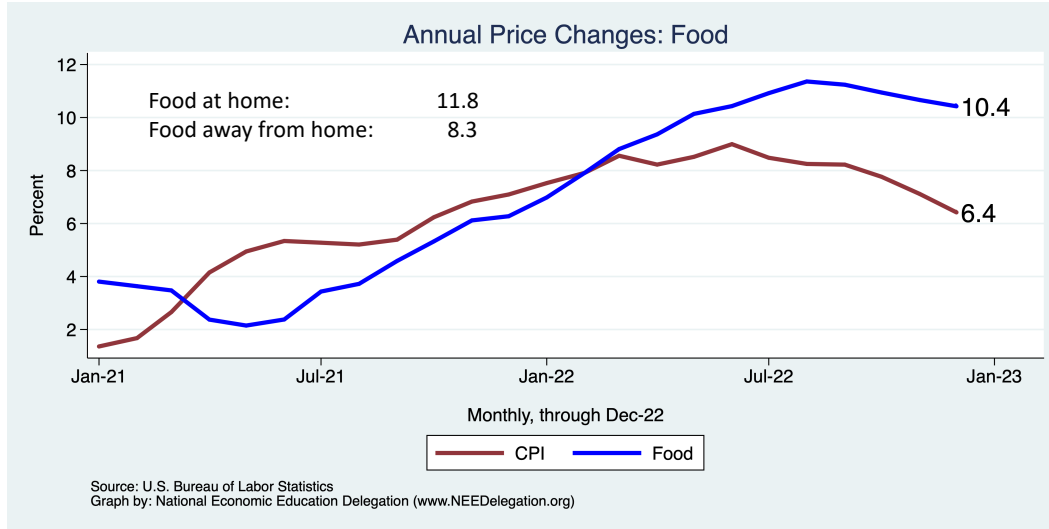


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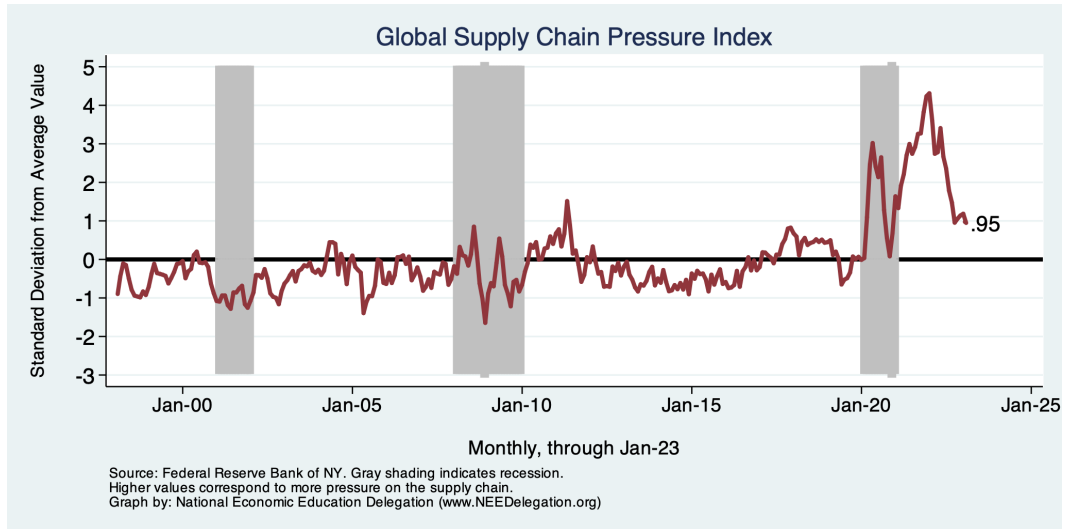
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Food Costs Continue Are Falling – but not Eggs



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Supply Chains

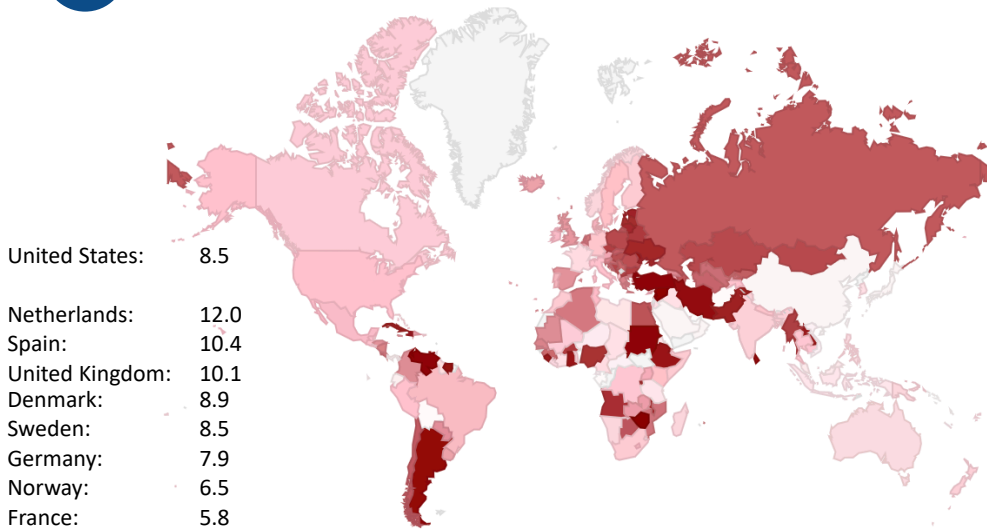


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Global Evidence

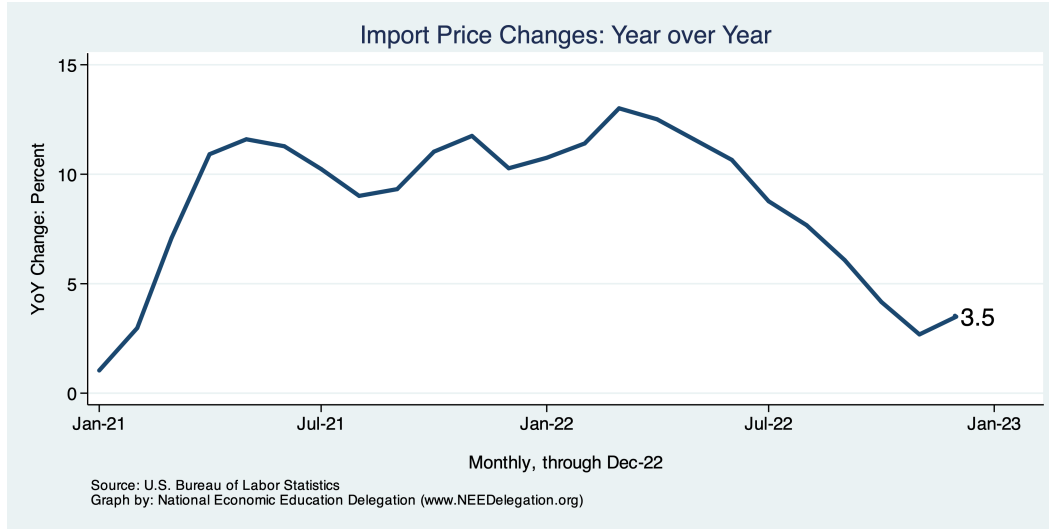
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Inflation: Not just a US Problem



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Import Prices Are Elevated



Inflation: A Closer Look

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	Stability
Goods	up 14.2%	- And stable.
Services	up 3.5%	- And going up.

Monthly: Through Dec-22

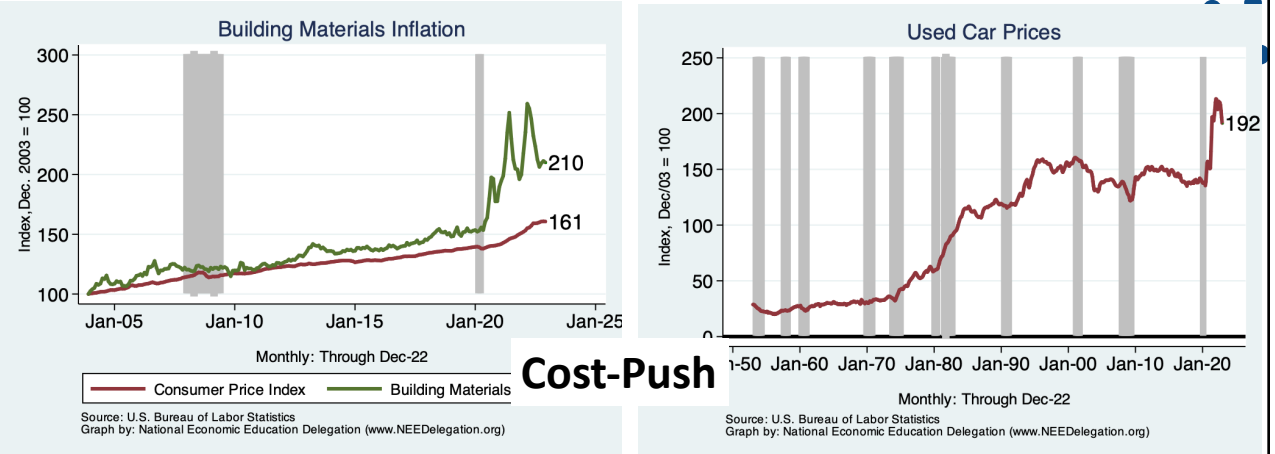
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Source: U.S. Bureau of Economic Analysis
Graph by: National Economic Education Delegation (www.NEEdelegation.org)

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Inflation: Concentrated



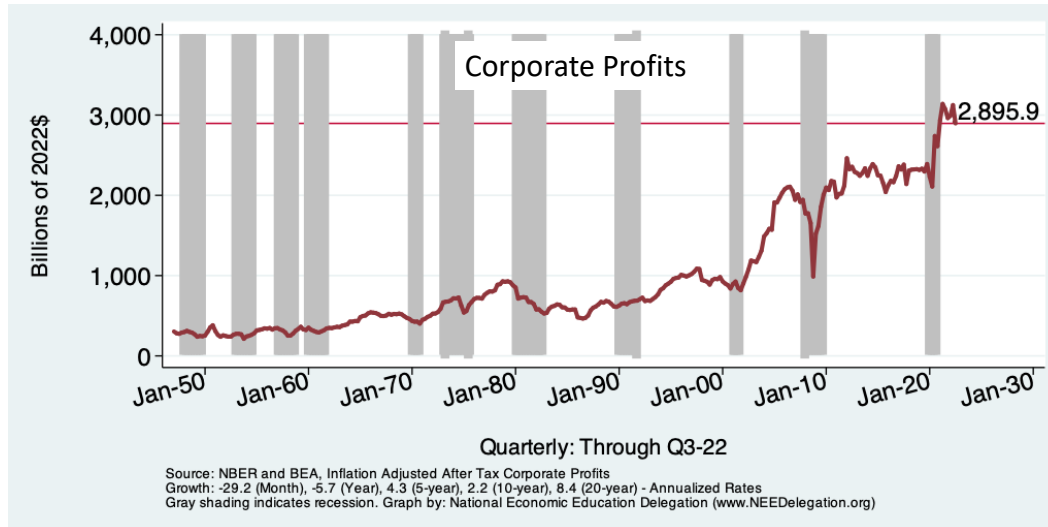
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Supply Chains



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Corporations Have Pricing Power!



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My Thoughts on the Sources of Inflation

- **Supply Chain issues were significant – less so now.**
- **Composition of spending changed significantly.**
 - Is now bouncing back, as are prices.
- **Corporations have used the cover of inflation to raise prices more.**
- **But there was 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.**
- **Bottom line: Recovery from a dramatic economic disruption is seldom painless.**

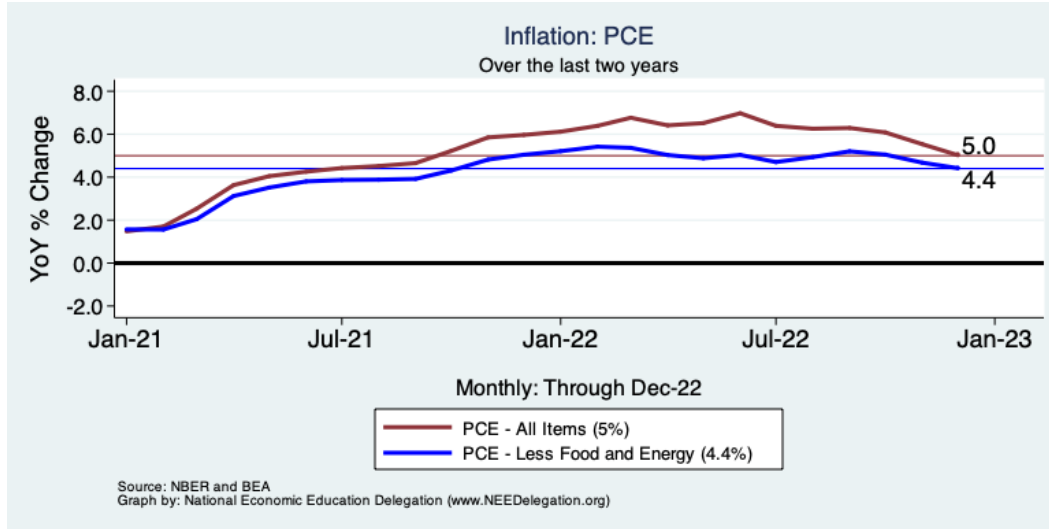


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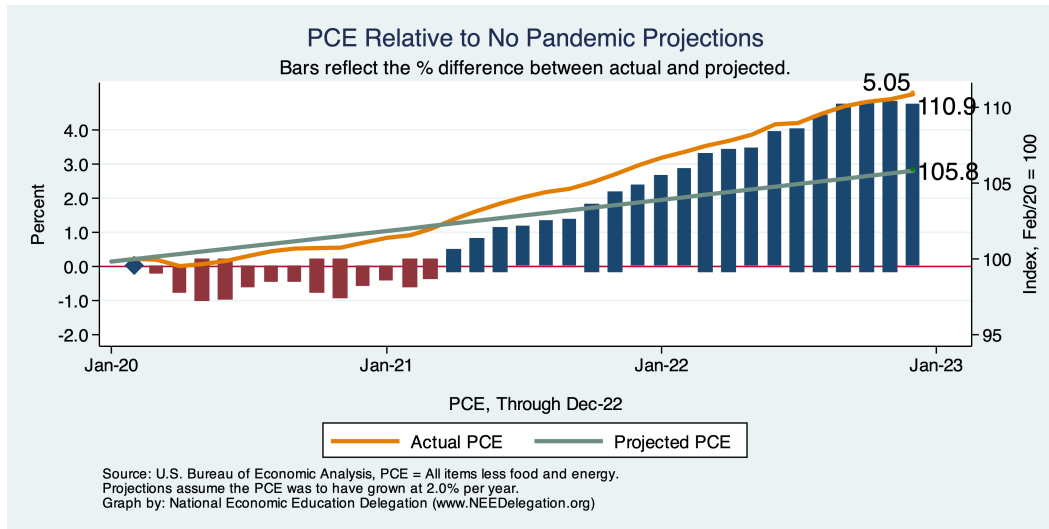
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Inflation – The Fed’s Metric



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Inflation – PCE and Fed



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Measure of Inflation Expectations



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)

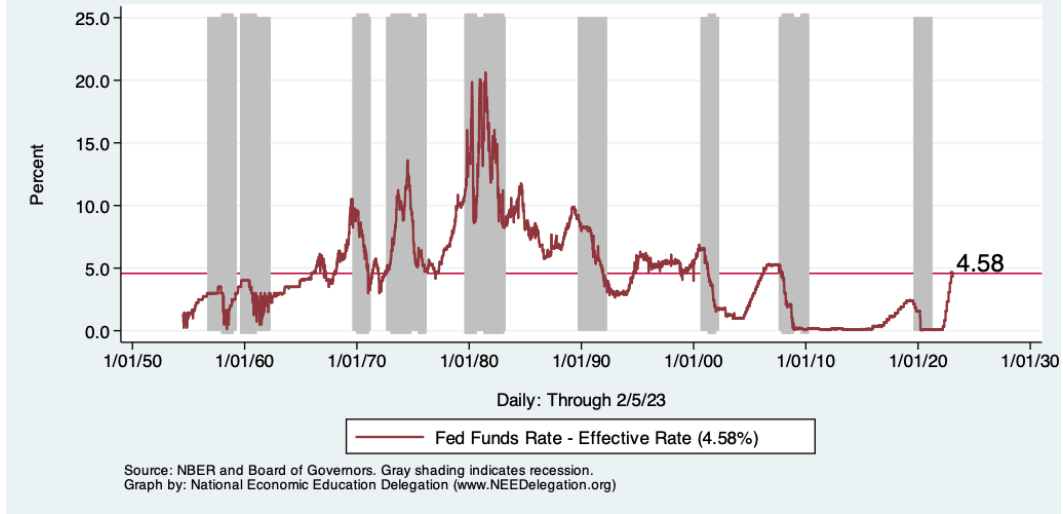
Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.24% inflation annually over the next 10 years and 2.6% over the next 5 years.

Inflation expectations are calming down.

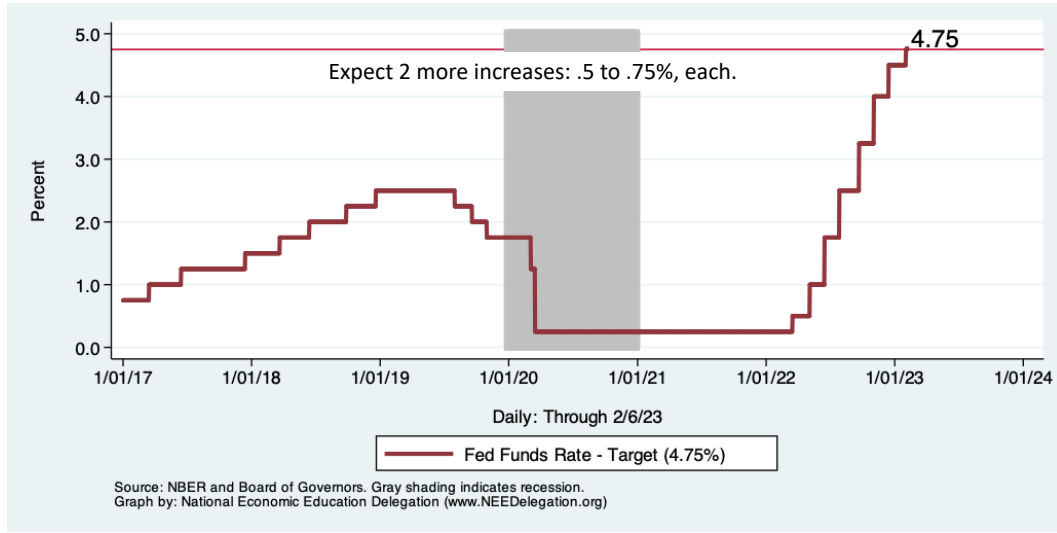
What's the Fed Doing About It?

Federal Funds Rate



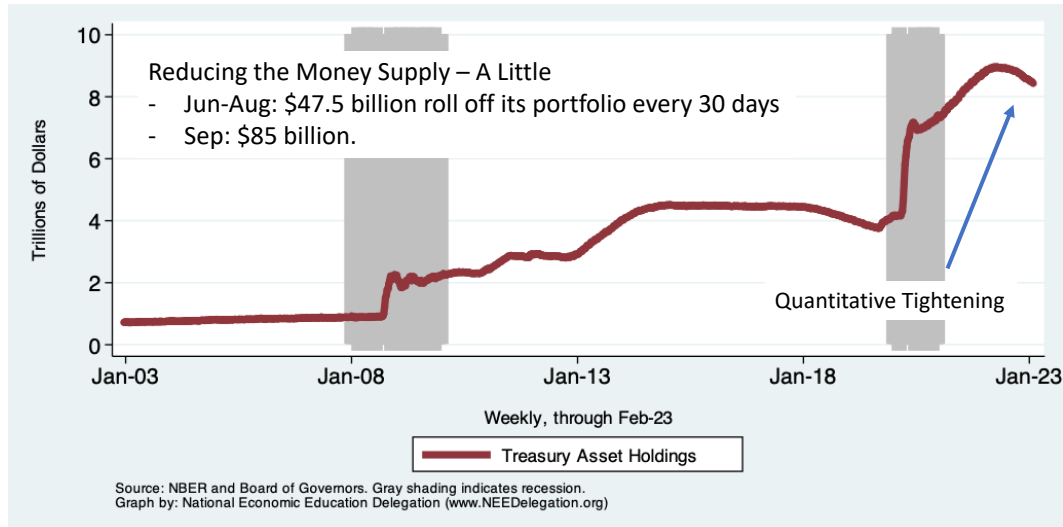
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Federal Funds Rate – Recent Activity



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Fed: Also Reducing its Asset Holdings



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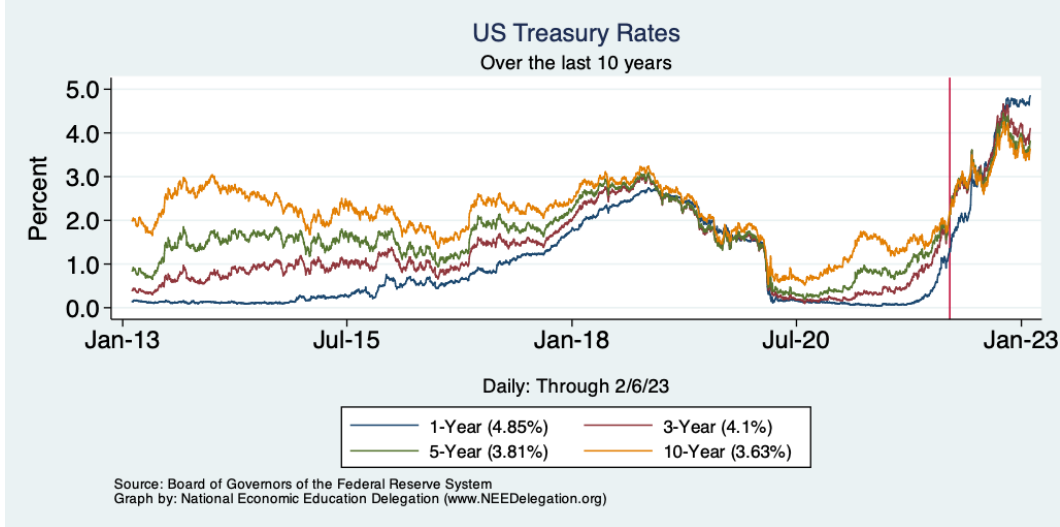
Implications for Demand

- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....
- All of which slows the economy.

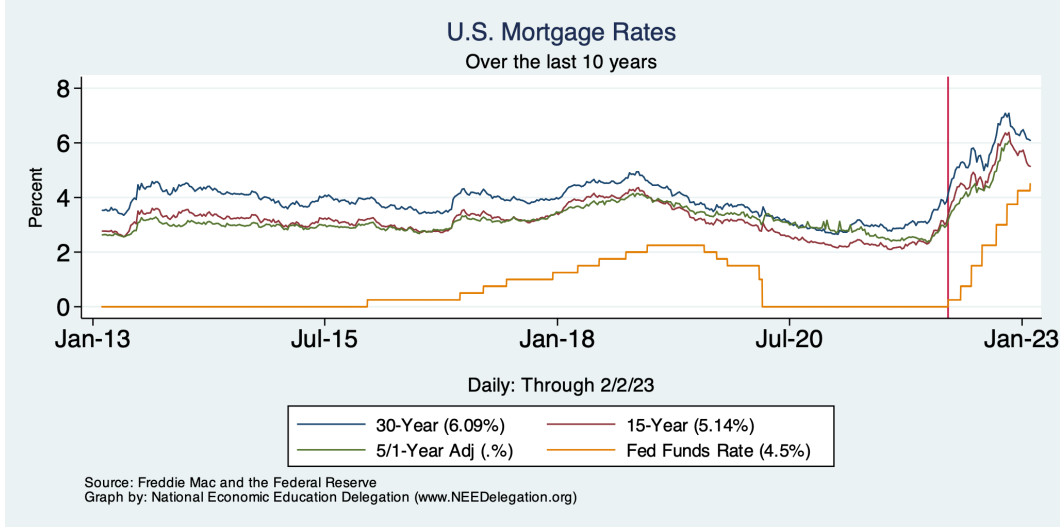


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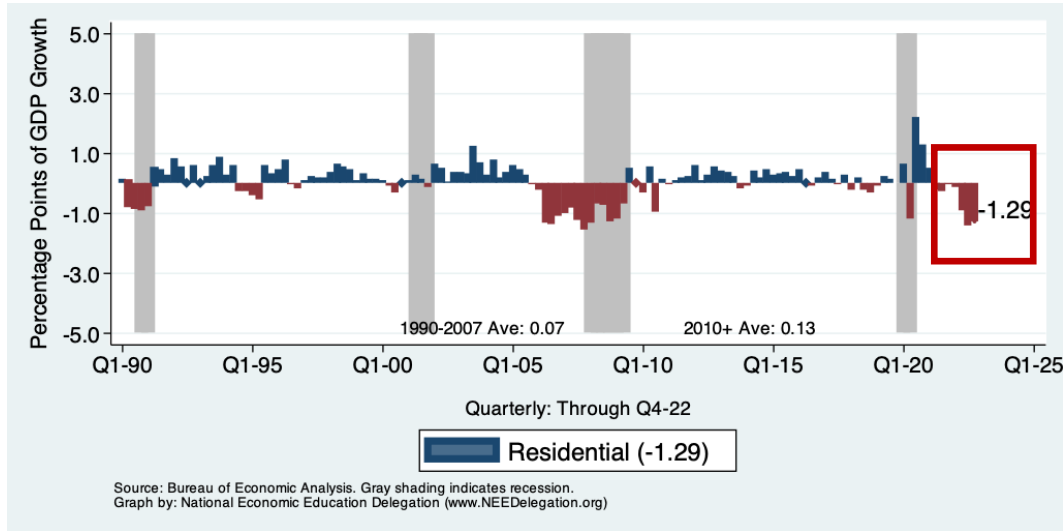
Treasuries



Mortgage Rates

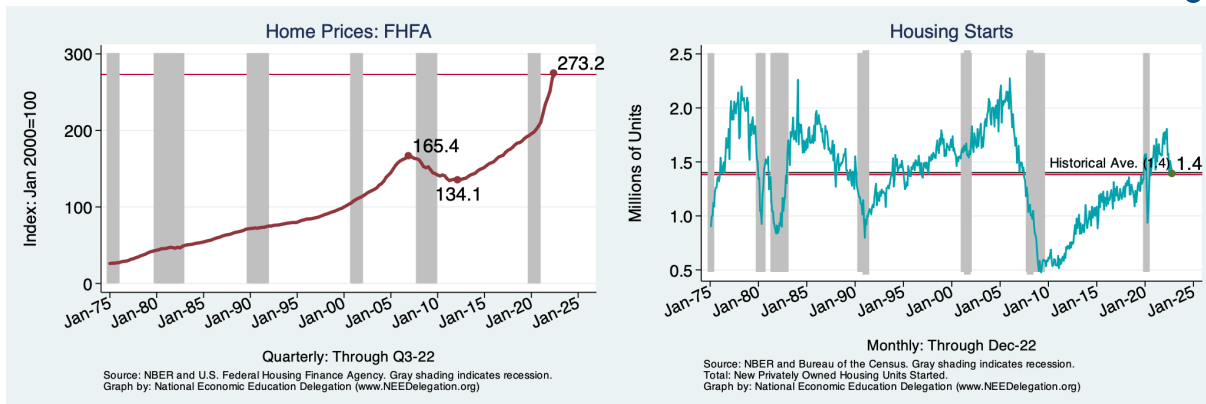


Contributions to GDP: Residential Investment



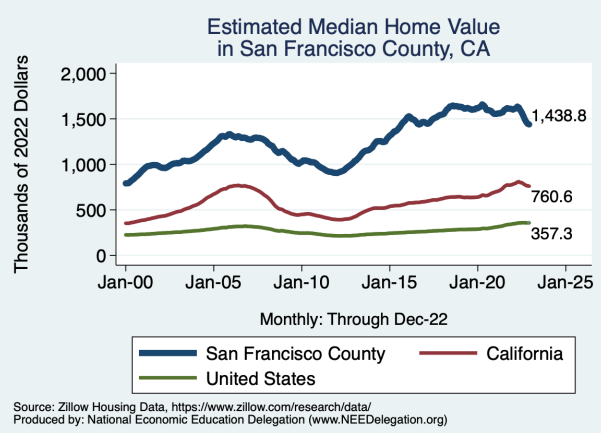
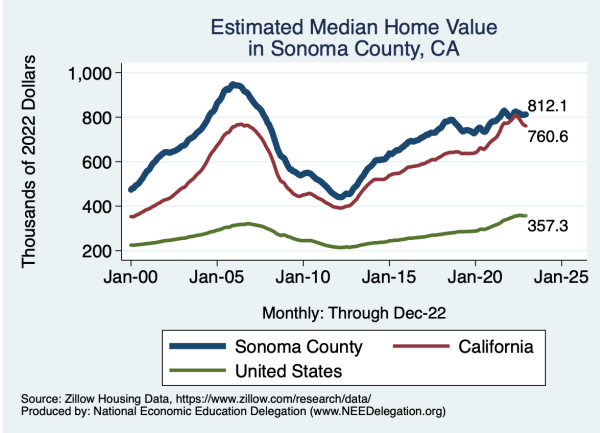
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Home Prices and Housing Starts

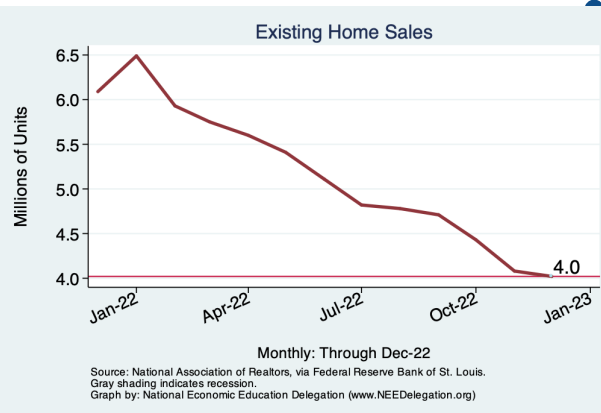
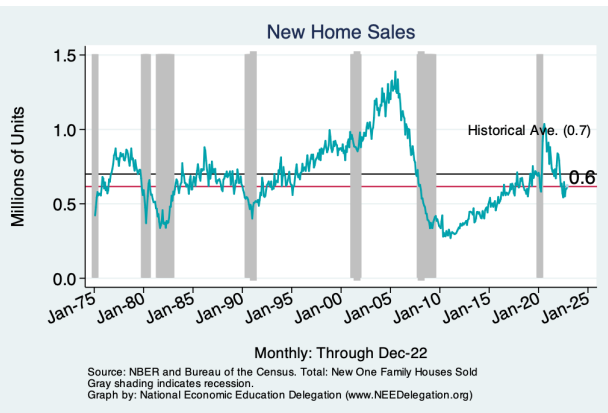


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Home Prices ... Depends on Where You Are



Home Sales Falling



Existential Threat: Coming This June!



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. If debt hits the ceiling, the Treasury Department uses several accounting gimmicks 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.

Will the Economy Be Held Hostage?



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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!

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Takeaways

- **Is a recession on the horizon?**

- Perhaps, but no reason to think that it will be anything more than shallow.
- Many indicators are still in the black.
 - 2022-Q4 GDP growth was pretty good!

- **Threats to continued growth:**

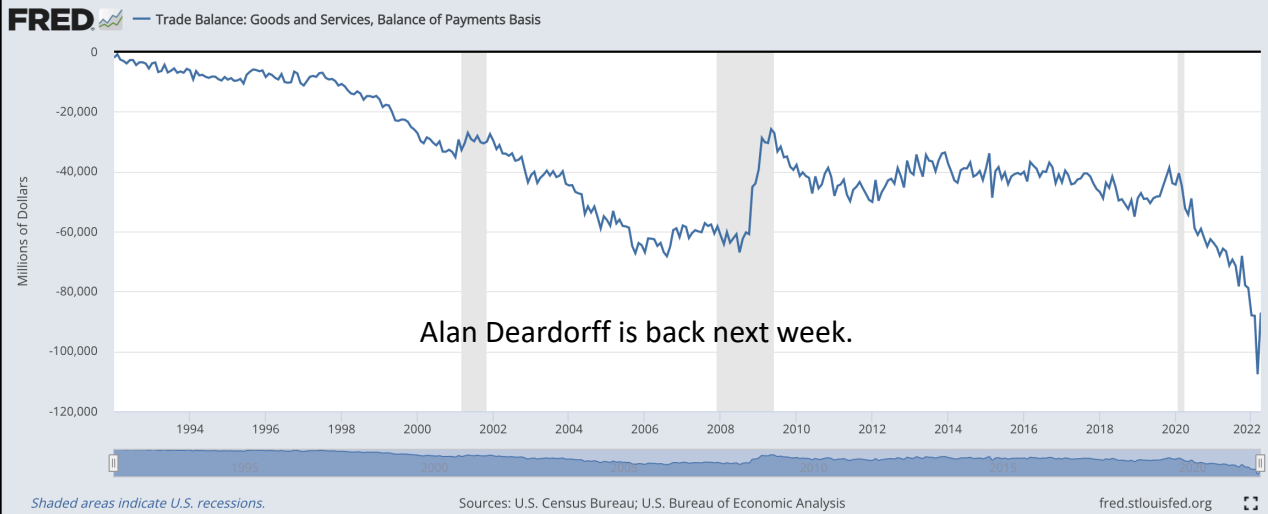
- If inflation stays high, which seems unlikely.
- Layoff contagion? Looks unlikely.
- Debt ceiling negotiations
 - Significant cuts to government budgets may well result.



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Trade Deficits and Exchange Rates



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Thank you!

Any Questions?

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Jon@NEEDelegation.org

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