



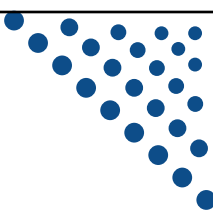
Osher Lifelong Learning Institute, Fall 2023
Contemporary Economic Policy

Santa Clara University, CA
Sep-Oct, 2023

Jon Haveman, Ph.D.
National Economic Education Delegation


 NATIONAL ECONOMIC EDUCATION DELEGATION

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 intended to reflect the consensus of the economics profession.

 NATIONAL ECONOMIC EDUCATION DELEGATION

2

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)
- 4 Nobel Prize Winners
 - o Akerlof, Smith, Maskin, Bernanke

- **Delegates: 652+ members**

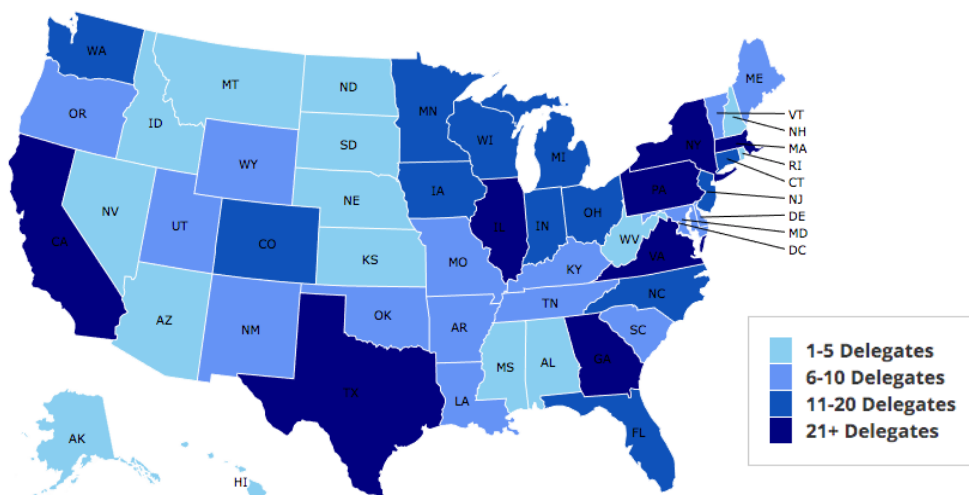
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development

3

Where Are We?



4

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

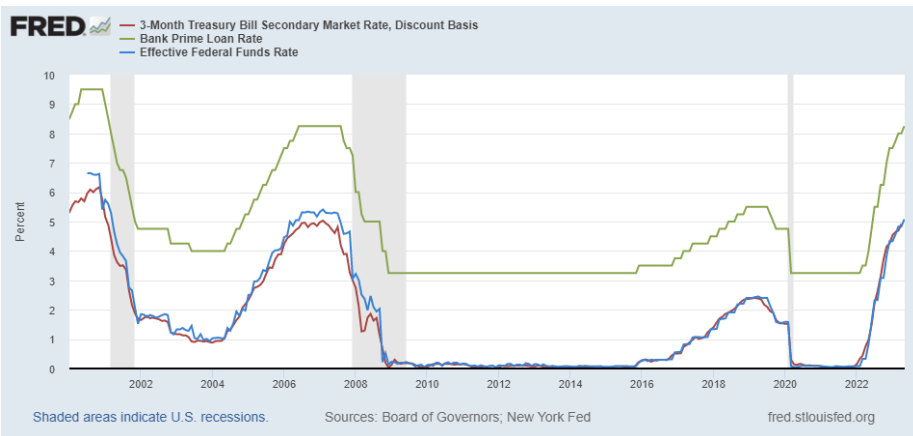
- **Contemporary Economic Policy**
 - Week 1 (9/21): US Economic Update (Jon Haveman, NEED)
 - Week 2 (9/28): US Federal Budget (Jon Haveman)
 - Week 3 (10/5): Monetary Policy (Geoffrey Woglom, Amherst College)
 - Week 4 (10/12): Federal Debt (Jon Haveman)

What Does the U.S. Gov't Budget Look Like?

Fiscal Year 2022 Budget Summary

Revenue	Billions		Expenditures	Billions	
Income Taxes	\$2,632		Mandatory	\$4,010*	
Payroll Taxes	\$1,484		Discretionary	\$1,787*	
Corporate Taxes	\$425		Interest	\$475	
Other	\$356				
Total	\$4,896	19.8%	Total	\$6,272	25.4%
Budget Deficit: \$1,375 Billion 5.5%					

The Fed and Monetary Policy

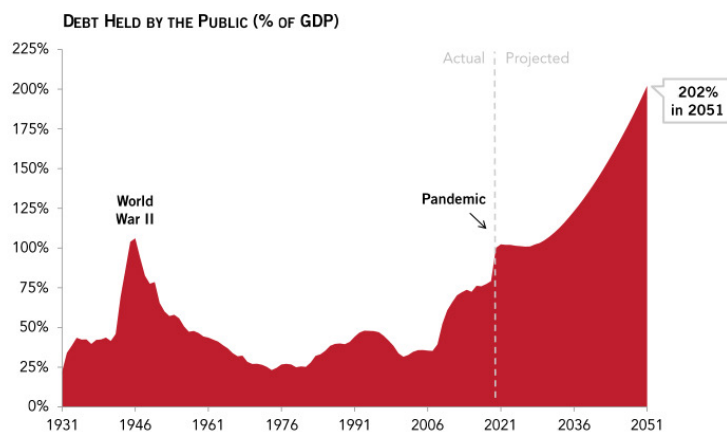


Blue is the fed funds rate.
 Green is the prime bank lending rate.
 Red is the rate on 3 month Treasuries.

The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
© 2021 Peter G. Peterson Foundation

PGPF.ORG



NATIONAL ECONOMIC
EDUCATION DELEGATION

9

9

Submitting Questions

- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will take a 10 minute break in the middle.**
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website shortly after the talk (https://NEEDEcon.org/delivered_presentations.php)**



NATIONAL ECONOMIC
EDUCATION DELEGATION

10

10



US Economic Update

OLLI – Santa Clara University

September 21, 2023
Jon Haveman, Ph.D.
NEED





NATIONAL ECONOMIC
EDUCATION DELEGATION

11

11

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
- **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).



NATIONAL ECONOMIC
EDUCATION DELEGATION

12

12

Outline

- About the U.S. Economy
- Economic Indicators
- Inflation/Federal Reserve

13

The U.S. Economy

14

Some Basic Statistics, September 2023

Statistic:	Value
Population	335.3 Million
Labor Force	167.8 Million
Employment	155.4 Million
Gross Domestic Product (GDP)	\$26.8 Trillion
Income per Capita	\$67,911
Ave. Hourly Earnings	\$33.82

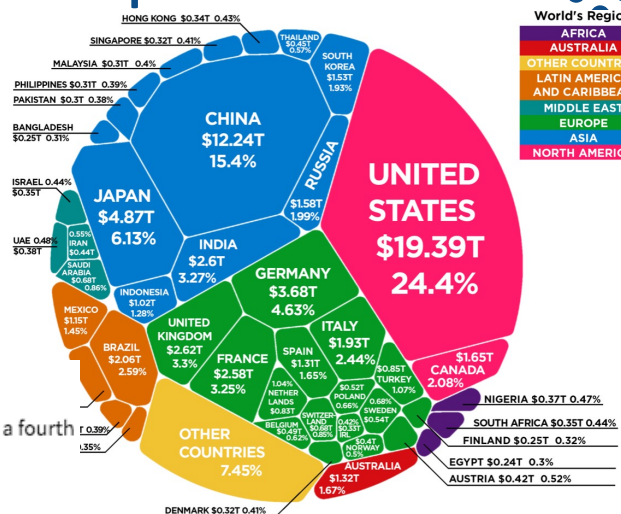
U.S. Economy in Global Perspective

U.S. Nominal GDP:

\$21.538 trillion in 2019-Q4
\$19.637 trillion in 2020-Q2
\$26.819 trillion in 2023-Q2

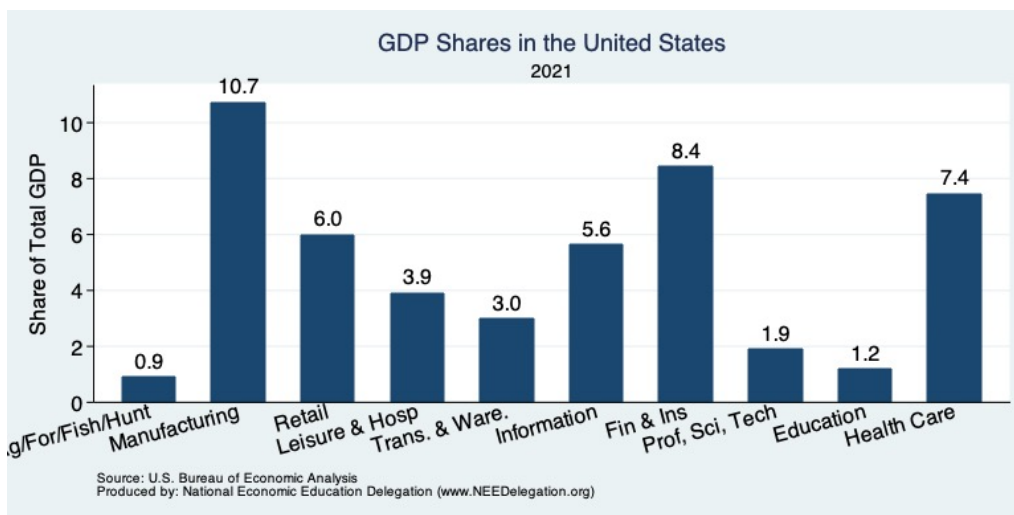
% Share of the Global Economy

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



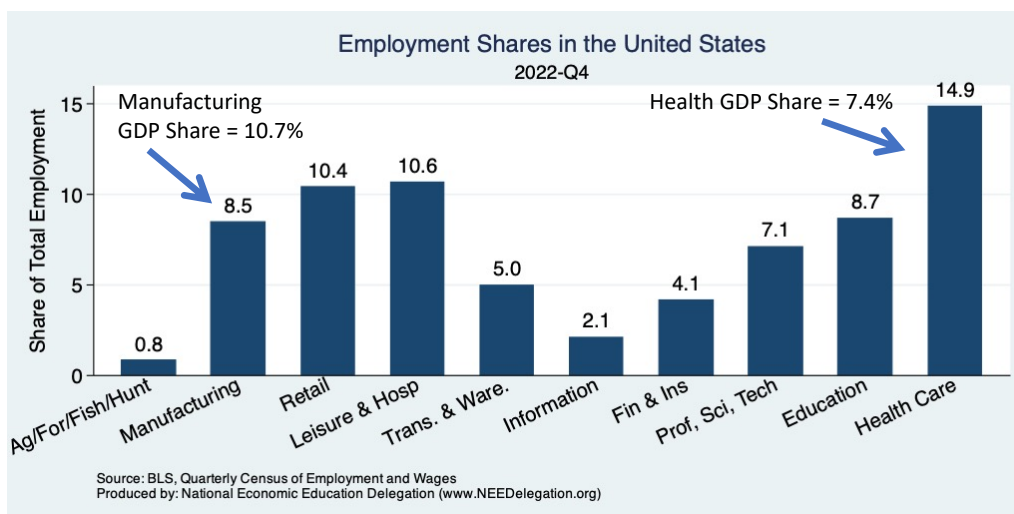
Article and Sources:
<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>

Composition of the U.S. Economy: GDP



17

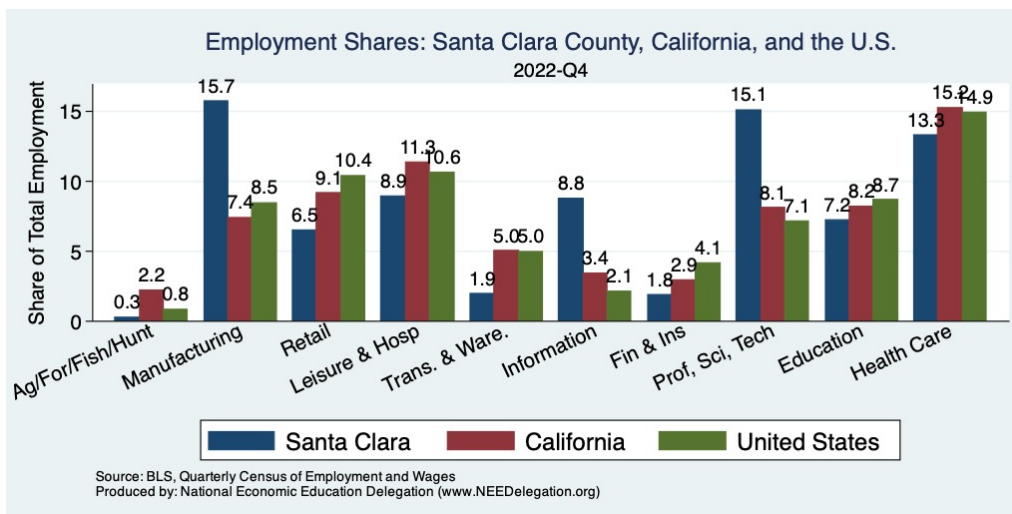
Composition of the U.S. Economy: Employment



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

18

Composition of the Santa Clara Economy: Employment



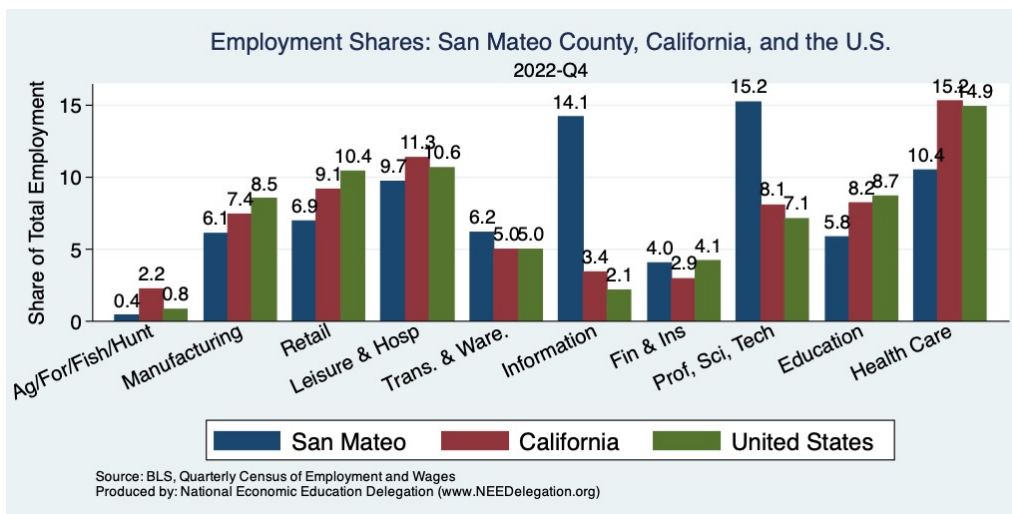
NATIONAL ECONOMIC EDUCATION DELEGATION

19

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

19

Composition of the Santa Mateo Economy: Employment



NATIONAL ECONOMIC EDUCATION DELEGATION

20

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

20



More Local Charts

www.NEEDecon.org/LocalGraphs

 NATIONAL ECONOMIC
EDUCATION DELEGATION

21

21



Economic Indicators

 NATIONAL ECONOMIC
EDUCATION DELEGATION

22

22

Headline: July 28, 2022

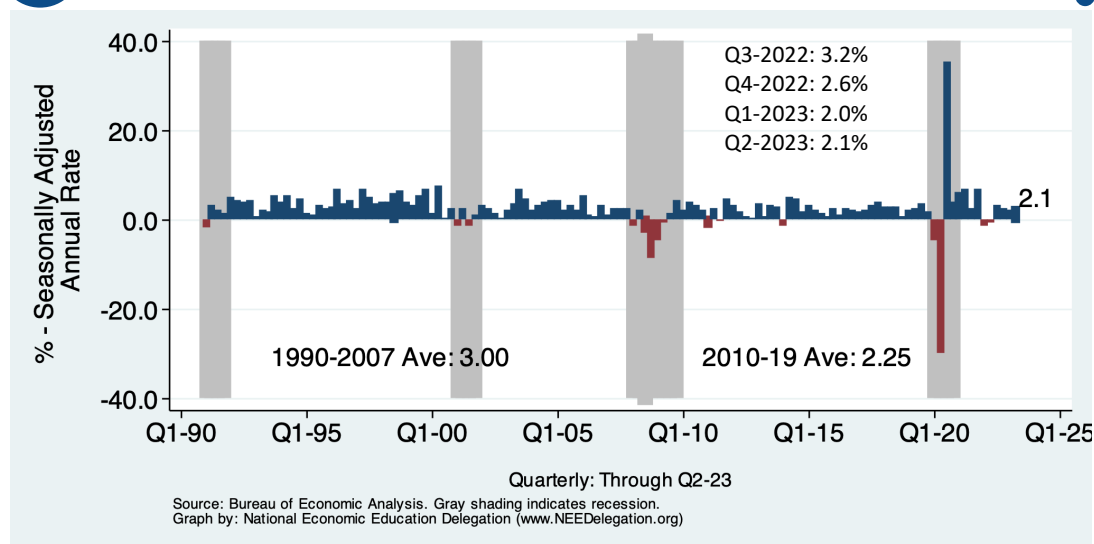
G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

- A key measure of economic output fell for the second straight quarter, 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.

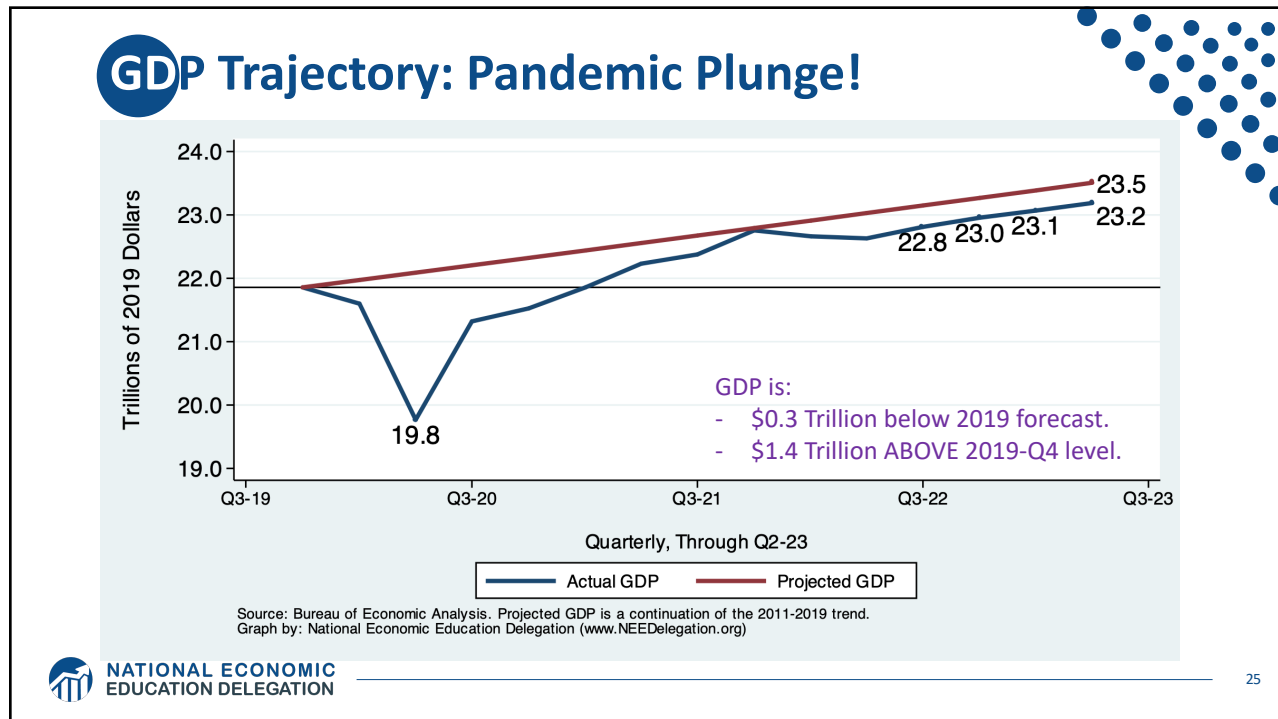
Old news...

23

GDP: Quarterly Growth



24



25

“Accounting” for GDP

- **Expenditures drive GDP growth.**
 - GDP is the sum of four categories of spending:
 - Consumption
 - Investment
 - Plant and equipment, residential real estate, and inventories.
 - Government spending
 - Net Exports: Exports – Imports
- **GDP = Consumption + Investment + Government + Net Exports**

NATIONAL ECONOMIC EDUCATION DELEGATION

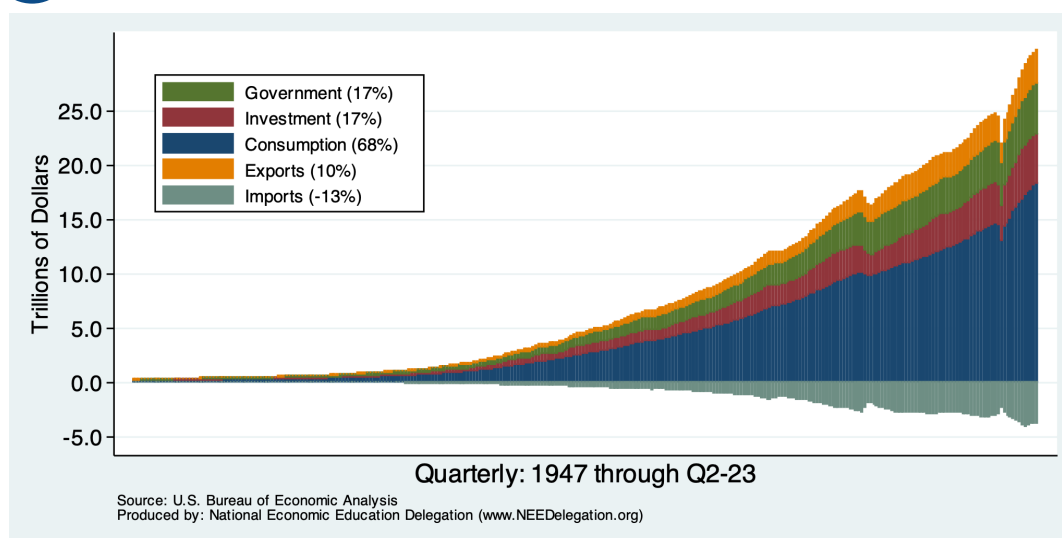
26

A Note on Imports and GDP

- **GDP = Consumption + Investment + Government + Net Exports**
 - Net Exports = Exports – Imports
- **Gives the impression that IMPORTS are bad for GDP**
 - They are not.
 - They are merely subtracted from the equation because the measurement of consumption, investment, and government all include imports.
- **Calculating Gross DOMESTIC Production must exclude IMPORTS**
 - It is merely an accounting identity.

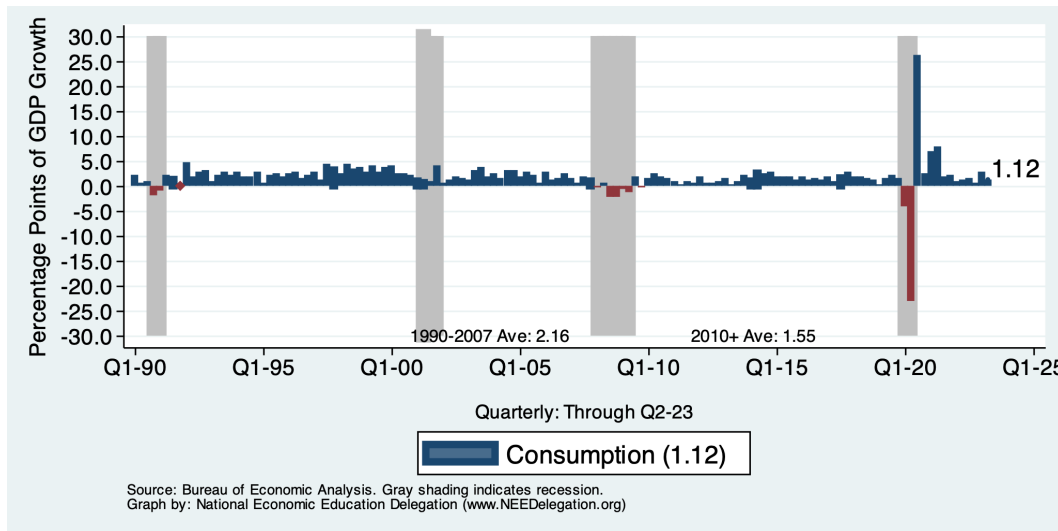
27

Composition of GDP



28

Contribution to GDP Growth: Consumption

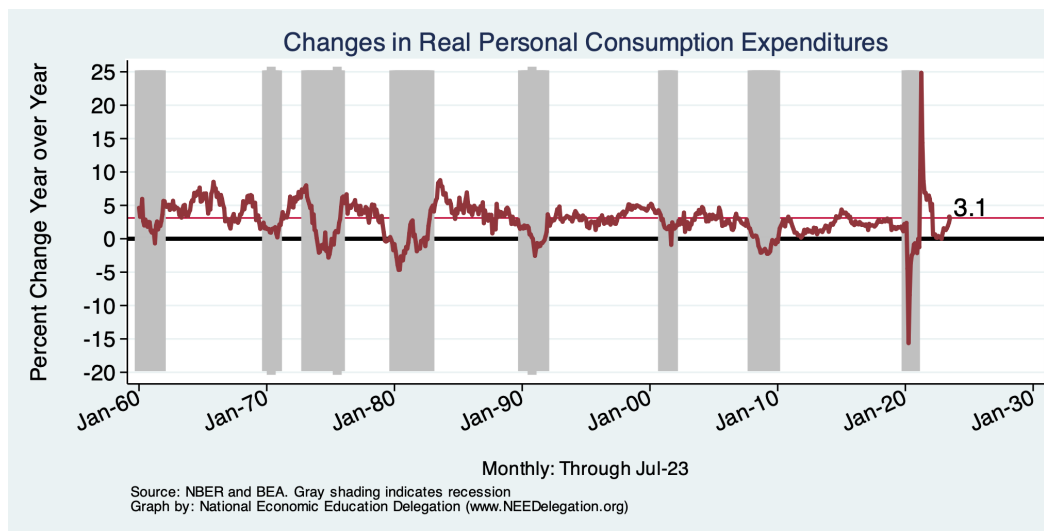


NATIONAL ECONOMIC
EDUCATION DELEGATION

29

29

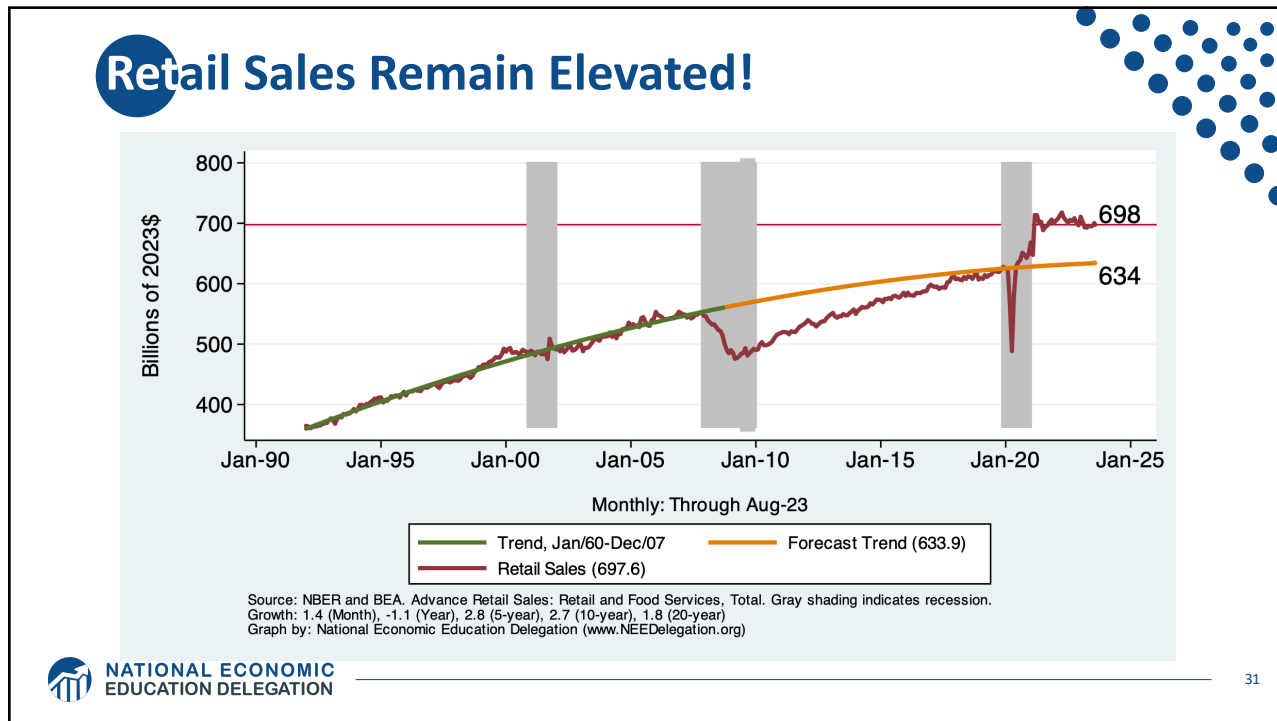
Personal Consumption Expenditures



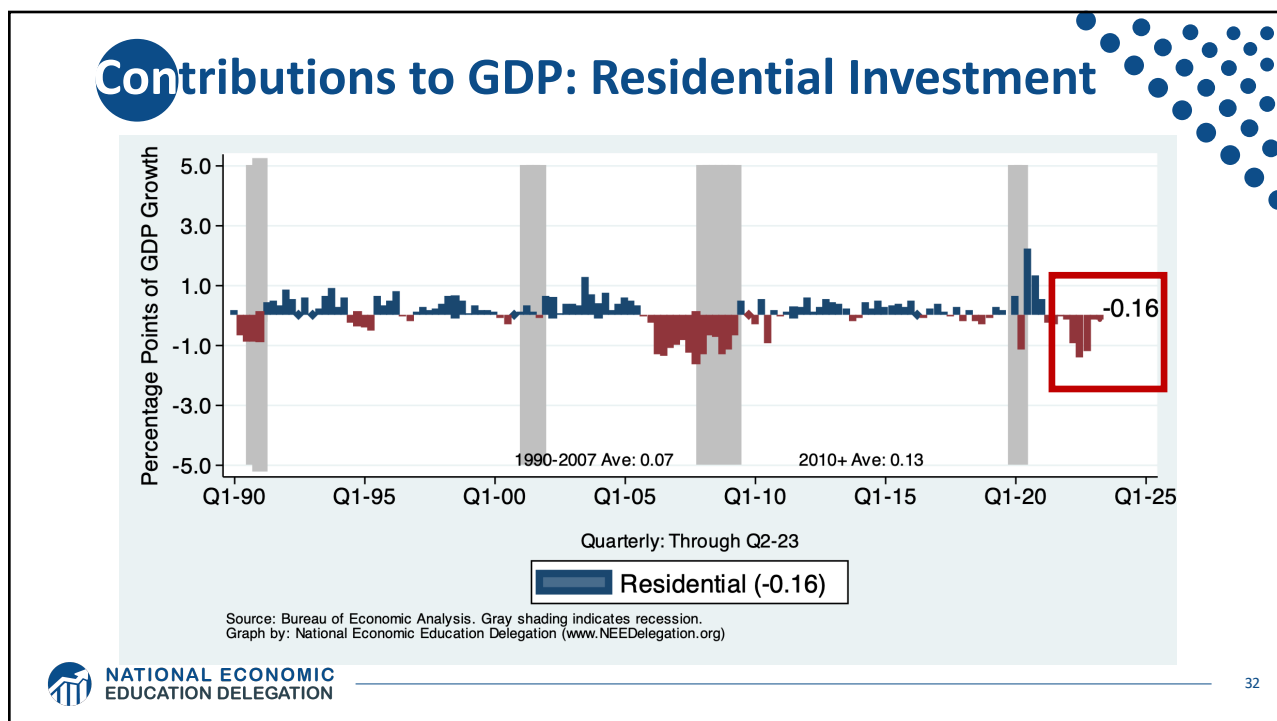
NATIONAL ECONOMIC
EDUCATION DELEGATION

30

30

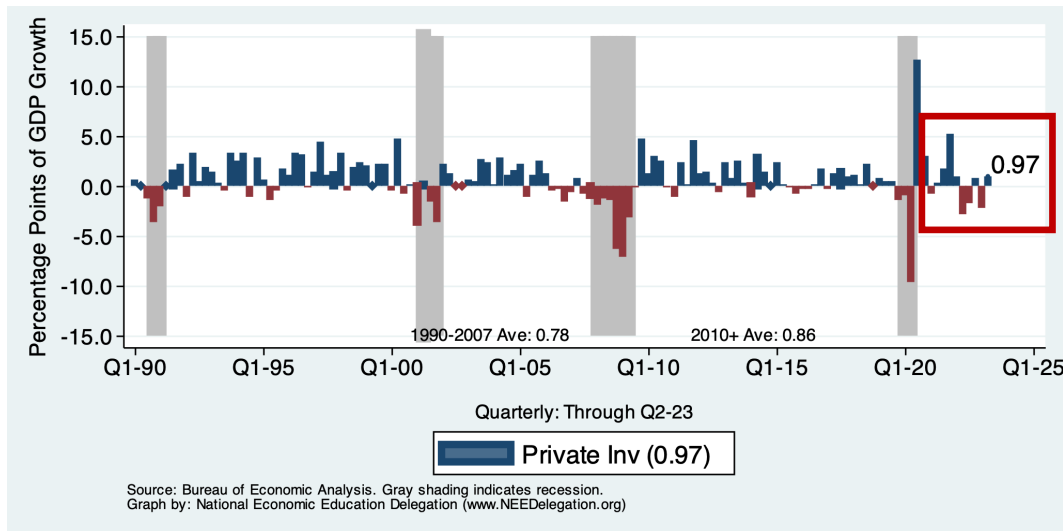


31



32

Contribution to GDP Growth: Inventories

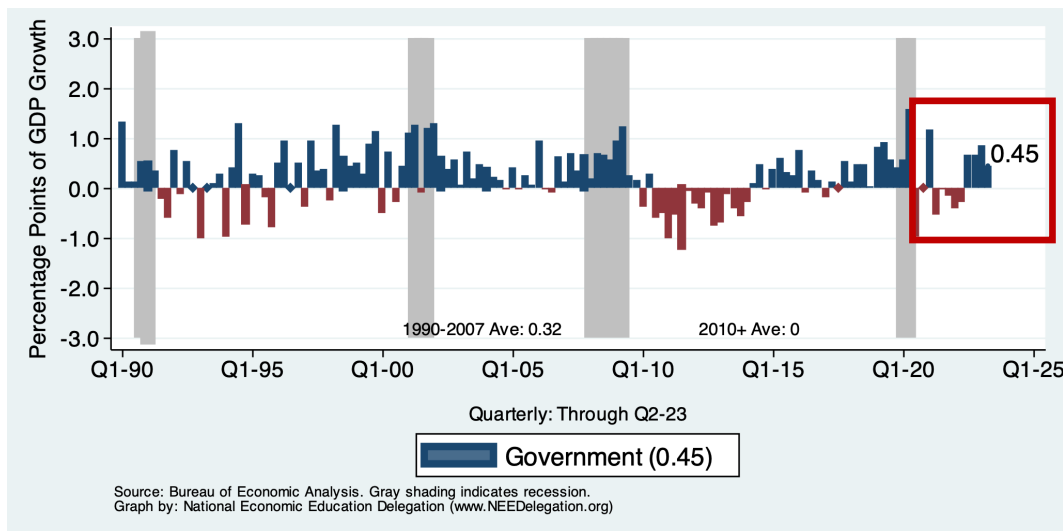


NATIONAL ECONOMIC
EDUCATION DELEGATION

33

33

Contributions to GDP: Government

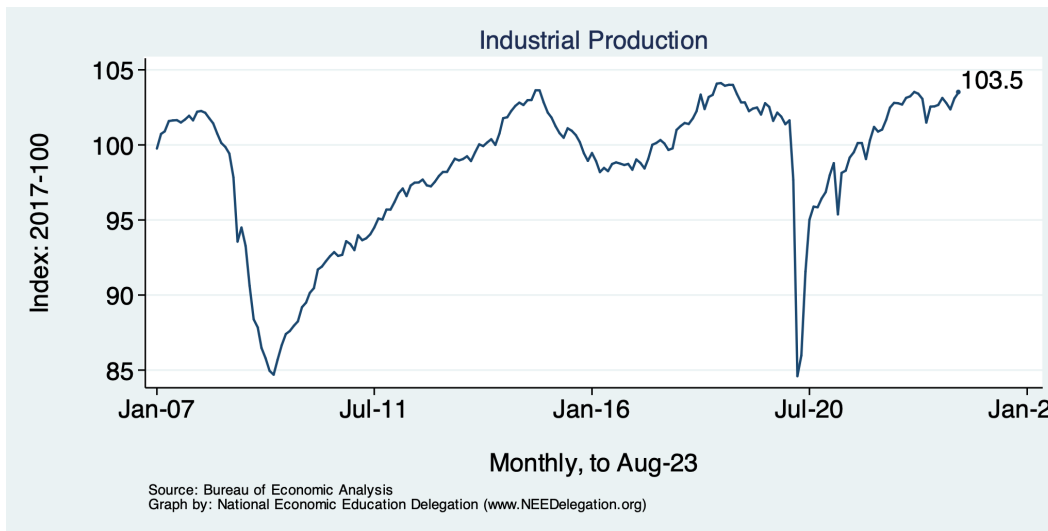


NATIONAL ECONOMIC
EDUCATION DELEGATION

34

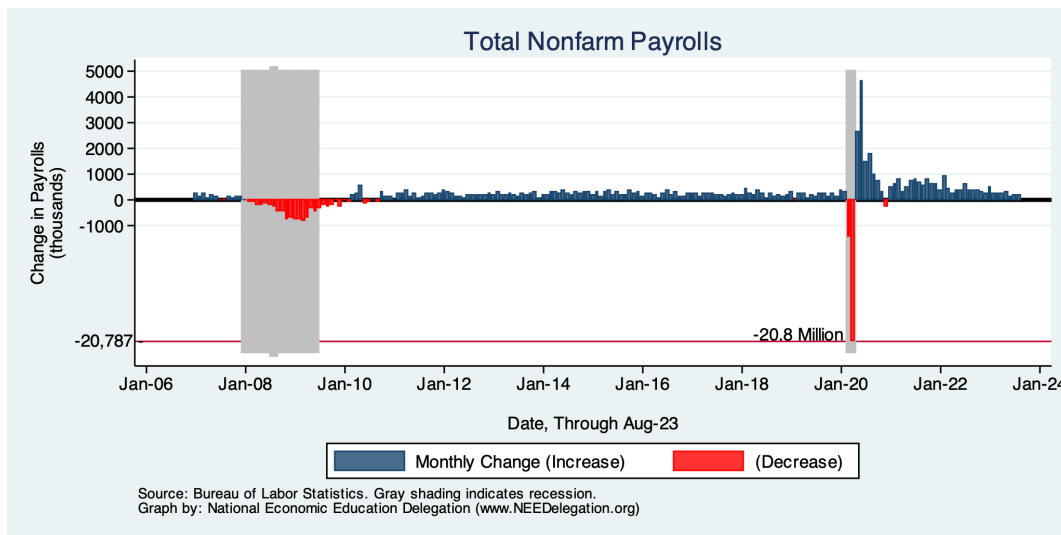
34

Industrial Production (Manuf, Util, Mining)



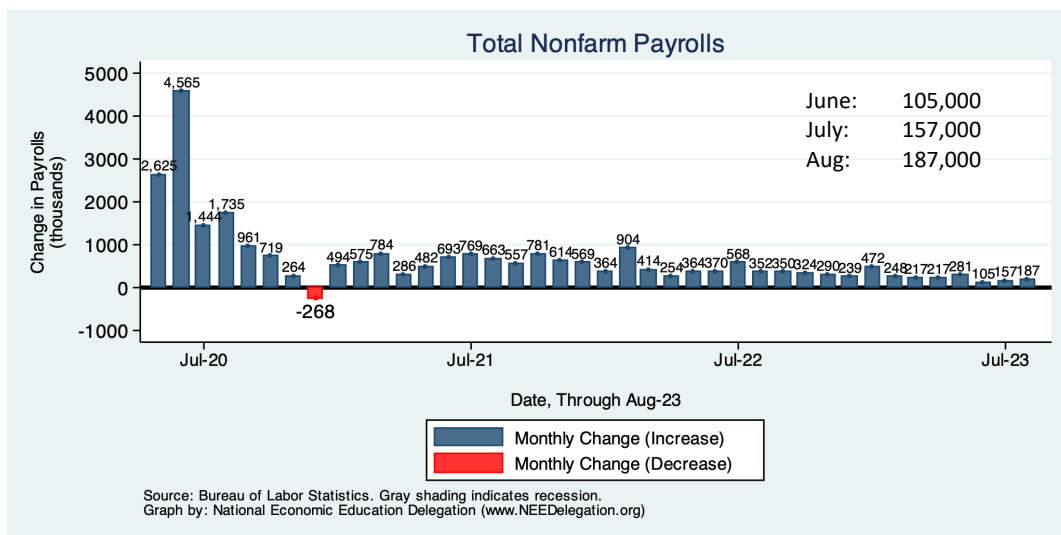
Employment

Monthly Changes in Nonfarm Employment

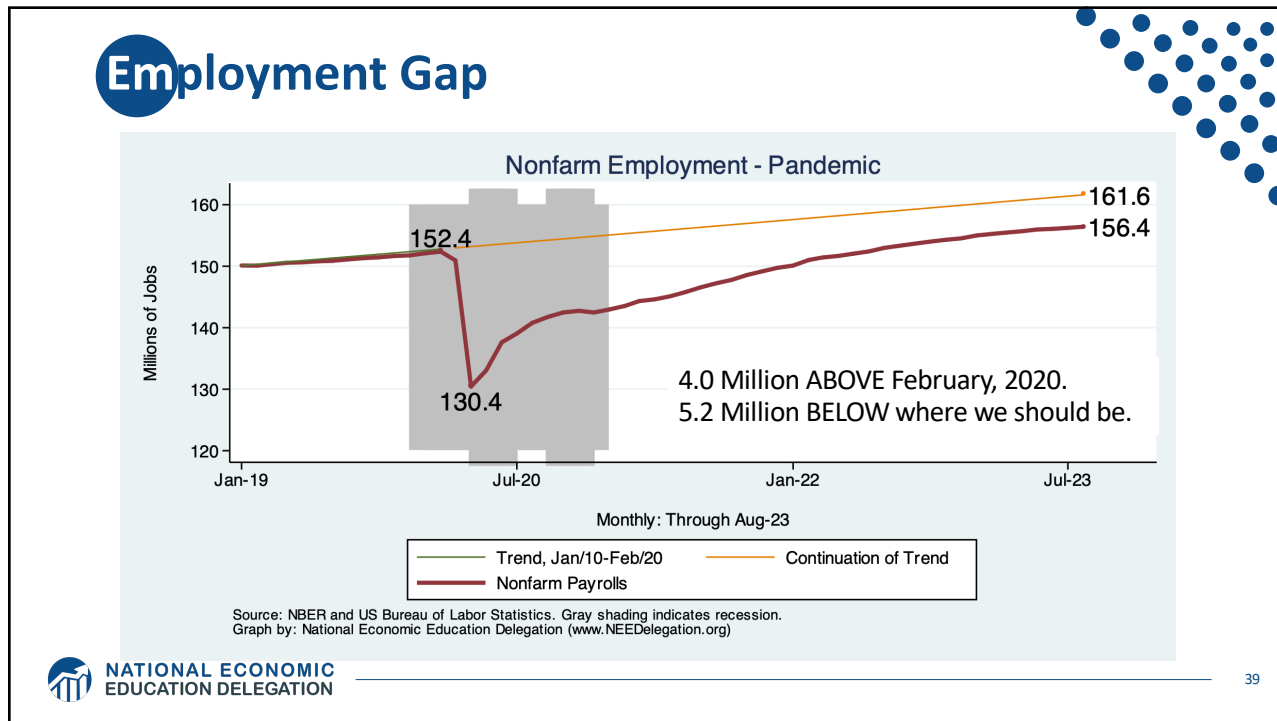


NATIONAL ECONOMIC EDUCATION DELEGATION

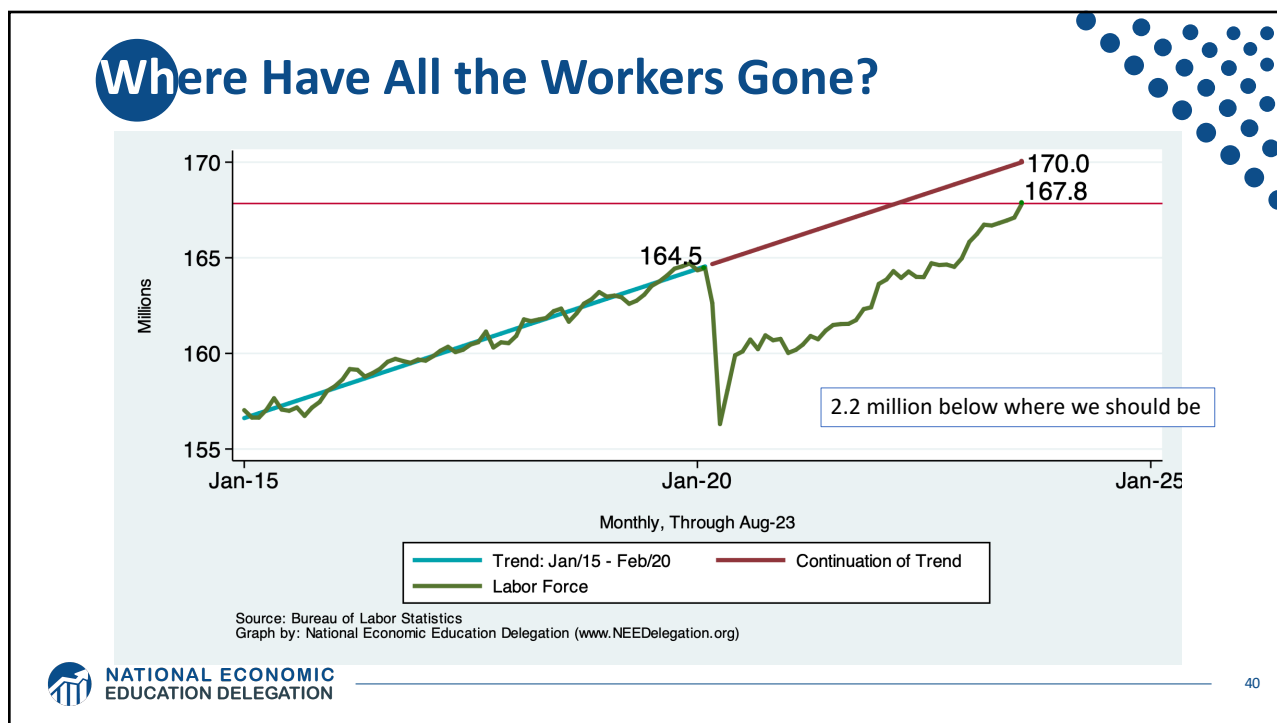
Monthly Changes in Nonfarm Employment



NATIONAL ECONOMIC EDUCATION DELEGATION

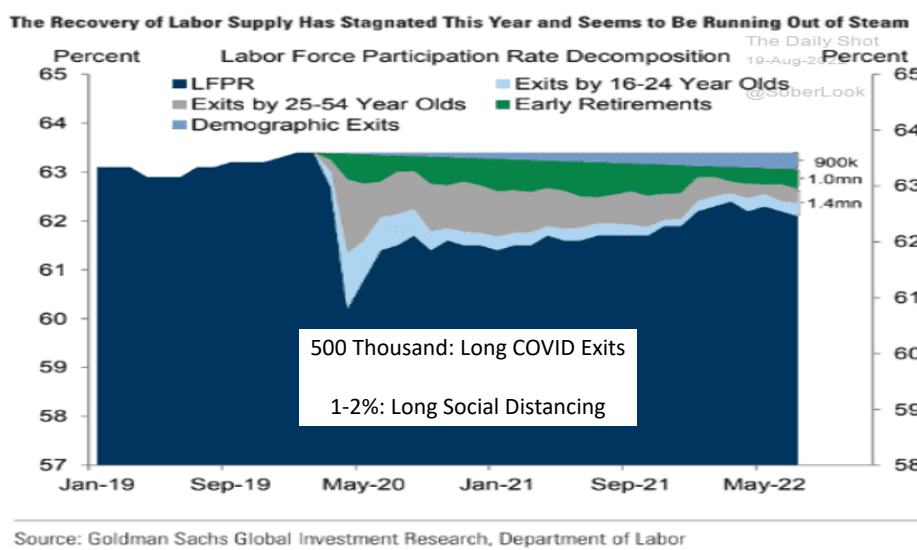


39

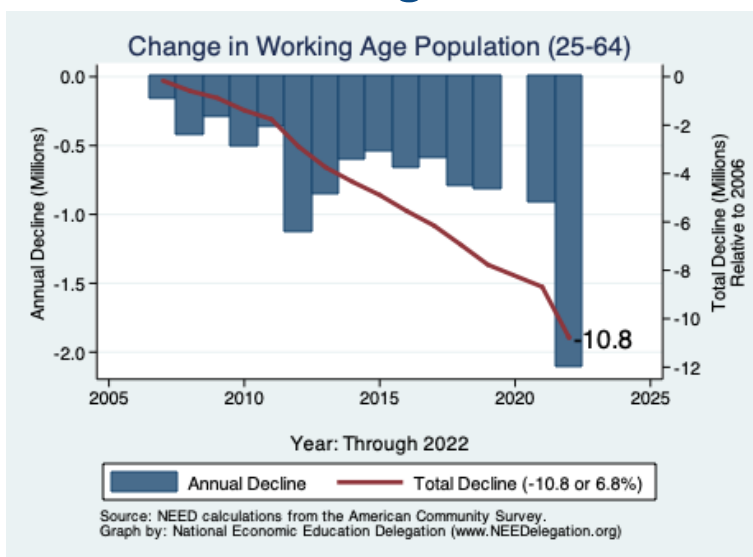


40

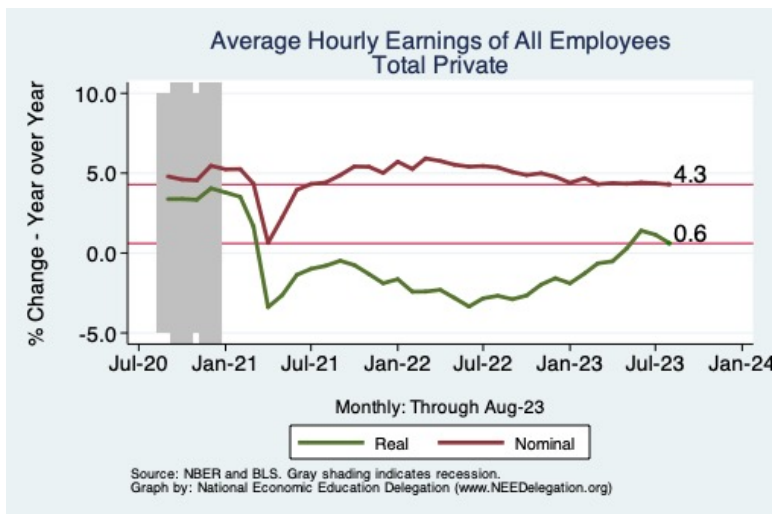
Some Explanations



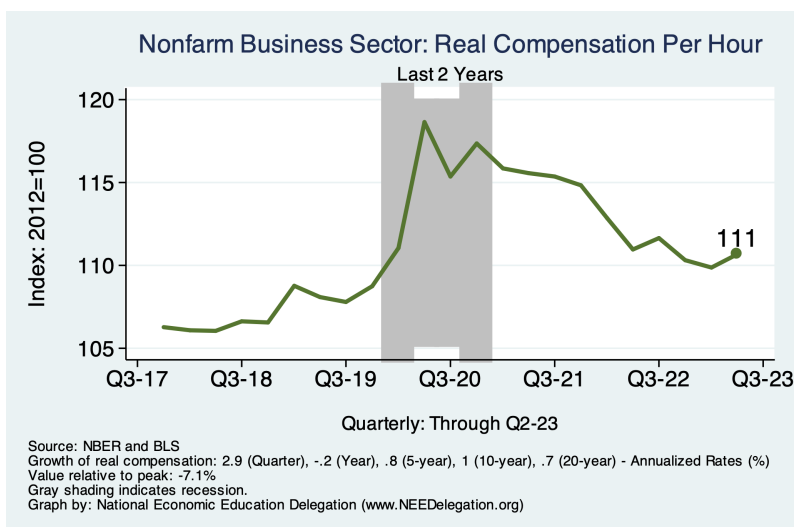
Baby Boomers Are Retiring!



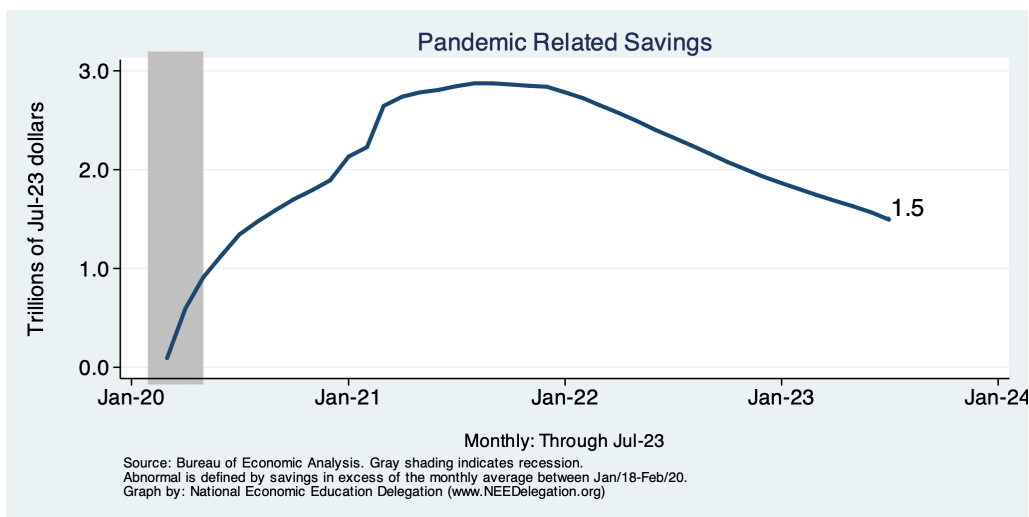
Wage Growth



Compensation Growth: Not Great, but OK

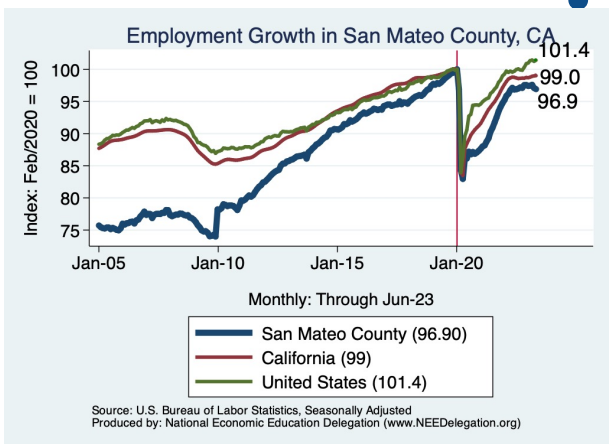
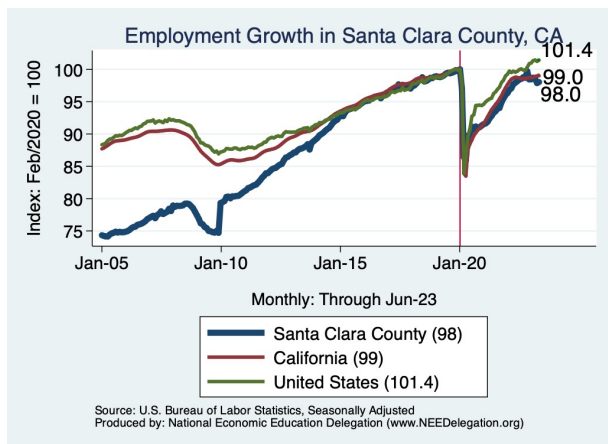


Excess Savings – Still Positive!



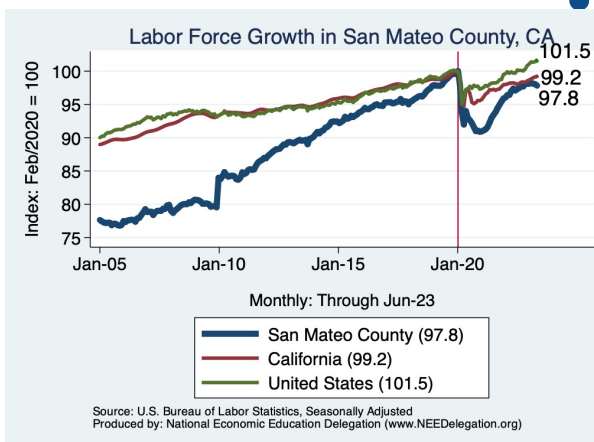
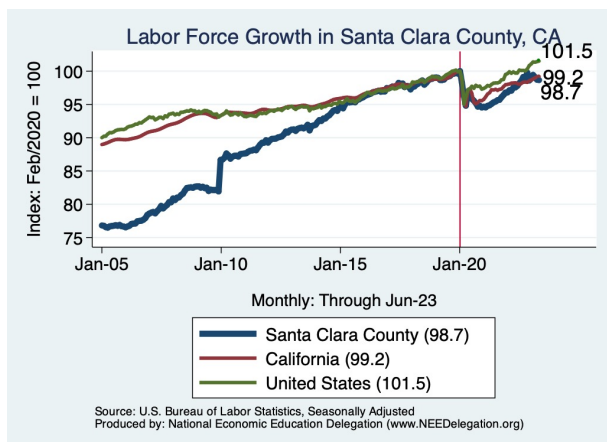
45

How Are Things Where You Are?



46

How Are Things Where You Are?



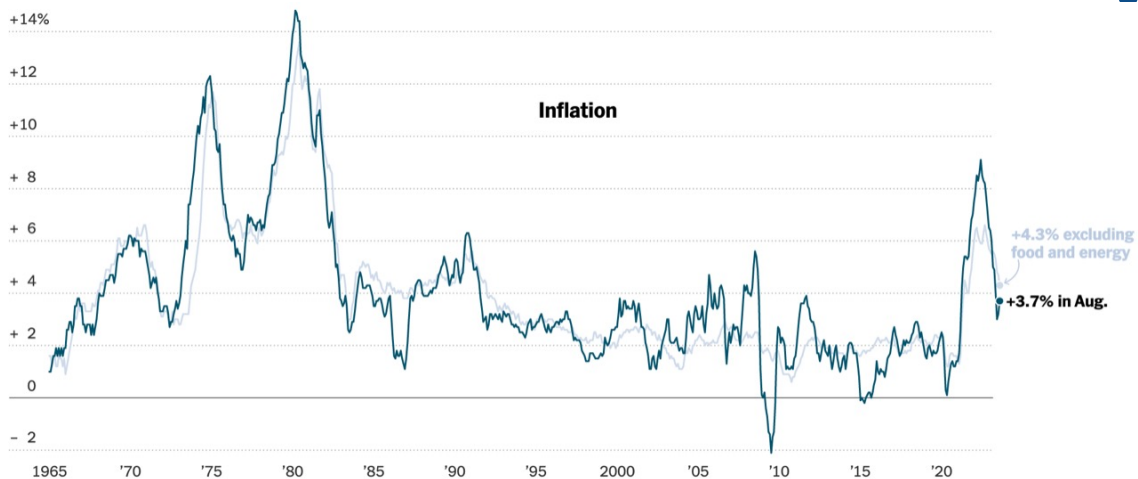
Economy Overall

- **Continues to chug along**

- GDP growth has been consistent with the last decade.
 - o But not really catching up to where we should be.
- Employment continues to grow, but slowing
 - o Hampered by lots of baby boomer retirements!
 - o Labor force is still too small.
- Wages are up in inflation adjusted terms, but probably not as much as they would have been.
- Inflation.....

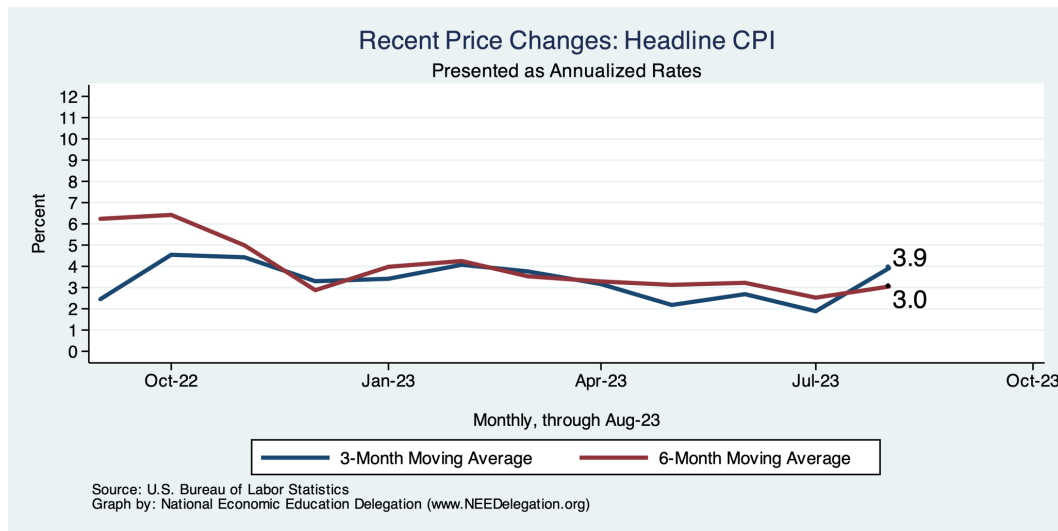
Inflation

Inflation: Latest Figures



Year-over-year change in the Consumer Price Index • Source: Bureau of Labor Statistics • By Karl Russell

Inflation in the Last 6 Months – Close to 3%!

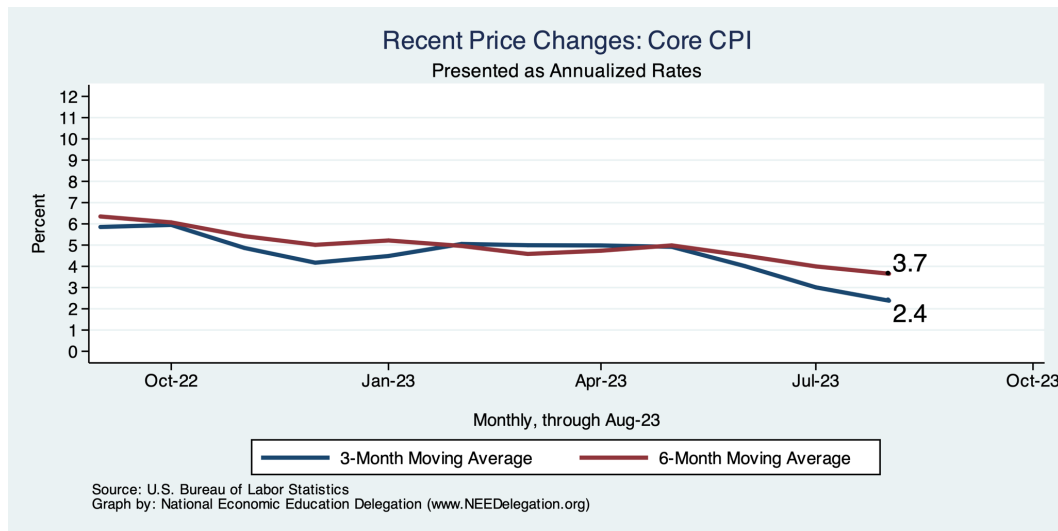


NATIONAL ECONOMIC EDUCATION DELEGATION

51

51

Inflation: Core Inflation is Stubbornly High



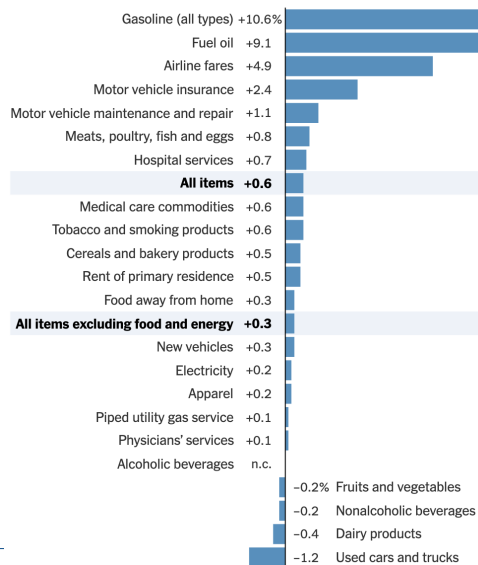
NATIONAL ECONOMIC EDUCATION DELEGATION

52

52

Sources of Recent Inflation

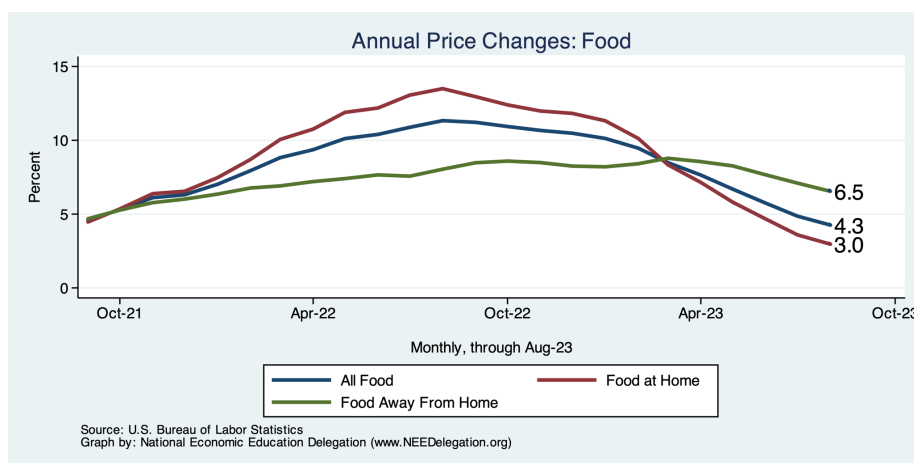
Monthly changes in August



53

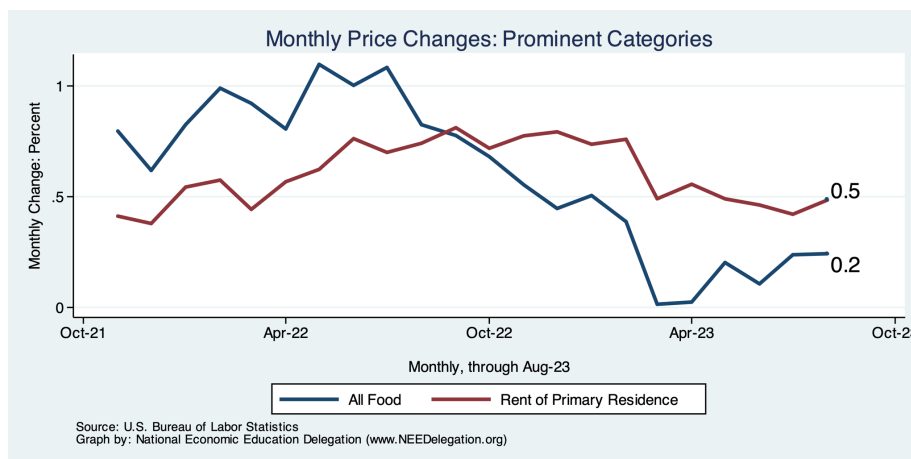
Food Prices are Stabilizing

Annual Price Changes: Food



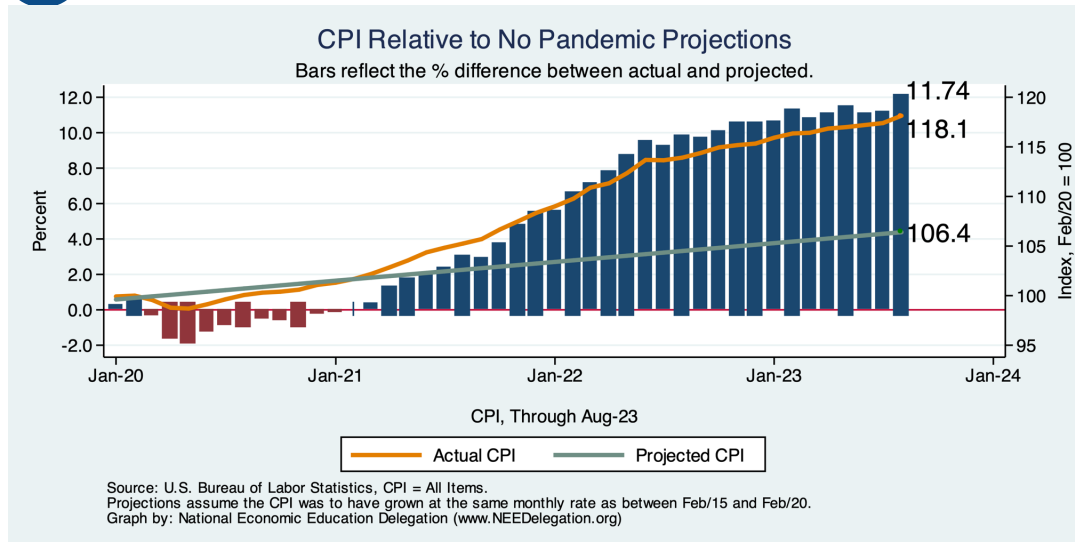
54

Housing Inflation is Still Pulling up the CPI



55

How Much Higher Are Prices?



56

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.

NATIONAL ECONOMIC EDUCATION DELEGATION

57

Source: Investopedia

57

Gas Prices: National Average at the Pump

Daily, through 9/18/23

— Nominal Gas Prices	— Real Gas Prices
----------------------	-------------------

Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration
Graph by: National Economic Education Delegation (www.NEEdelegation.org)

NATIONAL ECONOMIC EDUCATION DELEGATION

58

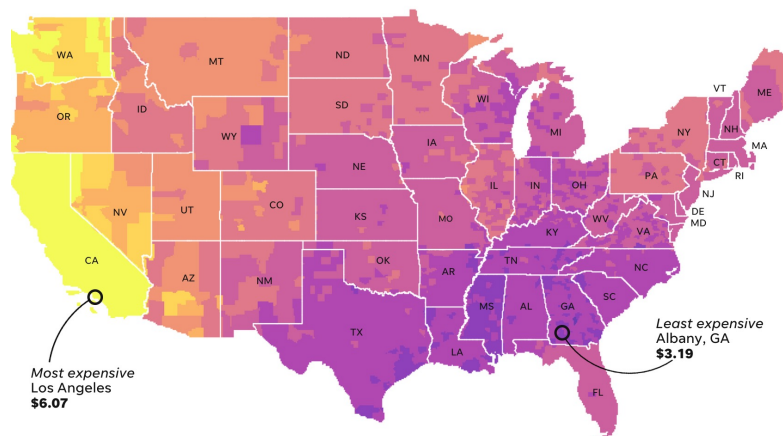
58

What is Happening With Oil Prices?

- **First, global economy is stronger than anticipated.**
 - Except for China.
 - Recession in EU will be shallower than expected.
- **Second, inflation in the US is slowing.**
 - Reduced expectation of a recession.
- **Finally, OPEC+ has restricted supply.**
 - In support of Russia?

We Have Particularly High Gas Prices!

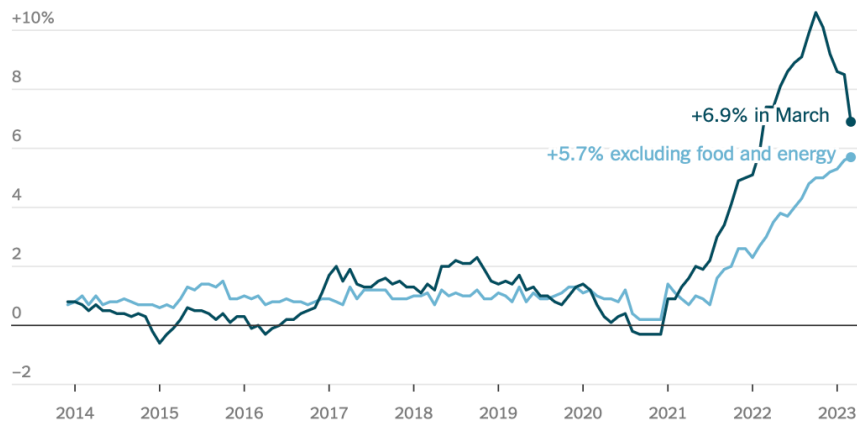
The average price of regular unleaded gasoline per gallon in each area is indicated by a color code.



SOURCE GasBuddy.com, as of Sept. 20

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



NATIONAL ECONOMIC EDUCATION DELEGATION

61

61

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)

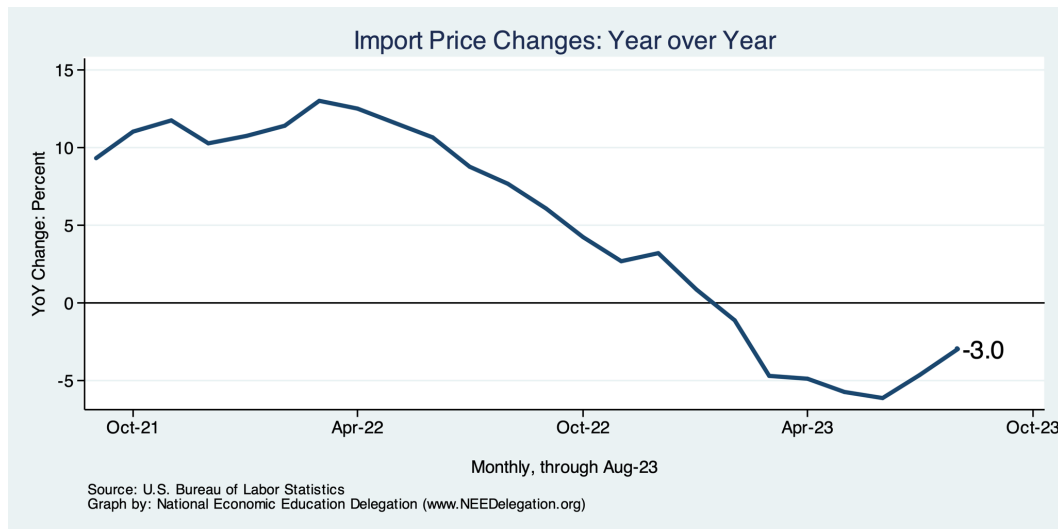


NATIONAL ECONOMIC EDUCATION DELEGATION

62

62

Import Price Inflation WAS High



NATIONAL ECONOMIC
EDUCATION DELEGATION

63

63

Two New Types of Inflation

- **Excuseflation**

- "The cost of my inputs is going up, so I have to raise my prices."
- You rarely hear: "I'm lowering my prices because costs are going down."

- **Premiumization**

- Taking your product and spicing it up so that you can raise your margins.

- **Together, have led to a Profit-Price Spiral**

- Raising prices to cover costs plus a little extra.
- Raising margins with extra frills.

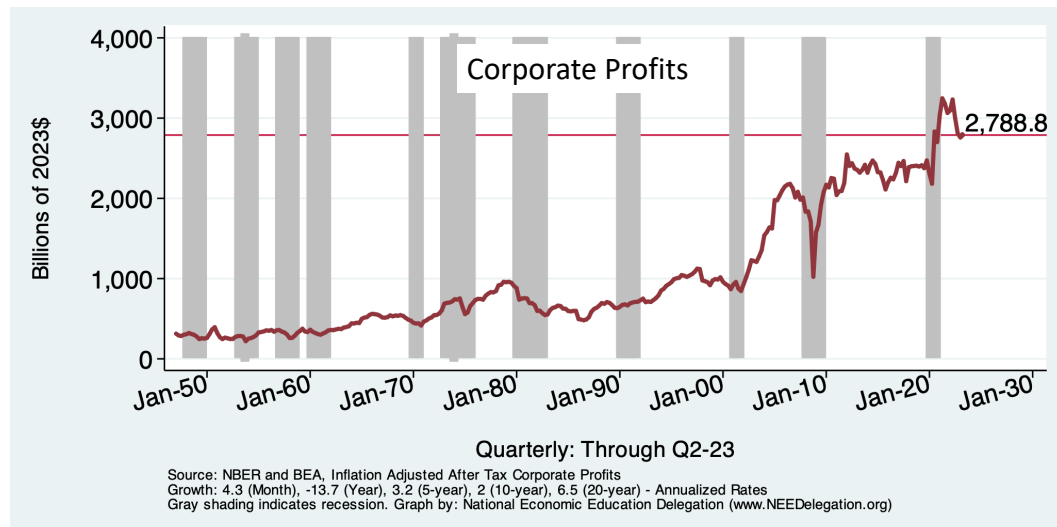


NATIONAL ECONOMIC
EDUCATION DELEGATION

64

64

Corporations Have Pricing Power!



NATIONAL ECONOMIC
EDUCATION DELEGATION

65

65

My Thoughts on the Sources of Inflation

- **Supply Chain issues were significant – less so now.**
- **Import price inflation was high – negative 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 possibly too big, but the Fed could have acted sooner.**
- **Bottom line: Recovery from a dramatic economic disruption is seldom painless.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

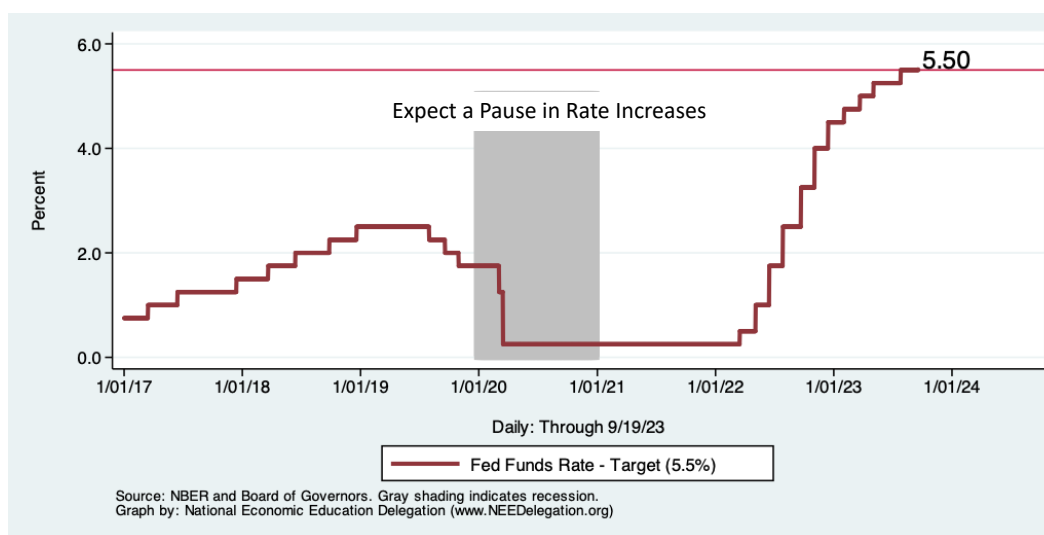
66

66

What's the Fed Doing About It?

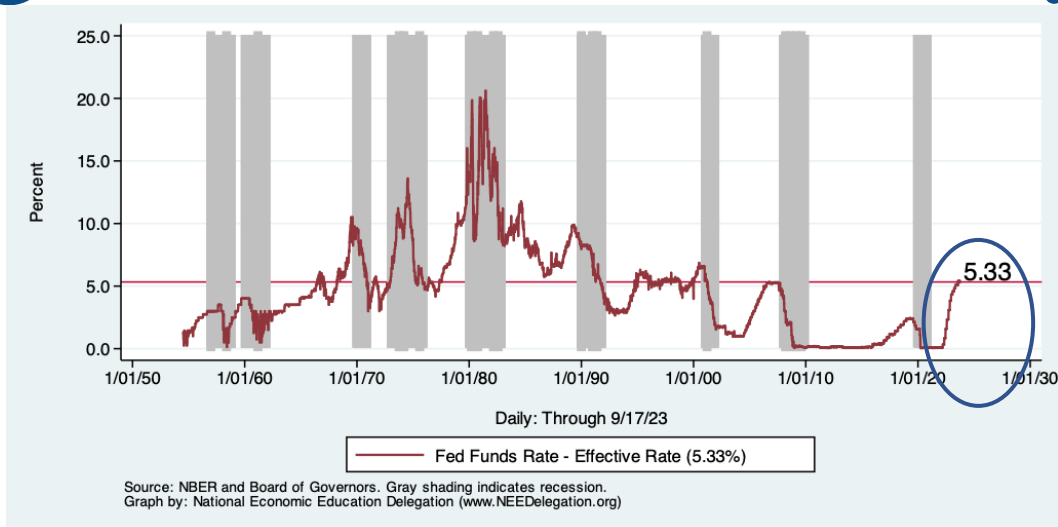
67

Federal Funds Rate – Recent Activity



68

Raising the Federal Funds Rate

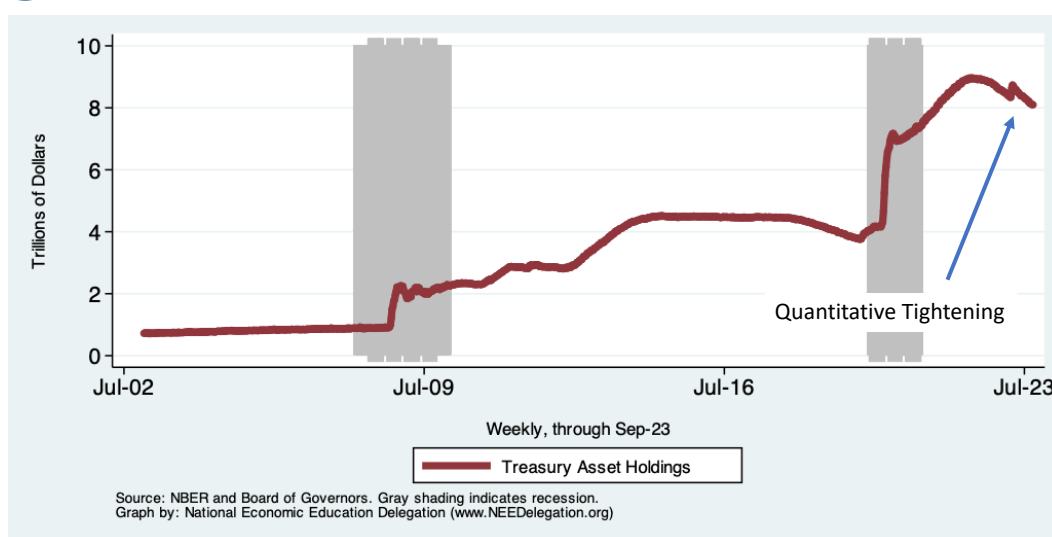


NATIONAL ECONOMIC
EDUCATION DELEGATION

69

69

Fed: Also Reducing its Asset Holdings



NATIONAL ECONOMIC
EDUCATION DELEGATION

70

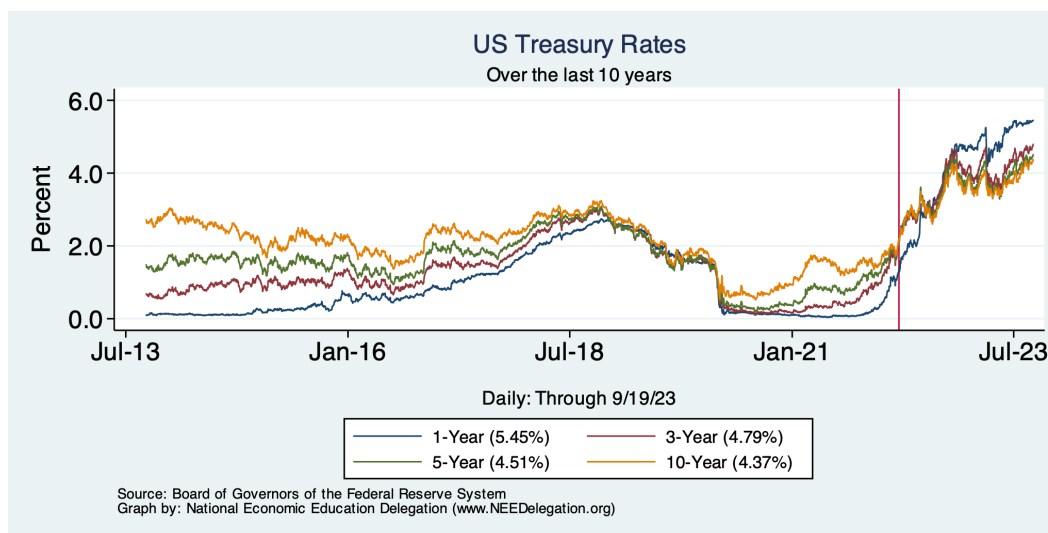
70

Implications for Demand

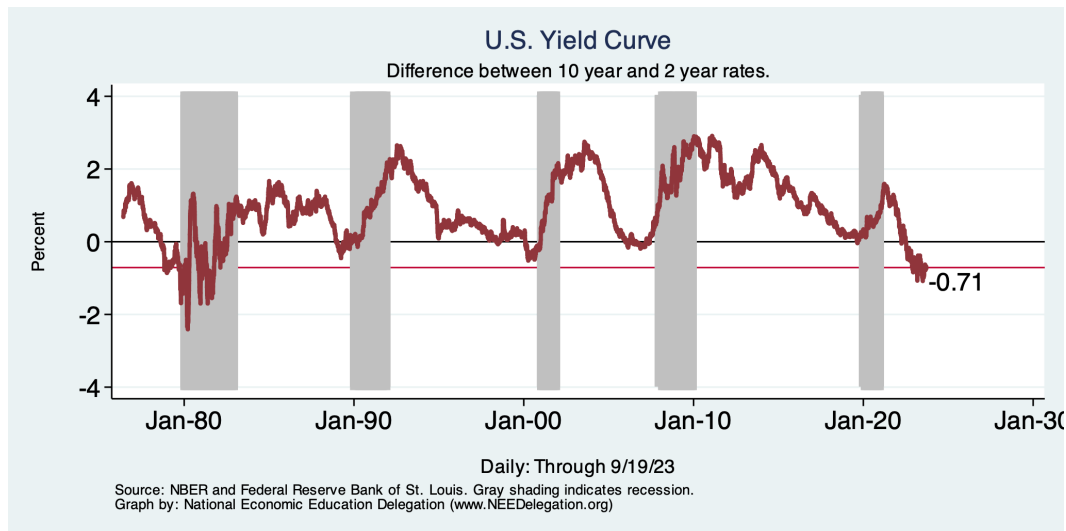
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

- All of which slows the economy.

Treasuries

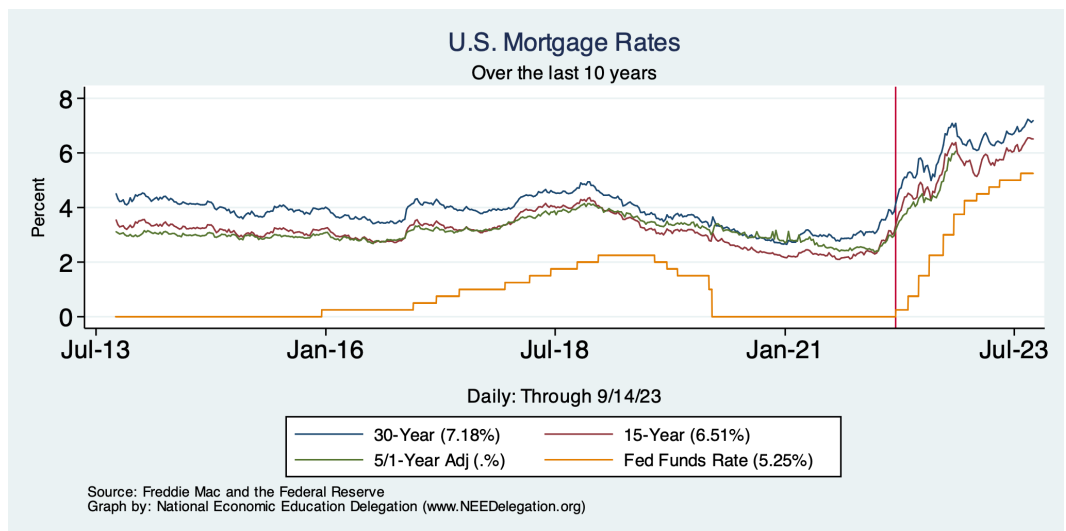


Alarming Compression of Interest Rates



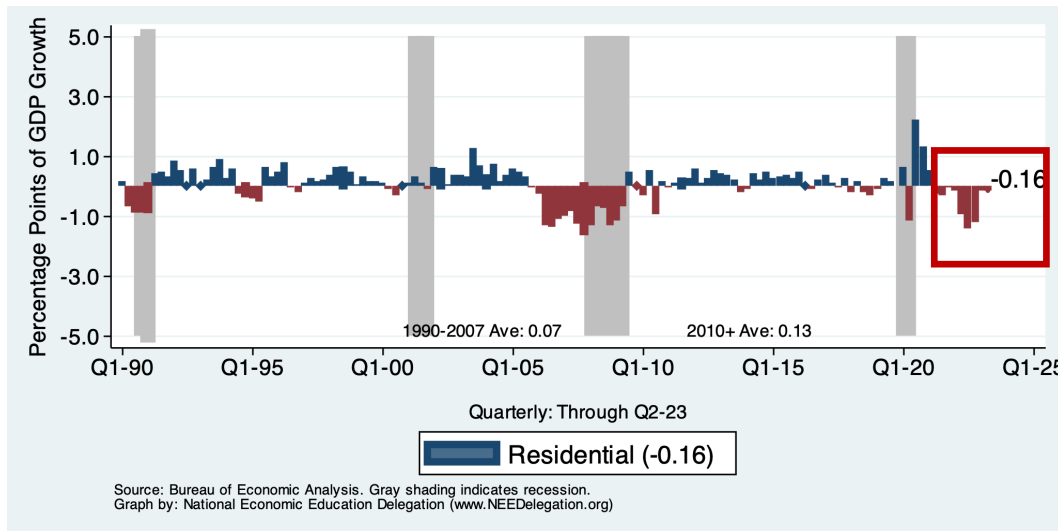
73

Mortgage Rates



74

Contributions to GDP: Residential Investment

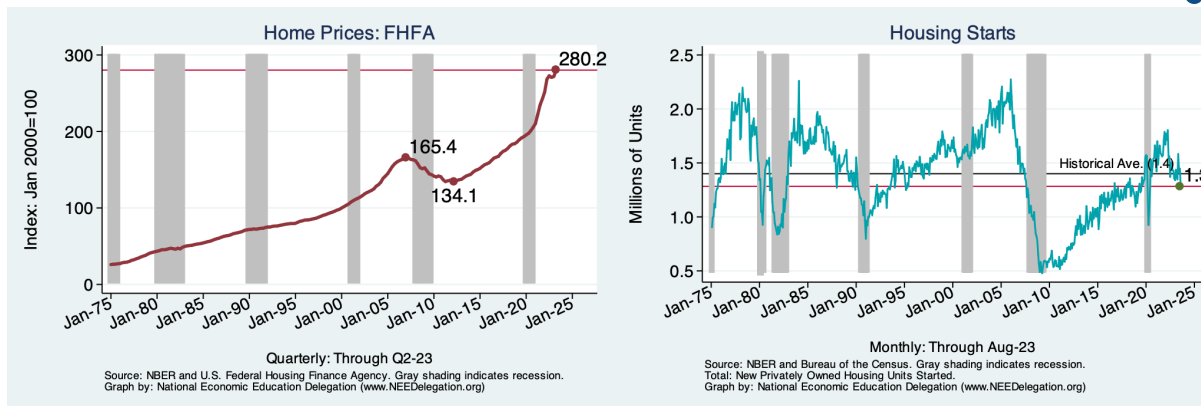


NATIONAL ECONOMIC EDUCATION DELEGATION

75

75

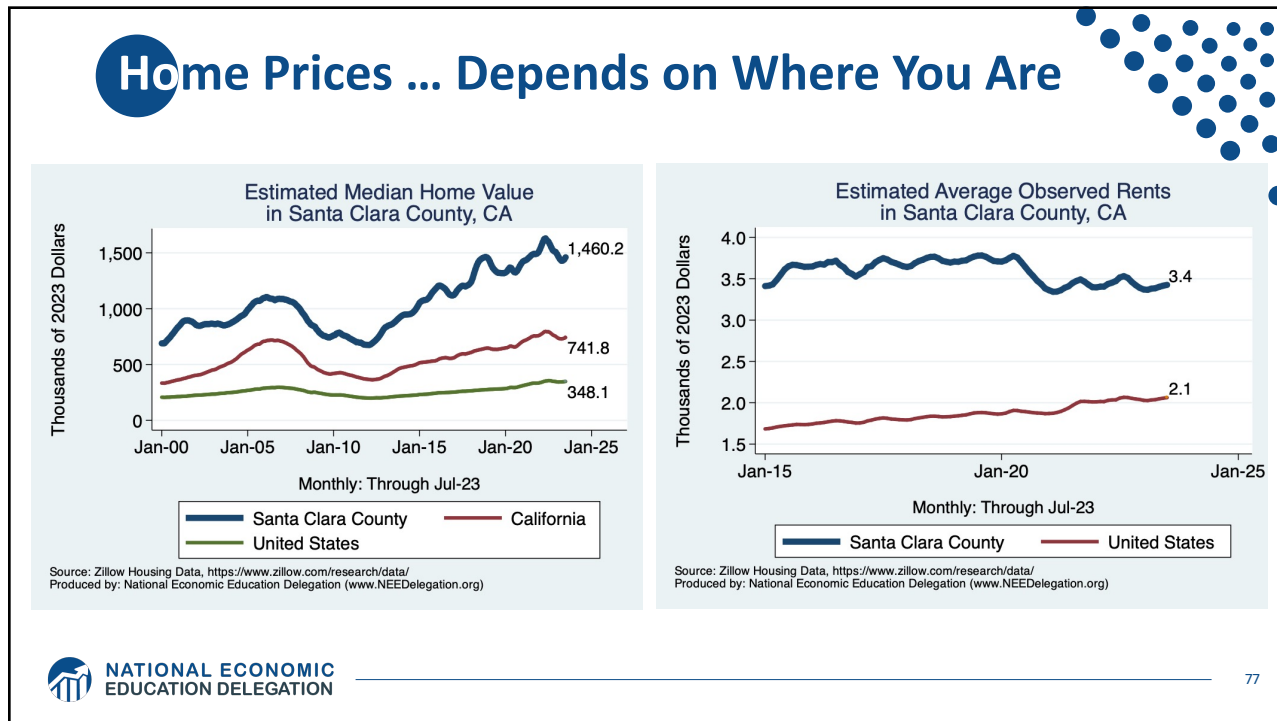
Home Prices and Housing Starts



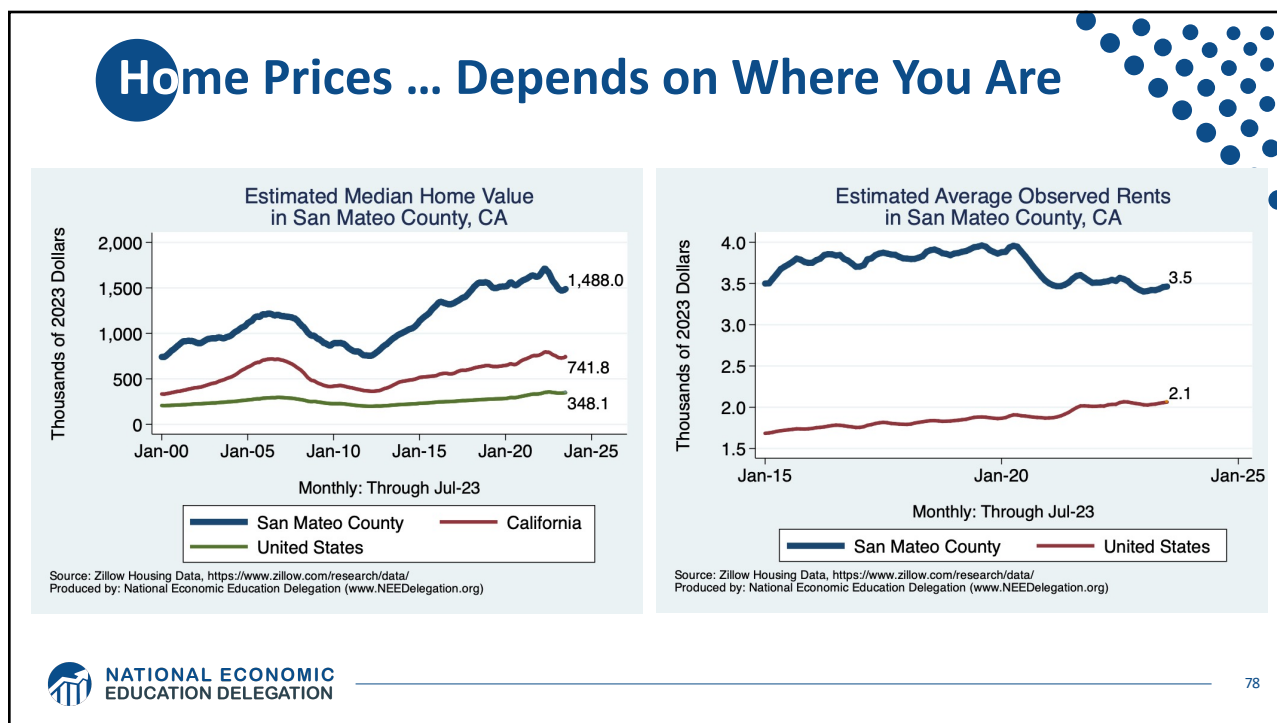
NATIONAL ECONOMIC EDUCATION DELEGATION

76

76

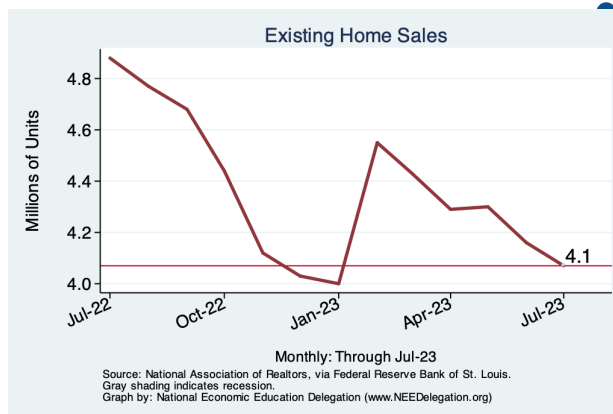
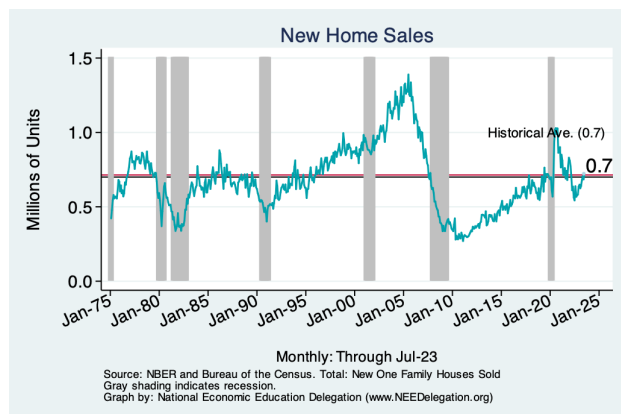


77



78

Home Sales are Still Low



NATIONAL ECONOMIC
EDUCATION DELEGATION

79

79

Takeaways

- **Is a recession on the horizon?**
 - Unlikely, but shallow if it happens.
 - Many indicators are still in the black.
 - 2023-Q2 GDP growth was ok!
- **Inflation has been tamed.**
- **Fed is slowing its activity.**
- **Threats to continued growth:**
 - If inflation starts to rise again, which seems unlikely.
 - UAW Strikes – if prolonged.
 - Government budget negotiations.
 - Shutdown?



NATIONAL ECONOMIC
EDUCATION DELEGATION

80

Thank you!

Any Questions?

www.NEEDEcon.org

Jon Haveman, Ph.D.

Jon@NEEDEcon.org

Contact NEED: info@NEEDEcon.org

Submit a testimonial: www.NEEDEcon.org/testimonials.php

Become a Friend of NEED: www.NEEDEcon.org/friend.php



NATIONAL ECONOMIC
EDUCATION DELEGATION

81