



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

University of W. Virginia
January-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

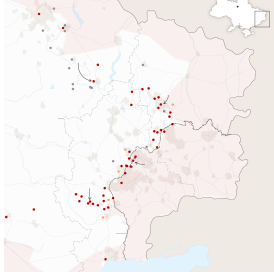
Course Outline

- **Contemporary Economic Policy**

- Week 1 (1/25): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- **Week 2 (2/1): US Economic Update (Jon Haveman, NEED)**
- Week 3 (2/8): Trade Deficits and Exchange Rates (Alan Deardorff)
- Week 4 (2/15): Monetary Policy (Geoffrey Woglom, Amherst College)
- Week 5 (2/22): Economic Inequality (Jon Haveman, NEED)
- Week 6 (3/1): Climate Change Economics (Sarah Jacobson, Williams College)


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.**
- **Slides will be available from the NEED website soon.**
(https://needelegation.org/delivered_presentations.php)



US Economic Update

Jon Haveman, Ph.D.
NEED
February 1, 2023



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Credits and Disclaimer

- **This slide deck was authored by:**
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- **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	165.0 Million
Employment	153.7 Million
Gross Domestic Product (GDP)	\$26.1 Trillion
Income per Capita	\$66,329
Ave. Hourly Earnings	\$32.82



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Source: fred.stlouisfed.org

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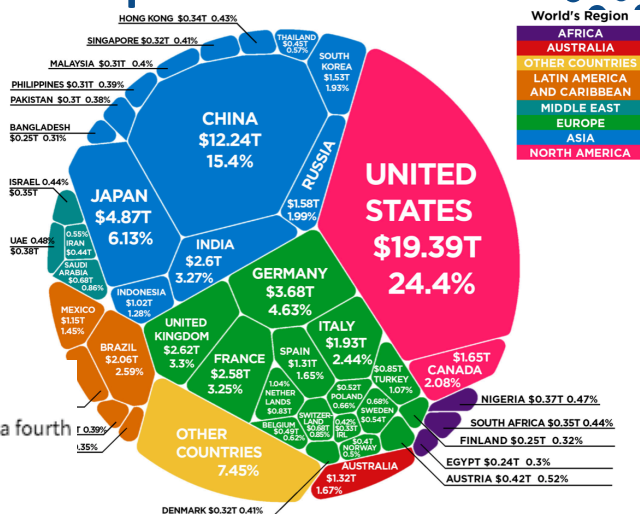
U.S. Economy in Global Perspective

U.S. Nominal GDP:

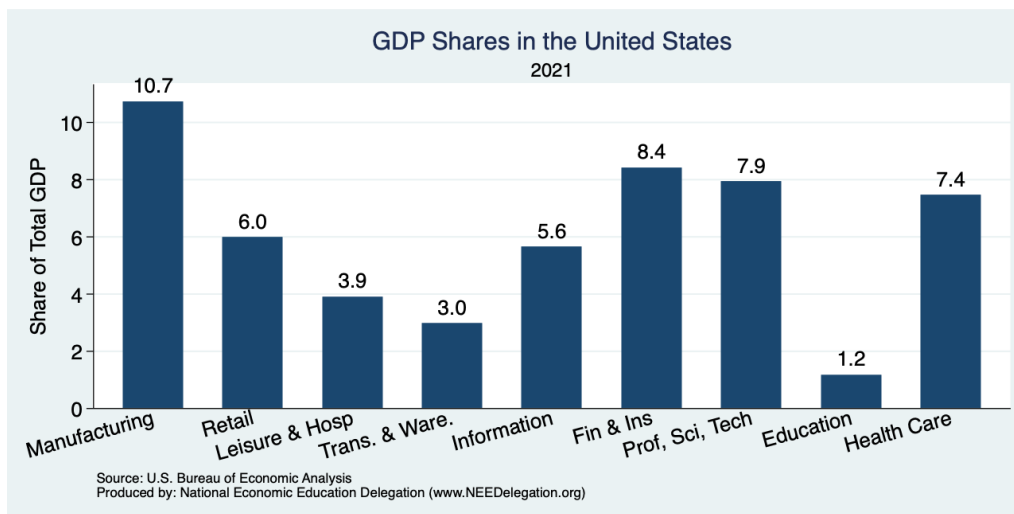
\$21.538 trillion in 2019-Q4
\$19.637 trillion in 2020-Q2
\$26.132 trillion in 2022-Q3

% Share of the Global Economy

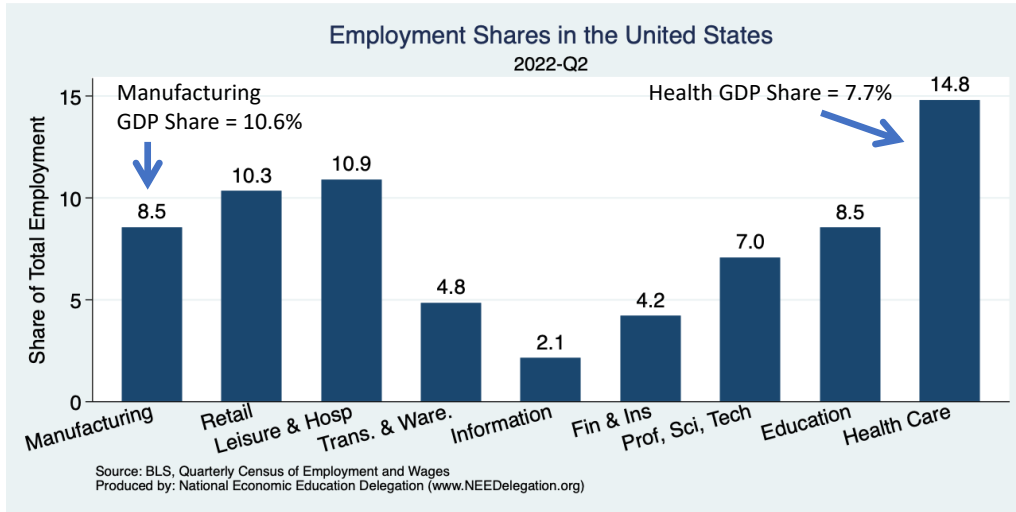
The 173 countries outside the top 20 make up less than a fourth of the total global economy.



Composition of the U.S. Economy: 2021



Composition of the U.S. Economy: Employment



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

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Economic Indicators

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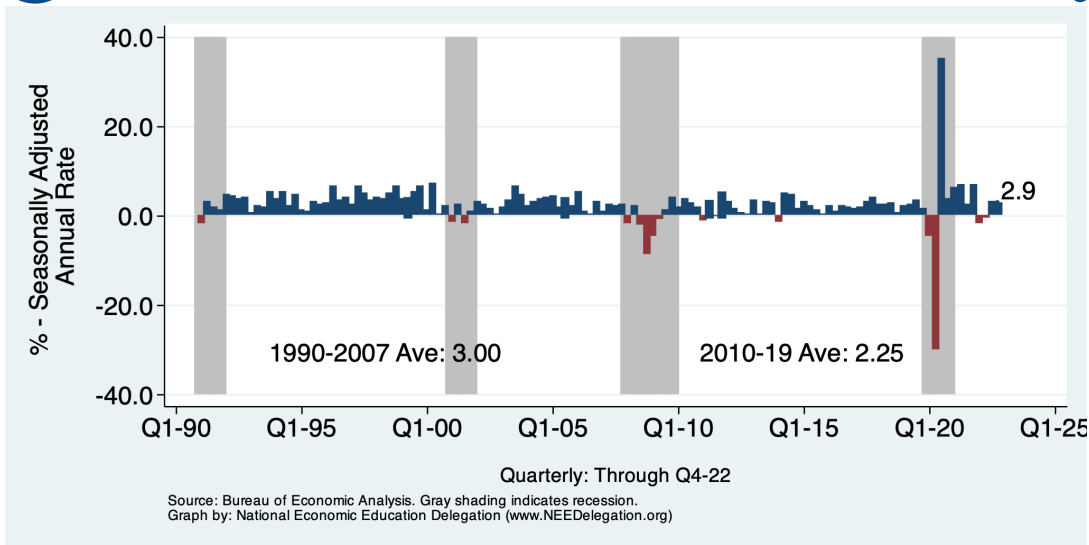
Headline:

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

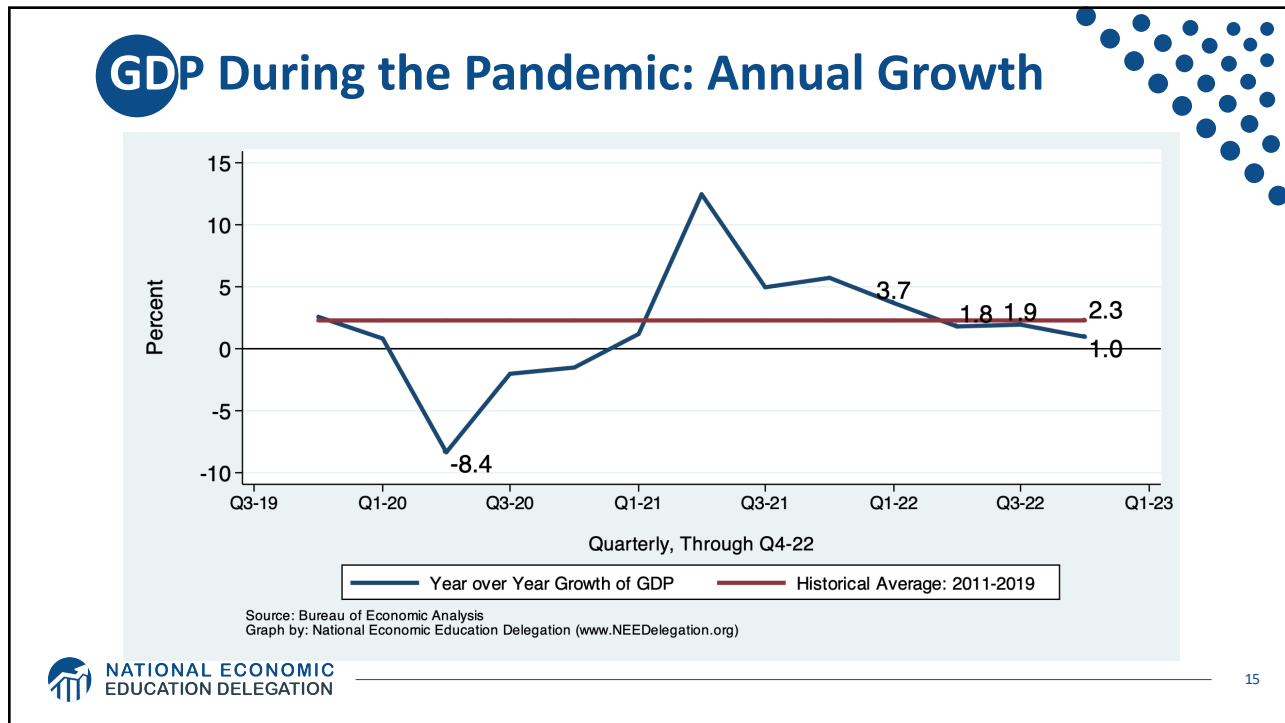
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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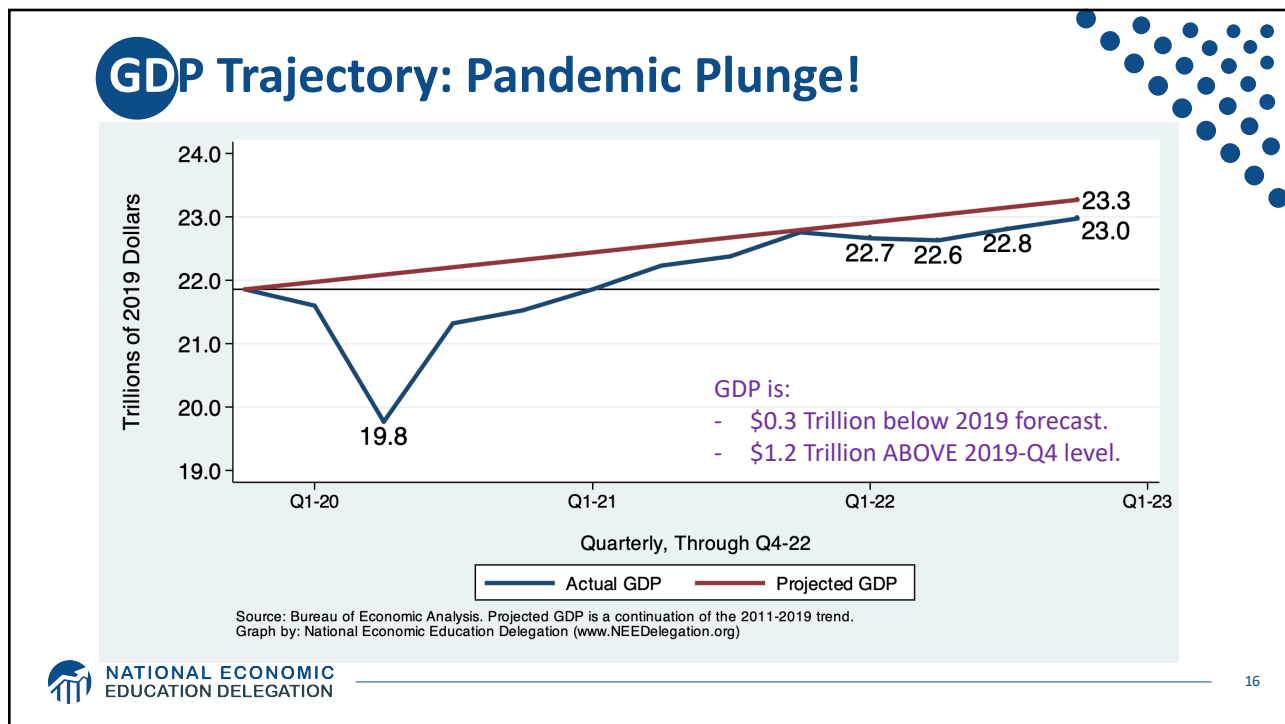
GDP: Quarterly Growth



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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



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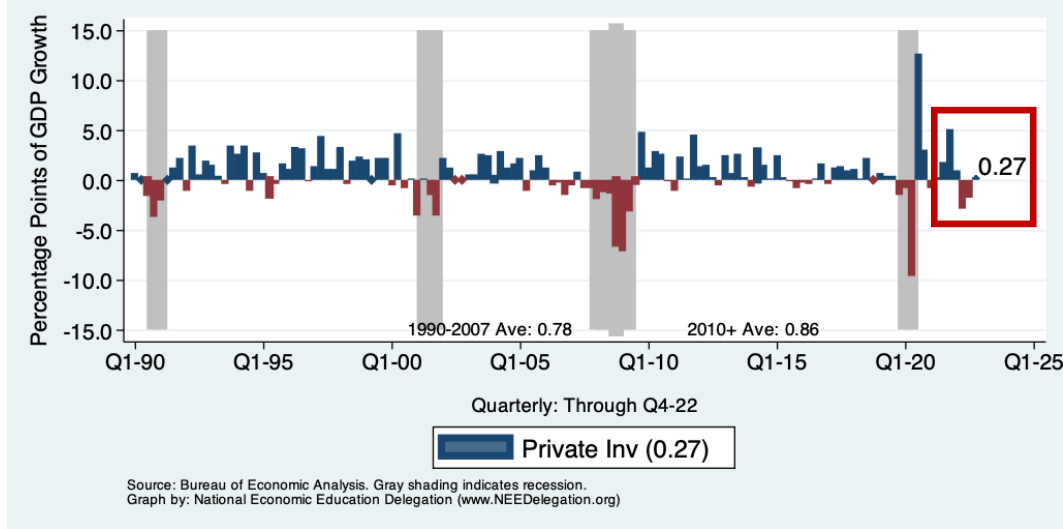
Recession? Two Quarters....

- **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

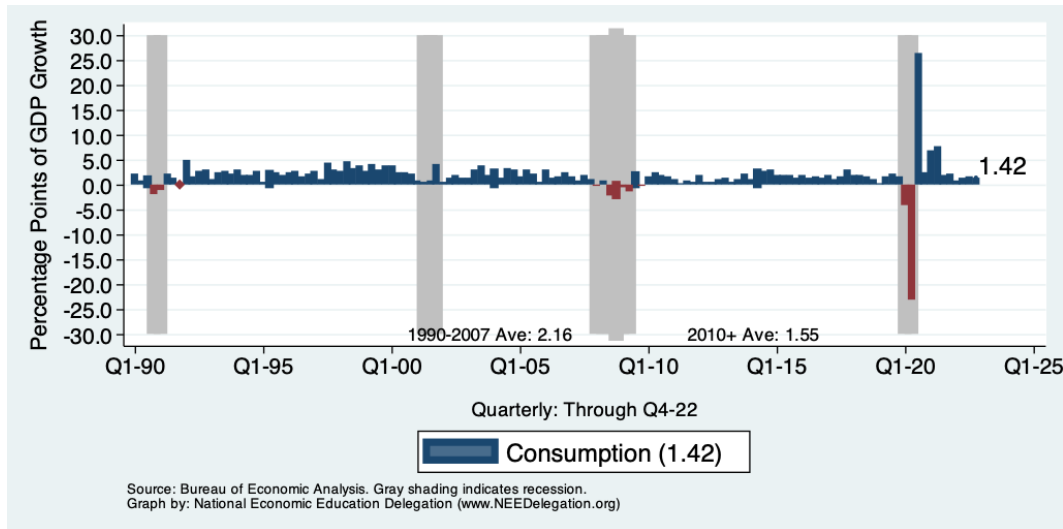


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Contribution to GDP Growth: Consumption

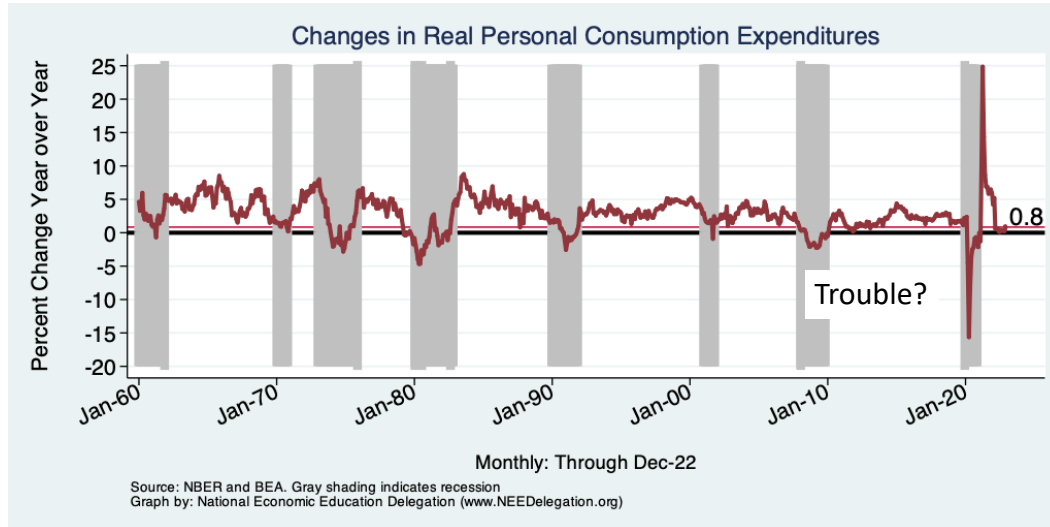


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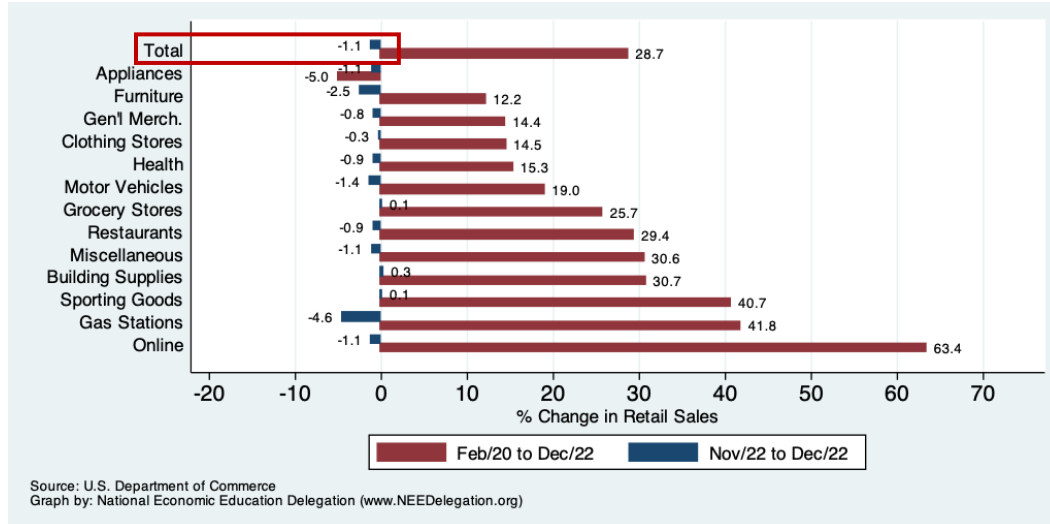
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Personal Consumption Expenditures



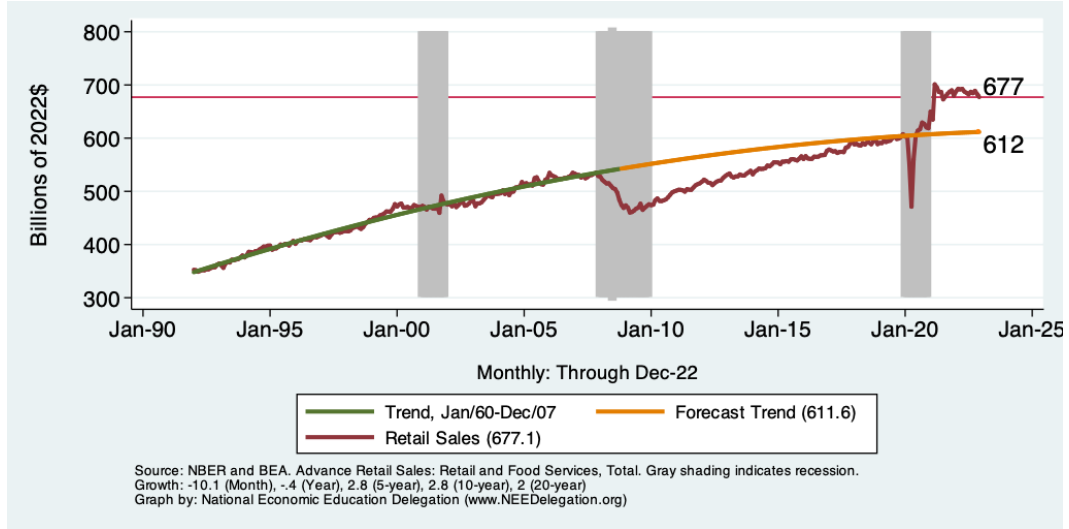
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Retail Sales Fell in December



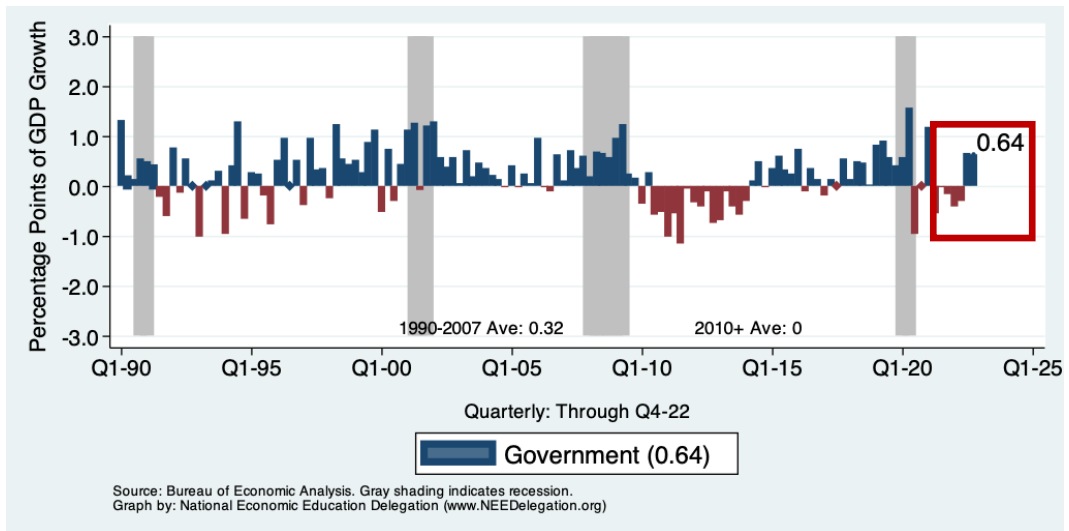
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But SUPER High to Begin With!



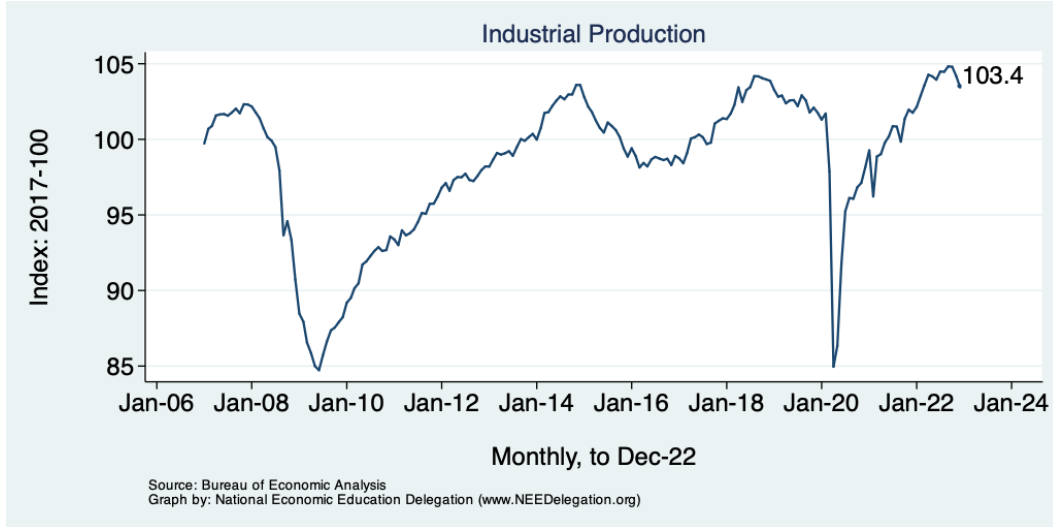
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Contributions to GDP: Government



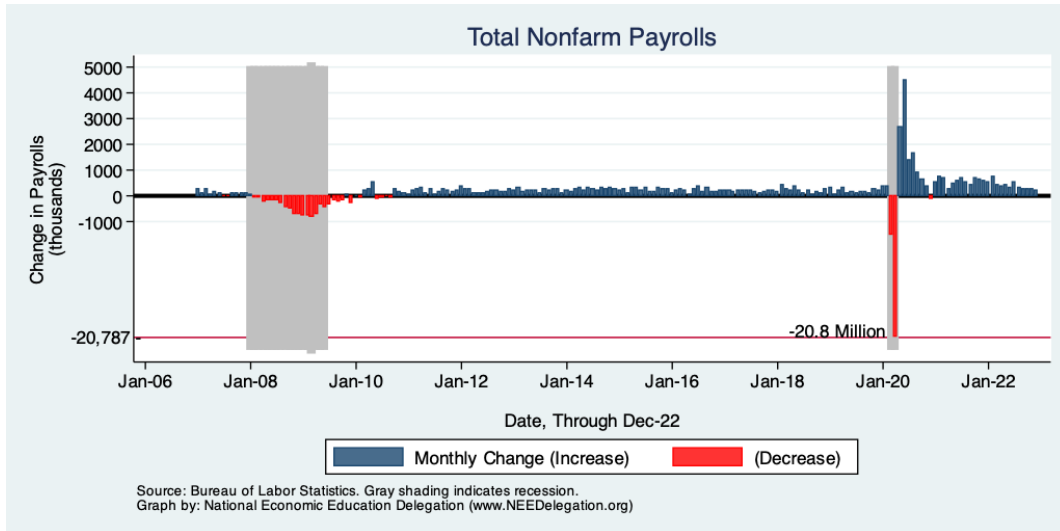
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Industrial Production (Manuf, Util, Mining)

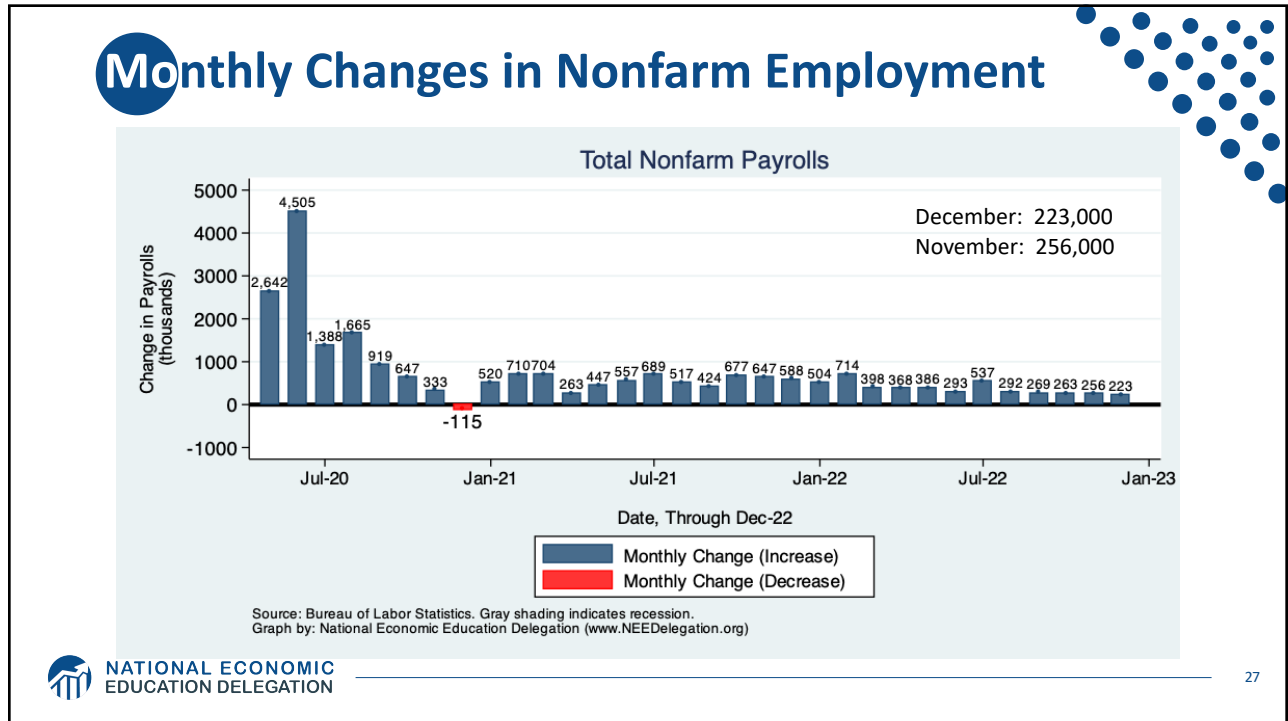


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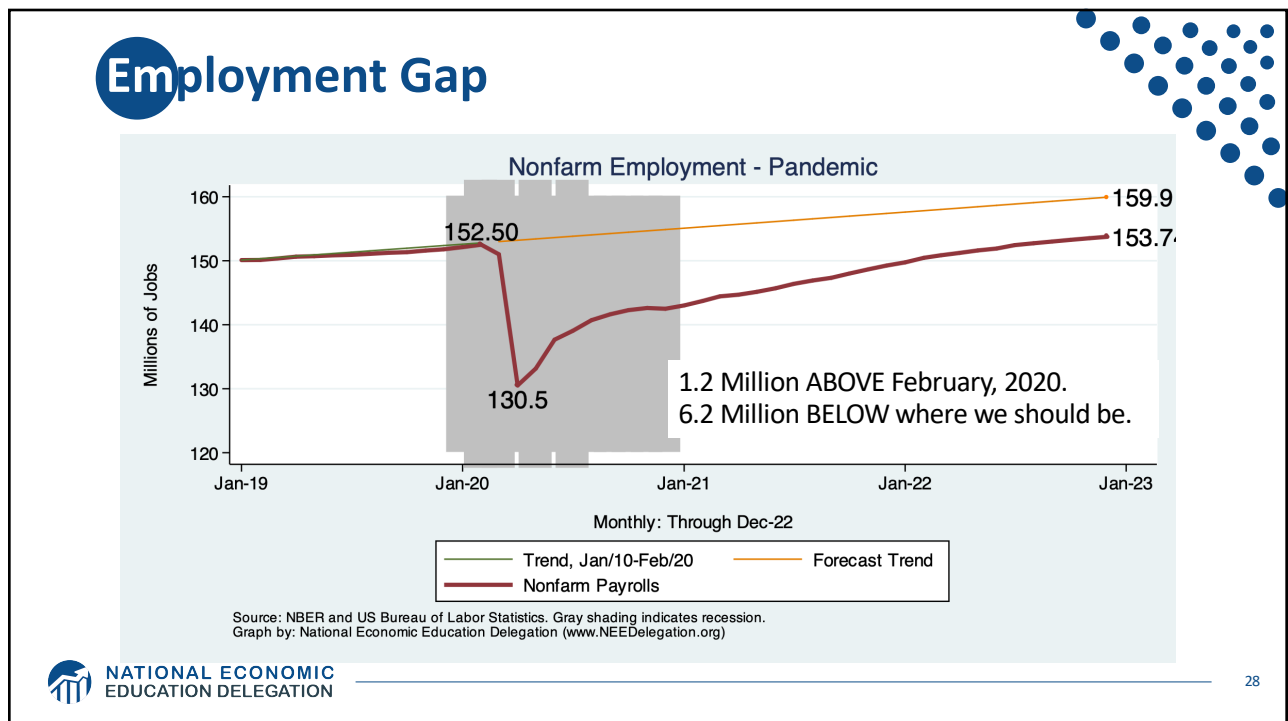
Monthly Changes in Nonfarm Employment



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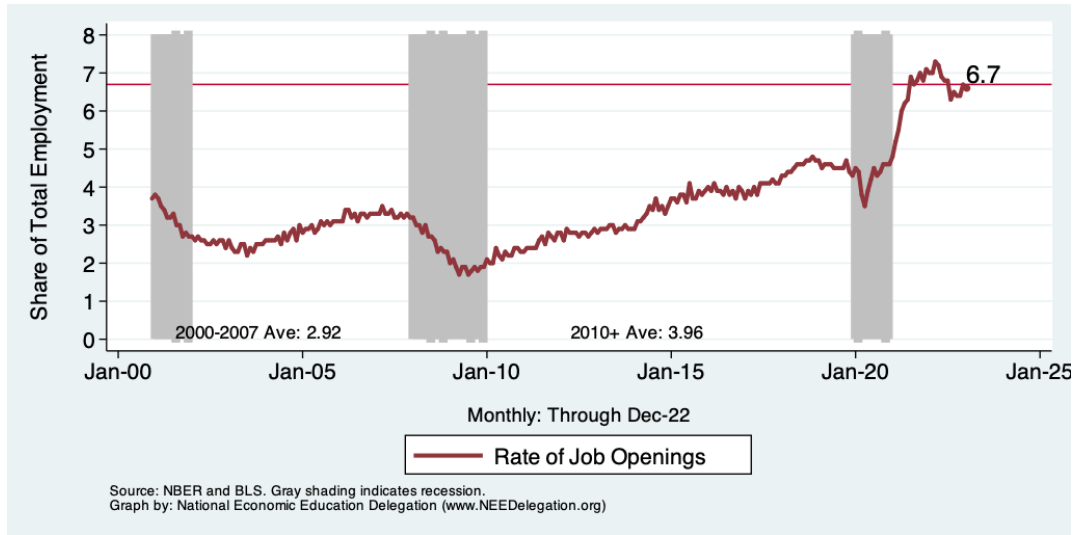


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Job Openings: Share of Total Employment

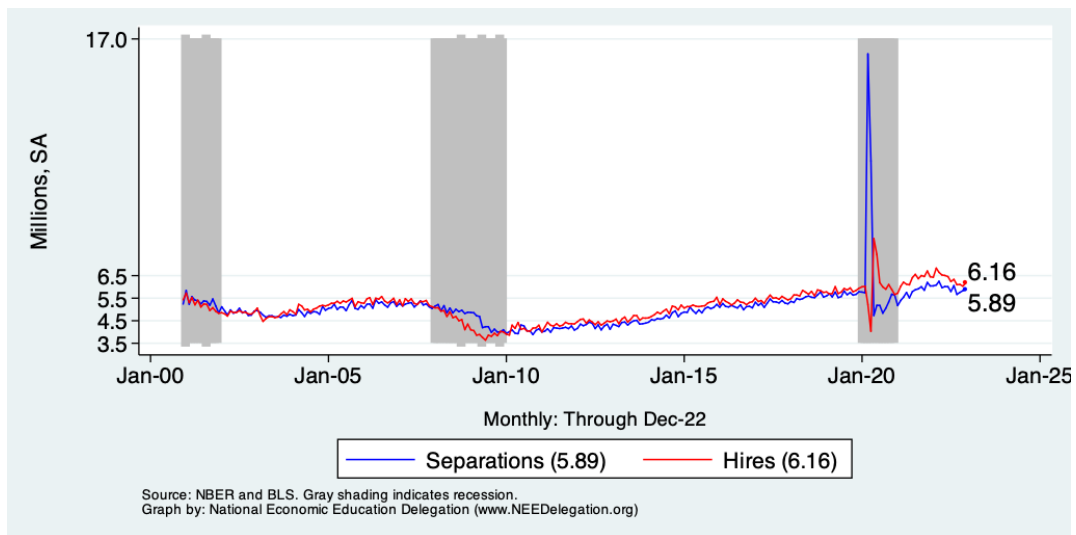


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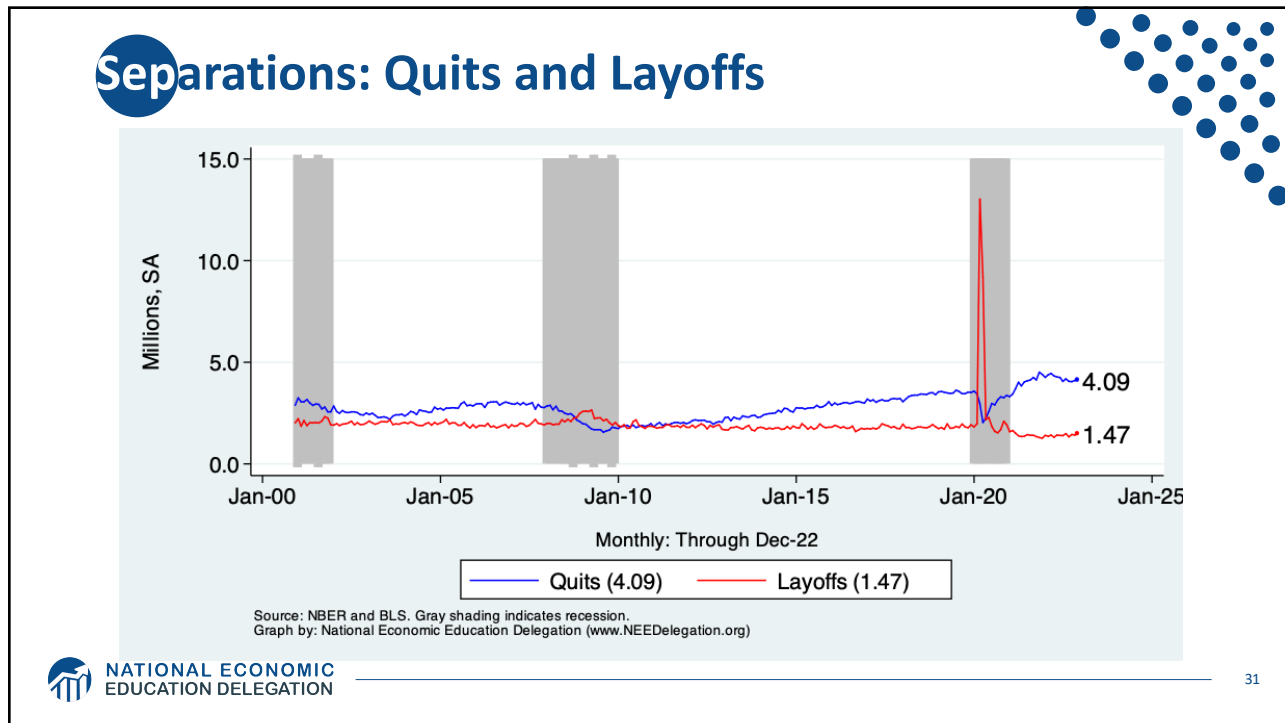
Job Hires and Separations



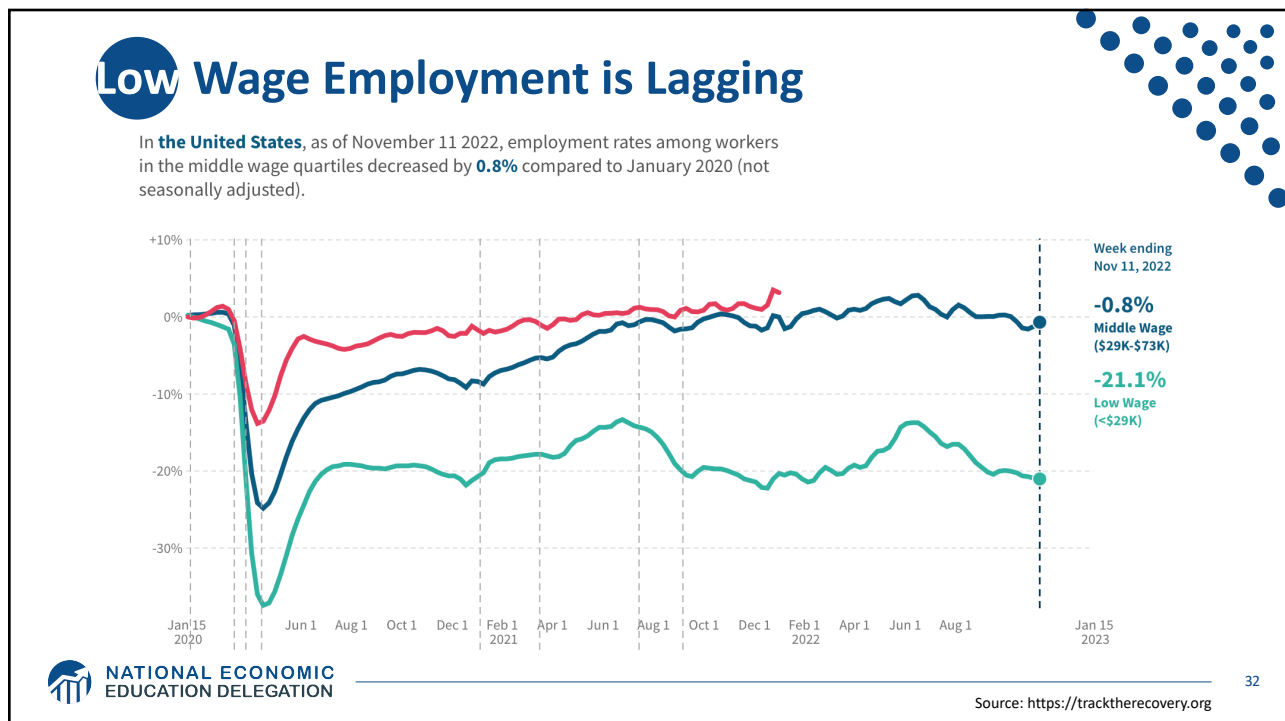
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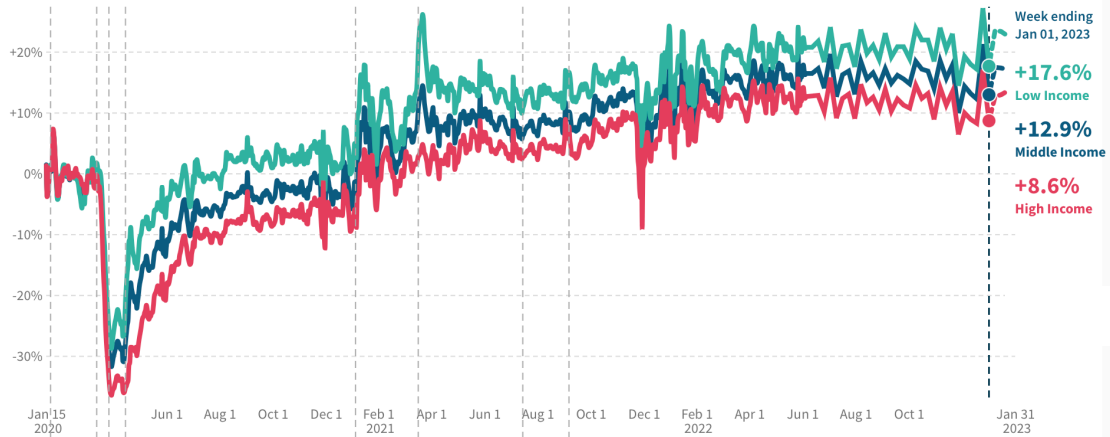
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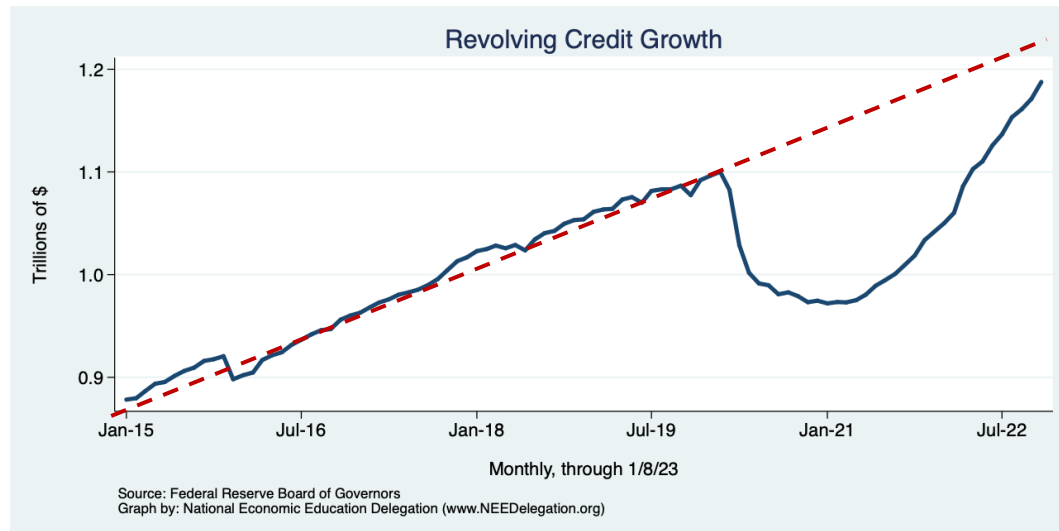
Low Wage Spending is NOT!

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



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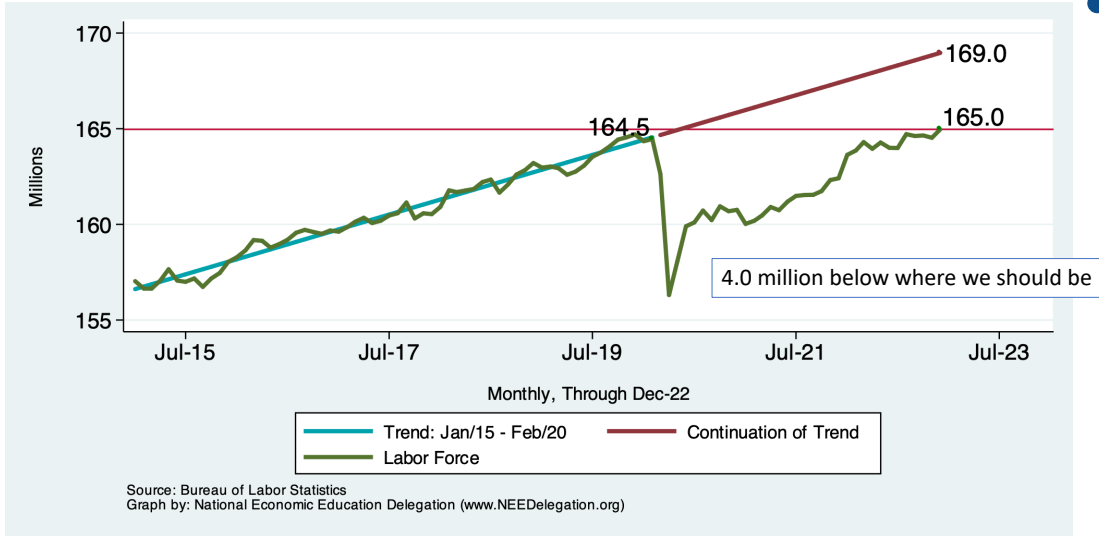
Nor is Borrowing on Credit



Source: Federal Reserve Board of Governors
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Where Have All the Workers Gone?

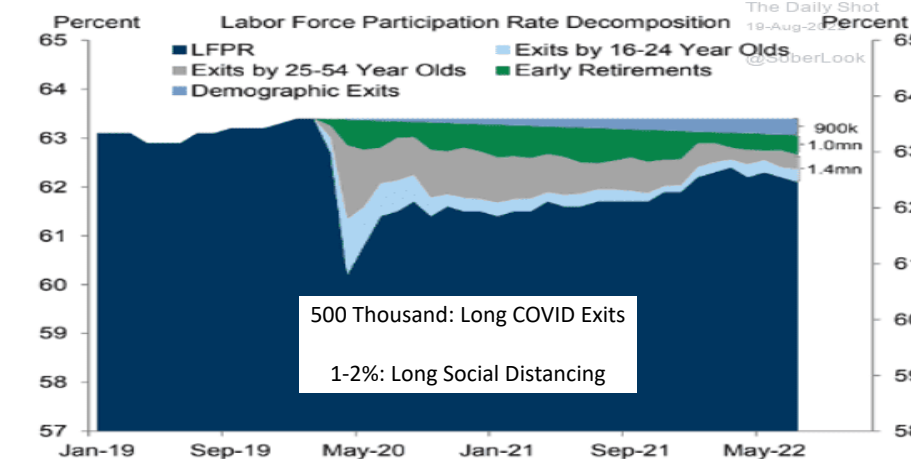


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Some Explanations

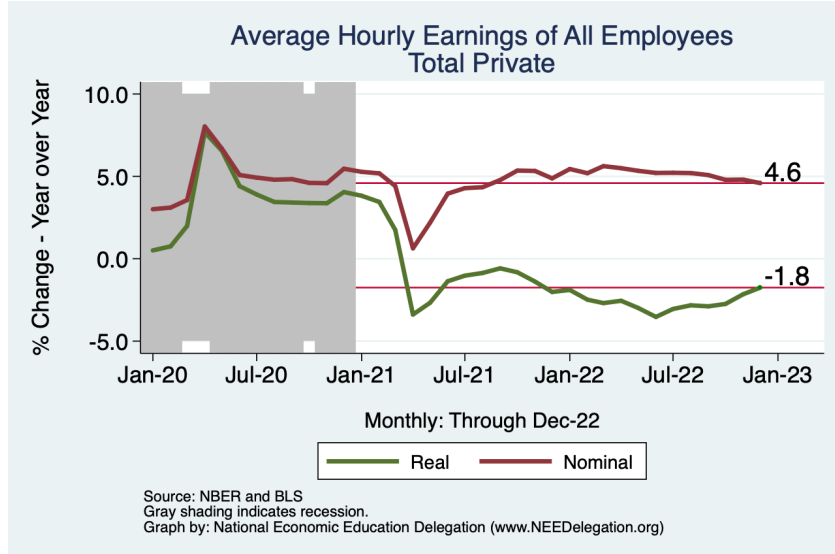
The Recovery of Labor Supply Has Stagnated This Year and Seems to Be Running Out of Steam



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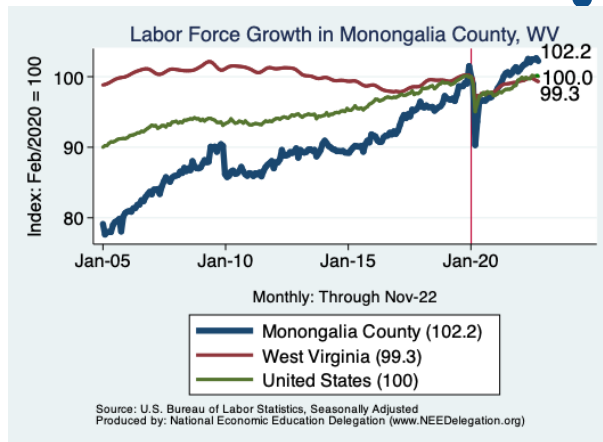
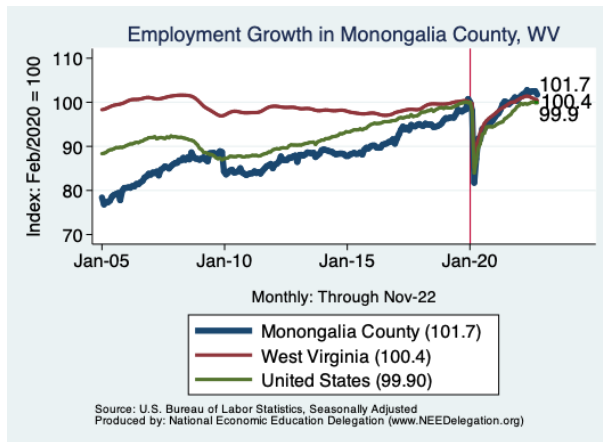
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Wage Growth



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How Are Things Where You Are?



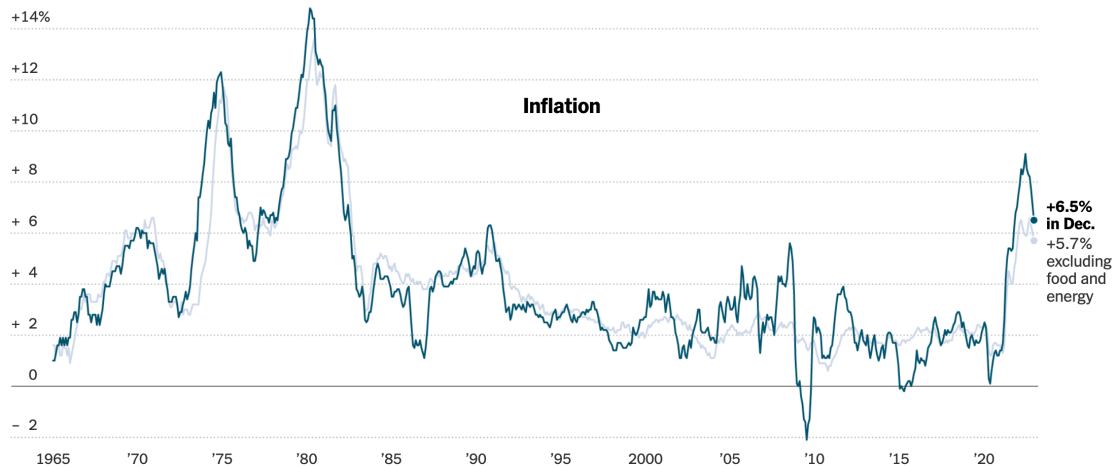
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Inflation



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Inflation: Latest Figures

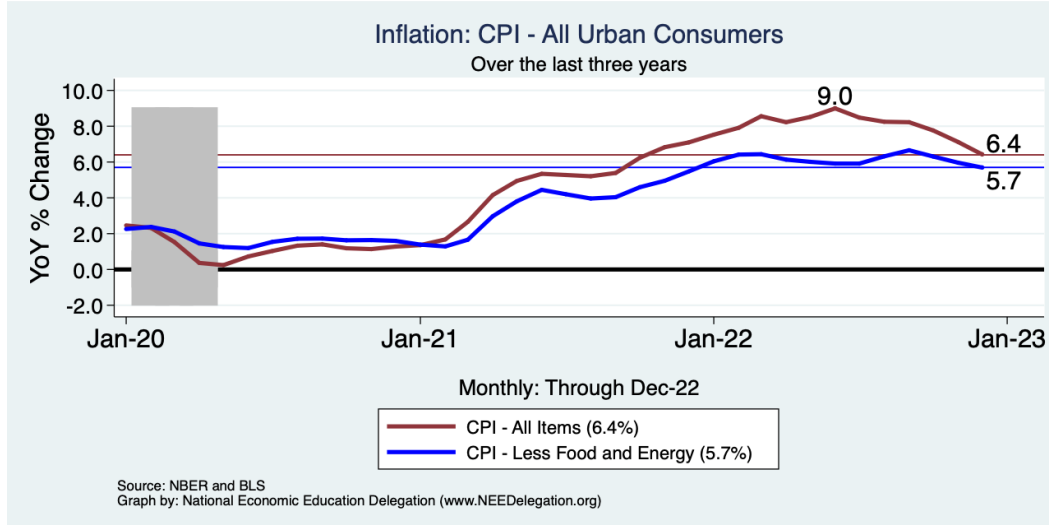


Year-over-year percentage change in the Consumer Price Index • Source: Bureau of Labor Statistics

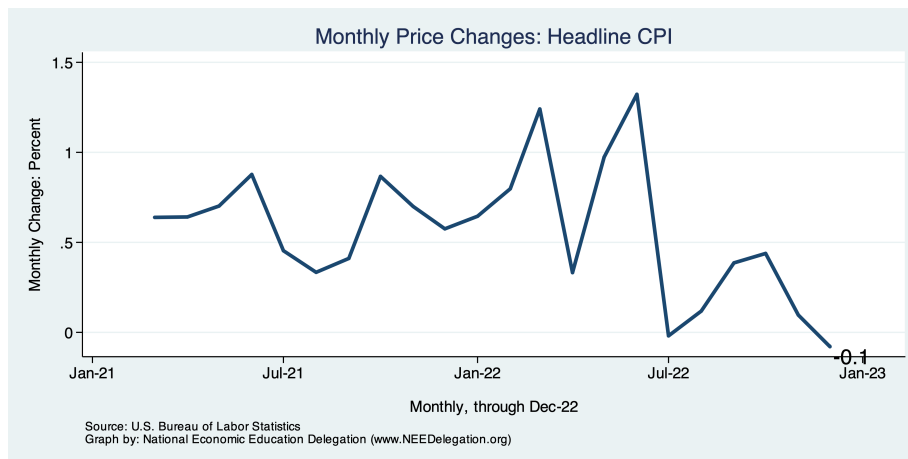


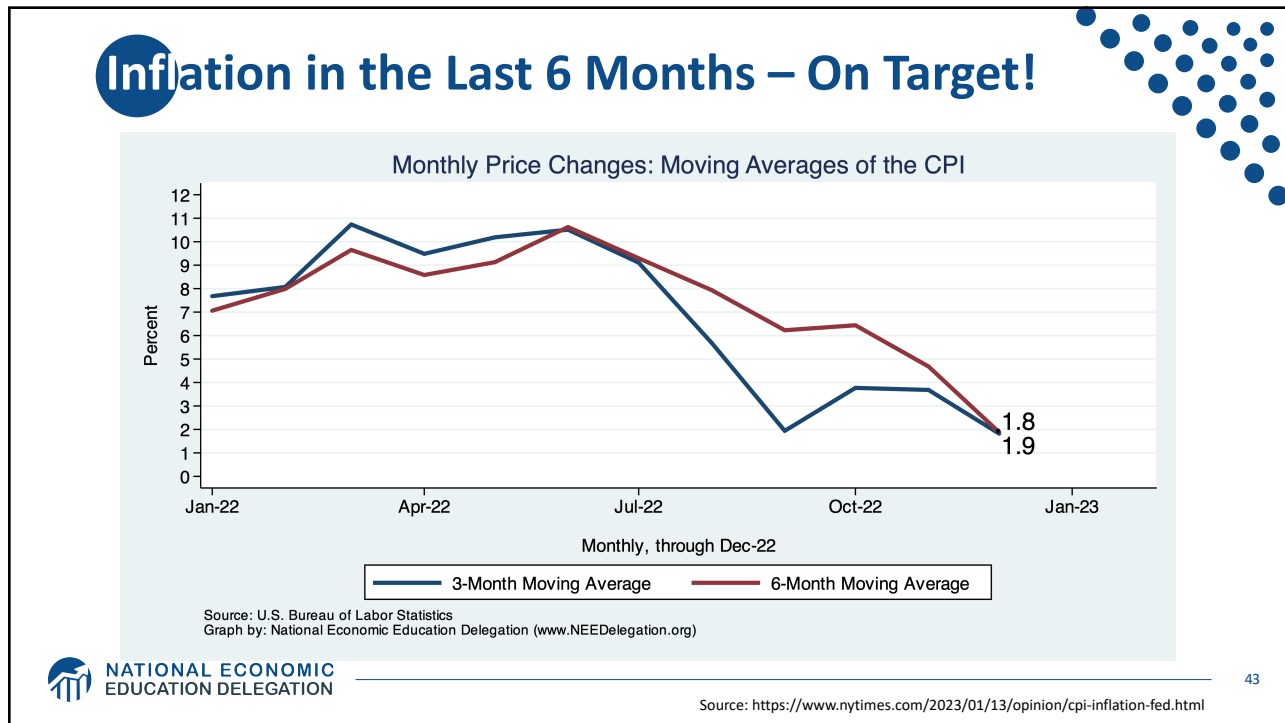
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Inflation – Falling! Job done? Maybe.

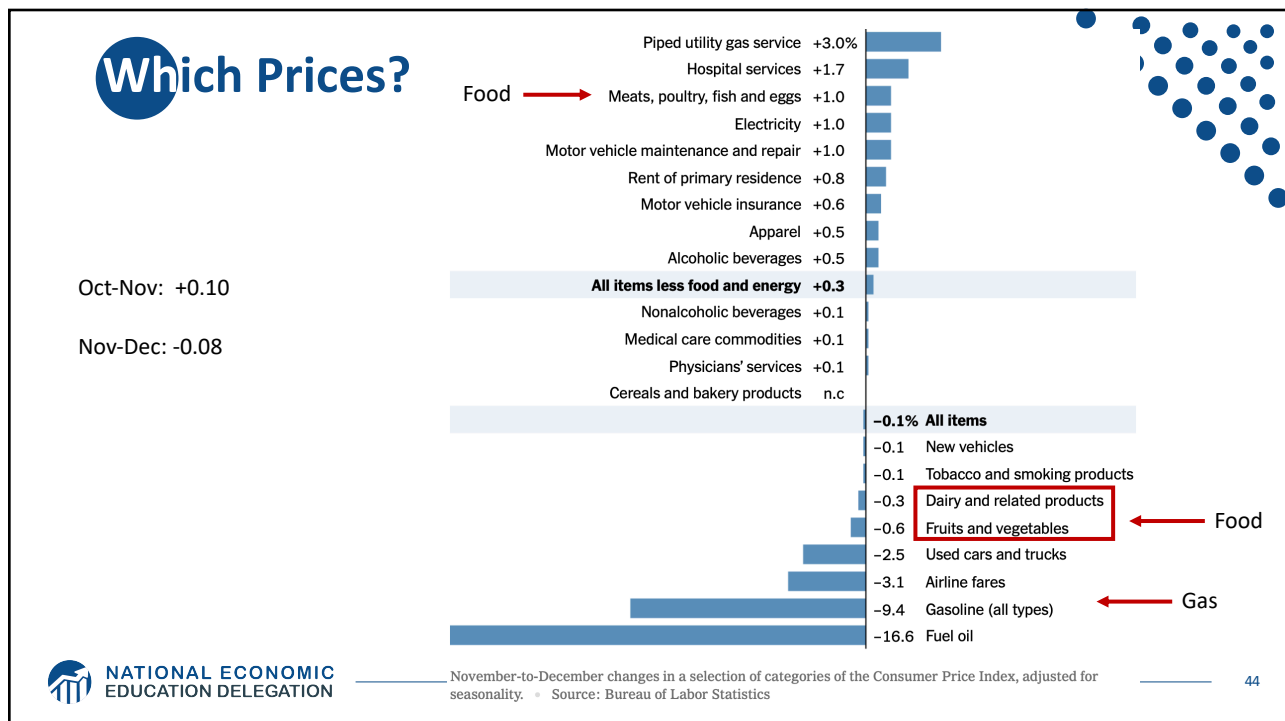


Inflation: Monthly Changes



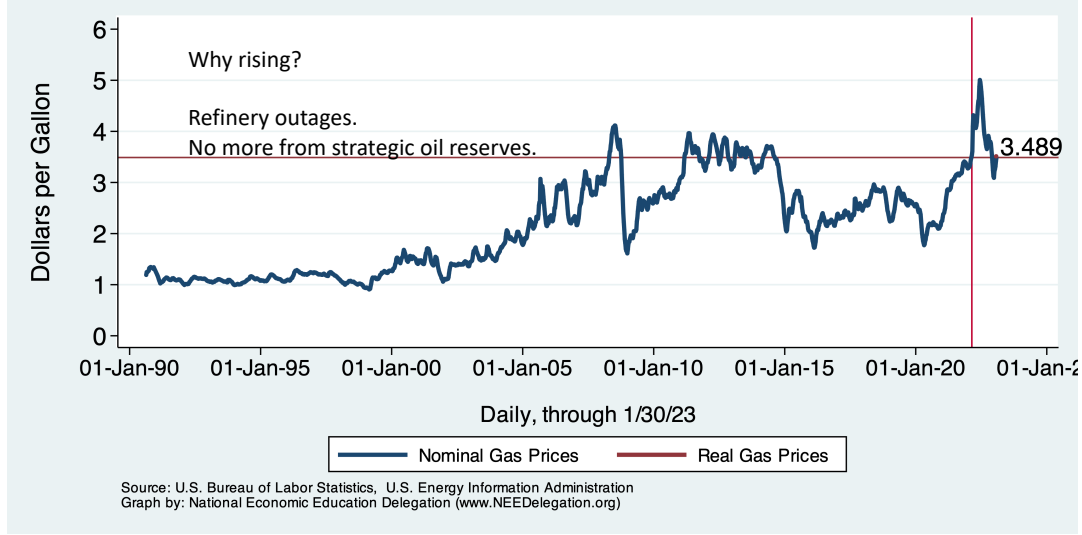


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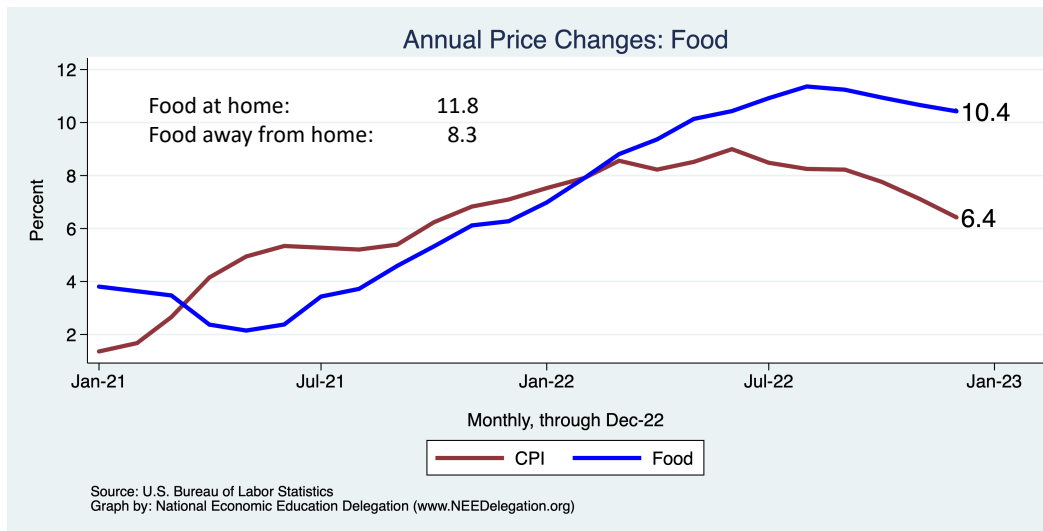
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Gas Prices: National Average at the Pump



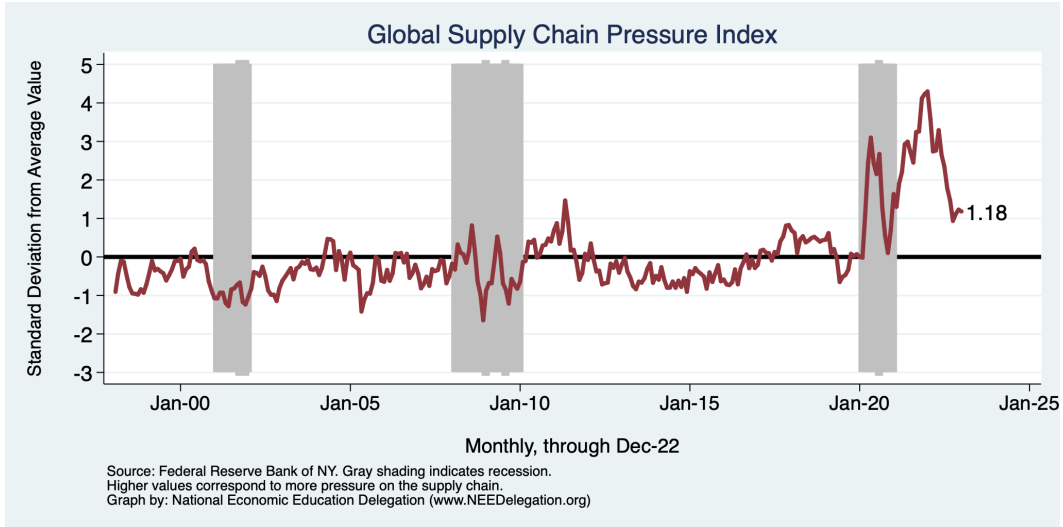
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Food Costs Continue Are Falling – but not Eggs

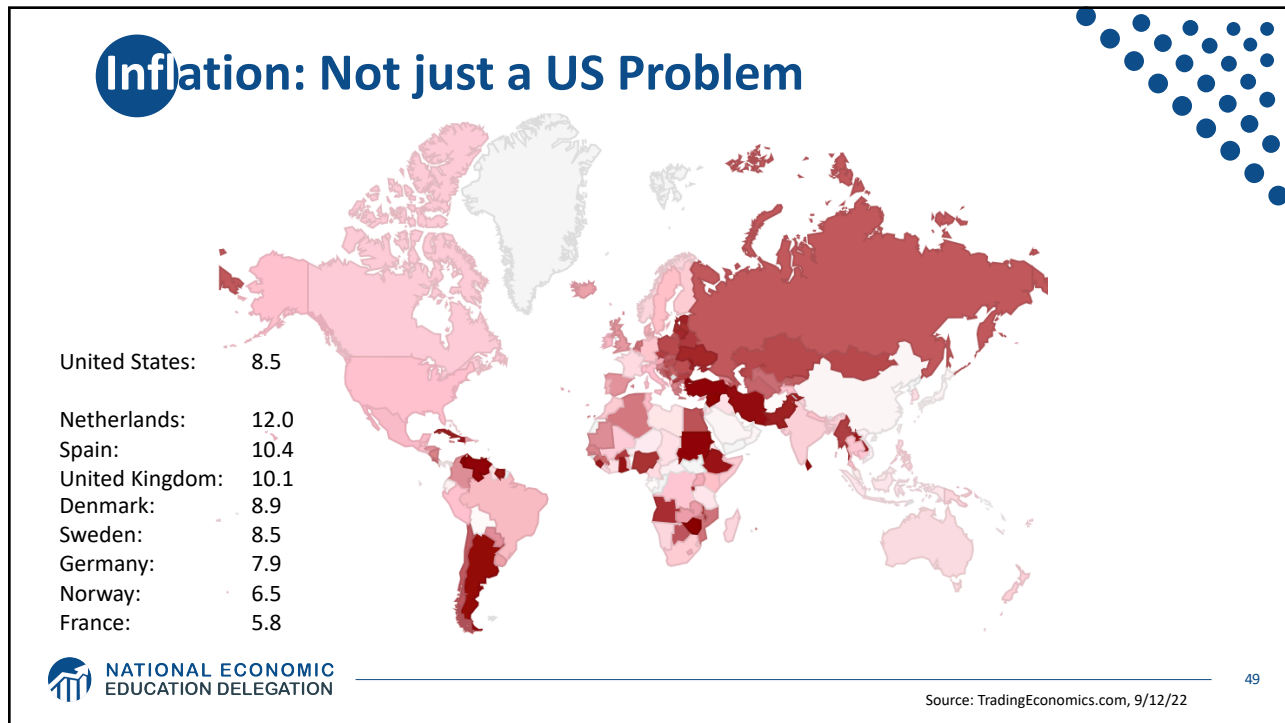


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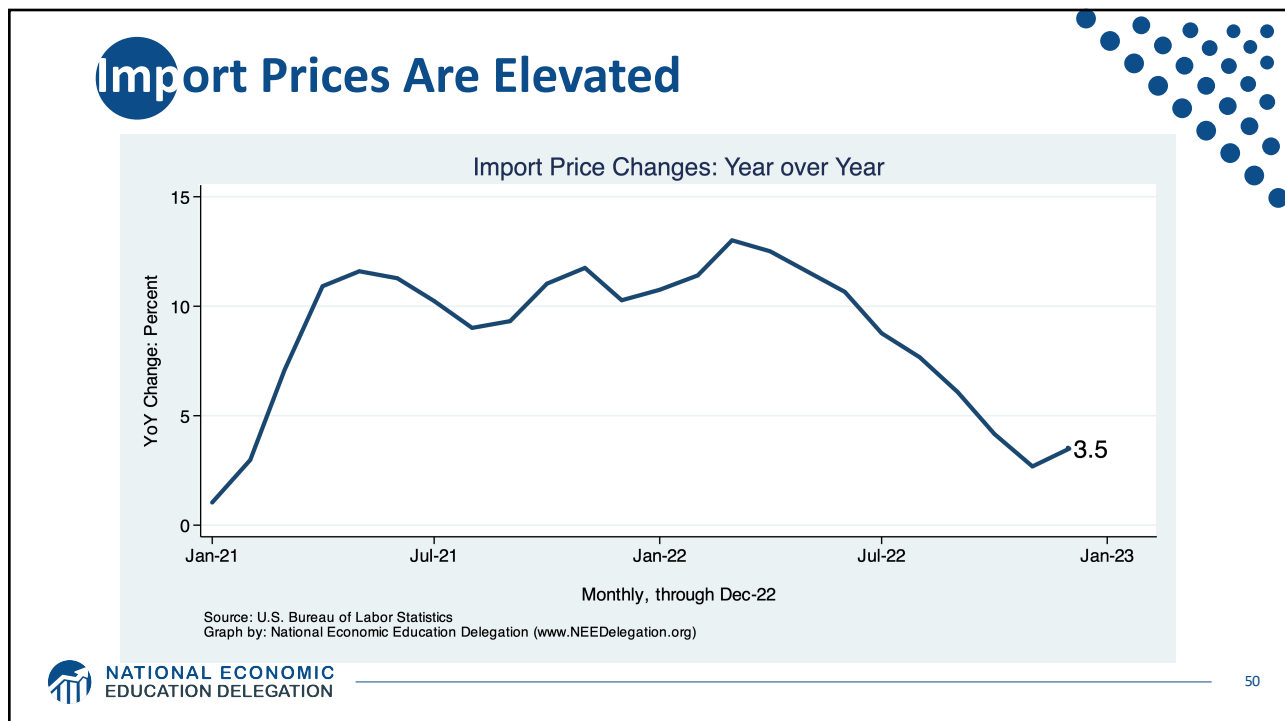
Supply Chains



Global Evidence



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Inflation: A Closer Look

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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.

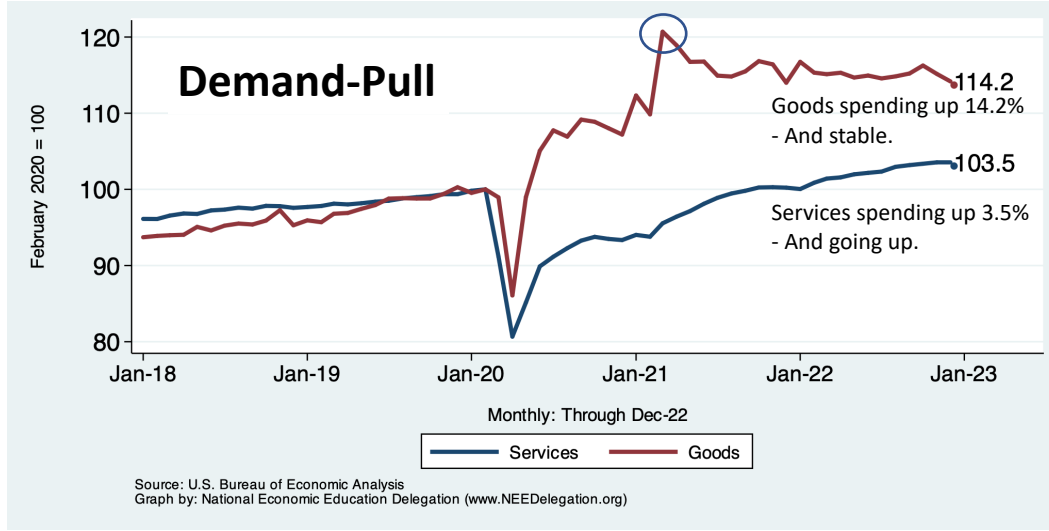
Built-In



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

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Spending Patterns Changed - More Goods!

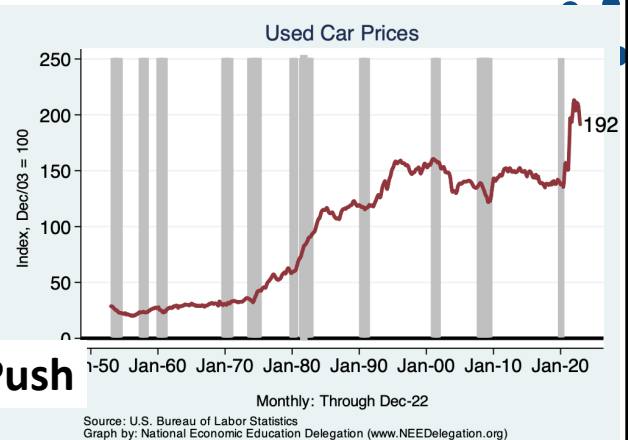


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Inflation: Concentrated



Cost-Push

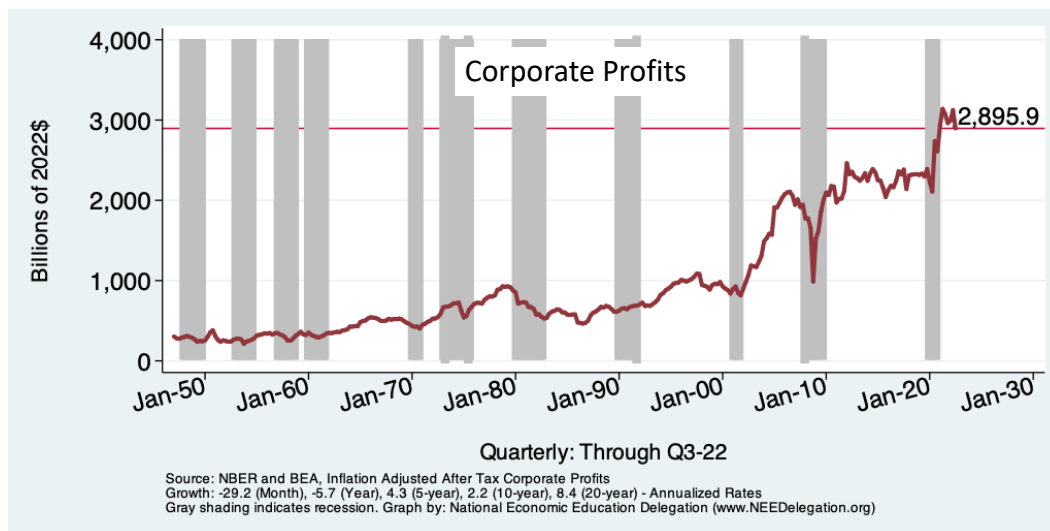


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Supply Chains



Corporations Have Pricing Power!

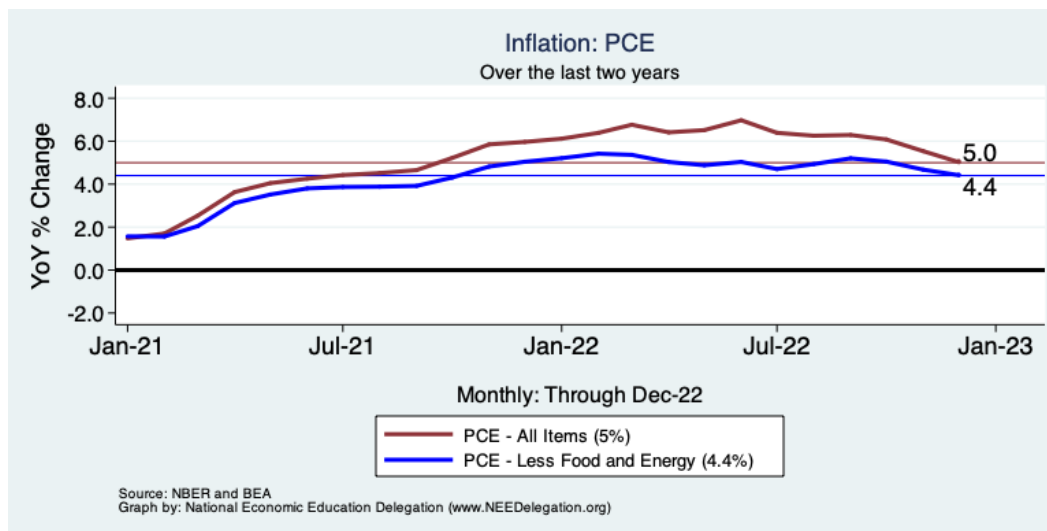


My Thoughts on the Sources of Inflation

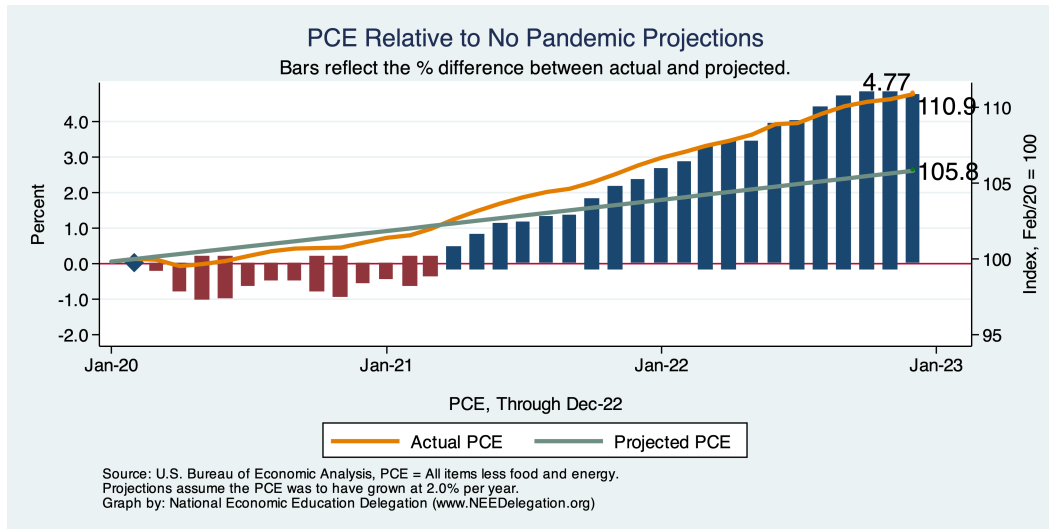
- **Supply Chain issues were significant – less so now.**
- **Composition of spending changed significantly.**
 - Is now bouncing back, as are prices.
- **Corporations have used the cover of inflation to raise prices more.**
- **But there was too much total spending.**
 - Fiscal stimulus led households 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.**



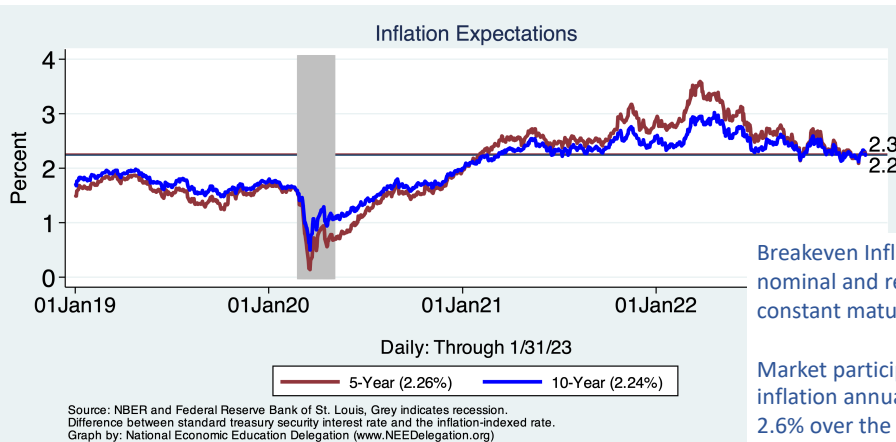
Inflation – The Fed’s Metric



Inflation – PCE and Fed



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 2.24% 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?

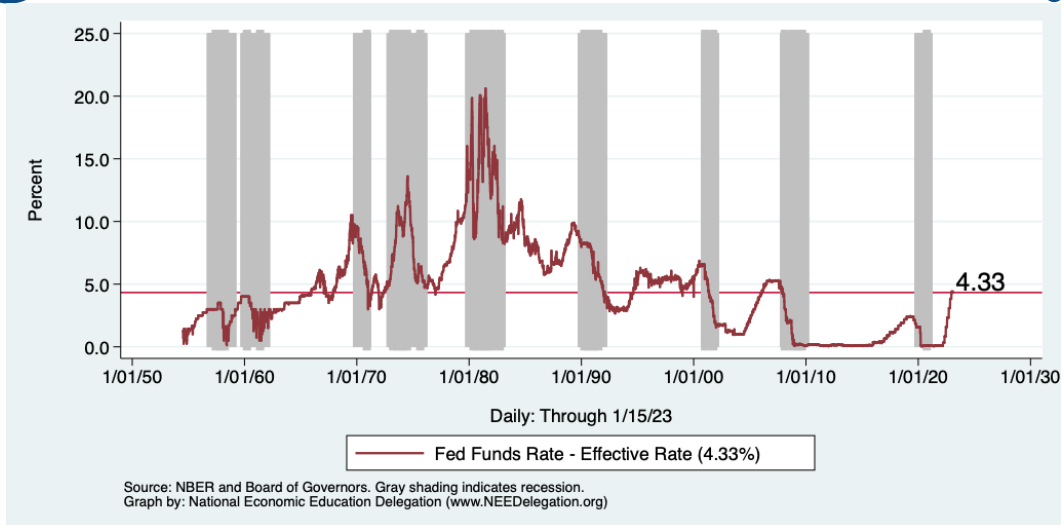


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Federal Funds Rate

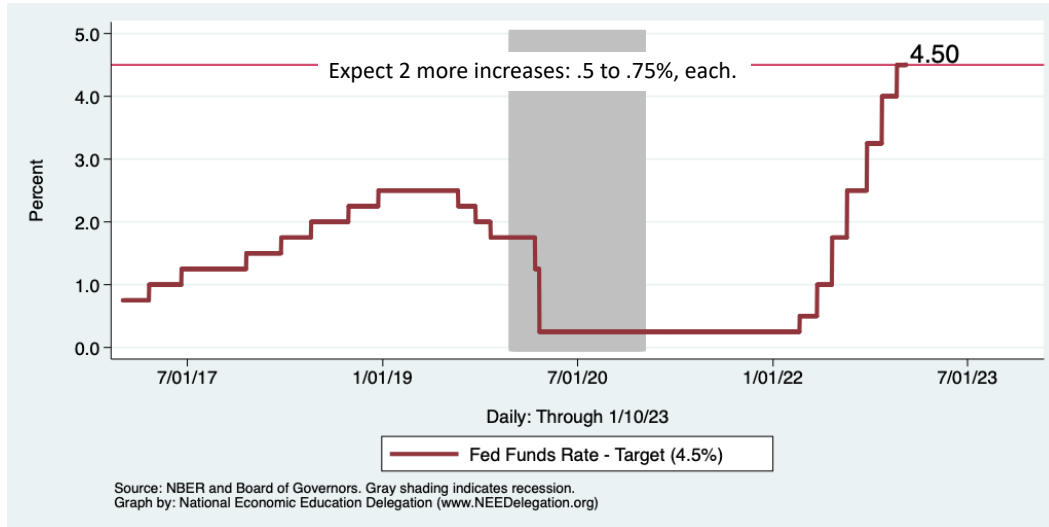


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Federal Funds Rate – Recent Activity

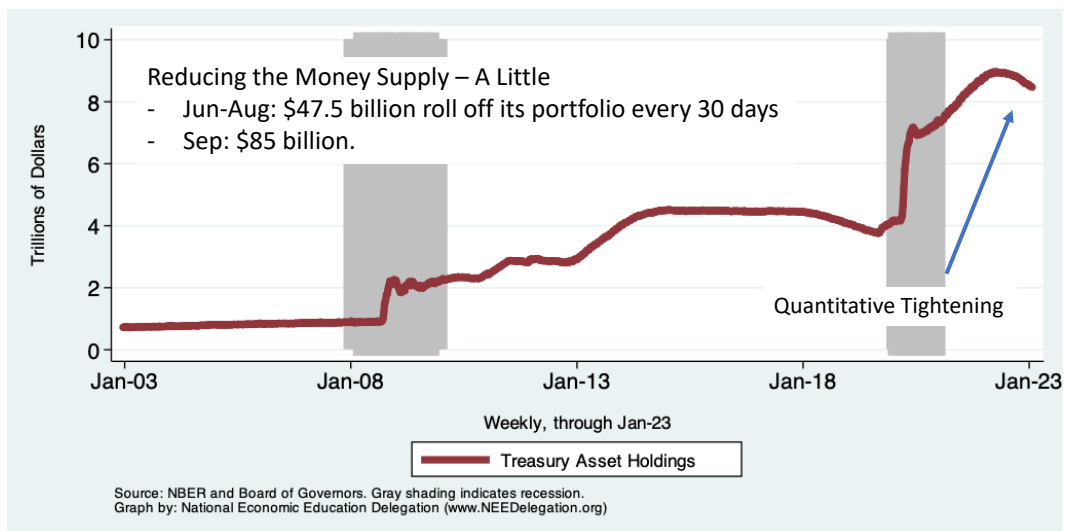


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Fed: Also Reducing its Asset Holdings



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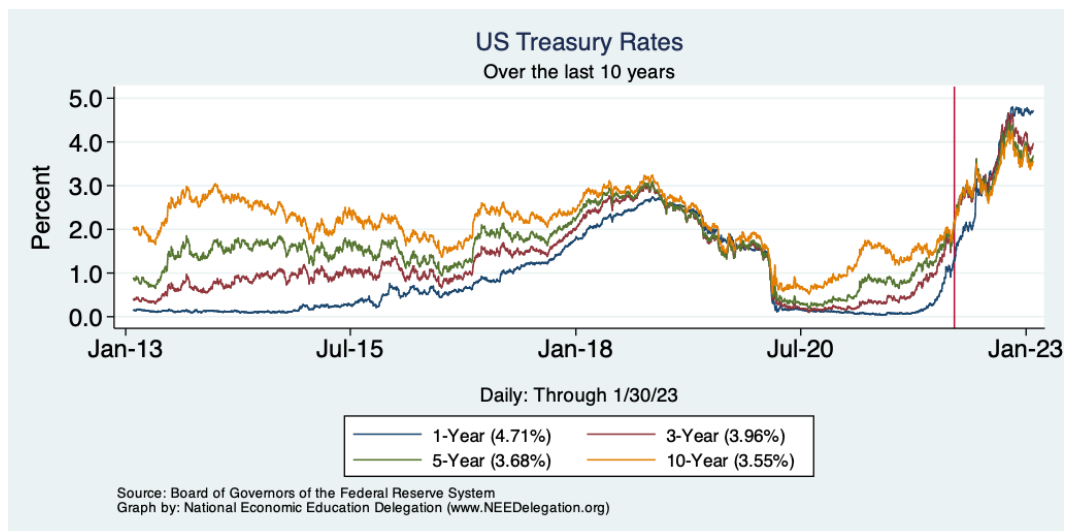
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Implications for Demand

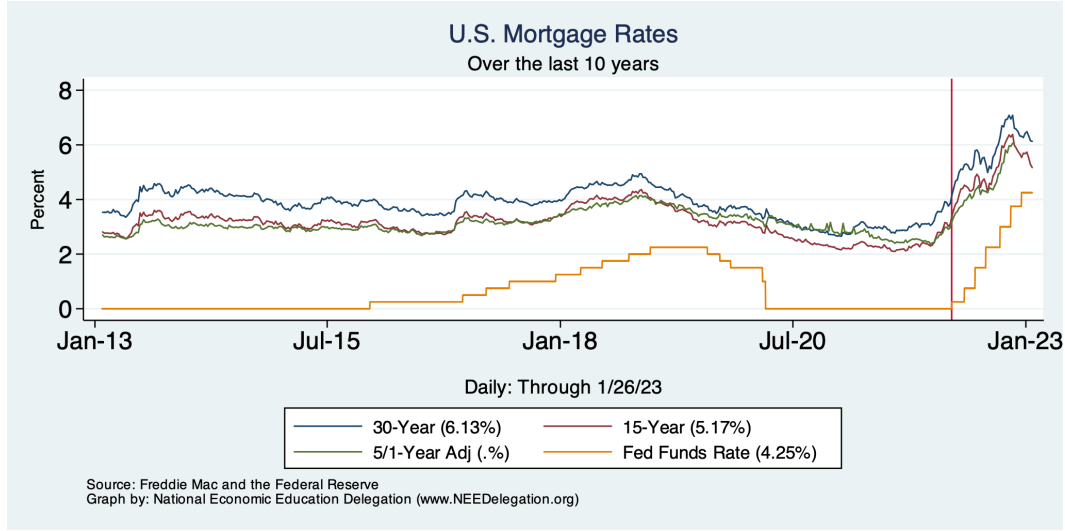
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

- All of which slows the economy.

Treasuries

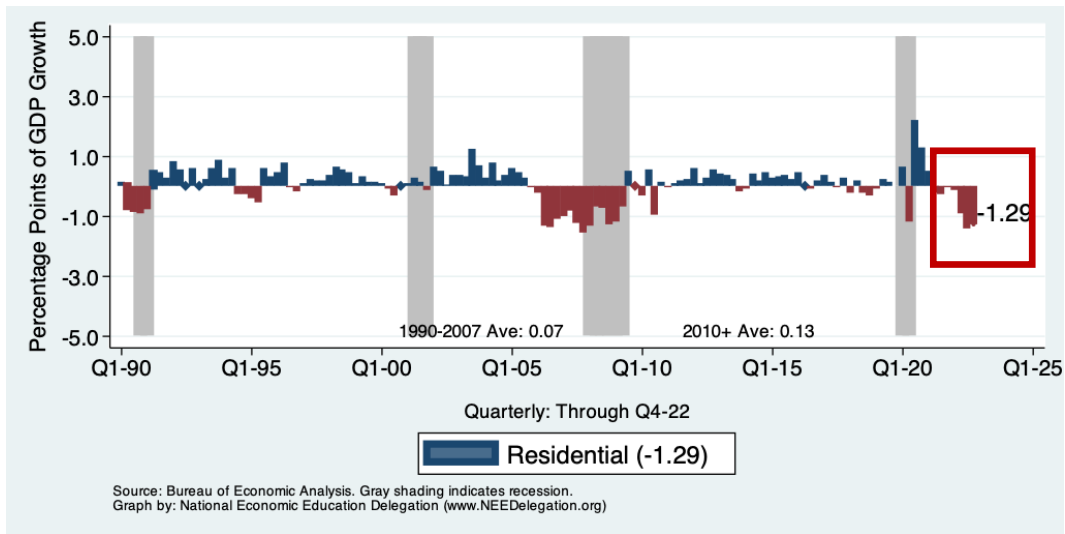


Mortgage Rates



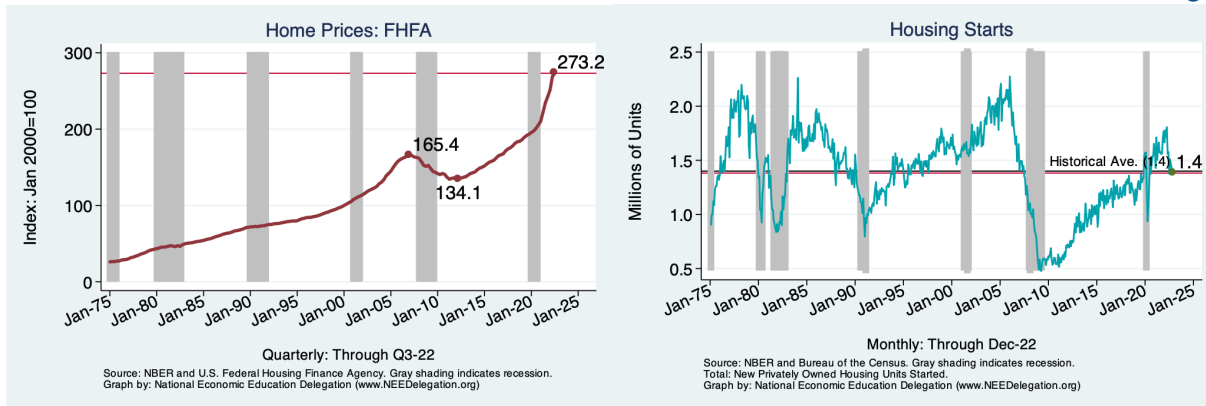
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Contributions to GDP: Residential Investment

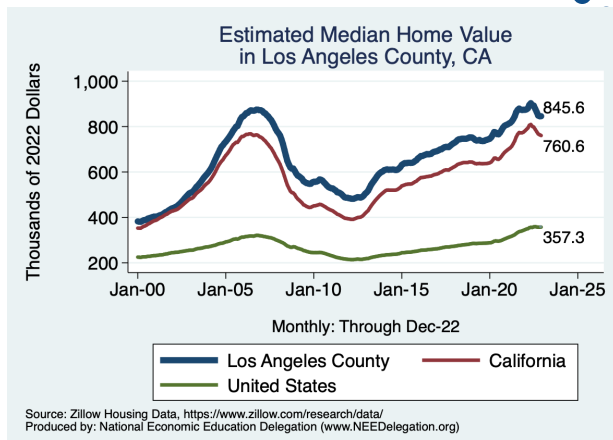
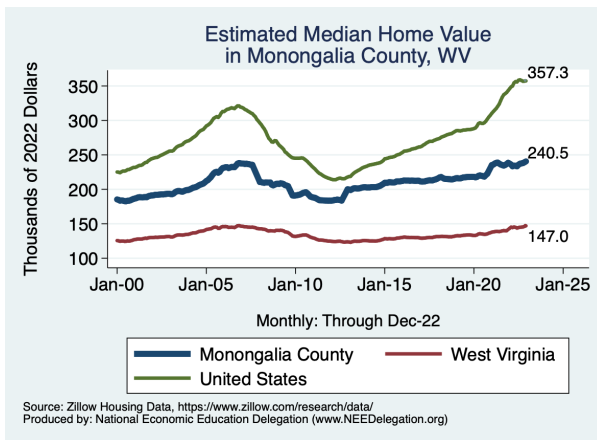


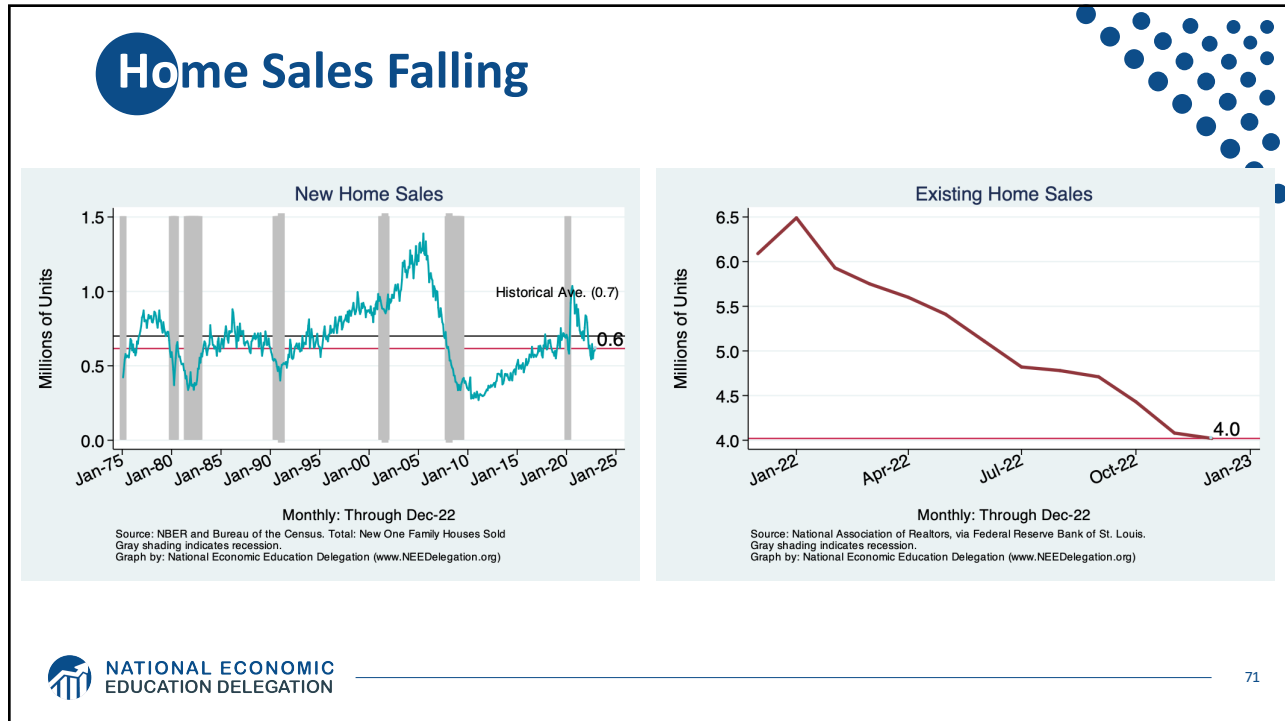
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Home Prices and Housing Starts



Home Prices ... Depends on Where You Are





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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?



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!



Takeaways

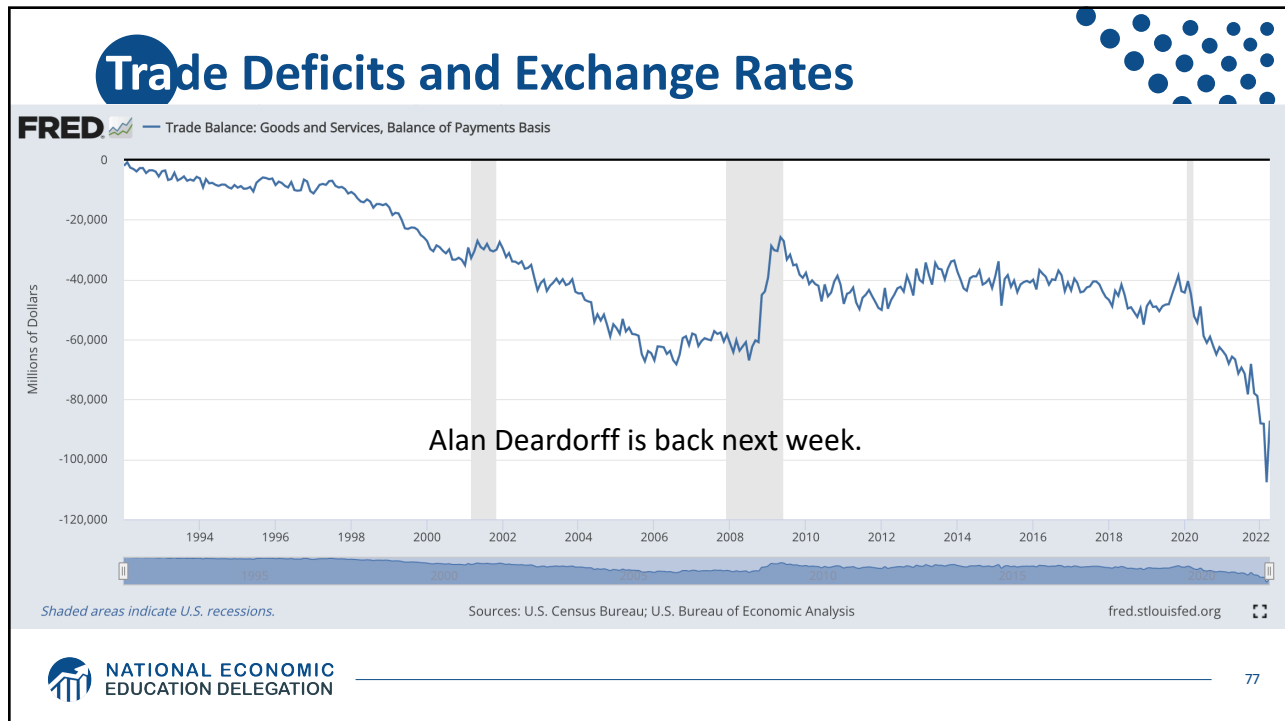
- **Is a recession on the horizon?**

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

- **Threats to continued growth:**

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





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Thank you!

Any Questions?

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Jon@NEEDelegation.org

Contact NEED: info@NEEDelegation.org

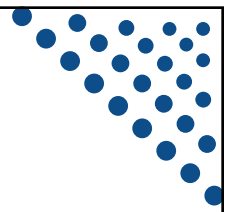
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