

INFLATION



US Economic Update

Provisors – SF1

May 10, 2023
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Outline

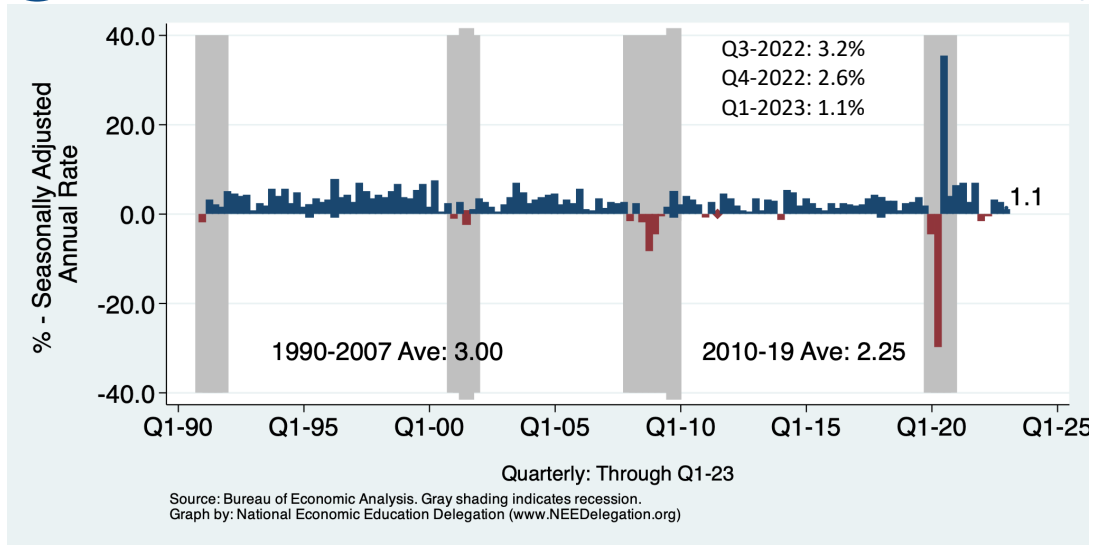
- The U.S. Economy
- Inflation/The Fed/Banks
- The Debt Ceiling

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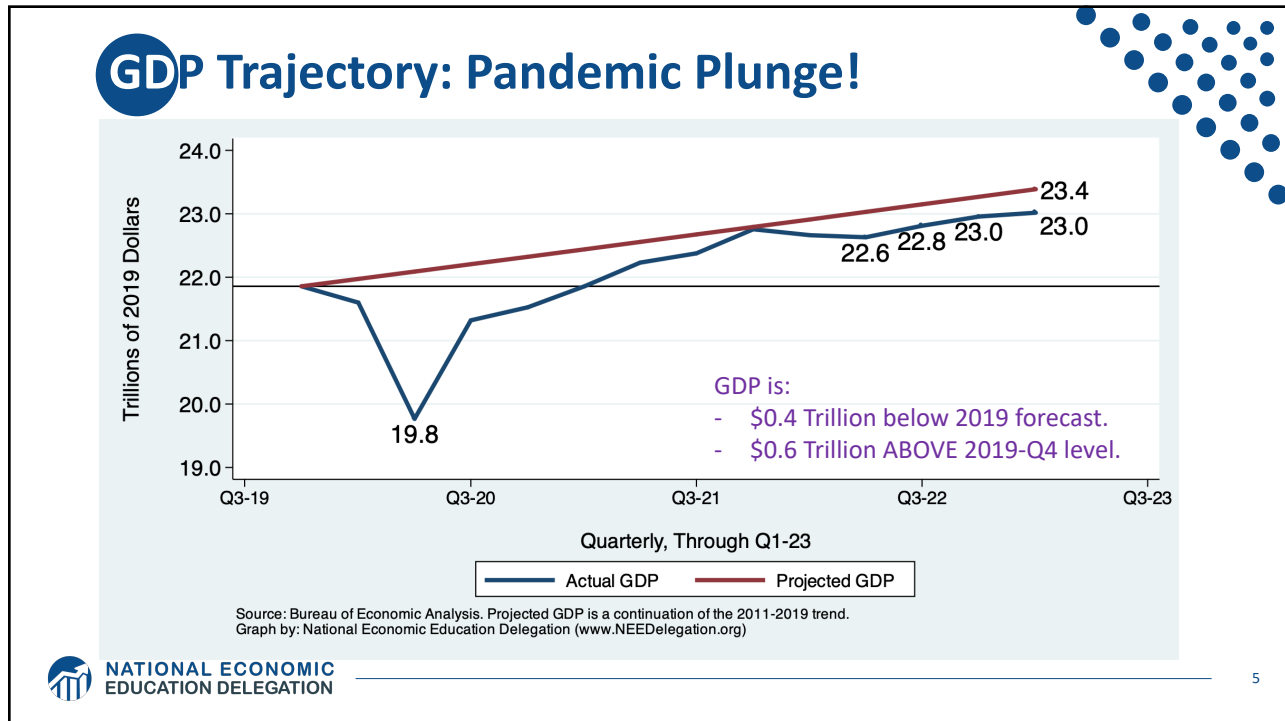
The U.S. Economy

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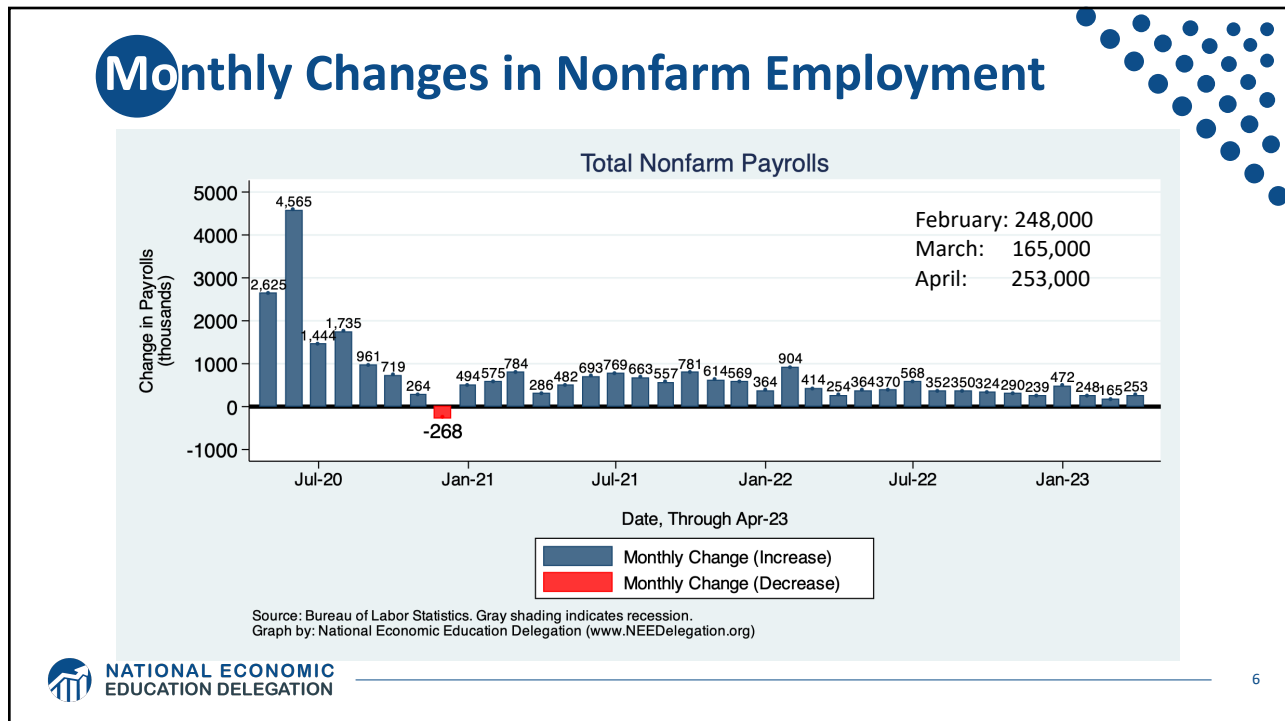
GDP: Quarterly Growth



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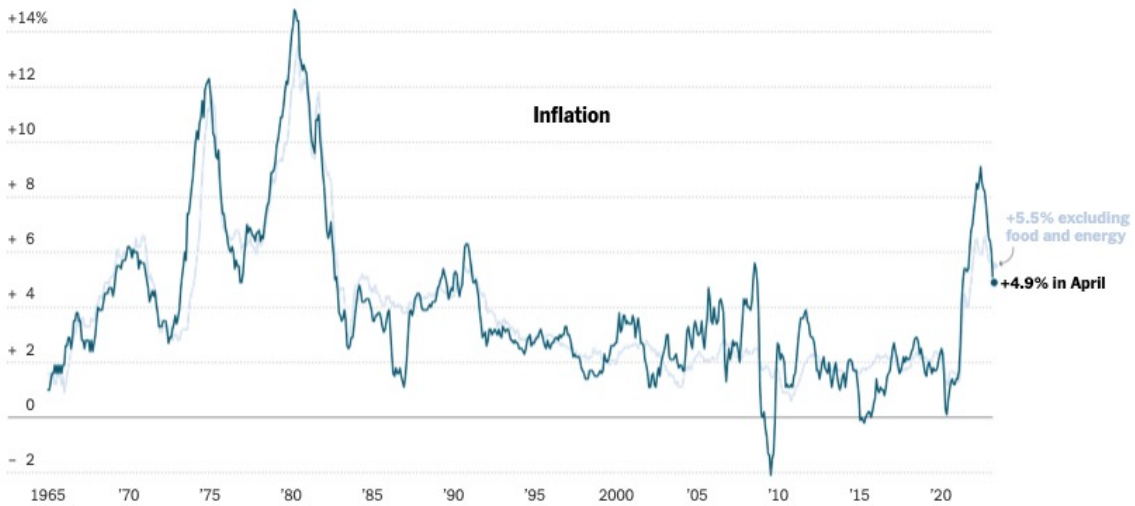


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Inflation

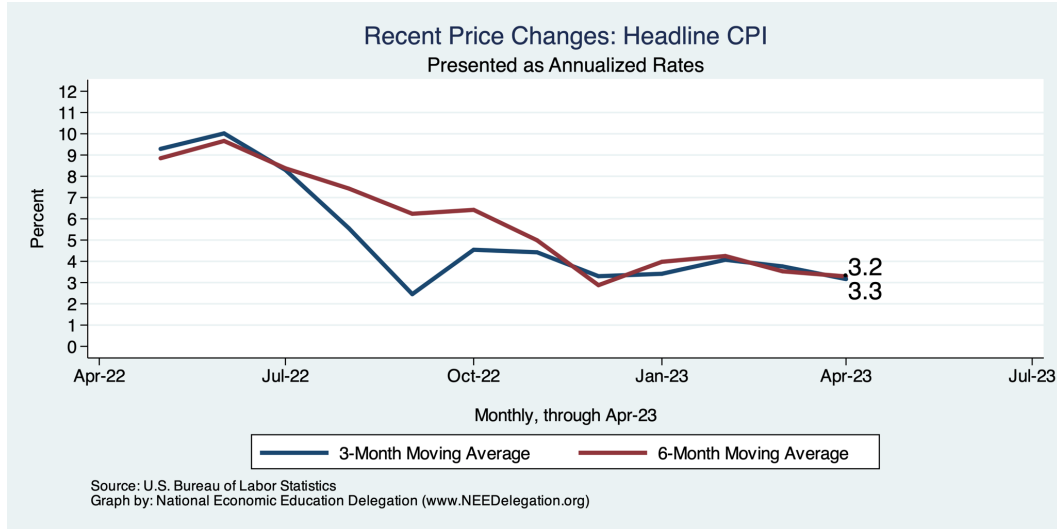
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Inflation: Latest Figures



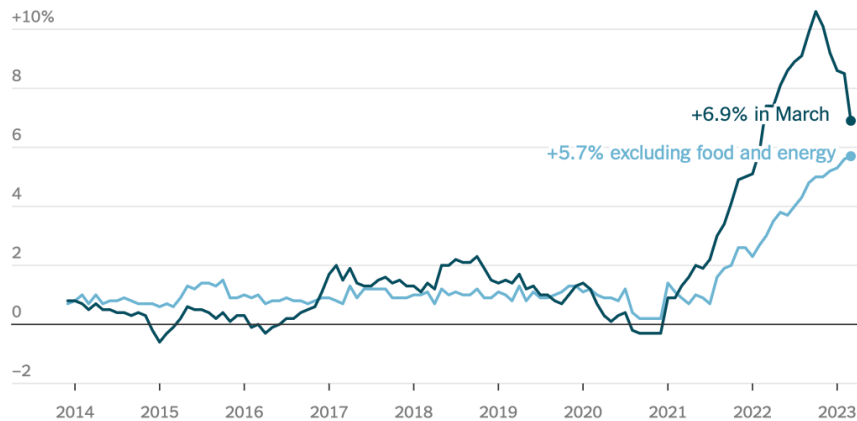
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Inflation in the Last 6 Months – Close to 3%!



Inflation is Not just a U.S. Problem

Year-over-year change in consumer prices in the eurozone

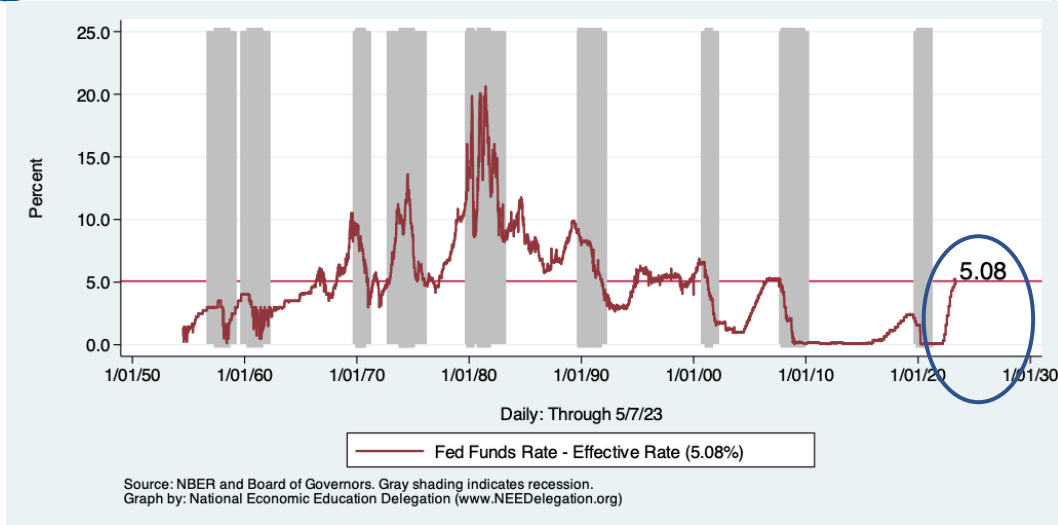


Source: Eurostat • By The New York Times

What's the Fed Doing About It?

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Raising the Federal Funds Rate



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Banks...

- Silicon Valley Bank
- Signature Bank
- First Republic Bank

- Rising interest rates are like the tide going out....
 - They expose who is swimming with no clothes on.
 - The tide isn't completely out.

- Bank balance sheets seem ok, it's stocks that are not.



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Existential Threat: Coming This June!



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What is the Debt Ceiling?

- An amount of debt that the federal government can not exceed without congressional approval.
- From the Constitution: only Congress can authorize the borrowing of money on credit of the United States (Article I, Section 8).
- During WWI, requests came so fast and furiously, that Congress put in place the Debt Ceiling.
 - Approvals then occurred only periodically.
- And it continues today.



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. Only one other advanced country—Denmark—has a separate debt limit rule like ours (but theirs isn't binding).
4. Now that the debt hit the ceiling, the Treasury Department is using several extraordinary measures to postpone the day of reckoning.
5. The economic consequences of a large-scale, intentional default are unknown, but predictions range from bad to catastrophic.



How Bad Could It Be?

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Lessons from 1979 & 2011

- **Accidental partial default in 1979:**
 - Increased borrowing costs by \$40 Billion!
- **Government shutdown was very costly:**
 - Stock markets plunged (17%).
 - Employment growth stuttered.
 - Treasuries – downgraded credit ratings.
 - Borrowing costs rose.

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An Estimate of the Potential Damage:

- **Moody's Analytics**
- **A prolonged breach could lead to**
 - Could cost up to 7 million jobs,
 - Drive unemployment up to 8%, and,
 - Wipe out \$10 trillion in household wealth.

Countdown to Default



Takeaways

- **Is a recession on the horizon?**
 - Perhaps, but shallow?
 - Many indicators are still in the black.
 - 2022-Q4 GDP growth was pretty good!
- **Threats to continued growth:**
 - If inflation starts to rise again, which seems unlikely.
 - Layoff contagion.
 - Broader banking crisis.
 - Borrowing and lending seem to be low and shrinking.
 - Debt ceiling negotiations
 - Significant cuts to government budgets may well result.
- **Everything changes with a default on the U.S. debt.**



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Thank you!

Any Questions?

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