

## Walnut Creek Area Neighbors and Newcomers Club

# U.S. Economic Outlook

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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## Outline – U.S. Economic Outlook

- **Behavior of GDP**
- **Labor Market**
- **Monetary Policy/Interest Rates**
- **Other Indicators**
- **Summary**



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# U.S. Economy in Global Perspective

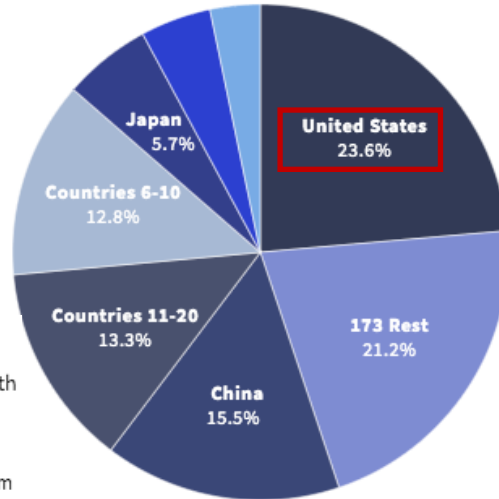
U.S. Nominal GDP:

**\$21.542 trillion** in 2019-Q3

## % Share of the Global Economy

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

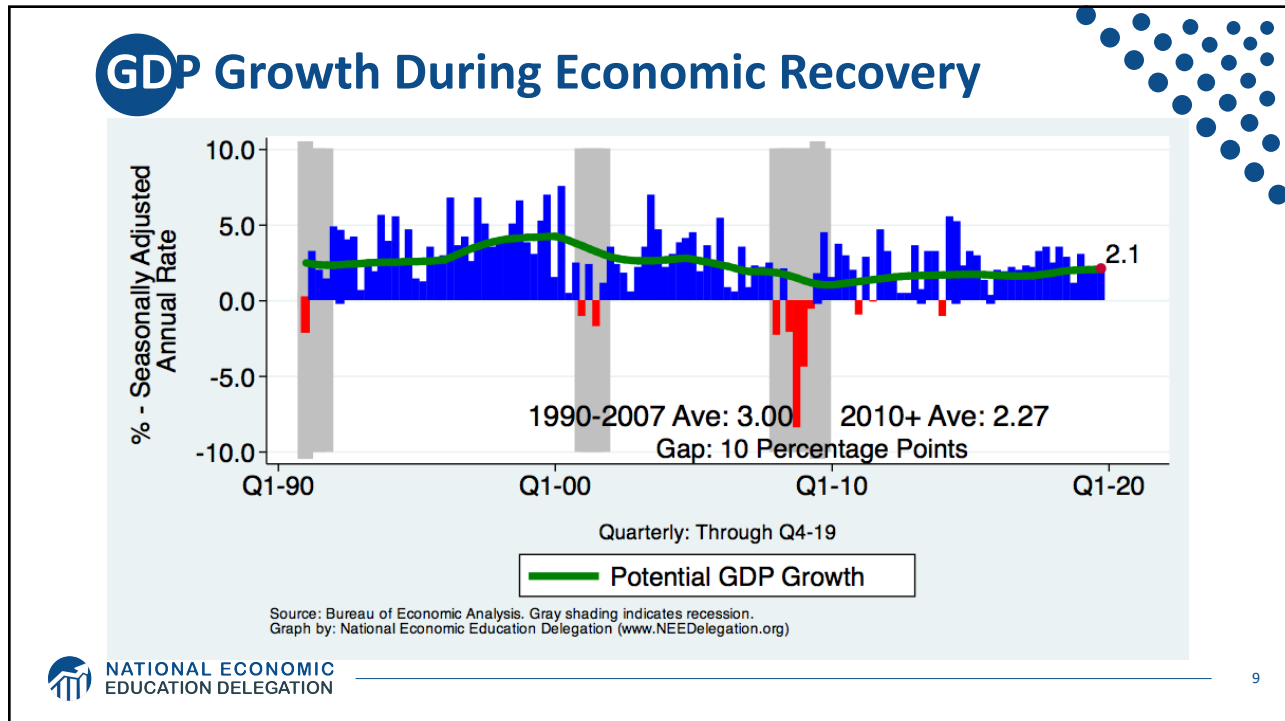
- United States
- 173 Rest
- China
- Countries 11-20
- Countries 6-10
- Japan
- Germany
- United Kingdom



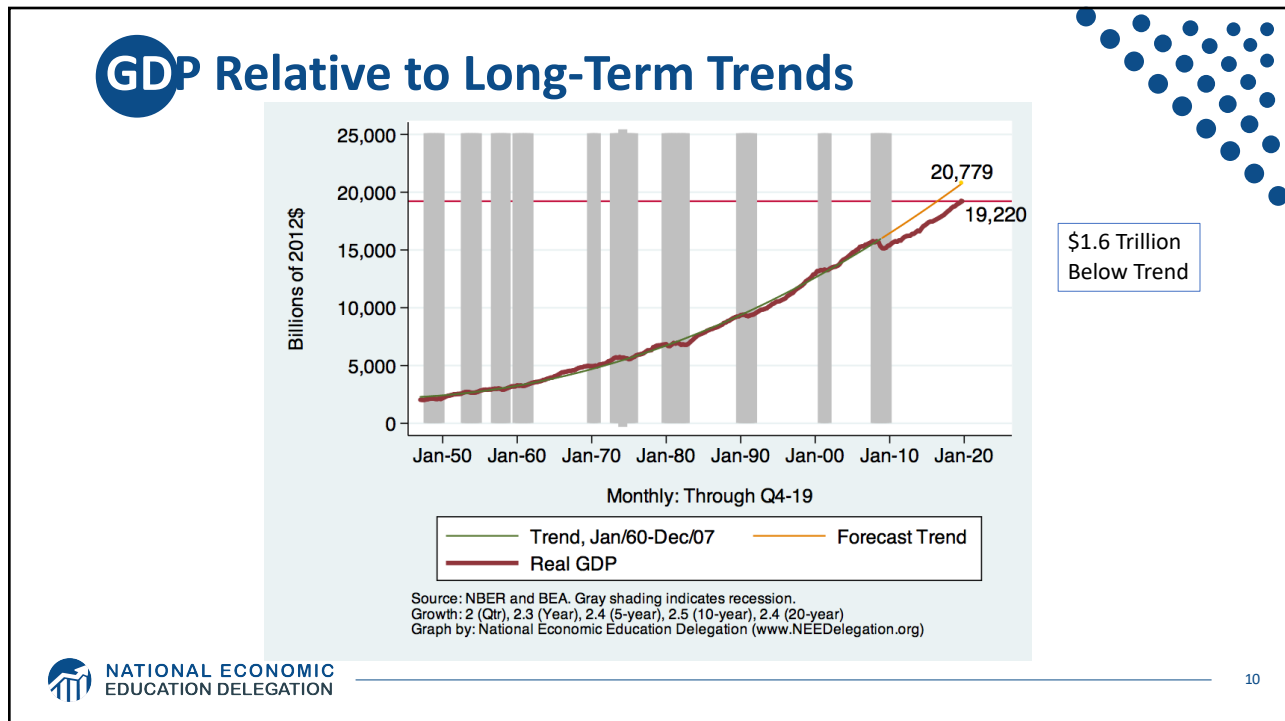
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# Behavior of GDP

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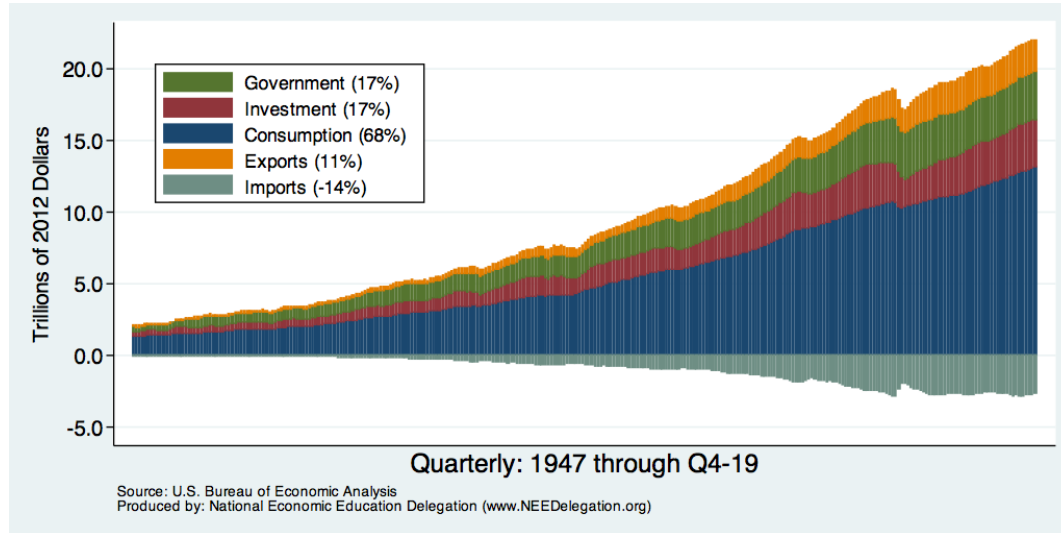


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## Composition of GDP – Inflation Adjusted



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## Understanding Contributions to GDP Growth

- **GDP Growth is a combination of the growth in its components:**
  - Consumption, Investment, Government, and Net Exports
  - It's a weighted average of these components
- **For example: Consumption**
  - If consumption accounts for **2/3** of the economy,
  - If consumption grew by **3%**,
  - It would cause GDP growth to be **2 percentage points** higher than it would otherwise be

$$2\% = \frac{2}{3} * 3\%$$

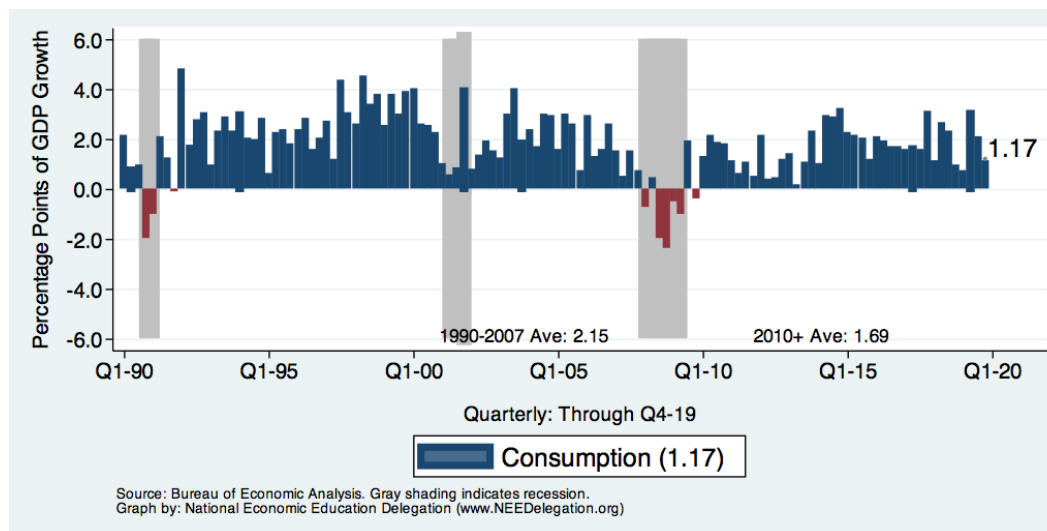


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## Contribution to GDP Growth: Consumption



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## Personal Consumption Expenditures

- **Consumption has been slow to recover.**
  - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
  - Post-crisis contribution is 1.7 percentage points.
- **In other words, its contribution to GDP growth is down 21%.**

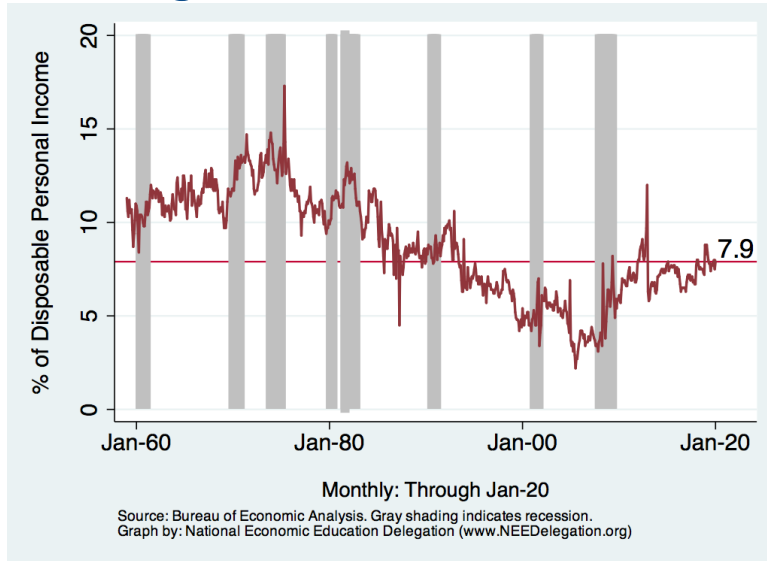


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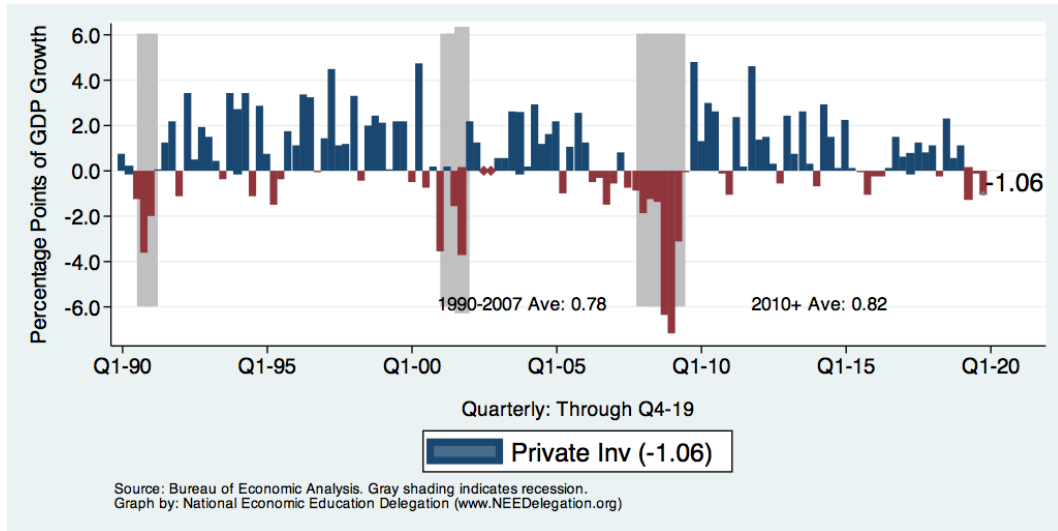
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## Personal Savings



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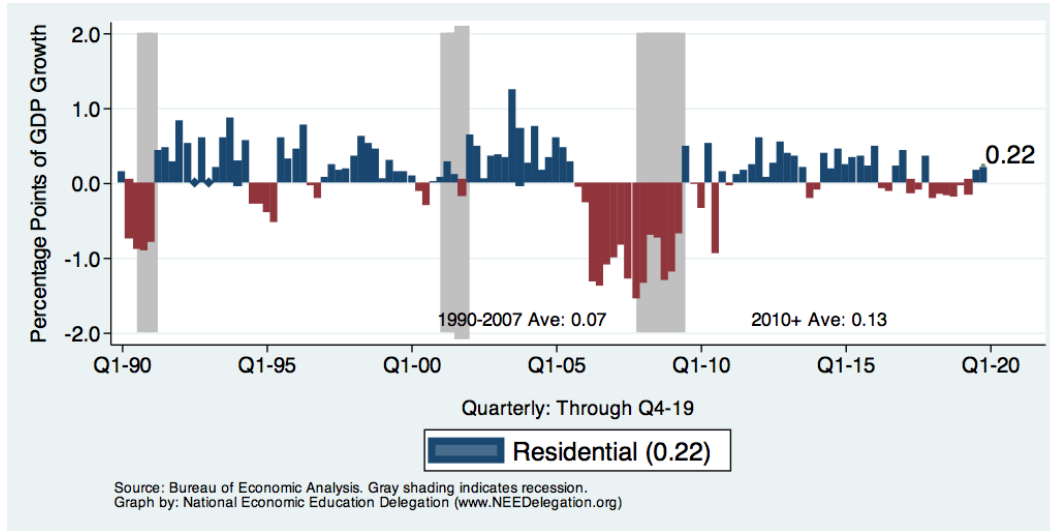
## Contributions to GDP: Private Investment



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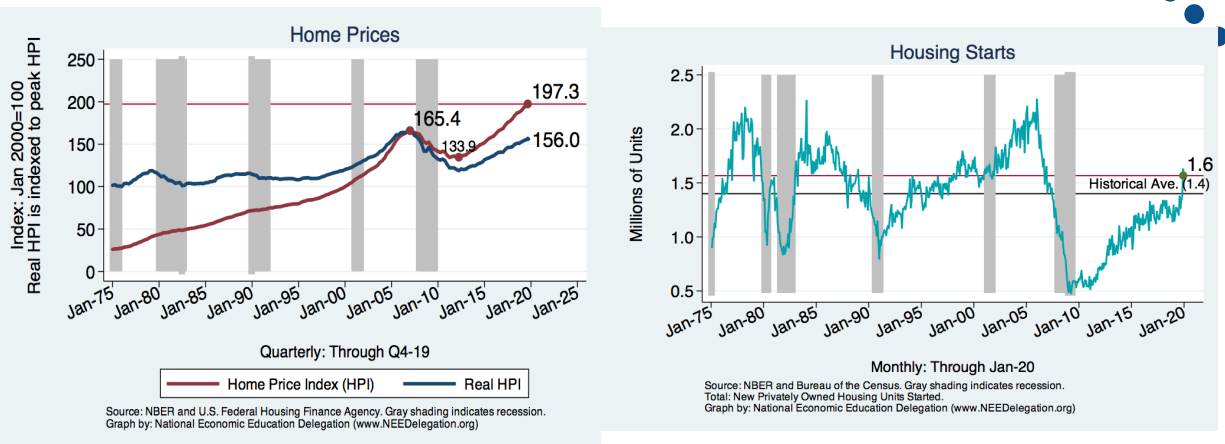


# Contributions to GDP: Residential Investment



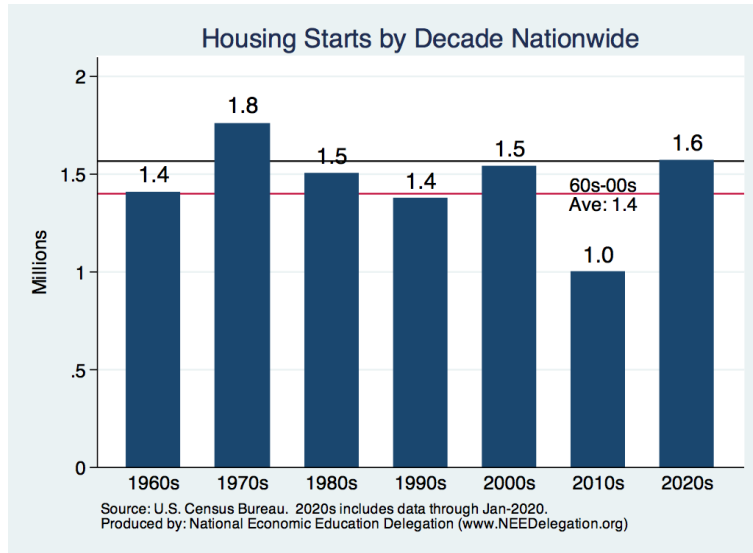
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# Home Prices and Housing Starts

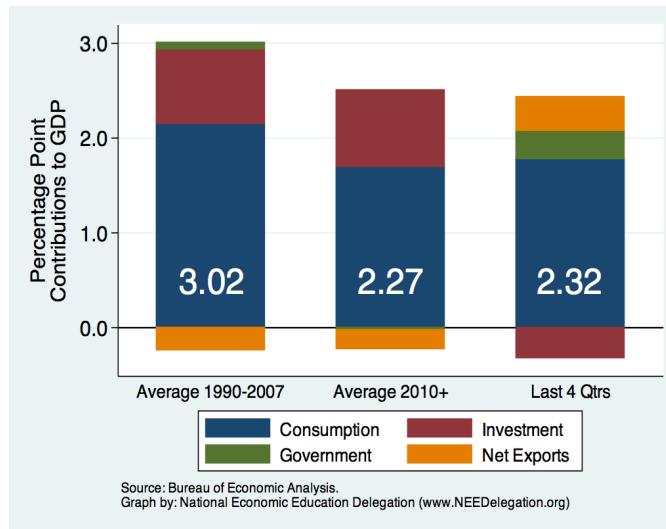


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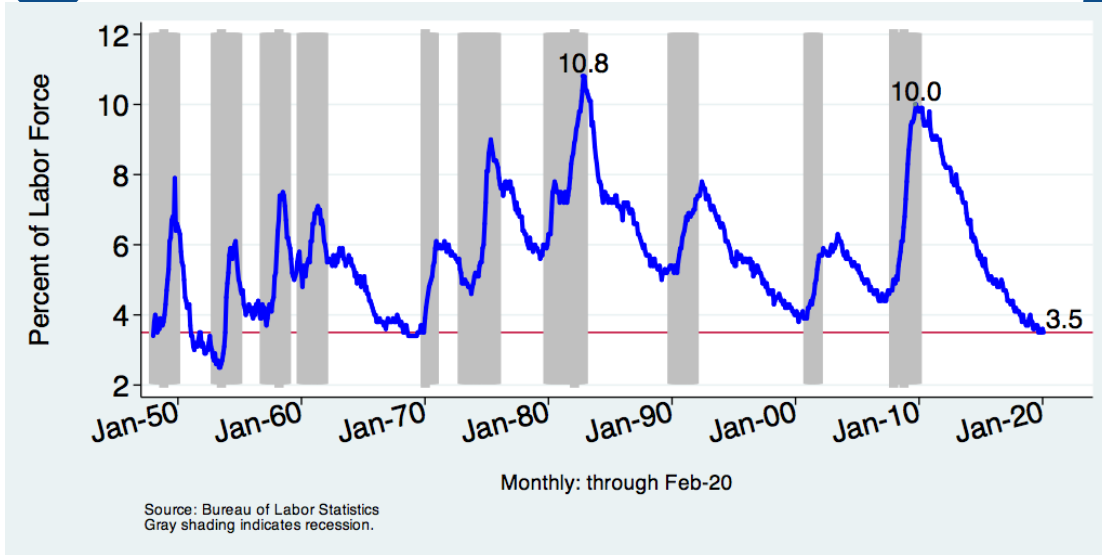
## Recent Housing Growth Has Been Slow



## Expenditure Summary



## Unemployment Rate

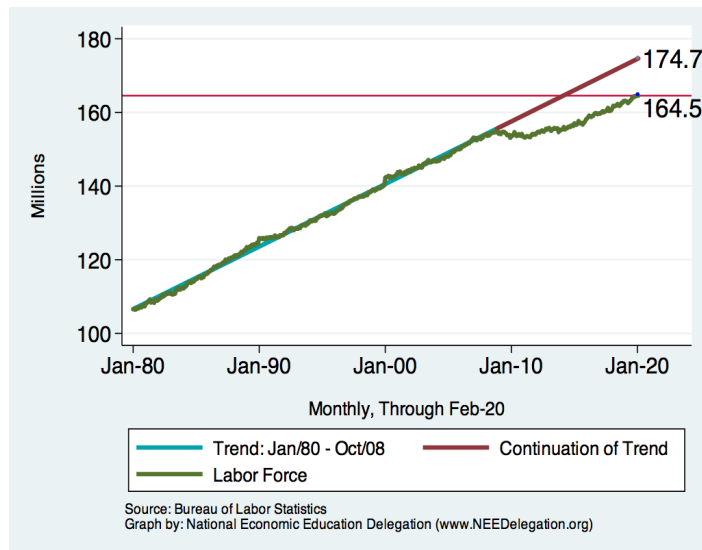


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## Labor Force Participation - Below Trend

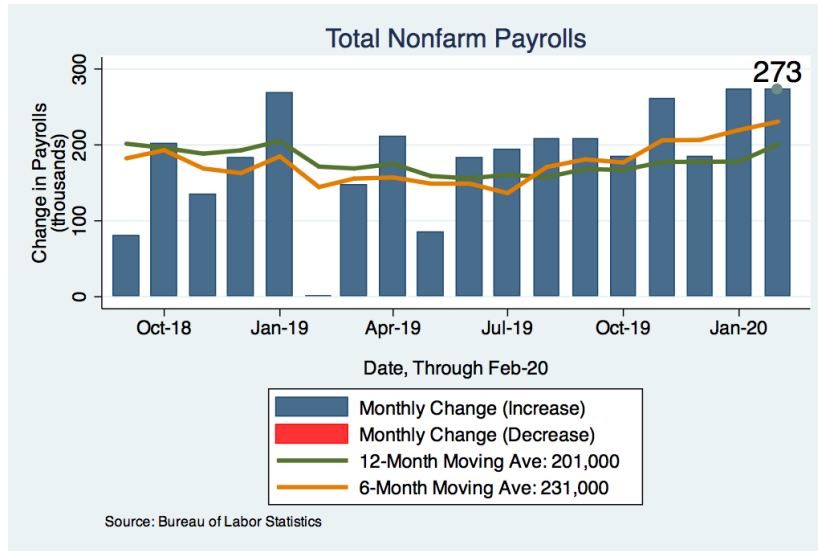


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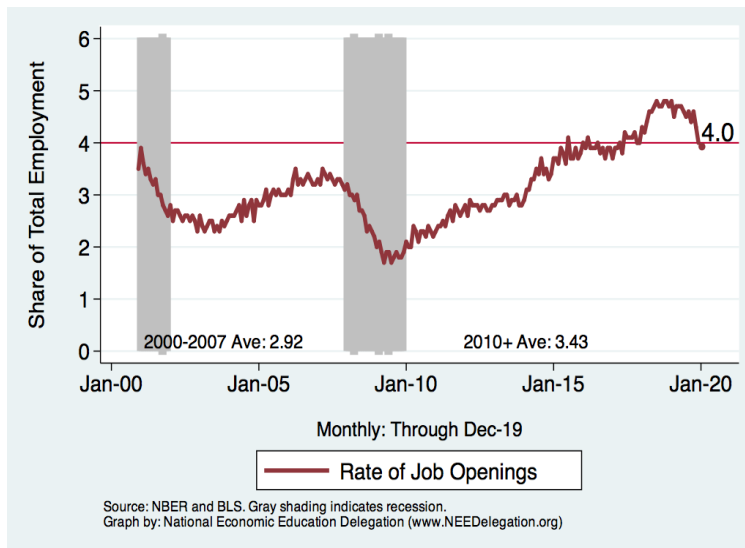
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# Monthly Changes in Nonfarm Employment



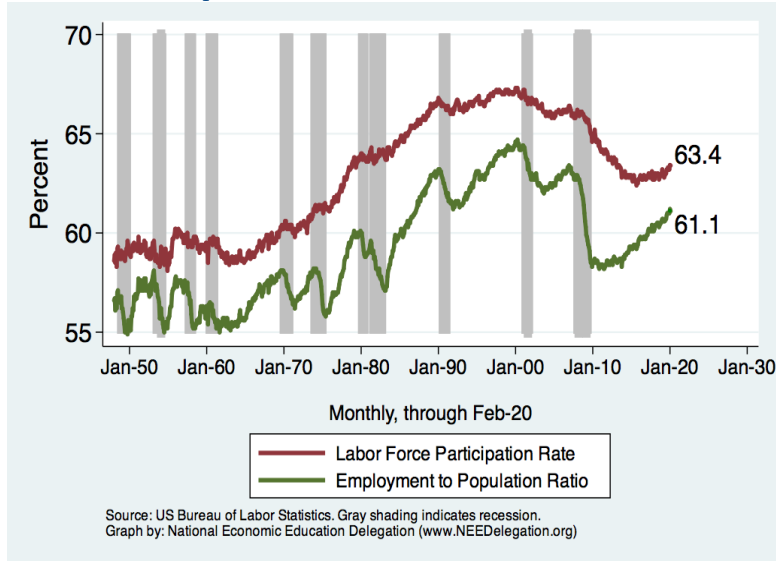
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# Job Openings: Share of Total Employment



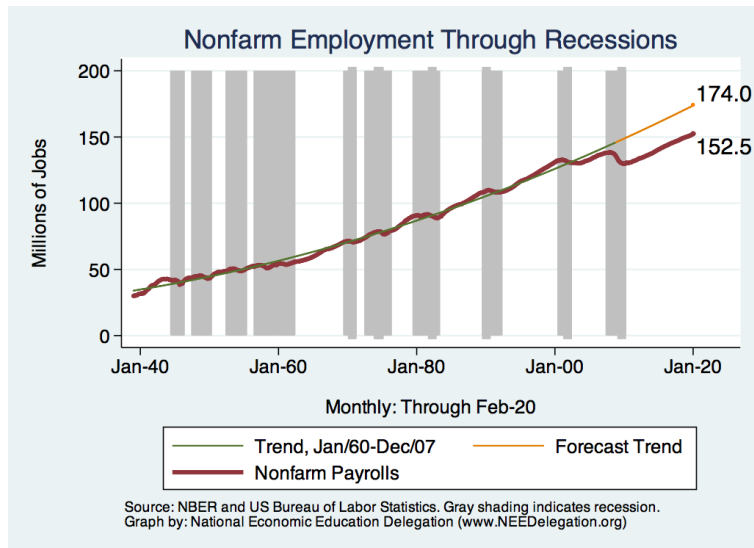
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## Labor Force Dropouts



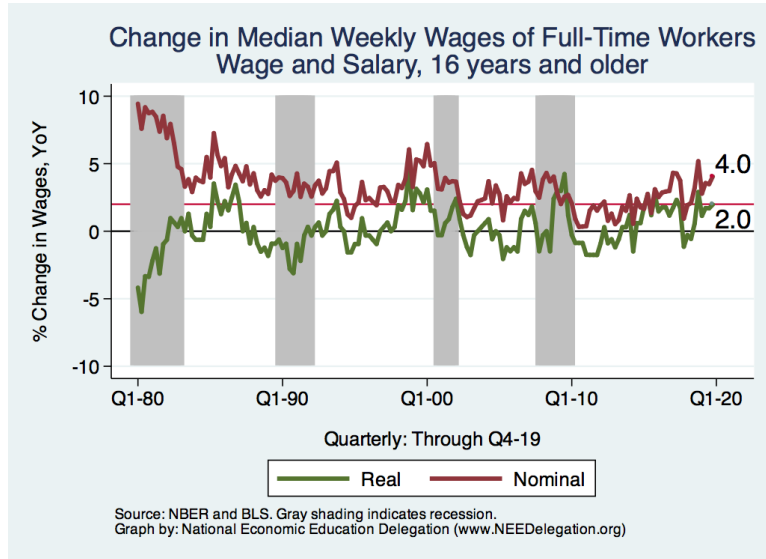
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## Employment Growth



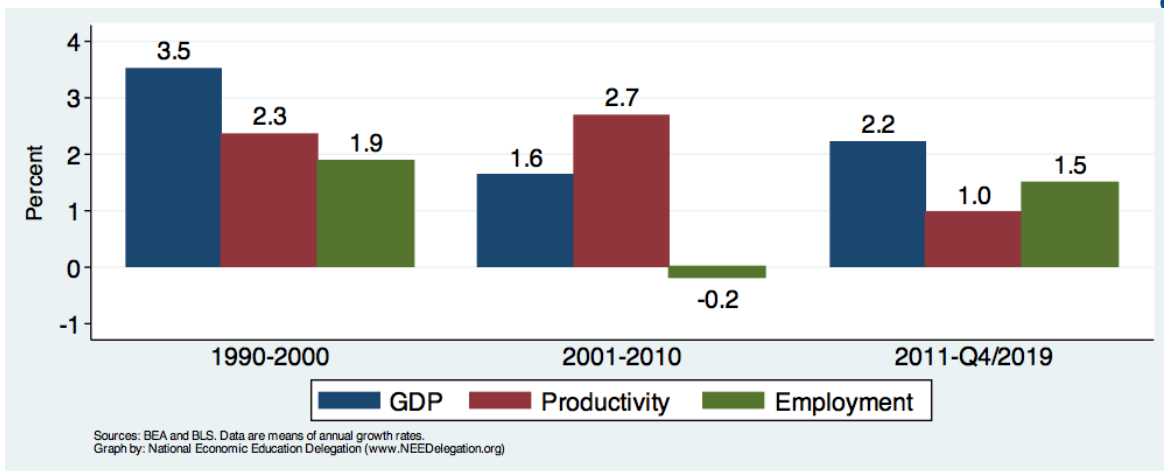
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# Wage Growth



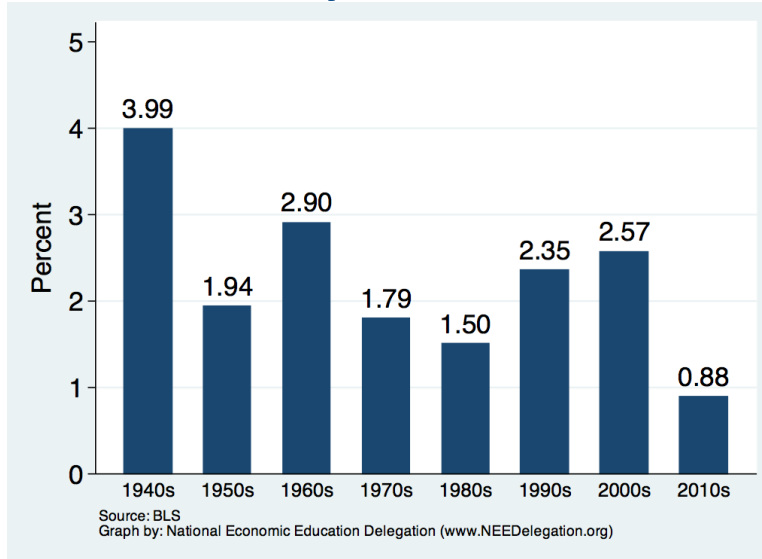
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# GDP Growth, Productivity, and Employment



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## History of Productivity Growth



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## Summary

- **GDP growth is primarily fueled by increases in demand for output.**
- **This growth is supported by growth in employment and productivity of the labor force.**
- **Recent years have seen relatively tepid increases in demand for output.**
  - In particular, consumption and government spending have been slow relative to other periods.
- **This tepid growth has led to slow increases in employment.**
  - Although labor markets have tightened, wages have not experienced rapid growth.
- **Productivity growth has played little role in growing GDP.**
  - Why this is so is not immediately clear.

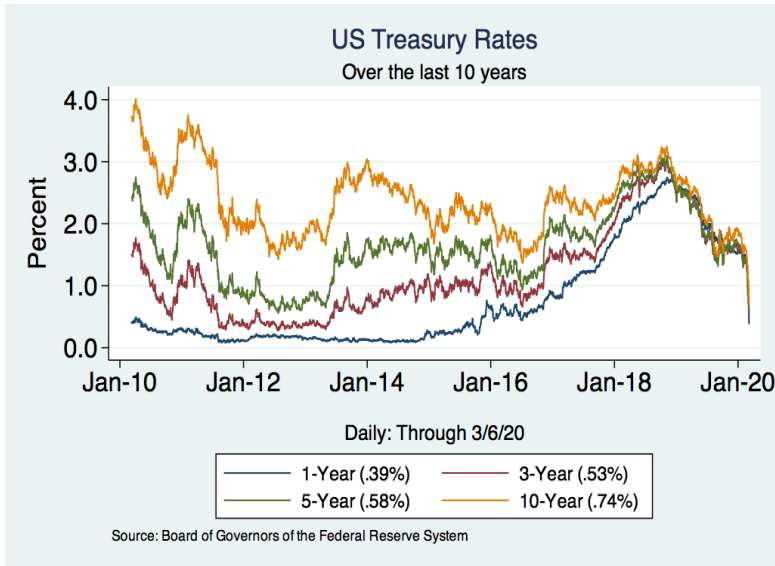


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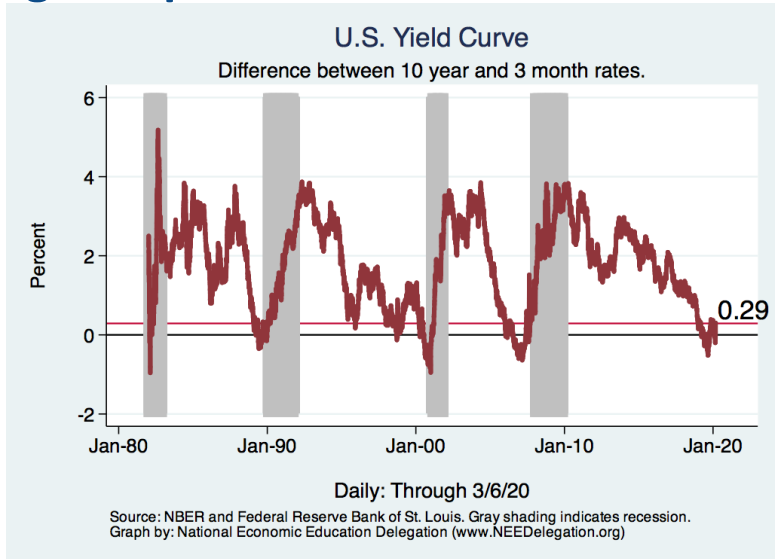
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# Treasuries



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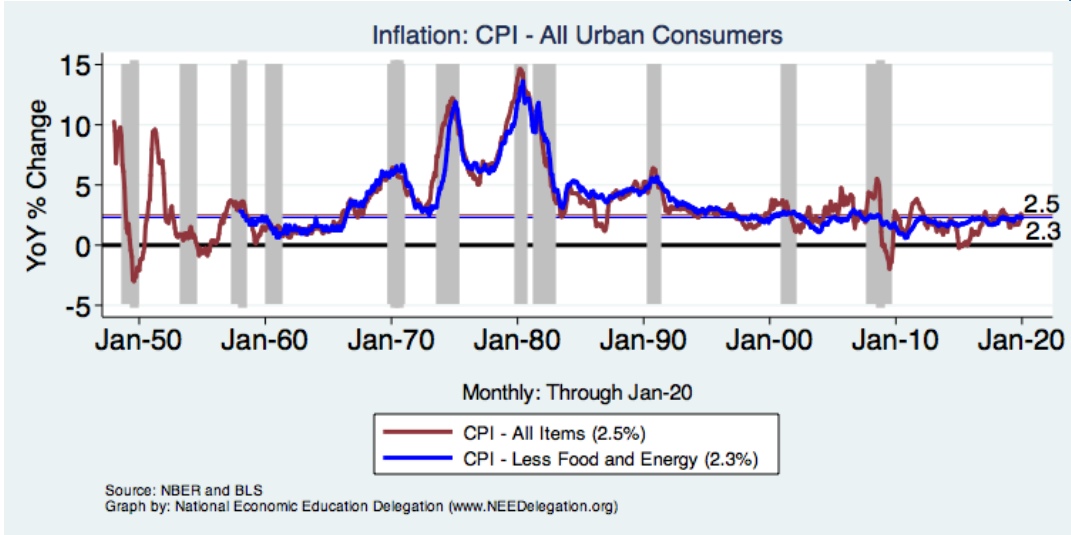
# Alarming Compression of Interest Rates



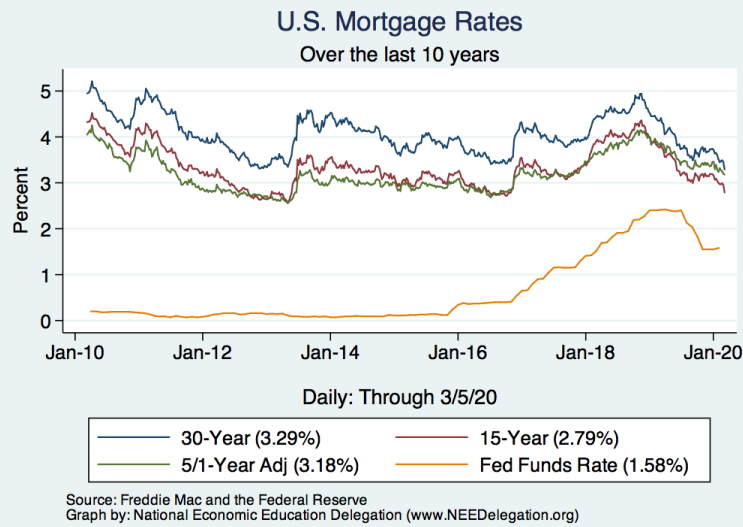
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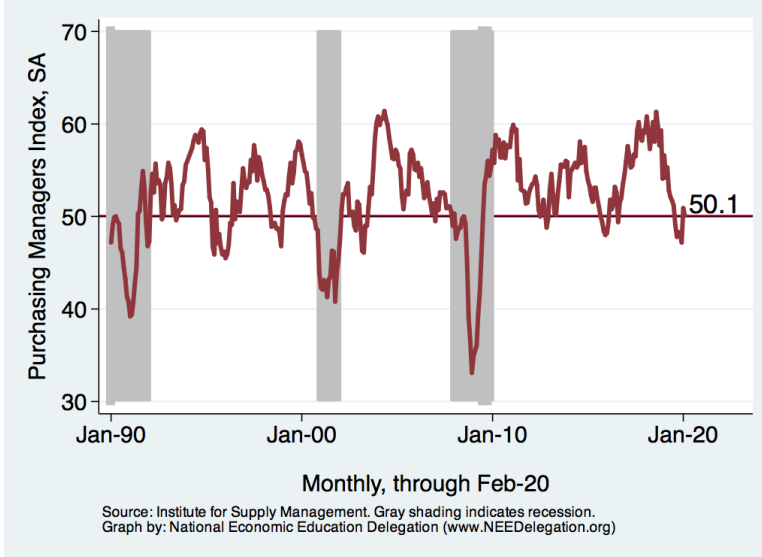
# Inflation



# Mortgage Rates



# Producer Confidence: Not What it Used to be!



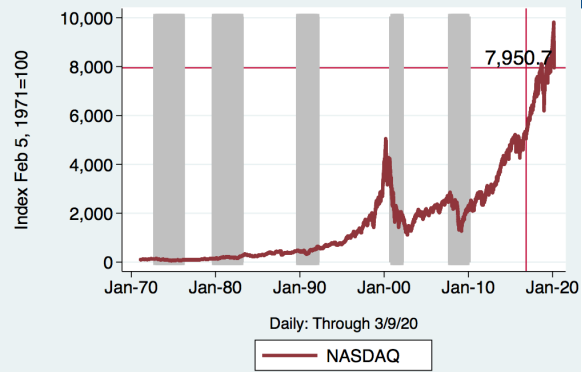
Source: Institute for Supply Management. Gray shading indicates recession. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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# Market Activity: Dow Jones & NASDAQ

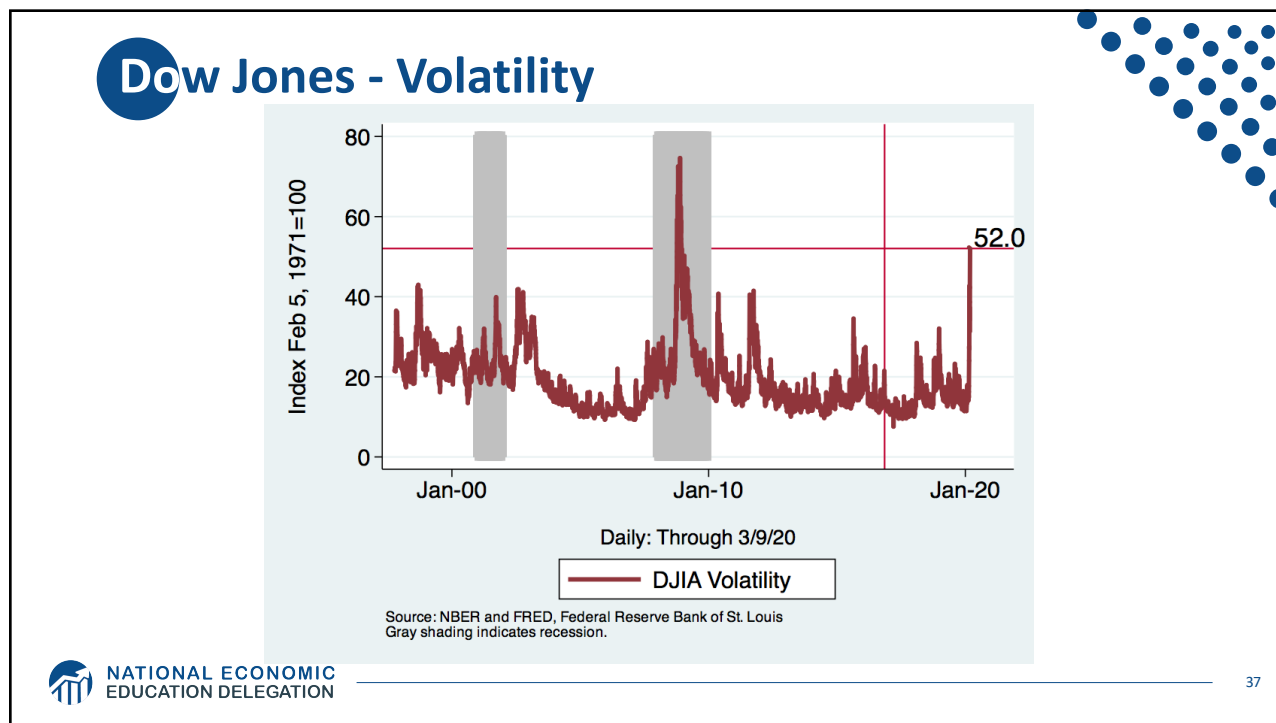


Source: NBER and FRED, Federal Reserve Bank of St. Louis. Gray shading indicates recession.



Source: NBER and FRED, Federal Reserve Bank of St. Louis. Gray shading indicates recession.

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## Summary of GDP, Labor Markets and Monetary Policy

- **Behavior of GDP**
  - Behavior of expenditure components matter.
  - On average, post-recession consumption, government, and export expenditures are contributing less to GDP therefore slowing the recovery.
  - In contrast, investment expenditures are contributing more.
- **Labor Market**
  - Unemployment is low, labor force participation is stagnant
  - Real wages may be starting to grow.
- **Monetary Policy**
  - Interest rates are rising.
  - Policy normalization is underway.

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## Things to Be Worried About

- **Policy Uncertainty**
  - Trade and immigration policy, especially
- **Yield Curve**
- **Government Debt**
- **Growth Abroad**
- **Income and Wealth Inequality**
- **Coronavirus**



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## The Thing About the Coronavirus

• **Supply side**

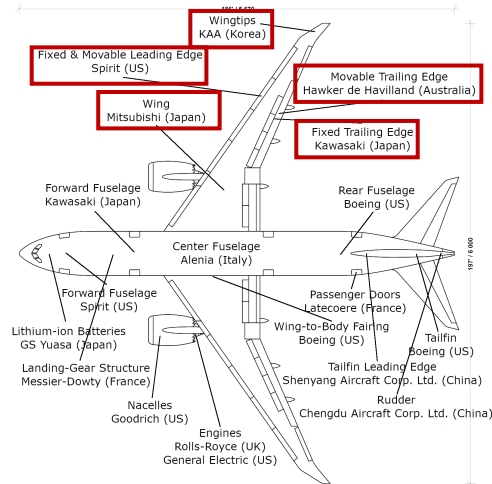
**And**

• **Demand side**



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## Coronavirus: Supply Side



- **Boeing 787 Dreamliner**
- **Parts and components from suppliers all over the world:**

- Japan
- Italy
- China
- Australia
- ...



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## Coronavirus: Demand Side

- **Stock market**
  - Postpone major purchases
- **Event cancellations**
  - More broadly tourism
- **Universal pseudo-quarantine**
  - Work from home
  - Eat at home
  - Watch movies at home



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## Overall Summary

- **Tailwinds and headwinds both exist**
  - Economic forecasts for near term are favorable
  - Later 2019 and 2020 forecasts are less sanguine
- **There remains room for the economy to grow**
  - Labor force growth is available
  - Consumption has room to grow, but there is evidence of slowing
  - Business investment may be slowing
  - Return to productivity growth? But how? What's the next big idea?
- **Major wildcard: Coronavirus**
  - Economic impact will be significant



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Thank you!

## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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