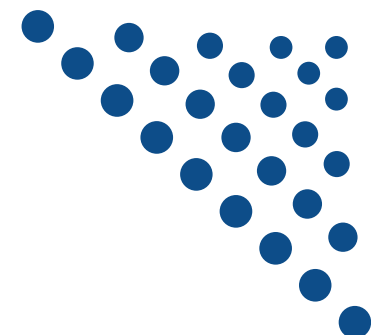


# U.S. Economic Update

OLLI  
American University  
July 15, 2019



# 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.

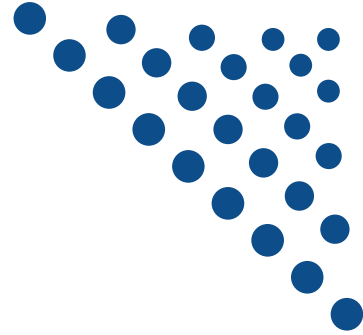
- **Mission**

- 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**

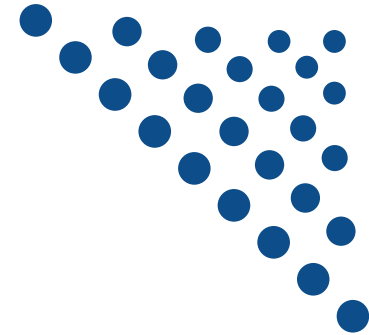
- Are **nonpartisan** and are intended to reflect the consensus of the economics profession.

# Credits and Disclaimer

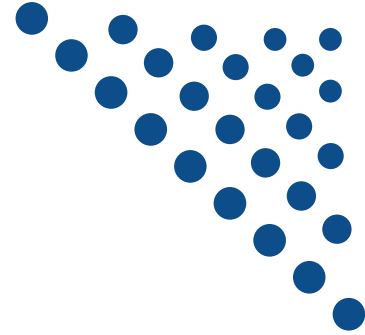


- **This slide deck was authored by:**
  - Jon Haveman, Executive Director of NEED
  - Allison Roehling, DePauw University
- **This slide deck was reviewed by:**
  - Jeffrey Frankel, Harvard University
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# Outline – U.S. Economic Outlook



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



# Behavior of GDP

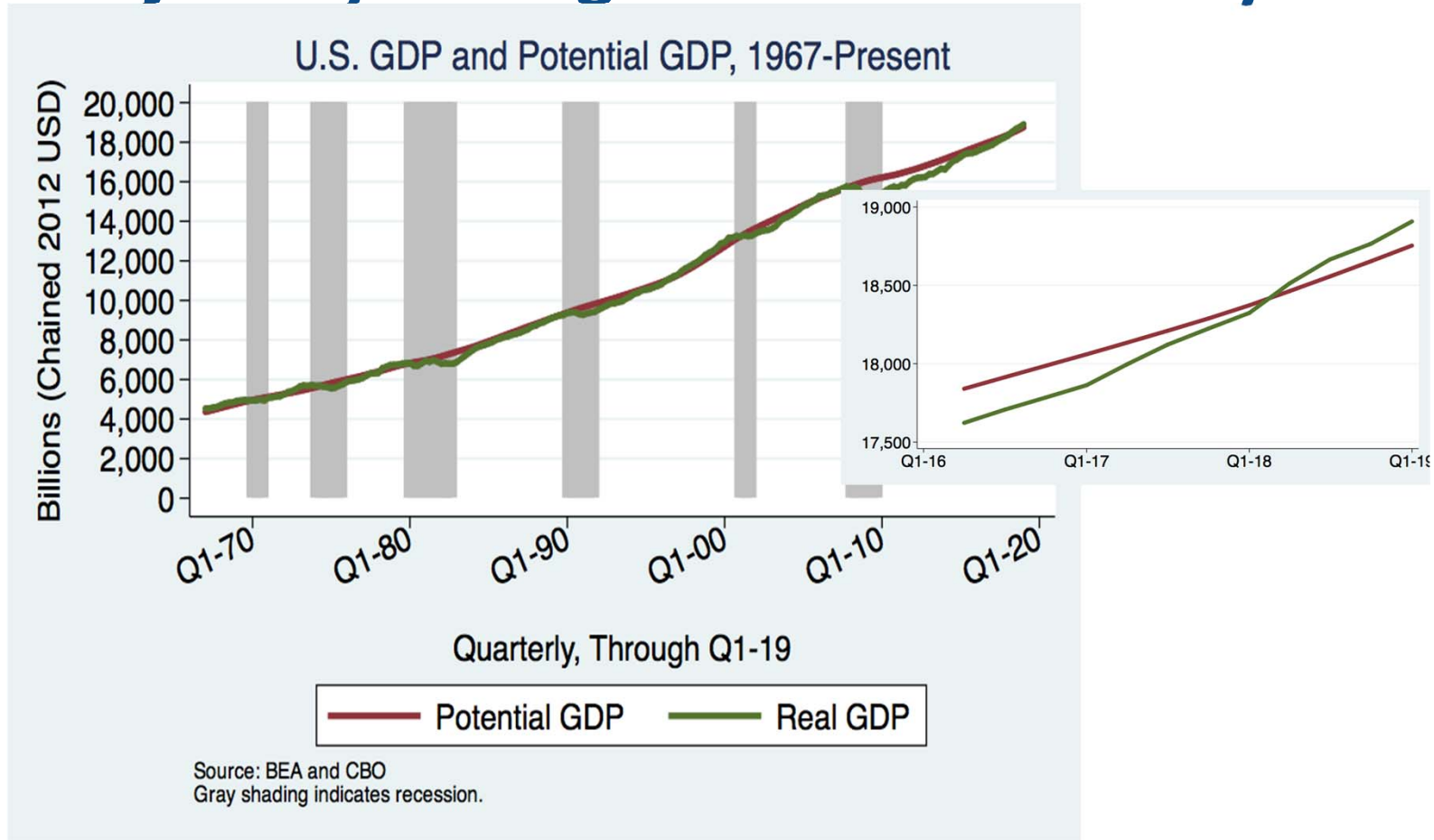


# GDP During the Recovery

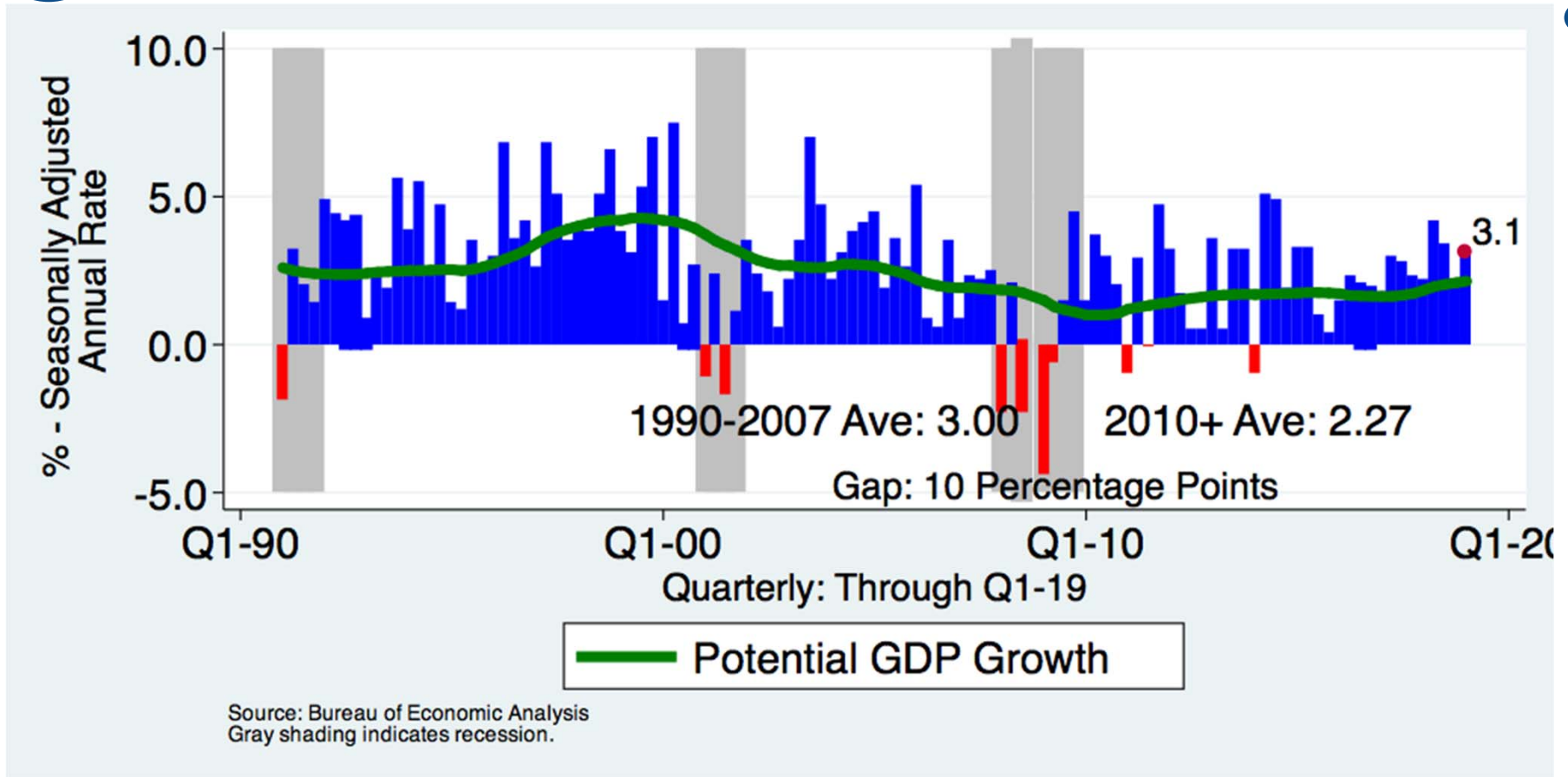
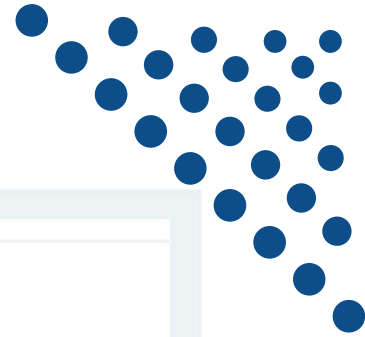


- *Real GDP* is a standard measure of production used by economists to assess the health and well-being of an economy
- *Potential GDP* is the level of production in an economy operating at full employment
- We use potential GDP to get a sense of what production should be in an economy

# GDP Trajectory During Economic Recovery

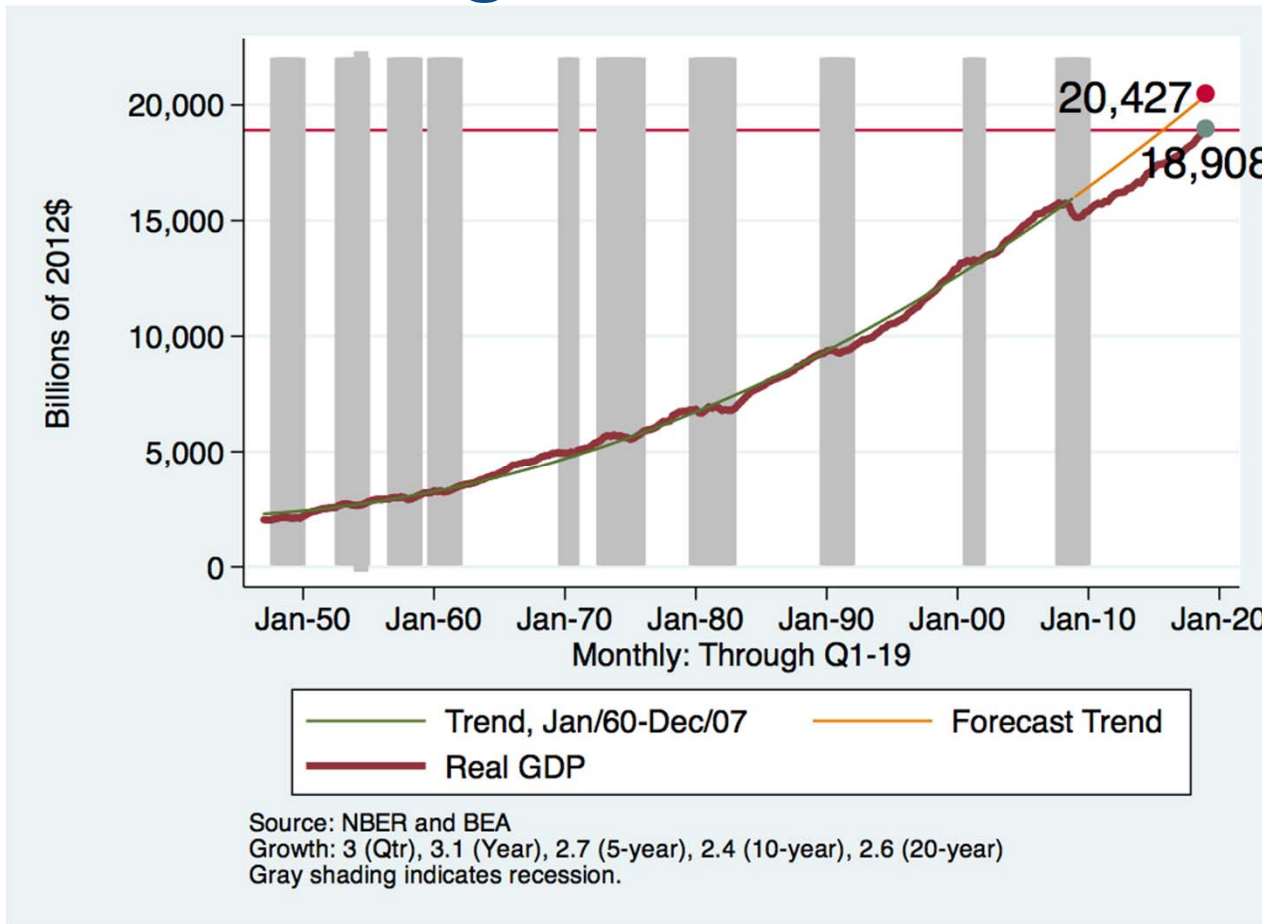
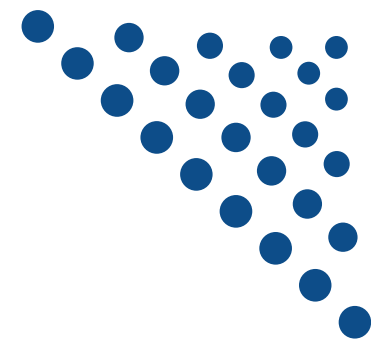


# GDP Growth During Economic Recovery

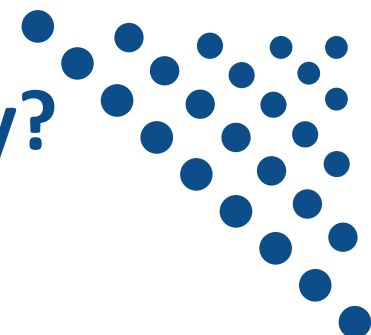




# GDP Relative to Long-Term Trends

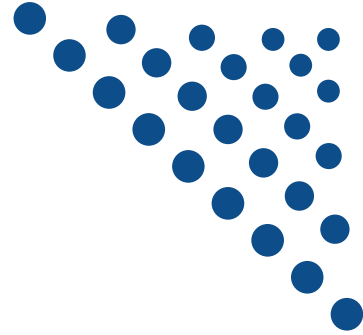


# What Is “Accounting” for the Slow Recovery?



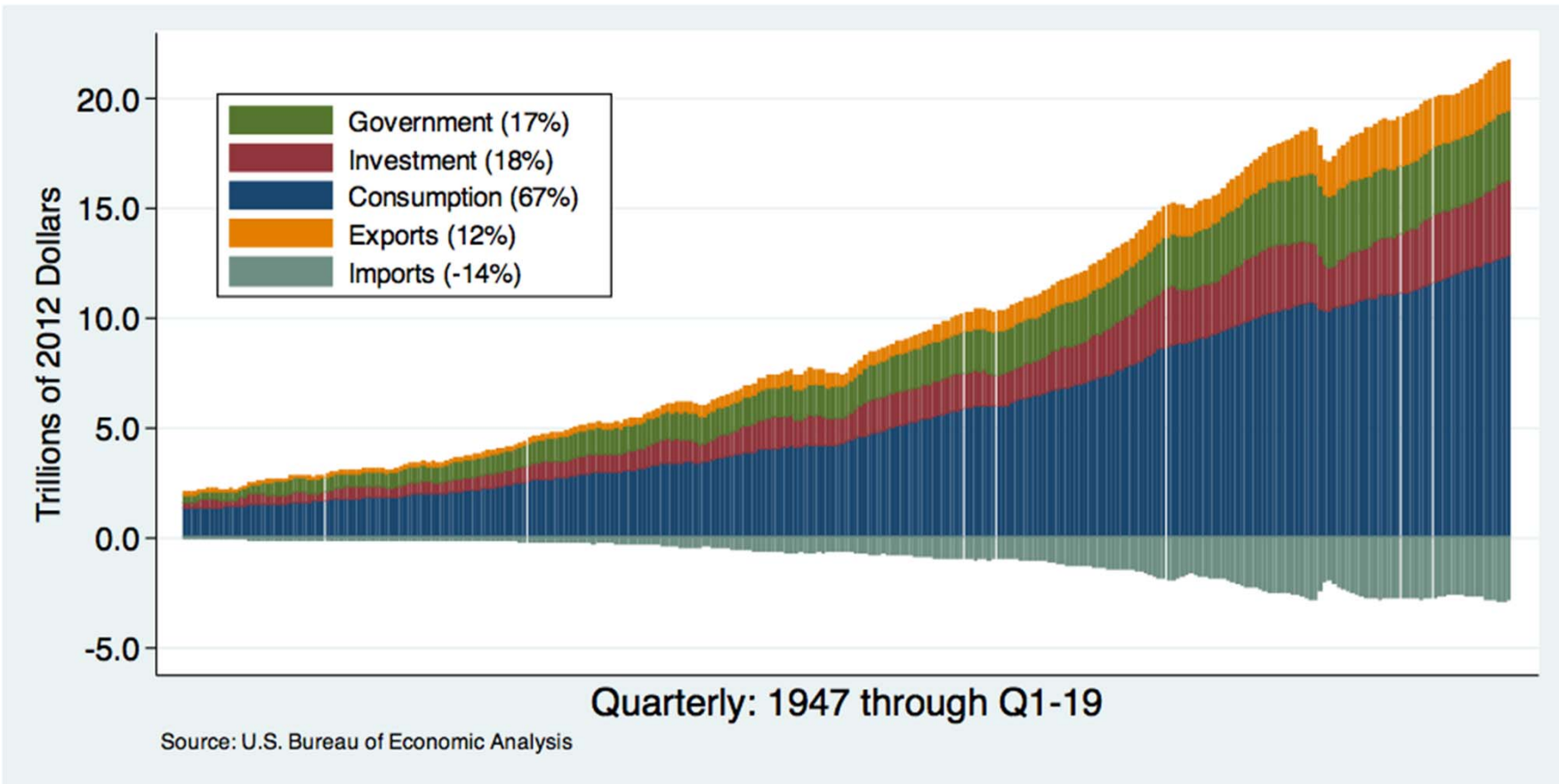
- **Expenditures drive GDP growth.**
  - GDP is the sum of four categories of spending:
    - Consumption
    - Investment
    - Government spending
    - Net Exports: Exports – Imports
- **Production also matters.**
  - Employment
  - Productivity

# A Note on Imports and GDP

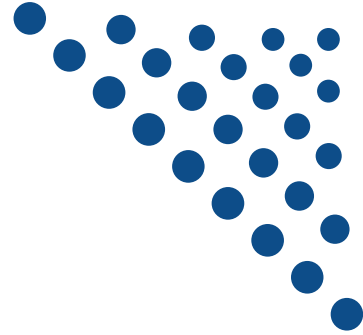


- **GDP = Consumption + Investment + Government + Net Exports**
  - Net Exports = Exports – Imports
- **Give the impression that IMPORTS are bad for GDP**
  - They are not.
  - They are merely subtracted from the equation because the measurement of consumption, investment, and government all include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

# Composition of GDP – Inflation Adjusted



# Composition of GDP



- **Slow growth in any of these categories will slow overall GDP growth.**
- **How does each component contribute to GDP growth pre- vs. post-recession?**
- **What explains current trends in each component?**

# 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

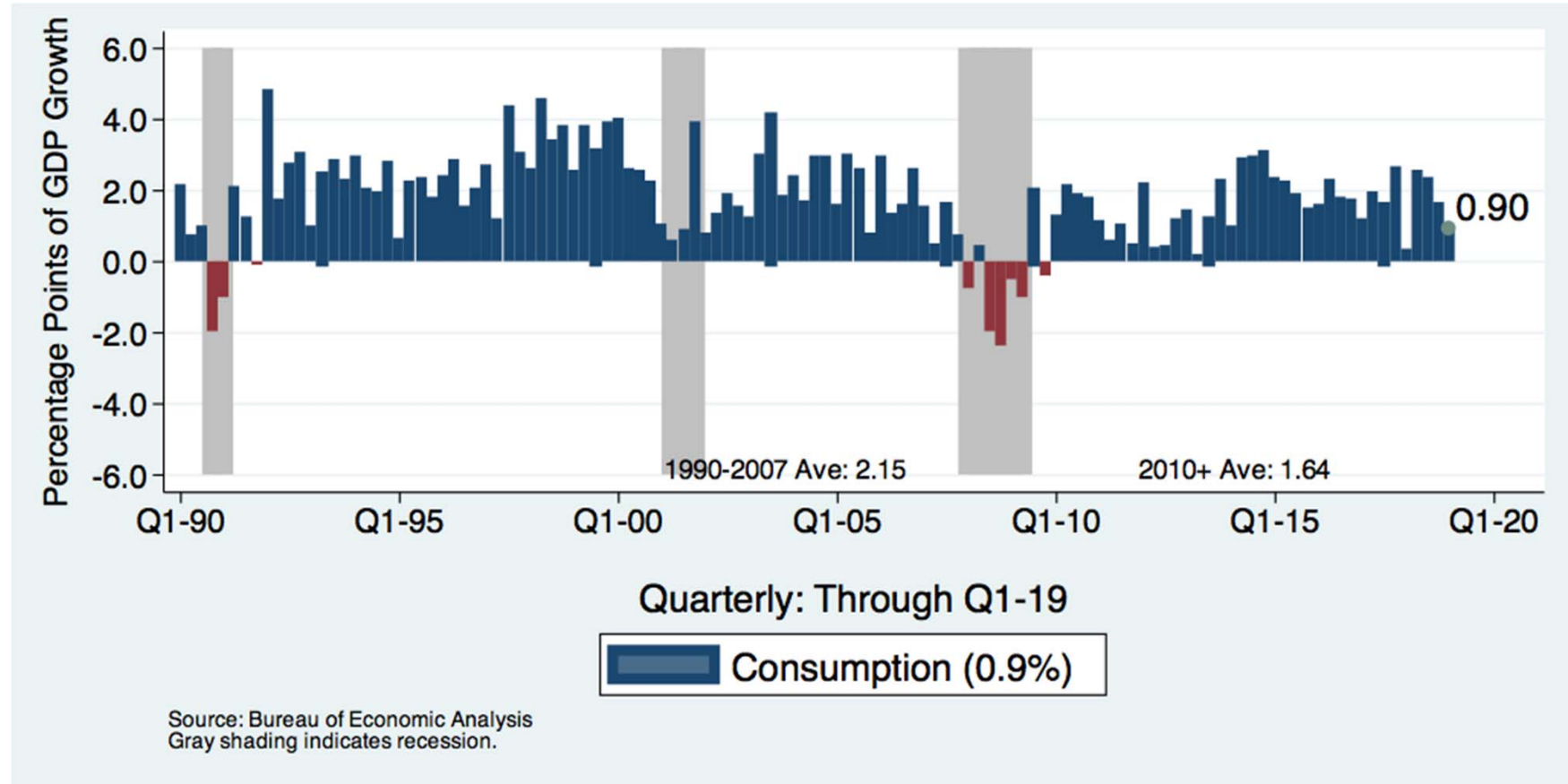
- **For example: Consumption**

- 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

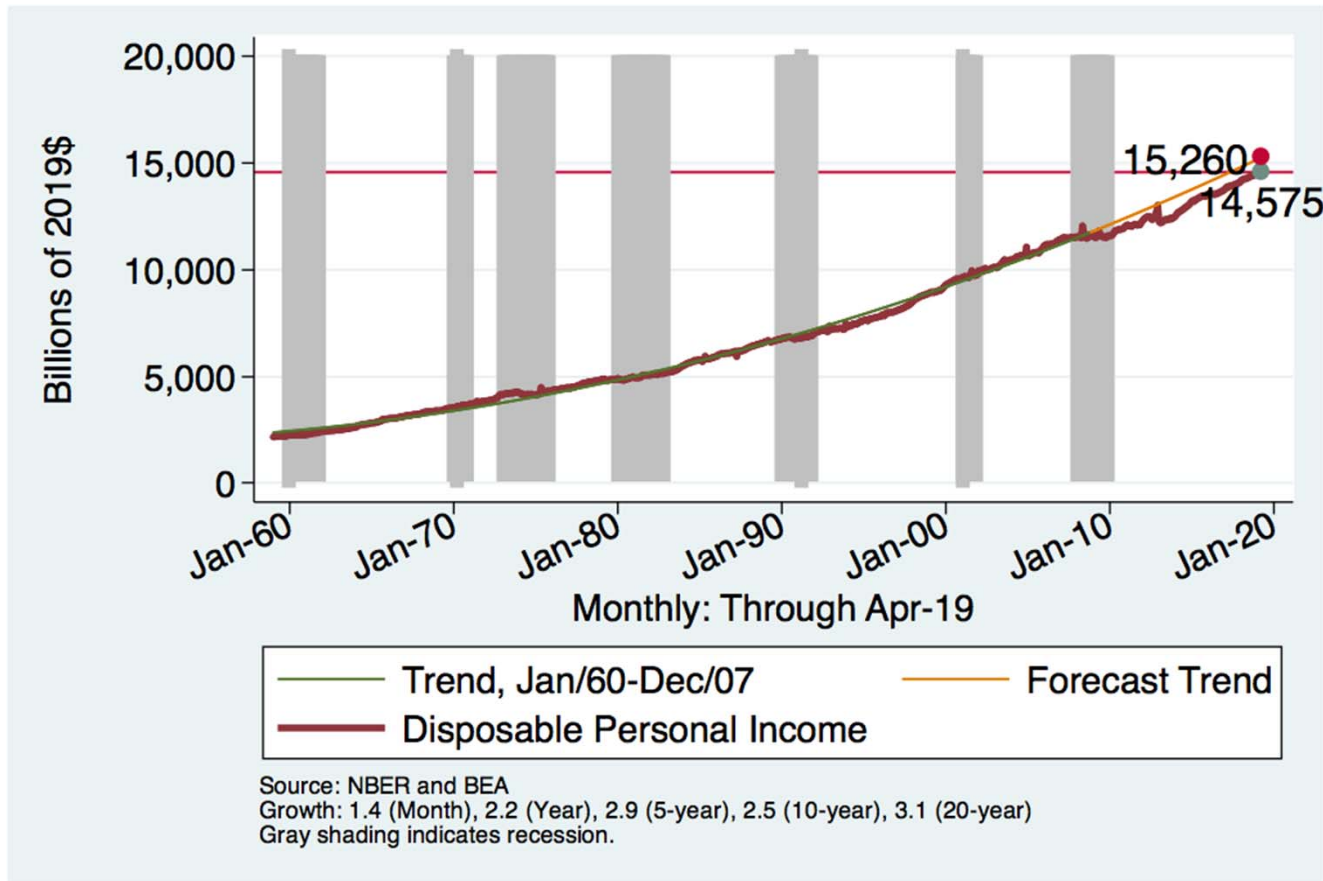
$$2\% = 2/3 * 3\%$$



# Contribution to GDP Growth: Consumption

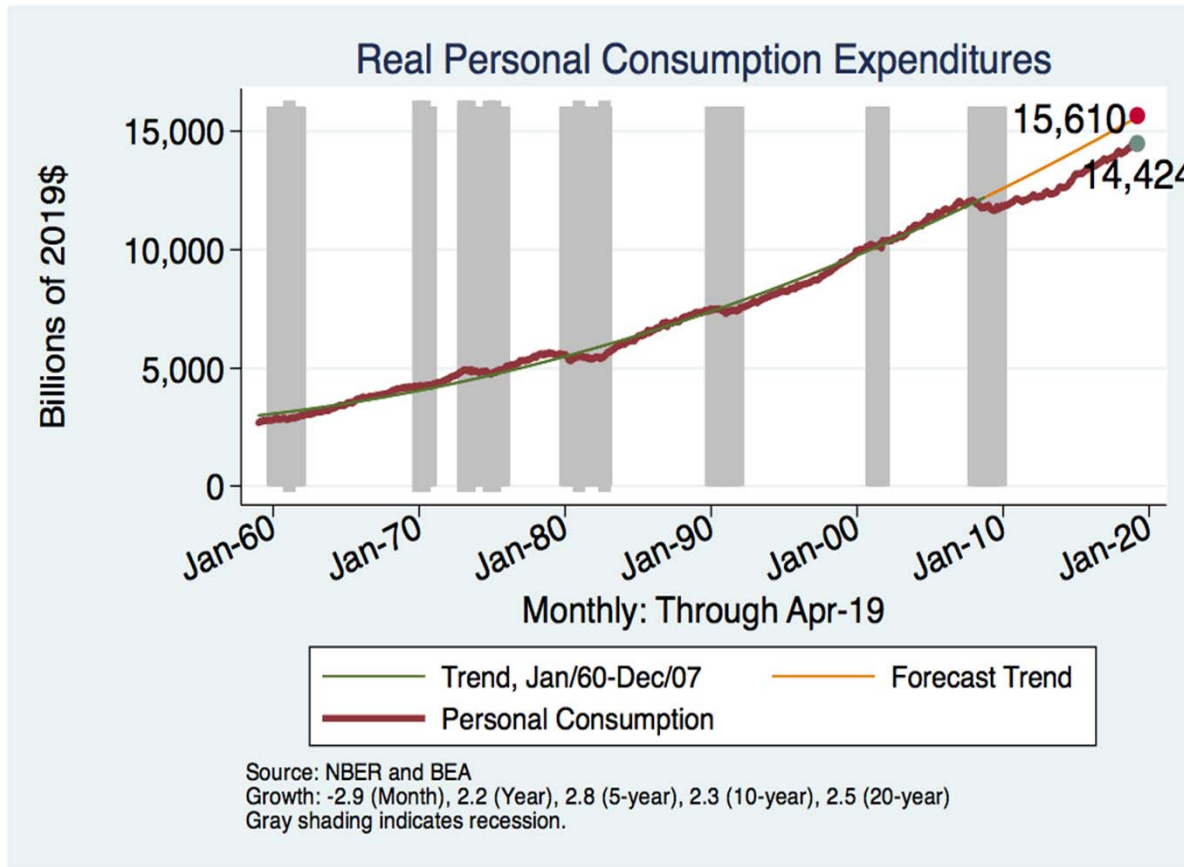
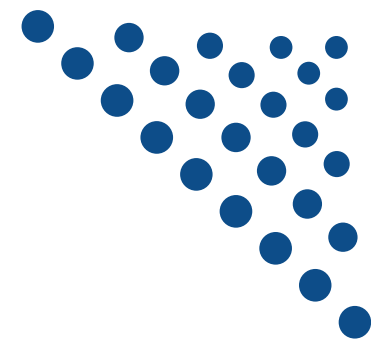


# Real Disposable Personal Income





# Personal Consumption Expenditures

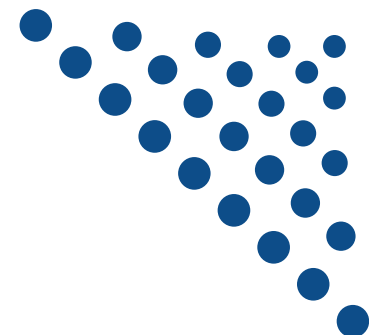


# Personal Consumption Expenditures



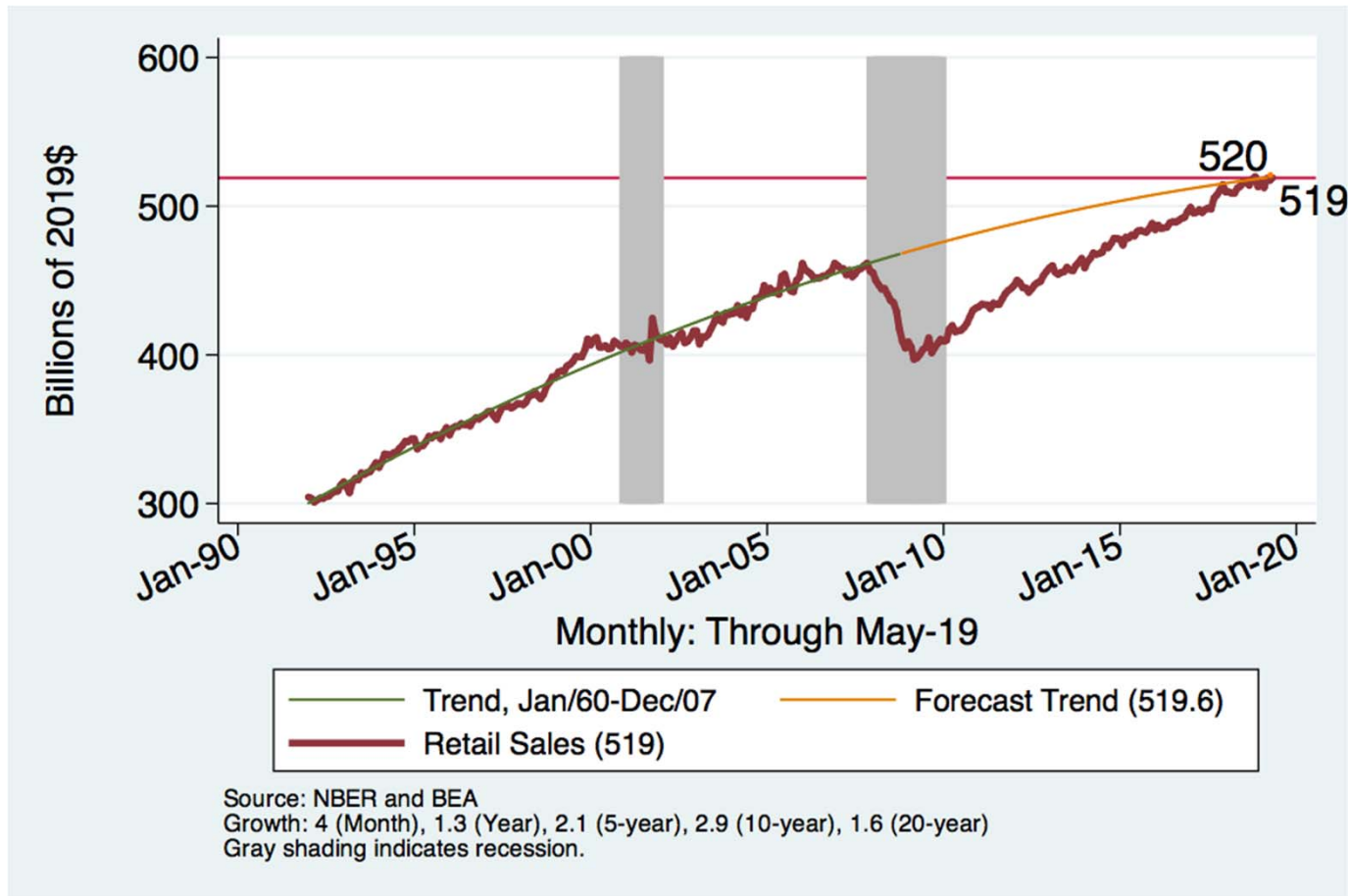
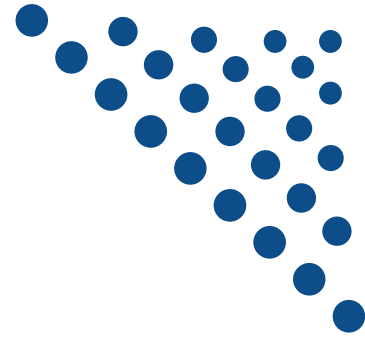
- **Consumption has been slow to recover.**
  - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
  - Post-crisis contribution is 1.64 percentage points.
- **In other words, its contribution to GDP growth is down 24%.**

# Explaining Consumption Expenditures

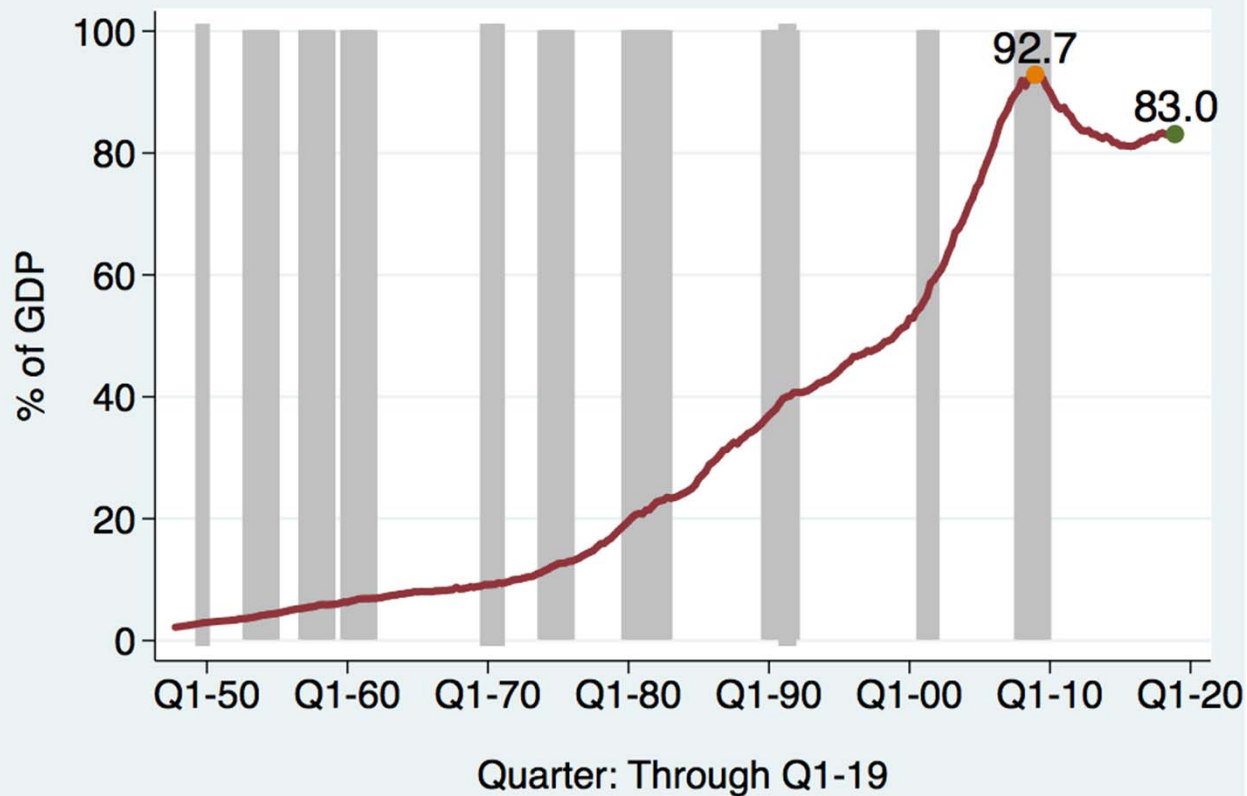


- Retail sales, household debt, and personal savings help explain changes in consumption expenditures.
- Lower levels of retail sales and household debt and higher savings should be correlated with lower levels of consumption expenditure.

# Retail Sales

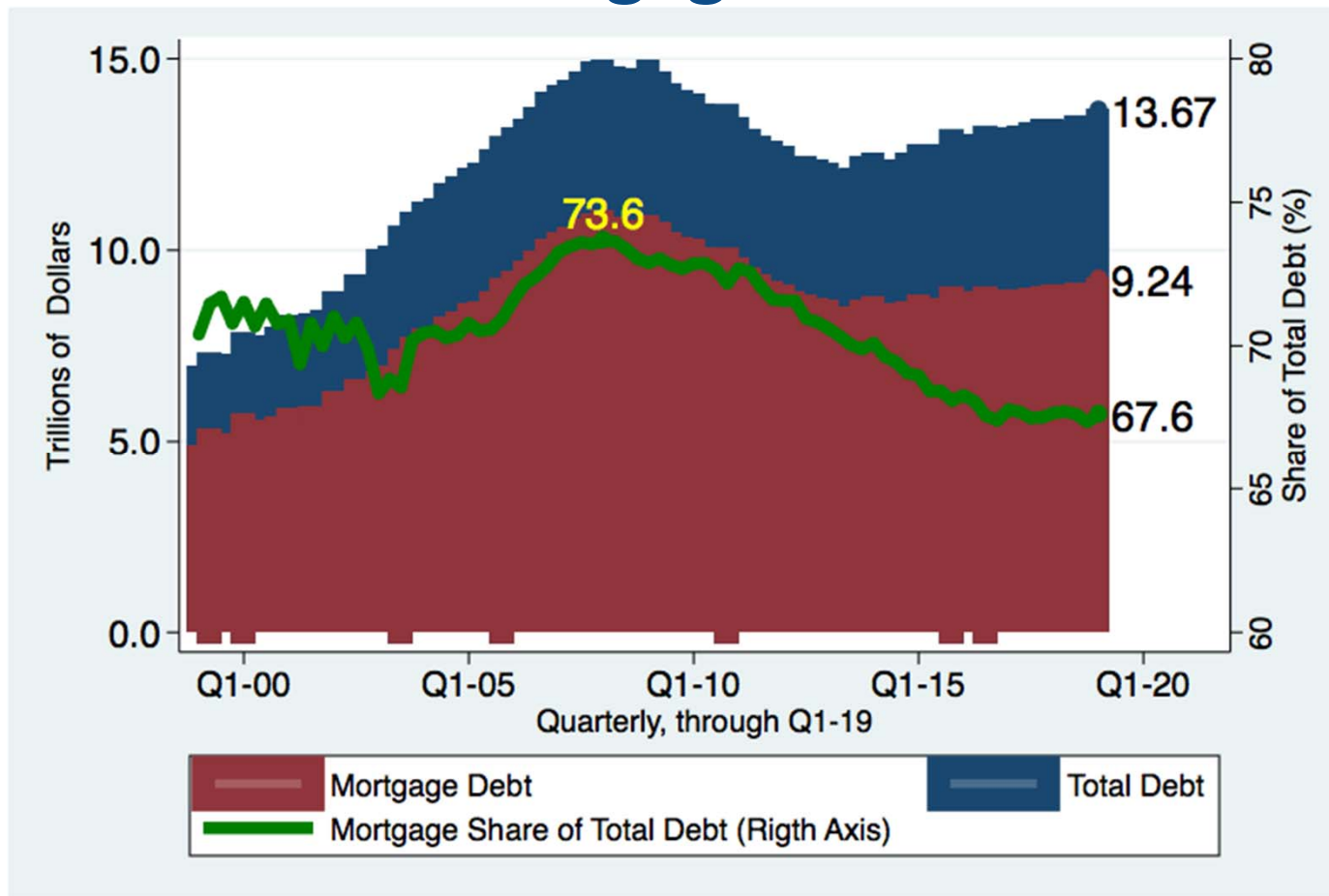


# Household Debt as a Share of GDP

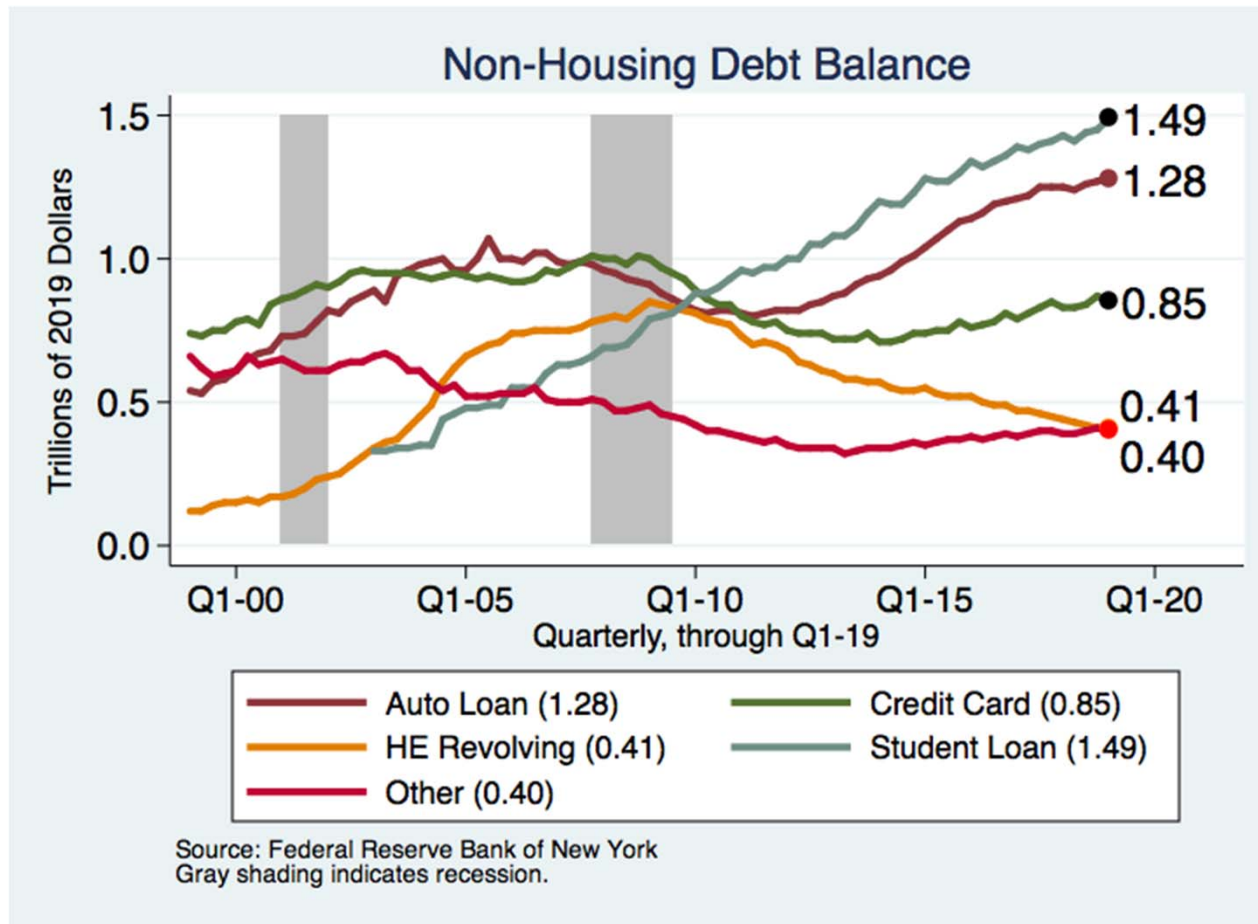
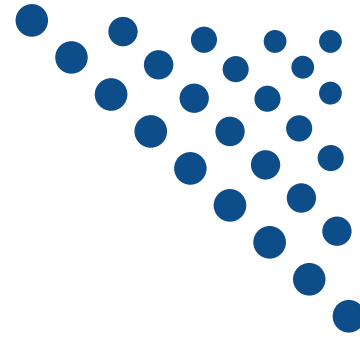


Source: Federal Reserve Board  
Gray shading indicates recession.

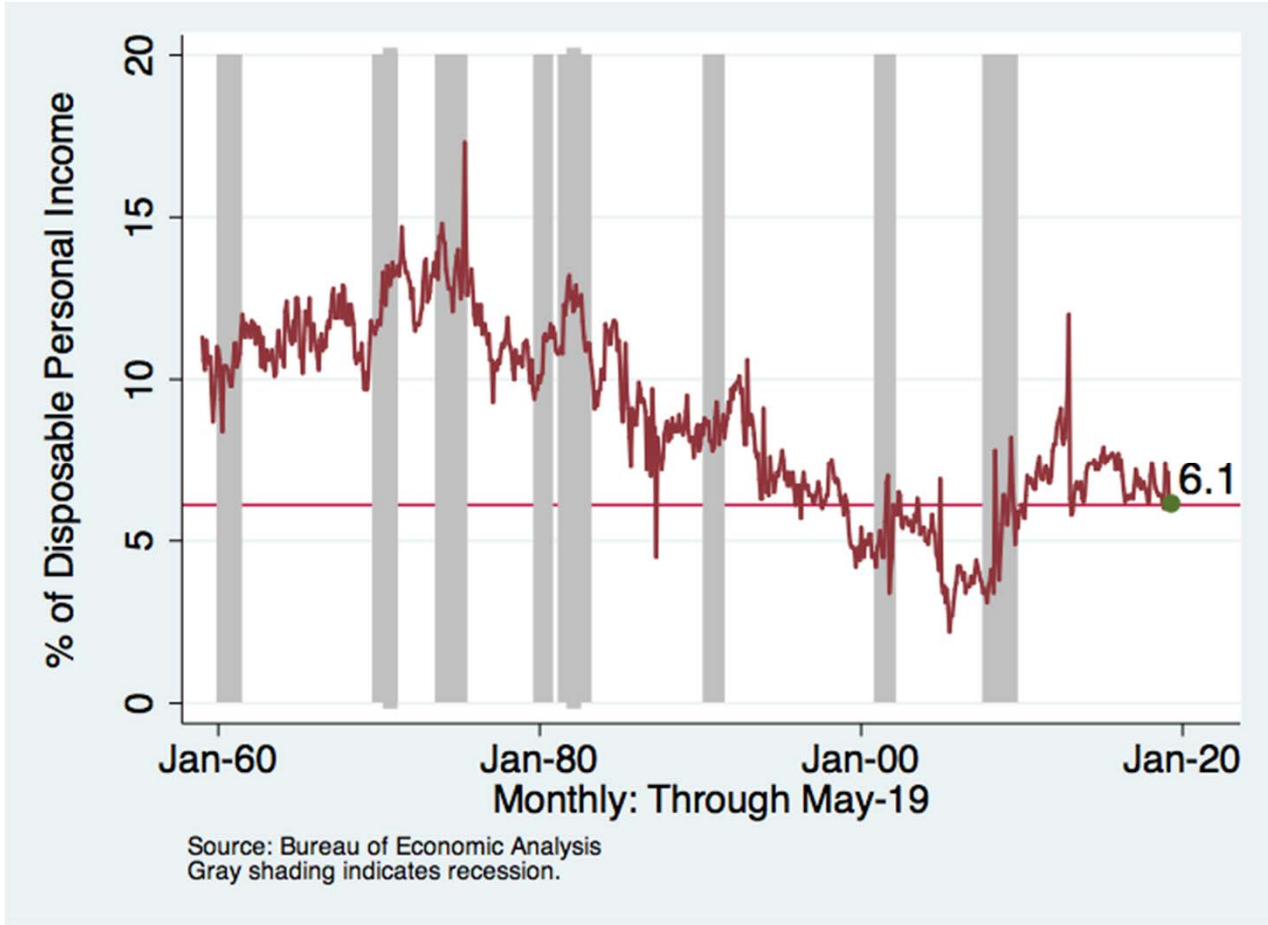
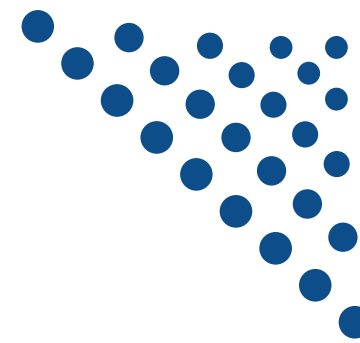
# Household Debt: Mortgages



# Household Debt: Other Sources

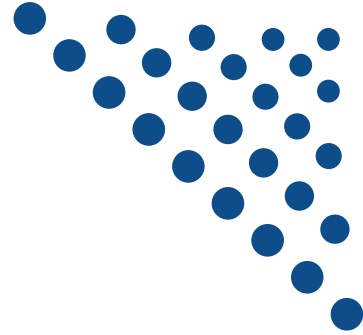


# Personal Savings



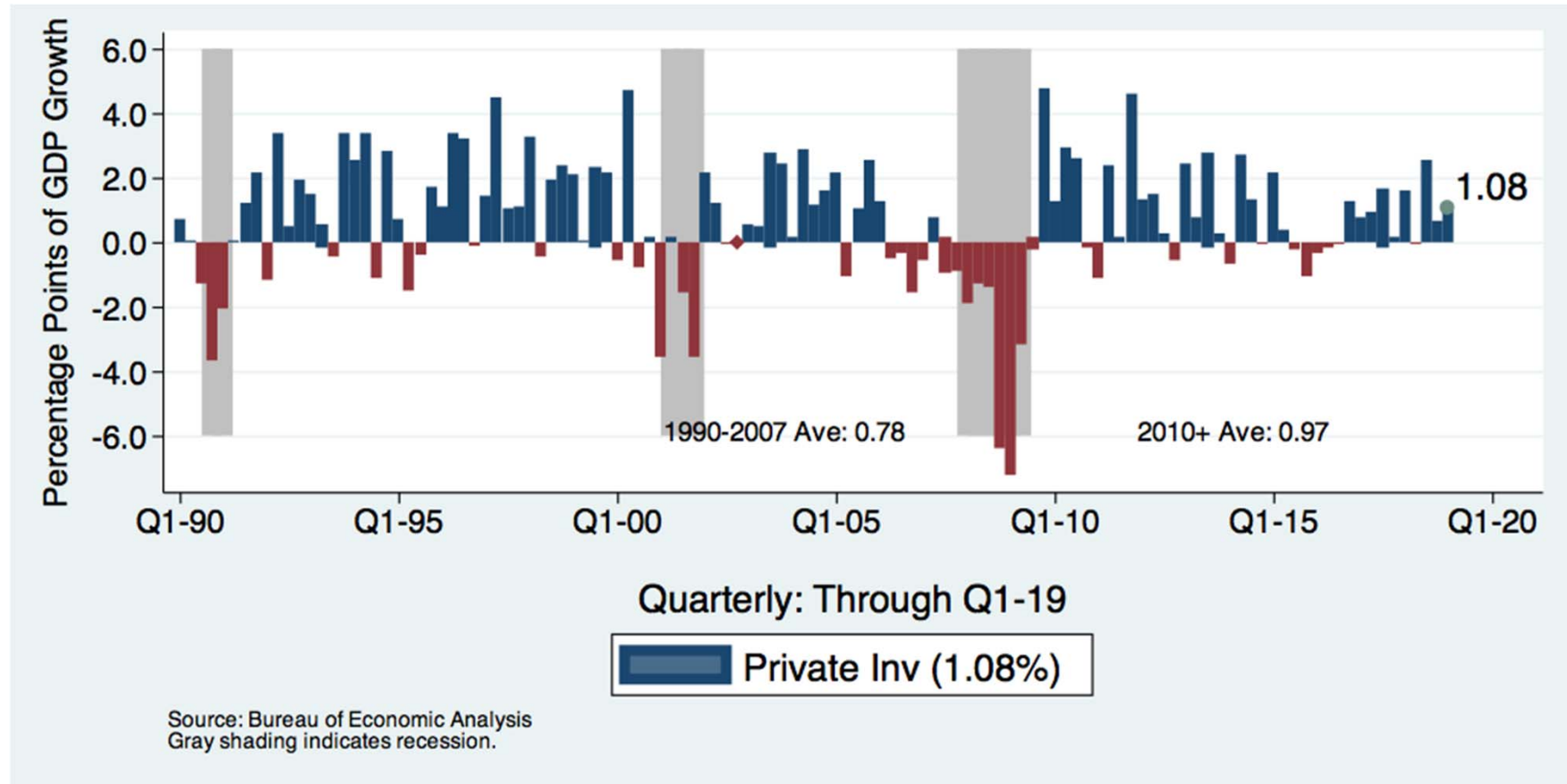


# Investment Expenditures

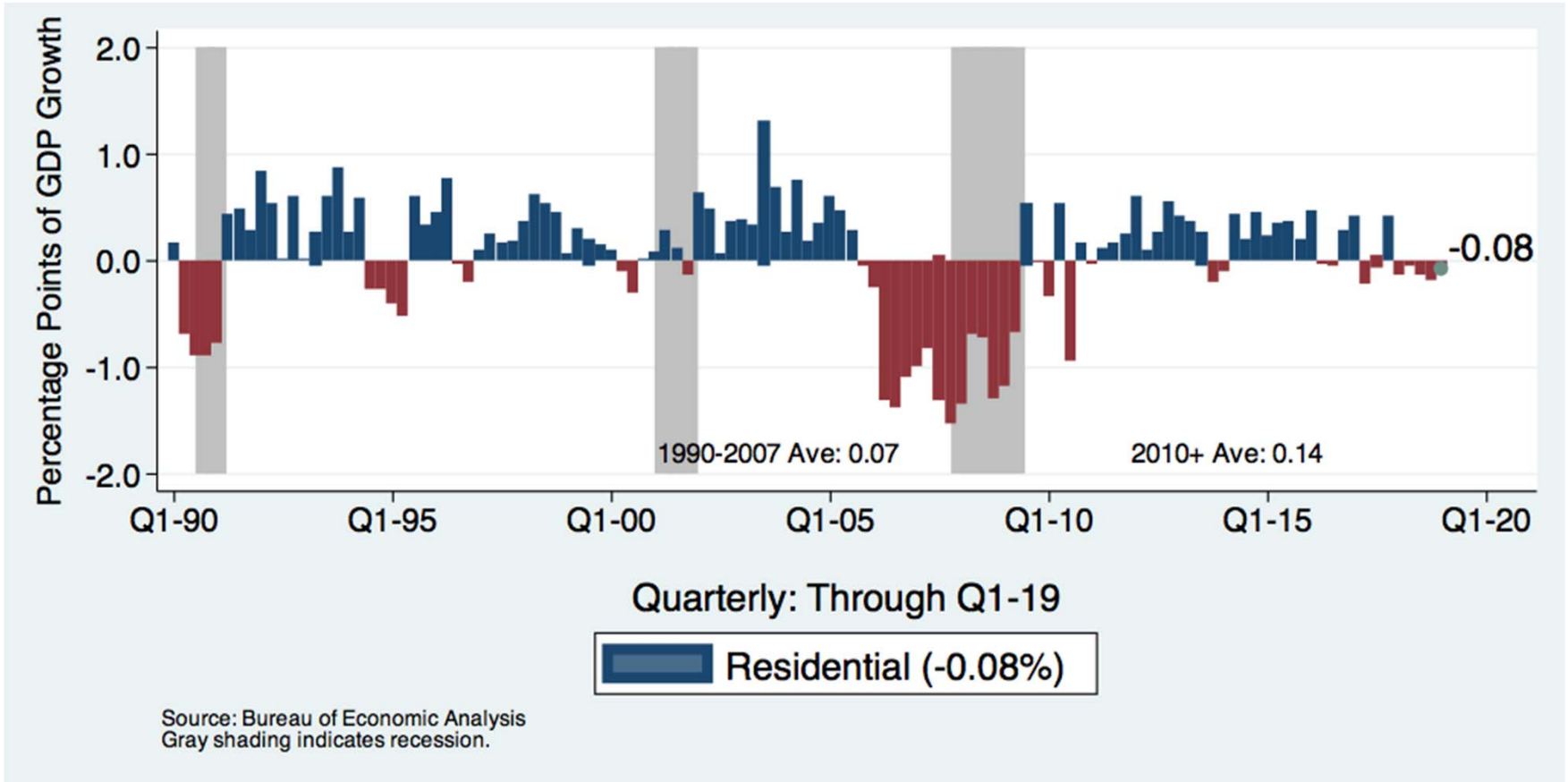


- **Investment expenditures are composed of residential and non-residential spending.**
- **Residential spending refers to purchases of new homes.**
- **Non-residential spending refers to capital purchases and new inventory accumulation.**
  - Tools, machinery, new factories, commercial real estate.

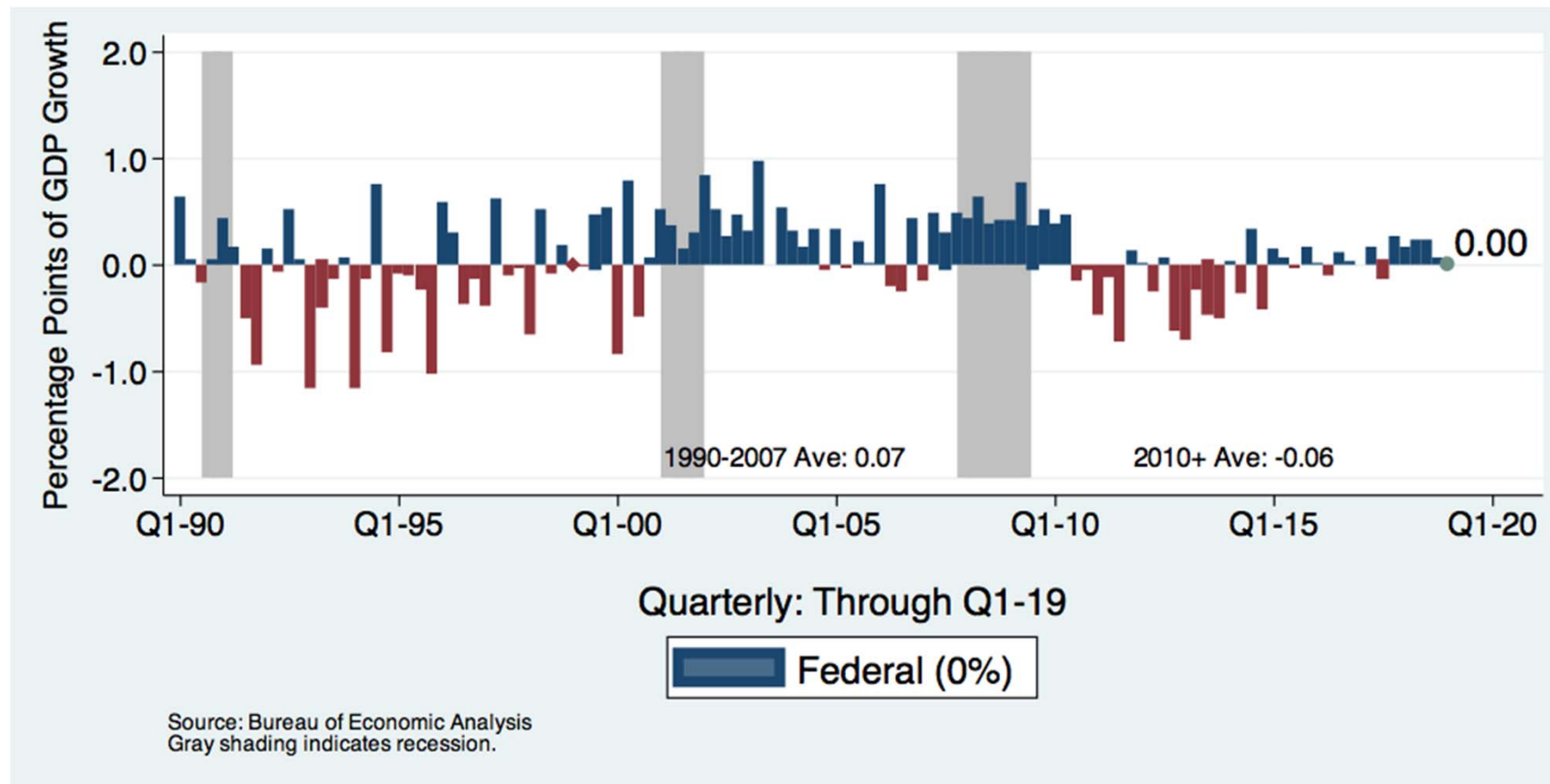
# Contributions to GDP: Private Investment



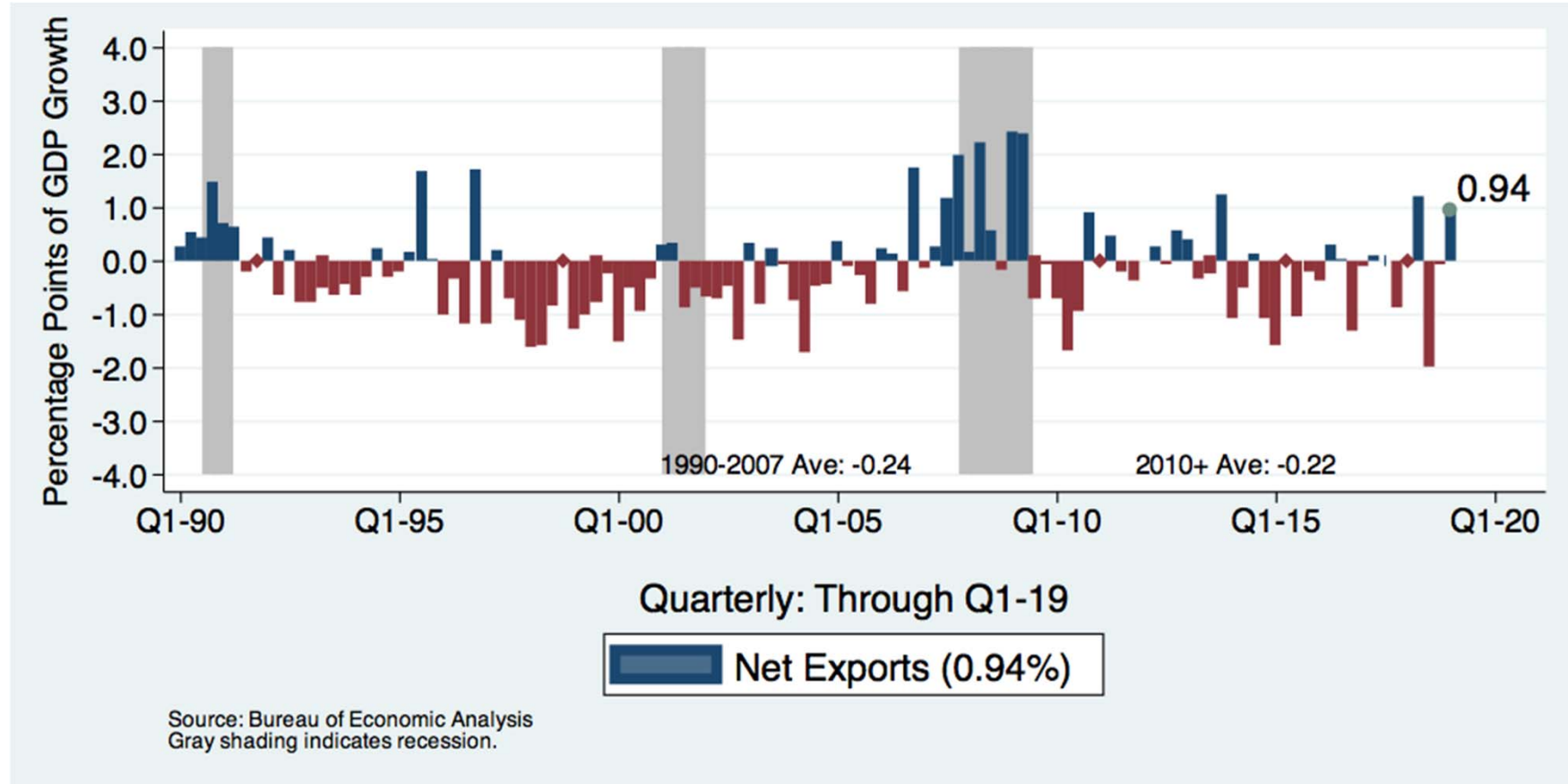
# Contributions to GDP: Residential Investment



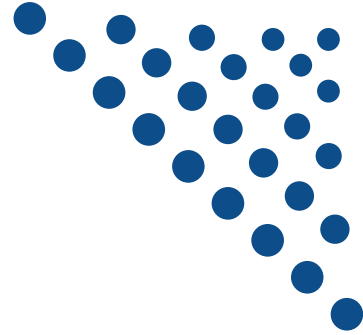
# Contributions to GDP: Government



# Contributions to GDP: Net Exports



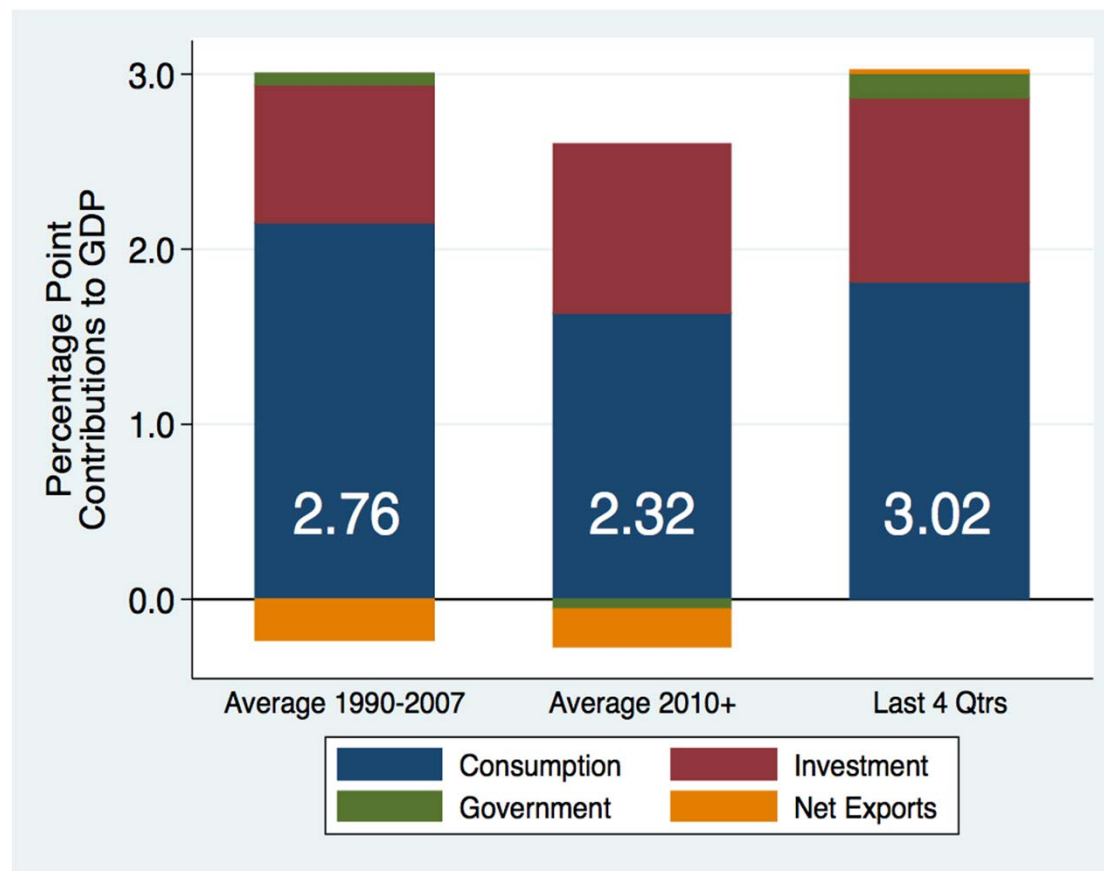
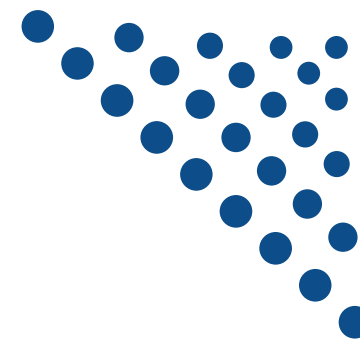
# Expenditure Summary

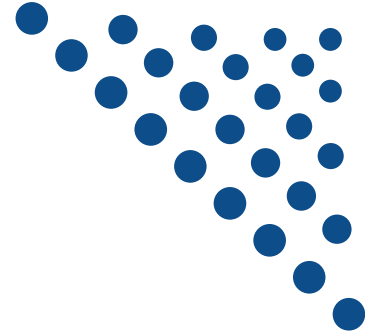


- **Post-recession consumption is down:**
  - Retail sales are returning to trend;
  - Household debt down, but climbing;
  - Personal savings is up.
- **Investment expenditures are contributing more to GDP growth.**
- **Post-recession government spending is down:**
  - But starting to pick up.
- **Net exports are relatively unchanged.**



# Expenditure Summary



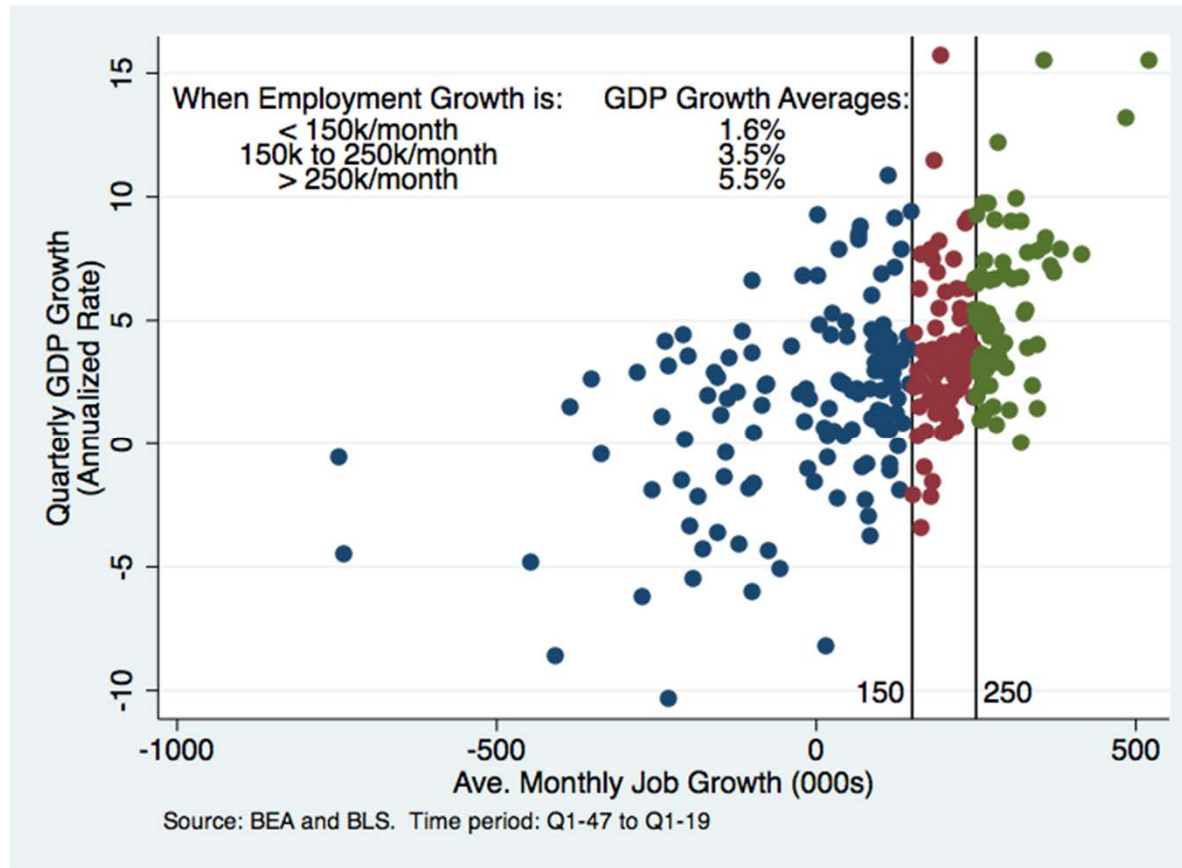


# Labor Market





# GDP Growth and Employment Changes



# Production and Employment



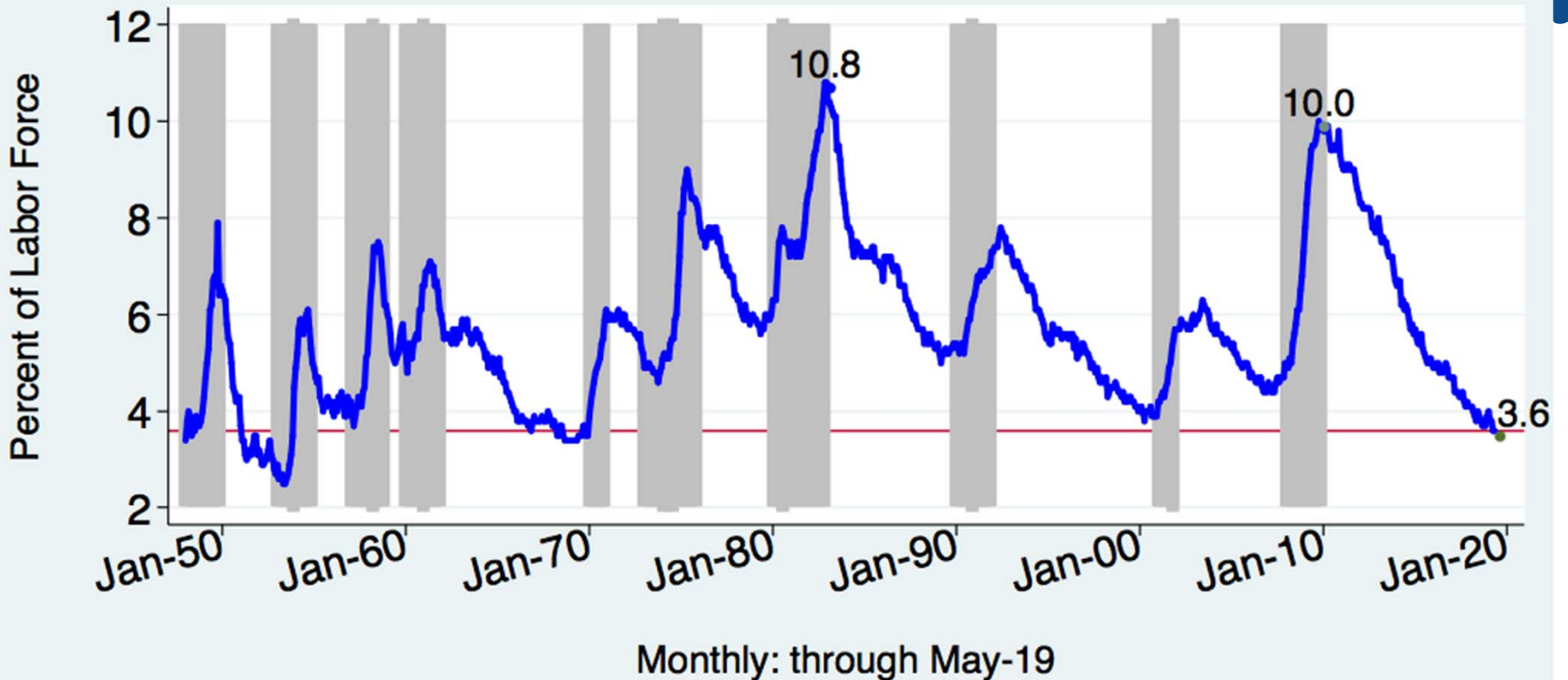
- **In addition to the previously discussed components of GDP, the labor market is an important indicator of the health of the U.S. economy.**
- **We'll focus on employment and productivity.**
  - Trends in employment and labor force participation.
  - Trend in labor productivity.

# Labor Market Conditions



- Unemployment rate is low, 3.6%, a level not seen since the 1960s.
- Natural rate of unemployment is estimated to be 4.5% - 5.5%.
- Monthly employment gains have averaged 175,000 jobs over the last six months.
- **Recent Labor Market Concerns:**
  - Low employment-to-population ratio
  - Falling labor force participation
  - Slow wage growth

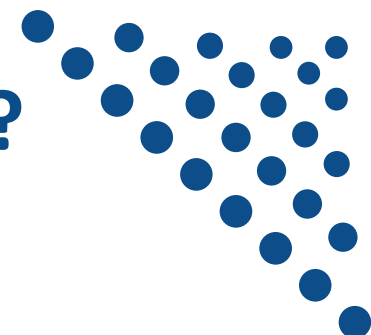
# Unemployment Rate



Source: Bureau of Labor Statistics  
Gray shading indicates recession.

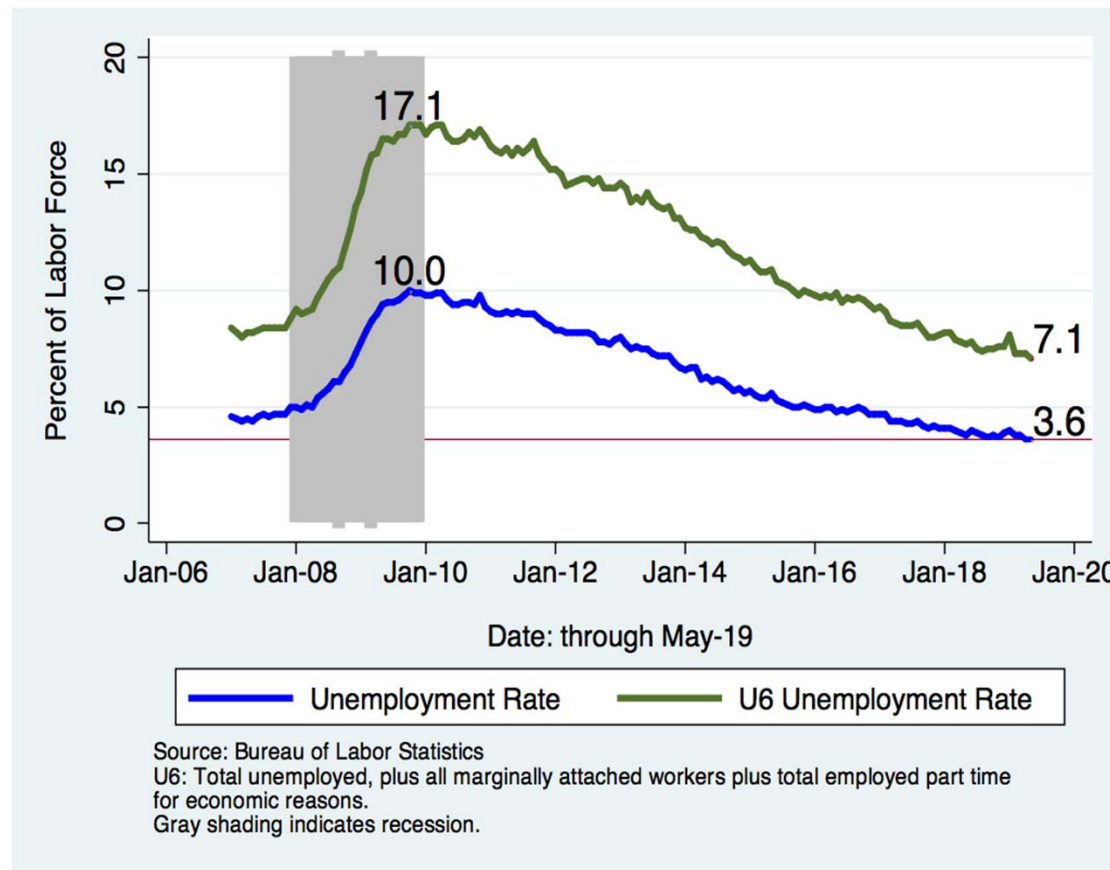
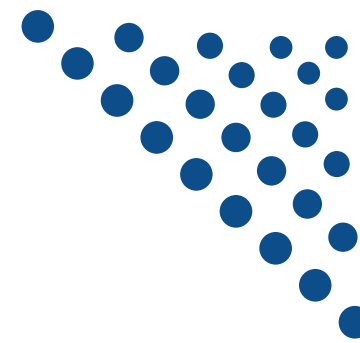


# How is the Unemployment Rate Calculated?

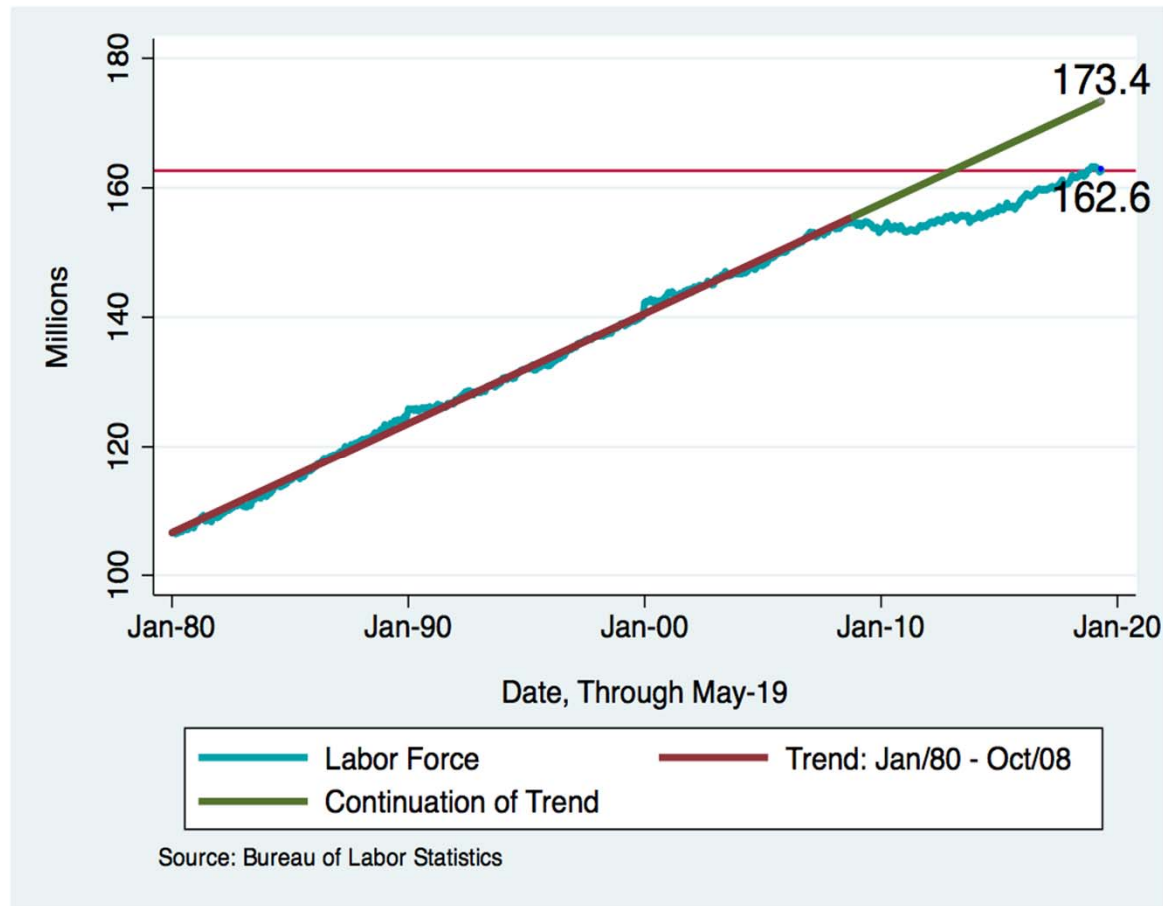


- It is not a simple thing: 
$$UR = \frac{\# \text{ Unemployed}}{\text{Labor Force}} * 100$$
- Why is that not simple?
  - Because it can go up or down for a variety of reasons:
    - If the labor force shrinks – UR goes down
    - If employment grows – UR goes up
  - Not all employment is created equally
- Not a good indicator of the overall well being of the US economy

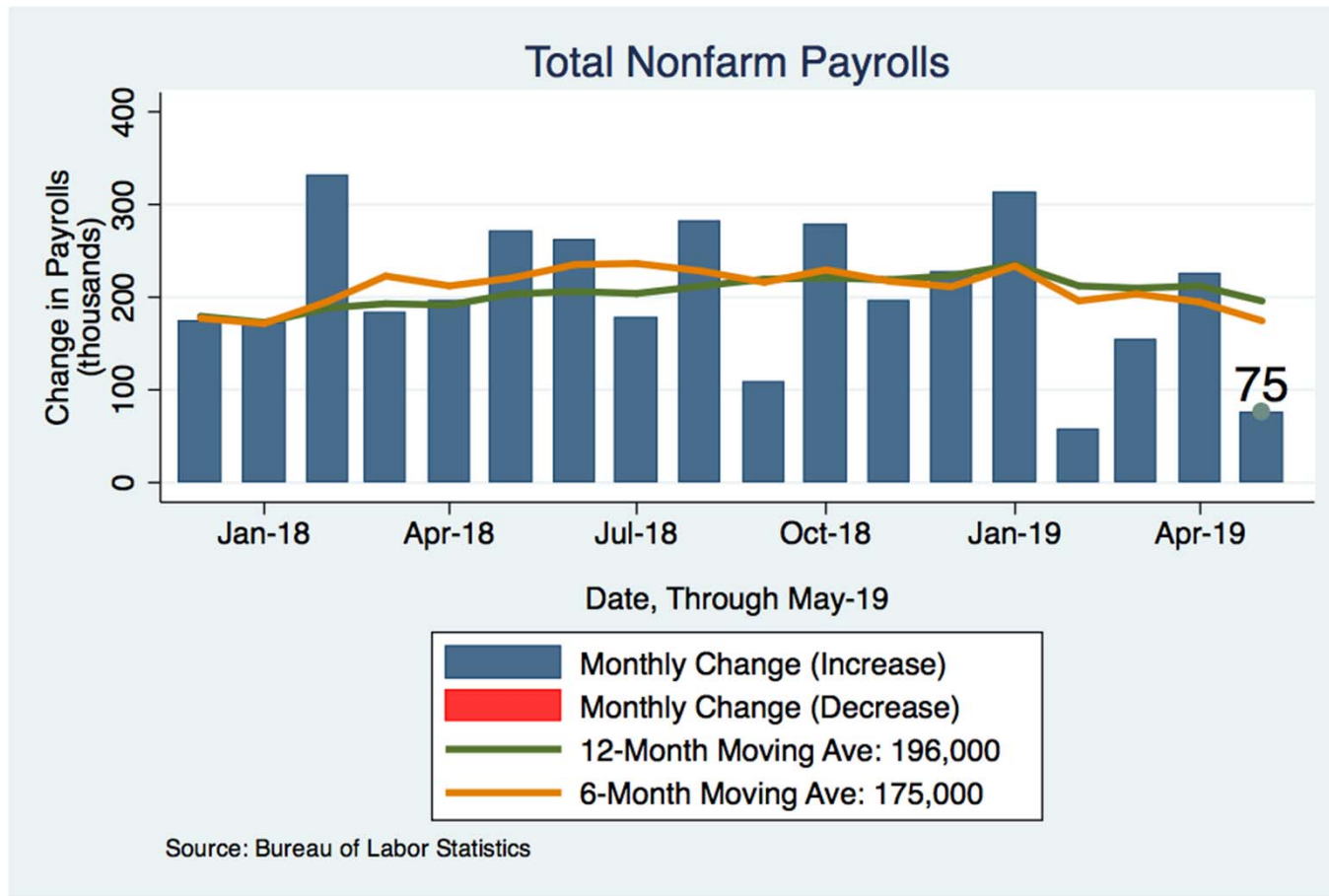
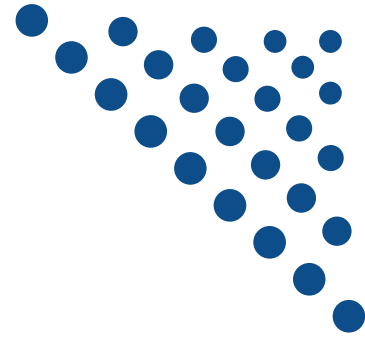
# Unemployment Rate



# Labor Force Participation - Below Trend

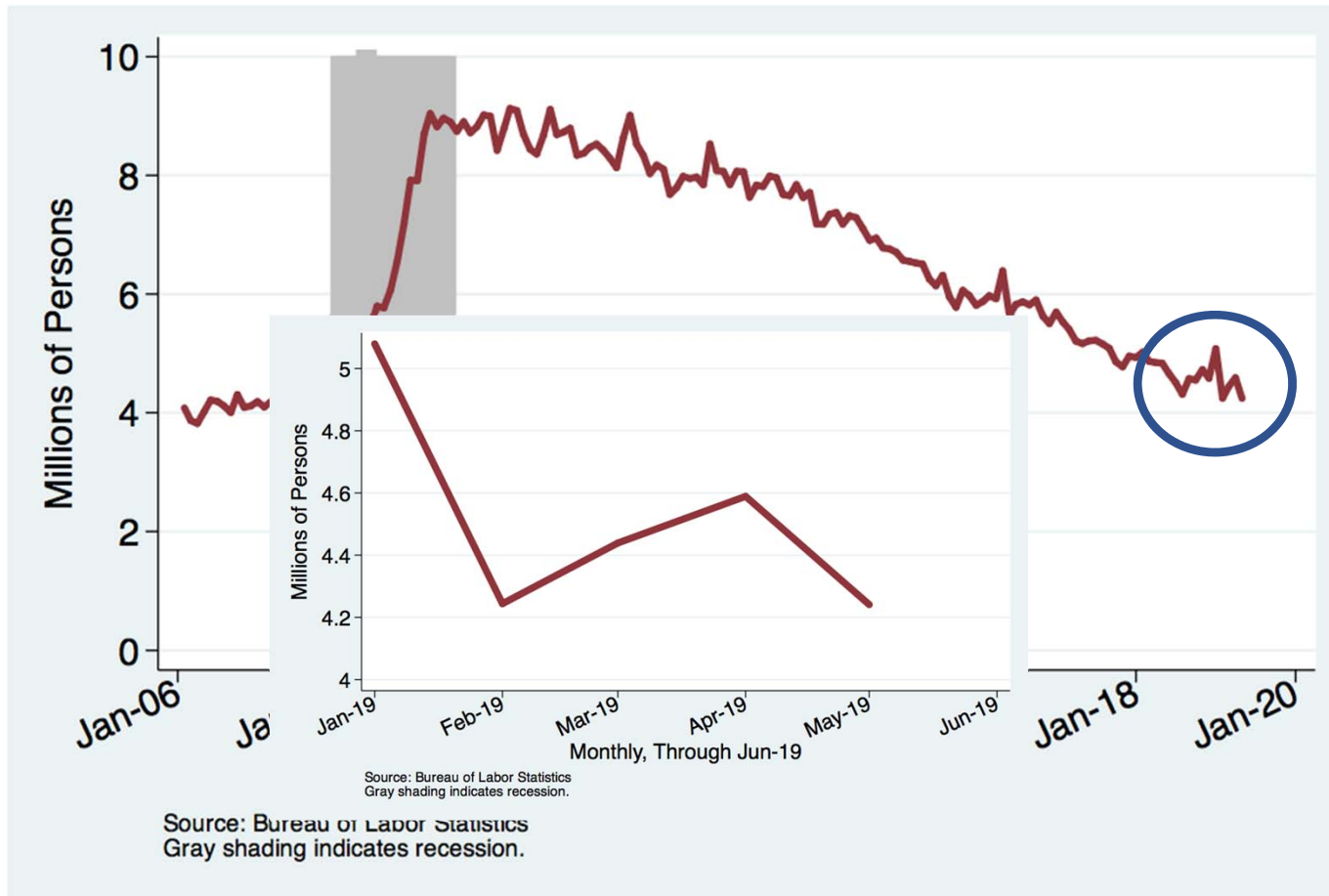


# Monthly Changes in Nonfarm Employment

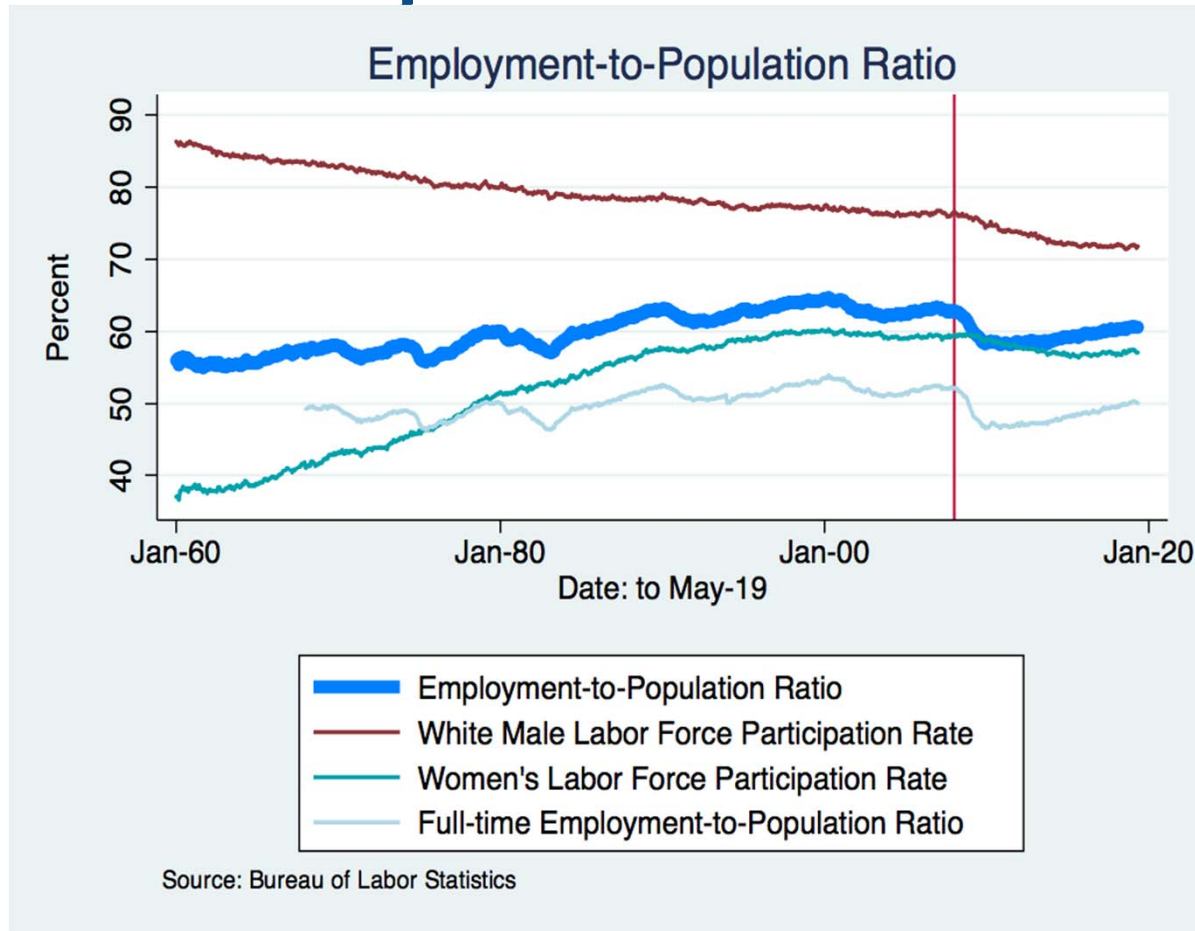
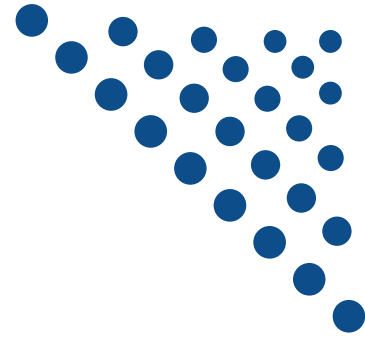




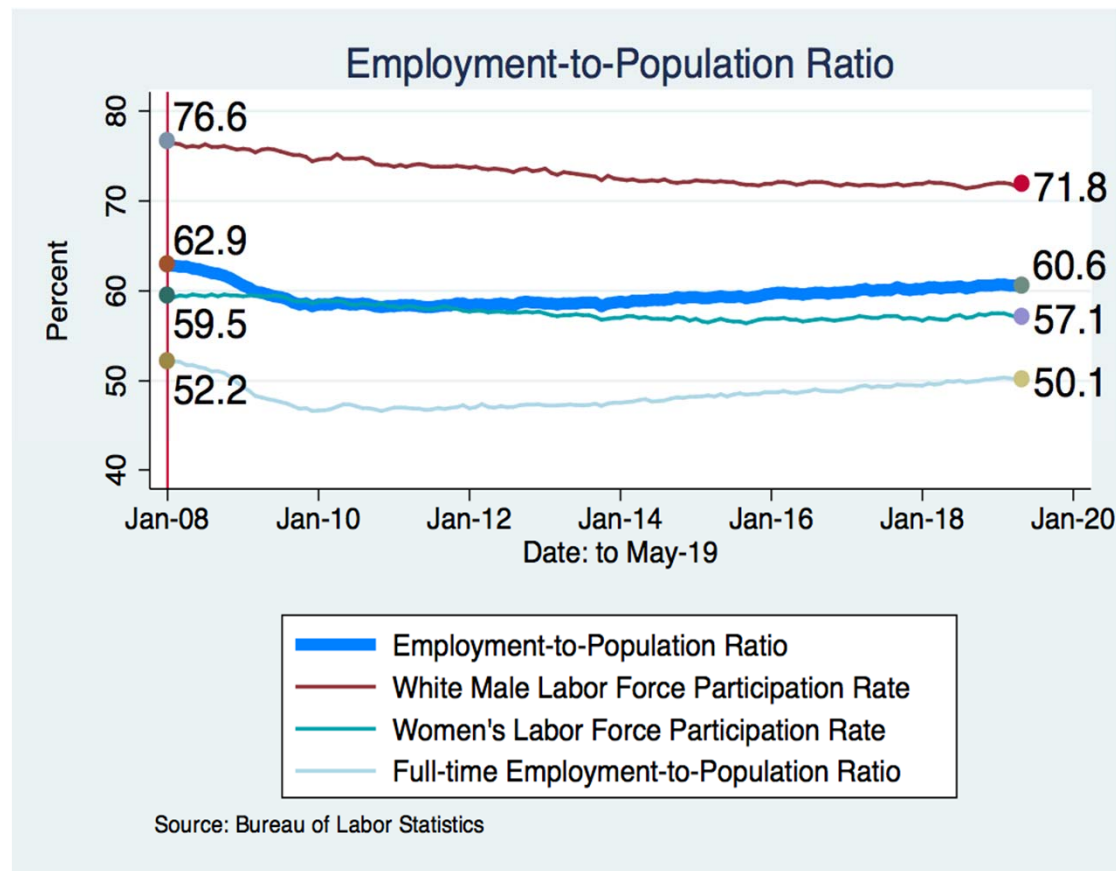
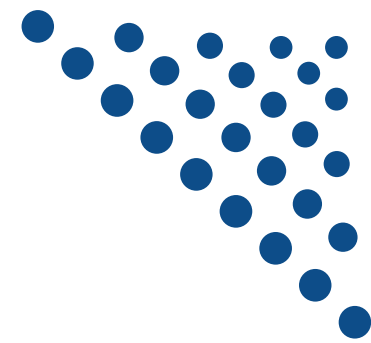
# Part-Time Nonfarm Employment



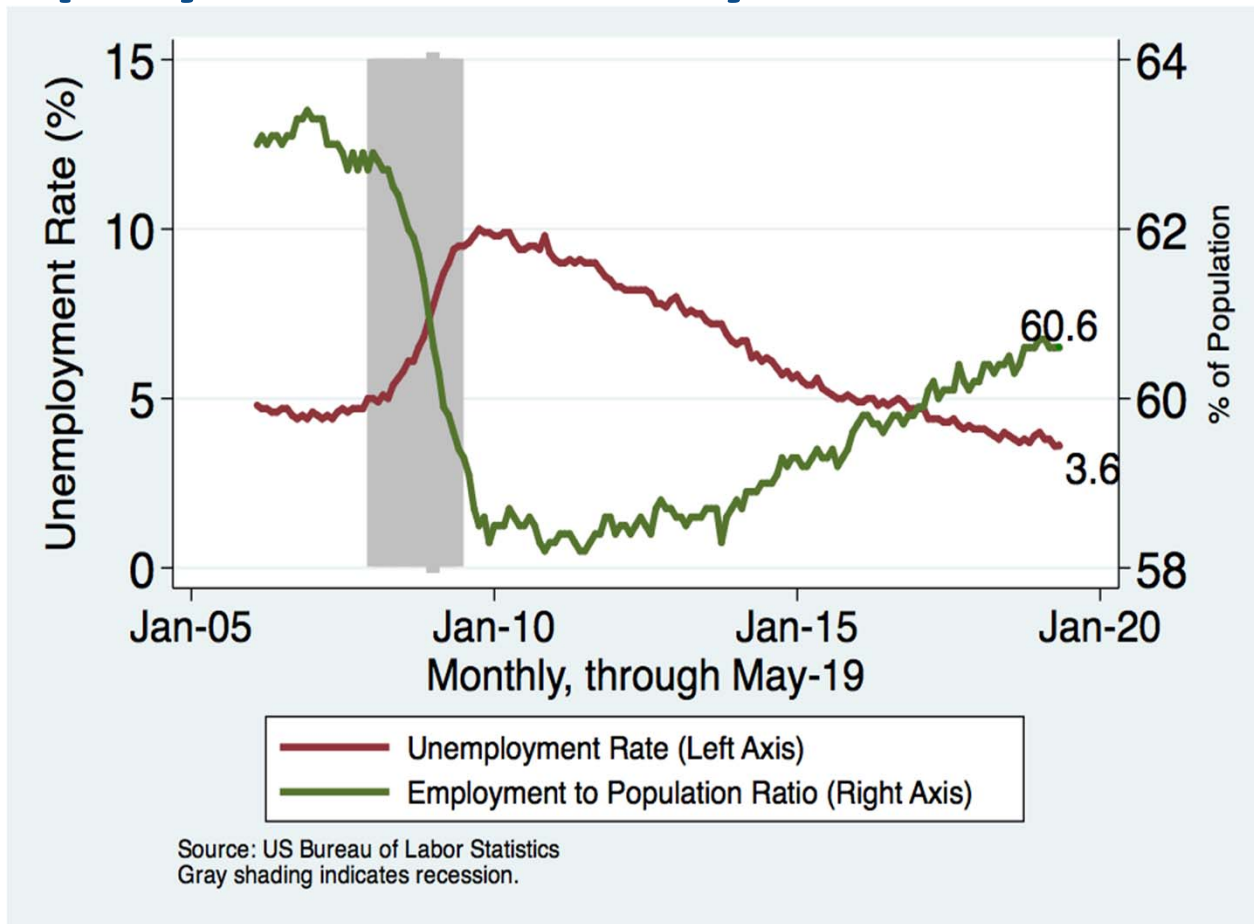
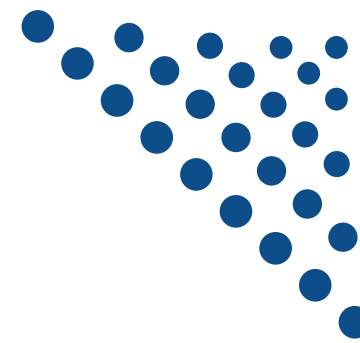
# Employment-to-Population Ratios



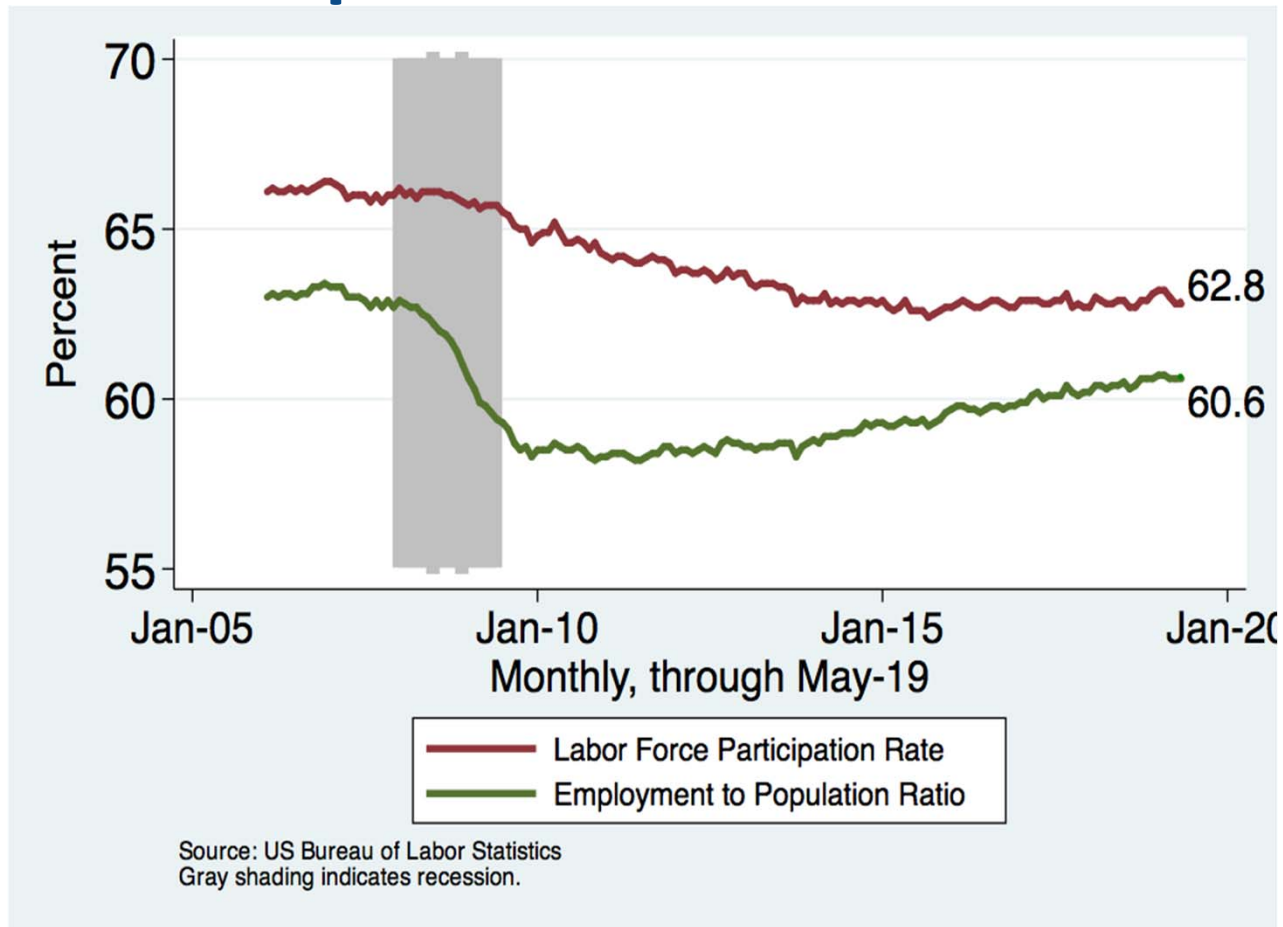
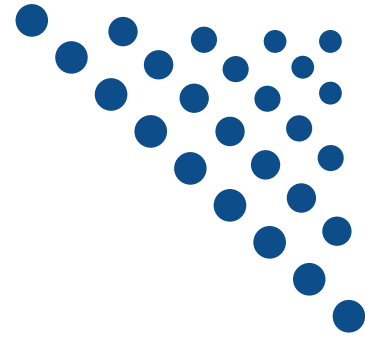
# Employment to Population Ratios – Recent



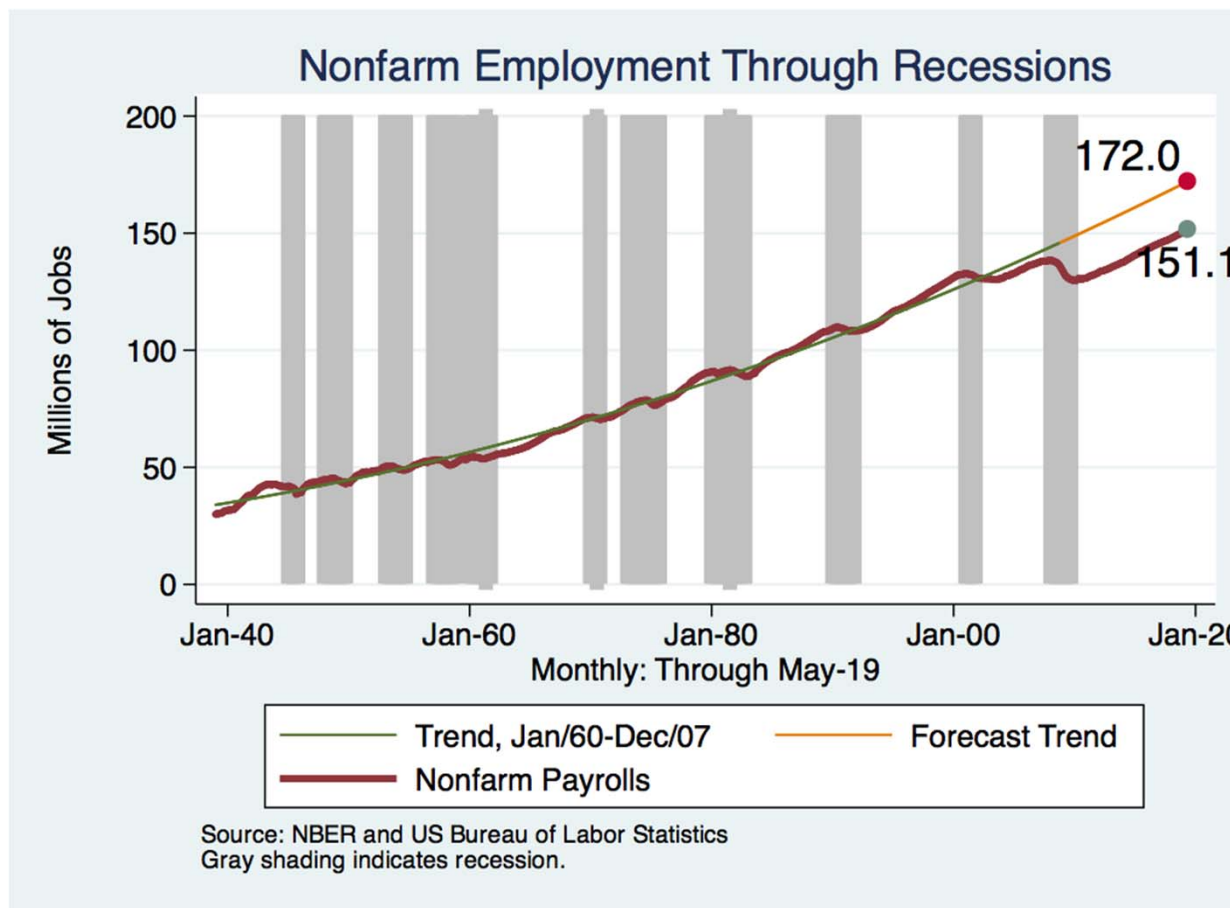
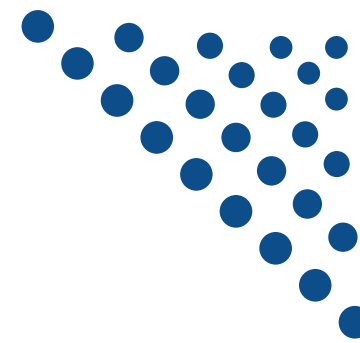
# Slow Employment Recovery



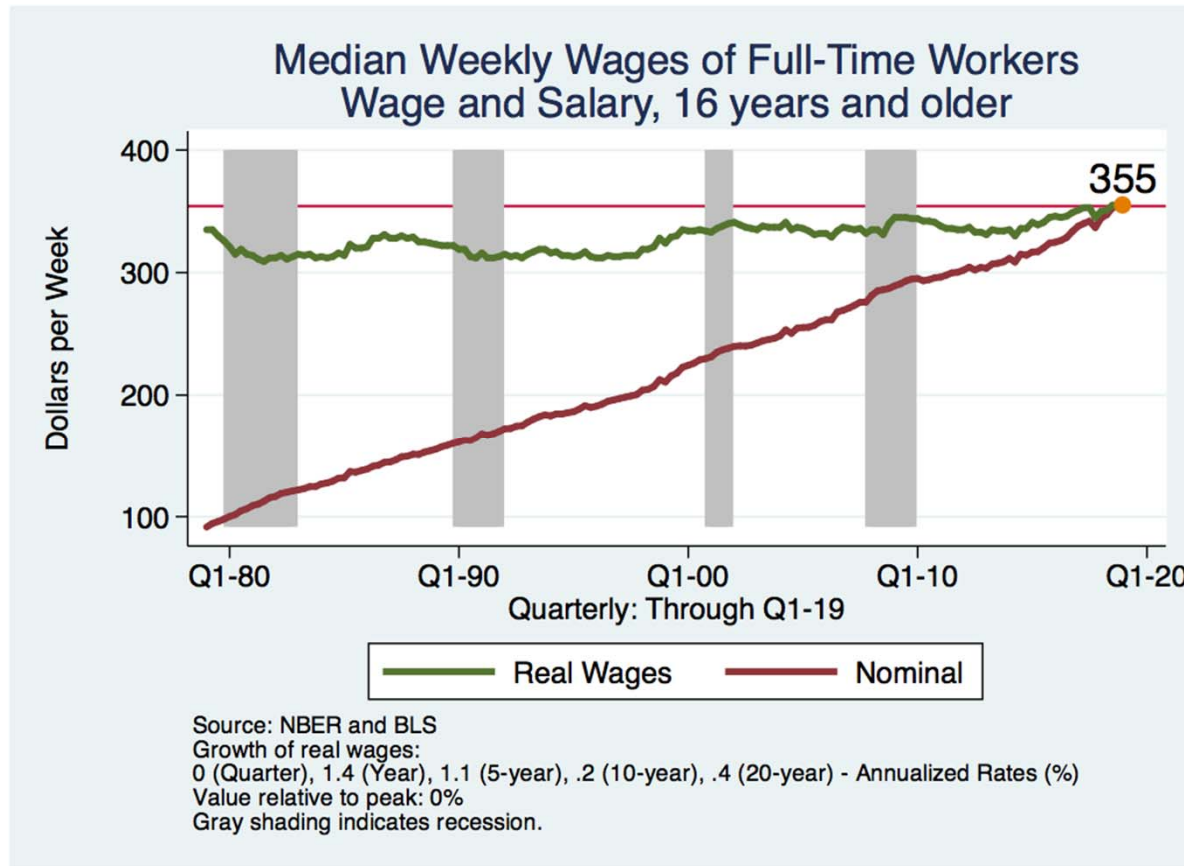
# Labor Force Dropouts



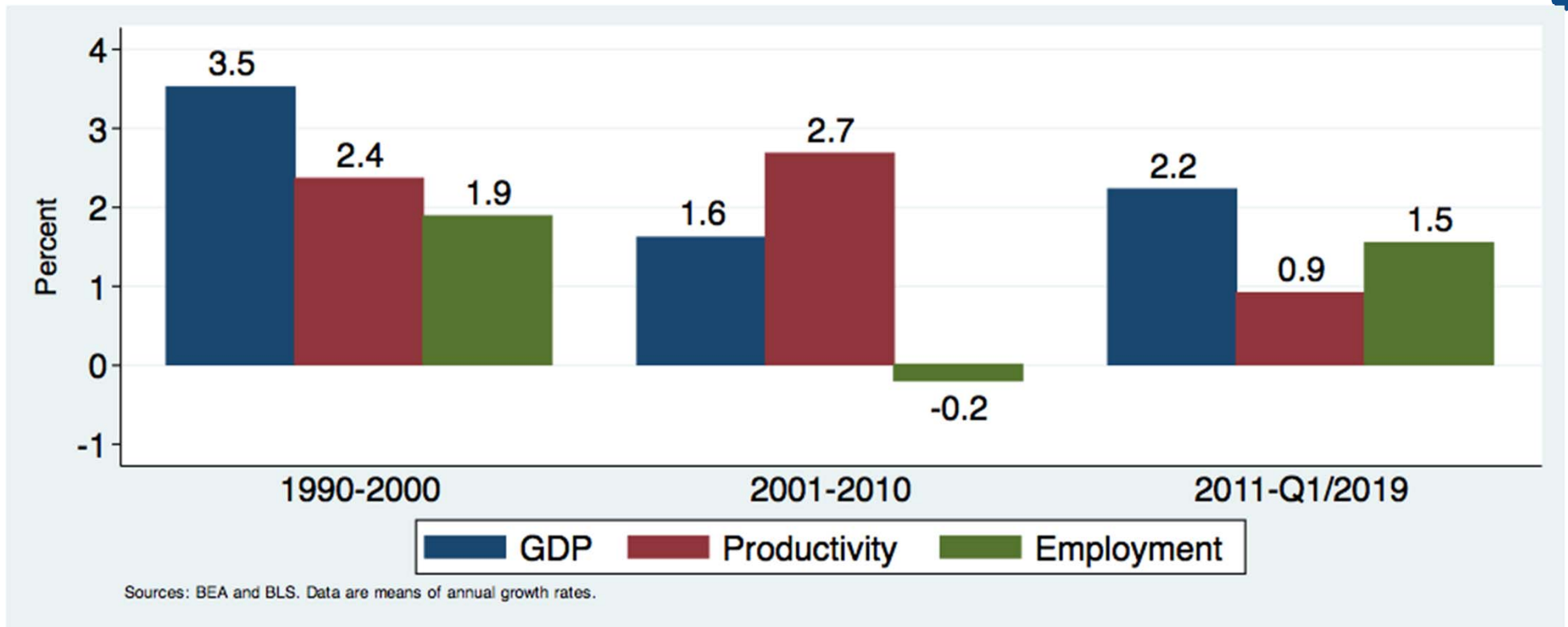
# Employment Growth



# Wage Growth

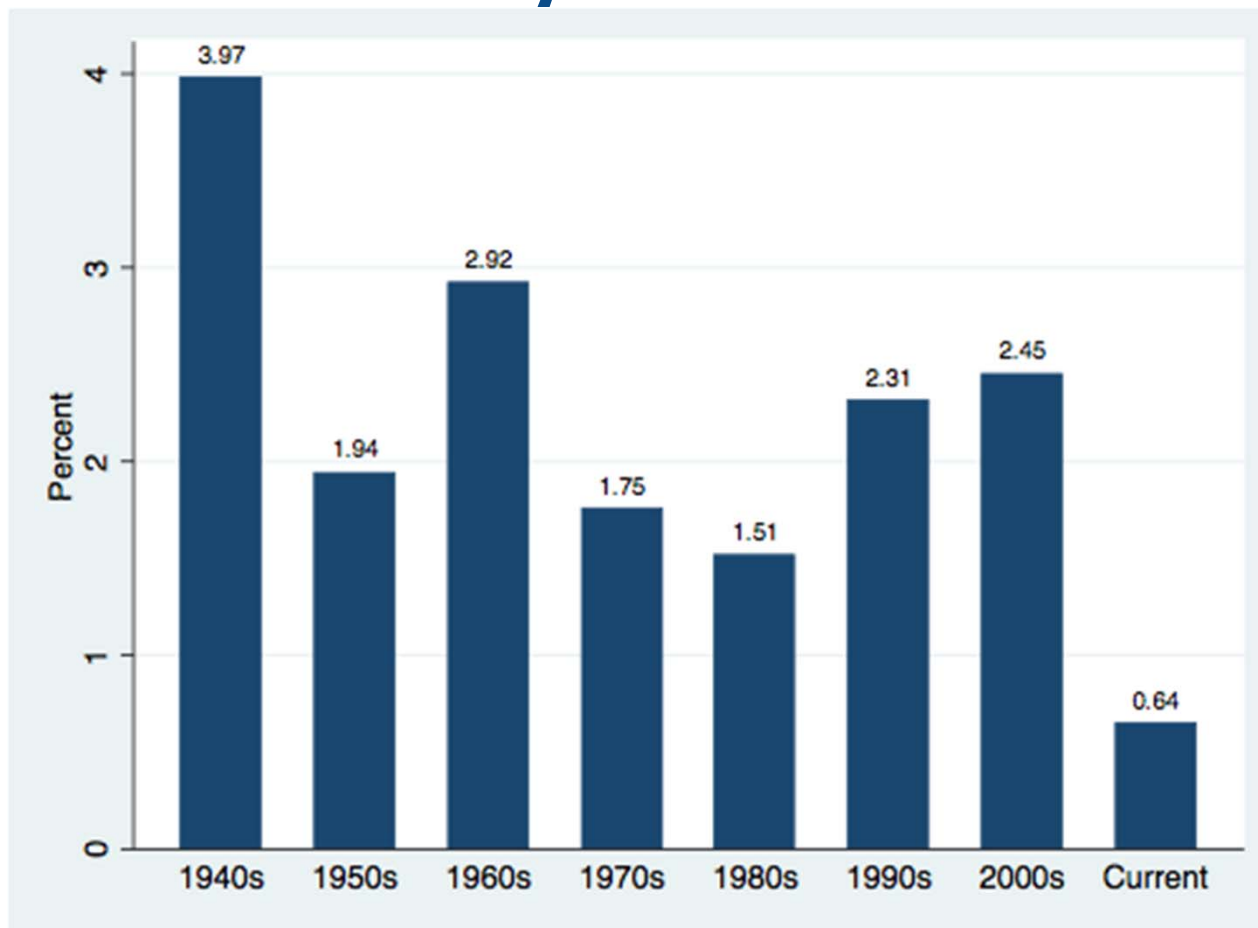
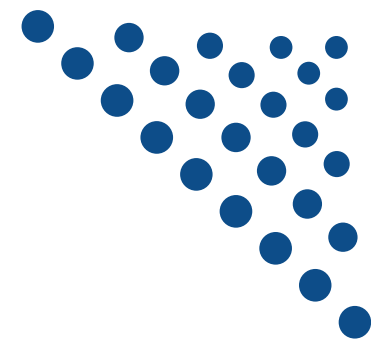


# GDP Growth, Productivity, and Employment

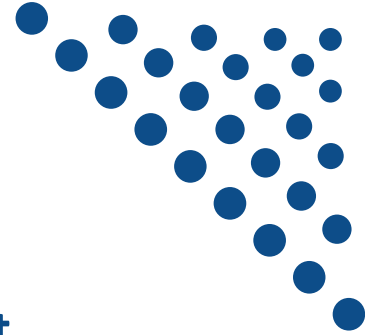




# History of Productivity Growth

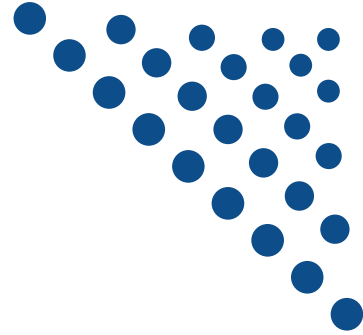


# Summary



- **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 lead 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.

# Things to Be Worried About



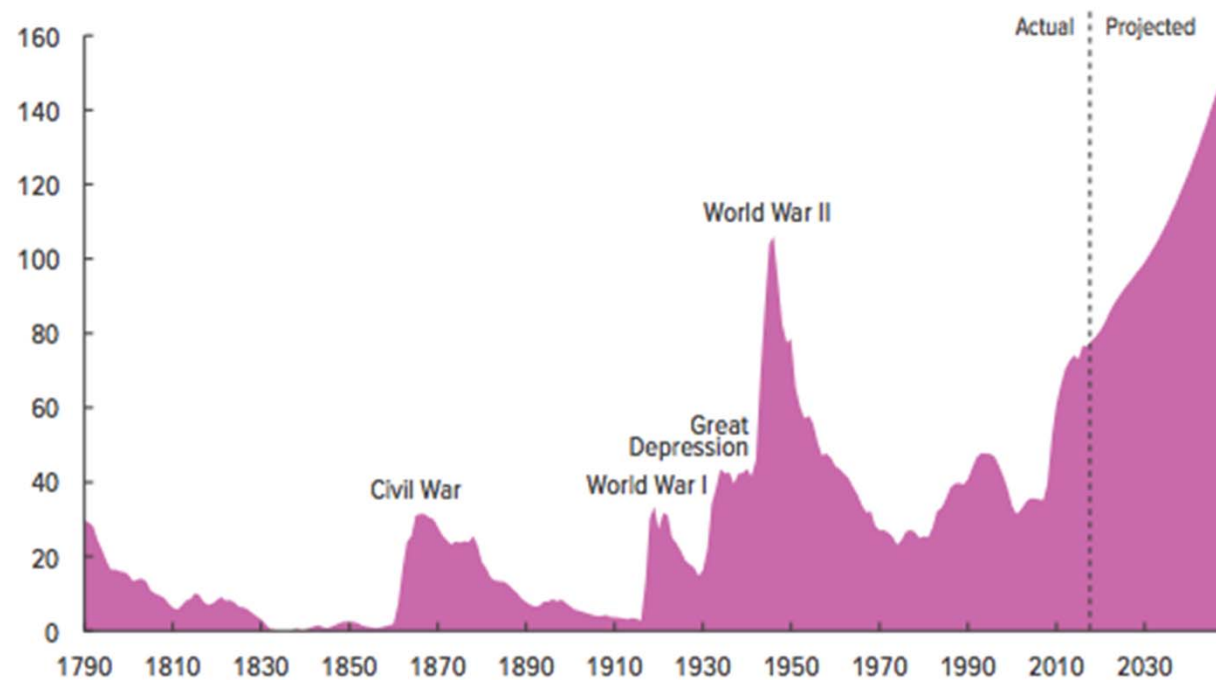
- **Yield Curve**
- **Government Debt**
- **Growth Abroad**
- **Income and Wealth Inequality**
- **Infrastructure**
- **Savings**
- **Policy Uncertainty**
  - Trade and immigration policy, especially



# Federal Government Debt Projections

## Federal Debt Held by the Public

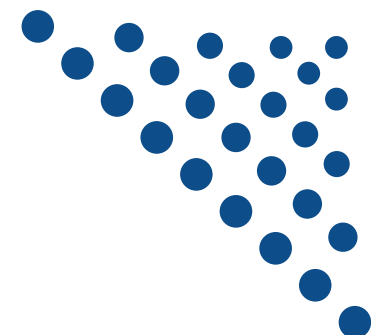
Percentage of Gross Domestic Product



High and rising federal debt would reduce national saving and income, boost the government's interest payments, limit lawmakers' ability to respond to unforeseen events, and increase the likelihood of a fiscal crisis.

Source: Congressional Budget Office.

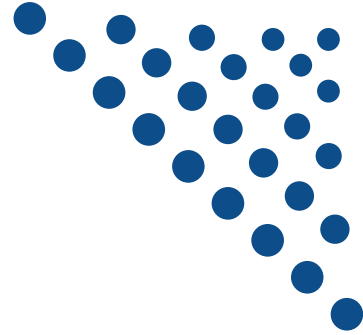




# Cautious Outlook

- Job growth remains robust
- Labor force is in decline
- Wage growth, but not too much
- Business investment is robust, but will uncertainty bite?
- Inflation and interest rates remain favorable
- Potential source of concern:
  - Auto and light truck sales are slowing
  - Home building is slowing

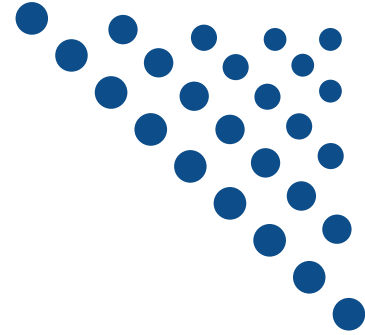
# Overall Summary



- **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?
- **Long term concerns unaddressed**
  - Demographics, climate change
  - Federal government debt
  - International trade policy

**Thank you!**

**Any Questions?**



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Mina Kim

[minakim@mkecon.com](mailto:minakim@mkecon.com)

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