



# US Economic Update

SIRs 146, Walnut Creek  
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National Economic Education Delegation



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## Outline

- **Recession – is we is?**
- **Inflation**
- **Federal Reserve**



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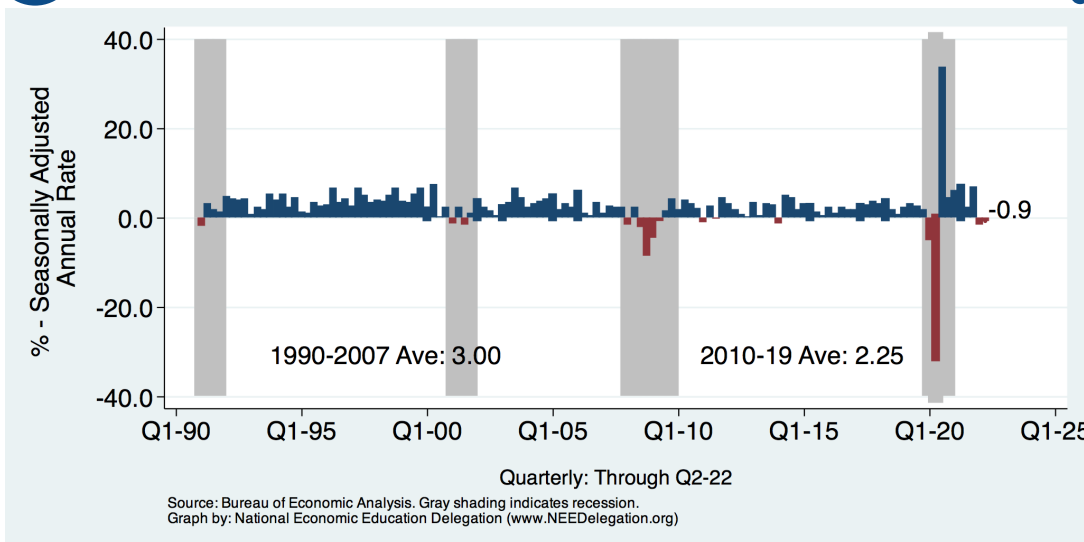
## Headline:

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

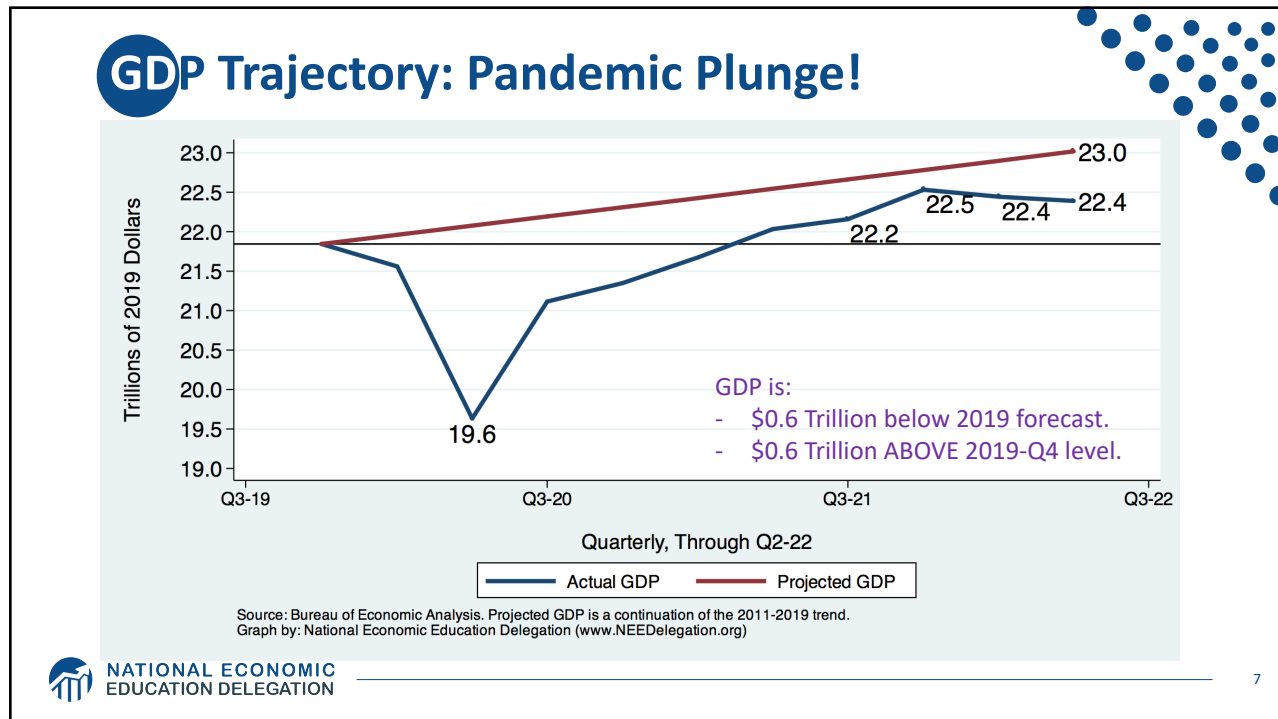
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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## GDP: Quarterly Growth



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## What Is “Accounting” for the Decline?

- **Expenditures drive GDP growth.**
  - GDP is the sum of four categories of spending:
    - Consumption
    - Investment – **housing/business/inventories**
    - **Government spending**
    - Net Exports: Exports – Imports

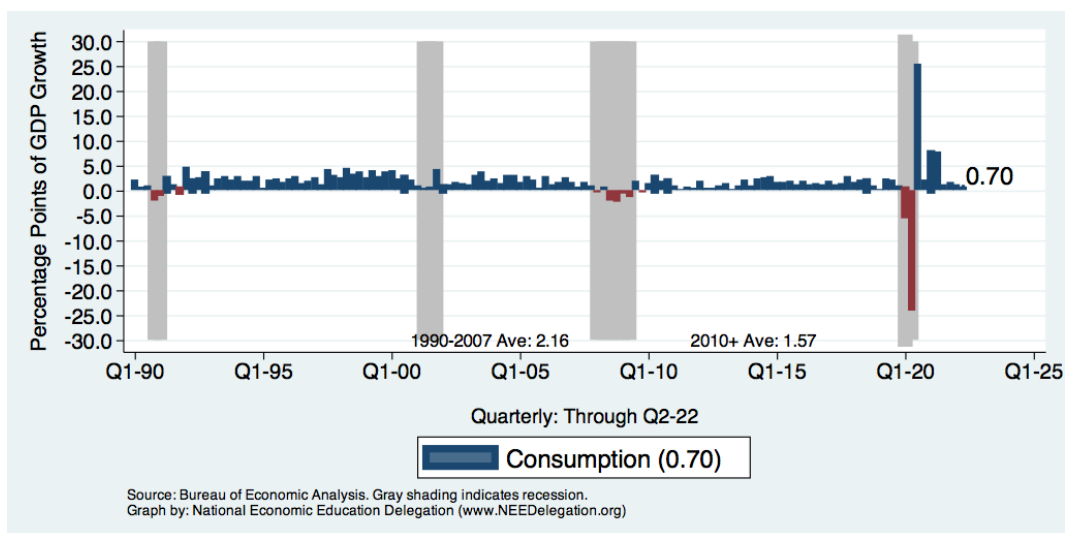
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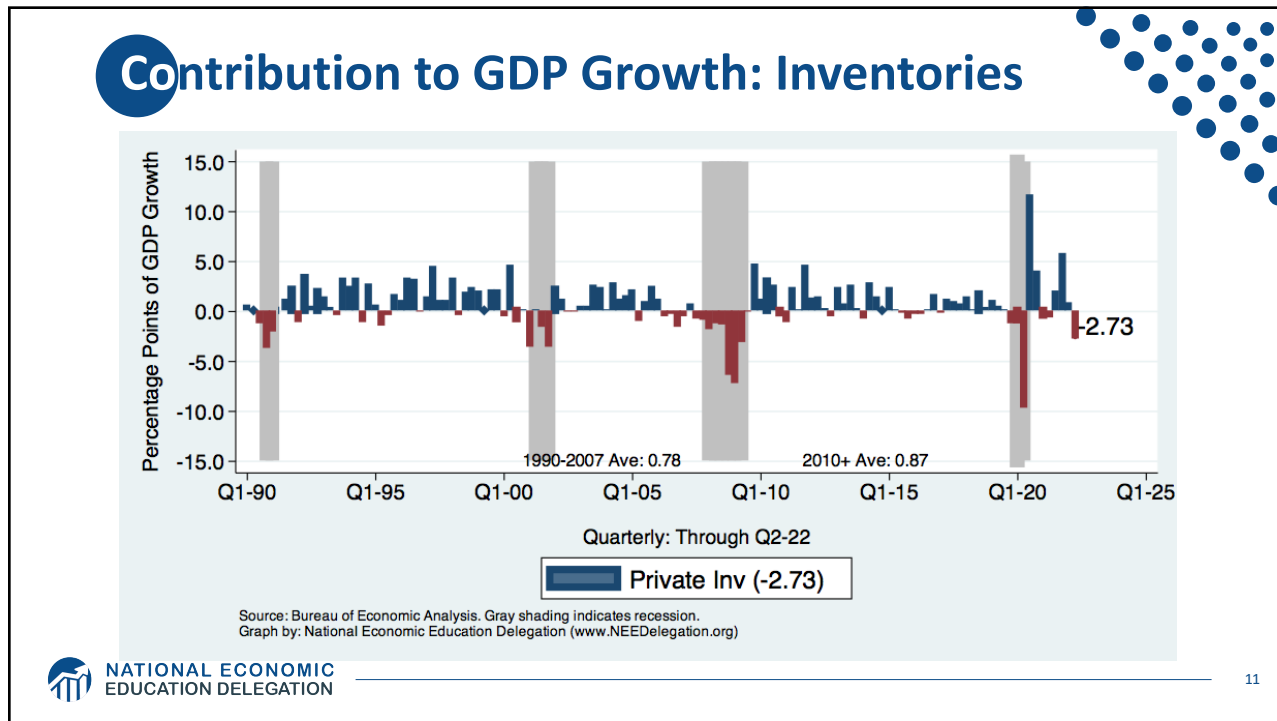
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## Recession? Two Quarters....

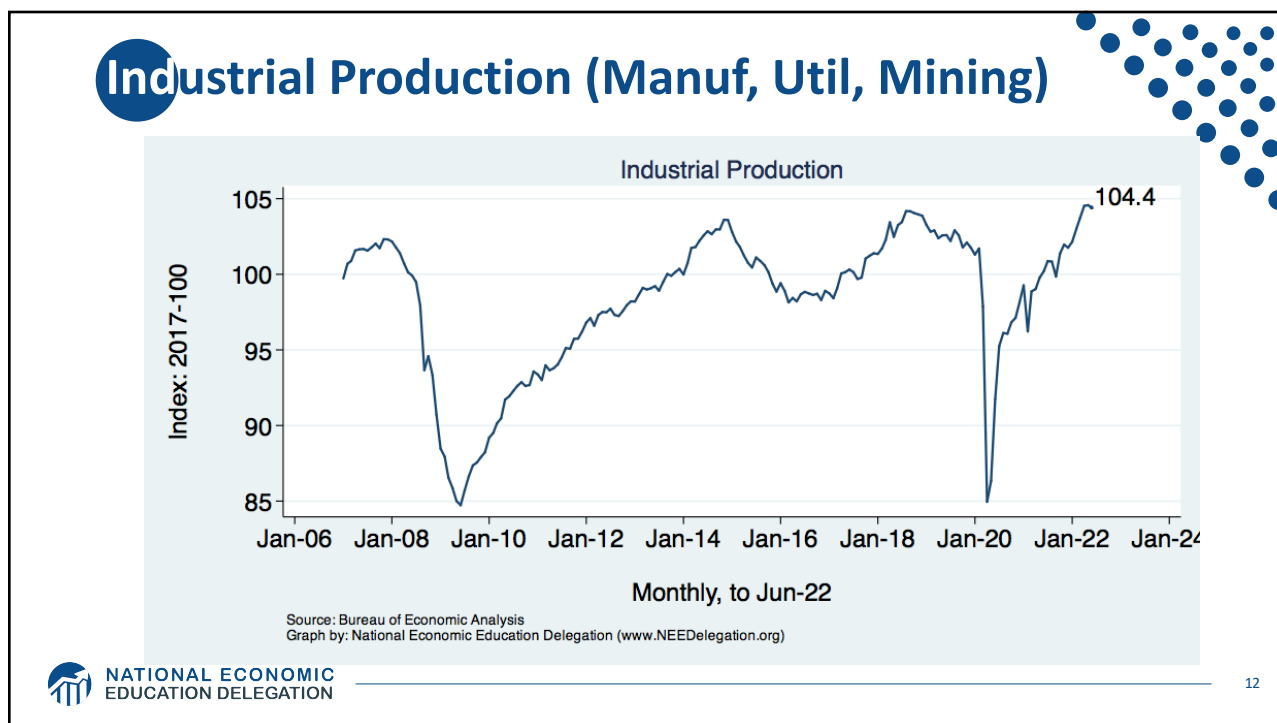
- **Depends on what is driving the drop.**
  - Inventories
  - Housing
  - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**

## Contribution to GDP Growth: Consumption



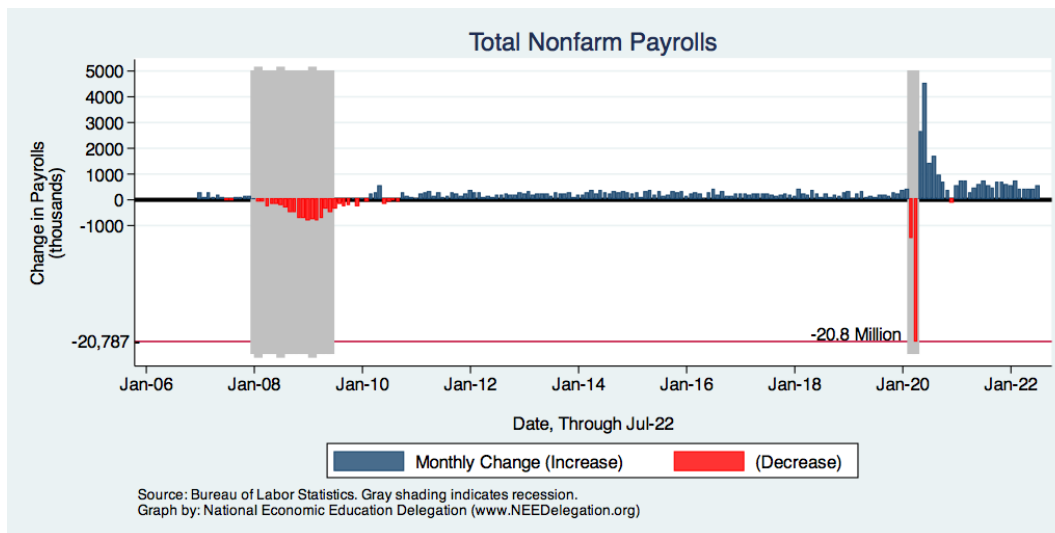


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# Monthly Changes in Nonfarm Employment

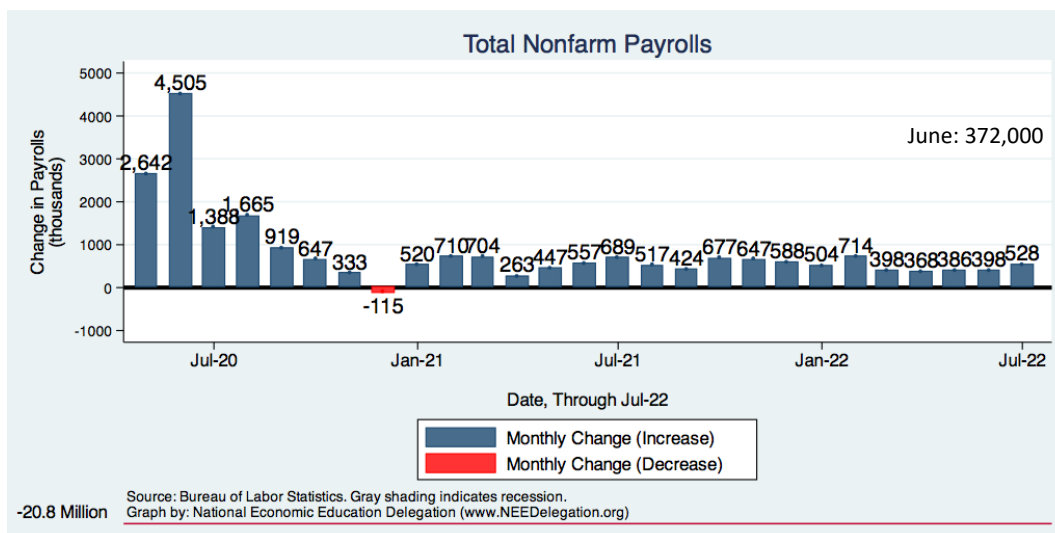


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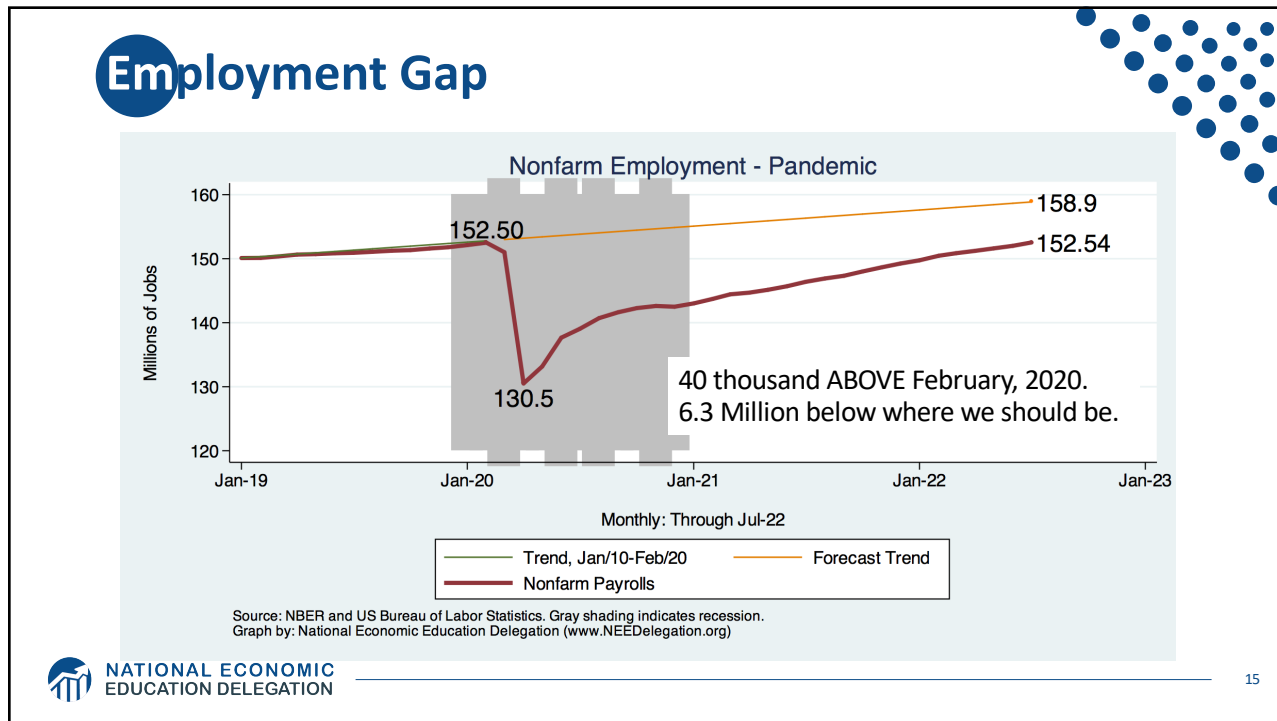
# Monthly Changes in Nonfarm Employment



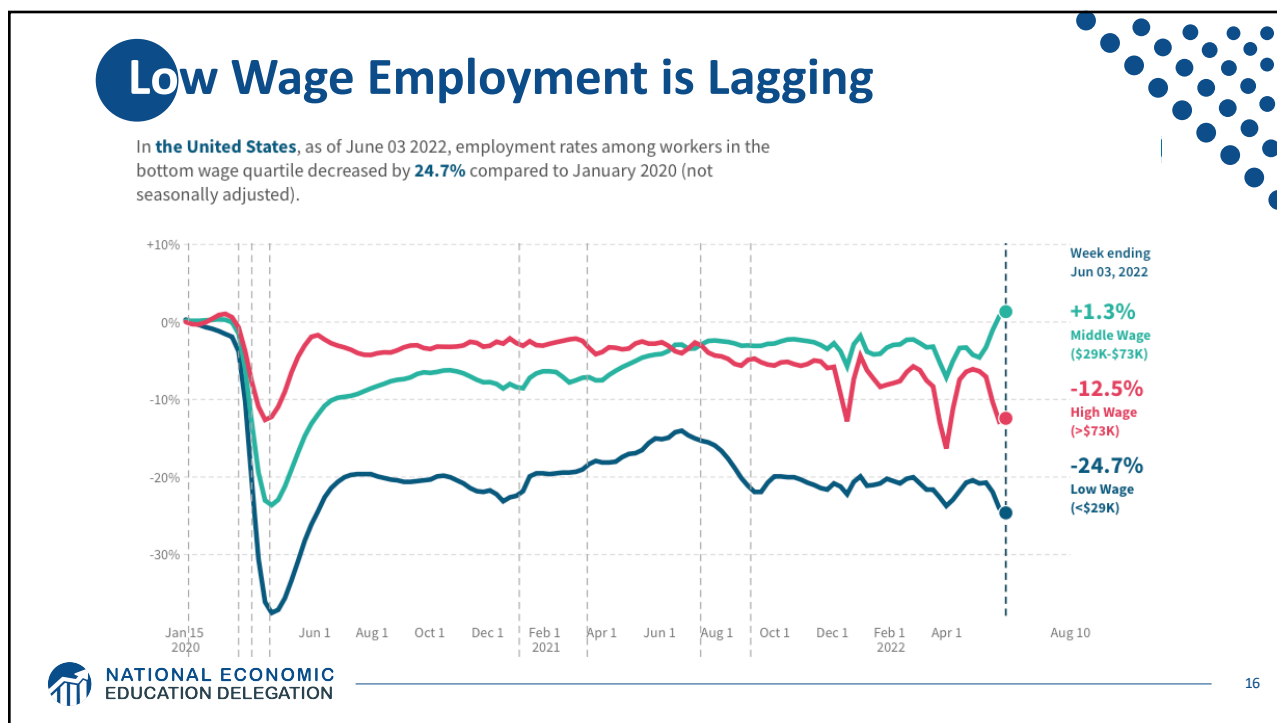
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# Inflation



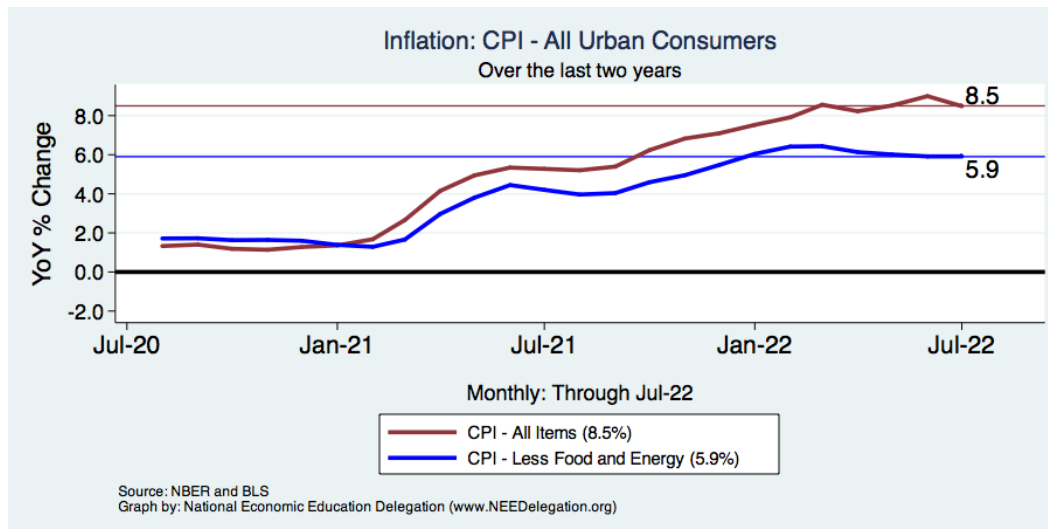
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## Inflation: Latest Figures



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## Inflation – Climbing! Should we worry?

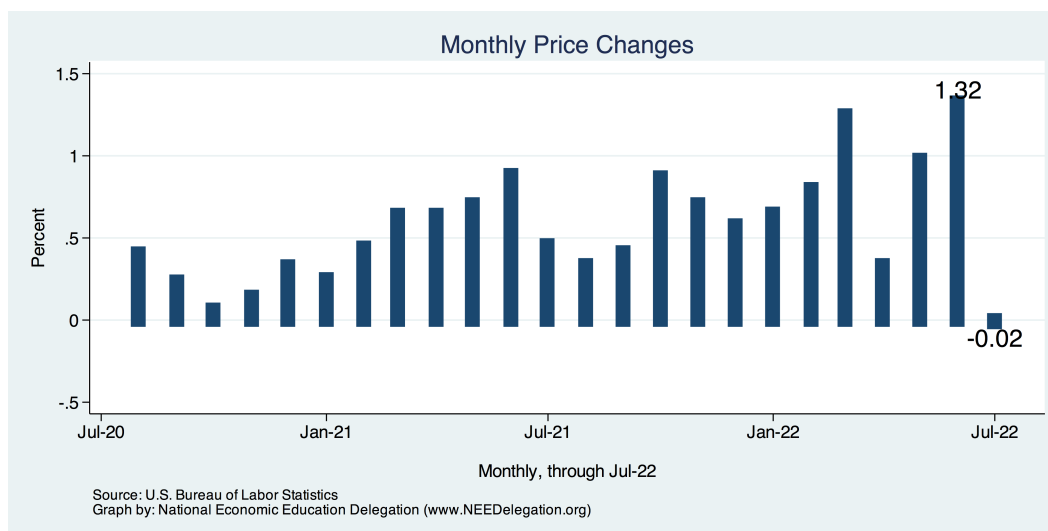


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## Inflation: ZERO from June to July

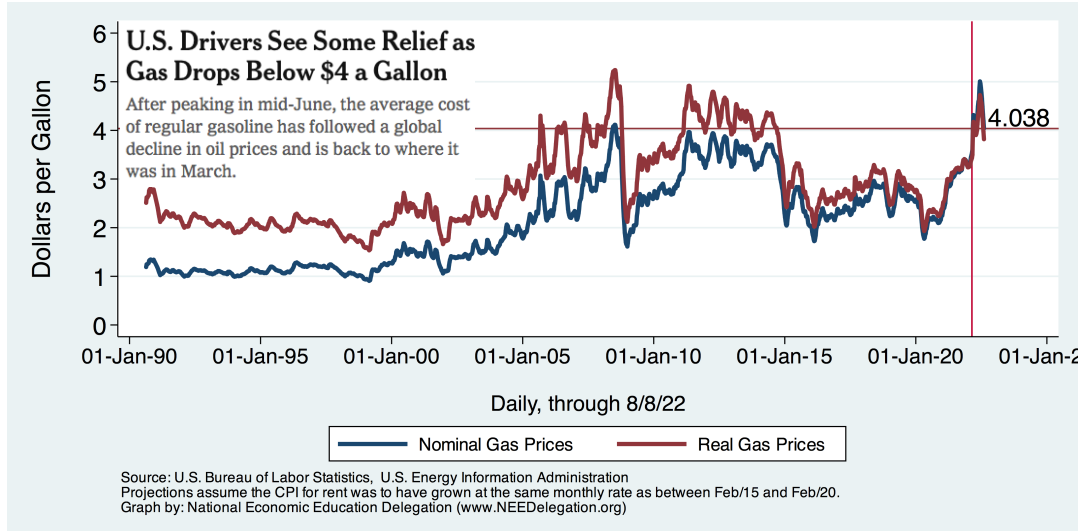


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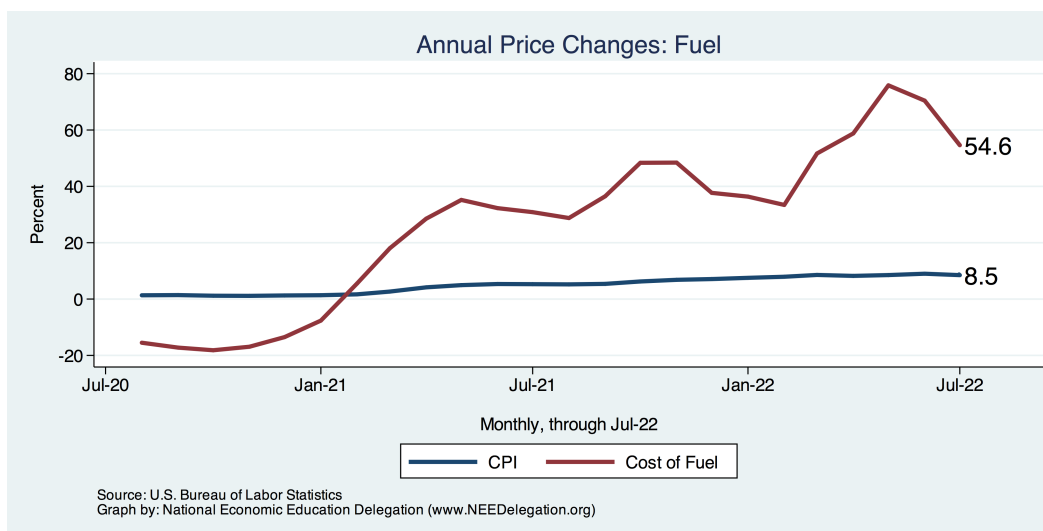
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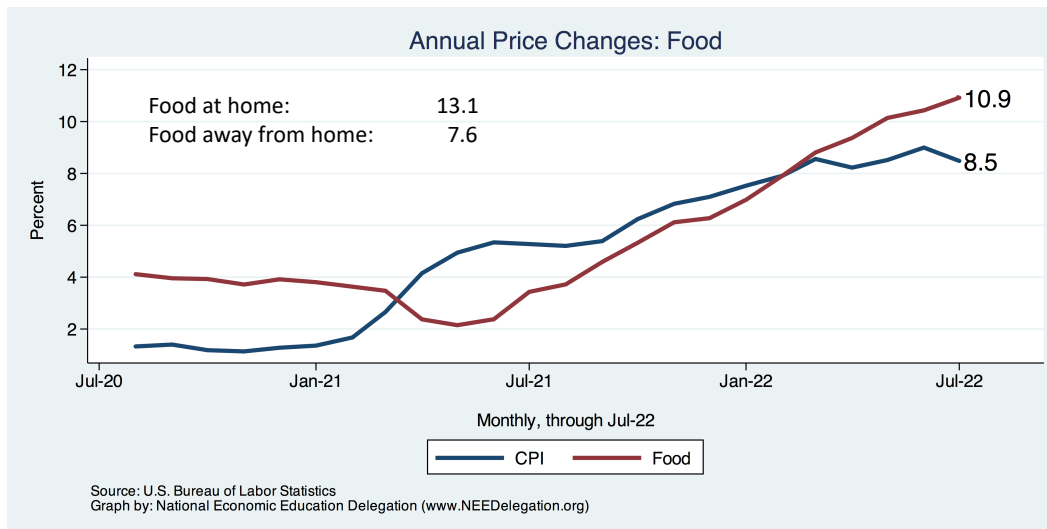
## Gas Prices: National Average at the Pump



## Fuel Costs Continue Are Still Elevated



# Food Costs Continue to Rise



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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.

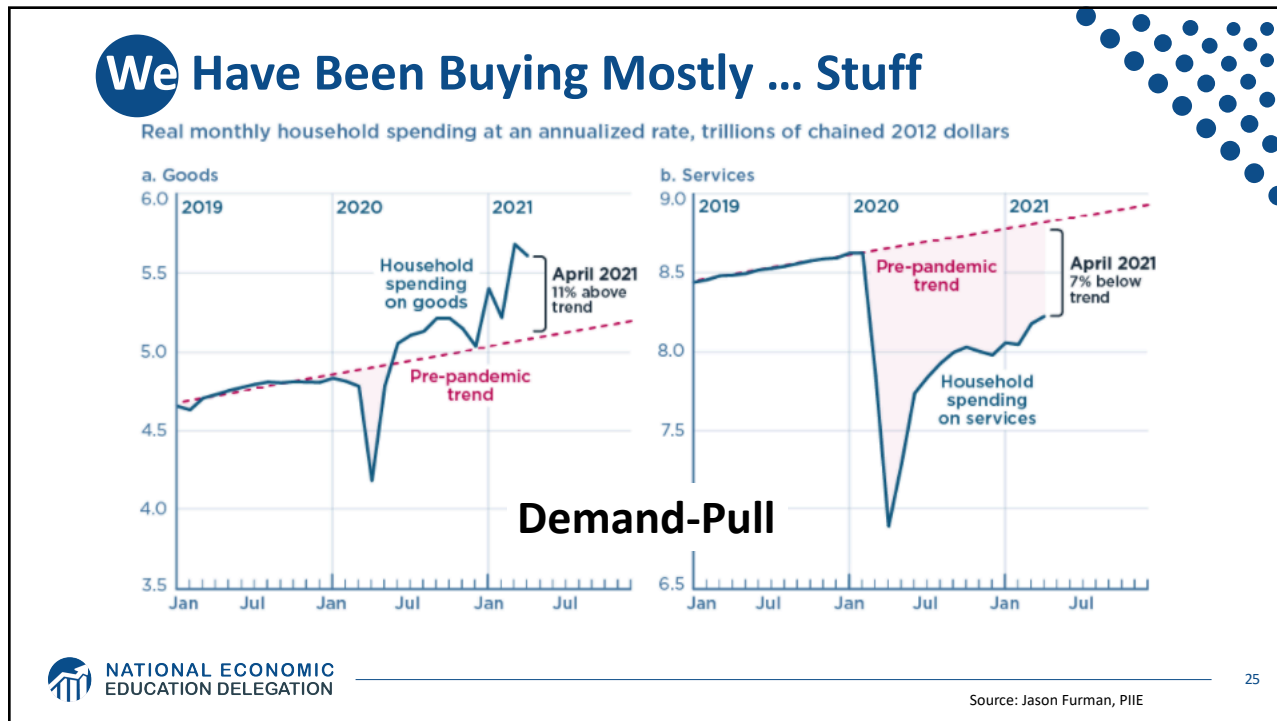
## Built-In



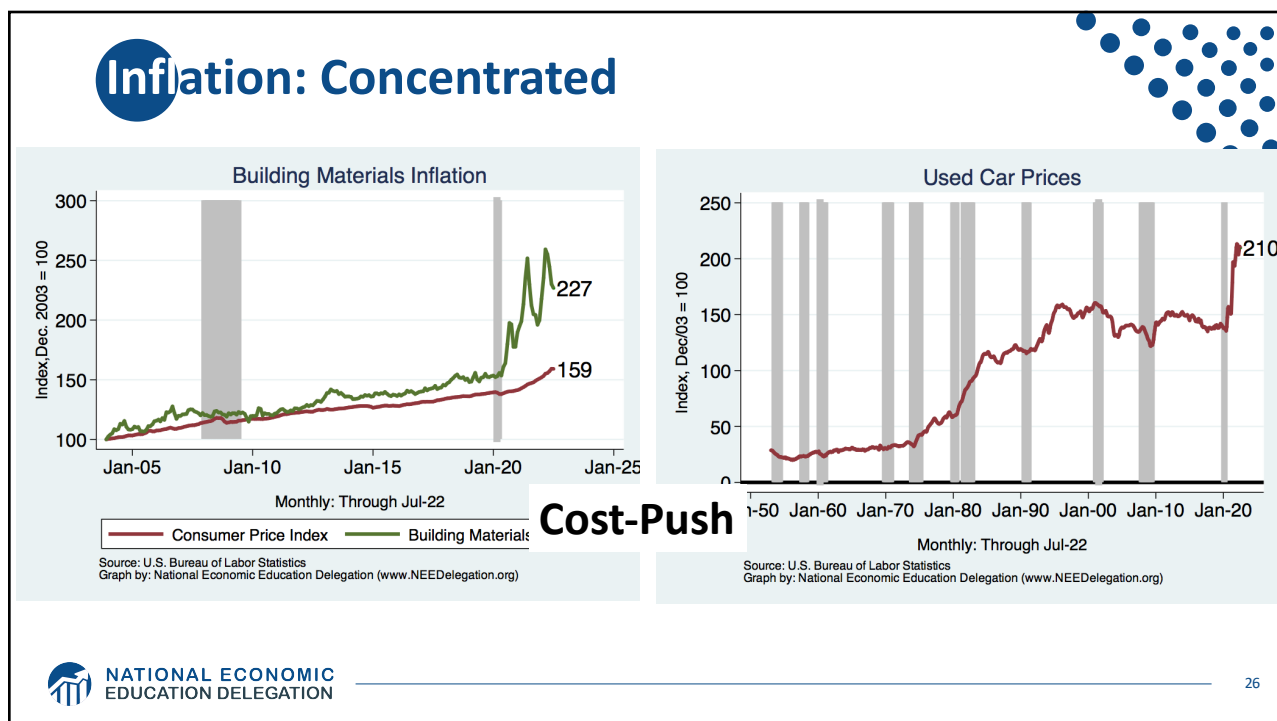
When prices rise, wages rise too, in order to maintain living costs.



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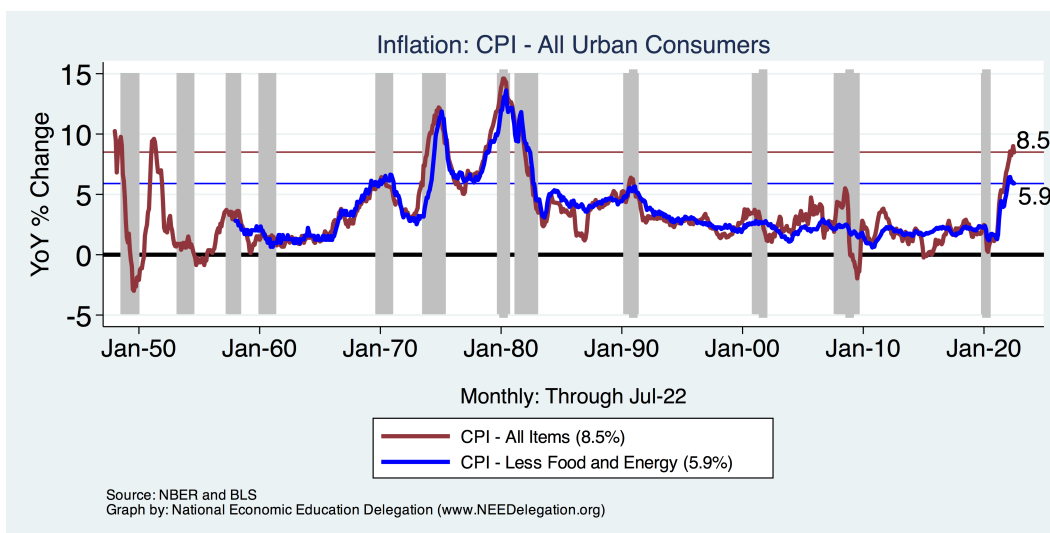
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# Supply Chains



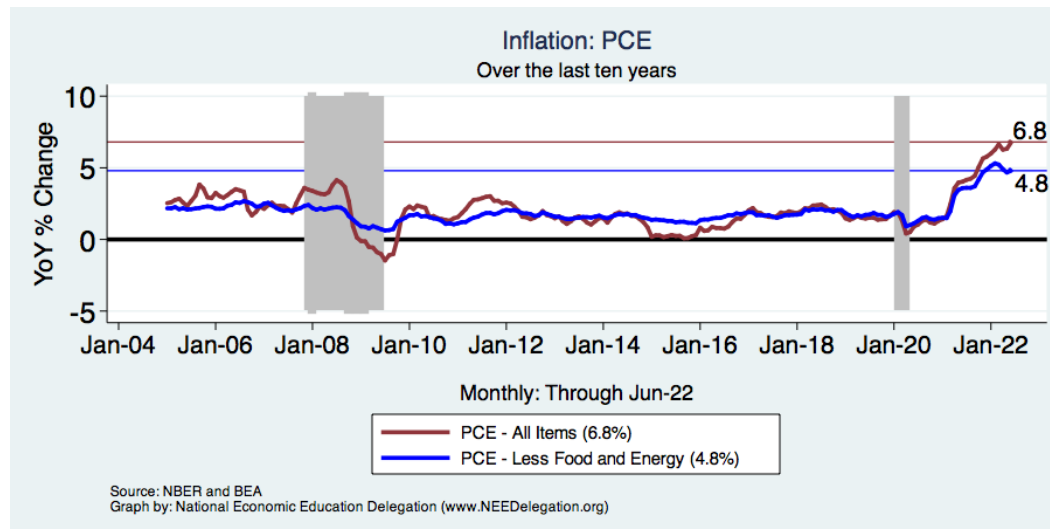
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# Inflation in Historical Perspective



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## Fed's Preferred Measure of Inflation



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## My Diagnosis for the Uptick in Inflation

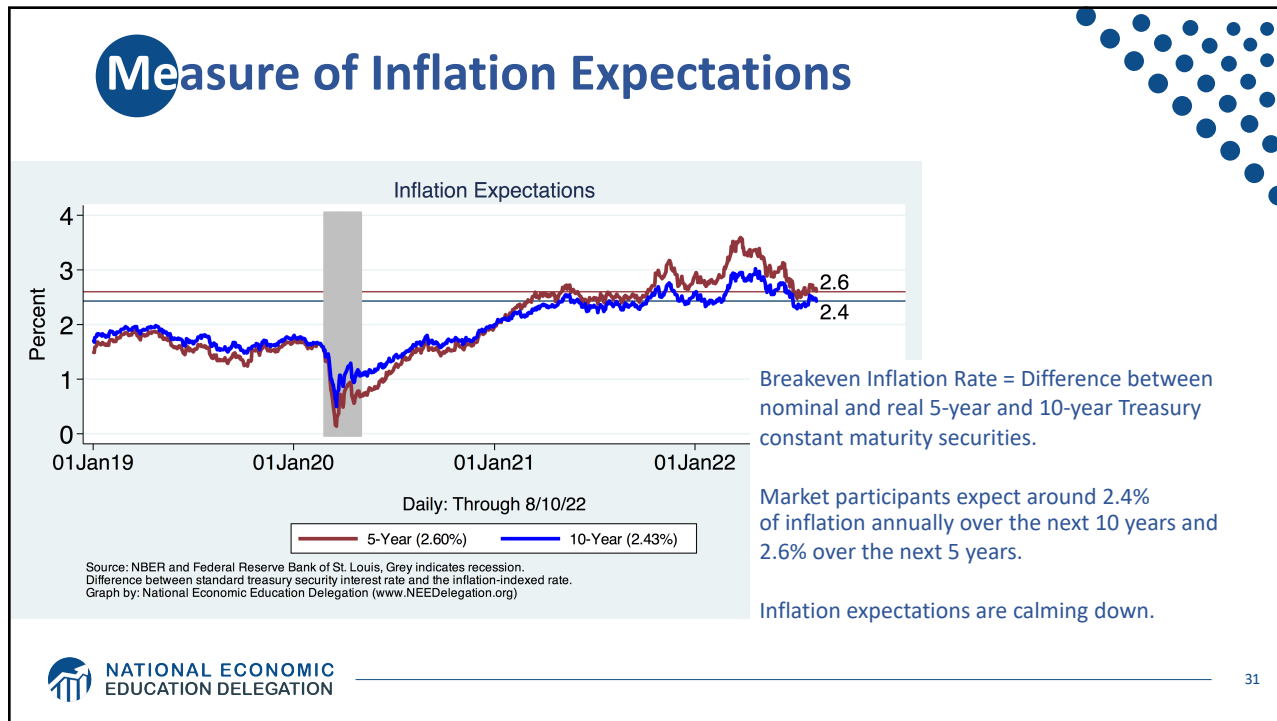
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.



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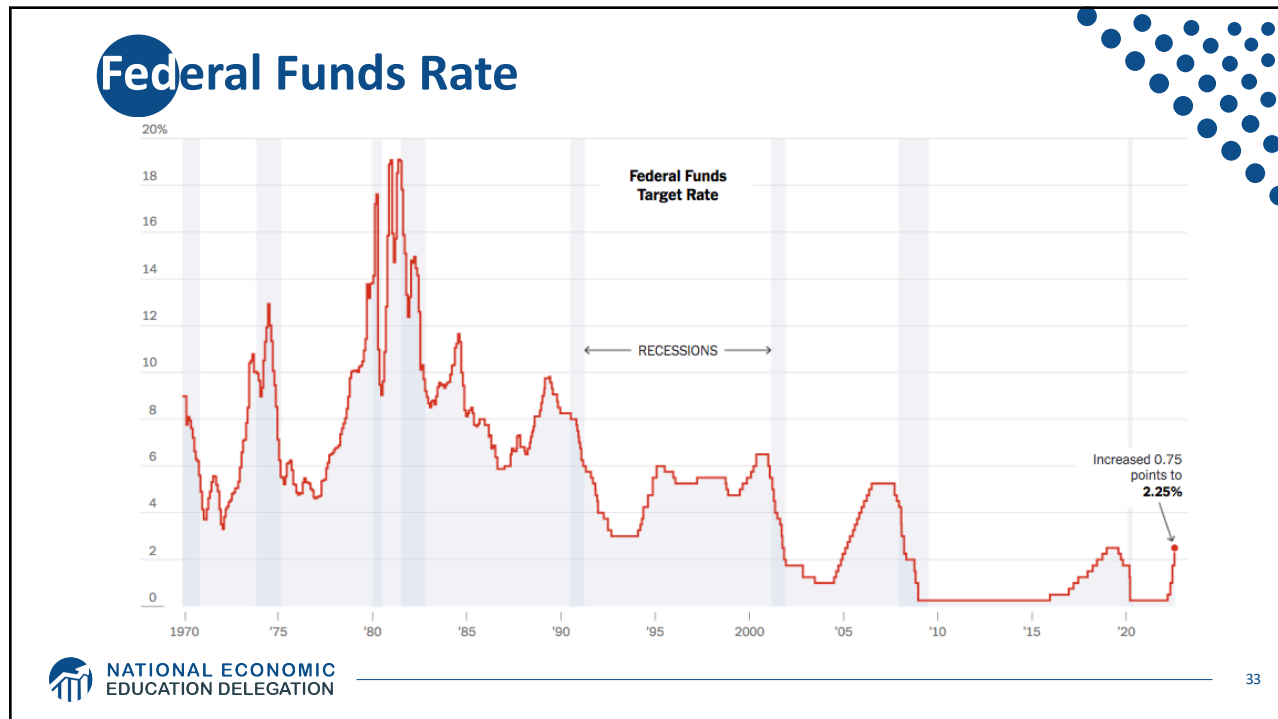
# What About the Fed?

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## Implications for Demand

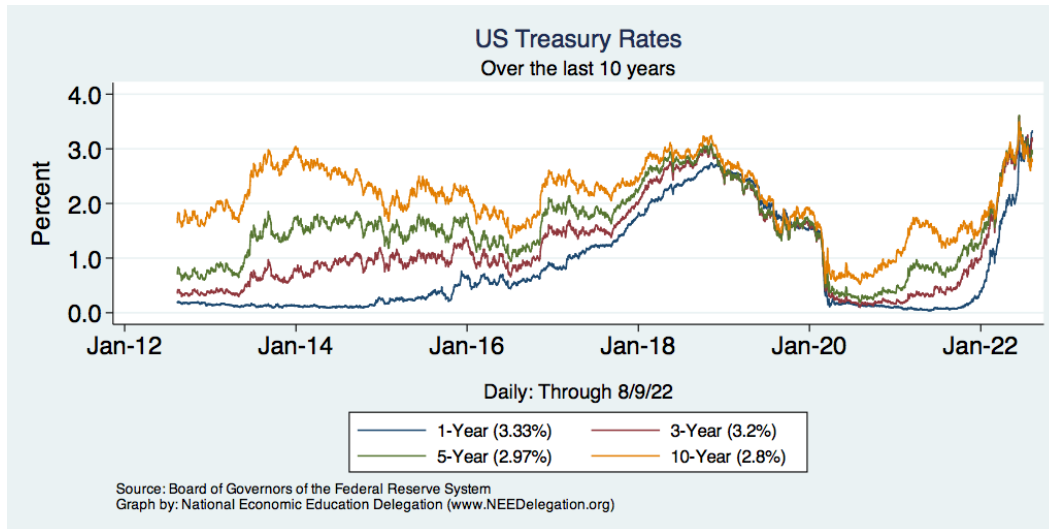
- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

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# Treasuries

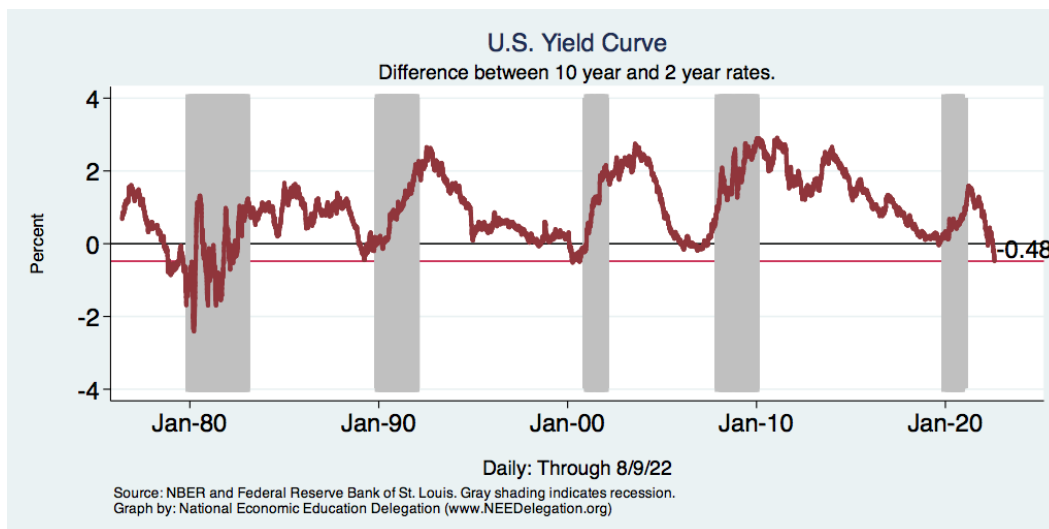


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# Alarming Compression of Interest Rates

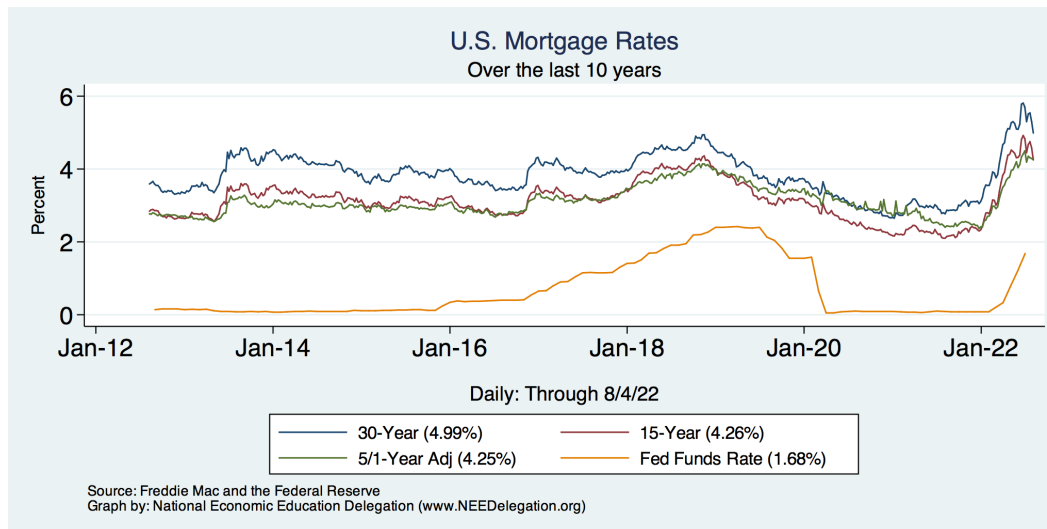


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## Mortgage Rates



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## Takeaways

### • Is a recession on the horizon?

- Larry Summers, Jamie Dimon, and Elon Musk are worried about a recession.
- While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
  - o Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
  - o Job creation remains robust – 528k in July.

### • What about GDP?

- 2022:Q1 was -1.6%, 2022:Q2 was -0.9.
- Much of this lower growth was driven by lower inventory.
  - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.



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**Thank you!**

## Any Questions?

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Detailed graphs on employment, housing, moves, and other statistics.



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