economic stuff

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outline of today’s talk

- current stance of the economy
- some really current
- policies affecting all of us
- policies affecting some of us
very current

- cpi this morning
  - no change, 2.2% y/y

- why is this interesting?
Inflation and Average Hourly Earnings
Percent change from a year ago
very current

- employment report last week

- employment last week ↑ 155,000
Net Payroll Employment Change
Thousands, SA

Source: BLS
very current

- productivity report last week

- output per hour ↑ 2.3%
Output per hour: Non–farm business

Econsnapshot.com

Source: BLS
economic update

- recovery is the 2nd longest in history

- sustained growth for nearly 10 years
what exactly is real gdp?

- it is all final goods and services produced in the US

\[ y = c + i + g + (x - m) \]

- and equals income and expenditures

- the real part means inflation taken out
world view

- a quick glance across the globe

- the good, the bad and the ugly
current growth has been strong

- the recovery has been steady
- but slowest on record
Real GDP

Peak before recession = 1

Source: BEA

Quarters after peak

Real GDP

Peak before recession = 1

1960 cycle
1969 cycle
1973 cycle
1981 cycle
1990 cycle
2001 cycle
Current cycle

Source: BEA
Real GDP
Log Real Per Capita GDP, 2012$, Seasonally Adjusted

Econsnapshot.com Source: BEA
Real GDP

- Quarterly change at an annual rate
- Year-over-year change

Econsnapshot.com Source: BEA

Percent

Year

2015: 3.3% 2.3%
2016: 1.5% 2.3%
2017: 1.9% 1.8% 1.8%
2018: 3% 2.8% 2.3% 2.2% 4.2% 3.5%
labor markets

- also slow and steady

- unemployment is low
  - black/african americans lowest on record (5.9%)
  - asians (2.7%)
  - women (3.8%) since 1950’s
Payroll Employment
Previous peak = 1.0, seasonally adjusted

months after the peak

Source: BLS
Payroll Employment
Previous trough = 1.00, Seasonally Adjusted

Months after the trough

Sources: BLS
speaking of employment growth...

- quiz

- since Gerald Ford, which president during their term created the most jobs starting at their inauguration?
Payroll Employment During Presidential Terms
Inauguration = 1.00, Seasonally Adjusted

Source: BLS
labor markets...

- how should we evaluate the labor market?
  - productivity and wages?
  - unemployment rates?
  - ease of getting a job?
Unemployed Persons (000’s) Vacancies, (000’s)
labor markets...CA

- over the last year all counties gained employment
  - well, except one
financial issues

- financial measures
  - net interest margins still low
  - return on average equity stabilized
  - loan loss reserves very low
  - non-performing loans very low
- so?
Net Interest Margin
Ratio of Tax-Adjusted Income to Average Earning Assets

Economic Forecast Project
Source: FRED Database
Net Interest Margin
Ratio of Tax-Adjusted Income to Average Earning Assets, Apr-01-2018

Economic Forecast Project
Source: FRED Database
Return on Average Equity
Ratio of Net Income to Average Stockholder Equity

Economic Forecast Project
Source: FRED Database
Loan Loss Reserve Ratio
Ratio of Loan Loss Reserve to Total Loans

Economic Forecast Project
Source: FRED Database
Non-Performing Loans Ratio
Ratio of Loans 90+ Days Past Due and Non-accrual to All Loans

Economic Forecast Project
Source: FRED Database
housing markets have mostly rebounded

- but grew at different rates

- and not that affordable
Zillow Home Value Index
Percent Difference from Pre-Recession Peak 1996-04-01

Economic Forecast Project
Source: Zillow
Zillow Home Value Index
Percent Difference from Pre-Recession Peak 1996-04-01

Economic Forecast Project
Source: Zillow
now...what can go wrong

- so all looks good...right?
- market interference
  - tariffs, for example
  - rent control
  - minimum wages
Potential impact of U.S.-China tariffs on gross domestic product

- Current projected growth
- Assuming 25% tariffs on $200 billion of imports to U.S. from China
- Assuming 25% tariffs on all imports to U.S. from China

Source: Citi Research
the economics of trade and tariffs

- dominating the headlines: tariffs and protectionism
  - washing machines, steel, aluminum? wtf?

- will this save jobs?
Protectionism

The battle of Smoot-Hawley

A cautionary tale about how a protectionist measure opposed by all right-thinking people was passed

Dec 18th 2008

EVEN when desperate, Wall Street bankers are not given to grovelling. But in June 1930 Thomas Lamont, a partner at J.P. Morgan, came close. "I almost went down on my knees to beg Herbert Hoover to veto the asinine Hawley-Smoot Tariff," he recalled. "That Act intensified nationalism all over the world."

Library of Congress

Hawley and Smoot, the bogeymen of trade
trade: myths and misconceptions

(1) protectionism saves jobs
   • it may save some jobs...at what cost?

(2) exports are good and imports are bad
   • why doesn’t Trump’s top trade guy get it?
     • Peter Navarro (UC Irvine!)
   • in 5 minutes you will know more than he
why trade?

- comparative advantage and specialization
- produce the relatively “cheap” good
- then trade for goods you want to consume
Peru: 1 shirt costs 1/3 app

US: 1 shirt costs 2/3 app
terms of trade

- suppose the world price is 1 shirt for 1/2 app

- how does this help the US?

- let’s see how it helps the US
terms of trade

- US specializes in apps
- they make apps
- but now can trade 1/2 app for 1 shirt
- they make 100 apps and trade all for 200 shirts
myth 2
bad trade accounting 101: Navarro

- $Y = C + I + G + (X - M)$
bad trade accounting 101: Navarro

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- but when we import a good we consume it!!!
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bad trade accounting 101: Navarro

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- import $3\text{ billion}$ more and export $1\text{ billion}$ more
  - what happens to gdp?
bad trade accounting 101: Navarro

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- \( Y = C + I + G + (X - M) \)
- import $3 billion more and export $1 billion more
  - what happens to gdp? up $1 billion
- now you know more than he!
so, what’s ahead

- fomc
- dot plot
Thank You