US Economy and Russia/Ukraine Conflict

Marin County Dept of Education
Property Tax Forum

May 12, 2022
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Executive Director, NEED

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 intended to reflect the consensus of the economics profession.
Who Are We?

• Honorary Board: 54 members
  - 2 Fed Chairs: Janet Yellen, Ben Bernanke
  - 6 Chairs Council of Economic Advisers
    o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    o Akerlof, Smith, Maskin

• Delegates: 651+ members
  - At all levels of academia and some in government service
  - All have a Ph.D. in economics
  - Crowdsource slide decks
  - Give presentations

• Global Partners: 49 Ph.D. Economists
  - Aid in slide deck development

Available NEED Topics Include:

• Coronavirus Economics
• US Economy
• Climate Change
• Economic Inequality
• Economic Mobility
• Trade and Globalization
• Minimum Wages

• Immigration Economics
• Housing Policy
• Federal Budgets
• Federal Debt
• Black-White Wealth Gap
• Autonomous Vehicles
• US Social Policy
Outline

• The U.S. Economy
• Inflation
• Russia/Ukraine
• Housing Markets

The U.S. Economy

The Role of the Pandemic versus Policy Adjustments? And what now?
GDP Trajectory: Pandemic Plunge!

GDP is:
- $0.4 Trillion below 2019 forecast.
- $0.6 Trillion ABOVE 2019-Q4 level.

Source: Bureau of Economic Analysis. Projected GDP is a continuation of the 2011-2019 trend.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)
Monthly Changes in Nonfarm Employment

Total Nonfarm Payrolls

Date, Through Apr-22

Monthly Change (Increase)  Monthly Change (Decrease)


Graph by: National Economic Education Delegation (www.NEDElegation.org)
Employment Changes - US

- Mining and logging
- Construction
- Manufacturing
- Wholesale trade
- Retail trade
- Transportation and warehousing
- Utilities
- Information
- Financial activities
- Professional and business services
- Education and health services
- Leisure and hospitality
- Other services
- Government

Source: New York Times

Employment Gap

Nonfarm Employment - Pandemic

1.2 Million below February, 2020.
6.9 Million below where we should be.

Graph by: National Economic Education Delegation (www.NEEDelegation.org)
Trends in Labor Force Participation

- 0.6 Million below February, 2020.
- 3.9 Million below where we should be.

Monthly, Through Apr-22

0.6 Million below February, 2020.
3.9 Million below where we should be.

Fiscally Driven Recovery

Sources of Personal Income

Trillions of Constant 2012 Dollars

- Before Tax Income
- After Tax Income

Monthly, through Feb-22

Source: Bureau of Economic Analysis.
Graph by: National Economic Education Delegation (www.NEDElegation.org)
Households Lead the Way

Spending and Saving

Abnormally high savings may be as much as $2.8 Trillion.

Source: Bureau of Economic Analysis.
Graph by: National Economic Education Delegation (www.NEDElegation.org)

Overall Households Are Doing Well

Household Net Worth

Source: Financial Accounts of the United States, Federal Reserve Board via Haver Analytics
K-Shaped Recovery

Percent Change in Employment*

Data source: Cohn, R., & Krueger, P. (2022).

Stimulus Payments Saved Low Income Families

Percent Change in All Consumer Spending*

Data source: Affinity.
Inflation

Inflation News

Change in Prices From Year Before

+8.3% in April

Food and Fuel are A Big Part of the Story

Inflation: CPI - All Urban Consumers
Over the last two years

![Graph showing inflation trends over the last two years.]

- CPI - All Items (8.2%)
- CPI - Less Food and Energy (6.1%)

Source: NBER and BLS
Graph by: National Economic Education Delegation (www.NEEDelegation.org)


Inflation: PCE
Over the last two years

![Graph showing inflation trends over the last two years.]

- PCE - All Items (6.6%)
- PCE - Less Food and Energy (5.2%)

Source: NBER and BEA
Graph by: National Economic Education Delegation (www.NEEDelegation.org)
We’re Buying Mostly ... Stuff

Real monthly household spending at an annualized rate, trillions of chained 2012 dollars

Source: Jason Furman, PIIE
Goods are Driving Inflation

Inflation: PCE - Goods and Services

Over the last two years

Y/Y % Change

Apr-20 Oct-20 Apr-21 Oct-21 Apr-22

10.6
4.5

Monthly: Through Mar-22
- PCE - Goods (10.6%)
- PCE - Services (4.5%)

Source: NBER and BEA
Graph by: National Economic Education Delegation (www.NEDElegation.org)

Inflation: Concentrated

Building Materials Inflation

Cost-Push

Used Car Prices

Monthly: Through Mar-22

Monthly: Through Apr-22

Source: U.S. Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEDElegation.org)
Corporate Profits...Adding to Inflation?

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 is too much total spending and in the absence of bold Fed actions is likely to continue.
- 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.

Measure of Inflation Expectations

Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.8% of inflation annually over the next 10 years and 3.1% over the next 5 years.

Inflation expectations are calming down.
Russia/Ukraine(/Belarus)

Consequences for the Global Economy

• Primarily:
  - Oil
  - Wheat

• Why?
  - Major suppliers of each
    o 29% of world wheat production
    o 20-40% of Europe’s oil and gas
    o Russia part of OPEC+
  - Russian and Ukrainian combined economies are small.
    o Don’t forget Belarus.
The Conflict in Ukraine and the US Economy

- **Short run**
  - Uncertainty
  - Recession?
  - Increase in cost of food and fuel

- **Long run**
  - Decrease in globalization

Supplies Shocks: Then and Now

Historical Oil Price **adjusted** for Inflation.

$99.76 on May 10/22

Source: macrotrends.net
Gas Prices at the Pump

Wheat Prices Also Look Scary

Wheat Futures Prices NOT Adjusted for inflation.

$10.93 on May 10/22.

Source: macrotrends.net
Grains

**Breadbasket to the World**
Russia and Ukraine account for a quarter of global grains trade

- 40m tons Brazil
- 52m tons EU
- 56m tons Argentina
- 80m tons Other
- 102m tons Russia and Ukraine
- 94m tons U.S.

Source: International Grains Council
Note: Estimates for the 2021-22 season, for wheat and coarse grains

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**Oh, and...**

- **40% of the world’s PALLADIUM comes from Russia.**
  - Used in catalytic convertors.

- **70% of the world’s NEON comes from Ukraine.**
  - Used in production of semiconductors.

- **Fertilizer: Russia is the world’s largest supplier.**
  - Prices are 3-4x their 2020 levels.

- **Therefore: more supply chain issues, more inflation, food insecurity.**
Real Estate Prices

Estimated Median Home Value in California

Monthly: Through Mar-22

- California
- United States

Source: Zillow Housing Data, https://www.zillow.com/research/口径/
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

RE Experiences Differ!

Estimated Median Home Value
- In San Francisco County, CA
- In Marin County, CA

Monthly: Through Mar-22

- San Francisco County
- Marin County
- California
- United States

Source: Zillow Housing Data, https://www.zillow.com/research/口径/
Produced by: National Economic Education Delegation (www.NEEDelegation.org)
**Interest Rates are Rising!**

U.S. Mortgage Rates
Over the last 10 years

Daily: Through 5/5/22

- 30-Year (5.27%)
- 15-Year (4.52%)
- 5/1-Year Adj (3.96%)
- Fed Funds Rate (.33%)

Source: Freddie Mac and the Federal Reserve
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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**Marin’s Home Price Position**

<table>
<thead>
<tr>
<th>County</th>
<th>Median Home Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Mateo</td>
<td>1,741,991</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>1,680,570</td>
</tr>
<tr>
<td>San Francisco</td>
<td>1,809,126</td>
</tr>
<tr>
<td>Marin</td>
<td>1,594,457</td>
</tr>
<tr>
<td>Alameda</td>
<td>1,257,516</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>973,180</td>
</tr>
<tr>
<td>Napa</td>
<td>910,270</td>
</tr>
<tr>
<td>Sonoma</td>
<td>768,696</td>
</tr>
<tr>
<td>Solano</td>
<td>618,719</td>
</tr>
</tbody>
</table>

Median Home Values - Mar-22
Home Price Appreciation w/in Marin

Marin Average Home Value in 3/2022: $1,594,627
Marin Average Annual Growth: 5%
Sorted by Ave Annual Growth

Employment Situation: Marin County

Employment Situation Marin County, CA

Employment Growth in Marin County, CA

Month: Through Mar-22

Produced by: National Economic Education Delegation (www.NEDElegation.org)
Employment Situation: Marin County

Unemployment Rate in Marin County, CA

- Marin County: 2.3%
- California: 4.9%
- United States: 3.6%

Monthly: Through Mar-22

Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Labor Force Growth in Marin County, CA

- Marin County: 94.2%
- California: 97.9%
- United States: 99.9%

Monthly: Through Mar-22

Produced by: National Economic Education Delegation (www.NEEDelegation.org)

www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.
State Budget

- January: $268 Billion budget proposed.
- Surplus has grown to $68 Billion from $31 Billion since then.
- Bodes well for education spending. Why?
  - State Appropriations Limits (SAL) from Proposition 4 (1979)
    - Revenues above the limit must be split between rebates and additional spending on schools.
- Regardless of revenues, because of the SAL, could have budget appropriations problems.

Conclusion

- GDP will likely expand about 4% in 2022.
  - Completing the recovery.
- Employment is still lagging.
- Real estate markets likely to cool.
  - Expect much slower rates of appreciation going forward
- Biggest problems:
  - Supply chain bottlenecks.
  - Labor force participation.
  - Russian invasion of Ukraine.
- There is much uncertainty.
- Budget: Proposition 4 (1979) suggests growing state spending.
Thank you!

Any Questions?

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