LECTURE SIX - PART FOUR

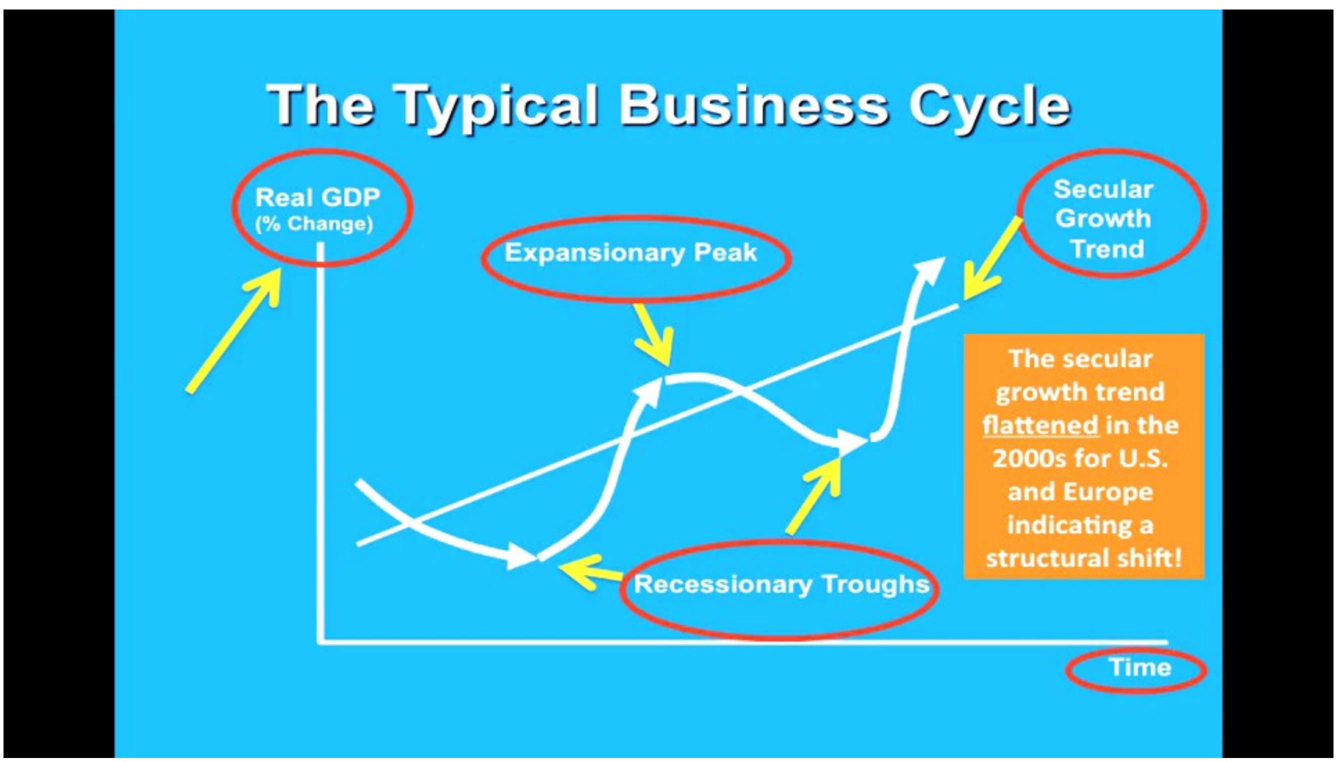
It's Structural, Not Cyclical!

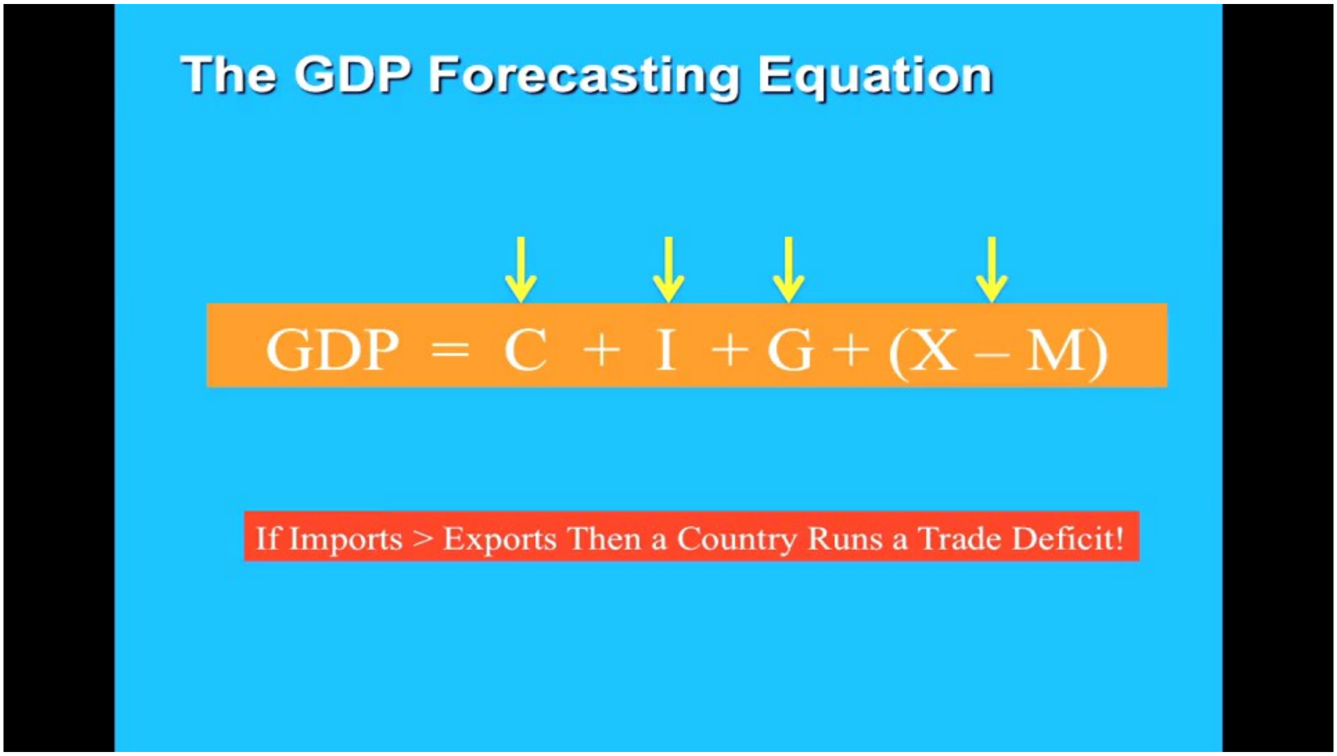
Key Point
Many macroeconomists failed to understand the underlying structural nature of the slow GDP and wage growth problems that emerged in the 2000s.

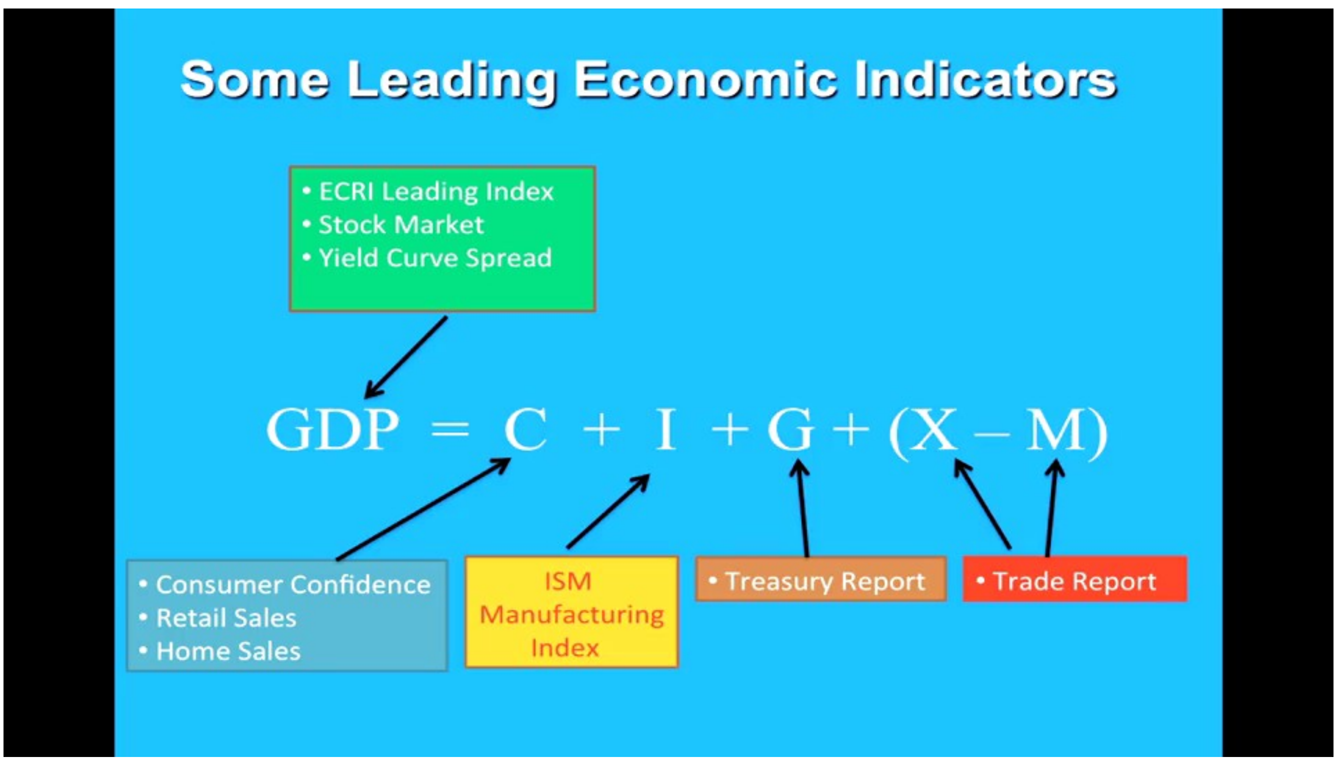
Next Goals

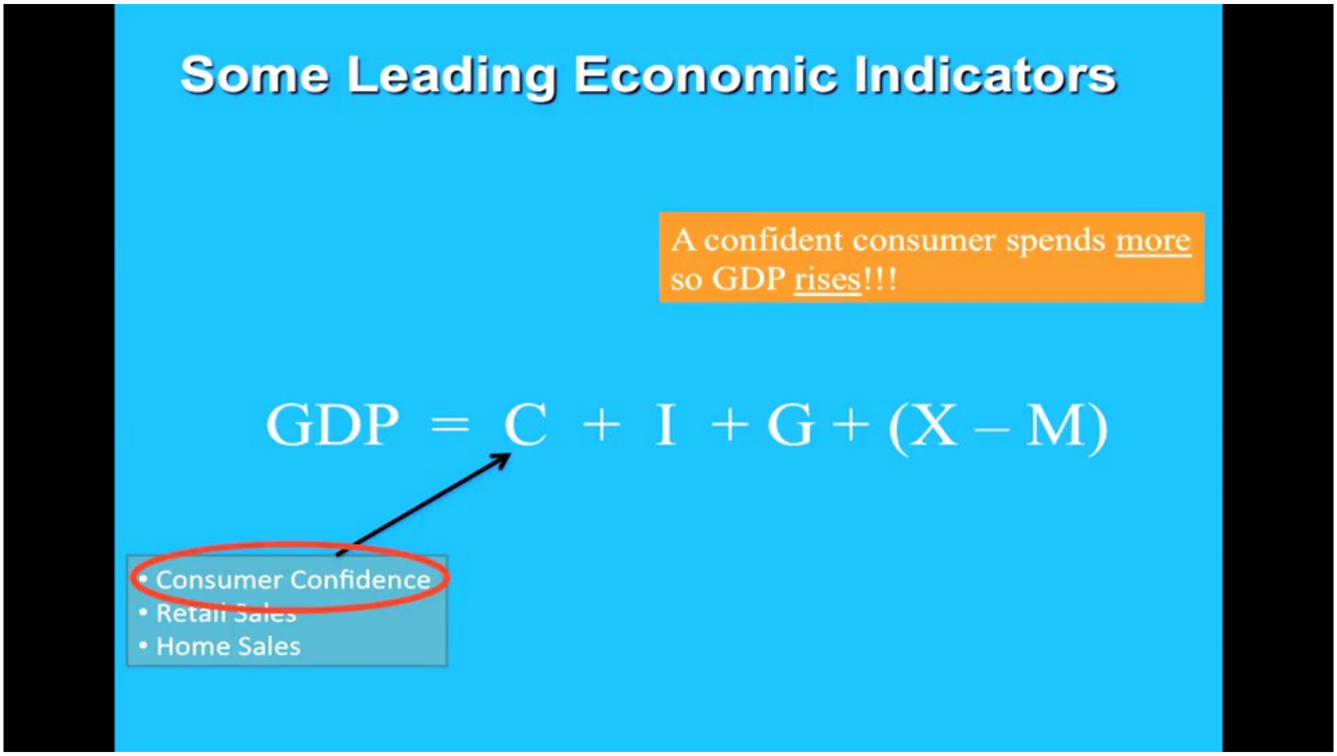
1. Understand how all economies grow.

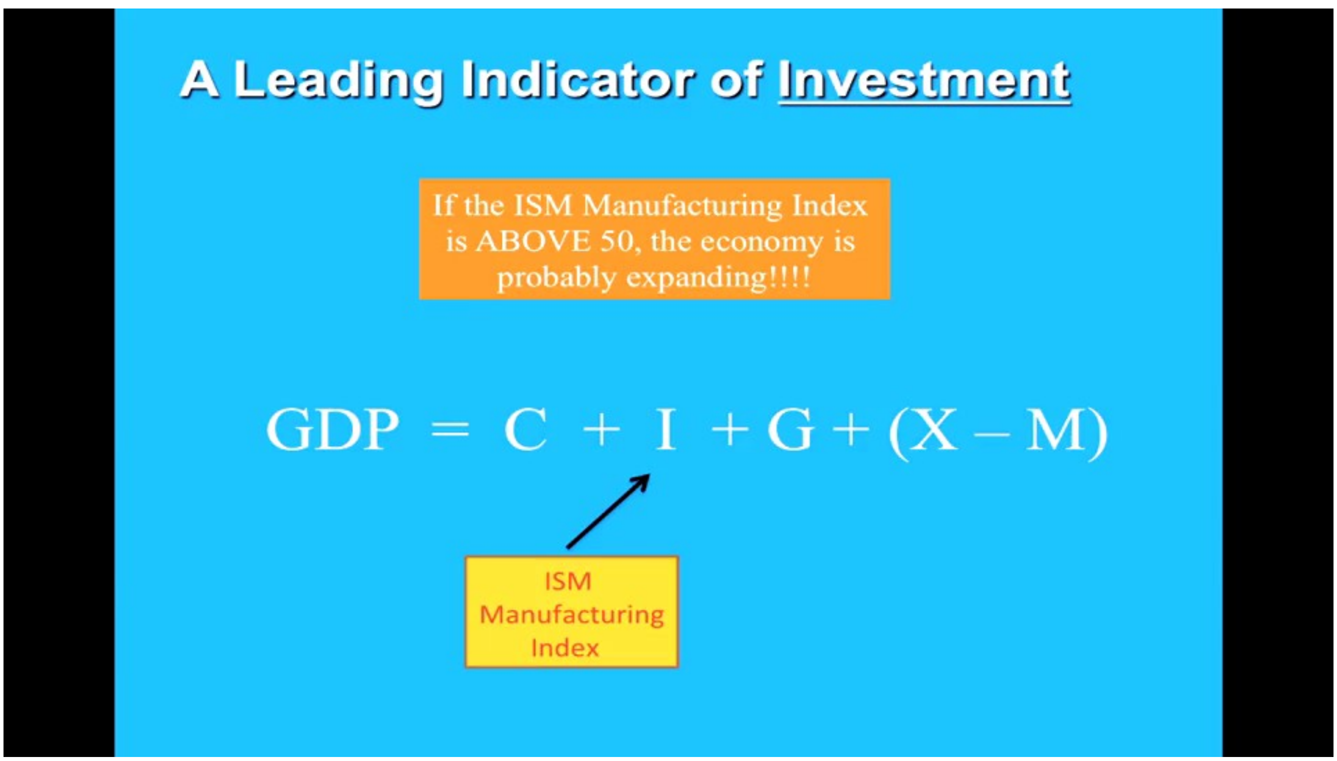
2. Learn how to plot – and forecast! – movements in the business cycle.




The GDP Forecasting Equation
GDP = C + I + G + (X – M)
If Imports > Exports Then a Country Runs a Trade Deficit!


Some Leading Economic Indicators
• ECRI Leading Index
• Stock Market
• Yield Curve Spread
GDP = C + I + G + (X – M)
• Consumer Confidence
• Retail Sales
• Home Sales
ISM Manufacturing Index
• Treasury Report
• Trade Report


Some Leading Economic Indicators
A confident consumer spends more so GDP rises!!!
GDP = C + I + G + (X – M)
• Consumer Confidence
• Retail Sales
• Home Sales


A Leading Indicator of Investment
If the ISM Manufacturing Index is ABOVE 50, the economy is probably expanding!!!!
GDP = C + I + G + (X – M)
ISM Manufacturing Index

Why Inflation Matters in Forecasting!

- Consumer Price Index (CPI)
- Producer Price Index (PPI)

$$GDP = C + I + G + (X - M)$$

- If the CPI indicates inflation, the Federal Reserve might raise interest rates to slow GDP growth!
- This is VERY good forecasting information to have!

Structural Problem:
Trade Deficits and Offshoring Subtract From GDP Growth!!!

Key Point #2
Offshoring SUBTRACTS points from the GDP!

$$GDP = C + I + G + (X - M)$$

Key Point #3
Much of the offshoring has gone to China.

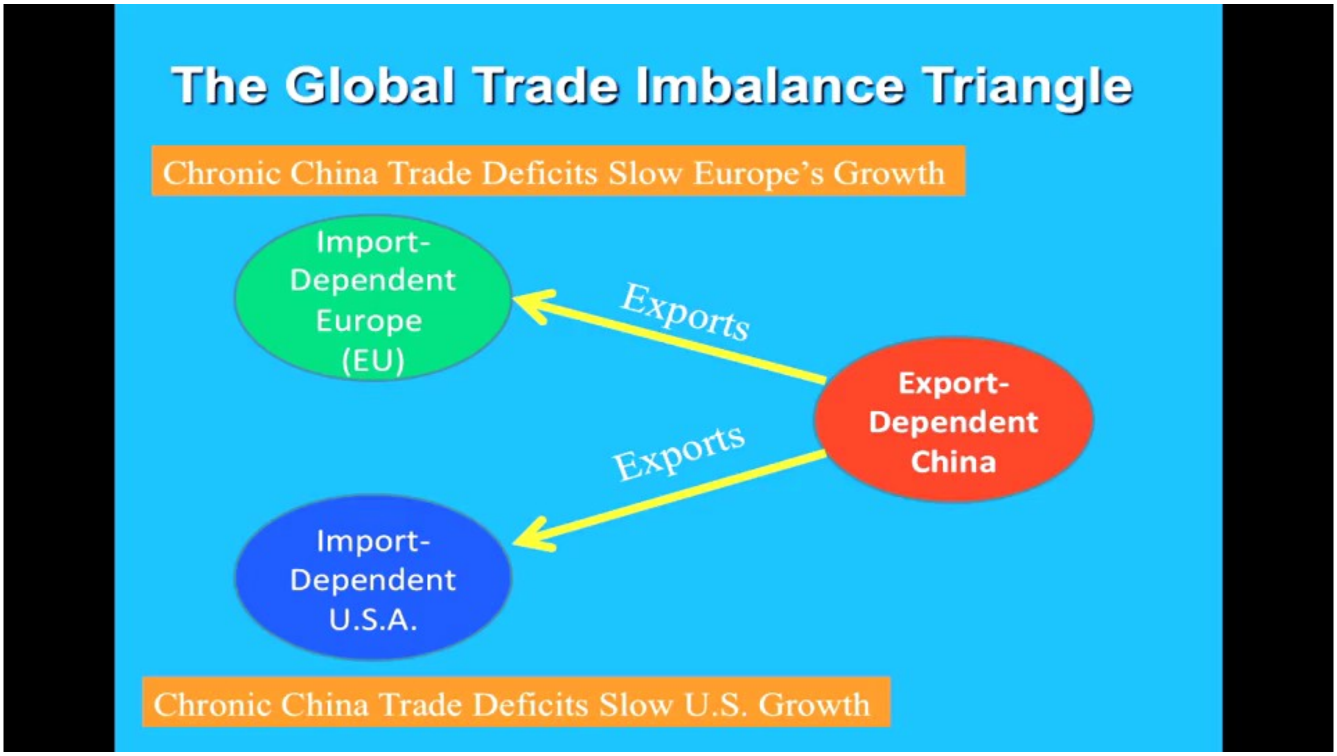
Key Point #1
A trade deficit SUBTRACTS points from the GDP!

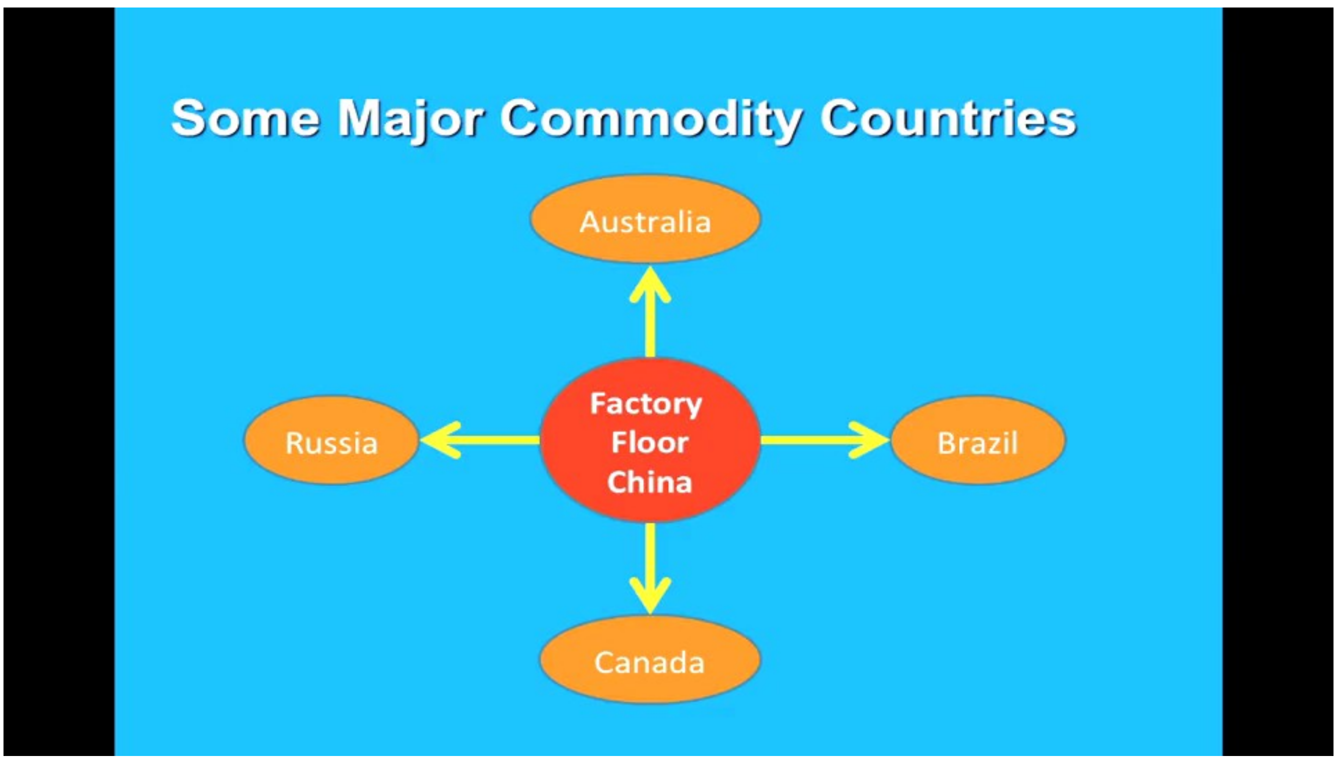
China Joins the World Trade Organization in 2001

- China's WTO entry gives it full access to U.S. markets.
- China floods U.S. markets with often illegally subsidized exports.
- Over 50,000 U.S. factories and more than 5 million manufacturing jobs disappear.

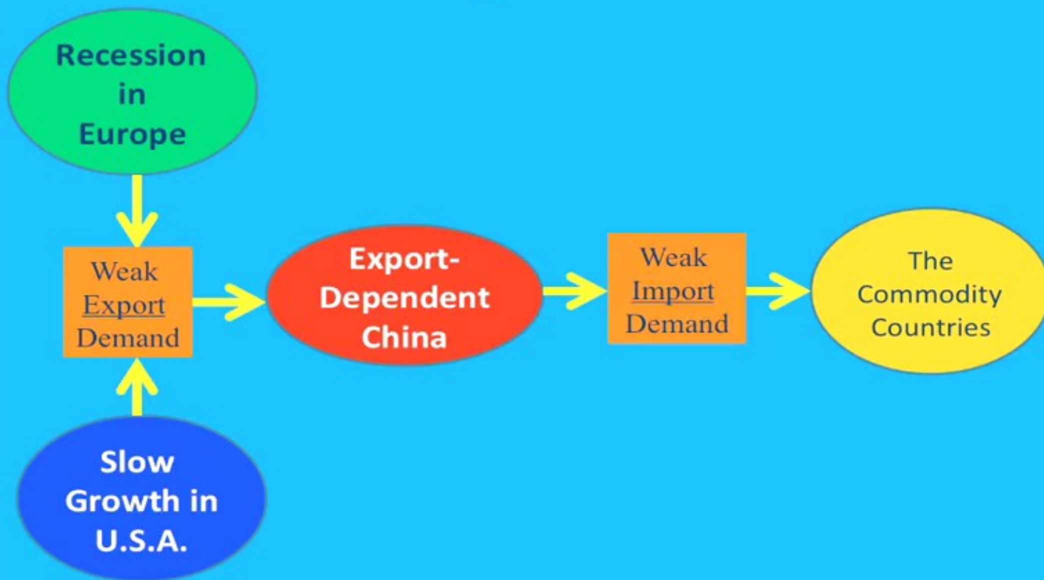
The Emergence of Structural Trade Imbalances

- The economies of Europe, India, Brazil, and many others run large trade deficits with China.
- This reduces global GDP growth below what it would otherwise be.
- A structural emergence of a growth-sapping global trade imbalance.


The Global Trade Imbalance Triangle
Chronic China Trade Deficits Slow Europe's Growth
Import-Dependent Europe (EU)
Exports
Export-Dependent China
Exports
Import-Dependent U.S.A.
Chronic China Trade Deficits Slow U.S. Growth


Some Major Commodity Countries
Australia
Russia
Factory Floor China
Brazil
Canada

The New Butterfly Effect Circa 2013



Why Keynesian Stimulus Failed

Key Points

- Short term Keynesian stimulus efforts did nothing to address the long term structural issue of chronic global trade imbalances.

- These structural imbalances acted as a drag on the economies of the U.S., Europe, and much of the rest of the world in the early 2010s.