

economic stuff

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outline of today's talk

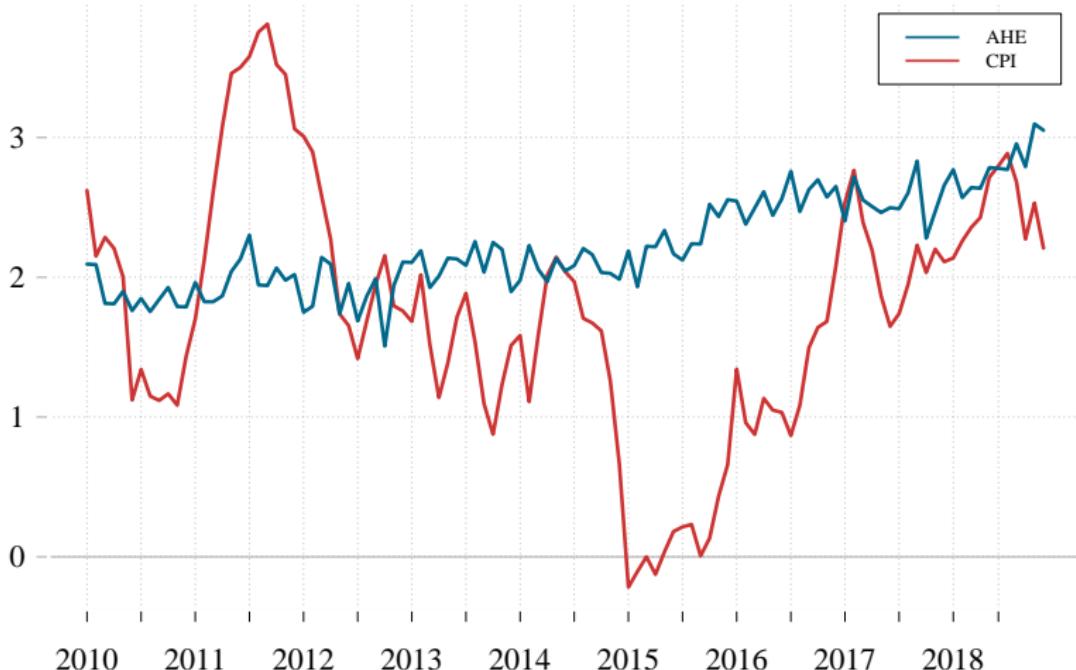
- current stance of the economy
 - some really current
- policies affecting all of us
- policies affecting some of us

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

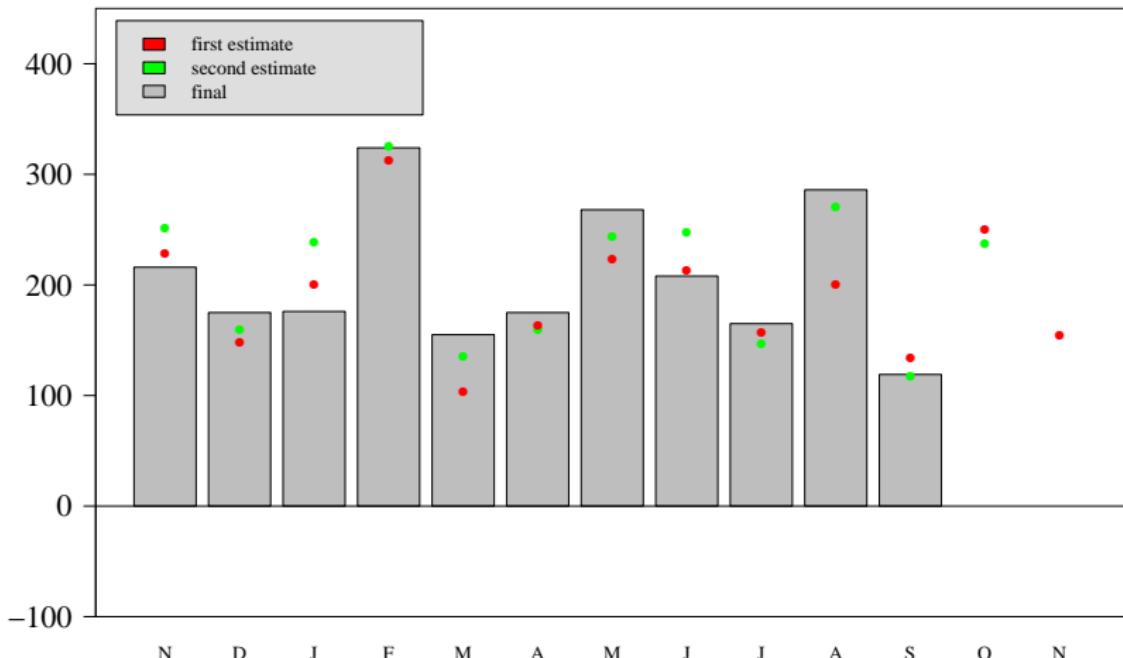


very current

- employment report last week
- employment last week ↑ 155,000

Net Payroll Employment Change

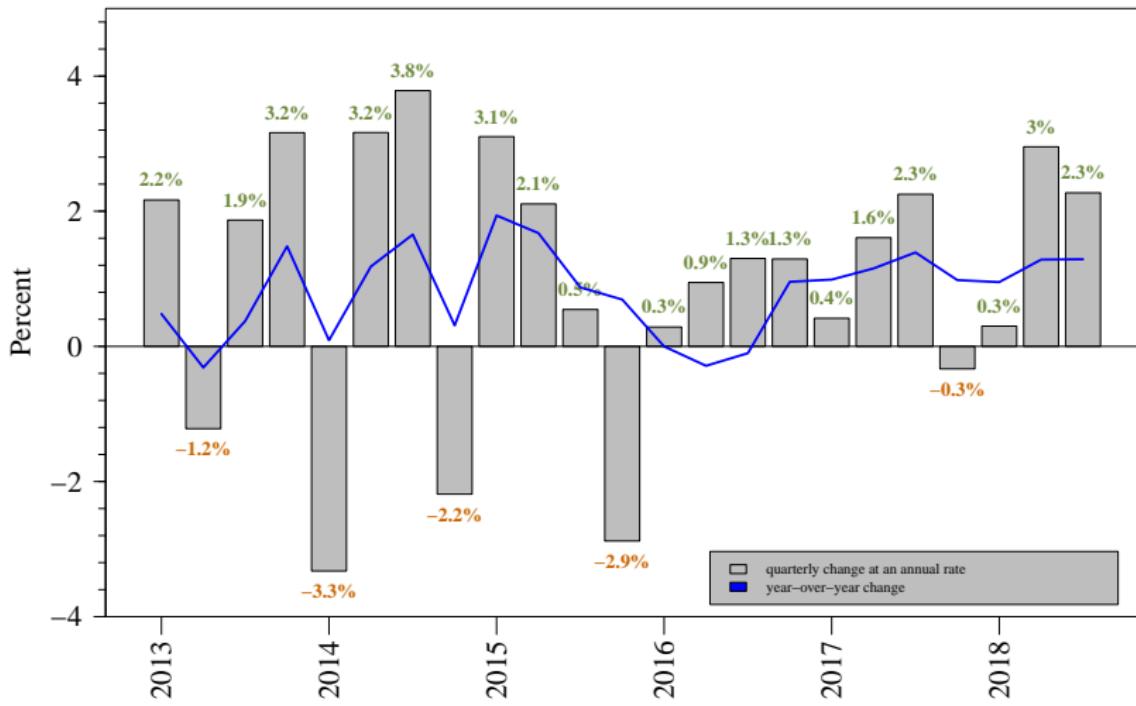
Thousands, SA



very current

- productivity report last week
- output per hour ↑ 2.3%

Output per hour: Non-farm business

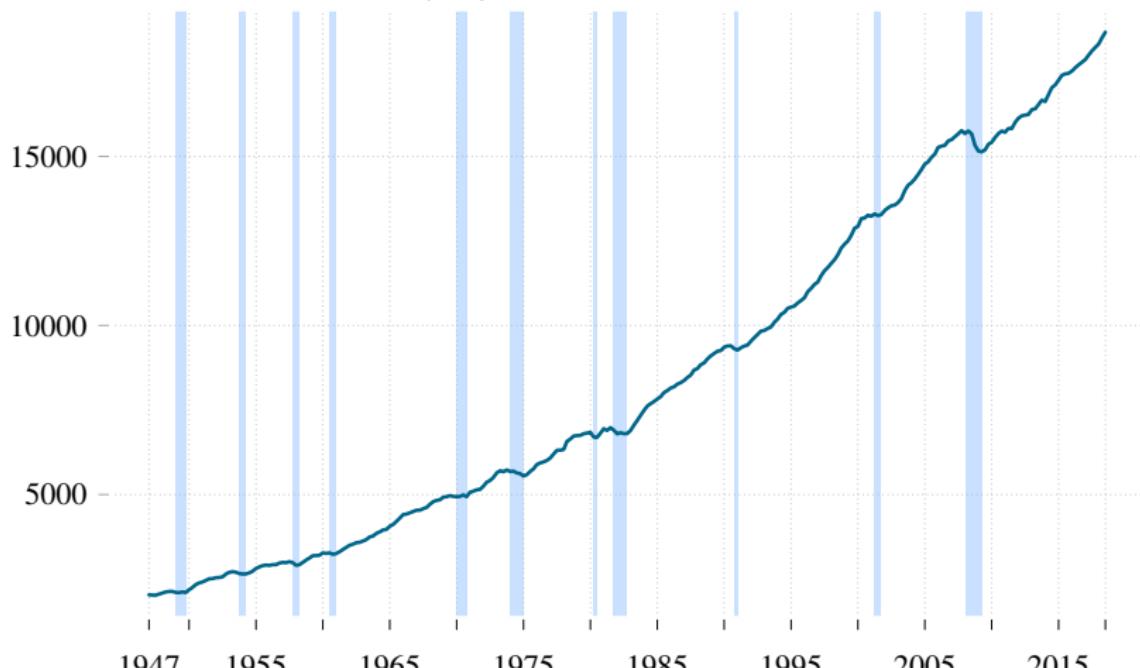


economic update

- **recovery** is the 2nd longest in history
- sustained growth for nearly 10 years

Real GDP

Billions of 2012\$, Seasonally Adjusted

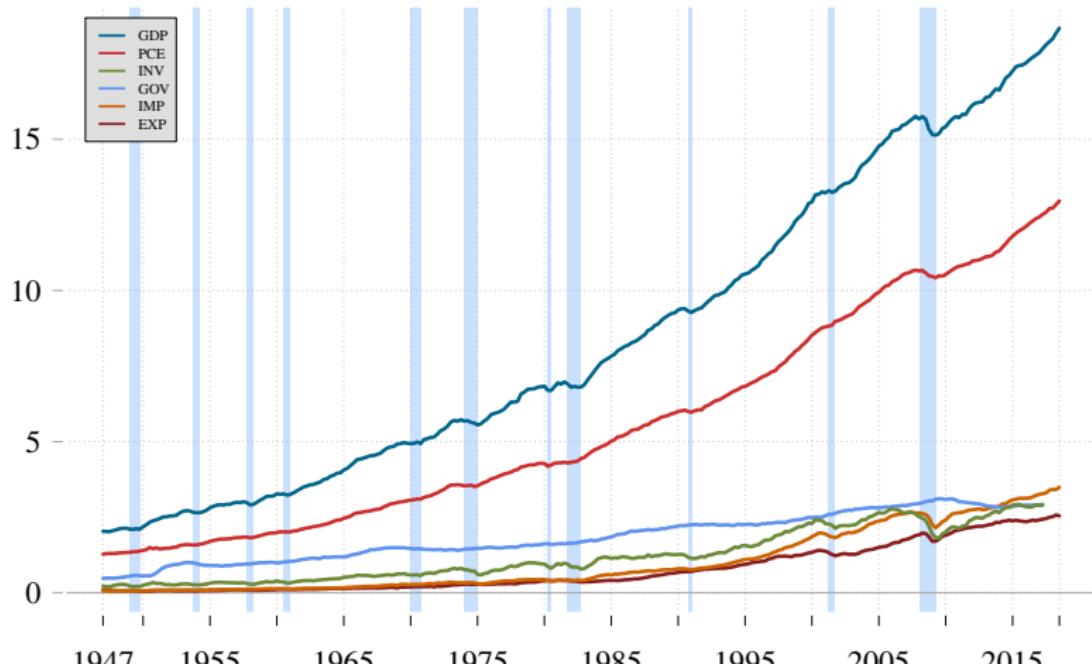


what exactly is real gdp?

- 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

Real GDP and Components

Trillions of 2012\$, Seasonally Adjusted

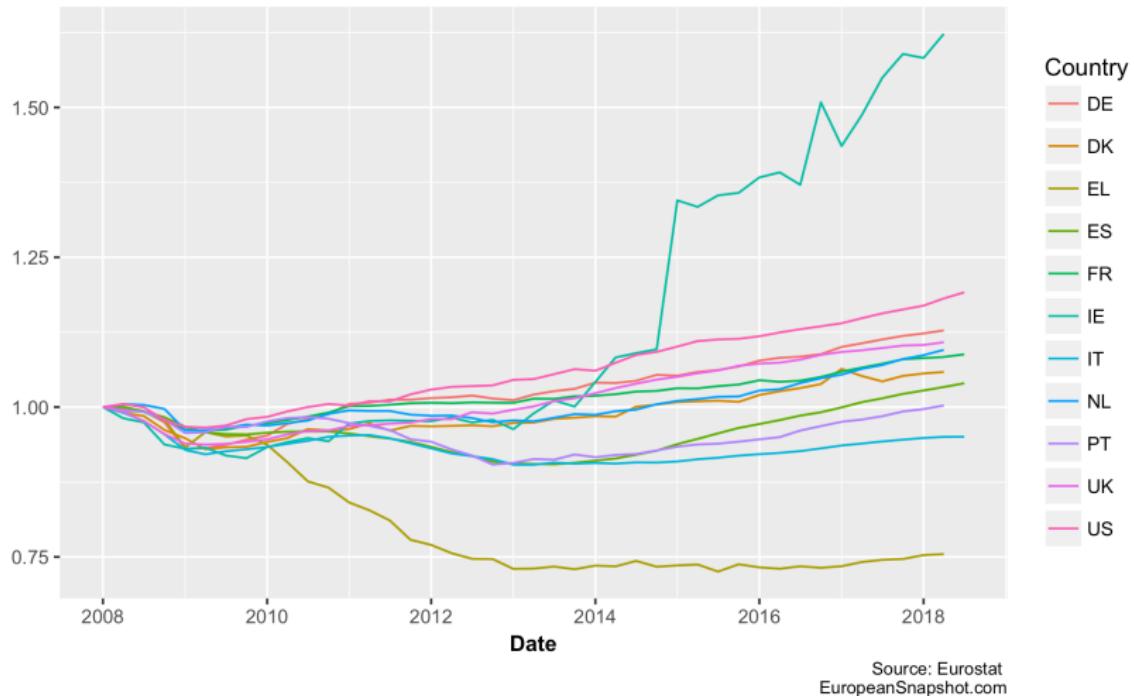


world view

- a quick glance across the globe
- the good, the bad and the ugly

Real GDP

Chain-Linked 2010 (Millions €), Index: 2008Q1

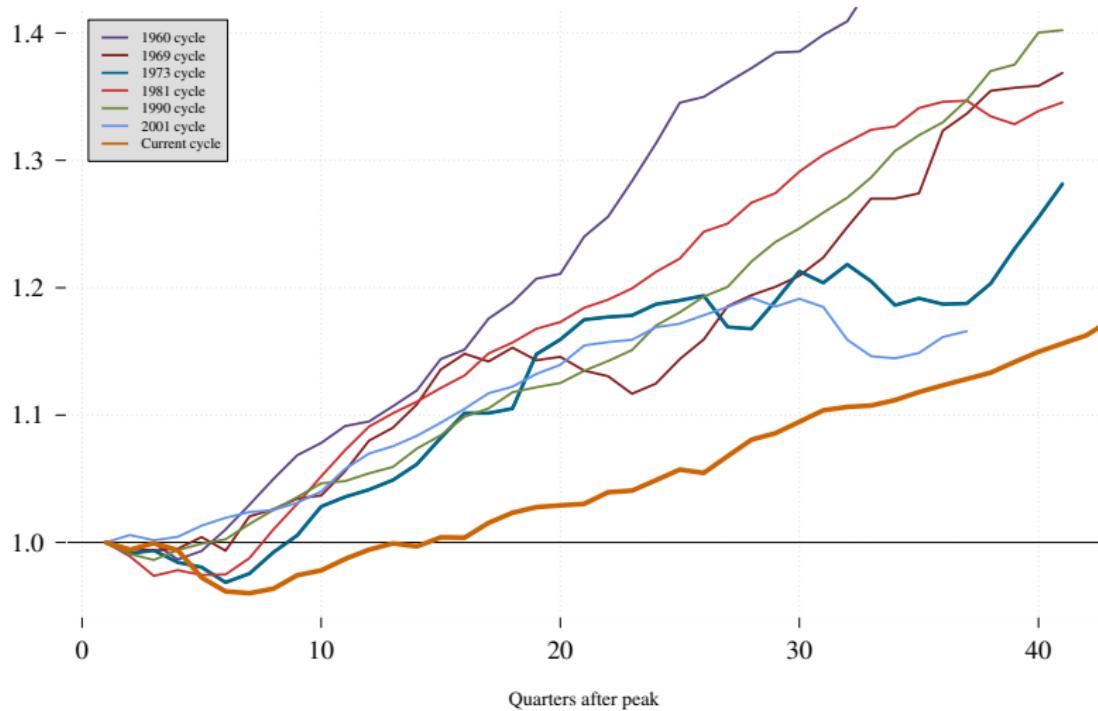


current growth has been strong

- the recovery has been steady
- but slowest on record

Real GDP

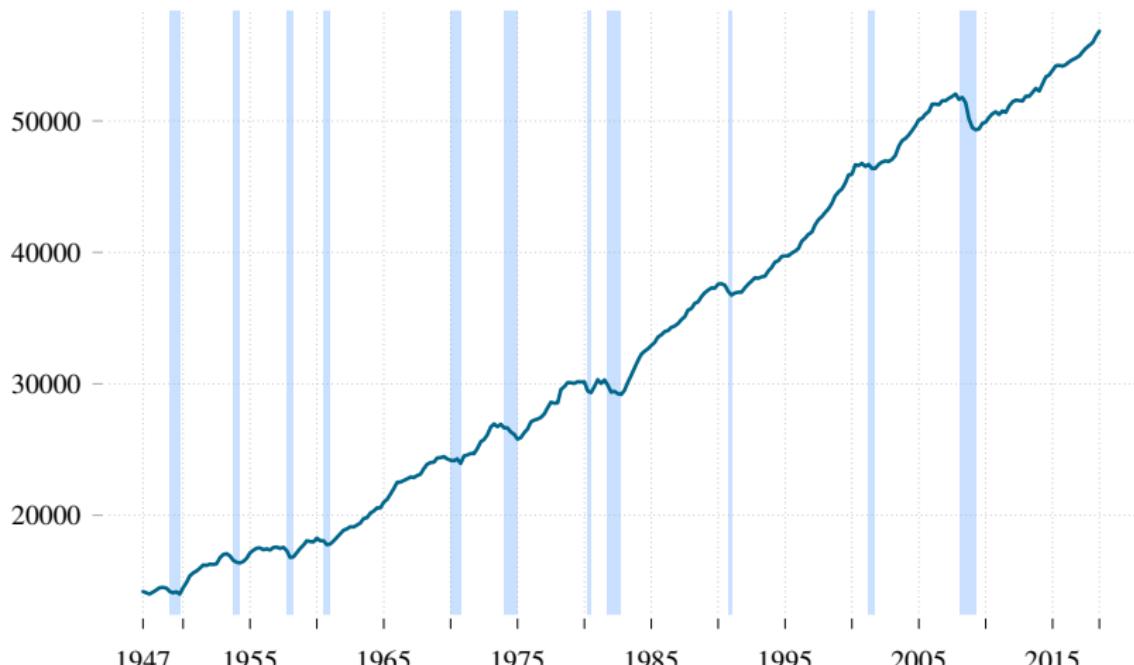
Peak before recession = 1



Source: BEA

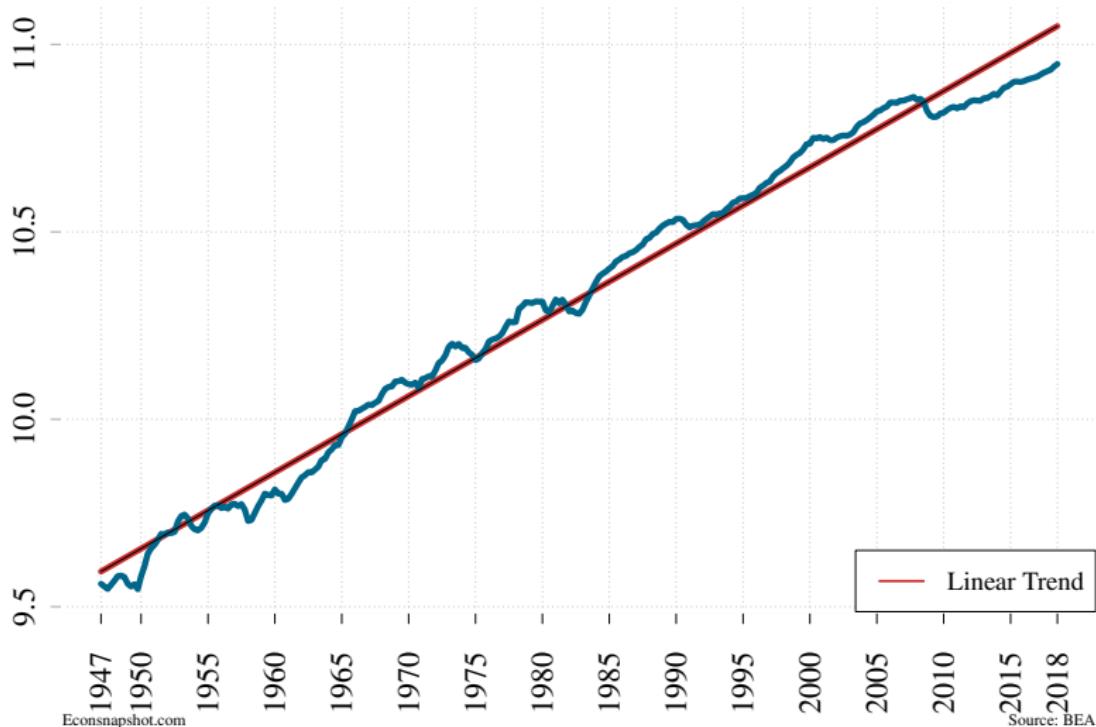
Real Per Capita GDP

Chained 2012\$, Seasonally Adjusted

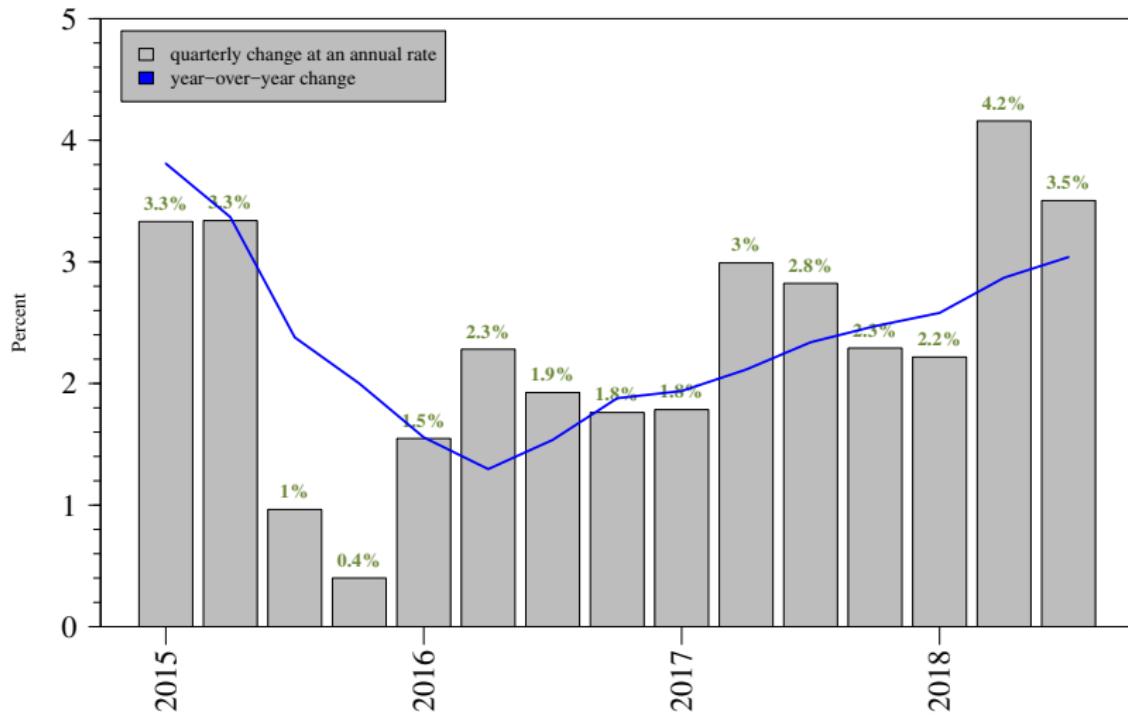


Real GDP

Log Real Per Capita GDP, 2012\$, Seasonally Adjusted



Real GDP

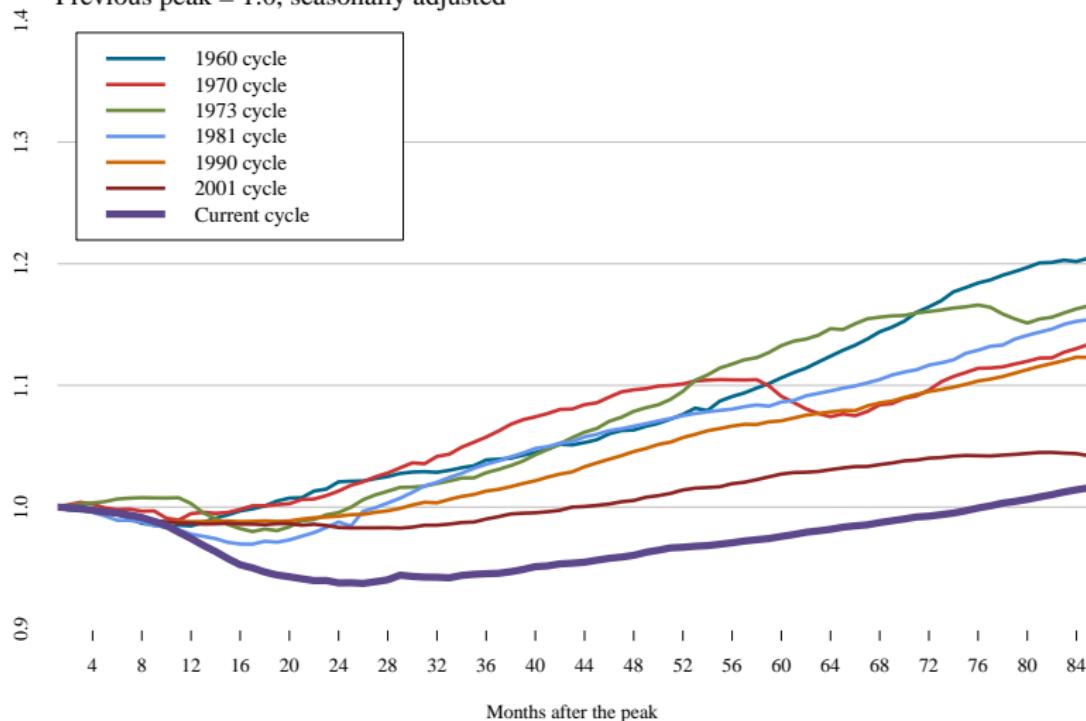


labor markets

- also slow and steady
- unemployment is low
 - black/african americans lowest on record (5.9%)
 - asians (2.7%)
 - women (3.8%) since 1950's

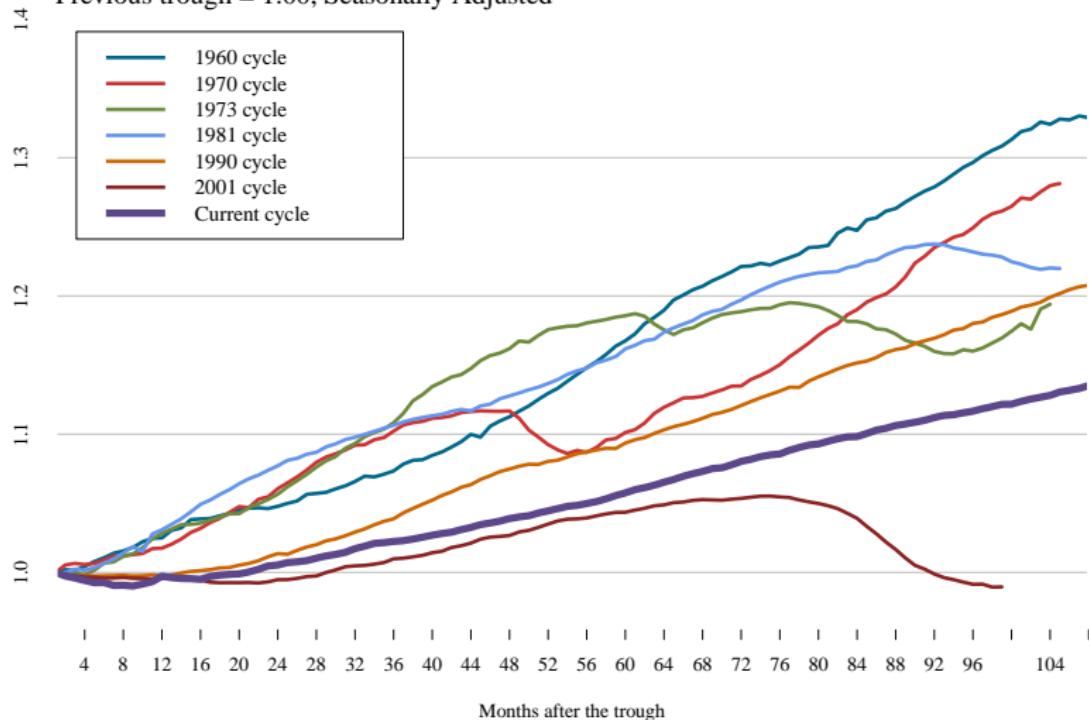
Payroll Employment

Previous peak = 1.0, seasonally adjusted



Payroll Employment

Previous trough = 1.00, Seasonally Adjusted

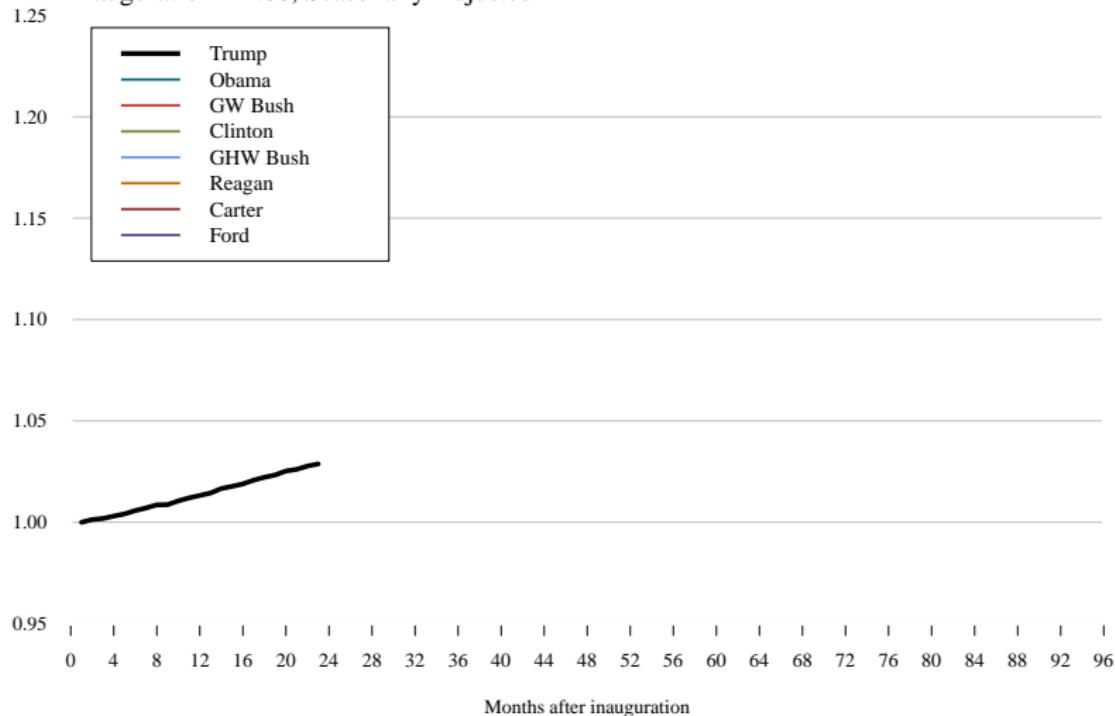


speaking of employment growth...

- quiz
- since Gerald Ford, which president during their term created the most jobs starting at their inauguration?

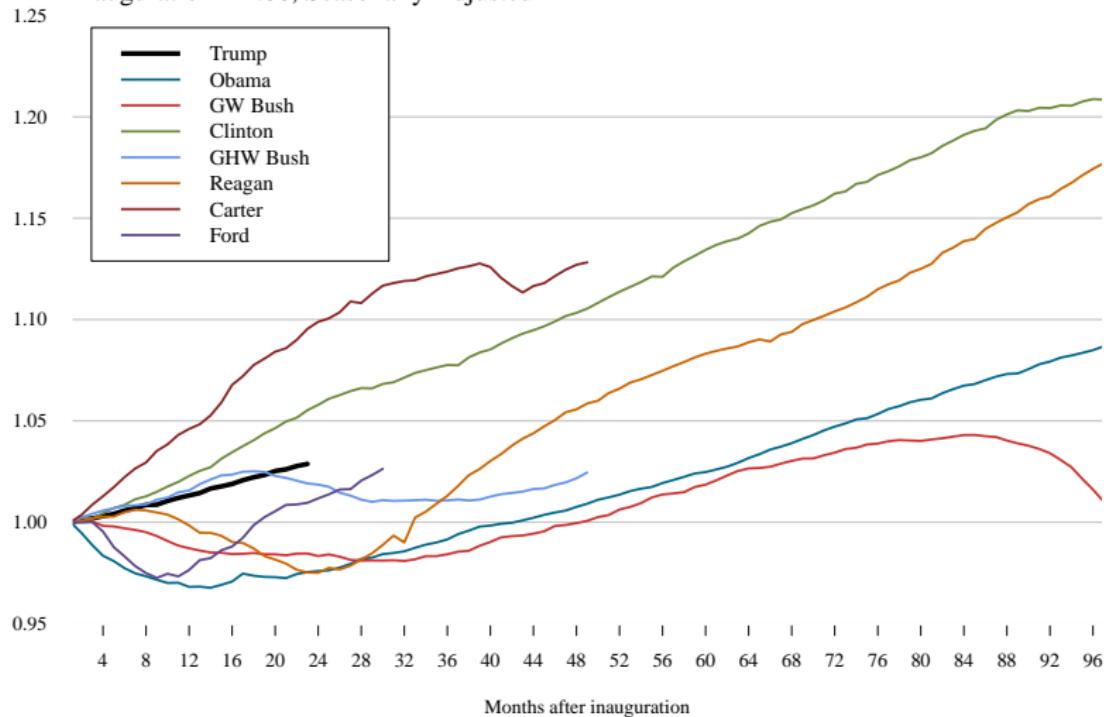
Payroll Employment During Presidential Terms

Inauguration = 1.00, Seasonally Adjusted



Payroll Employment During Presidential Terms

Inauguration = 1.00, Seasonally Adjusted



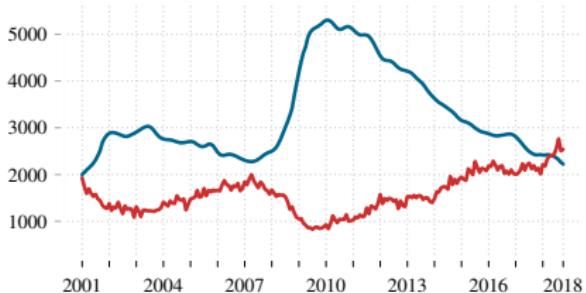
labor markets...

- how should we evaluate the labor market?
 - productivity and wages?
 - unemployment rates?
 - ease of getting a job?

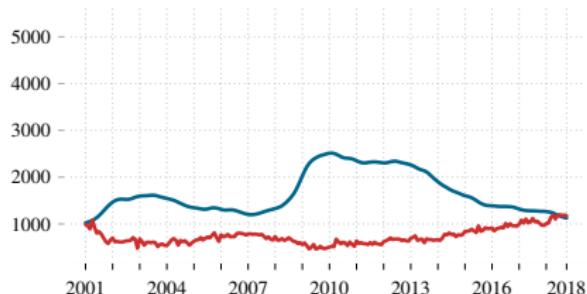
Midwest



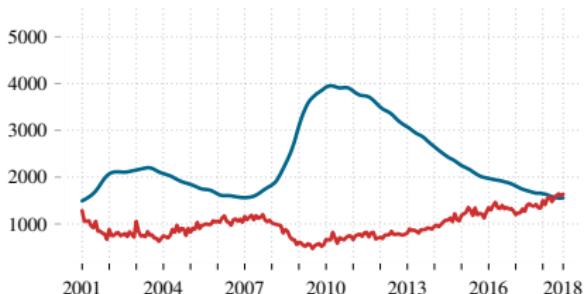
South



Northeast



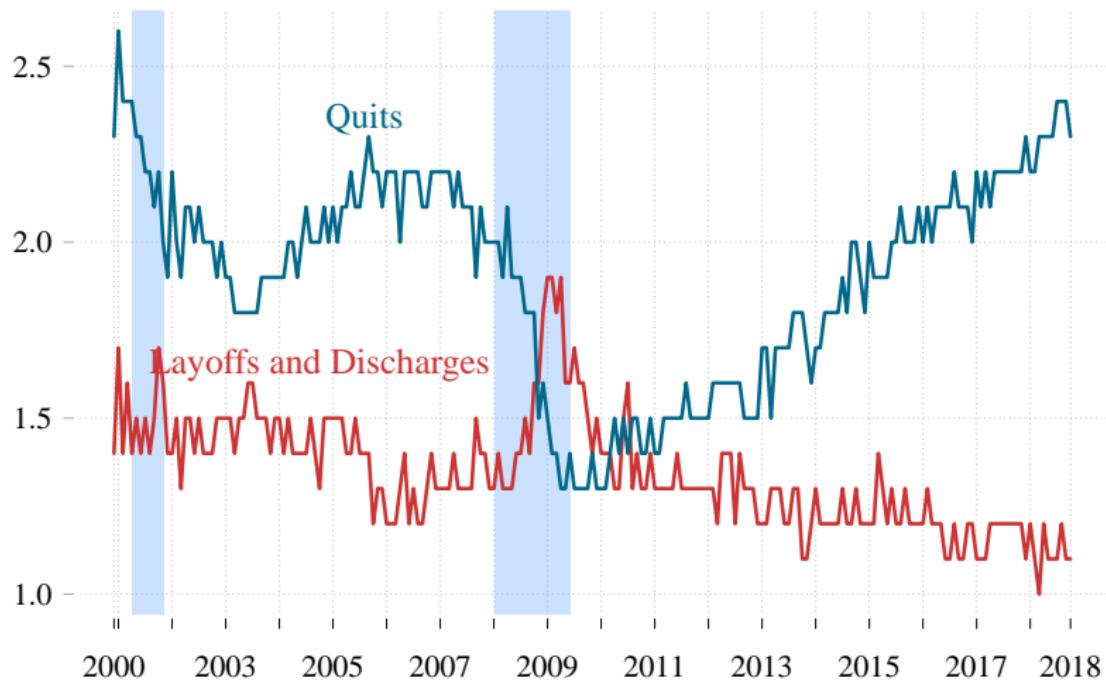
West



— Unemployed Persons (000's) — Vacancies, (000's)

Separations

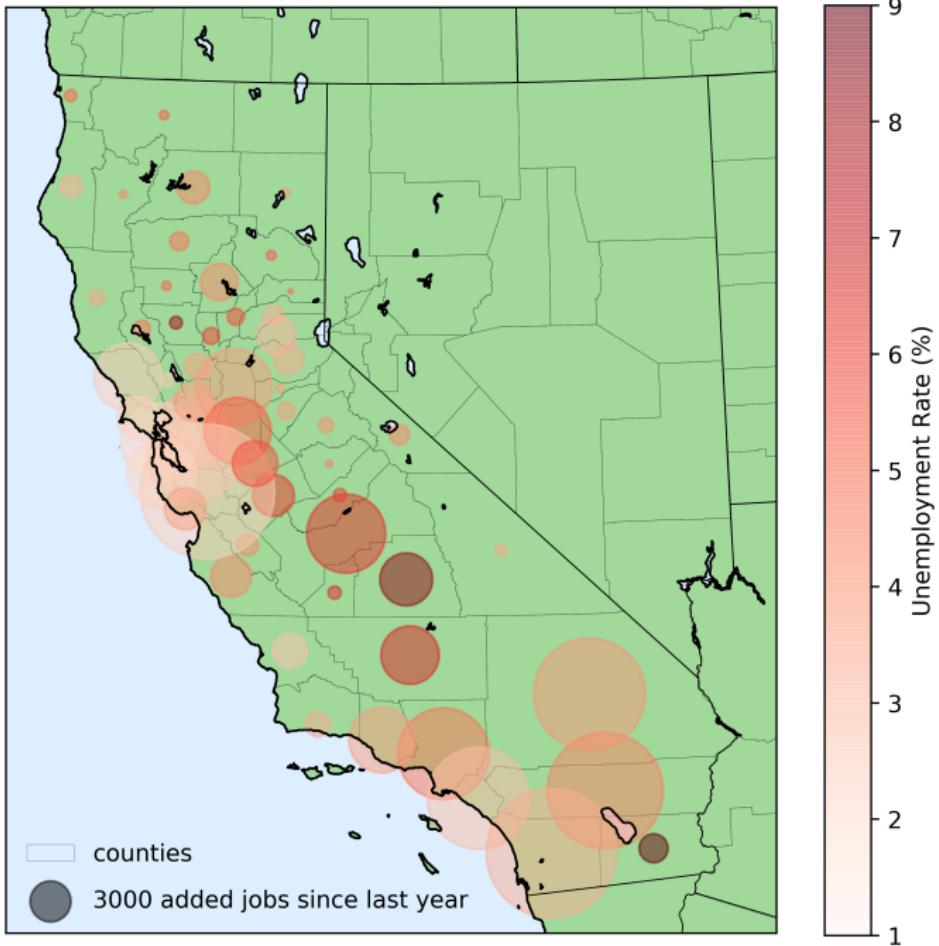
Percent, SA



labor markets...CA

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

CA County Job Creation (Oct 2018)



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?

SP500



Net Interest Margin

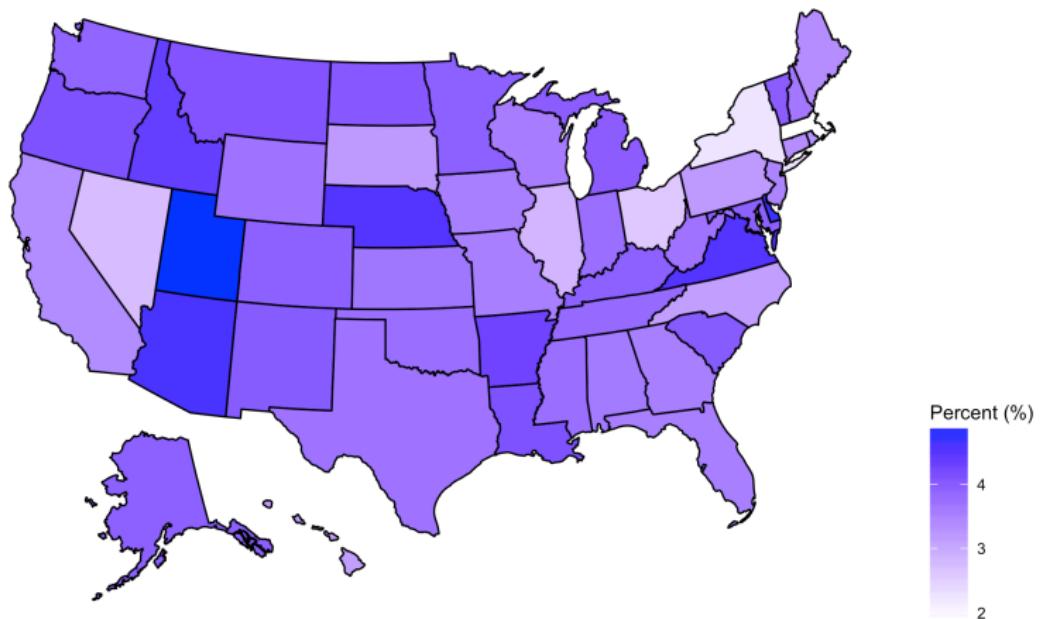
Ratio of Tax-Adjusted Income to Average Earning Assets



Economic Forecast Project
Source: FRED Database

Net Interest Margin

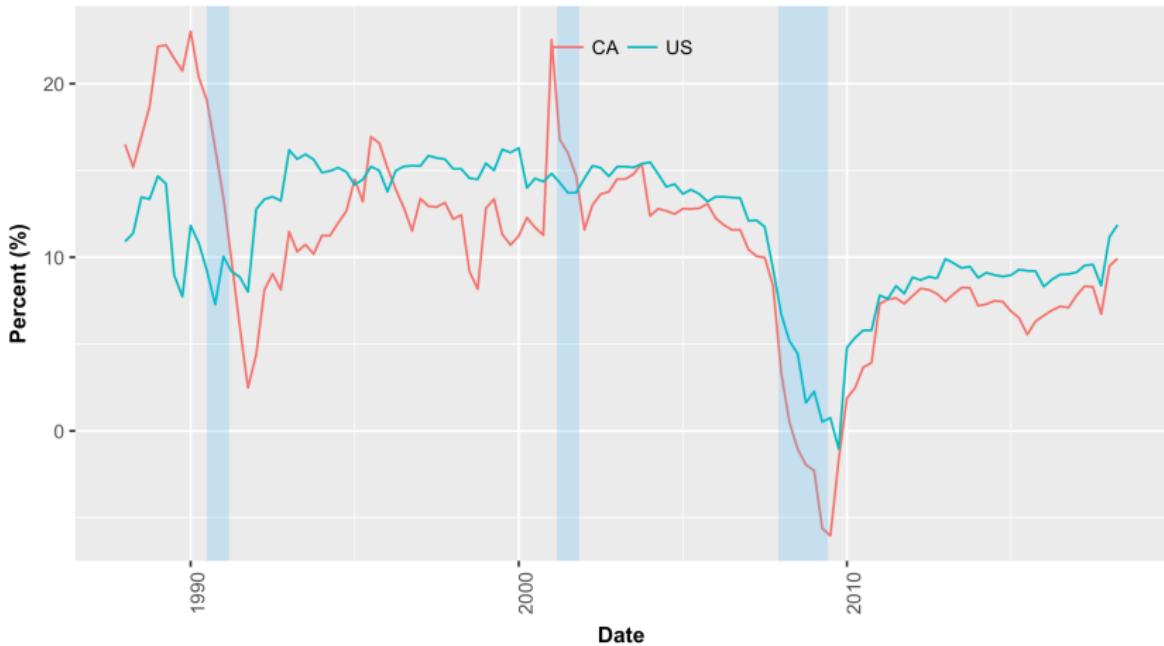
Ratio of Tax-Adjusted Income to Average Earning Assets, Apr-01-2018



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

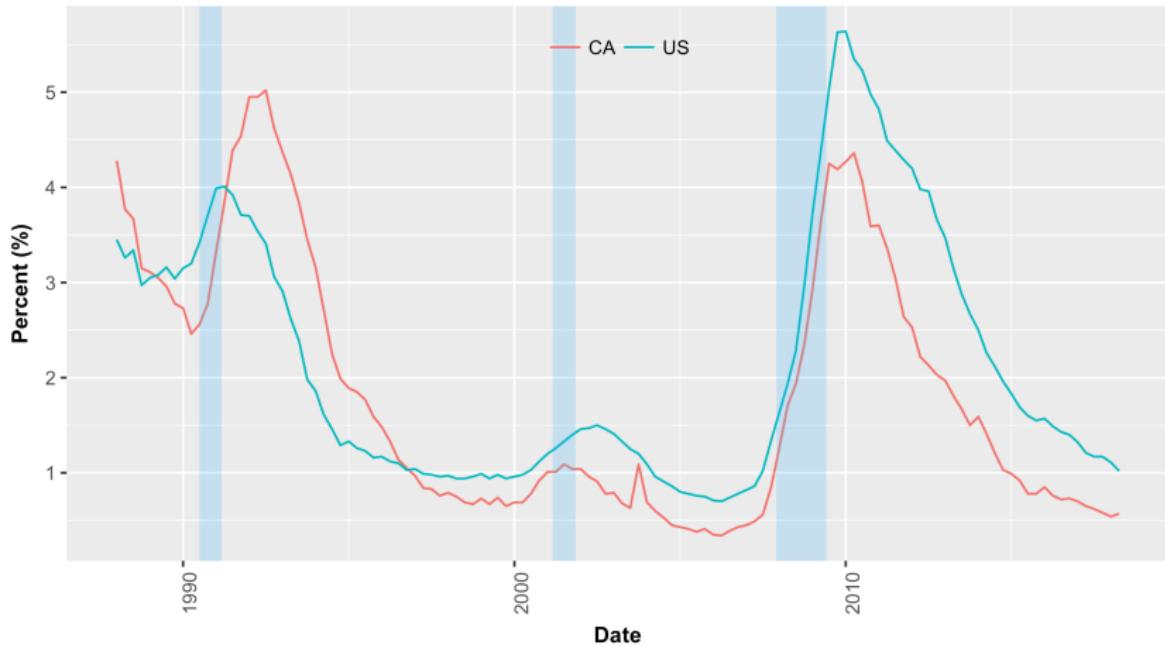
Ratio of Loan Loss Reserve to Total Loans



Economic Forecast Project
Source: FRED Database

Non-Performing Loans Ratio

Ratio of Loans 90+ Days Past Due and Non-accrual to All Loans



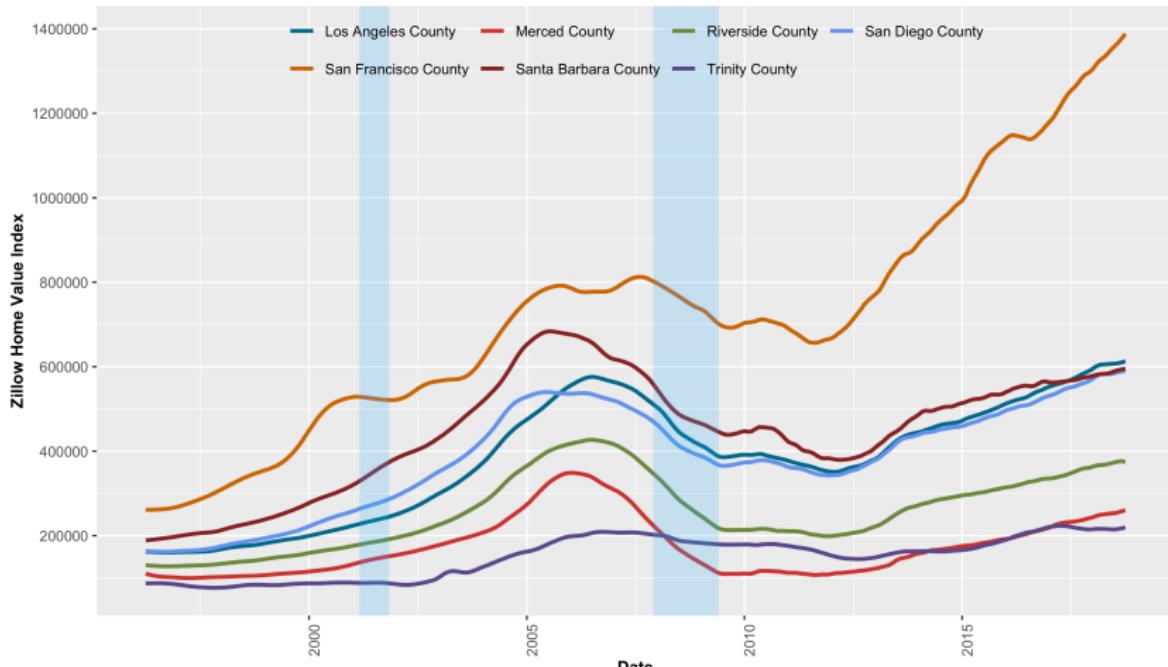
Economic Forecast Project
Source: FRED Database

housing markets have mostly rebounded

- but grew at different rates
- and not that affordable

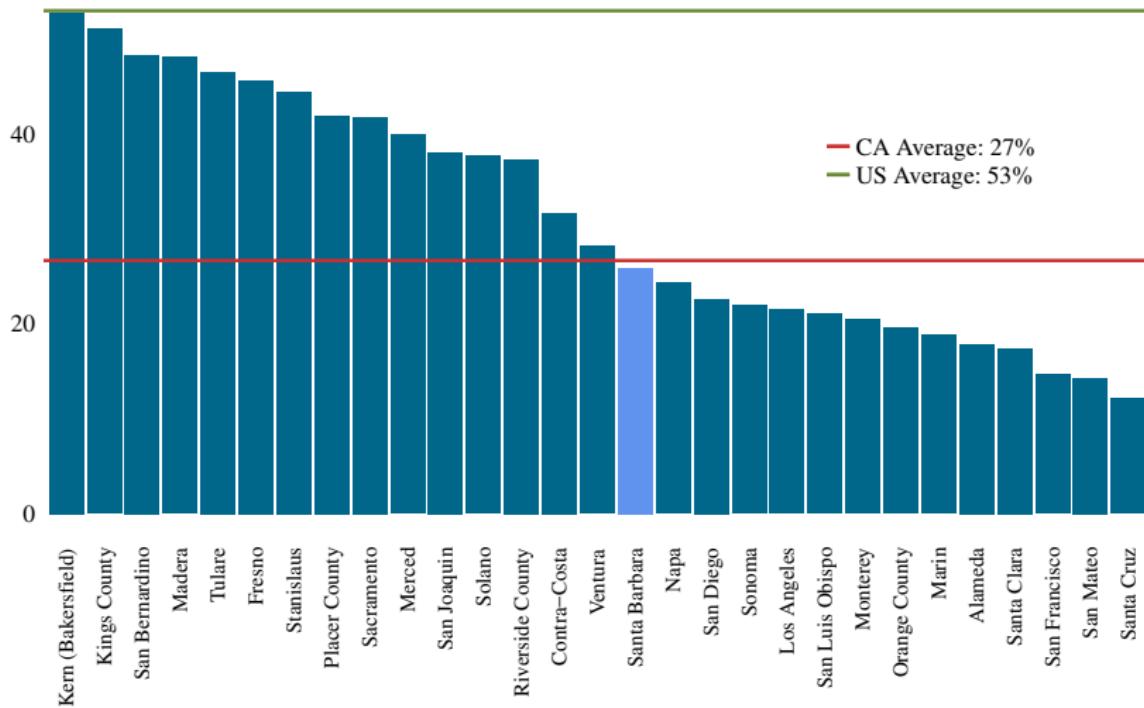
Zillow Home Value Index

Monthly



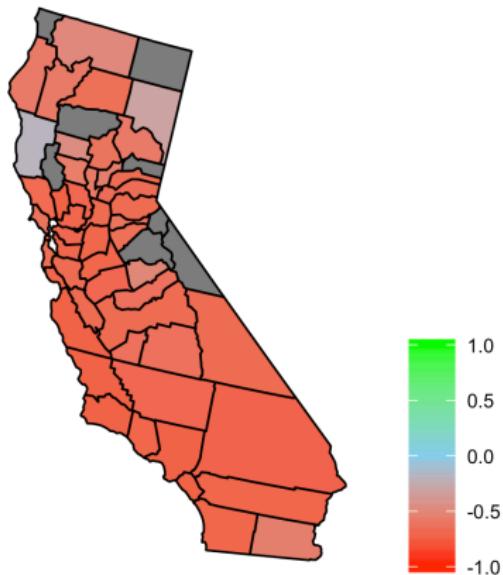
Economic Forecast Project
Source: Zillow

Affordability 2018Q3



Zillow Home Value Index

Percent Difference from Pre-Recession Peak 1996-04-01



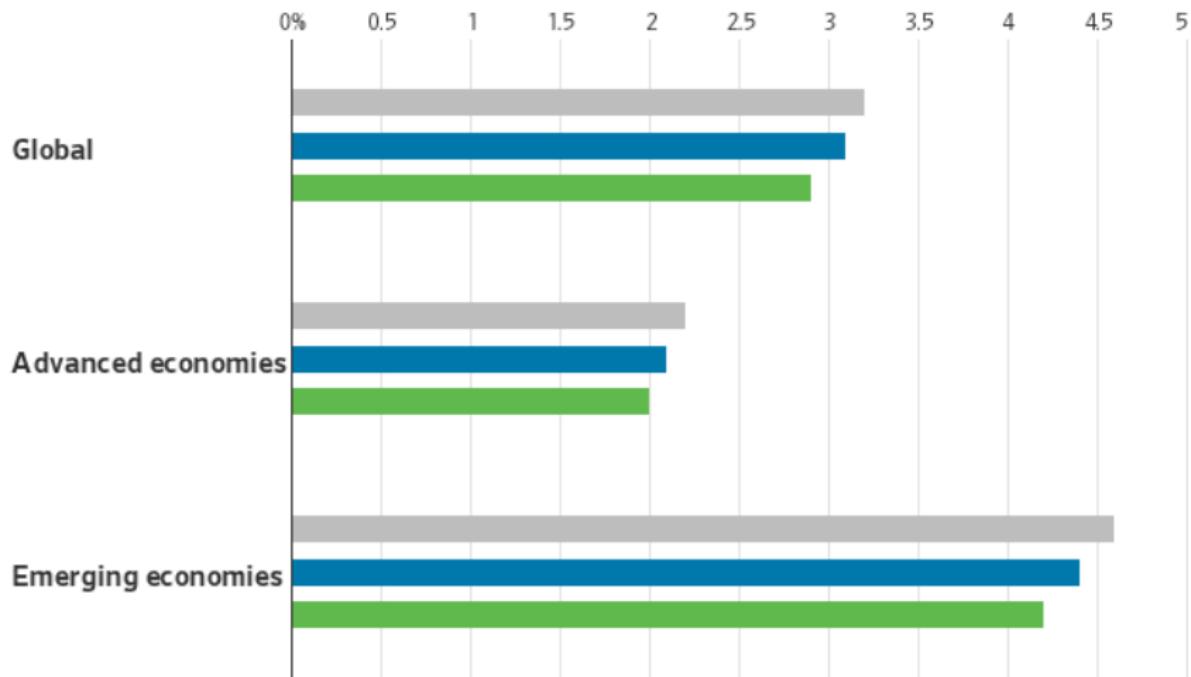
Economic Forecast Project
Source: Zillow

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

Timekeeper

Like 8.4K

Tweet

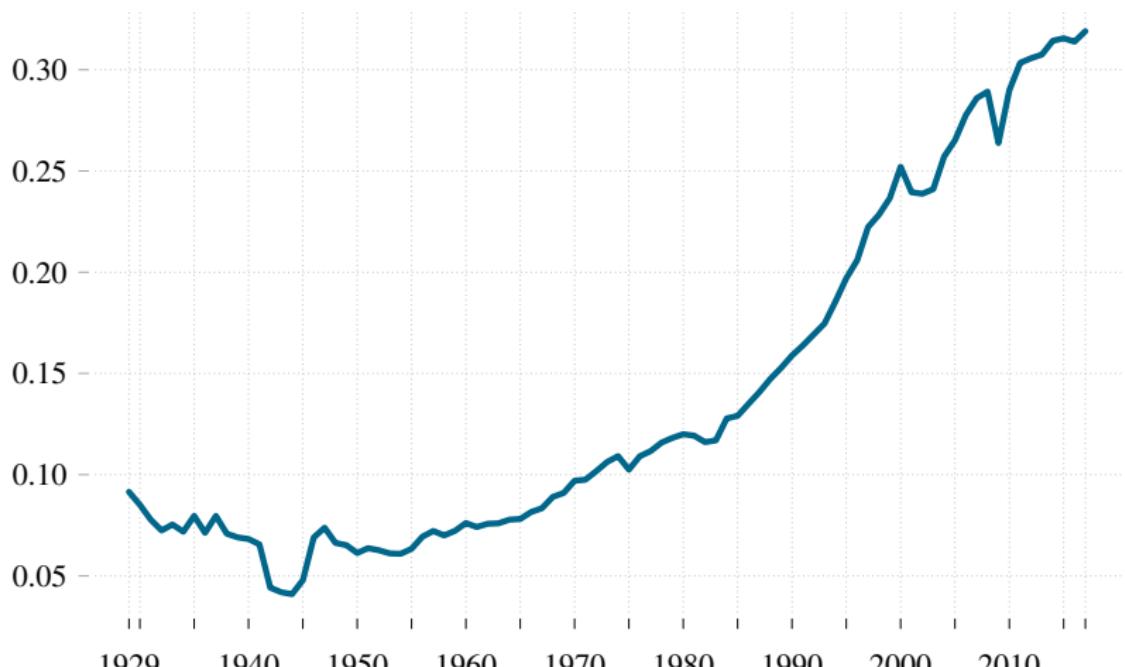
EVEN when desperate, Wall Street bankers are not given to grovelling. But in June 1930 Thomas Lamont, a partner at J.P. Morgan, came close. "I almost went down on my knees to beg Herbert Hoover to veto the asinine Hawley-Smoot Tariff," he recalled. "That Act intensified nationalism all over the world."

Library of Congress



Hawley and Smoot, the bogeymen of trade

Total Trade Share of GDP



trade: myths and misconceptions

(1) protectionism saves jobs

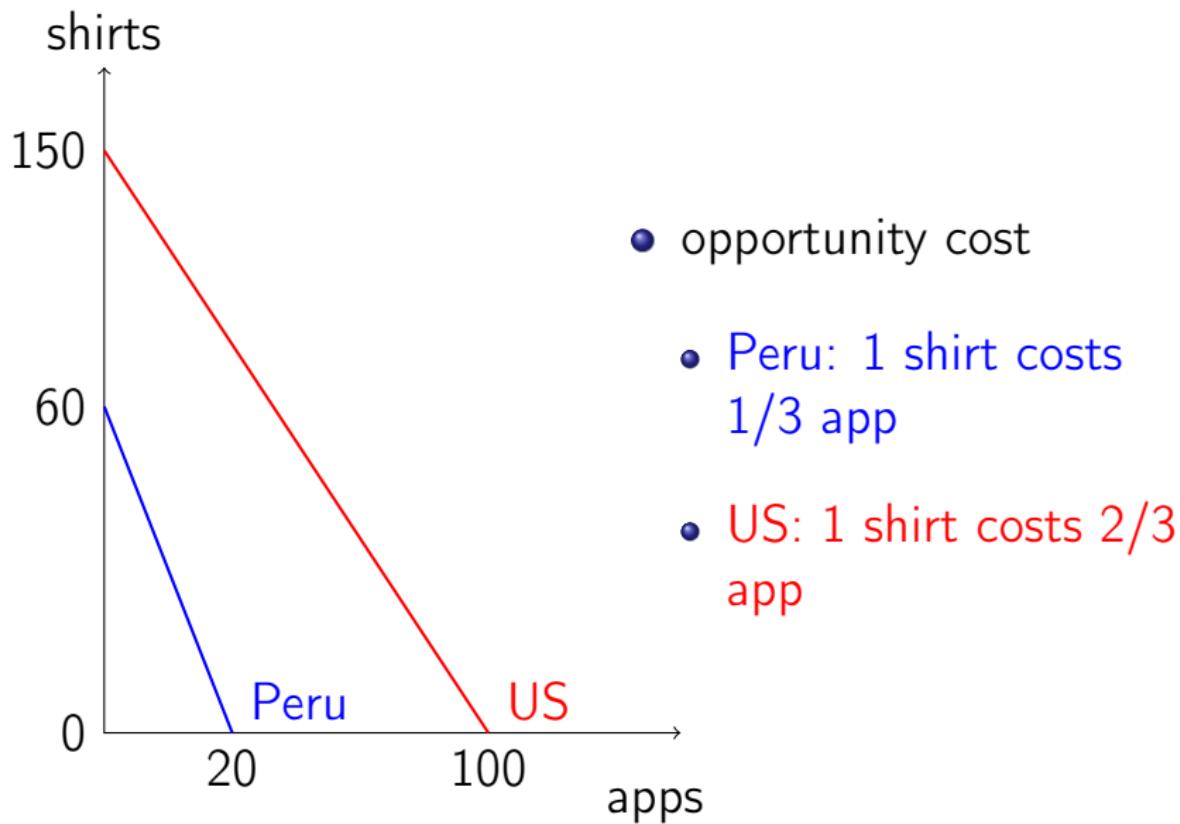
- it may save **some** jobs...at what cost?

(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

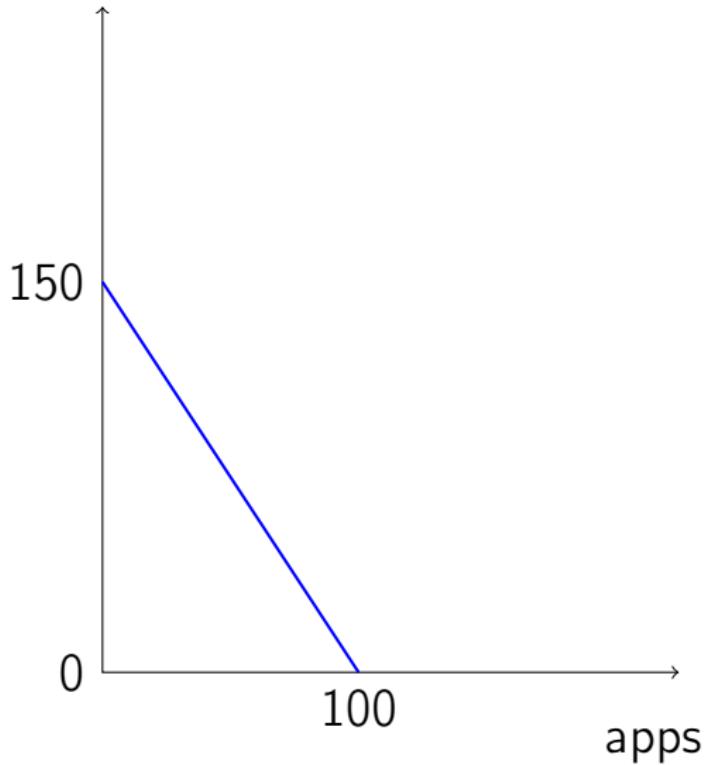


terms of trade

- 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

US

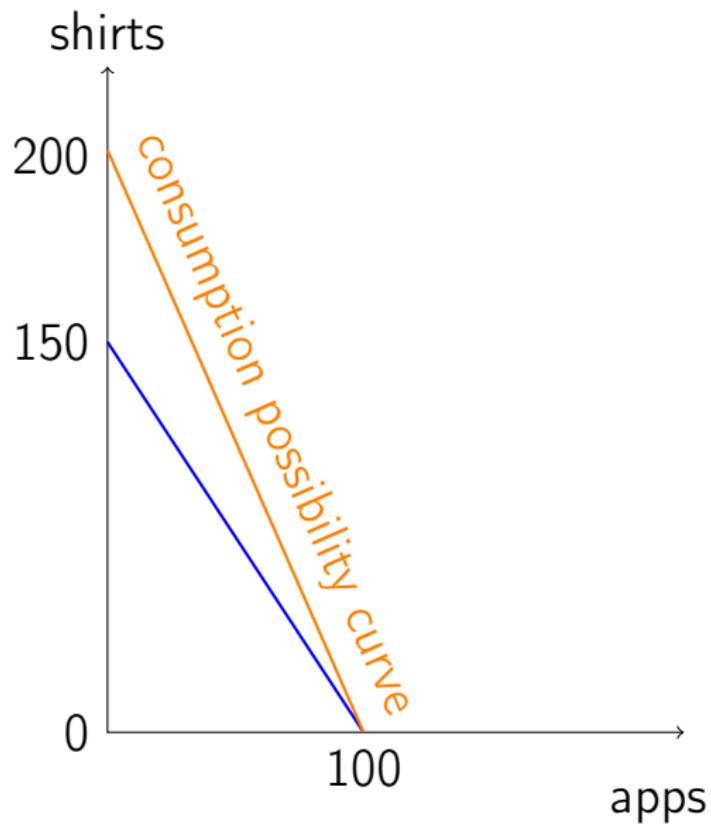
shirts



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

US



myth 2

bad trade accounting 101: Navarro

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

bad trade accounting 101: Navarro

- $Y = C + I + G + (X - M)$
- but when we import a good we consume it!!!
- $Y = \textcolor{red}{C} + I + G + (\textcolor{red}{X} - M)$

bad trade accounting 101: Navarro

- $Y = C + I + G + (X - M)$
- but when we import a good we consume it!!!
- $Y = C + I + G + (X - M)$
- import \$3 billion more and export \$1 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