

Partnership Gwinnett

Economic Outlook

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02.15.22



Georgia Tech
Enterprise Innovation
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Disclaimer

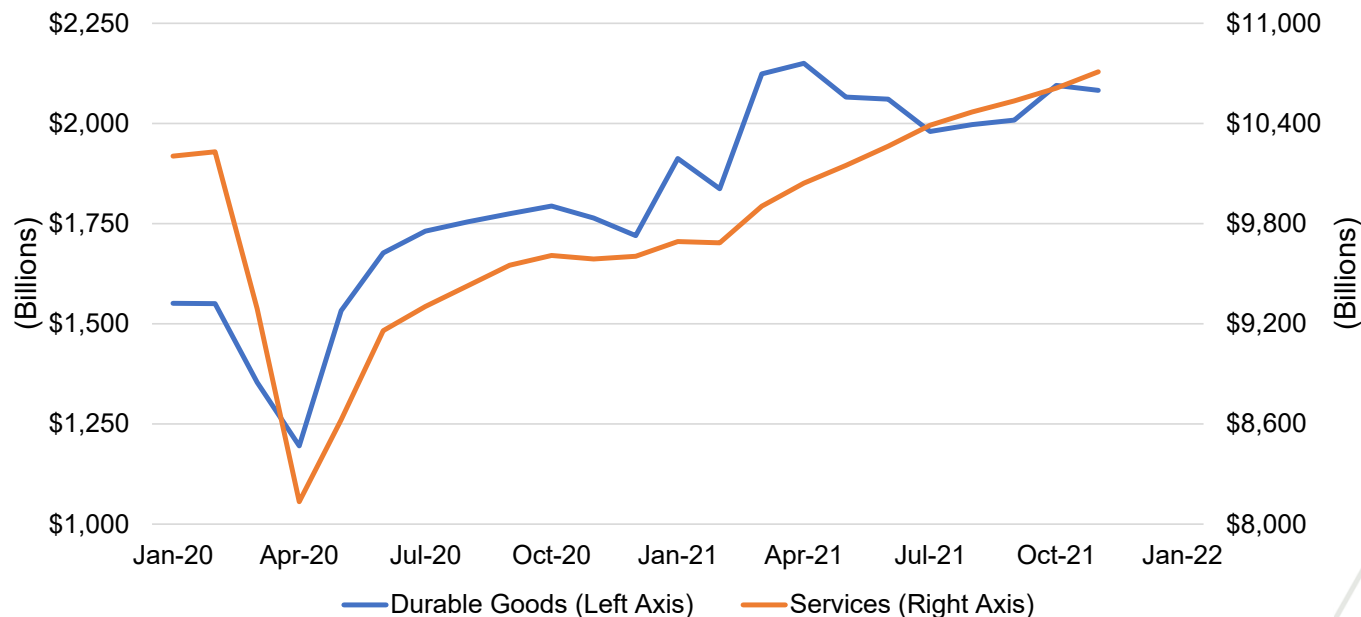
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A Year Ago I Said....

- The economy is experiencing a “V”-shaped recovery driven by consumer spending on durable goods which is, in turn, being driven by extensive fiscal and monetary stimulus.
 - The durable-goods driven recovery will transition to a more services driven recovery in late '21.
- Job losses remain in COVID-sensitive sectors and likely will until the pandemic is over and/or vaccinations have reached a critical level.
- State and local revenues are holding up, again due to extensive stimulus. Longer term, commercial real estate values will be an issue for local governments.
- Threats to the economy include restrictive fiscal policy (tax increases), inflation, and continued “lockdown mentality.”

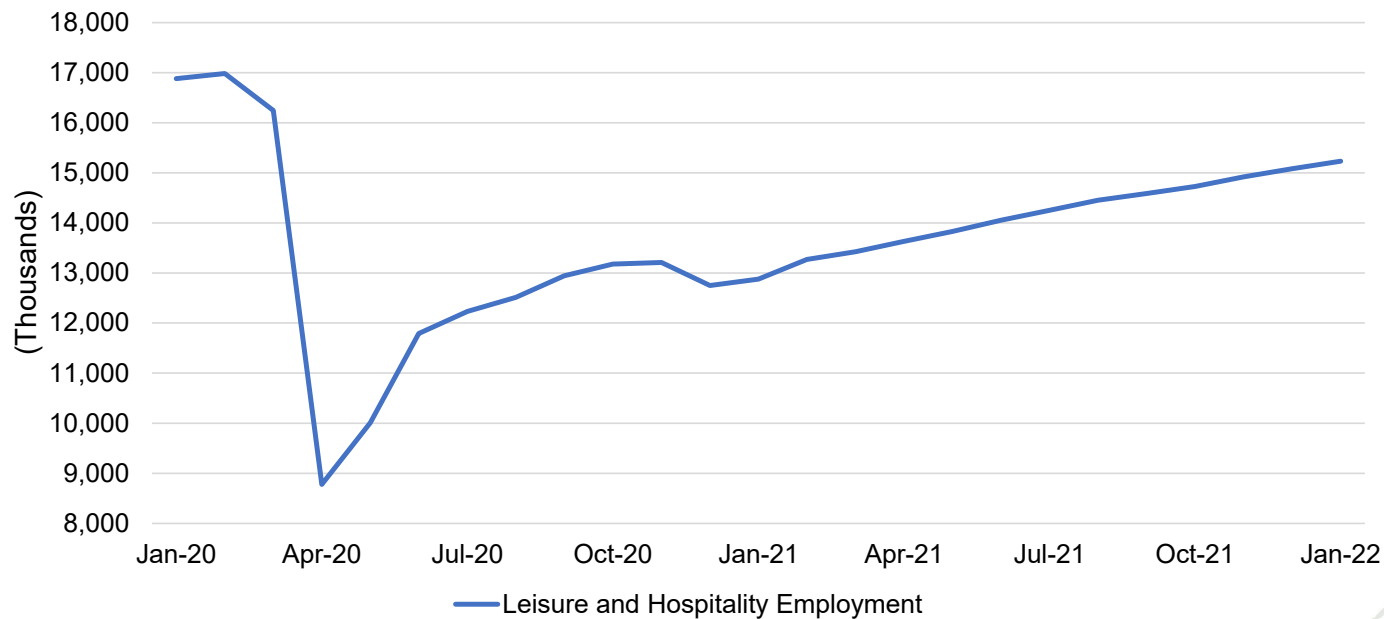
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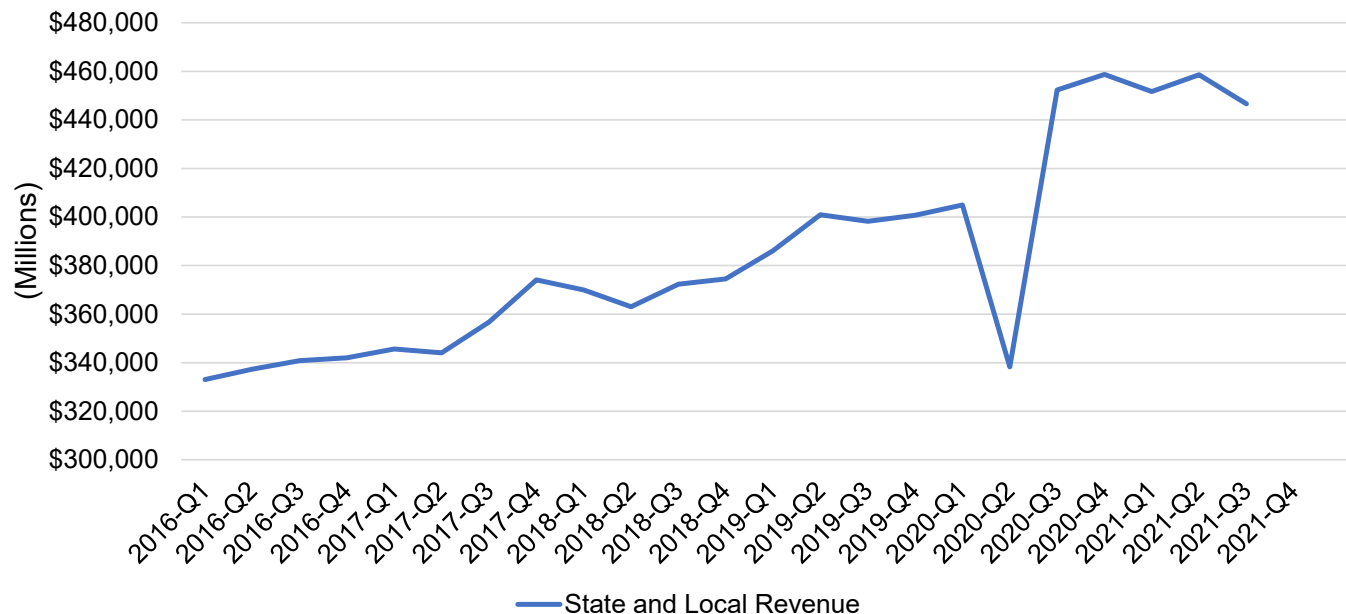
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Consumer Price Index



Producer Price Index



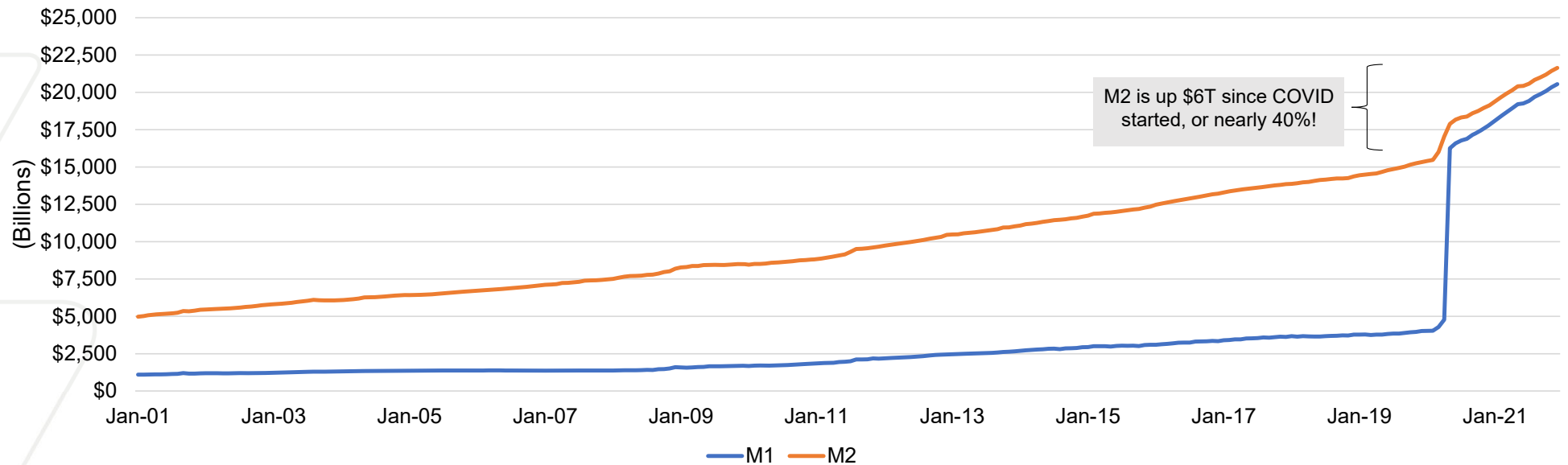
Economic Overview

1. Inflation is here, and it is NOT “transitory”...it is structural.
 - CPI: 7.5%
 - PPI: 15.6%
2. Fiscal policy
 - A trillion here, a trillion there, next thing you know you are talking about real money!
3. Monetary policy
 - Fed’s balance sheet only goes up...
 - Tapering? Really? What about rates?
4. Labor supply concerns
 - Where are all the workers?
 - Declining labor force and skilled worker shortage
 - Vaccine mandates?
5. Supply-chain issues
 - Where is all my stuff?

What is Inflation?

**“Inflation is always and everywhere a monetary phenomenon.”
- Milton Friedman**

U.S. Money Supply



Results of Inflation

- In early 2021, price increases were driven by large increases in narrow sectors.
- Now, it is occurring across a wide spectrum of goods & services:
 - Beef: 16.0%; Seafood: 12.7%; Chicken: 10.3%
 - Tires: 14.0%
 - Furniture: 17.0%; Appliances: 8.5%
 - New cars: 12.2%; Used cars: 40.5%
- Oil is up over \$90/barrel on its way to \$100+ resulting in...
 - 40.0% increase in gas prices
 - 46.5% increase in home heating oil

Inflation



Ronald Klain ✓
@WHCOS

...

This 👍 👍



Jason Furman ✓ @jasonfurman · 16h

Most of the economic problems **we're facing** (inflation, supply chains, etc.) are **high class problems**. We wouldn't have had them if the unemployment rate was still 10 percent. We would instead have had a much worse problem.

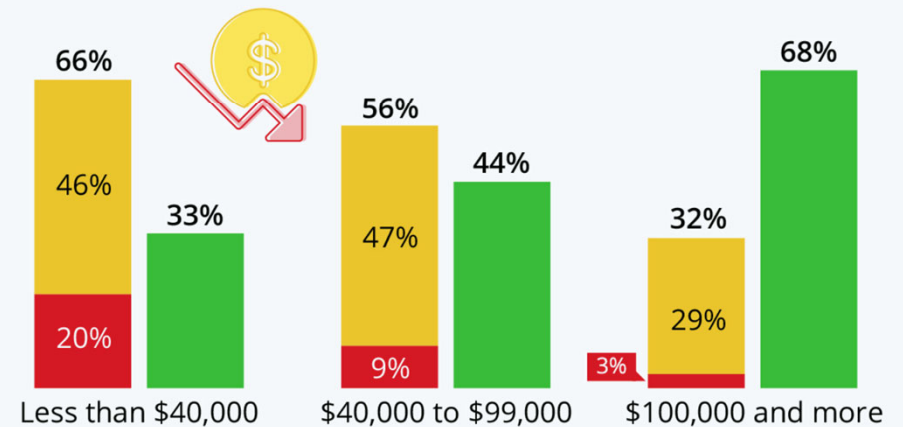
NOT a “high-class” problem....it is a highly regressive tax on the working class.

- Real hourly earnings are down 1.9% this year and have been negative for 10 straight months.

The Uneven Fallout of the Inflation Surge

Share of U.S. adults saying that recent price increases have caused financial hardship for them, by household income

■ Severe hardship ■ Moderate hardship ■ No hardship

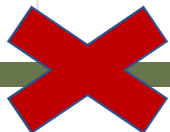
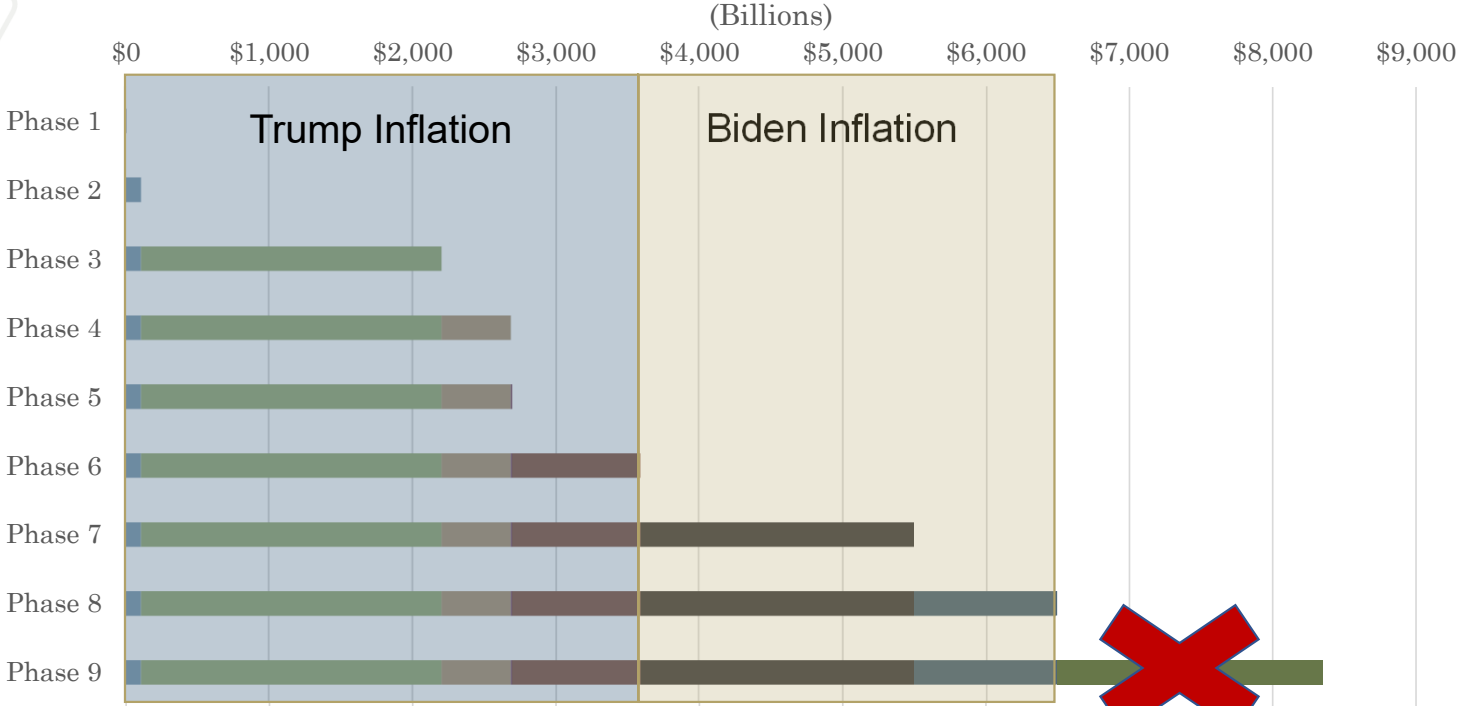


Based on a Jan. 3-13 Gallup Panel web survey of U.S. adults
Source: Gallup



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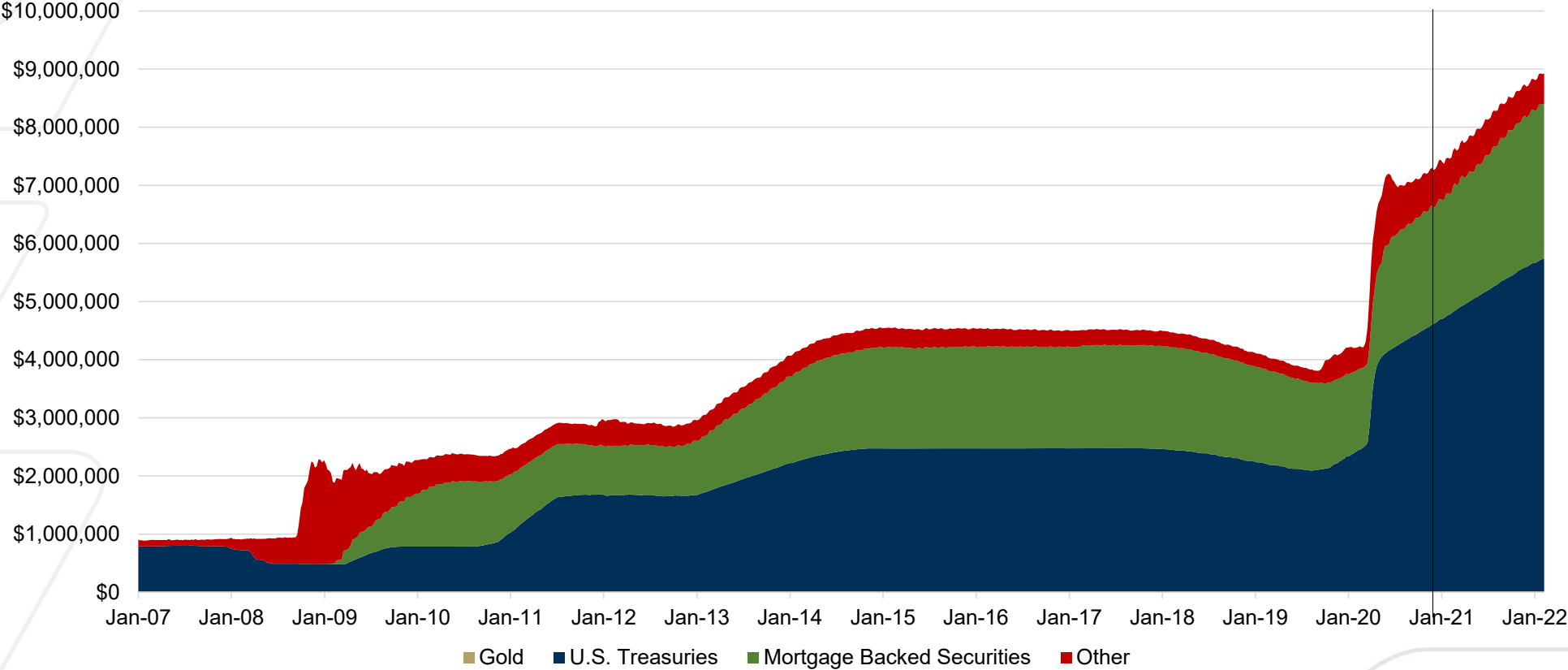
Recent Federal Government Spending



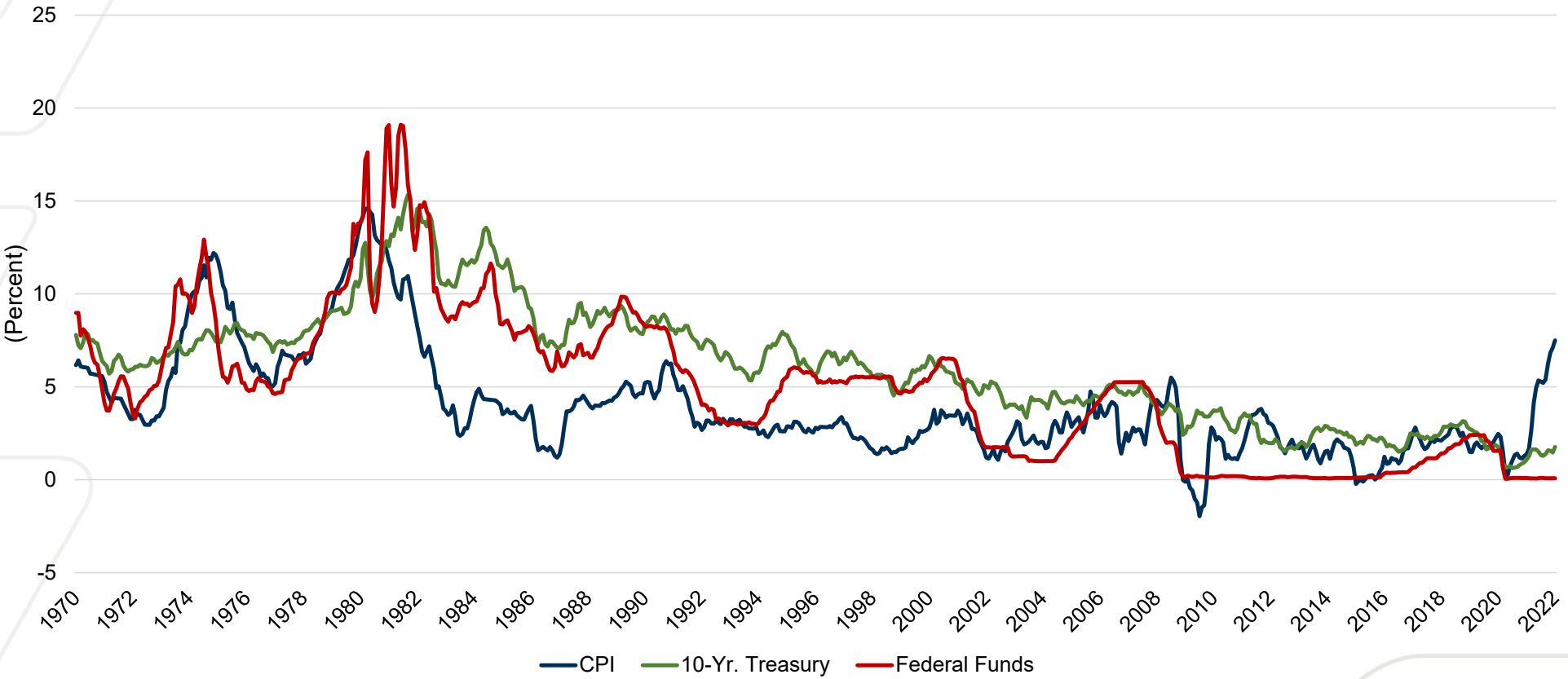
- COVID Preparedness & Response Act (\$8B)
- Families First Coronavirus Response Act (\$104B)
- CARES Act (\$2.1T)
- PPP (\$483B)
- PPP Round 2 (\$10B)
- Direct Payments (\$900B)
- American Rescue Plan (\$1.9T)
- "Infrastructure" (\$1.0T)
- Reconciliation (\$1.85T)

Federal Reserve Balance Sheet

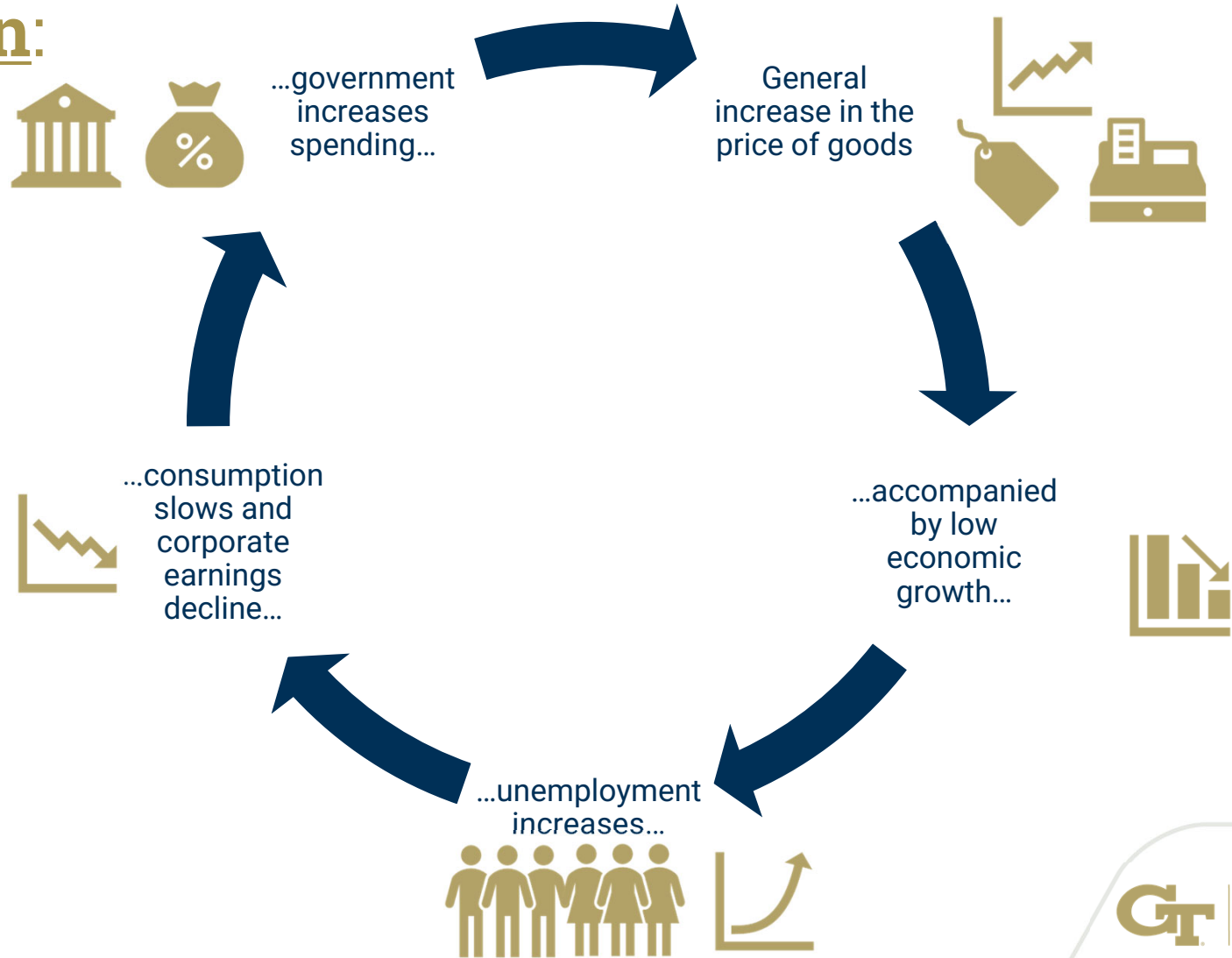
(Millions of Dollars)



How Do You Fight Inflation?



Stagflation:



Labor Markets

MANAGEMENT | MANAGING YOUR CAREER

America's Workers Are Leaving Jobs in Record Numbers

U.S. workers handed in nearly 20 million resignations this spring and summer



PHOTO: RUTH GWILY

Labor Markets

Private Sector Quit Rate



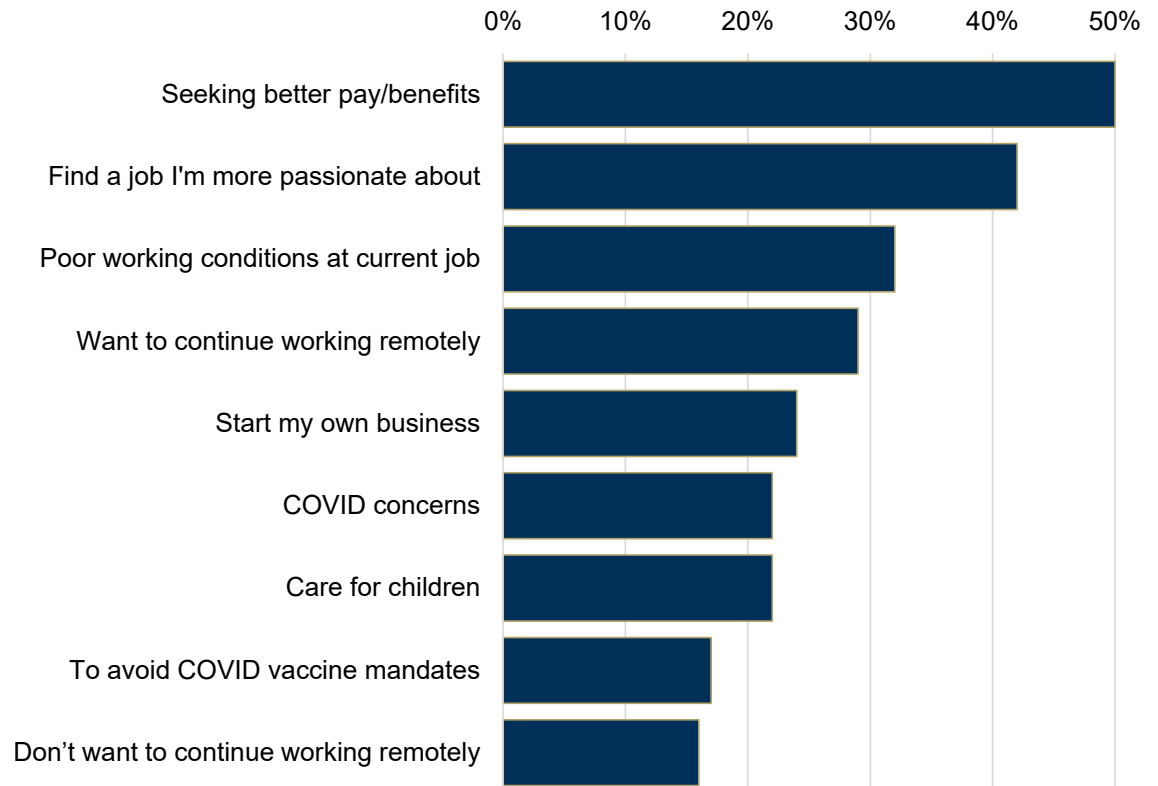
Number of People Quitting



Labor Market Friction

1. People are relocating, changing industries, changing careers
2. Two income households transitioning to one
3. Matching skills/matching mandates
4. Fewer skilled workers/massive skills gap

Why Workers are Seeking New Jobs in 2022

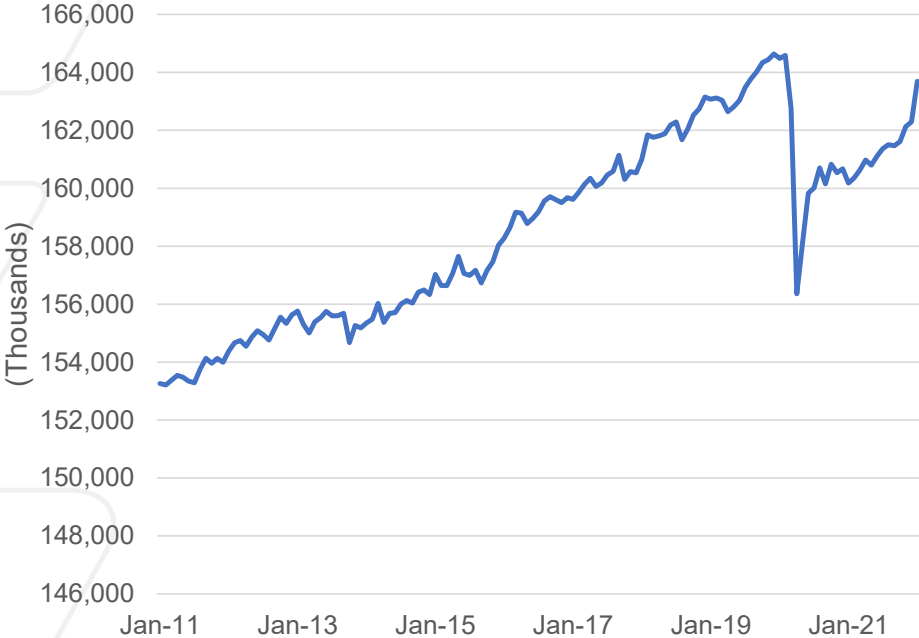


Skilled Worker Shortage

- Millions of openings for skilled workers that do not require a 4-year degree. Why?
 - Significant decline in apprenticeship programs
 - Great recession worker exodus
 - Retiring baby boomers
 - Elimination of shop class
 - Less enthusiasm for skilled work
 - Less interest in taking over the family business
- Results?
 - Skilled worker shortage
 - Lower morale, higher wages, lower hiring standards, higher training costs, lower revenues, more expensive products, slower production.

Labor Markets

Labor Force



Labor Force Participation Rate

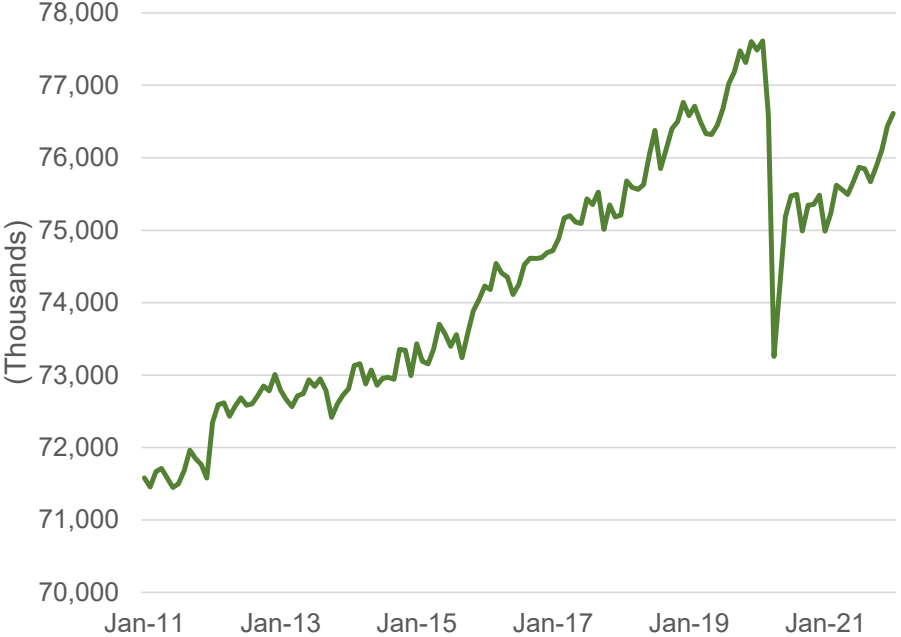


Labor Markets

Labor Force – Men



Labor Force – Women



Unemployment Rate Example:

80 people employed
20 people unemployed looking for work
100 people in the labor force

$20/100 = 20\%$ unemployment rate



10 people decide to stop looking for work



80 people employed
10 people unemployed looking for work
90 people in the labor force

$10/90 = 11.1\%$ unemployment rate



Supply Chain

- You can shut the economy off like a light switch.
- You can NOT turn the economy back on like a light switch.
 - It takes time for the “global supply chain machine” to get back to peak efficiency.
 - Varying international/domestic COVID responses
 - Labor market friction
 - Pent-up demand



Economic Outlook for 2022:

- Supply chain disruptions through the summer of 2022, possibly longer.
- Inflation (or stagflation) will be an issue for at least another 12-18 months.
 - Demand-driven, wage-driven, and monetary policy-driven
 - Once it gets started, very hard to stop.
- Rates will rise slightly but will remain historically low.
 - \$15.6T of outstanding consumer debt (\$1T added in 2021.)
 - \$4.4T is consumer credit
 - \$30T of federal debt (About 125% of GDP)
- Fed balance sheet will continue to grow as there will be a limited market for Treasuries.
- It is going to take a little longer for the labor market to work through the disruptions and return to a new normal.

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