

Partnership Gwinnett

Economic Outlook

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Georgia Tech
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The views and opinions expressed in this presentation are solely those of the presenter and do not necessarily reflect the views of the Georgia Institute of Technology, the Board of Regents, or the State of Georgia.

What I said last February.....

- ✓ • 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.

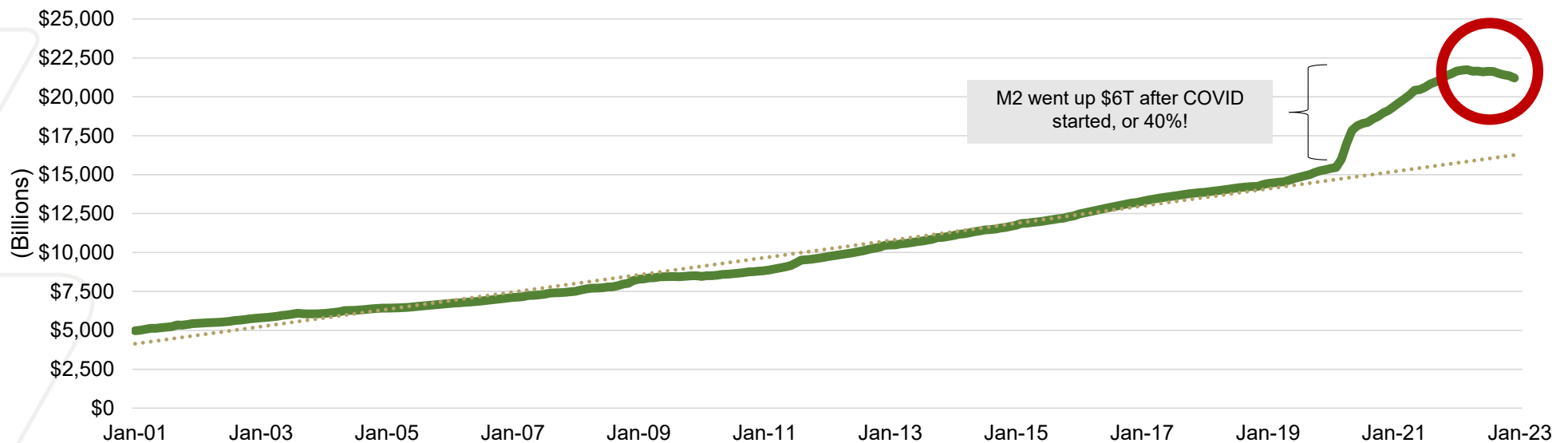
Economic Overview

1. Inflation is here, it is structural, and it is not going away soon.
 - CPI: 6.4%; Core-CPI: 5.5%
 - Fiscal policy & monetary policy are working against each other.
 - When will the Fed pivot? What is the terminal rate?
2. Recession? Now or later...or both?
 - The consumer is tapped...debt is rising, and real wages continue to fall.
 - The manufacturing and service sectors are both in decline.
 - The housing market is pulling back.
 - The yield curve is inverted.
3. Labor market
 - Declining labor force participation.
 - Seismic shifts in underlying employment attitudes.
 - Growth is in those who hold multiple jobs
 - “Labor hoarding”

What is Inflation?

**“Inflation is always and everywhere a monetary phenomenon.
It is made by, or stopped by, the central bank.”
- Milton Friedman**

U.S. Money Supply – M2

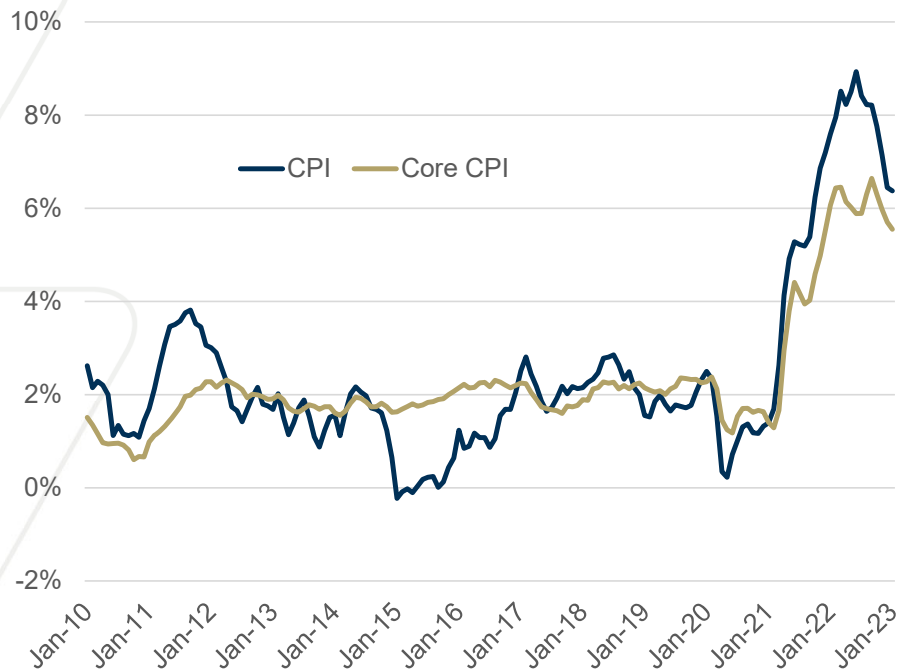


Results of Inflation

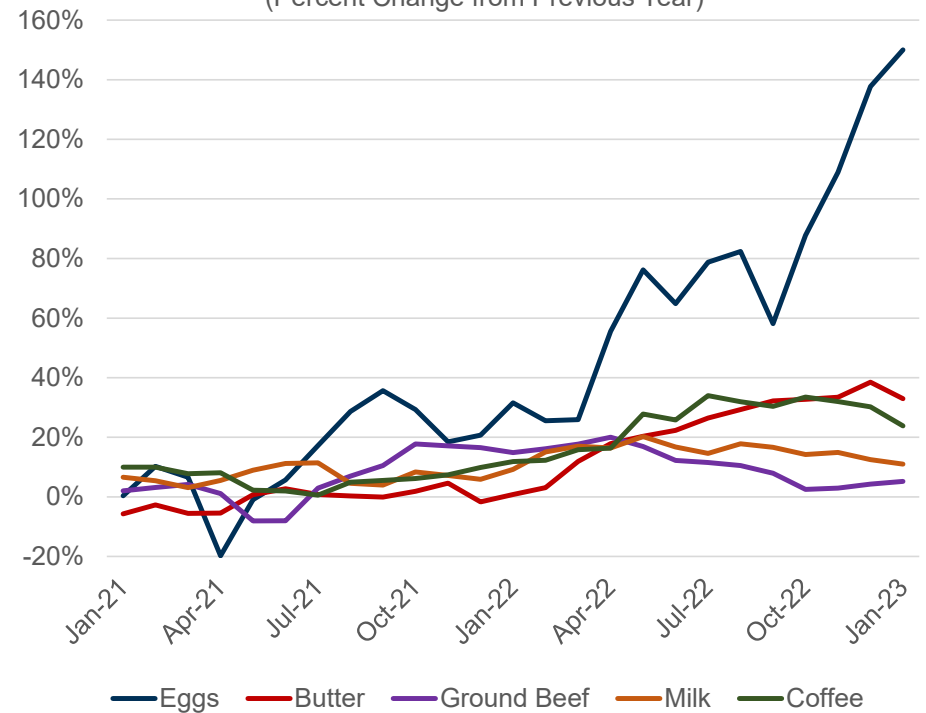
Too many dollars chasing too few goods.

Post COVID, commodity prices exploded as excess dollars chased broken supply chains resulting in classic demand-pull inflation.

Consumer Price Index



Food Prices (Percent Change from Previous Year)



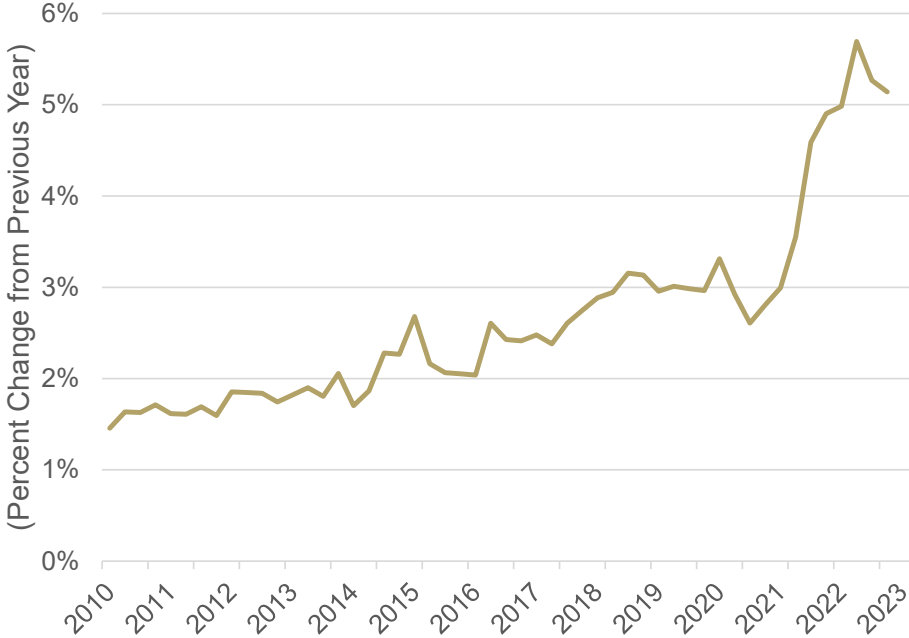
In late 2022, it began to look like this demand-pull inflation was slowing.

Results of Inflation

Consumer Price Index - Services



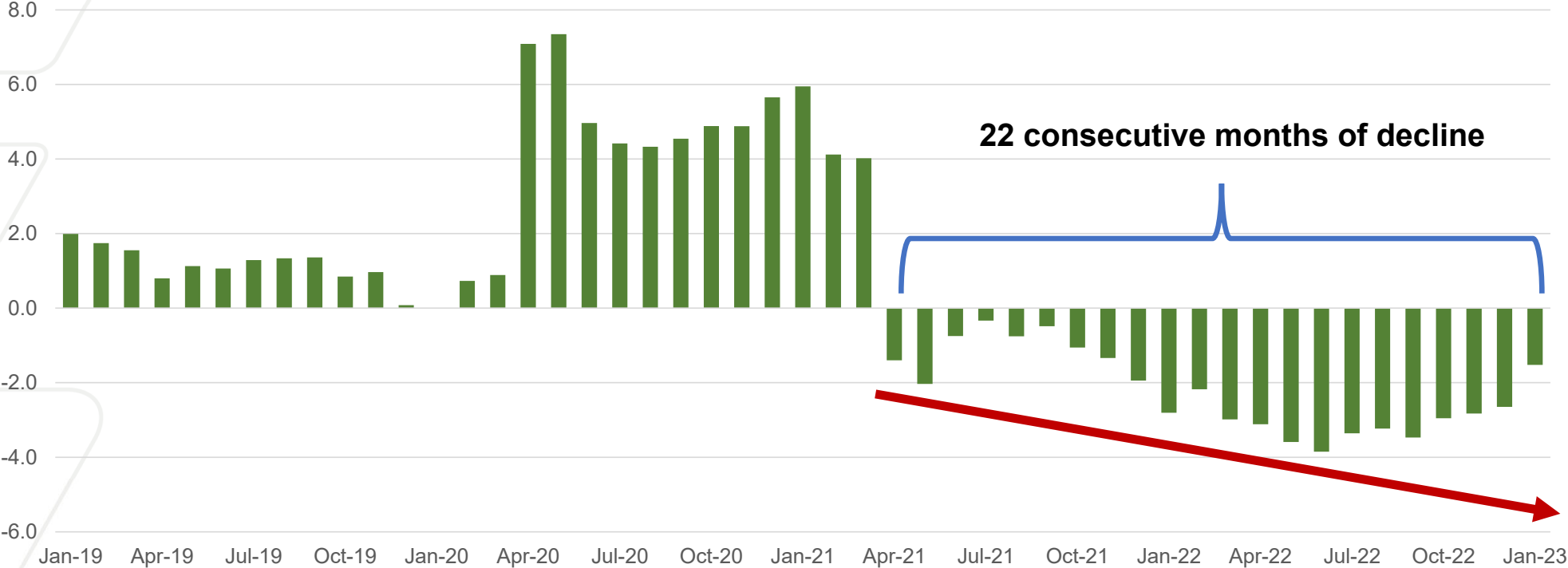
Employment Cost Index (Wages and Salaries of all Private Workers)



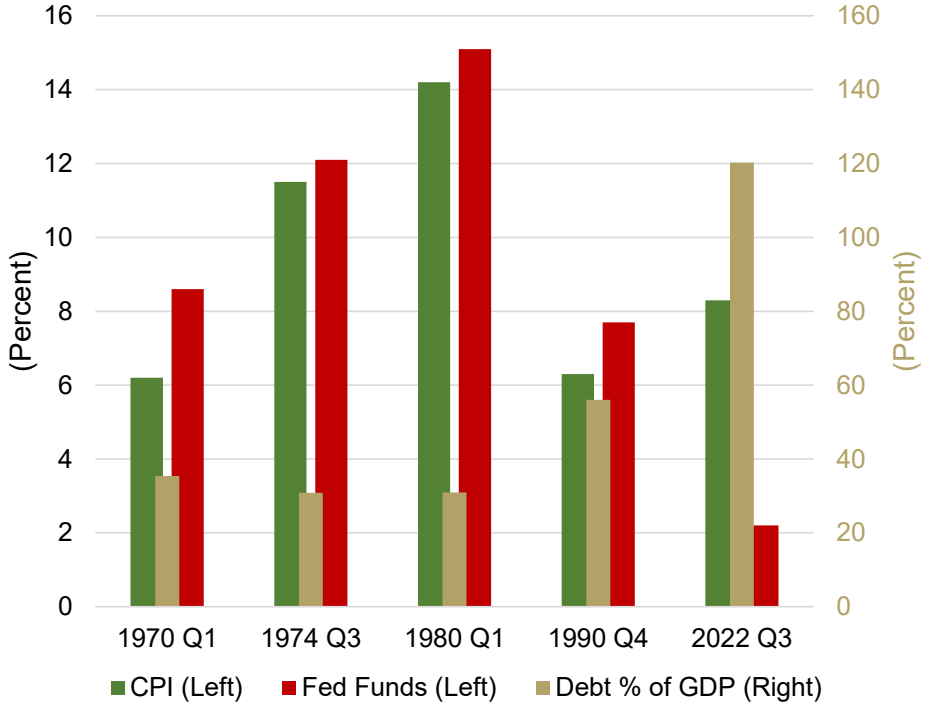
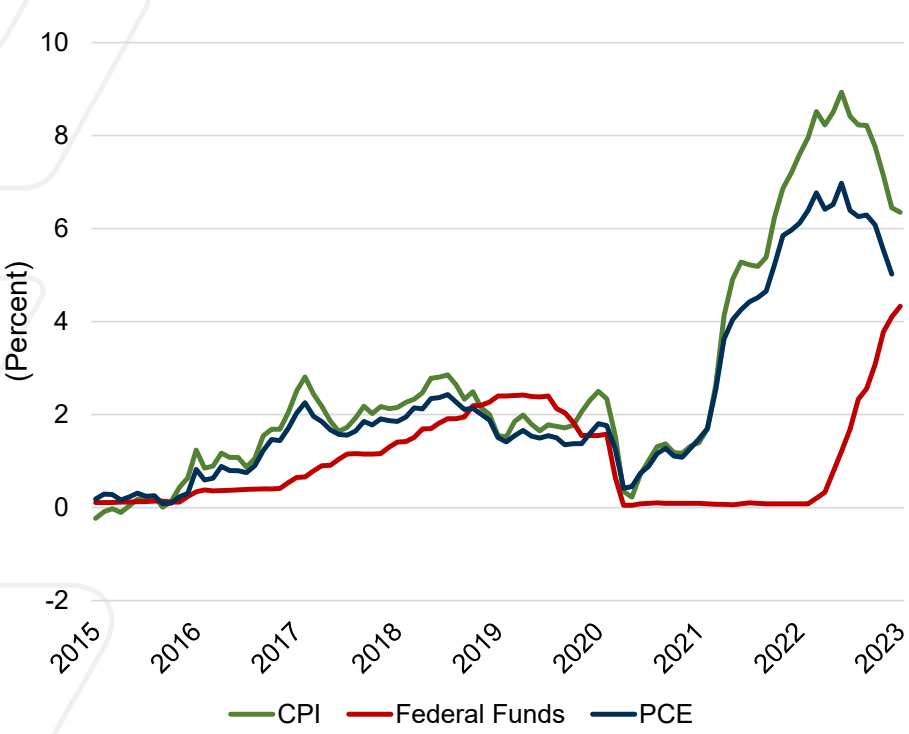
As China re-opens, there will be a global demand for commodities. This demand, mixed with increased wages, will result in increasing cost-push inflation in 2023.

Real Average Weekly Wages

Percent Change from the Previous Year

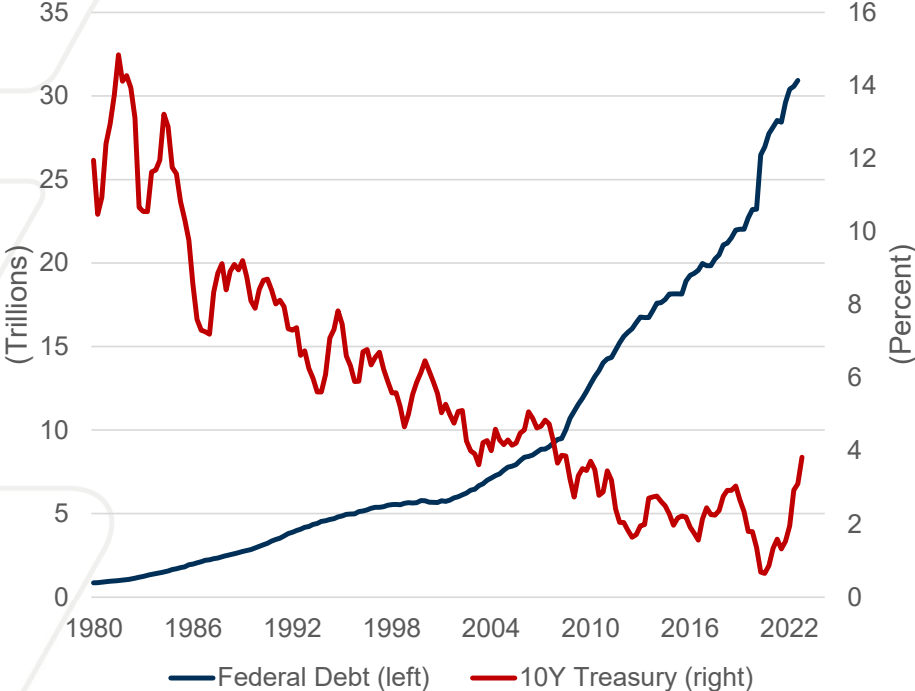


How Do You Fight Inflation?

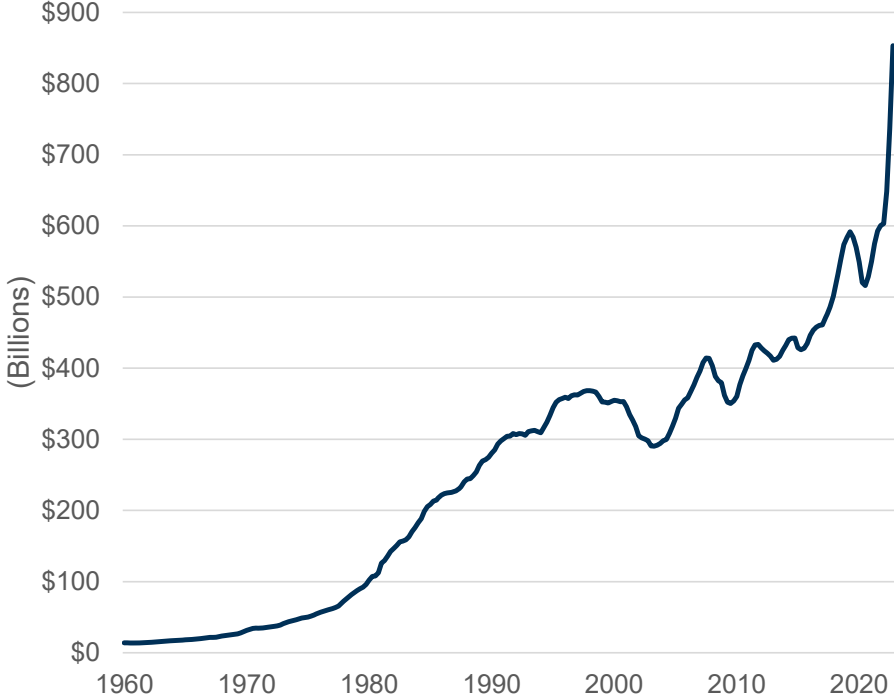


Federal Debt

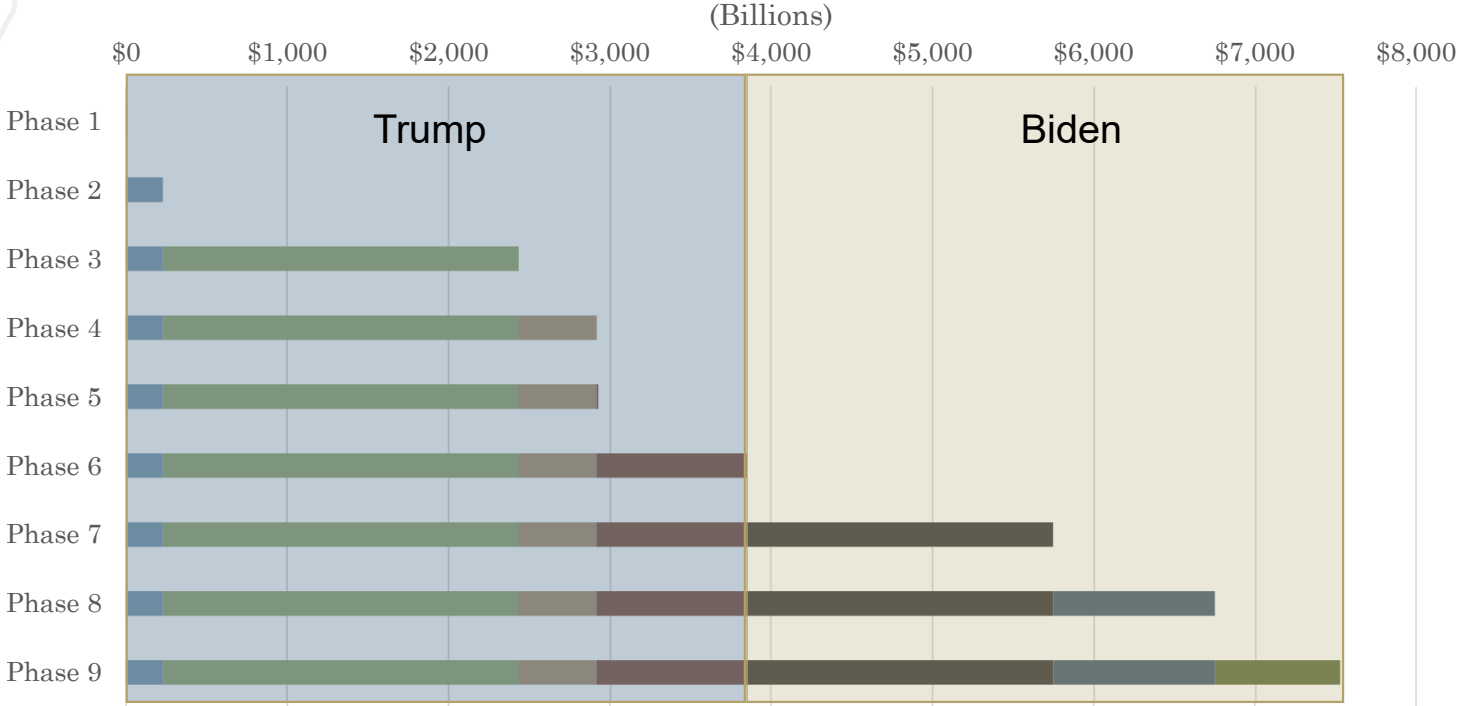
Federal Debt vs. 10Y Treasury Rate



Federal Debt Interest Payments

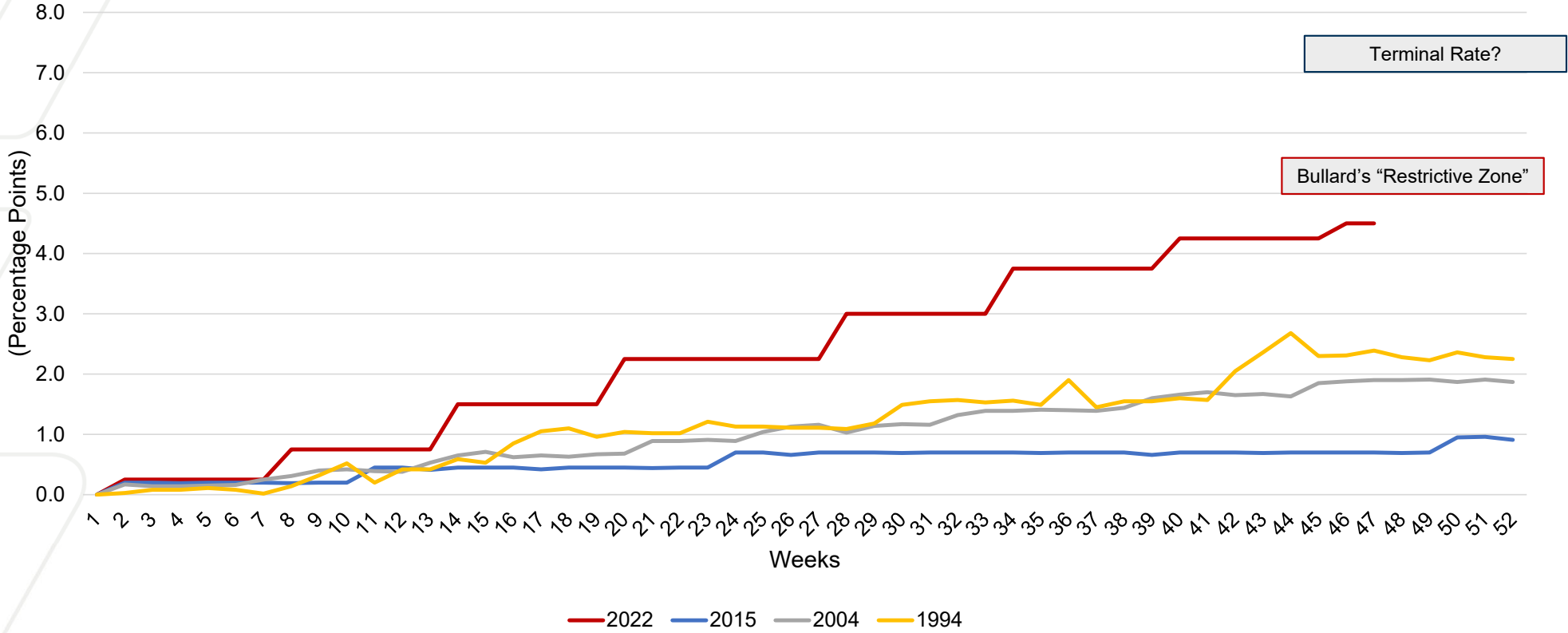


Recent Federal Government Spending



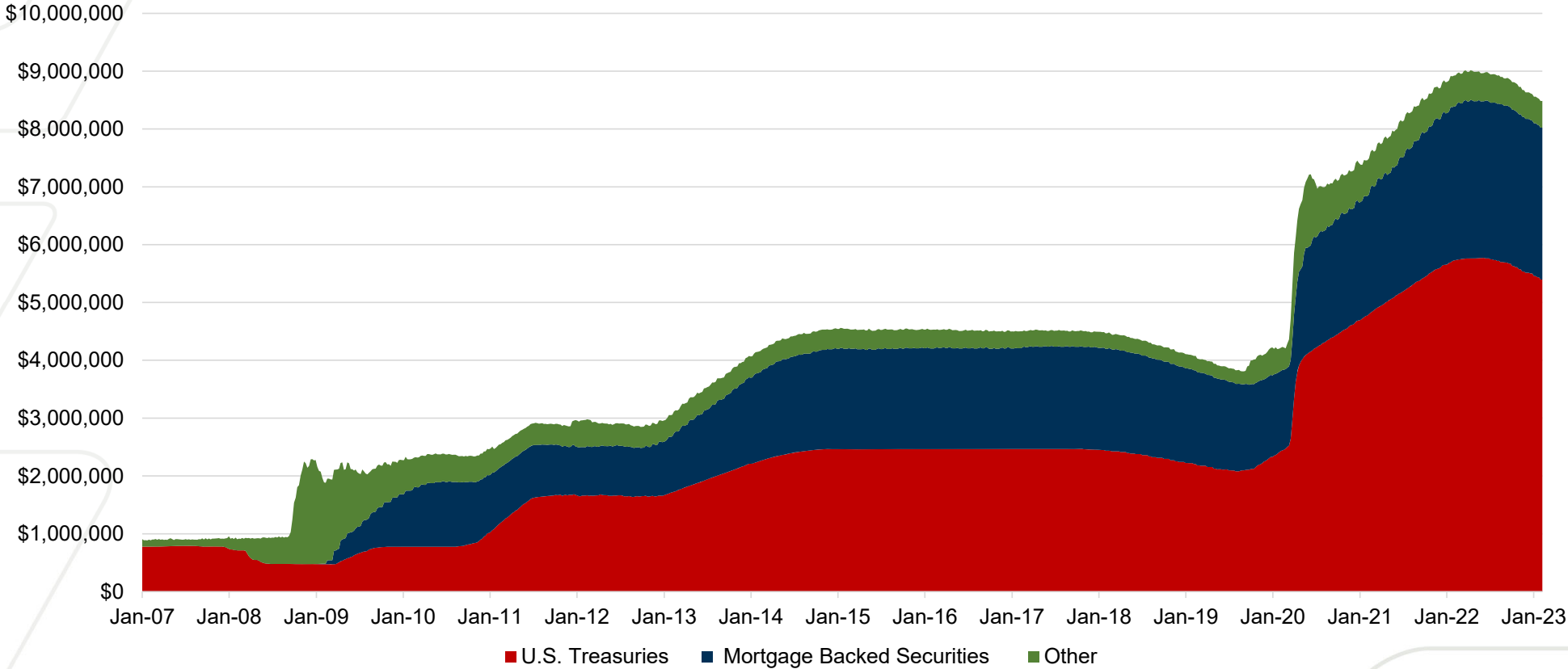
- COVID Preparedness & Response Act (\$8B)
- Families First Coronavirus Response Act (\$225B)
- CARES Act (\$2.2T)
- PPP (\$483B)
- PPP Round 2 (\$10B)
- Consolidated Appropriations Act (\$920B)
- American Rescue Plan (\$1.9T)
- "Infrastructure" (\$1.0T)
- "Inflation Reduction Act" (\$775B)

Fed Response: Rapid Rate Increases



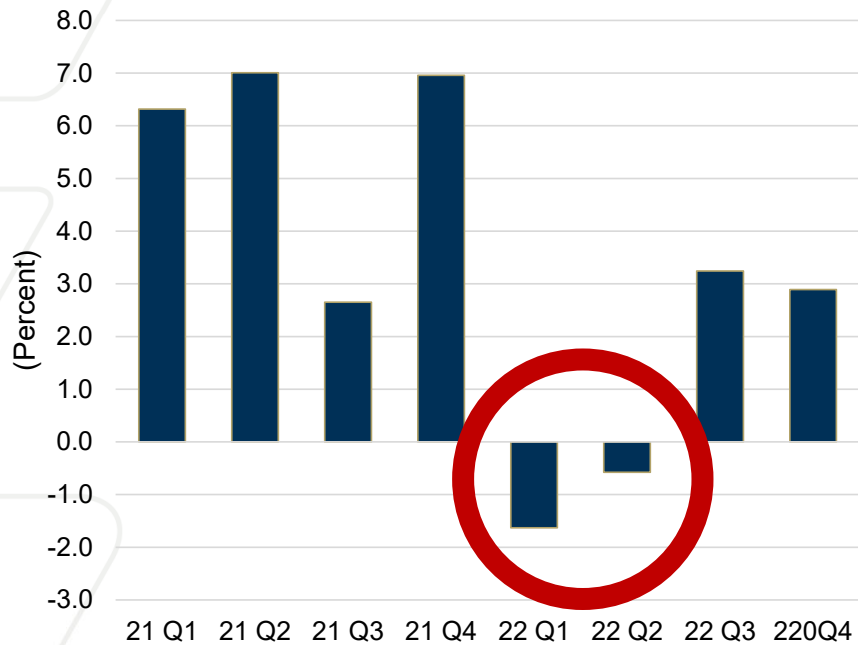
Federal Reserve Balance Sheet

(Millions of Dollars)

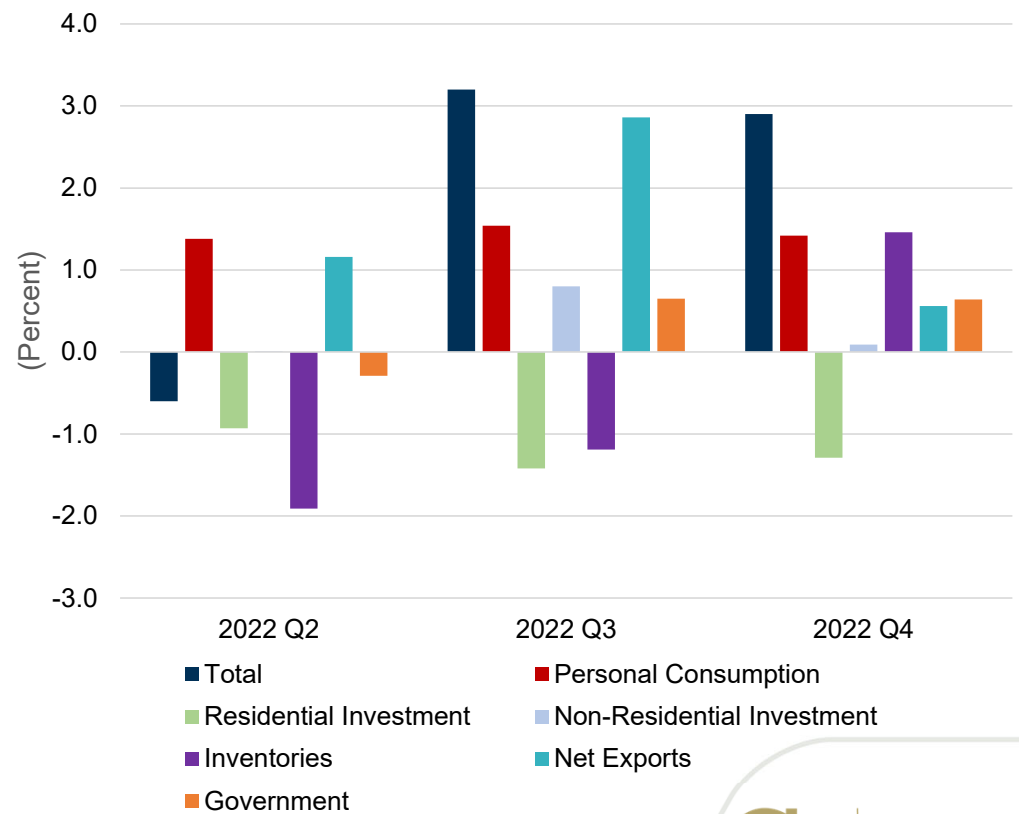


What About a Recession?

Real GDP Annualized Growth



GDP Components



What About a Recession?

Arguments Against

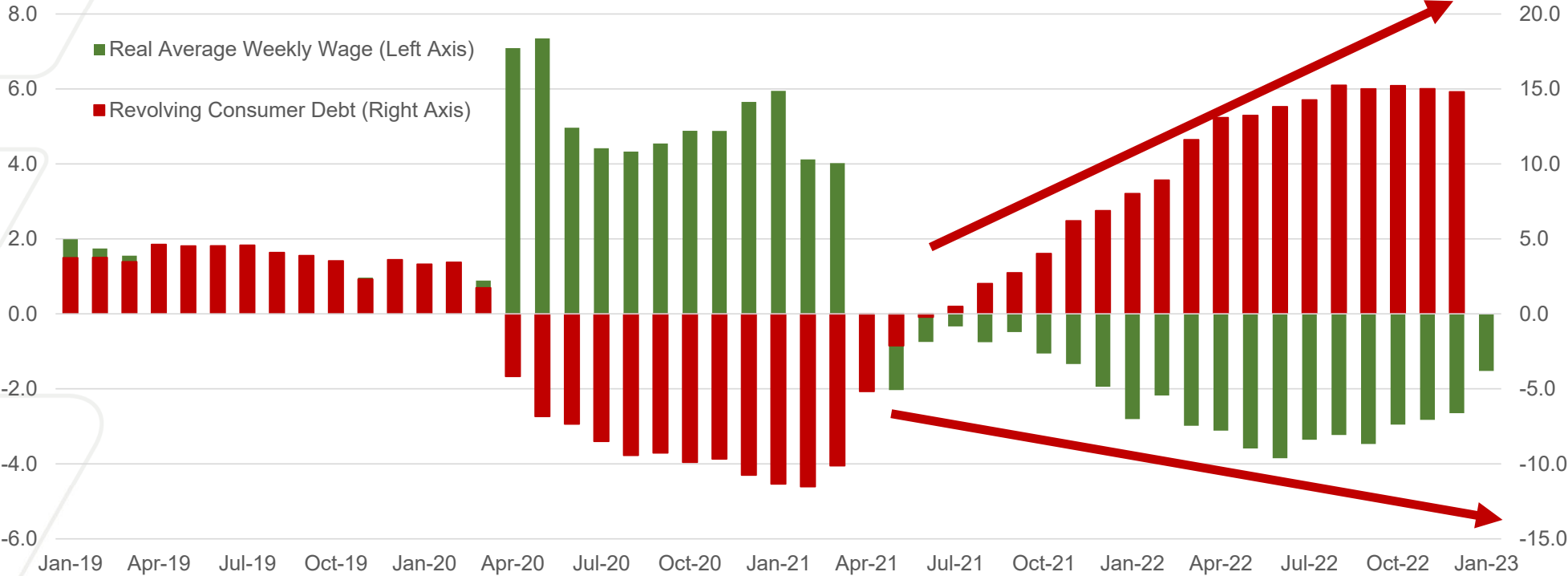
1. Households/consumers are still strong!
2. Labor market is strong with low unemployment and available jobs!

...But....

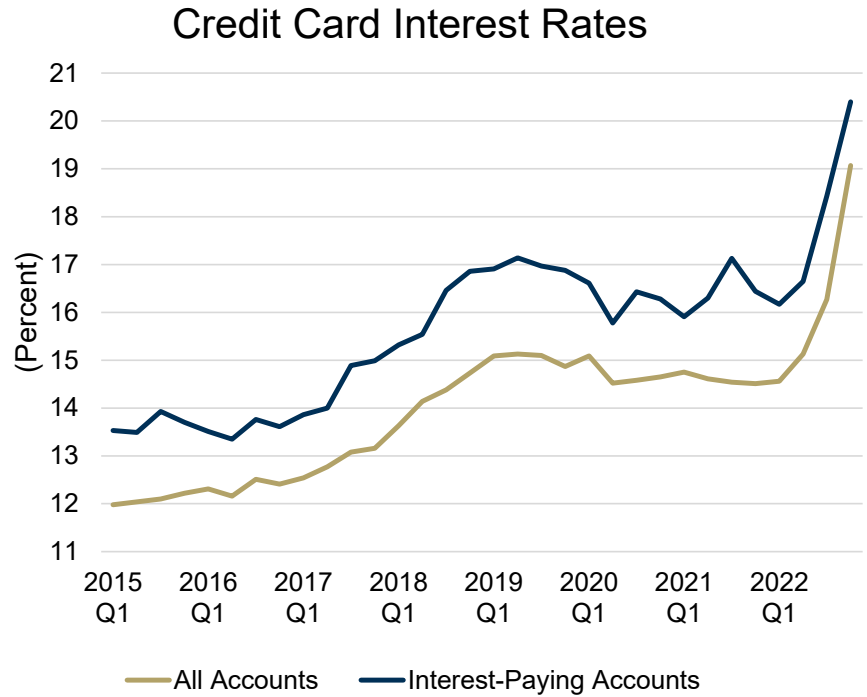
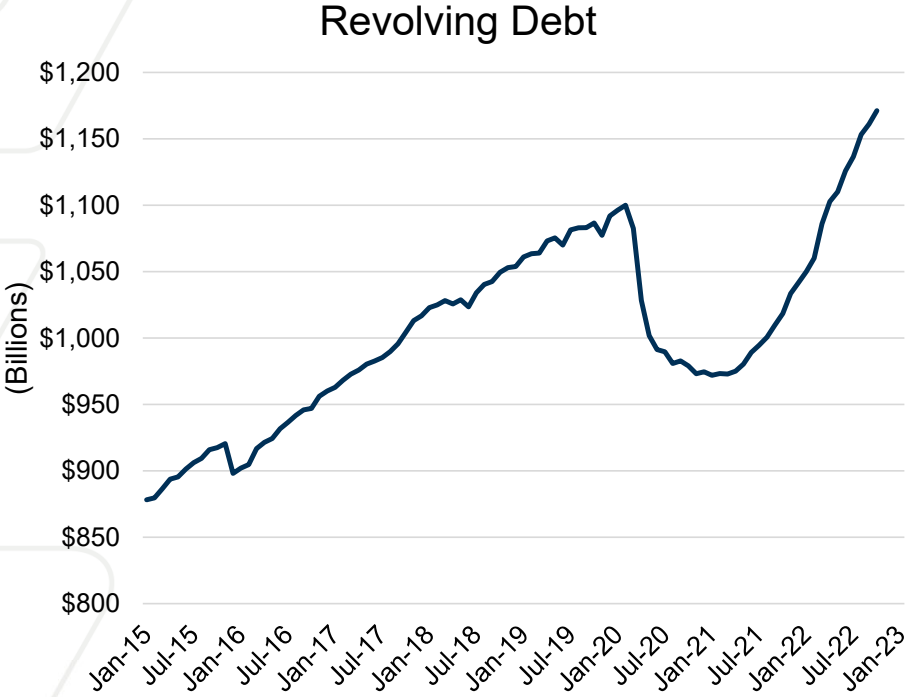
- Nearly two years of declining real wages, record levels of household debt, rising credit card defaults, and declining net worth.
- Low labor force participation rates
- Recent job gains are part-time
- Huge increases among people holding multiple jobs
- Thousands of recent layoff announcements

Real Average Weekly Wages & Revolving Debt

Percent Change from the Previous Year



Debt Rising Much Faster than Income

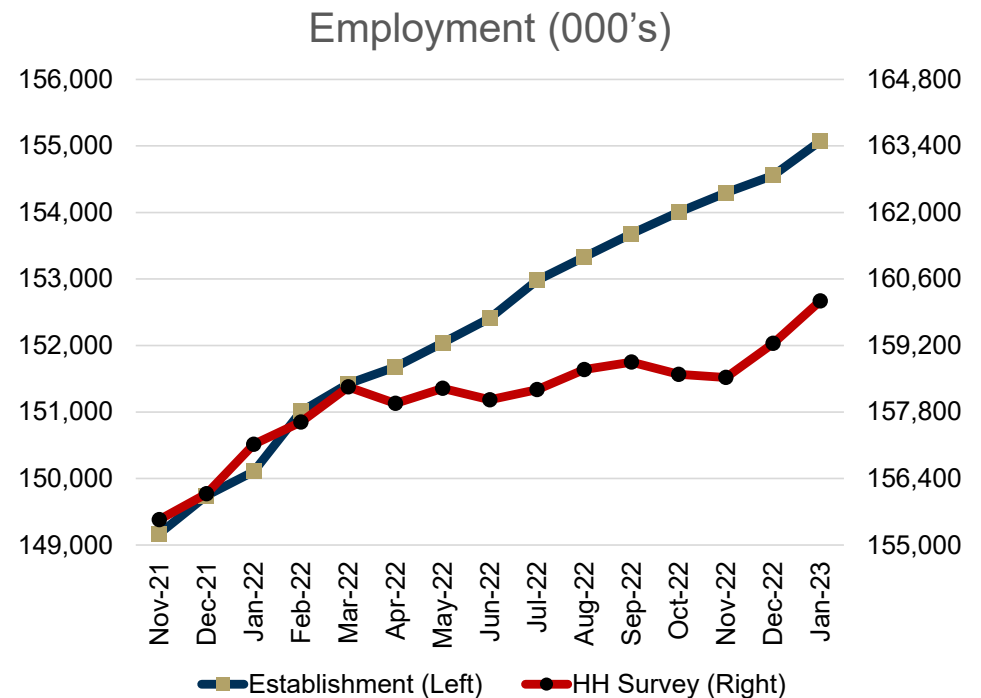


Revolving debt is growing at 15% while NOMINAL disposable income is growing less than 3%!

Household net worth declined in all three reported quarters of 2022.

Payroll vs. Household Employment

- 2022...
 - added 4.8M new jobs according to the establishment/payroll data
 - Added 3.2M new jobs according to the household survey.
 - The difference of more than 1.6M jobs is the largest positive difference between the two surveys since 1995.
- In January....
 - Payrolls grew by 517K jobs, but...
 - The number of new part-time workers was 606K!

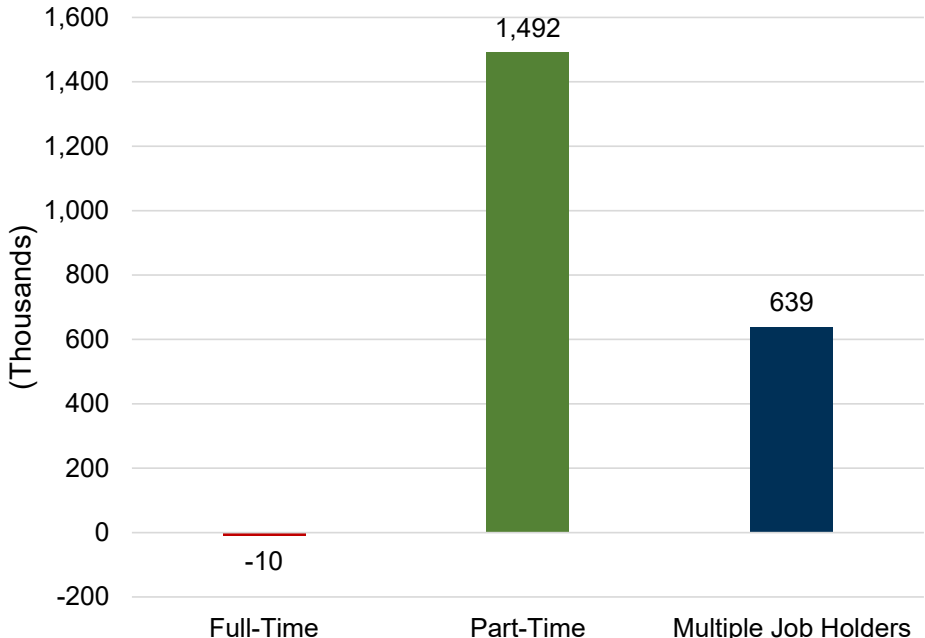


Payroll vs. Household Employment

Monthly Chg. In FT vs. PT Jobs

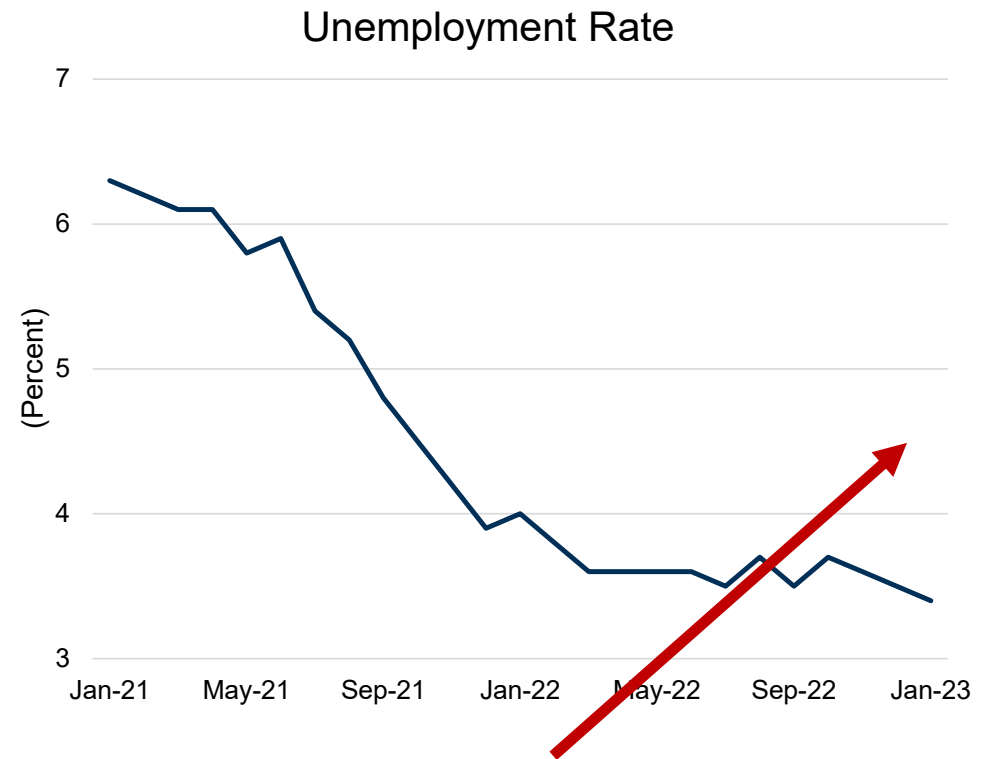
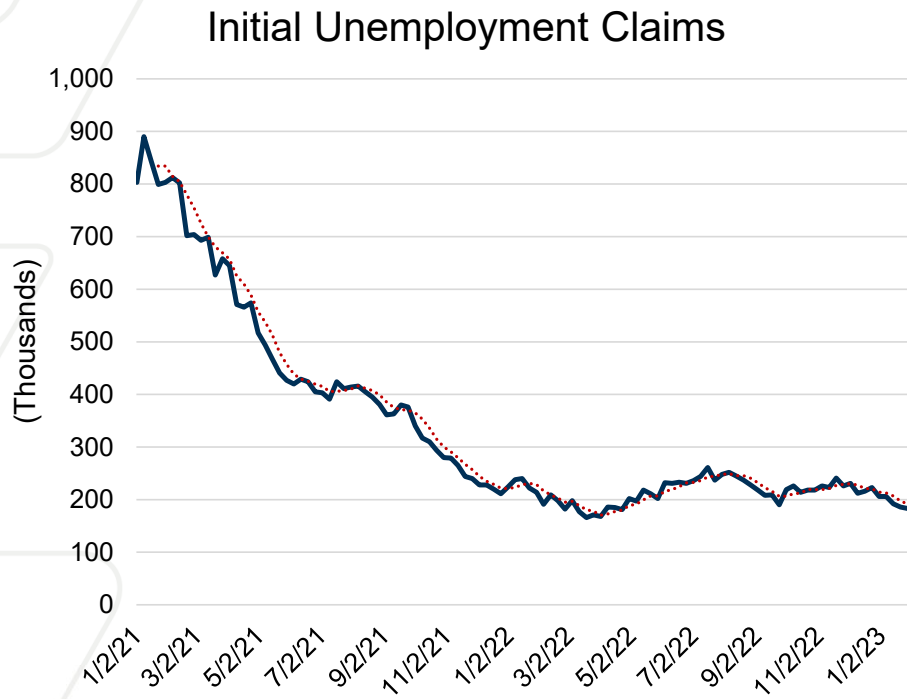


Job Changes: March '22 to January '23



Of the of the 3M new payroll jobs added since March, half are only part-time, and 20% were not new workers finding jobs, but existing workers finding more than 1 job.

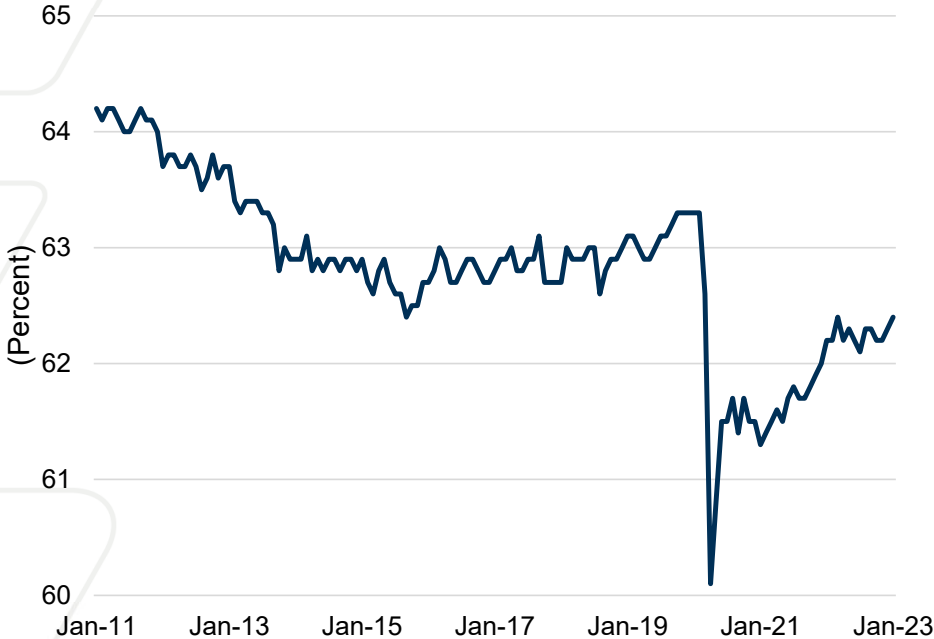
Unemployment



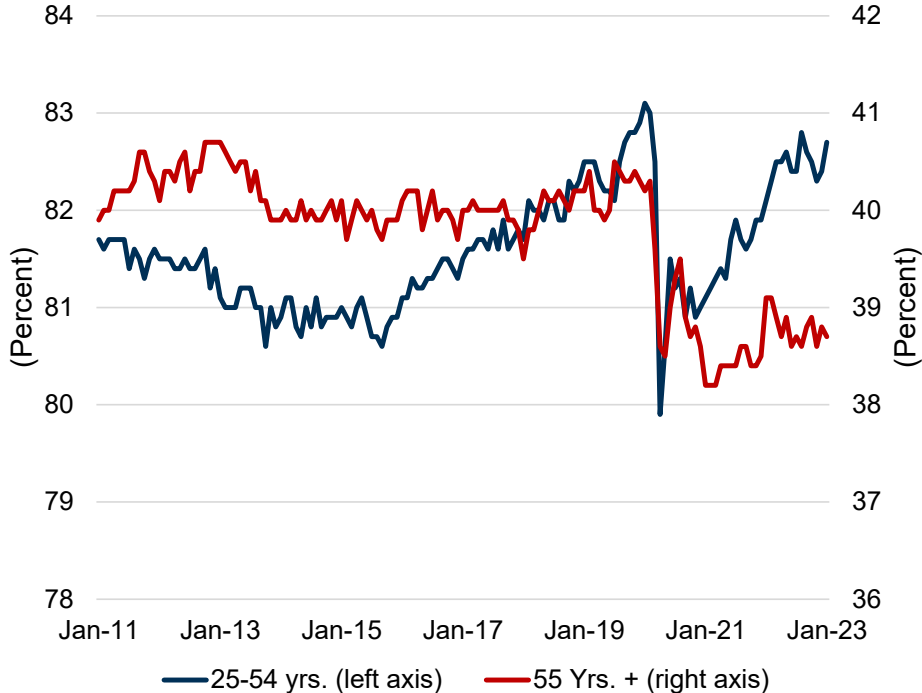
The Fed says the unemployment rate needs to be in the 4.6% range to get inflation down!

Labor Market

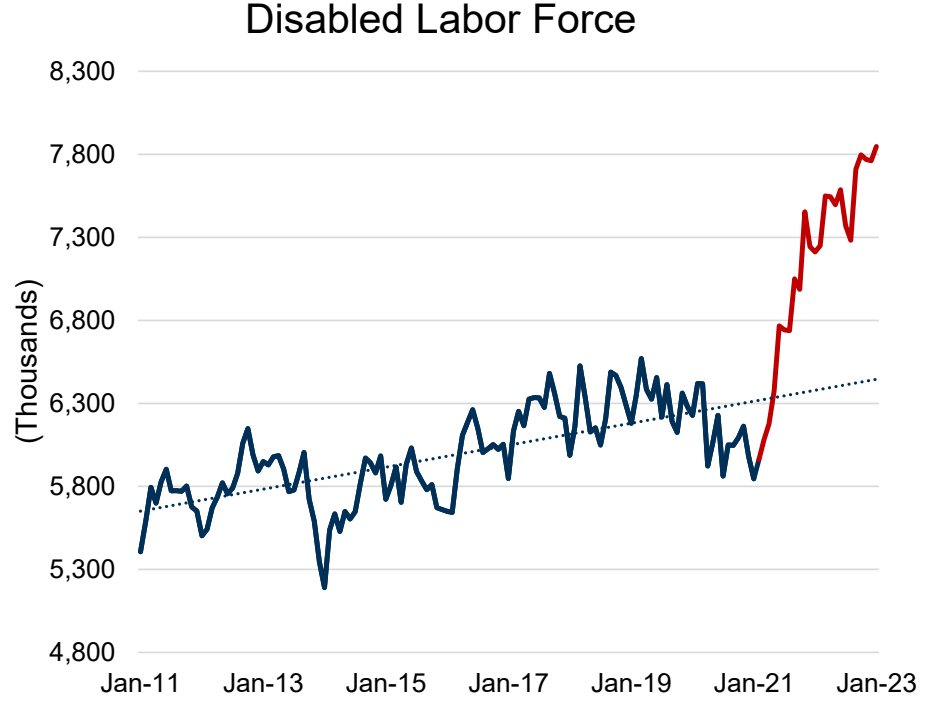
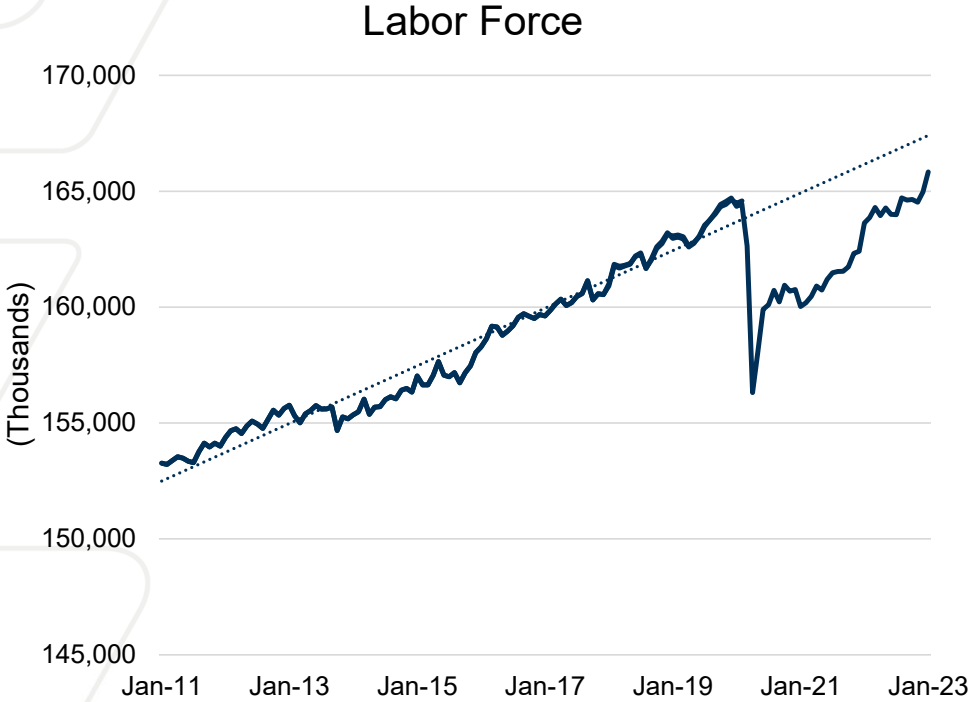
Labor Force Participation Rate



Labor Force Participation Rate by Age

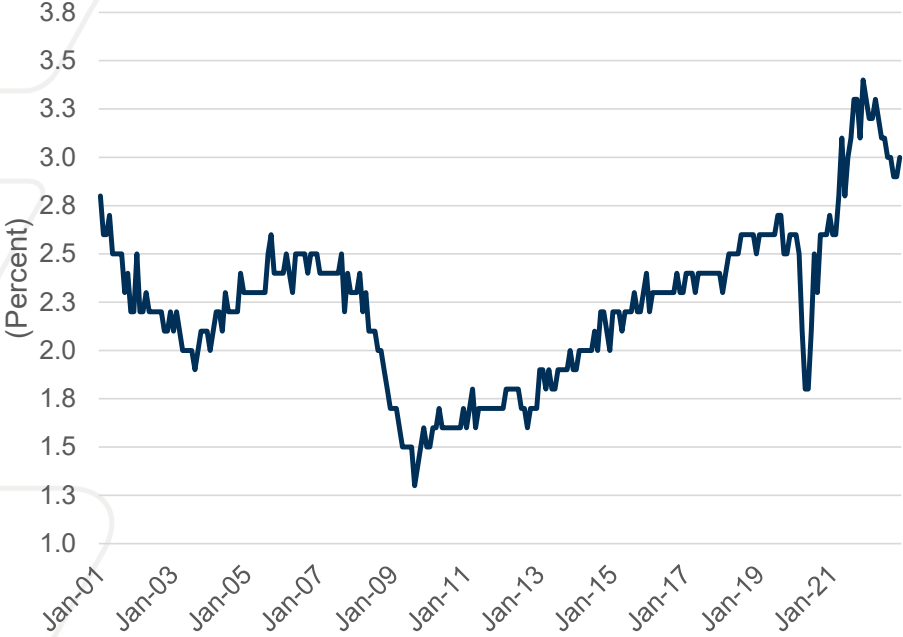


Labor Market



Labor Market

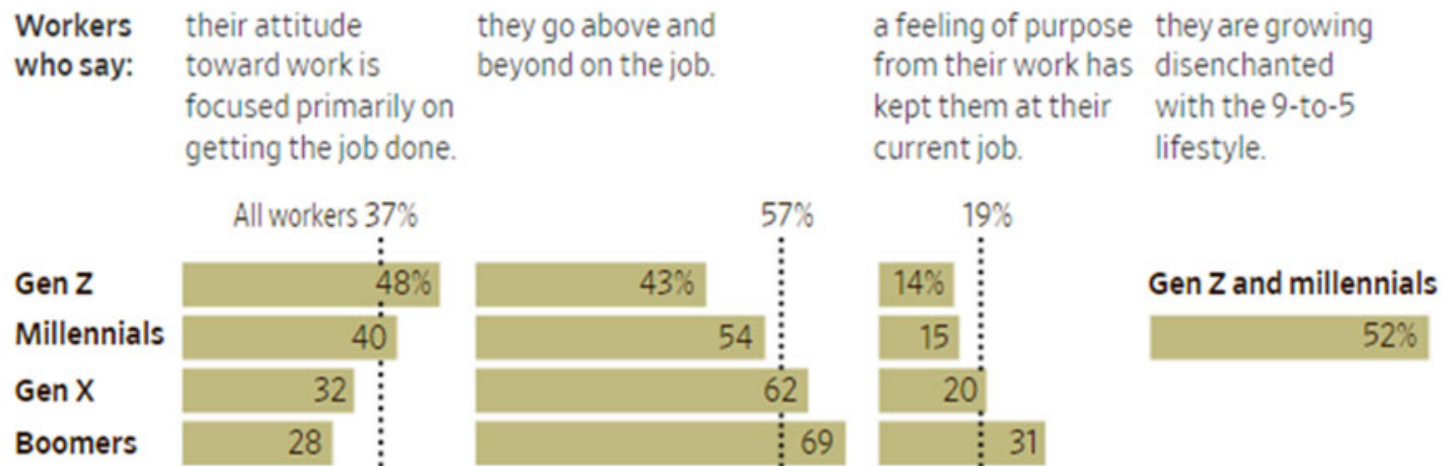
Private Sector Quit Rate



of People Quitting (Private Sector)



Attitudes Towards Work are Shifting

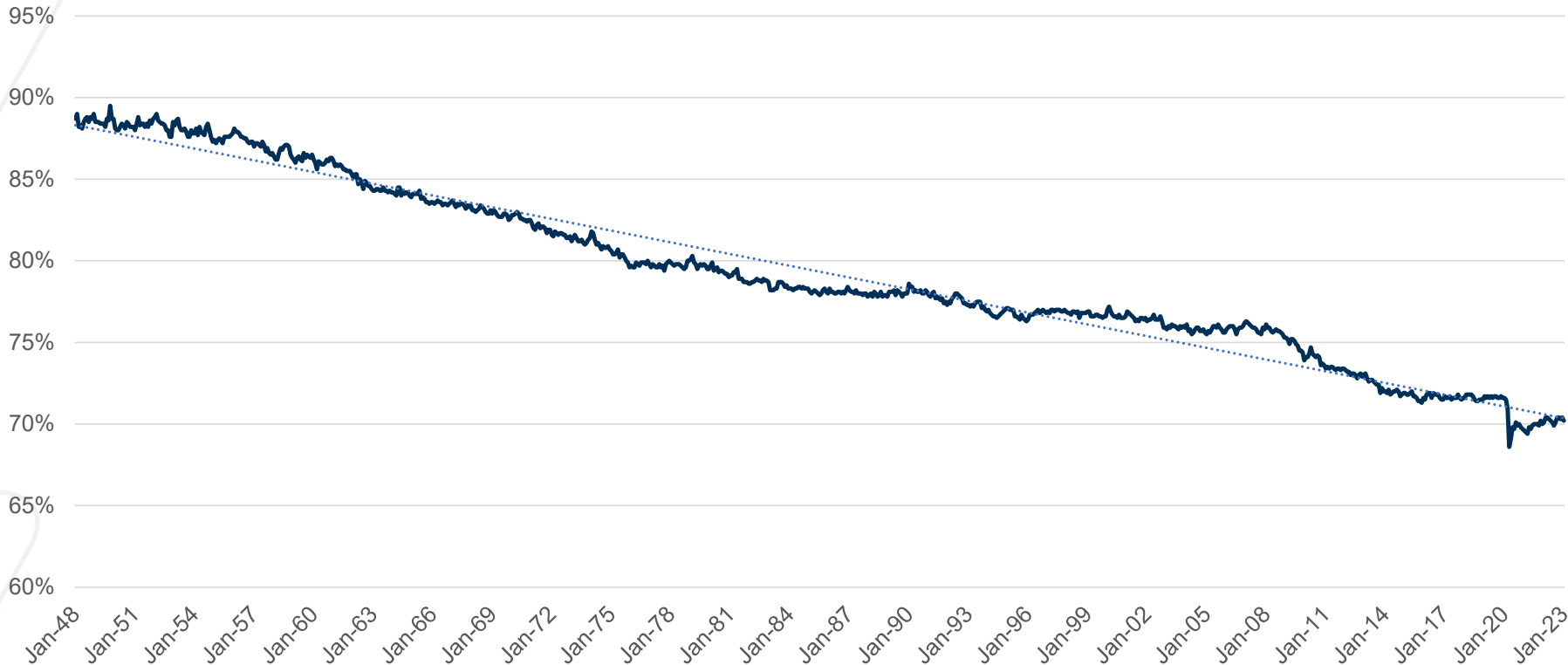


Source: Prudential survey conducted Sept. 29–Oct. 1, 2022, of 4,796 adults, 2,356 of which are workers.

According to a recent University of Chicago study, in 24 states, unemployment benefits and ACA subsidies for a family of four with both parents not working are the annualized equivalent of at least the national median household income.

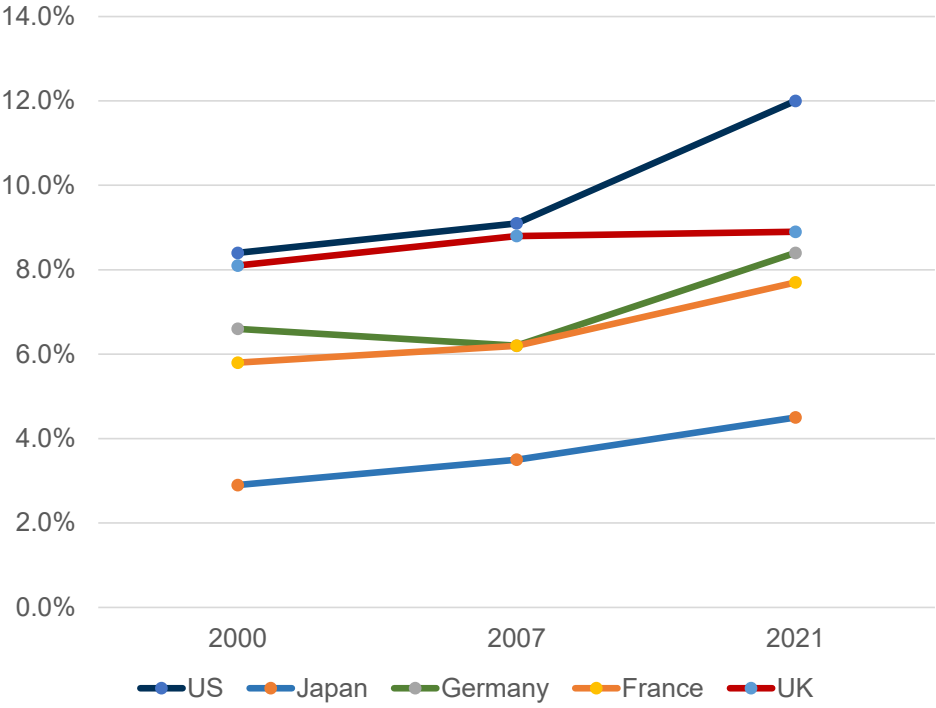
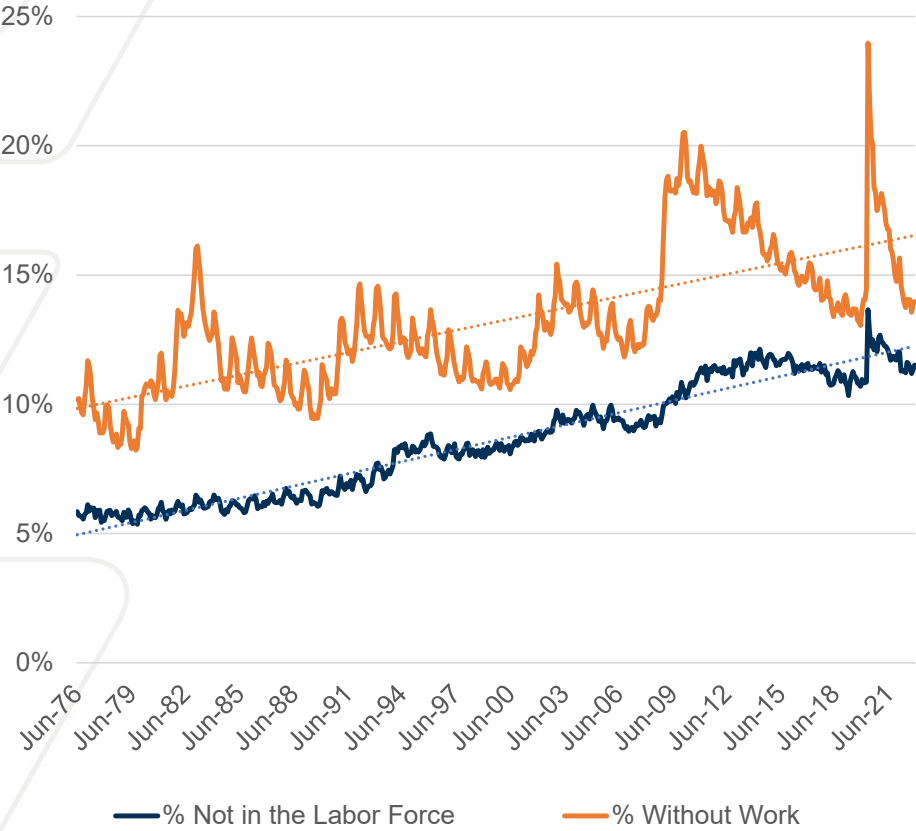
Labor Market

(Labor Force Participation Rate for Men Age 20+)

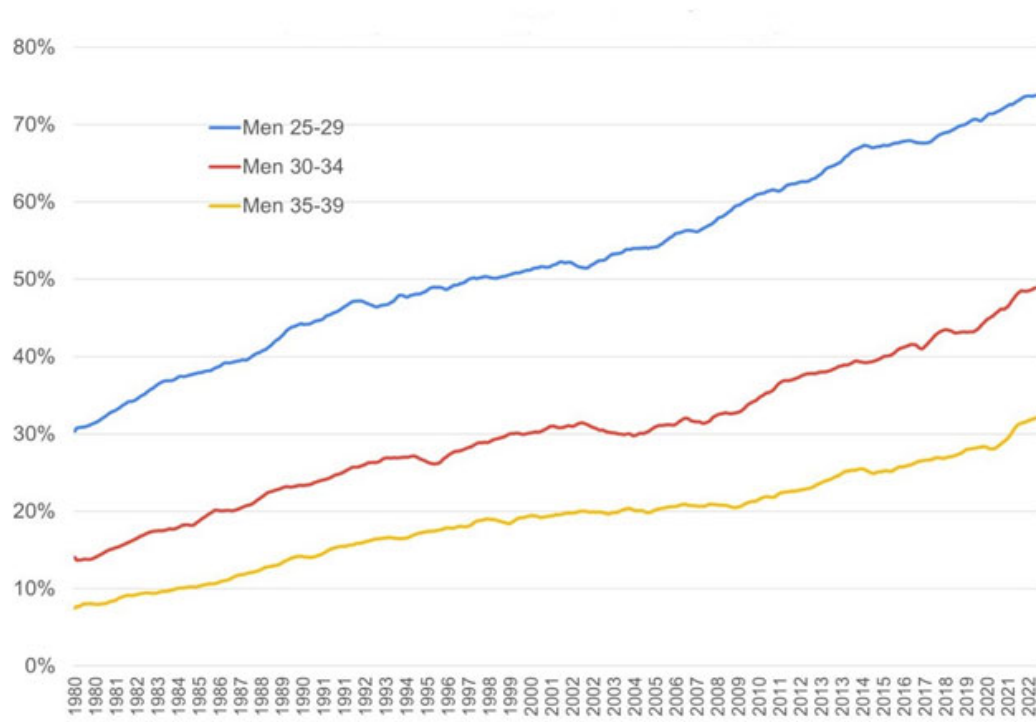
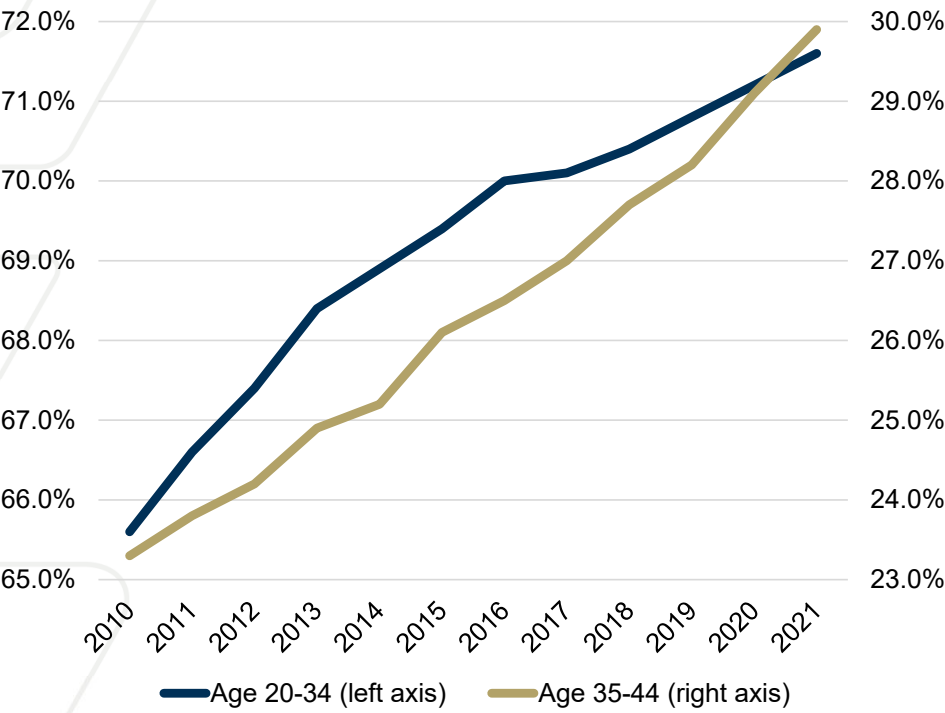


Labor Market

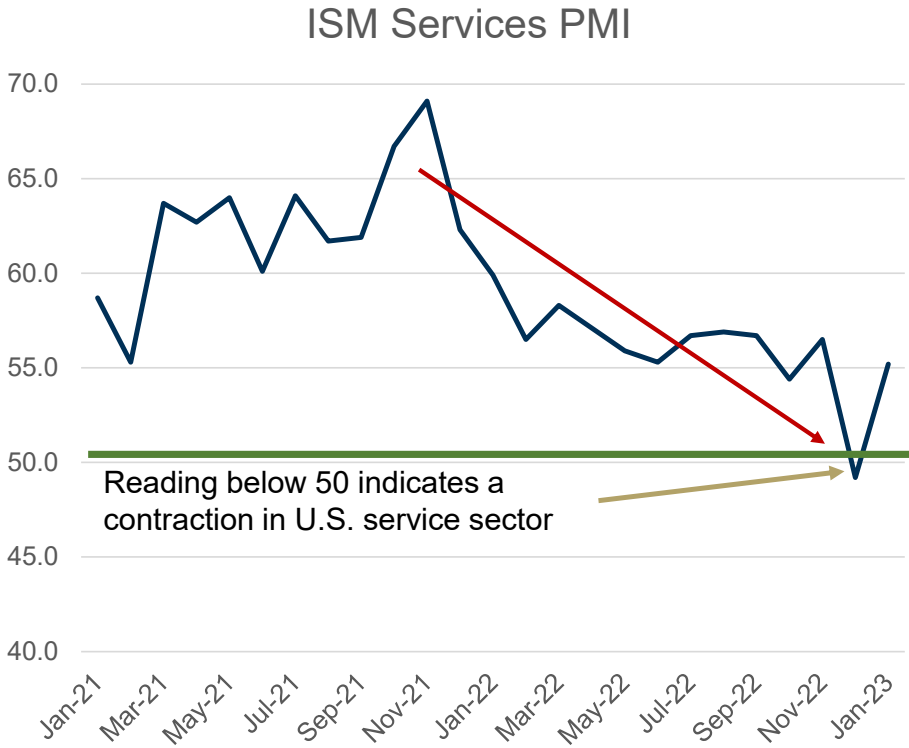
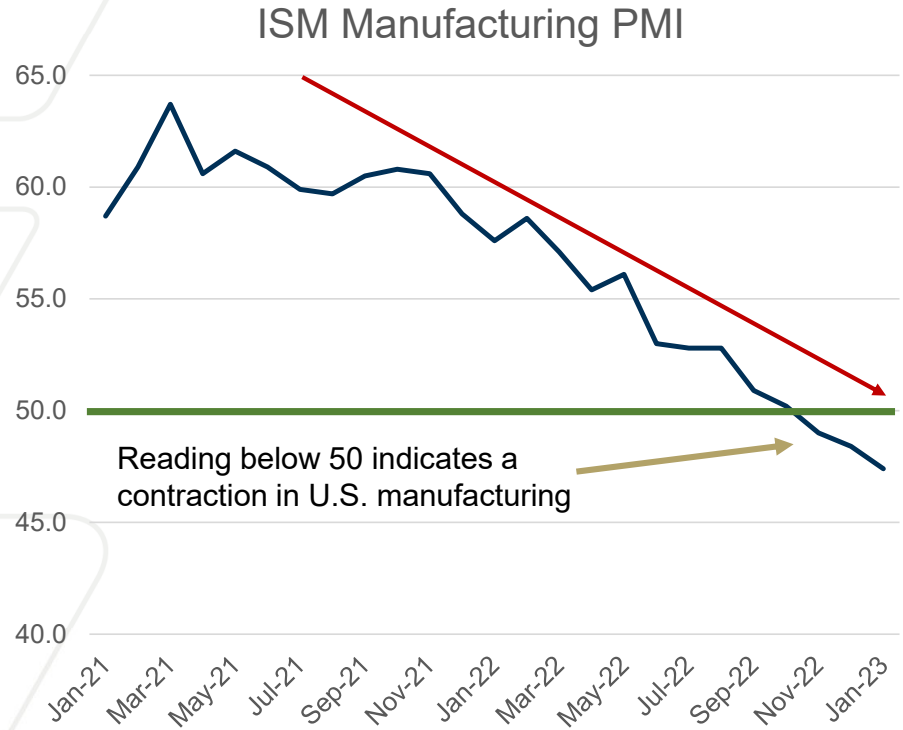
(Percent of Men 25-54 NOT in the Labor Market)



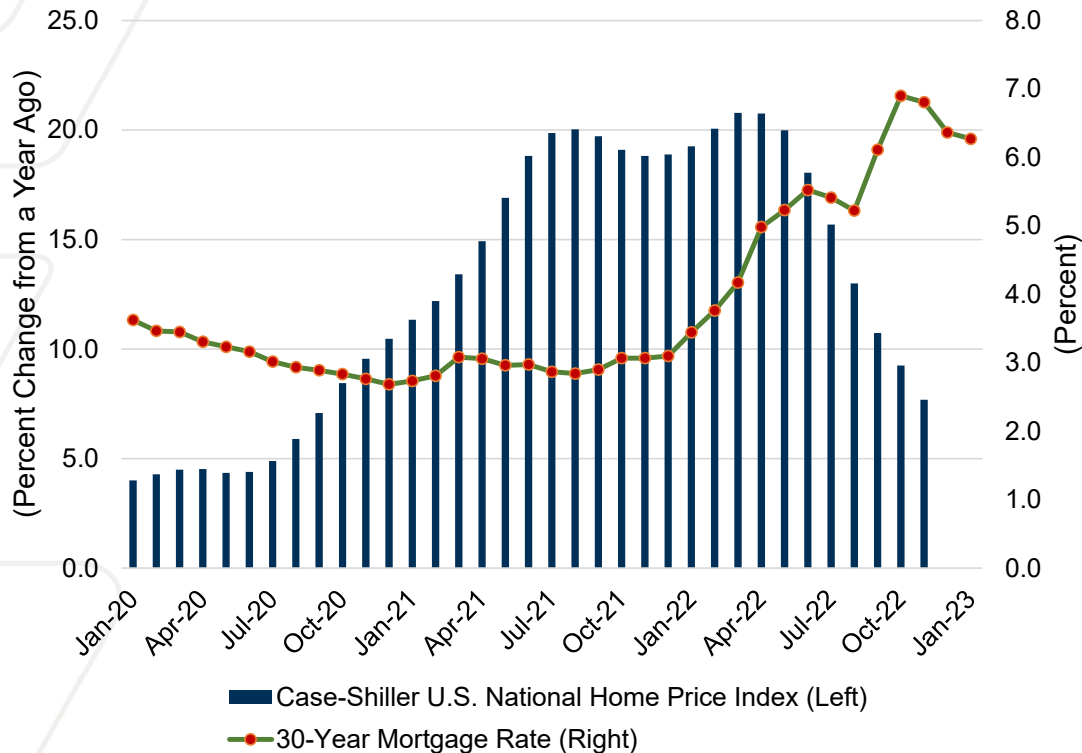
Share of Men Never Married



Manufacturing & Service Sectors

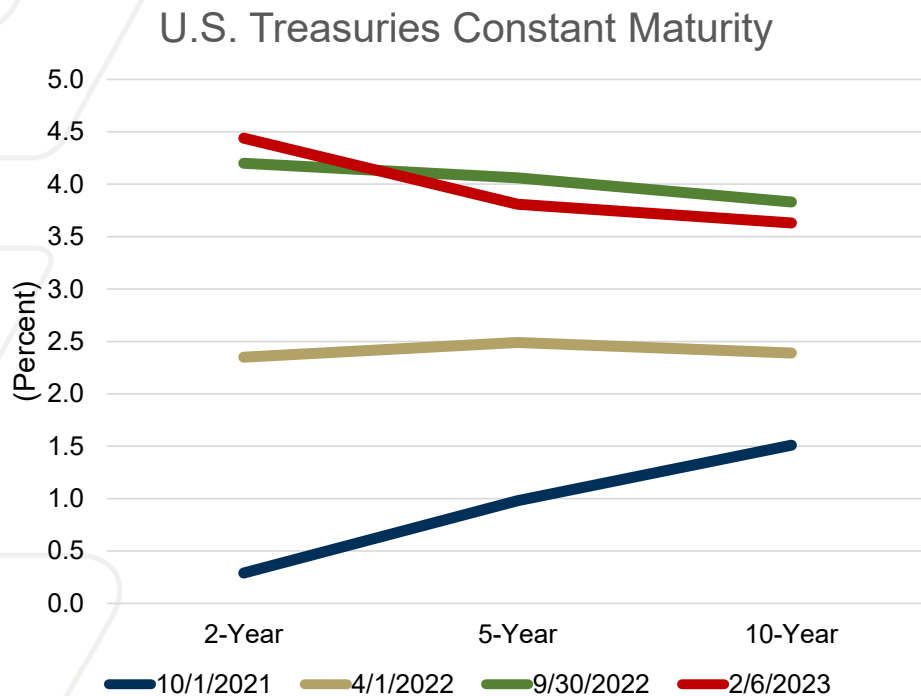


Housing Market is Pulling Back...But Slowly.



- Even with mortgage rates above 6%, home prices are still growing on a year-over-year basis.
 - Low inventory
 - First-time buyers less sensitive to mortgage rates.
- However, on a month-to-month basis, prices have been declining since July.

Yield Curve



- Inverted yield curve suggests that the near-term is riskier than the long term.
- One of the most reliable leading indicators of a recession....preceding every recession since 1956 (with only 1 false signal).

Economic Outlook for 2023:

- Inflation will be well above the target level for the foreseeable future.
 - Conflicting fiscal and monetary policy will help sustain this situation.
- Either....
 - A return to increasing Y-o-Y CPI levels in Q2 2023, in which case...
 - ...the Fed will NOT pivot
 - ...the terminal rate will be in the 7% range
 - ...financial markets are at significant risk as liquidity is reduced and rates are driven up.
 - Or, CPI will remain in the 5%-7% range, in which case...
 - ...they will stop rate increases by late spring this year.
 - ...the Fed will pivot late in the year before inflation is under control.
 - ...they will stop/slow balance sheet reduction.
- In either case, GDP will move into recession territory (if not already there) as:
 - the implications of rapid Fed movement have not yet been felt.
 - household incomes continue to fall relative to prices.
 - revolving debt levels become unsustainable.
 - labor markets continue to weaken (despite January's numbers).
 - residential investment slows as prices pull back and rates remain high.

**Geo-political
environment**

**Move away from
the petro-dollar**



**Pandemic
Part 2**

**Sovereign
debt default**

**Electrical grid
failure**

**Weaponization of
global supply chains**

Disclaimer

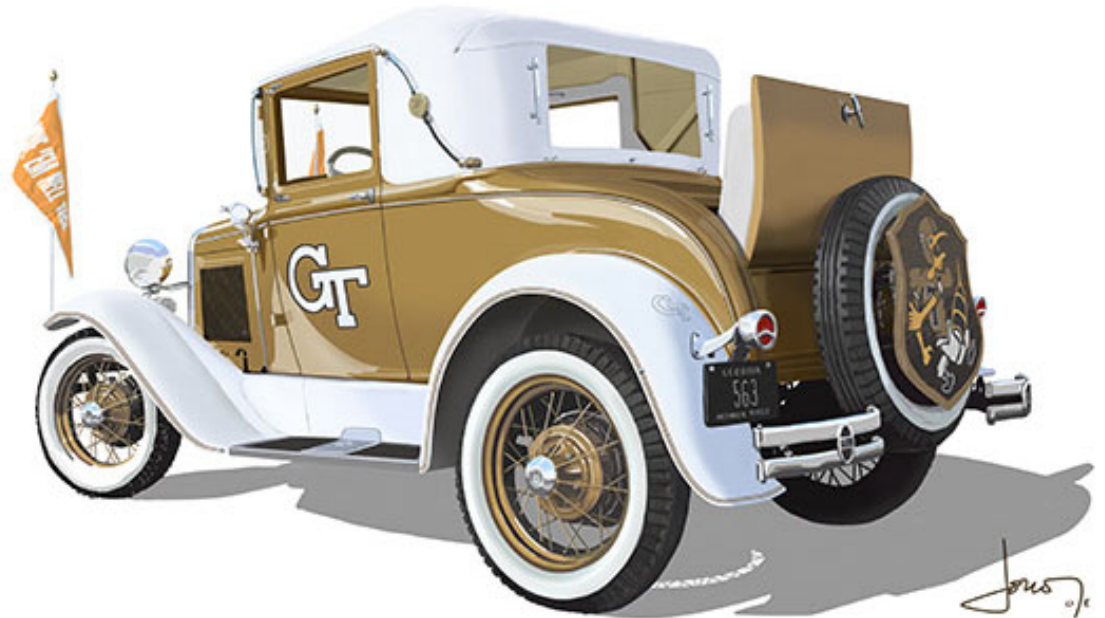
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