



# *The Greatest Economy*



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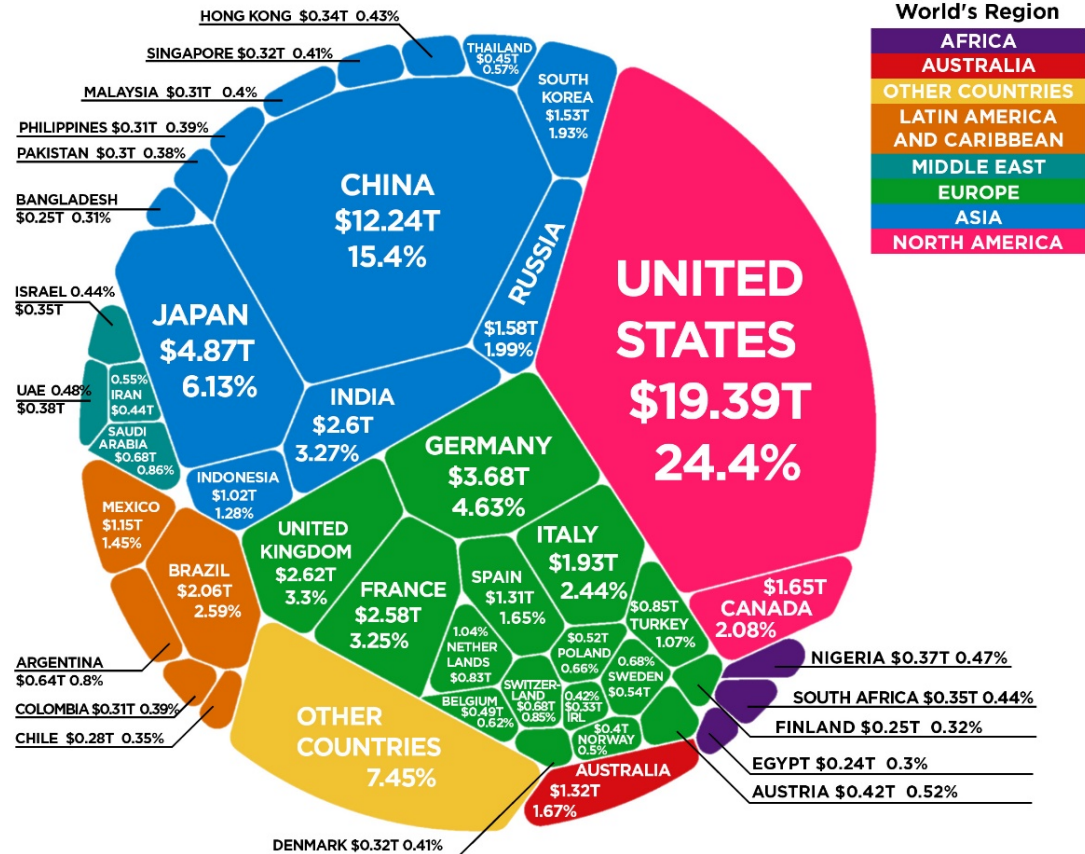
# The U.S. in the World Economy, 2017

The U.S. is the by far the largest economy.

**GDP of \$19.4 Trillion**

24.4% of the World Economy

Several U.S. States' GDP are the same size as other large countries



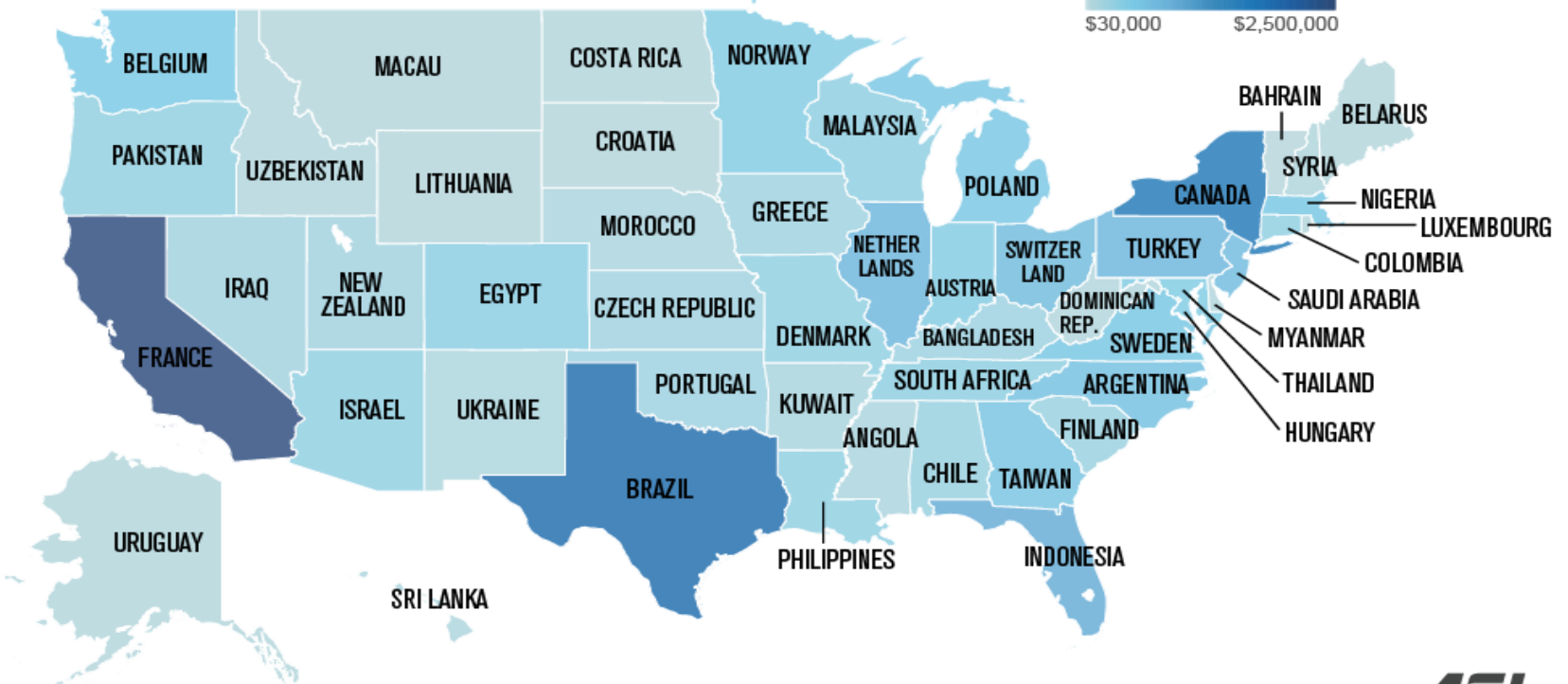
Article and Sources:  
<https://howmuch.net/articles/the-world-economy-2017>  
<http://databank.worldbank.org/data/download/GDP.pdf>



# U.S. States' Economies

## US States Renamed for Countries with Similar GDPs, 2015

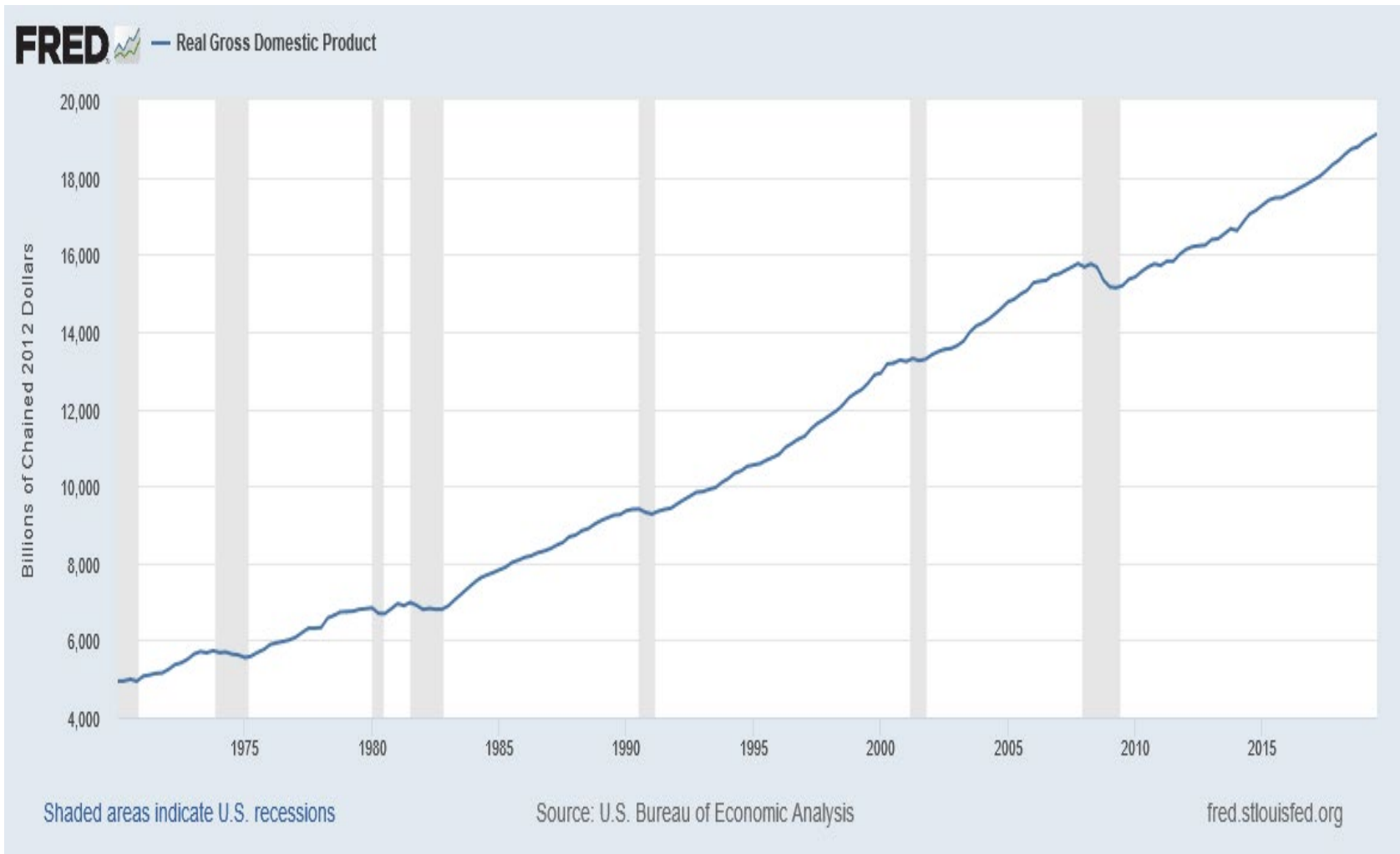
GDP (MILLIONS) 2015  
\$30,000      \$2,500,000



SOURCES: BUREAU OF ECONOMIC ANALYSIS AND INTERNATIONAL MONETARY FUND

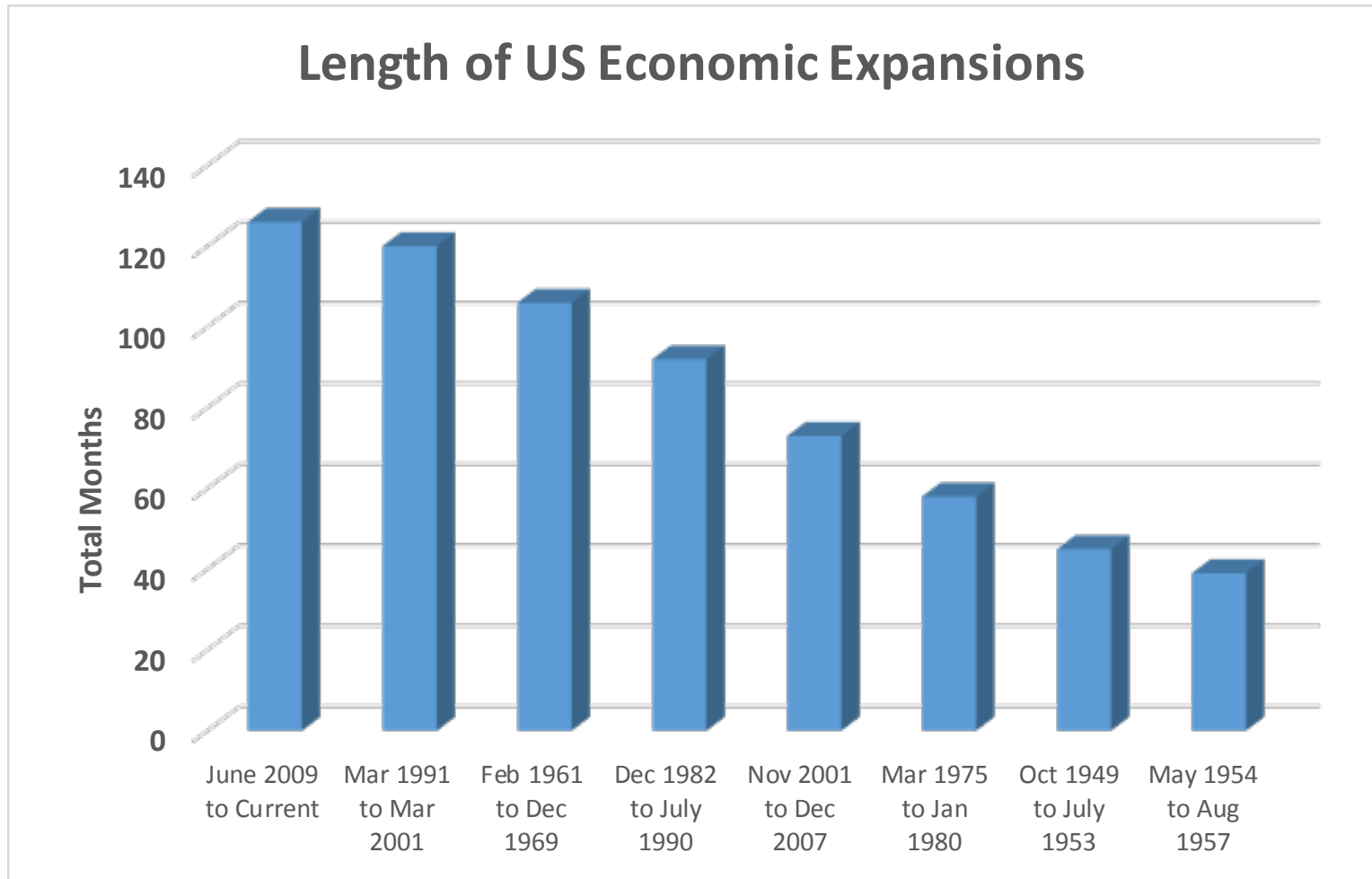


## *U.S. Real Gross Domestic Product – 1970 to Present*



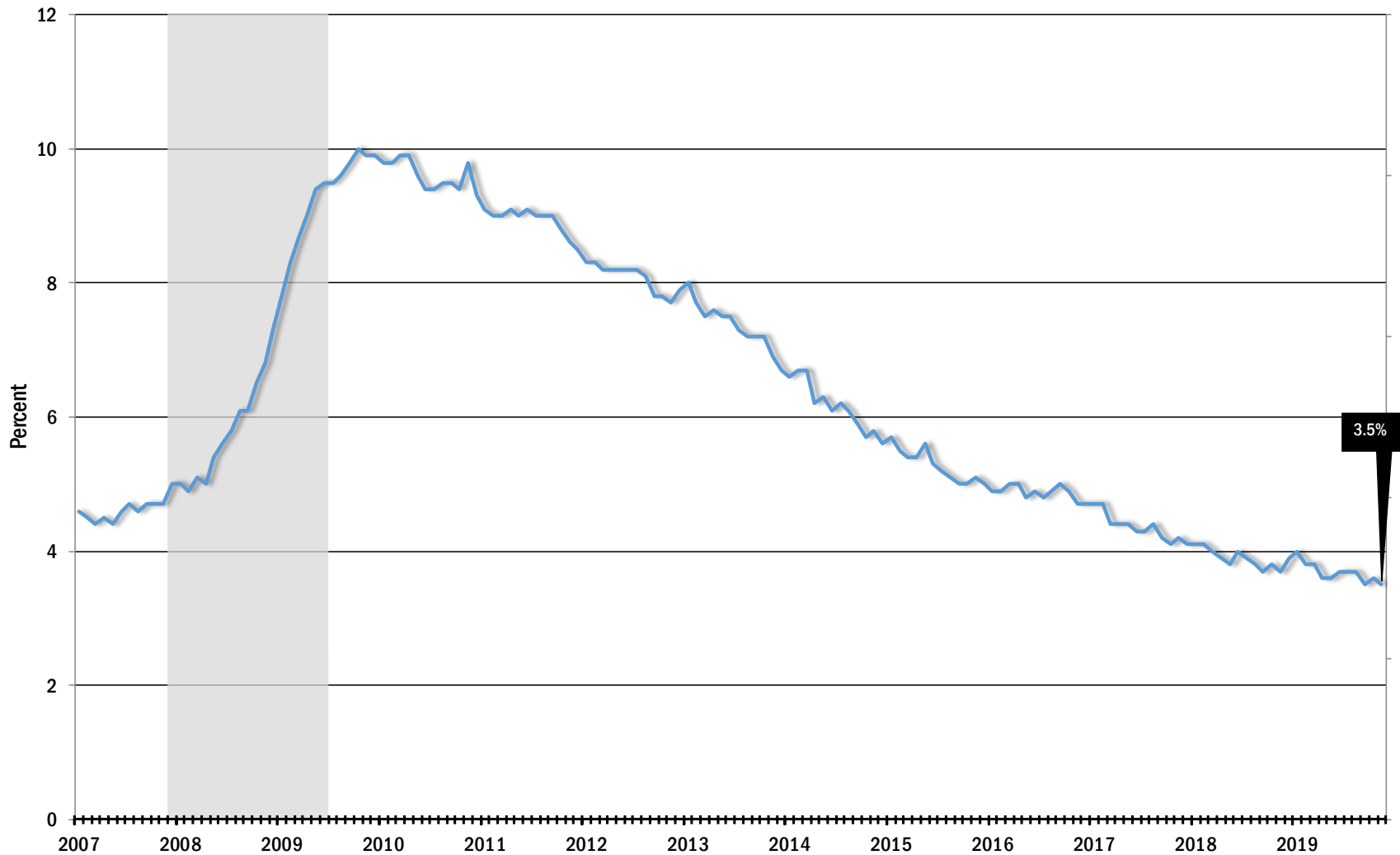


# *The Current Expansion is the Longest Ever!*



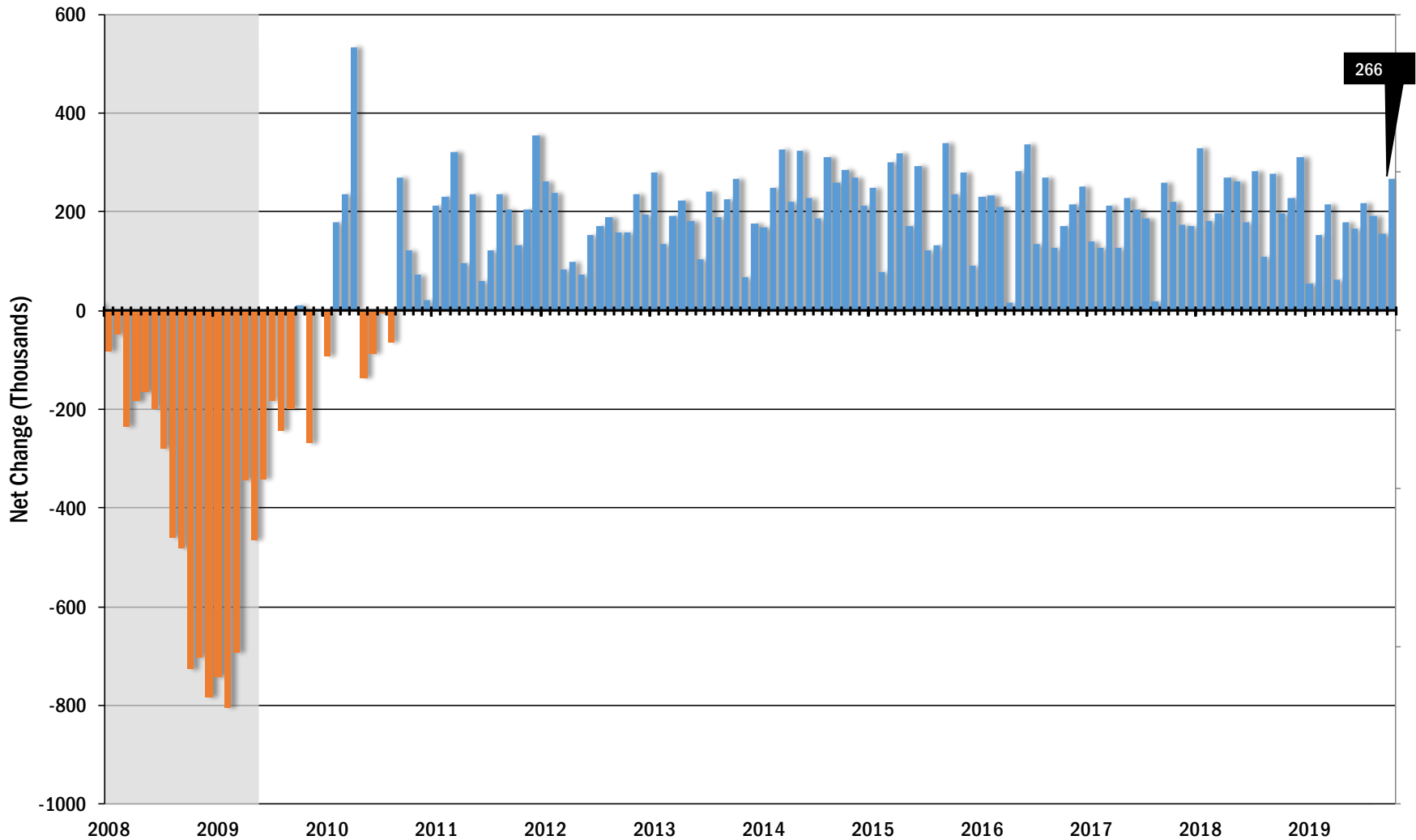


# *Historically Low Unemployment Rate*





## *Employment Growth is Strong*





# *Inflation is Stable*

## Consumer price inflation

### US consumer inflation

Annual % change



## Core inflation

### US core inflation

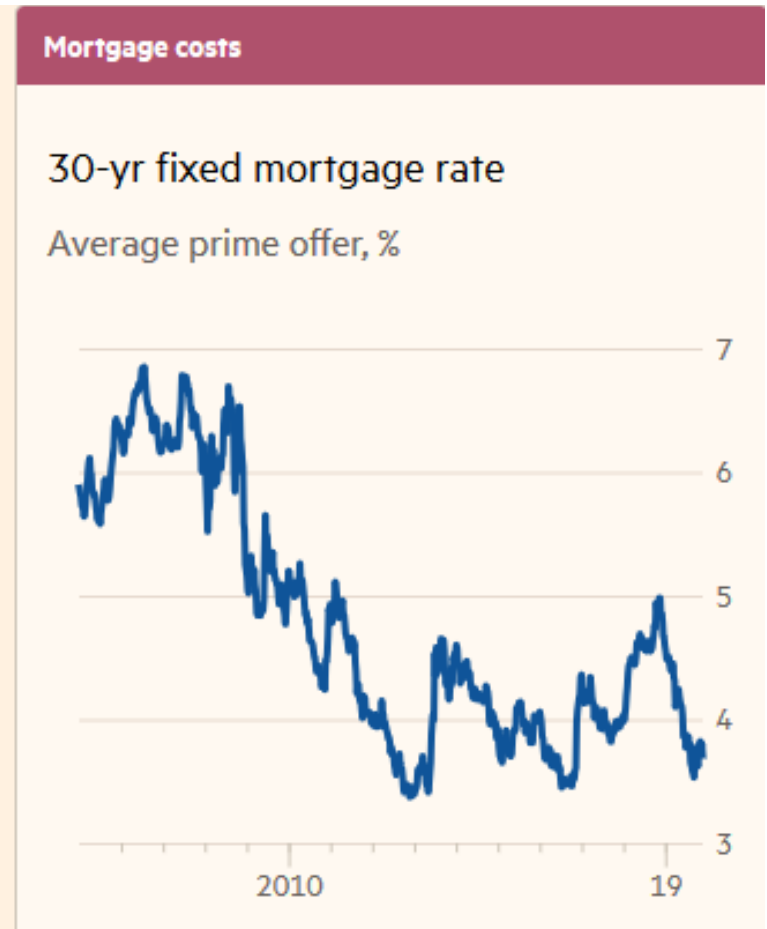
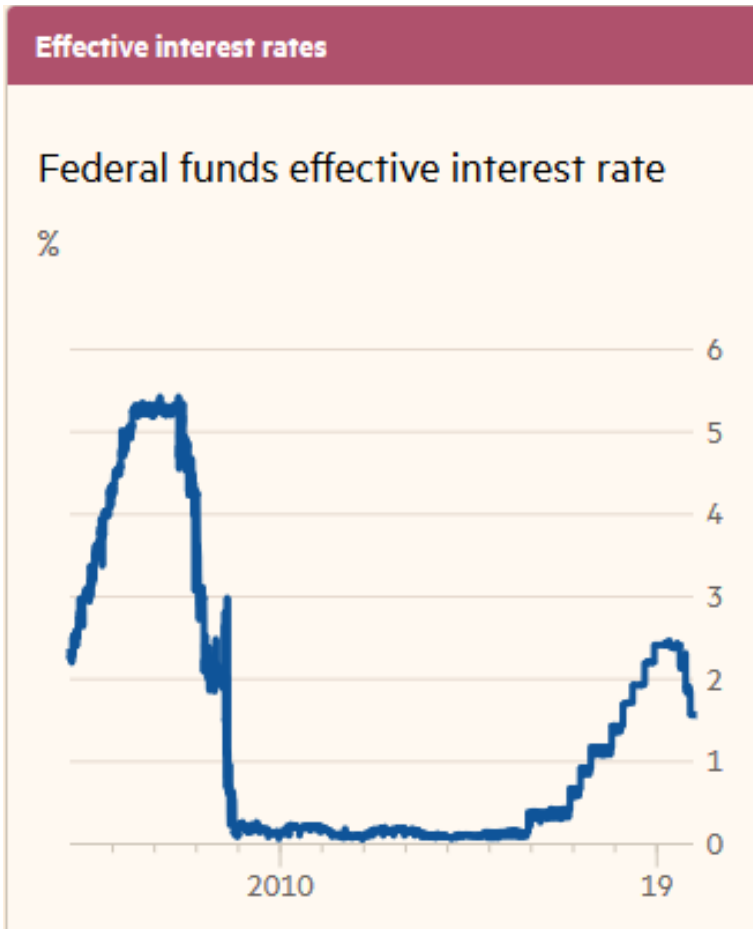
Annual % change







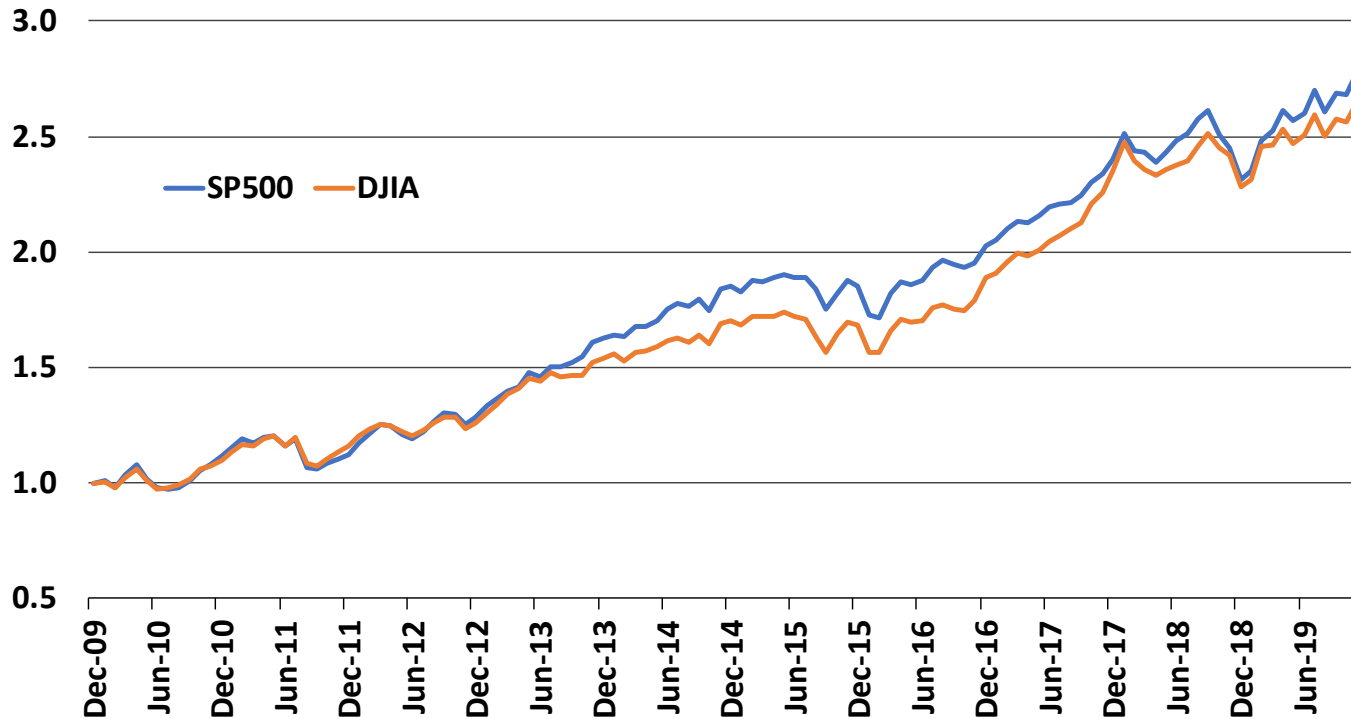
## *Interest Rates are Low*





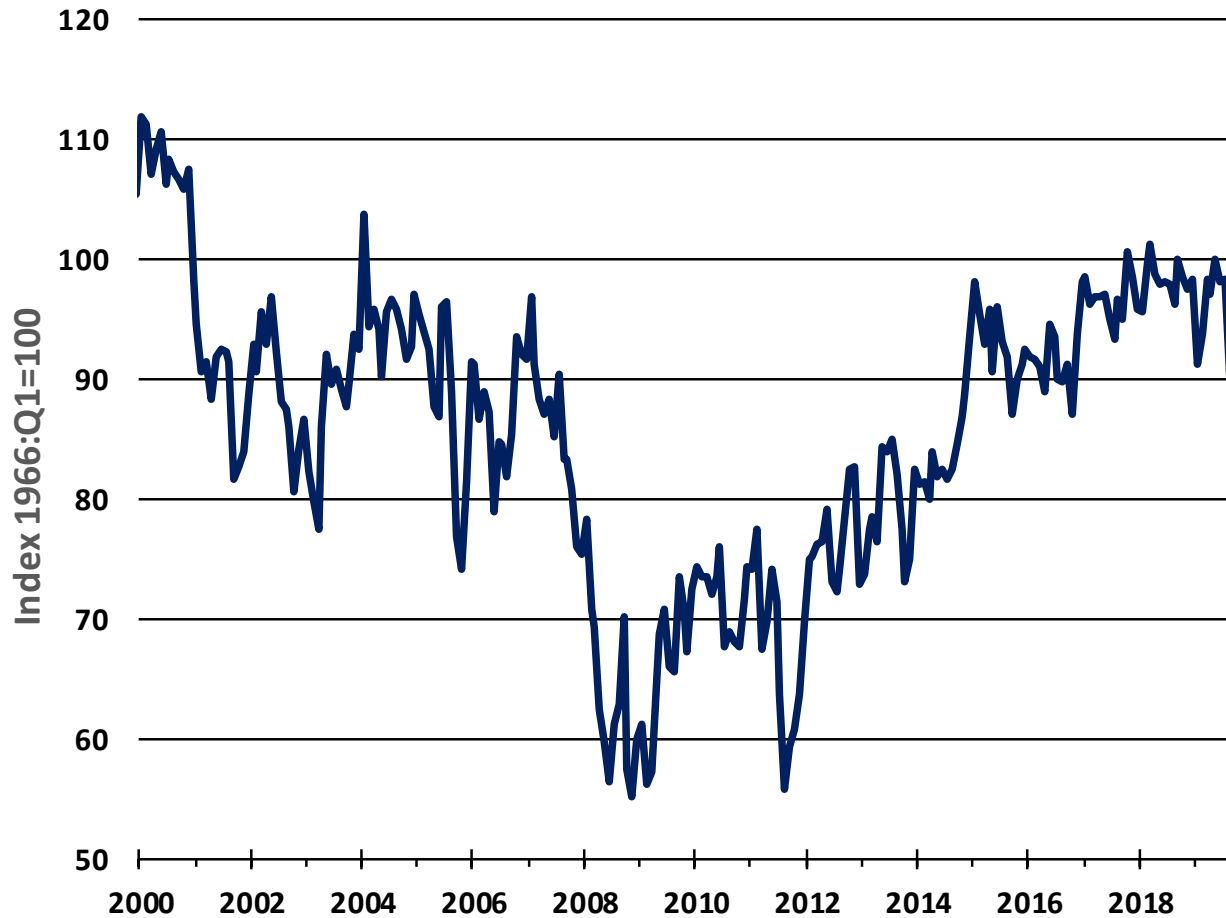
## *The Stock Market Is Doing Well!*

S&P 500 and Dow Jones Industrial Index  
(December 2009 = 100)





# *Consumer Sentiment is Strong*

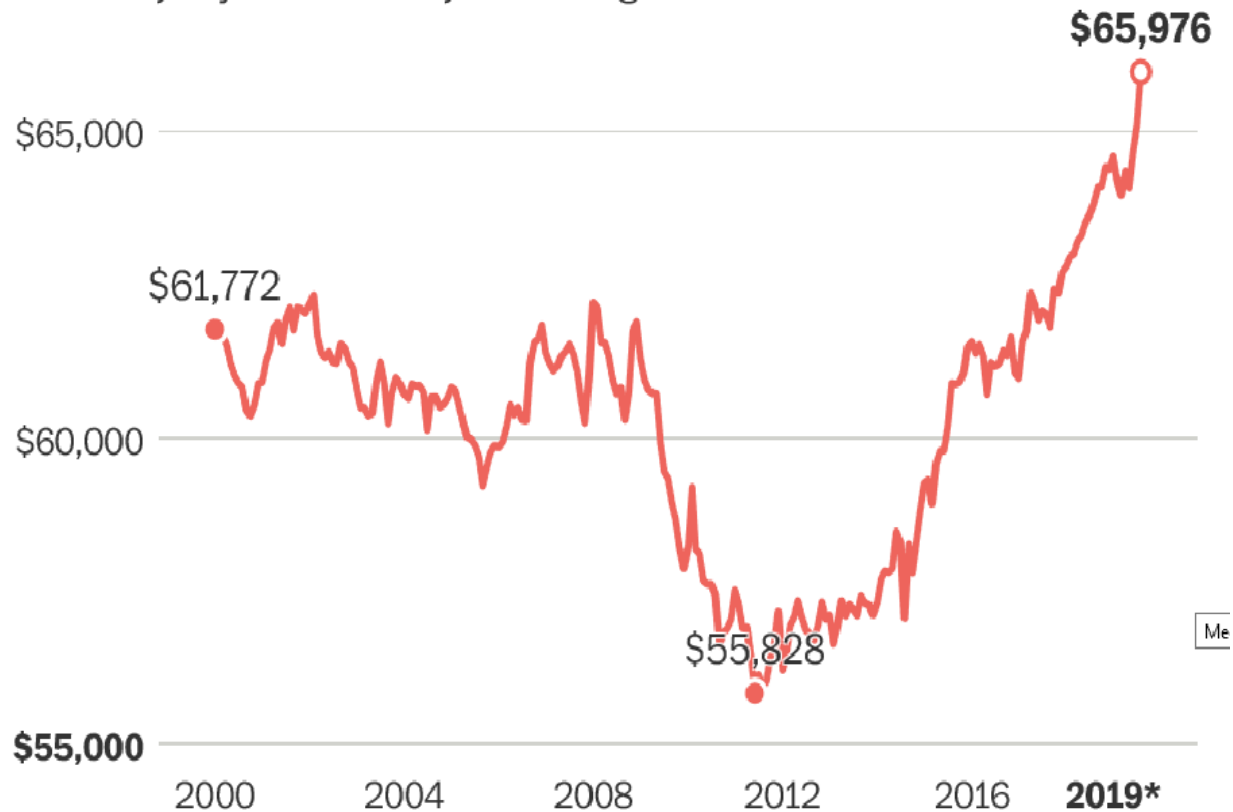




## *Household Incomes Continue to Grow*

### **Median household income, Jan. 2000- Aug. 2019**

Seasonally adjusted monthly and in Aug. 2019 dollars

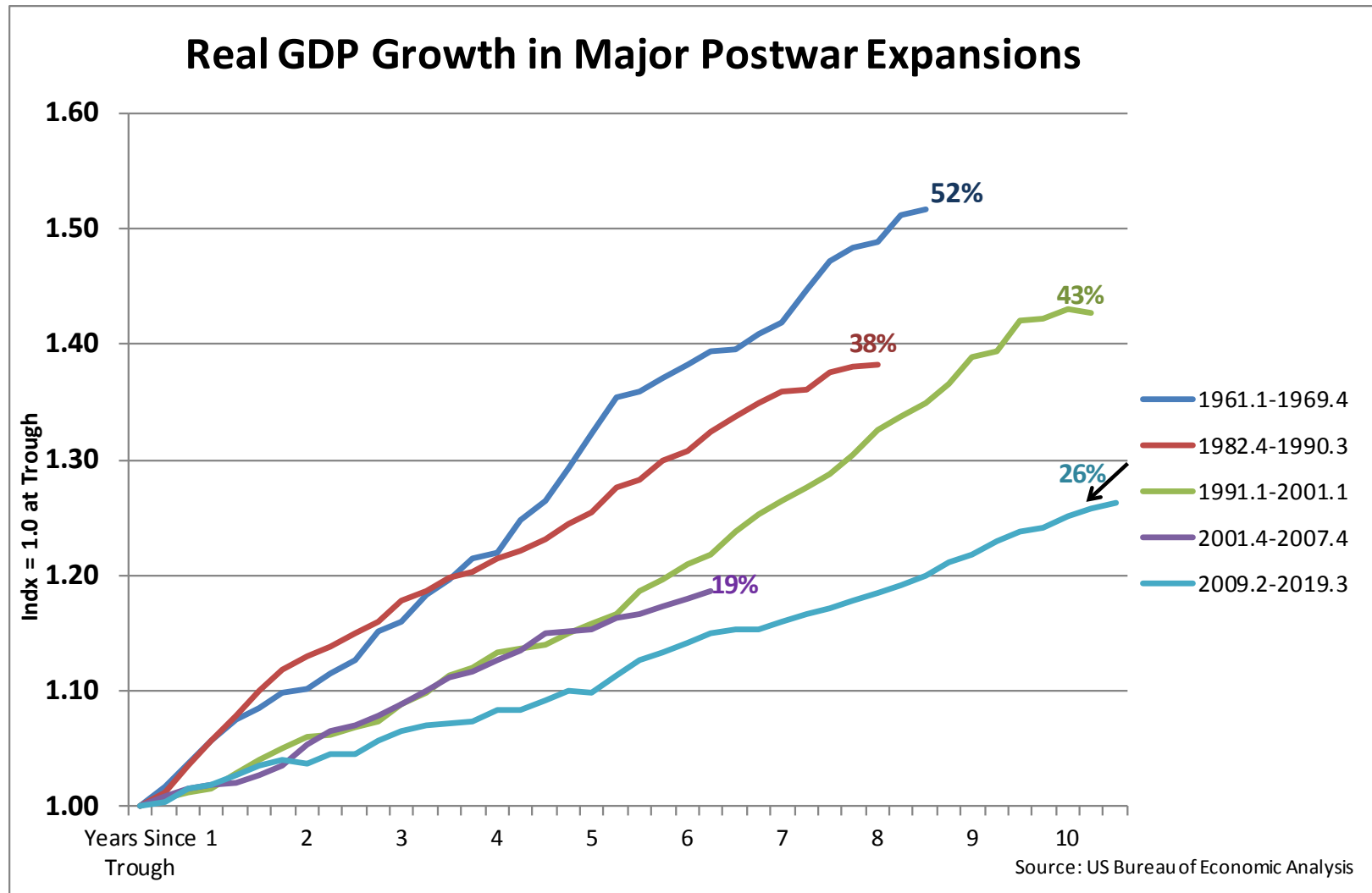




***ON THE OTHER HAND ...***

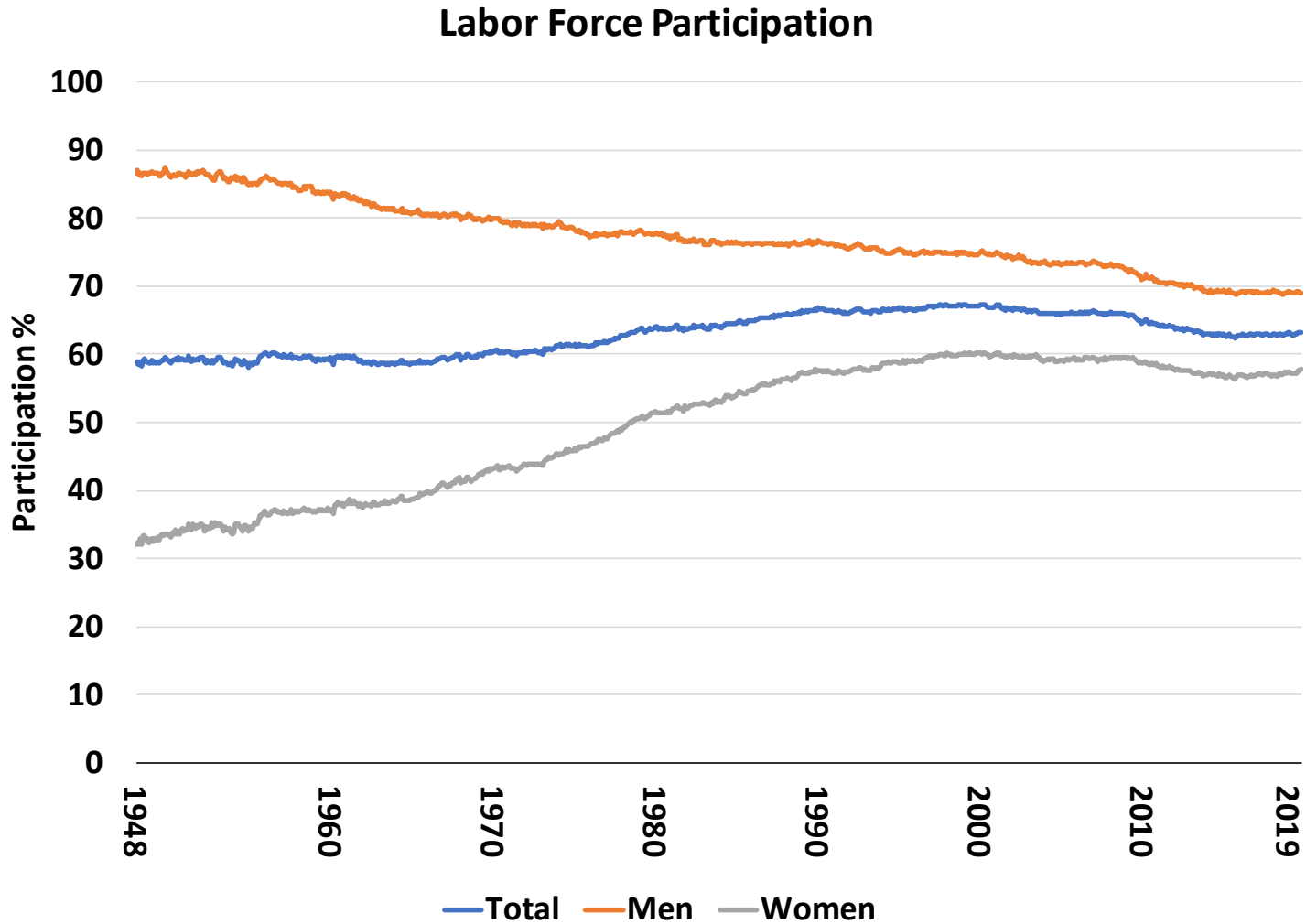


# *This Is Not the Strongest Expansion*



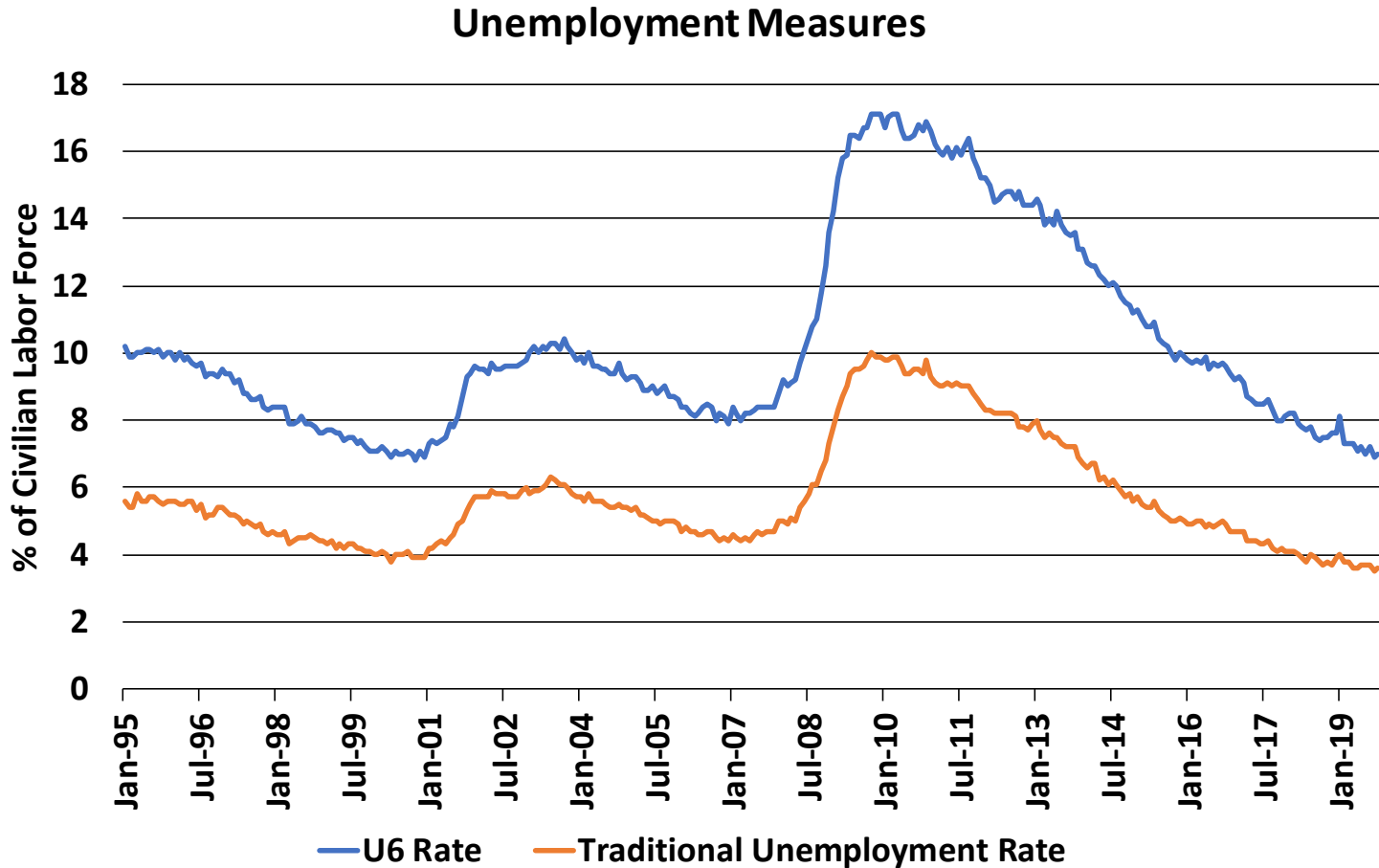


# *Labor Force Participation Is Still Low*





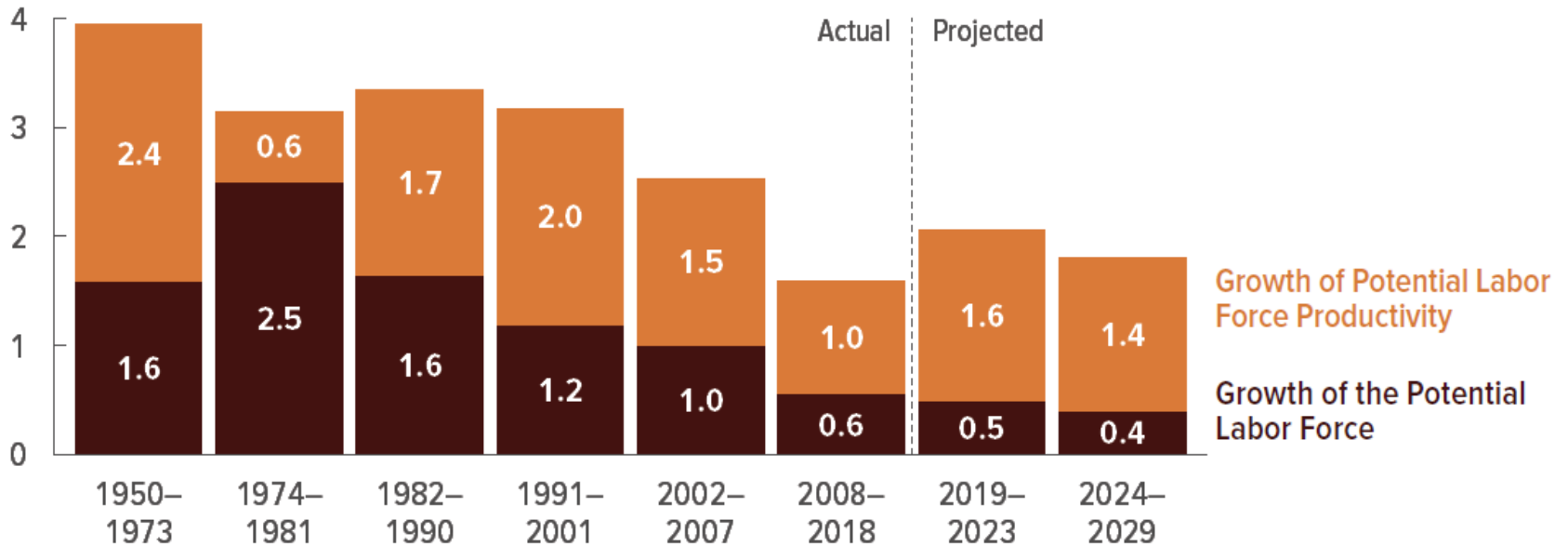
# Alternative Measure of Unemployment







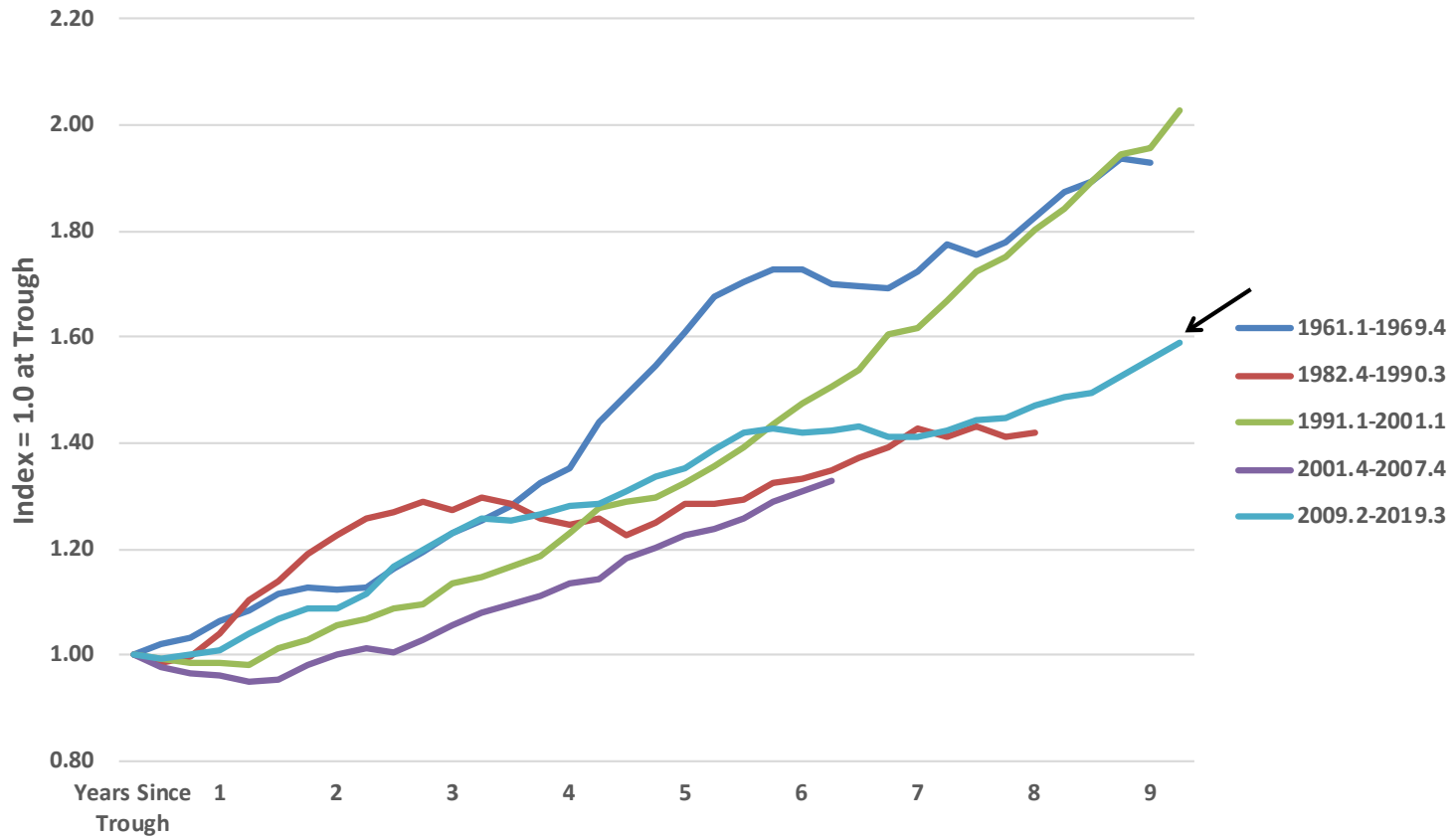
# Potential GDP = Labor Force and Productivity





# *Investment is Relatively Sluggish*

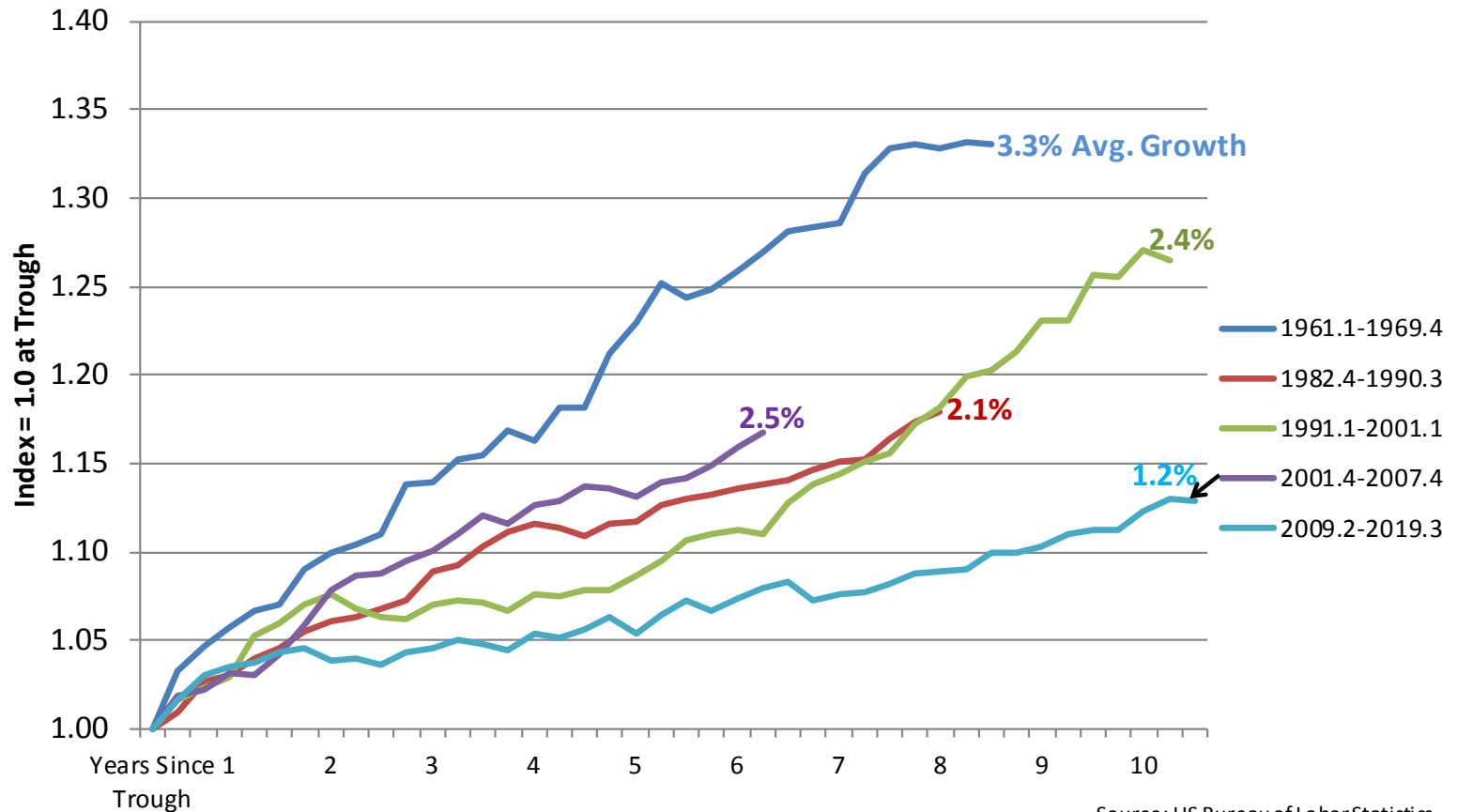
## Investment Growth In Major Expansions





# Productivity Growth Has Not Kept Pace

## Business Sector Productivity Growth in Major Postwar Expansions





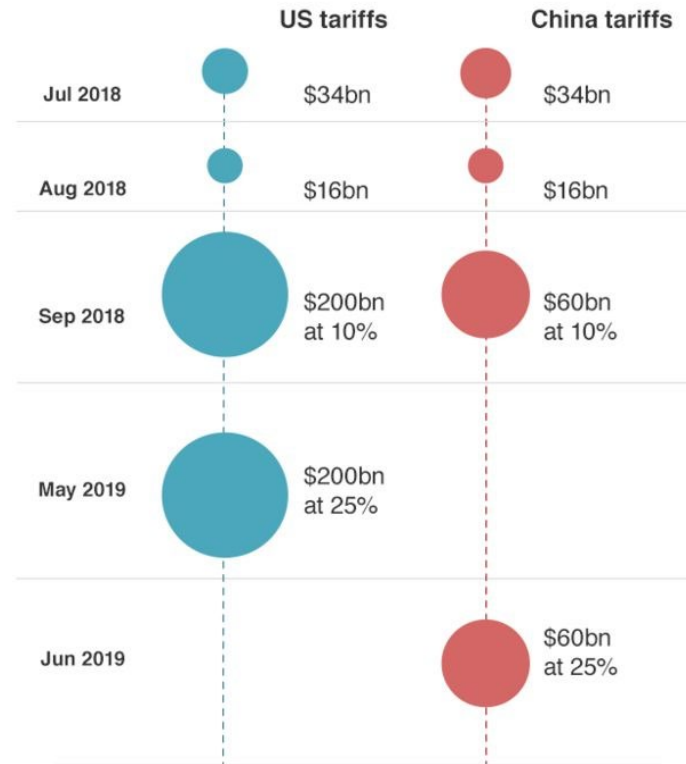
## *Negative Impacts of the Trade War*

- ❖ Higher prices for consumers and producers
  - ❖ Higher steel and aluminum prices are hitting domestic producers of equipment, consumer durables and transportation equipment.
  - ❖ Expect higher retail prices!
- ❖ Reduced exports of U.S. agricultural and capital goods
  - ❖ Agriculture: Soybeans and pork
  - ❖ Capital goods: All types of machinery, electronics, semiconductors.
- ❖ Shifting trade patterns
  - ❖ Foreign companies may shift away from U.S. customers and suppliers.
  - ❖ The damage from these changes will continue after the trade war ends.



## China/US Tariff Timeline

### How the US-China trade war has escalated



September 2019 – December 2019

The US and China have threatened to impose new tariffs and increase existing ones.

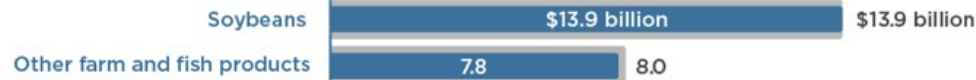


# Tariffs by Sector

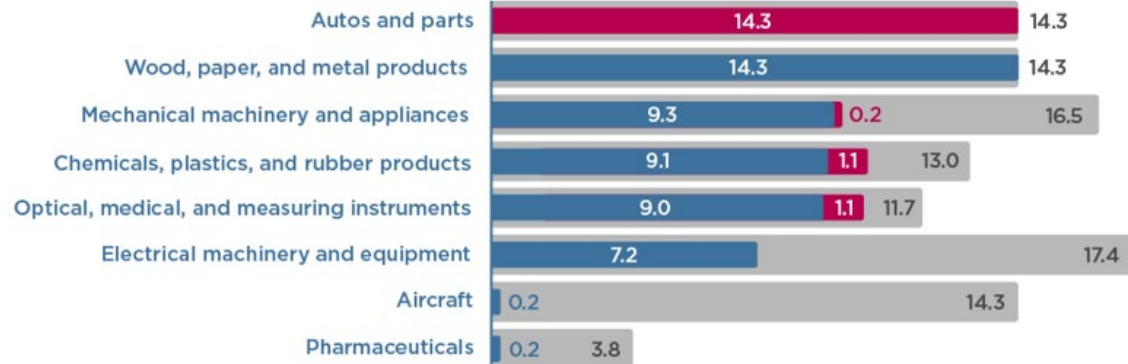
## US exports to China covered by Chinese retaliatory tariffs

- As of June 1, 2019
- Effective December 15, 2019
- Effective September 1, 2019
- Total US exports to China

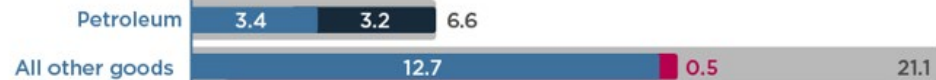
### Agriculture



### Manufacturing



### Other





# Import Tariffs

## U.S. Imports Affected by Tariffs Recently Imposed by the United States

Billions of Dollars

Category of Goods	Value of Imports Affected by Tariffs							Share of Category Affected by Tariffs (Percent)
	Value of Imports in 2017	Tariff on Solar Panels	Tariff on Washing Machines	Tariff on Steel	Tariff on Aluminum	Tariffs on Chinese Goods	All Recent Tariffs	
Food, Feed, and Beverages	138	0	0	0	0	5	5	3.6
Industrial Supplies and Materials	507	0	0	14	9	34	57	11.2
Capital Goods, Except Automotive	641	6	*	2	*	116	125	19.5
Automotive Vehicles, Parts, and Engines	359	1	0	0	0	19	19	5.4
Consumer Goods	602	0	2	0	*	55	57	9.5
Other Goods	95	0	0	0	0	0	*	**
<b>Total</b>	<b>2,342</b>	<b>7</b>	<b>2</b>	<b>16</b>	<b>9</b>	<b>229</b>	<b>263</b>	<b>11.2</b>
Share of Total Imports (Percent)	100.0	0.3	0.1	0.7	0.4	9.8	11.2	n.a.

Source: Congressional Budget Office, using information from the Census Bureau and the Office of the U.S. Trade Representative.

n.a. = not applicable; \* = between zero and \$500 million; \*\* = between zero and 0.05 percent.



# Impacts of Tariffs on Exports

## U.S. Exports Affected by Tariffs Recently Imposed by Other Countries

Billions of Dollars

Category of Goods	Value of Exports Affected by Tariffs				Share of Category Affected by Tariffs (Percent)
	Value of Exports in 2017	Tariffs Imposed by China	Tariffs Imposed by Rest of World	All Recent Tariffs	
Food, Feed, and Beverages	133	20	1	21	15.9
Industrial Supplies and Materials	465	35	2	37	8.0
Capital Goods, Except Automotive	533	23	*	23	4.3
Automotive Vehicles, Parts, and Engines	158	22	*	22	14.2
Consumer Goods	198	5	2	7	3.5
Other Goods	60	*	0	0	**
<b>Total</b>	<b>1,546</b>	<b>104</b>	<b>6</b>	<b>110</b>	<b>7.1</b>
Share of Total Exports (Percent)	100.0	6.7	0.4	7.1	n.a.

Source: Congressional Budget Office, using information from the Census Bureau and the Office of the U.S. Trade Representative.

n.a. = not applicable; \* = between zero and \$500 million; \*\* = between zero and 0.05 percent.





## *Sectoral Impacts*

- ❖ **Agriculture** - China has imposed tariffs on soybeans, pork, and other products. Not only farmers, but agricultural equipment companies have been affected.
- ❖ **Motor Vehicles** – Manufacturers rely on a global auto and auto parts supply chain, which has been significantly disrupted.
- ❖ **Electronics and Tech** – The nexus of supplier relationships between China, the US and other countries is even thicker in these industries. Putting Huawei on the restricted entity list puts the US semiconductor and electronic components industries at risk.
- ❖ **Retail** - Retailers in electronics, household appliances and apparel will need to raise prices after December, or suffer lower profits.
- ❖ **Services** – Companies providing services to manufacturers, as well as logistics and transportation service companies are feeling the pinch.

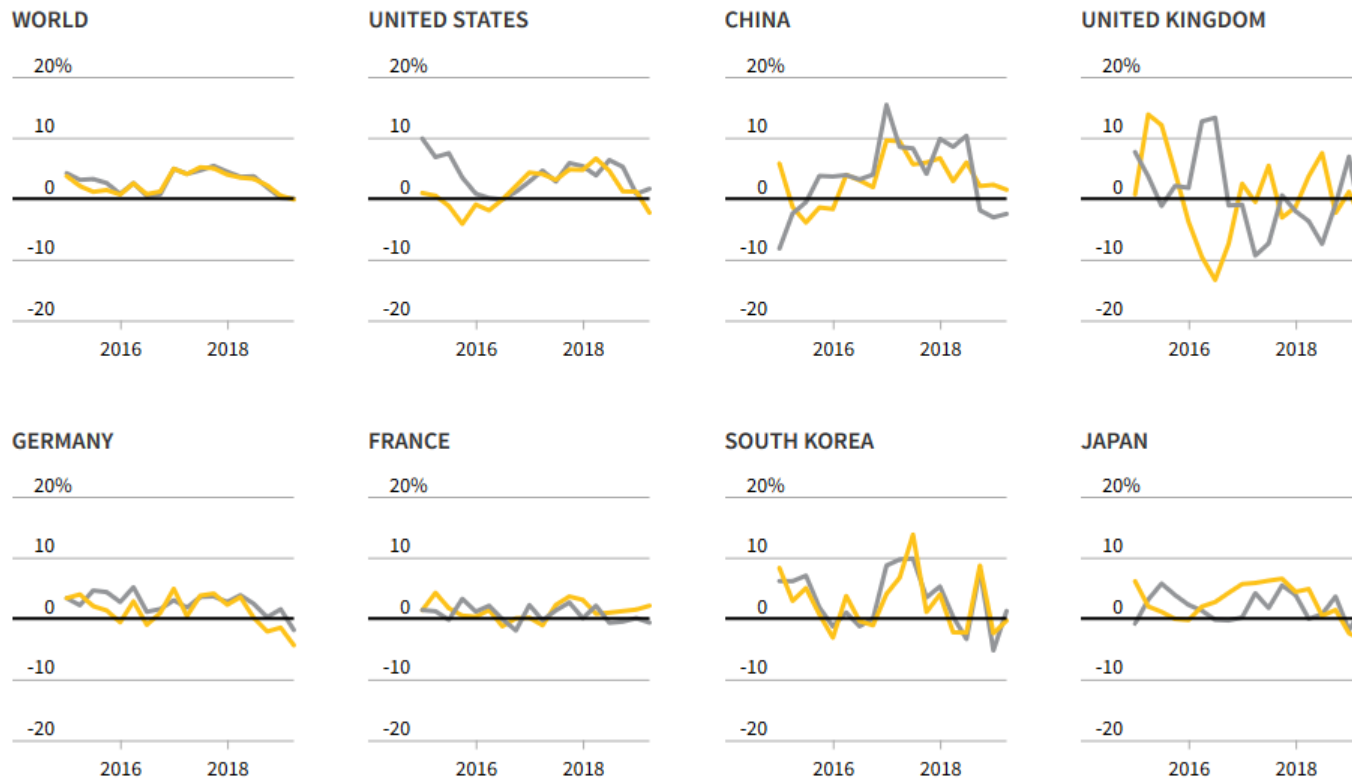


# Slowing of Global Trade

## IMPORT AND EXPORT VOLUME

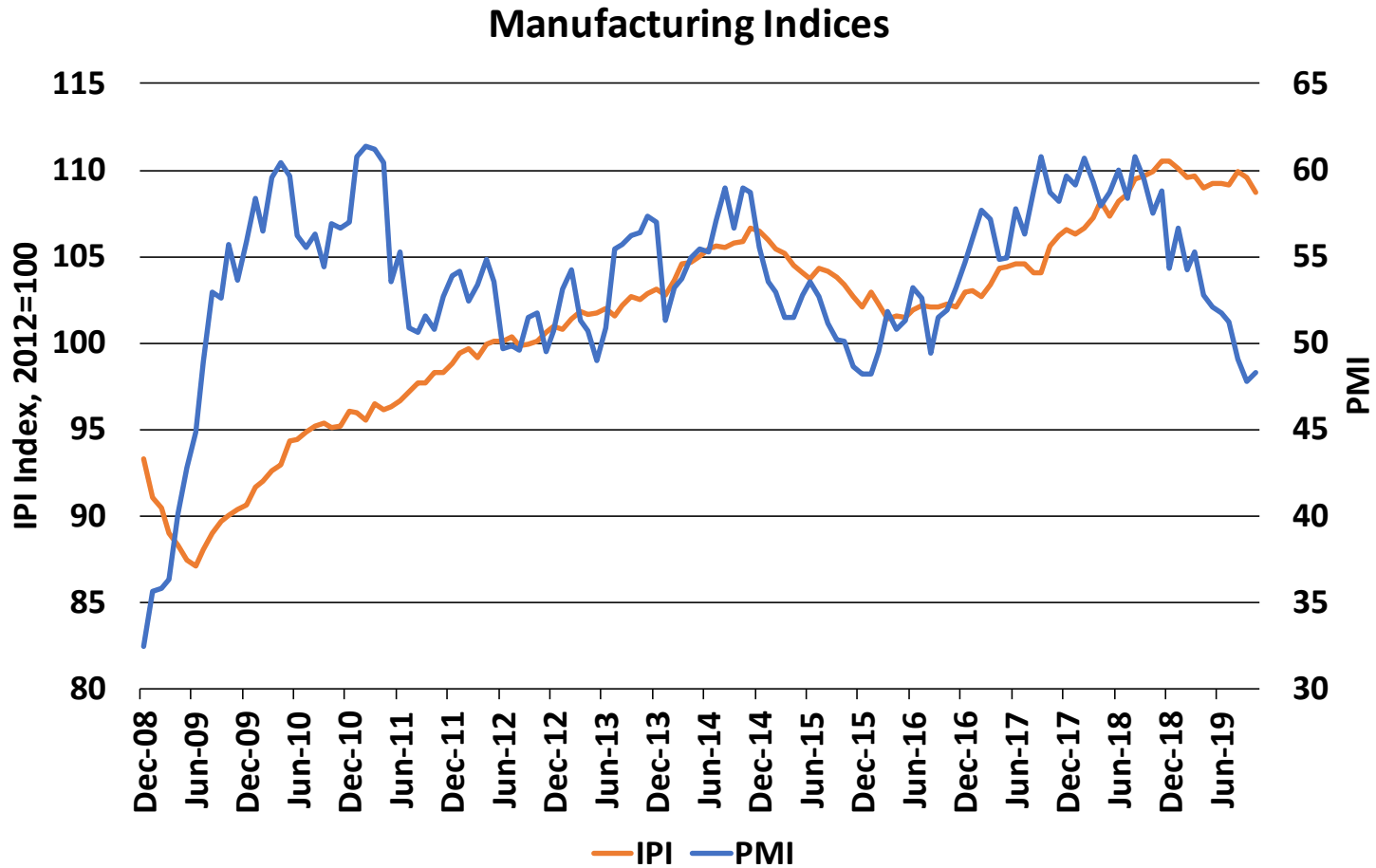
Change from one year prior

— Imports — Exports





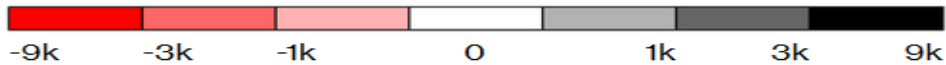
# Manufacturing is Slowing



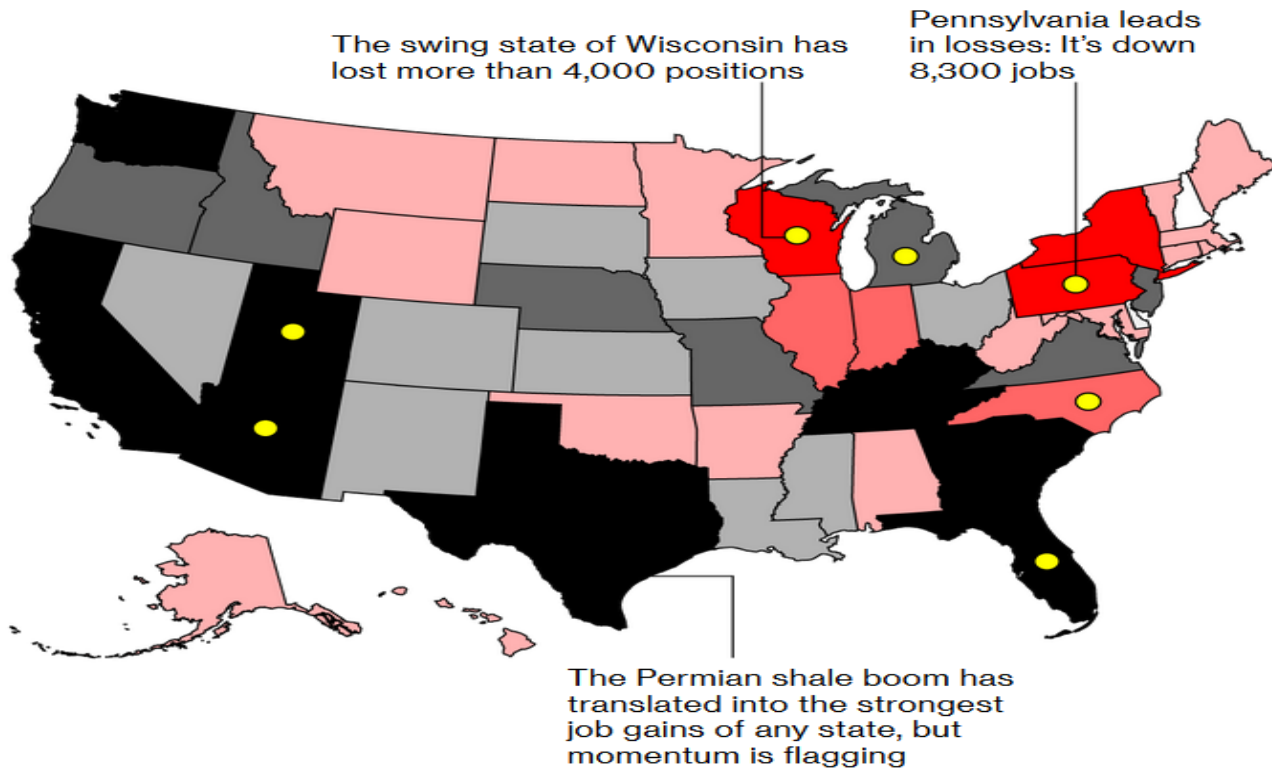


# Manufacturing Employment by State

Change in manufacturing jobs, January 2019 to July 2019



● State won by Trump in 2016 with less than 50% of the vote



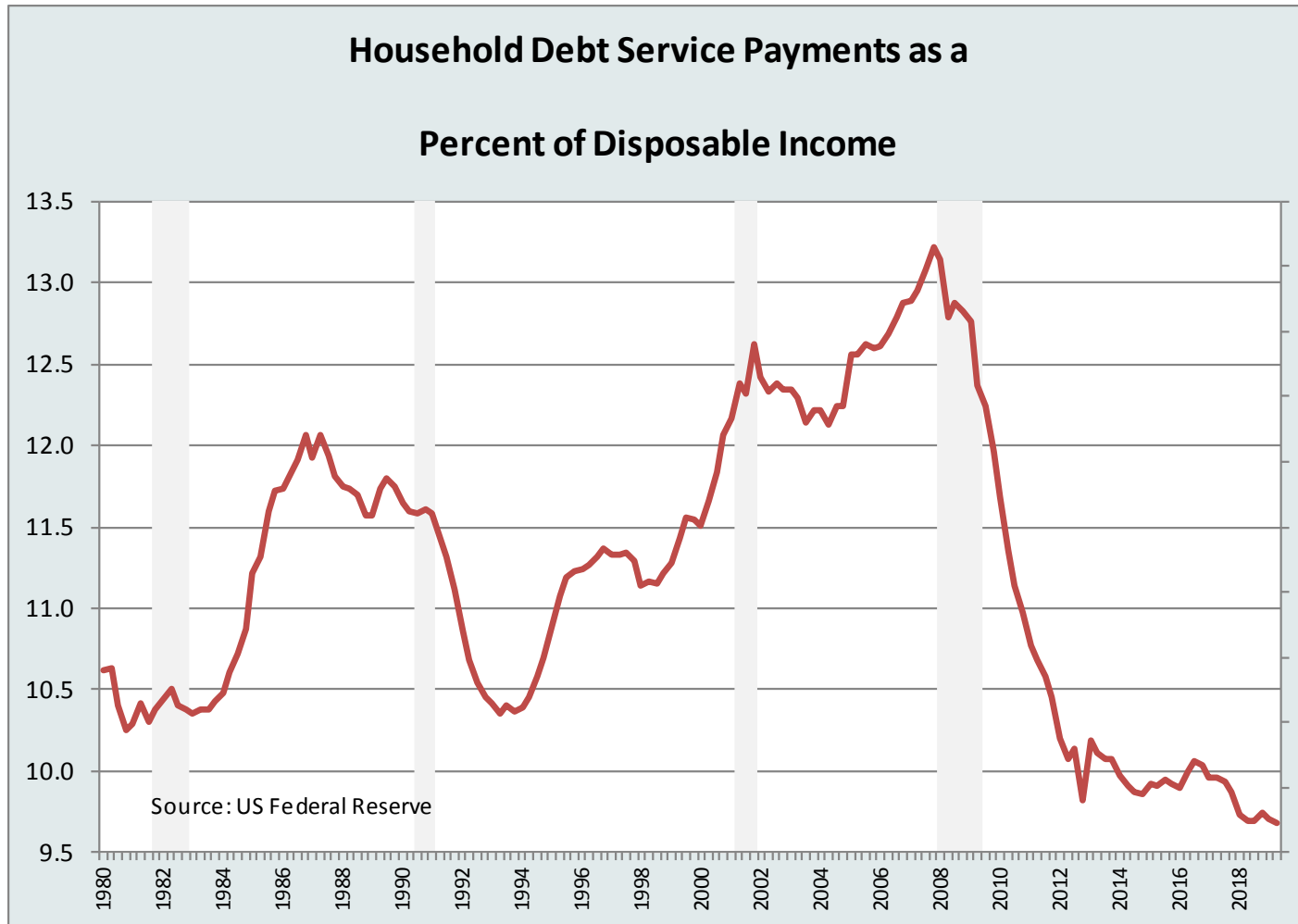


## *Debt Burden*

- ❖ **Household Debt** – Still increasing, but interest payments are not large, as a share of income.
- ❖ **Corporate Debt** – This continues to increase, with low borrowing rates.
- ❖ **Federal Debt** – This is large and growing unsustainably.



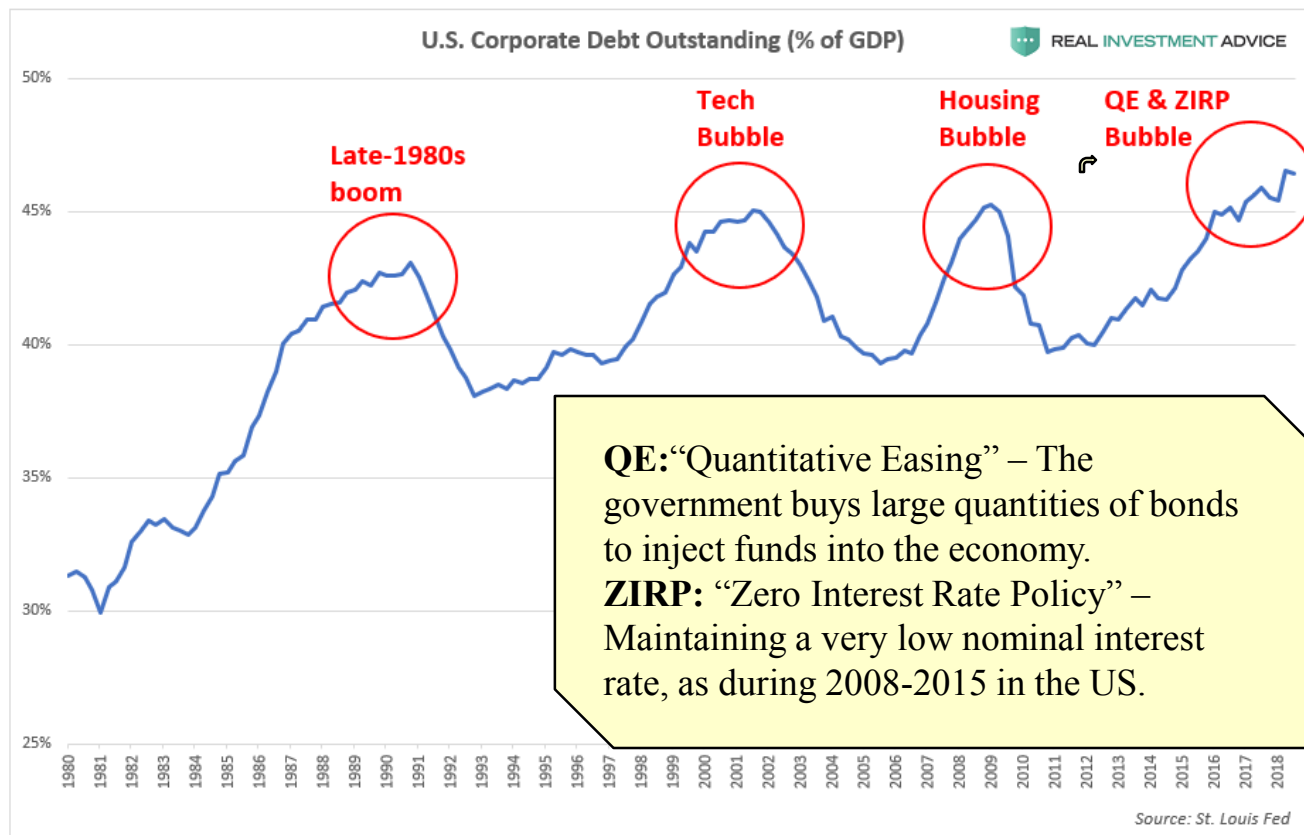
## *Household Debt Service Under Control*





## High Corporate Debt

U.S. corporate debt is now at an all-time high of over 45% of GDP. This could pose risks for profitability and the stock market as interest rates rise.

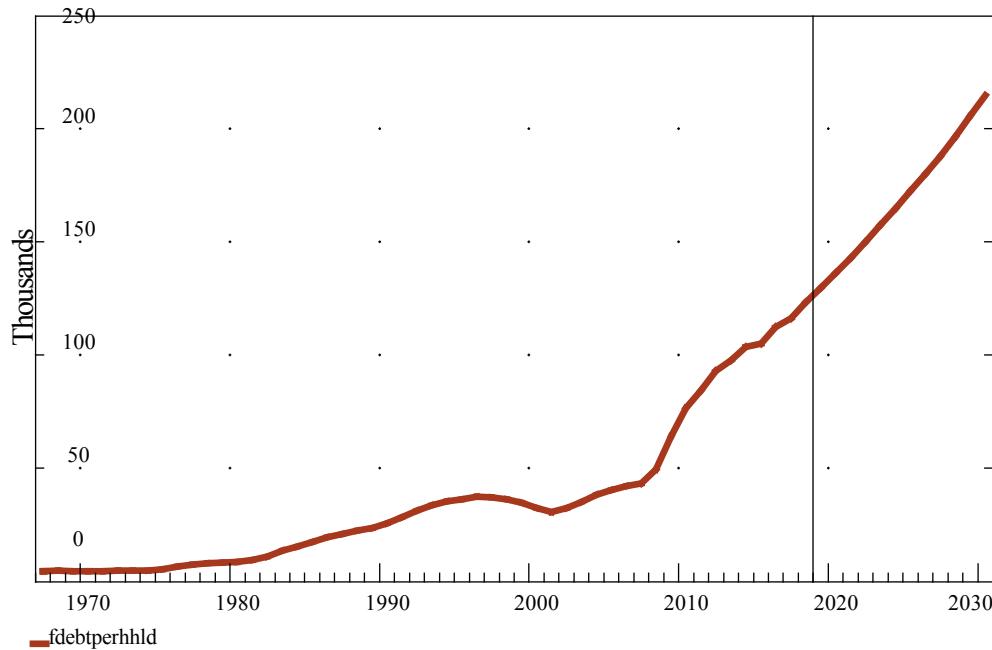




# Federal Debt Per Household

### Debt Held by the Public per Household

Source: OMB History and Inforum Outlook



- Federal debt per household was about \$4,500 in 1967
- By 1984, this had tripled to \$15,300.
- In 2018, it was about \$123 thousand.
- The Inforum Outlook projects it reaching \$215 thousand by 2030.

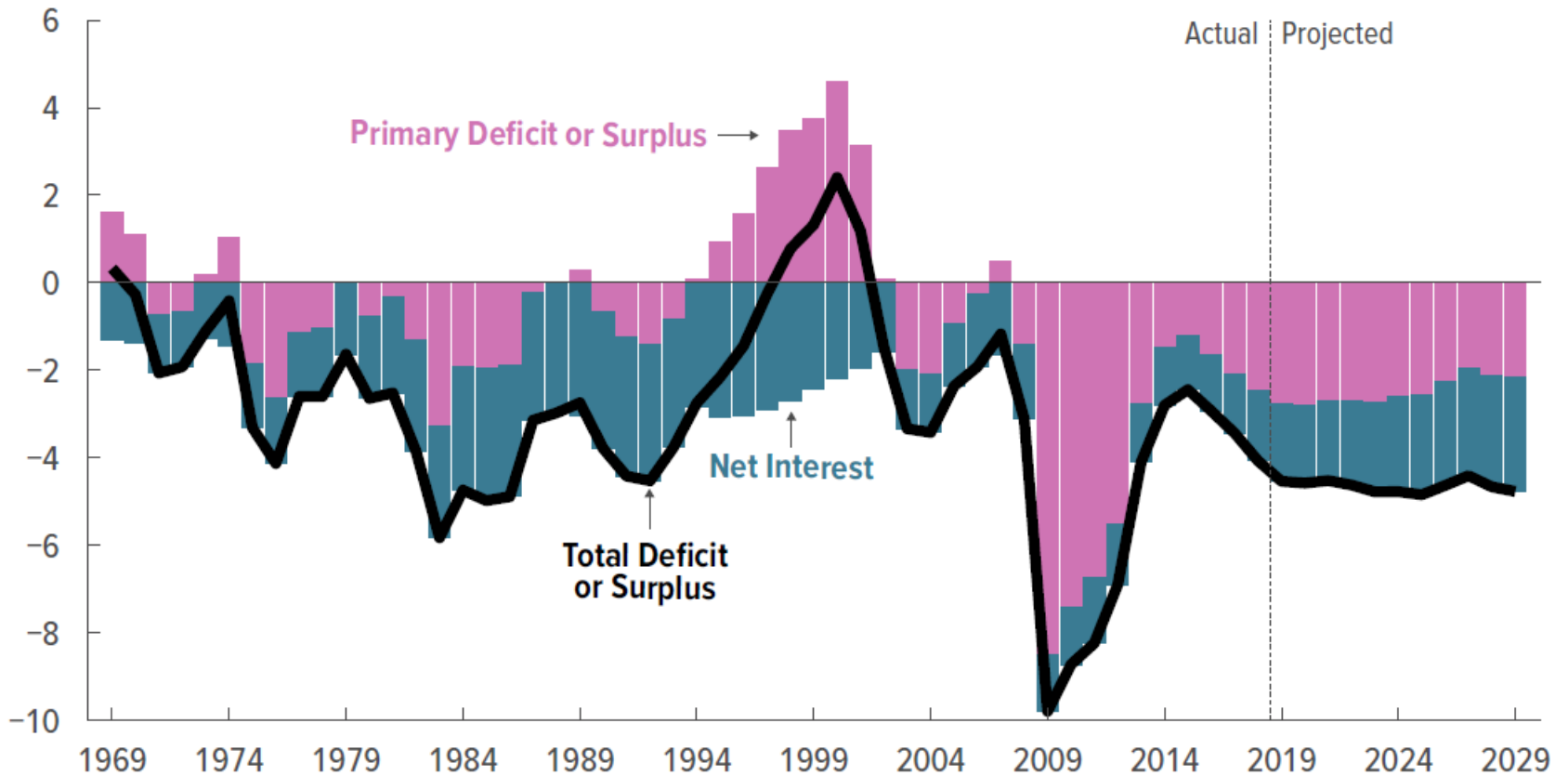




# Federal Primary Deficit and Interest

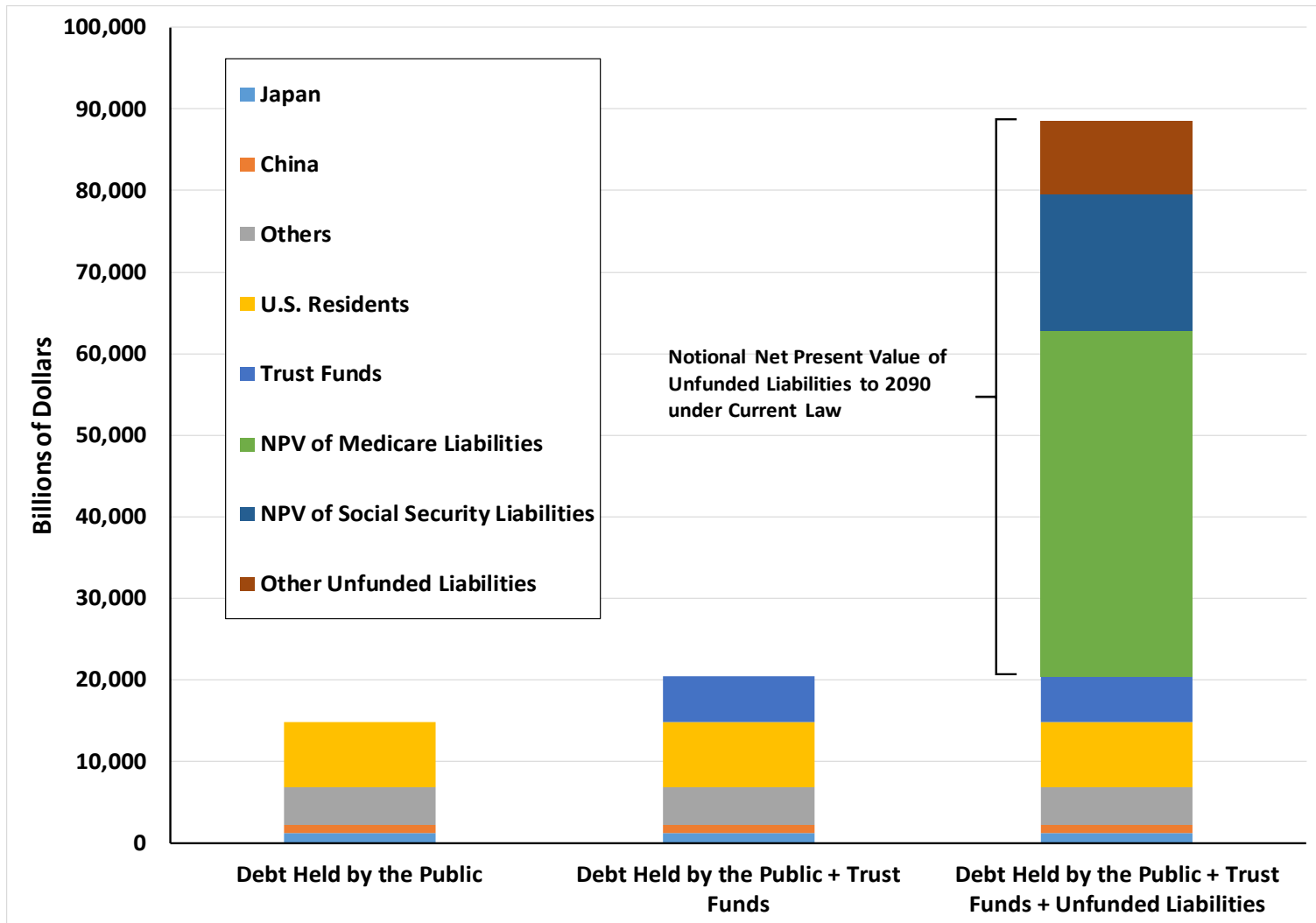
## Total Deficit, Primary Deficit, and Net Interest

Percentage of Gross Domestic Product



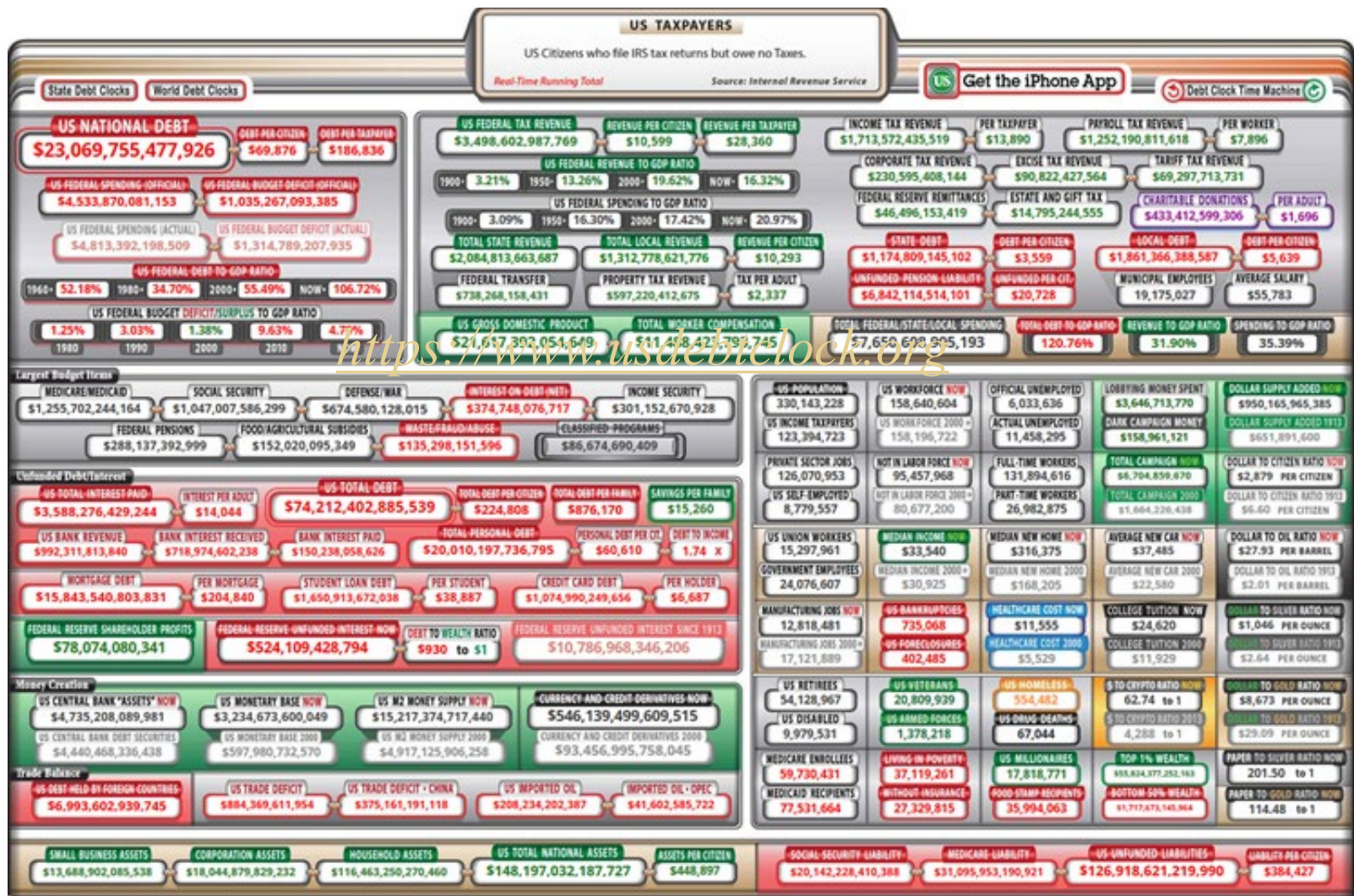


# Official Federal Debt + Unfunded Liabilities





## The Debt Clock



<https://www.usdebtclock.org>

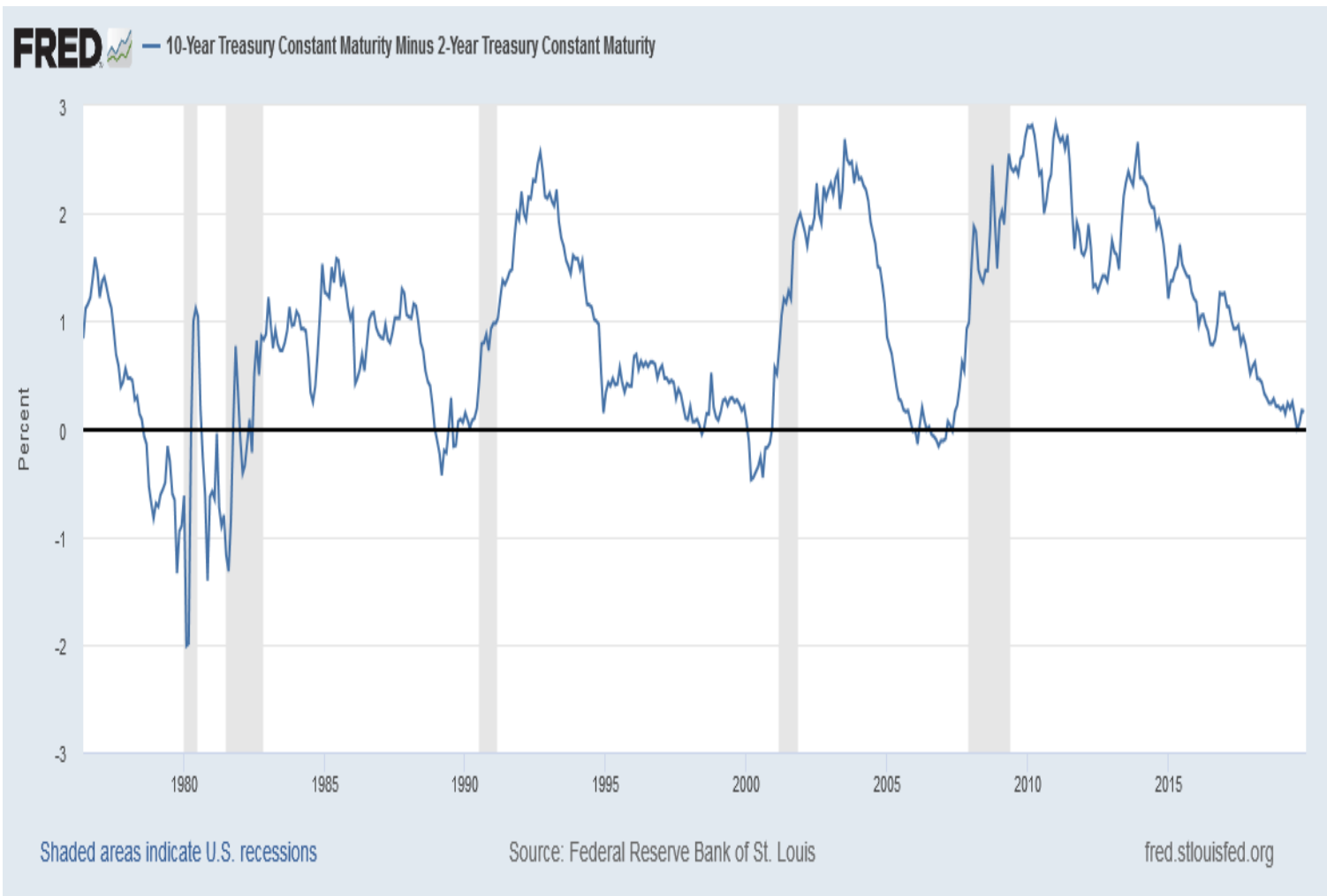


## *Recession 2020?*

- ❖ Two major consensus surveys agree that growth should slow slightly in 2020, probably to 1.8% from 2.3% in 2019. This is still above potential.
- ❖ Blue Chip average for probability of recession in 2020 is 35% and 37.4% in 2021. However, there is a high variance on these probabilities, among the economists surveyed.
- ❖ On the one hand, the economy is growing moderately, while not overheating. There is no evidence of a bubble that may burst.
- ❖ Risks include:
  - ❑ Slowing global economy
  - ❑ Slower growth due to labor force supply constraints
  - ❑ Slowdown in stimulus from TCJA and federal spending increases
  - ❑ High level of corporate debt
  - ❑ Flattening yield curve
  - ❑ Uncertainty about international trade due to tariff threats
- ❖ The current expansion is over 10 years old. Growth has been lower than previous expansions, due to slower population, labor force and productivity.



## *Yield Curve and Recent U.S. Recessions*

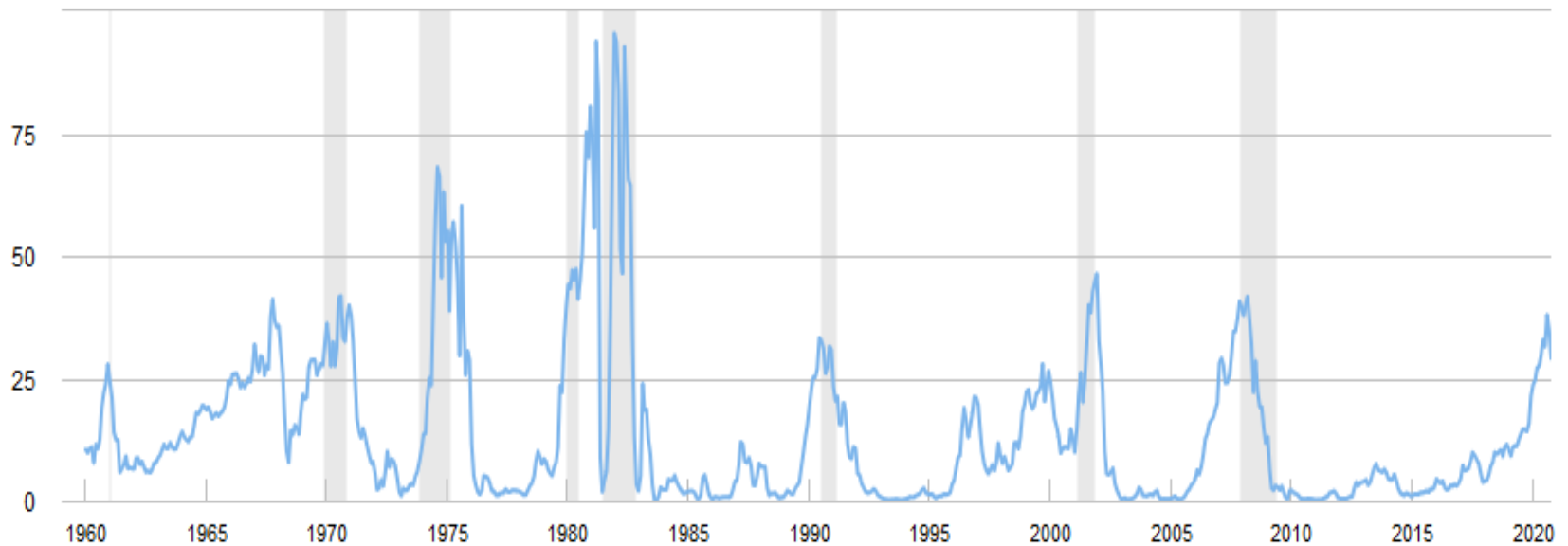




# *What is the Probability of a Recession?*

## Probability of U.S. Recession, Twelve Months Ahead of Term Spread Readings

Percent (monthly average)





## *Recap*

- ❁ The U.S. is enjoying an extended economic expansion
  - ❁ Consistently positive GDP and jobs growth
  - ❁ Low unemployment rates
  - ❁ Favorable inflation and interest rates
  - ❁ High consumer confidence
- ❁ However, the expansion is slower than past expansions
  - ❁ Slower productivity and labor force growth = slow potential
  - ❁ Relatively sluggish investment
  - ❁ Trade war and other factors hurting manufacturing
  - ❁ Debt is increasing rapidly
- ❁ When will the next recession be, and what will be the driving factors?
  - ❁ Trade war?
  - ❁ Interest rate increases?
  - ❁ Tax increases?
  - ❁ Global slowdown?



**Thank you!**  
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