

Overview of U.S. and Michigan Economic Trends

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What are we going to talk about?

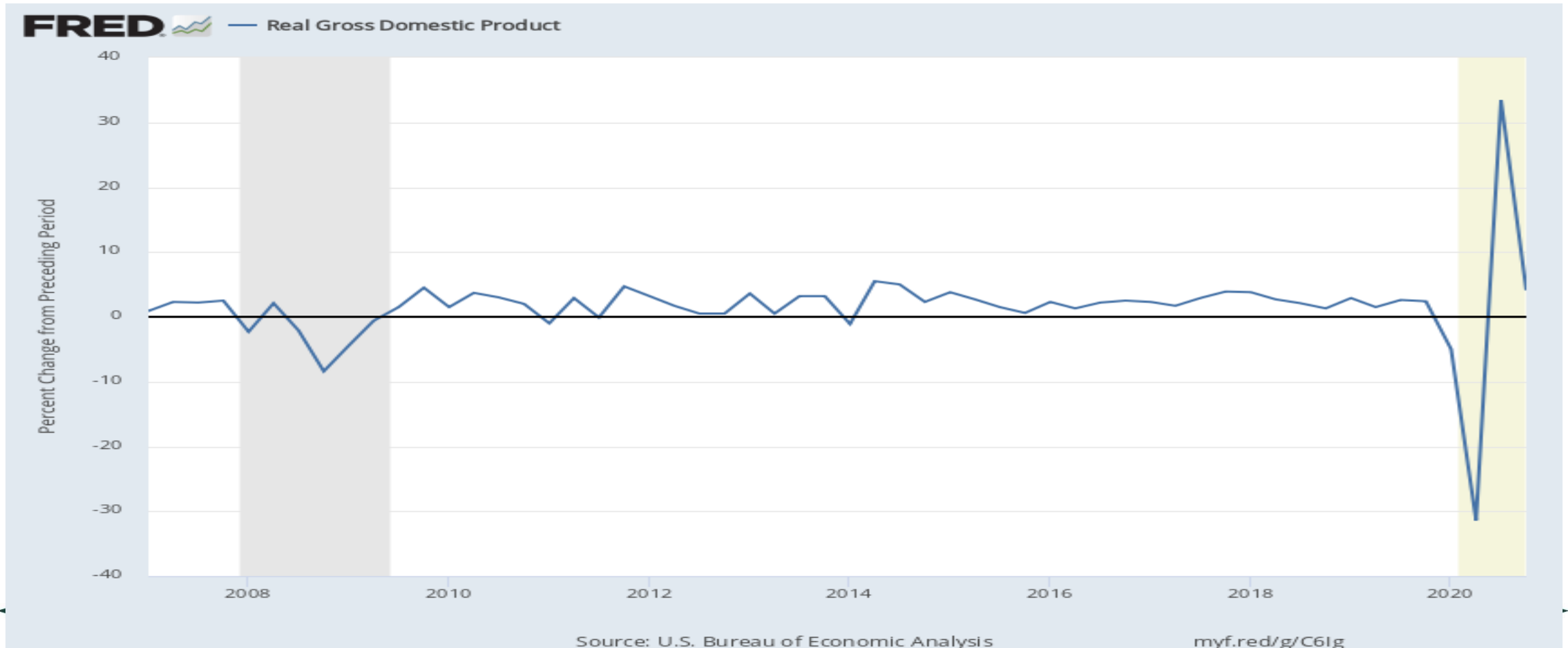
- US and State Economic trends pre and post pandemic
- Bottom line: economic turbulence has been tremendous and unprecedented
- Also, we will be talking about Federal reserve and federal debt



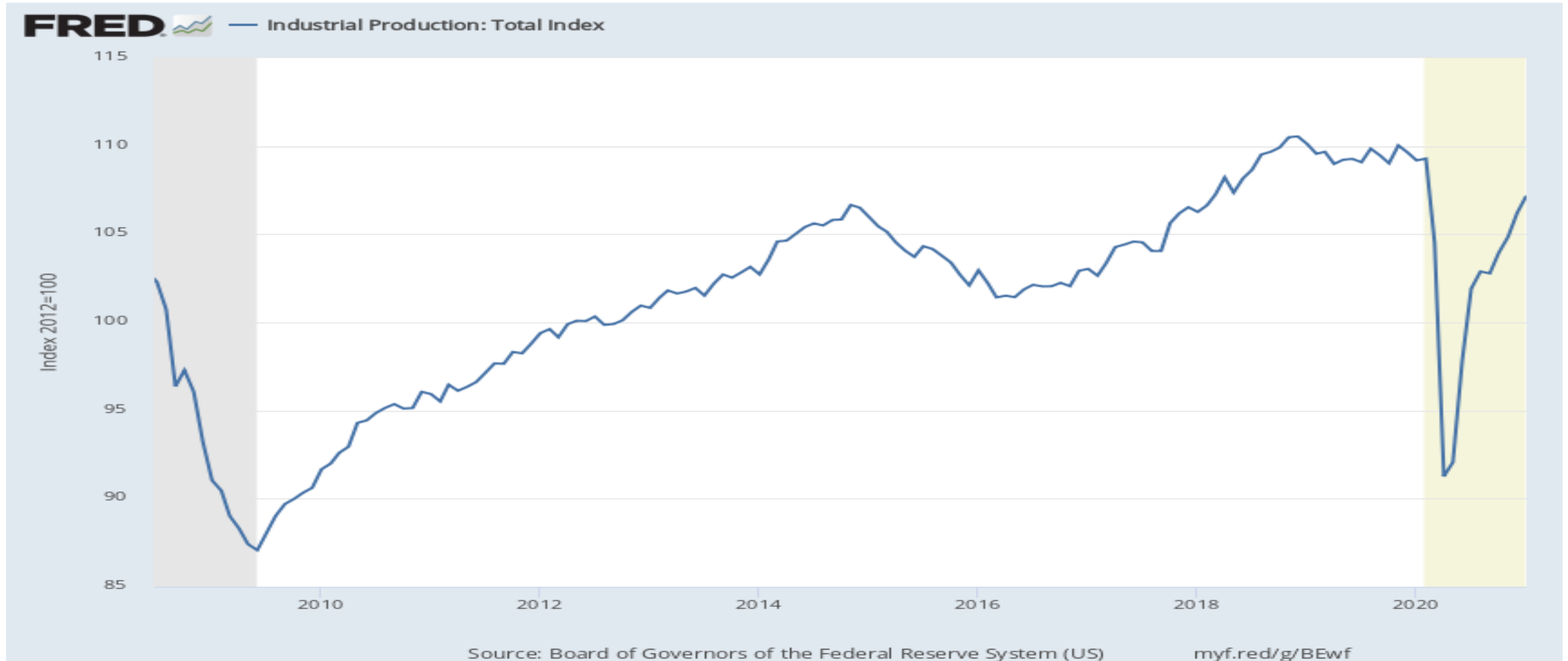
Section 1: Economic Growth and Employment



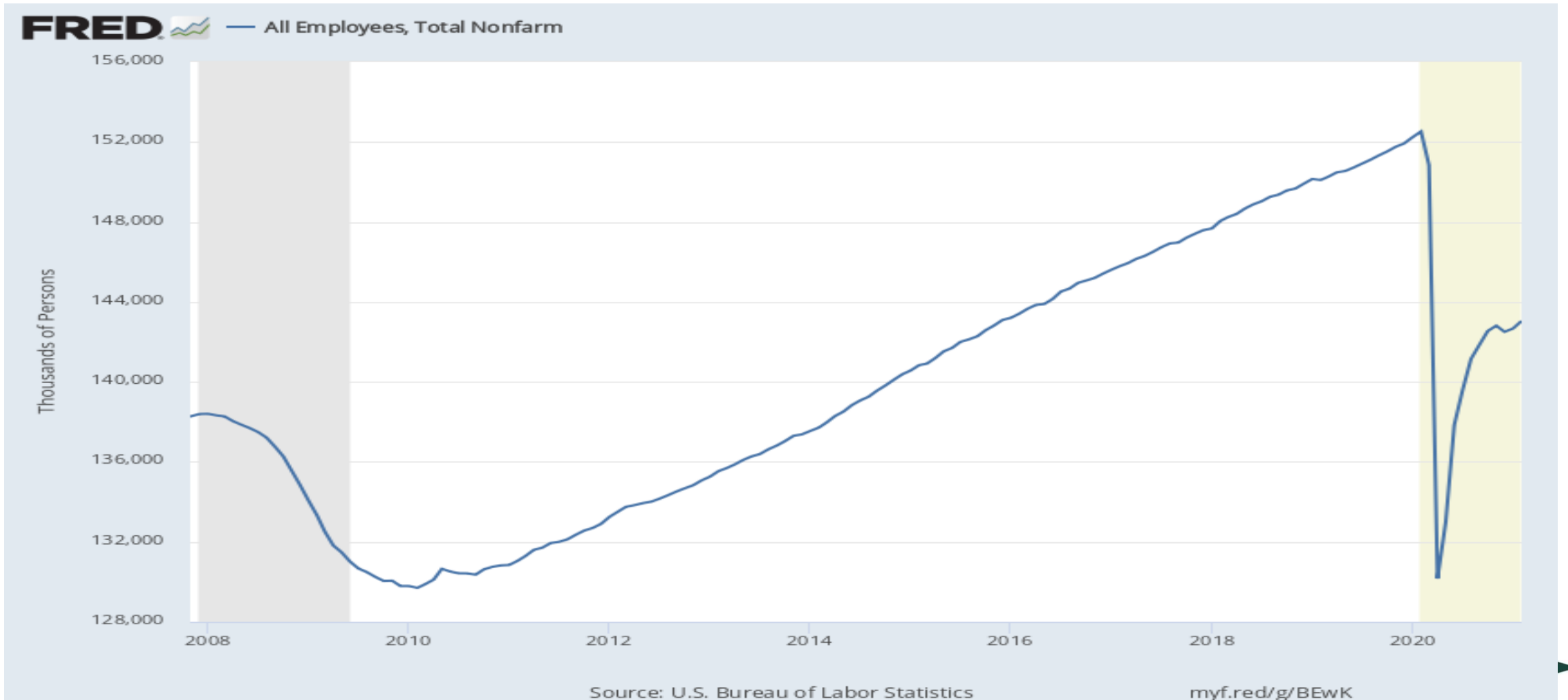
U.S. Gross Domestic Product (Economic Production (2005-2021)



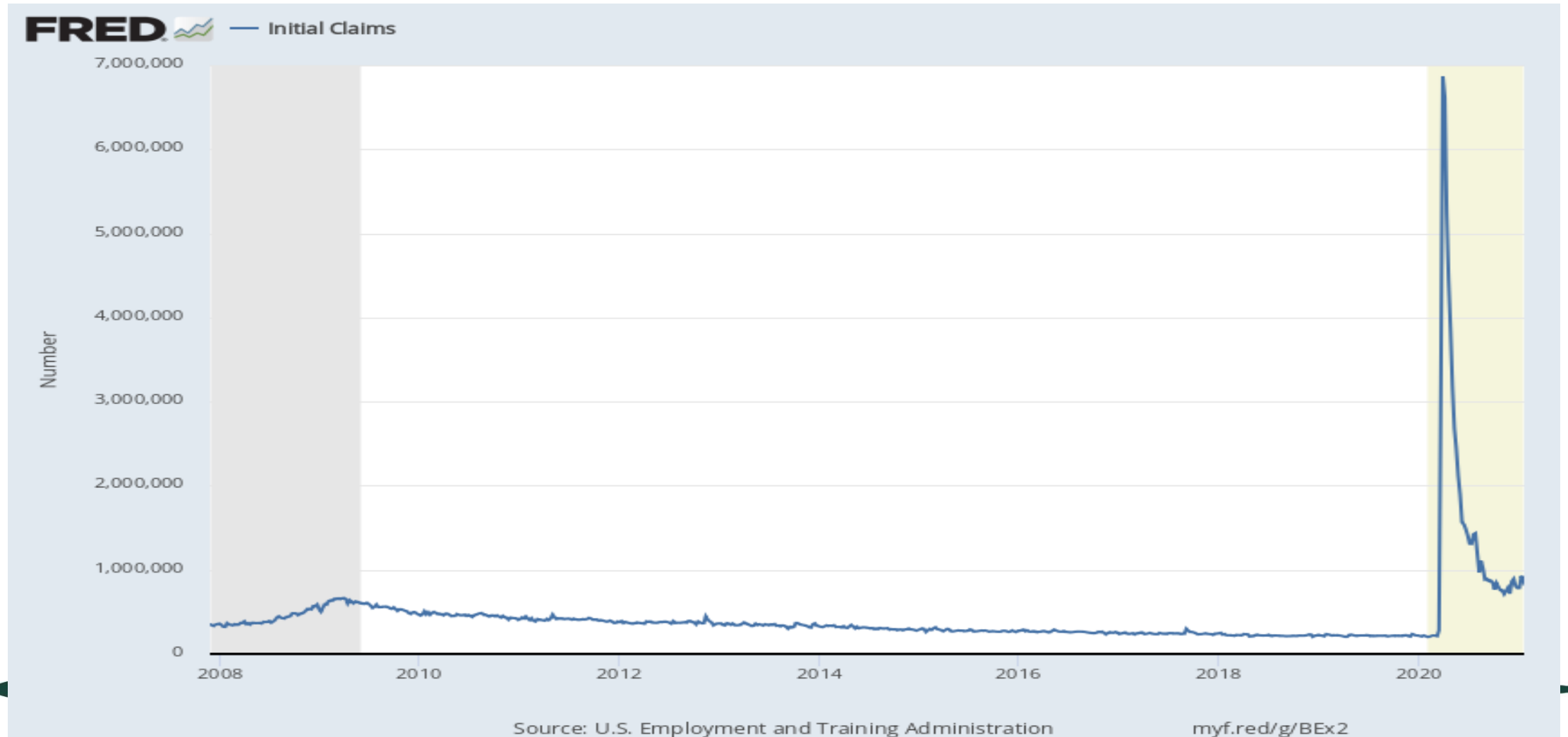
U.S. Industrial Production (2007-2021)



U.S. Employment and Jobs (2007-2021)



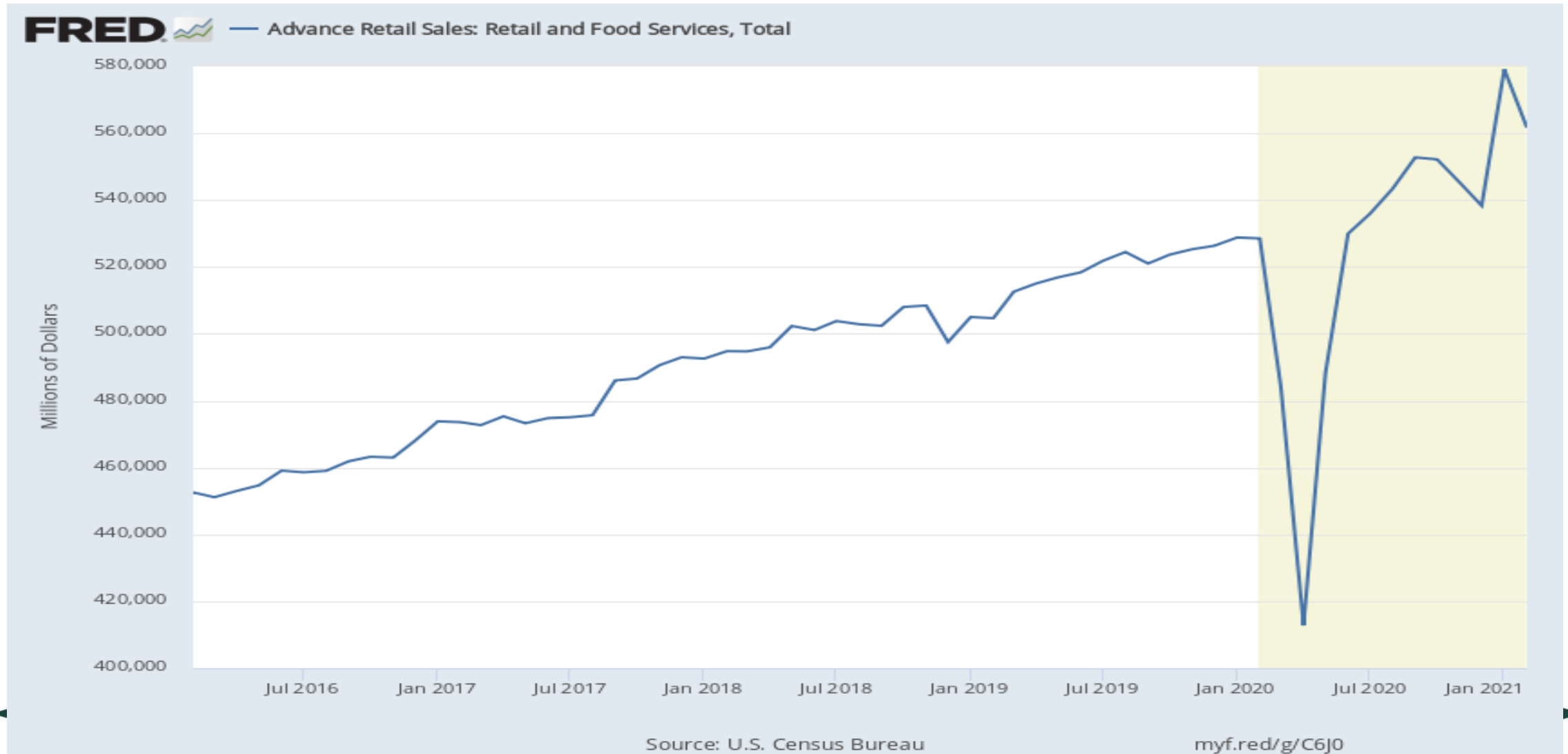
U.S. Initial Claims for Unemployment (2007-2021)



U.S. Disposable Personal Income (2015-2021)



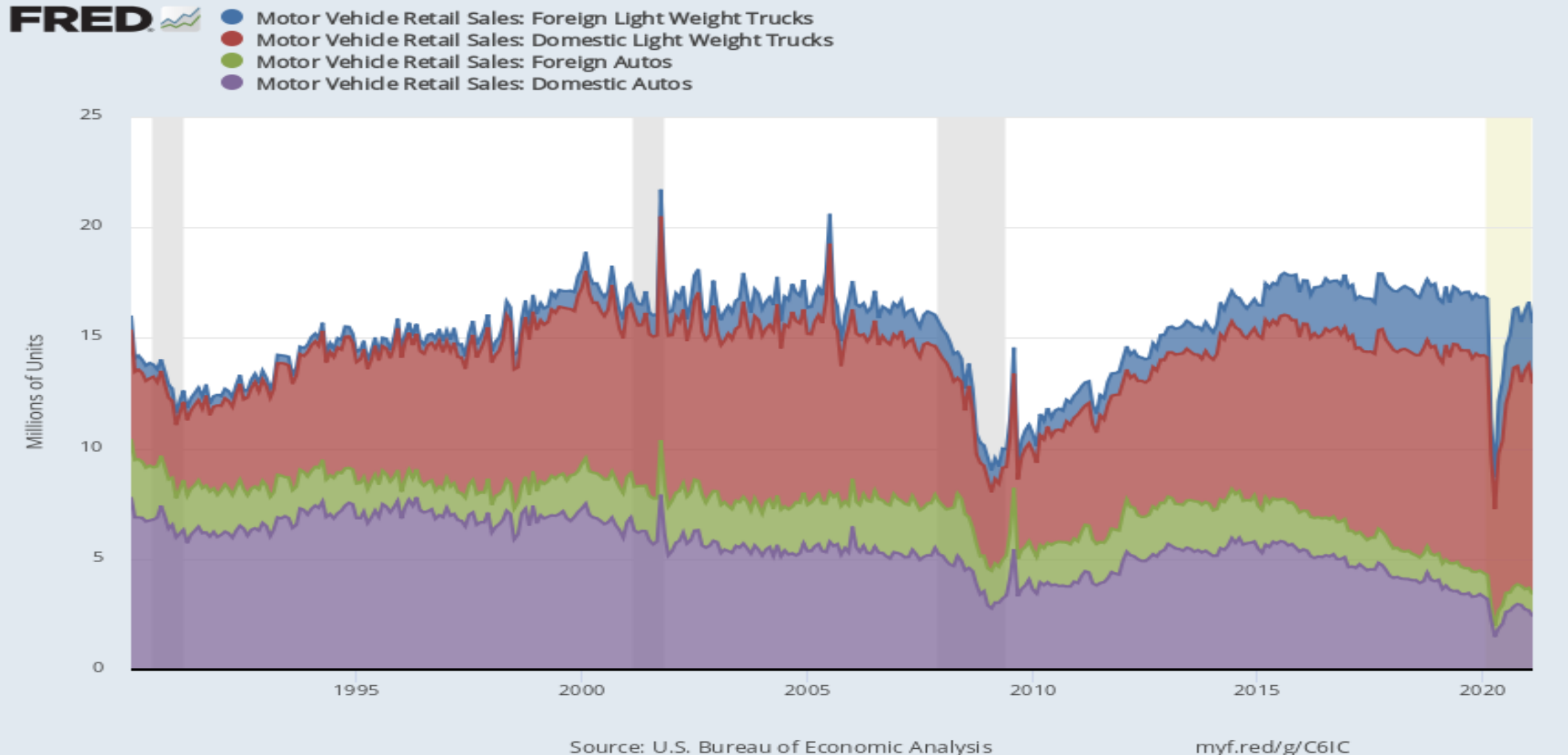
U.S. Retail Sales (2015-2021)



Section 2: Sector Specific Stories



U.S. Vehicle Sales (1991-2021)



U.S. Air passenger miles (2002-2021)



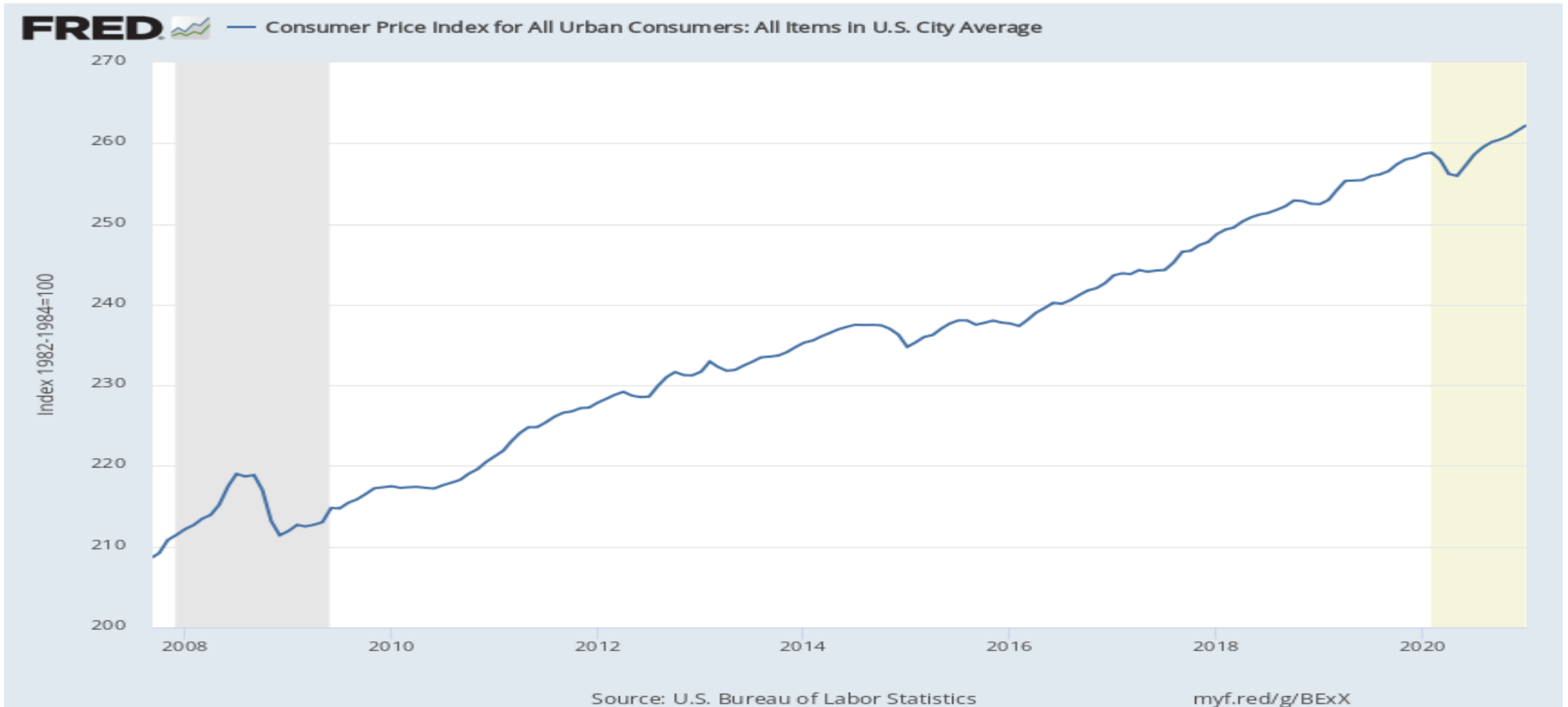
U.S. Sales of beer, Wine and Liquor



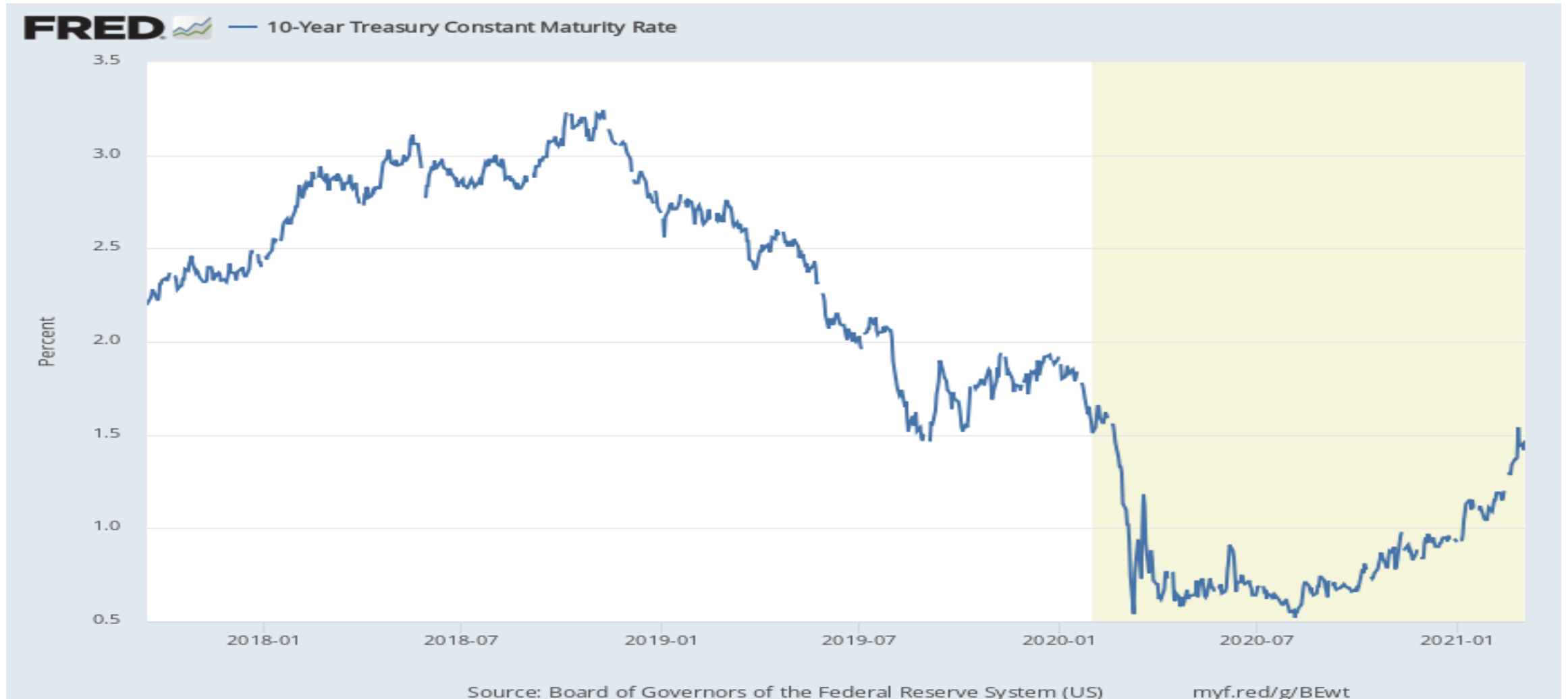
Section 3: Prices and Inflation



U.S. Inflation Rate (2007-2021)



10 year Treasury bond rate (2015-2021)



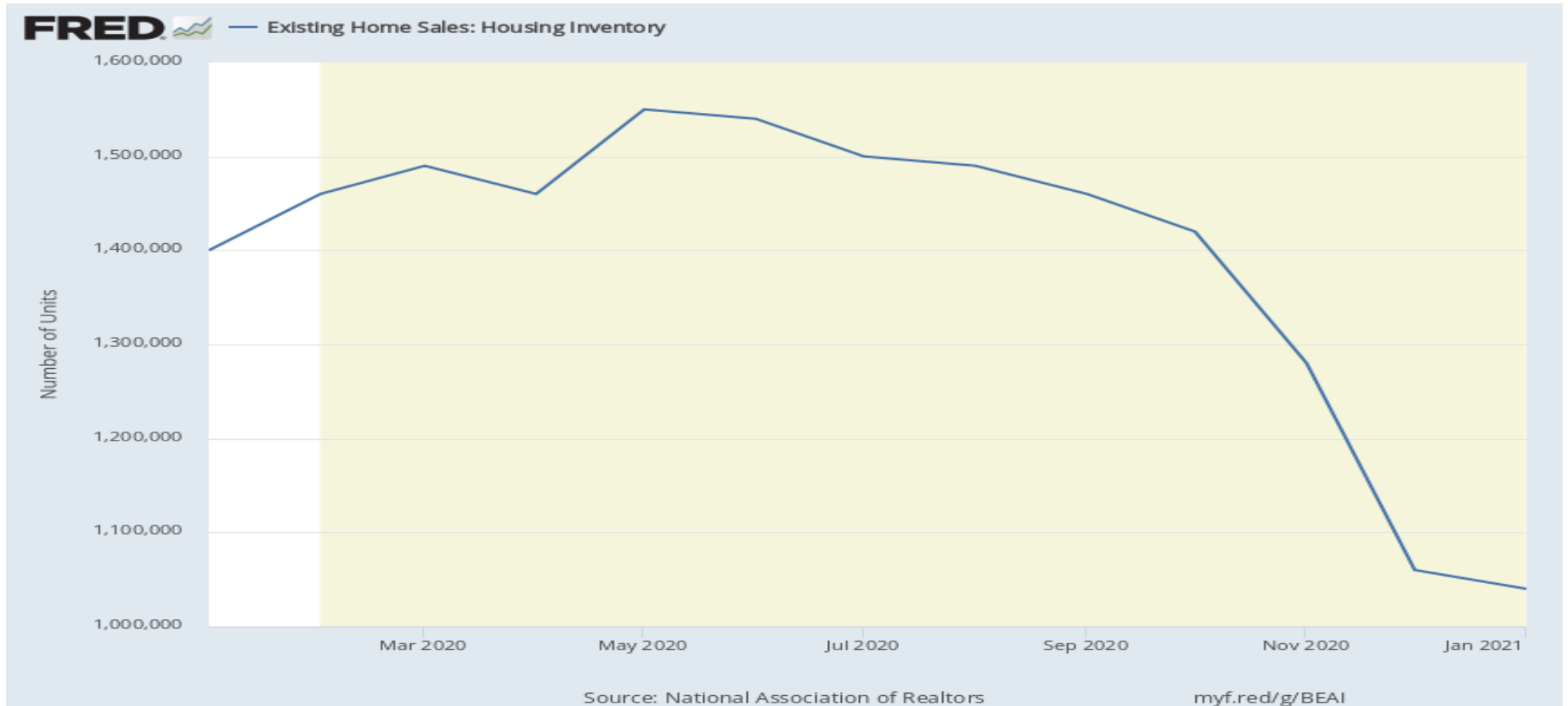
Section 4: Housing



U.S. Home Prices (2007-2021)



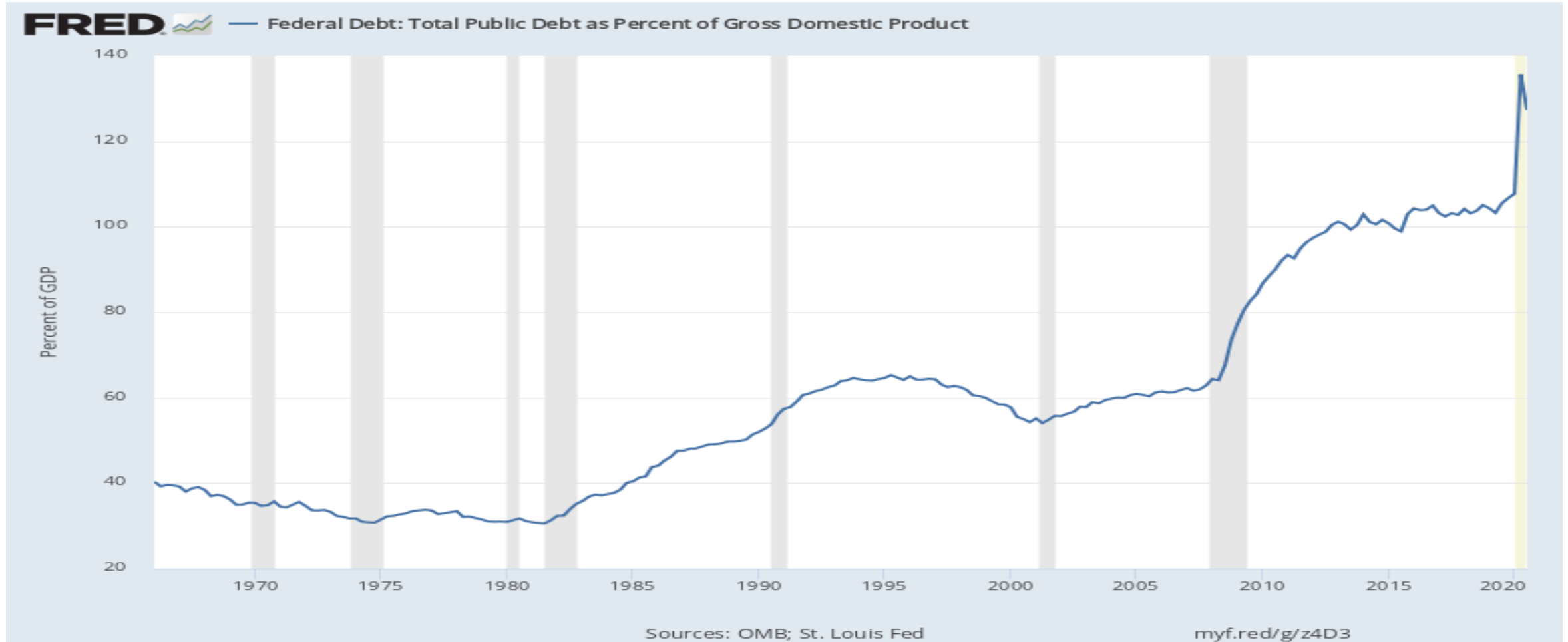
U.S. Existing Home Sales (2020-2021)



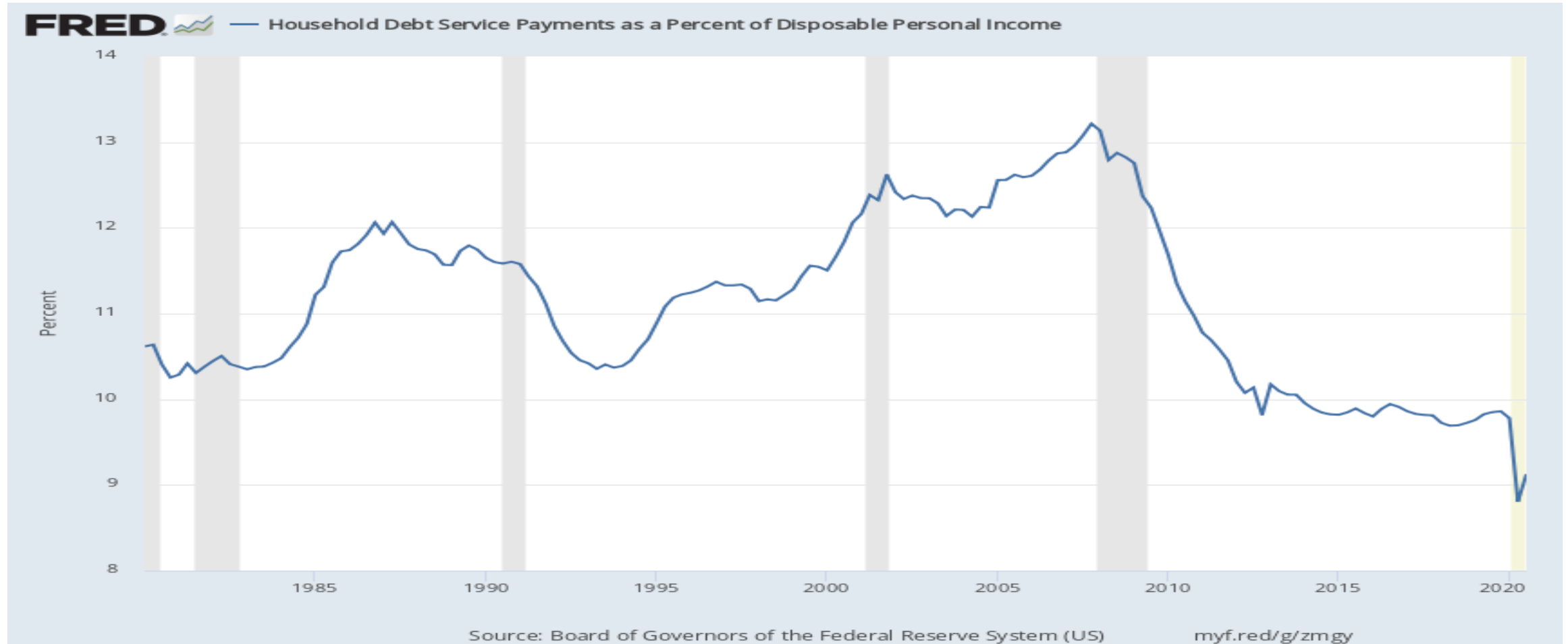
Section 5: Debt and Assets



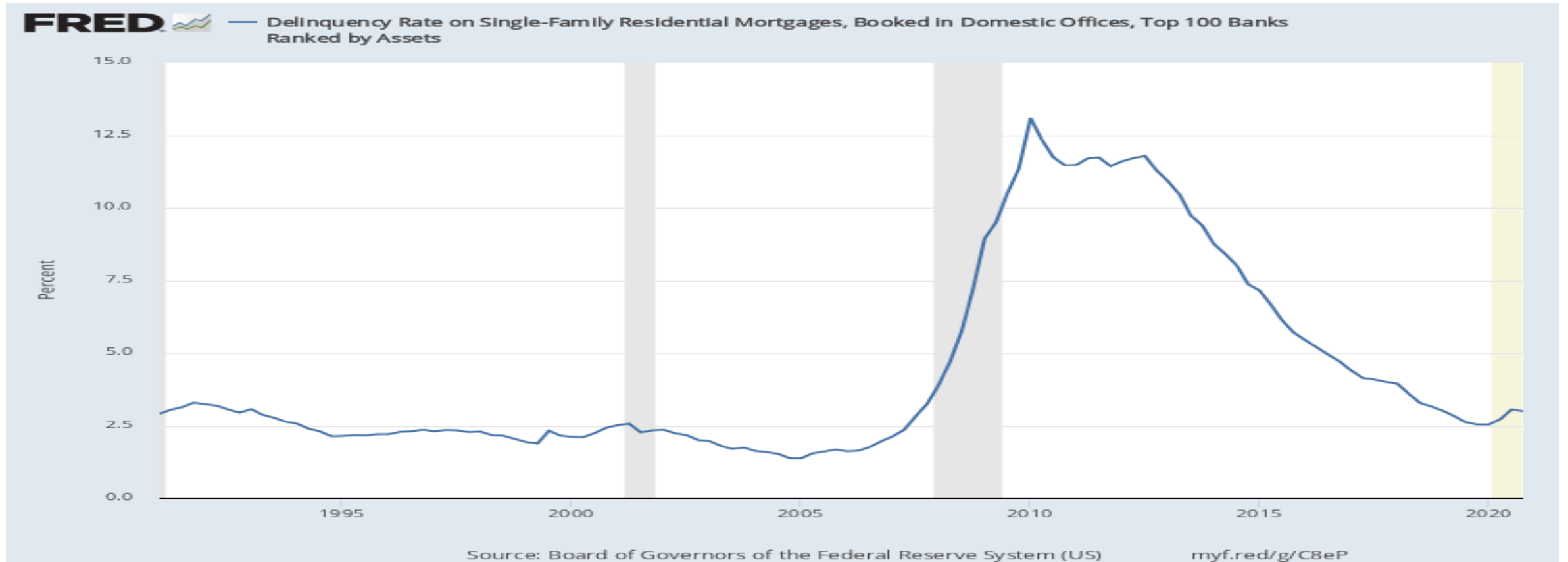
Federal Debt as percent of Economy



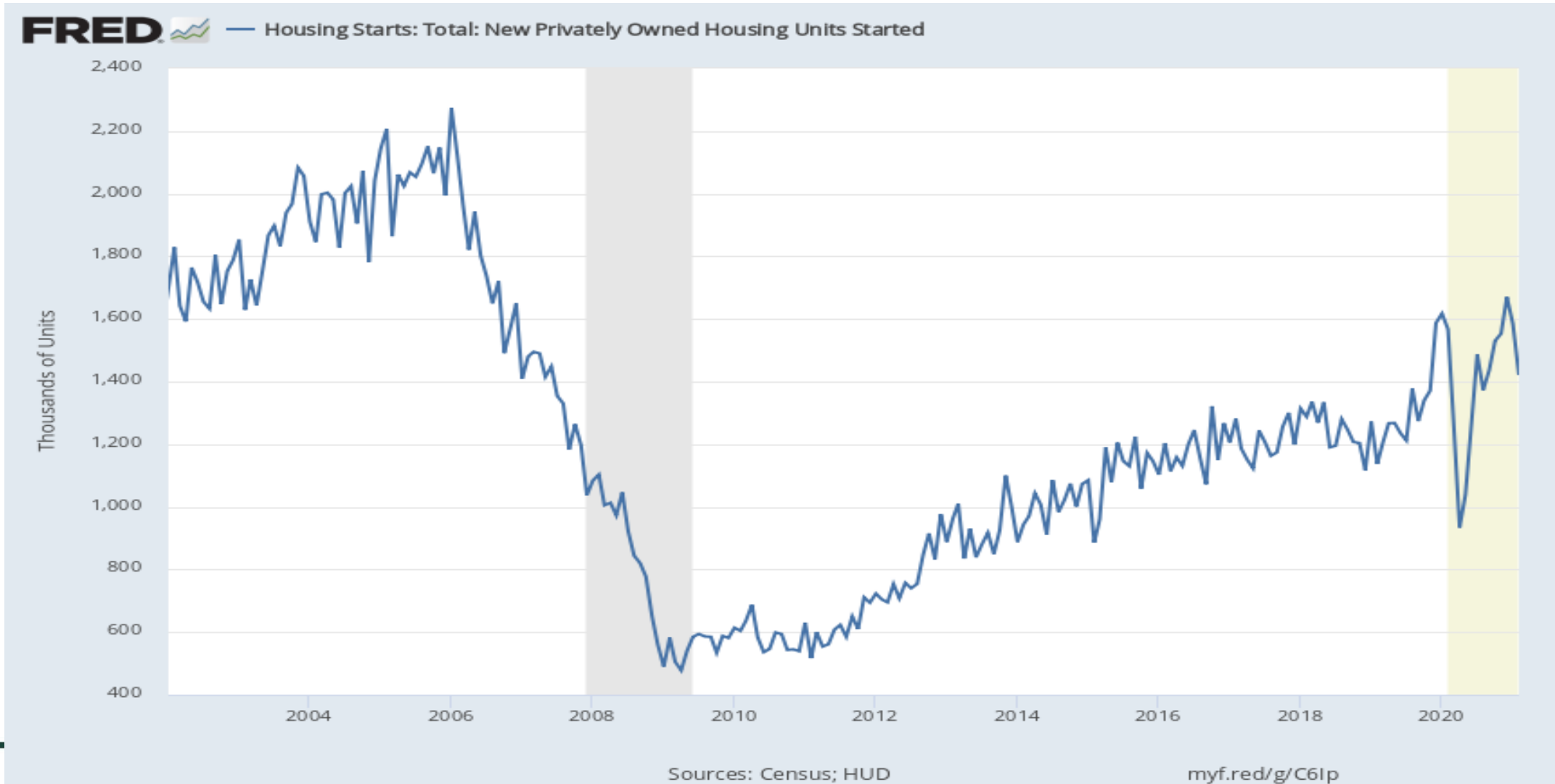
Household Debt service relative to income



Mortgage delinquency rates



U.S. Housing Starts (2002-2021)



Section 6: Economic Outlook



U.S. Economic Outlook

1

GDP and production will grow in the 2-3% for 2021 and 2022

2

Inflation will remain relatively tame at 2%

3

Likewise, job growth will be a modest 2-3% range for the next two years

- Unemployment will be 4.9% range by 2022

4

Housing starts and vehicle production will grow quite a bit in 2021 due to pent up demand and then taper off

- Housing prices will remain stable or strong into 2022

Federal Reserve Economic Projections

1. Economic Growth

- 6.5% - 2021
- 3.3% - 2022
- 2.2% - 2023

2. US Unemployment

- 4.5% - 2021
- 3.9% - 2022
- 3.5% - 2023

3. Inflation will continue to trend 2-2.4% range for the next three years



State Economic Forecast

1. Employment growth at about 2% range for state through 2022
 - Manufacturing will rebound partially but then be fairly modest by historical standards
2. Unemployment rate will fall to low 5% or high 4% range



Forecast Risks

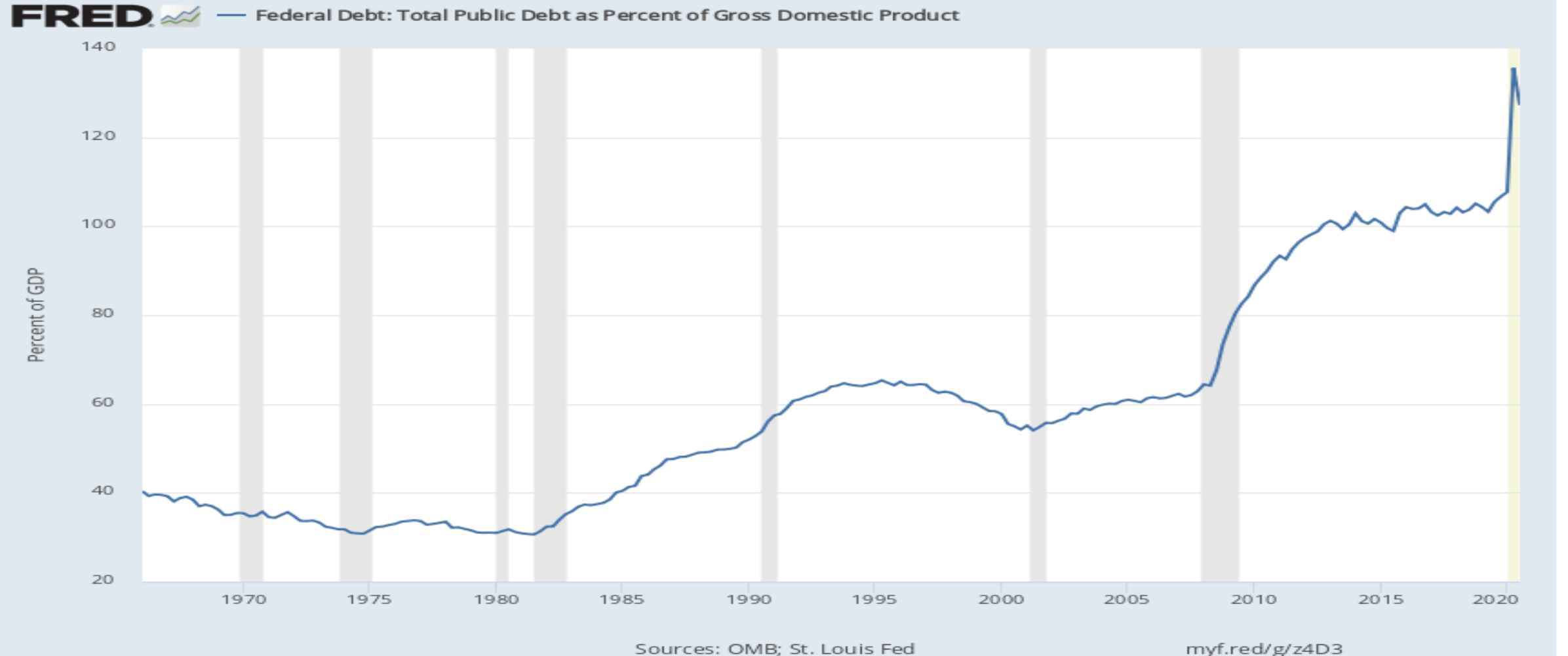
1. Covid-19 surge or setbacks
2. International incidents
3. Major asset price deflation



Section 7: Federal Reserve, Treasury and Federal Debt



Federal Debt as percent of Economy



Federal Reserve Tools

1. Open market operations – buying and selling treasury securities
2. Discount rate – charge banks for short term loans
3. Reserve requirements – deposits required on banks
4. Interest on reserves – interest rate paid on excess reserves



Treasury auctions and resellers

Treasury auction

- US treasury sells government debt to financial institutions who need/want it

Treasury market

Firms from auction then resell treasury debt to others who want/need it



Federal Reserve and Reserve Supply

- Banks put some of their deposit money into the Federal Reserve, this is called the **reserve supply**
 - **Required reserves**
 - **Excess reserves**
- Federal reserve pays interest (**interest on reserve**) on this reserve supply and this rate of interest is what helps drive bank lending and the economy



Banks and the Federal Reserve

- **Reserve requirement**
 - Banks are generally required to hold a certain amount of money in reserves in case of an emergency
 - A loosening of reserve requirements is a more expansion monetary policy
 - Federal reserve eliminated reserve requirement in March of 2020



Federal Reserve and Treasury debt

- Federal reserve earns interest on debt and then repays profits on debt back to treasury
- Federal Reserve buys Treasury debt to help keep interest rates low
 - Fed buys treasuries making them worth and interest rate less



Fed limits on money creation

- **Federal Reserve** then increases the reserve supply by becoming a buyer of some of that treasury debt
- Financial institutions take the cash they just received from federal reserve and deposit it into Fed's **reserve supply**
- Fed's ability to create money is limited to: 1) buying treasury and mortgage-backed debt and 2) goal of **inflation target** of 2%



Fed Risk Monitoring

1. Asset valuation
2. Debt loads
3. Funding risks
4. Financial sector leverage





Thank you



Questions?

