



The U.S. Economic Outlook for 2022

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2022 U.S. Macroeconomic Overview

Three Years of Unprecedented Economic Events

- Record unemployment in April 2020
- Record recovery
- Record number of quits in November 2021

Important questions about 2022: A Year of Recovery

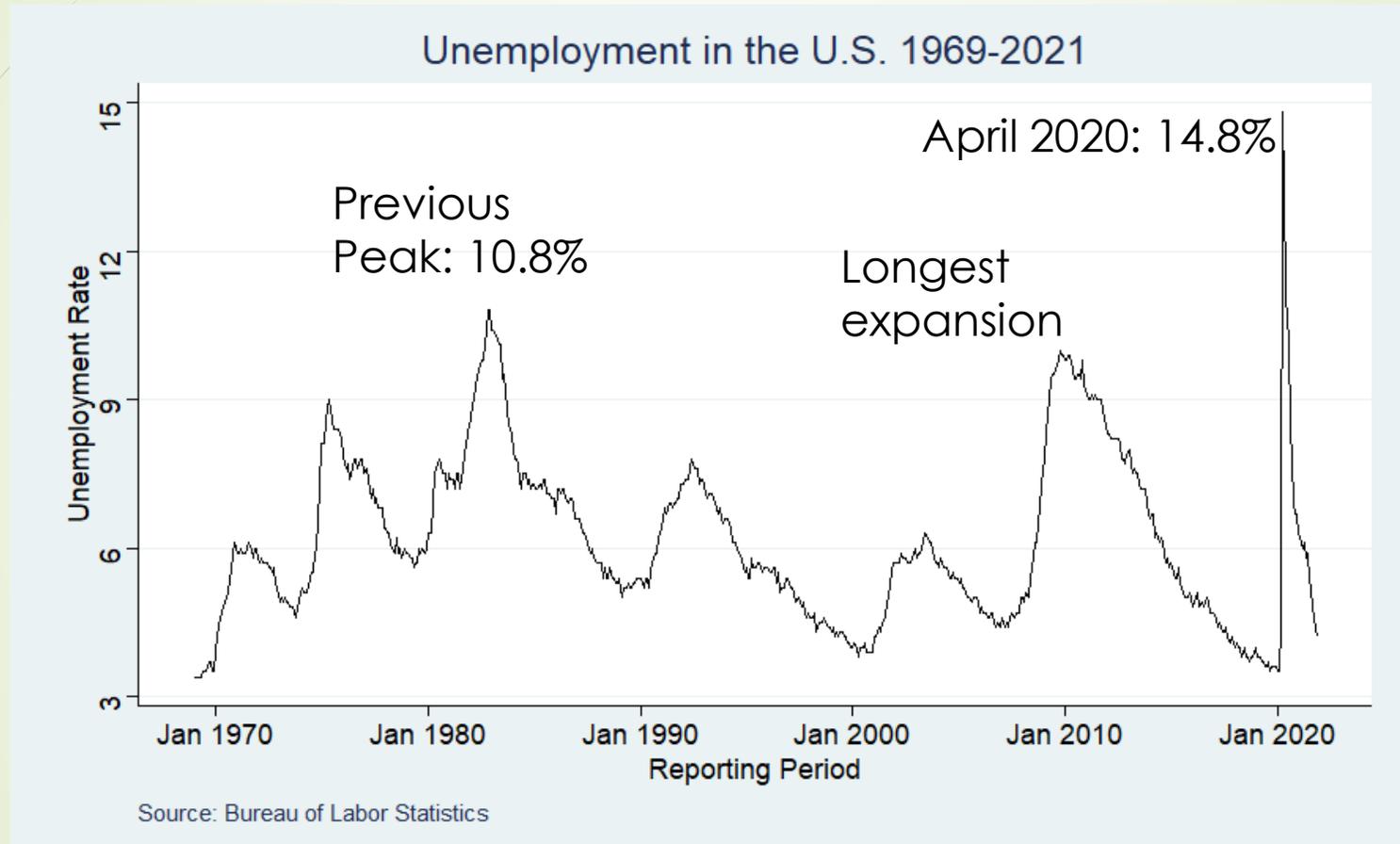
- What happened to the economy during Covid?
- How did government policy shape the recovery?
- What are the lingering concerns and risks about the economy?



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Unemployment Rate 1969-2021

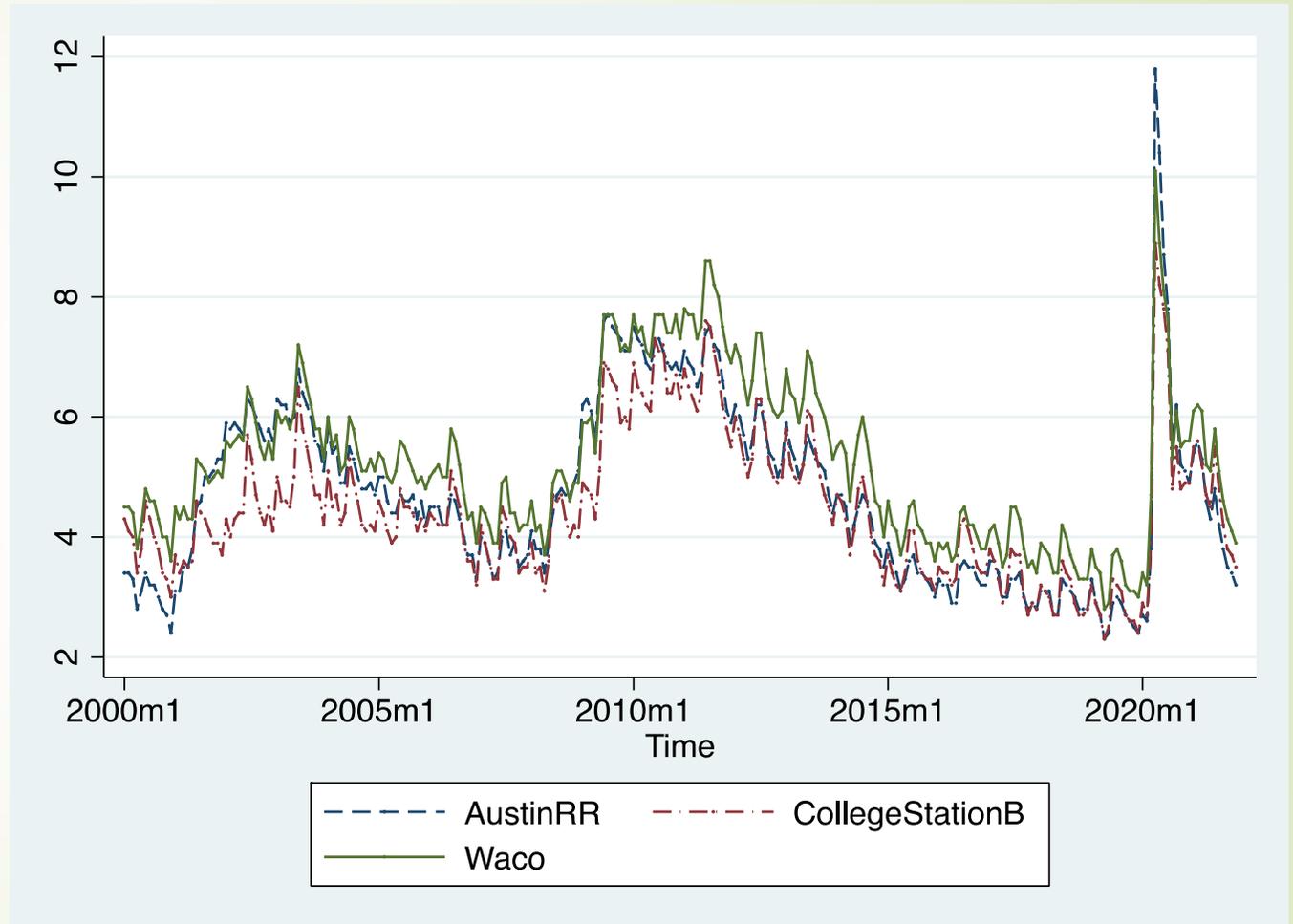


Texas Unemployment: Central Texas

Follow very similar trends as the national statistics.

Note the differences in levels.

Note the lower levels than national averages during the 2009 crisis and the Covid crisis.

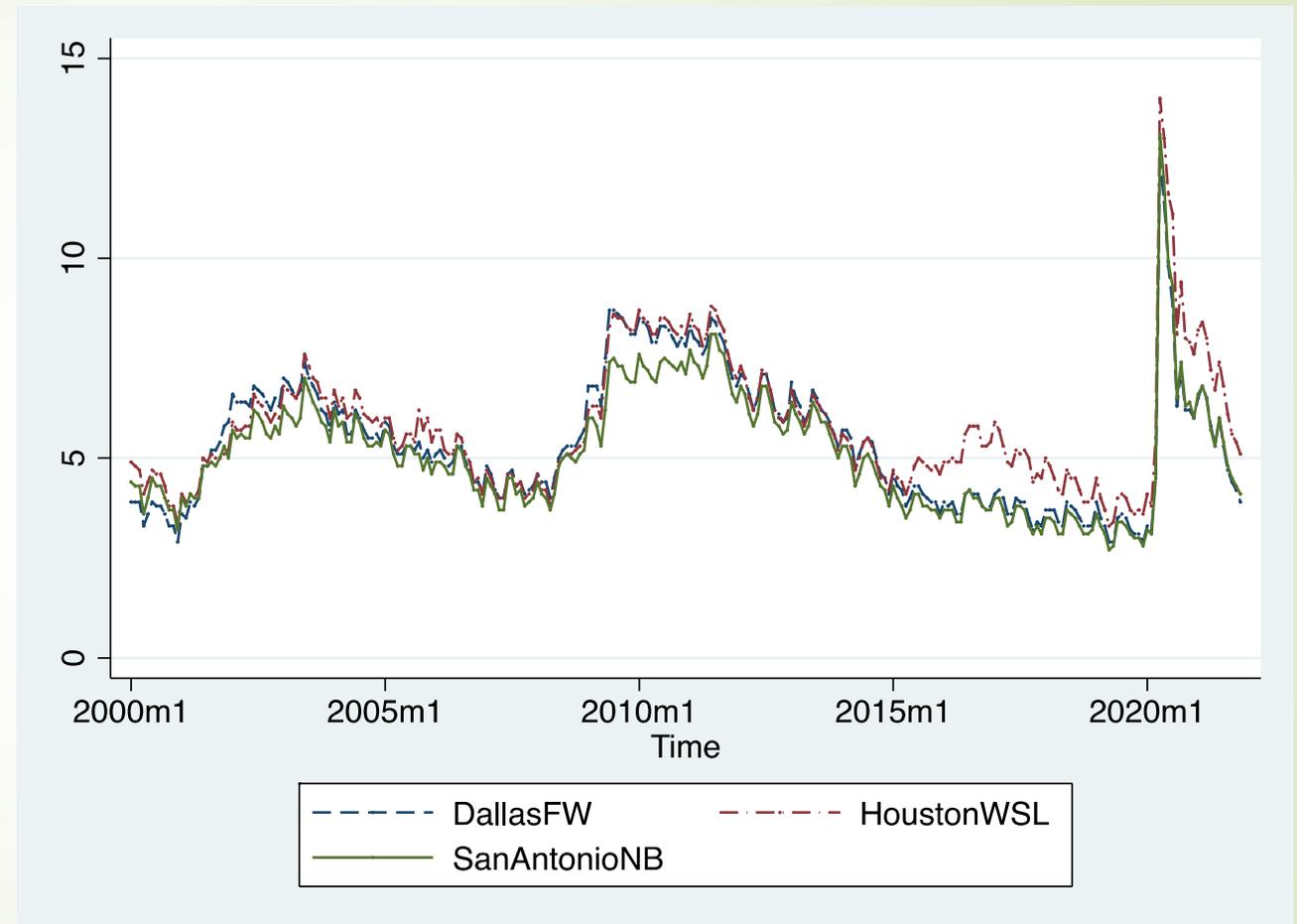


Texas Unemployment: Largest Cities

Follow very similar trends as the national statistics.

Note the differences in Houston in the 2015-2019 period and the peak in April 2020.

Note the similar levels as national averages during the 2009 crisis and the Covid crisis.



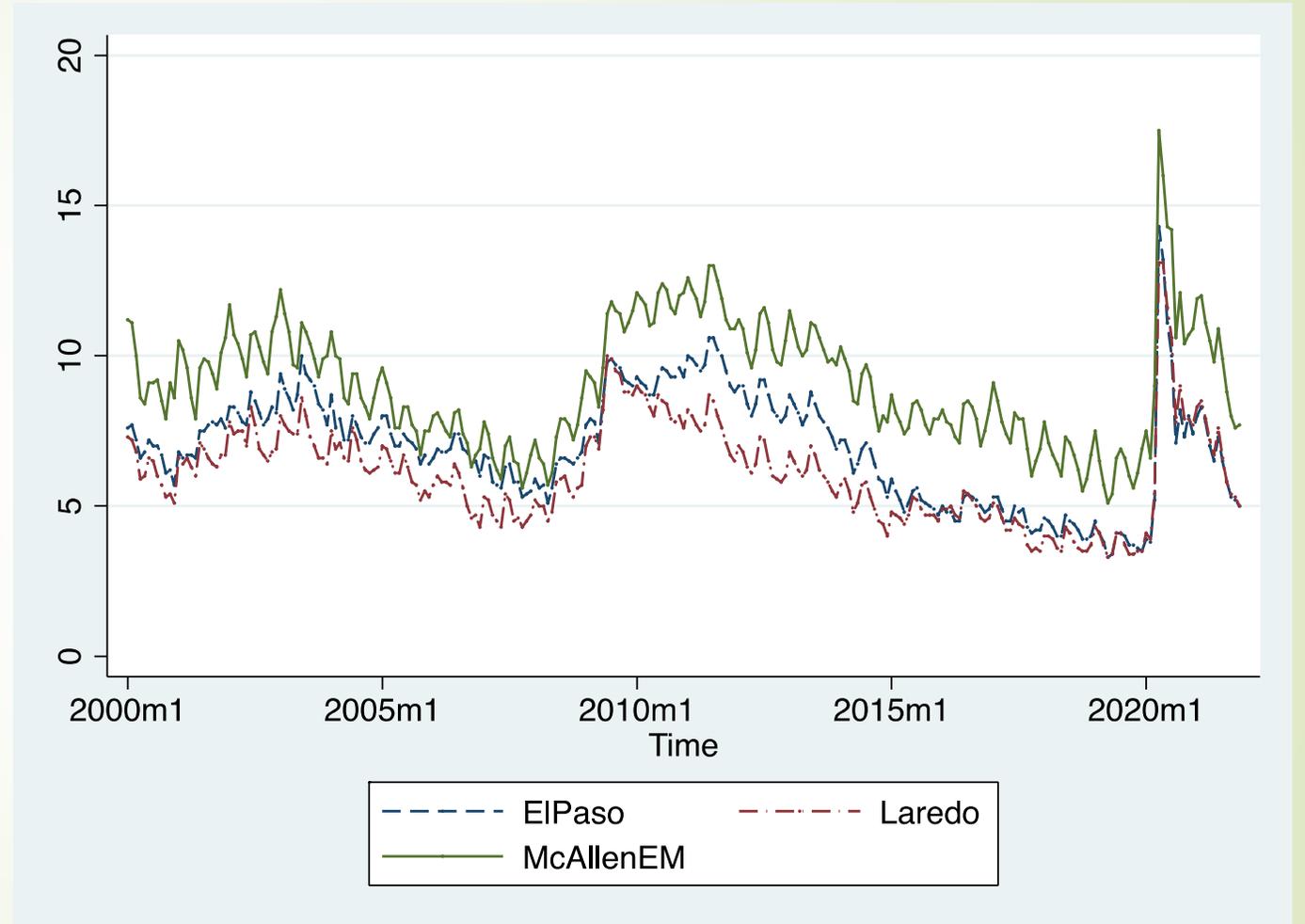
Texas Border City Unemployment

Follow very similar trends as the national statistics.

Note the differences in levels, especially in McAllen.

Main Point: Covid effects did not affect affect relative unemployment very much.

Covid was a natural disaster rather than business cycle event.

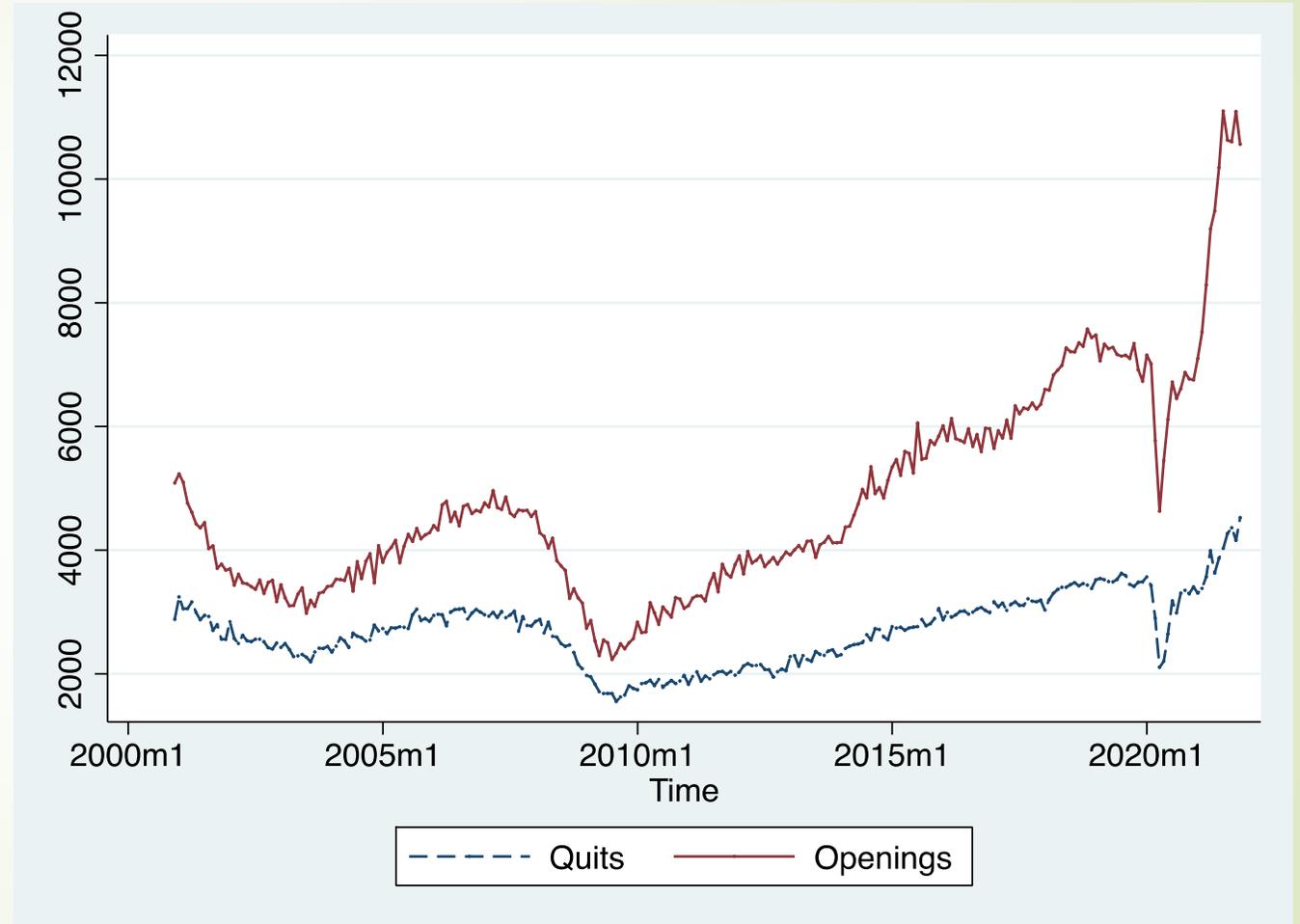


Job Openings and Quits

Rising openings relative to quits leads to falling unemployment. Note record number of quits. Labor market is unusually tight.

Unemployment fell to 3.9% in December 2022.

The jobless rates for teenagers (10.9 percent), Blacks (7.1 percent), Asians (3.8 percent), and Hispanics (4.9 percent) showed little or no change over the month.

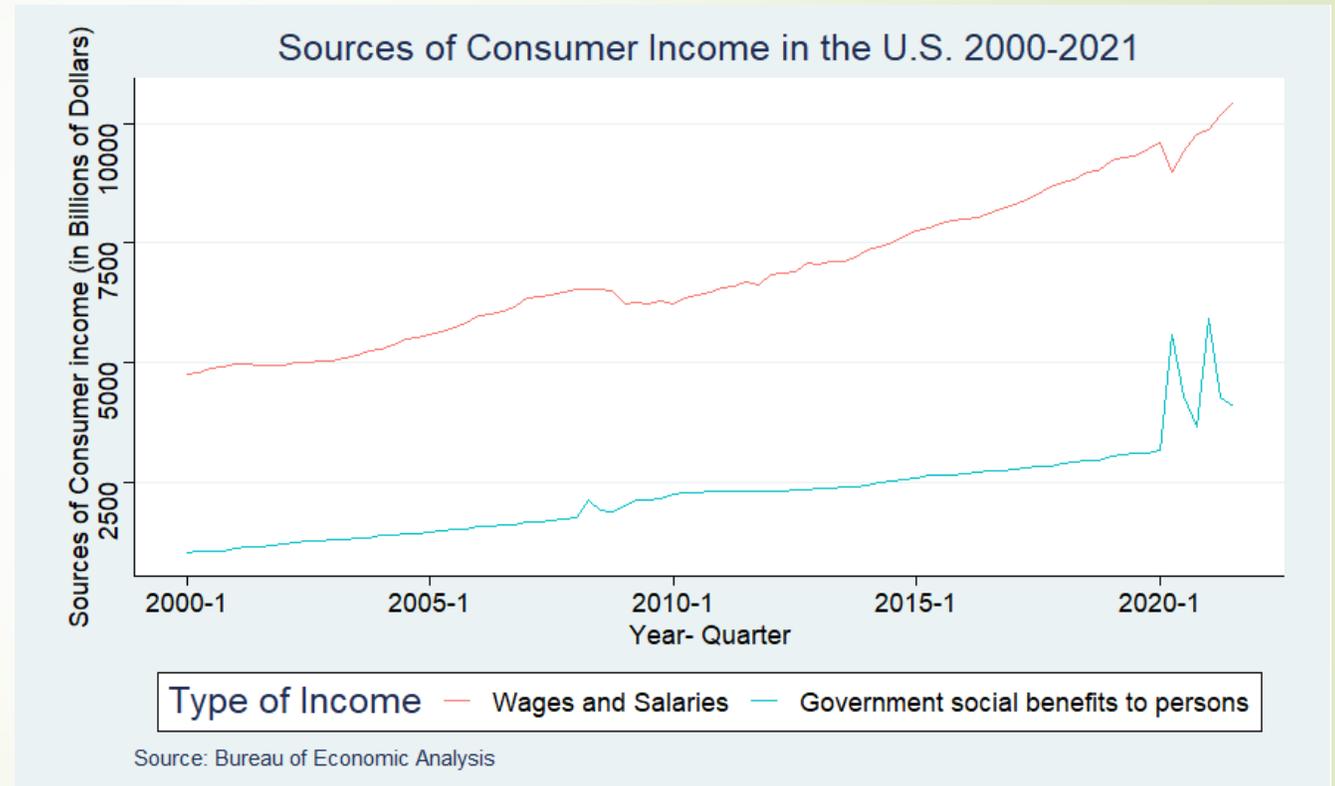


Sources of Consumer income: Wages and salaries and Government transfers

Note drop in wage and salary income.

Note the increase in government benefits.

The government support programs were very effective at raising income.

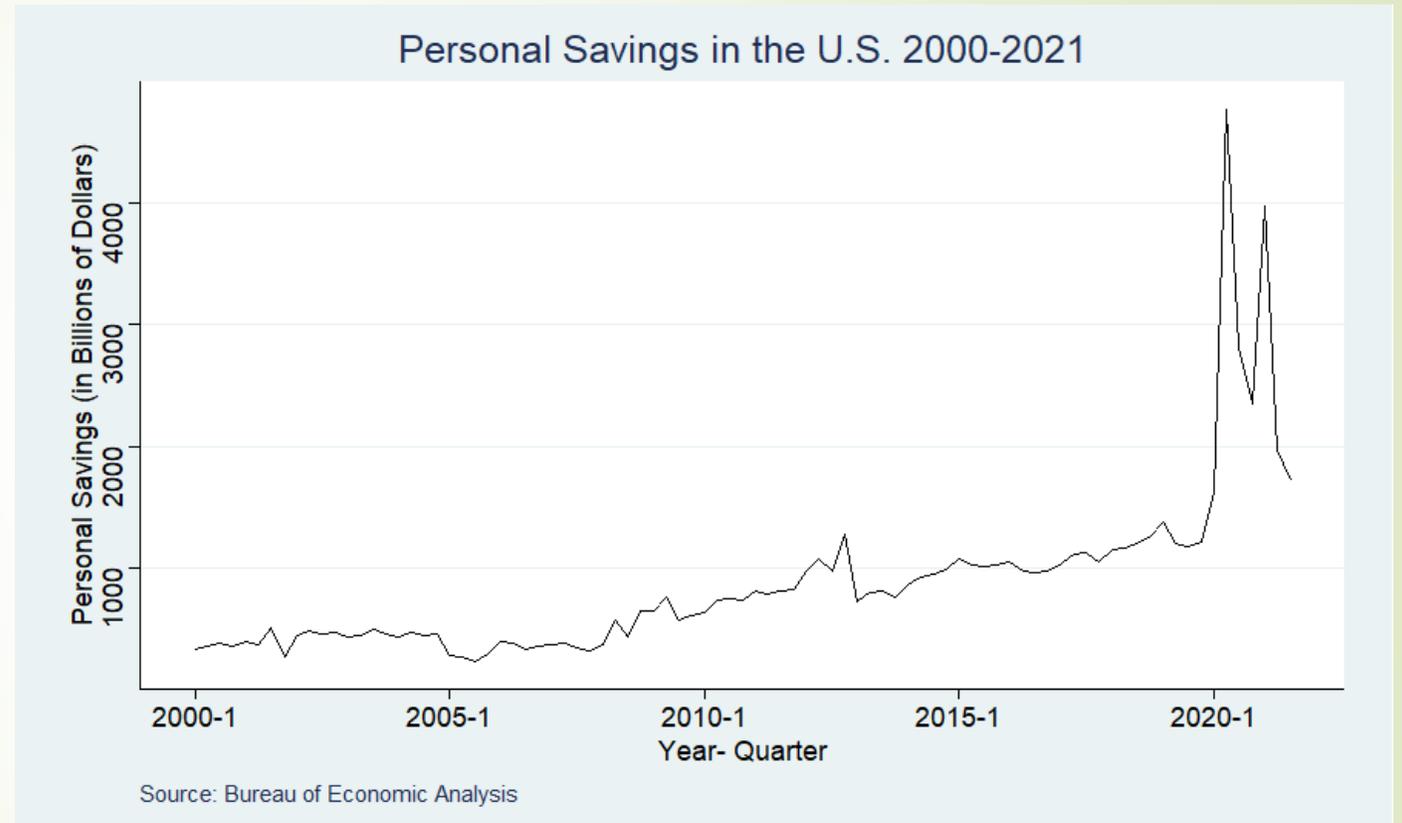


Personal Savings

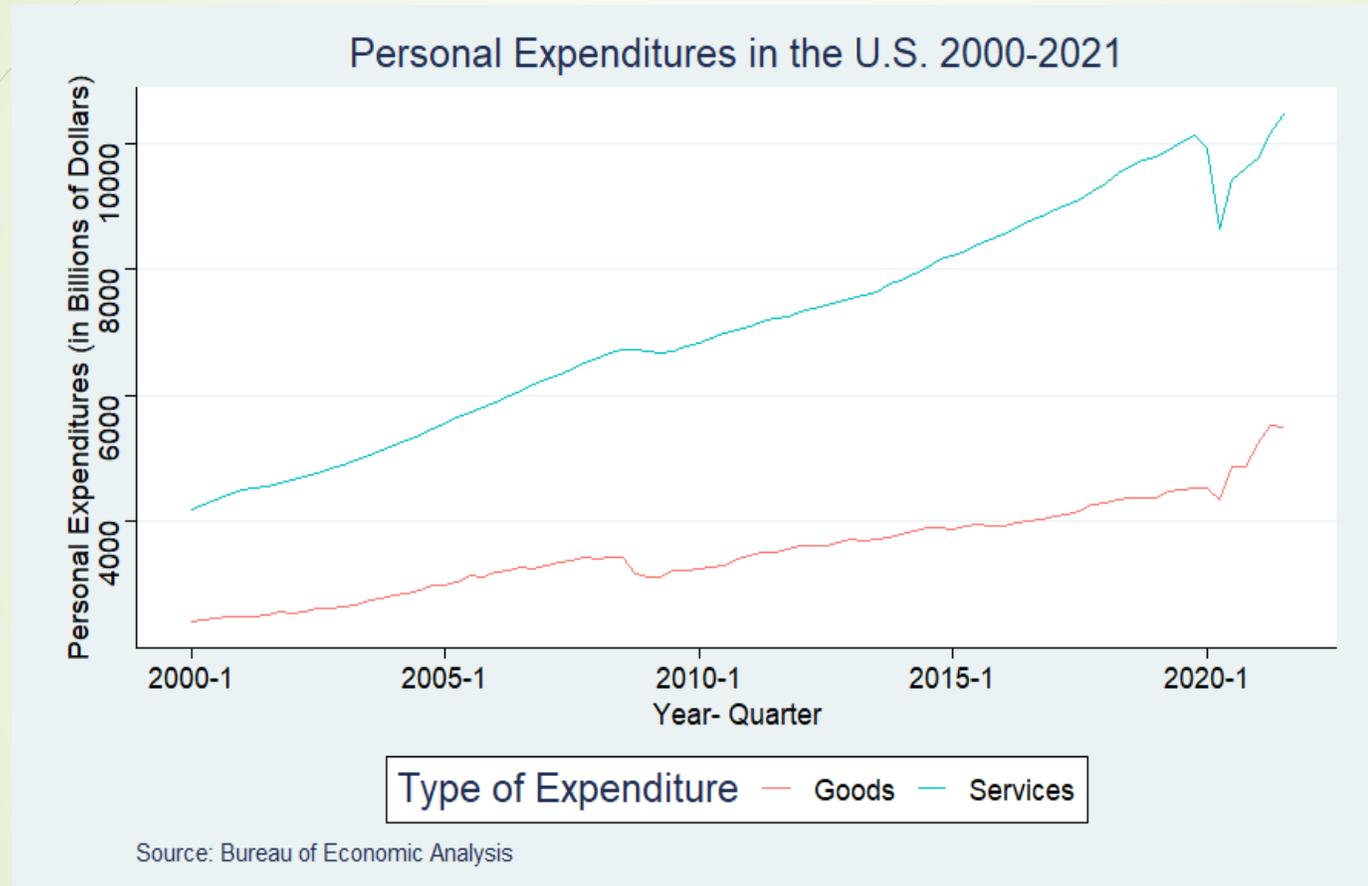
Rising savings corresponded to the rise in government transfers.

Rising savings corresponded with rise in quits.

The number of persons not in the labor force who currently want a job decreased by 1.6 million over the year but is 717,000 higher than in February 2020.



Personal Expenditures



Rising consumption of goods, and falling consumption of services during the COVID crisis.

Rising goods consumption leads to inflation-inducing bottlenecks.

Falling services consumption hit poorest hard (restaurant workers).

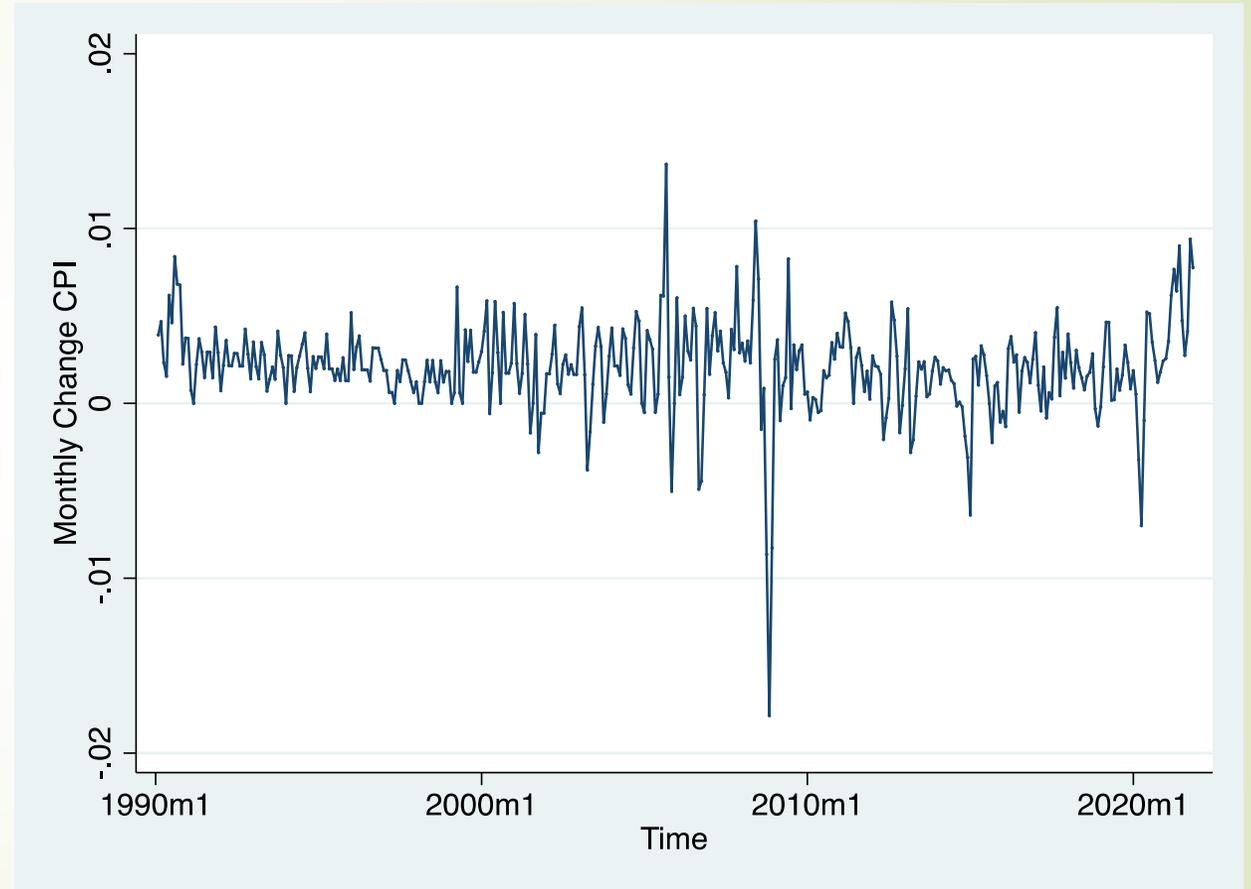


Inflation (CPI)

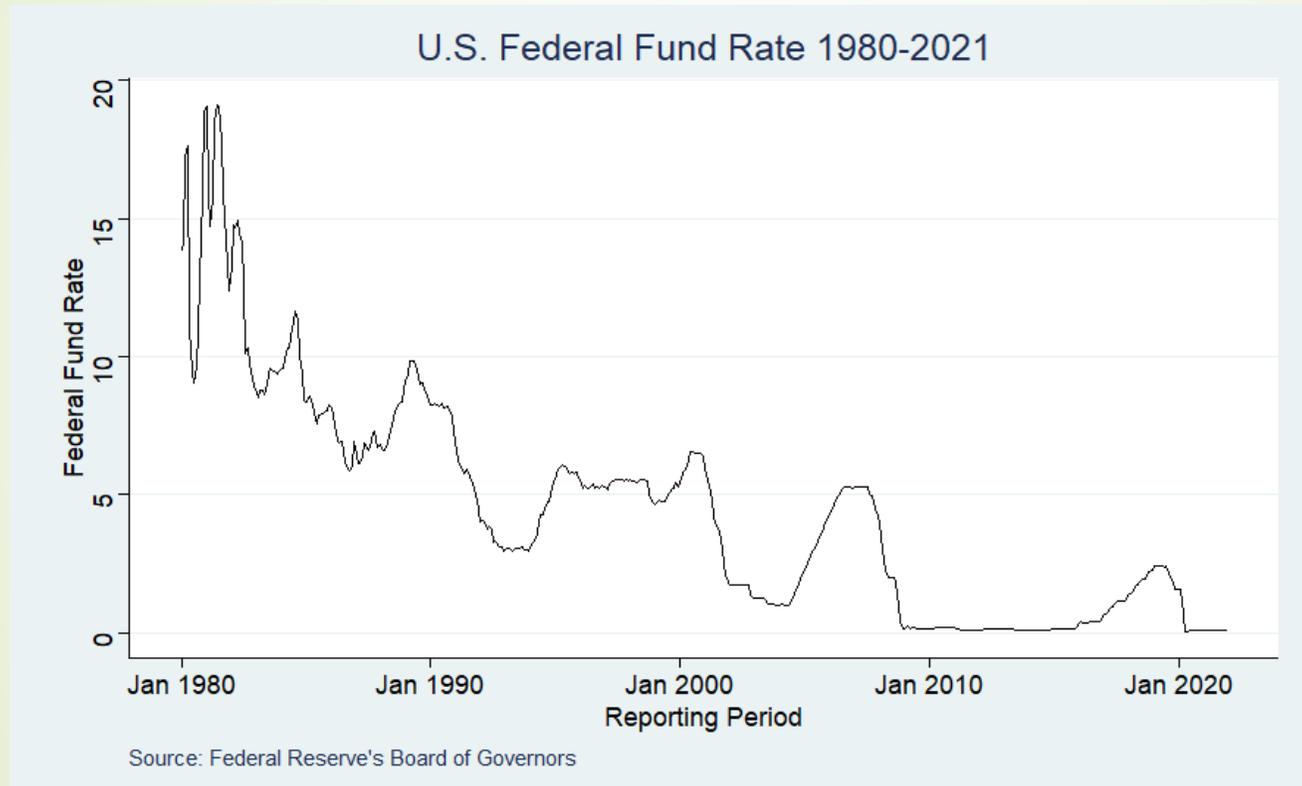
Inflation is higher than in recent history

Main Causes:

- Supply chain bottlenecks
- Labor Market tightness
- Excess demand for goods
- Trade frictions



Federal Funds Rate



BUSINESS

A fighter for low interest rates, Minneapolis Fed chair says U.S. needs two rate increases in 2022

This is the first time Neel Kashkari has signaled support for a rate hike since joining the Federal Reserve in 2016.

By Kavita Kumar Star Tribune | JANUARY 4, 2022 — 3:56PM



ANTHONY SOUFFLE | STAR TRIBUNE

Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, says for the first time that the central bank needs to raise interest rates.

Even Neel Kashkari thinks it's time to raise interest rates.

Since he became president of the Federal Reserve Bank of Minneapolis in 2016, Kashkari has consistently opposed rate increases and became known for holding the most dovish views of the central bank's policymakers.

But amid some of the highest inflation in decades, Kashkari on Tuesday said he supports raising rates this year — but twice, not the three times the Fed signaled on Dec. 15.



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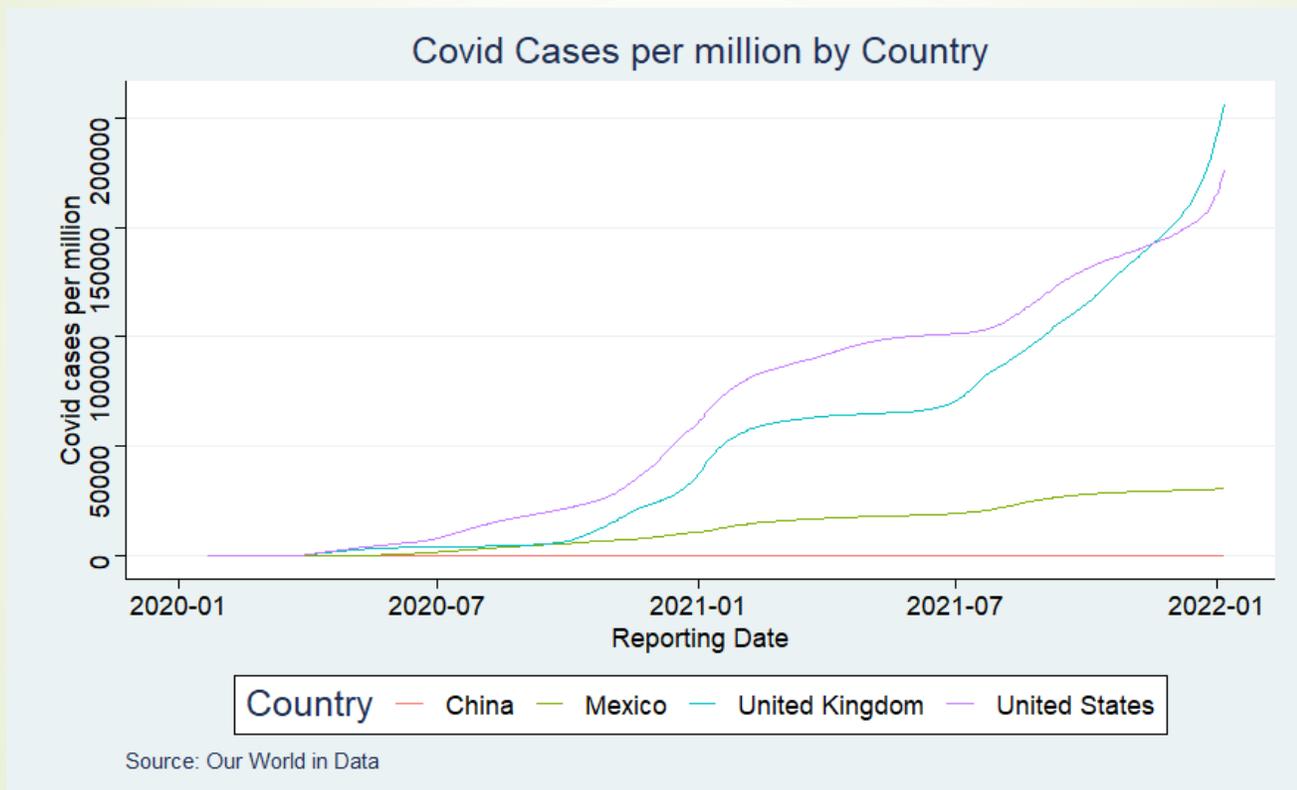


Long-Run Concerns

- ▶ Climate: Transition out of fossil fuels
- ▶ Covid 19: Omicron
- ▶ U.S. National Debt and the Trade Deficit



Covid Cases per million by Country (USA, Mexico, Great Britain, China)



Child Care remains a critical issue for the U.S. economy today and is disrupting the labor market.

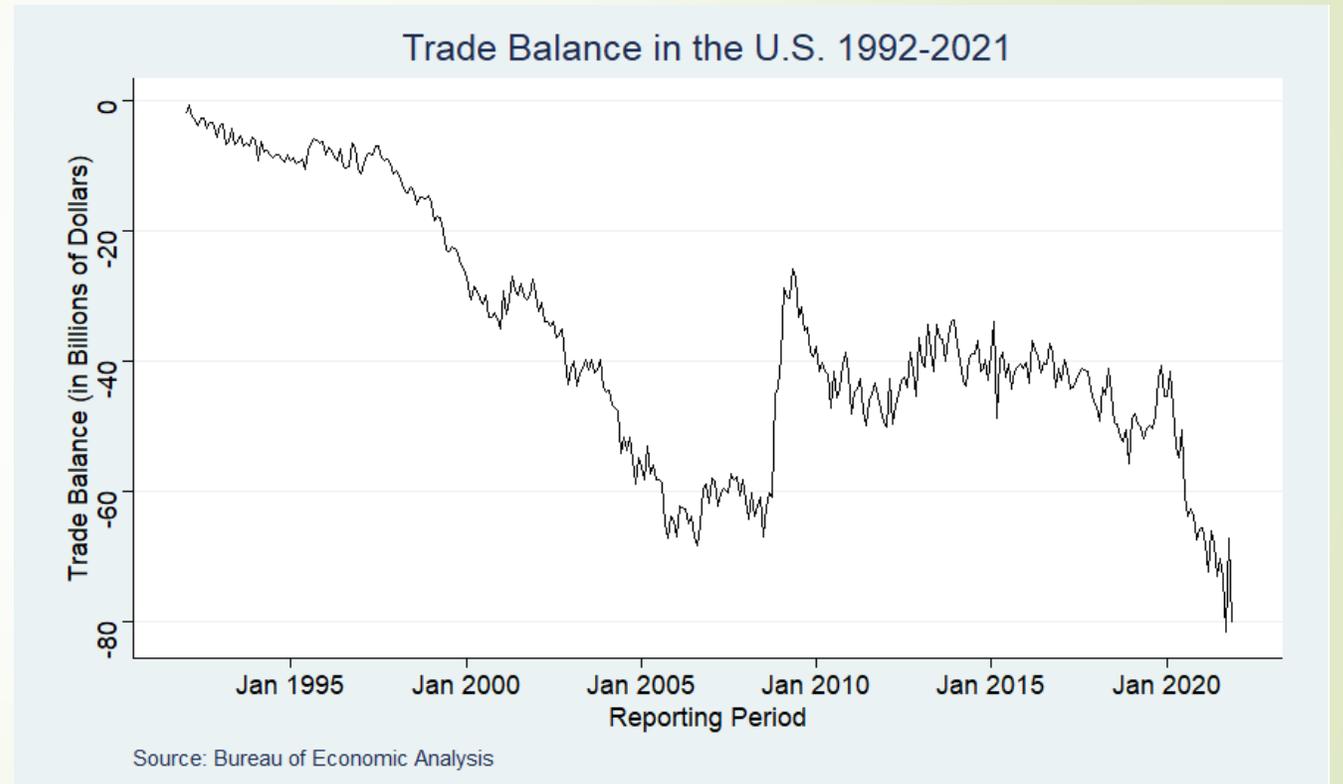


U.S. and Mexico: Factory North America

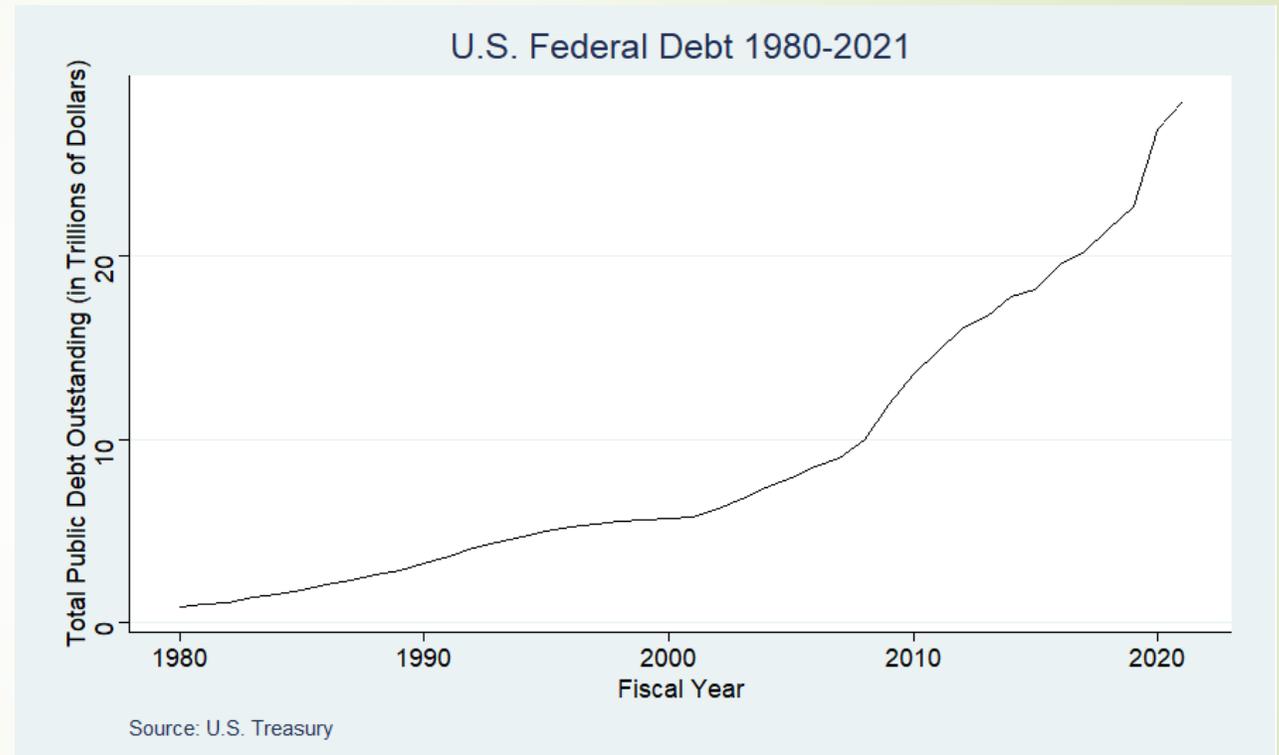
- ▶ Shifting production from East Asia (China) to Mexico and Central America
 - ▶ Significant benefits for Texas
 - ▶ Finding ways to shift production back to the Americas remains a current economic challenge
- ▶ U.S. and Mexican workers are complements, not substitutes
 - ▶ Collaborative production with Mexico (and Central America) key to U.S.
 - ▶ Reducing migration (especially from Central America). See Dallas Morning News January 9.
- ▶ Texas is a leader and should continue to support trade with Mexico



But What about the U.S. Trade Deficit?



Twin Deficits: U.S. Debt and the Trade Deficit





Conclusions

- ▶ Current economic recovery underway
 - ▶ Uneven among demographic groups and regions
 - ▶ Rising inflation will elicit a FRB response
- ▶ Long-run concerns continue to loom
 - ▶ Covid 19 is at current U.S. peaks
 - ▶ Deficits are rising
 - ▶ Climate change challenges are becoming more urgent

