31st ANNUAL LEVY ECONOMICS INSTITUTE CONFERENCE

MAY 2, 2024

- ECONOMIC PROSPECTS FOR THE US ECONOMY
- THE REVIVAL OF INDUSTRIAL POLICY
- · CAUSES AND MEASUREMENT OF INEQUALITY
- AGING AND PUBLIC POLICY: DEBUNKING MYTHS, PROVIDING SOLUTIONS







Economic Prospects for the U.S. Economy

Gennaro Zezza

Joint work with

Dimitri B. Papadimitriou

Levy Institute of Economics and

Giuliano T. Yajima

Levy Institute of Economics

Summary

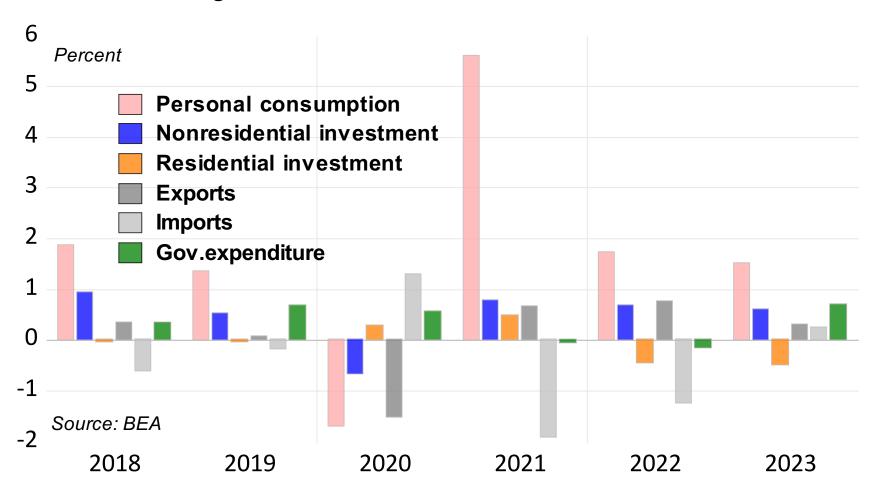
- Determinants of GDP growth
- Financial fragility?
- Inflation and monetary policy
- The external balance
- Industrial policy
- Our projections

C.B.O. Projections

	2023	2024	2025	2026
February 2024				
GD P	3.1	1.5	2.2	2.2
- Private consumption	2.6	1.3	1.9	1.6
- Public consumption	4.3	8.0	0.8	0.9
- Investment (business)	4.1	2.0	3.0	3.4
- Investment (residential)	-0.1	5.1	10.9	10.7
Inflation (PCE)	2.7	2.1	2.2	2.1
Unemployment	3.6	4.2	4.4	4.3
Federal fund rate	5.0	5.1	4.1	3.3
3-monthsTreasury bills	5.1	4.9	3.8	3.1
10-year Treasury notes	4.0	4.6	4.6	3.9
March 2024				
GD P	2.5	1.8		
Inflation (PCE)	4.1	2.6		

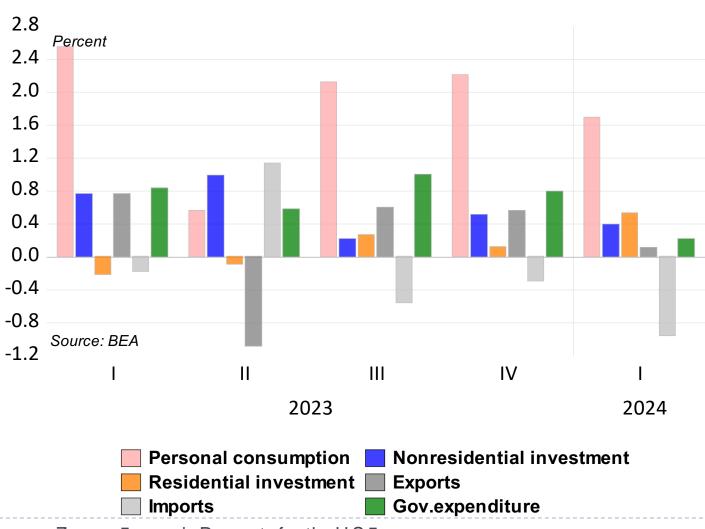
Contributions to GDP growth

Figure 1. U.S. Contributions to Real GDP Growth



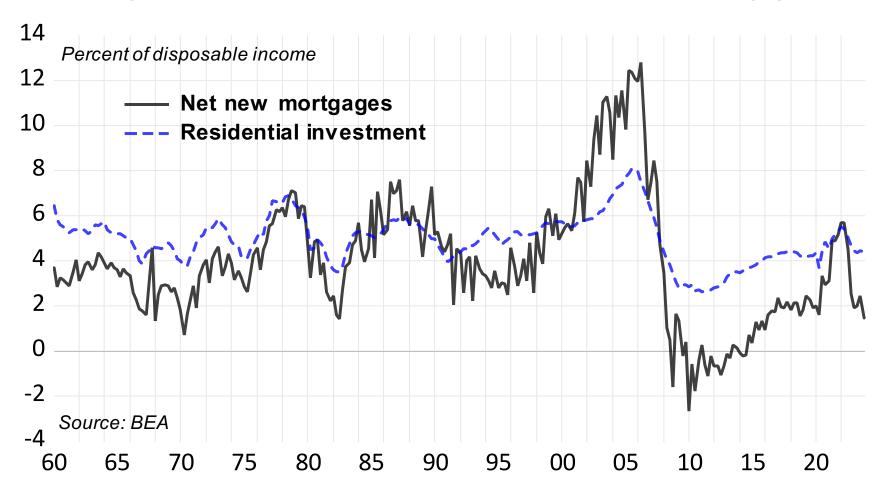
Contributions to GDP growth

Figure 1q. U.S. Contributions to Real GDP Growth



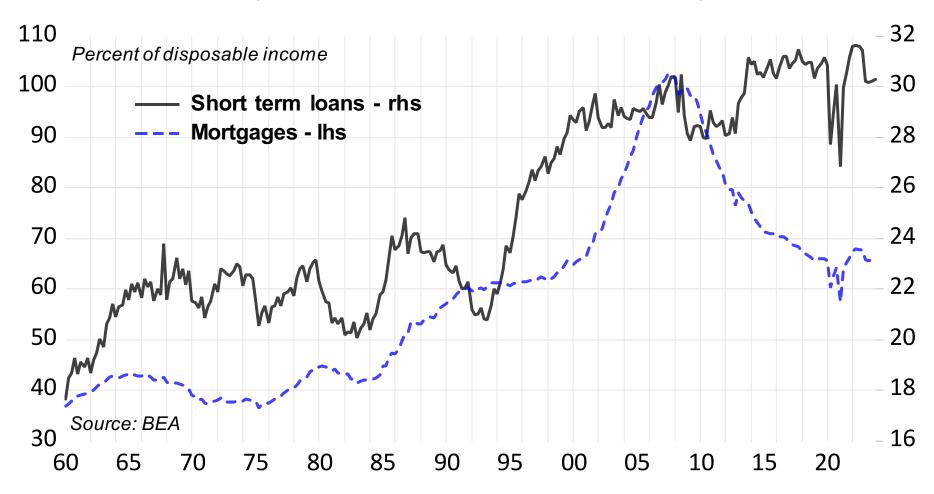
Boom in residential investment?

Figure 2. U.S. Households: Residential investment and mortgages



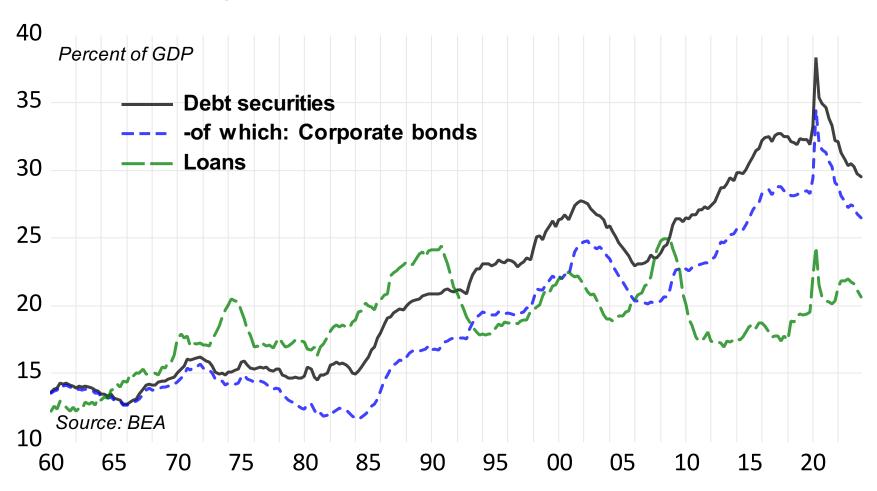
Debt-fueled consumption?

Figure 3. U.S. Households: Debt outstanding



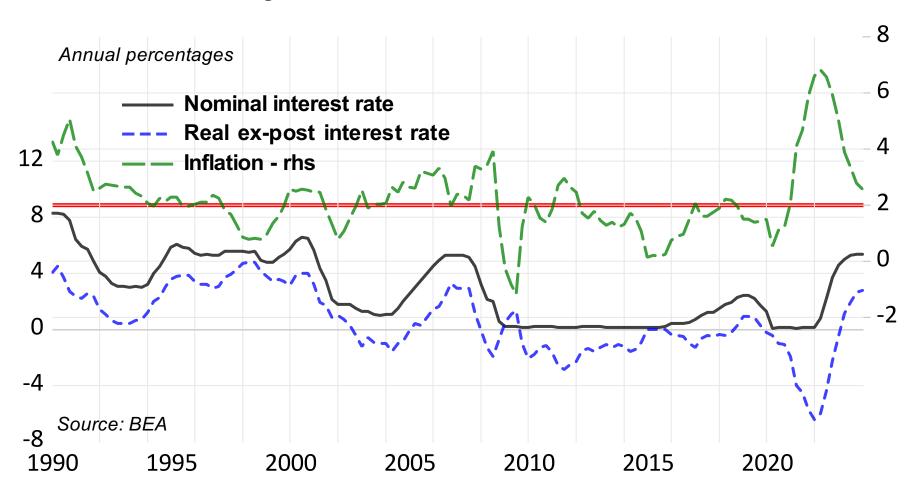
Corporate business deleveraging

Figure 4. U.S. Non-financial Corporate Business



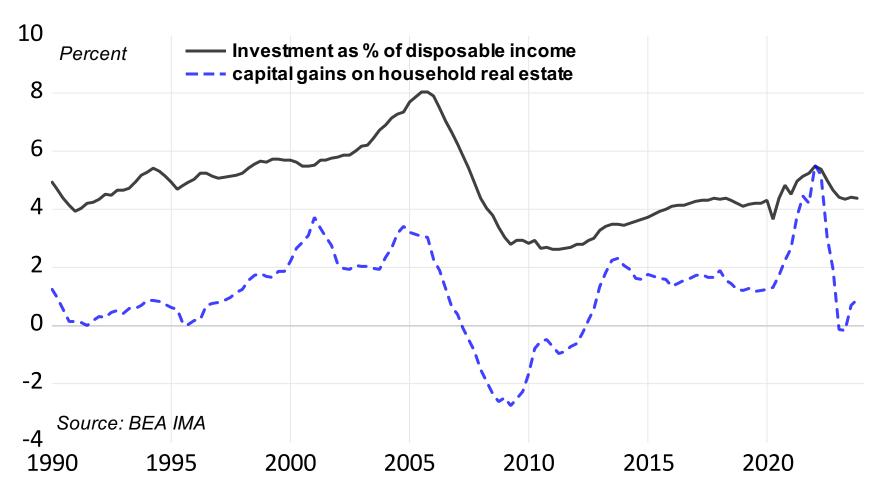
Monetary policy

Figure 5. U.S. Inflation and interest rates



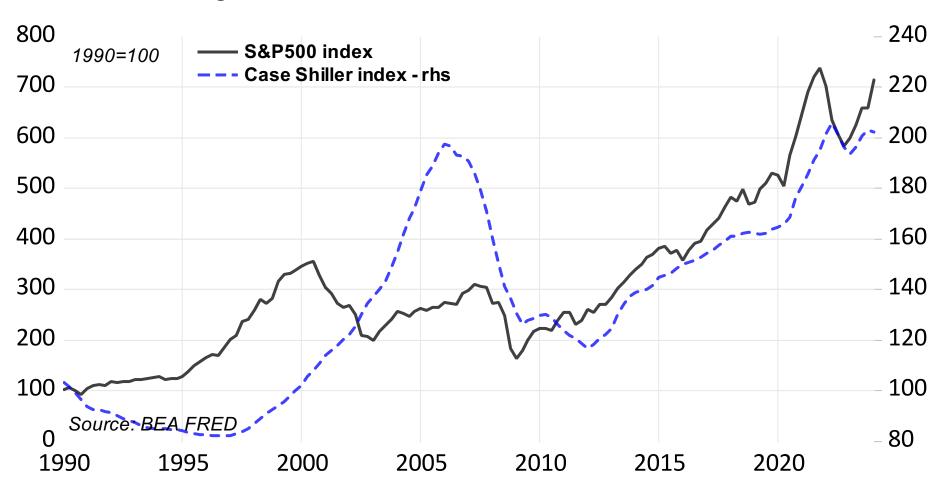
Capital gains and residential investment

Figure 6. U.S. Households. Residential investment and capital gains



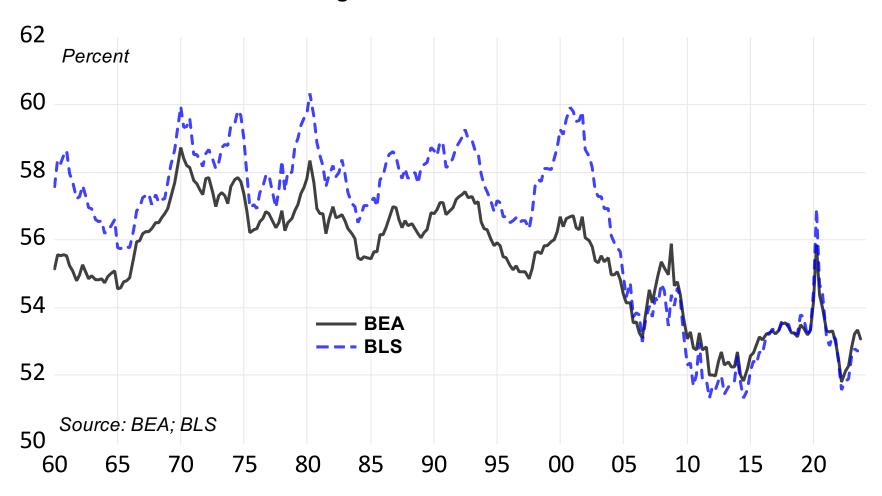
Speculation still at work?

Figure 7. U.S. Real S&P500 and Case Shiller indices



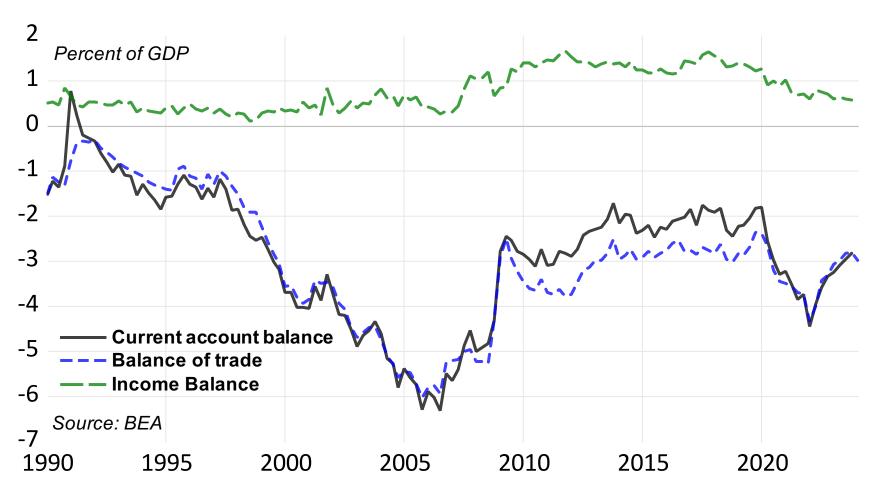
A profit-led economy?

Figure 8. U.S. Labour share



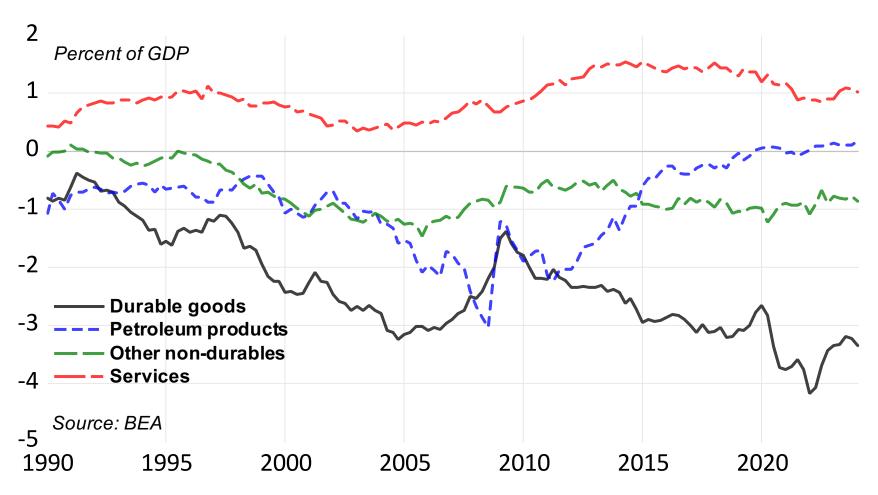
Foreign debt not explosive

Figure 10. U.S. Balance of payments



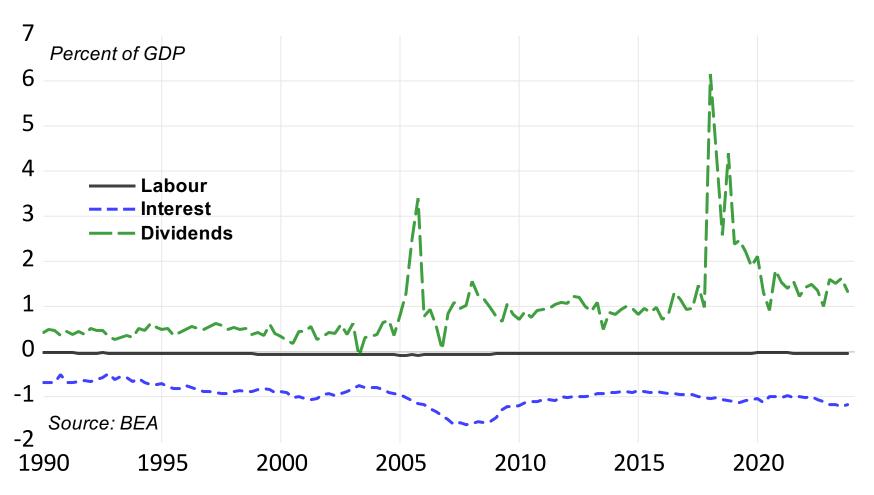
Will manufacturing come back?

Figure 11. U.S. Balance of trade



Net income payments

Figure 12. U.S. Income balance



Industrial policy

Agree with Galbraith (2024) "Industrial Policy Is a Good Idea, but So Far We Don't Have One"

- Bipartisan Infrastructure Law Effective, but with supply effects mainly limited to the construction sector
- Inflation Reduction Act Ambiguous effects on the competitiveness of the car industry. Unknown effects on the cost of energy. Probably negligible effects on the environment
- CHIPSAct
 Again, effectiveness on import substitution are debatable

Our Baseline Projections

	2022	2023	2024	2025
GD P	2.0	2.5	1.8	1.2
- Private expenditure	3.0	1.5	1.8	1.3
- Public expenditure	-0.9	4. I	2.4	0.8
- Exports	7.0	2.6	2.3	3.7
Imports (% of GD P)	16.0	15.3	15.5	15.8
Inflation	6.7	3.6	2.5	2.2
Federal fund rate	1.7	5.0	4.6	3.2
Gov. net lending (% of GDP)	4.0	7.9	7.6	7.5
Gov. Debt (% of GDP)	114.3	116.7	119.2	122.3
Current account (% of GDP)	-4.4	-3.6	-3.4	-3.0

Conclusions

- A period of high real interest rates are partly compensating social groups which benefit from this type of rent.
- The impact of lower real interest rates is probably overstated in CBO (and others) projections
- Growth for the U.S economy will still depend on fiscal policy