

The U.S. and Iowa Economies: Are we headed for a soft landing or a bumpy ride?

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Iowa Ready Mix Concrete Association's Convention

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The new stagflation

1970s High unemployment and high inflation

Average inflation 1970-1981 was 7.9%

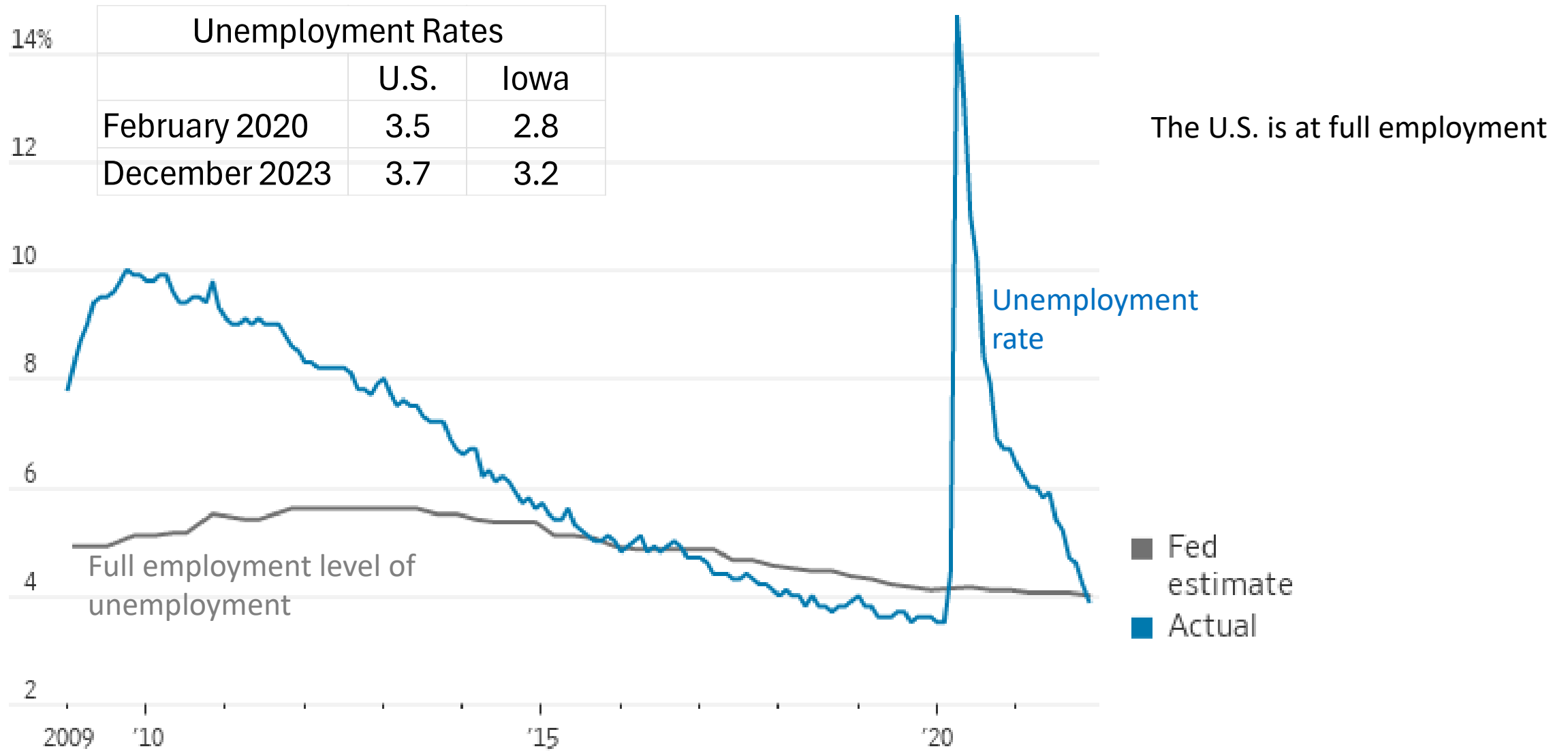
Average unemployment was 6.4%

New stagflation is low growth, low unemployment but low employment rates

Overview

- 1) The U.S. economy continues to recover from the pandemic, and recession concerns have abated.
- 2) Last two quarters had strong growth, reversing 5 mediocre quarters.
- 3) While unemployment is historically low, employment rates and labor force participation rates have not recovered and will not any time soon.
- 4) The Federal Reserve appears to have made progress on inflation without forcing a recession, but.....
- 5) Inflationary pressures remain
 - Too few workers, and so too few goods and services
 - Federal government share of GDP is growing, forcing input reallocation
 - Large deficits going forward → potential crowding out of private investment
- 6) There are large differences in state government policy responses to the pandemic. States with the most aggressive shutdowns have had particular difficulty in recovery.
- 7) Factors slowing economic growth are worse in Iowa

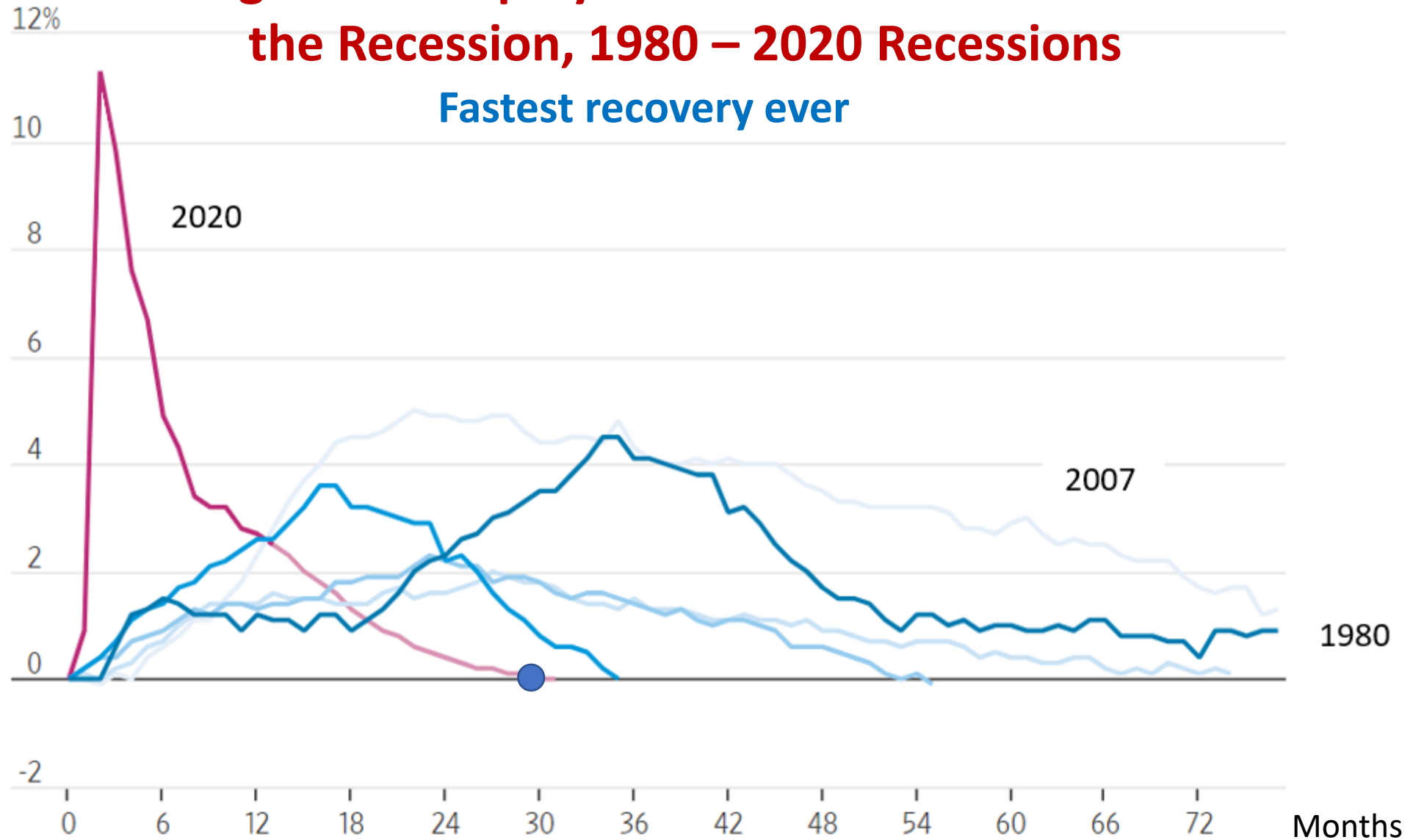
U.S. unemployment rate and the Federal Reserve's estimate of the natural unemployment rate



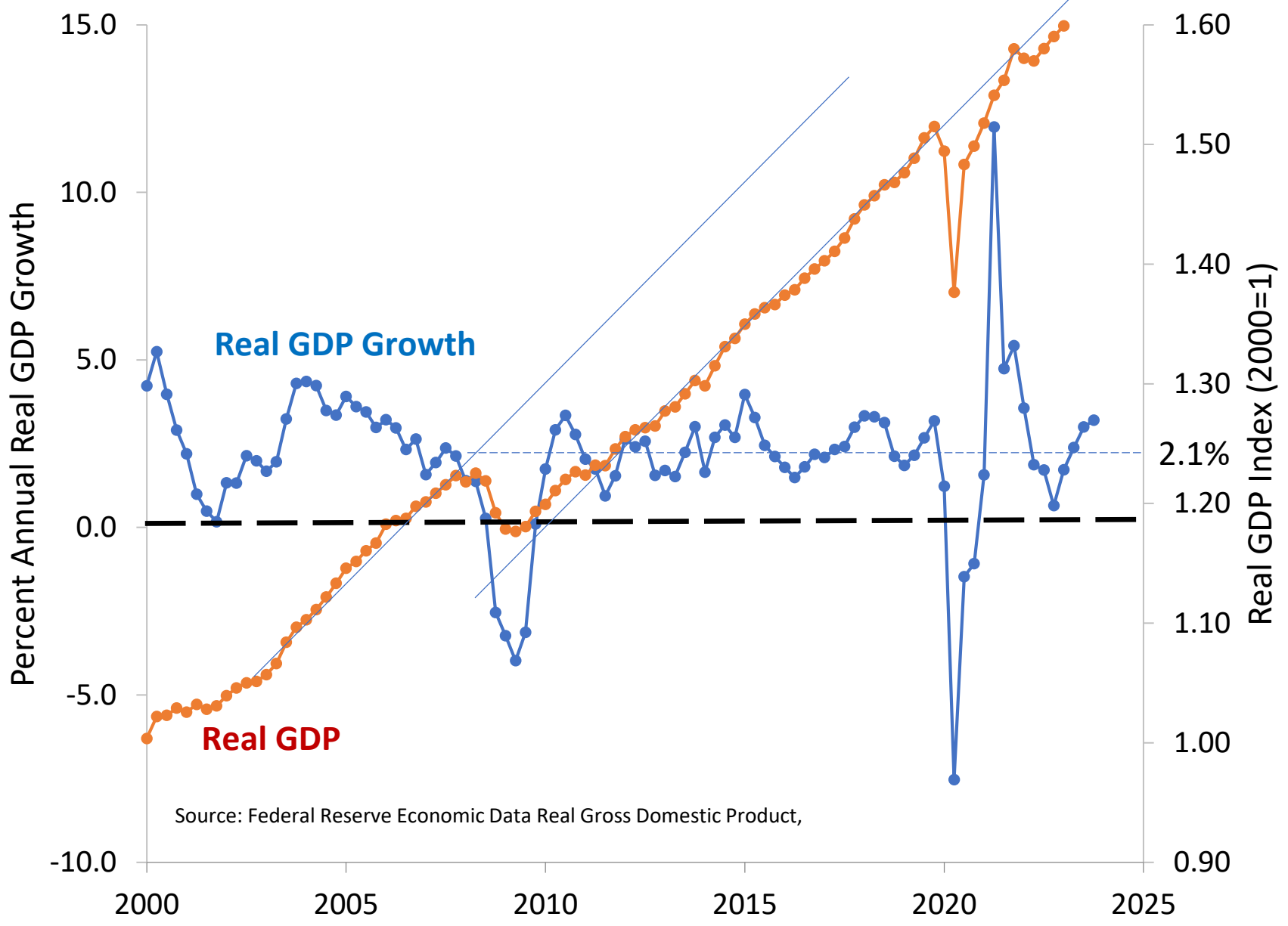
Sources: Labor Department, Federal Reserve

Change in Unemployment Rates after the Start of the Recession, 1980 – 2020 Recessions

Fastest recovery ever



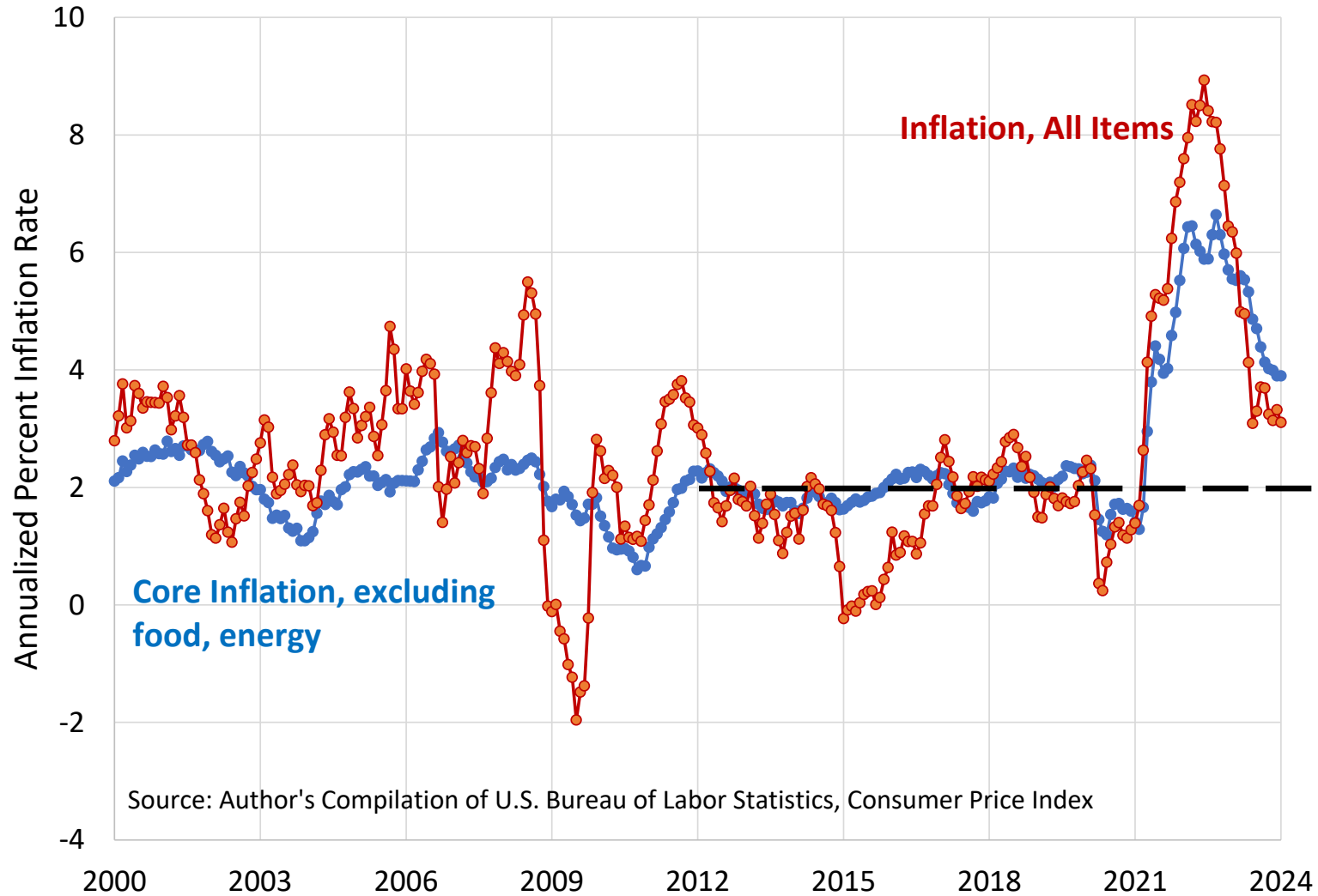
Real GDP and GDP Annual Growth, 2000:1 - 2023:4



Source: Federal Reserve Economic Data Real Gross Domestic Product,

Growth in the fourth quarter was 3.2%, 1.1 above the post Great Recession average

Overall and Core Annualized Inflation Rates, 2000 - 2023



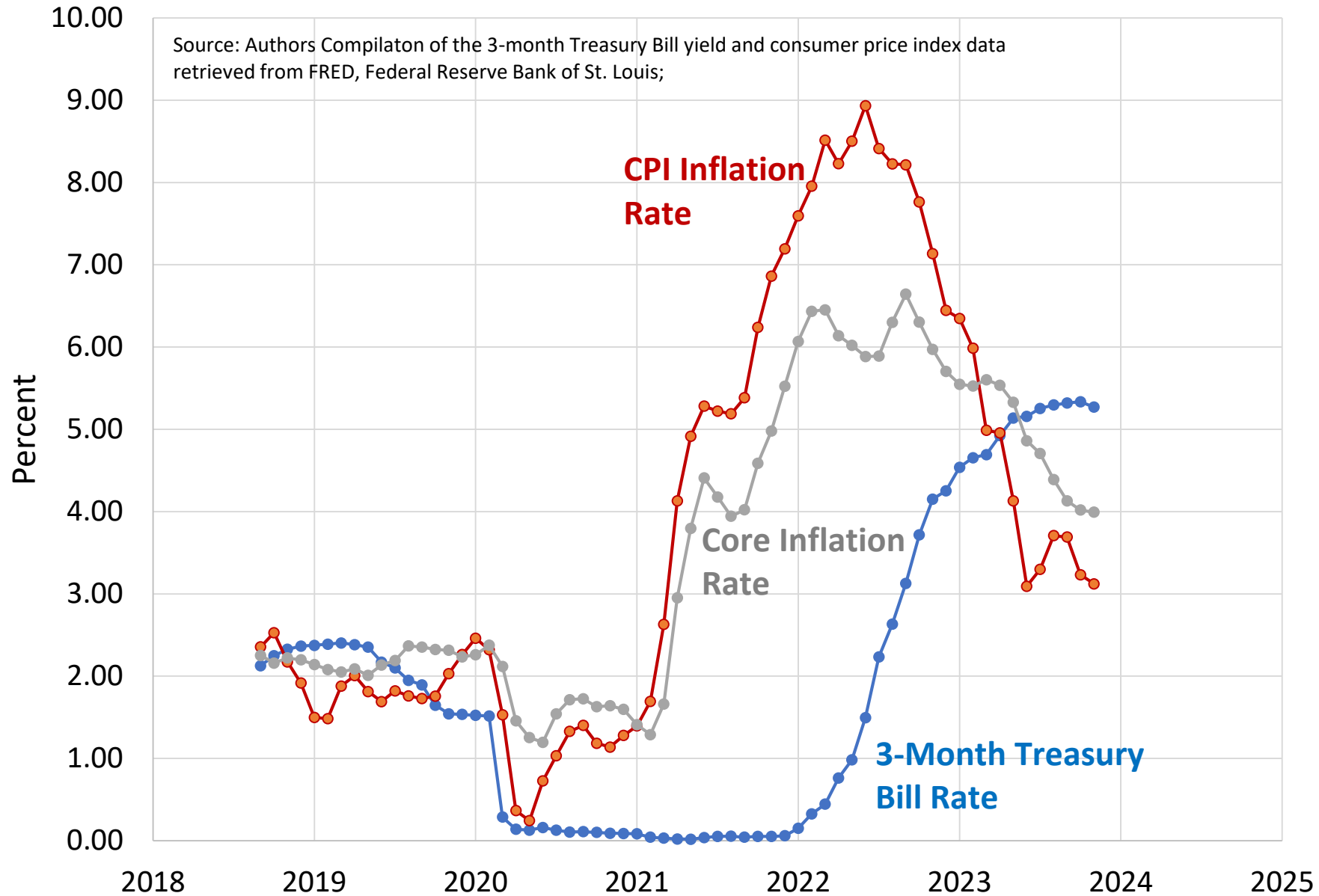
Inflation has fallen
6 percentage points
since June 2022

Fed 2% inflation target
since 2012

Source: Author's Compilation of U.S. Bureau of Labor Statistics, Consumer Price Index

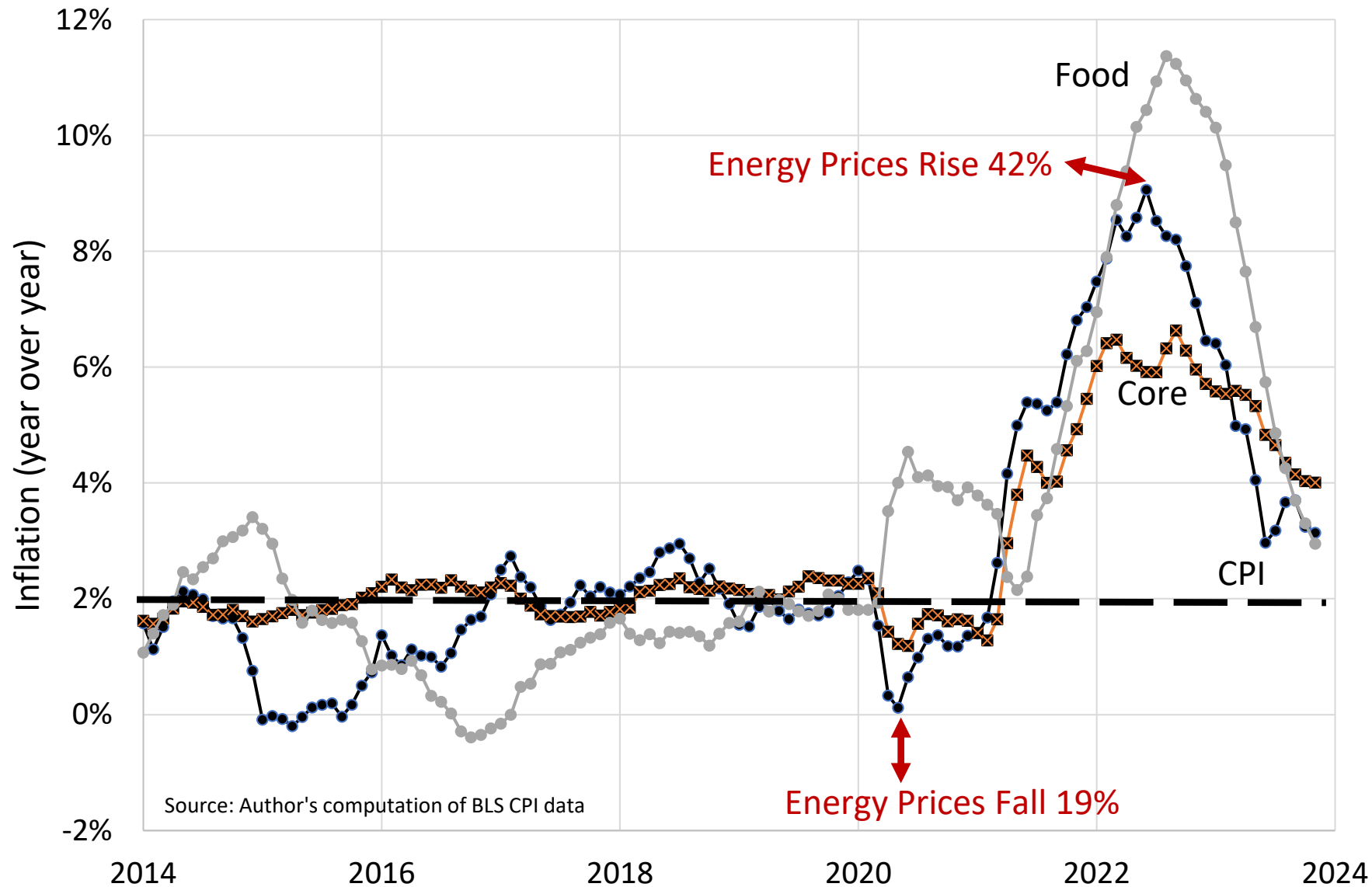
Interest Rates and Inflation Rates, August 2019 - August 2023

Source: Authors Compilaton of the 3-month Treasury Bill yield and consumer price index data retrieved from FRED, Federal Reserve Bank of St. Louis;



Federal Reserve has been raising interest rates to combat inflationary pressure

Inflation Rates Relative to One Year Prior, All Items, Core, and Food,
2014 - 2023



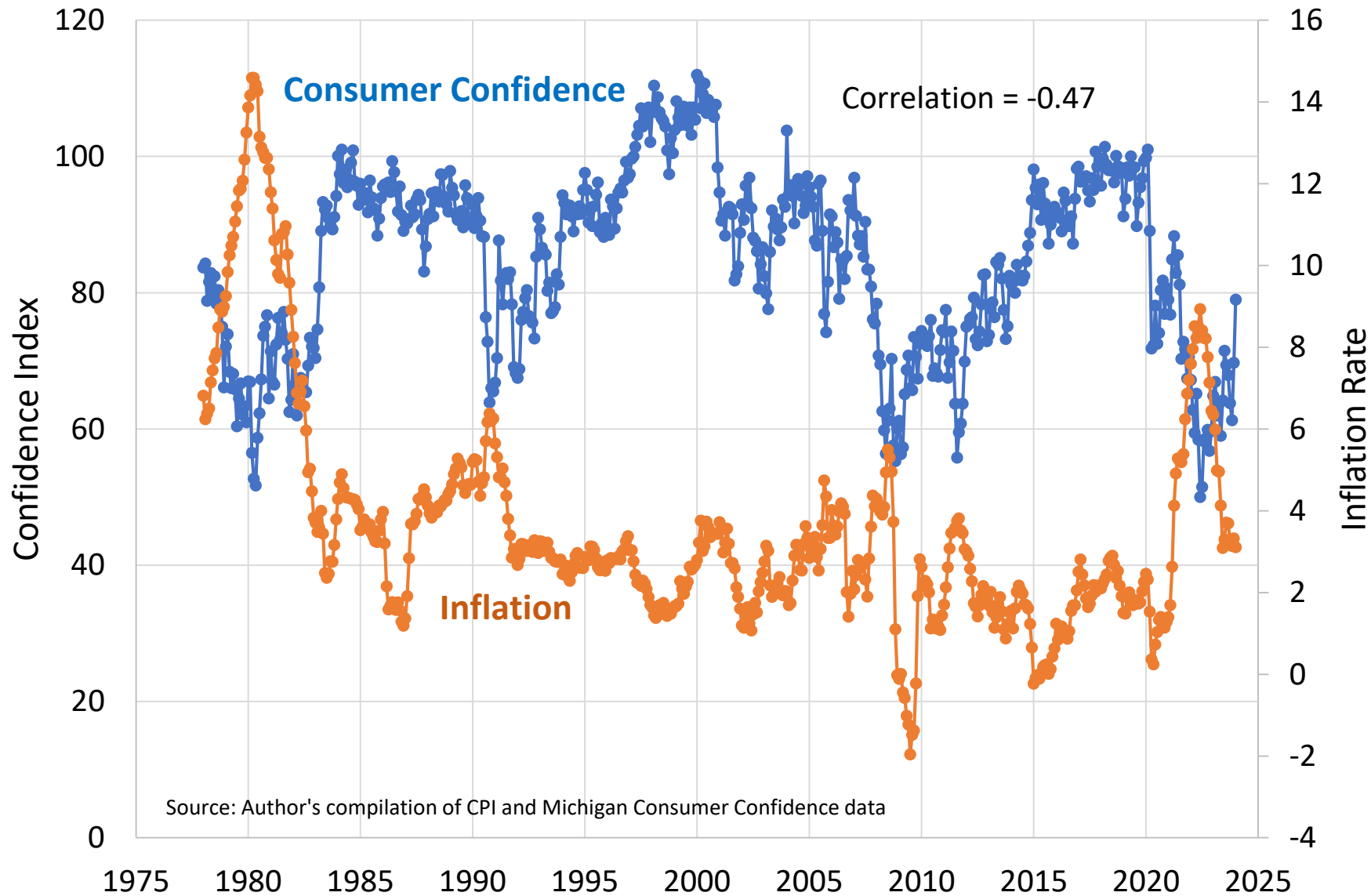
Source: Author's computation of BLS CPI data

Why focus on core inflation?

Energy and Food Price inflation is falling faster than core inflation

Core inflation started to fall in May when interest rates rose above inflation

Michigan Consumer Confidence Index and Inflation Rate,
1978 - January 2024



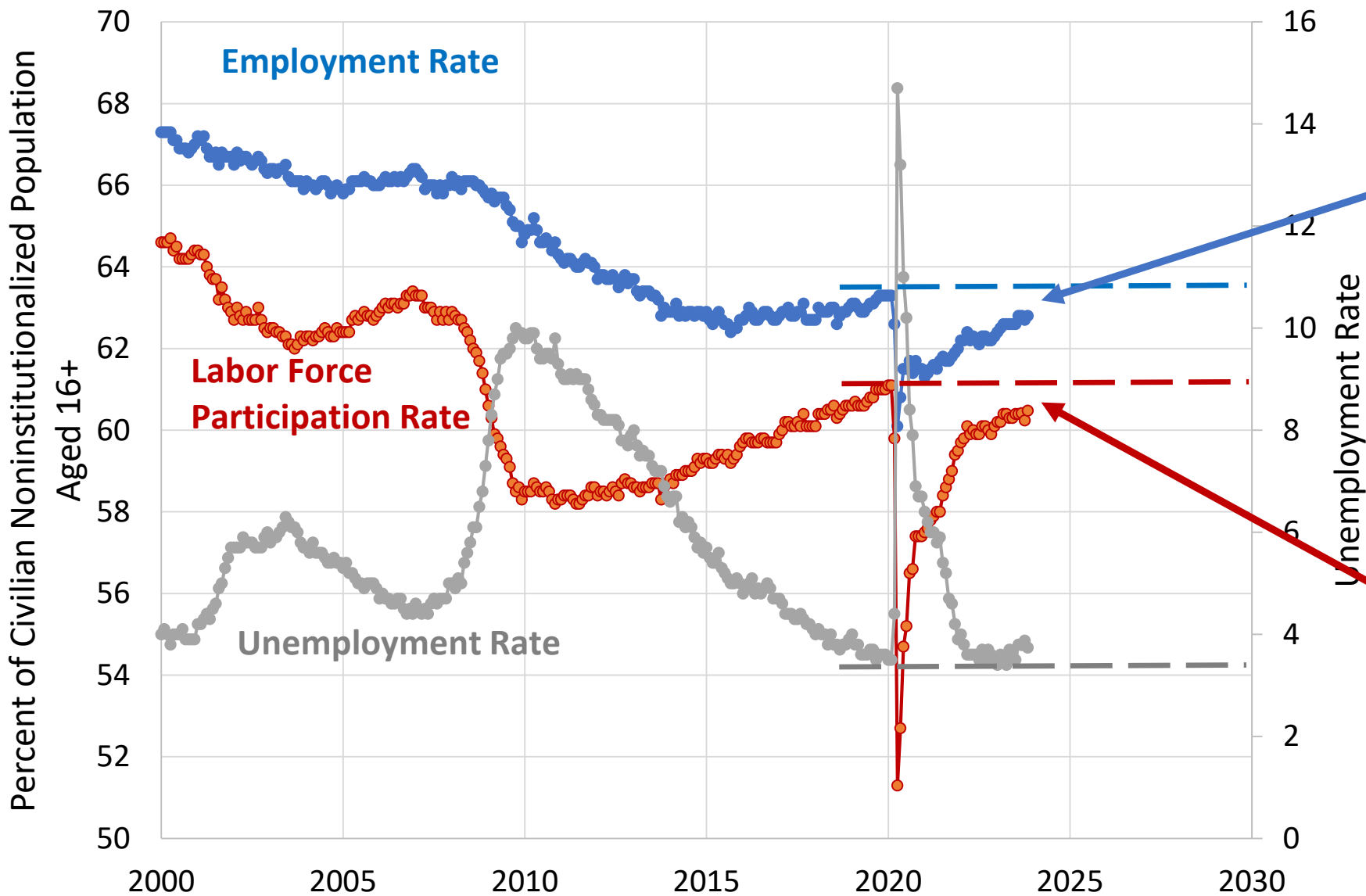
Inflation rate is falling, economic growth has recovered, unemployment as low as it can go...

So why aren't we happier?

What is driving inflation?

1) The weak labor supply

Rates of Employment, Unemployment, and Labor Force Participation, 2000-2023



1.3 million fewer employed

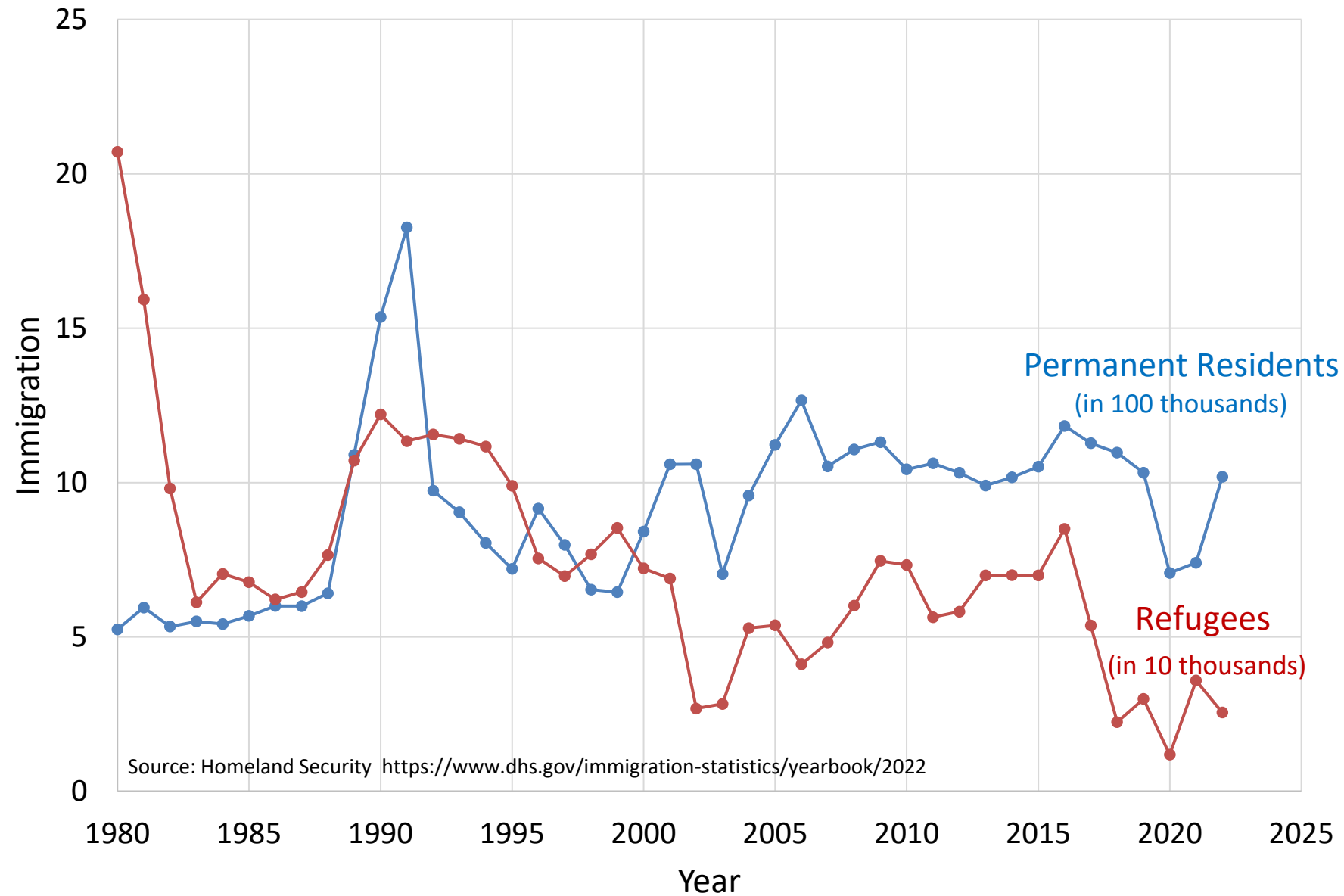
1.7 million fewer in labor force

U.S. Labor Force Participation Rates by Age and Sex, August 2017 - August 2023

	2017	2018	2019	2020	2021	2022	2023	Change Since 2017
Women								
16+	57.1	56.9	57.5	56.1	56.2	57.1	57.7	0.6
16-24	54.8	53.1	55.1	51.9	54.2	55.1	55.9	0.3
25-34	75.3	76.0	77.0	75.4	76.4	78.6	78.5	3.3
35-44	75.0	74.9	76.1	75.2	74.8	76.3	77.8	1.3
45-54	74.8	75.1	75.7	74.2	74.9	76.4	76.6	1.6
55+	34.7	34.8	34.9	34.6	33.6	33.5	34.2	-1.2
Men								
16+	69.1	68.8	69.1	67.6	67.7	67.9	68.2	-0.9
16-24	56.9	54.4	56.3	54.5	56.1	56.1	56.4	-0.5
25-34	88.8	89.2	89.1	86.9	88.0	88.6	89.5	0.7
35-44	90.0	90.7	90.3	90.1	89.6	89.8	90.2	0.2
45-54	86.5	86.3	87.5	86.9	87.2	87.4	88.2	1.7
55+	46.2	46.3	46.6	45.1	44.2	44.3	44.0	-2.2

Author's compilation of Bureau of Labor Statistics data downloaded from
<https://data.bls.gov/pdq/SurveyOutputServlet>

New Permanent Residents and Refugees in the U.S., 1980 - 2022

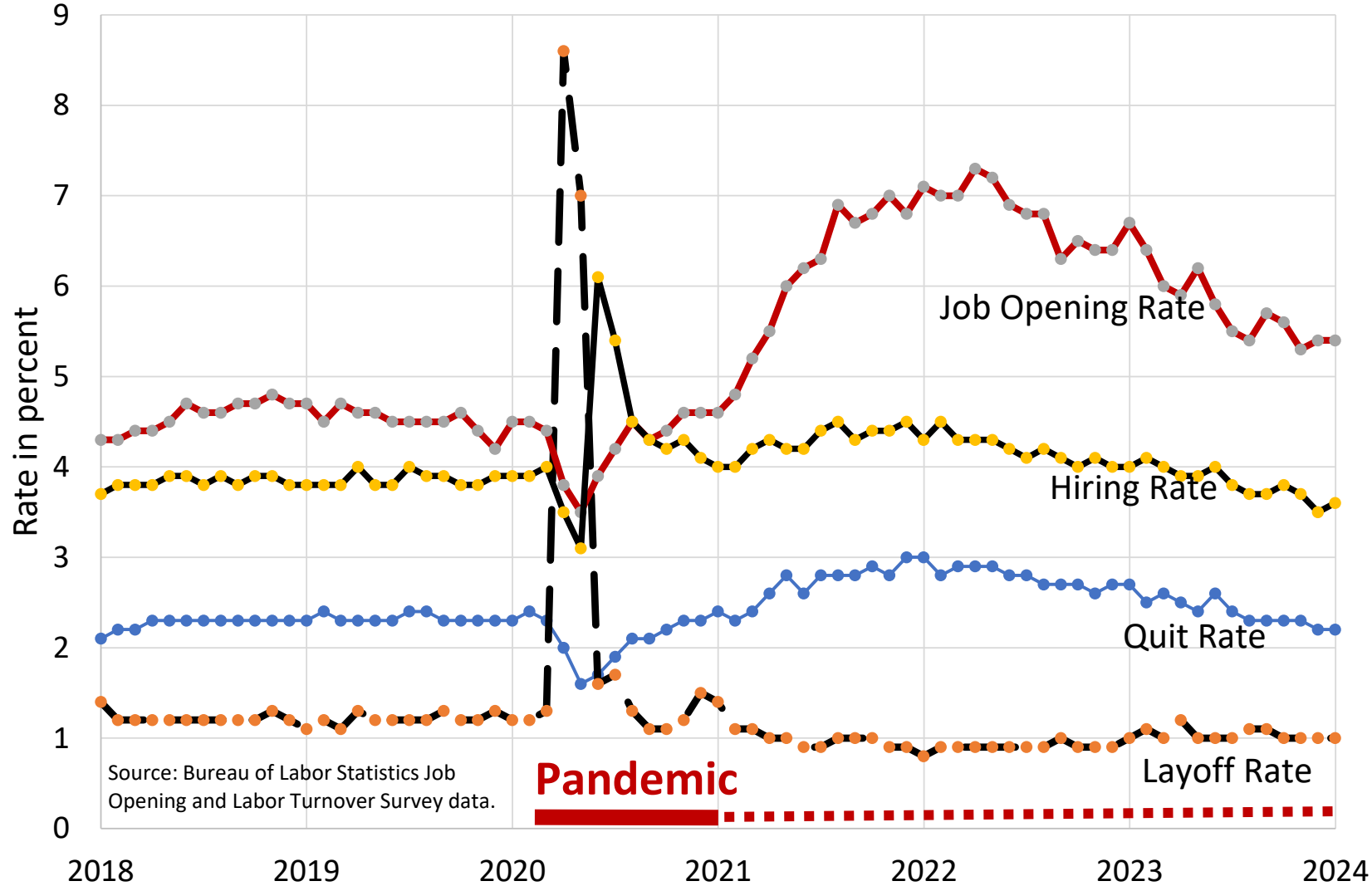


Source: Homeland Security <https://www.dhs.gov/immigration-statistics/yearbook/2022>

We have 1.8 million fewer legal working age immigrants than past trends would have predicted.

Peri, Giovanni and Reem Zaiour. "Labor Shortages and the Immigration Shortfall." January 11, 2022. U. California-Davis. <https://econofact.org/labor-shortages-and-the-immigration-shortfall>

Monthly Turnover Rates, January 2018 December 2023, seasonally adjusted



Evidence from the Job Opening and Labor Turnover Survey

Turnover Rates, 2008-9

Hire Rate fell 3.2

Job Opening Rate fell 2.3

Layoff Rate rose 1.6

Quit Rate fell 1.6

All of the turnover statistics in the pandemic are consistent with an unusually strong labor market

Transition rates in December 2023 compared to pre-pandemic levels

Job Transition	United States		Iowa	
	December 2023	Pre-Pandemic Monthly Average	September 2023	Pre-Pandemic Monthly Average
Job Openings	9,026,000	5,591,000	89,000	58,000
Hires	5,621,000	5,200,000	48,000	52,000
Unfilled vacancies	3,405,000	391,000	41,000	6,000
Unsuccessful Search Rate	37.7%	7.0%	46.1%	10.3%
Vacancy per Unemployed	1.48	0.61	1.59	0.93
Quits	3,392,000	2,855,000	35,000	28,000
Layoffs	1,616,000	1,799,000	16,000	17,000
Separations	5,365,000	5,005,000	50,000	49,000
Quits as a share of all Separations	63.2%	57.0%	70.0%	57.1%
Author's computation of Job Openings and Labor Turnover Survey				
*Computed from February 2012 to February 2020, seasonally adjusted				
https://www.bls.gov/jlt/home.htm				

Transition rates show persistently undersupplied labor market

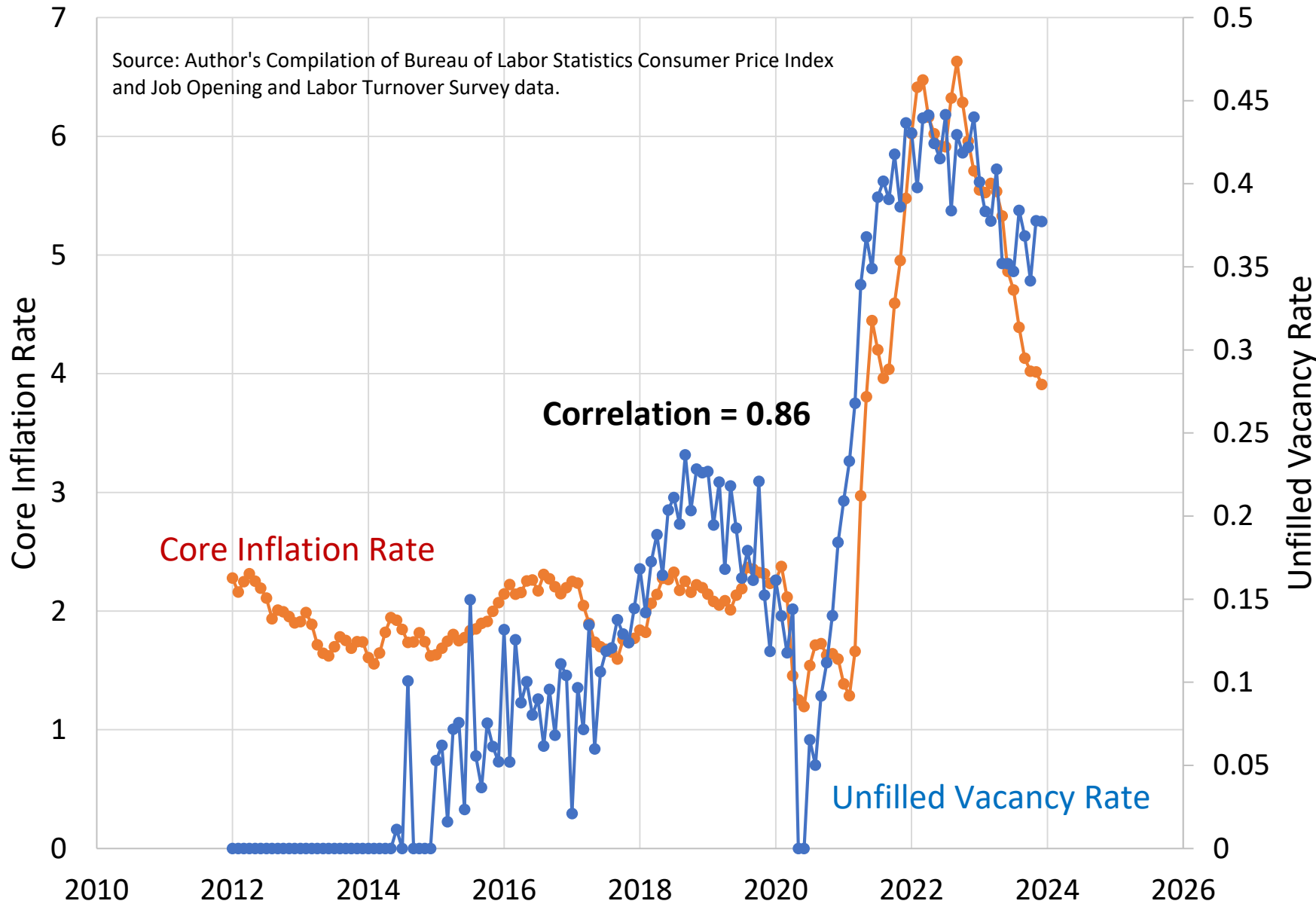
Construction transition rates in December 2023 compared to pre-pandemic levels

Labor Turnover data in December 2023 compared to the Pre-pandemic Monthly Average*			
Construction	December 2023	December 2022	Pre-Pandemic Monthly Average
Job Openings	449,000	413,000	200,000
Hires	368,000	357,000	355,000
Unfilled vacancies	81,000	56,000	undefined
Unsuccessful Search Rate	18.0%	13.6%	0.0%
Quits	150,000	158,000	134,000
Layoffs	169,000	153,000	186,000
Separations	341,000	324,000	334,000
Quits as a share of all Separations	44.0%	48.8%	40.1%
Author's computation of Job Openings and Labor Turnover Survey			
*Computed from February 2012 to February 2020, seasonally adjusted			
https://www.bls.gov/jlt/home.htm			

Not as persistently undersupplied labor market

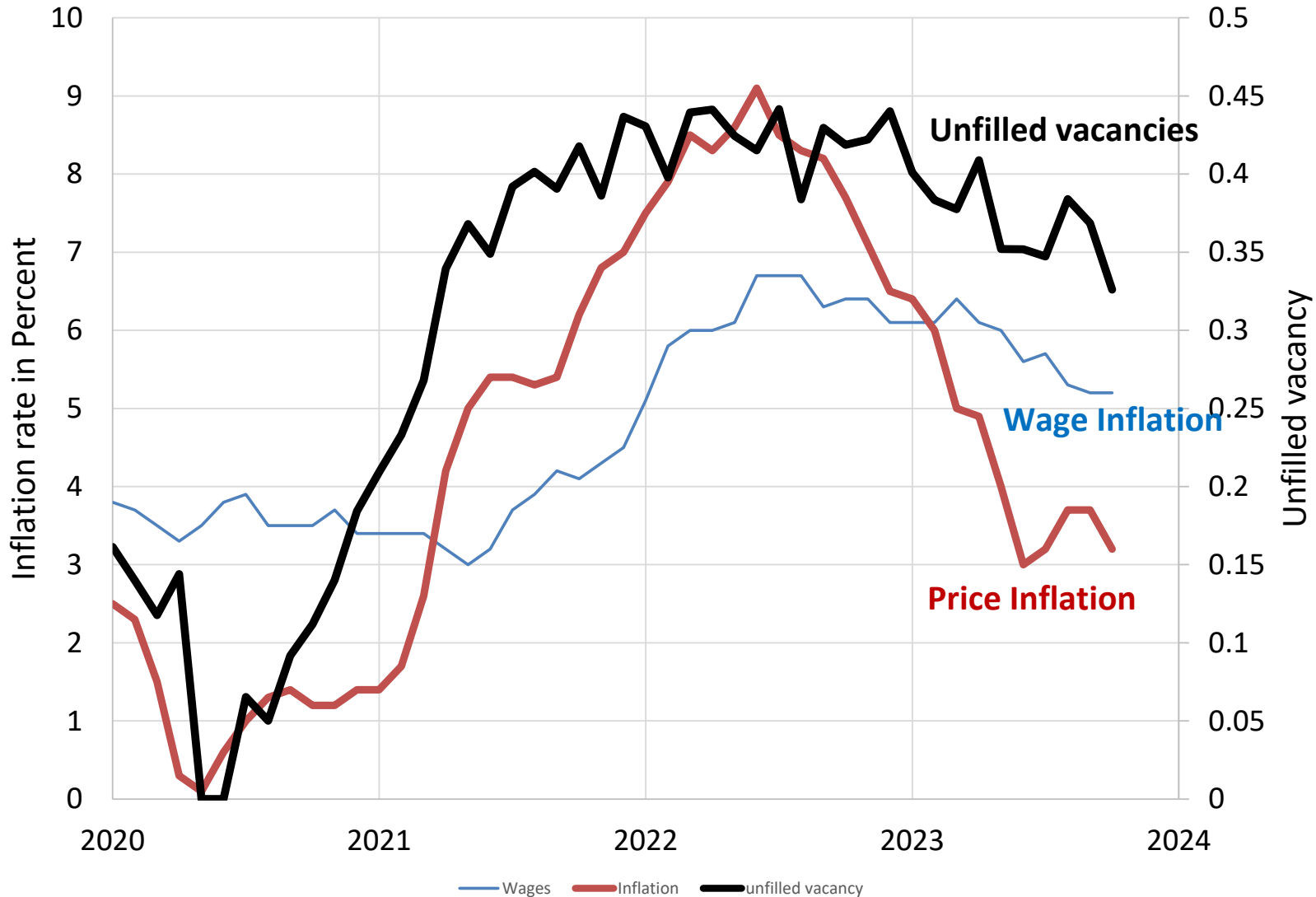
Unfilled Vacancies and Core Inflation, 2012 - 2023

Source: Author's Compilation of Bureau of Labor Statistics Consumer Price Index and Job Opening and Labor Turnover Survey data.



Unfilled vacancies are slowing production relative to demand and driving wage growth

Wage and Price inflation by Rate of Unfilled Vacancies, 2020 - 2023



Since 2020, correlation between unfilled vacancies and wage inflation is 0.67

Correlation with price inflation is 0.88

Wage inflation has exceeded price inflation since February 2023

Wage growth averaged 28% from January 2019 to January 2024

Industry	Hourly Wage		Weekly Wage	
	Level, January '24	Growth 2019-24	Level, January '24	Growth 2019-24
Total private	\$ 29.66	28.3%	\$ 993.61	27.2%
Construction	\$ 35.21	24.9%	\$ 1,376.71	20.6%
Manufacturing	\$ 27.22	24.6%	\$ 1,088.80	18.7%
Durable goods	\$ 28.54	25.3%	\$ 1,150.16	19.4%
Nondurable goods	\$ 25.05	23.5%	\$ 994.49	18.4%
Wholesale trade	\$ 31.02	21.6%	\$ 1,197.37	20.9%
Retail trade	\$ 20.73	27.7%	\$ 623.97	26.0%
Transportation and warehousing	\$ 28.72	30.3%	\$ 1,074.13	27.9%
Utilities	\$ 45.23	23.0%	\$ 1,926.80	23.0%
Information	\$ 40.70	23.0%	\$ 1,457.06	24.4%
Financial activities	\$ 34.99	28.3%	\$ 1,287.63	27.6%
Professional and business services	\$ 35.09	28.9%	\$ 1,263.24	30.7%
Education and health services	\$ 30.85	28.4%	\$ 996.46	28.8%
Leisure and hospitality	\$ 19.25	35.3%	\$ 463.93	30.9%

Upward pressure on wages was widespread, but greatest at lower skill levels

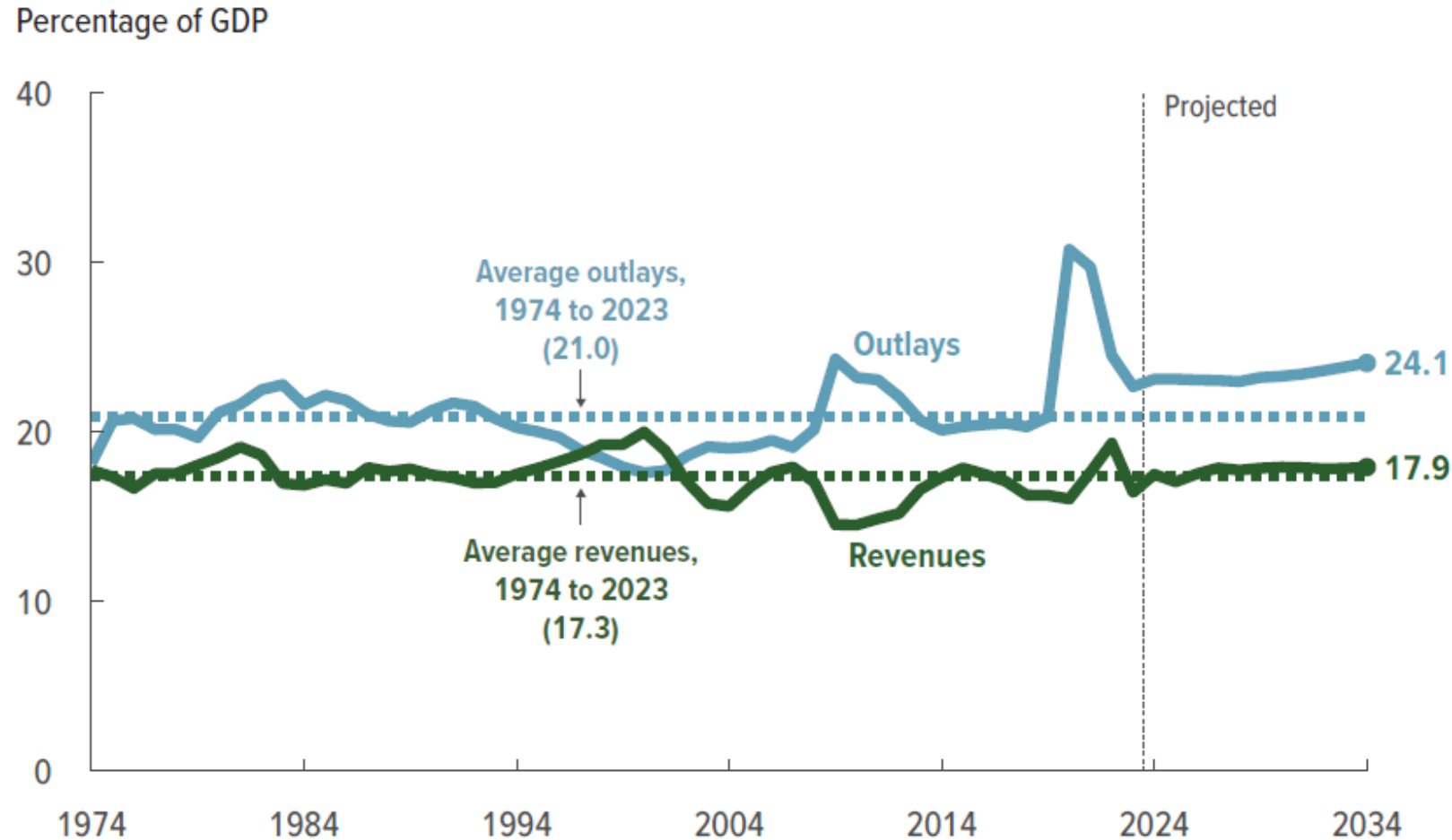
Source: Author's computation from Bureau of Labor Statistics, Current Employment Statistics

Inflation over the period was 22.6%

What is driving inflation and how is it related to slow growth?

- 1) The weak labor supply
- 2) The rising federal share of GDP**

Federal Total Outlays and Revenues



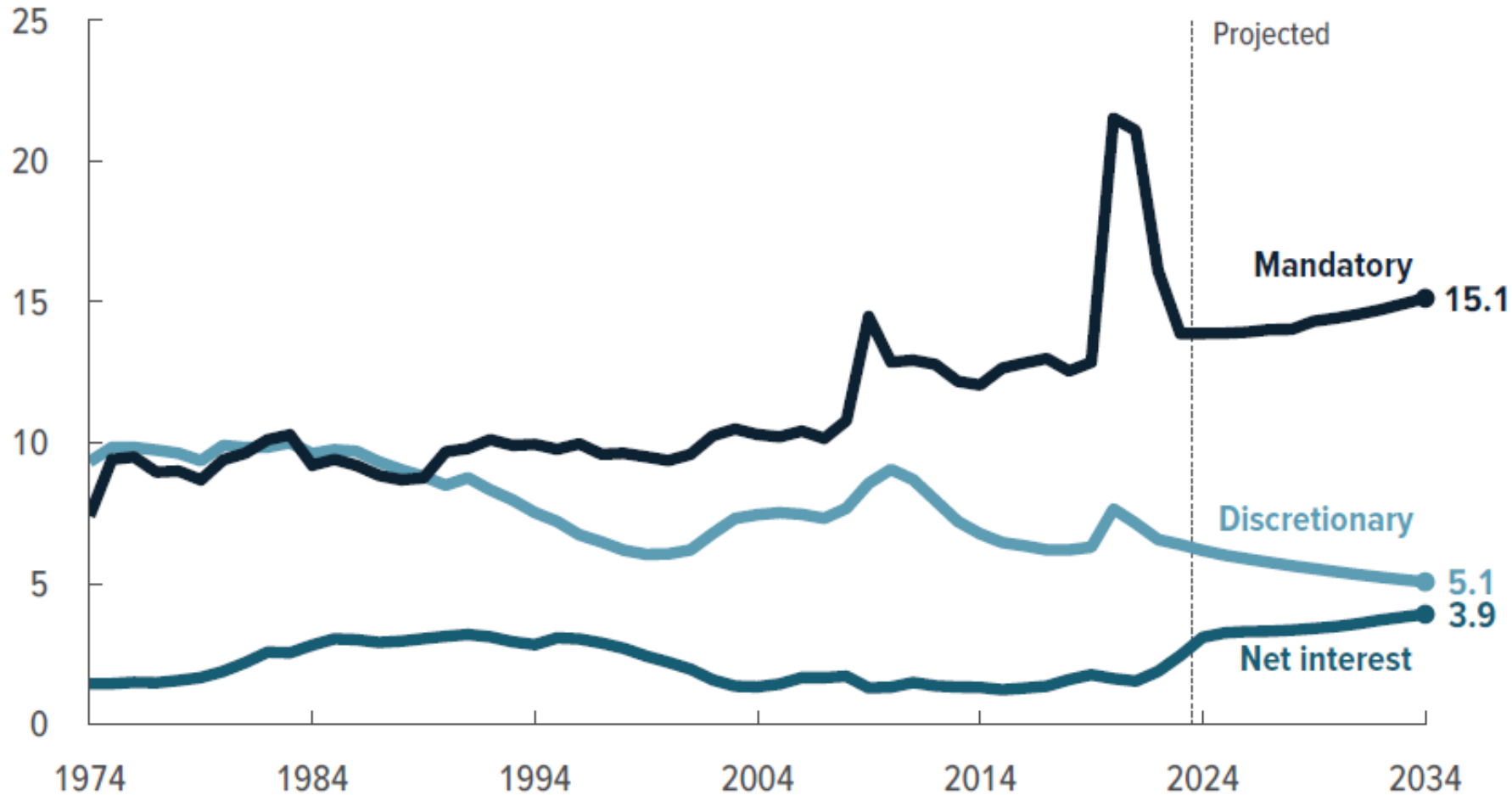
The federal government is no longer 21% of GDP, and will be increasing, so resources will have to switch from private to public sector

What is driving inflation and how is it related to slow growth?

- 1) The weak labor supply
- 2) The rising federal share of GDP
- 3) The crowding out of private investment**

Just paying interest on the federal debt will take up almost 4% of GDP

Percentage of GDP

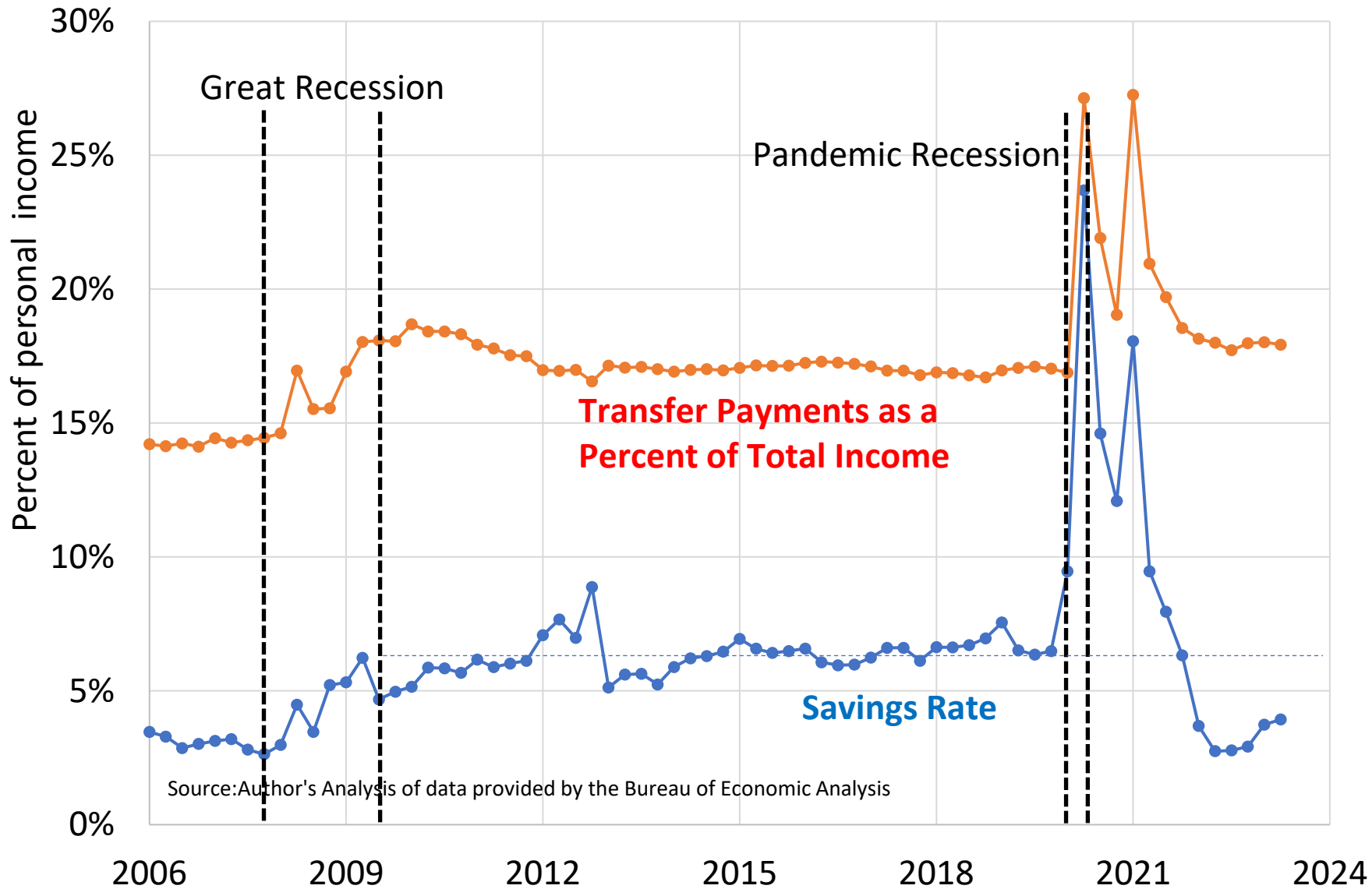


Rising need to service debt will put upward pressure on interest rates for many years and limit federal discretionary spending.

What is driving inflation and how is it related to slow growth?

- 1) The weak labor supply
- 2) The rising federal share of GDP
- 3) The crowding out of private investment
- 4) **Rising consumer debt load**

Quarterly Savings Rate and Transfer Payment Share of Personal Income,
2006:1 - 2023:2



Source: Author's Analysis of data provided by the Bureau of Economic Analysis

There was a massive surge in transfer payments during the recession that resulted in a massive increase in the saving rate.

We have now been spending out of that saving, driving up consumer demand in the face of inadequate supply → upward pressure on prices

Total outstanding credit card balances, 2008 to present

In billions; seasonally adjusted



Source: New York Fed Consumer Credit Panel/Equifax

Credit card balances rising rapidly

Households that were given forbearance on student debt took on more credit card, mortgage, and auto loan debt

Dinerstein, Michael, Constantine Yannelis, and Ching-Tse Chen. *Debt moratoria: Evidence from student loan forbearance*. No. w31247. National Bureau of Economic Research, 2023.

The upshot: We had a soft landing

- High unfilled vacancy rates: labor demand can slow without unemployment
- Growth has been unexpectedly strong
- Falling inflation driven by falling energy and food prices

....but we are still in for a bumpy ride

- Core inflation is less responsive to the Federal Reserve
- Weak labor supply, excess federal spending, slow future growth unless labor productivity increases
- Consumer spending has been driving growth, but maybe not for much longer

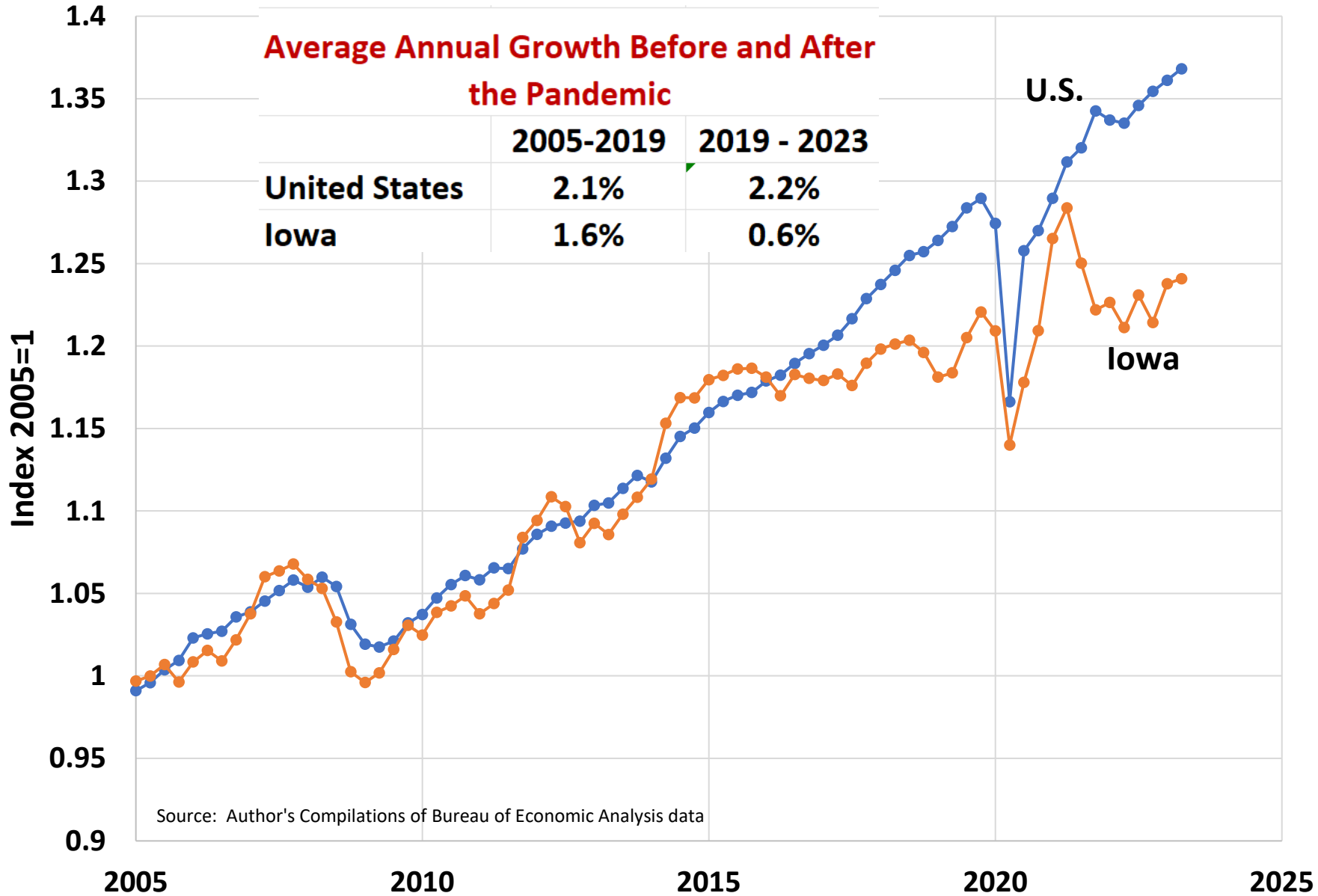
Iowa recovery to the pandemic is lagging the U.S.
35th in GDP growth since 2018

Iowa economy represents the new stagflation

Real Gross State Product Growth Since 2005, U.S. and Iowa

Average Annual Growth Before and After the Pandemic

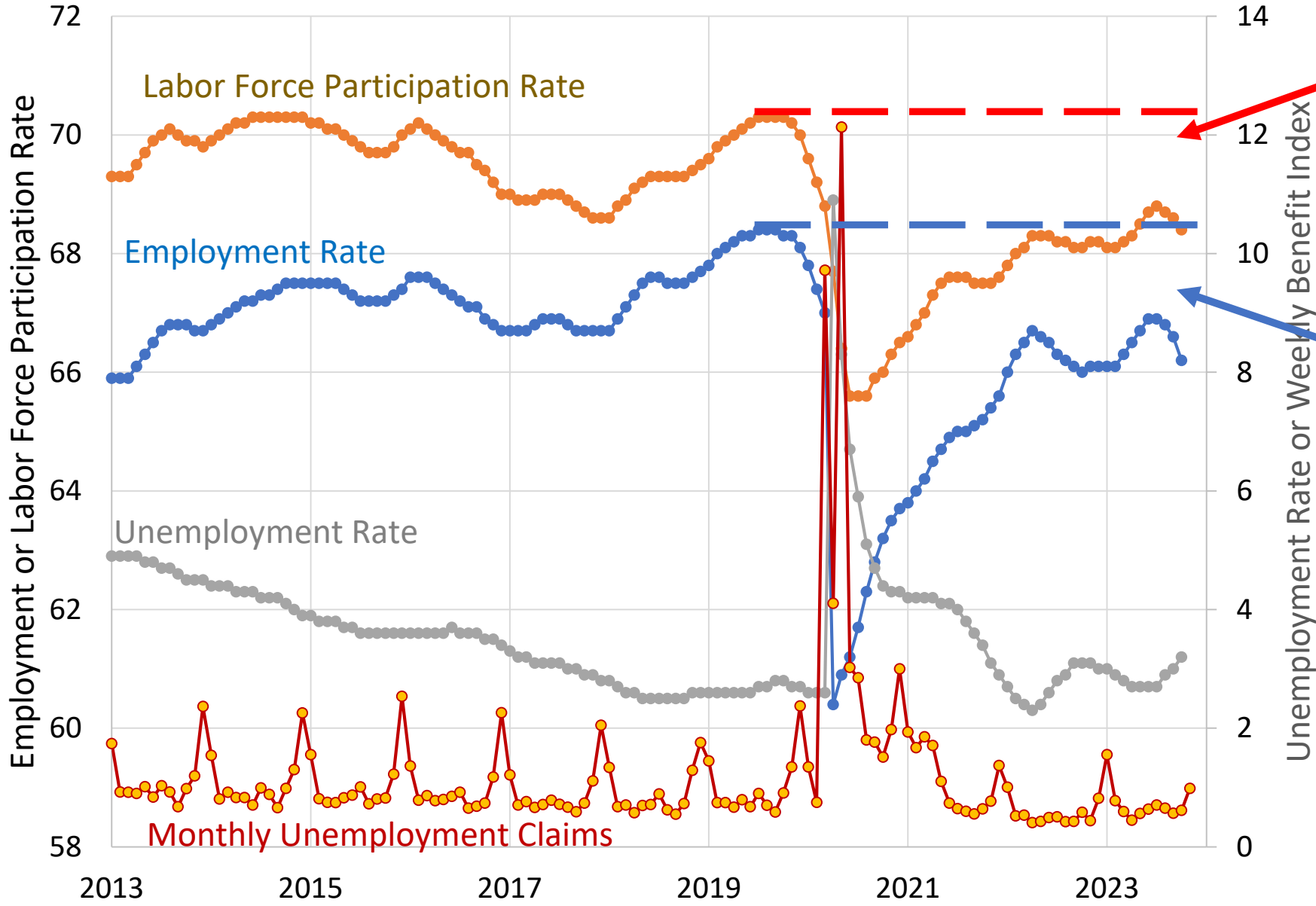
	2005-2019	2019 - 2023
United States	2.1%	2.2%
Iowa	1.6%	0.6%



Source: Author's Compilations of Bureau of Economic Analysis data

Iowa growth has not recovered

Iowa Labor Force Statistics, 2013 - 2023

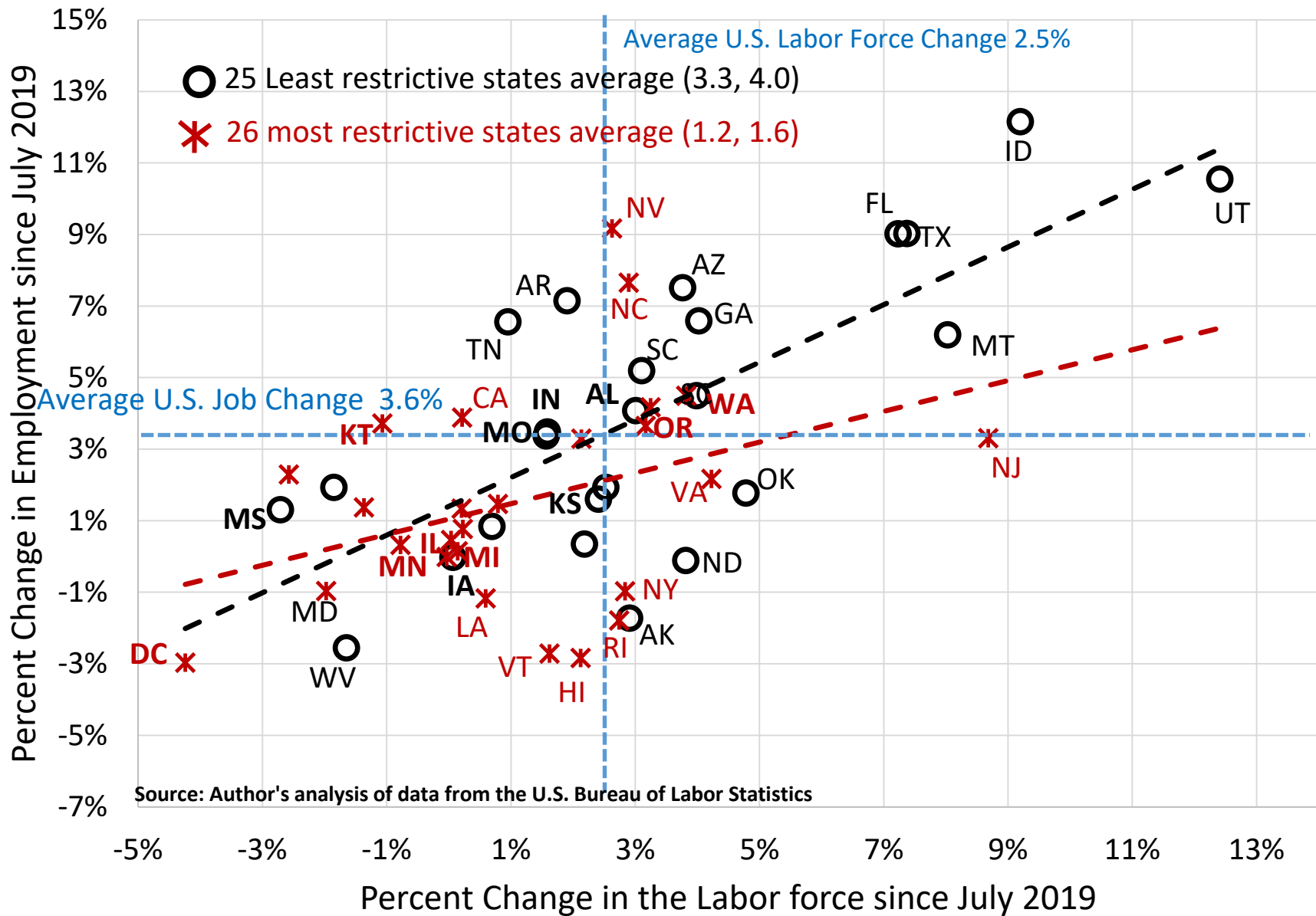


-1.6 percentage points

-1.6 percentage points

Iowa labor market recovery lags the nation

Change in Employment and Labor Force by State, July 2019 to July 2023



Apparent lagging effects from government shutdowns during the pandemic

More aggressive shutdowns have slowed recovery

Iowa: No change in employment or labor force

Employment Change December 2019 - December 2023

INDUSTRY	Iowa	U.S.
Total Nonfarm	-0.1%	3.2%
Total Private	0.0%	3.5%
Goods Producing	2.6%	3.0%
Private Service Providing	-0.8%	3.6%
Construction	6.8%	8.1%
Manufacturing	1.2%	0.9%
Durable Goods	1.2%	1.1%
Non-Durable Goods	1.3%	0.4%
Wholesale Trade	2.6%	3.4%
Retail Trade	-0.3%	-1.7%
General Merchandise Stores	7.0%	3.0%
Transportation and Warehousing	-3.3%	17.8%
Truck Transportation	-20.2%	3.3%
Finance and Insurance	-4.2%	5.6%
Education and Health Services	2.3%	5.0%
Leisure and Hospitality	-2.7%	-0.8%
Government	-0.6%	1.6%
State Government	-3.2%	3.7%

Source: Author compilation of data from the U.S. Bureau of Labor Statistics and Iowa

Iowa employment
growth lags in
almost every sector

Iowa Wage growth, June 2019 to December 2023

Area	Weekly Earnings	Weekly hours	Hourly Earnings
Total Private	15.7%	-2.3%	18.4%
Goods Producing	13.9%	-3.6%	18.1%
Private Service Providing	16.4%	-1.8%	18.5%
Construction	16.5%	-7.3%	25.7%
Manufacturing	15.6%	-1.2%	17.0%
Trade, Transport, Utilities	27.6%	3.6%	23.1%
Financial Activities	9.2%	-4.9%	14.8%
Professional and Business Services	23.5%	0.0%	23.5%
Education and Health Services	24.0%	2.2%	21.4%
Leisure and Hospitality	23.5%	-5.8%	31.2%

Source: Author compilation of data from Iowa Workforce Development

Inflation over the period was 23%, while U.S. wage growth was 28%.

In Iowa, real wages have fallen

Employment Change December 2019 – December 2023

Sector	Ames	Cedar Rapids	Des Moines	Dubuque	Iowa City	Sioux City	Waterloo/Cedar Falls	Iowa	U.S.
Total Nonfarm	-2.3%	-1.6%	4.4%	-0.3%	0.2%	1.0%	-1.6%	-0.1%	3.2%
Total Private	4.0%	-1.2%	3.8%	-0.4%	-2.3%	0.6%	-0.5%	0.0%	3.5%
Goods Producing	7.0%	3.9%	10.5%	9.7%	3.2%	5.3%	4.5%	2.6%	3.0%
Service-Providing	-3.7%	-2.9%	3.6%	-2.9%	-0.1%	-0.4%	-3.3%	-0.7%	3.6%
Private Srvc Provide	3.2%	-2.6%	2.8%	-3.2%	-3.3%	-1.3%	-2.3%	-0.8%	3.6%
Government	-11.1%	-5.2%	8.7%	0.0%	4.0%	3.7%	-7.5%	-0.6%	1.6%
State Government	-15.6%	-10.0%	14.9%	0.0%	3.6%	0.0%	-12.8%	-3.2%	3.7%

Compilations based on employment data by month, year, industry and area provided by Iowa Workforce Development

Every Iowa metro employment growth lags the nation except Des Moines

For Iowa

- 1) Labor Supply and Employment Response is weaker than the U.S. Unemployment rate is low, but so is the employment rate.
- 2) Lack of immigration and an older labor force mean we will not recover soon
- 3) Iowa may be in recession, even if the rest of the U.S. is not. We are certainly in stagflation.
- 4) The weakness in the Iowa recovery is almost universal across sectors and cities
- 5) Wage growth in Iowa lags the nation, and so we are not attracting immigration

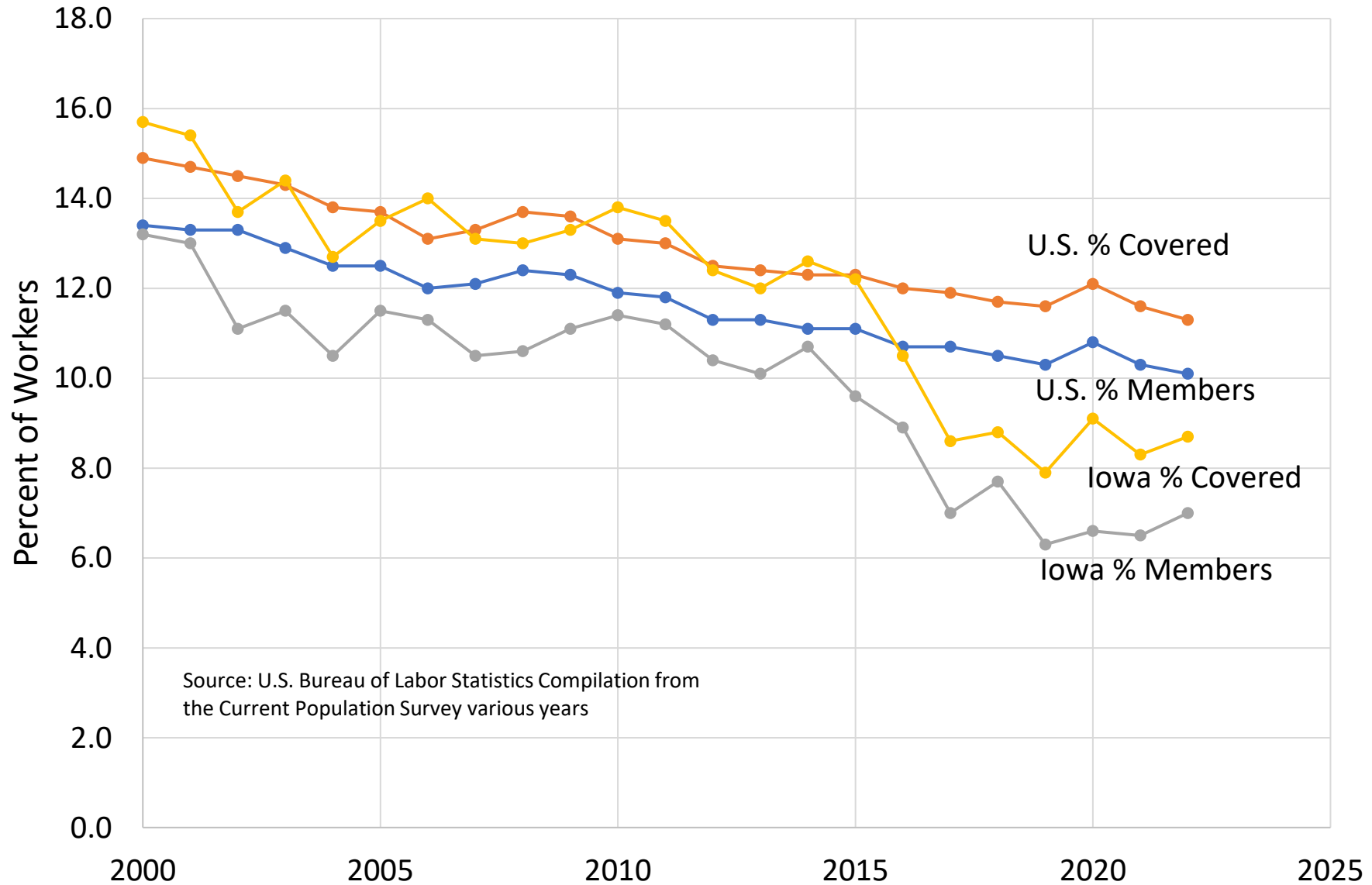
Extra Slides

Wage Change June 2019 – December 2023

Area	Weekly Earnings	Weekly hours	Hourly Earnings
Ames	8.9%	-11.4%	22.9%
Cedar Rapids	16.2%	-5.3%	22.6%
Des Moines	9.1%	-4.5%	14.3%
Dubuque	12.8%	-6.1%	20.2%
Iowa City	-2.4%	-8.5%	6.6%
Sioux City	26.1%	0.8%	25.0%
Waterloo	16.9%	-1.4%	18.5%
Source: Author compilation of data from Iowa Workforce Development			

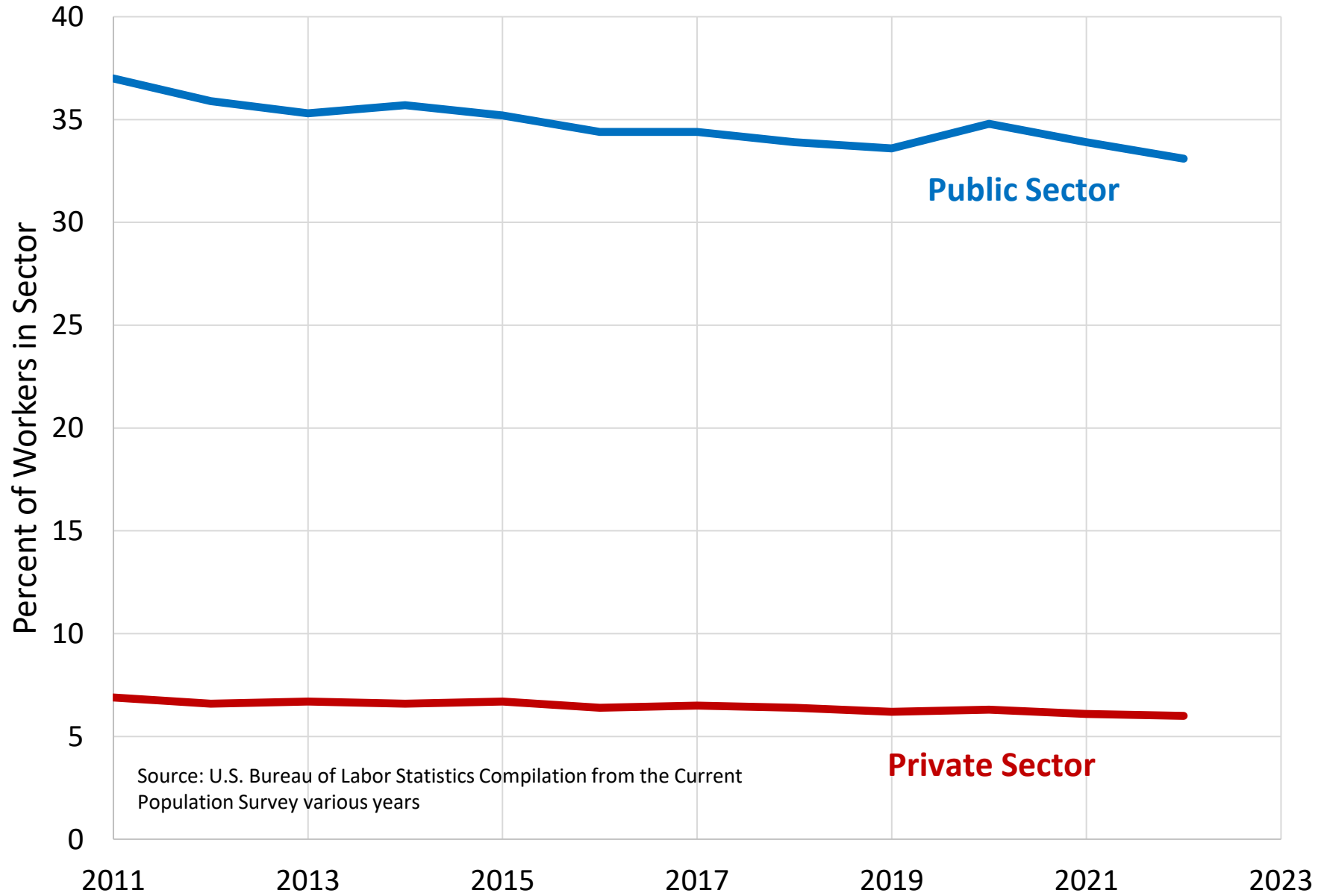
Inflation over the period was 23%

Percent of wage and salary workers who are members of or are covered by unions, 2000-2022, U.S. and Iowa

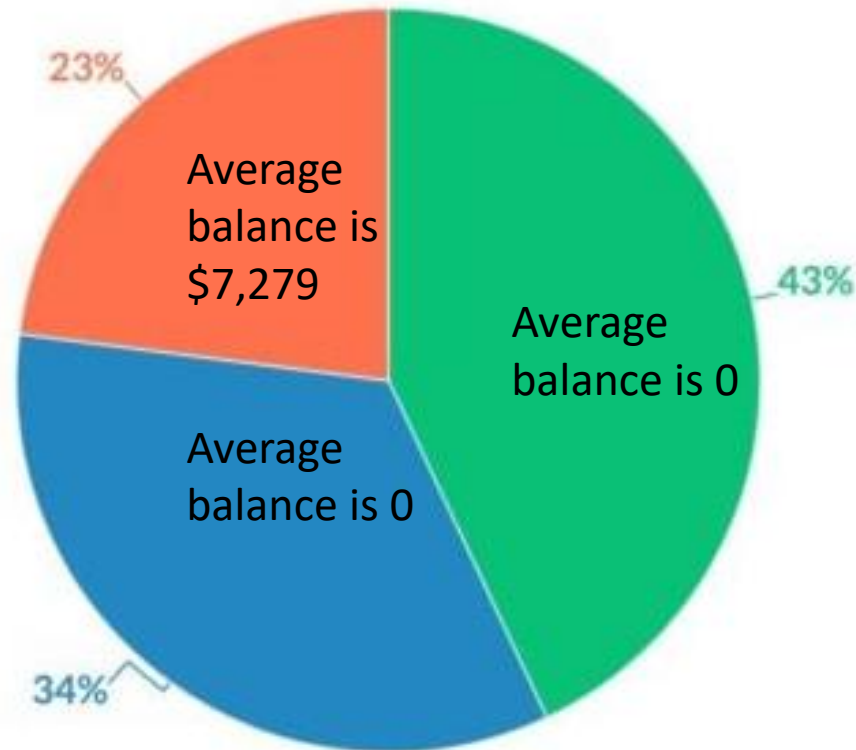


Source: U.S. Bureau of Labor Statistics Compilation from the Current Population Survey various years

Union Density in Government and the Private Sector, 2011 - 2022



Of all credit card accounts in the third quarter of 2022

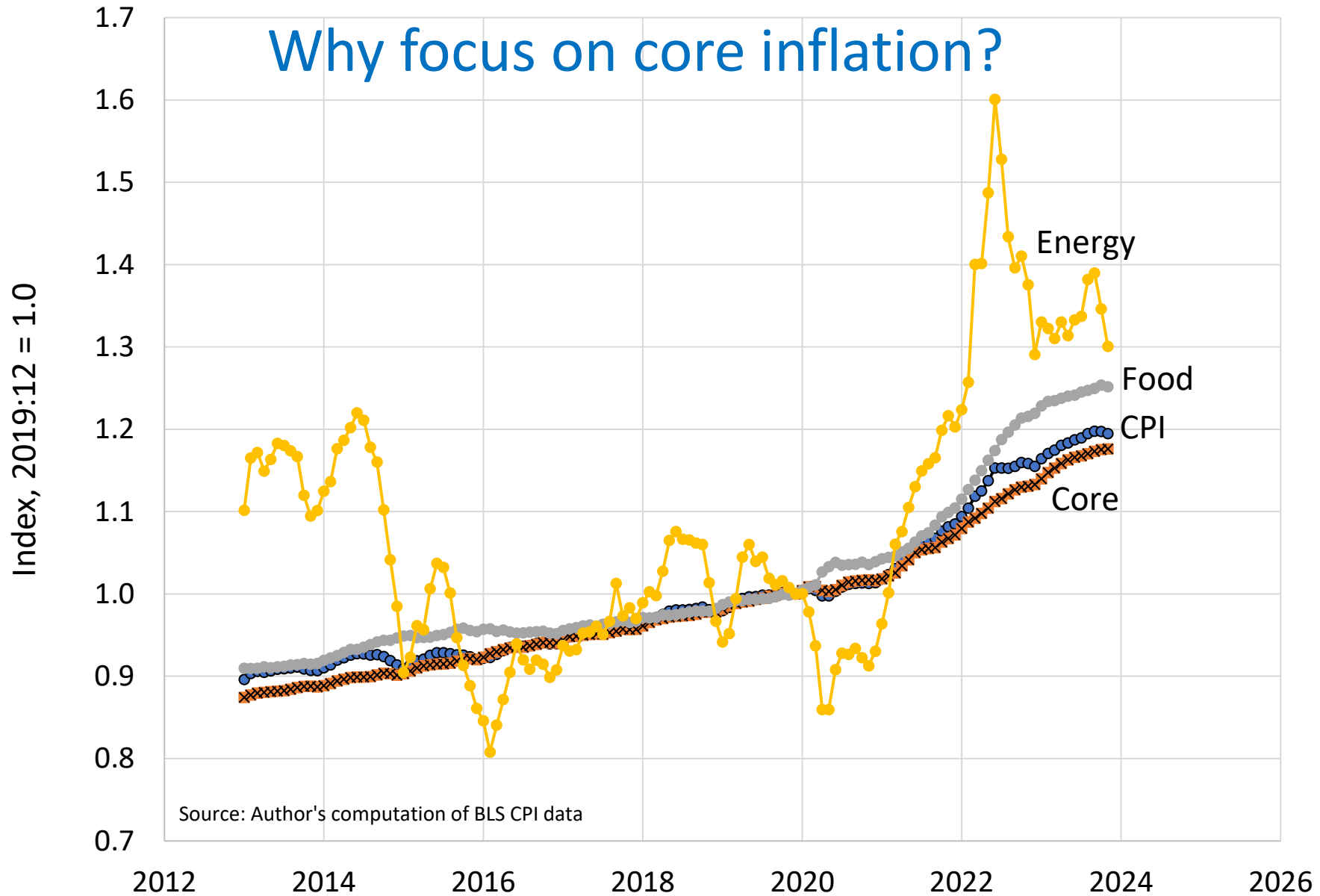


● Carried a balance at some point ● Used card but never carried a balance ● Had card but didn't use it

At some point, the rising consumer debt will result in an increase in bankruptcies that were halted during the pandemic

Consumer Price Index, 2013 - 2023, December 2019 = 1.0

Why focus on core inflation?

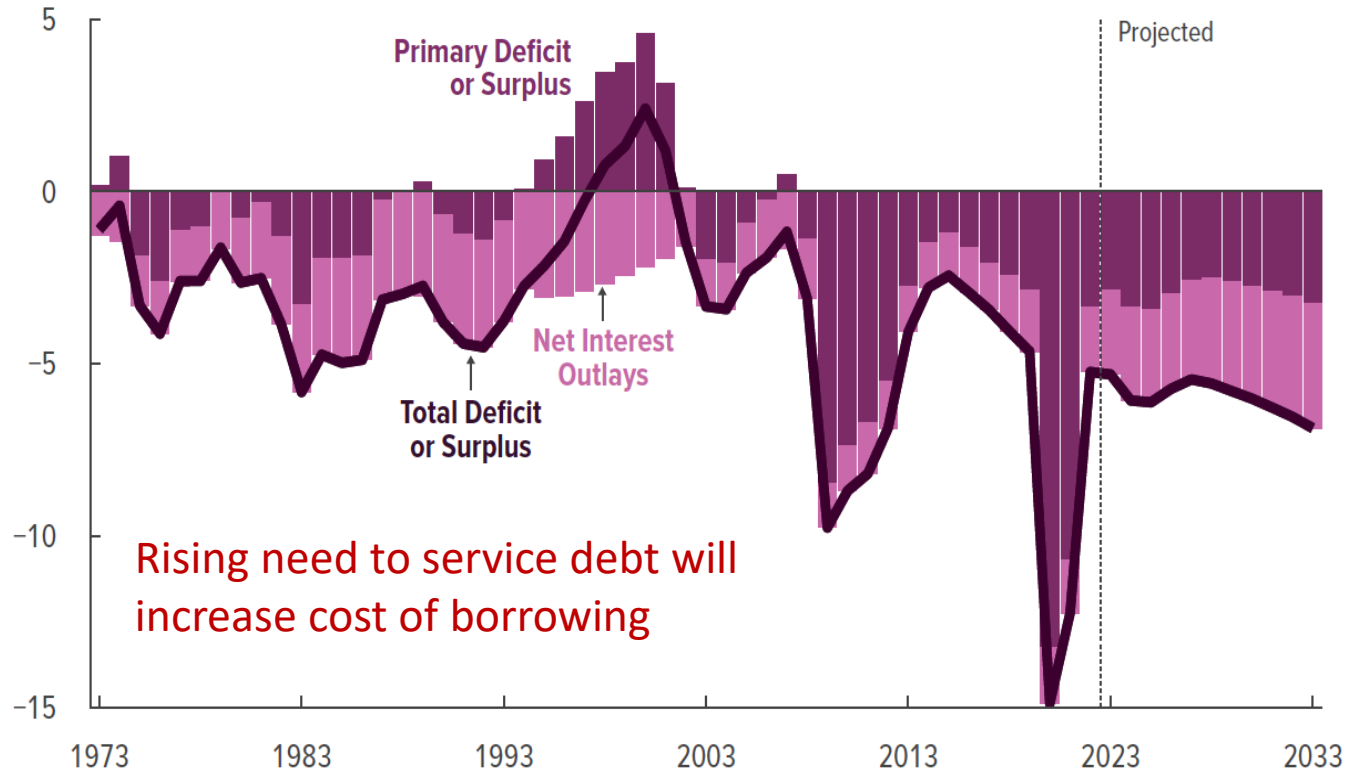


Energy and Food Price inflation are more variable, subject to world commodity price movements

Figure 1-1.

Total Deficits, Primary Deficits, and Net Interest Outlays

Percentage of GDP



In CBO's projections, net interest outlays increase by 1.2 percent of GDP from 2023 to 2033 and are a major contributor to the growth of total deficits. Primary deficits increase by 0.4 percent of GDP over that period.

<https://www.cbo.gov/publication/58946>

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

Primary deficits exclude net outlays for interest.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

GDP = gross domestic product.

Example of persistent effects of government shutdowns in the retail industry

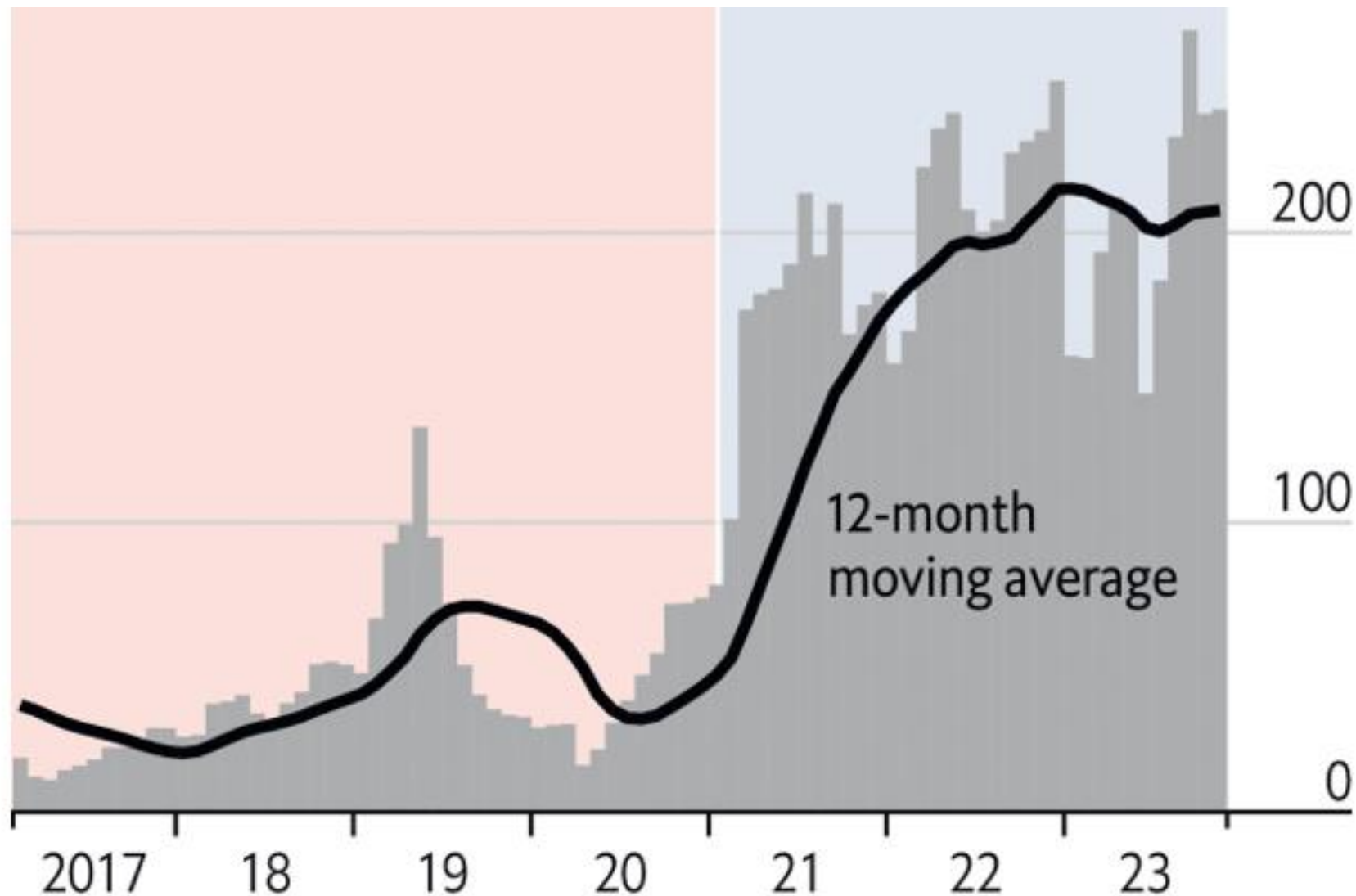
Longer and more aggressive shutdowns:

- Reduced sales at bricks and mortar stores.
- caused a persistent shift to online sales

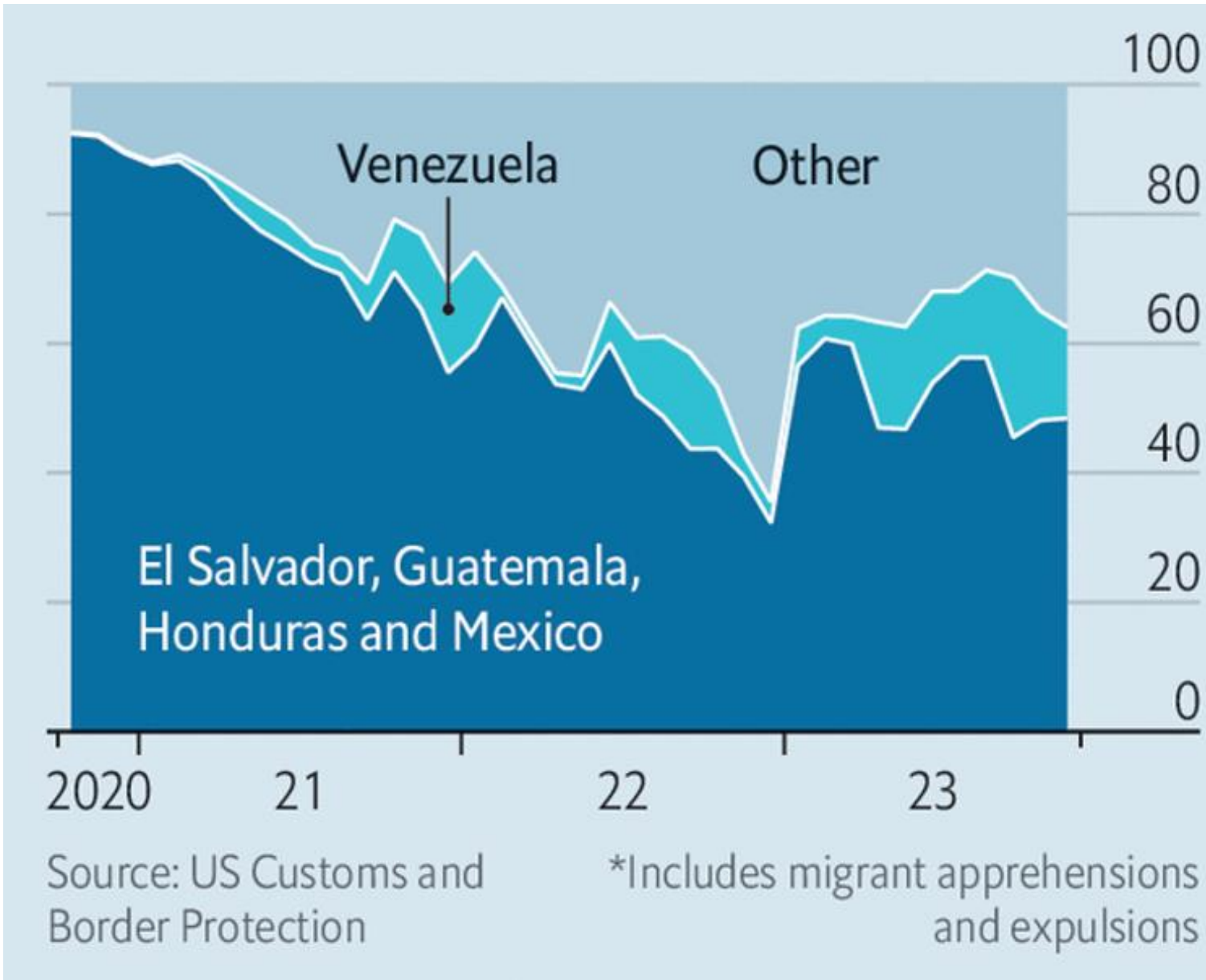
Sales fell at Motor vehicle parts, Furniture, Electronics, Building materials, Gasoline stations, Clothing stores, and Sporting goods

Sales rose at General merchandise, Health and personal care, and Food and beverage

Monthly encounters (apprehensions plus expulsions) at the Southern border



Title 42,
discontinued in
May 2023,
disabled the
asylum option due
to health concerns



In 2023, other included 43,000 Russians, 42,000 Indians and 24,000 Chinese

The Economist January 18, 2024 compilation of data from U.S. Customs and Border Protection