



HARVARD
UNIVERSITY

Post-pandemic Transition (Monetary Policy and Debt)

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2023 G20 Global Financial Stability Conference

September 20, 2023

Outline

1. The Global Economic Outlook
2. Structural Changes

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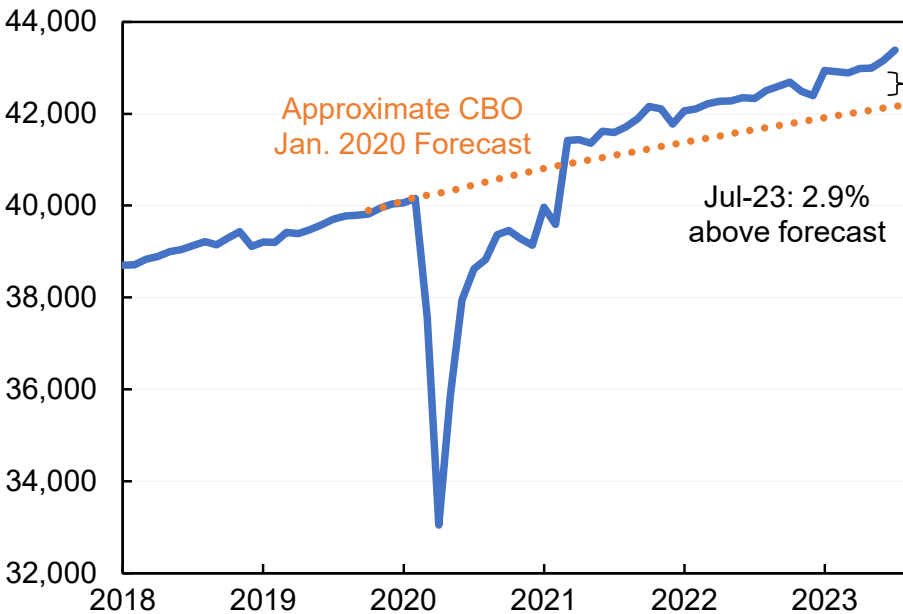
The global situation now

	High growth	Low growth
High inflation	United States	Europe
Low inflation	N.A.?	China

The strength of the U.S. economy is due to consumers, but how long can it last?

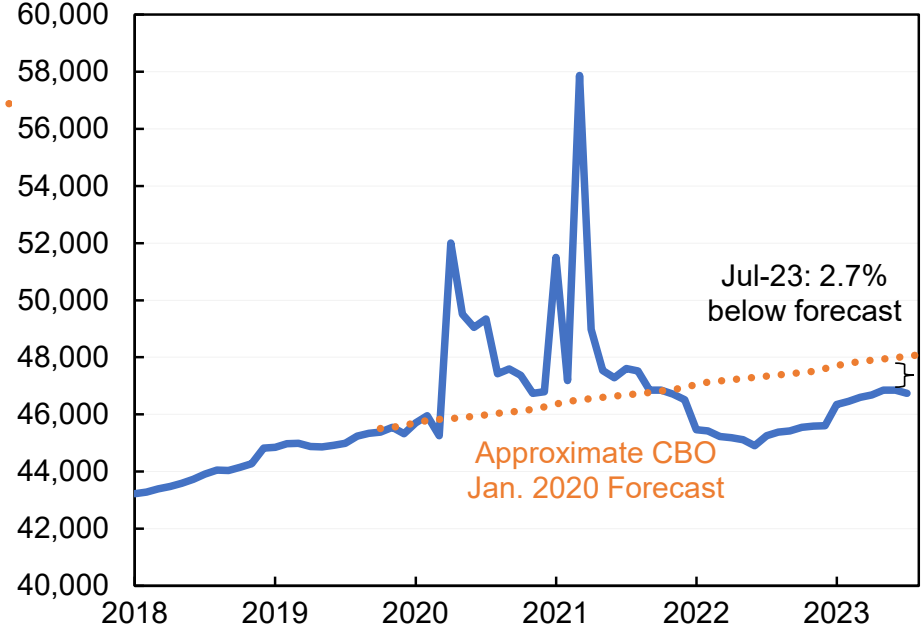
Real Personal Consumption Expenditures per Capita

Chained 2012 Dollars, Annual Rate



Real Disposable Personal Income per Capita

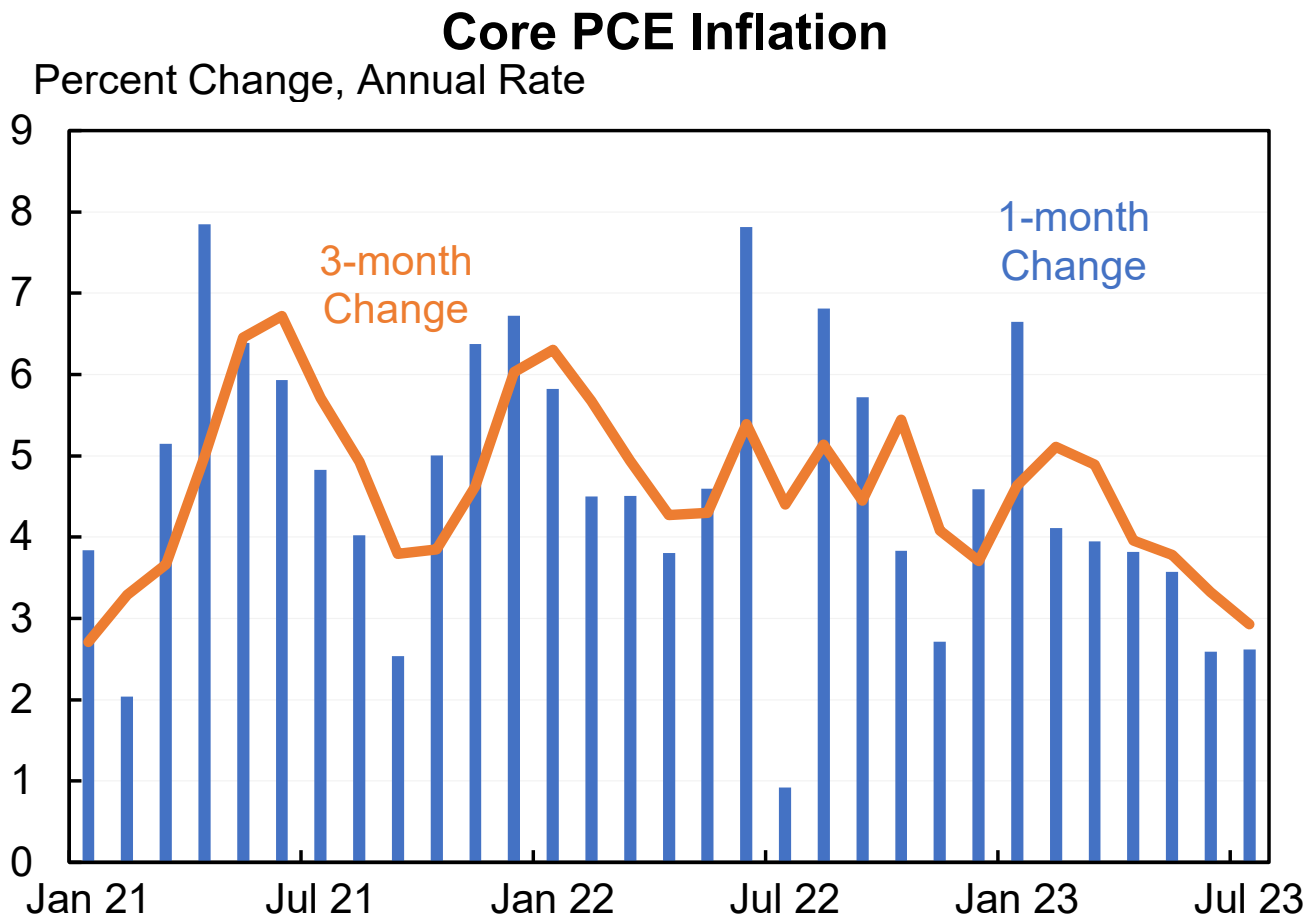
Chained 2012 Dollars, Annual Rate



Note: Approximate CBO forecast for disposable personal income is calculated based on growth rate of personal income. Both forecasts are rebased to match latest value for 2019Q4. Total population estimated based on forecast for adult civilian population. Forecast interpolated to generate monthly values

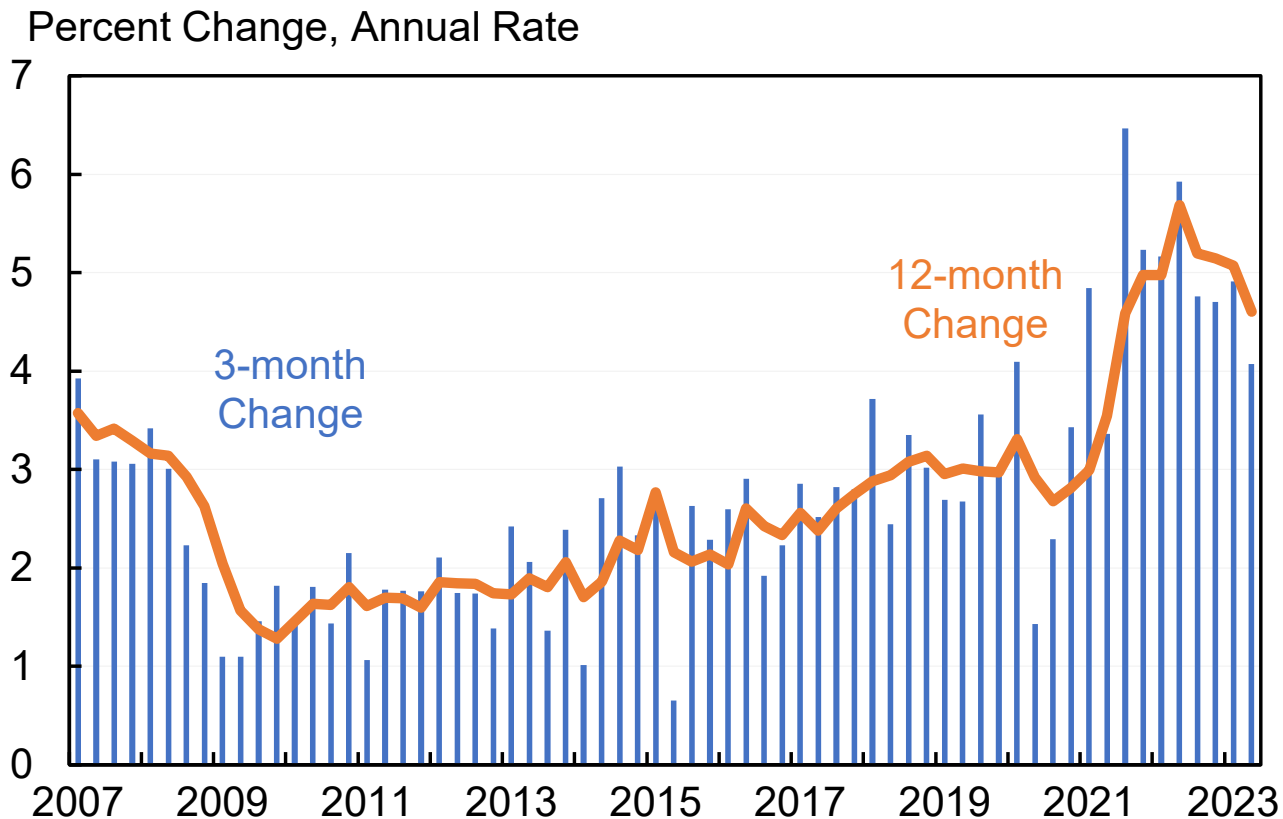
Source: Bureau of Economic Analysis and Bureau of Labor Statistics via Macrobond; Congressional Budget Office; author's calculations.

At the same time, core inflation has come down

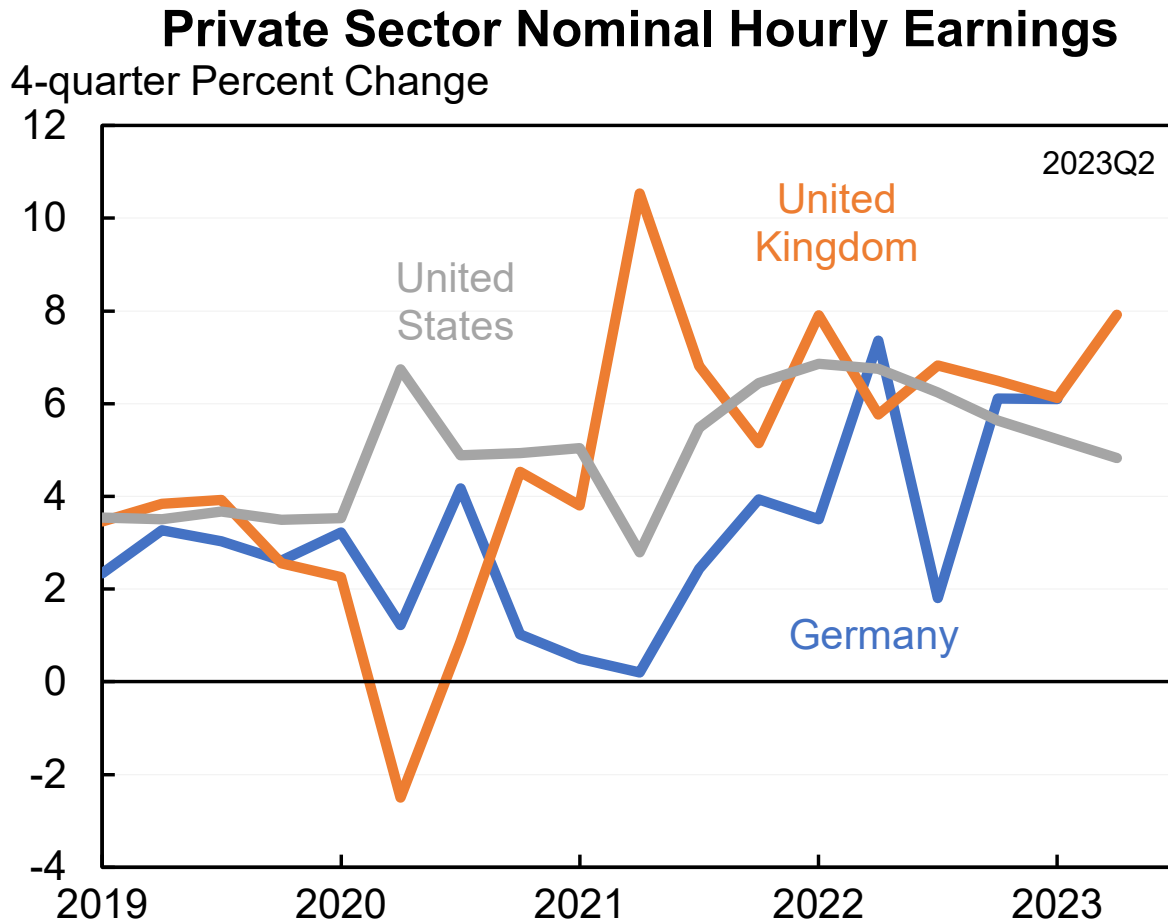


But U.S. wage inflation remains elevated—more consistent with 4 percent inflation

Employment Cost Index, Private Wages and Salaries



And wage inflation is even higher in Europe



While European GDP has been weak or declining

Quarterly Real GDP Growth, Annual Rate

	2021				2022				2023	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Germany	-5.0	9.2	2.7	0.0	4.1	-0.5	1.5	-1.6	-0.4	0.1
France	0.2	3.7	12.5	2.3	-0.3	1.5	1.3	0.4	0.1	2.1
Euro Area	0.6	7.9	9.1	2.2	2.6	3.2	1.5	-0.2	0.1	1.0
United Kingdom	-4.1	28.8	7.1	6.2	2.0	0.2	-0.4	0.5	0.6	0.8

China has an obvious remedy which is more demand, it is just not deploying it



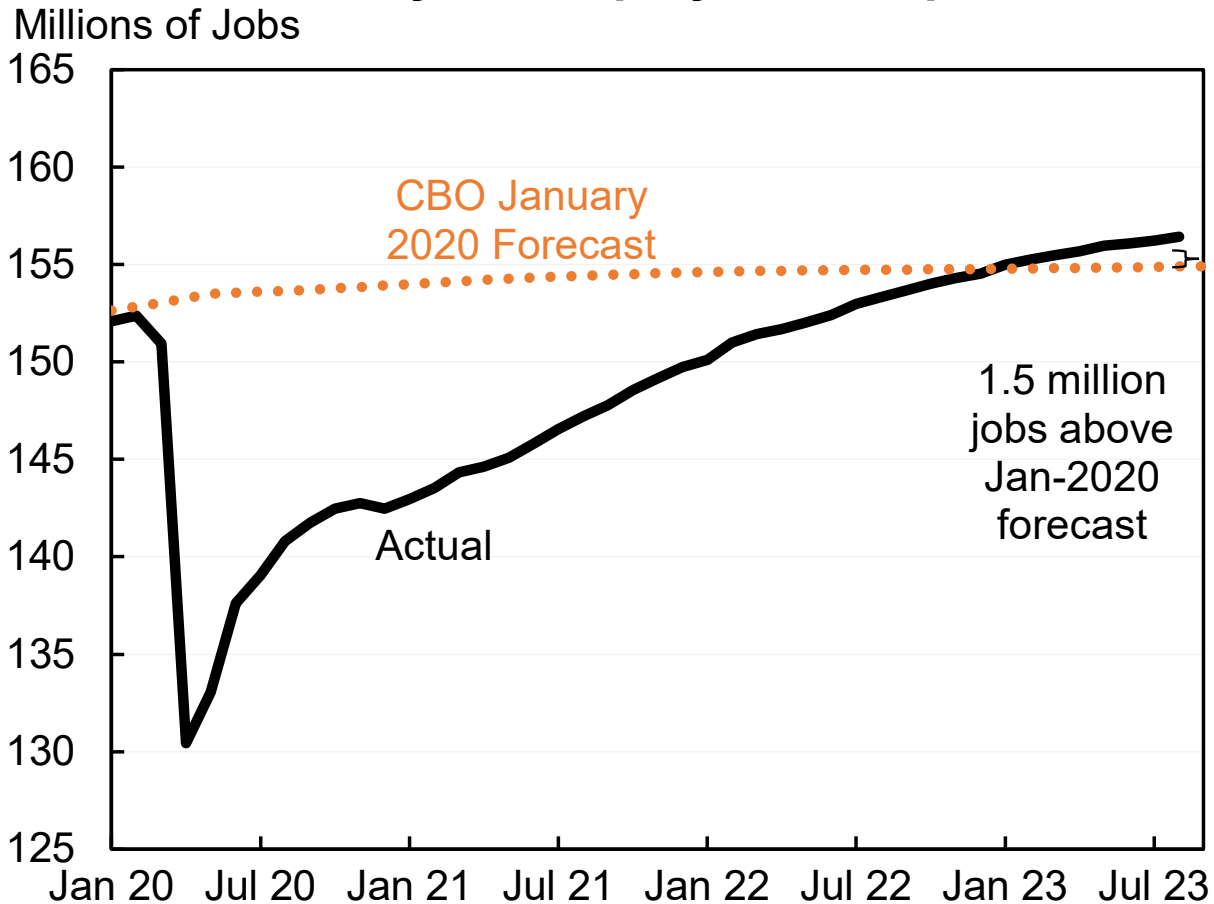
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Almost certainly unchanged: Labor market

Payroll Employment Gap



Note: Employment is nonfarm payroll employment, which excludes proprietors, self-employed, unpaid family or volunteer workers, farm workers, and domestic workers.
Source: Bureau of Labor Statistics via Macrobond; Congressional Budget Office; author's calculations.

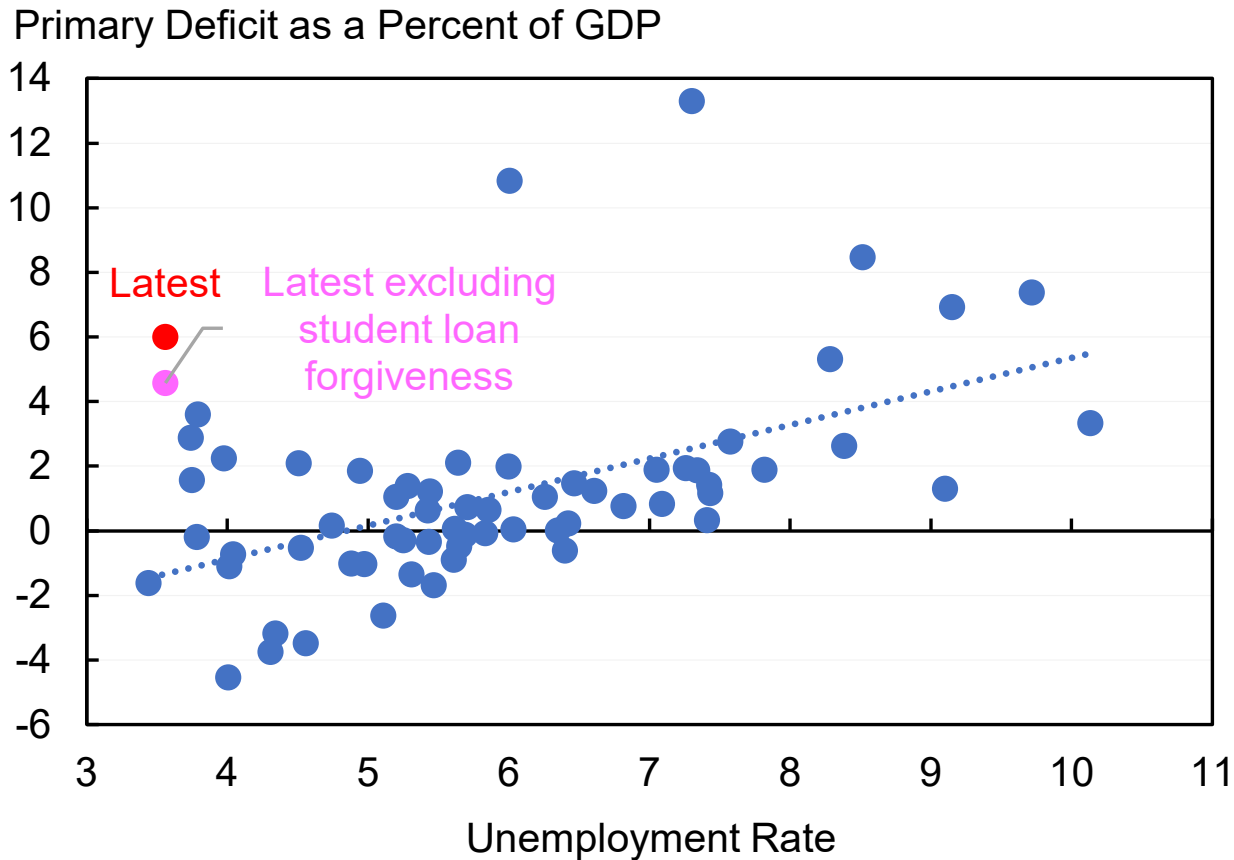
Could change: Inflation

The Fed Has Targeted 2% Inflation. Should It Aim Higher?

After raising interest rates again, the Federal Reserve will soon have to consider how much pain it is willing to inflict in its fight against inflation, our columnist says.

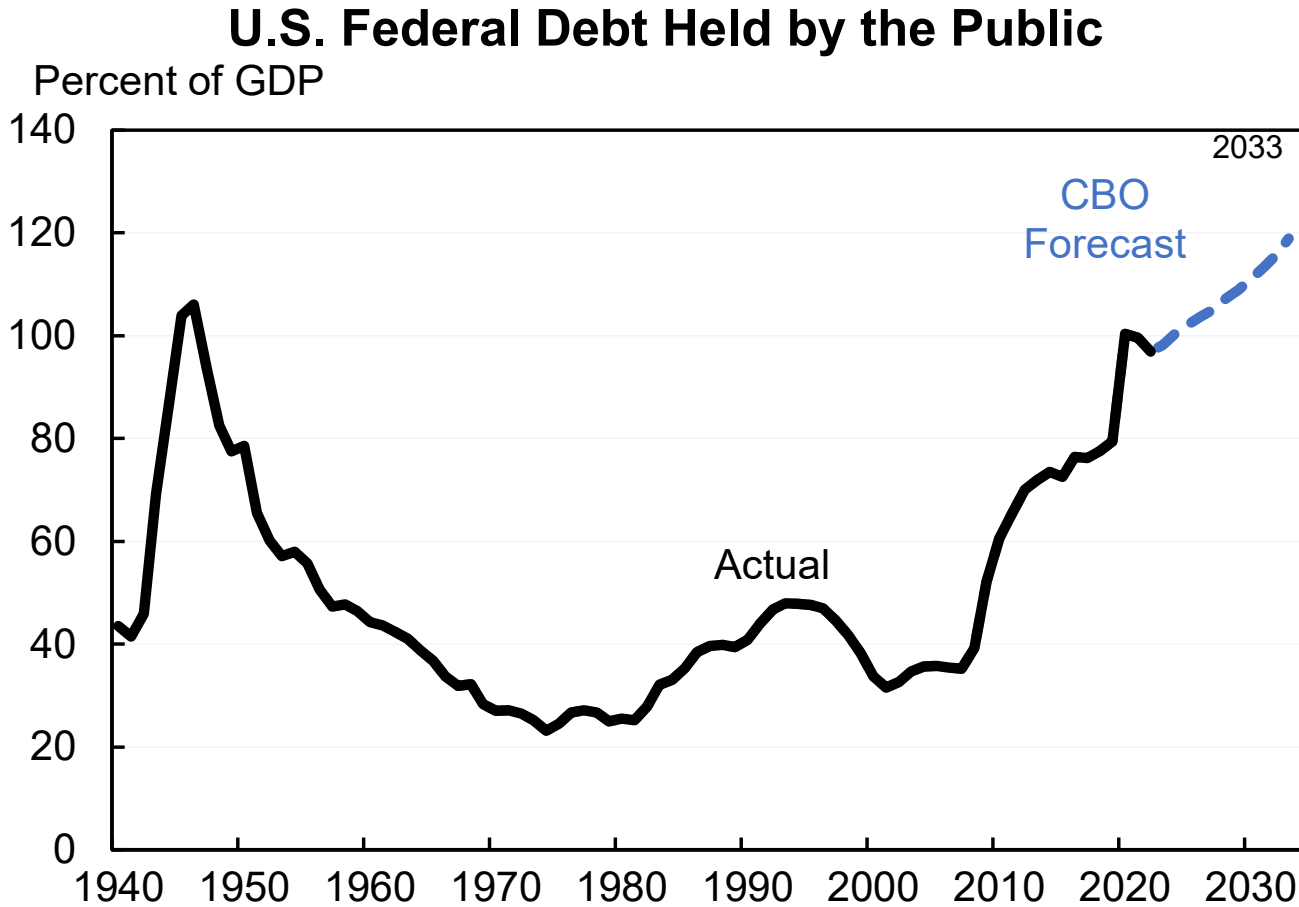
Has changed: Very high deficits given strong labor market

Primary Deficit as a Percent of GDP vs. Unemployment Rate, 1960-2022



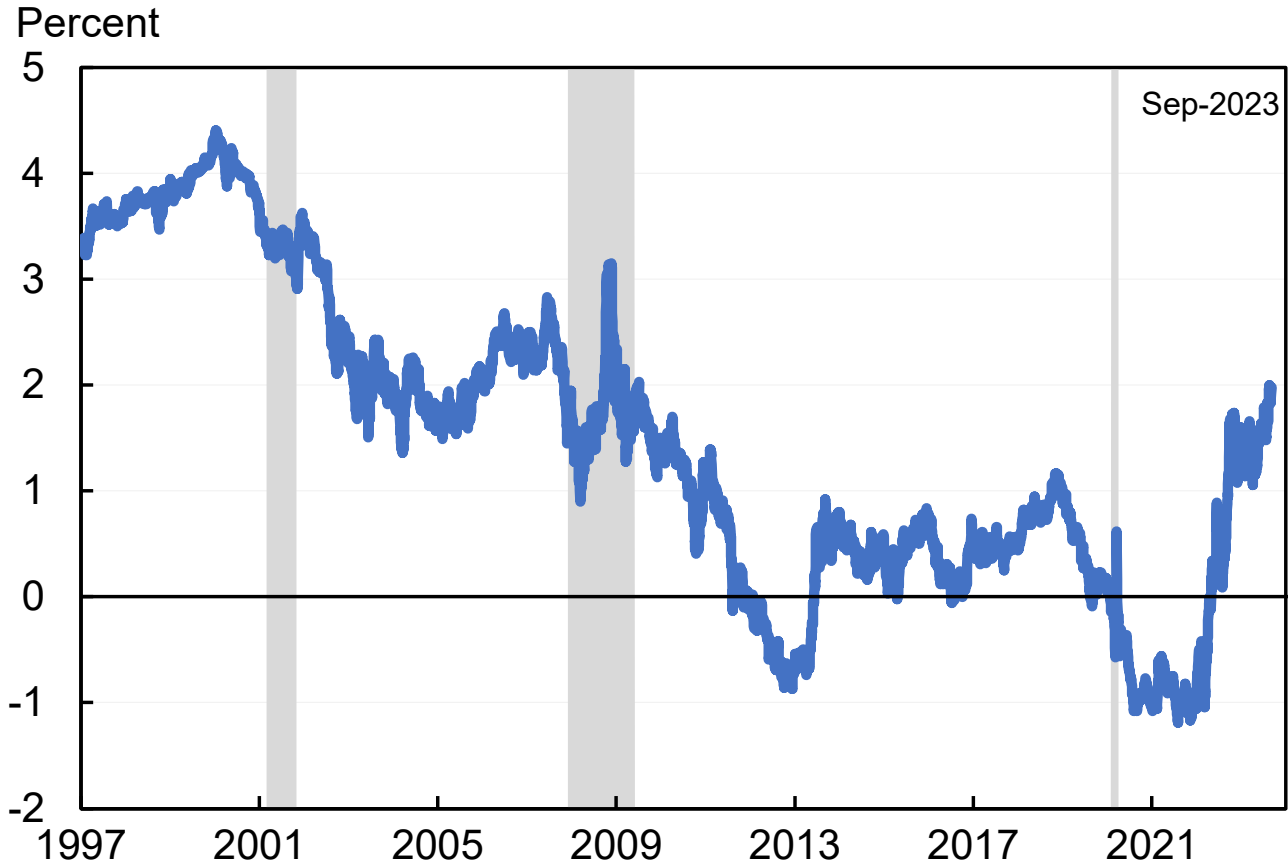
Note: Latest is 12-month period ending July 2023.
Source: Bureau of Labor Statistics; Bureau of Economic Analysis; Office of Management and Budget; Congressional Budget Office; Macrobond S&P Global.

Has changed: Debt is projected to continue to rise



As a result likely to stay higher: Real interest rates

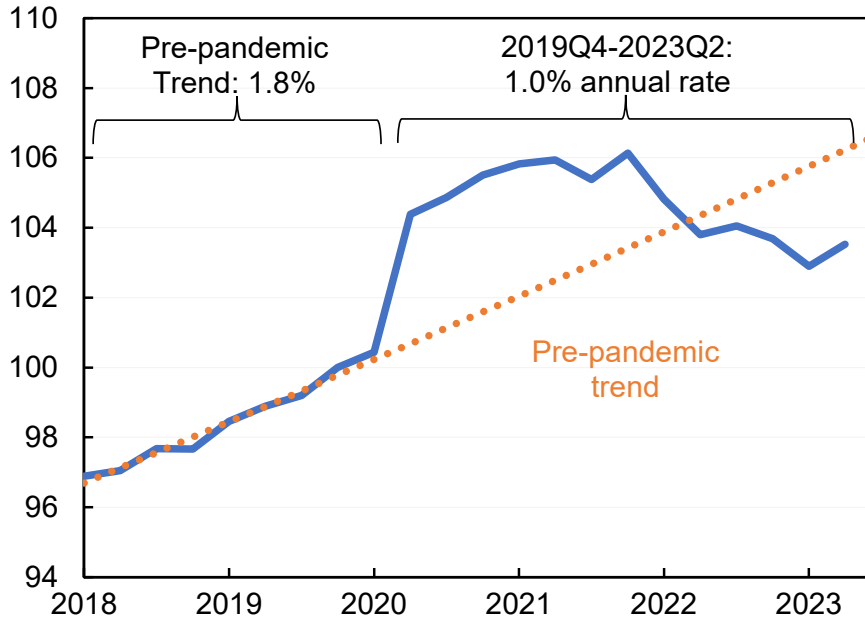
10 Year Inflation-Indexed Treasury Yield



Most important and least certain: Productivity growth

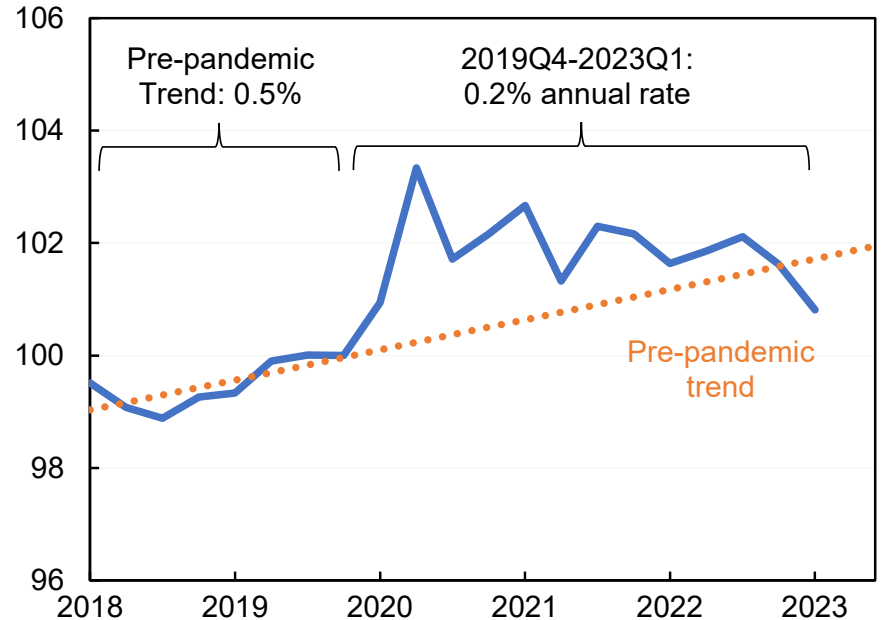
Nonfarm Business Labor Productivity, United States

Index, 2019Q4 = 100



Labor Productivity, Euro Area

Index, 2019Q4 = 100



Note: Pre-pandemic trend based on log-linear regression for 2018Q1 to 2019Q4. U.S. data adjusted for difference between the real GDP/GDI average and real GDP. Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Eurostat via Macrobond; author's calculations.



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