

Divergence between Subjective Macroeconomic Assessments and Fundamental Indicators in the Post Covid Recovery Period

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Divergence between Subjective Macroeconomic Assessments and Fundamental Indicators in the Post Covid Recovery Period

or

“Good Economy, Bad Vibes”

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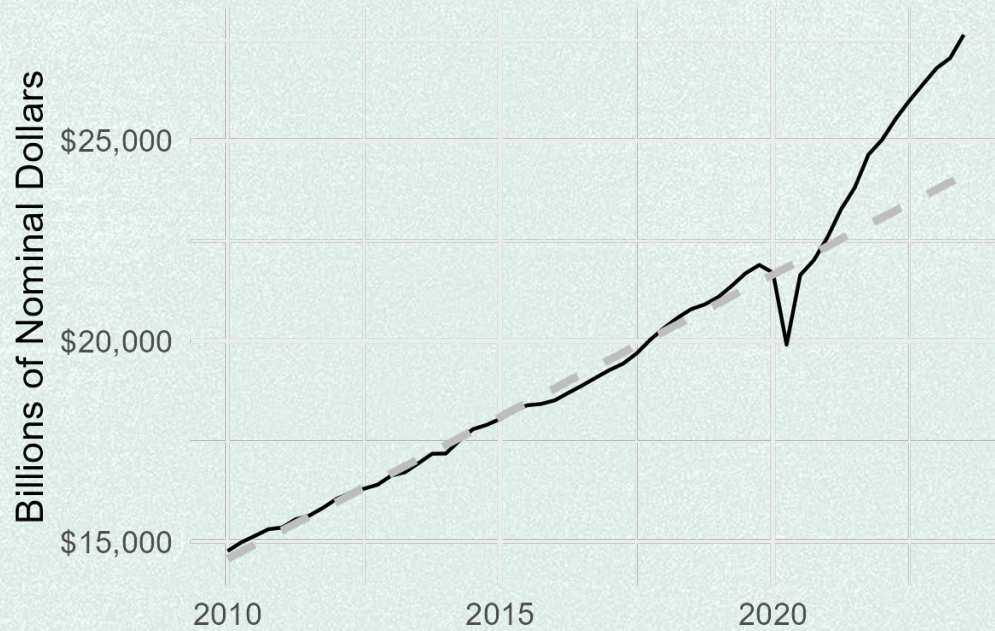
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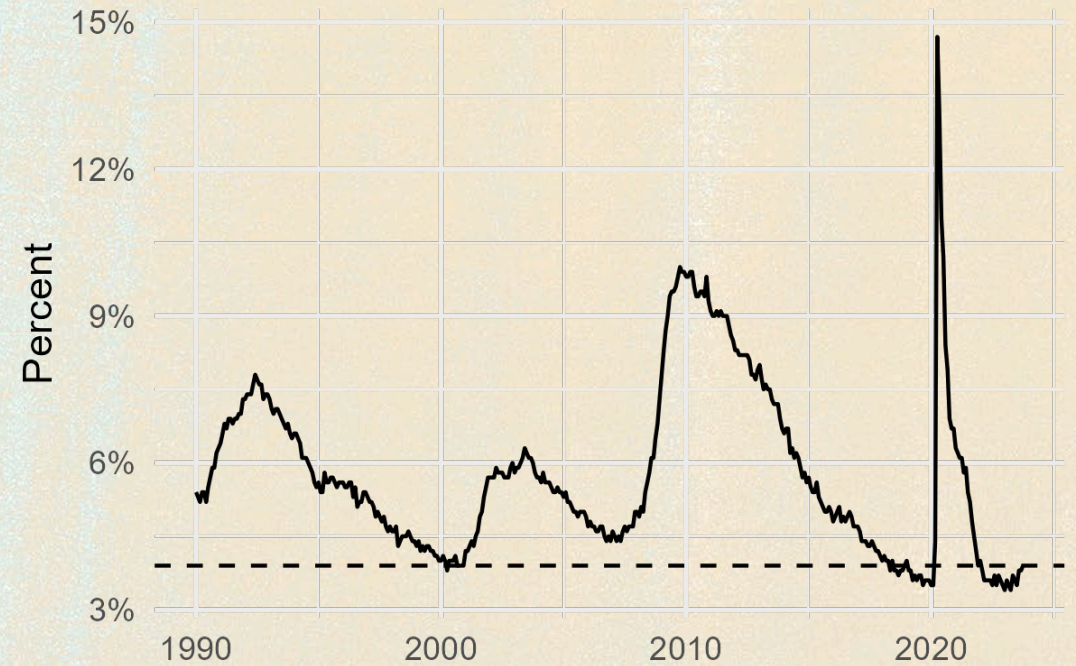
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The Fundamentals

GDP, 2010 Q1 - 2023 Q3

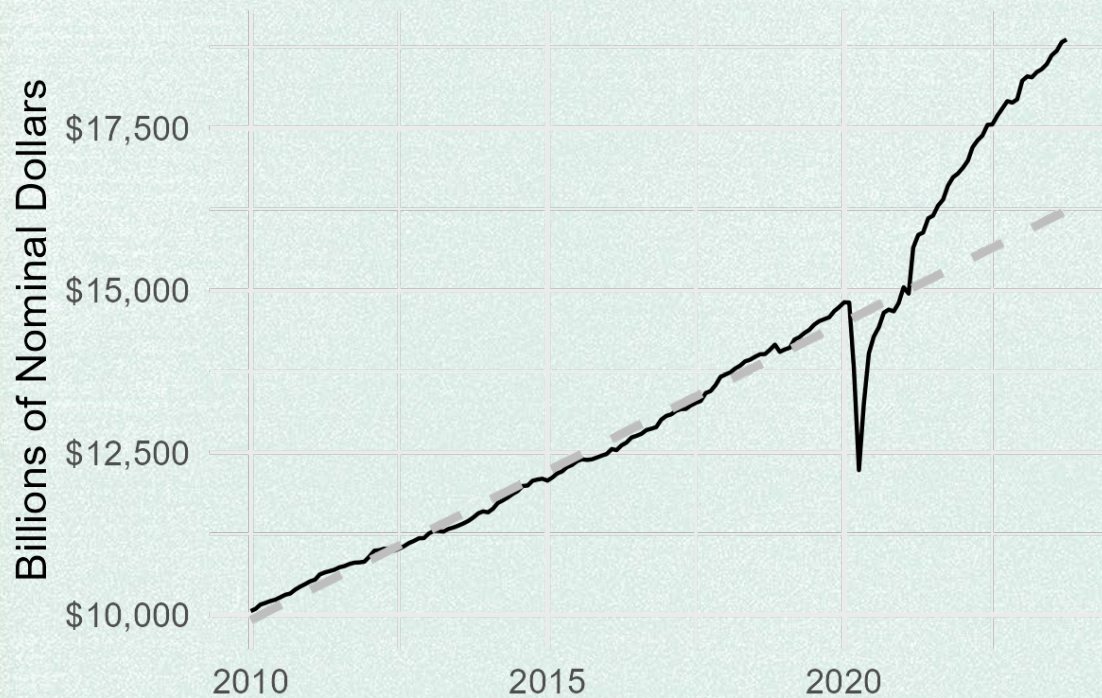


Unemployment, 1990-01-01 - 2023-10-01

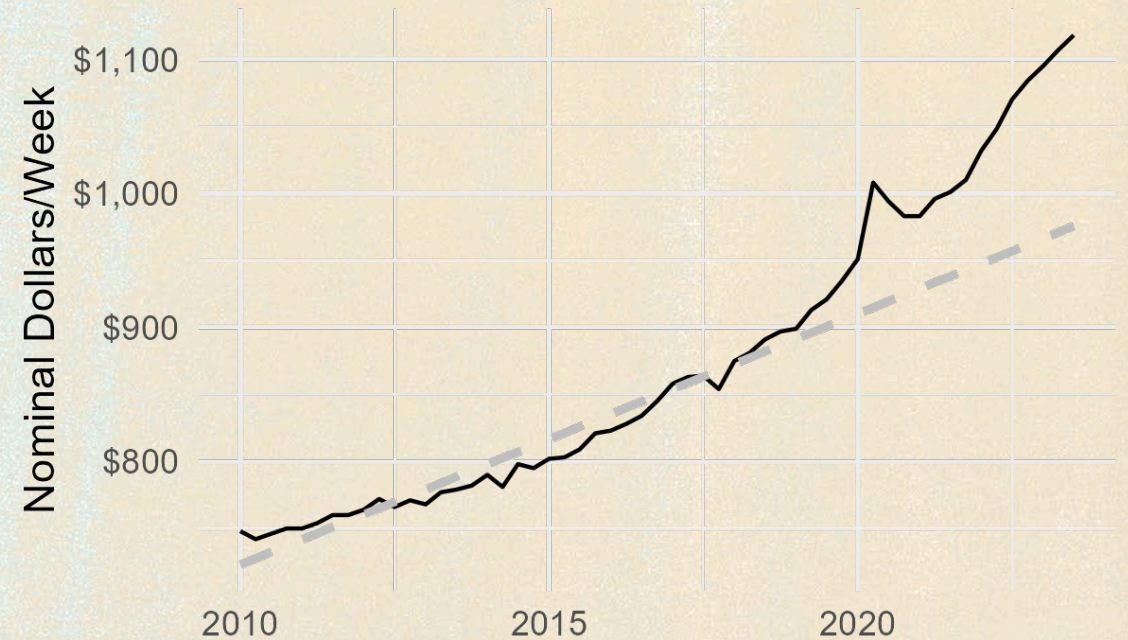


The Fundamentals

PCE, 2010-01-01 - 2023-10-01

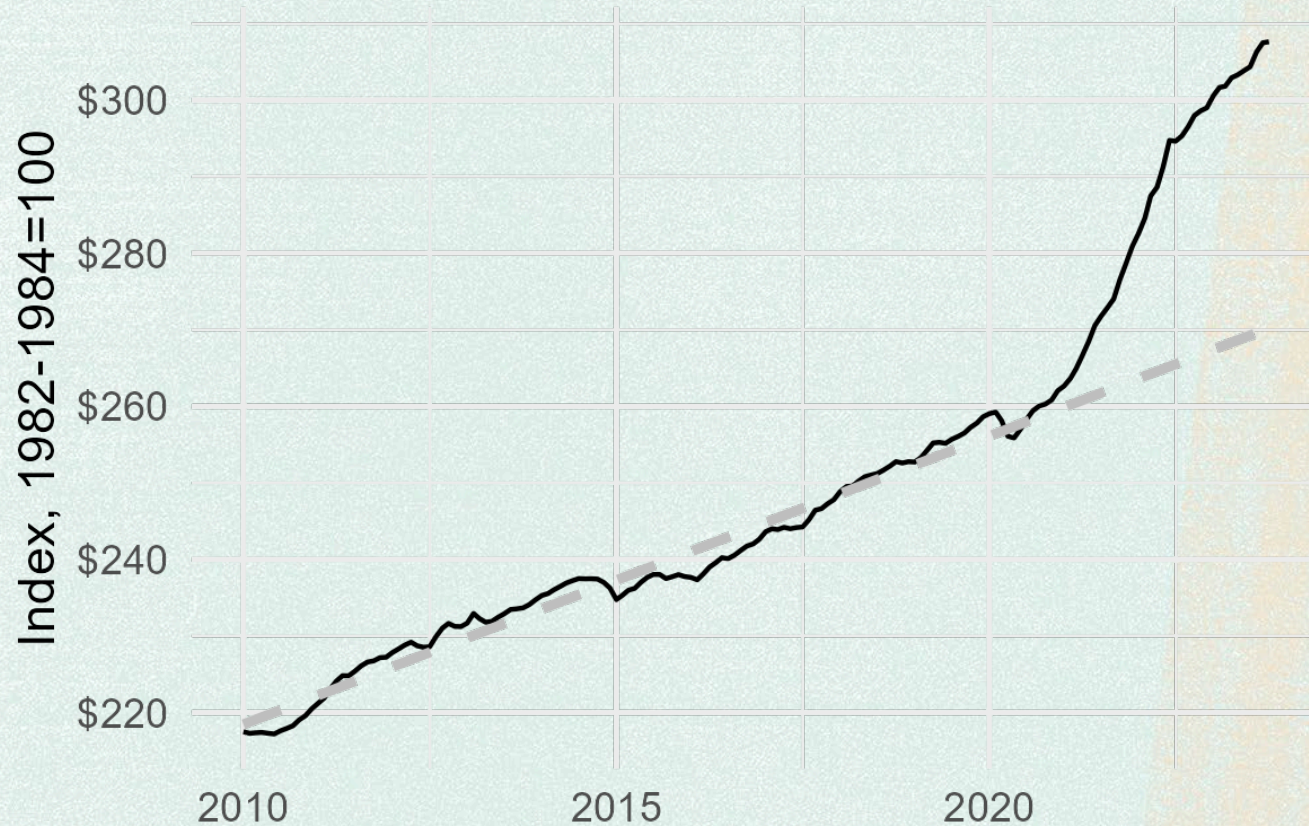


Wages (FT Employed, >16yo), 2010-01-01 - 2023-07-01



But what about Inflation?

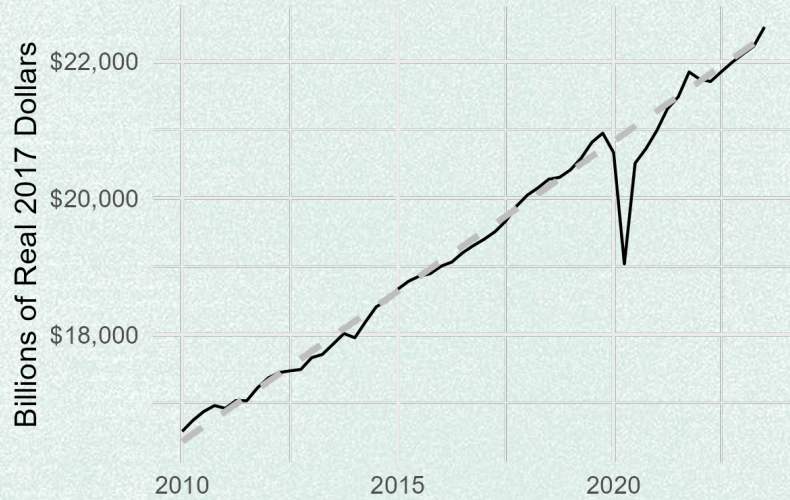
CPI 2010-01-01 - 2023-10-01



- Prices have increased 19% since the start of pandemic

The Fundamentals – Inflation Adjusted

GDP, 2010 Q1 - 2023 Q3

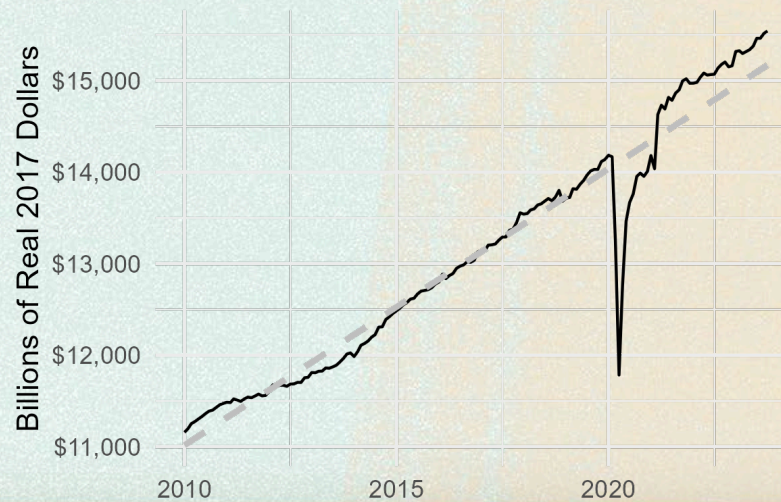


GDP & Wages back to
real growth trend. Real
Consumer Spending above
trend

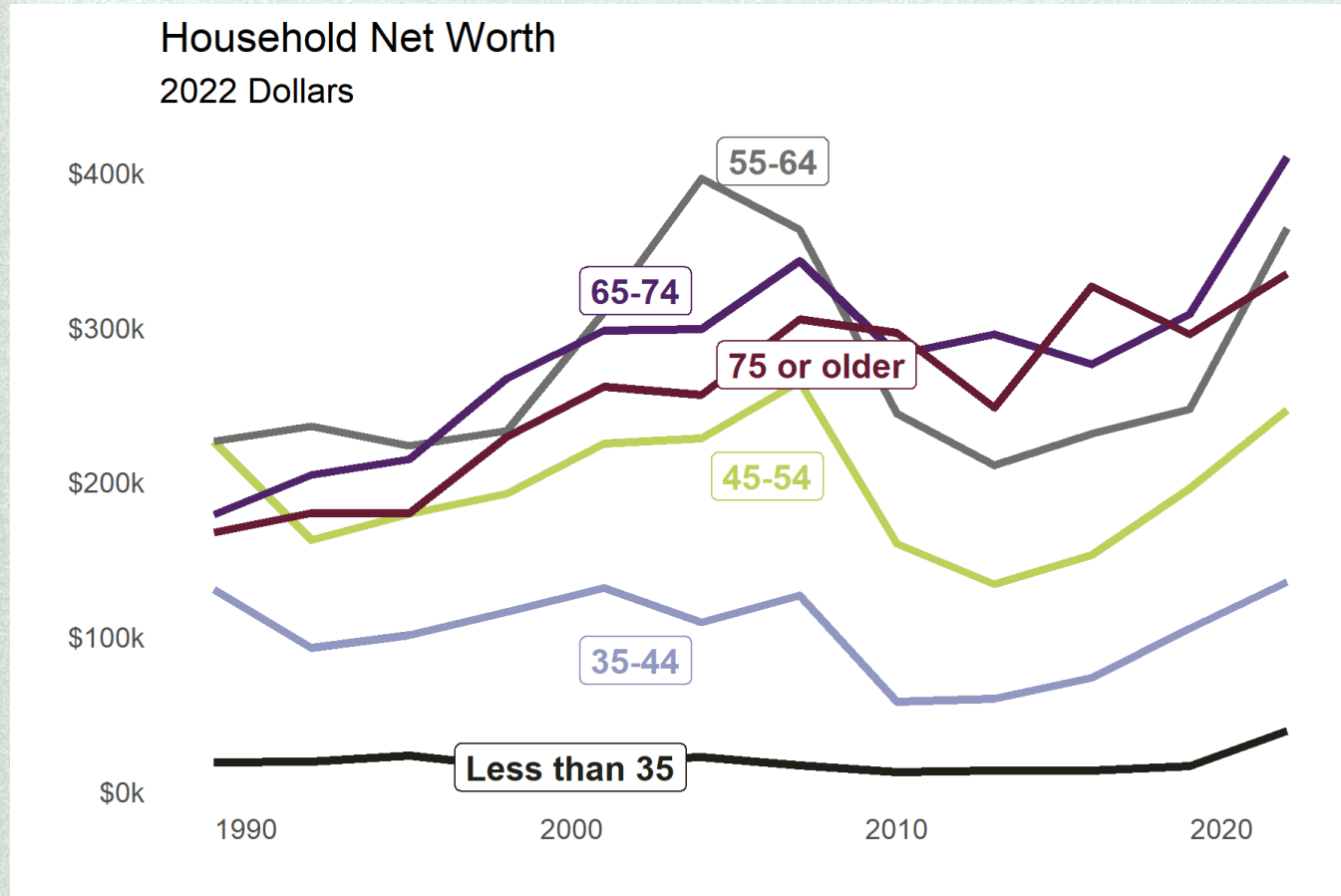
Wages (FT Employed, >16yo),
2010-01-01 - 2023-07-01



PCE, 2010-01-01 - 2023-10-01



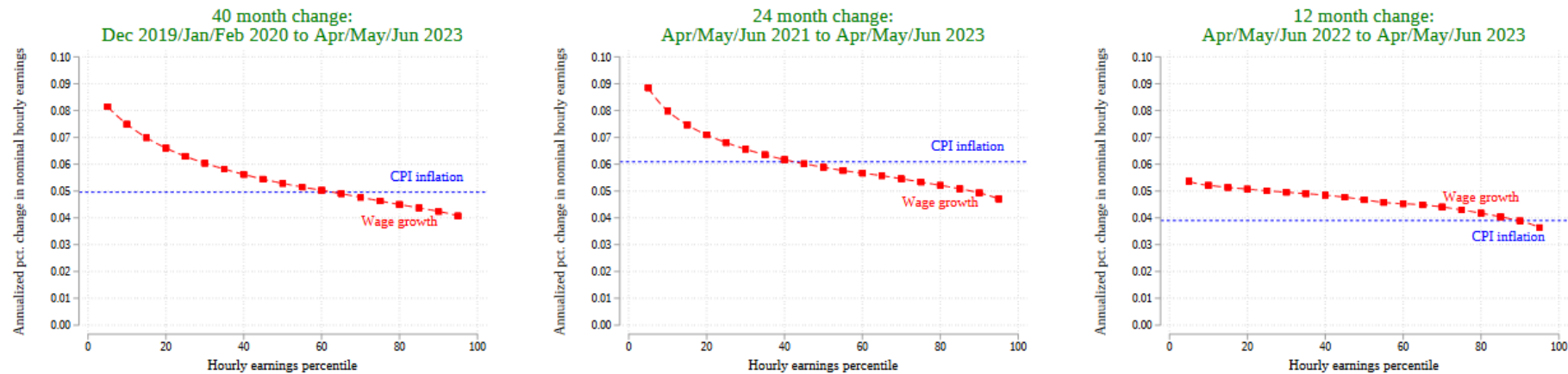
The Fundamentals – Inflation Adjusted



Households of all ages are the (or near the) wealthiest they've ever been

Distributional Considerations

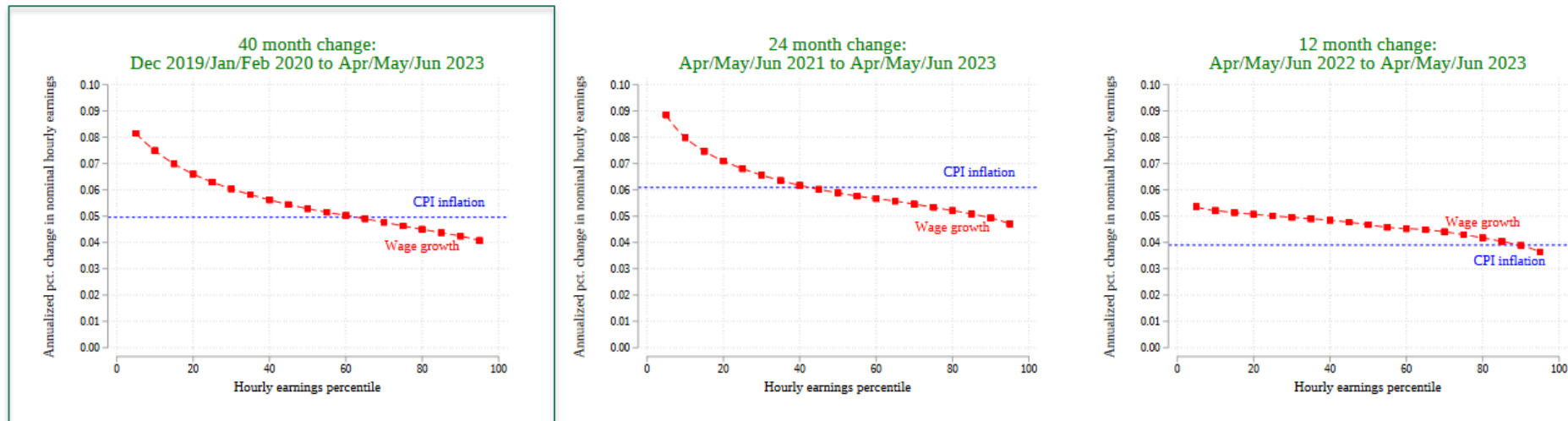
Figure 11: Annualized Percent Change in Nominal Hourly Earnings by Earnings Percentile Over 40, 24, and 12 Months - Adjusted for Composition



Note: CPS monthly data. Adjusted to maintain demographic composition in January–March 2020 using inverse probability weighting based on age, education, race/ethnicity, gender, country of birth, and region. Wage percentiles are smoothed with lowess. Inflation is calculated using annualized, seasonally unadjusted CPI-U.

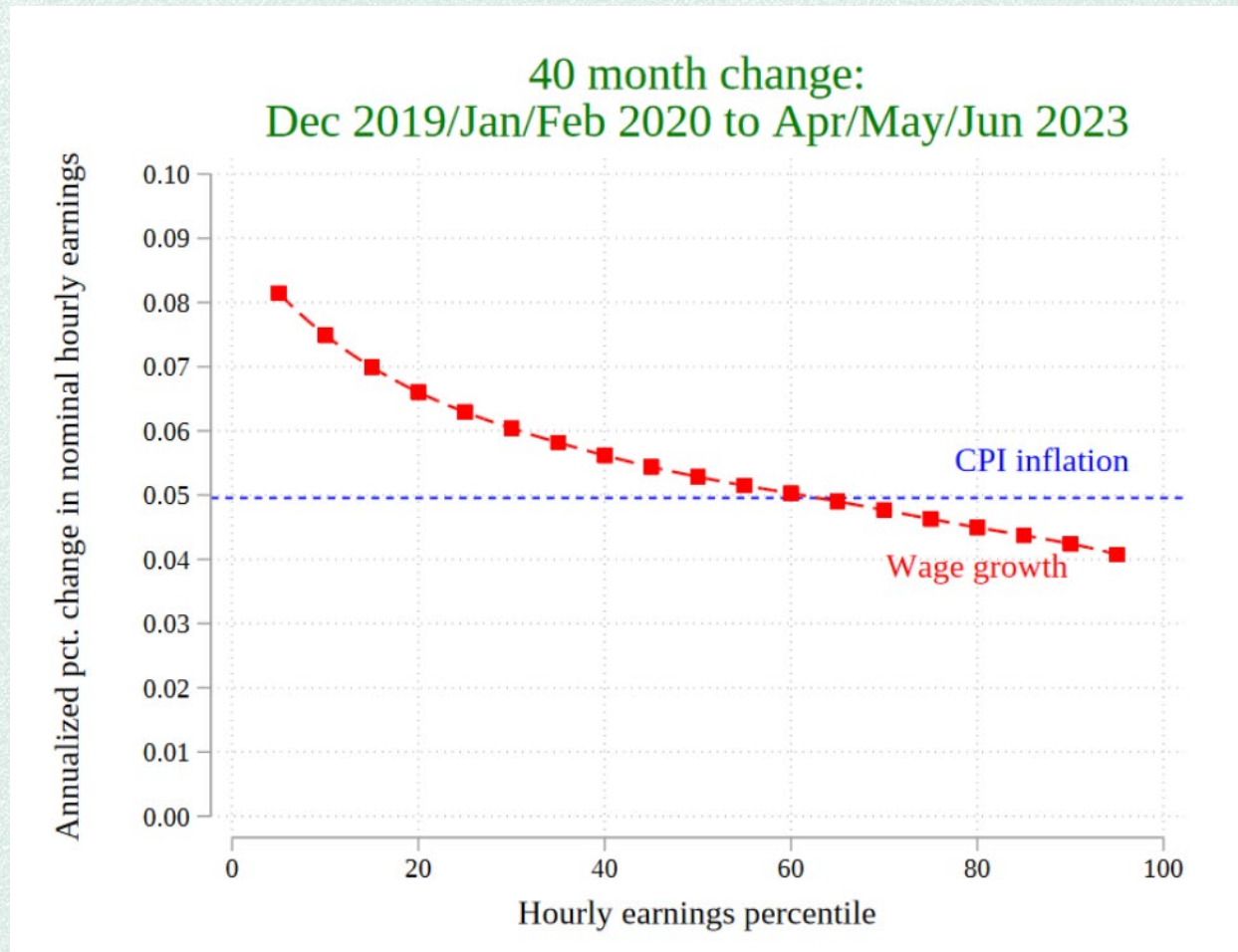
Distributional Considerations

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Distributional Considerations



For *bottom* 60% of American workers, wage growth was higher than inflation.



- Ok, news is net positive.
- How do people feel about the economy

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- How do people feel about the economy

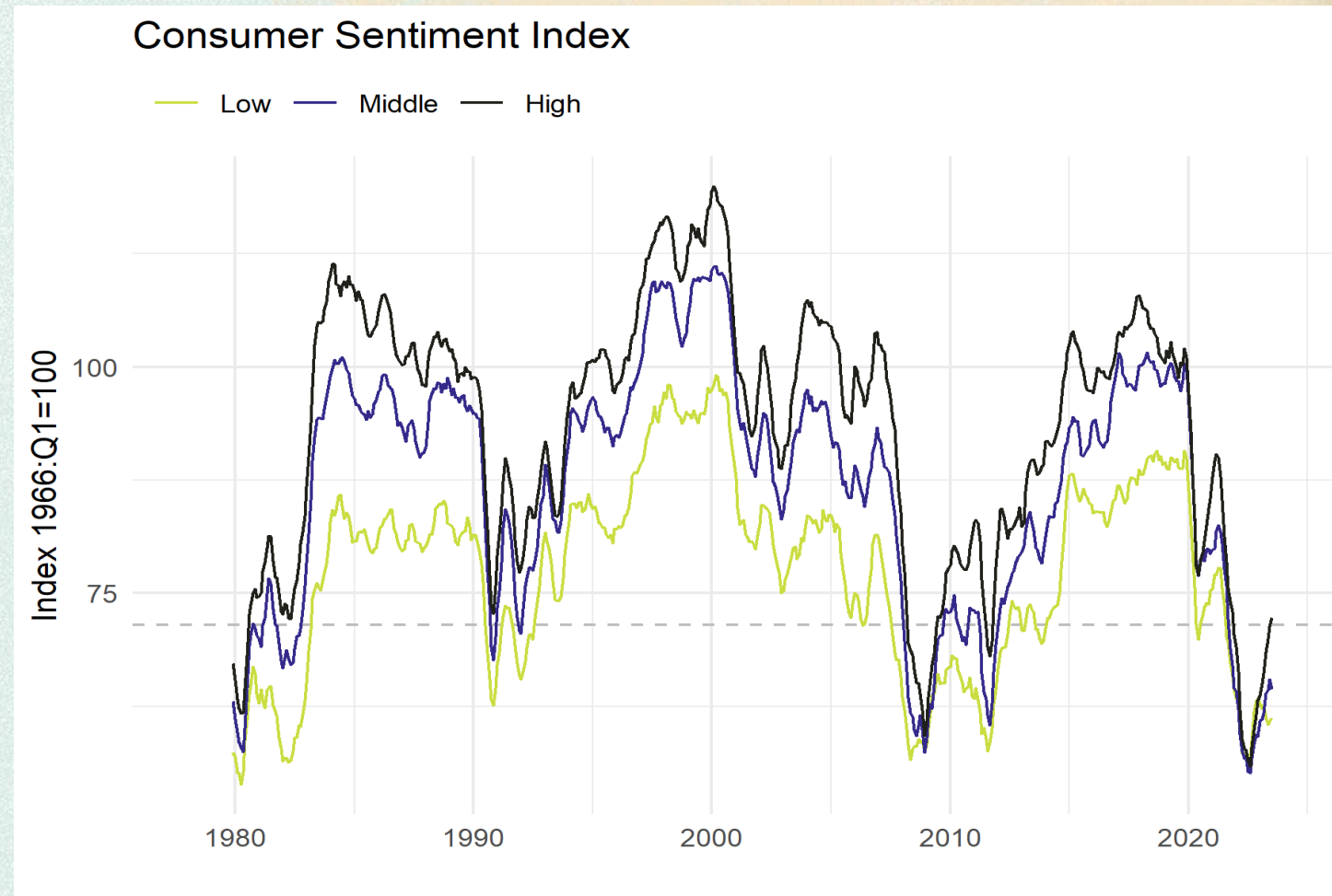
They Hate it!

They Hate it!

- A lot!

Measures of sentiment are at (and were below) levels from the Great Recession!

Low and High income HHs hate it!



Why do they hate it?

- Theories:
 - (1) Economic statistics are fake
 - “The CPI basket changes over time”
 - (2) Economic statistics measure wrong thing
 - Its not about how a ‘typical’ family is doing, its about how a specific group is doing
 - (3) Structural change in how statistics are perceived
 - People care more about inflation now than in the past
 - (4) Incorrect understanding of link between wages and prices
 - “The wage increase I got was my reward for a job well done. Inflation is the government’s fault.
 - (5) Information diets about the economy.
 - People think the economy is bad because that’s what they have been told.

Why do they hate it?

- Theories:

~~(1) Economic statistics are fake~~

(2) Economic statistics measure wrong thing

- Unlikely: That's always been true.

(3) Structural change in how statistics are perceived

- Untestable. Not grounded in theory.

(4) Incorrect understanding of link between wages and prices

- Plausible

(5) Information diets about the economy

- Plausible

Fake Statistics?

The screenshot shows the Price Charting website interface. At the top, there's a search bar with the text "Search by Product, UPC or ASIN" and a "Prices" dropdown menu. Below the search bar is a navigation bar with tabs for "Market", "Video Games", "Trading Cards", "Comics", "LEGO Sets", "Coins", "Sports Cards", and "Tools". The main content area displays "Xbox 360 System Core Xbox 360" with a product image and a price history chart. The chart shows a price starting at \$230 in 2008 and ending at \$45 in 2022. The chart includes a legend with categories: Loose, CIB, New, Graded, Box, and Manual. The chart also has a "Zoom" section with options for 6m, 1y, 5y, and All. The website footer includes "Highcharts.com".

How much for a used Xbox 360?

Wrong measure?

- This is a uniquely American problem.

A large and sustained gap has opened up between how Americans say they feel about the economy, and how the economy is actually performing

Consumer confidence index: actual level vs what we would expect based on economic indicators



Wage/Inflation misunderstanding?

- Robert Shiller (1997) “Why do People Dislike Inflation”
- Surveyed **113 laypeople** and 76 **economists**.

Should the gov't ever aim for disinflation?

B18. Do you agree with the following statement? “If the government were to make a mistake next year, such as printing too much money, and created prices that are 20% higher than they are today, I think that they should try to reverse their mistake, and bring prices back down where they are today.”

	1 Fully agree	2	3 Undecided	4	5 Completely disagree	
U.S. all	46%	22%	22%	4%	6%	n=113
Economists	0%	3%	5%	28%	64%	n=76

What's wrong with inflation?

B9. Which of the following comes closer to your biggest gripe about inflation:

1. Inflation causes a lot of inconveniences: I find it harder to comparison shop, I feel I have to avoid holding too much cash, etc.

2. Inflation hurts my real buying power, it makes me poorer.

3. Other _____

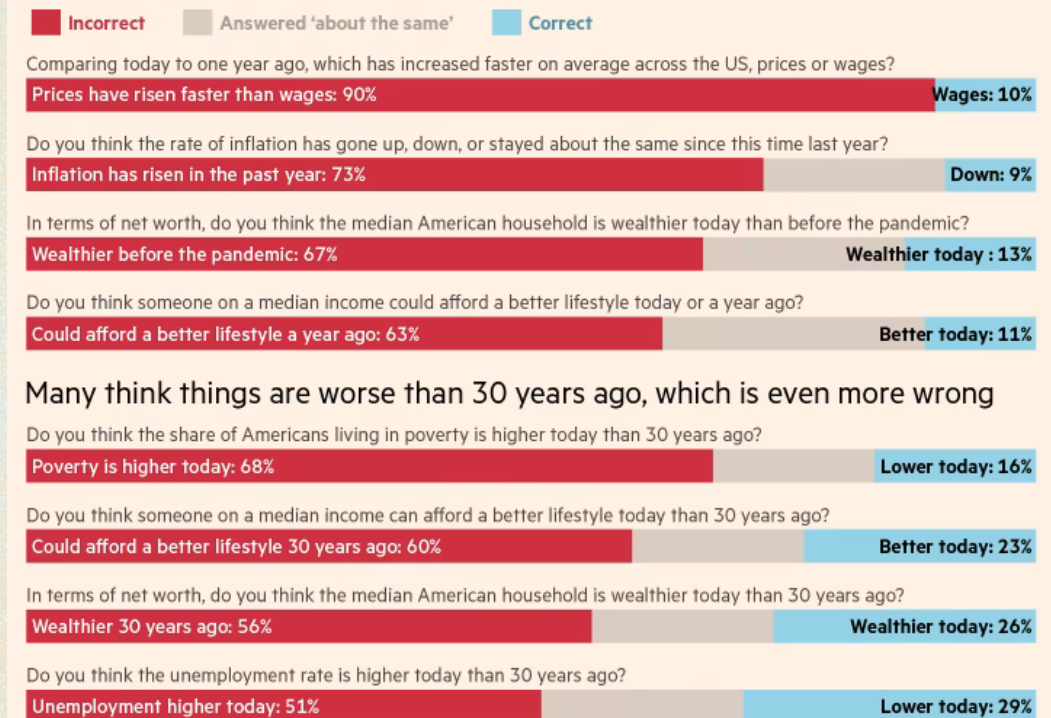
	1	2	3	
U.S. all	7%	77%	15%	n=110
Economists	49%	12%	40%	n=78

Bad information?

- FT quizzed about the economic fundamentals, eg:
 - Is inflation higher today than 1 year ago, only 9% correctly said “No”
 - Is net worth higher than pre-pandemic, only 13% correctly said “yes”
- F- overall grade
- Why do they fair so poorly?

Americans are adamant that US economic circumstances are getting worse. They're wrong

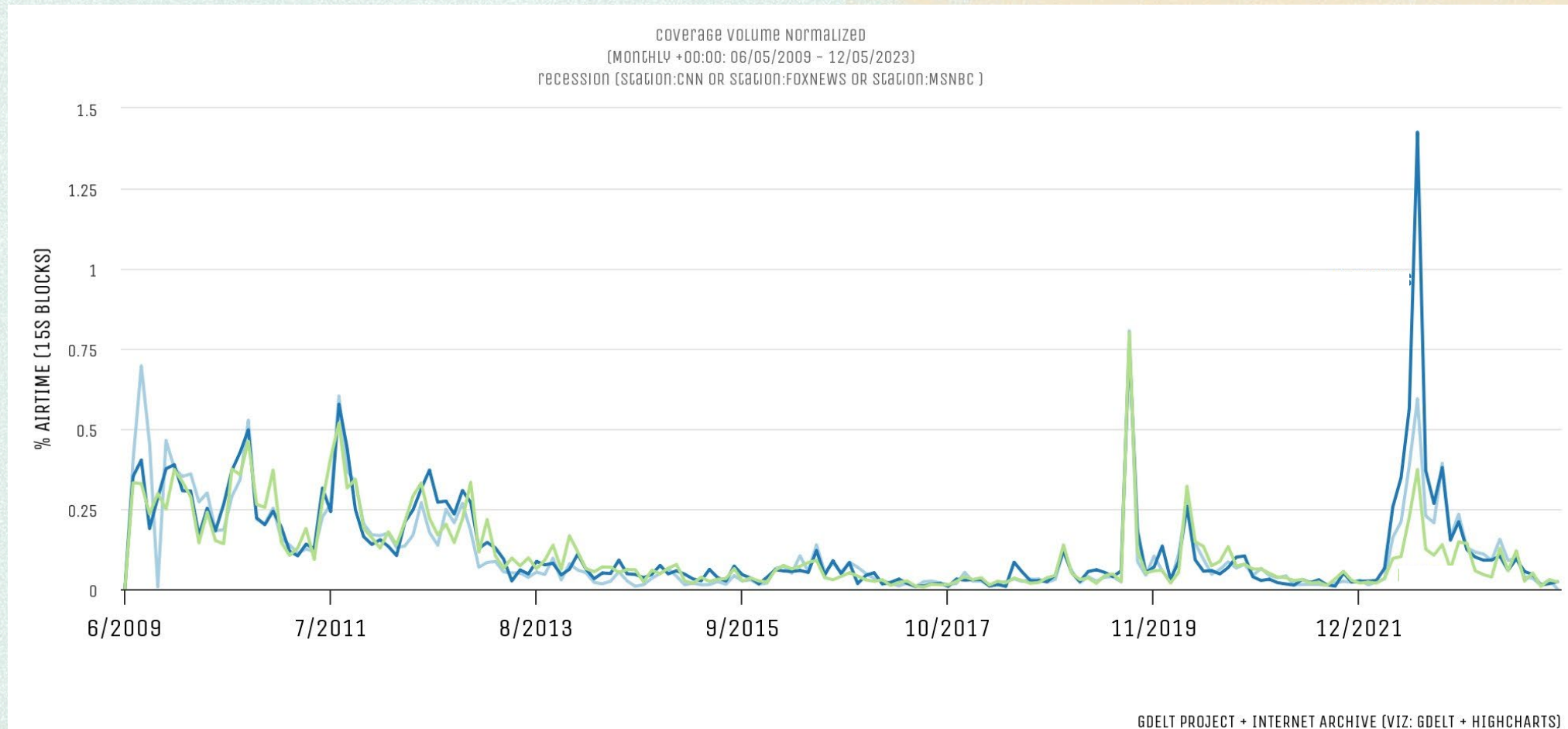
Share of US adults who hold each view, by whether the view is supported by the latest data



Source: FocalData representative survey of 2,217 US adults, 25-27 November 2023
 FT graphic by John Burn-Murdoch / @jburnmurdoch
 © FT

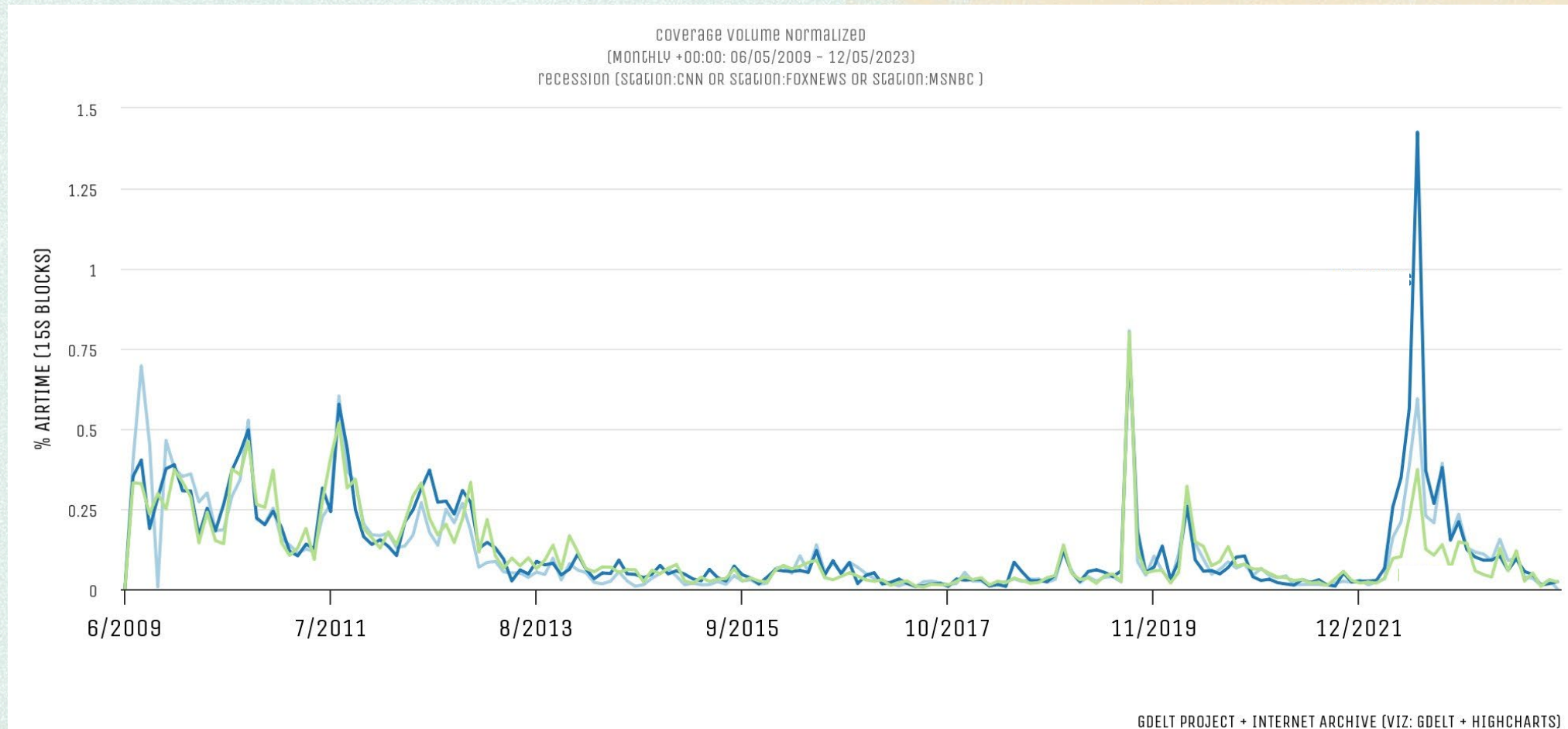
Bad information?

- % Cable airtime for “recession” coverage



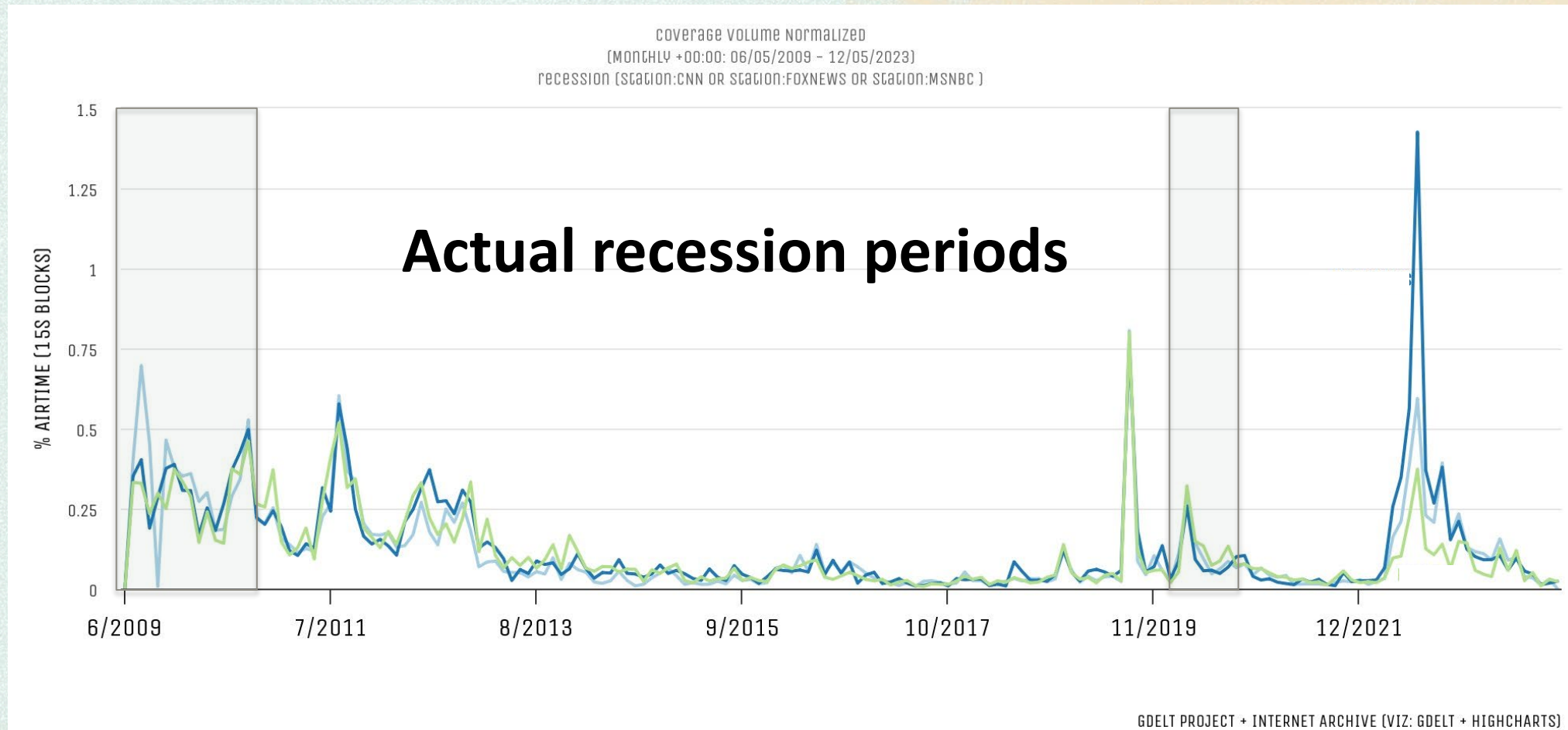
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In summary

- By most economic measures, the economy is good
- MOST households are better off today than they were before the pandemic
- Most people hate this economy
- Most people are getting bad information about the economy