THE BROOKINGS INSTITUTION

WHY ARE AMERICANS DOWN ON THE ECONOMY DESPITE ITS APPARENT STRENGTH?

WEBINAR

January 10, 2024

Washington, D.C.

OPENING REMARKS:

BEN HARRIS
Vice President and Director, Economic Studies
The Brookings Institution

FRAMING REMARKS:

JASON FURMAN
Aetna Professor of the Practice of Economic Policy - Harvard University
Nonresident Senior Fellow - Peterson Institute for International Economics

MODERATOR:

SARA EISEN
Co-Anchor of "Squawk on the Street" and "Money Movers" - CNBC

PANEL:

GREG IP
Chief Economics Commentator - The Wall Street Journal

DANA PETERSON
Chief Economist and Leader of the Economy, Strategy & Finance Center - The Conference Board

JUSTIN WOLFERS
Nonresident Senior Fellow - Economic Studies

* * * * *

20240110_YT_Why_Are_Americans_Down_on_the_Economy_Despite_its_Apparent_Strength_webinar.mp3

Ben Harris Good afternoon.

Ben Harris Everyone. My name is Ben Harris. I am vice president and director of the economic studies program here at the Brookings Institution. And I'm thrilled to welcome you all to this virtual event discussing why Americans are down on the economy despite its apparent strength. This is a question that many are grappling with these days, as the answer appears to not only have implications for the economy and household well-being but for the 2024 congressional and presidential elections as well. From the outset, I'll note that the title of the event is somewhat loaded, as it implies that Americans are both displeased with the economy and that the economy is strong. Either statement is open to interpretation. Let's take sentiment first. We are fortunate to have several experts here today who can explain what's happening with sentiment, including Conference Board Chief Economist Dana Peterson. But I will quickly note that in 2022, the University of Michigan's average annual current economic conditions index was the lowest it's been in 60 years. So it's not just that consumers are unhappy. According to this metric, they have been historically unhappy. Meanwhile, on the state of the economy, while it's certainly true that inflation was elevated for much of 2021 and 2022. It receded quickly and it's now fairly close to the Fed's target. Alongside this, nominal wages are rising and roughly keeping pace with or even exceeding price increases. Other indicators are also very positive. The unemployment rate is just above historical lows. Household wealth is soaring. The economy continues to expand. And most measures of household financial distress are similar to pre-pandemic levels. It's clear to me that this economy is doing better than usual. So if you accept that people are unhappy about the economy and you accept that the economy is in pretty good shape, why the apparent divergence? As I laid out in a recent essay with Brookings nonresident senior fellow Aaron Sojourner, there are three plausible explanations. The first is self-evident, that people truly find the current economy unsatisfactory. This could be due to unhappiness with the level of prices or dissatisfaction with long standing structural issues like economic inequality and housing affordability. But the central hypothesis is that people are unhappy with this current economic landscape. A second explanation relates to what Wall Street Journal columnist Greg Ip, who is fortunately with us here today, calls referred pain. The notion that people's unhappiness with non-economic issues impacts how they describe their views of the current economy. The third explanation has to do with how people perceive and process information. Part of this could be what economists Ryan Cummings and Neil Mahoney described as asymmetric amplification. The idea that Republicans more strongly amplify negative sentiment when a Democrat is in the White House. Another aspect of this could be that the reporting on economic news has become systemically more negative in recent years, which, Aaron, I confirm in our recent essay. Even with that summary, this mystery remains unsolved in my view. So I'm looking forward to hearing the perspective of our speakers and panelists at today's event. Turning to that, I'm very excited to announce our distinguished speaker, Jason Furman. Jason's the Aetna Professor of Practice at Harvard University and nonresident senior fellow at the Peterson Institute. He was formerly chair of the Council of Economic Advisers and a senior fellow and director of the Hamilton Project at Brookings. Jason, over to you.

Jason Furman Well, thanks so much for having me here. This is such a topical issue. My hope is that people are getting a little bit more optimistic now, and so that three months from now, there won't be anything to discuss. But we're getting it in while there's still something to discuss. I should confess at the outset that I feel a little contrarian on this issue, which is whatever I hear someone say, I'm inclined to say the opposite, and that doesn't really work well when I'm giving the opening framing remarks, because there's no one for me to be contrarian about. So instead, I'm going to be a little bit two handed and then try to talk about some broader issues.

So sharing some slides here. Let's just start out with a really important point. It's not necessarily germane to this question, but it's a really, really important one, which is the U.S. recovery has been spectacular and the unemployment rate went up sharply. It came down really sharply. It took months or a year or two to accomplish what it took a decade in the financial crisis. We've now had what looks very much like a soft landing. I think that's nothing short of miraculous. Whether this is because of the nature of the shocks of financial crisis versus Covid, whether this is because of fiscal policy, whether it's because of monetary policy, we can debate that another time. Whatever it is, it's truly spectacular. Part of that judgment, which is doesn't matter to consumers, they're not comparing the United States to other countries is how the economy compares to peers? Here it's a tiny bit more mixed. The US employment recovery has been slower than it's been elsewhere. That's this bottom line here for the United States. It took a lot longer for our employment rate to recover. GDP though has been spectacular in the United States, higher than anywhere else.

Now let's dive in to how people are feeling. Around Thanksgiving there was a big debate about what was going on with Thanksgiving prices. While Justin did a more marvelous job than I could ever do of pointing out that any one price is really, really irrelevant for thinking about the economy. I think it actually did encapsulate a bunch of the issues. Here, according to the Farm Bureau, is the cost of a Thanksgiving dinner. There were some people saying, isn't it amazing? In 2023, it went down 5%. People should be really happy. Thanksgiving dinner is cheaper here than last year. But of course, you could look at how Thanksgiving dinner grew over the previous 3 or 4 years, and it was up about 30% more than any 3 or 4 year increase of Thanksgiving in history. Some people and sometimes people have talked about this being about the rate of inflation versus the price level. I'd use that vocabulary. I think that vocabulary is a little bit wrong. I think the question is, psychologically, when people are forming their view of the economy, what period do they measure inflation over? Do they measure it over, say, six months, in which case inflation is really quite low? Do they measure it over 12 months, in which case it's reasonably low? Albeit a little bit higher than it was prior to Covid. Do they measure over 1726 3844 I mean, these are all just totally made up amounts, and we don't know the answer to them. The longer that people are measuring inflation over, the more likely they are to experience something that we often colloquially call a high price level and a disappointingly high price level. The other thing to say is people aren't just being naive when it comes to individual prices, like gasoline or eggs. When prices go up a lot, it is reasonable to expect those prices to go back down. When it comes to the price level, that's not a reasonable expectation, but we all have less mental intuition for the prices as a whole than we do for any individual price.

Now wage growth has also been faster than normal. And so a lot of people have looked at real wages. There's lots and lots of different measures. Here I'm just using the Atlanta Fed wage tracker and pointing out a few things. First of all, over the last four years, so this is November 2019 through November 2023, which is the most recent data, real wages are up relative to inflation. Nominal wages have grown faster than inflation. So real wages are up. This has been pointed out lots and lots and lots of times. I think though again, this issue, over what time period people use matters quite a lot. That 0.9% cumulative growth since pre-COVID happened entirely in the year 2020. What happened that year, of course, is inflation was really low. Nominal wage growth didn't slow. And so there was a big increase in real wages. In 2021 and 2022 prices went down. And then over the last year they're on the upswing again. So if you look at real wage growth over the last three years, since the end of 2020, real wages are actually down. Or of course, you can look relative to the pre-COVID trend. Here I'm using the trend over the previous five years, which is actually a little bit lower than the trend over the previous two years. Wages used to grow about 1.7% a year, over the last year, if that's what you're looking at as a percent you're right on track with where real wage growth was. But if you look over the last three years, let's say, you might have expected 5% wage growth instead you got minus one four. For the last four years you might have expected seven, instead, you've gotten one. So I think just about any way of looking at it, real wages are falling short of what you might expect. And again, if you're thinking of any period over a year, you're probably thinking about a period where things are a little bit more disappointing than just looking at this point in time and this year.

Incomes to me are the most baffling at all. First of all, there's disposable income and I didn't even bother to show on the chart. It goes way up there because the transfers were so large. This is so out of sample that attempts to try to explain what you think confidence should be based on the data, we just have never, ever had a situation where incomes were much higher in the recession than they were after the recession. We've never had, these types of big changes. The other one, for what it's worth, and I don't know if it's worth a lot, factor income, at least through March 2023, the latest data seems roughly flat after a period of going up. So again, there are some reasons for people to be concerned.

Now I've done a bunch and I'm not showing it here, predicting what consumer confidence should be based on various variables, various lags of inflation, unemployment, etc. And I'd say my own noodling around on this has come to two conclusions. One, I cannot figure out historically the right time period you would measure inflation over. It's not obvious that six months versus one year versus three years, that one of those strictly dominates another. So in terms of these long and variable lags in economic developments translating into sentiment, it's not obvious how to parameterize it. The second thing I'd say is almost any model you can come up with says consumers should be more optimistic right now than what they're saying. What I've showed you so far gives you some basis for people having a concern. As spectacular as the recovery is, real wages haven't been spectacular. There is a good reason for people to be concerned, but that good reason for them to be concerned doesn't come close to explaining just how worried people are. Moreover, the time series has even bigger problems, which is to say, the economy has gotten much better in terms of inflation and real wages over the last year, and sentiment hasn't made anything resembling that magnitude of improvement.

Now all of this, here I want to step back and say, all of this has made me more confused about what I think are the fundamental goals of economic policy and what economic policy should be trying to say. So the first thing let's just ask is, should policy care more about objective data or subjective perceptions? One piece of objective data is real wage growth. In scenario A we have 2% inflation and 1% real wage growth. In scenario B, we have 6% inflation and 2% real wage growth. I think most of us, as economists would say scenario B is vastly better than scenario A.

If we looked at people's consumer spending, we'd probably see them spending a lot more on scenario B than scenario A. And usually as economists, we think of utility is a function of real consumer spending and also things like leisure. But what if it happened, I'm not saying it would, what if it happened that people in scenario B reported being more upset about the economy? Maybe they suffer from money illusion so that they think the 8% nominal wage growth was something they earned and deserved. The 6% inflation was some terrible, horrible thing that policymakers had done to them, and they just had a feeling of unfairness and instability that led them to be happier in scenario B than scenario A. If that was the case, which one should policymakers prefer?

Just to do the same exact one, but to make it a little bit tougher, how about these two? Now, in the second case, you have higher inflation, but real wage growth, instead of being a percentage point higher, it's one tenth of a percentage point higher. I should say, to lay my cards on the table. Even here, I personally tend to prefer scenario B, but I at the current moment, I'm taking more seriously a way of thinking about the economy where the inflation rate itself is in people's utility function, and you should care not just about what their consumption levels in real wage growth are, but how they feel. And so I could be persuaded that maybe if policymakers had a choice between these two, they should choose a scenario A, sacrifice some real wage growth if it made people feel more comfortable.

So that's the first thing. And this is sometimes phrased as people don't like inflation either because of money illusion or because they don't realize the link between price and growth and wage growth. It's also very similar and related to the fact that inflation affects everyone in the economy.

A second question that I think the last couple of years have put into stark relief that I think has gotten way too little consideration, is how should policymakers value employment gains? My own perception is that the enormously impressive job market has not been reflected in improved consumer sentiment. One hunch for that is that when people didn't have jobs, their living standards were protected by transfers from the government. Moreover, there were huge numbers of job openings in the year 2021. And so unemployment, this recession was less bad than it was in previous recessions. And there was less anxiety about could you get a job afterwards, which made a job itself less desirable. But when you're comparing inflation just perceived to affect everyone, how do you compare it to employment? Well, a macro economist says if somebody gets a job at $40,000 a year, GDP went up 40,000. The world is $40,000 better. A micro economist says, well, that person's giving up something else. Um, leisure, some time with their grandchildren, time on the golf course, whatever it is on the reservation wage is one way to measure the opportunity cost of their time. And so the difference between those two might be the amount that the world was made better off.

As policymakers are weighing the generalized pain, either psychological because of money illusion or real because it affects real wages of inflation, they have to ask, how does that compare to employment gains? And it matters a lot whether you think the marginal person employed is a disabled ex-offender who could never get a job otherwise, or if there were recent retirees indifferent between time with grandchildren and working and just at the border of the two. One of those, it's a spectacular thing if the person gets the job. The other one, it's only a minor gain. And how should policymakers think about this difference when you're going from 4% to 3.5% or 10 to 9.5% unemployment? I think this is, again, part of what's going on as the employment gains, in part because of the idiosyncratic policy response here, but in part because of these types of micro considerations haven't been rewarded nearly as much as the real wages which affect everyone have been punished.

And finally, I think part of why some of us look at this recovery and think it's really, really good, but that people don't think it's quite as good as I do, maybe as Justin does, as some policy commentators do, is I think what comes out of this slide, which is look at the first decile of wages, this is usual weekly earnings. It's done much better on than the median. And by the way, better than the ninth decile as well. If what you care about is the people who can't normally get jobs, if what you care about is people at the first decile, you look at this and you feel pretty good about where the recovery is. If you ask what people think, most people had jobs before this, most people still have jobs, most people weren't quite as anxious about their job loss because of the policy response, and most people haven't seen wage gains as large as those in the first decile. And so for the public as a whole, the judgment of the economy may be less good than a progressive judgment would be.

So just to summarize, the recovery was spectacular. Real wages and incomes are still not perfect for many people althoguh they are getting better rapidly. When I try to quantify the imperfections for real wages and incomes, they still don't come close to explaining how down Americans are in some poll questions. I didn't really talk about this, I think it's mostly not economically relevant. It has almost nothing to do with consumer spending to really, to me, it's in the political domain, whether or not it's relevant. And finally, it does raise important goals for policy. How averse should we be to inflation? How much should we emphasize employment gains and should we change that depending on where the unemployment rate is to start? And finally how do we handle it when our distributional preferences are different from where the majority of Americans are? My most important bottom line, though, is I find this topic endlessly fascinating and endlessly confusing. And so I'm really excited that sara Eisen is going to lead the spectacular next panel through helping me figure out what I think and what we should all think.

Sara Eisen And you'll get all your follow up questions when you join us next on CNBC. Jason Furman, thank you very much. I'm sara Eisen, and I'm thrilled to be here today with the panel. And and I just want to introduce some of our very distinguished panelists here that we have with us. We have Justin Wolfers, who's been mentioned by Jason a few times. He's an economics professor at University of Michigan and a nonresident fellow at Brookings. We've also got Dana Peterson with us. She's the chief economist at the Conference Board, and we have Greg Ip, who is the chief economic commentator at the Wall Street Journal. So I'm excited to have this debate. And actually, I'm really excited because this is, I think, one of the main questions right now, not just for CNBC and financial media, but for everyone as we head into this election year. And we wonder about where the economy is headed next. So as Ben laid out earlier, I think we have to kind of question the premise of the of the entire discussion and debate. We're wondering why is everyone so miserable if the economy is doing so well? And, Dana, maybe you can just clear up because you guys do the conference board, the consumer confidence index. How are people feeling right now?

Dana Peterson Sure. I think there are mixed feelings out there. On the one hand, consumers are happy that they're working. Some of them have seen significant wage gains, especially if you're in services where there were labor shortages. People are happy that prices are not rising as quickly, and they're also glad that interest rates aren't rising as much and that mortgage rates have come off. But they're still upset about the fact that everything does cost a lot of money, especially basics like food and energy, the price levels are high and people notice that. Also, when it comes to services, housing costs and rents are still quite elevated and then even if you want to buy a car or get life insurance, it's more expensive. So all these things are, on the one hand, making consumers feel a little bit more optimistic, but also they're still very concerned. And I would also toss in there many consumers are still very upset that they can't buy the houses that they want, because even though mortgage rates are not as high or they're not 8% anymore, it's still a lot more than what we've seen over the last few years. So I think it's a very mixed story. Consumers are feeling, you know, both good and bad at the same time.

Sara Eisen But relative to where the economy is right now. Does it surprise you that they're not feeling better?

Dana Peterson Well, I think the economy is made up of a lot of different pieces. So you can look at it in terms of industries or by components of GDP. So let's look at industries. There are some industries that definitely had recessions last year. And if you're working in those industries, then you probably have a very bad outlook on the economy. So industries like tech and finance, but even manufacturing and transportation, warehousing, residential construction and even certain parts of retail. So those are big industries. And folks who are in those sectors saw job losses, or they saw that earnings were down for their companies. But then you have a lot of industries that did very well or industries that were focused on services. And so if you worked for those industries, you had serious wage pressures and you benefited from that.

If you look at it in terms of GDP. The housing market is in the doldrums. Why? Because the fed raised interest rates by 5 to 4 percentage points to address outsize inflation, which everyone was complaining about. Right. And so like clockwork, the housing market cooled off and it's still quite weak. Businesses, business investment, has slowed, certainly. But when you look at the consumer, you had a lot of unusual things that have bolster consumer spending. Jason already mentioned that real incomes on average were slightly higher.

Also, many consumers were still working. Why? Because CEOs did not want to let people go because they said, well, we spent lots of time and energy gathering these people, and now we're dealing with keeping them. So we're not going to let them go, even if we think there might be a short and shallow recession. So when you put all these things together, you really see consumers underpinned by the labor market, underpinned by the excess savings from the stimulus checks and also debt. We've seen credit card use skyrocket, and many consumers are also using these buy now, pay later schemes. But I think all those things, those supports are going to start fading.

Sara Eisen Yeah. And I want to get into some of them individually. But just on the top line question, Justin, you don't look at the conference board. You only look at University of Michigan consumer sentiment. Right? What is it showing?

Justin Wolfers First of all, sara, excited to hear you talk about the University of Michigan. And it would be a mistake, not to mention the national championship at this moment, I'm sure. I do not work for the part of the university that puts together consumer confidence measures. They're a whole different crew and it's really worth looking at the two different consumer confidence measures we have. So the Conference Board puts together one, the University of Michigan puts together one. The University of Michigan measure is actually the one that think everyone has been focusing on on in this debate. It's currently, I just did some calculations, it's 28% below its average level through its long term history. It's at a level basically as low as during the worst days of 2008, 2009. So that's what frames this debate. Why do people feel as bad as 2009, when things are as good as 2023.

Sara Eisen And some of the political polls tend, not to cut you off, but some of the political polls too find sort of like economic dissatisfaction.

Justin Wolfers Let's come back to that in a moment. I think it's really important. The Conference Board survey, actually, though, is currently 16% above its long term average. So instead of being 28% below it, 16% above. It's suggesting that economic conditions are roughly as good as they were late-Clinton or mid-Trump, basically nearly as good as they've ever been. If that were the only measure of consumer confidence, there'd be no puzzle right now. Would be why do people feel happy when the economy's good? Much less puzzling than you might think.

But this, I think right now, tells you there's something funny going on with polling and measurement. It's really important to get into the details here, but I don't want to dump on my colleagues. But, things are changing a lot in the polling world. We've got enormous polarization in how people answer polls. We've also got very, very low response rates. Standard political polls narrow 1 or 2% response rates. The University of Michigan has a random digit dialing poll. It includes cell phones. But just think what sort of animal would answer the phone when a stranger called them.

Sara Eisen A negative one.

Justin Wolfers That's what's driving the university of Michigan measure. Diana can say more about the Conference Board measure, but I think from memory it's an internet panel. So these are people who said, I'm really going to polls, put me in once a week. And so as far as I can tell, very small differences in polling technology, are yielding very large differences in the answers you get. And I think that speaks to your questions Sara. You know, why do we see so much of this? We're in incredibly polarizing times. Some of the political polls begin with, you know, do you think President Biden's terrible? How much do you hate President Biden? And then, how do you feel about the economy? I'm sorry. There are some polls that frame people to be responding, not to the economic question, but to the political question. How do you feel about the president? You can even ask them very objective questions. My favorite was a Wall Street Journal poll taken in August 2023, which asked an objective question. It said has inflation inflation moved in the wrong direction over the past year over that? At that point in time, inflation moved from 8%, a crisis level to 3%, normal. 92% of Republicans said inflation had moved in the wrong direction. So right there, you've got a hint again that there's something going on with polling generally. But let me step back. Conference Board versus Michigan tells you we don't actually know what's going on with consumer confidence.

Sara Eisen Well, Greg, I'll bring you in to that from the Wall Street Journal. And I think we can do a separate sort of, I'm glad we have some time, because I do want to dive into inflation and whether the consumer even feels the disinflation. But, Greg, what's your perspective on how bad sentiment is and what the mismatch is with the economy.

Greg Ip Thanks, Sara. Well, I actually want to address exactly the point that Justin finished on, which is the divergence between the Michigan and the Conference Board surveys, because I actually dug into that somewhat for the column I wrote on this subject 3 or 4 months ago. Now, you might think just looking at these indexes, that you just go ahead and ask a bunch of people, how are you feeling and you write that number down. But in fact, both indexes are actually composites of a set of other very specific questions. And Dana can back me up on this because I actually phoned her for that column and asked her that question.

So if you actually look at those subordinate questions, a big chunk of the Conference Board index is made up of questions about the labor market, are jobs you easy to get, or are they hard to get? That question does not appear in the University of Michigan composite. Instead, the University of Michigan asks you about your financial situation, which does not appear in the Conference Board's composite. Those questions are both asked by the University of Michigan and by the Conference Board in other parts of the survey, but they do not go into their headline indexes. And so, by construction, the University of Michigan index will put much more weight on how people are feeling about inflation because it affects their financial situation. And the Conference Board index will put much more weight on how they feel about the labor market. So given that we have had, not right now, but have had high inflation and low unemployment, that in some sense, Justin, explains why those two indexes are going in different directions.

Now that resolves part of the mystery i.e. inflation is really the elephant in the room. It doesn't resolve all that mystery because again, okay, I'm not a real economist, although I play one on TV sometimes, but I get a little bit of sort of like massaging and regression work. And I've found that while you could explain using a combination of unemployment and inflation somewhat where these indexes were going, you couldn't explain all of it. It still appears that even once you adjust for the relative contributions of those two things, sentiment by both indexes is probably a little bit too low.

But I do believe that inflation is probably having a more profound impact than people realize, and certainly more than economists can explain. To go back to one point, Jason had an interesting slide where he showed two scenarios. One is inflation up 2%, wages up 3%, versus inflation up 5%, wages up 6.1%. Now, an economist would say you should prefer the second set of circumstances because in terms of real wages you're better off. But we know that that's not how actually people respond. They are not indifferent between those two things. They actually prefer the first scenario. Why is that? Well, that again is something that we actually know from the literature. People hate inflation because it is fundamentally destabilizing the sense that prices are going up rapidly and not just all at the same rate, but that different things are going up at different rates. It's extremely discombobulating. It's destabilizing. It conveys a lack of control. And that is why inflation has predictably been so bad for political incumbents throughout history. You actually do find sentiment as bad as it is to date. Back in the 1970s, when inflation was as bad as it is now.

Why is it that people feel this way? Why do they not feel in different between those two things, the way it's supposed to? Well, it's kind of like a little bit of what we call the endowment effect, which is if I were to move you from the house you live in now and make you live in another house of exactly the same value, the same amenities, you'd still hate it because you have to get used to a whole bunch of circumstances that you weren't used to before.

Similarly, if I scramble your entire basket of goods and services that you depend on, some are more expensive, some are less expensive. That's deeply destabilizing, and people hate it. And that is why when you actually ask people, where do you want prices to go? They don't just want lower inflation, they want deflation. They want prices to go back to where they were 3 or 4 years ago. Once again, something that economists say it's a terrible idea. In fact, if you actually look at Japan, a country that suffered from what we consider too low inflation for decades, they've kind of like broken the back of that problem. They now have 2% to 3% inflation. And the economists, they are all saying great victory over deflation. Guess what? The public hates it. It's the number one reason why the government of Ishida is so unpopular right now. Now I can go into some deeper reasons why there are things besides inflation going on, but I want to lay those things out there first, because I think it's important for understanding the economics of the question.

Sara Eisen And you're also uniquely positioned among the three to answer this question. Of which sentiment indicator do you like better, University of Michigan or Conference Board?

Greg Ip I feel terrible answering that question because Dana's on this call. Look.

Sara Eisen I won't make you answer it.

Greg Ip You know, I actually worked in Canada before I came to the United States. And in Canada, we only had the Conference Board. So I have this basically nostalgic fondness for the Conference Board Index. But I'm a creature of habit. And Michigan football fans seem to own the world lately, so I feel I obligated to look at the Michigan index all the time.

Sara Eisen You know, I think we can all agree that more data is better, right? For the full picture, for all of us. So it's good to have the options. What about on the second point, Justin that the economy, Jason said that the recovery has been spectacular. Do you agree? He's a Democrat. So he would say that.

Justin Wolfers Yeah. I don't trust Democrats like Jason Furman at all on the data. So let me say instead, the unemployment rate is at or near a 50 year low. Inflation is either at, or is six months away from being at 2%. Inequality is falling for the first time in my lifetime. That's a spectacular achievement. I had an earlier career as a happiness researcher. We try and track what's going on with happiness, not consumer sentiment. And there's a whole literature where we look at what drives happiness. And it turns out that it's a rough rule of thumb would be that unemployment as a percentage point per percentage point is twice as important for happiness as inflation is. So there is a very old literature we used to use, the misery index. We'd add up inflation and unemployment. The misery index now is not an historic low, but it's getting there. But if you put twice the weight on unemployment, as you do on inflation. And that's from looking at the average happiness across the whole population. The fact that unemployment is near a 50 year low is absolutely spectacular. And it seems to suggest that, yes, the economy really is remarkably strong. So I think it would be remarkably difficult to tell a story. I think there's two there's two empirical facts and say, well, one is the economy is strong. The other is that people feel miserable. I think, it's really hard to tell a story that the economy is not strong.

Let me just give you one simple statistic. Actually, this is a story that I first heard from Jason. If you had fallen asleep in late 2019, and you woke up in early 2024. You went to a coma. The first thing you do is ask for economic statistics. Well, I would. And you would discover that GDP, in fact, was higher than you would expected when you fell asleep. And so you would say to the orderly to your coma. Oh my goodness, what positive things happened to the economy while I was asleep? And you would be stunned to learn, in fact, that you'd slept through a global pandemic and global recession. And despite those things we were where we were. Let me say it one other way. If I'd come to you on CNBC and said, hey, Sara, uh, did I get the station wrong?

Sara Eisen No, you're right, you're good.

Justin Wolfers But if I'd come to you in December of 2019 and I'd said, Sara, I have an incredible tip for you and your viewers. There's an emerging virus that no one has yet heard of in Wuhan, and it's going to ravage the globe, shut down the economy. What advice would you have given your viewers?

Sara Eisen Sell everything. Although I don't give fiancial advice. But someone else would.

Justin Wolfers You would have left that implicit. But given that I'd just given you a tip that you and only you knew that the world was going to be ravaged by the first pandemic in a century you would sell everything. The S&P 500 is 40% higher than it was at that point. That's just extraordinary.

Sara Eisen It is.

Justin Wolfers So the economy is extraordinary given the history we've had. But even if you ignore the history in absolute terms, it's just in a terrific spot.

Sara Eisen But, you know, Greg, Dana described the economy. And, Dana, I'll let you go after as well, as sort of lumpy. The post-Covid recovery, it's amazing if you look at the unemployment rate, it's amazing if you look at how how well we've done in the face of higher interest rates. But there are parts of the economy that are hurting. It hasn't been sort of all inclusive, Greg, has it. Do you also think it's spectacular?

Greg Ip I think definitely very good. And based on the criteria that Justin and Jason laid out, yes, it's very good. But as I said, there's something, so Justin, as an economist, as I would do, typically looks at real variables, real GDP, real incomes, real wages, all these things where you essentially deflate by inflation. But we know, as I was saying in my last set of remarks, that the level of inflation actually really matters to people, that they are not indifferent to whether their real incomes come through basically low inflation and low wage gains or higher variables.

But I think there's another aspect here that I want to bring in, which is that a lot of what I think is bad economic sentiment isn't really economic at all. And I want to replay Justin's exercise. You fall asleep in 2019 and 3 or 4 years later, you wake up and you take a look at the economic numbers and you say, not much really happened. In fact that things are actually pretty good. Well, I'm also going to tell you, though by the way, in the last three, four years, a terrible virus circled the world, shut down everything, killed millions and billions of people left, and other people very sick, though, and utterly upended our normal way of life. Oh, by the way, two years later, Russia invaded Ukraine and the deadliest, most destructive land war in Europe since the 1940s is now underway. Oh, and by the way, a war broke out between Hamas and Israel, the deadliest, most destructive war in the Middle East since the 1970s. Oh, by the way, at the end of 2000, we had a president that tried not to, uh, recognize results of an election. And the country is more deeply polarized than ever. So paradoxically balanced set of economic facts that Justin mentioned, and then the set of non economic facts that I just went through, and then asked that person who woke up four years later, how would that person expect the people around him to feel? And I suspect that would be something like the way people actually do feel. And this is why. And this feeling doesn't just come from economic studies. But my colleagues and I spent a lot of time talking to folks about how they feel, and it's remarkable how often when we ask about the economy, they bring up things that have nothing to do with the economy, like that list of things I just mentioned. And that's why I think that part of what we think is bad things about the economy is referred pain, but things that really aren't economic at all.

Sara Eisen Do you buy that, Dana? I mean, that's interesting.

Dana Peterson Well, first I want to tell Greg that, you know, I'm not offended at all. We're still going to call on you, and you can still always call me. But I just I want to say something first about the two measures. And the thing is that I think it's important to look at both, even though, yes, the Conference Board produces the Conference Board consumer confidence measure and I, you know, sell that every moment I can, the two measures are designed differently and they ask different questions. And the thing is that we're asking similar questions. It's whether or not it's in the headline or not, as Greg mentioned. And certainly we ask people to write in. And when it comes to write ins, people are still complaining about inflation. That's the number one complaint. And they also have been complaining about higher interest rates, and after that political issues. So I think all these things are important. And so we are capturing the concerns about inflation it's just not in our headline. And I think it's important to ask all those questions. And certainly our measure, which certainly does fold in the employment measures has been higher because again, people have been working.

Now in terms of whether or not consumers are folding in political concerns, the thing is that political concerns do have economic implications. Right? So let's go back to the war in Ukraine. That had major effects on food prices globally, energy prices in Europe, but global food prices and Americans felt it. Right. And so that really matters. And the thing is that right now we have the ongoing war between Israel and Hamas. While we haven't seen any effects on inflation, because honestly, there are other options for energy throughout the world, we could see inflationary pressures for the things, the other things that are being shipped, which are the most important. Well, the top thing that's being shipped are computers and electronics, which go into everything. And certainly we saw during the pandemic massive supply chain disruptions in those things and that delayed and disappointed a lot of people.

And looking forward, we still have these geopolitical issues, tensions between the US and China, which could conflate into major supply chain disruptions. So I think, yes, people do, maybe mix together politics and misinterpret that for the economy. But it is the case that politics does have very devastating effects, but also very positive effects on the economy. And I don't think people, your average everyday person is that ignorant. They read the news, they know what's going on, and they understand that what's happening out there politically does have implications for their wallets.

Sara Eisen It does kind of, the political stuff, does raise the question of who should get credit for the better economy and who should get blame for the problems? You know, Greg, if you read the Wall Street Journal opinion pages, the president's not doing a good job on the economy there. There's a lot I think that they point out that some of the op ed writers don't agree with. And when I talk to people, big investors, CEOs, they don't give Biden huge credit for the economy. They say it's happening despite him, because his policies are all, you know, liberal and he wants to raise taxes and he wants to raise corporate taxes, and he wants to get rid of energy, you know, oil producers in this country and, and all these things that are bad for the economy. And so I wonder who gets credit.

Greg Ip Another great question. Stepping back for a little bit, I think was somewhere over the mid 2000s in the second term of George W Bush. That on the question, right direction, wrong track, the number of people who said the country was on the wrong track went above the number of people who said it was going in the right direction. And that gap has not closed since then, nonstop for almost 20 years now. A plurality of the public, or a net share of the public, believes the country is on the wrong track. Now that gap is especially wide right now. But my point here is that like for 20 years now, we have seen a systemic level of pessimism set in on this country.

Now, as you as suggest here, the question why the country is on the wrong track depends on entirely on who you ask. Right? Because a Republican will give a different explanation under a Democratic president than a Democrat would give under a Republican president. So clearly the polarization of people's views is one of the factors going on here.

I would note that Donald Trump's approval rating on it, even though the economy under Donald Trump was extremely good by many measures, better than the one we have right now, his approval rating on the economy, if memory serves me, never went above 50%. I mean, it was above his overall approval rating. But generally speaking, people were not looking at Trump's record on the economy in isolation. And I think a little bit of the same thing is happening in Joe Biden right now. Let me share a few figures with you, not from our latest, but the one before the latest Wall Street Journal poll. So we actually asked people what their approval rating was for Biden on a number of questions. On the overall economy 37%. Okay. How about on Social Security, 39%. Now, that's a weirdly low number for a president who has literally done nothing on Social Security. Now, there are those of us who think he should do something about Social Security because we think it's going to run out of money. But those things we definitely know are not popular. And then finally, how do they feel about what the president did on infrastructure? 45%. Again, net negative. Now, wait a minute. This president literally signed into law the biggest infrastructure bill like in decades. After it became a running joke under Trump and infrastructure. We've never produced any infrastructure. Right? And that law itself polls extremely well. I think it's, I can't remember the exact number, but it's like 60 or 70%. So there's something internally incoherent about the polling that we're seeing where people are essentially allowing their feelings about the president to essentially govern their feelings about the economy, and vice versa.

Sara Eisen What should, should the administration do anything about that? Justin? Should they target sentiment or ignore it?

Justin Wolfers I think what that gets to Sara is this question is this negative sentiment real? Or is it an artifact of mismeasurement? Let me, I what I want to do is, can I try to play out history in a completely different way. Just imagine political polling had never been invented. There was just no such thing. But we still wanted to have this panel. So we'd say to ourselves, how would we figure out if the American consumer were in fact optimistic?

Sara Eisen Spending data.

Justin Wolfers I think the first thing you do is you look at consumption spending. Because if the economy, if you think the economy will do terribly you'd squirreled away money for this coming recession, but instead people have been spending money as if they believe not only the economy is good, it's going to continue to be good.

You might look at things like investment, business investment. Because if you thought the economy was going to shrink, why would you want to build a new factory? Well, that's also pretty strong. If you really wanted to know if people were optimistic, you'd look at new business stats, because we know most new businesses fail, so you'd have to be crazy optimistic to want to start a new business. And they're at an all time high and have been through the entire post-Covid period.

If you wanted to know if workers felt confident. Well, if you're worried about your job, you'd never quit. You'd be really optimistic about the state of the economy to quit your job and it turns out, quits have been high through the entire post-Covid period, they've been at a record high. They're now back to normal, suggesting that workers believe lots of jobs are out there.

Another possibility. You'd say what's a forward looking indicator of the health of the economy? Some people say the stock market. Investors are meant to be forward looking. Well, stocks are 40% higher than they were before the pandemic. If people were really unhappy with Joe Biden, of course, you would expect the Democrats to get hammered at the midterms in the off year elections. Yet every single election, whether it's from a state level or at the midterms, seems to be pointing towards incumbents and Democrats getting reelected. And so if you looked at all of these indicators, you'd say so. Well, by jingo, it looks like the people are really optimistic about the state of the economy right now. And then some young bloke walks into the room and he says to you, I just invented a new way of measuring optimism. We're going to go poll people.

And you'd say to yourself, boy, if I don't want to run into this, what I want you to do is test this new method. I want you to go and poll people on facts that we objectively know, so we can figure out whether the this new technology is useful. I'm going to come back to my favorite, which is this Wall Street Journal poll from August 23rd. They ran a poll which they said have had products, goods and products, become more available over the past year. Now, we all know the story, right? Covid led to an enormous reduction in the availability of products and its supply chains unwound. Everything has become more available again. Certainly, there's no toilet paper shortages. 81% of Republicans said that the availability of goods and products have move in the wrong direction. This is the same poll in which 92% of Republicans said inflation had moved in the wrong direction. And some people say, well, maybe they were talking about prices rather than inflation. We know what the stock market is. 69% of Republicans said that the stock market moves in the wrong direction.

And so if I told you I've got a new technology for measuring optimism, that yields, these are utterly absurd results. You might say, well, let's abandon that technology because it doesn't seem to make a lot of sense. Now, of course, that's not how history played out. We've had these polls and they've actually been very good for 50 years. What happened? And we've actually got very good economic research on this, including some by Ryan Cummings and Neil Mahoney, among others, is that they worked really well until 2016. And basically Trump broke polling. It turns out that for Republicans, if you look at their answers to these surveys, the election of Joe Biden was worse for our economic prospects than the 2008 global financial crisis, which at the time we thought was a once in a century downturn. It didn't used to be that way.

And so we've got two things I think going on. Possibly a third. One is response rates are all the way down. The other is people now are answering, how do I own the libs on this question? And you see this from both sides of politics, more strongly on the Republican side, where no matter what the question is, if they've got a chance to say, does this stick it to Joe Biden, I will. And then I think. It really has added a really important third factor to this, which is how people are feeling may actually be bad, but it may be really bad for non-economic reasons. I remember this question. This whole panel is about, if the economy's so good, why are people so miserable? I was first asked this question in the middle of

2021. So this has been ongoing debate for two years. In the middle of 2021, I thought the question was insane. Our kids were barely at school. Life didn't look normal. Many of us had lost people. Of course, there are a million reasons for people to be miserable. And so you know that Greg says that that's echoing through 2023 and calls it referred pain, I think, is yet another reason. But I think all of this leads one to think, how much should we be trusting polls right now? If people act one way and tell pollsters something else? Which do you want to put more weight on? I think that's a real question.

Sara Eisen So are you, I'm just going to leap forward from that answer and ask if you're predicting that President Biden would win reelection because the economy's doing great.

Justin Wolfers I would feel, so, yes, sorry, let me answer your question. Given the state of the economy, I would predict President Biden is going to be reelected. Yes, now with some degree of confidence, not enormous, which is there are many things that determine elections. The economy is certainly one of them, but I think it's an utterly clear positive for the president. And that people understand that the economy is good is shown by many of their actions. I want to add one of the things I've learned is people hate economic optimists. They're deeply suspicious of them. So let me not confound a few things. Could the economy be better? Is a very different question. And yes, I can dream of a better economy that brings more people along, that reduces suffering, that helps workers more, and so on. Is this as good as it gets? No. And another is the issue that Dana raised. Is it lumpy? Yes. It's lumpy. Now, let me put an asterisks next to that. It's still less lumpy than it normally is. Most people are seeing gains. And most people in most industries are, we can find places where there's not. But usually in good times, there are some pockets of the economy that are not doing well. And the good news is, for those workers, there are pockets that are doing well. There might be a painful transition ahead them.

Sara Eisen Dana I do agree with anything that Justin just said. And there were a lot of opinions.

Dana Peterson Oh, so since Justin and Greg prefer the University of Michigan measure. They do ask about, they do have a breakout of sentiment by Democrat versus Republican. And when your guys in office, you feel happy, and when your guy's not in office, you're upset and then it flips, right? So I think that the sentiment measure very much depends on on what your politics are in that sense. And so anyone who's Republican is going to be upset, and history tells them that they would be upset when their guys not in office and vice versa. But I think, you know, there's some key things that we need to enter into the discussion. Right? What's been different is that you have structural changes like labor shortages. And you also have a strong influence of politics on economics. And one example is industrial policies.

So on the one hand, we're running out of workers. Why? Because baby boomers are retiring, and you don't have enough younger workers who are skilled to fill them, to fill in their spots. Right? So that heavily impacted the labor market, especially during the pandemic. Right? But we were going to have labor shortages anyway. The pandemic just accelerated retirements and made labor shortages that much more intense, and also made the wage gains that much more intense. And where the wage gains happen, they happen in those sectors where you have to physically show up to work. Right? So that's new and that's different.

And then with policy, right. You have, you've had a lot of intervention of government. So certainly during the pandemic you had stimulus checks. A lot of economists will say, well that's the best way to stimulate economy in a crisis is to give people the money, hand them the money and let them do what they want to do with that. Right? So that's we haven't usually had that kind of government intervention, good or bad.

And then with the industrial policies, you have government saying, look, you need to re-orient your supply chains, right? Some companies are deciding to do it because they want to de-risk and they want to be resilient. But there's also those political pressures and that's created winners and losers where the big winners nonresidential construction infrastructure and factories. Right? So you know, that doesn't really impact your average consumer. Right? Until they get that that new car or computer chip or cell phone that gets produced out of that new factory. But I think those things are super important and are affecting the economy. But I think that we can't ignore those big changes that are affecting the way the economy is behaving and consequently, consumer confidence.

Sara Eisen Yeah, Greg, it they're important also because they raise the question about what happens next. Right? Which is whether the strike can continue. Can the Fed really get away with this to not having a recession or any major pronounced stress in the in the labor market.

Sara Eisen Go ahead. Greg? Anyone? But. Yeah. Greg. Go for it.

Greg Ip Well, the short answer is yes. And certainly that's where the probabilities have been going. I mean, we've all seen the data in the markets, which tend not to be that political, have definitely signaled more optimism about the economy, a much greater likelihood of a soft landing. So I think you have been asking the question, well, what should Biden do? Well, if I were advising Biden, which I'm not, I would sort of say, well, first of all, wait. Odds are that most of the economic factors that are bothering people will be better six months from now than they are, even if the inflation rate just more or less stays where it is. The memories of the big increase in inflation will become more distant and less salient, and people will tend to focus more on positive things. And indeed, we've already seen both, I think, in the conference board in the University of Michigan, a rise in sentiment, not a big one, but a positive move in sentiment since since the fall, which is not coincidentally, when the Fed uh, when the markets began to rally on the increase expectation of a soft landing.

But, Sara, I just want to sort of finish with a quote from from an essay. Joan Didion wrote the essay Slouching Toward Bethlehem in 1967. And there's a line that I want to read to you because I think it's so useful. She writes, the market was steady and the GNP was high, and it might have been a spring of great hopes and national promise, but it was not. And more and more people had the uneasy apprehension that it was not. And the reason that quote is relevant is that the late 1960s was a great time for the economy. Real incomes were growing very fast. Unemployment was low, inflation was low, although it's starting to creep higher. But for the country as a whole, it was a mess. We were in so much convulsions, you know, the following spring. Lyndon Johnson's approval rating was like 34%. It's lower than Biden's is now. The only positive thing he did that year was to promise not to run again. And then, like that year, we had riots. We had the assassinations of Martin Luther King and Robert Kennedy.

The point I'm trying to make here is that the things that I think are most heavily on Biden's reelection prospects are probably not actually the economy. It's a lot of other things. Now, there's a good news, bad news story here. The bad news is that you can't do much about the economy, and you're sort of at the mercy of it. The good news is there are things that you probably can act on that you do actually have some agency that will address this. One very simple example is the border. I think people across the political spectrum are very worried about the problems at the southern border. Now is there is a political solution? I honestly don't know. I'm not in the political profession how to get that fixed or where the more movement has to come, whether it's from the Republican side of the Democratic side. But there are things that the president and the political class can do as a group to address some of these non-economic things that really weighing on people's sentiment.

Sara Eisen Well, I would also add the age factor, right? We know that that Americans have questions about the president's age and that might factor into sort of polling in the way they say his ability to manage the economy, too.

Greg Ip It could be I feel confirdent predicting there's nothing Biden can do about his age between now and November?

Sara Eisen Well, that. There's that. Justin do you want to talk about the bias in economic reporting. Are you going to go after reporters or are you talking about economic data?

Justin Wolfers Okay. Maybe I'll go after economists.

Sara Eisen You can blame reporters, too. Bad news gets amplified.

Justin Wolfers Look, I'm stunned by the way we always and relentlessly use negative terms to describe the economy. And this actually just came up three minutes ago. Dana talked about the terrible thing that we have labor shortages. There are more employers wanting to employ workers, and workers have choices, and she described this as a problem. This is what I dream about. Labor shortage is the reason I became an economist. I dreamed of the day we could get rid of the scourge of unemployment and the feelings of loss and worthlessness that comes to folks who have skills to contribute and want to create something useful with their day and meaning in their lives, and bring home incomes for their families. And nothing will ever convince me otherwise than that unemployment is one of the great scourges of an economy. And so the fact that we've gotten it all the way down to a 50 year low, and the fact that we've gotten a labor shortage. In which those poor, poor, poor employers cannot quite find enough workers to exploit at low wages. Has me utterly rejoicing. Maybe I'm teasing Dana too much, but let me give you another example.

I've done a fair number of TV shows like yours recently, Sara, in which people say, you know, unemployment's low, inflation low, well, what's bad? House prices. House prices are high. That's terrible. I want you to think about the alternative. And it is hot. House prices being high is really hard on new home buyers. Now think about the alternative in which house prices were falling. How do you reckon the interview would go then? I'm pretty sure I'd say unemployment's low. Inflation's getting low. And then the interviewer would say but house prices are falling. And it's devastating the wealth that people have put aside. Look, the point is on lots of these things. There's two sides of the story. Um, with house prices, when house prices rise, people who own houses are happy and people who don't own them aside in exactly equal measure. Every dollar that makes one richer makes the other poorer.

I think it's good that professional economists are professional pessimists, because our job is to look around the corner and think about what could go wrong. You want your anesthesiologist and your economist to always be thinking about what could go wrong. But that doesn't make it either of them actually particularly accurate as ways of thinking about the world. And so we as economists, I think, do a terrible job of talking to people about the actual good things that are happening around them. And now, Sara, we will turn to the journalists. You want to keep people a little bit glued to the screen? And here's the things you might fear over the next few months, I think tends to draw people to the screen more than, here are some terrific things that happened. Um, and look, Bill's got a job over here, and this family's got food on their table, and things are kind of operating the way they're meant to be. Certainly it's something we see out of the business press. And so the fact that we now have channels like your own, which are focused at such high frequency, may be part of the story of why we're seeing a little bit more bad news bias in the news media.

Sara Eisen I think that's fair. But I will just say in our defense, like you, I think it's our job to help individual investors and members of the public understand and be aware of the risks so that they can decide for themselves. But, Dana, I'll let you respond.

Dana Peterson Thanks, Justin, for misunderstanding and misinterpreting everything I said. So we're all friends here. Just thinking about the unemployment rate. Economists think it's great when the unemployment rate is low. Right? And that's actually part of the Fed's dual mandate, right? Where you have everyone who can work and wants a job working. That's fantastic. But it is a problem when businesses can't find workers. Right? And it's because of the fact that they're leaving the labor market. So that creates a lot of issues. Right? So that generates inflation. How? Because if you're an employer you don't know what else to do. So you start raising wages to keep people and you increase wages to attract people. And that shows up in inflation. And if you look at inflation, what's driving prices right now, it's two broad things. Well three.

One it's housing costs. So having elevated housing costs is not a good thing. When you have all these young people who want to buy a home and can't, they're looking for affordable housing, but they have to live five and six of them packed into a small apartment. Those are not good dynamics. A second thing is insurance prices are rising. Why? Because you have more and more disasters and insurance companies have to pay out, and they pass that costs onto the customer. And then the third thing is rising wages. Right? And that's not a good thing because everybody feels that everybody feels inflation. So I think that's problematic. And when you think about not having enough workers, it's also not having enough tax revenue to help support things like Social Security and Medicare and many other programs that are beneficial to the economy. So I think you need to look at this from a broader perspective and not about, oh, you know, companies are exploiting workers. Companies, actually, we just put out our C-suite outlook survey and the number one concern that companies have globally, as well as in the U.S., is attracting and retaining labor. Companies care a lot about their people, and they're having fewer and fewer people. And so they're also looking at options like automation and AI because they can't find the people. So I think we need to look at this in a more detailed way and understand the implications of these things. Right? That they're not everything has a good thing, has a good outcome. And there are externalities that matter for the economy and matter for the average person.

Sara Eisen 100%. So we've sort of touched on this issue but haven't really gotten into it. Greg, and I'm curious what you think about confidence and and whether that has an impact on the economy. You know, Jason, sort of use the word relevance or irrelevant about some of these low confidence ratings not having an impact. But conventional wisdom would be if consumers and businesses and CEOs aren't feeling confident that would hurt economic activity. And I'm wondering if you expect that to happen or reverse or that that's not, that link doesn't matter.

Greg Ip Well, I think a lot of depends on why economic sentiment is low and it can be low for quite a variety of reasons. So for example, if interest rates are quite high and people are having trouble affording a new house or a new car, and that is the reason their sentiment is low, then you would expect that to manifest itself as less buying of cars and houses. And yes, that would be bad for the economy. But as I think a number of us have observed over the last hour, that's really not true right now. People generally are spending quite a lot of money. They aren't buying a lot of houses because interest rates are high. But that seems to be sort of like the one place where you can identify a connection between, like, you know, people's feelings, and economic numbers. I think to the extent that, going back to where we started, to the extent that, I do think a lot of non-economic factors are at work, but of the economic factors are at work, to the extent that inflation is number one, then you would expect that as lower inflation takes hold and become people are more aware of it. That should actually lead to stronger economic spirits. And as a mechanical matter, assuming there isn't a parallel drop in people's wage growth, that should lead to higher real incomes. So right now, I think that the segment that we're looking at, to the extent it tells us anything about the economy, it's a lagging indicator. And it would be my expectation that assuming that the consensus is right, that inflation is in some sustained way coming down, we should start to see that show up on sentiment.

Sara Eisen Do you agree, Dana, with that?

Dana Peterson Well, I think one thing that's missing from this conversation is a lot of talk about real incomes and inflation and wages. But there's also something called debt. Aconsumer credit card debt, and debt overall, has been rising. Is it as bad as what we saw during the great financial crisis? No. You don't have a bunch of homes that are underwater, but you do have a lot of regular folks who are acquiring a lot of debt to keep up this standard of consumption, and that's going to come do. And certainly if you don't pay the minimum, you're faced with a much higher interest rate. Why? Because the Fed's raise interest rates by five and a quarter percentage points. You also have a lot of folks who are using buy now pay later. At some point you will have to pay later. And so I think that we should not ignore the fact that some of this consumption is coming in a very negative way that's going to come back and really bite the consumer. And it's and certainly, um, we're going to see a lot of the supports. The excess savings is going to go away. We're seeing the labor market cool. If you take away the three industries that have had been hiring, you've seen no hiring, right? So and wage growth is slowing and it's snowing for services in areas where you don't have any more labor shortages. So a lot of these supports are going to be disappearing. And so I would imagine that consumer confidence might even reverse over the next few months as they realize, oh gee, we have to pay back the debt. And oh, by the way, there's no more quitting because no one's going to hire me. So whatever wage I have now is what I have.

Sara Eisen So are you in a recession camp?

Dana Peterson Yes we are. We do think that there could be a short and shallow recession. What does that look like? A couple of quarters of slightly negative GDP growth. The unemployment rate rising to around 4.3%. Now, that's still pretty low. But you have to think about the delta. That's a one percentage point delta from the low that we saw in 2023. And that's equivalent to roughly 600,000 people losing their jobs. I would not want to be in that number. Right? So it's about the delta is not necessarily the levels here. But do we think the economy will get out of it? Sure. But the thing is that there is going to be a soft patch. And even if we don't get negative GDP numbers, if it's close to zero, it will feel like a recession.

Sara Eisen I'm going to guess. Justin. You disagree?

Justin Wolfers I think forecasting the future is incredibly hard. So are we going to have a recession? Look, the single best indicator for the future path of the economy is how it's currently doing. Currently doing really well. So the simplest forecast would be it's going to continue to do well. We've had two and a half years of people telling us a recession is coming any moment now, with the probability sometimes among Wall Street economists being as high as 70%. We, of course, had Bloomberg telling us it was a 100% chance of a recession. It keeps not turning up, but keeps not turning up in any part of the data.

Now, one thing that is going to be worth noting is. Big part of the story the past three years has been renormalization after the Covid shutdowns and the Covid pandemic. And so what we got was extraordinary growth after an extraordinary downturn. And that's given us extraordinary numbers. Things are really close to being back to normal now, which means we're gonna have to get used to numbers that are back to normal. That's payrolls growth of maybe 50 or 100,000 a month. We're still not there yet. So if what we do over the next year is compare things to growth, to growth over the past three years will be incredibly disappointing. I we compare it to historical norms, there's no reason to think. There's every reason to think it will be as positive as we typically see in a normal, healthy, functioning U.S. economy. One thing for all the folks who've predicted recessions, it's really worth going back and looking at the historical record of American economists predicting recessions. And it turns out that if you look closely at the record of forecasters, they're really good at predicting recessions 2 to 3 months into the recession. But actually in advance they have almost no record of predicting recessions. And if you think about the last few recessions, it's easy to see why. None of us predicted a coronavirus pandemic. Almost no one predicted a financial crisis that occurred all of a sudden. And these recessions occur for basically unexpected reasons. And unexpected things are really hard to forecast.

Sara Eisen Greg. Recession or normalization?

Greg Ip Uh, I'm sort of like with the consensus now. And the consensus has moved from recession to soft landing. Now, soft landing isn't quite the same as normalization because soft landing implies a slowing of growth not to negative territory, but slow enough that the unemployment rate does gradually move up. And consensus forecasts are that the unemployment rate will move up a bit this year. Now alluding to what Justin was just saying. People have been predicting some mixture of those things for the last two years, and it just hasn't happened. And I do want to sort of like acknowledge some of the points that Dana is raising. Is that for all the positive data points you can look to on the real economy the Fed has raised interest rates a lot. Real interest rates are quite high right now. It has done so against a backdrop of relatively high nominal debt growth. We don't yet know whether that debt growth or the levels of debt themselves are at levels that are truly problematic. I tend to, I think, share a little bit of an optimistic side because I think that even though debt is high, there's also a lot of liquid cash sitting around. Still a consequence of some of the relief programs we had during the Covid pandemic.

The other thing that gives me, I think, some residual optimism now is basically the dog that didn't bark. I've been doing this job for more years than I care to admit, and I've seen so many financial crises that came out of nowhere. And those crises almost always coincided with the Fed raising interest rates, which is to say, the when the Fed made the risk, made the cost of risk free money very, very high. Something out there breaks. And about nine months ago, when Silicon Valley bank failed and then a few more banks failed, I said, that's it. This is it. This is the breakage. This is the moment everything is going to heck. Recession is going to come. And that didn't happen. Now, whether that was just because of luck or because of all the stuff we've done in the last 15 years, had sufficiently insulated the broader financial system from, you know, a crisis. I don't exactly know why, but it looks, you know, for some reason, knock on wood, that the financial system does not have a lot of landmines waiting out there to explode in our faces and cause the kind of crisis that often brings these cycles to an end. So I guess for all those reasons, I would, like, calm myself and then put myself in a soft landing camp now, and I claim absolutely no originality or bravery in that prediction.

Sara Eisen All right. Really quickly, last question that comes from one of our viewers, Irwin, who asks if you look at almost everything people buy at Costco, restaurants and meals, grocery stores, etc. pricing has not risen with inflation. Prices have doubled in most cases. Are economists missing these real life experiences of people Justin?

Justin Wolfers Prices have not doubled. Full stop. One hears this all the time, and I'm sure you can find a couple of goods that make the case for you. But in fact, grocery prices have almost flatlined now for six, seven, eight, nine months in a row. My social media feed is full of people telling me that the price of roast chickens is doubled or so on, or whatever the specific good is. The other thing to remember is what really matters is the cost of living. What is the cost of living? Well, to a huge extent. It's shelter. It's health care, it's education. It's these very large and actually very silent costs. Um, those are the things the Bureau of Labor Statistics tracks very, very closely. And we're seeing inflation over the past six months is probably around about 2%. We have economists who go out there and try and see how much does that vary across different people in different cities or with different living circumstances? And the answer invariably is your cost of living. And I say this to anyone watching this in the United States, your cost of living is probably the American inflation rate, plus or -1%. And if you think otherwise, you want to look a little closer, which are the expenses that really matter and what's happening to today.

Sara Eisen Really quickly, Dana, what's your best indicator right now that we should be paying attention to besides the Conference Board? What what do you track to to determine the answer to these questions?

Dana Peterson Well, I track everything, so I can't say that there's one thing that's going to tell us better, but I think what we need to do is think about the Fed's calculus. Right? And what is the Fed looking at? The Fed's looking at the labor market. The Fed is looking at inflation. The Fed is looking at inflation expectations. So economists do care about how people feel right especially the Fed. So I think we need to watch all of these things. And I actually think Greg, there are some things that are lurking around the corner that could jump out and bite us. Certainly when we look at the banking sector and it's high exposure to commercial real estate and also to consumer credit. Now, the reason why the world didn't implode last March is because we had the government, the Fed all rush in and do a rescue, but they can't rescue the thousands of small and medium sized banks that have these high exposures. Right? So I think that there are things that we need to look out for. Uh, but I look at all the data.

Sara Eisen The final word, Greg, is there. I mean, you've already brought a Joan Didion quote to an economics panel, which was great, but anything else that's not on our radar that you are watching to determine where we're going.

Greg Ip I guess if we could just go three, six months without some, like, awful event happening and occupying our headlines about it, that would be really great. I mean, for the last year, I got to tell the folks on this panel, there are days when I can't read my own newspaper. It just feels like there is so much chaos out there, and it would be great to go for 6 to 9 months. I remember, I mean, you know, I'm dating myself here, but I remember prior to 9/11. Or after that. Somebody told me that they long for the days when the headline in the lead story in the Washington Post was about Gary Condit, a congressman who was under trouble because he had had an affair with an intern who had gone missing. And not to minimize the personal tragedy involved. I long for a day when these gigantic existential crises were not occupying our headlines every day. And if we could have 6 to 12 months of that. I think everybody would feel a lot better.

Sara Eisen Yeah. Let's end it there. That's a very optimistic way to end a very conflicting panel on sentiment and the economy. Thank you all, Greg, Dana, Justin, for such a lively discussion. Thanks for having me. To Brookings and to Ben. I'll send it back to you.

Ben Harris Thanks, Sara. Uh, thank you so much. This was a truly fascinating panel and discussion and let me quickly thank Jason for his terrific opening remarks. And also thank our outstanding panelists, Dana, Justin, and Greg, for sharing their expertise. I'd also like to offer a special word of gratitude for Sara for her expert moderation of this panel. All of your insights are invaluable as we continue studying this disconnect and economic sentiment. Lastly, let me just thank the audience for taking the time to join us today. I hope you plan to attend future Brookings events. They cover pressing issues just like this. With that everyone have a great day. Thanks.