EconoFact Chats: The U.S. Economy: Successes, Challenges, and Perceptions

Binyamin Appelbaum (New York Times) , Scott Horsley (NPR), Greg Ip (Wall Street Journal), and Heather Long (Washington Post)
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Michael Klein
I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein
The economy will be a major topic in the election campaign. In the aggregate, the economy is doing well, with low unemployment and an inflation rate that has come down from its peak. But most recently, unemployment has edged up and inflation remains above the target rate of 2%. Despite this relatively good performance, people seem dissatisfied with the state of the economy, perhaps because of gas and groceries, that is, seeing prices rise for things purchased on a regular basis. Beyond these immediate concerns, there are also issues related to the longer-run performance of the economy, such as inequality, housing, manufacturing, and protectionism. To make sense of these issues, I'm pleased to welcome once more a panel of distinguished economic journalists to EconoFact Chats – Binyamin Applebaum of The New York Times, Scott Horsley of NPR, Greg Ip of The Wall Street Journal, and Heather Long of The Washington Post. Heather, Greg, Scott, and Binyamin, welcome once more to EconoFact chats.

Heather Long
Great to be back.

Michael Klein
The latest jobs report showed unemployment edging up a bit, and inflation remains elevated above the 2% target. In January, which was the last time we spoke, it looked like we were headed to a Goldilocks outcome. Not too hot, not too cold, but just right for a soft landing. Scott, do you think the situation has changed, and inflation improvements have stalled while the job market may be softening?

Scott Horsley
Well, we did get a few hot inflation readings at the beginning of this year, but actually that most recent jobs report was sort of reassuring, I think, to a lot of forecasters and markets that maybe we are still headed for that soft landing. For a little while there, it looked like we might not land the plane at all. We might just take off again. We had very strong job growth and sort of hot

inflation in January, February, and March, but April's job gains were a little cooler. We'll find out soon about the inflation rate for April. But the market seemed to like that slightly cooler jobs report. They maybe thought it left the door open for the Fed to cut interest rates at least at some point this year, probably not anytime this summer, but maybe in the early fall the Fed will be ready to cut interest rates. So markets sort of took that softening jobs report in stride. We'll see if it is in fact just a cooling, or the first step on the road to a real slowdown. Some forecasters think we're going to see a bigger drop in job growth ahead. Others think we'll just kind of ease into this sort of more sustainable period of 175,000 jobs, something like that.

Michael Klein
Heather?

Heather Long
Obviously we're not economists, we're journalists. I still think there's a lot of optimism that we can achieve a soft landing, or no landing or whatever you want to call it, a pretty good outcome. But I do think it's very worrying if you're the White House and heading into this election. Most of the time people's views of the economy are locked in three to six months out. We're about to hit that point, at least the early starts of it, and it's very clear that progress has stalled, is the headline takeaway. And that's probably not going to change dramatically over the summer. Things, you know, we could still end up in the end of the day, or the end of the year in a pretty good place. But there was already huge amounts of frustration with this economy, mainly due to price levels, which are certainly not coming down in many cases, and exacerbated by now – we have mortgage rates going back up and this sort of mantra that housing is as unaffordable as it has been in 40 years. And so I think that it's more of an election, and a vibes problem again, than it really is a fundamental economic problem.

Michael Klein
Binyamin?

Binyamin Appelbaum
I think the whole concept of a soft landing is a little illusory. It is largely something that one might perceive in retrospect, and from the negative place of what happens after that almost. So I think a lot of this conversation about “when are we going to get there?” “are we going to get there?” kind of misses the fact that we have been for some time now in a period in which economic conditions have been on the whole pretty good. We've had steady job growth. We have inflation that's a little higher than the Fed's absolutely ideal target, but very much in a range of what economists regard as tolerable. And we have every reason to think that there's no imminent prospect of a recession. It is curiously the case that despite all of that, as Heather just suggested, a lot of Americans are pretty unhappy about economic conditions, but it's not totally clear to me that it's realistic to expect conditions to improve significantly. There's always something that's a

little off. There's a vibe problem for sure, but I'm not entirely sure we have an economic problem beyond the fact that we always have something that's an economic problem. Times are pretty good. The question is why people don't feel that way.

Scott Horsley
Yeah, Greg, you had a pretty scathing front page story not so long ago that the vibes are all wrong.

Greg Ip
Well, no, I didn't say the vibes are wrong. The vibes are what they are. I was just pointing out that if you looked at the data, you get one story, but if you ask people, you get another. And one of these was on the question of inflation. One of our polls asked people, has inflation gone in the right direction or the wrong direction in the last year? And the data is fairly clear. Inflation was over 9% by one measure, 5% if you prefer the Fed's measure. It's down around 3% now. So, it's clearly gone in the right direction. And people say it's gone in the wrong direction. And I think the fact that they think it's gone in the wrong direction when the data and the economists say it's going in the opposite direction, tells you that what's bothering people is a much larger issue right now. It goes beyond simply what statisticians or economists will look at from the hard data. It goes to a large range of things. They think that…our surveys show that people thought that their retirement savings had gone in the wrong direction in the last year, even though we know the stock market was up around 20%. Another intriguing thing was we found that people thought that the national economy was in bad shape, but their own state's economy was in good shape, which obviously has this fallacy of composition problem. You can't have everybody's state being good, but the country being bad. And I do really think what's going on in here is in the sense that there's just a lot of things going wrong in people's lives. The single biggest one is, to go back to where we started though, is inflation. As Heather said, it's not necessarily just inflation rates. The fact that prices themselves, they may be going up more slowly, but they're not going down. They're still a lot higher than they were three years ago, by around 20%. And the final point I would make that even though the inflation rate has come down, it has not come down all the way to 2%, which is the Fed's target. Depending on which measure you wish to use, it's like 3% to 3.5%. And the soft landing remains a reasonable forecast, but it is not yet reality. A soft landing means inflation comes down to 2%. Not that it gets stuck where it is now, at 3%. The case for 2% is still good. As Scott was saying, the labor market seems to be in kind of a Goldilocks situation. People's expectations still seem to be anchored to around 2%. Those are the fundamentals. But the numbers are telling us another story, which is why I wonder whether that's just noise, which is what the Fed has been hoping and thinking, or whether that's kind of the new trend. Maybe 3% really is a new trend, in which case we're not at a soft landing and the Fed has more work to do.

Michael Klein
Yeah, I wanted to mention a column you wrote, Greg, where you asked whether stalled inflation is noise or a new trend. Can you go into a little bit more detail, what you meant by that?

Greg Ip
Well, if you actually look at the reasons we had hot inflation numbers in the last three months, it wasn't things that you can tie closely to the state of the economy. People wanted a lot more cars or something like that. It was things like car insurance, which is really responding to the rise in car prices from a couple of years ago, but it takes a while for premium increases to be approved by state regulators. The same with hospital charges, which tend to be the sorts of things with very long-term contracts that are only changed every few years, once again probably responding to the squeeze on things like nurses' salaries a couple of years ago. So, if you wanted to take an optimistic view, you would say this is really kind of the echo of the price dislocations of yesteryear, and they're not indicative of the state of the economy now. They are, as we say, noise. They aren't the underlying trend. And if you wanted to be an optimist, you'd say that that noise will wash away and the underlying trend will reassert itself. I would just say that even though that's a pretty good story, it's kind of the story the Fed was telling itself in 2021 when they thought inflation would be transitory. It turned out not to be transitory. And we may discover that this new trend is, as I said, more like three instead of two. And that's a problem.

Michael Klein
Yeah, I wrote an EconoFact memo about the difference between the level of prices, and the inflation rate, which is the rate of change, which is something that is a common mistake, as you're all alluding to. The other thing is that wages have kept up with inflation to a large extent. And so, what happens is, I think a lot of times people sort of think about price rises, but they don't necessarily also think about their wages going up. And of course, wages only go up maybe once a year or something, but prices can rise continually. So, I think there are a lot of sort of just perception issues involved in that.

Binyamin Appelbaum
I'd put that a little differently, Michael, I'd say that people think that wage increases are their just desserts, and that price increases are a form of punishment that is highly objectionable. So they just don't think of those two things in the same terms.

Michael Klein
I was trying to avoid that characterization, though I think of that as well as a possibility.

Heather Long
Yeah, some of that's true. I mean, definitely true. But I would point out on the data side, it depends what snapshot you're looking at. And it's not like most people are sitting around

downloading data from FRED like maybe some of us are. But, you know, Greg used the number earlier that sticks in most people's head of general inflation being up about 20 percent since pre-pandemic. And if you start the wage barometer since pre-pandemic, wages are up roughly 20 percent. But if you start it since Biden took office in early 2021, it's more like 16 or 17 percent. And again, it depends on which class of workers you're looking at and yadda yadda. But, you know, there's a reason there's some grievance there. And I think it's wrong to ignore that. I would also point out, I called this ‘whack-a-mole inflation’ in a column where I was looking at why inflation continues to be such a problem. We've just had these crazy spikes. You know, every couple of months, something else has spiked just uncontrollably. You know, it started with used cars and whatnot, then it went to meat prices. And, you know, the latest one is the auto insurance premiums that people are facing. And so it just has been this relentless, perfect for the TikTok era drama where every couple of months, there's something else that feels like it's spinning out of control.

Michael Klein
Yeah, we have a memo that appeared this week in EconoFact that will appear a couple of days after we recorded this, but a few days before we post it by Alberto Cavallo of the Harvard Business School. He's done a lot of work in what was called the Billion Price Project. And one of the important results from that is that the inflation rate can be very different for different groups of people. For example, for people who are at lower income where they're spending a larger proportion of their income on food and fuel, inflation can be higher than for people who are better off [inaudible] a larger proportion of their incomes are not spent on that. And in fact, in a conversation with Dan Sichel, he headed a group from the National Academies of Science where they recommended that the Bureau of Labor Statistics start keeping inflation rates by income deciles in order to better understand the distributional effects of it.

Scott Horsley
Yeah, one of the things Professor Sichel’s group found was not only are the baskets different at different income levels with more necessities of the lower income, but also if you have less cash, you probably have less opportunity to shop around. You don't have the capital to take advantage of sales when they come along, or buy in bulk or, you know, maybe you don't have a car to drive out to the burbs and go to Costco. So even the same items they might wind up paying more for. I have to say, though, as a journalist, as much as I understand the logic of that, having to report four different inflation measures every month on top of the ones we already report, I think would just be more confusing.

Michael Klein
Binyamin?

Binyamin Appelbaum
I mean, I do think part of what's going on here economically actually sort of inverts that logic, though, which is that we've actually seen some of the strongest wage gains for some of the lowest wage workers, and some of the diminishing relative economic status for higher wage workers. So you've seen, you know, upper middle class, middle class families being asked to pay more for goods and services, in part because the people who produce those goods and services are being paid higher wages. So, you know, they're not necessarily going to feel the pain as intensely, but they may emotionally react to it more strongly. And we hear from them more because they're the people who tend to vote. And so I think if what you're picturing with these different baskets is that the poorest people are suffering the most, that's not actually what we're seeing right now. What we're seeing is that the impact of a lot of this has been particularly on the loudest people – middle class and upper middle class voters, and that lower wage workers are actually doing relatively well in this period and somewhat at the expense of those somewhat more affluent families.

Michael Klein
So there are a lot of concerns about the American economy, but the United States is actually doing better than most other rich countries. Greg, you point this out in a recent column that has the title that at least begins, "The U.S. Economy is No.1." Can you discuss the relevant statistics that gave you that title?

Greg Ip
Sure. I just looked at the U.S. GDP compared to every other country's GDP converted to U.S. dollars that are in the International Monetary Fund's latest forecasts. And according to their projection, in the year 2024, the U.S. would be something like 26 percent and change of total world GDP, which would be its largest share of world GDP in almost 20 years. And you think, you know, given all the problems and the polarization and the self-loathing Americans have been through the last few years, it's kind of remarkable when you step back and say that we're actually, in relative terms, doing better than any other country. Now, I also don't expect people to say, well, you're right, I feel lousy, but I actually should feel great because everybody else feels even worse. Now, that's not how it works. But it does speak to the fact that the U.S. seems at least relative to its peers to be getting some things right. The size of our economy is roughly back to where it was if the pandemic had never happened. That's not really true of Europe, for example. And even China, we know, is having a lot of problems. Reportedly, they're growing faster than we are. I have my doubts. I don't think their data is very good. I think they could be growing much more slowly than they claim, and possibly more slowly than the United States. So, on a number of criteria, despite the fact that we here within the borders of the United States are

obsessing over everything that's going wrong, on a relative basis, some things are going right. I do want to add an important caveat here, mind you. Because the measure that I cited is based in current prices and exchange rates, it is the case that some of that increased U.S. share reflects a strong dollar and the higher inflation rate. That said, even when you adjust for things like inflation and the dollar, U.S. is still doing better than its peer economies.

Michael Klein
So speaking of the strong dollar, I didn't mention the full title. The full title of your article, Greg, is “The U.S. Economy is No.1. That Means Trouble.” And by trouble, you were referring to rising protectionism, right?

Greg Ip
Right. Well, because, as I said, one of the reasons U.S. GDP relative to its peers is so high is because the dollar is so high. The dollar is strong because the economy is strong. Inflation pressures are high, and the Fed is keeping interest rates high. And all those things are causing problems for other countries. It's one of the reasons, for example, that, well, obviously, when the dollar is strong, by definition, it means other currencies are weak. The Japanese Yen has fallen a lot, and that's causing the Japanese some consternation. It's weakening some emerging markets’ currencies. They're having to raise their interest rates in response. And one of the things we're seeing is that it's leading to an even bigger competitive gap with China, which is experiencing deflation and is seeing its currency decline. And so, despite the fact the economy is doing well, and the strong dollar is a reflection of the U.S. economy doing well, it's also making life harder for manufacturers in the United States. And both Joe Biden and Donald Trump have committed to protecting those manufacturers. So, I see this strong dollar as perhaps fueling a potential rise in protectionism.

Michael Klein
We have, you know, the strong dollar comes and goes. And a couple of years ago, when the dollar was strong, Maury Obstfeld and I wrote a memo, and Maury has done a podcast about the consequences of the strong dollar.

Heather Long
I think another interesting factor you have to put into perspective when you're looking at the United States versus the rest of the world is the wealth effect. The United States has seen tremendous growth both in our stock market rebound, and in our housing price rebound that really isn't mirrored in other countries in Europe and Japan or elsewhere. And so, this is kind of the surprising sauce, if you will, that's helping to also to power the U.S. economy ahead of a lot of our peers. But it's one that's really hard for the Biden White House to brag about because at the flip side, you've got all these really frustrated young people who can't get into the housing market. So even though homeownership is back at these basically record highs around 66 percent

and a lot of people's retirements look pretty darn good every time they're opening their portfolios, it's one of those really tricky issues to find a way to brag about.

Michael Klein
So Greg mentioned protectionism, and protectionism and nationalist economic policies can take many forms. For example, subsidizing national industries is itself a form of protectionism. The CHIPS Act allocated tens of billions of dollars to encourage companies to build new semiconductor fabrication plants in the United States. Is this a justifiable nationalist economic policy? Binyamin, what do you think of that?

Binyamin Appelbaum
I think that it's a very interesting experiment in economic policy. We've talked about this in some of our earlier group discussions here on this podcast. And, you know, my view of it is basically that the Biden administration and to some extent, the Trump administration before it, have concluded that they needed to take a new direction with American economic policy. That the decline of our manufacturing base was having broad consequences for our ability to defend ourselves, for our ability to productively employ working class workers, less educated workers, lower income workers. That it was affecting our ability to provide for ourselves in the event of a pandemic, or to innovate, to grow economically. And so that really a focus on rebuilding a manufacturing base would have wide ranging benefits for the economy, and therefore, it was an appropriate thing for the government to invest in supporting the revival of manufacturing in the United States in order to deliver not just manufacturing jobs, but a host of broader benefits – greater independence, greater security, greater prosperity for portions of the population that have been struggling. I think that's an interesting idea. It is something that countries have done successfully when they're trying to catch up to developed economies. It is something that's much harder to do if you are the developed economy for, you know, for one thing, for the reasons that Greg was discussing earlier, which is that we're basically trapped in this cycle where as we prosper, we tend to, you know, do so in a way that gives the rest of the world an advantage to… send more stuff here, to export more stuff to the United States, to our consumers. That tends to pull down our manufacturers. And so, you know, pulling ahead in this game is extra difficult for us, also because it means that stuff is more expensive. The cost of domestic production is typically some type of surcharge on top of what American consumers otherwise would pay. And finally, because it's not clear that we're always the best place to make things. If there is a technological advantage in producing, say, chips in Taiwan, it may be better for the world if chips continue to be produced in Taiwan. And then, you know, the big question mark over all of this is whether it's possible. The Biden administration is trying to stand up industries or to give American industries a competitive edge in a bunch of spaces. It's not clear that the government has the capacity to achieve that. We're plowing a lot of money into it, and it may just turn out that it doesn't work.

Michael Klein
Scott?

Scott Horsley
I mean, this is being marketed in part as a national security, and a supply chain security initiative. And it's certainly not clear that a 'buy American' bias is the best way to have a resilient and reliable supply chain. We had a 'buy American' bias when it came to infant formula, and that caused real problems when a domestic infant formula plant was suddenly offline. And we had no history of importing formula from other countries, and had to sort of create one on the fly. So the other challenge with this is it's just going to take a very long time to know how it works. The jury's not going to be in for years or decades. So we're making a very big bet on this policy. And it's just too early to know how it's going to turn out.

Michael Klein
Heather?

Heather Long
Yeah, I'll jump in. I just got back, not too long ago, from a couple of days in Phoenix, Arizona, which is sort of ground zero for this experiment. I know Greg was recently in Ohio and probably has some thoughts. I'll just share a couple of observations from the ground. I certainly agree with everything Binya and Scott sort of said on the big picture. But I think when you go and look at it in person, everything always looks a little different. Number one, I think the best case the White House has going forward on this policy is the companies are investing billions of dollars. You know, it's like TSMC, for example, in Phoenix, building three plants. You know, you're talking about close to a $30 billion investment. And most companies don't play around with that kind of money. Like, you're not going to build a $30 billion project and then walk away from it. I'm not going to say never, but the likelihood of that happening is a lot lower. And when you go out and see the scale of these projects and how much is already coming up out of the ground, it starts to come, you know, I think they have a leg to stand on, yes, they're putting a lot of money in to get this jump started. But if we don't have to continue to put a ton of money in year after year after year after year, then their argument becomes a lot stronger over time.

A couple of other things that stood out to me on the ground. I think there's a lot more …we sort of debate about, are we going to have enough workers? Is there enough talent? We definitely need more Americans to wake up and dream of wanting to work in the semiconductor industry. I think right now a lot of people don't even know what it is, or haven't heard of it. I like to call it the digital tool belt job. It requires sort of a unique mix of the hands-on work that a lot of people know from the Ford factory days, with the coding work that a lot of people know from the 90s and early 2000s. And this is sort of a mix of that. It's a really exciting job, an interesting job, a very clean job in a lot of these fabs. But we certainly have a long way to go on trying to build up the workforce and apprenticeships and knowledge. But let's not forget that we still produce 10 percent of these chips, and Intel has had a long presence in doing this in the United States. The last thing that kind of stunned me on the ground is for all the talk of this boom and certainly construction worker boom going on, this is a very cyclical industry, that lays people off a lot. There's sort of surges in hiring and then troughs. And despite all of these announcements of these billions that are coming from the federal government, it's actually kind of a lull period in this industry. And so there's not actually a lot of hiring going on this year, and there's actually been scaling back, when I visited, of a lot of the community college training programs for this industry. I met a couple of people and sat in on one class. Only one person out of that class has been hired since I was there in March. So, I think that's something that gets lost in the debate about all this in the short term is just…we're kind of in a weird stall period for the industry, even though they're in a construction boom.

Michael Klein
Greg?

Greg Ip
I just want to address a larger question of whether the United States should be doing industrial policy, which is the name we give to policies like subsidies, tax breaks, government procurement, that are meant to help favor domestic industries. And in general, economists have looked askance at this because it's very hard for the government to know where the future of technologies or companies will be any better than the private market does. And you can end up pouring good money after bad, like propping up industries like, you know, new energy industries that turned out to be big busts. That said, I'm not sure that doing absolutely nothing was an option or is an option. Semiconductors is an industry that, notwithstanding the sort of the cowboy image that the chip industry likes to have of itself, has been essentially saturated with government intervention, subsidies and industrial policy from the get go. The US got its start in the integrated circuits industry in the 50s and 60s from contracts from the Pentagon and the space program. Taiwan did not become the world's leader in advanced chips because, you know, they have more silicon than somebody else. They poured a lot of money and subsidies into building up that presence there. Same with South Korea. China is coming on strong, and as everybody on this chat knows, China subsidizes virtually everything. There's no such thing as an industry in China that is forced to earn back its own cost of capital. So, when you look at that reality, the United States asks itself, well, we could be essentially free trade purists and allow all of that industry to migrate to the countries with the most subsidies, or do we try and play that game ourselves to sustain an industry that we know we have historically been good at. And it strikes me that if you're going to pick one industry to do industrial policy with, this would be it. Because the United States has traditionally been good at semiconductors. It is not trying to bring back an industry that's already gone. In fact, it still has a fairly significant presence. It has clusters in places like Phoenix, like Austin, like Oregon, like upstate New York. And also this program, I

think, is reasonably well designed in that it's not just addressing the demand side by actually helping manufacturers set up the fabrication plants, but the supply side by ensuring that those plants also are looking into the supply of labor, the programs that Heather talked about, recognizing that if you build a fab, but you have not taken the steps necessary to make sure that there is a skilled workforce and supplier base, then that ultimately will fail.

Michael Klein
Yeah, it's a fascinating industry. I would commend to our listeners the book by my colleague, *Chip War* by Chris Miller. And this is a tremendously interesting book. It won the *Financial Times* Book of the Year Award a couple of years ago. And I have a podcast with Chris about that. And it's at one point in that podcast, you know, he's talking about in the book, the way in which these are manufactured. And at some point, it seems like just magic. It's so technically advanced. It's really incredible. And the other thing is that, you know, the places that are manufacturing these chips like Taiwan and South Korea are places where there's some real geopolitical tensions as well, and concerns about that.

Michael Klein
Binyamin?

Binyamin Appelbaum
Yeah, you know, I think one reason that people, and I share these concerns to some extent, get worried about industrial policy is that when you look at a space like chips, a lot of the justification for what the federal government is doing right now hinges on making the United States a cutting edge manufacturer of chips, the best and newest chips. Much of the investment to date is focused on manufacturing chips that are a little bit behind that frontier. That have many uses, but are not the absolute state of the art. And I think that sort of highlights is, you know, when you have the market disciplining companies, you know, the market's going to sort out who's doing something worthwhile and who's not. When you've got the government essentially supporting these businesses, it's pretty easy for politicians, or the public to get confused or to engage in confusion about what is actually valuable. And I think one of the risks with industrial policy is that we end up subsidizing a lot of stuff that doesn't actually deliver the value that we purport to be chasing. And, you know, as we're scoring this chips effort going forward, I think one of the very important questions is going to be, not ‘can we make chips in the United States?’ We clearly can. But are we actually achieving the objective of making the kinds of chips that there's sort of a defensible argument that we gain an advantage out of making in the United States? That, to me, is what is far from clear at this point.

Michael Klein
So we've talked about very sort of high frequency things – what the economy is doing now and prices, and we've talked about things over a longer horizon, like this policy to introduce chip

fabrication plants. We speak with each other every three months or so. Until we next have a conversation like this, what will you be looking at for thinking about the direction of the economy, or the direction of people's perceptions of the economy, or how things are going?

Scott Horsley
I'll certainly be keeping an eye on the vibes. We did see a little bit of an improvement in people's attitudes towards the economy back in December and January when inflation was cooling off a little bit, stock market was up, gas prices were down. That's kind of reversed itself. Now gas prices have gone back up and the stock market's been pretty volatile of late. But maybe we'll see some further improvement. As Heather said, we're getting to that point where attitudes kind of get locked in for election day. You can't really wait till November for people's attitudes to turn around, if that's what you're hoping for. But I'm also going to keep an eye on what people do. So far there's been a real disconnect between what they tell surveyors about how they're feeling about the economy and what they're actually doing, especially when it comes to spending. Spending has remained really strong. People certainly are not spending as if they were as gloomy as they're telling the pollsters.

Michael Klein
Greg?

Greg Ip
I think that same as I have for the last few years, I'll be watching the inflation numbers most closely. Not because I think that if inflation comes in a tenth of a point lower, that's going to make a big difference to individuals' feelings. But it will make a big difference to the Federal Reserve, and therefore to interest rates. And one of the biggest, most immediate effects the inflation picture will have on people's lives is through interest rates. And I think, as Scott was saying, we saw an uptick in people's moods earlier this year. And in my view, that wasn't because inflation itself is coming in a lot lower, even though that was true. It was because you had seen this huge rally in stock and bond markets, and the prospect that mortgage rates, which are so painfully high, would start coming down. It had been the Fed's baseline scenario that by now they would be cutting interest rates if inflation had fallen the way it had expected. They've had to postpone that. If inflation resumes its downward trend, you'll see the Fed, I think, move relatively quickly. And that, I think, people will notice and take comfort in.

Michael Klein
Heather, what will you be looking at?

Heather Long
A lot of good stuff so far. I'll just throw in the job market to that. We've sort of seen what the Fed wanted with some cooling. It's been interesting, some of those indicators like temporary help

services, which is usually a precursor to a real big slowdown, has seen close to 18 months of decline, another big decline in the latest jobs report. So, we'll see what happens in the coming months. Hopefully, it's just a soft, easy go for a few months, but certainly things could teeter off. The other thing that really makes me scratch my head is, obviously, there's a lot of nostalgia for the Trump economy in polling, but I wonder at what point voters and the American public will really start to tune in to what the Trump team, and Trump himself are proposing for a second term, like this notion of a 10% tariff on any import in the United States, anything coming from any other country. Obviously, that would be a huge inflation driver, and a cost driver. And so I just sort of wonder at what point people start to begin to say, okay, I don't love the Biden economy, or certain things that Biden's doing. But then when they look back at Trump and see what he's actually talking about.

Michael Klein
Yeah, your colleague, Catherine Rampell, has a very good recent column about that. Binyamin?

Binyamin Appelbaum
Yeah, I guess I agree with Greg. I think I've got my eye on interest rates. I think the economy has been remarkably resilient during an extended period of high rates. But I think there are growing signs that high rates are putting pressure on the rest of the global economy. And that in the United States as well, there are parts of the economy that are sort of slowing down or shutting down because of the level of interest rates. The economy could really use lower rates, whether the Fed is in a position to deliver them, I think is a pretty key question for the coming months.

Michael Klein
Well, I always enjoy these conversations immensely, and this one is no different. So, thank you all for joining me once again to be on EconoFact Chats.

Michael Klein
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