Good Things Happen Podcast – Season 2
Macro Trends & Economic Outlook_Nathan Sheets & Elaine Buckberg
TRANSCRIPT

Jorian (00:13)
We live in turbulent times. Various reasons in different geographies are hampering economic growth and threatening recession around the world. Was this foreseeable? Is this all part of an expected cycle or are we witnessing something completely new? To help shine a light on these questions and more on the topic of macro financial trends and the global economic outlook, I'm fortunate to be joined by two guests whose jobs are to think about these things day in and day out. Welcome to Good things happen. Elaine Buckberg, Chief Economist of General Motors, and Nathan Sheets, the Global Chief Economist at Citigroup. Elaine and Nathan, before we get into the nitty gritty of global economics, please tell me about your careers to date. How does one become a chief economist? Is it always something you wanted to do?

Elaine (01:00)
Well, first of all, Nathan and I started out together in grad school at MIT in the same class. So, that's a good foundation for both of us. And I think that many, but not all chief economists have PhDs in economics and have that training, although there are exceptional economists who do not as well. I can't say that it was ever part of the plan, but Nathan and I think both did macro and international as our field and worked on domestic issues and international issues. We overlapped at the Treasury Department for a number of years in the mid 2010s. And, I think broad training, getting a public sector perspective and in both of our cases having a private sector perspective as well, and a financial market perspective really enables you to pull together the whole perspective of the global economy.

Jorian (01:48)
Nathan, was economics something you took up almost as a vocation because you wanted to apply? Or was it just the thing that you were really, really good at?

Nathan (01:57)
Maybe somewhere in between. I always was intrigued by human behavior and our societal institutions, but I also liked math and quantitative modeling, and I saw economics as the intersection of those two things where we were trying to study what humans did and how we act and policy, but to put a little bit more substance and rigor behind that. And I think that that's what I found in my career. I've worked in policy institutions at the Federal Reserve and the Treasury for 20 some years. And my goal has been to learn to understand what's going on and hopefully in the process to be doing and saying things that are relevant. And, that's allowed me to make some contributions in the policy public side. It's also taken me to some very interesting opportunities, including being the chief economist here at Citi.

Jorian (03:07)
Elaine, what were your motivations when you first chose economics as something you were going to major in?

Elaine (03:16):
Well, I should say that my father also was an economist, and I grew up in Washington DC and he worked for the Joint Committee on Taxation, which serves the Senate and the House. And so, I was raised on economics and how it impacted policy, and I think that the opportunity to contribute to making better policy by bringing a less common lens to the problems and economics undergirds everything was a big motivation. I also want to say that both one of the huge advantages of economics as well as one of the challenges is that the global economy is always changing and it's very dynamic. So, you're always figuring out new things, and that makes it always very intellectually rich.

Jorian (03:57)
So, in the economic situation we are in, I described it as being turbulent times. Is this a good time to be an economist? Is it more exciting because there aren't just patterns and algorithms that are same old, same old, or is it worrying? Nathan, I can see you leaning forward into the camera and smiling.

Nathan (04:19)
Well, let me be a two-handed economist on this one, that on the one hand, really the last 15 years, since the onset of global financial crisis, one could describe as turbulent economic times. And that has provided extraordinary opportunities for us to put those tools that Elaine described that we learned in graduate school and that we've honed through our careers, it's given us really extraordinary opportunities to put them to work and to try to figure out what was going on and what should be done about it. And in addition, how investors, how large institutions should respond to these shifting times characterized by such huge uncertainties and unprecedented events. So that's the good news, the bad news is it has been extraordinarily humbling, as Elaine alluded to. Yeah, things are different, we're faced with these new challenges, and as a global economist, I am constantly reminded of my own limitations and my own limited ability really to understand what's going on. I try to piece it together and it's a lot of fun, but my ultimate analysis often falls short of what actually happens.

Jorian (05:53)
Elaine, I can see you nodding at the frustration part of it. Talk to me.

Elaine (05:59)
Well, different parts. So first of all, turbulent economic times means there's a lot of demand for our input as an additional perspective to weigh in decision making. And I think my career in Nathan observing yours has very much been around using economics to inform real world decisions. So let's say there's been a lot of interest in my input, and that's very rewarding, but certainly it's been very challenging. And I just think about the last three years alone, there's so many things that we had no historical pattern to look at. Every cycle is different and have different nuances, so for every mathematical model and econometric model that looks at various economic variables and how they contribute, there's a bunch that you leave out.

And these cycles have been so unique. So, it is indeed very challenging and humbling, but again, opportunity to provide that input and framework. Our ability to forecast epidemiology and the Covid virus obviously very limited. And there are other things where I just have to say my tools really don't help with this if I make these assumptions, which is where I get. And define our assumptions, I think we've all done a lot of scenario analysis.

Jorian (07:11)
Nathan, Elaine says that you are more in demand during these uncertain periods. Are people patient generally? Do people accept that you're not going to have all the answers, or do they see economists as having the silver bullet to the answers?

Nathan (07:28):
I think for me one of the surprises has been how patient and merciful people have been with us as economists through this period. And I think they understand as you face, for example, a pandemic. An extraordinary shutting down of an economy in the US and globally, and then reopening, that is something that we've never seen before and that we're going to get some things right and we're going to get some things wrong and people have been understanding. But I think that what I found that investors, folks wanting institutions, policy makers, are really looking for, it's not so much what's going to happen, but more of a framework for thinking about where the economy is and some of the factors and forces that are likely to influence it going forward.

And, I think economists, we don't have a crystal ball, unfortunately, I wish I did. We can't say exactly what's going to happen 6, 12, 18 months down the road, but we can provide a story of some of the key influences and what's likely to be in play. And I think that's really what people are looking for and appreciate through the experience we've had, we're able to provide some frameworks for thinking about the uncertainty.

Jorian (09:00)
I'm going to take that as an invitation, even though it might not have been meant as one. So Elaine, and I'm someone who flunked economics when I was at high school, so I'm going to ask a really basic question. We're at the beginning of January recording this. You've obviously had time to reflect over the holiday period. What's your take on 2022 and broadly macro view of where we are and what are we expecting in 2023?

Elaine (09:31)
Let me focus on the forward looking outlook because I think that's the most meaningful for the audience. Let's start with the US. For the US I'm relatively optimistic. This would not be optimistic in most settings, but I see the US as having about 50% chance of achieving a soft landing of weak growth, maybe around 1% growth for the year, but that the fundamental demand is strong enough. The labor market has so much excess demand that could be compressed before you experience substantial increases on employment. Households have so much savings, corporates don't have that much refinancing to do in 2023 having refinanced a lot of their debt at longer maturities and lower rates during the last few years. That there's about a 50% chance that the US will muddle through with low growth this year and avoid a recession, about 50% chance of a recession, which I think would likely be short and mild.

I think China we next need to turn to and their abrupt abandonment of the zero COVID policy suggests that Q1 will be very weak as cities sort of roll through rapid COVID waves. Early data, including some great graphs from Citi on traffic congestion and subway use suggest that any given city's wave is maybe about six weeks long and looks set for a substantial rebound in the second through fourth quarter. I expect we could see strong growth for those quarters and for the year as a whole. Europe on the other hand, our third major economic region, is entering recession right now. The UK probably already entered it earlier in the year, in last year where the severe increase in energy prices and low energy supply associated with Russia cutting off supply in Europe, voluntarily ending some of its importing of Russian energy has probably the weakest outlook globally. And those three regions account for about two thirds of global economic activity. And so that means a weak outlook for our other emerging markets, but probably good chance we avoid a global recession but have weakness in a number of regions.

Jorian (11:51)
Anything you would like to add to that, Nathan? Any other observations?

Nathan (11:56)
I think Elaine has covered the ground well. If I were to step back a bit and try to frame 2023 thematically, I'd emphasize four key themes. First, we're seeing an ongoing substitution from goods back to services and that strong services demand that we're seeing in the global economy is supporting labor markets and putting upward pressure on wages and contributing to high services inflation, which is actually my second theme is the global inflation and particularly global services inflation, remains quite hot and is pushing central banks to act and to vigorously hike rates. The third theme for 2023 is that central banks are on the case. We saw that through last year, but it's likely to continue during the coming year. We're likely, at least through the first half, we're likely to see further rate hikes and then the lag defects of a lot of the monetary policy restraint that was put into place last year are also likely to be felt during this year.

And kind of putting all of this together, that creates my fourth theme that global recession risks are high, and our sense exactly as Elaine articulated, is that they're likely to be manifest at different times in different ways in different parts of the globe. Probably a little earlier in Europe as a result of the severe gas shock, maybe a little bit later in the United States as a result of the resilience of the economy. But we're feeling it. And then in China the story is really about the abandonment of the zero COVID policy and the sustainability of that and how that will play through spending and consumer behavior during the year ahead.

Jorian (14:02)
I'm interested to understand what's led to where we are and some insight from you both. Can we go back to COVID and the lockdown? Are what we experiencing the results of that and was that in the pipeline? Nathan, you talked about the move from goods to services. Elaine, you were nodding when he said that. Tell us about how the world is changing.

Elaine (14:27)
I think it's an ongoing process of normalization coming from COVID, right? During the lockdowns globally, people essentially stopped consuming almost any services except for essential ones and then gradually rebounded and vaccination was a big kicker to that, but there was still lots of conservative. A year ago we were in an omicron wave which caused a big pullback in Europe, in the US and other places in the world. We continue to make progress away from that and I think people's demand continues to shift back towards services. I think in China, China had a brutal year last year with lots of rolling lockdowns in different cities that closed everything with some fixes for limited manufacturing activity, but huge pullback and service consumption and high contact service consumption in China last year. Now people are sort of staying in to avoid infection until like in some cities it runs through and they feel like they're safe.

And I think we'll see a big rebound in service consumption there where they'll have an accelerated version of what we went through in 2021 and 2022. But this has been a long crisis. People have changed habits, they've learned new habits and some of that will be sticky. And maybe for example, people will entertain at home and be outside in cooler weather than they were and there'll be some things that will be sticky and maybe not go all the way back to what was a pre COVID normal.

Jorian (15:58)
Nathan?

Nathan (16:00)
My sense is that a lot of what we've seen over the last couple of years can be described really as the evolution of supply and demand, that we can move back to first principles of economics. Kind of think about how the supply curves and demand curves have been moving around and it gives a lot of insight into where we are today. And specifically early on we had this as a result of the health situation, a surge in demand for goods. At the same time there was massive economic stimulus. The government had huge stimulus programs, central banks eased rates, all of that put the consumer in a position where the consumer was able to spend. Now as that spending occurred, it was focused on goods, at the same time the ability to produce those goods was being disrupted as a result of lockdowns and supply chain disruptions and so on and so forth.

And that generated much of the inflation that we've seen over the last two years or so. Now, more recently what we've seen is this substitution that Elaine and I have talked about back to services and that's taking some of that pressure off the goods market. It's allowing those supply chains to heal and to normalize and importantly, we're also seeing in recent months a marked decline in goods inflation, but we're making it up in the services. There's hundreds of billions of dollars by my reckoning of pent up demand for services. And even as the central banks are trying to slow the economy by hiking rates, at the same time households are saying, "We haven't been on holidays for a while. We want to travel, we want to go out, we want to go to restaurants" and it's supporting services and keeping the economy strong, the labor market strong and putting continued upward pressure on wages.

Elaine (18:10)
Guess we'll differ a little bit on that last part there, Nathan. Partly about pent up demand and then turning to the labor market. I think the pent up demand for goods, like avoided purchases may still need to happen for some things like durable. Like vehicles, right? If someone's driving a vehicle that is older

than their preferences because they like to be under their warranty or they like the newest technology or they just like to have the newest style, right? They still need to replace that vehicle, they may not skip a replacement cycle. And so that supports auto demand for any given set of economic conditions over the next few years. On the other hand, if it's pent up demand for vacations or dining out, if I missed hypothetically two overseas vacations over the last three years, I don't necessarily have the enough vacation time to take three of them this year. So that pent up demand, some of that just vanishes and goes away. I think though, one of the things that for the US is a big question, is sustained lower labor force participation that may cause a somewhat tighter labor market for some time.

And even if unemployment rises somewhat over 2023 and 2024, from its current, extremely low levels that are hovering around our 50-year lows, I think there are real questions about labor supply that we missed millions, I don't know, at this point, probably two or three million in immigration that would've happened over these last few years, that we had earlier retirements, that we had several hundred thousands of prime age worker deaths over normal levels from COVID. And that just labor supply may be persistently tighter, especially for certain kinds of labor supply, especially the tightness in the market right now seems to be greatest for non-college educated workers, in fact. So I think that that's something that's going to stick with us for some time, and I don't know quite when that heals.

Nathan (20:18)
Let me agree with Elaine on those points. Regarding pent up demand specifically, I think it is right that kind of the makeup coefficient, if I don't buy a car, that at some point my other car's going to break down, I've got to buy a new one, same with my computer and so forth, that the makeup coefficient is higher for goods. But on services, if families haven't gone on holidays, vacations for several years, might they go twice in a given year, might they go out a little bit more as a result of not having gone out? And I think I'm seeing in the observations, both in the macro data, in the micro data, yeah, some of that gets made up. It's a lower probability, it's a lower propensity. But I think we're seeing that in spending data right now, and specifically by our estimation, cumulative spending on services, if you take it through the pandemic to today, has fallen short of what the pre COVID trend would've been, by over a trillion dollars. And if you say, well, half of that's going to be made up, still a lot of spending,

Jorian (21:36)
I've hearing phrases like normalization and catch up, do we think that there are any behavioral changes that will be permanent? And Elaine, I spent a lot of time in my career working in the motor industry and I'm kind of fascinated about car ownership or vehicle ownership and how people use their vehicles. Obviously we've got sustainability to think about, and electrification, but looking at all of ... this is almost macro, macro, we're talking about the changes over the last few years. I'd love your insight, considering your position as the chief economist at General Motors, of how you plan for behavioral change or even what you think about it.

Elaine (22:18)
So, I think some of the themes are really different now, or the outlook is different than what we were saying in 2019. So in 2019, one of the big questions that I would be asked was to what extent would ride sharing eliminate private vehicle ownership? Well, I think that's a lot less of a theme for a couple different reasons. First of all, in 2020, we saw huge purchasing of vehicles there was a movement out towards suburbs, with households needing more vehicles, there was a desire for private versus shared transportation to avoid contagion. And there were people developing new hobbies, like more people wanting to go hiking and go boating and go camping and trailing. Those demands don't reverse quickly, perhaps more people are going to bars and concerts, but they may also have developed real interest in boating, for example, or hiking.

And I think the other thing is people who may have been selling their vehicles to rely more wholly on shared transportation of different forms, may now say, "Well, I just would like to retain my private vehicle," from a precautionary sense as well as perhaps, again, having developed that desire to go hiking on the weekends or having moved to a place where the household just needs more vehicles. So I think that's a permanent change. And then the other thing, on the other side there is that in a lower labor supply, the number of drivers available, the relative cost of Uber and Lyft and things like that, has gone up. So that again, is another pressure towards private ownership or at some point, back towards public transportation, which has not recovered well. And that also has to do with what extent people are spending time in their offices.

But our market research suggests that even if people are working from home, that they still want the same number of vehicles in their household fleet, if it hasn't gone up. And indeed miles driven before gas prices went up, was back to norm. So if people weren't driving to work, they were driving for something else. I think the one thing that becomes the game changer over time, much over longer time horizons, is the advent of truly autonomous vehicles and our cruise automation subdivision. You can take a ride in a driverless vehicle in parts of San Francisco and now in Austin and Phoenix, with no driver. And that helps alleviate the need for drivers, to have that shared transportation option, and therefore it also, over time, brings down the cost, and that can be a real game changer in urban areas. And if you haven't done it's a thrilling experience, it also becomes a very boring experience because the vehicle is such a safe driver, but I highly urge people to try it out.

Jorian (25:09)
Amazing. Nathan, to just build on this theme of changing behaviors, what behaviors do you see or predict?

Nathan (25:17)
I think the biggest behavioral change we'll see as a result of the pandemic is a move really across the corporate sector toward hybrid work arrangements. I think the day of workers spending eight to 10 hours in an office, five days a week is behind us. And I think that much of the employment environment that we're seeing is moving to several days a week, flexible work arrangements as a result of this technology that we have. I have a good friend who does commercial real estate, and I was recently talking to him about the outlook for office buildings in particular. And he said, "At this stage it is really uncertain," and I think that that is an industry or a part of the financial markets that is likely to see a very significant transformation.

Another closely related area where I think we'll see behavioral change is I'm not sure that I will ever do as much international travel post pandemic as I did pre pandemic. That yeah, it's important to travel and see clients face to face, but some fraction of the travel that was done previously, I think we're all going to agree, can be done more efficiently through virtual kinds of interactions, and so I think that that's another shift in our behavior. Now, the good news, I think, for the airline industries is they seem to be coming back quite strongly at the moment, but I think that medium term business travel is likely to look and feel differently. And maybe conferences, for hotels as well, is likely to look and feel different than it did pre pandemic

Jorian (27:21)
At the beginning, Elaine, you talked about your enjoyment of economics. I'm probably going to misquote you, but you talked about, it kind of covers every part of life, doesn't it, it covers people and behavior. And one of my favorite things about doing this podcast is the energy and enthusiasm I get from my guests about what they do.Could you tell us a bit about your role and the job that you do with a view to, if there are any young listeners who are thinking, "Hey, I never thought about economics." I would hope that by listening to all of the things that you and Nathan are saying, they're kind of excited and enthused about this is how the world works. Tell us about your job and yeah, what is it you do on a day-to-day, week-to-week basis.

Elaine (28:11):
I and my team advise GM's top leadership, so our CEO, Mary Barra, our CFO, Paul Jacobson, our president, Mark Reuss, and our whole leadership team, but also employees throughout the company what's the economic outlook to help them understand that context as they make a whole sorts of decisions. So to make it accessible to them, so it's part of their background perspective when they're making all sorts of decisions. We also provide forecasts, which guide our investments in vehicle programs and our treasuries, operation, and a wide range of decisions through the company, including

how many vehicles we're making and which ones in any given month, as well as our plans for making vehicles over the next 10 years.

We also provide insights to a range of other decision-making things that include environmental issues, issues about the evolution of the EV market as a share of the total auto market, and just a huge range of issues. I think that I have a wonderful role in that GM has a very long standing tradition of incorporating economics into all kinds of decision-making across the company, much as the way the treasury department is, but I think that few companies do so as broadly as does GM. And it's partly our long investment horizons, but it's just a long history of investing around the world and making those long-term decisions. And I think always having had a really stellar chief economists who helped create that demand for their services.

Nathan (29:48)
For me, the thing that I find most exciting about my job is the intellectual freedom that I have. My responsibility is to look at the entire global economy and find issues, forces, factors that are at work, that are important and that are interesting, and then in turn to think about them, write about them, talk about them, and to have a dialogue with smart investors, policymakers, and senior executives. So I kind of feel like I'm in a place where the world is literally my oyster intellectually, and I'm free to roam as widely as I can and to share those thoughts with other people who are very engaged and have real world responsibilities, be that financial or policy responsibilities as my interlocutors. I think that's where our roles really differ from if we had pursued careers in some other field, is that broad intellectual freedom to think about issues that we find interesting.

Jorian (31:07)
My last question relates to the proliferation of information. I read Nate Silver's book, The Signal and the Noise, and he talks about we've got too much information and not enough knowledge. Is that a phrase you would agree with and does that resonate, Nathan?

Nathan (31:25)
I'm kind of boring and old school on this in that the work that we do, we rely primarily on central bank data, government data, data from statistical agencies, data that's generated by financial markets. I found that to be the most reliable guide and the most helpful kind of signposts for where the U.S., the European, the Chinese, the global economy is. Now, as I say that, I should also caveat it several ways.

First, during the pandemic we were very interested in some real-time, fast-moving indicators. Like we follow data on table bookings and the U.S. BEA release data on weekly retail sales. And we at Citi have proprietary data on credit cards that our various economic teams study and analysts study and publish on. And some of those can be helpful, but I really look at them as the blandishments, as the kind of additions to that kind of core meat and potatoes information that we're getting from government sources.

Elaine (32:51)
Let me jump in here and add a little bit to Nathan's answer. First of all, even in the official data, there's more than any one economist can consume all of it, even with Nathan and I both have the benefit of teams that help elevate stuff to our attention. I think often the differences of views from economists is partly how we are weighing different data as well as how we're seeing the reaction function of different economic actors, people, and companies going forward.

There's a real question that's been asked. We all relied very heavily in 2020, especially on high frequency data to catch rapid changes in a very volatile cycle. I think there's a question of to what extent if you're looking at stuff month to month that tells you anything different than the traditional sources of data, I think maybe it doesn't steer you very differently, but it's again terribly valuable in a volatile period.

Jorian (33:48)
I really could listen to both of you all afternoon. I'm afraid we've run out of time. I'm sitting here thinking I wish I had either one of you as my economics teacher back in the day. I think I might have done a little bit better. Thank you so much for your time. Thank you so much for your insight and happy new year.

Elaine (34:06)

Great talking to you. Happy new year.

Nathan (34:07):
Happy new Year to you as well.

Legal (34:10)
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