

The Covid -19 Recession, and Supply Chain Disruption

Is this time different? Where do we go from here?

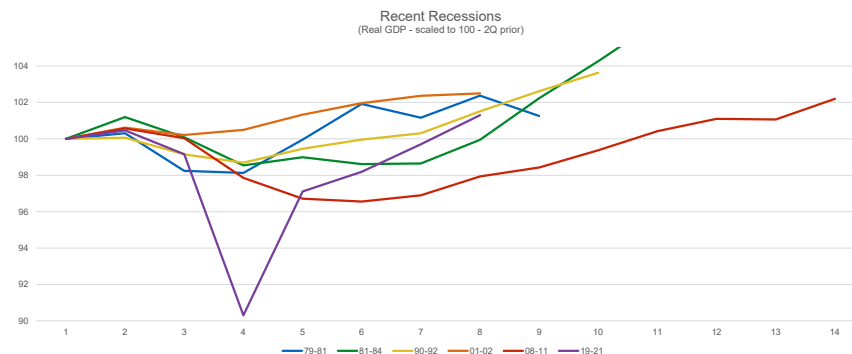
A Presentation to the 2021 CMFA Buckeye Conference

Peter G. VanderHart, BGSU Economics

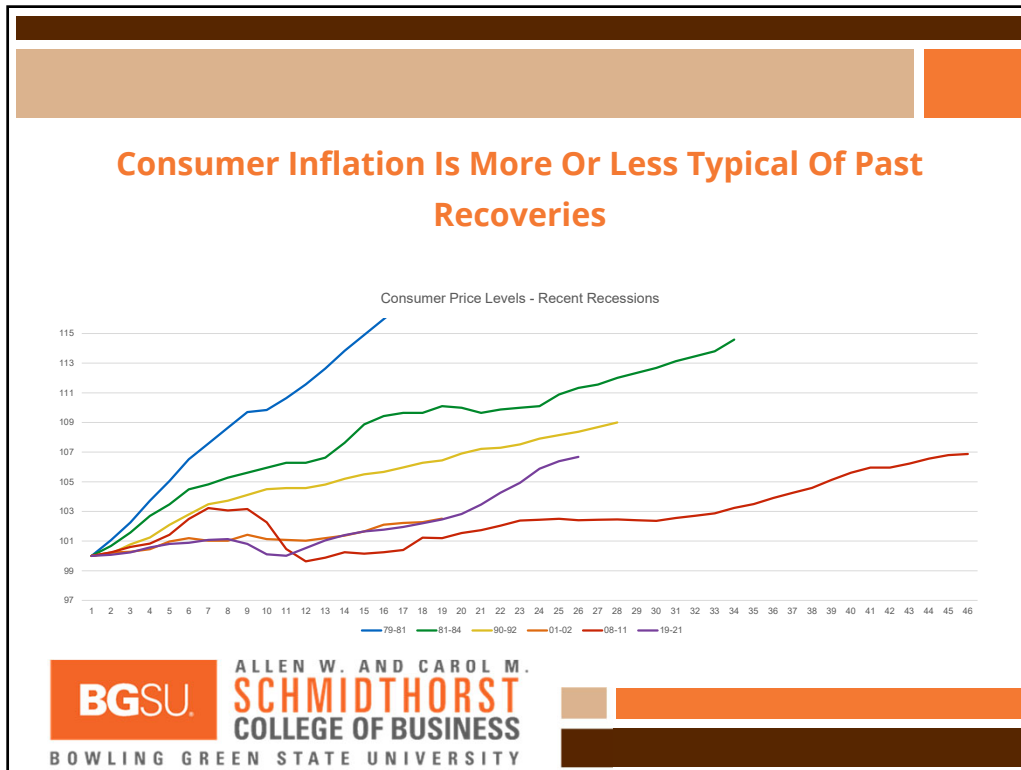


1

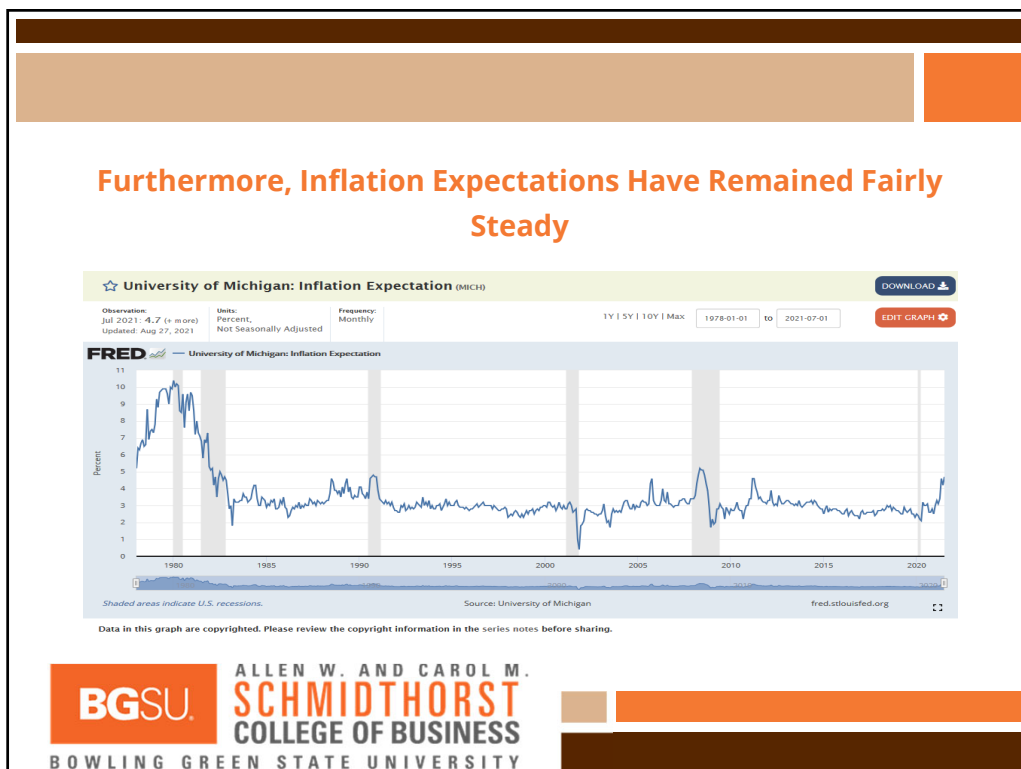
Most Recessions Since 1982 Have Had More Gradual Declines and More Gradual Recoveries



2



3



4

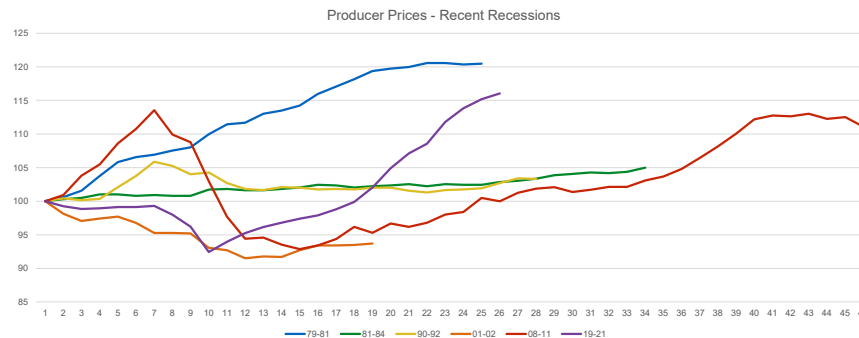
Furthermore, Inflation Expectations Have Remained Fairly Steady



BGSU ALLEN W. AND CAROL M.
SCHMIDTHORST
COLLEGE OF BUSINESS
BOWLING GREEN STATE UNIVERSITY

5

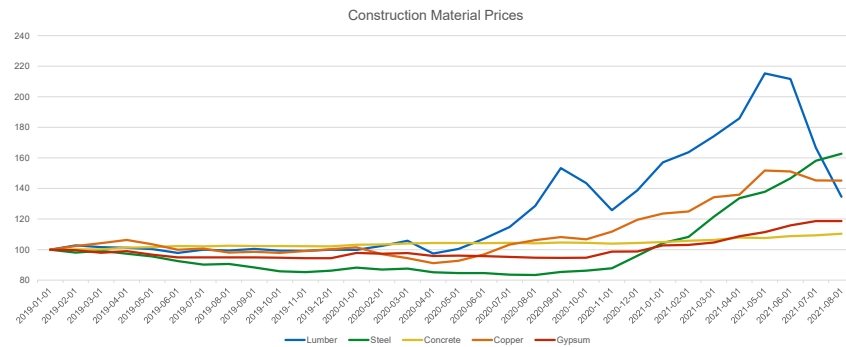
However, Producer Prices Have Increased At A Much Higher Rate



BGSU ALLEN W. AND CAROL M.
SCHMIDTHORST
COLLEGE OF BUSINESS
BOWLING GREEN STATE UNIVERSITY

6

Construction Material Prices Have Been Rising Erratically Over The Previous Year

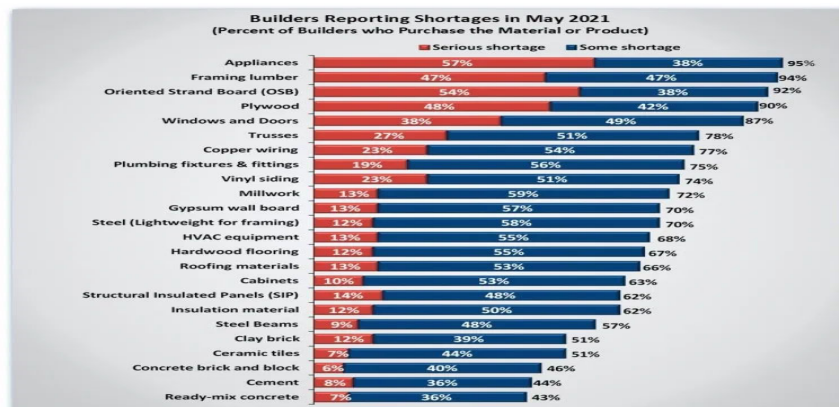


BGSU ALLEN W. AND CAROL M.
SCHMIDTHORST
COLLEGE OF BUSINESS
BOWLING GREEN STATE UNIVERSITY

7

Moreover, Shortages of Certain Materials Have Occurred

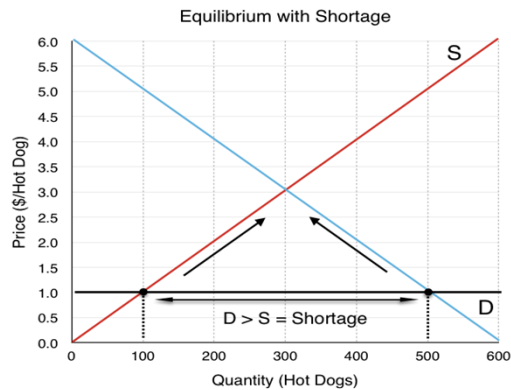
<https://nahbnow.com/2021/06/record-number-of-builders-report-material-shortages/>



BGSU ALLEN W. AND CAROL M.
SCHMIDTHORST
COLLEGE OF BUSINESS
BOWLING GREEN STATE UNIVERSITY

8

Simple Economic Analysis Says Shortages Should Not Happen



Prices Should Be Driven
Higher to Correct the
Shortage.

[https://pressbooks.bccampus.ca/uvicecon103/
chapter/3-6-equilibrium-and-market-surplus/](https://pressbooks.bccampus.ca/uvicecon103/chapter/3-6-equilibrium-and-market-surplus/)

So What Could Be Causing Shortages?

Sticky Prices

Supply Firms May Be Honoring Previous Contracts At The Lower Price, Leaving Less For New Customers.

Suppliers May Not Want To Be Viewed As "Gouging" Customers.

Increased Concentration

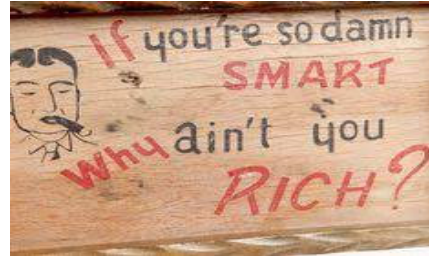
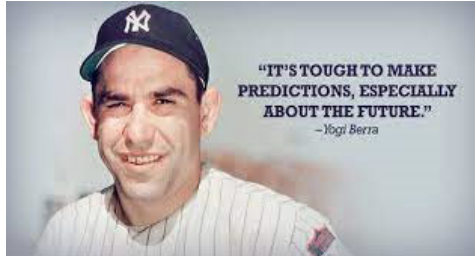
Materials Industries Have Become Increasingly Concentrated In Only A Few Firms – Increasing Returns To Scale Mean Bigger is Cheaper. But This Also Creates Monopoly Power, And Monopolies Are Notorious For Being Unresponsive To Customers, And Slow To Increase Capacity.

Labor Shortages

Government Policies May Have Caused Potential Workers Sit On The Sidelines. Without Workers, No Production. Higher Wages Could Entice Them, But Firms May Be Reluctant Because It Would Be Difficult To Cut Wages When Things Return To Normal. (Sticky Wages)

Where Do We Go From Here?

Some Disclaimers:



11

Economists Are Generally Optimistic About The Near Term

National Association of Business Economists Survey:

"Eighty-six percent of respondents expect real GDP growth over the next year will equal 3% or more."

"Thirty-four percent of panelists anticipate that the increase in costs will only be temporary"

The Conference Board

"We forecast that the US economy will grow by 3.8 percent (year-over-year) in 2022 and 3.0 percent (year-over-year) in 2023."

"The intensity and momentum of month-over-month price increases will likely continue to moderate over the coming months. This suggests that higher inflation expectations might not become embedded in the outlook."

12

