

Ruminations, Reflections and Grand Experiments In The Great Northwest

PNREC

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A Different Fraternity/Sorority

- ▶ Years and Anniversaries Ending in Zero
- ▶ Concepts-Law of Demand, Elasticity, Gains from Trade, Specialization, Diffuse Knowledge in Society, Maximizing Behavior, Opportunity Costs-Second Nature
- ▶ Way of Looking at the World-A Framework on Which to Hang What we See - Provide Insights into Behavior
- ▶ Incentives of the Actors—Homo Economicus-Enriched Now with Behavioral Economics
- ▶ Insights into Policy Issues-ACA, Minimum Wage, Inversions, Land Use Constraints,

The Mid 1960's

- ▶ 50 Years Ago-Economists Were Atop The World-December 31, 1965 *Time Magazine's* Cover was John Maynard Keynes. Walter Heller on the Cover in March, 1961 and June, 1962
- ▶ The Excitement was Palpable- Unemployment Rate- High of 4% and a Low of 3.6%, CPI for the Year 2.9%
- ▶ Real GDP Growth in 1966 was 6.6%
- ▶ February 1961 Trough to December 1969 Peak 106 Months
- ▶ The Cultural Revolution Began in China-Purges, Famine, The Red Guard-Economic Chaos

Northwest Then

- ▶ Persian Gulf of Timber- Washington and Oregon 1978 159,000 Employees in Lumber and Wood and Paper
- ▶ Airplanes
- ▶ Potatoes, Grain, Cattle, Aluminum Plants left from War and Cheap Electricity
- ▶ Military Bases-at War in the 60's
- ▶ Region with Weird Tax Structures-Only Idaho Looking Like the Rest of the Nation
- ▶ In Oregon-Tektronix was Bigger than Intel is Now
- ▶ Electric Trains Crossed The Cascades, Idaho and Montana-Now The Washington Part is John Wayne Trail
- ▶ Poisoning the Salmon in Redfish Lake to Improve it for Trout
- ▶ Mount Saint Helens was 9,677 Feet Tall
- ▶ *Animal House* Filmed in Eugene -Released in 1979
- ▶ April 1971-Bob McDonald and Jim Youngren Billboard-"Will the last person leaving Seattle-Turn out the Lights" Boeing had cut 60,000 jobs-Unemployment Rate at 13%-- *Economist* called Seattle "City of Despair"

Excitement for Economists

- ▶ Kennedy-Johnson Tax Cuts-Reaganomics-Stimulus Packages
- ▶ Macro Policy Excitement of the late 1960s-Surtax 1968-Economists Urging Some Fiscal Restraint-Inflationary Pressure SOU 1966 “ I believe that we can continue the Great Society while we fight in Vietnam.”
- ▶ August 15, 1971- President Nixon Imposed Price Controls-90 Day Freeze followed by Four Phases
- ▶ 1973 Oil Shock Followed by Other Oil Ups and Downs
- ▶ CPI in 1979 up 11.3%, 1980 13.5%, and 1981 10.3% 1986 1.9%
- ▶ Paul Volcker at the Fed 1979-87 Chairman- Fed Funds hit 20% in March of 1980- No Central Banker wants to Repeat That Process
- ▶ October 19, 1987 23% Decline in Stock Market, 9/11

Half Century Later

- ▶ The Great Moderation 1982-2007-25 Years interrupted by two 8 month Recessions- 7/90 to 3/91, and 3/01-11/01-Gave Way to The Great Recession
- ▶ Tech Center-Microsoft, Amazon, Micron, Intel, etc..
- ▶ Starbucks, Costco, Nike, Columbia, Nordstrom
- ▶ Region with Weird Tax Structures-Only Idaho Looking Like the Rest of the Nation
- ▶ Timber a Shadow of its Former Self (OR and WA 48,300 jobs), Aluminum Plants Going or Gone
- ▶ Vancouver, Seattle, Portland, Eugene-Part of Cascadia -Urban Archipelagos-along with Bay Area and Southern California in Pacific Coast Region-Parag Khanna-"Connectography: Mapping the Future of Global Civilization"
- ▶ Case Shiller-Most Rapid House Price Appreciation Portland, Seattle, Denver
- ▶ Inflation the last 12 months .9% with an Unemployment rate of 5%
- ▶ Fed trying to Raise Inflation
- ▶ Mount Saint Helens 8,363 Feet Tall

Regional Shocks

- ▶ Spotted Owl Listing 1991- Land Use Decisions-Plunge in Harvests off Federal Lands
- ▶ Land and Water Implications of Salmon Listings-Snake River Sockeye November 1991
- ▶ Microsoft Locational Decision, Amazon, H-P To Boise
- ▶ Fear of Property Tax Limitation-a la California
- ▶ The 1979-82 Regional Downturn-Outmigration-Home Price Declines-Focus on Economic Development
- ▶ Silicon Forest-Oregon Unitary Tax Repeal-One Day Legislative Session
- ▶ Boeing Headquarters Shift/Charleston Location
- ▶ Economists as Endangered Species-Disappearing Economists-Rainier, Seafirst, First Interstate, US, Key, First Security , Energy Industry

May, 2016

- ▶ 83 Month of Upturn-In the History of this Organization-only 3 Longer
- ▶ Finished 7 Years at the Zero Bound
- ▶ Unemployment Rate at 5%-Wage Growth at 2.5%
- ▶ Oil Price Collapse 2014 -2016
- ▶ \$8 Trillion of Government Debt Trades at Negative Rates
- ▶ 6 Calendar Years of GDP Growth Near 2 Percent
- ▶ Trade Agreements Under Attack Political Process-For Many In This Room Uneasy
- ▶ Political Campaign in Which Economists Sit in Utter Amazement
- ▶ Our Corner of the World Faring Generally Well

Job Growth Update March 2016 Data Year over Year Change - 43 States Up

Source: BLS, ASU

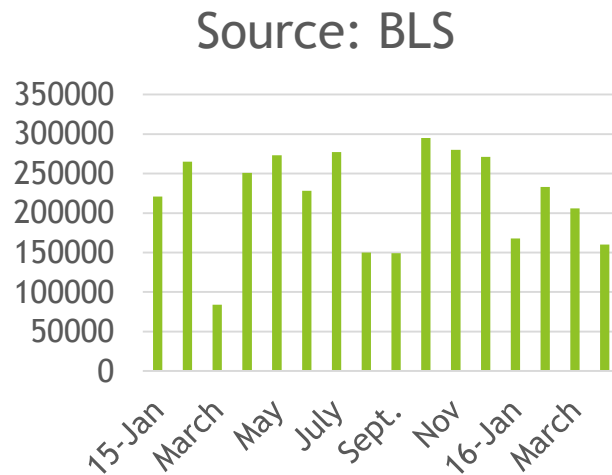
- ▶ **Idaho 1**
- ▶ **Oregon 2**
- ▶ Utah 3
- ▶ Tennessee 4
- ▶ Arizona 5
- ▶ **Washington 6**
- ▶ Georgia 7
- ▶ Florida 8
- ▶ Virginia 9
- ▶ Colorado 10
- ▶ South Carolina 11
- ▶ Nevada 12
- ▶ California 13
- ▶ Hawaii 14
- ▶ Delaware 15
- ▶ North Carolina 16
- ▶ Maryland 17
- ▶ Arkansas 18
- ▶ Michigan 19
- ▶ Kentucky 20
- ▶ Rhode Island 21
- ▶ New Jersey 22
- ▶ Ohio 23
- ▶ Massachusetts 24
- ▶ New Hampshire 25
- ▶ Mississippi 26
- ▶ Vermont 27
- ▶ Wisconsin 28
- ▶ New York 29
- ▶ Texas 30
- ▶ Nebraska 31
- ▶ Illinois 32
- ▶ Minnesota 33
- ▶ Pennsylvania 34
- ▶ Alabama 35
- ▶ Indiana 36
- ▶ Missouri 37
- ▶ Iowa 38
- ▶ Maine 39
- ▶ Connecticut 40
- ▶ South Dakota 41
- ▶ **Montana 42**
- ▶ New Mexico 43
- ▶ **Kansas 44**
- ▶ **Oklahoma 45**
- ▶ **Alaska 46**
- ▶ **Louisiana 47**
- ▶ **West Virginia 48**
- ▶ **Wyoming 49**
- ▶ **North Dakota 50**

Real GDP 2015-16 Commerce Department (SAAR,%)

	Q1-15	Q2-15	Q3 15	Q4-15	Q1-16
GDP	.6	3.9	2	1.4	.5
Consumption	1.8	3.6	3.0	2.4	1.9
Equipment	2.3	.3	9.9	-2.1	-8.8
Intell Prop	7.4	8.3	-.8	-.2	1.7
Non-Res	-7.4	6.2	-7.2	-5.1	-10.7
Residential	10.1	9.3	8.2	10.1	14.8
Federal	1.1	0	.2	2.3	-1.6
State and Local	-.8	4.3	2.8	-1.2	2.9
Exports	-6	5.1	.7	-2	-2.5
Imports	7.1	3	2.3	-.7	.2

Labor Market Data To April

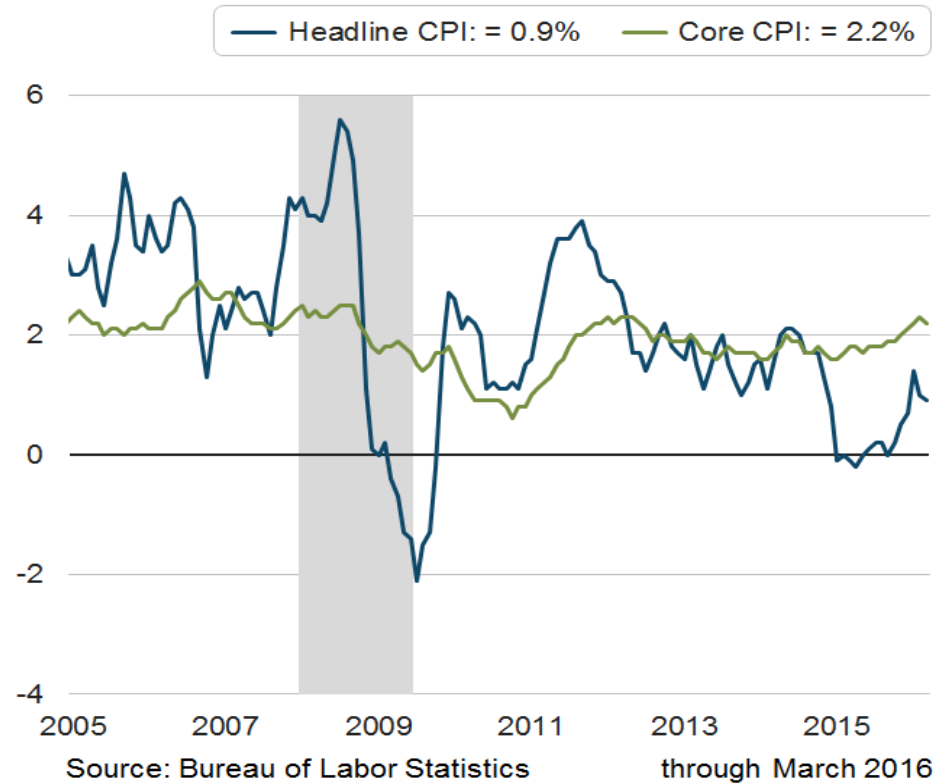
Monthly Change Payroll Employment 2015-2016



- ▶ 5.5 Million Jobs Above 1/08 Peak and 14.2 Million Above 2/10 Trough
- ▶ Participation Rate 62.8%-Above the Lows-Down for the Month
- ▶ All Super Sectors up except Mining, Logging and Manufacturing
- ▶ Part Time Economic Reasons 5.78 Million down by 589,000 Over the Year
- ▶ Hourly Earnings Growth-2.5%-Moving up?

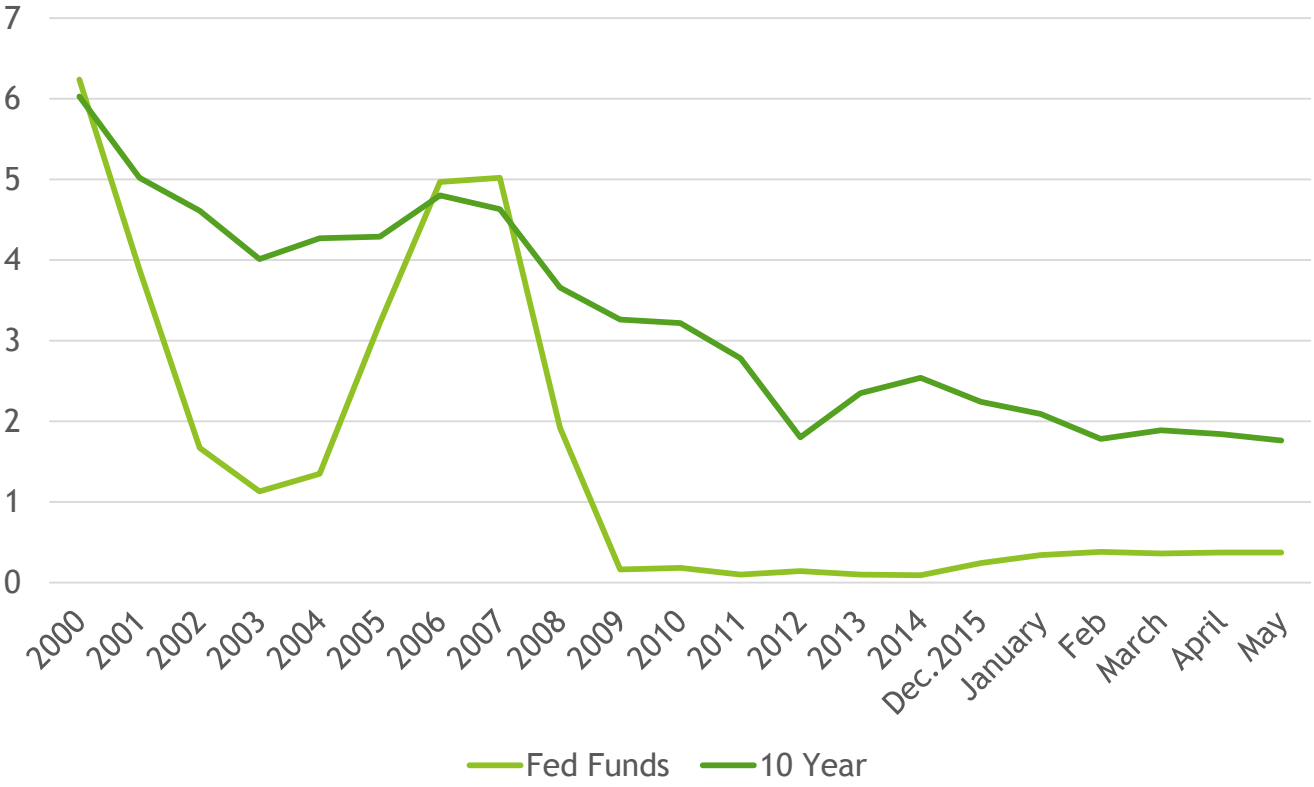
Inflation

Consumer Price Index (CPI)
year-over-year percent change



Federal Funds Rate and 10 Year Treasury

Source: Treasury, Fed



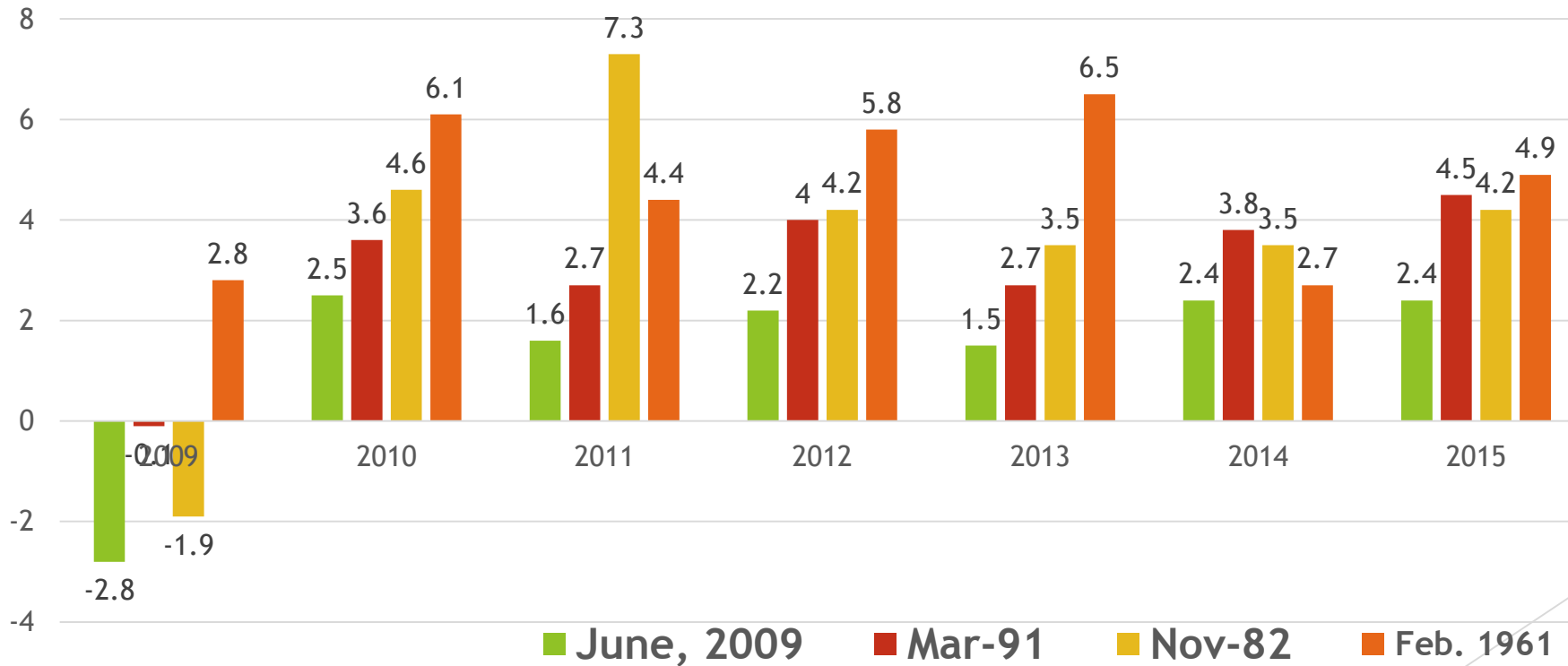
Outlooks

(Note the Preponderance of 2's)

- ▶ Consensus 1.8% in 2016 and 2.3% in 2017
- ▶ Inflation 1.2% in 2016 and 2.3% in 2017- The December to December changes the last 2 years have been .8% and .7
- ▶ Fed Long Term Median 2016 2.2%, 2017 2.1% and 2018 2%, Longer Run 2% (March)
- ▶ Consensus Forecasts, OMB, CBO- Annual Projections 2018-2022-Average Between 2.3% and 2.1%

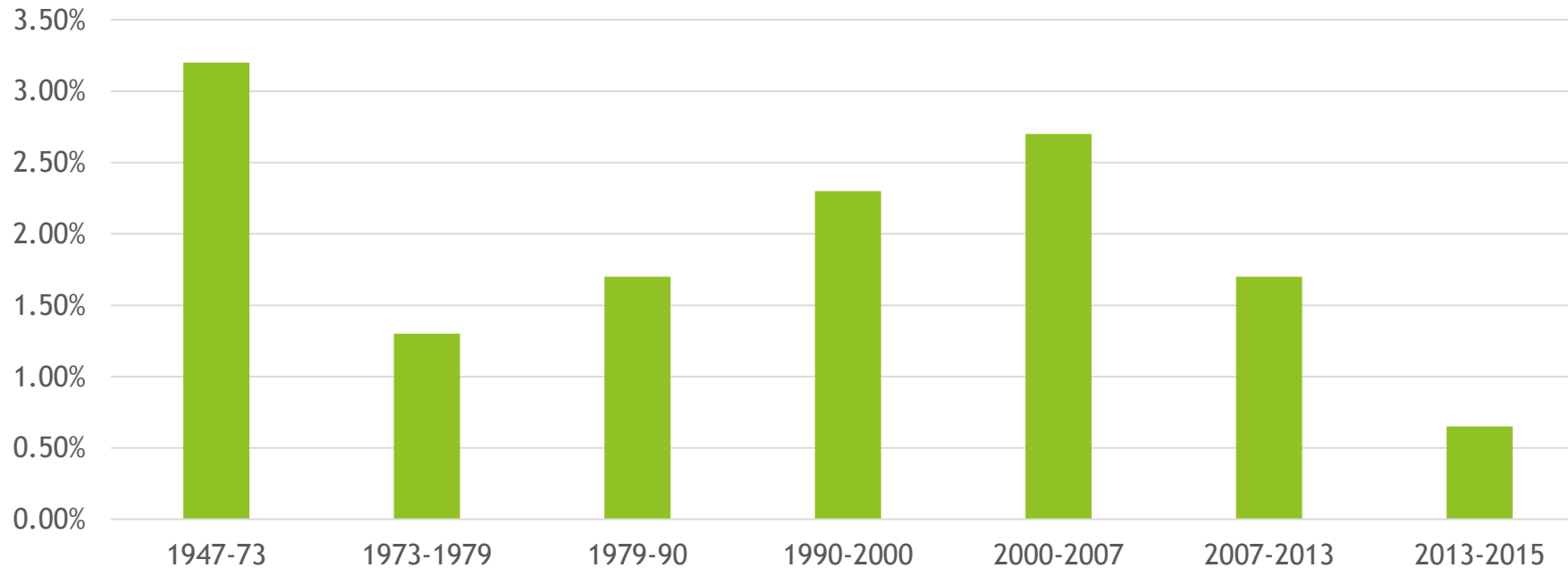
Other Long Cycles-End of Recession to Year Seven Real GDP Growth

Source: BEA, NBER



Labor Productivity Growth in The Business Sector 1947-2015

Source: Bureau of Labor Statistics, Beyond the Numbers



■ Source: Bureau of Labor Statistics, Beyond the Numbers

Blip-Trend-Leftover?


- ▶ Robert Gordon “*The Rise and Fall of American Growth*” 2016- Headwinds
- ▶ Demographics-Aging Population
- ▶ Educational System
- ▶ Inequality-Holding Down Median
- ▶ More Limited Impact of Technical Advances

Others

- ▶ Leftovers from Great Recession
- ▶ Excess Savings Limiting Monetary Policy
- ▶ Regulatory/Policy Mix
- ▶ Measurement Issue

Monetary Policy Experiment

- ▶ *4/27/16 “labor market conditions have improved as growth in economic activity appears to have slowed” “household spending moderated”, “housing sector has improved further, but business fixed investment and net exports have been soft.” “Inflation continued to run below ..objective, partly reflecting earlier declines in energy prices and falling prices of non-energy imports.”*
- ▶ *“The Committee continues to closely monitor inflation indicators and global economic and financial developments.”*
- ▶ *Inflation “ to rise to 2 percent over the medium term as the transitory effects of the declines in energy prices and import prices dissipate and the labor market strengthens further.”*

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- ▶ When the next downturn arrives, what happens?
 - ▶ Rate Cuts, Forward Guidance, Quantitative Easing, Negative Rates- Bernanke (2016)
 - ▶ Helicopter Money-An Expansionary Fiscal Policy financed by an increase in the Money Supply- The Idea -Friedman (1969)

Annual Domestic Migration-Back to the Future

Source: William Frey, Brookings

	2013-14	2014-15
Florida 1	137,432	202,510
Texas 2	162,390	170,103
Colorado 3	39,187	54,459
Arizona 4	41,548	45,934
South Carolina 5	39,255	45,582
Washington 6	27,825	40,799
North Carolina 7	34,337	38,197
Oregon 8	22,738	34,824
Idaho 15	8,425	6,880
Montana 16	4,447	5,268
California 48	-33,309	-77,219
Illinois 49	-96,762	-105,217
New York 50	-160,329	-157,992

2016 Themes/Issues

- ▶ National Expansion Should Continue
- ▶ Risks-Robert Shiller-"Basically, global recessions begin when newly popular narratives reduce individuals motivation to spend money. Psychology matters a great deal." (May 1 NYT) Opening Weeks of 2016
- ▶ Tightening Labor Markets
- ▶ Inflation Pick Up- As Transitory Events Pass
- ▶ Residential Markets Improving
- ▶ Implications of Overseas Events
- ▶ Gradual Rate Increases-Data Driven -Volatility
- ▶ Continued ACA Rollout
- ▶ Minimum Wage Experiments

Regional/Other Issues In the Next Half Century

- ▶ Fate of Transpacific Partnership and Transatlantic Trade and Investment Partnerships- Attitude Towards Trade Agreements-Bashing By Seemingly All Candidates-Diffuse Gains and Concentrated Impacts-Region with Abundant Global Connections
- ▶ Expanded Panama Canal?
- ▶ Will the Tax Systems Change? Outliers-Optimal Place to Live-Right Here-No Income and Shop over There-
- ▶ Coping With Growth-Westside-Traffic, House Prices-Implications for Boise, Spokane, Tri-Cities, Missoula etc.. -The Empty Quarter (Garreau, 1981) or The Inland West (Khanna, 2016)
- ▶ Decision Making Shifts Defined Contribution/Defined Benefit-ACA, HSAs-Most in this Room Very Comfortable with the Decisions-Many Others are Not-Economic Education-Information
- ▶ Trade, Technology, Public Policy Shifts, Creative Destruction-Dealing with the Human Implications-People Outside the Hotspots-Not Stop but Facilitate Changes
- ▶ Long Term Course of Fiscal Policy-Squeeze on Discretionary Spending, Ability to Respond to Crisis

The Daily Thrill of Being An Economist

- ▶ Watching the Changes in Data Torrent-Millions of Decisions by People in Their Multiple Roles Interacting in Our Mixed Economy
- ▶ Appreciating the Miracle of the Grocery Store or the 737 or the Pencil
- ▶ Hopefully Being Part of a Discipline That Can Contribute To Dealing with the Vexing Issues of Our Region and Our Time.

- ▶ “...economics was never the dismal science, but a fascinating public discipline alive with possibilities for hope and progress.” Edward Kennedy on Walter Heller