

Economic Update and Outlook

Economic Alliance for Lewis County

Hart Hodges
&
James McCafferty

October 3, 2024



1

A quiz

How would you describe your own financial situation?

Poor – OK – Good – Excellent

How would you describe the state of the regional economy?

How would you describe the state of the U.S. economy?

Remember your answers....

2

National Outlook: Real GDP Growth

- The US Economy is projected to grow moderately through 2026.
- **2.5% growth by Q3 2024** (Atlanta Fed).
- The fear of **recession** is gradually fading away.
- But is the **“Soft Landing”** nearby? Time will tell

Year	Real GDP
2023	3.2%
2024	2.5%
2025	1.8%
2026	2.4%



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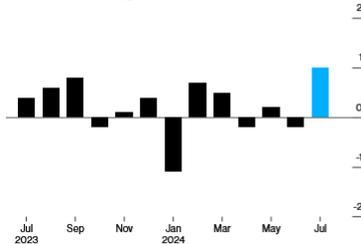
10/03/2024

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The ongoing surprising economy

Retail Sales Climb
■ Month-over-month change



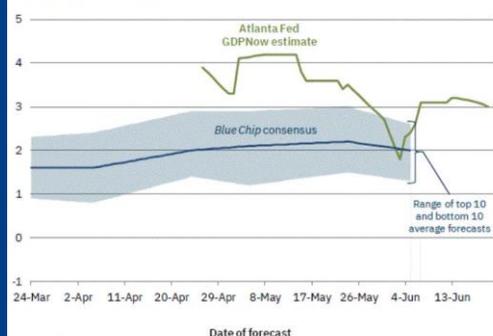
US Retail Sales Beat Forecasts, Defying Fears of Weaker Consumer

The data signal consumers are staying resilient even in the face of high prices and borrowing costs.

WMT ▲ +6.46%

16 minutes ago
Walmart Lifts Yearly Outlook as Shoppers Hunt for Bargains

Evolution of Atlanta Fed GDPNow real GDP estimate for 2024: Q2
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

4

Blue Chip and NABE Consensus

GDP growth slowing from 2.4% in early 2024 to 1% by year end
Return to 2% growth longer term

Unemployment increasing to roughly 4.5% in 2024... then hovering around 4%

Inflation continues to fall, but stays above 2% through 2024
Considerable disagreement on this item...

Rate cuts have started
Debate about the pace (4-4.25% by end of year)
Yield on 10-year U.S. Treasuries little changed from today



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5

Blue Chip and NABE Consensus

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The Data – be careful

- Response rates are down
- Establishment Survey vs Household Survey
 - *Different data sources, survey techniques, etc. → different results*

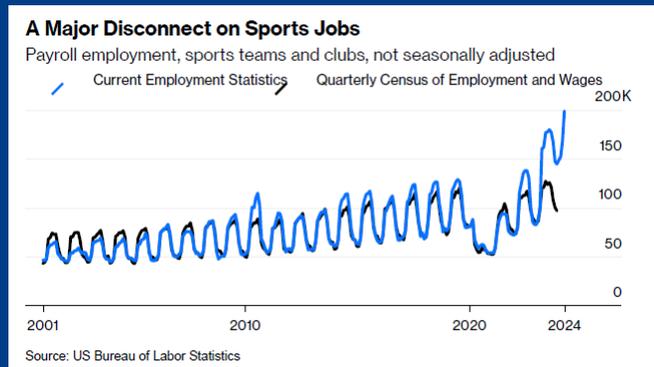


Figure from “Strange Things Lurk Under the Hood” – Bloomberg 6/17/24

7

An Example

LOCAL

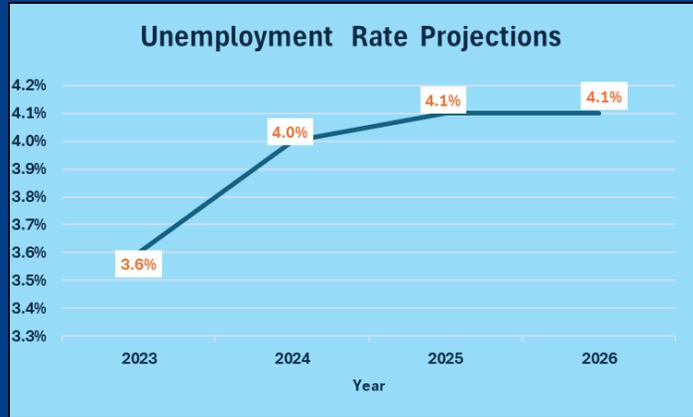
Bellingham’s median income dropped \$12K in 2023, poverty up 54%, new Census Bureau data says

BY DANIEL SCHRAGER
UPDATED SEPTEMBER 14, 2024 1:47 PM

8

National Outlook: Unemployment

- Unemployment Rate remains historically low.
- Hovering around **4%** and expected to remain steady through 2026.



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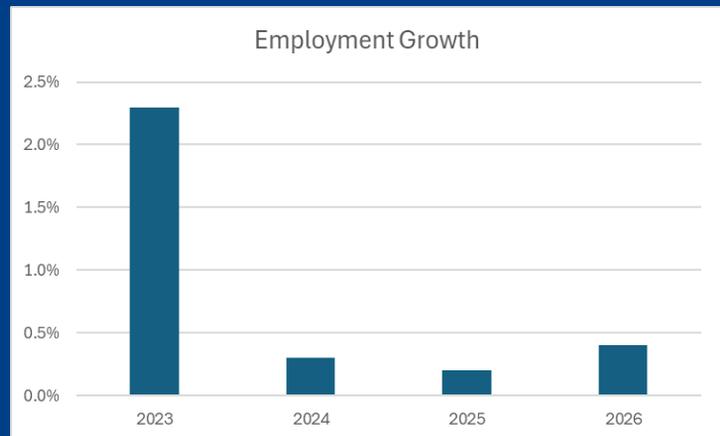
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9

9

National Outlook: Employment Growth

- Job growth has been relatively slower.
- Workers are **staying longer on the job**.
- **Reduced lay-off** is keeping the labor market strong.
- Rate cuts could stimulate economic activities in **interest sensitive sectors (e.g. Real Estate, Auto, Tech etc.)** to create more jobs.



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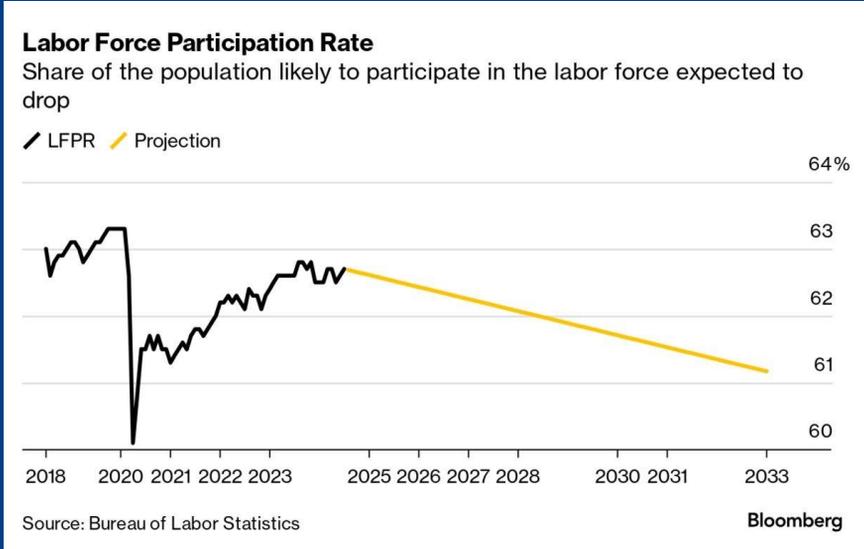
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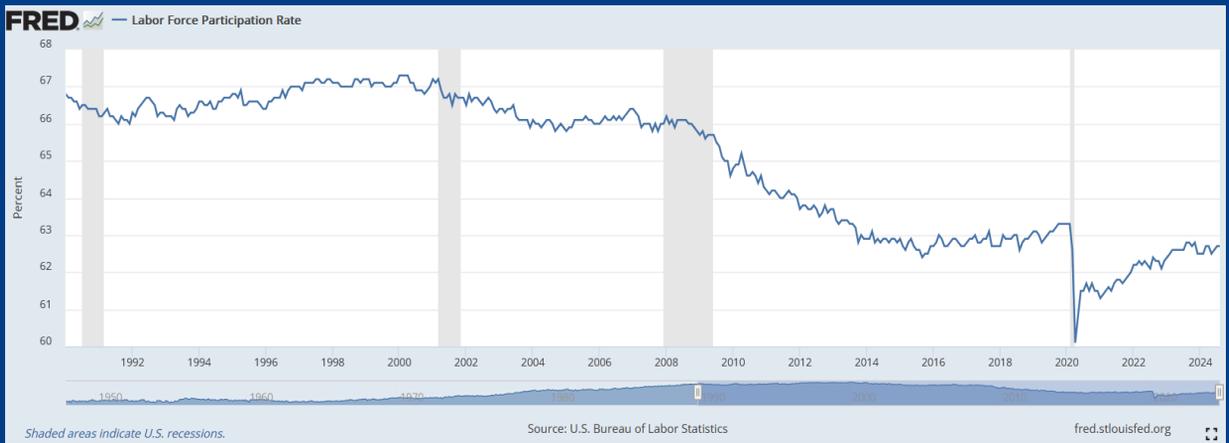
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Unemployment ... and LFPR



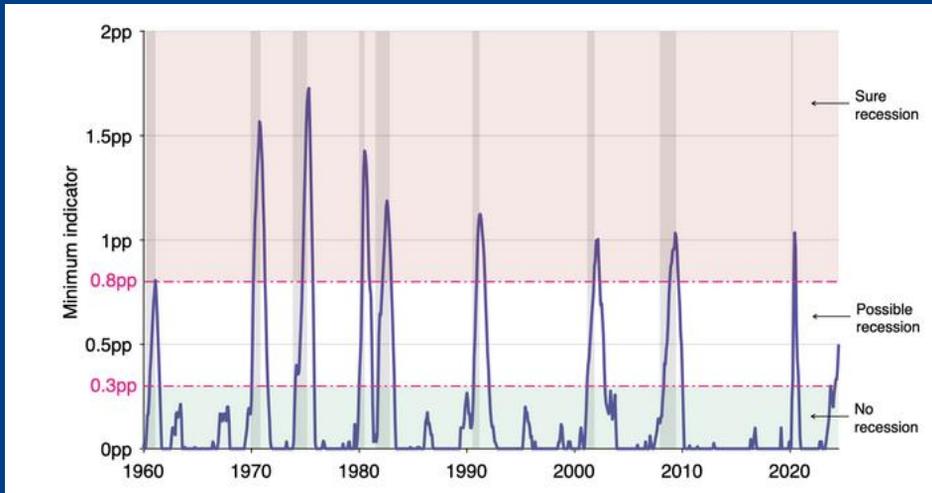
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Unemployment ... and LFPR



12

Or is another surprise on the horizon?

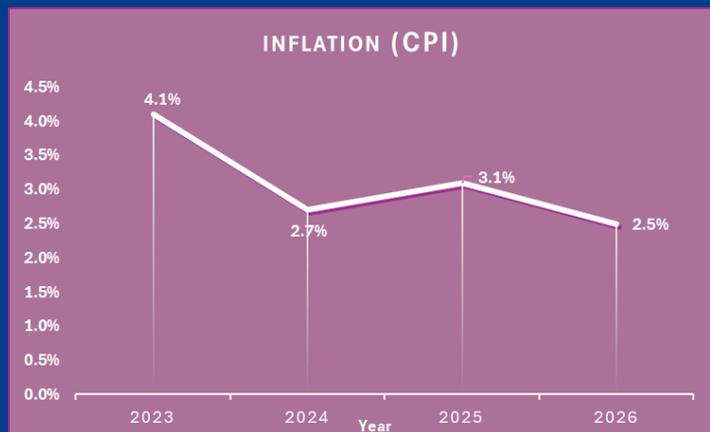


Michaillat, Pascal, and Emmanuel Saez. 2024. "Has the Recession Started?"

13

National Outlook: Inflation

- Inflation is cooling.
- Fed's target of **2 %** appears to be achievable.
- Without hurting the **labor Market or Economic Growth**.
- Are these signs of long-term growth trajectory?
Too early to say!



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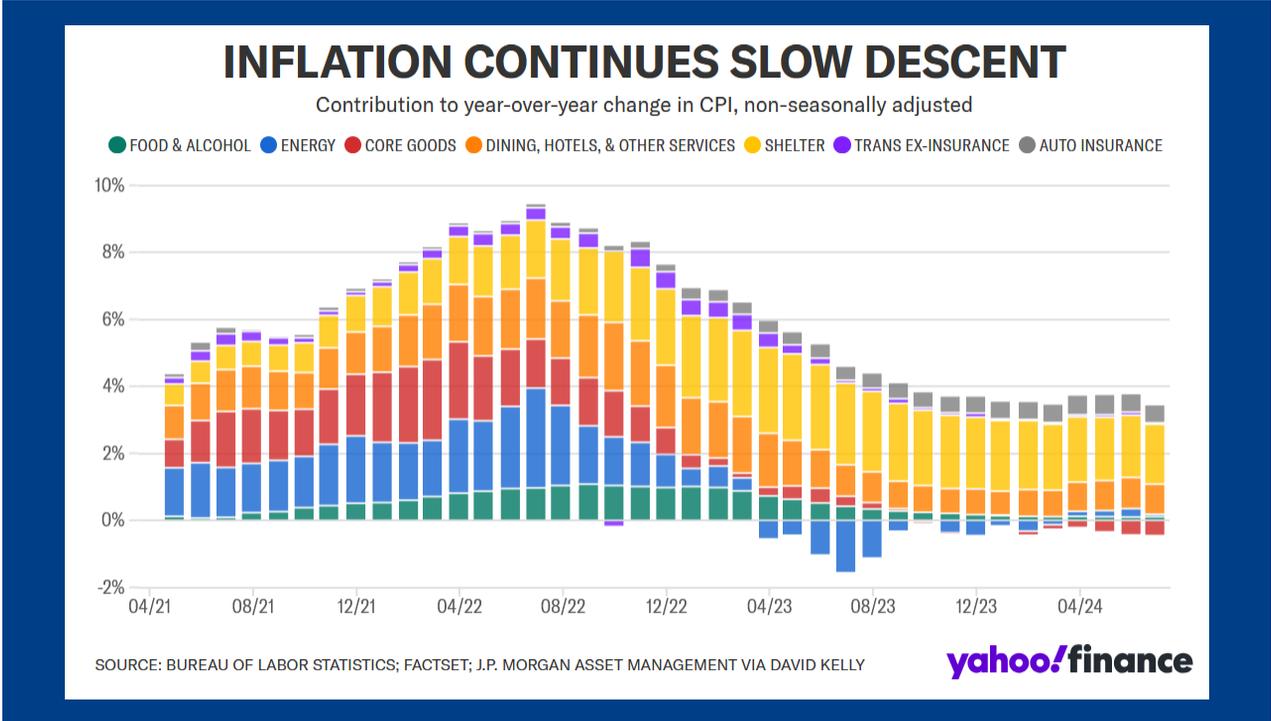


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14

14



15

We talk about “the” economy

US Inflation Map

New England, Midwest see highest YoY inflation

2.4 2.8 3.1 3.3%

Core US Inflation Eases for a Fourth Month, Sealing Fed Rate Cut

Inflation is still broadly on a downward trend as the economy slowly shifts into a lower gear.

ANALYSIS
Here Are the Key Takeaways From the US CPI Report for July

Markets Wrap
Stocks Rise as CPI 'Checks The Box' for Fed Cuts

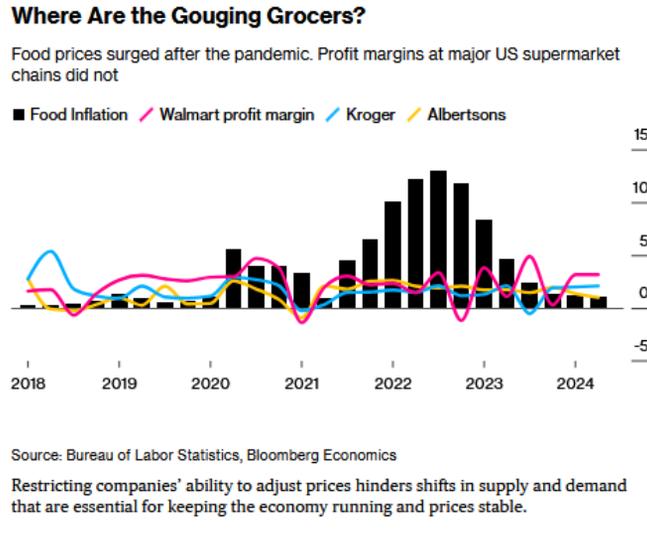
Bond Traders See Quarter-Point Cut Next Month as Inflation Ebbs

BOE Says Key Market Rate Is Working Fine After 70-Day Freeze

From Bloomberg.com – Aug 14, 2024

16

And Some talk about price gouging



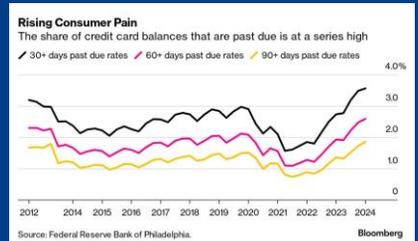
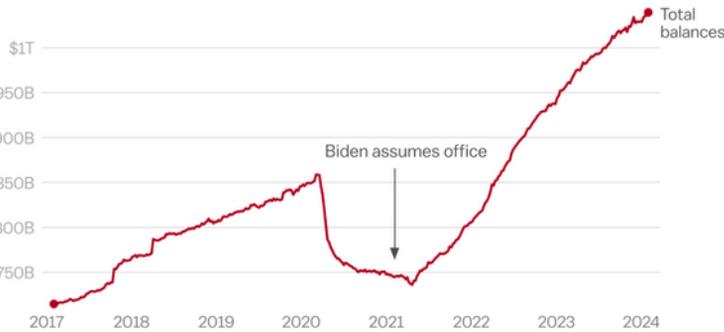
From Bloomberg.com Sept 30, 2024

17

A Few Other Things to Consider

Americans are racking up record credit card debt

The balances on consumer credit cards and other revolving plans at US commercial banks have topped \$1 trillion.



18

Key Questions

Can consumer spending support a 'soft landing'?

- Lower inflation will help, but is that enough?
- Consumer debt is increasing (credit card and auto loan debt above pre-pandemic levels)

Will unemployment increase enough to cause problems... or has it already?

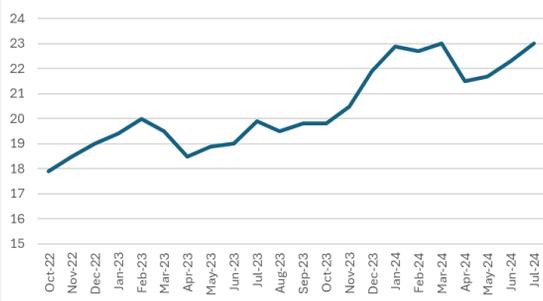
Will interest rates remain high enough for long enough to create problems in commercial real estate?

Geopolitical unrest and "black swans"

19

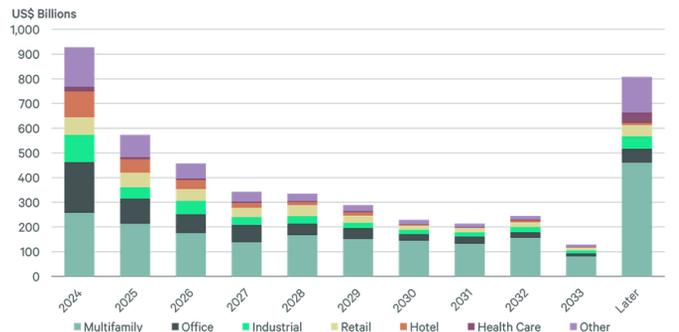
Commercial Real Estate

U.S. Telework Rate (percentage of workers)



U.S. BLS – CPS survey

Figure 1: Commercial Real Estate Loan Maturities by Property Type



Source: Mortgage Bankers Association.

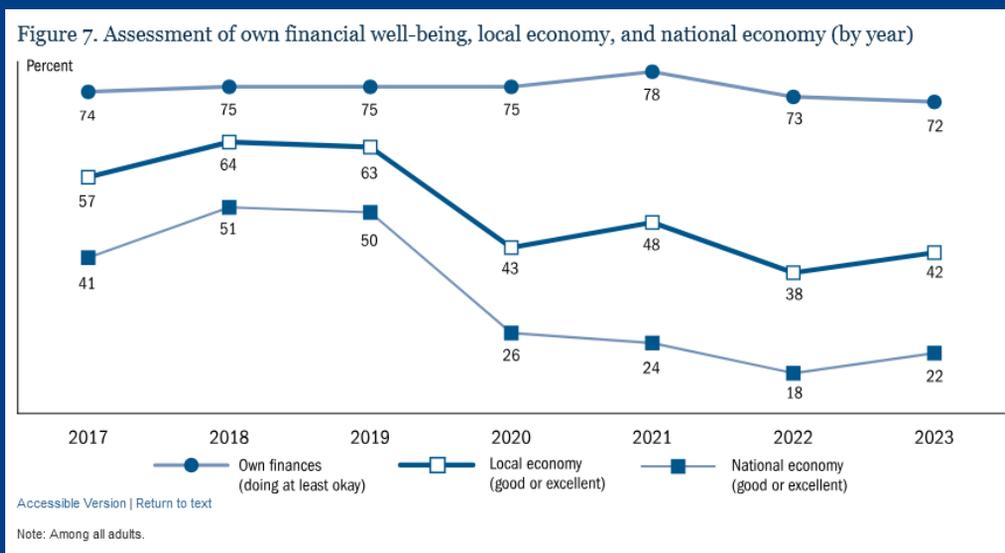
20

Back to the quiz

Some things just aren't statistically possible...

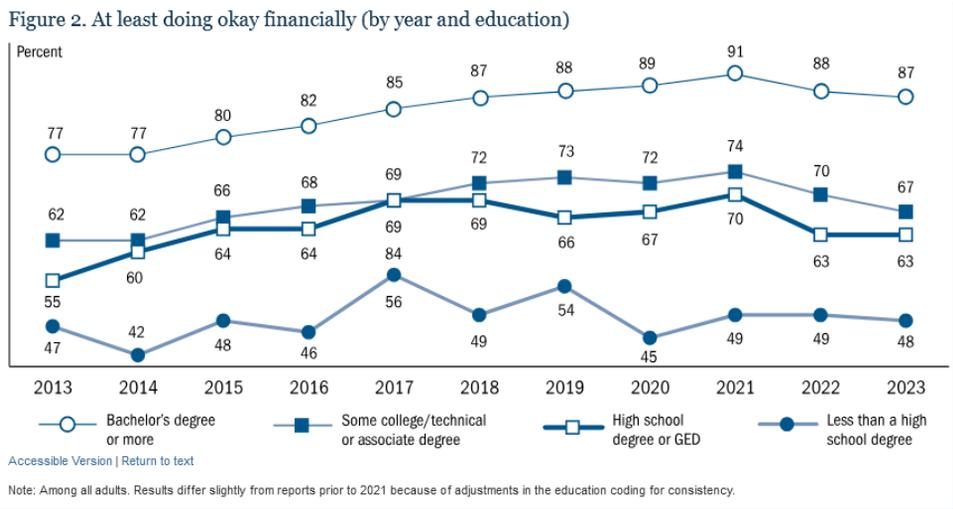
21

Doesn't Make Sense – but does matter



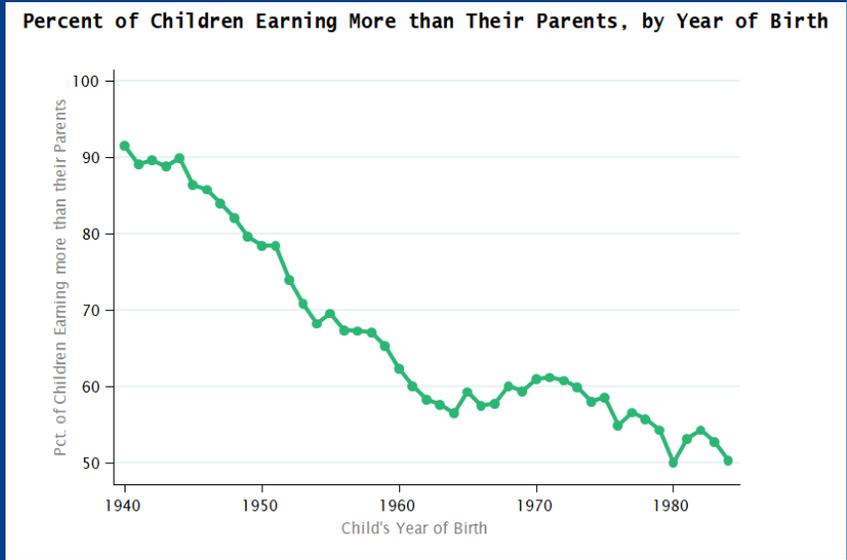
22

Something to Unpack



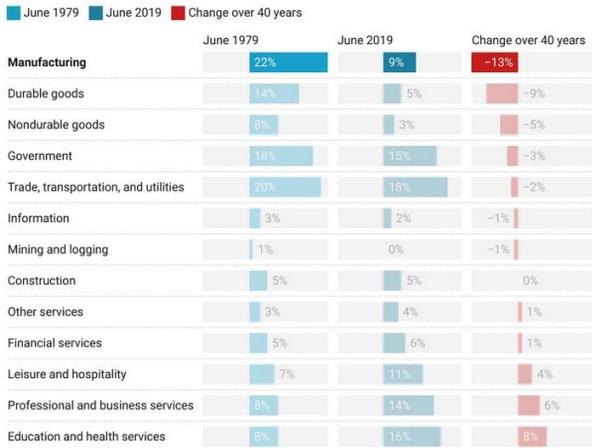
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Well...

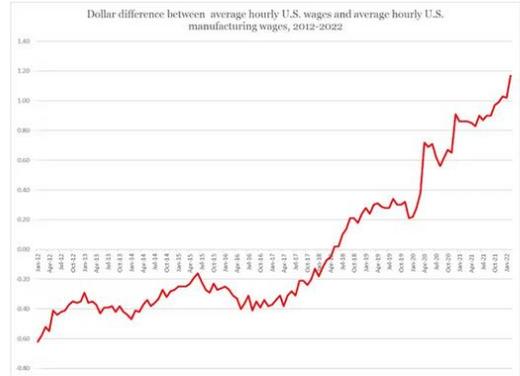


24

Manufacturing has lost the greatest share of its workforce over the last 40 years



1979-2019
 Chart: Jeremy Ney @AMERICANINEQUALITY • Source: Bureau of Labor Statistics • Created with Datawrapper

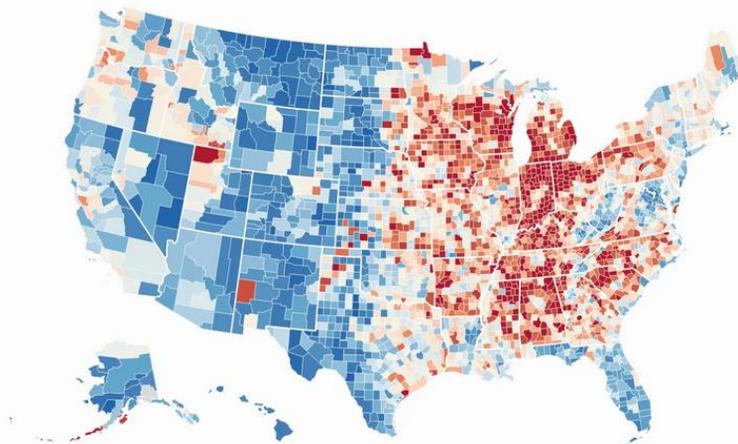


Non-manufacturing US workers started making MORE money than manufacturing workers in April 2018 (the inflection point in the graph above). Source - [Department of Labor](#)

25

Manufacturing jobs no longer provide the path to opportunity they once did, but many communities still center around this work

Pct employed in manufacturing
 0% 10% 23%

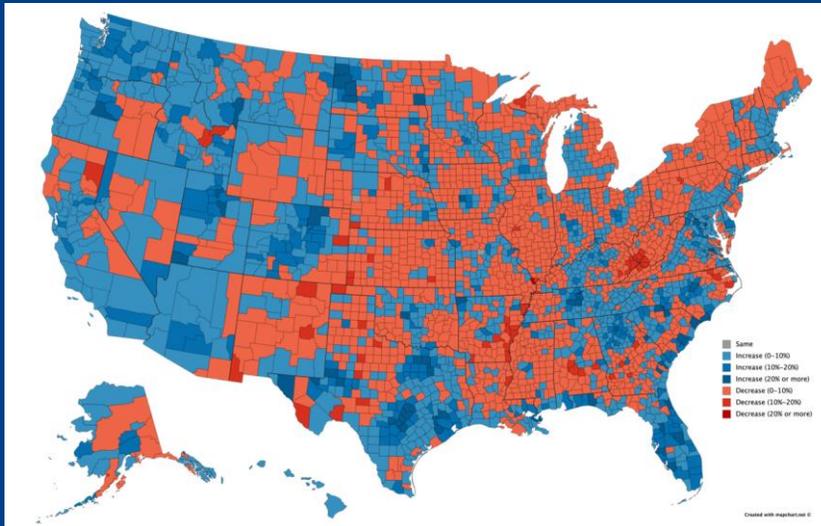


2022 - Manufacturing-dependent counties are those with 23% or more of average annual earnings derived from manufacturing or 16% of total employment during

Map: Jeremy Ney @AMERICANINEQUALITY • Source: USDA • Created with Datawrapper

26

And another layer (pop change 2010 – 2018)



<https://www.visualcapitalist.com/u-s-population-change-by-county-2010-2018/>

27

Speaking of red and blue...

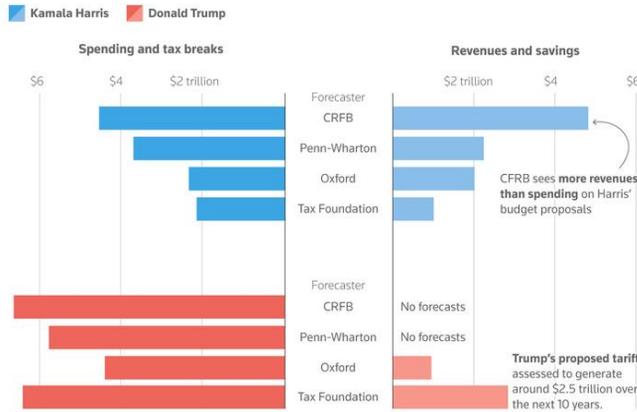
Yup – we're going to talk about the election – or at least the implications

Note: down ballot races may be more important when we think of economic implications.

28

Comparing the budget impact of Trump's and Harris' tax and spending plans

Projected 10-year costs and revenues from proposed spending, tax cuts and increases and import tariffs compared to Congressional Budget Office baseline forecasts



Note: Committee for a Responsible Federal Budget (CRFB) and Penn-Wharton Budget Model project no revenues from Trump's policy proposals due to lack of specifics. Forecasts are based on static budget scoring and do not include estimates of debt service costs nor economic growth impacts.

Sources: CRFB, University of Pennsylvania, Oxford, Tax Foundation

Prinz Magtulis • Sep. 10, 2024 | REUTERS

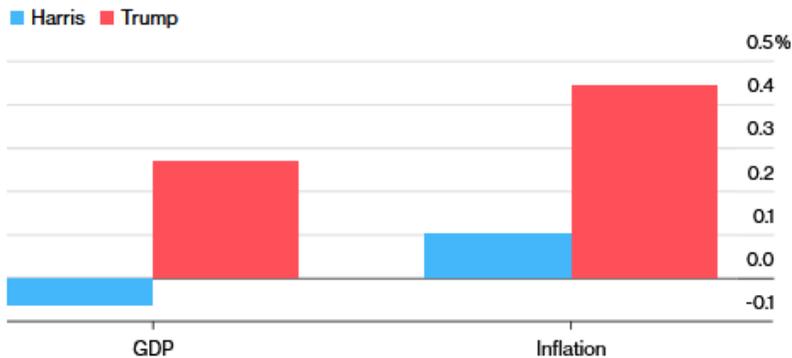
Reuters Graphics

29

GDP Growth and Inflation

How Trump, Harris Tax Plans Would Affect Growth and Prices

Estimated impact by 2028 (relative to baseline)



Source: Bloomberg Economics

30

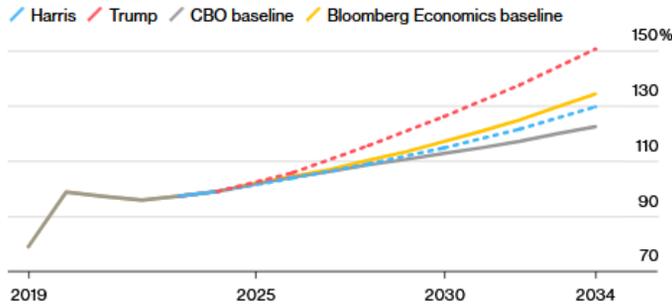
Debt

What Bloomberg Economics Says:

In 2024, the US is expected to run a fiscal deficit of around 6.5% and its debt-to-GDP ratio will approach 100%, up from 79% in 2019. Against that backdrop, it's striking that Trump's tax policies would significantly add to the debt burden, and Harris's would do nothing to reduce it.

How Trump, Harris Tax Plans Would Affect National Debt

Projected debt as share of GDP with full implementation of plans



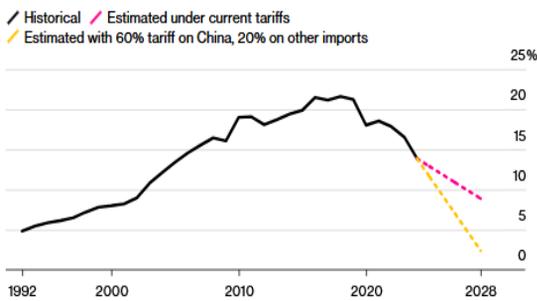
Note: Projections do not include impact of proposed tariffs on revenue or growth

Source: Congressional Budget Office, Bloomberg Economics

31

Trump's Maximal Tariffs Would Wipe Out Most Trade With China

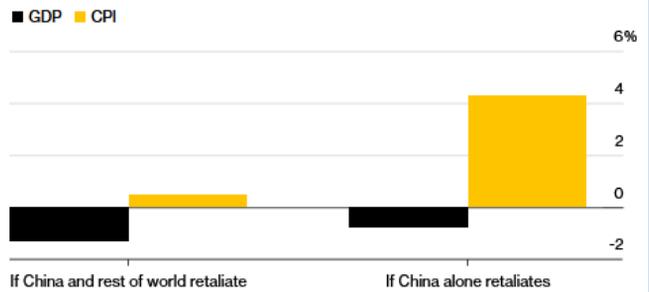
Share of US goods imports coming from China



Source: US Census Bureau, Bloomberg Economics

Trade War Escalation Would Cut US Growth, Raise Prices

Estimated 2028 impact of Trump's tariff plans (relative to baseline)



Source: Bloomberg Economics

32

So...

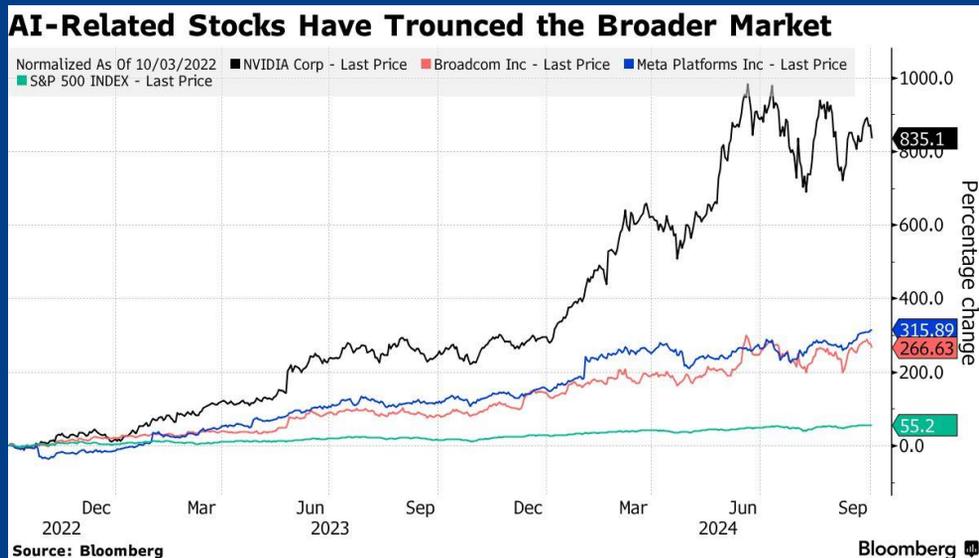
Was the period from 1950 to 2010 an anomaly... with a thriving middle class... and we are returning to a period more like the distant past, with higher income inequality and other things?

Or – are we on the cusp of the next great period of growth in productivity and corresponding prosperity?

Think of what AI might offer.

33

AI – promise or hype?



34

Probably

The answer lies somewhere in the middle

If AI is a \$4 trillion industry – then today's AI darlings (like Nvidia) are significantly overvalued

One professor at MIT says AI will influence 5% of the jobs in the next (decade). That's not a revolution.

Other estimates approach 20%...

But no one has been right yet betting on the apocalypse

35

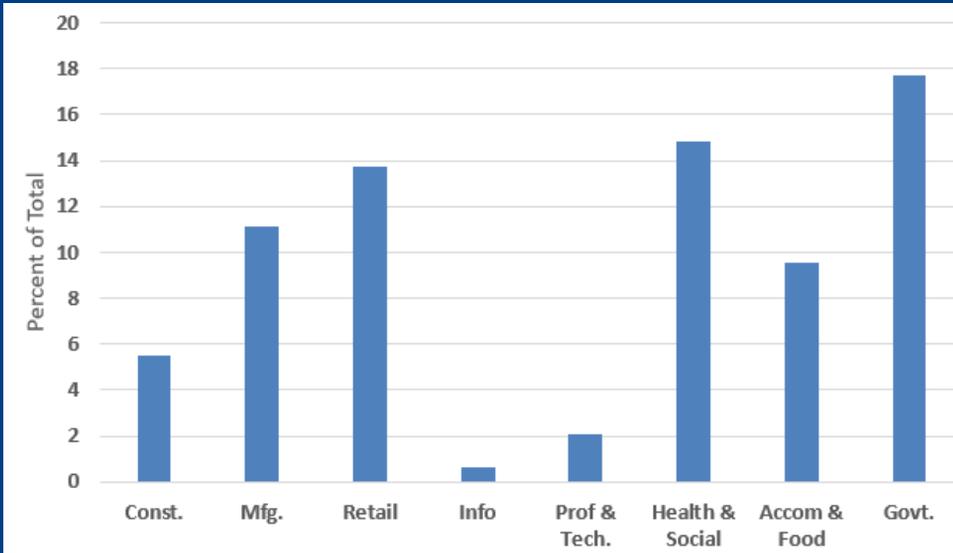
Break?

Many of the great works of literature have smooth transitions between chapters and themes

This is our smooth transition to another topic...

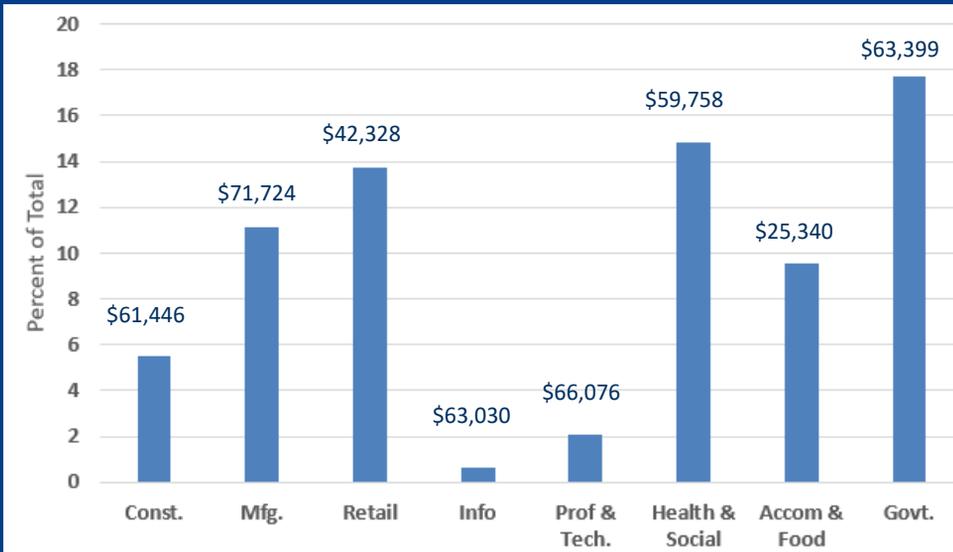
36

Employment by sector – Lewis County



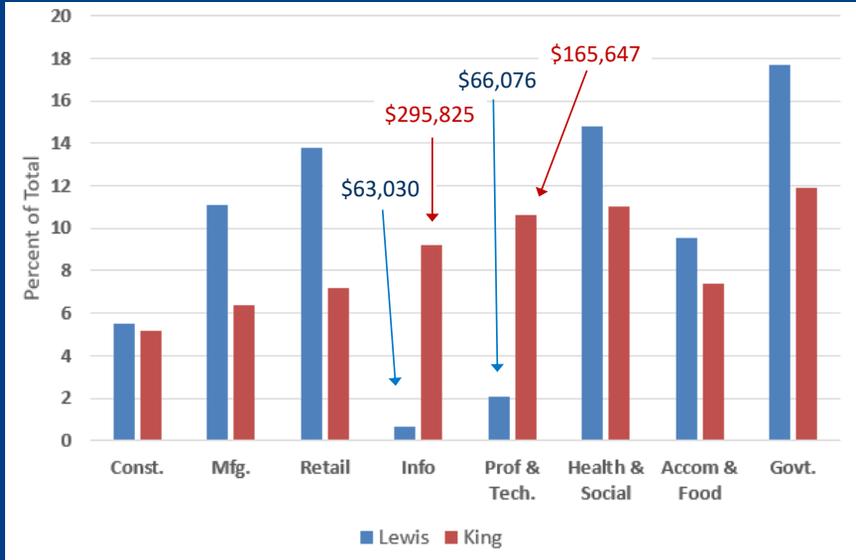
37

... with avg annual wage



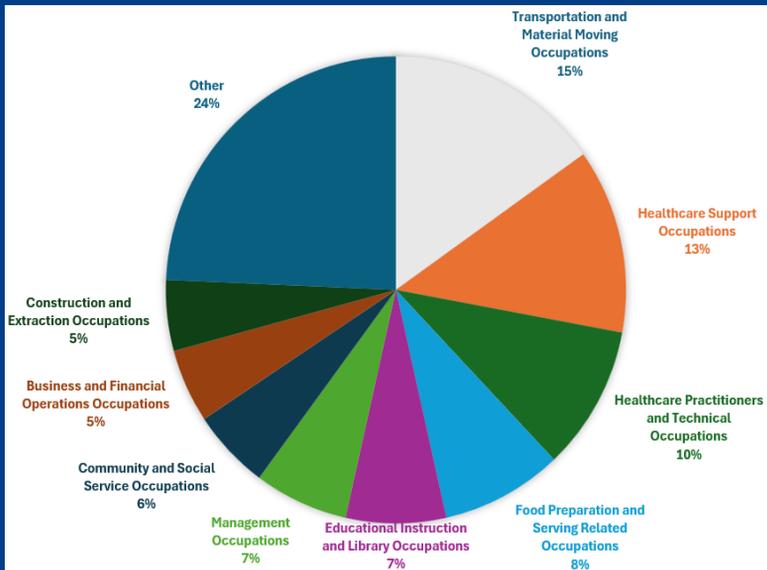
38

... for comparison



39

470 Jobs in Next 2 Years



40

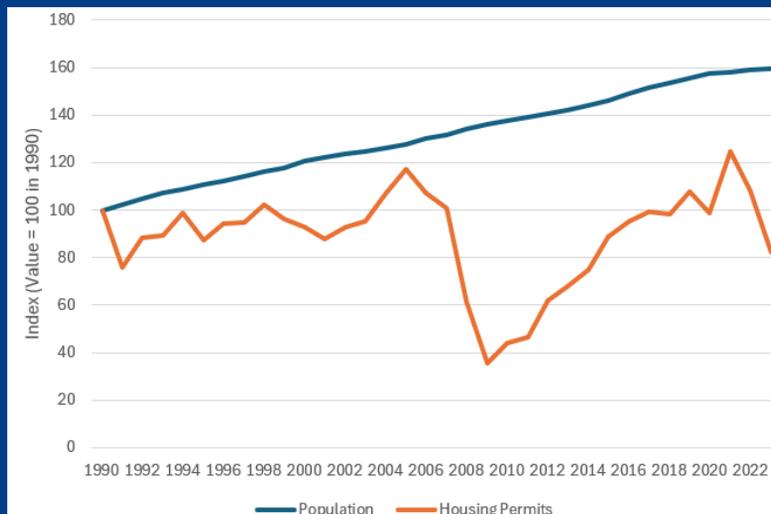
Housing in the Region

County	Avg Annual Wage (2023)	Housing: Median (2024 Q2)	Affordability Index (2024 Q2)
Lewis	\$55,149	\$411,600	69.9
King	\$120,422	\$999,300	49.1
Whatcom	\$61,901	\$638,800	52.2

Data Sources: WA Employment Security and UW Real Estate Research Center

41

Pop Growth and Housing Permits Approved



Data Sources: US Census and WA OFM

42

Cost of Living

Metro Area	Cost of Living Index (2023)
Mt. Vernon - Anacortes	117.4
Bellingham	123.0
Everett-Kent-Seattle	127.5 – 123.8 – 144.6
Kennewick-Richland	97.9



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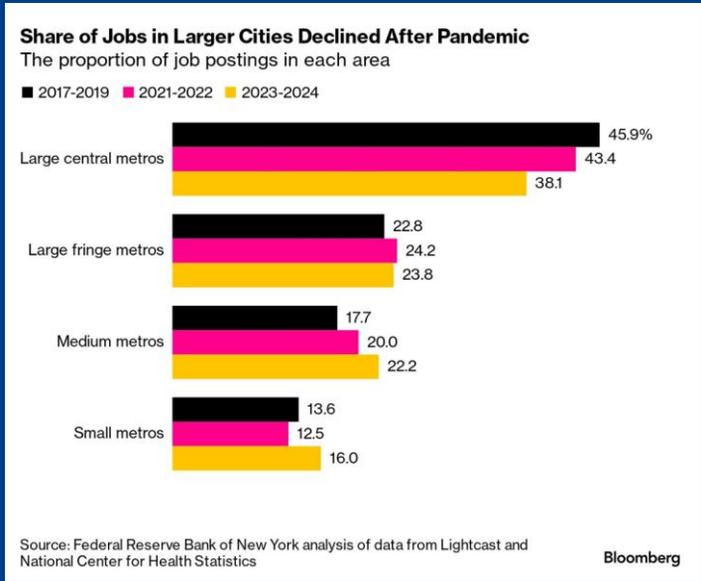
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So...

We need another transition...

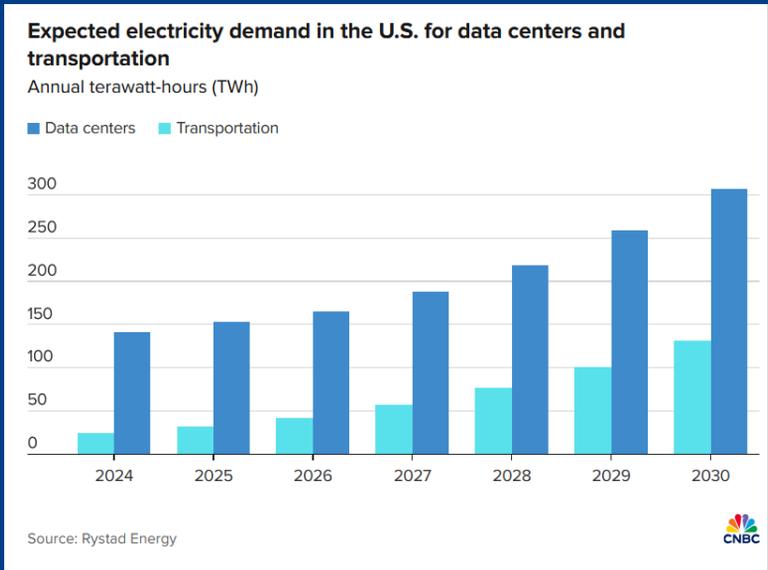
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Change is in the air



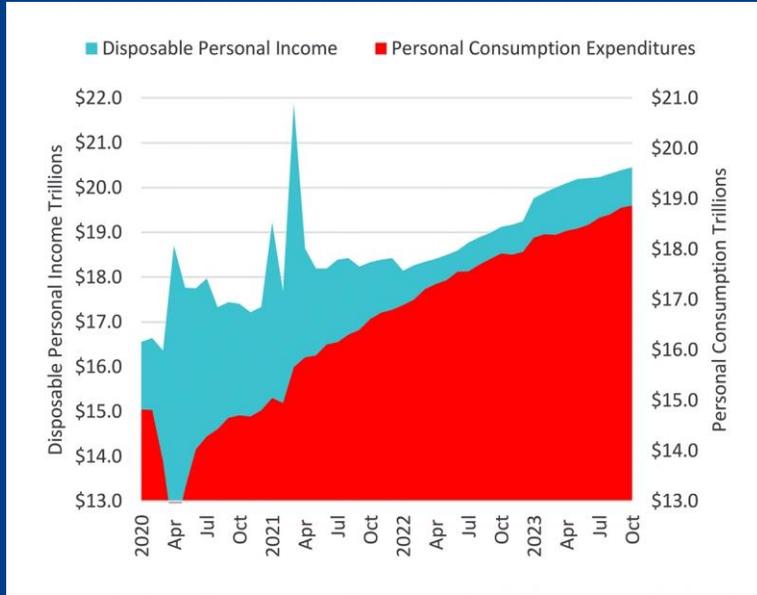
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Um – that’s twice the demand in 6 years



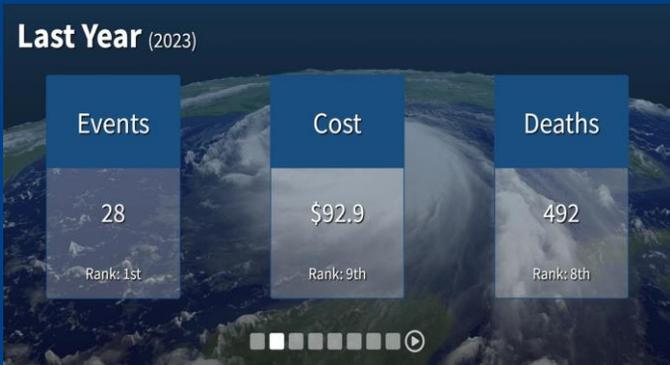
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It was one heck of a cushion...



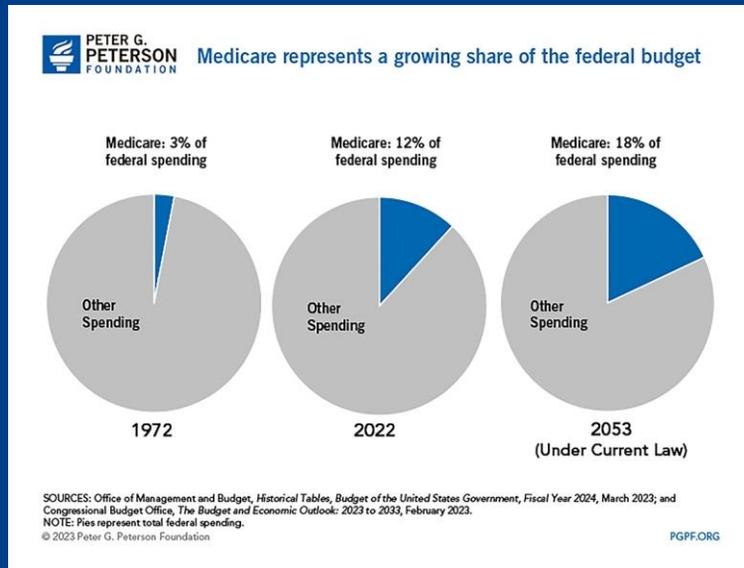
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The party is just getting started...



50

And other budget challenges...



51

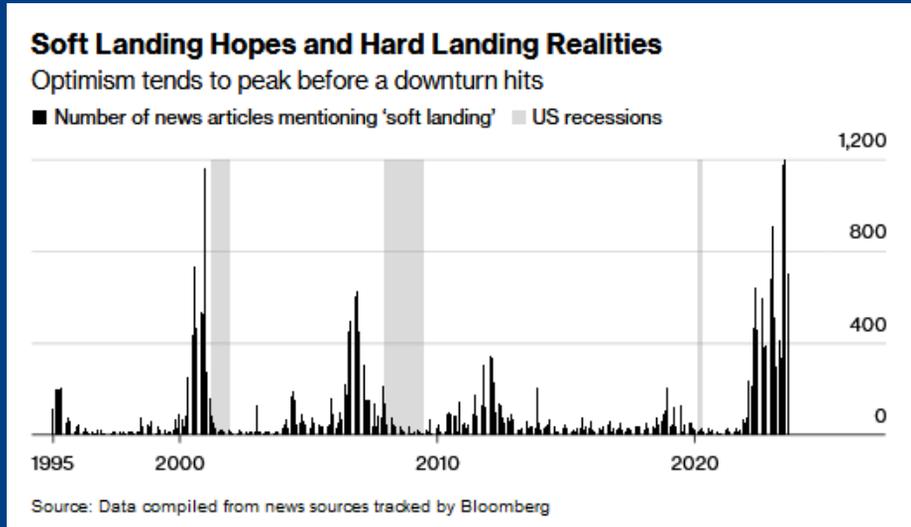
Your Turn...

What questions do you have?

What was the most interesting thing you heard... and why?

52

Patience?



53

Thank you!

Hart Hodges
 HodgesL@wwu.edu



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54

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