Too Many Zeros in Year Seven

Greater Spokane Incorporated
November 10, 2015
John W. Mitchell
November 10, 2015

- Midway Through The Seventh Year
- Headline Inflation Zero
- Fed Funds Target 0-.25
- US Treasury 3 Month Securities Sold With Zero Interest Rate
- World Awash in Oil-Weak Commodity Prices
- Record Employment Level
- Weakness Overseas
- Fiscal Truce
- Schumpeter’s Ghost Walks the Land
- Regional Strength
Revised Real GDP 2014-15
Commerce Department (SAAR,%)  

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<th>Q4-14</th>
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<td>Consumption</td>
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<td>Equipment</td>
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<td>Non-Res</td>
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<td>Exports</td>
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<td>10.3</td>
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2011-15 Nonfarm Payroll Employment Change (,000 SA) October 271,000
Source: BLS
Labor Market Signals (Strong October)

- In October 13 Million Jobs above the Trough (2/10) and 4.3 Million above the Previous Peak (1/08)
- Participation Rate at 62.4% - was 66% at Previous Peak - Decline Amongst Prime Working Age
- Hourly Earnings up 2.5% over the Year (2.2% in Sept.)
- Compensation Costs up 2% over the Year ECI - September
- Initial Unemployment Claims Continuing to Trend Down - Recent 42 Year Low
- 5.8 Million Part Time for Economic Reasons 1.9 Million Marginally attached to the Labor Force
- All Super Sectors up Except for Mining and Logging
- Unemployment Rates: 25 and Older: Less than HS 7.4%, High School 5.2%, Some College or AA 4.4%, BA or More 2.5% - Teens 16-19 15.9%
- Unemployment Fallen Much Faster than Anticipated
Consumer Prices

PCE Price Index Components
year-over-year percent change, monthly

Source: Bureau of Economic Analysis through August 2015
Where is it?
September Year Over Year Zero

- Commodity Shocks- Gasoline Down 29.6% Year to September
- Used Car Prices Down 1.7% YoY
- Clothing -1.4%
- Medical Care Services YoY 2.4%
- Shelter YoY 3.2%
- Airline Fares fell 5.6% in July
Trade Weighted Dollar

Source: Board of Governors of the Federal Reserve System (US)
Shaded areas indicate US recessions - 2015 research.stlouisfed.org
Import Prices have declined every month since July 2014 and the Import Price Index is down 10.7% over the Year to September.

Fuel Import Prices are down 44.7%, Non-Fuel Import Prices down 3.1%.

Export Prices down 7.4% with Ag Export Prices down 13.5% and Non Ag down 6.7%.

Import Prices down from all Geographic Regions.

10 Year US 2.02% Germany .45%, Swiss -.32%, Japan .3%.
Federal Funds Rate and 10 Year Treasury
Source: Treasury, Fed
Prospects

- Consensus 2.5% in 2015 and 2.7% in 2016 (No Change Oct.)
- Inflation .2% in 2015 and 2% in 2016
- Fed GDP Projections: 2-2.3% in 2015, 2.2-2.6% in 2016
- Unemployment 5-5.1% in 2015 and 4.7-4.9% in 2016
- CBO 2% in 2015 and 3.1% in 2016 (July)
- Fed Long Term Median 2015 2.1%, 2016 2.3%, 2017 2.2% and 2018 2% September
- Inflation Target not achieved until 2018 (Fed September)
Real GDP Growth

Source: BEA, Fed
Shocks and Excuses

- Tsunami
- Budget Conflicts/Shutdown/Debt Ceiling/Episodes
- Fiscal Cliff
- Oil Shocks
- Dollar Strength
- Weakness Overseas
- Port Disputes
- Severe Winter Weather
- Labor Force Growth/Productivity/ Secular Stagnation
- Permanent Effect of Recession/Policy (Hysteresis)
Changes in Net Worth Households and Non-Profits ($ Billions) Up 50% Since 2008

Source: Fed
Monetary Policy

- 10/28/15 “moderate pace”, “underutilization of labor resources diminished”, “household and business spending expanding at solid rates”, “inflation below long run objective, partly reflecting declines in energy prices and prices of non-energy imports.”
- Reaffirmed 0-1/4 percent target is appropriate
- Assessment: Labor Market, inflation pressures and expectations, readings on financial and international developments
- Move when “seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.” Mentioned December
September Estimates from Board Medians End of 2015
.5%, 2016 1.5%

No Surprises - How will Markets React?
What Mistakes Could Be Made?
New Tools
Kick the Can
Fiscal Policy

- Debt Ceiling Constraint lifted for Two Years
- Sequester Caps from 2011 Budget Control Act-lifted by $80 Billion over the Next Two Fiscal Years
- Shutdown Averted
- Disability Fund Patched
- Medicare Premium Shock Diminished

- CBO Fiscal 2015 Receipts up 8%, Spending up 5%  Defense -2.7%, Medicaid 16%, Medicare 6.9%, Net Interest -4.1%, Education Department up 51% on Student Loan Subsidies and Guarantees
Job Growth Update  September, 2015 Data
Year over Year Change - 46 States Up

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

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<td>Idaho</td>
<td>1.3%</td>
<td>4.4%</td>
<td>6.05%</td>
<td>15%</td>
<td>1.1%</td>
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<tr>
<td>Oregon</td>
<td>1.1%</td>
<td>5.7%</td>
<td>7.96%</td>
<td>10.5%</td>
<td>1.2%</td>
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<tr>
<td>Washington</td>
<td>1.3%</td>
<td>5.8%</td>
<td>8.76%</td>
<td>9.2%</td>
<td>1.5%</td>
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Washington Wage and Salary Employment

(\text{SA}, \text{,000})

Source: Emp. Security
“A Region Floats on a Global Sea, Buffeted by Local Tides and Winds”

- National Expansion Should Continue
- Tightening Labor Markets
- Inflation Pick Up-Transitory Events Pass
- Low Energy Prices
- Tech Sector Strength
- How much of a hit from the Global Slowdown? Will TPP Pass?
- Rain/Snowpack Uncertainties-Drought Map
- Financial Market Volatility-No One Knows How This Will Play Out
- Pressure on Discretionary Federal Spending
- Today-December Move Looks Likely
- Washington 3% in 2015 and about 2.5% in 2016
After “Chicago Fire”

- How do we facilitate Mobility? Income Growth?
- Where is the Growth Agenda? Has Secular Stagnation arrived 8 decades after the prediction?
- How Do Expansions End?