

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the slide, framing the central text. The overall design is clean and modern.

Black Swans, A Long Upturn and A New Cast In A Good Place

Inland Northwest Partnership

March 29, 2017

Hayden, Idaho

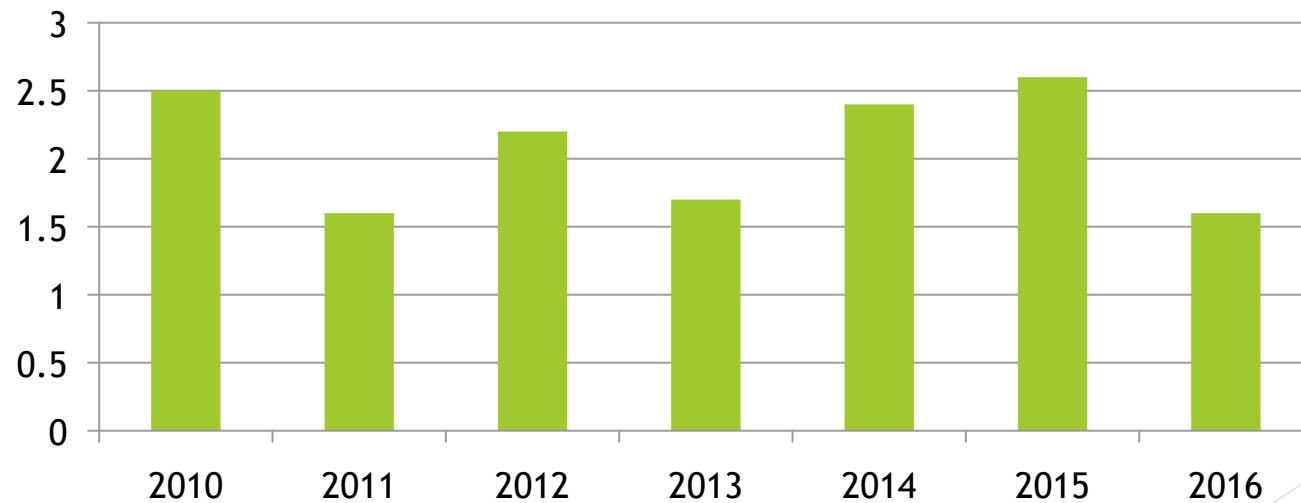
John W. Mitchell

Late March 2017

- ▶ Longer than the 1980s Upturn Closing on the 1960s
- ▶ Second Longest Bull Market
- ▶ Black Swans are Aloft
- ▶ The Debt Ceiling is Back
- ▶ Western States-March 2016 67.7% West Abnormally Dry to Extreme Drought-March 2017 16.3%-- Extreme Gone
- ▶ The Day Before the Election Fiscal 2016 Deficit Released-Went from 2.5% of GDP to 3%-Revenues up .6% and Spending up 3.4%
- ▶ Major Policy Changes Being Proposed
- ▶ World Economy Looks Better Than We Were Here Last Year
- ▶ NBER: “ Fading American Dream: Trends in Absolute Income Mobility Since 1940” 1940 Cohort in Their 30’s 90% Earned More than Parents in 1980 Cohort 50%-Raj Chetty
- ▶ Grand Experiment Underway

The Upturn-Does It Get More Exciting ? *Can This Be Changed?* Real GDP Growth

Source: BEA



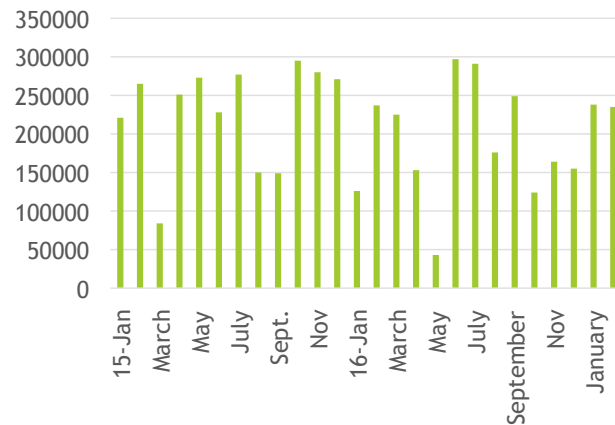
Real GDP 2016 Commerce Department (SAAR,%)

	Q1-16	Q2-16	Q3-16	Q4-16
GDP	.8	1.4	3.5	1.9
Consumption	1.6	4.3	3	3
Equipment	-9.5	-2.9	-4.5	1.9
Intell Prop	3.7	9	3.2	4.5
Non-Res	.1	-2.1	12	-4.5
Residential	7.8	-7.7	-4.1	9.6
Federal	-1.5	-.4	2.4	-1.2
State and Local	3.5	-2.5	-.2	1.3
Exports	-.7	1.8	10	-4
Imports	-.6	.2	2.2	8.5

Labor Market Data

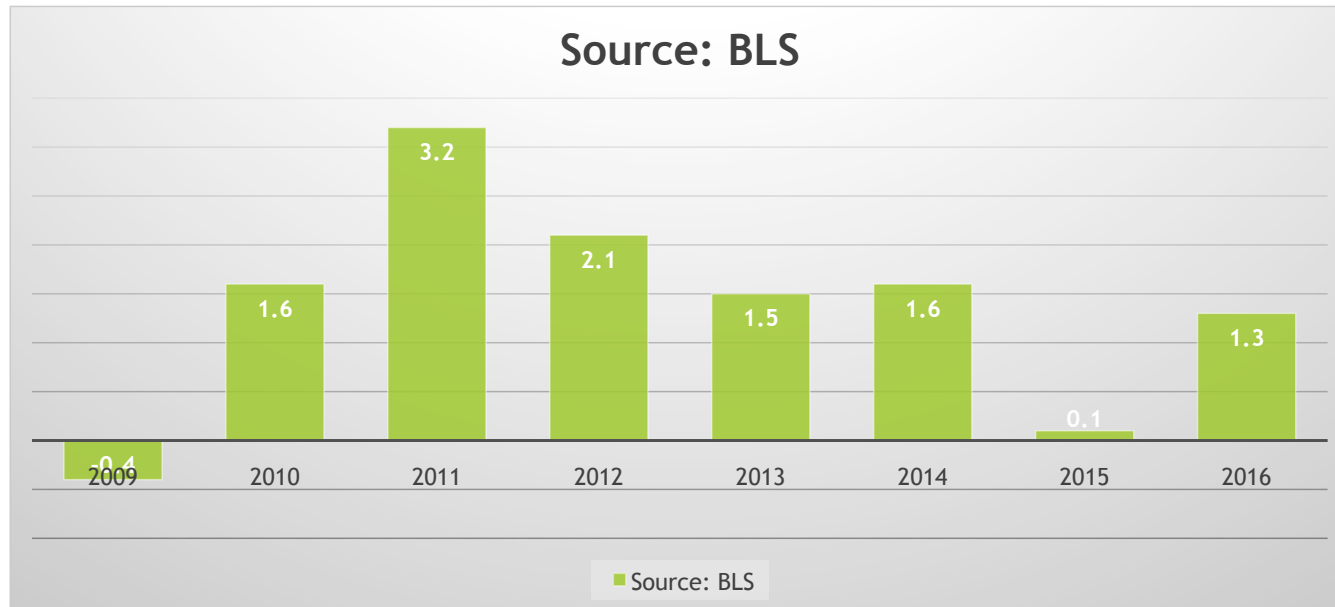
Monthly Change Payroll Employment 2015-2017


Source: BLS



- ▶ 2.2 Million Net Jobs in 2016 down from 2.7 Million in 2015
- ▶ Headline Number 4.7%
- ▶ Average Hourly Earnings up 2.8%
- ▶ 7.37 Million Above Previous Peak and 16.1 Million Above Trough
- ▶ Participation Rate Rose to 63% in February
- ▶ 12th District-Wage Pressures Intensified

Consumer Price Index Change In Annual Average



- 
- ▶ February CPI up 2.7% Headline and 2.2% Core-Overall Index Trending up Since Mid 2016
 - ▶ Core 15 Months between 2.1% and 2.3%
 - ▶ To February 2017 Import Prices Up 4.6% Fuel up 68.9% Other up .5%
 - ▶ February 2016 Import Prices Down 6.6%- Fuel Down 40.8% Other down 2.8%
 - ▶ Fed Targets: Low Inflation about 2% and Maximum Employment

The 10 Year and The Funds Rate

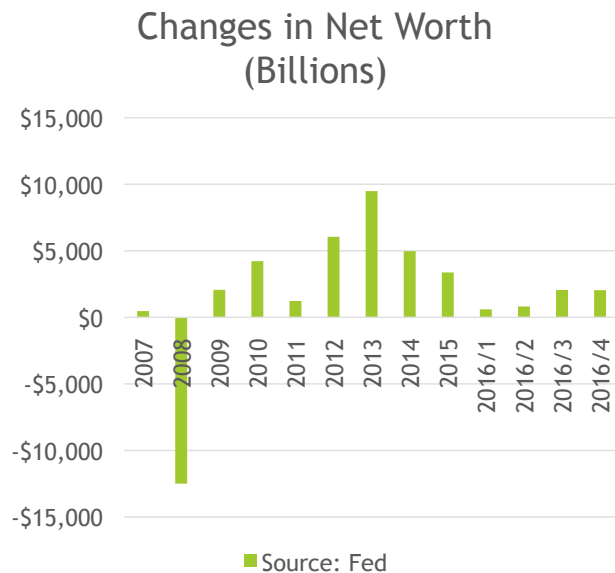


Monetary Policy

Lots of Excitement

- ▶ February 1 and February 14th Testimony-Moderate Growth, Continued Strengthening in Labor Market, Inflation moved Up
- ▶ Urged Policy to increase productivity and growth.
- ▶ ***Rate Expectations in March: 1.4% in 2017, 2.1% in 2018, and 3% in 2019***
- ▶ ***Raised Rate Outlook in December But Did Not Significantly Change Economic Outlook***
- ▶ “However the actual path of the federal funds rate will depend on the economic outlook as informed by the incoming data.” 3/15/17 Fed Statement
- ▶ Janet on Friday March 3rd “...unless unanticipated developments adversely affect the economic outlook, the process of scaling back the accommodation will likely not be as slow as it was during the last couple of years.”-No Surprises!
- ▶ Balance Sheet Changes?

Net Worth Households and Non-Profits FED (\$ Billions)



	2008	2016/4
Net Worth	\$53,506	\$92,805
Assets	\$67,612.6	\$107,909.5
Real Estate	\$19,952.2	\$26,528.4
Fin. Assets	\$42,810.1	\$75,478.1
Liabilities	\$13,579.5	\$15,104.1

Fiscal Policy

- ▶ Budget-Discretionary Proposals Released-the Mandatory and Tax Side Come Later in May
- ▶ Basics-Increase Defense and Decrease Non-Defense
- ▶ Proposals: Defense 10%, State Dept. -28.7%, Health and Human Services -16.2%, Interior -11.7%, Labor -20.7%, EPA -31.4%, Agriculture -20.7%
- ▶ What will Congress do?

Outlook (MOS)

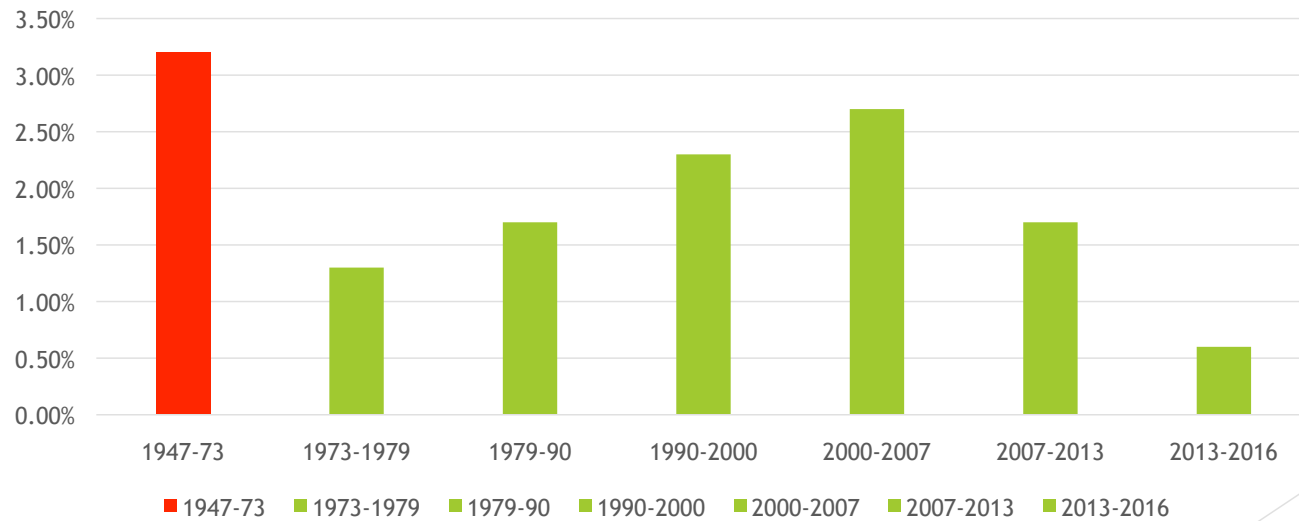
- ▶ Median NABE 2.2% in 2017
- ▶ Inflation 2.2% in 2017
- ▶ Fed Median 2017 2.1% and 2018 2.1%, Longer Run 1.8-2% (March)
- ▶ WSJ Panel -*Upside Risks Predominate*

Policy Uncertainty (Sound Bites to Policy)

- ▶ Trade Policy-Global Supply Chains
- ▶ Border Adjustment- Implications for Exports, Imports and Exchange Rates-DBCFT
- ▶ Will Exchange Rates Adjust? Transitions
- ▶ Watch Income-Timing Changes in Expectation of Tax Changes
- ▶ Balancing Act-Cut Taxes, Increase Defense and Infrastructure Spending, Do Not Touch Entitlements, Avoid Large Deficit Increase
- ▶ ACA Changes ? Probably Not Soon
- ▶ Immigration Policy While Near Full Employment

Labor Productivity Growth in The Business Sector 1947-2016

Source: Bureau of Labor Statistics, Beyond the Numbers



Not Like Before

- ▶ Between 1948 and 1973, the world economy expanded faster than in any other similar period, before or since. (Levinson, 2016)
- ▶ Never before in recorded history had so many people become so much better off so quickly. (Maddison 2003)
- ▶ “The idea that the economy is not an instrument that can be carefully tuned, that its long-run course is determined largely by forces not under the control of government officials and central banker, contradicts the lesson absorbed by generations of students since World War II. More upsetting still is the possibility that the volatile trends after 1973 marked a return to normal.”
Marc Levinson - “An Extraordinary Time”
- ▶ A Test-Started in January

Headwinds and Issues

- ▶ Demographics
- ▶ Technology
- ▶ Measurement Issues
- ▶ Investment Incorporating the Technology
- ▶ More Inclusive Growth-Coping With Change
- ▶ Education/Training/Mobility-Geographic/Social
- ▶ Entrepreneurial Activity, Movement, Prime Age Participation
- ▶ “For the most part, the American economy is more static than it was several decades ago, and that remains one of the most underreported stories of our time.” Tyler Cowen *The Complacent Class* 2017

The Region

	Pop. Growth 15-16 % Census	Residential Permits 2016% Census	Personal Income Q3% BEA	Negative Equity Q4 CoreLogic	Job Growth 2016 %
Idaho	1.8	15.2	.9	3.7	3.5
Washington	1.8	7.1	.8	2.1	3.1

Job Growth Update January 2017 Data
Year over Year Change - 42 States Up
Source: BLS, ASU

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

Annual Net Domestic Migration

Source: William Frey, Brookings

	2014-15	2015-16
<i>Florida 1</i>	207,537	207,155
<i>Texas 2</i>	171,537	125,703
<i>Washington 3</i>	42,640	67,571
<i>Arizona 4</i>	48,341	61,544
<i>North Carolina 5</i>	41,003	59,584
<i>Colorado 6</i>	56,122	50,216
<i>Oregon 7</i>	35,973	50,038
<i>Idaho 13</i>	6,748	17,143
<i>California 48</i>	-77,603	-109,023
<i>Illinois 49</i>	-105,619	-114,144
<i>New York 50</i>	-161,612	-191,387

Regional Bullet Points

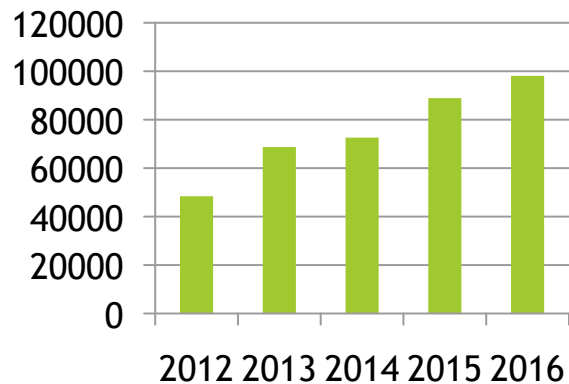
- ▶ Unemployment Rates- Washington February 4.9% down from 5.6% in 2016, Idaho 3.6% in January down from 4% Previous Year
- ▶ Case Shiller House Price Index-December-Seattle, Portland and Denver Had the most Rapid Increases
- ▶ FHFA- House Price Index Regional Strength-Q4 Oregon 10.98% 1st, Washington 10.19% 4th and Idaho 7.41% 9th
- ▶ Diminished Water Worries

The Trends

Changes in Annual Average Employment

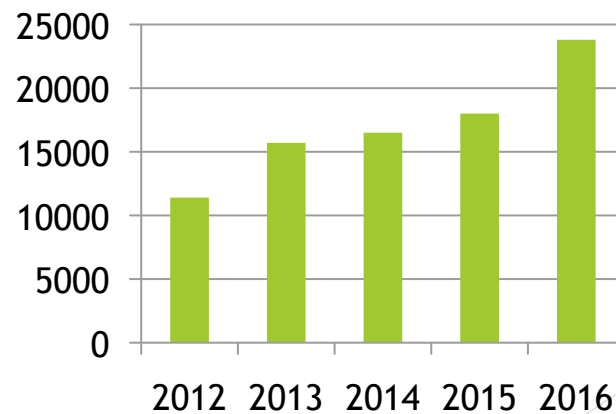
Washington

Source: Employment Security



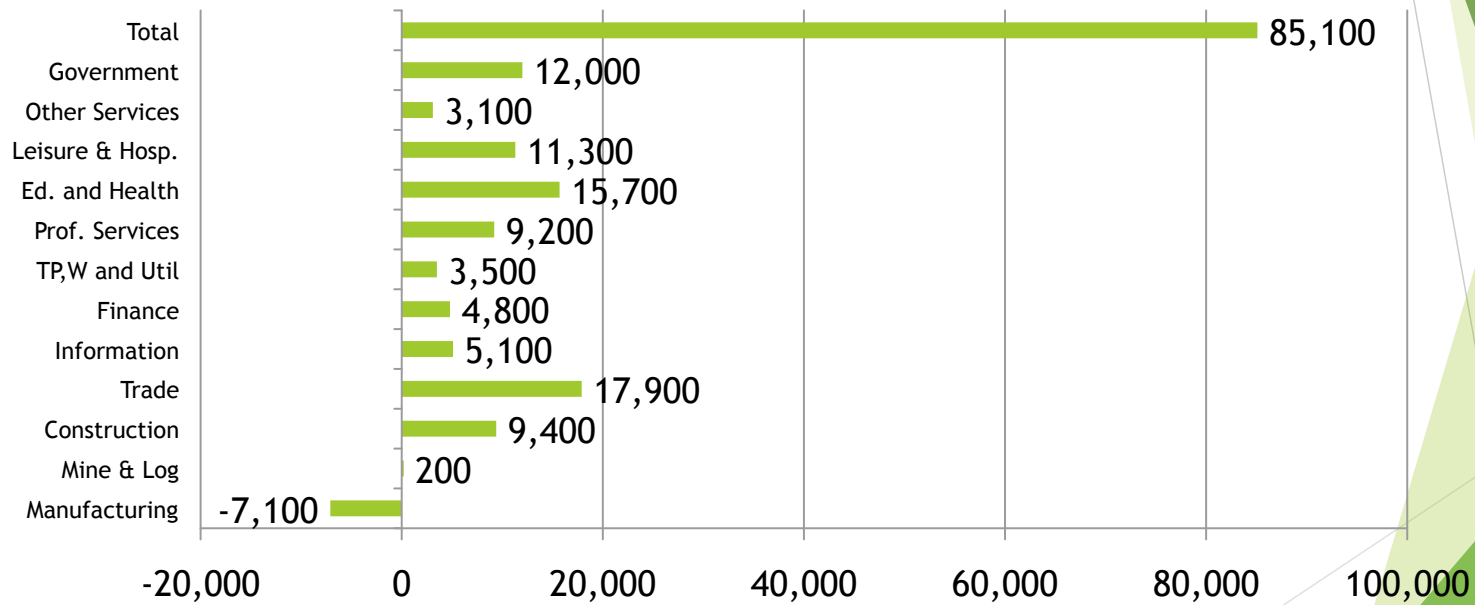
Idaho

Source: Dept. of Labor



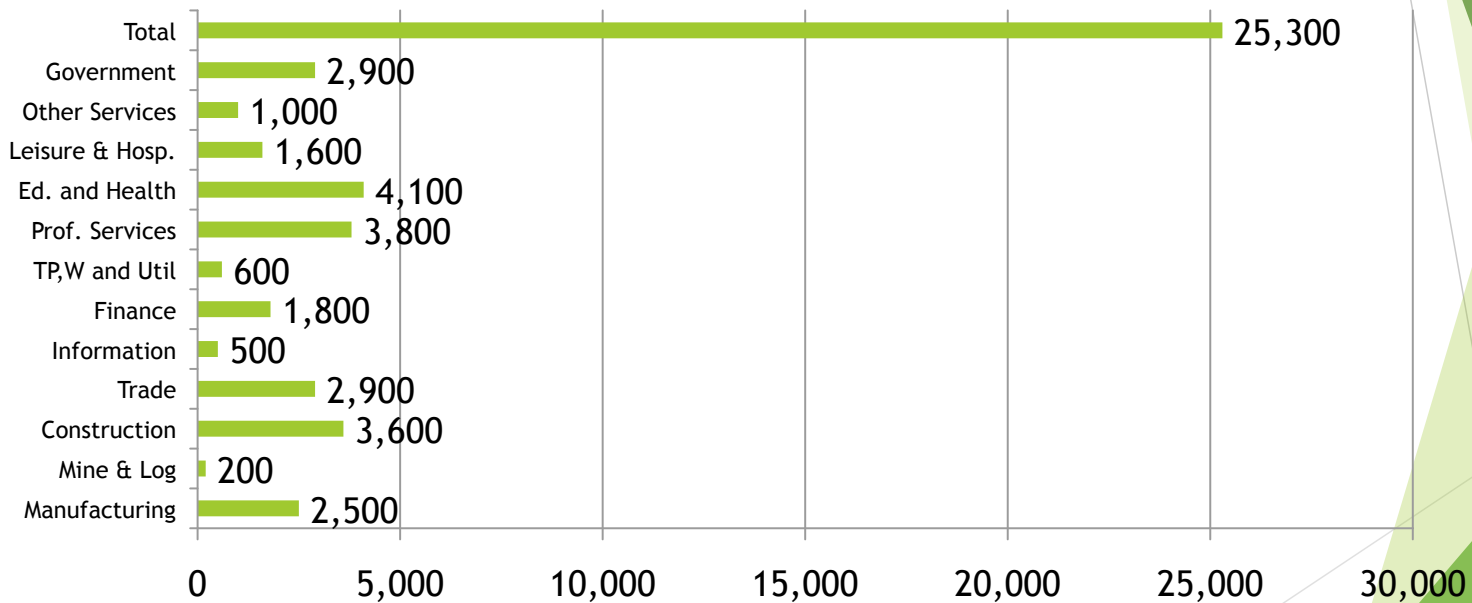
Washington Job Growth Year to February 2017 (2.7%)

Source: Emp. Security



Idaho Job Growth Year to January 2017 (3.8%)

Source: Dept. of Labor



2017 Themes-Questions

- ▶ National Expansion Should Continue
- ▶ Continued Tightening in Labor Markets
- ▶ Inflation Pick Up
- ▶ Residential Strength in 2017
- ▶ Infrastructure Plan ?
- ▶ Trade Policy In Our Corner of the World
- ▶ McCleary Compliance ?
- ▶ Other Policy Uncertainty- Tax, ACA, EPA
- ▶ Expectations Dashed or Confirmed-Change in the Wake of AHCA Event
- ▶ Policy Changes Might Take Longer than Initially Expected
- ▶ Rate Increases-Data Driven
- ▶ Consensus Washington 2.7% in 2017 and 2.3% in 2018 and Idaho 3.4% in 2017 and 3% in 2018

Opportunities INP

- ▶ Congestion-Crowding Westside-INRIX 2016-Peak Hours in Congestion- Los Angeles 1st Seattle 10th, Portland 12th, Spokane 92nd
- ▶ Operations that Do Not Need the Physical Proximity
- ▶ Labor Availability
- ▶ Housing Affordability Index Q4 King 88.9, Spokane 177.4, Whitman 161.8, Asotin 177.1