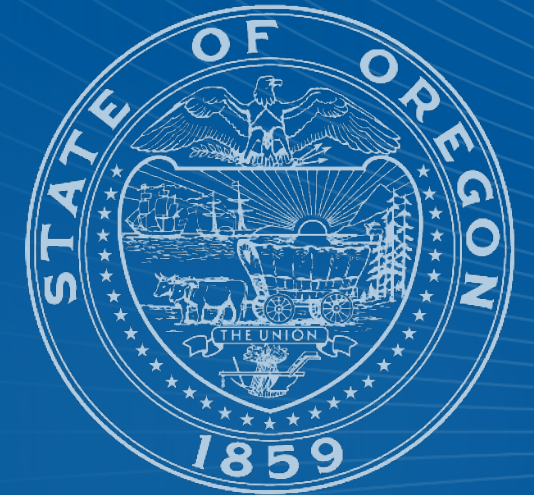


U.S. Economic Outlook



DAS
DEPARTMENT OF
ADMINISTRATIVE
SERVICES

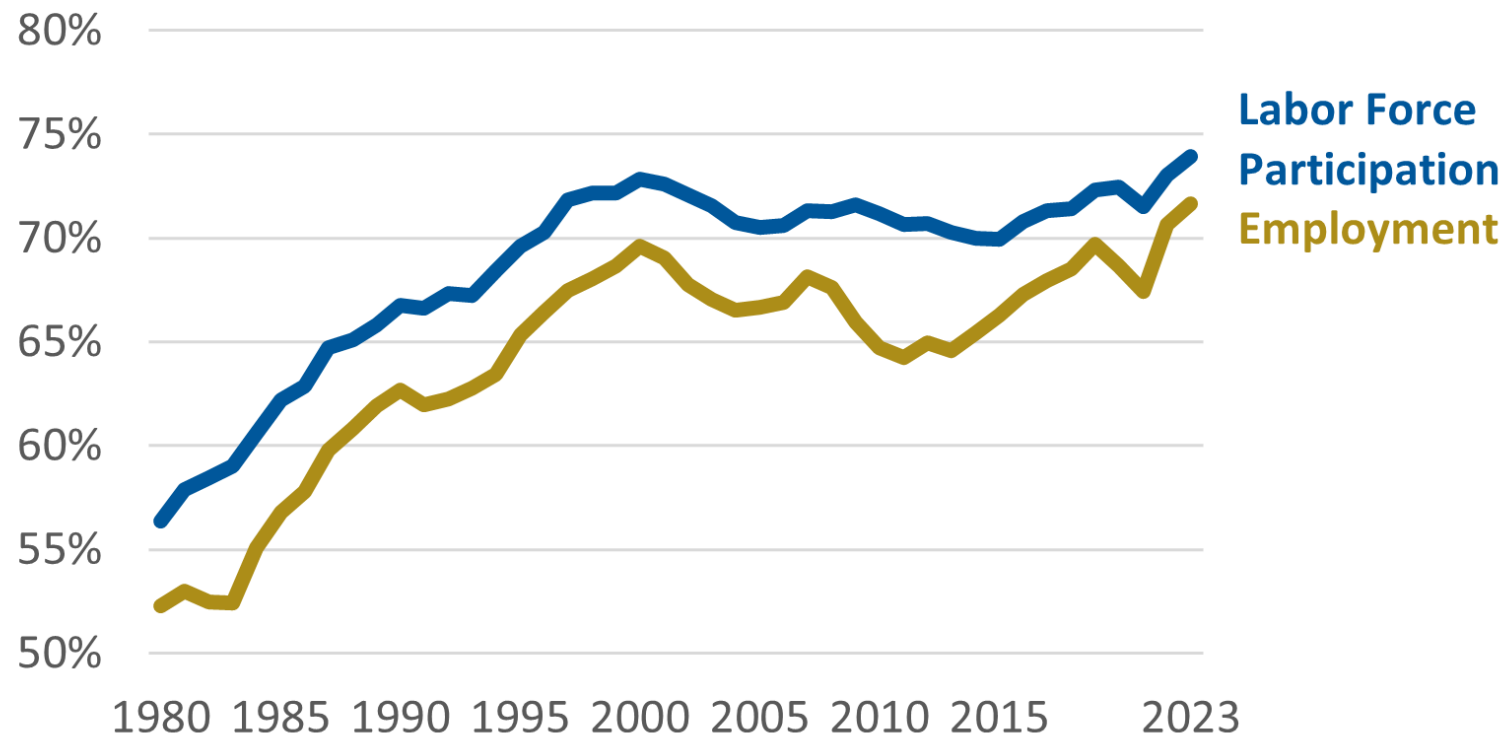
October 2023

2023 Nobel: Claudia Goldin



American Moms Working at Record High

Labor force status of women with children (0-17 yrs old) at home



Data: ASEC | Latest: 2023 | Source: IPUMS-CPS, Oregon Office of Economic Analysis

- Increases among moms driven by those with college degrees, particularly those with younger children at home
- Moms still disproportionately, compared to dads, do not work and stay home to take care of the kids
- Dads stay at home 1-2% of the time, accounting for 5% of all stay-at-home parents in America

Macroeconomic Outlook

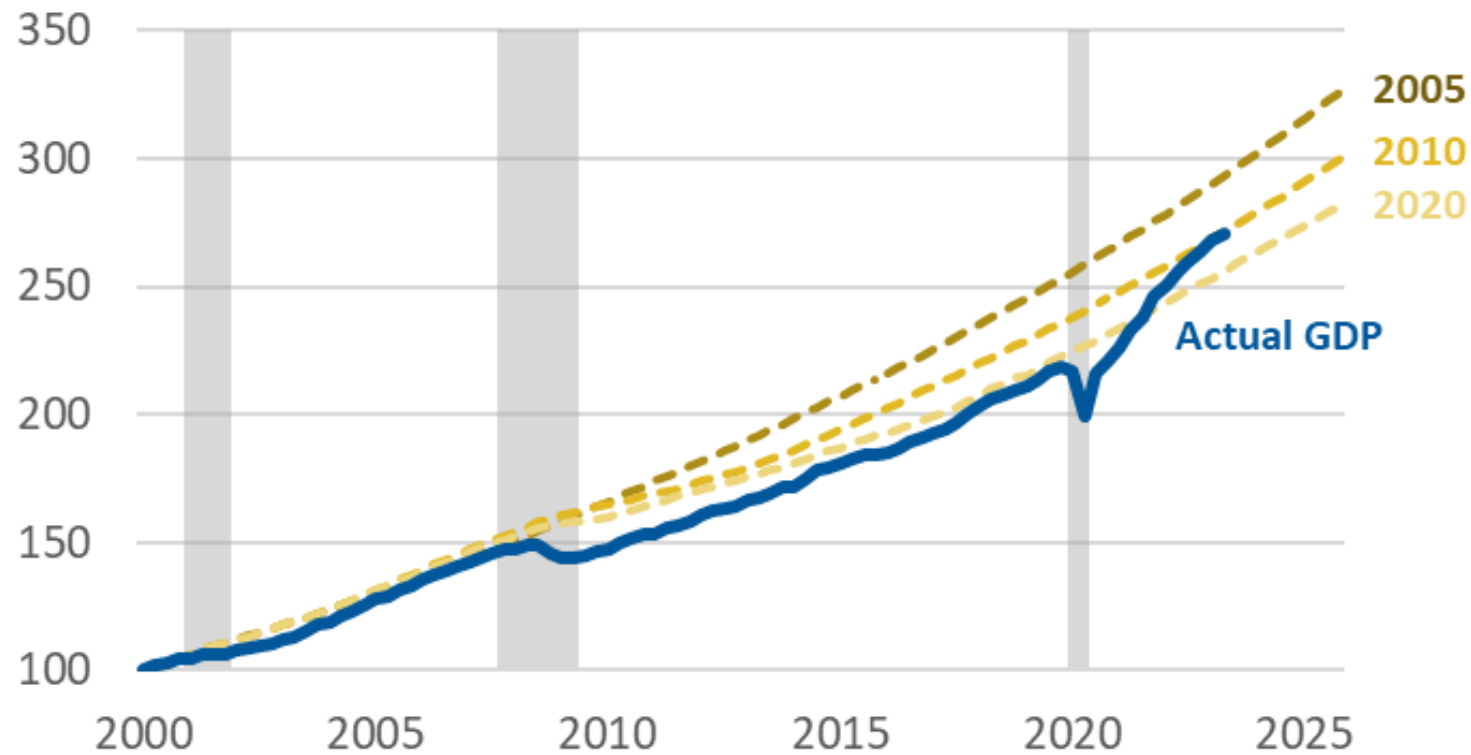


Economy outperforming expectations across the board



Nominal U.S. GDP Potential

Index 2000q1=100, CBO vintages by year and actual NGDP



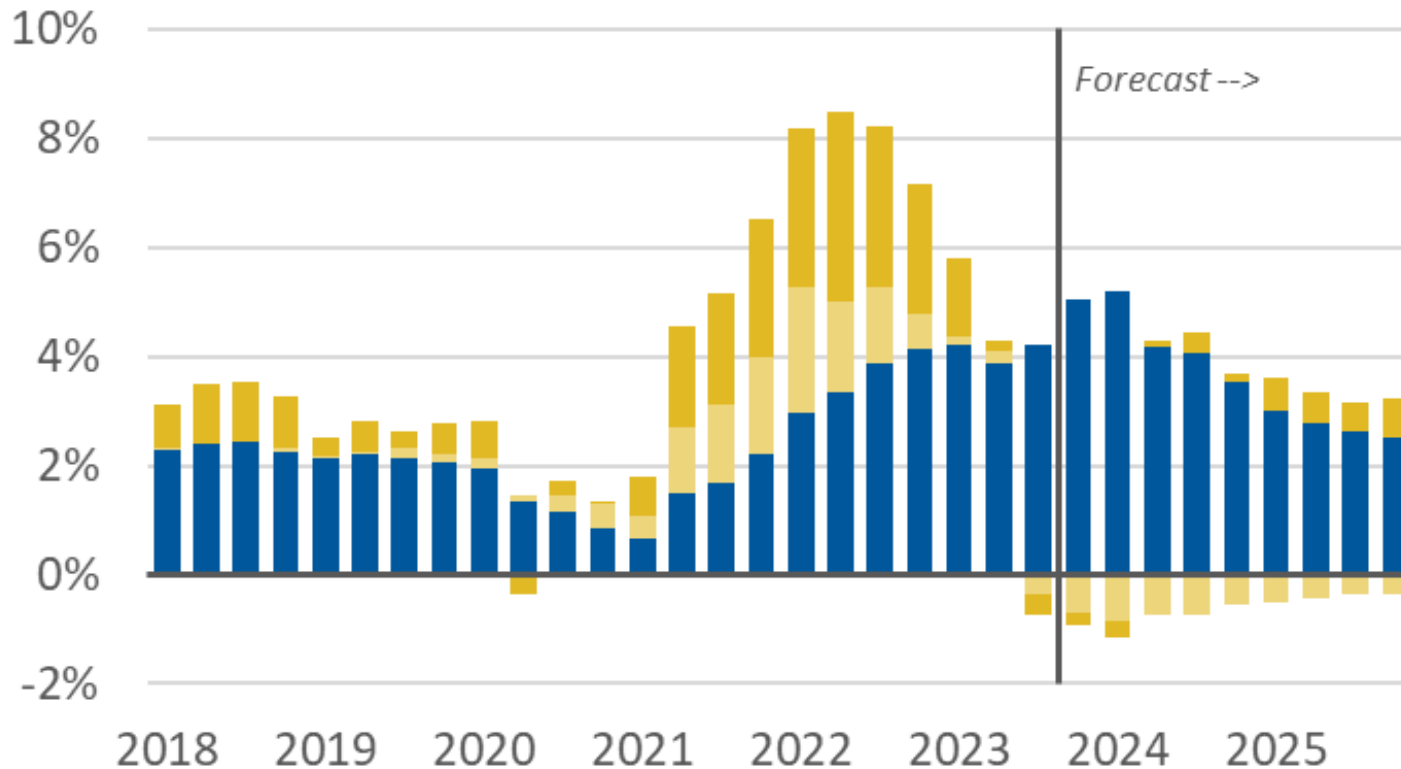
Latest Actual: 2023q2 | Source: BEA, CBO, Oregon Office of Economic Analysis

Inflation is slowing, now the hard part for the Federal Reserve



West Region Consumer Price Index

Decomposing year-over-year inflation: **Food and Energy**, **Goods**, and **Services**



Goods and services are excluding food and energy | Latest: 2023q2 | Source: BLS, IHS Markit, OR Office of Econ Analysis

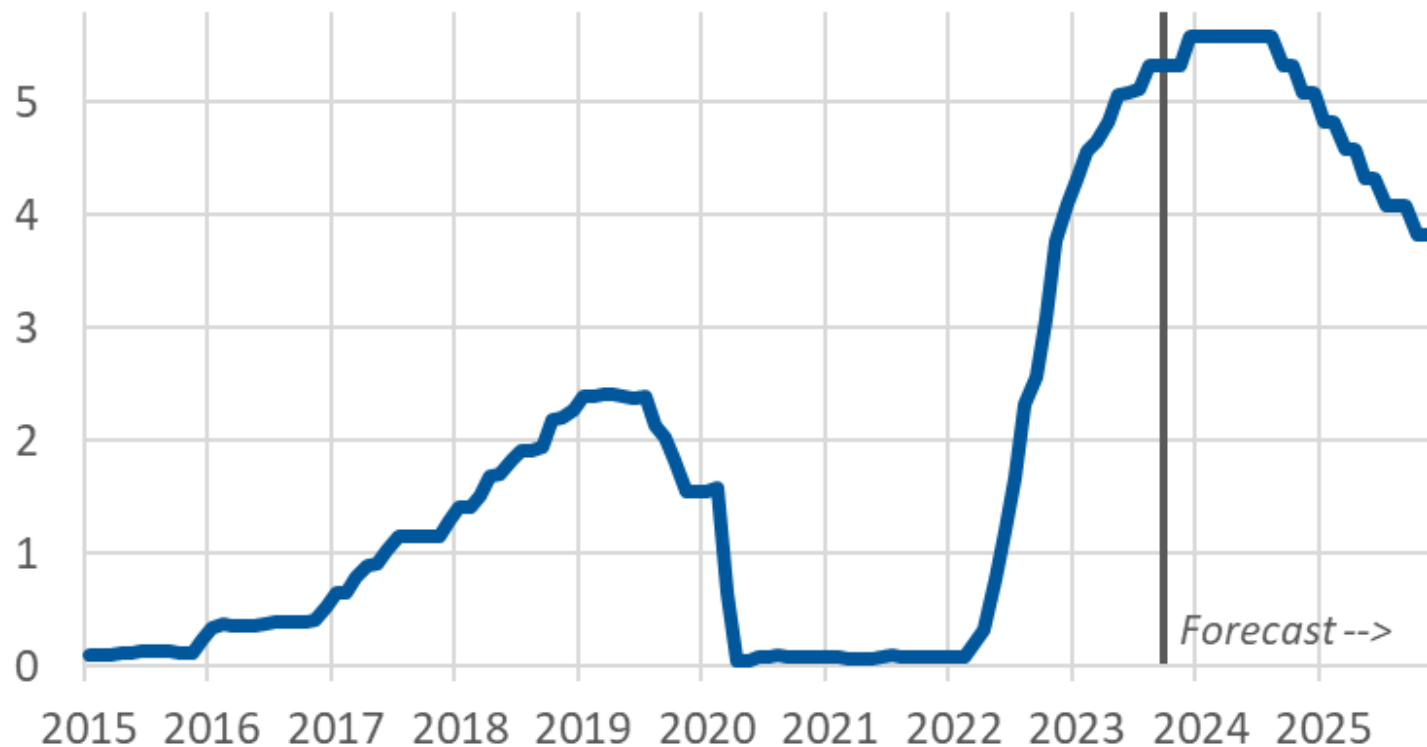
- Good News: Inflation has slowed from 9 percent last summer to closer to 3 or 4 percent today
- Bad News: Getting sustainably back down to the Federal Reserve's 2 percent target is harder
- The full impact of past interest rate hikes may still slow growth in the year ahead
- Higher interest rates today do not pack the same punch given many households and business have locked in low fixed term rates, government debt is an exception

Interest rates are higher, now for how long?



The Federal Reserve and Interest Rates

The Fed's own forecast of the Fed Funds Rate



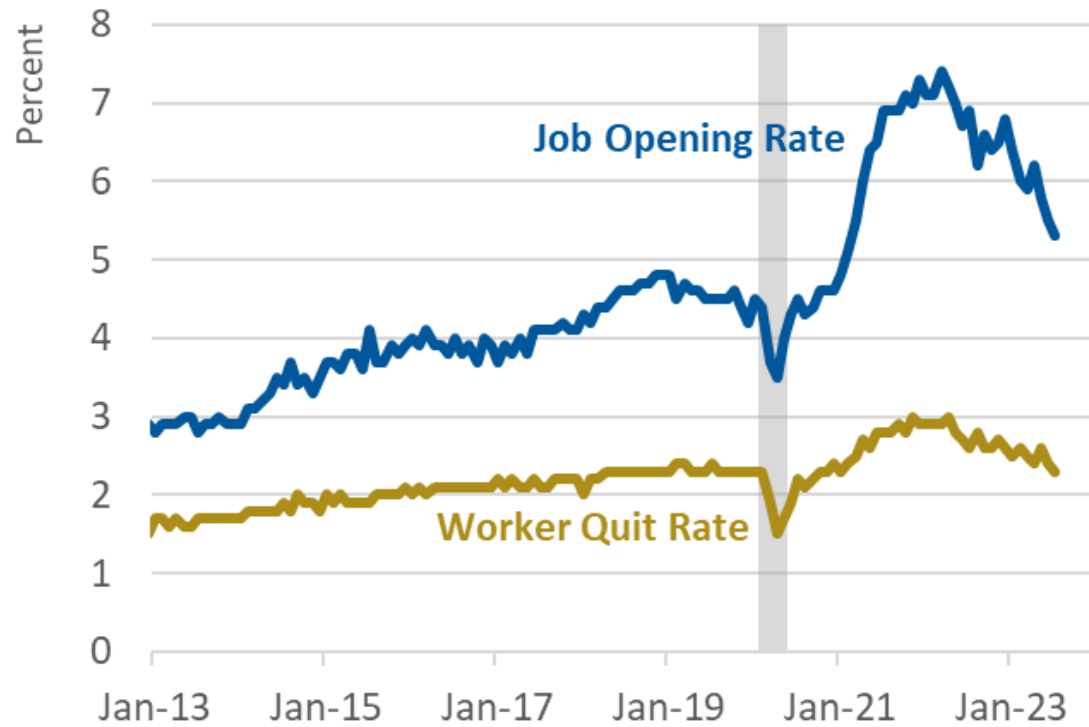
Latest Actual: September 2023 | Source: Federal Reserve, IHS Markit, Oregon Office of Economic Analysis

- Higher rates actively restrict the economy. Hold rates high to ensure inflation returns to target. Then ease off the brakes.
- Rate changes typically impact financial markets immediately, and the real economy with a 6-18 month lag
- Impact of higher rates
 - Households: Most debt is fixed at low, long-term rates
 - Businesses: Most debt is fixed at low, medium-term rates
 - Government: Most debt is short-term, will raise interest rate costs substantially

Macroeconomic View: Halfway Back



U.S. Labor Market Cooling Some



Latest Data: July 2023 | Source: BLS, Oregon Office of Economic Analysis

U.S. Average Hourly Earnings

Year-over-year percent change



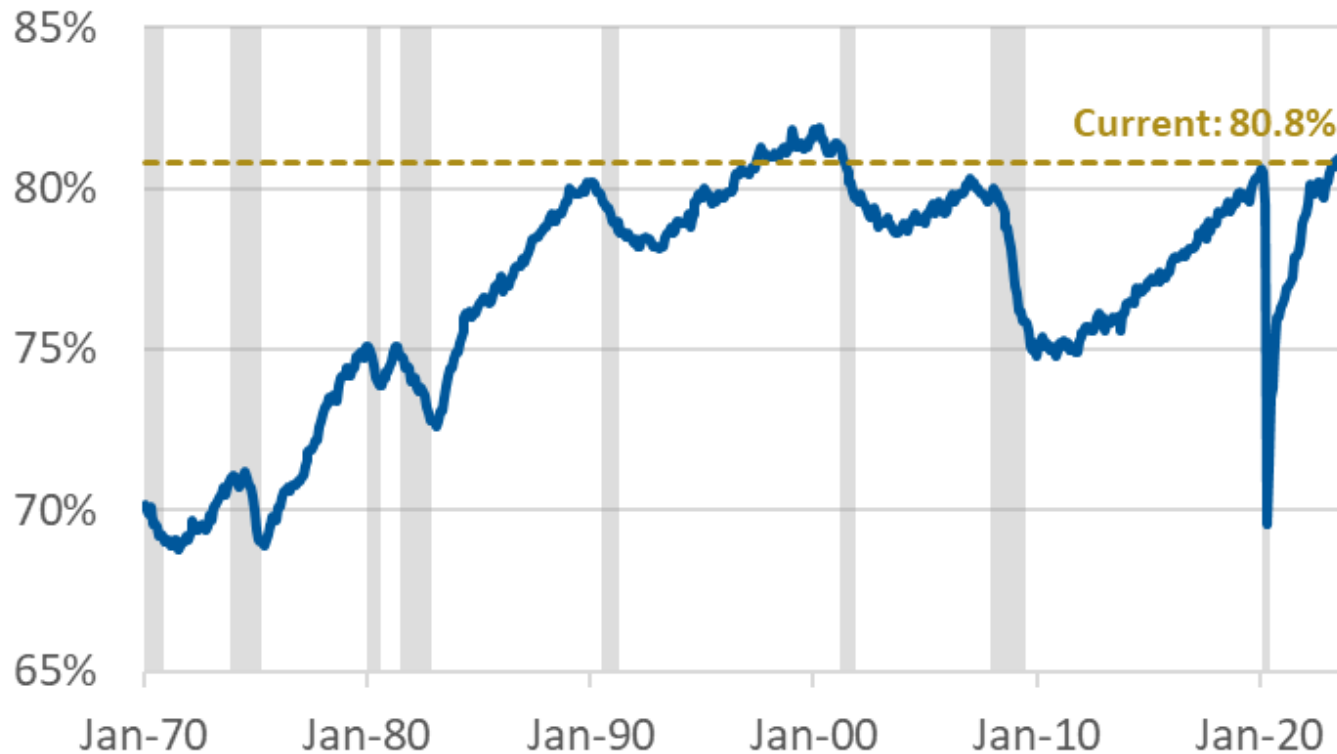
Latest: July 2023 | Source: BLS, Oregon Office of Economic Analysis

Labor market is *cyclically* strong, and *structurally* tight



More Americans are Working

Share of 25-54 year olds with a job (Prime-Age EPOP)



Latest Data: September 2023 | Source: BLS, Oregon Office of Economic Analysis

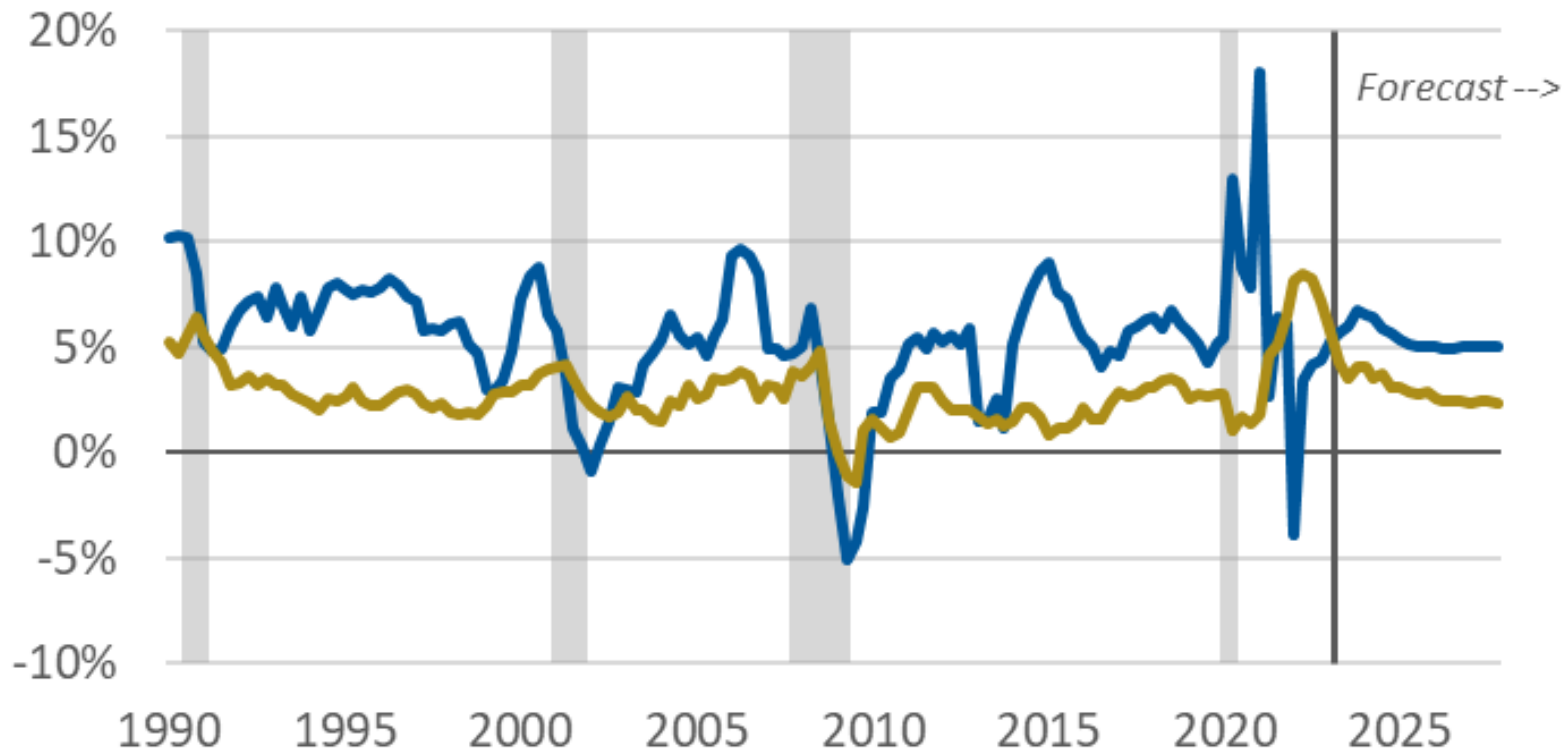
- Strong, inclusive recovery
 - Disparities did not widen based on age, educational attainment, gender, geographic location, or race and ethnicity
 - Disparities did widen based on wealth
- Labor market is tight
 - Cyclically due to strong economy
 - Structurally due to demographics of increased retirements and slower population growth
- Forecast
 - Oregon's potential labor force expected to increase just 0.6% per year this decade
 - Latent Labor Force: reducing historical disparities based on sex, race and ethnicity, and educational attainment among existing Oregonians would boost the workforce

Household finances are strong



Real Oregon Income Growing Again

Year-over-Year percent change in **Personal Income** and **Inflation**



Inflation is West Region CPI All Items | Latest: 2023q1 | Source: BEA, BLS, Oregon Office of Economic Analysis

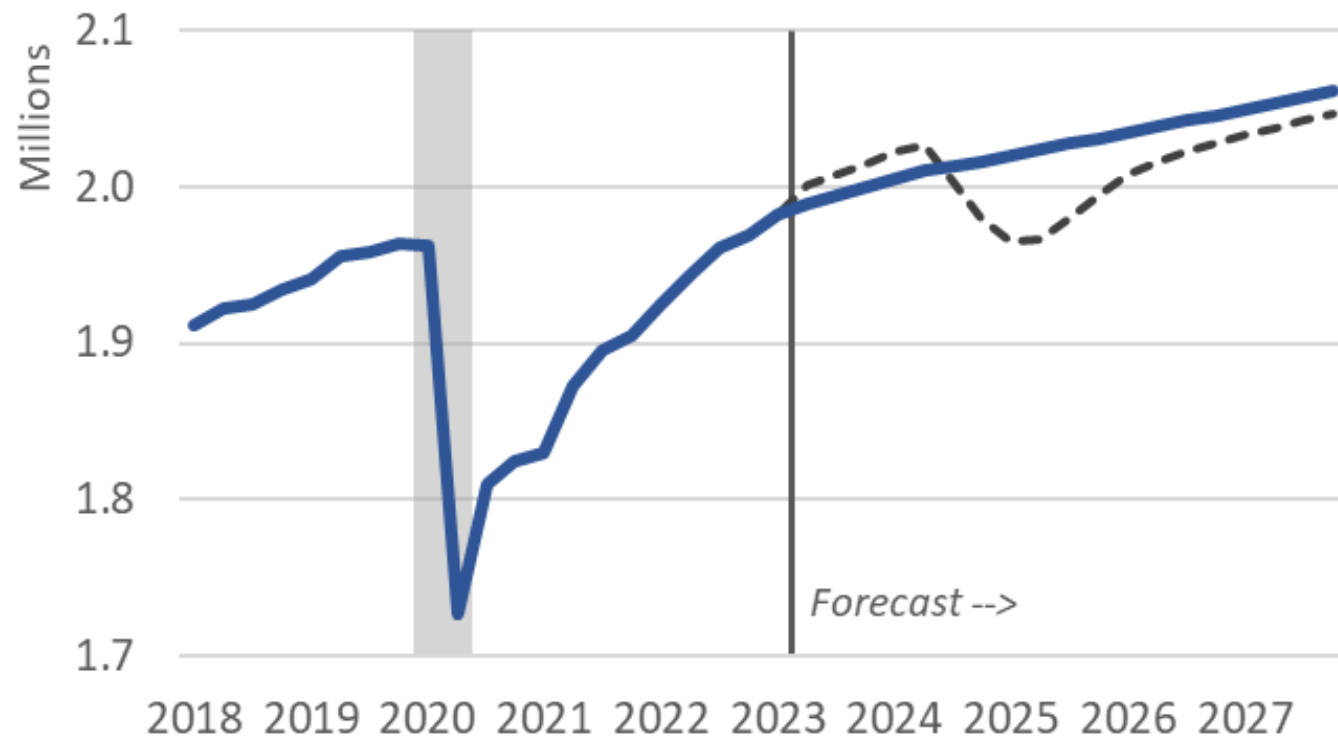
- Slowdown in inflation boosts real income growth today
- Consumer spending remains strong
 - Real durable goods spending accelerating again
- Household balance sheets
 - Nominal income up considerably over entire cycle, but below pre-pandemic trend on inflation-adjusted basis
 - Savings is growing slower in past year, up over the entire cycle
 - Wealth steady in past year, up over the entire cycle
 - Debt is up over the past year, on income-adjusted basis unchanged over the entire cycle

Risks to the outlook abound



Oregon Employment

Baseline Soft Landing and Boom/Bust Alternative Scenario



Latest Data: 2023q1 | Source: Oregon Office of Economic Analysis

Forecast Scenarios

- Baseline: growth slows as higher interest rates cool the economy (aka the soft landing)
- Optimistic: economy reaccelerates as recession fears fade, federal investment boosts growth in coming years
- Pessimistic: inflationary booms typically do not end well, a moderate sized recession in 2024 or 2025

Regional Outlook

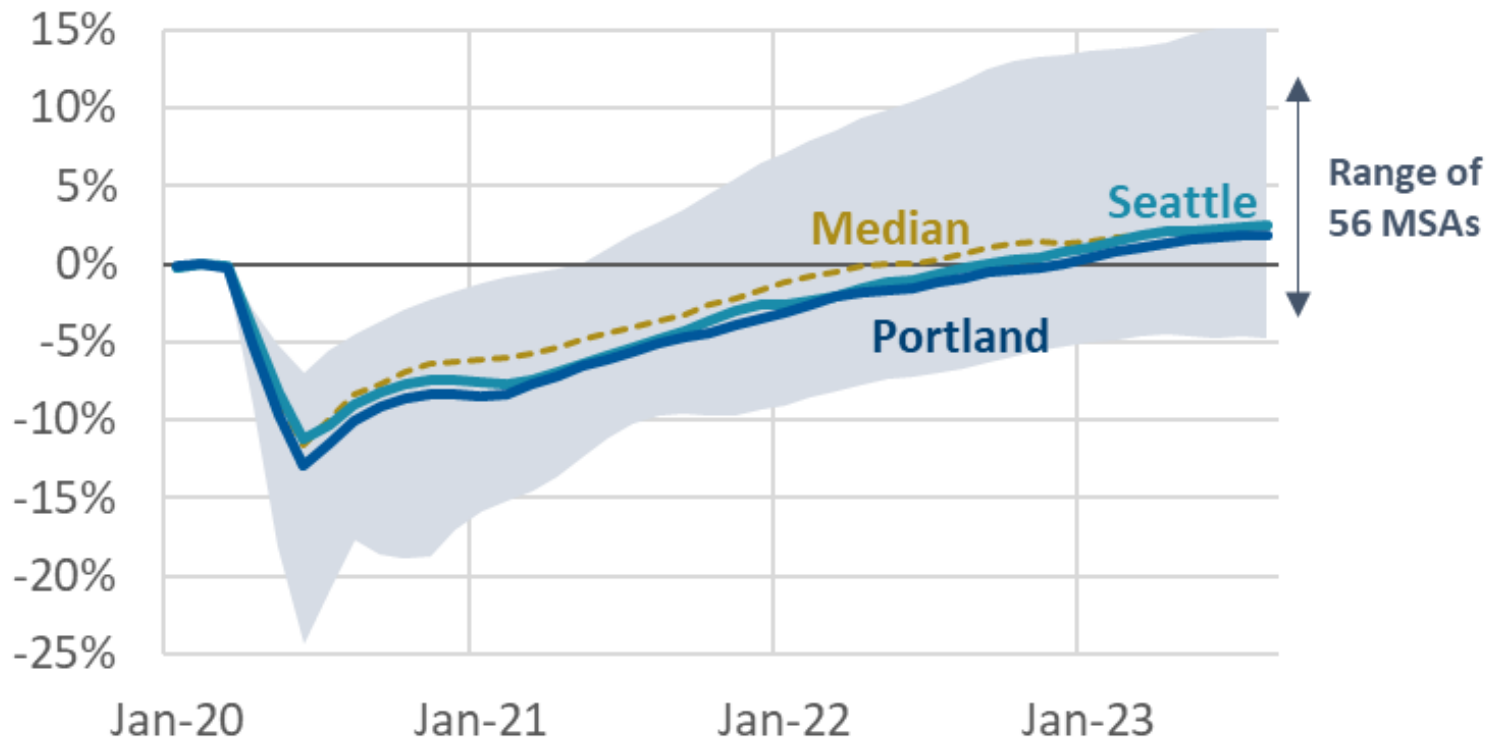


Large metros lag, at least on the west coast



The Pacific Northwest and Large Metros

Percent change in employment since February 2020 among the 56 metropolitan statistical areas (MSAs) with population greater than 1 million

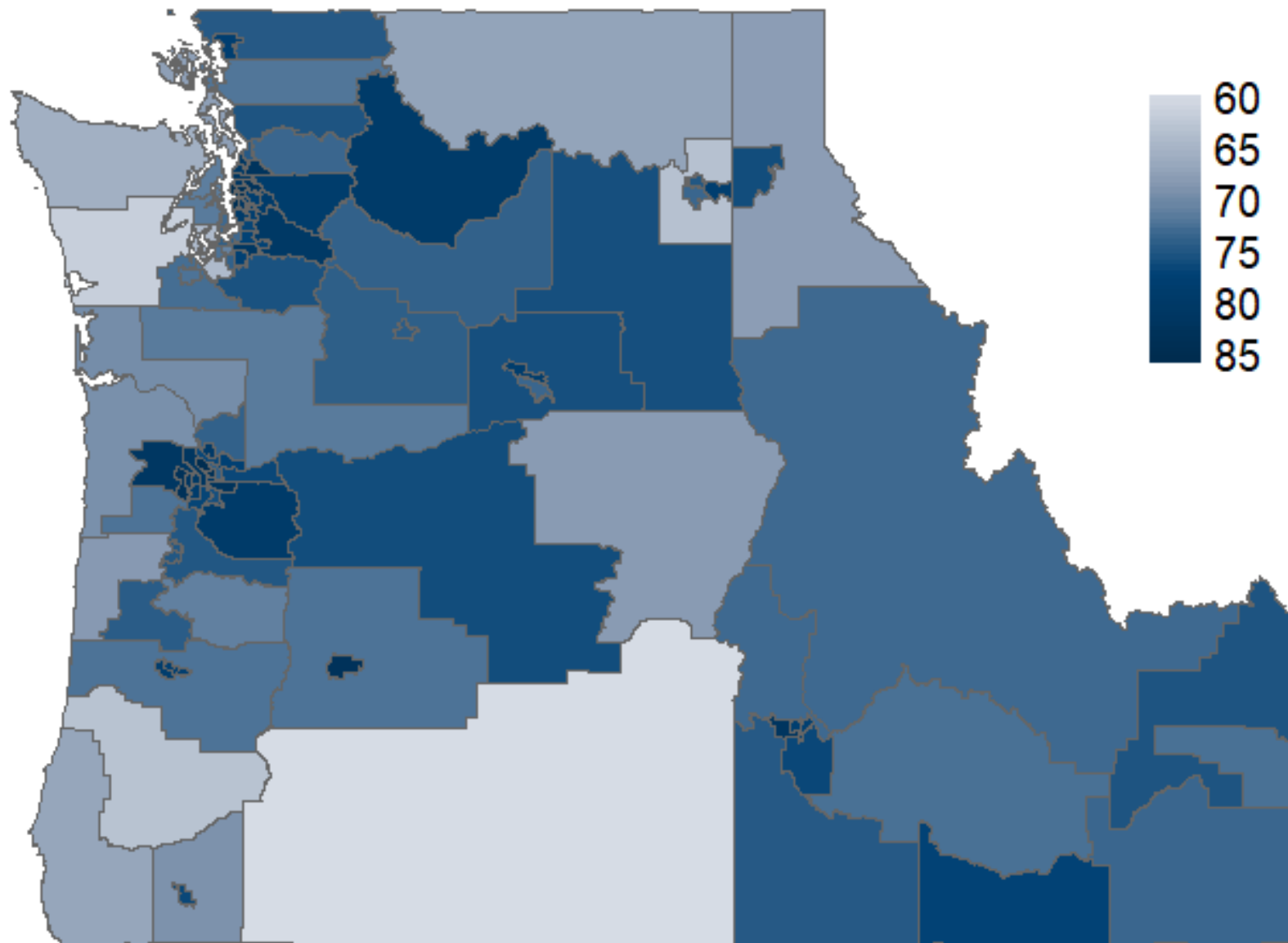


Data: 3 month average | Latest: August 2023 | Source: BLS, Oregon Office of Economic Analysis

- Last decade it was the nation's largest metro areas, with the most diversified economies that led the recovery
- This cycle, large metros on the coasts, and their urban cores in particular lag the recovery
- Suburbs, small and medium metros, and rural areas have outperformed
- Among large metros, Portland and Seattle are right in the middle of the pack in terms of jobs and income

Pacific Northwest Employment-Population Ratio

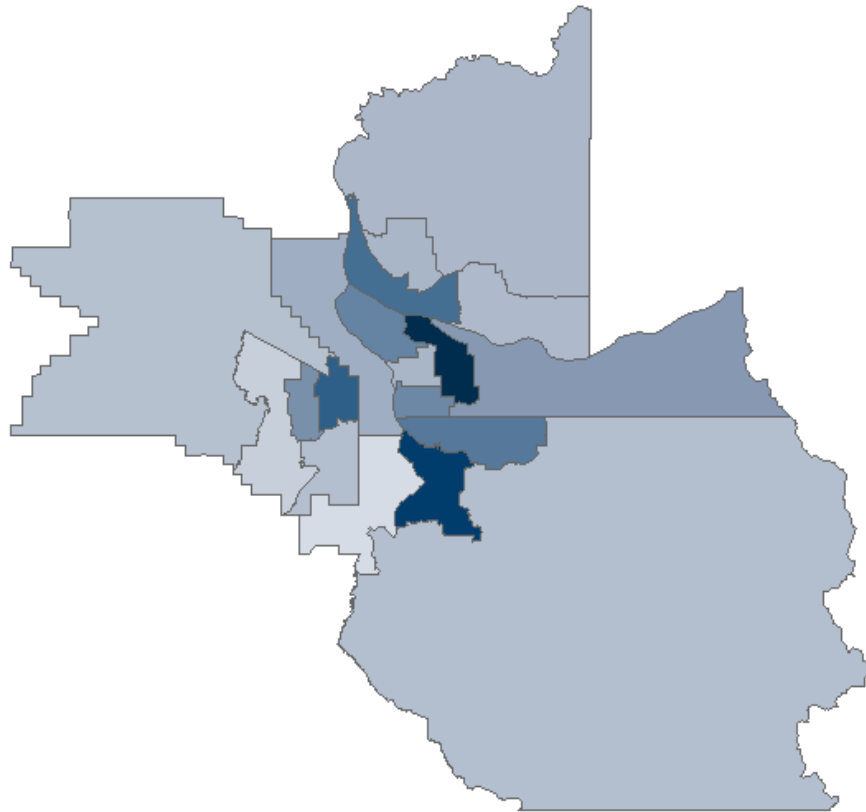
Percent of 25-64 Year Olds with a Job



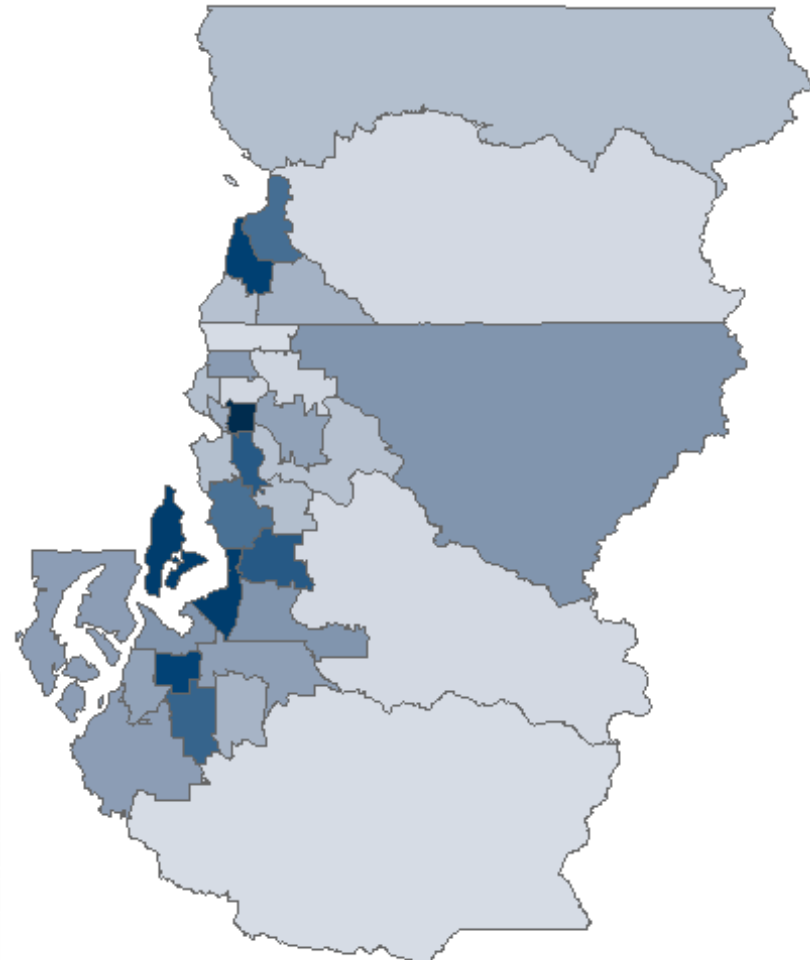
Disparities within regions have societal and economic impacts



Portland Area Child Poverty



Seattle Area Child Poverty



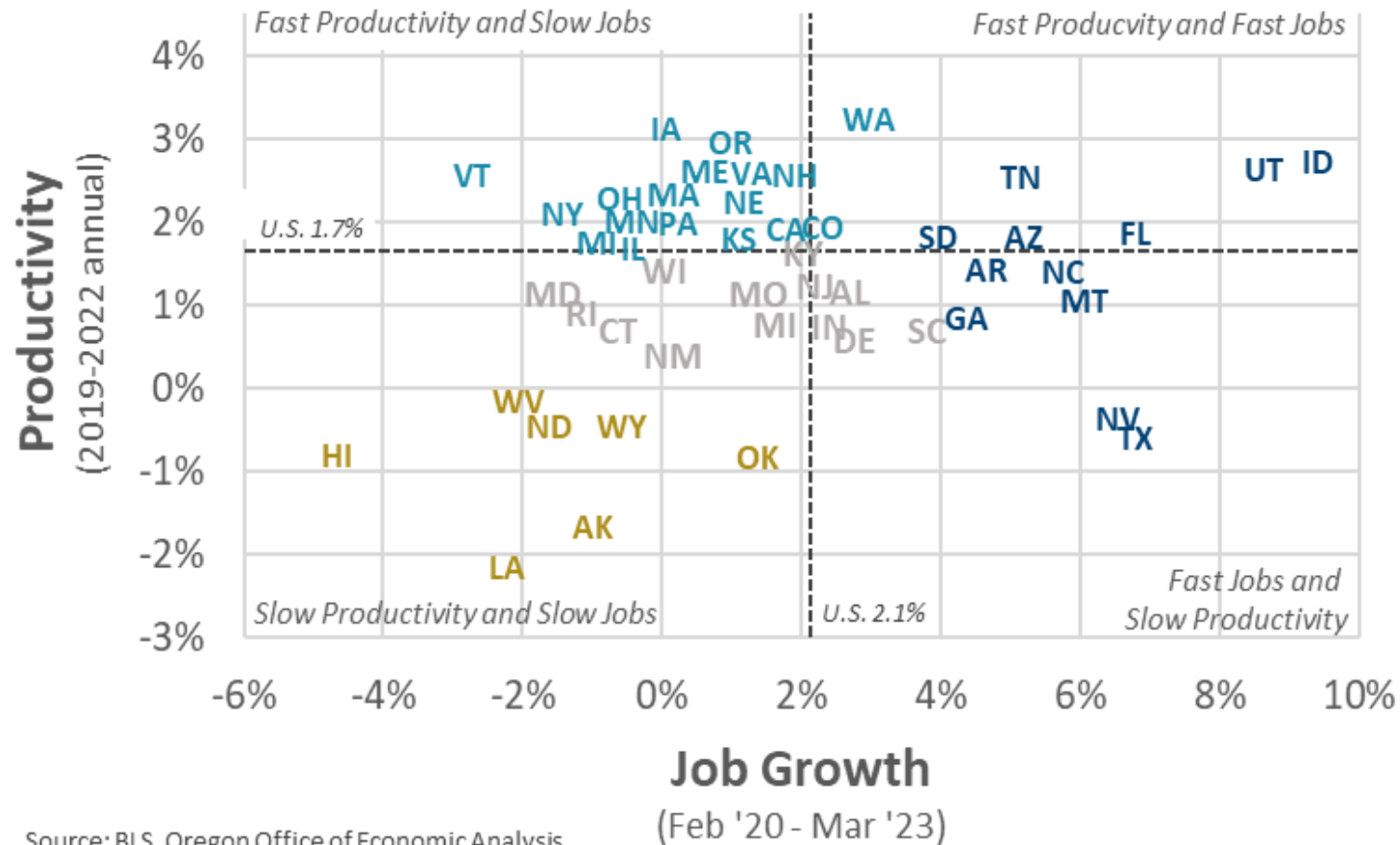
2022 Child
Poverty Rate



Economies rely on labor and capital



Pandemic Economic Growth Across States



- Labor
 - Population growth and working-age demographics
- Productivity
 - Business & capital investment
 - Start-ups help bring new products & efficiencies to market
 - Types of capital
 - Financial
 - Human
 - Natural
 - Physical
 - Social

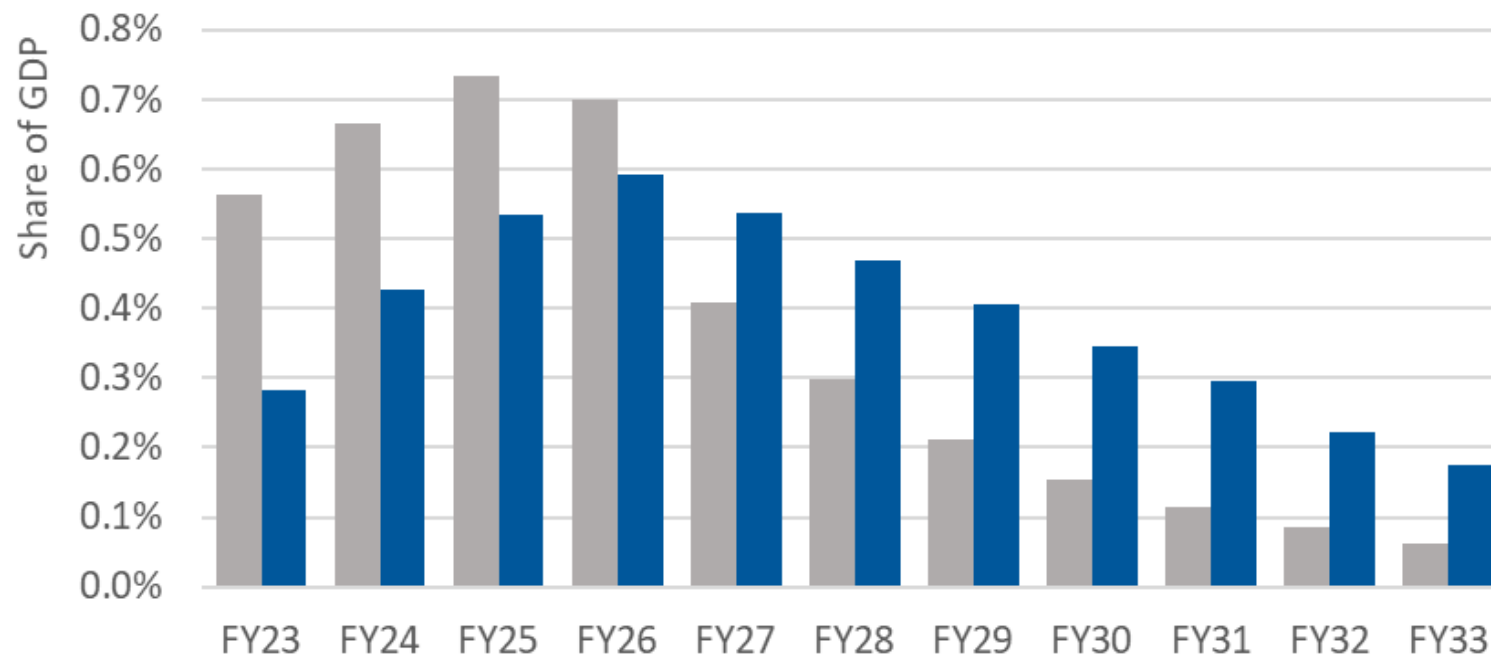
Federal investment boost



U.S. Federal Investment

Author's calculation of increases in federal spending from the Infrastructure Investment and Jobs Act, Inflation Reduction Act, and CHIPS Act based on CBO estimates

Federal Budget Impact | **Delayed Effect of Spending in Real Economy**



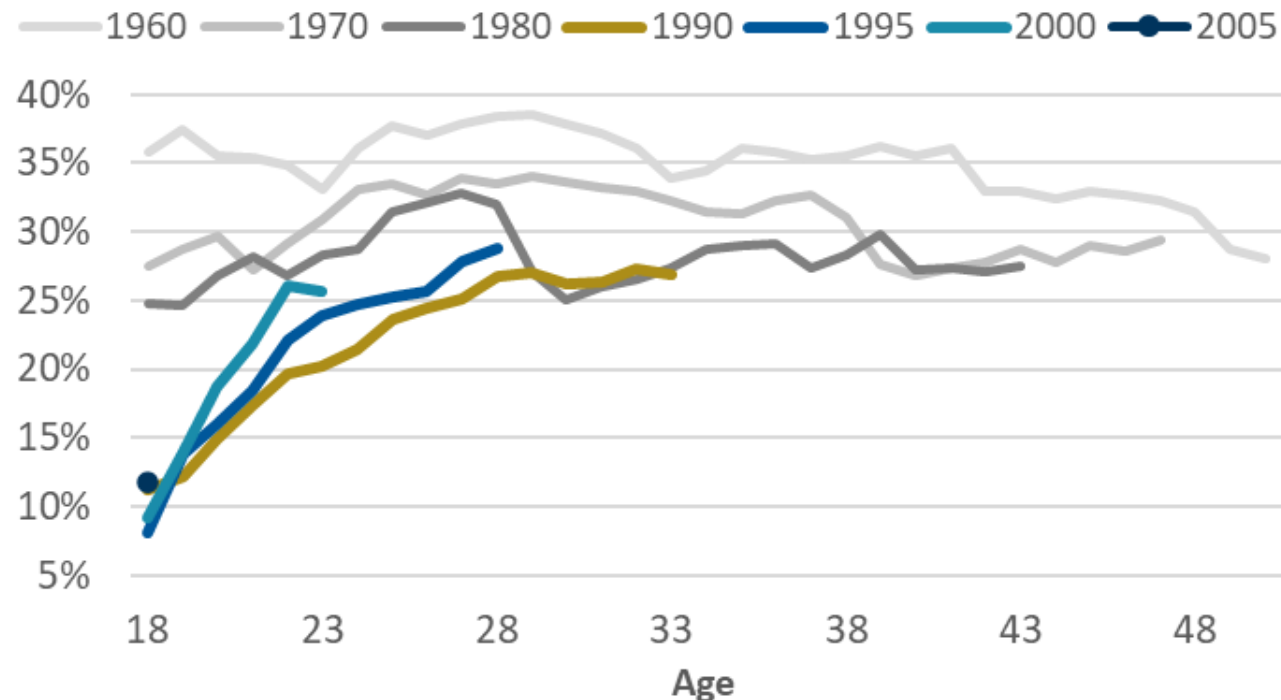
Source: CBO, S&P Global, Oregon Office of Economic Analysis

How are we going to build all the projects we need?



Young Men and Blue Collar Work

Share of men working in construction, production, transportation, and installation, maintenance and repair occupations by birth cohort and age



Birth cohorts are 5 year ranges, i.e. 1980 is men born between 1978 and 1982
Latest Data: 2023 ASEC | Source: Census, IPUMS-CPS, Oregon Office of Economic Analysis

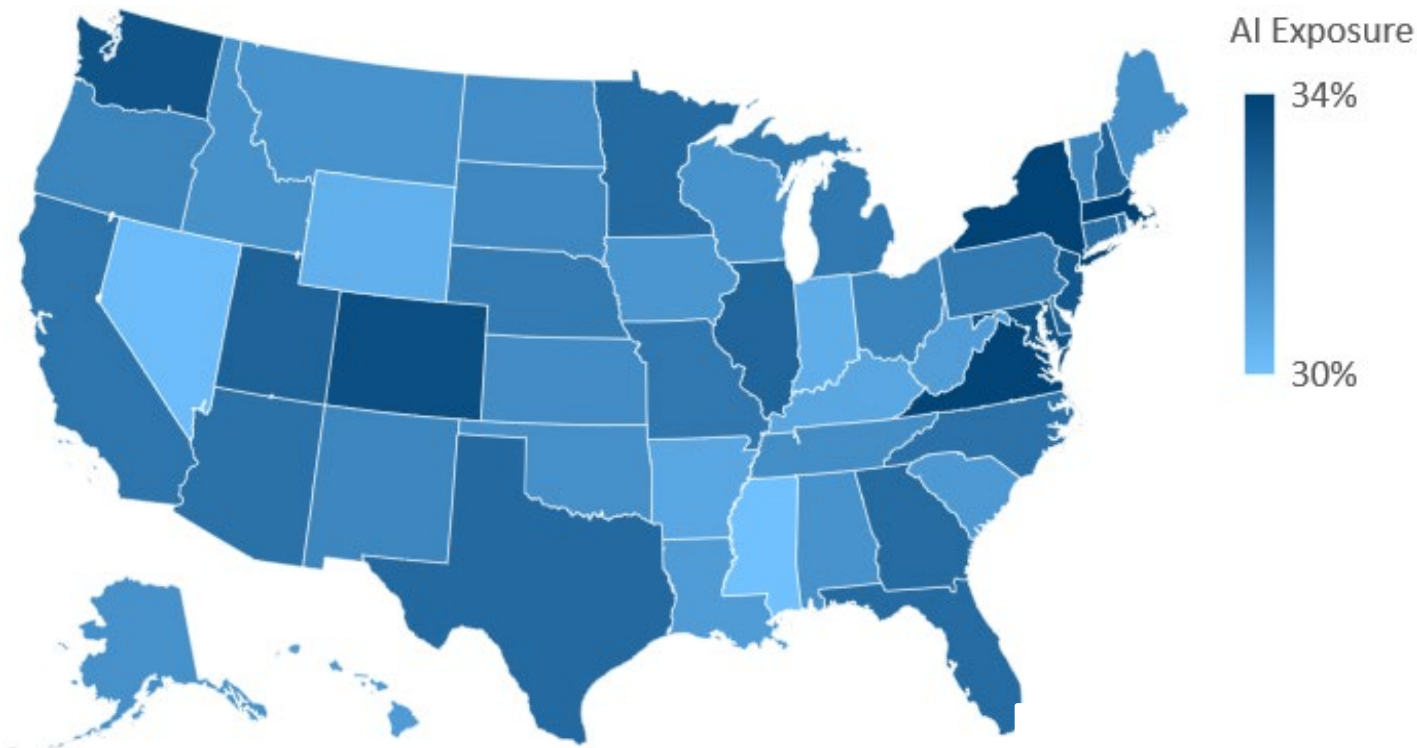
- Increased federal investment, in addition to private sector investment, state and local infrastructure, and goal of increasing housing production
- Construction industry has zero productivity gains in recent *generations*
- Good News:
 - Young Oregonians in the trades has never been higher
 - Young (men) work in the trades at same rate they historically have
- Bad News:
 - Demographics are bad
 - It takes a few years for workers to make their way into the trades

AI should boost productivity



Generative AI and Your State

Share of jobs likely to be impacted by AI



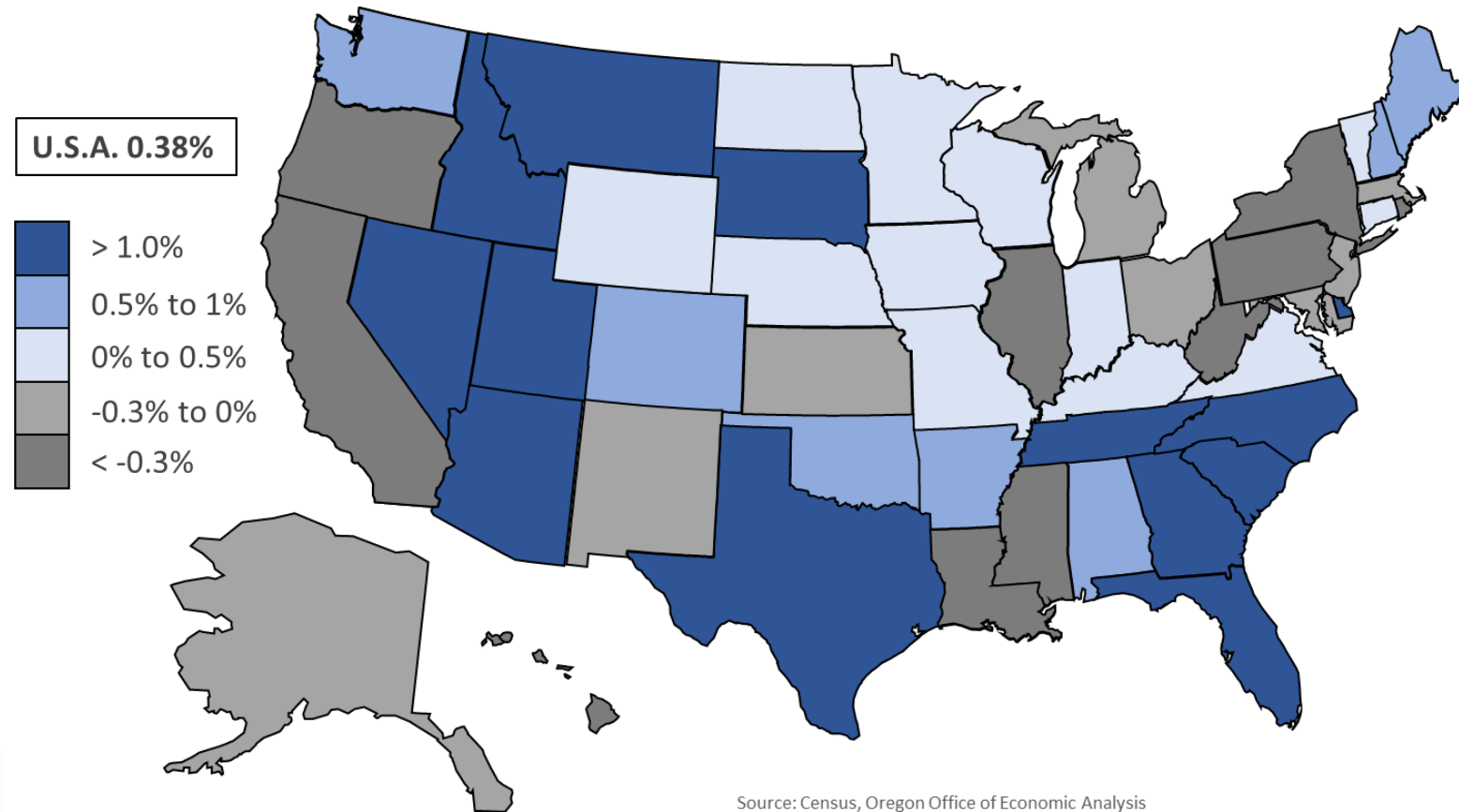
- AI should reduce time spent on some tasks, freeing up workers to do more actual work
- Impact should be a boost to productivity, not a net loss of jobs
- AI likely impacts knowledge workers the most
- Will AI development occur in existing tech hubs, or will new clusters form?
- AI impacts will be felt nationwide, relative differences based on industrial structure

Pandemic population patterns differ



2022 Population Growth

July 1, 2021 to July 1, 2022 Percent Change



Source: Census, Oregon Office of Economic Analysis

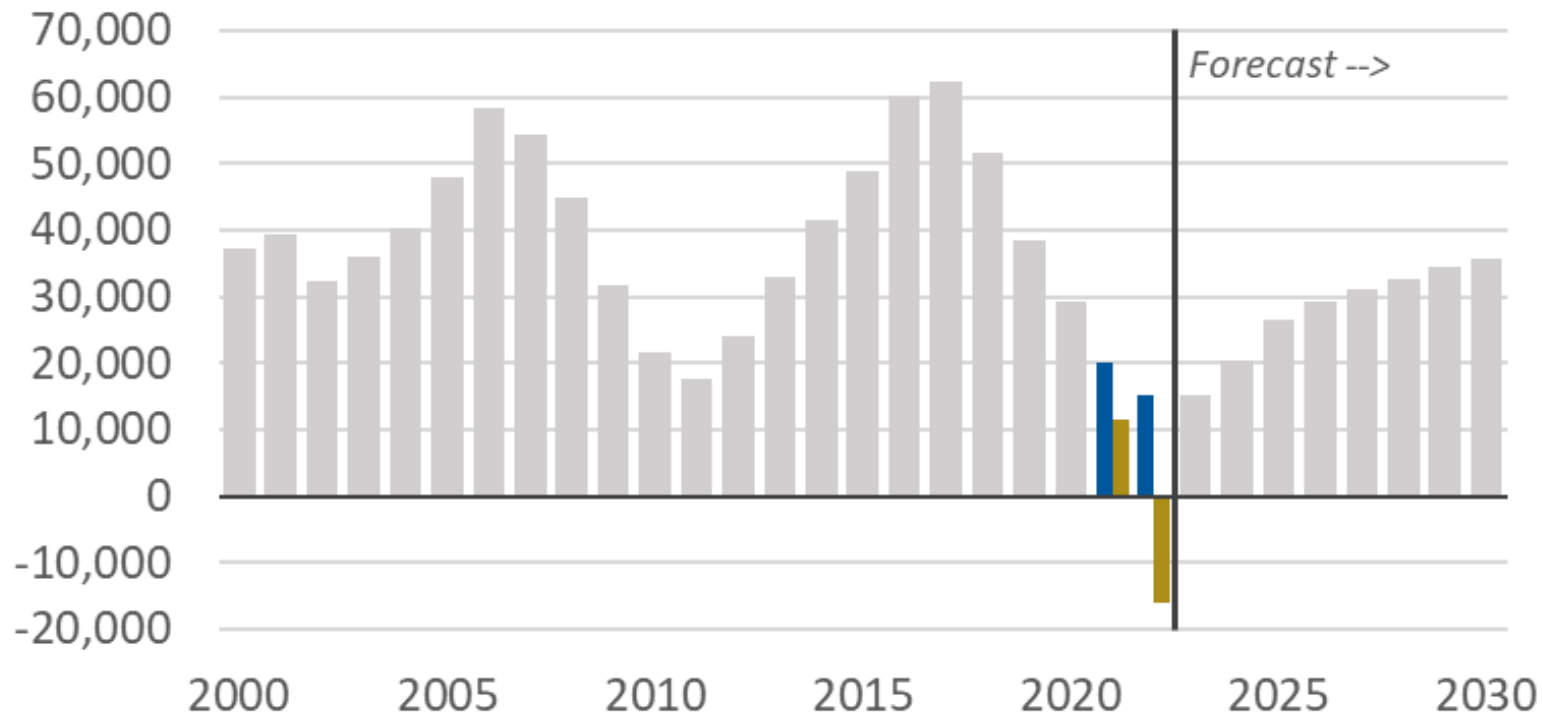
Population growth slowly returns



Oregon Population Growth

Annual change in total state population

OEA History and Forecast, **Portland State Estimates**, **Census Estimates**



Latest: 2022 | Source: Census, Portland State Population Research Center, Oregon Office of Economic Analysis

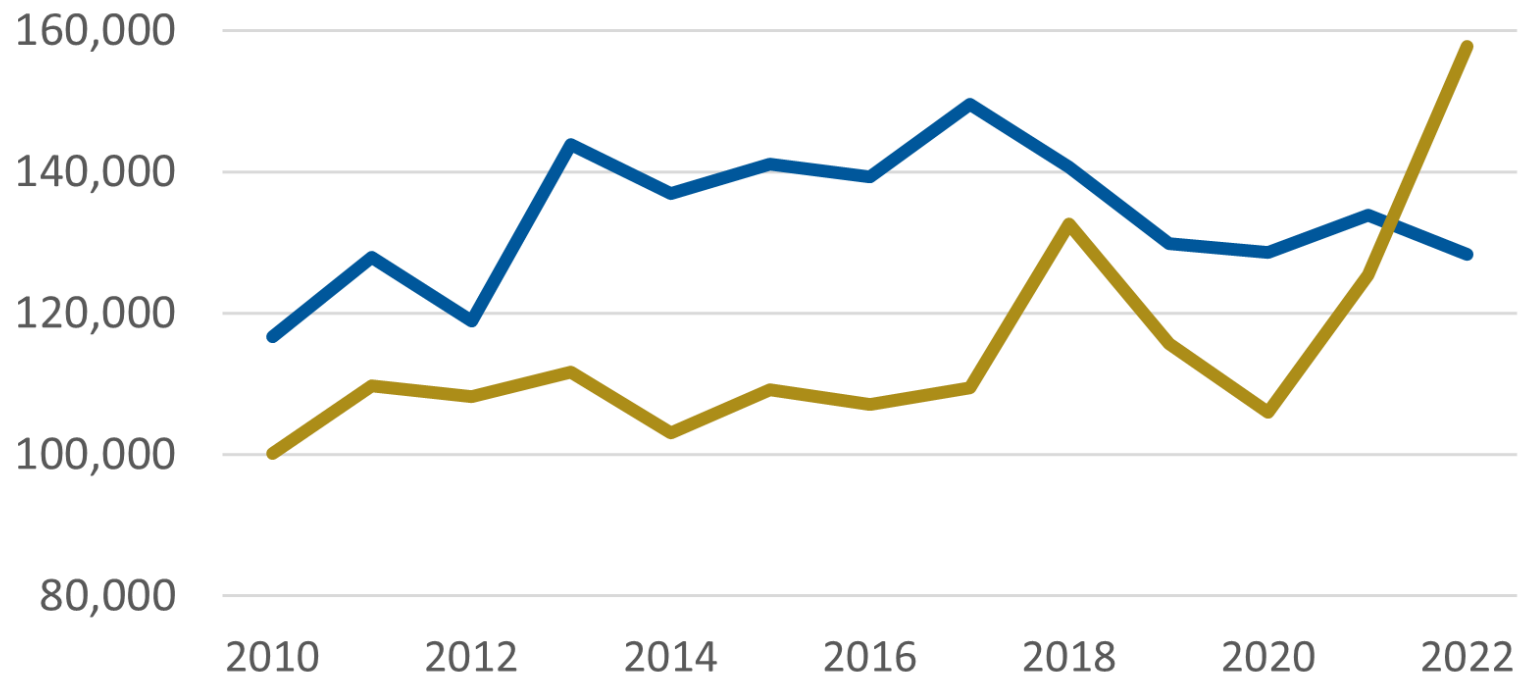
- 2023 population estimates released in Nov (PSU) and Dec (Census)
- Migration is the primary reason Oregon grows faster than the U.S. It allows local businesses to hire and expand at a faster rate.
- Updated Population Data
 - Deaths continue to outnumber births
 - Surrendered driver licenses at Oregon DMVs continues to match levels seen last decade
 - New data from the Cleveland Fed based on credit reports, shows the Portland metro population may be stabilizing, even as the urban core continues to lose residents

Who Left?



Oregon Domestic Migration

Number of people moving *Into Oregon* and *Out of Oregon*



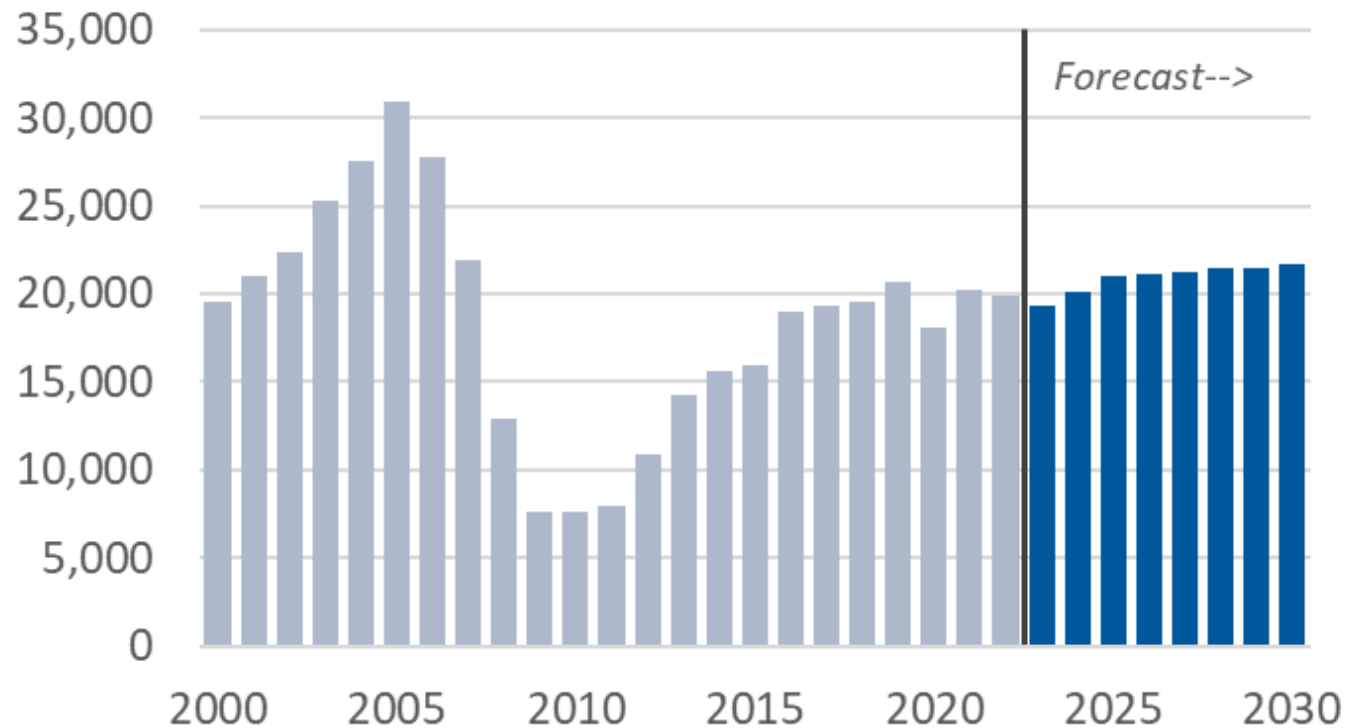
Data: ACS 1 year estimates | Source: Census, IPUMS-USA, Oregon Office of Economic Analysis

- Population declines driven not by fewer people moving to Oregon, but due to more people packing up and leaving Oregon
- Net out-migration was evident across the board, broadly speaking
 - Half children, half adults
 - Half college graduates, half non-college graduates
 - Nearly 50/50 for white, non-Hispanic, and BIPOC Oregonians
 - Out-migration across all major income brackets
- Positive in-migration among 18-24 year olds

Housing supply matters



Oregon Housing Starts



Source: Census, Oregon Office of Economic Analysis

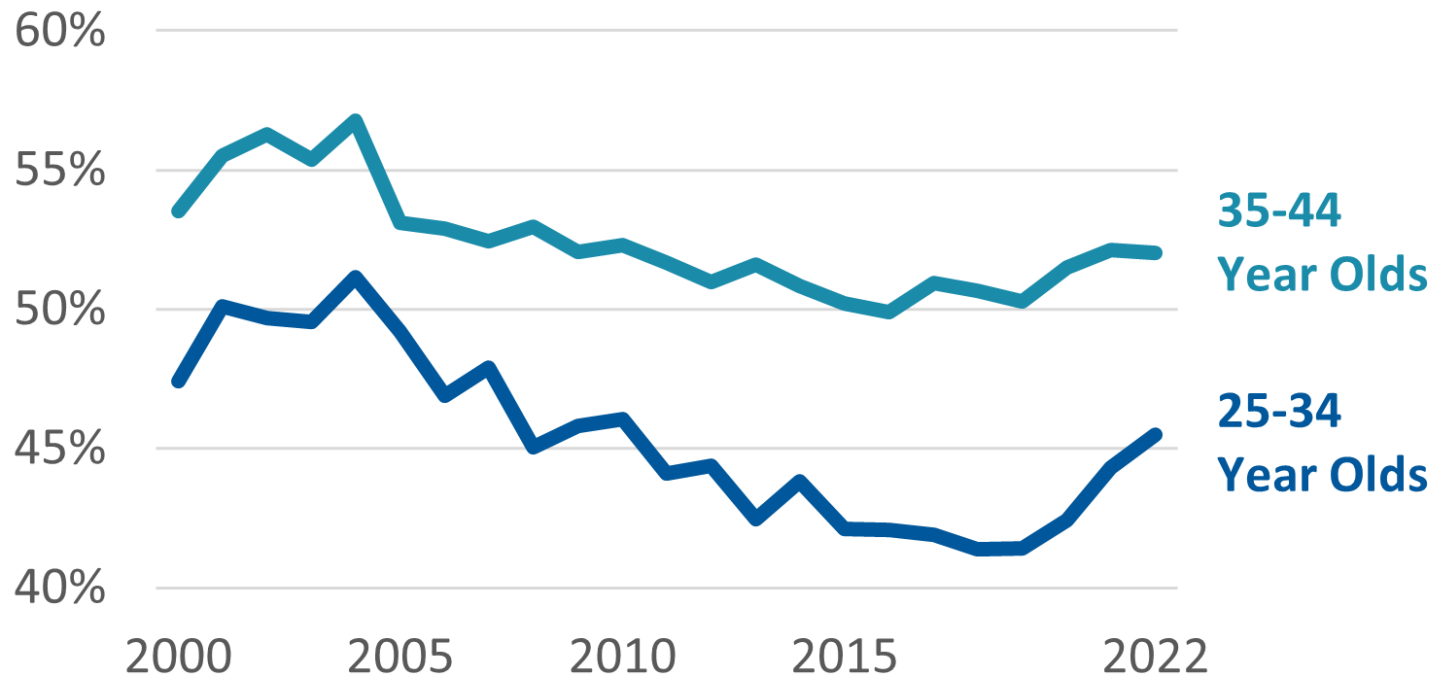
- Oregon has underbuilt housing by 140,000 units in recent decades
- Industry running into supply side constraints
 - Financing, Land, Lots, Labor, Permitting Process
 - No productivity gains
- Affordability issues
 - Current residents struggle with outright lack of available units
 - Low-income households impacted the most
 - Future economic and revenue growth will be slower if fewer households can afford to move to or live in Oregon
- Outlook
 - Minimal growth in housing starts and construction employment, largely keeping with slower population forecast
 - Underproduction shortfall not made up

Household formation is picking up



Oregon's Rebounding Headship Rate

Share of population that is a householder (formerly head of household)



Data: ACS | Source: Census, IPUMS-USA, Oregon Office of Economic Analysis

• Millennials

- Largest generation alive
- Now middle-age and a key economic force
- Huge homeownership demand
- Credit sensitive

• Boomers

- Entering into traditional retirement years
- Most have decent savings and are still in good health
- Downsizing in the 2030s
- Less credit sensitive (and may gift inheritance to children to help with down payment)

• Gen Z

- Somewhat smaller, barely offsets retiring Boomers
- Oregon needs Gen Z to move here like Boomers and Millennials before them
- Economic driver in the 2040s

Contact Information

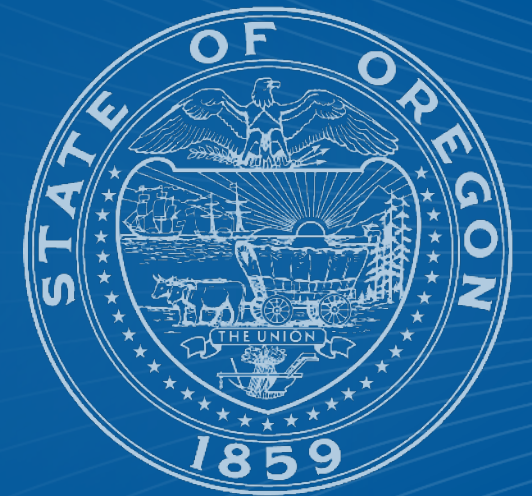
Josh Lehner

(971) 209-5959

joshua.lehner@das.oregon.gov

www.OregonEconomicAnalysis.com

@lehnerjw

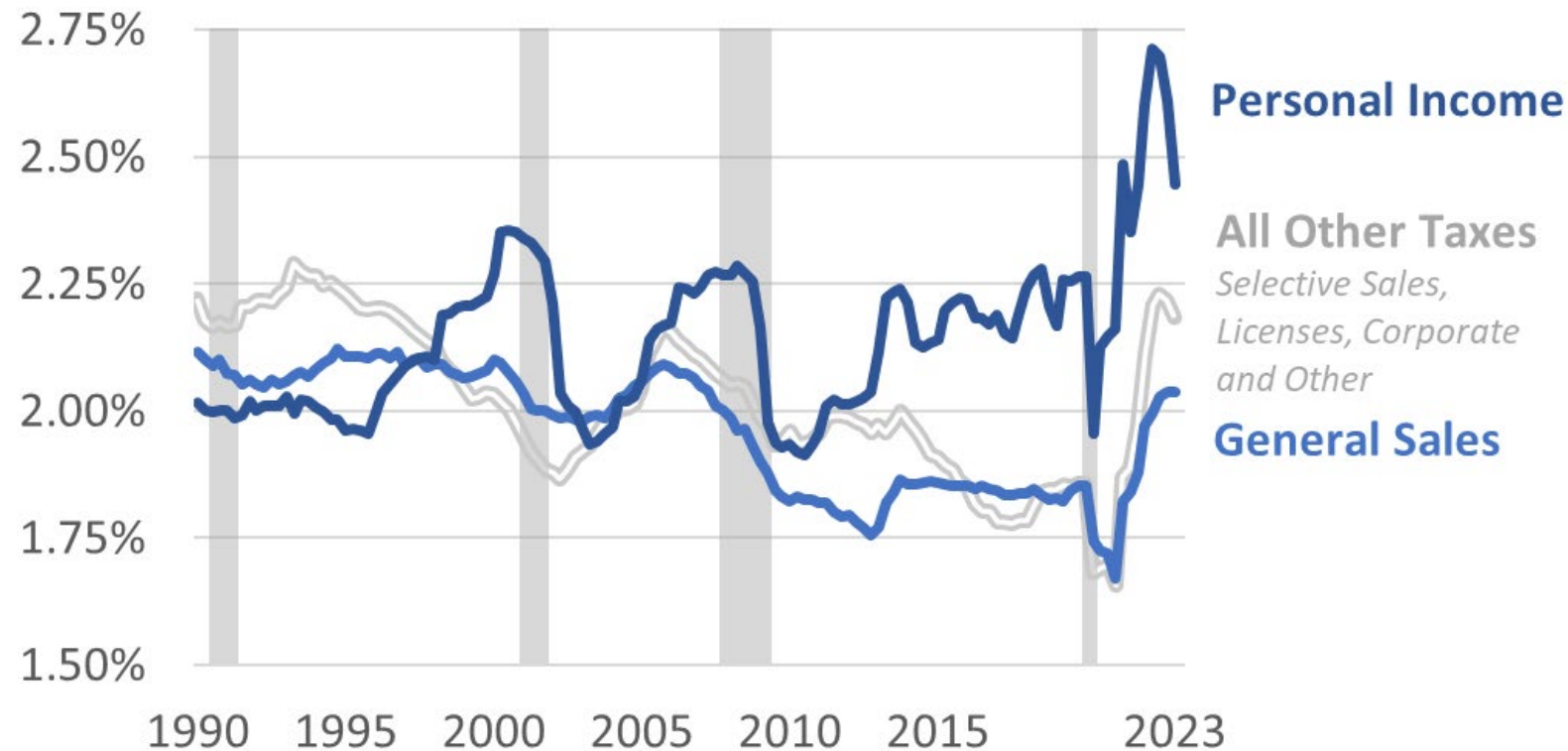


Inflationary boom boosts public revenues too



State Tax Collections

All states tax collections, share of total personal income, 4 quarter average



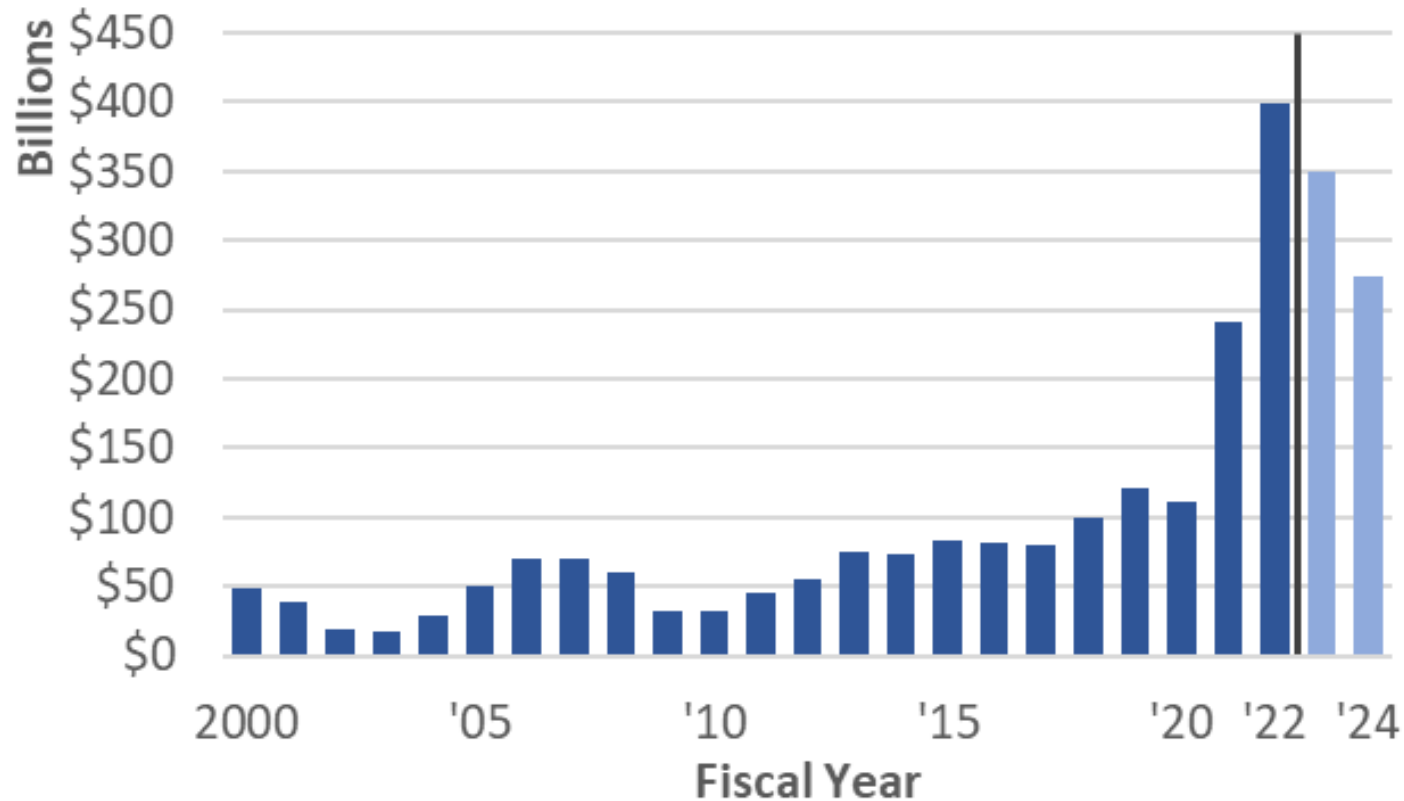
Latest Data: 2023q1 | Source: Census, BEA, Oregon Office of Economic Analysis

- Personal is slowing
 - Capital gains returning to earth, labor income moderating, PTE changes, tax cuts
- Sales will slow further
 - Goods deflation has returned after pandemic supply chain struggles
- Corporate is ?
 - Traditional corporate taxes boomed following TCJA
- Property is bifurcated
 - Urban cores of big cities struggle vs strength nearly everywhere else, although near-term residential price declines may impact you

Strong public sector balances



State Revenues: Total Balances



Source: NASBO, Oregon Office of Economic Analysis

- Result of better than expected growth in this inflationary economic boom
- Balances
 - Support future budgets
 - Backfill loss of federal funds
 - Enable tax cuts
- Interest earnings at multidecade highs with large ending balances and high interest rates