The Economic Outlook

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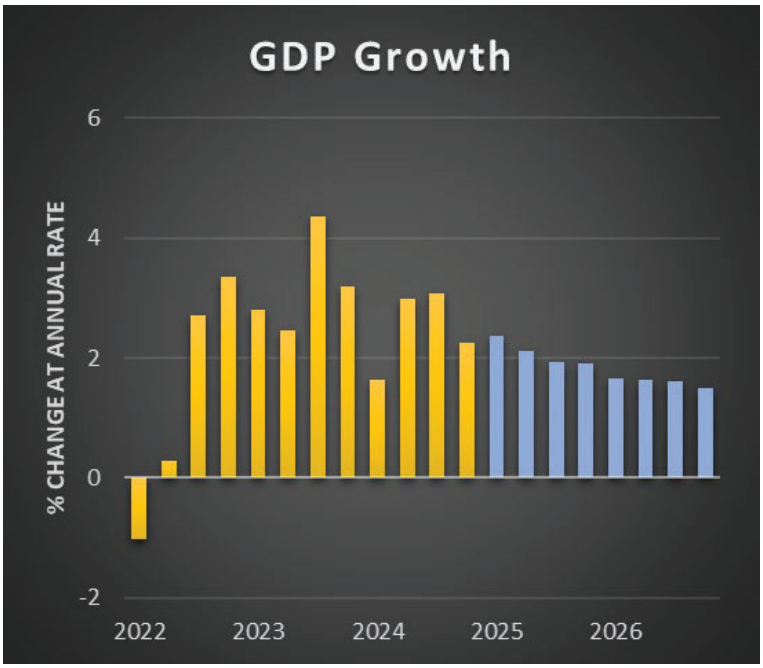
Quarterly Economic Newsletter

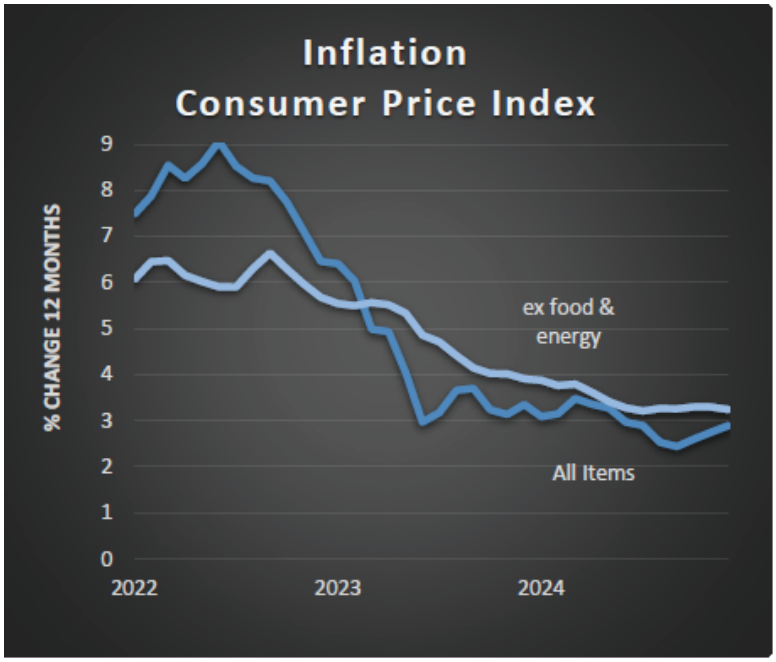
Inside Q1

The economy is well balanced now despite political changes. Neither boom nor bust are likely as the economy grows in pace with our ability to produce goods and services. Years ago, we regularly had excess labor supply, so fluctuations in aggregate demand determined economic strength or weakness. Today, however, supply—especially of labor—drives economic growth or decline. Thus federal immigration policy will impact the U.S. economy, while the attractiveness of Oregon and Washington to people who are moving will drive our local economies.



The U.S. economy has grown above its long-run historical average the last two years, largely driven by strong foreign immigration. Before that population acceleration, businesses could not hire as many workers as they wanted, limiting expansion. But net immigration surged in 2022-23, much of it asylum seekers. The surge slowed in spring of 2024, even before President Trump's reelection. His policies will further slow the pace of immigration, limiting employment gains. That does not put the economy at a lower level of production, but it does reduce the rate of change.

Consumer spending has grown recently, thanks to earnings now rising faster than consumer prices. Attitudes remain a bit gloomy because shoppers remember past prices, not past rates of change. Employment will grow at a slow pace, but with slower population growth the per capita incomes won't suffer.



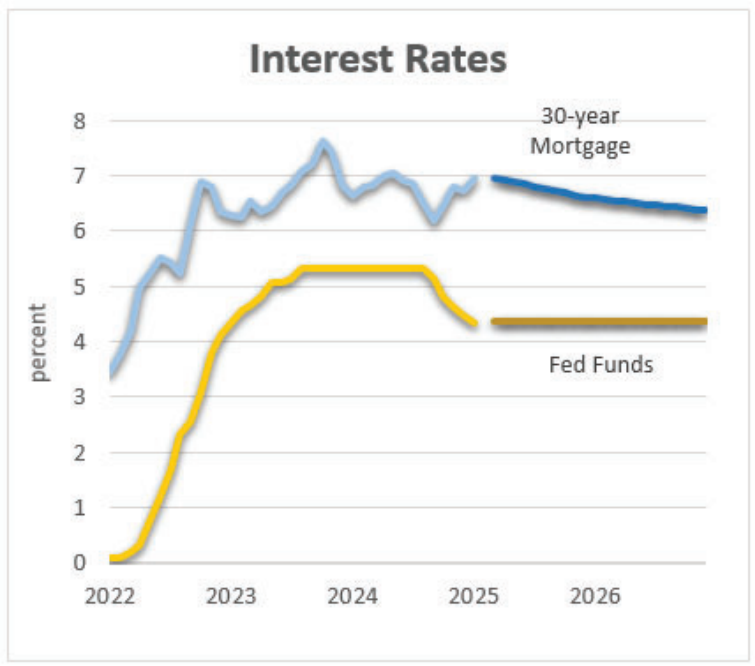
Construction will be mostly soft in the next two years, with a few pockets of strong growth. Single family construction won't rebound until mortgages fall a good deal, which won't happen for a couple of years. Multifamily construction continues to feel the lagged effects of past mortgage rate increases. Public construction will continue to grow

moderately, driven by past infrastructure legislation. Private non-residential construction will contract a little, except for the two extremely strong sectors: semiconductor fabs and data centers. These national trends also reflect conditions in the Pacific Northwest.

Business capital spending is mostly soft, aside from products used in fabs and data centers. That trend will probably continue until interest rates fall.

Total government spending will continue to grow, despite the Department of Government Efficiency's efforts. Both Washington and Oregon will increase state spending in line with revenue growth.

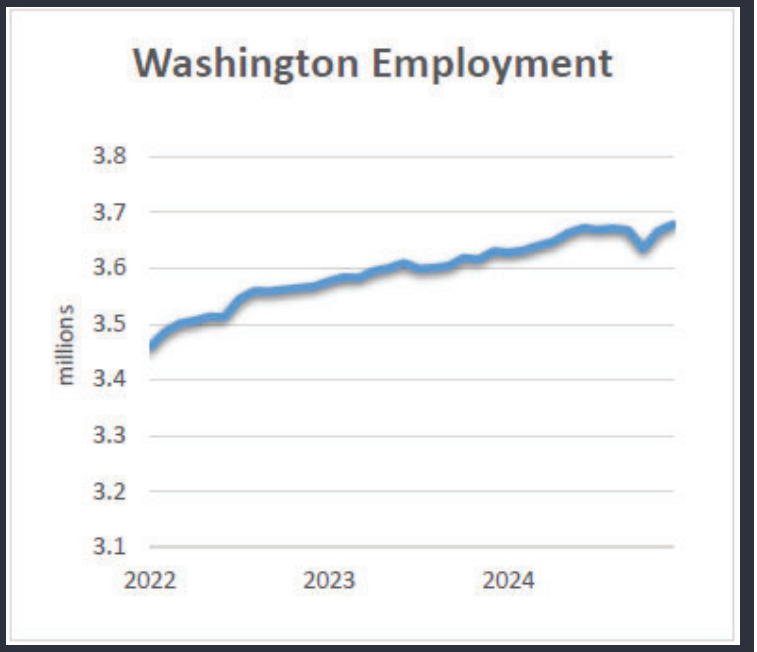
Inflation has stabilized, but above the Federal Reserve's target of two percent. After two years of dramatic improvement, inflation became stubborn. Employment is not weakening, as the Fed had feared. So further interest rate cuts are unlikely.



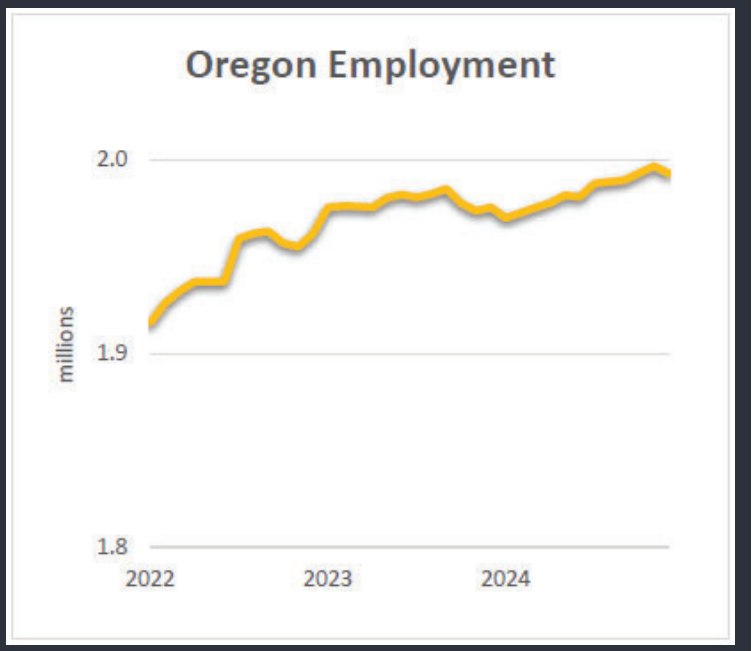
President Trump's policies challenge forecasters, both in the private sector and at the Fed. Reduced foreign immigration means our productive capacity will expand less than in the last few years. And tariffs will push prices up. But tariff increases don't cause sustained inflation year after year, a fact the Fed acknowledges. Policy changes will probably have small impacts on the overall economy, slightly negative near term due to lower labor force growth, and possibly positive in later years as deregulation spurs business activity. Business leaders should focus on their particular industries rather than the overall economy when evaluating policy impacts.

Washington state's total employment suffered from Boeing production challenges and then its strike. The tech sector also had layoffs, a reaction to excessive hiring in years past. Going forward, the number of jobs in the state will grow but at a gradual pace. Historically, two to three percent annual growth was common; look for about 1.5 percent over the next two years.

Population growth will remain moderate thanks to people continuing to appreciate the state's quality of life.



Oregon's economy has revived after a year in the doldrums. Jobs are not increasing as fast as in Washington or the United States overall, but certainly better than last year. The turnaround was driven by the Portland metropolitan area, which had shed jobs but now is growing slowly. Economic growth across Oregon should be at least as good as the last 12 months and maybe a little better. However, the state's population growth remains well below historical average, limited by housing and tax costs.



Wage rates in both states are increasing at roughly the national pace, four percent per year, which is above general inflation and housing costs. Overall, look for moderate economic growth in the Pacific Northwest in 2025 and 2026.

Dr. Bill Conerly is a business economist and Forbes senior contributor with a Ph.D. in economics from Duke University. Learn more at www.ConerlyConsulting.com