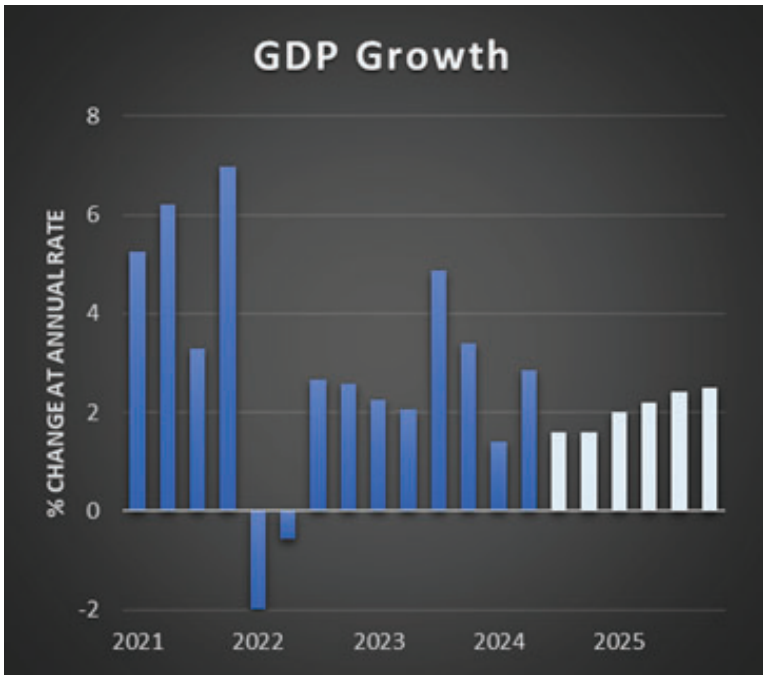
The Economic Outlook

Written by Dr. Bill Conerly

Bank of the Pacific

Quarterly Economic Newsletter | Inside Q3

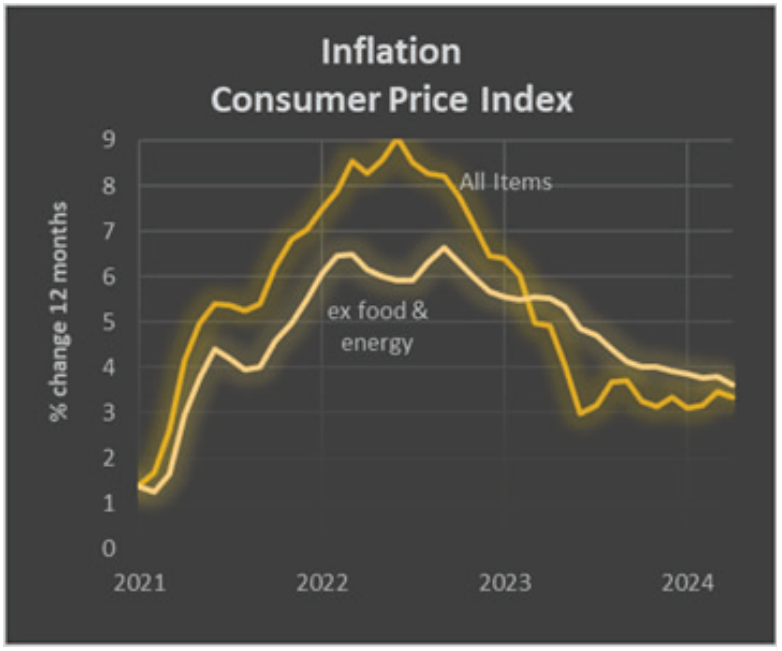
The American economy seems to have achieved the rare soft landing, with inflation slowing and the economy continuing to grow. Small signs of economic softening have appeared, but not so bad that recession looms near. And inflation has decelerated substantially, though not yet to the Federal Reserve's target. We could call this a "Mama Bear" economy: not too hot, not too cold.



Looking forward, the pace of economic growth will edge down, inflation will drop a bit more, and interest rates will decline. But all forecasts should be taken with a grain of salt, as plenty of uncertainties threaten this comfortable scenario.

Consumer spending contributed a good part of the boost to gross domestic product in the second quarter, which is typical. Business equipment spending grew more than usual, boosted by machinery being added to semiconductor plants and data centers. Construction slowed a little in both residential and commercial sectors.

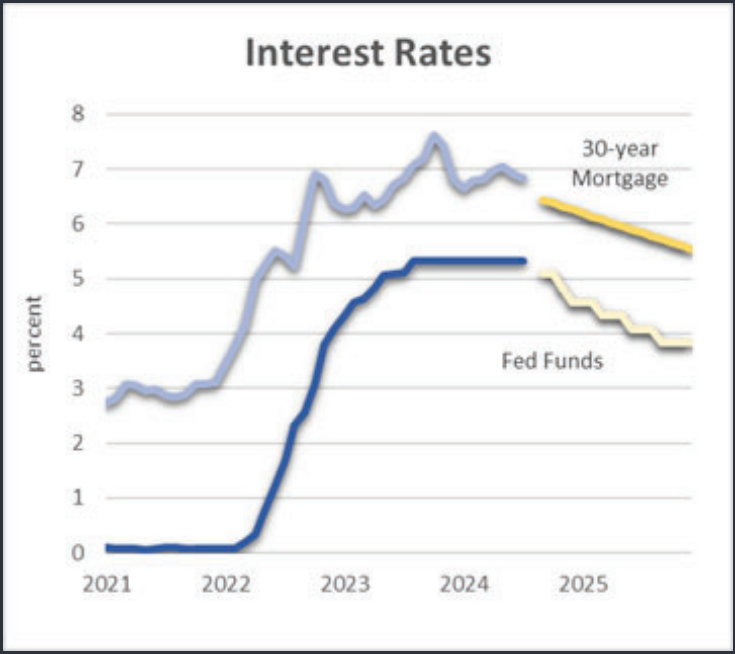
Employment data has been watched carefully both for signs of economic slowing and for the Fed's motivation to cut interest rates. Employers added jobs, though at a slower pace than in recent years. Fewer jobs openings were posted, motivating more workers to keep their present jobs. These changes have been small but point to a softer economy.



Inflation has dropped, but not yet to the Fed's target level of two percent. Consumers continue to cite high prices as a major concern. Wage increases were welcomed, with workers believing that their effort and talent justify high pay. Then shopping for groceries and paying their bills made them feel ripped off. To us economists, the wage increases and the price increases are both a result of excessive stimulus in the economy, but that's not how most workers see it. And falling inflation is not the same as

falling prices:seven percent inflation followed by three percent inflation means prices are ten percent higher (plus a little compounding). Shoppers gripe about the cost of ground beef and eggs, and don't get them started on their electric bills.

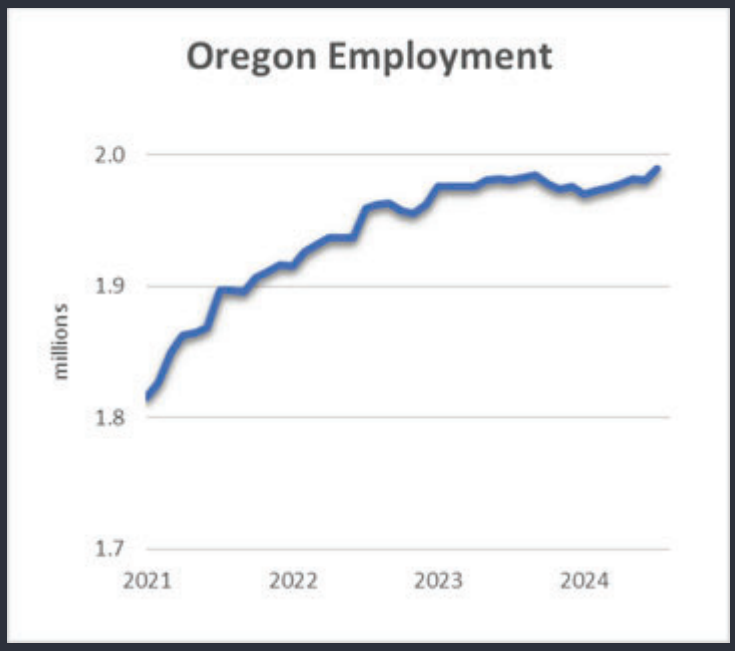
Cautious shopping will add to the lagged effect of high interest rates to slow economic growth. The Federal Reserve has signaled that they will start cutting interest rates this year, though the timing and magnitude remain uncertain. The most likely path is three-quarters of a percent down by the end of 2024, with a like amount over the course of 2025. The Fed only manipulates one interest rate directly, but that should help all other interest rates drop, including mortgages and auto loans.



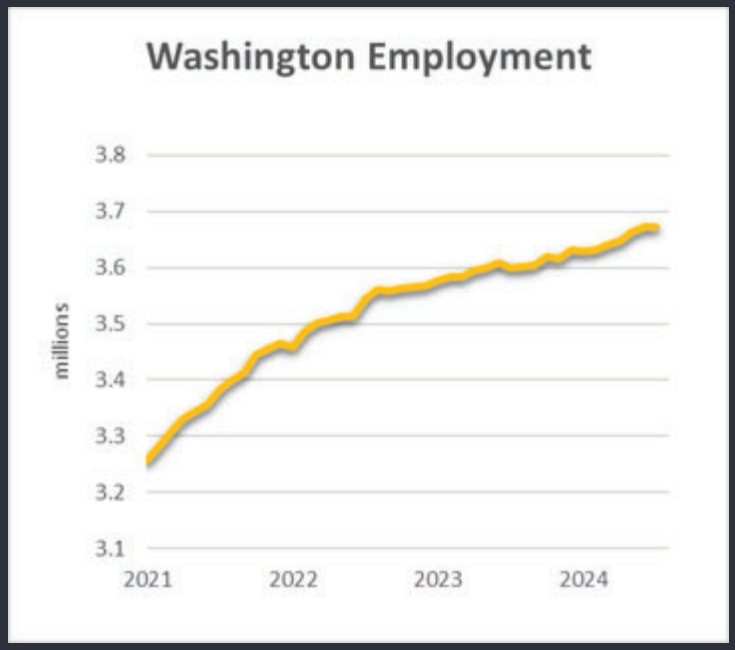
(Graph note: Lines after the break are forecasts.) The global environment poses major risks to the U.S. economy. War could worsen in the Middle East and Ukraine, and tensions between China and Taiwan could put international trade in a precarious position. Here in America the new president, whoever it is, will likely increase budget deficits, raise tariffs and limit immigration. Taxes and business regulation depend of the outcome of the election. However, most of the economy will move forward regardless who becomes president.

House prices should continue to increase with the anticipated interest rate cuts.

Most communities in the Pacific Northwest show solid economic gains. Job growth in Washington as a whole exceeds the national average, and most the metropolitan areas of the state are in the ballpark of the state average. Oregon job growth has been pulled down by the Portland-Vancouver metro area, though the rest of the state has grown at about the national pace. City leaders are trying to turn Portland around, but crime and homelessness continue at elevated levels, with high housing costs exacerbating the economic challenges.



Home prices have increased in the region, more so in Washington than in Oregon. The Seattle-Tacoma area notched a particularly high 5.6 percent gain in the last 12 months. The Portland metro area equaled the overall state increase of 1.1 percent. House prices should continue to increase with the anticipated interest rate cuts. Apartment rents across the Pacific Northwest have edged up, contrary to a small national decline.



Going forward, we expect most of the region to grow, but at a slightly slower pace because the national economy will slow its growth. Portland has been an outlier but should turn around and approach the growth rate of other parts of the Pacific Northwest.

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