Economic Outlook for the Pacific Northwest
or
If this is recovery, why don’t we feel better?

Mark Roberts
Economists.com
January 31, 2012
Outline

◆ What’s happening with the economy
◆ Drivers
◆ Forecasts: World, U.S., and the PNW
◆ Your questions
Unemployment remains unacceptably high

U.S. = 8.5%

13.1 million actively seeking work

Source: BLS: 1/24/12 release for December 2011(p)
More inclusive measure of unemployment is even higher
U.S. = 15.2%

This measure (U-6) includes:
- Discouraged workers
- Part-time workers who want full-time positions

Source: BSL: 12/20/11; state data thru October 2011 & US through December 2011
PNW unemployment rate is slowly declining

Source: BLS: 12/20/11; state data thru November 2011
Long-duration unemployment remains at very high levels

5.6 million out of work
Less education translates into worse unemployment

Race and age also have significantly differing rates

Less than high school

High school

Some college or AA

BA degree or more

http://www.calculatedriskblog.com/
Many traditionally “middle-class” jobs have been lost in the “Great Recession” (and may not be coming back)

Unemployment Rate by Occupation (12-month Moving Average, NSA)

- Natural Resource, Construction & Maintenance
- Production & Transportation
- Services
- Sales & Office-related
- Management & Professional

Department of Labor and Wells Fargo Securities, LLC
The economy continues to add jobs …but very slowly

A “good” pace of job addition

Natural increase in labor force: 145,000/month

Source: Bureau of Labor Statistics

http://www.dallasfed.org
...but many rural PNW counties are losing jobs
(12-month change in employment, ending June 2011)
The “Great Recession”: Deep and long

Notice:
1. Duration
2. Depth
3. Shape

Source: Percent Job Losses in Post WWII Recessions, November, posted on Dec 2, 2011
Financial crises have long recovery periods

Source: Reinhart & Rogoff, “The Aftermath of Financial Crises” via Tom Potiowsky, Portland State University
Consumer Confidence slowly climbing from historic lows

Only confident consumers and investors move the U.S. economy forward

Source: Dallas Federal Reserve Bank, January 22, 2012
Housing prices continue to soften

Real GDP remains very slow

3% or more would noticeably reduce unemployment
Focus on PNW Employment

Non-Agriculture
(as of November 2011)

Industries

Mining and Logging
Construction
Manufacturing
Trade, Transportation, and Utilities
Information
Financial Activities
Professional & Business Services
Education & Health Services
Leisure & Hospitality
Other Services
Government

Employees (000)

Source: http://www.bls.gov/eag/eag.wa.htm & other PNW states
PNW Employment and Growth
(twelve months ending November 2011)

Area proportional to employment
Euro-Crisis single biggest risk to world economy

- investor and consumer confidence
- interconnected financial systems
- trade

Note: German 10-year bond rate equals 0 for reference.
Looking Forward
Driver#1: Globalization

Global
Geo—Political Environment
Financial Markets/Interest rates
Emerging and Developed Markets
Investment choices
Oil and other energy prices
Commodity prices
Supply Chains
Technology

National
Economy
Political Environment
Policy Environment
Oil Prices & Natural Gas Prices
Commodity Prices
Technology
Financial Markets/Interest rates

Regional economy
Policy environment
Loads & Resources
Power & Gas Markets
Reliability
Resource & Trans. Investments

PNW
Regional and export economy
Loads & Resources
Power & Gas Markets
Reliability
Resource & Transmission Investments

Implication:
What happens in Athens, London, or China impacts each of us
Driver #2: Economies evolving from natural resources to services

Example: State of Washington

Implications:
• Urban locations
• “Good” jobs require advanced training
• Relatively low energy use per output

Shares of Economic Output

(Finance, Insurance, & Real Estate)

Source: Applying Shift-Share Analysis to Structural Change in Input-Output Models: Evidence from Seven Washington State I/O Models
William B. Beyers, U.W., Seattle Ta-Win Lin, OFM, Olympia
Driver #3: Technological change accelerating

Implications:
- Change, of all types, accelerates
- Increases productivity
- Reduces labor requirement
- Increases training and education requirement
- Favors higher wage jobs
Driver #4: Increasing urbanization nationally and worldwide

Implications:
- Reflects / favors service economy
- Differences between urban/rural areas heightened

Map of estimated county level production of goods and services- $2005

Per capita income in metro areas has outpaced per capita income in non-metro areas (thru 2009)

Metro per capita income exceed non-metro by 10% to 36%

Source: BEA statistics-
Driver #5: Aging Population

Implications:
- Slower labor force growth & economic growth
- Shifting values, skills, expectations
- Increased entitlement costs

Source: Demography as Destiny Socioeconomic Trends in the Portland Metropolitan Region; Sheila A. Martin, Director Jason R. Jurjevich, Assistant Director Institute of Portland Metropolitan Studies (IMS) Population Research Center (PRC)
# World Economic Growth Forecast

by the 
International Monetary Fund

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>Current Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>4.0%</td>
<td>4.0%</td>
<td>3.3% &amp; 3.9%</td>
</tr>
<tr>
<td>Euro-Zone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Germany</td>
<td>2.7%</td>
<td>1.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>-France</td>
<td>1.7%</td>
<td>1.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>-Greece</td>
<td>-5.0%</td>
<td>-2.0%</td>
<td>NA</td>
</tr>
<tr>
<td>-Italy</td>
<td>0.6%</td>
<td>0.3%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>U.S.</td>
<td>1.5%</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>China</td>
<td>9.5%</td>
<td>9.0%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.5%</td>
<td>2.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>India</td>
<td>7.8%</td>
<td>7.5%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.8%</td>
<td>3.6%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, World Economic Outlook September 2011 & Update 1/24/12
Most US forecasts are for 1% to 2% growth
PNW Employment Forecasts

PNW States ‘official’ forecasts: positive, though slow, growth

Sources:
- http://www.oea.das.state.or.us/DAS/OEA/docs/economic/forecast1211.pdf
Growth in PNW State Employment
(2011 to 2015, in thousands)

Source: IHS Global Insight
Outlook

◆ What’s happening with the economy
  ✓ Slow growth – reducing debts & excess housing/other ‘bubble’ investments
  ✓ Substantial unemployment; many groups highly impacted
  ✓ Movement to service economy; wage disparity

◆ Drivers and Forecasts: World, U.S., and the PNW
  ✓ Continued slow growth, unemployment slowly improves – U.S. & PNW
  ✓ Significant risks remain: Euro-crisis, consumer confidence, world ‘hot-spot’ turmoil
  ✓ Election paralysis will defer serious dialogue around drivers, fiscal policy, debt, other critical issues
Questions?

Mark Roberts
Economists.com
mroberts@economists.com
971-506-6809