

# The Pandemic, Powell and Putin in a 23 Month Upturn

Partners in Economic Development

March 23, 2022

Wenatchee, Washington

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# March 2022

- ▶ Inflation for a New Generation
- ▶ Four Weeks Ago The World Changed
- ▶ Home Prices Rising in All States and Around the World
- ▶ A 1970s Redo? -A Nickel is Worth 16 Cents! Barron's
- ▶ Tight Labor Markets-Is This Full Employment?
- ▶ Pandemic Stumbles Into Year Three
- ▶ Sanctions Severing the 11<sup>th</sup> Largest Economy in the World
- ▶ Black Swans Back
- ▶ Covid May Not Be Done
- ▶ The Fed Moves

# Real GDP Growth Q1 2020 to Q4 2021

Source: BEA

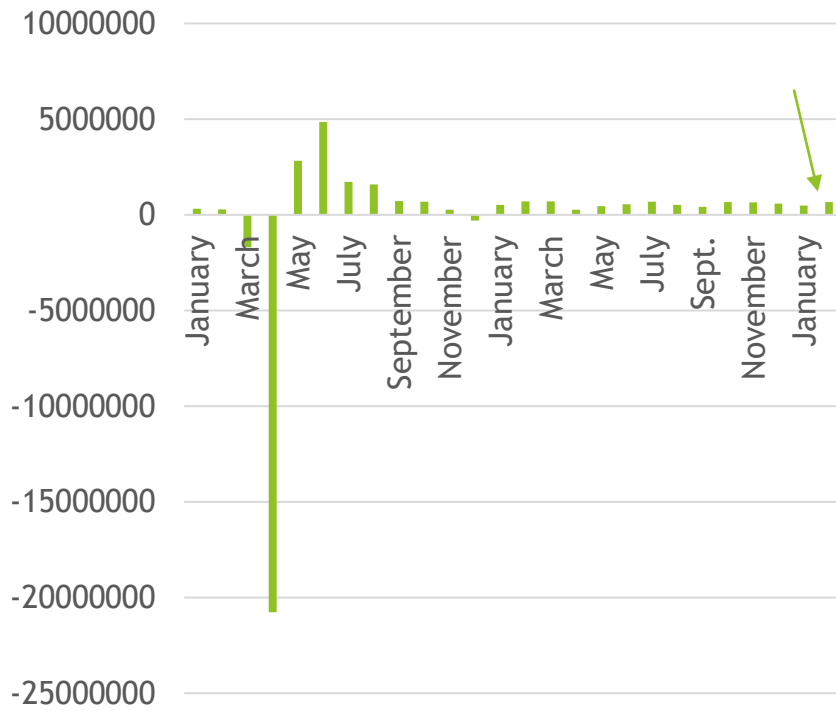


- ▶ Price Index for Consumer Goods Up 10.2 % at Annual Rate from Q3, Services 4.4%
- ▶ Recovery in Output Complete-Mid 2021

# Employment

## Month to Month Changes February 678,000 Net Gain

Source: BLS



- ▶ Unemployment Rate 3.8% in February 3.5% Pre-Recession
- ▶ 5.4 Million not in Labor Force But Want Job
- ▶ Participation Rate 62.3% February versus 63.4% February 2020
- ▶ 2.1 Million Jobs Below Feb 2020
- ▶ Quits Rate at 2.8% in January

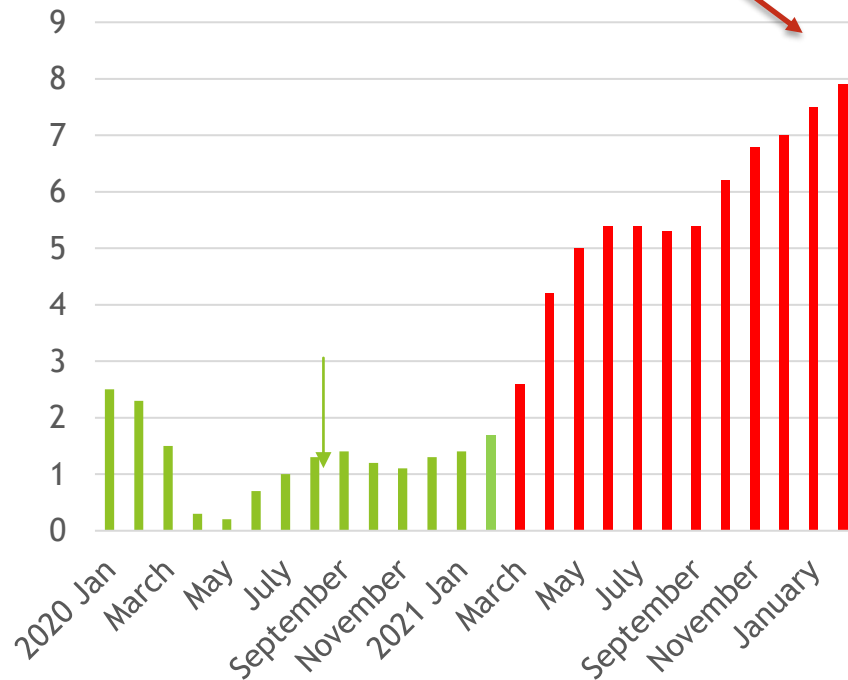
# The Churn & The Whys of the Participation Rate Change?

- ▶ January JOLTS 11.3 Million Openings, 6.5 Million Hires, 6.1 Million Separations
- ▶ Over 12 Months Hires 76.4 Million and 70 Million Separations-January
- ▶ The First Friday is a Snapshot-Lots Going On Behind
- ▶ Think About 3.8% and Your Life
- ▶ Closed Schools, Day Care, Elder Care Issues
- ▶ Enhanced Safety Net-Extra Unemployment Compensation, and Other Benefits
- ▶ Fear/Mandates
- ▶ Prioritization -Life Death Reevaluation
- ▶ Immigration
- ▶ Financial Markets
- ▶ Baby Boomers Retiring and Staying Out-Early Retirements-Saint Louis Fed Economist 2.6 Million-2/20 to 11/21
- ▶ Lottery Effect
- ▶ Burnout
- ▶ Permanent?

# Annual Change CPI 2020-22

February 2022 CPI 7.9% Core 6.4%  
January PCE 6.1% Core 5.2% ( Highest since April 1983)  
Annual Average 2021 4.7% Up From 1.2% in 2020

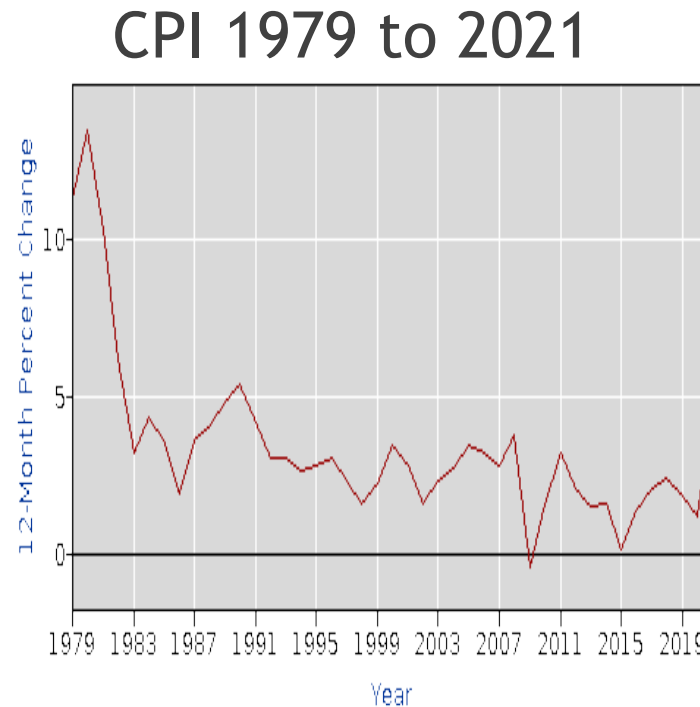
Source: BLS



- ▶ Inflation: Ongoing Increase in the General Price Level
- ▶ Fed Target Since 2012 2% in PCE

# A Toxic Brew-Hangover: The Problem Changed

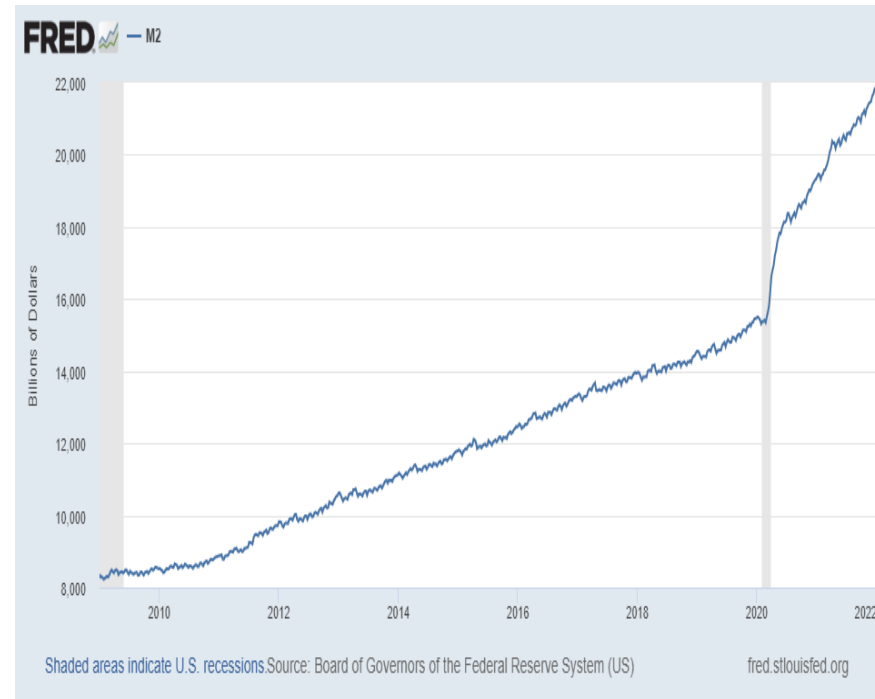
- ▶ Arithmetic-Base Effect
- ▶ Demand Shifts to Goods
- ▶ Global Pick Up
- ▶ Supply Chain-Disruption/Pandemic
- ▶ Tightening Labor Markets
- ▶ Misc. Stuff-Temporary Shocks-Always Happen-Freeze, Drought, Fires, Bridge Blockades, War, Strikes
- ▶ Macro Policy-2020-21 Supporting Incomes  
Late 2021 Supply Constrained -Excess Demand/Restrained Supply



# Monetary Policy

## M2 ( From Your Distant Past!)

- ▶ March of 2020 Funds Rate Back to 0-1/4% Until March 2022
- ▶ Quantitative Easing-Buying \$120 Billion Per month Treasuries and Mortgage Backed Until November 2021 Ending This Month
- ▶ **August 2020-New Policy of tolerating inflation above 2% after a period of inflation below the target. (FAIT)**





# FAIT and The Punchbowl

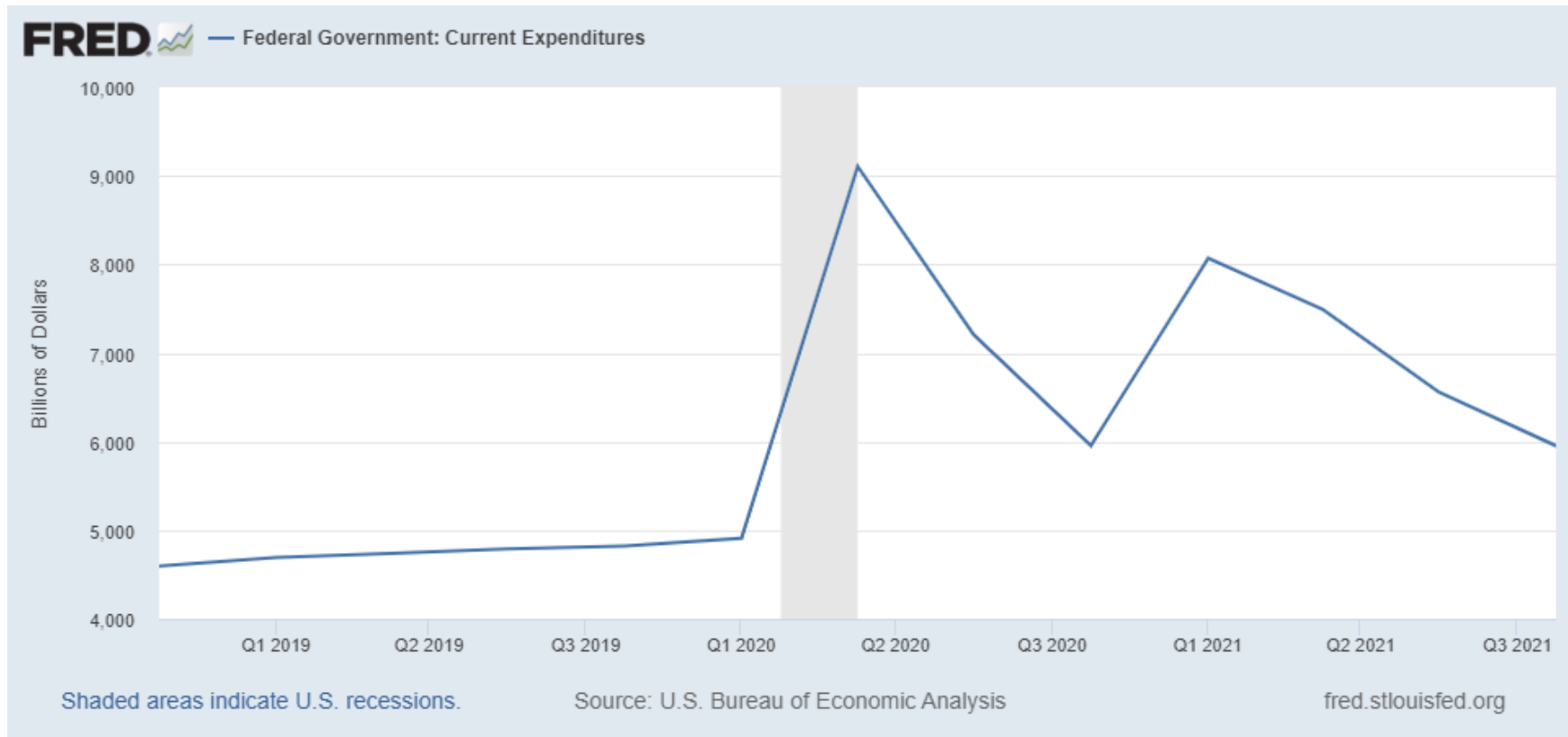
- ▶ “With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong. In support of these goals, the Committee decided to raise the target range for federal funds to ¼-1/2 percent and anticipates that ongoing increases in the target range will be appropriate.” 3/16/22
- ▶ 6 More Moves this Year?
- ▶ Balance Sheet \$9 Trillion-”Start reducing holdings at a coming meeting.”
- ▶ Transmission Mechanism: Asset Prices, Higher Rates Curtail Some Spending, The Dollar, Lags- Many Can Remember other Episodes



# Fiscal Policy

- ▶ Since 2020 \$1.9 Trillion-American Rescue Plan: More Stimmys, Funds for State and Local Governments, Rental Assistance, Pension Bailouts, Higher Premium Subsidies for ACA, Vaccine Funds, Refundable Child Credit
- ▶ Earlier in 2020 Cares Act, Omnibus Covid Relief Act
- ▶ Washington Q2 2020 PI 33.4% Earnings -19.1% Transfers 934% in Q1 2021 PI 49.3 Earnings 5.6% and Transfers 609.5% SAAR
- ▶ Infrastructure Bill Passed about \$1 Trillion-\$110 Billion for Roads Bridges, Funds for Public Transit, Rail Improvements, Electric Charging Stations, Broadband Access
- ▶ Build Back Better-Climate, Safety Net Expansion, SALT Change, Education Expansion, Day Care, Medicare Change-Raise Taxes on High Income and Business-Dead-Perhaps Portions will Be Back-After Invasion-Defense Increases?

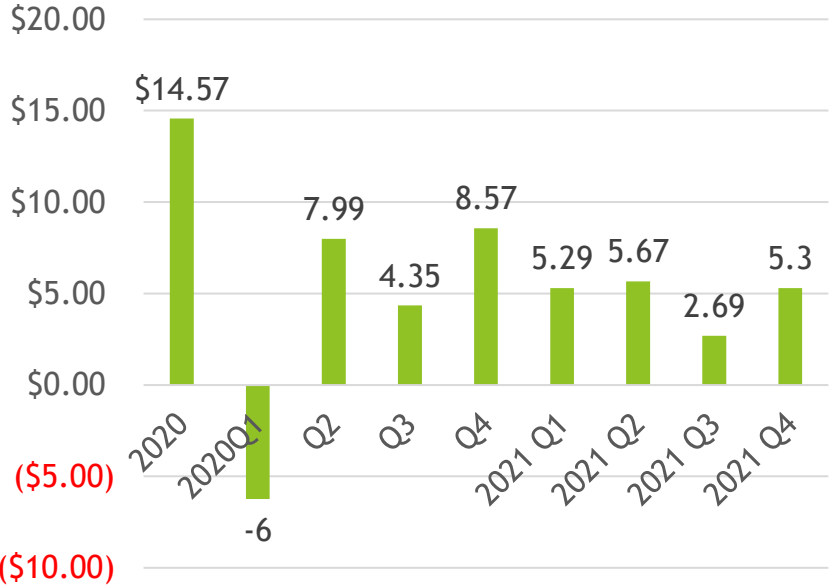
# Federal Spending



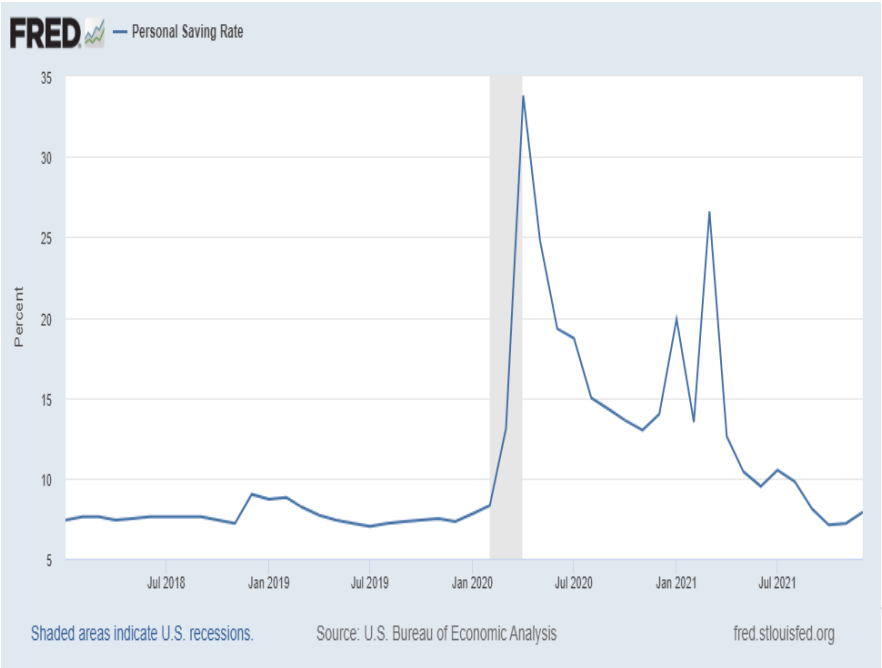
# Households

## Changes in Net Worth HH & Non-Profits (Trillions)

Source; Fed



## Savings Rate (% DPI)



# Housing

- ▶ The Perfect Storm ( For Sellers) Low Levels of Inventory, Strong Demand, Mortgage Rates, Preferences, Demographics-Millennials in Home Buying Demographic, Pandemic Distortions
- ▶ Years of Underbuilding after 2006-2009
- ▶ Case Shiller December National up 50.9% since July 2006 Peak-Phoenix 32.5%, Seattle 23.9%
- ▶ Supply Chain Issues-Materials, Labor
- ▶ FHFA Q4 P.O. House Price Index-All States Up: First Arizona 27.2%, Louisiana 50<sup>th</sup> 10.18%- Washington 13<sup>th</sup> 21.02%
- ▶ Deteriorating Affordability -Generational Implications

# FHFA House Price Index and WCRER Data

	1 Year %	Rank
Bellingham	21.91	56
Bend	29.98	9
Boise	31.29	4
Bremerton	20.30	86
CDA	30.72	6
Kennewick	20.26	88
Olympia	22.19	51
Seattle	19.15	99
Spokane	26.75	20
Wenatchee	20.90	77

- ▶ WA Center for Real Estate Research
- ▶ Chelan Q3 Median Sales \$541,200 with HAI 79.6
- ▶ Douglas Q3 Median Sales \$455,200 with HAI 86.1
- ▶ Permits-2021 785 down from 991 in 2020-SF Increased Multi Family fell by 172 Units Census

**“A Region’s Economy Floats on a Global  
Sea Buffeted by Local Tides and Winds.”  
NEER 1982**

# Job Growth Update January 2022 Data

Year over Year Change - **50** States Up

Source: BLS, ASU

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



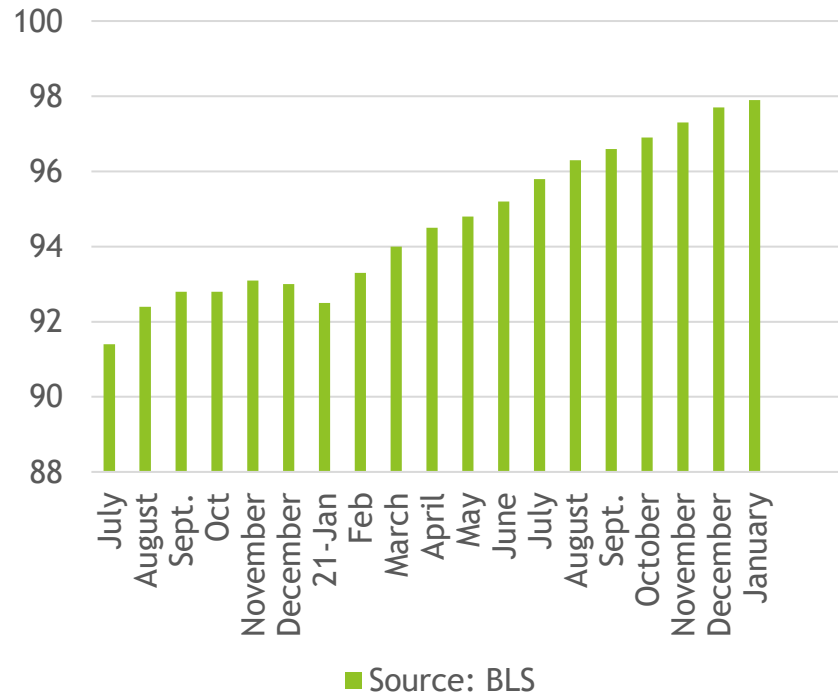
# Population 2020-2021

- ▶ 25 States More Deaths than Births
- ▶ 18 States with Population Declines
- ▶ Immigration from Overseas Fell in all 50 States (Census, Frey)
- ▶ BLS Projections Adult Population Change 2020-2030
  - ▶ 16-24 194,000
  - ▶ 25-64 3,462,000
  - ▶ 65-Plus 17,106,000

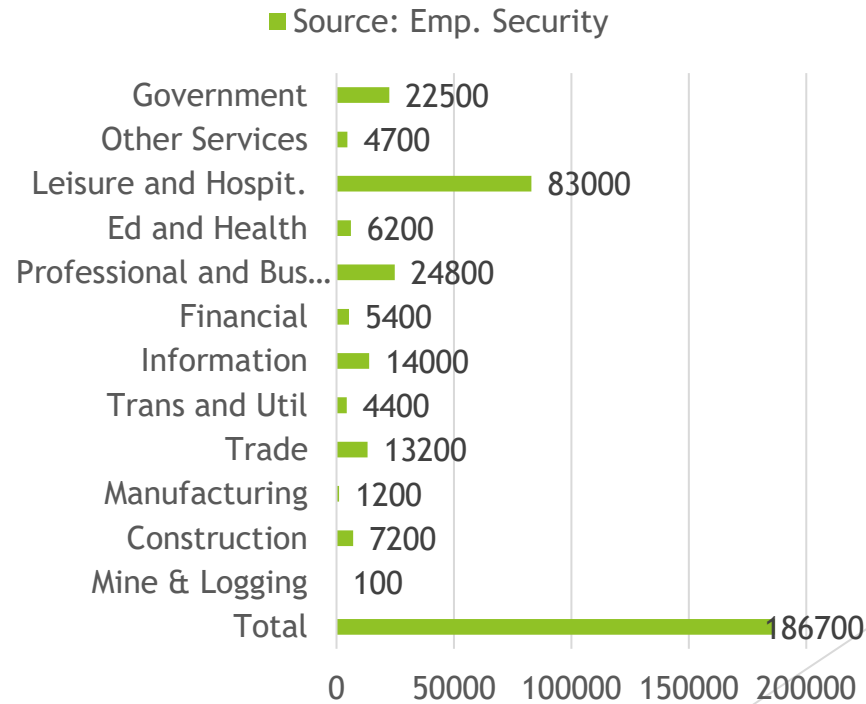
	20-21%	Pop Change	Net Domestic
California	-.7	-261,902	-367,299
Idaho	2.9	53,151	48,876
Oregon	.1	4,611	8,080
Washington	.3	19,907	-29
New York	-1.6	-319,020	-352,185
Texas	1.1	310,288	170,307
Illinois	-.9	-113,776	-122,460
Census			

# Washington January Unemployment Rate 4.4%

February 2020=100



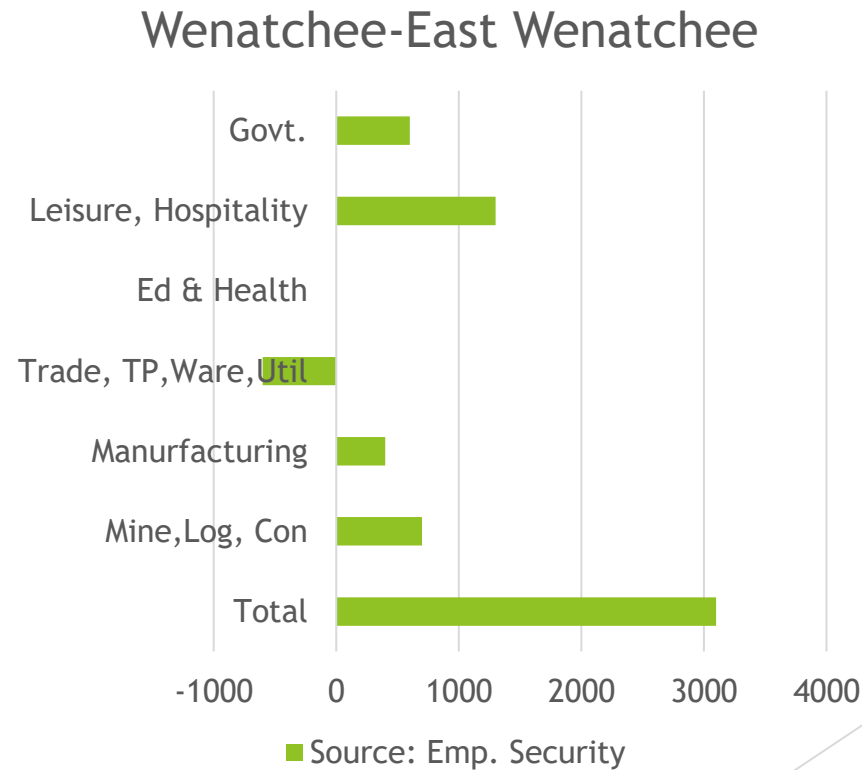
Year to January 5.8%



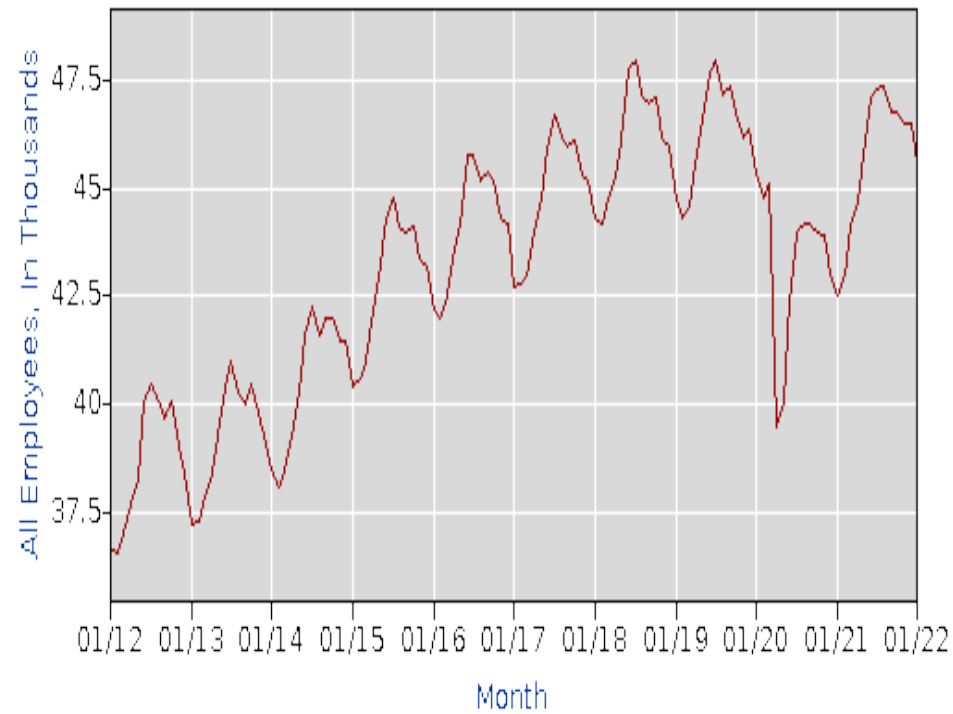
# Employment Change to January 2022

## Employment Security

	#	%
Bellingham	6,900	8
Bremerton	4,000	4.6
Kennewick	6500	5.9
Olympia	7,700	6.8
Seattle	102,100	6.3
Skagit	3,100	6.7
Spokane	15,800	6.6
Tacoma	8,100	2.6
Wenatchee	3,200	7.3
Yakima	4,900	6.1



# Wenatchee-East Wenatchee in This Cycle



- ▶ Douglas County Personal Income 2020 11.8%, Earnings 12.6%, Transfers 30.6%, Farm Income 87.5%
- ▶ Chelan 2020 Personal Income 9.7%, Earnings 4.6%, Transfers 32.1%, Farm Income 95.7%
- ▶ Sources: BLS, BEA

# 2022

## ▶ UPSIDE FORCES

- ▶ Higher Levels of Vaccination-Other Treatments
- ▶ Balance Sheets
- ▶ Inventory Levels
- ▶ Real Rates Still Negative
- ▶ Not the Shutdowns of 2020
- ▶ Rising Wages/Incomes

## ▶ DRAGS

- ▶ Omicron Q1/China Now
- ▶ Energy/Food Shock
- ▶ Inflation
- ▶ Shifting Monetary and Fiscal Policy
- ▶ Diminishing Excess Savings
- ▶ Labor Availability
- ▶ Market Declines
- ▶ Russian Invasion and Global Response

# Outlook

- ▶ Pre -February 24<sup>th</sup>- Slower Growth in 2022-Less Fiscal Stimulus, Omicron in Q1, Labor Constraint, Monetary Shift= Inflation Moderating with Supply Chain, Energy Shock Improvement
- ▶ War-Sanctions-Additional Price Pressures-Energy, Food, More Supply Chain Disruption, Uncertainty-Delay? 2.5-4% GDP,, Inflation 4-6%
- ▶ Do Not Know The Endgame in Ukraine or How people will React to the Price Shock, Full Implications of Sanctions, The Fed's Plan etc.
- ▶ Likely Slower Growth and More Price Pressures Lasting Longer
- ▶ Downside Risks have Increased
- ▶ Washington Outlook-Consensus 3.8-4.7%

# Pondering In A Quiet Moment

- ▶ Covid Pandemic to Endemic Covid
- ▶ Behavior of Actors-Consumers, State/Local Governments, Investors, Business Decision Makers-Pandemic Related-Energy/Food Shock Related?
- ▶ Supply Chain Disruptions-Leading to Excess Orders and Production?
- ▶ Sanctions with Linkages that Have Yet to Appear
- ▶ Weakened Link between Work and Income
- ▶ Observing the Flexibility of a Market System Responding to an Altered Environment -Creative Destruction-Work Arounds
- ▶ Regulatory Stance-Anti-Trust, Environmental, FTC, Climate Change Fed Mission, FDIC Changes

- ▶ Fate of Trade Policy-Tariffs on Canadian Lumber, Regional Comprehensive Economic Partnership (Japan, Australia, China, S. Korea, New Zealand, Singapore, Vietnam, etc. No US)-Retreat from Globalization? Falling Apple Exports!
- ▶ How will the Sanctions Play Out? Food, Energy, Metals-Nickel, Titanium, Neon
- ▶ Real Estate Demand-Hybrid, Shopping, Distribution, Geography
- ▶ Education Disruptions-Generational Implications-Continuing?
- ▶ Can Policy Makers Curtail Inflation without Inducing a Recession or is it too late?



# Local Implications from An Outsider

- ▶ Remote Experiment-More Options- Attractive Places to Live Advantaged
- ▶ Major Metro Dysfunction-Cost Pressures, Disorder and Proximity
- ▶ Wenatchee Electricity Rates well below the National Average/ Available Green amidst Decarbonization Drive
- ▶ Opportunity from Aluminum Plant Site Redevelopment, Data Centers, Industrial Uses ?
- ▶ Transportation Access-Air, Rail, Highway
- ▶ Growth Challenges

# Things to Watch For in 2022

Signs of Supply Chain Improvement

Serious Anti-Inflation Policy

Labor Force Participation Rates

Financial Markets and Higher Rates

Sanction Impacts and Ramifications

Cooling Wage/Price Pressures