

# Year Nine, A New Cast and Long Shadows

HFMA 2017 Spring Conference

Salishan Resort

May 19, 2017

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# Mid May

- ▶ Longer than the 1980s-Ending Year 8 Approaching the 1960s
- ▶ Second longest Bull Market in US History
- ▶ Lowest Oregon Unemployment Rate in the History of the Data
- ▶ Upturn Marked By Low Growth-Compared to Historical Experience
- ▶ Place Matters
- ▶ Black Swans are About
- ▶ Uncertain Policy Smorgasbord
- ▶ Inflation at or Near Fed Target
- ▶ Grand Experiment is Underway
- ▶ Preliminary Q1 Soft
- ▶ Repeal and Replace-Rhetoric to Reality
- ▶ Puerto Rico
- ▶ Oregon as a Poster Child-WSJ 5/10/17 and again NYT 5/13/17

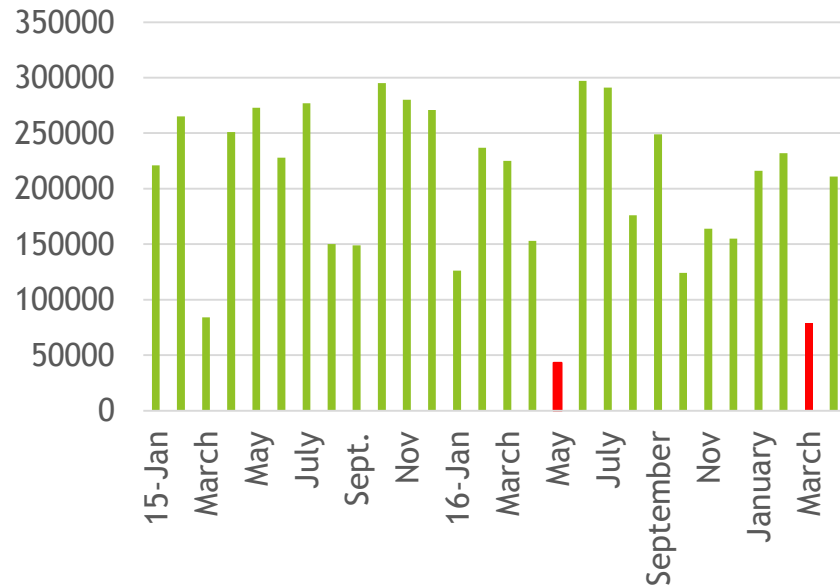
## Real GDP 2016-17 Commerce Department (SAAR,%)

	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17
GDP	.8	1.4	3.5	2.1	.7
Consumption	1.6	4.3	3	3.5	.3
Equipment	-9.5	-2.9	-4.5	1.9	9.1
Intell Prop	3.7	9	3.2	1.3	2
Non-Res	.1	-2.1	12	-1.9	22.1
Residential	7.8	-7.7	-4.1	9.6	13.7
Federal	-1.5	-.4	2.4	-1.2	-1.9
State and Local	3.5	-2.5	-.2	1	-1.6
Exports	-.7	1.8	10	-4.5	5.8
Imports	-.6	.2	2.2	9	4.1

# Labor Market Data

## Monthly Change Payroll Employment 2015-2017

Source: BLS

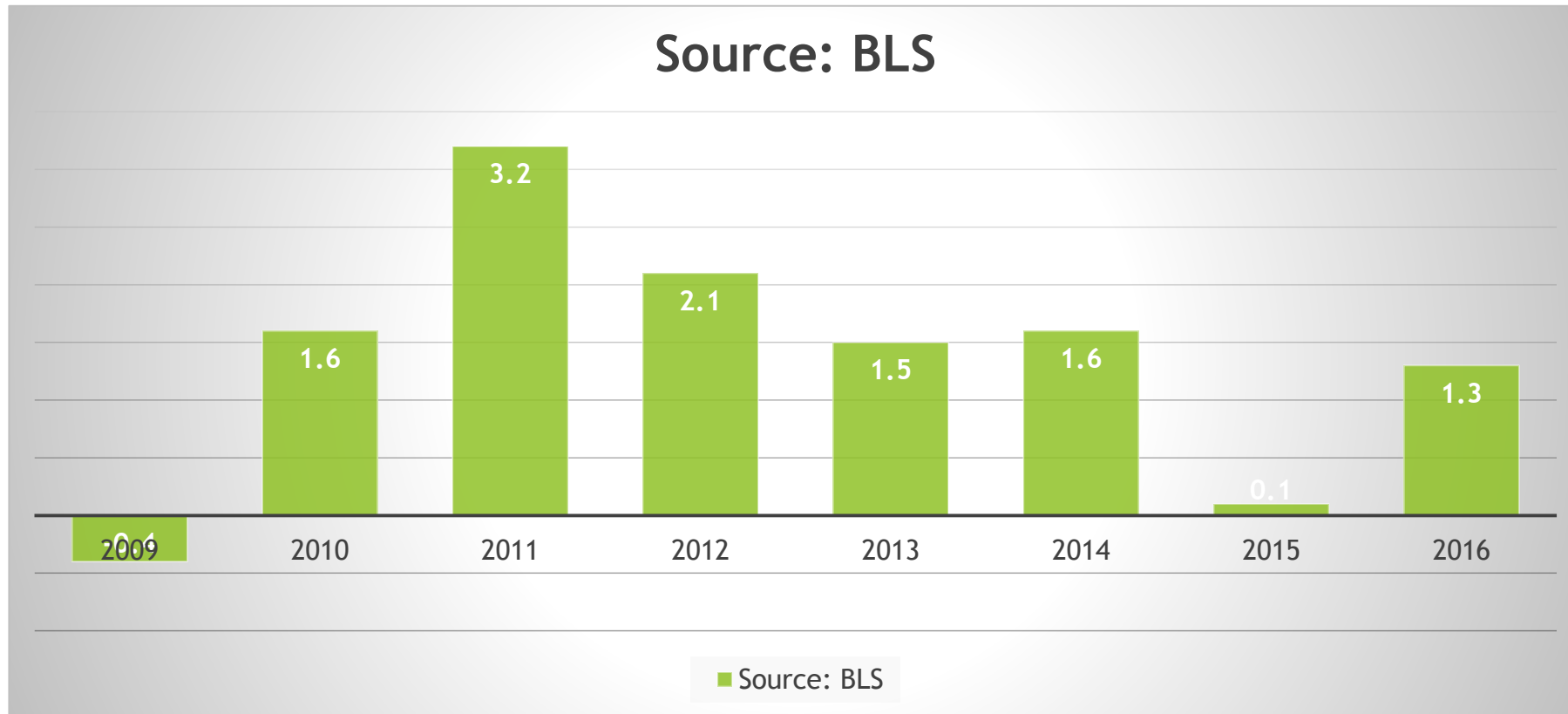


- ▶ 2.2 Million Net Jobs in 2016 down from 2.7 Million in 2015
- ▶ Headline Number 4.4%
- ▶ Average Hourly Earnings up 2.5%
- ▶ Last 4 Months 174,000
- ▶ 7.63 Million Above Previous Peak and 16.3 Million Above Trough
- ▶ Participation Rate 62.9% in March and April
- ▶ 12<sup>th</sup> District-The labor market continued to tighten and wage pressures picked up. 4/19
- ▶ Look Around-Turnover Rates-Help Wanted Signs

# The Labor Force Piece

- ▶ Unemployment Rate at 4.4% Measures about 10% of the People who are Not Employed-Richmond Fed
- ▶ Labor Constraint
- ▶ Geographic Mobility Declines
- ▶ Refocus on Recruiting, Training, Retention
- ▶ BLS Projections-LF 1994-04 1.2%, 2004-14 .6%, 2014-24 .5%
- ▶ Medical Component with Demographics and Post ACA- BLS Over the Decade 2014-2024 Surpass Local Government and Professional Services- Account for 1 in 4 New Jobs
- ▶ 2004-2014 US Employment Growth .4% -Health Care 2.3%
- ▶ 2014-2024 US .6% and Health Care 1.9% (BLS 12/15)
- ▶ In Oregon 15% of the Wage and Salary Employment Growth has been in Medical Care and Assistance 2010 to 2016

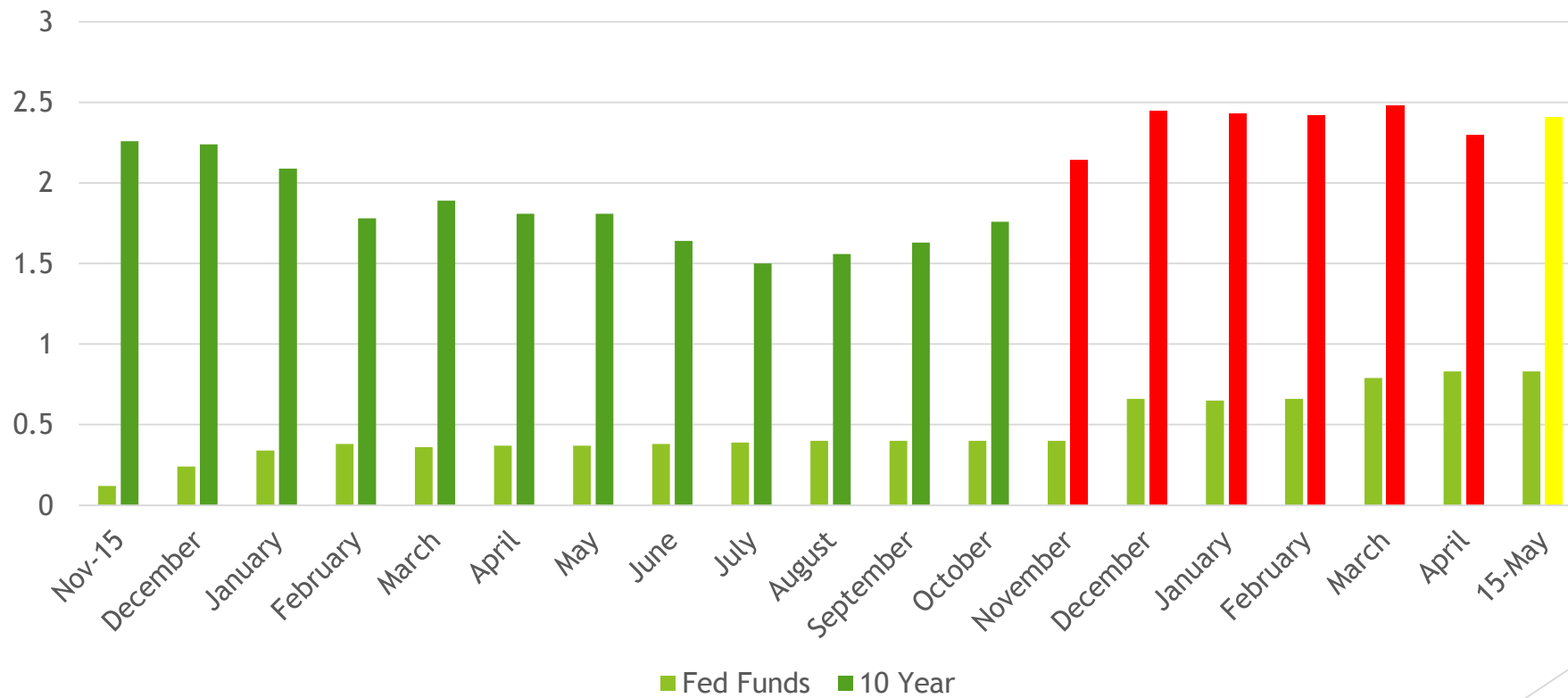
# Consumer Price Index Change In Annual Average



# Whiff of Inflation

- ▶ April CPI up 2.2% Headline and 1.9% Core
- ▶ In April Falling Car, Apparel, Medical Commodities and Rising Energy Prices -Overall Index Up .2%
- ▶ April 2016-April 2017 Import Prices Up 4.1% Fuel up 42.7% Other up 1.1%
- ▶ April 2015-2016 Import Prices Down 5.3%- Fuel Down 31.7% Other down 2%
- ▶ Medical Care Commodities 2.6% to April Services 3.1%
- ▶ Fed Targets-Low Inflation and High Employment
- ▶ Longer Term Trend-Price Level Pressure has Increased

# The 10 Year and The Funds Rate Trump Trade?





# Policy Questions

- ▶ Monetary Policy-Changing
- ▶ Fiscal Policy-Hit Debt Ceiling in March, CBO Projections
- ▶ Trade Policy-Canadian Softwood, Aluminum, NAFTA
- ▶ Infrastructure Program
- ▶ Change in Tax System
- ▶ Immigration Policy-US Advantage?
- ▶ ACA/AHCA Fate and Change=The Senate? Conference Committee?
  
- ▶ Timing?

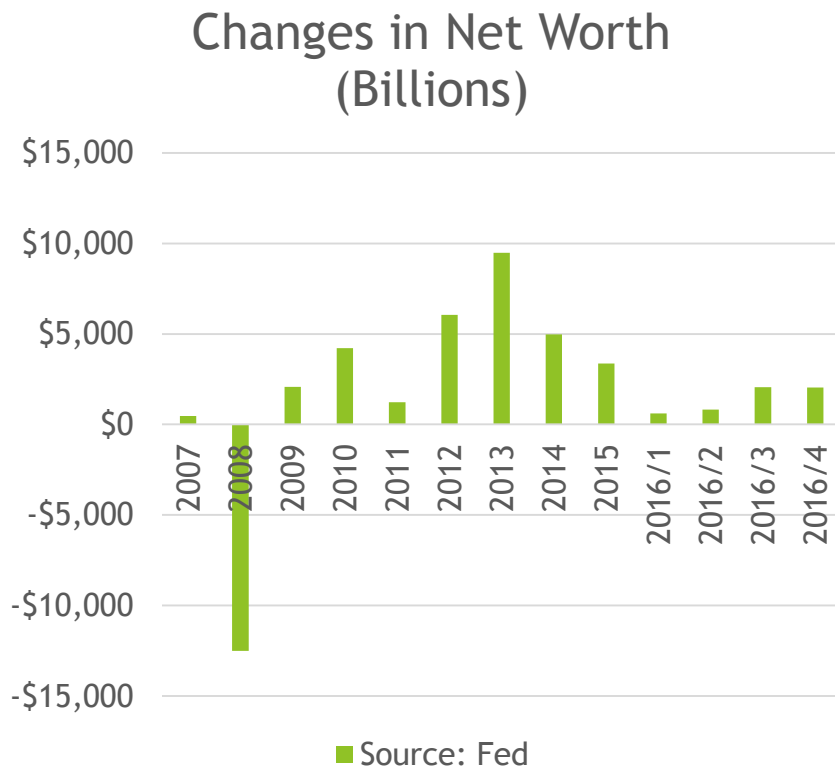
# Monetary Policy

## Lots of Excitement

- ▶ Statements, Testimony-Speeches-Moderate Growth, Continued Strengthening in Labor Market, Inflation moved Up
- ▶ Urged Policy that Improves Long Run Growth and Productivity
- ▶ *Raised Target in Mid-March to .75-1% Funds Rate*
- ▶ *Rate Expectations in March: 1.4% in 2017, 2.1% in 2018, and 3% in 2019*
- ▶ *Raised Rate Outlook But Did Not Significantly Change Economic Outlook*
- ▶ Balance Sheet-Over \$4.3 Trillion-The Unwinding Likely to Start This Year with Ceasing Reinvestment or Phasing It Down Treasuries and MBS

- ▶ Consumer Debt Levels are within 1% of 2008 Peak
- ▶ Fed and Other Central Banks at Different Places
- ▶ Vacancies at Fed-It will be a New Board-3 Open Seats-Janet Yellen's Term ends in 2018
- ▶ May Meeting-First Quarter Weakness Transitory-Inflation Dropped Below Targets-Gradual Rate Increases-Maintaining Balance Sheet 5/3/17

# Net Worth Households and Non-Profits FED (\$ Billions)



	2008	2016/4
Net Worth	\$53,506	\$92,805
Assets	\$67,612.6	\$107,909.5
Real Estate	\$19,952.2	\$26,528.4
<b>Fin. Assets</b>	<b>\$42,810.1</b>	<b>\$75,478.1</b>
Liabilities	\$13,579.5	\$15,104.1

# Fiscal Policy

- ▶ Budget-Discretionary Proposals Released-the Mandatory and Tax Side Come Later in May
- ▶ Basics-Increase Defense and Decrease Non-Defense
- ▶ Proposals: Defense 10%, State Dept. -28.7%, Health and Human Services -16.2%, Interior -11.7%, Labor -20.7%, EPA -31.4%, Agriculture -20.7%
- ▶ What will Congress do? DOA

# The Long Run

## CBO 3/30/2017

### Federal Debt Held By the Public

Percentage of GDP



% of GDP	2017	18-27	28-37
Revenues	17.8	18.2	18.7
Mandatory	13	14.3	16.2
SS	4.9	5.6	6.3
Health	5.5	6.2	7.6
Other	2.6	2.6	2.4
Discretionary	6.3	5.6	5.3
Net Interest	1.4	2.2	3.4
Source: CBO			

# Tax Proposals

- ▶ Fewer Brackets Seven to Three
- ▶ Double Standard Deduction
- ▶ Lower Corporate Rate
- ▶ Mortgage and Charitable Deduction Retained Not State and Local Taxes
- ▶ Territorial System
- ▶ Border Adjustment Tax Not There
- ▶ Repeal AMT and Estate Tax
- ▶ Deficit Implications ?


# Long Ago and Far Away

- ▶ Social Security Not Funded as Insurance (1935)
- ▶ Medical Insurance Via Employment- (1942)-Locus of Decision-making
- ▶ Tax Free Decision-During the Second World War-Incentives (\$216 Billion in 2016 US Treasury)
- ▶ Medicare for the Old (1965)
- ▶ Medicaid for the Poor-(1965) ACA Expansion of
- ▶ Once You Have Something-Tougher to Change
- ▶ Continues to Evolve- Not A Clean Slate



# Current Environment ACA and AHCA

- ▶ Mandate to Have or Tax Penalty versus Rate Penalty- Externality
- ▶ Pre-Existing Conditions
- ▶ Minimum Benefits
- ▶ Old versus Young
- ▶ Medicaid Expansion and Funding
- ▶ Mandate to Offer
  
- ▶ Homo versus Homer-DC Plans, HSA's, Shopping?, Comparing, Standing or Prone

- 
- ▶ Medical Care is Different Service- Everyone will need it.- It Never will be Free.-Increasing Technology and Research-Aging Population- Incentives ? Mandates? -Moral Dimension
  - ▶ Back to Day One in Economics Class- Limited Resources and Unlimited Wants-Decisions What Going to be Produced? How it will be Produced ? and For whom will it be Produced?

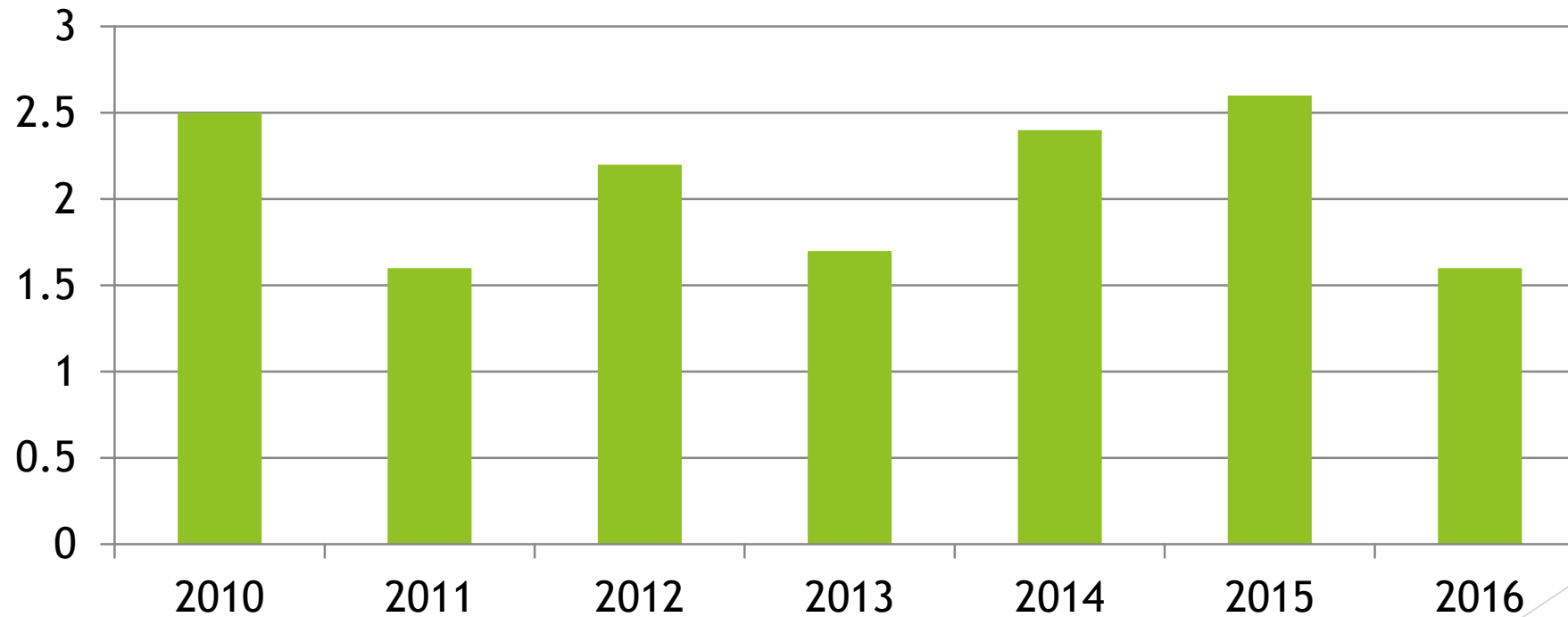
# Outlook (MOS)

- ▶ Median NABE 2.3% in 2017 -Risks on the Upside
- ▶ Inflation 2.4% in 2017
- ▶ Rising Rates
- ▶ Fed Median 2017 2.1% and 2018 2.1%, Longer Run 1.8-2% (March)
- ▶ CBO Baseline 2017-47 1.9%

# *A Different Experience- Can This Be Changed?*

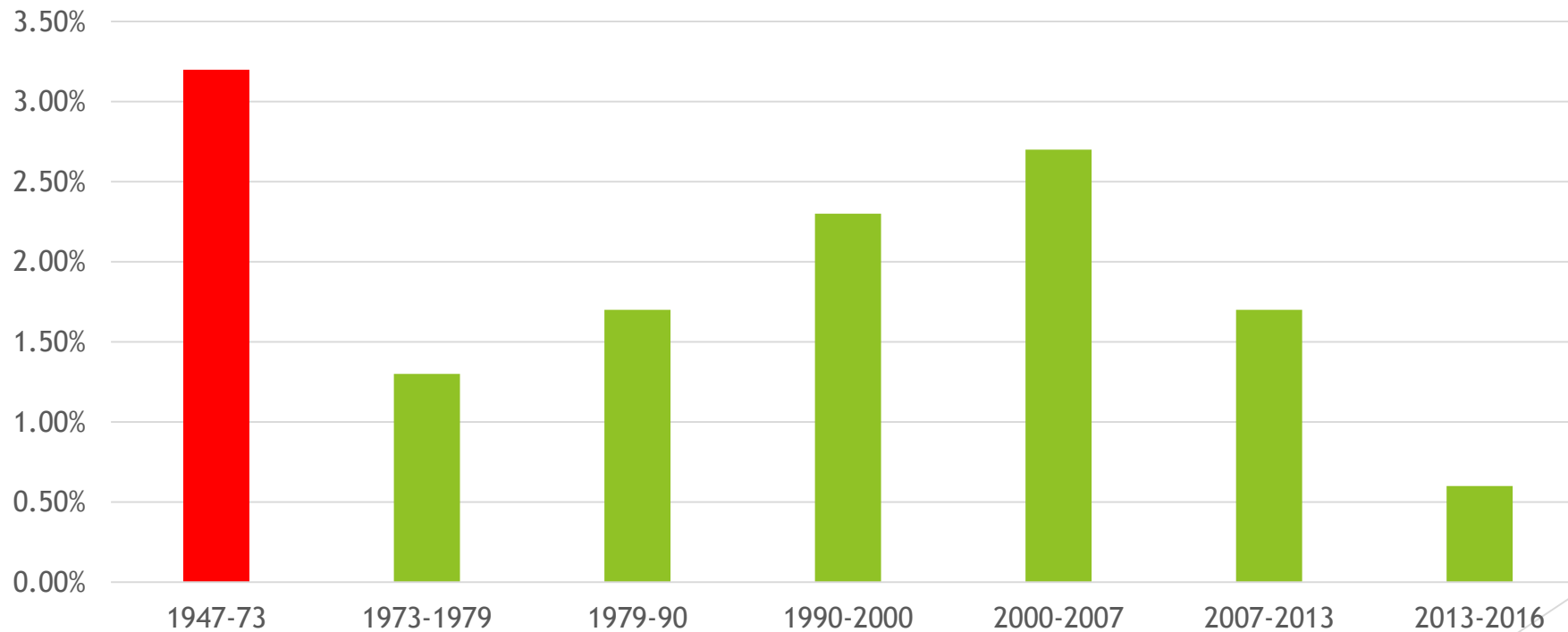
## Real GDP Growth

Source: BEA



# Labor Productivity Growth in The Business Sector 1947-2016

Source: Bureau of Labor Statistics, Beyond the Numbers



# Headwinds and Issues

- ▶ Demographics -Last Year Oldest Boomers Turned 70
- ▶ Technology
- ▶ Measurement Issues
- ▶ Investment Incorporating the Technology
- ▶ More Inclusive Growth-Coping With Change
- ▶ Education/Training/Mobility-Geographic/Social
- ▶ Entrepreneurial Activity, Movement, Prime Age Participation
- ▶ “For the most part, the American economy is more static than it was several decades ago, and that remains one of the most underreported stories of our time.” Tyler Cowen *The Complacent Class* 2017

*Job Growth Update* February 2017 Data  
Year over Year Change - 43 States Up  
Source: BLS, ASU

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

# The Region

	Pop. Growth 15-16 % Census	Residential Permits 2016% Census	Personal Income 2016	Negative Equity Q4 CoreLogic	Job Growth 2016 %
Idaho	1.8	15.2	3.6 (20)	3.7	3.5
Oregon	1.7	8.3	4.5(7)	2.1	3.1
Washington	1.8	7.1	4.8 (4)	2.1	3.1



# Annual Net Domestic Migration

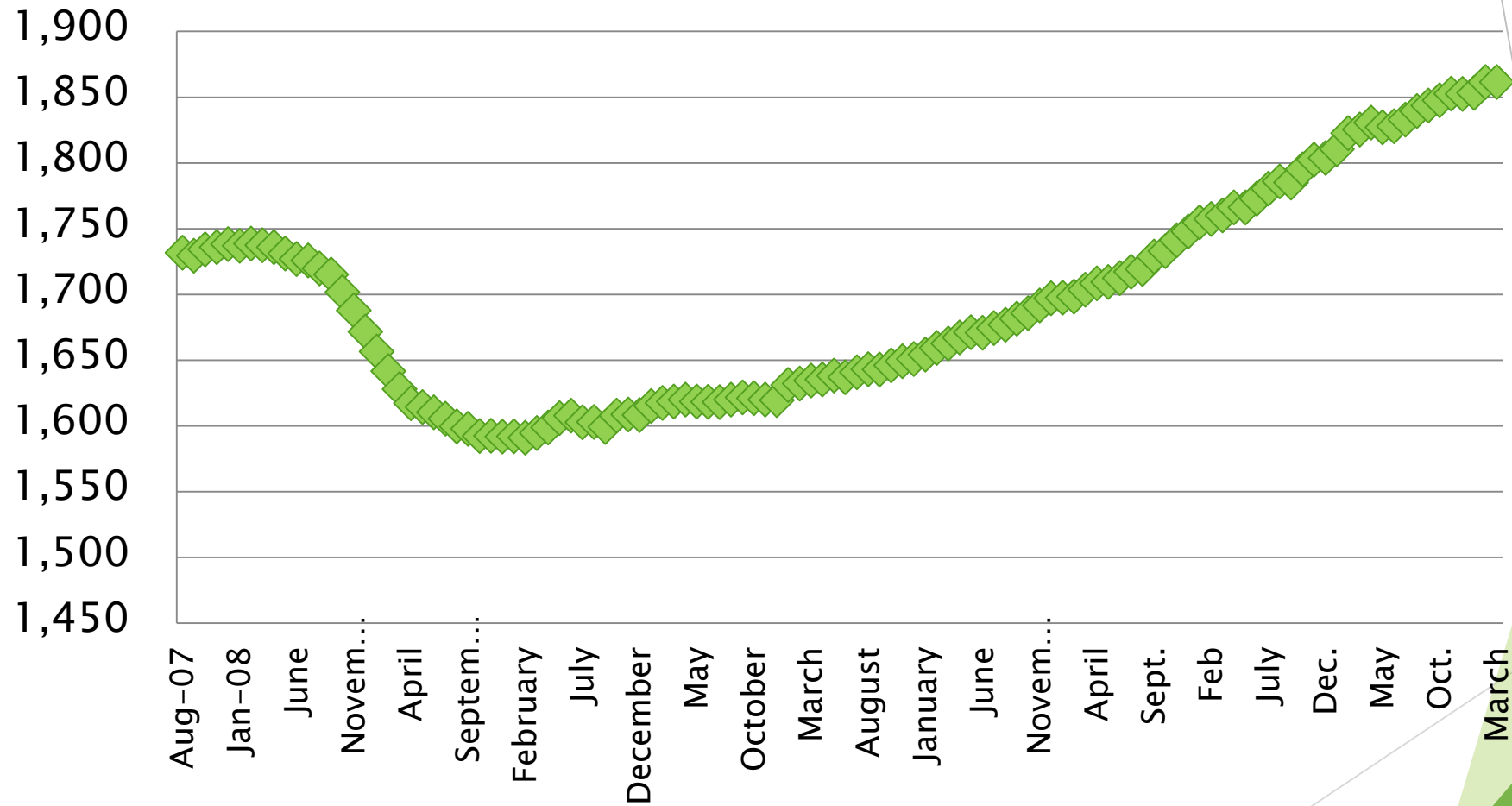
Source: William Frey, Brookings

	2014-15	2015-16
<i>Florida 1</i>	207,537	207,155
<i>Texas 2</i>	171,537	125,703
<b><i>Washington 3</i></b>	<b>42,640</b>	<b>67,571</b>
<i>Arizona 4</i>	48,341	61,544
<i>North Carolina 5</i>	41,003	59,584
<b><i>Oregon 7</i></b>	<b>35,973</b>	<b>50,038</b>
Utah	8,549	19,778
Idaho 13	6,748	17,143
<i>California 48</i>	<b>-77,603</b>	<b>-109,023</b>
<i>Illinois 49</i>	<b>-105,619</b>	<b>-114,144</b>
New York 50	<b>-161,612</b>	<b>-191,387</b>

# Oregon Data Points

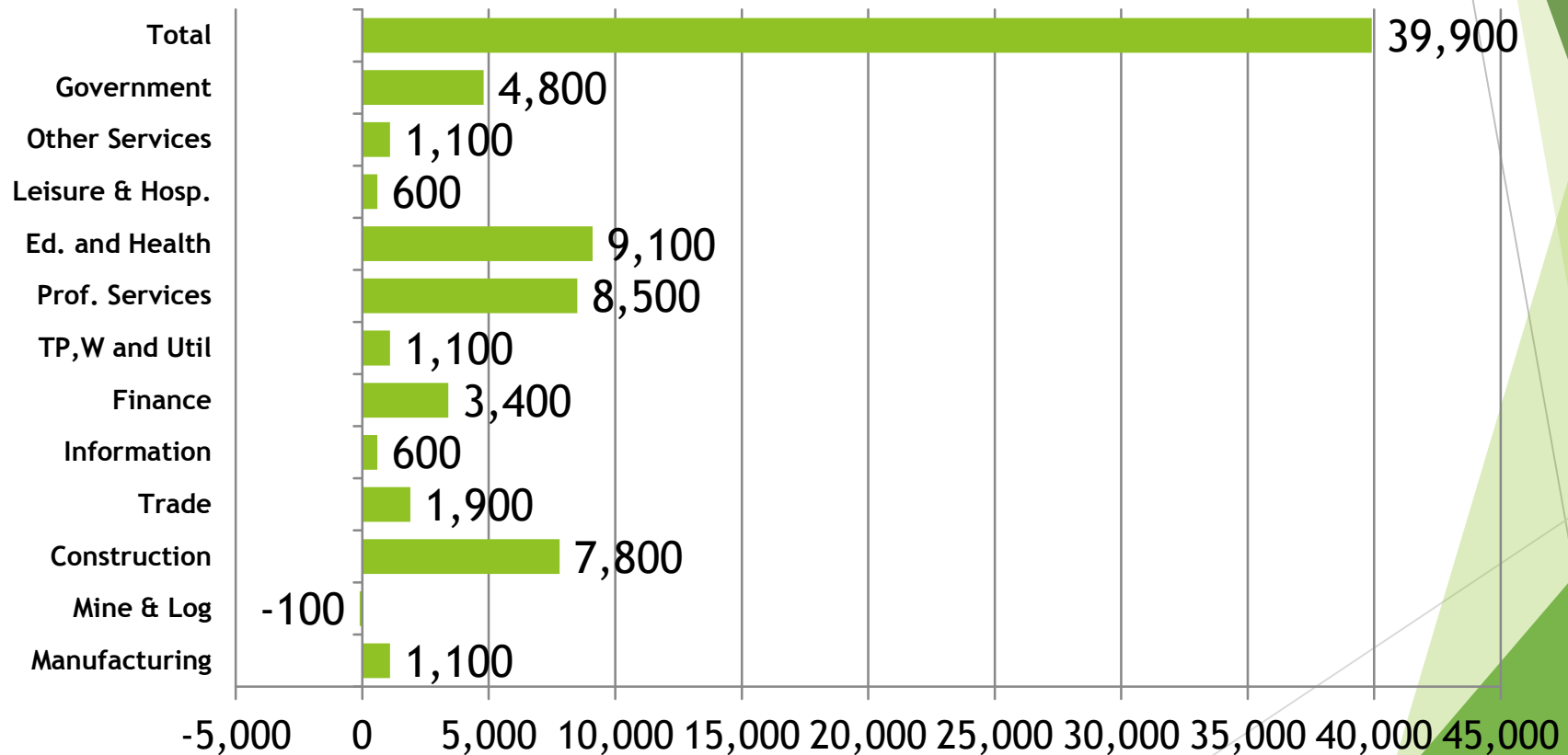
- ▶ Case-Shiller National Index up 5.7% to February-Leading Seattle 11.3%, Portland 9.7% and Dallas 9.2%
- ▶ Unemployment Rate March at 3.8 % -Lowest in the History of the Data- Hit 11.9% in 2009
- ▶ FHFA State Price Changes Q4 **Oregon 1**, Colorado 2, Florida 3, Washington 4
- ▶ FHFA in Q4 Top 10 Metros-3 In Oregon-Portland, Bend and Salem
- ▶ Oregon Revenue Forecast February Looks for 8.3% % Increase in GF Revenues in 2017-19 or about \$1.47 Billion
- ▶ United Van Lines- South Dakota, Vermont, Oregon, Idaho-Leading Inbound

# Oregon Wage and Salary Employment ( ,000-SAAR) Employment Department



# Oregon Job Growth Year to March 2017 (2.2%)

Source: Employment Dept.

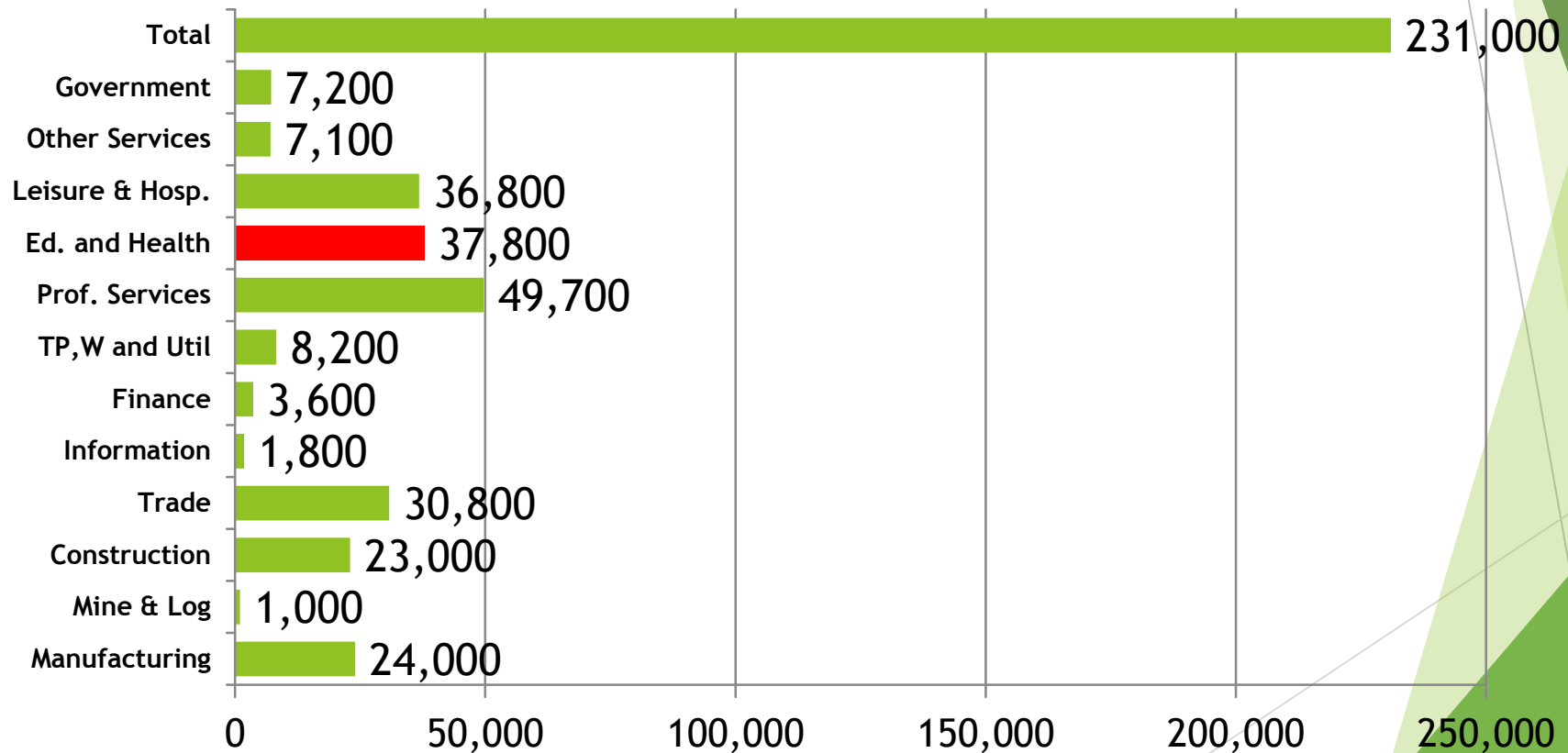


# Oregon Metros Employment Department

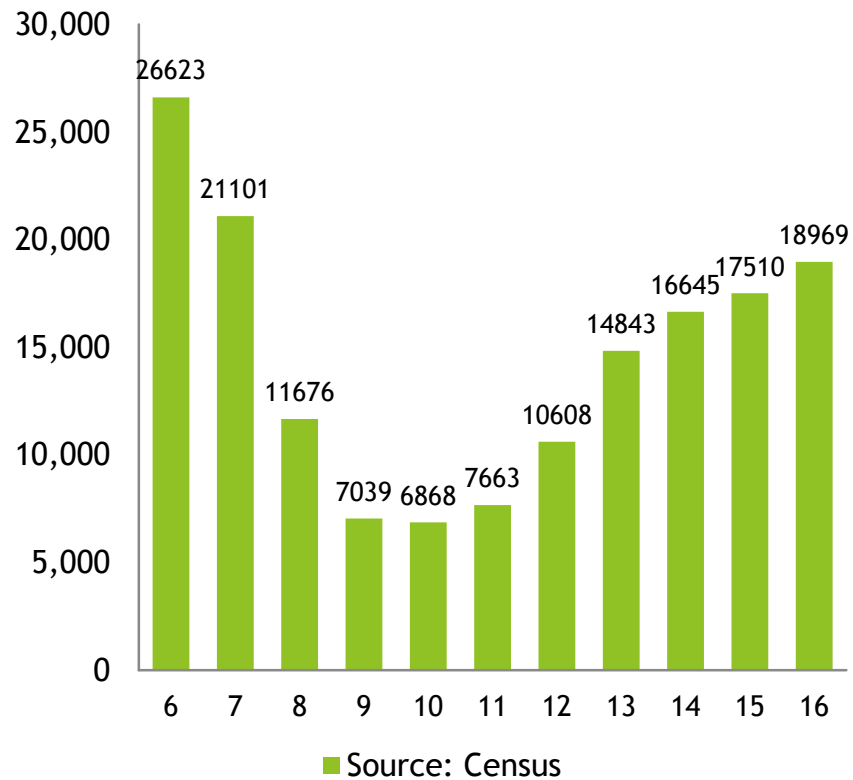
MSA	Job Change Year to March	%
Albany	720	1.8
Bend	2,980	3.9
Corvallis	560	1.3
Eugene	2,700	1.7
Grants Pass	1,050	4.2
Medford	2,370	2.8
Portland	22,200	2
Salem	3,200	2

# Oregon Job Change 2010 to 2106

Source: Employment Dept.



► Oregon Permits 2006 to 2016



- 2016 Building Permits Per New Resident Oregon .28, WA .33
- 1980-2015 National Average .5
- New Attention to Increase Supply of Affordable Housing-Regulatory, Delays, Land Supply
- Permit to March -5.3%
- Mobility? Implications for Lower Cost Locations?

# FHFA House Price Index

	Year to Q4 %	Five Years %
Albany	9.04	27.33
Bend	10.88	75.38
Corvallis	6.19	24.65
Eugene	8.81	27.48
Grants Pass	8.2	36.67
Medford	8.31	42.42
Salem	11.14	33.02
Portland	11.45	52.67



# *Old Oregon Issues*

- ▶ Measure 97-Defeat-Legislative Redo
- ▶ PERS Contributions in Low Rate Environment-After Court Decisions
- ▶ Growing Medical Costs-Medicaid Expansion-Fed Pull Back
- ▶ Transportation-Infrastructure-Perhaps a Plan
- ▶ Oregon's Unique Tax Structure-Reliance on One Tax

# Gross Receipts Tax Son of 97

- ▶ Idea-Replace Corporate Income Tax-Reduce Personal Income Taxes
- ▶ Apply to Receipts in Excess of \$1 Million
- ▶ LRO Manufacturing, Retail and Wholesale-Collecting the Most-Incidence?
- ▶ Pre-WWII in US-Then Largely Abandoned Replaced in Income and Retail Sales Taxes
- ▶ Tax Pyramiding-Levied at Different Stages of Production

# 2017 Themes-Questions

- ▶ National Expansion Should Continue
- ▶ Tightening Labor Markets
- ▶ Inflation Pick Up
- ▶ Residential Strength in 2017- Permits to April up 5.7% (SF up 10.1%)
- ▶ Infrastructure Plan ? National and Oregon?
- ▶ Trade Policy In This Corner of the World?
- ▶ Other Policy Uncertainty- Tax, ACA -Medicaid
- ▶ State Fiscal Issues Resolution

- ▶ What happens if expectations Dashed?-The Hard-Soft Disconnect
- ▶ Rate Increases-Data Driven
- ▶ Oregon Employment Growth Expected to be 2.3%-2.4% in 2017 and 2018-Consensus
- ▶ Maintaining Strength ? Goldilocks?

- ▶ When we talk about the economy, we are talking about a compilation of the actions of billions of people responding to the incentives and constraints that they face. We are in an environment that will likely have different policies in place that will impact behavior and performance.

# The End Again

- ▶ “ the healthcare debate isn’t going to get any less intense. Instead what we have watched unfold since 2009 is what we should expect for years, decades, a generation: a grinding, exhausting argument over how to pay for healthcare in a society that is growing older, consuming more care and ( especially if current secularizing trends persist) becoming more invested in postponing death.” Ross Douthat NYT 4/6/14