ECONOMIC OUTLOOK

Economic Summary

The U.S. economy marches on. Despite a general slowing in recent years with a number of worrisome issues, the national economy, if anything, appears to be stabilizing and poised for decent to solid growth. The labor market is generally doing well and wage growth is accelerating. Manufacturing weakness remains. But as the dollar stabilizes and exports rebound, manufacturing is showing some encouraging signs. That said, the outlook remains somewhat uncertain. It is still too soon to know what federal policy will look like following the election. Even as broad proposals have been discussed throughout the campaign and in recent days, details matter and should come into focus in the weeks and months ahead.

The economic slowdown has reached Oregon. Job growth in recent months has decelerated somewhat from the full-throttle rates seen in the past couple of years. Oregon continues to outpace the nation and the expansion endures. However, the state today is now past its peak in terms of growth rates. Like in other states, goods-producing industries are weakening. Oregon’s manufacturers have cut jobs in recent months. Growth in retail trade has decelerated as well. Most other sectors are adding jobs at similar rates to the recent past, which is good news.

U.S. Economy

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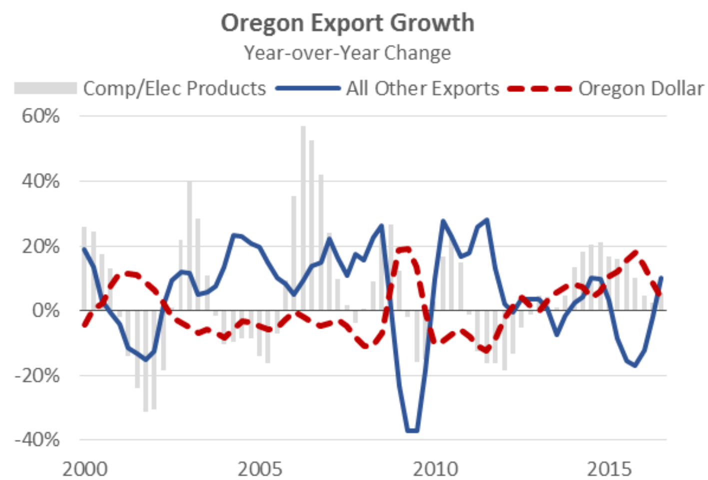
While there will be a unified Republican government starting in 2017, it is still too soon to know what policies will actually be enacted. Campaign rhetoric, at times, differs what is actually passed. That said, broad proposals have been discussed along the campaign trail and in recent days. Some, like personal and corporate tax cuts and increased infrastructure spending, are likely to boost economic growth in the coming years. Others, like protectionism, a trade war and harsh immigration policies, are likely to restrict growth. As always, the devil is in the details.

For example, while a broad range of economists support increased infrastructure spending, how will it be implemented? Traditional, debt-financed federal spending can provide both a short-term economic boost and long-term gains given low borrowing costs and a higher return on investment from a societal standpoint. However, there is not always a profit motive or short-term profits to be made by retrofitting schools or repairing deficient bridges. As such, tax credits designed to spur private sector infrastructure spending may not provide as much bang-for-the-buck. Similarly, tax cuts for higher income households which save a larger share of their income will have a different economic impact than would targeted tax breaks or even increased spending for various federal programs. That said, regardless of its exact form, expansionary fiscal policy is still expansionary. Economic growth is likely to see a near-term boost, at least from some of the proposed policies.

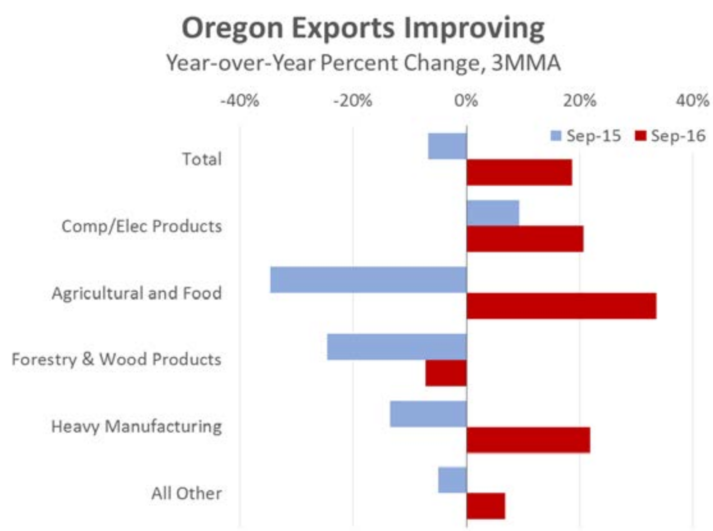
For now, our office's outlook does not explicitly take into account any of President-elect Trump's proposals. As the exact nature of policy comes into focus in the coming months, our office's main macroeconomic vendors – IHS Global Insight and Moody's Analytics – will incorporate them into their outlooks. In turn, our office will adjust the Oregon economic and revenue outlook accordingly.

The latest economic data continues to show decent to solid growth across the nation. Real GDP is on track to grow by 2-2.5 percent over the coming year. Given long-run demographic trends, such growth is close to the economy's potential, even if it is substandard by historical comparisons. Employment gains continue to be strong enough to keep the headline unemployment rate around 5 percent. Encouragingly, wage growth across the nation is finally accelerating as the labor market tightens. Average hourly earnings have picked up from around 2 percent growth for much of the recovery to nearly 3 percent in the past year. Healthy wage gains would be 3-4 percent, like those seen in Oregon in the past couple of years.

Finally, the manufacturing sector has moved from all bad news to more of a mixed bag. The dollar has stabilized and exports are rebounding. Here in Oregon, all major industries are seeing better export growth than a year ago. Forestry and Wood Products continue to fall due to lower global demand, however the rate of decline has slowed somewhat. Nationally, international trade – the net of exports and imports – has added to GDP growth in recent quarters as well.



That said, manufacturing employment nationwide is down and Oregon has seen job losses in recent months too. New orders for capital goods remain weak, but stabilizing. Industrial production too remains weak with more industries showing year-over-year declines than gains, but these trends are not worsening. Two other leading indicators – average hours worked per week and the purchasing managers index – both remain in expansionary territory. All told, manufacturing is clearly no longer the bright spot it was a couple years ago, however it does appear the sector is working through the major issues of the strong U.S. dollar and weaker global demand and pullback in capital investment, largely in oil and gas and related sectors.



The U.S. economy is on solid footing heading into 2017. Given the stronger labor market, the Federal Reserve is expected to raise interest rates at its December meeting. As always, the Fed's policy path is "data dependent" in terms of economic growth, inflation and the like. As President-elect Trump's policies come better into focus, their economic impacts should too.