

# Seven Questions for 2018

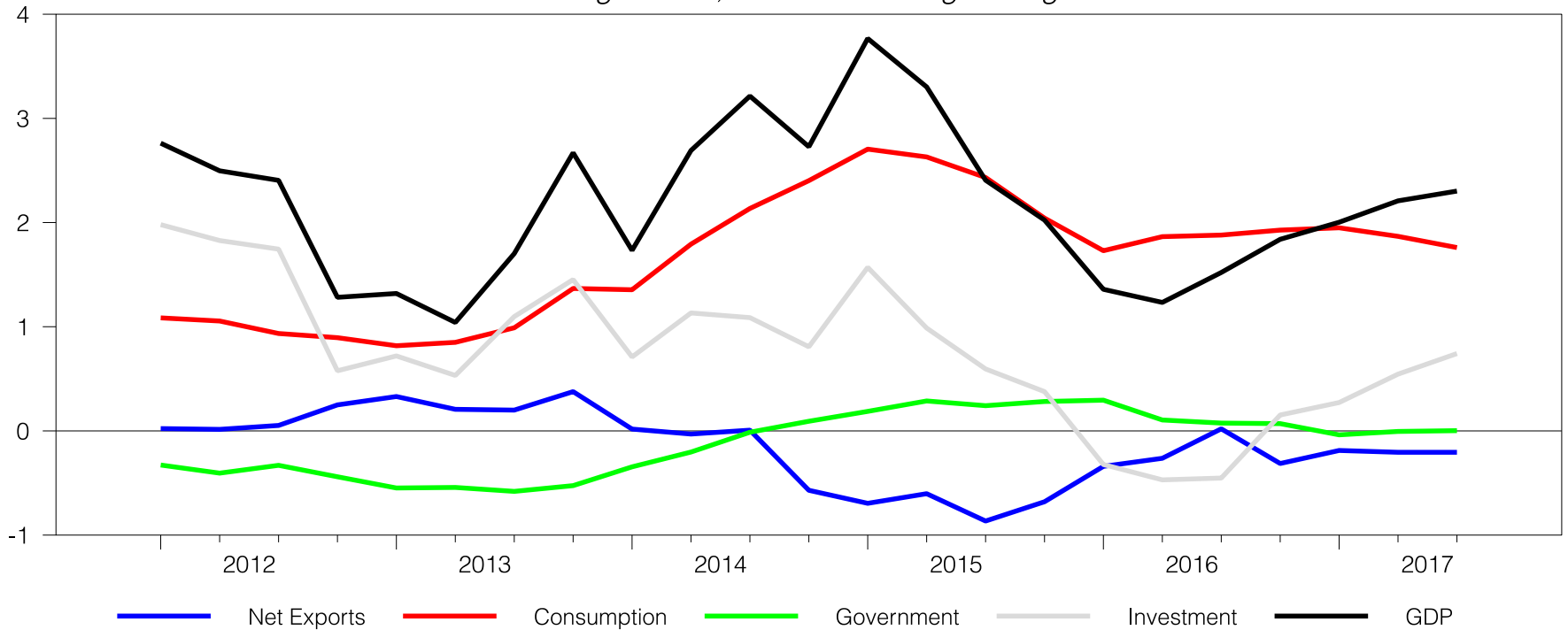
SORED  
January 2018

# Economy remains in the midst of a solid expansion.

# Investment rebound!

## Contributions to GDP Growth

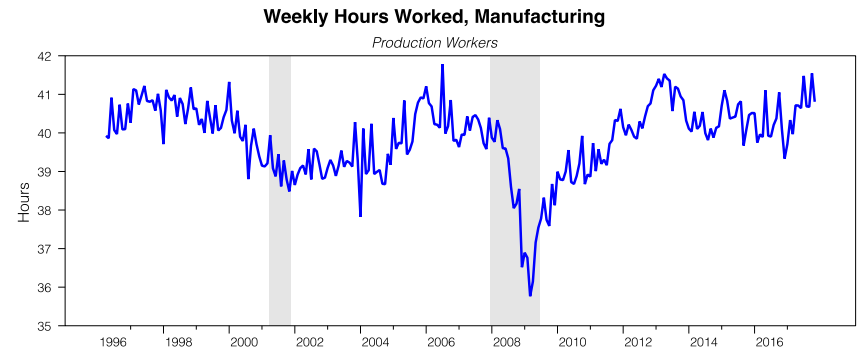
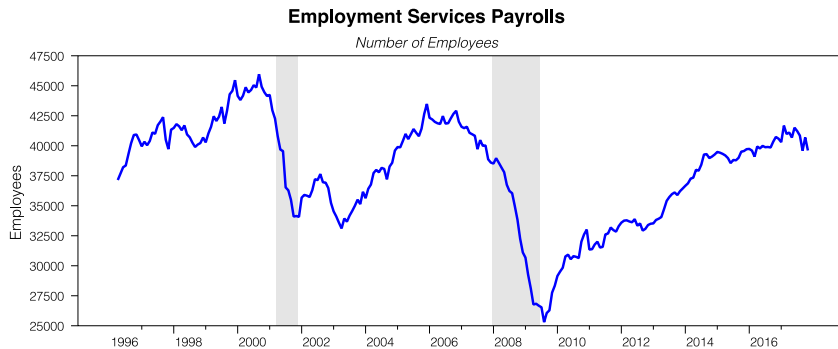
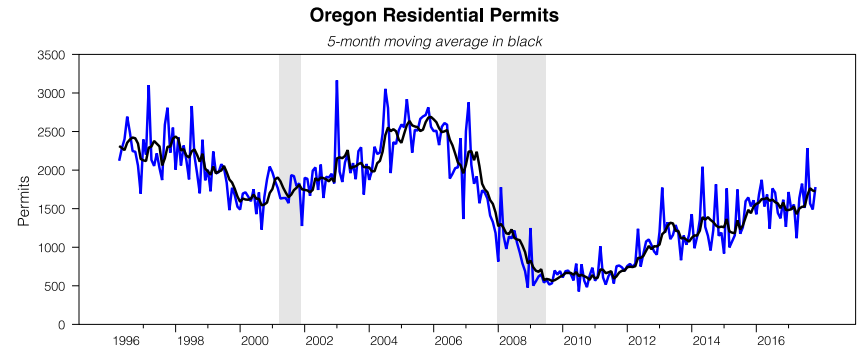
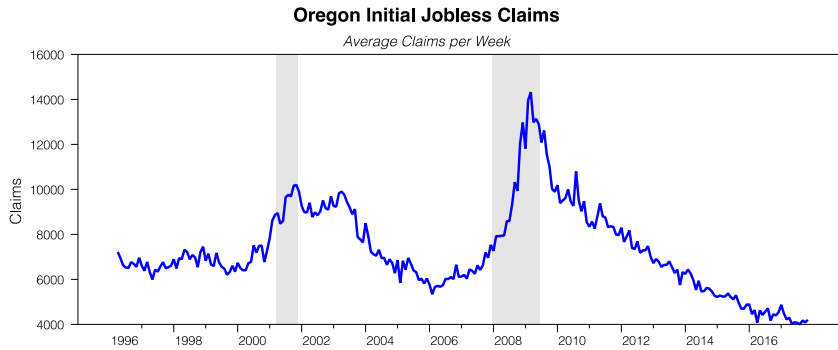
Percentage Points, 4-Quarter Moving Averages



Web: [economistsview.typepad.com/timduy/](http://economistsview.typepad.com/timduy/) \* Twitter: @TimDuy \* Data via FRED and author's calculations \* Chart created: 01/23/2018 11:35

# Oregon on solid footing

## Oregon Indicators

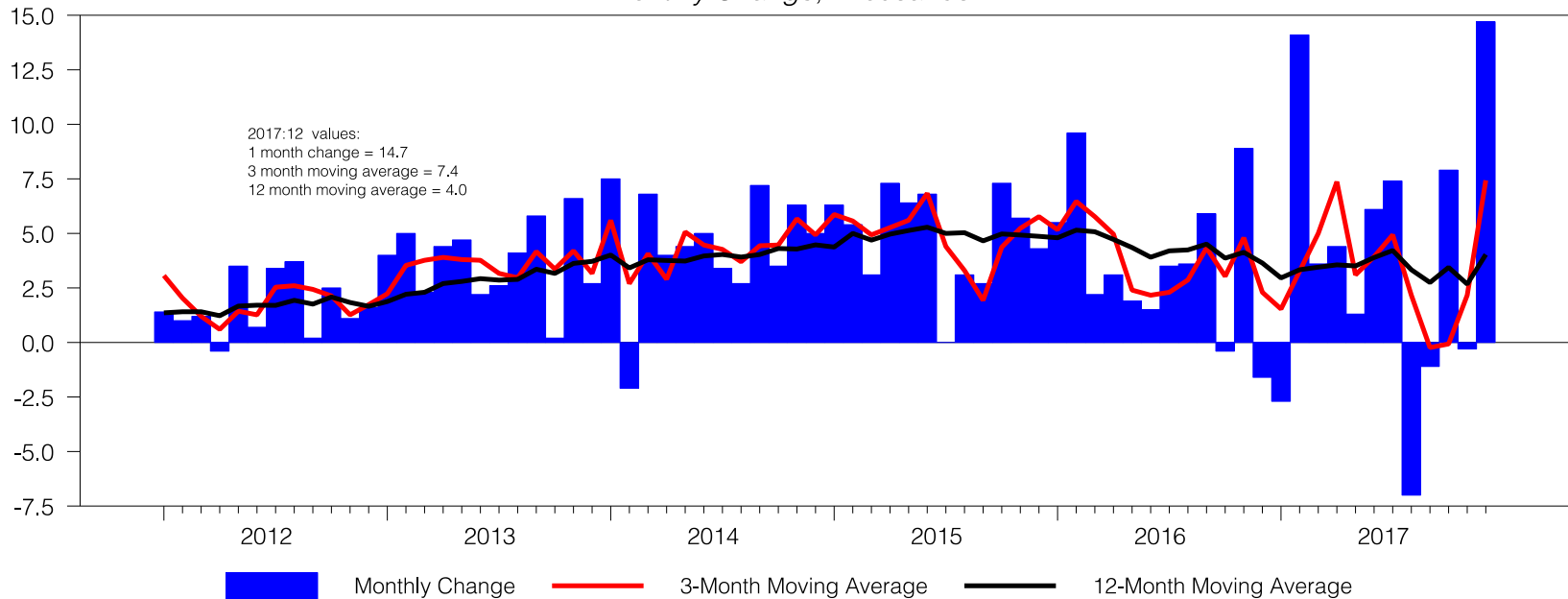


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# Oregon on solid footing

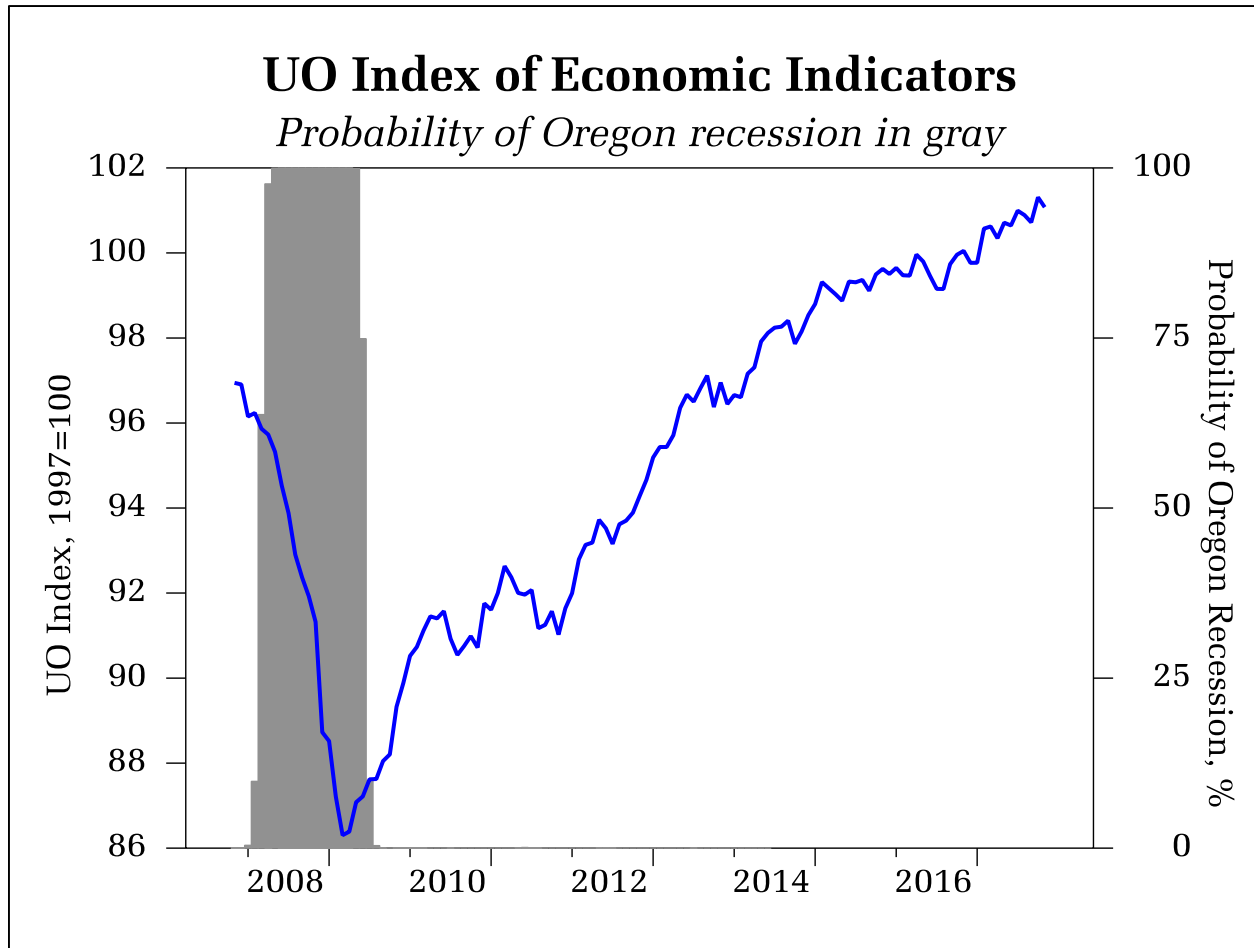
## Oregon Nonfarm Payrolls

Monthly Change, Thousands

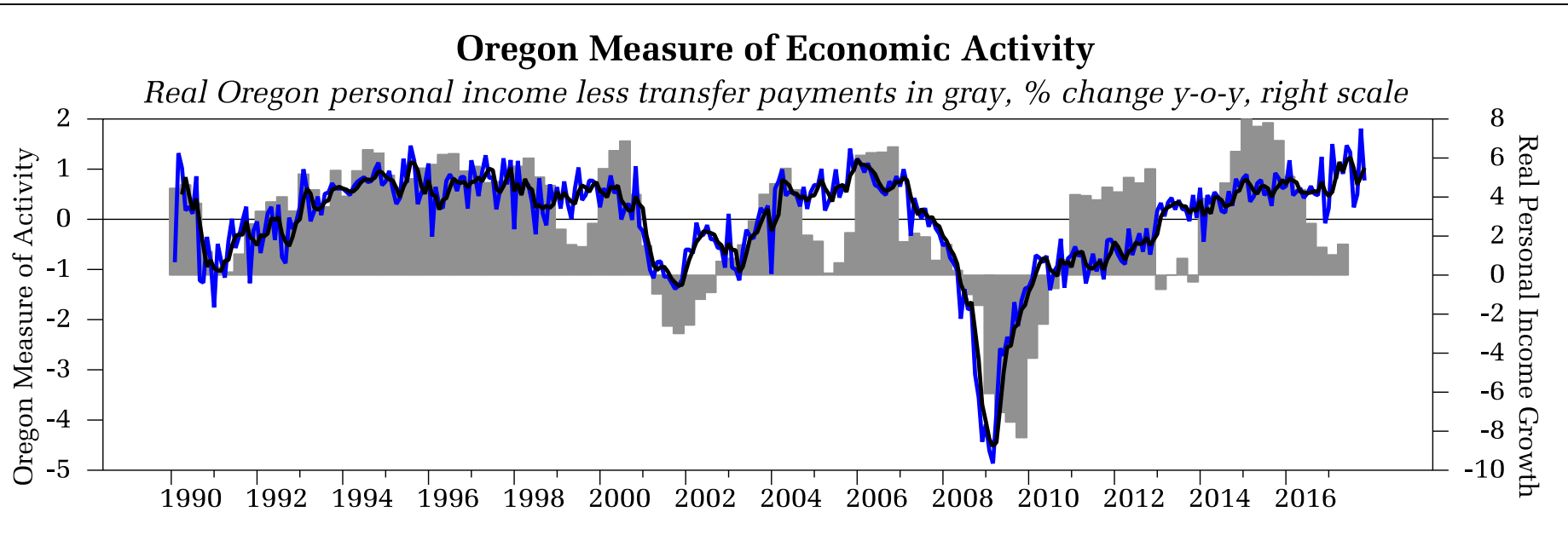


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# No signs of imminent downturn



# Oregon activity typical of past expansions

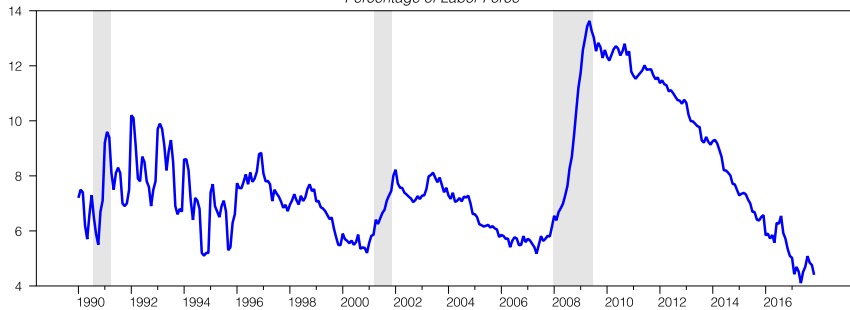


# Locally, new construction still soft

## Medford MSA Economic Indicators

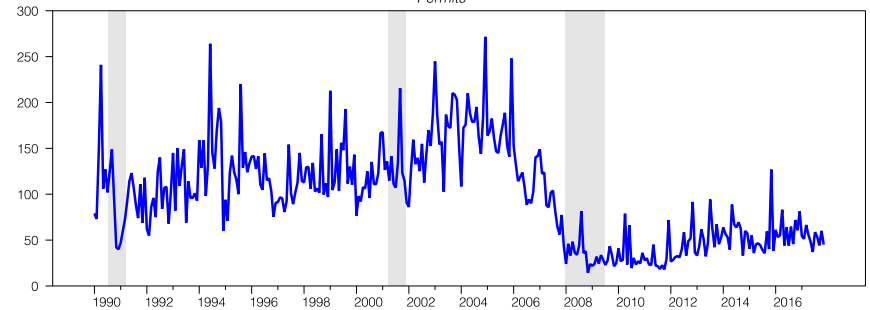
**Unemployment Rate**

*Percentage of Labor Force*



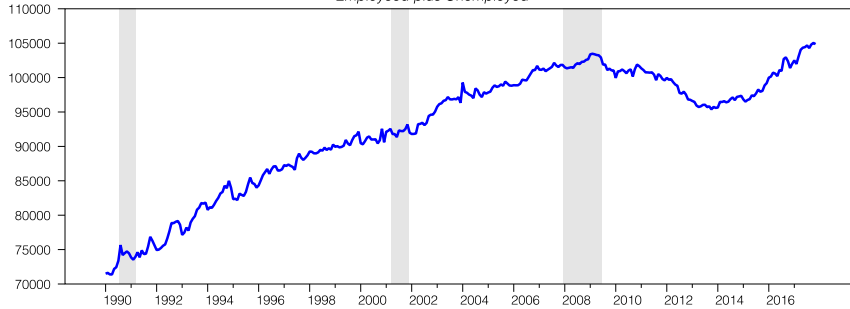
**Residential Housing Permits, 1 Unit Structures**

*Permits*



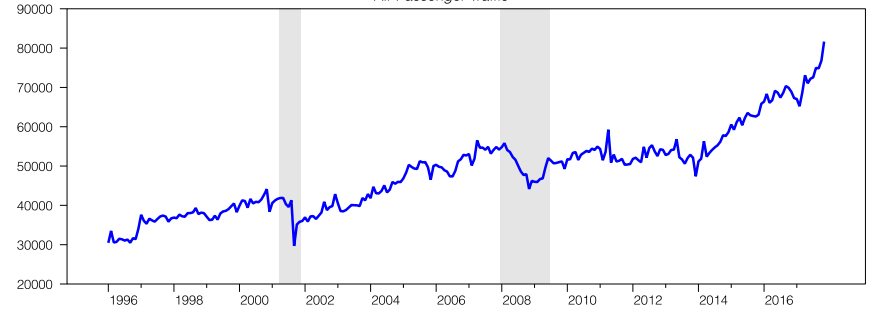
**Civilian Labor Force**

*Employed plus Unemployed*



**Enplanements and Deplanements**

*Air Passenger Traffic*



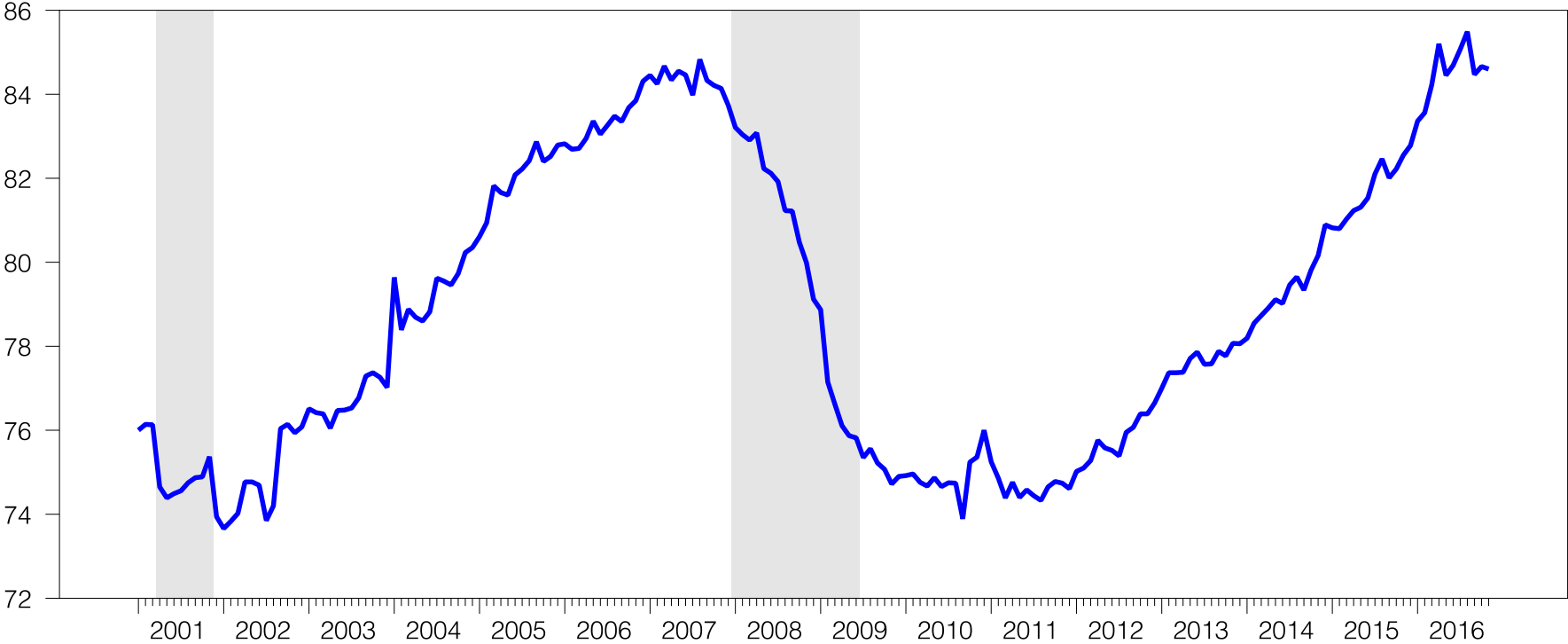
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# Like state as whole, slowing job growth

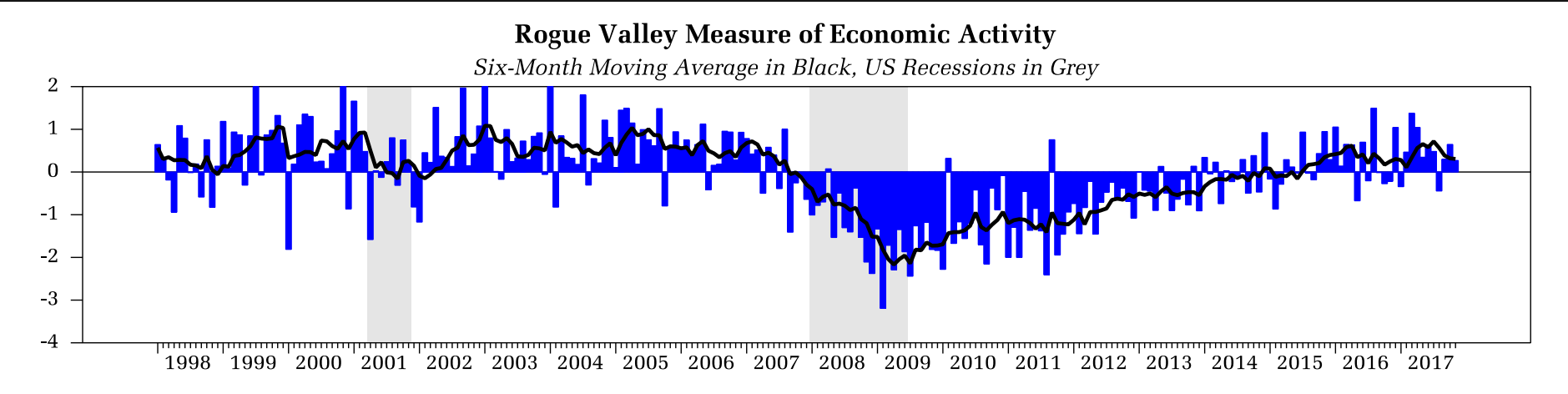
## Medford MSA: Nonfarm Payrolls

*Thousands of Employees*



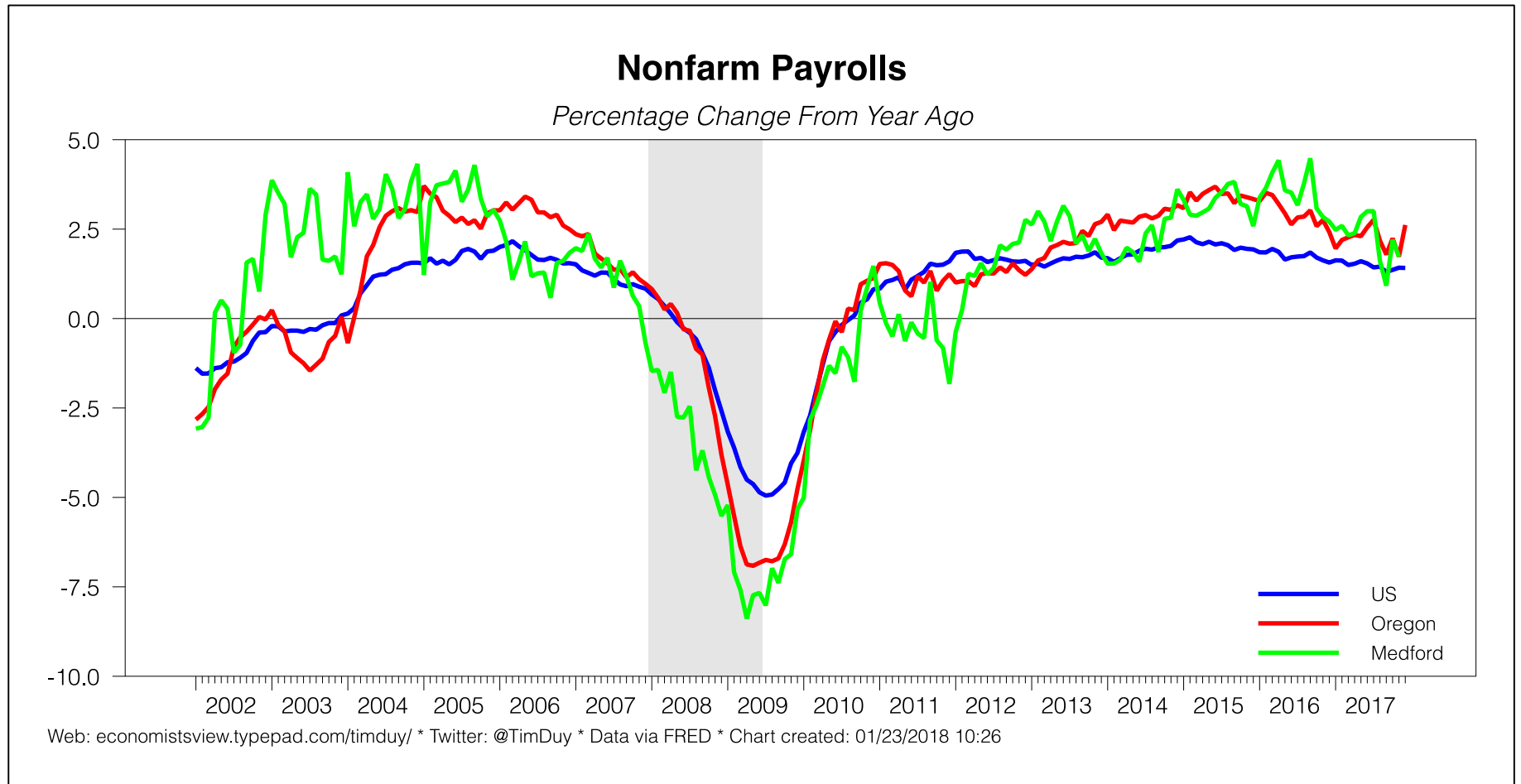
Web: [economistsview.typepad.com/timduy/](http://economistsview.typepad.com/timduy/) \* Twitter: @TimDuy \* Chart created: 01/23/2018 11:56

# No red flags locally



# Is the economy reaching full employment?

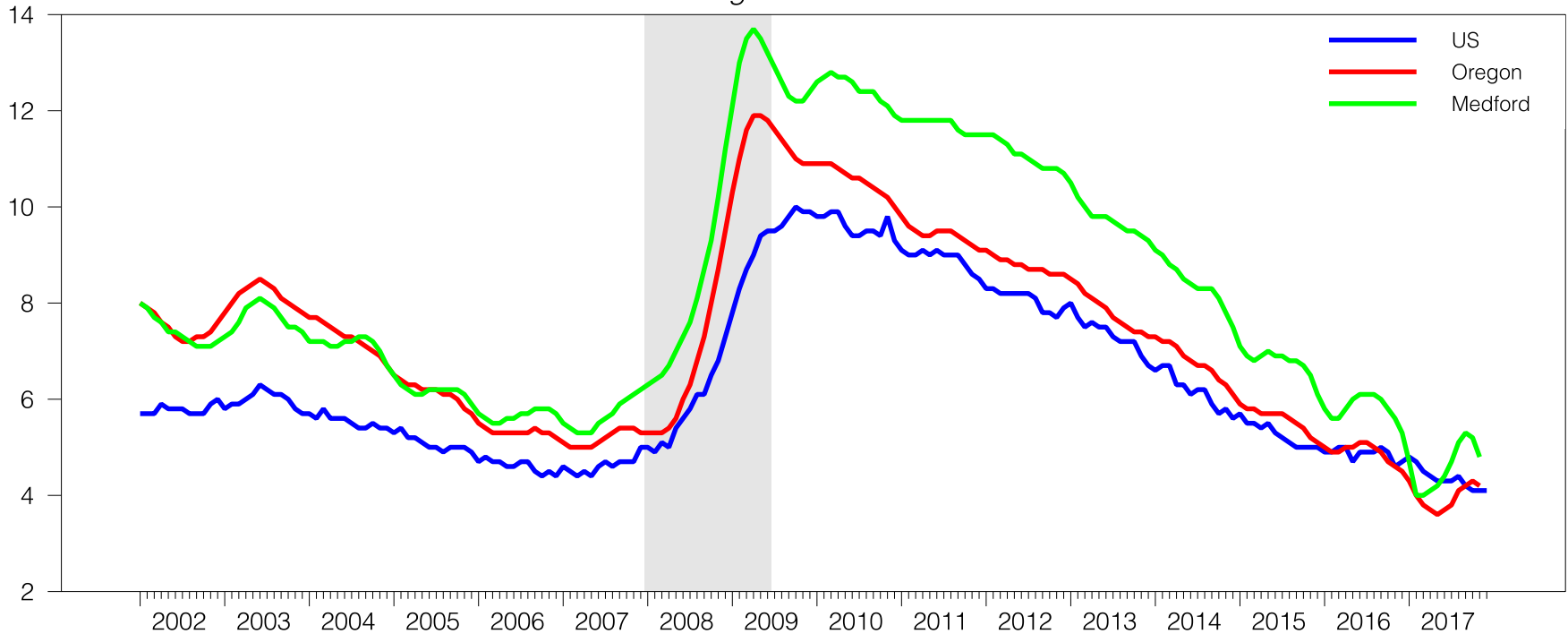
# Job growth slowing



# Unemployment rates low

## Unemployment Rates

Percentage of Labor Force

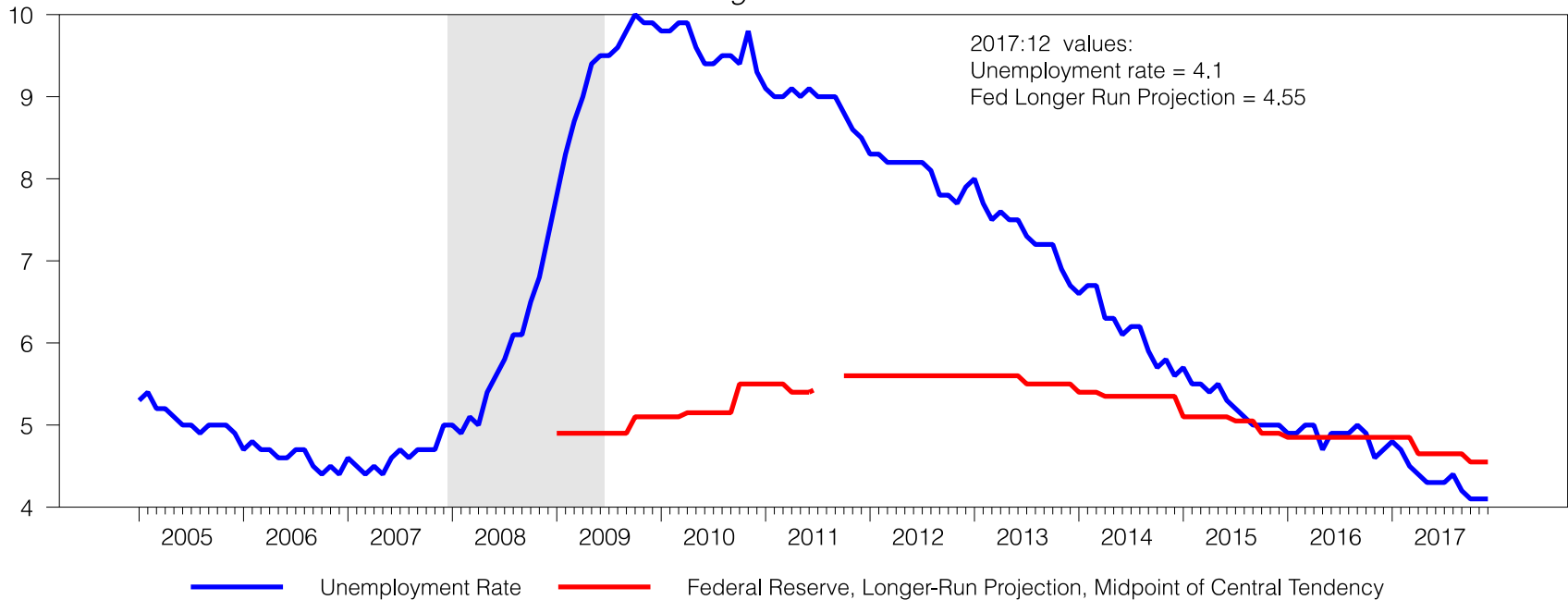


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# Labor force slack lessened

## Unemployment Rate

*Percentage of Labor Force*

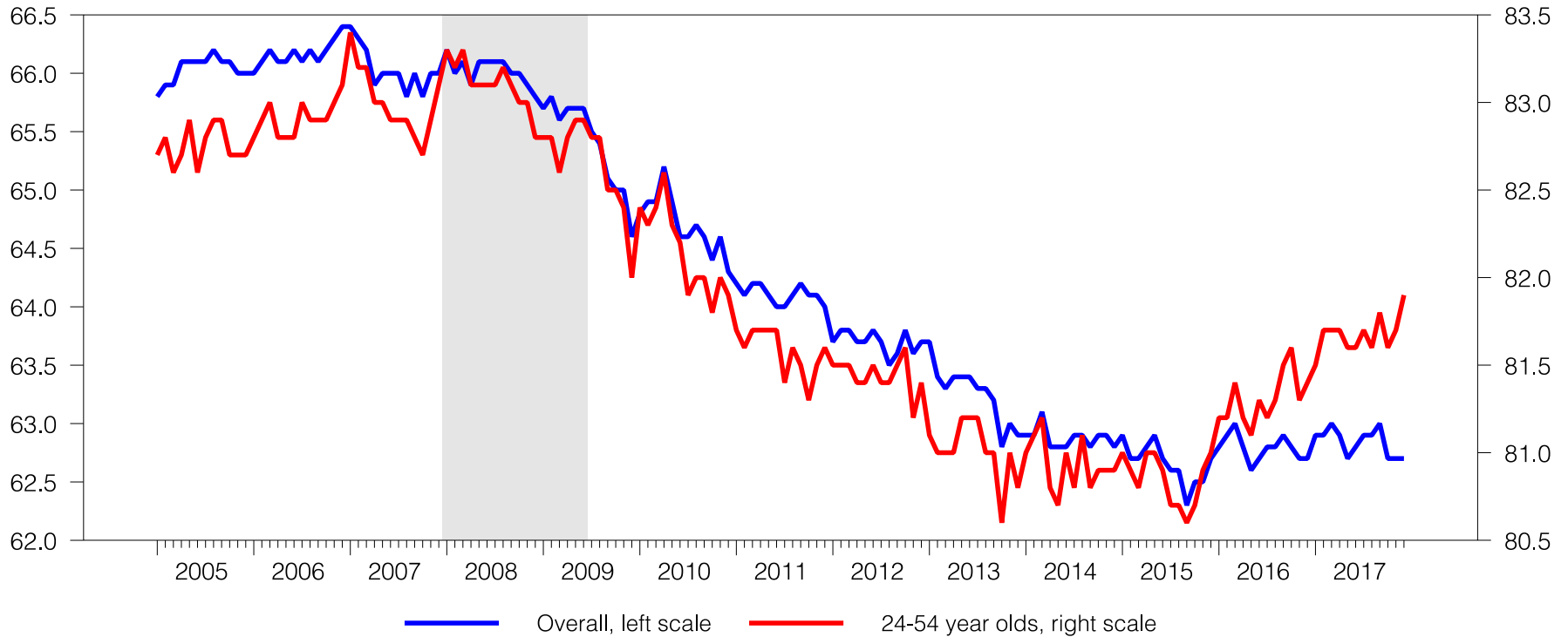


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# How many workers left to hire?

## Civilian Labor Force Participation Rate

*Percent of Labor Force*



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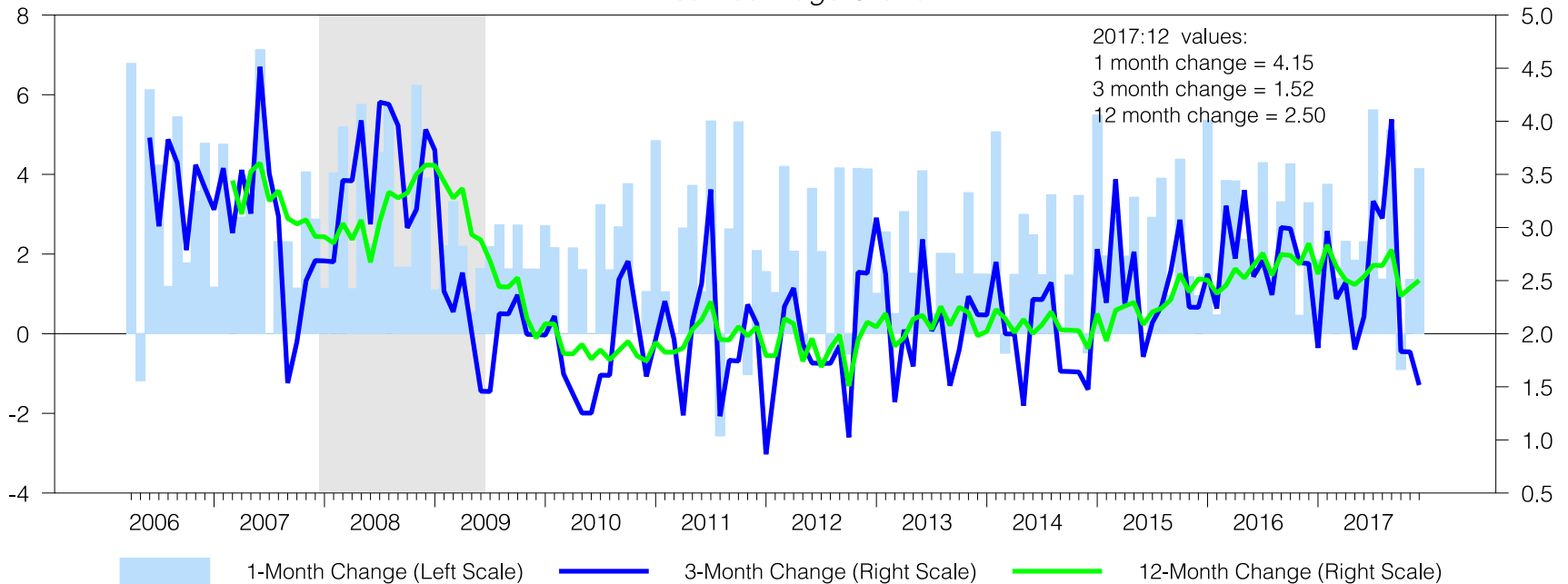
# Will wage growth accelerate?



# Wage growth remains tepid

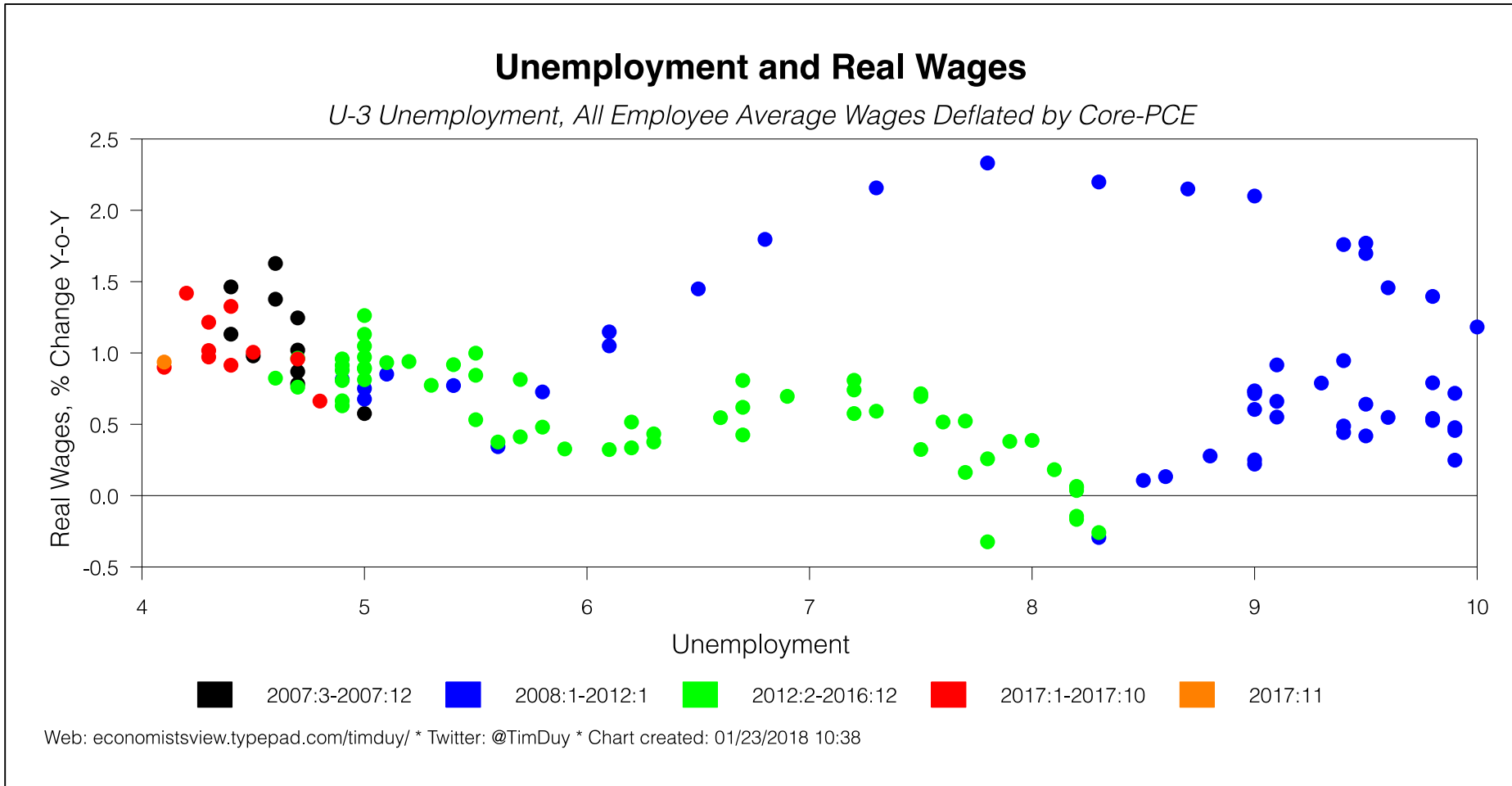
## All Employees Average Wages

Annualized Wage Growth



Web: [economistsview.typepad.com/timduy/](http://economistsview.typepad.com/timduy/) \* Twitter: @TimDuy \* Data via FRED \* Chart created: 01/23/2018 10:37

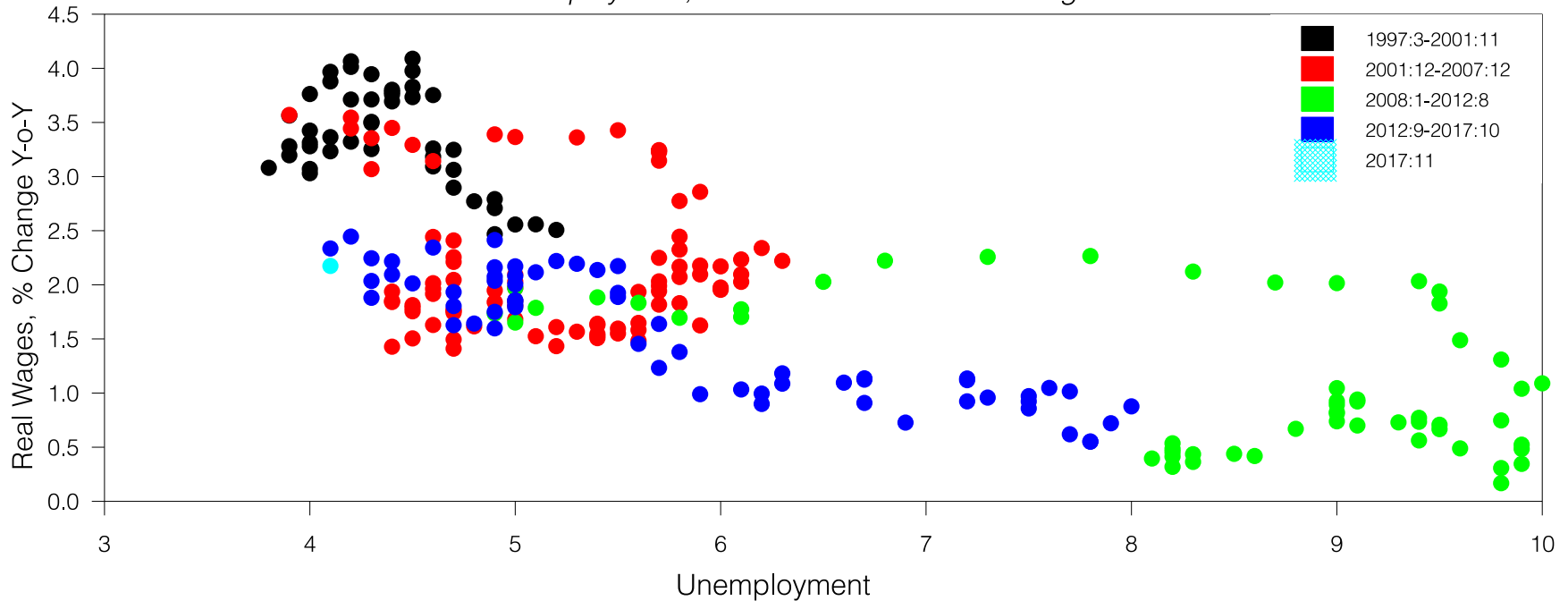
# Adjusted for inflation, not so bad



# Adjusted for inflation, not so bad

## Unemployment and Wage Growth

*U-3 Unemployment, Real Atlanta Fed Median Wages*



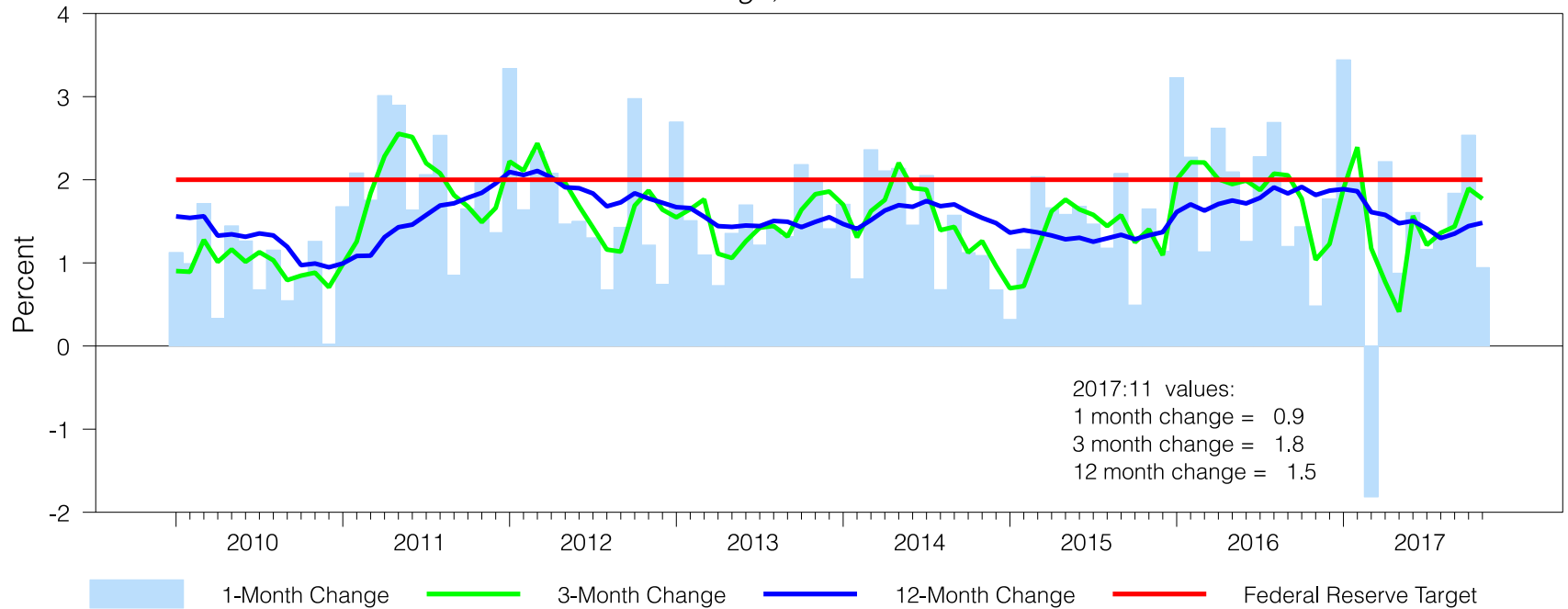
Wages deflated by core-PCE price index (nominal wage growth - inflation, both 3-month moving averages)  
<http://economistsview.typepad.com/timduy/>

# Will inflation accelerate?

# Inflation still sluggish

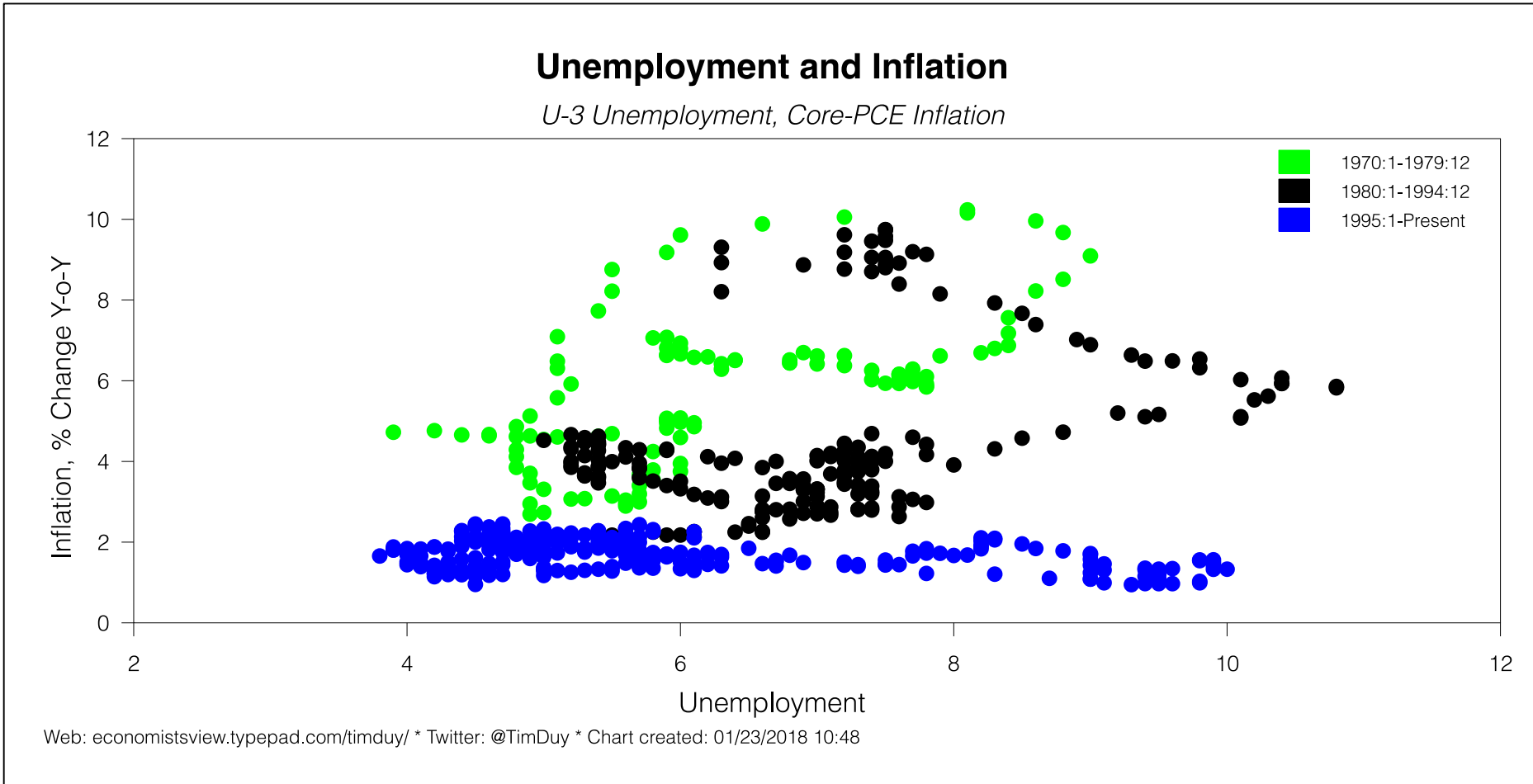
## Core PCE Price Index, 1-, 3-, and 12-Month Change

*% Change, Annualized*

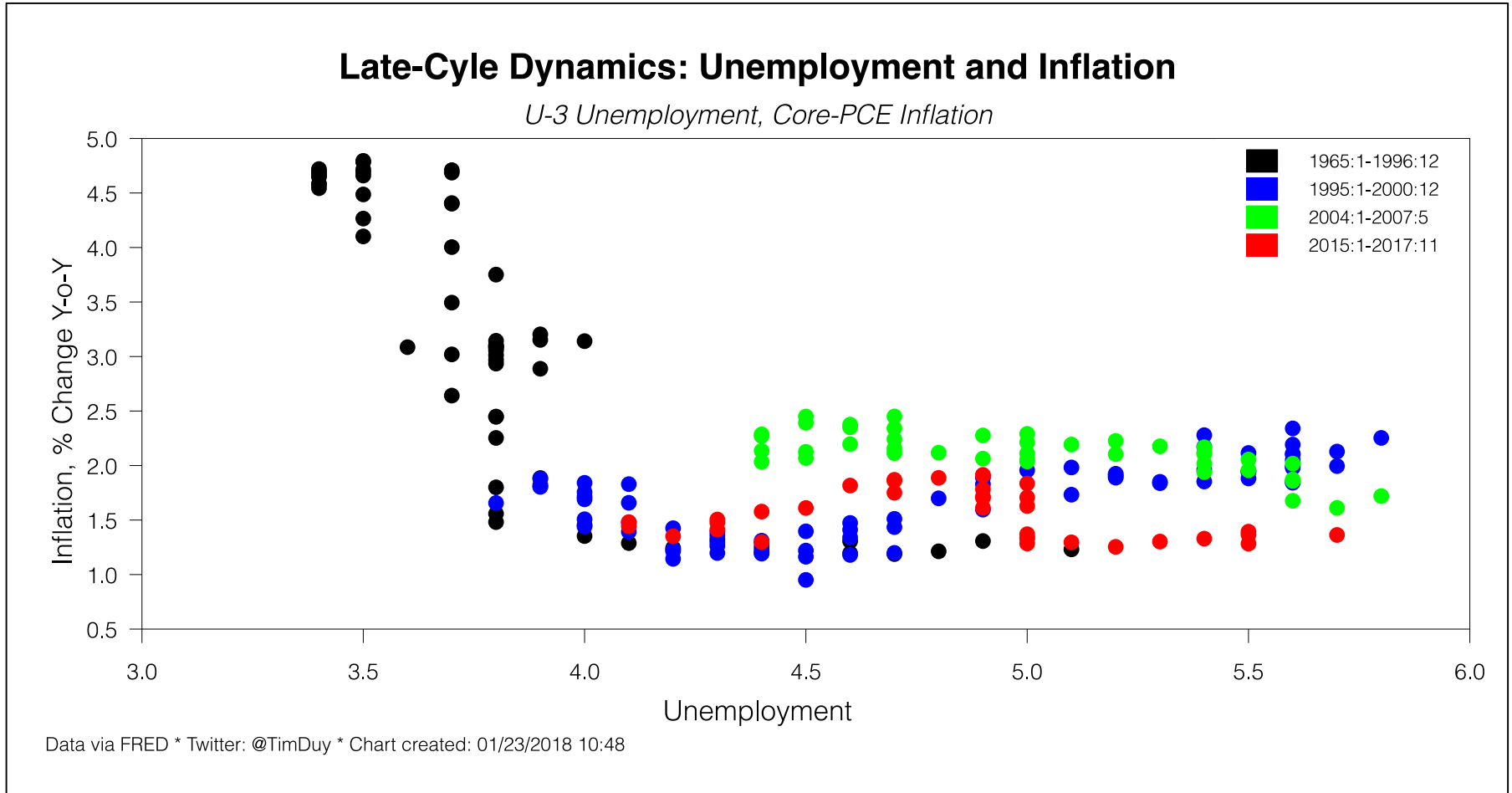


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# Is the Phillip's curve dead?



# Need to return to the 60s to compare



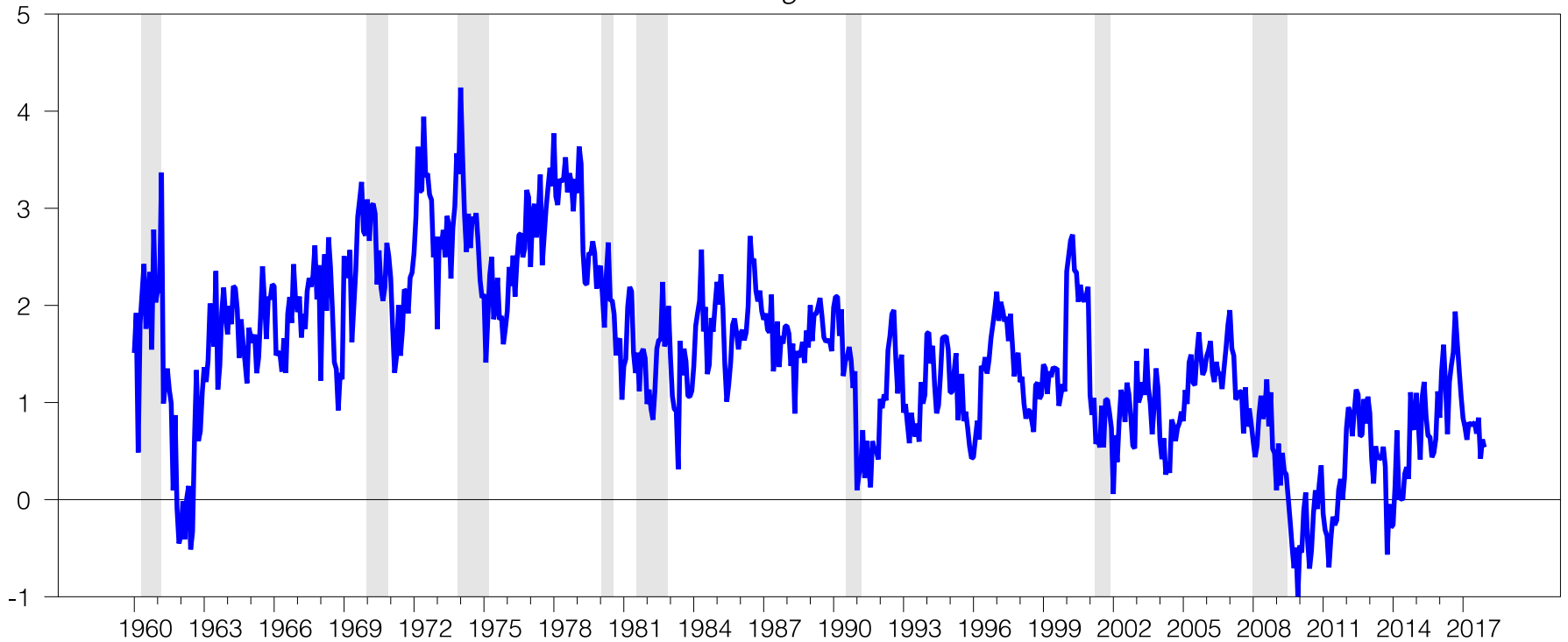
# Will the supply side of the economy come alive?



# Slow labor, productivity growth restraining economic growth

## US Labor 16+

*% Change Y-o-Y*

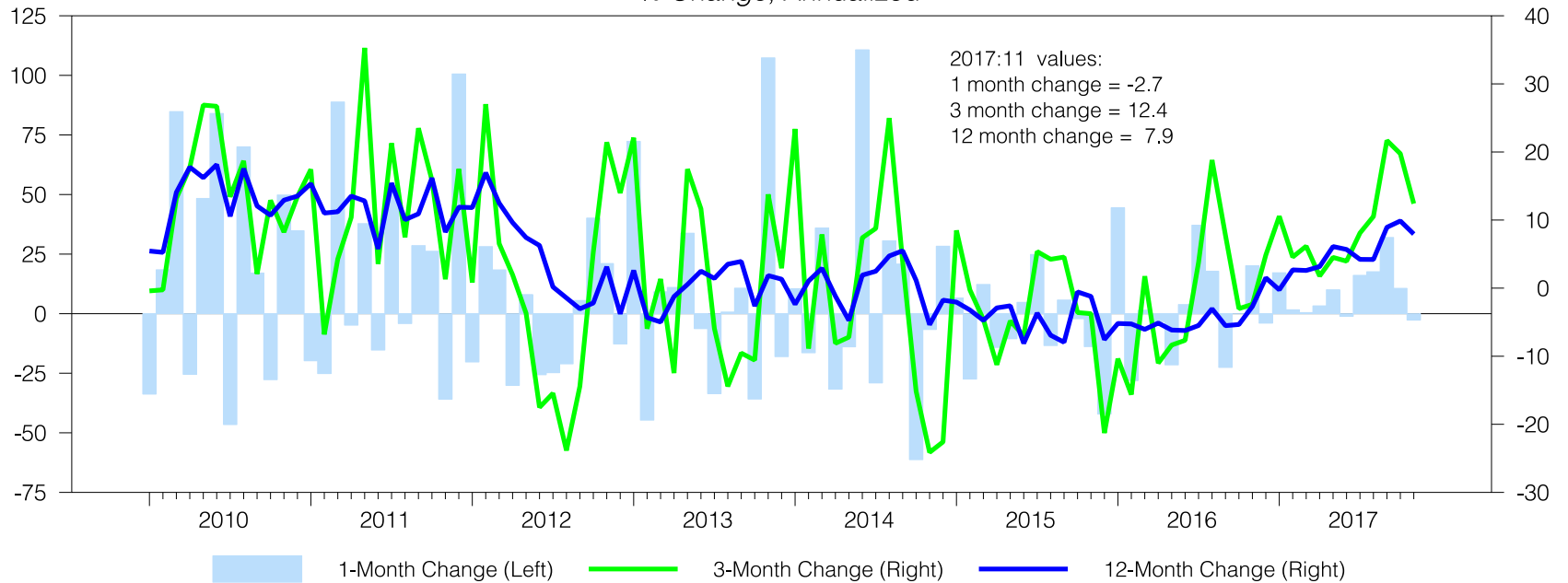


<http://economistsview.typepad.com/timduy/>

# But capital investment is up!

## Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft

*% Change, Annualized*

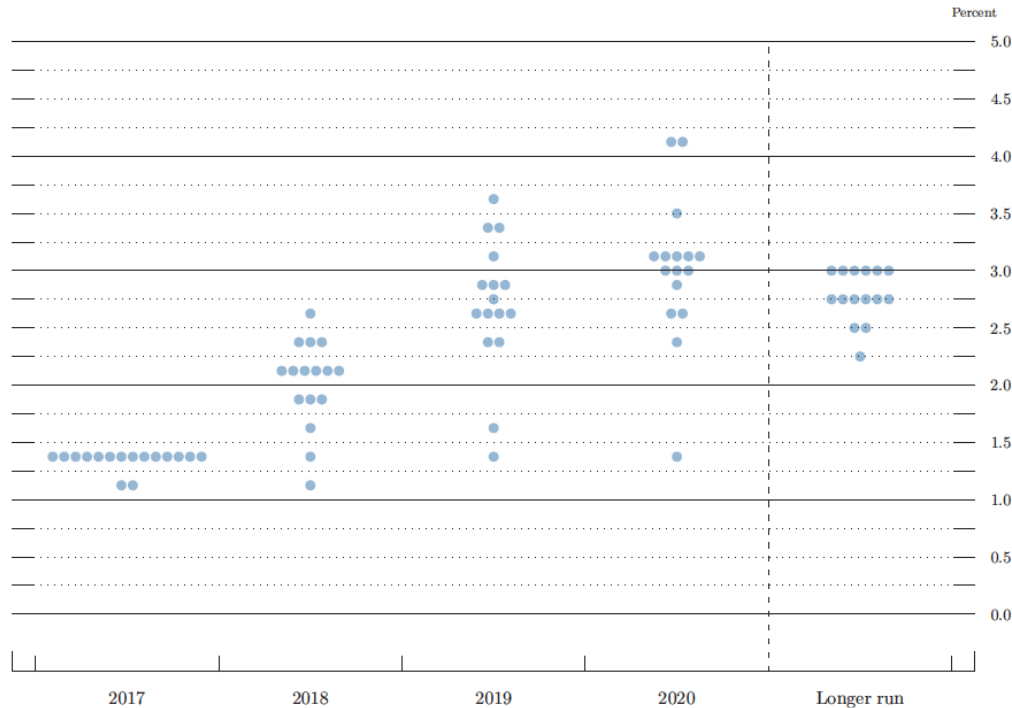


Tim Duy Economic Consulting, LLC \* Salem Economic Outlook 2018 \* Chart created: 01/23/2018 10:59

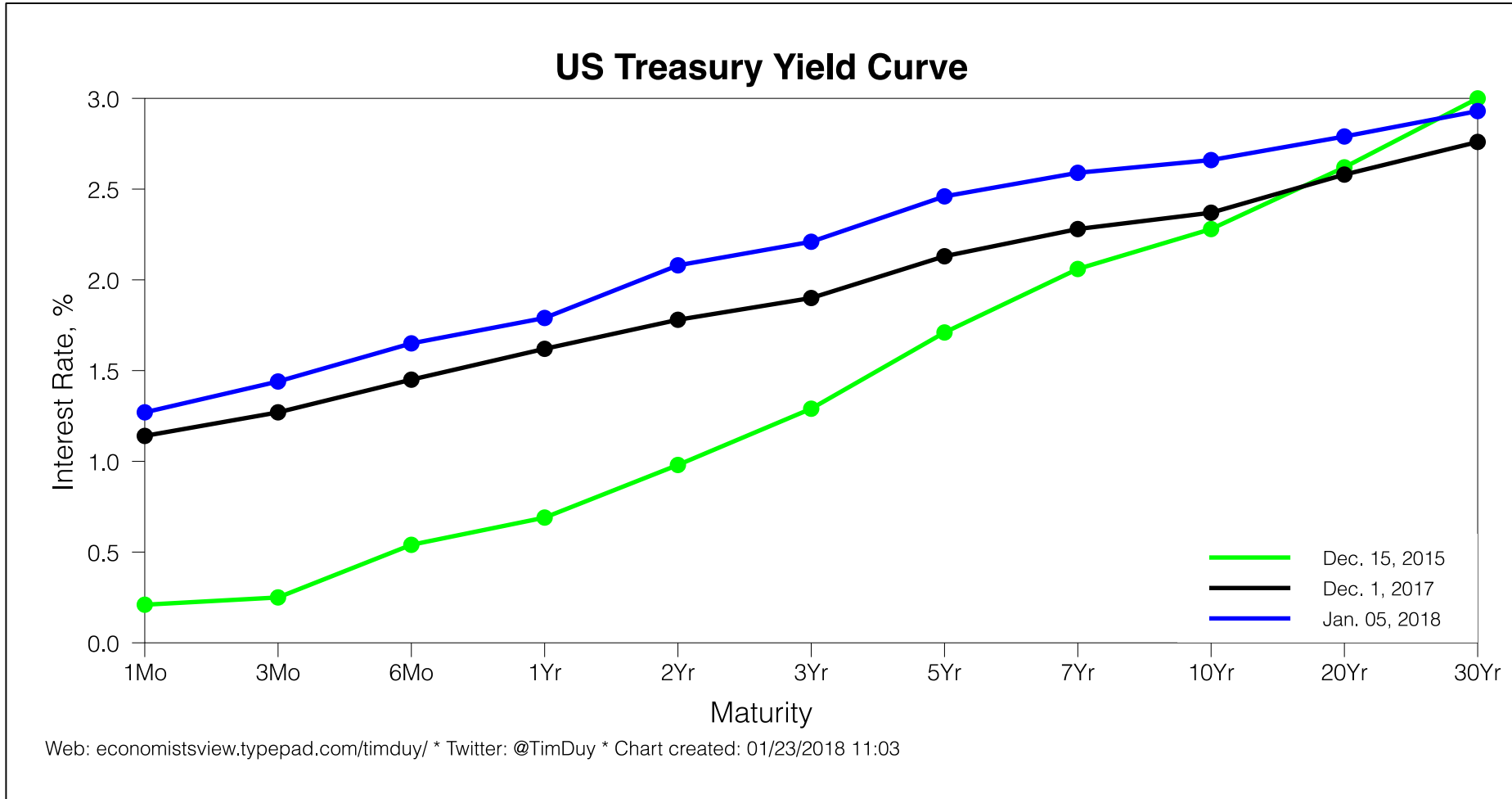
# Will interest rates rise?

# Fed anticipating three hikes in 2018, 2019

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



# Rates rising more generally now



# Will tax cuts have a bigger than expected impact?

# Potentially large increase in near term

**TABLE 1**

**Dynamic Effects of House Bill on GDP**  
FY 2018–37



	Fiscal Year										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2037
	<b>GDP (\$ billions)</b>										
<b>Before macroeconomic feedback</b>	19,926	20,661	21,378	22,168	23,037	23,948	24,899	25,889	26,917	27,985	41,419
<b>After macroeconomic feedback</b>	20,037	20,758	21,447	22,246	23,129	24,042	25,000	25,993	27,021	28,083	41,482
	<b>Percentage change in GDP caused by macroeconomic feedback</b>										
	0.6	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.2

**Source:** The GDP forecast through 2027 is from CBO, *The Budget and Economic Outlook: 2017 to 2027* (January 2017) and for 2028-2037 is from CBO, *The 2017 Long-Term Budget Outlook* (March 2017); TPC Keynesian and neoclassical models.

**Note:** GDP = gross domestic product.

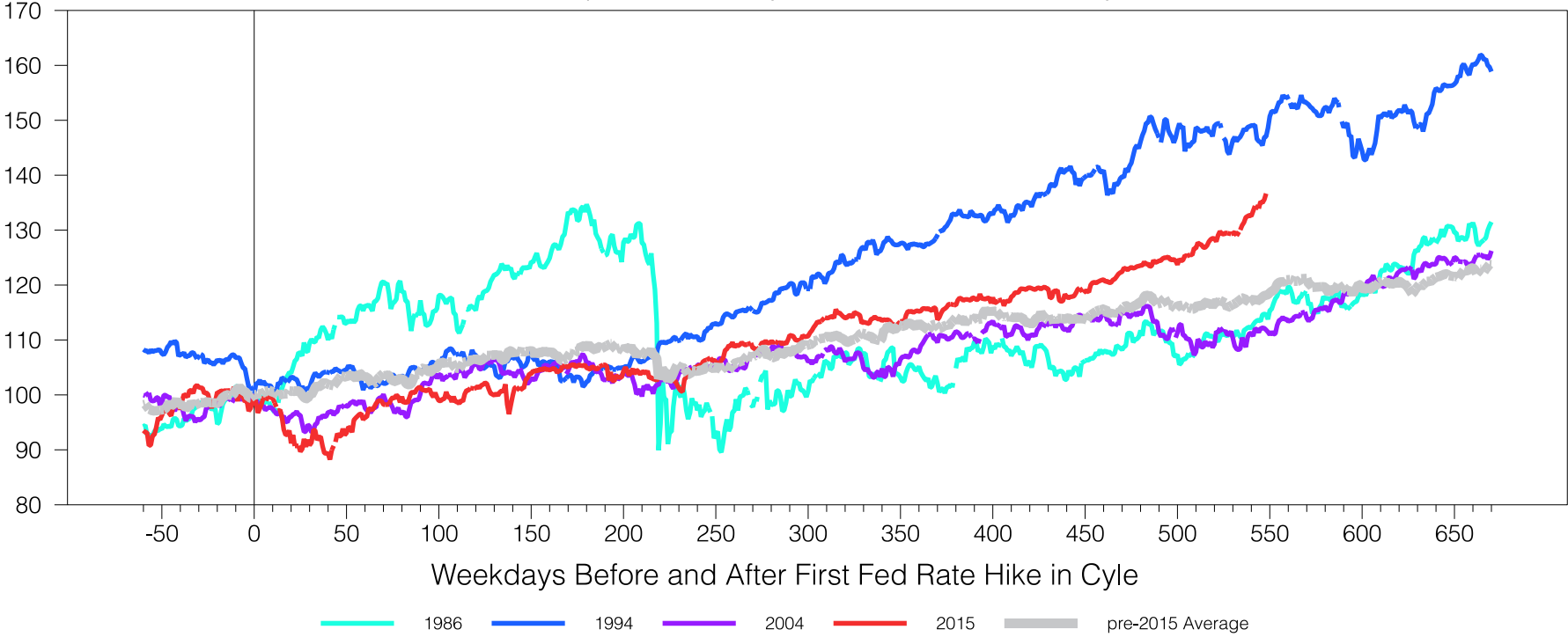
# Are financial markets set to crash?



# Stock prices feeling exuberant

## SP500 Stock Index

*Indexed to equal 100 on day of first Fed rate hike in cycle*

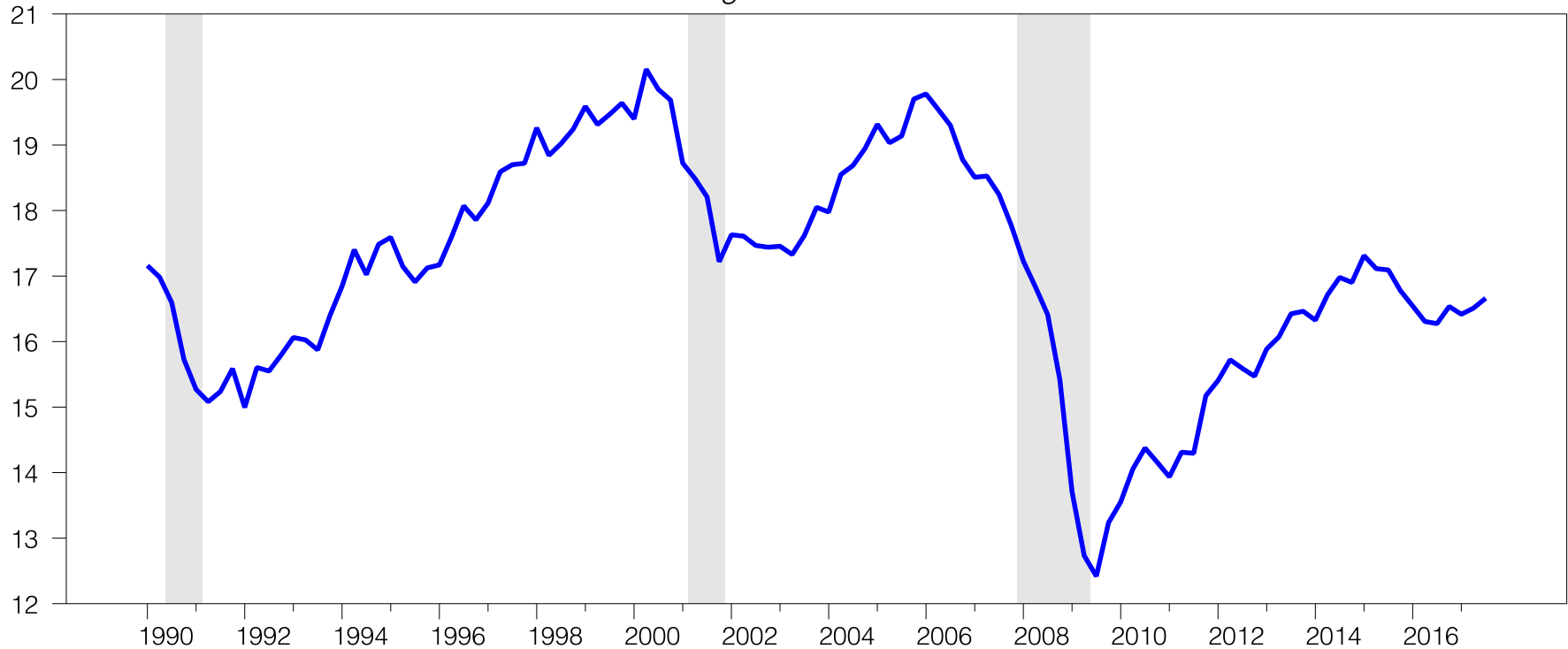


Data via FRED and author's calculations \* Chart created: 01/23/2018 11:22

# But the link to the economy changing

## Gross Private Domestic Investment

*Percentage of Nominal GDP*



Data via FRED and author's calculations \* Chart created: 01/23/2018 11:35

# Summing up...

- The expansion shows no sign of ending.
- Being felt on all levels – US, state, local.
- Signs emerging that capacity constraints starting to bite.
- How quickly they bite will impact length of recovery.
- Likewise, faster productivity growth could help extend the expansion.
- Low inflation allows for gradual rise in interest rates.

# Summing up...

- If economy looks like it will overheat, expect a faster pace of rate increases and a rising risk of recession.
- Tax cuts may support supply side of the economy, but also might contribute to overheating and thus reduce the length of the expansion.
- Financial markets exuberant, but not driving excess economic activity like last two cycles.

# Summing up...

Longest expansion:  
March 1991 to March 2001  
120 months

Current expansion:  
June 2009 to present  
102 months

Best best:  
Current expansion equals or exceeds  
previous record.