



# Social Narratives, Economic Realities and the Outlook Focus on Washington State



Christopher Thornberg, PhD

Founding Partner, Beacon Economics November 2024



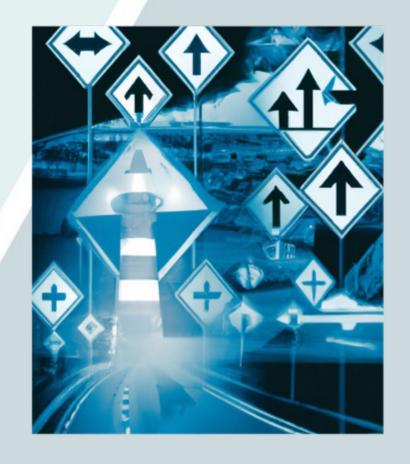
#### **Beacon Economics**

Independent economic research firm founded in 2006 with a fundamental commitment to letting the *data* determine the *answers*.

#### **Today's Presentation**

- What we think is happening in our economy (our social narrative or "lived experience")
- What is actually happening in our economy (our objective statistical reality)
- ➤ It is the combination of the two that drives the forecast: Narratives drive choices, while economics determines outcomes.

Smart choices and good policies start with the correct narrative.





#### The 2023 / 2024 Macro Narratives

"The only function of economic forecasting is to make astrology look respectable."

-John Kenneth Galbraith



#### **The 2024 Political Narrative**

"The only function of election pollsters is to make economic forecasters look respectable."

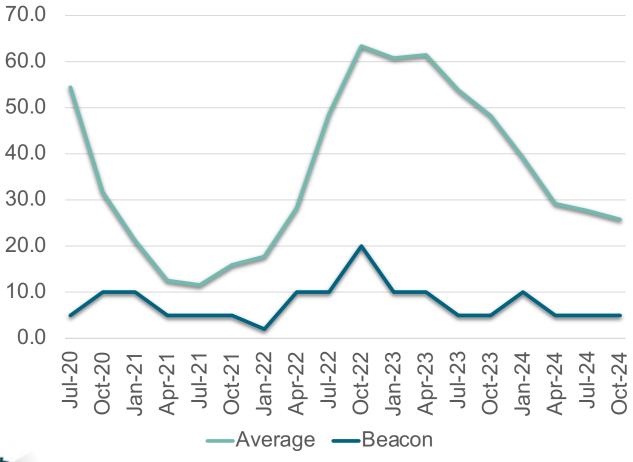
-C F Thornberg



#### **Beacon's Outlook**

#### **WSJ Recession Probability Forecast**

Chance of US entering a recession in the next 12 months



#### We aren't worried now...

- Consumer spending trends are strong, ergo the economy is too
- The Fed is backing off on the brakes... sorta.
- Labor force growth picking up

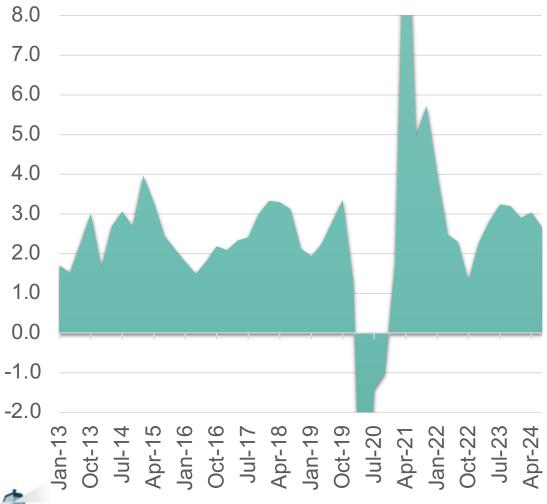
#### ... but we are worried.

- Consumer spending is too strong, driven by bubbly asset prices, yawning Federal deficits
- External deficits rising
- False narratives driving bad policy and ugly politics



#### **GDP Growth**

#### Real GDP Growth (YoY)



#### **Contributions to Real Growth**

4 Quarter Averages	21-22	22-23	23-24
GDP	2.35	3.25	2.65
Final Demand	1.93	2.94	3.17
Consumption	1.59	1.61	2.00
Goods	-0.07	0.53	0.59
Services	1.66	1.08	1.41
Fixed Investment	0.50	0.53	0.61
NR Structures	0.13	0.32	0.07
Equipment	0.31	0.16	0.28
IPP	0.58	0.26	0.19
Residential	-0.52	-0.21	0.08
Inventories	0.33	0.14	-0.02
Net Exports	0.10	0.17	-0.50
Exports	1.27	0.03	0.48
Imports	-1.18	0.15	-0.97
Government	-0.16	0.79	0.57



### Americans: having fun!!

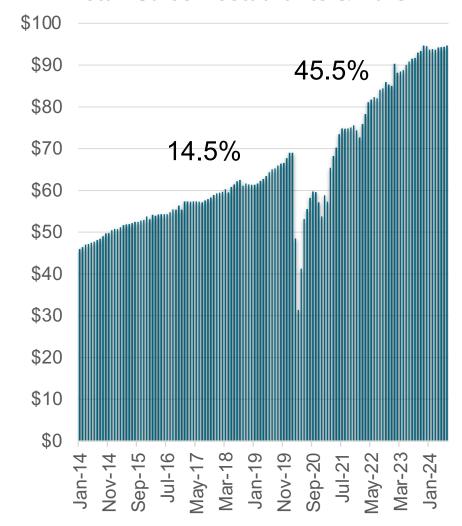




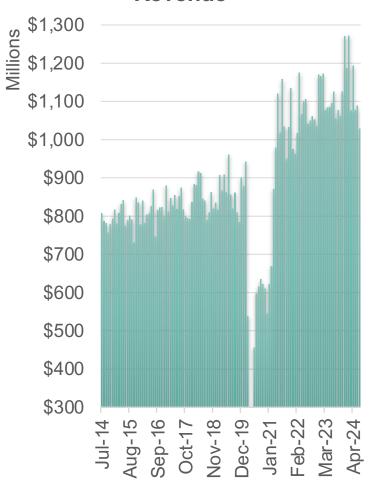
Foreign travel by U.S. residents

Expenditures in the United States by

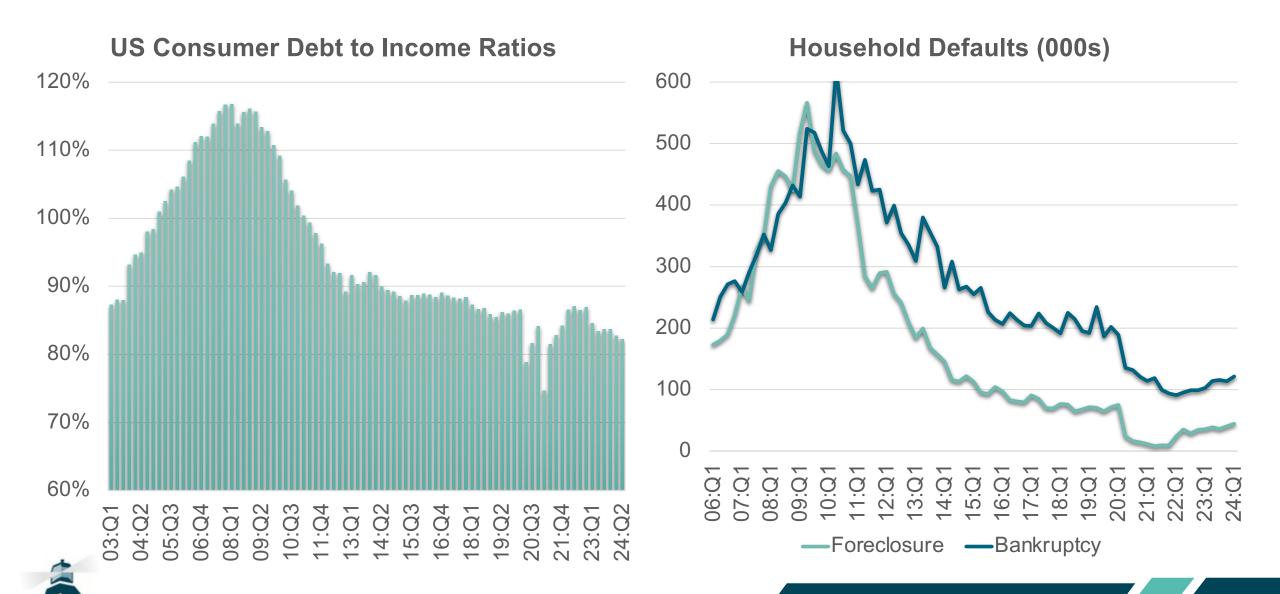




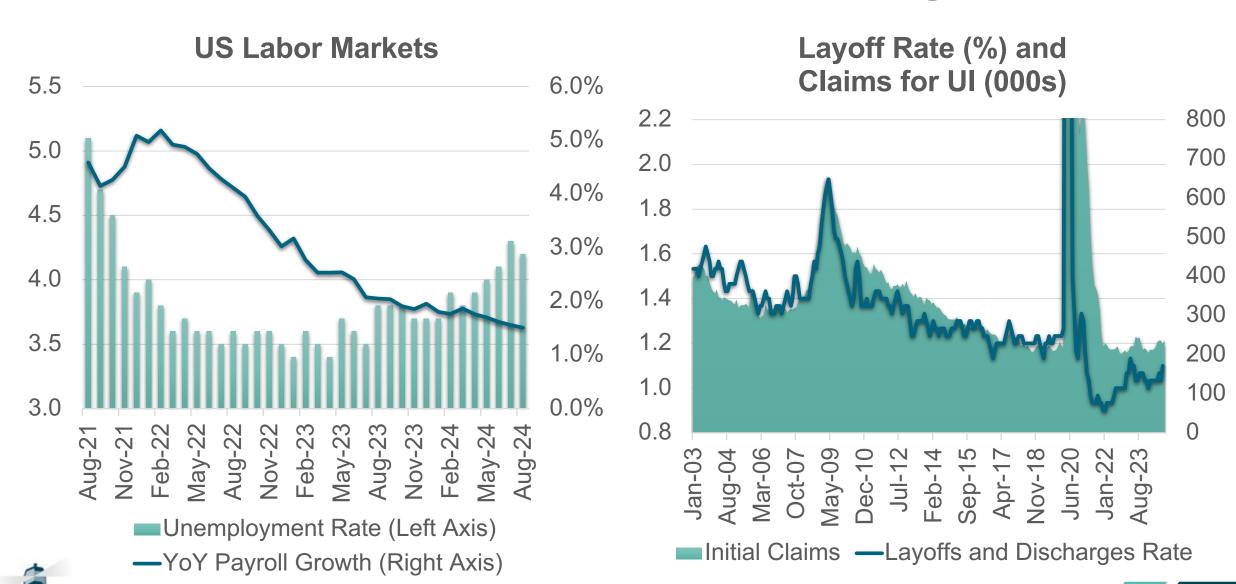
#### **Clark County Gaming** Revenue



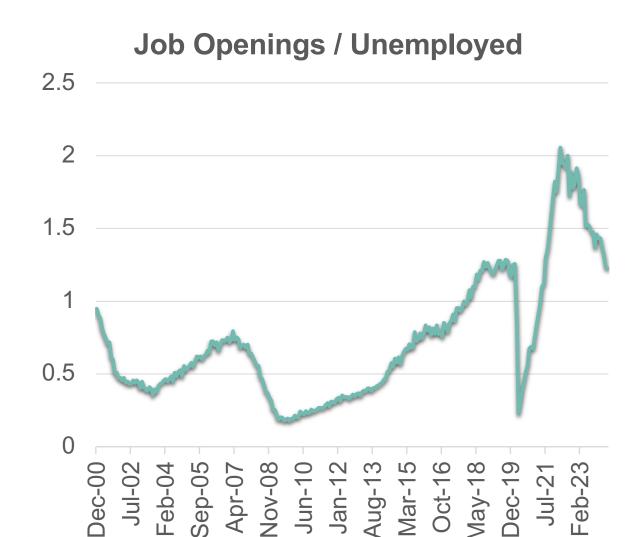
#### **Consumer Finances: Great**



### **US Labor Markets: Still Tight**



### Tight Markets = Rising Wages



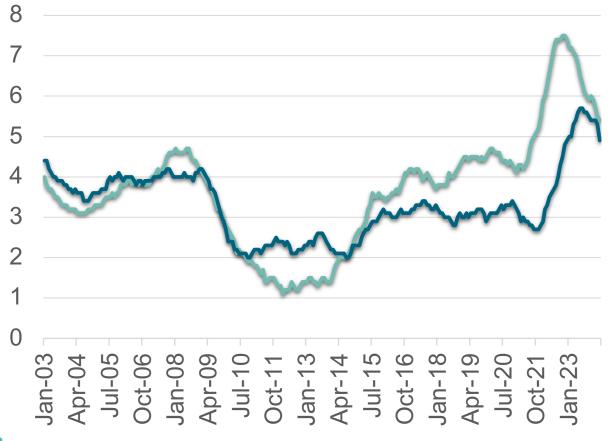
### Hourly Wage Growth (YoY) Inflation Adjusted





### What about Inequality?





- —Lowest quartile of wage distribution
- —Highest quartile of wage distribution

#### **US Poverty Rate (%)**

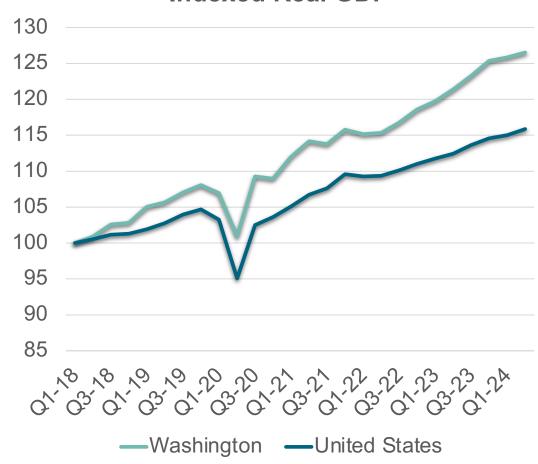


10 Year Wage Growth			
Lowest quartile	57.6%		
2nd quartile	48.0%		
3rd quartile	45.2%		
Highest quartile	40.8%		



#### Washington State Real GDP

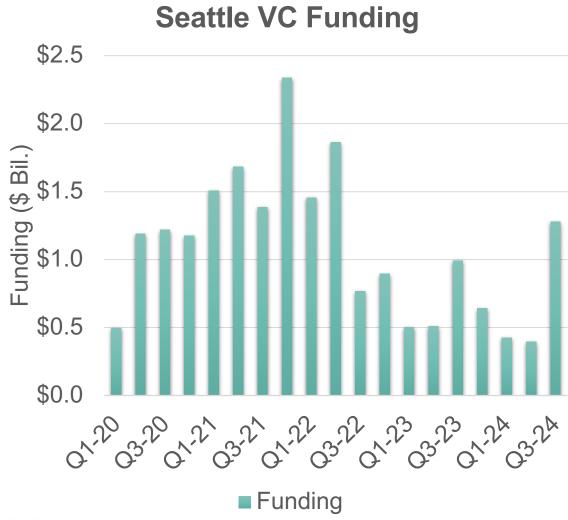
#### **Indexed Real GDP**



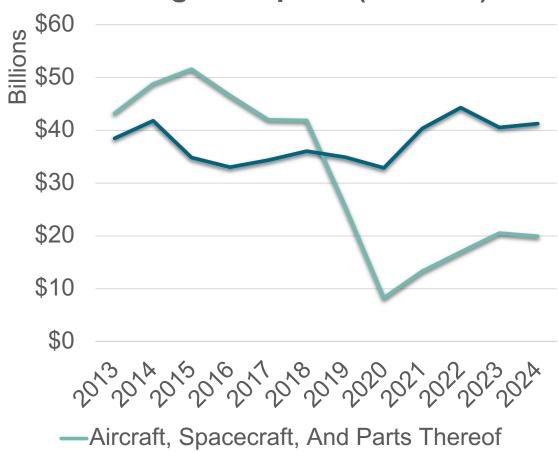
Industry	Q2-24 Real GDP (\$ Bil)	1-Year Chg. (%)	5-Year Chg. (%)
All Industry Total	699,749	4.2	19.7
Information	150,670	9.9	82.8
Real Estate	87,998	1.7	23.2
Government	77,005	1.8	8.4
Retail Trade	66,727	9.6	18.3
Prof., Sci., and Tech.	63,116	4.0	57.6
Manufacturing	56,165	3.6	-16.0
Education/Health	45,531	6.1	15.5
NR/Construction	31,906	6.8	-5.9
Wholesale Trade	28,746	-0.5	0.1
Tran., Warehouse	23,853	-1.1	16.5
Leisure and Hospitality	22,068	1.5	5.4
Finance and Insurance	20,972	3.5	7.4



#### **Issues with Key Drivers**



#### **Washington Exports (Nominal)**

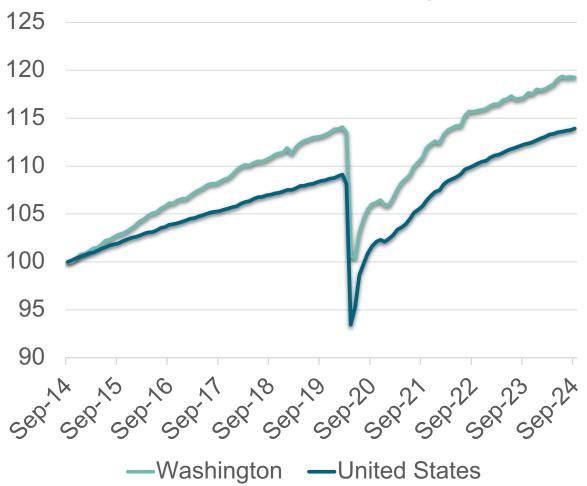


—All Other



### **State Employment Trends**

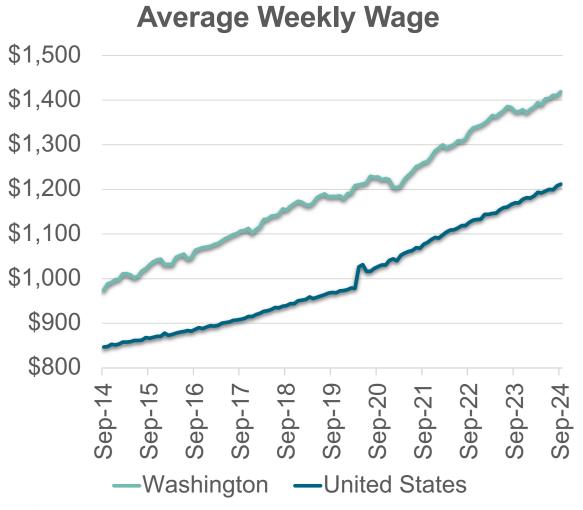
#### **Indexed Nonfarm Employment**



Washington Industry	Sep-24 Emplt (000s)	1-Year Chg. (000s)	1-Year Chg. (%)	LQ
Total Nonfarm	3,669.3	65.0	1.8	1.0
Education/Health	565.2	26.4	4.9	0.9
Government	601.0	13.0	2.2	1.1
Logistics	144.0	6.3	4.6	0.9
Other Services	128.4	5.9	4.8	0.9
Professional/Business	555.5	5.9	1.1	1.1
Wholesale Trade	144.5	3.8	2.7	1.0
Leisure and Hospitality	349.3	3.7	1.1	0.9
Financial Activities	168.5	3.2	1.9	0.8
NR/Construction	240.0	2.6	1.1	1.2
Manufacturing	276.5	0.7	0.3	0.9
Retail Trade	337.0	-0.2	-0.1	0.9
Information	159.4	-6.3	-3.8	2.3



### **Worker Earnings**

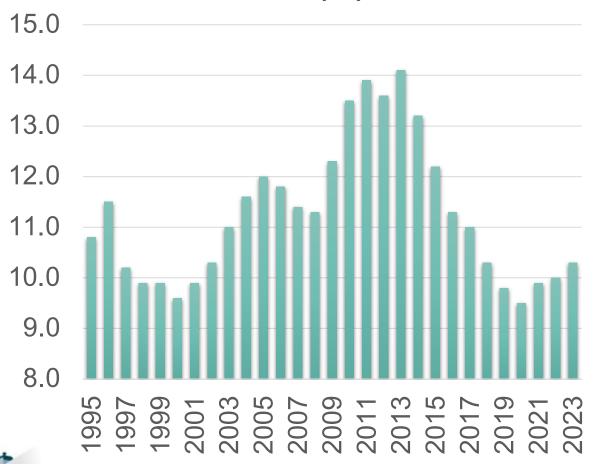


	United States		Washington	
Median all	\$45,105	27.8%	\$52,533	30.4%
Median FT	\$60,070	24.3%	\$71,874	28.9%
< High school	\$31,660	29.1%	\$36,828	28.7%
High school	\$39,428	26.1%	\$44,866	25.1%
Some college	\$45,924	24.6%	\$52,013	27.6%
Bachelor's	\$67,256	23.1%	\$78,485	28.4%
Graduate	\$86,524	19.4%	\$102,656	27.5%

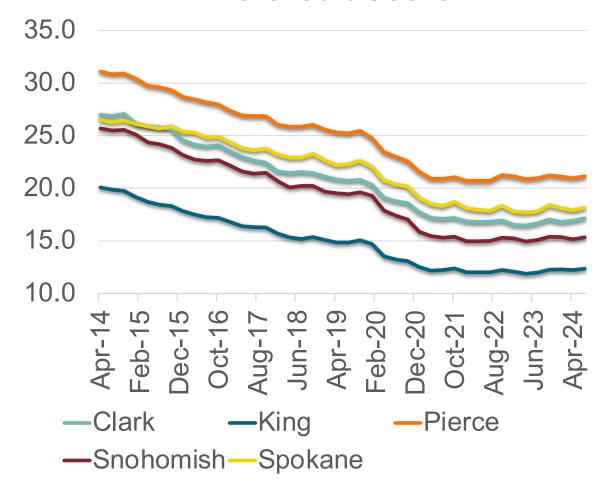


### And state inequality?



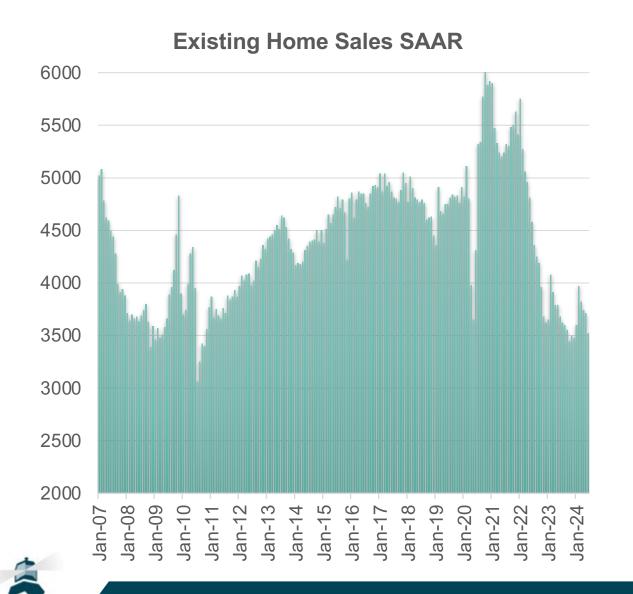


### **Share of Population with Sub- Prime Credit Score**





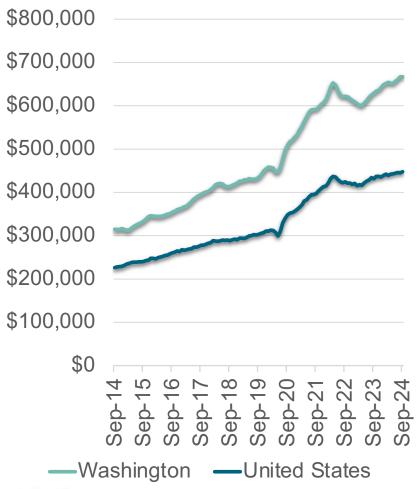
#### A rate shocked existing home market



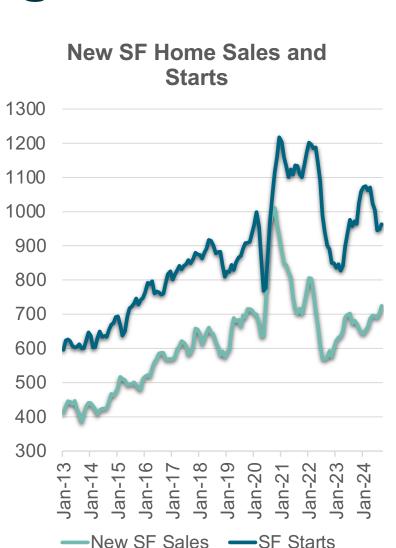


### **Home Prices: Rising**





State	Sep-24 Median (\$000s)	1-Year Chg. (%)
United States	447.7	3.7
Washington	666.5	6.0
Nevada	494.7	5.2
California	842.3	3.4
Oregon	520.6	1.6
Idaho	478.4	1.0
Arizona	456.4	0.5
Florida	430.5	-0.7
Texas	348.5	-0.8
Colorado	643.0	-1.1

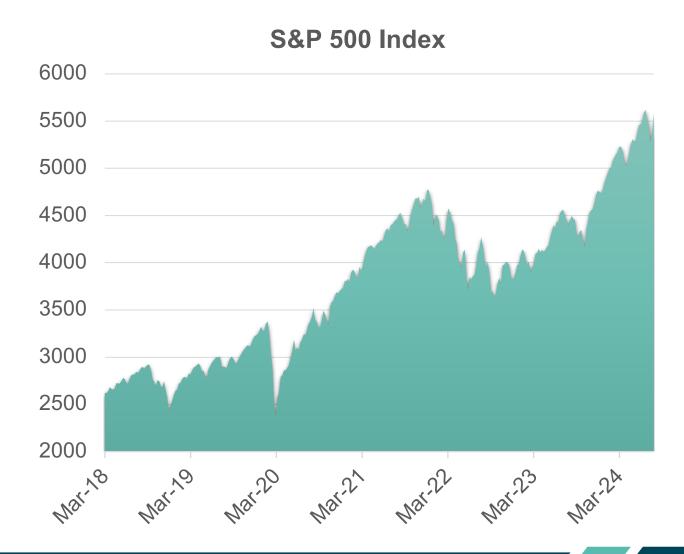




#### Inflation Down, Markets Up

#### **PCE Consumption Deflator**

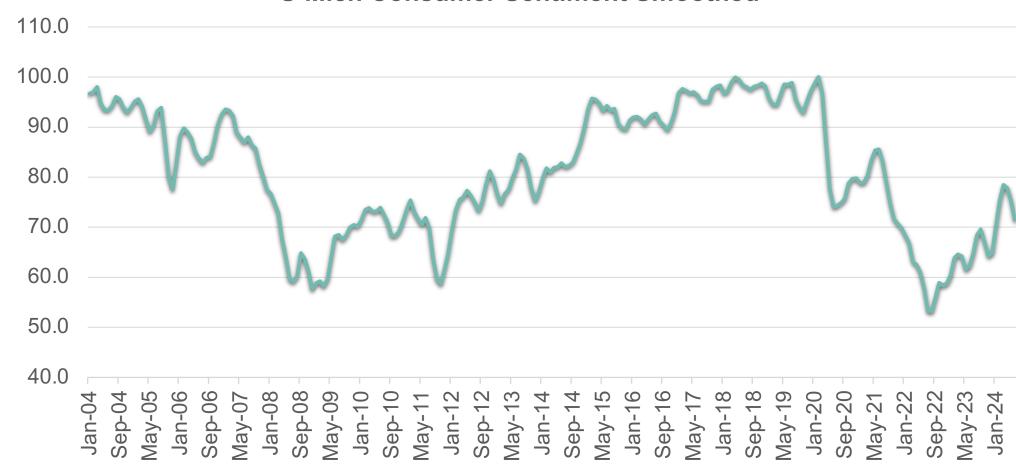




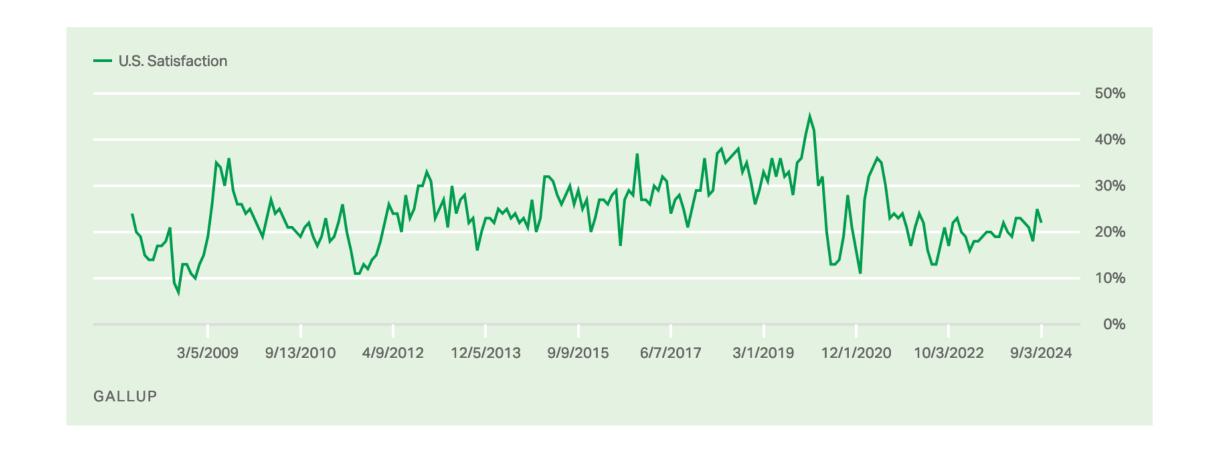


#### The national mood?

**U Mich Consumer Sentiment Smoothed** 







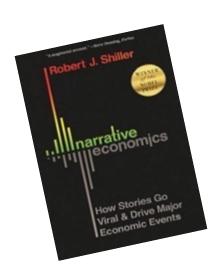


#### **Beware the Narrative**

The Positive Value of Bitcoin

Narratives Reflect Reality The Unsustainable Federal Deficit





"We need to incorporate the contagion of narratives into economic theory. Otherwise, we remain blind to a very real ... mechanism for economic change.."

—R. Shiller, *Narrative Economics* 



"It isn't what we don't know that gives us trouble, it's what we know that ain't so."

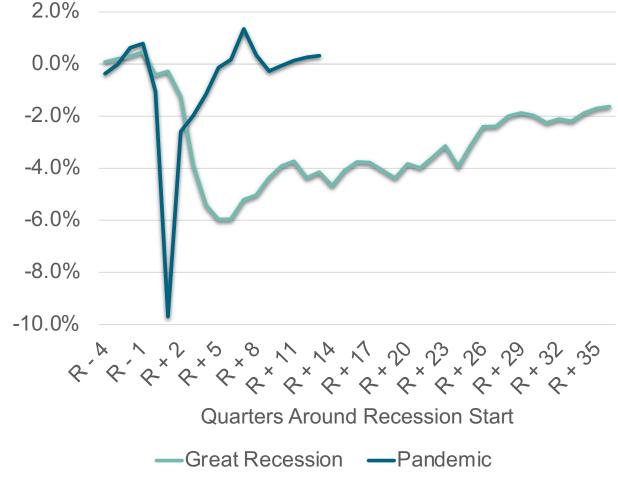
- Will Rogers





#### The Pandemic Over-reaction





### US Household Net Worth grew by \$30 trillion from 2020-2022





**Lost GDP: \$1.2T** 

Fiscal Stimulus: \$6.0T funded by \$5.0T QE

\$50,000 in stimulus / household



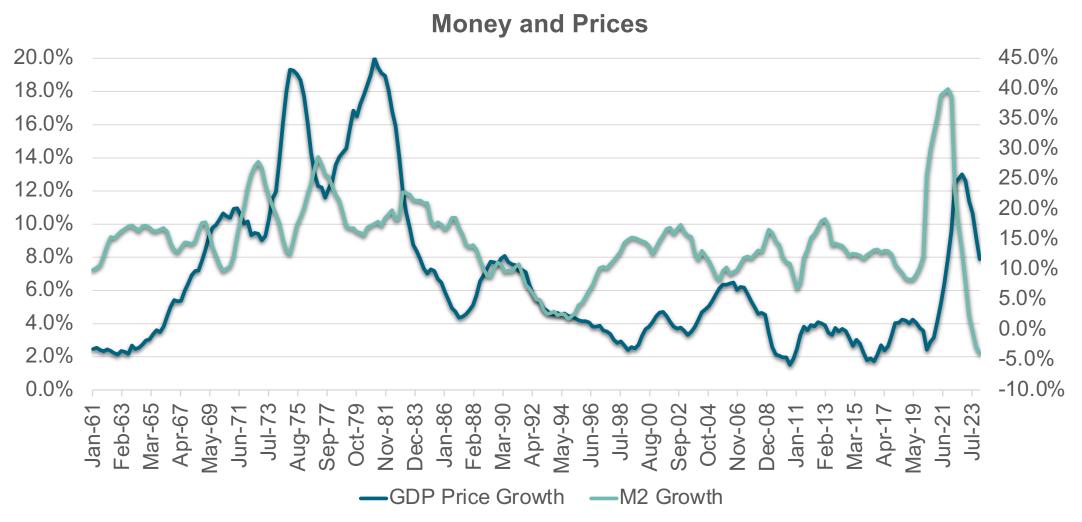
### **Growth in Real Spending by Category**

	2019Q3 - 2024Q3	2023Q3 - 2024Q3
Total	2.8%	3.0%
Sporting equipment, supplies	8.5%	3.9%
Recreational items	8.5%	3.8%
Foreign travel by U.S. residents	7.9%	13.3%
Air transportation	6.2%	7.6%
Jewelry and watches	5.0%	4.3%
Hotels and motels	3.7%	8.3%
Day care and nursery schools	3.6%	3.8%
Sports and recreational vehicles	3.1%	0.0%
Admissions spectator amuse	2.8%	11.0%
Purchased meals beverages	2.2%	0.7%

	2019Q3 - 2024Q3	2023Q3 - 2024Q3
Total	2.8%	3.0%
New motor vehicles	1.9%	-1.1%
Rental of tenant housing	1.6%	0.9%
Membership clubs	1.5%	-1.2%
Food for off-premises	1.2%	1.7%
Casino gambling	1.0%	-0.8%
Amusement parks, camps, etc	0.7%	-1.0%
Higher education	0.3%	0.2%
Household utilities	0.1%	-0.4%
Gasoline and other motor fuel	0.0%	0.8%
Personal care	-0.2%	0.9%



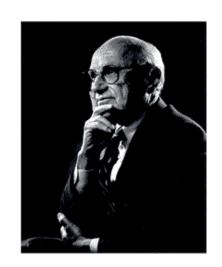
#### **Excess Money + Demand = Inflation**





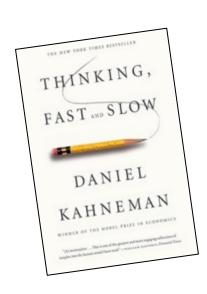
"Inflation is caused by too much money chasing after too few goods."

- Milton Friedman





### How do narratives go astray?



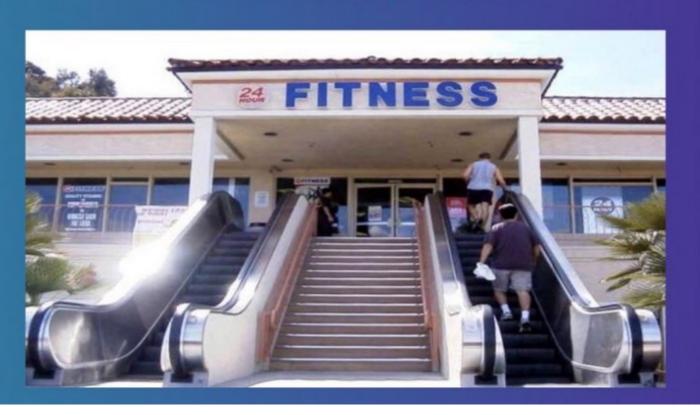
"System 1" is fast, instinctive and emotional; "System 2" is slower, more deliberative, and more logical." "System 1 is gullible and biased to believe, System 2 is in charge of doubting and unbelieving, but System 2 is sometimes busy, and often lazy"

### **Some Examples of Cognitive Biases**

Anchoring bias Apophenia Availability heuristic Cognitive dissonance Confirmation bias Egocentric bias Extension neglect False priors Framing effect Logical fallacy Prospect theory Self-assessment Truth judgment

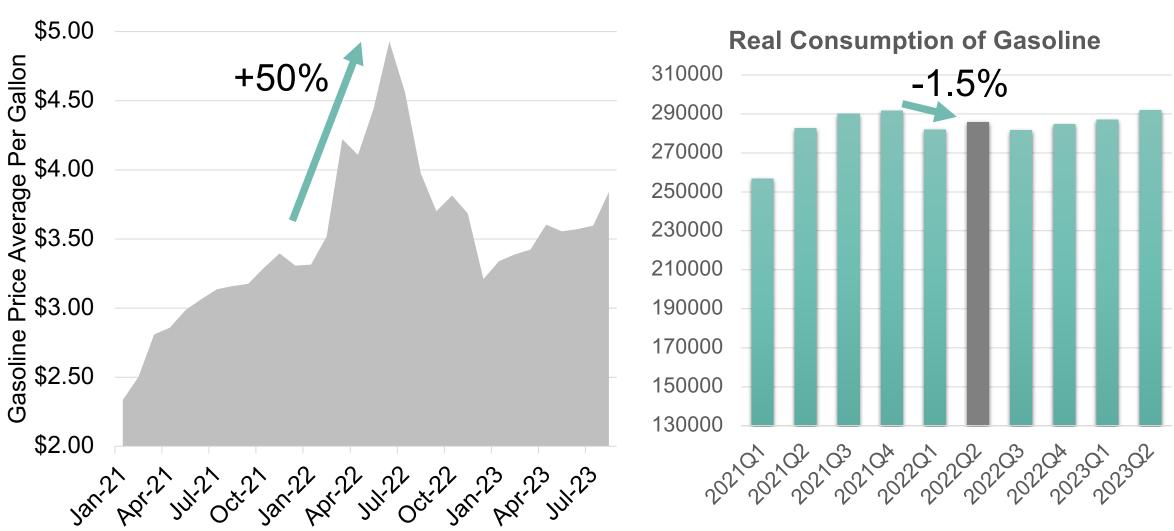


## We don't think as much as we think we think.





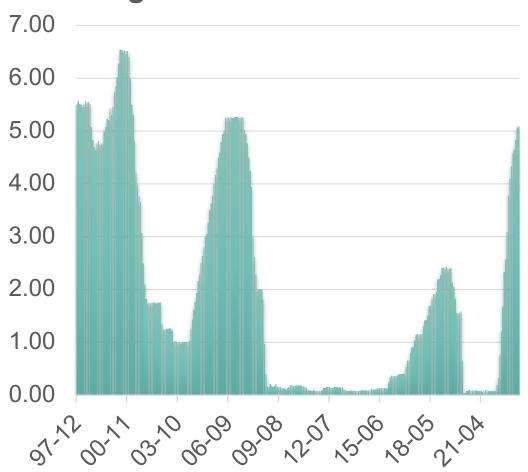
#### False Narrative: Inflation is caused by shortage



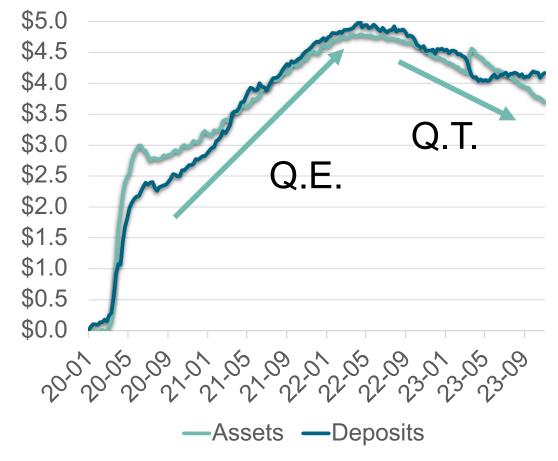


### The Fed Response

**Stage 1: Federal Funds Rate** 



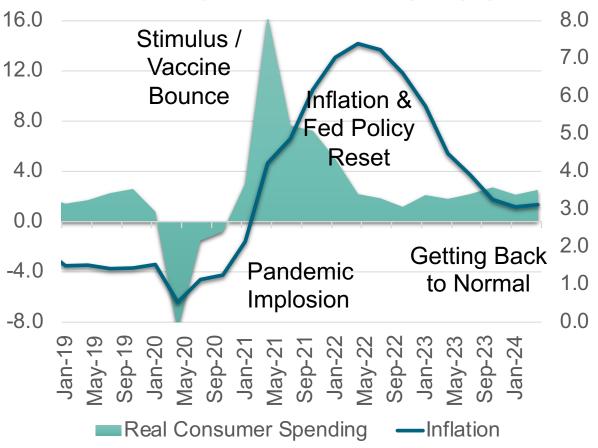
Stage 2: Quantitative Tightening (Cumulative Trillions)





### Stages of the Consumer Surge

#### YOY Changes in Real Consumer Spending and Price Changes (%)

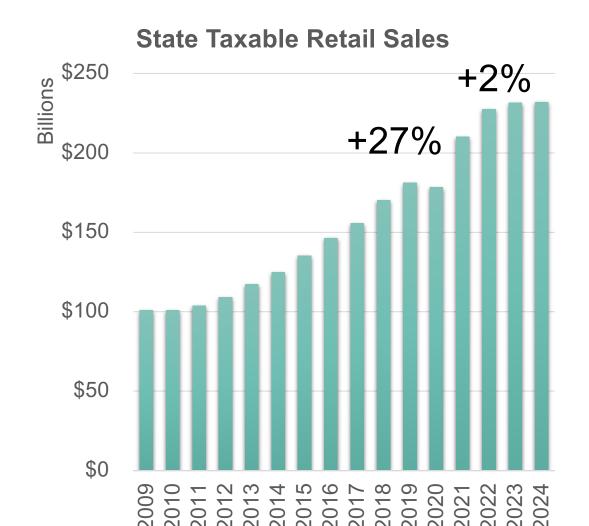


#### **Contributions to Nominal Spending Growth**

	21-22	23-24
Housing and utilities	10.2%	23.2%
Financial serv insurance	2.2%	10.9%
Food services accom.	13.6%	9.3%
Recreation services	7.3%	5.1%
Food and beverages	5.9%	4.1%
Transportation services	8.7%	3.9%
Recreational goods veh	3.9%	3.3%
Clothing and footwear	3.0%	1.2%
Furnishings	1.8%	-0.4%
Gasoline energy goods	9.4%	-1.2%
Motor vehicles and parts	3.5%	-4.4%



#### Washington State Revenues



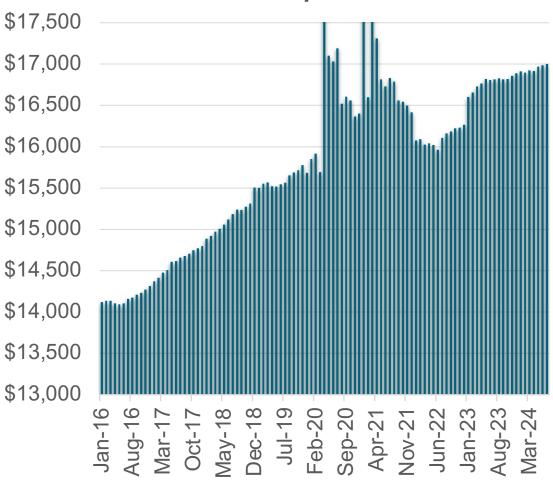
#### **Gross Business Incomes**

Industry	Q2-24 (\$ Mil.)	1-Year Chg. (%)	5-Year Chg. (%)
Total	304,168	2.2	27.4
Education/Health	19,968	9.6	45.1
Professional/Busines	45,545	7.5	60.6
Logistics	12,587	6.4	71.2
Financial Activities	20,779	6.2	43.1
Leisure and Hospitality	9,119	5.6	33.7
Information	10,693	5.2	22.6
Other Services	3,529	2	25.5
Wholesale Trade	57,489	1.5	27.5
Retail Trade	55,440	1.2	34
NR/Construction	25,009	-1.6	28.9
Manufacturing	45,457	-3.4	-5.8

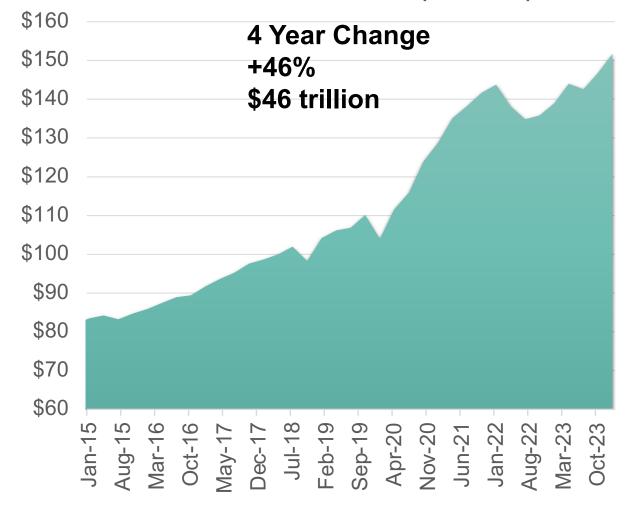


### **SR Outlook for Consumers: Still Good**



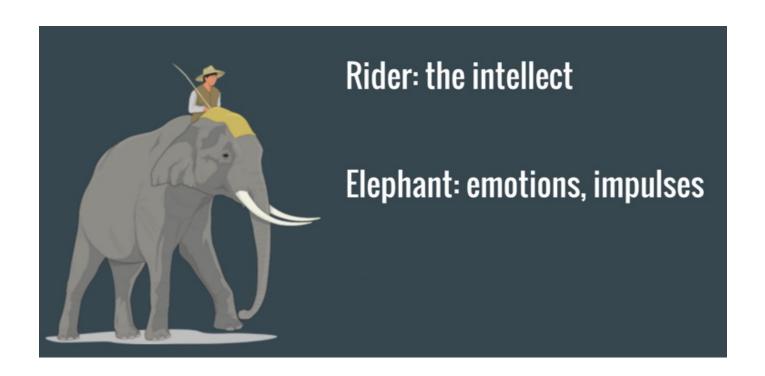


#### **US Household Net Worth (Trillions)**





### The Elephant and the Rider



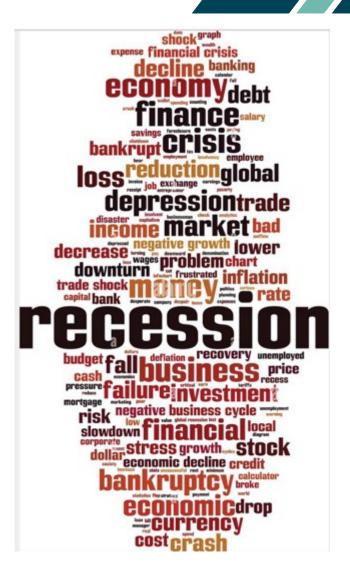




Figure 7. Assessment of own financial well-being, local economy, and national economy (by year) Percent Own finances Local economy National economy (good or excellent) (doing at least okay) (good or excellent) Note: Among all adults.



### What to make of the Red Wave?

#### The View by Position

- The Left and Right vote on policy
- The Center votes on change in mood

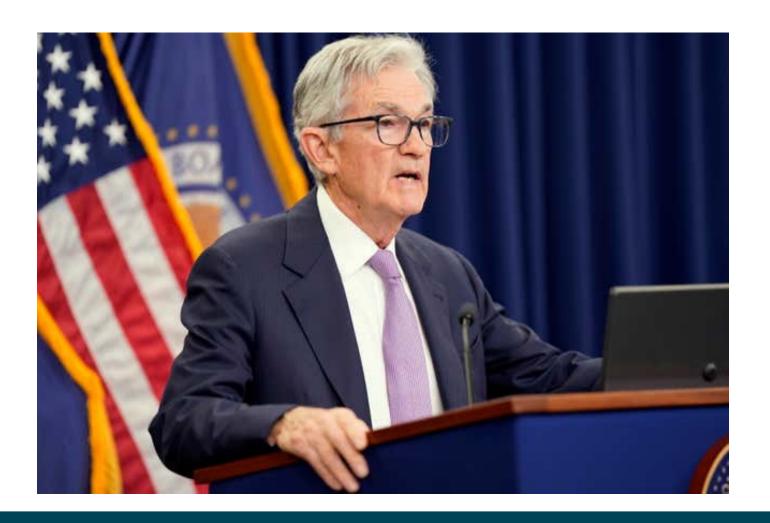
# Biden / Harris Never Stood a Chance

- Declining Consumer Sentiment signals a loss
- Why was consumer sentiment down? Broadly miserabilism, but specifically inflation

Year	U Mich Cons Sentiment Index July- Sept before election	Change in U Mich Cons Sentiment Index from start of Admin	Incumbent Party	Electoral College Difference
1984	98.9	33.7%	WIn	512
1976	89.7	16.5%	Loss	-57
1996	94.9	15.1%	WIn	220
2016	90.3	10.6%	Loss	-77
2012	75	9.9%	Win	126
1964	100.6	8.8%	Win	434
2004	95.6	5.1%	Win	35
2000	107.5	4.3%	Loss	-5
1972	95.2	4.0%	Win	503
1988	96	1.8%	Win	315
1968	92.4	-12.3%	Loss	-110
1992	76.1	-16.3%	Loss	-202
2024	68.1	-20.4%	Loss	-86
2020	75.7	-21.5%	Loss	-74
1980	67.8	-24.9%	Loss	-440
2008	64.8	-28.1%	Loss	-192



# Who should Trump thank for his big election sweep?





## **Labor Supply Issues**

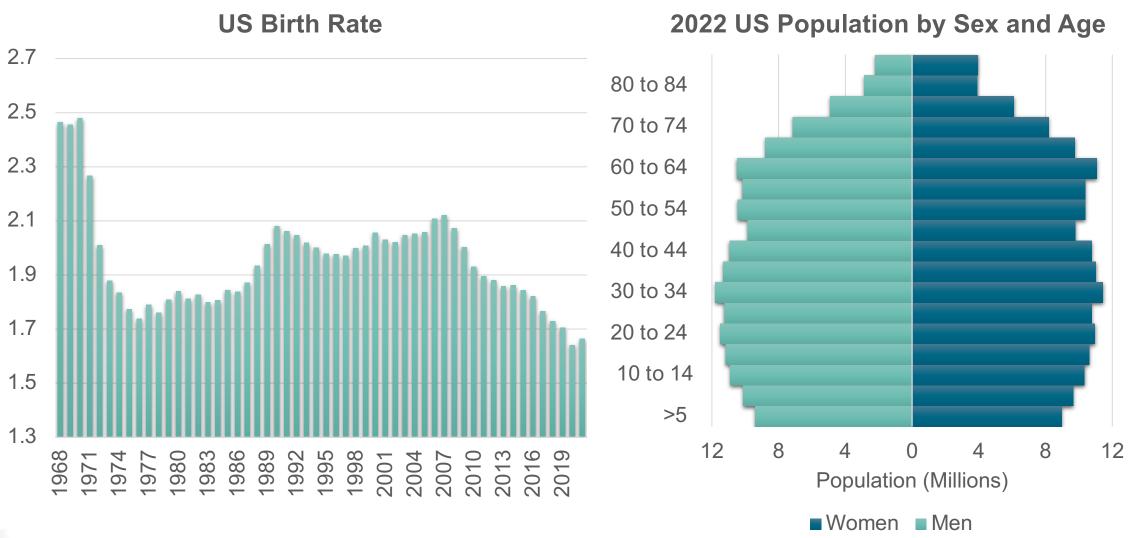




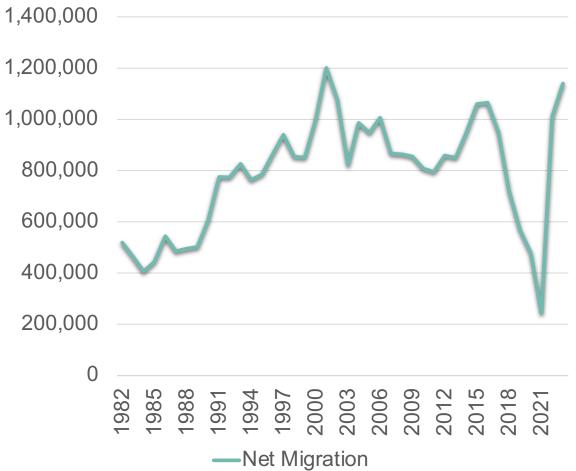
Figure 8: Increase in Average Annual Growth Rate With Estimated Policy Shifts

Policy Change	<b>Boost in Annual Growth</b>	Estimated	
	Rate	Ву	
Enact immigration reform to increase number of workers	0.3%	CBO	
Reform the income tax code	0.05% - 0.3%	JCT, Treasury	
Increase the Social Security retirement ages by two years	0.15%	<u>CBO</u>	
Reduce deficits by \$4 trillion over ten years	0.1%	CBO	
Expand energy production at level of shale boom*	0.09%	<u>CBO</u>	
Repeal the Affordable Care Act ("Obamacare")	0.08%	CBO	
Ratify the Trans-Pacific Partnership	0.01%	U.S. ITC	
Increase public investment in infrastructure, education, and research by \$400 billion	0 - 0.01%	CBO	



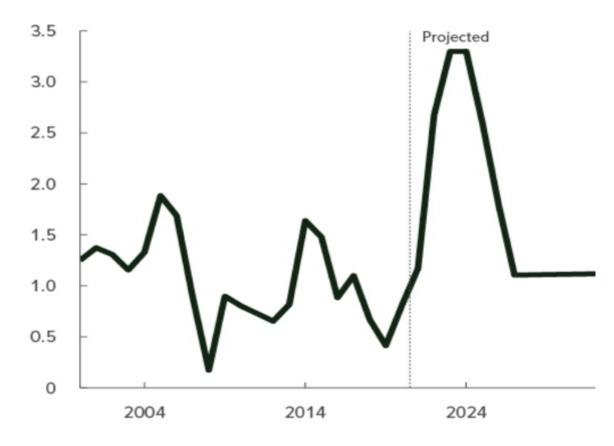
### **Migration**





#### **Net Immigration**

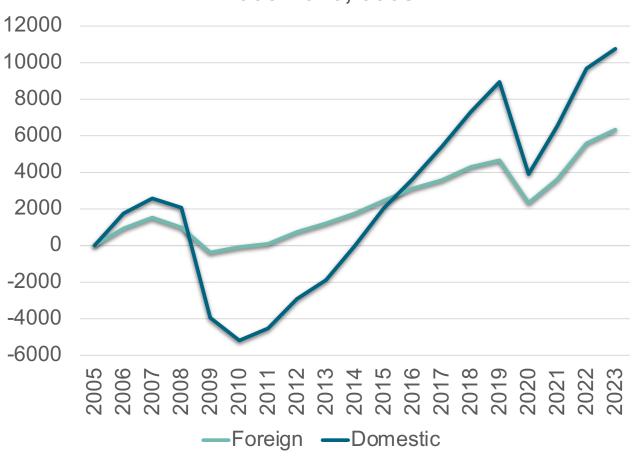
Millions of people



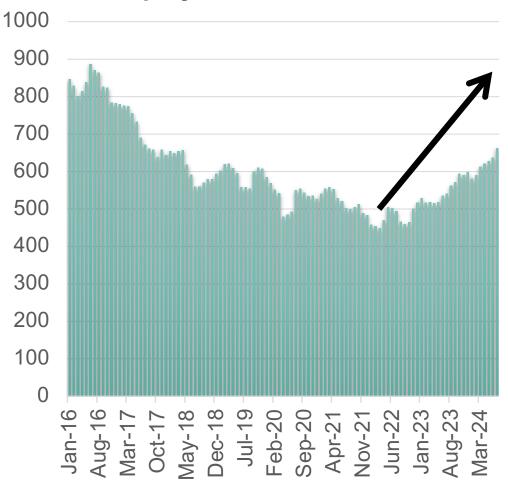


### **Migration**

### Growth in US Labor Force by Nativity 2005-2023, 000s



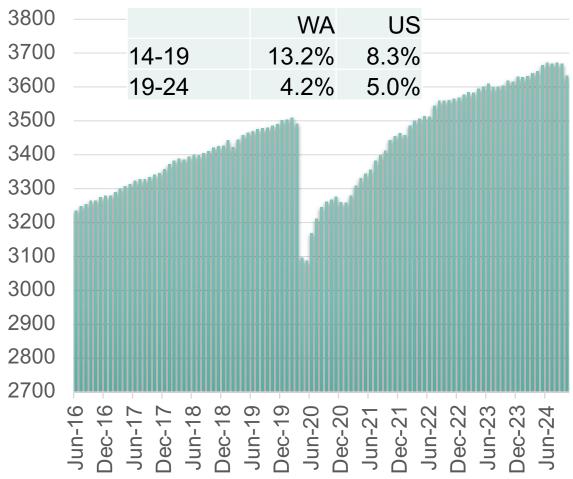
#### **Unemployment: New Entrants**



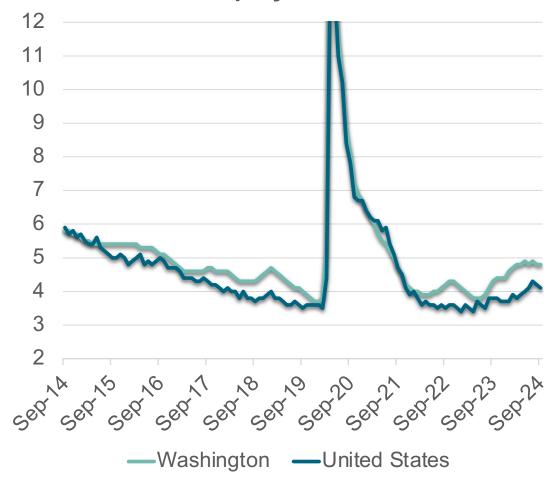


## **State Employment Trends**





#### **Unemployment Rate**





### **Labor Force**



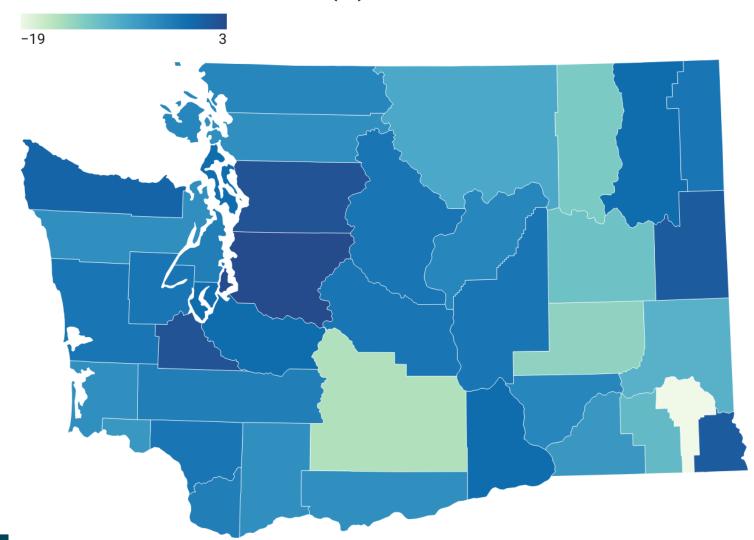


Location	Sep-24 LF (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	168,699	0.5	2.6
Idaho	990	2.4	9.2
Texas	15,450	2.1	9.3
Arizona	3,761	1.2	7.6
Oregon	2,192	1.2	4.8
Nevada	1,622	0.7	3.5
California	19,397	0.4	-1.0
Colorado	3,249	0.3	3.6
Florida	11,038	-0.1	6.4
Washington	4,003	-0.7	0.3



# **County Labor Force Growth**

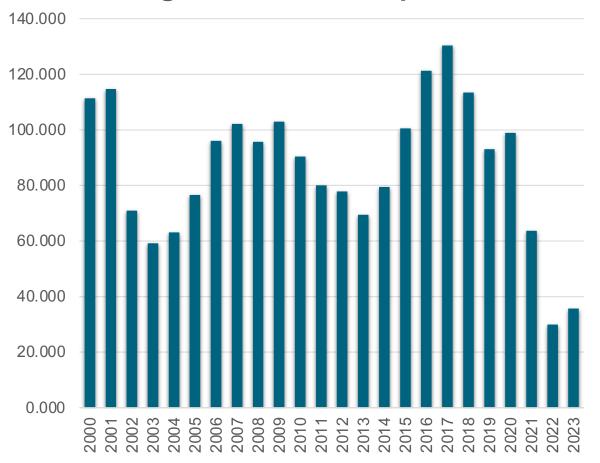
**Labor Force Growth 5-YR (%)** 





# **Demographic Shifts**

#### **Change in WA State Population**



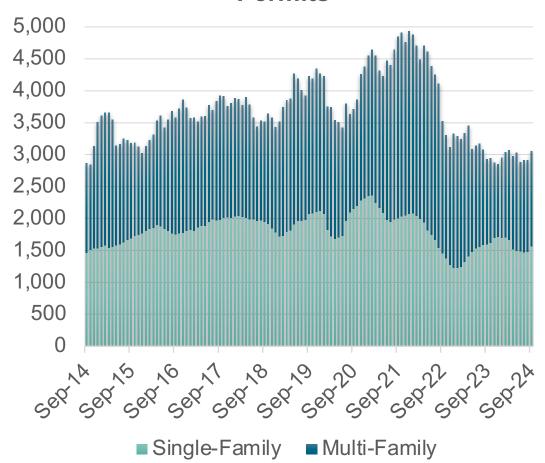
#### **Population by Age**

	2023	Ch 17-23
5 to 14 years	940,360	18,434
15 to 17 years	289,510	19,718
18 to 24 years	654,491	-2,551
25 to 44 years	2,320,004	237,294
45 to 64 years	1,852,063	-49,436
65 years over	1,339,130	221,371



#### **Residential Permits**

### Washington State Residential Permits



### Washington State Housing Vacancy Rate





## **Narratives of Fed Policy?**

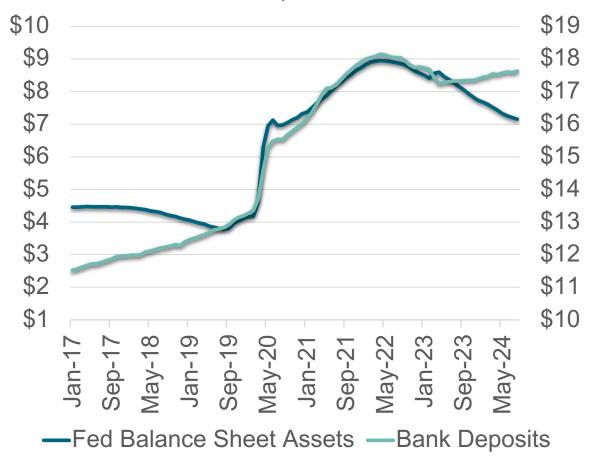
# The Federal Reserve Narrative

- US inflation due to some exogenous shock
- Inflation is now being driven by inflation expectations
- Inflation is causing substantial harm to American households
- The Fed must fight inflation and it is worth the loss of some jobs / higher unemployment



# Credit Crunch: Quantity, Not Quality

#### Deposits and the Fed Balance Sheet \$Trillions



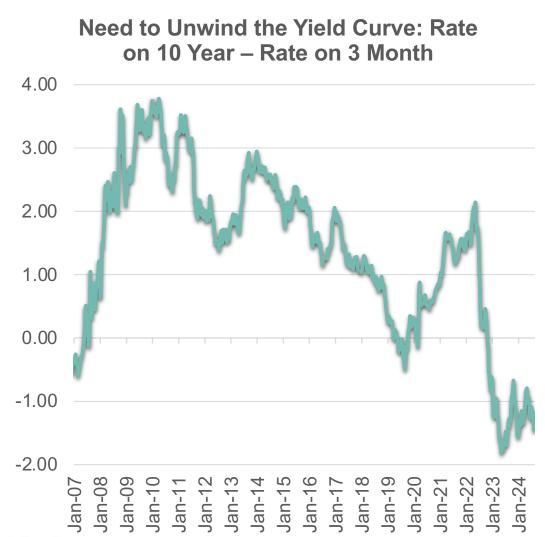
### Credit still constrained by QT YoY Growth Commercial Bank

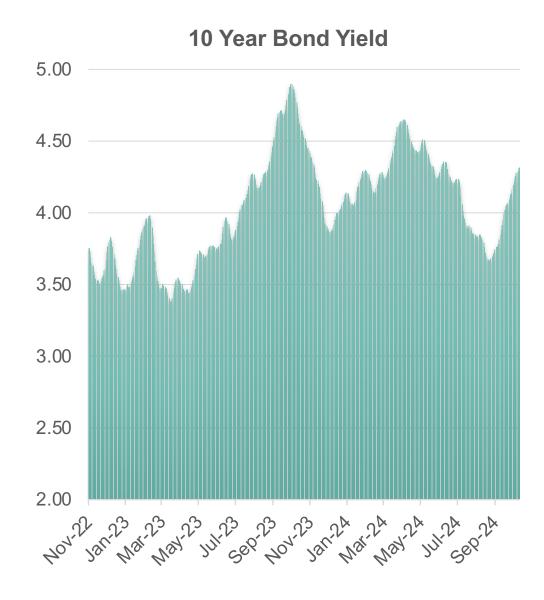
YoY Growth Commercial Bank Deposits (%)





#### Hold the cork...

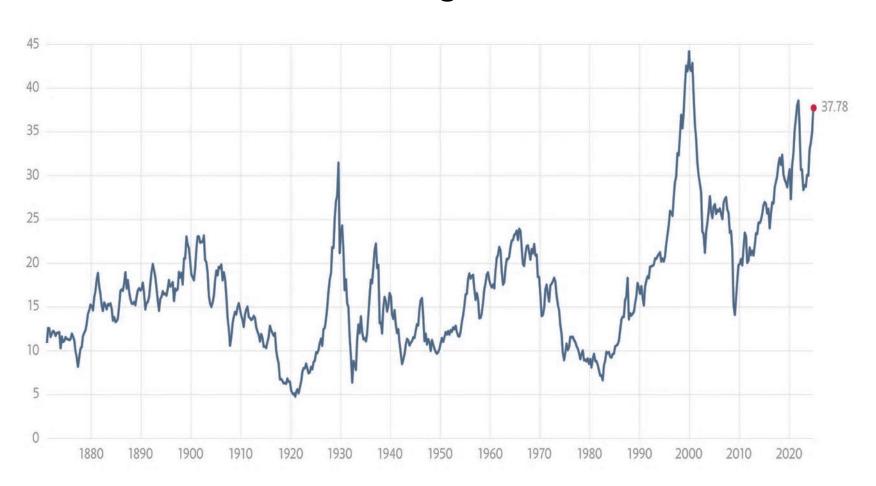






### Powell's Other Legacies; Asset Bubbles

# Shiller Cyclically Adjusted Stock Market Price Earnings Ratio

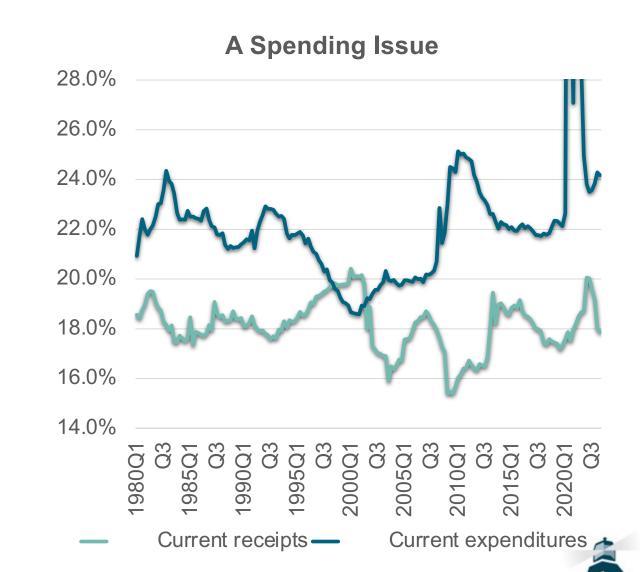




### Powell's Legacy: The Federal Deficit





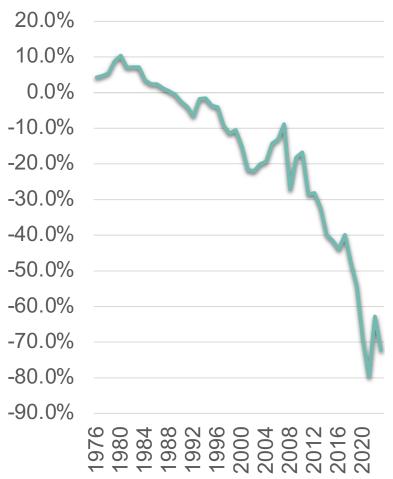


## **Growing External Imbalances**





### US Net Investment Position as % US GDP



#### **\$US: Real Broad Index**



#### What about the election?



#### **Differences in Economic Policy?**

- Views on economy: Its terrible and its the other guy's fault
- Fiscal Policy: Tax Less, Spend More
- Immigration: Close the border

#### Trump, the sequel

- Stimulus: Tax Cuts, Deregulation
- Dampeners: Immigrants, Tariffs
- Barriers to Success: The Senate, Infighting, Economic realities



### Out of the Woods?

#### We were never in the woods.

- Consumer demand remains strong
- Short run: the US expansion (4+ years old) will continue

#### **Headwinds will intensify**

- Fed deficits and frothy asset markets, external imbalances growing
- Important #s: The \$US, HH savings rate, yield curve

#### **Washington State**

- Housing supply, not affordability
- Dutch disease problems driven by a lack of labor

#### The real issue?

- The narrative is running amuck
- Political chaos in its wake leaving US / CA policy rudderless

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Or contact:
Kristen@beaconecon.com

# Welcome to the Age of Confirmation Bias!

"New information platforms feed the ancient instinct people have to find information that syncs with their perspectives"

"The information environment will not improve. The problem is human nature"

— Pew Charitable Trust, *The Future of Truth and Misinformation Online* 

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# Thank You!



- Macro and Regional Economic Projections
- Revenue and Market Forecasts
- Economic Development and SWOT Analysis
- Residential and Commercial Real Estate Market Trend Studies

- Economic Impact Reports
- Regional CEDS Reports
- Policy Impact Estimates
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