

The background of the slide is a watercolor-style illustration. The left side features a deep, textured blue, while the right side transitions into a lighter, lavender-purple. The colors are blended together with soft, irregular edges, creating a sense of depth and movement. A large, semi-circular shape in the purple color is positioned on the right side, framing the text.

Disinflation, Legacies and Experiments

INP

Coeur d' Alene, Idaho

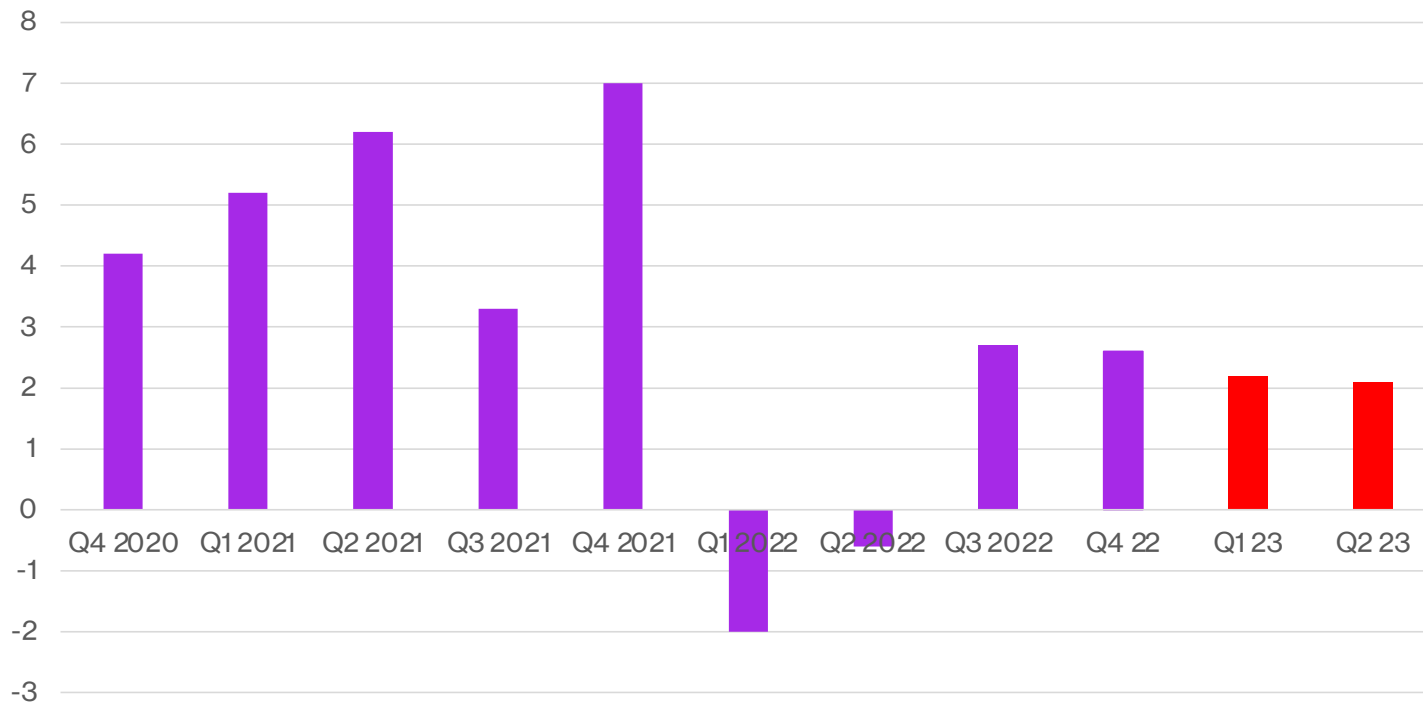
John W. Mitchell

October 12, 2023

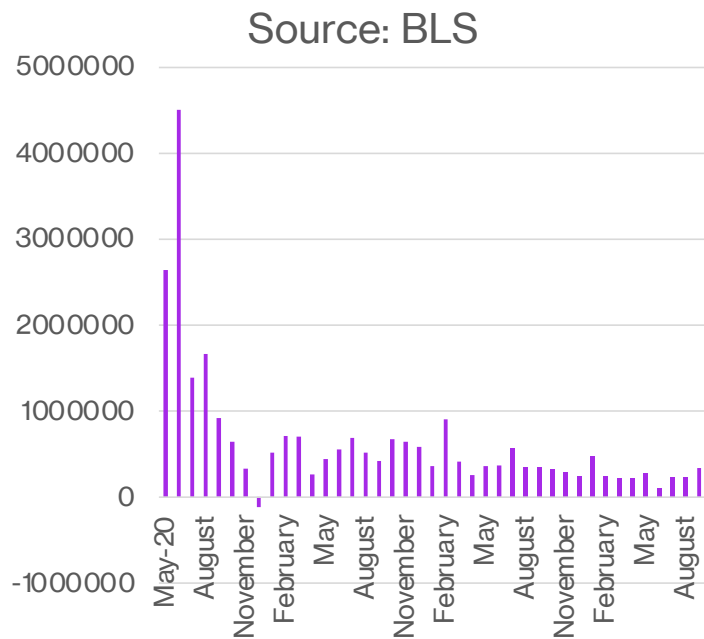
- For Most the Highest Inflation and the Lowest Unemployment of Your Lives
- Pandemic Aftermath That is Still Being Sorted Out
- The Fourth Year of this Upturn
- Central Banks Working to Quell Inflation-Soaring Rates a New Experience for the Young
- Major Changes in Policy-Trade, Industrial, Government Involvement
- Fed Decision Two Weeks Ago-Pause But
- Energy Again/UAW Strike/Chaos in House/Another War
- Last year's Questions Still There
- Kelce/Swift Romance

Real GDP Annualized Growth Rates Per Quarter

Source: BEA Revised (9/29)

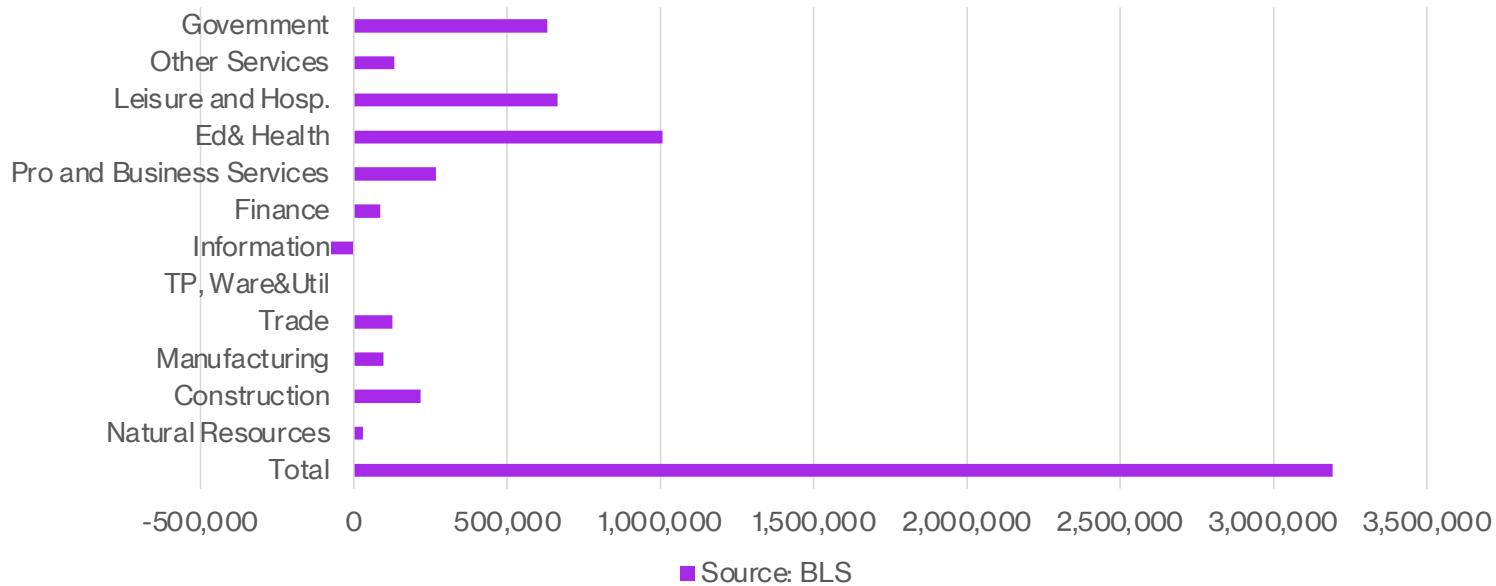


Employment



- September 336,000 Net Job Gain-July and August revised Up
- Unemployment at 3.8%
- Participation Rate 62.8% Versus 63.3% February 2020
- Beige Book Anecdotes- Job Growth Modest Increases, Less Tight, Easier Retention, Price Pressures Eased
- 1.5 openings per Unemployed Person
- Unemployment Rates by State between 1.7% in Maryland to 5.4% in Nevada-August

Non-Ag Wage and Salary Employment September 2022-2023 2.1%



Tight Labor Markets Like the Energizer Bunny!

- JOLTS August 9.6 Million Openings UP from 8.9 Million in July
- Quits 3.6 Million and 2.3% Flat over the Month Trending Down over the Year
- Average Hourly Earnings up 4.2%-over the year
- Initial Claims Off the Lows-But Declined Recent Weeks
- Part Time for Economic Reasons Fell, Re-entrants Rose
- Gap Between Employed Plus Openings and Labor Force Diminishing

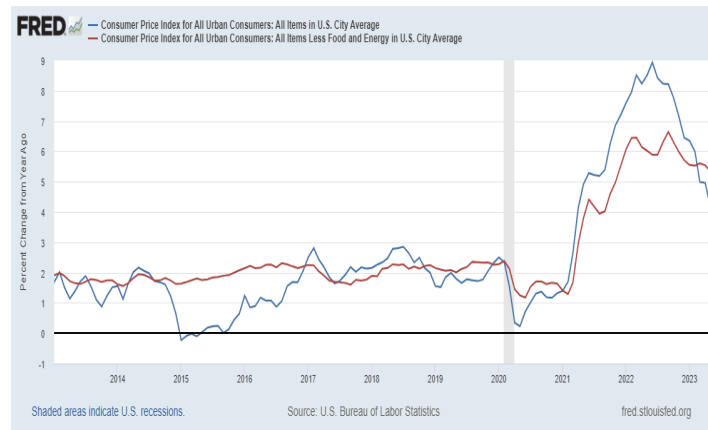
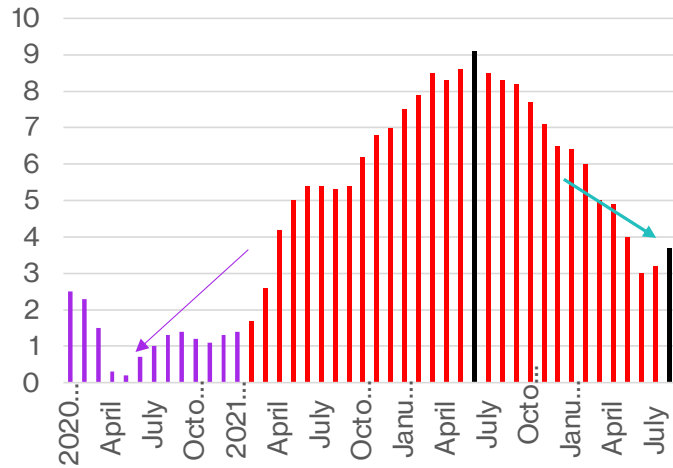
Annual Change CPI 2020-23

August 3.7% (.6% Month) Core 4.3%
PCE August 3.5% Core 3.9%

YEAR OVER YEAR CPI CHANGE

THE LAST DECADE

Source: BLS



THE WHYS

- Food and Energy 2021
- Pandemic-Demand Shifts to Goods, Production Declines, TP Issues
- War-Energy, Metals, Food
- Policy-Fiscal Policy/Monetary Policy
- Fed: Zero Rates -3/20 to 3/22
- Money Stock M2 March 2020 to March 2022 18.2022 up 36%

THE WRING OUT

- 11 Rate Increases to 5.25%-5.5%
- QE to QT Shrinking Balance Sheet
- **Transmission Mechanism**
- Interest Sensitive-Housing, Credit Cards, Auto Loans
- Asset Prices
- The Dollar
- Credit Channel
- New Experience for Financial Institutions, Regulators, Fed, Individuals-

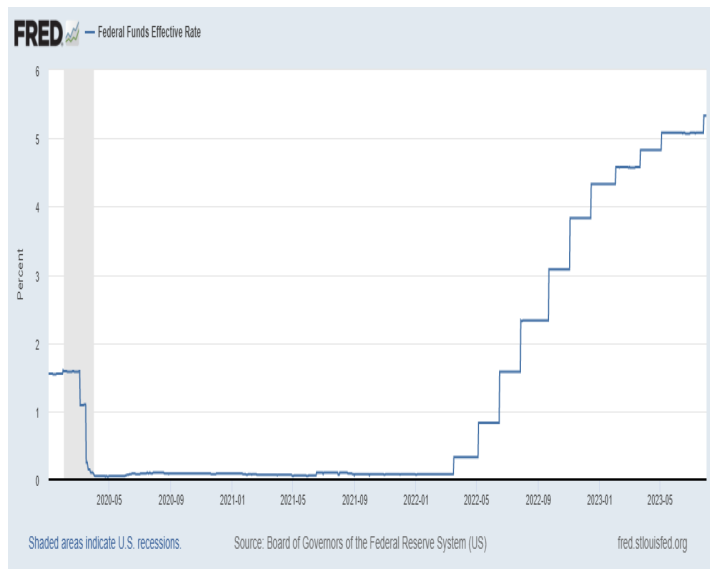
\$1,000

- Let Us Have an Auction!
- At 5%-How Much is it Worth?
- At 10%-How Much is it Worth?

Powell at Jackson Hole 2023

- “Although inflation has moved down from its peak-a welcome development- it remains too high. We are prepared to raise rates further if appropriate, and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective.”
- “Getting inflation sustainably back down to 2 percent is expected to require a period of below trend economic growth and some softening in labor market conditions.”
- “we are navigating by the stars under cloudy skies.”

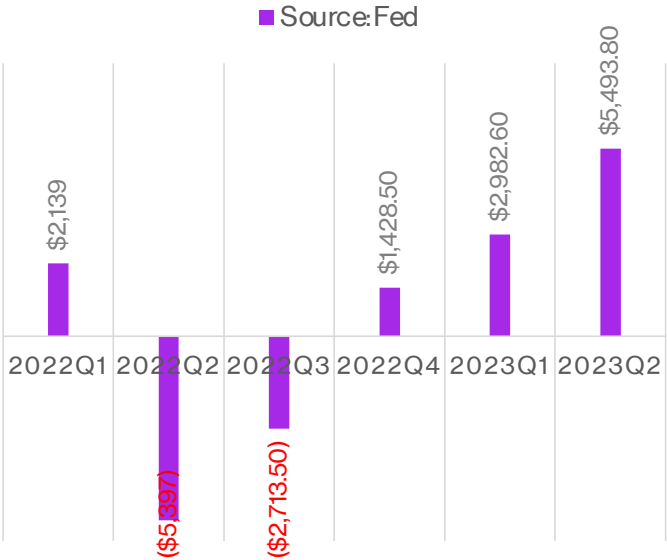
Pause or The End?



- 7/26/23 and 9/20/23 “In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation and economic and financial developments.”

Changes In Household and Non Profits Net Worth (\$Billions)

SOURCE: FED

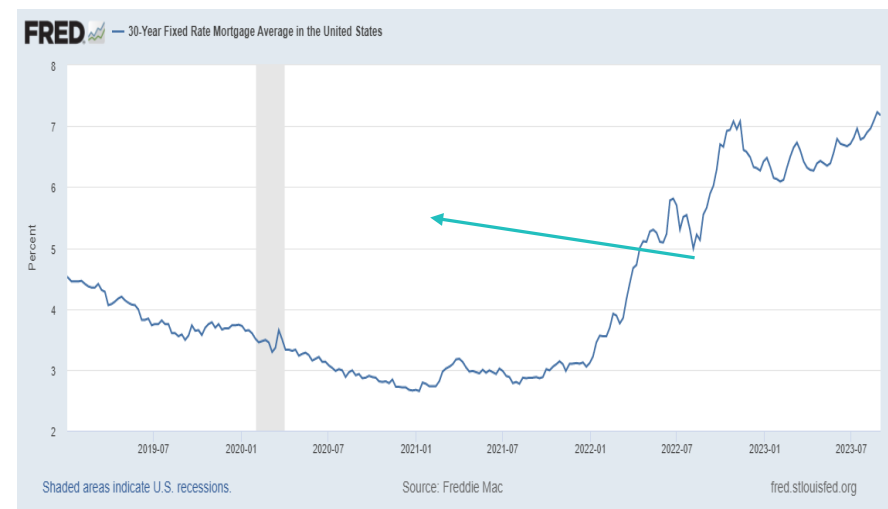


- Household Debt to \$17.06 Trillion in Q2 2023-Slight Increase .1%
- Credit Quality 2.7% in some stage of delinquency 2 % points- Below Q4 of 2019 NY Fed Q2 23
- Some deterioration in Credit Quality-Debt Transitioning into Delinquency-Credit Cards and Auto Loans
- FED: Debt Service Burdens and Financial Obligation Ratios below Highs Q1 23
- Recent Equity Market Moves

The Housing Boom Ends (But Not Like The Last Time!)

- S&P Core Logic Case Shiller National Index rose in March, April, May, June and July
- Jan-August of 2023 US Permits down 15.8% YoY
- Lock In Effect-Not want to Move or Sell with a 2.8% Mortgage-Increasing Pressure for New Units-Low Inventory
- NAR Existing Sales down over the month and year-August, Prices Up
- Major Policy Attention

30 YEAR FIXED RATE MORTGAGE



FHFA Data Q2

	FHFA Q2 2023 YoY	Quarter Q2 23
Idaho P.O.	-4.13	.11
Washington P.O.	-3.44	.5
CDA	-3.5	-.69
Lewiston	6.99	
Spokane	-1.77	1.16
Tri-Cities	1.76	.95
Yakima	4.6	5.6

	Permits to Aug.	% Change
Idaho	11,365	-24.2
Washington	26,360	-26.3
CDA	1,191	-13.3
Lewiston	95	-9.5
Spokane	2,952	-6
Tri-Cities	1,595	3.3
Yakima	432	-22.7
Census		

WCRER Q2 2023

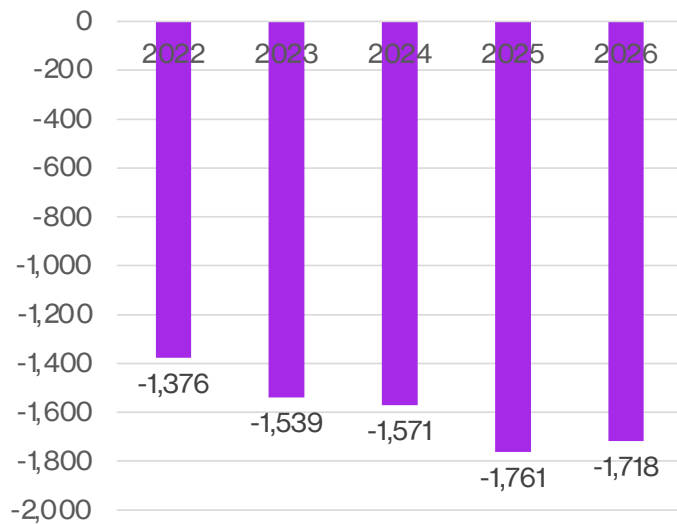
	Resales YoY %	Median Prices %	Permits Q2 %
Adams	-6.2	13	-46.2
Douglas	-28.1	3.9	2.9
Lincoln	-41.2	28.5	-12
Stevens	-19.1	-11.2	35.4
Walla Walla	-20.8	-3.1	53.8
Whitman	-14.9	-.8	-42.6

Fiscal Policy

- During Pandemic-Trump 15% of GDP Biden 8%-CAREs, Consolidated Appropriation Act, American Rescue Plan
- POST PANDEMIC
- 2021 Infrastructure Bill about \$1 Trillion-\$110 Billion for Roads Bridges, Funds for Public Transit, Rail Improvements, Electric Charging Stations, Broadband Access
- CHIPS Act-2022 Subsidies, Incentives for Semiconductor Production and Government Sponsored Research- New Industrial Policy-Partly Pandemic Legacy
- “Inflation Reduction Act”-Climate Bill, Corporate Tax Increase, IRS, Drug Price Controls, Extend Insurance Subsidies-Restructure The US Economy, Uncapped Tax Credits
- Climate Change, Boost Domestic Production-Some Industries, Social Policy Included, Bidenomics

The D Again

Deficit CBO Billions May
2023



- To July CBO July Report Deficit up \$200 Billion for Fiscal 23 \$1.7 Trillion-Receipts Down 10%, Outlays up 11% Through July
- Net Interest up 34%
- SS up 11%, Medicare up 18%, Medicaid 6%
- Defense 8%(Total Less Than SS and Medicare)
- Recent Run Up Long Term Rates-Deficit, QT, Foreign Buying, Fitch Downgrade Inflation

Can Inflation be Brought Down Without a Recession? Lately Optimism! “Every recession starts looking like a soft landing” Greg Ip WSJ 9/8/23

- ***Soft Landers or “No Landers”***

- The Labor Market Strength Moderation of Wage Increases-Retail Sales-Real Wages
- Balance Sheet Strength
- Real Incomes Rising
- Excess Savings Not All Gone-Net Worth Rising-Old Consumers
- Inflation Moderating-Transitory Forces Pass
- Supply Chains Improving
- Inflation Expectations Anchored
- Stimulus Pipeline-Infrastructure, Chips Act, Inflation Reduction Act

- ***The Hard Landers***

- Tightening of Monetary Policy Not Over-Lags Long and Variable
- Wage Increases not Consistent with 2% Inflation
- Inflation will be Difficult to Restrain-Higher Longer
- Inverted Yield Curve
- Depleting Savings from 20-21, Wealth Hit
- Banking Turmoil-CRE Worries, Asset Value Changes
- Leading Indicators Declining 16 Months
- Lots of Uncertainty-Energy, China, Ukraine, Financial Markets, Grain Deal, New War in Gaza

- Volatile Expectations-Data Excitement
- Shocks-Student Loan Repayments, Jump in Energy Prices Again, Strikes, Shut Down Averted Temporarily
- Wars
- There is no more free-Money

Job Growth Update August 2023 Data
Year over Year Change – 48 States Up
Source: BLS, ASU

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

The Changing Flows Census

	2018-19	19-20	20-21	21-22	21-22 Growth
Idaho	36,988	37,853	56,112	34,719	1.8
Washington	87,231	79,588	16,714	45,041	.6
Oregon	32,578	25,391	11,506	-16,164	-.4
California	147	-69,532	-358,662	-113,649	-.3
Texas	362,230	373,965	326,390	470,708	1.7
Florida	237,130	241,256	238,467	418,754	1.9

The Trajectory?

- In 2022 GDP Growth 2.1% Down from 5.9% in 2021 and 2-2.5% in 2023 and 1-1.5% 2024
- CPI Inflation 8% in 2022 Up from 4.7% in 2021 and 3.5-4% in 2023, 2.5-3.5% in 2024
- Idaho 2.9% Employment Growth in 2023 and 2.6% in 2024 (WBC)
- Washington 2.3% Employment Growth in 2023 and 1.1% in 2024 (WBC)

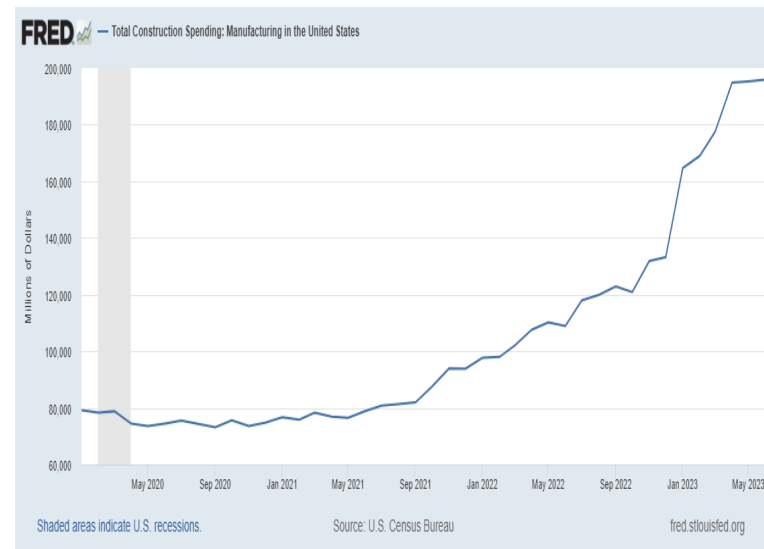
The Pandemic's Legacy Still Unfolding

- Labor Force Reduction Primarily Older Workers
- Supply Chain Re-Evaluating-Decades of Increasing Efficiency – Now Redundancy-Domestic, Friendly-Is the Baby Going Out with the Bathwater?
- Demonstrated Alternative-Business Arrangements and Locational Patterns-Hybrid-Zoom Meetings
- Commercial Real Estate and Adjusting Rates
- Educational Disruption-Interruption and Losses, Socialization, Focus
- Locked in Homeowners, Revenge Travel, Spend!

Watching The New World Play Out

Pandemic, China Relationship & Climate

- Industrial Policy Shift
- Trade Restrictions-China, Russia-Altering Global Flows
- Restructure US Economy-Decarbonization, Electrification
- Government Direction in Response to Subsidies, Tax Incentives
- Regulatory Expansion-SEC, FTC, Strings on Assistance
- Protectionist Turn-Made in America, Mined in America
- Reversal of Postwar Pattern
- Playing out Against a Slowly Growing Aging Population-Arguably at Full Employment
- Where will the workers come from?



2030

- Will the Supply Chain be Able to Respond to New Rules put in Place?
- Global Subsidy Race
- Industrial Policy Implementation- Angling for Subsidies
- Long Term Impact of Drug Price Controls?
- Permit Delays for Mines, Transmission Lines, Renewable Energy Projects
- Are we throwing away our competitive advantage with the Centralized Decision Making?
- Yellowstone Season 11 (?)
- Pac-2 to Pac ?
- What will our immigration policy be in a labor short nation?

- Will we be able to alter the nation's fiscal path?
- What will the Fed's inflation target be? 2%-4%- Will they be unwilling to induce the tightness necessary to get to 2% for fear of recession? Or will we get "Immaculate Disinflation"?
- What will we be driving?
- What will AI do to Productivity?
- What will the next Black Swans have been?