

*Pacific Northwest Economic
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Overview

- **National Economic Outlook**
- **Policy Choices**
- **Risks Ahead**
- **Regional Implications**



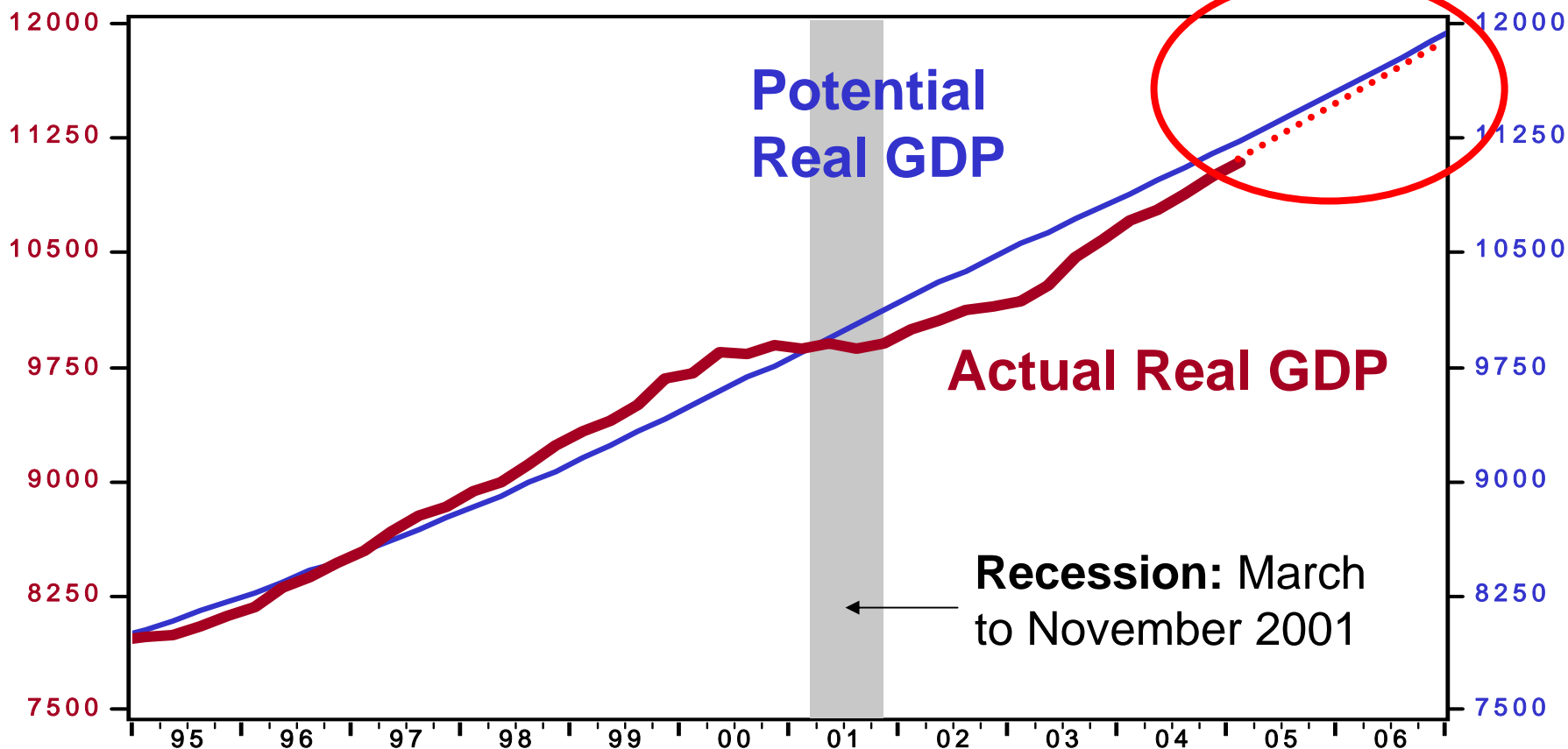
National Overview: **On Track for 2005**

- ***Economic output (real GDP)***
 - 3.5% annual pace in 2005:Q1
 - June 15, 2005, Beige Book reports strength
- ***Core inflation (excludes food & energy)***
 - Remains low, around 2 % at an annual rate
- ***Monetary policy***
 - 25 basis point increase on May 3, 2005
 - “Measured pace” expected

Economy: Continues to Approach Potential Growth Path for Real Output (GDP)

Real Gross Domestic Product
SAAR, Bil.Chn.2000\$

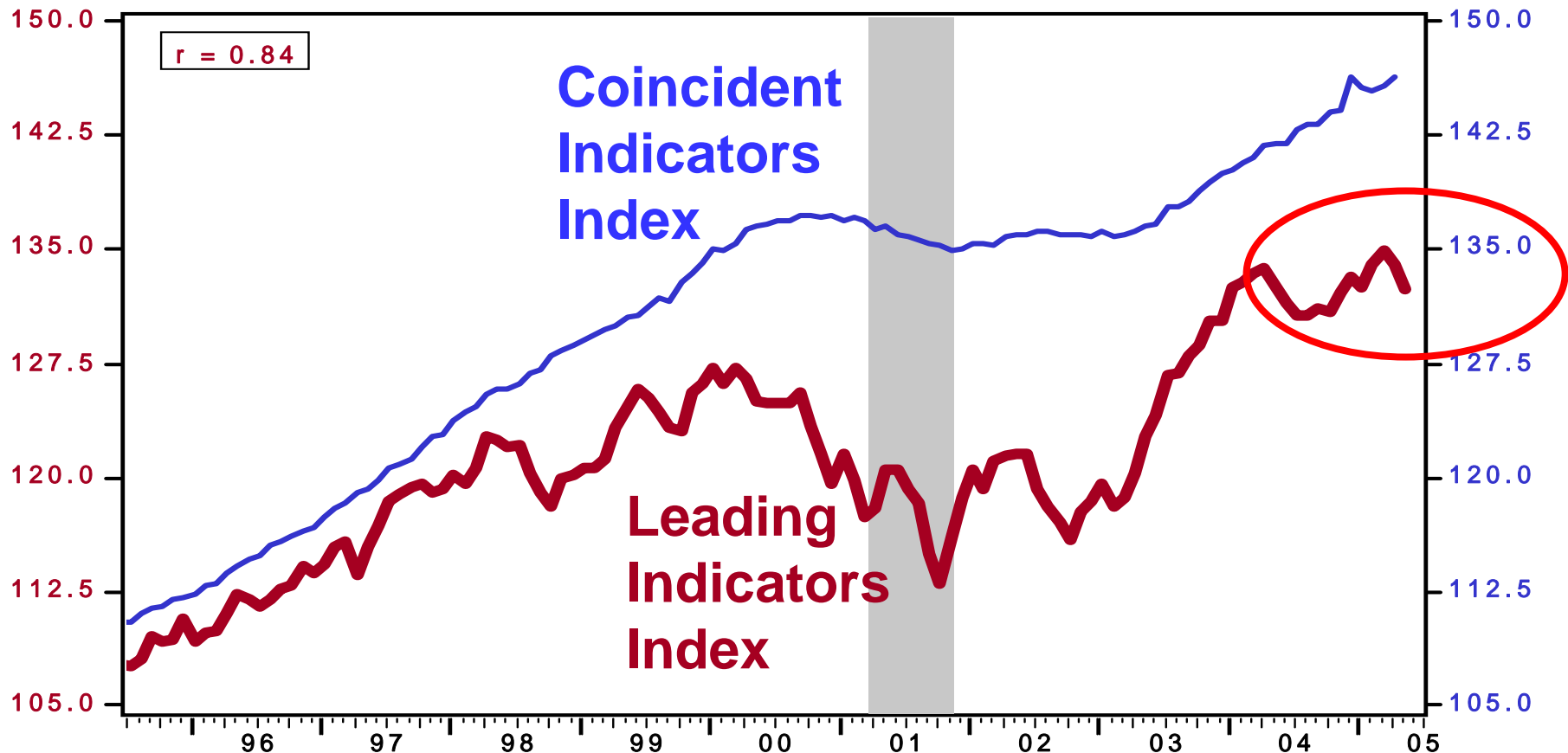
Real Potential Gross Domestic Product {CBO}
Bil.Chn.2000\$



Composite Indicators: Leading Indicators Slump Again as Energy Costs Have an Impact

ECRI Weekly Leading Index
1992=100

ECRI Coincident Index
1992=100



Source: Economic Cycle Research Institute /Haver Analytics

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Health of Key Sectors

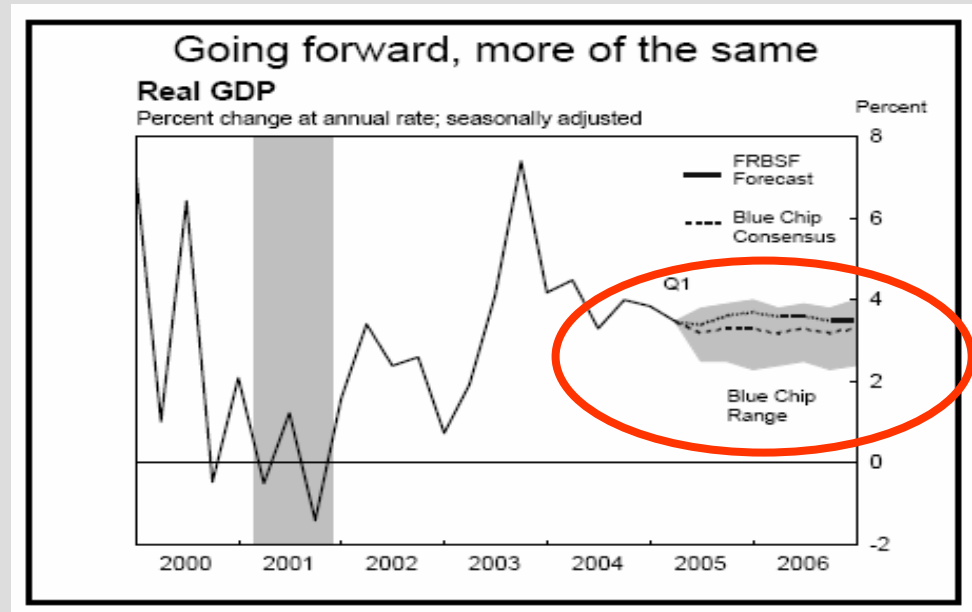
- *Consumers—still contributing*
 - Spending—slower May sales
 - More spending on energy, less elsewhere
 - Vehicle sales—watch the incentives
- *Businesses—boosting expansion*
 - Manufacturing expanding—more slowly
 - Investment—some softening
 - Jobs—labor market improvement
 - Productivity—still rising...but more slowly



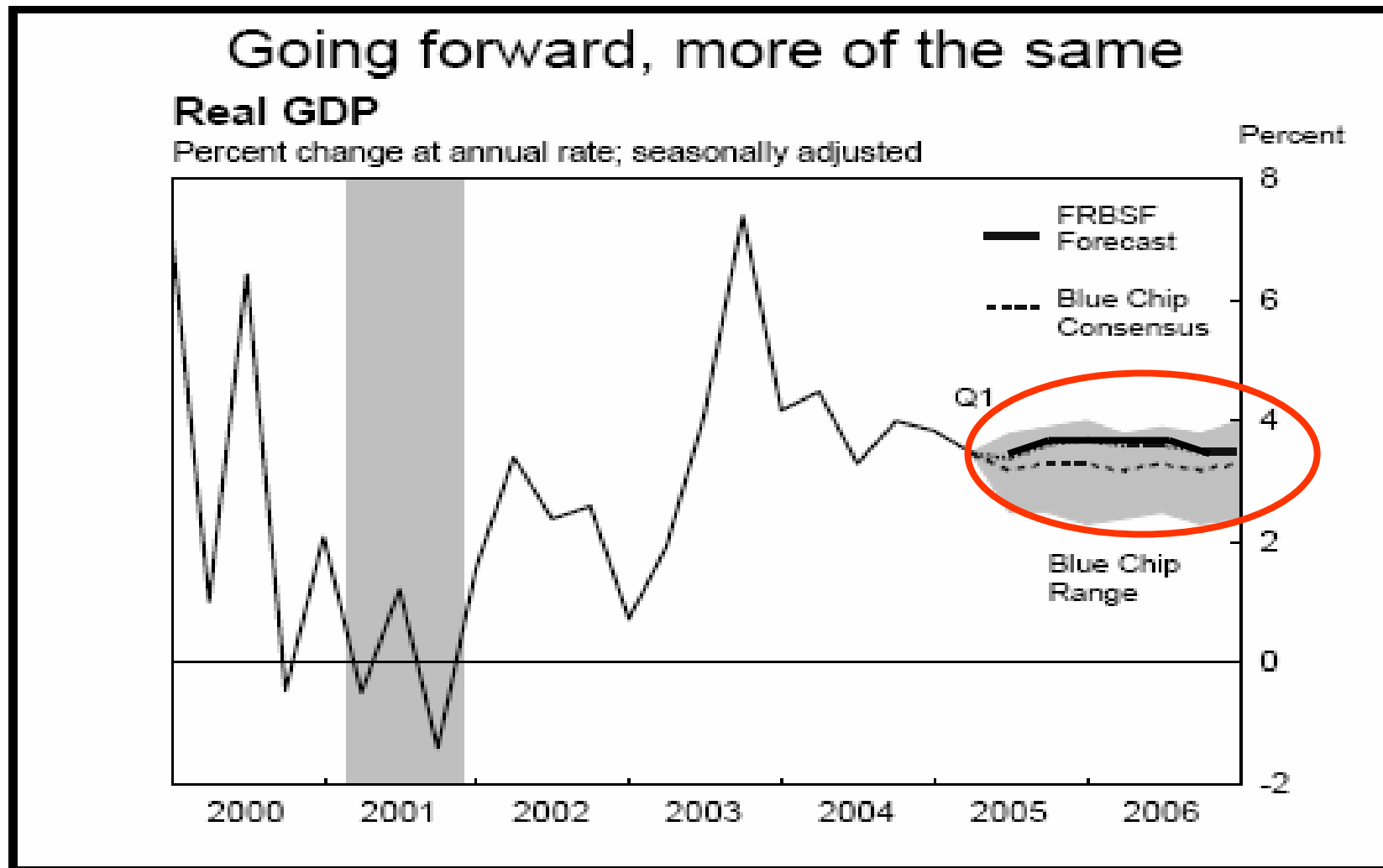
FedViews

www.frbsf.org

June 10, 2005
FedViews
Forecast
by the
Federal Reserve
Bank of San
Francisco



Outlook: GDP Forecasts Project Faster than Average Growth

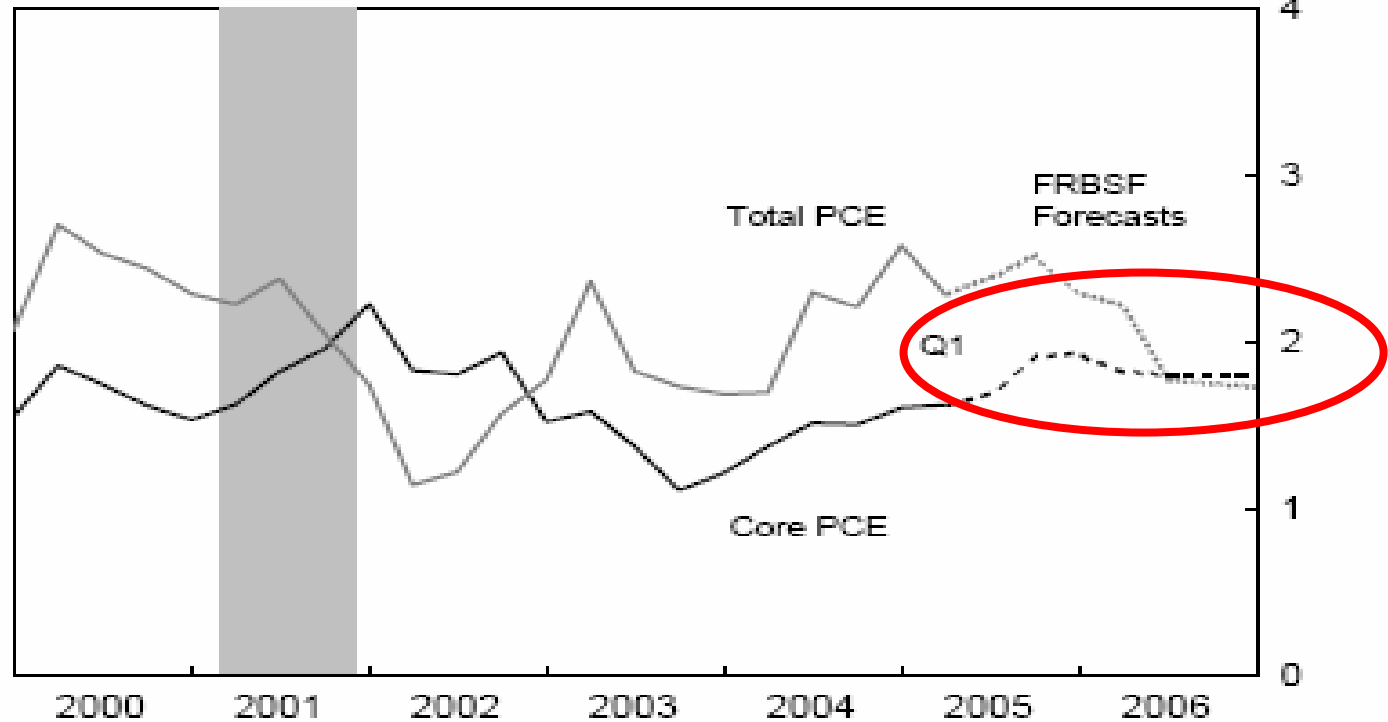


Inflation: 2005 & 2006 Expected to Hold Below 2 Percent Rate

With oil prices flat, inflation should stabilize

PCE Price Inflation

Four-quarter percent change and forecast





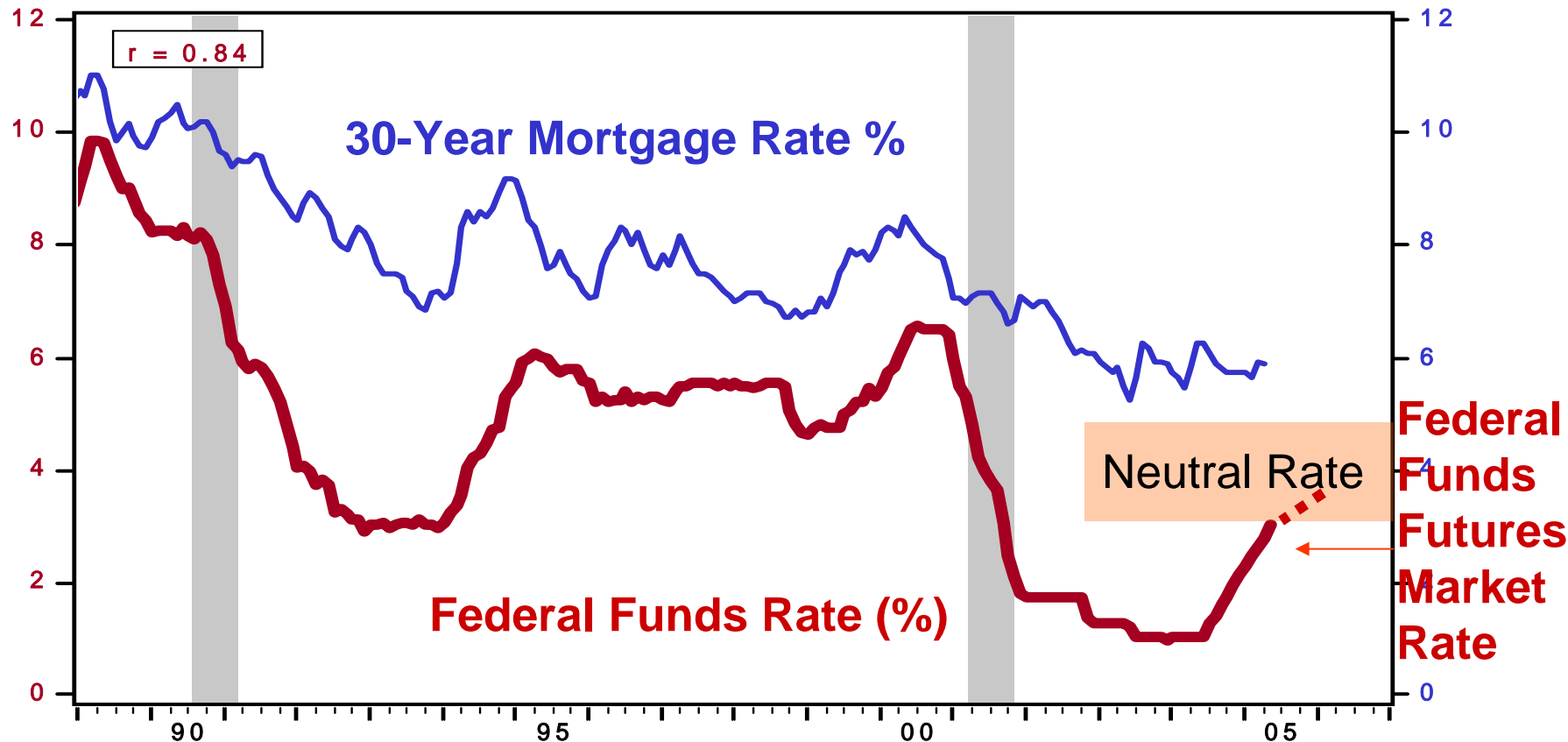
Policy: Still **Promoting Growth**

- *Monetary Policy--accommodative*
 - “measured pace”
 - Futures market expectations
- *Fiscal Policy*
 - Stimulative
 - Deficits expected to continue
- *Factors Slowing Growth*
 - Energy
 - Slower exports

Target Rate: Interest Rates Remain Low and Policy Remains Accommodative

Federal Funds [effective] Rate
% p.a.

Contract Rates on Commitments: Conventional 30-Yr Mortgages, FHLMC
%



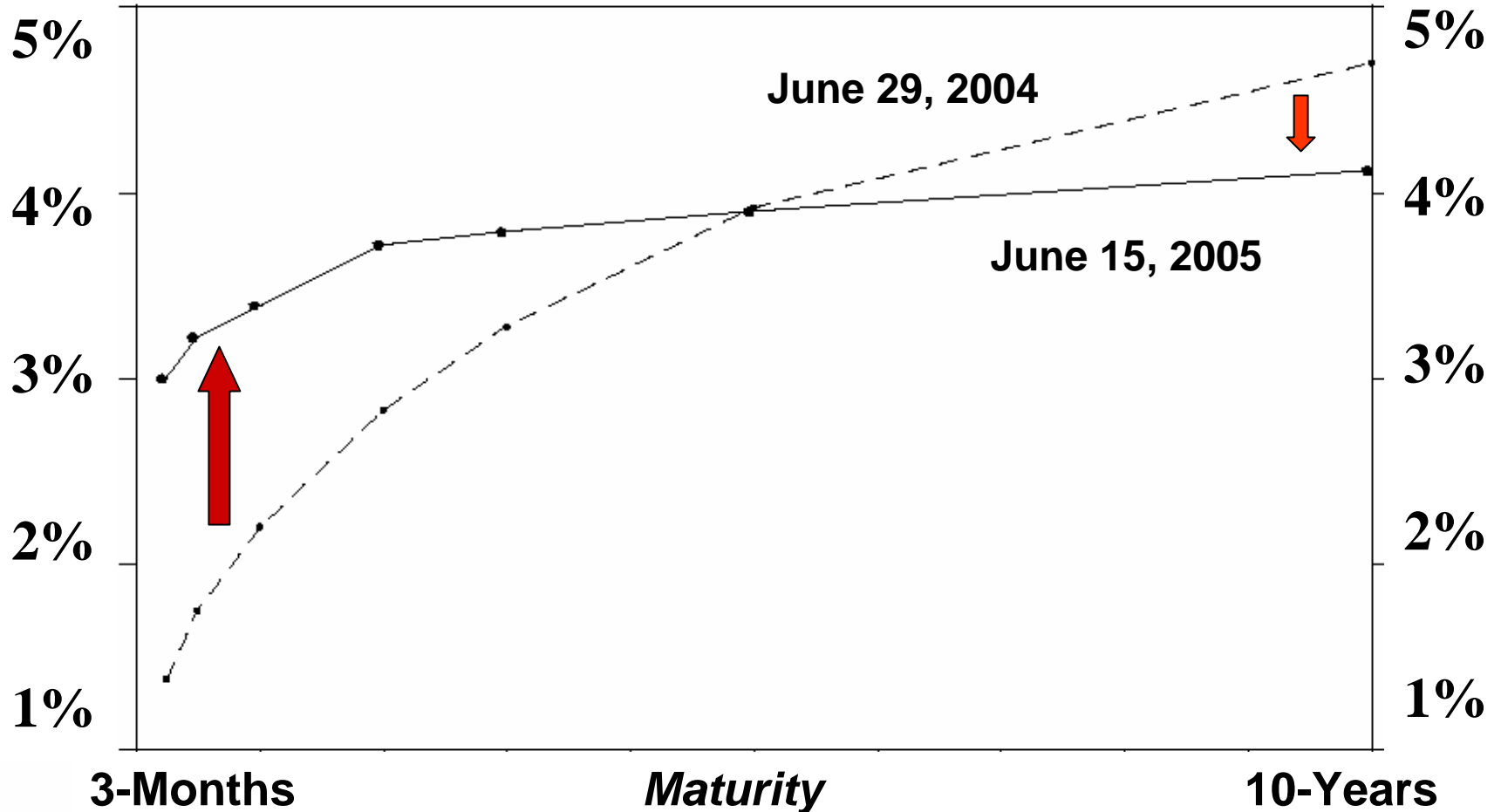
Source: Federal Reserve Board /Haver Analytics

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Yield Curve: Flatter Since First Federal Funds Rate Increase—Long-Term Rates Down

US TREASURY YIELD CURVE

Yield in Percent





Risks Ahead

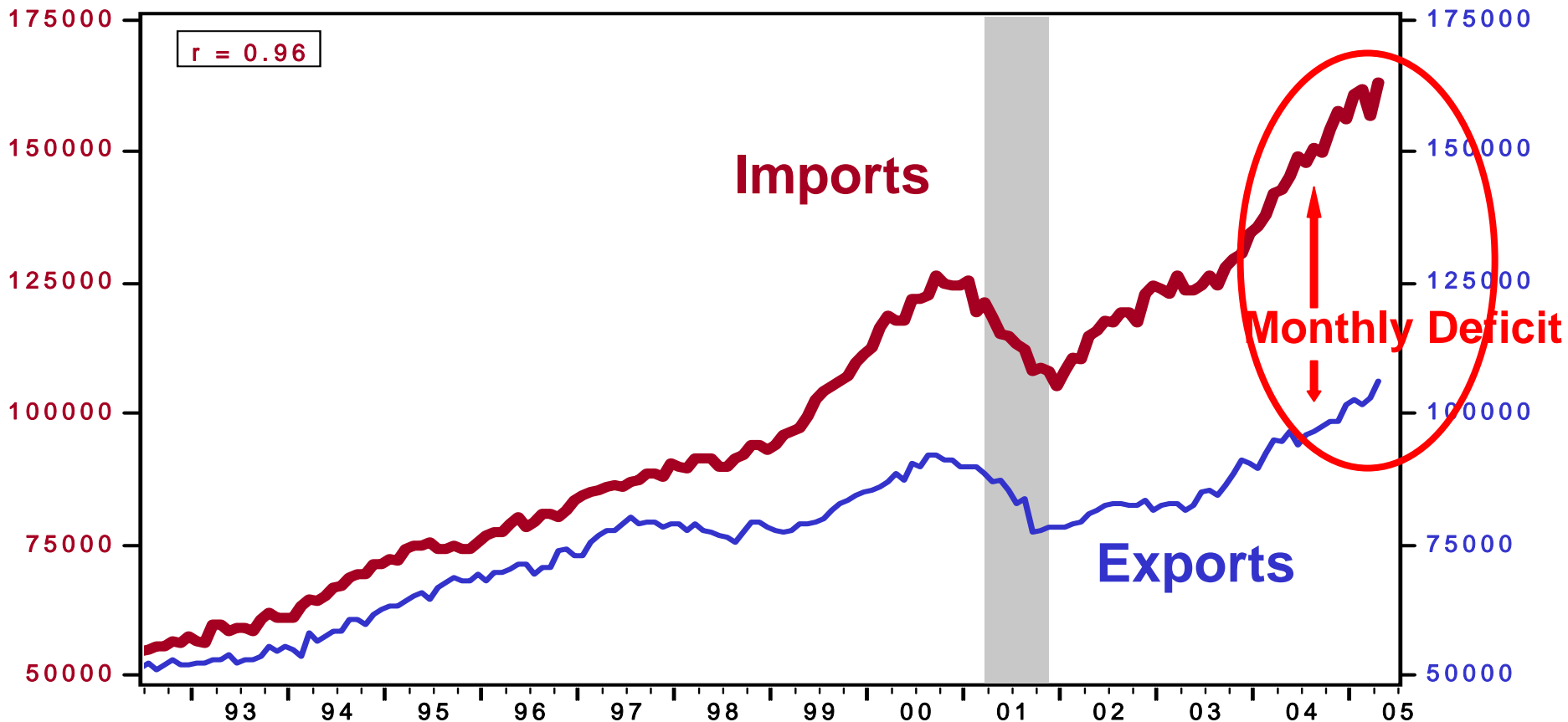
- ***FOMC Statement—domestic risks***
 - Economic growth
 - “Pricing power more evident”
- ***Funding the deficits—from abroad***
 - Record trade deficit (\$618 billion for 2004)
 - Record Federal deficit (over \$425 billion)
- ***Impact of oil prices—lagged effect***
 - Prices still in the mid \$50 range... futures still high...
- ***Productivity— how much can it slow?***

International Risk: Record Trade Deficit Creates Pressure

Imports: Goods and Services, BOP Basis
SA, Mil.\$

Exports: Goods and Services, BOP Basis
SA, Mil.\$

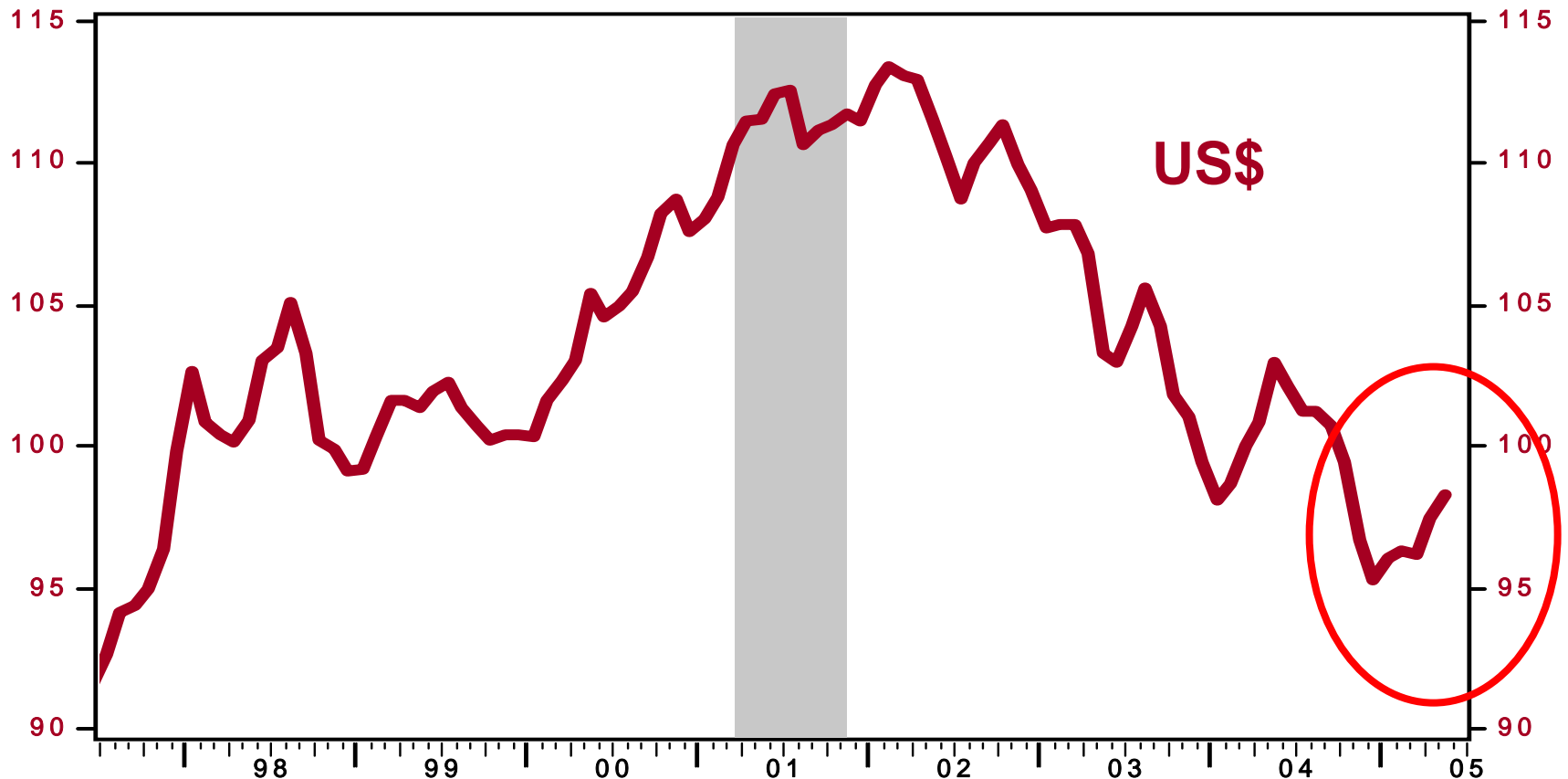
Record 2004
Trade Deficit of
\$618 Billion



Adjustment: Dollar Has Rebounded in 2005 after Long Downward Trend against Major Currencies

Real Broad Trade-Weighted Exchange Value of the US\$

Mar-73=100



Source: Federal Reserve Board /Haver Analytics

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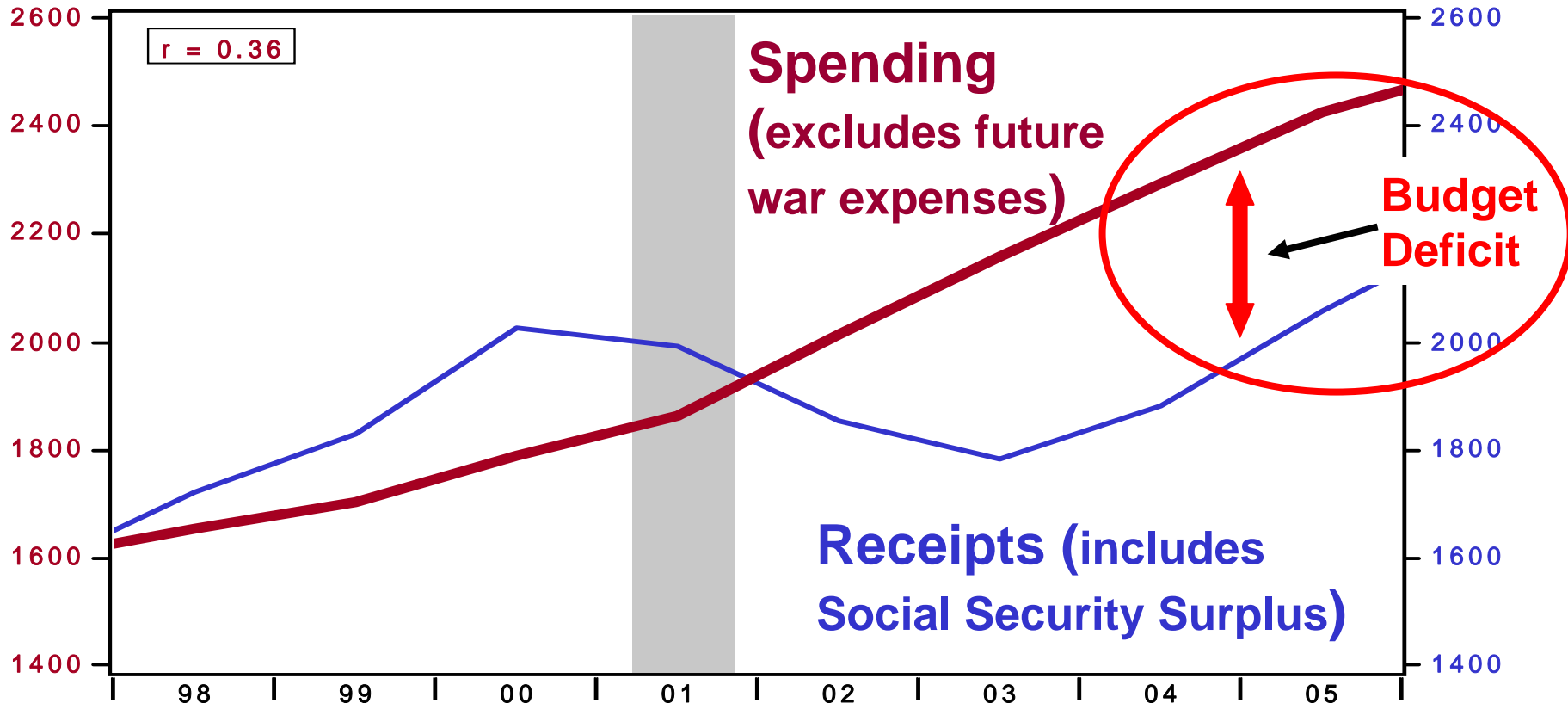
Risk: Record (in \$) Federal Budget Deficit as Well (CBO)

May Not Include Recent Budget Developments

Federal Outlays: CBO Projections
Bil. \$

Federal Revenue: CBO Projections
Bil. \$

Billions of \$





Regional Overview

- **Strong performance**
 - Falling unemployment rates
 - Robust job growth
 - Faster personal income increases
- **Housing markets**
 - Continued appreciation
 - More modest pace for most areas
- **Commercial real estate**
 - Some improvement

Unemployment Picture: Improving

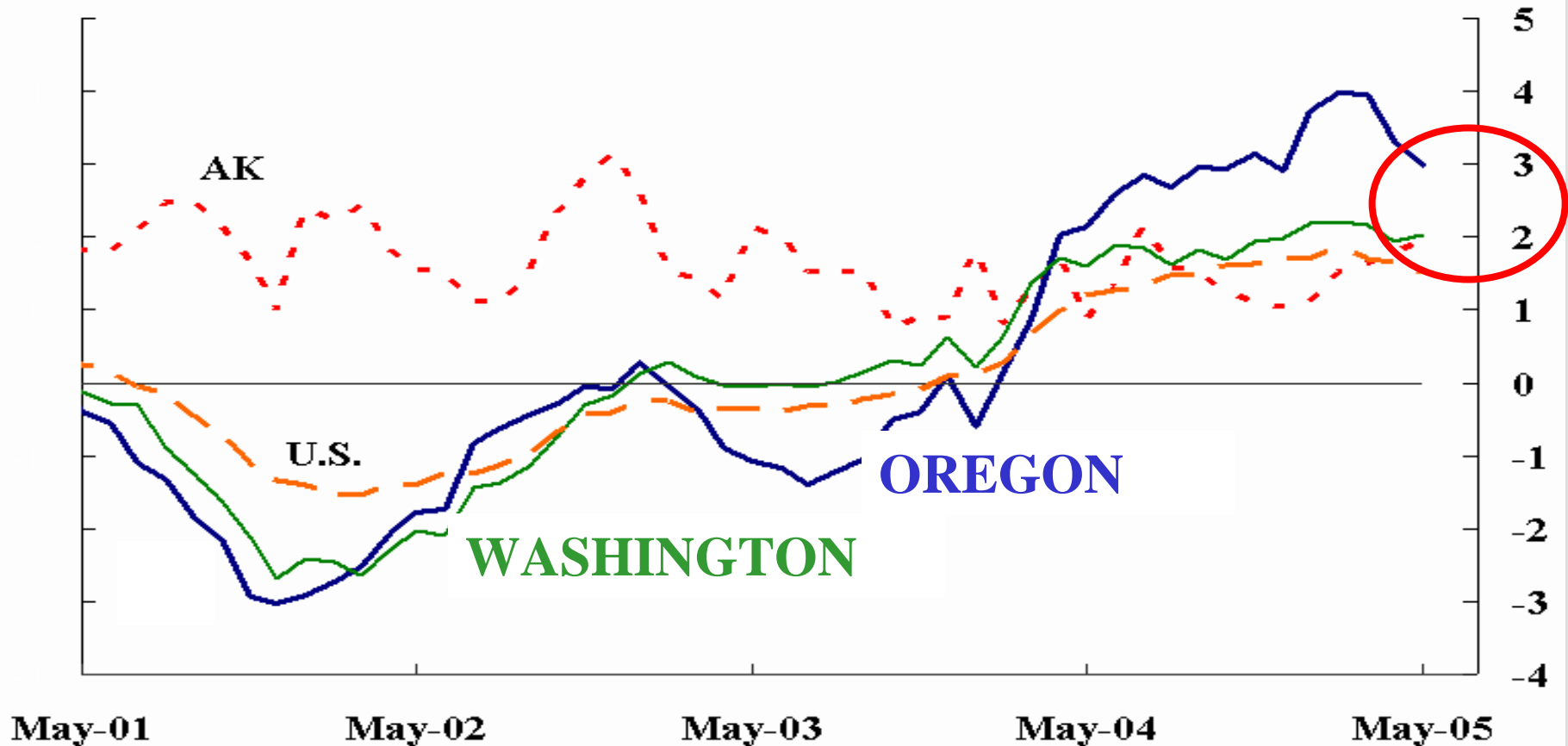
- *Unemployment rates by state as of May 2005:*
 - **Oregon** **6.5 %**
 - **Washington** **5.7 %**
 - *California* **5.3 %**
 - *U.S.* **5.1 %**
 - **Idaho** **3.9 %**
 - **Hawaii** **2.7 %**

Pacific Region Job Growth Rates Outpace the Nation (May 2005-May 2004)

- ***PAYROLL EMPLOYMENT*** (12-month change)
 - Nevada (#1 Rank) +6.7 %
 - **Idaho (#4)** +3.3 %
 - **Oregon (#6)** +3.0 %
 - **Hawaii (#7)** +2.5 %
 - **Washington (#11)** +2.0%
 - California (#18) +1.8 %
 - **Montana (#20)** +1.7 %
 - *United States* +1.5 %

Washington and Oregon: Recorded Robust Payroll Job Growth Rates over the Past Year

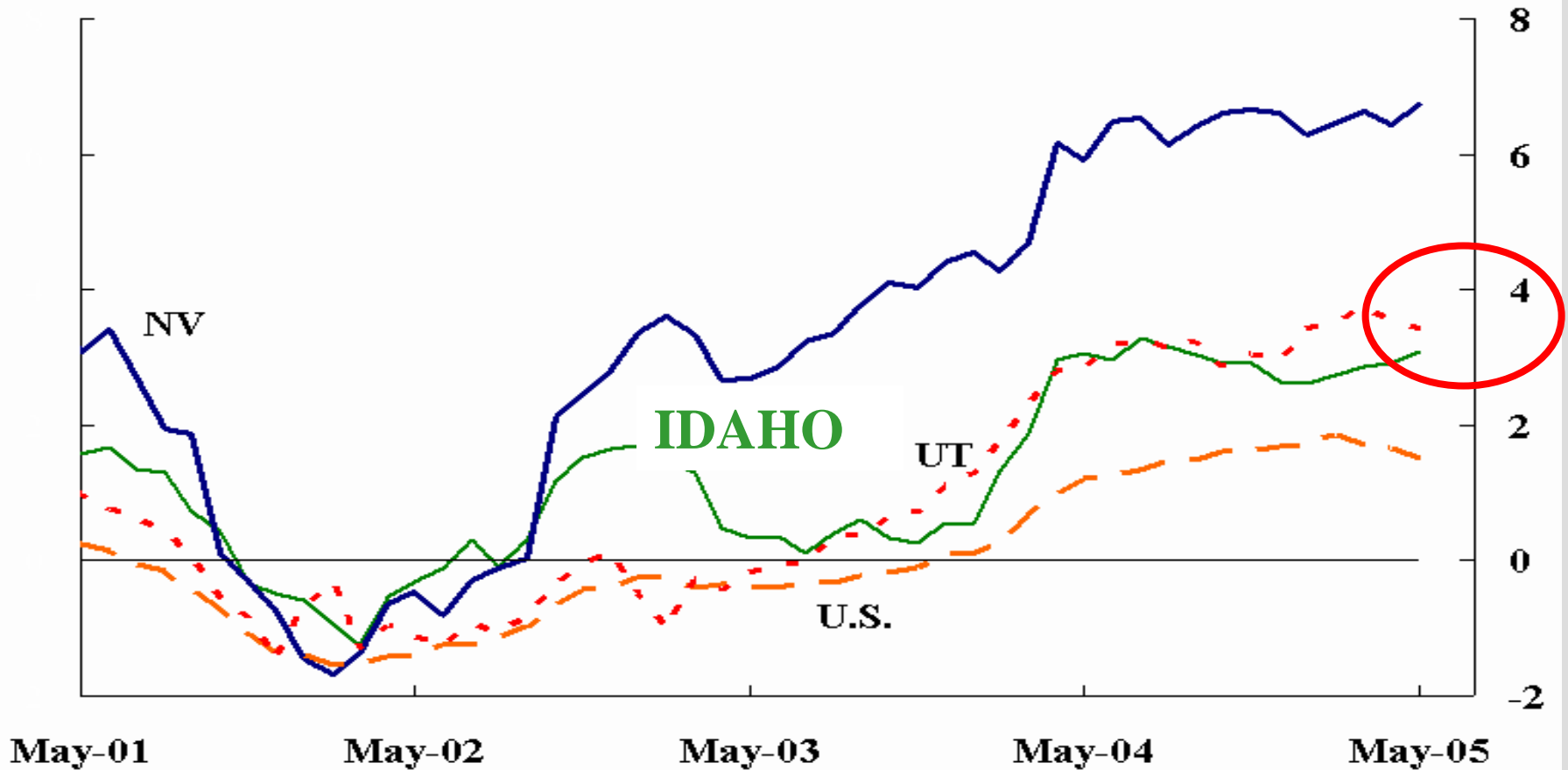
Nonfarm payroll employment by state
(Year-over-year percent change, monthly)



Source: Bureau of Labor Statistics.

Idaho Jobs: Consistently Strong Growth Since Early 2004

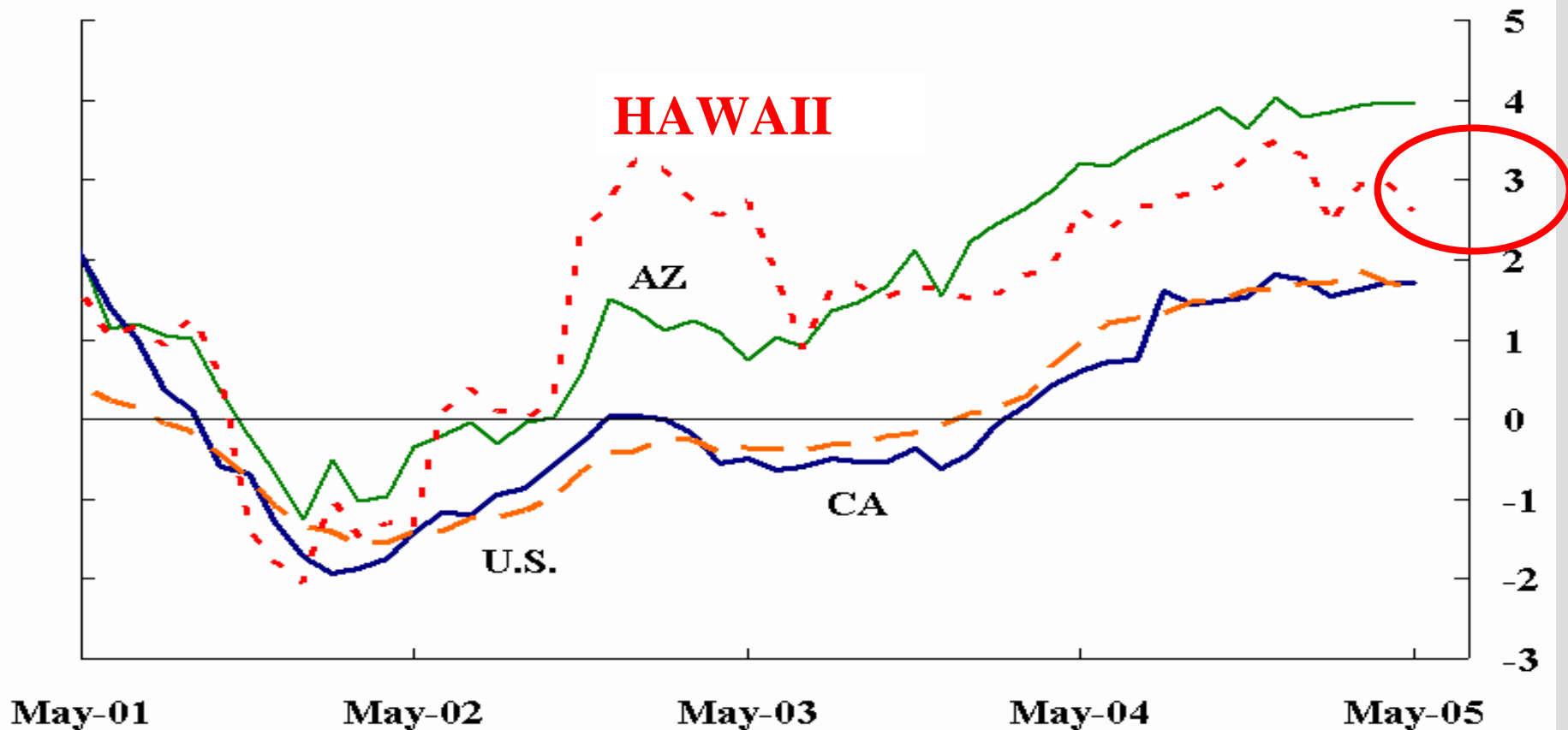
Nonfarm payroll employment by state
(Year-over-year percent change, monthly)



Source: Bureau of Labor Statistics.

Hawaii: Experiencing the Fastest Payroll Job Growth in over a Decade

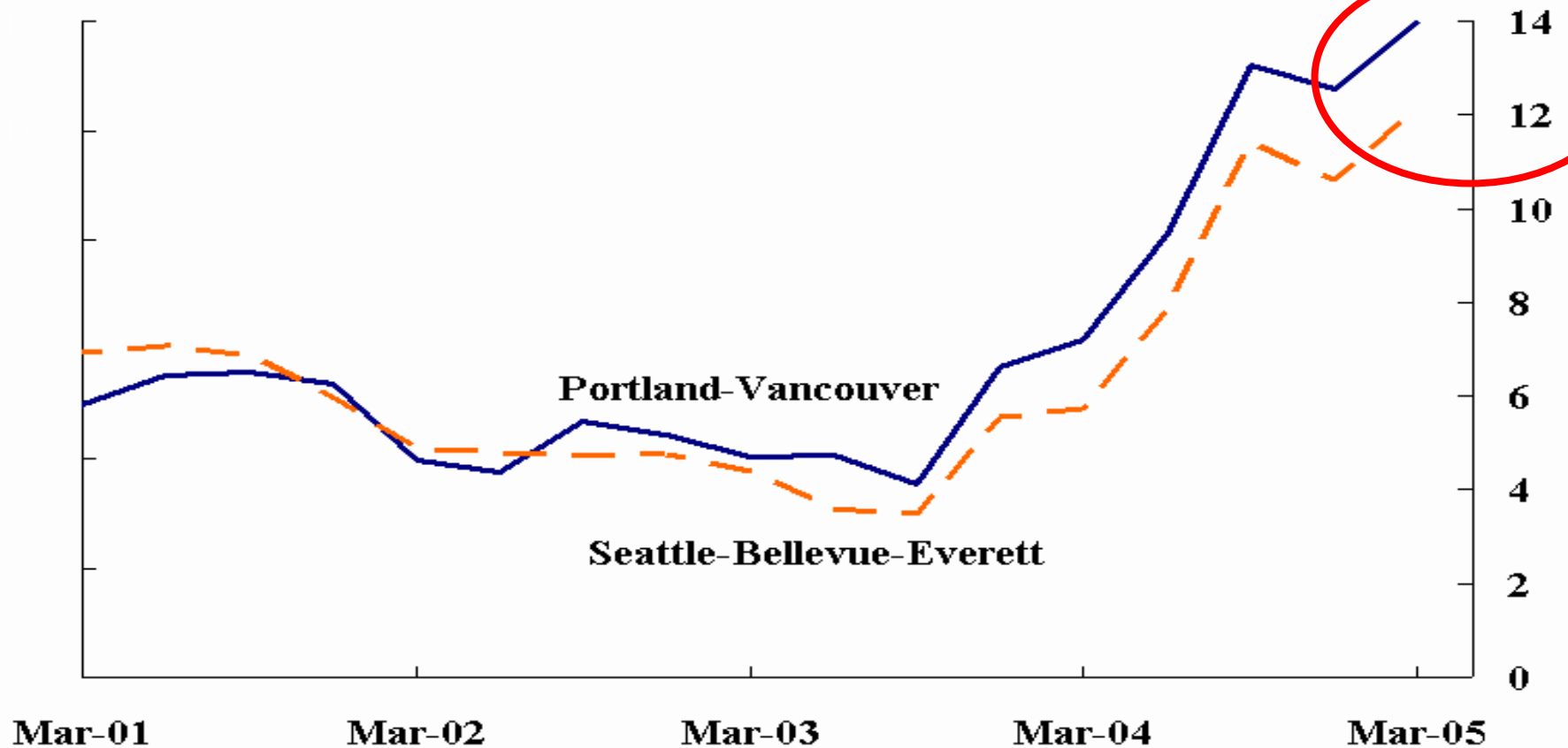
Nonfarm payroll employment by state
(Year-over-year percent change, monthly)



Source: Bureau of Labor Statistics.

Housing Appreciation: Rebound in Prices in Portland and Seattle Areas Exceeds the U.S. Rate

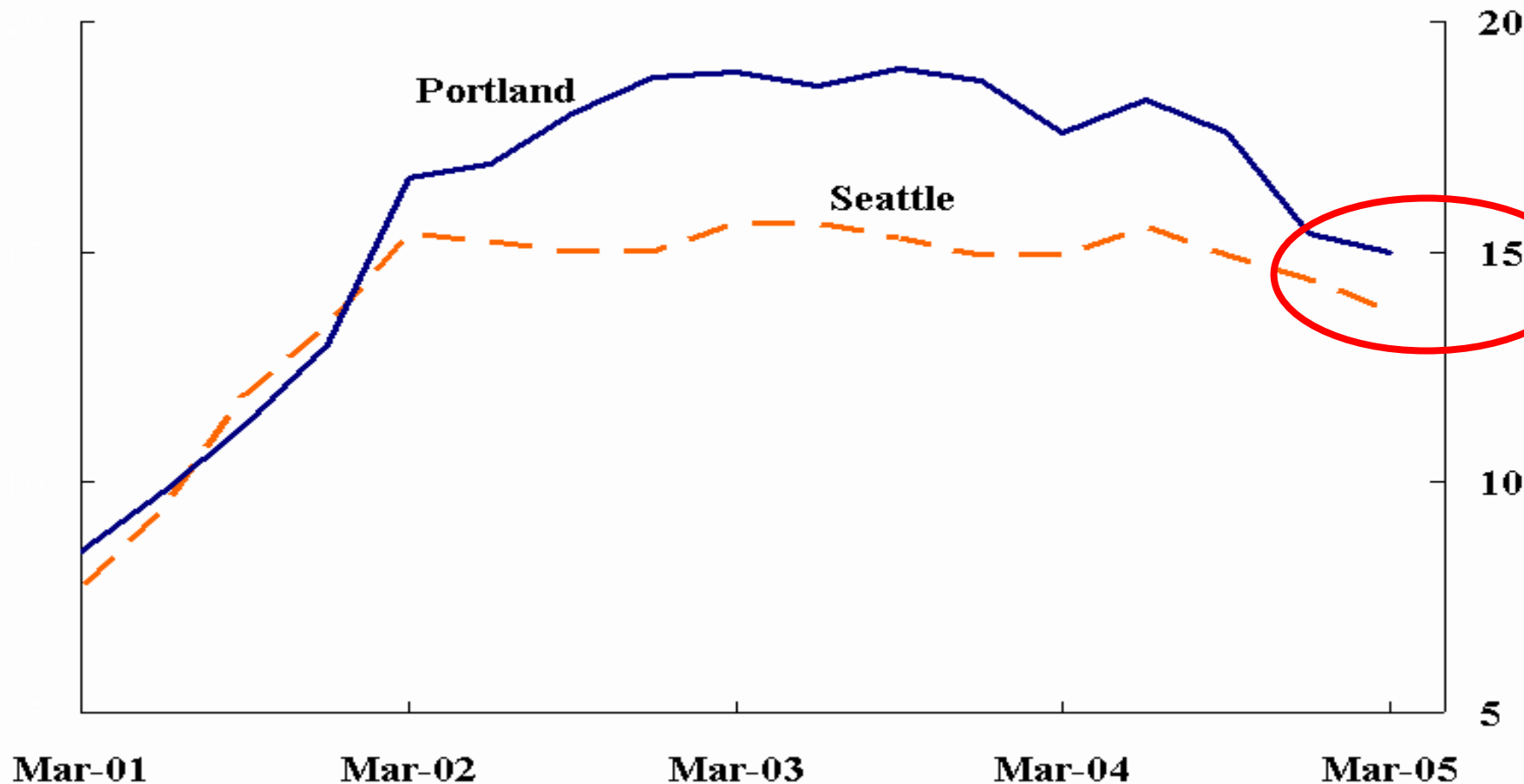
Home price index
(Year-over-year percent change, monthly)



Source: Office of Federal Housing Enterprise Oversight.

Office Markets: Lower Vacancy Rates Indicate Improvement in Key Pacific Northwest Markets

Metro area office vacancy rate
(Percent, quarterly)



Source: Torto Wheaton Research.

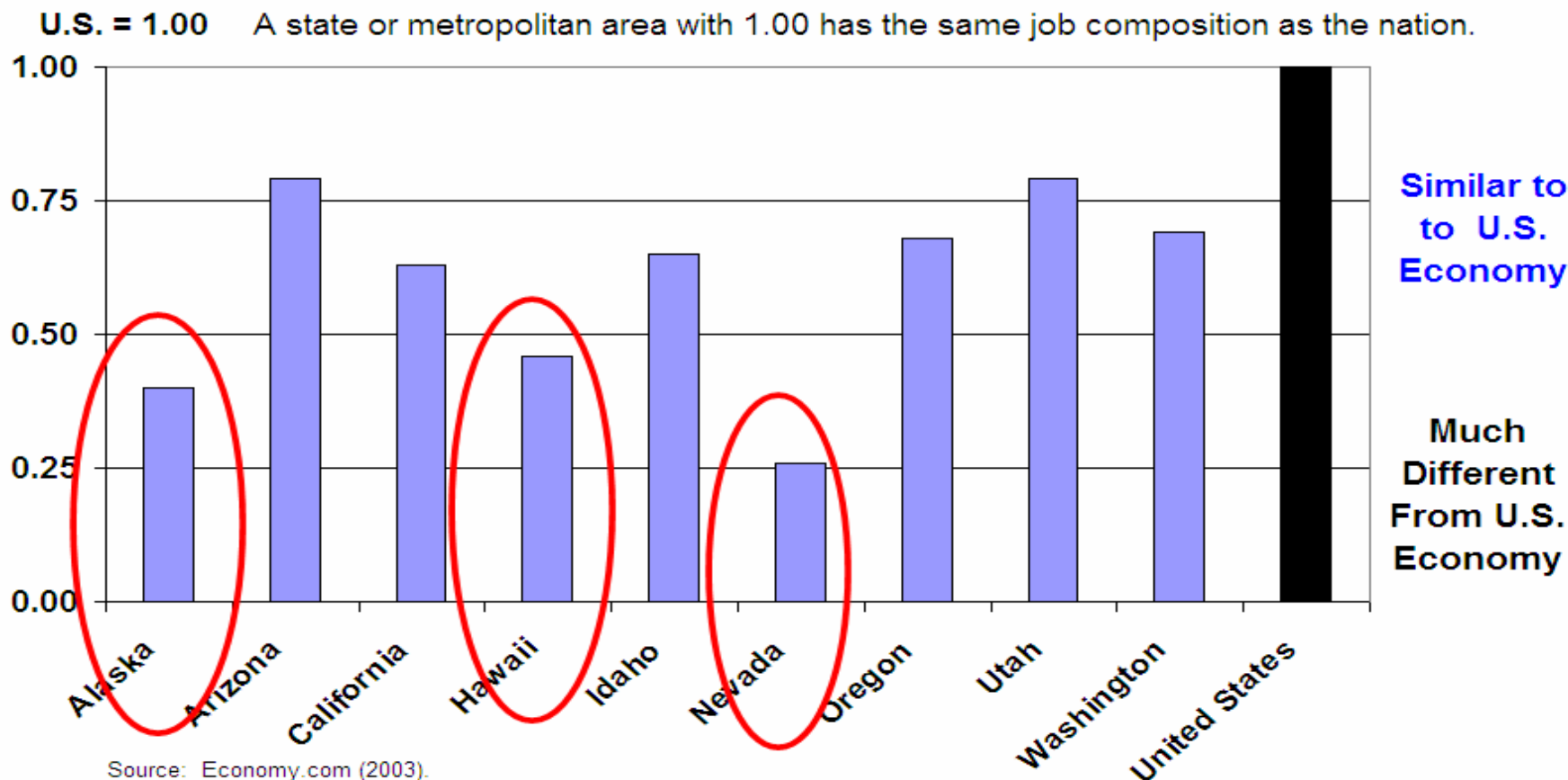


Local Performance

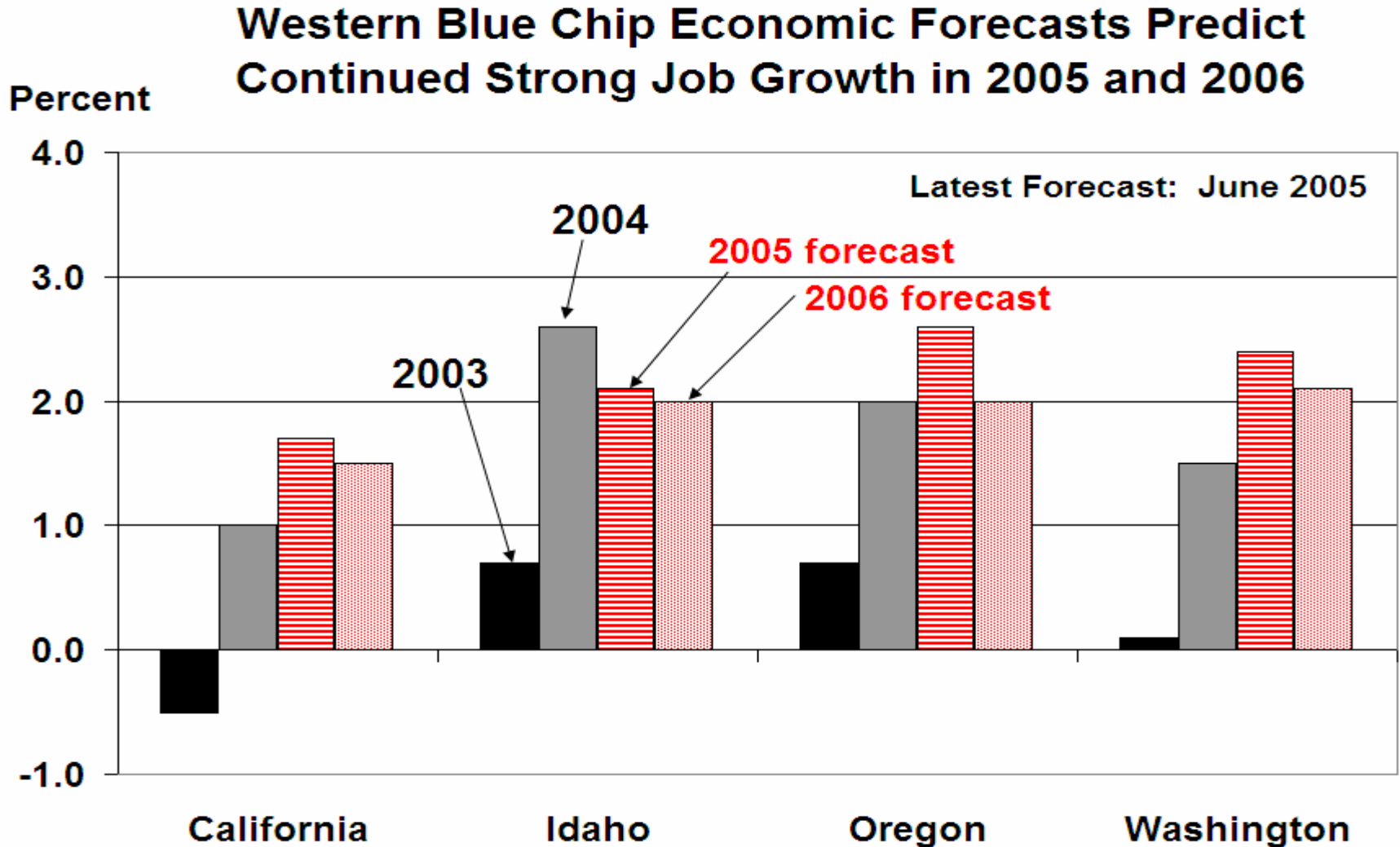
- **Depends on national performance**
 - Interest rates—business cycle—energy
 - Outlook: Above average performance
- **Function of the local economy**
 - Diversity of industrial composition
 - Products
 - Exports

A More Diverse Economy Tends to Behave More Like the National Economy

Industrial Diversity Rankings for Selected Western States



Western Blue Chip Outlook for 2005 and 2006: Continued Expansion



Source: Western Blue Chip Economic Forecast



Summary

- **Momentum**
 - **Expansion nationally and globally**
 - **Result in solid overall regional growth**
- **2005 and 2006 Outlook**
 - **Growth at average pace expected**
 - **Inflation remains low—inflation expectations unchanged**

Questions?

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Resources: CSIP, a Great New Website

<http://www.frbsf.org/csip/index.php>

Center for the Study of Innovation and Productivity
Federal Reserve Bank of San Francisco

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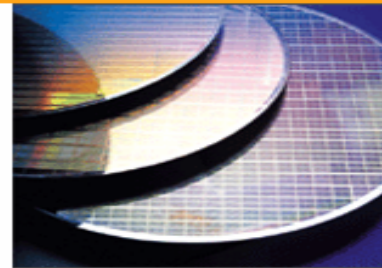
Welcome to CSIP



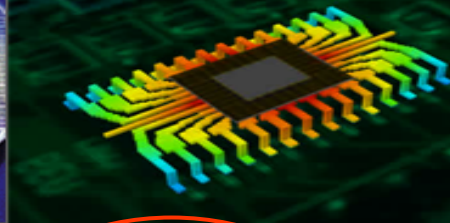
CSIP's goal is to promote understanding of the roles of innovation, technological progress, and productivity in the global, national, and regional economies.

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Courtesy of AMIS



CSIP Highlights »

Prospects for Productivity »

Although productivity growth has slowed of late, FRBSF President, [Janet Yellen](#) says she is reasonably optimistic about its future. Learn more in [The U.S. Economic Outlook](#), remarks presented at the Stanford Institute for Economic Policy Research.

Stopgap Measure or Lasting Change? »

Have the extraordinary gains in productivity in recent years been temporary or more permanent? [Mary Daly](#) and [Fred Furlong](#) argue that the gains have been lasting and are unlikely to be unwound as the economy adds jobs.

Shaping the Economy »



The remarkable strength of productivity growth has been a hallmark of the U.S. economy in recent years.

Recent Research »

New work by [Diego Valderrama](#) and Michelle Connolly shows that trade liberalization combined with well-designed intellectual property rights can be welfare enhancing for both innovative and imitating countries. The preferred intellectual property scheme allows competition from imitative activity but requires payments to the innovators. [Implications of Intellectual Property Rights for Dynamic Gains from Trade.](#)

Does the mix of physical capital in a firm affect its total factor productivity? If so, is it lasting? [Dan Wilson](#) examines the relationship between capital mix and productivity in IT and [Beyond: The Contribution of Heterogeneous Capital and Productivity.](#)

In real time, shifts in the trend growth of productivity are difficult to distinguish from transitory fluctuations. [Rochelle Edge](#), [Thomas Laubach](#), and [John Williams](#) find that incorporating gradual learning into forecasts of

Latest Indicators »

National

Real GDP (in \$2000 dollars):
+3.1% in 2005:Q1

Real Productivity (Nonfarm Business):
+2.1% in 2004:Q4

Real Business Investment:
+4.7% in 2005:Q1

Real Business Investment in IT:
+24.3% in 2005:Q1

IT Trade Balance:
-\$20.8 millions in 2004:Q4

Employment Growth in IT:
+1.2% in 2004:Q4

Regional* (Top Ranking State)

Real Nonfarm GSP Growth:
+9.0% in 2004:Q4 (Nevada)