



The Ohio and national economy: 2016

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Introduction:

- I remain optimistic on national growth as I have in the Outlooks beginning in the Fall of 2012.
- The U.S. economy continues to expand.
 - One caveat is that growth may be a little slower in 2016 and there are more risks.
- It has been 78 months since the official NBER end of the Great Recession, or the 5th longest in U.S. history. (But we are due for a recession).
- As of the October employment report released in November, 2015 U.S. job growth is on track to be good by post 2000 standards, but not as good as 2014, which was the best since 1999.
- To put this in perspective, the 7 years before the Great Recession were the slowest 7 years of job creation since the Great Depression.
- Some economic headwinds increase the risks to this forecast.
- Ohio is trailing the U.S. as it historically does, but 2015 was a good year and the state seems poised to prosper in 2016.
- Policy institutions continue to press for infrastructure investments and they worry about climate change as a major threat.
- Demographics present challenges but I am optimistic that these can be met and there are some positives to an aging population.

IMF and OECD Forecasts:

- IMF and OECD forecasts are well respected and usually are “cautious” in not being too far from consensus.
- Among advanced economies, the U.S. remains a leader though the UK’s growth will be comparable.
- Europe is still stagnate except in places that suffered very severe recessions like Spain.

Economic Fundamentals:

- The U.S. does not seem to have the ability to carry out any kind of fiscal/growth policy.
 - Will a Republican Senate help? It is too early to tell, but early indications are not that great. They can’t pass a highway bill, for example.
- U.S. government budget balance is now slightly better than the long-run historical average.
- One concern is that the Fed’s monetary policy is hard to predict. When will there be “takeoff” and to what extent will short-run interest rates rise?
- OCED/IMF recommend large investments in infrastructure, they worry about high U.S. inequality, and OCED argues that there large risks from not investing in climate change “management”.

Risks to U.S. growth are inter-related:

- Uncertainty in interest rate hikes and monetary policy.
- Appreciation of the dollar hurts exporters.

- Ongoing weakness in Europe and concern about the long-term viability of the Euro.
- Middle East conflict and terrorism.
 - Some good news is that adverse events from the Middle East are not currently associated with oil price spikes.
- Asian downturn and volatility/"bubbles" in China.
 - This is especially associated with falling commodity prices as China is the 2nd largest economy.

Ohio and Midwest Performance:

- Coming out of the recession, Ohio outperformed the U.S., but beginning in 2012, the historic pattern of Ohio underperforming the US by about 0.5 to 1 percentage points a year reemerged.
- There are some surprising pockets of strength. In the last year, OH manufacturing has been growing three times the national rate (though the national growth rate is slow). No apparent short-term nick from the oil bust.

Comparing Ohio to the Midwest:

- Employment growth among Midwest states has lagged the US since the beginning of the Great Recession. Ohio performs only better than Illinois during that period.
- Since the end of the Great Recession, the Midwest has performed much better. Ohio is the third fastest growing Midwest state during the recovery, growing at a pace that is slightly slower than the national average.

Brief Discussion of the 3 C's:

- The general story is that the most prosperous is in order of Columbus, Cincinnati, and Cleveland.
- Since the recession, all three look fairly good compared to their national peers.

Ohio's Workforce Demographics:

- Ohio, like the nation, has an aging workforce.
- VSP worry that the aging workforce will create labor shortages and lower growth (e.g., few young families buying homes and lower productivity).
- I am not so worried. It will induce firms to increase labor productivity—e.g., driverless cars.
- It will increase wages in general.
- It will reduce income inequality.
- For my sanguine story to hold for Ohio, we do need to turn around migration by improving future economic expectations.

Conclusions:

- 2016 looks to be a reasonably good year, but there are risks around the world.
- Falling mobility is bad for the economy as people don't move to economic opportunity.
- Ohio's poor record on attracting net migration is a key reason for why the state's job growth lags the nation, but it explains OH's low unemployment rate.
- An aging workforce presents challenges, but I think they will be manageable, especially if there are modest/high levels of immigration.
- Changes in the behavior of the young adults will present challenges and opportunities.