

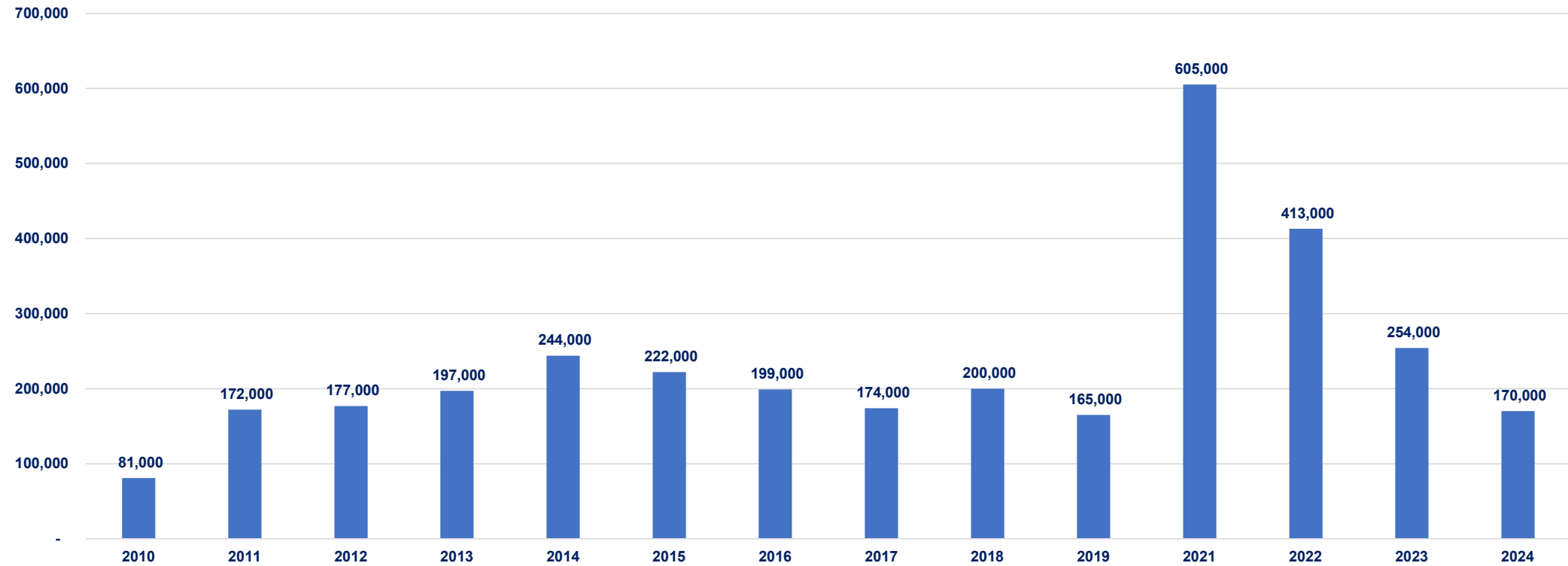
# **WBA Credit & Lending Peer Workshop Economic Update**

**Steve Scranton, CFA  
Chief Economist  
Washington Trust Bank**

# Current State of the Economy

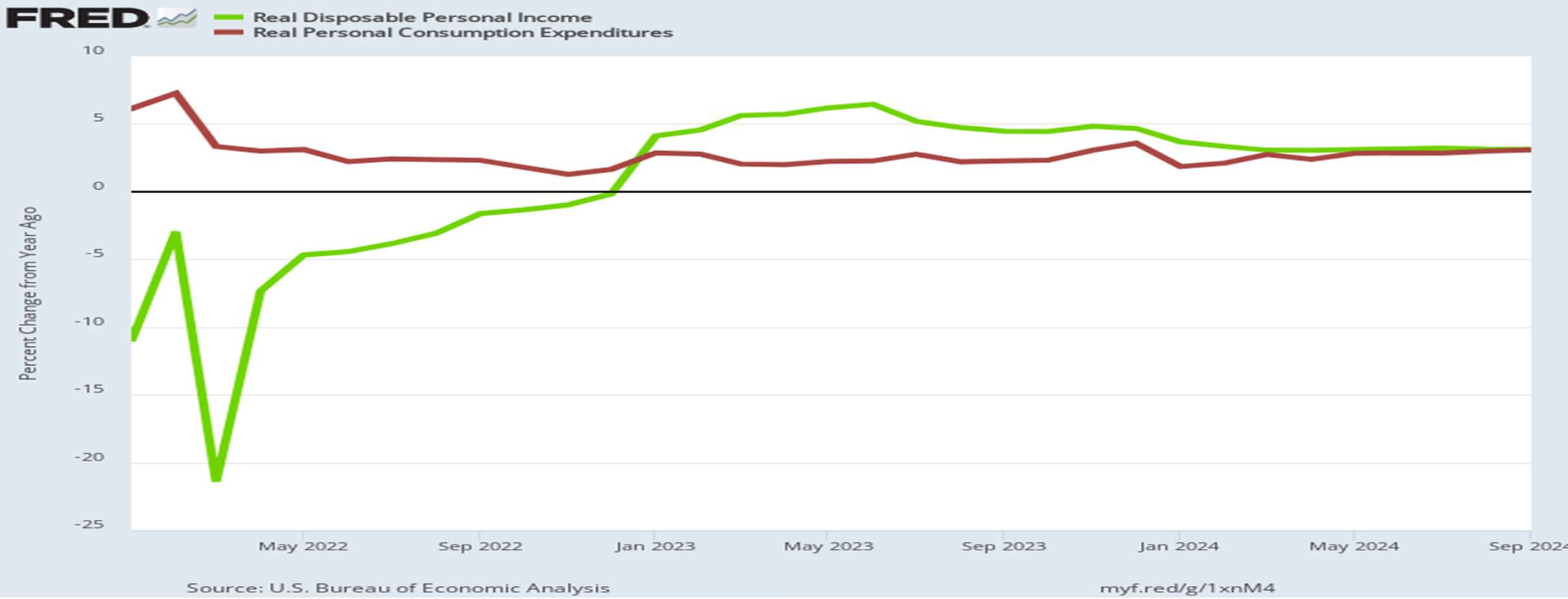
# Even With Distortion of October Data Jobs Growth is in the Range of Normal

January-October Average



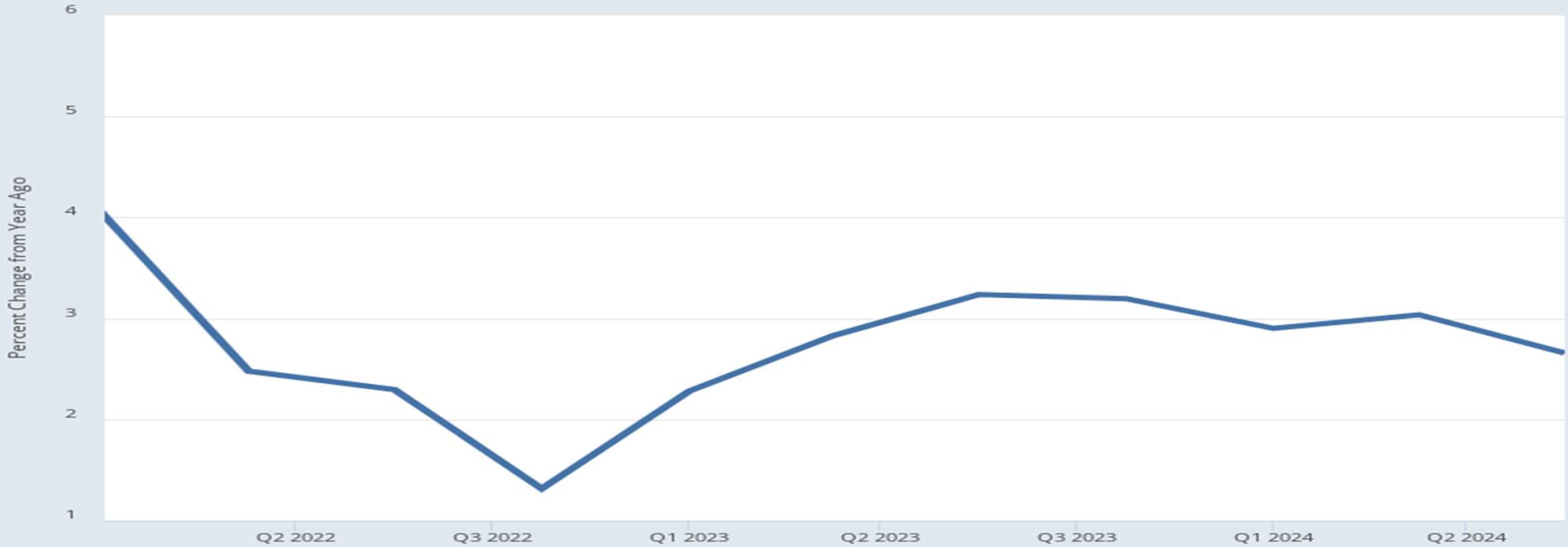
# Real Disposable Personal Income = 3.1%

## Real Personal Spending = 3.1%



# Economy is Still Growing But Slowing Slightly Growth Has Remains Above 2% Since First Quarter 2023

FRED  Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

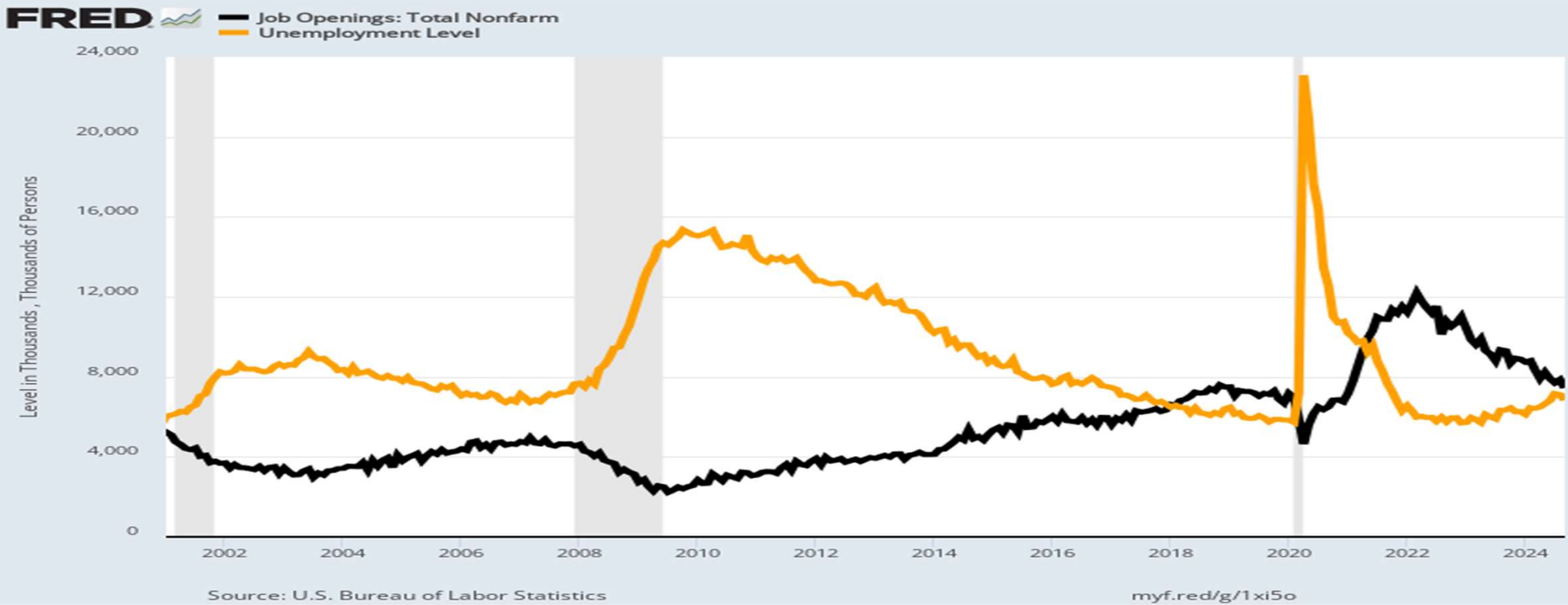
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# What Should We Expect For Interest Rates?

# What Did Chairman Powell Say?

- **Recalibrating back to the “neutral rate”**
- **What is the “neutral rate”?**
- **The rate that supports full employment and economic growth without causing inflation to rise above the target level.**

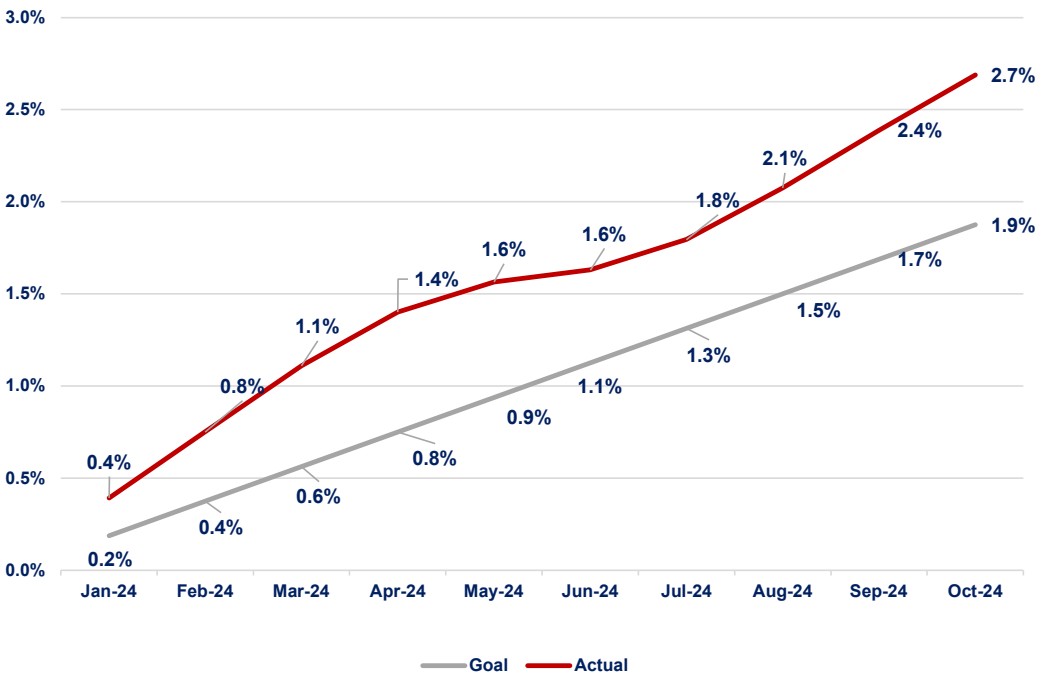
# Full Employment Achieved: Job Openings vs Unemployed



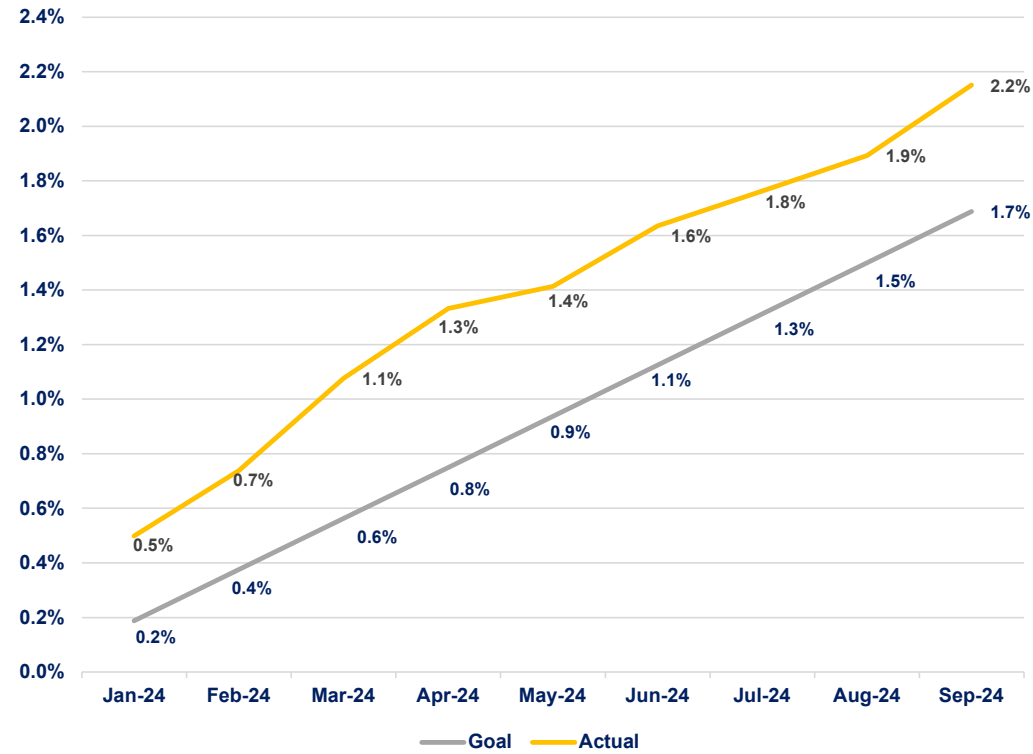


# Does This Look Like Stable Inflation at 2% Has Been Achieved?

**Core Consumer Price Index  
Actual vs Goal**



**Core PCE Price Index  
Actual vs Goal**



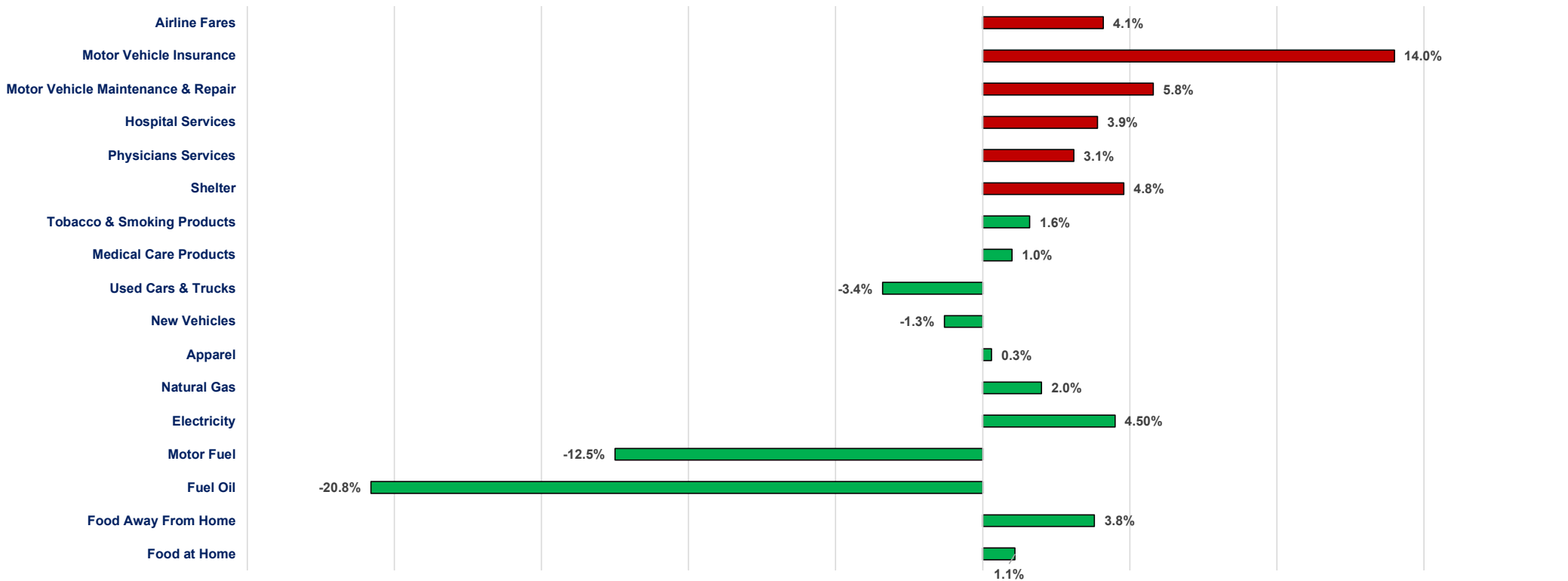
# Outlook For Interest Rates

- **Short-term rates will follow Federal Reserve moves.**
  - Expect the Federal Reserve to move cautiously until inflation progresses or jobs growth weakens.
  - Market forecast: Fed Funds at 3.75% by end of 2025 versus 4.75% now.
- **Long-term rates will be more dependent on inflation progress.**
  - Plan for 10-year Treasury to remain between 3.5% to 4.5%
  - Plan for 30-year mortgage rates to remain between 6.0% to 7.0%
  - Refinancing of maturing commercial real estate loans will remain a challenge.
- **Decline in rates benefits borrowers, hurts savers**

# Risks to Monitor

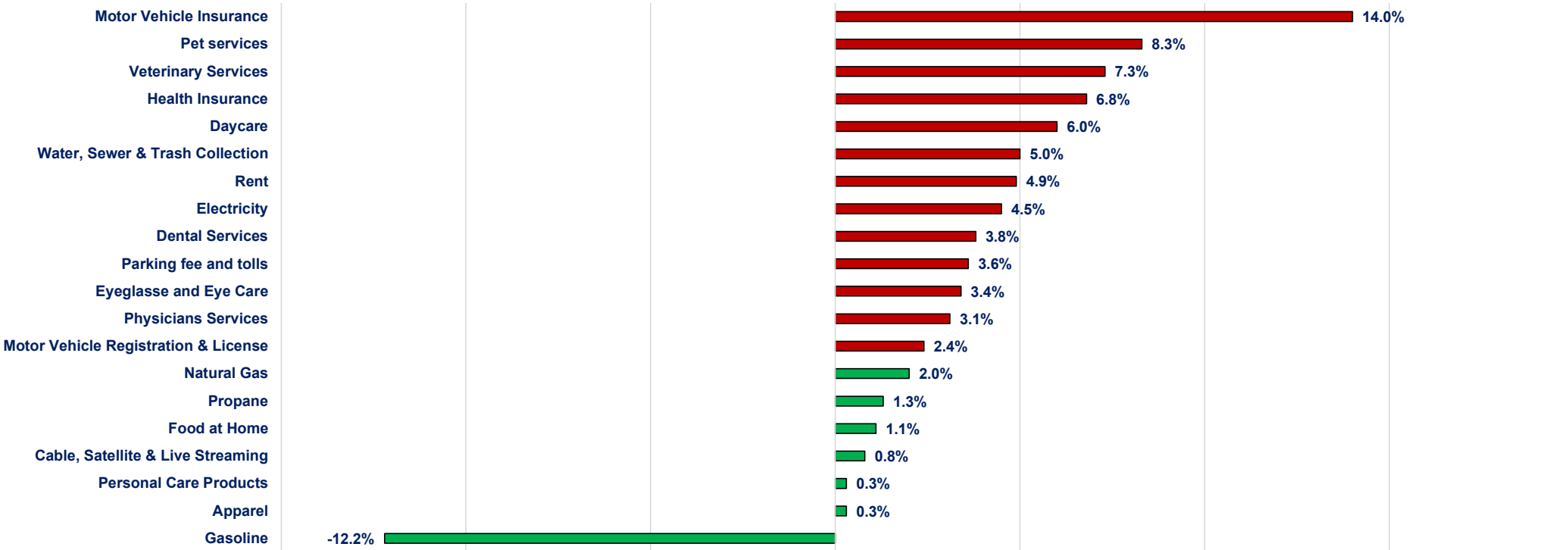
# The Problem Lies in the Cost of Services

Inflation-Major Components  
Year-Over-Year Growth

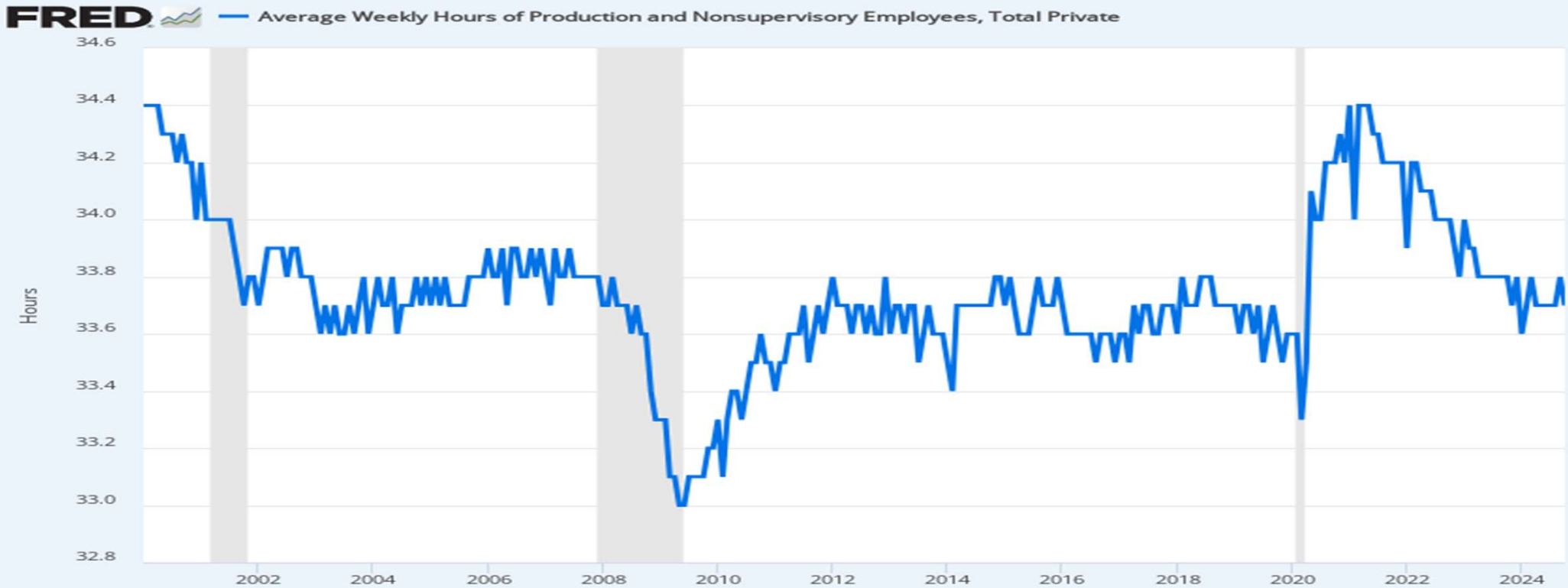


# Consumer's Inflation Does Not Match The Official Rate

Goods and Services You May Care About  
Year-Over-Year Growth



# Consumer Under Stress-Hours Are Being Cut

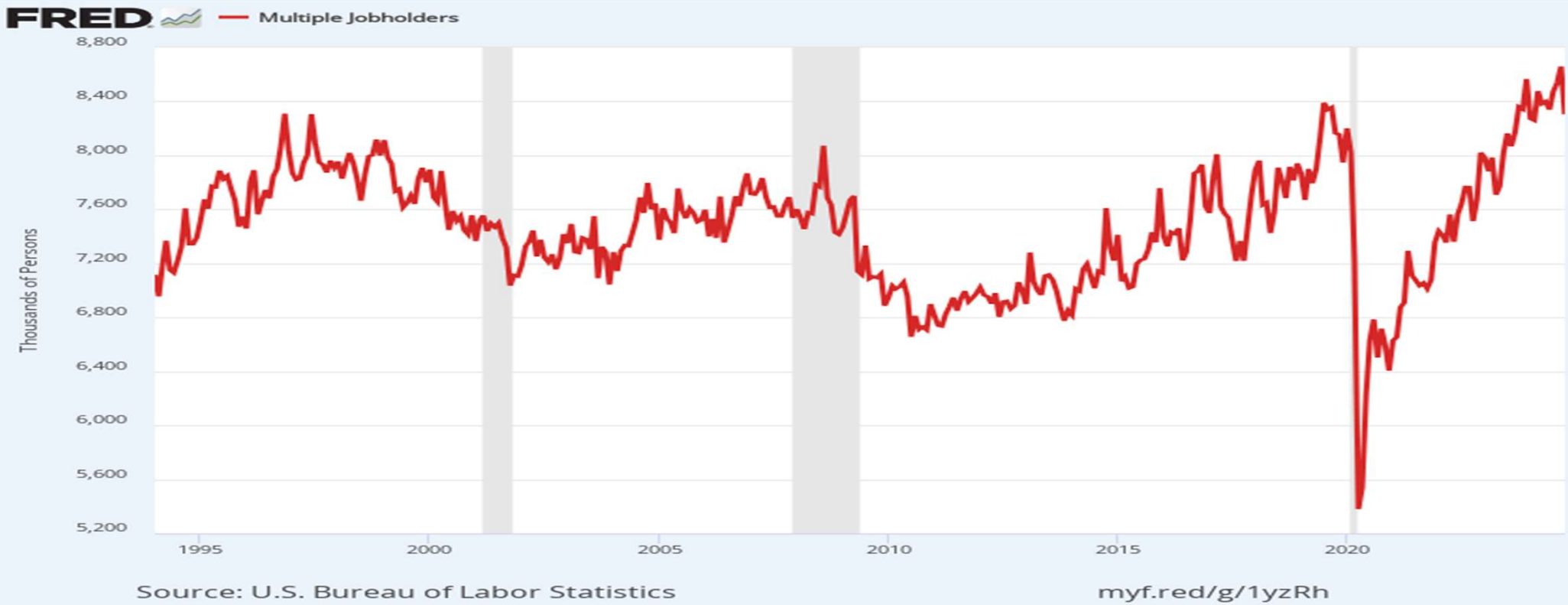


Source: U.S. Bureau of Labor Statistics

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# Consumers Under Stress

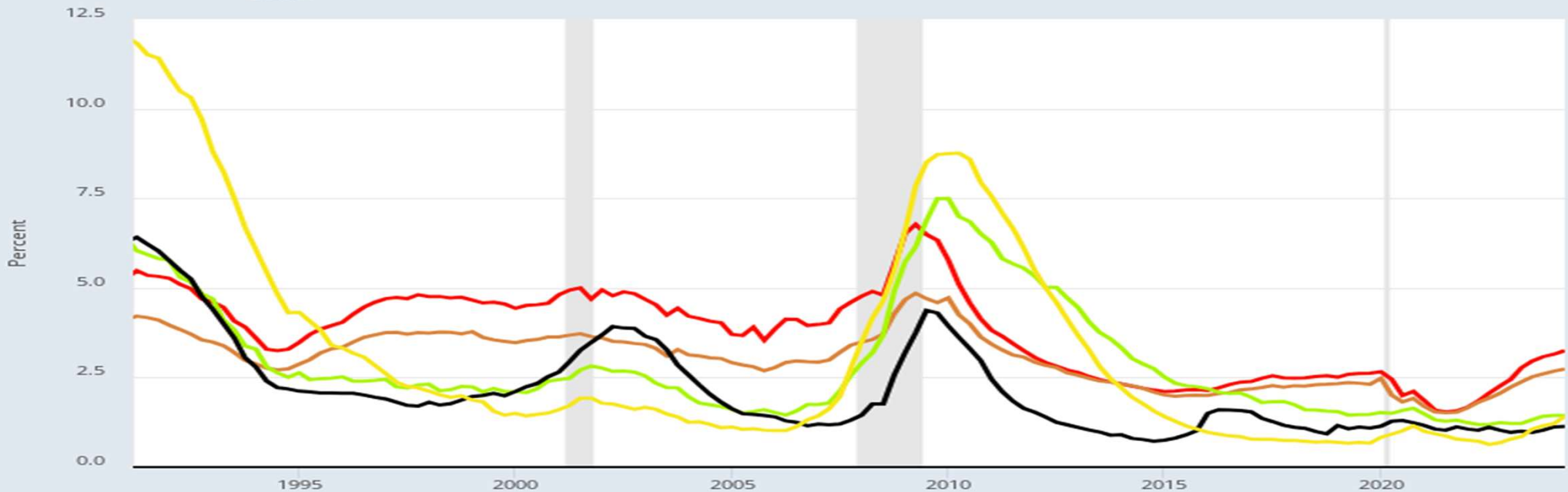
## Multiple Job Holders are Near All-Time Highs



# The Trend Has Changed for Consumer Loans

FRED

- Delinquency Rate on Credit Card Loans, All Commercial Banks
- Delinquency Rate on Consumer Loans, All Commercial Banks
- Delinquency Rate on All Loans, All Commercial Banks
- Delinquency Rate on Business Loans, All Commercial Banks
- Delinquency Rate on Commercial Real Estate Loans (Excluding Farmland), Booked in Domestic Offices, All Commercial Banks



Source: Board of Governors of the Federal Reserve System (US)

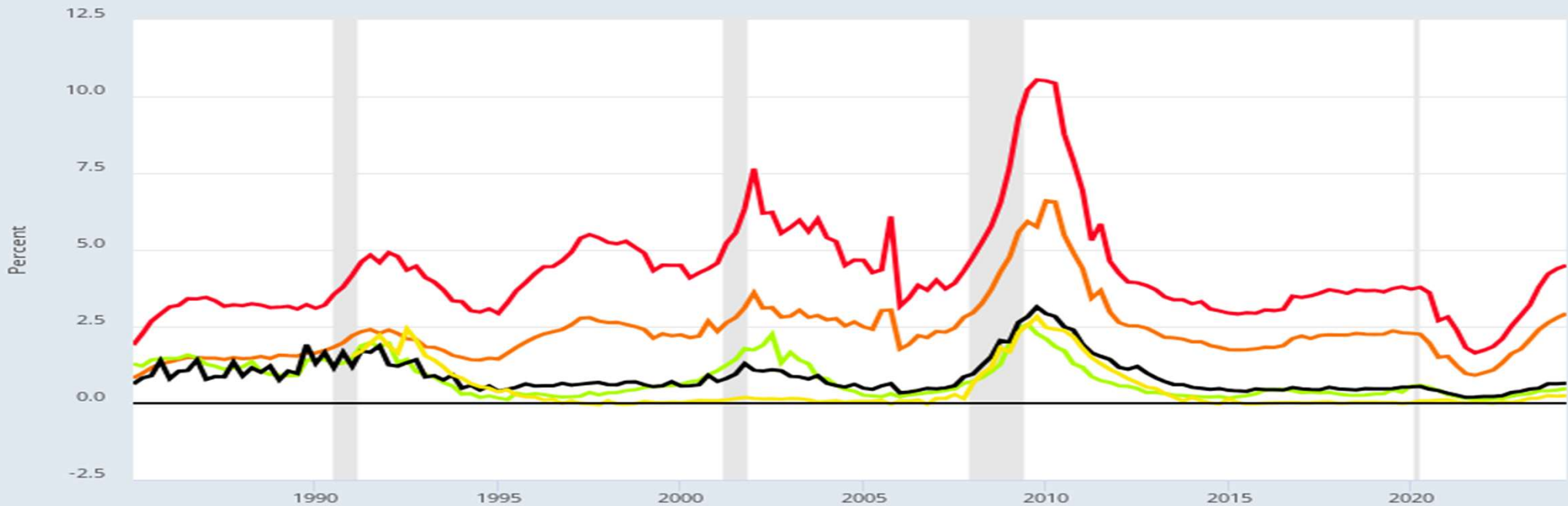
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# Same Story for Charge-Offs

FRED

- Charge-Off Rate on Credit Card Loans, All Commercial Banks
- Charge-Off Rate on Consumer Loans, All Commercial Banks
- Charge-Off Rate on Business Loans, All Commercial Banks
- Charge-Off Rate on All Loans, All Commercial Banks
- Charge-Off Rate on Commercial Real Estate Loans (Excluding Farmland), Booked in Domestic Offices, All Commercial Banks



Source: Board of Governors of the Federal Reserve System (US)

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# Fiscal Policy

- Remember that what is promised during campaigns does not necessarily become actual policy
- Even if Republicans gain control of the House and Senate, it does not guarantee new policies.
  - Will the Republican party unite or will it remain divided?
- Expect increase use of executive orders and loopholes.
- Not too soon to develop contingency plans if your business will be hurt or benefit from new fiscal policy.

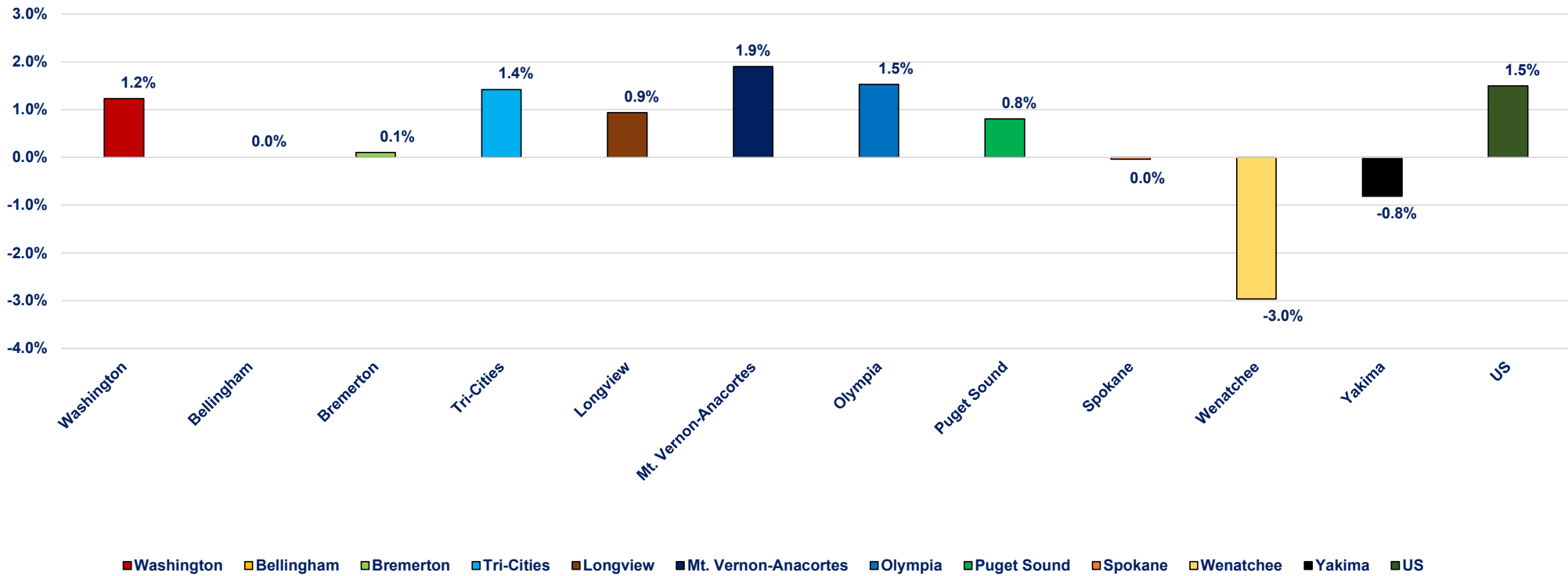
# Fiscal Policy

- **Tariffs are a tax paid by businesses**
  - **Will businesses pass through the cost of tariffs or absorb the cost**
  - **Small businesses are more reliant on having their products manufactured overseas in order to control costs and remain competitive.**
  - **Remember the Smoot-Hawley Act.**
- **Any reductions in legal immigration will impact our labor pool.**
- **Reduced regulations could spur increased spending and/or investments.**
- **Tax cuts could spur increased spending and/or investments.**

# Regional Economic Update

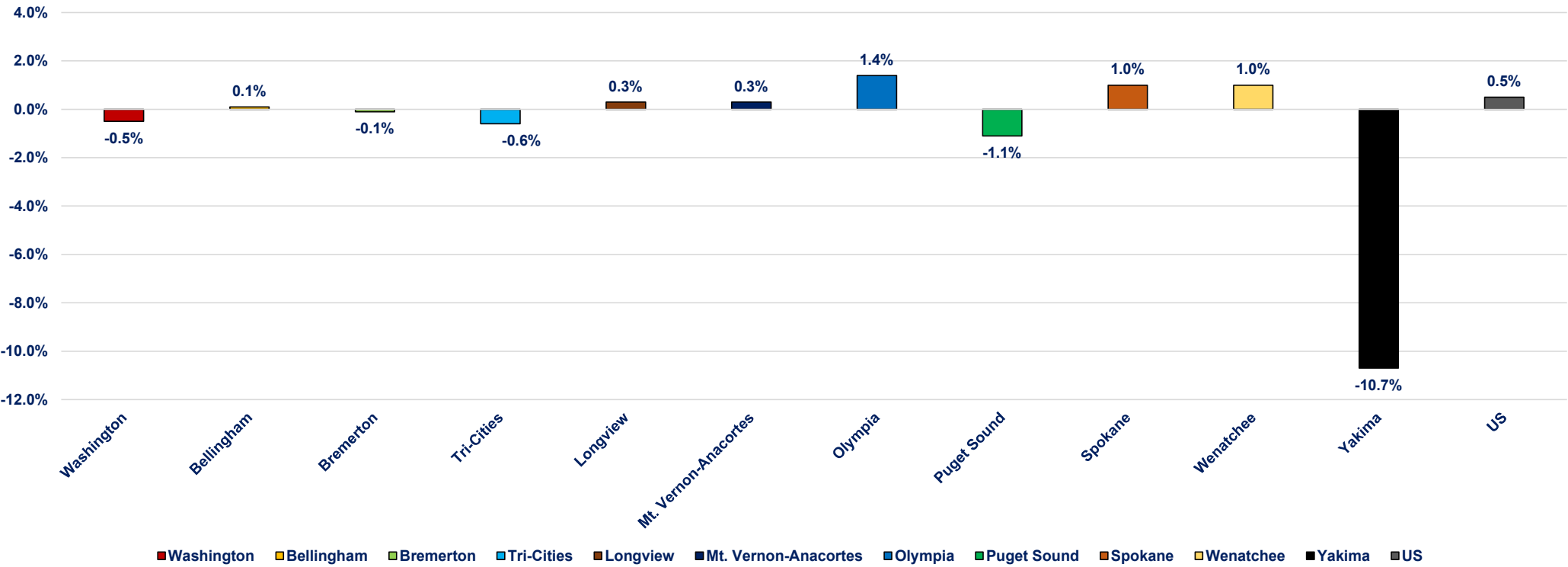
# Washington Lags the US

**Jobs Growth**  
Source: Bureau of Labor Stastics  
As of 9/30/24



# Washington Experienced Out-Migration

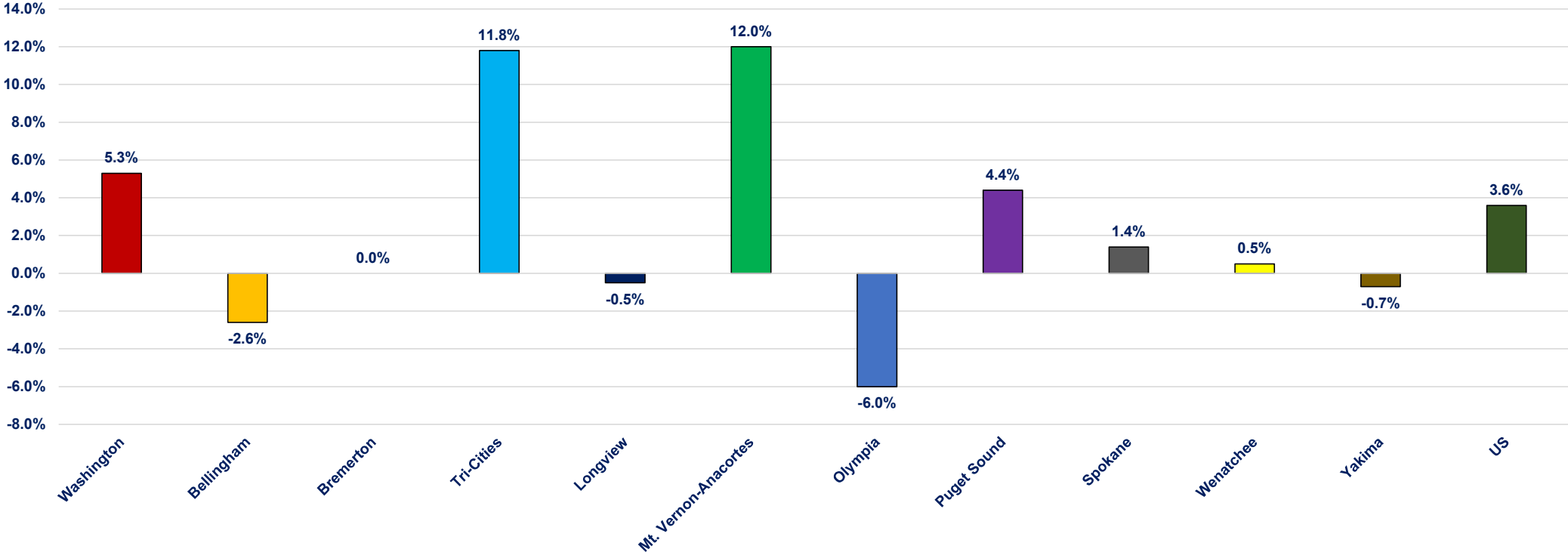
**Labor Force Growth**  
Source: Census Bureau and Bureau of Labor Statistics  
Labor Force 8/31/24



# Washington Outpaced the US

## 1 Year Wage Growth

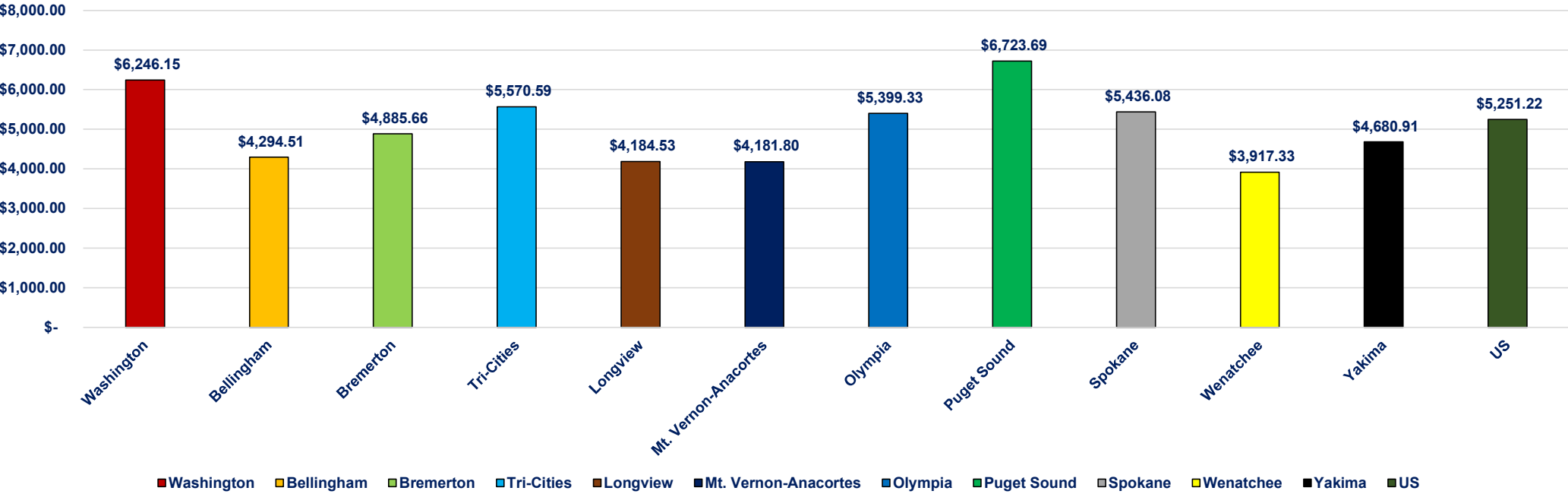
Source: Bureau of Labor Statistics  
As of 9/30/24



# Only Four Regions in Washington Have Higher Wages Than the US Average

## Average Monthly Earnings

Source: Bureau of Labor Statistics  
As of 9/30/24

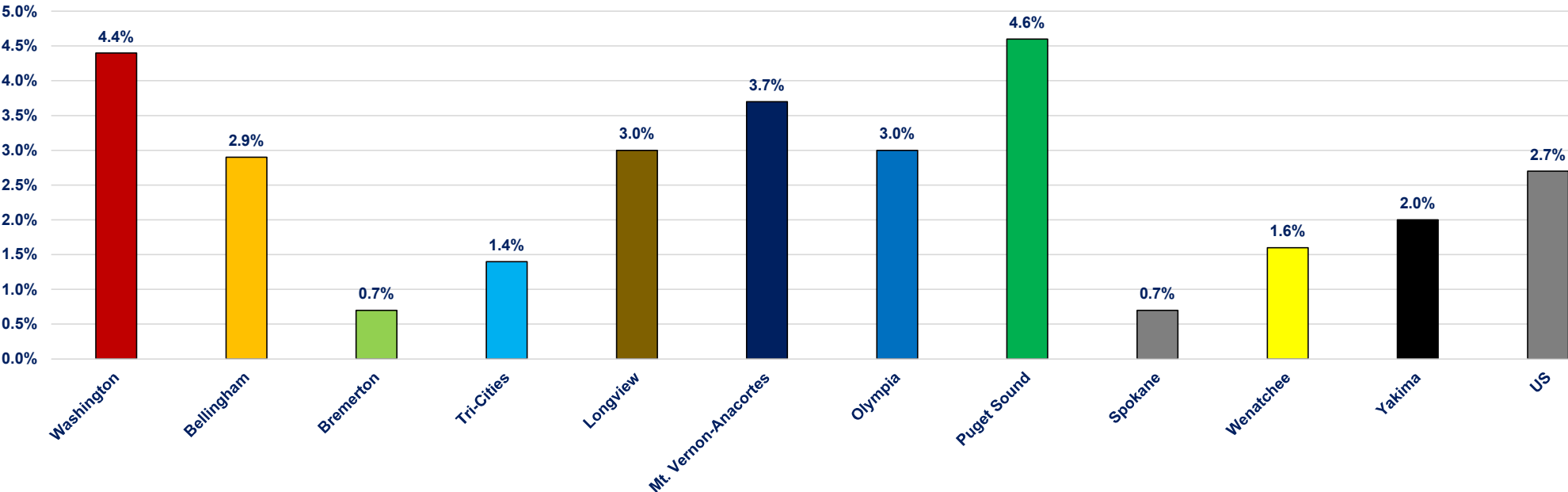




# Home Price Inflation Continues to Cause Affordability Issues

## 1 Year Home Price Growth

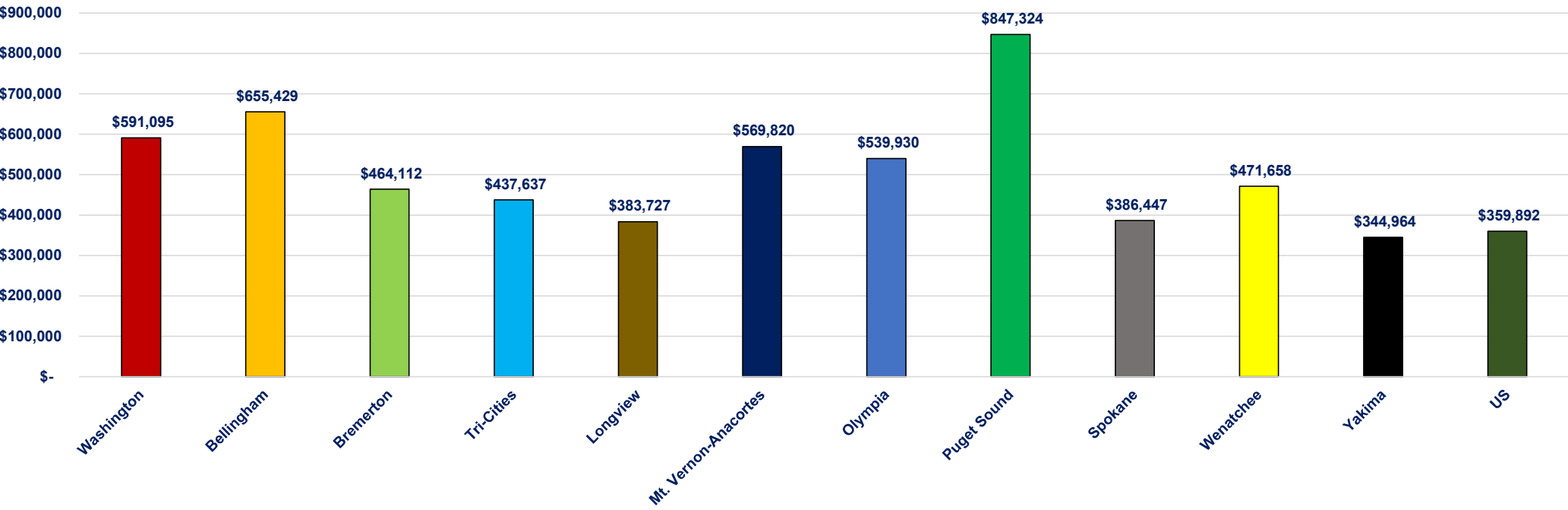
Source: Zillow.com  
As of 9/30/24



# Only One Region in Washington Has an Average Home Price Below the US Average

Average Home Price

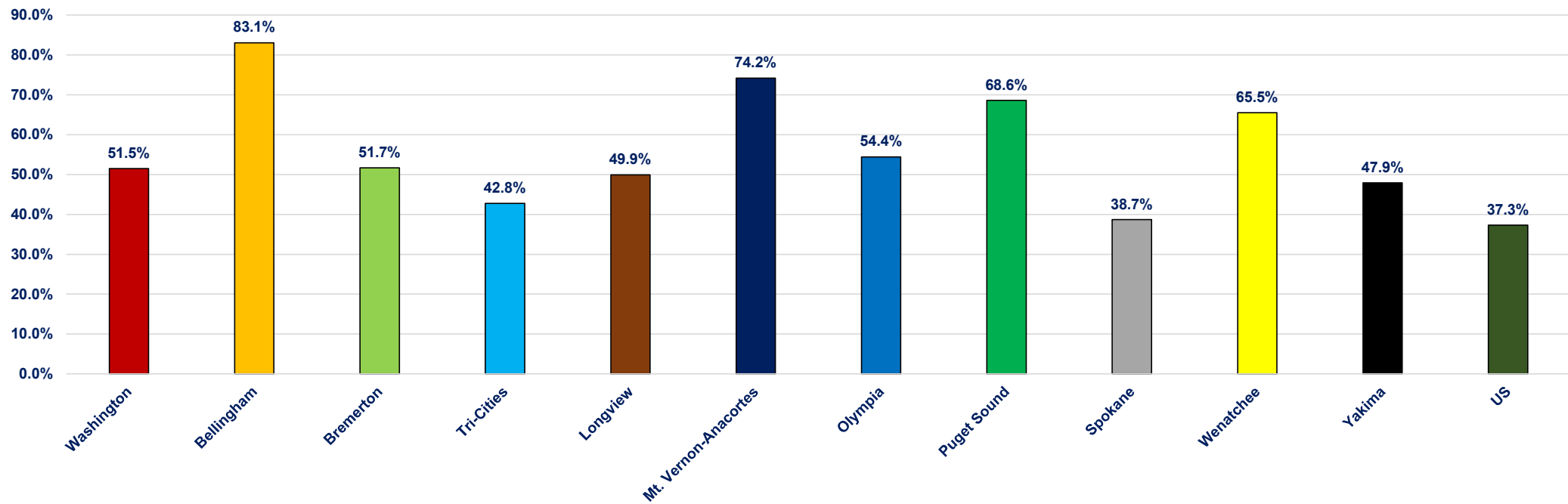
Zillow.com  
As of 9/30/24



# Buying a House Requires Two Incomes

## What Happens if One of the Incomes is Reduced or Lost?

Mortgage Payment as Percent of Wages  
(One Wage Earner)  
As of 9/30/24



# Closing Thoughts

- **Ignore the noise of politics and focus on your business and your clients.**
- **Be the voice of reason and objectivity for your client when they are worried.**
- **Believe what you are experiencing not what the media is saying if it is different.**
- **Be ready to help your clients identify and pursue opportunities.**