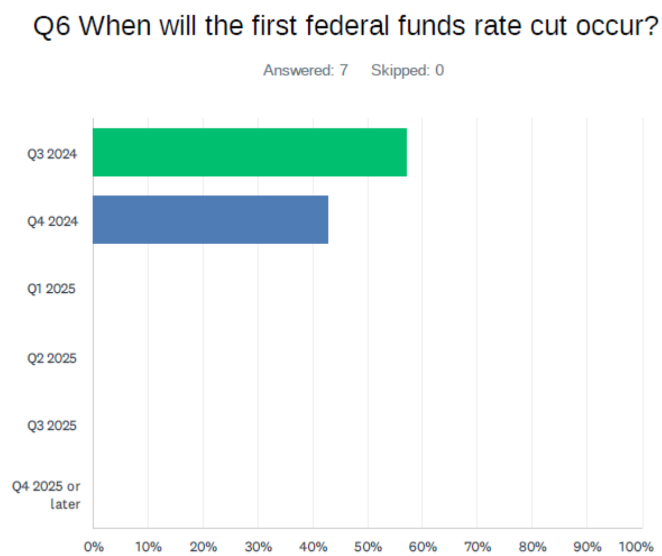
Ohio Economic Outlook - Q3 2024: Navigating a Shifting Landscape

Executive Summary

The Ohio Chamber of Commerce's Economic Advisor Council maintains a cautiously optimistic outlook for the U.S. economy, anticipating a "soft landing" despite lingering recession concerns. The Federal Reserve's tightening cycle is widely viewed as complete, but the timing of future rate cuts remains uncertain. While inflation is decelerating, it's proving more persistent than initially expected. As one council member aptly put it, "Inflation is declining toward the Federal Reserve's 2% goal, although stubbornly slow."

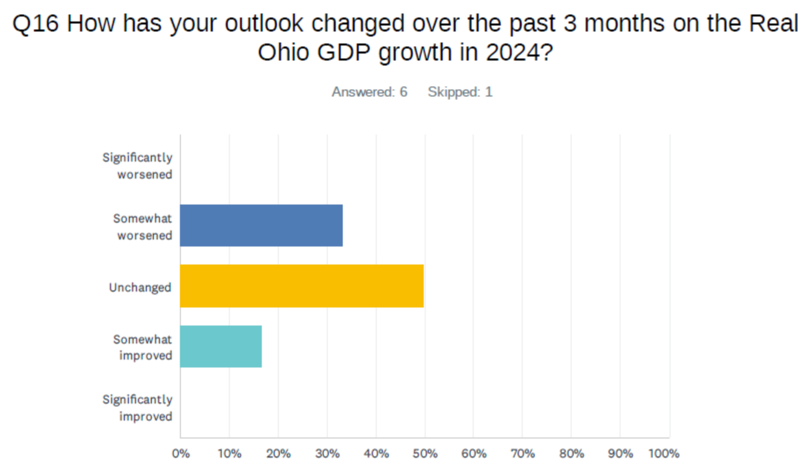
Ohio's economic outlook largely mirrors national trends, with moderate growth projections tempered by concerns about workforce challenges and the impact of slowing consumer spending. The state's manufacturing sector shows signs of improvement, but vulnerabilities in the finance and insurance sectors due to technological advancements and automation pose challenges.

Key Findings:



- **Federal Reserve Policy:** The council unanimously agrees that the Fed's tightening cycle is over. The peak federal funds rate is expected to remain at the current level (5.25% to 5.5%). The majority anticipates the first rate cut in Q3 2024, contingent on sustained disinflation. One member noted, "The Fed will need to see a period of offsetting disinflation to feel confident that inflation is again trending toward its target."
- **U.S. Economic Outlook:** A "soft landing" remains the most likely scenario, but recession risk persists, with the probability estimated between 20% and 60%. GDP growth projections for 2024 range from 1.0% to 2.5%, reflecting the impact of higher interest rates and potential volatility from the upcoming election and geopolitical events. Inflation is expected to continue declining but at a slower pace than previously anticipated. "Inflation data in the coming months will be key," remarked one council member.
- **Ohio Economic Outlook:** Real GDP growth projections for Ohio range from 1.0% to 3.0%. The average unemployment rate is expected to increase slightly to between 3.5% and 4.0%. Concerns persist about the state's ability to attract and retain skilled workers, especially in light of the recent slowdown in consumer spending.

- **Ohio-Specific Factors:**
  - The manufacturing sector shows signs of improvement, but workforce challenges and competition with neighboring states for federal investments and emerging industries remain key concerns.
  - The finance and insurance sectors face potential disruption from advancements in AI and automation. As one member highlighted, "Ohio also is specialized in the finance and insurance sector...which is highly vulnerable to near-term disruption by advancements in generative AI and business process automation."
  - The impact of the opioid crisis continues to be a concern.
  - Opportunities exist in leveraging Ohio's lower cost of living and business-friendly environment to attract investment and talent.



- **Additional Considerations:**
  - The council highlights the need for Ohio to adapt to rapid technological advancements and invest in workforce development and reskilling initiatives.
  - The potential impact of AI on various sectors, particularly manufacturing and finance, warrants close attention.
  - The upcoming presidential election and its potential effects on economic policy and market sentiment are significant uncertainties.

Conclusion:

The Economic Advisor Council maintains a cautiously optimistic outlook for both the U.S. and Ohio economies. While the path to a "soft landing" appears likely, risks and uncertainties remain, underscoring the importance of proactive policymaking and strategic investments. Addressing workforce challenges, adapting to technological advancements, and fostering innovation will be crucial for Ohio's continued economic growth and resilience. The council will continue to monitor economic data and trends closely, providing updated guidance as the landscape evolves.

Economic Advisor Council Survey Responses - Q3 2024

Q3) Please explain your reasoning for your position on Fed tightening.

- Most of what I am reading is only dialogue on when the rates will be reduced.
- All comments/speculation indicate a September rate cut imminent
- At the press conference following the July FOMC meeting, Chair Powell hinted that a September cut could be on the table if inflation moves more or less in line with expectations, growth remains reasonably strong, and the labor market remains consistent with its current condition. As anticipated, the FOMC statement noted further progress on inflation and indicated that the Committee is attentive to the risks to both sides of its dual mandate but kept the forward guidance unchanged. The changes to the characterization of inflation hinted at growing confidence that conditions may soon be in place to cut rates.
- inflation seems to be under control
- Inflation is steadily cooling toward the Fed's target and the labor market is weakening.
- Fed officials say they are closer to cutting interest rates. Inflation has declined and is steady now and the labor market is cooling with a slight increase in unemployment. Inflation at about 2.5% is close to the 2% target.
- Fedspeak has shifted to talking about slack in labor market

Q4) What will the peak federal funds rate target be in the current tightening cycle? Please explain your reasoning.

- Current rate is the peak rate
- 5.1 in 2024, based on latest December projections from Fed board members and bank presidents"
- Peak federal funds rate is the current level.
- 5.25%-5.50%
- 5.25%-5.50%
- 5.0 to 5.25%. The Fed seems likely to cut rates by 25 to 50 basis points in September
- current level; next move is cutting rates

Q7) Please explain your reasoning for your position on when the Fed rate cut will occur.

- This seems to be the common prediction amongst economists
- Powell comments setting the stage for September rate cut in public press
- There's no guarantee of a rate cut in September, though the market-implied odds of a single 25 basis-point cut to the target federal funds rate at the Fed's September meeting rose to 52.5%... pricing in a move from the 5.25% to 5.5% range rates have sat for the last 13 months down to 5% to 5.25%. Non-Farm Payroll, inflation and other economic data will be at the forefront of market's attention, as will the August Jackson Hole Economic Symposium which could be used to more clearly communicate the Federal Reserves plans for the rest of the year. Outside of the U.S., the Bank of England cut its key interest rate for the first time in over four years, leaving the Federal Reserve among a dwindling number of central banks that have yet to cut borrowing costs in the face of cooling inflation.
- elections and geopolitical risks forces the fed to be cautious

- The time to cut rates has arrived. Inflation is near target (or at target if you're using a harmonized rate) and the labor market is weakening slightly, both supportive of a rate cut at the next meeting.
- The Fed is indicating we could see the first rate cut in September 2024.
- inflation continues to cool, unemployment rate continues to rise, Fed likes to telegraph moves and it did so in July, so September or December makes sense

Q10) Please explain your reasoning for your position on the prospect of the US economy having a "soft landing".

- Inflation appears to have largely stabilized, except a few niche markets (housing markets in some areas still rising, I believe)
- Many forecasts still projecting this; however, recent stock market and labor market volatility does make the perceived window seem a bit narrower.
- Anecdotally, the consumer is still spending; restaurants are crowded, airlines are preparing for a record summer of travel and people are still spending. Barring some unforeseen circumstance (which usually is what creates the hiccups in the economy), expectations are for continued stability in the economy.
- The main trend is much more important than fluctuations.
- It is still possible. But, the long and variable lags of monetary policy combined with the softening in the labor market before cuts began make it slightly less likely than last quarter.
- The economic situation seems strong though it shows some signs of cooling. Though unemployment has increased slightly it remains low. Nonfarm employment is increasing though at a lower growth rate, industrial production is steady, and real personal consumption expenditure shows steady growth.
- Sahm rule has been breached so I'm less optimistic about soft landing, and Fed is ALWAYS late to make the appropriate change

Q12) What probability do you attach to a U.S. Recession in Next 12 Months? (Please provide a percentage and your reasoning.)

- 30-40% chance. Expert opinion varies, but in general, I think people underestimate how much it takes for a recession to be declared.
- Projected probabilities based on Fed Reserve and NBER methodology still hovering between 50-60% - lots of near-term factors such as new developments in Ukraine conflict, election in November, Fed rate cuts, etc. that could really move this around.
- The definition of a recession has continually changed. Previously, it had been viewed as two quarters of negative GDP growth and that occurred in 2020 (Q1 and Q2) and 2022 (Q1 and Q2) with no official pronouncement of a recession from the National Bureau of Economic Research (NBER). The NBER is the final word on the indication of a recession and they have the luxury of waiting, looking back and saying, “Yes, there was

a recession six months ago and it last four months," with the invaluable benefit of examining past economic data before making a determination.
- 30%
- 40%
- 30%. The economy seems to be cooling, but the Fed has indicated rate cuts could be closer which will help prevent the economy from cooling too much and slipping into a recession
- 60%

Q14) What will the 10-year US Treasury yield at the end of 2024? (Please provide a percentage and your reasoning.)

- unsure
- Not my area of expertise and not sure how recent developments may have shifted this from earlier in the year.
- There are too many variables that can impact the future path of rates to make a projection. As the saying goes, there are many things that can happen in the future and one of them will.
- 3.7%
- 3.9%; it's currently at 3.9% and I expect it to remain around there as the market is already expecting rate cuts in September
- About 3.5% assuming the Fed starts cutting rates in September starting with a 25 basis point cut.
- 5.00% to reflect slow, steady easing cycle

Q15) Please provide your estimate of Real Ohio GDP Growth for 2024. (Please provide a percentage and your reasoning.)

- unsure
- Still likely 1-2%, still think overall situation is "stable" but could be impacted by a variety of macro factors if things shift.
- 1.5%
- 2.0%; no good knowledge base here, forecast from S&P Global Market Intelligence
- 1.5 - 2% slowing growth due to the economy cooling somewhat
- 2.0%

Q17) What is your current forecast for Ohio's Average U-3 Unemployment Rate in 2024? (Please provide a percentage and your reasoning.)

- unsure
- Not knowledgeable enough about this to make a good projection
- 4.5%
- 4.1%; S&P Global Market Intelligence

- 4.2% Unemployment rates were at about 4% for Ohio for the first half of the year and will likely increase as the economy cools
- 3.8%, slight increase

Q19) What is your outlook on Ohio-specific economic factors that are distinct from the national picture? (Examples: key industries, policy, upcoming projects)

- Ohio appears to be doing slightly better than national trends
- Seeing increasing competition for emerging industries such EV, semiconductors, etc. as other states begin to deploy resources and macro conditions impact initial CHIPS investments - developments with Intel plant and relationship to broader corporate layoffs that could shift trajectory of that investment are one example. Another ongoing trend is broader shift away from office park commercial real estate as primary office site locations, which is impacting regional/local economies and tax bases - many local leaders still hesitant to redevelop CRE office park holdings despite evidence that jobs have permanently shifted.
- GDP growth requires adding people and/or increasing each person's productivity. Ohio's GDP may continue to lag that of the broader us because the cities that serve as the primary engines for economic growth are capacity constrained from a housing standpoint. Inflation may linger in Ohio at higher levels than in other states due to the inflationary effects of government-subsidized "mega-projects" that keep the supply of skilled labor and raw materials for unsubsidized private consumption below equilibrium levels.
- The Aerospace and Defense Industry, Healthcare Industry, and insurance services are expected to grow significantly. The state of Ohio should keep diversifying its economy and invest in cutting edge technology in those industries.
- Ohio is still disproportionately reliant on Manufacturing which in a typical recession (or as the economy cools) is more likely to be hit harder. Ohio seems to be pivoting to new and growing industries more slowly than other states. Ohio seems to be slower to invest in local quality of life factors that are attracting workers (including remote workers) and attracting businesses that are increasingly following workers to nice places to live.
- no difference

Q20) Additional Considerations (Optional): Is there anything else you feel is important for the council to consider in our updated economic forecast?

- Need to monitor rise of skills-based training initiatives at the state level in many other Midwest states - those that are able to invest and deploy programs at scale will ultimately attract emerging industry since human capital is the primary site location factor. Evidence coming out of other states suggests that Central Ohio potentially has competitive advantage vs. other states in terms of the "demographic cliff" of aging workforce - how can the state leverage this and retain workers? Ongoing need to monitor GenAI impact in knowledge industries - have likely reached the peak of "hype cycle" and early adoption, but now mainstream commercial adoption cycle will begin which represents the major potential disruption to workers.

- While traditional measures of inflation are easing, from the perspective of the private consumer they are simply shifting from market-based inflation to government-enabled inflation. For example, the decline in used auto prices has simply been replaced with a dramatic increase in the cost of auto insurance (the price of a car is determined by the market, but the cost of insuring it is regulated by the state). Stabilization in housing price inflation has been more than offset by dramatic increases in homeowners' insurance and property taxes (again, home prices are determined by the market, but insurance is regulated by the state and property taxes are determined by local governments). Government-enabled increases to the cost of owning private property is the thing that is most likely to break the consumer, as the those carrying costs tend to stick at higher levels (i.e. insurance and taxes will go up if asset prices increase, but they never come down when asset prices decrease).