A New Angle

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Justin Angle: This is A New Angle, a show about cool people doing awesome things in and around Montana. I'm your host, Justin Angle. This show is supported by First Security Bank, Blackfoot Communications and the University of Montana College of Business.

Justin Angle: Hey, folks, welcome back and thanks for tuning in. Today is our January edition of Incentives & Instincts, a recurring series in which I speak with economist and friend Bryce Ward about some of the broader issues facing our society. Today, we'll look back on the predictions we made for last year and make a few predictions of what 2023 will bring. Bryce, Happy New Year.

Bryce Ward: Happy New Year to you, Justin.

Justin Angle: So, let's revisit some of what we made predictions around last year. Going to hold ourselves accountable. We'll start with our COVID predictions. Last January we said we'd see a massive spike in cases but lower death rates. And that's kind of what happened. We were at the front end of the Omicron wave. I felt like for the first two or three weeks of the semester, like half the class was missing with COVID, but the outcomes weren't, I mean, certainly people were getting really sick and there were some really awful outcomes, but overall, it wasn't as severe and that was a good thing in general.

Bryce Ward: Yeah, I mean, relative to 2020 and 2021, we had a big wave. We didn't have nearly as much death or hospitalization. And now here we are a year later. And yeah, COVID's still around. But I think the rest of that prediction was things would kind of be back to normal by now, and it feels kind of like they are.

Justin Angle: Yeah. I asked when we would be out of masks, sort of, you know, at the level of the schools and we were out of masks by the end of the semester. It was kind of a wild spring semester. We started in the height of, you know, pandemic numbers, so to speak, across our student body. But then by the spring, it was like normal almost. So, kind of a wild ride.

Bryce Ward: Normal ish, certainly. We're still kind of in that limbo of returning to whatever the new normal is. But certainly, COVID is not the first thing in mind as you go about interacting with other humans.

Justin Angle: Another prediction we made was around kind of, you know, what would we be doing as a society around remote work, around our relationship with going to work or school sick. And I will just say, at least in my household, we're still trying to figure that out. My kids are missing more school than I did when I was a kid. But at the same time, you know, I do think that staying home when you're not feeling well, and you have something that's communicable is probably smart. So, we're triangulating on that.

Bryce Ward: It's tricky. We had an unfortunate incident where my daughter had a choir concert, and she was clearly getting sick. And we had to be the bad guys, the heavies, you know, and we were like, no, your sister has the flu, officially has the flu. You are clearly getting the flu. So, no, we're not going to let you go and literally project viruses around. And, you know, I mean, it was difficult, but I still think it's the right thing to do. Now, are we getting it all right? No, but I think, you know, hopefully we're making marginal improvements in terms of not spreading germs as frequently.

Justin Angle: So, let's sort of quickly touch on the economy. The word that sort of was most salient in the predictions we made around the economy was the word you put out there. And you said the economy would be messy for most of 2022. And I think that prediction bore out. At the time we recorded inflation was the most salient issue. But yeah, where do we stand now?

Bryce Ward: I feel like describing the economy as messy was apt. It was messy for most of the year. It is still somewhat messy, although it's getting less messy.

Justin Angle: Yeah, and you were kind of concerned about labor force participation at that point.

Bryce Ward: It's still the issue. There's still some missing workers. Certainly, there appear to be some missing workers that are in that kind of older category, people who may have retired and then not come back or people who just retired early and then didn't come back what we kind of normally have back. But, you know, kind of prime age participation and employment are getting close to normal. They kind of fluctuate a little bit. But they're still a little you know, if you just say, like what's our labor force participation rate in Montana, it is roughly a percent, one percentage point below where it was pre-pandemic.

Justin Angle: Okay. I made a prediction about collegiate athletics, athletics declining in terms of its primary branding prominence for a university. I'm not sure how that prediction holds up. I don't think we really know yet. But I think a big test case that folks might pay attention to is what's happening at the University of Colorado Boulder. Prominent program that's been struggling for a number of years and they made a big hire with Deion Sanders. If you think of all the forces that are coalescing in collegiate athletics, the sort of rise of name, image and likeness compensation. The ability of players to sort of make incomes through a variety of channels and the NCAA having less control over that. Deion Sanders seems like the man for the moment. He was a person that was able to perform at the highest level of his sport, but also made a brand for himself and performed in that side of the sports business to a degree that, you know, few had seen before. So being able to operate as a Division One head coach and, you know, at the bowl level at a school that prominent. We'll sort of see what kind of players you can attract and what happens with them.

Bryce Ward: The world of college athletics is still very much in transition and very much struggling with the forces that essentially were initially unleashed by the College Football Playoff, which basically reduced the prestige available. And then, you know, what we saw was, oh, all the good players decided they wanted to go to the same six schools because those are the only ones that were going to get there. And then, yeah, obviously transfer portals and image and likeness and all of that kind of stuff. And, you know, like I said last year on the podcast, I still think the value in college sports from the university's perspective is it's a lightning rod for creating community. And as long as it can do that, then that's its value. But if it stops doing that, if it just becomes, I'm not really connected to it, I'm just following players or, you know, it's not a you know, it's not a means of building community, then we've really lost our way. We need to just kind of start back over.

Justin Angle: Yeah, I think that's well put. We talked a little bit about politics. We sort of didn't quite go out on too much of a limb here, but I do think the tenor of our prediction was the Democrats might do better than predicted in the midterms. And that kind of, we sort of got that one right, maybe not for the reasons that we articulated a year ago. But overall, I mean, I think that the misery index improved a little bit as you introduced me to the misery index and the sort of efficacy of running on corrupted elections, it was not a good position to run on. And the voters sort of pushed back and voted for people that were talking more about policy.

Bryce Ward: Yeah, you know, I think the things that we didn't foresee obviously were the overturning of Roe v Wade and the fact that Republicans really did pick a lot of awful candidates because, you know, the conditions were there for the Republicans to take the odds that we had laid out in that prediction because they had the turnout advantage. They had all of the things. It's just a lot of Republican voters that didn't vote for the Republican candidate. Yeah. And, you know, and so we kind of have split, right, because, you know, we were talking about Democrat's control versus Republican's control, and we have a split there. So.

Justin Angle: That's right. So that kind of is our quick review of our 2022 predictions. You know, some right, some wrong, some we don't know yet, but that's sort of the fun of it. Let's turn our attention to 2023. And, you know, we foreshadowed a moment ago that, you know, the economy is still messy. Maybe bring us up to speed on your general thoughts about the economy and what we might expect for 2023.

Bryce Ward: Inflation is still too high.

Justin Angle: Let's benchmark that, like what is the optimal level of inflation, and do we know or is that, should we just not even go there?

Bryce Ward: No, no. I mean, the Fed has a benchmark, right?

Justin Angle: Yeah. The Fed is 2 to 3 percent, right?

Bryce Ward: Two percent. If you're in that range, you don't get a lot of disagreement. Some people disagree whether or two is right or three you're right or whatever it is. So that's the goal. Right. And we are not there yet. We do have encouraging signs, you know, while we call top line inflation or, you know, year over year, inflation is still kind of showing big numbers. If you look at the trend, if you look at just more recently, what is a three-month average in, you know, you can look at a lot of different ways. Everybody's got a favorite different measure of inflation they're looking at these days. But they all seem to suggest that inflation is coming down. Now, if you try a different set of analysts look at it and they say, well, how much of this inflation that we're seeing is supply side inflation and how much is demand side inflation? And the mess that we had a year ago was because we had both. Supply chain was a mess. We have the war in Ukraine causing energy messes and we also had demand side stuff, households with lots of money in the bank and worker, you know, a shortage of workers and people chasing.

Justin Angle: Wage, inflation all of that.

Bryce Ward: We had both. The supply side factors have really disappeared. Right? We have largely gotten rid of most of the supply side shocks in the past few months. So, but we still have the demand side. And so, the big question as we go through this year is supply side in some sense is the easier thing to fix. It's kind of like a machine, right? You can kind of like, we're going to work on this.

Justin Angle: You can directly work on it.

Justin Angle: We're going to work on that, you know, and, and the companies have incentives to do so. So, the demand side, though, is the harder one, right? And the demand side is where we have this very blunt instrument, interest rate. Essentially, our ability to control the economy is like a kid driver. And the reason I thought of this is I took my kids golfing for the first time and watching them in a golf cart was interesting. They had different ways of dealing with it, but they were all kind of messy because they don't have the instincts yet. The set of information, how hard to hit the gas pedal, when to take your foot off the gas versus how hard to hit the brakes and what's going on around me. Those are all hard things that we learn when we learn to drive. I can drive on autopilot. We just don't ever get there with economic policymaking, right. Because the information we have is always, it's coming at this very slow rate. We don't really know how to interpret it because we've only been through so many recessions where we have data, right. The number of recessions that we have like kind of comprehensive data and people were paying attention to it is single digits, whereas like I've got tens of thousands of hours of driving experience. Our economic policymakers are basically like kid drivers, they're just basically trying to figure it out. And look, it's even worse because it's like trying to drive by committee. Right. Like, oh, I'm focused on this, and you're focused on this and all. I'm you know, it's like the bridge on, you know, the Star Trek enterprise. People are just talking, this is going on and that's going on. This is going on. And then Jerome Powell is kind of sitting there and, you know, the rest of the governors are like, do we go to this percent or that percent? And essentially, we have this very blunt tool, right. Which is like kind of a hard thing to even get right. And so, the question as we enter 2023 is, okay, can we get inflation all the way back down into that comfortable range without crashing the car into the ditch? Right now, I feel good, because we're seeing the disinflation. We've turned the corner on inflation, at least so far, without any sign of a recession. There's a whole host of indicators that the official, you know, the NBR panel that decides if we're in a recession like that, you can look at them. Employment is fine, income is fine, consumption is fine. You know, there's just no real indicator. There was some indication that GDP was off, but a lot of that was measurement issues. There's just really no clear indication that we are currently in a recession. So. That makes me feel good, right. Inflation appears to be on the right path. We have avoided the recession so far. That said, we still have this blunt instrument. Interest rates are up and they're up a lot. And again, for people of our generation, interest rates were kind of a non-factor.

Justin Angle: Pretty much, yeah.

Bryce Ward: I mean, when you were a bond trader back in the nineties, you might have had to deal with a little bit, but like.

Justin Angle: Yeah, mortgage rates for like six, seven percent back then, I think the ten year was around 4% or something.

Bryce Ward: But for 15 years, mortgage rates have been below 5% for the most part. And you know, when interest rates are low, you kind of go off in this real world and you kind of do low interest rate things. And when you kind of then very quickly move into a world where interest rates are not low, all sorts of things, now you go, oh, wow, that interest rate thing, it's really powerful, you know, I mean, it drives value the stock market. It drives the value of your business. It drives the value of your home. It drives investment decisions. And what are you and what are people with money investing in and how much can we deficit finance the things that we want the government to spend? And, you know, all of these very big questions that have been kind of on the back burner are now going to be, you know, on the front. So, you know, the big question is, is okay, well, how long do we have to keep interest rates up? And then what do high interest rates do to the rest of the economy? Because we already are seeing the disinvestment from high interest rates, which is what the Fed wants. It wants demand to go down, right. You know, people are building fewer houses. People are, you know, there's all sorts of things and it just kind of ripples through. And the question is, is how big do those ripples turn into and do they turn into a wave that tips us into something that we call a recession? Or do we just kind of, you know, get buffeted a little bit? And, you know, we kind of have what we call the soft landing where we kind of manage to get inflation down without the big or, you know, spike in unemployment and all the other effects that go with the recession. And that's, I'm feeling optimistic because of where we are right now. That said, I went and looked at a bunch of indicators before here and it was like, oh, you know, the there's an interest rate spread that people look at that has in the past been somewhat predictive of recession.

This is literally the recession probability chart. And there is now a roughly 40% chance of that spread is saying that there's a 40% chance of a recession by November of 2023.

Justin Angle: Okay. Last time I heard somebody talking about likelihood of a recession, it was Larry Summers saying 50%. So, 40% is lower than that.

Bryce Ward: Yeah, but it was basically zero a few months ago. It's moving up. But, you know, again, it doesn't predict it every time. There have been multiple instances where it has risen to the level that it is at currently and then come back down without a recession ever happening.

Justin Angle: We'll be back to my conversation with Bryce Ward after this short break.

Justin Angle: Welcome back to A New Angle. I'm here with Bryce Ward, making some predictions for 2023.

Justin Angle: I was reading some commentary this morning talking about economic inequality. And, you know, we've talked about that many times on this series. But the thrust of the piece was that actually economic inequality has been on the decline over the last ten years, roughly.

Bryce Ward: Peaked in 2007.

Justin Angle: Yeah. And so, to the extent we think economic inequality is a problem for the economy, that the decline in it is maybe attributable to good policy, whatever. But overall, the argument is that that could lend more stability to the economy.

Bryce Ward: Who gets hit, historically, it was lower income households, they got hit by the unemployment way hardest. They had fewer resources to absorb that loss of income while still maintaining consumption. And so, they pulled back on consumption. And that was where we got the big reduction in demand. And if they have more money still sitting in their bank accounts, their wages are up more than for other people. And employers have just gone through this massive like hiring shock where they're trying to hold on to workers because they don't want to let somebody go and then be like, oh, crap. I want to go hire again. And it's still bad. So, there's this kind of recency bias in terms of, you know, I don't want to go through that. So, let's stick this out for a little bit longer. You know, the challenges that maybe keeps the demand from falling where we need it to. And that means inflation doesn't go down and that means we just keep going. And so, you know, that's the challenge. That's the that we're walking. Right? Wages are I think, the thing that people are watching, that's where we don't know. And does the protection against the adverse consequences of a slowdown in demand. I mean, we don't get the slowdown in demand, so we just kind of persist with higher inflation and we kind of have to figure things out. Or can we find the sweet spot of, yeah, I'll pull back, I'll pull back a little bit on my spending or whatever it is and get enough people to do that. And then, you know, the wage bargaining cycle comes in. It's like, okay, I don't need to sit here and say, I need, you know, a 6% raise because I don't think inflation is going to keep being this high and, you know, yada, yada, yada. So, yeah, that's the hopeful side. You know, if it's going to happen, I think the conditions, you know, like that buffer matters, right? That's what kind of allow, that's the cushion. So, you know, the question is, is the cushion too soft or is it just right and we'll just kind of glide down and a year from now we'll be sitting here saying, yeah, inflation's at two and a half percent, 3%. It's on the right track. We didn't have a recession. You know, we kind of cleaned up a little bit of these messes here and there from the, you know, change in interest rates, but. It looks like we're on solid footing and ready to go forward, back into, you know, something that is growth without inflation.

Justin Angle: So, if I were to distill your 2023 prediction for the economy into something, a one sentence answer, it would be something like the economy will remain messy, but maybe a little less so.

Bryce Ward: Either it will be less messy, and I think that's the more likely outcome. Or it will get more messy, but it will be the kind of mess that I mean, if we have a recession, it's not going to be the Great Recession. It's going to be a normal recession.

Justin Angle: Barring any unknown shock.

Bryce Ward: Yeah, yeah. But we're more on the like, oh, this would be like a 2000 recession or a '91 recession, which are, you know, they're recessions, but they're kind of over pretty quick.

And, you know, it's like a little blip. We readjust and then we get back to things. So, you know, I think that's possible.

Justin Angle: Okay. So, let's shift in our remaining time to a couple other areas. Politics. You know, I have maybe a delusionally hopeful prediction, but I predict that, you know, we will see kind of a continuation in what I hope was the beginning of a trend in the 2022 election. And that is sort of the reduction in the salience of identity politics and tribalism. I think that, you know, we saw in the 2022 election that generally candidate quality mattered and candidate rationality mattered. Voters appeared attracted to candidates that were proposing solutions to actual problems. So, I'm hopeful that maybe we'll start to think about policy. I think these economic factors that you mentioned play into this in a big way. You know, if the economy continues to be messy, but going in the right direction, if inequality is on the decline, people have less to be angry about. And you can whip them up about a narrower range of things. So that means that the tent gets smaller for that type of politics. Anyway, that's my hope, is that we'll kind of maybe unwind some of this extreme polarization that we've been experiencing the last few years.

Bryce Ward: I'm hopeful as well, although maybe for different reasons. There is a school of thought that says that the identity politics is a function of post materialism. So, the economy doing well allows us to fixate on these elections. Why I think we will hopefully see less of it is for at least some margin of the population, I think they're tired of it. And as you point out, it didn't work. And politicians are businesses. They're selling a product and they look at the market and when they see a product that's not selling, they will stop supplying that product. So, the question is, is really you know, the supply side is easy to understand, right? It's, does this win? Does this work? Our hope is that it works for fewer people and for fewer places. Yeah, I think that there is a significant swath of the population who, we have immunity. I saw this metaphor as somebody talked about it with respect to China, both with their zero COVID problem they tried to repress and now they're dealing with, oh, we didn't create natural immunity. The rest of us did. They also do that with their media, right? They repress, repress, repress. Whereas we've had to deal with all of the bad effects of social media. But we're learning. We're learning how to be humans in a world. Now, it's slow and messy, and perhaps we'd better if we didn't have to go through this. But at the margin, more and more of us are learning and the researchers are helping us learn how to not fall into the traps. For me personally, I no longer will identify, use the word I am with respect to any political label.

Justin Angle: Yes.

Bryce Ward: It's not an identity. I don't want it to be an identity. I don't think having it as identity does anything productive for me. I am optimistic that we are moving in a direction of where that message is less popular. It will still be out there, but it will be less popular and less likely to then dominate everything.

Justin Angle: Okay. Last round here, any other areas where you want to go out on a limb and offer a hot take as to what we can? Bryce, you never offer hot takes. Your takes are as cool as a cucumber. So, what do you got?

Bryce Ward: So, migration into Montana in the past two years has literally been off the charts. If you look at any one year, even two-year period in this century, we're double what any year was. And on average, if you just average it, we're three times the average. I think that will continue over the long run. Remote work is a big change to how regional economics works now for this year, with high interest rates, making buying housing maybe less desirable, maybe...

Justin Angle: Buying and building.

Bryce Ward: Yeah, it makes it maybe a little bit of a more of a challenge. Maybe you won't see it as much and we'll see if that derails the momentum that you know, we have. But, you know, over the course of a decade. Who knows exactly how much remote work will persist, but it doesn't take that much in the state the size of Montana to make a huge dent. Because the simple story of a regional economy is I think it's 75% historically of households have workers, those households, almost all of them, you know, again, pre-pandemic had to get a job where they lived, you know, so they had to be within a commute. So, the thing that constrained growth in Montana was, well, how many households are fully footloose? You know, which is small, there's retirees, people with money and the handful of remote workers that existed pre-pandemic and then, oh, well, what kind of opportunity could you produce in Montana? And we you know, you could produce opportunity in Montana, but it just you know, it was somewhat limited by the size of the state. But when you say to, it's roughly, it's 30% of workdays are now completed at home. Now, some of those are hybrid, but even hybrid workers can work here and commute. I know people that did that before the pandemic. And it's ultimately there's 15 million additional households that have remote workers relative to 2018. 10 million of those are fully remote, as in every worker in the house works from home. So that's 15 times the size of Montana's population is now footloose. Those households, even pre-pandemic were 40 to 50% more likely to move across state boundaries, as you might imagine. So, yeah, it's, that's the challenge, which is, you know, there's this big rock that we've threw into the pond in Montana of demand for Montana is going to be higher. And you know, there's all these side demands, right? Like I hear about these occasionally, right? Like the people who work for these tech companies that are just nomads. I'm going to be here for the ski season. I'm going to be here for the summer. And, you know, that's demand for Montana too. The demand curve for Montana has shifted out. I feel very comfortable saying that whatever the demand curve was before and it was growing, it was, you know, we are now shifted on to a new trajectory and how much that remains to be seen. But when you shift out the demand curve, you get the good part. Okay, more demand is good usually, but there's also the hard part, which is when there's more demand. Some things I can't increase supply to meet demand. And that's the challenge, right? Is I can build more houses, I can build more roads. I can't create more lakes.

Justin Angle: Yeah. And you can't create more space to put those houses and homes and all of that.

Bryce Ward: So, there's tradeoffs there and those are real tradeoffs. And so, you know, my prediction for Montana, maybe not this year, but certainly over the decade, is we were always having, this has been going on forever, really. But, you know, certainly through the various booms in the seventies, the nineties, even the housing boom and what was going on before the pandemic, Montana was in a relatively strong growth period. So, we're already having these conversations. But when you say I mean, there's already 28,000 more people in Montana than had we grown at the rates pre-pandemic, you know, we normally would have added ten. And, you know, that goes on for even a few years. All of those conversations about how do we manage the truly scarce resources, the rivers, the lakes, the water, the wildlife, all that kind of stuff, those become very salient and very, very difficult to have. But we're going to have to figure it out because, you know, the consequences is that we just kind of stumble our way and we ended up in a world where we're it's all cost and no benefit or mostly cost and fewer benefits. What we want to find is, well, how do we get the most benefit out of this increase in opportunity, the increase in consumption? And there's all the things that come with more people without having to then move into a world where, you know, the scarcity is really salient, and those fights are really salient, and they become destructive.

Justin Angle: Well, a lot to work through in the year ahead and the decade ahead and in all of what's ahead, Bryce, in the next month, maybe we'll talk a little bit more specifically about your upcoming keynote on the BBR Economic Outlook tour. But until then, I think we have a lot for listeners to think about and a lot to be hopeful around in 2023. So yeah, thanks for being here today.

Bryce Ward: Here's hoping for another good year and you know, here's hoping for another five years of doing this.

Justin Angle: Thanks for listening to A New Angle. We really appreciate it. And we're coming to you from Studio 49, a generous gift from UM Alums, Michele and Loren Hansen.

Justin Angle: A New Angle is presented by First Security Bank, Blackfoot Communications and the University of Montana College of Business, with additional support from Consolidated Electrical Distributors, Drum Coffee and Montana Public Radio. Keely Larson is our producer. VTO, Jeff Amentt and John Wicks made our music. Editing by Nick Mott, Social Media by Aj Williams, and Jeff Meese is our master of All Things Sound. Thanks a lot, and see you next time.