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Local economists say national spending trend staved off a recession, but Spokane-area impacts remain to be seen

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A trader works on the floor of the New York Stock Exchange in lower Manhattan in June 2022. Forecasters are no longer predicting a recession in 2023. (New York Times)



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To curb inflation, the Federal Reserve committed to a campaign of rate hikes on mortgages, auto loans, credit cards and business borrowing that left many economists predicting the United States would enter a recession before inflation could be tamed.

But that didn't happen.

And in fact, it was announced Thursday, the economy grew by almost 5% – driven by Americans continuing to spend lots of money in spite of those rising costs.

“It's hard to imagine, with the strength of the labor market, that we're going to be in a recession anytime soon,” said Patrick Jones, executive director for the Institute for Public Policy & Economic Analysis at Eastern Washington University.

Around this time last year, 72% of economists polled by the National Association of Business Economics expected the nation to be in a recession by the middle of this year.

Grant Forsyth, chief economist at Avista Corp., was among those who expected the higher interest rates would cool the economy.

“The economy absorbed the Federal Reserve's higher interest rate policy much better than I expected,” Forsyth said. “I joined in on the conventional wisdom that the policy was going to dampen both consumption and investment activity in a way that would create a mild recession, but we just haven't seen that occur.”

So what does it mean for Spokane?

It's hard to say – especially when everyone has so far been so wrong.

“To have that more than doubled is a little embarrassing,” Jones said. “Any sort of recession is certainly not going to happen in 2023 as people initially thought.”

Jones said the consensus prediction among economists was that national GDP would grow by a modest 2%.

According to Jones, both consumers and businesses have weathered the increased interest. At least so far.

“We all have to remember what a recession means,” Jones said. “There's five or six other criteria for determining whether we are in a recession, and one of them is the labor market.

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Jones noted that consumers spent considerably more on services – which includes health care, hospitality and professional services – as opposed to goods.

And this has many implications for Spokane’s economy.

Forsyth said it shows opportunities for employment growth. The Spokane-Coeur d’Alene region likely grew its labor force by about 2%, but it could have grown more, he said.

“We had a pretty good year in terms of employment growth, but one of our key industries is going to be healthcare, which is facing a big shortage of healthcare workers,” he said. “We could have had better employment growth than what we actually observed.”

But if consumer spending continues to shifting to services rather than goods, Jones said Washington state will miss out on potential tax revenue.

“The sales taxes in this state are heavily skewed towards taxing goods, not services,” Jones said. “And we are an economy that is more driven by service expenditures than by goods expenditures, so the tax base in Washington state is narrowing.”

As property tax collection is affected by the housing market, and given that around half of the statewide revenue is driven by sales tax, Jones advises local governments to be conservative in their spending next year as housing slows because of high interest rates.

Forsyth is also wary.

“There are some potential risks in terms of economic growth in 2024,” he said. “The rise in interest rates may still impact consumption, and we have yet another war that has cropped up and just like the Russian-Ukraine war did; it has the potential to really disrupt commodity markets.”

“And that uncertainty by itself can cause people to hold back on both spending in terms of consumption, and also business investment,” he said.

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