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## THE STATE OF THE ECONOMY

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The Oregon Office of Economic Analysis recently described Oregon’s economy as at “full-throttle growth.” Indeed, employment and population growth in Oregon has been strong and climbing since the end of the Great Recession, and the second quarter continued these trends. The Portland area has similarly seen a growing economy, and job growth in the second quarter led to a 12-month job growth rate of 3.6 percent, a rate higher than all but one of the past 15 years.

Nationally, GDP growth resumed in the second quarter after anemic first quarter growth. All eyes remain on the Federal Reserve, which is expected to raise interest rates by the end of the year.

The second quarter saw volatility on the global stage, with concerns over Greece, China, and Iran taking up the economic headlines and impacting asset markets. The price of oil rose in the second quarter, yet remains significantly below prices from a year ago—as such, U.S. consumers maintained their overall spending. The dollar remained strong as investors clamored for stability, hampering profits from US exporters and companies with significant international sales.

■ Adam Seidman is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author’s responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

**Table 1: Key Economic Indicators, Portland MSA, Oregon, and US Q2 2015**

	<b>Q2 2015/ June 2015</b>	<b>Q1 2015/ March 2015</b>	<b>Q2 2014/ June 2014</b>
<b>GDP Growth (annualized)</b>			
US	2.3%	0.6%	4.6%
<b>Unemployment Rate</b>			
US	5.3%	5.5%	6.1%
OR	5.5%	5.4%	7.0%
Portland MSA	5.4%	4.9%	6.3%
<b>Job Growth Rate (12-mo growth)</b>			
US	2.1%	2.3%	1.9%
OR	3.0%	3.3%	2.6%
Portland MSA	3.6%	2.9%	2.9%
<b>Inflation (12-mo unadjusted)</b>			
US	0.1%	-0.1%	2.1%
<b>Interest Rates</b>			
Federal Funds Rate	0.1%	0.1%	0.1%
10-Year Treasury	2.4%	2.0%	2.6%

Sources: BEA, BLS, Federal Reserve, Oregon Employment Department

## GLOBAL TRENDS

The International Monetary Fund revised its global growth projection down slightly for 2015 to 3.3 percent, based mostly on weaker activity in North America in the first quarter. However, it notes that the major drivers for economic growth remain intact, namely: easy financial conditions, a more neutral fiscal policy in the Euro zone, lower fuel prices, and improving confidence and labor markets. Growth is expected to be positive in all regions of the world except for Russia and Brazil, which are believed to be in recession.

Growth in China, while still expected to be strong in 2015, looks like it is on a slowing trajectory. The Oregon Office of Economic Analysis notes that with China now a top destination for Oregon exports, the state of the Chinese economy has spillover effects to the local economy. It notes that the slowdown of growth across Asia poses a growing threat to the growth prospects of the Pacific Northwest.

Greece did not leave the euro zone in the second quarter, and instead worked out a multi-billion euro bail-out in July, its third in five years. It remains to be seen what the deal and austerity measures will mean for the Euro zone and global markets going forward.

Oil prices in the United States rose 25 percent in the second quarter after slumping to near six-year lows earlier in the year. This rise was felt by consumers as the Consumer Price Index ticked up in May and June in part due to rising prices at the pump. Consumer spending, however, still grew in the second quarter and helped to sustain GDP growth.

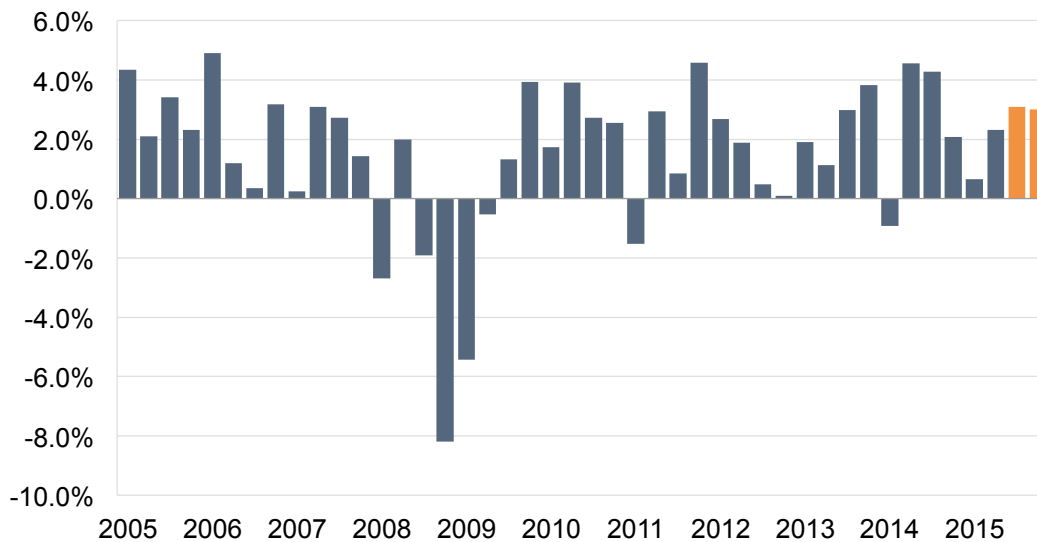
The dollar continued to show strength versus foreign currencies, and has appreciated about 12 percent since the middle of 2014. This has continued to impact the prices of US exports as well as the value of foreign sales of U.S.-based firms.

Talks continued between 12 nations on the Trans-Pacific Partnership. The potential reduction in tariffs could have a significant impact on regional companies like Nike.

## GDP/OUTPUT

After a disappointing first quarter which saw GDP growth of 0.6 percent, the United States economy came back in the second quarter with annualized growth of 2.3 percent. According to the Bureau of Economic Analysis (BEA), growth was driven primarily by consumer expenditures, exports, government spending, and the housing sector. The Wall Street Journal Economic Forecasting Survey projects annualized GDP growth of 3 percent per quarter for the remainder of 2015.

**Figure 1: Gross Domestic Product, United States, Annualized Percent Change, 2005–2015**



Source: Bureau of Economic Analysis (blue bars) and Wall Street Journal Economic Forecasting Survey (orange bars)

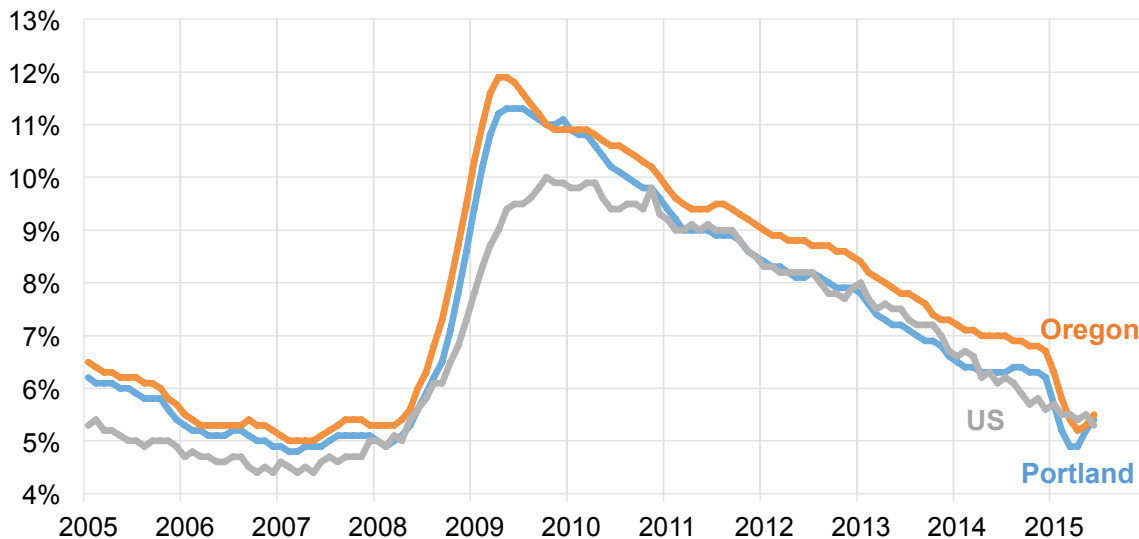
According to the U.S. Bureau of Economic Analysis, Oregon output grew 3.6 percent in 2014, making it the 6<sup>th</sup>-fastest growing state in the country. This growth came in part from durable goods manufacturing, which is dominated by semiconductor manufacturing in Oregon. Notably, Oregon derives over 23 percent of its GDP from durable goods manufacturing—the highest rate of any state and more than three times the national share.

## EMPLOYMENT

The Bureau of Labor Statistics (BLS) reported that total U.S. nonfarm employment increased by 223,000 in June and unemployment declined by 20 basis points to 5.3 percent. The last time that the national unemployment rate was this low was in April 2008.

The unemployment rate for Oregon and the Portland area ticked up slightly in June, to 5.5 percent and 5.4 percent respectively. According to the Oregon Employment Department, the increases could be attributed to new in-migrants, recent college graduates, and students on summer break look for jobs.

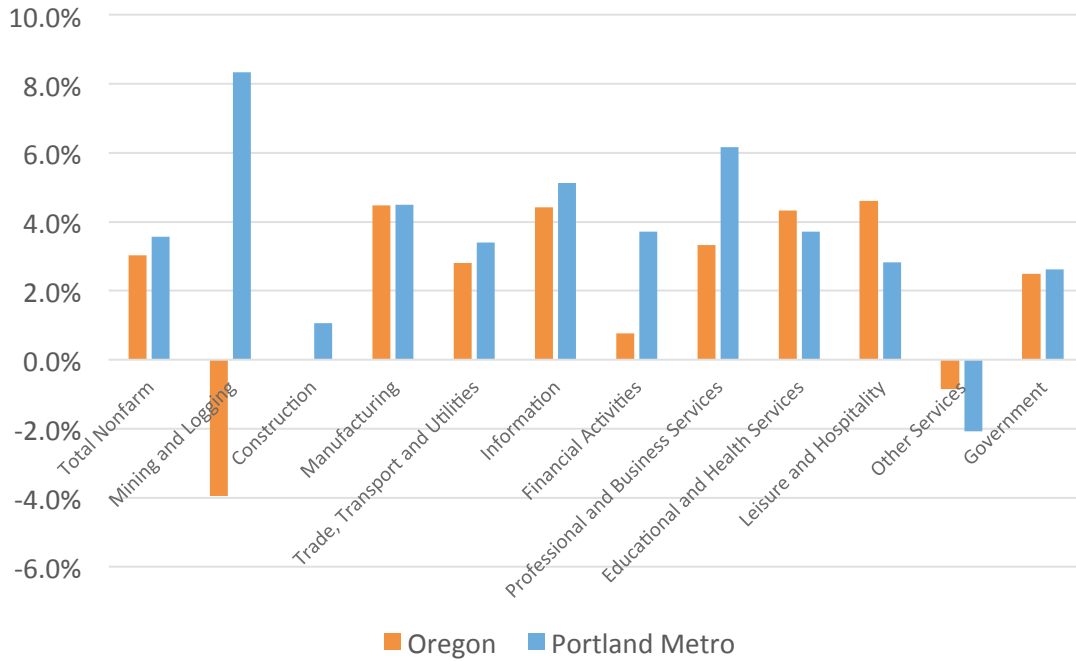
**Figure 2: Unemployment Rate, Portland MSA, Oregon and United States, 2005-2015**



Source: Bureau of Labor Statistics

Despite the slight rise in unemployment, both Oregon and the Portland MSA added jobs in June. Job growth has been strong over the past year—in the 12 months to June 2015, Oregon's job growth rate was 3.0 percent and that of Portland MSA was a robust 3.6 percent. Both of these rates compare favorably to the national growth rate of 2.1 percent over the same time period.

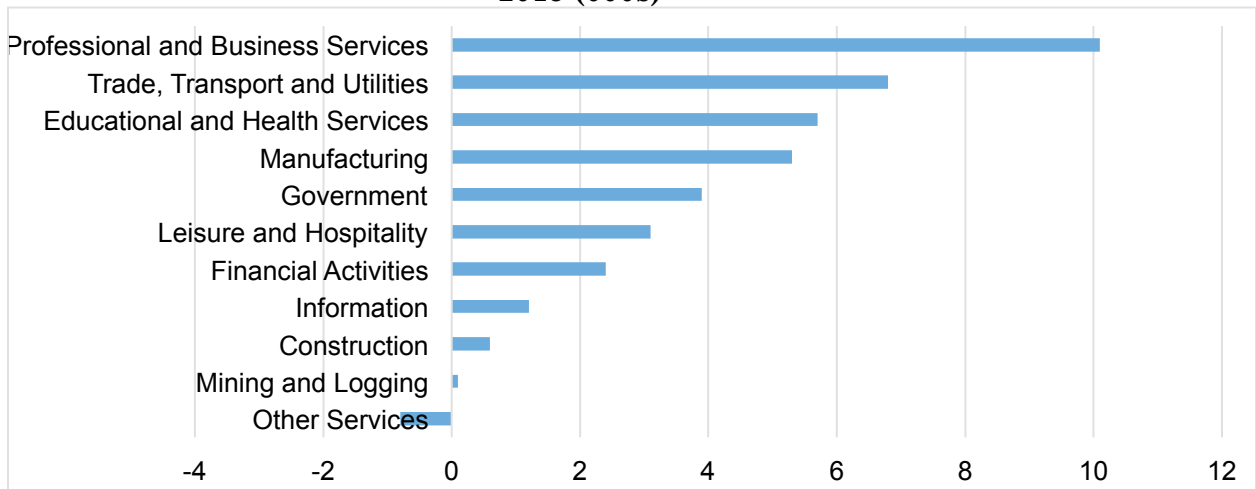
**Figure 3: Employment Growth Rate by Sector, Portland MSA and Oregon, 12 Months to June 2015**



Source: Oregon Employment Department

The Portland MSA added over 38,000 jobs in the past 12 months, and employment levels are now solidly above pre-recession levels. Employment growth has been relatively broad-based and has been led by strong growth in Professional and Business Services. According to JLL, the number of companies expanding in the MSA continues to increase, having an impact on commercial vacancy and rental rates.

**Figure 4: Employment Growth by Sector, Portland MSA, 12 Months to June 2015 (000s)**



Source: Oregon Employment Department

Alongside strong job growth has been a corresponding surge in population growth in the Portland MSA. Since 2010, the Portland MSA has added over 100,000 people – nearly half from net in-migration. Population growth rates have risen every year since the end of the Great Recession, reaching 1.5 percent by mid-2014. Attracted by jobs and a relatively low cost of living (compared to West Coast cities), new in-migrants have helped to increase demand for housing in the region.

Job growth in Oregon and Portland is expected to continue. The Oregon Office of Economic Analysis expects growth in the realm of 3 percent annually from 2015 to 2017. Other forecasters, such as IHS, are less bullish about growth prospects after this year.

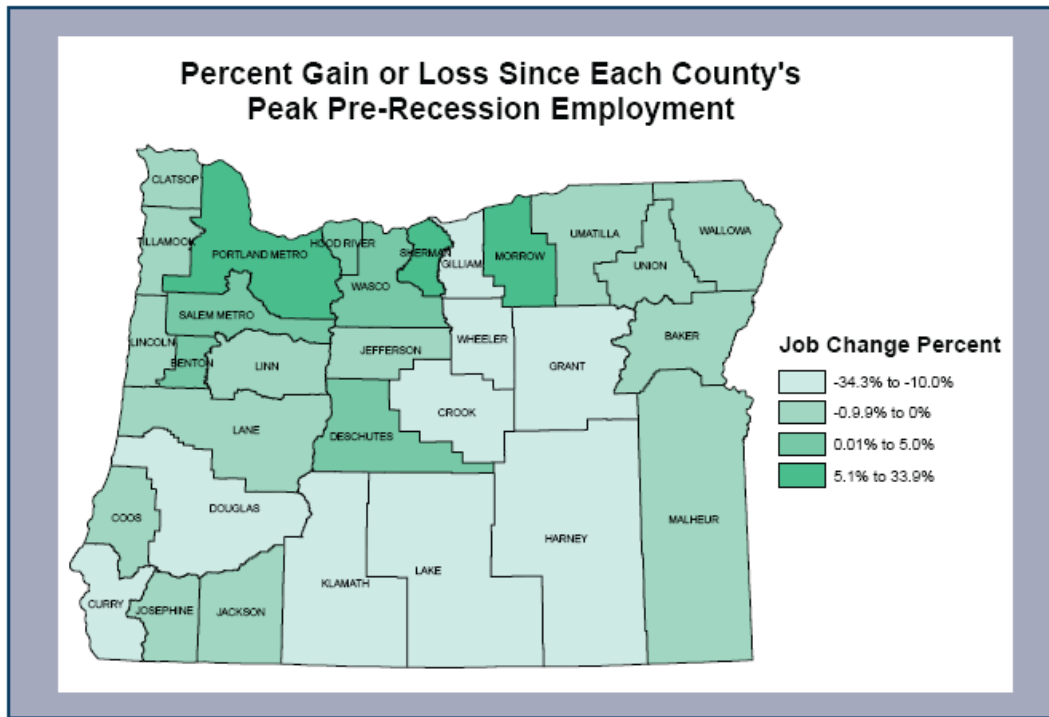
**Table 2: Employment Growth Forecasts, Oregon, 2015-2017**

<b>Forecaster</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Oregon Office of Economic Analysis	3.3%	2.9%	3.0%
IHS Economics	3.0%	1.7%	1.5%
Western Blue Chip Consensus	3.4%	2.9%	-

Source: Oregon Office of Economic Analysis

Job growth has not been as strong across the entire state. While the Portland MSA is above its pre-recession employment level, there are many areas in eastern and southern Oregon that have not gained back the jobs lost in the Great Recession, as is evident in the following map of the state:

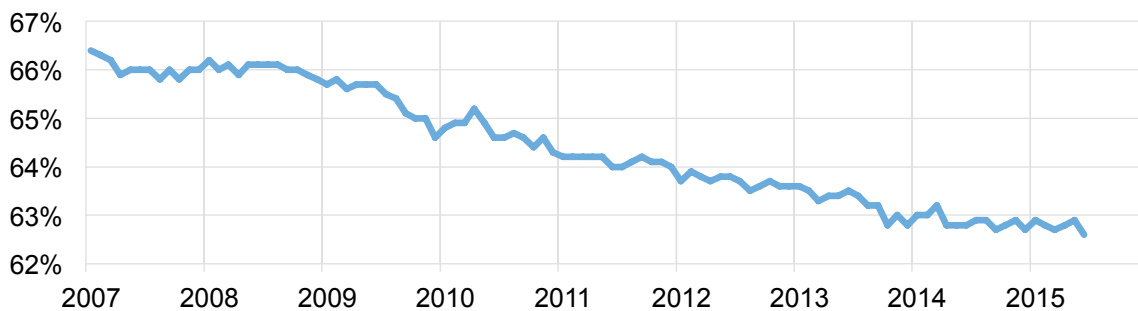
**Figure 6: Employment Growth by Sector, Portland MSA, 12 Months to June 2015 (000s)**



Source: Oregon Employment Department

Another potential issue involves the labor force participation rate. Oregon’s labor force participation rate was 60.3 percent in June, the lowest rate since records began in 1976. This trend is similar to the national trend, which at 62.6 percent is the lowest it has been since 1977.

**Figure 7: Labor Force Participation Rate, United States, 2007-2015**



Source: Bureau of Labor Statistics

## INFLATION

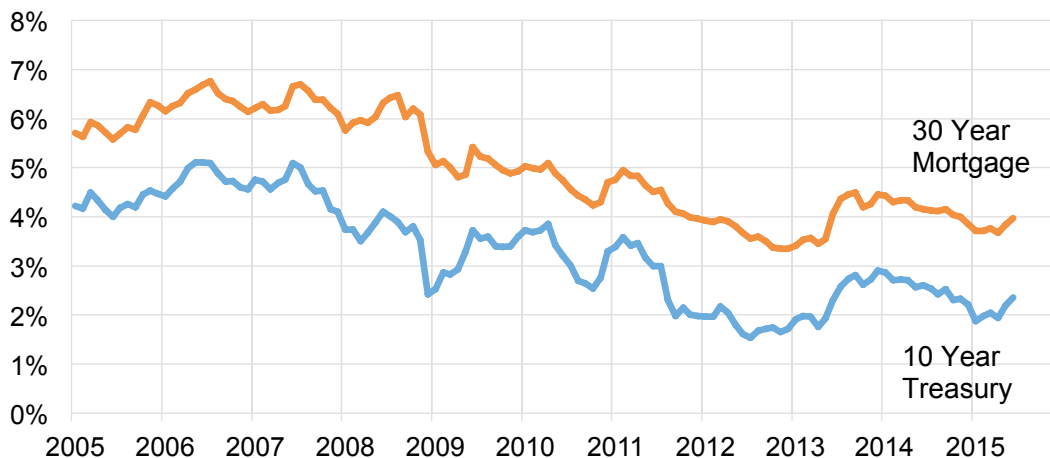
The United States Consumer Price Index (CPI-U) increased 0.3 percent in June on a seasonally-adjusted basis and 0.1 percent for the 12 months to June on a non-adjusted basis. Increases in gasoline, food, and shelter all contributed to the higher level. Despite the recent increases in fuel costs, the energy index is still down 15 percent over the past year due in large part to lower oil prices. The Wall Street Journal's Economic Forecasting Survey projects that the unadjusted 12-month CPI will increase by 1.3 percent in December 2015.

## INTEREST RATES

The Federal Funds Rate remained virtually unchanged in the second quarter at 0.13 percent. It is widely believed that the Federal Reserve will raise the rate once or twice by the end of 2015. The Wall Street Journal's Economic Forecasting Survey projects that the rate will increase to 0.54 percent by December 2015.

The 10-year Treasury and 30-year mortgage rates ticked up in the second quarter, ending June at 2.36 percent and 3.98 percent respectively. Both of these measures remain about 20 basis points under their June 2014 levels.

**Figure 8: Treasury and Mortgage Rates, United States, 2005-2015**



Source: Federal Reserve

## LOOKING AHEAD

Real estate investors will be watching for changes in interest rates, and many economists predict that the Federal Reserve will raise rates by the end of the year. Locally, population and employment growth looks likely to continue along its trajectory for the remainder of 2015, increasing demand for residential and commercial space, especially in close-in locations. ■