

THE STATE OF THE ECONOMY

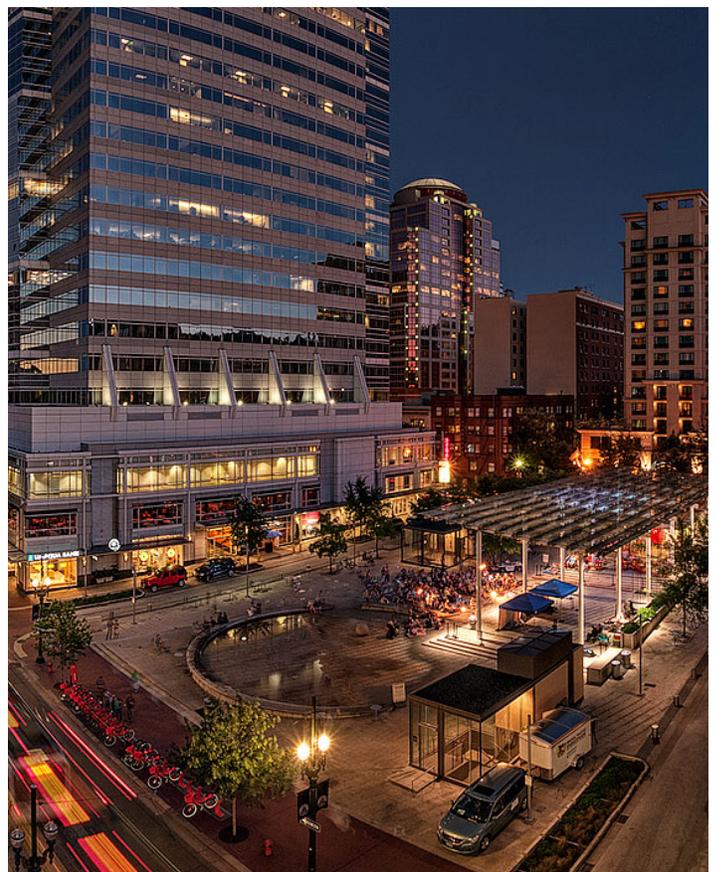
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The United States economy in 2017 continued the steady growth since the Great Recession. The country is now in the longest economic expansion since the 1990s and the third longest in the nation's history. Real gross domestic product (GDP) increased at an annual rate of 2.6 percent in the fourth quarter of 2017 according to the Bureau of Economic Analysis realizing a 2.3 percent increase for the year compared to 1.5 percent in 2016.

The stock market continued the strong growth of 2016 through the entirety of 2017 adding over 5,000 points to the Dow Jones Industrial Average for the year. Tax cuts passed by the federal government are expected to add to corporate profits in 2018 and will likely sustain the growth seen in 2017 through 2018, barring unforeseen events.

Unemployment fell to a 17 year low of 4.1 percent in the fourth quarter of 2017 nearing the low point of 3.8 percent reached in 2000.

While equities markets and corporate profits experienced significant growth in 2017, real average hourly earnings in the U.S. rose by only 0.4 percent for the year while the Consumer Price Index (CPI) grew by 2.1 percent, effectively leaving US workers with a lower standard of living than at the end of 2016.



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US ECONOMY



Additionally, a weaker dollar combined with increased government borrowing due to the tax legislation's reduction in tax revenue is starting to put upward pressure on U.S. Treasury yields, increasing the burden of government debt. The yield on the 10-year note pushed up at the end of 2017.

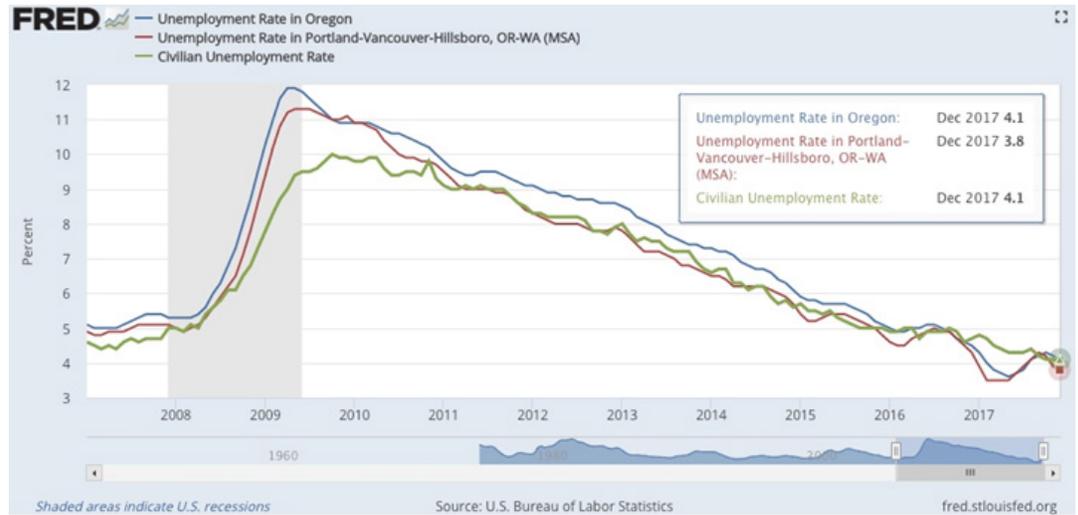


OREGON ECONOMY

Oregon's economy continued its strong growth in the fourth quarter of 2017. The unemployment rate dropped to 4.1 percent after rising to 4.3 percent in October from a low of 3.6 percent in May 2017.

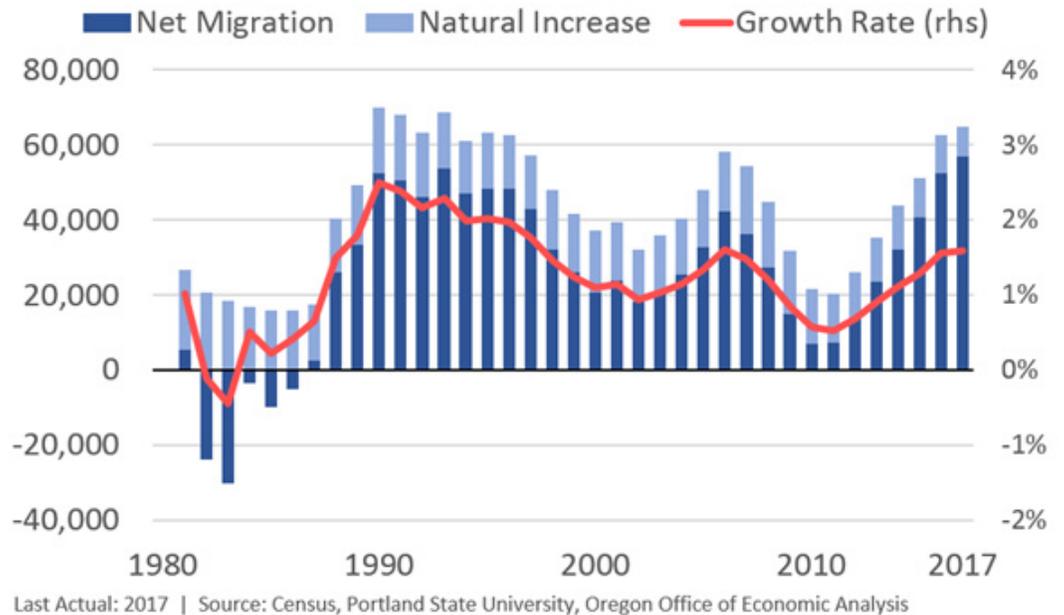
Over the same period, Oregon's labor force has grown due to a significant population growth. The labor force has grown from a low of 1.9 million in 2013 to a high of 2.14 million at the end of 2017, an increase of 240,000 people in just over four years. Over the same period, Oregon's GDP grew from \$196 billion to \$226 billion, a 15 percent increase.

OREGON ECONOMY



Oregon’s population has been growing in the range of 1-2 percent for the last 20 years but an interesting note that is demonstrated by the chart below from the Oregon Office of Economic Analysis is that a significant majority of the population growth comes from migration. New migrants to Oregon tend to be younger, which lowers the average wage but also supplies the human capital for sustained growth.

Oregon Population Growth



STATE OF THE ECONOMY

PORTLAND ECONOMY

Looking around the city it is easy to see that Portland's economy has been booming. The Portland metro area's unemployment was at 3.8 percent at the end of 2017, just below the national average.

Rents have risen roughly 27 percent in the city in the last four years according to Kidder Mathews multi-family report and cap rates have fallen for all property types.

One worrying note that Christian Kaylor from the Oregon Employment Department spoke to at a recent Columbia Corridor Association meeting is that incomes in the Portland area are becoming increasingly stratified with the average income in the west side of Portland now at \$104,000 annually and average income on the east side of \$44,000. Kaylor points out this disparity and concentration of income categories in different parts of the city can be detrimental to social mobility and community engagement.

LEGISLATIVE CHANGES

The tax bill enacted by congress in the fourth quarter of 2017 will have significant on real estate professionals. The reduction of the mortgage interest deduction from \$1 million to \$750,000 may put downward pressure on housing prices in the Portland area. With interest no longer being deductible on a home over \$750,000, the home price that a potential buyer can afford may be reduced.

In addition, the elimination of state and local tax deductions over \$10,000 may impact high tax states, such as Oregon and specifically a significant number of Portlanders who pay higher taxes.

The biggest win for real estate investors is the changes to pass-through income reporting. Many real estate investors structure their companies as pass-through entities and report their income on their personal taxes. The new legislation allows pass-through entities to deduct up to 20 percent of their qualified business income.

While there was discussions about eliminating 1031 exchanges (a tax code provision that allows investors to roll profits from a real estate sale into another investment without paying taxes on them) the final version of the bill left the benefits of the exchanges intact.