01

ECONOMIC OVERVIEW

Economic Analysis

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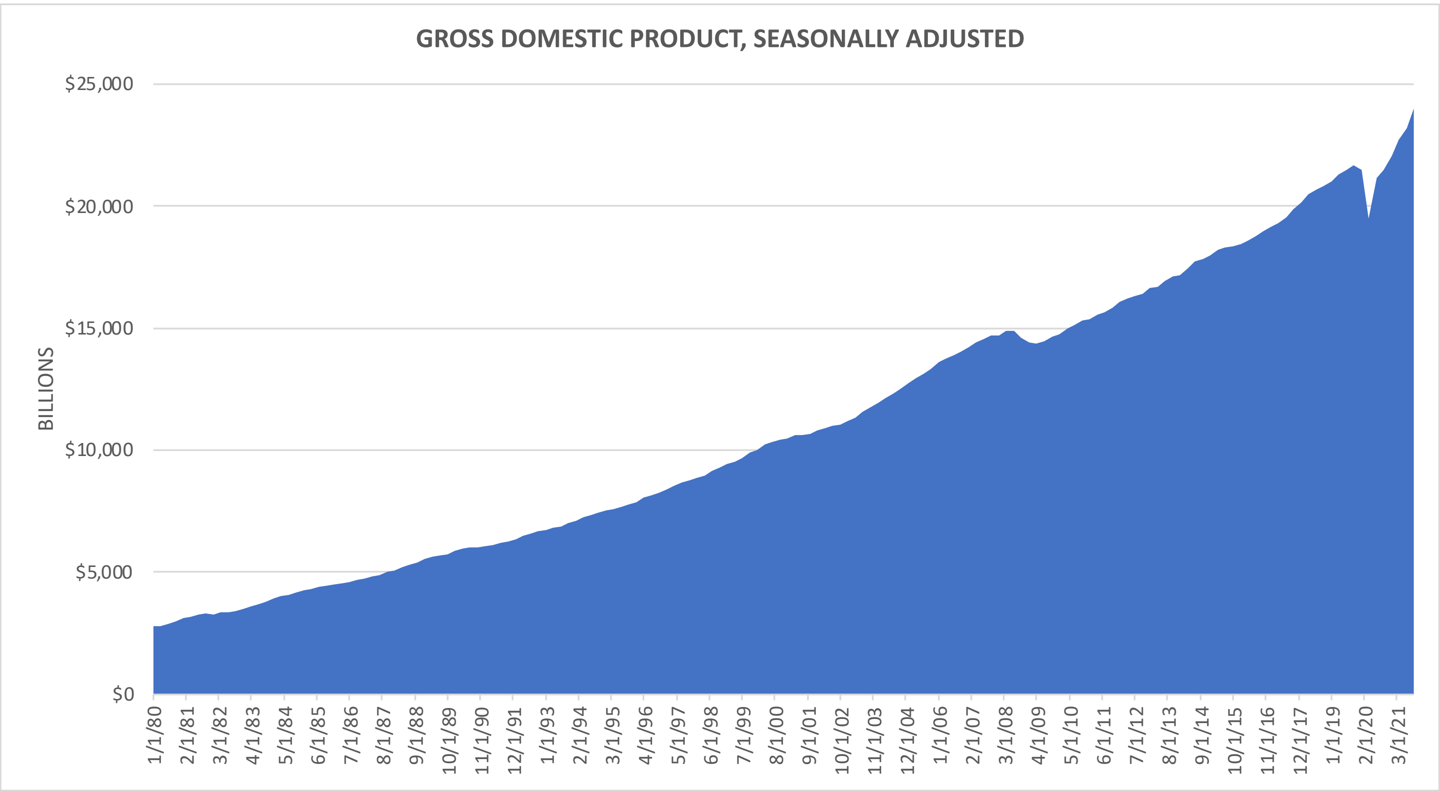
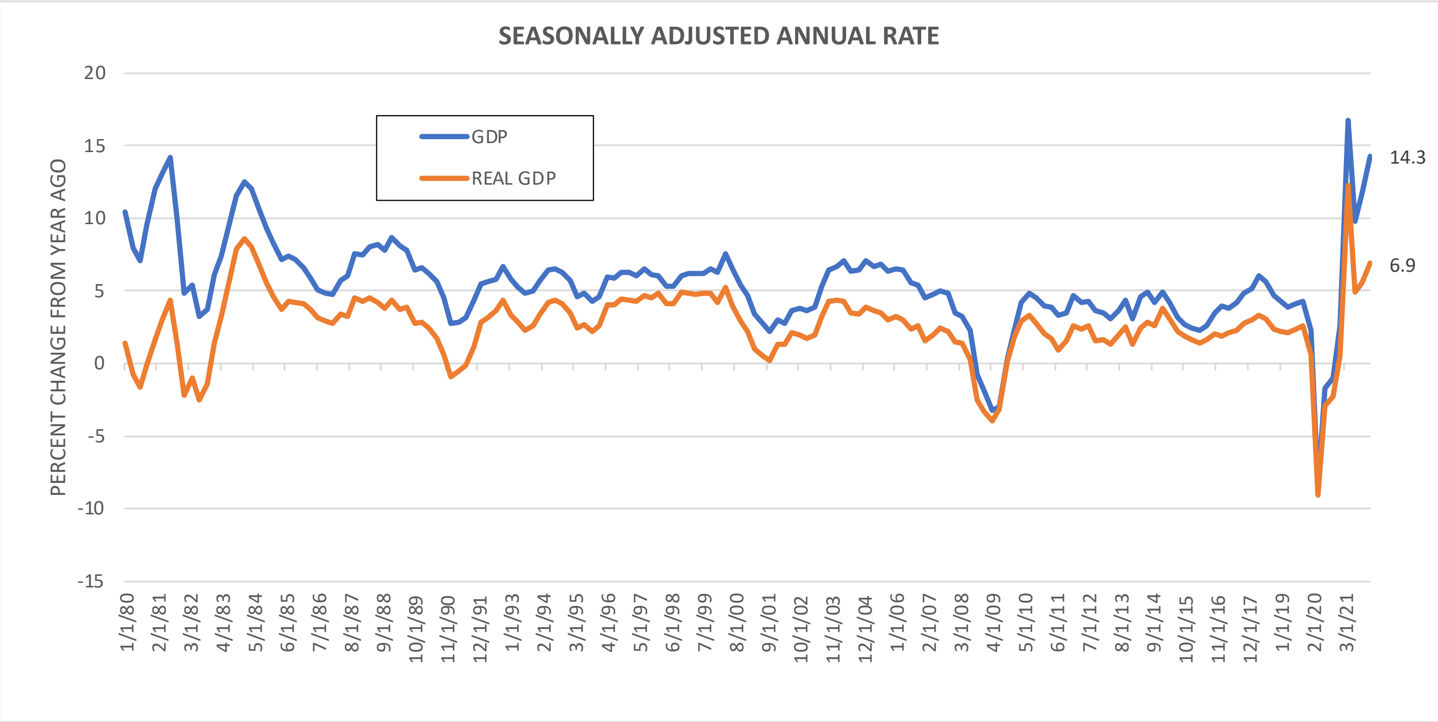
The economic expansion continued through the fourth quarter of 2021, with gross domestic product approaching $24 trillion during the quarter. The increase was led by increases in private inventory investment, export, personal consumption expenditures, and nonresidential fixed investments. This was offset by decreases in government spending and increases in imports. The rapid spread of the omicron variant of COVID-19 resulted in renewed restrictions and disruptions in operations and the supply chain. Growth in retail trade was driven by inventory investment by motor vehicle dealers, while the increase in personal consumption was led by health care, recreation, and transportation



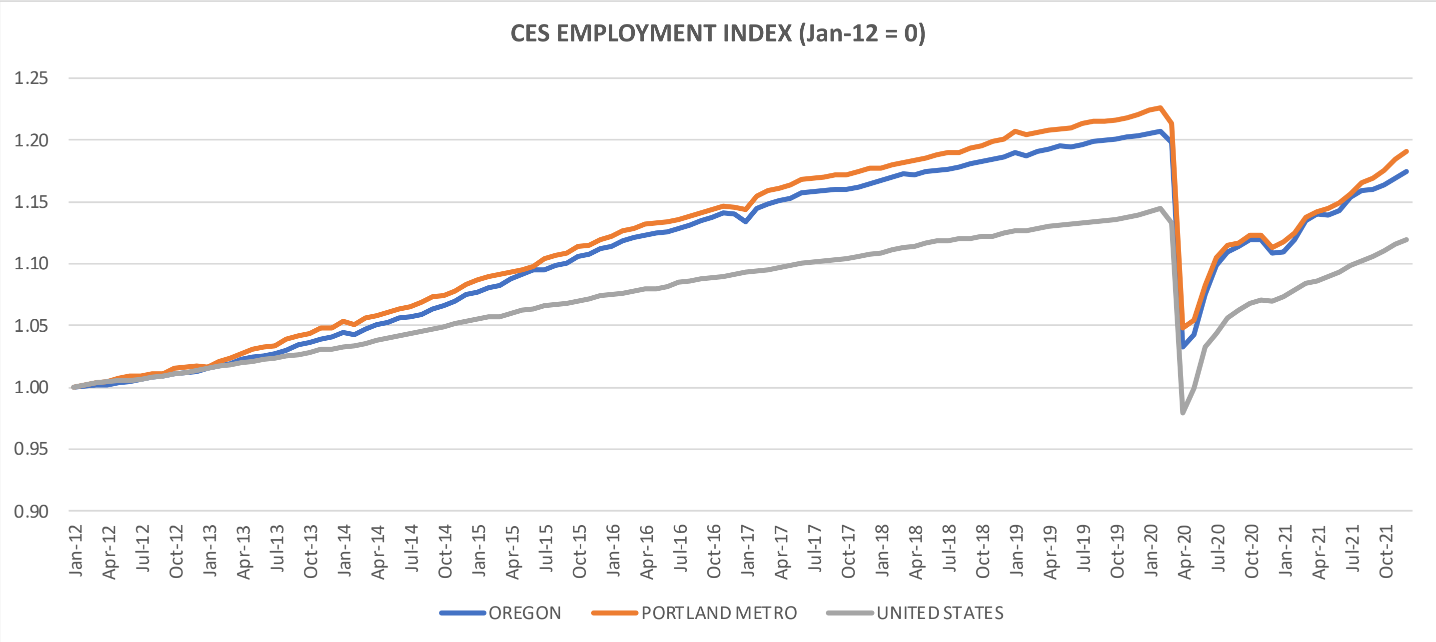
U.S. Bureau of Economic Analysis

GDP in current dollars increased at an annual rate of 14.3% during the fourth quarter, adding $790.1 billion to overall activity. Real GDP growth in the quarter was a more modest yet still robust 6.9%. The PCE price index increased 6.5% during the quarter, higher than the 5.3% increase during the third quarter. Excluding food and energy prices, the index increased 4.9%. Real GDP increased 5.7% in 2021 on average relative to 2020.

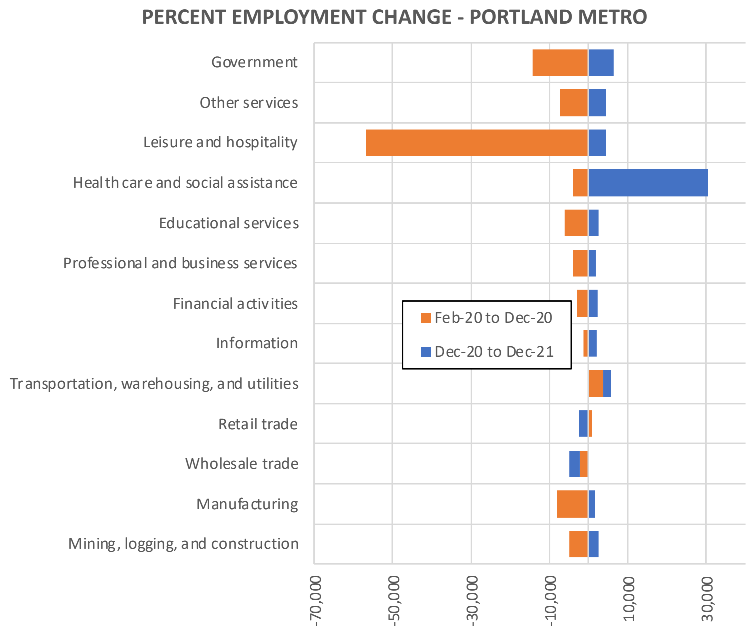


U.S. Bureau of Economic Analysis

While GDP growth has been robust, employment remains below pre-pandemic levels nationally as well as in Oregon and the Portland metro area. The state and metropolitan area continue to outperform the national average over the last decade, but the growth rate in the current cycle has followed national patterns.

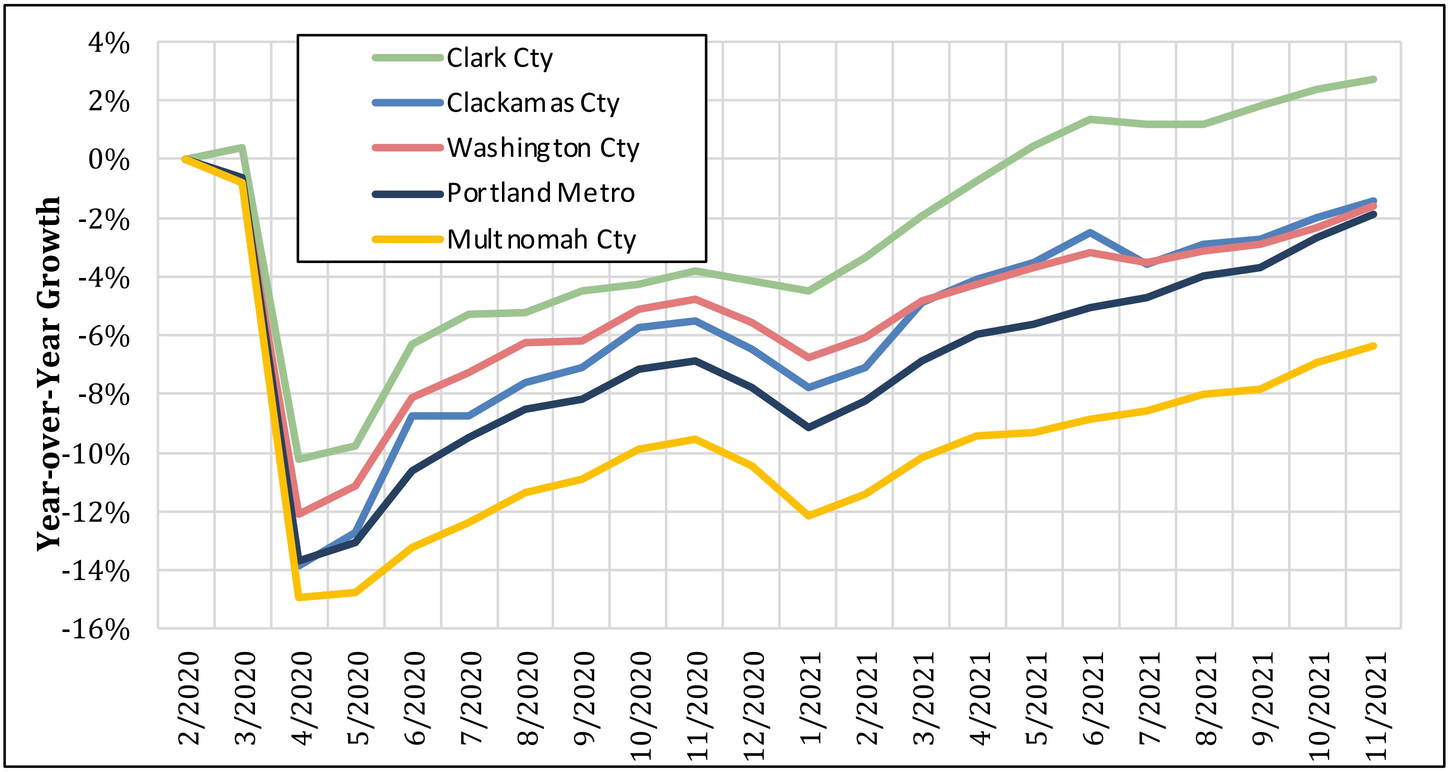


U.S. Bureau of Labor Statistics, Qualityinfo.org



Employment levels in the Portland metropolitan area remain well below pre-pandemic levels, with only 52% of the 106,000 jobs lost in 2020 recovered through 2021. Employment losses were most significant in the leisure and hospitality and government sectors, neither of which has yet regained their previous employment base. Health care and social assistance is the one major sector that has done well in terms of employment levels over the last two years. Transportation, warehousing, and utilities have also done well through the pandemic, buoyed by the rapid expansion of e-commerce.

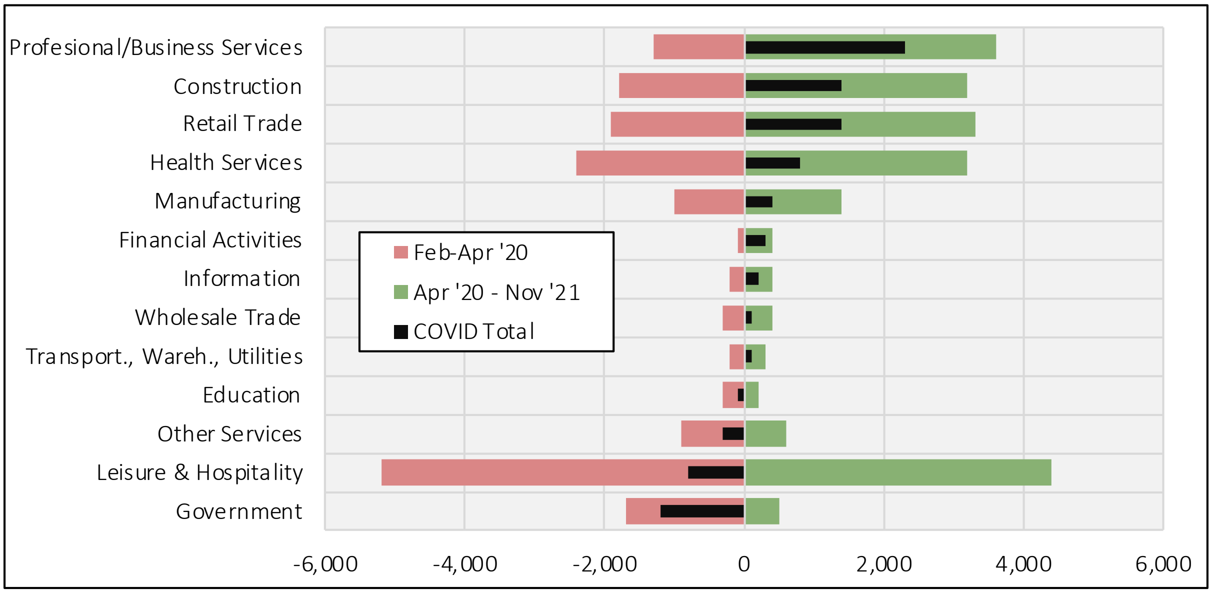
Clark County has been the brightest spot in the region during the pandemic, with the most limited initial impact as well as the strongest subsequent growth. After initially losing 10% of its jobs, the county's employment level was 3% higher than pre-COVID as of November 2021. The opposite is the case for Multnomah County, which saw the steepest initial loss (-15%) as well as the weakest subsequent growth – currently 6% below pre-COVID employment.



SOURCE: OR Employment Department, WA Employment Security Department, US BLS, JOHNSON ECONOMICS

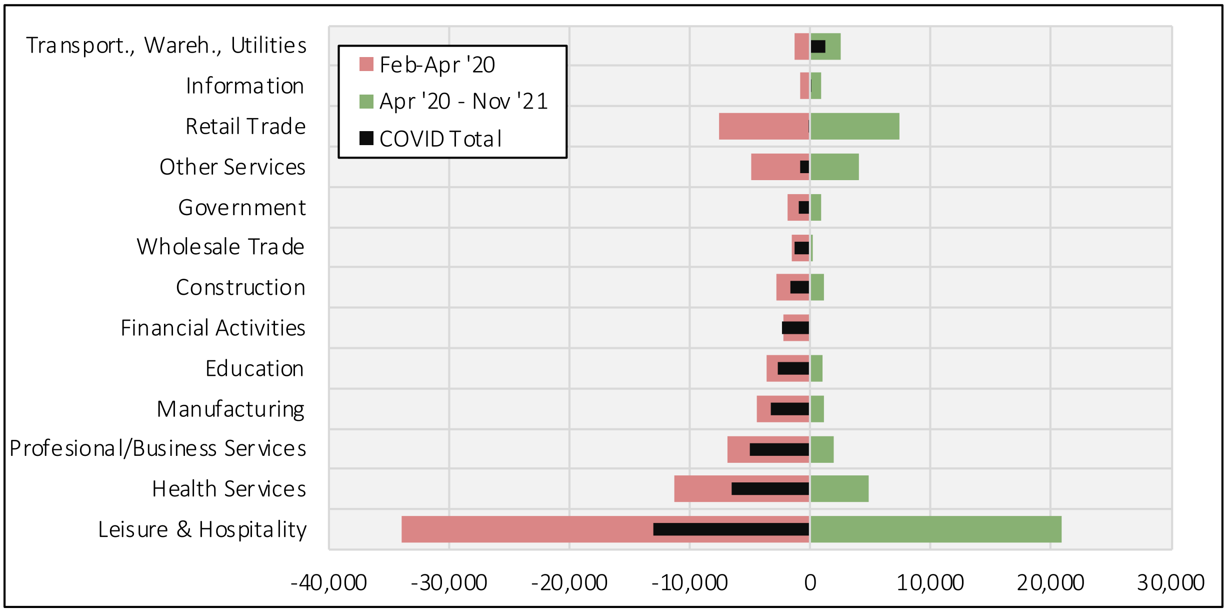
The strength of Clark County is primarily due to continued growth in professional and business services. This was the industry that drove the county's strong growth in the last decade, helped by multiple headquarter relocations. This industry has attracted many young high-wage earners, which has benefitted the county's apartment market. The public sector is responsible for most of the employment that remains lost from the early part of the pandemic.

CHANGE IN EMPLOYMENT DURING COVID-19 BY INDUSTRY SECTOR, CLARK COUNTY



SOURCE: WA Employment Security Department, JOHNSON ECONOMICS

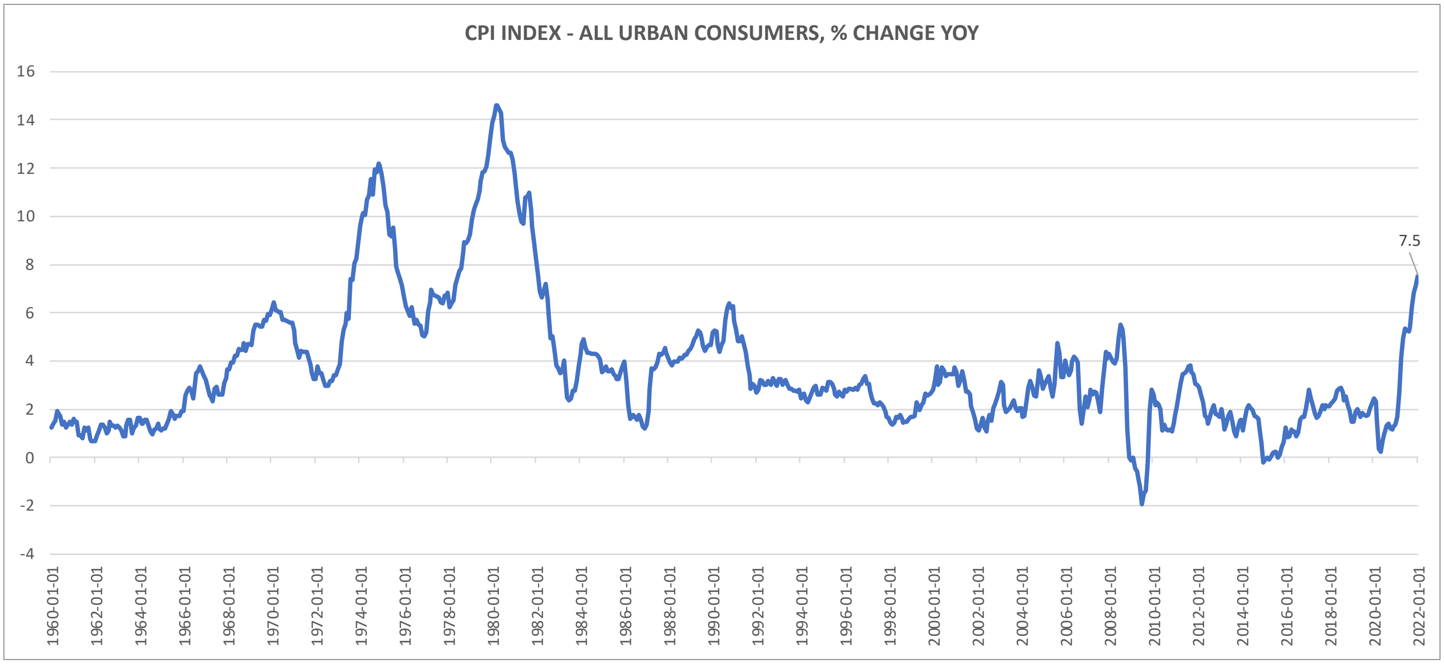
CHANGE IN EMPLOYMENT DURING COVID-19 BY INDUSTRY SECTOR, MULTNOMAH COUNTY



SOURCE: OR Employment Department, JOHNSON ECONOMICS

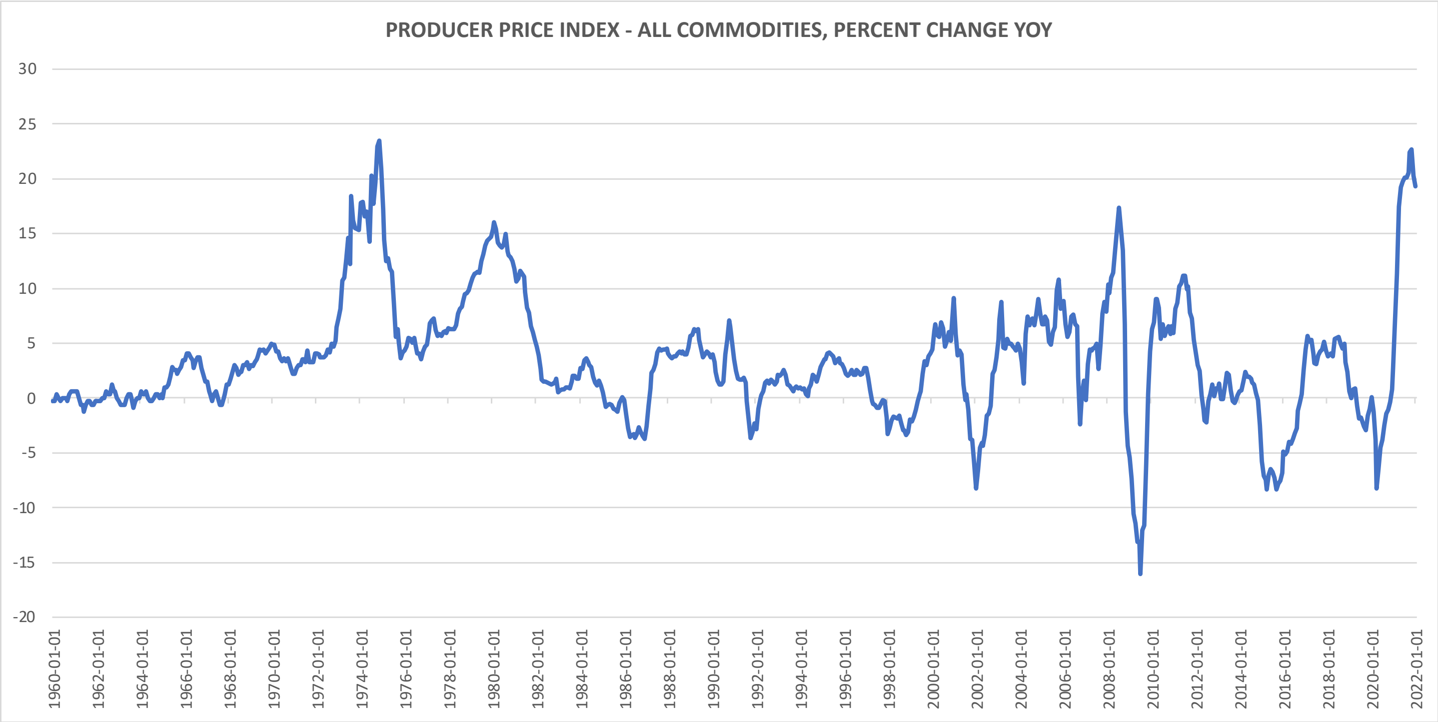
The picture is very different in Multnomah County. A large share of the downtown office workers – most of whom belong to the professional/business service industry – have yet to return. County-wide employment in this industry remains 6% below the pre-COVID level. Their absence continues to hurt the restaurant industry (leisure/hospitality), which remains 23% below the pre-COVID level.

Inflation continues to be an area of concern, with the most recent Labor Department report indicating that consumer prices climbed 7.5% in January year over year. This reflects the largest rate of growth in the CPI since 1982.

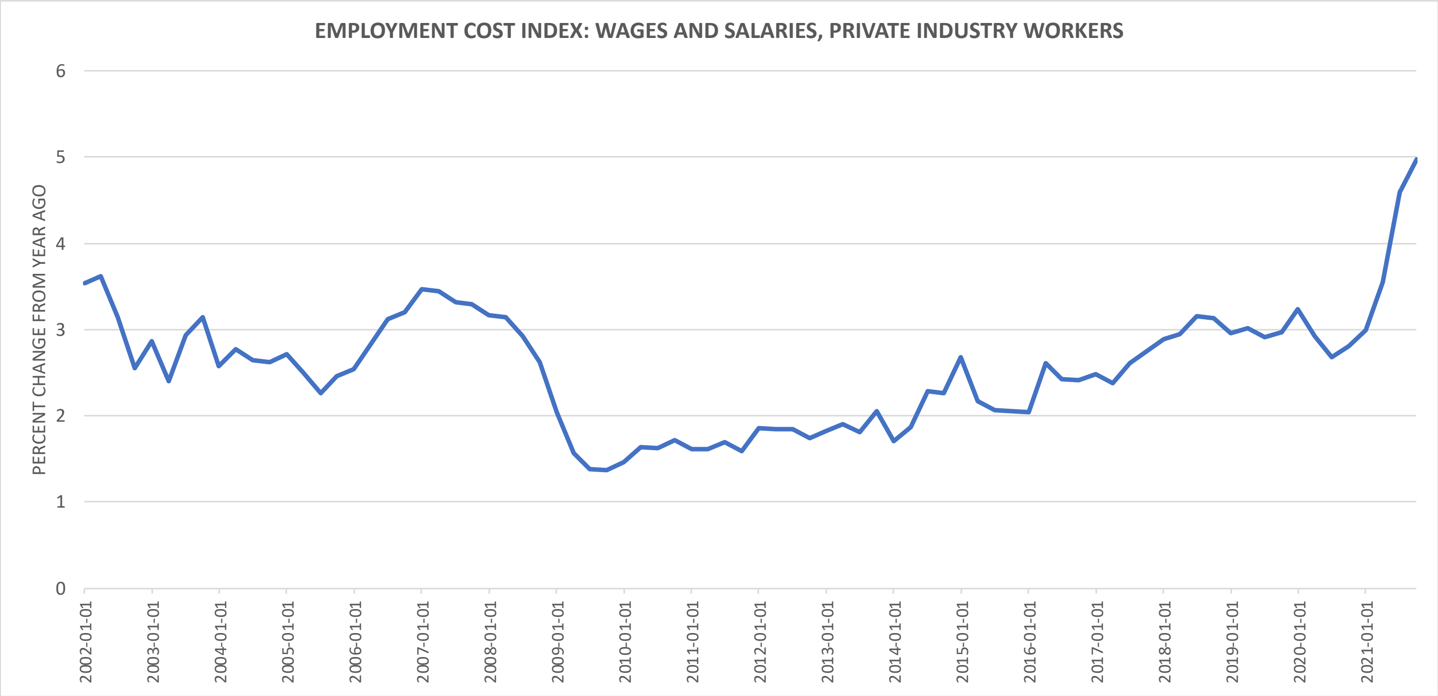


U.S. Bureau of Economic Analysis

The rate of inflation has now been above 5% for eight consecutive months. Producer prices are also showing sharp increases, which is expected to continue to place inflationary pressure on pricing. The producer price index, which measures inflation at the wholesale level, grew 9.7% in January of 2022, following two consecutive months at 9.8%. Core inflation, excluding food and energy, was up 6.9% on average over the last twelve months. Commodities were up almost 20%, a level not seen since the 1970s. Employment costs are also rising rapidly, fueled by labor market tightness, and fed by the inflationary cycle.

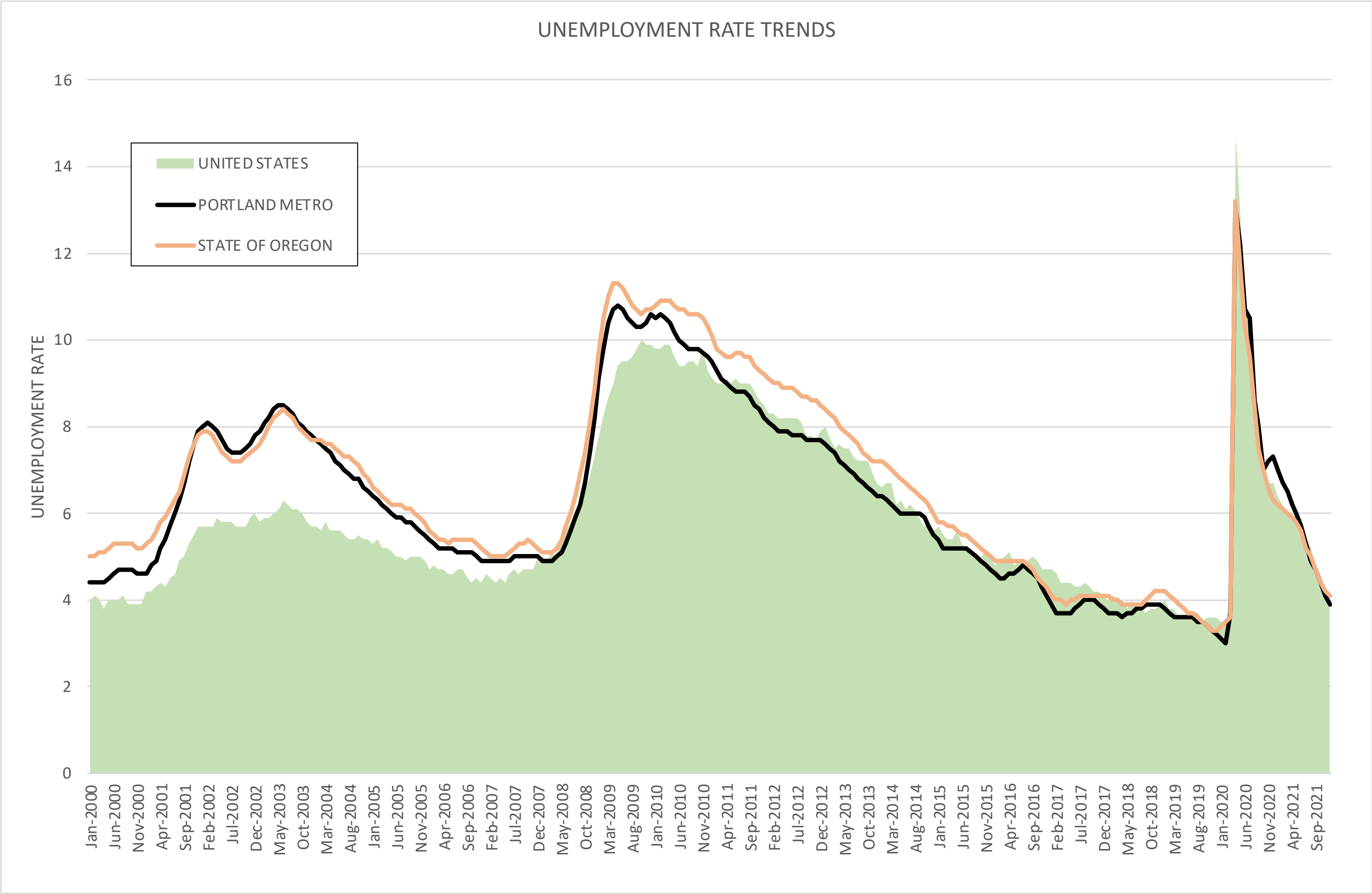


Federal Reserve Bank of St. Louis



Federal Reserve Bank of St. Louis

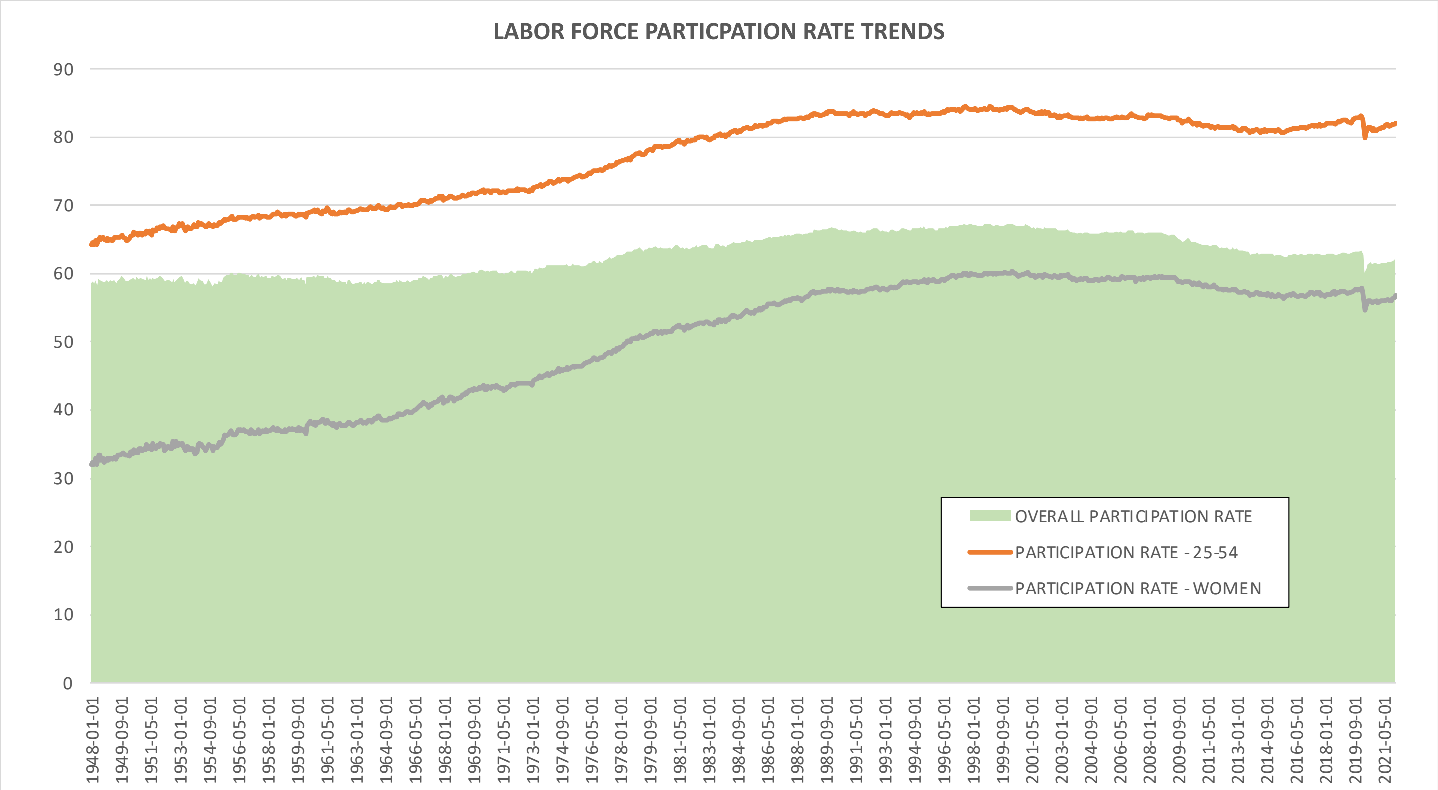
While employment remains below pre-pandemic levels, the unemployment rate at the national and local level has dropped below 4.0%. The drop in unemployment reflects a sharp recovery of lost employment in the early months of the pandemic, as well as a significant drop in the labor force participation rate.



SOURCE: State of Oregon Employment Department

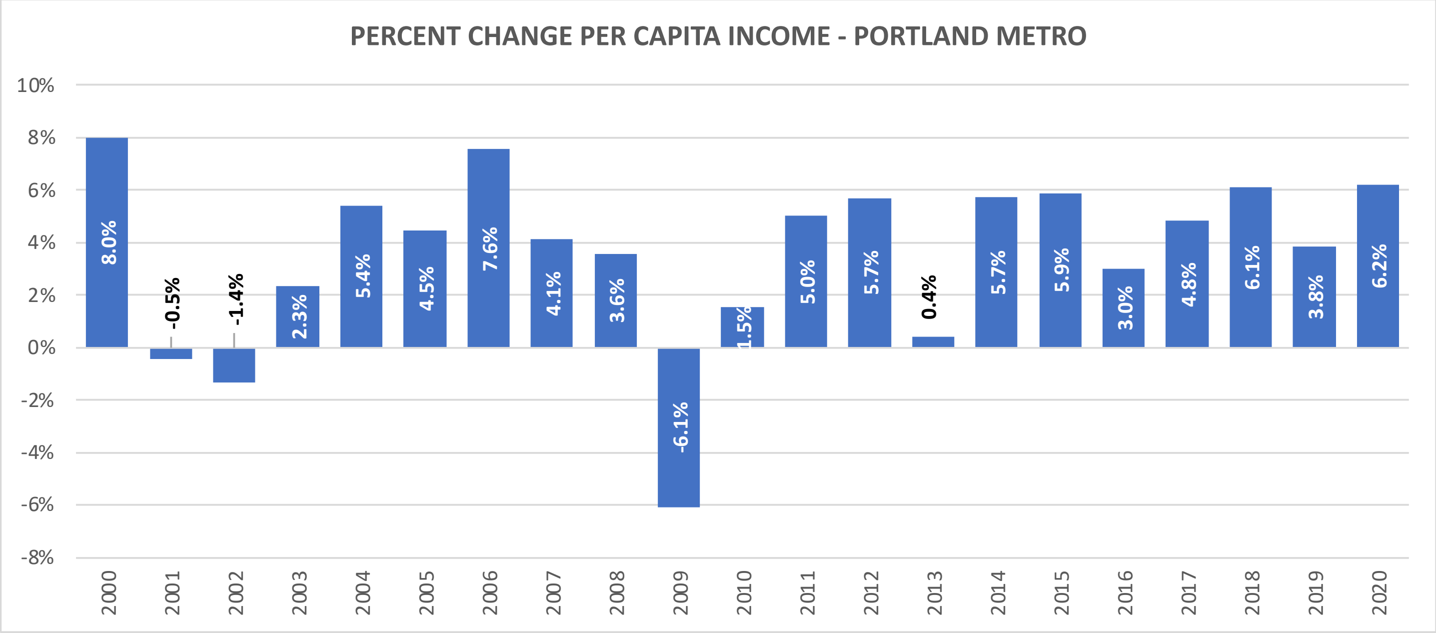
Goldman Sachs estimates that that roughly 5.0 million persons have exited the labor force since the start of the pandemic. This is likely an overstatement, as it includes an assumption of normal labor force growth. Population growth has been unusually low during the pandemic, with net international migration dropping significantly.

The Bureau of Labor Statistics (BLS) calculates the national labor force participation rate from the Current Population Survey (CPS). This is a monthly survey of approximately 60,000 households. The CPS survey indicates that losses in the labor force are concentrated in the 25-29 and 45-49 age cohorts, and most are women. When we look at the participation rates over time, the pattern for women and prime labor force (25-54) appears to be consistent with the overall pattern.



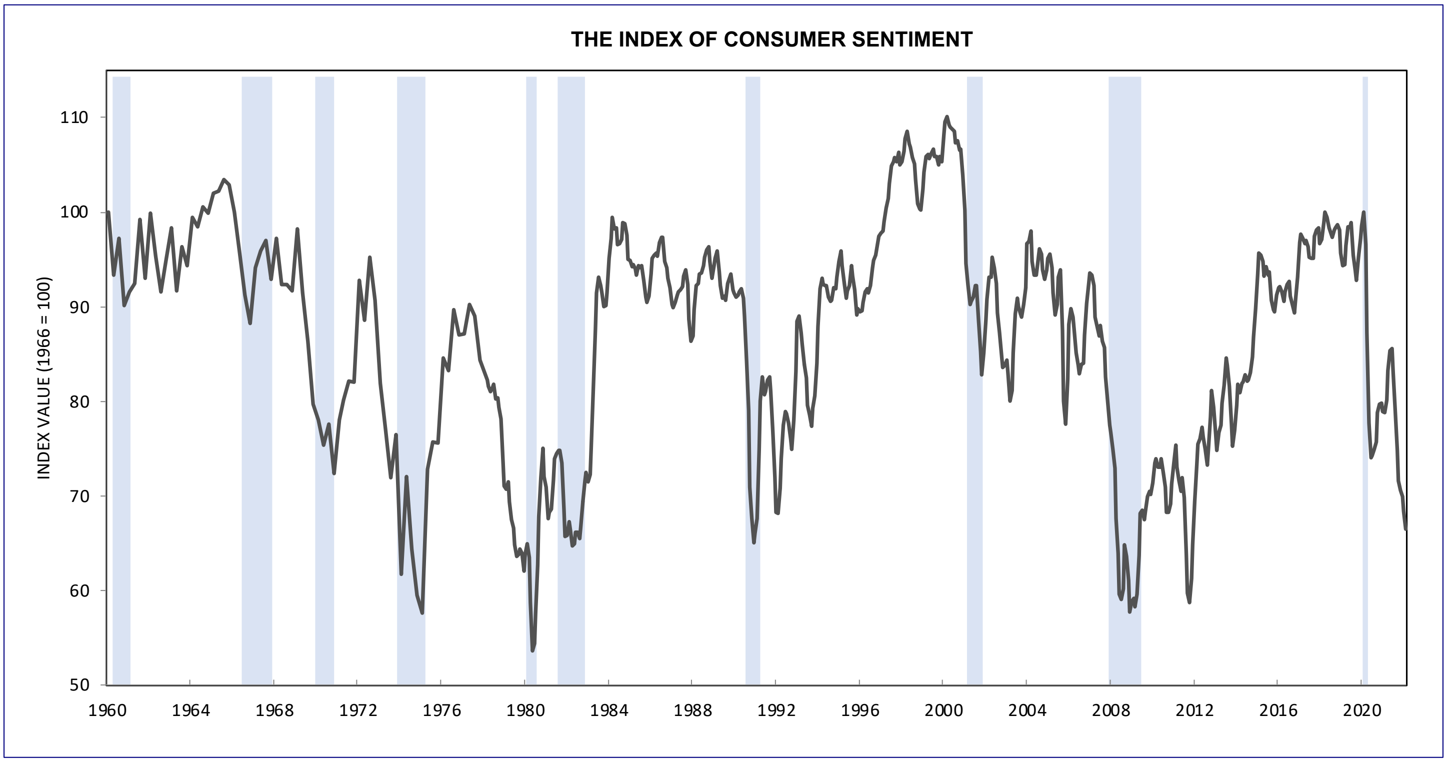
SOURCE: Federal Reserve Bank of St. Louis

The tight labor market has begun to be reflected in employment costs, with average wage and salary levels in the Portland metro area up 8.6% in 2020. While wage levels are up significantly, placing inflationary pressure on prices, that same inflation has offset the wage gains with buying power up only modestly when adjusted for inflation. We have more money, but it is not worth as much.



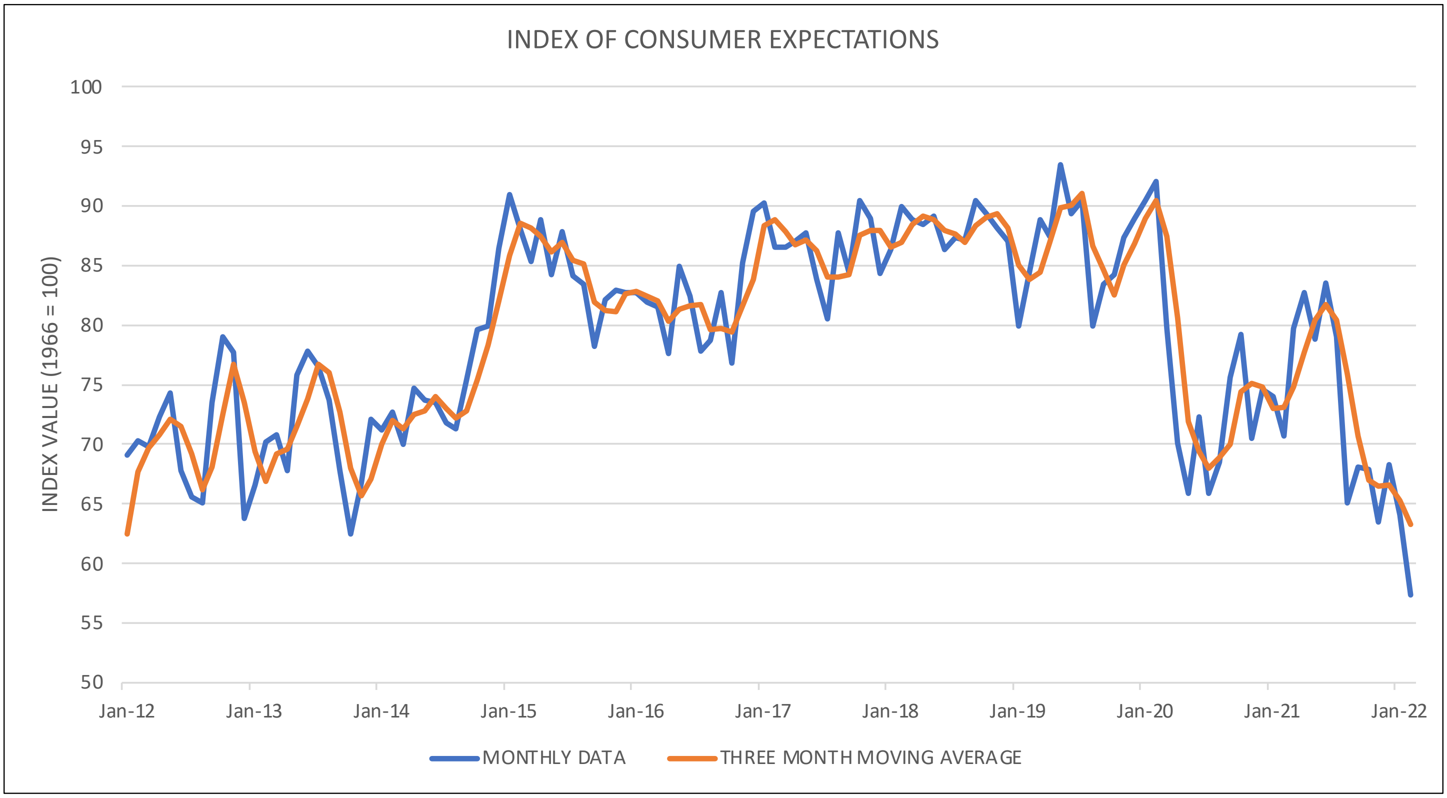
SOURCE: Bureau of Economic Analysis

Inflation and the increasing acceptance that the pandemic is likely to be endemic have contributed to an erosion of consumer confidence. The University of Michigan's Index of Consumer Sentiment has seen a sharp drop in the last few months, reaching its worst level in a decade. The recent declines have been driven by weakening personal financial prospects, to a large extent related to rising inflation. The survey also reflected lower confidence in the government's economic policies. The decline in February reflects the opinions of households with incomes greater than $100,000. This is notable as the index tends to rise in expansion cycles, and sharp drops have often preceded recessions in the past.



SOURCE: University of Michigan

A similar pattern is seen in the Consumer Confidence Index, which is published monthly by the Conference Board. The index reflects consumers' short-term (six month) outlook for the performance of the overall economy. This index is an important component of the broader consumer confidence index. Expectations in this index are currently at the lowest point in the last decade.



SOURCE: Conference Board