
THE STATE OF THE ECONOMY

ADAM SEIDMAN

Portland State University

The third quarter was full of mixed signals locally and globally. In its latest release, the Oregon Office of Economic Analysis continued to describe Oregon's economy as at "full-throttle growth." Year-over-year employment growth remained strong for Oregon and the Portland metro area, with rates of 2.9 percent and 3.6 percent respectively, driven by continued growth in high-paying professional services and high-tech manufacturing industries. However, the unemployment rate ticked up in the quarter in both Oregon and Portland, and in September the state lost more jobs than it had in a month in over 5 years.

Nationally, low oil prices likely helped boost consumer spending, but output growth was relatively weak in the quarter as business pulled back in reaction to global conditions and a strong dollar put a brake on exports. The Federal Reserve did not raise interest rates, but hinted that it would by the end of the year.

There was significant volatility globally in the third quarter, especially in China, which saw its stock market rise and fall sharply, sending shockwaves across equity markets. The IMF revised its growth estimates downwards for the global economy. Yet China's economy is still projected to grow at a relatively strong (albeit slowing) clip, and moderate growth is forecasted for the major advanced economies.

■ 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 Q3 2015

	Q3 2015/ Sept 2015	Q2 2015/ June 2015	Q3 2014/ Sept 2014
GDP Growth (annualized)			
US	1.5%	3.9%	4.3%
Unemployment Rate			
US	5.1%	5.3%	5.9%
OR	6.2%	5.5%	6.9%
Portland MSA	5.6%	5.4%	6.4%
Job Growth Rate (12-mo growth)			
US	2.0%	2.2%	2.0%
OR	2.9%	3.0%	2.8%
Portland MSA	3.6%	3.6%	2.8%
Inflation (12-mo unadjusted)			
US	0.1%	0.0%	1.8%
Interest Rates			
Federal Funds Rate	0.1%	0.1%	0.1%
10-Year Treasury	2.2%	2.4%	2.5%

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

GLOBAL TRENDS

The International Monetary Fund (IMF) revised its global growth projection down again for 2015 to 3.1 percent, based on weaker than anticipated activity across the globe. It notes that downside risks have risen, due to declining commodity prices, depreciating emerging market currencies, and increasing financial market volatility. However, growth is expected to be positive in all regions of the world except for Russia and Brazil, which are believed to be in recession.

All eyes were on China in the third quarter, with a roller coaster ride in its equity and property markets, devaluation of its currency, and unsuccessful attempts at government intervention to stop the volatility. China is still expected to have strong growth, albeit at a slowing rate. The IMF projects GDP growth in China of 6.8 percent in 2015 and 6.3 percent in 2016. According to the Oregon Office of Economic Analysis, China is now Oregon's top export market, accounting for approximately 20 percent of all of the state's exports. Clearly, the state of the Chinese economy has spillover effects to the local economy, especially for Oregon's high-tech companies.

In large part due to the volatility in China and an overall slowdown in global economy, the United States Federal Reserve did not raise interest rates in the third quarter, as had widely been expected.

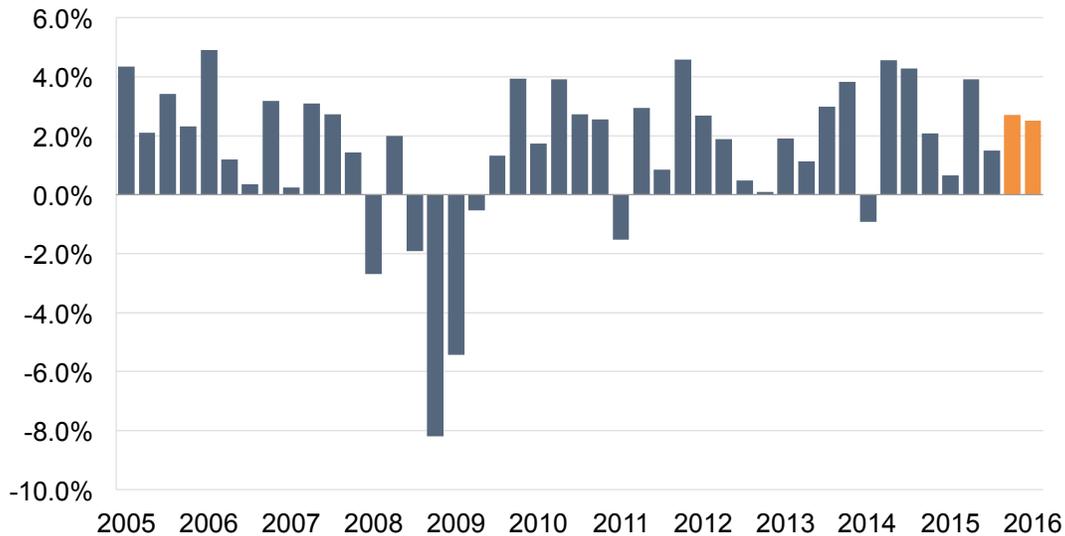
After rising 25 percent in the second quarter, oil prices in the United States fell by 24 percent in the third and are at or near six-year lows. This decline may have helped spur consumer spending in the United States, which once again was a major component of GDP growth. On the global stage, falling oil prices hurt countries with commodity-drive economies, such as Russia.

The dollar continued to show strength versus foreign currencies, and has appreciated about 18 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 US-based firms, and may have led to a slowdown in export sales in the third quarter.

GDP/OUTPUT

According to the “advance” estimate from the Bureau of Economic Analysis (BEA), United States GDP grew by an annualized 1.5 percent in the third quarter. This follows growth of 3.9 percent in the second quarter (revised upwards from the “advance” estimate of 2.3 percent). Growth in the quarter was driven primarily by consumer expenditures, exports, government spending, the housing sector, and business investments. The slower growth in the third quarter was likely due in part to the stronger dollar (impacting exports), the weaker global market, and business pullback in investments as a result of these and other trends. Looking ahead, The Wall Street Journal Economic Forecasting Survey projects annualized GDP growth of 2.5 percent to 2.7 percent for the next two quarters.

Figure 1: Gross Domestic Product, United States, Annualized Percent Change, 2005–2016 (Forecast)



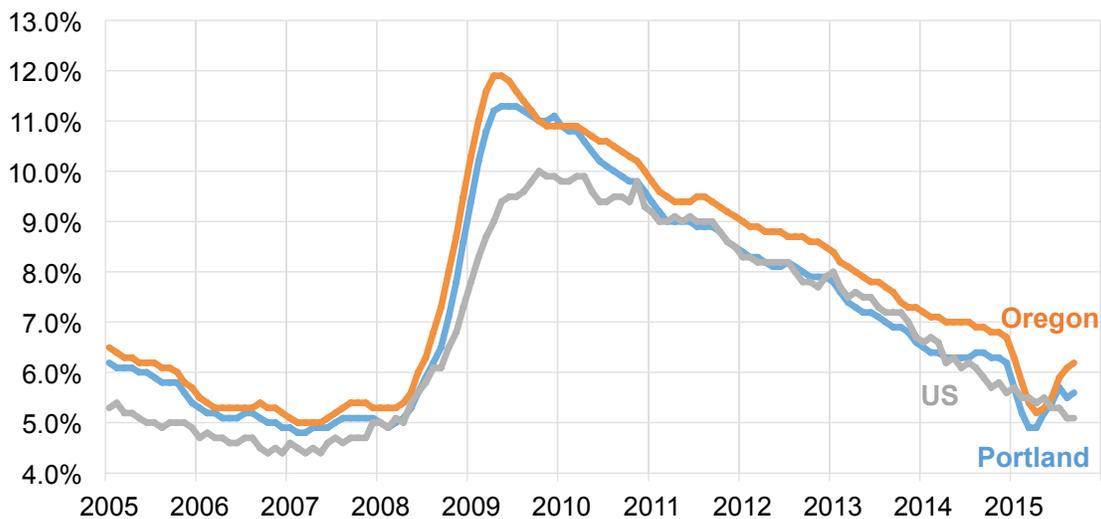
Source: Bureau of Economic Analysis (blue bars) and Wall Street Journal Economic Forecasting Survey (orange bars)

EMPLOYMENT

The Bureau of Labor Statistics (BLS) reported that total U.S. nonfarm employment increased by 142,000 in September and unemployment remained at 5.1 percent. The last time that the national unemployment rate was this low was in April 2008.

The unemployment rate for both Oregon and the Portland Metropolitan Statistical Area (MSA) ticked up slightly in September, to 6.2 percent and 5.6 percent respectively. For both areas, this continues a 6-month trend of rising unemployment rates. According to the Oregon Office of Economic Analysis, the increases bring the figures back in-line with their post Great Recession trends and may reflect overstatements of unemployment drops earlier in the year.

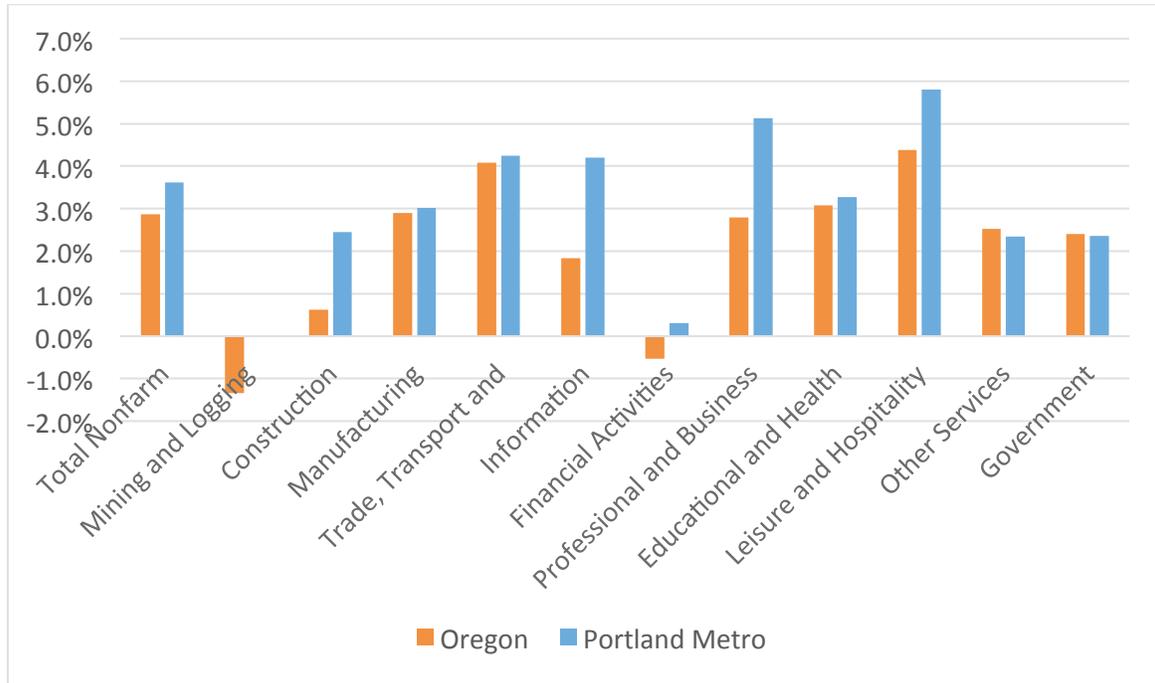
Figure 2: Unemployment Rate, Portland MSA, Oregon and United States, 2005-2015



Source: Bureau of Labor Statistics

Oregon shed 5,300 jobs in September, the first decline in statewide employment in 36 months and the largest monthly job loss since July 2010. The Portland MSA added just 600 jobs in September, and actually lost 2,200 private-sector jobs (offset by gains of 2,800 government jobs). However, taking a longer view, job growth has been strong year-over-year – in the 12 months to September 2015, Oregon’s job growth rate was 2.9 percent and that of Portland MSA was a robust 3.6 percent. Both of these rates compare favorably to the national growth rate of 2.0 percent over the same time period, and the Portland MSA rate is one of the highest of all of the top metropolitan areas in the country.

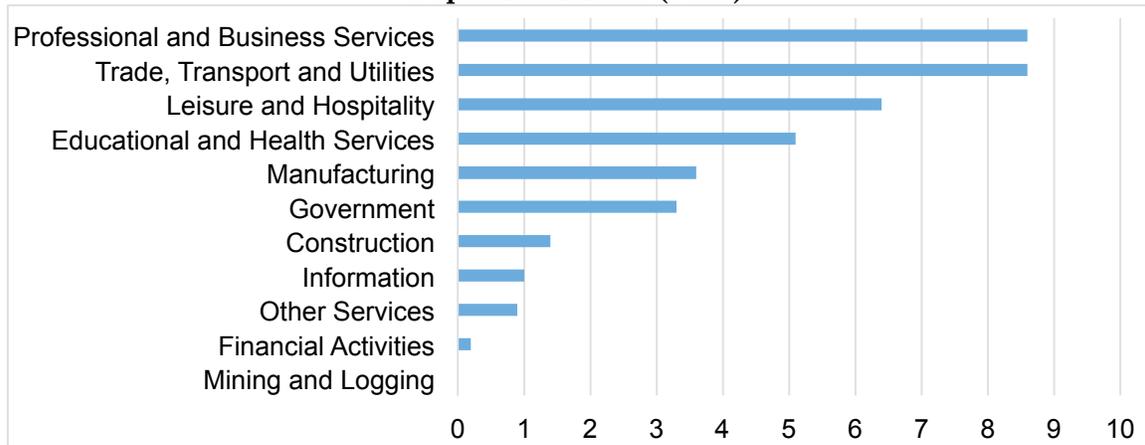
Figure 3: Employment Growth Rate by Sector, Portland MSA and Oregon, 12 Months to September 2015



Source: Oregon Employment Department

Oregon added 49,500 jobs over the past 12 months, with over 39,000 of those coming from the Portland MSA. Employment growth in the Portland MSA has been relatively broad-based and has been led by strong growth in Professional and Business Services, Trade, Transportation and Utilities, and Leisure and Hospitality.

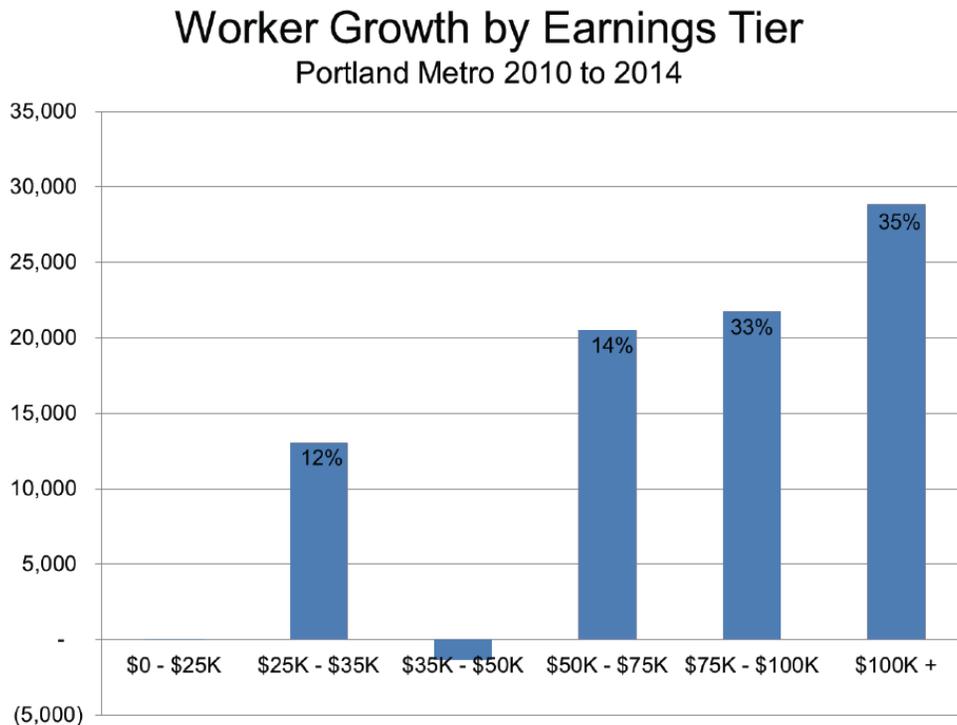
Figure 4: Employment Growth by Sector, Portland MSA, 12 Months to September 2015 (000s)



Source: Oregon Employment Department

According to the Oregon Employment Department, job growth in the Portland MSA since 2010 has been heavily weighted towards high-wage positions. Nearly 70 percent of job growth between 2010 and 2014 came from those earning \$75,000 or more per year, and 35 percent came from those earning \$100,000 or more. Many of these new jobs are found in the high-tech manufacturing sector, professional and business services, and education and health services.

Figure 5: Employment Growth by Earnings Tier, Portland MSA, 2010-2014



Source: Oregon Employment Department (from October 28, 2015 Presentation)

Growth in the high-wage sectors has pushed the average annual wage growth in Oregon to nearly 8 percent, according to the Oregon Office of Economic Analysis (OEA). However, average wage growth per worker is closer to 3 percent-4 percent year-over-year. The OEA notes that wage gains are increasing at rates above inflation for all Oregon workers except for hourly workers, which have seen virtually no real gains in inflation-adjusted per-capita income. This trend is similar to that seen nationally.

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

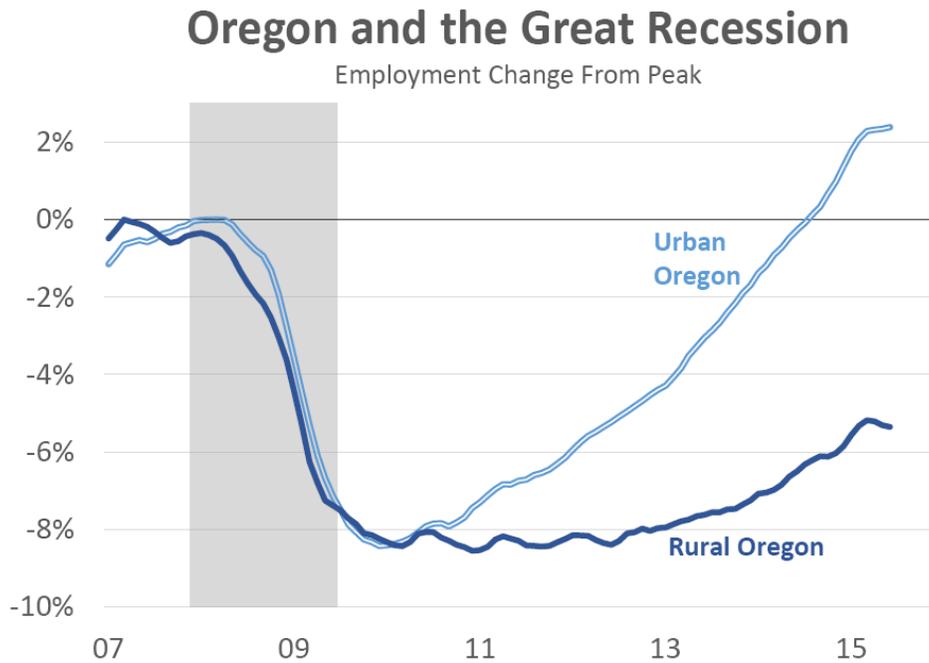
Table 2: Employment Growth Forecasts, Oregon, 2015-2017

Forecaster	2015	2016	2017
Oregon Office of Economic Analysis	3.4%	3.1%	3.1%
IHS Economics	2.9%	1.5%	1.6%
Western Blue Chip Consensus	3.1%	2.7%	-

Source: Oregon Office of Economic Analysis

Job growth has occurred across sectors and regions in the state over the past 5 years. However, job growth in Oregon’s urban areas have brought their total employment above pre-recession levels, while the state’s rural areas (with the exception of the Columbia Gorge) remain about 5 percent below their peak job levels.

Figure 6: Employment Change from Peak, Oregon, 2007-2015 (June)



Sources: Oregon Employment Department, Oregon Office of Economic Analysis

The labor force participation rate remains a concern to state economists. Oregon’s labor force participation rate was 60.2 percent in June, the lowest rate

since records began in 1976. This trend is similar to the national trend, which at 62.4 percent is the lowest it has been since 1977.

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



Source: Bureau of Labor Statistics

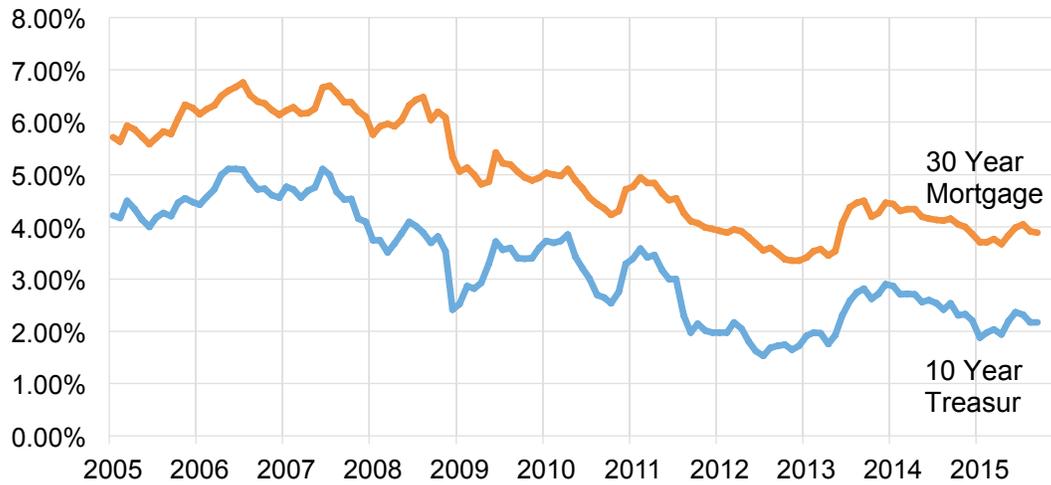
INFLATION

The United States Consumer Price Index (CPI-U) decreased 0.2 percent in September on a seasonally-adjusted basis and essentially 0 percent for the 12 months to September on a non-adjusted basis. Rising prices for food and other items were more than offset by decreases in energy, driven by a sharp drop in gasoline prices. The energy index is down more than 18 percent over the past year. The Wall Street Journal's Economic Forecasting Survey projects that the unadjusted 12-month CPI will increase by 0.8 percent in December 2015.

INTEREST RATES

The Federal Funds Rate remained virtually unchanged in the third quarter at 0.14 percent. The Federal Reserve did not raise rates in September, citing the global economic slowdown, but left open the possibility of an increase by the end of 2015. It is still widely believed that the Federal Reserve will raise the rate before the end of the year, and the Wall Street Journal's Economic Forecasting Survey projects that the rate will increase to 0.32 percent by December 2015 and 0.72 percent by June 2016.

The 10-year Treasury remained unchanged at 2.17 percent and the 30-year mortgage rate ticked down in the third quarter, ending September at 3.89 percent respectively. Both of these measures remain below their September 2014 levels.

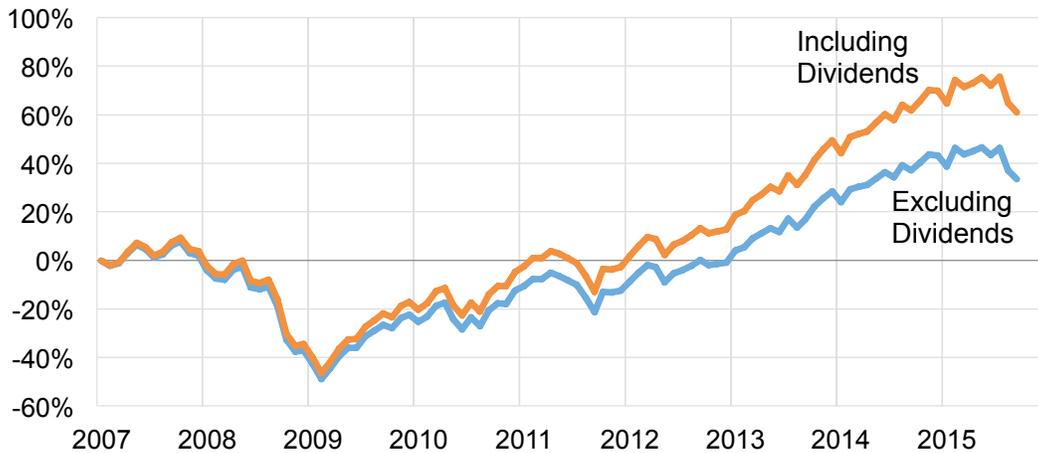
Figure 8: Treasury and Mortgage Rates, United States, 2005-2015

Source: Federal Reserve

CAPITAL MARKETS

The US Treasury yield curve flattened in the third quarter, with shorter-term rates moving higher and longer-term rates declining 20 to 30 basis points.

The big news in the capital markets in the third quarter was the increased volatility in global equity markets, reaching levels not seen in years. Responding to macroeconomic and geopolitical news, especially fears concerning the Chinese economy, the S&P declined 6.4 percent in the quarter, with the NASDAQ falling by 7.4 percent.

Figure 9: Standard & Poor's 500 Index, 2007–2015

Source: S&P Dow Jones Indices, McGraw Hill Financial

LOOKING AHEAD

Does the rise in unemployment levels in Oregon and Portland signal a trend, or will these markets continue with their strong growth of the past few years? Does the volatility in China signal a change in its economy, or will it continue to have strong (albeit declining) growth? Will the Federal Reserve raise interest rates by year end? Will Oregon's minimum wage be raised significantly? These are all questions that impact the Oregon and Portland economies, and economists and real estate investors will be watching to see what trends emerge over the next few quarters. ■