
THE STATE OF THE ECONOMY

ADAM SEIDMAN

Portland State University

In its latest report, the Oregon Office of Economic Analysis noted that “full employment is finally within sight” in Oregon. Indeed, 2015 saw very strong employment gains in Oregon and the Portland MSA, helped by robust job growth in the fourth quarter. The annual job growth totals were the strongest since the mid-1990s at both the state and regional level, and unemployment levels were at or near 5 percent by the end of the year.

Job growth continued at the national level albeit at a slower rate than in Oregon and Portland, with US annual growth of 1.9 percent and unemployment dropping to 5 percent. In part a result of these trends, the Federal Reserve raised its benchmark interest rate for the first time in seven years, ending the “zero interest rate” run. However, GDP growth remained sluggish as a strong dollar impacted exports and companies with international operations and the potential upside of cheaper energy costs were offset by the hit to America’s energy industry.

Lower energy and commodity prices and a slowdown and rebalancing of China’s economy led the IMF to revise its growth estimates downwards for the next two years for the global economy, but recovery in currently distressed countries is still projected to lead to overall increases in global growth.

■ 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 Q4 2015

	Q4 2015/ Dec 2015	Q3 2015/ Sept 2015	Q4 2014/ Dec 2014
GDP Growth (annualized)			
US	0.7%	2.0%	2.1%
Unemployment Rate			
US	5.0%	5.1%	5.6%
OR	5.4%	6.2%	6.7%
Portland MSA	4.9%	5.6%	6.2%
Job Growth Rate (12-mo growth)			
US	1.9%	2.0%	2.3%
OR	3.1%	3.2%	3.1%
Portland MSA	3.3%	3.3%	3.1%
Inflation (12-mo unadjusted)			
US	0.7%	0.0%	0.8%
Interest Rates			
Federal Funds Rate	0.4%	0.1%	0.1%
10-Year Treasury	2.2%	2.2%	2.2%

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

GLOBAL TRENDS

The International Monetary Fund (IMF) revised its global growth projection down for 2016 and 2017 to 3.4 percent and 3.6 percent, respectively, and noted that “risks to the global outlook remain tilted to the downside.” The IMF’s latest report noted that 3 key transitions impact their downward revisions: a slowdown and rebalancing of the Chinese economy, lower energy and commodity prices, and the gradual tightening of monetary policy in the United States. Recessions in Russia and Brazil are expected to continue in the near-term but to recover over the next eight quarters.

Relatively strong but slowing growth is projected for China, whose economy is in the midst of a rebalance from fixed-asset investments and exports to a consumer- and services-led economy. The IMF projects GDP growth in China of 6.3 percent in 2016 and 6.0 percent in 2017, both down from 6.9 percent growth in 2015. Oregon businesses will continue to pay close attention to trends in China, as the country is Oregon’s top export market, accounting for approximately 20 percent of all of the state’s exports (although it should be noted it is unclear what share of these exports are true global trade versus shipments from Oregon companies such as Intel to their own factories in China).

After 7 years of zero interest rates, the United States Federal Reserve finally increased its target rate by a quarter percentage point (25 bps) in December, indicating a belief that economic conditions in the country have significantly improved.

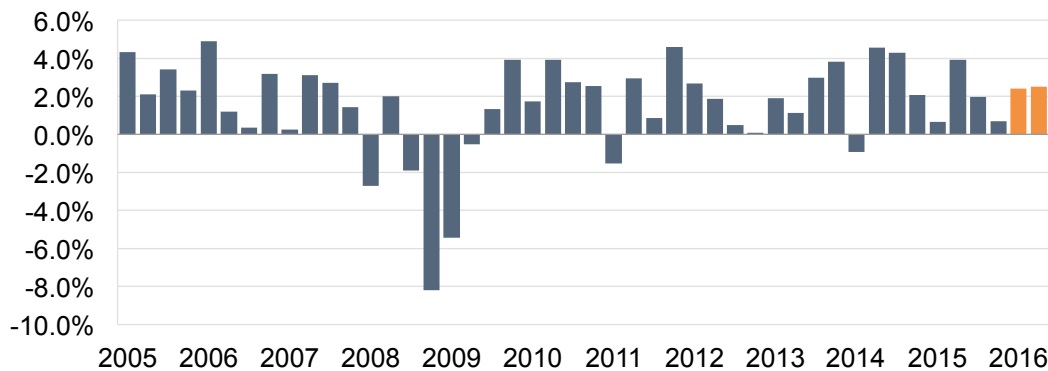
After a 24 percent fall in the third quarter, oil prices tumbled again in the fourth quarter, ending up down 18 percent. Down nearly 40 percent year-over-year, oil prices are now at levels not seen since 2004. This decline has hurt oil-dependent economies across the world, including Russia and Brazil, both of which are currently in recession. Some analysts believe that oil prices will need to fall further to balance out the excess supply with current market demand.

The dollar ended the year up 12 percent versus foreign currencies, the biggest one-year gain since the 1970s. 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 contributed to weaker GDP growth in the fourth quarter.

GDP/OUTPUT

According to the “advance” estimate from the Bureau of Economic Analysis (BEA), United States GDP grew by an annualized 0.7 percent in the fourth quarter. This follows growth of 2.0 percent in the third quarter (revised upwards from the “advance” estimate of 1.5 percent). The BEA report noted that growth in the quarter was driven primarily by consumer expenditures, government spending, and the housing sector. The slower growth in the fourth 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 2.4 percent to 2.5 percent for the next two quarters, which are reductions of previous forecasts.

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



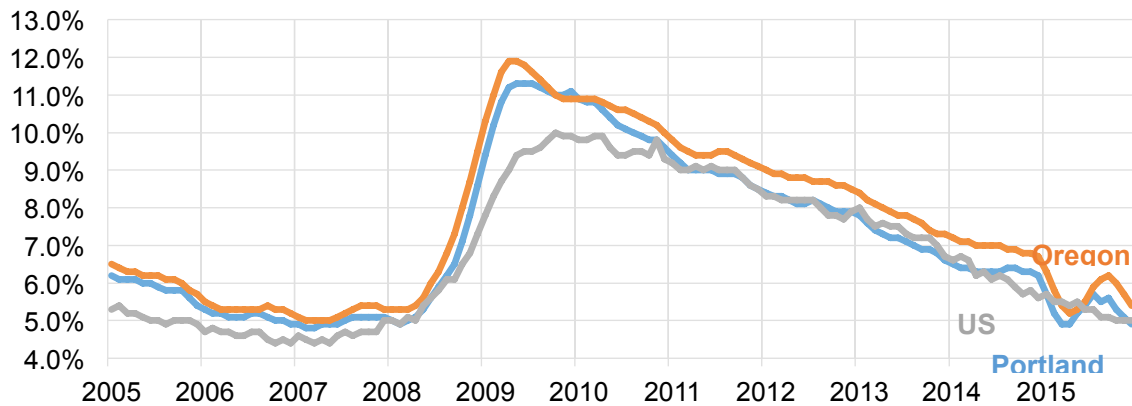
Source: Bureau of Economic Analysis (blue bars) and Wall Street Journal Economic Forecasting Survey (orange bars)

EMPLOYMENT

The Bureau of Labor Statistics (BLS) reported that total U.S. nonfarm employment increased by 292,000 in December and 2.7 million for the year, for an annual job growth rate of 1.9 percent. This compares with growth of 3.1 million (2.3 percent rate) in 2014. National unemployment figures declined to 5.0 percent, the lowest since April 2008.

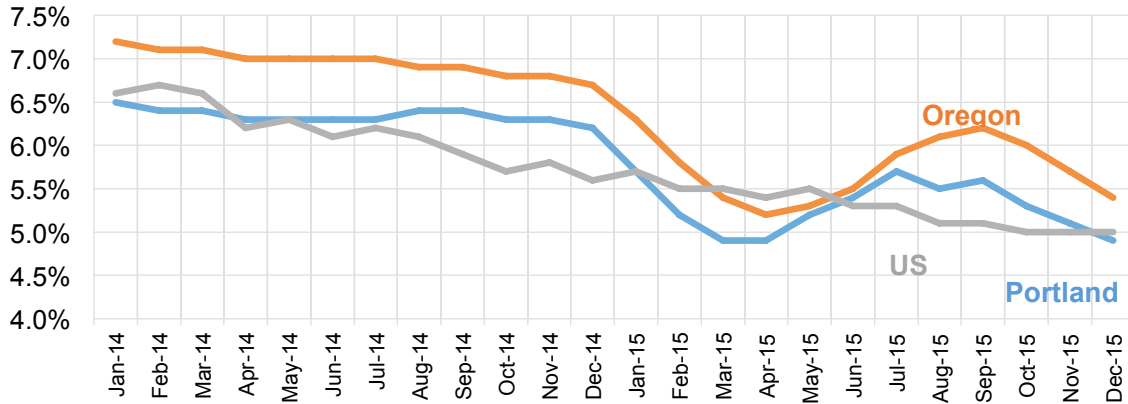
The unemployment rate for both Oregon and the Portland Metropolitan Statistical Area (MSA) saw significant declines in the fourth quarter, with end of year rates of 5.4 percent and 4.9 percent, respectively. As with the national figures, one has to go back to early 2008 to find unemployment this low.

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



Source: Bureau of Labor Statistics

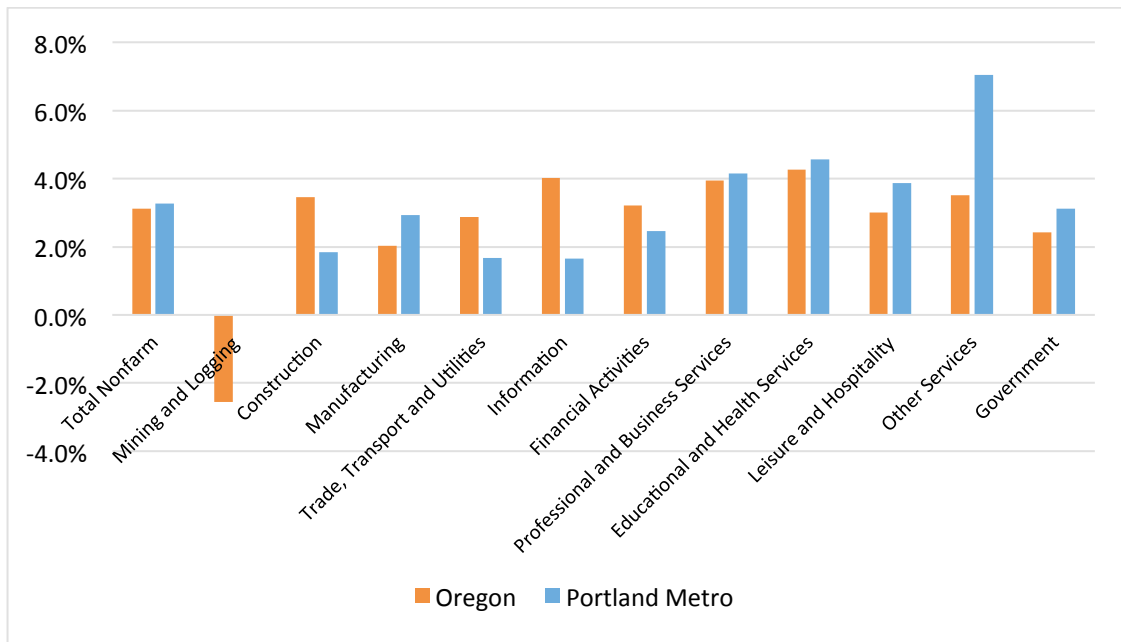
Figure 2B: Unemployment Rate, Portland MSA, Oregon and United States, Jan 2014-Dec 2015



Source: Bureau of Labor Statistics

Both Oregon and the Portland MSA finished 2015 on a strong note, with gains of 2,300 jobs for each area in December and the highest quarterly growth of the year. For 2015, Oregon added nearly 55,000 jobs and the Portland MSA grew by 36,000 jobs – these are the highest annual totals since the mid-1990s. This growth was broad-based across almost all sectors in the state, and represents growth rates of 3.1 percent in Oregon and 3.3 percent in Portland, both significantly above the national rate of 1.9 percent over the same time period. As a result of this strong growth, the OEA noted that “full employment is finally within sight.”

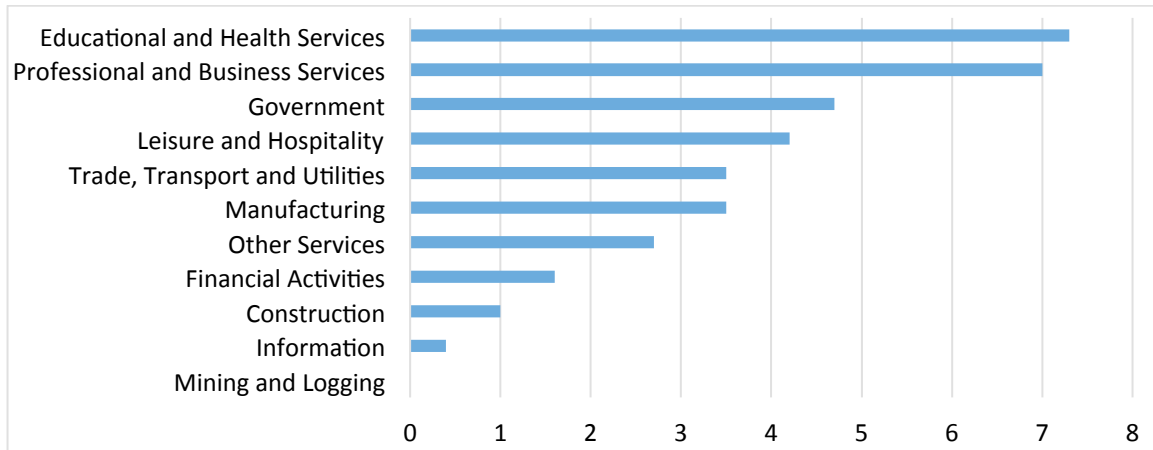
Figure 3: Employment Growth Rate by Sector, Portland MSA and Oregon, 12 Months to December 2015



Source: Oregon Employment Department

Aside from Mining and Logging, the Portland MSA saw job growth in every one of its sectors of at least 1.5 percent over the past year. Of the 36,000 jobs added, over a third came from service-oriented employment, led by Educational and Health Services and Professional and Business Services.

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



Source: Oregon Employment Department

Job growth in the Portland MSA since 2010 has been heavily weighted towards high-wage positions, with nearly 70 percent from those earning \$75,000 or more per year, and 35 percent from those earning \$100,000 or more. Much of this high-wage growth has been in the software sector in Multnomah County, and not in the MSA’s hardware sector in Washington County. Many of the new software jobs are for firms headquartered out-of-state that have set up satellite offices in Portland, including eBay, Salesforce, Google, and Airbnb. The growth in high-wage earners, coupled with other demand and supply trends, has had an impact on affordability metrics in the Portland MSA housing market as rents and housing prices continue to increase at rates above that of average wage growth.

Figure 5: Growth in Tech Employment, Oregon, Q1 2012-Q2 2015

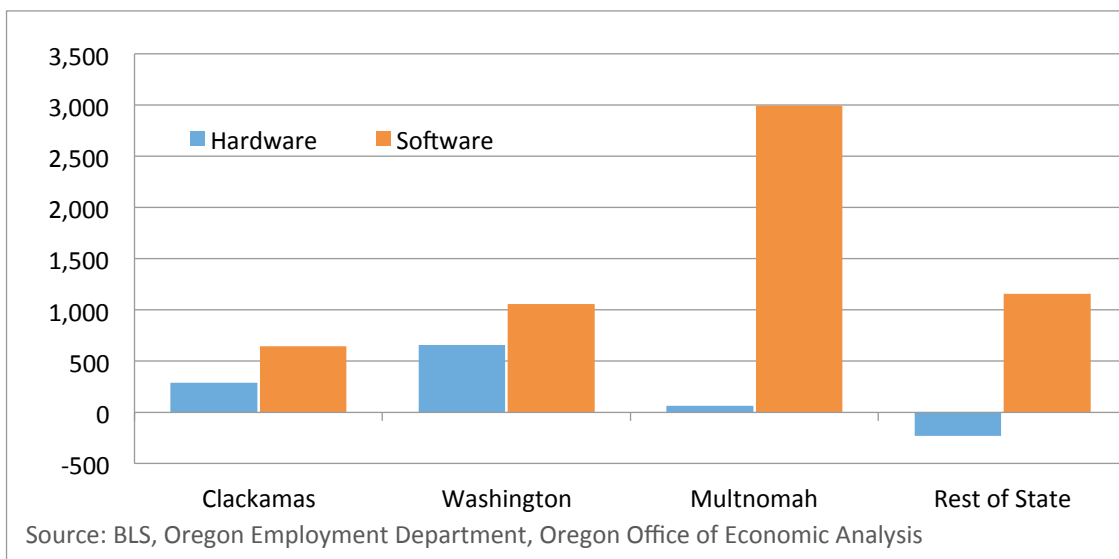
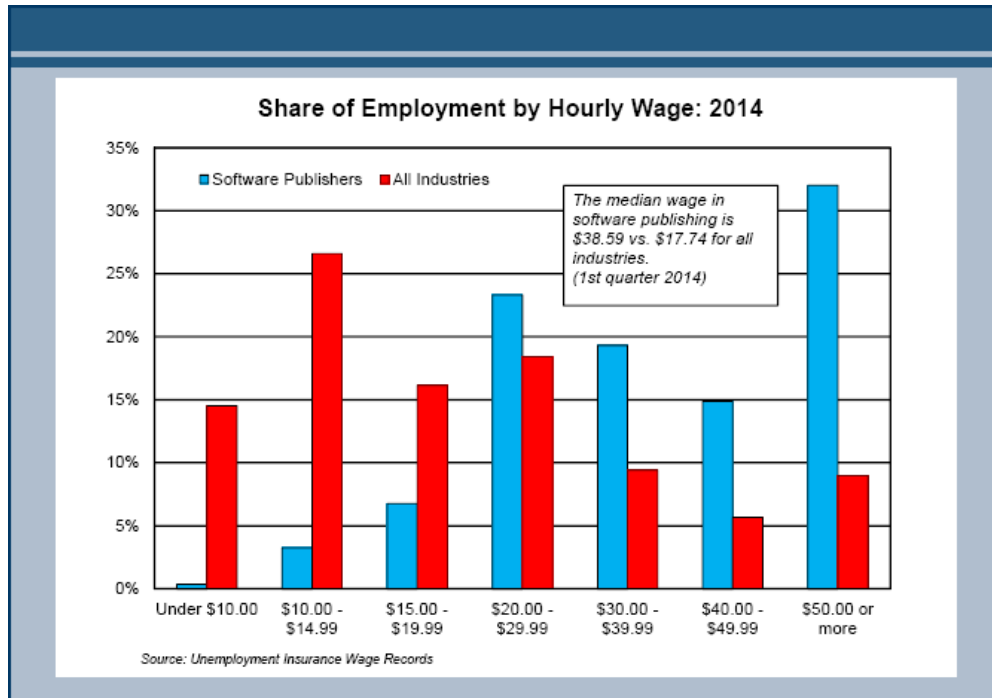


Figure 6: Share of Employment by Hourly Wage, Oregon, 2014



Source: Oregon Employment Department (from December 2015 OR Labor Trends)

Job growth in Oregon and Portland is expected to continue, driven by projected population growth and in-migration trends. However, the rate of growth is expected to moderate over the next two years. The Oregon Office of Economic Analysis expects job growth of 2.7 percent in 2016 and 2.9 percent in 2017, representing a downward revision from their prior forecast. Other forecasters, such as IHS, are less bullish about growth prospects after this year.

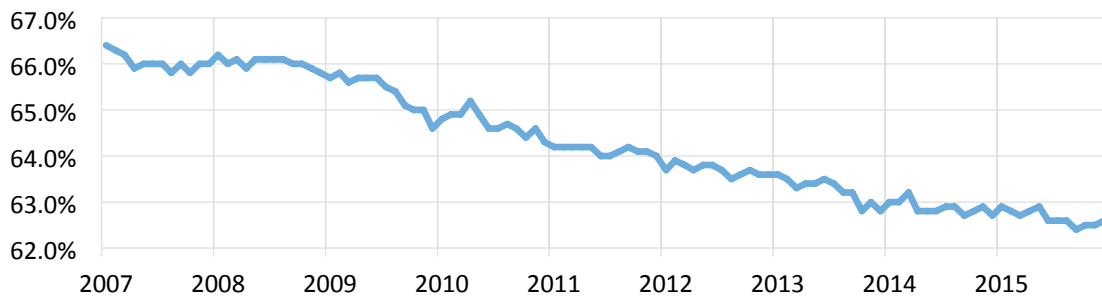
Table 2: Employment Growth Forecasts, Oregon, 2015-2017

Forecaster	2015	2016	2017
Oregon Office of Economic Analysis	3.2%	2.7%	2.9%
IHS Economics	3.0%	1.8%	1.6%
Western Blue Chip Consensus	2.7%	2.5%	-

Source: Oregon Office of Economic Analysis

The labor force participation rate remains a concern to state economists. Although the rate saw a small uptick towards the end of the year to over 61 percent, it hit its historic low in June and remains at historically low levels. This echoes the national trend, which also saw a small uptick but stands at 62.6 percent, compared to over 66 percent before 2008. At both the state and national level, an aging population is in part to blame; the Congressional Budget Office notes that roughly half of the decline in labor-force participation since the end of 2007 is due to the aging of the workforce.

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



Source: Bureau of Labor Statistics

INFLATION

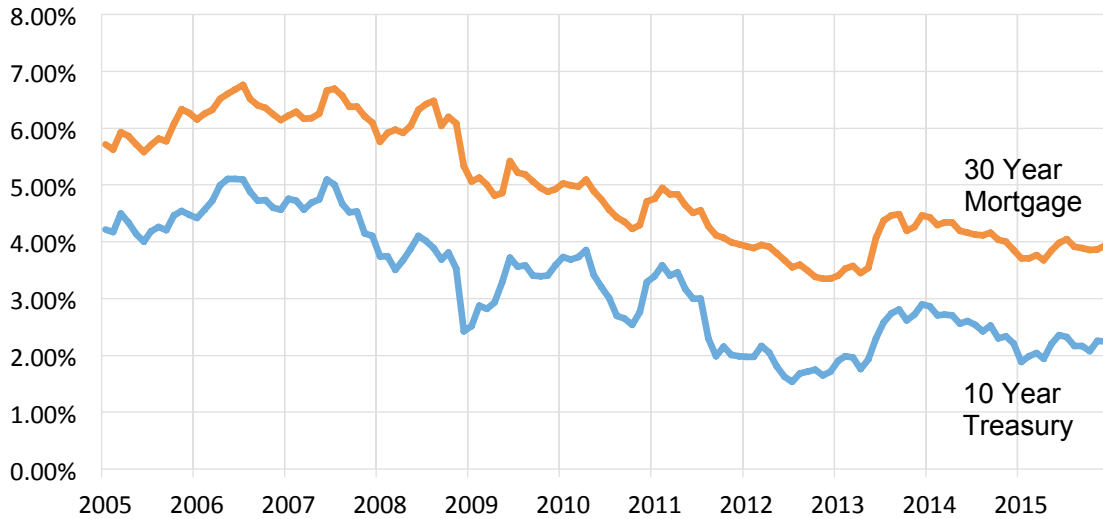
The United States Consumer Price Index (CPI-U) decreased 0.1 percent in September on a seasonally-adjusted basis and for the year saw a gain of 0.7 percent on a non-adjusted basis. Rising prices for services, housing, and other items were more than offset by decreases in energy, driven by a sharp drop in gasoline and fuel prices. The energy index is down more nearly 13 percent over the past year. The Wall Street Journal's Economic Forecasting Survey projects that the unadjusted 12-month CPI will increase by 1.2 percent in June 2016.

INTEREST RATES

The Federal Reserve finally raised rates in December, following an unprecedented 7-year stretch of rates effectively at zero. The interest rate hike suggested that the Federal Reserve believed the US economy had improved enough to withstand increased rates, although it emphasized that future rate hikes will be dependent on data relative to current conditions. It is widely believed that the Federal Reserve will raise the rates a few times before the end of the year, and at least once by mid-year. The Wall Street Journal's Economic Forecasting Survey projects that the rate will increase to 0.73 percent by June 2016 and to 1.14 percent by the end of 2016.

December saw the 10-year Treasury decrease slightly to 2.24 percent and the 30-year mortgage rate tick up to 3.93 percent respectively. Both of these measures are slightly higher than their December 2014 levels.

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

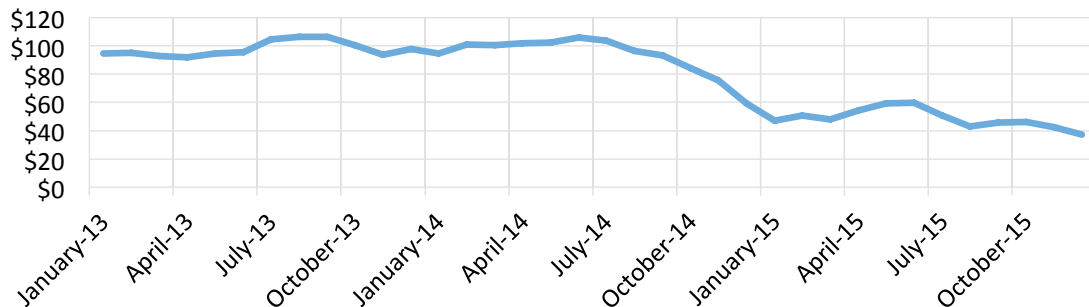


Source: Federal Reserve

CAPITAL MARKETS

As a result of rise of the Federal Reserve’s benchmark interest rates, US bond prices decreased and yields increased for both short- and long-term Treasuries. Falling commodity prices, notably in oil and mining, negatively impacted bond and equity prices in the quarter. High yield bonds were especially impacted as the energy and mining sectors account for nearly 20 percent of the US high yield market.

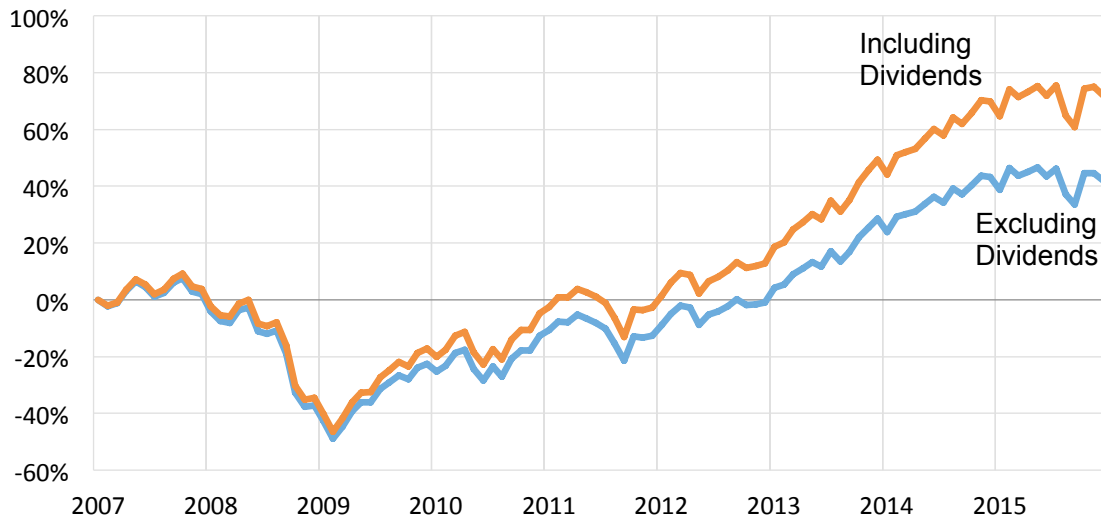
Figure 9: Oil Price per Barrel (WTI Spot), 2013–2015



Source: US Energy Information Administration

Volatility in the equity markets continued, as the US markets rebounded in the fourth quarter after significant declines in the previous quarter. For the year, including dividends the S&P increased 1.4 percent and the NASDAQ gained 5.7 percent.

Figure 10: Standard & Poor's 500 Index, 2007–2015



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

LOOKING AHEAD

Oregon and Portland's economies had banner years in 2015, but forecasters call for more tempered growth in 2016 and beyond. Will growth continue at 2015's pace or will it cool off in 2016? And will we start to see more growth for middle-income earners?

Eyes will continue to be on the Federal Reserve to see how aggressive its interest rate policy will be. This will impact the capital markets at various levels, and a tighter monetary policy could impact loans to developers, investors, businesses, and home buyers. Oregon's export businesses will be closely watching the strength of the dollar and signs from China's economy, and oil and commodity prices will also be on most investor's and analyst's radars. ■