THE STATE OF THE ECONOMY

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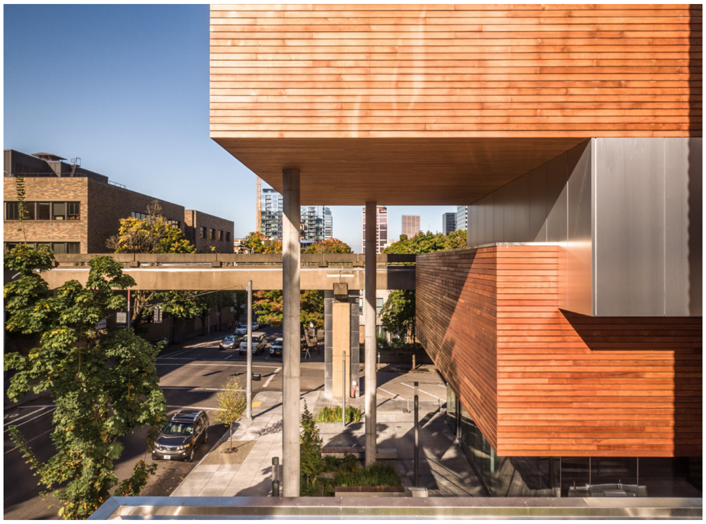
The United States economy remained strong through the second quarter of 2018 adding an average of 224,000 jobs each month according to the Bureau of Labor Statistics. This was an increase of about 35,000 over the same period last year. One of the highlights of the strong job growth has been the construction industry which has added over 300,000 jobs in 2018, a growth rate of 4.5 percent annually, according to BLS. Another industry that has contributed to improving employment is the oil and gas industry. The industry bounced back in the last year and a half adding nearly 90,000 jobs since the beginning of 2017, from a low point of under 600,000 jobs at the bottom of the oil price dip. This total is still well below numbers see in 2014 of nearly 850,000 but will likely continue to grow if oil prices continue to rise. Unemployment ended the second quarter at a historical low of 3.9 percent.



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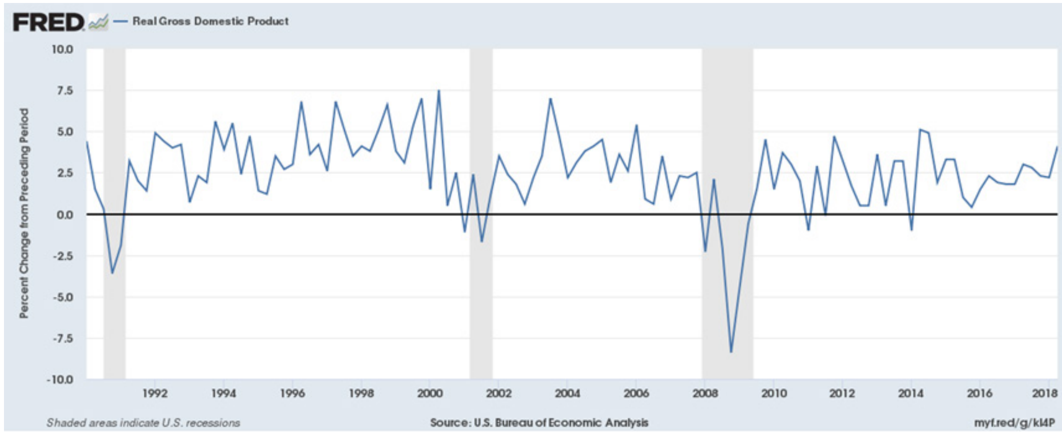
US ECONOMY

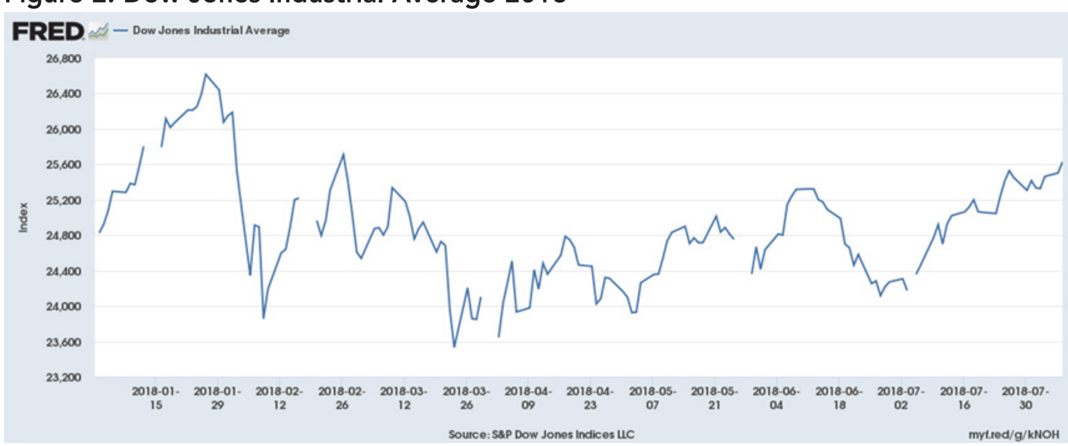
The second quarter saw a very strong growth in GDP, achieving a 4.1 percent annualized growth rate, the highest rate since 2014.

Figure 1: Real GDP Quarterly Growth Since 1990



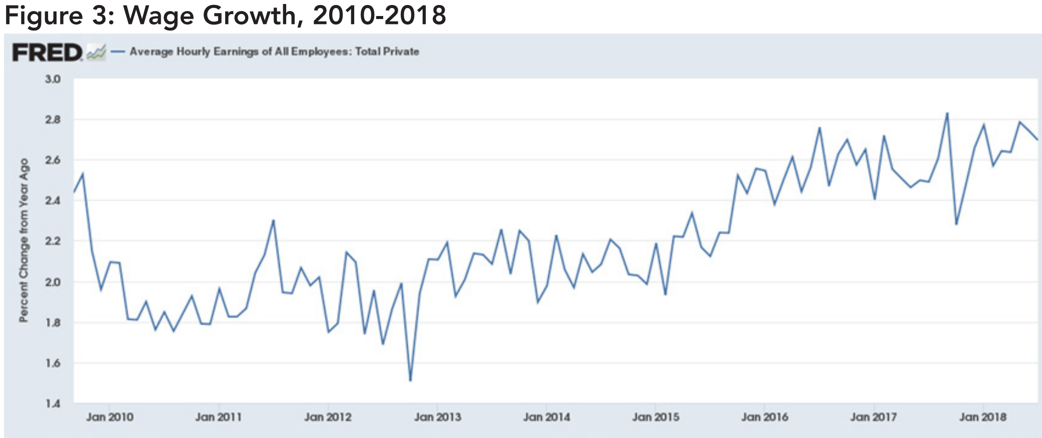
The stock market continued on the mostly horizontal path that it has followed for 2018. This is to be expected after 10 years of growth after the Great Recession but could be a worry for investors if this trend continues.

Figure 2: Dow Jones Industrial Average 2018



Wages rose by just over 2.7 percent in the second quarter of 2018 according to the Atlanta Fed. This is a positive sign but with inflation hovering just above 2 percent, workers are seeing little real value added to their paychecks.

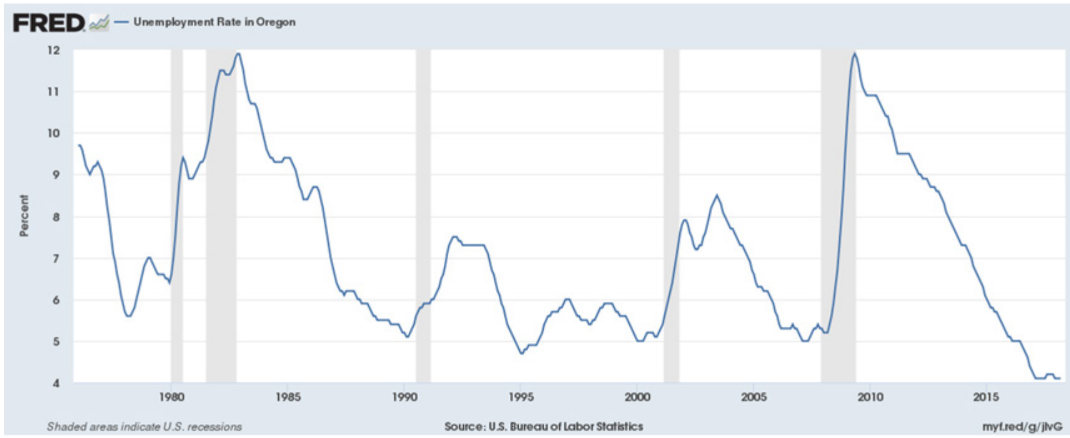
Figure 3: Wage Growth, 2010-2018



OREGON ECONOMY

Oregon's economy continued growing in the second quarter of 2018. The unemployment rate dropped to 4 percent, the lowest it's been in over 30 years. While there are still concerns about income inequality in the state, the low unemployment rate should help to push wages upwards.

Figure 4: Oregon Unemployment Rate, 1976-2018



Oregon's number of jobs continued to grow but the pace of growth dropped off in the second quarter of 2018. The first quarter saw over 14,000 jobs added while the second quarter saw only 5,700 new jobs added. It is unclear if this slower growth is because businesses are hiring less or the low unemployment rate is making it harder to find workers.

Figure 5: Oregon Employment Growth, 2008-2018

PORTLAND ECONOMY

The Portland-Vancouver-Hillsboro metro area ended the second quarter of 2018 with an unemployment rate of 3.8 percent having dipped down to 3.4 percent in the month of May. These numbers continue to impress. The labor market is tight in Portland and qualified candidates continue to find well-paying jobs relatively easily.

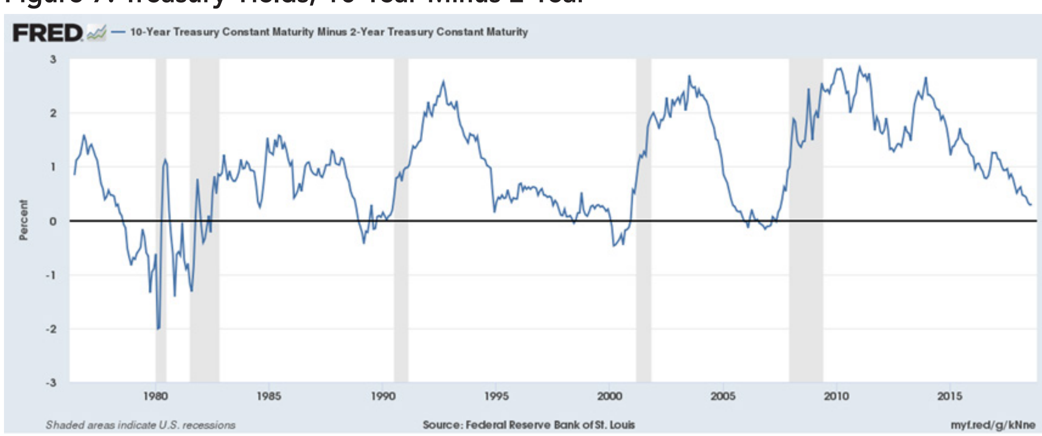
Figure 6: Portland Metropolitan Area Unemployment Rate, 2007-2018

YIELD CURVE

A potentially worrying sign for the economy is the flattening of the yield curve. The yield curve is a commonly referenced economic indicator that represents the difference between the 10 year and 2 year treasury yields. Typically, longer term bonds have a significantly higher yield than shorter term bonds, reflecting greater uncertainty over longer time horizons.

Lately, however, the 10 year treasury yield has been stubborn to move and the difference between the 10 and 2 year notes is nearing zero. In general U.S. recessions have been proceeded by a flattening yield curve as can be seen in the chart below with recessions shown in grey.

Figure 7: Treasury Yields, 10-Year Minus 2-Year



The time between the yield curve inverting and the beginning of a recession has been variable throughout history (it has typically been one to two years). No economic indicator is perfect but it is a potential sign of worry on the horizon. However, the Fed Reserve's policy of low interest rates is likely to have disrupted the relationship between longer term and shorter term Treasury yields.

MORTGAGE INTEREST RATES

Mortgage interest rates have been relatively stable in the second quarter of the year, after rising one-half of one percentage point in the first quarter. At the end of the second quarter the rate on a 30-year fixed rate mortgage loan was 4.55 percent.

Figure 8: Mortgage Rate, 30-Year Fixed, 2007-2018

The recent stability in interest rates is expected to be a boost to residential real estate transactions. However, a dearth construction and other supply constraints have acted as a counter balance to the interest rate environment. Looking forward, the Fed is expected to raise interest rates in the last half of the year, which could dampen real estate activity.