THE STATE OF THE ECONOMY

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Moderate growth continued in the United States economy through the second quarter of 2013, though forecasters had anticipated an acceleration of the economy from the sluggish start to 2013. While on a national level, the country reported progress, some metropolitans struggled to change their negative economic currents.

In July, Detroit filed the biggest-ever city bankruptcy and sought protection from all its creditors, sending shudders throughout other cities and states who also carry large long-term debts. The spotlight of this Detroit crisis is focused on how the city will deal with approximately $9.2 billion debt in unfunded retirement benefits (out of $18.2 billion total debt). Michigan constitutional provisions protect government pension benefits, but a judge will have to rule whether and how federal bankruptcy law trumps the rights of Detroit's pensioners, and whether the city filed too hastily for bankruptcy. The decision from this could have ripple effects on how other cities will go about potentially filing for bankruptcy, but most importantly, in determining how to tweak current programs and state laws regarding public sector pensions.

THE U.S. AND WORLD ECONOMY

On a national scale, economic indicators underscore the restrained optimism as the U.S. continues to recover from the recent recession. Economists remain hopeful, yet realistic, and have altered their earlier more aggressive forecasts for 2013. Figure 1 outlines the tempered U.S. economic growth projections. GDP is projected to grow

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slightly and remain around 2.4 percent a year over the coming years. Gross fixed investments may decrease due to higher interest rates. Exports are not growing particularly fast, but are forecasted to be slightly above imports.

Figure 1: Annual economic growth, actual and forecasts, 2012–2017

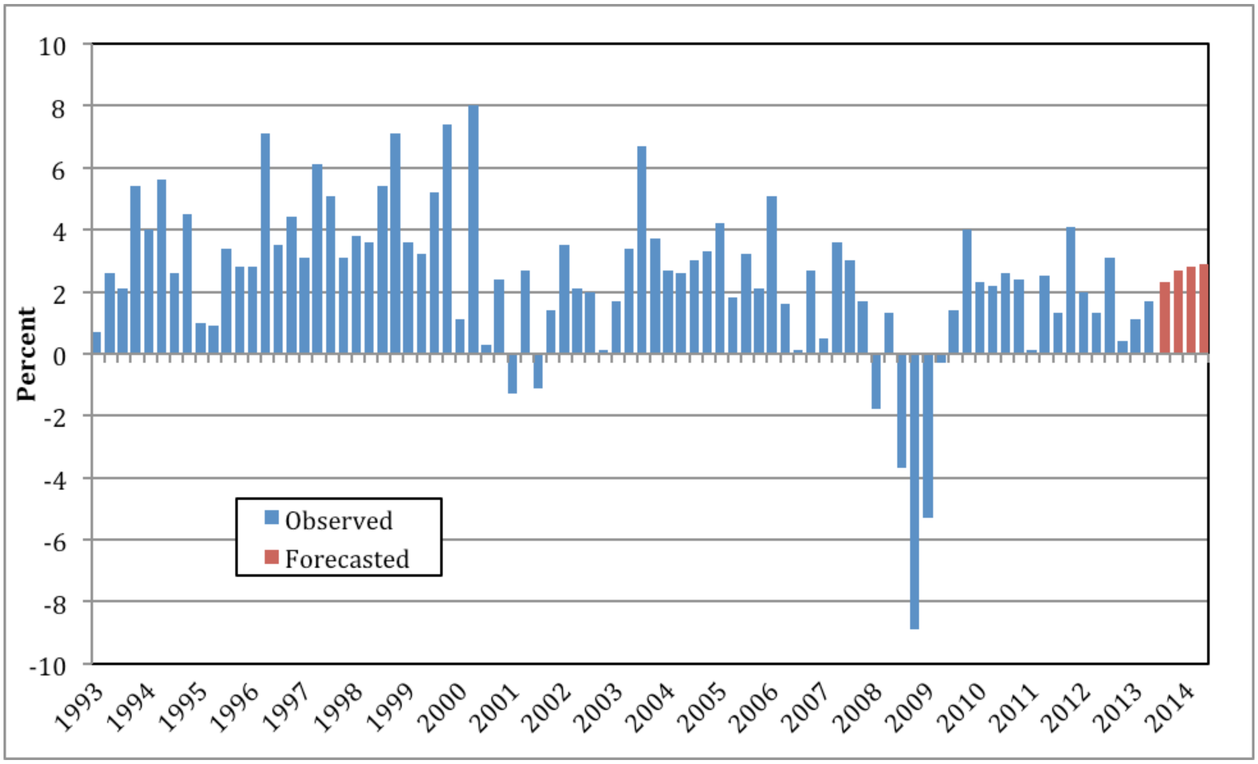
%	2012[a]	2013[b]	2014[b]	2015[b]	2016[b]	2017[b]
GDP	2.2	2	2.5	2.3	2.4	2.4
Private consumption	1.9	2.1	2.2	2.1	2	2.1
Government consumption	-1.7	-2.8	-0.7	-0.1	0	0.1
Gross fixed investment	8.7	6.6	7.9	6.5	6.5	6.4
Exports of goods & services	3.4	1.6	3.5	3.8	3.8	3.7
Imports of goods & services	2.4	0.9	3.2	3.4	3.5	3.5
Domestic demand	2.1	1.9	2.5	2.3	2.4	2.4
Agriculture	-3.7	2.1	2	2.5	2.9	2.9
Industry	3.2	2.5	2.8	3	2.5	2.4
Services	2	1.9	2.5	2.2	2.4	2.4

[a] Actual; [b] Forecasted
Source: Economist Intelligence Unit 2013

The Gross Domestic Product grew from 1.1 percent in the first quarter to 1.7 percent in the second quarter, the United States Bureau of Economic Analysis reports. The U.S. Commerce Department attributes the rise in GDP to personal consumption expenditures and business investments, particularly in buildings, and an upturn in exports.

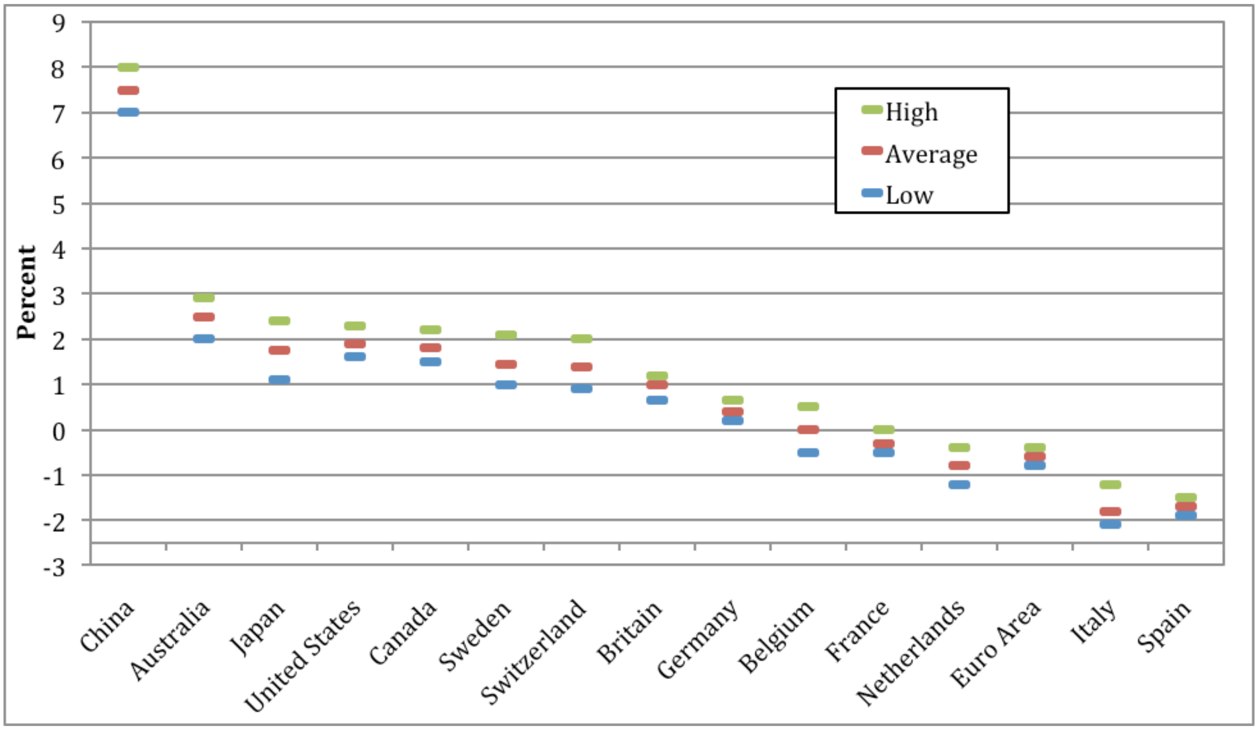
This initial second quarter GDP reporting reveals that the U.S. economy is on the road to recovery as it grows more robust. This steady growth is to continue over the rest of the year and into 2014. The Economist Intelligence Unit projects annual growth of about 2.5 percent through 2017. Figure 2 shows the forecasted growth of U.S. GDP through 2014.

Figure 2: Gross domestic product, annualized, 1993–2014



Source: Bureau of Economic Analysis and Wall Street Journal Economic Forecasting Survey

Figure 3: Gross domestic product, forecasted, selected countries, 2013



Source: The Economist, July 2013 and Wall Street Journal

Figure 4 shows that the emerging economies of Brazil, Russia, India and China (BRICs) report slowing in their growth. These countries observed rapid growth since the 1990s and this year, account for more than half of the world's GDP based on purchasing power, according to the International Monetary Fund (IMF). The Economist concludes that after such economic expansion, growth rates in all the BRICs have dropped and are likely not to be repeated.

China, in particular, slowed to a 7.6 percent increase in the second quarter of 2013, which is the slowest growth since early 2009, and is estimated to remain at this level for the remainder of the year. For the second half of 2013, the Wall Street Journal reports that China's GDP may continue to slow to 7 percent. On the other hand, the International Monetary Fund predicts China's 2013 GDP will increase to 7.8 percent. China's GDP has stayed under 8 percent for five straight quarters, which indicates to the world that as China shifts from real estate investment and to a consumption based economic model, growth will be slower.

Figure 4: Emerging economies, annual GDP growth actual and forecast, 2011–2014

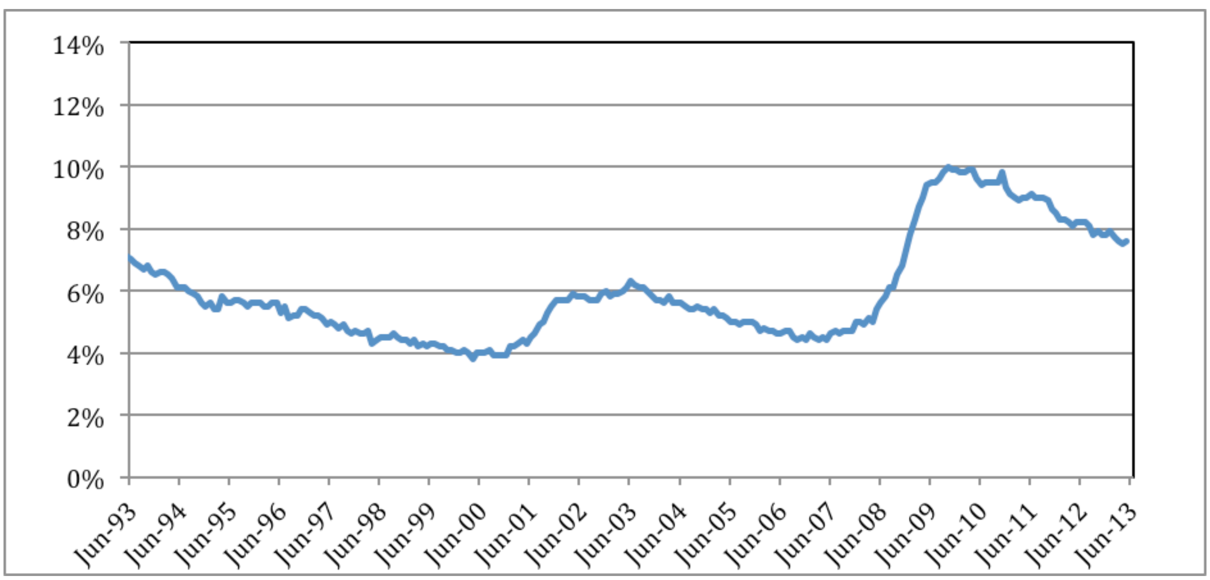
%	2011	2012	2013	2014
Brazil	2.7	0.9	2.5	3.2
Russia	4.3	3.4	2.5	3.3
India	6.3	3.2	5.6	6.3
China	9.3	7.8	7.8	7.7

Source: International Monetary Fund

With the growth in the U.S. GDP, the employment is anticipates to see similar improvement. The U.S. Bureau of Labor Statistics reports that the total nonfarm payroll employment increased by 195,000 in June 2013, and the unemployment rate was unchanged at 7.6 percent, which brings the preceding 12-month average to 182,000. Industry sectors that reported the most growth in June were in leisure and hospitality (+75,000), professional and business services (+53,000), retail trade (+37,100), and education and health services (+13,000).

In June 2013, the majority of jobs in leisure and hospitality were in food services and drinking places (+51,700), while the professional and business services sector employment growth consisted of management and technical consulting (+8,400), temporary help services (+9,500), and computer systems design and related services (+7,300). Within retail trade, building material and garden supply stores (+8,500) and motor vehicle and parts dealers (+8,300) led growth and in education and health services, the ambulatory health care services sector (+12,600) continued to add jobs.

Figure 5: Unemployment Rate, United States

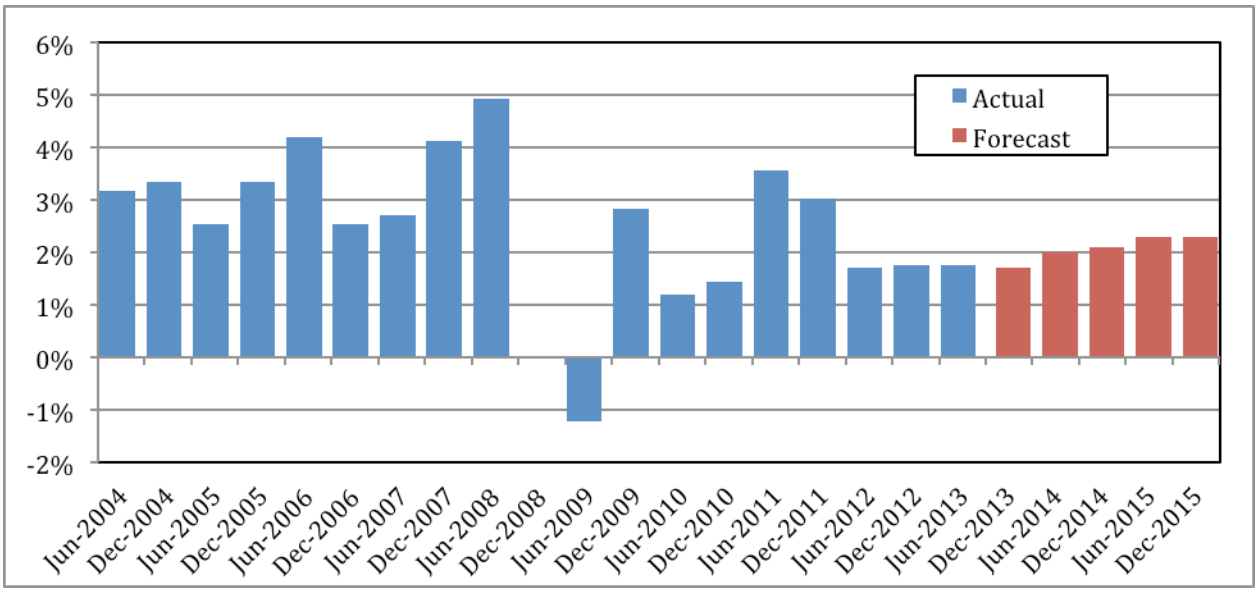


Source: Bureau of Labor Statistics

The U.S. unemployment rate continued to slowly decline, according to the Bureau of Labor Statistics. As seen in Figure 5, U.S. unemployment hovered between 4 percent and 6 percent from the mid-1990s until the recession that began in late 2008 when it spiked to 10 percent in October of 2009. Since then, the unemployment rate has dropped gradually and by June 2013, stood roughly at 7.6%. While the decline in unemployment has been viewed as a sign of an improving economy, a portion of the decline in unemployment has been attributed to a large number of individuals leavin the work force.

Despite the sluggish employment growth, consumer spending increased by 0.4 percent, while inflation rates hover just under 2 percent for the first half of 2013 (Figure 6). Inflation rates are forecasted to stay below 2.5 percent through 2015.

Figure 6: United States inflation trend, Consumer Price Index

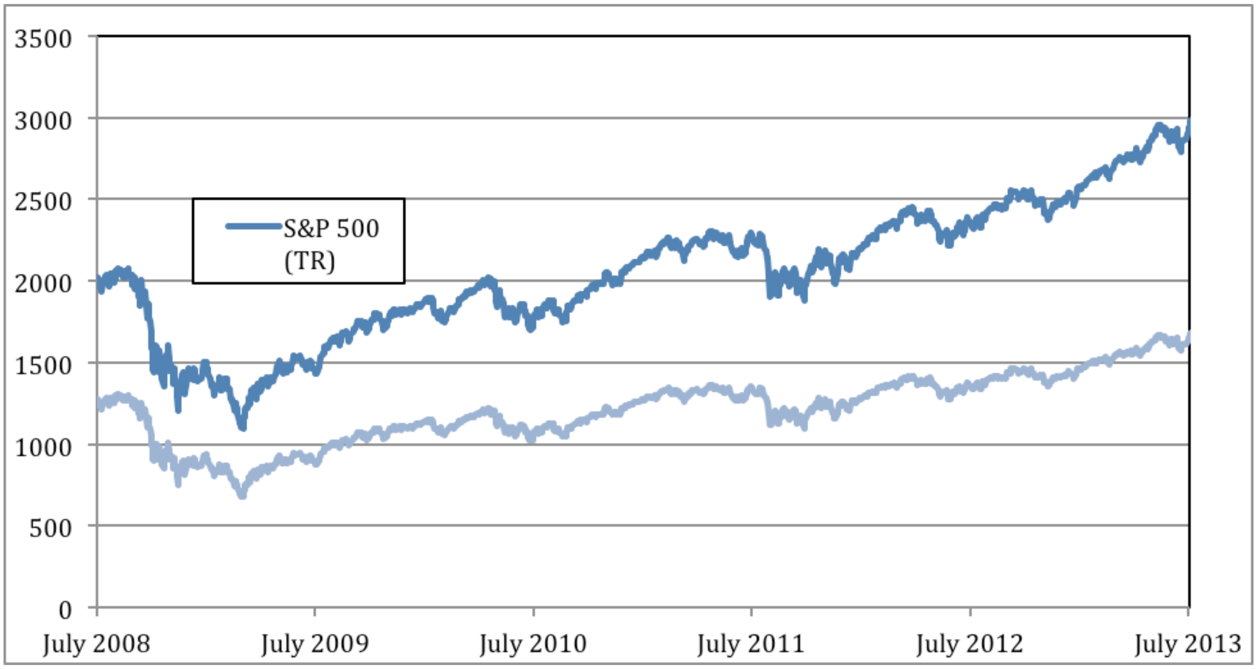


Source: United States Bureau of Labor Statistics and Wall Street Journal Economic Forecasting Survey

In July 2013, the chairman of the Federal Reserve Ben Bernanke hinted that the Fed plans on slowing its $85 billion-a-month bond buying program. Soon thereafter, Bernanke seemingly backtracked, saying that Fed monetary policy would be “highly accommodative for the foreseeable future.”

The stock market showed a continuation of gains from a dip in the early 2009. The Standard & Poor’s 500 stock index indicates a general upward trend since then. For the first time, the S&P 500 neared 1,700 and S&P Total Returns (which accounts for dividend reinvestment) was close to 3,000 at the end of July, 2013. (Figure 8).

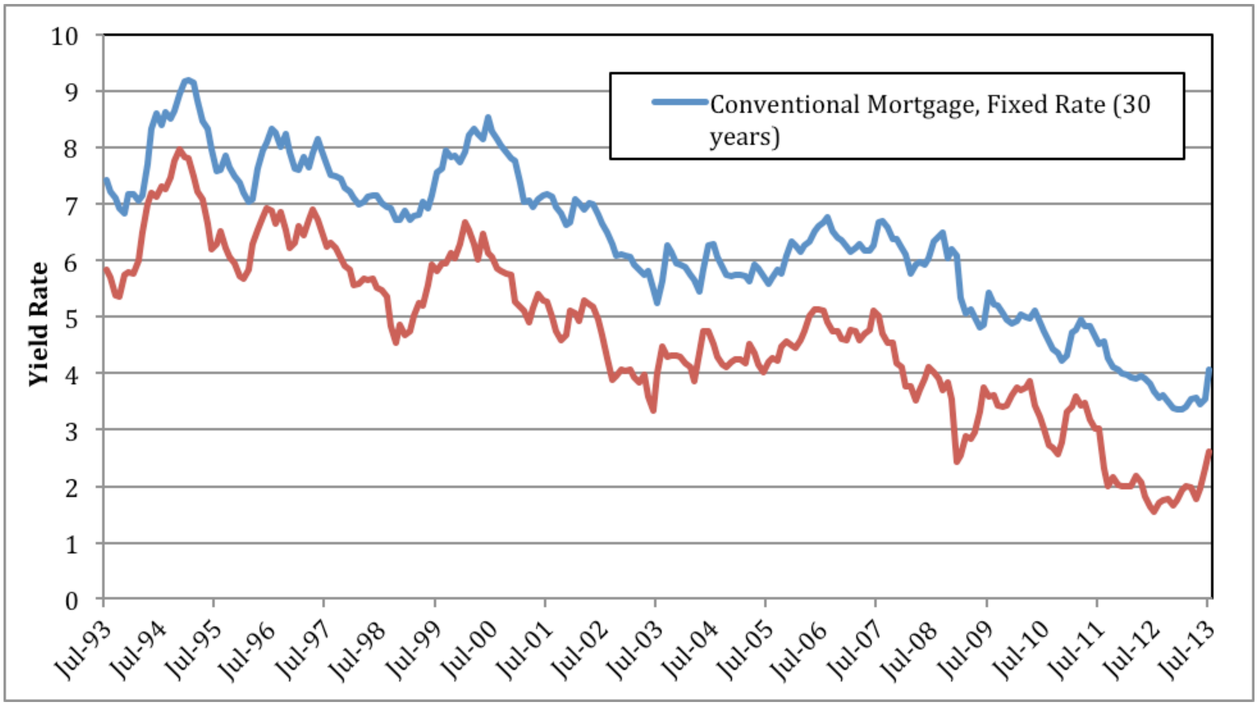
Figure 8: Standard & Poor's 500 stock index, 5-years



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

Standard & Poor's elevated its long-term outlook on the U.S. credit rating to "stable" from "negative," citing the economic resilience, receding fiscal risks, and monetary credibility of the U.S. The U.S. still holds an AA+ status—which is one notch below the AAA score that the U.S. held until 2011.

Figure 9: 10-year U.S. Treasuries vs. conventional 30 year mortgage trends, 1993–2003



Source: Federal Reserve Bank

Mortgage rates, which are closely tied to 10-year Treasury yields, have begun to climb. Conventional 30-year fixed rate mortgages rose from 3.45 percent in April to 4.52 percent at the end of July 2013. The Fed, however, has concerns that the increase in mortgage rates may potentially harm the recovery of the housing market.

Figure 10: Trade and U.S. dollar, July 2013

July, 2013	Trade balance		Current-Account Balance			Currency Units, per $		
	latest 12 months ($bn)		latest 12 months ($bn)		% of GDP	July 24th	year ago	% change
United States	-721.8	(May)	-425.7	(Q1)	-2.8	-	-	
China	+271.3	(June)	+217.2	(Q1)	+1.9	6.14	6.39	-3.9%
Australia	+9.6	(May)	-51.1	(Q1)	-3.3	1.09	0.98	11.2%
Japan	-73.1	(May)	+55.9	(May)	+0.9	100	78.2	27.9%
Canada	-11.9	(May)	-62.3	(Q1)	-3.1	1.03	1.02	1.0%
Sweden	+10.7	(May)	+37.5	(Q1)	+7.4	6.49	6.96	-6.8%
Switzerland	+26.3	(Jun)	+88.7	(Q1)	+12.3	0.94	0.99	-5.1%
Britain	-168.1	(May)	-96.7	(Q1)	-2.8	0.65	0.64	1.6%
Euro Area	+165.7	(May)	+235.8	(May)	+1.6	0.76	0.83	-8.4%
Germany	+249.3	(May)	+246.0	(May)	+6.4	0.76	0.83	-8.4%
Belgium	+8.8	(May)	-8.7	(Mar)	-0.6	0.76	0.83	-8.4%
France	-82.0	(May)	-53.9	(May)	-1.9	0.76	0.83	-8.4%
Netherlands	+56.0	(May)	+85.1	(Q1)	+8.9	0.76	0.83	-8.4%
Italy	+29.4	(May)	+3.9	(May)	+0.4	0.76	0.83	-8.4%
Spain	-26.4	(May)	+0.1	(Apr)	+0.6	0.76	0.83	-8.4%

Source: The Economist

Finally, the U.S. Dollar appears to be weakening in China and in the European Union, even as most of Europe has been dragging down the world economy as they weather the recession (Figure 10). In Australia and Japan, however, the dollar is gaining strength as export of goods is projected to outweigh U.S. imports.

OREGON AND THE PORTLAND AREA

The State of Oregon reported a similar job growth trend to the nation for the month of June. The largest increase in nonfarm payroll employment (seasonally adjusted figures) were in Leisure and Hospitality (+1,700), Professional and Business Services (+800), and also Manufacturing (+700). (Figure 11)

Figure 11: Oregon job growth, nonfarm payroll employment, seasonally adjusted, thousands

Sector	Jun-13	May-13	Jun-12	Change From May-13	Change From Jun-12
Construction	72.4	73.1	69.5	-0.7	2.9
Manufacturing	175.9	175.2	172.2	0.7	3.7
Trade, Transport and Utilities	319.7	321.7	316.5	-2.0	3.2
Financial Activities	91.9	92.1	90.1	-0.2	1.8

Professional and Business Services	200.5	199.7	194.6	0.8	5.9
Educational and Health Services	240.4	241.2	237	-0.8	3.4
Leisure and Hospitality	180	178.3	168.9	1.7	11.1
Other Services	57.5	57.6	57.3	-0.1	0.2
Government	288	288.1	289.9	-0.1	-1.9
Total	1,666.60	1,667.60	1,636.10	-1.0	30.5

Source: Oregon Employment Department

The Portland-Vancouver-Hillsboro MSA had its majority of growth in Leisure and Hospitality (+3,600), Construction (+3,500), Manufacturing (+1,700) and Professional and Business Services (+1,500), as seen below.

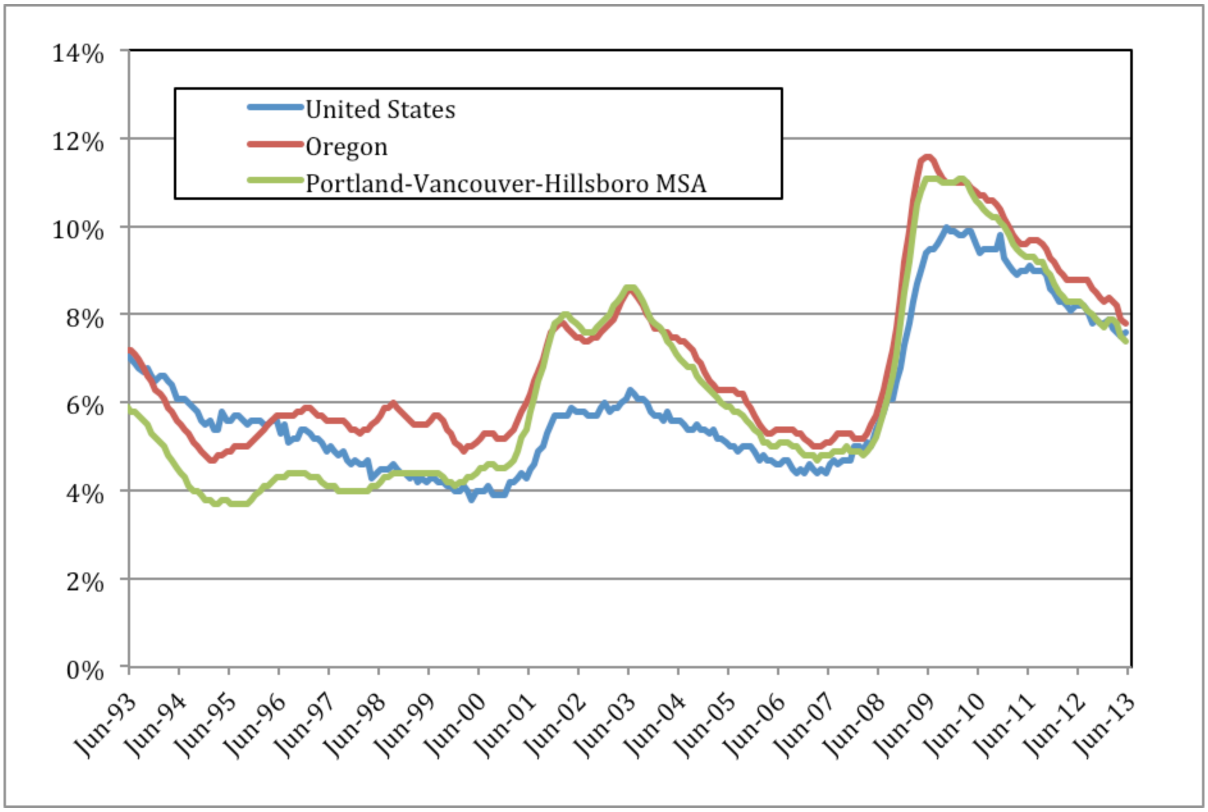
Figure 12: Portland-Vancouver-Hillsboro MSA, nonfarm payroll employment, not adjusted for seasonality

	March 2013		April 2013		May 2013		June 2013	
Total Non-farm Employment	1,018,500		1,026,000		1,034,200		1,040,700	
Unemployment rate	8.0%		7.2%		7.1%		7.5%	
Mining and Logging	1,000	0.0%	1,000	0.0%	1,000	0.0%	1,100	10.0%
Construction	46,700	3.5%	47,200	1.1%	48,800	3.4%	51,300	5.1%
Manufacturing	113,200	0.0%	113,600	0.4%	114,100	0.4%	115,800	1.5%
Trade, Transportation, & Utilities	193,700	-0.4%	194,100	0.2%	196,800	1.4%	197,400	0.3%
Information	23,300	1.3%	23,200	-0.4%	23,600	1.7%	23,700	0.4%
Financial Activities	63,600	0.3%	64,300	1.1%	64,500	0.3%	65,200	1.1%
Professional & Business Services	141,100	1.3%	143,300	1.6%	144,000	0.5%	145,500	1.0%
Educational & Health Services	150,400	0.9%	151,200	0.5%	150,700	-0.3%	146,400	-2.9%
Leisure and Hospitality	100,400	1.1%	102,800	2.4%	104,200	1.4%	107,800	3.5%
Other Services	36,900	0.3%	37,200	0.8%	37,500	0.8%	37,400	-0.3%
Government	148,200	0.0%	148,100	-0.1%	149,000	0.6%	149,100	0.1%

Source: Jones Lang LaSalle IP, Inc. and Oregon Employment Department

The region experienced a year-over-year employment gain of approximately 28,600 jobs, which is the largest since the great recession began. In percentage terms, the metro labor market expanded by 2.8% in the past 12 months, which is well ahead of the U.S. average of 1.7%.

Figure 13: Unemployment rate, national and local



Source: Bureau of Labor Statistics and Oregon Office of Economic Analysis

Oregon's unemployment rate typically treads above the national rate and in June was 7.9 percent, slightly higher than the national rate (Figure 13). Portland-Vancouver-Hillsboro MSA has observed persistent growth in employment in recent years and, although more volatile than both the national and state unemployment rates, had unemployment diminish to 7.3 percent in June which is slightly lower than the national level on a seasonally adjusted basis.

In this improving economic climate with steady employment expansion and increasing consumption, the outlook for Oregon and the Portland metro region remain strong. With predictions of the high technology sector growing attracting educated and talented individuals to move to the state, the commercial office and residential markets are expect to see slowly improving demand. ■