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economic analysis

JERRY JOHNSON
Portland State University

JERRY JOHNSON is an adjunct professor at Portland State University's Center for Real Estate. He is also the Managing Principal of Johnson Economics, a consultancy based in Portland.

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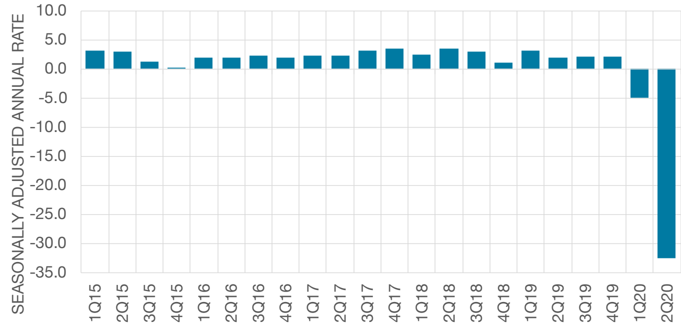
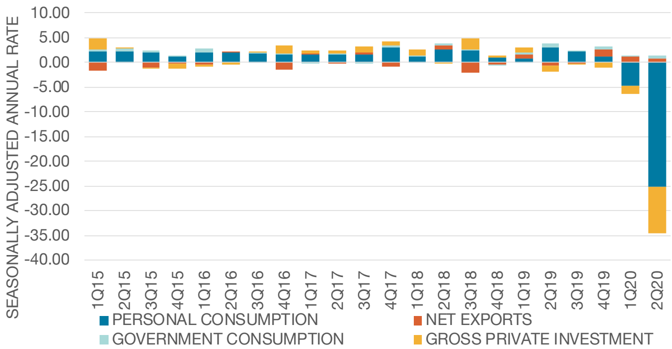
REAL GDP - PERCENT CHANGE FROM PRECEDING QUARTER



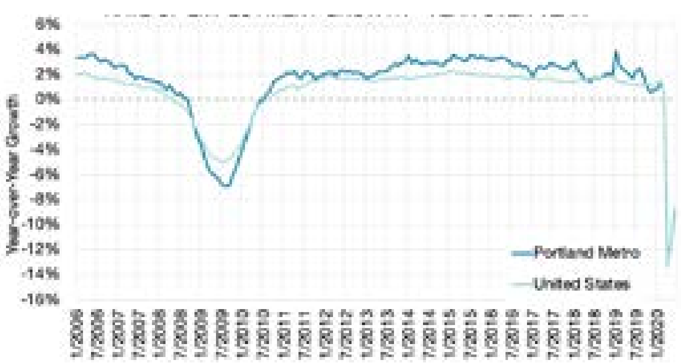
U.S. Bureau of Economic Analysis

GDP GROWTH BY CONTRIBUTING SECTOR



U.S. Bureau of Economic Analysis

RATE OF EMPLOYMENT GROWTH - YEAR OVER YEAR



Bureau of Labor Statistics

The Covid-19 pandemic continues to be the dominant force in the economic landscape, at a national as well as regional level.

As noted in a recent Federal Reserve statement on July 29:

> The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

In simpler terms, economic forecasting at this time is likely to be less reliable than usual.

Real GDP declined at a seasonally adjusted rate of 32.5% during the second quarter, reflecting an unprecedented decline associated with the forced closure of significant portions of the economy.

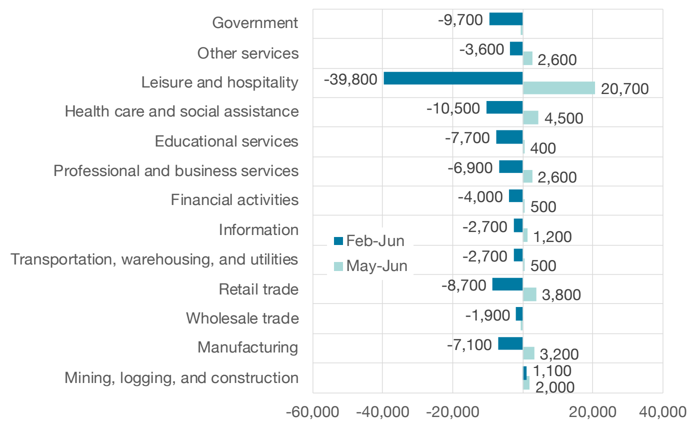
Consistent with expectations, the second quarter saw sharp declines in personal consumption and private investment, with was offset by modest increases government consumption and net exports.

Though the pandemic has had serious consequences on many levels, the economic effects have so far been less severe than many feared earlier in the year. Nationally, employment fell by 14.5% between February and April, but then rose again in May and June, limiting the job loss to 9.6%. On a year-over-year basis, June employment numbers reflect an 8.6% decline.

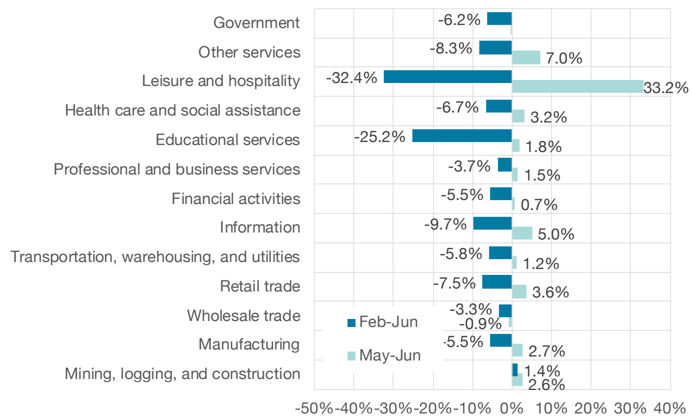
In the Portland Metro Area, the job loss was 12.8% between February and April. This represents 156,000 lost jobs, erasing nearly six years of job growth. By May, the job loss had been reduced to 12.0%, as 10,000 jobs were regained. Data is not yet available for June, but if we see the same recovery as on the national level, 40,000 jobs will have been regained in June.

In the Portland metro area, the employment sectors reporting the greatest magnitude of impact since February have been leisure and hospitality, healthcare and social assistance, and government.

EMPLOYMENT CHANGE SINCE PANDEMIC START-PORTLAND METRO

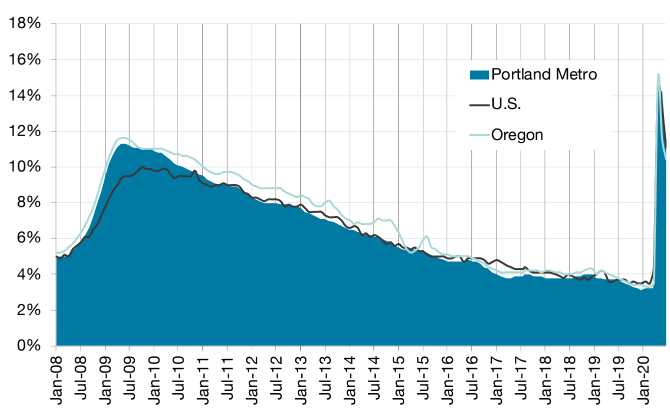


PERCENT EMPLOYMENT CHANGE - PORTLAND METRO



State of Oregon Employment Department

UNEMPLOYMENT RATES OVER TIME



State of Oregon Employment Department

On a percentage basis leisure and hospitality and educational services have shown the greatest rate of decline, although leisure and hospitality has recovered about a third of its losses since May.

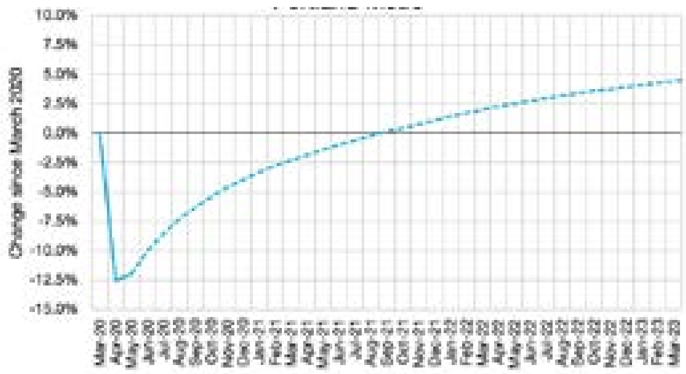
The leisure and hospitality sector lost 61,000 jobs in the Portland Metro Area and remains 40,000 jobs below its February numbers. Roughly 45,000 of these jobs were lost in the restaurant industry, while nearly 7,000 was lost in the hotel industry and 9,000 in arts/entertainment/recreation. Somewhat counterintuitively, healthcare saw significant reductions despite the pandemic, as preventative visits and elective procedures were put on hold in expectation of capacity shortages. This has bounced back somewhat but still remains 6.7% below February levels. Government employment is down, but this is almost exclusively in the local government sector and likely reflects the closure of recreational facilities. Local governments in Oregon rely heavily on property taxes, which are a revenue source that should remain stable.

Reflecting the relatively low wages in the leisure and hospitality sector, a disproportionate share of workers in this industry are apartment renters. Overall, apartments account for 29% of all occupied housing units in the region. However, census microdata indicates that 54% of the workers in leisure and hospitality who live in single-income households live in apartments, while 40% of workers in households with two or more incomes live in apartments.

The unemployment rate, which was 3.5% nationally and 3.2% regionally in February, rose to 14.7% nationally and 14.3% regionally in April. By June, the national rate had declined to 11.1%, while the May rate for the Portland Metro Area was 14.1%. Unemployment levels have been moderated somewhat by a reduction in labor force participation.

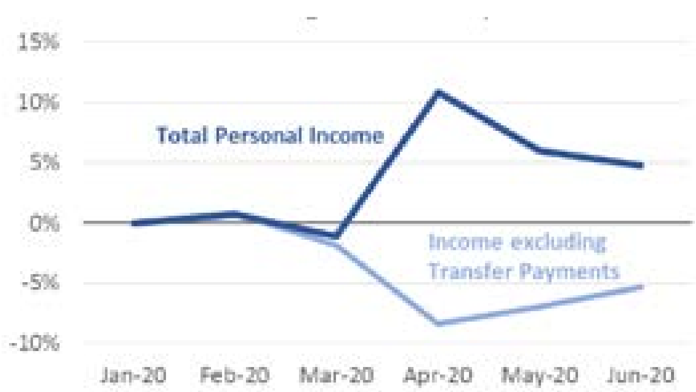
Though the economic effects of COVID-19 have been severe, many economists projected even worse conditions earlier in the crisis. The many federal initiatives, both by the government and the Federal Reserve, have undoubtedly helped mitigate the impacts.

EMPLOYMENT PROJECTIONS, CHANGES SINCE MARCH 2020, PORTLAND METRO



Bureau of Labor Statistics, JOHNSON ECONOMICS

FEDERAL AID BOOSTS US PERSONAL INCOME PERCENT CHANGE FROM JANUARY 2020



BEA, Oregon Office of Economic Analysis

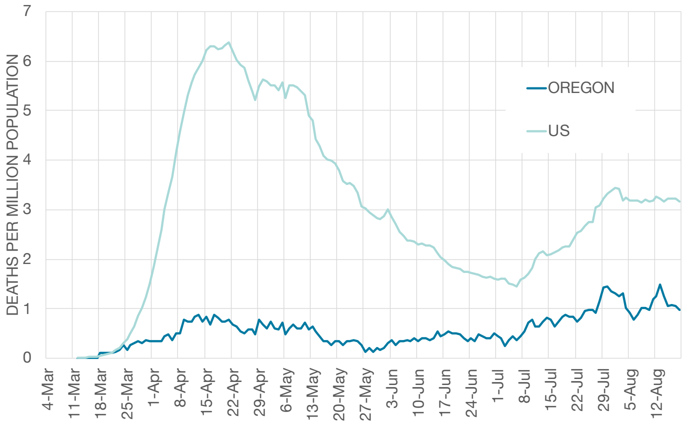
An anomaly in this recession is that the massive federal fiscal stimulus to date has actually led to a net increase in personal income, which would have declined sharply without the supplemental transfer payments. Personal income actually rose 10% in April.

Measures such as the Payroll Protection Program and supplemental unemployment benefits are expiring or largely complete, and an extended shut-down period may induce a need for additional federal intervention. As these interventions phase out, it will present headwinds that the recovery will need to overcome.

It is possible that increased infection rates will force another round of shutdowns, with additional job losses. However, on a net basis we would expect a stalled recovery rather than additional losses. The length of the recovery is heavily dependent on development and dissemination of either/or an effective vaccine or more effective treatment approaches. Our current employment forecast for the Portland Metro Area assumes a recovery of the lost jobs in 17 months, with a return to the pre-recession employment trajectory taking at least another year.

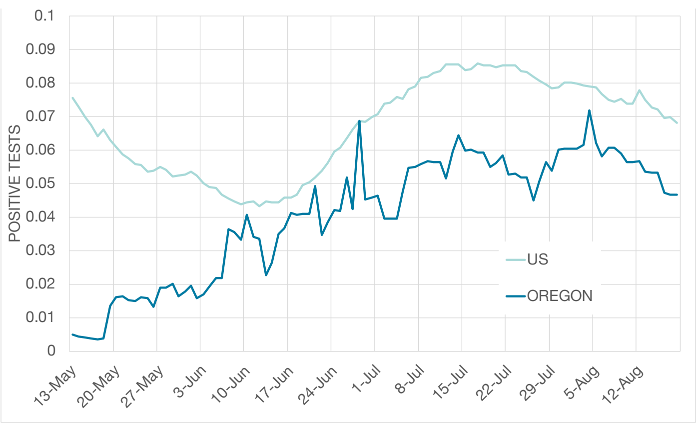
The COVID-19 pandemic and responses to it will continue to have a dominant role in the national and local economy. At the national level, the initial surge of cases was concentrated in the Northeast, most notably New York, New Jersey, and Massachusetts. Much of the remainder of the US reported a much lower number of cases and resulting deaths through early July. A second wave of outbreaks was then reported in sunbelt states and California, which appears to have generally peaked a few weeks ago.

DEATHS PER CAPITA - OREGON AND US



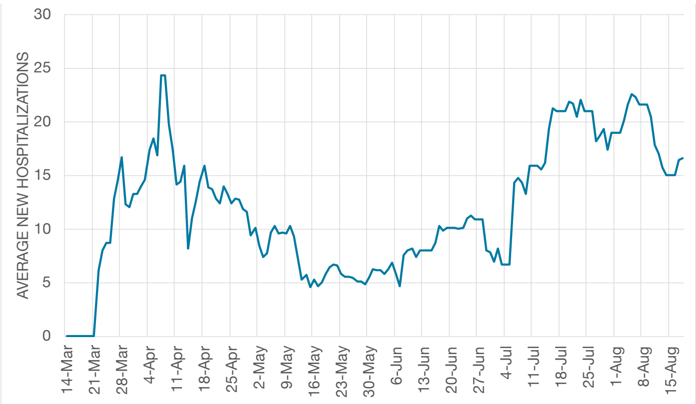
Covid Tracking Project (covidtracking.com)

POSITIVE COVID TEST PERCENTAGES - SEVEN DAY AVERAGE - OREGON AND US



Covid Tracking Project (covidtracking.com)

OREGON NEW COVID-RELATED HOSPITALIZATIONS, SEVEN DAY AVERAGE



Covid Tracking Project (covidtracking.com)

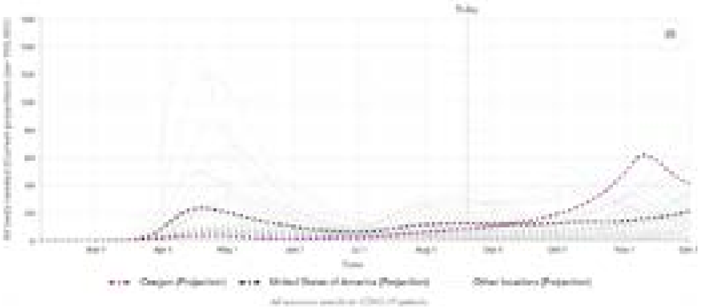
The State of Oregon has been among the least impacted states to-date, with per capita deaths remaining well below the national average despite a recent increase.

The percent of tests reporting as positive appears to have peaked in the State of Oregon during the first week of August, as have hospitalizations. Deaths should lag these trends, indicating that the number of fatalities is likely to decline in the state over the next few weeks.

While the State of Oregon has fared relatively well in terms of containing the virus to-date, it may be that we have been too successful in "flattening the curve". The intent of flattening was to assure that medical resources were not over-taxed, which we have been successful in doing to-date. The concern is that by flattening the curve at the low rate we have been able to sustain to-date, we have extended the period in which the virus remains an active threat, extending public policy responses and economic damage. While policy considerations have been dominated by public health concerns, policymakers must also consider and balance other factors such as the economic and fiscal cost, which may also have public health implications.

Current forecasts anticipate infection rates in the State of Oregon to increase through November, while states that had much higher rates of infection and deaths recover more rapidly. The duration of economic disruption will greatly impact the economy's ability to recover as structural damage to businesses and balance sheets accumulates.

HOSPITAL RESOURCE USE PER 100,000



University of Washington Institute for Health Metrics

It is important to note that the forecasts do not anticipate availability of a vaccine and/or more effective treatment methods for the virus. The availability of these may truncate these trends and by delaying the impact of the virus a lower death rate may be achieved. The news on both fronts has been promising, but the forecasts for the future are highly reliant upon when we can assume some return to normalcy in the economy.

While it is important to keep trying to develop effective forecasts, this pandemic has illustrated that epidemiological modeling is more akin to economics than a hard science. This is particularly true with a "novel" virus of which little is known. The CDC utilizes roughly twenty-five models that are considered in developing a national forecast. Of these, less than half have shown an ability to forecast more accurately than a baseline forecast that simply assumes that the next four weeks will be identical to the last. As a result, key decisions with significant implications on economic activity, in both the public and private sector, continue to be made with a high level of uncertainty.