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# THE STATE OF THE ECONOMY

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ANDREW CRAMPTON

Portland State University

The year closed with record economic growth and continued positive economic performance in metropolitan Portland and across the United States. The IMF Global Outlook for advanced economies has improved their outlook for 2017-2018 based on projections of fiscal stimulus in the United States and stronger than expected economic performance in the latter half of 2016. The stabilizing US dollar and rising equity prices aided this strong performance, assisting increasingly positive future projections.

Despite record economic performance and positive future growth projections, concerns remain due to the volatile US presidential administration that has indicated a protectionist trade policy, and unnecessarily antagonistic geopolitical tensions with key allies. The economy remains on-track with positive economic performance and baseline projections point to continued increases in 2017, however unstable geopolitical risks make future economic performance forecasts less stable.

Global growth for 2016 is now estimated at 3.1 percent, advanced economies are projected to grow at 1.9 percent in 2017 and 2.0 percent in 2018. Increased restrictions by the Trump Administration on global trade and migration could have extremely detrimental impacts to global economic productivity and income, and would stem the initial positive market response to the election results. Additionally, planned increased military and infrastructure spending could boost growth, but may spark inflation.

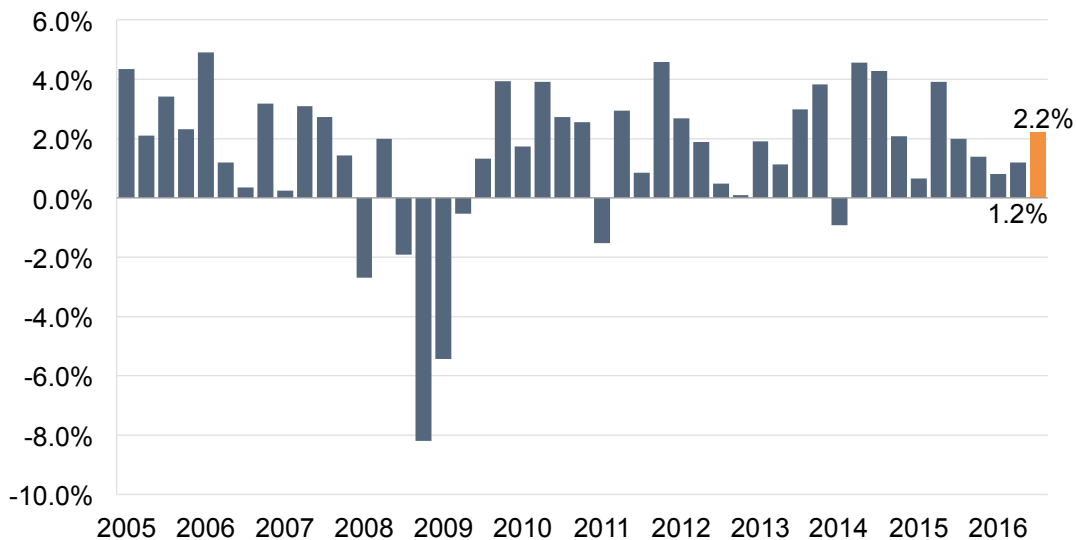
■ Andrew Crampton is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

## OUTPUT: GROSS DOMESTIC PRODUCT

Over-the-year growth in Oregon continued at a robust pace as payroll employment grew by 2.9 percent since December 2015, nearly double the U.S. growth rate of 1.5 percent. However, that performance is noticeably slower than the previous two years of 3.3 percent in 2015 and 3.0 percent in 2014. Over-the-year growth in Oregon continued at a robust pace as payroll employment grew by 2.9 percent since December 2015, nearly double the U.S. growth rate of 1.5 percent.

The official state economic forecast, produced by the Oregon Office of Economic Analysis, indicates that 2017 will bring slightly slower job growth. The number of jobs is expected to increase by 43,400 in 2017 for a growth rate of 2.4 percent. The unemployment rate is expected to be similar in 2017, averaging about 5.3 percent.

**Figure 1: Gross Domestic Product, United States, Annualized Percent Change, 2005–2016 Q4**



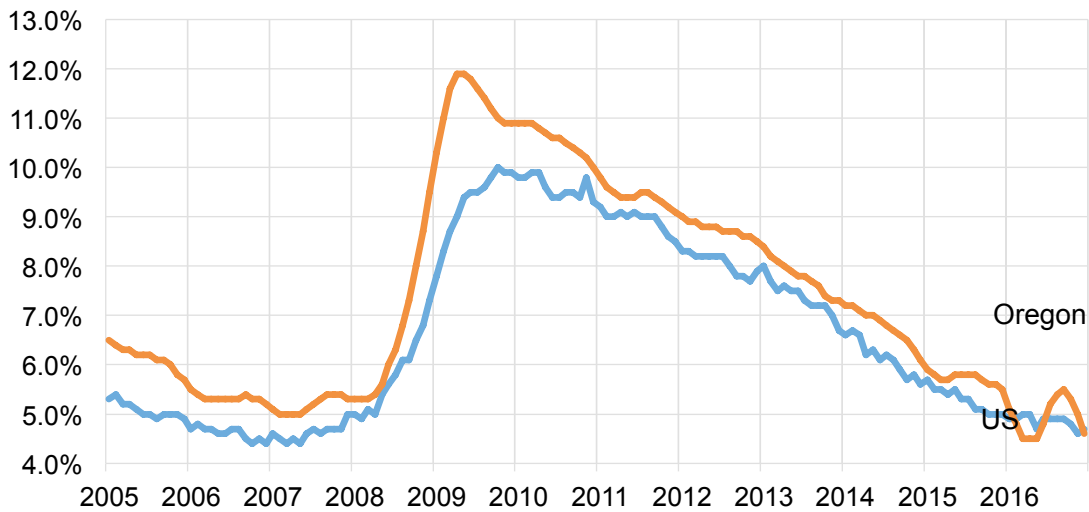
Source: Bureau of Economic Analysis (blue bars) and Wall Street Journal Economic Forecasting Survey (orange bars)

## EMPLOYMENT

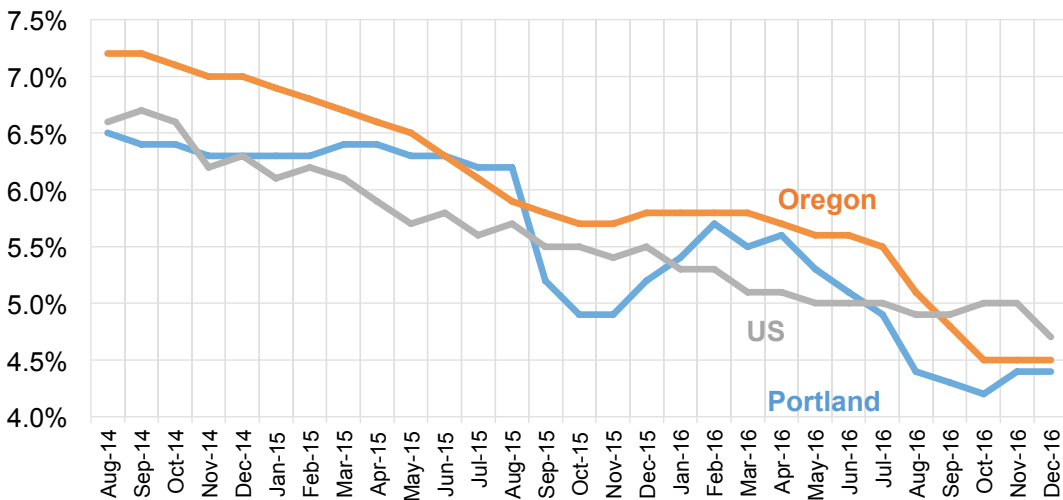
The Bureau of Labor Statistics (BLS) reported that over the year, the number of long-term unemployed has declined by 244,000, with total nonfarm payroll employment rising by 227,000 in January, fueled by employment increases in construction, finance and retail trade. Construction continued a strong 2016

performance into 2017, with 36,000 added jobs in January. Fueled by rapid real estate development, the mining, construction and logging category was Oregon’s fastest industry growth rate of any category in 2016, at 7.4 percent. This high rate of job growth will likely slow in 2017, but the Oregon economy will still be close to full employment due to a tight labor market, and annual wage gains are estimated by the Oregon Office of Economic Analysis to remain 4 percent per year.

**Figure 2: Unemployment Rate, Portland MSA, Oregon and United States, 2005-2016 Q4**

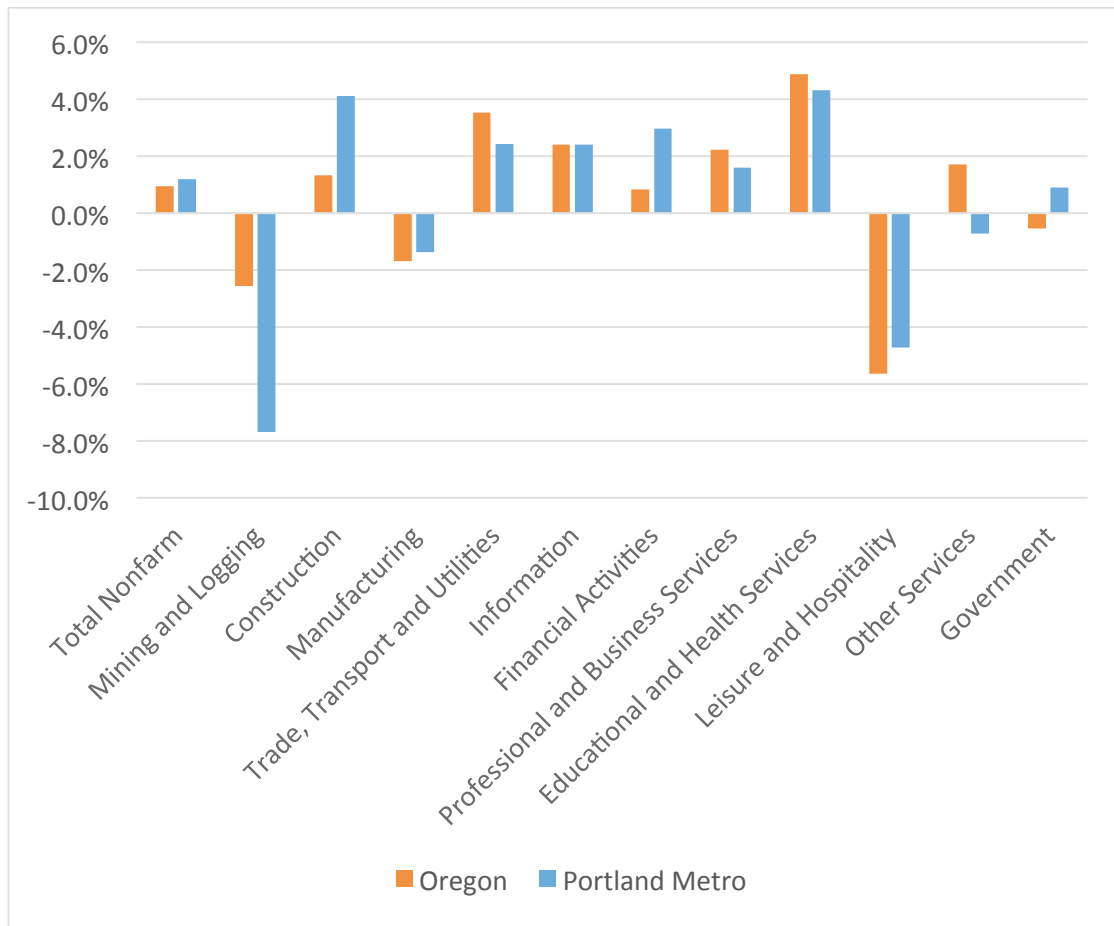


**Figure 3: Unemployment Rate, Portland MSA, Oregon and United States, Jan 2014-June 2016**



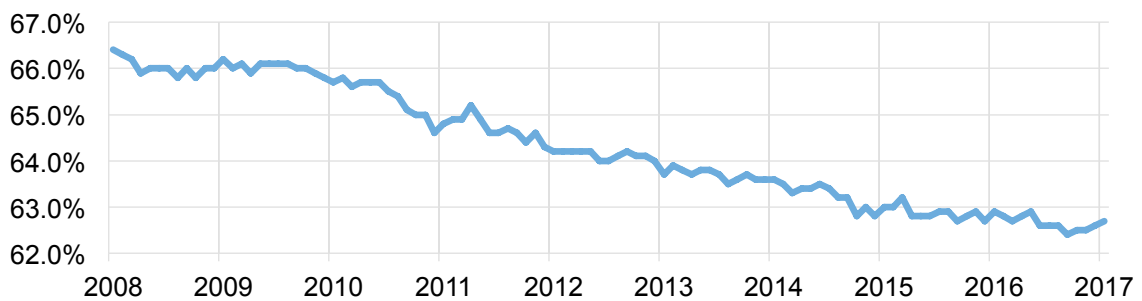
Source: Bureau of Labor Statistics

**Figure 3: Employment Growth Rate by Sector, Portland MSA and Oregon, Last 3 Quarters**



Source: Oregon Employment Department

**Figure 4: Labor Force Participation Rate, United States, 2007-Jan. 2017**



Source: Bureau of Labor Statistics

## HOUSING

Affordability remains a key statewide issue that will continue to dampen worker income gains, especially households in the middle and lower distribution that are substantially cost-burdened. Portland is significantly more cost-burdened than most major metropolitan areas across the country and extremely low vacancy rates and high population growth will only continue the problem in 2017.

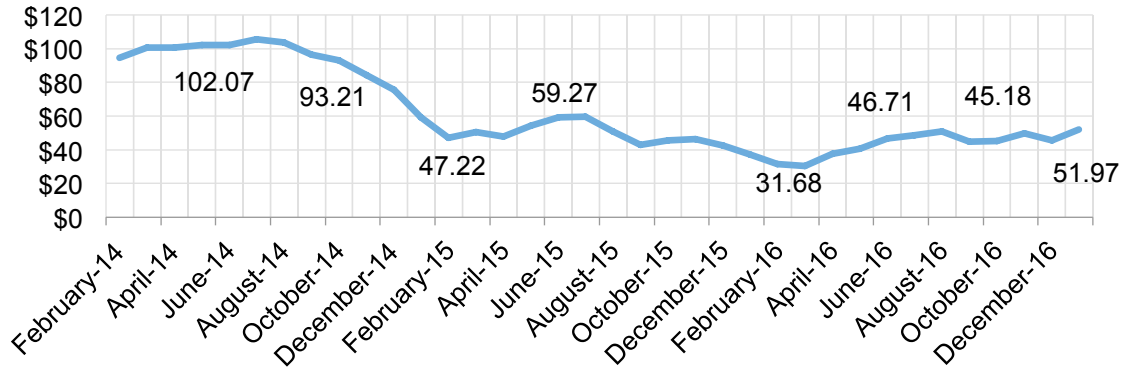
Expected tax cuts have devalued Low-Income Housing Tax Credits about 20 percent since the current Presidential administration took office, creating a financial gap for affordable housing projects across the Country. The *Oregonian* estimates that 33 affordable housing projects across the state have a \$35 million funding gap. In response to this gap for affordable housing projects in the pipeline, the Oregon Housing and Community Services agency has cancelled its tax credit offerings for the coming year and redirected the money towards filling existing projects.

Portland's inclusionary zoning requirements are now in effect and will have an indeterminate impact on the supply of housing units that will be difficult to quantify for at least several years. A large pipeline of existing projects is still being delivered to the market, exacerbated by developers rushing to vest their entitlement of approximately 6,800 units in December and January alone, according permit data from the city's Bureau of Development Services.

## INFLATION

The Consumer Price Index for all urban consumers (CPI-U) increased 0.3 percent in December on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 2.1 percent before seasonal adjustment. The CPI rose 2.1 percent in 2016, a larger increase than the 0.8 percent rise in 2014 and the 0.7 percent advance in 2015. This also represented a larger increase than the 1.8 percent average annual increase over the past 10 years.

After two years of very low price pressures, global inflation is set to revive this year. Much of this is because of the oil price, which fell below \$30 a barrel in the early months of 2016 but has recently risen above \$50. Underlying inflation is expected to increase as well, with some projections of higher inflation adding one percentage point to global nominal GDP in 2017. This will spur a revival in profits and increase capital spending.

**Figure 6: Oil Price per Barrel (WTI Spot), 2013–2016 Q4**

## LOOKING AHEAD

Oregon and Portland's economies capped a strong economic performance in 2016 with full-throttle employment growth, however geopolitical instability, especially disrupted global trade and immigration could disrupt the positive projections of a strong future economic performance. ■