# THE STATE OF THE ECONOMY

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The economy continues to grow at a steady rate, with slight increases in global and national GDP, a lower national unemployment rate, and modest inflation.

In the third quarter, the United States output grew at a seasonally adjusted annualized growth rate of 3.5 percent, unemployment dropped to 5.9 percent, a record low since 2008, job growth was higher in September than the previous 12 month average, and the stock market had overall strong growth. And lastly, the Federal Reserve ended its latest round of quantitative easing in October, in line with expectations.

## THE WORLD ECONOMY

The global recovery continues, but remains weak. The International Monetary Fund's October outlook reports that world growth is expected to be lower than previously anticipated, with a downward revision to 3.3 percent for 2014, and 3.8 percent for 2015.

Moving from the past to the future, the task of the global recovery is to balance dealing with the legacies of the financial crisis, such as unemployment and debt,

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while focusing on potential growth. As Table 1 shows, advanced economies are showing reasonable growth, led by growth in the United States, but dragged by relatively low growth in Japan and the Euro Area. Many consider the US economy to be in the most balanced growth position relative to the rest of the world. Emerging market economies are showing increased geopolitical risks, lowered potential growth, and a risk of deflation in economies where demand weakens further.

With the increased risks in both advanced economies and emerging markets, the IMF states that raising actual and potential growth must remain a priority. In advanced economies, this will require continued support from monetary policy and fiscal adjustment, such as public infrastructure investment, while emerging economies, macroeconomic policies are need to support general growth.

**Table 1: Selected Advanced Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment (Annual percent change unless noted otherwise)**

| | Real GDP | | | Consumer Prices[1] | | | Current Account Balance[2] | | | Unemployment[3] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Projections | | | Projections | | | Projections | | | Projections | |
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| **Advanced Economies** | **1.4** | **1.8** | **2.3** | **1.4** | **1.6** | **1.8** | **0.4** | **0.3** | **0.2** | **7.9** | **7.3** | **7.1** |
| United States | 2.2 | 2.2 | 3.1 | 1.5 | 2.0 | 2.1 | –2.4 | –2.5 | –2.6 | 7.4 | 6.3 | 5.9 |
| Euro Area[4,5] | –0.4 | 0.8 | 1.3 | 1.3 | 0.5 | 0.9 | 2.4 | 2.0 | 1.9 | 11.9 | 11.6 | 11.2 |
| Japan | 1.5 | 0.9 | 0.8 | 0.4 | 2.7 | 2.0 | 0.7 | 1.0 | 1.1 | 4.0 | 3.7 | 3.8 |
| United Kingdom[4] | 1.7 | 3.2 | 2.7 | 2.6 | 1.6 | 1.8 | –4.5 | –4.2 | –3.8 | 7.6 | 6.3 | 5.8 |
| Canada | 2.0 | 2.3 | 2.4 | 1.0 | 1.9 | 2.0 | –3.2 | –2.7 | –2.5 | 7.1 | 7.0 | 6.9 |
| Other Advanced Economies[6] | 2.3 | 2.9 | 3.1 | 1.5 | 1.6 | 2.2 | 5.5 | 5.1 | 4.8 | 4.5 | 4.5 | 4.4 |

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.
[1]Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Table A6 in the Statistical Appendix.
[2]Percent of GDP.
[3]Percent. National definitions of unemployment may differ.
[4]Based on Eurostat's harmonized index of consumer prices.
[5]Current account position corrected for reporting discrepancies in intra-area transactions.
[6]Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

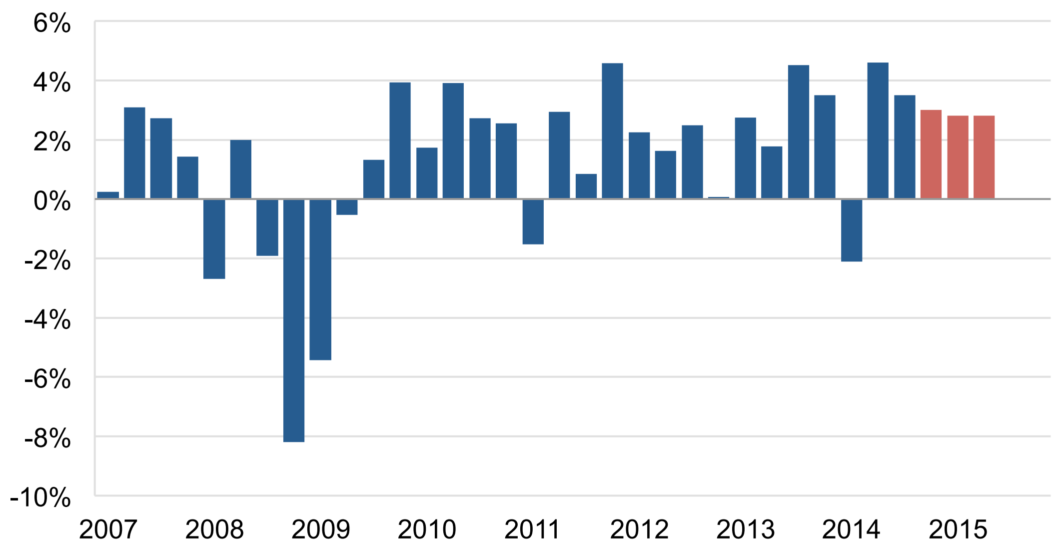
Source: World Economic Outlook, October 2014

# THE UNITED STATES ECONOMY

With a first quarter of negative GDP growth, and a second quarter of positive 4.6 percent growth, the third quarter shows the US economy is continuing to grow. The United States Bureau of Economic Analysis reports an estimated 3.5 percent annualized increase in real GDP (Figure 1). Among other things, this increase reflects positive contributions from personal consumption expenditures, exports, government spending, and nonresidential fixed investment. The deceleration from the second to third quarter reflects a downturn in the above contributions, somewhat countered by a downturn in imports and increase in federal spending.

Unemployment continues to decrease, moving from 6.6 percent at the beginning of 2014, to 5.9 percent in September. This is the first time the unemployment rate has dipped below 6.0 percent since July 2008. September job growth has surpassed the average of the 12 prior months, showing total nonfarm employment rose by 248,000, compared to 213,000. Similarly to June's job growth, September's growth occurred mostly in professional and business services, retail trade, and health care.

**Figure 1: Gross Domestic Product, United States, Annualized Percent Change, 2007–2015**



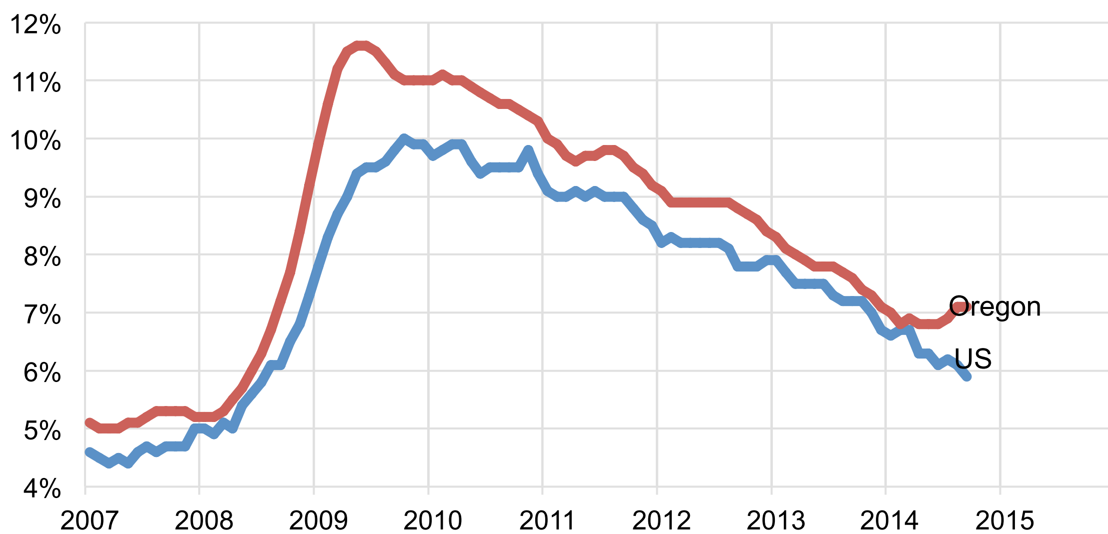

Source: Bureau of Economic Analysis and Wall Street Journal Economic Forecasting Survey

While the unemployment rate has continued to drop nationally (**Error! Reference source not found.**), there still remains some uncertainty regarding the validity of this number, especially since labor force participation has continued to decreased (

**Figure 3**). In the Wall Street Journal, William Galston reminds that the unemployment rate would be nearly twice as high if 2007 participation rates were in place today.

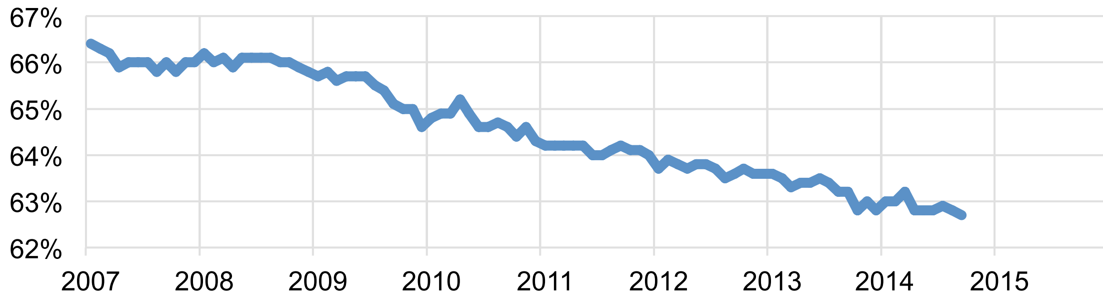
In addition to continued high underemployment, earnings growth has also been weak. Between 1981 and 2014, according to the Bureau of Labor Statistics, wages rose at a rate of 0.3 percent a year (corrected for inflation). Factoring in benefits, such as health care, that have risen at a faster rate than wages, this brings the effective compensation growth to 0.6 percent a year.

**Figure 2: Unemployment Rate, Oregon and United States, 2007-2015**




Source: Bureau of Labor Statistics

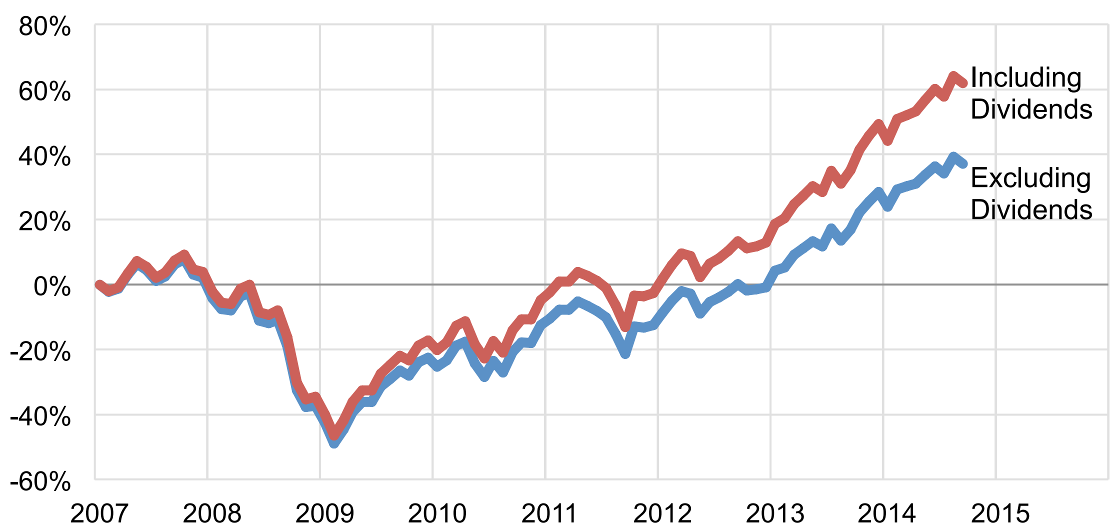
**Figure 3: Labor Force Participation Rate, United States**




Source: Bureau of Labor Statistics

Inflation continues to be positive, hovering around 1.4 percent, according to the U.S. Department of Commerce and the seasonally adjusted Personal Consumption Expenditure index. This is below the Federal Reserve's 2 percent target, and many fear that it may be falling again, causing some to worry about deflation. Some of the concern comes from the limited tools by the Federal Reserve to counter deflation, since interest rates are already as low as they can be. In the face of inflation, tightened policy is a relatively simple response, but deflation can also be a challenge, especially since the Federal Reserve's Quantitative Easing has been discontinued.

**Figure 4: Standard & Poor's 500 Index, 2007–2014**

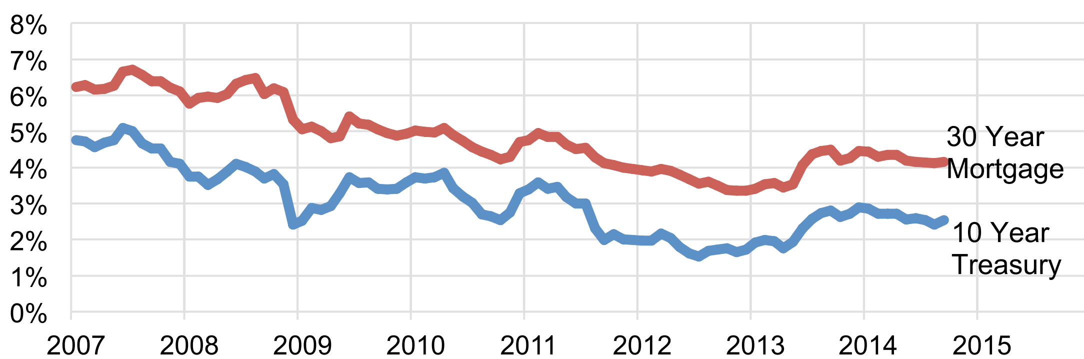



Source: S&P Dow Jones Indices, McGraw Hill Financial

The U.S Stock Market continued to grow after the second quarter (Figure 4), until descending in October due to a sharp decline in oil prices and deterioration in European economic growth. According to the Wall Street Journal, this decline has begun to lift, and third-quarter earnings are showing solid growth.

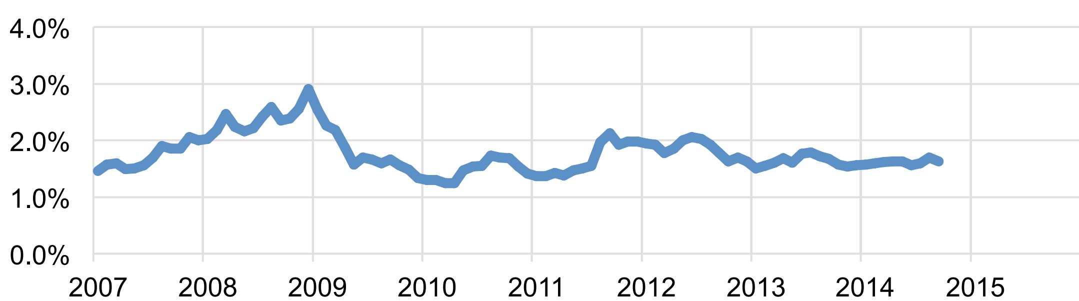
As was expected, on October 29, the Federal Reserve announced the end of its quantitative easing program. It will not be ending the policy for good, however. While there are mixed opinions of its merit, and some uncertain long-term effects on financial markets and the economy, at this point it will remain a tool for worst-case scenarios, once other tools are exhausted. As indicated in Figure 5 and Figure 6, the spread between 10 Year U.S. Treasuries and 30-Year Mortgages remains around 1.6 percent.

**Figure 5: 10 Year U.S. Treasuries vs. Conventional 30-Year Mortgages, 2007–2014**




Source: Federal Reserve Bank

**Figure 6: Spread Between 10 Year U.S. Treasuries and Conventional 30-Year Mortgages, 2007–2014**

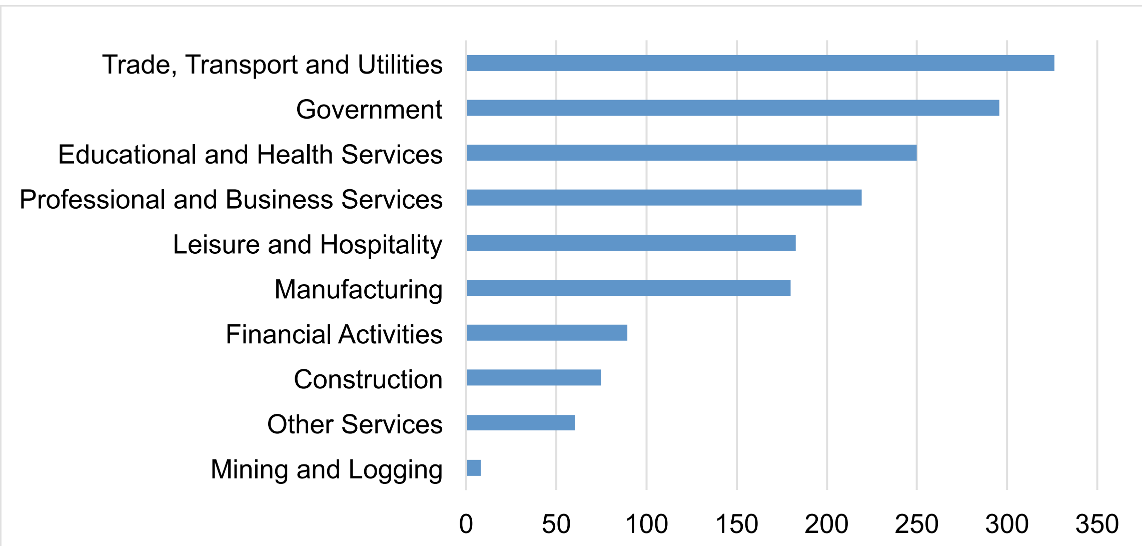



Source: Federal Reserve Bank

## OREGON AND THE PORTLAND AREA

The state of Oregon has continued to show improvement and even acceleration in its economic and labor market recoveries, according to the Oregon Office of Economic Analysis. Over the past year and a half, job growth has accelerated to between 2.5 percent and 3.0 percent. Relative to the peak, the sectors that have shown the most percentage growth are food processing, education, and health, and in the last year, are mining and logging, professional and business services, and leisure and hospitality (Figure 7). In terms of absolute numbers however, the strongest growth has come from professional and business services, trade, transport and utilities, and educational and health services, followed closely by government.

**Figure 7: September Oregon Job Growth, Prior Year Comparison, Nonfarm Payroll Employment, Seasonally Adjusted (1,000's)**



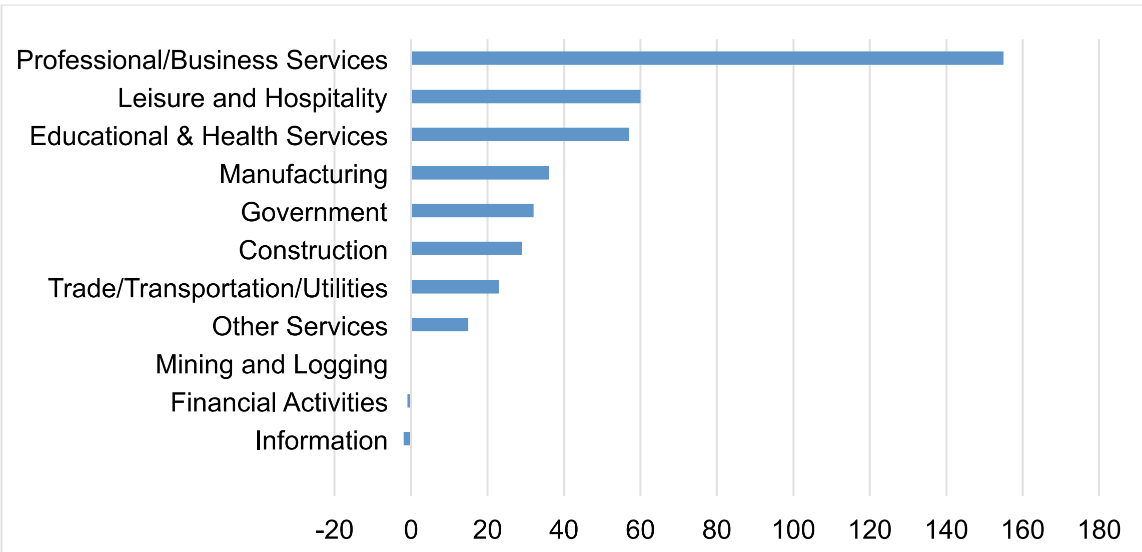

Source: Oregon Employment Department

Another good sign is that in the past nine months, the labor force has increased by more than 15,000 workers, which does have an upward pressure on the state's unemployment rate, which rests at 7.1 percent. This is slight increase from a 2014 average to-date of 6.9 percent. However, the OEA reports that a majority of Oregon's unemployed are new entrants or job leavers, as opposed to those who have lost their jobs, a first since 2007.

In comparing the different geographic economies in Oregon, the two regional economies that have fully regained their recessionary job losses are the Columbia Gorge and the Portland metropolitan area. Job growth has returned to full force in Bend, Eugene and Salem, which had been previously lagging. However, outside the state's metro areas, job growth is slower, with jobs being added at a 1.0 percent rate.

As of August, the Portland-Vancouver-Hillsboro MSA showed 12-month job growth of 2.7 percent, compared to a national growth rate of 1.9 percent. The sectors with the highest growth rate (Figure 8) in the last year are Professional Services (+15,500), Leisure and Hospitality (+6,000), and Construction (+2,900). In terms of absolute growth, Manufacturing (+3,600) and Government (+3,200) have also added many jobs in the last 12 months.

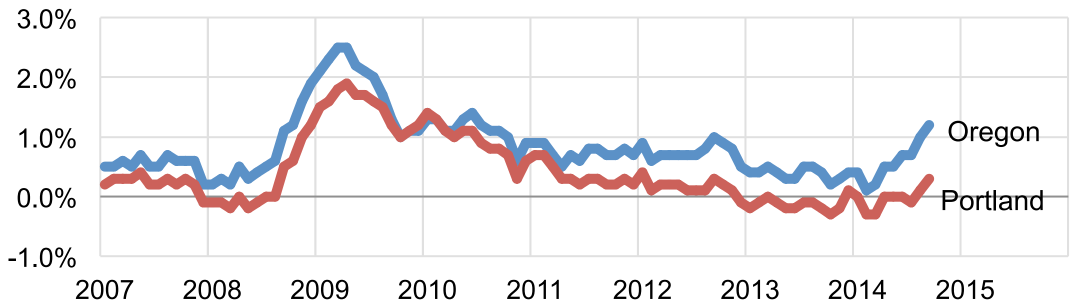
**Figure 8: Portland-Vancouver-Hillsboro MSA, Nonfarm Payroll Employment Growth in Last Year, Not Seasonally Adjusted (100's)**




Source: Oregon Employment Department

Portland's unemployment rate at 6.2 percent (Figure 9) has risen slightly in the last few months, and is currently above the national rate. However, when comparing Portland's un(der)employed with those in other cities, the demographics might be vastly different. According to a recent New York Times article, "Portland has more highly educated people than it knows what to do with," creating a "buyer's market for labor." Unlike many cities who struggle to attract and retain young college-educated people, Portland State University professors say that Portland attracts them at the second-highest rate in the nation.

**Figure 9: Unemployment Rate, Oregon and Portland Metropolitan Area vs. United States**




Source: Bureau of Labor Statistics and Oregon Employment Department

While this is great for Portland, this discrepancy between talent supply and demand hints to a potentially deeper problem. Across the United States, job opportunities continue to increase for high-skill technical workers, leaving mid-skill workers displaced and having to compete with lower-skill workers, further "opening up a great divide between a skilled and wealthy few and the rest of society," in the words of The Economist's economics correspondent Ryan Avent. With Portland's large stock of overeducated and underemployed talent, we could also run the risk of such a divide, if there is not evidence that it already has.

In looking to the future, the big question is whether the Portland immigrants will stay. The economic opportunities are limited. Aaron Renn, an urban affairs analyst for Urbanophile blog, cites the personal income per capita in Portland grew by only 31 percent between 2000 and 2012, slower than 42 other cities. So with forced underemployment and "semiretirement" as the New York Times calls it, economic forces could eventually force them out, especially if cost of living continues to increase.

## CONCLUSION

Overall, the national and local economy is maintaining a steady rate of growth, though there are some risks on the horizon. The outlook calls for continued increase in GDP, a relatively constant unemployment rate and labor force participation rate, and interest rates remain low. Looking to future, the economy is expected to continue to grow, but at somewhat slower rates than the economy has experienced in the past. ■