
THE STATE OF THE ECONOMY

ANGELA GUO

Portland State University

The United States economy barely grew in the first quarter of 2014 due to declining exports to the weakening economies in Europe and Asia as well as inclement weather in the northern United States. The Commerce Department reports that the gross domestic product grew at an annual rate of 0.1 percent for the first quarter.

The Economist Intelligence Unit forecasts GDP growth for 2014 to be 3 percent, up from 1.9 percent of 2013. Steady growth is to be expected, but no boom is anticipated. Overall, the housing market has softened, as market interest rates are higher than they were a year ago and will continue to rise.

Economists remain hopeful for 2014 as the unemployment rate remains steady and job growth continues. U.S. companies have added enough jobs to replace the 8.8 million jobs that were lost due to the financial crisis.

In early April, the Federal Reserve, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency approved a new leverage ratio rule, requiring an increase in capital of the largest U.S. banks. This rule necessitates the eight major US banks to have as much as \$68 billion in capital to allow companies to “weather losses during periods of market stress,” according to the Wall Street Journal. Lenders that are affected include JPMorgan Chase, Citibank, Bank of America,

■ Angela Guo 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.

Wells Fargo, Goldman Sachs, and Morgan Stanley. The rule will take effect on Jan 1, 2018.

While banking regulations are becoming more stringent, mortgage lenders have begun to ease their lending standards. The effects of the recent global crisis are not completely forgotten as standards are still more restrictive than historically observed, but lenders have begun to allow lower credit scores and down-payment requirements to chase new business. Economists remain optimistic that lenders will not return to the destructive underwriting standards that contributed to the Great Recession.

THE WORLD ECONOMY

The International Monetary Fund (IMF)'s April report states that although global recovery remains fragile, overall global activity has strengthened and is anticipated to improve. The world economy is estimated to grow by 3.6% in 2014 and 3.9% in 2015.

Most of global economic growth comes from emerging markets, which are facing continued downside risks due to lower-than-expected growth in advanced economies and a variety of geopolitical concerns. Because this volatility in emerging markets is happening at the same time as increasing interest rates in advanced economies, investors will be more inclined to draw capital out of emerging economies to advanced countries in search of higher returns.

In China, the IMF reports that growth will decelerate from 7.5 percent in 2014 to 7.3 percent in 2015. (Figure 2) Recently, the IMF has urged the Chinese central bank to liberalize interest rates and improve banking regulation, among other measures to relieve some of the country's debt burden and reduce financial risk.

Since late February 2014, the Russian economy has suffered due to the conflict between Ukraine and Russia. A crisis centered on the secession of the Crimean Peninsula has instigated the U.S. and the European Union to initiate sanctions against a select group of Russian citizens, a prelude to possible sweeping economic sanctions that may be implemented should Russia continue its current secession agenda. According to the Wall Street Journal, central bank figures show \$51 billion in capital left Russia in the first quarter of 2014, which is the largest outflow of capital since the global recession in 2008. Furthermore, Russia's stock market saw its largest absolute drop since the global financial crisis, as well. Russia's growth projection is estimated to be zero with the ruble falling more than 10% to the dollar.

Figure 2: IMF World Growth Projections, April 2014

	2012	2013	Projections		Difference from Jan '14 WEO Projections	
			2014	2015	2014	2015
World Output	3.2	3.0	3.6	3.9	-0.1	-0.1
Advanced Economies	1.4	1.3	2.2	2.3	0.0	0.0
United States	2.8	1.9	2.8	3.0	0.0	0.0
Euro Area	-0.7	-0.5	1.2	1.5	0.1	0.1
Germany	0.9	0.5	1.7	1.6	0.2	0.1
France	0.0	0.3	1.0	1.5	0.1	0.0
Italy	-2.4	-1.9	0.6	1.1	0.0	0.1
Spain	-1.6	-1.2	0.9	1.0	0.3	0.2
Japan	1.4	1.5	1.4	1.0	-0.3	0.0
United Kingdom	0.3	1.8	2.9	2.5	0.4	0.3
Canada	1.7	2.0	2.3	2.4	0.1	0.0
Other Advanced Economies	1.9	2.3	3.0	3.2	0.1	0.0
Emerging and Developing Economies	5.0	4.7	4.9	5.3	-0.2	-0.1
Central and Eastern Europe	1.4	2.8	2.8	2.9	-0.5	-0.2
Commonwealth of Independent States	3.4	2.1	2.3	3.1	-0.3	0.1
Russia	3.4	1.3	1.3	2.3	-0.6	-0.2
Excluding Russia	3.3	3.9	5.3	5.7	1.2	1.4
Developing Asia	6.7	6.5	6.7	6.8	0.0	0.0
China	7.7	7.7	7.5	7.3	0.0	0.0
India	4.7	4.4	5.4	6.4	0.0	0.0
ASEAN-5*	6.2	5.2	4.9	5.4	-0.2	-0.2
Latin America and the Caribbean	3.1	2.7	2.5	3.0	-0.4	-0.3
Brazil	1.0	2.3	1.8	2.7	-0.5	-0.2
Mexico	3.9	1.1	3.0	3.5	0.0	0.0
Middle East, North Africa, Afghanistan, and Pakistan	4.1	2.2	3.2	4.5	-0.1	-0.5
Sub-Saharan Africa	4.9	4.9	5.4	5.5	-0.7	-0.3
South Africa	2.5	1.9	2.3	2.7	-0.5	-0.6

Source: International Monetary Fund, World Economic Outlook, January 2014

*Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

THE UNITED STATES ECONOMY

The United States Bureau of Economic Analysis (BEA) reports positive but slow economic growth for the past five years. In 2012, the US economy grew by 2.8 percent and in 2013, GDP grew from 1.9 percent. And as previously discussed, the US economy was at a near standstill, growing by only 0.1 percent GDP growth in the first quarter of 2014 due to poor weather and international geopolitical instability. The 0.1 percent growth rate matches the second-weakest quarterly reading of the nearly five-year-old economic recovery. However, as shown in the table below, economic forecasters are projecting a revival of growth as 2014 progresses.

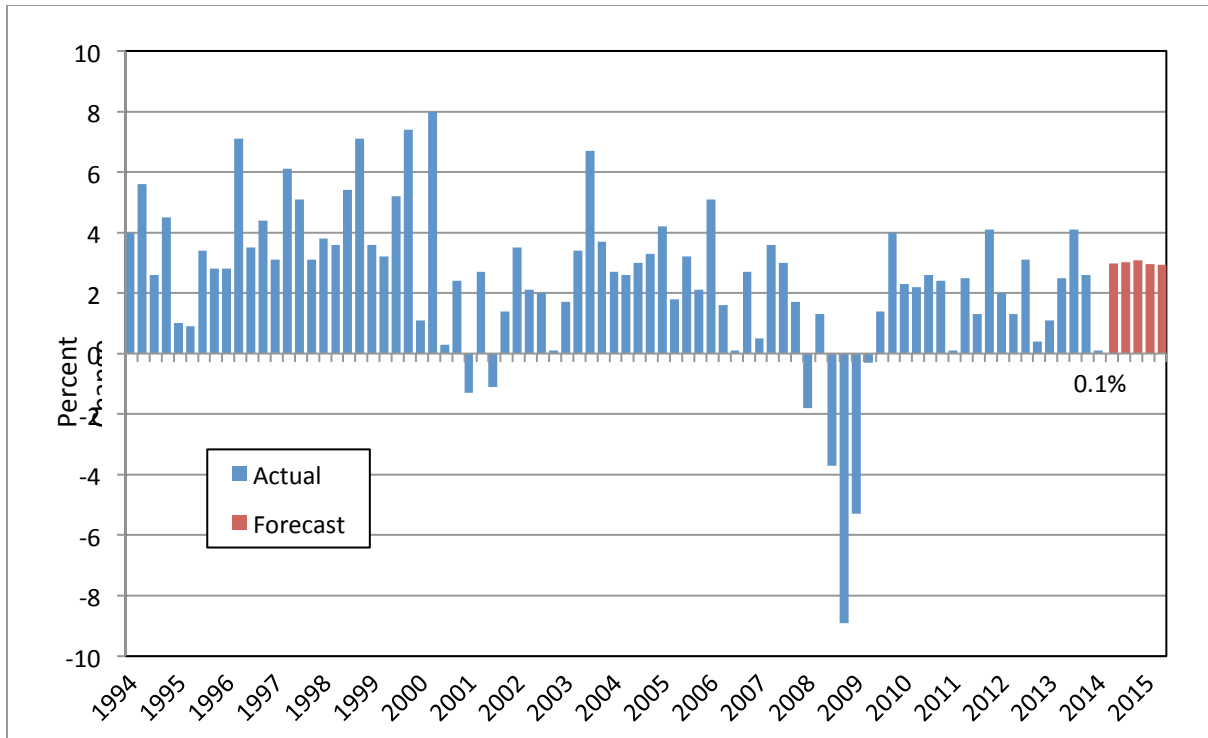
Figure 3: United States Annual Economic Growth, Actual and Forecasts, 2013–2018

%	2013 ^a	2014 ^b	2015 ^b	2016 ^b	2017 ^b	2018 ^b
GDP	1.9	3.0	2.6	2.5	2.4	2.6
Private consumption	2.0	2.6	2.4	2.3	2.3	2.0
Government consumption	-2.2	0.0	0.8	0.7	0.7	0.8
Gross fixed investment	4.5	8.0	7.2	6.5	6.4	6.8
Exports of goods & services	2.7	2.7	3.0	3.4	3.2	3.8
Imports of goods & services	1.4	2.3	3.9	4.3	5.1	4.0
Domestic demand	1.7	2.9	2.8	2.7	2.7	2.7
Agriculture	2.1	2.0	2.5	2.9	2.9	2.9
Industry	2.5	2.8	3.0	2.5	2.4	2.4
Services	1.7	3.0	2.5	2.5	2.4	2.7

^a Actual; ^b Forecasted

Source: Economist Intelligence Unit, April 2014

In particular, forecasters are projecting consumer spending to pick up. The Economist Intelligence Unit forecasts that real GDP will grow by an average of 2.6 percent over 2014-18. Although positive throughout the forecast period, the growth forecast is still below the period from 1992-2000, when real GDP growth averaged 3.9 percent.

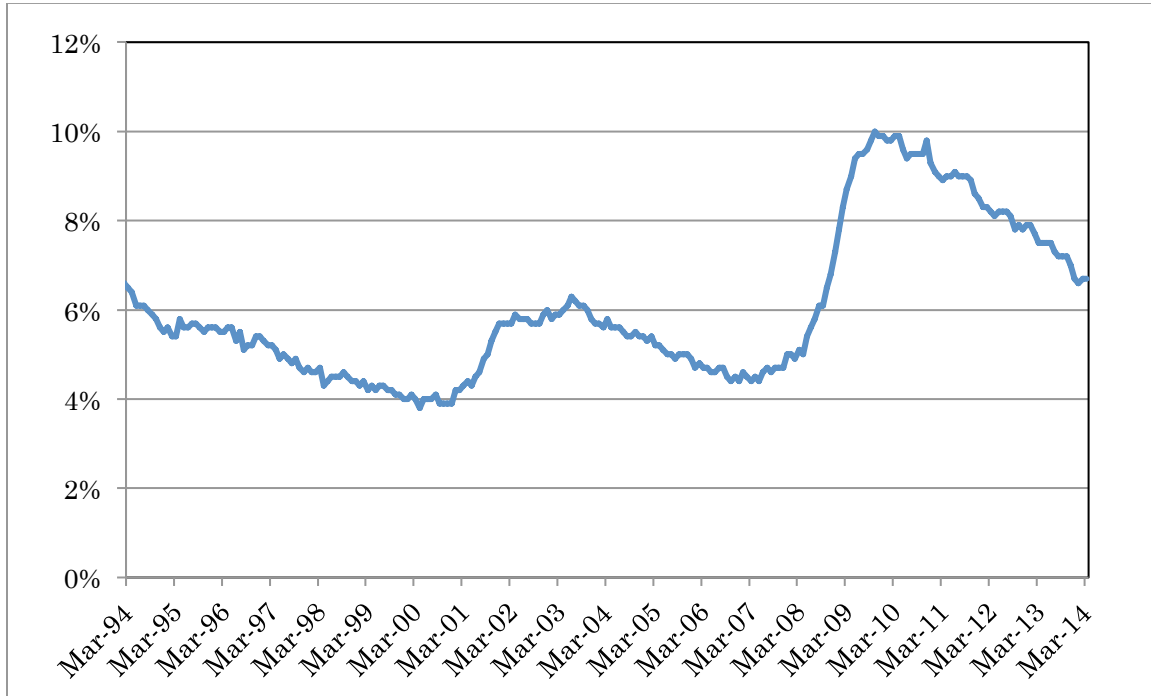
Figure 4: Gross Domestic Product, Annualized, 1994–2015

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

Continuing the positive signs of the U.S. GDP, the U.S. Bureau of Labor Statistics (BLS) stated that March 2014 marked a full recovery 8.8 million private-sector jobs lost in the recession.

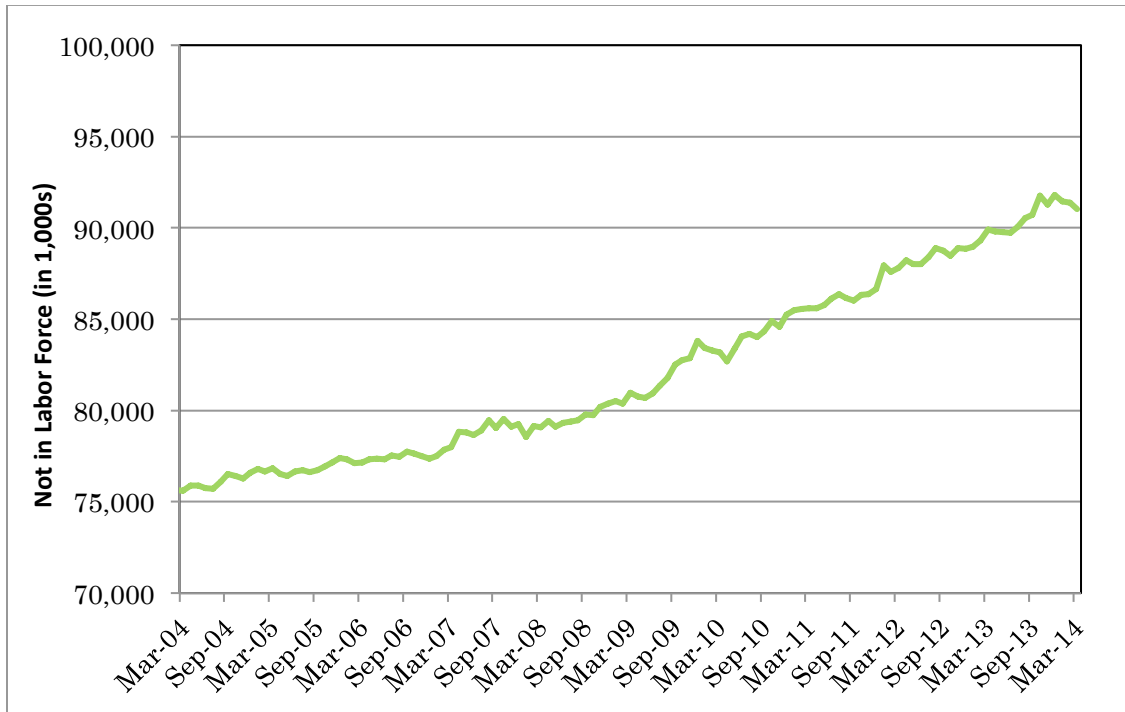
Total nonfarm payroll employment increased by 192,000 in March 2014, higher than the 2013 job growth average of 182,000 per month. The industry sectors that reported the most growth in March were:

- Professional and Business Services (+57,000); employment growth in this industry averaged 21,000 per month in 2014
- Education and Health Services (+34,000);
- Leisure and Hospitality (+29,000); job gains in food services averaged 27,000 per month for 2014;
- Retail Trade (+21,000); retail trade added an average of 7,000 jobs per month in 2014, and,
- Construction (+19,000); with growth of over 115,000 jobs in the past 6 months and more than half of the growth in residential construction.

Figure 5: Unemployment Rate, United States

Source: Bureau of Labor Statistics

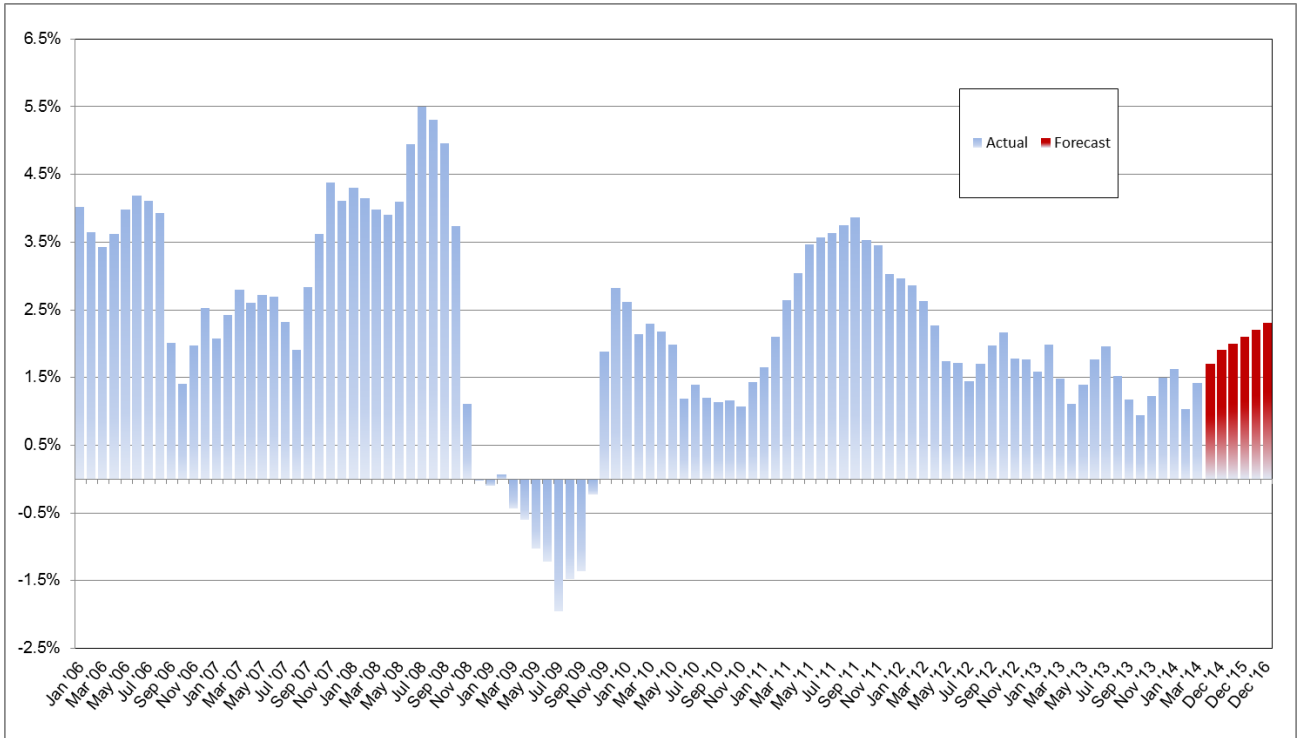
The U.S. unemployment figures have lingered at about 6.7% since December 2013 through the first quarter of 2014, according to the Bureau of Labor Statistics. The unemployment rate remains elevated relative to the low rates observed in 2008. As seen in Figure 5, U.S. unemployment hovered between 4 percent 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.

Figure 6: Not in Labor Force, United States

Source: Bureau of Labor Statistics

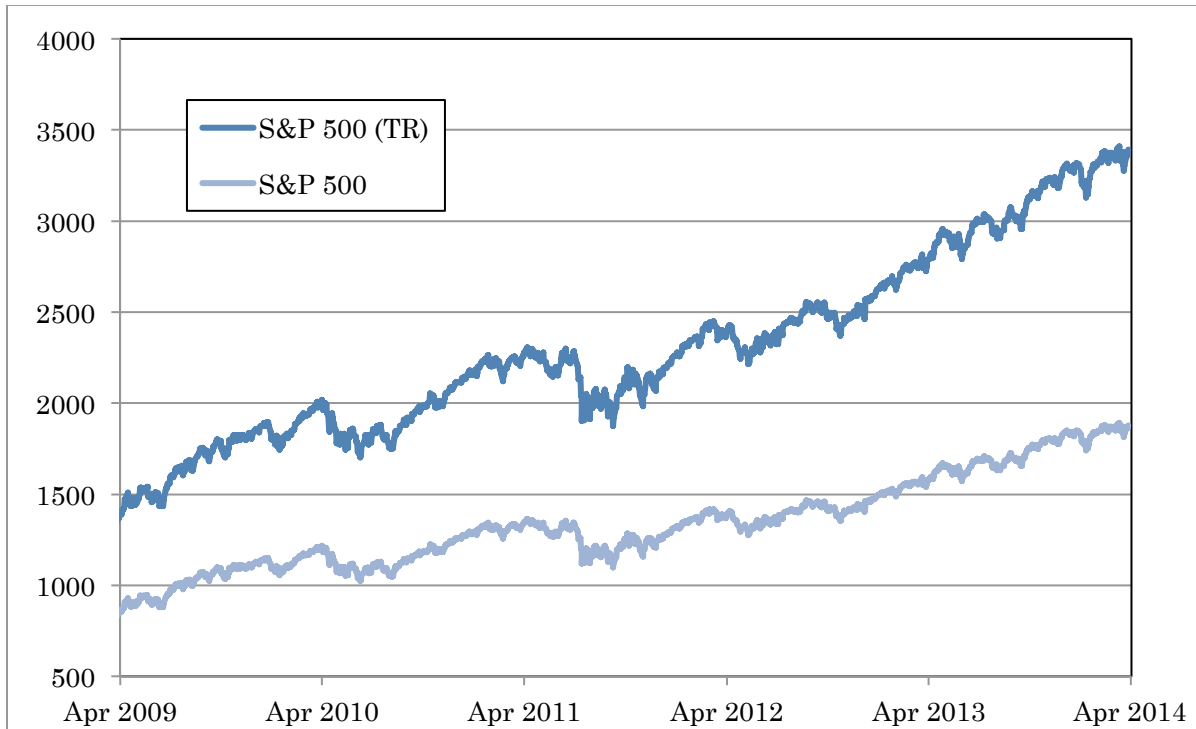
Two-thirds of the jobs lost during the recession were middle-income jobs, about half of those created since have been low-wage sectors like tourism, hospitality and retail sales. Furthermore, while the decline in unemployment has been viewed as a sign of an improving economy, a portion of the decline in unemployment has been attributed to a large number of individuals leaving the work force. (Figure 6) In recent months, there has been debate whether this decline in labor participation comes from workers becoming discouraged by their job prospects and workers making feeling less pressure to remain employed due to the expansion of health care under the Affordable Health Care Act.

Figure 7: United States Inflation Trend, Annual Change in Consumer Price Index



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

There are very few indicators suggesting higher inflation in the near future. The BLS reports that the Consumer Price Index for All Urban Consumers increased 0.2 percent in March 2014 on a seasonally adjusted basis. The last 12 months saw inflation of 1.42 percent (Figure 7). The Wall Street Journal forecasts that inflation rates will stay below 2.5 percent through 2016.

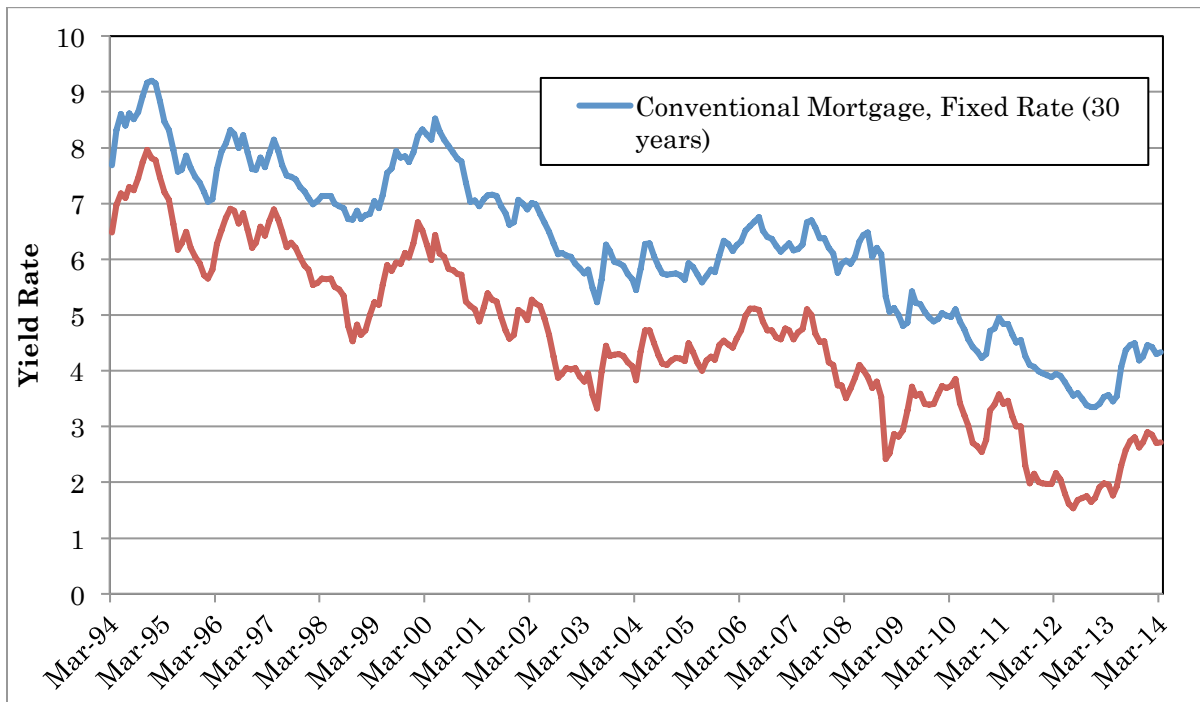
Figure 8: Standard & Poor's 500 stock index, 5-years

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

US Stock markets finished the first quarter of 2014 inching toward at record highs. Uncertainties related to the Ukrainian crisis has contributed to some pressure in prices, but overall stock prices remain within 1.5 percent of where they started in 2014. (Figure 7).

For the past seven years Federal Reserve has been buying Treasury bonds and mortgage bonds in an effort known as “quantitative easing” to drive down long-term interest rates and spur spending, hiring and investment. However, former Federal Reserve Chairman Ben Bernanke announced that the Federal Reserve would “taper” the purchase of securities should certain economic targets be met. Under its newly appointed chair, Janet Yellen, the Federal Reserve has continued a policy of tapering its buying of bonds, even though economic indicators have not shown unemployment rates that are below the previously announced target of 6.5 percent. In December 2013, the Fed decided to reduce the \$85 billion bond-buying program and this month will be reduced to \$45 billion.

Figure 9: 10-year U.S. Treasuries vs. Conventional 30-year Mortgage Trends, 1994–2014



Source: Federal Reserve Bank

The shift toward a policy of tapering has caused interest rates to rise and bond prices to fall as shown in Figure 9. 10-year Treasury yields, which influence, mortgage rates, began climbing in the second quarter of 2013. More recently, yields for the 10-year Treasury note decreased from 2.9 percent in December 2013 to 2.72 percent in March 2014. In turn, this led to a decline in mortgage rates. Conventional 30-year fixed rate mortgages fell from 4.46 percent in December 2013 to 4.34 percent in March 2014. This drop in rates is projected to be a temporary by most economists, and interest rates will begin on its upward trajectory within the next quarter.

Figure 10: Trade and U.S. Dollar, 2014

April, 2014	Trade balance		Current-Account Balance			Currency Units, per \$		
	latest 12 months (\$bn)		latest 12 months (\$bn)		% of GDP	Apr 23rd	year ago	% change
United States	-701.8	(Feb)	-379.3	(Q4)	-2.1	-	-	
China	+233.6	(Mar)	+188.6	(Q4)	+1.7	6.24	6.18	1.0%
Australia	+22.7	(Feb)	-44.2	(Q4)	-2.9	1.08	0.97	11.3%
Japan	-96	(Feb)	+21.3	(Feb)	+0.5	102	99.4	2.6%
Canada	-5.4	(Feb)	-58.9	(Q4)	-2.8	1.10	1.03	6.8%
Sweden	+7.8	(Feb)	+34.5	(Q4)	+6.0	6.57	6.62	-0.8%
Switzerland	+27.3	(Mar)	+84.4	(Q4)	+11.3	0.88	0.94	-6.4%
Britain	-173	(Feb)	-111.7	(Q4)	-3.3	0.60	0.65	-7.7%
Euro Area	+223.4	(Feb)	+320.0	(Feb)	+2.3	0.72	0.77	-6.5%
Germany	+264.7	(Feb)	+278.5	(Feb)	+6.8	0.72	0.77	-6.5%
Belgium	+20.8	(Feb)	-8.0	(Dec)	0.8	0.72	0.77	-6.5%
France	-80.1	(Feb)	-33.0	(Feb)	-1.6	0.72	0.77	-6.5%
Netherlands	+66.1	(Feb)	+81.3	(Q4)	+9.9	0.72	0.77	-6.5%
Italy	+45.4	(Feb)	+27.1	(Feb)	+1	0.72	0.77	-6.5%
Spain	-21.2	(Feb)	+10.0	(Jan)	+1.4	0.72	0.77	-6.5%

Source: The Economist

OREGON AND THE PORTLAND AREA

Oregon's economy continues to improve in 2014. The growth in the state's economy is attributed to the improvement in the housing sector, which has added jobs. As recovery continues, the Oregon Office of Economic Analysis (OEA) expects the rate of growth of Oregon to continue on its increasing trend stating that one of Oregon's economic strengths is the fact that, "in good times and in bad, people want to live in the state and move here."

Oregon's job growth has the highest pace in eight years and with seasonally adjusted monthly job gains of 7,500 in March being the largest since November 2005 when 9,300 jobs were added.

The largest percent increase in nonfarm payroll employment (seasonally adjusted figures) since March 2013 were in the categories of Construction (+10.8%), Professional and Business Services (+4.2%) and Leisure and Hospitality (+3.7%). In terms of number of jobs, in March 2014, Construction added 5,800 jobs, Educational and Health Services added 2,200 jobs and Leisure and Hospitality added 2,100 jobs. (Figure 11)

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

	Mar-14	Feb-14	Mar-13	Change From		% Change From	
				Feb-14	Mar-13	Feb-14	Mar-13
Mining and Logging	7.8	7.8	7.6	0.0	0.2	0.0%	2.6%
Construction	80.2	74.4	72.4	5.8	7.8	7.8%	10.8%
Manufacturing	177.8	178.1	174.1	-0.3	3.7	-0.2%	2.1%
Trade, Transport and Utilities	323.2	323.7	315.9	-0.5	7.3	-0.2%	2.3%
Financial Activities	92.0	91.1	91.1	0.9	0.9	1.0%	1.0%
Professional and Business Services	215.2	214.0	206.5	1.2	8.7	0.6%	4.2%
Educational and Health Services	247.7	245.5	241.5	2.2	6.2	0.9%	2.6%
Leisure and Hospitality	181.1	179.0	174.7	2.1	6.4	1.2%	3.7%
Other Services	60.0	59.8	57.9	0.2	2.1	0.3%	3.6%
Government	291.3	291.8	288.7	-0.5	2.6	-0.2%	0.9%
Total	1,708.90	1,701.40	1,662.60	7.5	46.3	0.4%	2.8%

Source: Oregon Employment Department

The Oregon Employment Department (OED) reports that in March, Oregon's unemployment rate was 6.9 percent, virtually unchanged from the 6.8 percent in February. At the same time, the current unemployment rate is significantly below the 8.0

percent figure from March 2013. Furthermore, Oregon's labor force increased for the fifth consecutive month in March 2014, which was preceded two years of monthly declines.

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

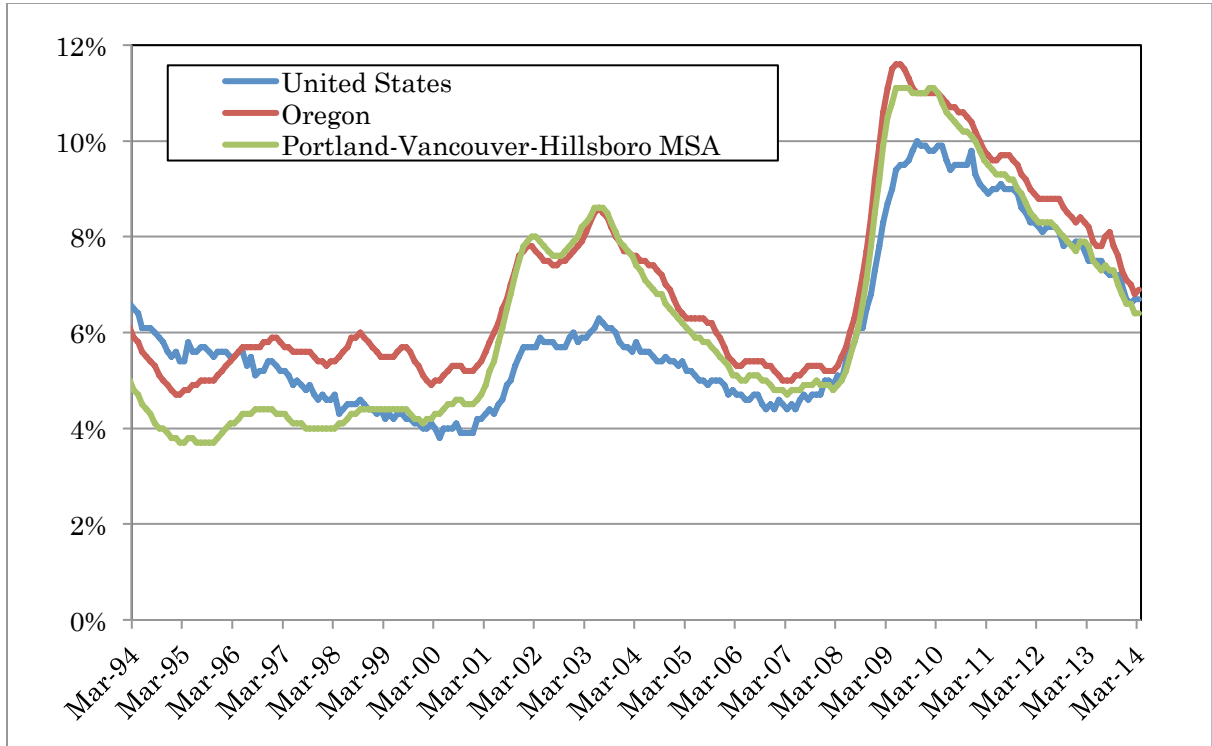
	Nov 2013		Dec 2013		Jan 2014		Feb 2014		March 2014	
Total Non-farm Employment	1,040,700		1,039,400		1,037,900		1,043,000		1,049,700	
Unemployment rate	6.8%		6.8%		6.6%		6.4%		6.4%	
Mining and Logging	900	0.0%	900	0.0%	900	0.0%	900	0.0%	900	0.0%
Construction	52,700	2.9%	51,700	1.9%	50,900	1.5%	50,800	0.2%	52,000	2.4%
Manufacturing	116,500	0.2%	115,900	0.5%	115,399	0.4%	116,000	0.5%	116,600	0.5%
Trade, Transportation, & Utilities	202,900	2.2%	204,500	0.8%	195,800	4.3%	194,900	0.5%	194,300	0.3%
Information	23,300	1.7%	23,600	1.3%	22,800	3.4%	22,700	0.4%	22,900	0.9%
Financial Activities	61,600	1.0%	62,000	0.6%	62,200	0.3%	62,600	0.6%	63,100	0.8%
Professional & Business Services	146,100	0.3%	145,600	0.3%	152,500	4.7%	153,100	0.4%	154,000	0.6%
Educational & Health Services	150,500	0.3%	150,100	0.3%	151,000	0.6%	154,200	2.1%	155,900	1.1%
Leisure and Hospitality	101,800	0.2%	101,500	0.3%	103,600	2.1%	103,200	0.4%	105,000	1.7%
Other Services	37,800	0.5%	38,200	1.1%	36,900	3.4%	37,700	2.2%	37,600	0.3%
Government	146,600	1.5%	145,400	0.8%	146,000	0.4%	146,900	0.6%	147,400	0.3%

Source: Oregon Employment Department

Locally, between January to March 2014, the industries with the majority of Portland-Vancouver-Hillsboro MSA employment growth were in Education & Health Services (+4,900), Professional and Business Services (+1,500), Leisure and Hospitality (+1,400) and Government (+1,400), as seen in Figure 11.

In March alone, job gains were concentrated in three of the 11 major industries: Leisure and Hospitality (+1,800), Education & Healthy Services (+1,700), and Construction (+1,200). Jones Lang LaSalle Research analyzed the BLS data to discover that while Portland had lost nearly 82,000 jobs between March 2008 and November 2009, as of February 2014, the Portland region has added back 86,200 jobs, which is 4,400 jobs above the pre-recession peak.

Figure 12: Unemployment rate, National and Local



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

Oregon’s unemployment rate typically trends above the national rate and in March 2014 was 6.9 percent, slightly above the national rate of 6.7 percent for the same month (Figure 12). Portland-Vancouver-Hillsboro MSA has observed persistent growth in employment in recent year and appears poised to fall below the national average for the first time in 15 years. ■