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## THE STATE OF THE ECONOMY

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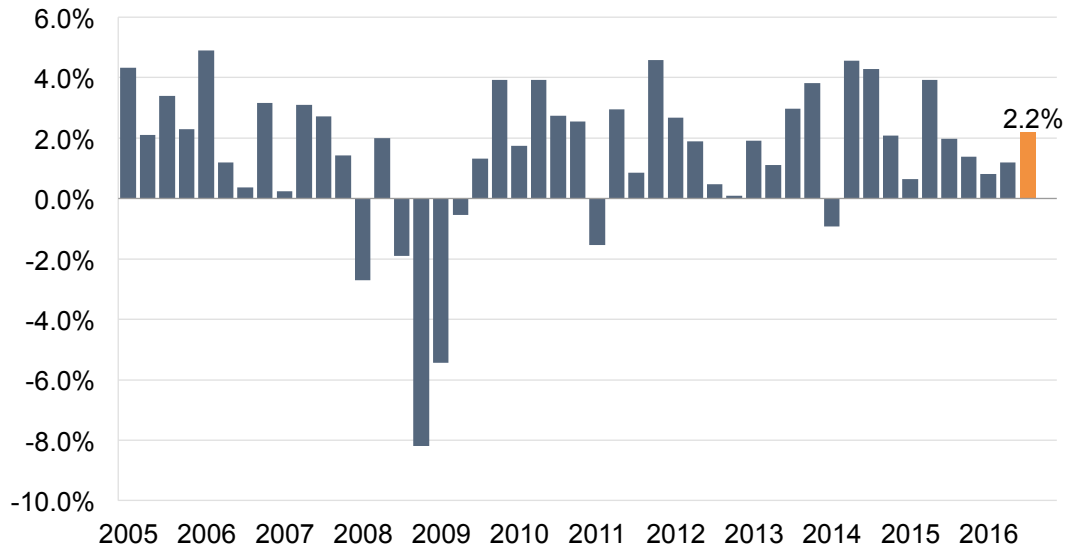
Although market fundamentals remain strong with record unemployment and continued economic growth, signs point to a softening market due to an economy nearing full employment.

The current business cycle, at 92 months, is one of the longest in US history, far longer than the 58 month average upturn since World War II. The current cycle is reaching the maturing phase, with real GDP growth settling at about two percent per year, and employment growth currently at approximately 2.5 million annually. In comparison with the hot economy before the financial recession, conservative financial lending standards and the limited construction labor supply will limit oversupply and market risk.

Global economic activity has increased due to long awaited cyclical recovery in investment, manufacturing and trade after a somewhat disappointing 2016. The IMF World Economic Outlook projects global growth to rise from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018.

■ 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.

**Figure 1: Gross Domestic Product, United States,  
Annualized Percent Change, 2005–2017 Q1**



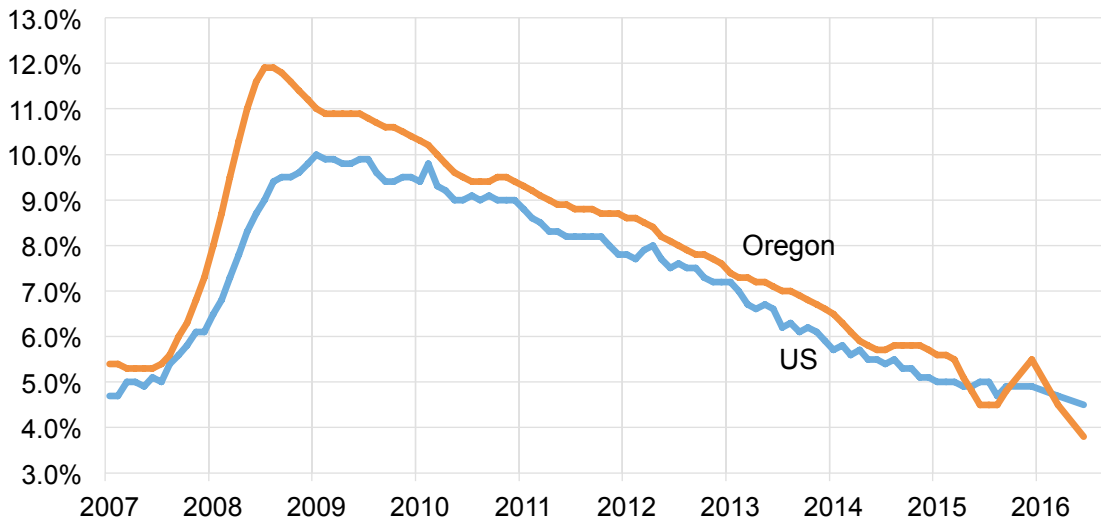
Source: Bureau of Economic Analysis (blue bars) and Wall Street Journal Economic Forecasting Survey (orange bars)

## EMPLOYMENT

Oregon's unemployment rate decreased to 3.8 percent at the end of March, the lowest unemployment rate on record since tracking began in 1976, according to the State of Oregon Employment Department. Over the past 12 months, payroll employment added 39,500 jobs, totaling 2.2 percent with a four year growth rate of 3 percent. The current pace of the Oregon economy adding 3,000 jobs per month is relatively reflective of population growth, in comparison to the rapid 5,000 per month employment gains during the peak cycle of a few years ago. The Portland metro region's unemployment rate has held steady at 3.5 percent at the end of March.

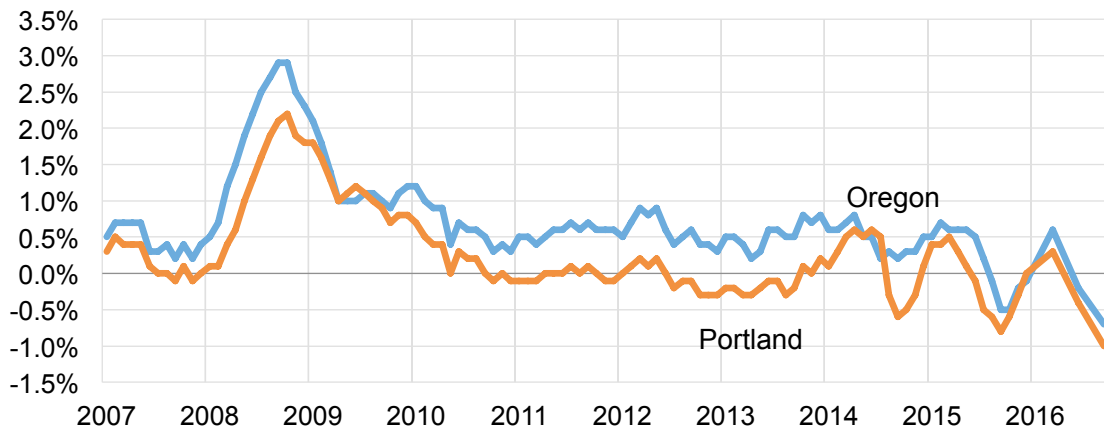
Although the Oregon and overall Portland metro economy had a robust start to 2017, overall gains have not been evenly distributed across the region, with a widening income gap, with average east Portland incomes at \$55,425 while the overall city average steadily climbing to \$87,778, according to the Oregon Employment Department.

**Figure 2A: Unemployment Rate, Portland MSA, Oregon and United States, 2007-2017**



Source: U.S. Bureau of Labor Statistics

**Figure 2B: Unemployment Rate, Portland MSA, Oregon and United States, 2007-2017**



Source: U.S. Bureau of Labor Statistics

**Figure 3: Labor Force Participation Rate, United States, 2008-2017**

Source: U.S. Bureau of Labor Statistics

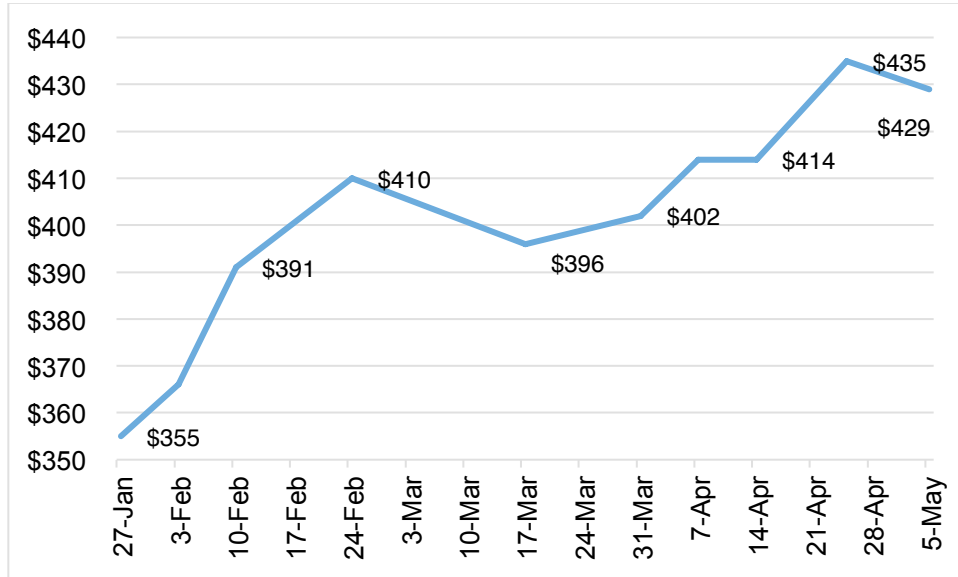
## INFLATION

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.3 percent in March on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics, which was the first monthly decline during the last 12 months. Over the last 12 months, the all items index rose 2.4 percent before seasonal adjustment.

## CONSTRUCTION CONSTRAINTS

In addition to perpetual construction labor shortages, construction costs from increasingly expensive raw materials will continue to place a ceiling on real estate growth. The expiration of US-Canada lumber trade agreements and hostile Trump Administration rhetoric to Canadian lumber imports has caused dramatic increases in lumber prices.

**Figure 7: Composite Framing Lumber Prices (NAHB)**



Source: National Association of Homebuilders

## LOOKING AHEAD

The retail market is the weakest performing property type, and investor concerns regarding the viability of this property type will increase in 2017. The growing on-line presence presents competition both for retail sales, and real estate deliveries. Industrial is now the preferred property type for 38 percent of American Investor Survey respondents, according to CBRE and retail has tumbled from 17 percent of respondents favoring this property in the 2016 CBRE survey, to 8 percent in 2017. ■