City of
Portland, Oregon
Bureau of Development Services
FROM CONCEPT TO CONSTRUCTION

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Economic Outlook

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The United States economy has experienced a moderately paced expansion over the past year. The October 2015 unemployment rate measured in at 5.0%, down from 5.7% in the same month the previous year. This decline represents the economy's path towards full employment, though some metrics still evidence labor force underutilization. Most notably, the number of people employed part-time for economic reasons remains high compared to pre-recession levels. Low wage growth numbers also indicate slack in the labor force. As the economy continues to grow, many underemployed individuals are expected to move into full employment.

United States real GDP is growing, though at a slower pace than previous economic expansions. Reasons for the tepid growth rates are numerous. Demographic changes to the economy over the past decade produced lower expected growth rates as baby boomers move into retirement. The next large demographic cohort, the millennial generation, has yet to enter its prime wage-earning years. Most recently, financial volatility and international developments have produced a significant drag on the economy. Weakness in abroad has strengthened the relative value of the US dollar, increasing the cost of exports and putting downward pressure on domestic manufacturing. As the Federal Reserve heads into its December Federal Open Market Committee (FOMC) meeting, these factors will certainly be part of the discussion surrounding lift-off from the zero lower bound interest rates.

Much like the national economy, Oregon has also experienced economic growth. September 2015 unemployment rested at 6.2%, down from 6.9% of a year earlier but up from 5.2% reached in April 2015. Unemployment in the Portland MSA has followed similar trends to the state economy. In September 2015, unemployment was at 5.6%, down from 6.2% of a year earlier but up from a post-recession low of 4.9% in April 2015. The recent increase in unemployment is at least in part due to discouraged workers re-entering the labor force. The numbers may also be indicative of a slowdown in the labor market. The Oregon and Portland economies are typically more volatile in comparison to the nation in its entirety, and can see increases in unemployment rates despite decreases nationally. Looking forward, Oregon faces similar headwinds to the national economy. A strong US dollar and weak global demand has the potential to adversely affect the manufacturing sector, putting a drag on growth.

The struggles of the housing industry in relation to the financial crisis are well documented. Fortunately, the Portland MSA has largely recovered from these woes. Existing home sales have been robust and home prices are rising. The large price increases of the past three years are moderating somewhat, though supply constraints still exert upward pressure. There has been a dearth of new home construction since the financial crisis. As developers build new homes to meet demand, there should be some relief in upward price pressure to more sustainable levels. Long-term, one challenge facing Portland will be to meet the housing demand of the millennial generation as they transition from renting to home ownership.

While the financial crisis centered on losses to the single family market, the demand for rental units increased, resulting in some exceptionally strong growth in the multifamily sector in recent years. Individuals and families unable to afford ownership following the housing bust transitioned into the rental market. This increase in rental demand contributed to low vacancy rates and rising prices, conditions favorable to development. The sustained high levels of development suggest supply has yet to catch up with demand; however, the current pace is probably not sustainable indefinitely. A key financial concern for the bureau in the coming years will be monitoring revenue from the multifamily sector. Fortunately, population growth estimates for the Portland MSA suggest the city will continue to gain from inward migration, increasing housing demand and decreasing the risk of overbuilding.

Historically, the bureau obtains significant revenue from large projects. This will continue moving forward. The bureau technically classifies large projects as those at least $3 million in valuation, while also tracking projects valued over $10 million and $20 million. Large multifamily developments constituted the vast majority of large project activity at the bureau during the economic recovery. The multifamily market remains strong; however, BDS will monitor the health of the industry going forward and determine if large project activity in this area is sustainable. More diversification in large project activity would provide stability to the bureau's long term revenue streams.

Most economists believe the US economy will experience further growth in CY 2016. The slow pace of the recovery following the financial crisis may result in a longer period of expansion than average. However, there are significant risks to the economy that provide uncertainty to economic projections. Weakness in emerging markets, a strong dollar, and low core inflation all present significant challenges going forward. Furthermore, the bureau can potentially experience revenue volatility even during an aggregate economic expansion. Large project activity contributes to this volatility as their timing and size are difficult to predict. In addition, the construction industry does not necessarily expand and contract in conjunction with the economy. The economy is larger, more diversified, and therefore more stable than any specific industry. These risks aside, current economic conditions suggest another strong year in 2016.