



**City of Portland, Oregon**  
**Bureau of Development Services**  
**Business Operations and Finance Services**  
FROM CONCEPT TO CONSTRUCTION

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## **Economic Outlook**

**November 2017**

### National Economy

The United States economy has continued its moderately paced expansion over the past year. In October 2017, the unemployment rate measured in at 4.1%, down from 4.8% during the same month of the previous year. Broader measures of unemployment, including workers employed part time for economic reasons, have also continued their steady post-recession decline. After over 8 years of economic expansion, these broader measures are now at levels indicative of an economy at or near full employment. One vital missing piece of the current expansion is inflation, both in consumer goods and wages. Economic theory would suggest that inflation will rise in a full employment environment. For the time being, core inflation remains stubbornly below the Federal Reserve's 2% target.

The current economic expansion, albeit long, has been at a slower pace than during previous economic expansions. Demographic changes to the economy over the past decade influence growth rates downward as baby boomers move into retirement. The next large demographic cohort, the millennial generation, has yet to enter its prime wage-earning years. Fiscal policy has also played a role, as an accommodative monetary policy alone was not enough to produce high real GDP growth rates. The Federal Reserve Open Market Committee (FOMC) has embarked on the path of interest rate normalization, increasing the target fed funds rate from 0% to 1.25% over a roughly two-year period. The Fed is broadly expected to increase rates another 0.25% in December 2017. Further rate hikes are expected in 2018, though this will be dependent on favorable economic data and policy decisions at the national level.

### Oregon and Portland Economy

Similar to the national economy, Oregon has also experienced economic growth. The September 2017 unemployment rested at 4.2%, down from 4.9% of a year earlier but up from 3.6% in May 2017. Unemployment in the Portland Metropolitan Statistical Area (MSA) has followed parallel trends to the state economy. In August 2017, the Portland MSA unemployment rate was at 4.1%, down from 4.9% of a year earlier but up from a post-recession low of 3.5% in May 2017. The overall labor market remains very strong. 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 nationwide. Looking forward, Oregon faces supply side constraints, particularly in the labor market. An economy at full employment cannot grow by simply absorbing more workers, and workers are able to negotiate higher wages, squeezing margins and dragging economic growth.

The Portland MSA housing market has fully recovered from the recession. Local concerns are currently focused on affordability. In the single family market, home price increases have

moderated somewhat compared to the double digit growth experienced previously. This is in part due to the completion of new single and multifamily units over the past few years, which has finally alleviated some of the supply side price pressure. Affordability remains a concern as the current high prices present a significant barrier to entry for many households interested in purchasing a home. Long-term, one challenge facing the City of Portland will be to meet the housing demands of the millennial generation as they transition from renting to home ownership.

Recent years have seen exceptionally robust growth in the multifamily sector. Following the financial crisis, individuals and families unable to afford ownership transitioned into the rental market. This contributed to low vacancy rates and rising prices, spurring development. Multifamily development growth rates are still positive despite the wealth of units developed, though development has plateaued somewhat at the current high level. 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. On the policy side, the effects of the new Inclusionary Housing program on multifamily development present significant risk, however the true impact will not be known for some time.

Historically, the bureau has obtained significant revenues from large projects, and this will continue in the future. The bureau technically classifies large projects as those with at least \$3 million in valuation, while also tracking projects valued over \$10 million and \$20 million. Large multifamily developments have 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.

Most economists agree the US economy will experience further growth in the 2018 calendar year. However, there are significant risks to the economy that provide uncertainty to economic projections. A monetary or fiscal policy mistake can potentially cause a premature end to the current expansion. Furthermore, it is possible the bureau experiences revenue volatility amid an aggregate economic expansion. Large project activity contributes to this volatility, as their timing and size of such projects are difficult to predict. In addition, the construction industry does not necessarily expand and contract in conjunction with the aggregate economy. These risks aside, current economic conditions and recent data suggest the bureau will be on solid financial footing in 2018.