

Economic Update

Prepared for:



January 12th, 2023

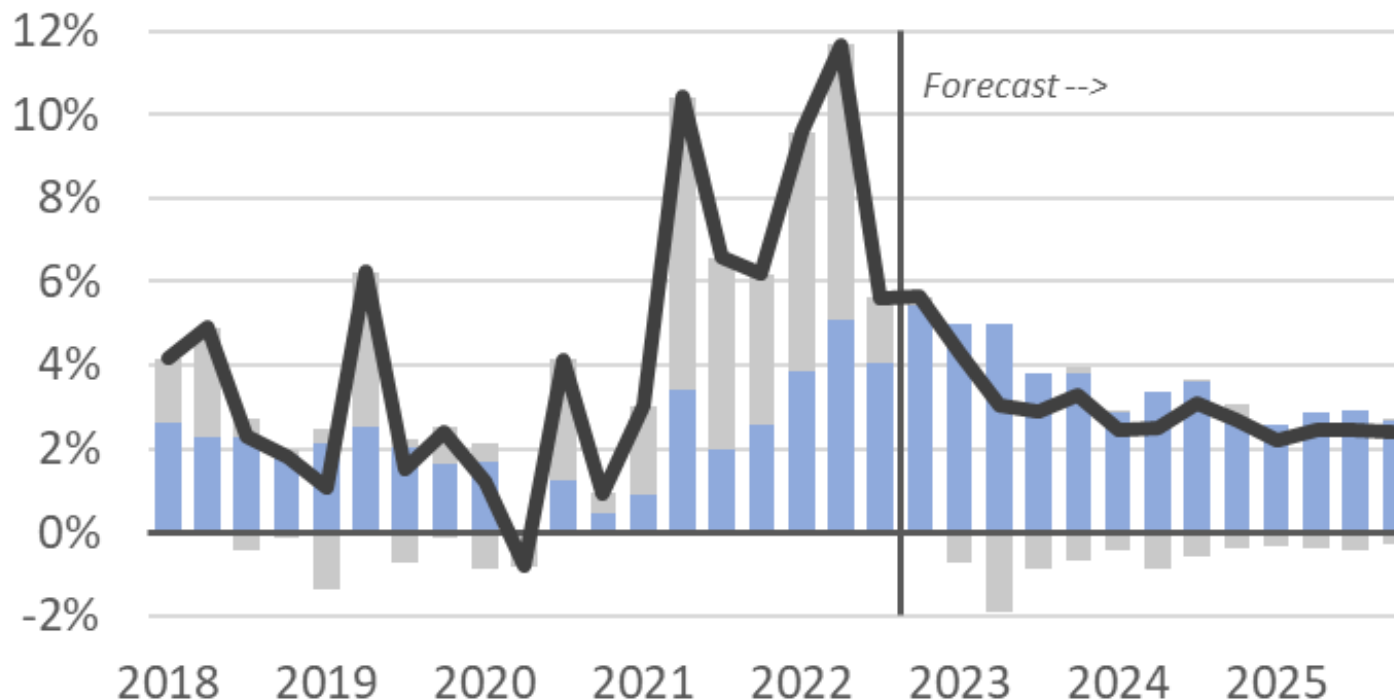
Mark McMullen
Oregon State Economist



Inflation is still the key issue

West Region Consumer Price Index

Decomposing **Total** quarter-over-quarter inflation at annualized rates and contributions from **Food, Energy, and Goods**, and **Services**



- Inflation is not costless
- Federal Reserve
 - Higher rates slow economy, but with a 1–2 year lag
 - Chair Powell admits path to the soft landing has narrowed
- Inflation Outlook
 - Headline inflation slows some due to gas prices and easing supply chains
 - Full return to 2% Fed target is harder and a multiyear process
- Oregon public policies
 - Fees indexed for inflation, public wage negotiations, minimum wage, rent stabilization, etc

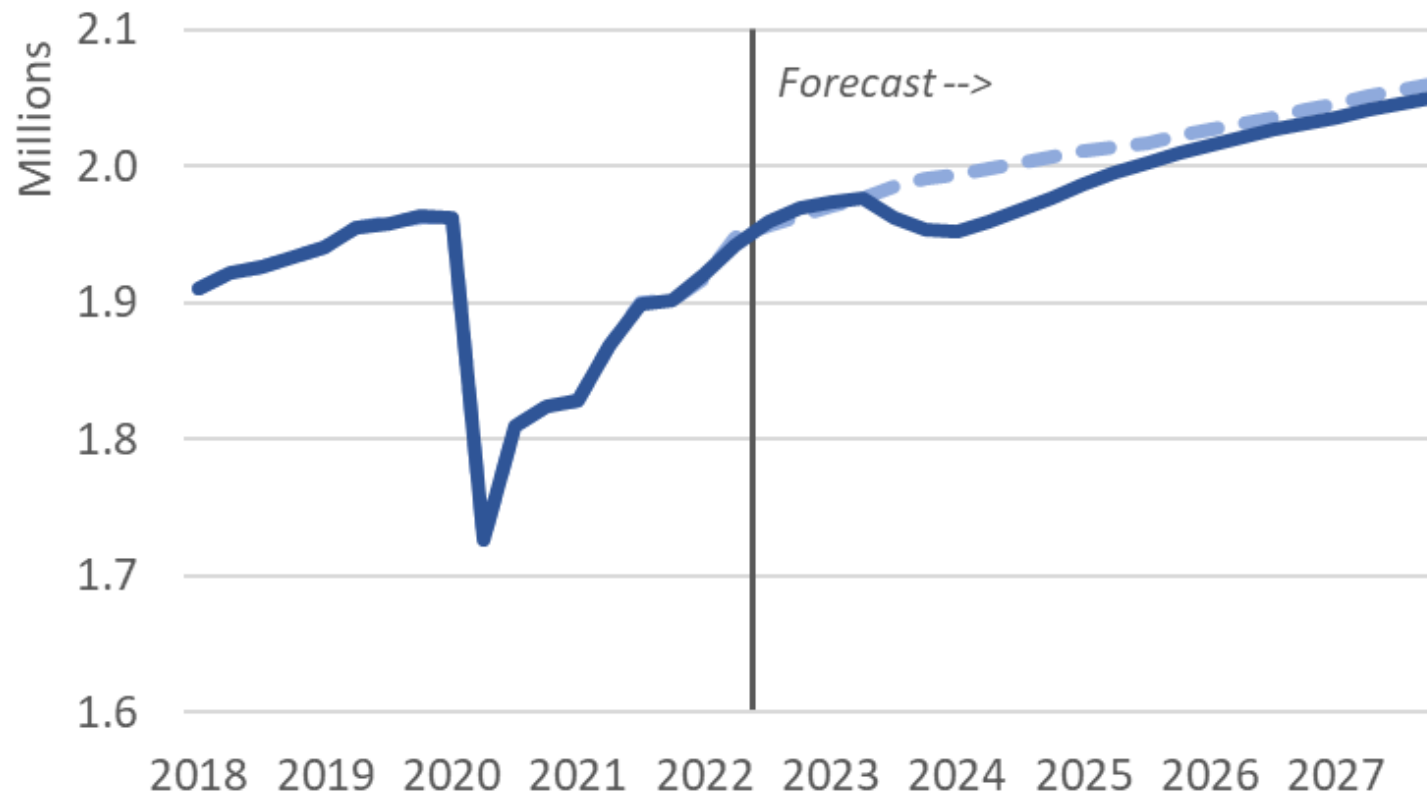




Inflationary booms do not end well

Oregon Employment

December 2022 Forecast | September 2022 Forecast



- Mild Recession
 - Job losses begin 2023q3
 - Oregon loses 24,000 jobs, for a 1.2% decline
 - Income and spending slow, but remain positive
- Nature of Recession
 - More technical than fundamental, driven by declines in housing and business investment due to high interest rates
 - Larger expected losses in construction, finance, manufacturing, transportation and warehousing
 - Smaller expected losses in health care and leisure and hospitality



The background of the slide features a large, faint, light-blue seal of the State of Oregon. The seal is circular, with the words "STATE OF OREGON" around the top and "1859" at the bottom. The central emblem depicts an eagle with spread wings perched atop a shield. The shield contains a landscape with a ship, a plow, and a sheaf of wheat. A banner below the shield reads "THE UNION".

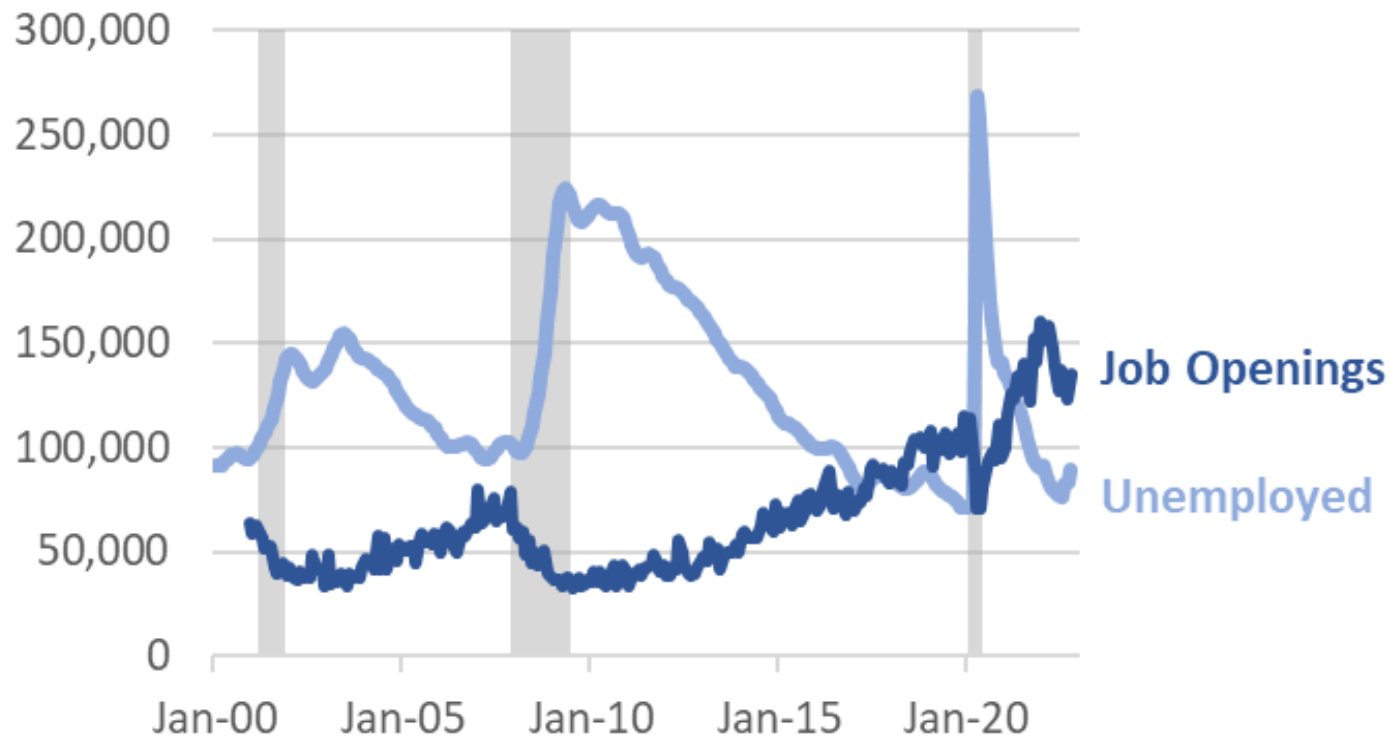
Consensus calls for a mild
recession: Why?



Firms may hoard labor

Oregon's Tight Labor Market

In October there were 1.5 job openings for every unemployed Oregonian



Latest: October 2022 | Source: BLS, Oregon Employment Department, Oregon Office of Economic Analysis

- Strong, inclusive recovery
 - Disparities did not widen based on age, educational attainment, gender, geographic location, or race and ethnicity
 - Disparities did widen based on wealth
- Job vacancies near record highs
 - More self-employment
 - Fewer multiple jobholders
 - More worker quits
- Structural labor challenges
 - Pandemic deaths
 - International migration
 - Demographics



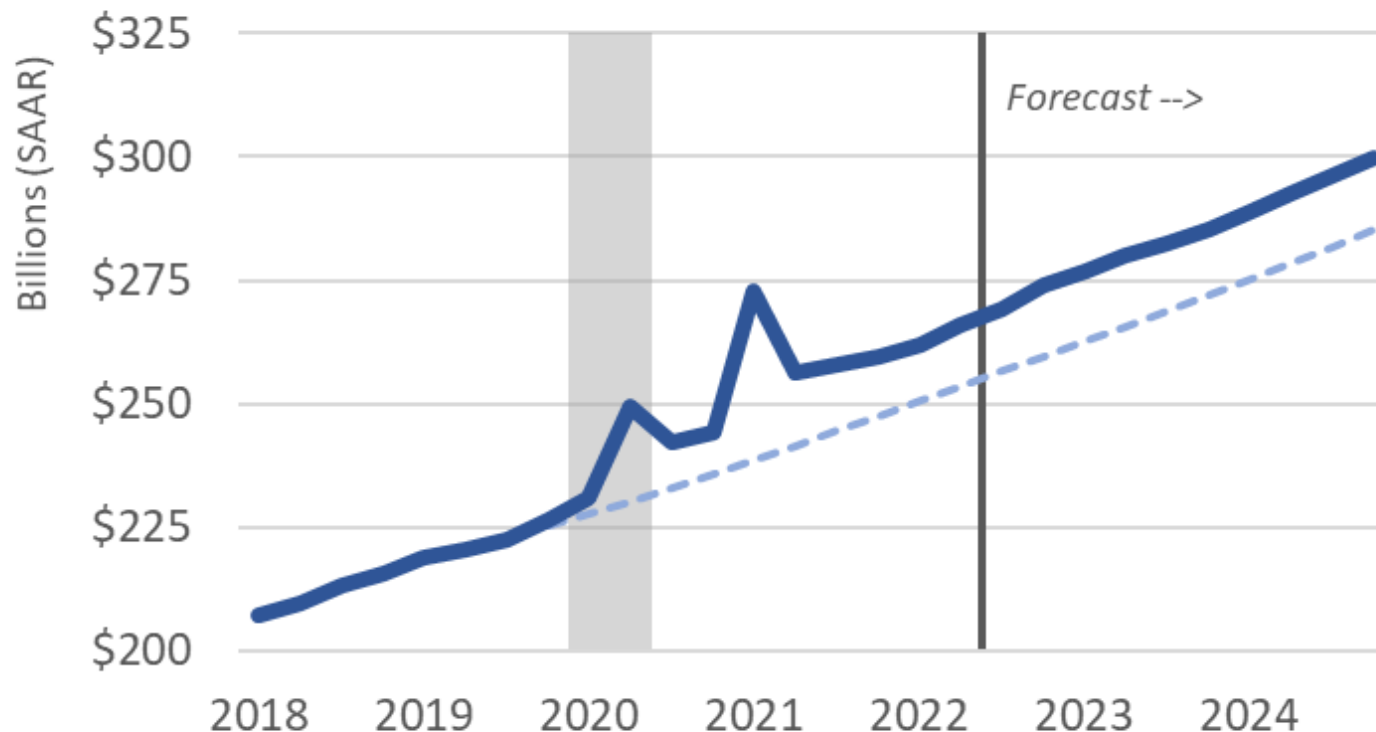


Household finances are strong...

Dynamics starting to shift from exceptional to normal

Oregon Personal Income

Current Forecast | Pre-Pandemic Forecast



Latest Data: 2022q2 | Source: BEA, Oregon Office of Economic Analysis

- Current income higher than forecast
 - Income growth will slow
- Household savings increased \$2.1 trillion early in pandemic
 - \$800 billion of excess savings drawn down due to inflation
- Wealth is up over the pandemic
 - Stocks down this year, housing starting to turn down
- Debt levels below trend, delinquency rates still low
 - Levels rising but still smaller share of income, delinquencies starting to tick up off historic lows

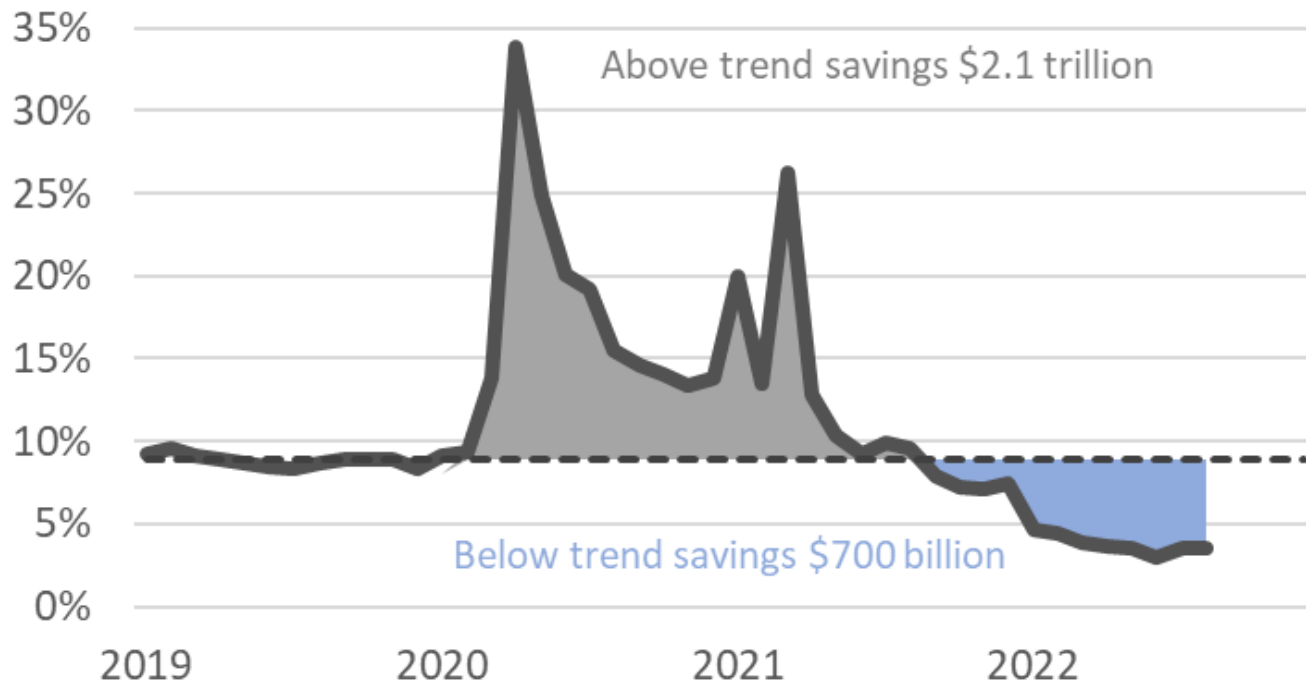




... but cushion becoming smaller

Households Spending out of Excess Savings

Monthly savings rate, share of U.S. disposable personal income



Latest Data: August 2022 | Source: BEA, Oregon Office of Economic Analysis

- During the pandemic, households saved an extra \$2.1 trillion, and continue to spend out of it
- Distributional concerns?



Oregon Office of
Economic Analysis

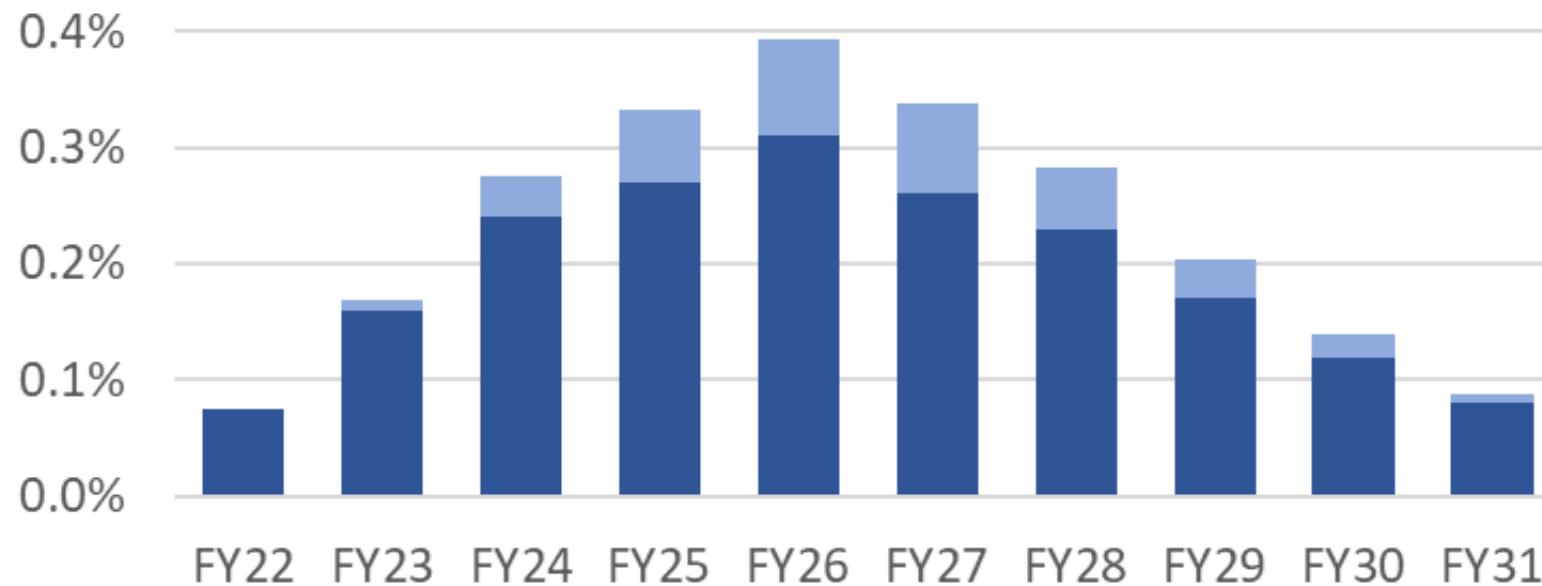




Federal, state and local investments might arrive right in time

Federal Fiscal Policy: Increased Investment

Change in Federal Outlays, Share of GDP from the
Infrastructure Investment and Jobs Act and **Inflation Reduction Act***



* IRA impact excludes health subsidies to get at underlying changes in Federal investment

Source: CBO, IHS Markit

- Goal is to boost the productive capacity of the economy
- Economic impact comes a couple years after passage of the policies due to planning and ramp up period
- Inflation and cost of construction impacts volume of work that can be fully financed
- Key unknown question: to what extent is this net additional economic activity, or does public investment crowd out private investment



Business Cycles in Oregon

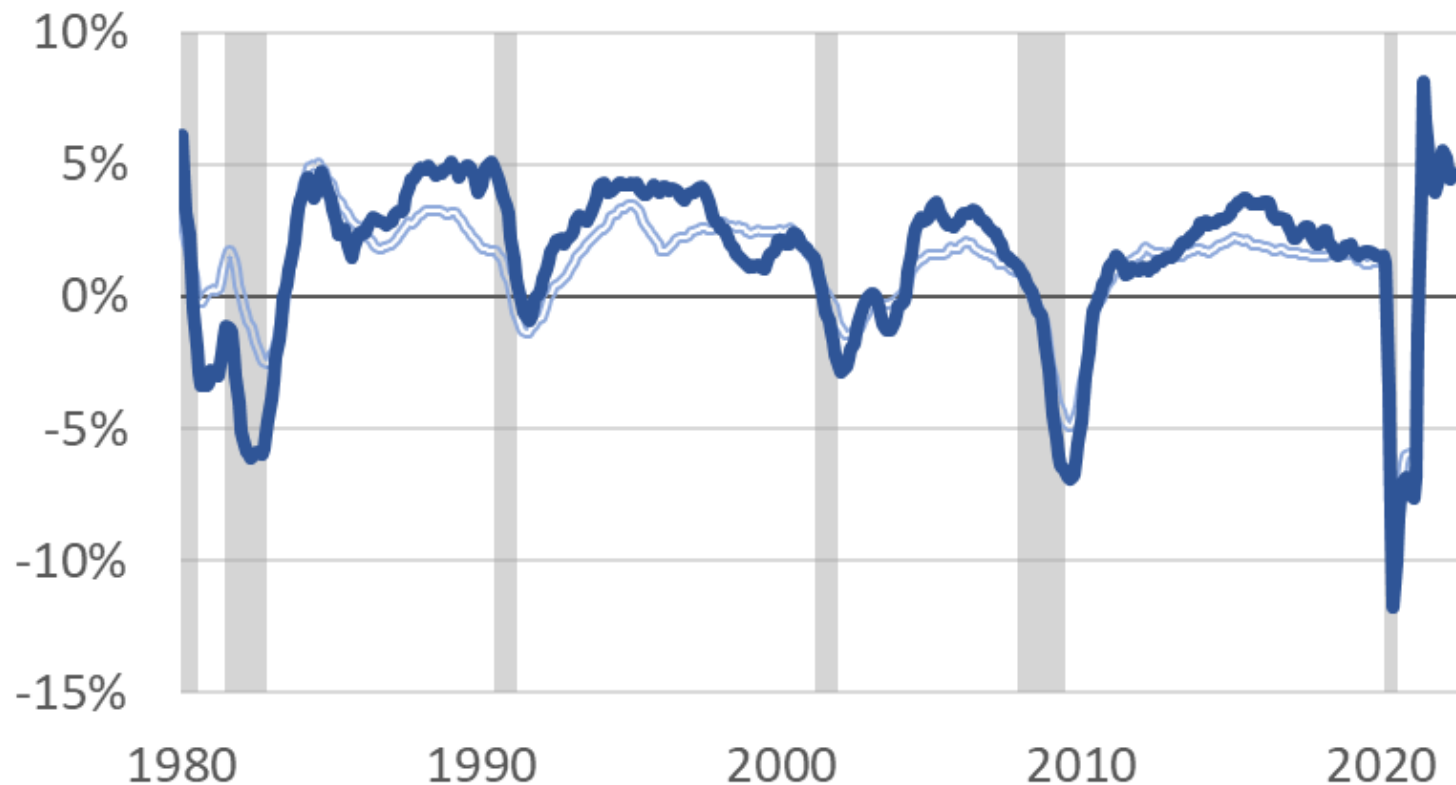
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Oregon's Boom-Bust Economy

Total Nonfarm Employment

Year-over-Year Percent Change for **U.S.** and **Oregon**



- Historically Oregon is more volatile than the U.S.
 - Industrial structure (goods producing industries)
 - Migration
- COVID was different, OR looked the same as everywhere else
- Migration and Manufacturing are struggling currently
 - Tech layoffs
 - 2022 migration



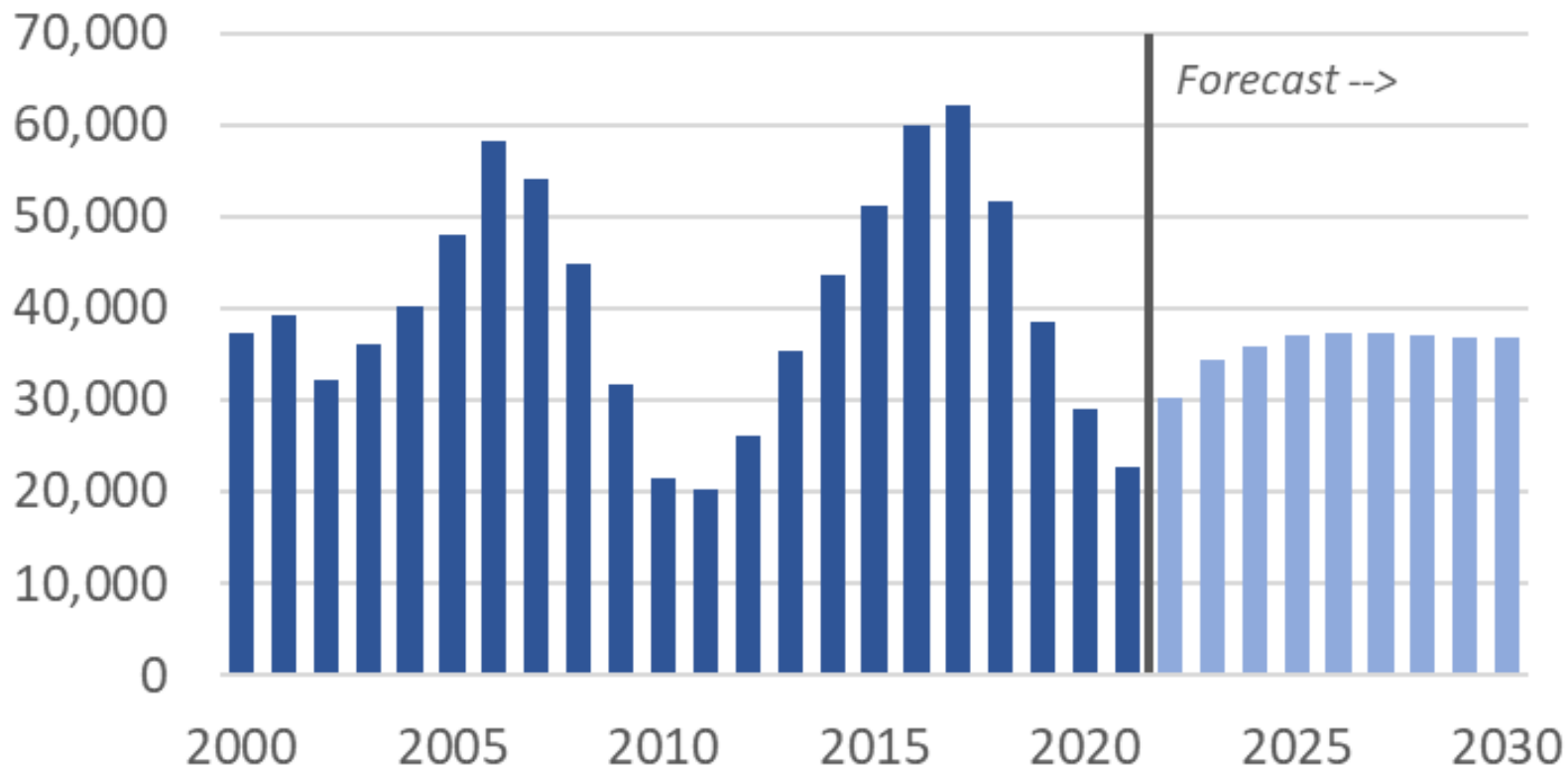


No pandemic migration boom

Presented to OCAPA Annual Meeting May 2022

Oregon Population Growth

Annual Change in the Total Population



- Primary reason Oregon grows faster than U.S.
 - Local businesses can hire and expand at faster rate
- Forecast
 - Migration is pro-cyclical
 - Rebound already underway given surrendered driver licenses at Oregon DMVs are increasing
 - Deaths are rising, and birthrate is very low



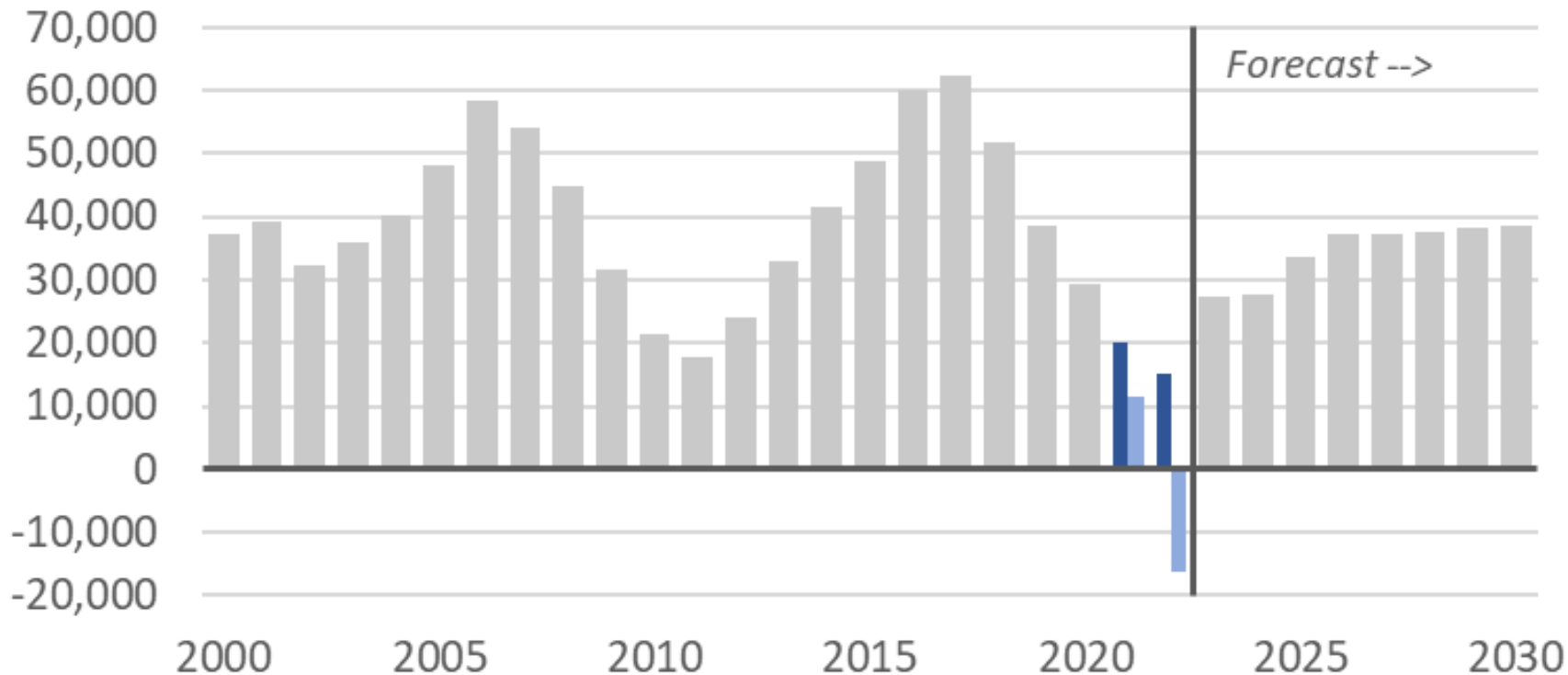


2022 population growth disappoints

Oregon Pandemic Population Growth

Annual change in total state population

OEA History and Forecast, **Portland State Estimates**, **Census Bureau Estimates**



Source: Census, Portland State Population Research Center, Oregon Office of Economic Analysis

- Primary reason Oregon grows faster than U.S.
 - Local businesses can hire and expand at faster rate
- Weakness has been in urban cores of large metros nationwide
- Forecast
 - Migration has historically been pro-cyclical
 - Surrendered driver licenses at Oregon DMVs are strong
 - Deaths are rising, and birthrate is very low

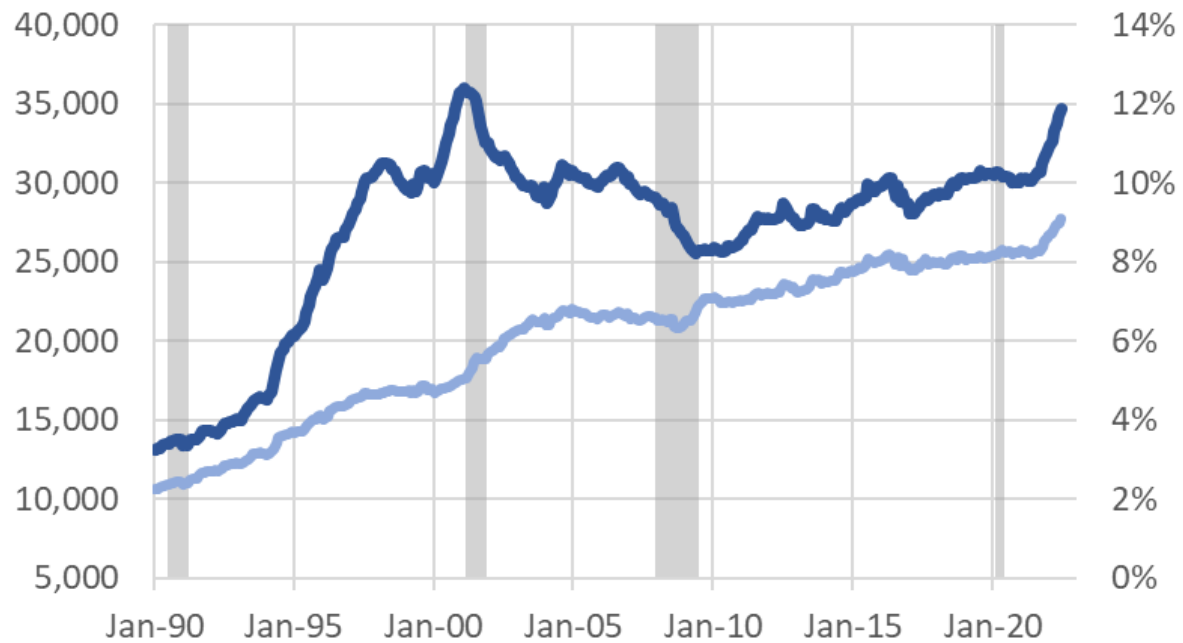




Risk: Manufacturing

Oregon Semiconductor Employment

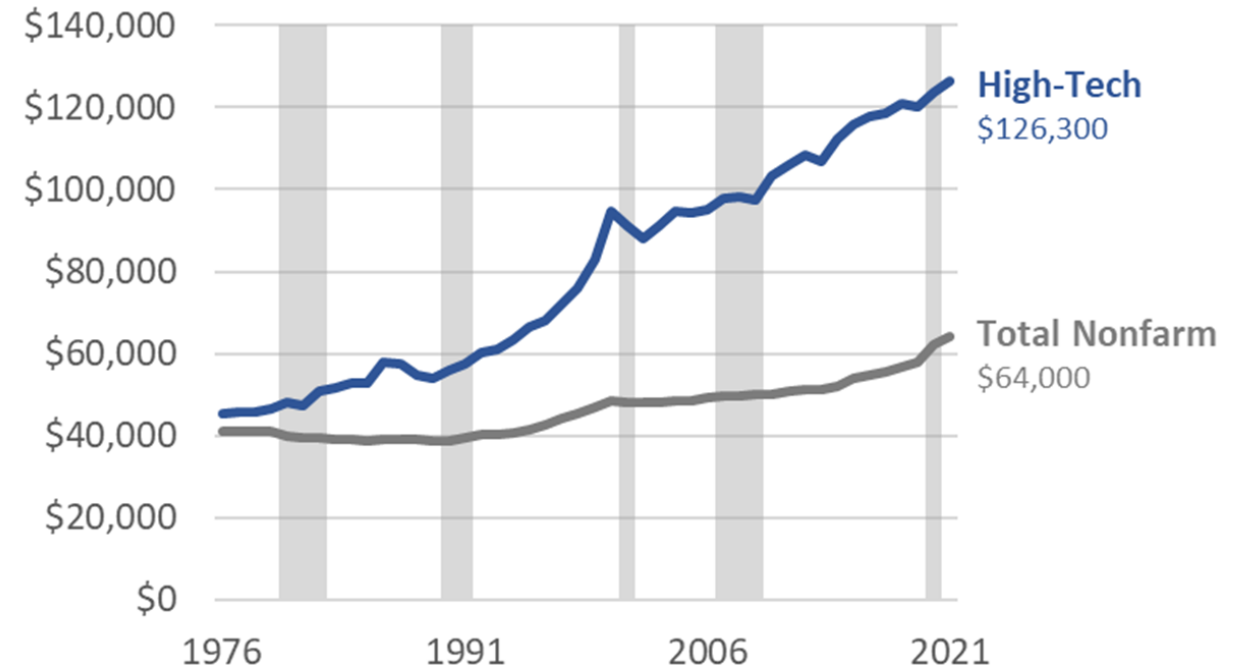
<-- Employment | Share of U.S. -->



Latest Data: June 2022 | Source: BLS, Oregon Employment Department, Oregon Office of Economic Analysis

Oregon Average Wages

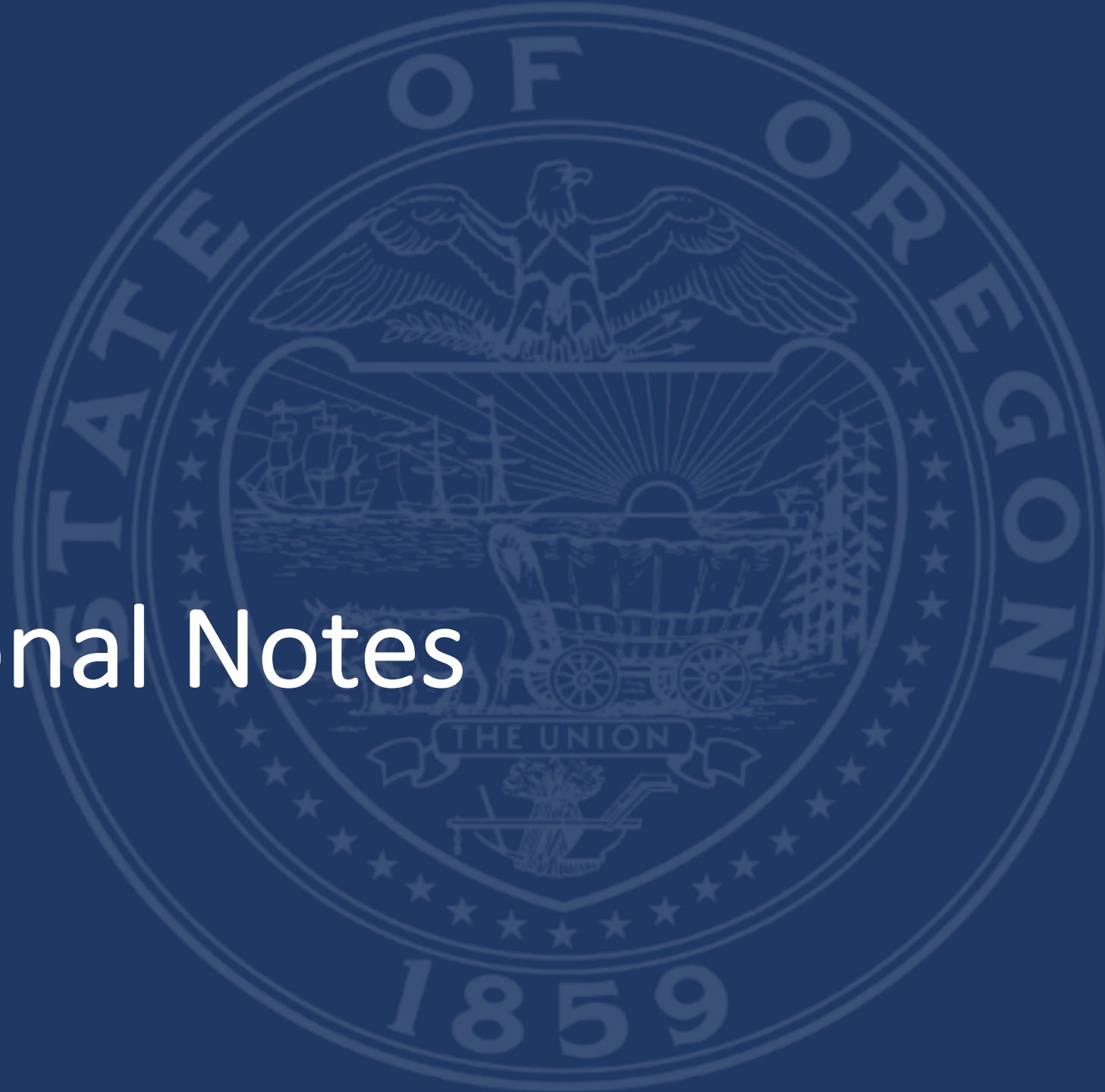
Inflation Adjusted, 2021 \$



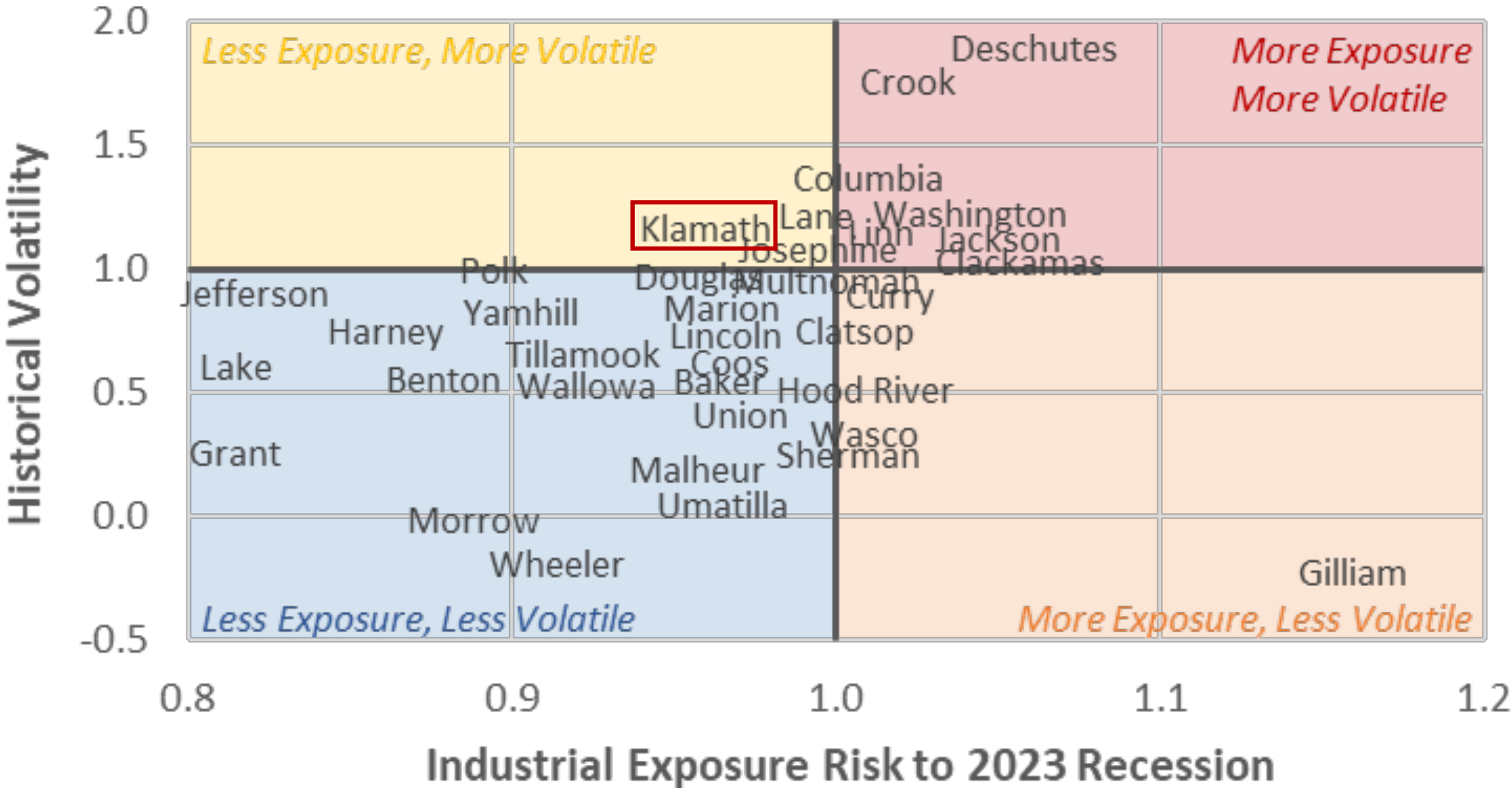
PCE Price Index used for inflation adjustment | Source: BEA, OR Emp Dept, OR Office of Econ Analysis



Regional Notes



Oregon Counties and Recession

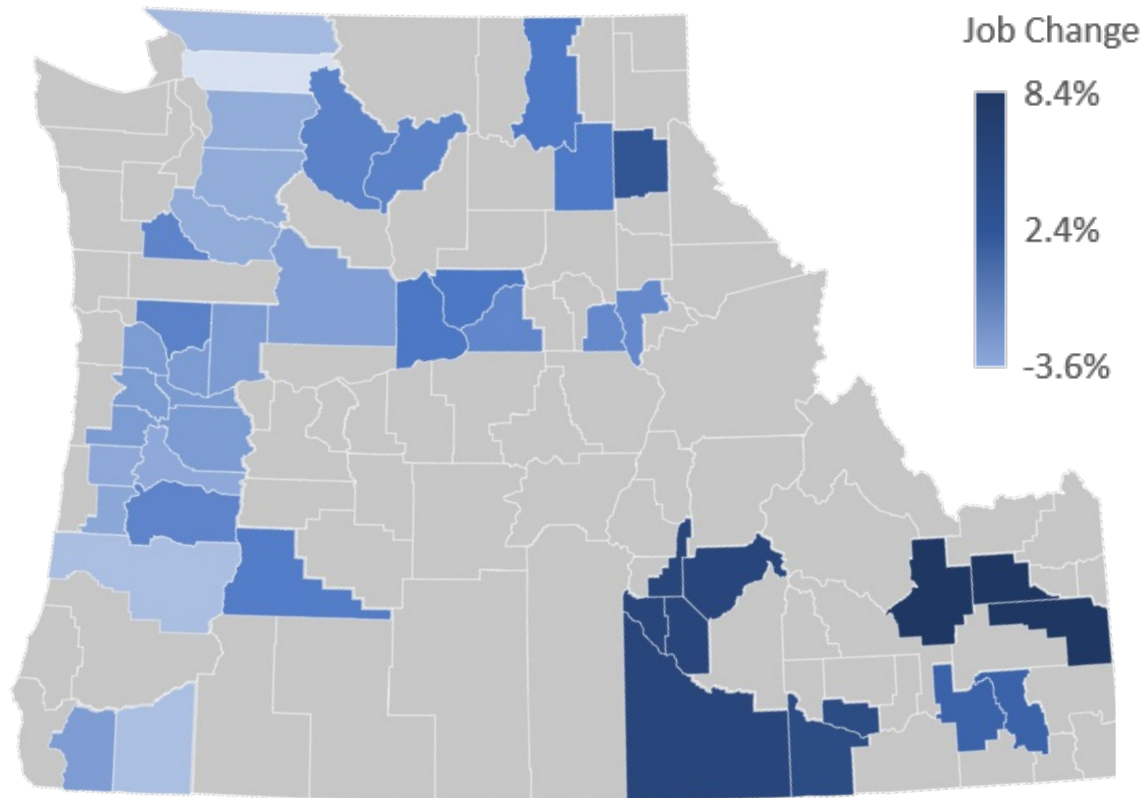




Regional: This cycle is different

Northwest Metro Area Employment Change

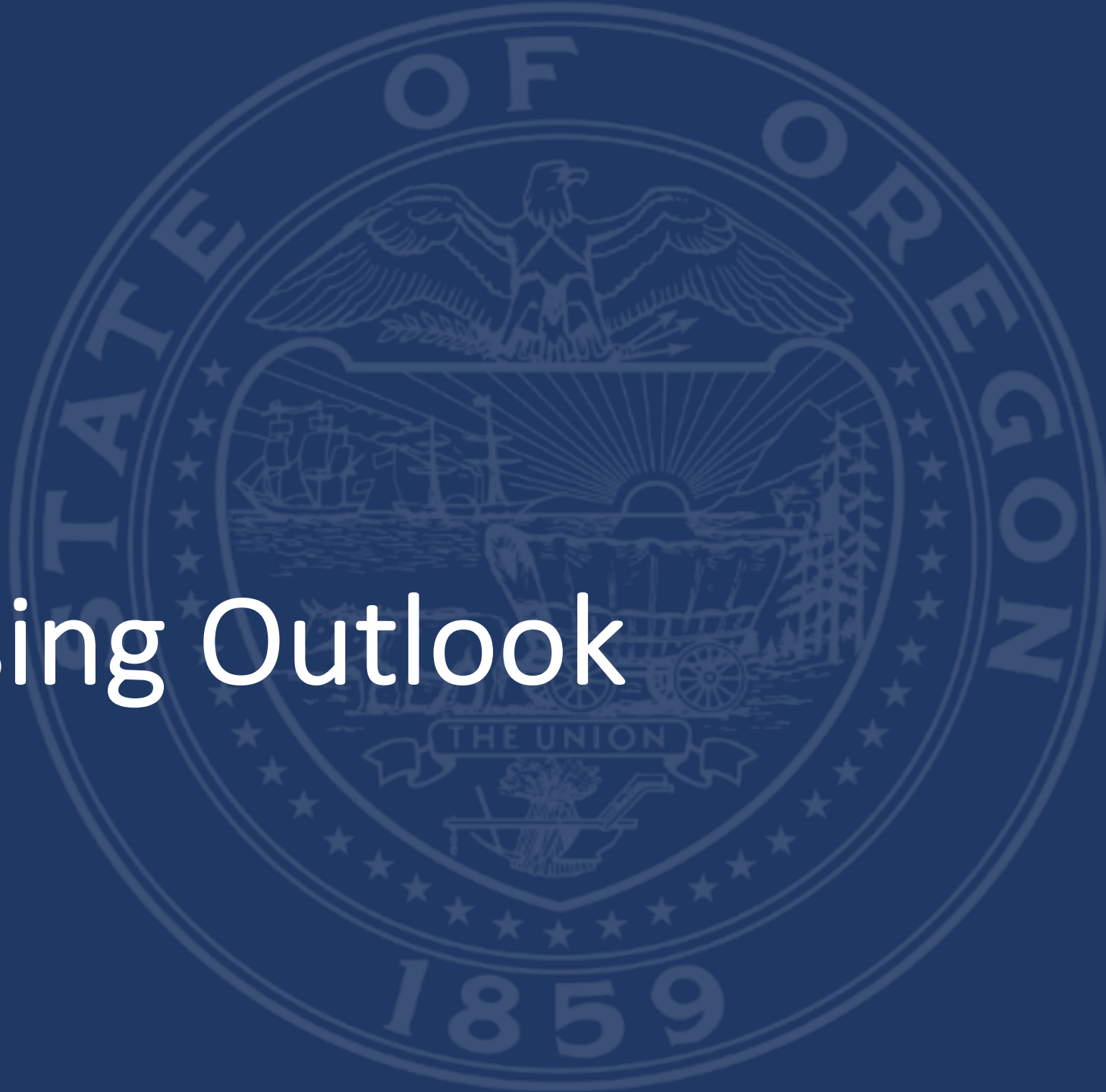
Percent Change February 2020 to August 2022



- In 2010s, nation's large urban areas turned around first and lead the expansion
- Today, smaller metros and suburbs outperforming urban cores nationwide
 - Loss of business travel, and daily commuters
 - Federal aid was a larger percentage increase in income
- Outlook:
 - Urban areas recover stronger given faster population and labor force gains



Housing Outlook





Current state of the housing market

Metric	Change
Interest Rates	Up 3.5 ppt
Monthly Payment	Up 56%
Closed Sales	Down 43%
New Listings	Down 25%
Inventory	Up 95%
Median Sales Price	Down 4%
Single Family Housing Starts	Down 20%
Construction Employment	Up 4%



Oregon Household Formation Boomed During the Pandemic

Change from 2019 to 2021

	Housing Units	No. of Households
2019	1,808,500	1,649,400
2021	1,837,000	1,702,600
Change	28,500	53,200
Difference	-24,700	

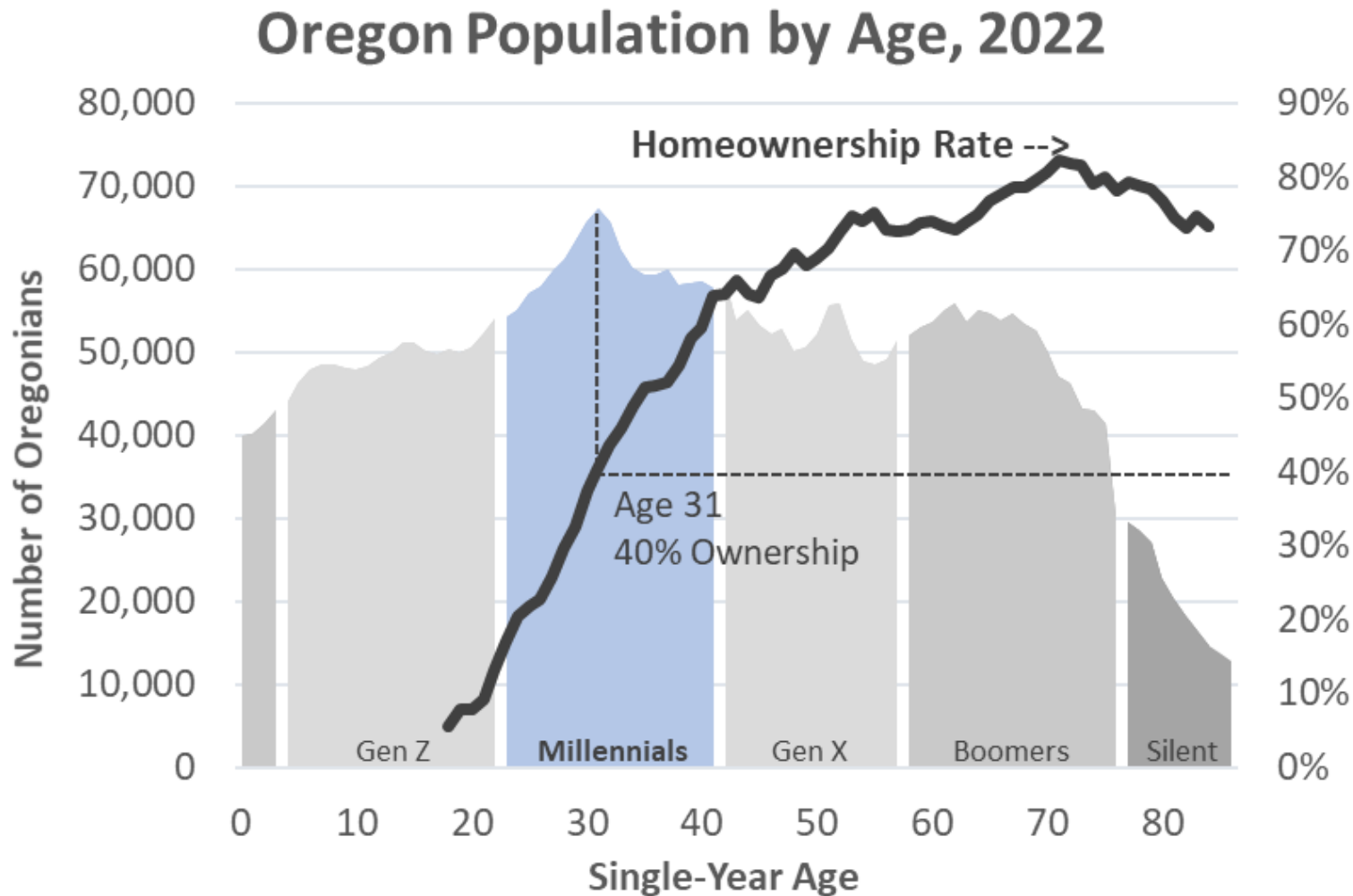
Metro Area	Housing Units	No. of Households	Difference
Albany	1,450	1,950	-500
Bend	4,150	7,250	-3,100
Corvallis	1,500	1,950	-450
Eugene	3,000	4,450	-1,450
Grants Pass	-500	1,550	-2,050
Medford	-700	3,000	-3,700
Portland	29,250	37,450	-8,200
Salem	3,250	5,850	-2,600

Data: 2019 and 2021 American Community Survey, 1 year estimates
Source: Census, Oregon Office of Economic Analysis





Strong ownership demand: Millennials

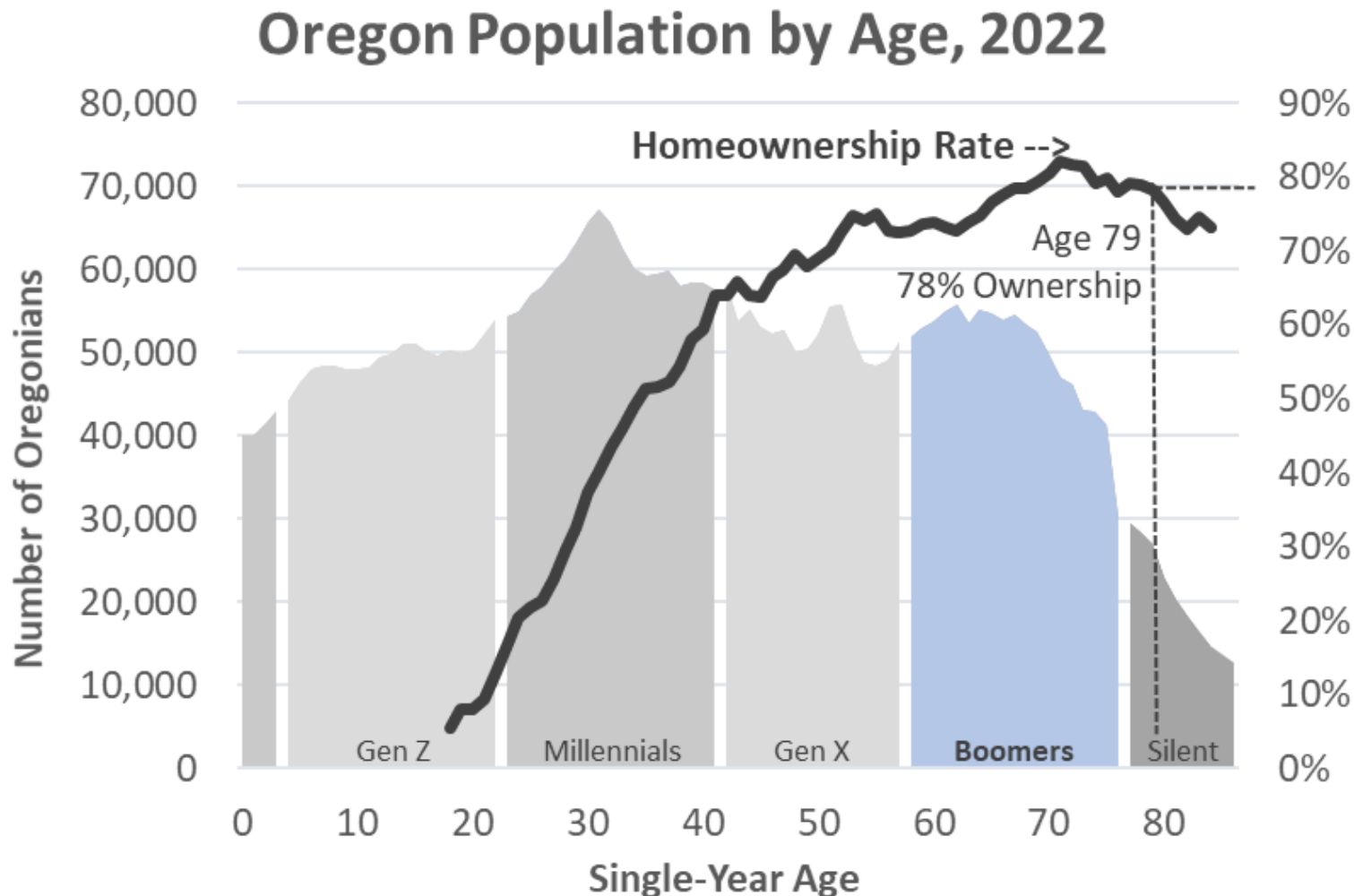


- Millennials
 - Rising housing incomes
 - Increased savings
 - Recovery rebates, student loan deferrals, some inheritance/gifts
 - More sensitive to affordability and credit standards
- Home-buying demographics
 - Early 30s are prime first-time home buying years
 - Mid-30s are 50/50 owner/renter splits in Oregon
 - Early 40s are move-up buyers, when households spend largest share of income on housing





Strong ownership demand: Boomers



- Baby Boomers
 - Record wealth, including liquid assets
 - Less sensitive to affordability and credit standards
 - Mom & Pop landlords
- Home-selling demographics
 - Downsizing isn't really a thing
 - Moving into assisted living facilities is
 - Impact felt late this decade but more in 2030s



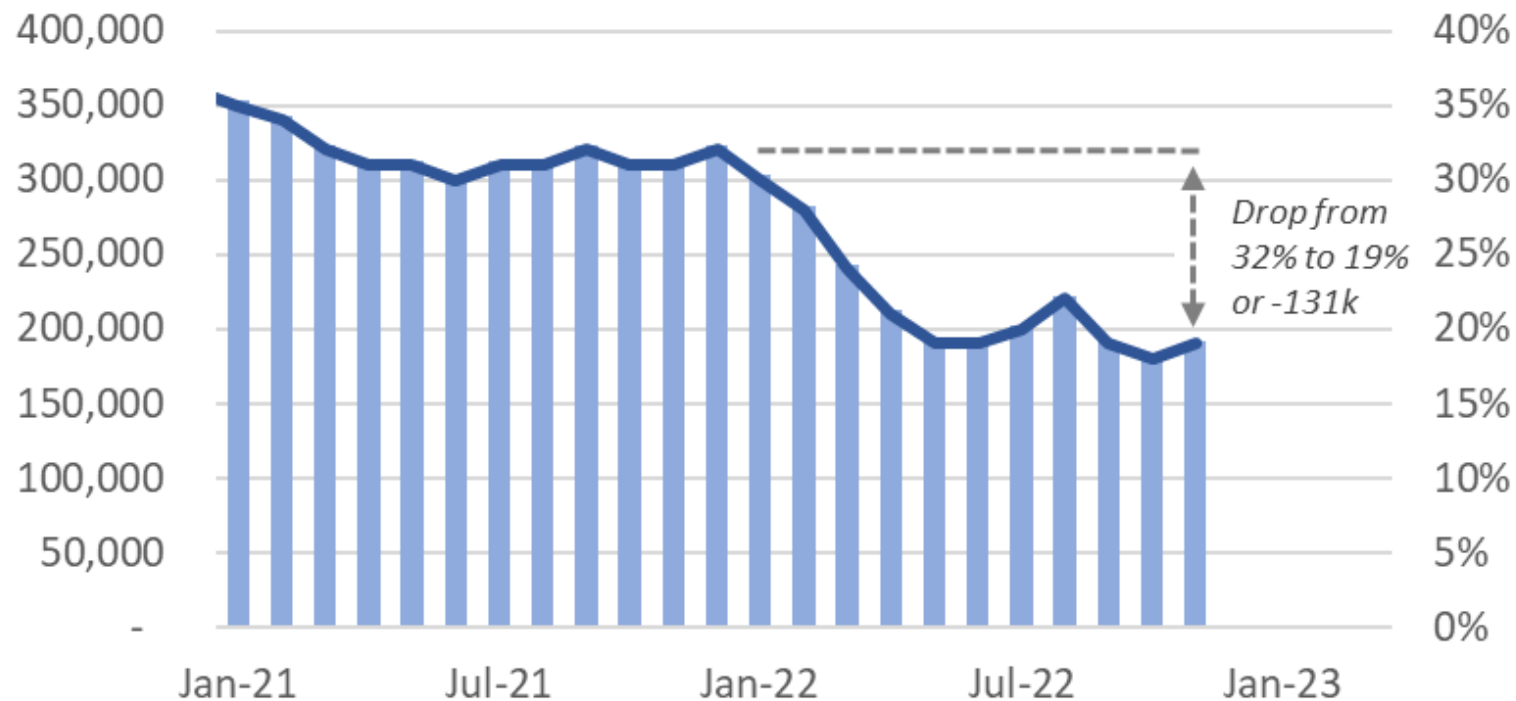


Households have been priced out...

Portland Homeownership Affordability

Portland metro households who can afford median sold home with 5% down payment and total housing costs not exceeding 30% of income

Number of Households, left | **Share of Households, right**



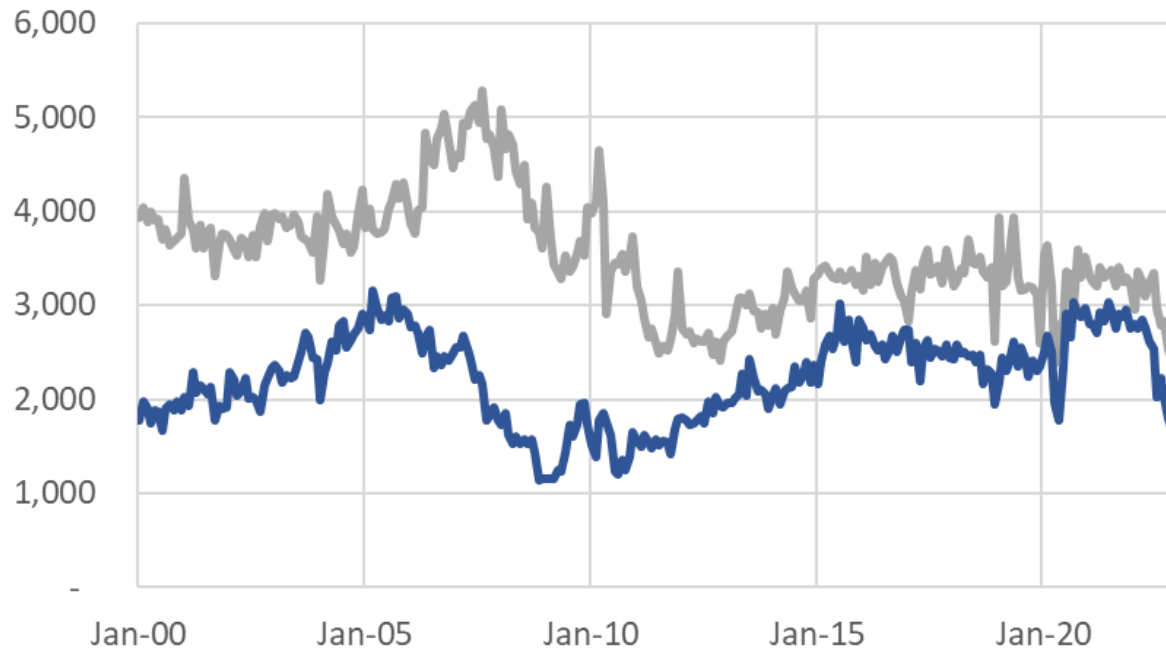
Latest Data: November 2022 | Source: IPUMS-USA, RMLS, Oregon Office of Economic Analysis



...leading to fewer sales

Portland Metro Housing Slowdown

Seasonally adjusted New Listings and Closed Sales



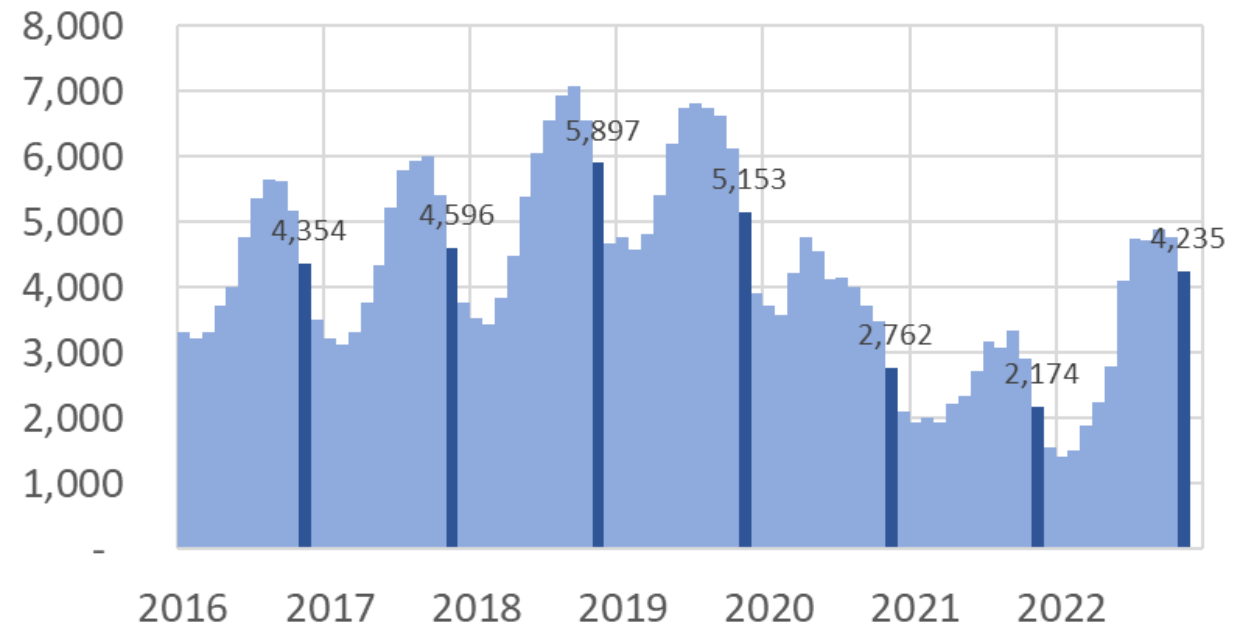
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Portland Inventory Up 95% Year-over-Year

RMLS Active Residential Listing in the Portland Metro



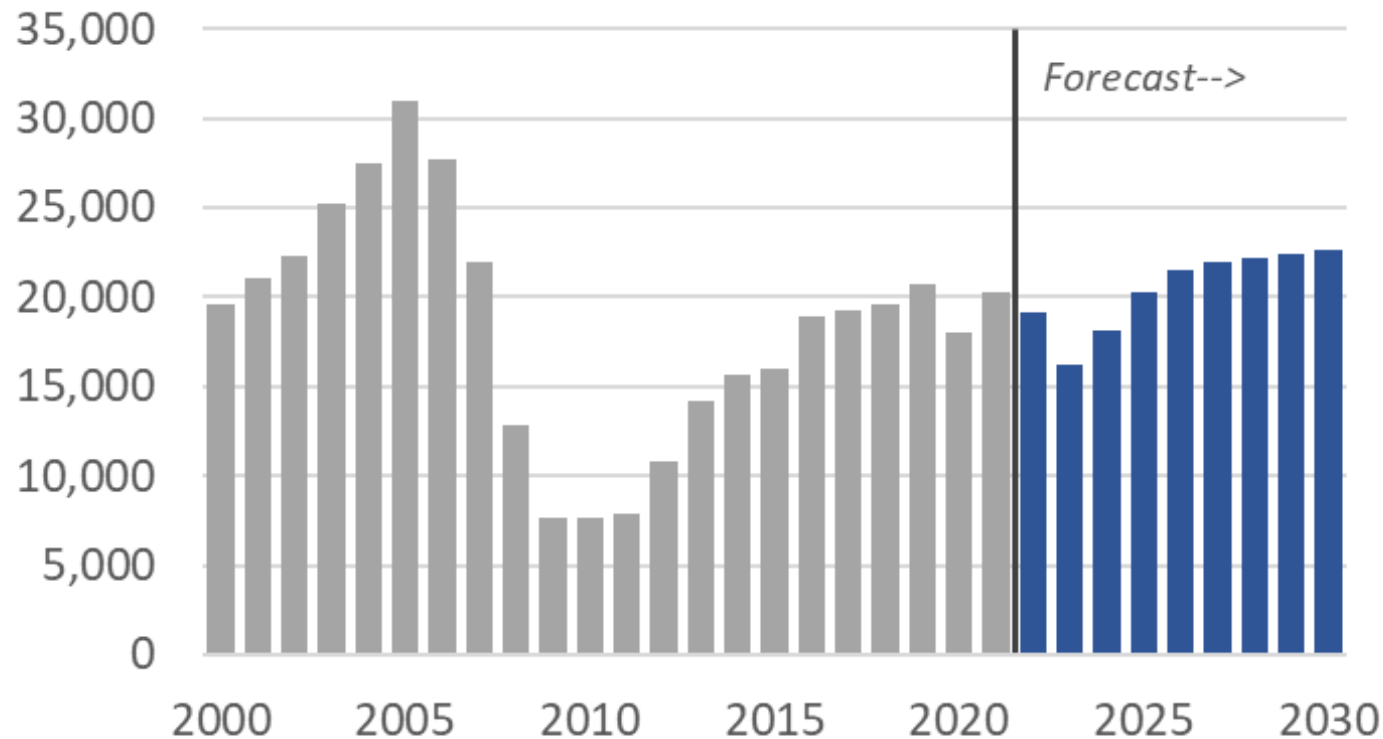
Latest Data: November 2022 | Source: RMLS, Oregon Office of Economic Analysis





Construction activity is expected to remain stable

Oregon Housing Starts



Source: Census, Oregon Office of Economic Analysis

- Oregon has underbuilt housing by 111,000 units in recent decades
- Industry running into supply side constraints
 - Financing, Land, Lots, Labor, Permitting Process
 - No productivity gains
- Affordability issues
 - Current residents struggle with outright lack of available units
 - Low-income households impacted the most
 - Future economic and revenue growth will be slower if fewer households can afford to move to or live in Oregon
- Outlook
 - Minimal growth in housing starts and construction employment, largely keeping with slower population forecast
 - Underproduction shortfall not made up



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