

ECONOMIC OUTLOOK

Economic Summary

The U.S. economic expansion marches on, as does Oregon's. Next month marks the eight anniversary since the end of the Great Recession, making the current expansion the third longest since World War II. The good news is nearly all signs point toward continued growth in the near-term. Even so, there do remain significant risks to the outlook, particularly the uncertainty of federal policy.

In recent years Oregon's economy has been among the ten fastest growing states nationwide. That said, Oregon job growth has slowed considerably in recent quarters. While this slowdown has been built into our office's outlook for years, the severity of the slowing has been more than expected. No longer is the state adding jobs at nearly twice the national rate. Over the course of the 2017-19 biennium, Oregon is expected to continue to see healthy jobs gains – a bit more than 3,000 per month – and enough to keep pace with a growing population.

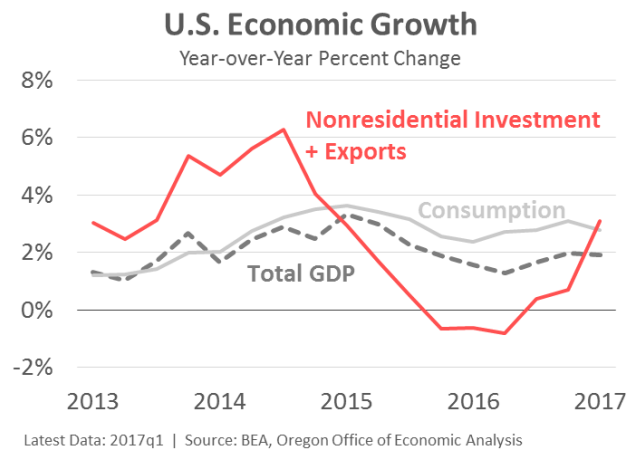
It is quite clear Oregon's growth has slowed, however, the rest of the economic and revenue data suggest the employment numbers may overstate any weakness. Oregon's economy is hitting the sweet spot, which only happens at or near full employment. Wages for workers are rising faster. In a tight labor market, firms must cast a wider net to fill openings. As such, job candidates who were previously passed over when unemployment was high are now finding work, this includes middle-aged Oregonians, the long-term unemployed, and the like. Importantly, these factors combine to generate strong household income gains in recent years. As such housing affordability has largely stopped getting worse, and poverty rates and needs-base caseloads are falling.

U.S. Economy

The economic expansion marches on. Next month marks the eighth anniversary since the Great Recession's technical end. More importantly, the U.S. has seen more than seven years of private sector job gains. While the recovery and expansion has been slow and steady, it is now the third longest expansion since World War II. The good news is nearly all signs point toward continued growth in the near-term. The consensus of forecasters are similarly sanguine about the probability of recession in the coming year, placing it at just 15 percent.

One bright spot is the return of growth seen in business investment and exports. These represented the weakest parts of the economy in recent years, following the oil crash that began in the second half of 2014. Given the ongoing domestic and global expansion, and the fact the dollar has stopped appreciating, both business investment and exports have begun growing again. Nationwide, goods-producing leading indicators picked up a year ago and remain in expansionary territory today. It is encouraging for continued growth that actual industrial production has turned up in recent months as well.

However, offsetting these improvements was a sharp slowing in consumer spending in early 2017, at least as reported in the GDP calculations. Other reports, like the Census' retail sales, show no sharp slowing, but a continuation of recent trends.



For much of the expansion, consumers have been a major driver given the ongoing strength in the labor market. Job growth is still outpacing population growth. As such the unemployment rate continues to fall. The tighter labor market results in stronger wage gains for workers, which supports consumer spending. These dynamics are expected to continue until the next recession. The outlook for consumption is relatively bright.

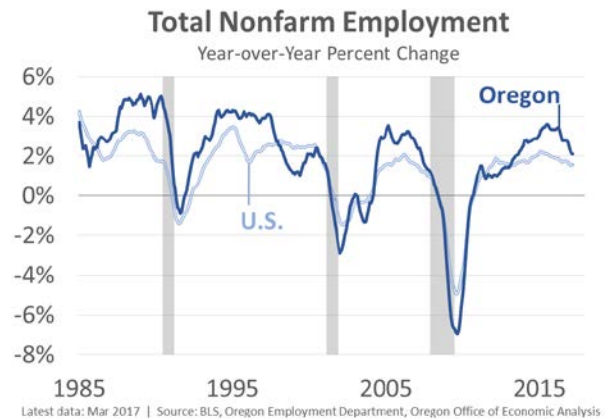
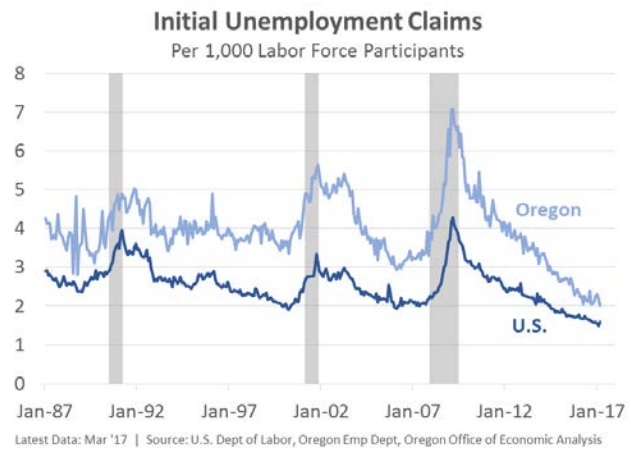
Overall the labor market remains in good condition, with both record low layoffs and record high job openings. The key economic question economists are trying to answer today is whether or not the U.S. economy is at full employment. In recent months both Moody’s Analytics and the economics team at Goldman Sachs have published analyses stating the U.S. is at full employment. More importantly, the Federal Reserve thinks the economy is close. As such, economists are beginning to watch more closely for data trends that point toward late business cycle behavior and potential recessionary signals. The U.S. economy is closer to the next recession than to the last. However no clear worrisome signals are seen in the data yet.

While nearly all economic news in recent months continues to be positive, there do remain significant risks to the outlook. Federal policy uncertainty looms large, however there has yet to be any real impact on what economic forecasters are predicting. Forecasters’ rhetoric about how potential policies may play out has ebbed and flowed with the political winds, however forecasters’ actual predictions for economic growth, jobs, personal income and the like have held steady throughout the turbulent first few months of the Trump administration and unified Republican government.

That said, as detailed last quarter¹, many of the big policy ideas being discussed generally fall into two camps when it comes to their impact here in Oregon. The first camp consists of policies like tax rate reductions, infrastructure spending, deregulation, and immigration reform, that will likely impact Oregon to the same degree as the typical state. The second camp consists of policies like tax base broadening, health care reform, federal land policies including Canadian lumber tariffs, and international trade wars that are expected to have a larger impact on Oregon than seen in the typical state. Campaign promises rarely turn word for word into legislation and the devil is always in the detail. As such, until actual legislation is drafted and passed, it can be hard to predict the economic impact of these broad and wide-ranging topics.

Oregon Economic

Like the nation, Oregon’s economic expansion continues. Oregon’s employment, income and state GDP are all among the ten fastest growing states nationwide in recent years. That said, Oregon job growth has slowed considerably in recent quarters. The state is no longer adding jobs at nearly twice the national rate like it was a year or two ago.



¹ See the March 2017 forecast document for details <http://library.state.or.us/repository/2009/200908311536431/>