

Economic Trends Analysis

Regional Context:



The City of Milwaukie functions in a regional economy that is influenced by broader economic trends and conditions in the Portland Metropolitan area and the nation. This section summarizes anticipated and observed national, state, and local trends and their likely influence on the Milwaukie economy.

Short-Term Trends:

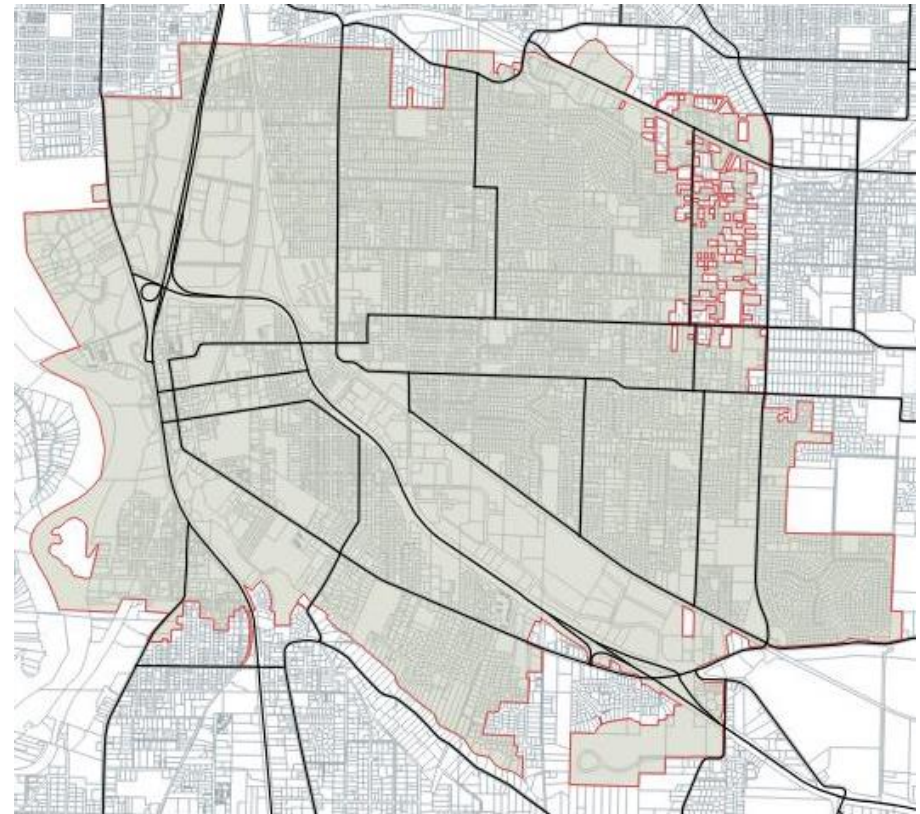
0 – 5
Years

An Economic Opportunities Analysis (EOA) is primarily focused on long-term structural cycles. However, the Portland Metropolitan area is currently exhibiting unprecedented trends across many metrics that are clearly indicative of structural changes in the regional status quo. Short term trends are easier to discern, as well as more relevant to current economic development needs.

Long-Term Trends:

0 – 20
Years

Economic growth in Milwaukie over the twenty-year planning period will occur in the context of long-term economic and demographic conditions.

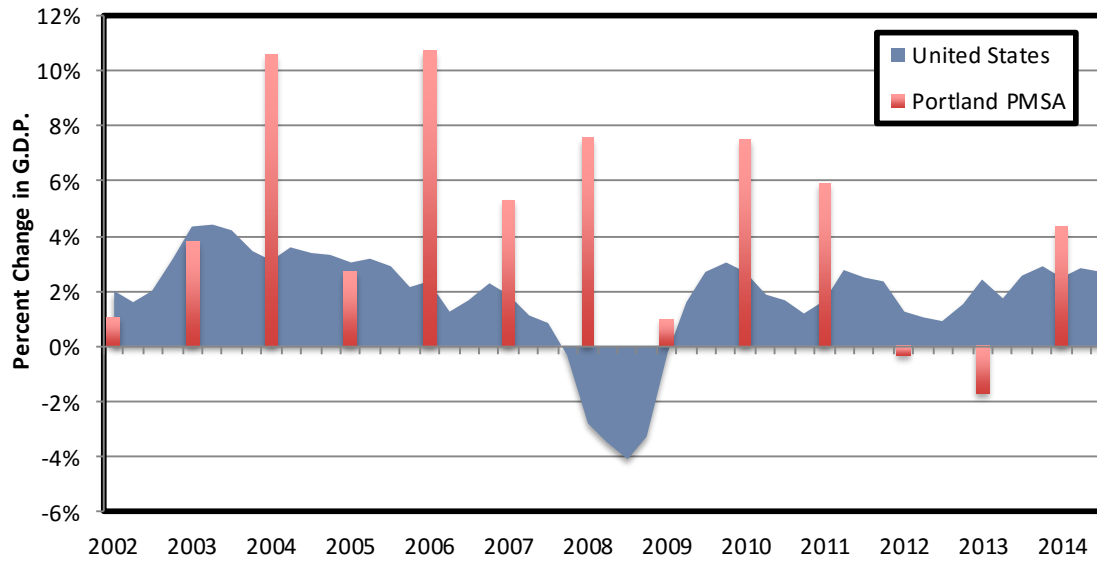


OAR-660-009-0015

The economic opportunities analysis must identify the major categories of industrial or other employment uses that could reasonably be expected to locate or expand in the planning area. This determination is based on local economic development aspirations, grounded in observed national, state, regional, county or local trends. This review of trends is the principal basis for estimating future industrial and other employment uses.

Economic Trends Analysis

Current Business Cycle Conditions—Output: U.S. Gross Domestic and Portland Metropolitan Product, 2002 through 2015



Source: U.S. Bureau of Economic Analysis (BEA)

The Great Recession officially brought six consecutive quarters of negative economic growth in 2008 and early 2009. The depth of and duration of this downturn was the most pronounced since World War II. The recovery and current expansion cycle has been particularly modest to date, as credit markets are more stringent, businesses are more cautious, and housing construction has yet to emerge as a driving catalyst.

While the narrative for labor markets is slightly different, recession era declines in output growth were less severe locally, a likely product of a high share of traded sector industries. Similar to previous cycles, inflection points in economic cycles continue to lag national trends by several years. For example, local negative output occurred in 2012-2013, not 2008-2009.

Over the near-term, the Congressional Budget Office (CBO) forecasts continued moderate growth in the 3% range, with long-term growth expected to be slightly lower than past expansion cycles¹.

Monetary Policy Outlook

The Federal Reserve (The Fed) uses monetary policy to influence business cycles to meet targets for employment and inflation. During the great recession The Fed employed unprecedented measures to stave off a financial crisis and repair economic conditions. In 2015, the Federal Funds Rate remains near 0%. With the current business cycle now in its sixth year, some economists are concerned that not coming off the zero bound will limit The Fed's ability to combat the next downturn.



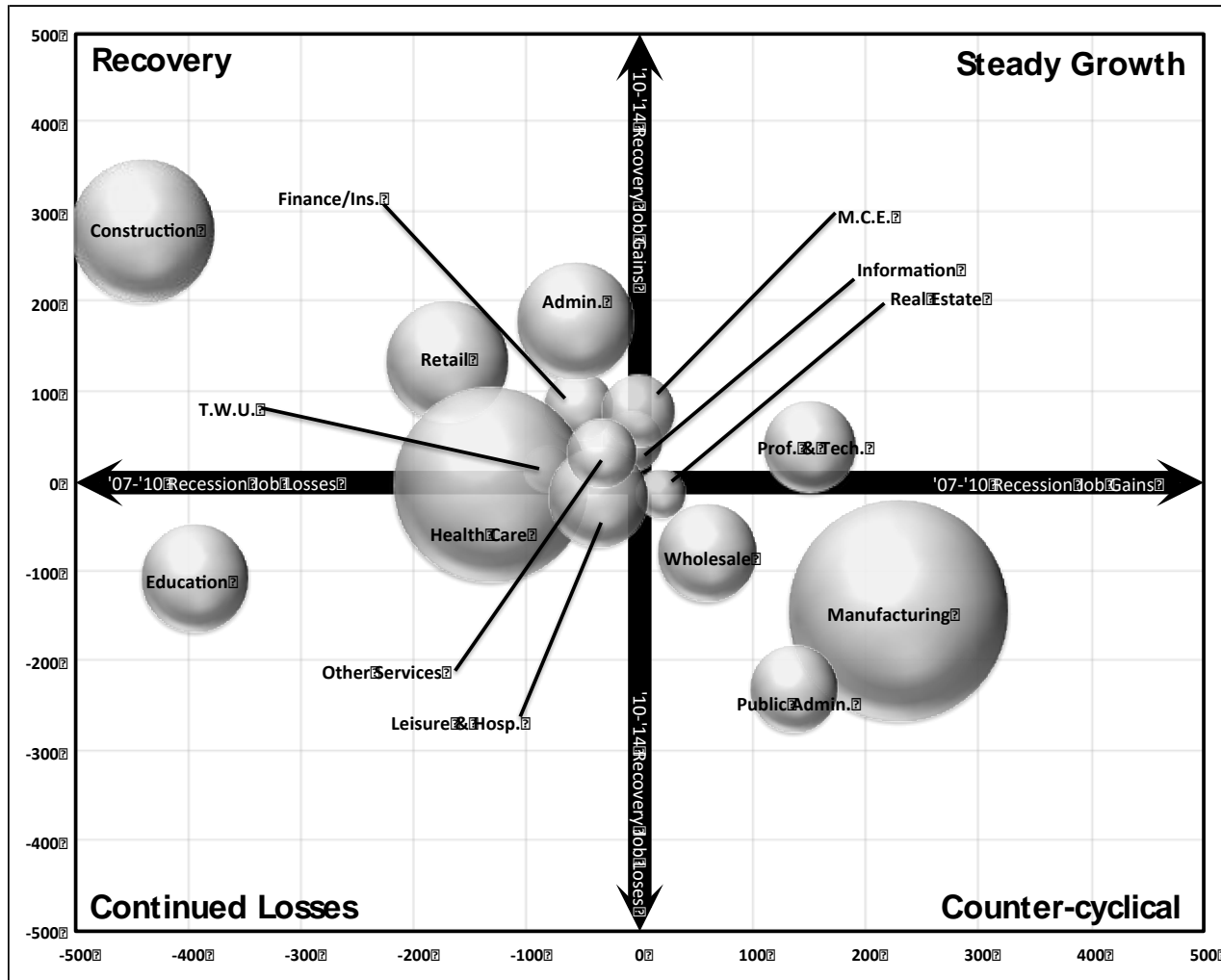
Impact on Milwaukie:

In the near-term, borrowing costs for local companies will increase over the next several years, as interest rates are allowed to trend upwards. However, this should occur in the context of continued economic growth. Milwaukie should see positive economic growth exceeding national levels through 2020. Pressure for increased housing density and business investment in capacity expansion will lead to growth in coming years.

¹ Congressional Budget Office, The 2015 Long-term Budget Outlook (June 2015)

Economic Trends Analysis

Current Business Cycle Conditions—Labor Market Recovery by Industry Sector, Milwaukie, Oregon (2010-2014)



Source: Oregon Employment Department and Johnson Economics

Most cities in Oregon experienced negative employment growth between 2007 and 2010. And Milwaukie was no different. During this period the City shed over 6.3 percent of its job base. Most of the City's industries were affected, led by construction, education, retail, and health care. Declines in health care and subsequent lackluster recovery is surprising, as health care maintained steady growth through the recession in most markets. Equally surprising is the counter cyclical nature of the Milwaukie's manufacturing base. We can likely attribute this to the industry's dominance by large firms who tend to be more resilient.

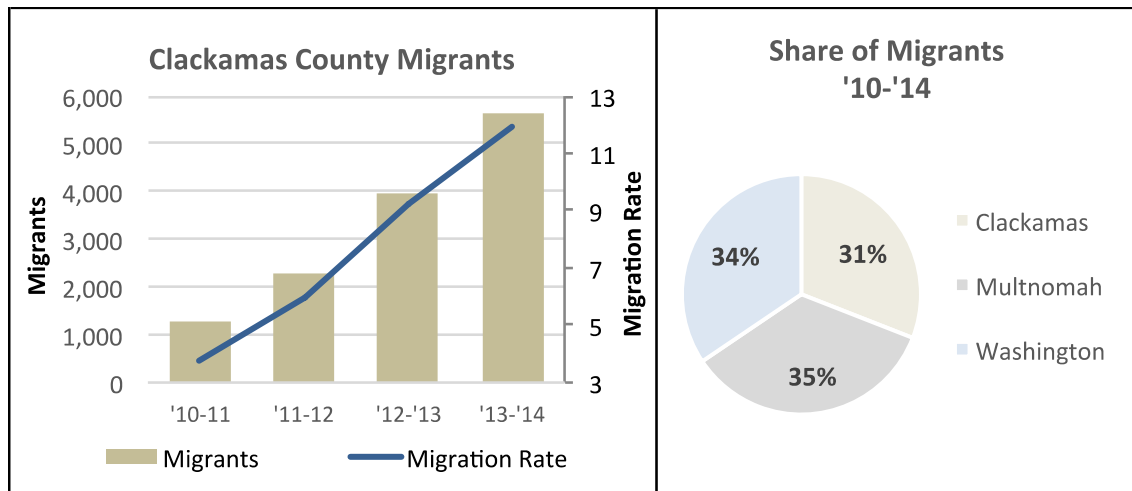
Despite recovery in many industries, Milwaukie is still roughly 500 jobs below the pre-recession peak.

Impact on Milwaukie:

On whole, future business cycles in Milwaukie are likely to follow regional trends. However, recent experience suggests that on an industry sector basis, local trends deviate for some industries from the status quo. With the exception of a few sectors (construction, education, manufacturing), employment volatility was relatively moderate through what has been dubbed the worst economic recession since the depression. Lower volatility provides greater certainty throughout business cycle inflection points.

Economic Trends Analysis

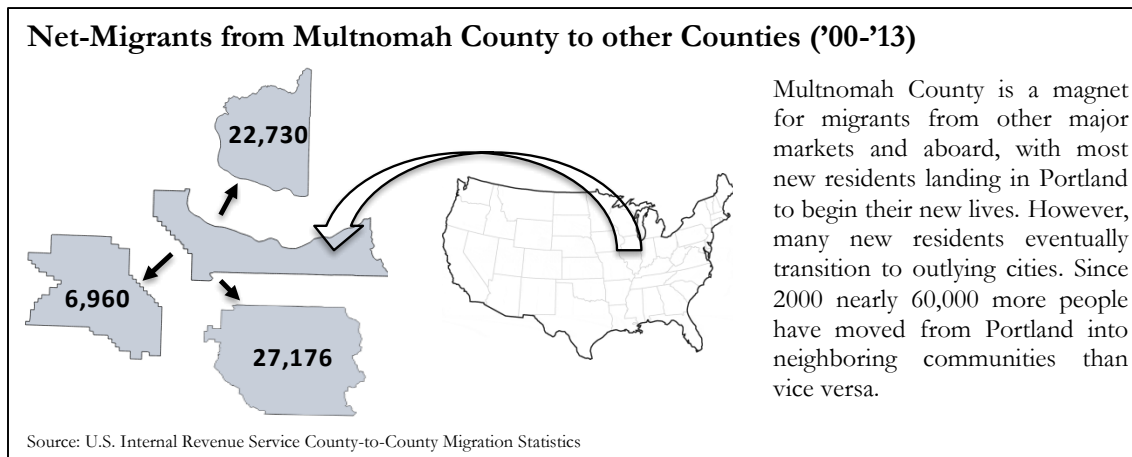
Migration Trends—Clackamas County and the Portland Metropolitan Area



Commensurate with economic expansion and increased employment opportunities, migration into Clackamas County from other regions in the United States and abroad has accelerated rapidly. Since 2010, Clackamas County has accounted for 31 percent of new migrants to the region and nearly 15 percent of all net-new migrants to the state of Oregon.

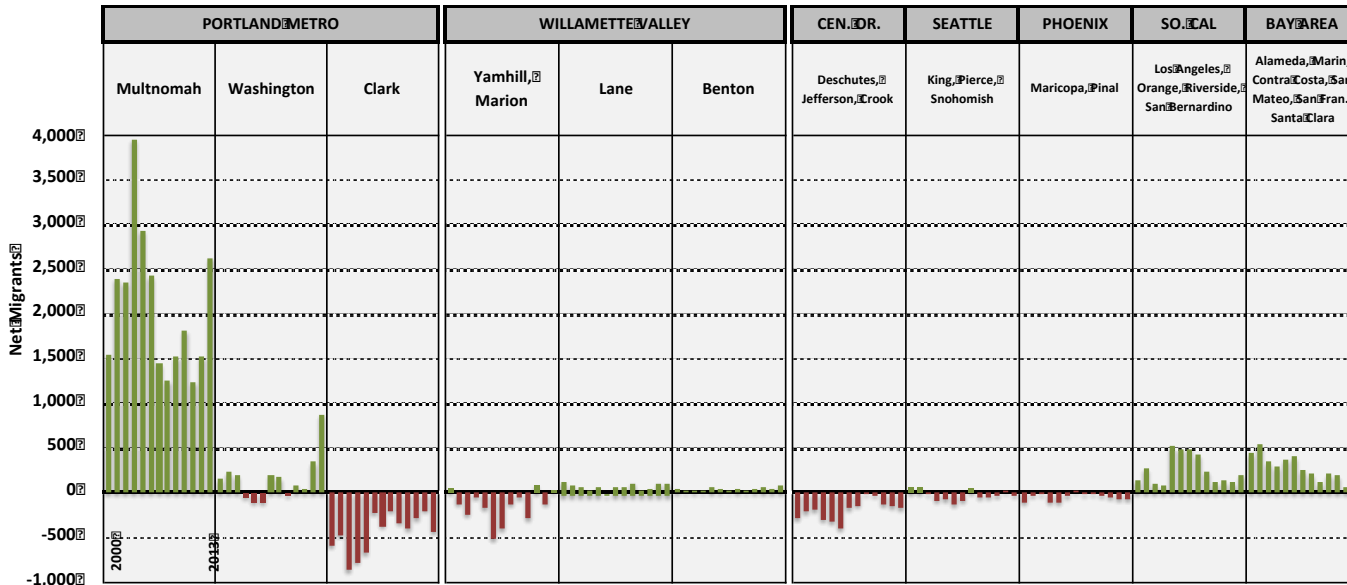
For much of Oregon, the aughts were defined by high rates of net in-migration, averaging between seven and eight persons per 1,000 residents annually at both the local and state level. In the current decade, net in-migration rates in Clackamas County have exploded to nearly 12 persons per 1,000 between 2013 and 2014. This is among the highest migration rates in Oregon and the highest in the Metro area.

Multnomah County—The Metro Region’s Ellis Island



Economic Trends Analysis

Net Migration Between Clackamas County and other Major Markets, 2000 through 2013



Source: U.S. Internal Revenue Service County-to-County Migration Statistics

Impact on Milwaukie:

A history of strong net-migration coupled with a rosy outlook is indicative that migration-driven population growth in the region is likely to continue throughout the planning period. While the extent to which this will translate into increased household growth in Milwaukie through increased density remains to be seen, regional pressure will be there. This is a positive sign for industries that derive a significant share of their support from the local population base. This includes health care, retail, food services, education, financial services, housing construction, and most of the other services sector.

Multnomah County has also exhibited a doubling of its migration rate in recent years. Given the systematic relationship of flows between Clackamas and Multnomah, an above average influx of inter-region migrants should be expected over the next five years.

The figure aside exhibits net-migration flows between Clackamas County and the primary markets from which people have “flowed” in and out of since the start of 2000. The connection to the rest of the Portland region is as expected, with heavy inflows from Multnomah County and outflows to areas with lower housing costs in Clark County and the Willamette Valley. Persistent inflows from Lane and Benton counties are likely the result of student migration from the University of Oregon and Oregon State University.

Clackamas County’s relatively older age profile is also reflected in outflows to Central Oregon, a hotbed for retirees.

Between other major markets, Clackamas County is a slight exporter of residents to both Seattle and the Phoenix area. However, a considerable share of net-migrants originates from California’s two largest markets.

Economic Trends Analysis

Potential for Future Growth—Has Milwaukie been Discovered?

The Portland region is going through an unprecedented transition, with strong net-migration impacting the character of communities and placing regional pressure to expand housing and commercial development stock. In part the result of a billion-dollar transit investment to link the community with the Portland Central City, the community of Milwaukie is shaping up to play a considerable role in accommodating growth.

During the current housing cycle, median home prices in the Portland Metro area have climbed rapidly, growing from \$221,000 in 2012 to \$306,000 in 2015, an increase of 30%. Rental apartment rates have followed a similar trajectory. Price appreciation in both cases is driving more residents to look into secondary markets with strong connectivity and community “bones”. The data would suggest Milwaukie fits that mold. Over the same period home sale velocity in Milwaukie increased 31% with median prices growing by 43% since 2012. This trend is even further pronounced within station areas (defined here as within a half-mile radius of a light rail station). Since 2012 station areas have seen a 66% increase in home sales and 51% increase in median prices. Price appreciation has been greatest near the Milwaukie/Main station which saw a 69% increase in median sale price. This conditions indicative of several factors that will influence economic conditions over the planning period:

Underlying Demographics

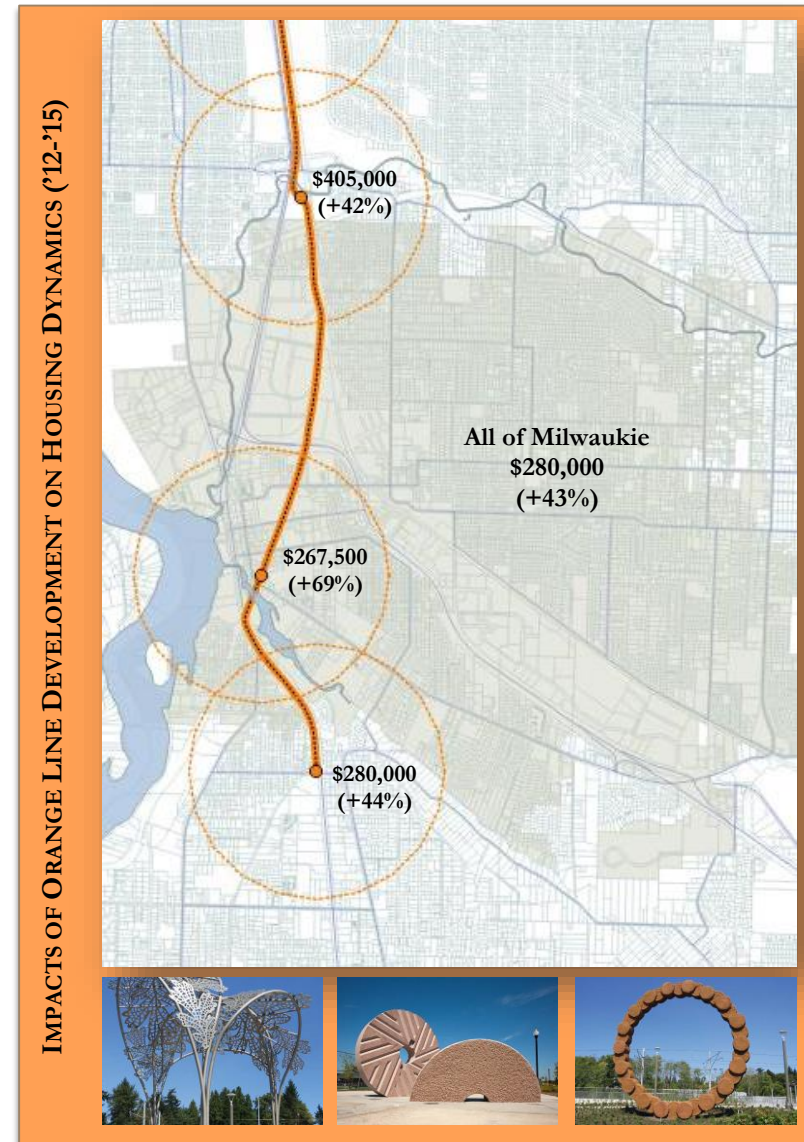
In addition to growth in the number of “rooftops” in the community, Milwaukie is likely to exhibit an uptick in median resident incomes as well. Affordability relative to proximate markets will also likely begin to attract a younger demographic base as a segment of Millennials begin to establish families. Combined these effects will create additional demand for retail goods and other household services.

Retail Tenant Types

By extension, a younger and more affluent demographic base will in turn begin to attract a different mix of retail and leisure tenant profiles.

Transition of Product Types

All else equal, increases in achievable pricing will translate into greater redevelopment potential. In combination with economic development tools an uptick in redevelopment in strategic areas will be increasingly likely.



Economic Trends Analysis

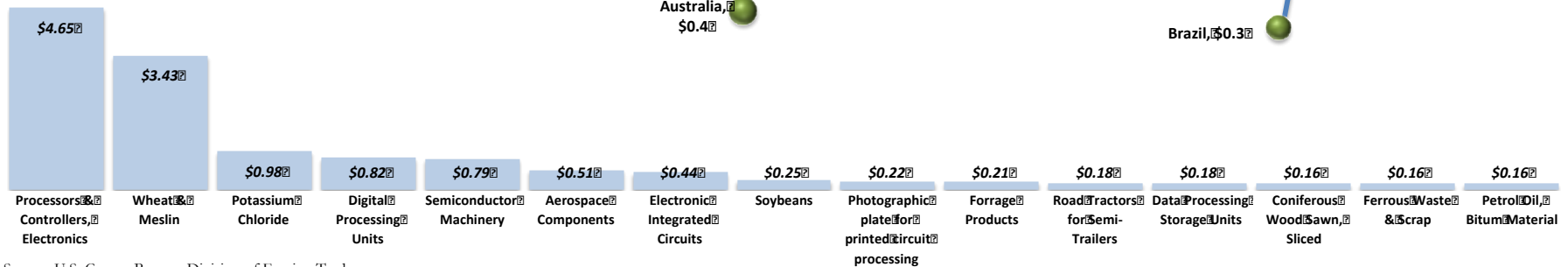
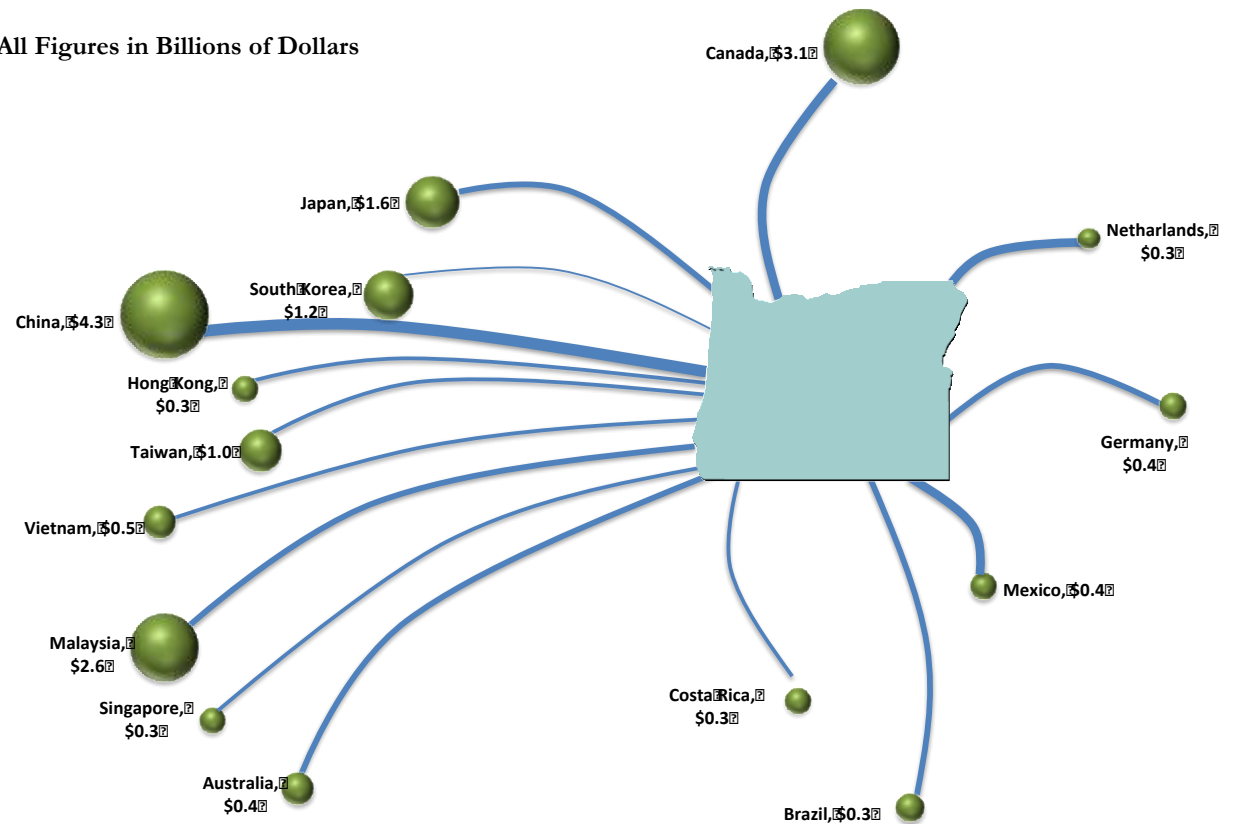
Oregon Exports: The Connection to a Global Marketplace (2014)

Oregon's Economic health is largely connected to growth in the export market. This is especially true in Washington County, which accounts for a considerable share of Oregon's traded-sector output. In 2014, Oregon's total export value reached nearly \$20.8 billion, a 12.1 percent increase over the previous year. Recent export growth has been driven by increased trade with China (+34%), Canada (+15%), Malaysia (+16%), Vietnam (+94%), and the emergence of trade with the United Arab Emirates (+224%).

With the exception of Canada, Oregon's second largest export partner, Oregon businesses are largely connected to eastern Pacific Rim economies that produce high-tech goods.

Oregon primarily exports computer & electronics products, led by semiconductors & equipment, agricultural products, transportation equipment, and wood products.

All Figures in Billions of Dollars



Source: U.S. Census Bureau, Division of Foreign Trade

Economic Trends Analysis

Oregon Exports: Economic Growth of World Markets

In 2014 Oregon exported over \$20.8 billion dollars in products. Economic development leaders in the region are confident that there is more room for growth. Increasing exports has become a central component of regional economic development strategies. The connection of export growth to job creation is clear; the Oregon Office of Economic Analysis estimates that 86,500 jobs are directly supported by Oregon exports. A key element in the Greater Portland Export Plan is catalyzing under exporting firms, emphasizing creation of global opportunities for small and medium sized firms.

“We are looking at 10,000 new jobs [U.S.] in manufacturing and engineering... and up to 40,000 jobs across our supply chain.”

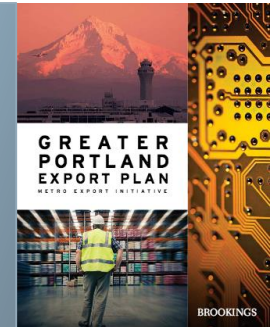
- Mark Parker, CEO Nike Inc. on the T.P.P

In 2015, negotiations were underway for the Trans-Pacific Partnership, a free-trade agreement with twelve Pacific Rim countries, including seven of Oregon’s top fifteen trading partners. Over 31 percent of all Oregon exports are currently with existing FTA partners, a full one-third increase in ten years. If approved, the agreement could expand Oregon’s export potential markedly.

While many structural conditions are in place to facilitate strong export expansion, prospects for growth are not without risks. Most notably, on-going and reoccurring labor disputes threaten to undermine the stability and certainty of exporting firms in the Portland market. A long-term resolution and return of shipping business will be necessary for the region to meet its export goals. A strengthening U.S. dollar has also begun to erode export growth, a condition that will persist over the intermediate-term.

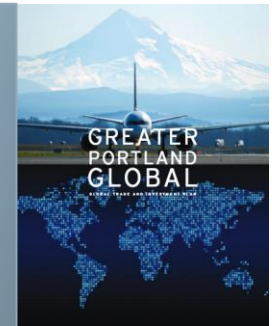
Greater Portland Export Plan (Four Strategies):

1. Leverage Primary Exporters
2. Catalyze Under Exporters
3. Build a Healthy Export Pipeline
4. Branding



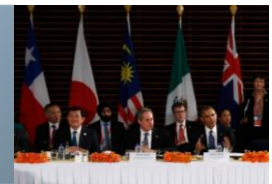
Greater Portland Global

A joint project between the Brookings Institute and JP Morgan Chase. The plan’s focus is on the interaction of exports and Foreign Direct Investment (FDI). A key finding was that excluding Japan; the region lacks FDI out of Pacific Rim partners.



Trans-Pacific Partnership

The largest FTA since NAFTA. Agreement between 12 Pacific Rim countries to lower trade barriers and expand markets.



Labor Disputes

Labor dispute between the longshore union and ICTSI led to the loss of the Port of Portland’s two largest container carriers, resulting in an 84 percent drop in container traffic.



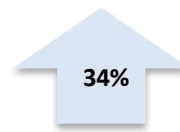
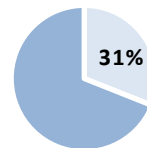
Impact on Milwaukie:

The manufacturing economy in Milwaukie has been, and will continue to be, highly reliant on global marketplace trends. On the positive side, expanded wealth and purchasing power in emerging markets on the Pacific Rim and in Latin America should continue to drive demand for products and services made locally. However, this reliance goes hand-in-hand with exposure to global instability and volatility.

In the near-term, a stronger dollar will temper export growth, as U.S. products are more expensive to foreign buyers. In the long-term, structural conditions and economic development initiatives are in place for continued export growth.

\$20.8 BILLION EXPORTED

Share of Exports to FTA Partners **10-Year Change**



Source: Oregon Office of Economic Analysis

86,500 JOBS SUPPORTED

Economic Trends Analysis

Oregon Economic Outlook

The Oregon Office of Economic Analysis produces a forecast outlook for the Oregon economy on a quarterly basis. Information here is largely derived from these reports and other third party sources.

Both of the indices that track economic conditions in Oregon continue to signal positive growth on the horizon. Unemployment levels are at their lowest levels since January 2000. Several indicators have recently moderated, specifically housing starts and business investment. However, these areas are broadly expected to turn positive beyond 2016.

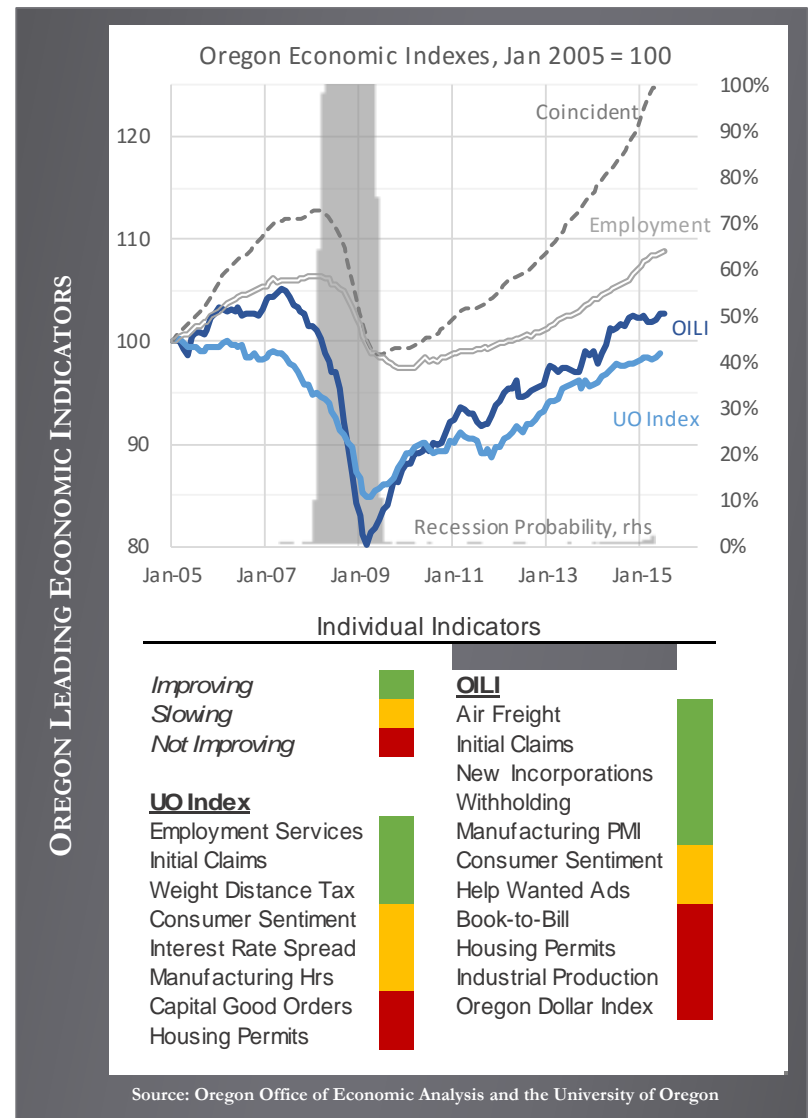
The near-term economic outlook for Oregon calls for stable employment growth in the neighborhood of 3 percent annually. Private sector growth will be driven in large part by gains in service employment; however, goods producing industries will grow at above average rates. Over the intermediate-term, Oregon's GDP is forecasted to be the third fastest among all states through 2020 at 3.8 percent annual growth. Manufacturing employment growth is expected to be the second fastest in the nation at 1.8 percent annual growth.

Forecast Risks:

- Federal austerity will have a downward pressure on growth. However, federal cuts will impact Oregon to a lesser degree due to an overall lower federal presence.
- The extent that housing construction will maintain pace with growth in demand.
- The European debt crisis will continue to act as a drag on global economic growth. A worsening of conditions will amplify this impact.
- Commodity prices remain low relative to recent highs but could trend upward.
- Other unforeseen global price shocks.
- Exit strategy from fiscal stimulus.

Impact on Milwaukie:

The direction of the local economy will generally move in line with state trends. Economic indices measure the health and direction of many elements of the economy. Inflection points in these series can act as warning signs of cyclical fluctuation. Current strength across most metrics signals that we can be fairly confident in a strong short-term growth forecast in Oregon and more specifically in Milwaukie.

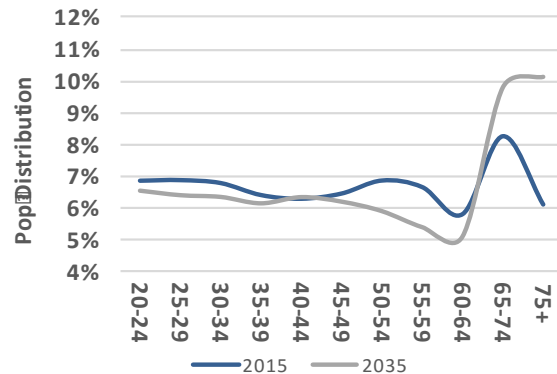


Economic Trends Analysis

Demographic Shifts—Impact on Labor Market Availability

Aging of the Workforce

The aging of the Baby Boomers into their retirement years will perhaps be the greatest challenge to the U.S. economy over the planning period. By 2035 the share of the population age 65 and older will balloon to 21 percent, up from 14.5 percent today. The effects of this condition will be a decline in labor force participation, an increase in federal liability for health care services, and an increased need for replacement workers.



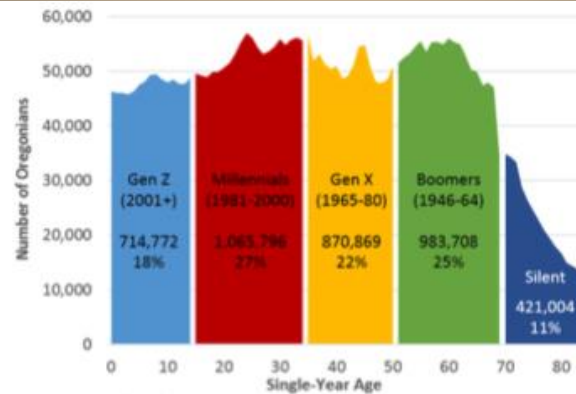
Source: U.S. Census Bureau, Population Division

Impact on Milwaukie:

Milwaukie’s population is roughly on par with the metro area in the 25-34 age range. However, the City is slightly skewed toward a lower concentration of families and higher concentration of older residents. Given the manufacturing concentration in the economy, demographic challenges in the workforce may be more exasperated locally.

Millennials

Millennials are now the largest demographic segment in the United States, comprising 27% of all residents and an even greater share of net-migrants. Leading into and during the Great Recession, this cohort faced a woeful labor market. Many opted to enter or continue post-secondary education, at which point the college enrollment rate for 18-24 year olds rose from 37 to 42 percent.



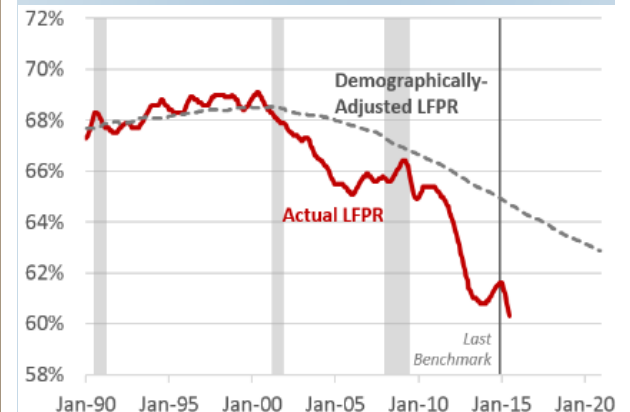
Source: Oregon Office of Economic Analysis

Impact on Milwaukie:

The Millennials represent a demographic “blip” that is both large and better educated than previous generations. As they move into their most productive working years, they will be instrumental in driving up productivity per worker through innovation. Communities like Milwaukie with an affordable housing stock, a proximity to the central city and an ability to attract Millennial populations will have a competitive advantage.

Labor Force Participation (LFP)

The aging of the labor force as well as generational preferences are putting downward pressure on the labor force participation rate. This rate measures the share of the working age population that is employed or is actively seeking work. In 2015 Oregon’s rate of 60.2 percent was the lowest on record. The “participation gap” is the difference between actual LFP and where LFP should be given underlying demographics. Currently this gap is quite large, structurally reducing potential output in the economy.



Source: Oregon Office of Economic Analysis

Impact on Milwaukie:

Companies in Milwaukie will have increasing difficulty finding trained labor. High migration will be necessary to accommodate needs. Difficulty finding labor may accelerate investments in capital to replace labor. The economy overall is at greater risk of performing below potential.

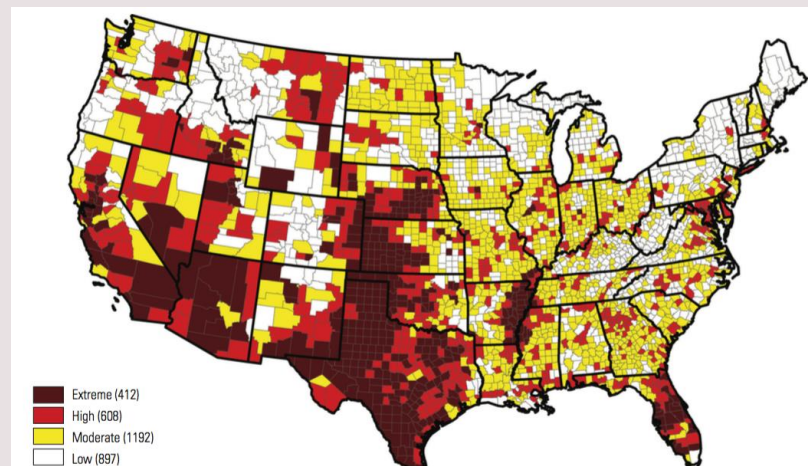
Economic Trends Analysis

Long-Term Migration from Other States and Abroad

The Pacific Northwest: A Climate Refuge?

Continued in-migration from other states will maintain sustained growth in population and labor force locally. Long-term, an acceleration of net-migration rates is increasingly likely in the context of water resource constraints in the U.S South and Southwest. The Pacific Northwest, and more specifically the Willamette Valley is among the only regions in the United States with an overall low risk of future water resource constraints. The ability of population centers in the South and Southwest to accommodate projected population growth is questionable, with proximate high resource areas like Oregon being a likely outlet to accommodate future growth.

Water Supply Sustainability Risk, 2010 through 2050



Source: Natural Resource Defense Council (2010)

Global Impacts on Migration

Rising globalization has driven growth in emerging economies over the last twenty years, specifically in China, Southeast Asia, India, Latin America and some African countries. This growth has increased incomes and purchasing power in many parts of the world. With incomes in emerging economies expected to grow at an accelerated rate relative to the U.S. over at least the next 50 years, the differential between domestic and foreign incomes and standards of living will certainly decrease.

Impact on Innovation & Entrepreneurship

The effects of lower international migration could potentially have adverse impacts on innovation in America over the long-term. Foreign-born residents have been found to be twice as likely to start a business compared to domestic counterparts. In the high-tech sector, 25 percent of U.S. tech & engineering companies started over the last 20 years had at least one immigrant founder.

Source: Wadhwa, Vivek, et al. *America's New Immigrant Entrepreneurs*, 2007

**Foreign Born
Founded
Businesses**

**2x
more likely**

While undoubtedly a positive for reducing poverty and increasing global demand for goods and services (some of which are produced in the United States), the improved incomes of emerging countries will reduce the competitive labor advantages of those nations. Many who otherwise would chose to migrate to the U.S. for better opportunities will begin to find those opportunities at home—resulting in lower rates of international migration to the U.S. Over the last 25 years roughly 35 percent of population growth in the U.S. was derived from international migration.

Economic Trends Analysis

Reshoring Prospects: Reimagined U.S. Manufacturing

The offshoring trend that occurred over the last half century saw firms capitalize on the cost advantages of labor and to some extent materials in foreign markets, resulting in a shift in production and investment abroad. This phenomenon extended beyond production activities and into some back office functions (i.e. call centers, IT Services, etc.) to shift millions of jobs into emerging markets.

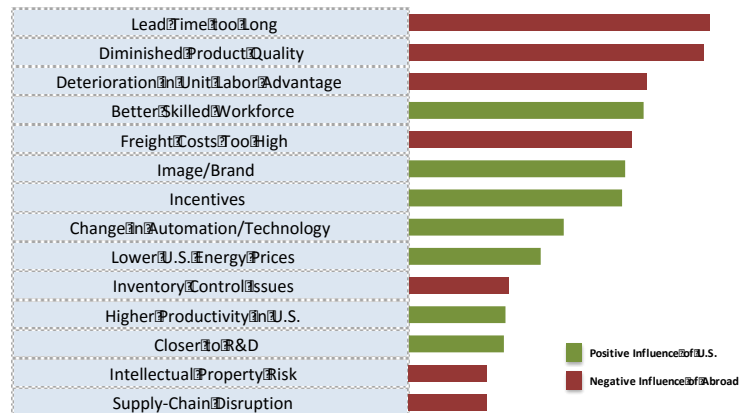
This offshoring trend has begun to decline over the last decade, with companies facing mounting challenges to their offshore production functions. New offshoring activity is down 70 percent for the decade with new reshoring activity up 1,500 percent, representing 30,000 to 40,000 new jobs in 2013. New Foreign Direct Investment (FDI) added 20,000 jobs nationally².

The key premise behind reshoring is that closeness to product design, reduced order cycles and lower costs of carrying inventory in the pipeline should offset higher absolute production costs."

-M.I.T. Sloan Management Review (2014)³

The most commonly cited challenges to sustained foreign production are a deterioration of unit labor cost advantages and increasing times to market. Many manufacturing processes are also transitioning toward higher capital utilization that requires a more technically skilled labor force. These conditions have found the United States back in the game for siting manufacturing facilities domestically.

Influences on Reshoring Decision of Reshoring Firms



Source: Reshoring Initiative Library of Reshoring Firms (2014)



Source: M.I.T Forum for Supply-Chain Innovation. Survey of 340 large U.S. based manufacturers with production in foreign markets⁴

What Makes the United States More Attractive?

Transportation Costs & Domestic Demand:

The U.S. wealth advantage will persist over the foreseeable future, maintaining depth as a consumption market. Products with domestic demand and low value to weight ratios have the most difficulty absorbing higher transportation costs.

Domestic Energy Costs:

Relatively cheap energy in the U.S., in part a function of the shale revolution and natural gas reserves could translate into 1.0 to 1.5 million manufacturing jobs through 2035.⁵

Supply Chain Risk:

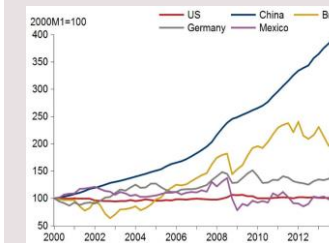
The United States' geographic diversity protects well against supply-chain shocks (i.e. Japanese Earthquake, Thailand Tsunami, etc.)

Regulatory Environment & Taxation:

Better legal protection of intellectual property and more favorable tax climate.

Talent & Workforce:

The United States still maintains a strong institutional advantage over other manufacturing nations in training and expertise infrastructure. Historic labor cost advantage of emerging economies is deteriorating.



Unit Labor Costs in Manufacturing, U.S. and major Manufacturing Markets

Source: Oxford Economics/Haver Analytics

2 Moser, Harry, "To Reshore or Offshore: How to Objectively Decide," The Reshoring Initiative January 2015
 3 Shih, Willy C. "What It Takes to Reshore Manufacturing Successfully" MIT Sloan Management Review 56, no. 1 (Fall 2014): 55-62.
 4 Simchi-Levi, David. "U.S. Reshoring, a Turning Point." MIT Forum for Supply Chain Innovation. Web. 2012
 5 Pricewaterhousecoopers. "Shale Oil, the Next Energy Revolution" (2013)

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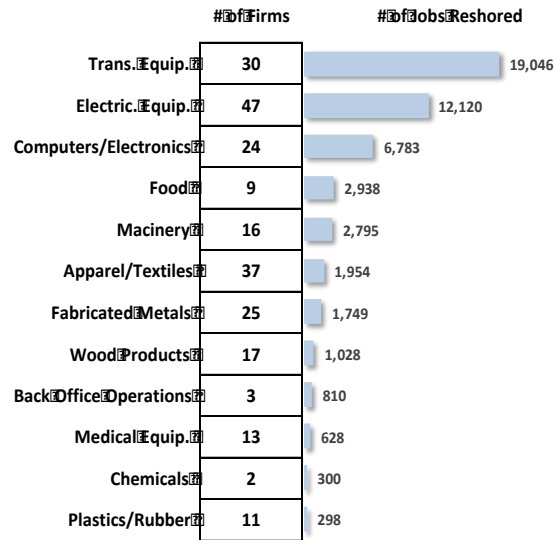
Reshoring Prospects: Observations and Outlook:

According to the Reshoring Initiative, a non-profit organization dedicated to bringing manufacturing jobs back the United States, high-technology and transportation equipment are the most common industries finding value domestically. Specifically, in the high-tech sector, non-cost factors such as reestablishing linkages between R&D and production have been found to improve product design and accelerate innovation⁶. A recent analysis of leading manufacturing “boomtown” markets ranked the Portland-Vancouver-Hillsboro MSA the 10th best market for manufacturing revival in the U.S.⁷



Companies that have reshored manufacturing operations in recent years.
Source: Boston Consulting Group

Reshoring Activity by Industry Since 2007



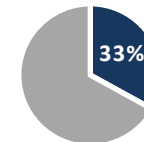
Source: Reshoring Initiative Library of Reshoring Firms (2014)

Reshoring Outlook

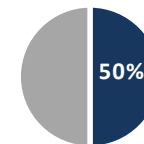
The extent to which reshoring is a permanent phenomenon that will continue or perhaps accelerate remains to be seen. What is clear is that reshoring will be limited to sectors where it is most advantageous. Specifically, firms with low labor force utilization in their production activities that can capitalize on the United States’ growing energy advantage will see the biggest shift. Firms with less reliance on foreign demand will also find advantages. Many large corporate manufacturers are now considering domestic production operations. The primary impediments to reshoring will be reestablishing an eco-system around supply chain infrastructure as well as overcoming labor skill atrophy. Local and state governments can strengthen their appeal to reshoring firms through favorable corporate tax structures, incentives for R&D, education & training assistance, and investments in infrastructure.

PRIMARY INDUSTRIES IMPACTED

- Appliance & Electrical Equip.
- Computers/Electronics
- Transportation Equipment
- Next Gen Textiles/Wearables
- Furniture
- Fabricated Metals
- Plastics & Rubber



Executives surveyed at companies of **more than \$1 billion** that are planning or considering reshoring



Executives surveyed at companies of **more than \$10 billion** that are planning or considering reshoring

Source: Boston Consulting Group

⁶ Shih (2014)

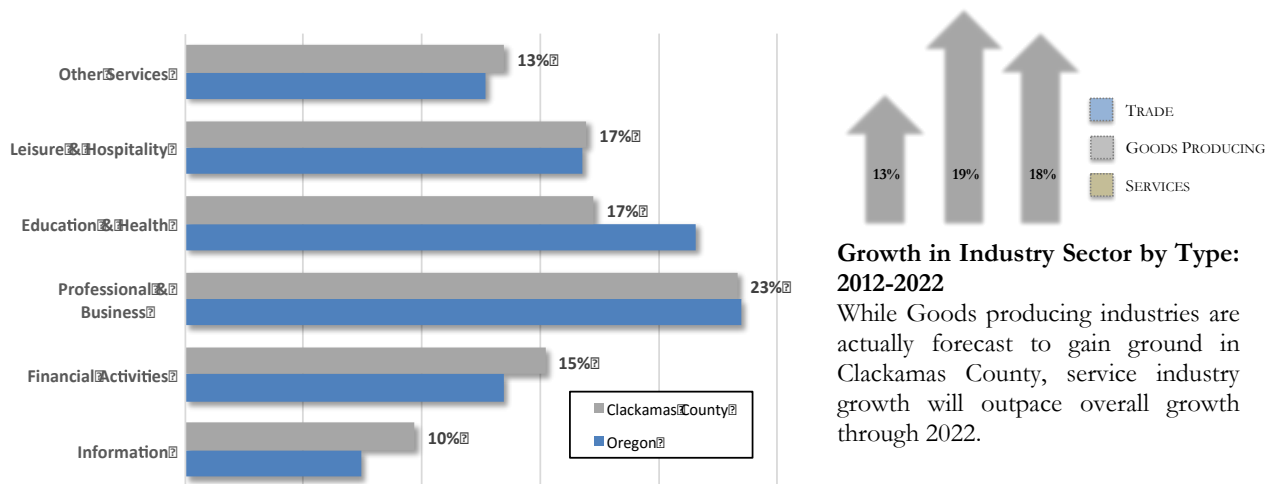
⁷ <http://www.forbes.com/sites/joelkotkin/2015/07/23/the-cities-leading-a-u-s-manufacturing-revival/>

Economic Trends Analysis

Shifts in Industrial and Occupational Composition

While renewed optimism for the manufacturing economy is a positive sign for goods producing sectors, the U.S. economy will continue to be driven by service industry growth. Through 2022, estimates from the Oregon Employment Department suggest service industry growth will increase by 18 percent. Growth rates will be most pronounced in Leisure & Hospitality, Health Care and Professional Services.

Estimated Growth in Service Sectors (2012-2022)



Source: Oregon Office of Economic Analysis, 2012-2022 Occupational Demand Forecast

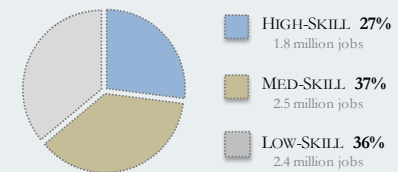
Changes in Occupational Demands⁸

Over just the next two years, 37 percent of job demand (2.5 million jobs) in the United States economy is expected to be for medium-skilled workers, a significant shift from previous years. These positions often require Associate's level training or specialized training programs ranging from 12 to 24 months, with many paying above median family wages.

For lower-skilled workers, demand forecasts are also high. However, low-skilled jobs ranging from cashiers to mechanical assemblers are at the greatest risk of becoming automated. Up to 70 percent of low-skilled jobs are at risk of being automated over the next 20 years.

New U.S. Jobs

Middle-skill jobs are expected to make up the largest share of new jobs in coming years.



Impact on Milwaukie:

The ways that firms across all sectors utilize labor will continue to change in coming cycles. Automation and capital investment will continue to drive gains in productivity per employee, partially overcoming demographic and labor force challenges on the horizon. Forward looking communities will be cognizant of these shifts, working with local colleges, training institutions, and even major employers to tailor workforce skills around shifting occupational needs. A focus on medium and higher-skilled occupations with a low risk of becoming automated will be critical. From a land use perspective, higher rates of capital utilization could mean lower employment densities and unforeseen shifts in the way firms utilize commercial/industrial space and land.

8 U.S.A. Today Series, "Where the Jobs Are?" (2015) <http://www.usatoday.com/topic/9f65db3e-8cf8-4180-a9fe-cb96dfbba681/where-the-jobs-are/>

Economic Trends Analysis

California Disinvestment in Services, Software, & Technology

While the Portland Metropolitan Area has benefited from California driven resident migration for many years, recent experience would suggest that California business migration is a relevant economic driver as well. High business taxes and stringent regulatory policies have made business increasingly costly in California, with many companies considering relocations, outposts, or future expansion in lower cost markets. A recent survey of California disinvestment events found as many as 9,000 businesses or business divisions have left California over the last seven years⁹. This trend is increasingly common in the software/technology sectors, where Silicon Valley strongholds are establishing lower cost West Coast outposts in high-talent markets. The Portland Metropolitan Area is a strategic market to capture these expansion opportunities, offering abundant talent, less competition, high quality of life, and a cultural connection to many of these firms' ideals.

Portland Metro Rank in Capturing California Disinvestment Events

Portland is among the top landing spots for California disinvestment events. The Portland-Vancouver-Hillsboro MSA ranked 6th in the top landing spots for California firms (31 events). By municipality, Portland ranked 7th.

Portland Metro Rank in Capturing California Disinvestment

6th

TOP WESTERN LOCATIONS (MSAs) CAPTURING CALIFORNIA DISINVESTMENT



California Service Companies and Announced Capacity Jobs Entering the Portland Metro Market (2008-2015)

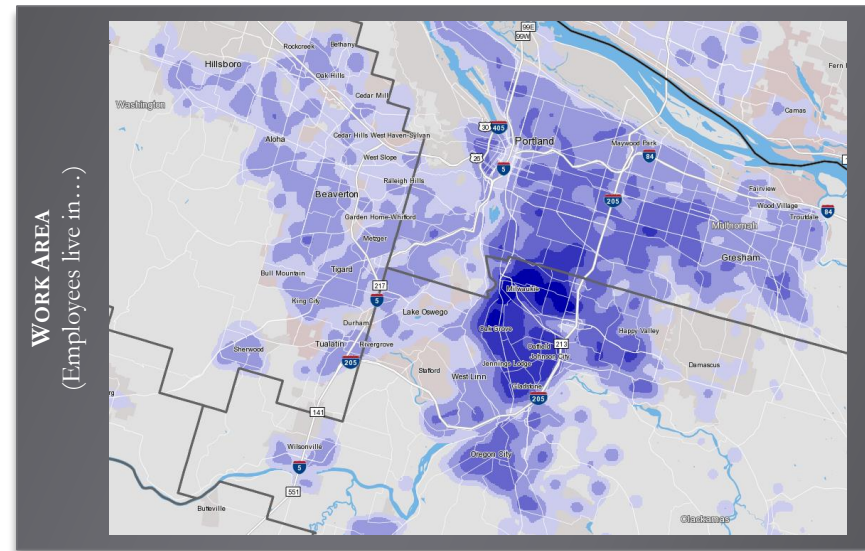
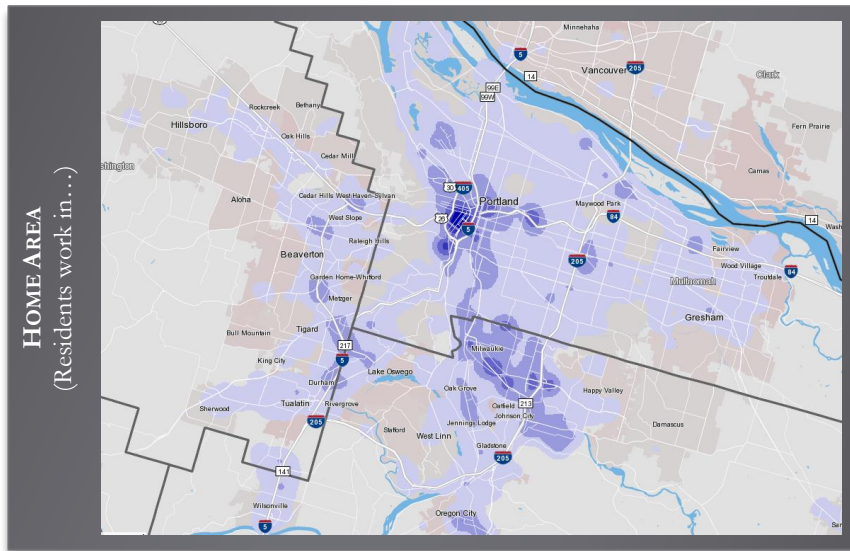


⁹ Vranich, Joseph. "Businesses Continue to Leave California: a Seven-Year Review", Sproctrum Location Solutions (2015)

Economic Trends Analysis

Commute Patterns—City of Milwaukie

Commuting patterns are an important element in the local economy. They are indicative of the labor shed companies can draw workers from, the extent to which job creation translates into increased demand for housing, goods, and services, and the overall balance of population and employment in the community. Overall, Milwaukie has a broad labor shed, drawing workers from western Multnomah and northwestern Clackamas County. The combination of the Willamette River and access to the westside generally limits Milwaukie’s access to Washington County labor markets. In Milwaukie, roughly 63 percent of the workforce lives within 10 miles of their job.

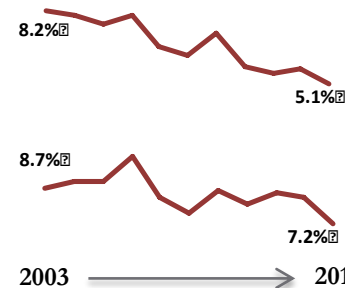


Inflow-Outflow Map (2013)

Most workers in Milwaukie live elsewhere in the region, but within a 10-mile buffer. Workers take advantage of ample quality housing stock in Southeast and Northeast Portland.



Source: U.S. Census LEHD Program

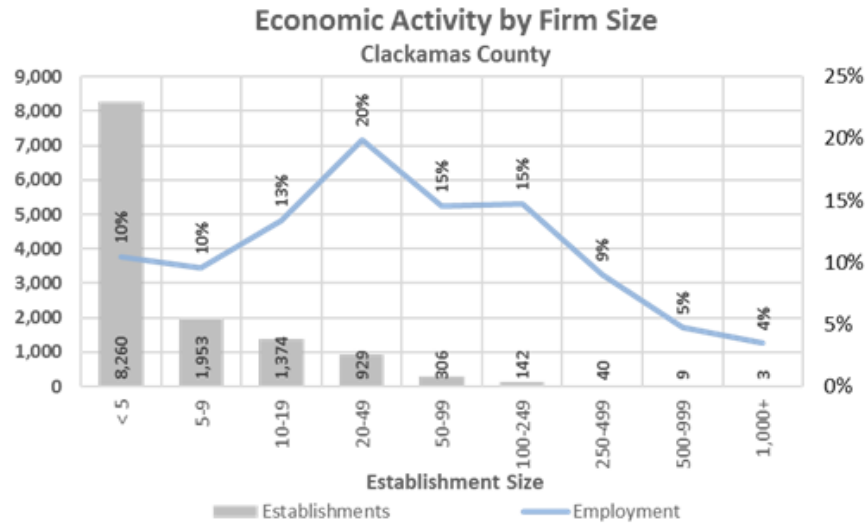


Employment Efficiency measures the share of workers in Milwaukie that live in the community. Fewer workers are choosing to live locally.

Labor Force Efficiency measures the share of residents who work in the community. Fewer Milwaukie residents are finding jobs locally.

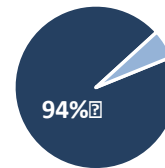
Economic Trends Analysis

Small Business and New Business Formation

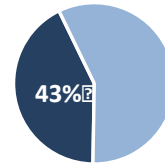


Source: Oregon Employment Department Quarterly Census of Employment & Wages

Percent of Milwaukie Business Activity in Small Business (2014)



Establishments



Employment

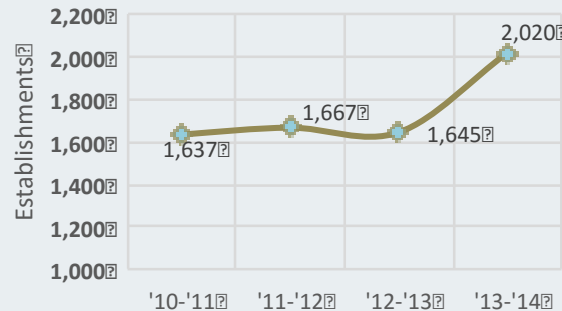
Small businesses with 50 or fewer employees comprise roughly 94 percent of private sector establishments in the local economy. However, large firms comprise a considerably larger share of employment (57 percent). Milwaukie’s 10 largest enterprises account for one out of every three private sector jobs.

A high rate of small businesses is important in “planting the seeds” for future economic growth, while large businesses provide an anchor for the economy, training of workers across a broad range of skills, and attracting outside investment. Local examples include the recent sales of Precision Castparts and Blount.

Small businesses generally pay relatively lower wages than the large economy-wide average. However, this is in large part a function of a higher concentration in lower wage industries such food services and retail.

New Business Formation

Following several years of relatively flat new business growth, new business formation in Clackamas County skyrocketed in 2014, increasing by over 22 percent. This is an encouraging sign for the local economy, indicating an increased appetite for risk and an improved flow of capital through the economy. In Milwaukie, business formation was also strong. Between 2013 and 2014 the community posted a net increase of 90 private sector businesses.



Source: U.S. Census Bureau, Statistics of U.S. Businesses Division (SUBS)

Impact on Milwaukie:

Small businesses present a diverse range of opportunities for growth, while large firms anchor the local economy. High rates of business formation are indicative of ease of market entry and inclination for risk. This has a strong correlation to innovation and economic growth.

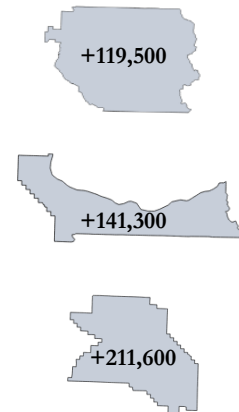
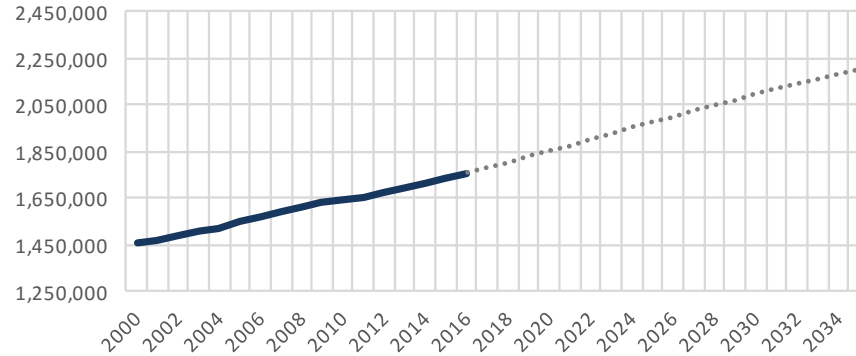
The exhibited increase in new business formation will ultimately result in winners and losers, as some firms mature to become foundations in the economy. Strategies to support small business growth and provide opportunities to expand in place (retention) will facilitate higher overall economic growth in the community.

Economic Trends Analysis

Regional and Local Population Forecasts

Over the next 20-years, the three-county region is expected to add nearly a half-million new residents. The lion's share of growth will be captured in Washington County, representing 44.7 percent of regional growth (221,600 new residents). This represents a slight acceleration of the 42 percent capture rate exhibited since 2000.

20-Year Population Forecast (2015-2035) Clackamas, Multnomah, Washington

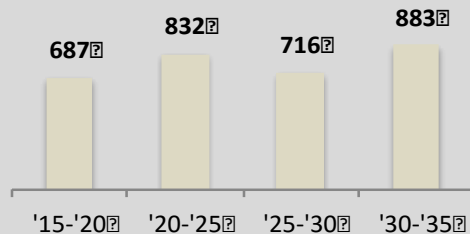


Source: Oregon Office of Economic Analysis

MILWAUKIE'S POPULATION FORECAST

Since the 2000 Census, Milwaukie's population has remained effectively unchanged, posting a slight decline of 41 residents over a 14-year period. Expectations are that growth will occur in the community. However, with little available land for new housing development, marginal growth will come largely through redevelopment and infill. Over the next 20 years, Metro's Subarea 6 (which includes Milwaukie and part of Gladstone) is expected to add over 3,100 new residents. However, this forecast was made in advance of a billion dollar transit investment through Milwaukie that should translate into greater redevelopment potential.

2015-2035 Subarea Forecast¹¹

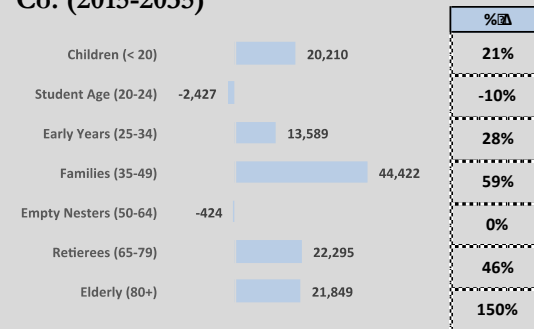


Source: Metro. Housing Needs Study for the Portland Metropolitan Area (2008)

FUTURE AGE COMPOSITION

Clackamas County, and by extension the City of Milwaukie, will undoubtedly be older on average in 2035 relative to today. Over 44,000 new residents will be retirees or elderly. The next highest growth segment will be families (59 percent).

Population Forecast by Age—Clackamas Co. (2015-2035)

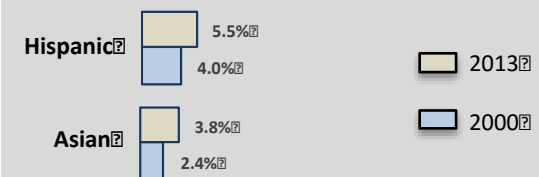


Source: Oregon Office of Economic Analysis

SHIFTING DIVERSITY

Milwaukie is not a particularly diverse community, with only 13.6 percent of the population identifying as non-white. However, this is up from 9 percent in 2000. Hispanic and Asian populations are the largest minority group. Greater community diversity is correlated with growth in new business formation, a sharing of new innovative ideas, growth in productivity¹², and greater cultural engagement.

Change in Racial Composition—City of Milwaukie



Source: U.S. Census, American Community Survey

¹¹ Subarea for this Forecast includes all of the City of Milwaukie and part of Gladstone
¹² Ottaviano, Gianmarco I.P. and Peri, Giovanni, Rethinking the Effects of Immigration on Wages (August 2006). NBER Working Paper No. w12497. Available at SSRN: <http://ssrn.com/abstract=927381>

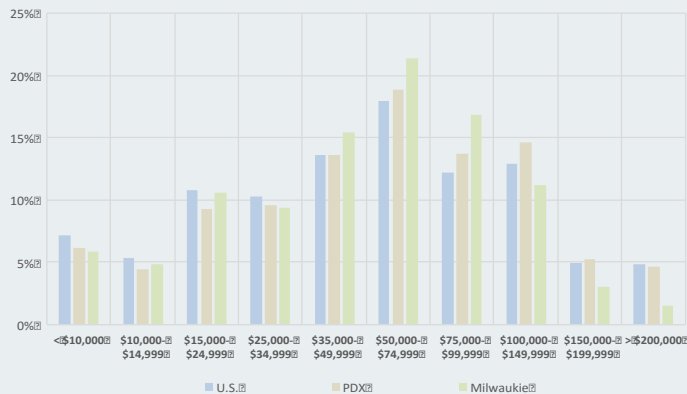
Economic Trends Analysis

Income and Wages

Incomes of local households define the purchasing power of local residents, and are an indicator of the economic prosperity of a community. Wage levels of the local workforce are determined in the competitive marketplace for labor. All else equal, businesses generally prefer locations with lower overall wages, reducing the cost of conducting business operation. The City of Milwaukie measures below average in both areas in 2014.

DISTRIBUTION OF HOUSEHOLDS BY INCOME (2014)

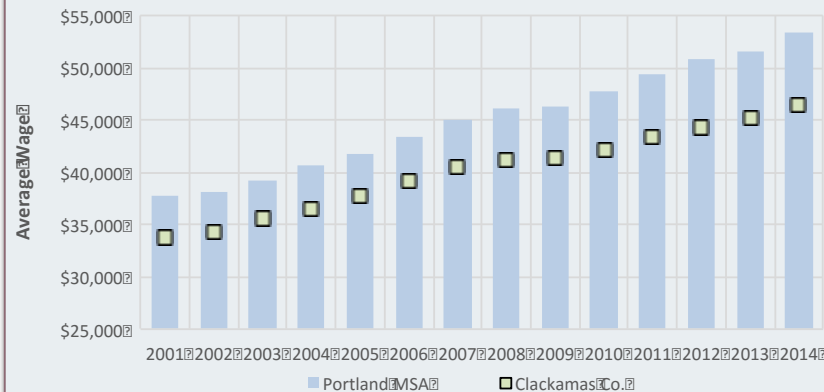
Incomes of Milwaukie residents are generally on par with regional counterparts, which are slightly higher than the national average. In 2014, 32 percent of local households earned greater than \$75,000 annually compared to 38 percent at the regional level. Higher household incomes translate into greater purchasing power, influencing demand for goods and services as well as the types of businesses that are attracted to the community.



Source: U.S. Census Bureau, American Community Survey

AVERAGE ANNUAL WAGES (2014)

Wages in Clackamas County are structurally lower than the regional average by a margin of 13 percent. This is a gap that has been widening over the last ten years. Within industry sectors, local wages in Milwaukie are lower as well. Only the retail and construction sectors in Milwaukie have wages above the regional average for those sectors. The highest wages in the community are in the manufacturing, construction, and wholesale sectors.



Source: Oregon Employment Department, Quarterly Census of Employment & Wages



Construction
\$62,000



Manufacturing
\$61,400



Wholesale
\$62,400



Health Care
\$43,600



Professional
\$48,400

Impact on Milwaukie:

Higher resident incomes drive demand for goods and services. As Milwaukie gentrifies, the community will increasingly attract higher end retail tenants and amenities. Lower wages relative to the region in some sectors will work for Milwaukie on inter-region business decisions, particularly in the context of the region's national reputation as lower cost labor market.

Economic Trends Analysis

Other Factors and Conditions

INCREASED LIFE EXPECTANCY

Increased life expectancy along with demographic shifts will continue to support accelerated growth in demand for health care, financial, legal, and assisted living services.

This condition will also place additional pressure on the transfers of income necessary to support federal obligations for Social Security and Medicare.

GLOBAL CLIMATE CHANGE

Global climate change has the potential to reduce global gross domestic product by as much as 1.5 percent and as high as 6 percent in Southeast Asia if unmitigated¹².

In the Pacific Northwest, unmitigated climate change will adversely impact agriculture & forestry markets and tourism to the greatest degree.



RISING GLOBAL DEMAND

Rising global demand is expected to benefit the primary sectors of resource rich countries to the greatest degree. This bodes well for U.S. energy and agricultural markets.

An ancillary benefit of rising global interdependency is a dilution of risk associated with domestic shocks, a product of which could lead to greater global stability.

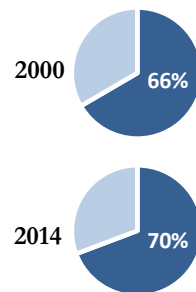
SHIFT IN PREFERENCES: URBANIZATION

In addition to trends and conditions previously reviewed in this report, the following factors are expected to influence economic conditions nationally and locally over the planning period.

Within Oregon, the broader trend of increased urbanization is likely to continue. A larger share of the world's population is living in urban areas and Oregon is no different. Since 2000 the share of Oregon's population living in cities has increased from 66 percent to 70 percent.

Source: Portland State Population Research Center and the Oregon Office of Economic Analysis

Share of Residents in Incorporated Cities



FULFILLMENT OF REPLACEMENT WORKERS

Filling net -new job growth in an environment of a declining labor force is only a part of the problem. Perhaps an even greater concern will be firms' ability to find replacement workers as retiring Baby Boomers exit the workforce. In Oregon, replacement openings will reach 392,000 jobs between 2012 and 2022. Occupational groups most affected will include retail and food service workers, teachers & nurses, office workers, and medium-skill health care workers. The share of Oregon residents living in the Willamette Valley is expected to reach 71% by 2035

Source: Oregon Employment Department, 2012-2022 Occupational Forecast

**Oregon
Demand for
Replacement
Workers**

392,000