Background Brief on …

Oregon's Economy

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November 2006

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Recent Performance: Expansion in Full Swing

Oregon's job growth has accelerated over the past two years. Over the past year (September to September) Oregon had the 10th fastest job growth among the states. Job growth is estimated at 3.2 percent for 2006, the fastest annual growth rate since 1997.

Many parts of the state have been experiencing a housing boom. Housing prices rose an estimated 17 percent in 2006. This follows an increase of 17.6 percent on a statewide basis in 2005. The Medford and Bend areas have seen particularly strong housing markets. Strength in both residential and non-residential construction has fueled large increases in construction jobs over the past two years. Construction jobs increased an estimated 10.1 percent in 2006 on top of a 10.0 percent increase in 2005. Housing starts are estimated at 28,400 for 2006, down from 30,900 in 2005; however, the 2005 figure was the highest in the state since 1978 and the 2006 level is the second highest since 1979.

In response to stronger world economic growth and the falling dollar, Oregon exports increased 24.5 percent between the third quarter of 2006 and the third quarter of 2005. Exports to China grew a huge 80.9 percent over this period. China is now Oregon's second largest export market behind Canada. Oregon's agricultural and manufacturing sectors are the primary beneficiaries of growing export markets.

Oregon's unemployment rate fell to 5.1 percent in October of 2006, the lowest rate in five years. Oregon's rate remains above the U.S. rate of 4.4 percent, but this is primarily due to the state's strong in-migration. Oregon's attractiveness as a location leads to a growing labor force that usually leads to unemployment rates above the national average even when the state economy is growing. Net in-migration into Oregon totaled 43,355 between July 2005 and July 2006, the highest rate of net in-migration to the state since 1996.

Slow Down Ahead: How Severe?

Economists date the beginning of the current national economic expansion to November of 2001. At 60 months old, the current expansion still has a long way to go to reach the record 120 month expansion between 1991 and 2001. However, the current expansion has already lasted longer than the post World War II average expansion of 57 months.

Oregon's economy is expected to slow in 2007 along with the rest of the country. The housing and construction boom that has fueled much of the recent growth in the economy has already slowed significantly at the national level. Oregon is expected to follow in 2007. Oregon's job growth is expected to decelerate to 1.3 percent in 2007 and 1.6 percent in 2008 after two consecutive years of three percent growth or greater. Construction jobs are projected to decline 1.2 percent in 2007 as the construction boom winds down. Housing starts are pegged at 25,800, down 9.1 percent from 2006. Housing price appreciation is expected to slow to 5.8 percent on a statewide basis in 2007.

Despite the weaker growth, several factors are expected to keep the U.S. and Oregon economies out of recession. Oil prices have leveled off and are expected to remain below the 2006 highs. This will keep inflation modest and prevent further increases in short-term interest rates. Business capital spending and exports are expected to provide growth at the national level. Capital goods manufacturing and exports are key drivers for Oregon's economy.

Although a recession is not the most likely scenario over the next 18 months, several foreseeable risk factors have the potential to push the economy into a recession. Most prominent of these risk factors are a more severe downturn in the housing market with corresponding declines in consumer spending, more severe international tensions, particularly in the Middle East, leading to another jump in oil prices and world trade imbalances, in turn leading to a sharp drop in the value of the dollar. Oregon is particularly vulnerable to housing market risk because of the sharp run-up in prices and construction activity the state has experienced over the past two years.

The Economic Outlook: Beyond the Business Cycle

Oregon's economic growth is expected to exceed the national average over the longer term. The state's population is expected to grow 7.2 percent between 2008 and 2013 while employment increases 7.1 percent. Comparable projected growth figures for the U.S. as a whole are 4.4 percent and 5.0 percent, respectively, for the five year period. The personal income of Oregon residents is expected to increase 33.4 percent between 2008 and 2013, compared to a projected growth rate is pegged of 30.3 percent nationwide. The price level as measured by the U.S. Consumer Price Index is expected to rise 9.6 percent; the Portland Consumer Price Index is forecast to rise 11.4 percent over this period.

Oregon's long-term growth prospects are more closely tied to the western region of the U.S. and the Pacific Rim. The pacific coast and mountain states are expected to grow faster than the U.S. as a whole over the next decade just as the region has over the past 15 years. Oregon's location within a high-growth region should mean growing markets for Oregon products and continued in-migration, especially from California. Demand for Oregon products should be further augmented by relatively high growth in Asia—the state's major export market.

California's economy, the sixth largest in the world, will play a key role shaping Oregon's growth. It will provide a growing market for Oregon producers and will be a major contributor of labor and capital to the Oregon economy. Although turbulence in the California economy can be a negative for Oregon at times, over the long-term California's huge market and vast resources will almost certainly be a positive for Oregon's economy.

Note: All state and national projections are taken from the Oregon Economic and Revenue Forecast—December 2006.

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