Background Brief on…

Oregon's Economy

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Recent Performance: Slow Recovery from the 2001 Recession

- Oregon's broad economic indicators are turning positive for the first time since 2000.
- Job growth for the six-month period ending in March was the strongest since the first half of 2000.
- Oregon's job growth for the year ending in March was #26 among the states. This compares with a ranking of #46 for the March 2001-2002 period.
- Oregon's unemployment fell to 6.7% in April of 2004. This is the lowest rate for the state in 33 months. Private sector jobs, as measured by the payroll survey, stood 26,100 higher than April of 2003.
- The cyclically sensitive manufacturing sector has added 4,600 jobs over the past year with the biggest gains occurring in transportation equipment manufacturing.
- Income tax withholding payments during the first quarter of 2004 were 7.9% greater than the first quarter of the prior year. This indicates wage and salary income is beginning to grow at a healthy rate for the first time in four years.
- Corporate income tax receipts are running well above the previous year level indicating that profitability is improving for corporations with Oregon operations.
- Despite the signs of improving conditions, Oregon's recent growth rate is far from brisk. Although job growth was recorded for the closing months of 2003, employment fell 0.7% for the year as a whole. This marks the third consecutive year of a shrinking job market in Oregon.

The 2001 Recession and its Aftermath in Perspective

- Economists date the latest national recession as beginning in March of 2001 and ending in November of that year. Although the recession was relatively short, it was followed by an unusually weak recovery.
- Oregon's employment declined 0.8 % in the recession year of 2001. However, it also declined in both 2002 (-1.3 %) and 2003 (-0.7 %). This indicates that while the national economy grew in 2002 and 2003, the pace of growth was too slow to stimulate job growth in Oregon and the nation as a whole.

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- The number of jobs in Oregon fell three years in a row for the first time since 1980-82. However the early 1980s job losses were far greater at 9.0 %. Overall employment fell 3.2 % for the 2001-03 period as a whole.
- The 2001-03 period marked the seventh time in the post World War II era that Oregon has experienced an extended period of declining employment. The other times were 1949, 1954, 1957-58, 1975, 1980-82 and 1991.
- The mildest job market decline occurred in the 1990-91 recession. Jobs declined 1.7% during the eight month recession and 0.1% for 1991 as whole.
- A recent analysis by the Oregon Employment Department ranked the job losses associated with the 2001 recession and its aftermath as the 4th most severe of the 7 downturns since 1945.
- The Employment Department analysis also showed that the Portland metropolitan area was hit harder by the recent recession than the state as a whole. Jobs declined 4.7% in the metro area, compared with 2.7% for the rest of the state. This contrasts with both the 1990-91 downturn and the severe 1980-82 recession when the Portland area's job losses were proportionately less than the rest of the state.
- The 2001 recession and its aftermath hit the Pacific Northwest harder than other regions around the country. Oregon's unemployment rate averaged 8.2 % in 2003, highest in the nation. Alaska recorded an unemployment rate of 8.0 % for the year while Washington's rate stood at 7.5 %. The Alaska rate was the second highest in the nation, Washington the third highest.
- The nature of the national recession was a major reason why Oregon's economy suffered disproportionately. The recession was marked by a sharp drop in business investment spending on capital goods, especially information technology. Manufactured capital goods such as information technology equipment, metals and transportation equipment are key Oregon industries. They were all severely affected by the decline in business investment spending.
- Another characteristic of the 2001 recession was its global breadth. The recession was widespread with downturns in Europe, Asia and Latin America as well as the United States. Coupled with a strong U.S. dollar, the global recession drove down Oregon exports 22% in 2001

The Economic Outlook: Beyond the Cyclical Recovery

- Oregon's short-term outlook is dominated by the cyclical recovery now going on in the U.S. economy. A sustainable recovery in the U.S. means job gains for the Oregon economy. Oregon employment is forecast to grow 1.5% in 2004 and 2.1 % in 2005.
- Declining business investment spending and falling exports were the keys to the Oregon recession. Improvements in these areas are now the key factors driving growth. Oregon resource industries are gaining strength from higher commodity prices and a lower dollar while the state's capital goods manufacturers are experiencing growing demand due to higher business investment spending.
- As long as the U.S. economy is expanding, Oregon's economy is also likely to grow. However, a number of factors could threaten the sustainability of the U.S. expansion. Political instability could further push up oil prices, driving up business costs and pulling dollars out of the U.S. and Oregon economies. A more fundamental threat is higher inflation and the higher interest rates that would inevitably follow. If these forces derail the U.S. expansion, Oregon is likely to return to a period flat or declining employment.
- 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 6th largest in the world, will play a key role shaping Oregon's growth. It will provide a growing market for Oregon producers and it 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.

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