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Background Brief on …

Oregon's Economy

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Recent Trends: Oregon's Economy Slows

Oregon's job growth has slowed substantially as signs of an emerging national recession become more prominent. After posting job growth of 3 percent in both 2005 and 2006, payroll employment increased 1.7 percent in 2007 with the annual rate of growth dropping below 1 percent in the second half of the year. Over the past year (February 2007 to February 2008), Oregon jobs have increased 14,600 or 0.9 percent, which places the state near the middle (21st) in rate of job growth over this period.

The broadest gauge of economic activity—inflation adjusted gross domestic product **(GDP)**—indicates that the national economy has come to a near standstill over the past six months. Inflation adjusted GDP grew less than 1 percent in both the fourth quarter of 2007 and the first quarter of 2008. Many economists think a national recession began as early as November or December of 2007.

The reasons for the recent weakness in the national economy are evident. They include a sharp decline in the housing market and a prolonged surge in energy prices. A key factor causing deteriorating conditions is a sudden shift to tighter credit conditions following years of very aggressive lending in housing and other sectors. The tighter credit standards have squeezed over-extended consumers and businesses. As a result consumer spending and retail sales have slowed markedly.

Although Oregon's employment has grown slowly over the past six months, the effects of the housing bust can be seen here as well. Construction employment declined at an 8.3 percent annual rate in the fourth quarter of 2007 and a 13.2 percent rate in the first 3 months of 2008. This is an even faster rate of decline than the nation as a whole for this period. In contrast to the national average, Oregon housing prices continue to inch up on a statewide basis. However, housing starts have dropped substantially totaling 21,900 in 2007 compared to 27,600 in 2006 and 30,900 in 2005.

The two key factors countering the recessionary effects of the housing bust and high energy prices are strong export growth and continued net in-migration into the state. The lower valued dollar and relatively strong growth in key export markets has fueled continued growth in demand for Oregon's technology and other manufactured goods. The state's farmers are also benefitting from a surge in wheat and other agricultural prices. With the housing bust hitting other western states harder, Oregon has experienced an uptick in population growth over the past two years. Net in-migration totaled 11,700 in 2006 and 9,900 in 2007, the highest 2 year total for the state since 1997-1998.

U.S. Downturn: How Will Oregon Fare?

Although recessions are not officially dated until well after the fact, most economists (including the state's national forecast service) think the country is or soon will be in a recession. What does this mean for Oregon? First, in each of the post-World War II national recessions, Oregon has experienced at least some period of decline (as measured by employment) indicating that the state was also in recession. However, the depth of the recessions, even relative to the U.S. average, has varied considerably. The last two recessions offer a good example. The 1991 recession was relatively mild in Oregon with job losses proportionately less than the U.S. average. In contrast, the 2001 recession was far more severe and longer lasting in Oregon than it was for the country as a whole.

The evidence suggests that a 2008 recession in Oregon is more likely to resemble the 1991 downturn rather than the more severe 2001 recession. There are a number of reasons behind this expectation. The first is the continued positive effect of exports and net in-migration. The second is that the housing boom was not as pronounced in Oregon in as it was in many other parts of the country, for example Las Vegas, Phoenix, and Southern California. Finally, the technology sector, a key for Oregon's economy, is expected to hold up much better in this recession compared to the sharp 2001 industry cutbacks.

For 2008 as a whole, Oregon's job growth is expected to flatten out near one percent, with the strong possibility of declines occurring in individual quarters. Construction jobs are expected to drop 3.4 percent for the year with housing starts sinking to 16,600. The state economy is expected to accelerate modestly in 2009 as the national economy begins to grow again. Statewide job growth is expected to approach two percent for the year.

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 6.9 percent between 2008 and 2013 while employment increases 8.2 percent. Comparable projected growth figures for the U.S. as a whole are 4.4 percent and 5.5 percent, respectively, for the 5 year period. The personal income of Oregon residents is expected to increase 31.6 percent between 2008 and 2013, compared to a projected growth rate of 27.7 percent nationwide. The price level as measured by the U.S. Consumer Price Index is expected to rise 9.4 percent; the Portland Consumer Price Index is forecast to rise 11 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—March 2008.

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