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Legislative Committee Services
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Background Brief on …

Oregon's Economy

The Great Recession

Initial fears concerning the weakness in the housing market were well-founded as the economic downturn spread to other sectors of the economy. The precipitating factors are well-documented at this point – the prevalence of sub-prime mortgages leading to the sharp declines in the housing market and, ultimately, to the financial crises in the fall of 2008. Oregonians experienced firsthand how truly interconnected the world's economies have become as financial difficulties spread to many parts of the world. In fact, 2009 was likely the first year that world Gross Domestic Product (**GDP**) declined in the postwar era.

For Oregon, the fourth quarter of 2009 was the seventh consecutive quarter of net job losses. While the Oregon economy has not yet started producing net job gains, the magnitude of net job losses has slowed. In the second half of 2009, net job losses were roughly 25,000. This number is less than half of the roughly 57,300 jobs lost in the first half of the year and less than the 37,300 lost in the second half of 2008. Expectations are for net job losses to continue in the first quarter of 2010 before turning to net job gains for the remainder of the year. The total number of nonfarm jobs in Oregon for 2010 is expected to be one percent lower than in 2009. The April employment report shows that Oregon unemployment has remained essentially unchanged at 10.6 percent for the past five months.

Gross Domestic Product - the broadest gauge of economic activity – tells a similar story. Aside from a slight uptick in the second quarter of 2008, GDP consistently declined from the fourth quarter of 2007 through the second quarter of 2009. The National Bureau of Economic Research officially determined that the U.S. recession began in December of 2007. This date marks the end of an expansion that lasted 73 months, beginning in November of 2001. While they have not officially dated the end of the recession, many economists believe the recession ended in mid- to late-2009. According to the latest estimates, GDP grew 2.2 percent in the third quarter of 2009 and then by 5.1 percent in the fourth quarter of 2009. Annually, GDP fell by 2.5 percent in 2009 but is projected to grow by 2.6 percent in 2010.

A Nascent Recovery

It increasingly appears that the economic downturn has ended and that the questions moving forward focus on the shape and speed of the recovery. Will it be quick and strong, will Oregon linger at the bottom and gradually climb out, or somewhere in between? While the debt crisis in Greece and its potential impact on Europe remains a concern, positive news seems to be accumulating. A key question is which sector is likely to lead the return to growth.

It's unlikely that housing will lead the recovery. In fact, there are mixed signals as to whether the housing market has hit bottom. Housing has been recently buoyed by federal incentives, and growth in housing starts is expected to turn positive in 2010, both nationally and in Oregon. But national housing prices are expected to continue falling through 2010 and level off in 2011 before turning positive in 2012. While Oregon has been hit less hard by the housing bubble, the effects of the broader recession have had a relatively stronger impact on Oregon's housing market. The construction sector in Oregon is not expected to see positive growth until 2011, and even then at only a 0.5 percent rate.

The consumer is unlikely to take a lead role in the recovery for two reasons: job growth and credit/debt concerns. First, most economists are expecting another jobless recovery. Businesses have shed a significant number of jobs over the past two years and will be cautious moving forward. They will want to make sure any increase in demand is sustainable before hirin, or re-hiring workers. They are likely to increase hours for existing workers or hire temporary workers first. Oregon employment peaked in the first quarter of 2008 and is not projected to reach that level again until the third quarter of 2013.

Second, consumer debt levels remain high and credit constraints are only gradually easing. Combined with the negative wealth effect of the losses in housing, most economists do not expect consumption to return to earlier levels in the near term. U.S. consumers changed their collective savings rate from a low of 1.2 percent in the first quarter of 2008 to as high as 5.4 percent in the second quarter of 2009. For all of 2009 the savings rate was 4.3 percent, the highest rate since 5.3 percent in 1998.

The most likely sector to lead the recovery is business investment. Inventories have been substantially reduced, and while increases in consumer demand are constrained, they do appear sufficient to support a gradual recovery. Positive signs are emerging from the technology sector as companies are returning to profitability and beginning to hire workers. U.S. manufacturing output grew at an eight percent rate for the eight months ending in February. Oregon's manufacturers and exporters should benefit from these trends.

Long-Term Economic Outlook

Once the recovery has gained momentum in 2011, Oregon is expected to perform marginally better than the nation. Oregon job growth is projected to exceed the national rate., growing by 9.3 percent between 2011 and 2015, as compared to 8.1 percent nationally. Similarly, Oregon's population is also expected to grow faster than the U.S., at a rate of 4.8 percent versus 3.9 percent. Personal income growth over the same time period is nearly identical, with Oregon growing at 23.3 percent and the U.S. at 23.6 percent.

Oregon is well-positioned for trade with the Pacific Rim, which is projected to experience strong growth between 2011 and 2014. Because Asian countries were not as affected by the financial problems as were the U.S. and Europe, they are expected to return to growth first. Leading that growth, China's real GDP is projected to grow at an annual rate of 8.6

percent, with the rest of Asia (except for Japan) growing at a rate of 6.8 percent. These growth rates exceed those for the U.S. (three percent), the Eurozone (1.8 percent), and South America (4.4 percent).

In particular, the economic ties between Oregon and China have been growing. Historically, Canada has been Oregon's leading trading partner, but China has taken the top spot for the past five quarters. Another positive development is that the Chinese government appears ready to make their currency more flexible. This bodes well for Oregon exporters. If China experiences a strong expansion as projected, Oregon exporters are positioned to reap the benefits. A potential risk, however, is that the Chinese economy overheats and then experiences an abrupt cooling, reducing the demand for Oregon products.

Note: State and national projections are taken from the Oregon Economic and Revenue Forecast—March 2010.

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