Background Brief on …

Oregon’s Economy

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Recent Trends

The U.S. economy seems to have regained its rhythm after a slight misstep last winter. Forecasters have become broadly optimistic about the pace of the recovery in recent months. U.S. employment growth during the first half of 2014 is looking to be the strongest since 2000 and unemployment rates have continued on their broad, if slow, downward path. And the economic pause last winter has been, at least partly, attributed to bad weather.

The Office of Economic Analysis (OEA) attributes the renewed optimism to three factors: 1) household balance sheets are largely in the black; 2) housing appears to be ready for a stronger comeback; and 3) the financial positions of corporations remain strong. Along with this optimism, however, are reasons to be cautious. Reduced labor force participation rates, driven by baby boomers aging into their retirement and younger people opting for more schooling, is a primary caution sign. Combined with concerns about the strength of the expansion, the likely result is that the pace of improvement will remain slower than what we have experienced in past economic recoveries.

According to the June 2014 Oregon Economic and Revenue Forecast by OEA, Oregon added roughly 43,700 non-farm jobs in the past year, with gains in every sector. The largest gains were in professional and business services (9,200) and construction (6,300) from the second quarter of 2013 to the second quarter of 2014. Leisure/hospitality and health care/social assistance each added about 5,000 jobs over the past year. These four main sectors account for approximately 59 percent of all private-sector gains, with total manufacturing accounting for another 11 percent, or 4,700 jobs. Within manufacturing, gains were led by durable goods, with wood products experiencing the largest gains.

The public sector has started to see job growth with local government seeing gains for the first time since early 2009.

An important indicator of Oregon's overall economic health is the unemployment rate. According to the Oregon Employment Department, the seasonally adjusted statewide unemployment rate was 6.8 percent in June 2014 – its third continuous month at that level. Over the past year, the rate has gradually fallen from 7.8 percent in June 2013. Oregon's unemployment rate continues to run slightly higher than the national rate. For the month of May, regional unemployment rates (seasonally adjusted) ranged from a low of 5.3 percent in Corvallis to a high of 11.1 percent in Harney County. All but two regions posted lower unemployment rates than during May of 2013 – Curry and Wheeler counties.

Economic Outlook

According to the OEA forecast, most forward-looking data suggest that growth will continue in Oregon and that there are definite reasons for optimism. However, this growth will likely remain disappointing from a historical perspective, with the statewide economy unlikely to experience the growth momentum that has typically followed recessions.

Taking all factors into account, one concern is the strength and duration of the economic recovery. One upside is that household balance sheets continue to improve generally. Household debt, as a share of income, is at its lowest levels in roughly a decade. Unfortunately, much of this has been due to charge-offs and foreclosures, but households have made strides in paying down debt. In combination with gradual increases in home values, households should continue to see their financial positions improve.

The typical household still needs to save more and spend less of their income over the long term. When less spending is combined with the broader effects of an aging baby-boomer population cohort, Oregon and other states will face an uphill climb for many years to come. This means slow growth will continue to be the norm. According to the OEA forecast, annual employment growth in Oregon will average slightly over 2 percent in the next few years before falling to roughly one percent. According to the forecast, Oregon is not expected to recover all of the jobs it has lost until the end of 2014—seven years after the recession began.

Oregon's growth has continued in 2014 and statewide job growth is at its strongest pace since 2006. And the growth appears to have become more widespread. Eighty percent of counties saw job gains over the past year. These gains are not as strong as people would like and the growth is a few years late by historical standards, but it does appear to be finally happening.

Part of the concern is the strength of the recovery in the housing sector, which has stalled over the past nine months. Of particular concern is the reduction in housing demand due to the reduction in household formation. The duration of the recession resulted in very slow household formation causing a decline in the number of new housing units needed. Even with low levels of construction, the existing inventory has only been slowly reduced.

A potential bright spot is that as the Millennials enter into their prime working years, household formation should begin to strengthen. Also, net migration into Oregon from other states has started to finally pick up. In fact, it has tripled in the past two years, making 2013 the strongest since 2008.

Oregon's labor market continues to show steady signs of improvement. For example, construction job gains are the largest they have been since 2006. Also, five major industries are currently at new peak levels: private education, health, food manufacturing, professional and business services, and leisure & hospitality. Together, these industries account for nearly 40 percent of statewide jobs.

Other risks that economists are watching closely include international risks, commodity price inflation, and the policies implemented to combat the Great Recession. International risks range from the ongoing European debt crisis to political unrest in various hot spots around the world. To the extent European austerity measures, high debt, and low growth continue, it will act as a drag on financial markets. While improving, businesses and consumers continue to have difficulty obtaining loans. Other political challenges throughout the world continue to be a risk and with the potential to lead to commodity price inflation. China is of particular interest for Oregon because it's the top destination for Oregon exports; its recent slowdown poses specific risks for Oregon. Finally, exit strategies for the federal government related to the financial crisis must be handled carefully. While the general recovery continues, if the exit strategies are not implemented with the right timing, they could lead to premature tightening or trigger inflation, either of which would put the recovery at risk.

Demographic Outlook

Oregon's economic conditions substantially influence the state's population growth. Robust economic growth is critically important in retaining the local work force as well as attracting job seekers from national and international labor markets.

Partly because of sluggish economic growth, Oregon's population growth during the decade of 2000–2010 slowed to 12.0 percent, down from 20.4 percent growth from the previous decade. Oregon's rankings in terms of the decennial growth rate dropped from 11th during 1990–2000 to 18th during 2000–2010. As a result of the recent economic downturn and sluggish recovery, Oregon's population is expected to continue a slow pace of growth in the near future. OEA forecasts that the Oregon population will reach 4.25 million in the year 2020 with an average annual rate of growth of one percent between 2010 and 2020.

Oregon's age structure and its change affect the state's employment, revenue, and expenditures. Demographics are the state's major budget drivers, which are modified by policy choices on service delivery.

According to the OEA forecast, Oregon's population growth in many age groups will show the effects of the baby boomers and their echo generations during the period of 2010-2020. It will also reflect demographics affected by the depression-era birth cohort combined with diminished migration of the working-age population and elderly retirees. The average annual growth of the elderly population (65 and older) will be 4.1 percent during this decade as the boomers continue to enter retirement age. The youngest elderly (aged 65-74) will grow at an extremely fast pace during the decade, averaging a 4.7 percent annual rate of growth due to the direct impact of the baby-boomer generation entering retirement age. The growth in the K-12 population (aged 5-17) will remain relatively low, which will translate into slow growth in school enrollments. This school-age population has actually declined in size in recent years but is forecast to grow in the future. However, its growth rate will be well below the state average.

Note: This Background Brief heavily draws from the June 2014 Oregon Economic and Revenue Forecast put out by the Office of Economic Analysis.

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