September 2012

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Background Brief on …

Oregon's Economy

Recent Developments

The U.S. economy seems to have lost some growth momentum in the middle of 2012. Employment gains have been mediocre at best in the 2nd quarter. Part of this deceleration is explained by the global slowdown, especially in Europe and China. If Eurozone banking and sovereign-debt crisis worsens and the Chinese economy further intensifies its slowdown, the U.S. economy will likely be impacted by negative spillover effects. On top of international uncertainty, the fiscal cliff of tax increases and spending cuts at the federal level, in case of no budget deal, continues to generate added uncertainty over the outlook. National and international developments will surely affect Oregon's economy.

The Office of Economic Analysis **(OEA)** reports that a chorus of indicators suggests economic conditions are improving for many of Oregon's families and businesses. However, the pace of improvement remains slower than what we have become accustomed to in past economic recoveries, and has not been shared across all communities. While recent employment gains have been broad-based across industries, they have not been broad-based across regions of the state.

According the June 2012 Oregon Economic and Revenue Forecast by OEA, Oregon added slightly more than 15,000 non-farm jobs in the past year. In terms of industries, over the past year the job growth has been widespread with only wood products and government seeing declines. The largest gains have been in professional and business services and health services, which increased by approximately 5,400 and 4,300, respectively, from the first quarter of 2011 to the first quarter of 2012. Leisure and hospitality and retail trade each added 3,300 jobs over the past year. These four main sectors account for approximately 64 percent of all private sector gains, with total manufactory accounting for another 19 percent, or 4,800 jobs. Within manufacturing, gains were led by durable goods, particularly metal and machinery. The public sector continues to lose jobs with the majority of losses occurring in local education.

An important indicator of Oregon's overall economic health is the unemployment rate. According to the Oregon Employment Department, in the first quarter of 2012, regional unemployment rates (not seasonally adjusted) ranged from a low of 8.2 percent in the Oregon portion of the Portland metropolitan area to a high of 13.4 percent in Central Oregon. Every region posted lower unemployment rates than during the first quarter of 2011. Statewide, the unadjusted unemployment rate was 9.5 percent in the first quarter of 2012. Oregon's unemployment rate is running slightly higher than the national rate.

Economic Outlook

According to the OEA forecast, most forward-looking data suggest that growth will continue in Oregon. However, there is still ample reason to believe that this growth will remain disappointing from a historical perspective, with the statewide economy likely to struggle to pick up any further momentum.

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, followed by high 1percent range. 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.

Housing remains a drag in Oregon but nascent signs of improvement are emerging. What little acceleration that can be hoped for is tied to a long-awaited improvement in regional housing markets. Mortgage rates are very low, as are single-family house prices relative to apartment rents. Single-family housing markets are finally showing a weak pulse in many areas of the state. House prices will remain depressed until most of the unwanted properties are purged from the balance sheets of lenders and underwater homeowners. Even so, improved housing investment, construction activity, and spending on home furnishings represents the best hope for a speedier recovery.

While the forecast calls for a slow but positive growth, downside risks remain aplenty. The OEA forecast points out that the primary downside risk currently on the radar is the ongoing production slowdown among some of Oregon's largest trading partners in Asia. With consumers needing to repair their household finances, Oregon's economic expansion has been led by business investment and exports, both of which would suffer greatly if Asian demand were to fade. Even if the root cause of a future downturn turns out to be a financial crisis within Europe, a primary channel through which problems would manifest themselves here in Oregon would be via a reduction in trade flows to and from Asia. Many of the Asian manufacturers we do business with cater to European clients. Furthermore, access to a healthy global credit market is a prerequisite for suppliers and transportation firms to operate.

IHS Global Insight projects Oregon's Gross Domestic Product (GDP, the value of total final goods and services produced) to have the second highest growth rate in the nation over the coming years. OEA is less bullish, but expects Oregon to maintain a growth advantage relative to other states. Oregon has typically benefitted from an influx of households from other states, including an ample supply of skilled workers. Households continue to move to Oregon even when local jobs are scarce, as long as the unemployment rate is equally bad elsewhere (particularly in California). In addition to its dynamic labor supply, Oregon also enjoys the long-term advantages of low electricity costs, a central location between the large markets of California, Vancouver and Asia, clean water, low business rents and living costs, and an increasingly diverse industrial base.

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 4.27 million in the year 2020 with an average annual rate of growth of 1.1 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 impacted 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 3.9 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 4.9 percent annual rate of growth due to the direct impact of the baby-boom 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 2012 Oregon Economic and Revenue Forecast put out by the Office of Economic Analysis.

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