

Budget Agency “Kickoff” Meeting



Oregon

Oregon's Economic and Revenue Outlook

Salem, Oregon

March 17, 2010

Office of Economic Analysis

Damon Bell

Josh Harwood

Josh Lehner

Tom Potiowsky

Kanhaiya Vaidya



The U.S. Economy in Recovery



- Financial crises generally do not lead to V-shaped recoveries
- What will take the place of fading fiscal stimulus and the inventory cycle
- Consumers remain cautious, weakening the strength of the recovery
- Employers are expected to begin hiring soon
- Tax revenues are down sharply, forcing tough decisions for local, state and federal governments

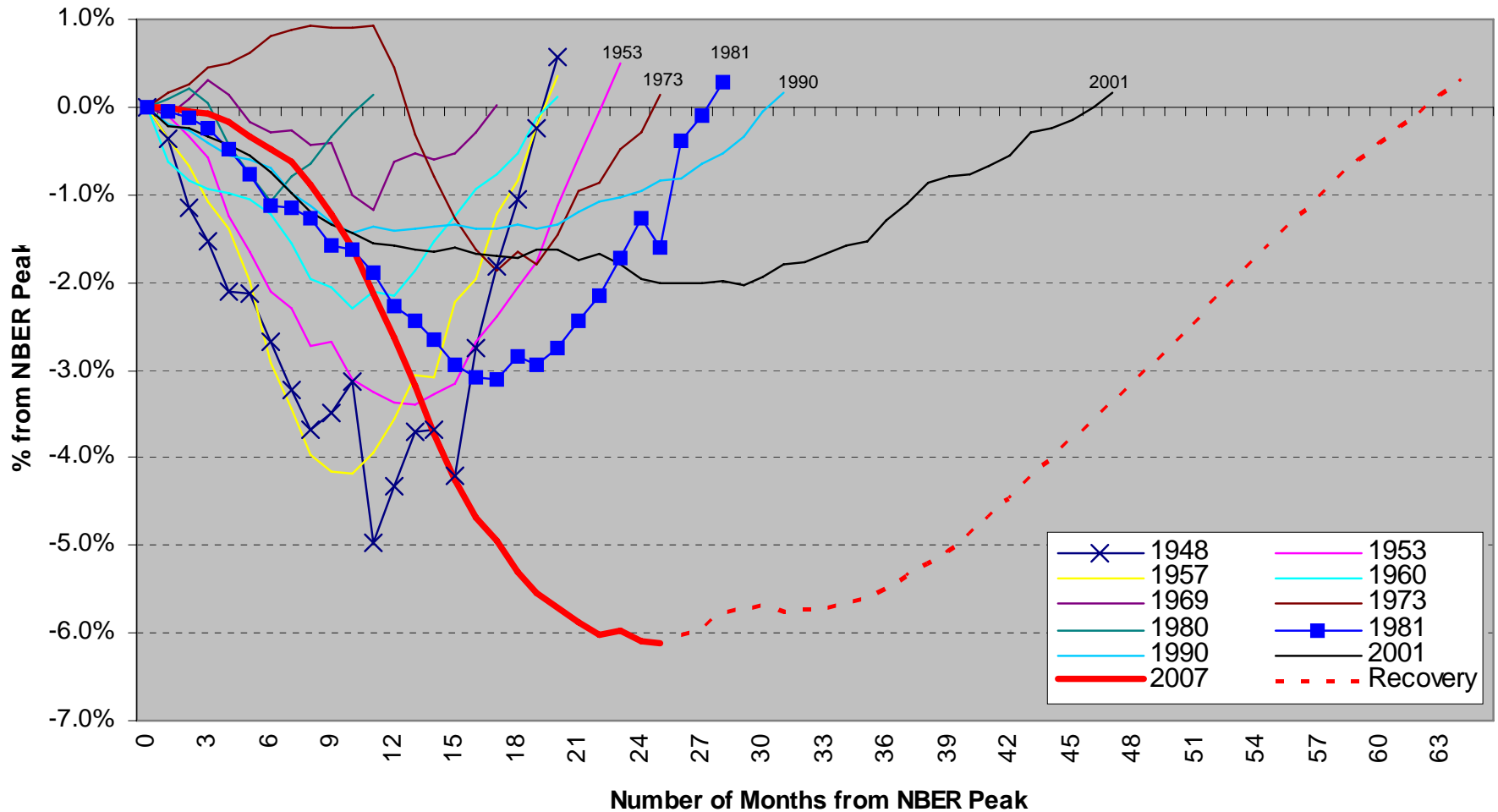




Employment Losses

(through January 2010)

U.S. Recession Employment Losses





U.S. Economic Growth by Sector

(Percent change)	2007	2008	2009	2010	2011
Real GDP	2.1	0.4	-2.4	2.6	2.7
Consumption	2.6	-0.2	-0.6	2.1	2.2
Residential Investment	-18.5	-22.9	-20.1	5.7	24.8
Bus. Fixed Investment	6.2	1.6	-18.0	-0.8	9.5
Federal Government	1.3	7.7	5.1	4.1	-3.0
State & Local Govt.	2.0	0.5	0.0	0.4	-0.4
Exports	8.7	5.4	-9.9	9.3	5.5
Imports	2.0	-3.2	-14.1	9.7	6.7





Other Key U.S. Indicators

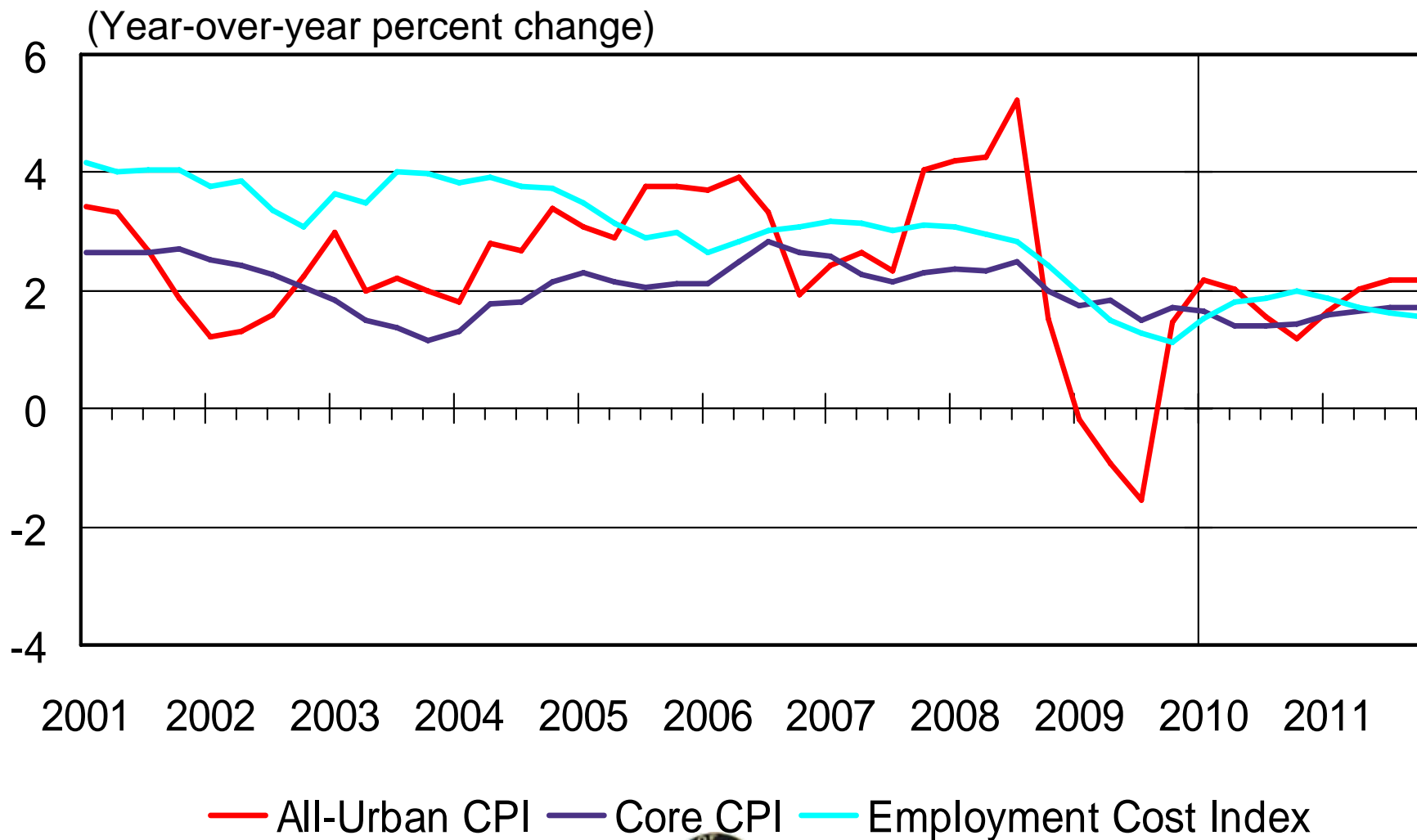
(Percent change unless noted)

	2007	2008	2009	2010	2011
Industrial Production	1.5	-2.2	-9.8	3.6	3.7
Payroll Employment	1.1	-0.4	-3.7	-0.5	1.5
Light Vehicle Sales (Millions)	16.1	13.2	10.3	11.5	13.8
Housing Starts (Millions)	1.34	0.90	0.56	0.79	1.24
Consumer Price Index	2.9	3.8	-0.3	1.7	2.0
Core Consumption Deflator	2.3	2.3	1.7	1.5	1.7
Federal Funds Rate (%)	5.0	1.9	0.2	0.2	1.7
10-Year Treasury Yield (%)	4.6	3.7	3.3	3.7	4.0



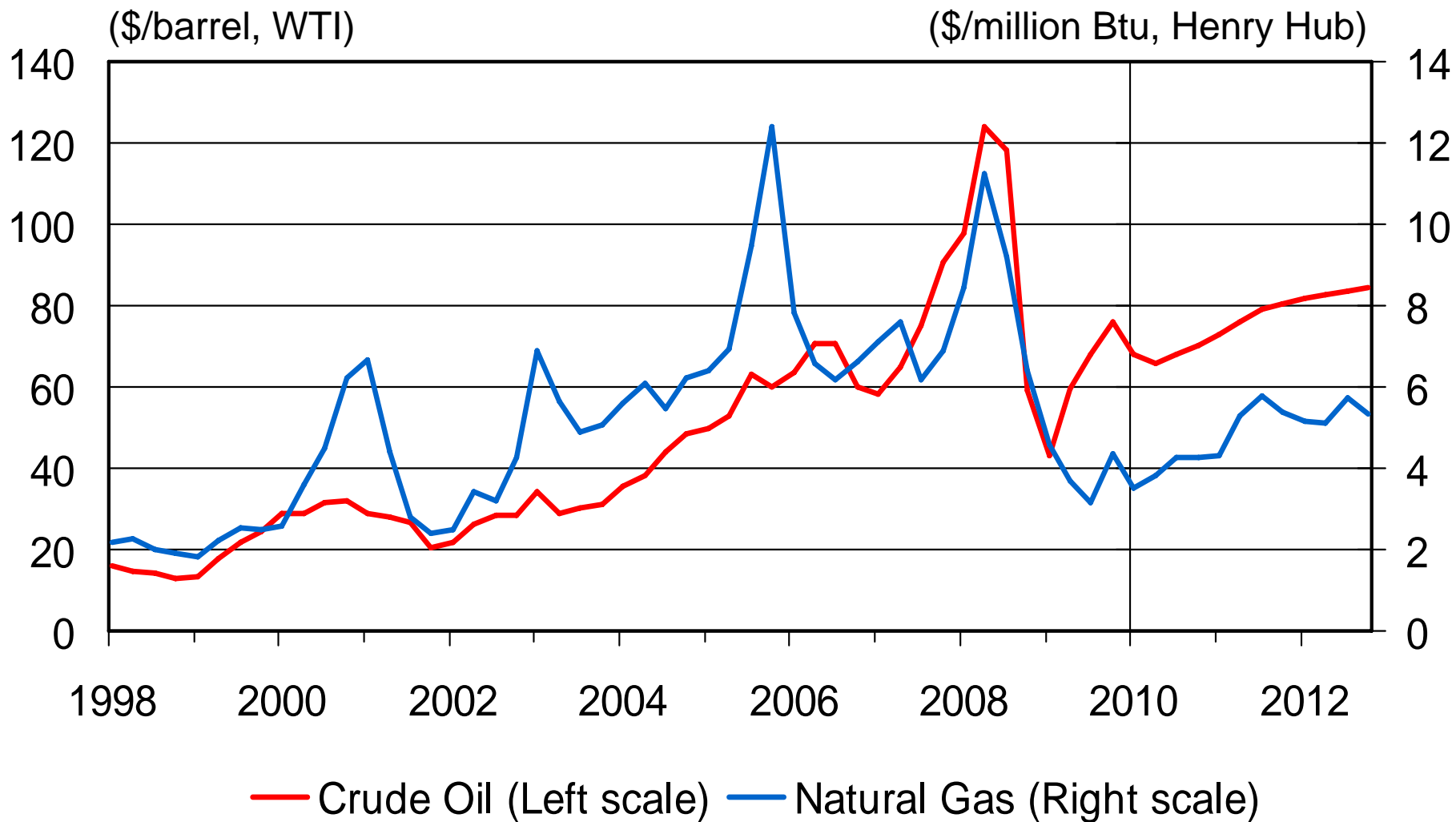


Food and Energy Prices Swing Consumer Price Inflation





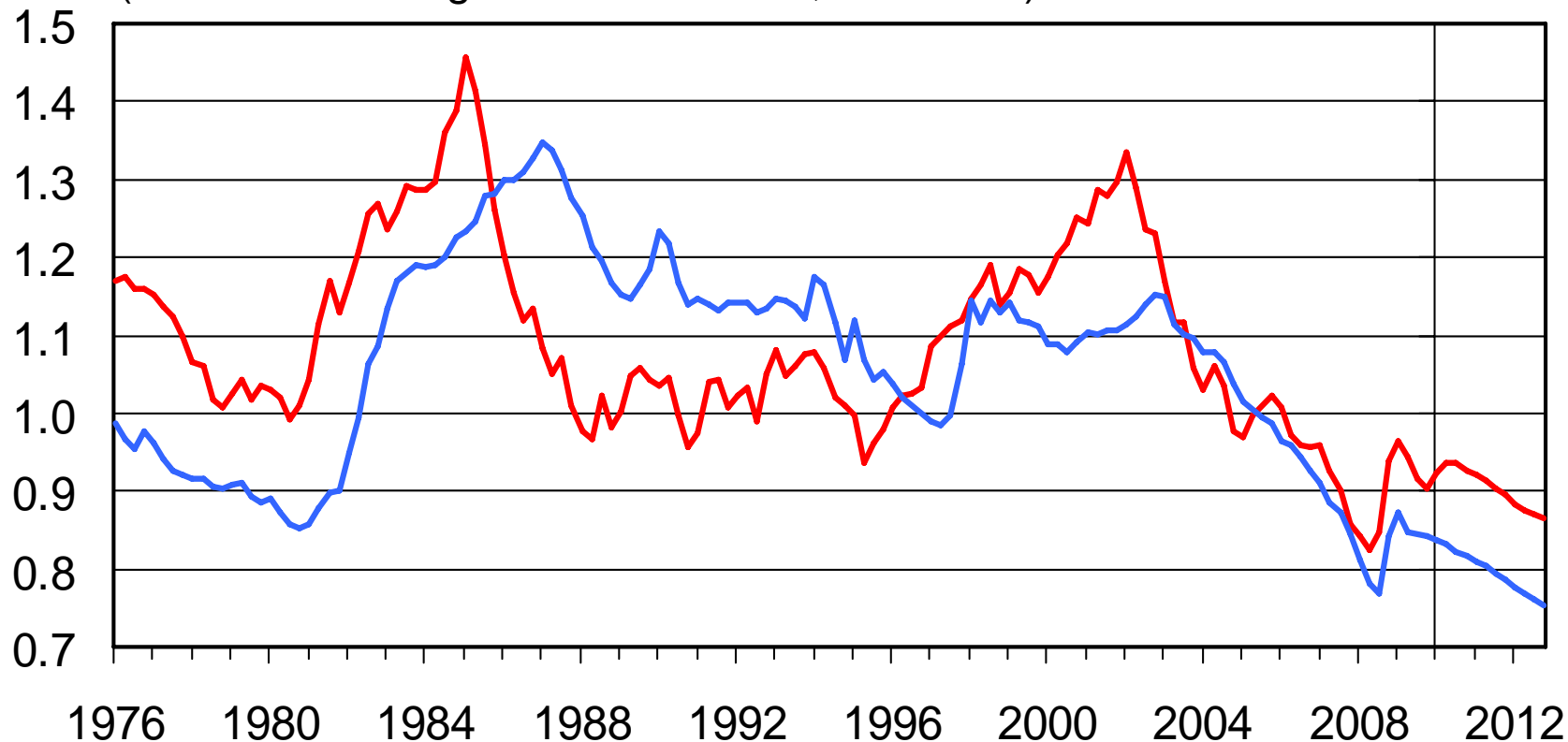
A Sharp Retreat in Oil and Gas Prices





U.S. Dollar Recovered Briefly

(Real Trade-Weighted Dollar Index, 2005=1.0)



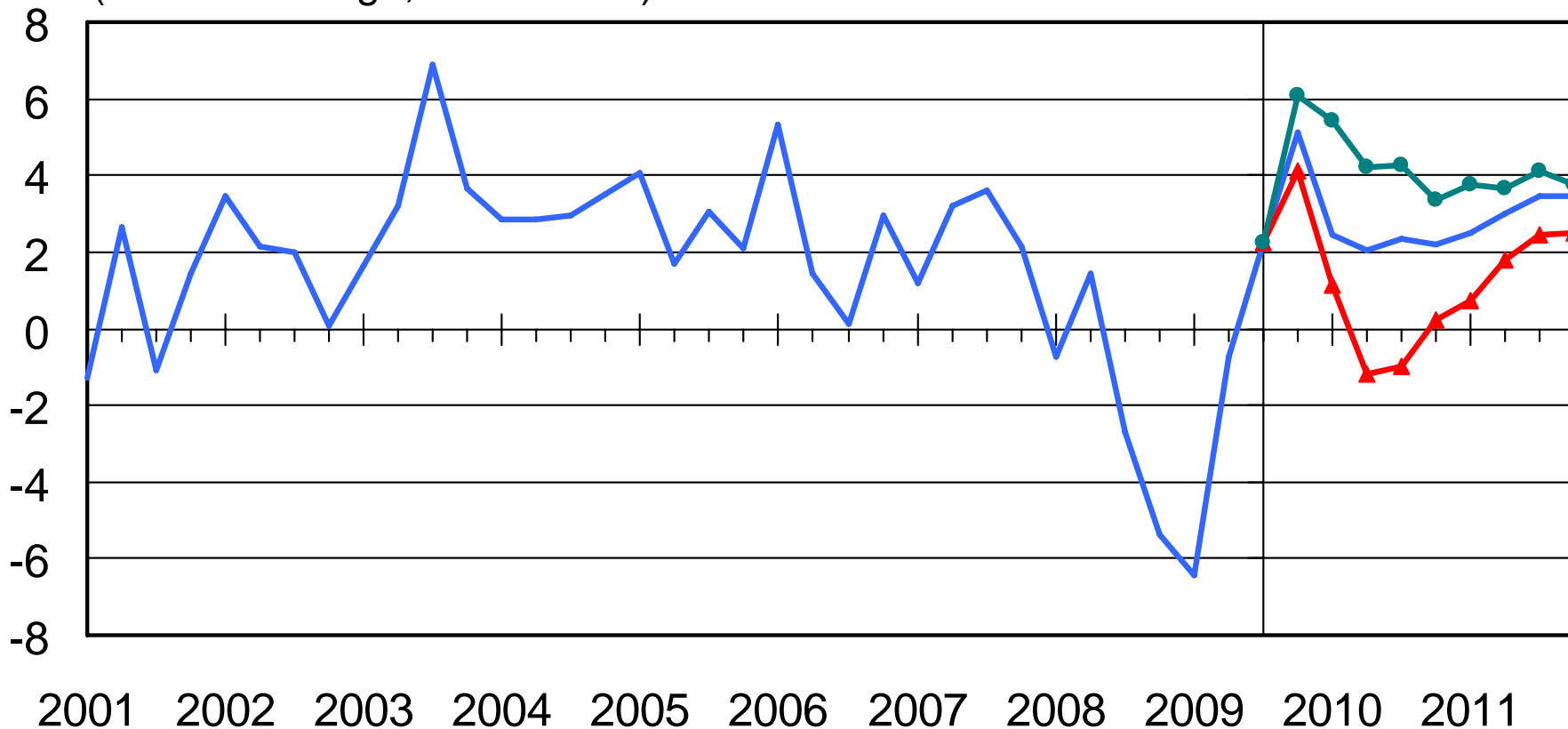
— Major Trading Partners — Other Important Trading Partners





Real GDP Growth in Alternative Scenarios

(Percent change, annual rate)



— Baseline (60%) —▲— Pessimistic (20%) —●— Optimistic (20%)





Bottom Line

- The technical recession in the U.S. ended during the summer, with the unemployment rate toping out at 10.1% in the fourth quarter of 2009. The labor market will remain weak with unemployment averaging 9.6% in 2010.
- Credit markets are slowly returning to pre-Lehman collapse days but risk premiums are still present.
- The housing market will continue to remain fragile. Housing starts marginally improved in the second half of 2009 off their historic lows. Prices will decline into 2010.
- Inflation is not a threat today or even next year but the stage is set for carefully executed exit strategies to avoid inflation in the future.
- Economic growth returned in the third quarter and was strong in fourth quarter 2009, but will remain below potential throughout 2010.
- With furlough days and reduced weekly hours, employment gains will lag the recovery – another “jobless” recovery.





Oregon





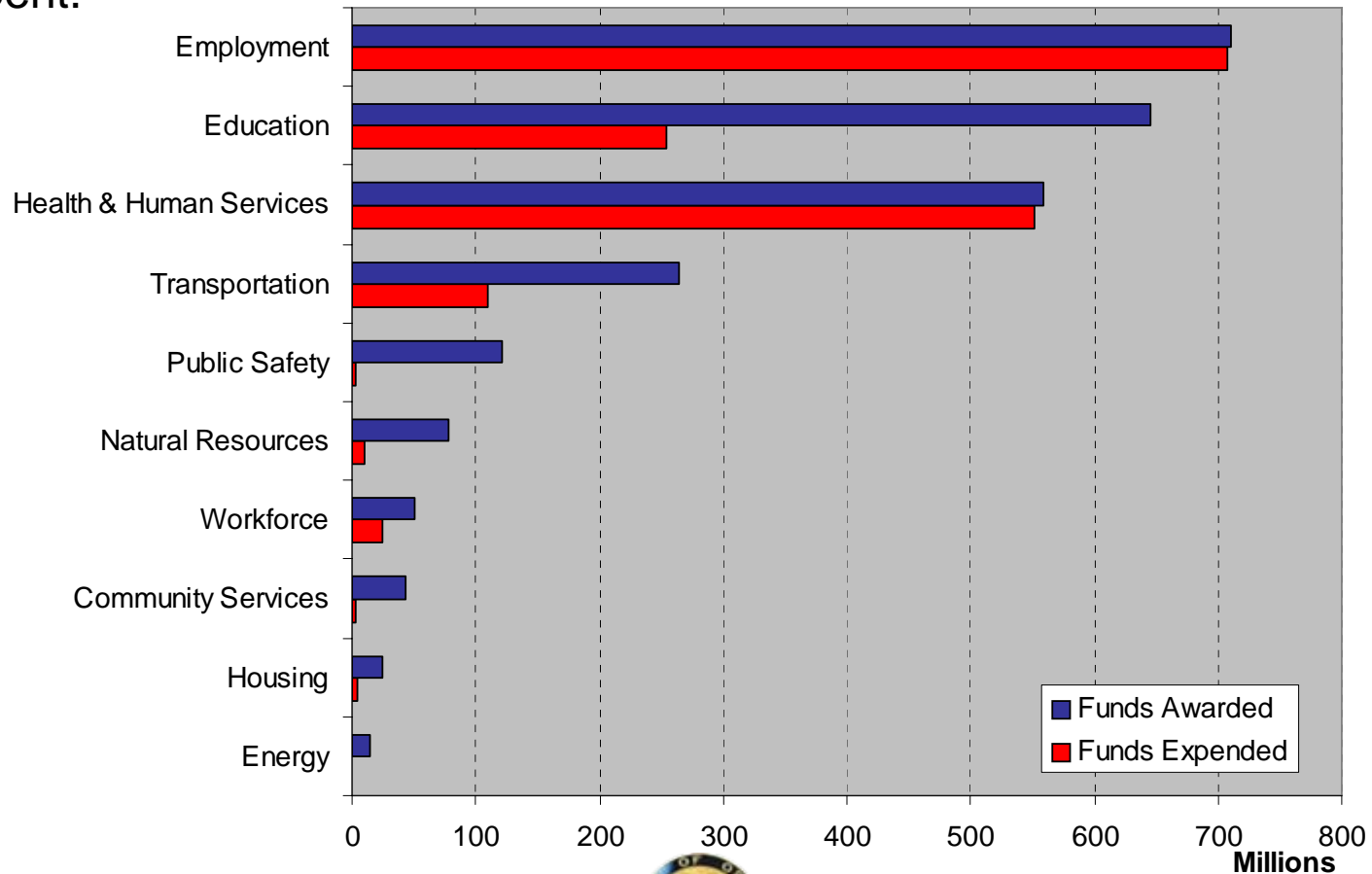
Recent Oregon Economy Facts

- 10.5% unemployment rate for February 2010 (Feb US rate is 9.7%) is up from the latest lowest rate of 5.0% in April 2007 and down from the highest rate of 11.6% in May and June 2009.
- 36th fastest job growth at -3.65% for all states for January 2010 over January 2009.
- Total nonfarm employment dropped -5.7% year-over-year for the 4th quarter of 2009. Job losses (S.A.) from February 2008 to December 2009 (up 1,000 in January). The last six months' losses averaged 3,250 per month versus 10,017 per month over the first six months of 2009.
- -0.4% personal income growth for 3rd quarter of 2009 over 3rd quarter of 2008. Annualized 3rd quarter 2009 growth at 1.9%.
- Oregon exports increased 3.2% in the 4th quarter compared to the same period last year but finished 2009 down 23% over 2008. (Export growth is positive Q/Q and is expected to follow the global economy)



Oregon and ARRA

Oregon's spending allotment is \$3.9 billion, plus tax relief measures. Through December 31st, \$2.5 billion has been awarded with \$1.7 billion spent.

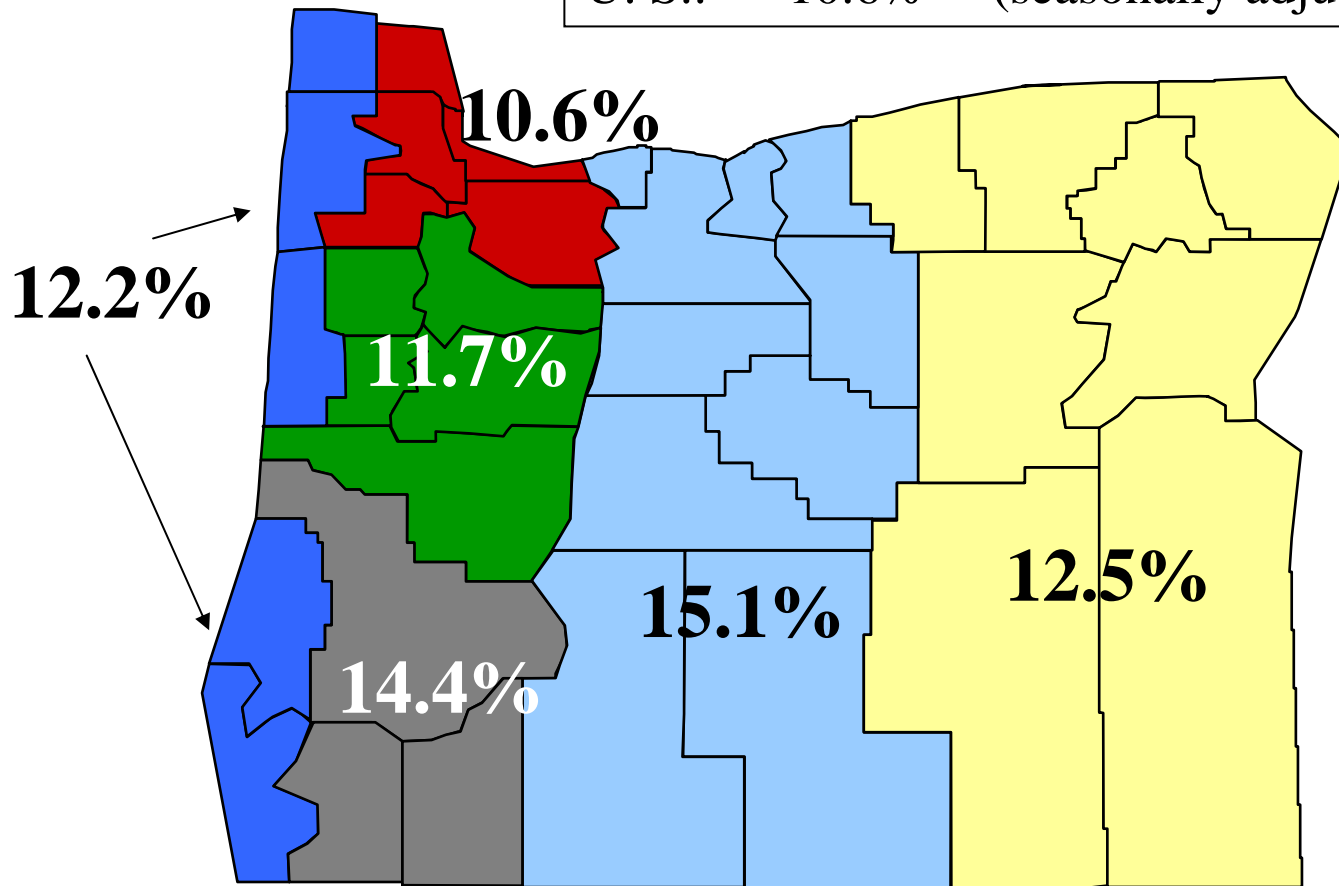




Unemployment Rate by Region, January 2010

(Not seasonally adjusted for counties)

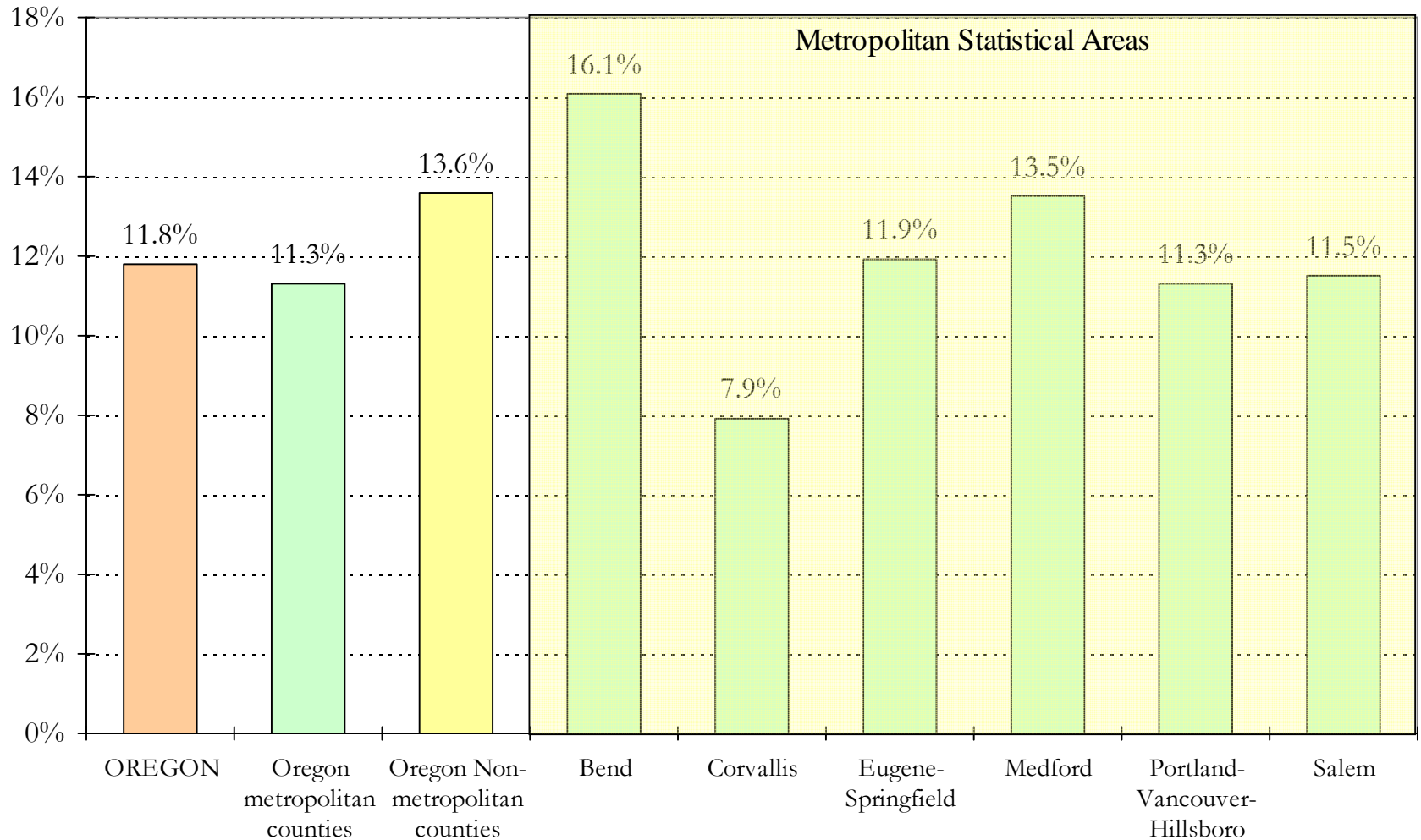
Oregon: 11.8% (seasonally adjusted: 10.7%)
U. S.: 10.6% (seasonally adjusted: 9.7%)





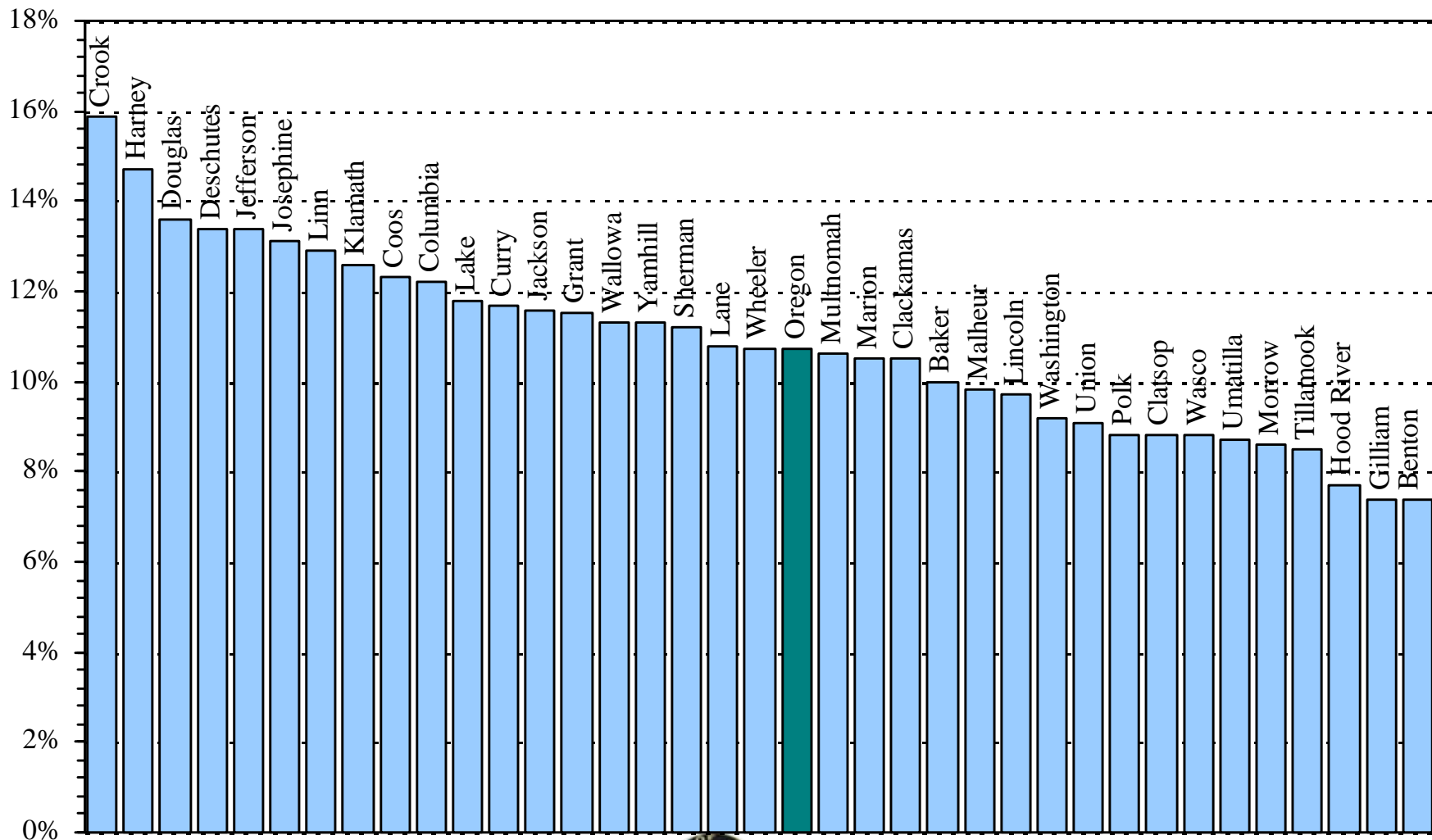
Unemployment rate by MSA designations, January 2010

Note: Portland-Vancouver-Hillsboro includes Clark and Skamania counties in Washington State

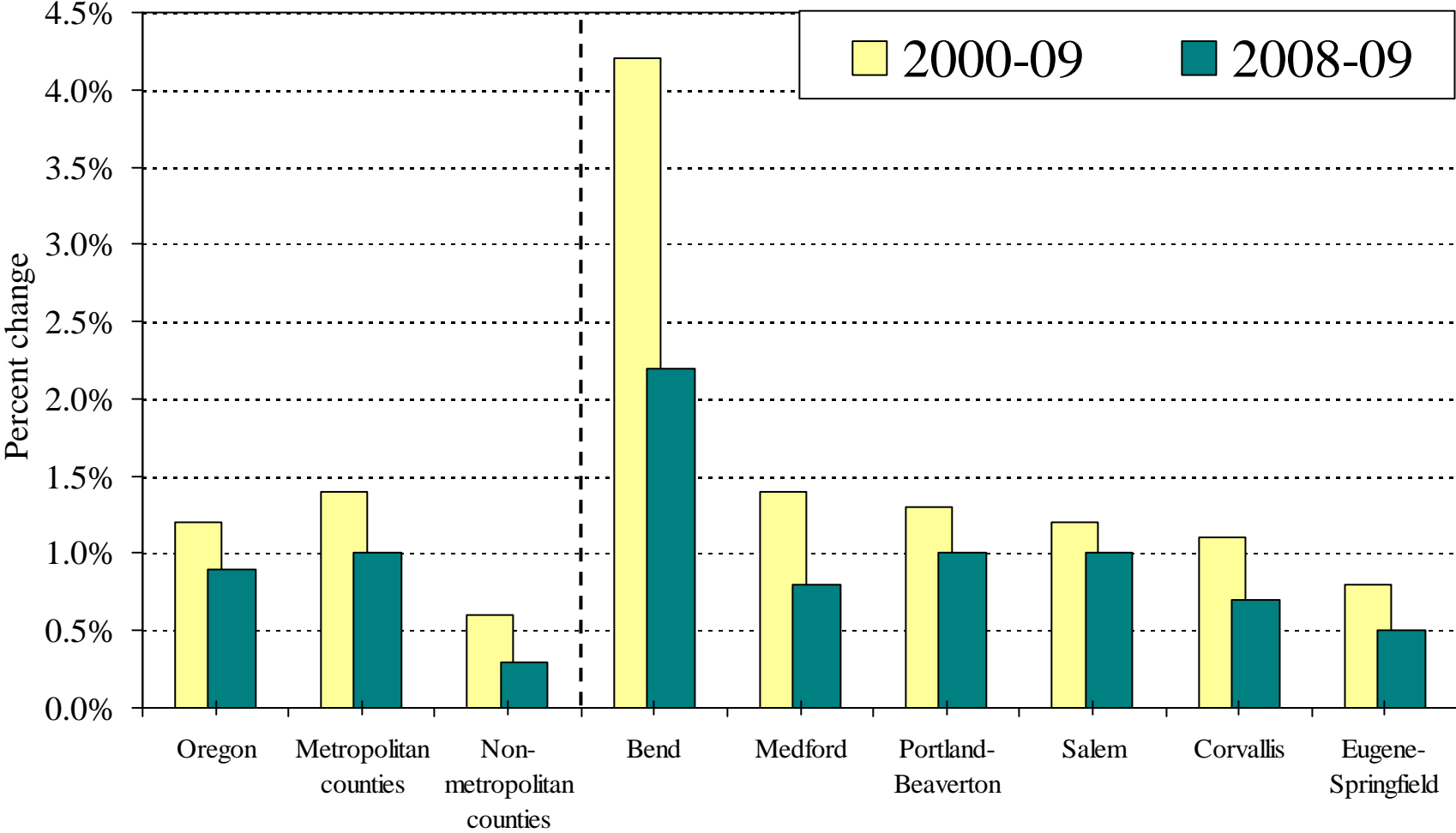


Unemployment Rate by County, January 2010

(Seasonally adjusted)



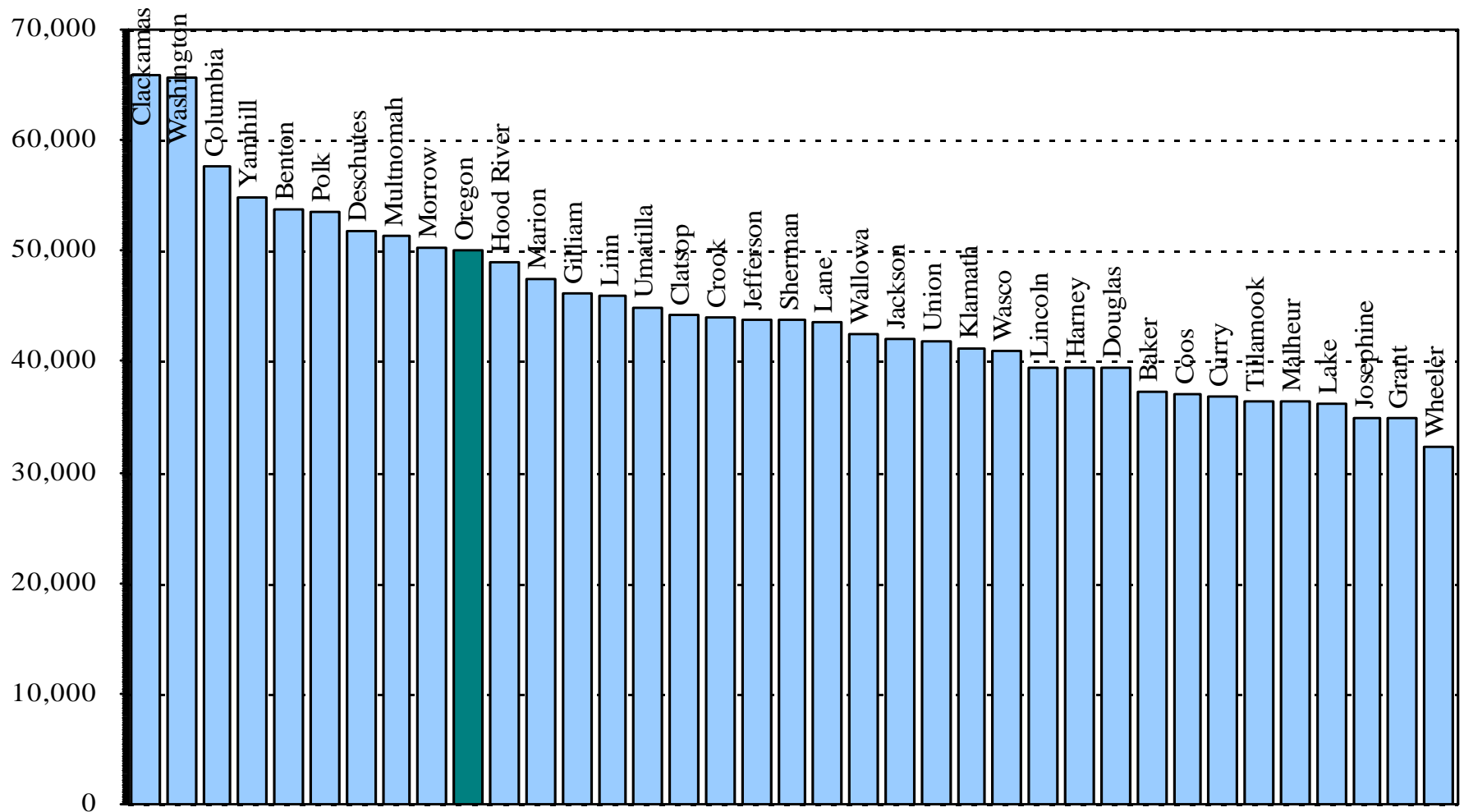
Annual Population Growth Rate for Oregon and Metropolitan Areas



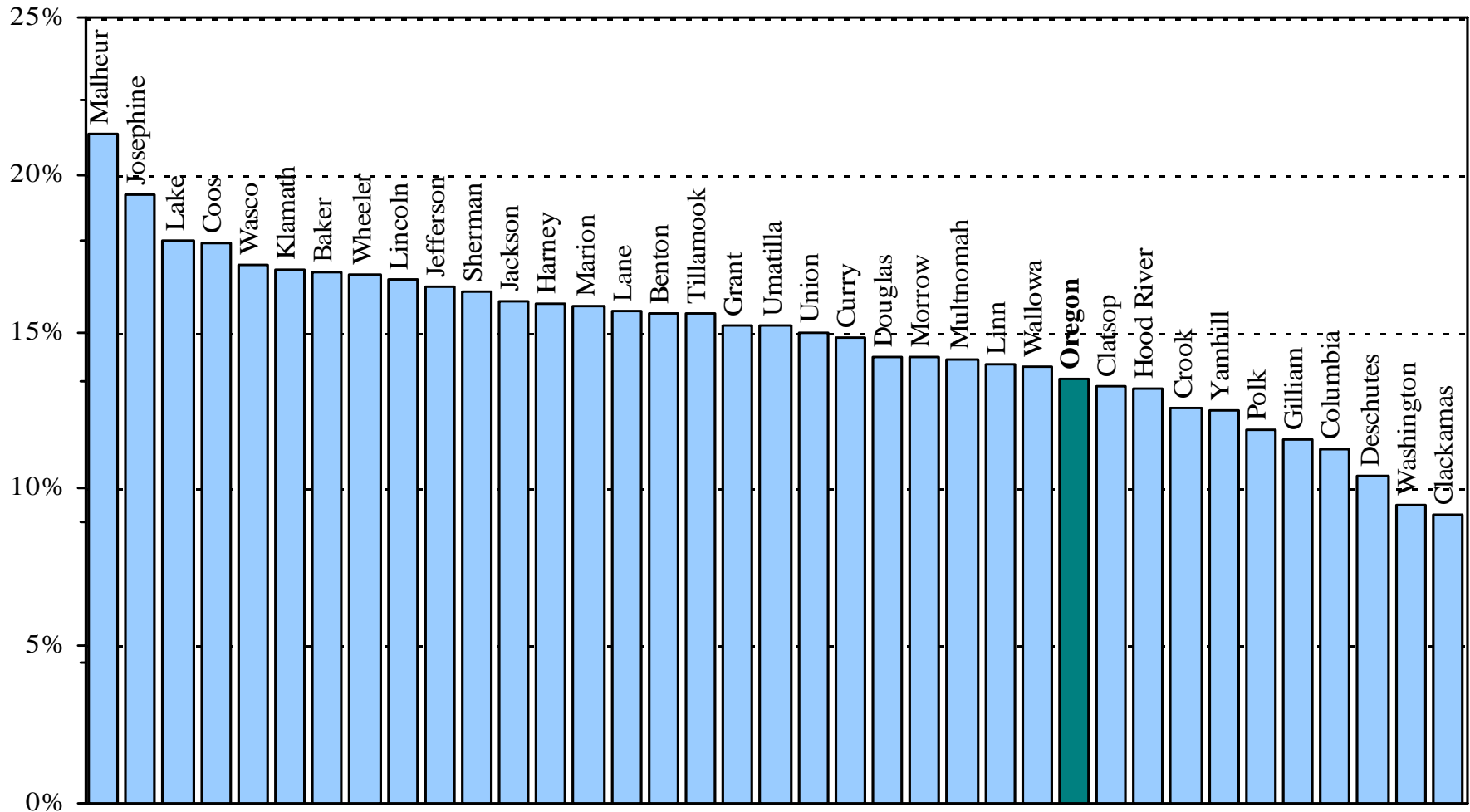
Source: U. S. Census Bureau; and PSU



Median income for Oregon counties, 2008



Poverty rate for Oregon counties, 2008



Historical Comparison

Recession	1981-82	1980-82	1990-91		2001		2008-?? *	
	U.S.	Oregon	U.S.	Oregon	U.S.	Oregon	U.S.	Oregon
Employment								
Loss (in 000s)	2,734.3	123.3	1,498.3	12.3	2,657.3	60.1	7,020.3	150.2
% Change	(2.99)	(11.50)	(1.37)	(0.97)	(2.01)	(3.69)	(5.09)	(8.64)
Duration								
Peak-to-Trough	5 Qtrs	12 Qtrs	5 Qtrs	3 Qtrs	9 Qtrs	10 Qtrs	8 Qtrs	8 Qtrs
Return to Peak	8 Qtrs	28 Qtrs	10 Qtrs	5 Qtrs	15 Qtrs	16 Qtrs	20 Qtrs	24 Qtrs

* Estimates based on Global Insight and OEA forecasts

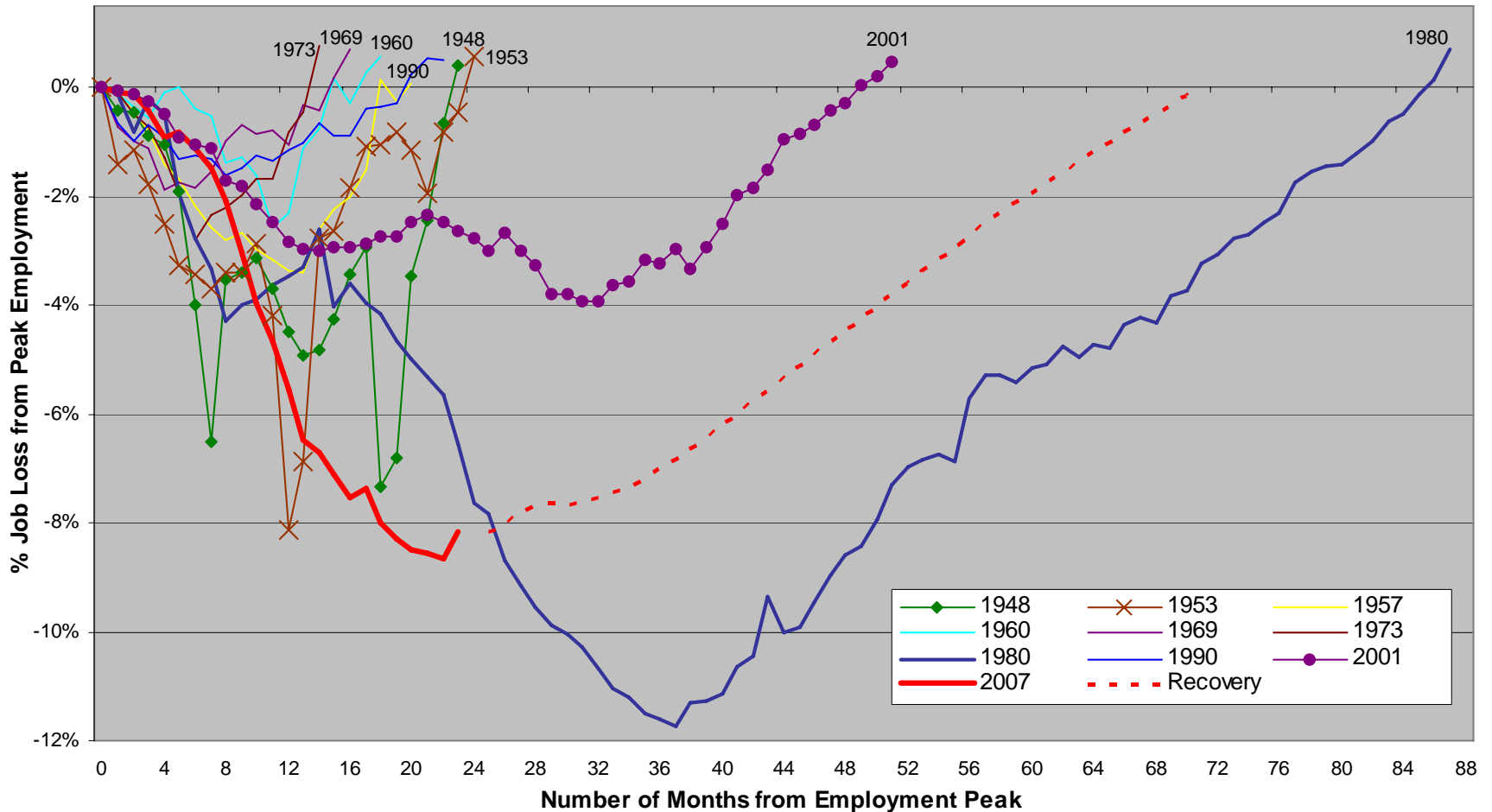




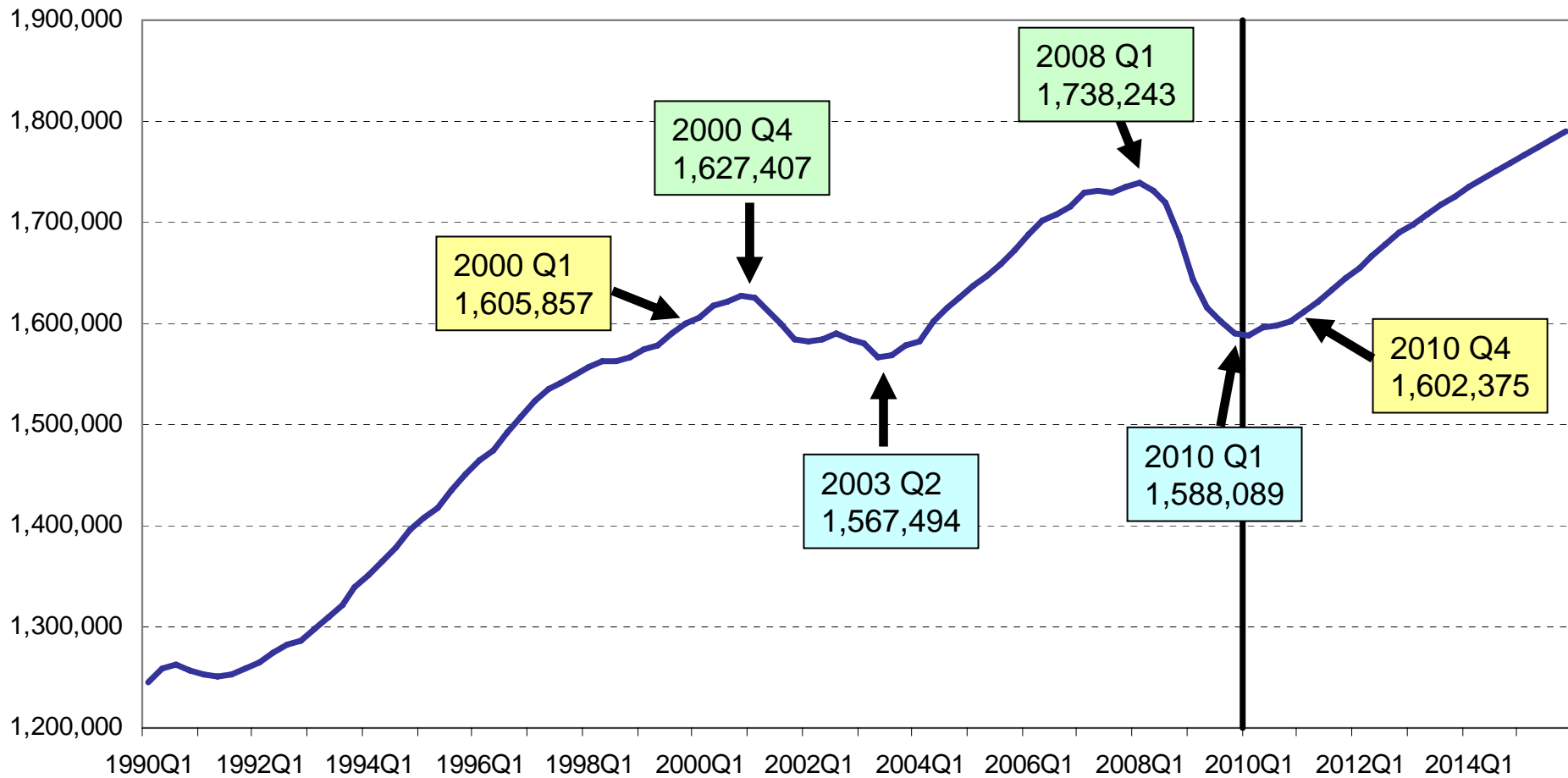
Historical Comparison

(through January 2010)

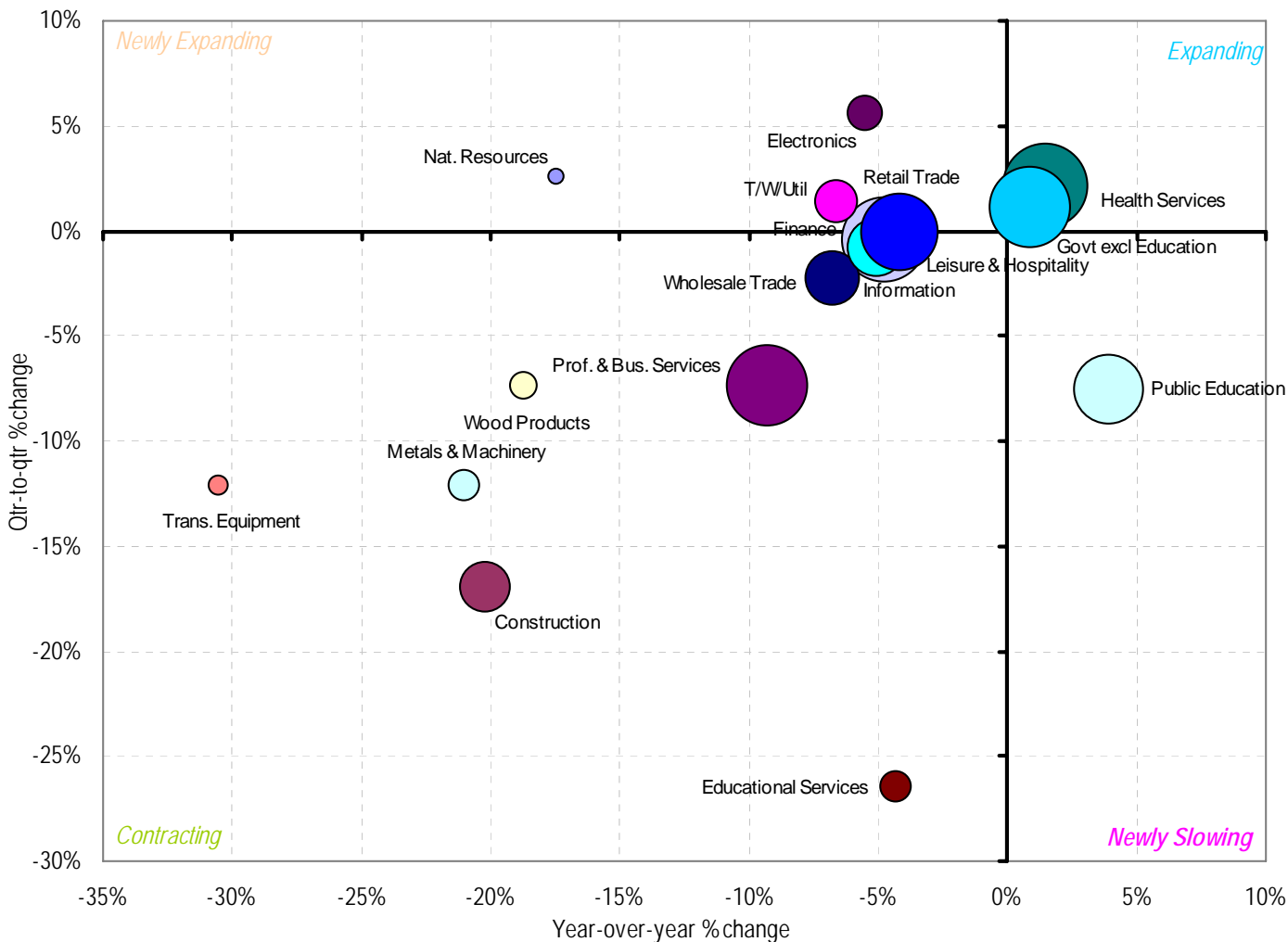
Oregon Employment Loss by Recession



Oregon's Lost Decade?



Industries Beginning to Sort (4th Quarter 2009)

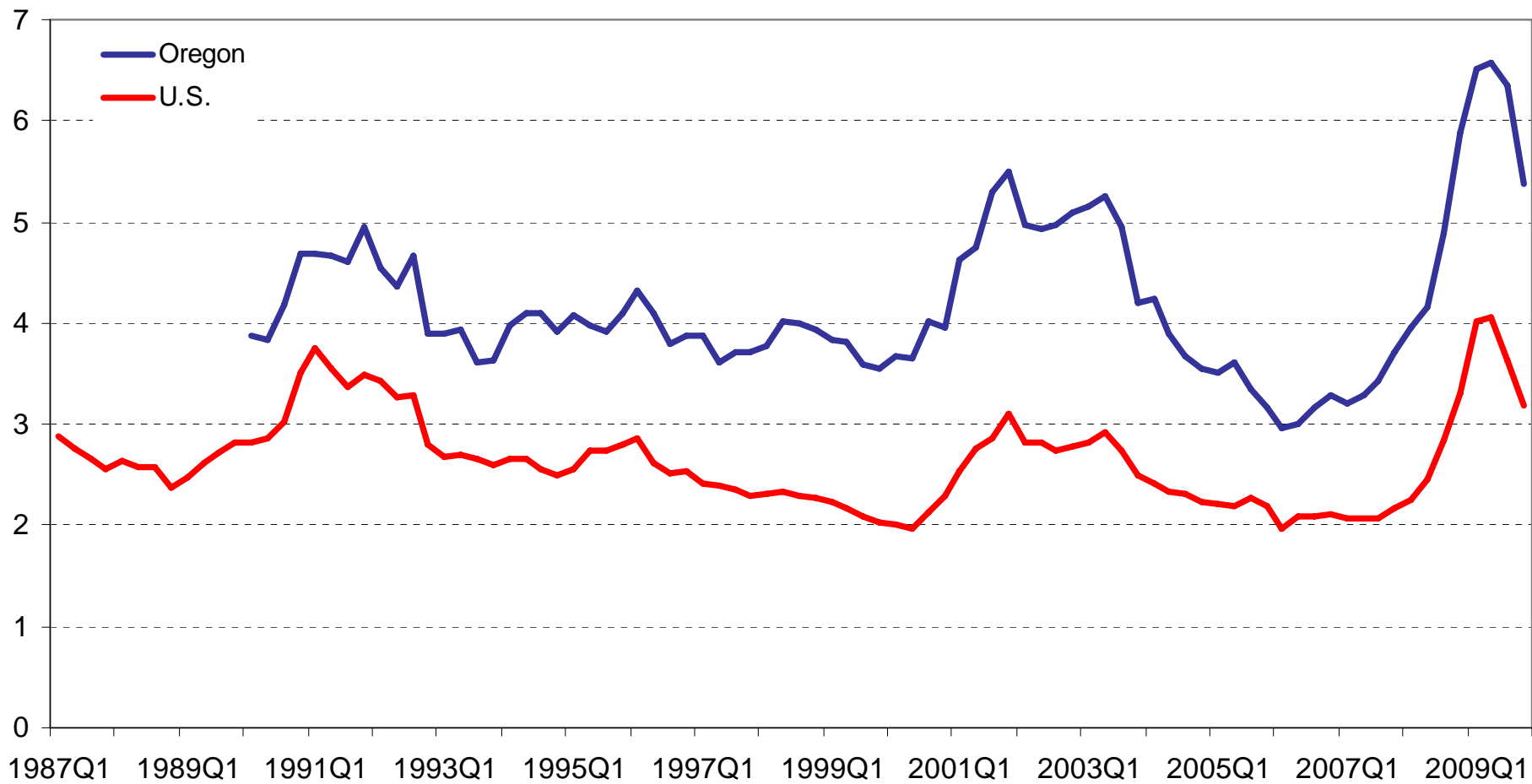




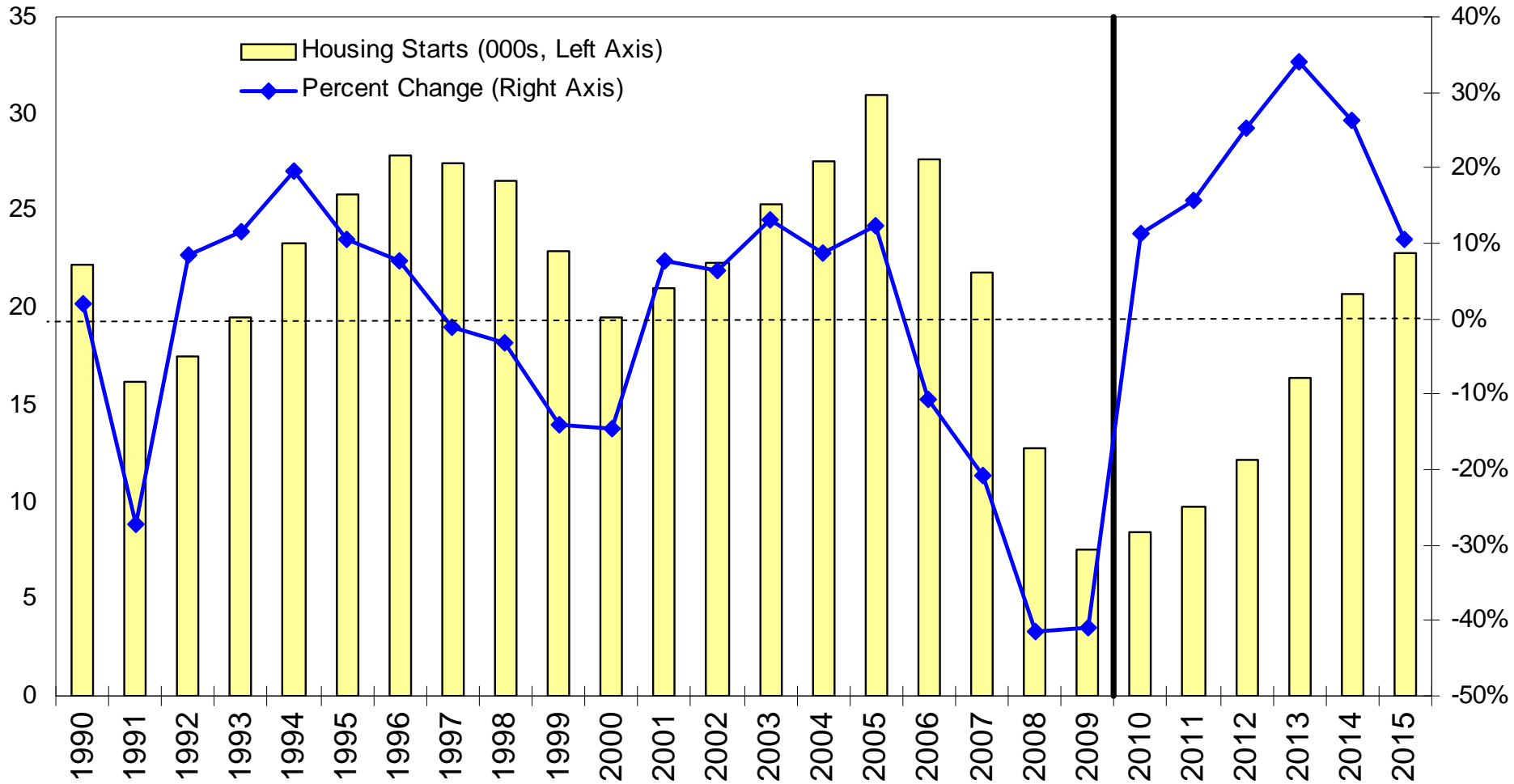
Initial Claims

(through 2009 Q4)

Initial Claims per 1,000 Labor Force (SA)

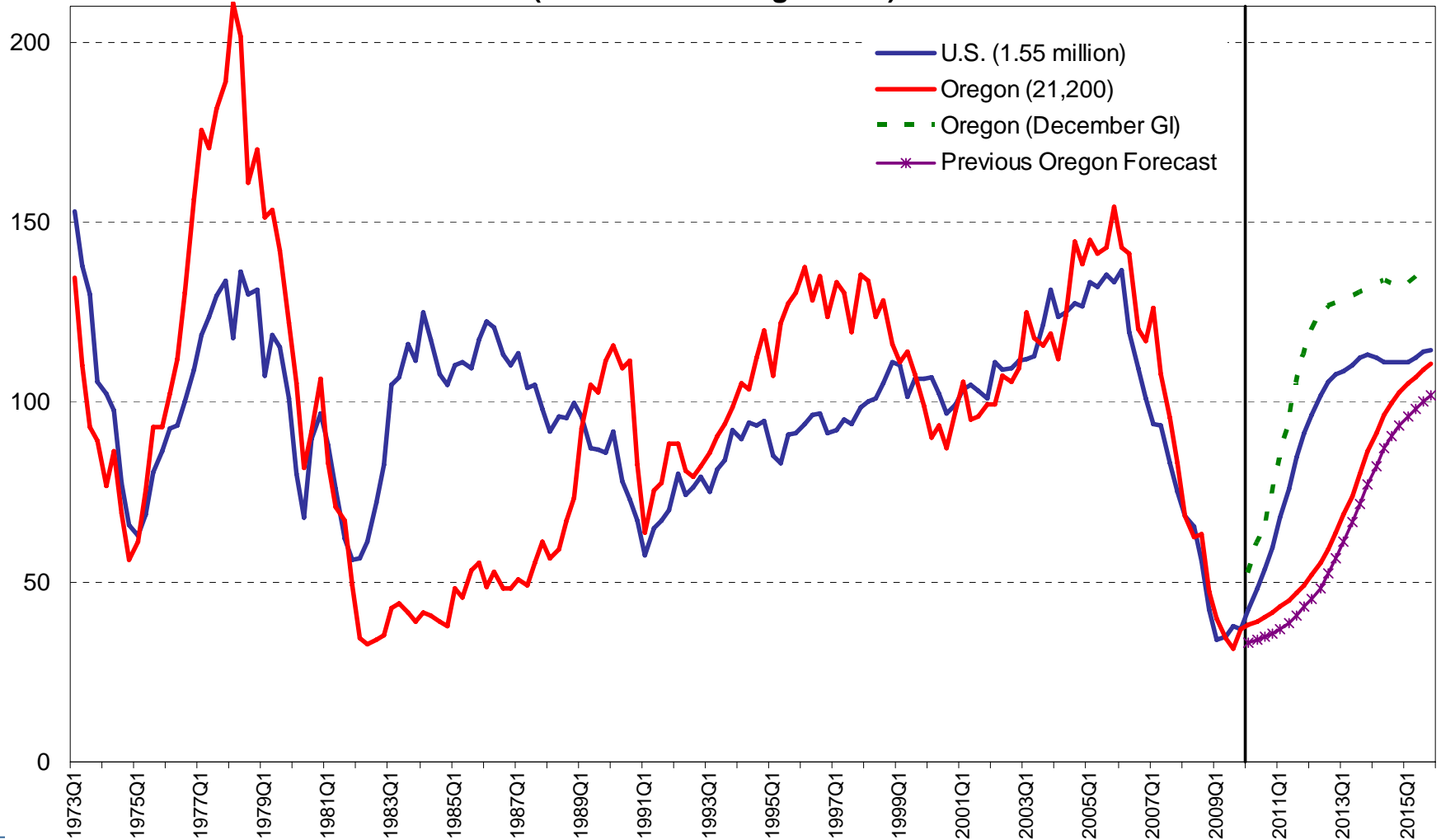


Oregon Housing Starts



Housing Starts: Oregon & U.S.

Housing Starts Index
(1973-2007 Average = 100)





Residential Building Permits Percent Change (December Year to Date)

Area	Total Building Permits	Single Family Permits
Oregon	-37.0%	-28.1%
Bend	-49.7%	-47.3%
Corvallis	-35.0%	-35.0%
Eugene-Springfield	-19.0%	-28.1%
Medford	-29.9%	-16.8%
Portland-Vancouver-Beaverton	-49.3%	-27.3%
Salem	-24.7%	-24.2%
U.S.	-35.9%	-23.7%





Residential Building Permits Percent Change (December Year to Date)

Yamhill	-6.0%
Washington	-16.4%
Malheur	-18.5%
Baker	-28.3%
Columbia	-29.9%
Clackamas	-32.9%
Multnomah	-37.4%
Josephine	-43.5%
Harney	-45.0%
Deschutes	-48.1%

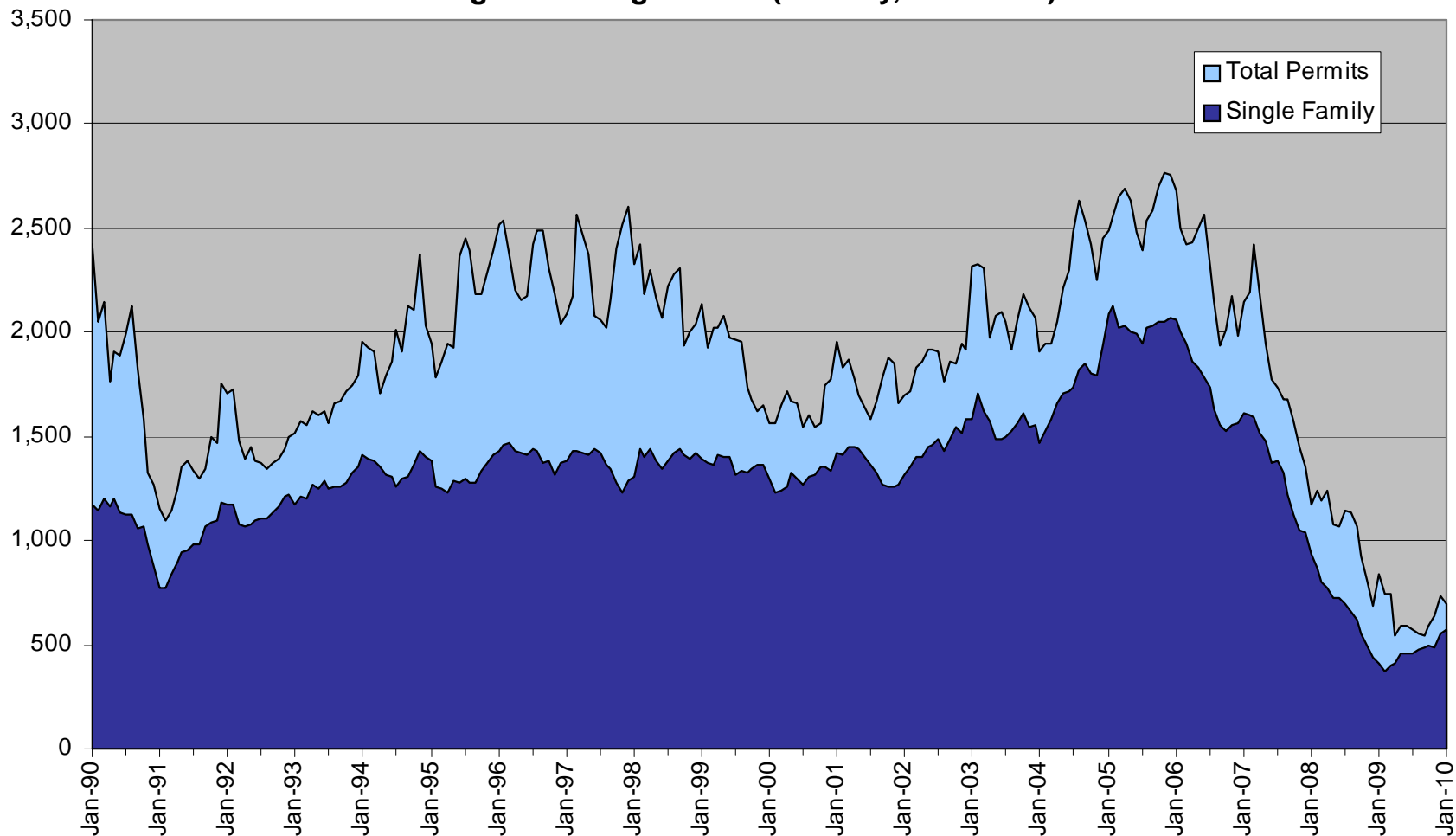




Oregon Housing Permits

(through January 2010)

Oregon Housing Permits (Monthly, SA 3 MMA)





Mortgage Loans

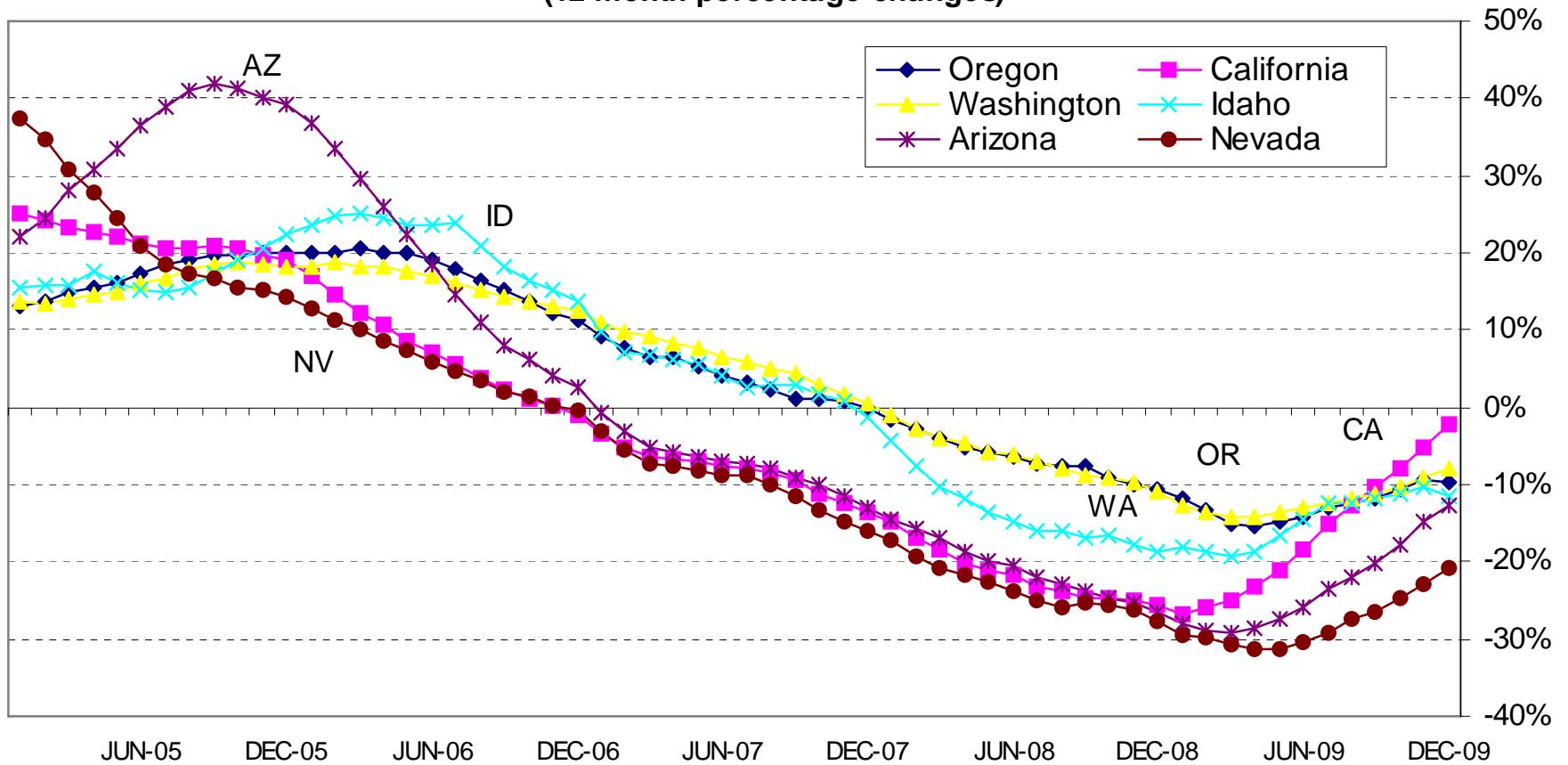
- 6.88 percent of all loans past due (4th Quarter, 2009)
 - 2001 peak 3.72%, rising since early 2007
 - Oregon ranks 8th best nationally (US average is 10.44%)
- 2.98 percent of all loans in foreclosure (4th Quarter, 2009)
 - Higher than 2002 (1.34%) and rising since late 2006
 - Oregon ranks 25th best nationally (US average is 4.58%)
- Combined 9.86 percent ranks 10th best nationally
 - US average is 15.02 percent



Oregon was Late to the Run Up in Prices

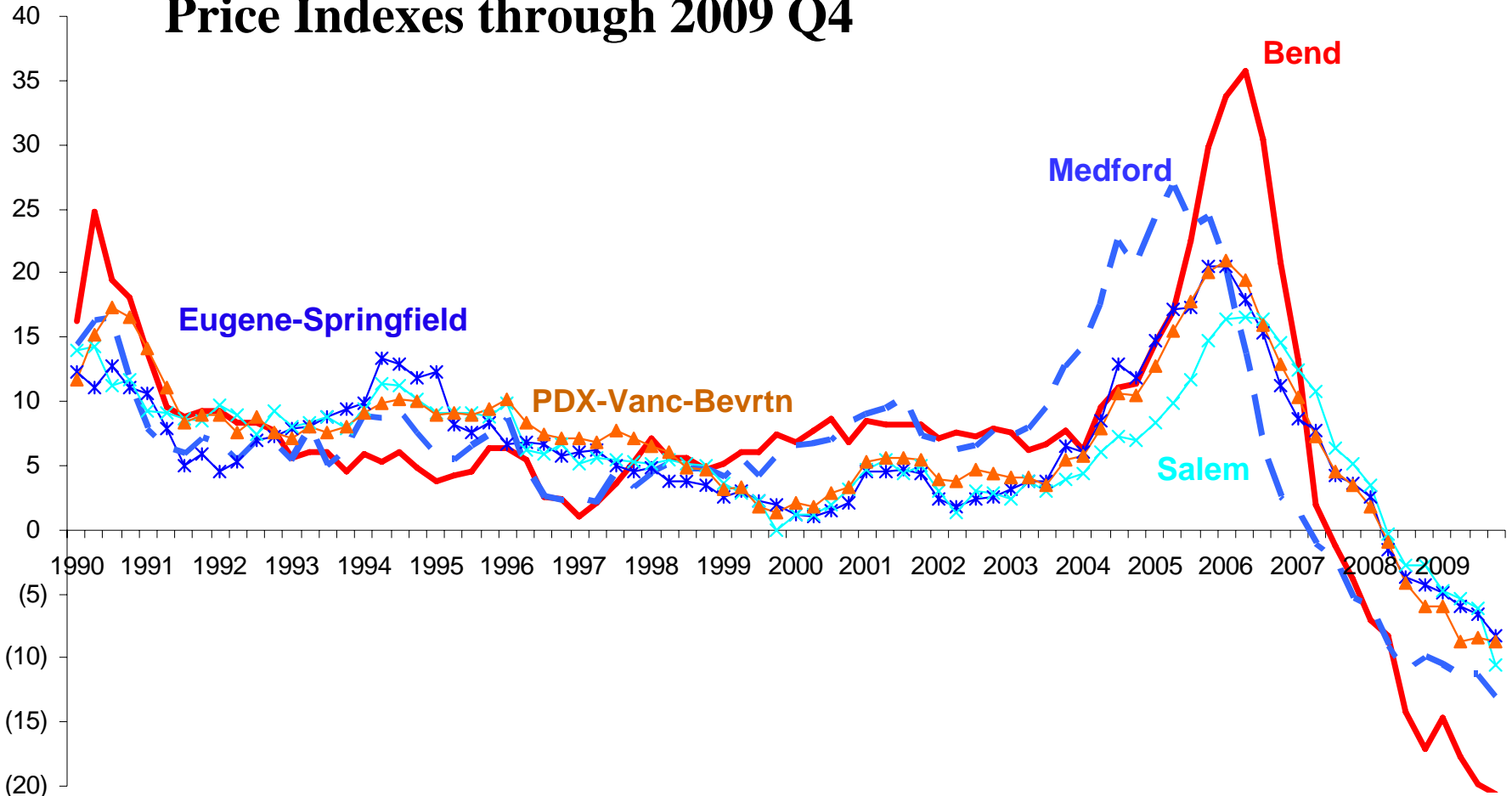
(Jan 2005 - Dec 2009)

Housing Price Index (12-month percentage changes)



Selected Oregon MSA House Price Appreciations

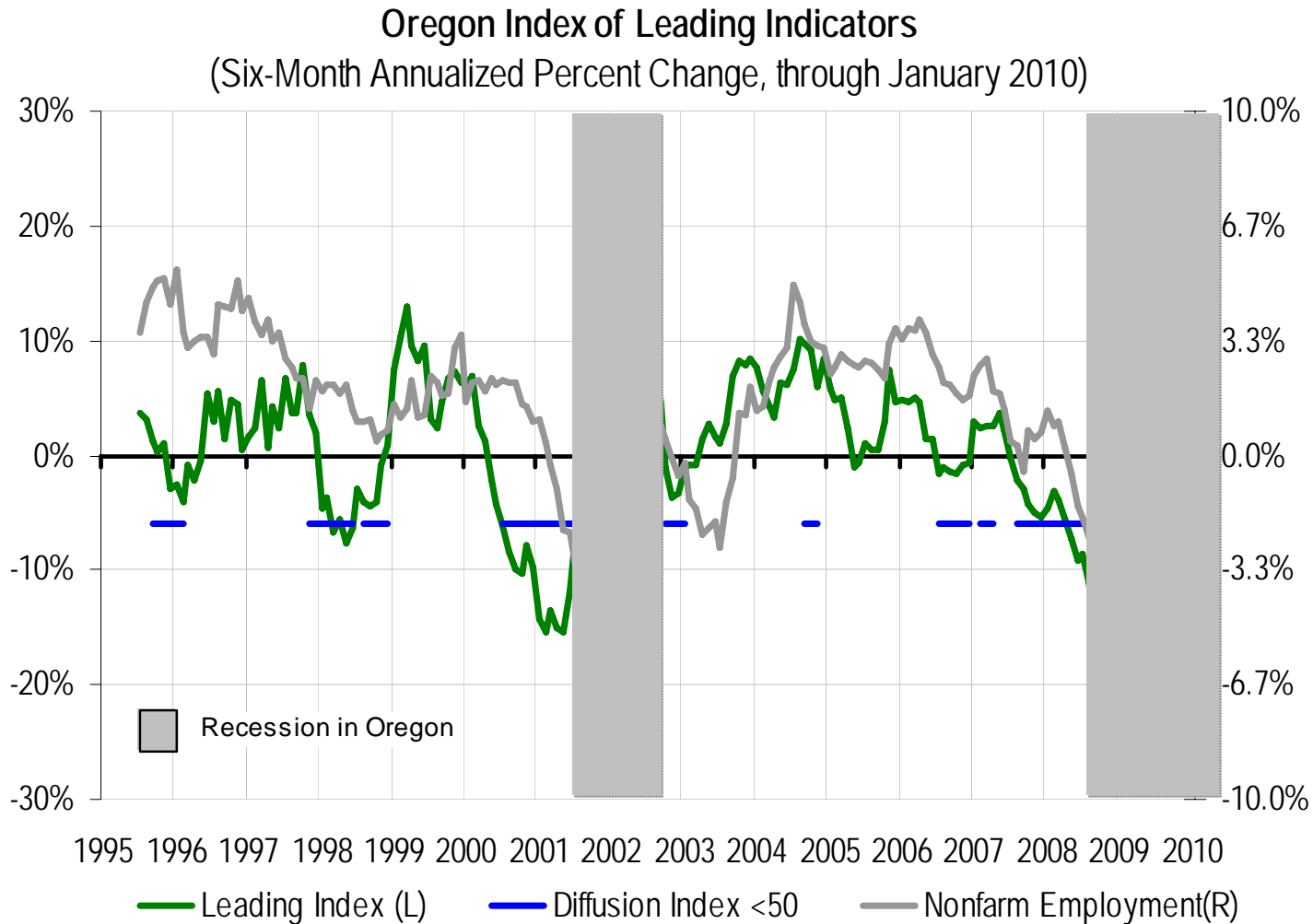
Annual Percentage Change in FHFA MSA House Price Indexes through 2009 Q4





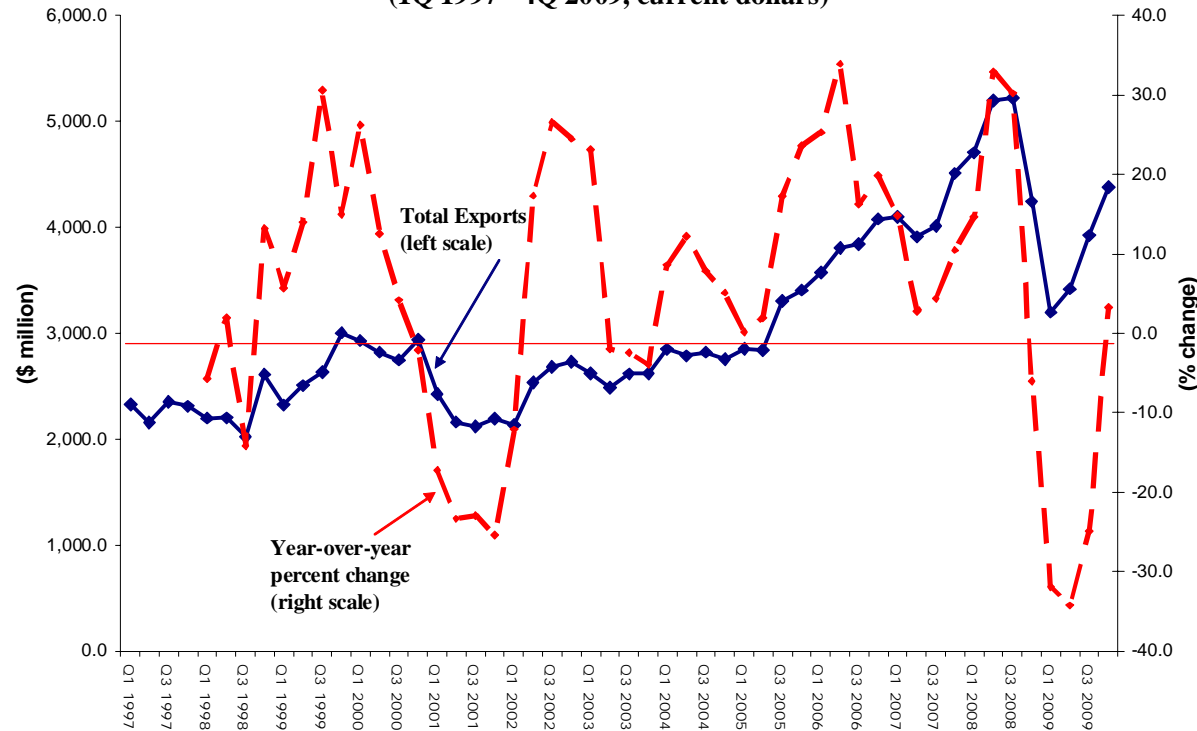
Leading Indicators

8 of 11 Indicators are Positive



Oregon Exports

Oregon's Total Exports
(1Q 1997 - 4Q 2009, current dollars)

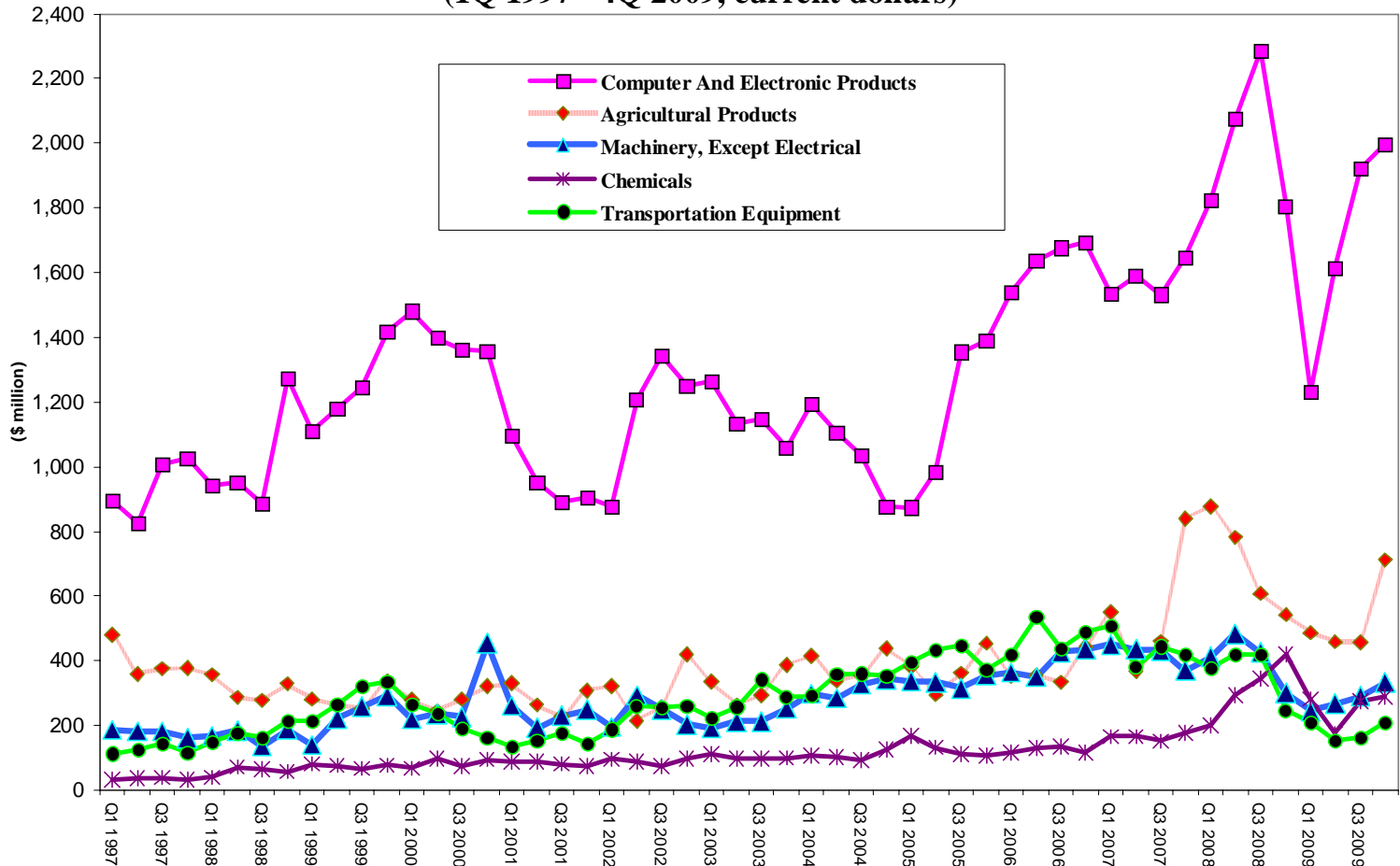


Oregon Exports by Industry			
	2008 Q4	2009 Q4	Y/Y % Change
Total All Industries	4,237.9	4,374.9	3.2%
Computer And Electronic Products	1,805.1	1,995.3	10.5%
Agricultural Products	543.6	712.6	31.1%
Machinery, Except Electrical	301.2	333.8	10.8%
Chemicals	420.9	289.0	-31.3%
Transportation Equipment	245.4	211.7	-13.7%
Waste And Scrap	79.7	112.5	41.1%
Primary Metal Manufacturing	168.3	101.9	-39.5%
Food And Kindred Products	94.2	108.2	14.9%
Wood Products	96.1	94.6	-1.5%
Paper	103.9	60.9	-41.4%



Exports by Industry

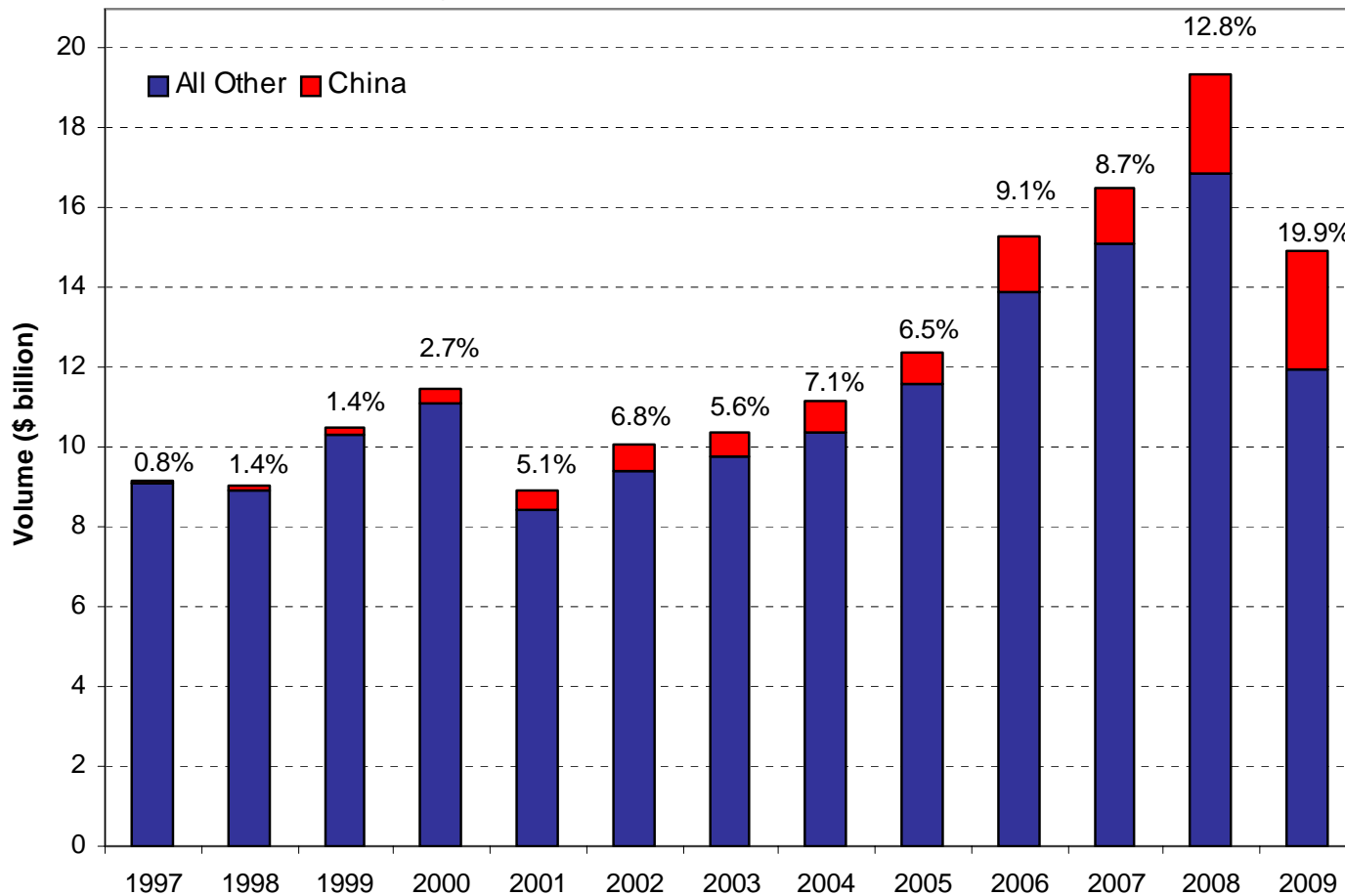
Oregon Exports by Major Industry
(1Q 1997 - 4Q 2009, current dollars)





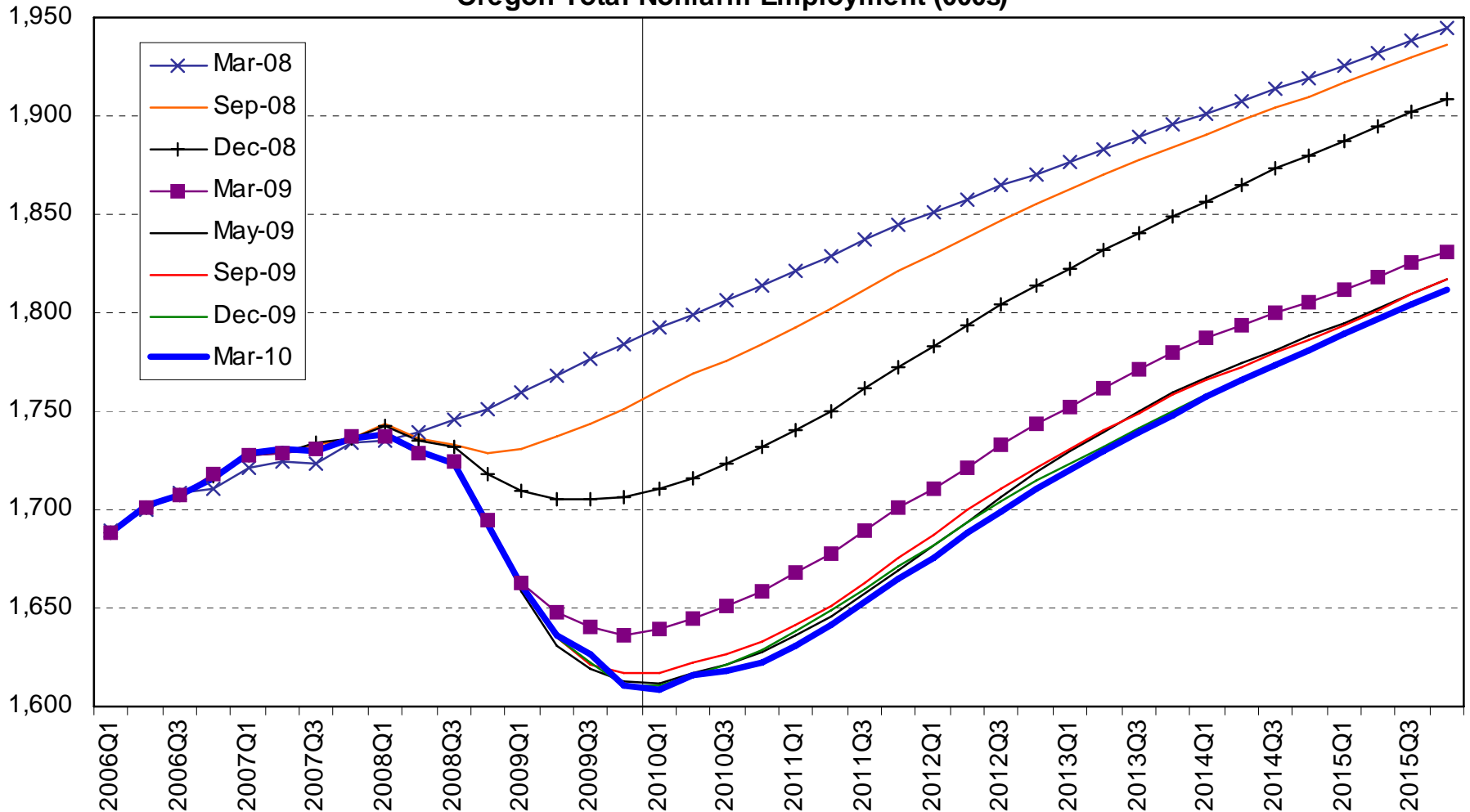
Exports to China

Oregon Export Markets (1997 - 2009)



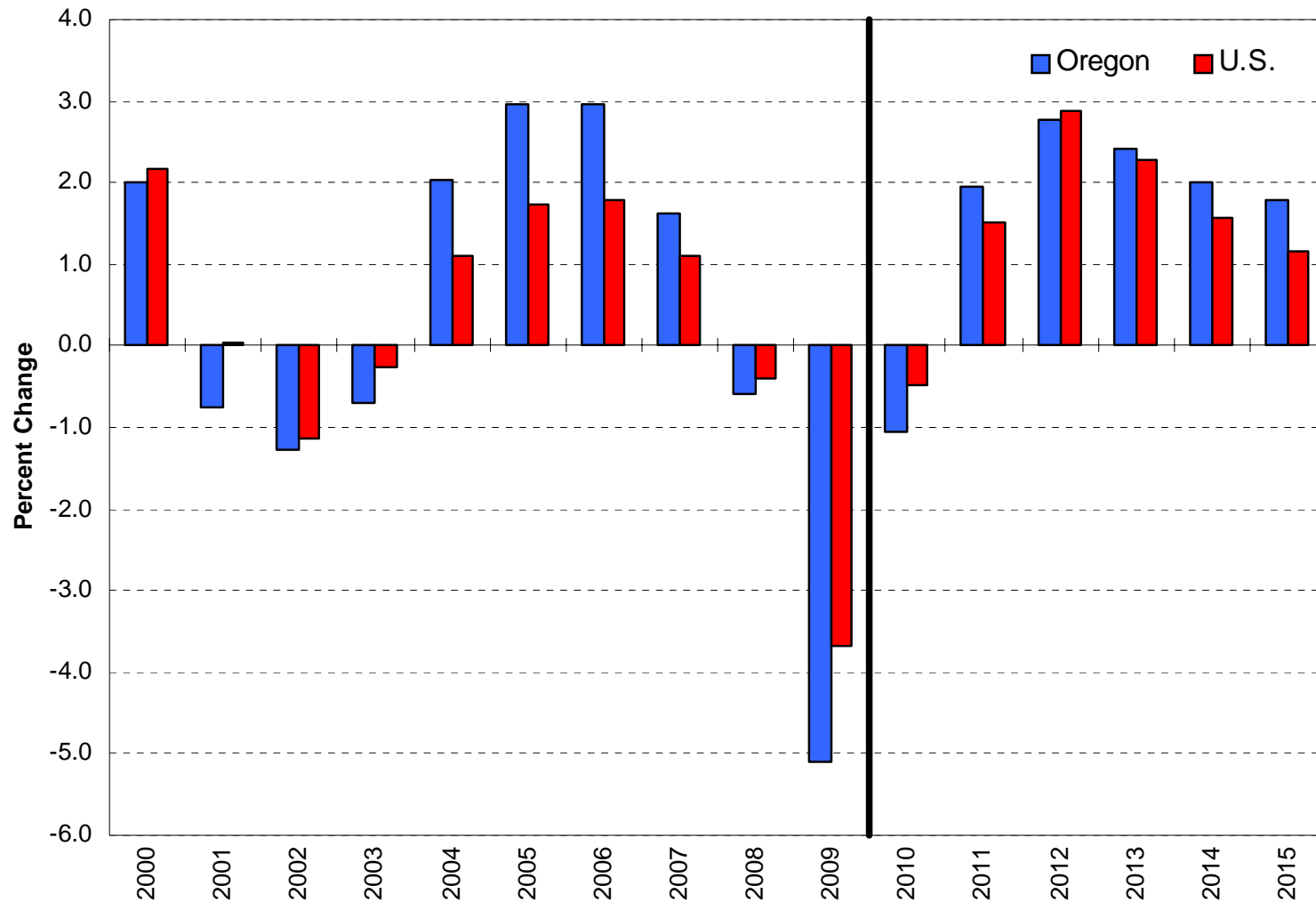
Forecast Changes

Oregon Total Nonfarm Employment (000s)



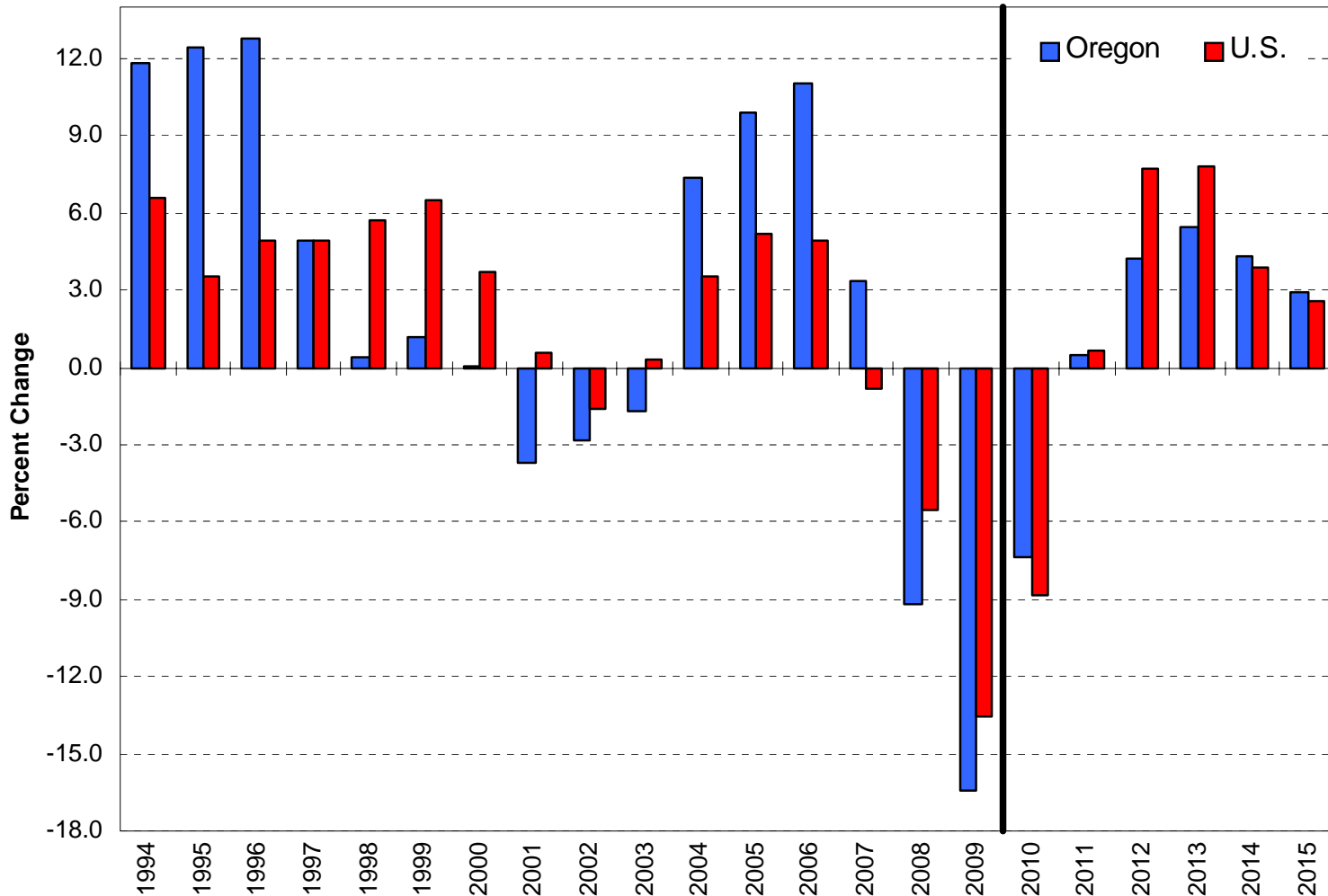


Total Non-farm Employment (Annual Percent Change)



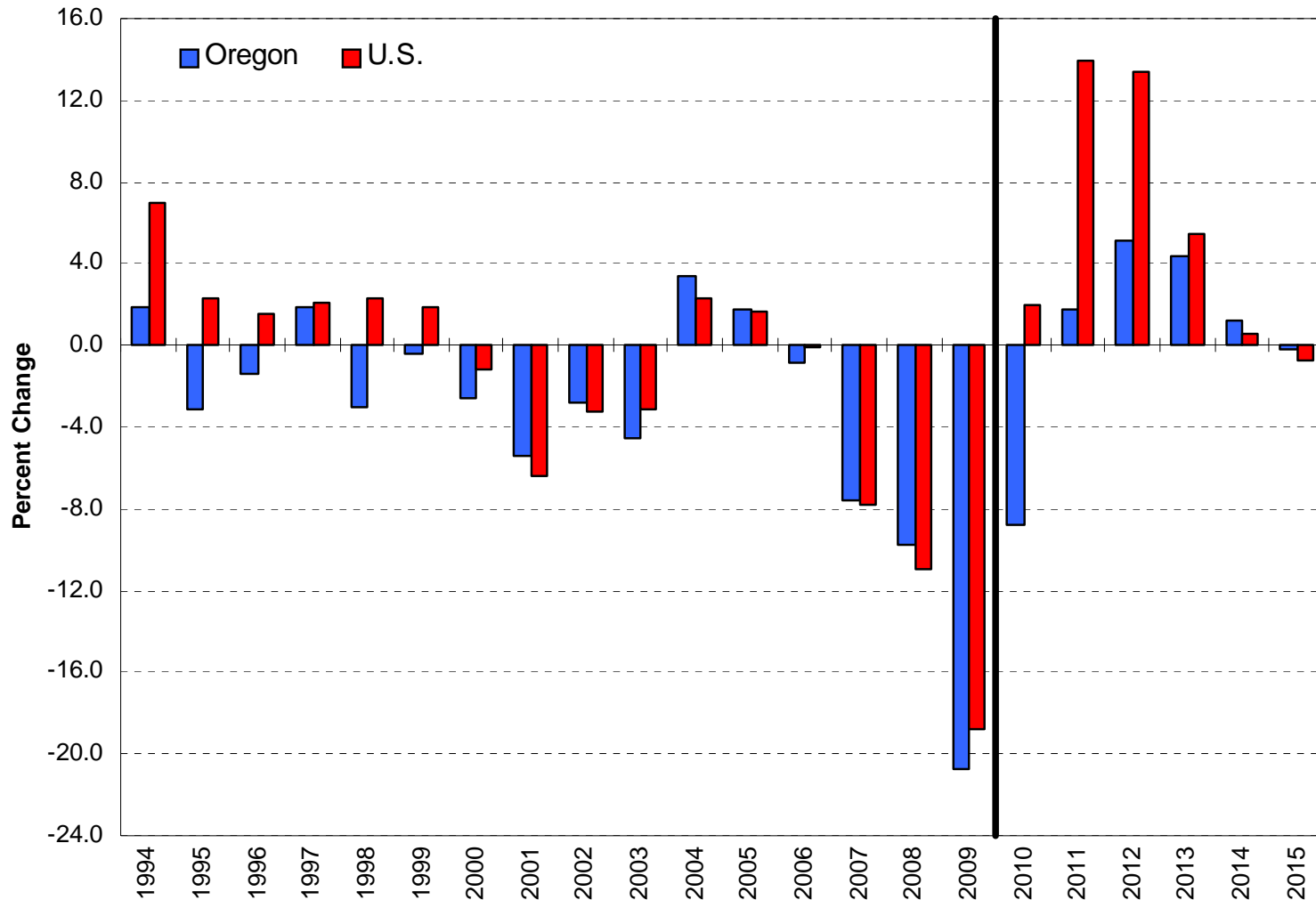


Construction Industry Employment (Annual Percent Change)



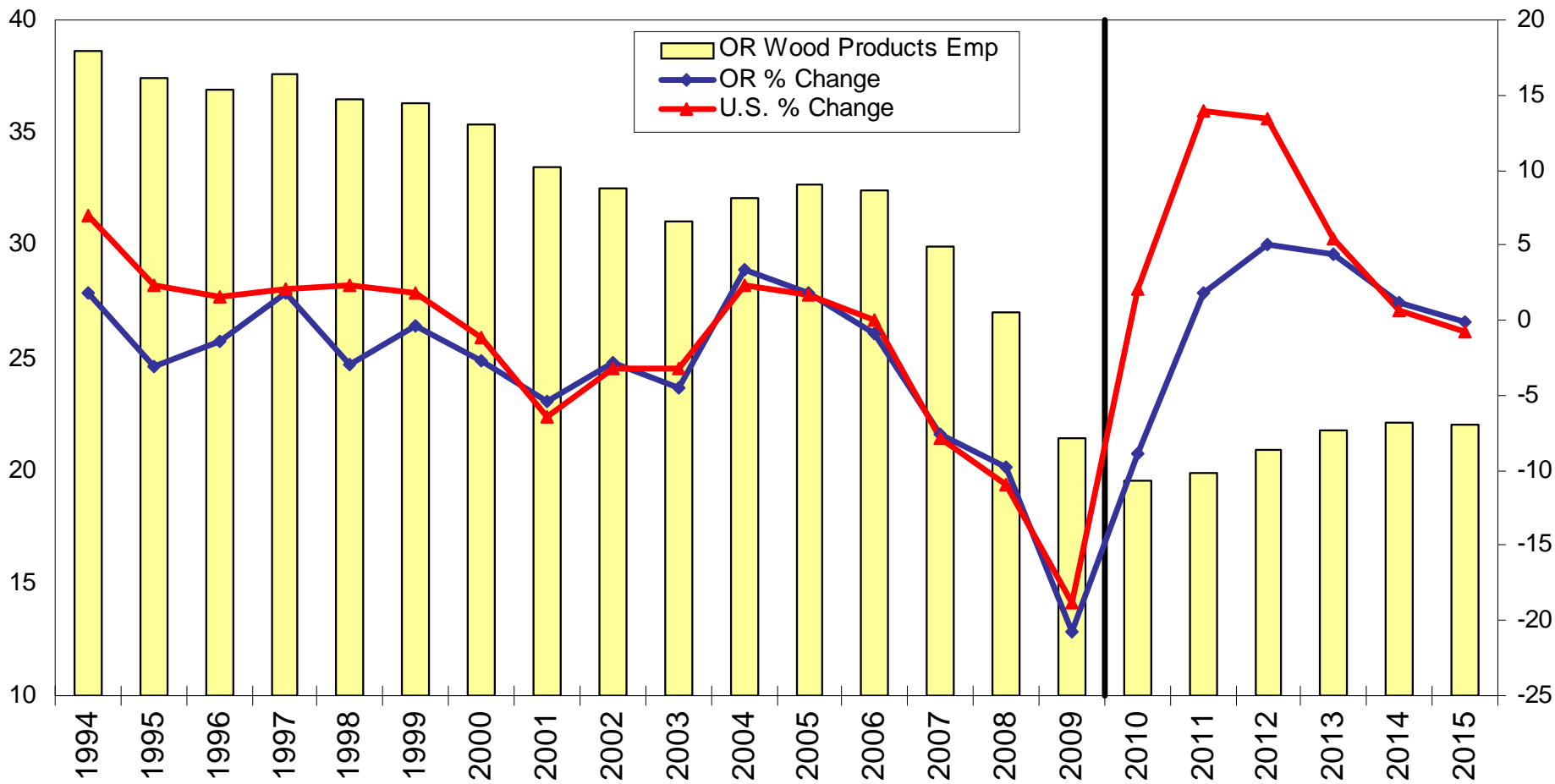


Wood Products Industry Employment (Annual Percent Change)

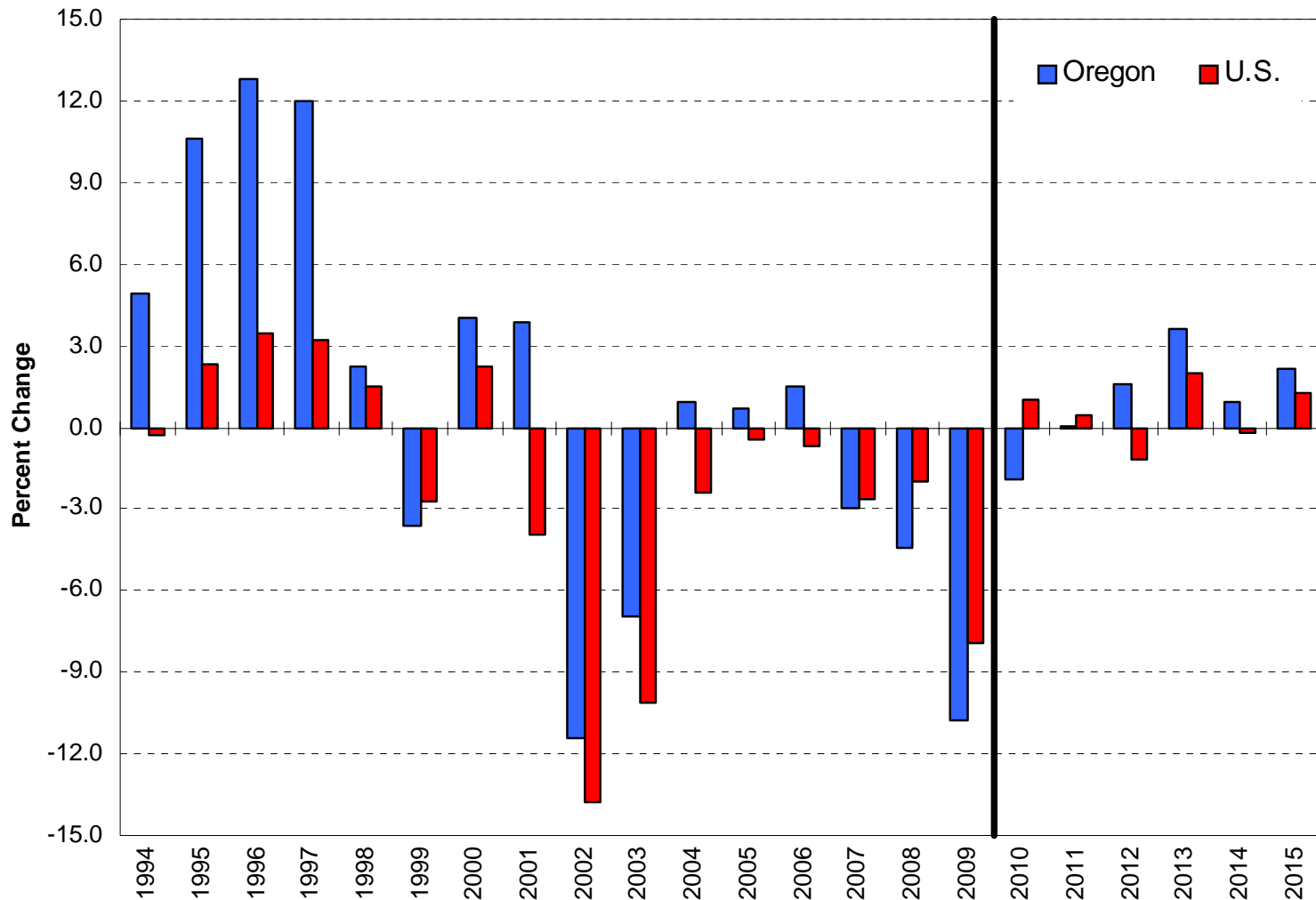




Wood Products Industry Employment (Annual Percent Change)



Computer and Electronic Products Industry Employment (Annual Percent Change)





Risks to the Forecast...

Downside

- Double Dip in Housing
- Higher Oil Prices
- Premature Policy Tightening
- After Shocks from the Financial Crisis
- China Bubble?

Upside

- V-Shaped Recovery in Other Parts of the World
- Quicker, Stronger Release of Pent-up Demand
- Stronger Growth in Total Factor Productivity

Upside – Downside?

- Passage of Measures 66 and 67
- Health Care Reform



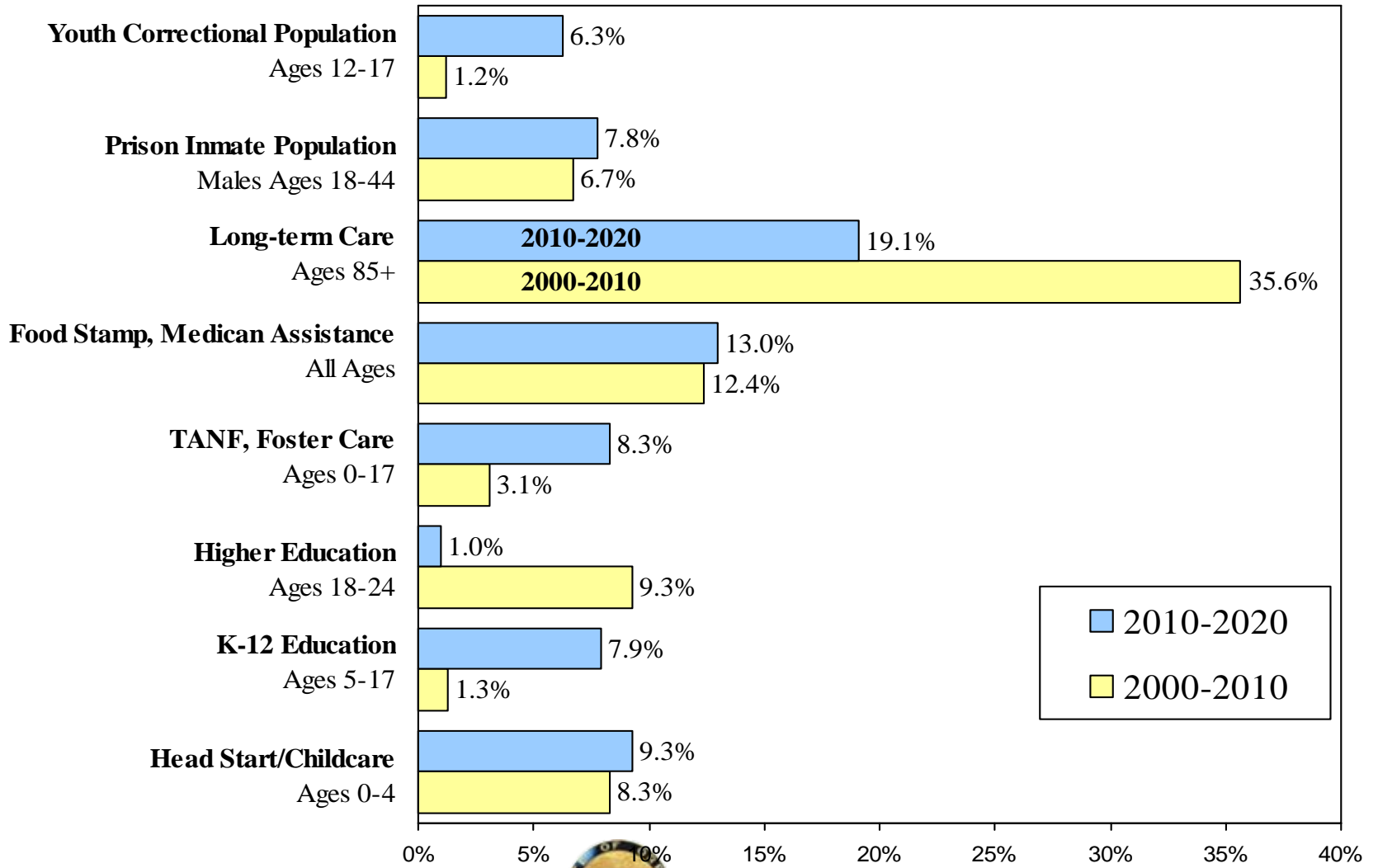


Bottom Line for the Oregon Economy

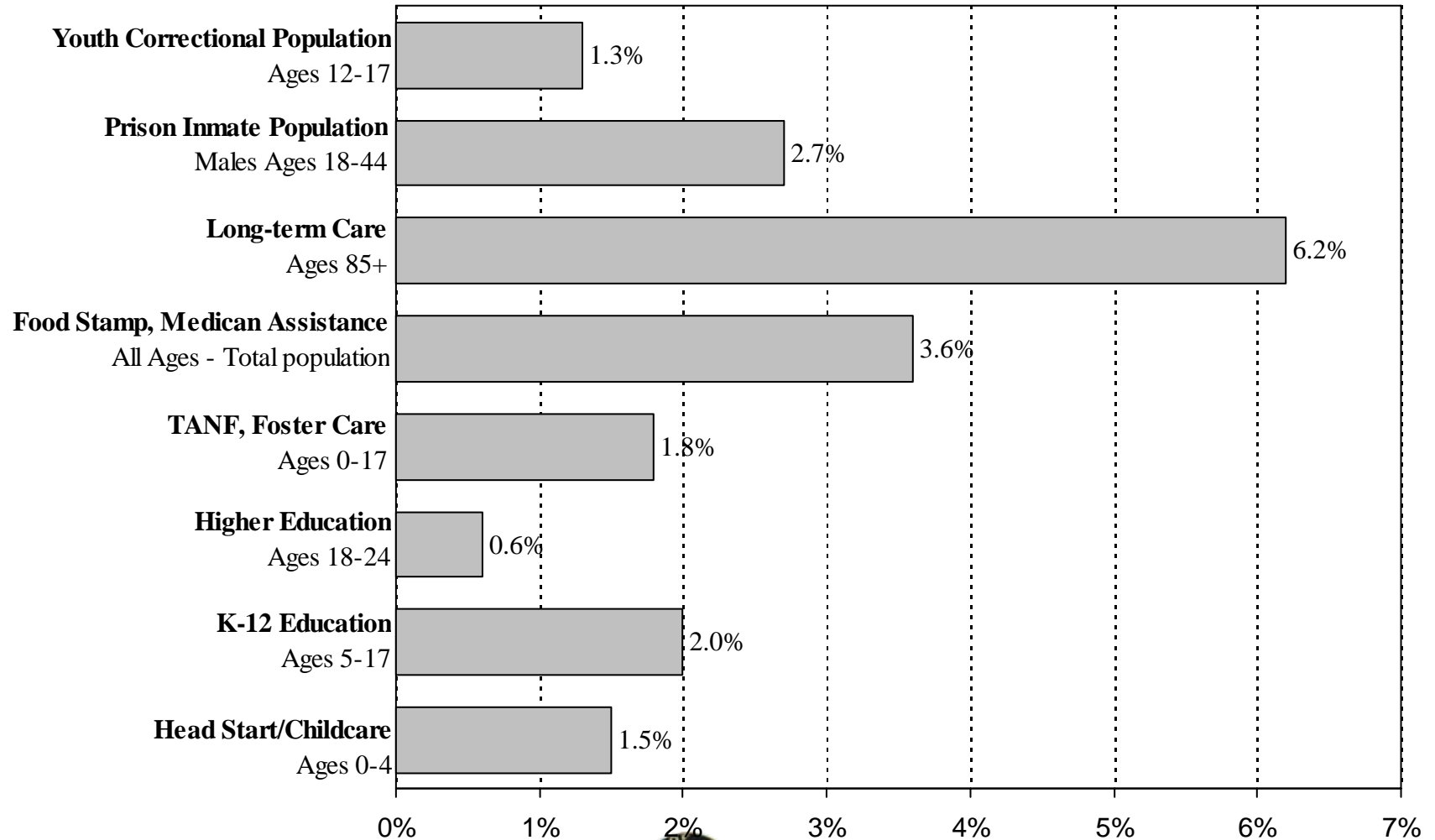
- The “technical” recession in Oregon ended late this summer or late this year. Expect a “jobless” recovery.
- Job losses will continue into the first quarter of 2010, with only mild job growth the rest of the year.
- Housing prices may still decline into 2010 but looking more like a bottom has been reached in housing permits.
- Housing will not lead during the recovery. First sectors likely to come back: profession and business services, health care services, computer and electronic products, retail.



Budget Driver Populations: Past and Future Decades 2000-10 and 2010-20

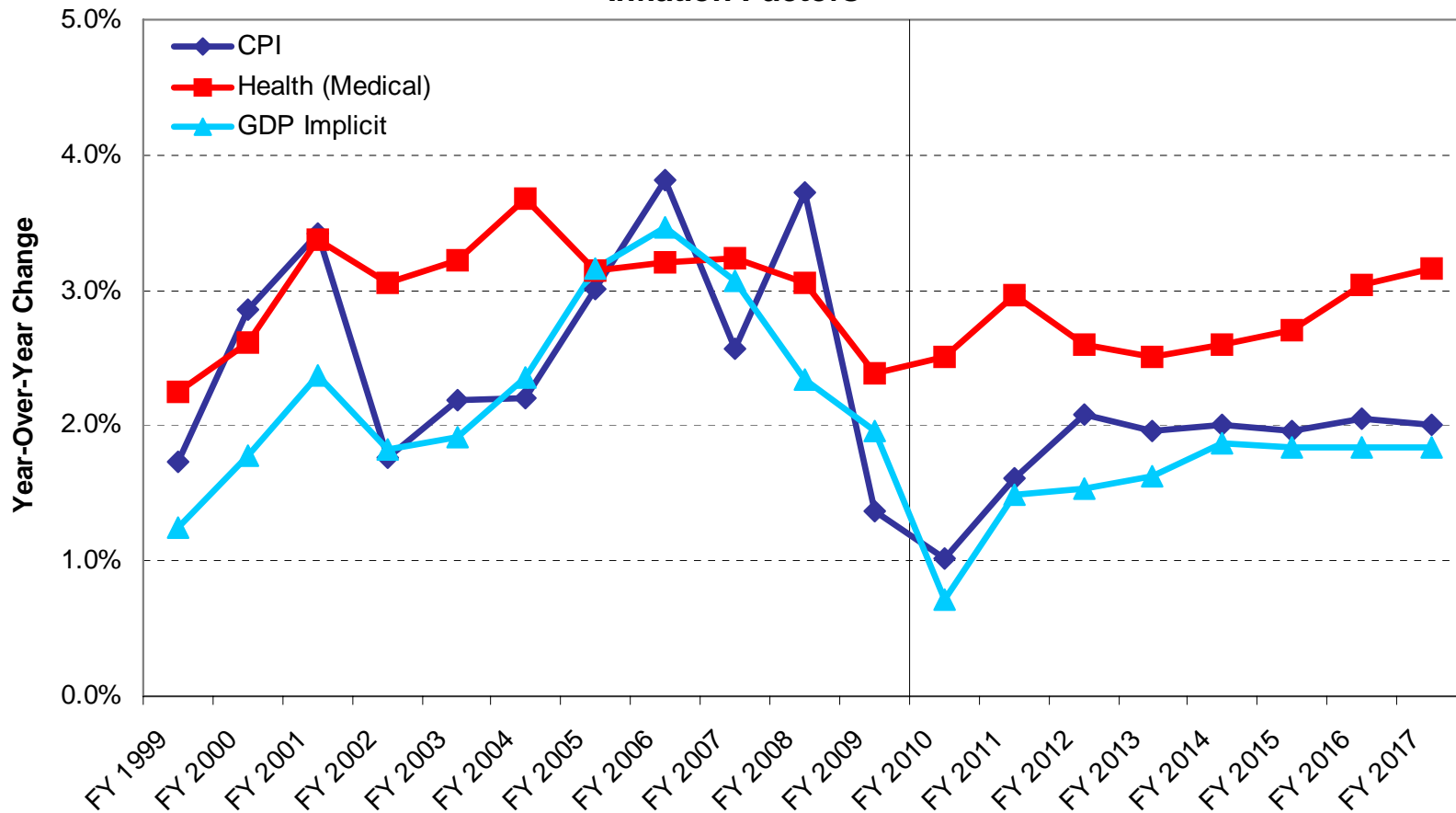


Change in Budget Driver Populations: 2010-2013





Inflation Factors

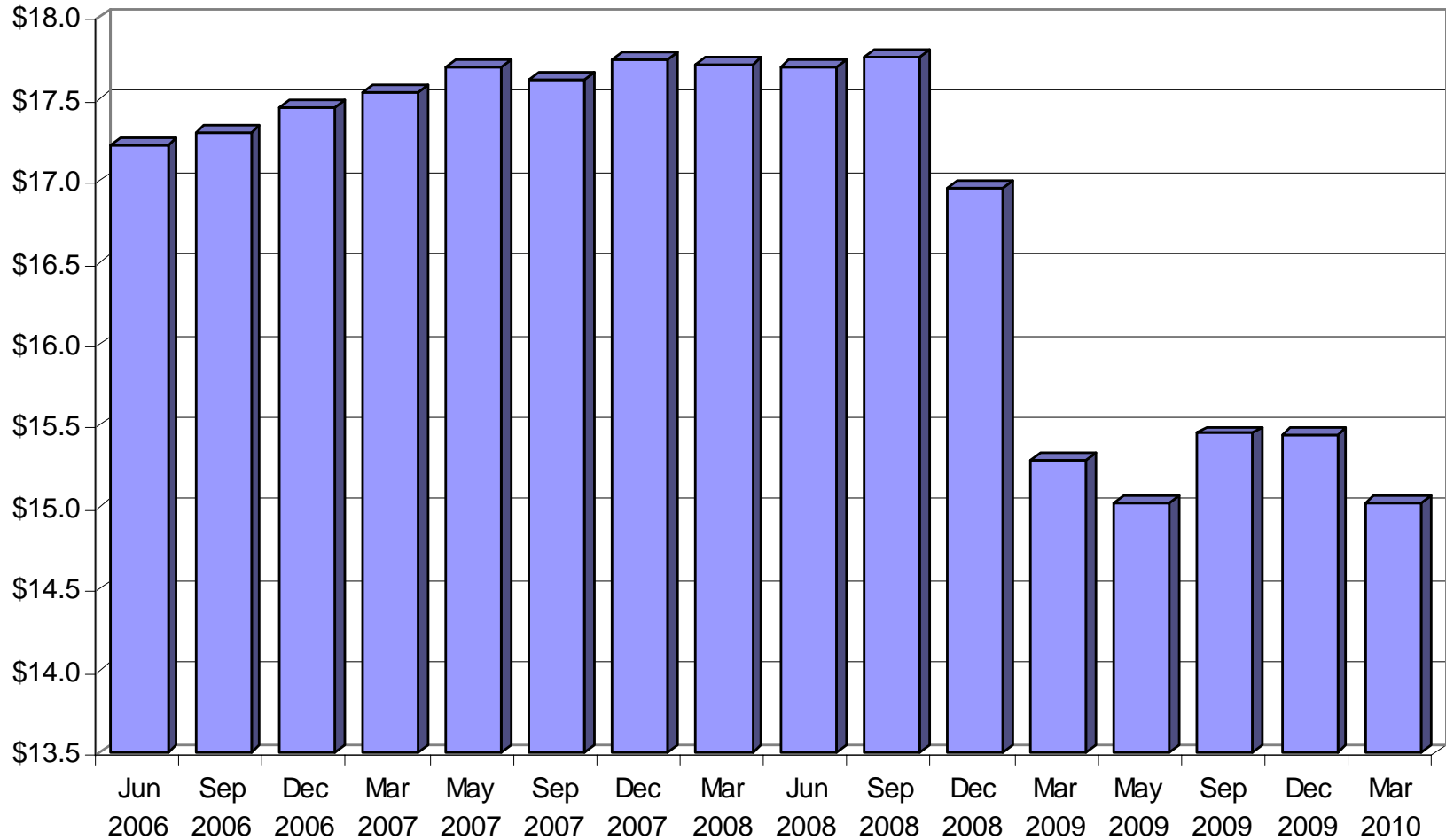


2009-11 General Fund Forecast

(\$millions)	Latest Forecast	Distribution	Difference from 2009 COS	Percent Change from 2007-09
Personal Income	\$11,219.9	84.9%	-\$325.8	11.2%
Corporate Excise & Income	\$837.1	6.3%	\$5.5	22.3%
Insurance	\$88.5	0.7%	-\$11.1	-5.1%
Estate Taxes	\$193.2	1.5%	-\$2.2	-1.8%
Cigarette & Tobacco Tax	\$113.6	0.9%	\$10.9	-1.6%
Liquor Apportionment	\$209.5	1.6%	-\$3.6	18.2%
Other Sources	\$548.4	4.2%	-\$39.2	48.9%
Total General Fund	\$13,210.3	100.0%	-\$365.4	12.7%



Progression of 2011-13 GF Forecasts (Bil.)

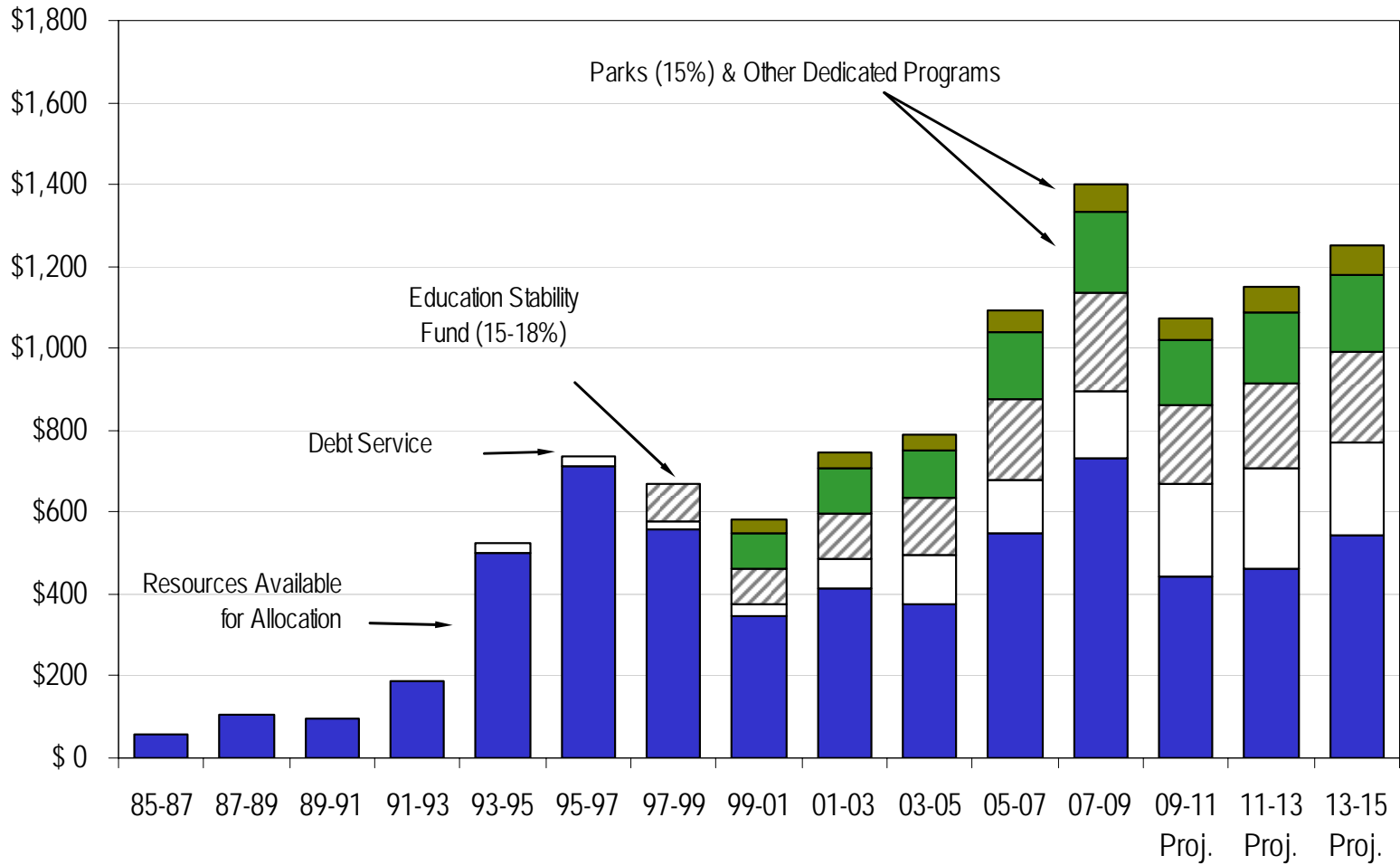


Current Lottery Forecast

(in millions of dollars)	2009-11	2011-13	Percent Change	2011-13 Distribution
LOTTERY EARNINGS				
Traditional Lottery	125.931	117.016	-7.1%	10.2%
Video Lottery	936.398	1,033.594	10.4%	89.7%
Admin. Savings	9.351	0.000	-100.0%	0.0%
Total Available to Transfer	1,071.680	1,150.610	7.4%	99.9%
ECONOMIC DEVELOPMENT FUND				
Beginning Balance	1.353	0.000	-100.0%	0.0%
Interest Earnings	0.800	1.100	37.5%	0.1%
Total Available Resources	1,073.833	1,151.710	7.3%	100.0%



Lottery Funds and Programs





Current Forecast

Revenue Source (\$millions)	2009-11	2011-13	% Change
Personal Income Taxes	\$11,219.9	\$13,151.4	17.2%
Corporate Income Taxes	\$837.1	\$942.1	12.5%
All Others	\$1,153.2	\$942.5	-18.3%
Total General Fund	\$13,210.3	\$15,036.0	13.8%
Lottery	\$1,073.8	\$1,151.7	7.3%
Total Revenue	\$14,284.1	\$16,187.7	13.3%





Risks

- U.S. economic recovery differs from current expectations
 - Increased exposure to small changes in incomes of select wealthy individuals due to passage of Measures 66 and 67
- Export market volatility
- Taxpayer behavior relating to federal and state tax law changes (e.g., higher expected future tax rates)





For More Information

Office of Economic Analysis
155 Cottage Street NE, U20
Salem, OR 97301-3966
(503) 378-3405
email: oea.info@state.or.us
<http://oregon.gov/das/oea>

