



---

# Oregon Economic and Revenue Forecast **SUMMARY**

---

March 2009  
Volume XXIX, No. 1

State of Oregon  
Department of Administrative Services  
Office of Economic Analysis

## EXECUTIVE SUMMARY

**March 2009**

### **Oregon Economic Forecast**

The fourth quarter of 2008 posted the third consecutive quarter of job losses. The preliminary estimate of fourth quarter job loss in Oregon is negative 6.8 percent at an annualized rate. Under the newer North American Industrial Classification System which goes back to 1990, this is the largest single quarterly job decline. On a year-over-year (Y/Y) basis, jobs decreased by 2.5 percent in the fourth quarter.

Most sectors were hit hard in the fourth quarter. Manufacturing and construction continued to lose jobs at a high rate. Joining in heavy job losses were retail and wholesale trades, transportation services, warehousing and utilities, professional and business services, financial activities, and local government education. The only sectors not experiencing declines were food processors, private education and health services, and state government.

This forecast incorporates the Oregon Employment Department re-benchmarked job numbers released in early February. The revised numbers show more job losses in 2008 than previous estimates. Previous estimates had Oregon employment peaking in February of 2008. New estimates now place that employment peak in January 2008. The first quarter of 2008 was showing a 1.4 percent job growth but this has been revised to job losses of 0.1 percent. Every quarter of 2008 now reports job losses. The revised numbers paint a deeper recession for 2008 with job losses considerably higher in the service sector of the economy.

The direction of the forecast for job losses was correct, but job losses in the fourth quarter were much greater than projected. The forecast for the fourth quarter was in error by 1.4 percent. As with the national economy, the fourth quarter was brutal to the Oregon economy.

Of all the jobs lost in the US economy in 2008, around 73 percent were lost in the fourth quarter. For Oregon, the corresponding number is about 70 percent. The fourth quarter downturn has been swift with the unemployment rate in Oregon moving from 6.5 percent in August 2008 to 9.0 percent in December 2008. The Federal Reserve Bank of Philadelphia's Coincident Index of economic activity for Oregon shows the state down 2.0 percent for both the 1-month and 3-month change going into November 2008. That is the largest decline for any state, with North Carolina being the closest at down 1.2 percent for 1-month and -1.4 percent for the 3-month change. More striking for this measure is the 12-month change with Oregon down 8.9 percent. This also is the largest decline of any state with Nevada the closest at -6.5 percent.

Ian Mcfarlane, the Governor of the Bank of Australia made the following comment concerning the problems facing the world financial system: "When everyone feels that risks are at their minimum, over-confidence can take over and elementary precautions start to get watered down." We have moved from "over-confidence" to "no confidence". Banks have dramatically reduced their loans and households have taken a bunker mentality to the economic future our country. There is a huge amount of funds infused into our financial systems along with help to industries such as the

automotive manufacturers. A federal stimulus package of \$789 billion consists of around 2/3's of spending and 1/3 of tax cuts. Estimates place Oregon's share at around \$550 million from now until June 30 of this year and \$2 to \$3 billion in total over three years. All this effort will not go far enough if "confidence" is not revived. Banks need to lend once again with a reasonable level of risk. Households need to believe that the recession will pass and jobs will feel a bit more secure. The daunting question is "when" and how much suffering do we endure before the seas are calm once again.

OEA projects the year average for 2009 is an employment decline of 4.3 percent. Job growth is positive but very weak with job gains of 0.04 percent in 2010. The Oregon economy does not start to recover until the second half of 2010.

The wood products sector lost 9.8 percent of its workforce in 2008. The industry is projected to lose jobs at a rate of 17.3 percent in 2009 with a further decline of 5.3 percent in 2010 as the prolonged housing market correction continues to unfold. Looking forward, as the housing market improves through late 2010 and into 2011, employment is expected to regain some of these lost jobs.

The computer and electronic equipment sector lost jobs at a 4.5 percent rate in 2008. Given the economic conditions, this industry will see further job declines of 10.9 percent in 2009. Mild improvement is projected for 2010 and into 2011, when job growth rebounds to 4.3 percent.

Employment in the transportation equipment industry declined 14.7 percent in 2008. Employment is projected to decline 23.6 percent in 2009, 5.6 percent in 2010 before positive growth in 2011.

Other nondurables, which includes paper and allied products, is projected to have job declines of 13.7 percent in 2009 before adding jobs in 2010 at 1.6 percent.

Construction employment fell 9.2 percent in 2008 and is projected to decline by 16.0 percent in 2009 and 7.5 percent in 2010. As the housing market begins to recover, employment should turn positive in 2011, with strong growth in 2012 of 4.4 percent. Both the federal stimulus package and state capital projects should provide some relieve to this sector.

Trade, transportation, and utilities sector lost jobs in 2008 at a rate of 1.4 percent and is projected to lose a further 4.1 percent in 2009. Moderate growth is expected for the industry starting in 2010. Retail employment declined in 2008 at 2.0 percent and will decrease sharply in 2009 at a 4.4 percent rate before rebounding in 2010 with positive 2.8 percent. Wholesale trade jobs were down slightly in 2008, and are expected to fall a further 3.8 percent in 2009 and 0.4 percent in 2010. Growth of 1.8 percent in projected for 2011.

The information sector, which includes traditional publishers such as newspapers and publishers of software, is expected to contract by -6.2 percent in 2009 and -2.1 percent in 2010.

The financial sector lost 4.3 percent of jobs in 2008 and is projected to decline at a 4.6 percent rate in 2009. A mild rebound is expected in 2010 when jobs will increase at a rate of 1.2 percent and stronger growth of 2.7 percent in 2011.

Professional and business services lost employment by 0.8 percent in 2008. This sector is expected to be hit especially hard in 2009 with projected losses of 8.2 percent. Beginning in 2010, the industry will begin to recover with 0.8 percent job growth, followed by 8.0 percent growth in 2011.

Education and health services job growth was 3.9 percent in 2008 and is expected to be 3.0 percent in 2009, 3.1 percent in 2010, and 2.7 percent in 2011.

Leisure and hospitality employment increased slowly in 2008 at a 1.1 percent rate and is projected to decline in 2009 at a 3.0 percent pace. Jobs will decline slightly in 2010 before mild job growth in 2011.

The government sector employment increased by 3.2 percent in 2008 and is expected to decline by 0.2 percent in 2009. Mild job growth is projected for 2010 and a slight job loss for 2011.

Population growth will slow to 1.1 percent in 2009 with slightly faster growth of 1.2 percent in 2010 and 2011.

### **Forecast Risks**

The world is in the grips of a steep recession. Japan recently reported that their fourth quarter GDP fell 12.7 percent at an annualized rate, the biggest quarterly drop since 1974. Even China is pursuing a stimulus package to jump start its economy. Exports have come to a screeching halt as 2008 came to a close. We now more than ever realize that we operate in a world financial system. Even with all the fiscal and central bank plans underway, uncertainty still looms as the success of these programs.

The recession in the US and Oregon economies will come to an end. The looming questions are how much deeper and how much longer. The dollar amount of programs is staggering. The Federal Reserve alone is estimated to have added \$1.2 trillion of new programs with more to come. The Treasury's TARP program has \$800 billion. The US federal stimulus package placed into law in February tops off at \$789 billion. Oregon has added its own state stimulus package of \$175 million. Economic policy commentators still question if more needs to be done and what proposed remedies will work best.

With uncertainty, you have both negative and positive risks. The recession could be more protracted and deeper than presently projected or the rescue packages in place may kick in earlier and bring a more rapid end to this recession.

We will continue to monitor and recognize the potential impacts of risk factors on the Oregon economy. We have identified the major risks now facing the Oregon economy in the list below:

- *Contagion of the credit crunch and financial market instability.* With the freezing up of credit markets, broad based borrowing and lending is very expensive or non-existent. Consumer spending has been greatly curtailed and the stock market has lost 40 percent of its value in 2008.

If the credit markets do not return soon to some sort of state of normalcy, the current recession could be much deeper and longer than presently projected. Oregon will suffer the consequences along with the rest of the nation.

- *Prolonged housing market instability.* Generally, analysts believe that the housing market has yet to hit bottom, at least in terms of price declines. Though Oregon has been hit hard through this downturn, Oregon's housing market is relatively better off compared to California, Nevada, Florida, and Arizona. Coupled with the recessionary state of the economy, the rise in mortgage rates and heightened credit standards will keep demand for housing relatively low. Rather than the correction of the housing bubble further hurting the Oregon housing market, it will be the deepening recession that causes further home price declines and rising foreclosures. Unlike many parts of the economy, there is an upside risk here as well. If the recession is over sooner than forecasted, Oregon's housing market should revive better than the states who experienced the greater housing market bubbles.
- *The relative effectiveness of nearly-global government stimulus.* The level of government response to the current recession has never been greater. Furthermore, the coordination of central bank actions throughout the world was similarly unprecedented. While the intent was for significant stabilization and growth, it is unknown if these will come to pass. Federal Reserve, US Treasury, and the federal stimulus package may lift this economy out of recession sooner than projected.
- *The return of federal timber payments to Oregon counties.* Included in the federal bailout was a provision to reinstate federal timber payments for four years. Oregon counties will receive \$254 million, down from the previous \$282 million level and will be phased out over the four year window. While this temporary reinstatement helps cover short term budgets for Oregon counties, finding or replacing this dwindling revenue source will be imperative as any loss of public services could have adverse impacts on economic activity.
- *The extent of the global downturn triggered by the U.S. slowdown.* The U.S. economy has been an important engine of growth for the global economy. As the U.S. economic woes continue, the whole world is beginning to feel the impact. First, European economic growth slowed considerably, even contracting in places. Then Asian economies began slowing due to their large exposure, via trade, to the U.S. economy. China is a top importer of Oregon products and any slowing of the Chinese economy will adversely impact Oregon exports. How long and how deep the impacts of the downturn will remain open ended questions.
- *Appreciation of the U.S. dollar.* Along with slowing foreign economies, the recent appreciation of the U.S. dollar is expected to slow exports from U.S. producers. This will also be true for Oregon exports. The extent of the impact from the U.S. dollar may not be as great for Oregon given the expected appreciation of the Chinese Yuan, one of Oregon's major trading partners. Still, the risk is present for a slowing of exports.
- *National and regional energy prices.* The over 60 percent drop in oil prices is bringing relieve to both businesses and households. The near term outlook is also for lower regional prices for natural gas and electricity. This comes at a welcomed time when businesses are looking for cost

savings. The benefit from lower energy prices is most likely short-lived as the underlying demand drivers will return once the world economies rebound from this recession.

- *Geopolitical risks.* Uncertainty still abounds in Iraq. Tensions with Iran and heightened security risks weigh on businesses and consumers. Disruptions in travel, oil supplies, and consumer confidence could be severe. The drop in business activity could deepen if this uncertainty persists or if the transition out of the Iraq war goes badly for the U.S. The eventual winding down of military expenses will not greatly impact Oregon. There is also an upside risk that the transition will go more smoothly than anticipated, and stability in the Mideast will provide a stronger than forecasted stimulus to the economy.
- *Initiatives, referendums, and referrals.* Generally, the ballot box brings a number of unknowns that could have sweeping impacts on the Oregon economy.

### **Demographic Forecast**

Oregon's estimated population on July 1, 2008 reached 3,791,075. That was an increase of 1.2 percent over the 2007 population. The growth has slowed down since the highs of 2005 through 2007 when it approached or exceeded 1.5 percent. Overall, population change since 2000 is much lower than the rate of growth of well over 2.0 percent during the early 1990s. As a result of recent economic downturn, Oregon's population is expected to grow at a slower pace in the near future. Based on the current forecast, Oregon's population will reach 4.117 million in the year 2015 with an annual rate of growth of 1.2 percent between 2008 and 2015.

Oregon's economic condition heavily influences the state's population growth. Its economy determines the ability to retain local work force as well as attract job seekers from other states and beyond. As Oregon's total fertility rate remains below the replacement level and deaths continue to rise due to ageing population, long-term growth comes from net in-migration. Working-age adults come to Oregon as long as we have good economic and employment situations. During the 1980s that included a major recession and a net loss of population, net migration contributed to 22 percent of the population change. On the other extreme, net migration accounted for 73 percent of the population change during the booming 1990s. This share of migration declined to 57 percent in 2002. As a sign of slow to modest economic gain, the net migration will account for 58 to 63 percent of the population change in the near future. Although economy and employment situation in Oregon look bleak, migration situation is not expected to replicate the early 1980s pattern. Potential Oregon out-migrants have no better place to go since other states are also in the same boat in terms of economy and employment.

Growth in all age groups will show the effects of the baby-boom and their echo generations during the period of 2008-2015. It will also reflect demographics impacted by the depression era birth cohort combined with diminished migration of the working age population and elderly retirees. After a period of slow growth in the past, the elderly population (65+) growth has picked up in pace and will surge as the baby-boom generation starts to enter this age group. The annual growth of the elderly population will be nearly 3.8 percent during the forecast horizon as the boomers continue to

enter retirement age. The youngest elderly (aged 65-74) will grow at an extremely fast pace due to the direct impact of the baby-boom generation entering retirement age. The elderly aged 75-84 will continue to shrink in numbers until 2009, as the depression era birth-cohort will dominate this group. The oldest elderly (aged 85+) will continue to grow at a moderately high rate due to the combination of cohort change, continued positive net migration, and improving longevity. However, the annual growth rate will continue to taper off as the depression era small birth cohort transitions from the younger age group.

As the baby-boom generation matures, the once fast-paced growth of population aged 45-64 will gradually taper to near 0 percent rate by 2012. The young adult population (aged 18-24) will grow at an average of 0.1 percent annually, considerably slower than the rate averaging 1.1 percent experienced between 2000 and 2008. Although the slow growth of college-age population tend to ease the pressure on public spending on college education, college enrollment typically goes up during the time of high unemployment and scarcity of well paying jobs when even the older population flock back to college to better position themselves in a tough job market. Compared to other non-elderly age groups, children under the age of five show a higher rate of growth after a slow growth period in the recent past. The K-12 population (aged 5-17) will show very slow growth which will translate into slow growth in school enrollments. The 25-44 age group population has reversed the several year trend of decline. The decline was mainly due to the exiting baby-boom cohort. This age group has seen positive growth starting in the year 2003 and will approach 1.2 percent annual growth by the year 2011.

### **Revenue Forecast**

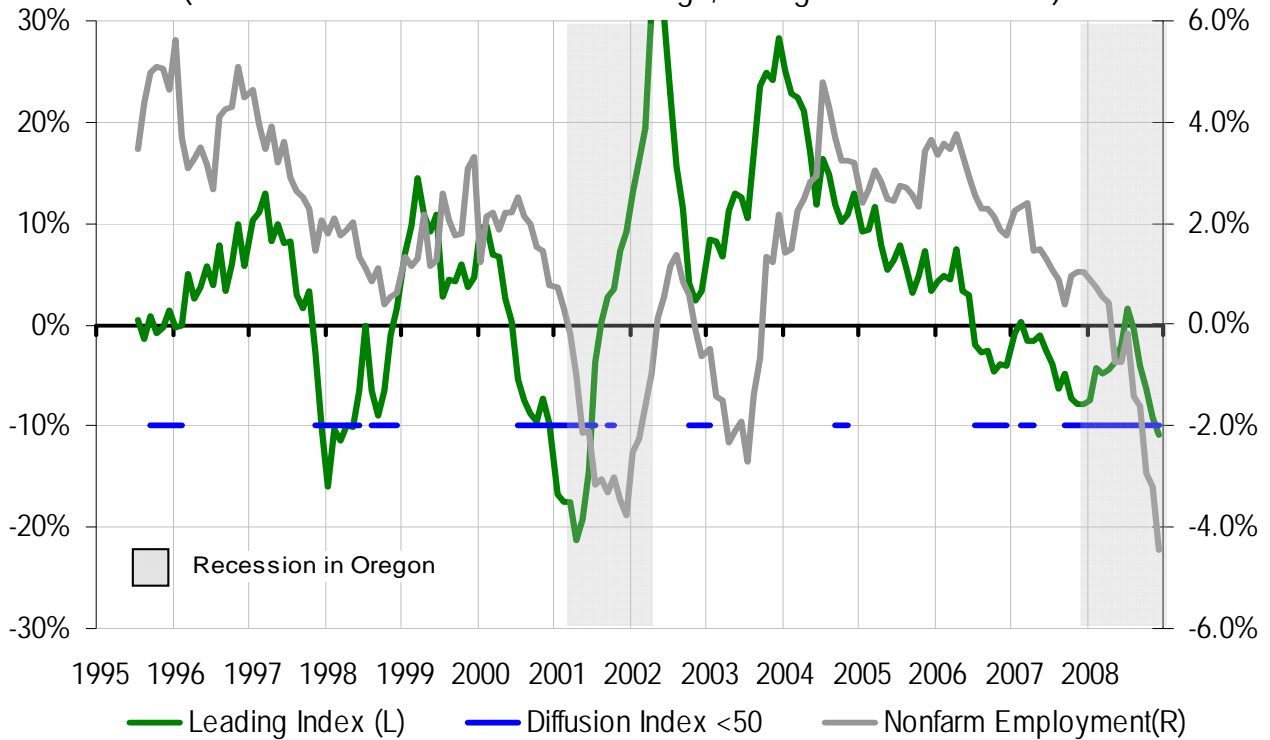
The forecast for General Fund revenues for the 2007-09 biennium is \$12,018.4 million, a decrease of \$713.1 million from the December 2008 forecast. The decrease is concentrated in personal income taxes, as expectations for income tax receipts related to both capital gains and retirement income continue to diminish. Corporate income tax receipts have weathered the storm a little longer than expected, but have begun to show some significant signs of weakness, resulting in a corresponding decrease in the forecast.

Total structural General Fund revenues will decrease 0.4 percent to \$13,050 million in 2009-11. This represents a \$1.7 billion decrease relative to the December forecast. Personal income tax growth of 10.4 percent, which will raise collections to \$11,429.8 million, is due largely to the \$1.084 billion kicker rebate distributed in the 07-09 biennium. Corporate income taxes will decline 2.9 percent to \$727.1 million, as the economic slowdown in 2008 and 2009 filters through to corporate income tax receipts.

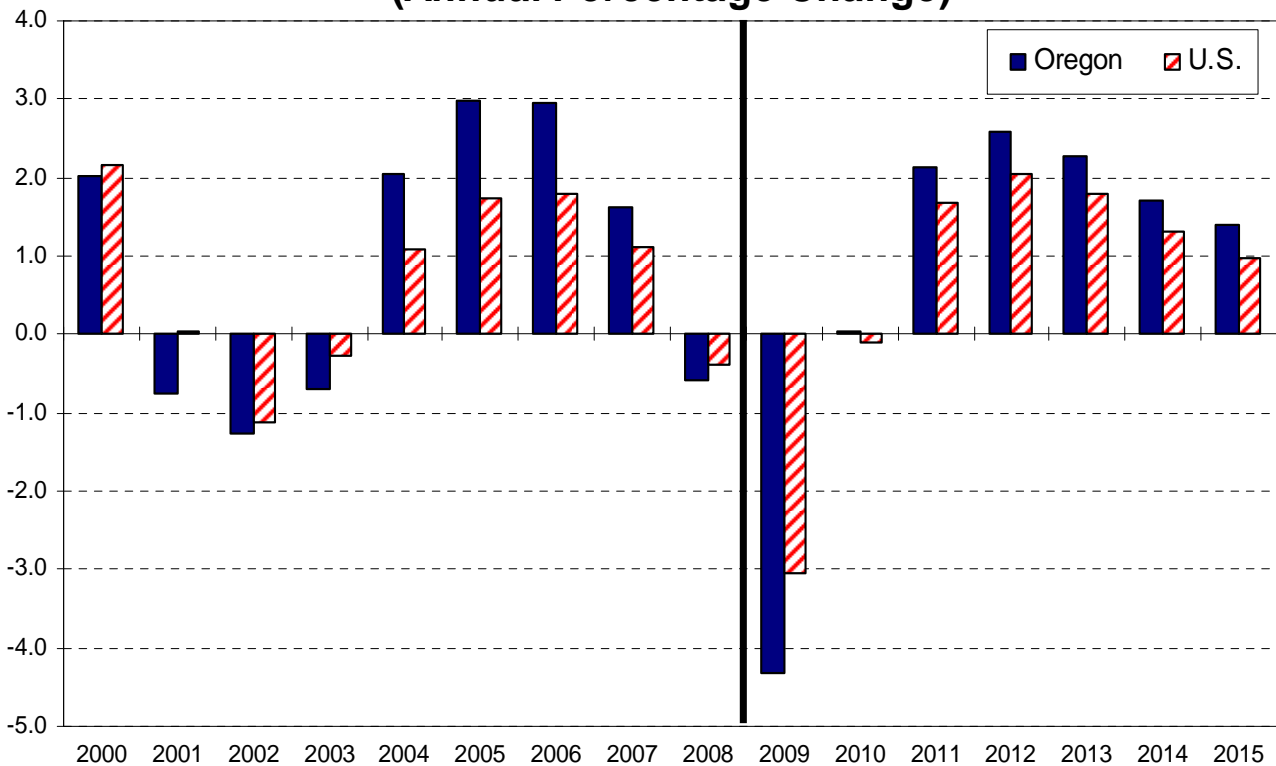
Projected lottery earnings will total \$1,317.2 million, a decrease of \$6.8 million from the prior forecast. Recent lottery sales have been subjected to a perfect storm of circumstances. Continued slowing in consumer spending has stalled, winter weather over the holidays, the implementation of smoking restrictions, and decreased gas prices making driving to a casino more likely, have all contributed to driving down expectations for lottery sales through the remainder of this biennium. The most recent weeks have seen year-over-year decreases of close to 20 percent.

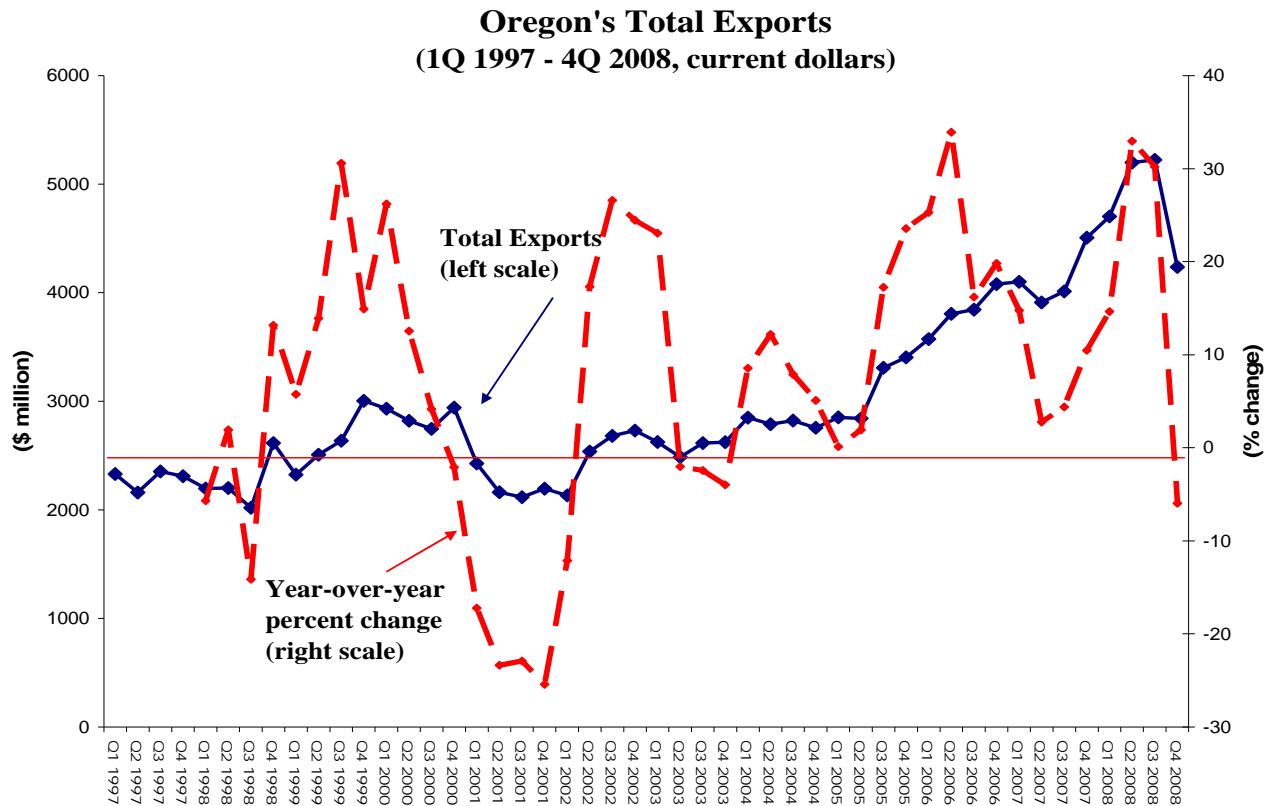
Lottery earnings are expected to fall more than 14 percent to \$1,128.5 million for the 2009-11 biennium. In addition to the expected impact of the smoking restrictions and slow economic growth, the weak growth is the result of an absence of administrative savings for the biennium, compared with \$97 million in the current biennium. In spite of the increased transfer rate, video lottery earnings will decrease 7.5 percent, while traditional products will decline eight percent.

**Oregon Index of Leading Indicators**  
 (Six-Month Annualized Percent Change, through December 2008)



**Total Non-farm Employment**  
 (Annual Percentage Change)





## Oregon March 2008 Forecast Comparison:

### Alternative Scenarios

(Percent Change)

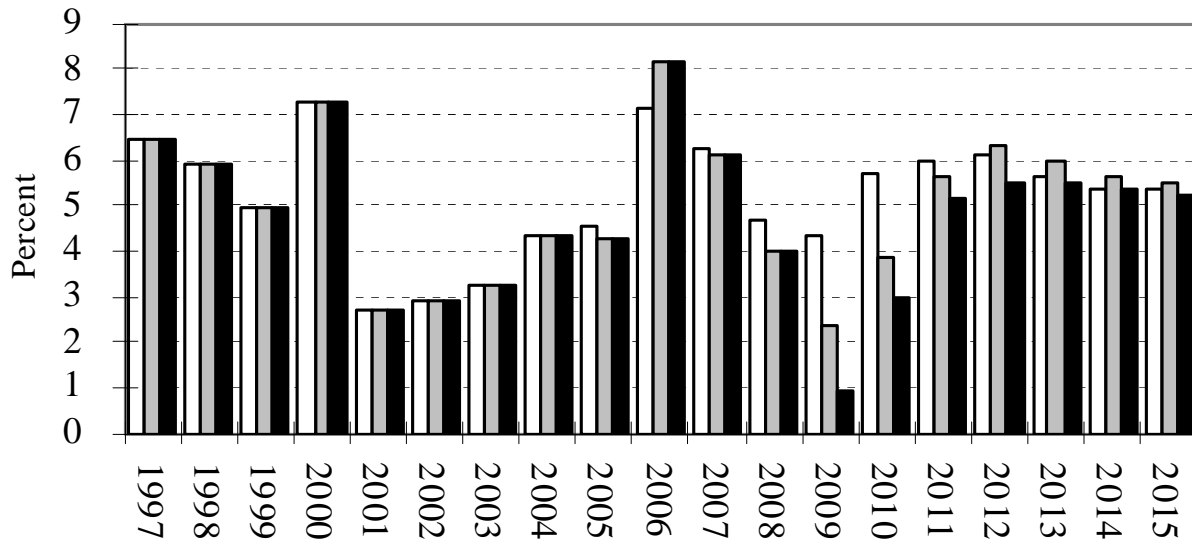
<b>Employment</b>	2008	2009	2010	2011
Baseline	-0.6	-4.3	0.1	2.1
Pessimistic	-0.6	-5.1	-0.5	1.6
Optimistic	-0.6	-3.6	0.8	2.3

<b>Personal Income</b>	2008	2009	2010	2011
Baseline	4.0	0.9	3.0	5.2
Pessimistic	4.0	-0.4	2.6	4.9
Optimistic	4.0	1.9	3.5	5.4

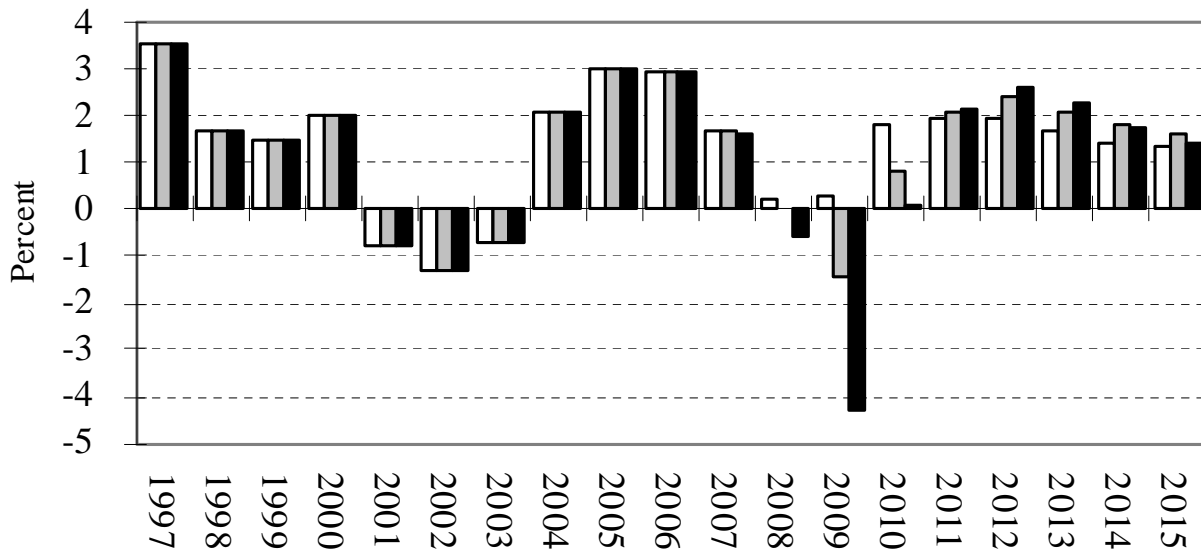
# COMPARISON OF LAST THREE FORECASTS

Sep 2008  
  Dec 2008  
  Mar 2009

## PERSONAL INCOME GROWTH



## EMPLOYMENT GROWTH

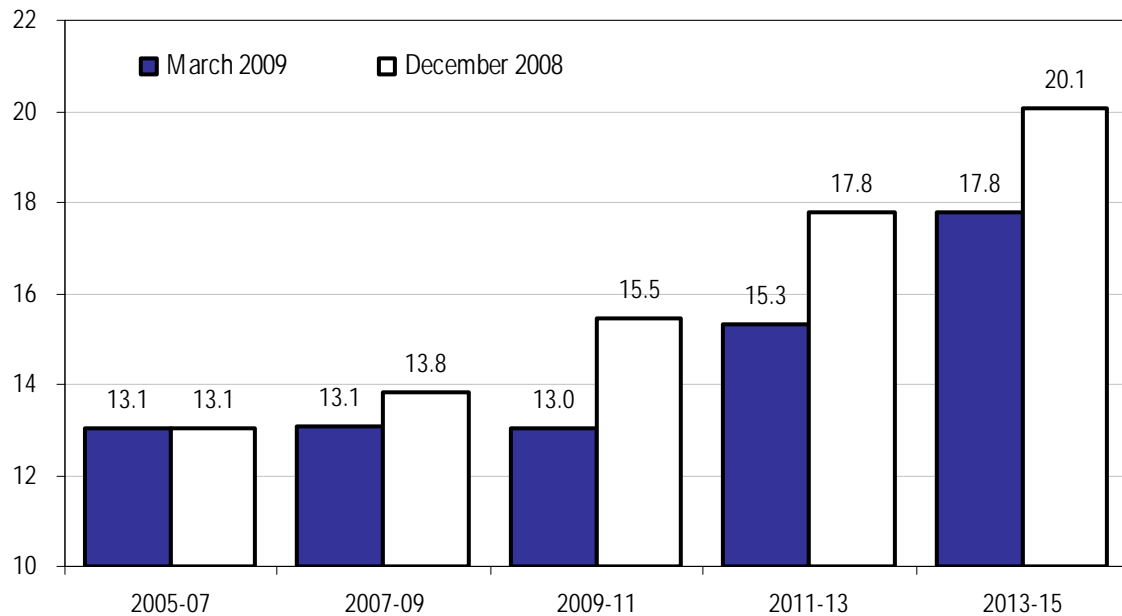


# General Fund Resources

## 2007-09 Biennium

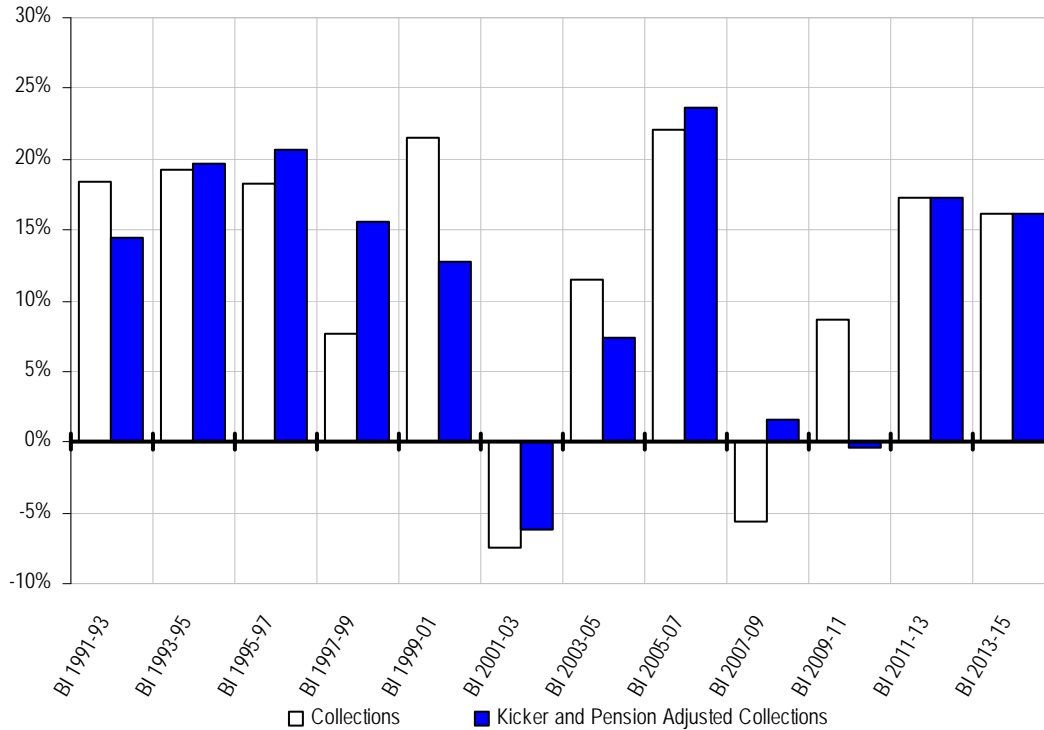
General Fund Resources (Millions)	December 2008 Forecast	March 2009 Forecast	Change from December	Change from COS 2007
Gross Personal Income Tax	12,066.7	11,456.4	(610.3)	(891.5)
Gross Corporate Income Tax <sup>1</sup>	857.3	748.8	(108.4)	(172.1)
Other Revenues <sup>2</sup>	891.8	897.4	5.7	8.9
<b>Gross GF Revenues<sup>3</sup></b>	<b>\$13,815.8</b>	<b>\$13,102.6</b>	<b>(713.1)</b>	<b>(1,054.7)</b>
Less Kicker Distributions	-\$1,084.2	-\$1,084.2	-	80.5
<b>Net GF Revenues</b>	<b>\$12,731.6</b>	<b>\$12,018.4</b>	<b>(713.1)</b>	<b>(974.2)</b>
Beginning Balance	\$1,436.7	\$1,436.7	-	(76.3)
Less Anticipated Administrative Actions <sup>4</sup>	-\$42.1	-\$42.1	-	15.2
Less Legislatively-Adopted Actions <sup>5</sup>	-\$319.3	-\$319.3	-	(9.9)
<b>Net Available Resources</b>	<b>13,806.8</b>	<b>13,093.7</b>	<b>(713.1)</b>	<b>(1,045.2)</b>
Proj. Expenditures <sup>3</sup>	(13,949.0)	(13,949.0)	-	5.7
<b>Ending Balance</b>	<b>(142.1)</b>	<b>(855.3)</b>	<b>(713.1)</b>	<b>(1,039.5)</b>

Comparison of General Fund Resource Forecasts  
(\$Billions)



Biennia following 2009-11 do not include projected beginning balances

## Biennial Growth in General Fund Revenue



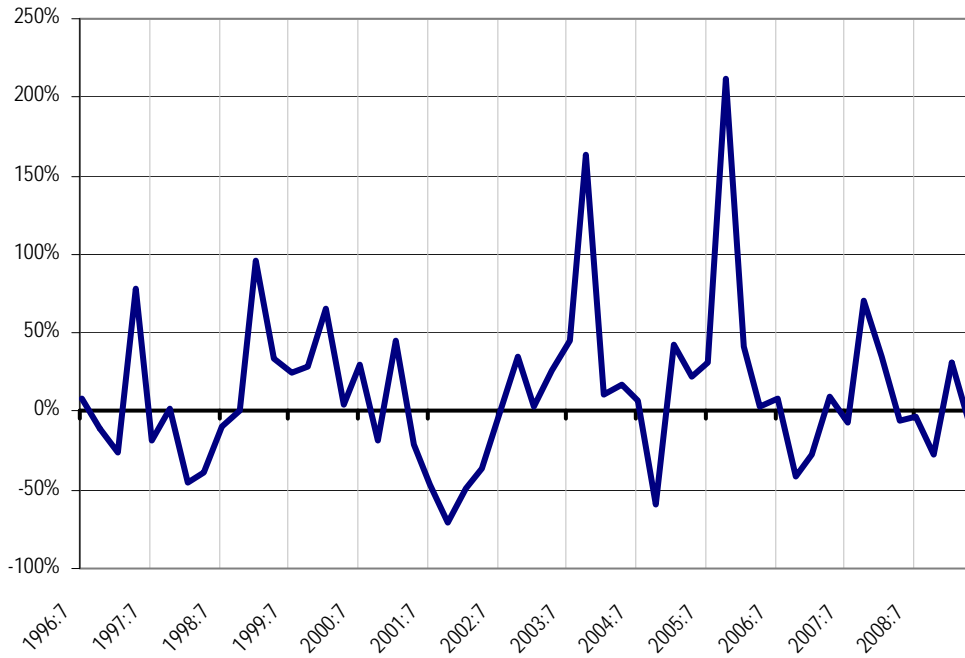
### Oregon's Budgetary Reserves

(Millions)	Actuals through 12/31/2008	2007-09 Biennium	2009-11 Biennium
<b>Rainy Day Fund</b>			
Beginning Balance	\$0.0	\$0.0	\$339.8
Deposits	\$319.3	\$319.3	\$0.0
Interest	\$16.0	\$20.5	\$25.7
Triggered Withdrawals	\$0.0	\$0.0	\$0.0
<b>Ending Balance<sup>1</sup></b>	<b>\$335.3</b>	<b>\$339.8</b>	<b>\$365.5</b>
<b>Education Stability Fund</b>			
Beginning Balance	\$178.9	\$178.9	\$392.3
Deposits	\$164.3	\$213.4	\$135.1
Interest <sup>2</sup>	\$14.8	\$15.9	\$18.2
Triggered Withdrawals	-\$14.1	-\$15.9	-\$18.2
<b>Ending Balance</b>	<b>\$343.8</b>	<b>\$392.3</b>	<b>\$527.4</b>
<b>Total Reserves</b>	<b>\$679.1</b>	<b>\$732.1</b>	<b>\$892.9</b>

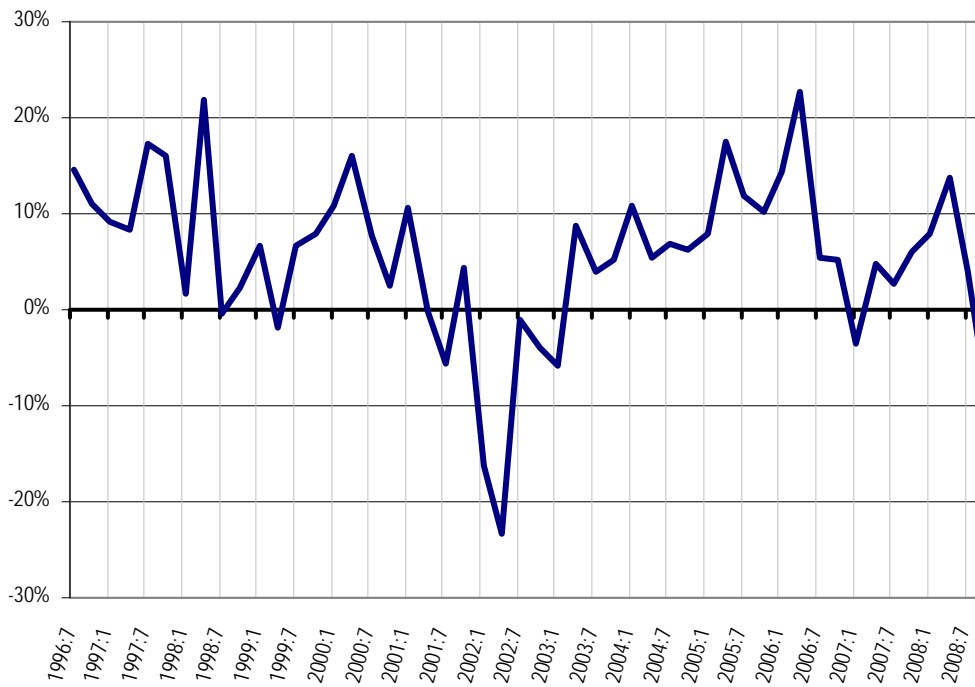
Footnotes:

1. Under current law, only 2/3rds of the beginning balance is available for withdrawal. Withdrawal subject to economic and financial triggers.
2. Education Stability Fund interest is distributed to the Oregon Education Fund (75%) and the State Scholarship Commission (25%).

**Corporate Income Tax Collections**  
(Quarterly, Year-over-year percent change)



**Personal Income Tax Collections**  
(Quarterly, Year-over-year percent change)



## Lottery Resources

(Millions of Dollars)

### 2007-09 Biennium

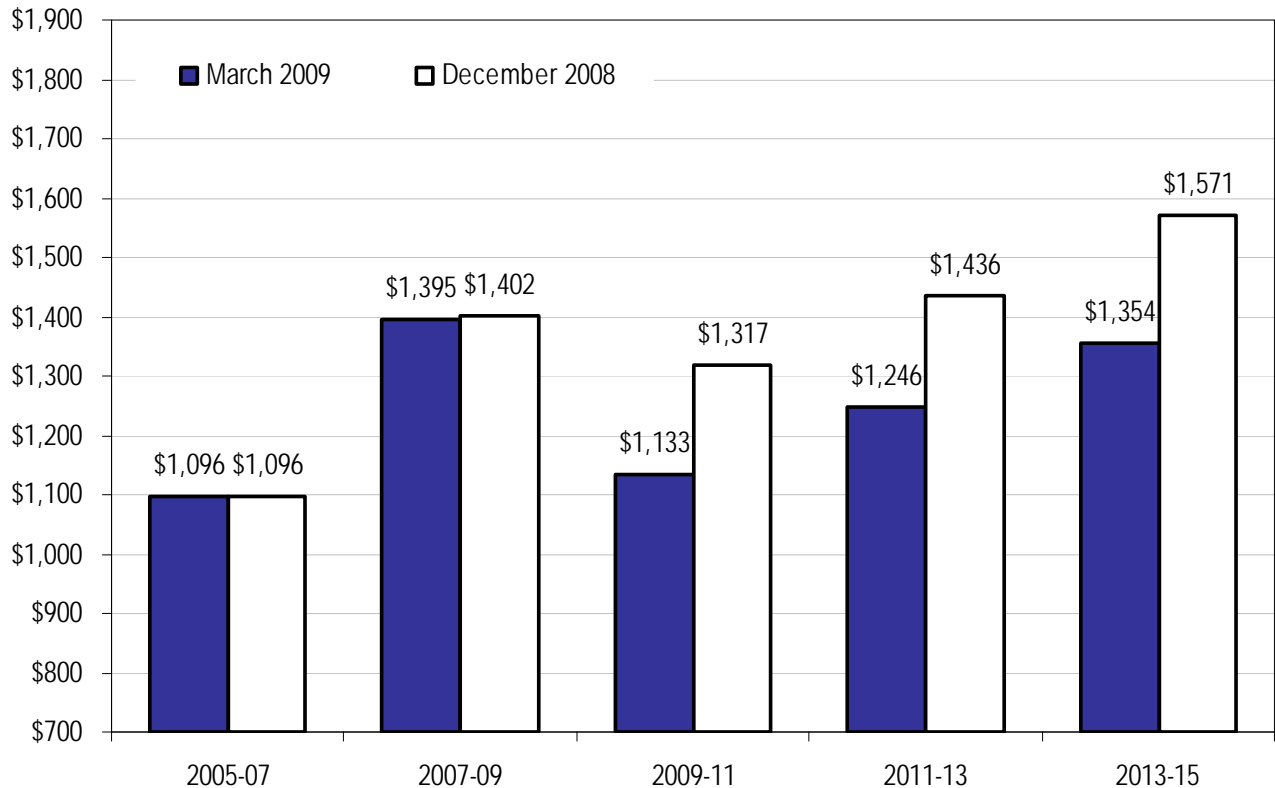
(Millions)	Dec 2008	Mar 2009	Change from Dec	
	Forecast	Forecast	Amount	Percent
Beginning Balance	\$64.1	<b>\$64.1</b>	-	0.0%
Earnings	\$1,249.1	<b>\$1,220.2</b>	(28.9)	-2.3%
Administrative Savings	\$74.9	<b>\$97.0</b>	22.1	
Other Resources <sup>1</sup>	\$14.1	<b>\$14.1</b>	-	0.0%
<b>Total Resources</b>	<b>\$1,402.1</b>	<b>\$1,395.3</b>	(6.8)	-0.5%
<b>Allocations</b>	1,398.8	<b>1,395.0</b>	(3.8)	-0.3%
<b>Ending Balance</b>	\$3.3	<b>\$0.4</b>	(3.0)	-89.5%

Note: Some totals may not foot due to rounding.

1. Includes interest earnings and reversions

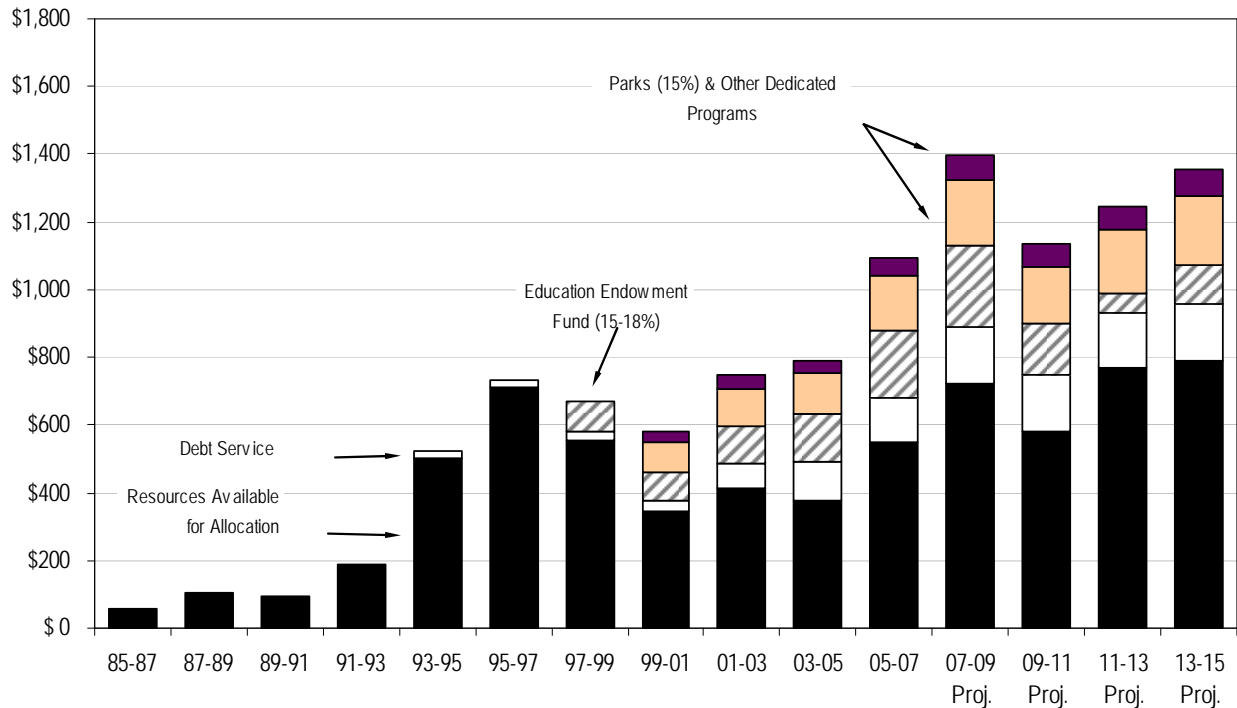
2. Includes Education Stability Fund, Parks and Natural Resource Fund, and Debt Service.

### LOTTERY LONG-TERM FORECAST



Biennia following 2009-11 do not include projected beginning balances

## State Lottery Resources (\$Millions)



### 2 Percent Surplus Kicker History

Biennium	Tax Year	Personal		Corporate	
		Surplus / (Shortfall)	Credit Refund	Surplus / (Shortfall)	Credit
1979-81	1981	(141.0)	none	(25.1)	none
1981-83	1983	(115.2)	none	(109.9)	none
1983-85	1985	88.7	7.7%	13.4	10.6%
1985-87	1987	224.2	16.6%	6.8	6.2%
1987-89	1989	175.2	9.8%	36.2	19.7%
1989-91	1991	185.9	suspended	(23.0)	none
1991-93	1993	60.1	none*	17.9	suspended
1993-95	1994/5	162.8	6.3%	167.0	50.1%
1995-97	1996/7	431.5	14.4%	202.7	42.2%
1997-99	1997/8	167.3	4.6%	(68.6)	none
1999-01	2000	253.6	6.0%	(43.9)	none
2001-03	2002	(1,249.4)	none	(439.5)	none
2003-05	2004/5	(401.3)	none	101.0	36.0%
2005-07	2006	1,071.2	18.6%	344.1	suspended

Dollar figures in millions

\*1991-93 personal surplus was less than 2%

Data Source: Legislative Revenue Office, Office of Economic Analysis

