

### C. Western Region

This section of the March 2012 forecast was researched and written by Mark Ethen, a former Office of Economic Analysis intern and current Fiscal Analyst for the State of Oregon. The Western section examines the economies of seven western states and their relative performance to the U.S. overall. Gauging the health of local economies is important for business planning purposes and looking at a wide range of data points can be useful. Below, you will find tables analyzing how Oregon’s economy is fairing compared to the following western states: Arizona, California, Idaho, Nevada, Utah and Washington.

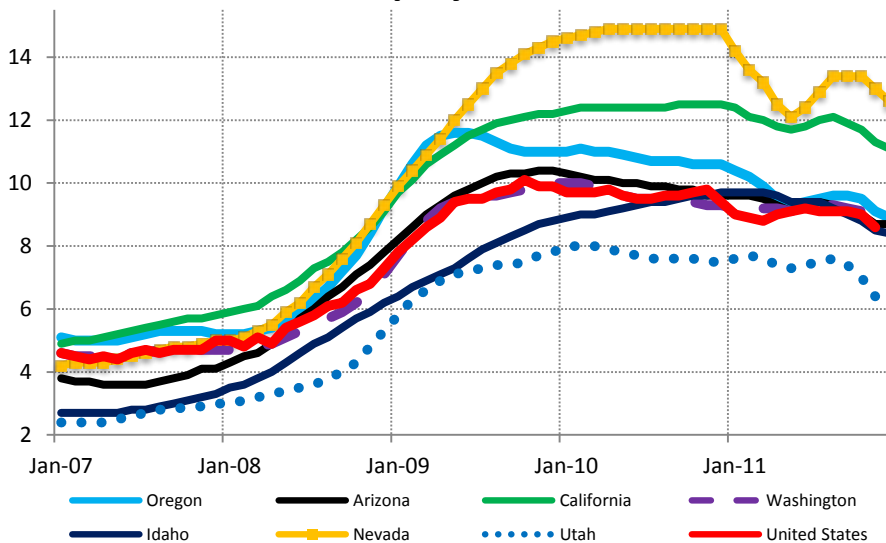
A little over three years removed from the depths of the 2008 recession, the regional economy is pushing forward cautiously. Below are data tables, graphs, and accompanying descriptions covering six crucial state-level economic indicators: employment, housing prices, exports, tax revenue, coincident index, and leading coincident index.

#### Employment

The 2008 recession raised the unemployment rate in all western states to 30-year highs, and the subsequent labor market recovery has been lackluster. Currently, at 8.9 percent in December, Oregon has the 3<sup>rd</sup> highest seasonally adjusted unemployment rate of the seven Western states (U.S. rate is 8.5%). See Graph W.1 below.

Graph W.1

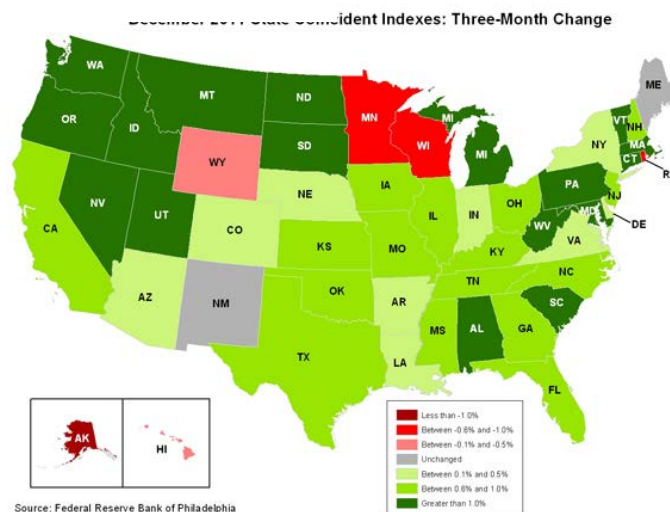
#### Unemployment Rate



Most employment sectors showed positive growth on the year (Q4 2010 to Q4 2011), with the exception of the public sector which declined in all Western states. The strongest growing employment sectors in Oregon were information technology and leisure/hospitality.

#### Coincident Index

One useful local economic summary measure is the State Coincident Index, produced by the Federal Reserve Bank of Philadelphia. Each month the bank compiles and indexes data for each state that combines



nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and real wage and salary disbursements. As a coincident index, the data is designed to report current economic conditions on a monthly basis, and is not a leading or a lagging indicator.

The economic activity go-light is on for Oregon and its neighbors relative to other states (see Figure W.1 above). Of the seven western states, five ranked in the highest bracket for coincident improvement over the fourth quarter of 2011. California placed in the second highest bracket while Arizona was the only western state in the third level. Of the 50 states, 42 improved, 2 were unchanged, and 6 declined in December. On a quarterly basis, Oregon's growth ranked 16<sup>th</sup> best nationally, but trailed California, Idaho, Utah and Washington among western states. On a year-over-year basis, Oregon's growth ranked 5<sup>th</sup> best nationally and outpaced all western states. Examining the monthly data reveals Oregon's coincident index improving strongly to end 2011, driven by increases in hours worked among manufacturing employees and a decline in the unemployment rate.

**Table W.2**

**Economic Coincident Index for 2011 Q4**

	Index Value	Q/Q Percent Change (AR)	Y/Y Percent Change	5 Year Percent Change
Arizona	178.38	1.9%	1.7%	-12.0%
California	153.11	4.1%	3.3%	-0.7%
Idaho	189.93	5.0%	1.8%	-13.1%
Nevada	177.88	2.8%	0.8%	-23.8%
Oregon	189.45	3.2%	3.4%	-4.0%
Utah	186.06	4.6%	3.1%	-1.8%
Washington	151.42	5.0%	2.9%	-2.9%
United States	154.49	2.9%	2.9%	-1.1%

Source: Federal Reserve Bank of Philadelphia, Index = 100 in July 1992

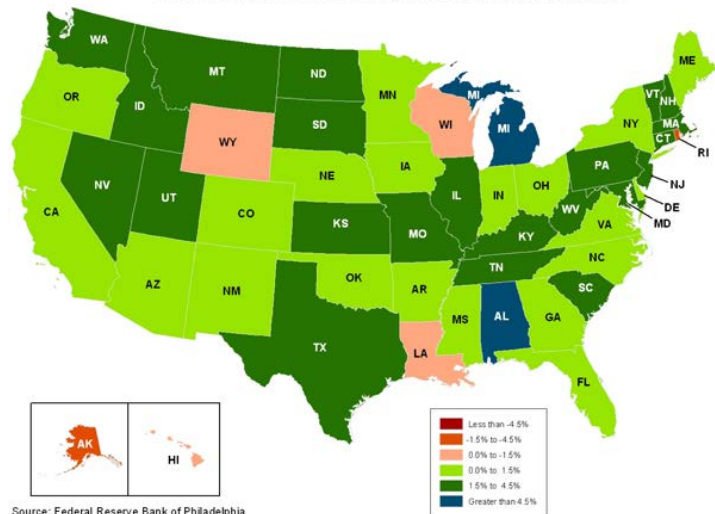
**Leading Indexes**

The leading index is also compiled monthly by the Federal Reserve Bank of Philadelphia and is designed to predict the six-month growth rate of each state's coincident index. In addition to the coincident index components, the leading index includes state-level housing permits, initial unemployment insurance claims, delivery times from the Institute of Supply Management's manufacturing survey, and the interest rate spread between the 10-year and 3-month treasuries.

Oregon's leading index was strongly positive for the fourth quarter of 2011. In fact, Oregon's growth rate of 5.2 percent was one of only five states to rank in the highest category, indicating strongest future growth, alongside Nevada, Michigan, Alabama, and South Carolina. Of the remaining five western states only Arizona was below the second tier of growth. Overall, the leading index was negative in only four states. Oregon also recorded the second strongest percentage increase in 2011 among the western states after Idaho. Of the western states, only Nevada showed a net decline in the leading index this year.

**Figure W.2**

December 2011 State Leading Indexes: 6-Month Forecast



## Housing Price Index

One of the 2008 recession's salient features was a brutal decline in home prices and new construction. The property market crash has weighed heavily on housing related employment, and has also caused large drops in consumer wealth (restraining household spending), and reduced the collateral available for entrepreneurship. Multiple governmental levels stepped in to prop up housing prices (re-zoning, encouraging immigration, house owner assistance, etc.), but not until recently have the western states' real-estate

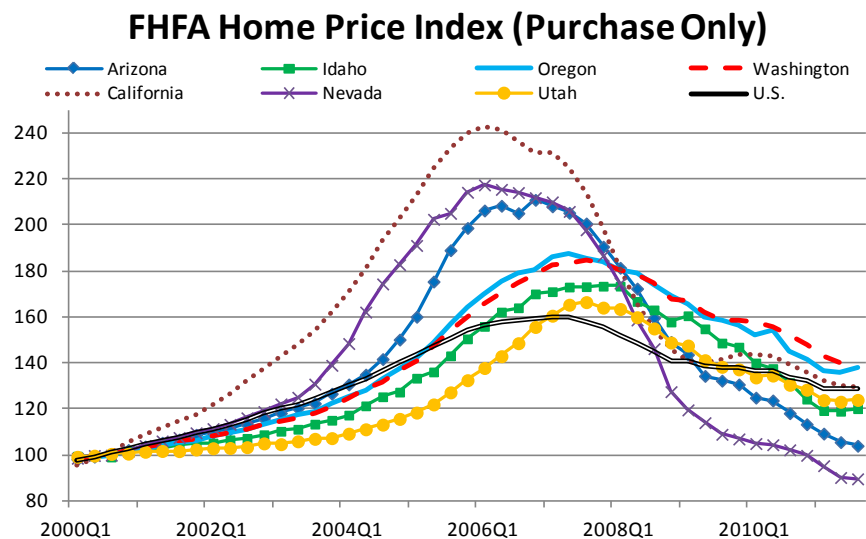
**Table W.3**

	Housing Price Index (2011 Q3)			
	Index Value	Q/Q Percent Change (AR)	Y/Y Percent Change	Percent Change Since Peak
Arizona	157.82	-5.9%	-12.0%	-50.7%
California	151.08	-2.8%	-7.0%	-46.7%
Idaho	182.01	3.8%	-8.6%	-30.7%
Nevada	112.85	-2.5%	-12.3%	-58.8%
Oregon	249.21	5.8%	-4.9%	-26.5%
Utah	239.31	2.6%	-5.0%	-25.5%
Washington	211.07	-1.7%	-8.7%	-24.6%
United States	180.57	1.0%	-3.7%	-19.5%

Source: Federal Housing Finance Agency (FHFA)

markets begun to reverse their declining trend. Table W.3 shows the Federal Housing Finance Agency's home price index for each western state. Graph W.2 shows the FHFA Housing Price Index for each of the western states since 2000. While the data is typically indexed to 1991, for graphing purposes, the data is indexed 2000 = 100 to illustrate the home price changes over the past decade.

**Graph W.2**



The western states' real estate decline can be divided into two groups (see table). One group (Arizona, Nevada, and California) experienced a very steep and deep decline. The other four western states declined more gradually and less overall. Oregon posted the strongest third quarter of all the western states which helped make our annual decline the smallest.

## Exports

The global recession caused a sharp decline in international trade throughout late 2008 and early 2009. However, exports have since rebounded strongly for all western states. Only Oregon lags behind with single digit export growth on a year-over-year basis, primarily caused by slowing within firm shipments in technology industries, particularly to China and Malaysia. High tech accounts for 40 – 45% of Oregon's export market (by value) which shows why overall exports are lagging despite robust growth in every other major export industry (see the International Section for detail by industry). Even with the robust increases of recent months, the western states' exports are still slightly below their peak level in 2008.

**Table W.4**

	Total Exports (2011 Q3)	
	Exports (\$ mill)	Y/Y Percent Change
Arizona	\$4,236	11.0%
California	\$40,546	12.6%
Idaho	\$1,448	13.7%
Nevada	\$2,119	61.3%
Oregon	\$4,351	3.8%
Utah	\$5,102	45.7%
Washington	\$16,175	28.9%
United States	\$374,491	17.6%

Source: WiserTrade, January 2012

## Tax Revenue

After being hit hard by the Great Recession, state and local tax revenues have now grown for six consecutive quarters. Given that federal stimulus funds are dwindling rapidly, local revenue growth is imperative for the health of local and state governments to maintain services to its citizens.

Nonetheless, state employment fell in 2011 by the largest percentage in any year since data collection began in 1955. Local government employment has also declined for 3 consecutive years, whereas it has only declined in six total years since 1955.

**Table W.5**

	State and Local Tax Revenue (2011 Q3)						
	Arizona	California	Idaho	Nevada	Oregon	Utah	Washington
Total Taxes	2,930,510	25,018,819	808,416	623,269	2,126,671	1,357,333	4,625,605
Y/Y Percent Change	-1.9%	-0.6%	3.2%	25.3%	12.0%	3.9%	6.0%
Property tax	193,653	621,118	X	15,614	8,682	X	800,014
Y/Y Percent Change	-17.6%	-32.3%	X	9.2%	48.5%	X	28.8%
General sales and gross receipts	1,146,444	7,501,176	328,274	273,629 X		457,393	2,656,643
Y/Y Percent Change	-13.0%	-6.4%	6.5%	25.1%	X	-3.2%	1.5%
Motor fuel sales taxes	199,140	1,444,500	63,605	24,940	177,118	92,043	326,490
Y/Y Percent Change	-9.7%	15.2%	-5.3%	-4.4%	59.8%	-5.5%	6.4%
Alcoholic beverages	16,154	85,818	2,318	3,451	4,585	5,482	58,486
Y/Y Percent Change	17.8%	-0.3%	1.3%	14.6%	11.0%	-33.5%	15.9%
Public utilities	5,377	197,518	805	5,226	2,750	6,526	90,769
Y/Y Percent Change	-18.0%	-7.1%	13.4%	35.1%	73.5%	-6.7%	-3.4%
Insurance	109,493	529,915	11,589	1,444	18,857	25,428	100,820
Y/Y Percent Change	-0.1%	-3.9%	-2.1%	-21.5%	-14.3%	-4.9%	2.6%
Tobacco products	84,174	299,171	13,242	8,689	70,568	32,458	137,079
Y/Y Percent Change	-5.1%	21.9%	-3.5%	3.1%	-0.3%	32.2%	17.4%
Amusements	3,045	X	X	3,482	6	X	0
Y/Y Percent Change	2090.6%	X	X	63.3%	200.0%	X	NA
Motor vehicles	35,828	777,239	27,800	28,601	159,761	80,617	111,657
Y/Y Percent Change	-26.1%	4.4%	-24.7%	1.2%	33.8%	72.5%	9.9%
Corporations in general	15,719	13,229	462	15,350	6,269	145	6,423
Y/Y Percent Change	114.4%	-10.8%	1.5%	-5.4%	2.8%	-83.9%	15.5%
Occupation and business licenses	31,274	1,016,274	15,142	40,739	66,375	12,088	52,611
Y/Y Percent Change	0.1%	-8.4%	5.7%	-8.0%	-36.0%	5.7%	-12.4%
Individual income taxes	858,396	10,928,965	276,342	X	1,451,384	537,931	X
Y/Y Percent Change	10.1%	6.4%	4.7%	X	12.0%	10.6%	X
Corporation net income taxes	176,868	1,353,902	40,876	X	104,955	57,772	X
Y/Y Percent Change	65.2%	-9.3%	24.7%	X	-7.9%	-18.4%	X

Source: U.S. Census Bureau (\$ 000s)