

C. Western Region: Economic Review

Introduction

This section of the December forecast 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 is 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.

Employment

While the nation's economic activity, as measured by GDP, resumed growth during the third quarter, employment layoffs have continued. Given the current economic conditions, most forecasters are projecting another jobless recovery for the Great Recession, similar to the past two recessions. At the national level, total nonfarm employment fell 4.2 percent year-over-year in the third quarter. This marks the seventh consecutive quarter of job losses. Table W.1 details how every western state has lost a significant number of jobs of the past year, with Washington performing the best with only 3.9 percent job loss.

Within employment, the goods producing sectors have been hit the hardest relative to the service industry and the public sector. Construction, Natural Resources, Manufacturing and Trade, Transportation and Utilities have all see significant declines across all states. Given recent tax receipts and the manner in which state's budget, the public sector is beginning to shed a significant number of jobs, which is expected to continue in the coming quarters. Overall, job losses have slowed in recent quarters with the expectation that employment will bottom-out in the coming quarters, before resuming growth. Just as every state did not enter into recession at the same time, it will be interesting to see which state(s) emerge from recession earlier than other states.

Table W.1

	Employment by Sector (2009 Q3)							
	Arizona	California	Idaho	Nevada	Oregon	Utah	Washington	United States
Total Nonfarm	2,420.7	14,229.0	616.5	1,183.0	1,624.9	1,200.3	2,851.2	131,235.3
Y/Y Percent Change (AR)	-7.5%	-5.0%	-5.1%	-6.4%	-5.7%	-4.4%	-3.9%	-4.2%
Natural Resources and Mining	10.8	26.8	3.4	12.3	6.9	13.2	7.1	708.7
Y/Y Percent Change (AR)	-22.4%	-6.8%	-21.1%	-0.3%	-20.0%	1.8%	-6.6%	-9.8%
Construction	136.3	625.6	38.2	85.9	78.1	73.6	169.4	6,095.3
Y/Y Percent Change (AR)	-26.7%	-18.5%	-14.2%	-26.3%	-16.3%	-17.6%	-15.3%	-15.0%
Manufacturing	160.2	1,298.8	55.7	44.7	164.9	112.8	265.0	11,784.3
Y/Y Percent Change (AR)	-7.9%	-8.7%	-11.8%	-7.2%	-14.7%	-10.1%	-9.6%	-12.0%
Trade, Transportation and Utilities	473.7	2,671.8	122.8	224.7	312.8	237.7	527.7	25,133.3
Y/Y Percent Change (AR)	-8.0%	-6.4%	-6.8%	-3.4%	-6.6%	-4.6%	-4.8%	-4.6%
Information	39.1	443.7	12.1	14.1	35.0	29.4	99.6	2,831.7
Y/Y Percent Change (AR)	-7.2%	-6.6%	-0.3%	-5.2%	-3.0%	-4.5%	-6.2%	-5.3%
Financial Activities	165.8	799.6	30.3	57.7	93.8	71.2	144.1	7,718.7
Y/Y Percent Change (AR)	-5.6%	-5.1%	-4.3%	-5.5%	-7.5%	-3.7%	-5.0%	-5.1%
Professional and Business Services	339.3	2,108.2	76.1	141.3	180.1	151.7	326.6	16,621.0
Y/Y Percent Change (AR)	-11.6%	-6.1%	-5.7%	-6.8%	-8.3%	-7.2%	-6.7%	-6.3%
Leisure and Hospitality Services	257.6	1,515.4	61.1	308.5	163.8	110.5	293.1	13,167.0
Y/Y Percent Change (AR)	-3.9%	-3.6%	-4.1%	-7.0%	-5.5%	-3.9%	2.7%	-2.1%
Other Services	93.5	497.0	19.1	36.6	60.0	33.7	107.0	5,404.7
Y/Y Percent Change (AR)	-6.6%	-3.5%	-7.6%	-1.3%	-1.9%	-6.3%	-0.9%	-2.3%
Government	424.6	2,498.9	119.0	159.1	301.9	215.0	546.5	22,469.7
Y/Y Percent Change (AR)	-2.7%	-0.9%	0.0%	-2.1%	-0.5%	1.3%	-0.2%	-0.3%

Source: U.S. Bureau of Labor Statistics, State employment in 000s, U.S. employment in millions

While all western states have experienced heavy job losses, their relative performance has varied to some degree. Table W.2 compares job losses across the states, based on each state's peak employment. Different state's employment reached its peak at different time periods based on the unique economies in each state. For example, Nevada's employment peaked in the second quarter of 2007 and has declined for the past nine quarters. The total job losses through the most recent quarter have totaled 111,200 or 8.6 percent. Oregon's job losses since employment peaked in early 2008 have totaled 113,200 or 6.5 percent. This ranks Oregon third worst among the seven western states with only Arizona and Nevada experiencing a larger employment percentage loss.

Table W.2

	<u>Quarter of Peak Employment</u>	<u>Job Losses Since Peak (000s)</u>	<u>% Decline From Peak Employment</u>
Arizona	2007 Q3	-258.9	-9.7%
California	2007 Q3	-966.8	-6.4%
Idaho	2007 Q4	-41.1	-6.2%
Nevada	2007 Q2	-111.2	-8.6%
Oregon	2008 Q1	-113.2	-6.5%
Utah	2007 Q4	-64.0	-5.1%
Washington	2008 Q1	-119.4	-4.0%
United States	2007 Q4	-6,765.0	-4.9%

Economic Coincident Index

One very useful state level economic indicator 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.

Table W.3

Economic Coincident Index for 2009 Q3

	<u>Index Value</u>	<u>Q/Q Percent Change (AR)</u>	<u>Y/Y Percent Change</u>	<u>5 Year Percent Change</u>
Arizona	198.70	-7.3%	-8.4%	3.7%
California	157.69	-3.5%	-5.0%	4.2%
Idaho	207.84	-8.1%	-7.9%	7.4%
Nevada	213.47	-15.7%	-16.5%	-10.8%
Oregon	166.58	-7.1%	-17.7%	-2.3%
Utah	190.01	-4.7%	-4.2%	13.8%
Washington	150.97	-6.0%	-13.6%	1.2%
United States	154.41	-1.9%	-3.5%	6.2%

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

On a year-over-year basis, Oregon is the worst performing western state, a result of our relative reliance on manufacturing and our high unemployment rate. Similarly, Oregon's index value is slightly below its value 5 years ago. This means that the economic expansion of the mid 2000s has been decimated by the current recession. Fast growing states like Idaho and Utah have still maintained a sizable portion of their recent expansion; however they too are declining in the most recent year.

Housing Price Index

Many of the western states have been hit hard by the housing boom and subsequent bust. Arizona, California and Nevada are three of the worst performers nationwide, while the other western states have held up relatively well. Even with declines in the most recent quarters, many western states' home prices have increased more than the nation, partially a result of stricter land-use laws and continued in-migration to these states.

Table W.4

	Housing Price Index (2009 Q2)			
	Index Value	Q/Q Percent Change (AR)	Y/Y Percent Change	5 Year Percent Change
Arizona	208.66	-23.5%	-21.2%	1.6%
California	163.31	-1.6%	-15.4%	-21.7%
Idaho	238.89	-5.7%	-6.8%	29.8%
Nevada	146.01	-13.2%	-28.1%	-28.4%
Oregon	292.96	-12.5%	-10.6%	26.0%
Utah	275.14	-13.7%	-11.6%	28.1%
Washington	247.50	-13.5%	-9.0%	26.9%
United States	197.71	-2.7%	-6.1%	6.7%

Source: Federal Housing Finance Agency (FHFA)

Housing Permits

Many of the western states have been hit hard by the housing boom and subsequent bust. Arizona, California and Nevada are three of the worst performers nationwide, while the other western states have held up relatively well. Even with declines in the most recent quarters, many western states' home prices have increased more than the nation, partially a result of stricter land-use laws and continued in-migration to these states. Table W.4 shows the Federal Housing Finance Agency's home price index for each western state.

Table W.5

Housing Permits Issued (2009 Q3 YTD)

	Permits	Y/Y Percent Change
Arizona	10,676	-50.9%
California	25,312	-49.4%
Idaho	4,243	-32.5%
Nevada	5,430	-55.8%
Oregon	5,846	-44.4%
Utah	8,794	0.8%
Washington	12,928	-45.5%
United States	435,781	-41.9%

Source: U.S. Census Bureau

Exports

As the global recession decimated international trade throughout late 2008 and early 2009, exports began to stabilize in the spring and have increased in most states in recent months. As show in table W.6, on a year-over-year basis most states and the nation overall are experiencing a substantial decrease in the trade, with Utah being an exception. The good news is that all western states except Arizona and Washington have seen sizable increases quarter-over-quarter in the third quarter. While international trade is expected to remain at suppressed levels, relative to its 2008 peak, trade will continue to grow along with the global economic expansion.

Table W.6

Total Exports (2009 Q3)

	Exports (\$ mill)	Y/Y Percent Change
Arizona	\$3,335	-31.0%
California	\$30,147	-20.7%
Idaho	\$1,087	-19.6%
Nevada	\$1,396	-14.7%
Oregon	\$3,924	-24.9%
Utah	\$2,821	9.2%
Washington	\$11,355	-30.6%
United States	\$264,520	-22.3%

Source: WiserTrade, August 2009

Tax Revenue

The recession has resulted in plummeting tax revenue for all states. No state has seen positive revenue growth Y/Y in the second quarter – when the majority of taxes are filed in April. Sales tax and income tax revenues are down significantly for all states – the two largest revenue sources for governments. In fact, of the five western states that collect personal income taxes, all have seen declines of at least 26 percent. Revenue declines of these magnitude has forced governments to cut spending, raise taxes and implement other cost saving measures to balance their budgets in recent months. As all western states are constitutionally mandated to balance their budgets, keeping a close watch on each state's revenue updates will be important to gauge local economic trends.

Table W.7

	State and Local Tax Revenue (2009 Q2)						
	Arizona	California	Idaho	Nevada	Oregon	Utah	Washington
Total Taxes	2,562,395	33,544,129	922,192	2,367,012	2,025,638	1,600,094	3,996,157
Y/Y Percent Change	-26.7%	-14.0%	-21.4%	-6.2%	-27.3%	-16.2%	-8.0%
Property tax	225,468	535,093	X	82,888	3,921	X	217,434
Y/Y Percent Change	0.0%	-1.6%	X	10.0%	-1.2%	X	-2.2%
General sales and gross receipts	1,112,613	8,282,309	275,554	1,052,451	X	413,469	2,527,197
Y/Y Percent Change	-27.3%	-10.2%	-13.6%	-17.7%	X	-9.5%	-9.5%
Motor fuel sales taxes	182,836	795,376	50,187	123,335	101,290	89,194	268,240
Y/Y Percent Change	0.0%	-3.3%	-9.3%	-3.7%	-23.3%	-3.0%	-3.0%
Alcoholic beverages	14,825	82,629	1,958	14,631	3,976	11,471	87,323
Y/Y Percent Change	-17.6%	4.8%	3.6%	-17.2%	1.4%	-0.7%	-0.7%
Public utilities	9,503	264,218	621	230	10,709	7,515	160,952
Y/Y Percent Change	0.0%	30.8%	31.8%	-89.2%	30.2%	2.2%	2.2%
Insurance	117,574	883,962	45,950	118,191	25,467	30,631	167,575
Y/Y Percent Change	0.0%	-8.5%	-4.2%	-7.7%	23.9%	-4.0%	-4.0%
Tobacco products	88,562	237,918	11,744	48,039	59,245	13,558	114,478
Y/Y Percent Change	-15.2%	29.6%	-11.4%	-18.1%	-0.7%	-1.2%	-1.2%
Amusements	142	X	X	256,709	17	X	5
Y/Y Percent Change	0.0%	X	X	-9.6%	21.4%	X	0.0%
Motor vehicles	54,691	676,158	28,904	50,127	121,885	78,780	135,896
Y/Y Percent Change	0.0%	0.0%	2.5%	1.7%	-10.3%	-2.7%	-2.7%
Corporations in general	5,807	15,367	482	16,727	2,431	3,029	6,516
Y/Y Percent Change	0.0%	0.0%	-12.7%	-12.0%	0.5%	-1.8%	-1.8%
Occupation and business licenses	24,574	948,969	15,481	330,574	89,862	9,592	28,301
Y/Y Percent Change	0.0%	0.0%	2.6%	22.0%	14.9%	4.9%	4.9%
Individual income taxes	490,772	14,266,519	407,054	X	1,478,206	700,471	X
Y/Y Percent Change	-44.5%	-33.4%	-29.3%	X	-30.1%	-26.7%	X
Corporation net income taxes	211,835	6,233,206	55,278	X	81,971	190,564	X
Y/Y Percent Change	-29.9%	71.9%	-38.4%	X	-51.2%	2.7%	X

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