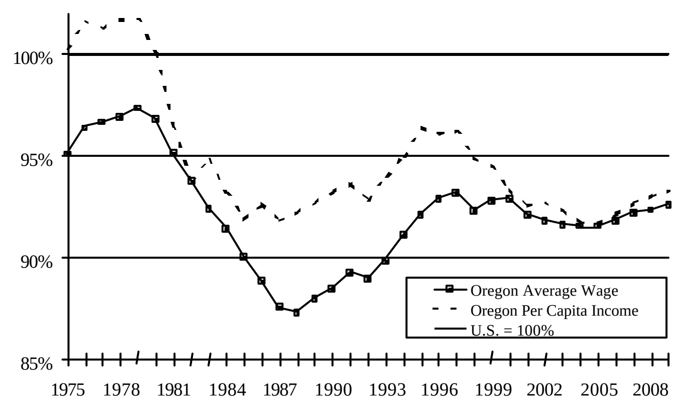
ECONOMIC PERFORMANCE AND OUTLOOK

Recent Performance

- Between 1990 and 2001, total nonfarm jobs in Oregon grew 28.0 percent, from 1.24 million to 1.60 million. Much of the growth was fueled by a boom in the high technology, construction, trade, and service sectors. A recession hit the state in 2001 causing the first annual job loss since 1982.

- Average wages grew 59.1 percent between 1990 and 2001. After adjusting for inflation, they grew 23.1 percent. Consequently, average wages went from 88.4 to 92.1 percent of the national average during this period (see Figure 1).

Figure 1: Oregon Per Capita Income and Average Wage as a Percent of the U.S., 1975-2009



- Per capita income also grew faster than the nation in the 1990s. Oregon's per capita income grew from 93.2 to 94.5 percent of the national average between 1990 and 1999. Recent economic downturns have lowered this percentage to 92.6 in 2001.

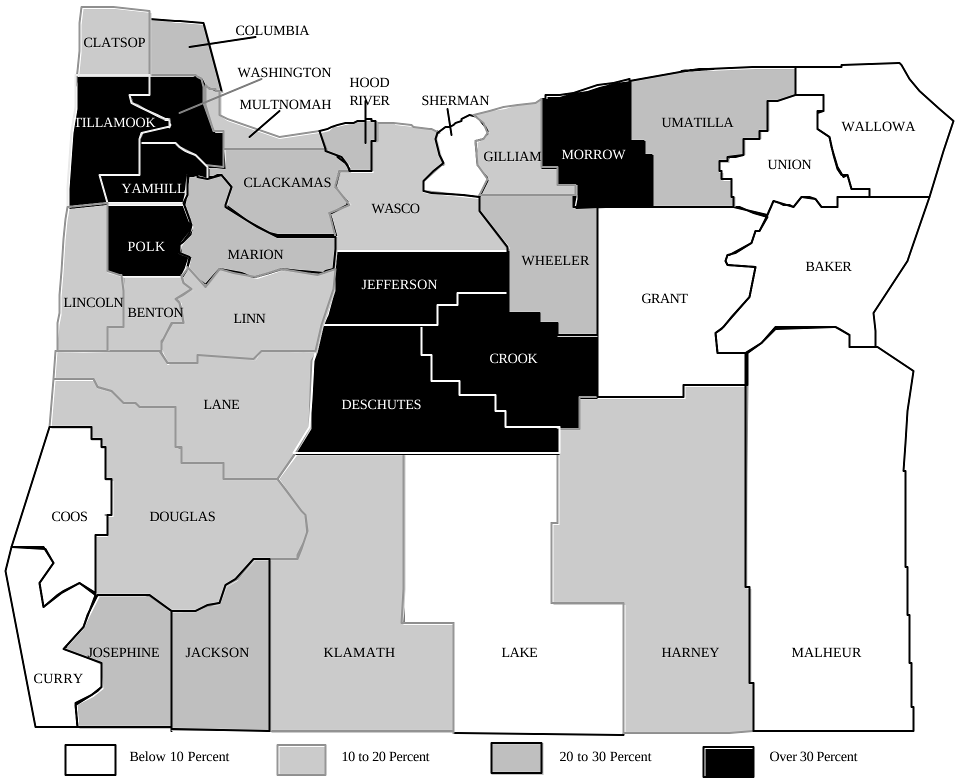
- Figure 2 shows the percent change in employment between 1990 and 2000 censuses. During the decade, the number of persons employed in Oregon increased by 23.3 percent or 307,809 persons. Washington County led the state with the largest increase of 68,405 persons employed. The rate of growth was highest in the Deschutes County. Other high job growth counties were Jefferson, Morrow, Washington, Polk, Crook, Yamhill, and Tillamook. The employment growth in Eastern Oregon trailed far behind the rest of the state. Eastern Oregon did not share in the high technology and service growth seen in other parts of the state during the 1990s.

- The shift toward high technology and service industries is becoming more pronounced. In 1990, three of the top 15 private economic sectors[1] were still timber related. Just one is today. The semiconductor industry now produces the largest payroll in the state.

- Oregon has become tightly linked with its export markets. In 2001, Asian countries made up 4 of the top 5 export destinations for Oregon products. Figure 3 shows that Oregon sends a large portion of its exports to Asia.

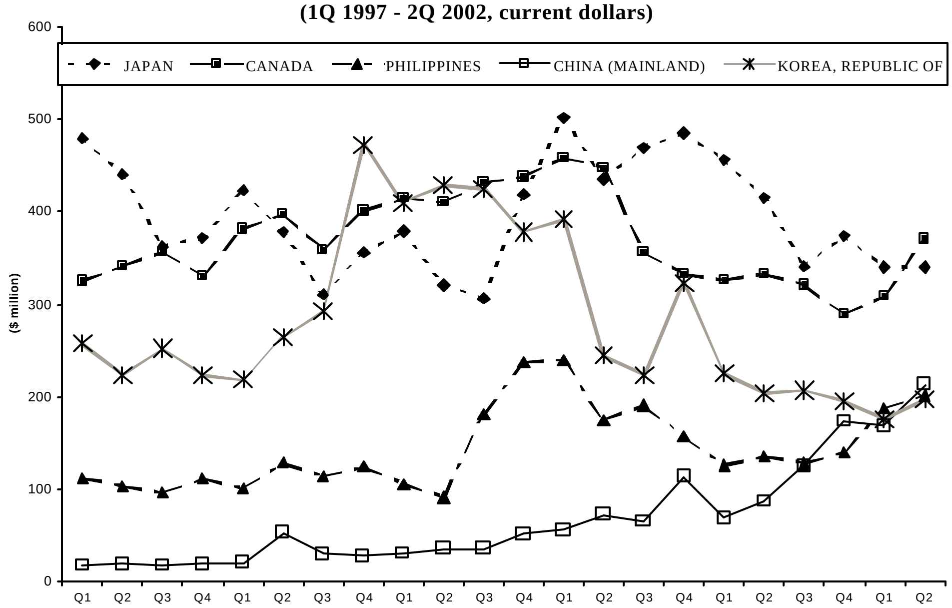
[1] At the 4-digit SIC code level, measured by payroll.

Figure 2: Employment Growth 1990-2000



Source: U. S. Bureau of Census, Census 2000

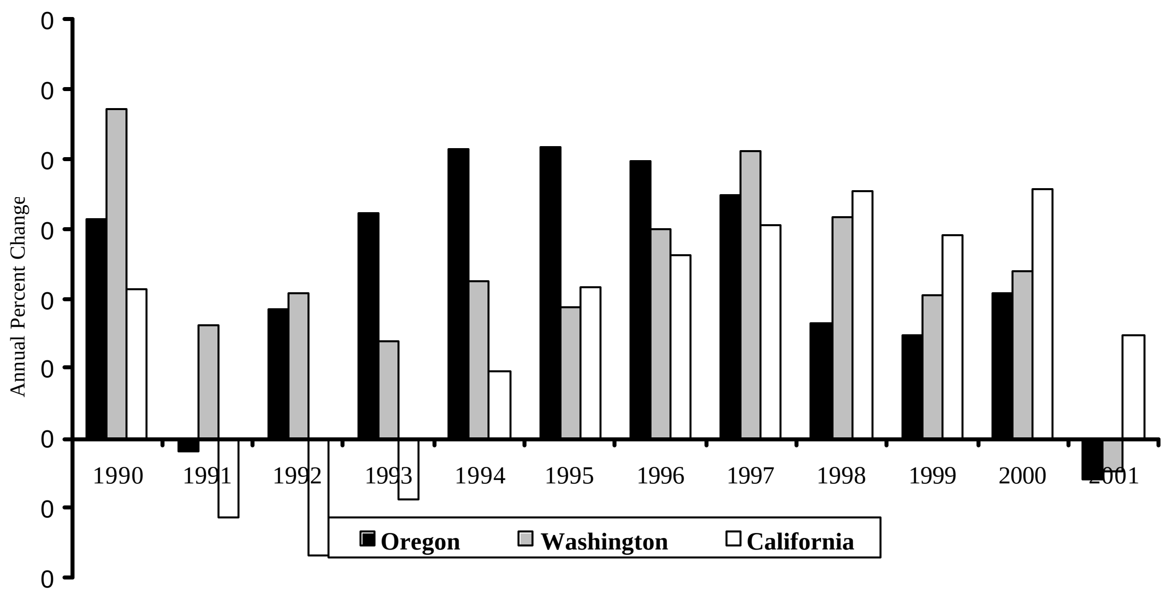
Figure 3: Oregon Exports by Country
(1Q 1997 - 2Q 2002, current dollars)



- Oregon's job growth was strong for most of the 1990s, outperforming the nation. Toward the end of the 1990s, the manufacturing sector slowdown and lower net-in-migration contributed to lower employment growth in Oregon. The recession that started in 2001 caused job losses of 0.7 percent. The recession has been centered in the manufacturing sector with job losses of 3.0 percent in 2001. Oregon now ranks 28th among the states in terms of annual job creation, a relative improvement from a year ago when the state ranked 48th. Earlier in the 1990s, Oregon was consistently in the top 10. California and Washington grew faster than Oregon in the late 1990s, but have recently slowed along with Oregon (see Figure 4).

- The Oregon economy is slowly recovering from the steep downturn caused by the information technology sector crash and ensuing recession.

Figure 4: Employment Growth by State, 1990-2001



Data source: OEA 12/2002 Forecast, Other states - DRI, August 2002 Simulation

Outlook

Key Assumptions

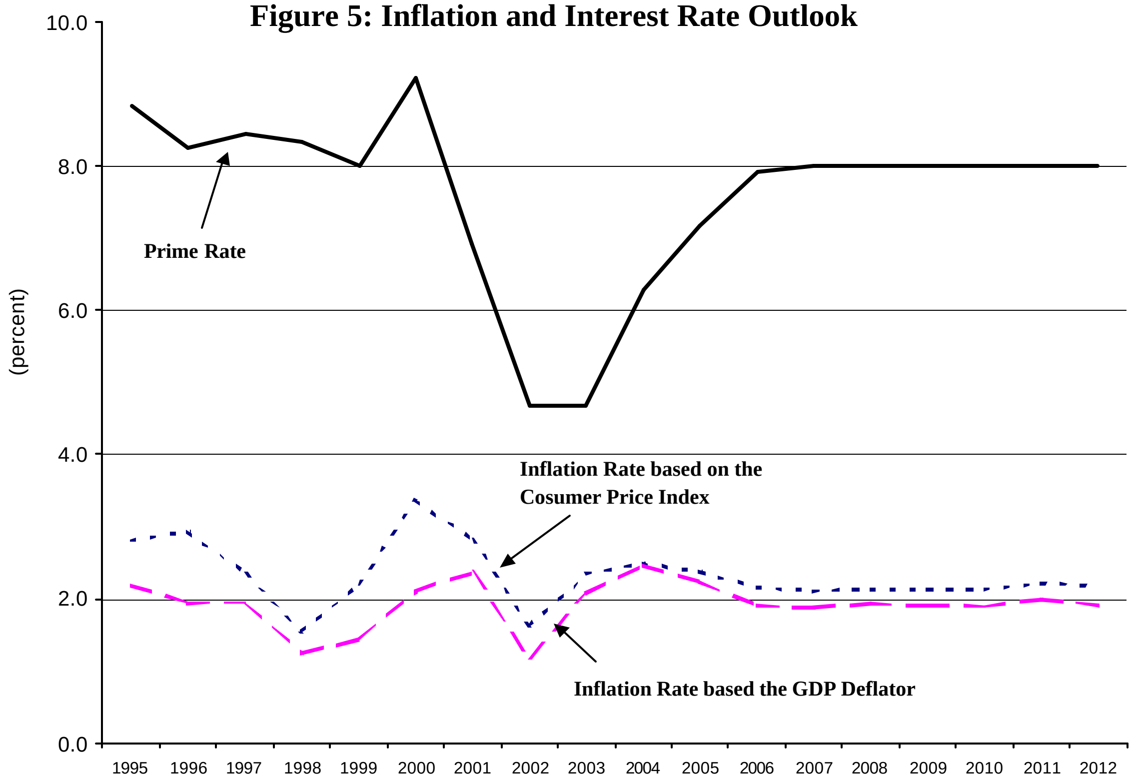
- The U.S. economy fell into recession in 2001. A jobless recovery appears underway which should build strength into 2003. However, the risk of falling back into recession still exists. The largest risks to the economy are international conditions (political and economic) and another stock market correction.

- Growth in the U.S. economy will accelerate in 2003 and 2004.

- Growth in the global economy will help U.S. and Oregon exports. Although some financial risks still face Japan and the rest of Asia, the general outlook is favorable growth through 2005.

- Moderate inflation is forecast through 2004. The CPI, used to measure cost of living increases, will grow 2.3 percent in 2003. The inflation rate will stay around this level in 2004 and 2005. Interest rates will drift higher but remain lower than the second half of the 1990s (see Figure 5).

Figure 5: Inflation and Interest Rate Outlook



Oregon Outlook

- The Oregon economy will grow slowly in 2003, building strength through 2004. A decline is not expected unless the U.S. goes into recession. Job growth will be 1.3 percent in 2003, just below the 1.4 percent forecast for the nation. The last five years Oregon had slower growth than the U.S.

- The forecast assumes that the recession is behind us but that growth will be slow. Exports for high technology, timber, and agricultural products will improve. However, stiff competition will continue to slow the timber industry.

- The baseline forecast for the Oregon economy calls for slow to moderate growth through 2005. Risk factors exist to either boost or lower this forecast (Table 1). The Federal Reserve will act accordingly to prevent inflation or a recession. Global economies are growing, but financial conditions could cause problems for two of Oregon's major export markets, Japan and Korea. International political conditions are uncertain at this time and pose serious risks to the forecast. Energy prices are high but still below early 1980s prices in real terms. The stock market losses have slowed, and a major crash seems less likely. The high technology industry could be another driver for growth, with some risk in the out years.

Table 1: Risk Factors to the Oregon Economic Forecast 2001-2005

Factor	Upside	Downside
Macroeconomic Policies	Mild-Moderate	Mild
International Conditions	Mild	Strong
Energy Prices	Mild	Moderate
Stock Market	Mild	Mild
High Tech Industry	Moderate	Moderate

- Oregon's economic growth rate will move back above the national average in 2005. Oregon is expected to grow faster than the nation through 2009. The economy will be gaining strength as it reaches the end of 2003.

  Exports will rebound with the recovery in Asian markets and renewed strength in other foreign economies. The semiconductor industry should show positive growth over the next few years and be helped over the long term by increasing world demand. Agricultural prices should improve in 2003, helping job growth in that sector. Lumber and wood products and related industries will continue to be plagued by competition from outside Oregon.

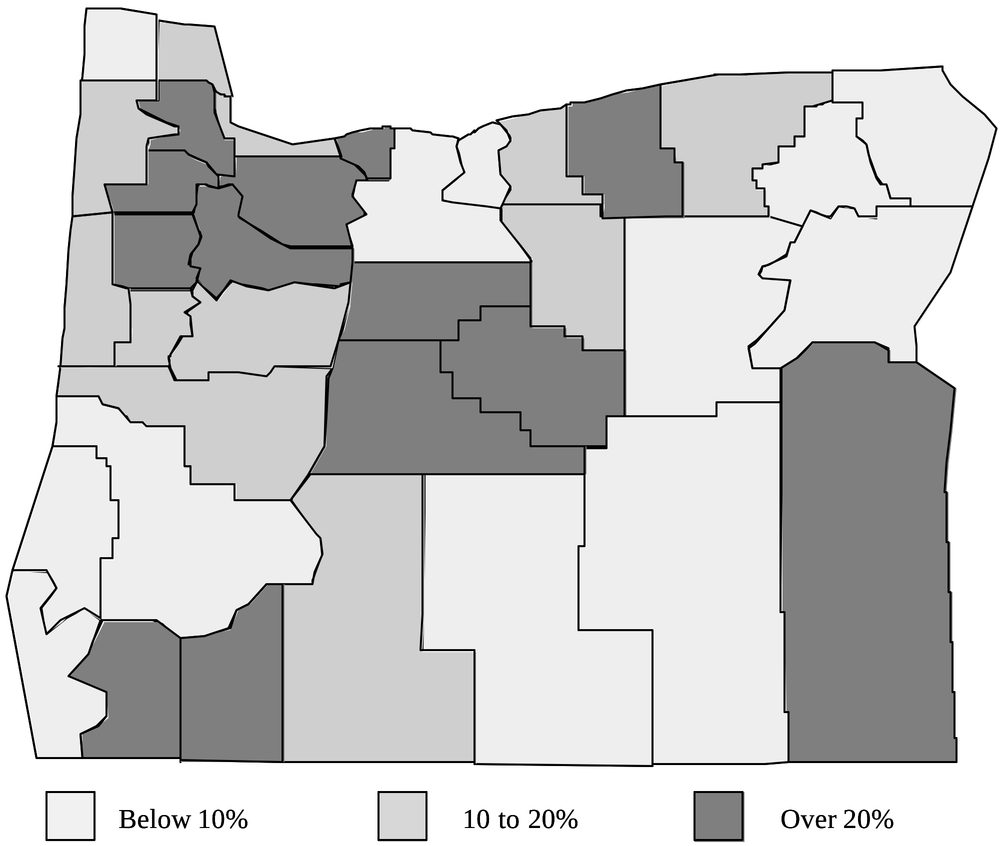
DEMOGRAPHIC CHANGE

- The Census 2000 enumerated 3,421,399 persons in Oregon on April 1, 2000. This is an increase of 579,000 persons or 20.4 percent from the 1990 census. Oregon's intercensal growth rate was ranked eleventh highest in the nation. However, with the exception of California, Oregon's growth rate was slower than its neighboring states. In tandem with Oregon's slowing economy, the population growth rate has slowed in recent years. The state's population is expected to reach 3.799 million in the year 2009, with an annual rate of growth ranging from 1.0 to 1.3 percent.

Regional Variations

- Figure 6 shows the population growth by county between 1990 and 2000. The high growth counties (exceeding 20 percent growth) in order of magnitude were Deschutes, Morrow, Washington, Jefferson, Crook, Yamhill, Polk, Marion, Jackson, Malheur, Clackamas, Josephine, and Hood River. The moderately growing counties (between 10 and 20 percent growth) were Umatilla, Columbia, Lincoln, Lane, Multnomah, Linn, Tillamook, Gilliam, Wheeler, Klamath, and Benton. The slow growing counties (growth of less than 5 percent) were Wasco, Curry, Baker, Harney, Clatsop, Douglas, Wallowa, Coos, Union, Lake, Grant, and Sherman.

Figure 6: County Population Growth, 1990 - 2000



Source: U.S. Bureau of Census, 1990 and 2000 Censuses

Change in Age Structure

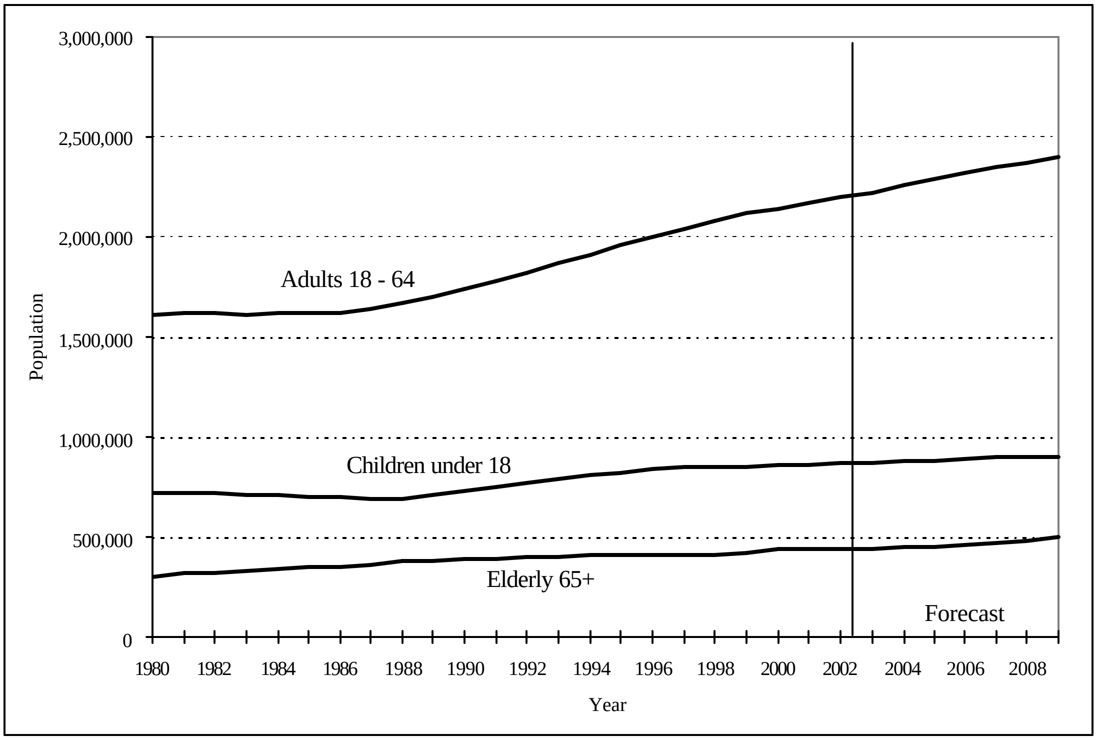
Figure 7 shows that population growth also differs by age group.

Children

- Under 5 years: The size of this age group directly affects demand for childcare, Headstart, and Temporary Assistance for Needy Families (TANF). The number of children under 5 years of age will grow more slowly than the state overall between 2003 and 2005, and it will barely exceed state growth between 2003 and 2009.

- School Age: This age group drives demand for K-12 public school enrollment. Nearly 92 percent of 5 to 17 year-olds are enrolled in public schools. After growing rapidly during the early 1990s, population growth in this age group has slowed since 1995. As the children of the baby-boomers exit this group, the growth rate will continue to slow. Between the years 2003 and 2005, the number of school-age children is expected to grow by 1.6 percent.

Figure 7: Population by Age Groups



Adults

- Ages 18 to 24: This age group drives demand for post-secondary education and entry-level jobs. Nearly 78 percent of all undergraduate students in Oregon public universities are 18 to 24 years old. Males in this age group have the highest arrest rate of all adults. Consequently, increases in this age group can increase demand for prison and jail beds and probation services. The population of 18 to 24 year-olds will continue to grow as the "baby-boom-echo" cohort enters adulthood. Between 2003-2005, this population will grow by 4.5 percent.

- Ages 25 to 64: Working-age adults comprise nearly 53 percent of the total population. The nature of this group is heavily influenced by baby-boomers. The working-age population is the major contributor to the state's tax revenue and puts very little direct pressure on state services. Overall, this population group will grow by 2.6 percent between 2003 and 2005. However, nearly all of the growth will come from the older adults aged 45-64.

Elderly

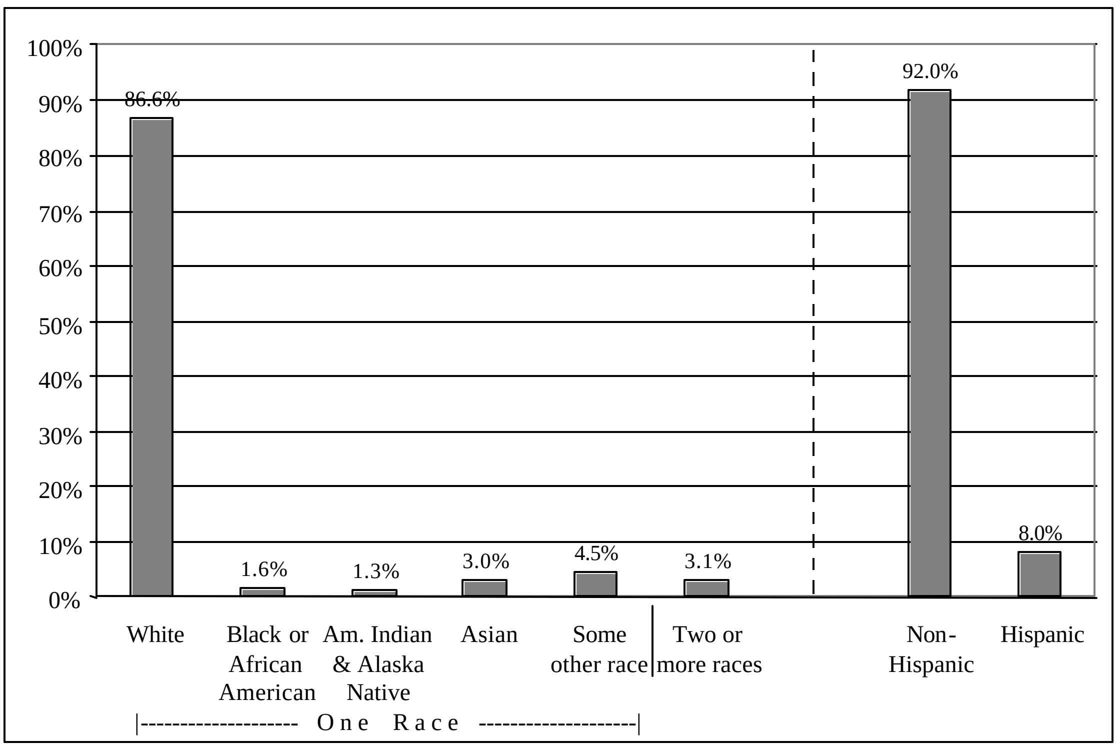
- Since 1950, Oregon's elderly (ages 65 and over) have more than tripled, while the total population has nearly doubled. In recent years the overall growth in this group has slowed. Between 2003 and 2005, the number of young elderly (aged 65 to 74) will increase by 3.2 percent, exceeding the state's overall growth rate. The number of persons aged 75 and over will decline. The young elderly require relatively little government assistance, while persons aged 75 and over tend to require more public assistance.

Race and Ethnic Composition

- Oregon has become more racially and ethnically diverse. A more diverse population entails meeting the needs of racial and ethnic minorities. All of the indicators suggest that the Black and Asian racial groups are growing at a faster rate than the majority White population. However, due to the way the race related questions were asked, the number and percentage changes between 1990 and 2000 cannot be measured. Oregon's population is overwhelmingly White. The White population in the 2000 Census ranged from a minimum of 86.6 percent (White alone) to a maximum of 89.3 percent (White alone or in combination with other races). Each of the other racial categories accounted for less than 5 percent of the population.

- The Hispanic population of Oregon increased from 112,707 in 1990 to 275,314 in 2000. This is an increase of 144.3 percent compared to a 15.3 percent increase in the non-Hispanic population, and a 20.4 percent increase in the overall population. The Hispanic population comprises 8 percent of the total population.

Figure 8: Population by Race and Ethnicity, 2000



Source: U.S. Bureau of Census, 2000.