

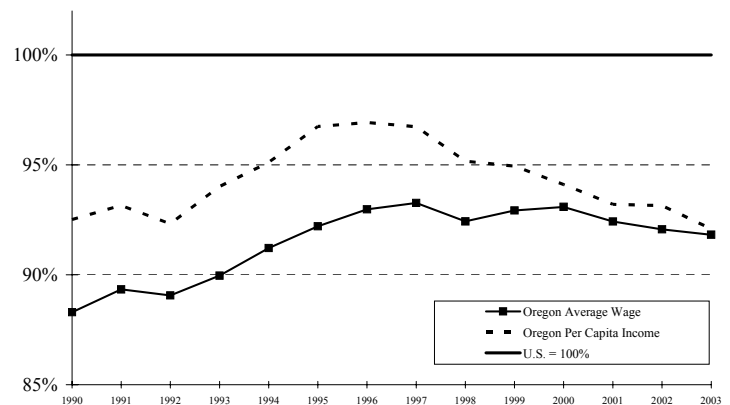
The Economic and Revenue Environment

ECONOMIC PERFORMANCE AND OUTLOOK

Recent Performance

- Between 1993 and 2003, total nonfarm jobs in Oregon grew 19.1 percent, from 1.31 million to 1.56 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 job losses for the next three years. A mild recovery is under way that started in the second half of 2003.
- Average wages grew 44.2 percent between 1993 and 2003. After adjusting for inflation, they grew 20.0 percent. Consequently, average wages went from 89.9 to 91.8 percent of the national average during this period (see Figure 1).

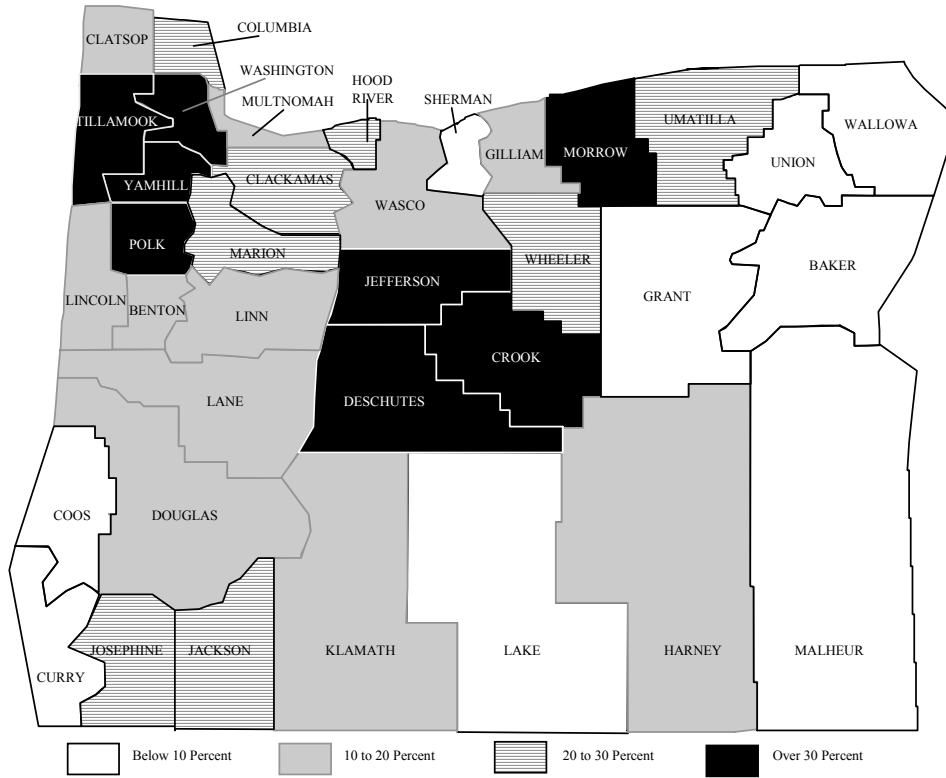
Figure 1: Oregon Per Capita Income and Average Wage as a Percent of the U.S., 1990-2003



- 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 92.1 in 2003.
- Figure 2 shows the percent change in employment between the 1990 and 2000 censuses. During the decade, the number of persons employed in Oregon increased by 307,809 or 23.3 percent. 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. 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 non-manufacturing and service industries has become more pronounced. In 1990, manufacturing employment's share of total employment was 16.3 percent. In 2003 it was 12.5 percent.
- Oregon has become tightly linked with its export markets. In 2003, Asian countries made up four of the top five export destinations for Oregon products. As a consequence, Oregon's economy has fluctuated with the fortunes of the Asian economy. Figure 3 shows that Oregon sends a large portion of its exports to Asia.

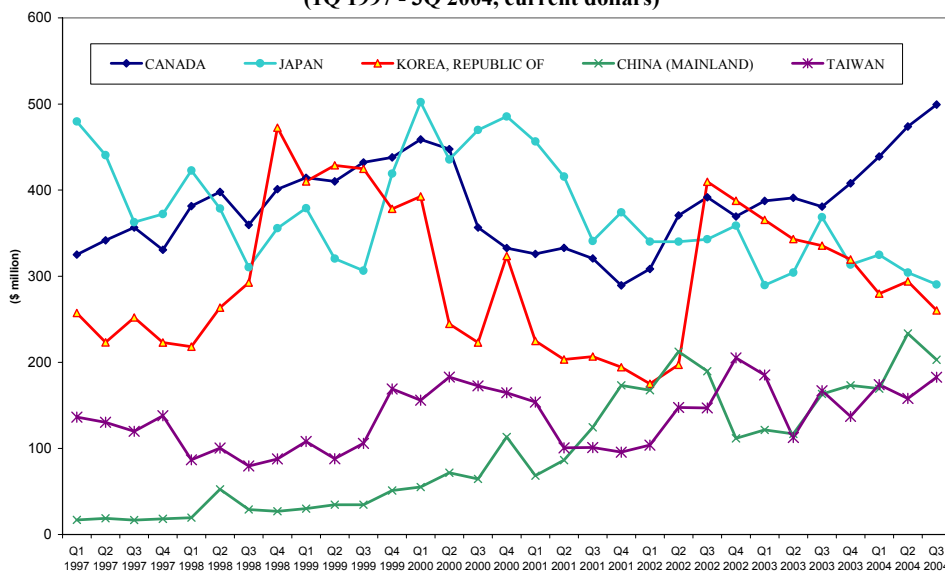
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Figure 2: Employment Growth 1990-2000



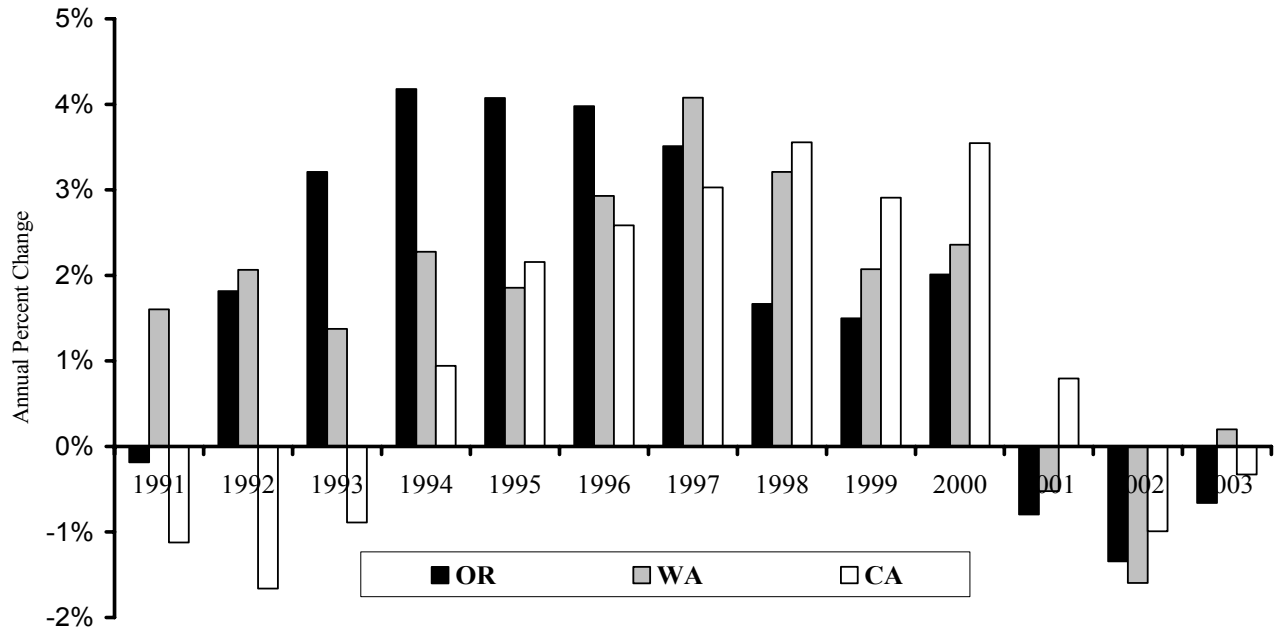
Source: U. S. Bureau of Census, Census 2000

Figure 3: Oregon Exports by Country (1Q 1997 - 3Q 2004, current dollars)



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Figure 4: Employment Growth by State, 1991-2003



Data source: OEA 12/2004 Forecast, Other states - Global Insight, Autumn 2004 Simulation

- 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 lasted three years, causing a job loss of 3.0 percent. The recession was centered in the manufacturing sector with a job loss of more than 12.0 percent over the three years. In the second half of 2003 and into 2004, a mild economic recovery has regained around two-thirds of the lost jobs during the recession. Oregon now ranks 8th among the states in terms of annual job creation, a relative improvement from a year ago when the state ranked 44th. In the mid-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 three year recession caused by the steep downturn in manufacturing centered on the high technology sector.

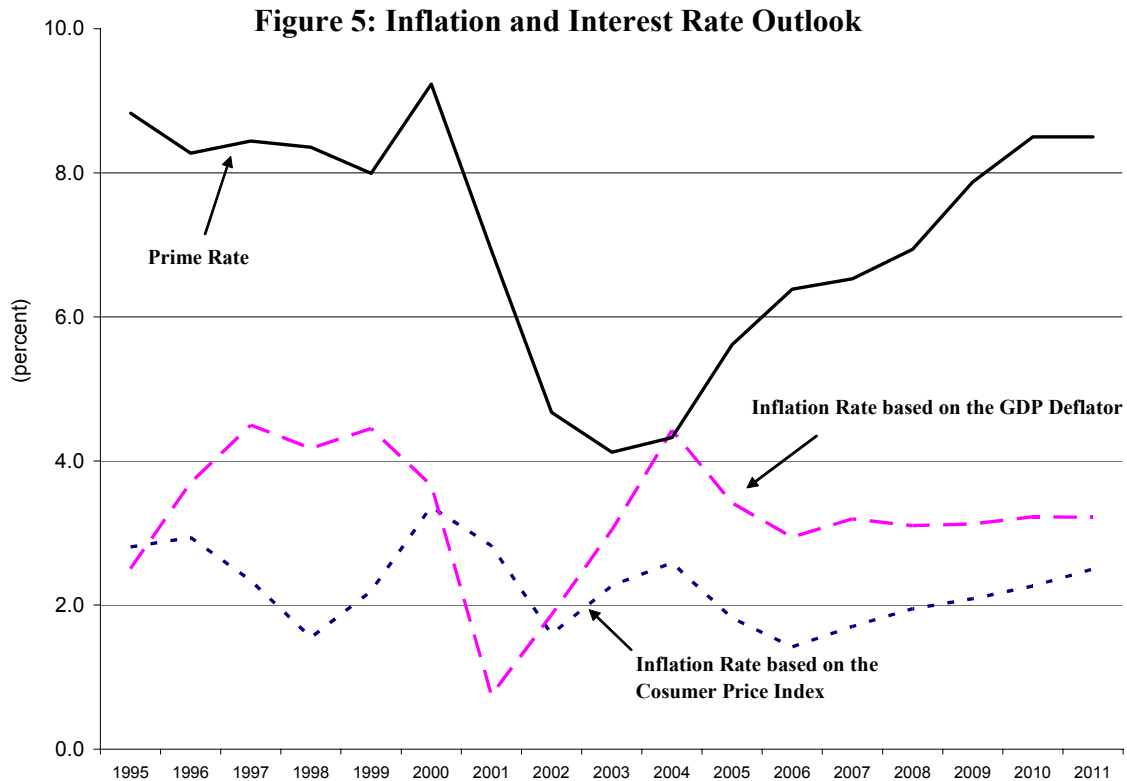
Outlook

Key Assumptions

- The U.S. economy fell into recession in 2001. Although businesses improved their financial position in 2002, the job market was slow to react. The jobless recovery turned into a job gaining recovery in the second half of 2003. The economic recovery appears to be firmly in place, but the risk of falling back into recession still exists. The largest risks to the economy are international conditions (political and economic), energy prices, and another stock market correction.
- Growth in the U.S. economy will not be as strong in 2005 and 2006 as it was in 2004.

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- Growth in the global economy will help U.S. and Oregon exports. Although China may slow the growth of its economy and thus the rest of Asia, the general outlook is for favorable growth through 2006.
- Energy prices are expected to lessen in the coming years, and moderate inflation is forecast through 2007. The CPI, used to measure cost-of-living increases, will grow 1.8 percent in 2005. The inflation rate will stay around this level in 2006 and 2007. Interest rates will move higher from their very low levels in the early years of this decade (see Figure 5).



Oregon Outlook

- The Oregon economy will continue to grow more strongly in 2005 and settle into milder growth in 2006. With the U.S. recovery in place, a decline in Oregon's economy is not expected. Job growth will be 2.1 percent in 2005, slightly better than the 1.7 percent forecast for the nation. This marks the first time in five years that growth in Oregon will be stronger than in 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.

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Table 1: Risk Factors to the Oregon Economic Forecast 2004-2007

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

- The baseline forecast for the Oregon economy calls for slow to moderate growth through 2007. 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 and energy conditions could cause problems for three of Oregon's major export markets, Japan, Korea, and China. International political conditions are still uncertain at this time and pose serious risks to the forecast. Energy prices are very high but still below early 1980s prices in real terms. Regional jumps in natural gas prices have the potential to slow the recovery. 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.
- Oregon's economic growth rate will move back above the national average in 2004. Oregon is expected to grow faster than the nation through 2011, yet at growth rates below those of the 1990s. The economy will continue to gain strength in 2005 and then experience milder growth into 2006 and later years.
- Exports will continue to increase, but global markets are subject to a potential deceleration, a risk to Oregon's export and manufacturing sector. The semiconductor industry should show positive, though slower, growth than during the 1990s. Agricultural prices should stay relatively high in 2005, 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 still slower than its neighboring states. In tandem with Oregon's slowing economy, the population growth rate has slowed in recent years. Oregon's estimated population for July 1, 2004 was 3.583 million, and it is expected to reach 3.899 million in 2011, an annual rate of growth ranging from 1.19 to 1.24 percent.

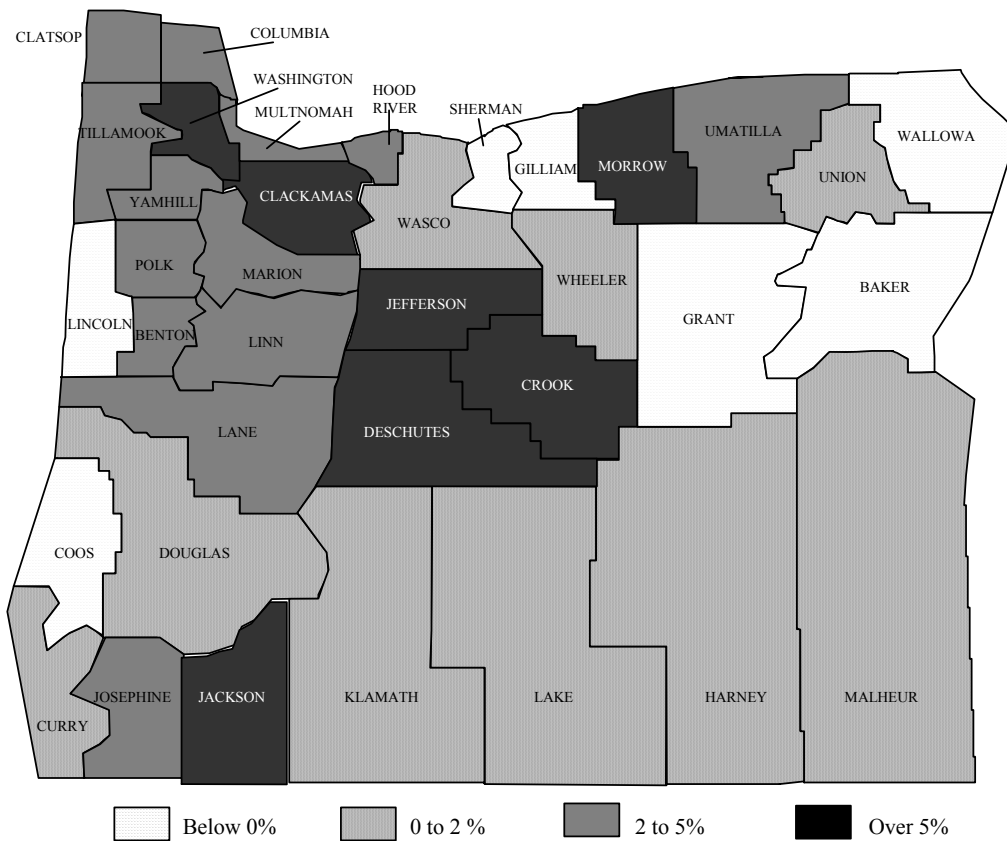
Regional Variations

- Figure 6 shows population growth by county between April 1, 2000 and July 1, 2004. Overall state growth was 4.7 percent during this period. The high growth counties (exceeding five percent change) in order of magnitude were Deschutes, Washington, Crook, Morrow, Jefferson, Jackson, and Clackamas.

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The moderately growing counties (between two and five percent growth) were Yamhill, Columbia, Marion, Benton, Polk, Multnomah, Josephine, Lane, Linn, Hood River, Tillamook, Umatilla, and Clatsop. The slow growing counties (between zero and two percent change) were Douglas, Klamath, Union, Lake, Malheur, Harney, Wasco, Wheeler, and Curry. The counties losing population (negative growth) were Coos, Lincoln, Gilliam, Wallowa, Baker, Sherman, and Grant.

Figure 6: County Population Growth, April 1, 2000 – July 1, 2004



Sources: U.S. Bureau of Census 2000, and Population Research Center, Portland State University 2004 (preliminary)

Change in Age Structure

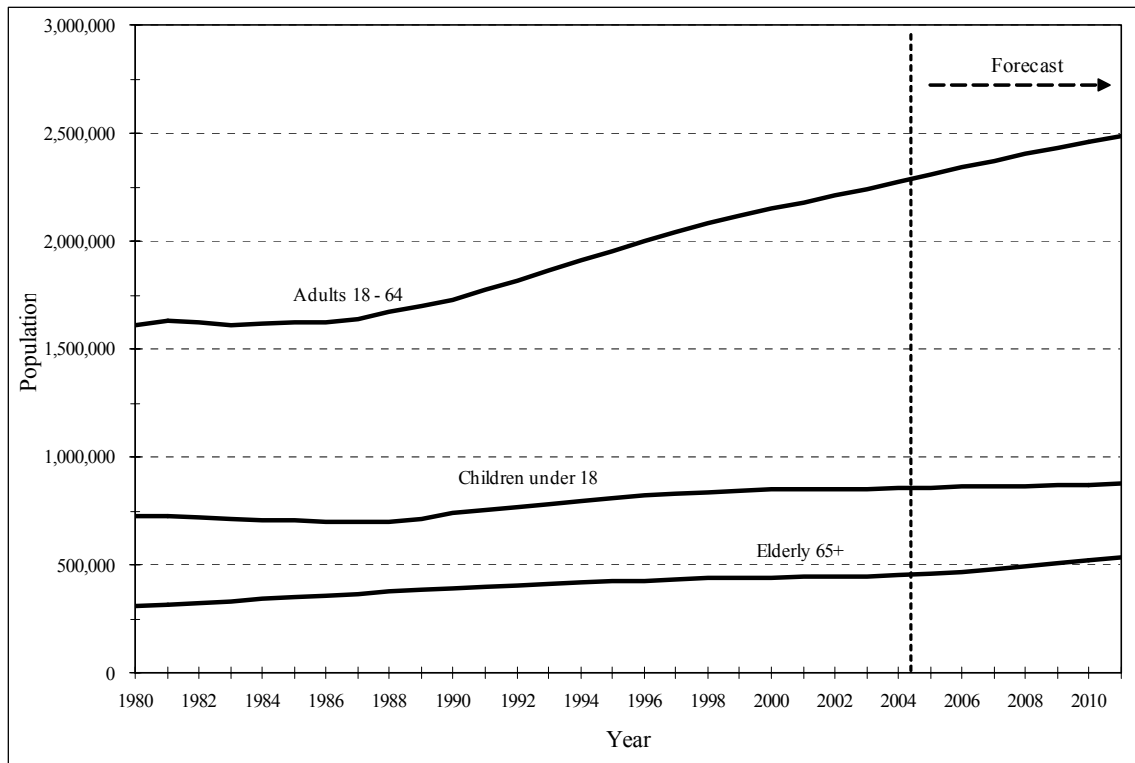
Figure 7 shows that population growth also differs by age group.

Children

- Under five years: The size of this age group directly affects demand for childcare, Headstart, and Temporary Assistance for Needy Families (TANF). Between 2005 and 2007 the number of children under five years of age will grow more slowly than the state's overall population.

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Figure 7: Population by Age Groups



- **School Age:** This age group drives demand for K-12 public school enrollment. Nearly 92 percent of five to 17 year-olds are enrolled in public schools. After growing rapidly during the early 1990s, population growth in this age group has slowed for nearly a decade. As the children of the baby-boomers exit this group, the growth rate will continue to be slow. Between 2005 and 2007, the number of school-age children is expected to grow by 0.2 percent.

Adults

- **Ages 18 to 24:** This age group drives demand for post-secondary education and entry-level jobs. Nearly three-fourths of all undergraduate students in Oregon public universities are 18 to 24 years old. Also, males in this age group are the criminally “at risk” population with highest arrest rate of all adults. Consequently, increases in this age group can increase demand for prison and jail beds and probation services. The growth in this population group has slowed, and it will continue the slow pace of growth as the “baby-boom-echo” cohort exits this age group. Between 2005 and 2007, this population will grow by 1.4 percent.
- **Ages 25 to 64:** Working-age adults comprise nearly 54 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. However, they need entry-level jobs, continued training in a changing technological environment, affordable housing, childcare, and schools for their young children. Overall, this population group will grow by three percent between 2005 and 2007. However, nearly three-fourths of the growth will come from the older adults aged 45-64.

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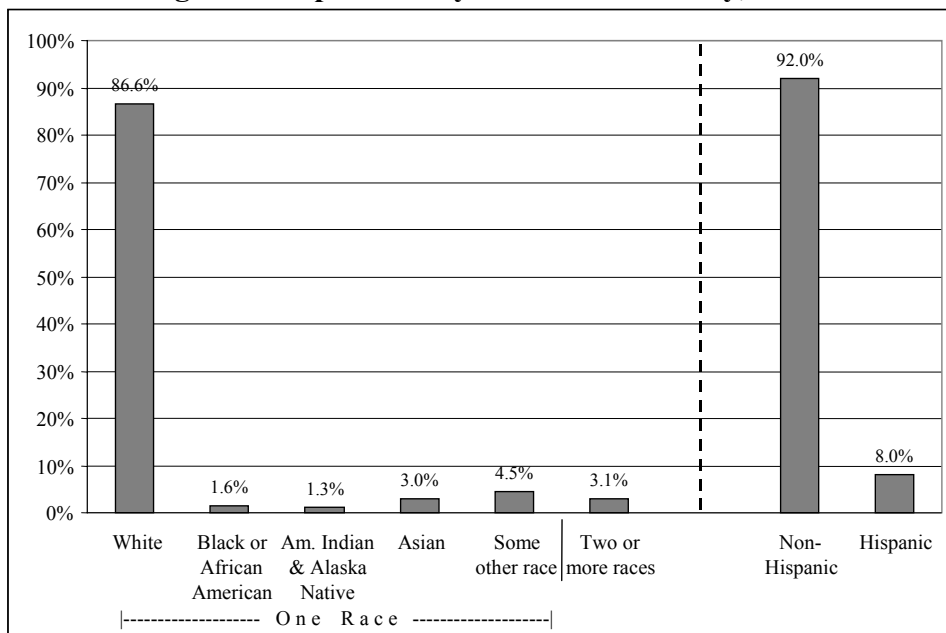
Elderly

- 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, largely due to the depression era birth-cohort reaching retirement age. However, the trend has already started to reverse. Between 2005 and 2007, the number of young elderly (aged 65 to 74) will increase by 6.8 percent, far exceeding the state's overall growth rate. The number of oldest elderly (85+) will increase at even faster pace. The number of persons aged 75-84 will actually see a decline. The young elderly require relatively little government assistance, while persons aged 85 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 five 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 eight percent of the total population.

Figure 8: Population by Race and Ethnicity, 2000



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