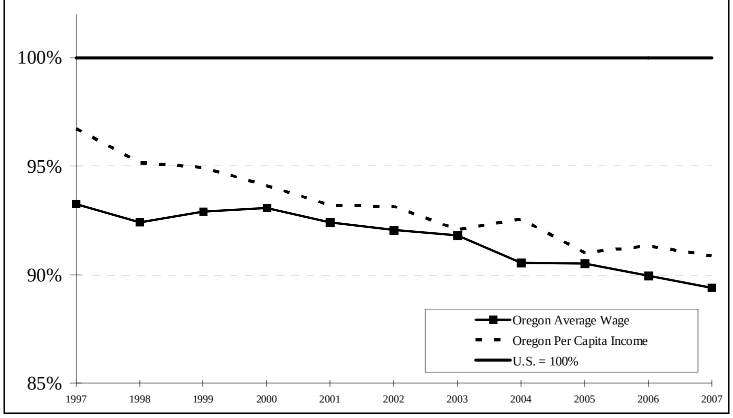
ECONOMIC PERFORMANCE AND OUTLOOK

Recent Performance

Figure 1: Oregon Per Capita Income and Average Wage as a Percent of the U.S., 1997-2007



- Between 1997 and 2007, total nonfarm jobs in Oregon grew 12.7 percent, from 1.54 million to 1.73 million. Much of the growth in the 1990s 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. The state enjoyed strong job gains in 2005 and 2006, outpacing the nation in terms of growth. Job growth slowed in 2007 for both the nation and Oregon.

- Average wages grew 41.3 percent between 1997 and 2007. Despite these gains in wages, Oregon actually fell further from the national average during the same period. (see Figure 1).

- Per capita income grew faster than the nation in the 1990s. However, Oregon's relative stance against the nation turned worse starting in 1997. This is a direct result of the manufacturing slump during the Asian financial crisis and the economic stagnation of the 2001 recession, where high tech dependent Oregon was hit hardest. Although strong job growth in the past few years also boosted income growth, Oregon's population was growing faster than the nation. Oregon's per capita income has not improved relative to the national per capita income.

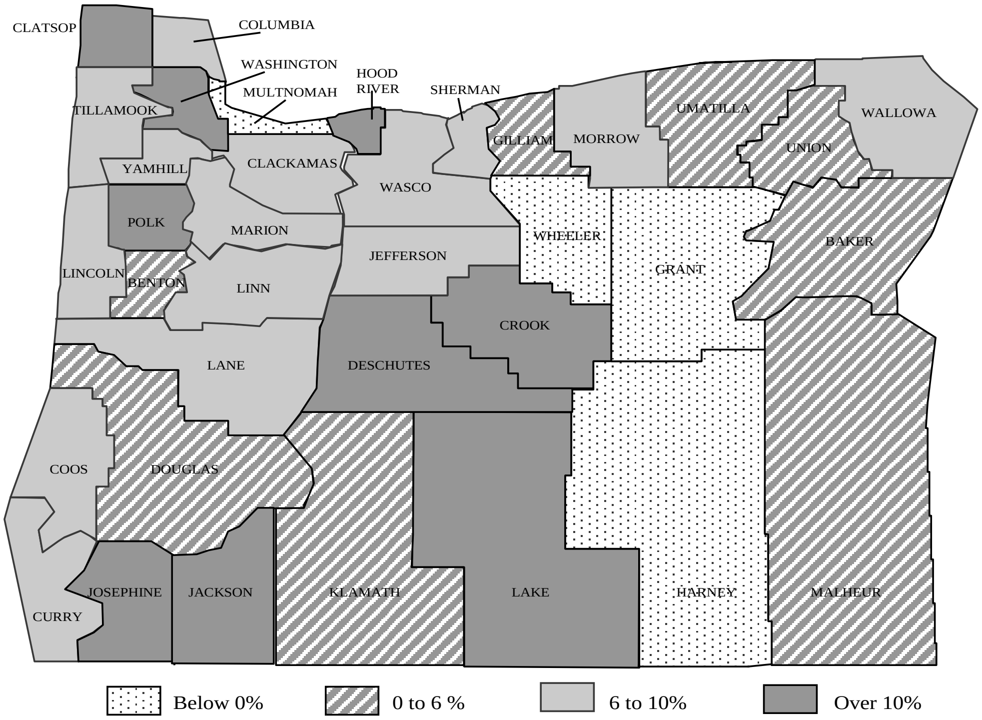
- Figure 2 shows the percent change in employment between 2000 and 2007. The last recession's impact is evident in many counties, including Eastern Oregon Counties and Multnomah County. Highest growth counties are Crook, Deschutes, Hood River, Jackson, Josephine, and Polk. After shedding jobs during the recession, many counties gained back jobs, though the pace slowed in 2007.

- The shift toward non-manufacturing and service industries has become more pronounced. In 1995, manufacturing employment's share of total employment was 14.5 percent. In 2007 it was 11.8 percent. Fast growing industries include professional and business services, and health care services. Strong growth in construction, retail, and finance industries related to the housing boom gave way to losses in the second half of 2007 as the housing contraction took hold.

- Oregon has become tightly linked with its export markets. Canada is the largest export destination of Oregon products. In 2007, 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. Major exports include semiconductor, transportation equipment, agricultural products, and machinery.

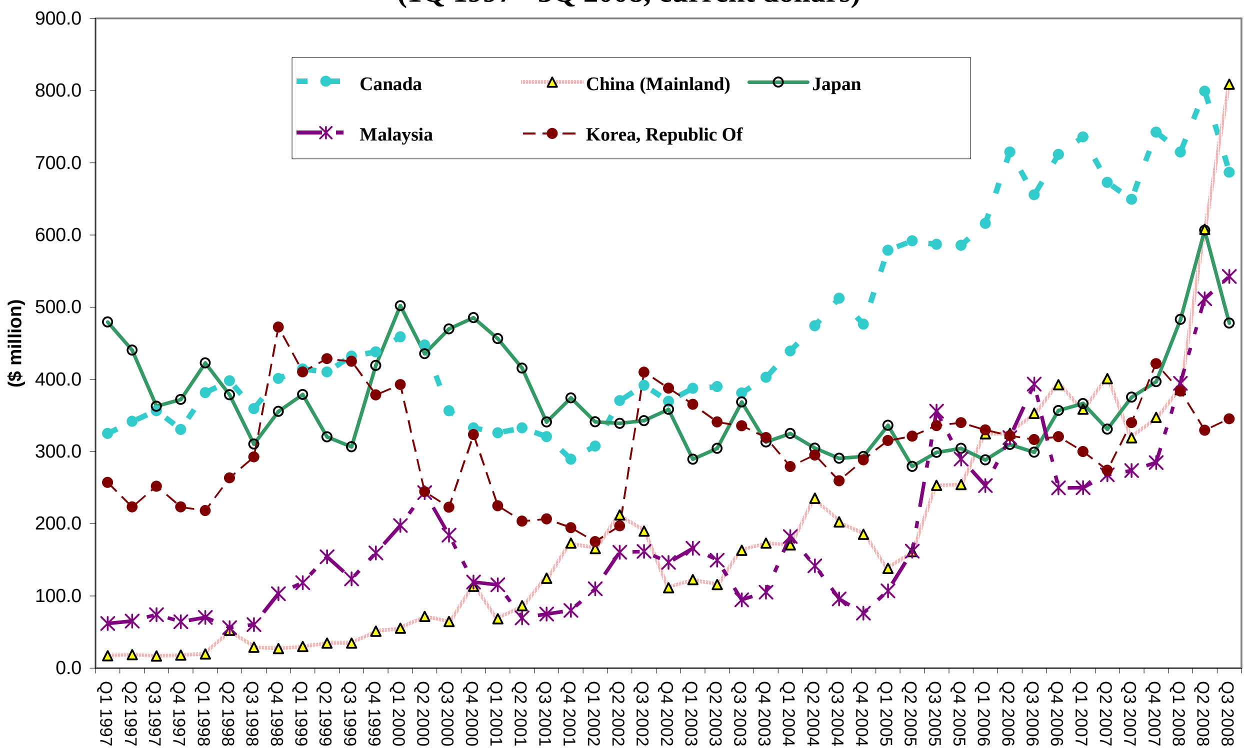
Figure 2: Employment Growth 2000-2007

Oregon: 6.4 percent



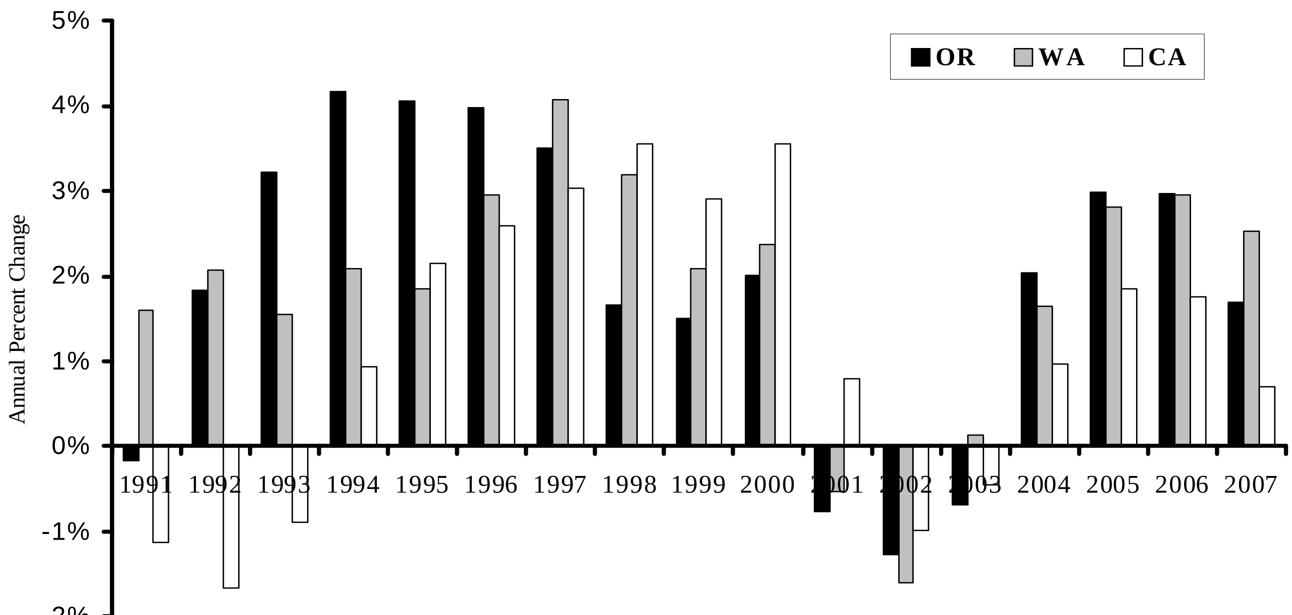
Sources: Oregon Employment Department.

Figure 3: Oregon Exports by Country (1Q 1997 - 3Q 2008, current dollars)



- Oregon's job growth was negative for three consecutive years starting in 2001. Between late 2000 and the middle of 2003, employment fell by as much as 4.0 percent, much worse than neighboring states. Since then, Oregon has seen very rapid job recovery. The state's employment surpassed its November 2000 pre-recession peak level in early 2005 and grew at a 3 percent annual rate in 2005 and 2006. Oregon was hit harder than California and Washington during the recession. However, Oregon exceeded these neighboring states from 2004-06, as shown in Figure 4. As the housing boom came to an end, Oregon's job growth slowed along with California and Washington.

Figure 4: Employment Growth by States, 1991-2007



- Oregon's unemployment rate soared from just over 5.0 percent in late 2000 to a peak of 8.5 percent in the middle of 2003. Thanks to fast job growth from 2004-06, the unemployment rate eased to about 5.0 percent by mid-2007, narrowing the gap against the nation. Since then, the unemployment rate has risen to around 6.5 percent, following the nationwide trend in 2008.

Outlook

Key Assumptions

- Currently, the U.S. economy is growing below potential. The housing market is going through a sharp downturn, if not a crash. Financial credit markets are freezing up curtailing loan activity. Construction and construction related sectors are losing jobs. Consumers and housing sector have supported economic expansion until recently. As consumers retrench and the housing sector goes through a long overdue correction, exports and business capital spending will take over as engines of growth.

- Uncertainty surrounds the U.S. economy in much of 2009. The U.S. economy is expected to be soft in 2009, continuing below trend, with GDP growth projected to fall by -1.0 percent. The economy will improve, starting in late-2009, with GDP growth of 1.7 percent in 2010 and achieve its long run average of 3 percent annual growth by 2011.

- After the current downturn is over, growth in the global economy will help U.S. and Oregon exports. With the recent rise of the value of the U.S. dollar and slowing global economies, export growth will slow relative to the fast growth years of 2004-2008. Export growth will be less of an economic driver during 2009 and 2010. Manufacturing and agricultural industries will benefit from strong global markets.

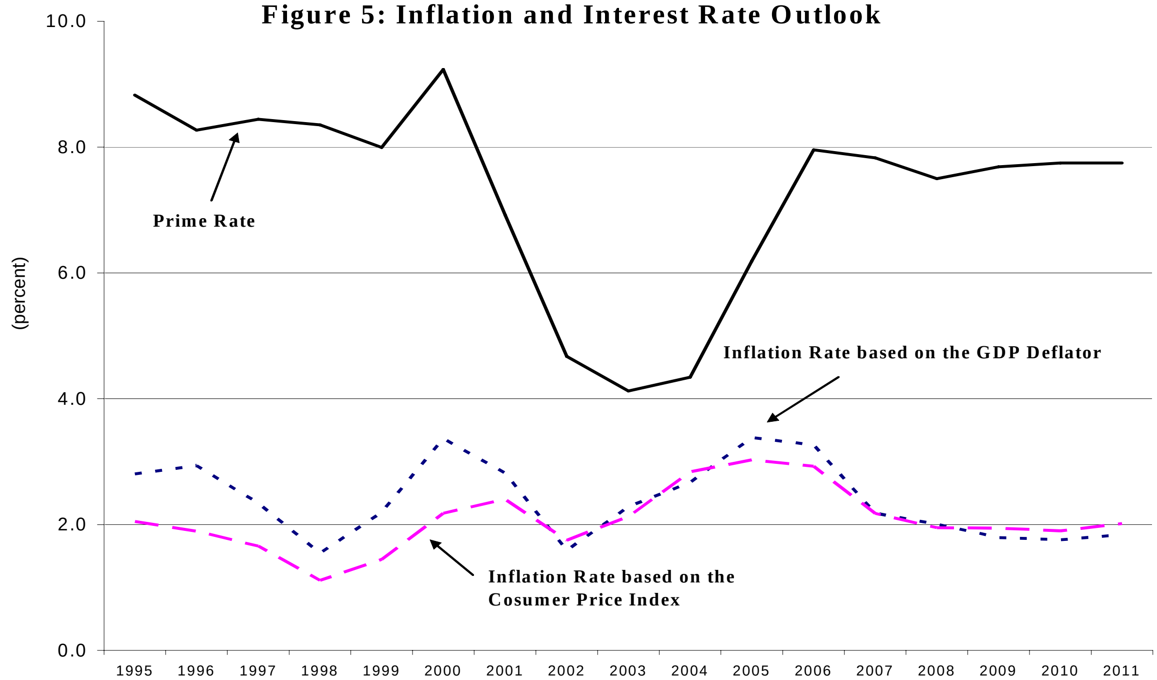
- Energy prices are expected to further decline during this economic downturn. The consumer price index or CPI, used to measure cost of living increases, went up over 4 percent in 2008. It will decline by -0.9 percent in 2009. Low to moderate inflation is forecast through 2011.

- Governments are injecting financial markets with huge amounts of cash. The Federal Reserve may lower the federal funds rate target to 0.5 percent. Interest rates will be lower in 2009 and 2010 compared to 2006 and 2007. No expected rate increases by the Federal Reserve until the first quarter of 2010.

- The housing market in Oregon and the U.S. is in collapse. Building permits, sales, and prices have fallen while building inventories have risen. Oregon's housing contraction is not as severe as other parts of the country and is expected to bottom out with the nation in mid-2009.

- Crude oil prices have dropped below $60 a barrel in mid-November 2008 from a high of $147 in July 2008. Premiums due to geopolitical risks and associated speculations have largely disappeared. The underlying demand from the U.S., Europe and particularly China and the rest of Asia, will once again push up prices as the world economies recovery. Oil prices are forecasted to rise to $80 dollars a barrel by mid-2011 and not expected to repeat the over $100 prices until after 2013.

Figure 5: Inflation and Interest Rate Outlook



Oregon Outlook

- The Oregon economy will continue to decline in late-2008 through late-2009. The same recessionary conditions in the U.S. economy will plague the Oregon economy. Job growth will decline 1.5 percent in 2009 and weak growth of 0.8 percent in 2010. The Oregon economy will once again outpace the nation in 2011. Global Insight projects Oregon will have the 2nd fastest economic growth among the states for the period 2008 – 2013.

- Personal income growth has been strong in recent years. However, with the global economic downturn, personal income growth will slow to 2.4 percent in 2009. 2010 and 2011 will see increasing growth rates of 3.9 percent and 5.6 percent respectively.

Risks

- The great uncertainties surrounding the financial markets and the housing market collapse heighten the risks in the near term. If the credit conditions are slow to improve, the present recession could be deeper and last longer. Housing is expected to bottom out mid-2009 but if mortgage availability is further curtailed, the adjustment period may last longer. To the extent that world economies further slow, exports growth will further decline. Ever present are geopolitical risks. The Oregon economy is relatively better positioned in the housing downturn, but is very much exposed (as is the nation) to the crisis in the financial markets.

- There is an upside risk associated with the unprecedented amounts of funding being injected into the financial system. Added to this is another likely federal stimulus package in 2009. Commodity prices are lower providing needed relief to businesses and households. The economy could turn around faster both in the U.S. and the rest of the world.

DEMOGRAPHIC CHANGE

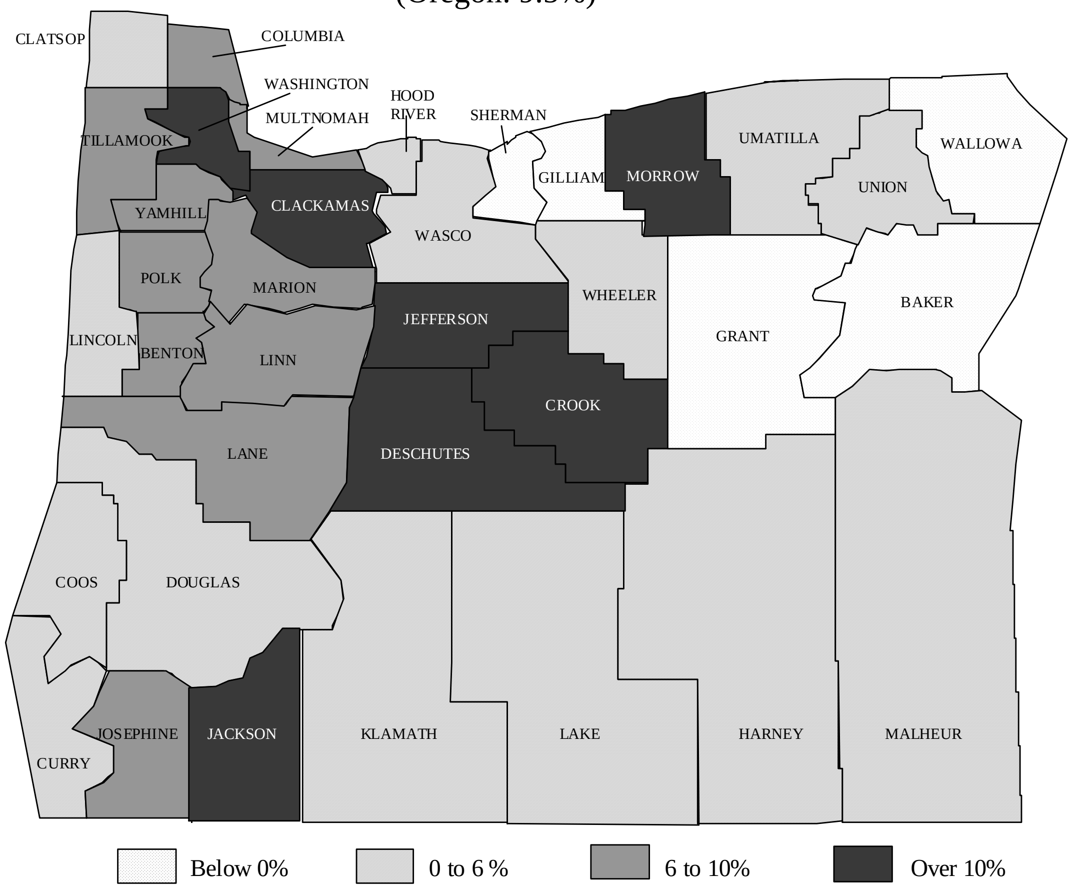
- The last population census enumerated 3,421,399 persons in Oregon on April 1, 2000. This is an increase of 579,000 persons or 20.4 percent from the 1990 census. Oregon's intercensal growth rate was ranked eleventh highest in the nation. However, with the exception of California, Oregon’s growth rate was still slower than its neighboring states. Oregon’ population growth changes with its economic and employment outlook. Economic slowdown during the early part of this decade caused slowing population growth. Oregon’s growth rate for the period of 2000-07 dropped to 13th in the nation. Oregon’s estimated population for July 1, 2007 was 3.745 million, an increase of 9.5 percent from the benchmark 2000 Census. Population growth in the near future is expected to decline in accordance with the current downturn in Oregon’s economy. Its population is expected to reach 4.125 million in 2015 with an annual rate of growth hovering around 1.2 percent.

Regional Variations

- Figure 6 shows population growth by county between April 1, 2000 and July 1, 2007. Overall state growth was 9.5 percent during this period. The high growth counties (exceeding 10 percent change) in order of magnitude were Deschutes, Crook, Jefferson, Washington, Morrow, Jackson, and Clackamas.

The moderately growing counties (between 6 and 10 percent change) were Yamhill, Marion, Columbia, Benton, Josephine, Polk, Multnomah, Tillamook, Lane, and Linn. The slow growing counties (between 0 and 6 percent change) were Hood River, Clatsop, Douglas, Klamath, Union, Umatilla, Lake, Curry, Wheeler, Wasco, Harney, Coos, Lincoln, and Malheur. Five counties losing population (negative growth) were Wallowa, Gilliam, Baker, Sherman, and Grant.

Figure 6: County Population Growth, April 1, 2000 – July 1, 2007
(Oregon: 9.5%)



Sources: U.S. Bureau of Census 2000, and Population Research Center, Portland State University 2007

Change in Age Structure

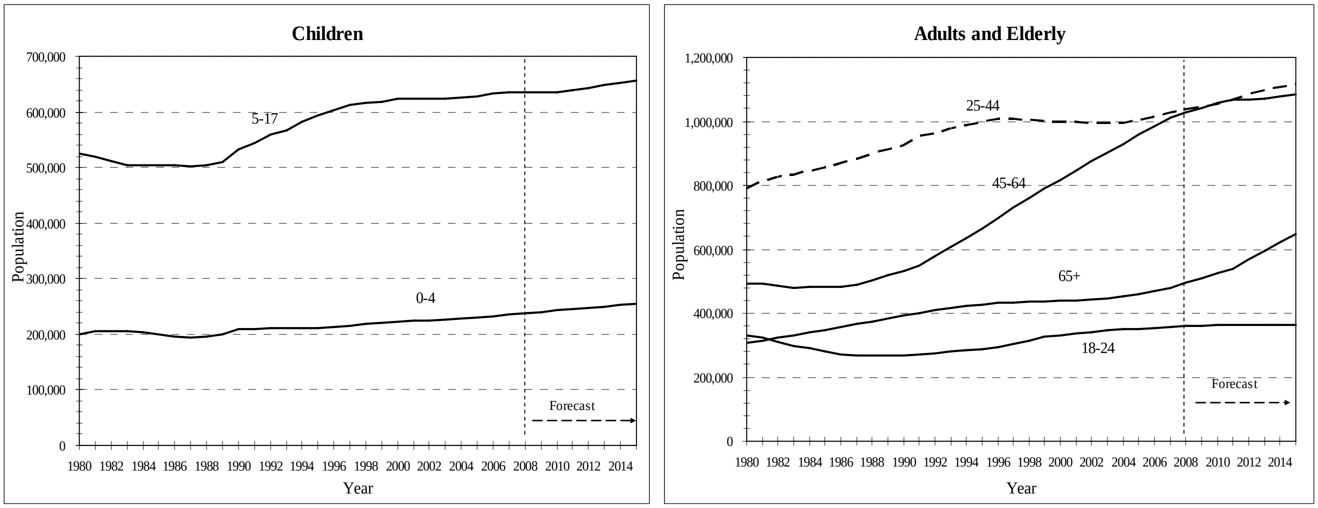
Figure 7 shows that population growth differs by age group with budgetary implications.

Children

- Under 5 years: The size of this age group directly affects demand for childcare, Headstart, and Temporary Assistance for Needy Families (TANF). Between 2009 and 2011 the number of children under 5 years of age will grow slightly faster than the state's overall population as a result of a recent bump in the number of births.

- School Age: This age group drives demand for K-12 public school enrollment. Over 90 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 for nearly a decade. As the children of the baby-boomers exit this group, the growth rate will continue to be slow. Between 2009 and 2011, the number of school-age children is expected to grow by 0.5 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 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 will continue to taper off to negative territory as the "baby-boom-echo" cohort exits this age group. Between 2009 and 2011, this population will grow by 0.8 percent.

- Ages 25 to 64: Working-age adults comprise 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, younger adults need entry-level jobs and older adults require continued training in a changing technological environment. All of them, especially young adults, need affordable housing, childcare, and schools for their young children. Overall, this population group will grow by 2.5 percent between 2009 and 2011.

Elderly

- Since 1950, Oregon's elderly (ages 65 and over) have more than tripled, while the total population has nearly doubled. Growth in this group was slow until 2004, largely due to the depression era birth-cohort reaching retirement age. However, the trend has already started to reverse and will continue its faster pace of growth. Between 2009 and 2010, the number of young elderly (aged 65 to 74) will increase by 9.1 percent, far exceeding the state's overall growth rate and at the fastest pace of all age groups. The number of oldest elderly (85+) will increase at a fast pace of 5.3 percent. The number of persons aged

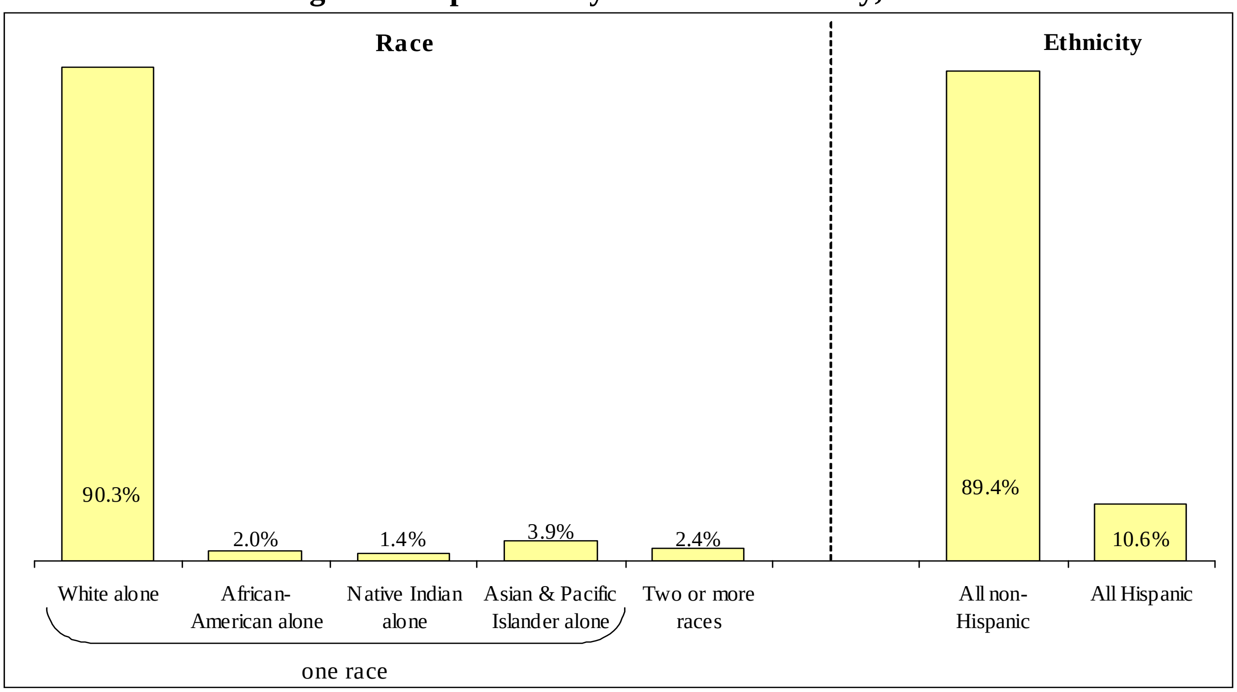
75-84 will reverse from negative growth to slow growth. The young elderly require relatively little government assistance, while persons aged 85 and over tend to require more public assistance.

Race and Ethnic Composition

- Oregon has become more racially and ethnically diverse. A more diverse population entails meeting the needs of increasing racial and ethnic minorities. Oregon's population is overwhelmingly White. The Census Bureau estimated 90.3 percent Oregon's population of the White racial group in 2007. However, only 80.5 percent were non-Hispanic White. Each of the other racial categories accounted for less than 4 percent of the population. Between April 1, 2000 and July 1, 2007, the Asian population grew by 31 percent and the African-American or Black racial group increased by 26 percent, much faster than 8.2 percent growth of the White population.

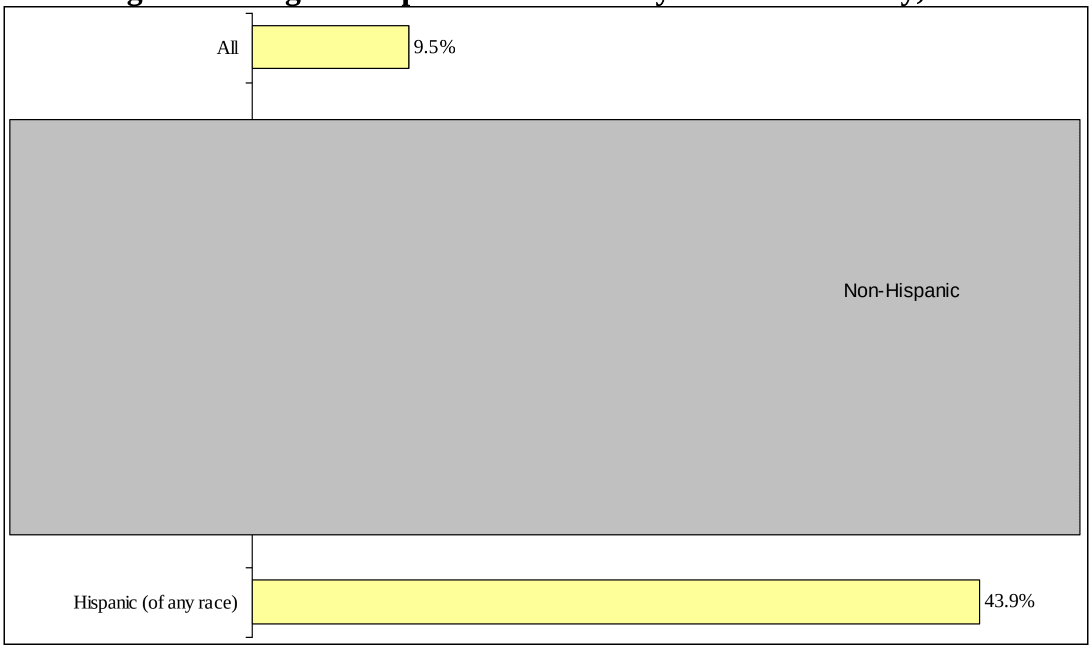
- The Hispanic or Latino ethnic group, which can be of any race, reached 10.6 percent of Oregon's population in 2007. This ethnic group has been increasing very rapidly. The Hispanic population increased from 112,707 in 1990 to 275,314 in 2000. This ethnic group has grown to 396,140 in 2007. Between April 1, 2000 and July 1, 2007, the Hispanic population increased by 43.9 percent whereas the non-Hispanic population increased by 6.5 percent.

Figure 8: Population by Race and Ethnicity, 2007



Source: U.S. Bureau of Census.

Figure 9: Oregon's Population Growth by Race & Ethnicity, 2000-2007



Source: U.S. Bureau of Census.