

B. International Review and Outlook

Introduction

The massive fiscal and monetary expansion packages implemented at the height of the economic crisis have successfully pulled the global economy back from the ledge. Given that the financial systems remain impaired, the International Monetary Fund (IMF) projects the global recovery to be slow relative to recent history. After declining 1 percent in 2009, growth is expected to resume at 3 percent in 2010 and 4 percent annually in 2011-14 – slower than the pre-crisis 5 percent expansion rate. Given this outlook, growth and recovery are not uniform across the world. The IMF estimates full-year 2010 growth in Asian countries will be 5.75 percent, almost twice the expected growth rate of the global economy. Strong rebounds in Asian economies are, and will continue to, lead the recovery ahead of the United States' recovery, which itself will lead the other advanced economies in Europe. The sizable economic growth of Asian countries in the second quarter continued into the third quarter, while the U.S. and Europe returned to positive growth in the third quarter after declining slightly in the second quarter.

Graph I.1 illustrates the relative performance of many of the largest economies in the world since the beginning of 2008. Each country's GDP is normalized to its 2008 Q1 value and is tracked relative to that value through the most recent quarter that data is available. More export dependent economies, such as Japan and Germany, experienced larger declines in GDP than other advanced economies. Similarly, they have also exhibited larger rebounds off their economic troughs than other countries. As detailed in Table I.1, Japan's GDP contracted 8.4 percent and Germany's 6.7 percent from peak to trough. As severe as the recession has been in the United

Graph I.1

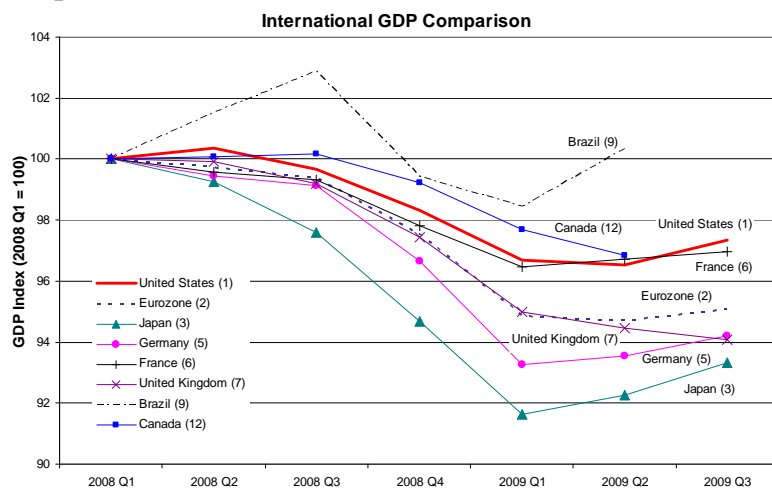


Table I.1

Country	Size of GDP Ranking	Quarter of GDP Peak	Peak to Trough GDP Decline	Peak to Current GDP
United States	1	2008 Q2	-3.8%	-3.0%
Eurozone	2	2008 Q1	-5.3%	-4.9%
Japan	3	2008 Q1	-8.4%	-6.7%
Germany	5	2008 Q1	-6.7%	-5.8%
France	6	2008 Q1	-3.5%	-3.0%
United Kingdom *	7	2008 Q1	-5.9%	-5.9%
Brazil **	9	2008 Q3	-4.3%	-2.5%
Canada ***	12	2008 Q3		-3.3%

GDP rankings based on 2008 data published by the World Bank.

* The United Kingdom has had six consecutive quarters of economic contraction. Given the continued decline, an economic trough cannot be confirmed until GDP growth resumes.

** Brazil's 2009 Q3 GDP data was unavailable by publication date and is excluded here.

*** Canada's 2009 Q3 GDP data was unavailable by publication date and is excluded here. Additionally, three consecutive quarters of economic contractions through 2009 Q2 means an economic trough cannot be confirmed until GDP growth resumes.

States (and it has been the worst since the Great Depression), in GDP terms, the US has performed better than many other advanced economies. However, serious concerns remain in all countries as to the durability and strength of the recovery that is still in its infancy.

Thus far, the majority of economic growth has been propelled by public sector spending and support. This support has led to increased global manufacturing output in recent months as the inventory cycle begins to replenish depleted stocks and also a stabilization of retail sales in many countries. The massive inventory liquidation of late 2008 and early 2009 has now set the stage for a strong rebound in global production and trade. While certainly good news on a global scale, a direct result of this process will be an increase in the US trade balance as the deficit is projected to increase as imports will continue to rise due to consumer demand. As a result, international trade will be a drag on GDP growth in 2009 and 2010.

Recent Developments and Outlook for Oregon Export Markets

As the global economy begins to recover, one concern is the reemergence of global imbalances that preceded the crisis. Countries with large current account deficits, such as the US, need to increase savings, while countries with current account surpluses, such as China, need to increase domestic consumption and rely less on external demand. A significant risk to the global recovery, according to the IMF, is whether or not Asian economies can sustain their economic rebounds ahead of the trailing recoveries in the US and Europe. Consumer demand in the US and Europe, while improving, is expected to remain suppressed as unemployment continues to increase and bank lending remains tight for small businesses. With \$1.3 trillion of bad loans being written down to this point, the IMF projects another \$1 trillion-plus may be written down if the economy worsens, thus placing further pressure on the already impaired financial system. As a result, withdrawing the current economic stimuli around the globe too early may prevent a full recovery and send the global economy back into recession. However, developing “exit strategies” is a prudent move that must be taken in the event that a strong economic recovery places upward pressure on the economy and policymakers need to unwind the policies currently in place.

China’s economy expanded 8.9 percent, year-over-year, in the third quarter and has grown 7.7 percent through the first nine months of 2009. There is a strong probability that China will meet its stated goal of 8.0 percent for full-year growth. China’s sizable growth is thanks largely to a public sector stimulus package heavily focused on infrastructure investments and also increasing credit availability. Credit growth through the first half of 2009 topped 24 percent and has risen over \$1.2 trillion thus far, spurring new investment and economic growth. A positive spillover effect of China’s stimulus and growth is that it can support other Asian economies’ recoveries. In recent years, smaller Asian countries have served as suppliers to Chinese manufacturing and with the collapse in external demand, these economies have suffered significantly. Overall for the first nine months of the year, domestic consumption added 4 percentage points to GDP, investment contributed 7.3 percent, while net exports subtracted 3.6 percentage points. China’s

Purchasing Managers Index for October was at its highest level since April 2008, just as economic growth was peaking, representing the strong, recent growth in the country. Industrial-added value is also at its highest growth rates since before the financial crisis, mainly due to the steel and automotive industries. One concern moving forward is these industries' production may have moved ahead of market fundamentals resulting in overproduction and a future market correction; however this has yet to materialize. In order to maintain sustainable global trade balances, China needs to increase domestic consumption, which it is doing. The government widened healthcare coverage to encourage spending instead of saving among citizens and home sales have been surging as well. Increasing domestic consumption also mitigates the fallout from a protracted consumer retrenchment in the US and Europe, the destination for many of China's exports.

Japan's GDP expanded at a 4.8 percent pace on an annualized basis in the third quarter, following a downwardly revised 2.7 percent expansion in the second quarter. With two consecutive quarters of GDP growth, Japan has emerged from a recession in which its economy contracted 8.4 percent and wiped out five years of economic growth. Exports continue to rebound (6.4 percent in the third quarter) since early 2009, but consumer spending is now contributing to the recovery as well, after increasing 0.7 percent in the most recent quarter. Even with Japan firmly out of recession, the outlook remains unclear due to a strong yen, expiring stimulus and a projected period of deflation. Industrial production has increased in each of the previous six months ending in August, however around one-third of Japanese factories remain idle. Government incentives aided the recovery, including a "Cash for Clunkers" program and for energy efficient appliances, which led to increased sales for major companies such as Toyota, Nissan and Sony. However, the yen's appreciation makes Japanese exports more expensive worldwide and may slow a major driver of the country's economy. Potentially more worrisome for the world's third largest economy is the projected deflationary period many forecasters expect to occur through 2012, including the Bank of Japan and the IMF. With significant economic slack and near record-high unemployment, Japan's CPI has decreased for seven consecutive months and in the third quarter was 2.7 percent below 2008 levels. Japan is trying to avoid a deflationary spiral in which consumers delay purchases in expectation of further price declines, thus exacerbating the negative economic effects. The newly elected government is pledging support for households and the labor market, but with debt nearing twice the size of GDP, there are fiscal limitations to any further stimulus measures.

After declining for five consecutive quarters, the 16 country Eurozone GDP increased 1.6 percent in the third quarter on an annualized basis. Within Europe, the major economies like Germany, France and Italy all expanded as well. Factory orders are rising, business sentiment is still increasing but the unemployment rate is projected to continue to climb, dampening consumer spending. The European economy remains in a fragile state as the recovery is based on government spending and temporary inventory effects. Export dependent Germany experienced a severe economic contraction but has rebounded along with the global economy as export demand returns. Although, similar to Japan, a strong Euro makes exports more expensive in the world marketplace, potentially hurting future

economic growth. While major European countries are now experiencing positive economic growth, Spain and the United Kingdom have yet to emerge from the recession. Spain's unemployment rate is approaching 20 percent, a result of the massive housing bubble and large share of construction employment. The U.K. economy has contracted for six consecutive quarters starting in the second quarter of 2008 and households there are the most over-borrowed among G7 nations. Tight credit markets, troubled banks and rigid labor markets all will impede the European recovery and create a sluggish recovery, according to forecasters.

Canada has been Oregon's top export market from 2002 through mid-2008, however since then exports to Canada have fallen by 41 percent compared to 25 percent for all Oregon exports. In the third quarter, Canada was Oregon's third largest export destination due to the decline in manufacturing (transportation equipment, machinery, metals) and wood product exports. On an annualized basis, Canadian GDP declined 3.4 percent in the second quarter and while private forecasters expect GDP to turn positive in the third quarter, it will lag the US growth rate of 3.5 percent. Overall, Canada's economy has performed relatively well during the recession, primarily due to its sound banking system, however the collapse in international trade really hurt the country in late 2008 and the first half of 2009. As a result, oil and gas extraction have declined recently, as well as manufacturing. On the bright side, the Canadian service industries have expanded each month from April through August. To spark the overall national economy a trade rebound is required and the continued global expansion is good news as it will eventually increase natural resource demand, which will significantly benefit Canadian exporters. Domestically the economic landscape is set for an expansionary period as consumer confidence is increasing and the housing market is booming.

Table I.2 shows Global Insight's (GI) country specific economic forecast as of October 9, 2009. In its global forecast, GI cites some issues to watch to gauge future trends of the global economy. First, a risk exists that some countries' recoveries may lose steam over the coming quarters, a result of the temporary fiscal stimuli expiring. Second, financial markets are strengthening risk appetite, although credit will remain tight as banks rebuild their capital positions. Third, cautious consumers in the U.S. and Europe will constrain the global expansion as they rebuild depleted assets and reduce debt.

Table I.2

Projected Growth Rates of Real GDP (Percent)

As of 10/09/2009	2008	2009	2010	(Average) 2011-14
United States	0.4	-2.5	2.1	3.0
Canada	0.4	-2.6	2.1	3.3
Japan	-0.7	-5.8	1.1	2.1
Eurozone	0.6	-4.0	0.9	1.8
Mexico	1.4	-7.5	3.3	3.3
South America	4.8	-0.4	2.9	4.4
Asia except Japan	5.7	4.1	7.0	6.9
China	9.0	8.1	10.1	8.9
World	2.0	-2.1	2.6	3.7

Source: Global Insight, October 2009

GI's October 2009 global forecast details the different recovery paths regional economies will take moving forward. Economic projections have improved for all major economies, with China's expansion leading the world out of recession. The resurgence in commodity prices is raising inflation concerns; however some of these gains are premature. Investors remain optimistic about future demand growth relative to current market conditions. GI expects downstream inflation to remain subdued for several years.

Table I.3 summarizes the Blue Chip Consensus forecast (October 2009) for Oregon's major export markets. It is consistent with the GI forecast shown in Table I.2, although more optimistic moving forward.

Oregon Exports

U.S. exports continue to fall significantly through the third quarter of 2009. Exports are down 34.2 percent through the first nine months of the year relative to 2008. On a quarterly basis, exports have increased quarter-over-quarter in both the second and third quarters of 2009. Exports have rebounded since their early-2009 lows and will continue to follow the global economy out of the recession. The recent depreciation of the US dollar will help exports as they become more competitive in the global marketplace.

Table I.3

Projected Growth for Top U.S. Export Markets

Ranked by \$ Value of U.S. Goods Exported	Oregon		Projected Change in Real GDP			
	Exports 2008	Rank (\$ mil.)	2007	2008	2009	2010
Canada	1	2,801	2.5	0.4	-2.4	2.3
Mexico	8	748	3.3	1.3	-6.8	3.1
Japan	3	2,016	2.3	-0.7	-5.7	1.6
United Kingdom	13	338	2.6	0.7	-4.3	1.2
China	2	2,469	13.0	9.0	8.1	8.3
Germany	10	400	2.5	1.2	-5.0	1.7
South Korea	5	1,253	5.1	2.2	-1.5	3.3
Netherlands	11	396	3.6	2.0	-4.2	1.0
Taiwan	6	1,111	5.7	0.1	-4.3	3.6
France	16	295	2.3	0.3	-2.3	1.4
Singapore	15	327	7.8	1.1	-4.4	4.3
Belgium	24	120	2.6	1.0	-3.3	0.9
Hong Kong	14	338	6.4	2.4	-3.5	3.4
Australia	12	345	4.0	2.4	0.4	1.9
Brazil	17	283	5.7	5.1	0.0	4.2
Eurozone			2.7	0.7	-4.0	1.2
U.S.			2.0	0.4	-2.5	2.5

Source: Blue Chip Economic Indicators, October 2009
Oregon Export Data: WISER, November 2009

Oregon typically experiences more volatile movements than the US overall – during booms exports increase more than the nation and during recessions they decrease more than the nation. Currently, through the first nine months of the year, Oregon exports are down 30.3 percent Y/Y. Since reaching a low in the first quarter, US exports have increased 7.2 percent while Oregon's exports have rebounded 22.6 percent, thanks to renewed demand in high technology products. The Y/Y declines are broad-based across nearly every industry. Graph I.2 illustrates Oregon's total exports and the Y/Y percent change from 1997 through 2009. With the sizable, recent increases, exports are now at their 2007 levels. The nominal value of third quarter exports, \$3.9 billion, represents the ninth largest value in Oregon's history.

Graph I.2

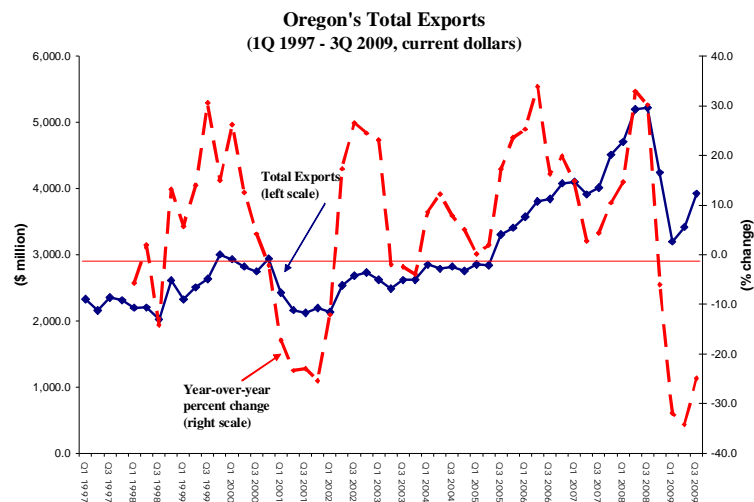


Table I.4 shows Oregon's exports and growth rates by industry for the first three quarters of 2009 (Y/Y). These are the top fifteen industries by export volume (in value). As the global economy continues to recovery, exports are expected to continue their increases. The weakening US dollar will continue to give Oregon a boost, especially relative to stronger Asian currencies – countries that dominate Oregon's top export markets.

Table I.4
Oregon Exports by Industry
(\$ millions, current prices)

	2008 Q3 YTD	2009 Q3 YTD	y/y % change	Share out of Total 100.0%
Total All Industries	15,124.7	10,541.8	-30.3%	
Computer And Electronic Products	6,185.0	4,764.5	-23.0%	45.2%
Agricultural Products	2,268.5	1,405.2	-38.1%	13.3%
Machinery, Except Electrical	1,324.4	805.4	-39.2%	7.6%
Chemicals	839.5	735.2	-12.4%	7.0%
Transportation Equipment	1,215.7	528.0	-56.6%	5.0%
Primary Metal Manufacturing	535.7	333.9	-37.7%	3.2%
Waste And Scrap	488.7	308.5	-36.9%	2.9%
Food And Kindred Products	299.3	264.0	-11.8%	2.5%
Wood Products	370.8	229.2	-38.2%	2.2%
Miscellaneous Manufactured Commodities	230.6	198.9	-13.8%	1.9%
Paper	315.6	173.1	-45.1%	1.6%
Electrical Equipment, Appliances, And Component	179.9	144.3	-19.8%	1.4%
Fabricated Metal Products, Nesoi	223.5	141.1	-36.8%	1.3%
Petroleum And Coal Products	94.4	98.7	4.6%	0.9%
Plastics And Rubber Products	143.5	93.3	-35.0%	0.9%

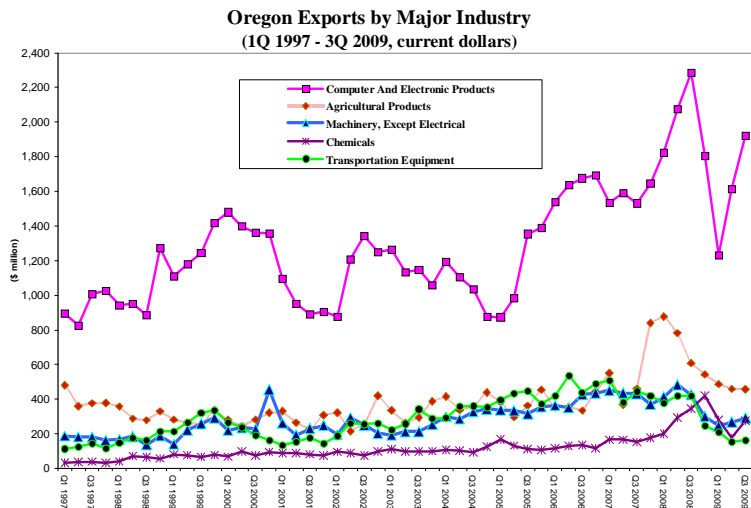
Source: WISER, November 2009

Y/Y growth is negative for fourteen of the top fifteen export industries. Only petroleum and coal products managed to register positive growth – up over \$4.3 billion or 4.6 percent. The computer and electronics sector has been improving in recent months. It is Oregon's largest and most important sector and is outperforming many of the other sectors by decreasing 23.0 percent Y/Y. With its recent improvements and continued weakness in other industries, Computer and Electronic Products now comprise 45.2 percent of total Oregon exports. Exports in this industry increased 19.0 percent Q/Q and have increased 56.1 percent from the first quarter of 2009.

Agriculture, Machinery, Primary Metals, Waste and Scrap, Wood Products, Fabricated Metals and Plastics and Rubber products all recorded declines larger than 30 percent Y/Y, evidence of the global recession's effect on a wide variety of industries. Transportation Equipment and Paper products have performed even worse, seeing declines of 56.6 percent and 45.1 percent, respectively.

Graph I.3 illustrates quarterly exports by major industry since 1997. With another strong gain in the third quarter, computer and electronics have nearly regained the losses caused by the global recession. Agricultural exports, the

Graph I.3



beneficiary of the late 2007, early 2008 commodity boom, have decreased for six consecutive quarters and are now more in line with their long-run average of around \$400 million per quarter.

Table I.5 charts exports of Oregon products to major destinations. Out of the top fifteen export markets, only China saw an increase in trade through the first nine months of 2009. Exports to China continue to increase substantially as its economy continues to outperform the other major economies in the world. Other countries with large high technology sectors, such as Malaysia and Costa Rica, have seen exports fall less there than other export destinations. Exports to many of Oregon's other major trading partner countries have fallen by more than 30 percent Y/Y in the first three quarters of 2009.

Table I.5

Oregon Exports to Major Trading Partners
(\$ millions, current prices)

	2008 Q3 YTD	2009 Q3 YTD	y/y % change	Share out of Total
Total All Countries	15,124.7	10,541.8	-30.3%	100.0%
China (Mainland)	1,802.6	2,028.2	12.5%	19.2%
Canada	2,200.8	1,447.7	-34.2%	13.7%
Malaysia	1,448.7	1,277.7	-11.8%	12.1%
Japan	1,567.8	942.9	-39.9%	8.9%
China (Taiwan)	886.7	606.8	-31.6%	5.8%
Costa Rica	546.0	544.7	-0.2%	5.2%
Korea, Republic Of	1,058.3	492.8	-53.4%	4.7%
Germany	302.7	278.9	-7.9%	2.6%
Netherlands	292.3	270.9	-7.3%	2.6%
Philippines	759.8	248.1	-67.3%	2.4%
Hong Kong	254.6	213.6	-16.1%	2.0%
Mexico	662.8	152.7	-77.0%	1.4%
United Kingdom	278.5	145.9	-47.6%	1.4%
Australia	265.0	137.8	-48.0%	1.3%
Singapore	269.0	124.6	-53.7%	1.2%

Source: WISER, November 2009

Graph I.4 shows the quarterly export trend for Oregon's major markets since 1997. On a quarterly basis, exports to China, Canada, Malaysia and Taiwan have increased. Exports to Japan continued to decrease for the fifth consecutive quarter. Exports to Canada have declined significantly after rising for most of the decade. Canada has historically been the number one market for Oregon exports, but China has now overtaken the top position for five consecutive quarters and Malaysia has surpassed Canada in the most recent quarter. These trends are expected to continue given the current state of the global economy and the relative robustness of the Chinese economy.

Graph I.4

