

## C. Western Region Economic Review

This section of the March 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, grew at a brisk 5.7 percent pace (advanced estimate) during the fourth 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 3.5 percent year-over-year in the fourth quarter, which is an improvement as the rate of job losses have slowed since early 2009. This marks the eighth 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 3.2 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 near future, 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 and what industry sectors take the lead.

**Table W.1**

	Employment by Sector (2009 Q4)							
	Arizona	California	Idaho	Nevada	Oregon	Utah	Washington	United States
Total Nonfarm	2,413.5	14,179.7	612.2	1,165.2	1,610.7	1,203.7	2,836.2	130,965.3
Y/Y Percent Change (AR)	-5.7%	-4.2%	-4.0%	-6.2%	-4.9%	-3.8%	-3.2%	-3.5%
Natural Resources and Mining	11.1	26.8	3.5	12.1	6.9	13.3	6.9	702.3
Y/Y Percent Change (AR)	-18.6%	-6.0%	-11.0%	-3.7%	-16.4%	-2.2%	-6.3%	-11.3%
Construction	133.5	611.8	36.7	80.6	75.6	72.0	160.6	5,951.3
Y/Y Percent Change (AR)	-21.1%	-16.9%	-13.8%	-26.5%	-14.5%	-16.8%	-16.9%	-14.4%
Manufacturing	160.1	1,283.8	56.0	43.7	162.7	111.7	261.1	11,659.7
Y/Y Percent Change (AR)	-7.1%	-8.2%	-8.5%	-7.0%	-13.2%	-9.6%	-6.6%	-10.7%
Trade, Transportation and Utilities	471.6	2,653.2	120.8	221.9	312.3	237.7	525.0	24,997.3
Y/Y Percent Change (AR)	-5.6%	-5.0%	-5.4%	-3.4%	-4.4%	-4.0%	-3.3%	-3.9%
Information	38.8	447.6	12.2	13.8	35.0	30.9	98.7	2,814.7
Y/Y Percent Change (AR)	-5.4%	-5.7%	0.5%	-6.0%	-1.9%	2.2%	-6.9%	-5.0%
Financial Activities	165.2	798.9	30.8	57.9	94.0	70.8	144.6	7,694.3
Y/Y Percent Change (AR)	-5.0%	-4.0%	-2.3%	-3.4%	-5.2%	-3.1%	-3.2%	-4.4%
Professional and Business Services	345.1	2,123.9	75.0	139.2	179.6	153.5	331.3	16,751.0
Y/Y Percent Change (AR)	-6.9%	-4.4%	-3.4%	-5.9%	-5.5%	-6.1%	-4.0%	-4.2%
Leisure and Hospitality Services	256.3	1,506.3	61.7	304.7	162.0	106.3	283.0	13,117.0
Y/Y Percent Change (AR)	-2.2%	-3.1%	-1.7%	-6.3%	-6.2%	-6.3%	-70.0%	-1.7%
Other Services	91.3	493.0	18.5	36.6	57.8	33.9	106.7	5,377.7
Y/Y Percent Change (AR)	-8.1%	-4.1%	-7.8%	-30.0%	-4.7%	-5.6%	-1.1%	-2.3%
Government	416.4	2,474.4	117.7	155.1	298.4	217.4	548.8	22,479.7
Y/Y Percent Change (AR)	-4.4%	-1.7%	-2.6%	-4.5%	-0.8%	0.8%	0.0%	-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 ten quarters. The total job losses through the most recent quarter have totaled 129,000 or 10.0 percent. Oregon's job losses since employment peaked in early 2008 have totaled 127,300 or 7.3 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	-266.1	-9.9%
California	2007 Q3	-1,016.0	-6.7%
Idaho	2007 Q4	-45.4	-6.9%
Nevada	2007 Q2	-129.0	-10.0%
Oregon	2008 Q1	-127.3	-7.3%
Utah	2007 Q4	-60.6	-4.8%
Washington	2008 Q1	-134.3	-4.5%
United States	2007 Q4	-7,035.0	-5.1%

***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 Q4**

	<u>Index Value</u>	<u>Q/Q Percent Change (AR)</u>	<u>Y/Y Percent Change</u>	<u>5 Year Percent Change</u>
Arizona	198.80	-1.8%	-6.4%	1.8%
California	157.37	-1.6%	-4.4%	3.1%
Idaho	207.44	0.1%	-6.5%	5.6%
Nevada	209.82	-2.8%	-14.5%	-14.1%
Oregon	170.12	2.2%	-11.4%	-2.4%
Utah	190.59	-1.0%	-3.5%	12.7%
Washington	149.90	-5.3%	-10.7%	-1.5%
United States	154.66	0.5%	-2.7%	5.6%

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

On a year-over-year basis, Nevada is the worst performing western state, a result of continued job losses and high unemployment rate. Somewhat surprisingly, Oregon's index has performed the third best in the nation in recent months. As our job losses have slowed and our unemployment held steady over the past 6 months, the index has stopped falling and begun to improve, evidenced by our quarter-over-quarter growth of 2.2 percent. Such an improvement coincides with the recession in Oregon ending in the early fall of 2009. While overall economic activity has begun to grow once again, or at least stopped declining, employment growth is still projected to remain weak in the coming months. Toward the end of 2010 and into 2011, employment is expected to grow at a stronger rate.

## 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 shows the Federal Housing Finance Agency's home price index for each western state.

**Table W.4**

	Housing Price Index (2009 Q3)			
	Index Value	Q/Q Percent Change (AR)	Y/Y Percent Change	5 Year Percent Change
Arizona	203.88	-8.2%	-17.1%	-5.6%
California	166.45	8.6%	-7.7%	-25.1%
Idaho	229.83	-13.0%	-8.7%	21.3%
Nevada	139.08	-14.6%	-24.5%	-36.4%
Oregon	289.22	-5.4%	-8.8%	20.3%
Utah	270.74	-6.1%	-10.5%	23.9%
Washington	243.09	-8.2%	-8.7%	21.7%
United States	198.35	0.9%	-3.8%	4.6%

## Housing Permits

With home prices declining across the nation and an oversupply of houses on the market, there has been very little new construction in the past year. One measure used to gauge new home construction is housing permits issued, shown in Table W.5. In 2009 permits issued fell quite substantially from their 2008 levels, which were down significantly from their 2007 levels. Utah continues to remain an exception as housing permits have only decreased slightly year-over-year. The majority of the state's housing correction took place in 2008 and the state remains a high population growth location. Over the course of the year, the relative performance of each state improved compared to their 2008 levels. This brings renewed optimism that 2010 will show continued improvement in the housing market.

**Table W.5**

**Housing Permits Issued (2009 Total)**

	Permits	Y/Y Percent Change
Arizona	14,134	-44.0%
California	5,292	-27.3%
Idaho	6,752	-54.7%
Nevada	10,627	-3.1%
Oregon	33,811	-44.8%
Utah	7,686	-37.0%
Washington	16,754	-41.0%
United States	572,232	-35.9%

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

**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

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.

### ***Tax Revenue***

The recession has resulted in plummeting tax revenue for all states, with declines for much of the 2007-2009 period. For the first time in a year, Nevada registered positive revenue Y/Y in the third quarter. All other Western states continue to see declines. Sales tax and income tax revenues are down significantly for all states – the two largest revenue sources for governments. In fact, of the six western states that collect sales taxes, declines range from just -5.8 percent in California to -20.0 percent in Utah. 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**

	<b>State and Local Tax Revenue (2009 Q3)</b>						
	Arizona	California	Idaho	Nevada	Oregon	Utah	Washington
Total Taxes	2,846,534	24,033,970	755,651	523,399	1,709,260	1,136,882	4,385,110
Y/Y Percent Change	-7.7%	-9.2%	-8.9%	0.6%	-15.1%	-18.0%	-6.1%
Property tax	225,468	892,726	X	4,280	5,723	X	688,471
Y/Y Percent Change	0.0%	56.1%	X	-3.9%	-6.0%	X	4.7%
General sales and gross receipts	1,264,681	7,732,663	307,093	209,654	X	390,903	2,591,920
Y/Y Percent Change	-14.1%	-5.8%	-13.4%	-13.2%	X	-20.0%	-9.2%
Motor fuel sales taxes	182,836	814,370	63,826	26,697	109,586	96,629	308,015
Y/Y Percent Change	0.0%	0.4%	9.5%	0.0%	3.0%	-2.2%	0.9%
Alcoholic beverages	13,442	84,830	2,246	3,259	4,516	8,479	49,434
Y/Y Percent Change	-10.0%	-6.6%	-2.5%	-4.2%	9.4%	1.8%	0.8%
Public utilities	9,503	124,569	654	4,409	1,781	6,988	83,033
Y/Y Percent Change	0.0%	-25.9%	21.6%	-28.3%	92.1%	-5.1%	-5.2%
Insurance	117,574	521,429	12,629	392	12,095	33,478	101,972
Y/Y Percent Change	0.0%	-4.7%	-8.2%	-63.7%	7.9%	0.4%	5.0%
Tobacco products	81,761	233,334	13,524	9,006	65,274	14,977	115,166
Y/Y Percent Change	-18.5%	-13.6%	-9.9%	1.0%	-7.0%	-20.9%	-2.0%
Amusements	142	X	X	116,981	118	X	7
Y/Y Percent Change	0.0%	X	X	-13.6%	1585.7%	X	0.0%
Motor vehicles	54,691	676,158	26,081	23,677	88,294	67,389	96,820
Y/Y Percent Change	0.0%	0.0%	-5.4%	-22.6%	-9.9%	12.8%	-0.5%
Corporations in general	5,807	15,367	446	11,513	3,398	933	4,860
Y/Y Percent Change	0.0%	0.0%	-6.9%	-29.0%	2.7%	20.5%	-10.3%
Occupation and business licenses	24,574	948,869	13,747	89,695	54,459	9,604	54,681
Y/Y Percent Change	0.0%	0.0%	-6.0%	184.2%	-19.6%	5.0%	-0.6%
Individual income taxes	732,922	9,741,621	263,094	X	1,235,792	447,989	X
Y/Y Percent Change	9.3%	-16.1%	-4.9%	X	-17.4%	-7.9%	X
Corporation net income taxes	107,443	1,941,167	23,792	X	70,910	24,841	X
Y/Y Percent Change	-38.4%	-13.3%	-39.1%	X	-26.1%	-76.0%	X

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