

# ECONOMIC REPORT

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**Spring 2010**

**NOAA goes to Newport again, El Nino does its thing, the Tanker Project Round 3-One Contestant?, Business recruiters focus on Oregon, Move to Nevada ads appear, Legislators Linger in Olympia, Boeing ramps up Plane Production and hoping for F-35s at Mountain Home.**

## THE NATION:

Early April brought the most positive news on the employment front in 3 years—payroll jobs have expanded by 162,000 between February and March, and the two prior months were revised up so that since October three of the five months saw net job gains. Although only education and health services employment were up on a year-over-year basis, the February to March change in seasonally-adjusted employment shown in the chart was much more broadly based. Even after the temporary Census hiring, there were gains in mining, construction (Storms may have impacted that jump!), manufacturing, trade, education and health services, leisure and hospitality and other services.

The employment news is not an outlier. Retail sales have continued to increase, durable goods orders have been rising and industrial production has been

increasing for 8 months. The downward trend of initial unemployment claims has continued, and housing has entered an irregular upturn.

The green shoots will continue as the spring turns into summer, but there is a long way to go. Hourly earnings dropped in the recent employment numbers and the average duration of unemployment rose to 31.2 weeks. Since the last issue, health care legislation has passed and a Bipartisan Commission on Fiscal Responsibility and Reform has been appointed with a report due in December. In a decade or so, we may be able to understand the content and implications of the yet unread 2,400 page health care bill. We will learn whether the cost curve has been bent down or up. Will people obey the mandate to buy and how will it be enforced? How will providing institutions evolve? Between health care at the beginning and deficit reduction policies at the end, grand policy questions will be a staple of 2010.

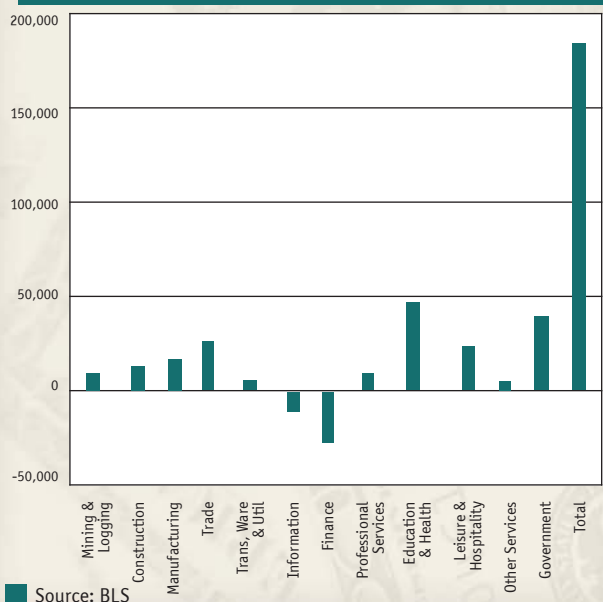
## THE REGION:

The Bureau of Economic Analysis estimates state personal income in 2009 showed a national decline of 1.7 percent with only six states showing an increase. Oregon had the strongest regional performance with a decline of .8 percent, followed by Washington at -.9 percent and Montana at -1.1 percent. Idaho had the sharpest decline at 3 percent. The per capita income figures show declines in Montana of 1.8 percent, Oregon 1.9 percent and Washington 2.3 percent. Idaho's drop of 4.1 percent ranked 46th in the nation with only Wyoming, Nevada and South Dakota seeing more rapid declines.

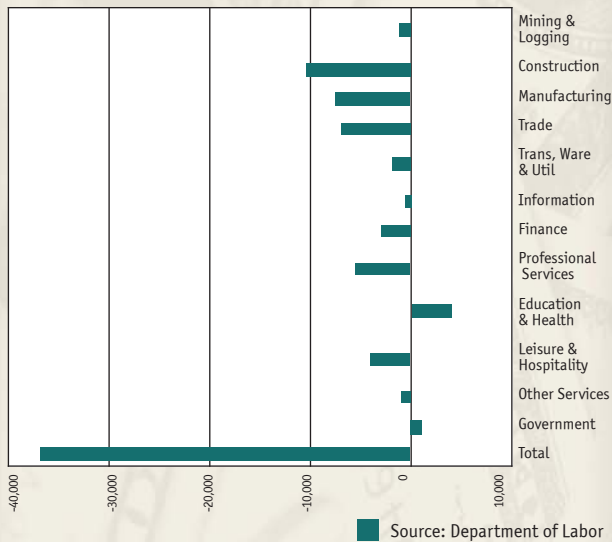
The Great Recession brought unemployment rates not seen for a generation with the national rate averaging 9.3 percent in 2009. Within the region, the Oregon unemployment rate went from 6.5 percent in 2008 to 11.1 percent in 2009. The only states with higher rates were Michigan, Nevada, South Carolina, California and Rhode Island. Washington's rate went from 5.4 percent to 8.9 percent, while Idaho went from 4.9 percent to 8 percent. Montana had the lowest rate in the region, but still moved from 4.6 percent to 6.2 percent.

Residents of the west side of the Pacific Northwest normally associate winter with rain and the snowpack that covers the mountains, generates electricity, helps irrigate crops and provides transportation for both fish and boats. This winter the snowpacks are low, the rains are generally below normal, and there are concerns for this summer's power and water. The Natural Resources Conservation Service reports that as of March 1st, Idaho's snowpack ranged from 55 to 75 percent of normal. Montana's snowpack was 68 percent of normal while Oregon was at 60 percent and Washington at 70 percent. Although winter has seemingly returned in April and boosted snowpacks by a few percentage points, conflicts over water use may be on tap for this summer

**Wage and Salary Job Change February, 2010-March, 2010**



Annual Average Wage and Salary Job Change 2008-2009 Idaho (-5.9%)



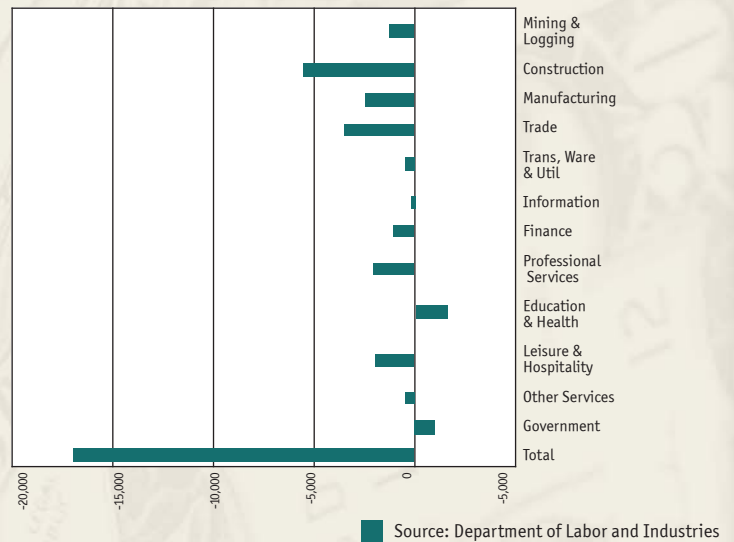
**IDAHO:**

Idaho's February 2010 wage and salary employment was 2.2 percent or 13,500 jobs below the February 2009 figure. The adjusted unemployment rate was 9.5 percent up from 6.9 percent last year. Education, health, government, leisure and hospitality were up over the year, while other major sectors declined. As is the case in some other areas, there are starting to be glimmers in areas other than the education and health sector. The Department of Labor noted that the margin of annual decline has diminished, and that the state lost about half of the job gains during the expansion that started in 1990. In the Boise metro area, wage and salary jobs fell by 10,180 or 4 percent over the year to 245,600.

In this period of intense interest in things that are perceived as bringing jobs, Idaho is hoping to have the latest generation fighter, Lockheed-Martin's F-35 Lightning II, at Mountain Home Air Force Base and at Gowen Field, (part of the Boise Airport). The aircraft is a stealth multi-role fighter that is planned to be produced for decades for various countries around the world. The area offers extensive training airspace to the south and locations of the fighters there would bring employment and a stream of federal spending.

Idaho is the only state in the region that has a tax structure that looks like most of the nation, with its use of both sales and income taxes. The Governor and legislature are dealing with revenue shifts as are others with varying approaches. Idaho's 2008 revenues totaled \$2.91 billion. The fiscal 2010 total is expected to be \$2.35 billion after declines of 15.2 percent in 2009 and 4.7 percent in 2010. The legislature adjourned on March 29 after passing a budget of \$2.38 billion with a 7.5 percent cut in public schools spending and a 14 percent reduction in

Annual Average Wage and Salary Job Change 2008-2009 Montana (-3.9%)



funds to higher education. There were no tax increases. It reminds one that we have 50 different testing grounds.

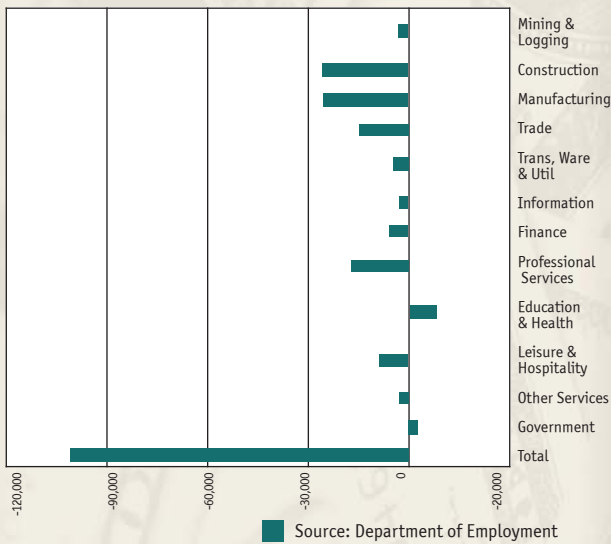
**MONTANA:**

Montana's February 2010 wage and salary employment was 8,500 jobs, or 2 percent below the February 2009 levels. All major sectors were down with the exception of government which saw an annual increase in the local sector. The largest absolute decline was in professional and business services (-2,800) followed by construction (-2,300). Montana employment has been below the previous year's level since October of 2008 with the margin reaching 5 percent in December of 2009. The seasonally adjusted unemployment rate was 6.9 percent. Between January and February, seasonally adjusted employment fell by 1,800 jobs following an increase in the December to January period. Hopefully signs of a bottoming in employment.

The Governor of Montana is dealing with falling revenue estimates, now estimated to be between \$275 million and \$350 million below what was expected in the 2011 biennium. The Governor recommends spending changes, the Legislative Fiscal Committee provides input and the Revenue and Transportation Committee examines revenue estimates. The process is ongoing at this writing. The Legislative revenue projections anticipate that it will take until 2015 for General Fund Revenues to get back to 2008 levels. Revenues fell 7.5 percent in fiscal 2009 and are expected to drop 12 percent in fiscal 2010.

The Department of Agriculture reported that the value of production for major Montana crops declined in 2009. Montana is the nation's third largest wheat producer, and in 2009 the value of that production dropped by 20 percent to \$906 million in the face of lower prices. Montana is the eighth largest alfalfa hay producer and hay production value dipped by 3 percent to \$455.5 million, again due to lower prices. Wheat plantings for 2010 are forecast to decline by 3 percent to 5.35 million acres. Montana's major agricultural sector is cattle and calves for which prices in early 2010 were above 2009 prices.

Annual Average Wage and Salary Job Change 2008-2009 Oregon (-6.2%)



### OREGON:

February saw Oregon lose 1,200 jobs on a seasonally adjusted basis, unwinding the January gain. Year-over-year employment was down by 49,200 jobs or 3 percent. The annual picture was similar to many other states, with all sectors showing a decline, other than private education and health services which was up 3,300 over the year. The unemployment rate was 10.5 percent, down slightly from the 10.7 percent in January. As is the case in the national numbers, the over-the-month data shows some sectors beginning to stir. There were seasonally adjusted gains in natural resources and mining, leisure and hospitality, information, trade, transportation and utilities. These embers should soon turn to job gains. In the Portland metropolitan area, February wage and salary employment was down 3.8 percent or 37,100 jobs over the year.

Oregon housing data for early 2010 shows continued weakness in permits, but an uptick in sales. Residential permits for the first two months of 2010 were 1,040 compared to 1,451 in the opening months of 2009. Home sales, according to the RMLS, indicate an increase in activity in early 2010. In the Oregon portion of metropolitan Portland through February, closed sales increased by 26.7 percent with median prices down 7.5 percent. Eugene-Springfield saw a 27.9 percent increase in sales with a 4.3 percent drop in prices. Douglas County had a 40.2 percent jump in closed sales along with a 10.5 percent price drop. Case Shiller data for January indicates that Portland prices were down 4.2 percent over the year. The national 20 city index was down .7 percent for the year. The bottom line is that it is getting better slowly.

Oregon State University released preliminary data for Oregon farm sales in 2009. Gross sales fell by 14.8 percent from \$4.82 billion to \$4.11 billion after being essentially flat between 2007 and 2008. Declining sales were widespread throughout Oregon's diverse agricultural sectors. The fallout from the housing weakness hits grass seed and nursery producers and falling prices for dairy products and cattle impacts the

Annual Average Wage and Salary Job Change 2008-2009 Washington (-4.5%)



hay and forage sector. The value of wine grapes rose to \$78.7 million and sugar beet values more than doubled with higher global prices and import restrictions. Net farm income in Oregon in 2007 and 2008 was nearly flat at \$870 and \$880 million, but when the 2009 numbers are released in August, net farm income is likely to fall sharply.

### WASHINGTON:

Washington wage and salary jobs dropped by 89,900, 3.2 percent over the year to February, Construction suffered a 27,800 job drop followed by manufacturing with a 19,500 job loss. Education and health services jobs rose by 6,600 over the year. The unemployment rate rose from 9.3 percent in January to 9.5 percent. Seasonally adjusted employment fell by 8,300 after a January increase of 11,100, a slight uptick in the first two months of the year. Over the month retail trade, financial services, mining and logging had adjusted increases. Again one sees the pattern that suggests a bouncing along the bottom of employment. Yakima and the Tri-Cities saw annual increases in employment of 2 percent and 3.6 percent respectively while Seattle, Spokane, Tacoma and Olympia continued to have annual declines.

The Washington Legislature remains in special session at this writing, attempting to deal with the \$2.8 billion budget hole and the combination of taxes and spending changes to fill it. A major dispute is the Senate's idea of a temporary general sales tax increase, versus a House plan passed in late March that relies on a temporary increase in the gross receipts tax for some service business, ends some tax exemptions (including that for out of state shoppers from places with no sales tax), applies the sales tax to bottled water and other changes. This dilemma, which is being played out across the nation with varying results, will be with us for years.

According to the Census Bureau, Washington residential building permits through the first two months of 2010 were 3,090 compared to 2,110 in 2009, a 46.4 percent increase. This was well above the 12.4 percent gain seen in the national numbers. In 2009, permits in Washington totaled 16,754, a 42.1 percent decline from the 2008 figure and less than one third of the 2005 peak of 52,988. It will be a very long road back, but at least the direction is right. In Idaho, permits for the first two months were flat with 693 in 2009 versus 698 in 2010. Oregon permits fell 28.3 percent while Montana permits increased from 151 to 218.