

# ECONOMIC REPORT

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**The 787 gets closer to flight, Chrysler bond holders learn a new definition of secured, warmth did arrive, most legislators were glad to go home, the rate of decline slows, a viaduct replacing tunnel is born, and we all enter the car business.**

## THE NATION:

Many can recall youthful roller coaster rides when you hung on or held your arms over your head as the car raced down towards the bottom which you knew was there. The US economy continued to fall sharply in the first quarter at a revised 5.7 percent annual rate. On June 5th, the Labor Department released May employment estimates that saw the unemployment rate reach 9.4 percent, but the net change in payroll employment showed a decline of 345,000—well below the average of recent months. This data point is added to the decline in initial unemployment claims, falling inventories, equity market gains and increases in pending home sales for three months. The downturn is not over, but the evidence continues to mount that we are approaching the bottom. The headwinds of rising world oil prices, debt constrained consumers, continued turmoil in housing markets,

and excess capacity are still there, but headway is being made. Current inflation has vanished with two months of year over year declines in the price level. Some continue to worry about longer term inflation risks with the rapid injection of liquidity into financial markets. The Fed believes that the stimulus can be reversed prior to that becoming a problem. Long term interest rates, including mortgage rates, have moved off their lows and are now above where they were in March when the Fed announced efforts to pull down long term rates. An end of the flight to safety, the effects of a near \$2 trillion deficit, or the attractiveness of other assets? Time will tell. The mixed data will be with us for a while longer.

## THE REGION:

Personal income estimates for 2008 showed a dramatic slowdown to a 3.9 percent increase from 6 percent the previous year. The slower income growth was accompanied by a higher inflation rate and therefore slower real income gains. The four states in the region saw two with above average growth; Washington and Montana at 4.4 percent and 4.3 percent respectively, and two with rates below average. Oregon income rose 3.8 percent and Idaho's grew 2.9 percent. Idaho's weakness was in the earnings category, with earnings declines in manufacturing, construction, farming and retail trade. Washington's strength came from earnings in manufacturing, information, finance and wholesale trade. Income will be weak again in 2009 with falling employment, negligible inflation, low rates and dividend cuts.

*Job Growth Update* reported that in April only two states had year over year gains in employment, North Dakota and Alaska—stark testimony of the breadth of the recession. Montana ranked 6th in the nation in the rate of job growth; Washington was 28th, while Idaho and Oregon were 46th and 47th.

The Census Bureau reported that the residential mover rate in 2008 of 11.8 percent was the lowest since 1948 when the data was first tracked. The number of people moving was the lowest since 1962. The broad based nature of the recession, problems selling homes, and wealth declines likely played a role. Oregon, Washington and Idaho have had above average population growth rates driven by in-migration. The process is slowing, but hopefully we will not see the reopening of the eastbound lanes of the Oregon Trail as happened in the early 1980s.

### Annualized Growth Rates of Real GDP

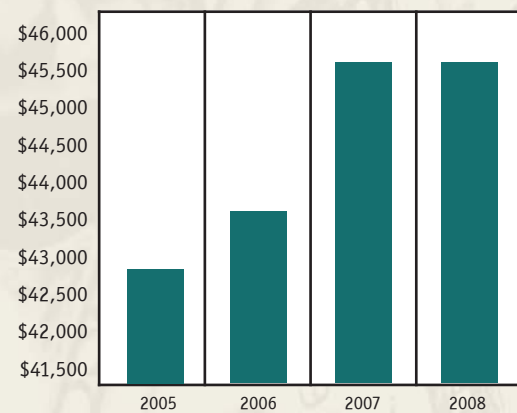
	Q4 2008	Q1 2009
GDP	-6.3%	-5.7%
Consumption	-4.3%	1.5%
Equipment and Software	-28.1%	-33.5%
Non-Residential Construction Structures	-9.5%	-42.3%
Residential	-22.8%	-38.7%
Federal	7%	-4.3%
State and Local	-2%	-2.9%
Exports	-23.6%	-28.7%
Imports	-17.5%	-34.1%

## IDAHO:

April Idaho employment data showed an unemployment rate of 7 percent—well below the national rate, but up from the 4.3 percent of April 2008. Wage and salary employment declined by 5.3 percent or 34,200 jobs. Annual gains were confined to information, education and health services and government. Professional and business services employment fell by 8,300 jobs followed by trade employment's net decline of 8,000 jobs,



### Idaho Real Gross State Product 2005-2008 (Millions)



Source: BEA

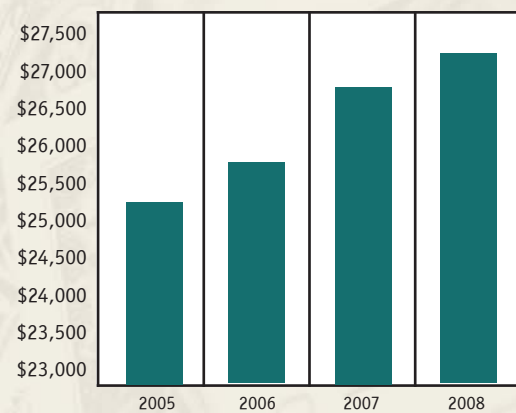
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construction's at 7,200 and manufacturing's 7,000 job decline-including 4,000 in computer and electronic products. In the Boise-Nampa MSA, the April unemployment rate was 8.4 percent, up from 4.4 percent the previous year. Employment in the MSA was down by 7.3 percent or 19,900 jobs.

Idaho's 25,200 farms are heading into a year in which the prices of many crops are below those of the previous year and after a period of strength in net farm income. The big three crops for 2008 according to the USDA were hay, potatoes and wheat. In mid-April, alfalfa hay prices had declined from \$161 per ton in 2008 to \$150 per ton in 2009. Wheat prices over the year were down from \$11.10 per bushel to \$5.49, and milk prices had declined from \$16.70 per hundredweight to \$11.50. Cattle prices were down as well. Potato prices had increased from \$6.80 per hundredweight to \$8.45.

The Idaho Department of Licensing reports on net Drivers Licenses surrendered to the state by drivers moving into the state. The net from drivers from elsewhere in the US in 2008 was 17,767, down from 19,149 in 2007 and 26,347 in 2006. California, Oregon and Washington dominate the flows. The net of California licenses surrendered was 7,600 in 2008, down from 9,149 in 2007 and 11,294 in 2006. Washington numbers declined while Oregon numbers rose from 1,087 in 2005 to 2,307 in 2008. A longer term issue for the entire region is when the upturn gets underway, will the fiscal disarray of California increase the flows of people and activity to the area?

### Montana Real Gross State Product 2005-2008 (Millions)



Source: BEA

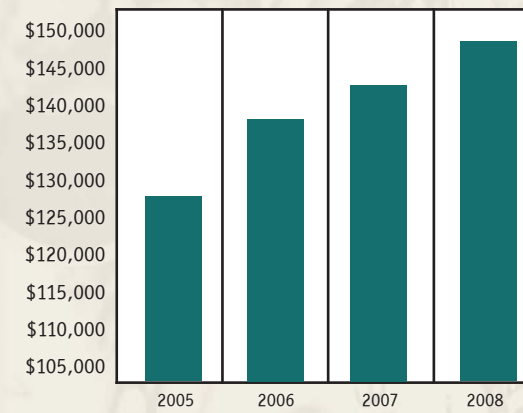
#### MONTANA:

Montana's April unemployment rate was 6 percent, and the state was one of 6 states that experienced an over the month increase in seasonally adjusted employment. Montana and Arkansas led the nation with 1,500 job gains followed by Florida with 1,300. Percentage wise, Montana was first. The over the month increases were in manufacturing, professional services, education and health, and government. The year over year job change was a decrease of 5,600 or 1.3 percent. The largest numerical decline was in construction -4,700 jobs, followed by trade, transportation and utilities which was down 2,600 jobs, professional and business services at -1,800 and manufacturing down by 900 jobs. Annual gains were in education and health and government. Natural resources and mining and financial activities were unchanged. Montana had a .4 percent increase in annual average employment in 2008-a number that came out too late for the last issue of this newsletter.

The National Park Service reported that recreation visits to National Parks, National Recreation Areas, Military parks, Memorials and other facilities under their jurisdictions fell by .3 percent in 2008. Recreation visits in Montana declined by 8.3 percent to 3,822,075 visits. Yellowstone and Glacier National parks dominated the visitor totals at 1,808,027 and 1,563,956 followed by the Little Big Horn Battlefield at 282,233. In a summer of \$4.00 gasoline and recession, visitors declined at all facilities with an overstated 8.2 percent decline(a counting error) at Glacier and a 4.7 percent drop at Yellowstone. Visits in 2009 are expected to increase by 3.4 percent at Yellowstone and 3.7 percent at Glacier National Park.

Montana's residential building permit data show a decline of 58.9 percent to 357 for the first 4 months of the year. Home prices in Montana have held up better than the national figures, with the Federal Housing Finance Agency's purchase only data showing Montana prices in the first quarter of 2009 being down 2.56 percent compared to the national 7.14 percent decline. In a separate analysis, Billings and Missoula prices were up .67 percent and down .52 percent respectively. The National Association of Realtors data show that Montana was one of 16 states with an uptick in resales in the first quarter of 2009. Sales rose 2.3 percent in the first quarter, but were down 18.5 percent for the year.

### Oregon Real Gross State Product 2005-2008 (Millions)



Source: BEA

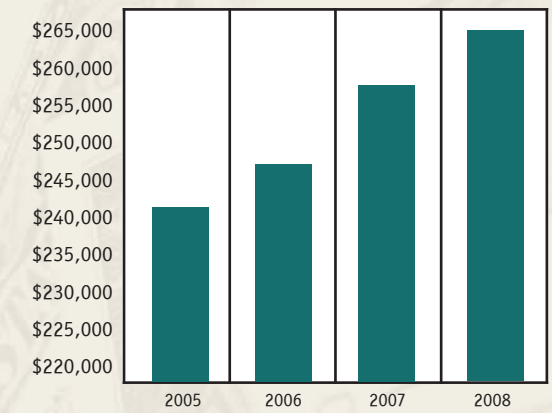
#### OREGON:

Oregon's April unemployment rate was 12 percent up from a revised 11.9 in March- still below that of Michigan. The seasonally adjusted wage and salary job count fell by 9,500 according to the Employment Department. The only over the month gains were in education and health services, government and a slight uptick in leisure and hospitality. The annual decline was 5.5 percent or 95,900 jobs, with the only annual gains in government and education and health services. Manufacturing employment fell by 27,800 jobs, while both construction and trade declined by 19,100 jobs. Double digit unemployment rates were the norm around the state with some non-metropolitan wood products producing regions hit very hard.

The Oregon Legislature is the only one in the 4 states that is still in session at this writing. The state's budget issues crystallize after the May revenue forecast, which becomes the basis for budgeting. The May Revenue Forecast indicated that the projected expenditures in the 2007-2009 Biennium would exceed revenues by about \$351.3 million. In 2009-2011 Biennium General Fund Revenues, overwhelmingly from the personal income tax, are an expected \$12.517.5 billion, which in nominal terms, is less than the \$12.74 billion of the 2005-2007 Biennium. The so-called current services budget shortfall is estimated to be about \$3.7 billion in the coming biennium. The cutting and revenue hunt are underway.

Oregon residential building permits to April were 2,678, down 38.5 percent from 2008. The FHFA's purchase only price index was down 7.76 percent for the year to March, compared to the national drop of 7.14 percent. The Case Shiller Index for Portland shows an annual decline of 15.3 percent for the period. Statewide data from the National Association of Realtors showed resales in the first quarter were down 10.7 percent for the quarter and 29.4 percent

### Washington Real Gross State Product 2005-2008 (Millions)



Source: BEA

for the year. The April data from the RMLS service reports some signs of pick up between March and April in pending sales activity in the Portland area. The inventory in terms of month's supply is still above equilibrium levels and prices are under pressure, but the adjustments are underway.

#### WASHINGTON:

Washington's April employment continued to weaken. Seasonally adjusted wage and salary employment fell by 9,900 over the month according to Employment Security. The unemployment rate held at 9.1 percent, but was far above the 4.9 percent of April, 2008. Wage and salary employment declined by 114,200 or 3.9 percent over the year. In a pattern typical of many states, the only annual gains were in government and education and health services. Employment declines were widespread across the state with Seattle down 3.6 percent, Spokane and Tacoma down 3.9 percent and the Tri-Cities down 1.1 percent.

The Washington housing data, like that of the nation, is showing signs that the bottom is drawing near. Pending sales in the Seattle, Tacoma and Bremerton metro areas were above 2008 levels in April and May according to the Northwest Multiple Listing Service. The service also reported that prices were mixed after a long period of decline. The Case Shiller data for Seattle shows prices down 16.4 percent in the year to March, but only a 2 percent decline since the 4th quarter of 2008. The Washington Center for Real Estate Research reported that in the first quarter of 2009 Washington resales were down 30.6 percent from 2008, and median prices down 13.7 percent to \$253,500 with surging affordability. The Census Bureau reports a 50.5 percent drop in residential permits to April. Minimal new construction, falling prices, low mortgage rates, tax credits and changing expectations are working their magic.

Washington's real gross domestic product rose 2 percent in 2008, well above the national rate of .7 percent and the highest of the four states. Montana's increase was 1.8 percent followed by Oregon at 1.6 percent and Idaho's output was unchanged. Washington's relative strength stemmed from durables manufacturing, information, health care, real estate leasing and government and a smaller decline in construction. In current dollars, Washington's output was 29 percent larger than the total of the other three states.