



2011

a check-up on the
PORTLAND-REGION'S ECONOMIC HEALTH
How do we achieve our region's potential?

Introduction

Last year, our organizations came together and issued our “Check-up on the Region’s Economic Health.” We issued this report as a call to action about the state of the Portland-metro economy. We published it, along with a second report about international trade, to show that the quality of life in our region is dependent upon retaining and growing good private-sector jobs. In that analysis, we found some disturbing trends, most notably, regional wages and incomes have been declining relative to the national average and peer cities.

These findings spurred us to take action. We held a jobs summit that included public- and private-sector leaders; mapped out and began implementing a cohesive policy strategy, and launched an outreach effort to spread the word about the importance of private-sector jobs and per capita income to our region’s overall well-being.

Since our report was issued, the conversation has changed. Our region’s leaders are now talking about wages and incomes as they relate to quality of life, and positive steps have been taken to grow private-sector employment. Now, we want to go further. Through this report, and several more to follow, we want to get a better understanding of the Portland-metro economy and how it is performing relative to the U.S. metro average, to other regions and to our own potential.

The data and analysis that follows were compiled by ECONorthwest for the Value of Jobs Coalition which includes the Portland Business Alliance, Associated Oregon Industries, Oregon Business Association, Oregon Business Council and Port of Portland. This report was written by the Portland Business Alliance and reviewed by ECONorthwest. It is one of a number of studies authored by the Value of Jobs coalition examining the region’s current and historical economic performance. The objectives of the report are to identify key factors impacting employment, wages and incomes, highlight areas where the Portland-metro economy under-perform relative to various benchmarks; and begin a conversation with public and private leaders to define strategies to spur the economic growth that will generate the revenue needed to restore needed public services. The Value of Jobs Coalition is ultimately responsive for the interpretation of the data.



Sandra McDonough, President & CEO, Portland Business Alliance



Jay M. Clemens, President & CEO, Associated Oregon Industries



Duncan Wyse, President, Oregon Business Council

In the following pages, you will see a series of questions that highlight areas of concern and opportunity, such as:

- ▶ How can our region better withstand downturns in U.S. metro employment cycles?
- ▶ What economic development and workforce strategies could be created to make our employment base more resilient?
- ▶ How can our region better leverage its significant levels of productivity to grow private-sector jobs that produce stronger per capita income gains?
- ▶ Why isn’t our region performing up to its potential or even outperforming it like our peer regions?

With these data, we hope to stimulate and inform our elected and civic leaders as well as the general public about the Portland-metro’s economic condition. We hope this report will spur more discussion and action about how we build more family-wage, private-sector jobs and a better quality of life for the region’s residents.



Bill Wyatt, Executive Director, Port of Portland



Ryan Deckert, President, Oregon Business Association

BY THE NUMBERS:

81,200.

The decline in the number of people working in the Portland-metro area between the peak of the recession in February 2008 and the bottom of the recession in early 2010.

17,900.

Number of new employees the region has added since the bottom of the recession in early 2010.

20%.

The percentage by which per capita gross metropolitan product in Portland-metro exceeds the average for all U.S. metros.

23rd.

Rank of the Portland-metro area in population size among all U.S. metros in 2010.

136th.

Rank of Portland-metro in employment per capita among all U.S. metros in 2010.

73rd.

Rank of Portland-metro in personal income per capita among all U.S. metros in 2010.

42%.

The increase in real personal income per capita between 1983 and 2008.

41%.

Increase in real state and local tax and fee revenues between 1983 and 2008.

0%.

The change in state and local taxes and fees as a percent of personal income, between 1983 and 2008.

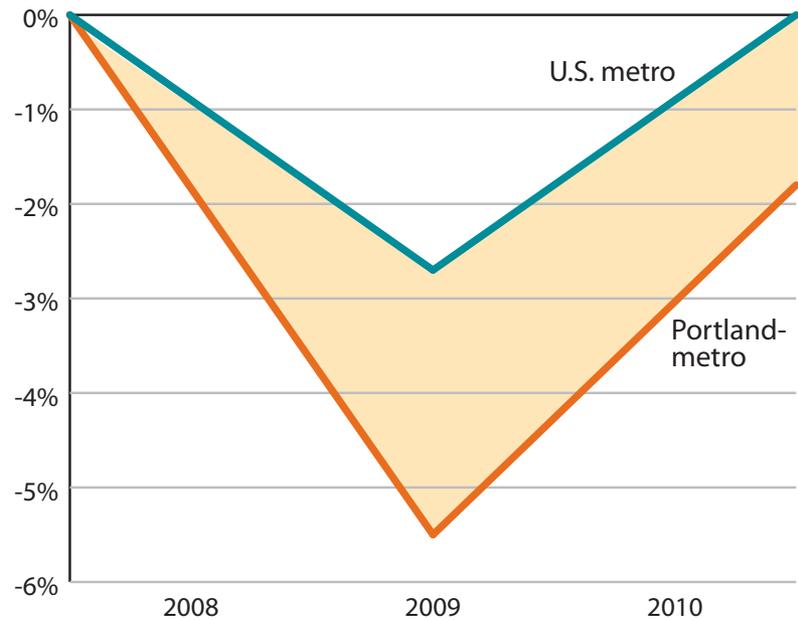
Portland-metro in this report refers to the Metropolitan Statistical Areas of Portland-Vancouver-Hillsboro, OR-WA MSA. The other metro regions in this study are based on the Metropolitan Statistical Areas used by the U.S. Census Bureau.

What the data show

The Portland-metro economy and the recession: A mixed report card

Portland-metro's economic performance during the recession is a bit like a student with a "C" average on his report card. The region has some natural strengths, earning A's in some subjects, but is weak in others and falls behind, getting C's and sometimes even D's. The result is a Portland-metro that, while not failing, is not excelling.

Figure 1: Recession and recovery: Portland-metro and U.S. metro GMP per capita, 2008-2010

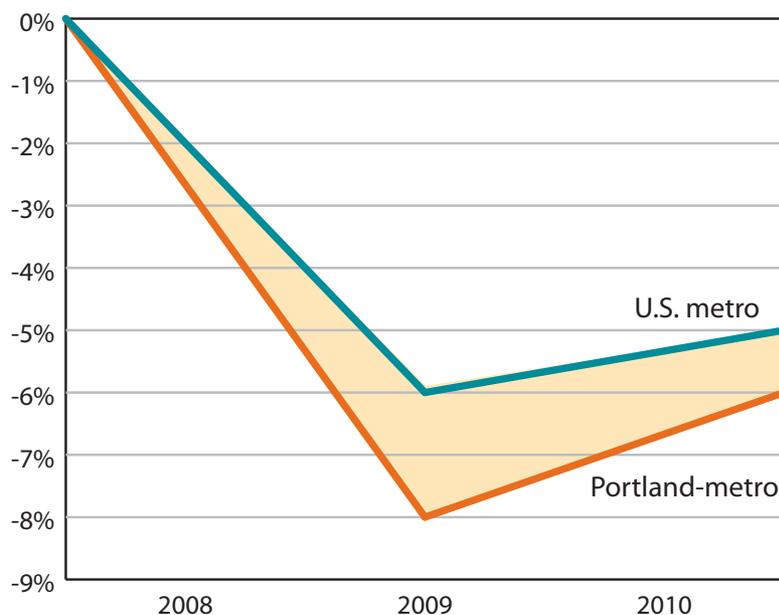


Source: ECONorthwest analysis of Bureau of Economic Analysis data.

Figure 1 shows that the region suffered significantly greater downturns in gross metropolitan product (GMP) per capita going into the recession than the average for all U.S. metro areas. In Portland-metro, GMP declined by 5 percent between 2008 and 2010, compared to an average national metro area decline of 3 percent.

Although the region still has not fully recovered, the good news is that it is recovering at a faster rate than many metro areas. Portland-metro added 4 percent to GMP versus the U.S. average of 3 percent, and increased employment per capita by 2 percent versus the U.S. metro average of 1 percent growth since 2009. But even with Portland-metro's faster recovery rate, cumulatively, our region has still seen an overall 2 percent decline in regional GMP since the recession began in 2008, while the average for U.S. metro regions had recovered to pre-recession levels by the end of 2010.

Figure 2: Recession and recovery: Portland-metro and U.S. metro employment per capita, 2008-2010

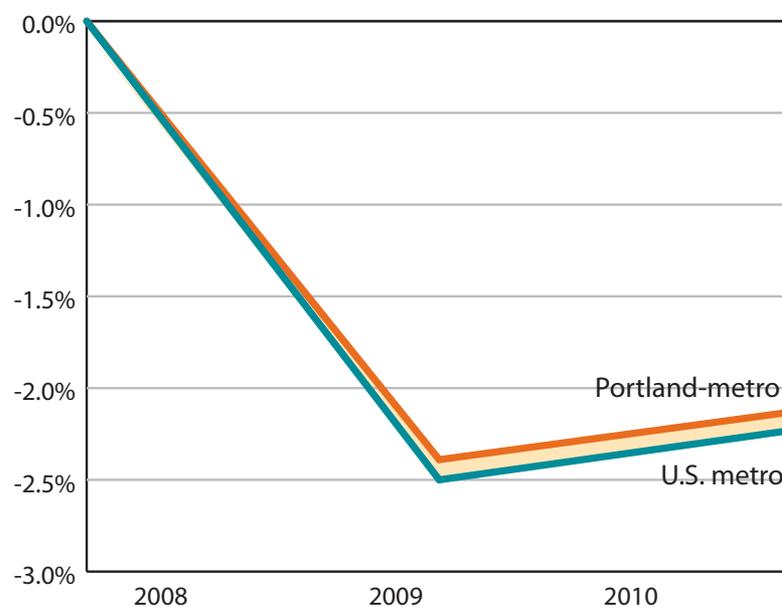


Source: ECONorthwest analysis of Bureau of Labor Statistics State and Area Employment data.

Figure 2 shows that Portland-metro's employment per capita remained 6 percent below pre-recession levels by the close of 2010, compared to a 5 percent gap among all U.S. metros. Portland-metro's employment drop was also worse, dropping 8 percent (or by 81,200 fewer people employed), which was two percentage points farther than the average for U.S. metro areas. Only 17,900 new employees have been added since early 2010.

How can our region better withstand downturns in U.S. metro employment cycles?

Figure 3: Recession and recovery: Portland-metro and U.S. metro personal income per capita, 2008-10



Source: ECONorthwest analysis of Bureau of Economic Analysis data.

Regional per capita income also fell and has yet to recover to pre-recession levels. **Figure 3** shows personal per capita income for the same time period (inflation adjusted). Since 2008, Portland-metro income has tracked the national metro trends. Portland incomes, however, remain 3.7 percent or \$1,570 per year below the national metro area average.

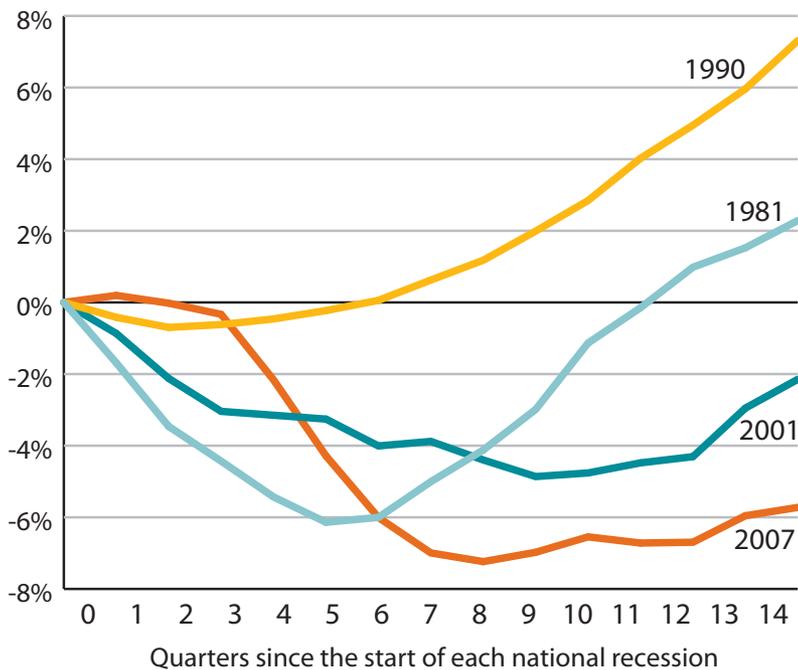
These three graphs show the Portland-metro economy is climbing out of the recession, but still has a ways to go. Particularly with respect to employment, the depth and length of the recession present significant challenges. From the employment perspective, the current recession is unlike any other Portland-metro has experienced since the early 1980s.

Unemployment: A historical challenge

While the Portland-metro area may have entered the recession a few quarters later than the rest of the country, once Portland-metro felt its effects, it felt them harder and longer than in previous recessions.

Figure 4 shows how long it has taken Portland-metro to regain pre-recession employment levels in previous recessions. The region's employment rates were barely impacted by the 1990 recession, and Portland-metro recovered pre-recession employment levels from the 1981 and 2001 recessions within 18 months. But, at the rate the economy appears to be recovering in the current recession, the region is not projected to regain pre-recession jobs levels for up to two more years, or some six years since the downturn began.

Figure 4: Percent change in total employment since first quarter of recession in Portland-metro area



Source: The Brookings Institution.

Recovery periods of previous recessions quickly resulted in adding back most of the jobs lost. Figure 5 shows that in the 2008-2010 recession, nearly half of total jobs lost will never be recovered. Even though Oregon's permanent job loss mirrors the U.S. average, Oregon will have to create new jobs at a faster rate to make up for this permanent job loss.

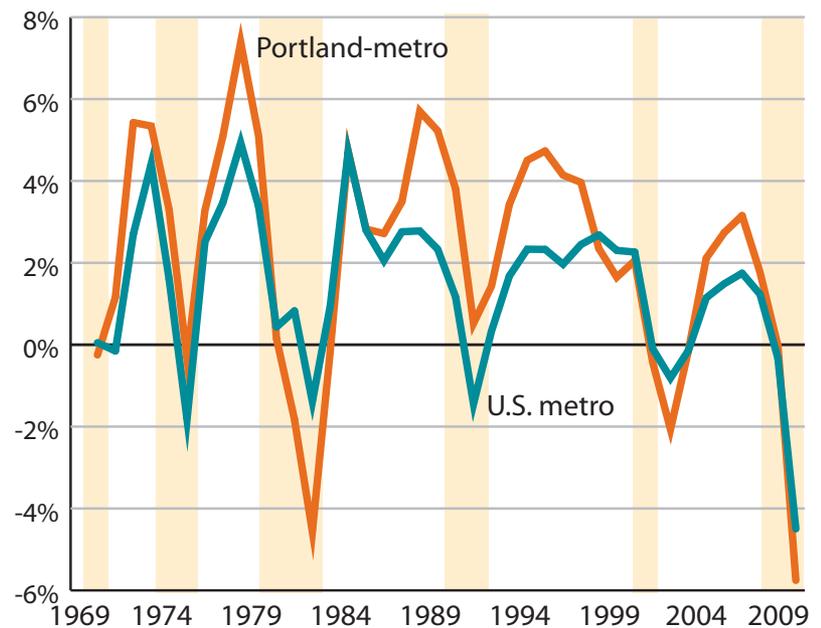
Figure 5: Oregon permanent job loss

Recession	Percentage lost
1960-1961	0.0%
1970	0.0%
1974-1975	39.1%
1979-1980	7.5%
1981-1982	26.2%
1990-1991	0.0%
2000-2003	0.0%
2008-2010	48.3%
Overall Oregon average	18.4%
2008-2010 U.S. average	49.2%

Source: Jeremy Piger, University of Oregon Economics Dept., Oct 2010.

Historically, Portland-metro suffers larger employment downturns in recessions than the average for U.S. metros. Figure 6 demonstrates that, in a number of recessions, the region's employment declines more than the national metro average. On the upside, Portland-metro tends to grow employment faster than the national average coming out of recessions.

Figure 6: Employment growth in Portland-metro compared to U.S. metro average, 1969-2009



Source: ECONorthwest analysis of Bureau of Economic Analysis data.

What economic development and workforce strategies could be created to make our employment base more resilient?

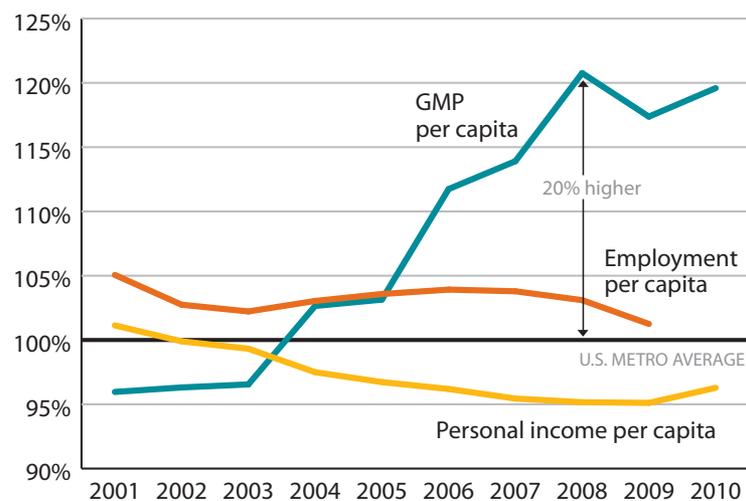
The region's strength: Gross Metropolitan Product powerhouse

One area where Portland-metro performs exceptionally well is in the growth of its gross metropolitan product per capita (GMP). GMP per capita is a measure of all the goods and services the region produces and sells per person – essentially a measure of productivity. And Portland-metro is very efficient; 20 percent more productive than the U.S. metro average.

As seen in Figure 7, between 2001 and 2010, the Portland-metro's GMP per capita grew from about 5 percent below the U.S. metro average to about 20 percent above the U.S. metro average. That large gain, however, did not result in similar employment and income increases. Compared to the U.S. metro average, Portland-metro income and employment declined during that same time frame.

How can our region better leverage its significant levels of productivity to grow private-sector jobs that produce stronger per capita income gains?

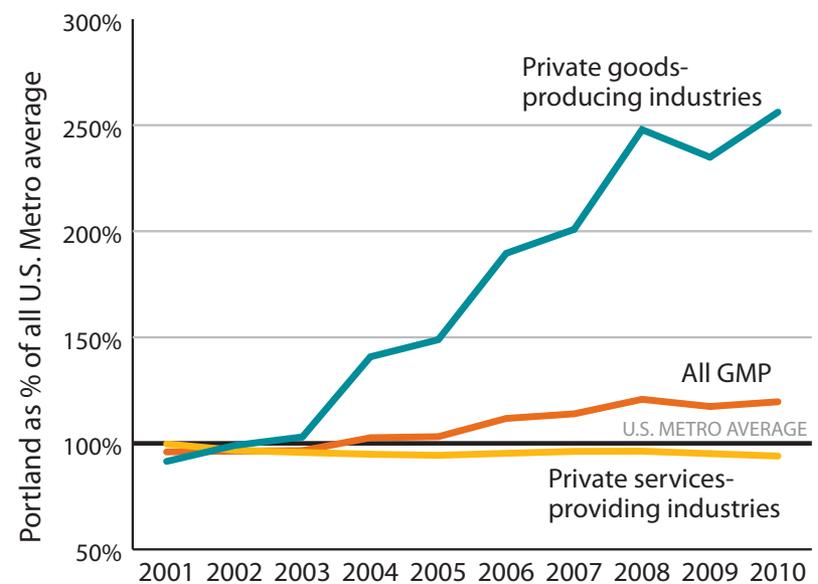
Figure 7: GMP, employment and income Portland-metro relative to all U.S. metro average, 2001-2010



Source: ECONorthwest analysis of Bureau of Economic Analysis data.

To get a better understanding of a region's GMP, one must look at both goods and services. Figure 8 shows, Portland-metro service firms have remained at the average for all U.S. metros in productivity. It is in the production of manufactured goods, especially high technology electronics, that the region excels. Between 2001 and 2010, Portland-metro rose from the number 72 ranked metro area in the nation for real GMP per capita to number 25, a huge gain showing our region's productivity strengths.

Figure 8: Breakdown of GMP per capita in Portland-metro relative to all U.S. metro average, 2001-2010



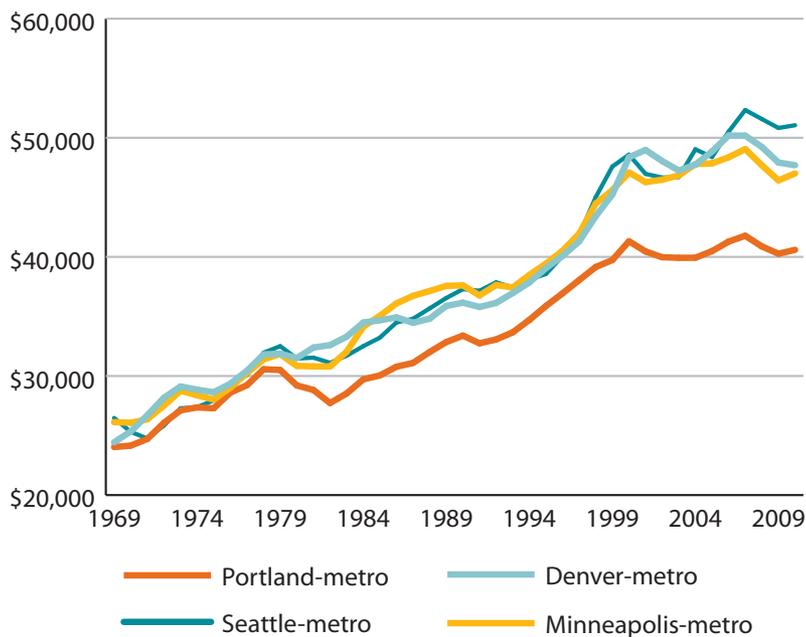
Source: ECONorthwest analysis of Bureau of Economic Analysis data.

How can our region boost its private-sector services to diversify and strengthen our region's economy?

Personal income: How do we compare?

While Portland-metro is above average in generating GMP, it lags behind the national average in the area of personal income, as well as behind cities our region traditionally likes to compare itself to such as Seattle, Minneapolis and Denver, labeled “aspirational MSAs” in Figure 9. Last year’s report showed that while 40 years ago Portland-metro had personal incomes similar to these cities, our region experienced significant economic setbacks in the 1980s and again in 2001 that put our region on a different, less robust income path than Seattle, Denver and Minneapolis.

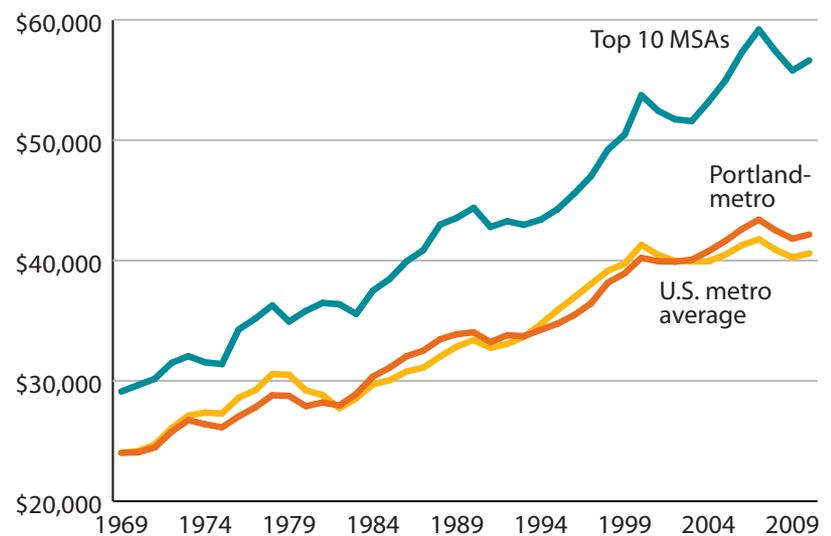
Figure 9: Real personal income per capita (\$2010) for aspirational MSAs



Source: ECONorthwest analysis of Bureau of Economic Analysis data.

Historically, Portland-metro and the U.S. metro per capita income average have lagged behind the top 10 metro areas. Over time, the gap has increased as shown in Figure 10. Further analysis was done to see if it was simply Portland-metro’s size that was behind lower wages and incomes as large metro areas tend to have higher per capita incomes. But, as it turns out, the Portland-metro area’s per capita income is not as high as one would expect for a city of its size. Portland-metro is ranked 23rd in population size, but 73rd in real personal income per capita and 136th in employment per capita.

Figure 10: Personal income per capita in Portland vs. top 10 MSAs and U.S. metro average, 1969-2010

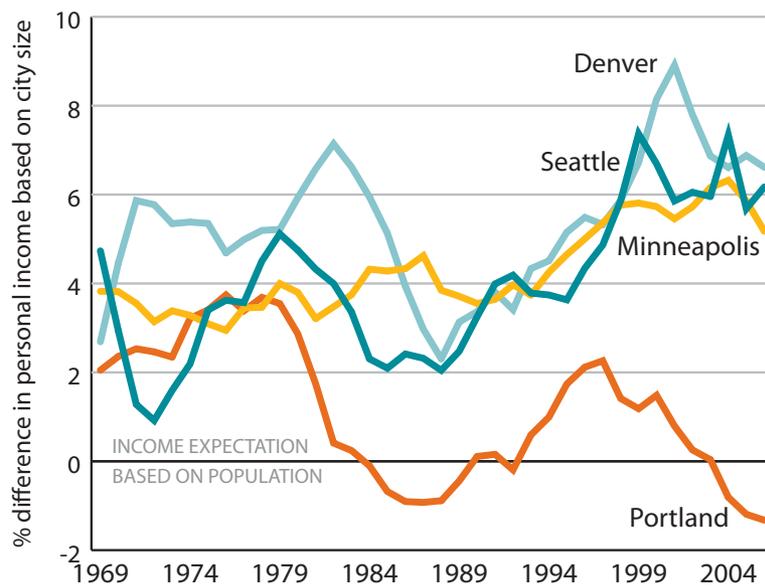


Source: ECONorthwest analysis of Bureau of Economic Analysis data.

Why isn’t our region performing up to its potential – or even outperforming it – like those peer regions have?

Portland-metro has not always had a lower per capita personal income than its size would predict. **Figure 11** demonstrates that in the 1970s, the region's personal incomes were two to three percentage points above what would be expected for its size. The recession of the early 1980s, however, dealt a significant blow; but Portland-metro climbed back out in the early 1990s. That gain eroded again in the late 1990s and the gap has continued to grow. Currently, Portland-metro performs nearly two percentage points below what would be expected of a metro area its size. Seattle, Denver and Minneapolis metros continue to exceed expectations, generating higher per capita incomes than would be predicted by their size alone.

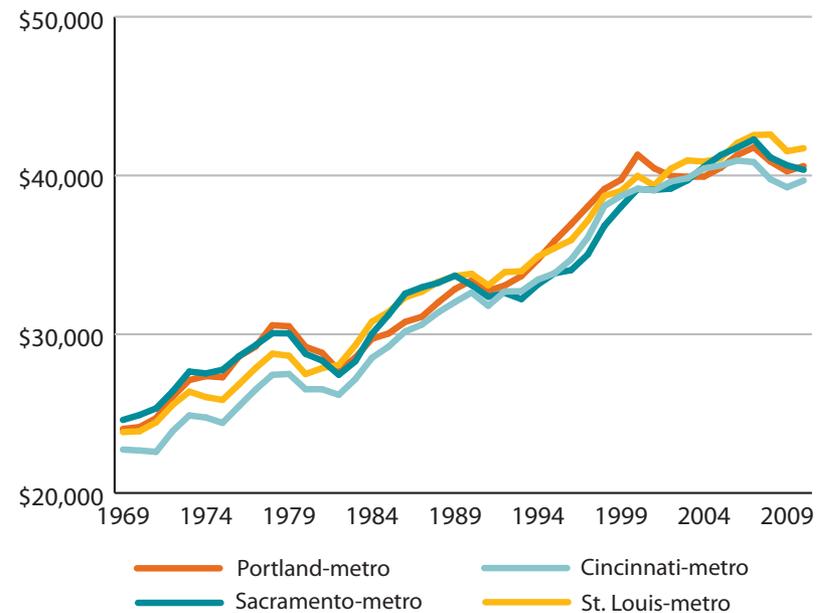
Figure 11: Personal income relative to expectation based on metro population size (aspirational metros)



Source: Bettencourt et al 2010.

Although the Portland-metro economy once looked similar to Seattle, Minneapolis and Denver, today those economies are larger. **Figure 12** shows that, in terms of per capita personal income, Portland-metro looks like these metros: Cincinnati, Sacramento and St. Louis.

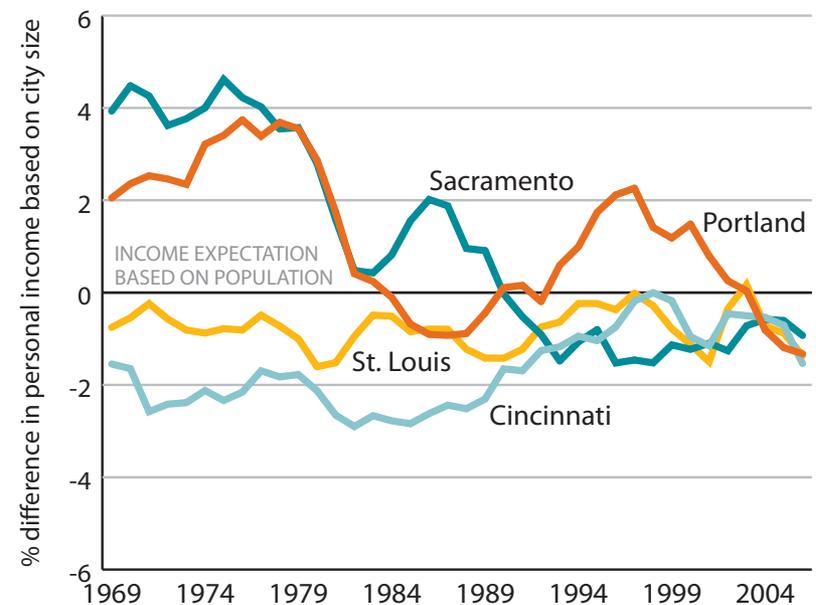
Figure 12: Real personal income per capita (\$2010) for cities of similar population size



Source: ECONorthwest analysis of Bureau of Economic Analysis data.

Figure 13 looks at the predicted personal income for Portland-metro and these three metros relative to population and confirms that all four cities perform similarly – somewhat below what one would expect for cities of this size. Sacramento, like Portland, used to have personal income higher than what would be predicted for a city of its size while St. Louis and Cincinnati have been historically below predicted levels.

Figure 13: Personal income relative to expectation based on metro population size (actual metros)



Source: Bettencourt et al 2010.

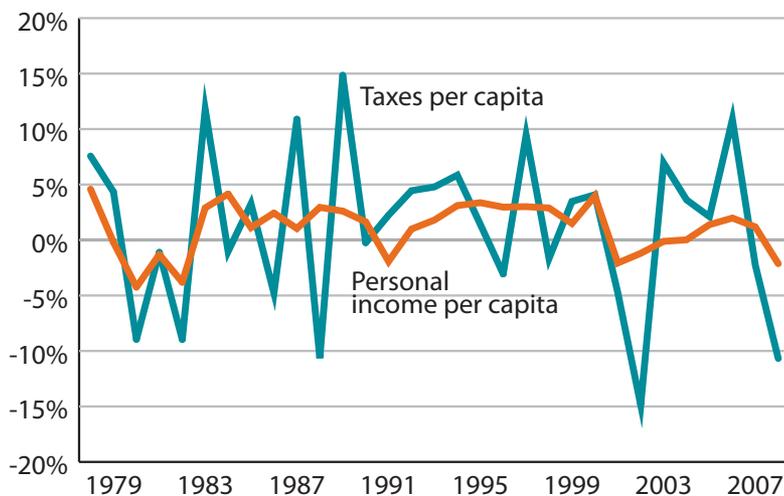
The question remains, which peer group does our region aspire to be with?

A direct connection: Better personal incomes equal better public services

Oregon's general fund, which pays for 60 percent of K-12 education costs and many other state services our region's residents enjoy, comes largely from income taxes, and the Portland-metro economy is by far the biggest contributor to the state's income tax revenues.

As per capita income and employment rise and fall over the years, taxes per capita follow a volatile trajectory. In Figure 14, the fluctuations in taxes per capita make budgeting a challenge for schools and other public services that depend on state income tax revenue.

Figure 14: Annual percentage change of total taxes per capita vs. personal income per capita

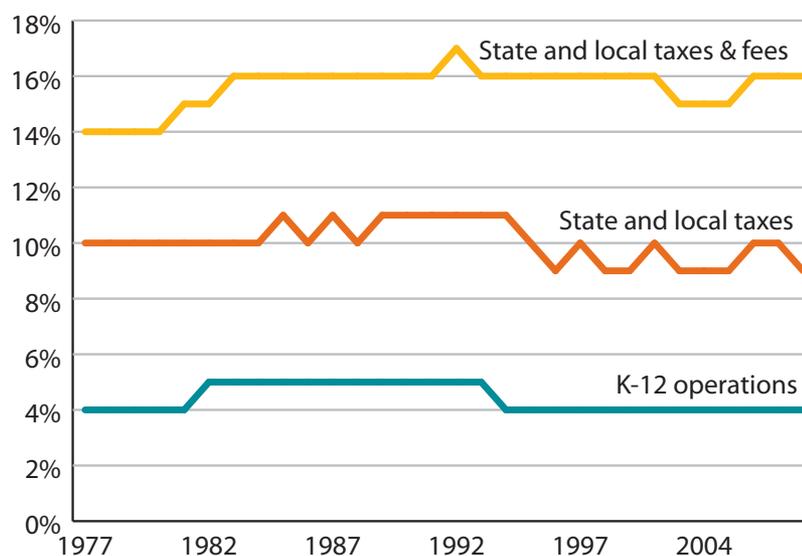


Source: ECONorthwest analysis of Bureau of Economic Analysis data.

Over a 25-year period, real state and local tax and fee revenues have increased at roughly the same rate as personal income. In the 2010 report, for example, the data showed that if Portland-metro's 2008 per capita income had been at the same level as Seattle, the state would have had an additional \$1.3 billion in state revenue, and Multnomah County schools would have had additional state funding of \$86.8 million a year.

Figure 15 shows the long-term relationship between personal income and government revenues. For the past 30 years, despite numerous changes in tax and fee policy, Oregonians have devoted a stable share of income to government operations.

Figure 15: Relationship between government activity and personal income, Oregon, 1977-2008



Source: Urban/Brookings Tax Policy Center.

With taxpayers holding steady at 16 percent, how do we grow more jobs that will generate incremental tax revenue?

Why this matters to Oregonians

Why is it so important to drive private-sector job development in a way that improves personal incomes? Why does Portland-metro need to improve its economic performance?

Throughout this report, we raised a series of questions that we will continue to ask in policy discussions with civic and elected leaders in hopes that we can zero in on the issues impacting our region's growth. What are our region's strengths and how do we leverage them?

Portland-metro has many strengths; high productivity in manufacturing and international trade. According to the Brookings Institution, Portland-metro ranked second in the nation in export growth between 2003 and 2008, during which time it doubled the value of exports. We need to take advantage of these strengths as a way to grow jobs as well as wages and incomes.

What are our region's weaknesses and how do we address them? One of our concerns is the lack of industrial land for employers. In the coming year, we will be issuing an in-depth look at the sites available and what hurdles exist for incoming employers.

Our coalition of business groups believes the region must focus on our strengths and weaknesses to recover from this past recession, diversify our economic base to stabilize through economic cycles and realize our potential. In a focused and coordinated effort, we can retain and grow employers and diversify our economy in a way that grows wages and incomes. If we want more funds for schools and other public services as well as a better quality of life for our region's families, then adding private-sector jobs and increasing incomes is the only way to get there.

Significant achievements

Since we launched the Value of Jobs campaign in December of 2010, there have been a number positive steps forward to grow and retain private-sector jobs in the Portland-metro region. Here are a few highlights:

- ▶ **GREATER PORTLAND INC. IS FORMED.** Private- and public-sector economic development groups join forces.
- ▶ **WAGES AND INCOMES GET THE POLITICAL SPOTLIGHT.** Elected leaders and candidates for office are now talking about wages and incomes as an issue in our region.
- ▶ **SOLOPOWER BRINGS JOBS.** SoloPower Inc, a maker of solar panels, announces new manufacturing facility in North Portland's Rivergate Industrial District.
- ▶ **LEGISLATURE MAKES EDUCATION REFORM HAPPEN.** In 2011, two new laws reform the state's education system with a focus on accountability, student achievement and the university system's strength.
- ▶ **VENTURE CAPITAL BOUNCES BACK.** In 2010, the state saw its best year in venture capital funding with \$173 million for Oregonian entrepreneurs.
- ▶ **NEW INTERNATIONAL MARKETS OPEN.** Congress passed three new trade agreements with Columbia, Panama and, most significantly, South Korea, which opens up markets for Oregon's products and services.
- ▶ **UNIVERSITIES IN THE REGION COLLABORATE.** Oregon Health & Science University and Portland State University expand their collaboration with a new strategic partnership.
- ▶ **MAJOR FACILITIES INCREASE PRODUCTION.** A number of production facilities have grown, adding good family-wage jobs in our region including Daimler Trucks North America, Boeing and Intel.

Thank you to our funding partners.

A number of companies and organizations have contributed to the funding of this report and the Value of Jobs initiative.

For more information about this study or the Value of Jobs initiative, go online to www.valueofjobs.com.



The mission of the Portland Business Alliance is to promote and foster an environment in the Portland region that attracts, supports and retains private sector jobs, spurs economic vitality and enables quality educational opportunities for the region's residents.

PUBLISHED BY:



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