



2012

a check-up on the
PORTLAND-REGION'S ECONOMIC HEALTH

Introduction

When our organizations came together three years ago, our goal was to get a better understanding of the Portland-metro economy. With the help of ECONorthwest, we have documented trends in employment and incomes, including the steep declines from the 2008 recession, and disturbing downward trends in personal income that started well before that time.

This 2012 report has welcome good news: Portland-metro has gained back about 60 percent of the jobs we lost since August 2008.

Our recovery has garnered national media attention, with Slate Magazine calling it a “renaissance.” The Brookings Institution ranked Portland-metro 9th among the top 100 metros in the nation for our recovery, and Arizona State University’s “Job Growth USA” put us among the top 20 metros for job growth over the last two years.¹

This report takes a look at where that job recovery has occurred, and we find some encouraging highlights. Jobs in construction grew considerably, driven clearly by the work at Intel, as well as the Oregon University System facility at South Waterfront, light rail construction and other projects. Employment gains also were made in food service and retail, reflecting renewed consumer confidence.

¹ http://www.slate.com/articles/business/moneybox/2012/08/portland_is_where_young_people_go_to_retire_economic_renaissance_in_portland.html;
<http://www.brookings.edu/research/interactives/metromonitor#M38900>;
http://wpcarey.asu.edu/bluechip/jobgrowth/secure_msa_over.cfm

In the critical traded-sector industries, such as manufacturing, there also was improvement, although employment still remains below pre-recession levels. As we know from our earlier reports, these trade-based jobs pay better, on average, than local-sector jobs and bring new dollars into the region which, in turn, buoys spending at local-sector businesses.

So, there is clearly good news, but our recovery is not complete. Portland fell further than the national average for metro areas, so we will have a longer climb out than other parts of the country. And, most importantly, we continue to lag in wages and incomes. That impacts families and public services, especially in an income-tax-dependent state like Oregon. When wages and incomes fall, that means less tax revenue to support schools, public safety and all the important services we depend upon.

What does this all mean? Certainly we should celebrate that we have had success, but we must also recognize that there is still a long ways to go. The excellent economic development work launched over the last few years must continue, even when we think times are better; and we cannot take our eye off of growing traded-sector and export-driven industries. We urge policy-makers to continue to support these efforts because that is how we will build a sustainable and strong regional economy.

BY THE NUMBERS

2nd.

The rank of Portland-metro out of the top 100 Metropolitan Statistical Areas (MSA) in the growth of Gross Metropolitan Product between mid-2009 and mid-2012.

72,400.

The number of jobs lost from August 2008 to August 2009, which is the baseline job loss number used in this report.

42,700.

The number of jobs added back between August 2009 and August 2012, with nearly all of this job creation occurring in 2011 and 2012.

47.

The percentage of the 42,700 new jobs that are in manufacturing and professional and business services, key traded-sector industries.

10.5.

The percentage by which Portland-metro's median household income fell between 2008 and 2011.

\$4,000, \$8,000 & \$9,000.

The amount by which Portland-metro's median household income trails those of Denver, Minneapolis and Seattle respectively.

2.

The percent by which Portland-metro's per capita income is below the U.S. metro average.

What the data show

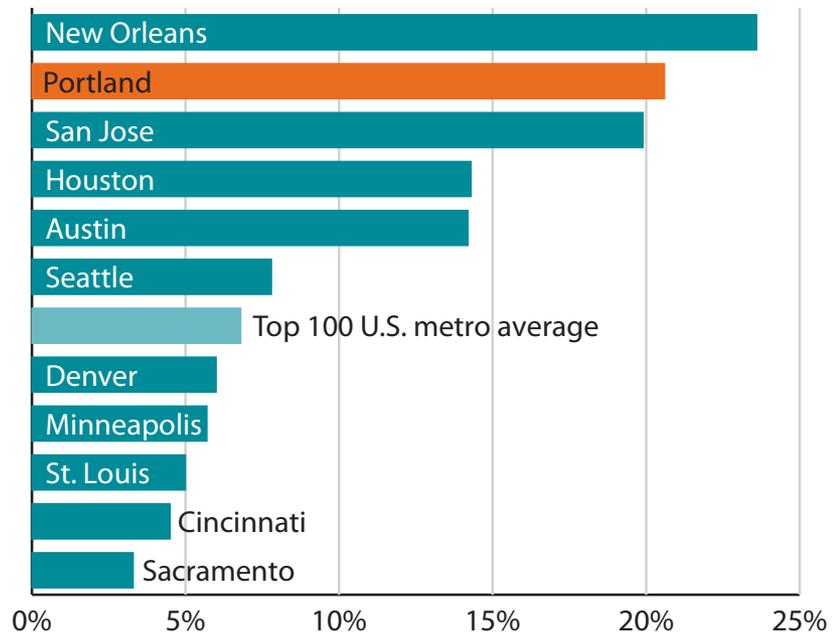
A region's economic performance is measured in a number of different ways. Three important measures are:

- Gross Metropolitan Product (GMP) (the equivalent of the gross domestic product for a Metropolitan Statistical Area);
- Employment, and
- Income.

The following sections will take a closer look at how the Portland-metro region is faring in each area. For last year's report, the job loss data were based on the peak and trough of the recession. This year, the data show economic changes for August of each year from 2008 through 2012. This timeframe gives us the most recent look at the economy, while avoiding issues related to seasonal employment.

Gross Metropolitan Product: Growth

Figure 1: Top MSAs for growth in GMP since local recession trough



Source: Brookings Metro Monitor, www.brookings.edu/research/interactives/metromonitor

GMP is the market value of all the goods and services produced in a Metropolitan Statistical Area (MSA). Out of the top 100 MSAs in the United States, Portland-metro is second only to New Orleans in the growth of GMP during its recovery. From its low point in mid-2009 up to mid-2012, Portland-metro's GMP grew by 20.6 percent, as seen in **Figure 1**.

GMP is a function of employment, income and productivity. Employment and incomes have remained relatively low during Portland-metro's recovery, so the growth in GMP is primarily due to increased productivity. This increase may be largely attributable to the growing semiconductor industry.

Employment: Recovery slow and uneven

Employment in the Portland-metro area has grown since its low point in 2009, but remains below its 2008 level. Between August 2008 and August 2009, Portland-metro lost 72,400 of its more than one million non-farm payroll jobs. However, between August 2009 and August 2012, Portland-metro added back nearly 42,700 jobs, with nearly all of this job creation occurring in 2011 and 2012.

The recession hit Portland-metro's employment slightly later than average compared to other metro areas, but when the recession did hit in 2008, Portland-metro's employment fell farther and faster than other metros. When Portland-metro's recovery began, employment increased at the same rate as the U.S. average, although starting from a lower level, through 2010. Between 2010 and 2012, Portland-metro's recovery picked up steam and made up the lag with the U.S. metro average, although both remain two to three percentage points below their 2008 level.

Looking deeper, some important patterns emerge in the employment recovery among different sectors of the economy.

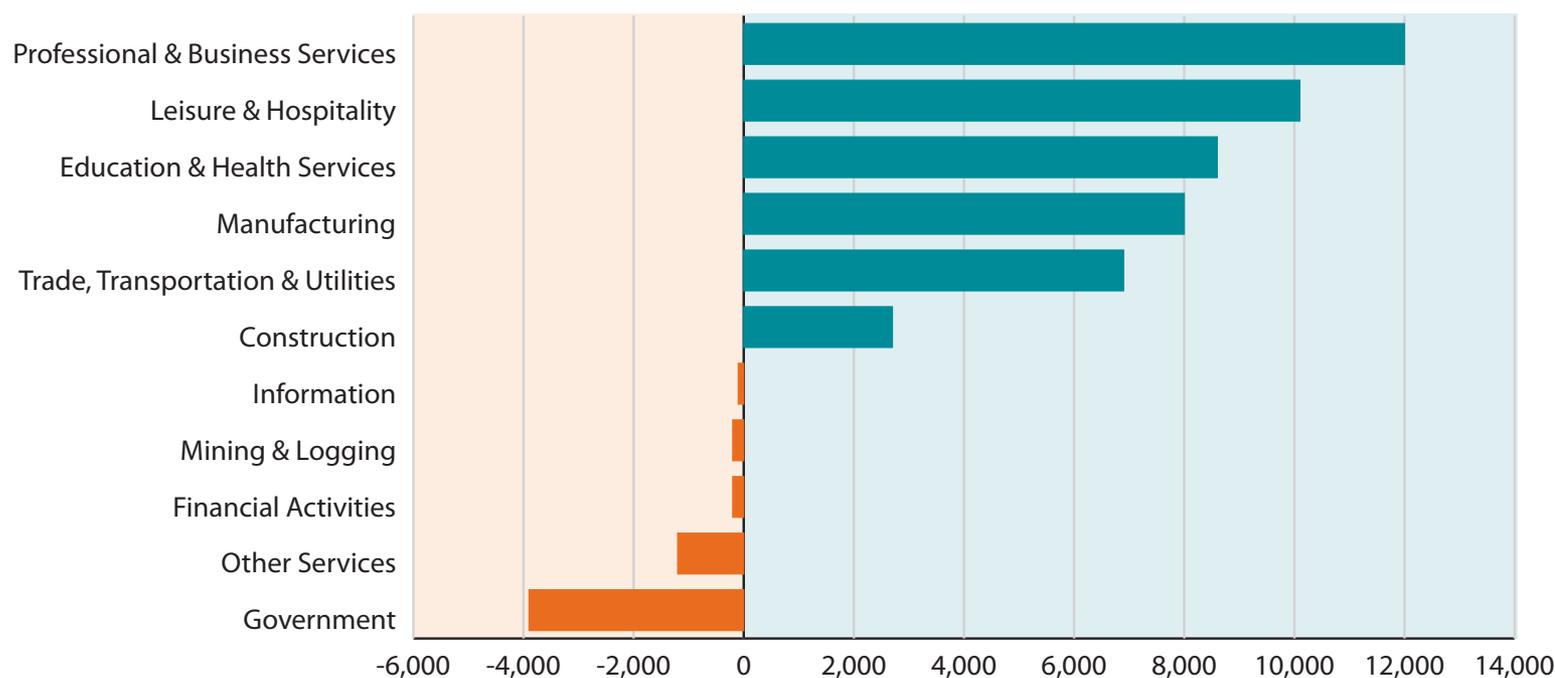
Year-to-year employment changes by sector, 2009-2012

In general, the economic recovery began in 2009, but it was not evenly distributed among economic sectors, as seen in **Figure 2**. Sectors associated with the consumption of goods and services (education, healthcare, leisure and hospitality, retail and wholesale trade and manufacturing) saw more net growth between August 2009 and August 2012 than other sectors. The professional and business services sector experienced positive (but weakening) job growth over this period, driven largely by an increase in hiring through temporary employment services in the early stages of recovery.

Government, finance, information, mining and logging, and other services sectors experienced net job losses during the recovery. The largest losses occurred in the government sector, which ended August 2012 with 3,900 fewer jobs than in August 2009.

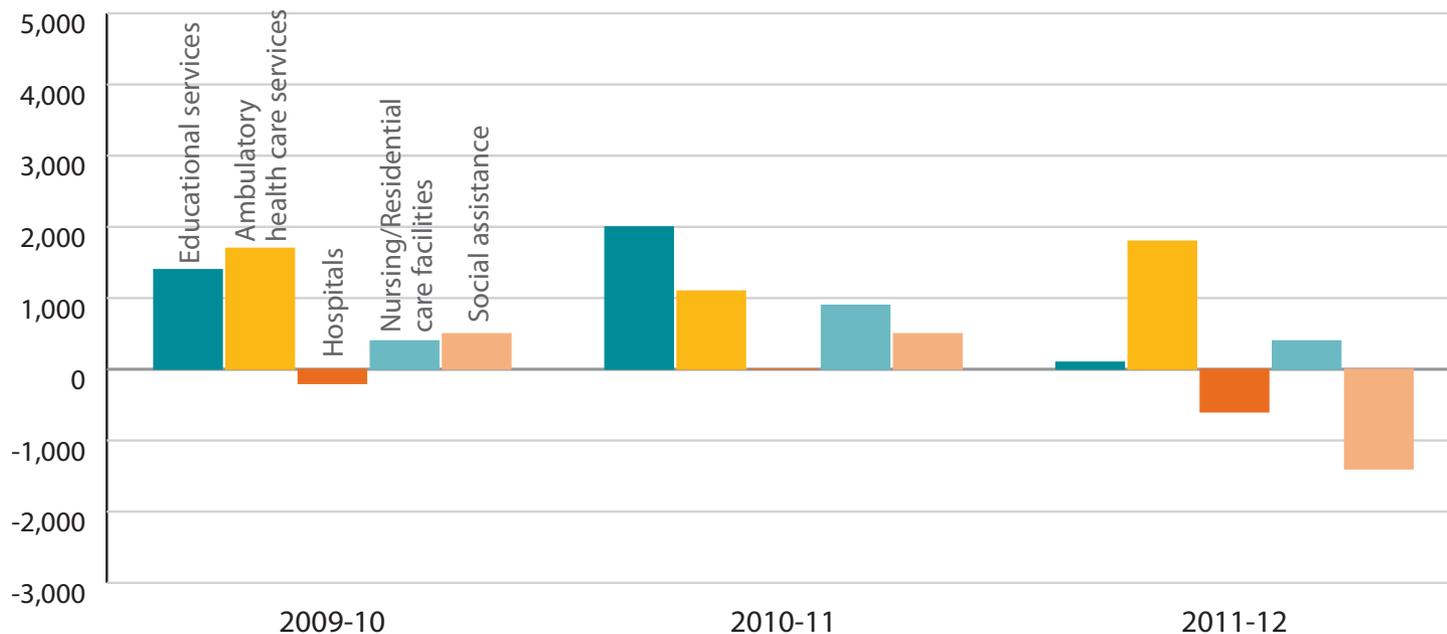
The private "Eds & Meds" sectors shown in **Figure 3** comprise all non-public education, health care and social assistance employment. Employment in private educational services grew between August 2009 and August 2011, adding a net 3,400 jobs, but growth slowed between 2011 and 2012 to just 100 net new jobs. Many under-employed and unemployed workers returned to school during the downturn, which helps explain the growth in this sector early in the recovery.

Figure 2: Cumulative Portland-metro employment change by sectors from August 2009 - August 2012



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

Figure 3: “Eds & Meds”: Year-to-year change in employment



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

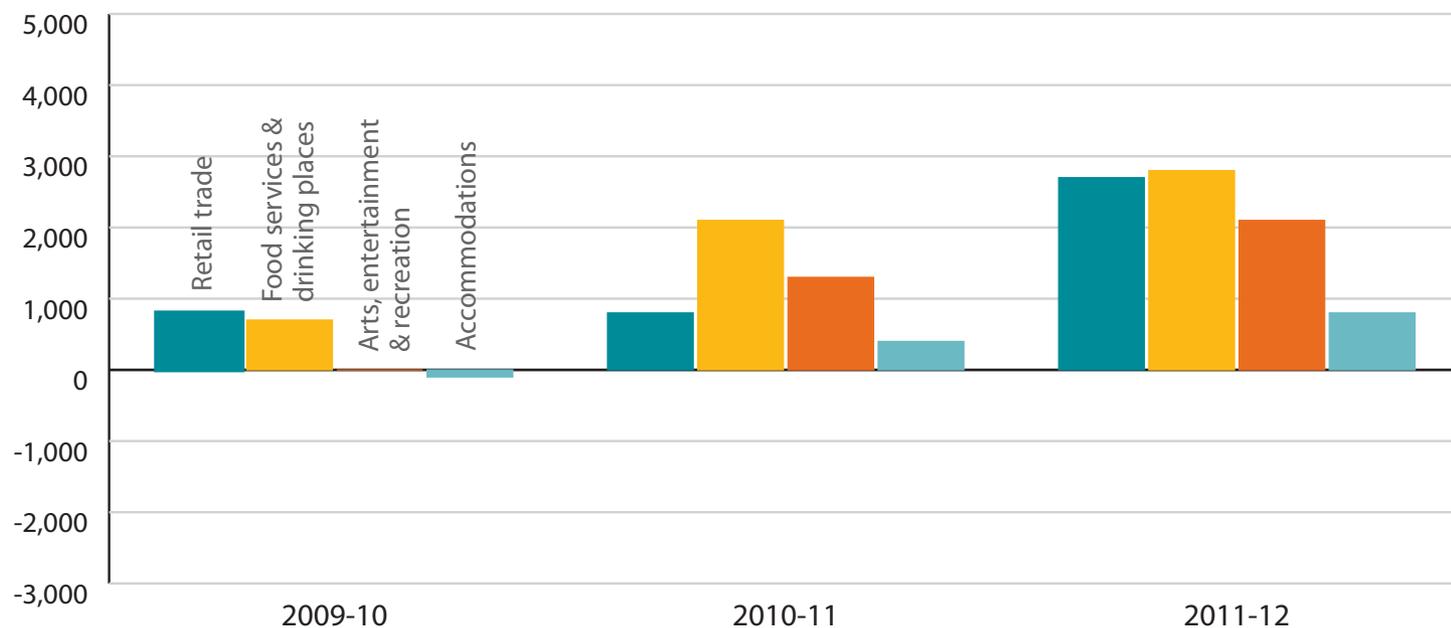
In “Meds,” job growth in hospitals, nursing and residential and ambulatory care facilities remained relatively steady between August 2009 and August 2012. The non-public social assistance sector, which includes family, housing, emergency, vocational rehabilitation and child care services, grew by 500 jobs each year between 2009 and 2011, but then dropped sharply. Job trends in medical and social assistance sectors are explained in part by the timing of federal stimulus payments.

The comeback of consumer spending started in 2009, as shown in **Figure 4**. Employment in the arts, entertainment

and recreation sectors remained flat between August 2009 and August 2010, but 1,300 jobs were added by August 2011, and another 2,100 jobs by August 2012. Accommodations (hotel and lodging) employment grew, but added fewer jobs than other leisure sectors.

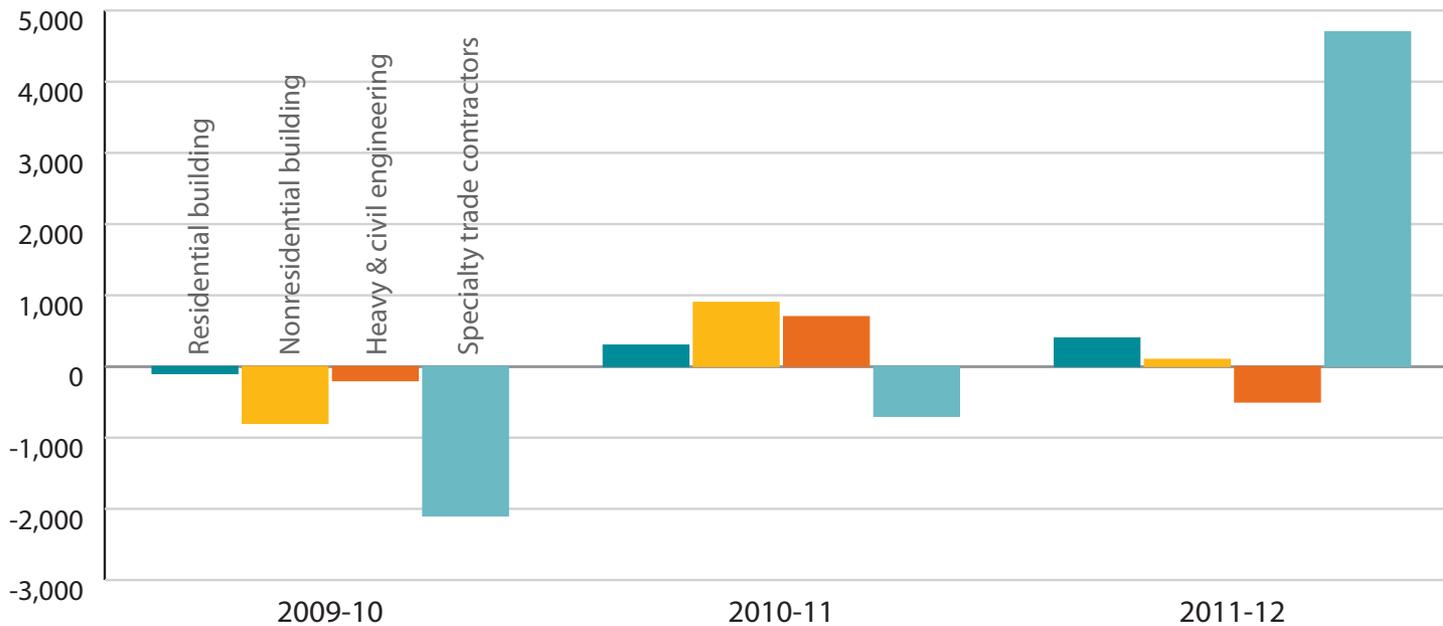
The most growth occurred in Portland-metro’s food services and drinking places sector, which added 5,600 jobs between August 2009 and August 2012. Retail trade made a similarly strong comeback, especially in the past year, adding a total of 4,300 jobs between August 2009 and August 2012.

Figure 4: Retail & Leisure: Year-to-year change in employment



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

Figure 5: Construction: Year-to-year change in employment



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

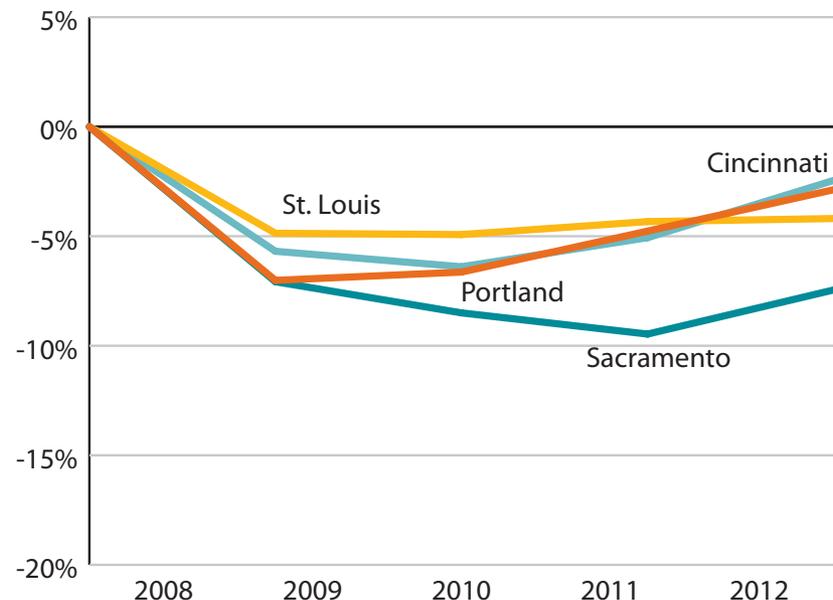
Employment in Portland-metro's construction sector continued to shrink through August 2010, as seen in **Figure 5**. Portland-metro lost about 15,600 construction jobs between August 2008 and August 2010. To date, construction employment has recovered nearly 6,000 jobs, but remains 15 percent below its 2008 level.

Job growth among the construction sectors was somewhat uneven, with specialty trade construction experiencing the greatest fluctuations. Between August 2009 and August 2011, specialty trade construction lost 2,800 jobs, but by August 2012, this sector gained 4,700 jobs, for a net gain over the three-year period of 1,900 jobs. Specialty trade contractors perform a specific activity on job sites, such as site preparation, plumbing, painting or electrical work. This gain may be mostly attributable to the construction of Intel's new research facility in Hillsboro that shifted into the final phase of construction in 2012. The boost to construction jobs may continue as Intel has announced it will expand this new facility (the D1X development fab).

Portland-metro employment by comparison

Last year's report introduced Sacramento, St. Louis and Cincinnati as Portland-metro's peer metro areas because they have very similar per capita income for cities of similar populations. As seen in **Figure 6**, Portland-metro's job recovery has outpaced two of those three cities.

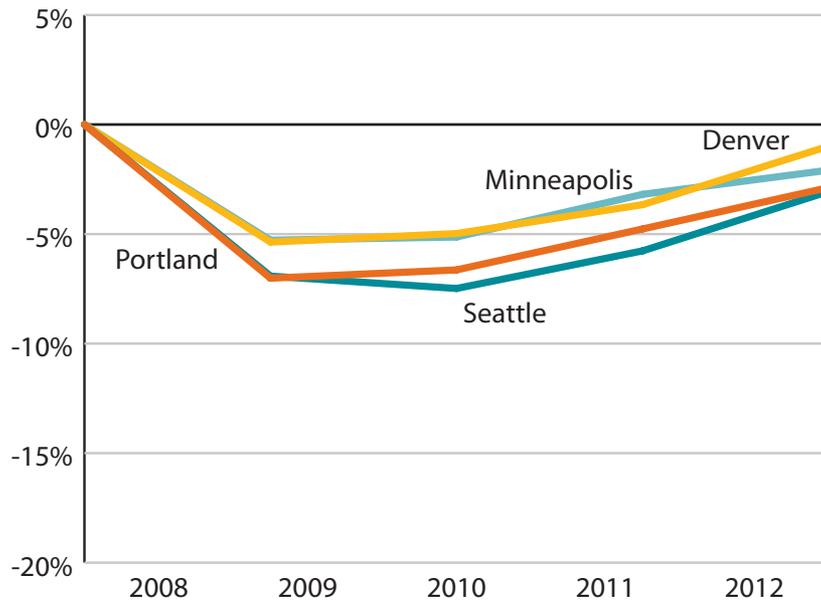
Figure 6: Employment change in Portland-metro compared to peer cities



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

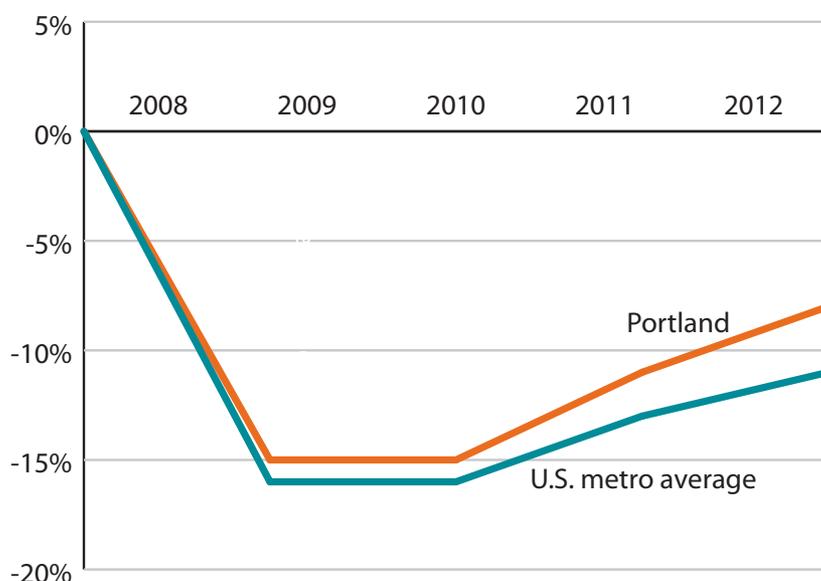
Portland-metro's long-standing metro comparators are Seattle, Minneapolis and Denver, and because they have outpaced Portland-metro, particularly in the critical area of income, these regions are now defined for these reports as "aspirational peers." As seen in **Figure 7**, Denver, as a regional center for the growing energy sector, has almost fully returned to its August 2008 employment level. By August 2012, Portland and Seattle had both recovered to within three percentage points of their 2008 levels, while Minneapolis was slightly further ahead.

Figure 7: Employment change in Portland-metro compared to aspirational peer cities



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

Figure 8: Employment change in durable goods manufacturing, compared to 2008



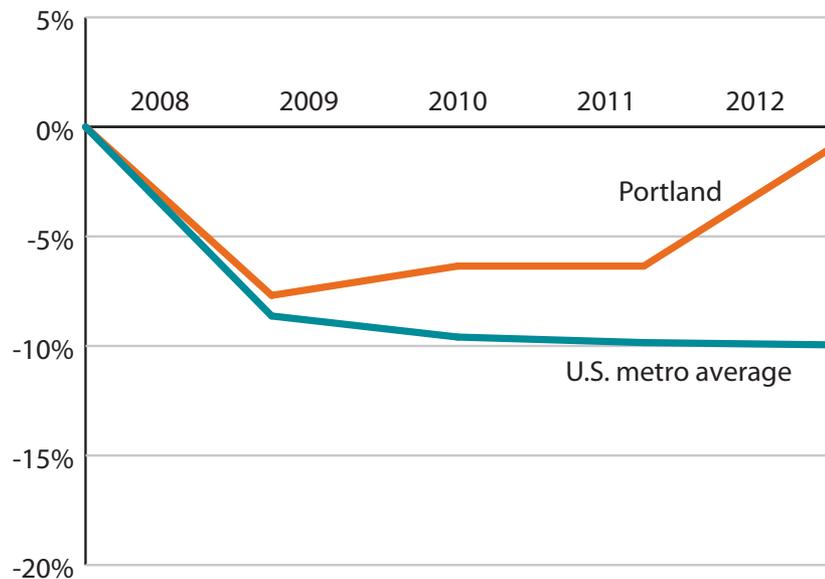
Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

As demonstrated in earlier reports, manufacturing is a relative strength for Portland-metro, as employment in both the durable and non-durable manufacturing sectors fared better than the U.S. metro average during the recession. Durable goods are defined as goods that yield use over time, while non-durable goods are those that are quickly consumed.

While durable goods manufacturing employment in both Portland-metro and the U.S. fell by about 15 percent from their 2008 levels, Portland-metro recovered at a faster pace, as shown in **Figure 8**. By August 2012, Portland-metro was within eight percent of its 2008 level, while the U.S. average still lagged by 11 percent.

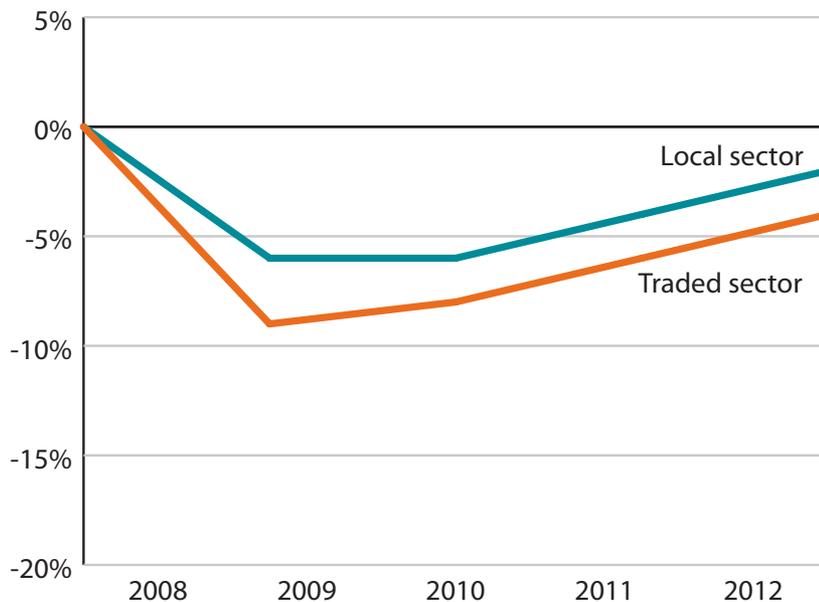
Portland also outperformed the national average in non-durable goods manufacturing, as demonstrated by **Figure 9**. By August 2009, Portland-metro and the U.S. metro average each lost about eight percent of their 2008 levels. However, by 2012 Portland-metro rebounded to within one percent of its 2008 level, while the U.S. metro average still sat 10 percent below its 2008 level.

Figure 9: Employment change in non-durable goods manufacturing, compared to 2008



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

Figure 10: Employment change in traded and local sectors compared to 2008



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics data.

Portland-metro's employment in the traded sector—firms that sell goods and services outside the region—declined further and faster than local sector employment between 2008 and 2009. Traded-sector jobs fell by nine percent and local sector jobs fell by six percent during that same period, as shown in **Figure 10**.

Since August 2009, however, both sectors regained jobs at about the same rate. By August 2012, Portland-metro's local-sector employment was two percent below its 2008 level, while traded-sector employment was four percent below 2008. About 47 percent of the 42,700 jobs added back to the Portland-metro region are in manufacturing and professional and business services, key traded-sector industries.

The return of these traded-sector jobs must be watched for two reasons:

1. Portland-metro traded-sector jobs pay on average 42 percent more than local-sector jobs, and
2. Traded-sector jobs stimulate activity in other parts of the economy, with one traded-sector job, on average, creating 2.5 local-sector jobs.²

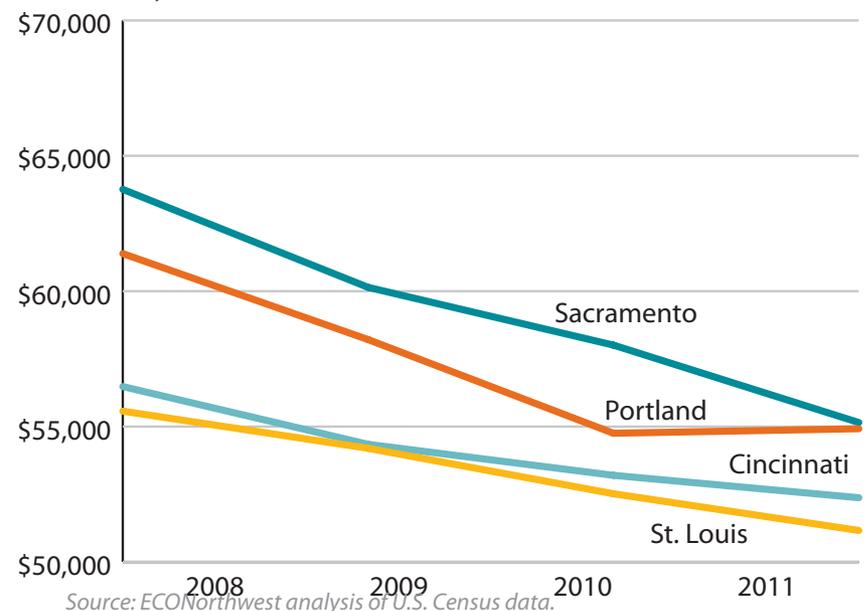
² *Portland-Metro's Traded Sector: A source of good jobs, higher wages and small business growth, 2012 Value of Jobs Coalition.*

Income

Portland-metro's median household income fell 10.5 percent between 2008 and 2011, from \$61,400 (2011 dollars) in 2008 to \$54,900 in 2011, as seen in **Figure 11**. Portland-metro's peer cities—Sacramento, Cincinnati and St. Louis—experienced similar declines in median household income: Cincinnati fell by 7.3 percent, St. Louis by 7.9 percent, and Sacramento by 13.5 percent.

Figure 11: Median household income for Portland-metro compared to peers (2011 dollars)

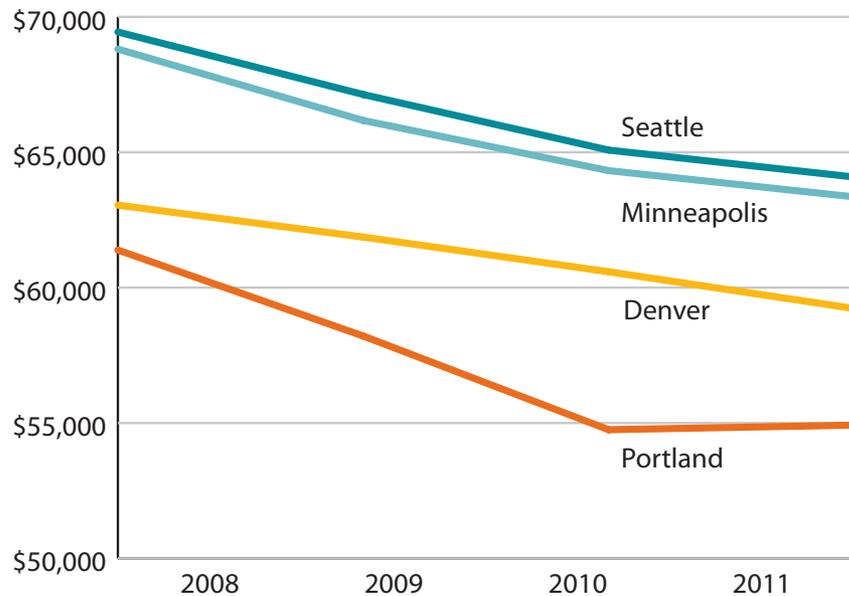
In 2008, median household income in Portland-metro was



Source: ECONorthwest analysis of U.S. Census data.

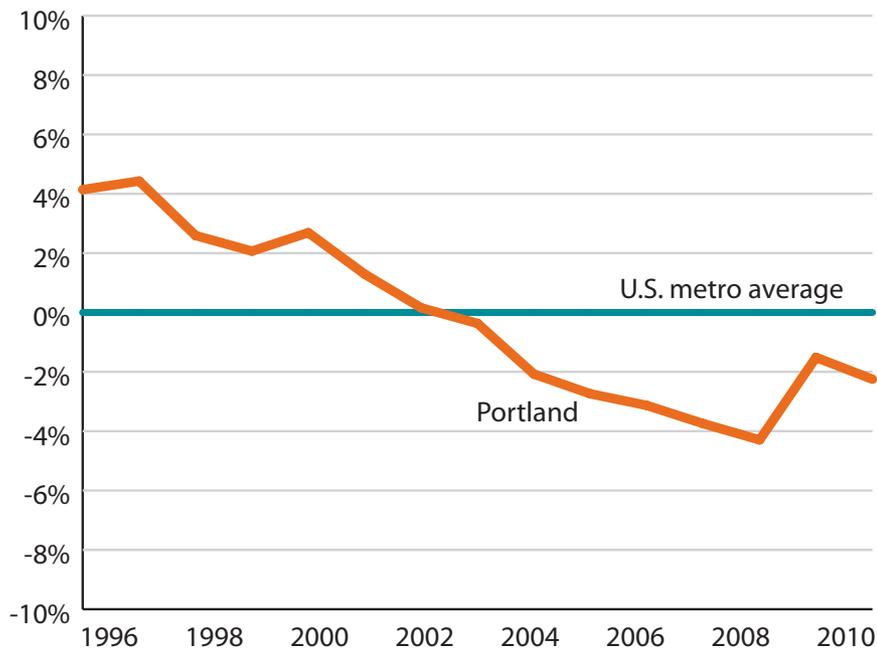
already lower than Seattle, Minneapolis and Denver metros. Seattle and Minneapolis were nearly equal at about \$69,000, and Denver's median household income was \$63,000, compared to \$61,400 in Portland-metro (in 2011 dollars). But while Seattle, Minneapolis and Denver all lost income during the recession, Portland-metro's median household income fell further and faster (while leveling out in 2010), increasing the income gap with these cities, as shown in **Figure 12**. By 2011, Portland-metro household income lagged Denver by more than \$4,000, Minneapolis by more than \$8,000 and Seattle by more than \$9,000 per year.

Figure 12: Median household income for Portland-metro compared to aspirational peers (2011 dollars)



Source: ECONorthwest analysis of U.S. Census data.

Figure 13: Per capita income in Portland relative to top U.S. metro average³



Source: ECONorthwest analysis of U.S. Bureau of Economic Analysis data.

³ Per capita income is the sum of all earned income, investment income, and transfer payments (such as Social Security) averaged across all residents of the area.

The economic health of a community depends on a combination of employment levels, wages and income. Median household income is one measure of income; another is per capita income, which we have examined in previous reports. While we are seeing positive trends in employment, wages and income are a different story.

In the mid-1990s, the Portland-metro area's per capita personal income was about four percent higher than the average for the top 100 U.S. metro areas. Per capita income has declined fairly steadily since then, dipping below the U.S. metro average in 2003, continuing to its low point in 2008 at four percent below average. It now sits at about two percent below the U.S. metro average, as seen in **Figure 13**.

Per capita personal income is based on the sum of wages, investment earnings and transfers, such as Social Security payments. The uptick between 2008 and 2009 is explained by a jump in just one of those factors, investment earnings; transfers remained steady, but wages continued to decline during that period. After the jump in investment earnings waned, the decline in per capita income continued at about the same pace as before.

Why this matters to Oregonians

Maintaining Portland-metro's Gross Metropolitan Product growth in the top tier of U.S. metros is important to our region. That productivity generates more than valuable output. It also shows the U.S. and the world that Portland-metro is home to highly productive industries and therefore highly skilled and efficient workers. We want that reputation to grow and spur more innovative companies and employment opportunities.

The gain in jobs is also positive, but the business community and policy-makers need to pay attention to what type of jobs we are growing. All jobs are important, but if we want to build a stronger regional economy, we need to support and foster manufacturing and other traded sectors that provide good, family-wage jobs, and, in turn, boost the local sector.

By focusing on the type of jobs and the income levels of those jobs, we will start to see improvement in Portland-metro's median household incomes that are still well below our aspirational peers and a per capita income level that is below the U.S. metro average. Until we see a return of higher-paying jobs, growing investments in critical public services—especially education—will continue to be an uphill climb.

We believe that we can make that uphill climb easier by working with policy-makers on the issues that impact economic growth:

- Improvements in the educational attainment of Portland-metro and Oregon students through the state's 40-40-20 goals⁴ and related initiatives;
- Greater availability of market-ready industrial land;
- Investments in transportation infrastructure such as the Columbia River Crossing;
- A continued focus on traded-sector job development, and,
- Tax reform to incent private investment and stabilize public services.

Over the past few years, we have made some strides in these areas, and it is our goal that our Value of Jobs initiative will continue to guide and shape how the Portland-metro region improves its quality of life through the creation and retention of good, family-wage jobs.

⁴ *The Oregon Business Plan established a goal for 40 percent of Oregonians to have at least a Bachelor's degree, 40 percent at least an associate's or technical degree and 20 percent at least a rigorous high school diploma.*

REPORT SOURCES

The data and analysis in this report 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, Greater Portland, Inc. 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 continue conversations with public and private leaders to define strategies to spur economic growth. The Value of Jobs Coalition is responsible for the interpretation of the data.

Data in the employment section is drawn from BLS State and Area Employment files, which draws from the Current Employment Statistics survey (aka the establishment survey). To avoid issues of seasonal employment, we present data from August of each year

(August is the most recently available data). Detailed description of the data available is online at: <ftp://ftp.bls.gov/pub/time.series/sm/sm.txt>.

Data in the income section is drawn from two sources. Median and mean household income data come from the American Community Survey 1-year files for 2008 to 2011. Personal income per capita comes from BEA regional data. The previous report used only BEA data thorough 2010. The updated data for 2011 were not available as this report was being written, so this report includes mean and median household income from the ACS for 2011. We note that differences exist in observed income between Census Bureau and BEA data. The differences between median household income and personal income per capita reflect a variety of factors, including growing income inequality, changing demographics, differences in unreported income, and different definitions of income.⁵

⁵ *Katz, A.J., 2012. "Explaining Long-term Differences Between Census and BEA Measures of Household Income." Paper presented at 2012 Federal Committee on Statistical Methodology Conference.*

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- ▶ International Trade study
- ▶ 2011 Check-up on the Portland-Region's Economic Health
- ▶ Portland-Metro's Traded Sector study
- ▶ Land Availability: Limited Options study
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