Oregon Economic Forecast

2015 Q1

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Oregon's GDP growth has occasionally been exceptional over the past few years, mostly the result of Intel's D1X project. However, job creation has been week. This is changing. We're pleased to present a very optimistic forecast of Oregon's economy. After too many years of dismal forecasts, we believe that Oregon is in the early stages of what appears to be a period of sustained job creation.

This once again puts us in a bit of a contrarian position. Plenty of economists are worried about a global slowdown. They point to China's lowest-in-fifteen-years GDP growth, weak growth among developing countries, a stagnant Europe and falling oil prices. These arguments are not convincing.

Though slower than the world has become used to, China's economic growth is still spectacular. With a population almost four times that of the United States, an increasingly wealthy and still rapidly growing China is a major economic force. It will only become more important as it grows.

By contrast, most developing countries are not really very important to U.S. economic growth. Those that do not depend on oil production for economic growth will see economic benefits as a result of falling oil prices.

No doubt, Europe is a mess, the result of a regulatory morass apparently designed to strangle economic vitality. The recent decision by the European Central Bank to embark on its own quantitative easing program is an admission of weakness. However, Europe is decreasingly relevant to the United States economy. At most, Europe's issues will have only a minor impact on our economy.

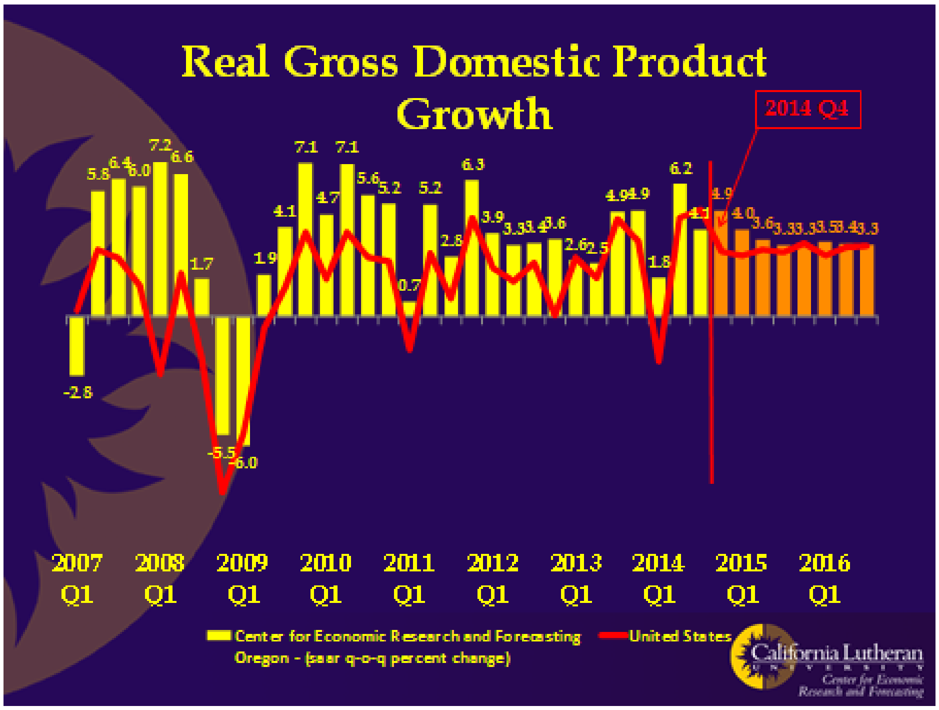
Some of what we hear about lower oil prices just amazes us. The idea that higher oil prices will kill the so far anemic recovery is just mistaken.

University of California San Diego economist Jim Hamilton has shown that oil price increases have devastating impacts on the United States economy. Many people remember the 1970s and the early 1980s, when you didn't need an economics degree to see the impacts of oil price increases. They probably don't know that Hamilton has provided strong evidence that oil price increases were a major contributor to the Great Recession.

So, why would falling oil prices be bad? Proven and suspected U.S oil reserves have skyrocketed over the past decade. This has driven a boom in oil exploration, development, and production. It's been one of the few bright spots in the U.S. economy.

Falling oil prices will slow, but not stop, oil exploration and development. Oil production will continue. We estimate that the slowing of exploration and development will have at most a half of one percent impact on our annual economic growth. Lower oil prices, though, will spur growth in other sectors. That impact is at least one percent annual economic growth, and probably more. A declining oil price is good for economic growth.

Oregon, of course, will share in increased prosperity. Its economy will also benefit from California's growth. It will do better than that though. Oregon's dependency on a relatively few major companies will benefit the state, at least in the near term. Because of the industrial mix, Oregon's economy will continue to outperform the United States economy in GDP growth, particularly in the short run:



Job growth may not be so impressive. While Oregon's major employers are economic giants, they are also very capital intensive. They use huge amounts of capital. They create huge amounts of economic growth and wealth. They often don't create that many jobs. In particular, as Intel's D1X project runs its course, we may see output growth outperform job growth.

Many of the jobs created require unique and rare skill sets. So, often new jobs are filled by non-Oregonians. Intel has complained about having to import workers. Oregon's universities are trying to respond to this need, but that is probably not enough. Oregon could benefit from a more diversified economy.

Less centralized land use policies, a more broad-based tax structure, and a more competitive regulatory environment would go a long way towards bringing about that more diversified economy.