



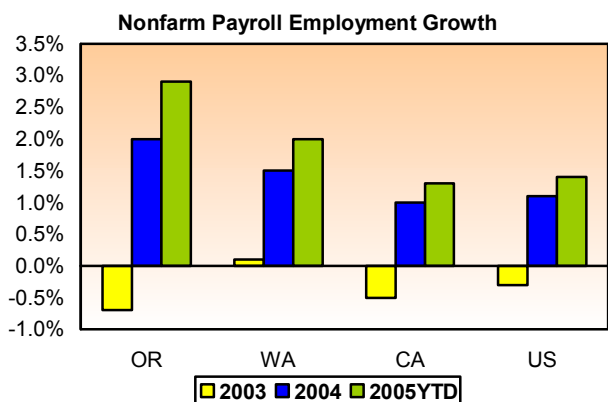
### 2005: Another Good Year for the Pacific Northwest

Looking back, 2005 had its share of calamities. Hurricanes Katrina and Rita battered the Gulf Coast, causing enormous hardships for a large number of local residents. U.S. casualties in Iraq continued to mount, finally exceeding the 2,000 mark. Scandal after scandal hit Washington, DC, providing endless fodder for pundits on the evening news. Consumers had to suffer through a period of rapidly rising gasoline prices and are now faced with the prospect of large heating bills this winter due to stubbornly high natural gas and heating oil prices.

In the Pacific Northwest, however, 2005 is shaping up to be another spectacular year in terms of job growth. The region did not escape the impact of higher gasoline prices, but it seems to have weathered the resultant drop in consumer sentiments amazingly well. The machinists' strike at The Boeing Company could have slowed down the region's economy, had it lasted longer, but its impact was limited to the September employment statistics.

#### The region outperforms the nation in job growth.

The chart below shows that both Oregon and Washington so far have outpaced the nation, as well as their southern neighbor, in job growth. In 2003, payroll employment was flat in Washington, but was down in Oregon, California, and in the United States as a whole. The job loss in Oregon was significantly greater than the national average.



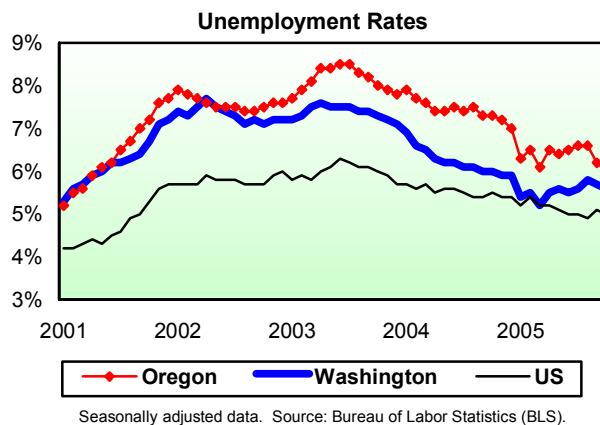
Percentage growth of average nonfarm payroll employment. The 2005 year-to-date data are for the first ten months of 2005. Not seasonally adjusted. Source: BLS.

By 2004, Washington and Oregon had faster employment growth than California, which was still recovering from its dot-com bust of 2001. Job growth in the Pacific Northwest was stronger than the U.S. national average, as well.

Based on the year-to-date data (up to October), the region continues to enjoy robust employment growth. Oregon saw its payroll employment increase by an astonishing 2.9%. It was twice as fast as the total U.S. year-to-date growth rate of 1.4%. Washington has also put in a strong performance with a 2.0% increase of its payroll jobs. On the other hand, California's job growth during the same period is about par with that of the nation at 1.3%.

With only one more month remaining in the year, the region's economy retains much vigor, and its employment growth may be accelerating. Washington gained 24,000 jobs in October after losing 11,000 in September. A large portion of the job loss in September was related to the aforementioned machinists' strike, which affected about 18,000 workers in the Puget Sound area and in Oregon.

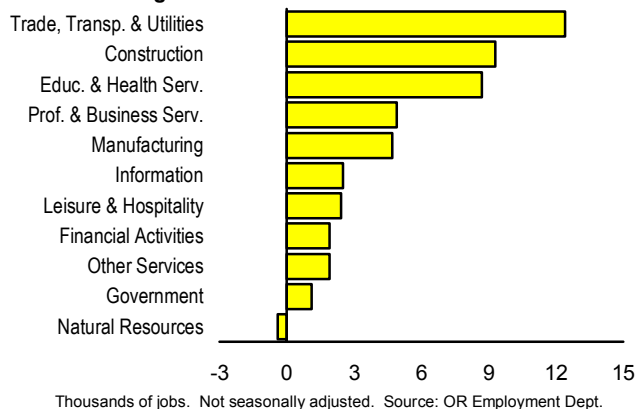
The strike, which began on September 2, lasted less than one month, and by the time October employment data were collected, the striking workers had returned to their jobs. (In contrast, the last strike by the machinists union in 1995 lasted over two months.) As a result, the number of manufacturing jobs in Washington returned to its pre-strike level in October. In addition, Washington State continued to gain service sector jobs at a fast clip.



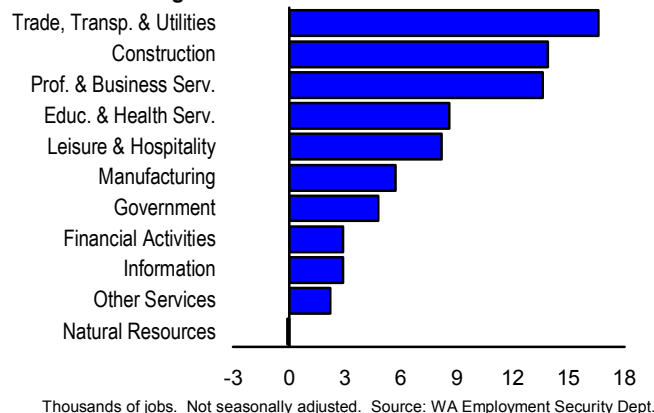
#### Unemployment is falling again.

Earlier this year, the unemployment rates were rising in both Oregon and Washington, but the trend has now been reversed. The Washington unemployment rate dipped to 5.6% in October from 5.7% in September. It was the second consecutive monthly decrease. (See the chart above.)

Oregon Job Growth Oct. 2004 – 2005



Washington Job Growth Oct. 2004 – 2005



Unemployment in Oregon has been falling even faster. Its unemployment rate in October was 6.0%, down from 6.2% in September. The rate has dropped by 1.3 percentage points over the year, from 7.3% in October 2004. It was the second-largest over-the-year improvement among the 50 states, following Florida's 1.4-percentage-point decrease. Oregon now has about 50,000 more payroll jobs than a year ago.

#### The housing boom is fueling job growth.

The two charts above show that growth in both states has been broad-based. While the largest number of new jobs has come from the trade and transportation sector, construction was the fastest-growing industry in both Oregon and Washington, growing 9.3% and 8.1%, respectively, over the past twelve months. It is clear that the ongoing housing boom has much buoyed the region's economy.

In fact, according to the latest report from the Office of Federal Housing Enterprise Oversight, Oregon and Washington ranked 8<sup>th</sup> and 9<sup>th</sup> among the 50 states in terms of annual home price appreciation in the third quarter of 2005, with 16.7% and 15.6%, respectively. (They each moved up twelve notches from their rankings of 20<sup>th</sup> and 21<sup>st</sup> a year earlier.) Oregon also had the nation's fifth-fastest home price increase during the quarter.

There is no doubt that the Pacific Northwest economy will maintain considerable momentum in 2006. How the region will ultimately fare next year is likely to depend, to a large extent, on the strength of its housing market.

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### Economic Forecast – December 2005

UNITED STATES	2003	2004	2005	2006
Real GDP Growth (%)	2.7	4.2	3.6	3.7
Unemployment (%)	6.0	5.5	5.1	4.9
CPI Change (%)	2.3	2.7	3.5	3.1
Federal Funds (%)	1.1	1.3	3.2	4.7
<b>OREGON</b>				
Employment Growth (%)	-0.6	2.1	3.3	2.3
Personal Income Growth	2.0	5.7	6.0	5.6
<b>WASHINGTON</b>				
Employment Growth (%)	0.1	1.5	2.4	2.5
Personal Income Growth	2.0	7.9	3.6	5.7

**Bold: Actual.**

The information in this report is based on data available as of December 2, 2005, and has been obtained from sources believed to be reliable, but its accuracy, completeness, and interpretation are not guaranteed. We do not think it should necessarily be relied upon as the sole source of information and opinion.