



The Pacific Northwest Begins 2006 with a Bang

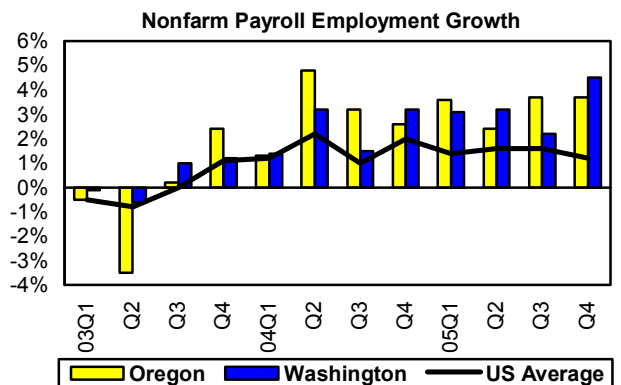
After enjoying healthy expansion in 2005, the Pacific Northwest economy continues to accelerate. Job growth last year was so strong that it was as if the boom years of the mid-'90s had returned to the region.

Labor market conditions remained solid during the first two months of 2006. In January and February, the average monthly employment growth in Washington was 10,750 jobs. This figure surpassed last year's robust monthly average gain of 7,500 jobs.

During the same two-month period, Oregon experienced average monthly gain of more than 6,000 jobs. By comparison, Oregon added 4,600 jobs on average per month in 2005. While such rapid growth might not continue in the rest of 2006, the region certainly began the year on a very strong note.

The region continues to outperform the nation.

The chart below shows the recent history of quarterly job growth (annualized) in Oregon, Washington, and the United States. As in the rest of the country, the employment picture was rather dismal in the Pacific Northwest in 2002 and 2003. However, the region's job growth strengthened in early 2004 and has consistently exceeded the national average since then.



Annualized percentage growth rates of quarterly average nonfarm payroll employment. Seasonally adjusted data. Source: Bureau of Labor Statistics (BLS).

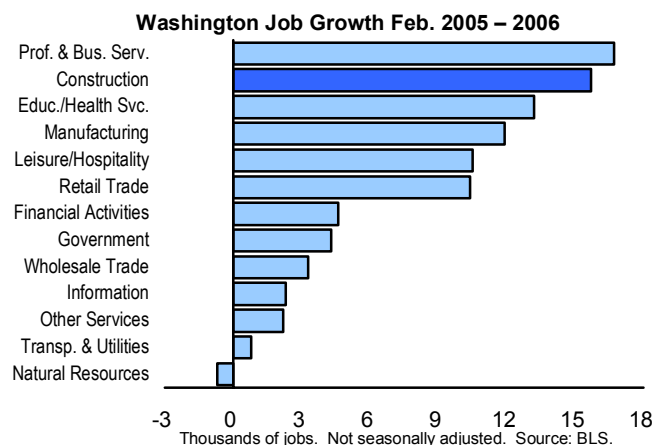
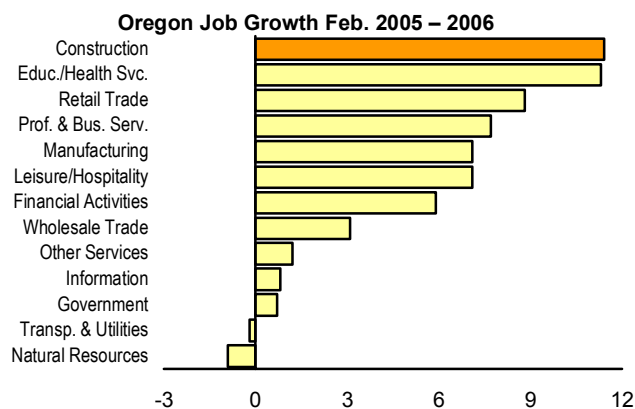
In the fourth quarter of 2005, employment rose in Oregon and Washington by 3.7% and 4.5%, respectively; the national average was 1.2%. Job increases for the entire year were 3.2% in Oregon and 2.9% in Washington. These figures were roughly twice as large as the 1.5% growth for the entire United States.

Consequently, the region's jobless rates are falling faster than the national average. In February 2006, the U.S. unemployment rate was 4.8%, six-tenths of a percentage point

lower than a year earlier. The February unemployment rates were 5.6% for Oregon and 4.8% for Washington. Both of these rates were eight-tenths of a percentage point lower than the corresponding rates a year earlier.

Housing-related sectors lead in job growth.

As the following two charts amply demonstrate, the ongoing housing boom has contributed significantly to the region's growth for the past couple of years.



In Oregon, the construction sector added the largest number of new jobs (+11,400) over the past twelve months. In terms of percentage growth, the sector expanded by an amazing 13.9%.

Washington also saw the number of its construction jobs rise by 15,700 over the past year. While the professional and business services sector added more jobs (+16,700) during the same period, the construction sector enjoyed the largest percentage gain (+9.7%). In fact, one out of every six jobs created in Washington last year was in construction.

Positive effects of the housing boom have reached far beyond the building industry. In the financial sector, a large number of positions were created in mortgage lending and real estate brokerage. In retail trade, the region's building material and garden supply stores are doing a brisk business and busy hiring new employees.

In Oregon, architectural and engineering services have been among the strongest segments of professional services. Similarly, in Washington's manufacturing sector, one of the fastest-growing segments is nonmetallic mineral products, i.e., concrete, cement, glass, and other building materials. Employment in this segment rose 7.9% over the past twelve months, compared with the 4.5% growth of the entire manufacturing industry.

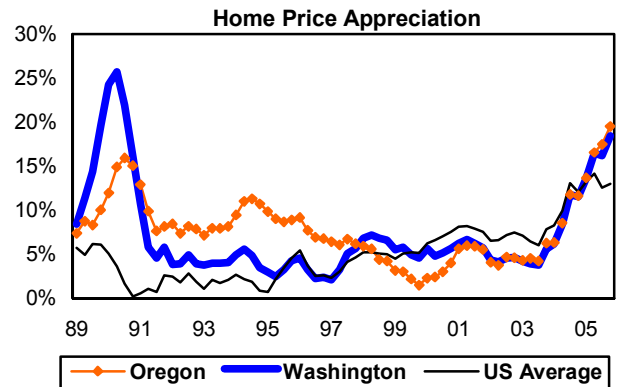
The region's housing markets are still going strong.

There is talk of a national housing slowdown, but the Pacific Northwest markets remain red hot. The latest report from the Office of Federal Housing Enterprise Oversight ranked Oregon 7th and Washington 9th among the 50 states in terms of annual home price appreciation as of the fourth quarter 2005. The 12-month home price increases were 19.5% in Oregon and 18.4% in Washington. (See the chart on this page.)

In fact, price appreciation continued to accelerate in Oregon and Washington throughout 2005, even though the U.S. average crested in the middle of the year. Some of the region's hottest markets (based on annual price appreciation as of the fourth quarter 2005) include Bend (+29.3%) and Medford (+25.0%) in Oregon, and Olympia (+22.5%) and Tacoma (+20.0%) in Washington.

Because the Pacific Northwest was a relative latecomer to the current real estate party, it seems reasonable to expect its

housing boom to last a bit longer. Still, as the Fed's continued rate hikes push mortgage rates upward, the region's residential markets are likely to cool.



Year-over-year percent change. Source: Office of Federal Housing Enterprise Oversight.

Transaction volumes may drop and new home construction activities may also decrease. Under these circumstances, slowdowns of the above-mentioned housing-related sectors will be inevitable. Fortunately, dramatic corrections in home prices are highly unlikely, based on the region's steady employment and income growth.

New jobs will continue to be created in the service sectors, including tourism, health care, and professional services. The information-technology sector seems to be gaining momentum. All in all, 2006 is likely to give the Pacific Northwest much to celebrate.

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Economic Forecast – April 2006

UNITED STATES	2004	2005	2006	2007
Real GDP Growth (%)	4.2	3.5	3.6	3.2
Unemployment (%)	5.5	5.1	4.8	4.8
CPI Change (%)	2.7	3.4	2.8	2.2
Federal Funds (%)	1.3	3.2	4.8	4.8
OREGON				
Employment Growth (%)	2.0	3.2	3.0	1.8
Personal Income Growth	5.6	6.5	5.7	5.4
WASHINGTON				
Employment Growth (%)	1.6	2.9	3.1	2.1
Personal Income Growth	7.9	2.4	5.1	5.6

Bold: Actual.

The information in this report is based on data available as of April 3, 2006, 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.