



### The Pacific Northwest Economy Is Cooling, but Maintains Momentum

Lately there has been much talk of the national economy decelerating. After the Federal Open Market Committee (FOMC) decided to keep the Fed Funds rate unchanged at 5.25% on August 8, a barrage of economic data confirmed that the U.S. economy was indeed cooling. The same analysts who recently debated whether there would be a rate hike in August are now speculating when the Fed will start *cutting* the rate.

While a boom period is inevitably followed by a slowdown, there is no reason to believe that the U.S. economy is headed for a dramatic correction. Recent national employment and output data show that steady expansion continues.

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

The prospect for the Pacific Northwest region is even brighter. Following a very strong 2005, the first half of this year saw robust job growth continuing in the region. The chart on the bottom left shows that both Oregon and Washington have clearly outperformed the rest of the nation in employment growth.

The numbers of payroll jobs in January 2000 are set at 100 in this chart. If the index moves up to 105, for example, the area has 5% more jobs at that point than at the beginning of 2000. The chart shows that both the United States and the Pacific Northwest started losing jobs in 2001. In subsequent years, Oregon and Washington suffered greater employment losses than the nation.

In mid-2004, employment in both the region and the nation returned to the January 2000 level. (See all the lines re-crossing the horizontal axis at 100.) From then on, the Pacific Northwest has steadily outpaced the United States in employment growth. As of July 2006, the payroll employment indices for Oregon and Washington were 107.7 and 106.7, respectively; the U.S. average was 103.5.

In the second quarter of 2006, job growth in the region moderated. Washington's payroll employment increased 3.0% (annualized), a slower pace than the 3.4% recorded in the first quarter. Job growth in Oregon was 2.2% in the second quarter, down from an extremely robust 4.3% in the preceding quarter.

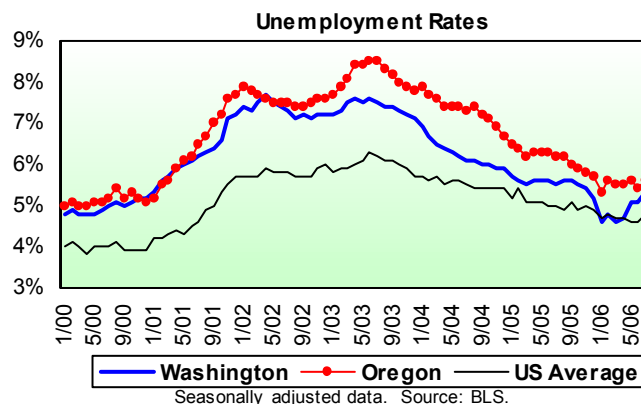
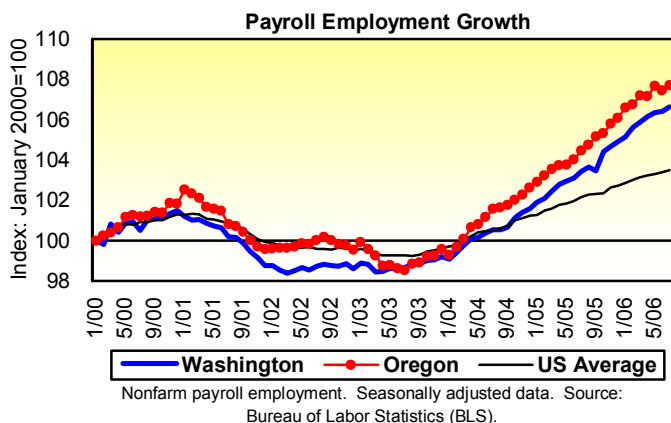
Even at these lower levels, both states enjoyed much stronger growth than the national average of 1.8%. At the same time, unemployment rates in Oregon and Washington remained higher than the U.S. average, which rose to 4.8% in July from 4.6% in June. (See the chart on the bottom right.)

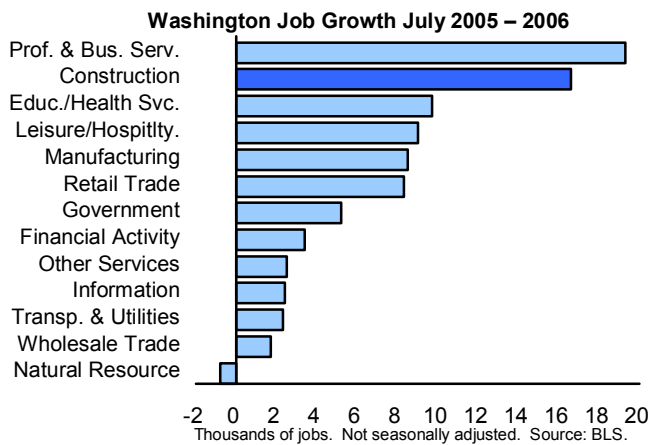
The seasonally adjusted July jobless rate in Oregon was 5.6%, down six-tenths of a percentage point from a year earlier. The July unemployment rate in Washington was 5.3%, only slightly lower than the 5.5% level in July 2005. Washington experienced a pronounced dip in unemployment during the first quarter, but returned to a level of over 5% in May. The jobless rate in Oregon, on the other hand, has fluctuated within a narrow range over the past several months.

#### The tech and building sectors affected metro job growth.

In the Pacific Northwest, a single metropolitan area in each state dominates employment statistics. The Portland Metropolitan Statistical Area (MSA) accounts for almost 60% of total payroll jobs in Oregon. Similarly, about 50% of payroll positions in Washington are concentrated in the metropolitan Seattle area.

During the recession earlier this decade, the economies of these employment centers cooled noticeably and growth shifted to the remaining areas of the two states. One obvious reason was a slowdown of the technology sector, which is located mostly in and around major urban centers. Another reason was greater construction activities occurring outside of the Seattle and Portland areas.





From 2001 through 2003, the Seattle area steadily lost construction jobs, while the rest of the state saw their numbers increase. As building activities finally picked up in Seattle in 2004 and 2005, the number of construction jobs there rose 3.2% and 7.6%; in the rest of Washington, the sector expanded at even faster rates: 6.8% and 8.3%. (The local data are not seasonally adjusted.)

The construction sector growth in Seattle has been strong in recent months, averaging 10.8% on a year-over-year basis between January and July, while the figure was 8.3% in the rest of the Evergreen State.

In Oregon, construction employment growth has been generally stronger outside of the Portland area since 2002. The housing boom in Oregon was more pronounced in communities such as Bend, Ashland, and Medford, and construction job growth remains stronger outside of the Portland MSA to this day—6.5% in July on a year-over-year basis in Portland; 13.4% in the rest of the state.

**Continued service sector growth is the key.**

There is little doubt that the housing boom was the major growth engine for the Pacific Northwest in recent years. While the housing markets in the region remain strong, the peak of the boom seems to have already passed.

In coming months, the manufacturing sector is expected to perform well, especially the transportation equipment sector, though higher energy prices and the national economic slowdown could limit its growth.

Far more certain—and perhaps more important—for the region might be the continued growth of its service jobs, including: professional and business services, leisure and hospitality, and education and health services. Fortunately, as the two charts above show, growth of these categories has been particularly robust.

*Keitaro Matsuda, Senior Economist  
Union Bank of California, NA*

**Economic Forecast – September 2006**

UNITED STATES	2004	2005	2006	2007
Real GDP Growth (%)	3.9	3.2	3.5	2.9
Unemployment (%)	5.5	5.1	4.7	4.8
Employment Growth (%)	1.1	1.5	1.4	1.0
CPI Change (%)	2.7	3.4	3.5	2.3
Federal Funds (%)	1.3	3.2	5.0	5.2
<b>OREGON</b>				
Employment Growth (%)	2.0	3.2	3.1	1.7
Personal Income Growth	5.6	6.5	5.7	5.4
<b>WASHINGTON</b>				
Employment Growth (%)	1.6	2.9	3.1	2.3
Personal Income Growth	7.9	2.4	6.3	6.0

**Bold: Actual.**

The information in this report is based on data available as of September 1, 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.