

Economic Update

Implications for Local Finance

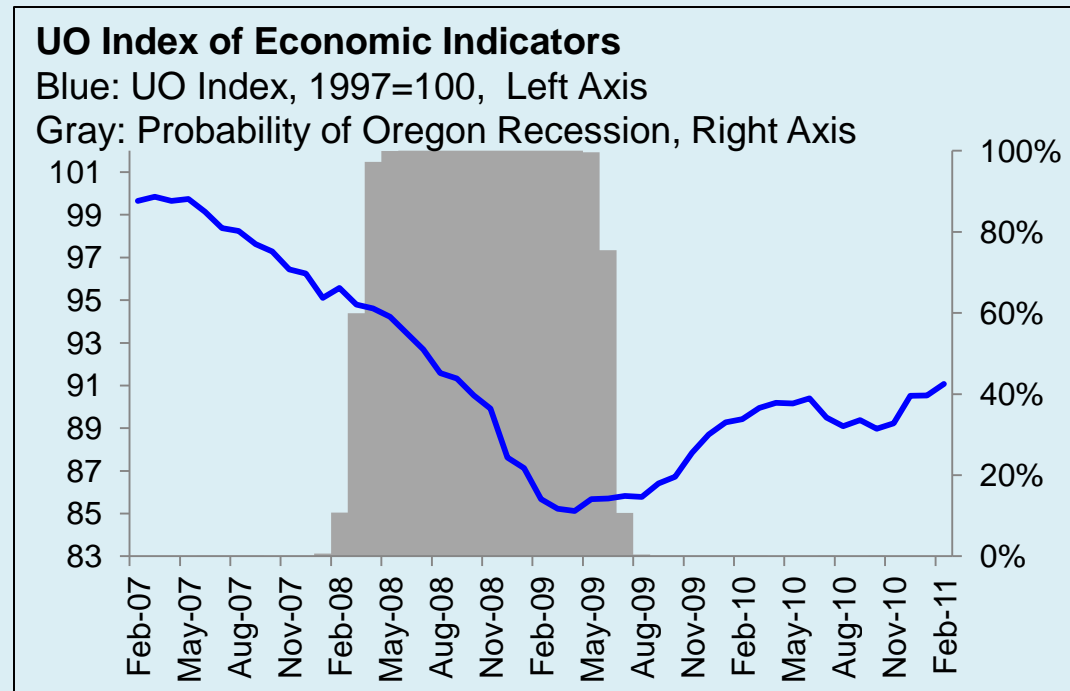
Prepared for the City of Salem
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Roadmap

- Status report on the US economy.
- What are the odds of recession?
- Status report on the Oregon economy.
- Would a recession be severe or mild?
- Would Oregon be hit worse?
- What is the status of the recovery in the Salem area?
- In light of the nature of the recovery, what should we expect from local revenue?

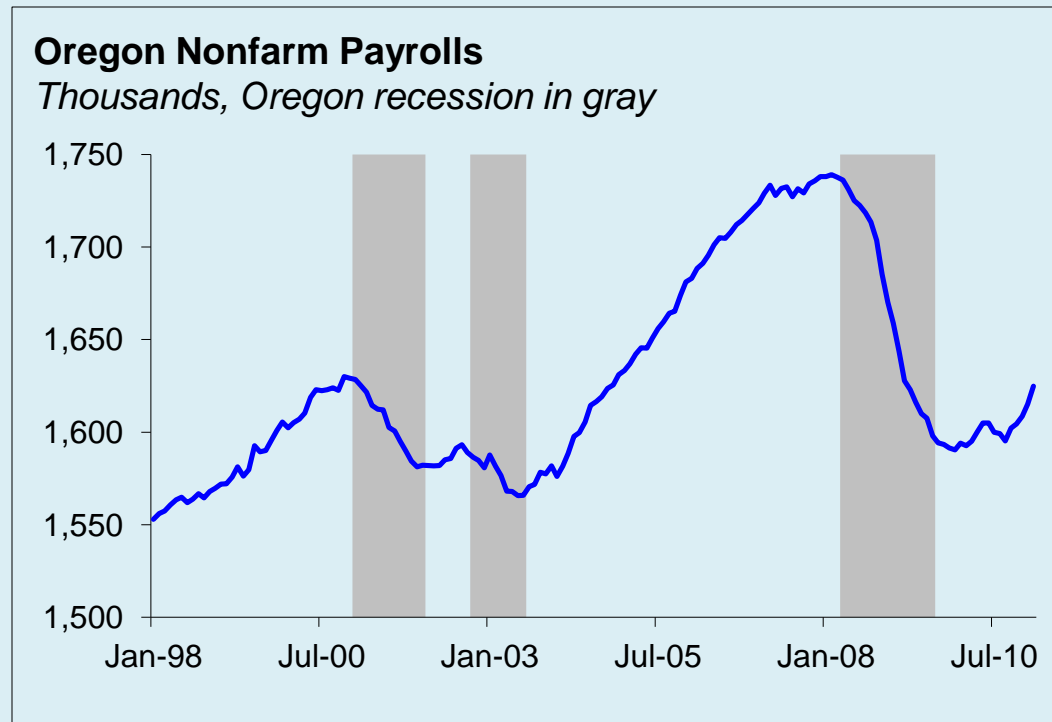
At the Beginning of 2011



Gray area is the probability of an Oregon recession.

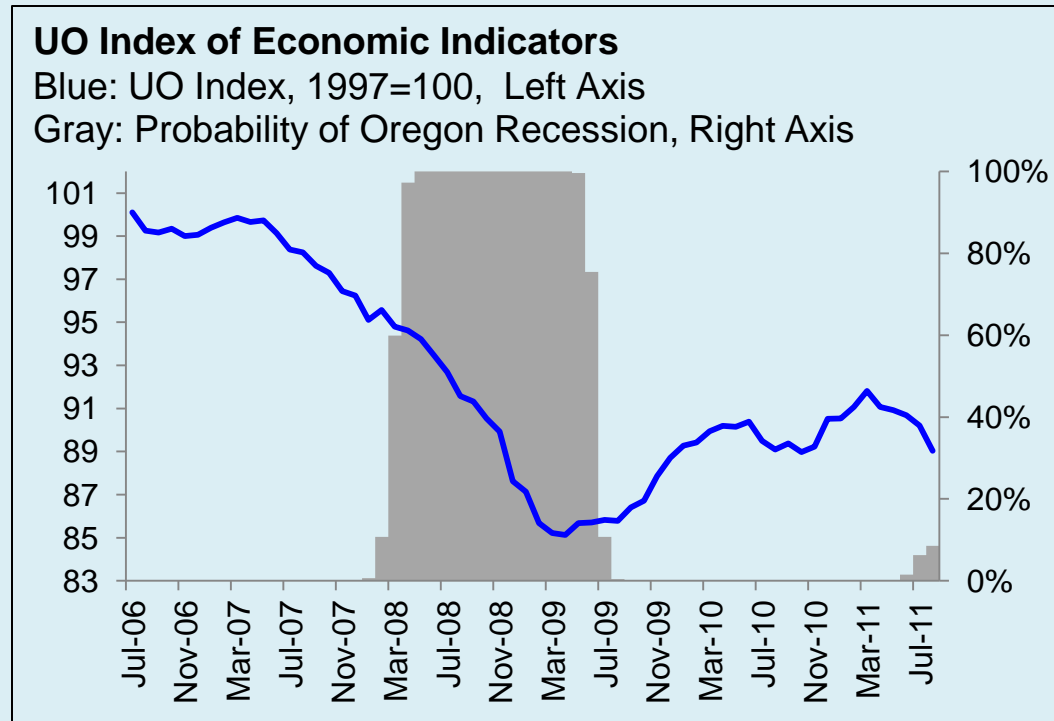
Line shows Oregon is out of recession but still below February 2007 level.

At the Beginning of 2011



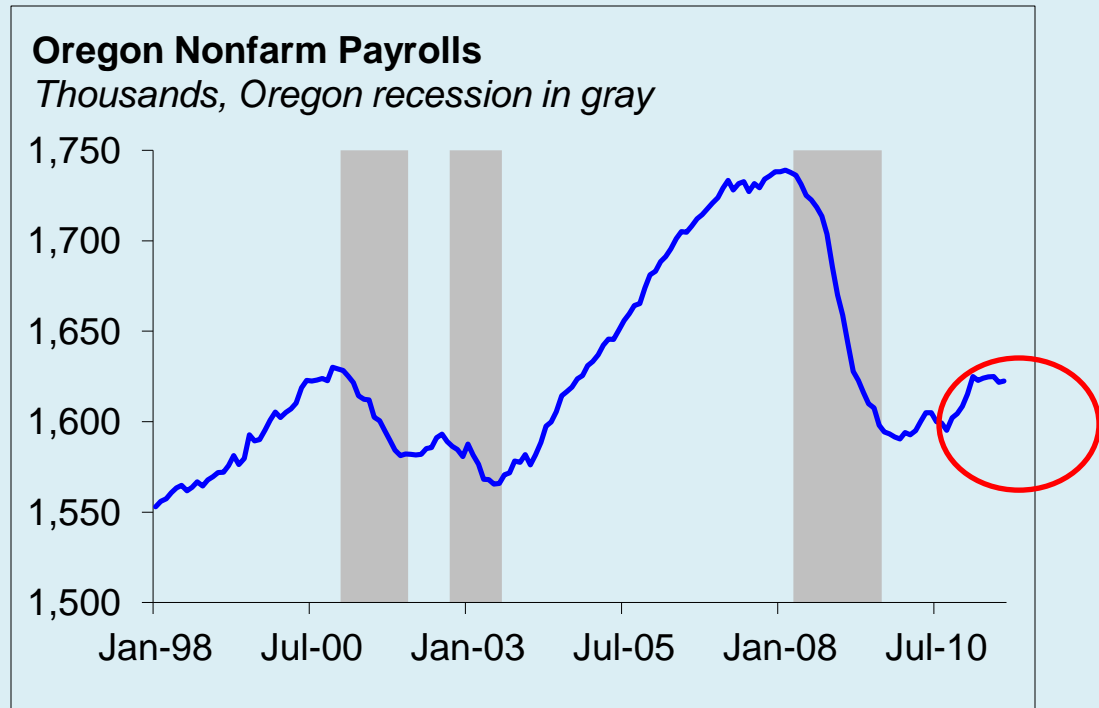
Gray area Oregon 2000 - 2001, 2002 - 2003, and 2008 - 2009 recessions. Nonfarm payrolls remain below pre-recession levels.

Now



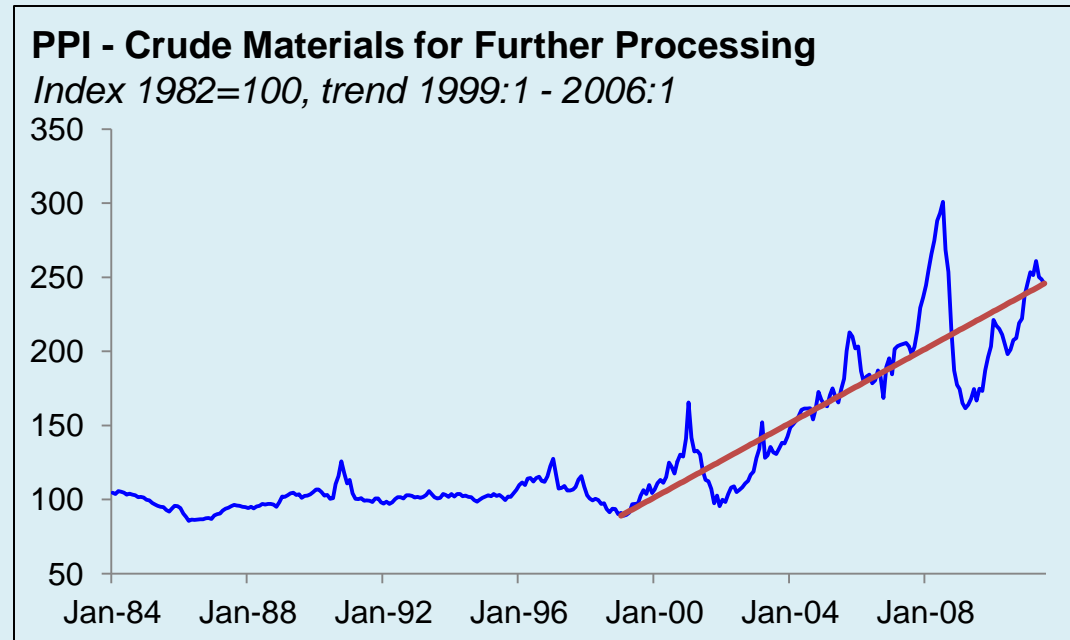
Gray area is the probability of an Oregon recession.
Latest data shows the possibility of another recession.

Now



Staying level or rolling over signaling the next recession?

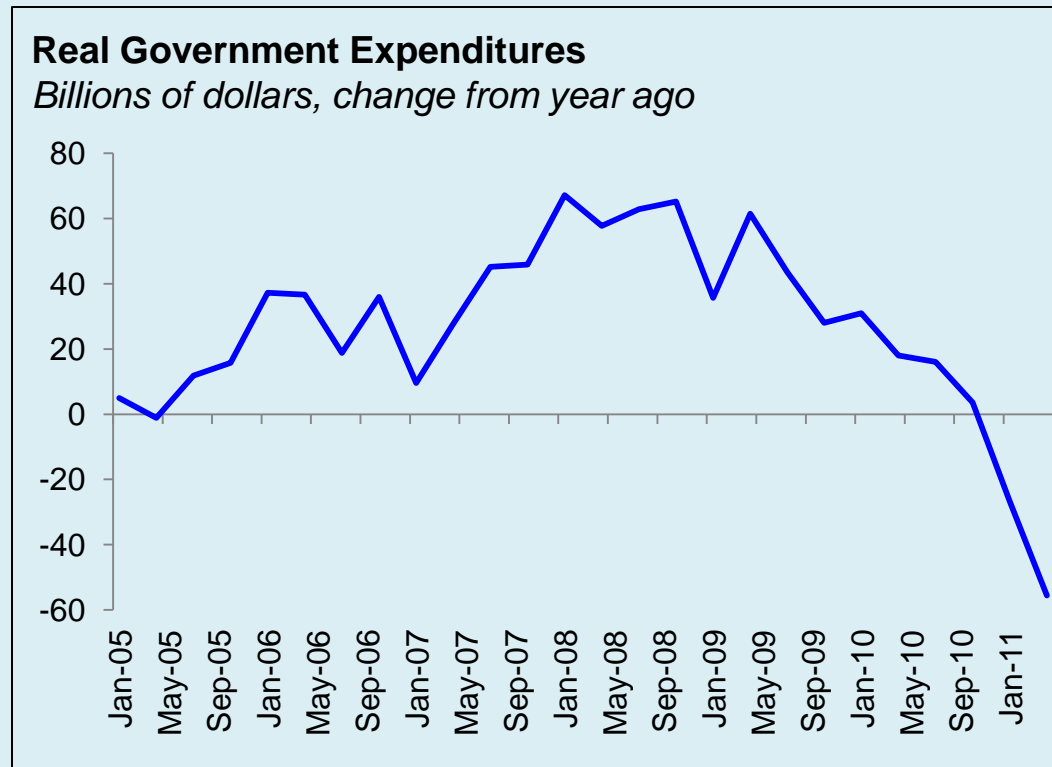
Commodity Shock



General price of raw materials, energy and oil increasing.

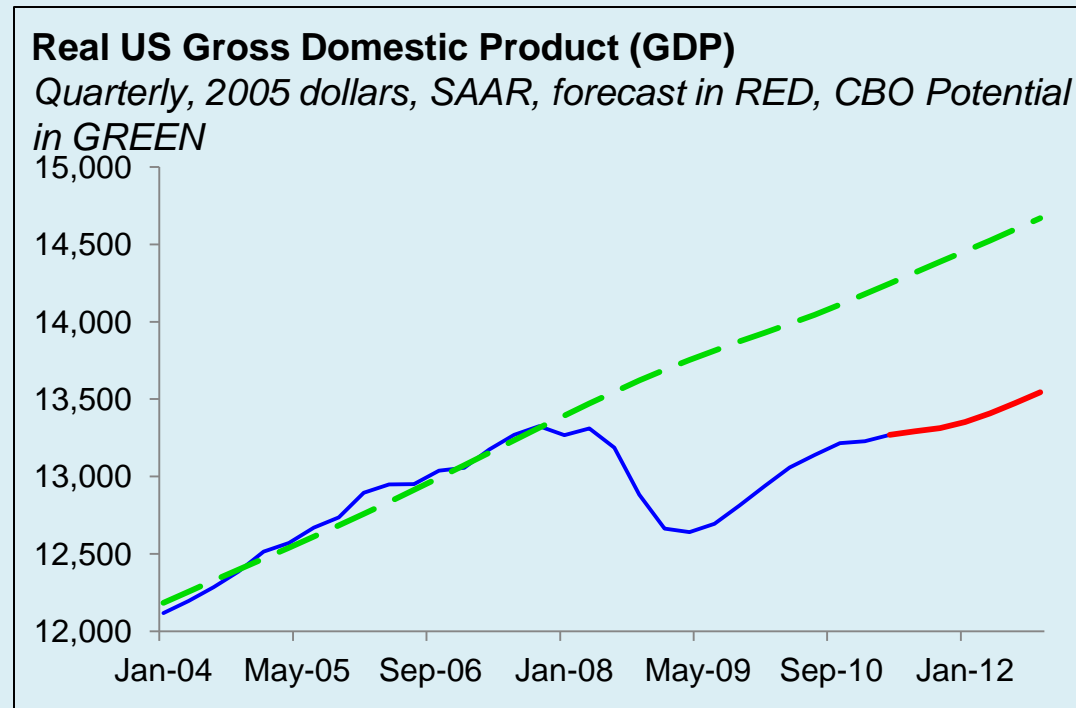
Recessionary periods reflect more volatility in cost and production of goods.

Fiscal Contraction



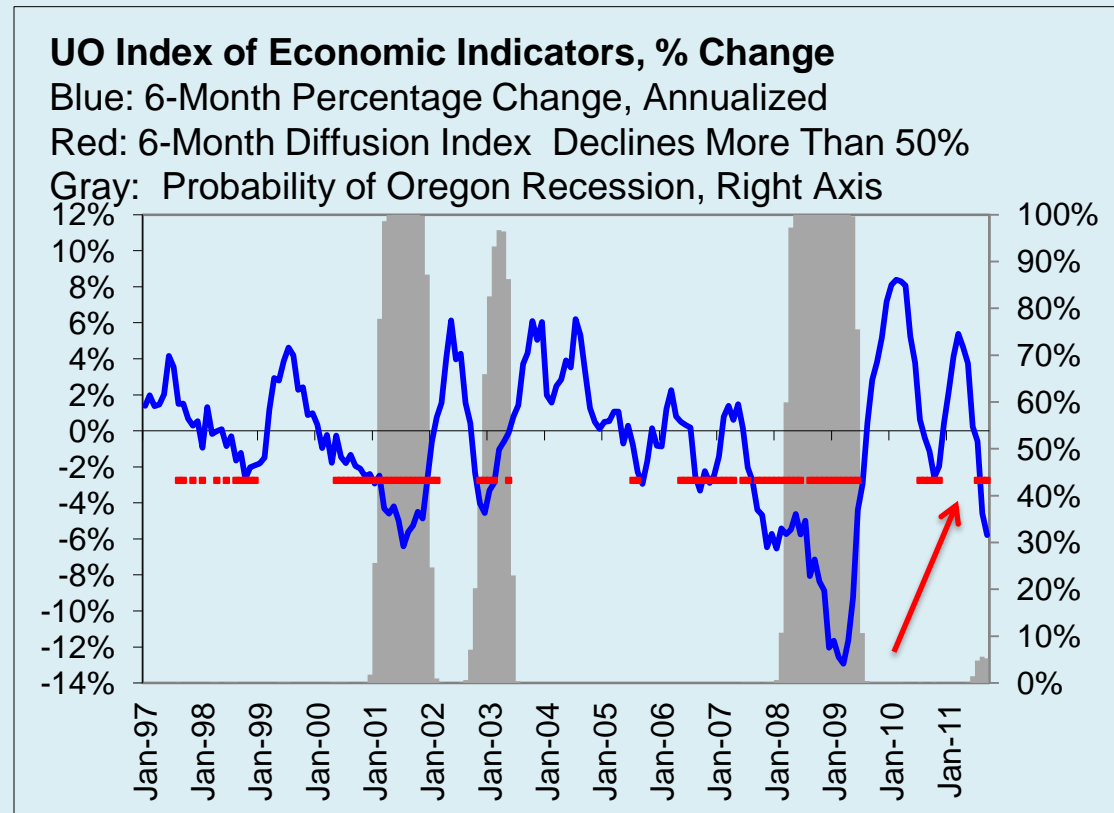
Changes in government spending from TARP, ARRA, and housing stimulus to contracting government and focusing on controlling inflation through yields on 10-year notes and quantitative easing.

Leaving Economy Below Potential



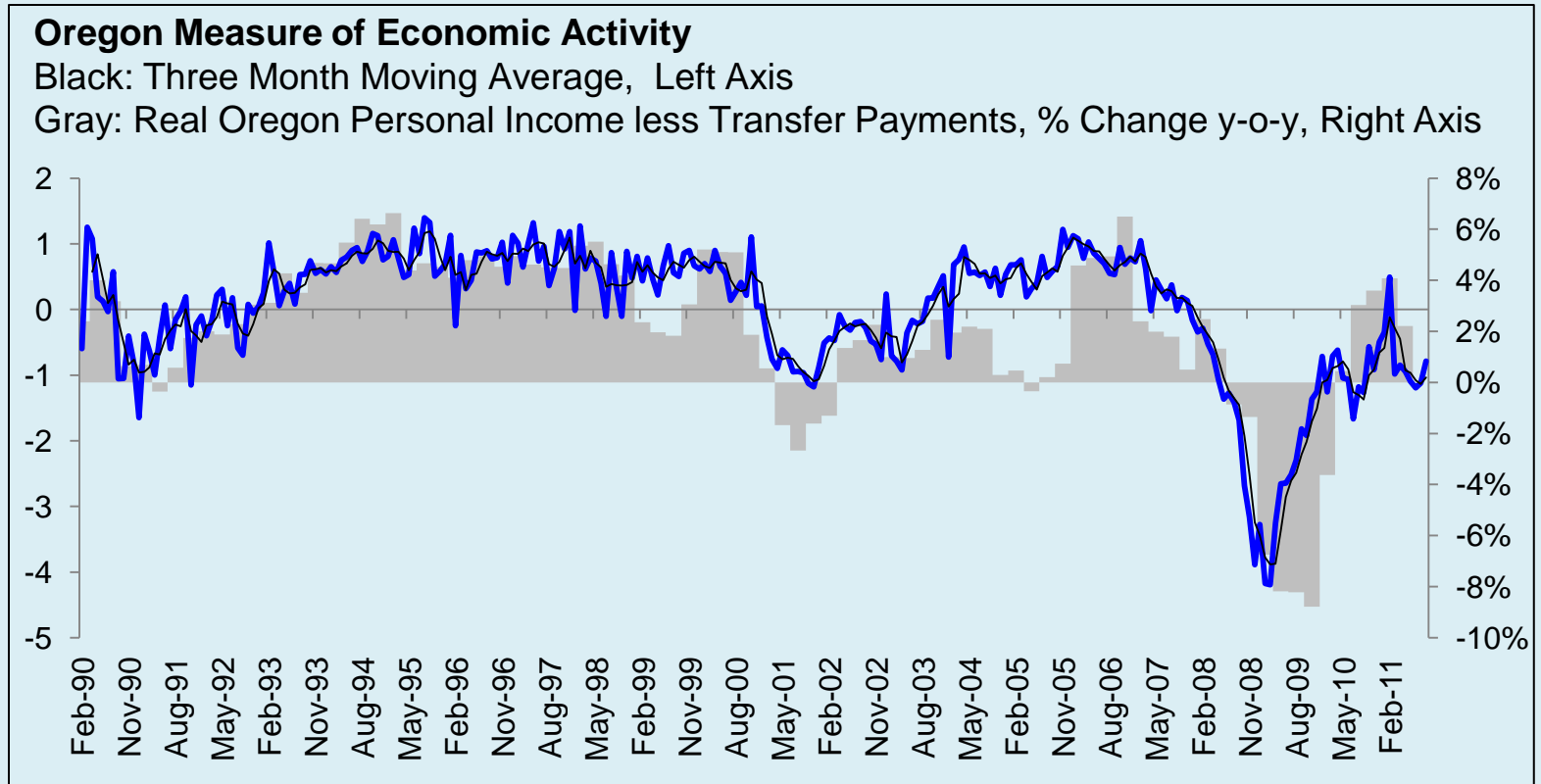
Has the GDP trend line been reset?

Recession Signal



As UO index of economic indicators passes -3% the probability of an Oregon recession increases.

New Oregon Measures



Changes to Oregon economic activity and its impact on real Oregon personal income growth.

Recession or Not?

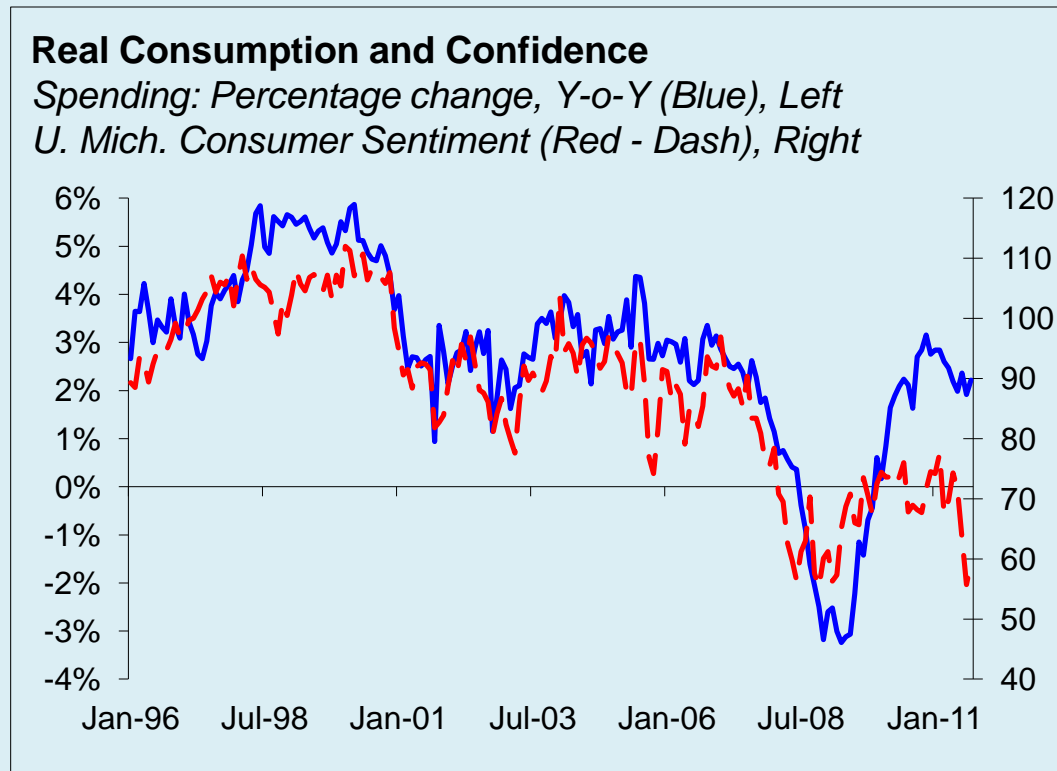
Odds are better than even – high enough that planning should include a recession scenario.

Recession scenario very dependent on the evolution of the European crisis and US fiscal policy.

If growth continues to bounce along a low rates, we will likely see repeated recession scares.

Implications for local finances: Continued stagnation of revenue. Possible decline as property values continue to slide and other sources of revenue erode.

Too Pessimistic?



Consumer spending increasing while consumer confidence is down.

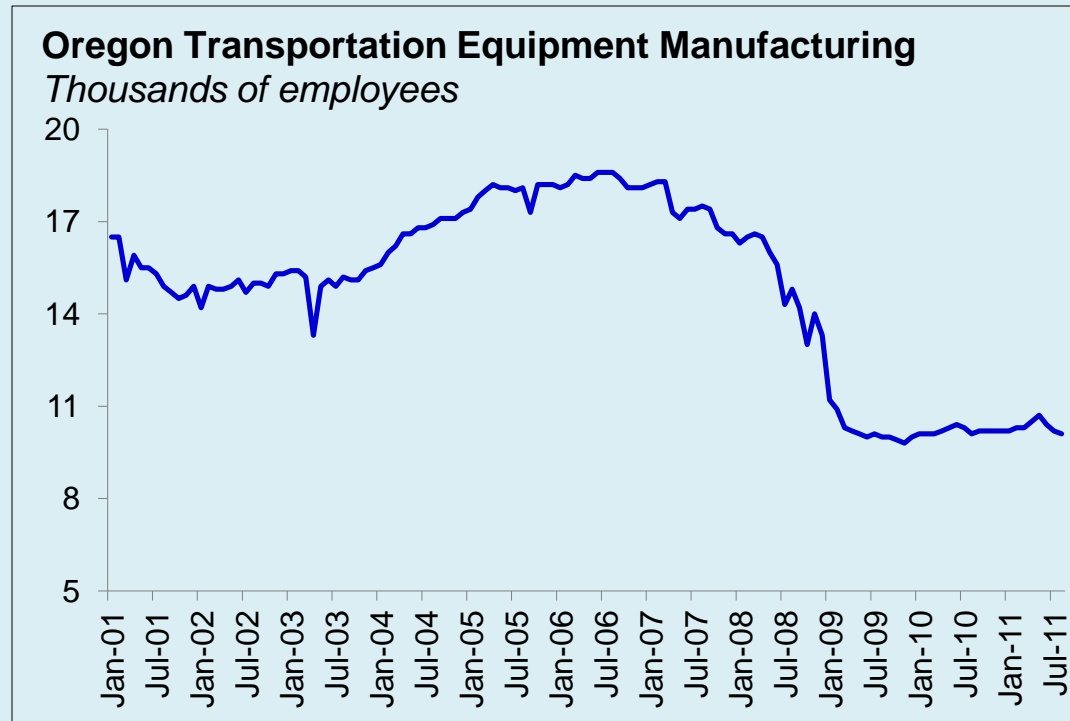
What Kind of Recession?

Would not be a repeat of the 2007-2008 recession.

Many traditionally cyclical industries still have not rebounded from the recession.

More similar to the 1990 recession.

RV Industry Devastated

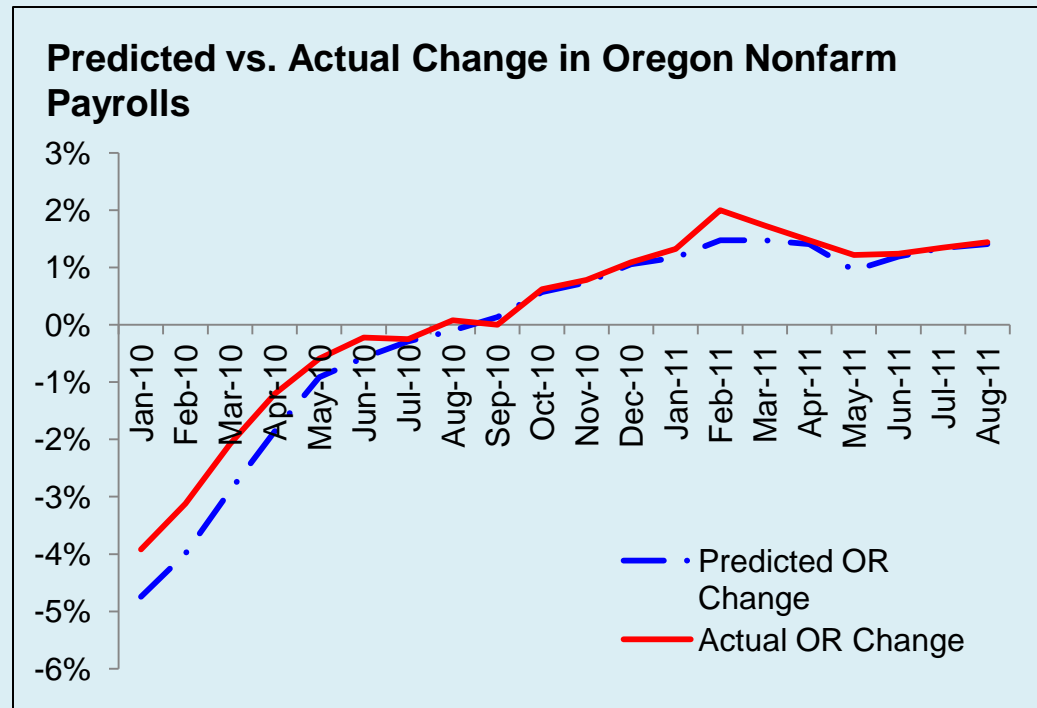


Job loss and reset for RV industry

Will Oregon Be Hit Worse?

Relative to the nation, yes. The experience of the last decade is that Oregon is very sensitive to the national cycle – and this relationship held during the most recent recovery.

Oregon and the Nation

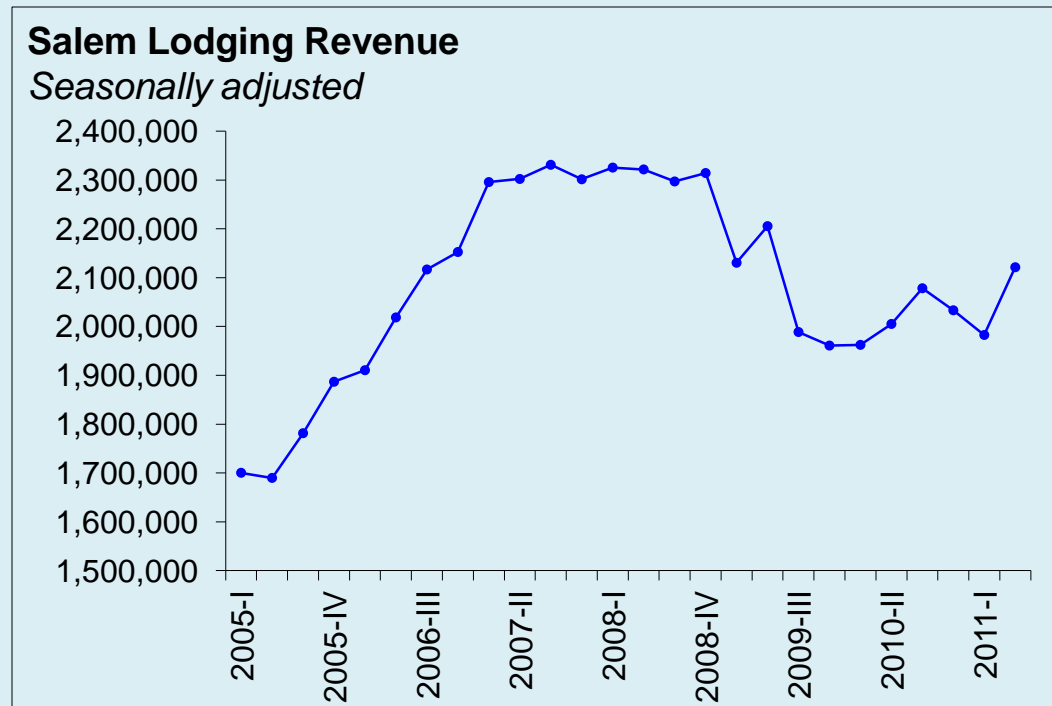


Oregon jobs correlation to changes in National jobs.

Oregon Summary

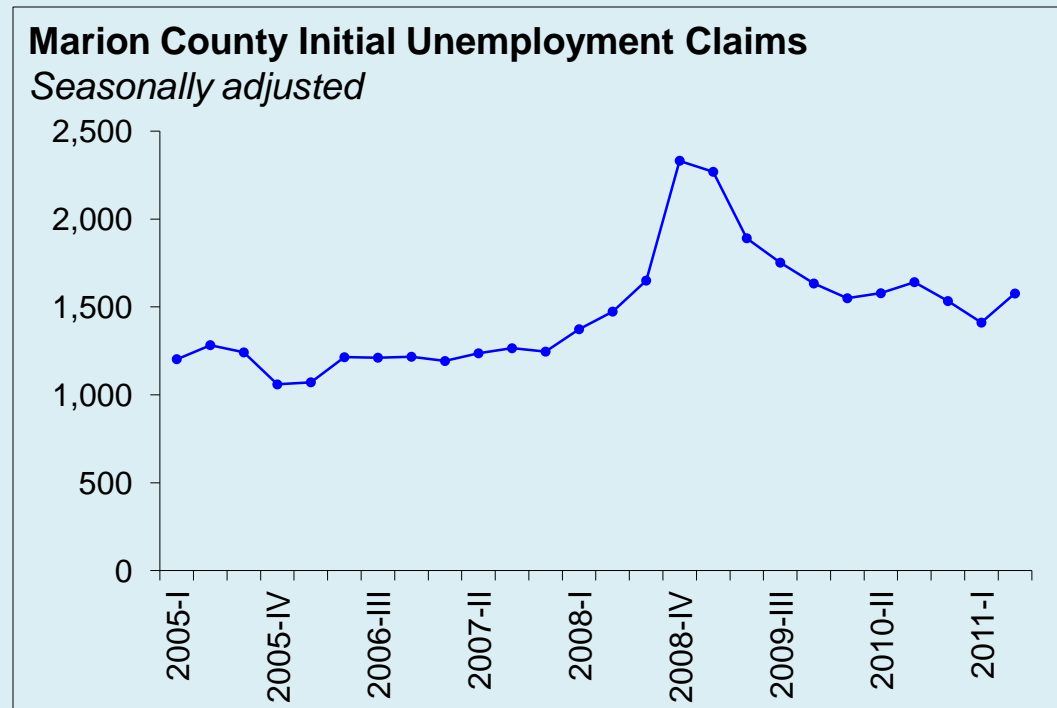
- State continues to grow at below average rate.
- Job gains stalling out.
- Recession not out of the picture.
- Suggests continued pressure on state revenues.

Salem Area Business Index



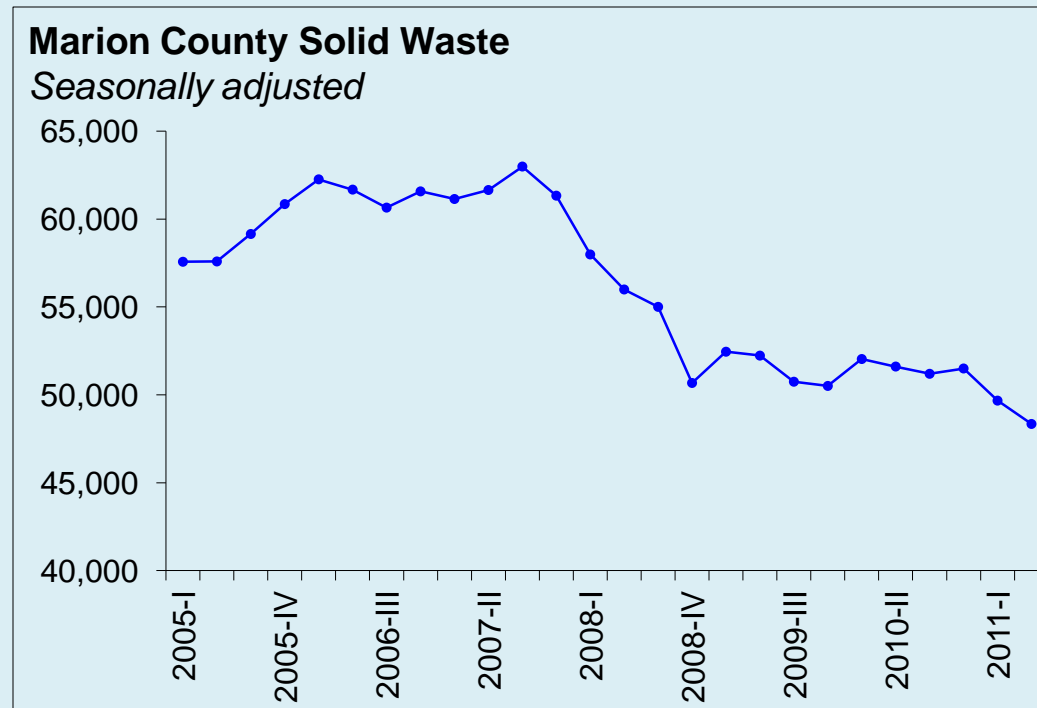
Salem area visitors (business and tourist), lodging may be recovering but not back to pre-recession levels.

Salem Area Business Index



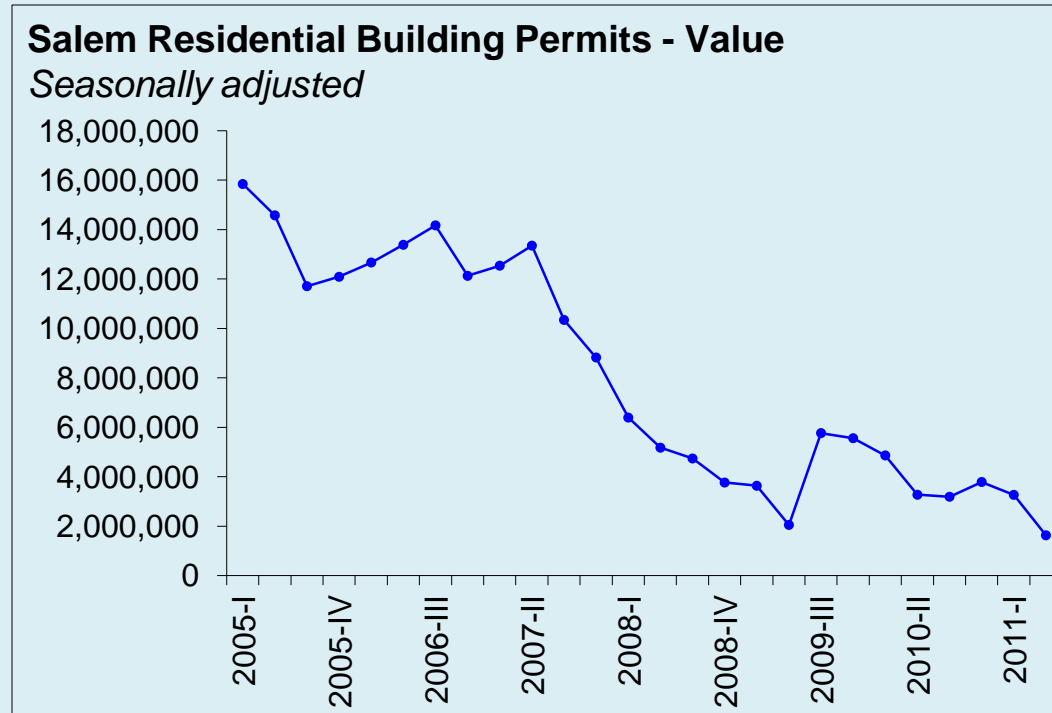
Marion County initial claims for unemployment by quarter, latest up tick due to reapplication for newly extended benefits.

Salem Area Business Index



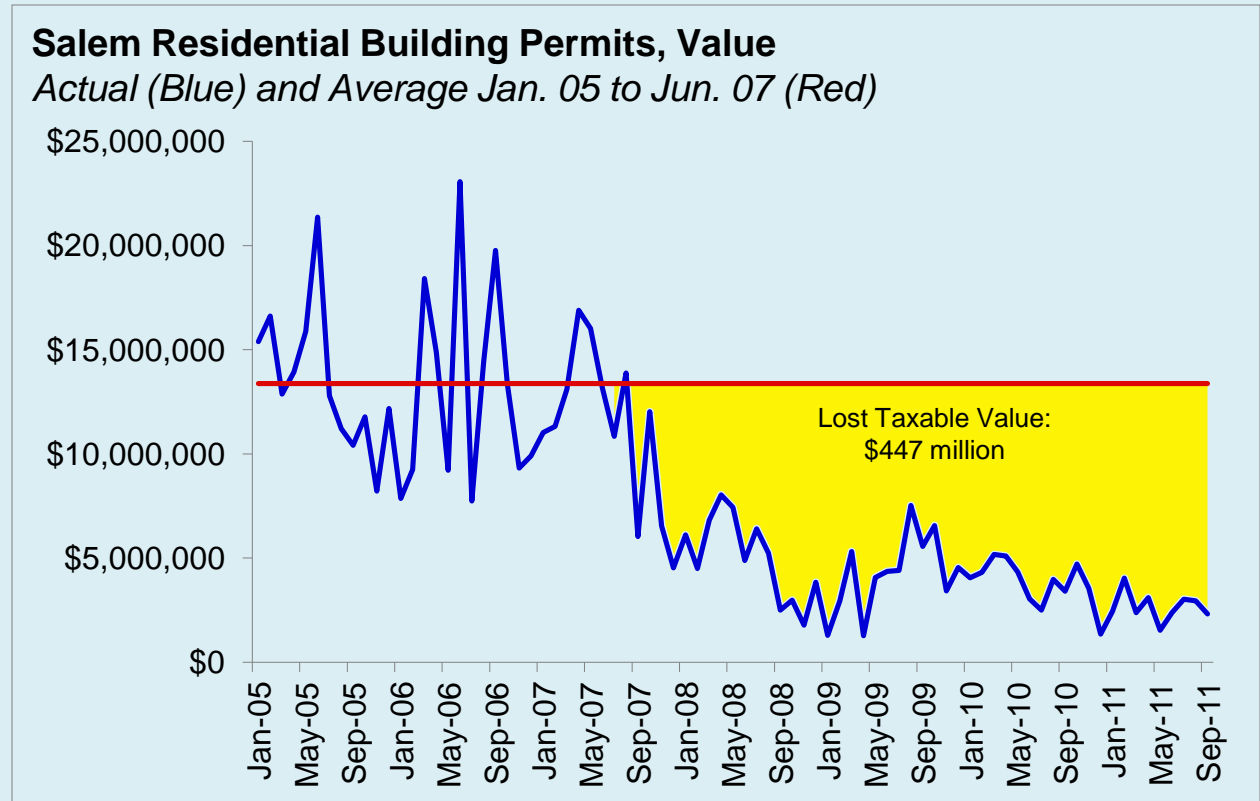
Reduction in construction activity reflected in Marion County solid waste.

Salem Area Business Index



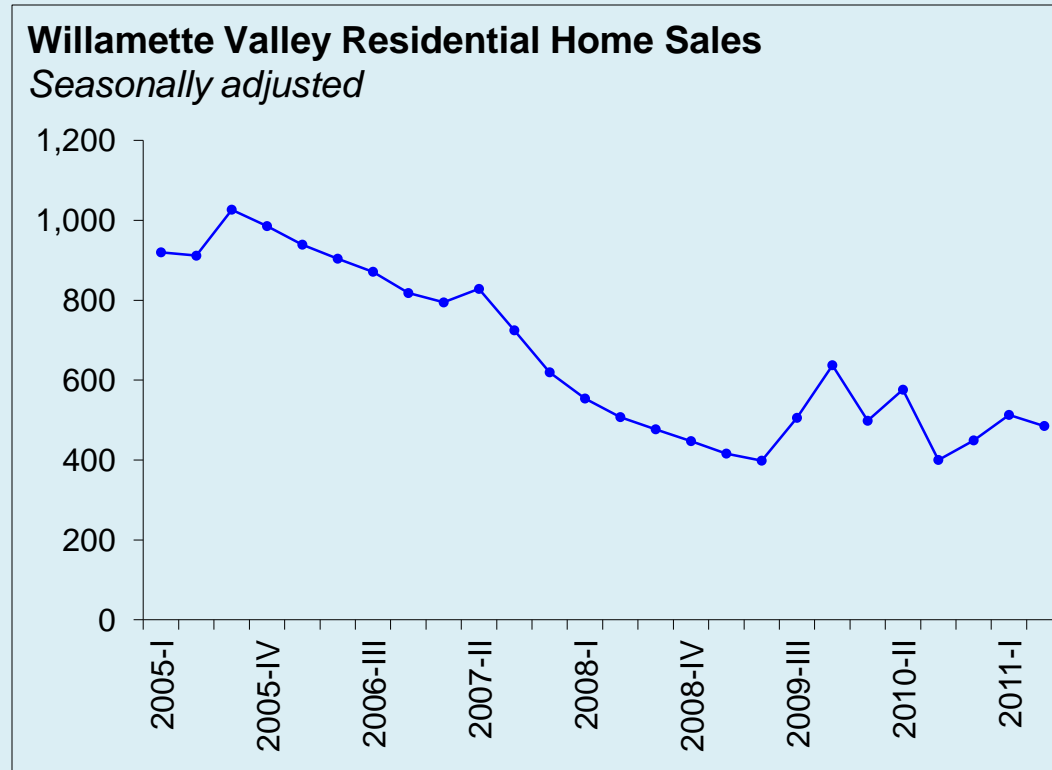
New home construction downward trend currently at 2008 lows.

Another example of reset....



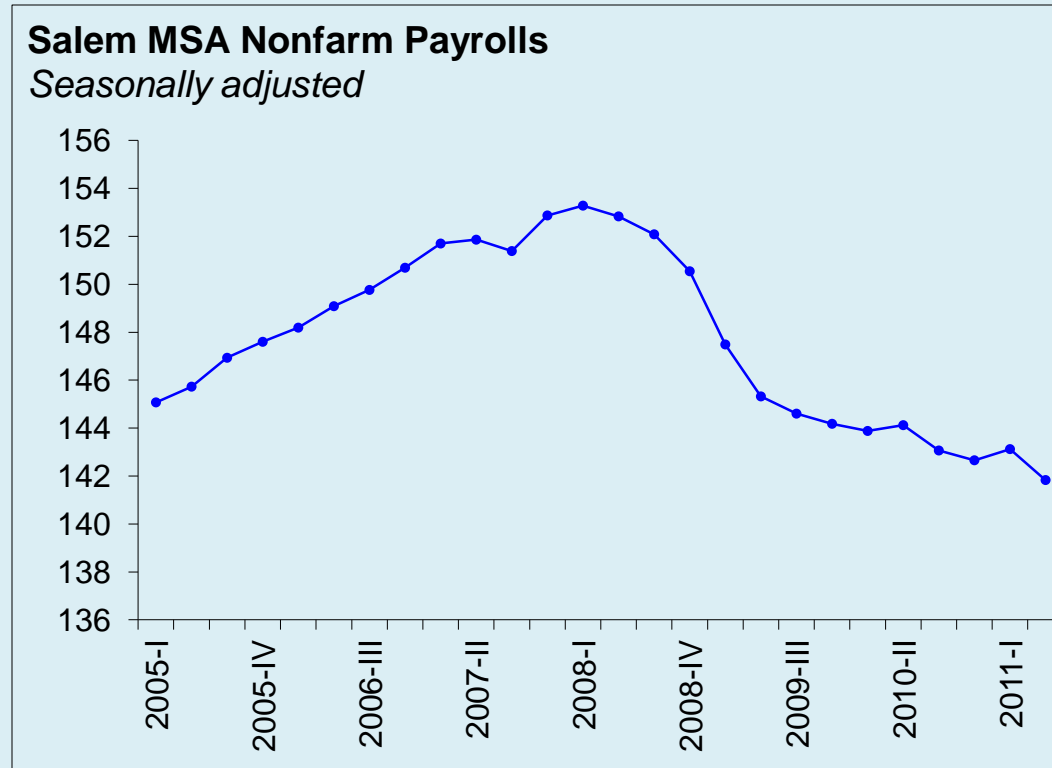
Salem construction has not recovered and has reset at a lower level.

Salem Area Business Index



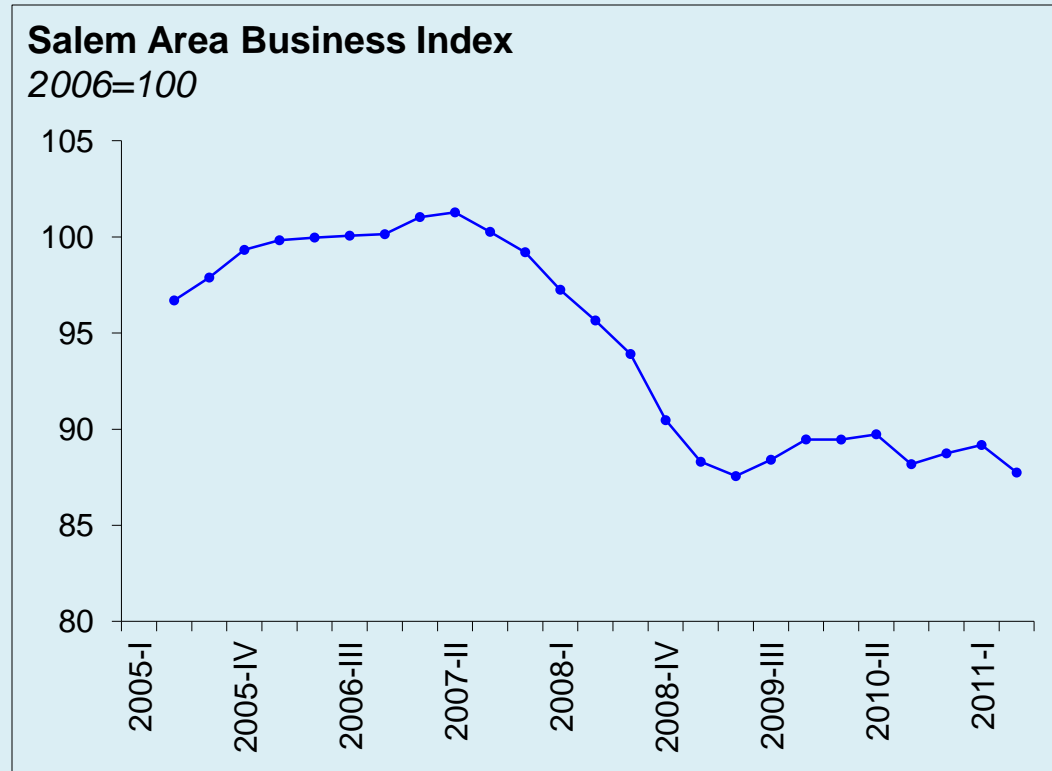
Salem area home sales still in a downward to sideways trend.

Salem Area Business Index



Salem area job growth 2005 – 2011.

Salem Area Business Index



Salem's economic recovery is trending sideways at the new lower levels.

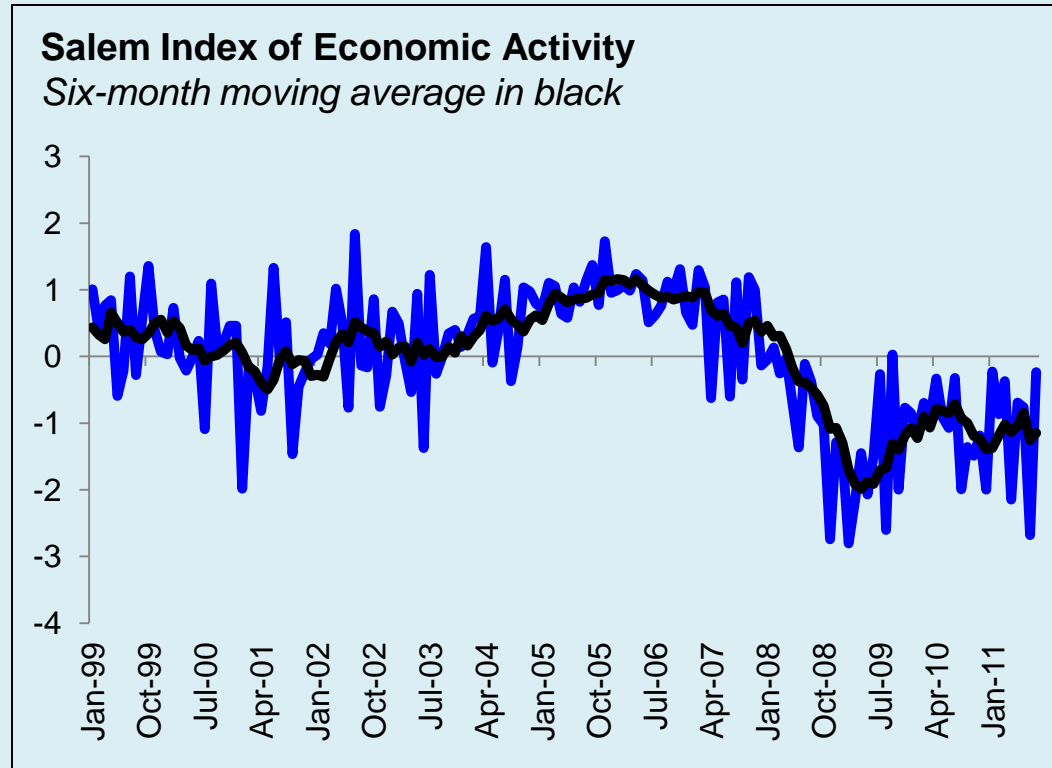
Salem Area Business Index

The recession drew to a close in 2009.

But the recovery has been disappointingly slow.

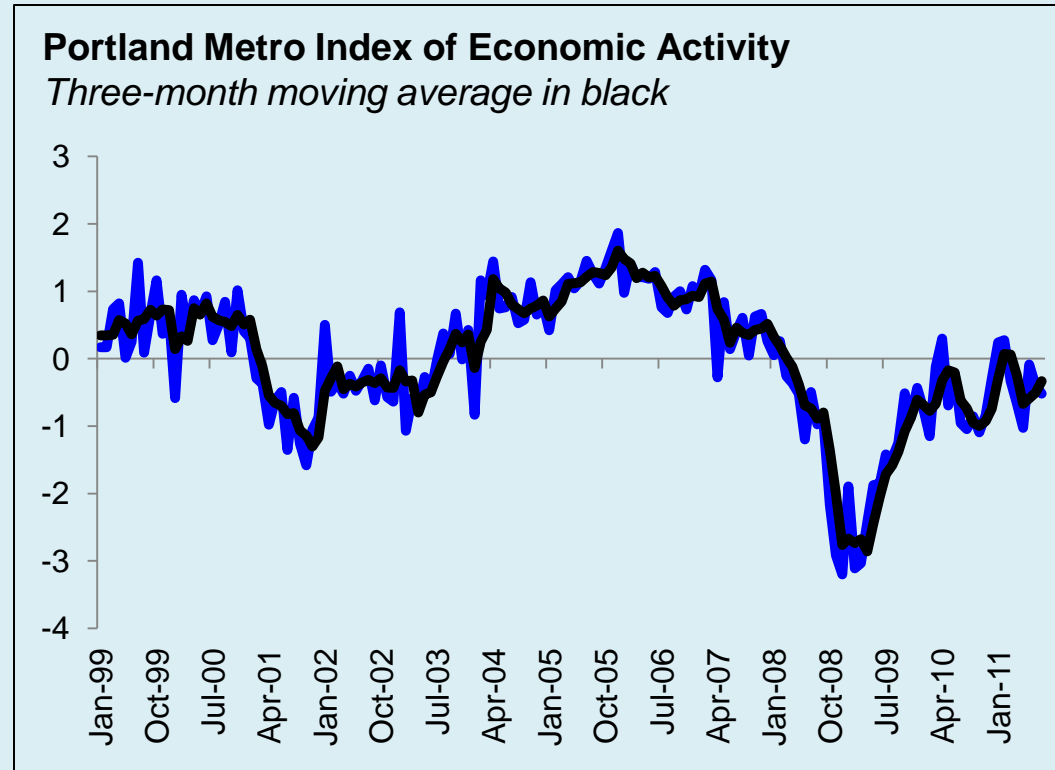
How does Salem area compare to other metropolitan area?

Salem



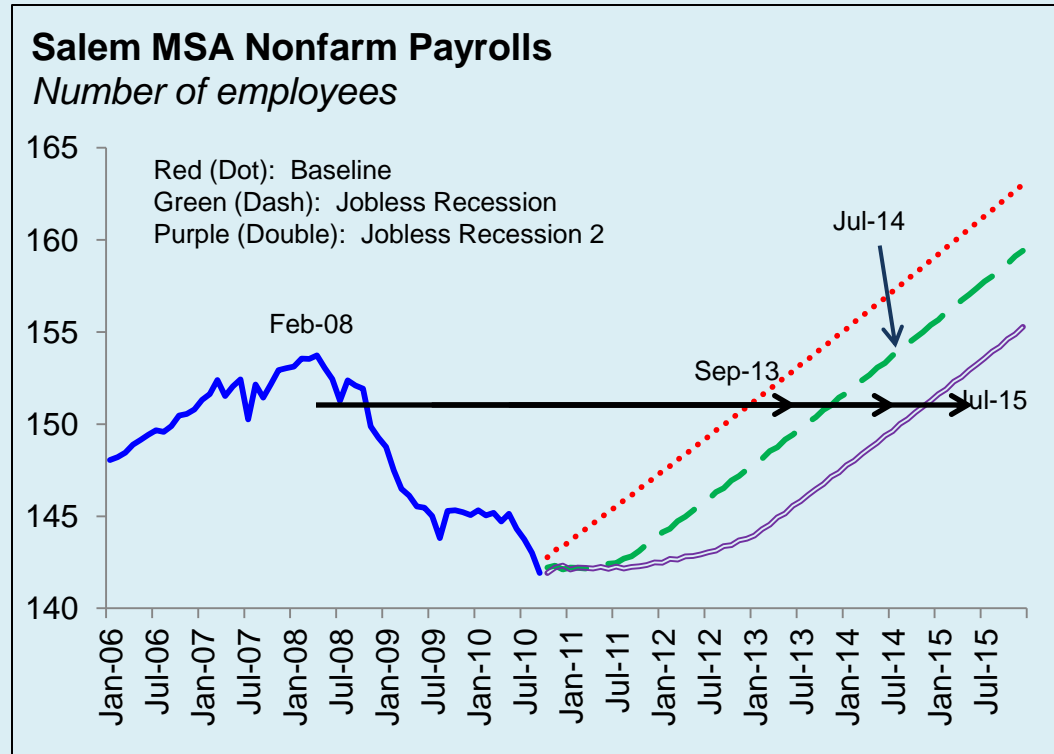
Salem's economic activity is below average since the 2008 recession and is now trending sideways indicating a possible new level of normal activity or reset.

Portland



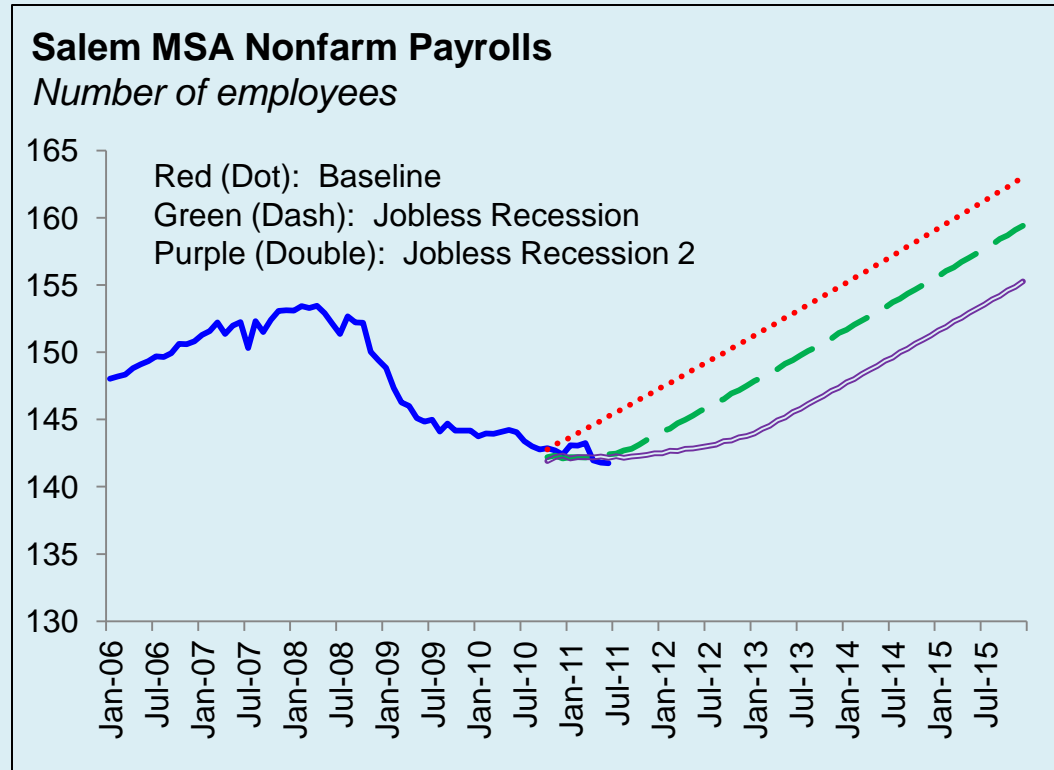
Portland's economic activity is nearer to zero or previously average levels as job growth occurs quicker in larger metropolitan areas.

Salem Payrolls



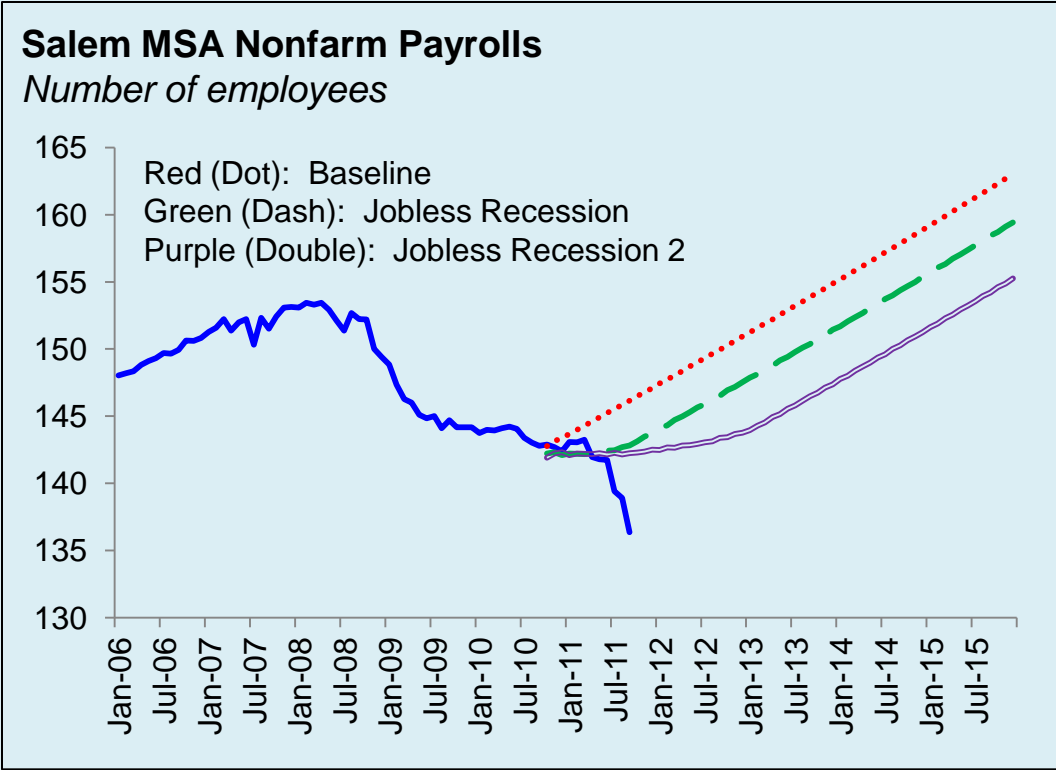
When will Salem Area Jobs Come Back?
Originally presented in 2010.

Salem Payroll Through June....



Jobless economic recovery will take time return an upward trend.

What!!????!!



Latest jobs data appears to be flawed.

Is The Data Accurate?

| | Sep-11 | Sep-10 | Change | % Change |
|-------------------------|---------------|---------------|---------------|----------------|
| <u>Government</u> | <u>37,900</u> | <u>41,600</u> | <u>-3,700</u> | <u>-8.90%</u> |
| Federal government | 1,600 | 1,600 | 0 | 0.00% |
| <u>State government</u> | <u>21,000</u> | <u>21,200</u> | <u>-200</u> | <u>-0.90%</u> |
| State education | 2,000 | 1,700 | 300 | 17.60% |
| <u>Local government</u> | <u>15,300</u> | <u>18,800</u> | <u>-3,500</u> | <u>-18.60%</u> |
| Indian tribal | 1,700 | 1,800 | -100 | -5.60% |
| Local education | 7,000 | 10,400 | -3,400 | -32.70% |

Is The Data Accurate?

| | Sep-11 | Sep-10 | Change | % Change |
|-------------------------|---------------|---------------|---------------|----------------|
| <u>Manufacturing</u> | <u>12,000</u> | <u>13,800</u> | <u>-1,800</u> | <u>-13.00%</u> |
| Durable goods | 5,100 | 5,100 | 0 | 0.00% |
| <u>Nondurable goods</u> | <u>6,900</u> | <u>8,700</u> | <u>-1,800</u> | <u>-20.70%</u> |
| Food manufacturing | 4,700 | 6,600 | -1,900 | -28.80% |

Salem

Through June 2011, nonfarm payrolls had been consistent with a “jobless” recovery.

But, nonfarm payrolls dropped sharply in the next three months!

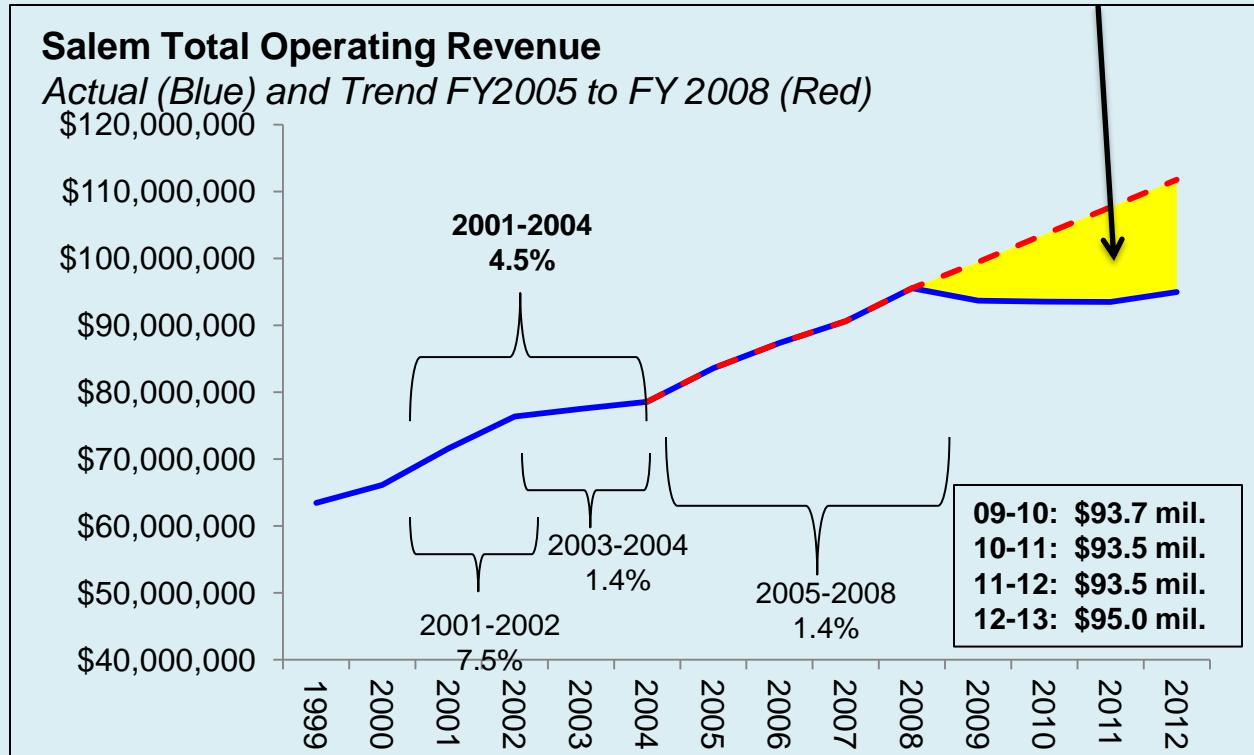
Drop is suspicious, likely the result of poor data collection.

Conclusion: Until we can clarify, best to assume extended jobless recession scenario continues.

Suggests continued stagnation in local revenues.

Salem

**Cumulative
Shortfall:
\$47 million!**



City of Salem General Fund current revenue trend has changed.

Implications – Reiterated

Last year's story still holds...

Considering that a return to precession spending plans looks unlikely given current forecasts, resolving the resulting financing gap requires a combination of:

- Reducing the path of spending growth, via a combination of cutting programs, finding efficiencies in existing programs, and controlling compensation cost growth.
- Limit the creation of new programs.
- Increase revenue via additional fees.