



2010

a check-up on the
PORTLAND-REGION'S ECONOMIC HEALTH

Vision Statement

Portland-metro* is Oregon's largest community, and its economic health impacts the economy of the entire state. Because of its central role, the five organizations sponsoring this report decided to take a careful look at the health of the Portland economy in a number of studies to identify the region's strengths and weaknesses. This report contains the findings of the first of those studies.

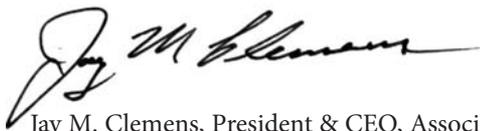
Portland-metro has many economic assets: a strategic location on the Pacific Rim, a robust transportation system, a relatively low cost of living and a quality of life that is attractive to young, well educated individuals. Over the past four decades, however, **Portland-metro's economic performance has not kept pace with a number of its peers across the nation**, and the differences have become most stark over the last decade. For example, where we were once virtually an economic twin to Seattle, our falling incomes now make us more like Pittsburgh and Cleveland.

The region's per capita income has declined relative to peer regions, and private-sector jobs have disappeared in some areas. These declines impact the financial well-being of the region's families. Further, it limits funding for important public programs like schools and human services. Our quality of life ultimately depends on our ability to provide public services funded through taxes on income. If incomes decline and jobs are lost, quality of life will also decline.

This report is a call to action for all Oregonians. We must recognize that our valued quality of life will erode if the



Sandra McDonough, President & CEO, Portland Business Alliance



Jay M. Clemens, President & CEO, Associated Oregon Industries



Duncan Wyse, President, Oregon Business Council

region's economy does not support healthy family incomes, quality schools and key public services. **It is time to make private-sector job creation our immediate and top priority.**

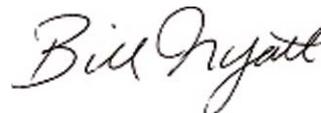
It would be tempting to conclude that the concerns identified in this report are the result of the national financial downturn. That would be incorrect. In fact, **the economic challenges facing Portland-metro have been building for more than a decade.**

In the 1990s Portland-metro was experiencing significant economic growth and capital investment. Jobs were growing so quickly that some local jurisdictions signaled that they couldn't accommodate more. But in the late-1990s the region's wages and income declined relative to peers like Denver, Minneapolis and Seattle. **What happened, and how do we fix it?**

Oregon and Portland-metro have shown that we can adopt a bold, nation-leading vision and then bring it to reality. We've built a world-class public transportation network and created a visionary land-use system. Now we need to focus that innovative ability on the economic crisis facing our region and what is needed to **retain the private-sector jobs we currently have and create new jobs** through growth of existing firms and recruitment of new ones.

Through this report, we hope to start a conversation among public and private leaders to map a course through this crisis. It will take all of us to create an economically healthy region.

Now is the time to start the work.



Bill Wyatt, Executive Director, Port of Portland



Ryan Deckert, President, Oregon Business Association

* Portland-metro, Seattle-metro, Denver-metro and Minneapolis-metro refer to the Metropolitan Statistical Areas of Portland-Vancouver-Hillsboro, OR-WA MSA, Seattle-Bellevue-Everett MSA, Denver-Aurora MSA, and Minneapolis-St. Paul-Bloomington MSA respectively unless otherwise noted. This report looks at a wide array of data to analyze the economic performance of the Portland metropolitan region. Using an array of data gives us the broadest possible base from which to draw conclusions. For a thorough discussion of the various databases used in this report, please see the full report at www.valueofjobs.com.

BY THE NUMBERS:

198th out of 199.

Ranking of Multnomah County in private-sector job creation out of the 194 counties and 5 multi-county areas in the five Western* states from 1997 to 2009.

26,463.

Number of private-sector jobs lost in Multnomah County from 1997 to 2009.

16% to 21%.

Amount by which per capita income in Seattle, Denver and Minneapolis metros exceeds Portland-metro.

\$86.8 million.

Amount of additional funding that would be available to Multnomah County schools each year if Portland-metro had the same per capita income as Seattle-metro.

25%, 15% & 9%.

Percent by which Portland-metro residents' per capita interest, dividend and rent income lagged those of Seattle, Minneapolis and Denver-metros' respectively in 2008.

66%.

Percent of net job creation in Oregon from small businesses between 1977 and 2005.

44th.

Oregon's college affordability rank out of 50 states.

29th & 26th.

Oregon's rank in the *U.S. News* ranking of college undergraduate and graduate programs respectively, out of 50 states.

* Includes Oregon, Washington, Idaho, Nevada and California.

Key Facts

- ▶ Multnomah County has **lost 26,463 private-sector jobs** since 1997. It ranks **second to the bottom** in job creation among 194 counties and 5 multi-county areas in the West* over the last decade.
- ▶ Portland-metro residents have lower wages and incomes than residents of peer regions. Because Oregon is an income-tax dependent state this means **fewer resources for schools, law enforcement and other important public services.**
- ▶ Forty years ago Portland-metro wages and incomes looked more like our peer regions, but since then our peers have steadily outperformed the region's economy. Today, our **average incomes are 16 to 21 percent lower** than those of our peers.
- ▶ In the 1990s, the growing gap between Portland-metro's economic fortunes and its peers widened significantly. **Private-sector job growth stalled after 1997 and has declined since 2000.** Meanwhile, our peer regions have been more resilient, replacing jobs and wages lost in the late 1990s' recession with new firms and industries, especially knowledge-based industries like software and professional services.
- ▶ The Portland-metro area does not notably out-perform our peers on "compensating" characteristics such as cost of living or quality of life. **Our peers are achieving high quality of life AND higher wages and incomes.**
- ▶ The region has characteristics that bode well for future economic growth such as a relatively low cost of living compared to other west coast cities; strategic position on the Pacific Rim; transportation infrastructure; a strong entrepreneurial and small business climate, and a healthy international trade sector. But those characteristics alone do not constitute a successful economic strategy.

What the numbers show

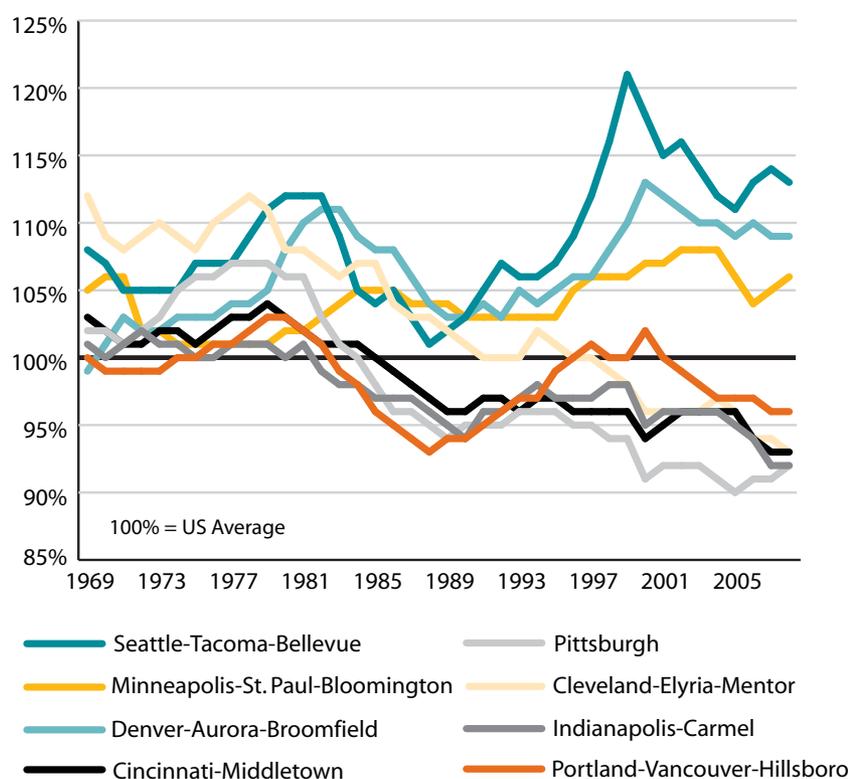
Portland-metro vs. peer metros

This study compares Portland-metro to three other major metropolitan areas: Seattle, Denver and Minneapolis. These three regions were selected because they frequently serve as benchmarks for Portland-metro on a variety of metrics. In the early 1970s, Portland's per capita income compared favorably to these peer regions. Today, we look markedly different. There is no one reason that fully explains the differences between the economies of Portland-metro and our peers; however, the following analysis paints a picture of the relative strengths of the four economic regions.

Wages

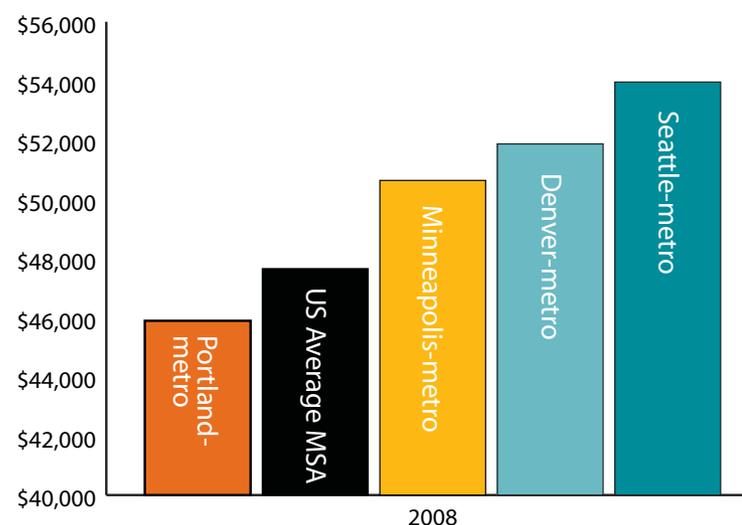
The ECONorthwest analysis shows that in the early 1970s Portland-metro's wages were similar to those in Seattle, Denver and Minneapolis metros. But since then the metro areas have diverged on average wages. Today Portland-metro wages are 4 percent below the national average for all metropolitan areas, 10 percent below Minneapolis-metro, 13 percent below Denver-metro and 17 percent below Seattle-metro. Currently, Portland-metro wages are more like Cleveland, Pittsburgh and Indianapolis metros than they are like Seattle, Denver, or Minneapolis metros.

Average wage by select US Metro areas, 1969-2008



Source: ECONorthwest analysis in terms of MSA wages versus USA MSA average from the Bureau of Economic Affairs.

Average wages and salaries



Source: MSA wages from Bureau of Economic Affairs data.



Why compare Portland-metro to these other metro areas?

Seattle, Denver and Minneapolis are common cities for Portland to benchmark against for livability, transportation systems and economic development. All of the cities have exchanged "best practices" visits with Portland for benchmarking purposes. Our falling incomes now make us more like Pittsburgh or Cleveland, as illustrated in the graph above.

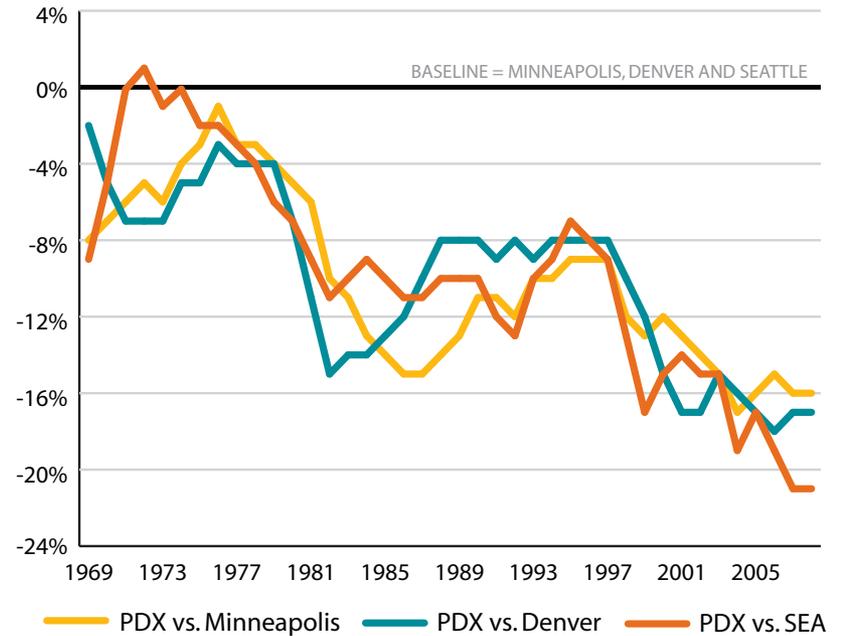
Per Capita Income

Since the 1970s, Portland-metro's per capita income has been declining relative to peers and since 2007 has fallen below the national average. Portland-metro is 21 percent behind Seattle-metro on per capita income, a \$10,000 per year difference. Per capita income in Denver and Minneapolis-metros are both more than 16 percent higher than Portland-metro.

Investment Income

Wages are an important component of per capita income. But investment income is also a significant source of income, including taxable income that supports public services. Portland-metro residents reported 9 percent less per capita investment income than Denver-metro residents, 15 percent less than Minneapolis-metro residents and 25 percent less than Seattle-metro residents. Had investment income kept pace with Seattle-metro over the last 10 years, total personal income in Portland-metro would have been nearly \$6.4 billion higher in 2008. Investment income is important not only for providing more resources for public services, but also for seed money for start-ups and other entrepreneurial activity, which spurs more economic growth.

Percent difference in per capita income, 1969-2008

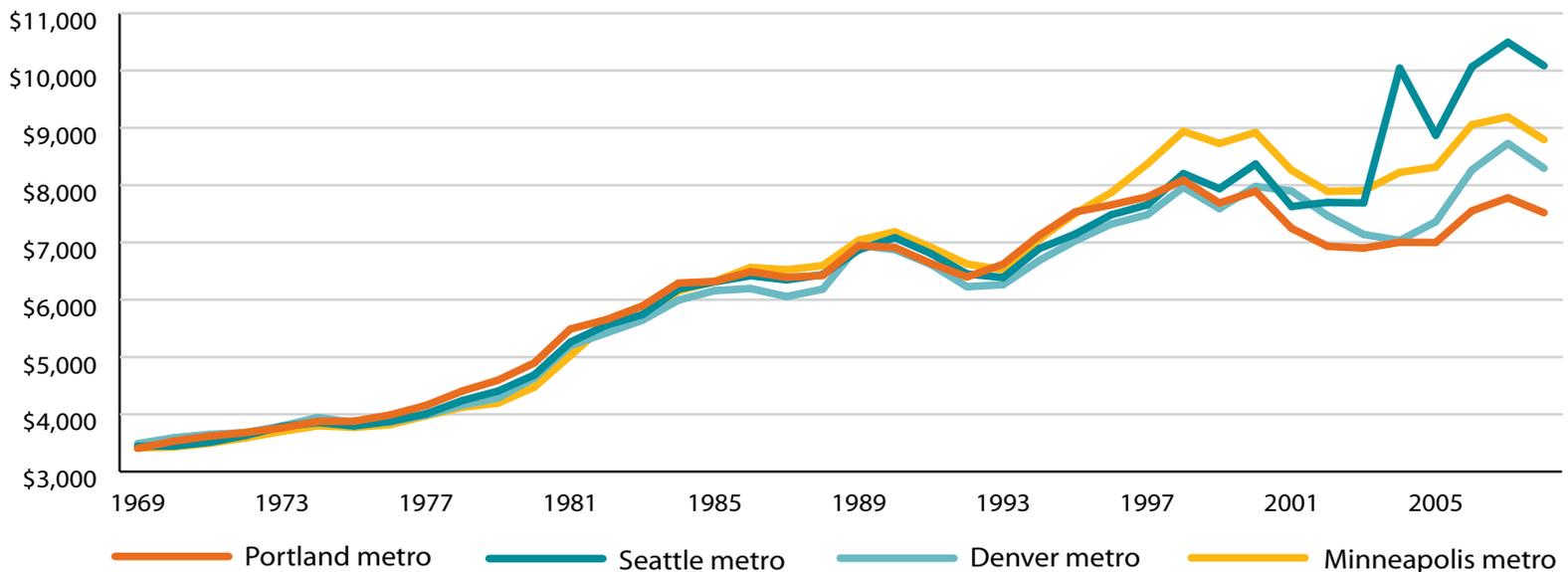


Source: ECONorthwest analysis of Bureau of Economic Analysis data.



This graph shows Portland-metro per capita income as a percent of per capita income in Seattle, Denver and Minneapolis metros. Portland-metro per capita income started only a few percentage points below the other three metros, but by 2008 was well below them.

Per capita income from "dividends, interest and rental income" (2008 dollars), 1969-2008



Source: ECONorthwest analysis of Bureau of Economic Analysis data.

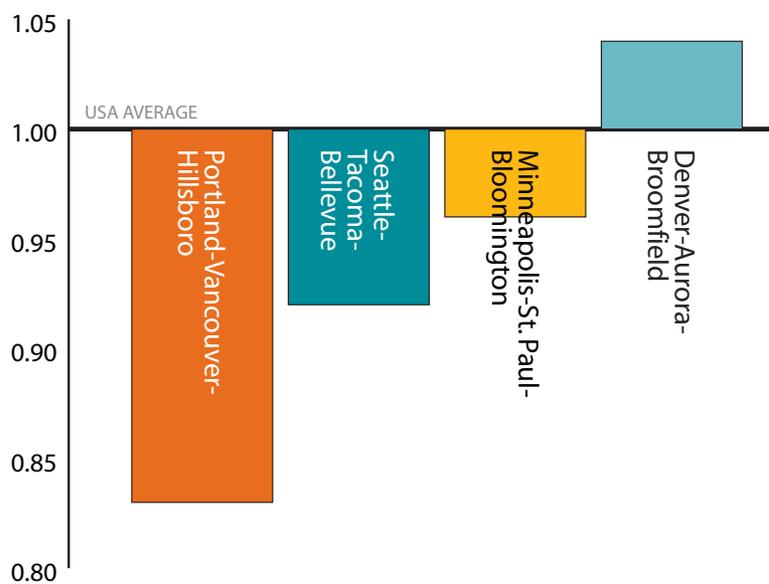


This graph shows that Portland-metro per capita income from investments started almost equal to that of our peer metros, but stalled in 1994, and now lags significantly behind them.

Affordability

Portland-metro's cost of living is lower than Seattle-metro's and, indeed, is lower than any other major west coast metro-area. However cost of living tells only part of the story because it doesn't take our relatively low wages into consideration. When wages are considered, Portland-metro is less affordable than Seattle, Denver or Minneapolis. The reason is that our wages are lower relative to housing and other costs than in our peer cities. Improving wages while keeping housing costs stable would significantly improve the affordability of our region.

Affordability of select US metro areas, 2008



Sources: ECONorthwest calculated ratio of BEA average wage to the cost of living indices of the Council for Community and Economic Research.



This graph shows that Denver has higher wages and lower costs. So, comparatively, Denver residents have the greatest buying power and Portland's the least.

Quality of Life

The Portland region continues to command a high quality of life that helps to attract young, skilled workers and potentially somewhat compensates for the region's lower wages and income. However quality of life is not enough. Other communities have also increasingly focused on improving their quality of life while, at the same time, providing higher wages and income. Communities such as Denver and Seattle-metro have achieved both higher incomes and higher quality of life than Portland-metro.* The link between wages, income and quality of life is significant. If we have lower incomes than our peers we will also have fewer public dollars to provide services such as quality schools, parks and social safety nets.

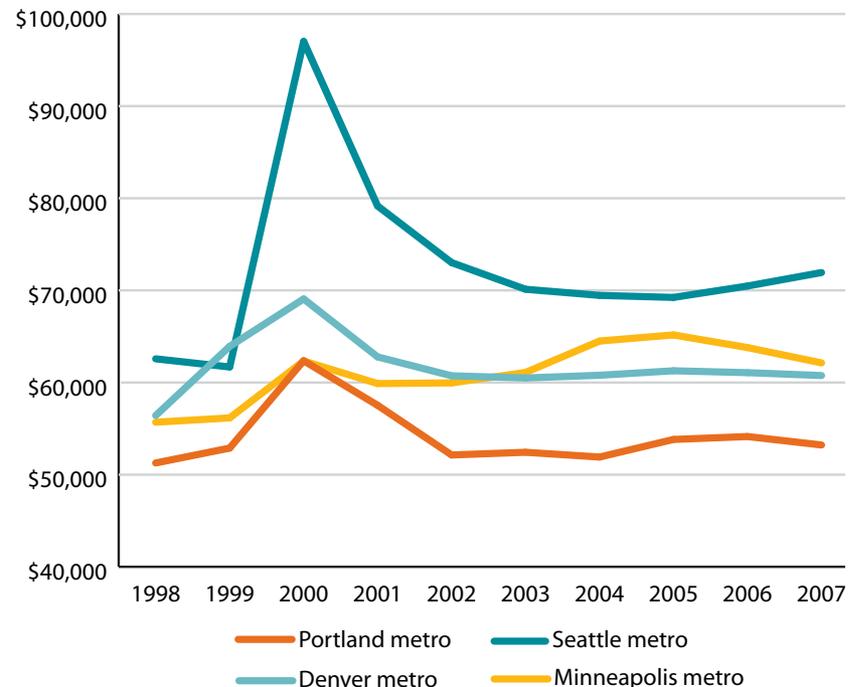
* David Albouy, Working Paper 14472, National Bureau of Economic Research

Traded Sector

Traded-sector firms are those that sell goods or services outside the local geographic area. The state and regional economies benefit tremendously from the existence of traded-sector firms that bring additional income into the community, which tend to raise the standard of living for all residents. The Portland-metro economy has a number of strong traded-sector industries with clear prospects for growth.* While our traded-sector jobs pay better-than-average wages for the region, Portland-metro traded-sector wages still lag significantly behind the traded-sector wages of our peers, and the region's share of payroll from the traded sector is declining.

* See 2008 Greater Portland Prosperity; A Regional Outlook, Greenlight Greater Portland.

Metro area traded sector annual wages, (2007 dollars), 1998-2007



Source: ECONorthwest analysis of data from the Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School. Copyright © 2010 by the President and Fellows of Harvard College. All rights reserved.

Multnomah County Employment

Multnomah County, Portland-metro's urban center, has suffered from a long-term loss of jobs that began well before the current economic downturn. Ranking the 194 counties and five multi-county areas in five western states, Multnomah County is second from the bottom in job creation from 1997 to 2009, having lost more than 26,000 private-sector jobs during that period. (King County, which includes Bellevue and Redmond, added nearly 68,000 jobs in the same time period.) While Multnomah County saw an increase of 10,000 public-sector jobs over that same period, the erosion of private-sector employment in the region's largest economic center is not sustainable. Significantly, high-wage, high-skill jobs in the manufacturing sector, as well as professional-sector jobs that support other businesses, accounted for most of the job losses in Multnomah County. The loss of professional-sector jobs can be linked to a long-term loss of large headquarter companies in Portland-metro.

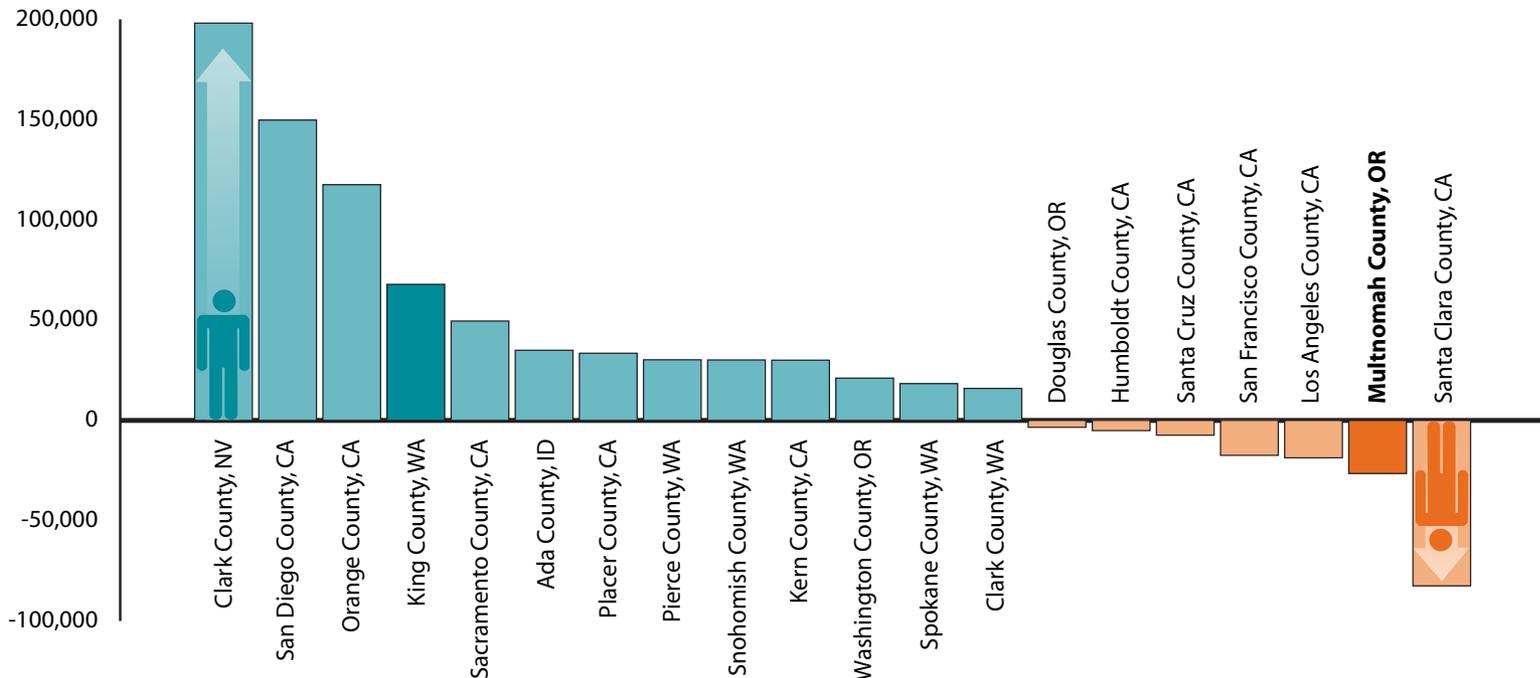
Change in employment by industry in Multnomah County, 1997-2009

Sector/Industry	1997-2009
Private sector:	
Construction	-3,816
Education & Health	12,293
Finance	-2,043
Leisure & Hospitality	5,877
Management of Companies	1,908
Manufacturing	-16,858
Professional & Business Services*	-10,508
Retail	-3,344
Other private	-9,942
Total Private	-26,463
Public sector jobs	10,447
Total Employment	-16,016

Source: ECONorthwest analysis of US Bureau of Labor Statistics, covered employment and payrolls.

*Excludes management of companies, which are reported separately in this table.

Private sector employment growth from a sample of 199 western state counties, 1997-2009



Source: ECONorthwest analysis of U.S. Bureau of Labor Statistics, covered employment and payrolls.

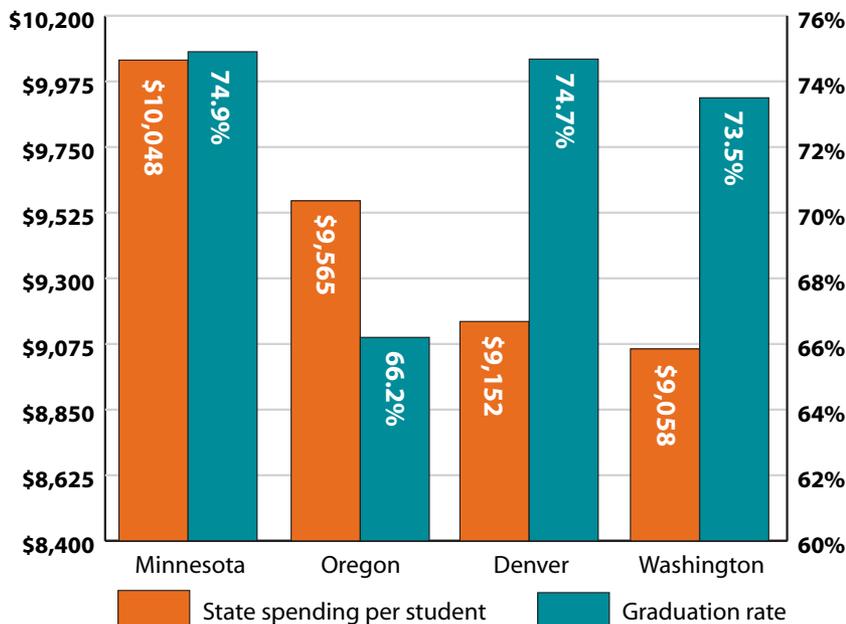


Santa Clara County, CA, home to Silicon Valley, lost tens of thousands of jobs in the high tech bust beginning in 2008. In the graph above multiple counties are not graphed due to space limitations. To see full list of counties, read full report at www.valueofjobs.com.

Education

Oregon's four-year high school graduation rates fall well below those of Washington, Colorado and Minnesota according to the National Center for Education Statistics. At the same time, Oregon spends more per student than both Colorado and Washington (although still less than the national average), while achieving poorer graduation rates. Minnesota spent the most of the four states, but they also achieved a very high graduation rate. Beyond high school, Oregon ranks 44th among the 50 states on college affordability, while Colorado, Minnesota and Washington rank 25th, 32nd and 34th, respectively. A strong, efficient education system is particularly important for producing a workforce for the higher-wage, knowledge-based industries that help drive the higher incomes in our peer regions.

State spending per student compared to high school graduation rates by metro area, 2007-08



Sources: ECONorthwest analysis of National Center for Education Statistics, Oregon Dept. of Education, Washington Office of Superintendent of Public Instruction, Colorado Department of Education and Minnesota Department of Education.

International Trade

International trade is a bright spot in the regional economy. A recent national study by the Brookings Institution finds that Portland is one of the most trade-dependent communities in the country, and our economy benefits tremendously from international trade. Eighty-eight percent of Oregon's exporting companies were small and medium enterprises as of 2008. Exports boost wages as well. Studies show workers at exporting firms earn wages 9 to 18 percent above those wages for workers at non-exporting firms.*

* These findings are from an analysis of international trade in Oregon and the Portland-metro region commissioned by the partners in this study.

Small Business

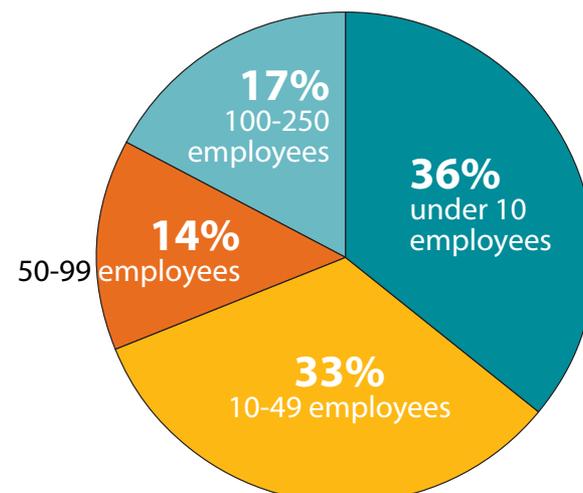
Oregon has a vibrant small business sector with more than half the state's workers employed by small businesses. Businesses that have fewer than 250 employees accounted for 66 percent of the net job creation in Oregon between 1977 and 2005. Small businesses, however, have lower wages and benefits, on average, than large businesses. While Oregon has a strong small business presence in international trade and the traded sector, these businesses nevertheless rely to a great degree on the presence of large national and international traded-sector firms for their success. A successful job-creation strategy must seek to retain and grow both small businesses and larger businesses to ensure long-term economic stability.

Percentage of employees in small businesses, state rankings, 2005

Rank	State	% of Total Employment
1	Montana	66.2%
2	Wyoming	64.5%
3	South Dakota	59.2%
4	Vermont	56.9%
5	North Dakota	56.6%
6	Maine	54.9%
7	Idaho	53.2%
8	New Mexico	52.4%
9	Alaska	52.2%
10	Oregon	51.6%
12	Washington	50.8%
23	Colorado	47.5%
30	Minnesota	45.9%
	National Average	45.5%

Source: ECONorthwest analysis of U.S. Census business dynamics database.

Net job creation in Oregon from small business by size, 1977-2005



Source: ECONorthwest analysis of U.S. Census business dynamics database.

Why this matters to Oregon families

First and foremost, Portland-metro families suffer the negative impacts of the region's sluggish economy. Fewer jobs and lower wages mean it is harder for families to get by economically year after year.

But there are broader impacts as well. Oregon is an income-tax-dependent state. The state's schools, community colleges, universities, social and human services and corrections services all depend largely on revenue derived from taxes on personal income. The region's low wages and declining per capita income translate into anemic state income tax revenues, which directly impacts the state's ability to deliver social services. Economists have predicted that Oregon faces a decade of state budget deficits and is likely to fall about \$3 billion short of the funds needed to maintain current services in every two-year budget cycle.

There are those who argue that we could simply increase taxes and fees to fix the state's budget problems. However, Oregon Business Plan research indicates that, since the 1970s, Oregonians have established a ceiling for the percentage of personal income they are willing to devote to state and local government services.* This research strongly suggests that efforts to simply raise taxes or fees on the existing economy will fail, and the only sustainable solution to increasing resources for public services is to increase the size and strength of the economy and grow quality private-sector jobs.

For example, if the 2008 per capita personal income in Portland-metro had equaled that of Seattle-metro, there would have been an additional \$23.4 billion of income generated in the region. That would have generated approximately \$1.3 billion in state revenue for schools, human services and other critical state and local programs.

Additionally, the Portland-metro's land-use and transportation strategies are predicated on robust job growth in Portland and the rest of Multnomah County. The region's most important environmental strategy is to reduce carbon emissions and land consumption by encouraging a more compact urban form. The declining employment figures for Multnomah County call into question whether this strategy can be successful if the trend of private-sector job losses over the past decade is not reversed.

* Oregon Business Plan, Oregon's Challenge: Breaking out of a Circle of Scarcity, 2010.

CALL TO ACTION

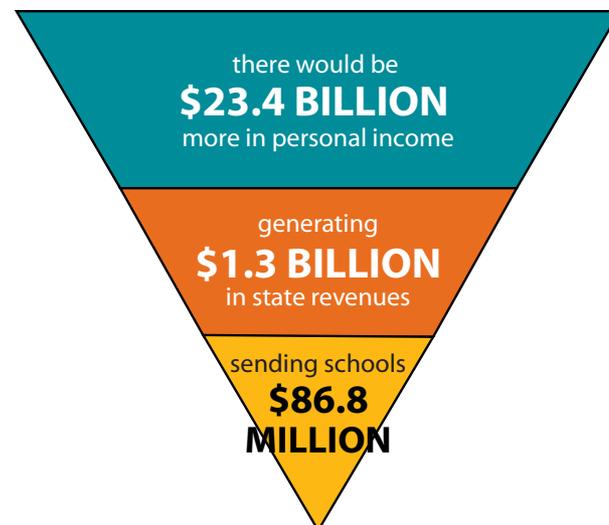
The Portland-metro region faces a crisis. If unstopped, the loss of jobs in Multnomah County and the stagnant-to-declining wages and incomes across the region will erode our quality of life, not just in Portland-metro, but across Oregon because of the region's key role in the overall state economy.

At the end of the day, if our incomes are 20 percent below those of our peers, our schools, universities, parks, ports and human services will be funded at levels below those of our peers. Is that the future that we want for our community? Our conclusion is a resounding NO!

Our goals in the coming months will be to work with Oregon's public and private leaders to generate solutions that:

- ✓ Make quality private-sector job creation the top priority for all of Portland-metro, achieved by retaining and growing jobs at existing businesses and attracting new jobs.
- ✓ Focus on the jobs crisis in Multnomah County, stop the loss of private-sector jobs and then begin the process of growing new jobs.
- ✓ Reverse the trend of declining Portland-metro wages and incomes relative to our peer regions and begin to make up ground.

If Portland-metro per capita income equaled Seattle-metro's:



Multnomah County schools would receive an additional \$86.8 million per year from the state

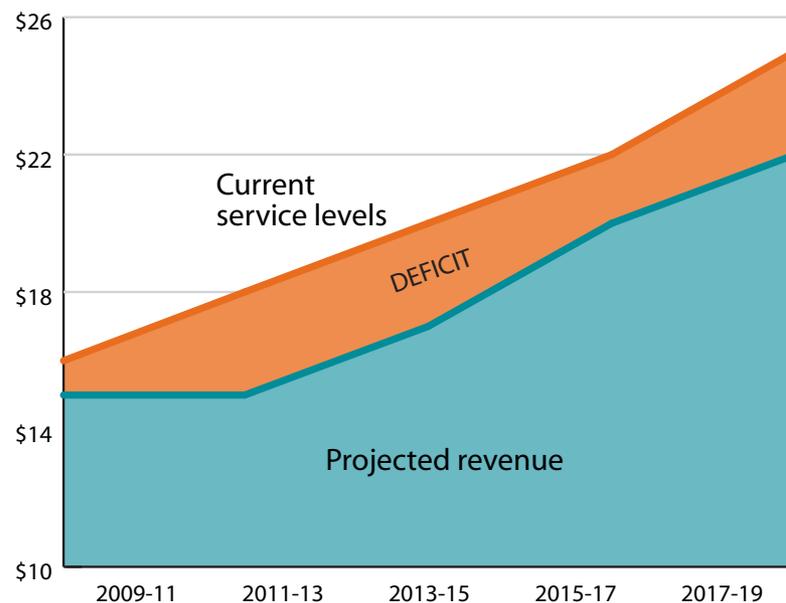
What are our next steps?

For any economic development strategy to be successful, we must create an environment that supports private-sector job retention and creation. In the coming months, we believe we must address the policy issues that drive our economic environment, including:

- ▶ **Does our community truly welcome business and job creation, particularly as it relates to the large, internationally traded firms that offer higher wages?**
- ▶ **Can the region's leaders come together and agree on a unified economic strategy – and then implement it?**
- ▶ **When we must make trade-offs between competing interests, how do jobs and economic growth fare? Can we institute a 'jobs impact analysis' for every policy consideration?**
- ▶ **Do we have an educational system, especially a higher education system, which is graduating the talent we need to be competitive in the knowledge-based industries of the future?**
- ▶ **Are our land use, transportation and tax policies supportive of growing jobs and incomes?**
- ▶ **Can we nurture our small businesses – our entrepreneurial class – so that they have the opportunity to grow and thrive, generating more jobs?**
- ▶ **Do we believe a strong urban core in Multnomah County is essential to the long-term economic health of the region and are we willing to act now to reverse the decline in private-sector jobs?**

We must act on these questions boldly and quickly. In January 2011, the Portland Business Alliance board of directors will host a jobs summit to begin the process of answering these questions and starting the conversations. All of the partners in this report will participate, and we stand ready to work with elected and other leaders to chart a new course for the region's economy.

Projected Oregon state budget (dollars in billions)



Source: Oregon Department of Administrative Services.



This graph shows that Oregon's projected state revenues will fall short of the level needed to cover the state expenditures at the current service level over the next 10 years, resulting in further service cuts.



This report, compiled by ECONorthwest for the Portland Business Alliance, Associated Oregon Industries, Oregon Business Association, Oregon Business Council and Port of Portland is a comprehensive examination of the region's economic performance over the past 40 years. It is a component of a larger project looking at the statewide economic performance of Oregon and Portland-metro compared to peer regions. The objectives of the report are to identify key differences between the Portland, Seattle, Denver and Minneapolis metro economies; examine why the Portland-metro economy under-performs relative to these peers; and begin a conversation with public and private leaders to define strategies to restore public service funding and spur economic growth.

The mission of the Portland Business Alliance is to promote and foster an environment in the Portland region that attracts, supports and retains private sector jobs, spurs economic vitality and enables quality educational opportunities for the region's residents.

PUBLISHED BY:



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ALLIANCE**

Leading the way

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