

DATE: April 28, 2014
TO: Board of Directors, Lane Transit District
FROM: Andrew Dyke, Senior Economist
SUBJECT: RECENT ECONOMIC PERFORMANCE OF THE EUGENE-SPRINGFIELD METROPOLITAN STATISTICAL AREA (MSA)

Introduction

Lane Transit District (LTD) contracted with ECONorthwest to support LTD's Board of Directors in determining whether local economic conditions support an increase in the payroll and self-employment taxes levied by LTD, consistent with provisions contained in Oregon Revised Statutes (ORS) 267.385 and 267.387.

As established in statute (ORS 267.385 and 267.287), regional employment and income growth constitute the factors to be considered in determining "that the economy in the district has recovered to an extent sufficient to warrant the increase in tax." Below, we present analysis of historical data regarding these and other economic variables that the Board should consider in making its determination.

Below, we briefly describe our data sources and methods and summarize our findings. This memorandum concludes with a detailed presentation of the data.

Data sources and methods

We analyzed data related to the following economic indicators:

- Total employment (statutory requirement)
- Employment in selected industries: manufacturing, construction, trade, government, and financial services/FIRE (finance, insurance, and real estate)
- Unemployment rate and size of the labor force
- Personal income by place of residence and by place of work (statutory requirement)
- Selected components of personal income (wage and salary income; proprietors' income)
- Residential and commercial construction permits
- Number of business establishments

Except where noted, we provide data and analysis specific to the Eugene-Springfield MSA (i.e., Lane County, "the region"). Table 1 identifies the source for the indicator data.

Table 1: Primary data sources

Data series	Source
Personal income	U.S. Bureau of Economic Analysis
Employment	U.S. Bureau of Labor Statistics, Current Employment Statistics
Unemployment, total employment, and labor force	U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics
Residential construction permits	U.S. Census Bureau
Industrial and commercial construction permits (City of Eugene only) ¹	City of Eugene, Planning and Development Department
Business establishments	U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

LTD staff also suggested collecting data on new business licenses. The Secretary of State makes available statewide data but requires a fee and filing of a special request for more disaggregated data. The data would provide information about new businesses opening in the Eugene-Springfield MSA but not necessarily existing businesses opening a new location in the Eugene-Springfield MSA. If LTD remains interested in these data, we could request the disaggregated license data and supplement this report, contingent on timely receipt of the data.

In preparing this report, we also considered the Oregon Economic Forum regional economic indexes, reports prepared by Oregon Employment Department staff, and economic forecasts prepared by Oregon’s Office of Economic Analysis. We note that the indicators discussed below do not include every economically important indicator, and individual indicators do not necessarily deserve equal weight in informing the Board’s decision. However, the included indicators do provide information sufficient to summarize current economic conditions in the region.

Summary of findings

- Broad-based measures of local economic conditions suggest continued improvement.** Oregon Economic Forum’s regional index for the Eugene-Springfield area has demonstrated continued improvement, supported by average or above-average growth in most index components in recent months, consistent with the detailed findings presented below. In general, trends in the selected indicators suggest accelerating improvement in economic conditions.
- Employment.** Although the economy still provides many fewer jobs than just prior to the last recession, overall employment growth in recent months was close to the long-

¹ These data are not collected centrally by MSA. City of Springfield did not have readily accessible data, and we did not query other jurisdictions.

term trend and somewhat above trend in key industries highlighted below. Lackluster growth in the financial services industries provides the evidence of weakness from among the sectors considered.

- **Unemployment and labor force.** The region's unemployment rate, 7.2% at the end of 2013, has fallen significantly from the recessionary peak of close to 15%, but remains above the average rate over the past two decades of 6.6%. The encouraging trend in unemployment masks continued decline in labor force participation, which has shrunk since 2010 and is now close to levels last observed during the early 2000s.
- **Personal income.** By 2012, real per capita place-of-residence personal income had recovered 46% of the decline observed during the recession; real per capita place-of-work earnings continued to fall from the prerecession peak; and real per capita wage and salary income had recovered 4% of recessionary losses. In 2012, growth in both place-of-residence personal income and wage and salary income exceeded the annual average for 1970-2012. The generally positive economy in recent months suggests stronger growth in personal income. By 2012, proprietors' income had recovered 57% of recessionary losses. In 2012, proprietors' income grew in real terms by 4.2%, well above the 1970-2012 average of 0.7%.
- **Building permits.** Residential construction has recovered considerably from recessionary lows, but permit activity remains far below prerecession averages. In 2013, 983 units were permitted. Prior to the recession, annual totals averaged about 1,800. However, we also find that the value of recently permitted industrial construction exceeds the longer-term annual averages by a wide margin.
- **Business establishments.** As of the most recent, preliminary, data from the third quarter of 2013, the region had 10,975 business establishments, 1.8% below the 2007 peak and 5.3% higher than the low in 2010. In recent quarters, year-over-year growth has hovered close to the 2% average growth rate from 2004 and 2007.

Detailed findings

Below, we present detailed findings from our analysis for each of the indicators.

Total employment

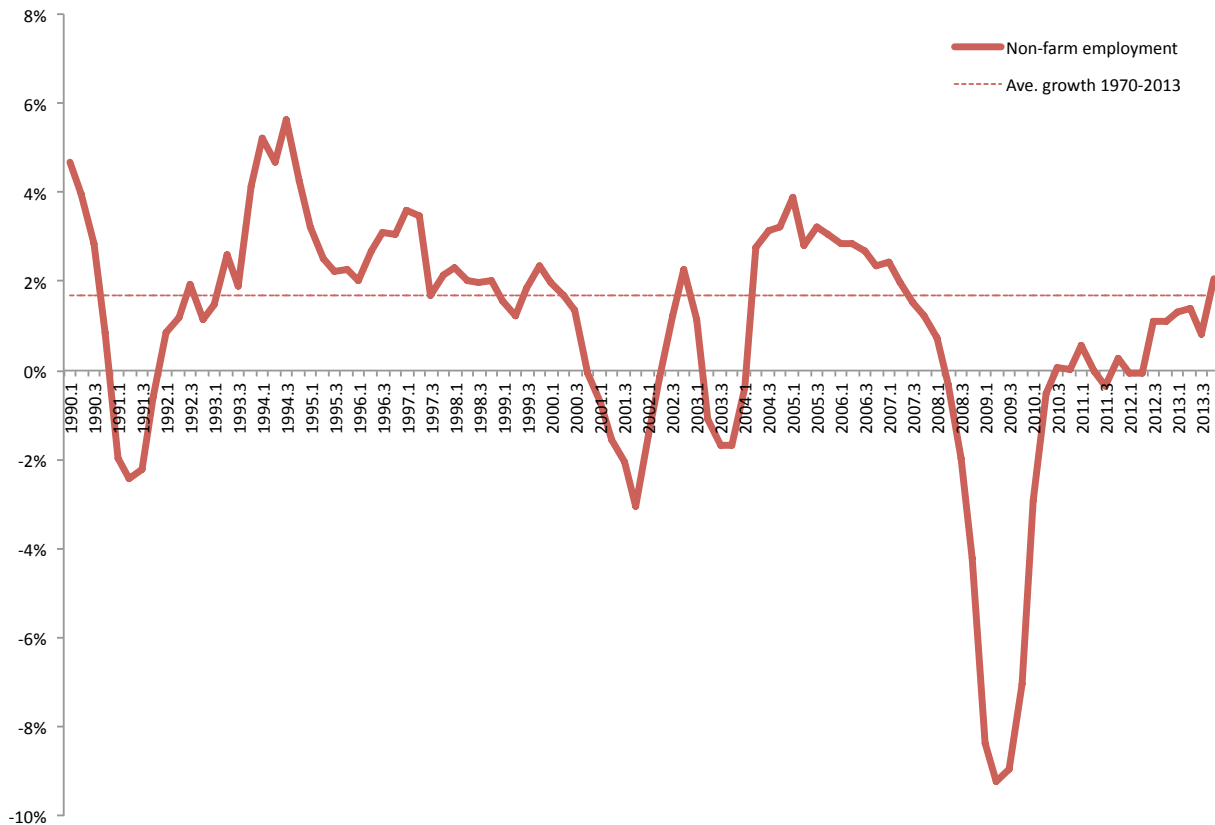
As of February 2014, local non-farm employment stood at 144,100, a gain of 1.2% (1,800 jobs) from a year earlier and up about 4% (5,800 jobs) from the recessionary trough of 138,300. In all, the region has regained about 30% of the jobs lost during the recession.²

² Based on seasonally adjusted data.

While recovery of jobs has lagged behind that of the Portland metropolitan area, which produced most of the state’s job growth early in the recession, employment growth locally has accelerated in recent months.

Since 1970, employment has grown at an average of 1.7% annually, nearly identical to the year-over-year growth observed during the first two months of 2014 and below the 2.1% growth during the last quarter of 2013. In other words, recent employment growth aligns with the region’s long-term trend.³ Figure 1 displays year-over-year employment growth in the region from 1990 through the end of 2013.

Figure 1: Year-over-year non-farm employment growth in the Eugene-Springfield MSA, 1990Q1-2013Q4



Source data: U.S. Bureau of Labor Statistics

Employment by sector

In this section, we present employment data for manufacturing, construction, trade/transportation/utilities, financial services, and government. For the most part, recent

³ Average annual growth from the end of the early 1990s’ recession through the present has been somewhat lower (0.9%). Average growth from the end of the 1990s’ recession through the peak, prior to the recent recession, was slightly higher (1.8%).

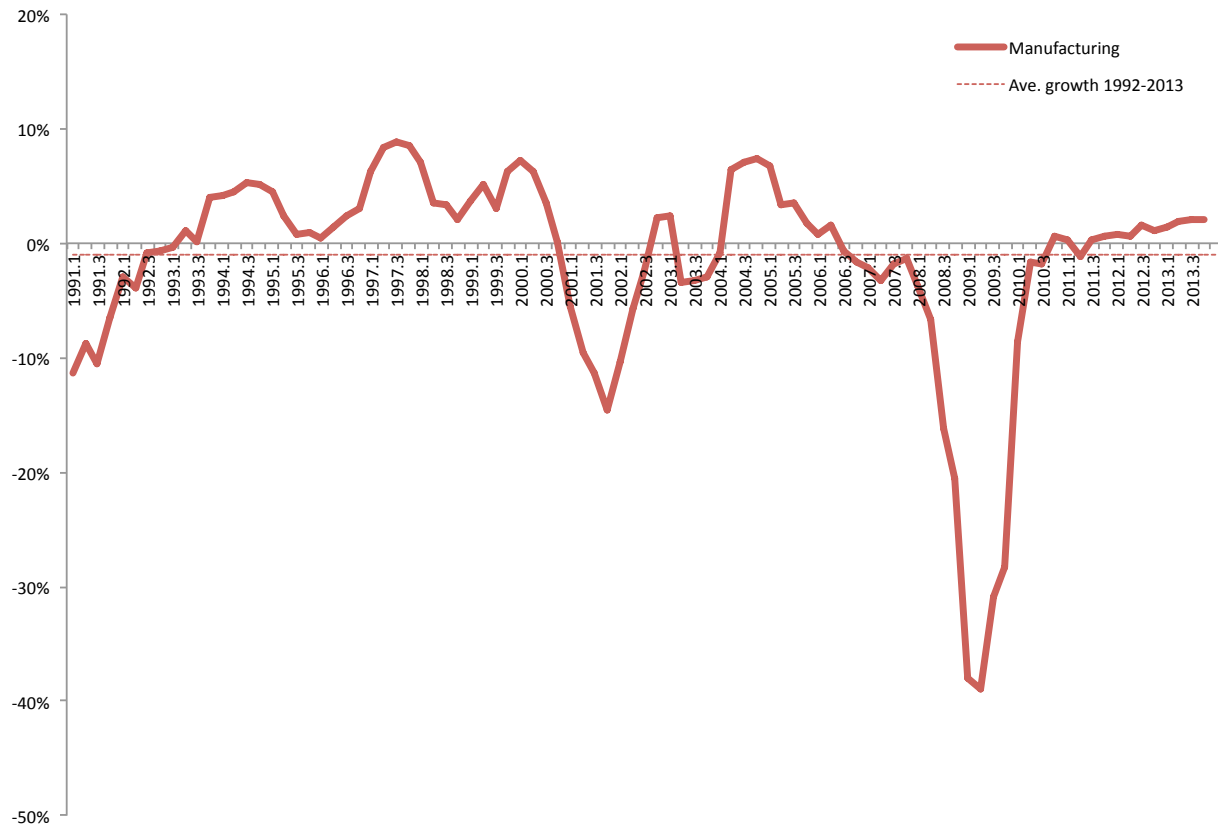
trends qualitatively resemble those observed for total employment, although the timing and magnitude of recent improvements varies considerably across sectors. Note that the vertical scale of the data display varies across sectors depending on the volatility of employment each industry.

Manufacturing

Manufacturing remains an important driver of local economic activity. The industry provided 12,600 jobs in the region as of February 2014, significantly below the pre-recessionary peak of about 20,000 in 2007. Long-term declines in manufacturing employment locally, mirroring declines at the state and national levels, have pushed the industry’s share of employment to about 9% of total non-farm jobs, down from about 15% circa 2000.

Since 1992, with annual manufacturing employment growth has averaged -0.1%. Excluding the last recession, the average was slightly above zero, at 0.1%. Although the industry has recovered only 700 jobs since the recessionary low of 11,900 in late 2010, since mid-2012 the industry has grown more quickly than the long-term trend (see Figure 2).

Figure 2: Year-over-year manufacturing employment growth in the Eugene-Springfield MSA, 1991Q1-2013Q4

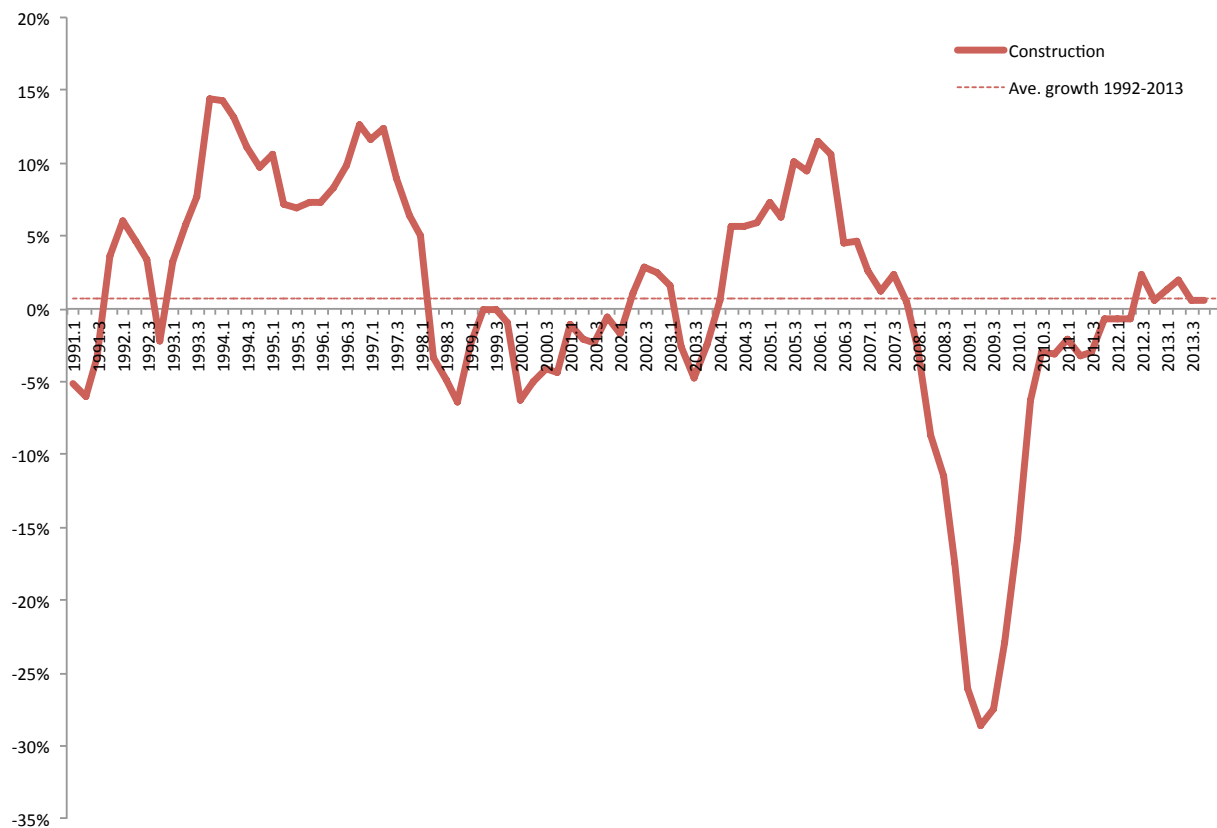


Source data: U.S. Bureau of Labor Statistics

Construction

The construction industry provides a relatively small share of the region's jobs (4,700 as of February 2014), typically less than 5% and currently about 3.5%, of all non-farm employment. But construction activity and employment serve as useful leading indicators for subsequent economic activity. Since 1992, the industry has had average annual employment growth of 0.7% and currently provides about 5,000 jobs, with significant seasonal variation over the calendar year. Since the beginning of the recession, the industry first exceeded this long-term growth trend in the third quarter of 2012, demonstrating similar or slightly stronger growth through the end of 2013 (see Figure 3).

Figure 3: Year-over-year construction employment growth in the Eugene-Springfield MSA, 1991Q1-2013Q4

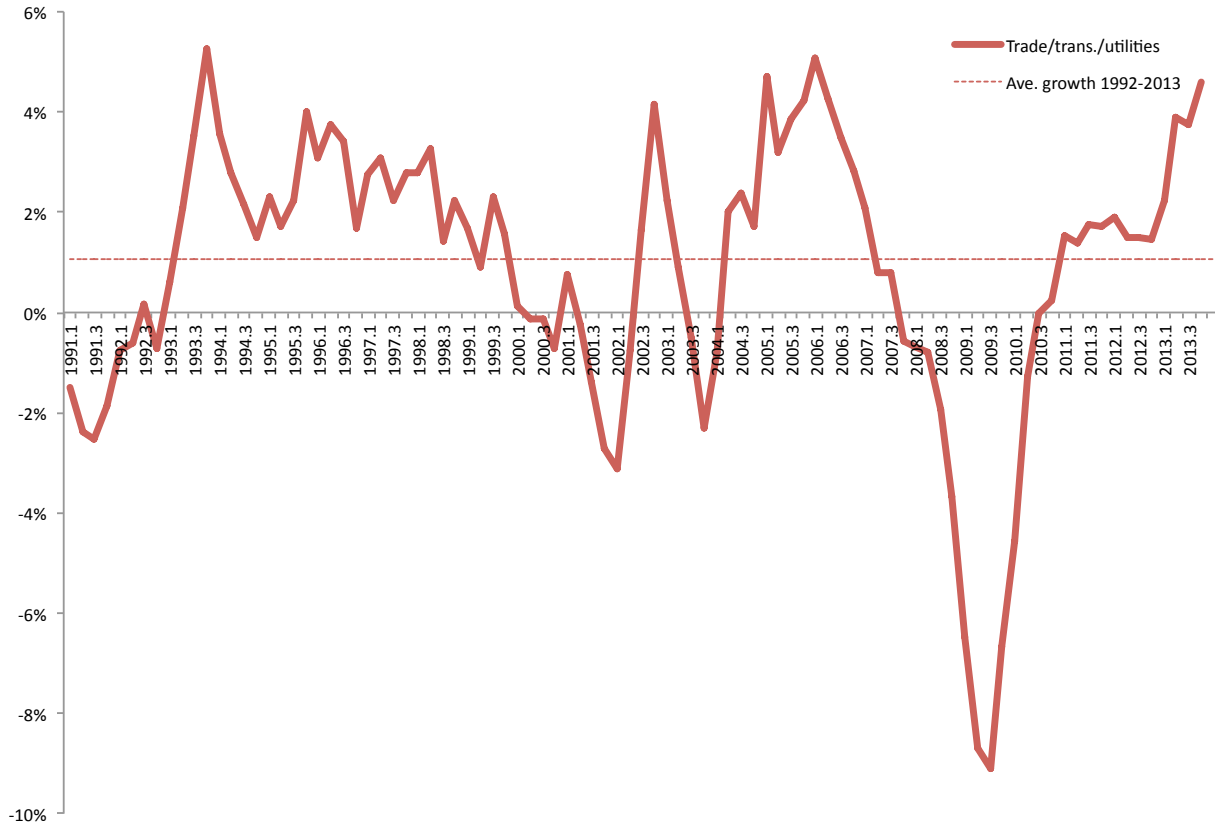


Source data: U.S. Bureau of Labor Statistics

Trade, transportation, and utilities

Together, the trade, transportation, and utilities industries provide nearly 20% of the region’s jobs. As of February 2014, this sector provided 28,000 jobs, up nearly 3% (800 jobs) from a year earlier and 9% (2,400 jobs) from the low observed in 2010. Historically, the sector has an average annual growth rate of 1.1%. The sector reached this benchmark in the first quarter of 2011, with year-over-year growth accelerating to about 4% in recent quarters (see Figure 4).

Figure 4: Year-over-year trade/transportation/utilities employment growth in the Eugene-Springfield MSA, 1991Q1-2013Q4

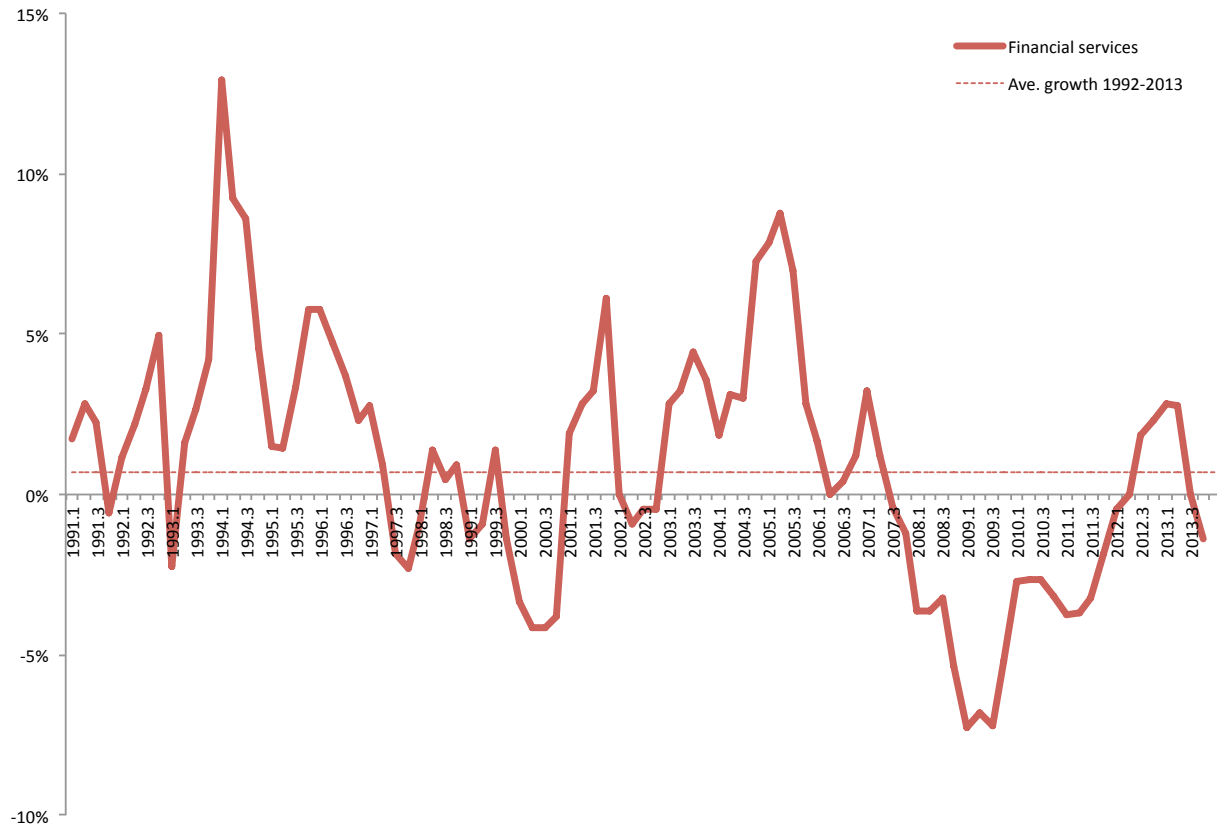


Source data: U.S. Bureau of Labor Statistics

Financial services

The financial services industry provides about 5% of jobs in the region (7,100 as of February 2014). One of the few signs of economic weakness we find in the employment indicators considered, employment in the industry has recovered few of the jobs lost during the recession and, despite exceeding the long-term growth trend of 0.7% per year during 2012 and 2013, growth stalled towards the end of 2013 and turned negative during the fourth quarter. Employment in this sector was very close to the recessionary low as of February 2014.

Figure 5: Year-over-year financial services employment growth in the Eugene-Springfield MSA, 1991Q1-2013Q4

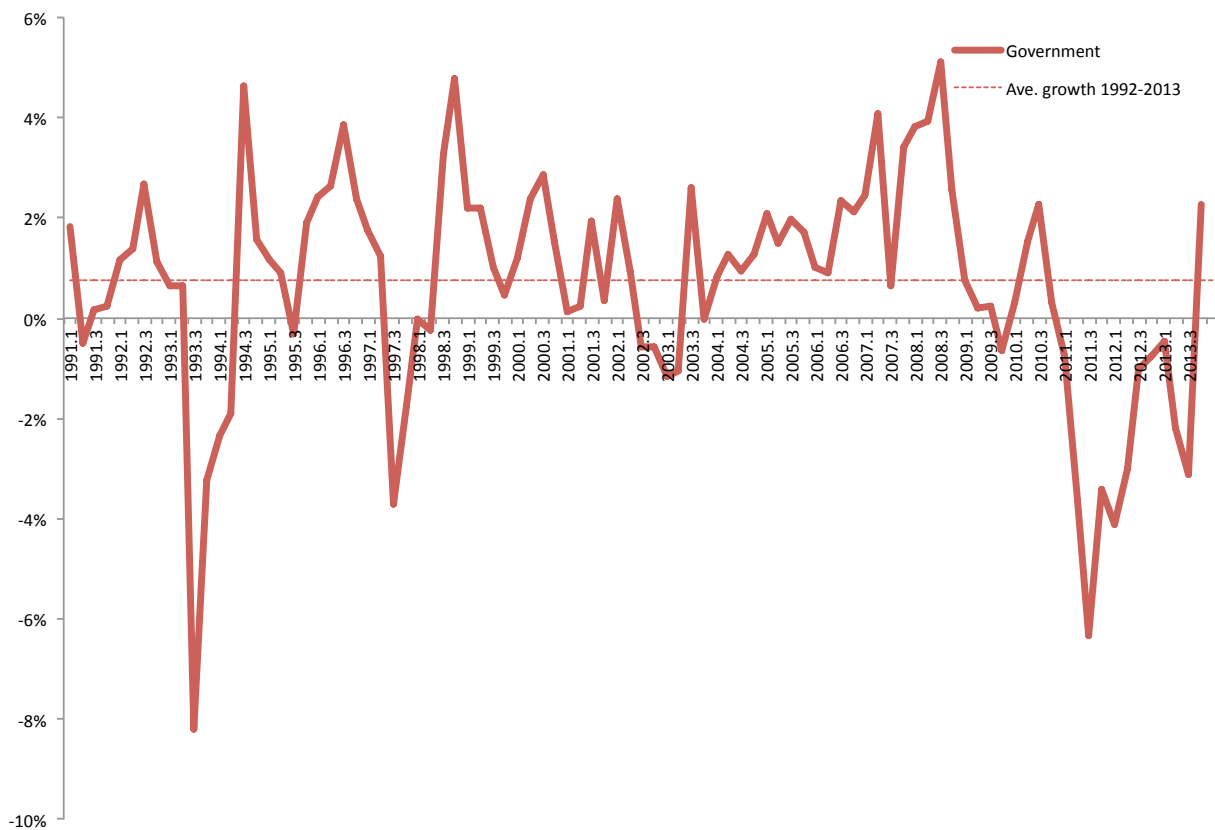


Source data: U.S. Bureau of Labor Statistics

Government

Government employment accounts for about 20% of the region's jobs, typically slightly more than the aggregate trade, transportation, and utilities sector. In February 2014, the sector provided 31,000 jobs in the region, an increase of 2.6% from one year earlier. Due to the nature of public finance and the goals of government spending, the relationship between government employment and the business cycle differs considerably from those observed in the private sector. As illustrated in Figure 6, government employment started falling almost two years after total employment started to fall during the recession, and recent employment levels fall close to prerecessionary levels.

Figure 6: Year-over-year government employment growth in the Eugene-Springfield MSA, 1991Q1-2013Q4

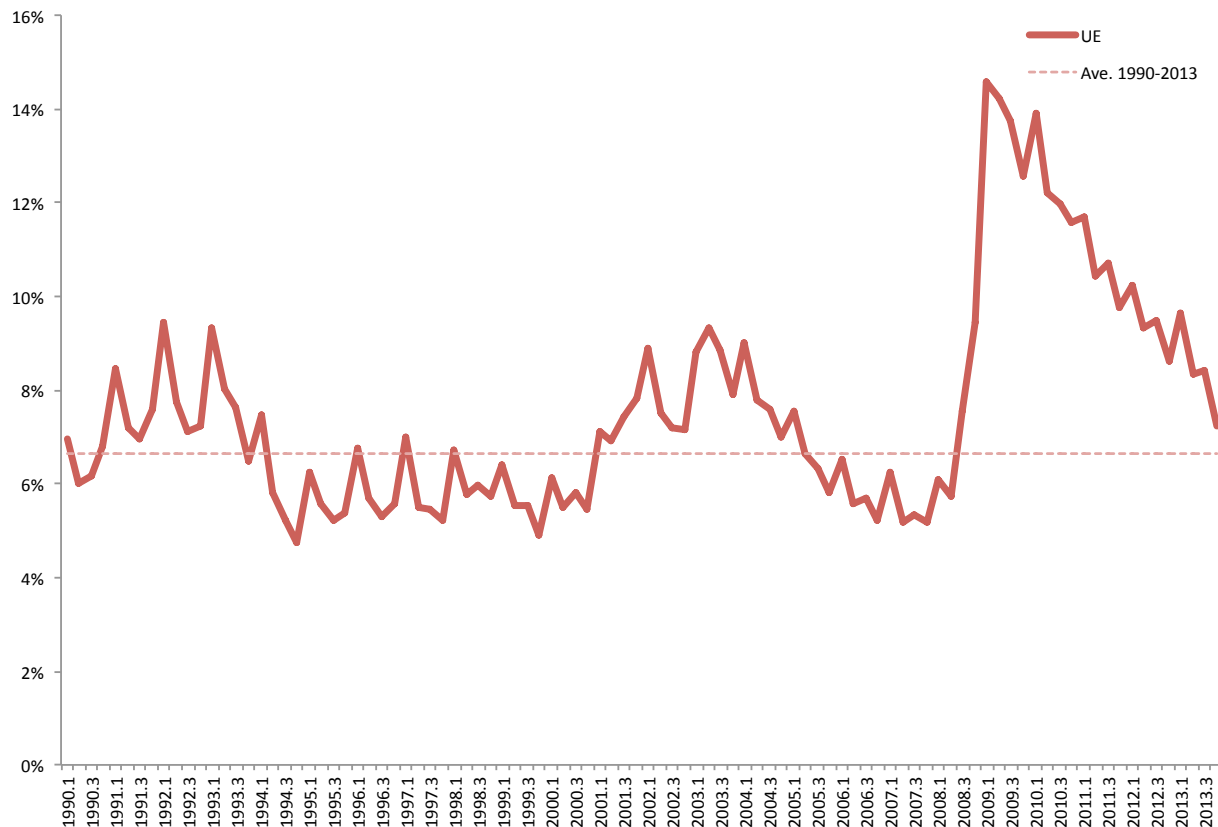


Source data: U.S. Bureau of Labor Statistics

Unemployment and labor force

The region's unemployment rate has fallen significantly from the recessionary peak of close to 15%, to 7.2% in the final quarter of 2013. This level remains above the region's average during the past two decades (6.6%) but also now falls well below peaks from the two prior recessions (see Figure 7).

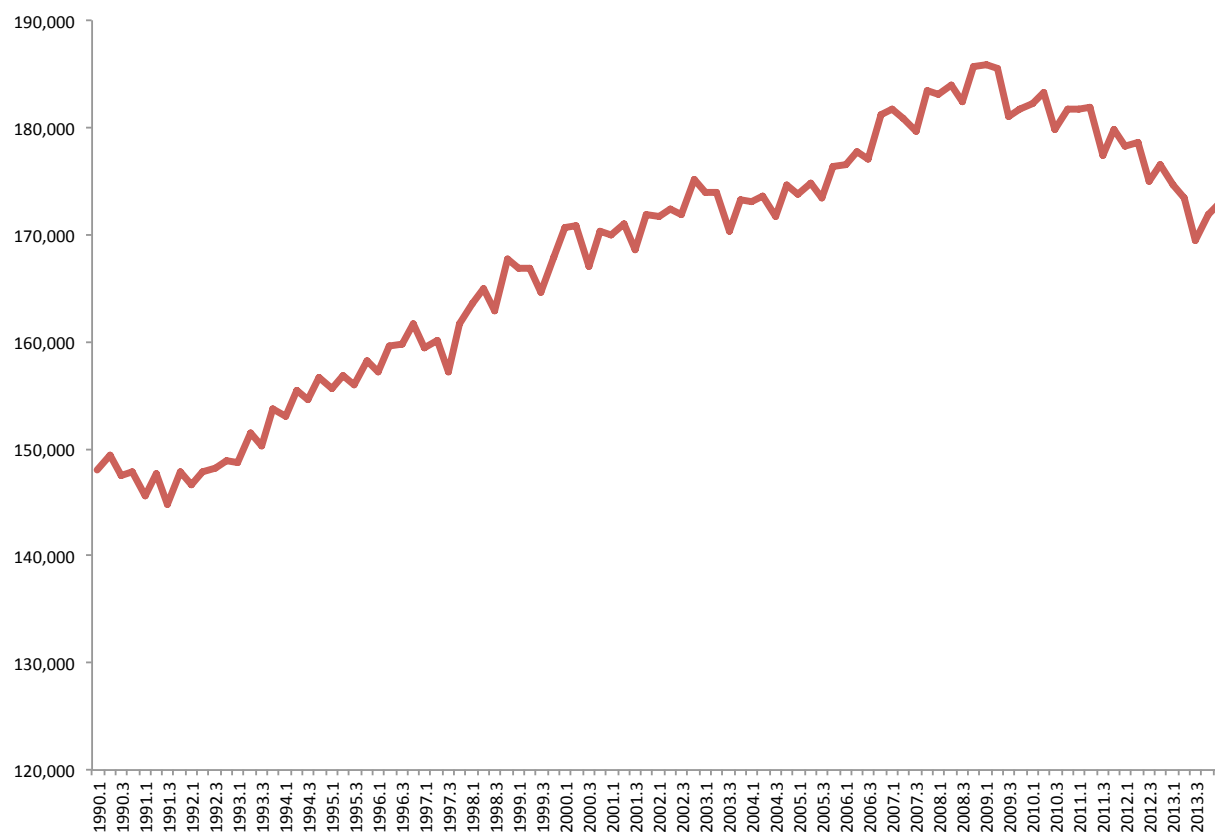
Figure 7: Unemployment rate for the Eugene-Springfield MSA (not seasonally adjusted), 1990Q1-2013Q4



Source data: U.S. Bureau of Labor Statistics

The encouraging trend in unemployment masks continued decline in labor force participation. Compared to a year earlier, the region's labor force shrank by 2.7% through the end of 2013, has declined by 1% or more annually since 2010, and is now close to levels last observed during the early 2000s (see Figure 8). Numerous economic and demographic factors (e.g., increased post-secondary enrollment by adults during the recession; retirement of the baby-boom generation and delayed entry into the labor force among the young) have contributed to the declining labor force, but they continually serve as an important counterpoint to the positive employment trends. However, quantifying the relative magnitude of these factors is difficult at the local level, and debate continues regarding the specific drivers of falling labor force participation even at the national level. In general, increasing labor force participation would suggest increasing confidence about employment prospects among potential job seekers.

Figure 8: Eugene-Springfield MSA labor force (not seasonally adjusted), 1990Q1-2013Q4



Source data: U.S. Bureau of Labor Statistics

Personal income

We assess trends in local personal income by place of residence (POR) and earnings by place of work (POW). The former identifies the income of the region’s residents, while the latter identifies income earned in the region. On net, about 1 percent of the earnings of area residents is earned outside of the region. We also consider wage and salary earnings and proprietors’ income separately. Proprietors’ income serves as a proxy for income earned by small businesses, income separately. Particularly for smaller regions, all personal income measures should be evaluated with caution because of ambiguities inherent in income reporting (e.g., for reporting purposes individuals and businesses can control when they realize some components of income). All income data are expressed in real terms using 2013 dollars.

Personal income by place of residence, by place of work, and wage and salary income

Compared to prerecession peaks, in real terms, per capita total personal income by POR fell by 5.0%, per capita earnings by POW by 4.7%,⁴ and per capita wage and salary by 13.4% to reach recessionary lows in 2008 and 2009, respectively. These measures had recovered somewhat

⁴ We calculate POW per capita earnings as the ratio of total POW earnings to the resident population used to calculate per capita POR personal income.

through 2012, as summarized in Table 2, below. The table compares 2012 to 2007 to provide a consistent baseline for reporting change. As noted above, the timing of the prerecession peak varies by metric, as noted above.

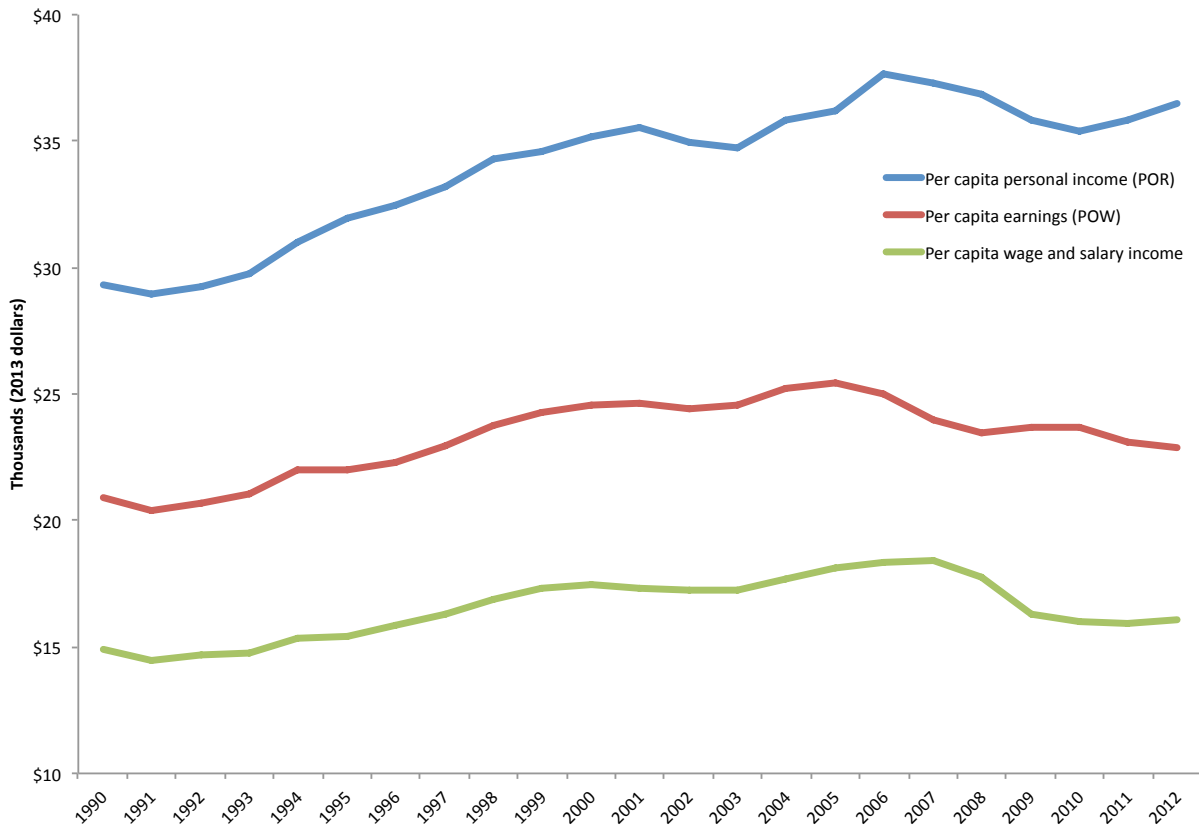
Table 2: Summary of recent trends in real personal income

	Personal income (POR)		Earnings (POW)		Wage and salary	
	Aggregate (1,000s of \$)	Per capita	Aggregate (1,000s of \$)	Per capita	Aggregate (1,000s of \$)	Per capita
2007	\$12,864,526	\$37,305	\$8,265,037	\$23,967	\$6,353,232	\$18,423
2012	\$12,929,384	\$36,468	\$8,100,848	\$22,849	\$5,696,141	\$16,066
% change 2007 to 2012	0.50%	-2.24%	-1.99%	-4.67%	-10.34%	-12.80%
% change 2011 to 2012	2.01%	1.71%	-0.81%	-1.11%	0.96%	0.66%

Source data: U.S. Bureau of Economic Analysis

Figure 9 displays the per capita personal income over time. As suggested in the figure, by 2012, per capita POR personal income had recovered 46% of the decline observed during the recession; per capita POW earnings continued to fall; and per capita wage and salary income had recovered 4.4% of recessionary losses.

Figure 9: Selected components of real per capita personal income in the Eugene-Springfield MSA, 1990-2012

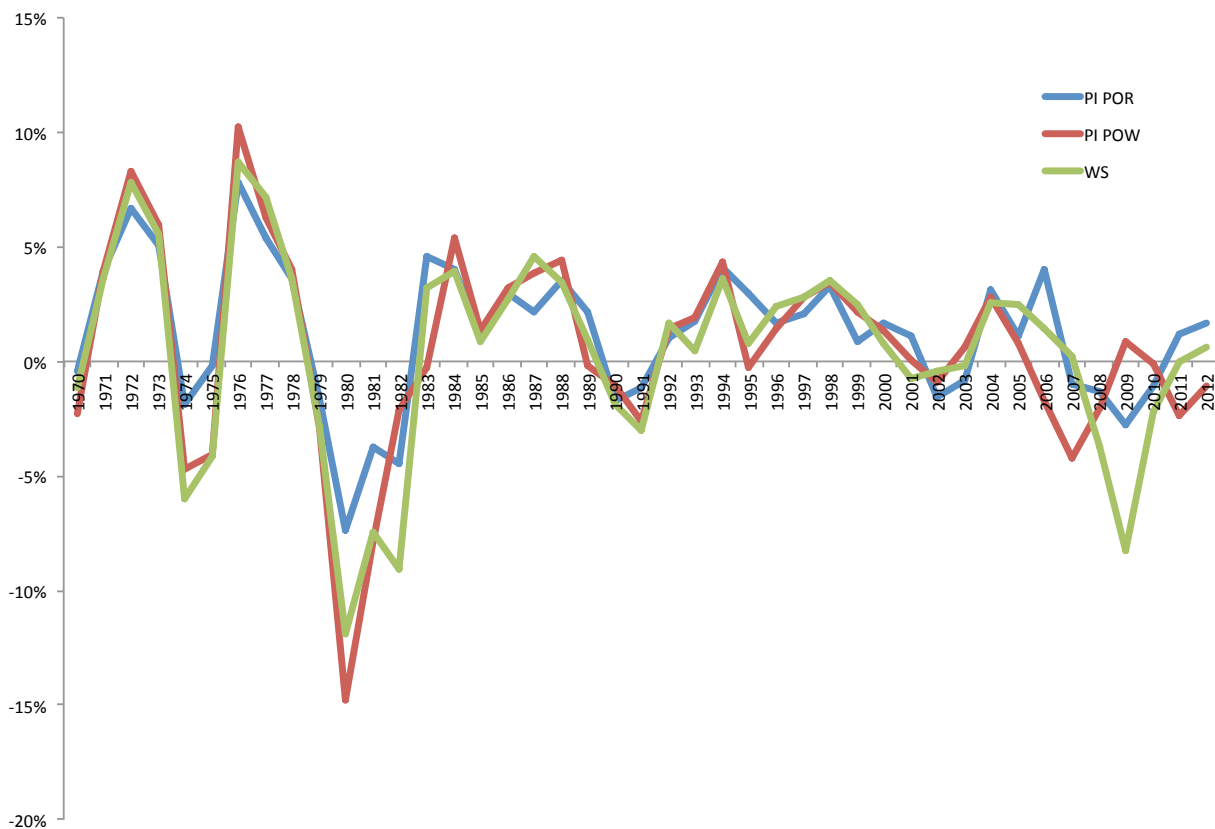


Source data: U.S. Bureau of Economic Analysis

Figure 10 shows growth rates for the per capita income measures identified in Figure 9. In 2012, growth in both POR personal income and wage and salary income exceeded the annual average for 1970-2012. Per capita POR personal income grew by 1.7% (to \$36,468), compared to the long-term average of 1.2%, while per capita wage and salary income grew by 0.7% (to \$16,066), slightly above the long-term annual average of 0.4%. POW earnings fell by 1.1% (to \$22,849), compared to the long-term average of 0.6% per year.

The generally positive economic data from 2013 and early 2014 suggest stronger growth in personal income. As employment growth increases, the personal income measures also tend on average to show increased growth.⁵

Figure 10: Growth rates for selected components of real per capita personal income in the Eugene-Springfield MSA, 1990-2012



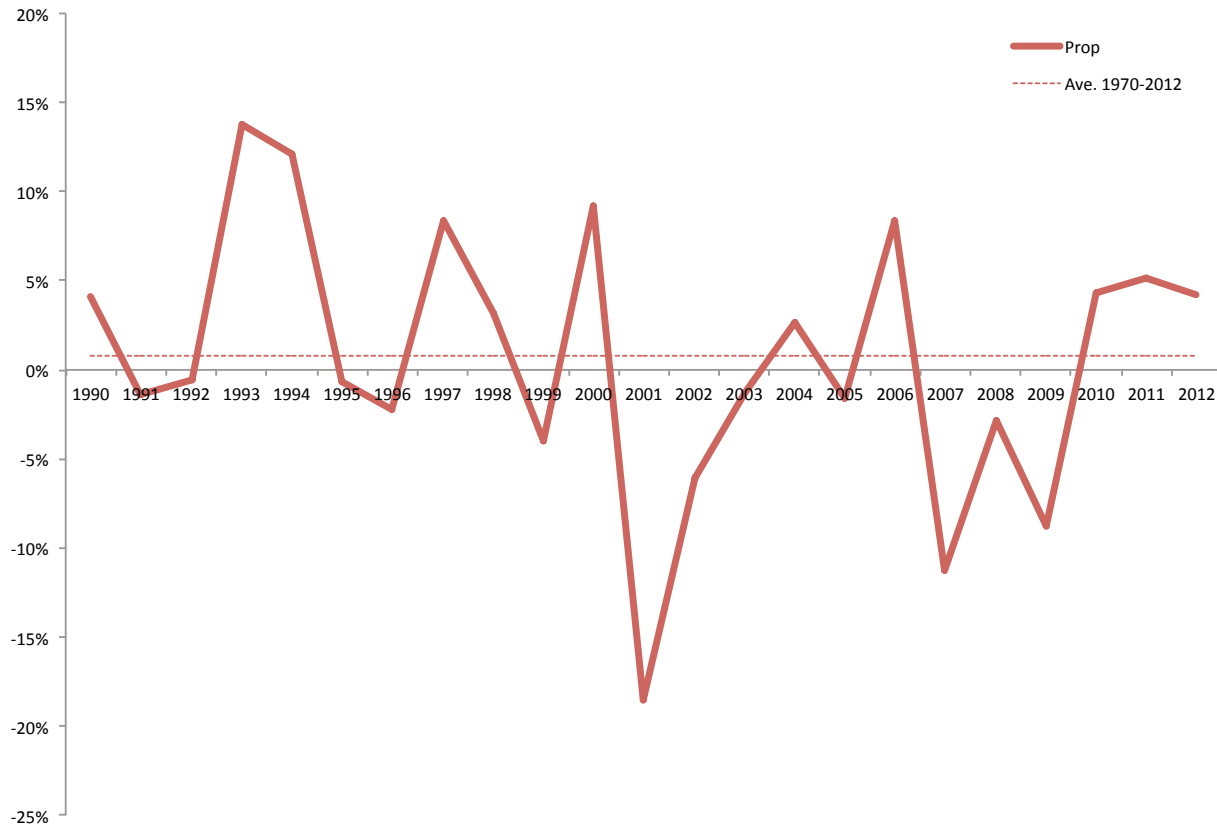
Source data: U.S. Bureau of Economic Analysis

⁵ Specifically, the correlation between annual employment growth and growth in the three per capita measures of personal income are 0.76 (POR personal income), 0.62 (POW earnings), and 0.84 (wage and salary income). Each correlation measures the strength of the relationship between two variables. A value of 1.0 would mean that the two variables always move in the same direction and always by the same relative magnitude; a value of 0.0 means that the variables are unrelated; a value of -1.0 means that the variables always move in opposite directions by the same relative magnitude

Proprietors' income

Proprietors' income in the Eugene-Springfield MSA totaled \$828 million (2013 dollars) and had recovered 57% of the loss between the prerecession peak of \$909 million (2013 dollars) in 2006 and the low of \$723 million in 2009 (2013 dollars). Between 2011 and 2012 proprietors' income grew in real terms by 4.2%, well above the 1970-2012 average of 0.7% for this relatively volatile indicator. Figure 11 displays historical growth rates in proprietors' income for the region.

Figure 11: Annual growth in proprietors' income in the Eugene-Springfield MSA, 1990-2012

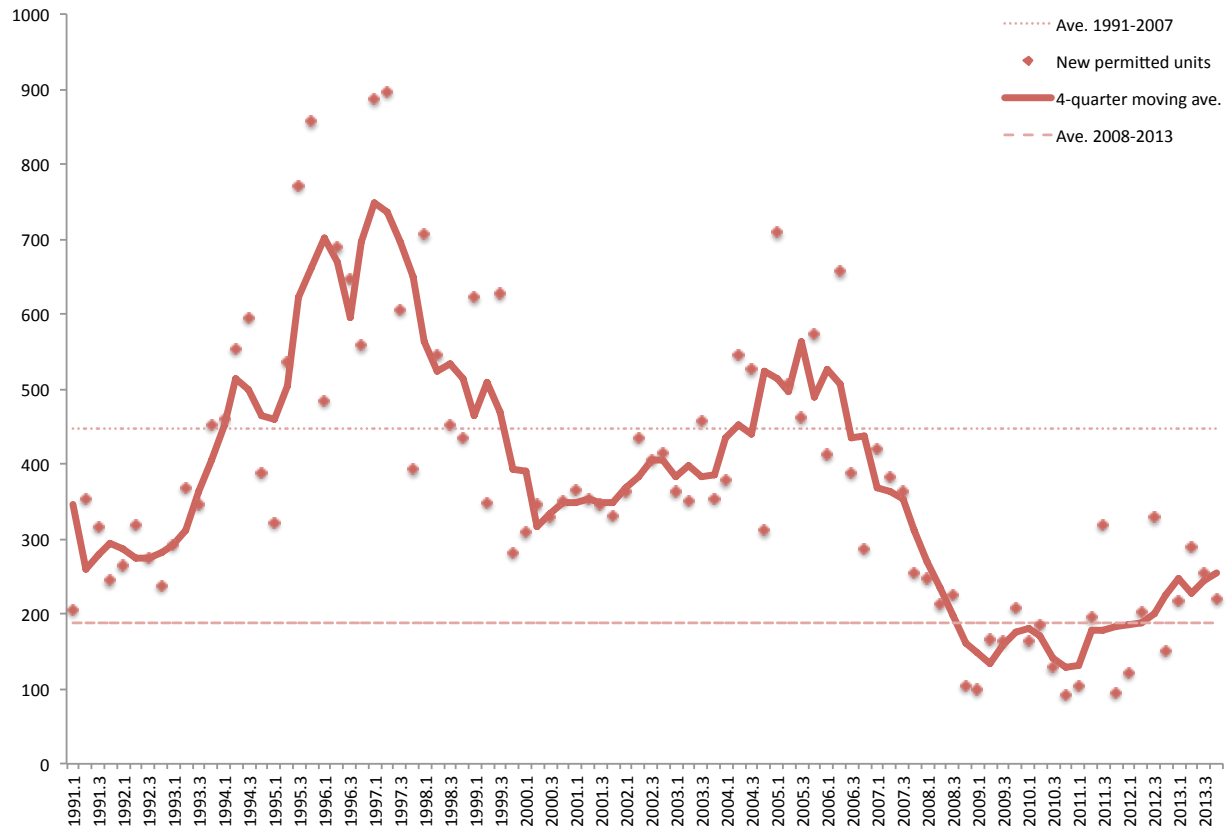


Source data: U.S. Bureau of Economic Analysis

Residential housing permits

Residential construction, as measured by the number of new permitted housing units, has recovered considerably from recessionary lows, but permit activity remains far below prerecession averages. In 2013, permits for 983 units were issued, compared to 569 in 2010, the lowest level since at least 1988. Prior to the recession, annual totals averaged about 1,800, or about 450 per quarter. Since 2008, annual permit totals fell below 800 until 2012. Figure 12 displays these data on a quarterly basis, which underscores recent upward trends.

Figure 12: New residential units permitted in the Eugene-Springfield MSA, 1991Q1-2013Q4

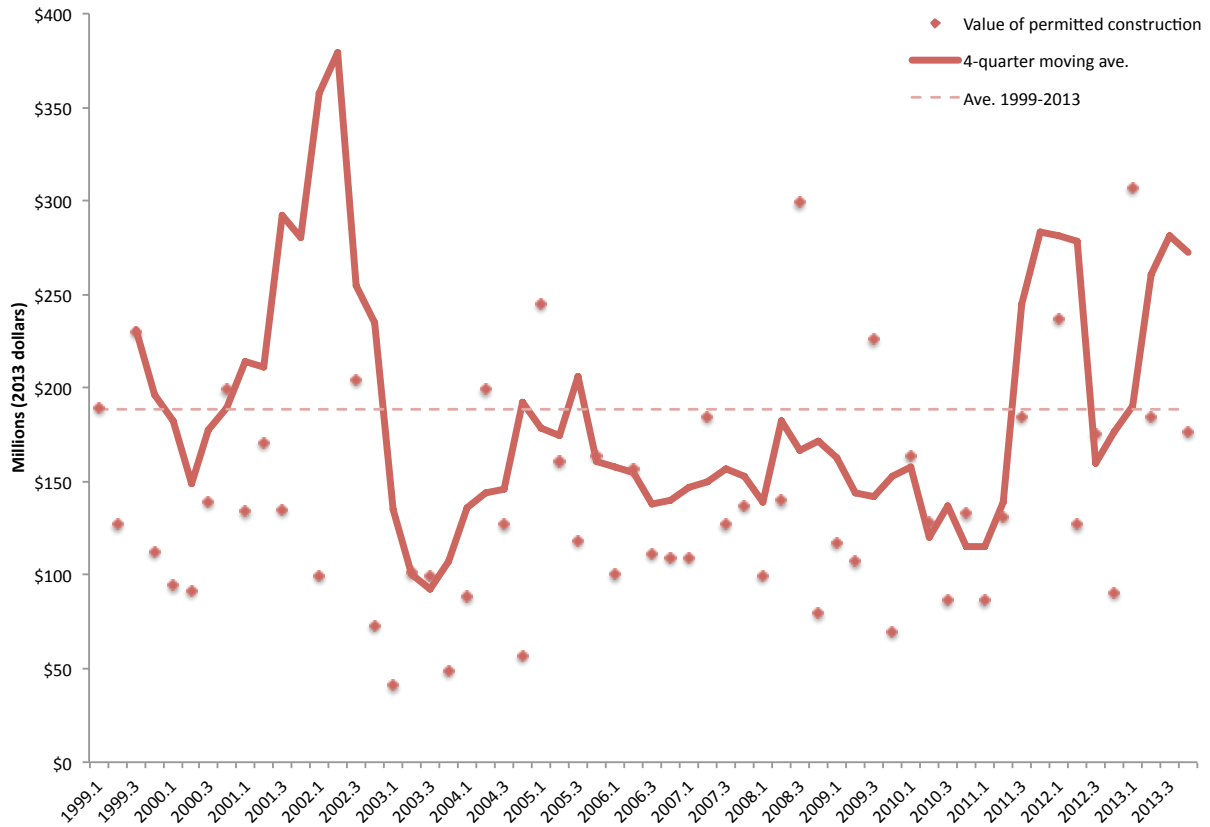


Source data: U.S. Census Bureau

Industrial construction

Industrial permit activity demonstrates significantly more volatility than residential construction, driven in part by the presence or absence of large projects permitted during any given period. For this report, we had data only for the City of Eugene (see Table 1 footnote). For Eugene, we find that the value of recently permitted industrial construction exceeds the longer-term average by a wide margin, as illustrated in Figure 13. We note that value per permitted site has also risen (data not shown). The total number of permitted projects in 2013 (1,991) was just below the annual average observed between 1999 and 2013 (2,030).

Figure 13: Value of new permitted industrial construction, City of Eugene, 1999Q1-2013Q4

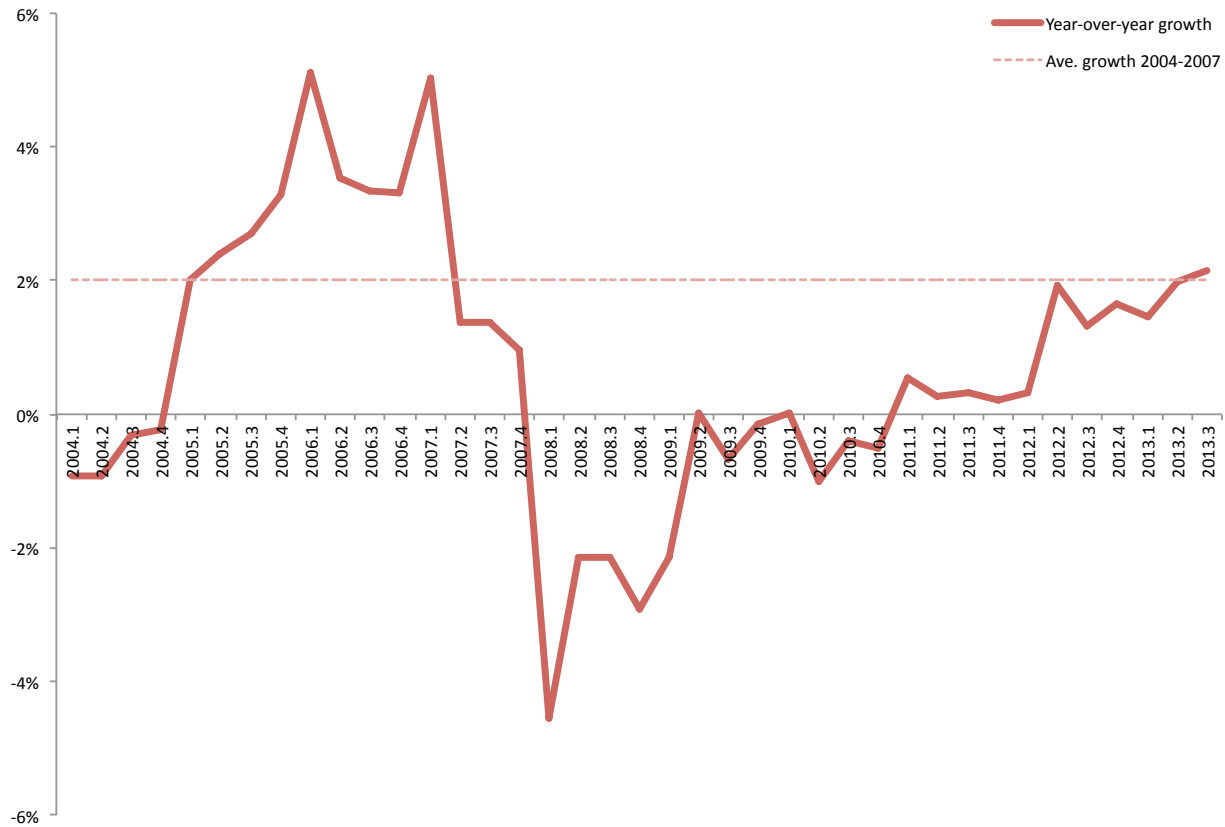


Source data: City of Eugene

Business establishments

The Bureau of Labor Statistics provides quarterly counts of business establishments. These counts provide another useful indication of the state of the economy. As of the most recent, preliminary data from the third quarter of 2013, the region had 10,975 business establishments, 1.8% below the peak of 11,178 observed at the beginning of 2007 and 5.3% higher than the low point of 10,419 observed in 2010. In recent quarters, year-over-year growth has hovered close to the 2% average growth rate observed between 2004 and 2007 (see Figure 14).

Figure 14: Year-over-year growth in business establishments in the Eugene-Springfield MSA, 2004Q1-2013Q3



Source data: U.S. Bureau of Labor Statistics