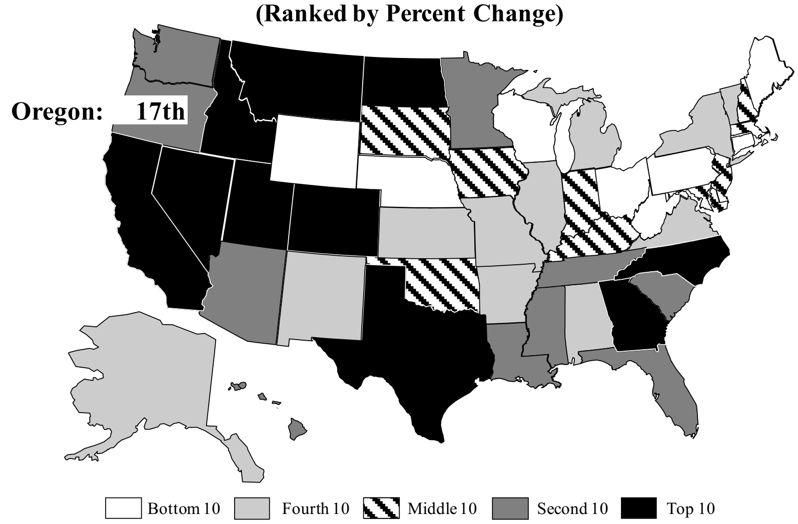
measured by data collected through the unemployment insurance program, it is clear that preliminary payroll job counts for the end of 2012 will be revised upward when benchmark adjustments are made next year. Such preliminary revisions to the payroll survey data are regularly published in some states. Beginning with the May 2013 employment release the Oregon Employment Department will provide preliminary employment revisions for the state on a quarterly basis.

Labor Market Rankings

The Office of Economic Analysis examines four main sources for jobs data: the monthly payroll employment survey, the monthly household employment survey, monthly withholding tax receipts and the quarterly census of employment and wages. Through the end of 2012 and into 2013 all four of these surveys were indicating moderate labor market improvement, however the near term month to month changes are harder to distinguish. Monthly payroll gains have been strong and the unemployment rate continues to trend downward. The QCEW employment figures show sustained job gains of over 23,000 through at least December 2012, when compared with a year earlier. Withholdings from paychecks continued to trend upward through the end of the year and so far in 2013, albeit at slower rates than historical expansions. All told, Oregon's labor market continues to improve in early 2013, after slowing down during the second half of 2012.

Figure O.1

Nonfarm Job Growth by State
March 2013 over March 2012
(Ranked by Percent Change)



Source: Blue Chip Job Growth Update, W.P. Carey School of Business, Arizona State University

The most recent job growth rankings, published by Arizona State University's W.P. Carey School of Business, places Oregon 17th in the nation for job growth. Between March 2012 and March 2013, jobs increased by 24,300, or 1.50 percent. Last March, Oregon ranked 43rd. Washington's growth has been even stronger; measuring 1.87 percent of the past year. This ranks 12th best among all states. The relative performance of the fifty states is shown in Figure O.1.

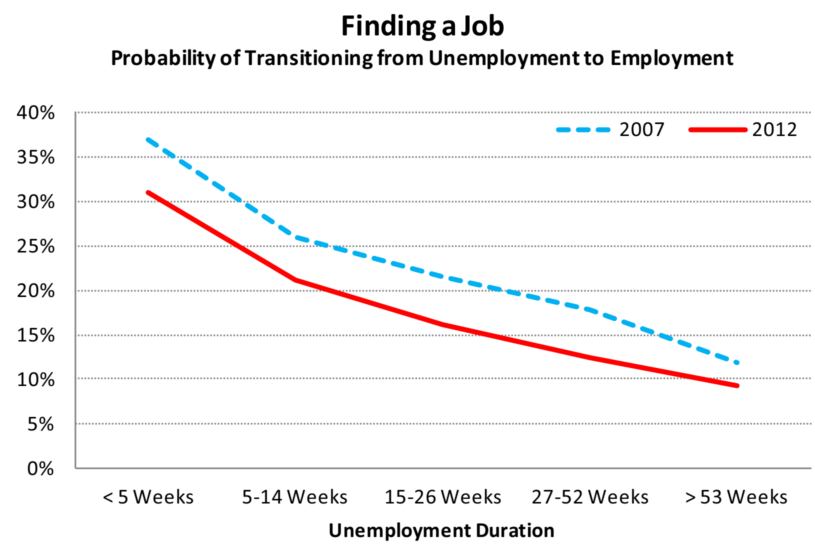
North Dakota retained the 1st ranked position with job growth of 4.27 percent, a ranking it also held a year ago. Elsewhere in the region, California's job gains ranked 6th and Idaho's 4th.

Long-Term Unemployment

The severity of the Great Recession has profoundly affected the labor market. Lasting impacts include both the increase in the number of individuals looking of work as well as an increase in their duration of unemployment. The number of long-term unemployed has skyrocketed in both Oregon and the nation overall. So far in recovery, the number of the long-term unemployed – who have been out of work for 6 months or more – has decreased, yet remains much larger than in recent decades.

Ensuring that individuals who have been out of work for an extended period of time remain a part of the labor force, and do not see their skills and productivity erode, is a challenge. Research by the U.S. Bureau of Labor Statistics[2] shows that in both good times and bad, the longer one is unemployed, the probability of successfully finding a job declines. Furthermore, the likelihood of dropping out of the labor force for the long-term unemployed is larger than the likelihood of gaining employment. Figure O.2 shows the probabilities of an individual transitioning from unemployment to employment, based on the duration of unemployment. The figure is based on national data provided by BLS. As seen in the differences between 2007 and 2012 transition probabilities, the depth and length of the Great Recession has reinforced and worsened these trends. In 2012, the overall probability of an unemployed individual fining a job was 18 percent. However, those unemployed for less than 15 weeks found work at an above average rate while those unemployed for longer struggled to find jobs. For each category of duration, the probability of transitioning into a job was lower than in 2007, reflecting both the slow improvements in the labor market in recent years and the larger population of unemployed individuals. A strong economy is needed to reintegrate these long-term unemployed back into a better functioning labor market.

Figure O.2



According to data from the Oregon Employment Department[3], in 2012 nearly 175,000 Oregonians were unemployed. Of these individuals, 35 percent, or over 61,000, were out of work for 6 months or longer with nearly 43,000 out of work for more than a year. These numbers are sizable improvements from 2010 when approximately 217,600 Oregonians were unemployed and the long-term numbered nearly 97,000, or 45 percent of the total. Even so, considerably more improvement, via a stronger economy, is needed before the number of unemployed in the state approach the pre-recession levels seen in 2007 of 98,700 total unemployed Oregonians and just 12,100 long-term unemployed.

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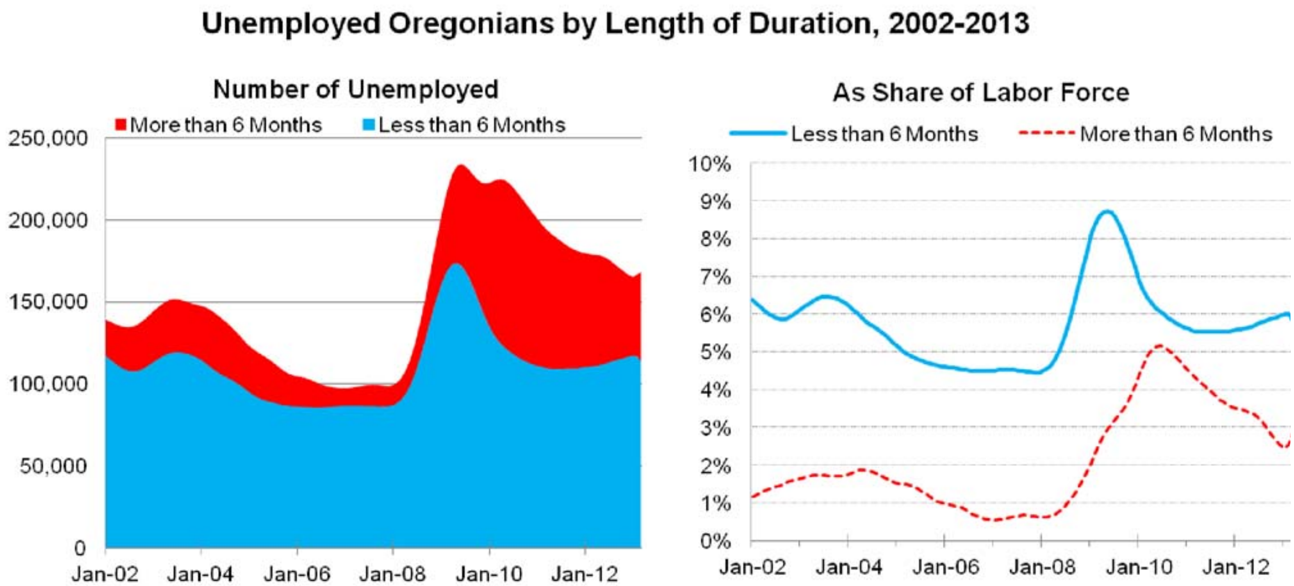
[2] http://www.bls.gov/opub/mlr/2012/03/art3full.pdf
[3] http://www.olmis.org/olmisj/ArticleReader?itemid=00008107

Figure O.3



To the extent that the skills of displaced workers have become obsolete, permanent damage has been done to Oregon's growth potential. Encouragingly, there is a pattern to labor market improvements that suggests conditions may improve among the long-term unemployed. Following a recession, improvement is first seen among the short-term unemployed. Once the level of short-term unemployment begins to approach its pre-recession level, then the improvement begins for the long-term unemployed. This pattern makes intuitive sense as well. During the early stages of recovery when businesses begin to hire, they are able to draw from a larger pool of potential candidates given the elevated unemployment rate. These businesses can be pickier and choose the best candidate given the overall lack of competing employment opportunities. As the labor market tightens, businesses have a smaller pool of candidates from which to choose and begin to hire workers that may have originally been further down the list.

In the aftermath of the Great Recession, even with the ranks of the unemployed being much larger than following any recession in recent memory, this same general pattern of improvement appears to be happening. In Oregon, as the share of short-term unemployed passed 6 percent of the labor force, the number of long-term unemployed began to decline as well. This also occurred following the 2001 recession, however the severity of the Great Recession has made for a more prolonged recovery. Even so, today's short-term unemployed, as a share of the labor force, remains higher than in the previous expansion, likely reflecting an increase in the so-called natural rate of unemployment. National forecasters surveyed by the Federal Reserve Bank of Philadelphia[4] estimate that the natural rate of unemployment – the unemployment rate when the economy is operating at full capacity – has increased from 5 percent prior to the recession to 6 percent today. This increase reflects what many economists view as a structural, or permanent, change to the economy given the causes, consequences and severity of the Great Recession. Millions of workers lost their jobs and businesses did not invest in new facilities and equipment during the recession, with the result being a hit to the productive capacity of the economy.

In terms of the outlook, the long-term unemployed represent both a potential upside risk and downside risk to the economy in both Oregon and the nation. On the downside, a diminished or

[4] http://www.phil.frb.org/research-and-data/real-time-center/survey-of-professional-forecasters/

declining labor force – particularly for the prime working-age population of 25-54 years of age – would negatively impact growth due to fewer individuals working, earning income and being productive. A smaller supply of workers also puts pressure on the labor costs of businesses.

On the upside, reintegrating the long-term unemployed and/or an increase in the labor force participation rate represent a potential boon to the economy. As job opportunities become relatively more plentiful, some discouraged workers will reenter the labor market. Additional individuals working results in more household income and cheaper labor for firms, producing a strong positive feedback cycle.

Employment in the Most Recent Quarter

Table O.1 shows a comparison of preliminary estimates for first quarter Oregon employment growth compared to the March 2013 forecast. Table O.1 also provides forecast errors and Y/Y growth. Unless noted otherwise all percentage rates discussed reflect annualized rates of change for first quarter 2013. When the preliminary estimate is lower than OEA's forecast, forecast error is shown as negative. Positive forecast error then means that the preliminary estimate came in higher than OEA's forecast. The preliminary estimate for first quarter employment was higher than forecast: approximately 6,200 jobs or 0.4 percent. This error is more than twice the size of the median error of our office's historical employment forecasts. The error can be evenly attributed to higher actual job counts in late 2012, after the preliminary revisions, meaning the base from which the previous forecast was built was lower than the actual numbers turned out to be. The other half of the error is due, simply, to stronger growth than the previous forecast projected. Overall, employment growth has picked up following the summer slowdown in 2012 in Oregon.