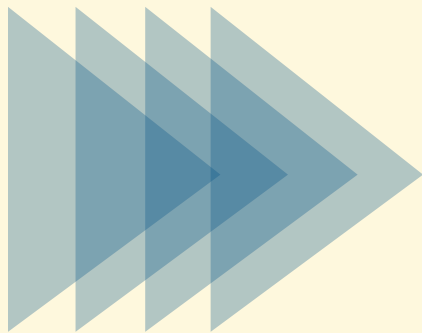


Why Oregon Trails The Nation



*An analysis of per capita
personal income*



WHY OREGON TRAILS THE NATION:

An Analysis Of Per Capita Personal Income



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EXECUTIVE SUMMARY

Per capita personal income (PCPI) is the annual sum of all resident income in a geographic area divided by the number of residents in that area, as of July 1 each year.

Oregon's PCPI has grown over time, but it hasn't grown as fast as the PCPI of some other states, nor as fast as the national average. As a result, in 2009, Oregon's per capita personal income was \$36,125, 91.2 percent of the national level. Oregon's PCPI ranked 32nd in both 2008 and 2009, the state's lowest ranking since at least 1929. In the last decade, Oregon's PCPI grew by 7 percent (inflation adjusted), while the nation's grew by 12 percent.

PCPI is lower in Oregon's non-metro areas than in the state's metro areas. However, the PCPI of Oregon's non-metro areas is similar to non-metro areas across the nation. In contrast, the PCPI of Oregon's metro areas is far below the average for all metro areas in the nation. The metro areas drive Oregon's statewide PCPI, because they account for more than 80 percent of Oregon's total income.

Significant causes of Oregon's low PCPI relative to the nation likely include:

- ✓ Lower industry wages.
- ✓ Lower earnings by proprietors.
- ✓ A fast-growing population.
- ✓ Lower wages in high-paying occupational groups.
- ✓ A net outflow of commuter wages.
- ✓ Higher unemployment rate and lower employment-to-population ratio.
- ✓ Shorter average workweek and more part-time work.

There are no simple solutions to this problem. Oregon's PCPI gap with the nation is significant. Some of the factors that contribute to this gap are beyond anyone's control and some are the result of Oregonians' individual choices.

INTRODUCTION

As Oregonians come to grips with what has arguably been the worst recession since the Great Depression, one area of concern for policy makers has been Oregon's lagging per capita personal income relative to the nation.

News media, public organizations like the Oregon Progress Board, and private economists have listed Oregon's low per capita personal income as an area of concern that policy makers should attempt to address. Oregon's PCPI has been below the national level since the early 1980s. Many causes have been cited, and there is no easy solution.

The purpose of this report is to shed light on the economic and demographic trends behind Oregon's below-average per capita personal income, to parse out and evaluate the most relevant causes, and to consider differences and similarities in some states with high levels of PCPI and other states with high rates of PCPI growth.

Oregon's 2009 PCPI Highlights

- ✓ Oregon's PCPI was \$36,125.
- ✓ The state's PCPI was 91.2 percent of the national figure (\$39,626).
- ✓ Oregon's PCPI increased 7 percent over the last decade, after adjusting for inflation, compared with a 12 percent increase nationally.
- ✓ Oregon's PCPI rank among states was 32nd in 2008 and 2009 – the state's worst ranking since at least 1929.

DEFINING PER CAPITA PERSONAL INCOME

The Bureau of Economic Analysis is the federal agency responsible for compiling personal income and per capita personal income estimates for the nation, states and areas. Per capita personal income (PCPI) is the annual sum of all resident income in a geographic area divided by the number of residents in that area, as of July 1 each year.

Personal income includes three major components:

- ✓ Net earnings by place of residence (examples: wages and salaries, employer contributions to pensions and insurance, proprietors' income)
- ✓ Dividends, interest, and rent (examples: interest income, corporate dividends, rental income)
- ✓ Personal current transfer receipts (examples: retirement and Medicare benefits, income maintenance programs, unemployment insurance benefits)

For more detailed definitions, please visit the glossary that appears at the end of this report.

How is Oregon's 2009 Per Capita Personal Income Calculated?	
PCPI =	$\frac{\text{Earnings by Place of Residence} + \text{Dividends, Interest, and Rent} + \text{Transfer Receipts}}{\text{Population}}$
\$36,125 =	$\frac{\$83.1 \text{ Billion Earnings} + \$28.2 \text{ Billion Dividends, Interest, and Rent} + \$26.9 \text{ Billion Transfers}}{3,825,657 \text{ Oregon Residents}}$

Figure 1

SOME IMPORTANT CONTEXT

Before launching into a detailed analysis of PCPI trends, it's important to share some thoughts and facts that help put this discussion in context.

“ Only 19 states and the District of Columbia had PCPI above the national level in 2009. ”

PCPI is just one of many economic indicators. The National Bureau of Economic Research (NBER) tracks more than 220 indicators and reports including consumer confidence and sentiment; unemployment, employment, and unemployment insurance weekly claims; consumer and home price indices; construction spending; worker productivity; tourism and retail sales; and many others. PCPI is not the only, or necessarily the best, overall indicator of well-being.

Like most economic data series, PCPI is an estimate. It's not a perfect number. It's a combination of some very good, reliable data and some best estimates.

Like most states, Oregon's PCPI level tends to be below the national level – only 19 states and the District of Columbia had PCPI above the national level in 2009. The nation's PCPI is lifted by high income in a small number of states.

The gap between Oregon's PCPI and the nation's PCPI is large and has grown in recent years. But it's important to note that even after adjusting for inflation, Oregon's PCPI has consistently risen during most of the past 70 years, from \$6,895 in 1929 to \$36,125 in 2009. Taking a more recent view, Oregon's PCPI increased in 15 of the last 20 years. So, the issue is not that Oregon's PCPI is not growing, it's that the state's PCPI is not growing fast enough (particularly in relation to population growth) and as a result Oregon's PCPI is not growing as fast as the U.S. average. So the question becomes, if some states' income can grow at a certain pace, why can't Oregon's?

As noted above, this is a long-term challenge. And there are no easy solutions. Three simple examples demonstrate how great a challenge it would be to raise Oregon's PCPI to the same level as the nation's:

1. As shown in Figure 1, the formula for computing PCPI is simple: total income divided by total population. Assuming no change in Oregon's population, the total income of Oregonians would have to increase by almost 10 percent in order for Oregon's PCPI to match the nation's.
2. Conversely, assuming no change in Oregon's total income, Oregon's population would have to be reduced by almost 9 percent in order for the state's PCPI to match the nation's. Oregon's continuing population growth is a reflection of the desirability and quality of our state. But it does have consequences for the PCPI calculation.

3. One possible solution is to attract a number of new high-wage companies to the state. However, the magnitude of the task is great: if Oregon attracted 10 companies, each with 1,000 jobs, and all of those jobs paid \$100,000 per year, Oregon's PCPI would rise from 91.2 percent of the U.S. level to 91.8 percent. An improvement, to be sure, but also evidence that it would take a tremendous number of new, high-wage jobs to close the gap.

Oregon's PCPI predicament is not necessarily anyone's fault. We may wish we, as a state, had done some things differently; we may wish certain economic trends hadn't impacted us the way they did. But as shown later in this report, many of the factors impacting Oregon's PCPI relative to the U.S. PCPI are beyond anyone's control.

On a similar note, some of the most important PCPI-related factors result from totally legitimate individual choices. Do a lot of individuals choose to move to Oregon from other places? Are some people willing to work for lower wages in Oregon because they prefer being close to the coast and the mountains, enjoy hiking and wind-surfing, and share Oregon's commitment to the environment and nature? Do some people prefer the more relaxed lifestyle of Oregon compared with the frenetic pace of a New York City? Yes, to all of the above. And all of these factors tend to drag down Oregon's PCPI.

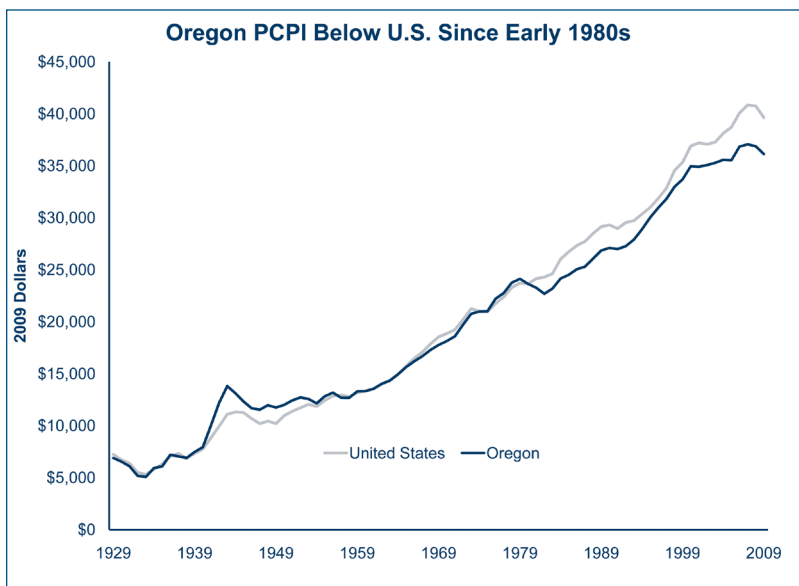
OREGON'S HISTORICAL AND CURRENT TRENDS

- ✓ Inflation-adjusted PCPI peaked in 2007, at \$37,059 in Oregon and \$40,839 nationally; state and national PCPI fell about 3 percent by 2009.
- ✓ Oregon has had a significant gap with the nation since the severe early 1980s recession.
- ✓ After narrowing in the early 1990s, the gap has worsened since 1996.

Per capita personal income in Oregon and the U.S. fell between 2007 and 2009 as a result of the recent recession. This followed inflation-adjusted peaks of \$37,059 for Oregon and \$40,839 for the U.S. in 2007. Oregon's PCPI level fell to 90.5 percent of the national level in 2008 – the largest gap between Oregon and the U.S. since 1929.

From 1938 to 1956, Oregon's PCPI was consistently above the national level. Incomes of this era were bolstered by defense manufacturing for World War II and the post-war economic boom. In 1943, war-related manufacturing propelled Oregon's PCPI to 125 percent of the national level, the highest Oregon's PCPI has ever been relative to the nation. Oregon's PCPI fell below U.S. levels in 1957, but remained near the U.S. through 1964 before falling for the next five years.

Starting in 1970, Oregon's PCPI grew faster than the nation's, and the state caught up to the U.S. in 1975. A booming manufacturing sector, including the important wood products industry, helped return Oregon's PCPI to above U.S. levels between 1976 and 1979, but the boom was short-lived. The national recessions of the early 1980s were especially tough on Oregon's economy. High interest



Graph 1

rates slowed the pace of new construction across the nation and demand for building materials fell. In Oregon's large and high-paying lumber and wood products industry, employment dropped 31 percent. Employment in construction, another high-paying industry, was cut nearly in half. By 1982, the state's PCPI fell to just 93 percent of the U.S. level.

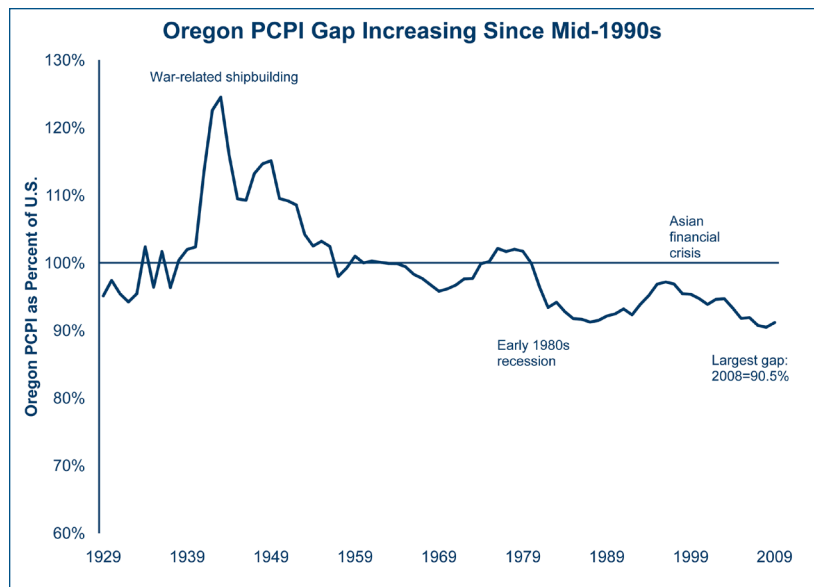
Oregon's PCPI remained low relative to the U.S. until 1993. Oregon's economy then grew rapidly, bolstered by employment growth in construction, high-tech manufacturing, and growing trade with Asia. The gap in PCPI between Oregon and the U.S. was at its smallest point in recent years in 1996. Then the Asian financial crisis struck in 1997 and exports to Asia fell. At the same time, some high-paying industries like electronic instrument

manufacturing and paper manufacturing began moving significant portions of their operations out of state. The state's PCPI growth was slower than the nation's in 10 out of the 13 years since 1996, causing the gap to widen to its current level.

There was a slight improvement in Oregon's PCPI relative to the U.S. in 2009. This was mostly caused by an increase in Oregon's per capita personal transfer receipts and a smaller decline in Oregon's dividends, interest, and rent than was the case nationally. Oregon's PCPI now stands at 91.2 percent of national level.

In terms of rankings among the states, Oregon hit its worst ever ranking (since 1929) in 2008 and 2009, at 32nd. Oregon's rank hit 30th five out of six years between 1982 and 1987, then the state's rank improved to 23rd between 1995 and 1997 before beginning another downward trend.

In 2009, the top PCPI states (and areas) were the District of Columbia, Connecticut, New Jersey, Massachusetts, Maryland, Wyoming, and New York. Those at the bottom of the rankings were Mississippi, Utah, Idaho, West Virginia, Kentucky, and South Carolina. The full list of 2009 PCPI ranks among states appears in the appendix at the end of this report.



Graph 2

- ✓ Metros drive Oregon's statewide PCPI, with more than 80 percent of Oregon's total income.
- ✓ Oregon's metro areas have been below the nation's metros since the early 1980s, although high-tech gave a temporary boost in the 1990s.
- ✓ While PCPI is lower in non-metro areas of the state, Oregon's non-metros have income similar to non-metros around the nation.

METRO AND NON-METRO PCPI IN OREGON

Oregon's metro areas tend to have higher per capita personal income than non-metro areas. In 2008 – the most recent data available – PCPI in Oregon's non-metropolitan counties amounted to 79 percent of the metro counties' average.

With the dominant share of the population, metros drive statewide PCPI. Metro areas accounted for about 82 percent of Oregon's total personal income in recent years.

Oregon's metro areas have almost always had lower PCPI than metros across the nation – a situation that was improving during the rapid growth of high-tech in the early 1990s, but has steadily deteriorated since the mid-1990s.

Until recently, Oregon's non-metro PCPI was above the national average (Graph 3). During the boom years of the timber industry Oregon's non-metro PCPI was very high compared to the national average for non-metros. Incomes relative to national non-metros fell dramatically in the early 1980s and continued to decline ever since, as no high-wage industry has emerged in rural areas to take the place of the declining wood products sector.

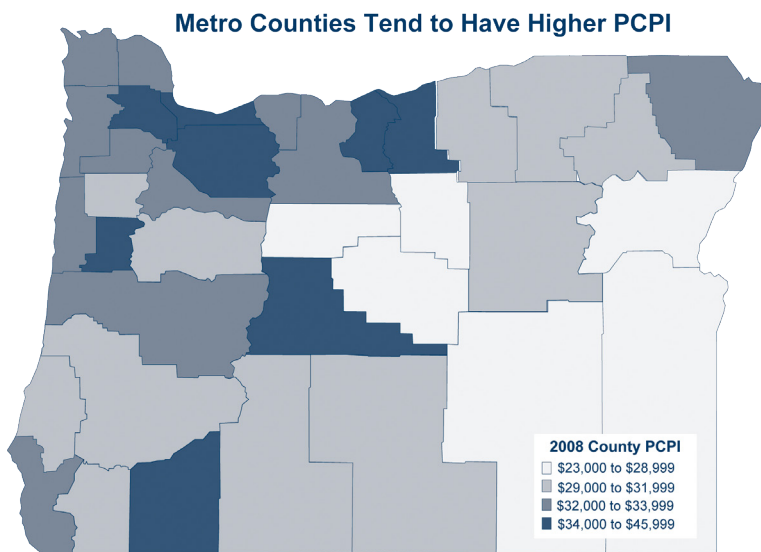
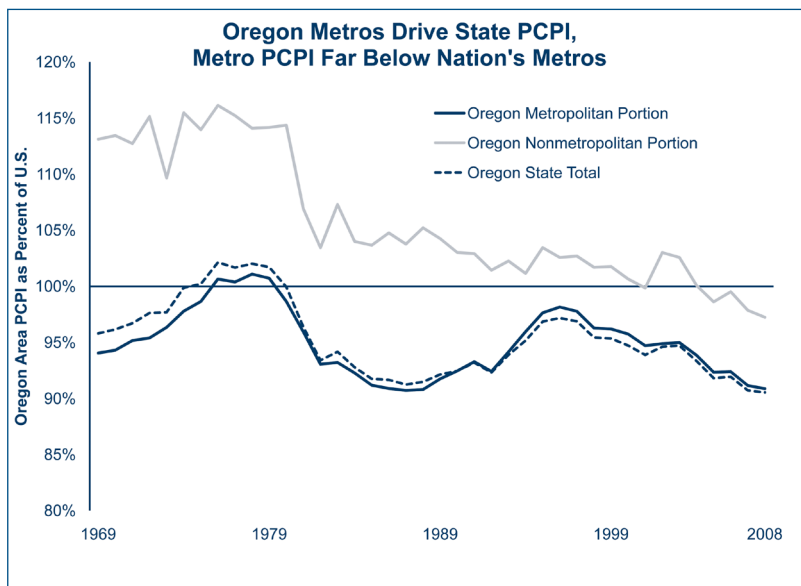


Figure 2



Graph 3

- ✓ Net earnings make up the majority of PCPI, and Oregon's per capita net earnings are low compared to other areas (\$21,722 in 2009, compared with \$25,539 nationally).
- ✓ Oregon's net earnings have always been below national net earnings, but the gap widened significantly with the early 1980s recession.
- ✓ Dividends, interest, and rent make up 20 percent of Oregon's PCPI. In 1996 Oregon's per capita dividends, interest, and rent was 116 percent of the national level; by 2009 it was 103 percent.
- ✓ Personal current transfer receipts make up the final 20 percent of Oregon's PCPI. Increases in Oregon unemployment insurance payments and income from retirement funds bumped per capita transfer receipts above the national level in 2009, for the first time since 2002.

COMPONENTS OF PER CAPITA PERSONAL INCOME

Net earnings by place of residence make up the majority of personal income. Oregon's per capita net earnings in 2009 were \$21,722, while per capita transfer receipts were \$7,037 and per capita dividends, interest, and rent were \$7,366.

Oregon's net earnings are significantly lower than the national level of \$25,539. Net earnings make up three-fifths of per capita income, and the gap between Oregon's net earnings and the nation's tends to account for most of the difference between Oregon and national PCPI. Therefore, this section will largely focus on this dominant component of PCPI.

Net earnings make up a smaller share of per capita personal income in Oregon than the U.S. (60% and 64%, respectively). Compared to other states and Washington, D.C., Oregon's net earnings now rank lower than at any other time since 1960, ranking 38th in 2009. In fact, Oregon's net earnings ranked 30th or worse in 26 of the 28 years since 1982; prior to that time it tended to be in the middle of the pack. This fact clearly indicates the severe – and lasting – impact of Oregon's 1980s recessions.

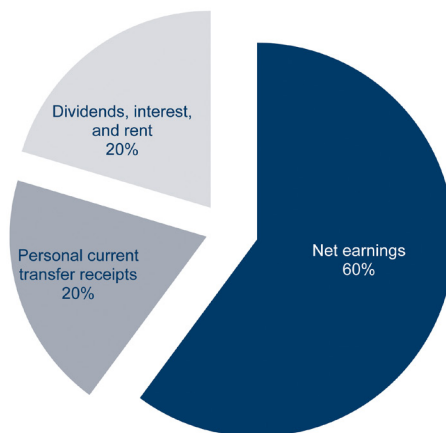
The states at the top and bottom of the net earnings rankings largely echo those for overall PCPI. At the top: District of Columbia; Connecticut; New Jersey; Maryland; Massachusetts; and Virginia. At the bottom: Mississippi; Arkansas; West Virginia; Idaho; South Carolina; and Kentucky.

Components of Per Capita Personal Income, 2009

	Oregon	U.S.
Net earnings	\$21,722	\$25,539
Dividends, interest, and rent	\$7,366	\$7,143
Personal current transfer receipts	\$7,037	\$6,944

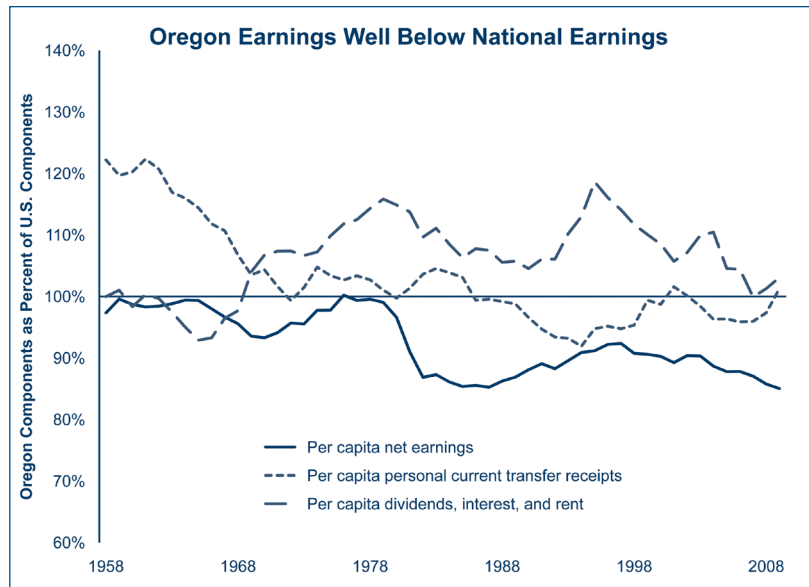
Table 1

Earnings Made Up Three-Fifths of Oregon PCPI in 2009



Graph 4

Graph 5 shows the components of per capita personal income as a percent of the nation's components. On a per capita basis, net earnings have matched the nation in only one year since the late 1950s: 1976. In all other years Oregon's per capita net earnings have been below the U.S. level. In 2009, Oregon's per capita net earnings were \$21,722, 85 percent of the national figure (\$25,539). In the mid-1990s, Oregon's per capita net earnings were above 90 percent of the national level.



Graph 5

It isn't as if Oregon's per capita net earnings haven't grown since the mid-1990s. In fact, after adjusting for inflation, 2009 earnings were 10 percent above the level in 1996, even after declining on an inflation-adjusted basis since 2006. Still, that gain was only half the national pace of 20 percent growth between 1996 and 2009, and thus net earnings relative to the nation declined.

No component of Oregon earnings has kept pace with national growth rates. Since 1996, Oregon wages and salaries grew by 3 percentage points less than national wages and salaries. Supplements to wages and salaries – which include employer contributions to pensions, insurance, and government social insurance – grew 8 percentage points less than the national average. Proprietors' income fell furthest behind, lagging the nation by 21 percentage points. After adjusting for inflation, proprietors' income grew 34 percent nationally between 1996 and 2009, and 13 percent in Oregon.

The dividends, interest, and rent component of PCPI also failed to keep pace with growth nationally. As Graph 5 shows, this component outperformed the national average since the late 1960s, but recent stronger growth nationally has narrowed the gap. Since 1996, Oregon's inflation-adjusted dividends, interest, and rent per capita grew 5 percent, while the component grew 18 percent nationally. As of 2009, Oregon's dividends, interest, and rent was 103 percent of the national level, down from 116 percent in 1996.

Oregon's per capita personal transfer receipts have bumped up above the national level in this current recession, as they did during the last recessionary period in 2001 and 2002. Both unemployment insurance payments and increased income from retirement funds have caused the recent surge. In 2009, Oregon's per capita personal transfer receipts were 101 percent of the national level, up from 96 percent in 2004 through 2007.

Significant causes of Oregon’s low PCPI relative to the nation likely include:

- ✓ Lower industry wages.
- ✓ Lower earnings by proprietors.
- ✓ A fast-growing population.
- ✓ Lower wages in high-paying occupational groups.
- ✓ A net outflow of commuter wages.
- ✓ Higher unemployment rate and lower employment-to-population ratio.
- ✓ Shorter average workweek and more part-time work.

EXPLAINING OREGON’S LOW PCPI

In 2009, Oregon’s PCPI was 91.2 percent of the nation’s. A combination of many different factors, some due to economic structure and some due to people’s choices, all play a role in the headline figures. Also, national PCPI is not static: there are structural economic and demographic trends in other areas of the nation that affect comparisons with the nation and other states. Some of these factors can be “proven” with data, and others are

less straightforward. Table 2 shows how applying national averages to some factors reduces Oregon’s income gap with the nation. For example, applying the national average for proprietors’ income to Oregon’s proprietors – holding all other considerations constant – would move Oregon from 91.2 percent of national PCPI in 2009 to 93.7 percent of national PCPI.

	PCPI	Oregon as % of U.S.	Gap Remaining
Original	\$36,125	91.2%	\$13,392,284,282
Adjusting proprietor income	37,143	93.7%	\$9,498,563,970
Adjusting industry wages	37,545	94.7%	\$7,961,668,051
Adjusting supplements to wages	36,272	91.5%	\$12,830,828,267
All of the above	38,709	97.7%	\$3,506,491,723
Adjusting transfer payments	36,033	90.9%	\$13,746,459,644
Adjusting dividend payments	35,902	90.6%	\$14,246,481,139
All of the above	38,394	96.9%	\$4,714,863,942

Difference between total gap and sum of components due to net outflow of earnings (approximately 2%) and rounding.

Table 2

Focusing on the Most Important Contributors

Three factors seem to be the most significant contributors to Oregon’s gap with national PCPI: lower earnings, lower proprietor income, and fast population growth. Let’s delve into these areas, which seem to have the most impact, before pursuing other contributors later on.

➤ Lower Earnings (*Many Factors at Play*)

Oregon’s lower earnings emerged as the major story in the state’s low PCPI. Many trends play into lower earnings in Oregon. It’s impossible to do this topic justice in a few short paragraphs, so we’ve devoted the entire next section to the reasons behind Oregon’s lower earnings. These reasons include: low industry wages, low wages in high-paying occupations, outflow of cross-state commuter wages, a high unemployment rate and low employment-to-population ratio, and a shorter workweek and more part-time work in Oregon.

➤ **Lower Proprietor Earnings (*Including Some Interesting Estimation*)**

Proprietors make up a larger portion of Oregon's total employment than is true for the nation, but Oregon proprietors earn less. Proprietors include sole proprietorships, partnerships, and tax-exempt cooperatives. In 2009, 23 percent of Oregon's total employment was in proprietorships compared to 21 percent nationally. Oregon proprietors earned an average of \$19,805 in 2009, 72 percent of the earnings of their national counterparts. Oregon's 2009 proprietors' earnings ranked 42nd among the states and D.C.

This earnings gap is not new. In all but one of the past 40 years, Oregon proprietors earned less than their national counterparts. The gap widened from 88 percent in the early 1990s to 74 percent in the late 1990s and remained relatively stable since then.

If Oregon proprietors earned the same income as the national average in 2009, Oregon's total personal income would rise, and Oregon's PCPI gap would narrow 2.5 percentage points from 91.2 percent to 93.7 percent of the national PCPI.

When evaluating proprietors' income, consider that the Bureau of Economic Analysis (BEA) estimate of Oregon's proprietors' income is not based on current, state level data. Fifty-two percent of nonfarm sole-proprietors and partnership income is an income misreporting adjustment that tries to account for income that is not reported on tax returns. The adjustment is estimated at the national level and distributed to states based on a three-year average of each state's net receipts by industry. Other sources of proprietors' income, such as inventory valuation and capital consumption are also estimated at the national level and distributed to states based on tax records.

➤ **Population Growth (*Keeping Up When They Keep on Coming*)**

Fast population growth, coupled with average or below-average income growth, results in an increasing PCPI gap with the nation. Between 1990 and 2009, Oregon's annual population growth matched or exceeded the U.S. in every year but one. Over the entire period, Oregon experienced 34 percent growth in population, compared to 23 percent for the U.S. In the 1990s, Oregon's population increased by 20 percent; the nation's rose by 13 percent. Oregon's rate of population growth slowed to below 12 percent between 2000 and 2009, but still outpaced the U.S., which saw a population expansion of 9 percent during these years.

Oregon's population has grown in all but two years since the 1960s, regardless of the economic situation. The two years with population declines were 1982 and 1983. In most years, net in-migration accounts for the majority of population growth. A survey of in-migrants completed by the

“ In all but one of the past 40 years, Oregon proprietors earned less than their national counterparts. ”

Oregon Employment Department in 1998 revealed that moving close to family and friends was the most frequently cited reason (45%) for moving to Oregon. Quality of life was the second-most cited reason at 44 percent. Relocating to Oregon for a job came in third place at 36 percent.

While the data is several years old, it's likely that people continue to move to Oregon for similar reasons. When new residents come to the state without jobs, they add to the population side of the PCPI equation, without adding income from work to the income side of the equation; new residents taking their time or unable to find jobs means the same personal income is spread among more residents, resulting in lower PCPI.

Factors Affecting Earnings

As promised, we'll now dig deeper into the earnings-related factors.

➤ **Industry wages**

A significant part of the gap in Oregon's PCPI relative to the nation is due to industry wages. The majority of Oregon industries pay less than their national counterparts. If Oregon industries paid the same as the U.S. averages, Oregon's average wage would move from \$41,422 to \$44,643.

Holding all other considerations constant, applying national wages to Oregon's industry structure reduces the PCPI gap with the nation – moving Oregon from 91.2 percent of U.S. PCPI in 2009 to 94.7 percent.

➤ **Occupational wages**

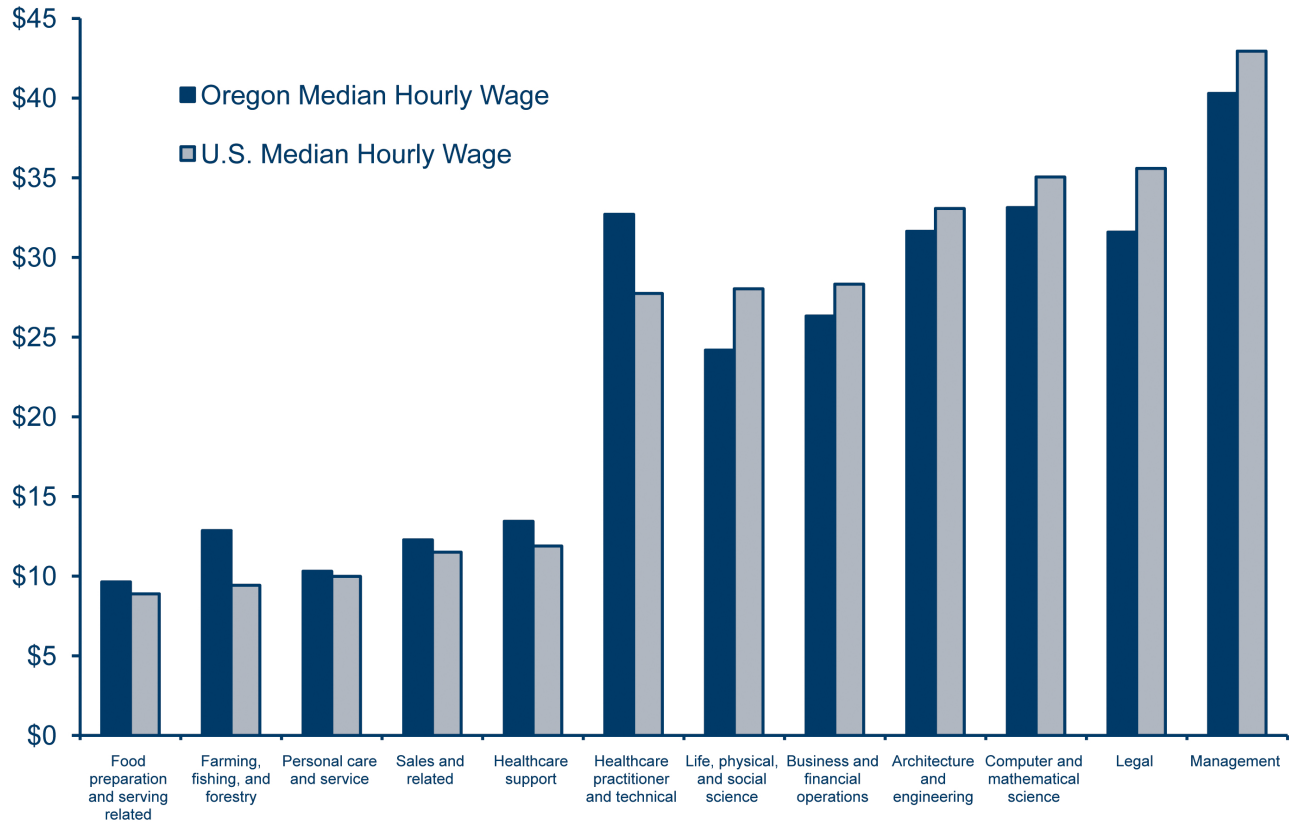
Oregon's median hourly wage of \$16.16 in 2009 was slightly above the national median of \$15.95. The notable difference between Oregon and the U.S. – and the more likely factor to affect PCPI – occurs in wages paid to the various occupational groups. Oregon pays above the U.S. median wage in lower earning occupations, but pays less than the median in high paying occupations.

Oregon median hourly wages lag behind the U.S. noticeably in high-paying occupational categories, such as life, physical, and social science (86% of U.S.); legal occupations (89%); business and financial operations (93%); management (94%); and computer and mathematical science (95%). This set of occupations made up roughly the same share of total employment: 13 percent of 2009 employment in Oregon, and 14 percent of the U.S. employment (Graph 6).

➤ **Net outflow of commuter wages**

The net earnings component of personal income is the earnings from work of Oregon residents, including Oregonians who work outside the state. The earnings of residents who live in other states and work in Oregon are not counted as personal income in Oregon. Their earnings are counted in their state of residence and these commuters have a downward effect on Oregon's PCPI.

Oregon Wages Fall Behind Nation for High-Paying Occupation Groups



Graph 6

Roughly 89,000 employees and an unknown number of self-employed workers in Oregon are residents of other states. Two-thirds of those workers live in Clark County, Washington. In contrast, only half that many Oregonians work in other states (roughly 43,000 employees and an unknown number of self-employed workers). As a result, out-of-state workers in Oregon took home \$2.4 billion in earnings more than Oregonians who work out of state were bringing home in 2009. Oregon now ranks 6th highest in the nation for net outflow of wages. New York and Washington D.C. have the largest net outflows of any areas.

The net outflow of earnings was 2.4 percent of all work earnings in Oregon in 2009. If the flow of commuter earnings in and out of the state were even, Oregon's PCPI would be 92.7 percent of the national figure, 1.5 percentage points higher than the current figure. By this measure, the net outflow of commuter wages accounts for 17 percent of the difference between Oregon's PCPI and the national PCPI.

➤ High unemployment rate holding down wages

A high unemployment rate and many available workers put downward pressure on wages, leading to lower earnings and thus lower PCPI. With a sur-

plus of available labor, workers in Oregon have less power to ask for wage increases. Oregon's unemployment rate has long been above the national rate, regardless of whether the economy is in recession or expanding.

Some reasons for Oregon's high unemployment rate include the state's more seasonal employment pattern, reliance on cyclical industries, and structural changes in the economy, especially in wood products and high technology. While these factors may help explain a large part of Oregon's persistently high unemployment rate, there may be other factors as well. For example, states with relatively mild winter and summer weather tend to have somewhat higher unemployment rates than states with more severe climates. Also, Oregon has comparatively little of its total labor force living in very large urban areas; large urban areas tend to have below-average unemployment rates in our two large neighboring states.

➤ **Lower employment-to-population ratio**

With earnings constituting the largest share of PCPI, the state's lower rate of wage earners in the population can negatively impact Oregon's PCPI figure. Employment-to-population ratios serve as a measure of labor force participation, looking at the share of the total population ages 16 and older who are working. Oregon historically had a higher employment-to-population ratio than the U.S., but has fallen below the national ratio in recent years. Between 1996 and 2009, Oregon's ratio declined from 65 percent to 58 percent. While the U.S. employment-to-population ratio also declined during this period – from 63 percent to 59 percent – the U.S. now exceeds Oregon's ratio by 1 percentage point.

A low ratio may be caused by a higher proportion of unemployment in the working age population, a higher proportion of retirees, and by a larger share of the population that chooses not to work, among other reasons. Oregon's low 2009 employment-to-population ratio can be at least partially attributed to the high number of unemployed residents. Between 2007 and 2009, the number of unemployed Oregonians increased 120 percent – the 12th fastest increase in the nation.

➤ **Shorter workweek and more part-time work**

Oregon's average workweek is 2 percent shorter than the nation's, and shorter than all but 10 states.

Oregon has a shorter workweek than the nation in seven of our eight major industries. Only workers in trade, transportation, and utilities clock in a longer workweek than the national average. Of the other major industries, Oregon's workweek ranges from three-tenths of a percent shorter in financial services to 5 percent fewer average weekly hours in education and health services. Oregon's workweek length ranks in the bottom 25 percent of all states in five of eight broad industries, and ranks in the lowest half for all broad industries except trade, transportation, and utilities.

Oregon has a high share of part-time workers (those working fewer than 35 hours per week). In fact, the state's part-time workforce accounted for 34 percent of employed workers in 2009, the 3rd highest share among the states and D.C. The national average in 2009 was 29 percent. The greater rate of part-time work could mean fewer hours of earnings each week for Oregonians compared with other states.

Oregon was among the top 10 states for the share of involuntary part-time workers in 2009. Involuntary part-time workers are working part time due to slack work or business conditions, an inability to find full-time work, or issues with child care. Oregon also has the 3rd highest rate of usual part-time workers, which includes a mix of both voluntary and involuntary reasons. Among workers who usually worked part time in 2009, 32 percent (123,000 workers) did so for involuntary reasons. Among workers who usually worked full time but were currently working part time, 28 percent (46,000 workers) did so for involuntary reasons. That leaves 380,000 of Oregon's part-time workers who worked part time voluntarily.

Other Factors

➤ **Larger share of population in non-metro areas**

Due to the lower nominal PCPI of those working in non-metro areas, Oregon's relatively high share of workers in non-metro areas contributes to overall lower per capita personal income. Oregon's non-metro PCPI was \$30,237 in 2008, while metro PCPI was \$38,104. In 2008, 15 percent of workers nationwide worked outside metropolitan areas, while 19 percent of Oregonians worked in non-metro areas.

➤ **Cost of living**

The purchasing power of Oregon residents is dependent on their income levels and on the costs of local goods and services, so it is likely that the state's PCPI is related to cost of living here. A study by the Bureau of Economic Analysis (BEA) in 2006 found that regions with high per capita personal incomes tend to have high price levels and those with low per capita personal incomes tend to have low price levels. The study also found that state PCPI levels were closer to the national average after adjusting for differences in consumer prices and housing costs.

Not surprisingly, the study found the highest prices were in Hawaii, New York, New Jersey, California, and Connecticut. The states with the lowest prices were West Virginia, North Dakota, Arkansas, Mississippi, and Alabama. Oregon's prices were almost 5 percent lower than the national average in 2006 and the state ranked 20th in costliness among the states.

If Oregon's 2006 PCPI were adjusted to account for the lower prices in the state, this price equivalent PCPI would add \$1,108 to the figure, over one-third of the difference between Oregon and U.S. PCPI levels that year.

Oregon's PCPI would still be lower than the nation's, but the purchasing power of Oregon residents would be closer to the national average.

Factors That Don't Have Much Impact

➤ **Industry and occupational mix**

Oregon's industry and occupational structure do not appear to have a significant impact on the gap between state and national PCPI. If Oregon's industry mix were the same as the nation's, the average wage per non-farm job would increase from \$41,422 to \$41,653. This would only marginally reduce the PCPI gap from 91.2 percent in 2009 to 91.4 percent.

Oregon's occupational mix closely matches that of the U.S. In 2009, the state's share of employment did not vary from the nation's by even 1 full percentage point in any of the 22 broad occupational categories.

➤ **Minimum wage**

Minimum wage does not appear to directly impact a state's overall PCPI. States with high minimum wages are scattered in the PCPI rankings; some are low and some are high. The large block of states with the federal minimum wage – which vary widely in their PCPI rankings – made analysis of this relationship more difficult. It is likely that Oregon's high minimum wage is one reason that Oregon pays above the national median wage in low-wage occupational groups.

➤ **Federal government employment and spending**

Federal government employment does not appear to have a significant impact on PCPI, except in the D.C. area. Some top PCPI states have relatively large, well-paying federal sectors, while other high PCPI states have relatively little employment in federal government. Oregon, with less than 2 percent of total employment in the federal sector, has the 21st smallest federal sector in the nation. The compensation of Oregon's federal workers is also relatively low; 93.7 percent of the national average and 27th lowest among all states. If federal employment and compensation were removed from income calculations across all states, Oregon's ranking in average compensation per job would remain the same, 26th (highest).

Federal spending likely has an impact on state income, although the extent is unknown. The District of Columbia, Virginia, Alaska, and Maryland – high PCPI states – have the highest per capita federal spending in the nation. On the other hand, New York and New Jersey, also high PCPI states, see relatively little federal spending. Oregon lags the nation in federal spending on procurement contracts, with per capita spending of \$645 in Oregon well below the national per capita figure of \$1,794 and 6th lowest in the nation.

➤ **Unionization of the workforce**

There is a relationship between unionization and PCPI, with high-unionization states somewhat more likely to have high PCPI. However, this relationship does not hold true for Oregon, where the unionization rate ranks 13th highest among the states in the private sector and 6th in the public sector, yet our PCPI is low.

Factors Requiring Additional Research

We acknowledge that some or all of the following three factors may also have an impact on the state's PCPI. However, as they fall outside our particular area of focus and expertise, we content ourselves with simply listing them here, perhaps briefly mentioning them where particularly relevant, and then leaving it to experts in each of these fields to help enlighten Oregonians on the significance of each factor.

- **Share of population with higher education**
- **Investment in education and infrastructure**
- **Tax structure**

- ✓ The simple math: Oregon's population growth has been faster than the U.S., and wage and salary growth has been slower.
- ✓ Proprietors' income has fallen further behind the national average.
- ✓ Growth in Oregon dividends, interest, and rent has not kept pace with national growth.

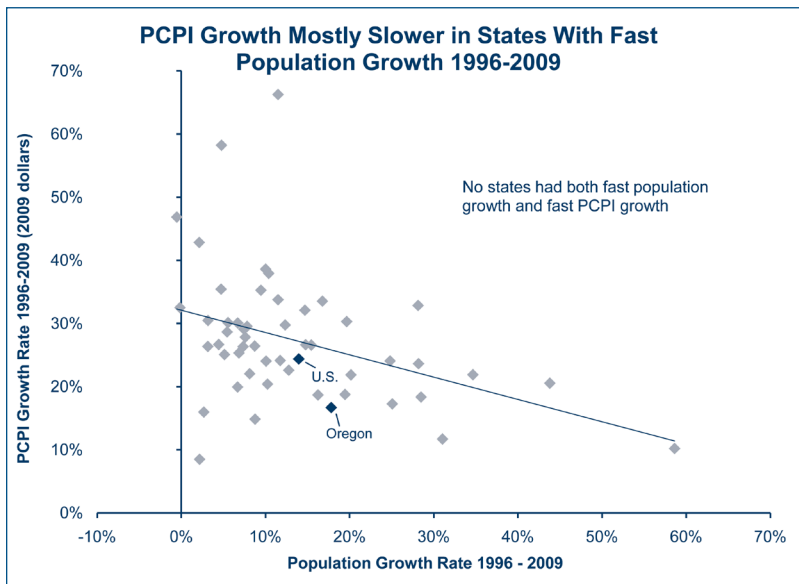
EXPLAINING THE WIDENING PCPI GAP: 1996-2009

Oregon's PCPI gap with the nation was the smallest in recent decades in 1996 when the state's PCPI was 97.2 percent of the nation's. It has since fallen to an all-time historic low of 90.5 percent in 2008, and was 91.2 percent of the national figure in 2009. This section explores how some of the components of Oregon's PCPI have fared relative to the nation since 1996.

The Population is Growing Faster

Oregon's population grew at a much faster rate than the U.S. since 1996. The state grew 18 percent while the nation grew 14 percent. Because population is the denominator of the PCPI formula, Oregon's total personal income would have needed to grow at a much faster pace than the nation just to maintain the PCPI gap that existed in 1996.

Population estimates from the Population Research Center at Portland State University show that roughly two-thirds of Oregon's population growth since 1996 has been due to net in-migration. Each year, far more people move into the state than out of it. Unfortu-



Graph 7

nately, there is not a lot of solid information about the income characteristics of people moving into or out of Oregon. To the extent that people moving to Oregon are young adults early in their careers or retirees without wage income, the in-migrants would put downward pressure on PCPI. Oregon's PCPI in recent years may have been a "victim" of the state's attractiveness, and a resulting population influx, particularly by those without incomes significantly higher than the Oregon average.

A thorough discussion about the complex relationship between population growth and economic growth is beyond the scope of this paper. However, an overly simple calculation suggests that if Oregon's total personal income grew as it did between 1996 and 2009 but the population grew at the same

pace as the nation, Oregon's PCPI would have fallen to 94.3 percent of the national PCPI, instead of 91.2 percent.

Slower Average Wage and Salary Growth

The average wage and salary for employees in Oregon was 94 percent of the U.S. average in 1996. Average wages and salaries in Oregon grew slower than in the nation and by 2009 they had fallen to just 90 percent of the U.S. average.

The slower wage and salary growth was true for most industries in Oregon. In 1996, Oregon workers in 55 out of the 80 comparable private industry sectors were averaging lower wages than their industry counterparts across the nation. Average employee wage growth was slower for Oregon workers in 53 industries and by 2009, employees in 61 of Oregon's industry sectors were averaging less than their national counterparts.

Average wages and salaries were also lower and grew more slowly for federal civilian and state and local employees between 1996 and 2009. Military employees in Oregon averaged lower pay in both years, but their average grew at a faster rate than military employees nationwide.

What About Employment Growth?

Overall employment growth in Oregon grew slightly faster than the nation between 1996 and 2009, so employment growth does not appear to be a major contributor to the widening PCPI gap.

Oregon experienced more rapid employment growth in lower-paying industries compared to the nation. The 10 lowest paying industries grew by 21 percent in Oregon compared with 16 percent nationwide. However, growth was also stronger in Oregon's higher-paying industries. The 10 highest paying industries grew by 16 percent compared with a decline of 3 percent nationwide. The faster growth in the lower paying industries has had the effect of keeping down average wages and salaries.

Another way to look at the effect of employment growth is to fix Oregon growth rates by industry to national industry growth rates and compare average earnings. As it turns out, if employment in each Oregon industry had grown at the same pace as its national counterpart, the 2009 earnings gap would have remained virtually the same. So it is slow growth in job earnings, rather than lack of growth in the number of jobs, which contributes to Oregon's widening earnings gap.

Proprietors' Income is Also Falling Behind

The average income of proprietors (sole proprietorships, partnerships, and tax-exempt cooperatives) in Oregon has historically been lower than the nation. In 1996 the average proprietor income was 78 percent of the national average and fell to 72 percent of the national average by 2009.

Nearly all proprietors' income is from nonfarm proprietors. They drove the widening gap in proprietors' income as the average fell from 81 percent of the nation in 1996 to 77 percent in 2009.

Farm proprietors' income averages 3 percent of Oregon's total proprietors' income, so farm proprietors' income is just a small portion of proprietors' income. It's also low when compared with the nation. Oregon's farm proprietors have averaged about one-third of the annual income levels that their national counterparts earned since 1996. Farm incomes vary significantly from year to year depending on commodity prices, and recent years have been particularly tough on Oregon farm proprietors. They actually lost money on average in 2009, while farm proprietors nationwide have not fared as badly.

Dividends, Interest, and Rent Growth is Losing Ground

Dividends, interest, and rent make up one-fifth of Oregon's personal income stream. This income source is greater in Oregon than in the nation on a per capita basis, but it has been losing ground to the nation. In 1996, Oregon's per capita dividends, interest, and rent was 116 percent of the nation's. By 2009, it had fallen to just 103 percent of the nation's.

Interest income accounts for 57 percent of dividends, interest, and rent income in Oregon. Interest income per capita is still slightly higher than the nation, but fell from 119 percent of the national level in 1996 to just 106 percent in 2009. Dividends account for 28 percent of the category, and fell from 106 percent of the national level to 92 percent of the national level on a per capita basis.

Per capita rent fell slightly relative to the nation between 1996 and 2009, falling from 119 percent of the nation's to 118 percent in 2009. It is a strongpoint of Oregon's PCPI, but rent income is just 14 percent of the category, so subtle changes do not have much impact on the growing gap.

Is it Possible to Narrow the Gap?

With Oregon's population growing faster than the nation, the only way to close the state's PCPI gap with the nation is to increase income at a faster rate than the state's population growth. Of the three components of PCPI, two (earnings by place of residence; and dividends, interest, and rent) have been losing ground relative to the nation since 1996. Per capita personal current transfer receipts in Oregon have increased faster than the nation since 1996, mostly because of faster growth in income maintenance sources, which includes Supplemental Security Income, family assistance, food stamps, and other income maintenance benefits.

With these factors working to widen Oregon's PCPI gap, is there any way to reverse the trend and raise PCPI? A few states have. We'll take a look at trends in high PCPI and fast-growing PCPI states in the next section.

Top-PCPI states (Connecticut, New Jersey, Massachusetts, Maryland, Wyoming, and New York) and the District of Columbia differ from Oregon and the rest of the nation in significant and fundamental ways:

- ✓ The unique, high-paying structures of these economies are unlikely to be replicated in Oregon.
- ✓ Removing the top states and D.C. from the analysis reduces Oregon's gap with the nation by 3.8 percentage points.

COMPARISONS WITH OTHER STATES

Looking at economic and demographic trends in the states with the highest PCPI can lend insight into Oregon's gap with the national average, which is pulled up by these top states.

Growth in Oregon's PCPI hasn't kept up with the nation, especially since 1996. A comparison with the states experiencing the most rapid PCPI growth in recent years is useful to understanding what's driving national growth.

Looking at the period from 1996 to 2009, another useful comparison is with states that began the period with similar PCPI to Oregon, but had fast growth in PCPI in comparison.

Detailed comparisons of Oregon's economic and demographic trends with various groups of states show that, in general, states with high or rapidly growing PCPI had:

- ✓ Much slower population growth.
- ✓ Faster growth in compensation per job.
- ✓ Concentration and growth in high-paying industries.
- ✓ Lower unemployment rates.
- ✓ Fewer part-time workers.

Top PCPI States (We are Not New York!)

The District of Columbia has the highest PCPI in the nation for 2009 (\$68,013). The top six PCPI states include Connecticut (\$55,063), New Jersey (\$50,009), Massachusetts (\$49,643), Maryland (\$48,275), Wyoming (\$48,178) and New York (\$46,459). Most of these top states are on the eastern seaboard. The same states have made up the top four since 1993 – D.C., Connecticut, New Jersey, and Massachusetts. Maryland has bounced between 5th and 6th, and New York has bounced from 5th to 7th since 2000. Wyoming is a recent addition to the top group; the state ranked 20th as recently as 2000.

The population, industry, and occupations in these top-PCPI states differ from Oregon, and the rest of the nation, in significant and fundamental ways. Connecticut, New Jersey, and New York serve as hubs in the high-wage financial and insurance industries and are home to many corporate headquarters. The concentration of high-end and high-ranking professional

and business services occupations in the nation's capital is unique among U.S. geographies, and the density of technology firms and universities in Massachusetts would also be challenging to replicate. Wyoming is an energy producing state, and surging energy prices have brought wealth to the state's small population of half a million.

A few high earning states pull up the national PCPI. Only 19 states and D.C. actually have PCPI above the national average. If the top states were removed from analysis of per capita personal income, Oregon appears much closer to the national average – Graph 8 does just that, excluding D.C., Connecticut, New Jersey, Massachusetts, Maryland, Wyoming, and New York.

The top five states and the District of Columbia can be compared in some key areas that influence per capita personal income. Population growth in the top PCPI states falls far below the rates experienced in Oregon or the U.S. Between 1996 and 2009, Oregon's population grew 18 percent while the national population grew 14 percent. The populations of Wyoming and Maryland grew 11 percent. None of the other top states grew by even half the national rate.

Average compensation per job grew faster than in Oregon in all of the top PCPI states between 1996 and 2009, though New Jersey's growth rate barely exceeded Oregon's, and New York's compensation growth fell behind the national average as well. Still, four of the seven areas ranked in the top 10 in average compensation growth: Wyoming, the District of Columbia, Maryland, and Massachusetts.

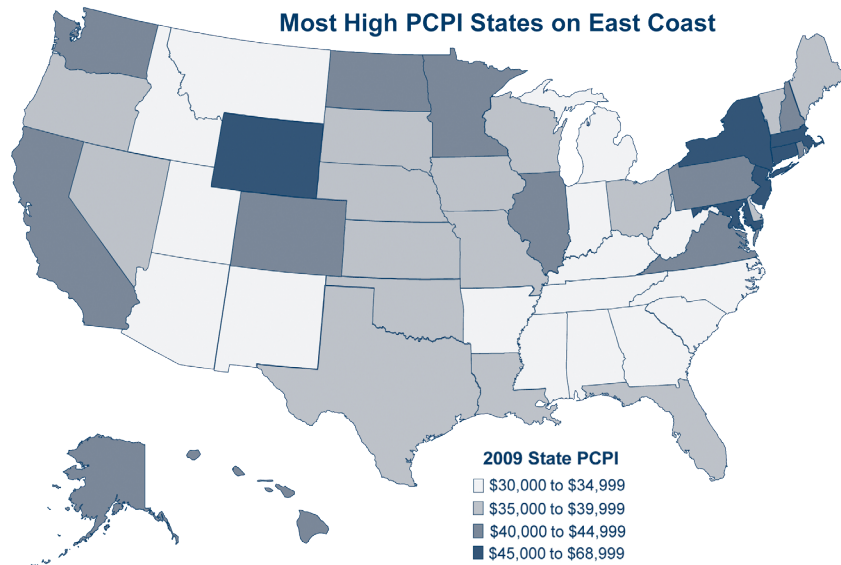
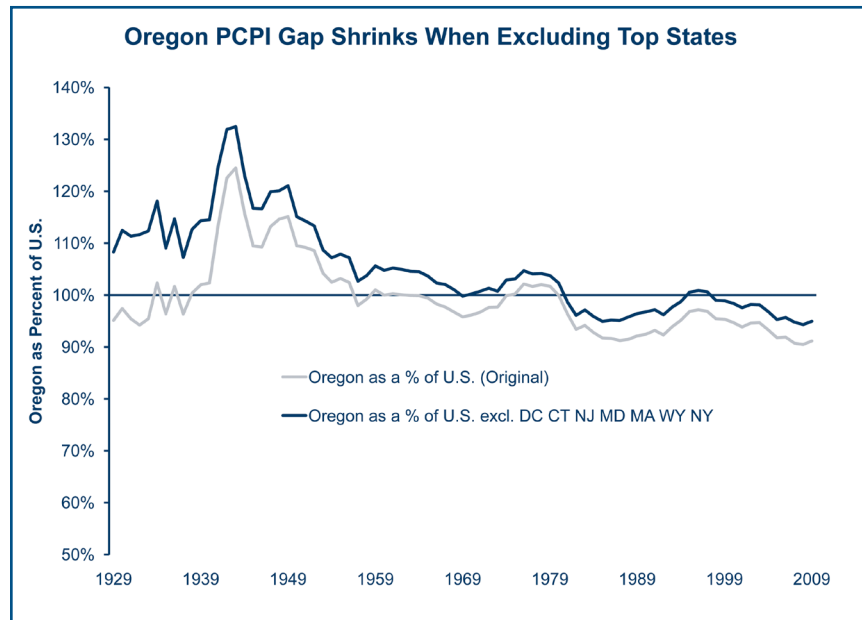


Figure 3



Graph 8

The employment-to-population ratio for the PCPI leaders in 2009 exceeded Oregon's in all but New York, which tied with Oregon at 58 percent. Wyoming had the highest ratio (66%), closely followed by Connecticut and Maryland (63%). The District of Columbia, Massachusetts and New Jersey each had 61 percent.

In these high-PCPI areas, far fewer workers have part-time status than in Oregon. In 2009, the District of Columbia only had 22 percent of workers employed part-time. In New Jersey, 25 percent of workers were part-time, 26 percent worked part-time in New York and Maryland, and 28 percent were part-time in Wyoming. Connecticut (32%) and Massachusetts (33%) post higher part-time employment rates than their top PCPI counterparts and the U.S. (29%), but lower rates than Oregon, where 34 percent worked part-time.

Wages in the highest PCPI states also surpass Oregon and the nation, except in Wyoming. In fact, these areas made up six of the top eight in 2009 average hourly earnings in the private sector. For 2009, average hourly earnings ranged from a low of \$25.42 hourly in Maryland, to \$31.37 in the District of Columbia. Only Wyoming fell below Oregon and the U.S., with average hourly earnings of \$21.07 in 2009, compared with average hourly earnings of \$22.21 in the U.S., and \$21.33 in Oregon, which ranked 23rd among the states and D.C.

Both higher wages and fewer part-time workers in the high PCPI states along the east coast may be a function of the relatively high cost of living in the region.

While we're not doing a detailed analysis of education levels for this report, it is particularly relevant in any comparison with this specific group of states. The District of Columbia and five of the top six PCPI states have notably higher educational attainment within the population than Oregon. In the nation's capital, 49 percent of the population ages 25 and over had a bachelor's or advanced degree in 2009. The rate of bachelor's or advanced degree holders in other top PCPI states ranged from 32 percent in New York to 38 percent in Massachusetts. Only Wyoming had a lower share with bachelor's or advanced degrees than the nation, at 24 percent. By comparison, 29 percent of Oregonians ages 25 and over held a bachelor's or advanced degree.

It isn't sufficient to simply attribute high levels of PCPI to high educational attainment, however. (Wyoming's case may be seen as an example of that – the state has high PCPI without having high educational attainment.) Something of the “chicken and egg” logic ensues: Do these areas have high educational levels because their employment mix requires and attracts people with degrees? Or did they start with highly educated populations which then drew high-paying businesses? Each description likely plays its part in the overall trend.

States With the Fastest Growing PCPI 1996-2009 (The Math is Simple)

Oregon's gap with the nation increased since 1996, as per capita income grew more rapidly nationally than in Oregon. So which areas were driving national growth? The states with the fastest PCPI growth between 1996 and 2009 were Wyoming, the District of Columbia, North Dakota, Louisiana, Montana, and Oklahoma. After adjusting for inflation, these areas all saw rapid PCPI growth, ranging from 38 percent in Oklahoma to 66 percent in Wyoming. In comparison, U.S. inflation-adjusted

States with the fastest PCPI growth between 1996 and 2009 (Wyoming, D.C., North Dakota, Louisiana, Montana, and Oklahoma) experienced:

- ✓ Slower population growth.
- ✓ Faster total personal income growth.
- ✓ Higher employment-to-population ratios.
- ✓ A longer average workweek and fewer part-time workers.

“Population trends

tell much of the story for states with fast PCPI growth since the mid-1990s.”

PCPI grew 24 percent between 1996 and 2009, and Oregon's added 17 percent, ranking 46th among the states and D.C. in growth over that period.

As with the previous comparison with top PCPI states, population trends tell much of the story for states with fast PCPI growth since the mid-1990s. All of these areas had slower population growth than the U.S. since 1996, while Oregon's population growth outpaced growth nationally. North Dakota actually lost population since 1996, declining by less than 1 percent. Louisiana and D.C.

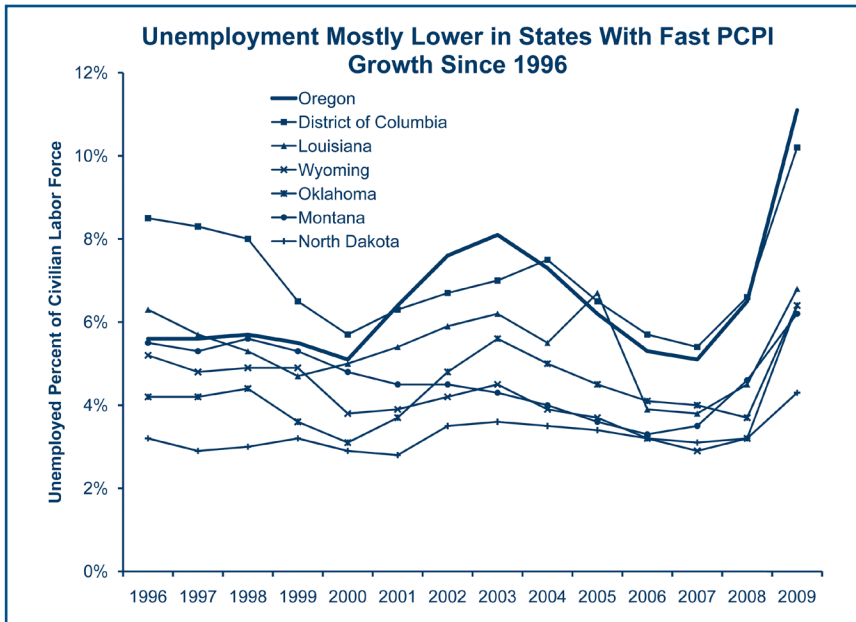
had slow population growth of 2 percent and 5 percent, respectively. Trends in three of the states were closer to the national growth rate of 14 percent: Montana and Oklahoma (10%), and Wyoming (11%).

All of these areas outpaced national total personal income growth between 1996 and 2009. Inflation-adjusted total personal income grew by 85 percent in Wyoming over the period, and D.C. income increased 66 percent. Oklahoma and Montana each had income growth of 52 percent, while in North Dakota and Louisiana income grew 46 percent. National income grew 42 percent over the period.

The previous two paragraphs delved into the details of the two numbers that make up the PCPI calculation. In comparison, Oregon's income growth (the numerator) was slower than these fast-growing states, at 37 percent over the period, and population (the denominator) grew faster, increasing 18 percent between 1996 and 2009.

In all of the states with the fastest PCPI growth since 1996, average compensation per job grew faster than the national average. In fact, these areas accounted for four of the top six areas in average compensation growth between 1996 and 2009: Wyoming, the District of Columbia, Louisiana, and

North Dakota. Compensation growth in Oklahoma and Montana also outpaced the nation, but by a smaller margin.



Graph 9

Unemployment rates among these states were lower, on average, than in Oregon – except in D.C. Between 1996 and 2009, Oregon’s unemployment rate averaged 6.5 percent. The District of Columbia’s averaged 7.1 percent. Louisiana had an average of 5.4 percent unemployment. The rest of the fast-growing states had very low unemployment rates, ranging between 3.3 percent in North Dakota and 4.6 percent in Montana.

Employment-to-population ratios are higher than the nation and Oregon in five of the six fast-

growing areas from 1996 to 2009. Nationally, 2009 employment-to-population was 59 percent, and in Oregon it was 58 percent. Of the comparison group, only Louisiana fell below Oregon, at 57 percent, while the other states ranged from 60 percent in Oklahoma to top-10 rates of 69 percent in North Dakota and 66 percent in Wyoming.

All of the fastest growing PCPI states between 1996 and 2009 had a lower share of part-time workers than Oregon, but that wasn’t much of a surprise, as Oregon had the 3rd highest share of part-timers in the nation in 2009. Four of the six comparison areas came in below the nation’s 2009 share of part-time workers (29%): District of Columbia and Louisiana (22%), Oklahoma (26%), and Wyoming (28%).

The workweek statistics backed up this lower reliance on part-time workers; the same four out of the six areas that had low shares of part-timers also had high average weekly hours. While U.S. weekly hours averaged 33.9, the District of Columbia workers averaged 36.3 hours per week – the highest number in the nation, and Louisiana workers were right behind them at 36.1 hours. Wyoming (35.6) and Oklahoma (35.1) followed closely. At the other end of the

“ All of the fastest growing PCPI states between 1996 and 2009 had a lower share of part-time workers than Oregon. ”

spectrum, North Dakota and Montana workers actually had the lowest average weekly hours in the nation: 32.0 and 31.2 per week, respectively.

While these areas were growing fast in terms of PCPI, their 2009 average hourly earnings in the private sector were actually below Oregon's (\$21.33) and the nation's (\$22.21), except in the District of Columbia, which had by far the highest average hourly earnings in the nation, at \$31.37. Average hourly earnings in the others ranged from \$21.07 in Wyoming to \$18.08 in Oklahoma.

Similar to Oregon in 1996, Fast PCPI Growth Since (That Pesky Denominator)

Five states that had PCPI within 5 percent of Oregon's level in 1996 met or exceeded the national pace of PCPI growth since then – improving their PCPI gaps, while Oregon's widened. After adjusting for inflation, Oregon's PCPI grew 17 percent between 1996 and 2009, while the nation's grew 24 percent. Nebraska, Pennsylvania and Iowa all grew their PCPI by between 26 and 27 percent over the period. Kansas and Rhode Island each had PCPI increases of 30 percent. Rhode Island's PCPI increased enough to surpass the national level by 2009, and is now 104 percent of the national level. What do we know about trends in these states that could enlighten debate in Oregon about what to do to increase Oregon's PCPI?

Once again, much of the story behind these states' faster PCPI growth is about slow population growth (the denominator in the simple PCPI equation). Kansas was the fastest growing of these states, yet its population growth was a full 10 percentage points slower than Oregon's between 1996 and 2009, at 8 percent. All of the other comparison states added between 3 percent and 7 percent.

Total personal income growth lagged the national rate for all of these states, and only Kansas, where income grew 40 percent, had income growth above Oregon's rate of 37 percent. The remaining states had growth rates ranging from 30 percent in Pennsylvania to 36 percent in Nebraska. However, the states' slower growth in income wasn't enough to overpower the much slower population growth trend, and thus PCPI increased for the group of states.

The group did have some favorable earnings factors working for them. All of the states outpaced Oregon's growth in average compensation per job

States that had similar PCPI to Oregon in 1996, but that have grown their PCPI significantly faster (Rhode Island, Kansas, Pennsylvania, Iowa, and Nebraska) have some similar trends that Oregon has not matched:

- ✓ Slower population growth.
- ✓ Employment and wage growth in high-paying industries.
- ✓ Lower unemployment rates and higher employment-to-population ratios.

between 1996 and 2009. Rhode Island saw the fastest compensation growth in the group, and Kansas and Nebraska also had compensation growth above the national average.

Rhode Island saw phenomenal growth in its highest paying industry: securities, commodity contracts, and investments. Employment in this sector of finance grew by 246 percent between 1996 and 2009 as wages grew 85 percent. In comparison, Oregon employment and wage growth was just 31 percent and 35 percent, respectively. Rhode Island also benefited from strong employment and wage growth in its second highest paying industry, management of companies. Wages almost doubled between 1996 and 2009 (94%) while Oregon's grew at about half the pace (48%).

Kansas has also benefited from the high-paying and fast-growing securities, commodity contracts, and investments sector – although not to the extent seen in Rhode Island. The state also has a large telecommunications sector with strong employment and wage growth. Additionally, Kansas saw strong growth in its high-paying high-tech and fabricated metals manufacturing sectors. While these industries pay more in Oregon, they lost employment between 1996 and 2009, while Kansas was adding jobs.

Pennsylvania's strong earnings growth relative to Oregon was fueled by its professional, scientific, and technical and management of companies industries. These sectors are two of Pennsylvania's 10 highest-paying industries. The rate of job growth between 1996 and 2009 was double Oregon's. At the same time, wages increased by over 70 percent compared to about 50 percent in Oregon.

Iowa has a strong finance and insurance sector. The insurance component is a high-paying sector that grew almost twice as fast as in Oregon, with much stronger wage growth as well (82% vs. 70%).

Nebraska has benefitted from strong growth in utilities (its second highest-paying sector) where wages doubled between 1996 and 2009, while Oregon's grew 70 percent. It's also home to a large rail transportation sector, the state's third highest-paying industry, which likely boosted employment and wage growth. Professional and business services and management of companies both outperformed Oregon in employment and wage growth between 1996 and 2009.

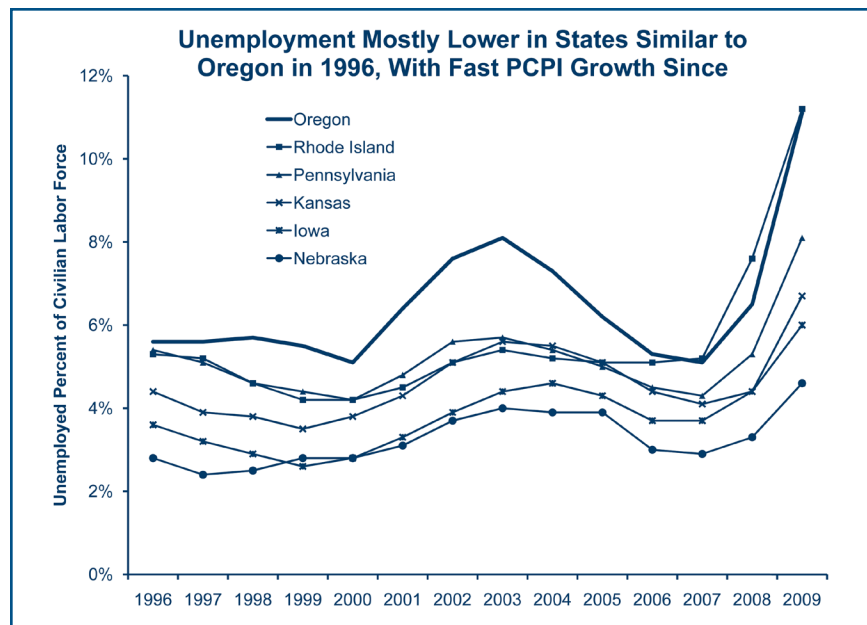
Unemployment rates in these comparison states were, on average, lower than Oregon's since 1996 (Graph 10). Oregon's average unemployment rate was 6.5 percent during the period. Rhode Island's average came closest to Oregon's, at 5.6 percent, and saw a steeper increase with the recent recession. Kansas, Iowa, and Nebraska had very low rates, averaging between 3.3 and 4.6 percent.

All of the states had a higher employment-to-population ratio than Oregon, an indicator closely tied to unemployment rates. In fact, Nebraska, Iowa, and Kansas were three of the top six states by this measure. Rhode Island and Pennsylvania were closer to Oregon, but still higher.

Average weekly hours worked were in a fairly tight range among the group of states. Pennsylvania was actually slightly

below Oregon's average in 2009. The rest had higher average weekly hours, but not by more than 1 hour per week. Rhode Island and Kansas met or exceeded the national average.

Part-time work was less prevalent in most of the comparison states, though Rhode Island actually had more part-time workers than any other state in the nation, even beating Oregon, which ranked 3rd in 2009. Still, all of the comparison states had more part-time workers than the national average.



Graph 10

SUMMARY

The growing gap between Oregon's per capita income and that of the nation has troubled policy-makers and others who pay close attention to the health of Oregon's economy. The two main reasons for the growing gap are slower earnings growth for Oregon workers when compared with the nation and a state population that has grown much faster than the nation in recent years.

These reasons are in turn driven by a combination of individual choices by Oregon residents, the lower cost of living in Oregon, and geography – all of which help explain Oregon's lower per capita personal income. People are still choosing to move to Oregon, even if means competing in a tougher job market or working for lower wages than they might earn elsewhere. They may choose to work fewer hours, and may be able to do so because living expenses are not as high as in other states. Oregon is located far from the financial and federal centers of the country, where incomes in neighboring states are much higher than the national average. Oregon's largest employment area is located next to the state's border, and because of this and the way that PCPI is calculated, a portion of income earned in Oregon is counted as income in another state.

PCPI in Oregon's metro areas is far lower than the average figure for all the metro areas in the nation. PCPI in Oregon's non-metro areas lags behind the metro areas, and although non-metro earnings in the state have traditionally been above the national average, they have recently lost ground and fallen below the nation. The state's proprietors have also not fared well compared with their national counterparts in recent years.

Comparing Oregon with states that have high or rapidly growing PCPI shows that those states have a number of trends in common. They tend to have slower population growth, faster growth in earnings per job, concentration and growth in high-paying industries, lower unemployment rates, and fewer part-time workers. These factors and the extent to which they may be improved upon should be considered when comparing Oregon's per capita personal income with the national level.

In an ideal world, this analysis would close with one or more recommendations to ensure that Oregon's PCPI gradually increased and closed the gap with the nation's. In reality, though, there are no simple solutions to the existing gap. Perhaps the primary accomplishment of this report is simply that policy-makers and others now have the information they need to more fully understand the many causes and complexities that produce the single number we call per capita personal income.

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Appendix Tables

2009 Per Capita Personal Income Ranks

Area	PCPI	Rank	Area	PCPI	Rank
United States	\$39,626	-	South Dakota	\$38,208	26
District of Columbia	\$68,013	1	Nevada	\$37,691	27
Connecticut	\$55,063	2	Iowa	\$37,623	28
New Jersey	\$50,009	3	Louisiana	\$37,520	29
Massachusetts	\$49,643	4	Wisconsin	\$37,398	30
Maryland	\$48,275	5	Maine	\$36,479	31
Wyoming	\$48,178	6	Oregon	\$36,125	32
New York	\$46,459	7	Missouri	\$35,938	33
Virginia	\$44,129	8	Oklahoma	\$35,840	34
Alaska	\$43,209	9	Ohio	\$35,590	35
Washington	\$42,933	10	Montana	\$34,794	36
New Hampshire	\$42,585	11	North Carolina	\$34,719	37
California	\$42,548	12	Michigan	\$34,334	38
Hawaii	\$42,075	13	Tennessee	\$34,245	39
Illinois	\$41,904	14	Georgia	\$33,980	40
Minnesota	\$41,859	15	Indiana	\$33,912	41
Colorado	\$41,839	16	Alabama	\$33,360	42
Rhode Island	\$41,324	17	Arizona	\$33,244	43
North Dakota	\$40,727	18	New Mexico	\$33,212	44
Pennsylvania	\$40,161	19	Arkansas	\$32,423	45
Delaware	\$39,949	20	South Carolina	\$32,338	46
Nebraska	\$39,277	21	Kentucky	\$32,306	47
Kansas	\$39,263	22	West Virginia	\$32,067	48
Vermont	\$39,021	23	Idaho	\$31,662	49
Florida	\$38,890	24	Utah	\$31,612	50
Texas	\$38,546	25	Mississippi	\$30,426	51

1996-2009 Per Capita Personal Income Growth (2009 Dollars)

Area	PCPI Growth	Rank	Area	PCPI Growth	Rank
United States	24.4%	-	Alabama	26.4%	26
Wyoming	66.3%	1	Pennsylvania	26.4%	27
District of Columbia	58.2%	2	Nebraska	26.3%	28
North Dakota	46.8%	3	New Jersey	25.3%	29
Louisiana	42.8%	4	New York	25.1%	30
Montana	38.6%	5	Minnesota	24.1%	31
Oklahoma	37.9%	6	Florida	24.1%	32
Vermont	35.4%	7	Kentucky	24.0%	33
South Dakota	35.3%	8	Colorado	23.6%	34
Maryland	33.8%	9	New Hampshire	22.6%	35
Virginia	33.5%	10	Wisconsin	22.1%	36
Texas	32.9%	11	Utah	21.9%	37
West Virginia	32.5%	12	South Carolina	21.9%	38
New Mexico	32.1%	13	Arizona	20.5%	39
Rhode Island	30.5%	14	Missouri	20.4%	40
Washington	30.3%	15	Illinois	19.9%	41
Maine	30.1%	16	Delaware	18.8%	42
Massachusetts	30.1%	17	Tennessee	18.7%	43
Arkansas	29.8%	18	Idaho	18.4%	44
Kansas	29.5%	19	North Carolina	17.3%	45
Mississippi	29.1%	20	Oregon	16.7%	46
Connecticut	28.7%	21	Ohio	16.0%	47
Hawaii	27.8%	22	Indiana	14.8%	48
Iowa	26.7%	23	Georgia	11.7%	49
Alaska	26.6%	24	Nevada	10.2%	50
California	26.6%	25	Michigan	8.5%	51

Glossary

PER CAPITA PERSONAL INCOME: Per capita personal income is calculated as the personal income of the residents of a given area divided by the resident population of that area. In computing per capita personal income for states and counties, the Bureau of Economic Analysis uses the Census Bureau's annual midyear population estimates. Except for college student and other seasonal populations, which are measured as of April 1, the population for all years is estimated as of July 1.

TRANSFER RECEIPTS: Personal current transfer receipts are benefits received by persons for which no current services are performed. They are payments by governments and businesses to individuals and nonprofit institutions serving individuals. Estimates are prepared for approximately 50 subcomponents of transfer receipts.

Income maintenance: Income maintenance benefits include Supplemental Security Income (SSI), Temporary Assistance to Needy Families (TANF), and the Supplemental Nutritional Assistance Program (SNAP). Other income maintenance benefits include foster care and adoption assistance; earned income tax credits; child tax credits; energy assistance; and, Women, Infants, and Children (WIC).

Unemployment insurance benefits: Unemployment insurance (UI) compensation includes state-provided UI compensation; federal, railroad, and recently separated veterans UI compensation; and Trade Adjustment Allowances (TAA).

Retirement and other: Retirement compensation includes those government payments to railroad and federal employees and veterans.

DIVIDENDS, INTEREST AND RENT: The state estimates of personal dividend income, personal interest income, and rental income of persons are presented together. The estimates consist of the income that is received by persons and by private and government employee retirement funds on behalf of persons. The national estimates of dividends, interest and monetary rent are based on data that are not available for states. The state allocations of the national estimates of the income received by individuals are based mainly on individual income tax data.

Dividends: Personal dividend income is the cash and other assets, excluding the corporations' own stock, that persons who are US residents receive from US and foreign corporations. The state estimates of personal dividend income are prepared in four parts: Dividends received by individuals, dividends received by private and government employee

retirement funds, dividends received by nonprofit institutions, and dividends received, retained, and reinvested by fiduciaries.

Interest: Personal interest income is the interest income (monetary and imputed) from all sources received by individuals, private and government employee retirement plans, nonprofit institutions, and by estates and trusts.

Rent: The rental income of persons with capital consumption adjustment is the net current-production income of persons from the rental of real property except for the income of persons primarily engaged in the real estate business; the imputed net rental income of owner-occupants of housing; and the royalties received by persons from patents, copyrights, and rights to natural resources. The rental income of private noninsured pension funds is imputed to persons and counted as part of rental income of persons with capital consumption adjustment.

EARNINGS BY PLACE OF RESIDENCE: Personal income, by definition, is a measure of the income received by persons, and the estimates of state and county personal income should reflect the residence of the income recipients. However, some of the data that are used to estimate some components of personal income are reported by the recipient's place of work rather than by his place of residence. Therefore, these components are estimated on a place-of-work basis, the amounts aggregated, and the aggregate (called the income subject to adjustment) adjusted to a place-of-residence basis. Thus the combination of the components of personal income plus the residence adjustment yields personal income on a place-of-residence basis.

Wage and salary disbursements: Wages and salaries are broadly defined to include commissions, tips, and bonuses; voluntary employee contributions to deferred compensation plans, such as 401(k) plans; employee gains from exercising stock options; and receipts-in-kind that represent income.

Supplements to wages and salaries: Supplements to wages and salaries consist of employer contributions for employee pension and insurance funds (previously called other labor income) and employer contributions for government social insurance.

Employer contributions for employee pension and insurance funds: Employer contributions for employee pension and insurance funds consists of employer contributions to (1) private employee pension and welfare funds, (2) privately administered workers' compensation plans, (3) government employee health and life insurance plans, and (4) government employee retirement plans.

Employer contributions for government social insurance: Employer contributions for government social insurance consists of employer payments under the following government social insurance programs: (1) Old-age, Survivors', and Disability Insurance (OASDI) and Hospital Insurance (HI); (2) unemployment insurance; (3) railroad retirement; (4) pension benefit guaranty; (5) military medical insurance; (5) veterans' life insurance; (6) federal workers' compensation; (7) state-administered workers' compensation; and (8) state-administered temporary disability insurance.

Proprietors' income: Proprietors' income with inventory valuation and capital consumption adjustments is the current-production income of sole proprietorships, partnerships, and of tax-exempt cooperatives. Proprietors' income includes corporate directors' fees, but it excludes the imputed net rental income of owner-occupied housing as well as the dividends and the monetary interest that are received by nonfinancial sole proprietorships and partnerships and the rental income received by persons not primarily engaged in the real estate business.

Nonfarm proprietors' income: National estimates of the income of nonfarm sole proprietorships and partnerships are based on tabulations of IRS tax returns (1) net profit or loss reported on Schedule C of Form 1040, for sole proprietorships; (2) ordinary business income/loss from Form 1065 for partnerships; and (3) net rental real estate income/loss from Schedule K of Form 1065. The income of tax-exempt cooperatives consists of the net income, including the inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), received by agricultural cooperatives, rural electric cooperatives, and rural telephone cooperatives.

Farm proprietors' income: Farm proprietors' income is the income received by the sole proprietorships and partnerships that operate farms. The national and state estimates of this income are based largely on the national and state estimates of the net income of all farms prepared by the Economic Research Service (ERS) of the US Department of Agriculture (USDA).



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