

CONERLY ON THE ECONOMY

Notes for House Interim Committee on Economic Development

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Current Risk of Recession

Approximately risk: one chance in four.

Consensus estimate of professional economists: about one chance in five

Likely nature of a recession in 2007-2008 (if one occurs):

Housing downturn leads to reduced consumer spending

Two or three quarters of declining GDP nationally

In contrast, the 2001 recession was concentrated in business equipment

Oregon impact not as severe as the national recession (unlike 2001)

Our housing cycle will not be as severe, because we have not overbuilt as much as U.S.

Business equipment sector will be only mildly affected

Exports will not be affected

Wood products industry will be significantly affected.

What Can the State Do About Recession?

The state government does not have the ability to prevent or reverse a recession.

Stimulative fiscal policy suffers from large leakages of spending out of state

By the time that policy action is taken, the state would likely be in recession.

The state's contingency planning for recession should focus on its own operations.

The *Businomics* approach to contingency planning:

1. Evaluate your vulnerability to recession. Oregon has proved to be very vulnerable, due to our tax structure.
2. Develop an early warning system keyed to your business or enterprise. The state revenue forecast is a starting point, but more about risk is needed.
3. Sketch out a contingency plan. Has the legislature ever outlined what it would do in a recession?
4. Manage the enterprise to increase flexibility to cut expenses. On-going commitments and staffing are inflexible; contracting out and capital expenditures increase flexibility.