

Wallowa County's Economic Base

Introduction

Wallowa County produces a variety of goods and services; however it is fundamentally a natural resource based economy. The natural resources comprise a major portion of the County's capital stock along with structures, equipment, and the skills and knowledge of the labor force. Most often an economic base is described as the industries that export goods and services outside of a local economy. They bring in outside money and drive the growth necessary to at least offset the routine decline or contraction of other industries. These exporting industries are called basic industries. The other industries in the County provide goods and services to support the basic industries' production and are called service industries. Both types of industries are essential to the economy and help determine the prosperity of its citizens. The distinctions between the two types of industries are not always clear. Beef cattle are primarily exported (basic industry); however some of the beef is consumed in Wallowa County (service industry). Most of the food markets' sales are to Wallowa County residents (service industry), however tourists do purchase groceries at the markets in-effect exporting food to people who reside outside the County (basic industry). In describing Wallowa County's economic base we focus on the basic industries or the basic component of each industry and determine what percentage of the local economy is dependent on that industry.

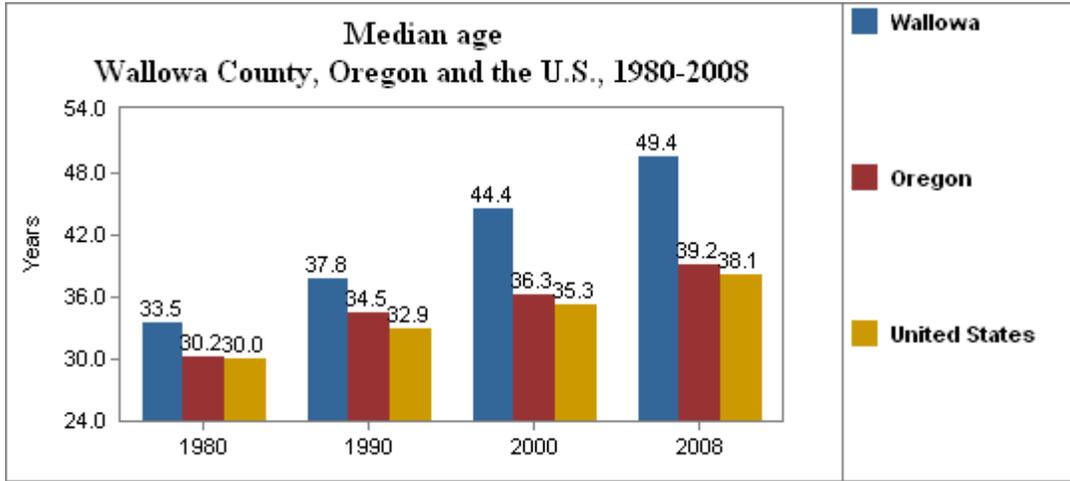
Economic Profile

To begin this discussion, we profile some key variables in the County that affect the economy and its potential for change in the future. The variables include population, workforce educational attainment, sources of income, and major industrial sectors. We rely on the Census Bureau and indicators websites for part of the information and we have updated the Wallowa County input-output (I-O) model to describe and analyze the industrial sectors. In addition to an economic profile of the County, we estimate exports from each industry and using the multipliers or the respending associated with a purchase from each basic sector, we generate estimates of the dependence of the County economy on exports from each sector. We summarize this dependency in dollar sales, number of full and part-time jobs and a dependency index for each industry.

The economy affects the growth of the population and the population affects the growth of the economy. Maybe a chicken or egg question, however economic opportunities probably start this circular process. Economic opportunities are more likely to encourage population growth than the other way around.

Wallowa County's population declined and then stabilized over the last 100 years with some short term increases and decreases during the century. The County's population went from 8,364 people in 1910 to 7,102 people in 1960 to an estimated 6,760 people in 2008 (U.S. Census Historical Tables by County and Quick Facts). While the number of people in the County seems to be fairly stable, the median age of Wallowa County residents, as shown in Figure 1. has continued to increase. Wallowa County has the highest median age of any county in Oregon at 49.4 years in 2008.

Figure 1. Median Age: Wallowa County, Oregon and U.S.



Source: Northwest Area Foundation/1980 and 1990: U.S. Bureau of the Census, Census of Population and Housing, USA Counties 1998, (<http://censtats.census.gov/cgi-bin/usac/usasel.pl>); 2000: U.S. Bureau of the Census, Census of Population and Housing, (<http://factfinder.census.gov>); 2008: U.S. Bureau of the Census, County Population Estimates - Characteristics, April 1, 2000, through July 1, 2008, (<http://www.census.gov/popest/datasets.html>); DATE LAST UPDATED: May 19, 2009.

When the demographic changes in Table 1. are studied, it is clear why the median age of Wallowa County residents has increased. Wallowa County currently has a high percentage of its population of working age. However, the future strength of the workforce is less certain. Baby boomers (currently 45-63 years old) will retire and younger workers are likely to migrate into the County to fill the jobs the baby boomers leave. However the average earnings per job needs to be sufficient, possibly combined with another member of the household, to support a family. People who are born in a place are often more willing to stay during difficult times or at least wait longer to relocate during difficult times and return more quickly than people whose support systems – relatives and friends do not live close by.

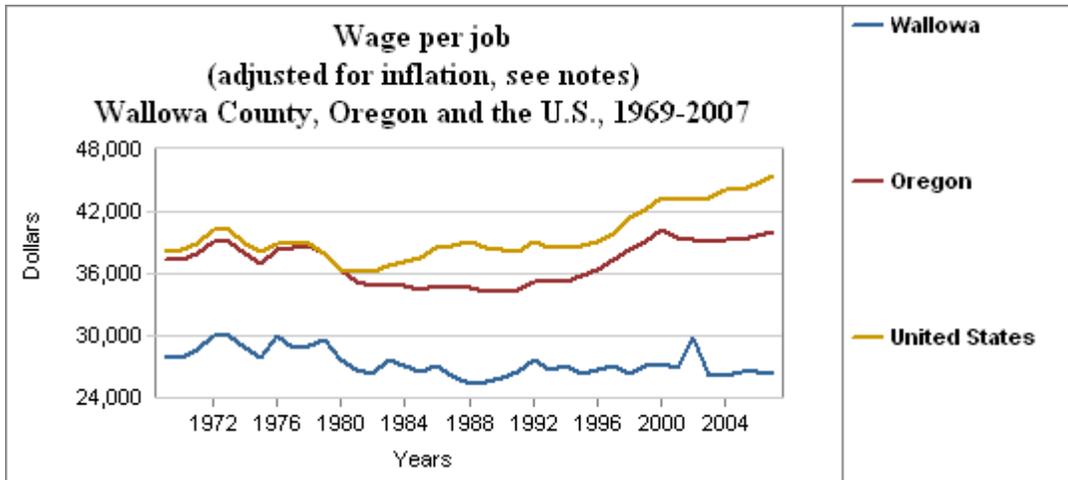
Table 1. Wallowa County Percentage of Population by Age 1960 and 2008

<i>Age</i>	<i>1960</i>	<i>2008</i>
<18	37%	18%
18-64	53%	60%
>65	10%	22%

Source: U.S. Census Oregon Report (1960) and Quick Facts (2008)

Attaining a sufficient level of income to raise a family in Wallowa County based on the average earnings per job in the County can be difficult. As Figure 2. shows, Wallowa County’s real average earnings per job are much lower than Oregon or the U.S. Wallowa County’s average earnings \$26,503 per job are 35th out of the 36 counties. Wheeler County has lower average earnings per job than Wallowa County. The comparatively low average earnings per job may make recruiting those younger workers to fill the gaps left by retirees difficult.

Figure 2. Wallowa County Average Earnings Per Job 1969-2007 (2008 Dollars)

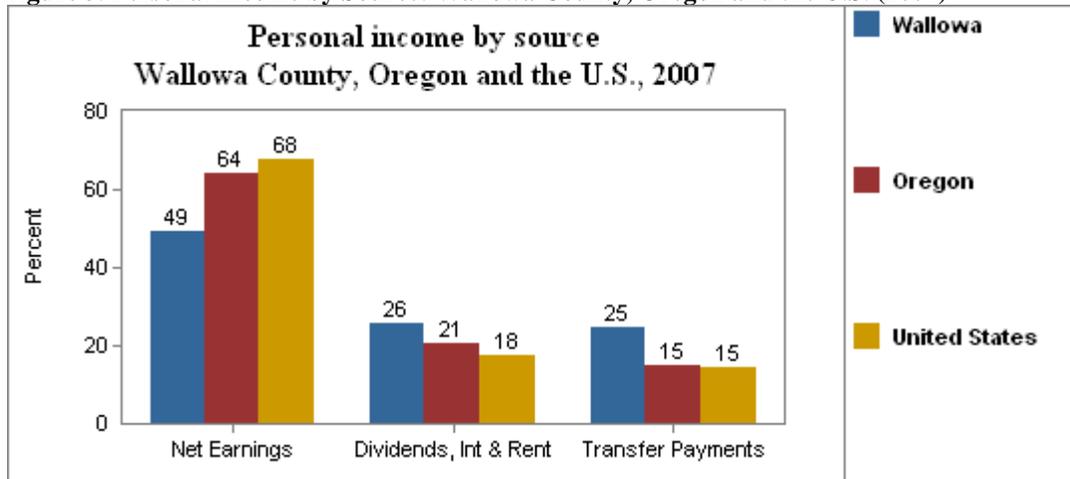


Source: Northwest Area Foundation/1969-2007; Bureau of Economic Analysis, Regional Economic Data, Local Area Personal Income, Table CA34, (<http://www.bea.gov/regional/reis/>); DATE LAST UPDATED: January 22, 2009.

As existing employers weigh remaining in a place or relocating and prospective employers search for a place to relocate, they consider the existing skill level of the workforce including educational attainment. Wallowa County ranks sixth out of the 36 Oregon counties for people that have at least completed high school at 87.5%. Wallowa County ranks ninth out of 36 Oregon counties for people with a bachelor's degree or higher at 17.6% and 20% for people over 25 years of age (Northwest Area Foundation). Wallowa County has also been effective at maintaining its local schools. In addition, the displaced timber workers often have a wide range of skills (e.g. heavy equipment operation or welding).

Income is a primary determinant of consumer demand within an economy and a critical factor affecting people's ability to establish or invest in business within the County. Approximately half of the income people have to spend in Wallowa County comes from current earnings and about half comes from dividends, interest and rents and transfer payments (e.g. social security), as detailed in Figure 3. Recent volatility in the stock market and financial sectors and concern over the unfunded debt in Social Security stresses the importance of increasing the proportion of net earnings as a source of personal income.

Figure 3. Personal Income by Source: Wallowa County, Oregon and the U.S. (2007)



Source: Northwest Area Foundation/1969-2007: Bureau of Economic Analysis, Regional Economic Data, Local Area Personal Income, Table CA05, (<http://www.bea.gov/bea/regional/reis/>); DATE LAST UPDATED: April 29, 2009.

These economic metrics describing Wallowa County are well understood by local decision makers and the public. They are consistent with many other natural resource dependent economies. Scientific discoveries and technological innovations have dramatically reduced the labor required per unit of output in both the agricultural and timber industries over the last century. These basic sectors of the economy became much more efficient. The service industries also became much more efficient and more competitive with sales by catalogue, internet, and big box retailers making it very difficult to maintain a main street business.

While these efficiencies have lowered the prices of goods and services to the consumers, they have also intensified the struggle to maintain population and income particularly in communities that are more distant from large markets or at least transportation links. Policy changes in the utilization, particularly of publicly owned natural resources, have also significantly increased the economic stress on Wallowa County.

Prior to the housing bubble bursting along with the financial crisis and resulting tightening of credit, tourism and construction of second homes partially offset the declining jobs in the natural resource sectors. Among people who study banking and the housing industries there is a strong belief that there will be no return to the level of appreciation of financial and physical assets that drove the economy during the last 15 years. Gas prices spiked in 2008 and then declined with the recession and reduced demand. As the economy shows signs of recovery, oil prices are increasing. As retail gas prices reach \$3.00 per gallon of regular gasoline, consumers reduce their driving and getting to or travelling from Wallowa County becomes significantly more costly. Tight credit, employment uncertainty and higher gas prices will continue to negatively impact second home construction and tourism. Balancing those negative effects is Wallowa Lake State Park, which is a relatively low cost option for visitors who want to substitute less expensive regional tourism for the higher cost vacations that became more popular in the 1990's. The real challenge for Wallowa County is to recruit families that will increase the percentage of the population under 18, which could revitalize the economy.

Wallowa County's Economic Engines

This section of the analysis describes the basic sectors that “drive” the rest of the economy. To make the calculations, we aggregated the 115 economic sectors in the Wallowa County economy to the two digit North American Industrial Classification System (NAICS) level, which included 23 sectors. We removed those 23 sectors' exports one at a time from County's economy using an *IMpactPLANning* (IMPLAN) software generated I-O model. We compared the results to the U.S. Bureau of Economic Analysis employment data and made some adjustments. Then, we further aggregated the 23 sectors to eight sectors for ease of presentation.

As part of those calculations, we estimated the County's dependency on Wallowa County residents' net earnings from outside the County and dividend, interest, rent and transfer payments to County households. These are considered exports because they bring in money from outside the County that is not directly dependent on local industry. It takes one to two years to accumulate and then fit together/reconcile differences among all the data sets

by the IMPLAN software developer so they can be incorporated into the I-O model. We used 2007 data modified with help from local government and business people and tried to accurately reflect current conditions. This report is an overview of Wallowa County's economic base. The Northeast Oregon Economic Development District (NEOEDD) regularly updates a comprehensive set of information (*Comprehensive Economic Development Strategy 2007-2013 - June 2009 Update*) and the reader is encouraged to review that document as a very useful resource of detailed economic information. The OSU Rural Studies Program also has two publications – *Oregon County Monitor* and *County Regional Asset Indicators* that can provide useful economic metrics.

Table 2. shows the aggregated economic sectors of Wallowa County and the jobs across all 115 individual sectors in the County that depend on those aggregated sectors. So, the jobs noted below that depend on each aggregated sector (e.g. Agricultural Production & Processing) include jobs across the economy (e.g. retail businesses) that would be disrupted if the basic aggregated sector is disrupted.

Table 2. Wallowa County Export Base Dependent Employment, 2007 with 2009 Edits.

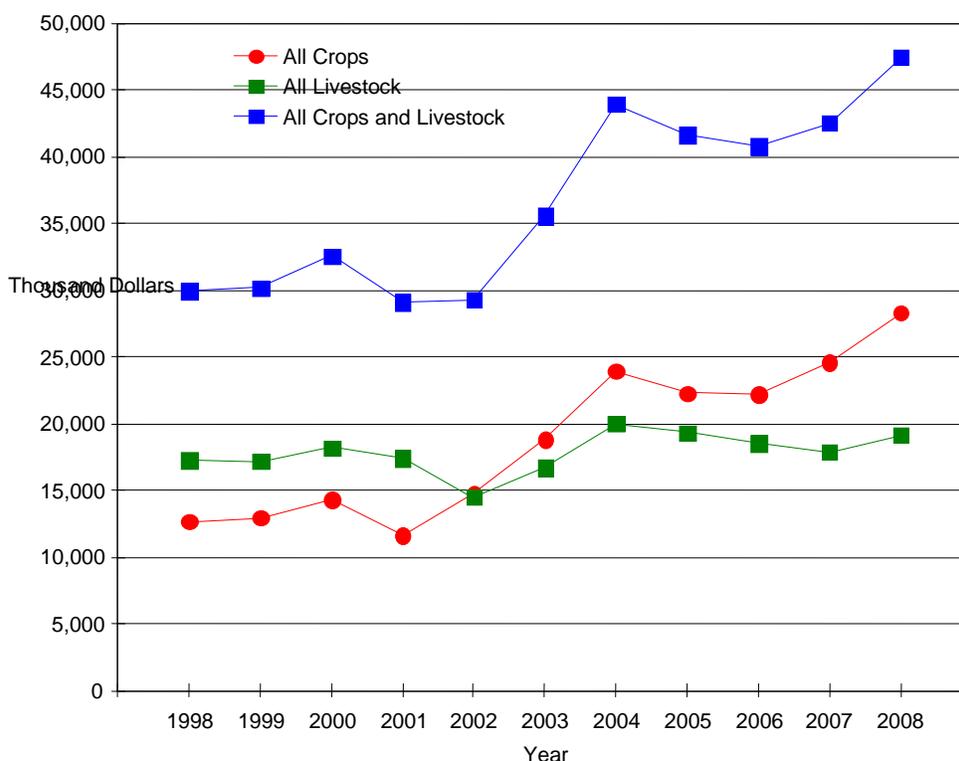
<i>Sector(s)</i>	<i>Export Dependent Employment</i>	
	<u>Number</u>	<u>Percentage</u>
Agricultural Production & Processing	773	18%
Timber Production & Processing	258	6%
Residential and Commercial Construction & Real Estate	258	6%
Manufacturing - Other than Ag. & Wood Products	429	10%
Tourism	515	12%
Government	601	14%
Households - Net earnings outside Wallowa County, dividends, interest, rents and transfer payments	1,331	31%
Other	129	3%
Total Jobs	4,293	100%

The natural resource product sectors – Agricultural Production & Processing and Timber Production & Processing are probably stable, there are essentially no more large mills to close or public timber sales to restrict. These sectors support about a quarter of the economy. The economic activity that tourism, associated construction and real estate sales, and related government management activities, provided by the “services” that people enjoy from Wallowa County’s natural resources can reasonably be expected to support another quarter of the economy. Due to the rapidly aging population of Wallowa County, a third of the economy is “driven” by income received by households from the government, prior investments, and to lesser degree outside employers. The remaining 15-20% is supported by Manufacturing – Other than Ag. & Wood Products, which is to a large degree the foundries and few miscellaneous services that are included in Other.

Outlook

Agriculture is likely to remain the most reliable feature of Wallowa County's economic base. Agriculture may also have the most potential for growth and diversification. As indicated by Figure 4., agriculture has been relative consistent in growth of sales over the last ten years.

Figure 4. Wallowa County Total Gross Farm Sales 1998-2008



Source: John Williams and the Extension Economic Information Office, Oregon State University

There may also be potential to in effect “return to the past” as advances in the scalability of inputs and communication technologies have made adaptive or smaller farms and more diverse crop and livestock mixes on larger farms and ranches more feasible. Wallowa County has a diverse mix of commodity crops and livestock. Building on the existing production and the advances in agriculture that have dramatically improved the marketing opportunities and the ability of farmers to come closer to receiving retail rather than wholesale prices or add value to their products, Wallowa County may be able to count on agriculture to increase and diversify the economic base.

While tourism, at least seasonally, will remain an important component of the County's economic base, Wallowa Lake (Lake) second homes and residences may experience a transition. Currently, the short term rental activity at the Lake is used to supplement longer term seasonal owners' incomes or offset expenses. As the current owners age and do not have the resources to support multiple homes or the capability to travel to Wallowa County and the following generation has less discretionary income than the current owners, many of the cabins/homes at the Lake may become time- share type investments for absentee owners that spend little or no time in the County.

In the short-term, the aging Wallowa County population may be beneficial to the economy, if the investment and transfer payments are stable. Money will flow into the County on a fairly reliable basis. However, the current estimates of the Social Security and Medicare unfunded liabilities are at least three times the U.S. Gross Domestic Product. Changes in those programs should be anticipated and Wallowa County may be very susceptible to the effects of those changes.

Wallowa County's infrastructure both institutional (e.g. medical and educational) and market (e.g. suppliers and contractors) are beyond what would be expected in smaller rural county. Those assets along with robust

agricultural production and foundry production, and selective incentive programs (e.g. property tax rebate to full-year residents) and further development of the infrastructure (e.g. wireless communications) could effectively be used to recruit younger workers and their families. Those younger families are the key to maintaining or expanding the County's economic base.

This report was produced by Bruce Sorte, Community Economist - Eastern Oregon, OSU Extension Service & AREc Rural Studies Program. August 2009.