EASTERN WASHINGTON UNIVERSITY

start something big

2011 Regional Economic Outlook

Grant D. Forsyth, Ph.D.
gforsyth@ewu.edu

College of Business and Pubic Administration
Institute for Public Policy and Economic Analysis

Old Economy vs. New Economy

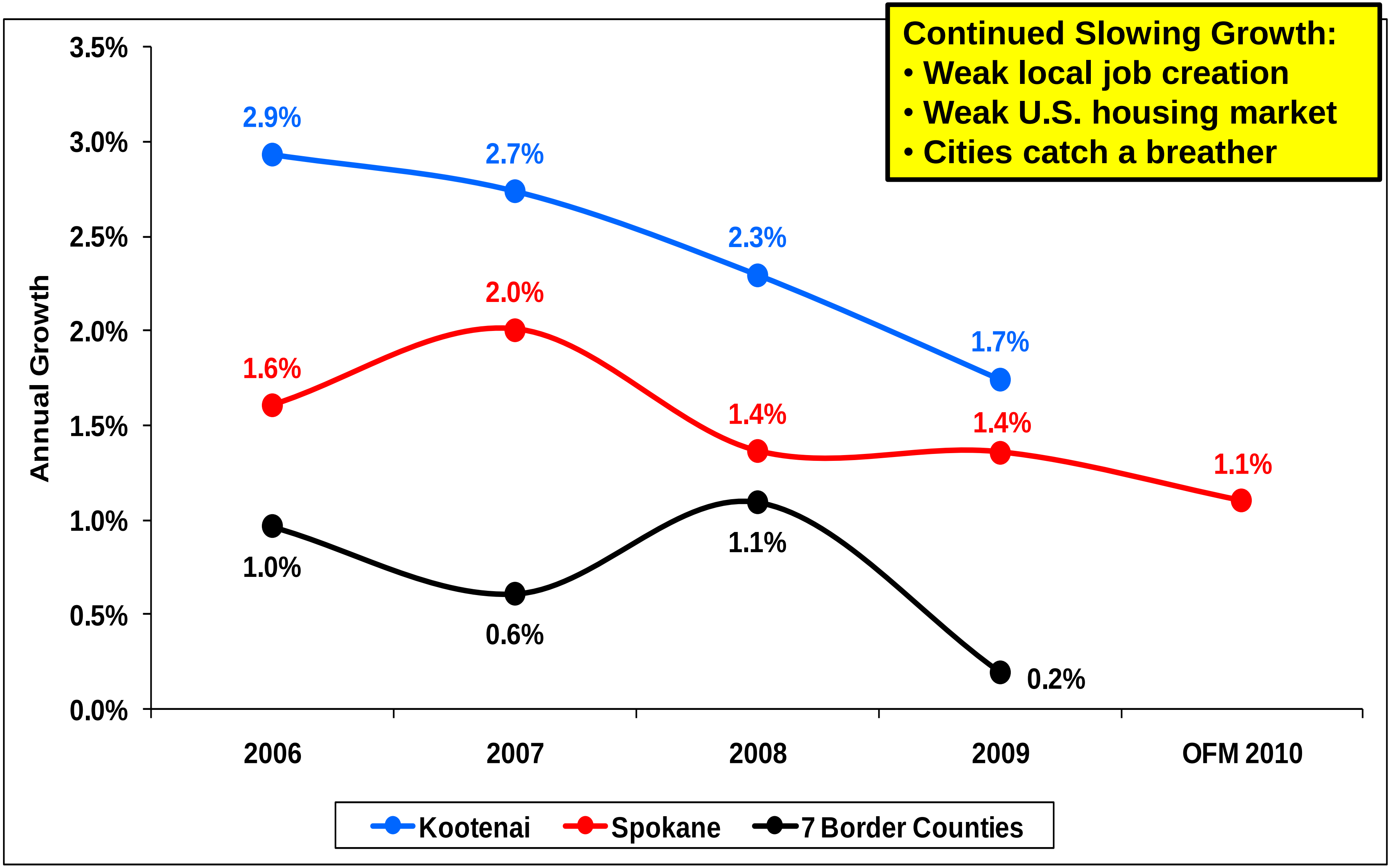
Sweet and sinful

Austere and purged of sin

Happy News

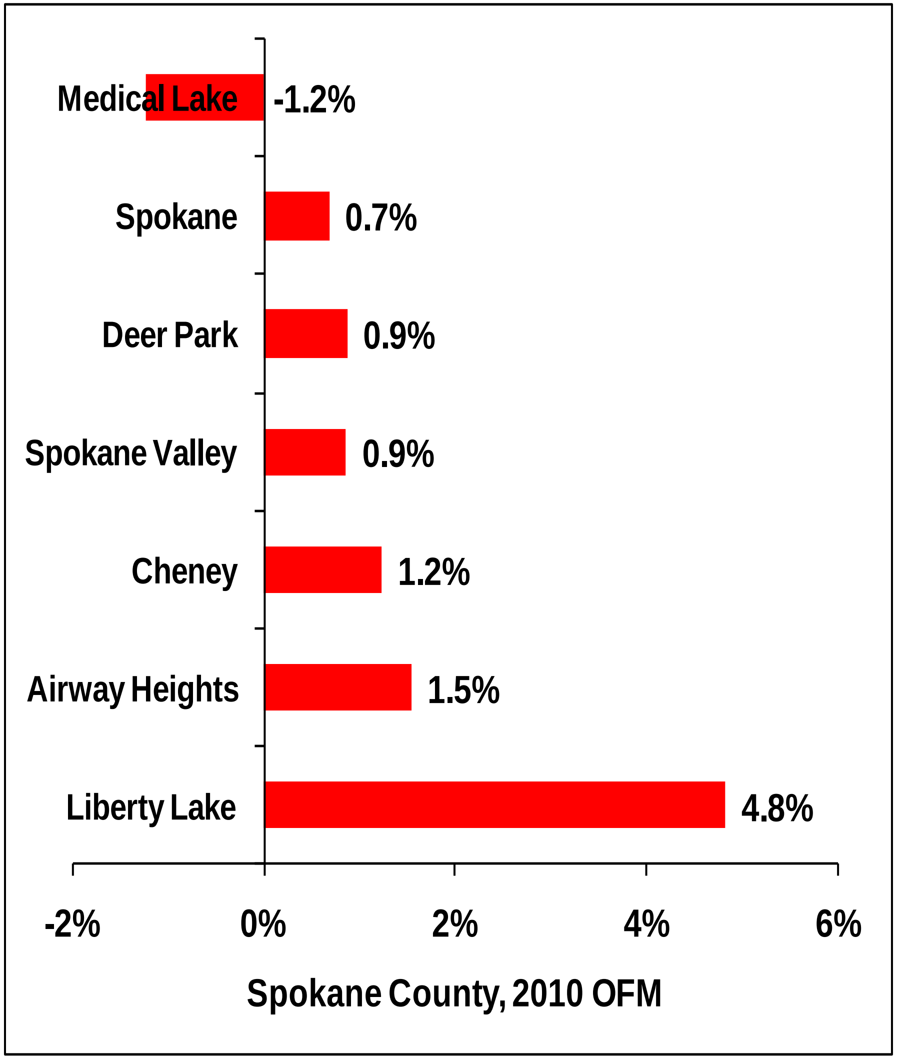
- Recapitalization of Sterling Savings and a new owner of AmericanWest Bank.
- Schweitzer Engineering expansion in Pullman and Lewiston.
- Wheat prices are above break-even levels.
- Public infrastructure projects continue—public schools, roads, bridges, and waste water treatment.
- Kendall Yards has its first housing units up.
- Opening of Apple Store in downtown Spokane.
- BMW plant in Moses Lake to expand?

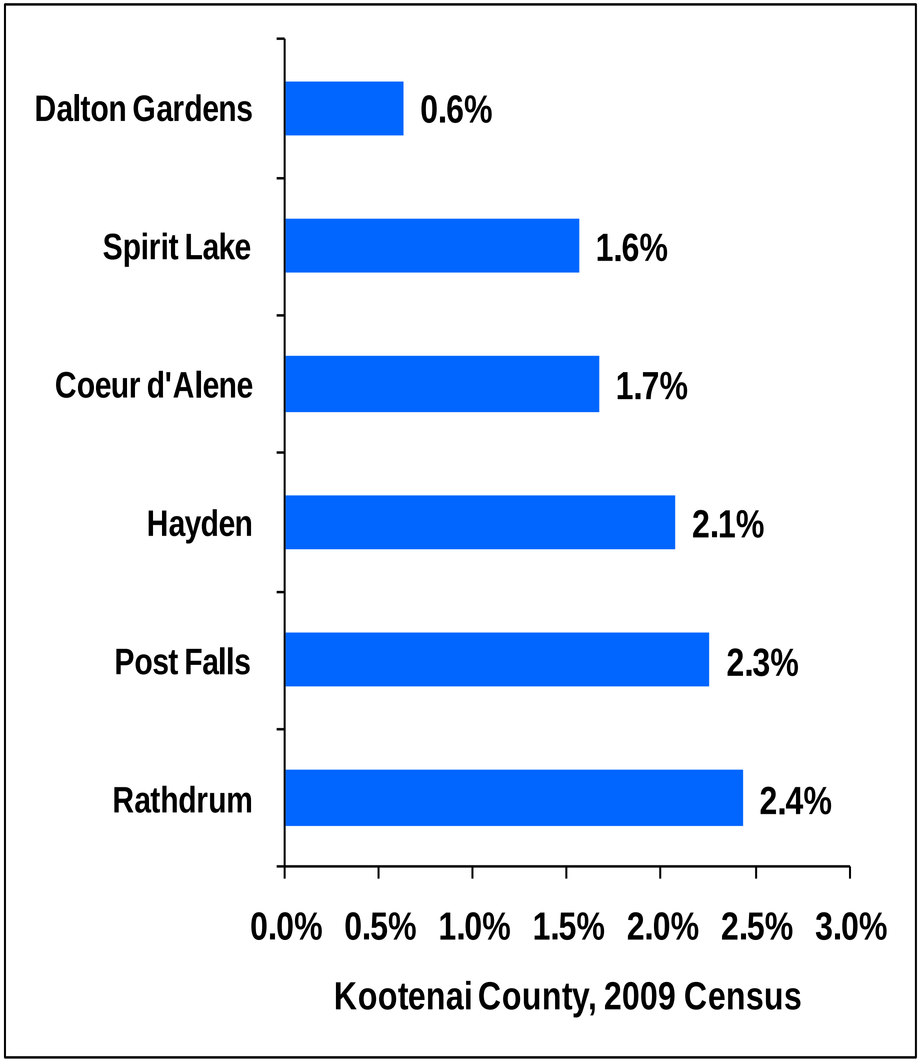
County Population Growth, 2006-2010



Source: U.S. Census, WA OFM for 2010, and author's calculations.

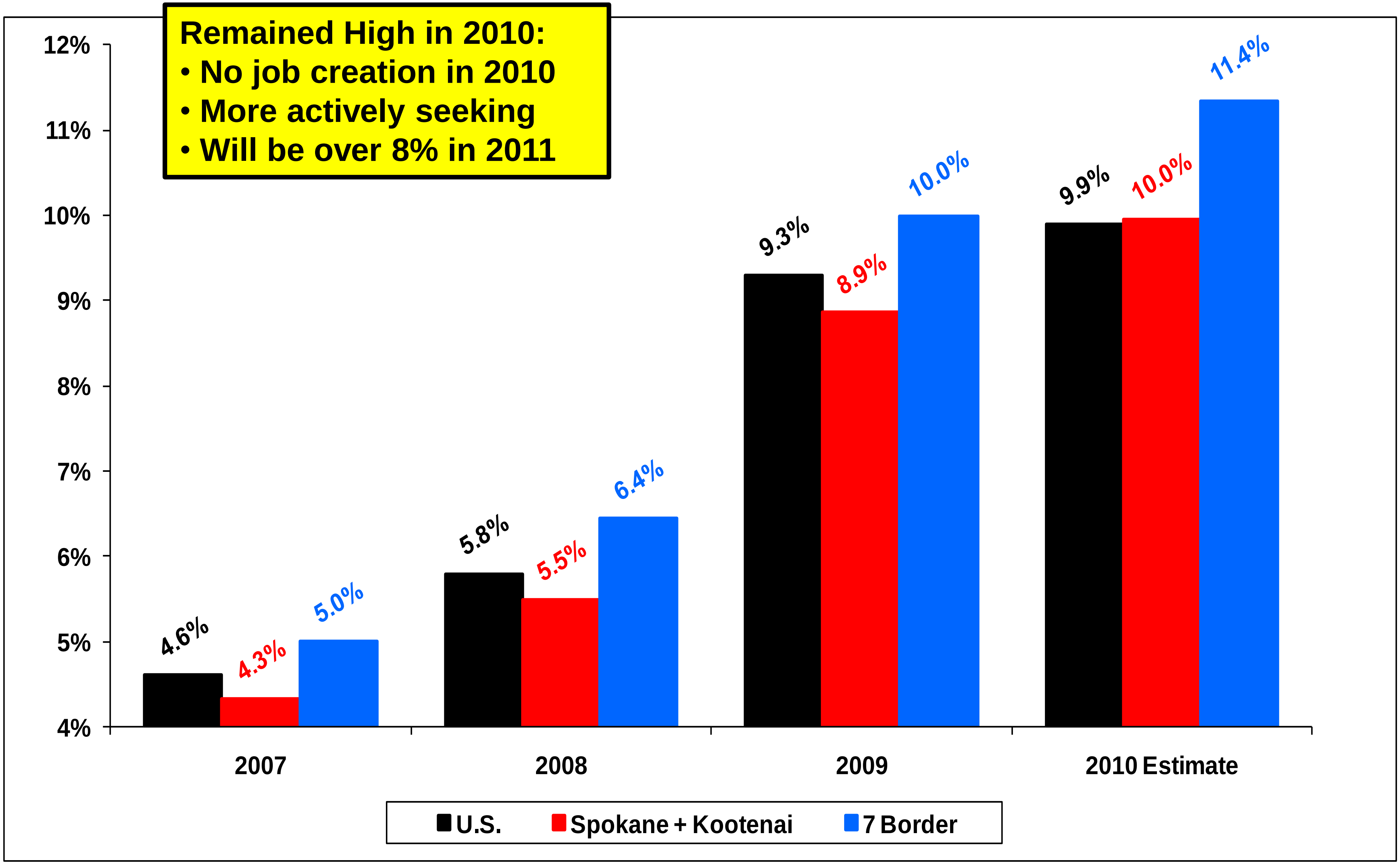
City Population Growth, 2009 and 2010





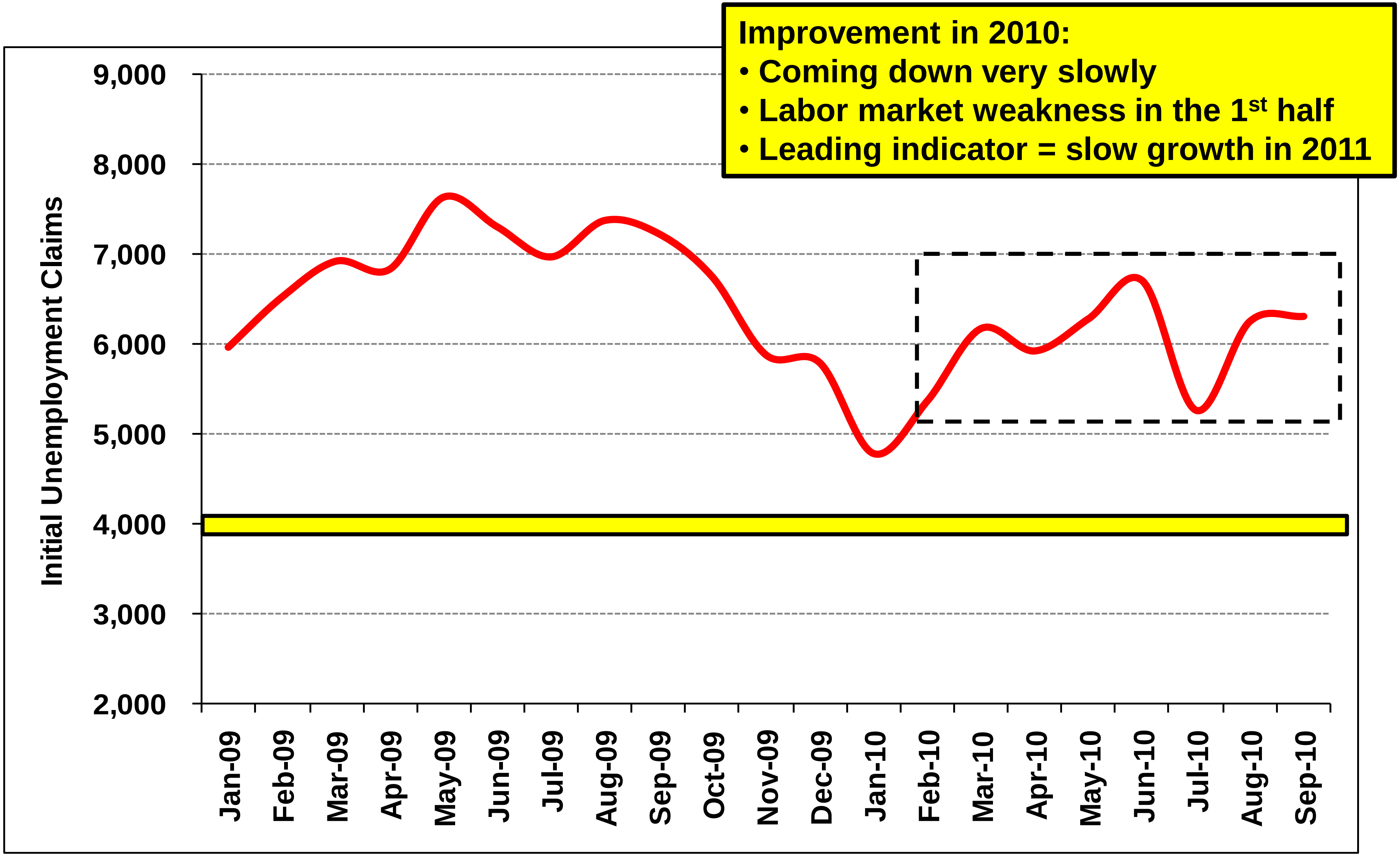
Source: U.S. Census for Idaho, WA OFM, and author’s calculations.

Unemployment Rate, 2008-2010



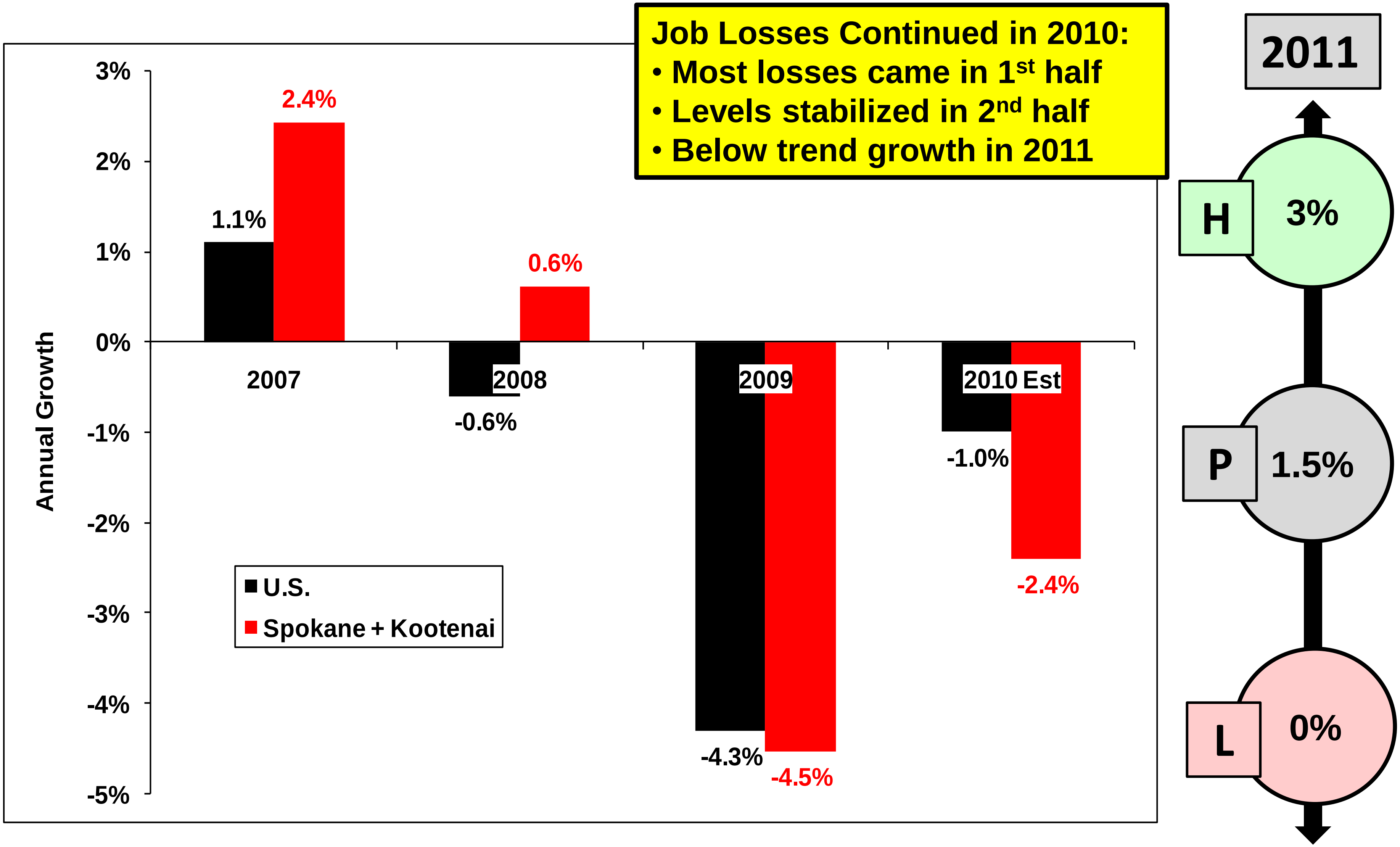
Source: BLS and author's calculations.

SA Spokane+Kootenai Monthly Unemployment Claims, 2009-2010



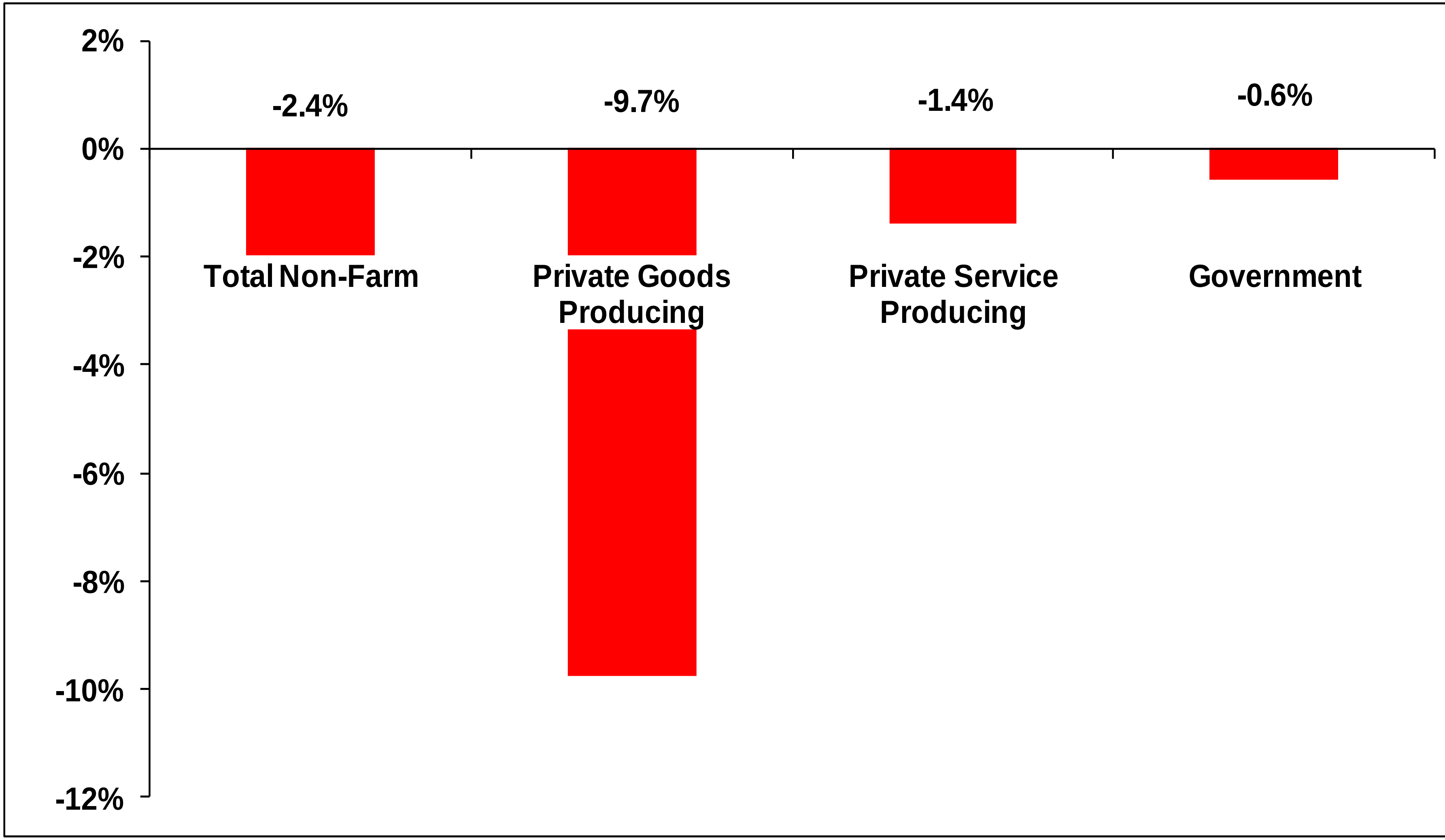
Source: LMEA, ID Labor Department (Alivia Body), and author's calculations.

Spokane+Kootenai Non-Farm Employment Growth, 2008-2010



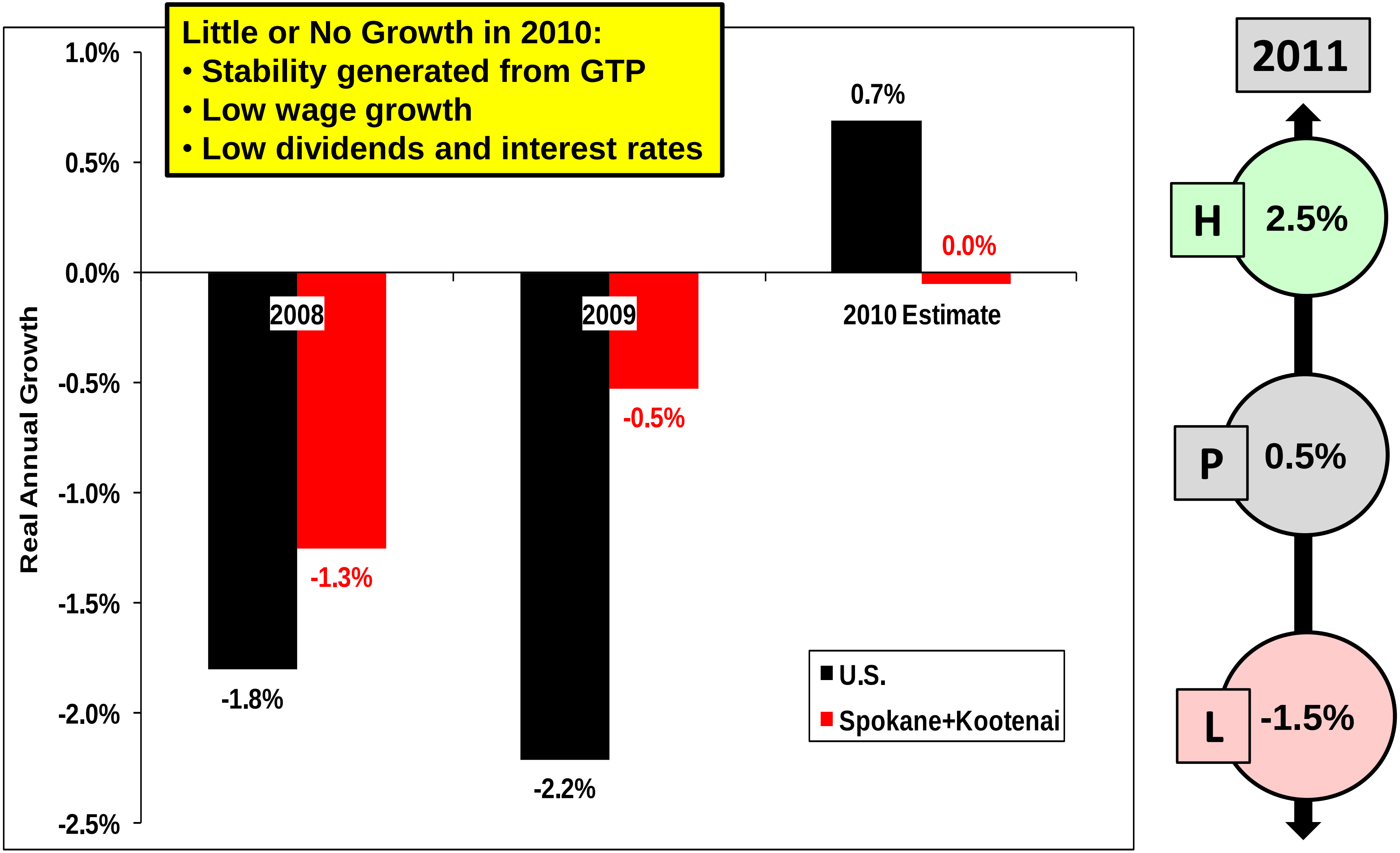
Source: BLS and author's calculations.

Estimated Spokane+Kootenai Sector Employment Growth, 2010



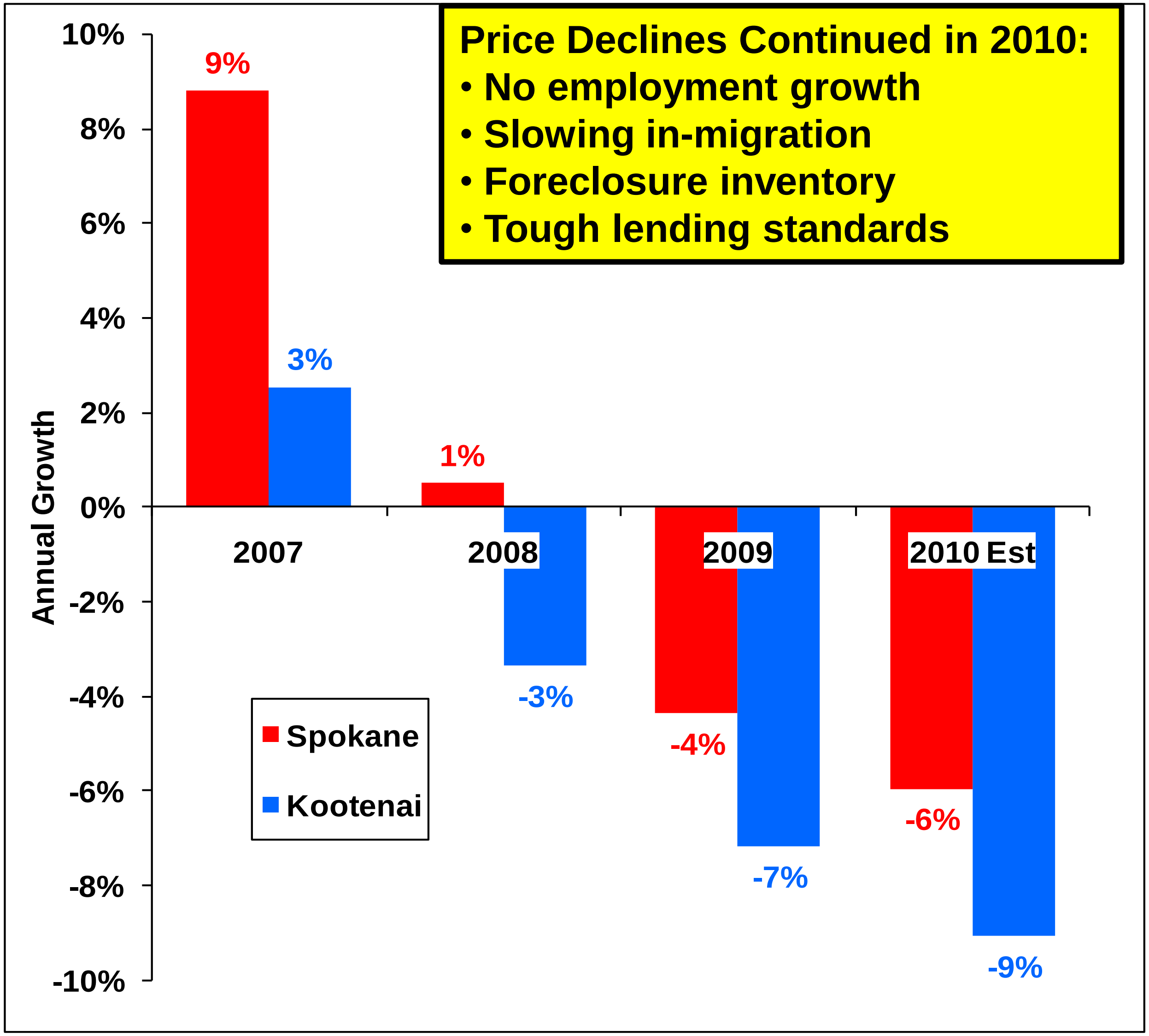
Source: BLS and author's calculations.

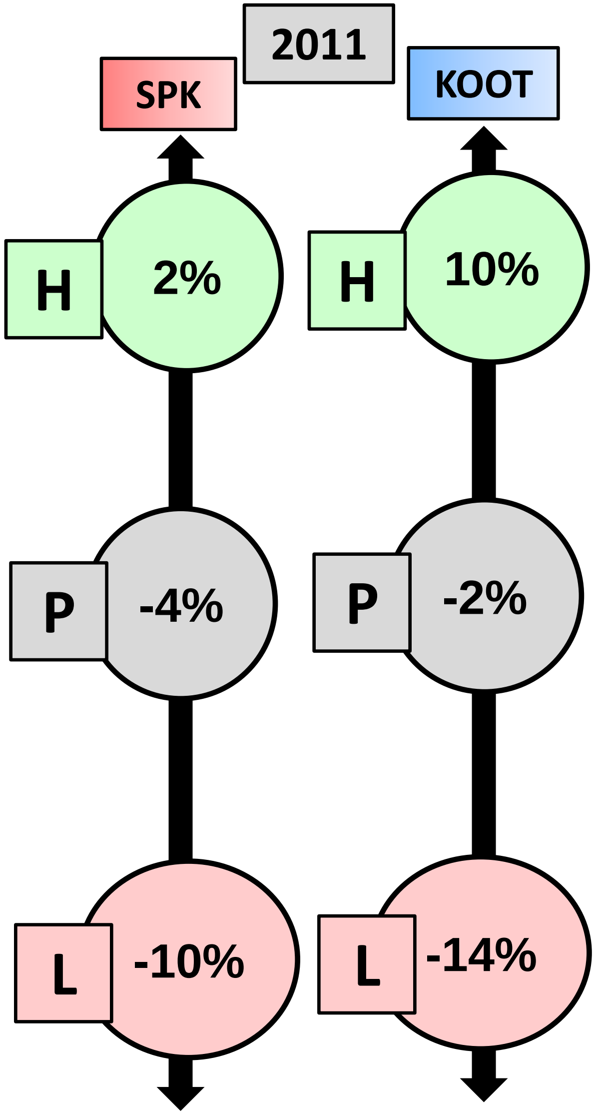
Spokane+Kootenai Real Per Capita Personal Income Growth, 2008-2010



Source: BEA and author's calculation.

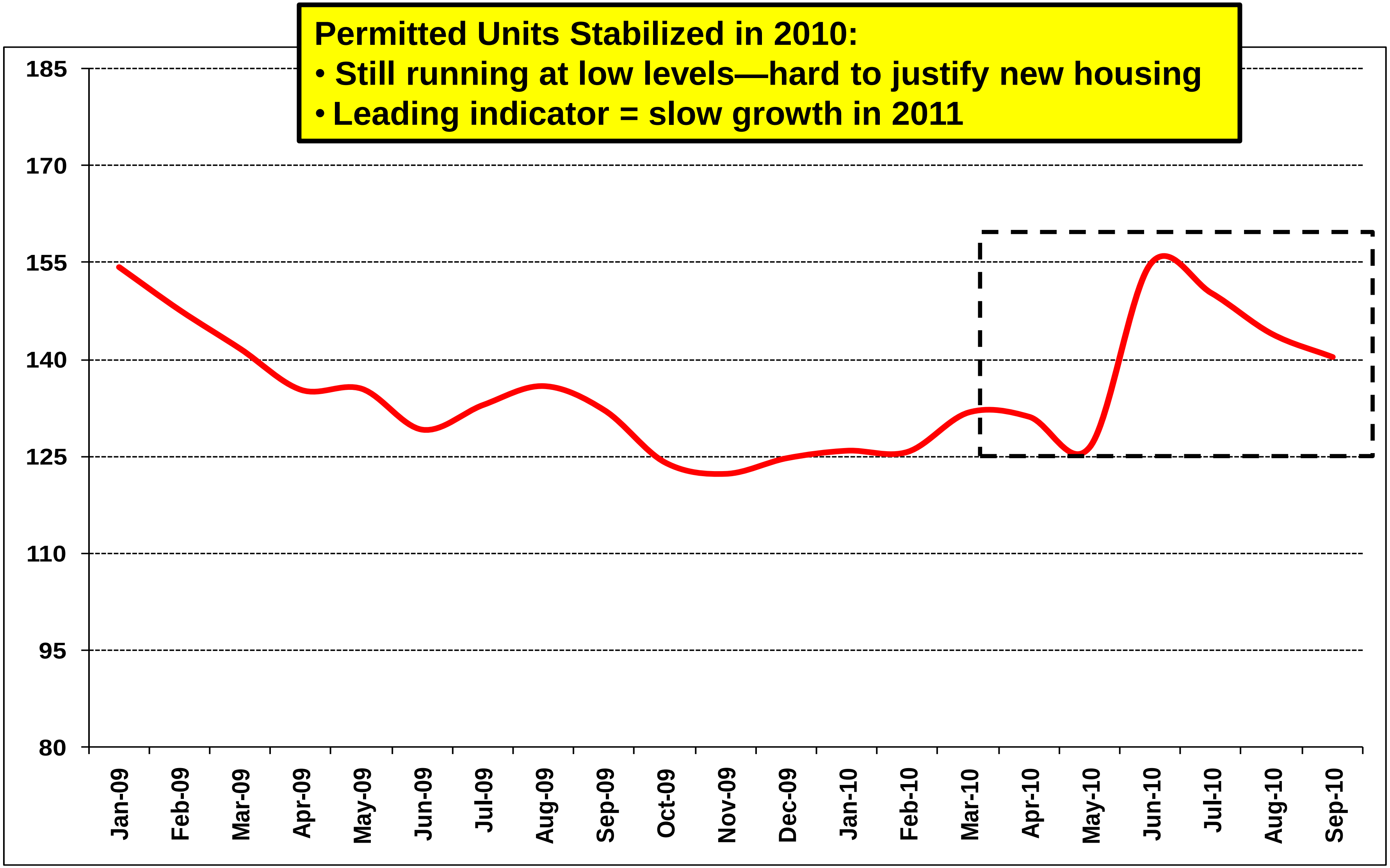
Nominal Existing Home Prices, 2007-2010





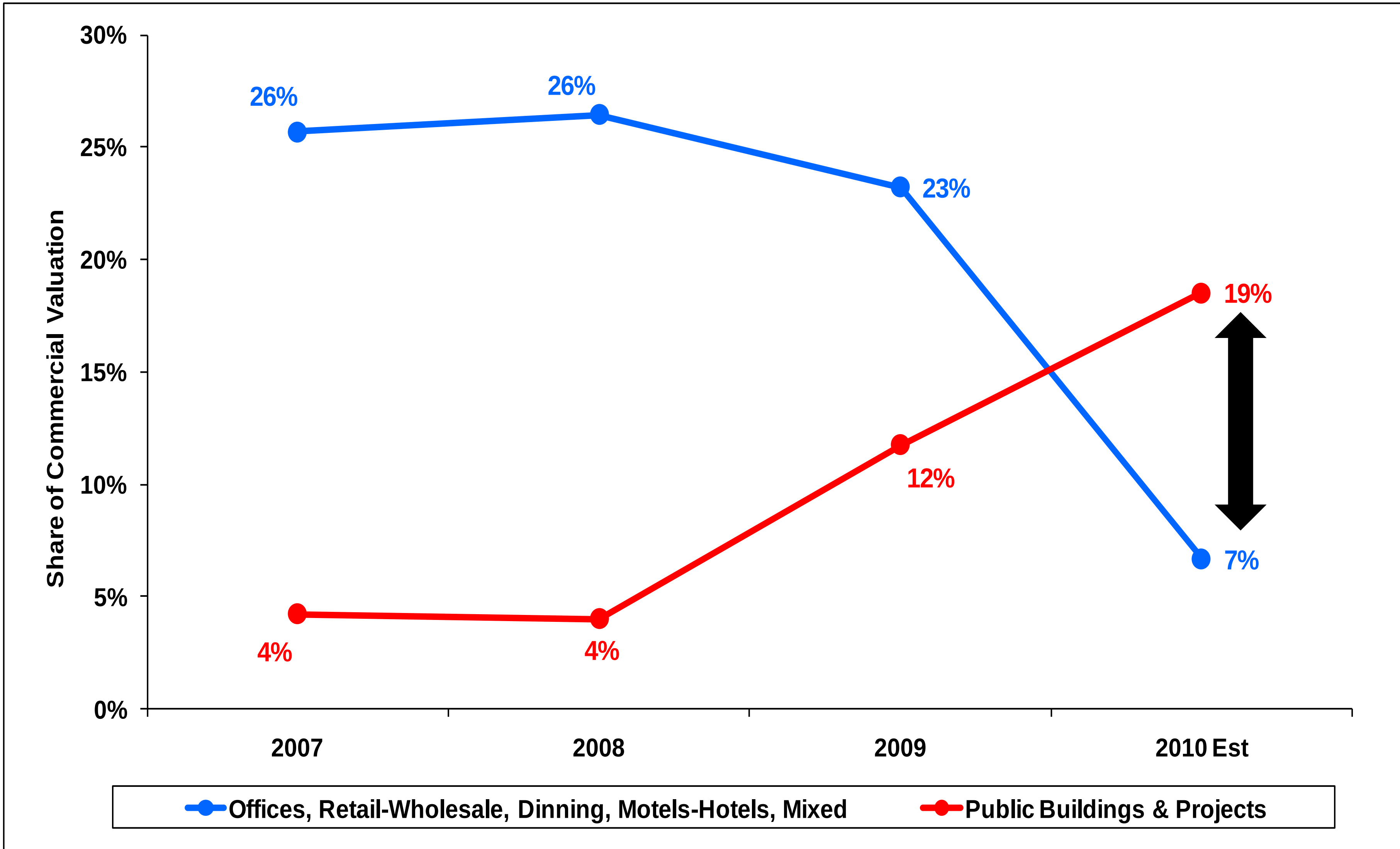
Source: FHFA and author's calculations.

12 Month-MA Permitted Residential Units, 2009-2010



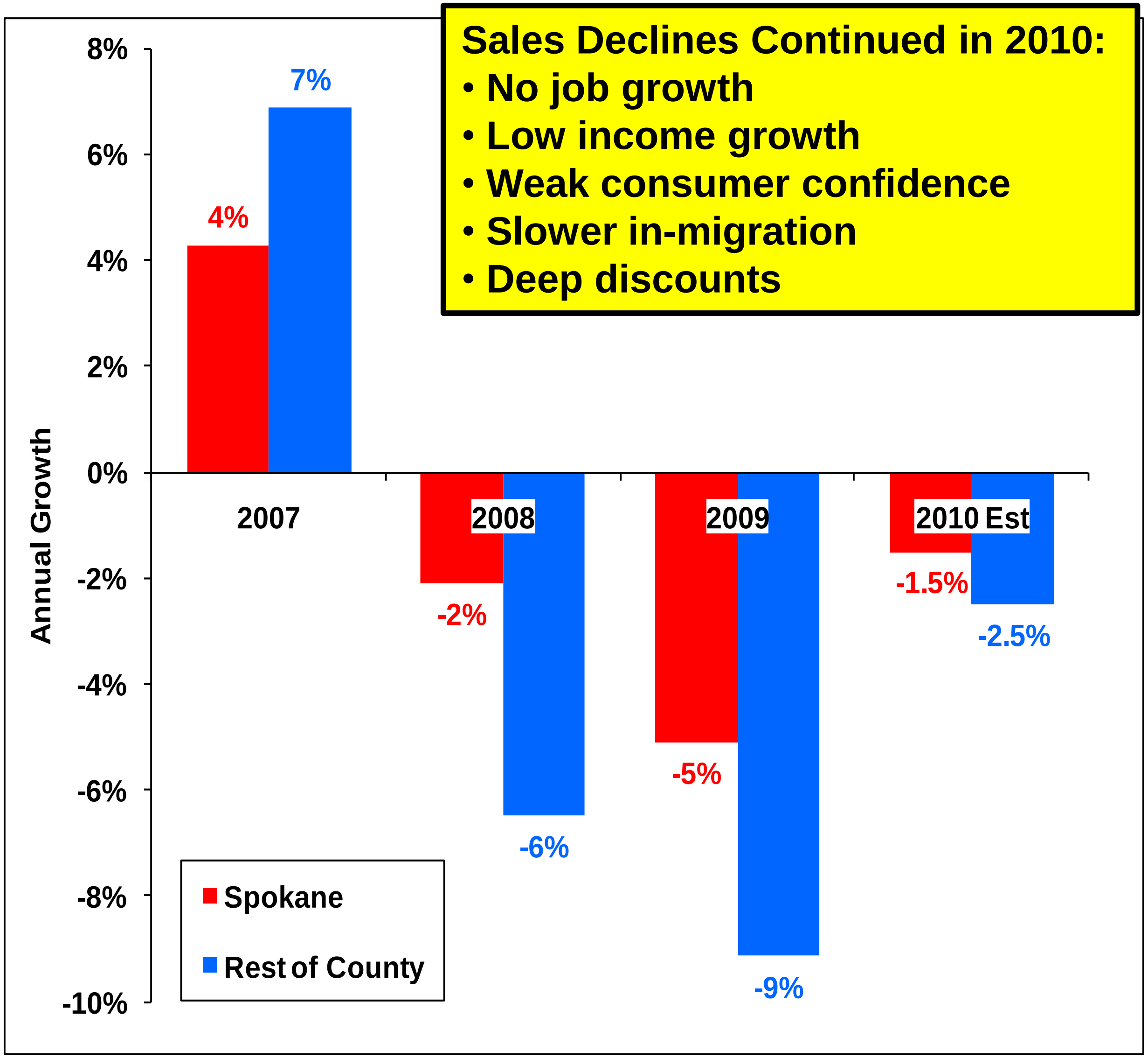
Source: U.S. Census and author's calculations.

Inland Northwest (8 Counties) Commercial Permit Valuations, 2007-2010



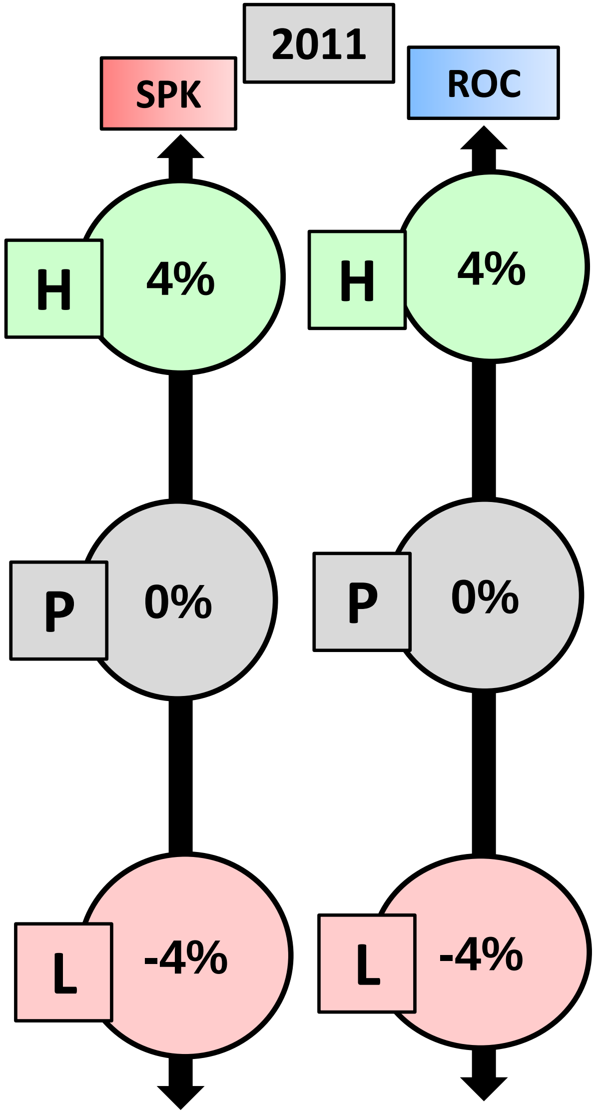
Source: Central Pre-Mix (Inland Northwest Construction Monitor) author's calculations. Counties represented in WA: Adams, Stevens, Spokane, Lincoln, Pend Oreille; ID: Bonner, Boundary, and Kootenai

Nominal Taxable Sales, 2007-2010



Sales Declines Continued in 2010:

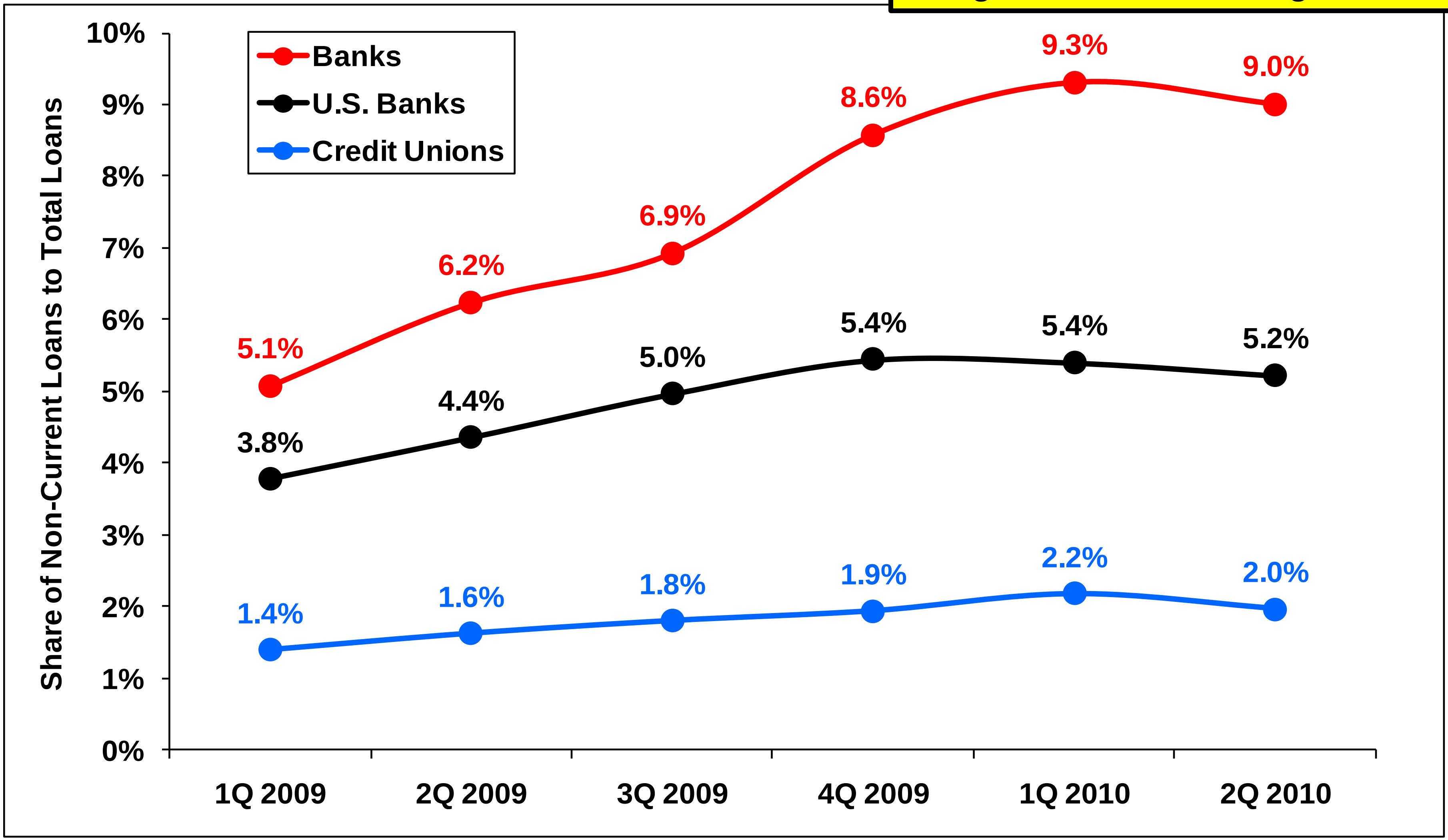
- No job growth
- Low income growth
- Weak consumer confidence
- Slower in-migration
- Deep discounts



Source: WA DOR and author's calculations.

Non-Current Loans to Total Loans, 2009-2010

Troubled Loans Peaked in 2010:
- **Regional banks still high**



Source: FDIC, NCUA, and author's calculations.

Change in Regional Company Market Capitalization, 3Q 2009—3Q 2010

Company	% Change
Sterling Financial (Recapilatized)	352%
Key Tronic	154%
Clearwater Paper Corporation	79%
Hecla Mining	51%
WTB Financial Corporation	36%
Red Lion Hotels	31%
Northwest Bancorp.	29%
Potlatch	20%
Coeur d'Alene Mines	14%
Avista	4%
Itron	-4%
Intermountain Community Bank	-23%
Ambassadors Group	-29%
Coldwater Creek	-35%
Idaho Independent Bank	-64%

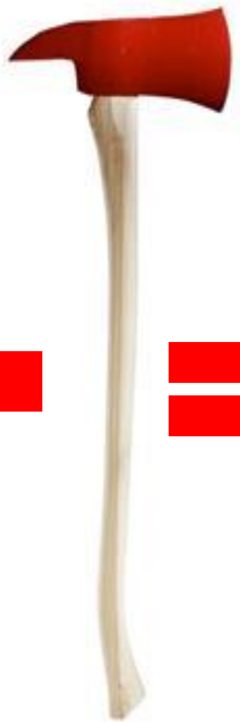
Index	% Change
Hart Index	5%
Russell 2000	12%
S&P 500	8%

Source: Hart Capital Management, Inc.

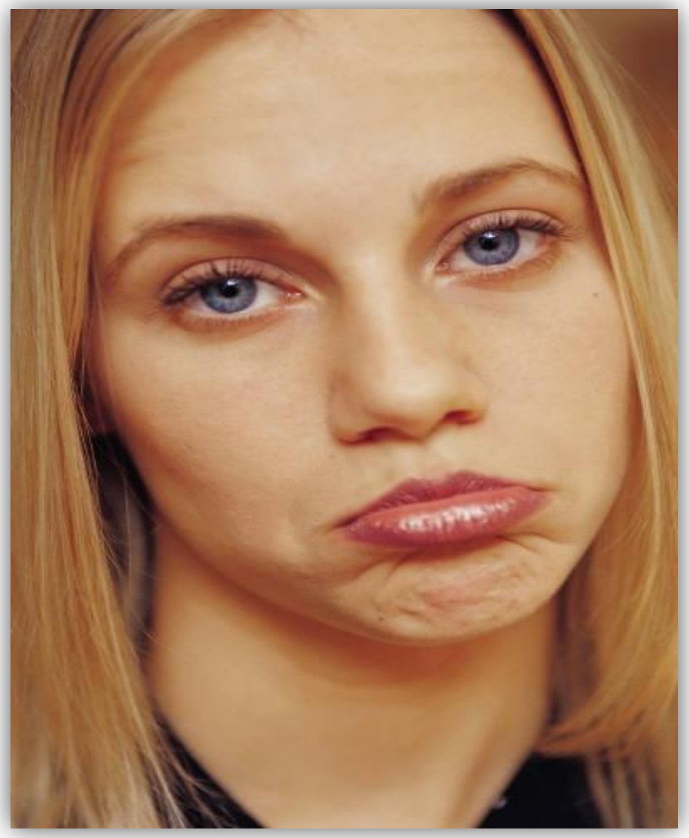
start something big

Fiscal Austerity and its Regional Implications

+



=



Recent Studies on "Fiscal Consolidation"

Guichard, S. *et al. (2007), "What Promotes Fiscal* Consolidation: OECD Country Experiences", *OECD Economics Department Working Papers, No. 553, OECD.*

Price, R. (2010), "The Political Economy of Fiscal Consolidation", *OECD Economics Department Working Papers, No. 776, OECD.*

International Monetary Fund World Economic Outlook (2010), *"Chapter 3: Will It Hurt? Macroeconomic Effects of Fiscal Consolidation."*

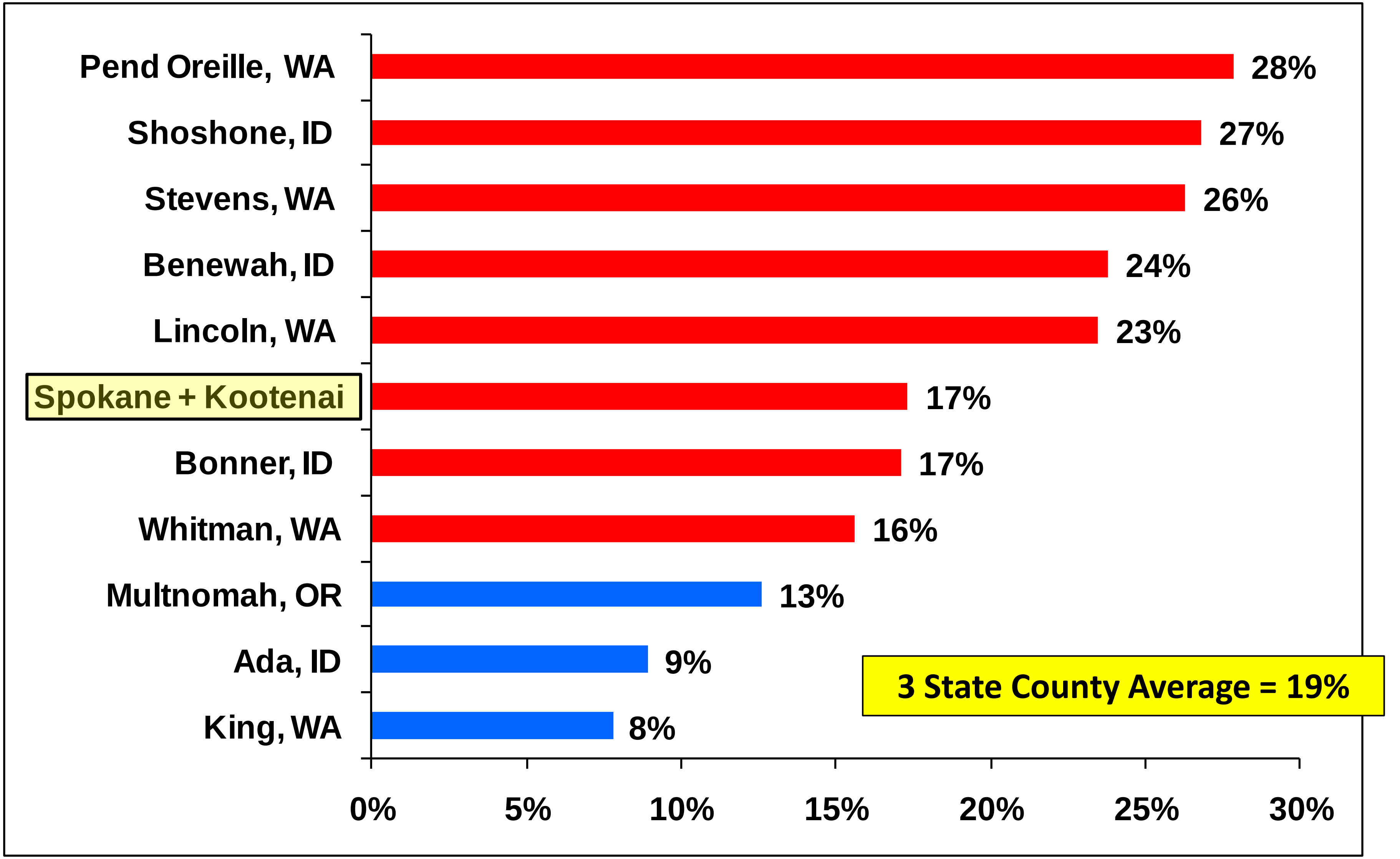
National fiscal consolidations were more likely to close deficits when:

- **Spending cuts were weighted more heavily than tax increases…although tax increases were a common feature of most consolidations.**
- **Cuts included both current government expenditures on goods and services and transfer payment (social welfare) programs.**

Fiscal consolidations tend to be contractionary, and the more so if tax increases are emphasized over spending cuts.

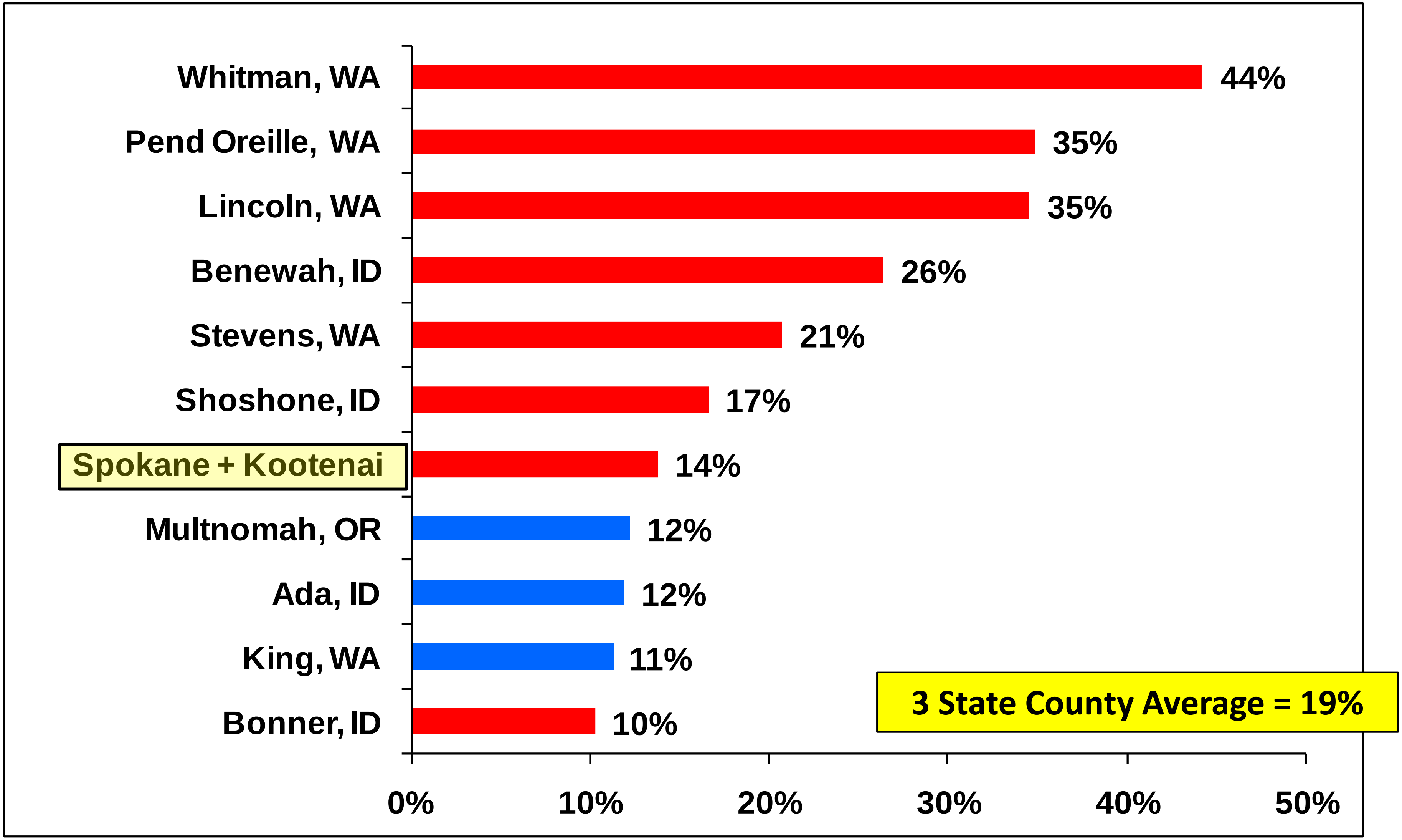
Source: OECD and IMF

Government Transfer Payments as a Share of Personal Income, 2007



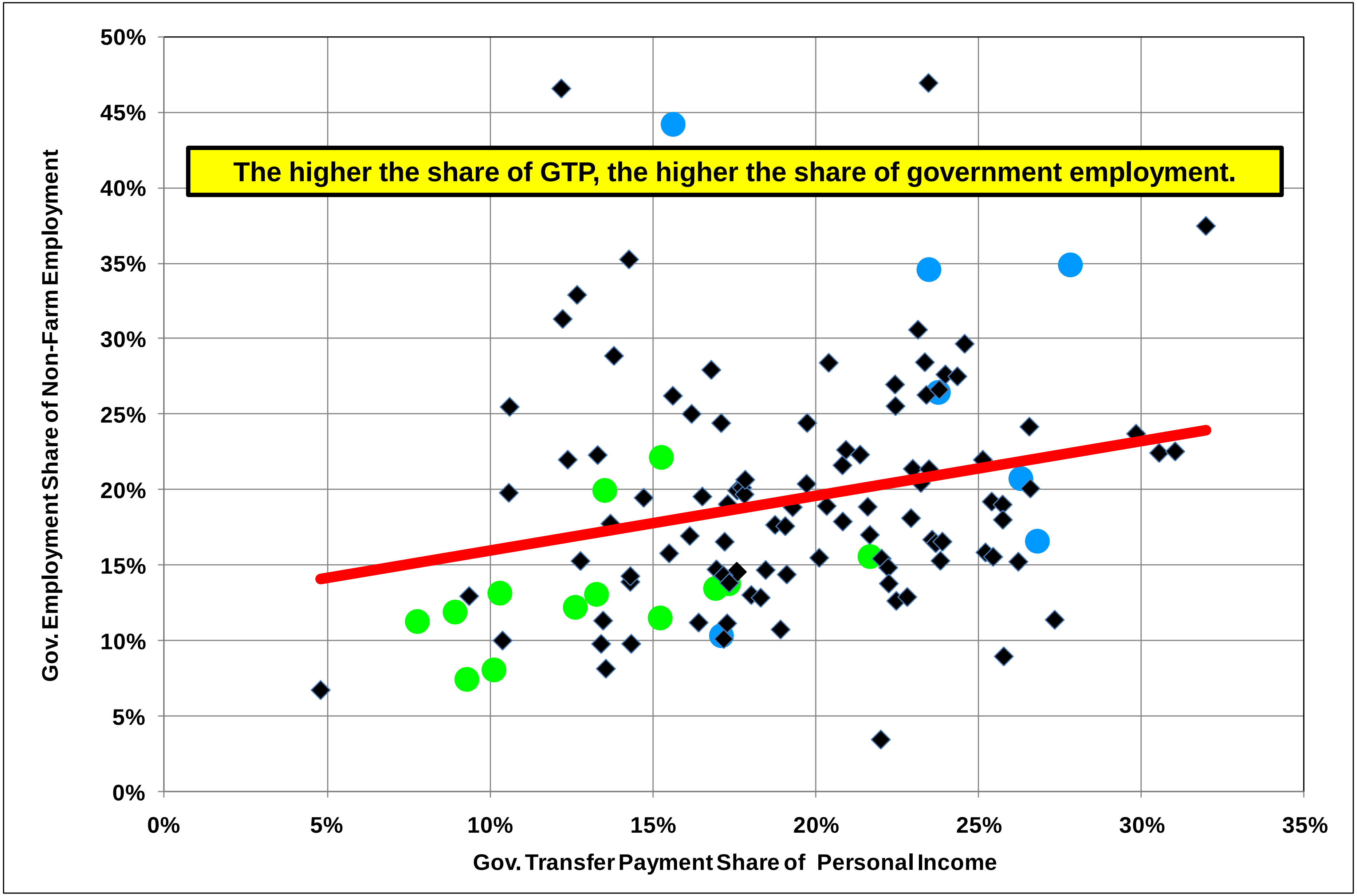
Source: BEA and author's calculations.

Government Employment as a Share of Non-Farm Employment, 2007



Source: BEA and author's calculations.

Government Dependency Scatter Plot of WA, OR, and ID, 2007



Source: BEA and author's calculations.

2011…that lovely taste of broccoli

- Slow growth in employment and income.
- Population growth holding at 1% to 1.5%.
- No or slow growth in taxable sales. Local government—be conservative with assumptions on revenue growth.
- Home prices will likely decline, but at a slower pace. Commercial activity will still be slow. Stability in 2012?
- Continued improvement in bank portfolios, but with only modest growth in new lending.
- Regional growth will be consistent with continued modest growth in national GDP. National fiscal consolidation (if/when it starts) will be a drag on growth.