2011 Regional Economic Outlook

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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

Continued Slowing Growth:
- Weak local job creation
- Weak U.S. housing market
- Cities catch a breather

Source: U.S. Census, WA OFM for 2010, and author’s calculations.
City Population Growth, 2009 and 2010

Spokane County, 2010 OFM

- Liberty Lake: 4.8%
- Spokane: 0.7%
- Deer Park: 0.9%
- Spokane Valley: 0.9%
- Cheney: 1.2%
- Airway Heights: 1.5%
- Medical Lake: -1.2%

Kootenai County, 2009 Census

- Dalton Gardens: 0.6%
- Spirit Lake: 1.6%
- Coeur d'Alene: 1.7%
- Hayden: 2.1%
- Post Falls: 2.3%
- Rathdrum: 2.4%

Source: U.S. Census for Idaho, WA OFM, and author's calculations.
Remained High in 2010:
- No job creation in 2010
- More actively seeking
- Will be over 8% in 2011

Source: BLS and author’s calculations.
SA Spokane+Kootenai Monthly Unemployment Claims, 2009-2010

Improvement in 2010:
- Coming down very slowly
- Labor market weakness in the 1st half
- Leading indicator = slow growth in 2011

Source: LMEA, ID Labor Department (Alivia Body), and author’s calculations.
Spokane+Kootenai Non-Farm Employment Growth, 2008-2010

Job Losses Continued in 2010:
- Most losses came in 1st half
- Levels stabilized in 2nd half
- Below trend growth in 2011

Annual Growth

2007 2008 2009 2010 Est
U.S. 1.1% -0.6% -4.3% -1.0% 2.4%
Spokane + Kootenai -0.6% 0.6% -4.5% -2.4%

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

Little or No Growth in 2010:
- Stability generated from GTP
- Low wage growth
- Low dividends and interest rates

2008: -1.8%
2009: -2.2%
2010 Estimate: 0.7%

Source: BEA and author’s calculation.
Nominal Existing Home Prices, 2007-2010

Price Declines Continued in 2010:
- No employment growth
- Slowing in-migration
- Foreclosure inventory
- Tough lending standards

Source: FHFA and author’s calculations.
12 Month-MA Permitted Residential Units, 2009-2010

Permitted Units Stabilized in 2010:
- Still running at low levels—hard to justify new housing
- Leading indicator = slow growth in 2011

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

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Banks</th>
<th>U.S. Banks</th>
<th>Credit Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q 2009</td>
<td>5.1%</td>
<td>3.8%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2Q 2009</td>
<td>6.2%</td>
<td>4.4%</td>
<td>1.6%</td>
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<tr>
<td>3Q 2009</td>
<td>6.9%</td>
<td>5.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>4Q 2009</td>
<td>8.6%</td>
<td>5.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td>1Q 2010</td>
<td>9.3%</td>
<td>5.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td>2Q 2010</td>
<td>9.0%</td>
<td>5.2%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Company</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Sterling Financial (Recapitalized)</td>
<td>352%</td>
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<tr>
<td>Key Tronic</td>
<td>154%</td>
</tr>
<tr>
<td>Clearwater Paper Corporation</td>
<td>79%</td>
</tr>
<tr>
<td>Hecla Mining</td>
<td>51%</td>
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<tr>
<td>WTB Financial Corporation</td>
<td>36%</td>
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<tr>
<td>Red Lion Hotels</td>
<td>31%</td>
</tr>
<tr>
<td>Northwest Bancorp.</td>
<td>29%</td>
</tr>
<tr>
<td>Potlatch</td>
<td>20%</td>
</tr>
<tr>
<td>Coeur d’Alene Mines</td>
<td>14%</td>
</tr>
<tr>
<td>Avista</td>
<td>4%</td>
</tr>
<tr>
<td>Itron</td>
<td>-4%</td>
</tr>
<tr>
<td>Intermountain Community Bank</td>
<td>-23%</td>
</tr>
<tr>
<td>Ambassadors Group</td>
<td>-29%</td>
</tr>
<tr>
<td>Coldwater Creek</td>
<td>-35%</td>
</tr>
<tr>
<td>Idaho Independent Bank</td>
<td>-64%</td>
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### Index % Change

<table>
<thead>
<tr>
<th>Index</th>
<th>% Change</th>
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<td>Hart Index</td>
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<tr>
<td>Russell 2000</td>
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</tr>
<tr>
<td>S&amp;P 500</td>
<td>8%</td>
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</tbody>
</table>

Source: HART Capital Management, Inc.
Fiscal Austerity and its Regional Implications
Recent Studies on “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

- Pend Oreille, WA: 28%
- Shoshone, ID: 27%
- Stevens, WA: 26%
- Benewah, ID: 24%
- Lincoln, WA: 23%
- Spokane + Kootenai: 17%
- Bonner, ID: 17%
- Whitman, WA: 16%
- Multnomah, OR: 13%
- Ada, ID: 9%
- King, WA: 8%

3 State County Average = 19%

Source: BEA and author’s calculations.
Government Employment as a Share of Non-Farm Employment, 2007

Source: BEA and author’s calculations.

- Whitman, WA: 44%
- Pend Oreille, WA: 35%
- Lincoln, WA: 35%
- Benewah, ID: 26%
- Stevens, WA: 21%
- Shoshone, ID: 17%
- Spokane + Kootenai: 14%
- Multnomah, OR: 12%
- Ada, ID: 12%
- King, WA: 11%
- Bonner, ID: 10%

3 State County Average = 19%
Government Dependency Scatter Plot of WA, OR, and ID, 2007

The higher the share of GTP, the higher the share of government employment.

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.