Local Economic Outlook

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Outlook Outline

• Regional Indicators and Forecasts
  Population
  Unemployment and Employment
  Incomes
  Taxable Retail Sales
  Regional Home and Stock Prices

• Industries of Interest
  Banking Sector
  Health Care Sector
Indicators and Forecasts
Population Growth, 2002-2003

Source: U.S. Census and author’s calculations.
OFM Population Growth Estimates for Spokane County, 2003-2004

Source: Office of Financial Management and author’s calculations.
Unemployment rates by county,
September 2003 - August 2004 averages
(U.S. rate = 5.7 percent)

Source: Bureau of Labor Statistics
Unemployment Rates and Forecasts

<table>
<thead>
<tr>
<th></th>
<th>Spokane</th>
<th></th>
<th>Kootenai</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Range</td>
<td>2004</td>
<td>2005</td>
<td>2004</td>
<td>2005</td>
</tr>
<tr>
<td>High</td>
<td>5.9%</td>
<td>6.1%</td>
<td>6.8%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Point</td>
<td>5.7% (6.8)</td>
<td>5.3% (7.2)</td>
<td>6.5%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Low</td>
<td>5.5%</td>
<td>4.5%</td>
<td>6.2%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, the Forecast Council, and author’s calculations.
US Employment Growth

Source: Bureau of Labor Statistics and author’s calculations.

Months After Low Point of Recession
(Black Line Ends September 2004)

Nation 2001 Nation 1990/91
Local Employment Growth

Source: Bureau of Labor Statistics and author’s calculations.

Months After Low Point of Recession
(Red Line Ends August 2004)

Spokane + Kootenai 2001  Spokane + Kootenai 1990/91

Source: Bureau of Labor Statistics and author’s calculations.
Real Per Capita Personal Income Growth and Forecasts

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, the Forecast Council, and author’s calculations.
Spokane County Taxable Retail Sales Growth and Forecasts

<table>
<thead>
<tr>
<th>Year</th>
<th>City of Spokane</th>
<th>County w/o City</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>5.3%</td>
<td>11.1%</td>
</tr>
<tr>
<td>2005</td>
<td>6.7%</td>
<td>11.5%</td>
</tr>
<tr>
<td>2004</td>
<td>(4.7)</td>
<td>2.9%</td>
</tr>
<tr>
<td>2005</td>
<td>1.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>2004</td>
<td>-1.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>2005</td>
<td>-3.2%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Department of Revenue and author’s calculations.
County Real Taxable Retail Sales Growth, The Short-Run

Source: Department of Revenue and author’s calculations.
County Real Taxable Retail Sales Growth, The Long-Run

Source: Department of Revenue and author’s calculations.
Source of Taxable Retail Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>City of Spokane</th>
<th>County w/o City</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>63%</td>
<td>37%</td>
</tr>
<tr>
<td>1994</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>2003</td>
<td>55%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: Department of Revenue and author’s calculations.
Spokane MSA Existing Home Price Growth and Forecasts

<table>
<thead>
<tr>
<th>Region</th>
<th>Range 2004</th>
<th>Range 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Point</td>
<td>7.1% (2.2)</td>
<td>5.9%</td>
</tr>
<tr>
<td>Low</td>
<td>4.6%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Source: Office of Federal Housing Enterprise Oversight and author’s calculations.
## Regional Market Values by Firm

<table>
<thead>
<tr>
<th>Company</th>
<th>% Change-Market Value 1/03-12/03</th>
<th>% Change-Market Value 1/04-10/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>+21%</td>
<td>-1%</td>
</tr>
<tr>
<td>Avista</td>
<td>+55%</td>
<td>-1%</td>
</tr>
<tr>
<td>Potlach</td>
<td>+47%</td>
<td>+26%</td>
</tr>
<tr>
<td>Sterling Financial</td>
<td>+88%</td>
<td>+21%</td>
</tr>
<tr>
<td>American West Bancorp.</td>
<td>+47%</td>
<td>-7%</td>
</tr>
<tr>
<td>Northwest Bancorp.</td>
<td>+50%</td>
<td>+1%</td>
</tr>
<tr>
<td>Coeur d’Alene Mines</td>
<td>+323%</td>
<td>-24%</td>
</tr>
<tr>
<td>Hecla Mining</td>
<td>+74%</td>
<td>-15%</td>
</tr>
<tr>
<td>Itron</td>
<td>+1%</td>
<td>+4%</td>
</tr>
<tr>
<td>Key Tronics</td>
<td>+75%</td>
<td>+28%</td>
</tr>
<tr>
<td>West Coast Hospitality</td>
<td>-17%</td>
<td>+8%</td>
</tr>
<tr>
<td>Coldwater Creek</td>
<td>+56%</td>
<td>+178%</td>
</tr>
</tbody>
</table>

Source: Standard and Poor's, SEC, Economagic.com, NASDAQ, and author's calculations.
Total Market Value, 1/2002-10/2004

Source: Standard and Poor's, SEC, Economagic.com, NASDAQ, and author's calculations.
Regional Banking Sector
Loan Portfolio, 1994

Regional Loan Portfolio, 1994 (n = 17)
- Loans to Indiv. 9%
- Real Estate Loans 72%
- Other Loans 1%
- Farm Loans 3%
- C and I Loans 15%

National Loan Portfolio, 1994 (N = 12,603)
- Loans to Indiv. 17%
- Real Estate Loans 54%
- Other Loans 8%
- C and I Loans 20%
- Farm Loans 1%

Source: FDIC and author’s calculations.
Loan Portfolio, 2004

Regional Loan Portfolio, 2004
(n = 16)
- Real Estate Loans: 65%
- Farm Loans: 5%
- C and I Loans: 26%
- Loans to Indiv.: 4%
- Other Loans: 0%

National Loan Portfolio, 2004
(N = 9,079)
- Real Estate Loans: 59%
- C and I Loans: 16%
- Loans to Indiv.: 15%
- Other Loans: 9%
- Farm Loans: 1%

Source: FDIC and author’s calculations.
Real Estate Loans, 1994 and 2004

Regional Real Estate Loan Portfolio, 1994

- 1-4 Family Res. 66%
- Farmland 1%
- M-family Res. 6%
- Comm. Real Estate 17%
- Const. and Land Develop. 10%

Regional Real Estate Loan Portfolio, 2004

- Comm. Real Estate 34%
- M-family Res. 7%
- 1-4 Family Res. 31%
- Const. and Land Develop. 25%
- Farmland 3%

Source: FDIC and author’s calculations.
Spokane County Healthcare Sector
Sector Employment Growth

Source: Employment Security Department, Idaho Department of Labor, and author’s calculations
Operating Margins of Six Regional Hospitals, 1999-2004

Source: Washington State Department of Health and Patrick Jones, Ph.D.
Outlook Summary for 2005

Contingent on the national economy doing no worse:

- Lower unemployment rates in 2005.
- Real growth above 1% for personal income in 2005.
- Continued above average gains on the prices of existing residential homes, but lower than 2004.
- More robust growth in taxable retail sales for the balance of the county compared to the City of Spokane. City of Spokane returning to the slow growth rate of the last 10 years.
- Regional banks well positioned for commercial lending.
- Continued growth in health services employment, despite weak incomes at regional hospitals.