Local Economic Outlook

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Outlook Outline

• Regional Indicators and Forecasts
  Population
  Unemployment and Employment
  Incomes
  Taxable Retail Sales
  Regional Home and Company Values
  Hospital Revenues
• Industries of Interest
  Construction Sector
Indicators and Forecasts
OFM Population Growth Estimates for Spokane & Vicinity, 2005

Source: Office of Financial Management and author’s calculations.
Census Population Growth Estimates for Kootenai & Vicinity, 2004

Source: U.S. Census and author’s calculations.
Population Growth Patterns for the Inland Northwest, 2000-2004

Source: U.S. Census and author’s calculations.
Employment Growth and Forecasts

Source: Bureau of Labor Statistics, the Forecast Council, and author’s calculations.
Relative Costs of Energy: Oil and Natural Gas Prices, 1973-2005

Source: Energy Information Admin., Bureau of Economic Analysis, and author’s calculations.
Real Per Capita Personal Income Growth and Forecasts

## Spokane County Taxable Retail Sales Growth and Forecasts

### Graph: Consumer Confidence?

- **2004**: City of Spokane - 6.0%, County w/o City - 6.4%
- **1H2004-1H2005**: City of Spokane - 4.4% (1.7), County w/o City - 8.4% (5.2)
- **2005F**: City of Spokane - 6.0%, County w/o City - 10.5%
- **2006F**: City of Spokane - 7.1%, County w/o City - 11.5%

### Table: Growth Rates

<table>
<thead>
<tr>
<th></th>
<th>City of Spokane</th>
<th>County w/o City</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Range</strong></td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>High</td>
<td>6.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Point</td>
<td>4.4% (1.7)</td>
<td>2.3% (5.2)</td>
</tr>
<tr>
<td>Low</td>
<td>2.7%</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

Source: Department of Revenue and author’s calculations.
Retail Sales Breakdown for the Large Cities, 2004

City of Spokane

- Blue + Red + Yellow = 38%
- 61% Accommodation & Food
- 18% Vehicles & Parts Sales
- 10% Constr., Real Estate, & Related Retail
- 10% All Else

Spokane Valley

- Blue + Red + Yellow = 48%
- 52% Accommodation & Food
- 17% Vehicles & Parts Sales
- 8% Constr., Real Estate, & Related Retail
- 23% All Else

Source: Department of Revenue and author’s calculations.
Retail Sales Breakdown for the Small Cities and Unincorp. Areas, 2004

**County Small Cities (n = 11)**

- **Blue**: 43%
- **Red**: 23%
- **Yellow**: 9%
- **Constr., Real Estate, & Related Retail**: 25%
- **Vehicles & Parts Sales**: 23%
- **Accommodation & Food**: 9%
- **All Else**: 43%

Blue + Red + Yellow = 57%

**Unincorporated County**

- **Blue**: 41%
- **Red**: 5%
- **Yellow**: 3%
- **Constr., Real Estate, & Related Retail**: 51%
- **Vehicles & Parts Sales**: 5%
- **Accommodation & Food**: 23%
- **All Else**: 22%

Blue + Red + Yellow = 59%

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Range 2005</th>
<th>Range 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spokane</td>
<td>16.7%</td>
<td>11.3%</td>
</tr>
<tr>
<td>High</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Point 2004</td>
<td>15.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Low</td>
<td>14.3%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Source: Office of Federal Housing Enterprise Oversight and author’s calculations.
Westside MSA Existing Home Price Growth

Source: Office of Federal Housing Enterprise Oversight and author's calculations.
53 MSAs Overvalued by 30% or More
(18% of MSAs)

- Bellingham
- Other 32%
- Florida 21%
- California 47%

Source: National City and author’s calculations.
76 MSAs Undervalued (25% of MSAs)

- Texas: 25%
- Idaho Falls: 11%
- Other: 64%

Source: National City and author’s calculations.
National City Study of Metropolitan Housing Markets, 1Q 2005

You are here.

% Over/Undervalued

-20% -10% 0% 10% 20% 30% 40%

Bellingham 35%
P-V-B 29%
S-B-E 20%
Olympia 18%
Tacoma 18%
Bremerton-Silver. 17%
Longview 17%
Anacortes-Mt. Vern. 15%
Spokane 7%
Wenatchee 6%
Yakima 6%
Boise 4%
Tri-Cities 3%
Idaho Falls -4%

Source: National City
Operating Margins of Major Regional Hospitals, 4Q 1999-2Q 2005

Source: Washington State Department of Health and Patrick Jones, Ph.D.
## Regional Market Values by Firm

<table>
<thead>
<tr>
<th>Company</th>
<th>% Change-Market Value 1/04-12/04</th>
<th>% Change-Market Value 1/05-9/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 3000 Index</td>
<td>+6%</td>
<td>+5%</td>
</tr>
<tr>
<td>Regional Market Value</td>
<td>+25%</td>
<td>+13%</td>
</tr>
<tr>
<td>Avista</td>
<td>-3%</td>
<td>+13%</td>
</tr>
<tr>
<td>Potlach</td>
<td>+34%</td>
<td>+18%</td>
</tr>
<tr>
<td>Sterling Financial</td>
<td>+33%</td>
<td>+3%</td>
</tr>
<tr>
<td>American West Bancorp.</td>
<td>+2%</td>
<td>+21%</td>
</tr>
<tr>
<td>Northwest Bancorp.</td>
<td>+6%</td>
<td>+13%</td>
</tr>
<tr>
<td>Coeur d’Alene Mines</td>
<td>-25%</td>
<td>+10%</td>
</tr>
<tr>
<td>Hecla Mining</td>
<td>-28%</td>
<td>-28%</td>
</tr>
<tr>
<td>Itron</td>
<td>+23%</td>
<td>+121%</td>
</tr>
<tr>
<td>Key Tronics</td>
<td>+24%</td>
<td>+49%</td>
</tr>
<tr>
<td>West Coast Hospitality</td>
<td>+5%</td>
<td>+16%</td>
</tr>
<tr>
<td>Coldwater Creek</td>
<td>+452%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

Source: Russell Co., SEC, Economagic.com, NASDAQ, and author's calculations.
Construction Sector
Construction Employment as a Percent of Non-Farm Employment

Spokane, 12-month MA: 1/94 to 9/05
(includes mining)

Jan-94: 5.0%
Jan-95: 5.2%
Jan-96: 5.4%
Jan-97: 5.6%
Jan-98: 5.8%
Jan-99: 6.0%
Jan-00: 6.2%
Jan-01: 6.4%
Jan-02: 6.6%
Jan-03: 6.8%
Jan-04: 7.0%
Jan-05: 7.2%

Kootenai, 12-Month MA: 1/94 to 9/05

Jan-94: 7.0%
Jan-95: 7.5%
Jan-96: 8.0%
Jan-97: 8.5%
Jan-98: 9.0%
Jan-99: 9.5%
Jan-00: 10.0%
Jan-01: 9.5%
Jan-02: 9.0%
Jan-03: 8.5%
Jan-04: 8.0%
Jan-05: 7.5%

Overall = 6.5%-7% of Non-Farm Employment

Source: Bureau of Labor Statistics and author’s calculations.
Construction’s Contribution to Non-Farm Employment Growth since 2001

Spokane, 1/01 to 9/05 (includes mining)

Kootenai, 1/01 to 9/05

Source: Bureau of Labor Statistics and author’s calculations.
Construction’s Relative Importance and Employment Distribution, 2003

Construction Firms by Type, 2003

Number of Firms ≈ 5700

- Residential Building
- Building Finishing Contractors
- Other Specialty Trade Contractors
- Foundation, Structure, and Exterior Contract.
- Building Equipment Contractors
- Nonresidential Building
- Land Subdivision
- Utility System Construction
- Other Heavy and Civil Engineering Construction
- Highway, Street, and Bridge Construction

Source: U.S. Census and author’s calculations.
Outlook Summary for 2006

• A cooling regional economy heading into 2006...
  • A cooling housing market.
  • Working through higher energy prices.

• Risk factors for a significant slowdown in 2006...
  • Additional energy price spikes.
  • A bursting real estate bubble in one or more of the major California markets.
  • A rapid interest rate increase by the Fed to keep inflation under control.
  • A major budget realignment in Olympia.