2010 Regional Economic Outlook

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Chinese Calendar vs. Proposed U.S. Calendar

Chinese Calendar
2009, Year of the Ox
2010, Year of the Tiger

U.S. Calendar
2009, Year of Ox Poo
2010, Year of the Marginally Unhappy Tax Payer
County Population Growth, 2005 – 2008/09

Source: U.S. Census, WA OFM, and author’s calculations.
City Population Growth in 2008 and 2009

Dalton Gardens 0.3%
Spirit Lake 1.6%
Hayden 2.0%
Coeur d’Alene 2.7%
Rathdrum 3.3%
Post Falls 4.2%
Millwood -0.3%
Spokane 0.5%
Spokane Valley 0.6%
Medical Lake 0.7%
Deer Park 3.1%
Cheney 3.6%
Liberty Lake 4.2%
Airway Heights 5.2%

Source: U.S. Census, WA OFM, and author’s calculations.
Regional Unemployment Rates, 2006-2009

Benewah, Shoshone, Stevens, Pend Oreille: 13% to 15%

Source: BLS and author’s calculations.
Initial Unemployment Claims, 2006 – 2009

Source: WA LMEA and ID Employment Security (Kathryn Tacke).
Diffusion Index of Initial Unemployment Claims for 18 Central and Eastern WA Counties, 1999 – 2009

Source: WA LMEA and author's calculations.
Non-Farm Employment Growth, 2006-2010

2010 Forecast

<table>
<thead>
<tr>
<th>Range</th>
<th>SPK + KOOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>3.0%</td>
</tr>
<tr>
<td>Point</td>
<td>0.5%</td>
</tr>
<tr>
<td>Low</td>
<td>-1.0%</td>
</tr>
</tbody>
</table>

Falls Outside of Low Range of 2009 Forecast

Source: BLS and author's calculations.
Employment Growth by Sector, Jan-Aug 2008 – 2009

Source: BLS and author's calculations.
Real Per Capita Personal Income Growth, 2006 – 2010

Source: BEA, BLS, and author’s calculations.

**2010 Forecast**

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Falls Outside Low Range of 2009 Forecast

2006

- U.S. 2.8%
- Spokane + Kootenai 2.4%

2007

- U.S. 2.0%
- Spokane + Kootenai 1.6%

2008

- U.S. -0.9%
- Spokane + Kootenai -1.4%

2009-E

- U.S. -3.1%
- Spokane + Kootenai -3.0%

Real Annual Growth

U.S. Spokane + Kootenai
Real Per Capita Personal Income Growth, 2006 – 2008

2006 - 4.0%
2007 - 4.8%
2008 - 3.4%

Source: BEA, BLS, and author’s calculations.
Spokane Taxable Sales Growth, 2006 – 2010

Source: WA DOR and author’s calculations.

Falls Outside of Low Range of 2009 Forecast

2010 Forecast

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<th>Range</th>
<th>SPK</th>
<th>ROC</th>
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<tbody>
<tr>
<td>High</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Point</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Low</td>
<td>-2.5%</td>
<td>-2.5%</td>
</tr>
</tbody>
</table>
Residential Building Permits, 2005 – 2009

12-Month MA of Total Residential Units Permitted

Total Residential Units Permitted

Source: U.S. Census and author’s calculations.
Nominal Existing Home Price Growth, 2006 – 2010

Source: BLS, FHFA, and author's calculations.

Falls in Low Range of 2009 Forecast

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Spokane</th>
<th>Kootenai</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>7%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>2007</td>
<td>2%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>2008</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>2009-E</td>
<td>-5%</td>
<td>-5%</td>
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<tr>
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<td>0%</td>
<td>7%</td>
</tr>
<tr>
<td>Point</td>
<td>-6%</td>
<td>-3%</td>
</tr>
<tr>
<td>Low</td>
<td>-12%</td>
<td>-13%</td>
</tr>
</tbody>
</table>

Source: AIA.
Regional Non-Current Loans, 4Q 2007 – 2Q 2009

Source: FDIC, NCUA, and author’s calculations.
Real Deposit Growth, June 2000 – June 2009

Source: FDIC and author’s calculations.
Regional Hart Index to 3Q 2009

Source:

HART CAPITAL MANAGEMENT, INC.
# Regional Company Market Values, 3Q 2008 – 3Q 2009

<table>
<thead>
<tr>
<th>Company</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>AmericanWest Bancorp.</td>
<td>-60%</td>
</tr>
<tr>
<td>Idaho Independent Bank</td>
<td>-60%</td>
</tr>
<tr>
<td>Intermountain Community Bank</td>
<td>-62%</td>
</tr>
<tr>
<td>Northwest Bancorp.</td>
<td>-57%</td>
</tr>
<tr>
<td>Sterling Financial</td>
<td>-86%</td>
</tr>
<tr>
<td>Avista</td>
<td>-5%</td>
</tr>
<tr>
<td>Coeur d'Alene Mines</td>
<td>+83%</td>
</tr>
<tr>
<td>Hecla Mining</td>
<td>+36%</td>
</tr>
<tr>
<td>Itron</td>
<td>-22%</td>
</tr>
<tr>
<td>Key Tronic</td>
<td>+4%</td>
</tr>
<tr>
<td>Potlatch</td>
<td>-38%</td>
</tr>
<tr>
<td>Ambassadors Group</td>
<td>-3%</td>
</tr>
<tr>
<td>Coldwater Creek</td>
<td>+42%</td>
</tr>
<tr>
<td>NightHawk Radiology</td>
<td>-7%</td>
</tr>
<tr>
<td>Red Lion Hotels</td>
<td>-29%</td>
</tr>
</tbody>
</table>

Source: [Hart Capital Management, Inc.](http://www.hartcapitalmanagement.com)
Revenues of 5 Regional Hospitals, 1Q 2005 – 2Q 2009

Source: Mark Wagner.
Multiplier Impacts and the Road to Recovery

Source: BLS and author's calculations.

8,000 jobs lost
The Employment Multiplier Concept

Total Employment Impact

1 + ½ + ½ = 2 workers

Impact Multiplier = 2

Construction Firm:
Additional Full-Time Dump Truck Operator

Mechanic’s Shop:
½ Time Additional Mechanic

Doctor’s Office:
½ Time Additional Nurse

Warning: Also Works in Reverse!!!
### Multipliers of Hard Hit Industries in Spokane County

These Sectors account for 60% of Payroll Job Losses

<table>
<thead>
<tr>
<th>Sector</th>
<th>Job Losses Since 2007 (payroll employ.)</th>
<th>Estimated 2007 Multiplier</th>
<th>Estimated Employment Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Const., Log., Mining</td>
<td>-2,030</td>
<td>1.8</td>
<td>-3,654</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>-700</td>
<td>2.2</td>
<td>-1,540</td>
</tr>
<tr>
<td>Retail</td>
<td>-2,300</td>
<td>1.3</td>
<td>-2,990</td>
</tr>
</tbody>
</table>

Moral: How quickly regional employment recovers will depend, in part, on the sectors that recover first and the size of their impact multipliers.

Source: WA ESD, IMPLAN model, Dr. David Bunting, and author's calculations.
Forecast Summary

In 2010:

- Income and Employment growth will be less than 1%.
- Taxable sales growth will be in the 1.5% to 3% range.
- Existing home price growth will be zero or slightly negative.
- Regional banking sector will continue with conservative lending practices due to continued problem loans, regulatory pressure, and political uncertainty.
- Regional recovery will depend, in part, on which sectors recover first and their employment multipliers. Exporting industries and healthcare will probably be bright spots.