

ECONOMIC VITALITY INDEX

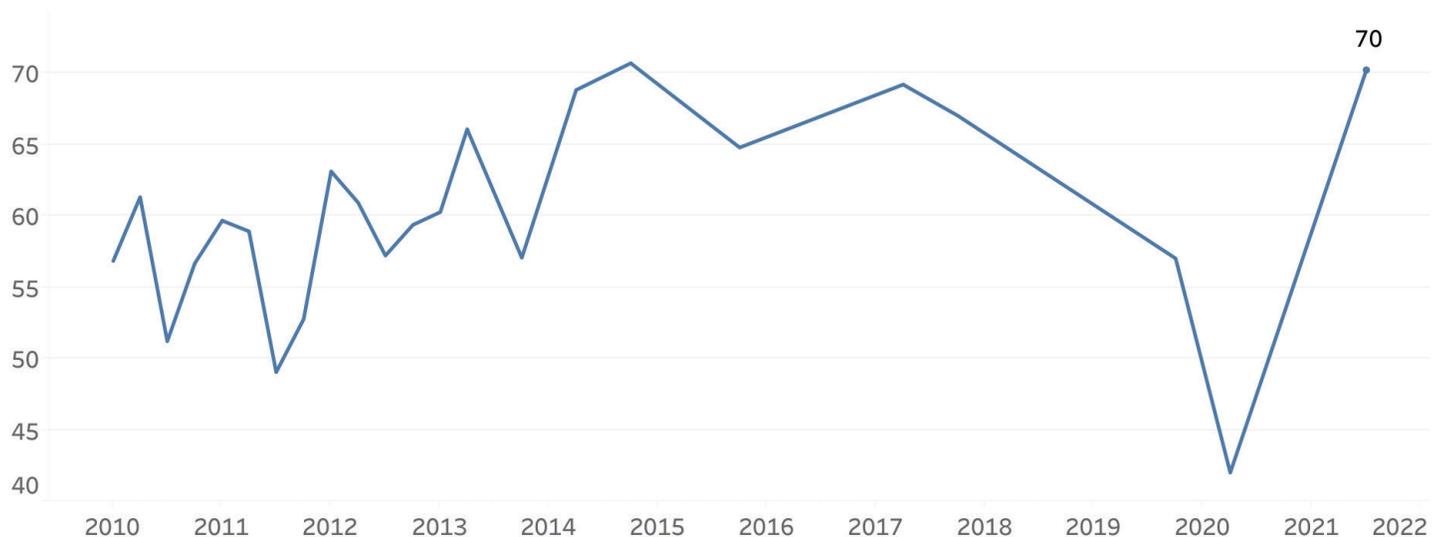
SUMMER 2021 UPDATE¹

This update provides an overview of economic conditions for Thurston County, Washington. The report includes the Thurston EDC Business Confidence Index and Thurston EVI Leading Indicators Index. In addition, the UM Consumer Sentiment Index is provided to serve as a proxy for Thurston County household perceptions of the economy. Overall, conditions are good as the local economy is quickly returning to pre-COVID levels.

THURSTON EDC BUSINESS CONFIDENCE INDEX

The Thurston EDC Business Confidence Index² represents the perceptions of business owners in Thurston County. Their perceptions of local business and economic conditions provide insights into the supply side of the economic equation. Their access to detailed information on new orders, inventory, customers, prices, suppliers and what kind of financing is available to businesses serves as a good leading indicator for Thurston County's economy. As can be seen in Figure 1 below, the index currently stands at 70 which is only one point below the index high of 71, achieved in Q4 2014. It is also amazing how the index has reached its current position from its all-time low of 42 only a year ago. Thus there is very strong positive perceptions and optimism of local conditions since any reading of more than 50 points reflecting more positive than negative responses.

Figure 1. Thurston EDC Business Confidence Index, 2010-2021

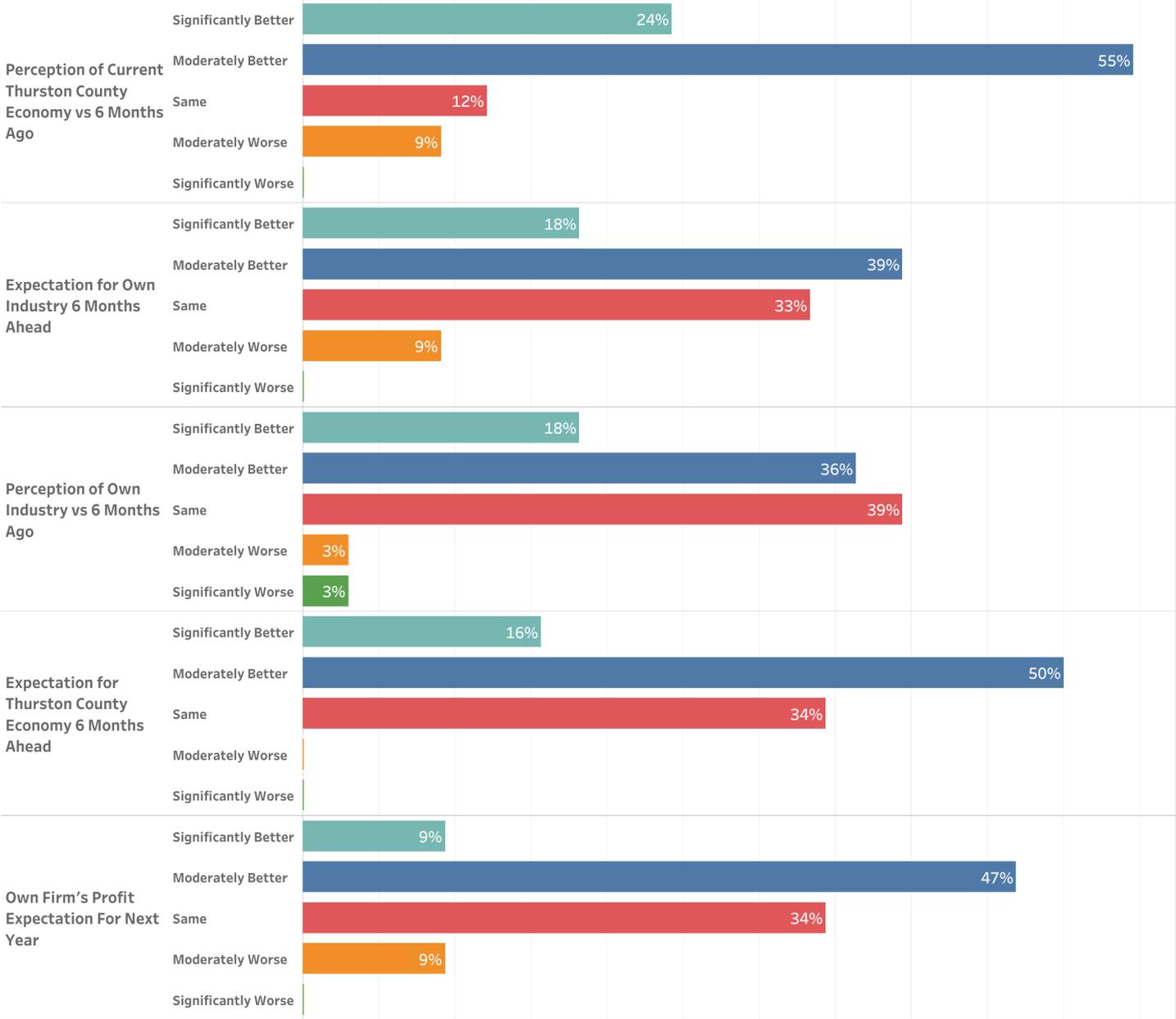


¹ Report provided on July 13, 2021 for the Thurston EDC by Riley Moore, Ph.D.

² Results are based on the Thurston EDC's recent email-based 'expert survey' of Thurston leaders conducted by Gene Angel, Director of Research and Evaluation for the Thurston EDC. Participants included in the survey were associated with the Thurston EDC, local chambers, and other entities representing a variety of industries reflective of the Thurston County economy and the results are based on 33 completed responses.

As can be seen in Figure 2 below, when Thurston business leaders were asked about their overall perceptions of local economic conditions, most of the responses were in either the *substantially* or *moderately better* categories. When questioned about their perceptions of conditions in their own industry six months ahead, compared to now, a combined 57 percent stated that they felt conditions would be either *substantially* to *moderately better*. Further, 54 percent responded *substantially* to *moderately better* when asked about current conditions in their own industry compared to six months ago. When business leaders were asked about any expectations of profits for the next twelve months, a combined 56 percent responded that their expectations were either *substantially* or *moderately better*.

Figure 2. Responses to Individual Questions, Thurston EDC Business Confidence Survey, Q3 2021



Respondents were then asked if profits were expected over the next twelve months, what they anticipated would be the main drivers. As can be seen in Figure 3 below, the predominant response was from an increase in *market demand and growth* at 81 percent for all respondents. It is interesting to note that only 12 percent felt they would need to raise their prices given how much inflation has been discussed in the media over the last few months.

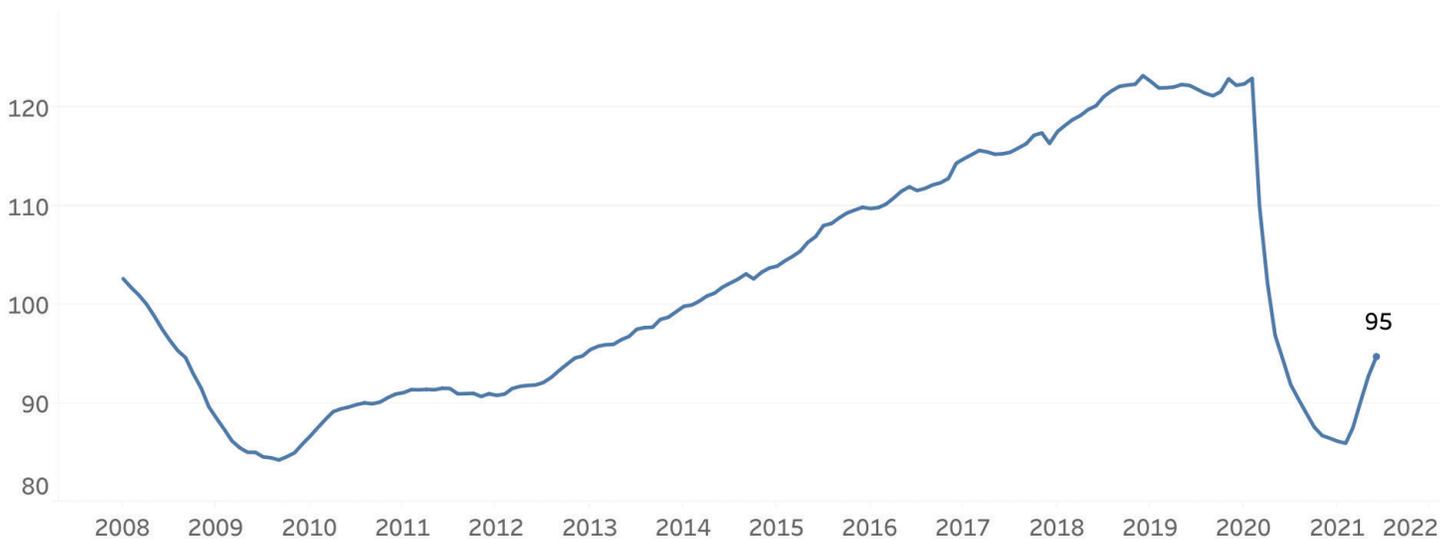
Figure 3. Source of profits, if expected, Thurston EDC Business Survey, Q3 2021



THURSTON EDC EVI - LEADING INDICATOR INDEX

This composite leading index for Thurston County is based on five monthly published indicators deemed to be good measures and proxies for Thurston County.³ A leading index represents conditions that are likely to occur in the near future. Thus the index can serve as a possible planning tool for businesses and policy makers. The index currently implies that conditions for Thurston County's economy are very favorable with the index projected to continue an upward trend into the near future. The index currently stands at 95 which is up from 86 a year ago as illustrated in Figure 4 below.

Figure 4. Thurston EVI - Leading Indicators Index, 2008-2021



CONSUMER SENTIMENT

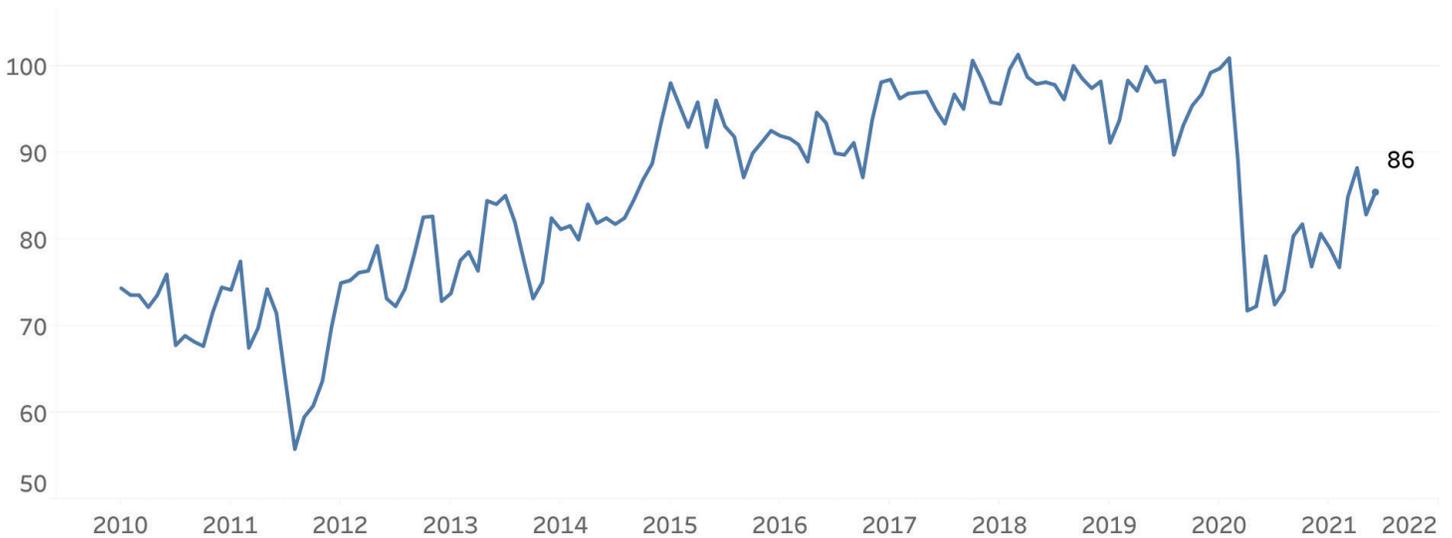
Consumer and household expenditures are a major driver of economic growth at both the local and national level. The University of Michigan (UM) conducts a national survey of consumer sentiment every month and Figure 5 below shows the index values since January 2010.

The Thurston EDC has conducted a local consumer confidence survey in the past and it has closely mirrored the UM survey. Changes in household reliance on landlines and a strong trend towards cellular phones have made the local efforts more difficult and costly and thus the UM index is used as a proxy at this point, again given how closely it has mirrored local conditions in the past.

As can be noted, the UM index now stands at 86 for June 2021 which is down from its per-COVID high of 101. However note that the index now back on an upward trend after the devastating impact of COVID-19.

³ The indicators include total residential building permits, initial unemployment claims, consumer sentiment, U.S. securities yield spreads, and equity financial instruments deemed to impact the local economy.

Figure 5. UM Index of Consumer Sentiment, 2008-2020



CONCLUSIONS

In summary, conditions for Thurston County, based on the indicators discussed above, are very positive and are projected to continue back upward to pre-COVID territory. Overall, local business leaders appear optimistic about the state of the local economy with the Thurston EDC Business Confidence Index currently standing at 70.

Again, any number over 50 reflects the fact that there were more positive than negative responses on perceptions of the state of the local economy and their particular industries. Business leader responses to individual survey questions fell mostly in the substantially to moderately better categories. Further, for those that expected profits, over the next year, 81 percent stated that growing local demand would be the main driver. Interestingly only 12 percent felt that they would need to raise prices, given all the recent discussion of inflation in the news.

Household perceptions, represented by the UM Consumer Sentiment Index, is important since household expenditures have averaged around 70 percent of the national GDP and thus are a major economic driver. The overall returning strength of the U.S. economy is quickly driving the index back upward to its pre-COVID level.

Finally, at a value of 95, the Thurston EDC EVI Leading Composite Index shows that the local economy is in recovery mode and back on an upward trajectory, after only being 86 a year ago. With Thurston County as the seat of Washington State's government and being in close proximity to the military JBLM complex, it benefits from both strong state and national fiscal stimulus variables which provides stability to our local economy. Further, the close proximity of major private sector global corporations (such as Amazon, Boeing, Microsoft, Starbucks, and Weyerhaeuser) along with pent up consumer demand, bodes well for the county's continued upward growth and positive trends for this year.

