

ECONOMIC VITALITY INDEX

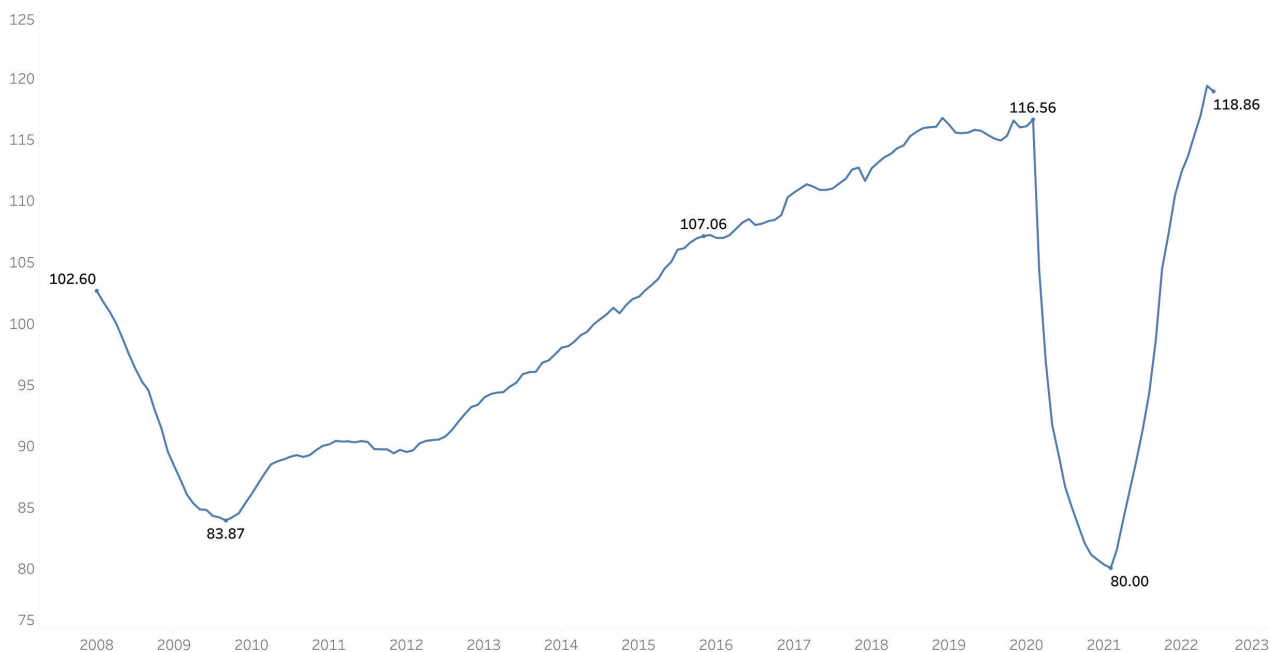
Q2 2022 UPDATE¹

This update provides an overview of economic conditions for Thurston County, Washington. The report includes the Thurston EVI Leading Indicators Index and Thurston EDC Business Confidence Index. In addition, the UM Consumer Sentiment Index is provided to serve as a proxy for Thurston County household perceptions of the local economy. Overall, economic conditions are still strong for Thurston County but business and household perceptions have taken a cautionary turn.

Thurston EDC EVI Leading Indicator Index

This composite leading index is based on five monthly published indicators deemed to be good measures and proxies for Thurston County.² 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 stands at 118.9 and is down slightly from the index high of 119.3 in Q4 2021. The index is currently still higher than its height prior to the pandemic, as can be seen in Figure 1 below. Also, the index is up 30.2 points from this time last year. While it appears a correction is in process, conditions for Thurston County's economy are still very favorable relative to what it endured over the last two years.

Figure 1. Thurston EVI – Leading Indicators Index (2008-2022)



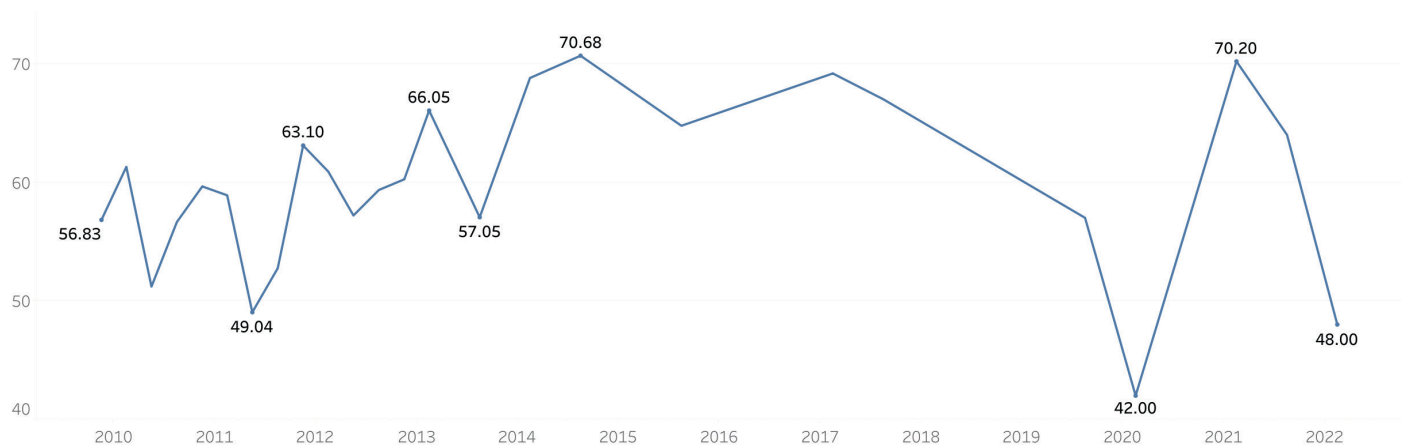
¹ Report provided on July 17, 2022 for the Thurston EDC by Riley Moore, Ph.D.

² 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.

Thurston EDC Business Confidence Index

The Thurston EDC Business Confidence Index³ represents the perceptions of Thurston business leaders. Their perceptions of local business and economic conditions provide insights into the supply side of the economic equation. Further, 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 2 below, the index currently stands at 48 which is a 22.2 point drop from this time last year. However, it should be noted that a reading of 50 points represents the inflection point where the number of positive and negative responses are equal, representing a neutral stance. Thus the current index value represents an overall slightly negative, or cautionary, perception for the economy.

Figure 2. Thurston EDC Business Confidence Index (2010-2022)



Figures 3 and 4 below compare the business confidence survey Q4 2021 and Q2 2022 responses. As can be seen from the comparisons, there has been an increase in the number of responses in the moderately worse to substantially worse categories, relative to Q4 2021. However, note that when asked about current conditions for their own industry, relative to six months ago, 66 percent indicated conditions were the same or better. Further, 63 percent feel that conditions will be the same or better six months from now. Also, for those expecting profits, 77 percent of the respondents feel that their profits would be the same or better 12 months from now. However, this is a drop from Q4 2021 when there were none that expected a drop in profits. Respondents were then asked what they anticipated would be the main drivers for profits.

As can be seen in Figures 5 and 6 below, a comparison of Q4 2021 and Q2 2022 responses, shows that cost reduction has appeared at seven percent. Further, the predominant response was an increase in market demand and growth, at 50 percent. It is also interesting to note that there was a drop of 3 percent from Q4 2021 for respondents who felt they would need to raise their prices, likely due to inflationary concerns. Finally, the number of respondents that indicated that they would rely on new technology increased three percent from Q4 2021.

3 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. A total of 267 participants were included in the survey representing the Thurston EDC, local chambers, and other entities and a variety of industries reflective of the Thurston County economy. The results are based on 33 completed questionnaires resulting in a 13.4 percent response rate.

Figure 3. Responses to individual questions, Thurston EDC Business Confidence Survey, Q4 2021



Figure 4. Responses to individual questions, Thurston EDC Business Confidence Survey, Q2 2022

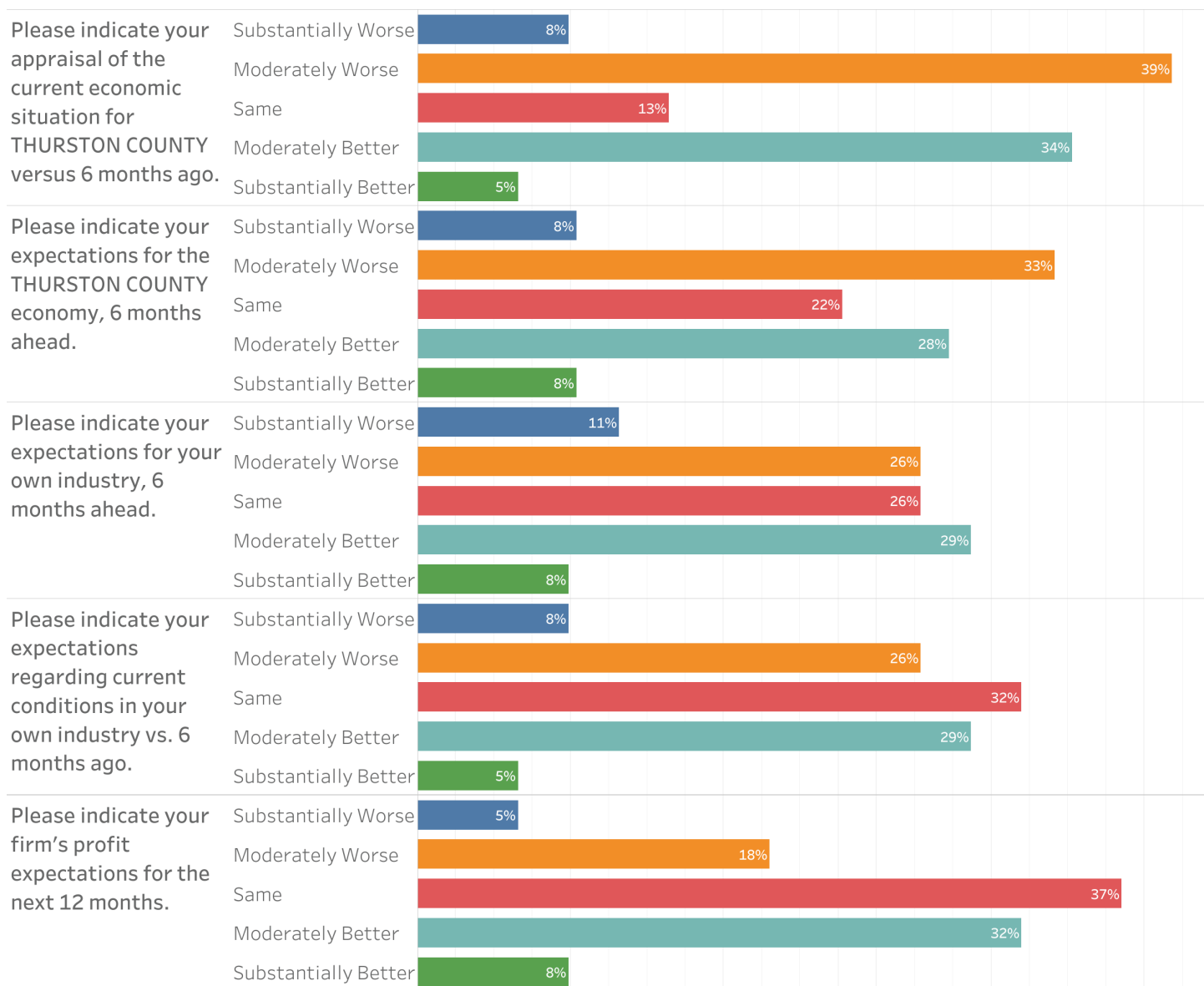


Figure 5. Source of profits, if expected, Thurston EDC Business Survey, Q4 2021

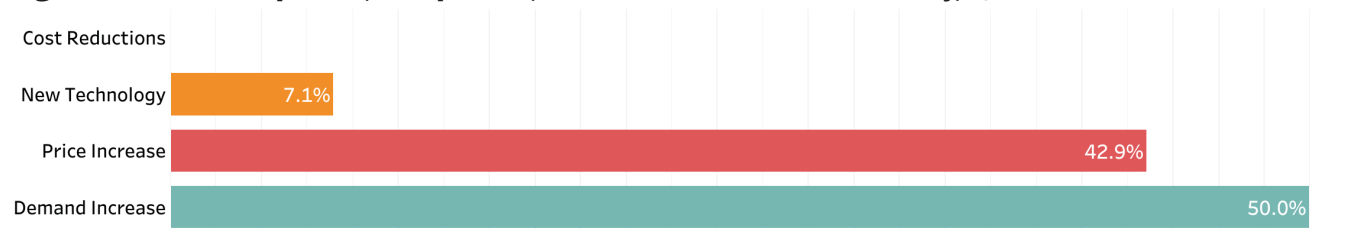


Figure 6. Source of profits, if expected, Thurston EDC Business Survey, Q2 2022



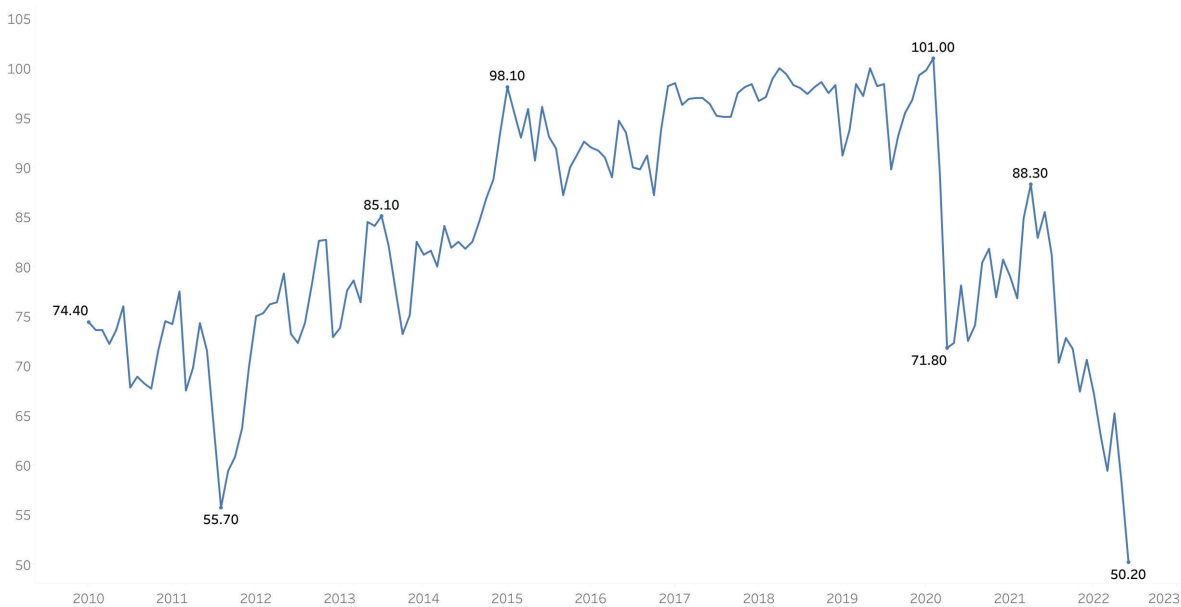
Consumer Sentiment

Consumer and household expenditures are a major driver of economic growth at both the local and national levels. 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.

As can be noted, the UM index now stands at 50.2 for June 2022, which is down from its per-COVID high of 101 and at its lowest point since January 2010. It should be noted that household perception surveys are more susceptible to being influenced by current media coverage and events than business and CEO perception surveys. Thus this drop likely can be explained by the extensive coverage on possible concerns over stagflation, continued COVID impacts, and uncertainty of global events.

Figure 7. UM Index of Consumer Sentiment (2008-2022)



Conclusions

In summary, conditions for Thurston County are still overall strong but the Thurston EDC EVI Leading Composite Index is showing that a slight correction is in process. Further, perceptions, from both business leaders and households, are reflecting more cautionary and negative views relative to earlier responses.

It should be noted that Thurston County has a large public sector stabilizing influence with it housing the seat of state government and its close proximity of JBLM, with many of its military families spending and residing in Thurston. Thurston's private sector also continues to expand with examples being the additions of Amazon, Target, and Home Depot facilities, in the Hawks Prairie area, further driving private sector employment opportunities and commercial and residential real estate activity. COVID enabled those that were able to work remotely an opportunity to increase their savings and thus, due to Thurston's higher propensity of public sector and middle class related jobs, should enable some price increases to be absorbed into the near further. The fact that the Thurston EDC EVI Leading Composite Index is currently down only .4 points from its all-time high illustrates that Thurston is currently in a strong position to deal with the many national and global factors and events beyond Thurston's control that will impact the local economy. These include the FEDs recent historical rate hike which will affect many consumer and business loans, pandemic-related supply disruptions and soaring energy prices that have been aggravated by Russia's invasion of Ukraine. However, in the meantime, it is forecasted that even with a correction in process, Thurston appears to be in a good position and will likely to remain so into the near future. In closing, maybe another good indicator of this is Thurston's Olympia recently being ranked sixth in top places in the nation to start a small business.⁴

⁴ <https://komonews.com/news/local/two-washington-state-small-cities-among-10-best-in-us-for-small-businesses>