

ECONOMIC VITALITY INDEX 2022

THURSTON ECONOMIC DEVELOPMENT COUNCIL



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The Thurston Economic Development Council and our report sponsors, Port of Olympia and South Puget Sound Community College, are proud to have been producing the Thurston Economic Vitality Index for over 15 years. It was our intent to provide an ongoing record of the vibrancy of our region's economy. This report provides you, the community and business leader, a snapshot of the current economy, and a historical record of the performance of critical economic sectors of the community. We publish the Thurston Economic Vitality Index twice per year – in the middle of the year with a truncated report, and at the end of the year. This document, presented at the Regional Economic Forecast & Innovation Expo at the end of the year is created with two major components. The first component is the leading indicator economic vitality index – inclusive of the CEO Confidence Survey, and the Consumer Confidence report. These key economic performance measures were identified by the community members attending the 2005 Economic Forecast Conference as being critical to monitoring how our economy was resilient, equitable and vibrant. It is our intention that you will be able to use this report and the data presented as a planning tool and document to assist in your strategies for action. The leading indicator series is designed to project out to you how we anticipate the economy will perform in the next six months. Our team stands ready to assist you in your efforts – please do not hesitate to reach out to us for any background material and data you need and to provide an overall review of the region's economic development strategies and trends.

- Michael Cade, Executive Director, Thurston Economic Development Council

THANK YOU TO OUR **EVI SPONSORS**



South Puget Sound Community College is proud to work with local partners like the Thurston Economic Development Council and the Center for Business and Innovation to create a just and sustainable economy that provides prosperity for all that live and work in Thurston County. Our academic programs are specifically designed to meet the needs of an uncertain world by providing student access to world class instruction and employers an opportunity to access a high-quality workforce through our student body. We accomplish this through our strong community partnerships and SPSCC is happy to be a sponsor of the Thurston Economic Development Council's Winter 2022 Economic Vitality Index."

- Dr. Timothy Stokes, President, South Puget Sound Community College



Our ability to tackle our local community challenges hinges on our ability to make our local partnerships work. That's why the **Port of Olympia** proudly supports the Thurston Economic Development Council and the publication of the Economic Vitality Index. No matter what challenges we face in the coming years, our commitment to a vibrant and prosperous local economy will continue to meet those challenges head on.

- Sam Gibboney, Executive Director, Port of Olympia

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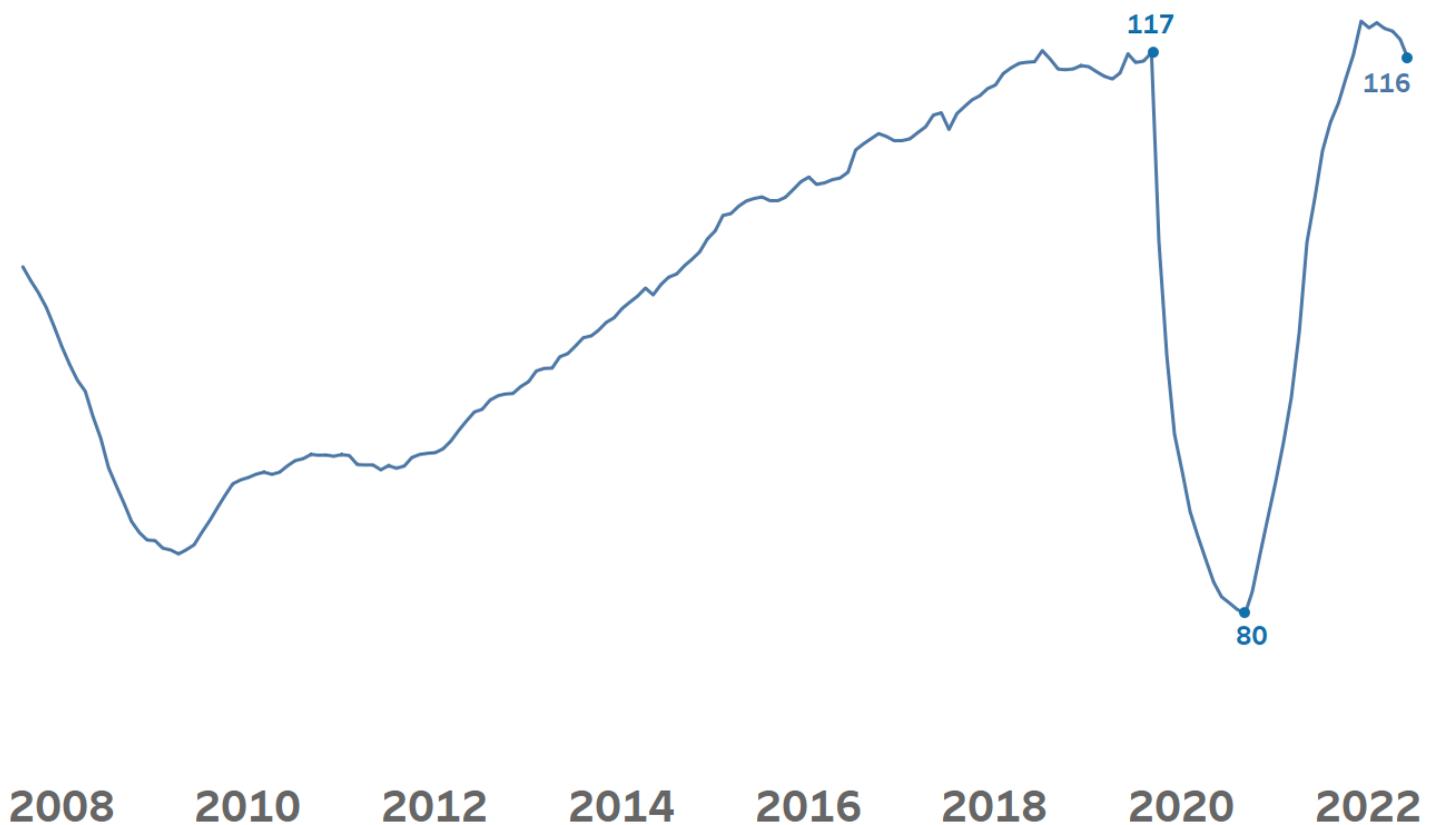
ECONOMIC VITALITY INDEX **WINTER 2022 UPDATE**

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 showing a correction is in process.¹

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 116.1 and is only .5 points lower than its 116.6 height prior to the COVID-19 pandemic, as can be seen in Figure 1 below. While it appears a correction is in process, conditions for Thurston County’s economy are still very favorable relative to what it endured during the COVID-19 pandemic when the index reached its historical low of 80 points.

FIGURE 1. THURSTON EVI – LEADING INDICATORS INDEX (2008 - 2022)



¹ Report provided on November 14, 2022 for the Thurston EDC by Riley Moore, Ph.D.

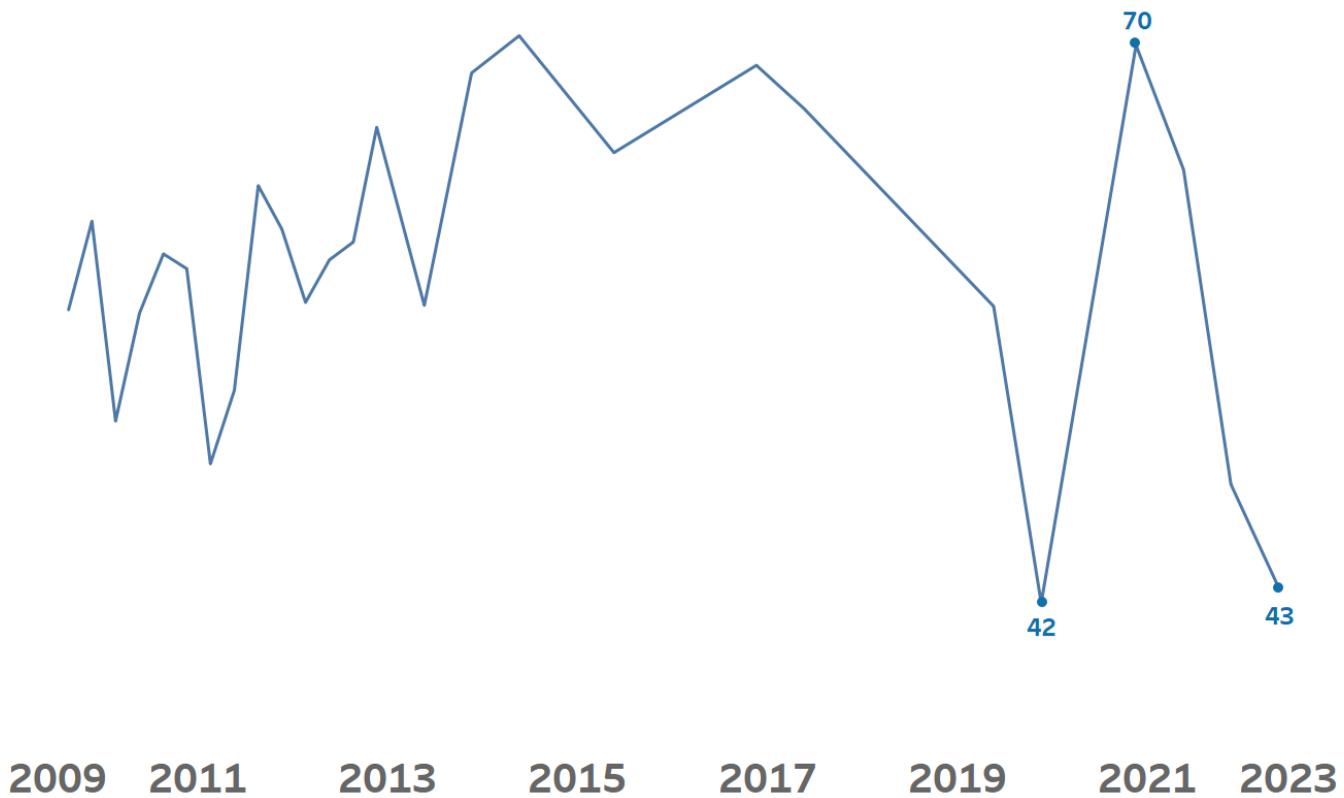
² The indicators include total residential building permits, initial unemployment claims, consumer sentiment, U.S. securities yield spreads, and equity financial instruments deemed to impact the local economy.

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 42.8 and continues to drop but is still .8 points higher than the index low of 42 during the COVID-19 pandemic. 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)



³ Results are based on the Thurston EDC’s recent email-based ‘expert survey’ of Thurston leaders conducted by the research staff at the Thurston EDC. Note that the survey was conducted prior to the November 8 elections and thus do not reflect any changes in perceptions based on the election outcomes.

Figure 3 below, compares the business confidence survey Q2 2022 and Q4 2022 responses. As can be seen from the comparisons, the majority of the respondents were signaling a continued increasing pessimism for both the state of the local economy, as well as within their own industries, relative to Q2 2022.

When assessing the potential for future profits, a comparison of Q2 2022 and Q4 2022 responses in Figure 4 below, shows that cost reduction remains the same at seven percent. However, there was a four percent increase in expecting the need to increase prices and a two percent decrease in expecting market demand and growth to be the source of future profits. Finally, the number of respondents that indicated that they would rely on new technology decreased three percent from Q2 2022.

FIGURE 3. RESPONSES TO INDIVIDUAL QUESTIONS, THURSTON EDC BUSINESS CONFIDENCE SURVEY, Q2 2022 VS Q4 2022 COMPARISON

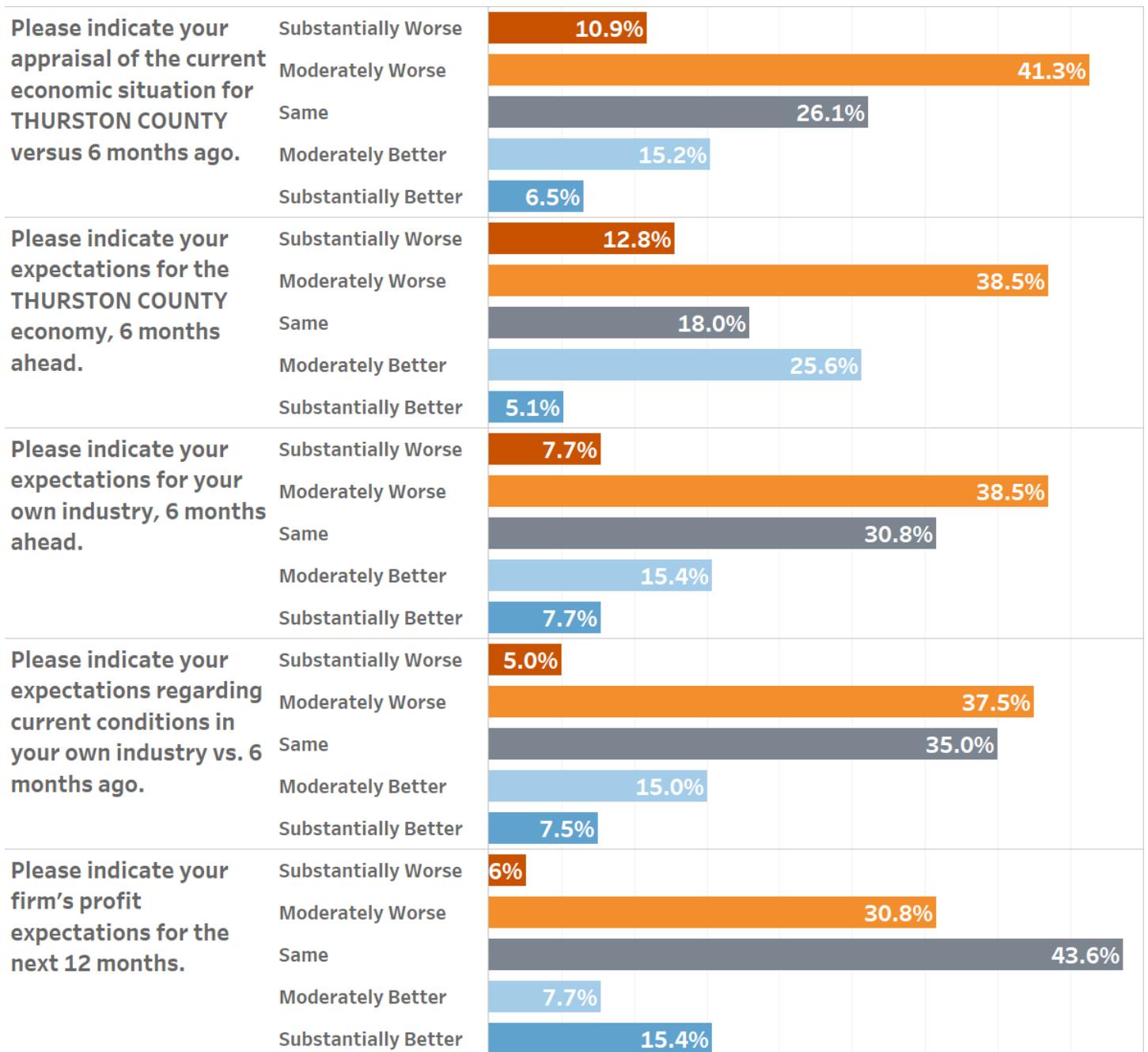


FIGURE 4. SOURCE OF PROFITS, IF EXPECTED, THURSTON EDC BUSINESS SURVEY, Q2 2022 VS Q4 2022 COMPARISON



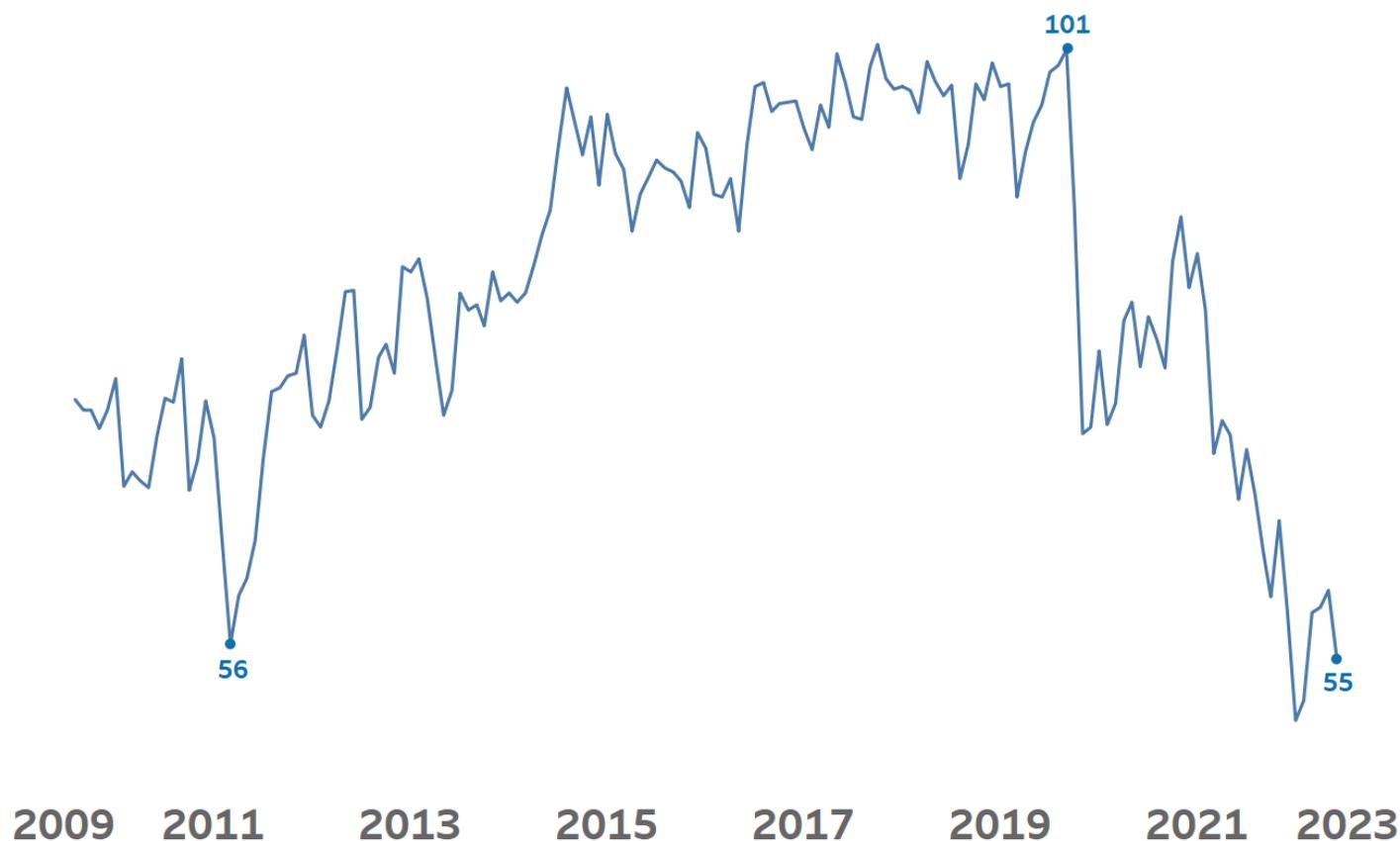
CONSUMER SENTIMENT

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 54.7 for November 2022, which is up from its June 2022 value of 50. 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.

FIGURE 5. UM INDEX OF CONSUMER SENTIMENT (2010 - 2022)



CONCLUSIONS

In summary, conditions for Thurston County are still overall relatively strong but a correction is occurring, as indicated by the Thurston EDC EVI Leading Composite Index. Further, perceptions from business leaders are reflecting more cautionary and negative views relative to earlier responses. While household opinions have been more volatile, they are currently more optimistic than what was reported for Q2 2022.

It is worth mentioning that Thurston County differs from many counties with its large public sector. This strong stabilizing influence on the local economy can be attributed to it hosting the seat of state government and benefiting from the federal stimulus

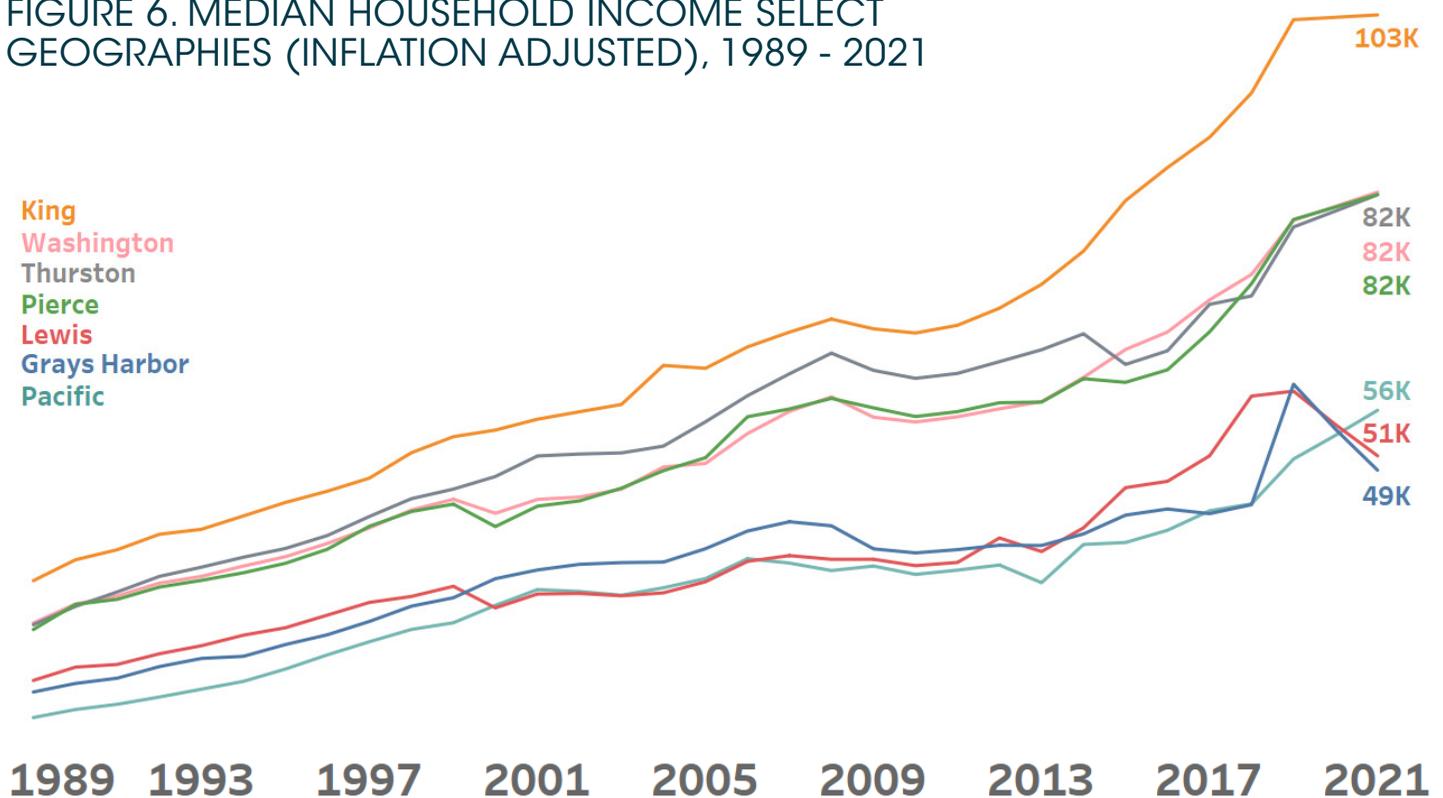
impacts of its close proximity of JBLM. Thurston's private sector also continues to see expansion in commercial and residential construction, particularly in the Hawks Prairie area, further driving private sector employment opportunities. COVID-19 enabled those that were able to work remotely an opportunity to increase their household savings. Further, never in history have individuals had as much control over their ability to quickly supplement their household incomes due to the innovations that have resulted with the rise of the *Gig economy*. Thus based on the indicators outlined in this report, it is forecasted that even with a correction in process, Thurston appears to be in a good position to deal with the many national and global factors and events beyond its control and will likely remain so into the near future, relative to other Washington counties.

The following data and graphs have been identified as key metrics by the community to track over time. Every Winter EVI publication contains an annual update of these basic metrics to provide a snap-shot of economic conditions in Thurston County.

MEDIAN HOUSEHOLD INCOME

The graph below shows changes in household level income between years 1989 to 2021 for Washington State and the Counties of King, Thurston, Pierce, Pacific, Grays Harbor and Lewis. Household incomes continue to rise through most of Washington with notable exceptions in Lewis and Grays Harbor Counties. The Washington State, Thurston and Pierce County averages now rest at \$82,000.

FIGURE 6. MEDIAN HOUSEHOLD INCOME SELECT GEOGRAPHIES (INFLATION ADJUSTED), 1989 - 2021



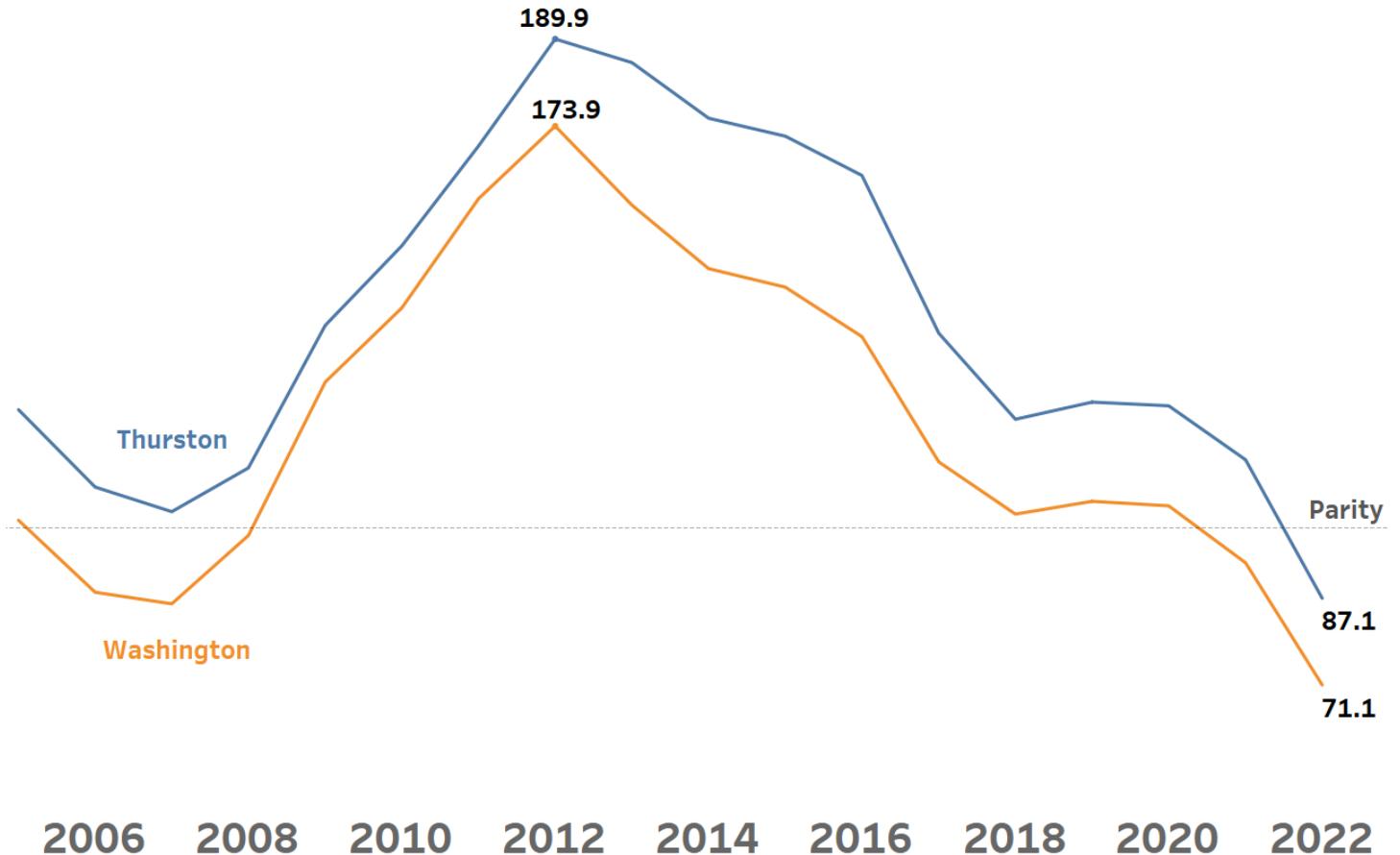
HOUSING AFFORDABILITY

The index below comes from the Washington Center for Real Estate Research at the University of Washington and measures housing affordability for both middle-income earners and first-time homebuyers within Washington State and Thurston County. A value of “100” on the index below means that home prices and worker salaries are in parity. A value above 100 would indicate that housing remains affordable and a value below 100 would indicate that housing is not affordable when compared to worker salaries.

The cost of housing in Thurston County and Washington State has continued (and accelerated) its trend towards a less affordable marketplace for both middle income and first-time homebuyers. First-time home buyers are particularly at risk in this housing market where Thurston County workers have seen their purchasing power decline immensely over the last ten years from a high value of 113.5 down to the current level of 63.7.

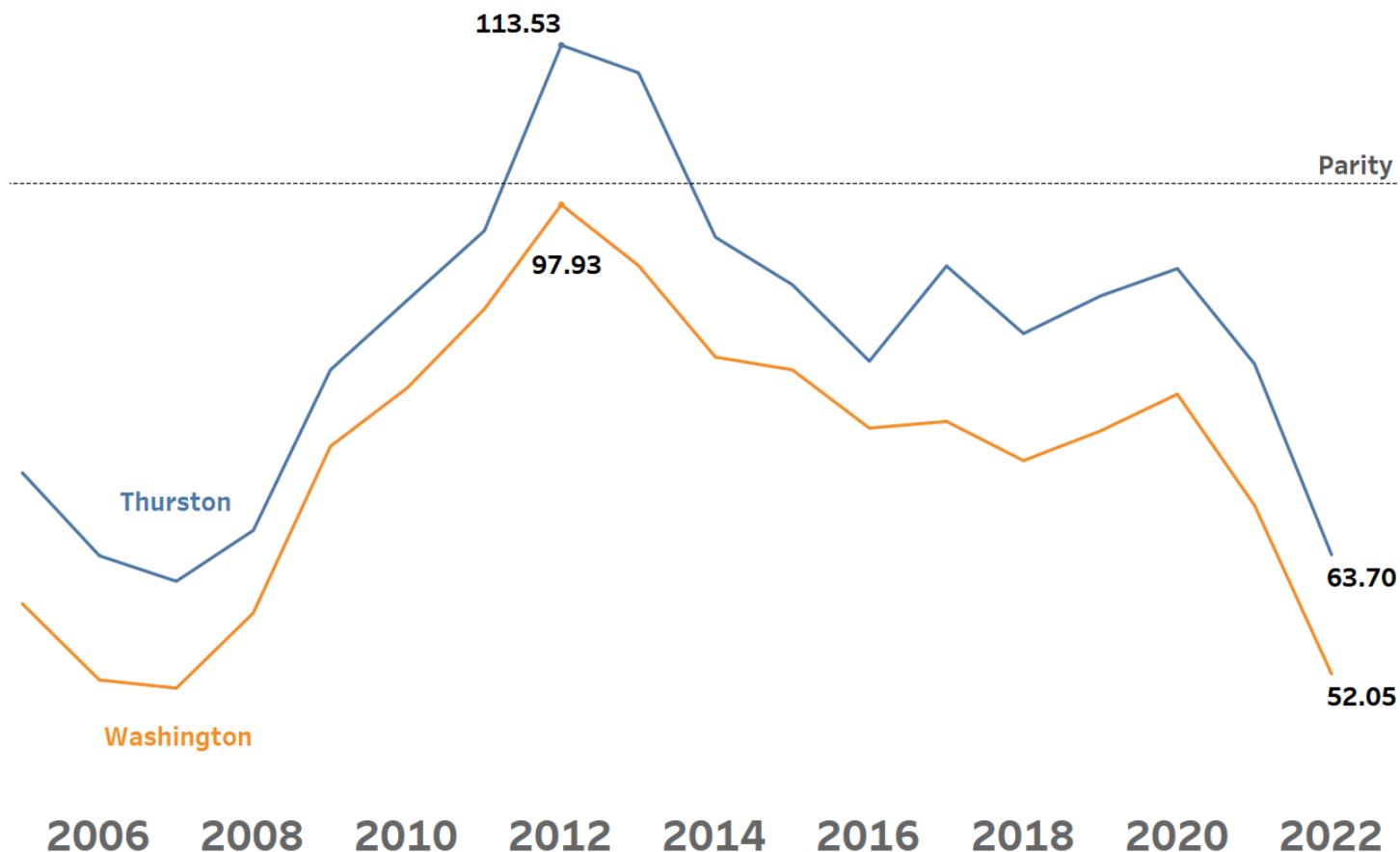
This gap in housing creates an unsustainable cost-burden on entry level and mid-career professionals as they try to build careers in Washington State and will continue to suppress the economic potential of the region as employers grapple with wages or abandon filling low wage positions all together. This lack of parity in the housing market represents one of the singular most important economic challenges for our region for workers, strengthening consumer demand and for retaining workers in our region.

FIGURE 7. HOUSING AFFORDABILITY INDEX – MIDDLE INCOME EARNERS, 2005 - 2022



Source: Washington Center for Real Estate Research at the University of Washington

FIGURE 8. HOUSING AFFORDABILITY INDEX – FIRST TIME HOMEBUYERS, 2005 - 2022



Source: Washington Center for Real Estate Research at the University of Washington

TARGET INDUSTRY EMPLOYMENT CHANGE, 2014 - 2021

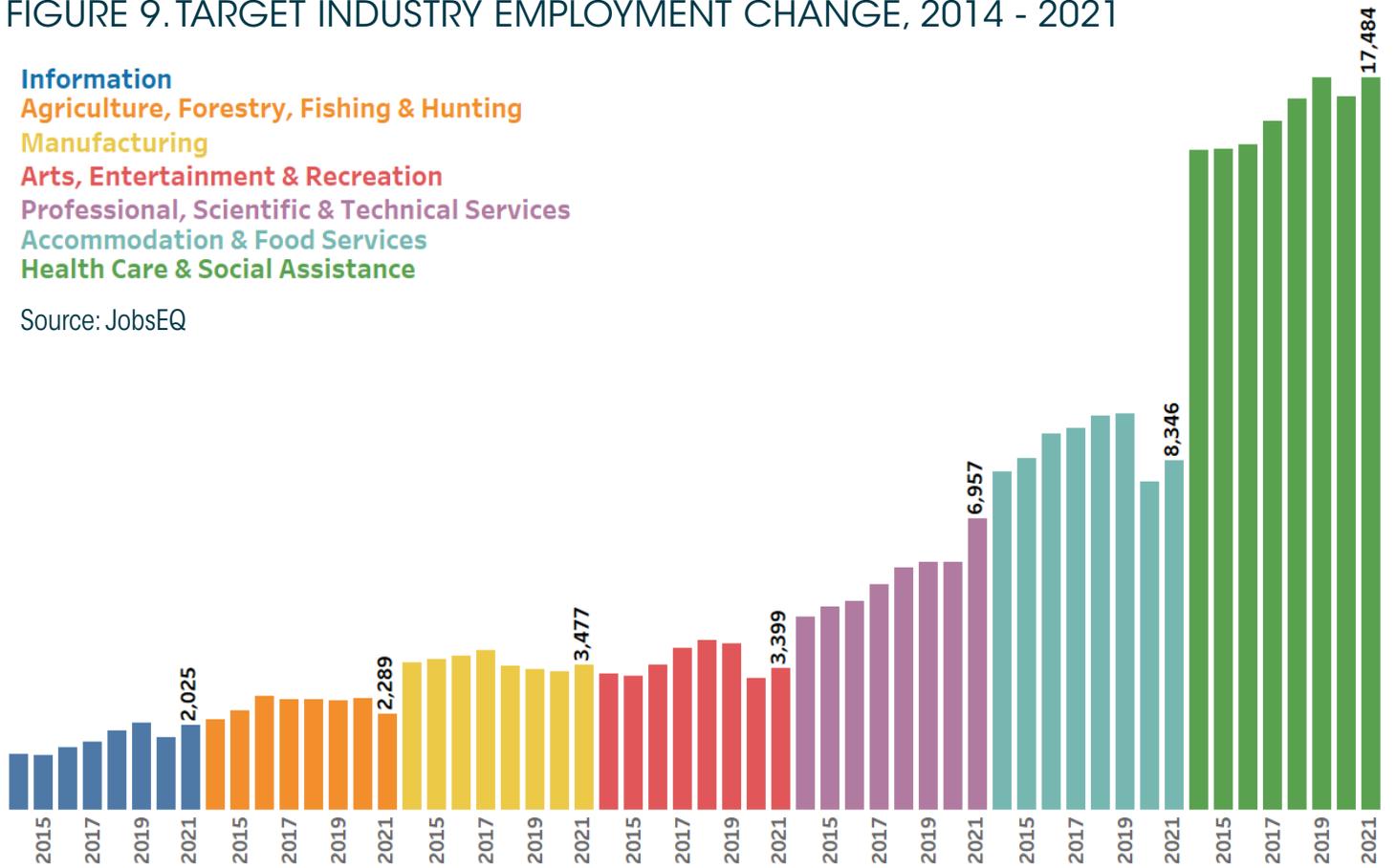
Depending on the industry, employment growth within targeted industries remained flat, contracted or expanded during 2021. These fluctuations can be attributed to lingering effects of the pandemic on some industries and a sign that other sectors are already returning to historical employment levels.

Industry sectors Professional Services, Food Services, Information, Arts, Manufacturing and Health Care saw modest to significant job gains in the pandemic recovery period of 2021. Agriculture saw a loss of 387 full-time jobs. The most impacted (by percentage) tracked industry sector was Professional, Scientific & Technical Services which gained approximately 1,042 full-time jobs during the 2021 pandemic recovery period.

FIGURE 9. TARGET INDUSTRY EMPLOYMENT CHANGE, 2014 - 2021

- Information
- Agriculture, Forestry, Fishing & Hunting
- Manufacturing
- Arts, Entertainment & Recreation
- Professional, Scientific & Technical Services
- Accommodation & Food Services
- Health Care & Social Assistance

Source: JobsEQ

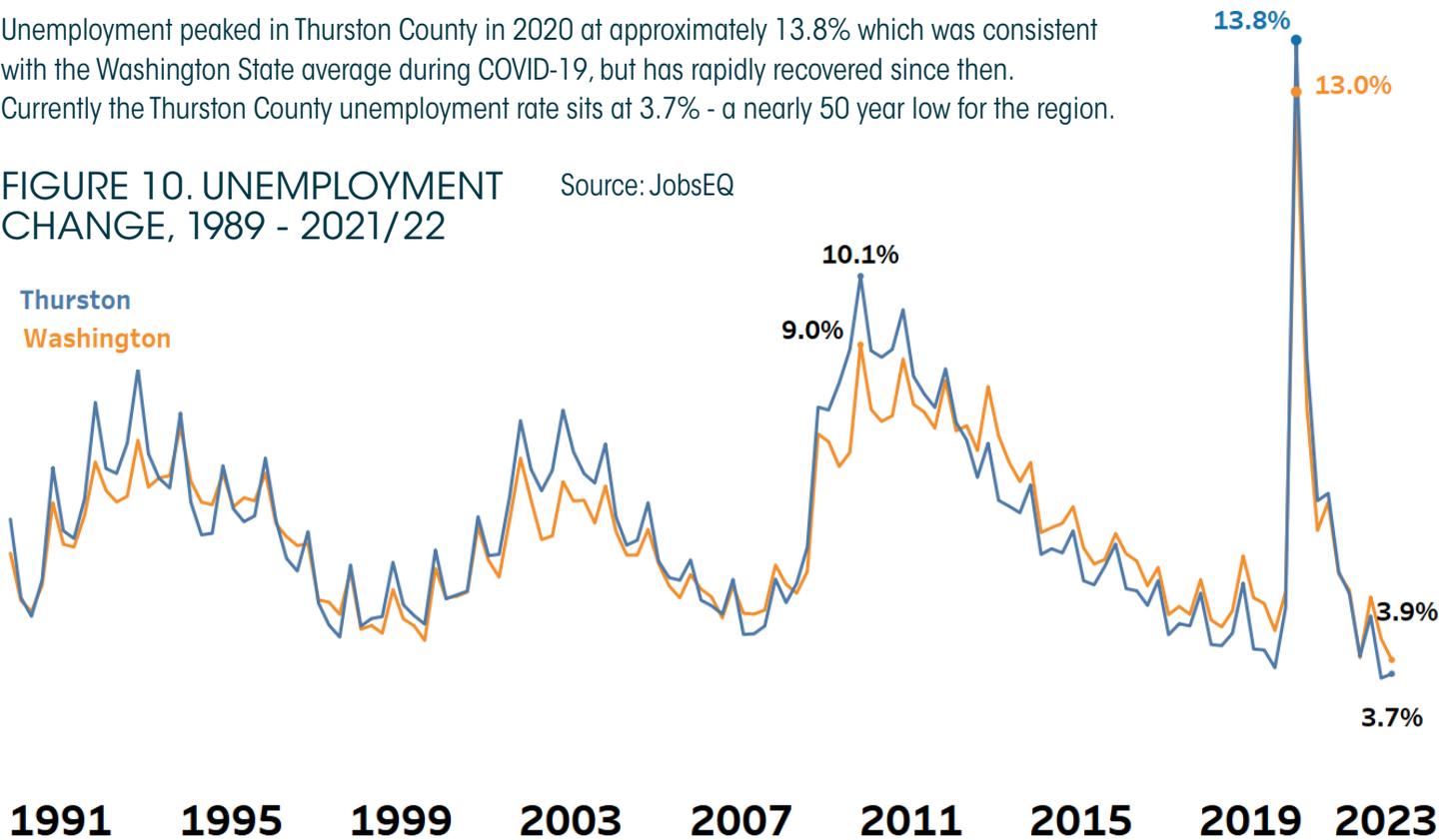


UNEMPLOYMENT

Unemployment peaked in Thurston County in 2020 at approximately 13.8% which was consistent with the Washington State average during COVID-19, but has rapidly recovered since then. Currently the Thurston County unemployment rate sits at 3.7% - a nearly 50 year low for the region.

FIGURE 10. UNEMPLOYMENT CHANGE, 1989 - 2021/22 Source: JobsEQ

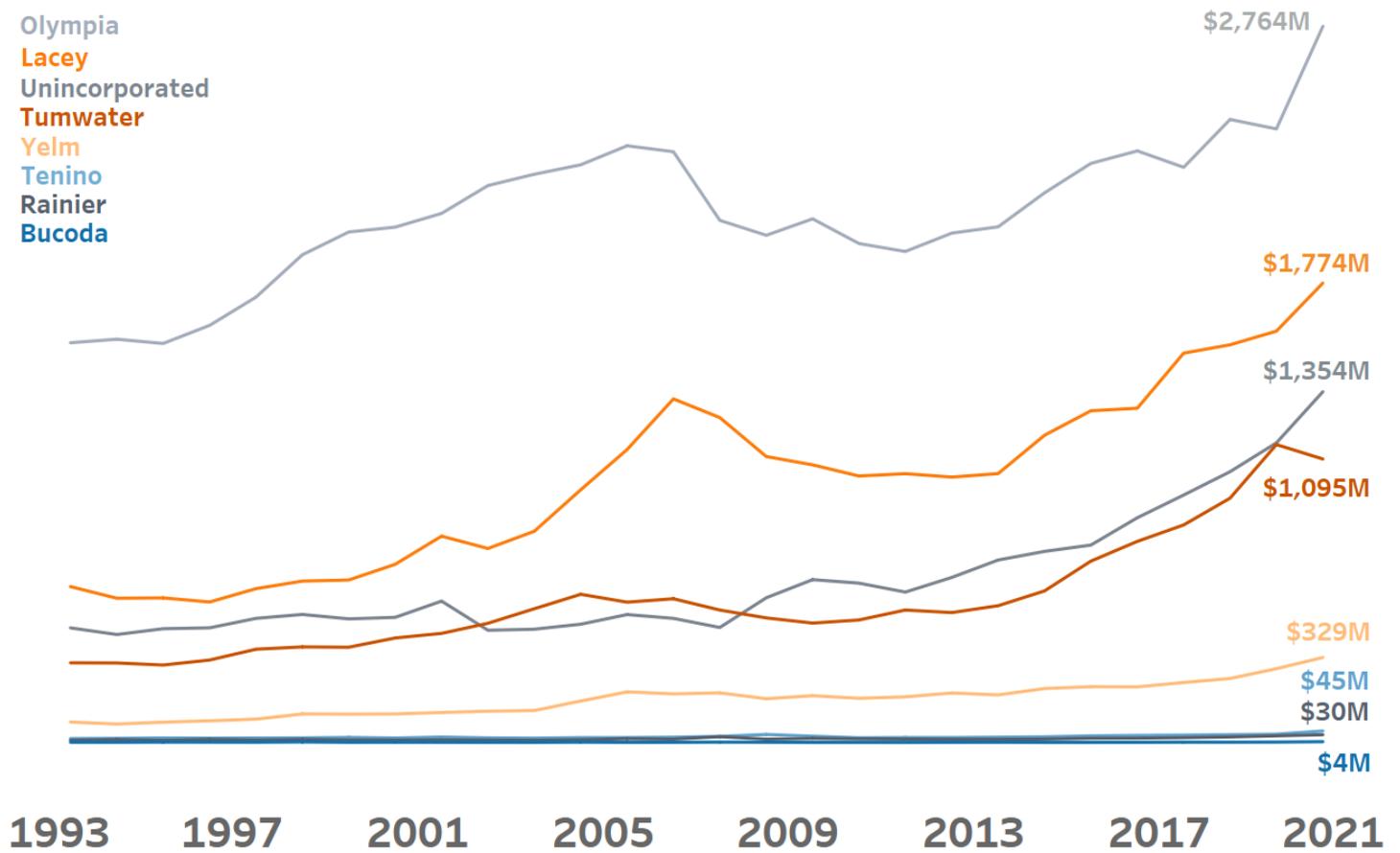
- Thurston
- Washington



TAXABLE RETAIL SALES

As an economy grows so does the taxable revenues for public sector goods. Taxable retail sales for all jurisdictions in Thurston County have continued to grow or remain relatively flat throughout the pandemic and that trend continues at the end of 2022. When adjusted for population, per capita taxable sales isolate economic effects away from general population growth. As predicted in the publication of the Winter 2021 Thurston Economic Vitality Index, The City of Olympia has regained its place as the city with the highest level of taxable retail sales per capita in Thurston County ahead of the City of Tumwater.⁴

FIGURE 11. TOTAL TAXABLE RETAIL SALES BY JURISDICTION (INFLATION ADJUSTED), 1993 - 2021

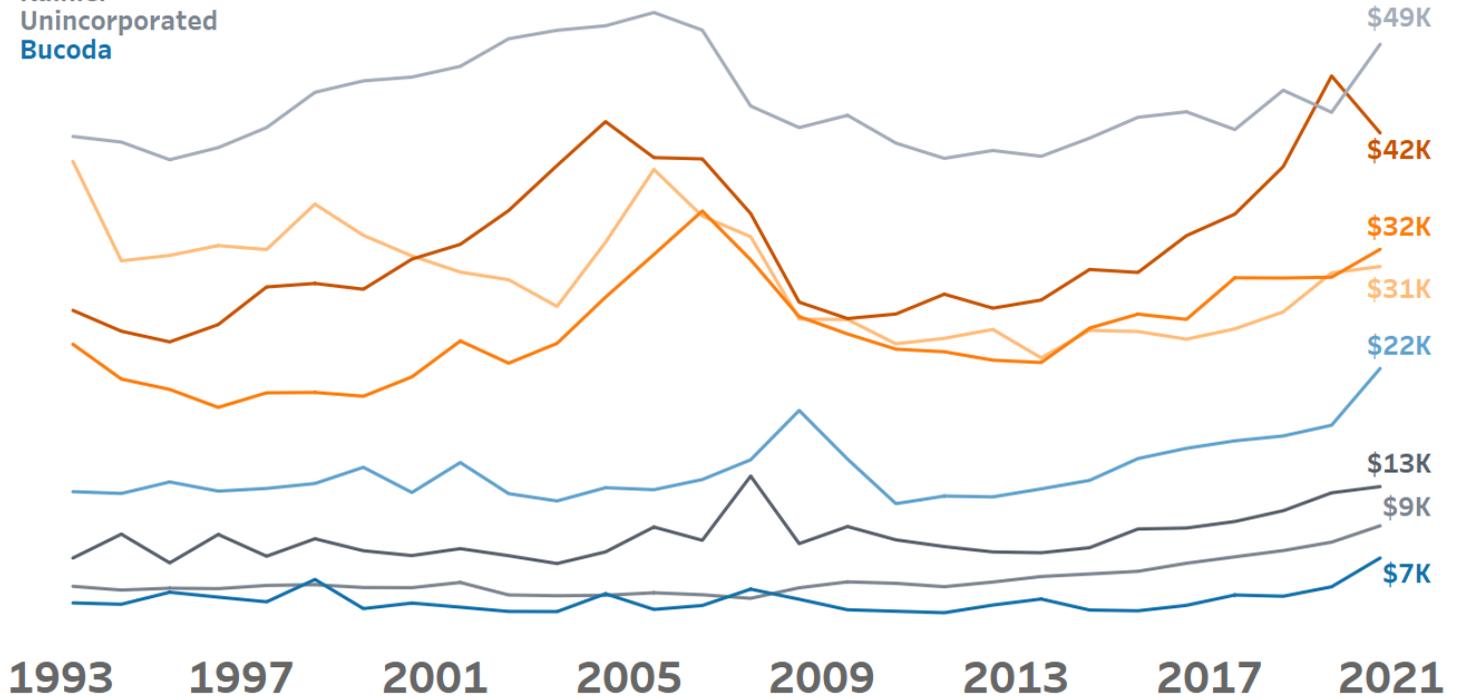


Source: Thurston Regional Planning Council & WA Department of Revenue

⁴ The previous year's increase in per capita taxable retail sales for Tumwater was largely attributable to pandemic driven sales at big box stores, increases in automotive sales and a relatively flat population growth.

Olympia
 Yelm
 Tumwater
 Lacey
 Tenino
 Rainier
 Unincorporated
 Bucoda

FIGURE 12. PER CAPITA RETAIL SALES BY JURISDICTION (INFLATION ADJUSTED), 1994 - 2021



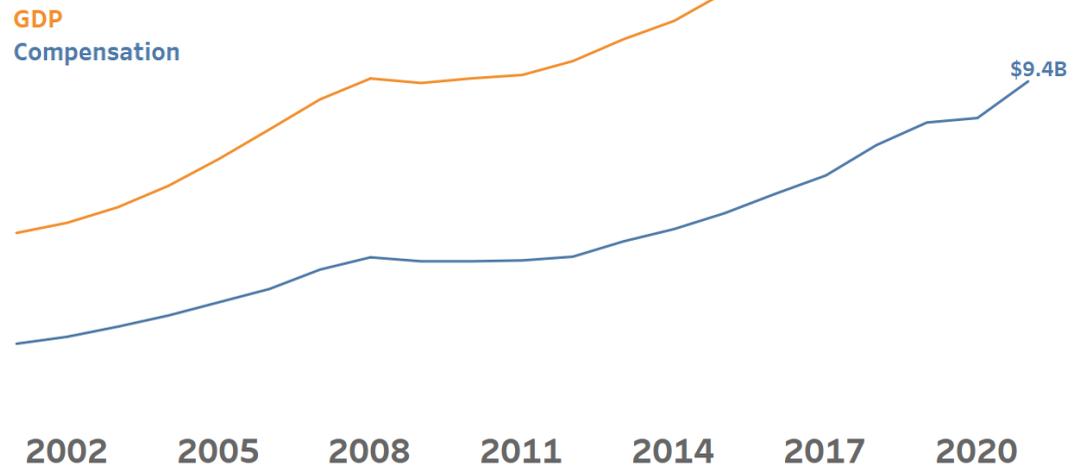
Source: Thurston Regional Planning Council

GDP AND COMPENSATION

Both GDP and compensation were impacted in Thurston County by the COVID-19 pandemic, but as the local recovery continues in our area we see both GDP and total compensation once again trending upward. As of 2021, the standing GDP was valued at \$15.4B and total compensation at \$9.4B within Thurston County.

FIGURE 13. TOTAL GDP AND COMPENSATION BY GEOGRAPHY, 2001 - 2021

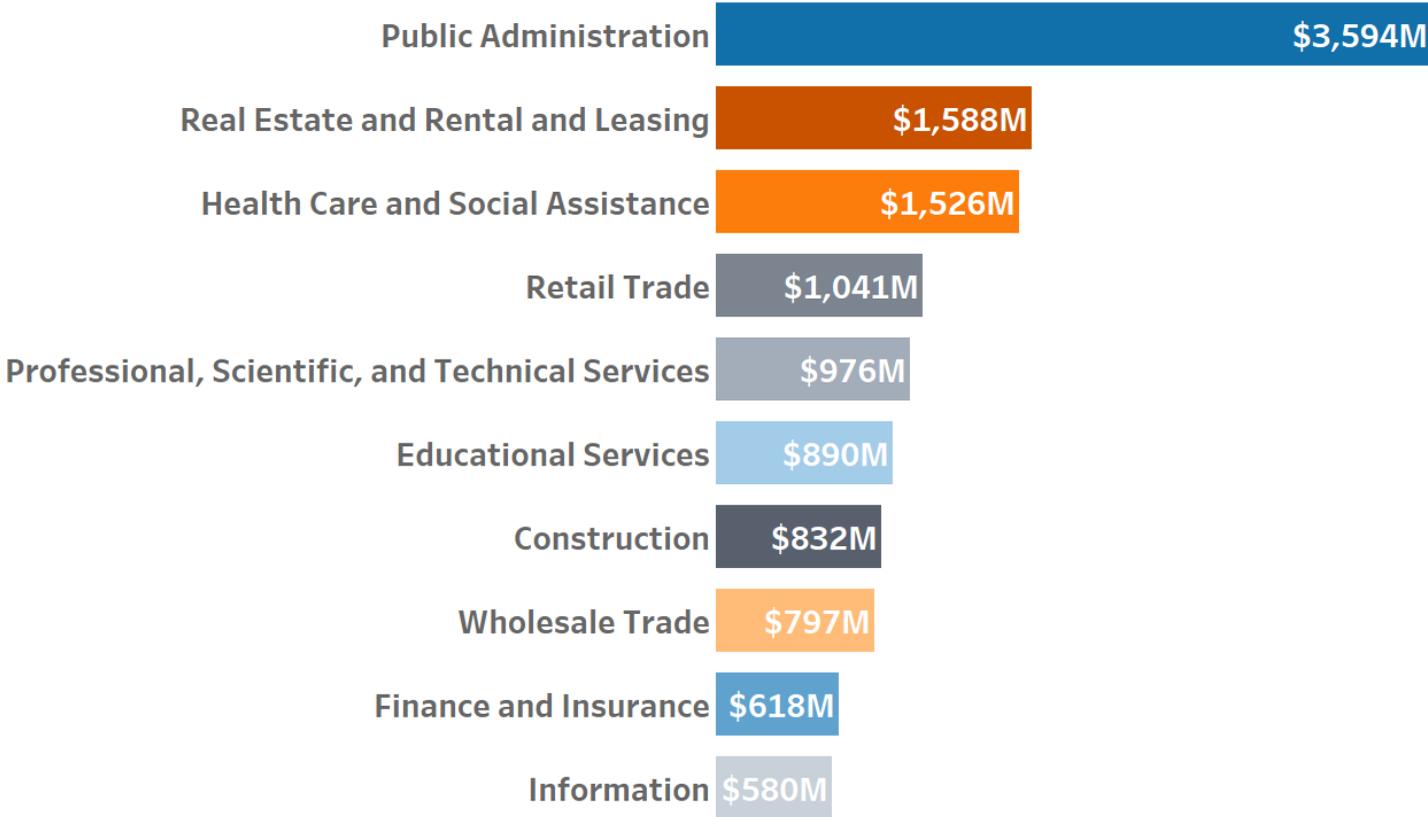
Source: JobsEQ



INDUSTRY GDP

Thurston County continues to benefit from a diverse set of local industries anchored by strong public employment. Public Administration is still the largest sector by output at \$3.6B followed by Real Estate and Rental and Leasing at \$1.59B at number two and Health Care and Social Assistance close behind at \$1.53B.

FIGURE 14. TOP 10 INDUSTRY SECTORS BY OUTPUT, 2021 Source: JobsEQ



The EDC recognizes the need to have a strong and consistent data driven economic development model. In that spirit, we have invested in expanding our research team to better serve the region’s community and economic development decision makers. We encourage you to seek us out for presentations at your local clubs and organizations, to provide specific data analysis on projects of significance, and to act as your data team as you develop your strategic plans.

NOTES



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