

ECONOMIC VITALITY INDEX



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South Puget Sound
COMMUNITY COLLEGE

"Building strategic partnerships is a key element of creating effective community development programs. South Puget Sound Community College has worked with the Thurston Economic Development Council for many years to increase the level of education and confidence in Thurston County. That is why we are proud to sponsor their Winter 2023 Economic Vitality Index. This product helps planners and leaders in business and government make better, more informed decisions about the local economy."

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



PORT of OLYMPIA

"For all of us, serving our community in a changing world requires strong partnerships and access to accurate information on economic trends. That's why the Port of Olympia is proud to support the Thurston Economic Development Council and the production of their Winter 2023 Economic Vitality Index. Information is a powerful tool to meet the challenges of a modern economy."

– Rudy Rudolph, Interim Executive
Director, Port of Olympia

For nearly two decades, the Thurston EDC has been tracking and indexing the local economy through the Economic Vitality Index. This tool has correctly and astutely tracked the great recession and downward trend of 2008/2009 – and the long rising recovery. The EVI also tracked the precipitous fall from the pandemic induced downturn – and the rapid rise towards recovery. The Index has matured in this time to become a reliable and useful tool for planning and business strategies. The current level of this leading indicator series indicates a relatively strong Thurston County economy but there are still cautious notes to pay attention to. The Thurston EDC is committed to working with community and business leaders to correctly interpret the Index, and to ensure that all the data trends that makeup the series are available to you.



– Michael Cade, Executive Director, Thurston Economic Development Council

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ECONOMIC VITALITY INDEX Q4 2023 UPDATE¹

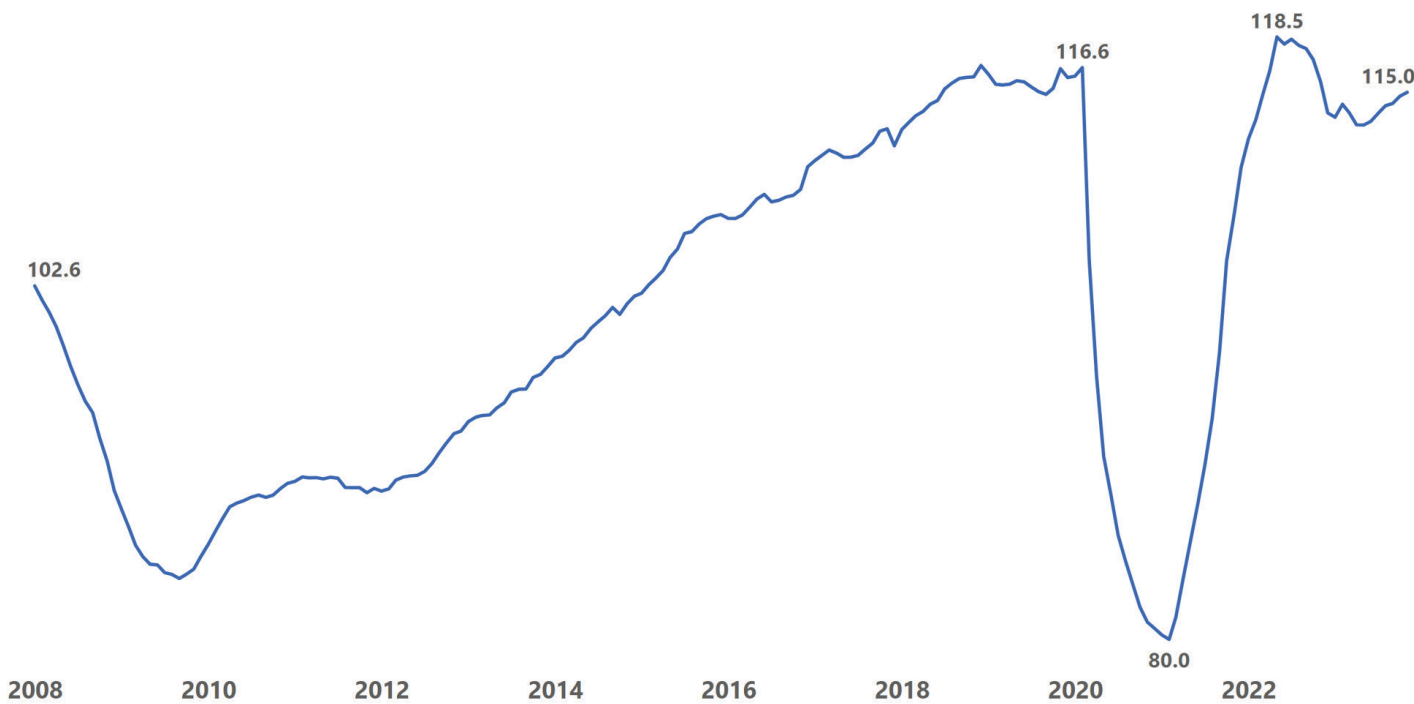
This update provides an overview of economic conditions for Thurston County, Washington. The report includes the *Thurston EVI Leading Indicators Index* and *Thurston EDC Business Confidence Index*. In addition, the *University of Michigan Consumer Sentiment Index* is provided to serve as a proxy for Thurston County household perceptions of the local economy. Overall, there is still a cautious stance towards local conditions, but local economic indicators are up, and trending in a positive trajectory, compared to this time last year.

EVI LEADING INDICATOR INDEX

This composite leading index is based on five monthly published indicators deemed to be good economic 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 115, as can be seen in Figure 1 below. Note that it is currently down only .7 points from this time last year (115.7) and up 1.9 points from the Q2 2023 reported value of 113.1. Overall, conditions have been somewhat stable for 2023 with an upward trend starting to materialize. Thus, conditions for Thurston County’s economy are still very favorable and only down 1.6 points down from the index high point of 116.6, right before the start of the COVID-19 pandemic.

While still somewhat down, our leading index is showing signs of continuing economic stability.

Figure 1. Thurston EDC Buisness Confidence Index, 2008-2023



¹ Report provided on November 17, 2023 for the Thurston EDC by Riley Moore, Ph.D.

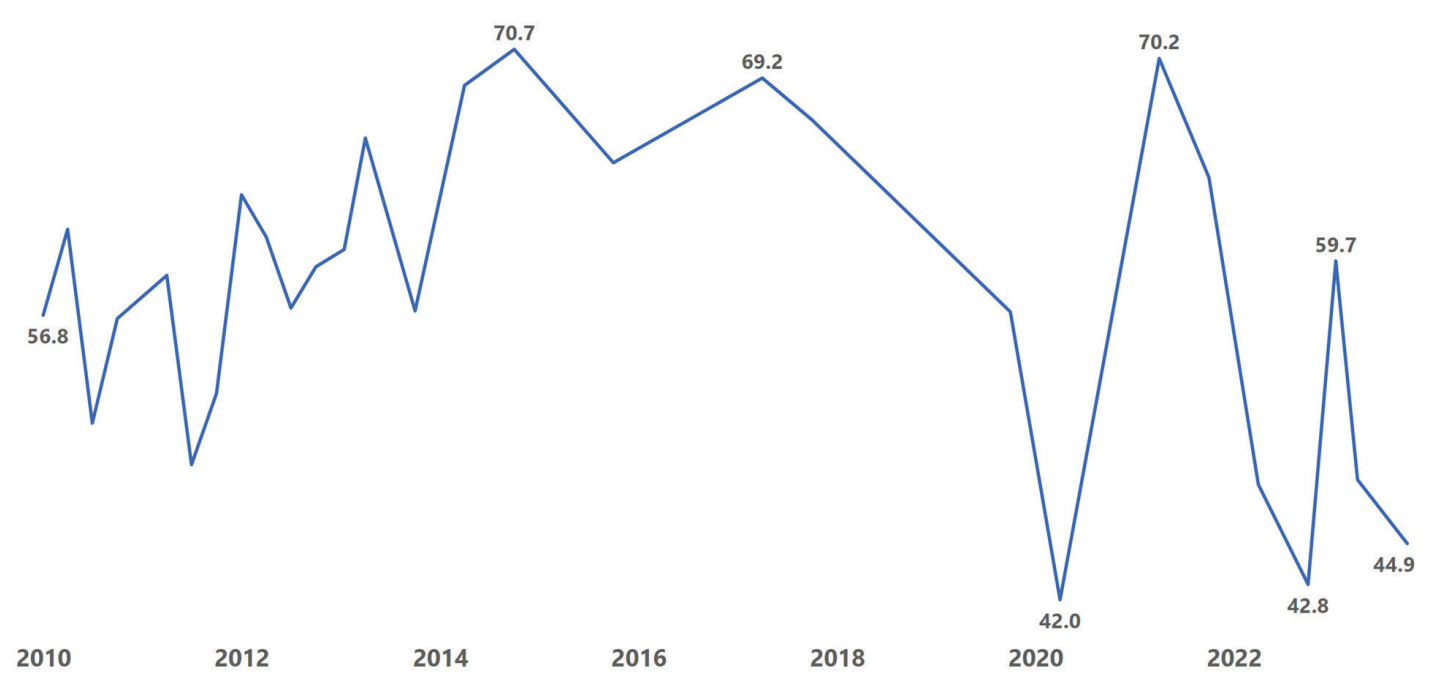
² The indicators include total residential building permits, initial unemployment claims, consumer sentiment, U.S. securities yield spreads, and equity financial instruments deemed to impact the local economy.

BUSINESS CONFIDENCE INDEX

The *Thurston EDC Business Confidence Index*³ 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 44.9. While it is down 3.4 points from the Q2 2023 report, it is still up 2.1 points from this time last year. Thus, local business leaders and owners are more optimistic than they were a year ago when the index was only 42.8. 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 still represents an overall slightly cautionary perception of the economy.

The CEO index is up from this time last year, but still reflects a slightly cautious outlook.

Figure 2. Thurston EDC Business Confidence Index, 2010-2023



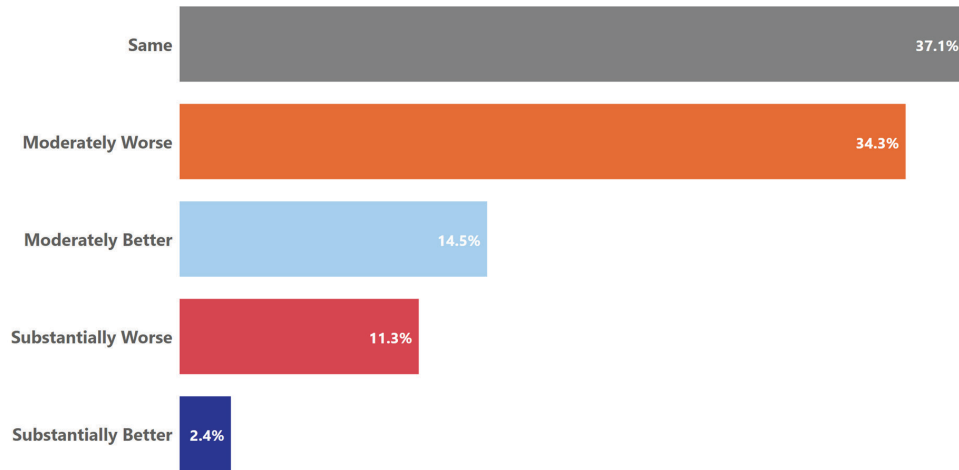
¹Results are based on the Thurston EDC’s recent email-based ‘expert survey’ of Thurston leaders conducted by Gene Angel and Connor Tibke, Director of Research and Evaluation, and Research Coordinator, respectively for the Thurston EDC. The results are based on 248 completed survey responses.

Figure 3, below, shows the business confidence survey Q4 2023 responses. As can be seen from the charts, most of the respondents were trending towards a more neutral “same” response, as well as an increasingly optimistic “moderately better” stance, for both the local economy, as well as within their own industries, relative to Q4 2022.

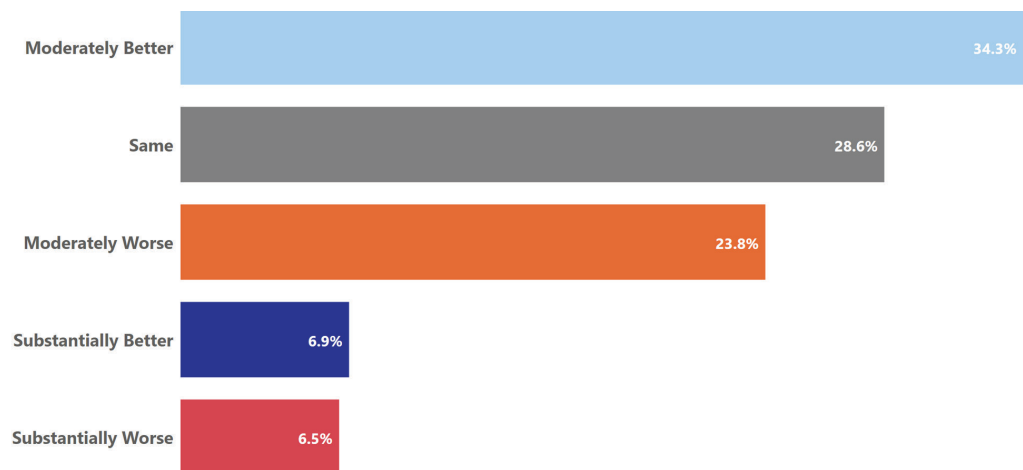
Figure 3. Responses to Individual Questions, Thurston EDC Business Confidence Survey, Q4 2023



Please indicate your expectations regarding current conditions in your own industry versus six months ago.



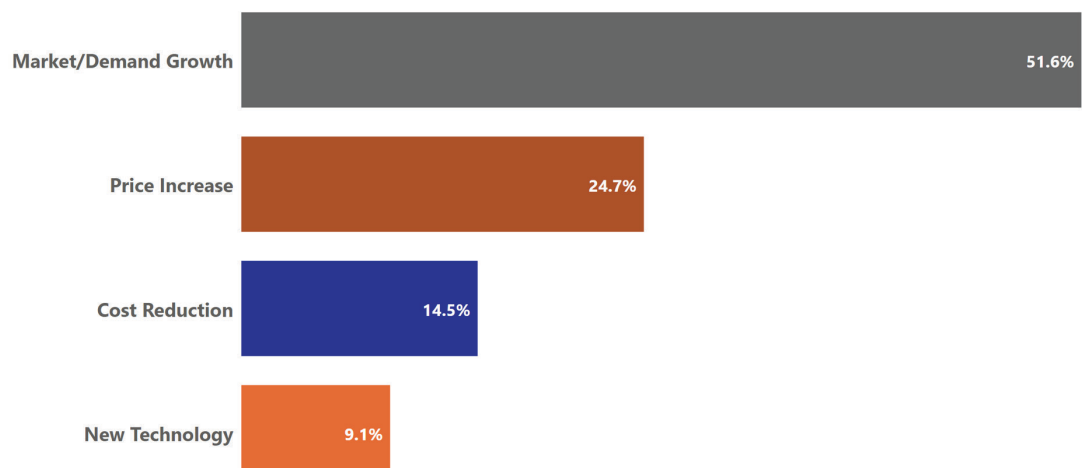
Please indicate your firm's profit expectations for the next 12 months.



When assessing the potential for future profits, Q4 2023 responses in Figure 4 below, shows that the 'price increase' category has dropped 19 percent which is significant given inflationary concerns over the last year. Further, there has been an increase in the focus of cost reductions with a positive change of eight percent over this time last year. Further, respondents indicating a focus on 'market demand and growth' increased 11 percent compared to Q4 2022. Finally, the number of respondents that indicated that they would rely on new technology increased two percent from Q4 2022.

Market growth has once again overtaken price increase as the leading expected source of profits.

Figure 4. Source of profits, if expected, Thurston EDC business survey, Q4 2023



CONSUMER SENTIMENT

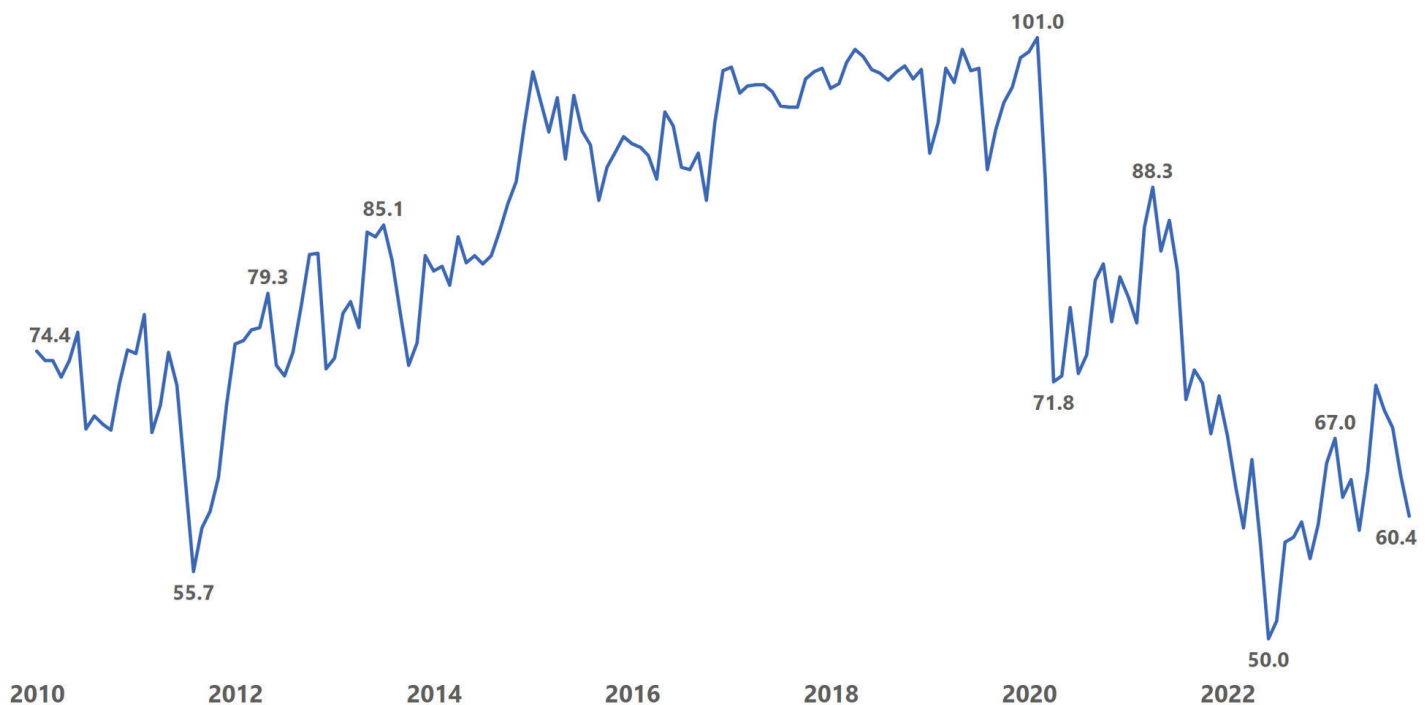
Consumer and household expenditures are a major driver of economic growth at both the local and national levels. The University of Michigan (UM) conducts a national survey of consumer sentiment every month and Figure 5 below shows the index values since January 2010.

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, given how closely it has mirrored local conditions.

The UM index now stands at 60.4 for November 2023, which is up 3.6 points from its November 2022 value of 56.8. It should also be noted that household perception surveys are more susceptible to being influenced by current media coverage and events than business and CEO perception surveys. While there has been a good deal of volatility in the index over this last year, it is still trending upward from its recent low of 50.0 in June 2022.

While we are in the midst of a correction, consumer sentiment continues to trend upward from recent lows.

Figure 5. UM Index of Consumer Sentiment, 2010-2023



CONCLUSIONS

In summary, conditions for Thurston County are still positive overall as indicated by the Thurston EDC EVI Leading Composite Index. Further, perceptions from business leaders reflect more neutral and optimistic views relative to responses this time last year. Finally, household opinions, which can be more volatile, are also still trending upward and more optimistic than what was reported for Q4 2022.

While there are still numerous macroeconomic and political uncertainties, at both the international and national levels, that pose downward risk, Thurston continues to be in a unique position, relative to other counties, due to the stabilizing influence of its public sector. Thurston is fortunate to host the seat of state government and greatly benefits from its proximity to the JBLM (Joint Base Lewis McChord) military installation. Also, Thurston's private sector continues to see expansion in commercial and residential construction, driving additional employment opportunities. Further, those that can continue to work remotely, or take advantage of the structural changes brought on by the Gig economy, are able to add an additional buffer to their household savings, to counter any near-term economic uncertainties. Thus, based on the indicators outlined in this report, it is forecasted that Thurston appears to be in a good position and will likely remain so into the near future, relative to other Washington counties.

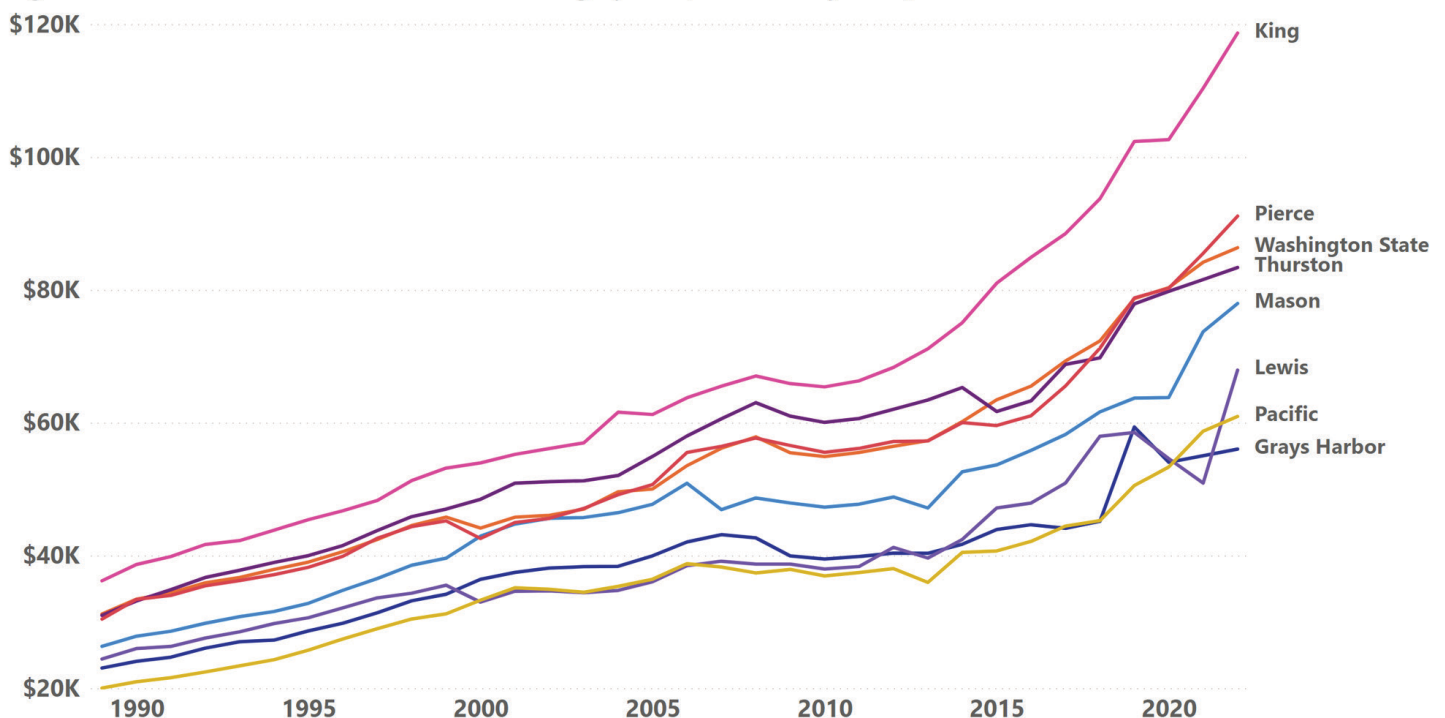
The following data and graphs have been identified as key metrics by the community to track over time. Every Winter EVI publication contains an annual update of these basic metrics to provide a snapshot of economic conditions in Thurston County.

Median Household Income

The graph below shows changes in household income between the years 1989 to 2022 for Washington State and the counties of King, Thurston, Pierce, Pacific, Mason, Grays Harbor and Lewis. Household incomes continue to rise throughout most of Washington State. Mason County benefited from the largest increase in the Pacific Mountain region at \$67,910, a 33% jump from their 2021 pandemic low of \$50,897.

All counties are now showing income growth for median households.

Figure 6. Median Household Income Select Geographies (Inflation Adjusted), 1989-2022



Source: Thurston Regional Planning Council

Housing Affordability

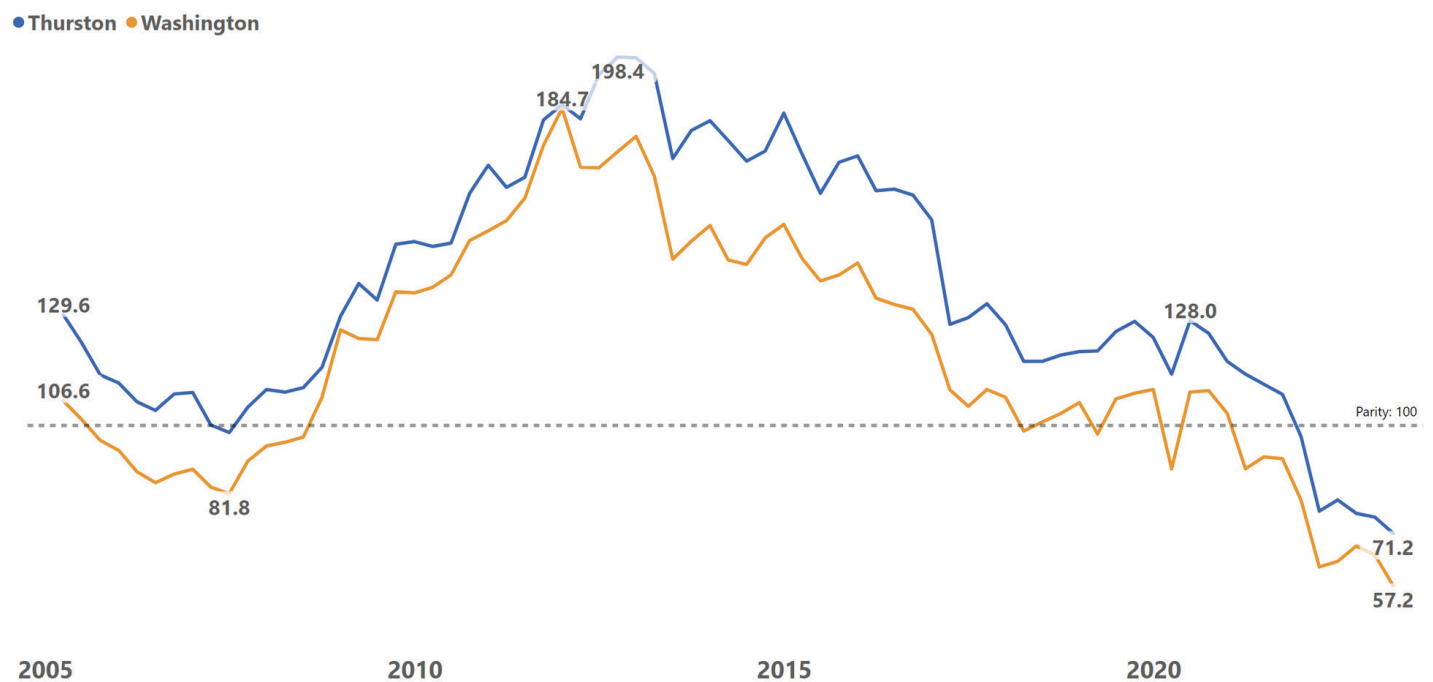
The index below comes from the Washington Center for Real Estate Research at the University of Washington and measures housing affordability for both middle-income earners and first-time homebuyers within Washington State and Thurston County. A value of “100” on the index below means that home prices 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 (Fig. 7) down to the current level of 50.8 (Fig. 8).

This gap in housing affordability creates an unsustainable cost-burden on entry level and mid-career professionals 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 the singular most important economic challenge for our region as it hinders access to workers, suppresses consumer demand and exacerbates issues of generational poverty.

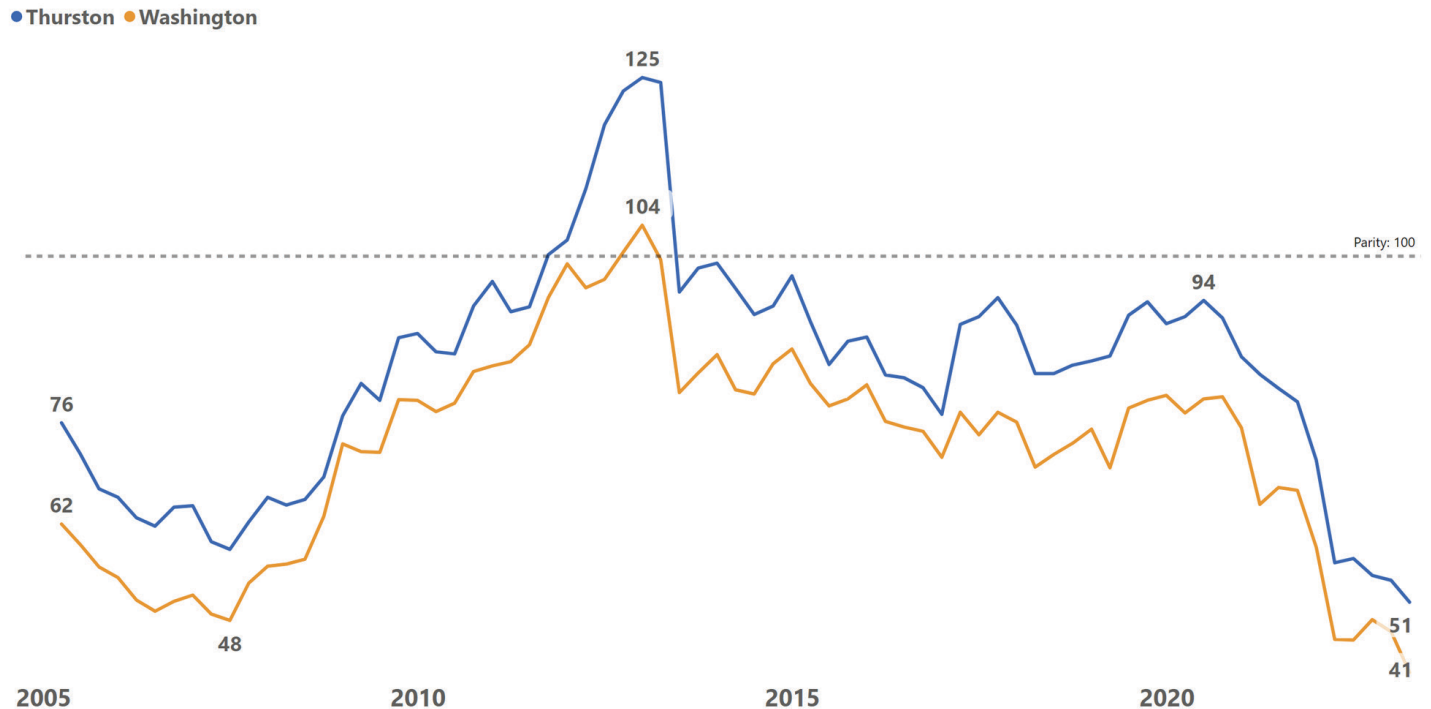
While housing affordability continues to decline, Thurston County remains less costly than the state average.

Figure 7. Housing Affordability Index - Middle Income Earners, 2005-2022



The continued decline of housing affordability is most pronounced for first-time homebuyers.

Figure 8. Housing Affordability Index - First Time Homebuyers, 2005-2022



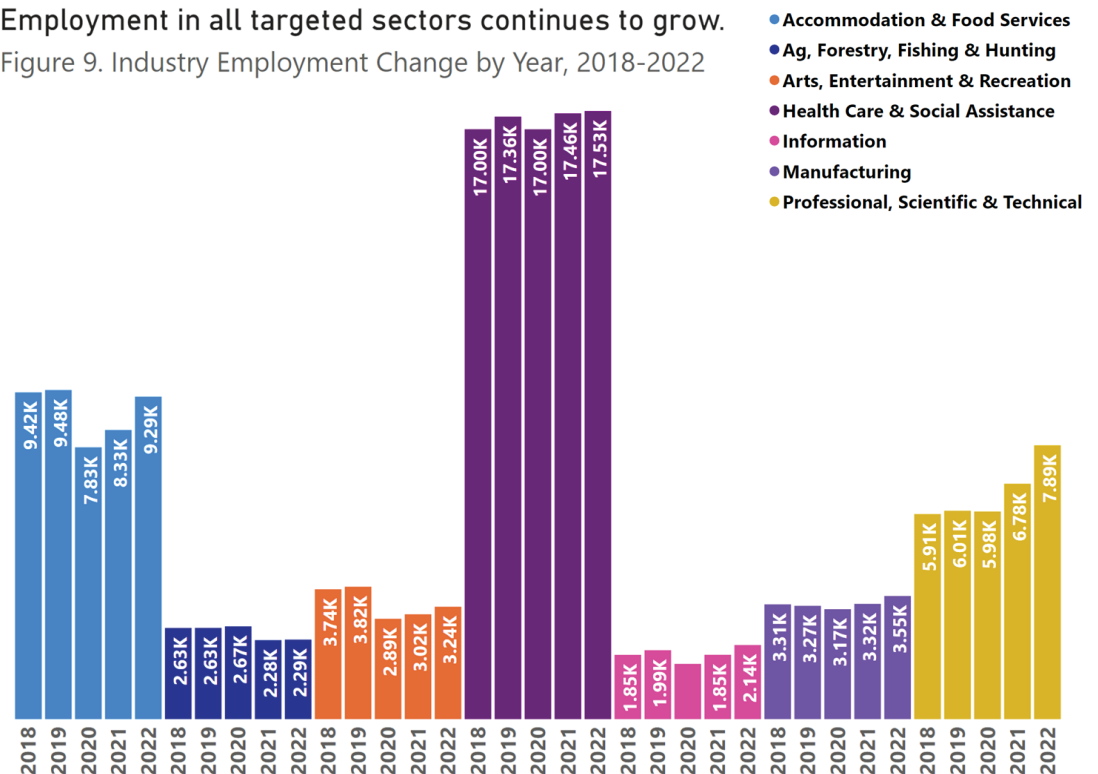
Source: Washington Center for Real Estate Research at the University of Washington

Target Industry Employment Change

All target industry sectors experienced growth in 2022 compared to their 2021 employment numbers signifying that an on-going COVID-19 recovery has continued to manifest in Thurston County.

The industry sectors of Healthcare and Social Assistance, Manufacturing, and Professional, Scientific and Technical Services have now surpassed their pre-pandemic highs in 2019. Significant effort is needed, concentrated on the industry sectors of Accommodation & Food Services, Agriculture, Forestry, Fishing & Hunting, and Information as they all have not recovered to their pre-pandemic employment levels.

Employment in all targeted sectors continues to grow.
Figure 9. Industry Employment Change by Year, 2018-2022



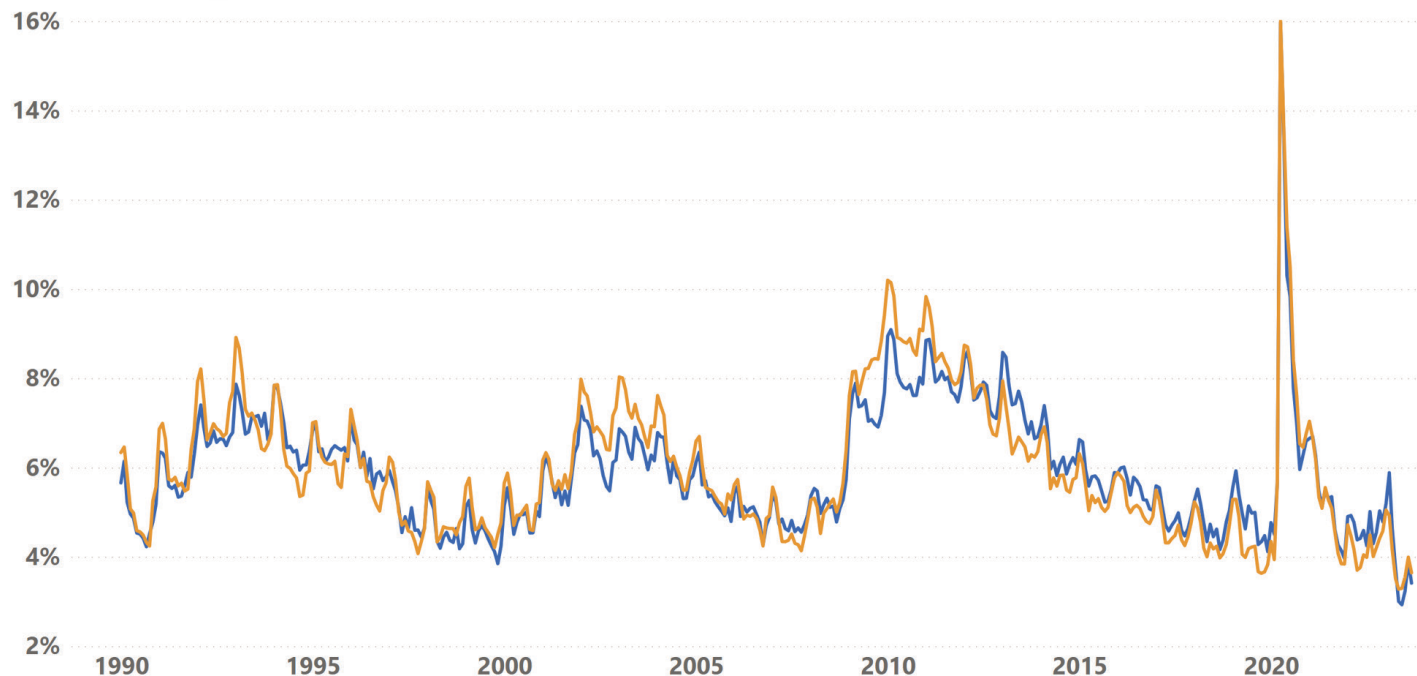
Unemployment

Unemployment peaked in Thurston County in 2020 at approximately 16% which was consistent with the Washington State average during COVID-19 but has rapidly recovered since then. Thurston County continues to outperform the Washington State average featuring a current value of 3.4% against the state's 3.6%.

Unemployment in Thurston County and Washington State continues it's decline into historic lows.

Figure 10. Unemployment Change, 1989-2022/23

● Thurston ● Washington



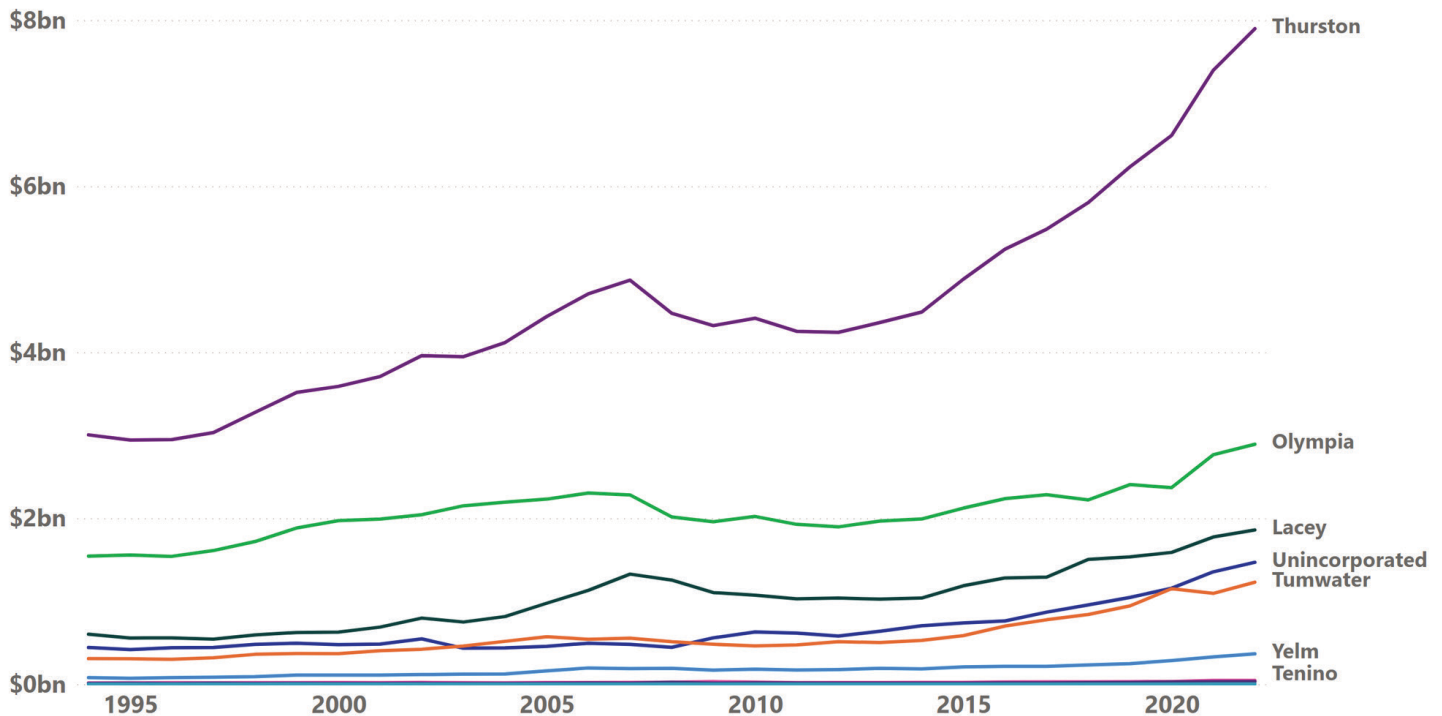
Source: JobsEQ

Taxable Retail Sales

As an economy grows so does the taxable revenue available for public sector expenditure. This flow of tax revenue is one of the bedrock resources needed for stable budgetary planning in our community. Taxable retail sales for all areas of Thurston County have continued to grow through 2022. When adjusted for population, per capita taxable sales isolate economic effects away from general population growth. The City of Olympia continues to lead other Thurston County jurisdictions in per capita revenue for 2022 at \$51,292 (Fig. 12).

Taxable retail sales figures are rising in all local jurisdictions.

Figure 11. Total Taxable Retail Sales by Jurisdiction (Inflation Adjusted) 1993-2022



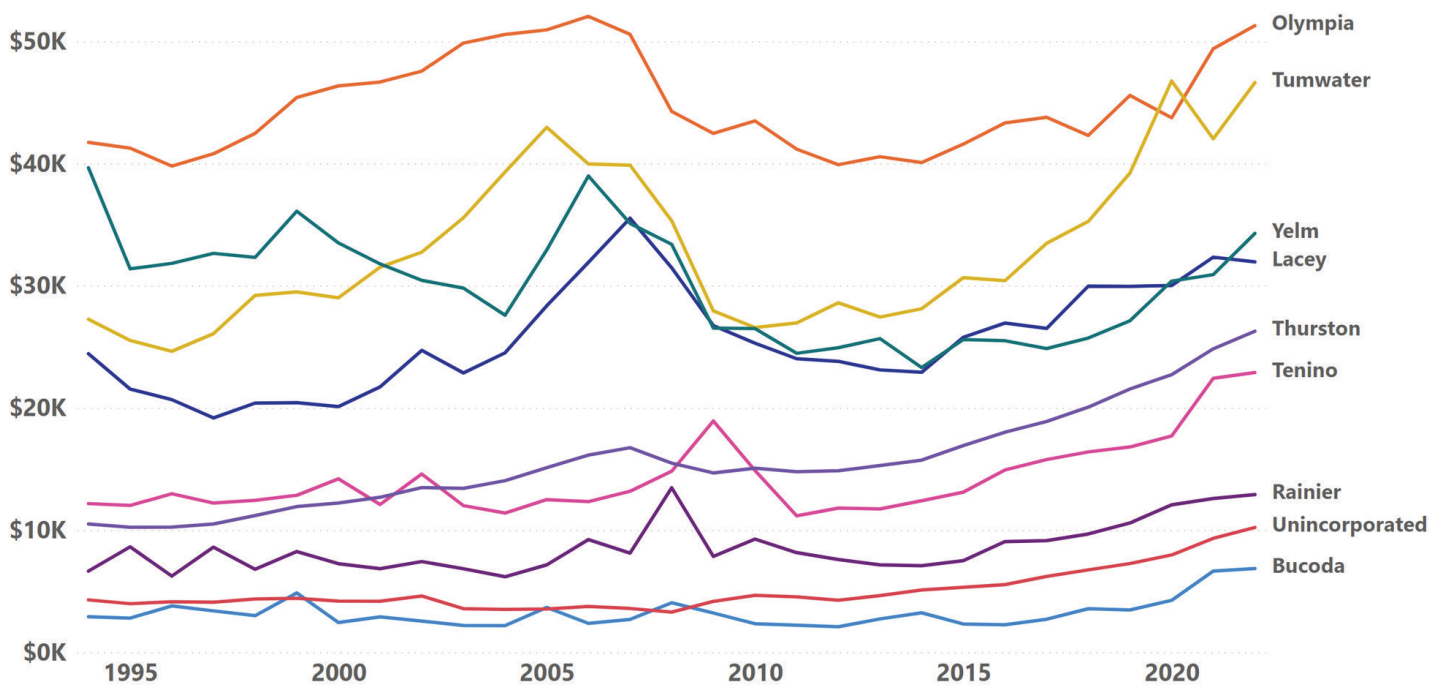
Source: Thurston Regional Planning Council & WA Department of Revenue

Table 1. Taxable Retail Sales by Jurisdiction, 2022

Year	2022
Bucoda	\$ 4,182,290
Lacey	\$ 1,859,006,757
Olympia	\$ 2,891,349,337
Rainier	\$ 32,404,592
Tenino	\$ 46,477,017
Tumwater	\$ 1,229,213,480
Yelm	\$ 366,142,593
Unincorporated	\$ 1,468,985,737
Thurston County	\$ 7,897,761,803

Retail sales per capita are rising in all local jurisdictions, except for one small decline in Lacey.

Figure 12. Per Capita Retail Sales by Jurisdiction (Inflation Adjusted), 1994-2022



Source: Thurston Regional Planning Council

Table 2. Per Capita Retail Sales by Jurisdiction, 2022

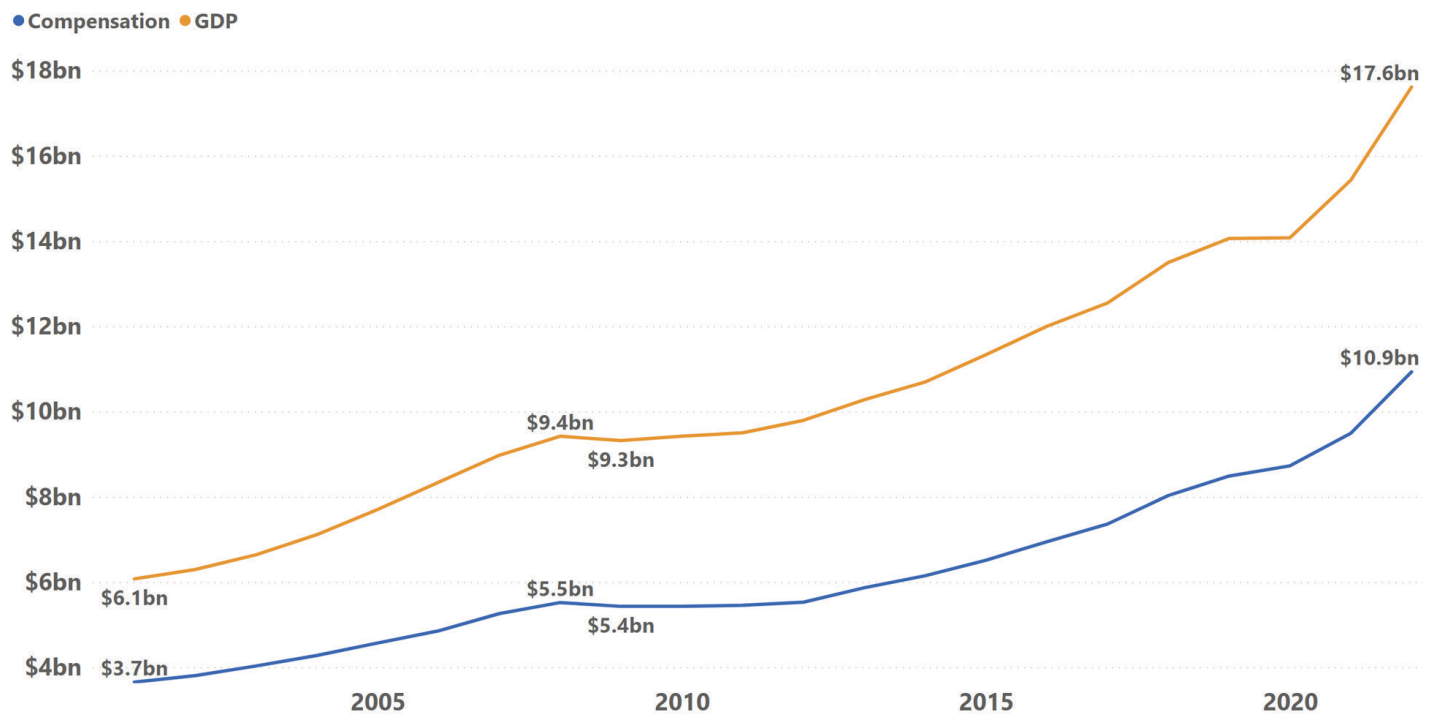
Year	2022
Bucoda	\$ 6,856
Lacey	\$ 31,952
Olympia	\$ 51,292
Rainier	\$ 12,910
Tenino	\$ 22,895
Tumwater	\$ 46,631
Yelm	\$ 34,283
Unincorporated	\$ 10,218
Thurston County	\$ 26,282

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, both GDP and total compensation are again moving upward. As of 2022, the current GDP was valued at \$17.6B and total compensation at \$10.9B representing a 14% and 15.2% increase, respectively.

GDP and compensation growth rates have accelerated to historic highs.

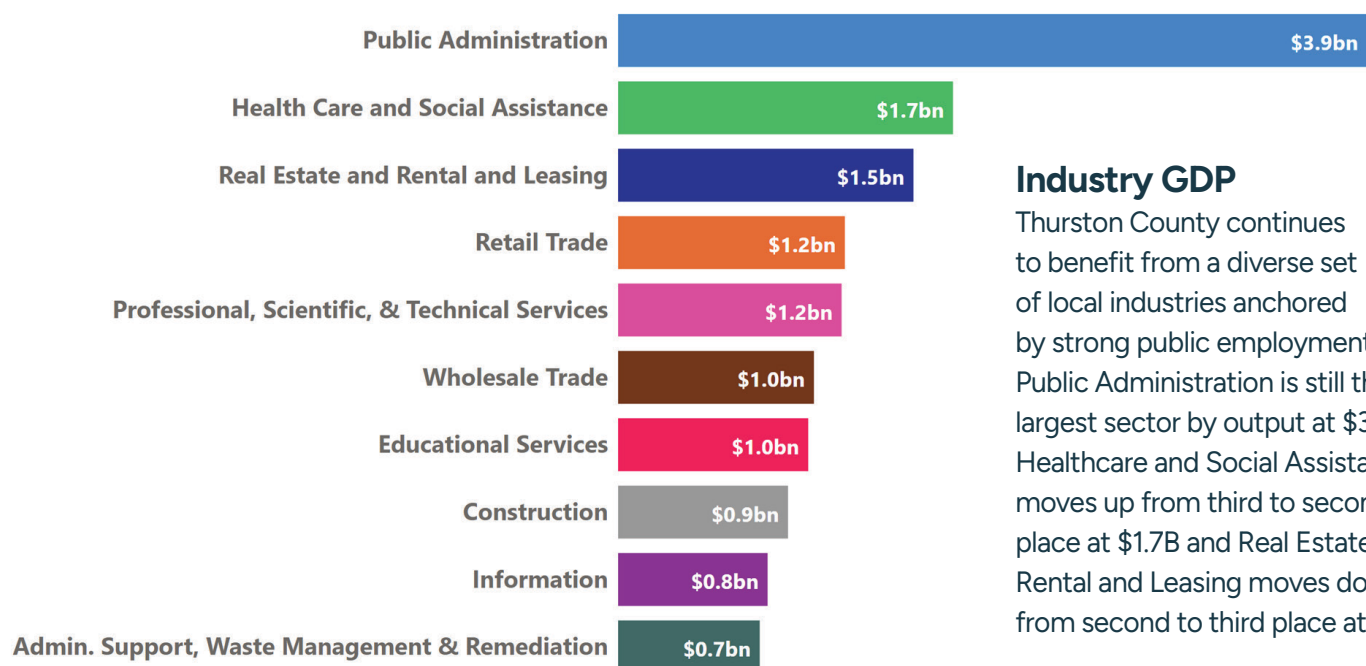
Figure 13. Total GDP and Compensation by Geography, 2001-2022



Source: JobsEQ

Public administration remains a strong stabilizing force in Thurston County's economy.

Figure 14. Top 10 Industry Sectors by Output, 2022



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 \$3.9B. Healthcare and Social Assistance moves up from third to second place at \$1.7B and Real Estate and Rental and Leasing moves down from second to third place at \$1.5B.

Source: JobsEQ

A Message from the Thurston EDC Research Team

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.



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