THURSTON EDC & CENTER FOR BUSINESS & INNOVATION

THURSTON ECONOMIC DEVELOPMENT COUNCIL

ECONOMIC VITALITY INDEX

SEPTEMBER 2020 UPDATE[1]

On June 8, 2020, the National Bureau of Economic Research (NBER) officially announced that the U.S. entered recession mode in February 2020.[2] The timeframe between the prior Great Recession and current COVID-19 Recession encapsulated an unprecedented period of economic growth that lasted 128 months making it the longest expansion in U.S. history.[3]

This report provides insights into how Thurston County is faring during the current recession. 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, as might have been expected, conditions for Thurston County are not favorable.

THURSTON EDC BUSINESS CONFIDENCE INDEX

The Thurston EDC Business Confidence Index[4] 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 equation. Their access to detailed information on new orders, inventory, customers, prices, suppliers and financing available to businesses serves as a good leading indicator for Thurston County's economy. The index currently stands at 42 as can be seen in Figure 1 below. Any reading of below 50 points reflects more negative than positive responses. Currently, pessimism exceeds optimism regarding the state of the local economy. Unfortunately, this particular index was not initiated until 2010, after the last recession ended, so there is no index value to enable a comparison to the current situation for Thurston County. However, it is not surprising that the current index value of 42 is lower than any point during the last business cycle expansion phase.

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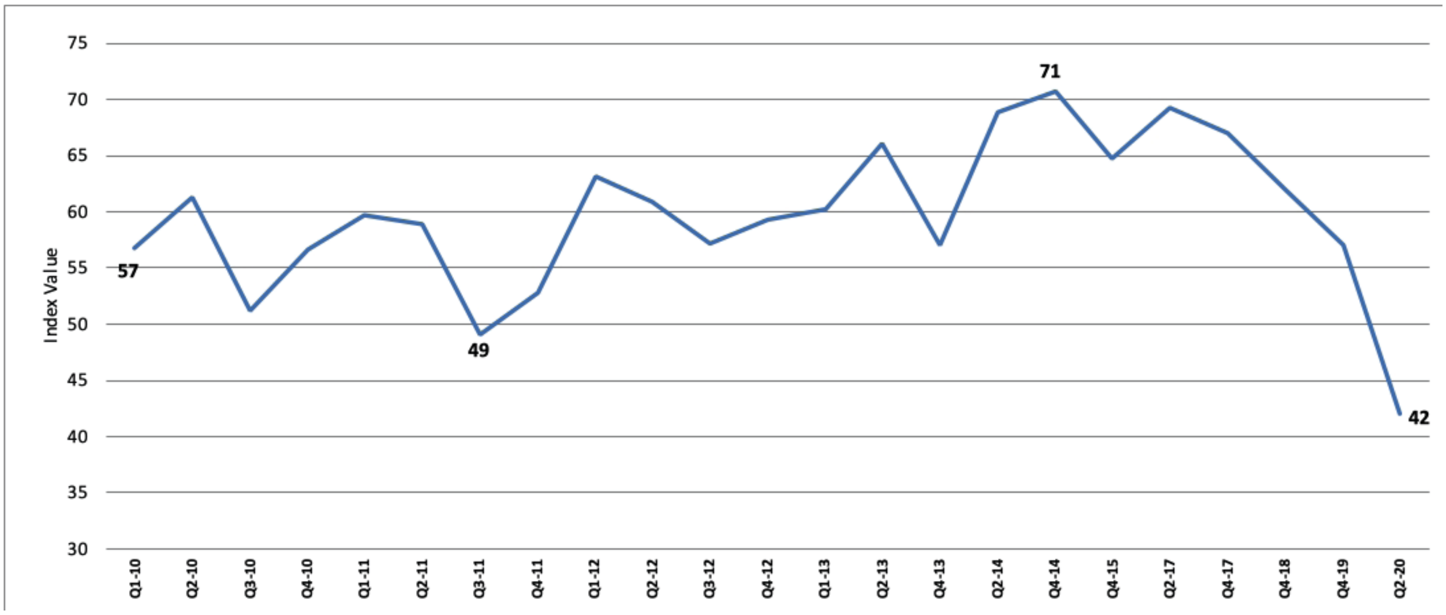
1 Submitted by Riley Moore, Ph.D.

2 The Business Cycle Dating Committee of the NBER is recognized as the authority for dating U.S. recessions and maintains a chronology of the peaks and troughs of U.S. business cycles. NBER defines an economic recession as: a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins when the economy reaches a peak of economic activity and ends when the economy reaches its trough. Between trough and peak, the economy is in an expansion. NBER website: http://www.nber.org/cycles/cyclesmain.html

3 The timeframe is from 1854, according to NBER, with the inception of tracking of U.S. business cycles.

4 Results are based on an expert email survey of 82 business owners/CEOs associated with the Thurston EDC, Thurston and Lacey chambers, and other local entities. There were 28 completed questionnaires resulting in an overall completion rate of 34 percent.

Figure 1. Thurston EDC Business Confidence Index, 2010-2020



When the responses to the specific questions that comprise the index were analyzed, seen in Figure 2 below, businesses overall felt that local economic conditions were *moderately worse* for all categories. When questions about conditions in their own industries, six months in the the future, there was a tie, at 36 percent, between whether conditions would be *moderately better* or *moderately worse*. Also when they were asked about any expectations of profits for the next twelve months, 46 percent stated their expectations were *moderately worse*.

Figure 2. Responses to individual questions, all businesses, Thurston EDC Business Confidence Survey, Aug. 2020

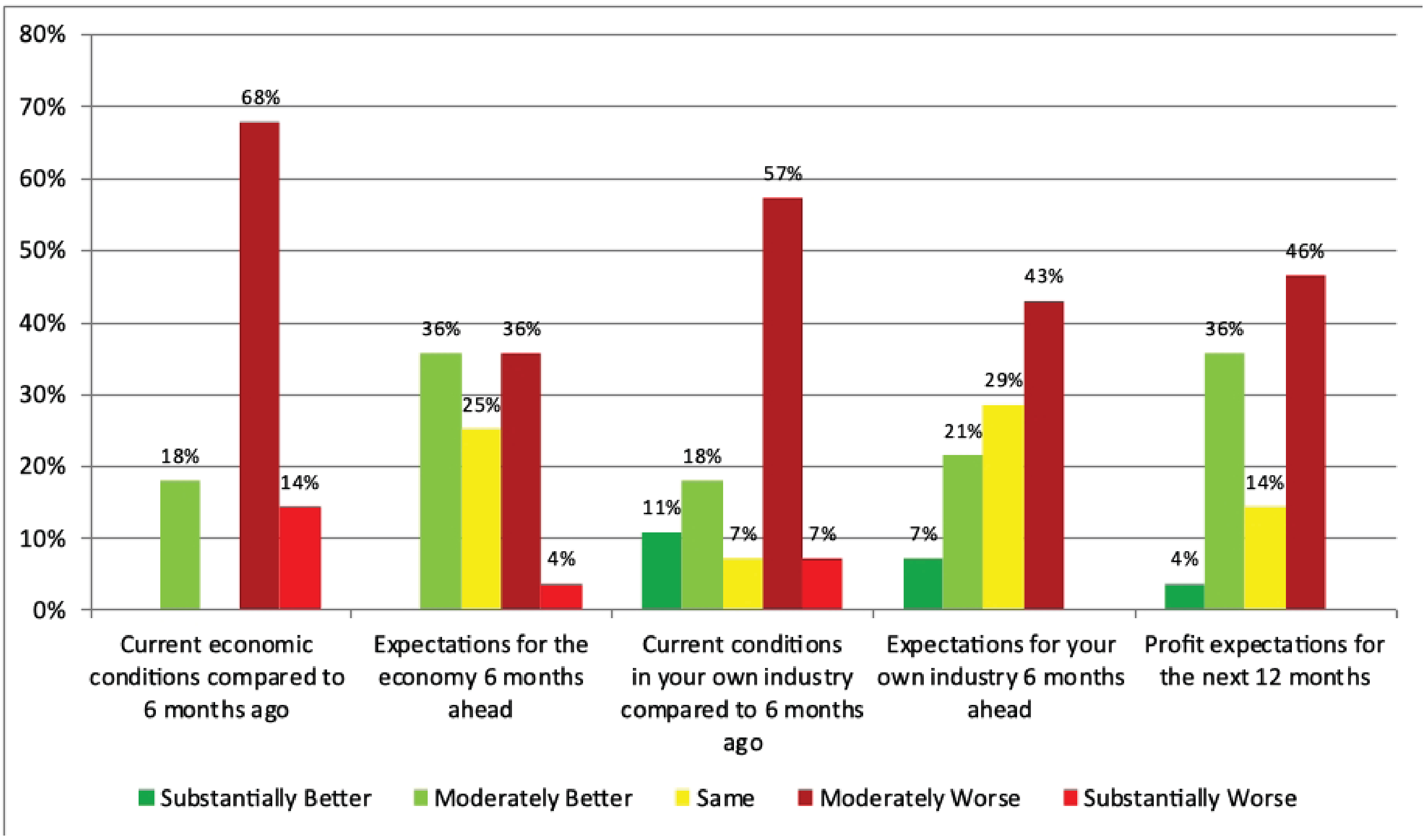
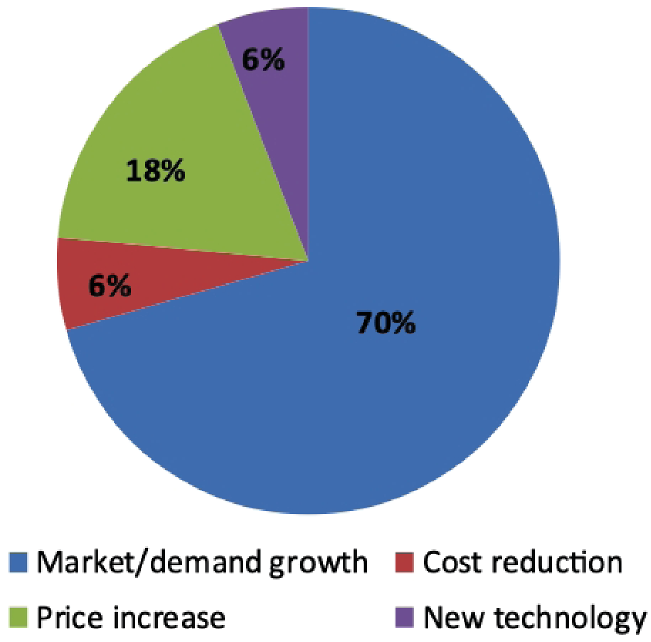


Figure 3. Source of profits, if expected, Thurston EDC Business Survey, Aug. 2020

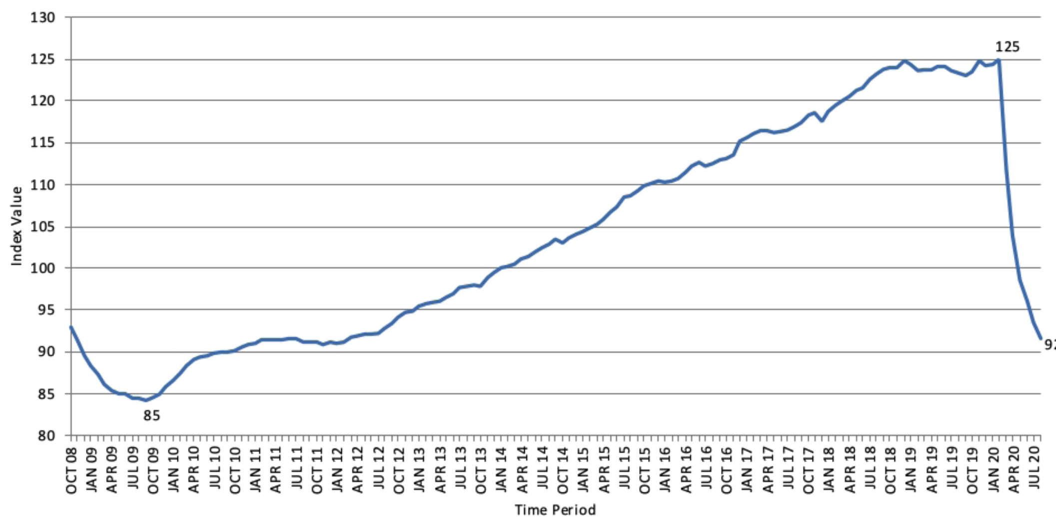


For those respondent that stated that they did expect profits over the next twelve months, Figure 3 illustrates where they thought the profits would materialize. All categories were represented but the predominant response was from an increase in market demand and growth at 70 percent. There was a tie between cost reduction and new technology at six percent at the other end of the scale.

THURSTON EVI – LEADING INDICATOR INDEX

This composite leading index for Thurston County is based on five publically published indicators (total residential building permits, initial unemployment claims, consumer sentiment, stocks of local interest, and U.S. securities yield spreads) and is calculated on a monthly basis. 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. This index was initiated during the last recession and thus provides an invaluable benchmark and basis of comparison as to how we are doing now. While its current value stands at 92, it is still seven points above its low mark of 85 at the bottom of the last recession. The index currently implies that conditions for Thurston County's economy are weak. Unfortunately, it also illustrates that we have not yet reached a point that shows a reversing of the downward trend given all the uncertainty that still exists.

Figure 4. Thurston EVI – Leading Indicators Index, 2008-2020



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 for that survey for the last ten years. The Thurston EDC was unique in conducting a local consumer confidence survey for many years. However the rise in popularity of mobile phone usage relative to the traditional household landlines created challenges that made local efforts too costly. Fortunately, when analyzing historical trends, the UM index closely mirrored the local index making it a good proxy going forward.[5] As can be noted, the UM index now stands at 73 down nearly 19 percent from the same time last year. However, again this is to be expected given that we are officially in a recession and all the uncertainly still surrounding COVID-19 and impacts on households. Note, that like the Thurston EVI Leading Index, while the current value is low, it is still above where the index was that the depth of the last recession when it was only 56.

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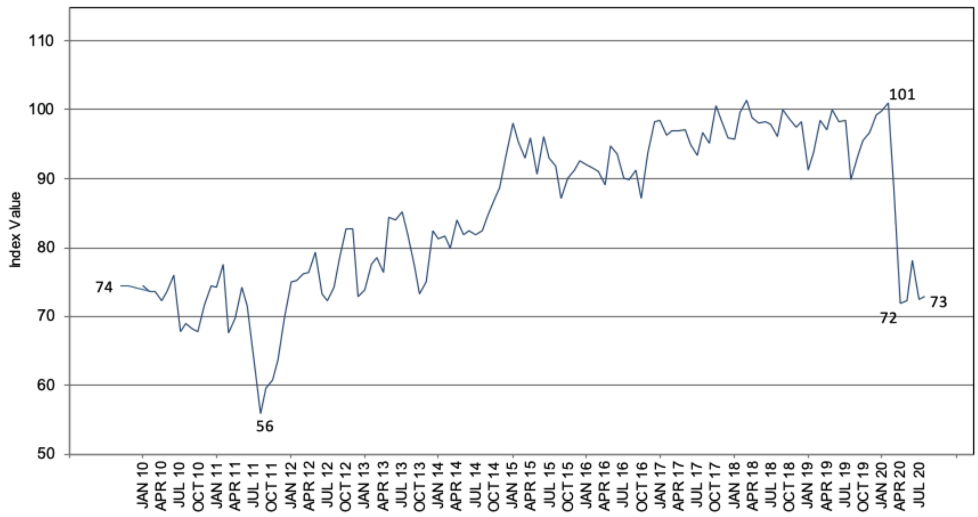
[5] Likely causal variables for this phenomena are consolidations that have been occurring in the media industry and impact of social media and technological advances resulting in broader influences and access to information sources.

SUMMARY

Overall local conditions are not good, mirroring the nation, but we are currently not in as bad of a position compared to where Thurston County stood during the last recession. While both recessions resulted in rapid declines in economic output and corresponding large increases in unemployment, there are significant differences between them likely explaining why some of the index value, already discussed, are still above those for the last recession.

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



The recession of 2008 was a result of a systemic failure, years in the making, resulting from a lack of credit quality and risk transparency for many assets. The main one being subprime loans. As a result, nearly all households, rich and poor were impacted. Households on average, when the recession began, had lower saving rates, were carrying more personal debt, and nearly universally saw their pensions and home values collapse in short order.

The current recession is a direct result of, and response to, the COVID-19 pandemic. The resulting heath crisis has been liken more to a natural disaster in the way it initially impacted both the local and national economies. Further, households were in a better financial position when it started. Savings rates were higher, there was less personal debt, and the stock market has quickly recovered to set new record highs, along with the housing market and home values. The ability to work from home has enabled most middle to upper income households, employed in sectors not requiring a physical presence, to continue working remotely from their homes (assisted by the advances in technology since the last recession) all helping to reduce the financial burden.

This is one thing that is unfortunate about this recession is that it is impacting those on the lower scale of the income ladder disproportionally more than those at the upper end. The current situation is very grim for those that are based sectors and jobs where working from home is not an option, or have been laid off as a result of working in industries where COVID-19 restrictions have forced their employers to reduce their labor force. For those lower income households fortunate to still have job(s), but just treading water financially up to this point, they are now having to weigh the huge opportunity costs and additional economic hardships associated with the continuation of the home school requirement for their children when schools start up again soon.

Consumption is the largest driver for economic growth and recovery. The unfortunate drop in consumer spending at traditional outlets locally due to COVID-19 restrictions is impacting local businesses as reflected in the Thurston EDC Business Confidence Index discussed earlier. In addition, local higher education intuitions, with the physical reduction in both their out-of-state and international student populations, and their corresponding spending, will further reduce the multiplier effect damping local economic impacts.

Finally, the uncertainty surrounding the timing and amount of any future stimulus funds, the outcome of the public sector elections, and when a cure, or solution to mitigate the current COVID-19 restrictions will occur, all make it hard to predict when the downward trend on the EVI will reverse course. However, it is predicted that the turn will occur at a higher EVI value than for the last recession and that it will be a gradual recovery due to the nature of Thurston County and the fact that it has a large middle-class base and large public sector influence with questions and uncertainty surrounding possible budgetary shortfalls if the Thurston County economy remains in its current anemic state much longer.