

2017

THE SHORT REPORT THURSTON ECONOMIC VITALITY INDEX



HOW ARE WE DOING?

This is the 10th anniversary of the Thurston Economic Vitality Index (EVI). In creating this index and associated critical economic indicators, it was our goal that this report could be used by business and community leaders to provide a consistent and in-depth description of how the local economy is performing.

This year, the EVI composite index is again showing positive trend lines in the leading indicator series – positive gains in employment, and positive gains in overall tax revenues per municipality. This year’s report incorporates critical data indicators that are found in the EDC’s Thurston Community Economic Alliance regional strategy – which tracks data that helps to define the quality of life found throughout Thurston County.

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THANKS TO OUR ECONOMIC VITALITY INDEX SPONSORS

We would like to give a special thanks to our EVI Co-Sponsors – Business Examiner, Port of Olympia, and South Puget Sound Community College. This partnership is vital to our ability to track and interpret this valuable data and to make it available to assist you in making informed and strategic decisions that support and enhance our economy.



The annual collection of information, data and the current status of Thurston's economy comprises a snapshot of the year's economic activities. As such, it is an extremely valuable tool for all participating enterprises in this marketplace.

This year's Economic Vitality Index is especially timely as we are now several years beyond the 2008 Great Recession, and our local economic models have changed somewhat. We are less reliant upon public sector employment going into 2018, and our countywide wages earned are predominately coming from the private sector.

That doesn't mean that our economy is impacted any less by state government (or Joint Base Lewis McChord). Instead, as our region's economy matures, opportunities are becoming evident that provide additional entry points into the economy by the private sector.

By tracking and creating a "leading indicator" economic index, the Thurston Economic Vitality Index is providing a road map for decision makers – both in the private sector and within the public sector. Understanding how this economy works, and sometimes how the economy doesn't work, is the first step in building an economy that is dynamic, vibrant and resilient. Business Examiner Media and South Sound BIZ magazine are proud to be a sponsor of this year's EVI—and we encourage your use of the data and reports contained therein to make your own efforts even more successful.



As we near the end of another successful fall quarter at South Puget Sound Community College, we would like to reflect on how grateful we are that our graduates will be joining a regional workforce that is brimming with opportunity. Businesses in Thurston County are active partners in ensuring that our academic programs are robust and that our students come out with the right set of skills to help this region prosper. We pride ourselves on our relationships with the Thurston EDC and many other groups that are working to keep our business

community thriving so that our students will have access to meaningful employment for years to come. Thank you to the EDC and to all of you for supporting SPSCC and our students.

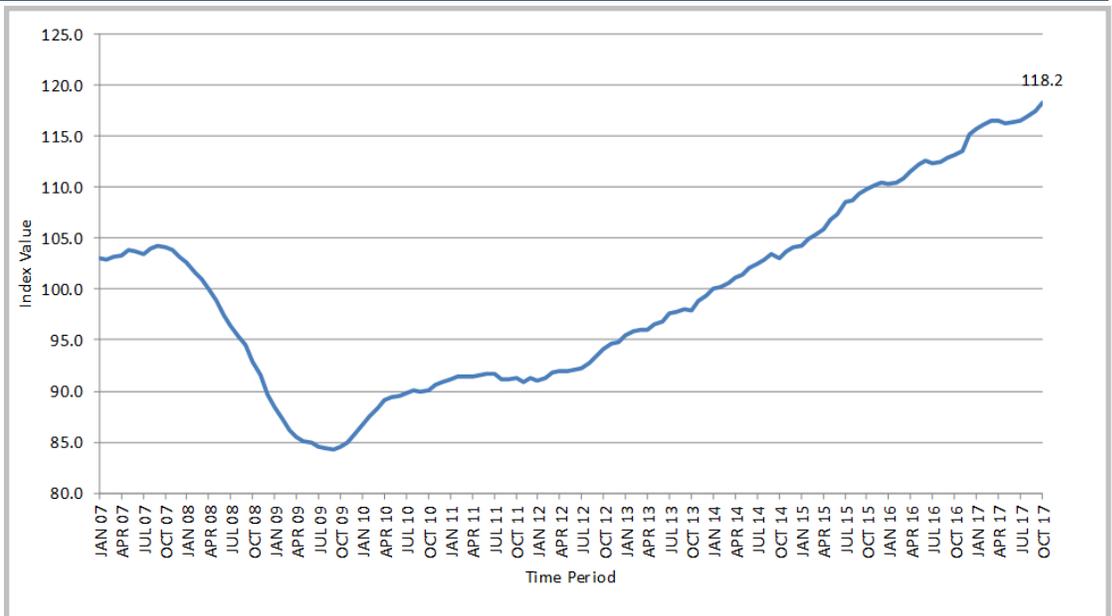


The Port of Olympia's vision is to create a more economically resilient Thurston County. The Economic Vitality Index identifies for our community what manner are we moving and if our efforts are paying dividends to our community in growing that resiliency. The EVI

by strategic construction is a leading indicator tool that gauges the impact of strategic economic development initiatives and actions and how they have impacted our region's ability to attract new capital, create new jobs, and provide reserves to ensure our infrastructure supports the quality of life that we enjoy. This year's EVI again gives credence that our economy is moving in a positive direction, and the Port of Olympia is proud to be a partner in investing in our local economy and our communities.

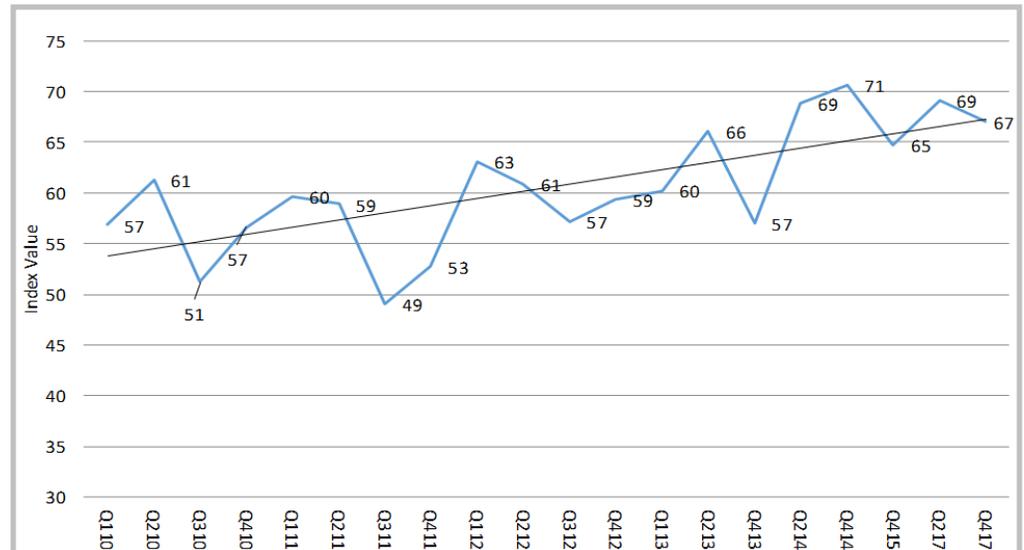
THURSTON EVI LEADING INDICATOR INDEX

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. The index currently stands at an index high of 118.2. 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 implies that conditions for Thurston County's economy are continuing to look favorable and the index is continuing its upward trend.



THURSTON EVI BUSINESS CEO CONFIDENCE INDEX

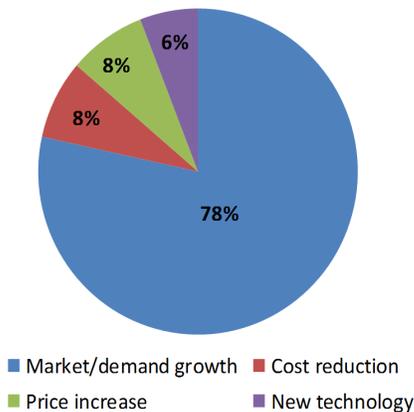
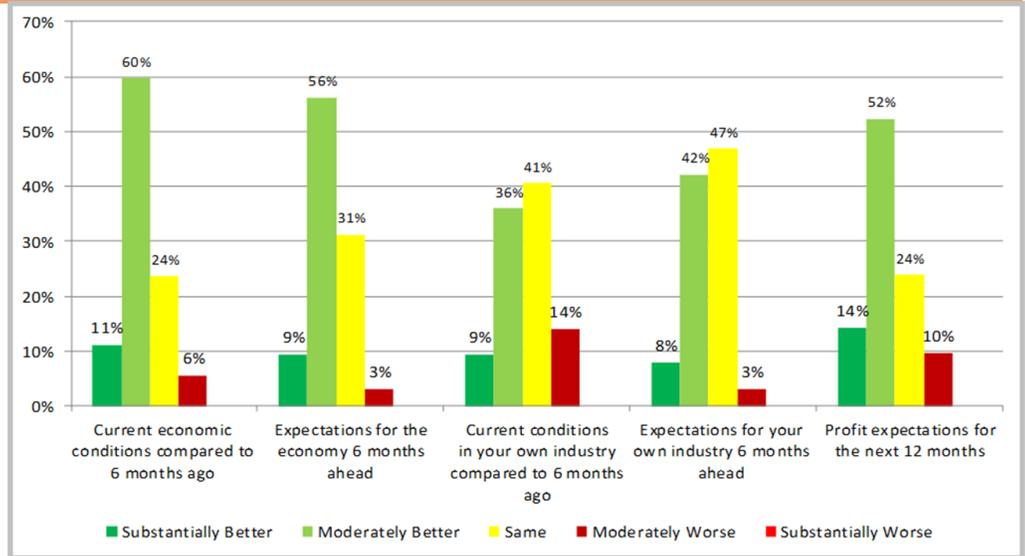
The Thurston EDC Business Confidence Index represents the perceptions of CEOs in Thurston County. The perceptions of local business and economic conditions provide insights into the supply side of the equation. Their access to detailed information on new orders, inventory, customers, prices, suppliers and what kind of financing is available to businesses serves as a good leading indicator for Thurston



County's economy. The index currently stands at 67. While this is slightly down from the second quarter of 2017 value of 69, the overall trend continues on an upward trajectory. Further, the current value is only four points shy of the high (71) for the index since its inception in 2010. Note that a reading of more than 50 points reflects more positive than negative responses.

THURSTON EVI BUSINESS CONFIDENCE INDEX – CEO responses to expectations of the economy

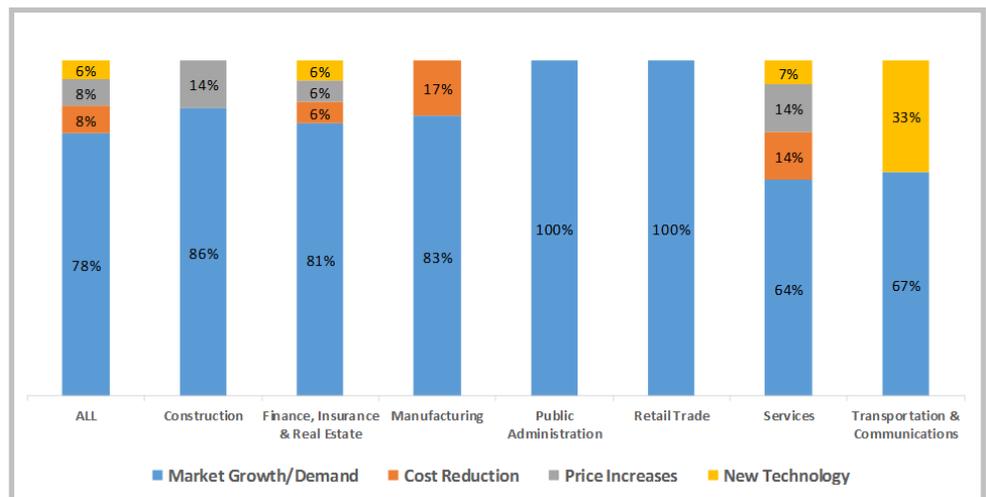
Thurston County CEOs overall felt that economic conditions, at the county level, were in the *moderately better* category. When questioned about conditions in their own industries, there was a propensity to state conditions were slightly more in the *same* category. However when they were asked about any expectations of profits for the next twelve months, 52 percent stated their expectations being *moderately better*.



- Thurston CEOs, in aggregate predominantly feel that market and demand will be the source of profits over the next 12 months
- 5 years prior, price increase and cost reduction were anticipated to be the source of profits – which certainly played out as we left the recession.

THURSTON EVI BUSINESS CONFIDENCE INDEX – Source of Profits

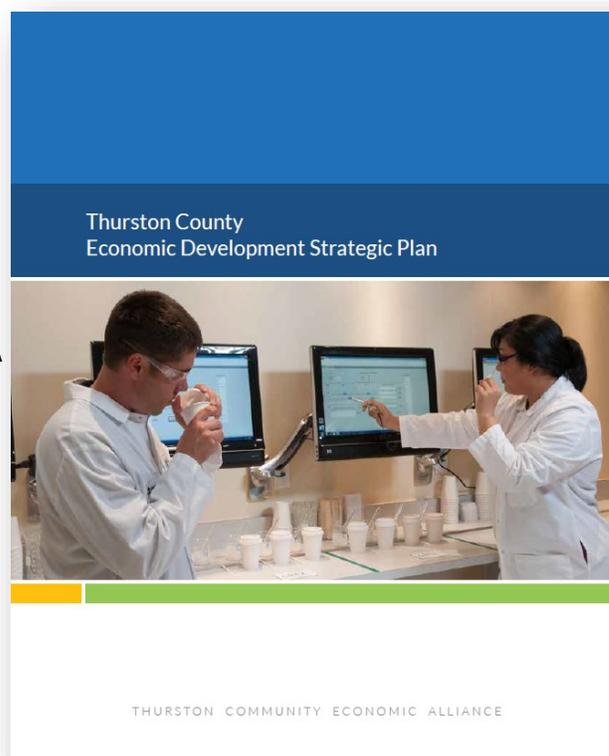
Profit expectations, from January 2018 through December 2018, by industry were captured in the Thurston EDC Business Confidence Survey, November 2017. The chart on the right demonstrates that Thurston CEOs predominantly expect that profits for their economic sector will come from market expansion. This is a significant change from prior years when CEOs identified both new technology and cost reductions as the anticipated major source of increased profits.



THURSTON COMMUNITY ECONOMIC ALLIANCE (TCEA) CRITICAL DATA INDICATORS

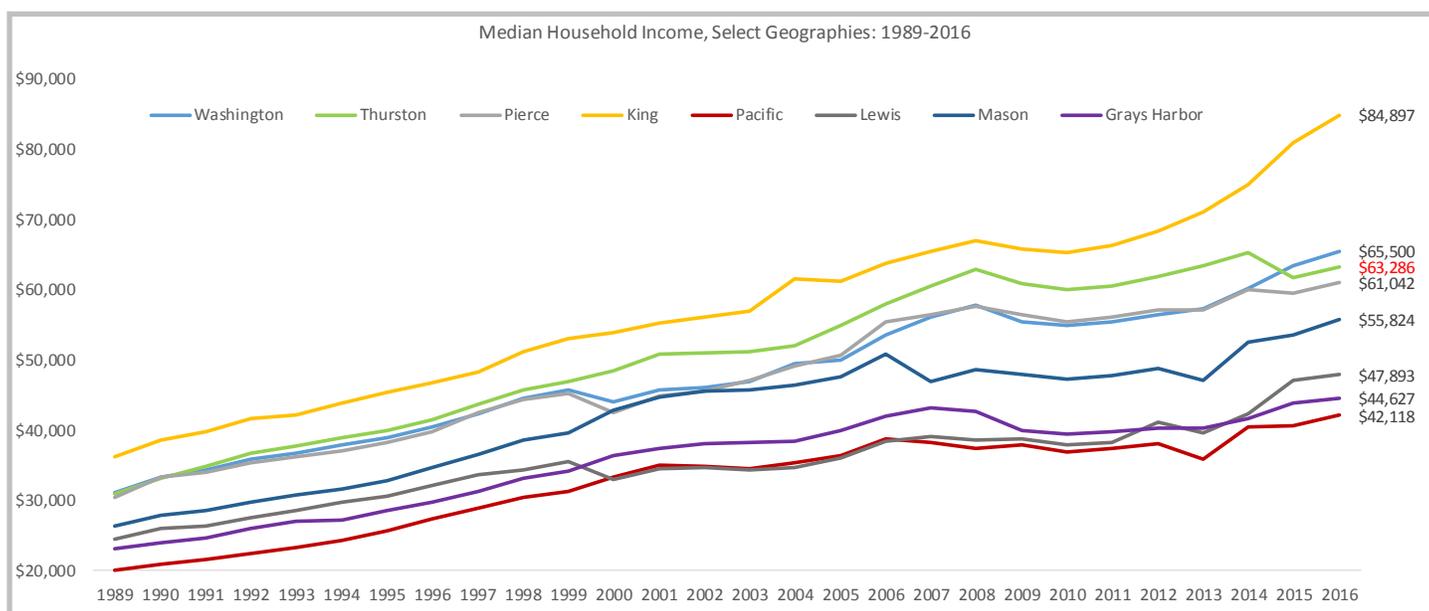
Economic development is the intentional coordination of activities that lead to diverse employment opportunities, improved quality of life and community-wide wealth generation. The Thurston Community Economic Alliance (TCEA) is a voluntary partnership of local governments, businesses, non-profits, educational institutions and economic development practitioners that collaborate on the development, implementation and review of efforts to build and maintain a dynamic economy. It is the vision of the TCEA that a coordinated regional strategy will help our local communities compete and prosper in an evolving and increasingly competitive marketplace. It will strive to extend economic opportunity to all population segments, facilitate strategic initiatives that produce regional benefits and create a structure for aligning individual and practitioner roles and responsibilities.

The TCEA will track 22 core performance indicators that provide key insights into the health of Thurston County's economy. The following charts are just a preview of the annual TCEA report that will be published by the EDC in early 2018.



THURSTON EVI HOUSING AFFORDABILITY— Median Household Income

Median Household Income, Pacific Mountain Counties, King and Pierce Counties, 1989-2016
King County continues to outpace the entire state with growth in this data element; Thurston County however, while seeing a reduction in the early part of the decade, has begun again a steady climb upwards. This can be attributed to economic diversification and the strengthening of the higher wage sectors of IT, health care and related fields.

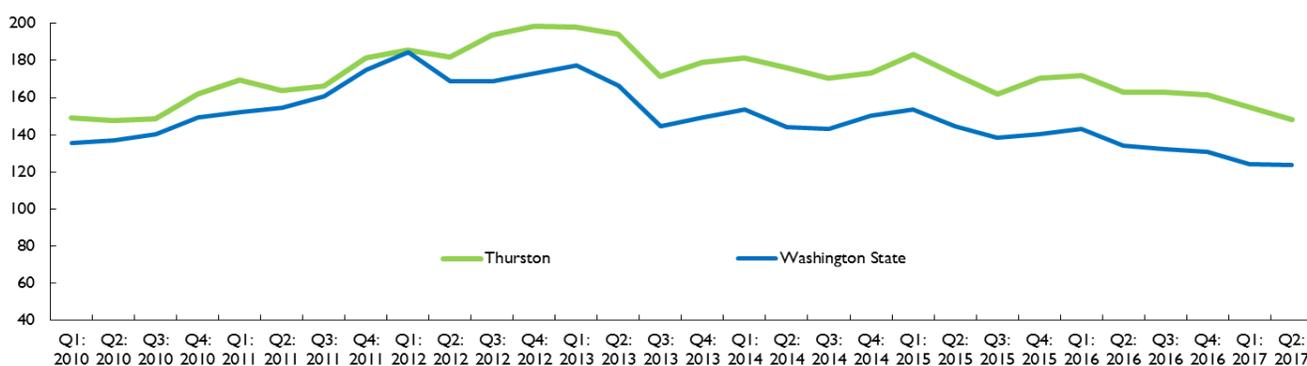


THURSTON EVI HOUSING AFFORDABILITY— Median Income Families

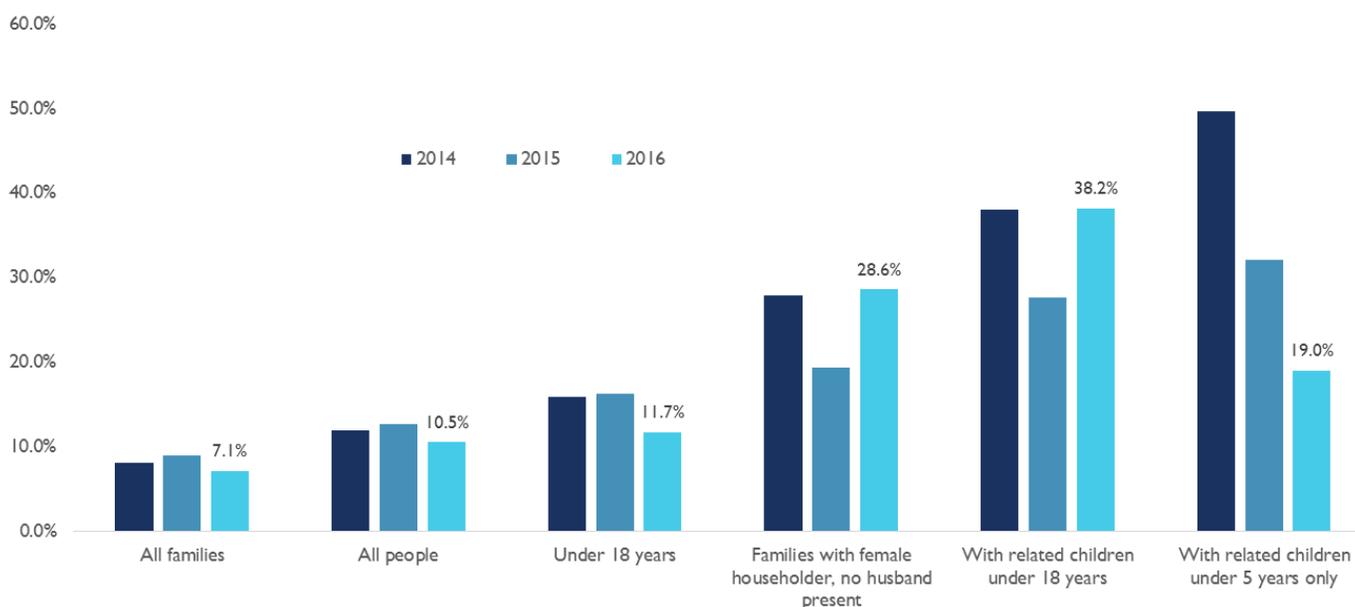


- Relatively affordable place to buy a home for the past decade for those with equity, though trending toward dangerous territory.
- More affordable than the state average with minor blips in between.
- For first-time buyers, there was a "best" time to buy between end of 2011 and second quarter of 2013.
- Wages have not increased as much as median home prices, and trending downward through second quarter of 2017.
- As of Q2 2017, and for only the second time since 2010, it's as hard to afford a first home in Thurston as statewide (influenced by King).

Housing Affordability - Middle Income Families: Q1, 2010 to Q2, 2017

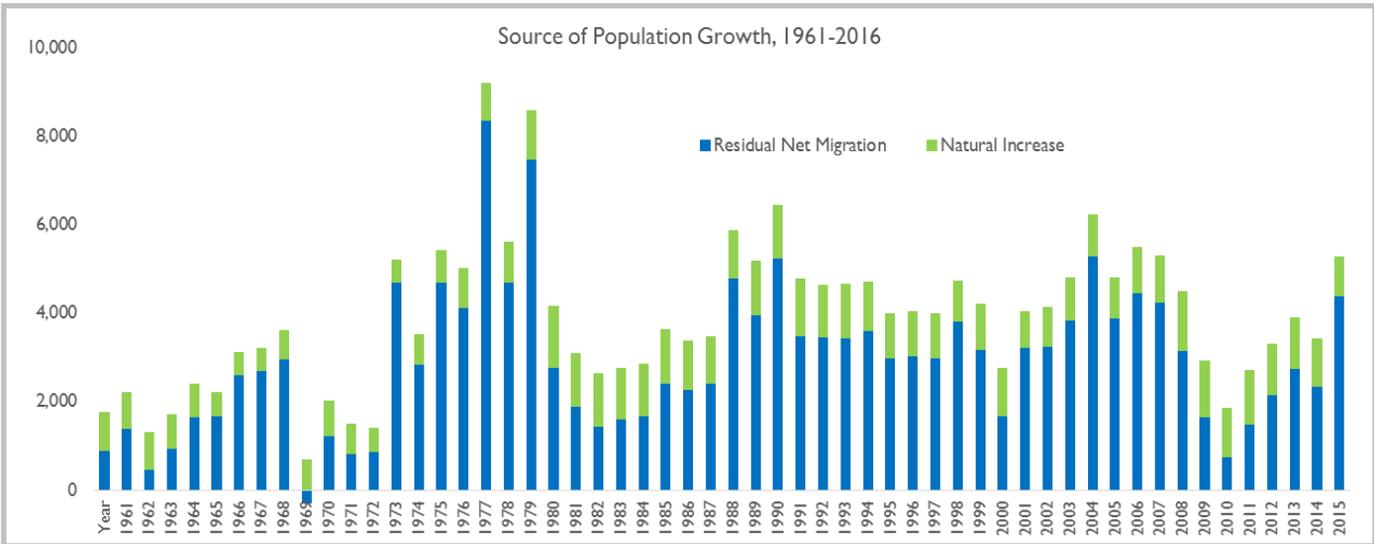


Poverty Status by Family Cohort: 2014-2016



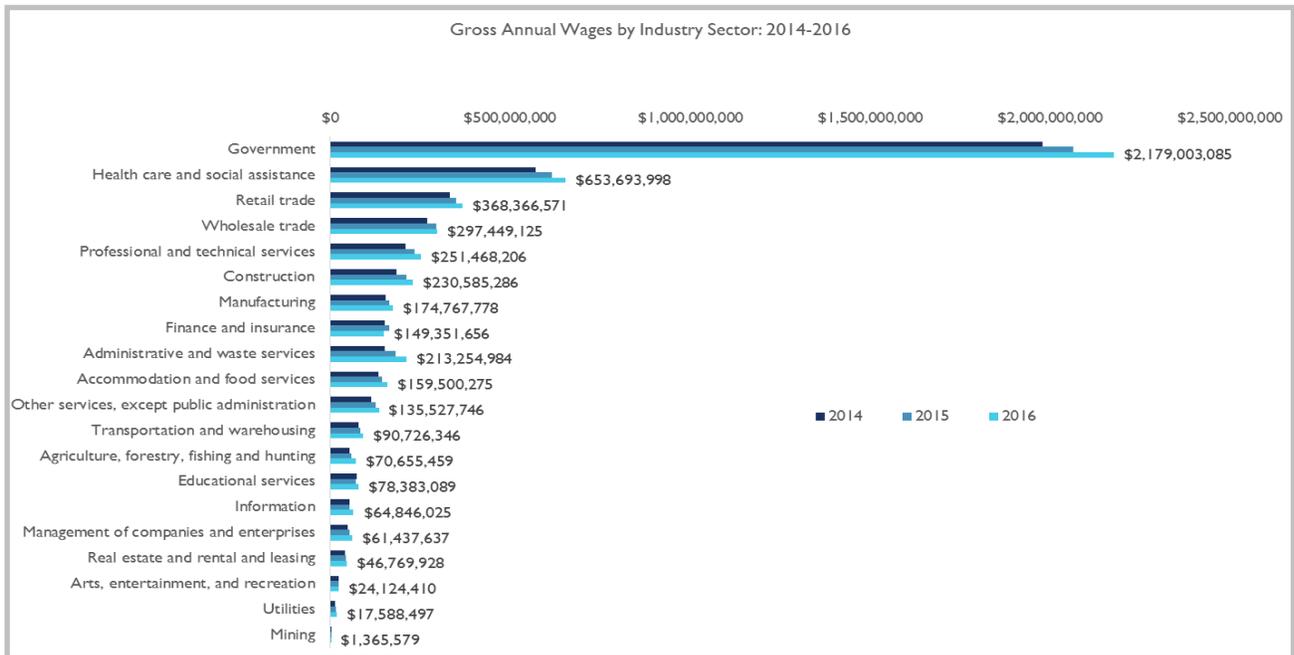
THURSTON EVI THURSTON COUNTY POPULATION— Where is the growth coming from?

- Thurston County is in the middle of a significant growth cycle again.
- Majority of growth in Thurston County is coming from people moving into the county.



THURSTON EVI THURSTON COUNTY TOTAL EMPLOYER BASE

- Excellent snapshot of the number of employers in the county
- Health care, besides the largest employer, has the largest number of employment units
- Compare this chart to wages – review the manufacturing impact?
- 94ish% of employers in Thurston County have 10 or fewer employees
- Interesting to note the reduction of employers in the health care sector – however employment in that sector continues to be strong.



THURSTON EVI THURSTON COUNTY EMPLOYMENT GAPS

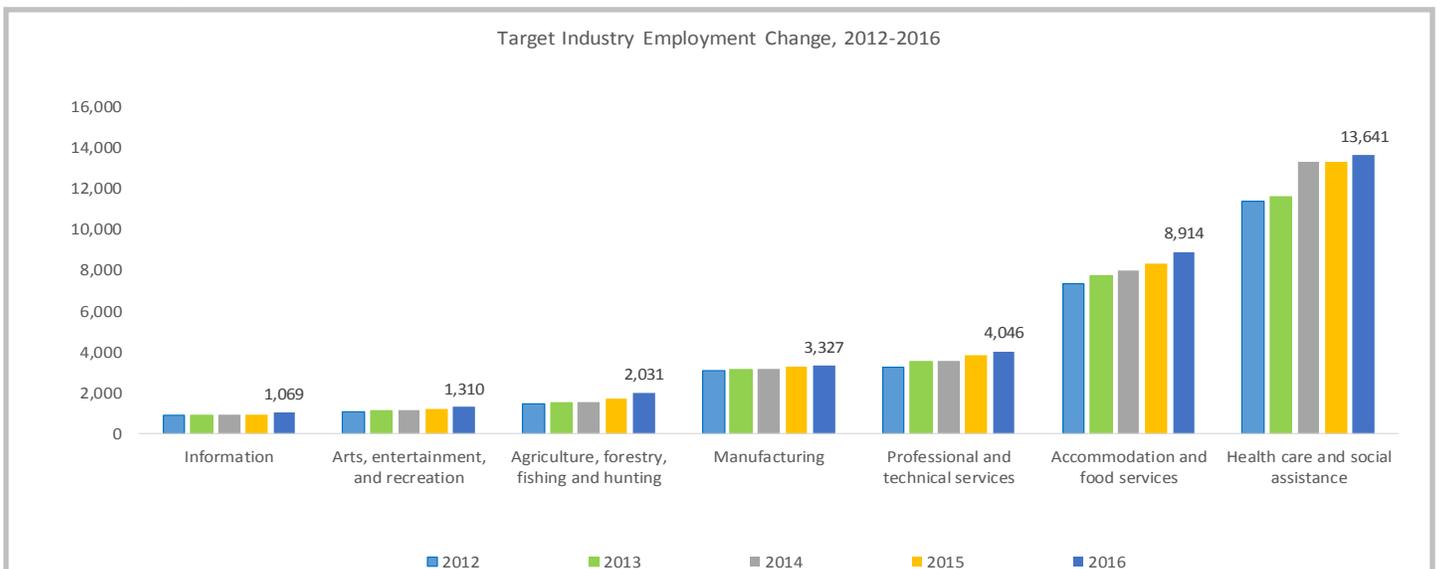
Employment Gaps, By Sector, Q2 2017

In Thurston County, state government is still the predominant employer in the economic landscape. However, the chart below demonstrates that opportunities to grow the county-wide employment resides in the sectors identified as “opportunities and gaps” such as in manufacturing, professional-scientific, wholesale and finance.



Target Industry Employment Change, Thurston County, 2012-2016

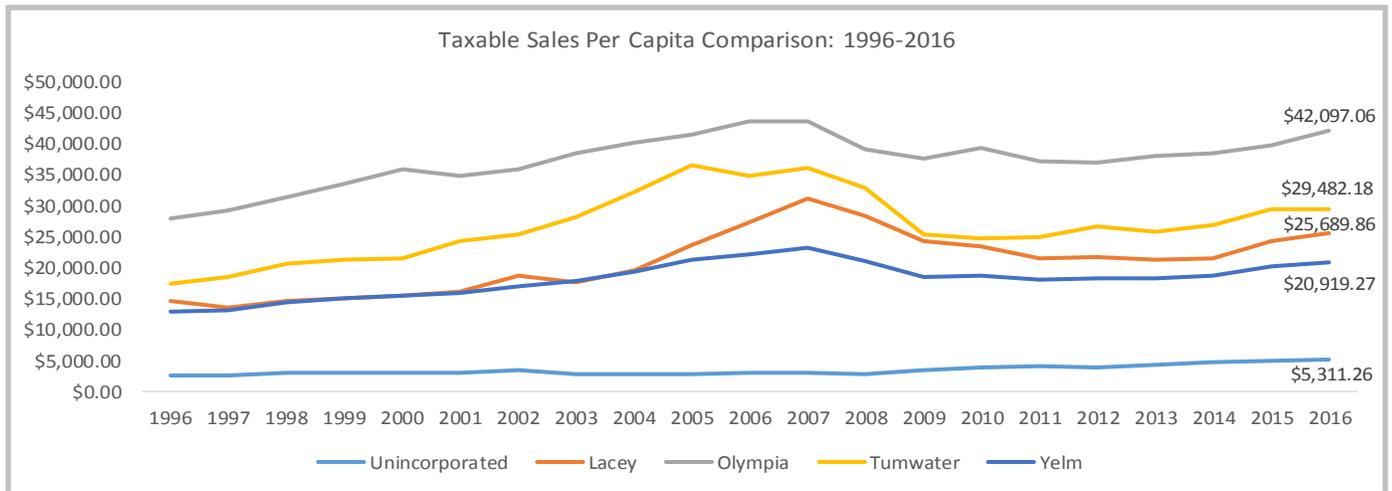
Employment trends provide insight into the overall health of Thurston County’s major economic sectors. Over the 3-year period between 2012 and 2014, employment remained stable or grew in most of Thurston County’s target industry clusters, with the most significant growth occurring in health sciences. Between 2014 and 2016 this trend continued and in fact accelerated in the three sectors of health care, accommodations, and professional services. This puts into perspective the relative economic impact that key industries have on the remainder of the local economy.



THURSTON COMMUNITY ECONOMIC ALLIANCE (TCEA) CRITICAL DATA INDICATORS

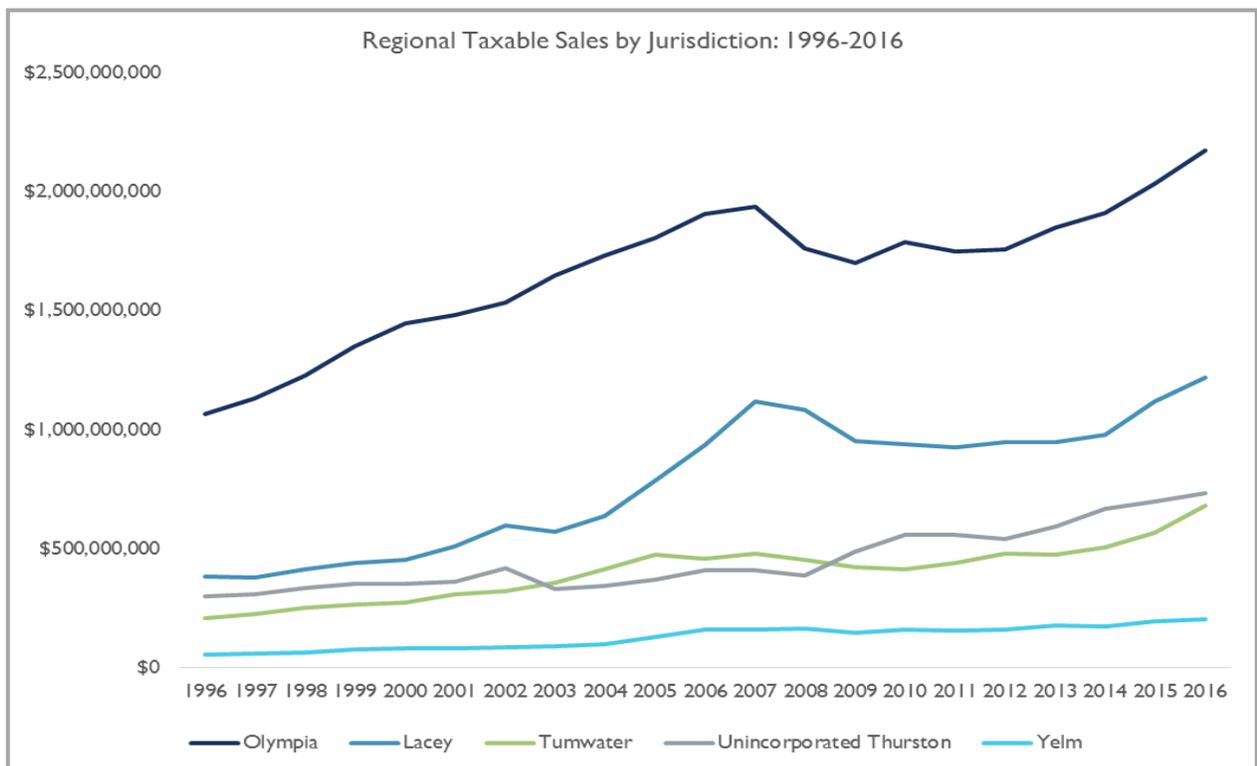
Taxable Sales Per Capita, per Thurston County jurisdiction, 1996-2016

This graph demonstrates the stress of taxable sales imposed during the latter part of the last decade, and the increased volume of activities, especially within Tumwater, outperforming in terms of real sales tax per capita growth by attracting daytime worker spending.



Taxable Retail Sales since 1996

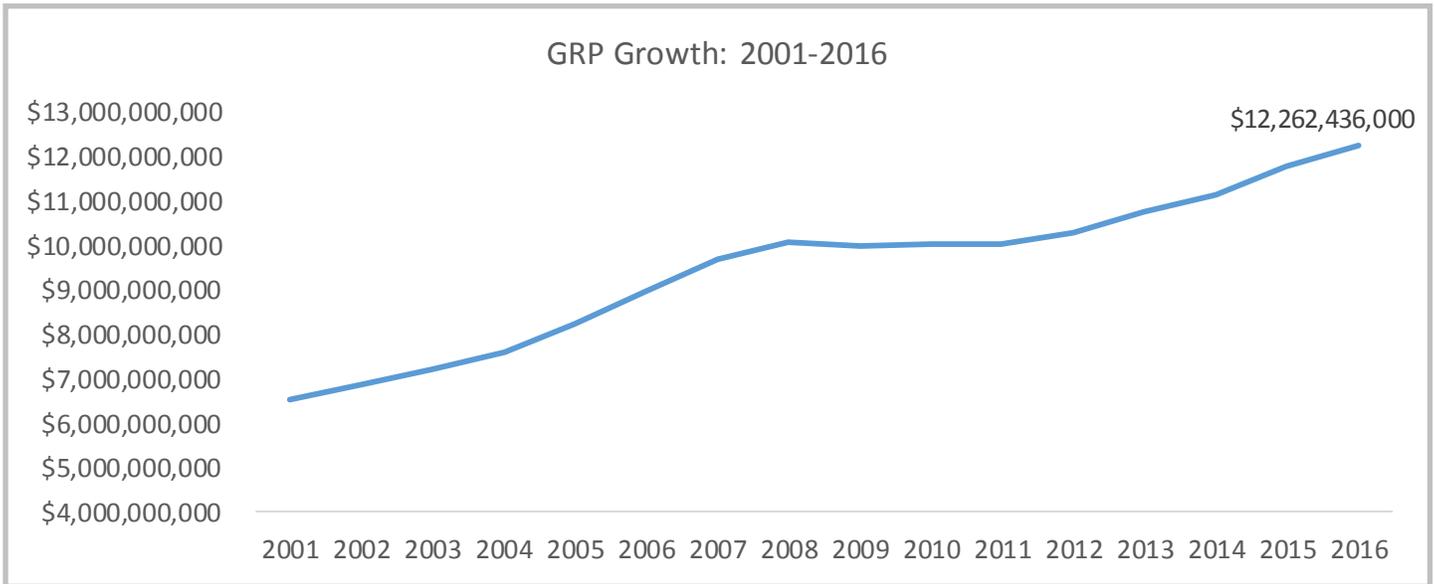
- Taxable retail sales has a very large impact upon local municipal budgets.
- Chart demonstrates very clearly the recession and climb out.
- Yelm continues to move forward steadily; Tumwater has increased dramatically these past several years; Lacey also has picked up; and Olympia is still the largest – thanks in large part to the west side mall and auto mall.



THURSTON COMMUNITY ECONOMIC ALLIANCE CRITICAL DATA INDICATORS

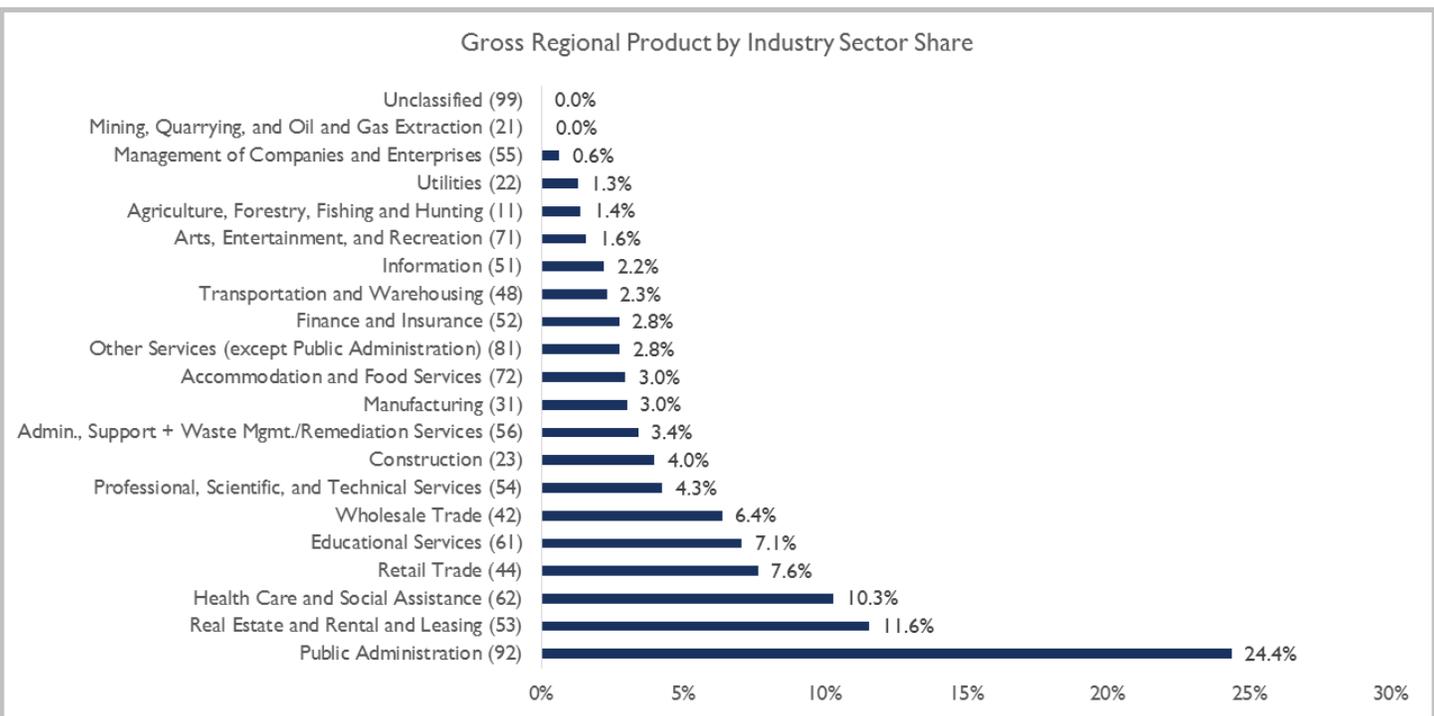
Gross Regional Product, Thurston County, 2001-2016

Emerging out of the recession at the end of the last decade, Thurston County, through efforts by economic developers, has experienced significant growth in production — including earnings, property taxes, and other economic multipliers. Additionally, it is noted that “Real Value” (graph not shown), for Thurston County real estate values has increased more rapidly than the statewide mean.



Thurston County’s Gross Regional Product is about \$12.3billion

Over the last year increased by about 3.5%; prior year increase was about 5%. Not necessarily slowing down, just taking a breather. Government, or public administration is still the largest contributor – over the course of the prior 7 years, government has grown by only approximately 3%, while private sector employers have grown well over 10% each year.





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