

THURSTON ECONOMIC DEVELOPMENT COUNCIL

ECONOMIC VITALITY INDEX 2019



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INTRODUCTION

2019 marks the 12th anniversary of the Thurston Economic Vitality Index (EVI). Our goal with the EVI is to create a tool that the public and private sectors can use to help plan their activities for the coming year. While all data has the ability to obfuscate (as well as inform), we have designed the EVI using honest and community vetted metrics that speak to the status of the health and vibrancy of our regional economy.

2019 is again showing positive movement in all data points. Thurston County continues to mirror the great economic conditions throughout Washington State and CEO confidence in the Thurston County economy, while lower than last year, is still trending positively.

Questions on this report or data related to the regional economy should be sent to:

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South Puget Sound Community College is proud to sponsor the Thurston Economic Development Council's Economic Vitality Index again this year. As a community college we are committed to the development of an economy that our students will find opportunity in as they enter into the workforce. Our robust academic programming prepares students to succeed in the local economy and partnerships like those we have

with the Thurston EDC helps guarantee a robust community for our talented students to participate within. Thank you to the Thurston EDC for a continued partnership and for aligning our work such that it manifests opportunity for all who live here.



At the **Port Of Olympia**, we are dedicated to creating a vibrant, sustainable and resilient Thurston County. The Economic Vitality Index represents an important tool that we all can use to help judge how our community is progressing and to inform us where we can still do better. This year's EVI continues to show positive growth and investment within Thurston County and we are proud to be a local partner in facilitating that growth.

THURSTON EDC EVI UPDATE¹

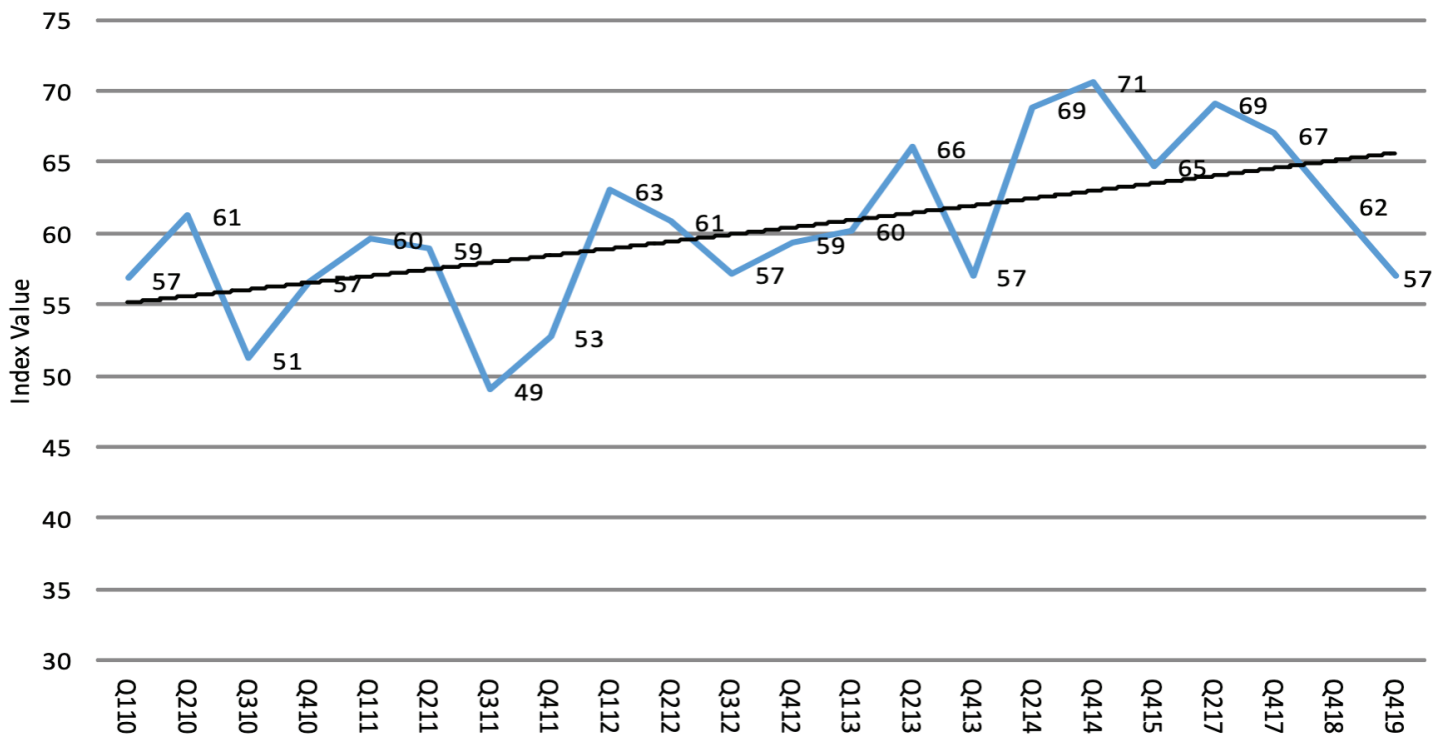
NOVEMBER 2019

This update provides an overview on economic conditions for Thurston County. 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.² Overall conditions are good and remain in positive territory.

BUSINESS CONFIDENCE INDEX

The Thurston EDC Business Confidence Index³ 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 economic 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 57 as can be seen in Figure 1 below. While this is slightly down from the fourth quarter of 2018 value of 62, there is still a positive assessment of the local economy since any reading of more than 50 points reflects more positive than negative responses. The overall direction for this index continues upward as illustrated by the trend line in Figure 1 below.

FIGURE 1. THURSTON EDC BUSINESS CONFIDENCE INDEX (2010-2019)



¹ Report provided to the Thurston Economic Development Council by Dr. Riley Moore.

² The increasing use of mobile phones over household land-line based phones has increased the difficulty and cost of obtaining local household perceptions of the state of Thurston County's economy. Thus the University of Michigan's Index of Consumer Sentiment is used as a proxy at this point.

³ Results are based on the Thurston EDC's recent email-based 'expert survey' of 90 Thurston CEOs conducted by Gene Angel, Research Manager for the Thurston EDC. Participants included in the survey were associated with the Thurston EDC, local chambers, and other entities representing a variety of industries reflective of the Thurston County economy.

As can be seen in Figure 2 below, when Thurston CEOs were asked about their overall perceptions of local economic conditions, most of the responses were in either the *moderately better* or *same* categories. When questioned about their perceptions of conditions in their own industry six months ahead, compared to now, a combined 37 percent stated that they felt conditions would be either *substantially to moderately better*. Further, 47 percent responded *substantially to moderately better* when asked about current conditions in their own industry compared to six months ago. When CEOs were asked about any expectations of profits for the next twelve months, a combined 44 percent responded that their expectations were either *substantially to moderately better*.

FIGURE 2. RESPONSES TO INDIVIDUAL QUESTIONS, THURSTON EDC BUSINESS CONFIDENCE SURVEY, NOVEMBER 2019.

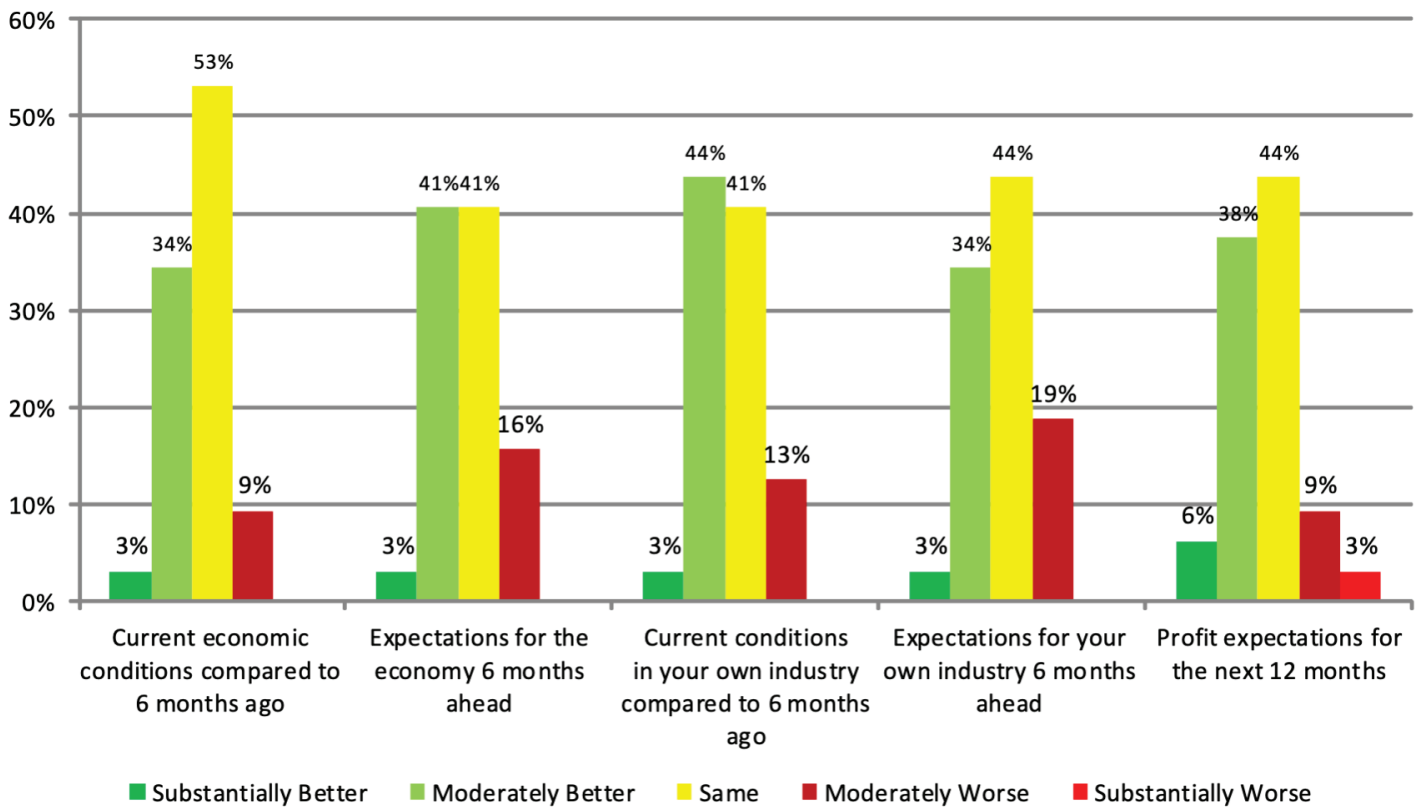
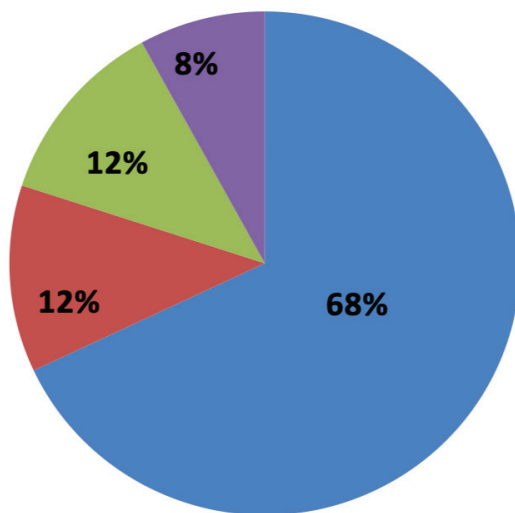


FIGURE 3. SOURCE OF PROFITS, IF EXPECTED, THURSTON EDC BUSINESS SURVEY, NOVEMBER 2019.



Respondents were then asked if profits were expected over the next twelve months, where did they anticipated them coming from. As can be seen in Figure 3 below, the predominant response was from an increase in *market demand and growth* at 68 percent for all respondents. It is interesting to note that only 12 percent felt they would need to raise their prices.

- Market/demand growth
- Cost reduction
- Price increase
- New technology

LEADING INDICATOR INDEX

This composite leading index for Thurston County is based on five public indicators deemed to be good measures and proxies for Thurston County.⁴ The index currently stands at 123.5. Further, Table 1 also shows the specific values for the last twelve months.

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 while the overall index is continuing its upward trend there appears to be somewhat of a stabilization or flattening out of the index of this last year.

FIGURE 4. THURSTON EVI - LEADING INDICATORS INDEX (2008-2019)

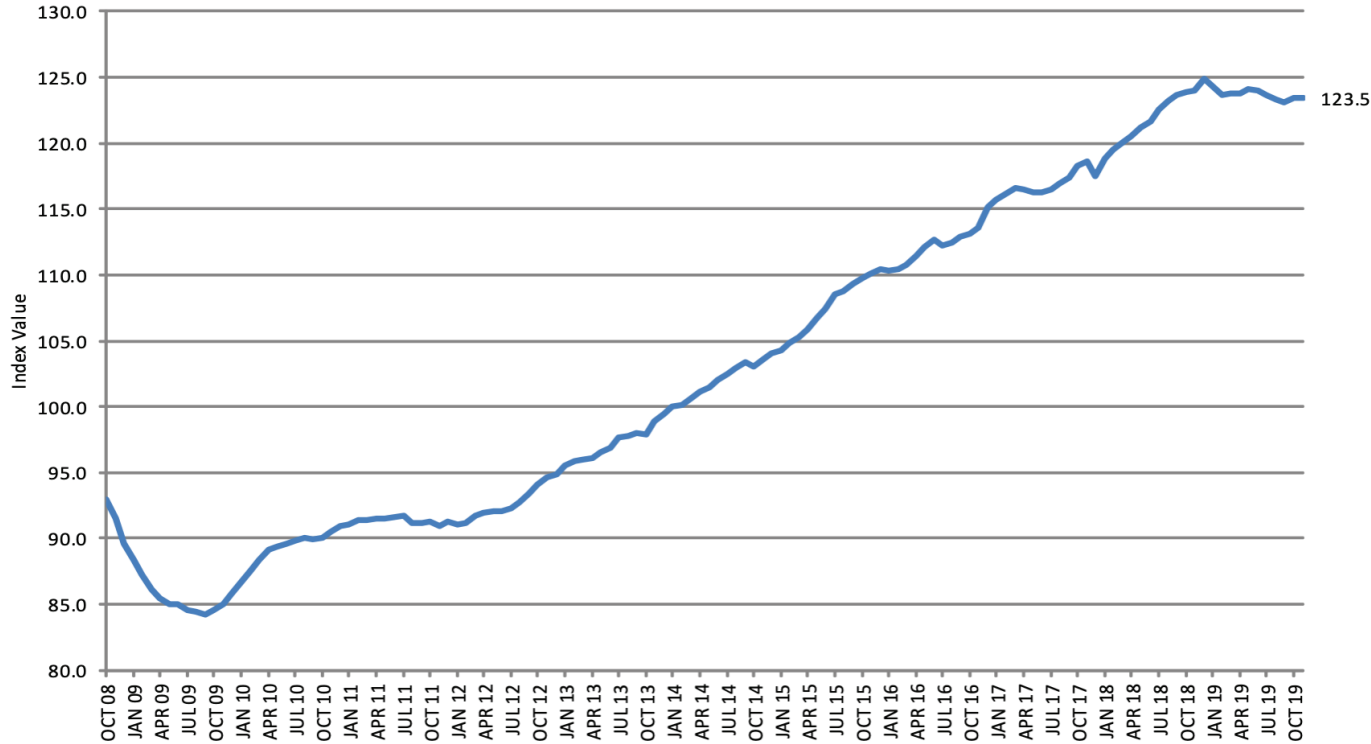


TABLE 1. THURSTON EVI - LEADING INDICATORS INDEX, MONTHLY VALUES (LAST 12 MONTHS)

NOV 18	DEC 18	JAN 19	FEB 19	MAR 19	APR 19	MAY 19	JUN 19	JUL 19	AUG 19	SEP 19	OCT 19	NOV 19
124.0	124.9	124.3	123.7	123.7	123.8	124.1	124.0	123.7	123.3	123.1	123.4	123.5

CONCLUSIONS

In summary, conditions for Thurston County, based on the indicators discussed above, remain good and in positive territory. There is no doubt that all the uncertainty surrounding national, as well as international, economic and political events are influencing the stabilization of some of the indicators over this last year.

Local business CEOs remain positive with the Thurston EDC Business Confidence Index currently standing at 57. Again, any number over 50 reflects the fact that there were more positive than negative responses on perceptions of the state of the local economy and their particular industries. CEO responses to individual survey questions also fell mostly in the same to moderately better categories. Further, of those that expected profits, over the next year, 68 percent stated that growing local demand would be the main driver.

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 eleven years.

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 in the past.

As can be noted, the UM index now stands at 96.8 for November 2019 which is slightly down from 97.5 the same time last year. However, note that the index still follows an overall upward trend. Further, Table 2 below shows how the index value has varied over the last 12 months.

FIGURE 5. UM INDEX OF CONSUMER SENTIMENT (2008-2019)

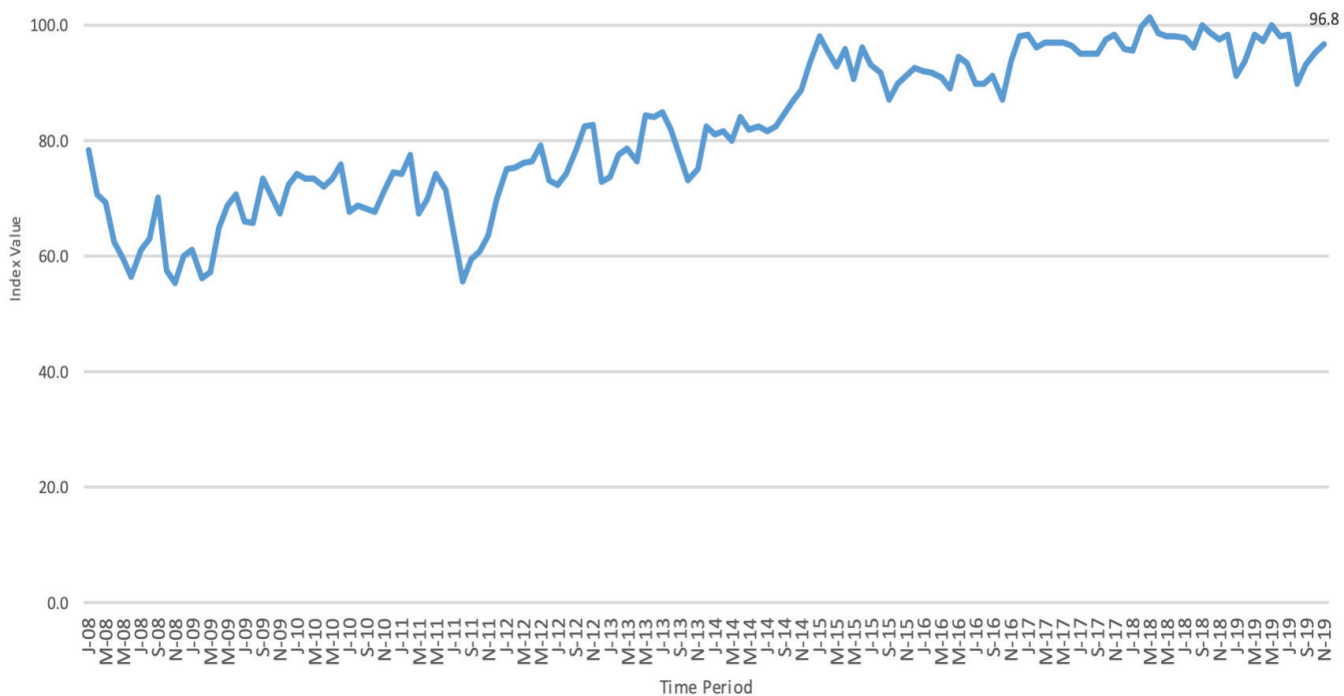


TABLE 2. UM INDEX OF CONSUMER SENTIMENT, MONTHLY VALUES (LAST 12 MONTHS)

NOV 18	DEC 18	JAN 19	FEB 19	MAR 19	APR 19	MAY 19	JUN 19	JUL 19	AUG 19	SEP 19	OCT 19	NOV 19
97.5	98.3	91.2	93.8	98.4	97.2	100	98.2	98.4	89.8	93.2	95.5	96.8

Household perceptions, represented by the consumer sentiment index, is important since household expenditures have averaged around 70 percent of the national GDP and thus are a major economic driver. While the consumer sentiment index has bounced around over the last twelve months, the overall strength of the U.S. economy and labor market, going into the holiday season, likely is driving the index back upward and near the top of its range for the last eleven years. Finally, the EVI Leading Composite Index, while also stabilizing somewhat

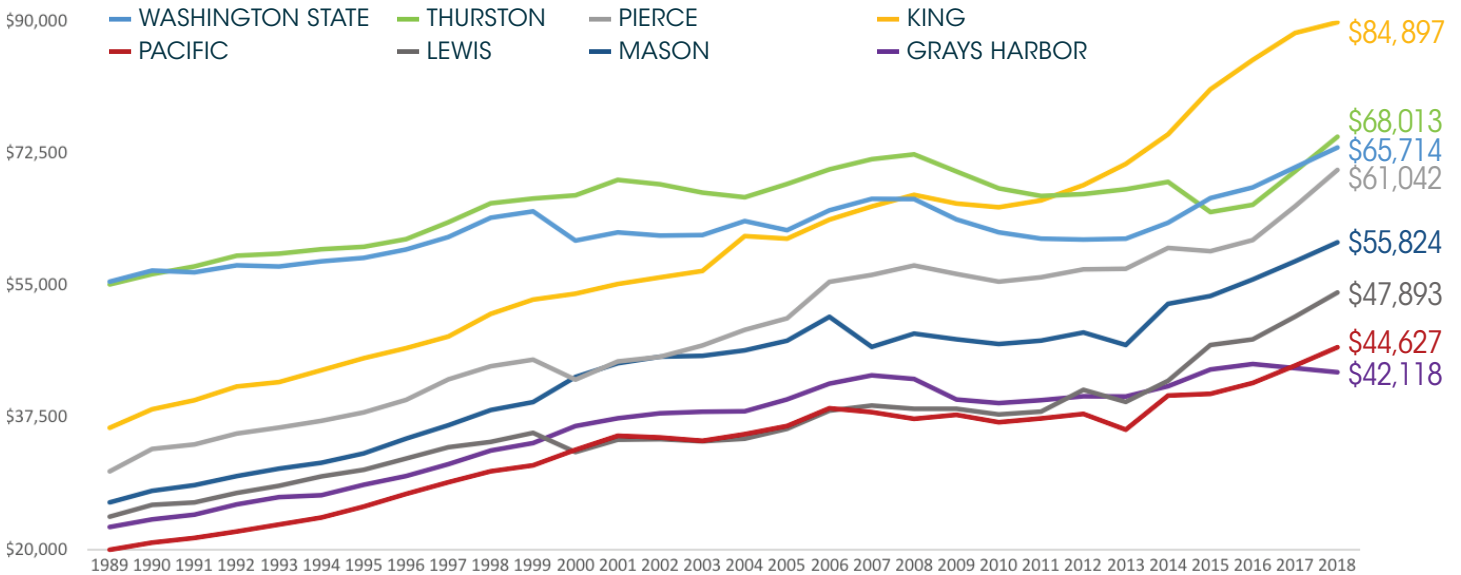
over the last year, continues its overall upward trend. With Thurston County incorporating the seat of Washington State’s government and being in close proximity to the military JBLM complex, it benefits from both strong state and national fiscal stimulus variables that provides stability to our local economy. Further, the close proximity of major private sector global corporations (such as Amazon, Boeing, Microsoft, Starbucks, and Weyerhaeuser) also bodes well for the county as additional strong economic drivers for Thurston’s continued overall positive trends this year.

MEDIAN HOUSEHOLD INCOME

PACIFIC MOUNTAIN COUNTIES, KING & PIERCE COUNTIES, 1989 -2018

King County continues to lead the state in median incomes and is a significant contributor to the rise of the state average. After a brief drop earlier in the decade, Thurston County has continued to rise and has now surpassed the state average.

MEDIAN HOUSEHOLD INCOME, SELECT GEOGRAPHIES: 1989-2016



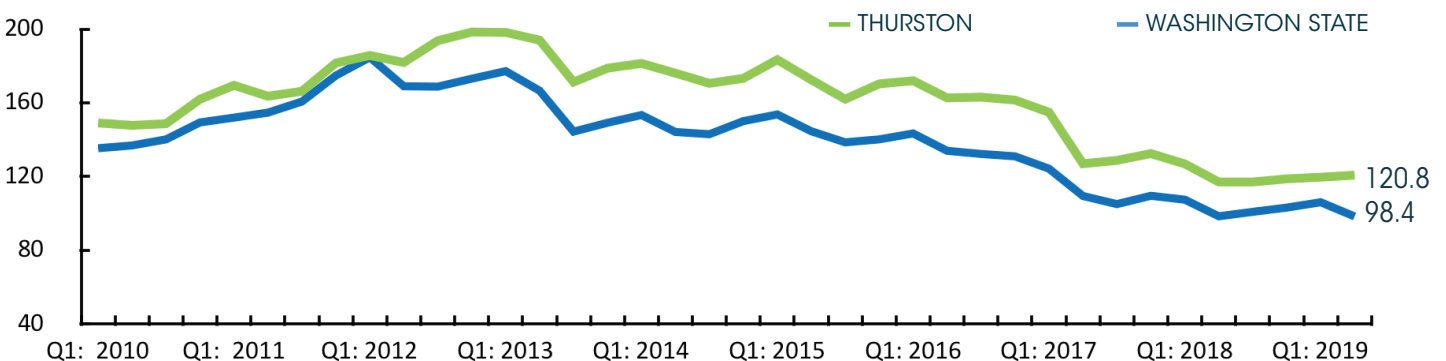
Source: WA State Office of Financial Management, US Bureau of the Census, American Community Survey via Thurston Regional Plan

HOUSING AFFORDABILITY

The housing affordability index we publish is developed by The University of Washington’s Center for Real Estate Research (WCER) and details to us changes in housing affordability over time. This index compares median housing prices with median income wage earners to assess affordability. A value of 100 or higher represents a community where housing prices and median wages are in parity. A value of less than 100 are considered to be less affordable for median wage earners.

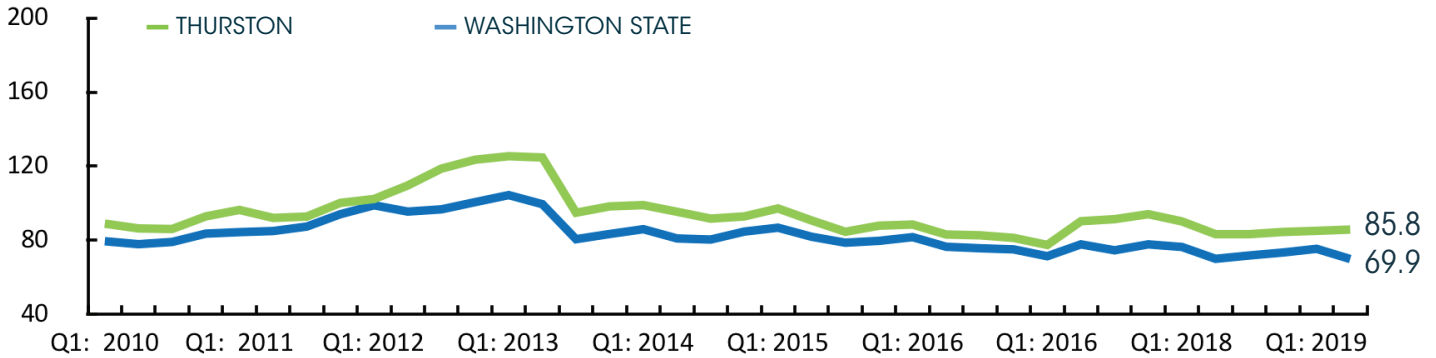
Housing within Thurston County is still seen as affordable for the median earner, but trends over the last five years have seen continued declines in affordability. While home ownership opportunities still exist within Thurston County, prices are likely to become less and less affordable for median earners as easily developable land in urban communities declines.

HOUSING AFFORDABILITY – MIDDLE INCOME FAMILIES: Q2, 2010 TO Q2, 2019



Home ownership for first-time buyers is significantly more challenging. With an index ranking of 85.8, first-time home owners are much less likely to be able to afford a home in the Thurston County market making it a challenging community for individuals hoping to transition from renting to home ownership.

HOUSING AFFORDABILITY – FIRST TIME BUYERS: Q1, 2010 TO Q2, 2019



Source: University of Washington, Washington Center for Real Estate

DID YOU KNOW?
LAST YEAR, THE THURSTON EDC...

\$76 MILLION

Generated a \$76 million increase in economic production

Created and retained 553 jobs

553 JOBS

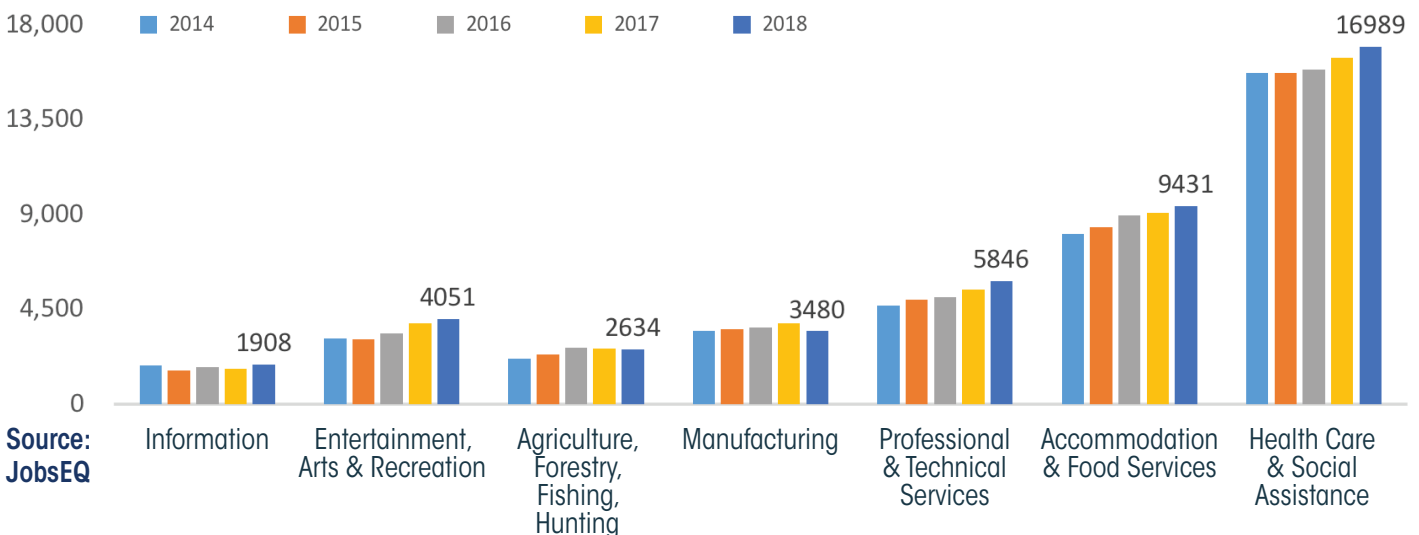
Facilitated \$30.9 million in new employee income

\$31 MILLION

INDUSTRY EMPLOYMENT CHANGE

Growth throughout the Thurston County employment base has continued to be strong. High wage jobs in health care and professional services have continued to show strong growth. Demand for food service jobs is also growing as new high wage jobs in the local economy continue to increase demand for services. Manufacturing and agriculture saw significant decreases in employment this year while the IT sector has essentially remained flat over the past five years.

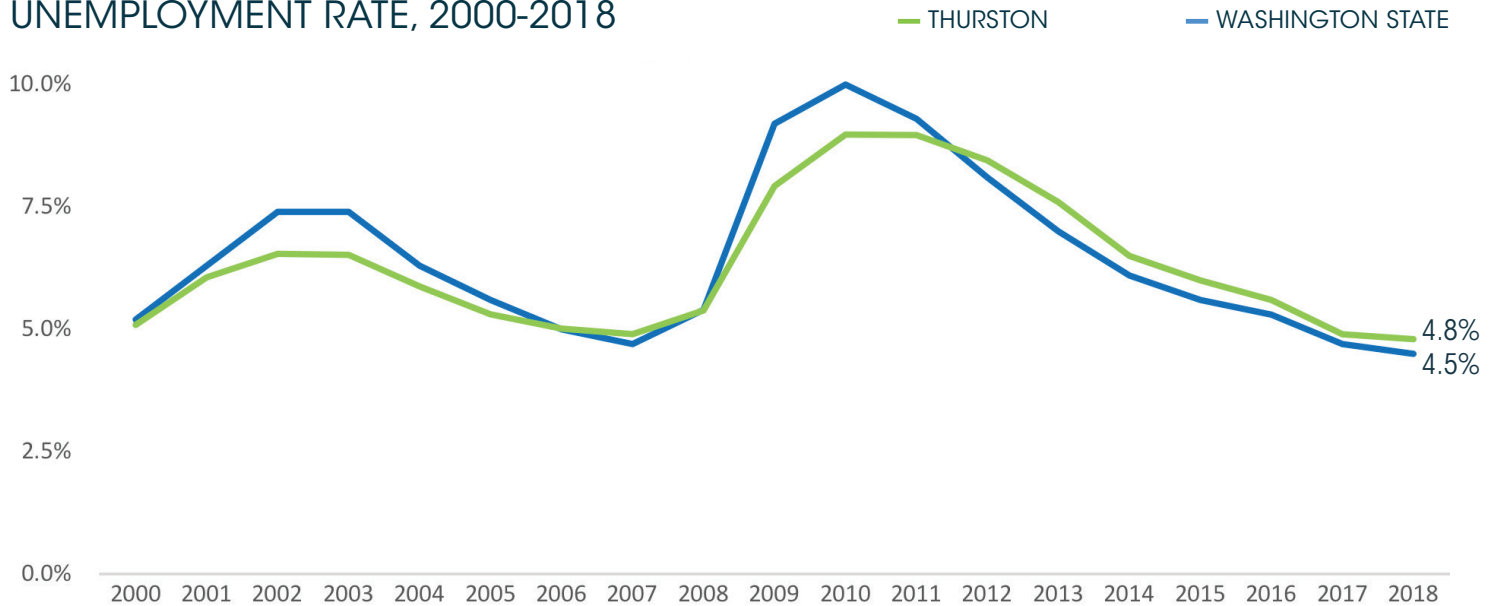
TARGET INDUSTRY EMPLOYMENT CHANGE, 2012-2018



UNEMPLOYMENT RATE

A low unemployment rate demonstrates that those individuals that are currently looking for employment are able to find opportunities for themselves. The Thurston County unemployment has mirrored the general economic conditions throughout the state and currently is resting at 4.8%, the lowest unemployment rate Thurston County has seen in the last eighteen years.

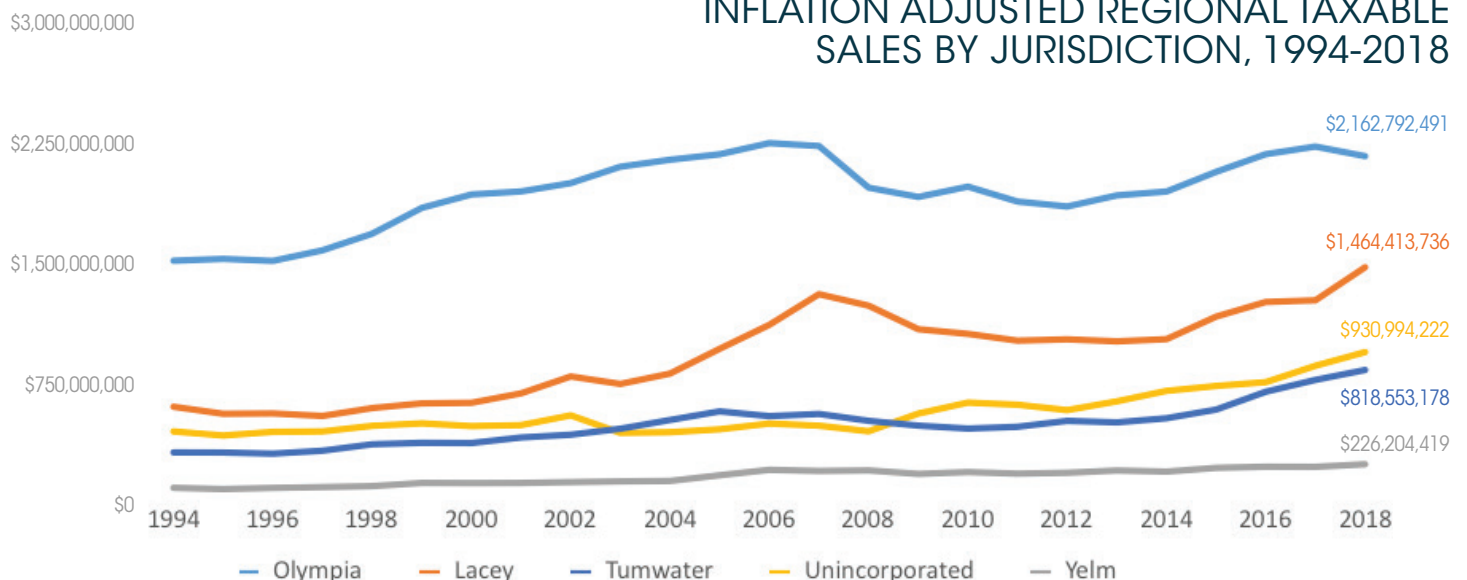
UNEMPLOYMENT RATE, 2000-2018



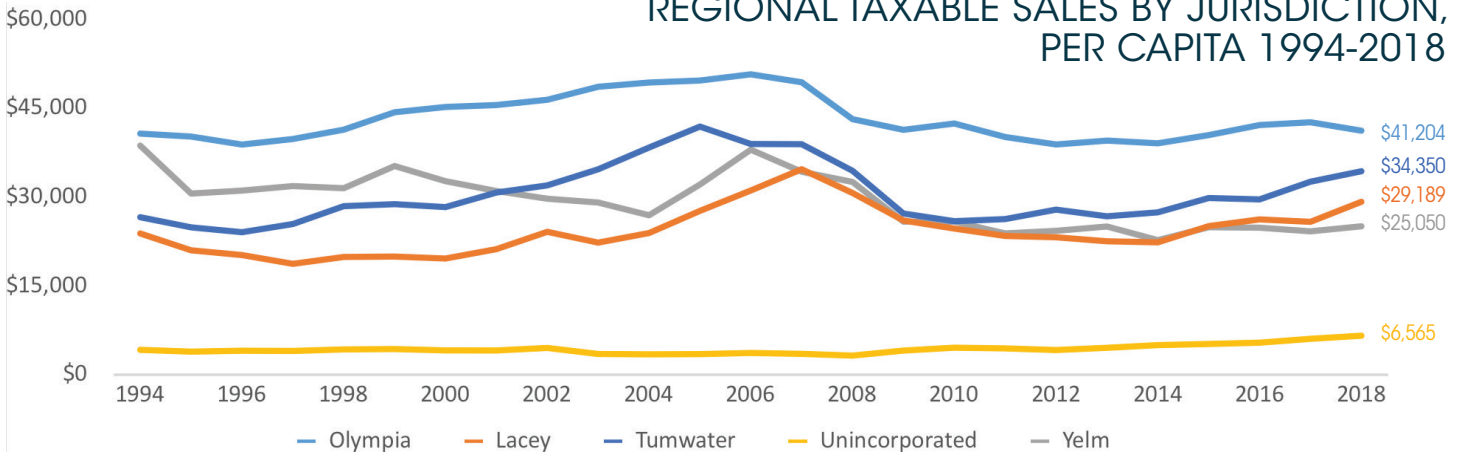
TAXABLE RETAIL SALES

The two graphs below show taxable retail sales by jurisdiction between the years of 1994 and 2018. As an economy grows, so does its public revenue generation. All data is inflation-adjusted and displayed in 2018 dollars. Per capita growth remains consistent or flat in all Thurston County jurisdictions. Increased per-capita growth indicates that increases in taxable sales aren't exclusively attributable to population growth and could represent changes in discretionary incomes and/or additional local purchasing by residents.

INFLATION ADJUSTED REGIONAL TAXABLE SALES BY JURISDICTION, 1994-2018



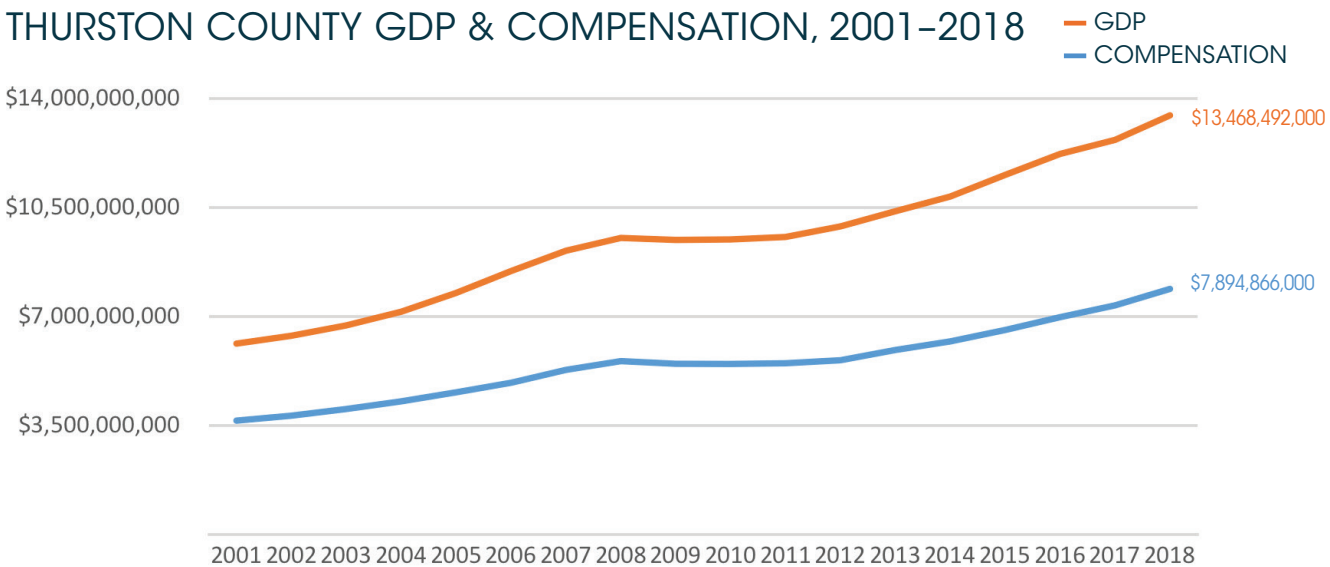
REGIONAL TAXABLE SALES BY JURISDICTION, PER CAPITA 1994-2018



GDP AND COMPENSATION

Gross regional product and compensation continue to show strong signs of growth and have consistently mirrored each other in Thurston County. GRP is currently at an all-time high of \$13.5 billion USD.

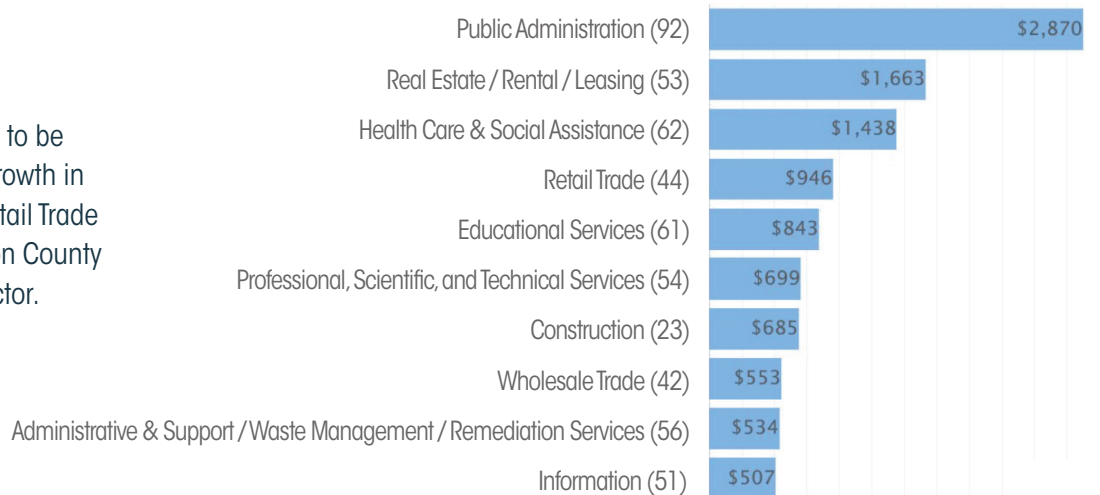
THURSTON COUNTY GDP & COMPENSATION, 2001-2018



GDP BY INDUSTRY

GDP (IN \$ MILLIONS) THURSTON COUNTY, WASHINGTON, 2018

Public Administration continues to be the largest sector by GDP, but growth in Real Estate, Health Care and Retail Trade continue to diversify the Thurston County economy beyond the public sector.



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