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A Difficult Recovery

Recessions and recoveries come in all shapes and sizes. The Boeing Bust (1969-71) was a classic V-shaped recession. After falling steeply for two years, Puget Sound employment came roaring back, advancing at a 4.5 percent annual rate over the next three years.

The Fed Slam (1981-82) was triggered by a tightening of monetary policy to combat inflation. The recession and recovery were over quickly (10 quarters). But the unemployment rate stayed above 10 percent, prompting President Reagan and Congress to cut taxes and increase domestic spending. Energized by the fiscal stimulus, the national economy expanded rapidly for the rest of the 1980s. The Puget Sound region added 400,000 jobs.

Because the Dot Com-9/11 recession (2001-03) had two distinct phases, the regional downturn lasted ten quarters. The recovery also took ten quarters, as employment grew at a sluggish 2.0 percent rate because of a listless national economy. The region went five years without creating on net one single job.

Summary Forecast

Annual Percent Change

	2008	2009	2010	2011
Puget Sound Region				
Employment	0.9	-4.9	-0.7	1.9
Personal income (cur. $)	3.1	-2.0	3.0	5.2
Consumer price index	4.3	0.6	0.6	1.8
Housing permits	-43.0	-49.9	30.5	22.8
Population	1.4	1.5	0.9	0.8
United States*				
GDP ($05)	0.4	-2.4	3.2	3.1
Employment	-0.6	-4.3	-0.5	1.7
Personal income (cur. $)	2.9	-1.7	3.2	5.1
Consumer price index	3.8	-0.3	2.0	1.9
Housing starts	-32.9	-38.5	24.5	36.7

*Source: Blue Chip Economic Indicators

The Puget Sound region added 3,600 jobs in the first quarter of 2010, the first solid sign that the Great Recession (2008-09) has ended. But it now faces a recovery beset with problems: a cautious consumer, lingering difficulties in the housing and credit markets, a surplus of residential and business structures, belt-tightening by state and local governments, financial problems in Europe, and the waning impact of the federal fiscal stimulus.

It will take 14 quarters—until mid-2013—before the region has recouped the 133,800 jobs lost during the recession. Even then the unemployment rate will still register 7.2 percent.

Regional Outlook

The bottom of a hole.

Imagine that it is December 2000. You are standing on a hill trying to gaze into the future. If we had told you that Puget Sound employment was about to fall so hard that it would not fully recover until October 2005, you would have shook your head and cancelled your newsletter subscription. What conceivable scenario could halt job growth for five years? How about a dot-com blow-up and two commercial jets slamming into the Twin Towers? Or, an exploding housing bubble and a credit freeze?

It is mindboggling that the nation and region are suffering the second destructive recession in less than ten years. Is it a run of bad luck or did we do something wrong? Testifying before Congress, Warren Buffet recently said that everyone—homebuyers, lenders, investors, bond raters, regulators, and economists—had a hand in the collapse of the housing and credit markets that brought on the Great Recession. His observation is true, but it begs a crucial question: who should have been minding the store? A few hedge fund operators foresaw the impending disaster, but they kept quiet while shorting the housing market.

The latest statistics confirm that during the Great Recession the Puget Sound region suffered a deeper downturn than the nation. From peak

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Regional Outlook

to trough, employment fell 7.2 percent in the region, compared to 6.0 percent nationally. Accounting for the difference was the big tumble taken by the Puget Sound housing market. Racked by an 81.4 percent plunge in housing permits, a 62.7 percent fall in home sales, and a 19.1 percent decline in home prices, construction lost 43,500 jobs (33.1 percent of the industry total), while financial activities lost 13,600 jobs (12.5 percent), including 3,400 due to the failure of Washington Mutual Bank.

But there is mounting evidence that the Great Recession has finally ended. After losing 133,800 jobs over a seven-quarter period, the Puget Sound economy added 3,600 jobs in the first quarter of 2010.

A related sign that the economy has halted its slide is how flat employment has become across industries. Led by computer systems design and employment services (temporary workers), professional and business services experienced the biggest absolute gain in jobs between the fourth quarter of 2009 and the first quarter of 2010. However, the increase amounted to only 2,100 jobs (0.9 percent). Not surprisingly, the biggest quarterly decline, totaling 1,800 jobs, occurred in construction. But after nearly two years of slashing 6,000 jobs per quarter, this constituted a marked improvement.

Even the National Bureau of Economic Research, the official monitor of U.S. economic cycles, might conclude that the recession has run its course. But, in another sense, the recession is far from over. Output may be expanding, businesses may be hiring, and the unemployment rate may be dropping a tenth or two, but the labor market is still stuck at the bottom of a deep hole. The number of unemployed people is staggering: 15,000,000 in the United States and 175,000 in the Puget Sound region. Clearly, the economy will have to toil hard and long before it returns to anything like normal.

A brief history of past recoveries gives some insight into what the next phase of the Great Recession has in store for us.

Past recoveries.

Boeing Bust. In the worst recession since the Great Depression, the region lost one-eighth of its employment, elevating the jobless rate to 12.2 percent. And it could have been worse.

When airplane orders dried up in 1969, Boeing was forced to lay off 64,000 employees. Based on the aerospace multiplier, the total impact on the economy should have amounted to at least twice that number. Instead, the region lost 87,700 jobs because of the strength of Puget Sound's other exporting industries. At the time, the United States, the biggest market for regional exports, was growing at a 4 percent annual rate. A simple calculation indicates that employment in the parts of the regional economy not being dragged down by Boeing was growing at a 3 percent rate.

Thus, when the airplane maker hit bottom in the third quarter of 1971, regional employment surged ahead, expanding at a 4.5 percent annual rate over the next three years. Given the great depth of the recession, it took three years to achieve full recovery.

Fed Slam. The 1980s witnessed an amazing display of monetary and fiscal policy. In an attempt to rein in double-digit inflation, the Federal Reserve greatly restricted the growth of the money supply, sending interest rates to their highest level since the Civil War. The mortgage rate almost hit 18 percent, causing the housing market to crash.

The downturn cost the Puget Sound region 3.1 percent of its employment, a total of 30,000 jobs. This included 5,600 jobs in construction, 7,200 in forest products and other durable manufacturing, and 7,800 in aerospace. Boeing became a casualty of the recession because of a slowdown in air travel.

The region was totally out of the woods in ten quarters, but the nation lingered another year. In the

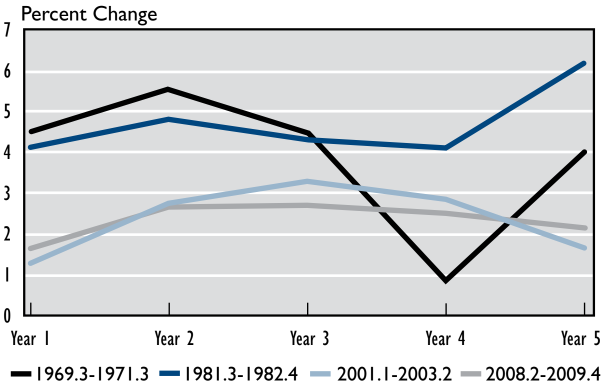
Puget Sound Recessions and Recoveries

Employment Change

	Boeing Bust 1969.3-71.3	Fed Slam 1981.3-82.4	Dot Com-9/11 2001.1-03.2	Great Recession 2008.2-09.4 *
Recession				
Peak to trough (quarters)	9	6	10	7
Employment growth rate (%/yr.)	-5.7	-2.1	-1.9	-4.2
Total employment change (%)	-12.4	-3.1	-4.8	-7.2
Peak unemployment rate (%)	12.2	11.1	7.0	9.0
Recovery				
Trough to full recovery (quarters)	12	4	10	14
Employment growth rate (%/yr.)	4.5	3.2	2.0	2.2
Total employment change (%)	14.2	3.2	5.0	7.8
Ending unemployment rate (%)	6.4	9.1	4.8	7.2

*Dates of recessions from peak to trough.

Puget Sound Recoveries
Employment Change*



*Year after the end of the recession.

end, the Fed managed to reduce the inflation rate from about 16 percent to 4 percent but left the national economy with an unemployment rate heading toward 11 percent.

A big shot of fiscal stimulus—tax cuts coupled with a hike in spending—quickly restored health. The nation took off on an eight-year expansion that created 20,000,000 jobs and cut the jobless rate in half. The region's share of the bounty came to more than 400,000 jobs or nearly one-fourth of our total employment today.

Dot Com-9/11. Nationally, the Dot Com recession in 2001 was short, shallow, and over before anyone knew it had started. Despite another round of federal tax cuts and a build-up in military spending, the nation grew sluggishly for the next two years in what was known as the "jobless recovery."

In the Puget Sound region, because of its high concentration of software, internet, and telecommunications companies, the Dot Com recession would have caused a moderate but manageable downturn. Microsoft was continuing its uninterrupted expansion and Boeing was hiring again after a cyclical slump. But fate had one more card to deal: September 11. Because of the financial damage to airlines and a drop in airplane orders, Boeing had no choice but to cut airplane production and send 25,000 workers packing. The combined dot com-9/11 impact cost the region 82,200 jobs (4.8 percent of its employment) over a two and one-half year period.

Due to the tepid growth of the U.S. economy, it took another two and one-half years for the region to fully recover. Thus, it was not until October 2005 that regional employment returned to the level that it had attained in December 2000.

Coming next.

As the U.S. economy tries to lift itself off the bottom of the Great Recession, what sectors will lead the way? Here is a clue to the answer: it is not reassuring. The now thrifty consumer? Unlikely. Investment? Possibly equipment and software. State and local government? Definitely not. The federal government? Only if the President and Congress are willing to ignore the federal debt. Exports? A qualified yes.

Unfortunately, the potential leading sectors account for only one-quarter of U.S. Gross Domestic Product. This implies that the employment recovery rate nationally will average about 2 percent per year.

The fact that both the region and the nation had first-quarter upturns in employment indicates that the two economies are back in sync. Therefore, with neither Boeing nor Microsoft in much of a hiring mood, the two economies are likely to emerge from the recession in a similar fashion.

On an annual basis, regional employment will decline 0.7 percent in 2010. But jobs will increase throughout the year. Apart from a temporary lift provided by an estimated 5,000 census-takers, employment will follow a path of accelerating growth through 2011. By the fourth quarter of 2011, regional jobs will be increasing at a 3.2 percent annual rate, the expected peak growth rate of the recovery.

During the recovery period, which is projected to last fourteen quarters, employment will increase at a 2.2 percent annual rate, personal income will rise at a 5.1 percent rate, and the inflation rate, as measured by the Seattle Consumer Price Index, will average 1.9 percent (see the forecast tables on our web site). The recovery is forecast to end in the second quarter of 2013. That quarter will also mark the close of the second five-year period since 2000 with no net employment growth.

Forecast Probabilities

Shot in the arm	25 percent
Baseline	60 percent
Double-dip recession	15 percent

Alternative Scenarios
Annual Percent Change

	2009	2010	2011
Shot in the arm			
Employment	-4.9	-0.4	2.7
Personal income (cur. $)	-2.0	3.4	6.1
Consumer price index	0.6	1.2	2.0
Housing permits	-49.9	50.0	34.1
Population	1.5	1.1	1.2
Double-dip recession			
Employment	-4.9	-0.9	0.8
Personal income (cur. $)	-2.0	2.8	4.0
Consumer price index	0.6	0.6	1.6
Housing permits	-49.9	9.0	14.1
Population	1.5	0.8	0.6

Retail Sales

Gathering momentum.

Last quarter we described our retail sales forecast as representing a "new day for retailers," following a period of unprecedented sales declines. This depiction is still apt and the most recent figures confirm that recovery is indeed underway.

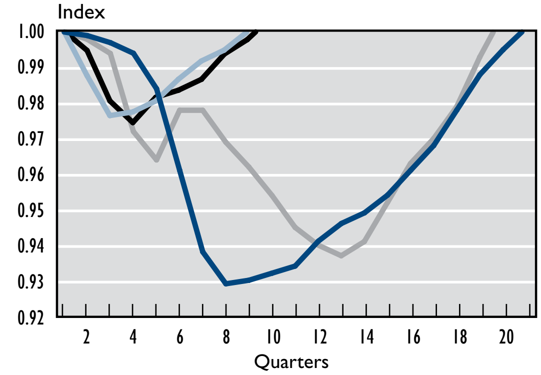
Our estimate of total Puget Sound retail spending based on monthly national retail sales reported by the Census Bureau shows annual growth of 3.2 percent between the third quarter of 2009 and the first quarter of 2010. This is up from 2.4 percent over the prior two-quarter period and -12.5 percent in the two-quarter period before that. Similarly, Puget Sound taxable retail sales reported by the Washington Department of Revenue show a 2.8 percent rise over the last two quarters, up from -6.7 percent and -18.6 percent, respectively, in the earlier periods.

Our current forecast continues the good news. The retail sales growth rate is expected to accelerate to 4.3 percent in 2011, while the growth rate for taxable retail sales is expected to pick up to 5.7 percent. Even stronger growth rates are forecast for 2012, as shown in our ten-year forecast tables on the web site.

Behind the improved outlook for retail spending is an improved outlook for its key determinants: personal income, housing activity, unemployment, and interest rates. Personal income growth is forecast to accelerate both this year and next. Housing permits, rising from an extremely low base, will hit double-digit growth rates each year. The unemployment rate is expected to fall below 8.0 percent by the end of next year, and interest rates are expected to remain low.

When will the recovery fully restore retail sales? Based on inflation-adjusted figures, it will take another eleven quarters (i.e., until the third quarter of 2012) for retail sales to regain their pre-recession peak, according to our forecast. This means that the recent collapse and expected revival in retail spending will be similar to the episode in the late 1970s and early 1980s, when a double-dip recession depressed spending for more than five years.

Puget Sound Real Retail Sales During Recessions



Note: Index=1.0 at pre-recession peak.

PUGET SOUND RETAIL SALES

	2009	2010				Years			
	4	1	2	3	4	2008	2009	2010	2011
Retail sales (bils. $)	58.539	59.193	59.801	60.250	60.668	60.806	57.999	59.978	62.548
Building materials	3.674	3.865	3.965	3.951	3.988	4.577	3.676	3.942	4.278
Motor vehicles and parts	11.392	11.458	11.575	11.635	11.598	13.255	11.556	11.567	11.818
Furniture and electronics	2.927	3.001	2.987	2.996	3.030	3.324	2.960	3.004	3.168
General merchandise	8.128	8.252	8.372	8.470	8.555	7.989	8.018	8.412	8.835
Food and beverage	7.700	7.716	7.744	7.786	7.832	7.657	7.710	7.769	7.966
Gasoline stations	5.606	5.597	5.618	5.653	5.703	5.296	5.096	5.643	5.859
Clothing and accessories	3.030	3.050	3.082	3.113	3.136	3.120	3.048	3.095	3.226
Food services and drinking	5.966	6.020	6.084	6.135	6.186	5.864	5.920	6.107	6.360
Other retail sales	10.117	10.232	10.373	10.512	10.640	9.723	10.015	10.439	11.037
Taxable retail sales (bils. $)	61.907	62.658	62.798	63.239	63.966	71.110	62.309	63.165	66.772
Retail trade	27.542	27.760	27.757	27.904	28.225	29.613	27.069	27.912	29.386
Other taxable sales	34.365	34.898	35.041	35.335	35.741	41.497	35.240	35.254	37.386
Annual growth (% change)									
Retail sales	1.9	4.5	4.1	3.0	2.8	1.2	-4.6	3.4	4.3
Taxable retail sales	0.8	4.9	0.9	2.8	4.6	-5.2	-12.4	1.4	5.7

Quarterly data are seasonally adjusted and expressed on an annual basis.

Construction and Real Estate

Puzzling news.

The unemployment rate is usually a reliable gauge of conditions in the apartment market. Historically, the jobless rate and the apartment vacancy rate have risen and fallen almost in tandem. There is a simple explanation for this. A decline in the unemployment rate, for example, means that the region is creating jobs. Employment growth in turn increases the demand for apartments and lowers the vacancy rate, all else being equal.

Thus, when Dupre + Scott Apartment Advisors issued their latest vacancy rate report, there was some puzzling news. While the Puget Sound jobless rate remained stuck at 9 percent, a 27-year high, the average apartment vacancy rate dropped from a cyclical peak of 7.1 percent last fall to 6.3 percent this spring. The four-county area did manage to add 3,600 jobs in the first quarter of 2010, the first gain in nearly two years. But considering the fact that the region had lost 16,000 jobs in the preceding quarter, employment could hardly account for the improvement in the apartment market.

We offer two other reasons for the decline in the vacancy rate. Although the region has lost about 130,000 jobs since the beginning of 2008, population growth has remained fairly strong. The U.S. Census Bureau reported that population grew at a 1.5 percent rate in 2009, 0.6 percentage points faster than the national rate. The 52,000 new residents in the region formed an estimated 24,000 households, of which 10,000 were multi-family households living in apartments or condominiums. Given the deep economic downturn and extremely tight credit, it is likely that most of the new multi-family households chose to live in apartments.

Second, there is nothing like a recession for bargains in the housing market. Single-family homes are as affordable today as they were in 1970. Builders are bidding remodeling jobs at discounted prices. And apartment landlords have aggressively lowered rents to help keep their units full. In an apparent attempt to hold the regional vacancy rate below 7 percent, landlords have reduced the average rent 5.4 percent. During the previous rocky stretch from 2001 to 2004, the vacancy rate hit 7.7 percent but the average rent fell only 2.8 percent.

Puget Sound Apartment Vacancy Rate and Unemployment Rate

PUGET SOUND CONSTRUCTION AND REAL ESTATE

	2009	2010				Years			
	4	1	2	3	4	2008	2009	2010	2011
Housing permits (thous.)	8.9	11.0	10.0	9.7	10.2	15.7	7.8	10.2	12.6
Single-family	6.6	7.1	6.5	6.5	6.7	6.8	5.3	6.7	8.1
Multi-family	2.3	3.9	3.5	3.2	3.5	8.8	2.5	3.5	4.5
Housing permits (mils. $)	1846.8	2072.2	1984.0	1957.2	2063.7	2685.8	1497.7	2019.3	2570.7
Single-family	1520.2	1686.2	1552.6	1555.0	1623.8	1504.2	1209.3	1604.4	1990.7
Multi-family	326.6	386.0	431.4	402.2	439.9	1181.5	288.3	414.9	580.0
Average home price (thous. $)	352.0	357.2	366.1	372.1	373.9	403.0	355.7	367.3	379.1
Active home listings (thous.)	24.3	25.7	25.0	25.1	25.1	31.7	25.9	25.2	25.0
Home sales (thous.)	51.0	44.0	43.7	43.4	43.3	40.2	39.2	43.6	45.3
Apartment vacancy rate (%)	6.7	6.3	6.1	5.9	5.7	4.9	6.9	6.0	5.5
Average apartment rent ($)	959	951	948	948	947	987	976	948	956
Annual growth (% change)									
Housing permits (mils. $)	89.9	48.8	-17.0	-5.4	21.8	-42.9	-44.2	34.8	27.3
Average home price	0.6	5.9	10.0	6.6	1.9	-5.5	-11.7	3.3	3.2
Average apartment rent	-2.9	-3.3	-1.2	-0.3	-0.3	7.0	-1.2	-2.8	0.8

Quarterly data are seasonally adjusted and expressed on an annual basis.

Special Topic: Federal Debt

In a bind.

When the federal government runs a budget deficit—spends more money than it takes in—it has two options for paying the bills, neither of which is particularly good. It can print money, in which case it reduces the value of the dollar. Or, it can borrow money by selling bonds, which then obligates it to pay back the debt with interest. If the federal debt (the accumulated borrowings) grows too large, there can be serious consequences for the economy. Just ask Greece.

A large federal debt poses several potential problems. If left unchecked, the debt can unduly burden future generations of Americans, reducing their standard of living. Public borrowing can "crowd out" investment in private capital and slow the growth of the economy. Taking loans from foreign countries (governments, businesses, and individuals) can result in a significant part of our domestic production being devoted to servicing the external debt.

But the size of the federal debt should be viewed in relation to the economy. Economies best suited to manage a large debt burden are big, fast growing, and have low interest rates.

The United States has rarely been debt-free. When the U.S. Constitution was ratified in 1787, the federal debt amounted to roughly 30 percent of Gross Domestic Product (GDP). The nation had no debt for a brief period around 1840. Thereafter, the debt burden followed a predictable pattern, rising during wartime and falling during peacetime. The federal debt soared during World War II, climbing to a record 122 percent of GDP, but the strong post-war economy reduced the burden to 33 percent in FY 1981.

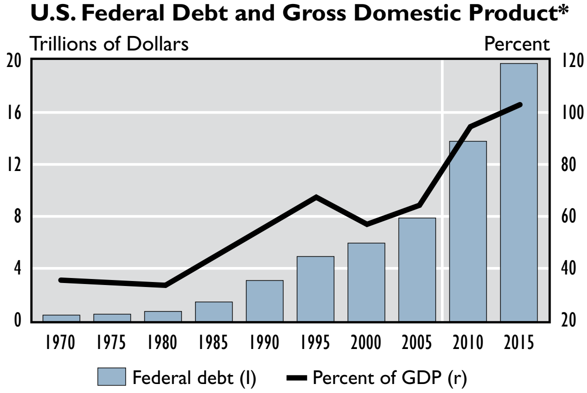
With the exception of World War II and the years immediately following it, the federal debt never exceeded 50 percent of GDP. That is, not until the 1980s. Because of the Reagan fiscal policies—tax cuts, a Cold War buildup in defense expenditures, and increased domestic spending—the economy quickly emerged from the 1981-82 recession and expanded at a rapid pace for the rest of the decade. The success of the economy was a testament to the power of fiscal policy, but it had a cost. Between 1980 and 1990, the federal debt tripled, reaching 56 percent of GDP.

The federal government finally got control of its finances in the late 1990s, running budget surpluses in 1998, 1999, 2000, and 2001. Despite high expectations about taking a big bite out of the federal debt, the following ten years turned out to be a financial disaster. Bush tax cuts in 2001 and 2003, a buildup in military spending to fight wars in Iraq and Afghanistan, and the worst performance of the economy since the Great Depression—a 1.6 percent growth rate and the loss of 900,000 jobs—boosted the federal debt from $5.6 trillion (57 percent of GDP) in FY 2000 to $11.9 trillion (83 percent) in FY 2009.

Change in U.S. Federal Debt

Trillions of Dollars	FY 2000-09
Due to:	
Tax cuts	1.9
Defense spending	2.0
Underperforming economy	2.0
Unaccounted factors	0.3
Total change	6.2

U.S. Federal Debt and Gross Domestic Product*



*End of fiscal year.

With the help of an econometric model of federal revenue and expenditures, we measured the contributions to the change in debt over the nine-year period. The analysis showed that approximately one-third was due to the tax cuts, one-third to increased defense spending, and one-third to the underperforming economy. A struggling economy adds to the federal debt in two ways. First, it reduces the size of the personal and corporate income tax base. Second, it triggers so-called automatic stabilizers, such as unemployment compensation, which are designed to buffer a faltering economy.

The U.S. economy is now in a bind with no easy way out. The Great Recession has left 26 million people unemployed or underemployed, the recovery remains fragile, and the federal debt continues to spiral up. One course of action being debated is to let the Bush tax cuts lapse and use the new revenue to kick-start the economy. But this plan, or any other for that matter, is not likely to bring a quick solution to the debt problem. The U.S. Treasury projects that the federal debt will reach $19.7 trillion (103 percent of GDP) by the end of FY 2015.

FORECAST DETAIL 60 Percent Probability

	2009	2010				Years			
	4	1	2	3	4	2008	2009	2010	2011
Employment (thous.)	1720.3	1723.9	1741.3	1744.6	1747.7	1843.5	1752.5	1739.4	1772.9
Goods producing	260.3	258.2	258.8	259.9	260.7	316.2	274.4	259.4	263.6
Natural resources and mining	1.1	1.1	1.1	1.1	1.1	1.4	1.2	1.1	1.1
Construction	89.8	88.0	88.6	90.0	91.0	125.5	98.5	89.4	93.9
Manufacturing	169.4	169.1	169.1	168.8	168.6	189.3	174.8	168.9	168.6
Aerospace	79.0	79.2	78.9	78.4	78.1	80.4	80.6	78.7	77.3
Other durable goods	60.1	60.0	60.2	60.4	60.6	73.0	63.1	60.3	61.3
Nondurable goods	30.2	29.9	30.0	30.0	30.0	36.0	31.1	29.9	30.1
Services producing	1460.0	1465.7	1482.5	1484.6	1487.0	1527.4	1478.1	1480.0	1509.3
Wholesale and retail trade	257.3	260.3	263.2	264.3	264.6	276.7	260.3	263.1	268.0
Transportation and public utilities	59.3	58.5	59.0	59.0	59.0	63.5	59.8	58.9	59.6
Information	88.6	89.2	89.9	90.5	91.0	91.0	90.0	90.2	92.3
Financial activities	95.6	95.5	94.1	93.4	92.9	105.2	97.7	94.0	92.9
Professional and business services	224.3	226.4	226.7	228.0	229.0	249.4	228.9	227.5	234.6
Other services	444.6	446.0	451.8	455.3	458.3	451.9	449.0	452.8	468.7
Government	290.4	289.9	297.9	294.3	292.1	289.7	292.2	293.5	293.2
State and local	238.8	238.2	238.3	238.5	238.6	240.0	240.7	238.4	240.5
Federal	51.6	51.7	59.6	55.9	53.5	49.7	51.6	55.2	52.7
Unemployment rate (%)	9.0	8.7	8.6	8.4	8.4	5.0	8.6	8.5	8.1
Personal income (bils. $05)	160.5	161.6	163.2	164.1	164.9	165.2	161.6	163.4	169.1
Personal income (bils. $)	176.9	178.7	181.1	182.8	184.4	180.1	176.5	181.8	191.2
Wage and salary disbursements	99.4	100.4	102.1	102.9	103.7	105.1	100.5	102.3	107.3
Other income	77.5	78.3	79.0	79.9	80.8	75.0	76.0	79.5	83.9
Per capita personal income ($)	48270	48671	49245	49610	49970	50080	48378	49374	51510
Consumer price index (82-84=1.000)	2.259	2.261	2.268	2.279	2.288	2.248	2.261	2.274	2.315
Housing permits (thous.)	8.9	11.0	10.0	9.7	10.2	15.7	7.8	10.2	12.6
Population (thous.)	3664.4	3671.7	3678.3	3684.6	3691.0	3596.5	3648.7	3681.4	3710.9
Net migration (thous.)	13.8	5.1	2.5	1.1	1.5	29.8	24.0	2.5	9.6
Three-month treasury bill rate (%)	0.1	0.1	0.2	0.3	0.6	1.4	0.2	0.3	1.6
Conventional mortgage rate (%)	4.7	5.0	5.1	5.3	5.6	6.0	5.0	5.2	6.1
Annual growth (% change)									
Employment	-3.7	0.8	4.0	0.7	0.7	0.9	-4.9	-0.7	1.9
Personal income (cur. $)	2.0	4.1	5.4	3.6	3.6	3.1	-2.0	3.0	5.2
Consumer price index	-2.1	0.3	1.3	2.0	1.5	4.3	0.6	0.6	1.8
Housing permits	78.6	95.4	-34.9	-12.6	21.0	-43.0	-49.9	30.5	22.8
Population	1.0	0.8	0.7	0.7	0.7	1.4	1.5	0.9	0.8

Quarterly data are seasonally adjusted and expressed on an annual basis.

Leading Index

Job well done.

The Puget Sound Index of Leading Economic Indicators jumped 1.8 percent in the first quarter of this year following an upwardly revised leap of 1.9 percent in the previous quarter. Since bottoming out in the second quarter of 2009 the leading index has increased 4.4 percent, virtually a sure sign that the budding regional economic recovery is about to blossom.

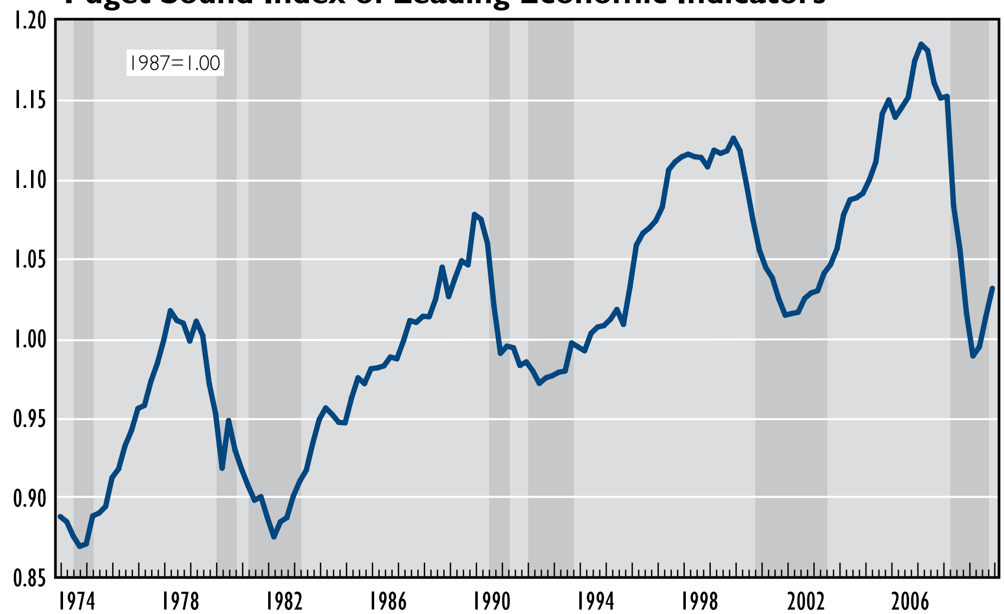
In fact, the latest figures from the Washington Employment Security Department show that employment has indeed turned up, climbing by 3,600 jobs in the first quarter. If this timing holds up, then the leading index will have provided a two-quarter advance notice of the recovery.

Of the seven components that comprise the leading index, only one faltered last quarter. The length of the manufacturing workweek, led by transportation equipment manufacturing, dropped a full hour to 41.0 hours. In this case, however, the decline may not be a bad omen. Manufacturing hours still exceed the long-run average of 39.9 hours per week, and employers could be cutting overtime hours in anticipation of new hiring.

At any rate, the dip in hours was more than offset by a rise in Puget Sound help-wanted ads, more housing permits, a wider interest rate spread, fewer first-time claims for unemployment insurance, a higher Boeing backlog-deliver ratio, and an increase in inflation-adjusted durable goods spending.

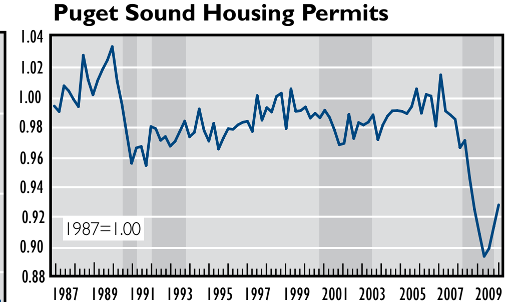
The leading index, now with 40 years of quarterly observations, has proven to be our most useful and trustworthy tool for identifying turning points in the regional business cycle. Including the latest signal, it has predicted the beginning of each of the seven expansion periods since the mid-1970s.

Puget Sound Index of Leading Economic Indicators

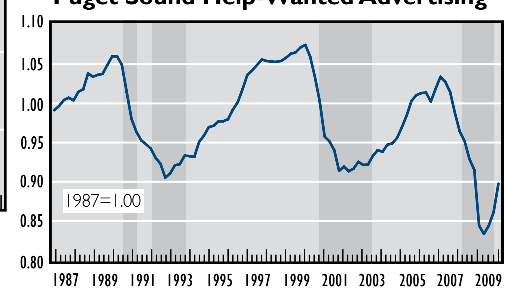


Shaded areas show recessions or periods of economic stagnation.

Puget Sound Housing Permits



Puget Sound Help-Wanted Advertising



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