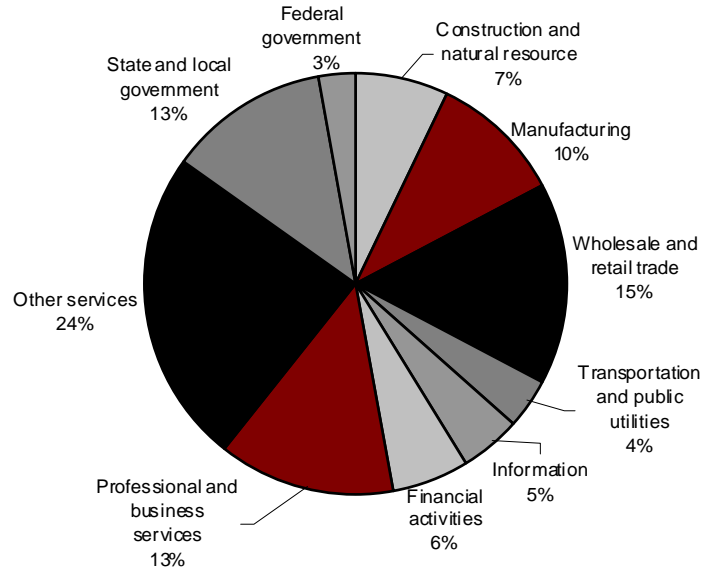


PUGET SOUND ECONOMY CHARTS

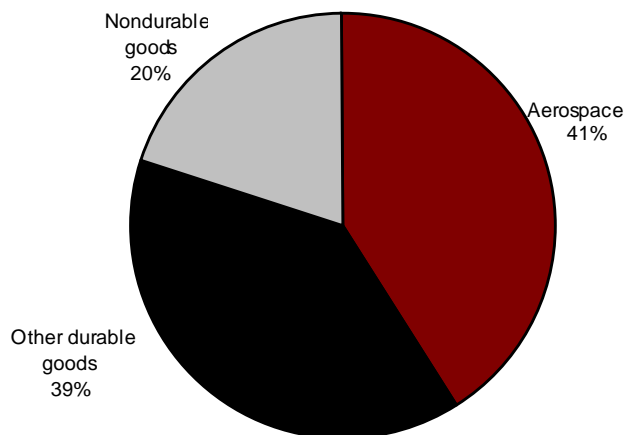
The Puget Sound Economic Forecaster
Conway Pedersen Economics, Inc.
P.O. Box 2241
Seattle, Washington 98111-2241
(206) 329-1707

Chart 1
Puget Sound Employment, 2007
Percent of Total

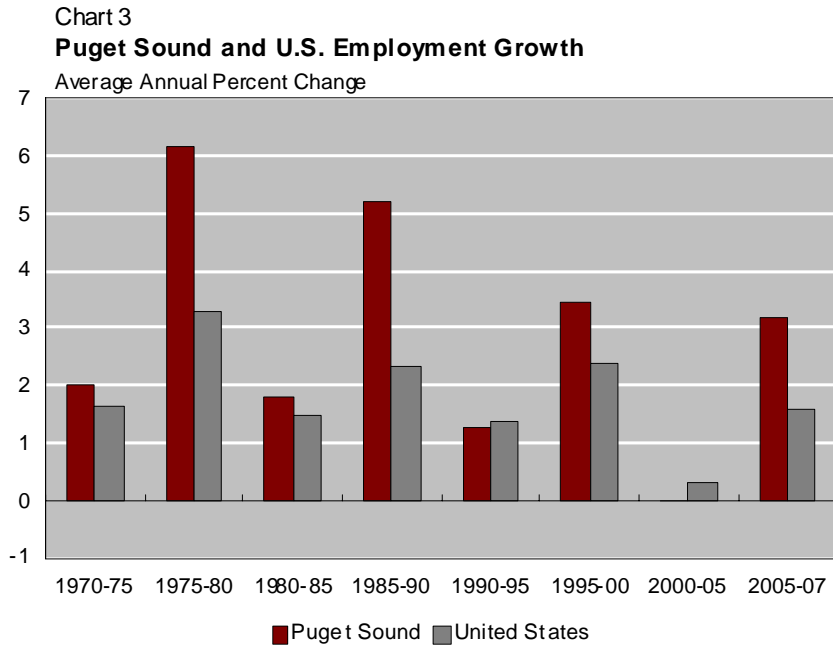


Led by Microsoft, the rapid growth of high-technology companies over the past two decades has helped diversify the Puget Sound economy. As a consequence, employment in goods-producing industries as a share of total employment fell from 23 percent in 1990 to 17 percent in 2007.

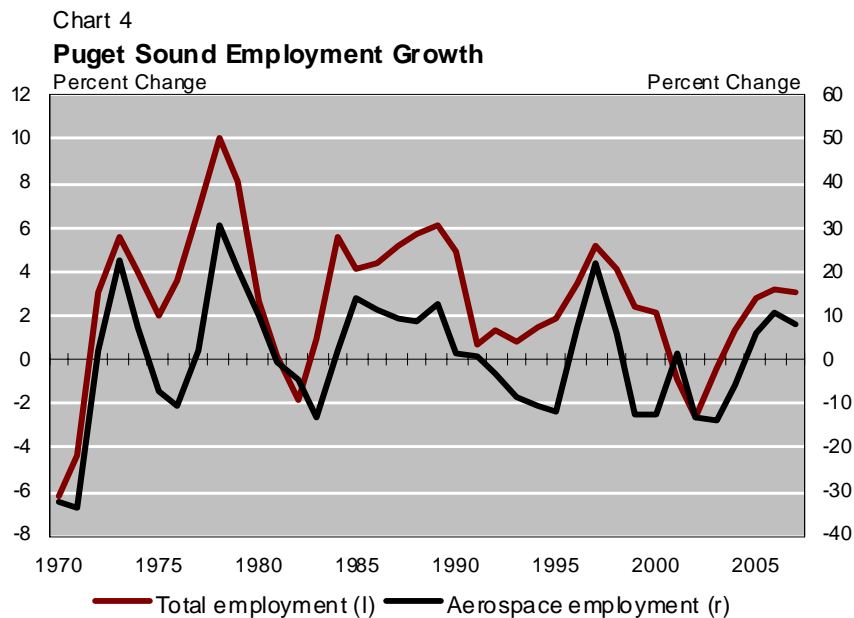
Chart 2
Puget Sound Manufacturing Employment, 2007
Percent of Total



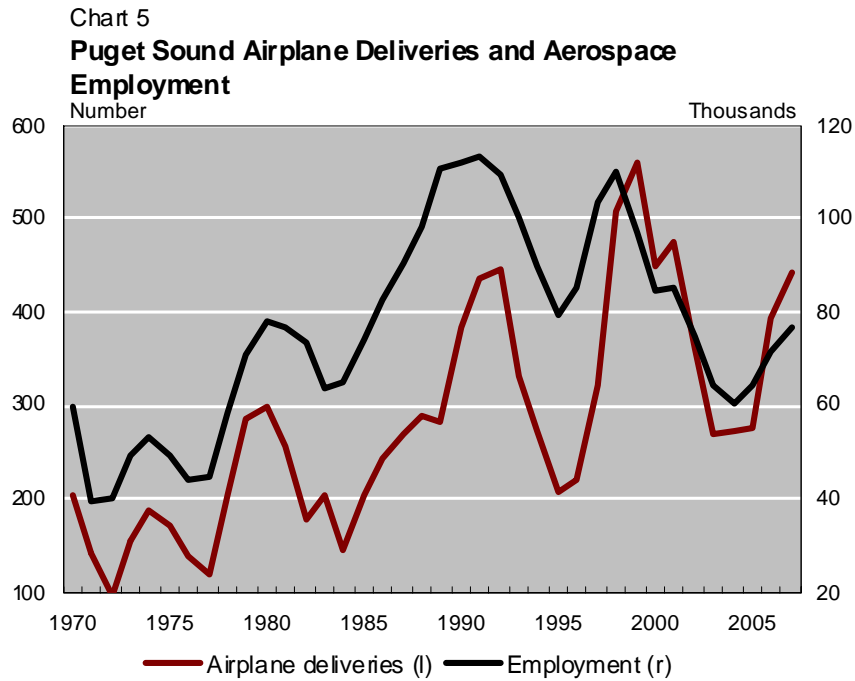
Despite a broader economic base, the regional economy remains highly dependent upon The Boeing Company. In 2007, with 77,100 employees, the aerospace industry accounted for more than two-fifths of the jobs in manufacturing.



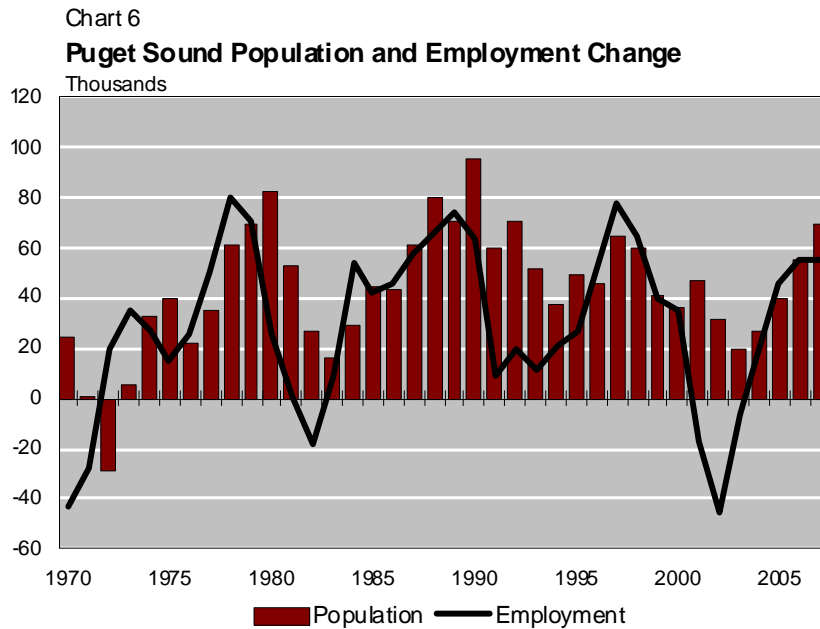
Historically, the Puget Sound region has been characterized by rapid but volatile economic growth. Although the region is highly dependent upon international trade, the largest market for its exported goods and services is the rest of the United States. As a consequence, the regional growth rate tends to move up and down with the national growth rate. During the 2001-03 recession, the Puget Sound region suffered massive job losses. The deep downturn notwithstanding, regional employment expanded at a much faster rate than national employment between 1970 and 2007, 2.8 percent per year compared to 1.8 percent.



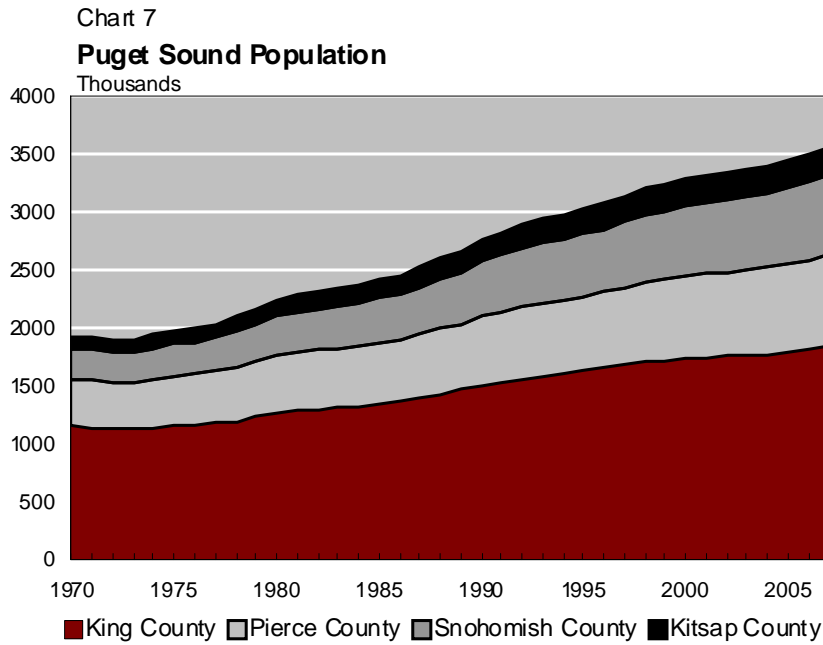
Surging aerospace employment coupled with a strong national economy triggered regional economic booms in the late 1970s, 1980s, and 1990s. The 1983-90 expansion created nearly one-fourth of the jobs in the Puget Sound region today. After back-to-back aerospace slumps contributed substantially to the last recession, the regional economy, led by Boeing, is again expanding at a rapid rate.



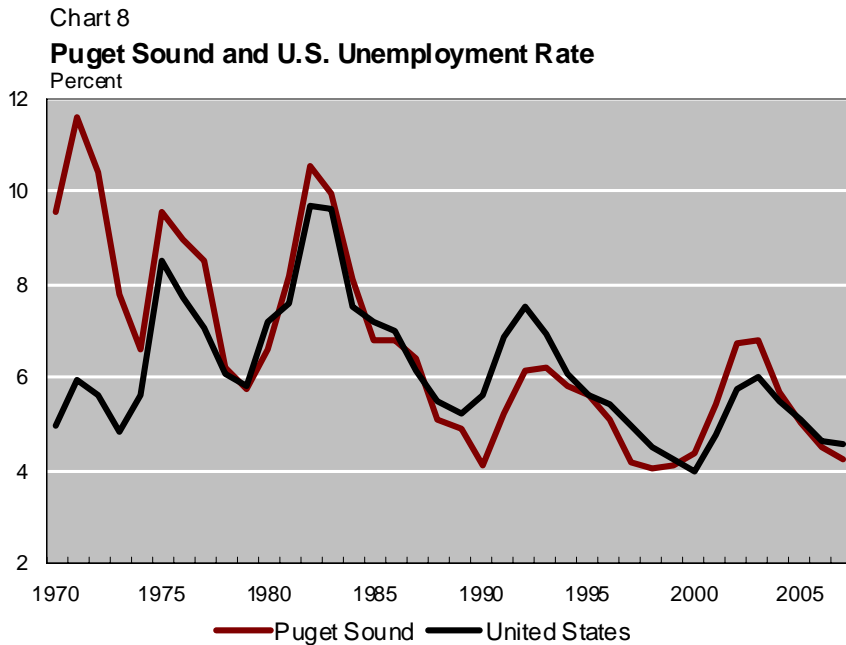
Like construction, aerospace is a capital-producing industry. Thus, it is subject to large swings in output and employment. The 1990s and the first part of this decade were marked by deep cuts in Boeing aircraft production and payrolls. The industry lost 23,000 jobs between 1991 and 1994. The severity of the 2001-03 recession was due in large part to the loss of 50,000 aerospace jobs between 1998 and 2004.



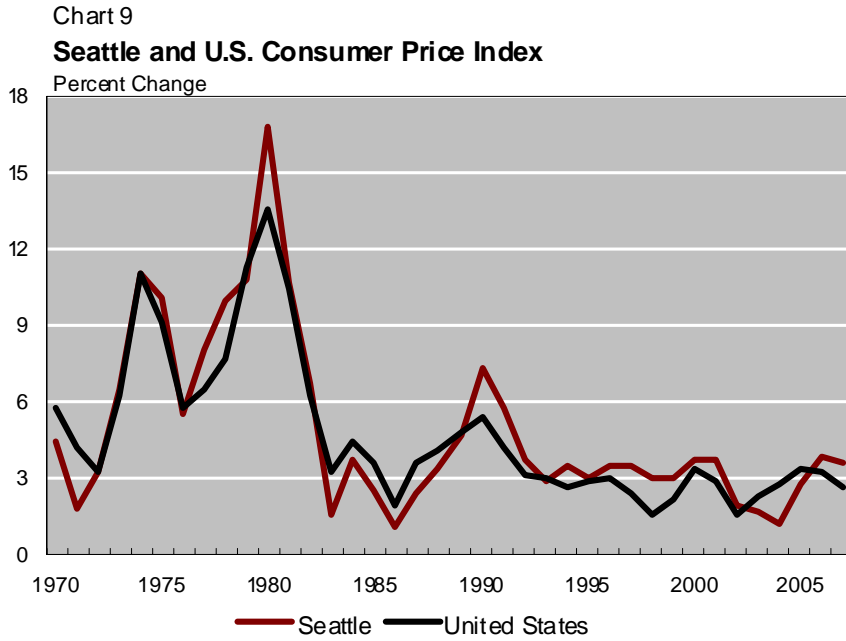
Population tends to follow jobs, as people move into and out of the Puget Sound region in search of employment opportunities. As a rule of thumb, population growth lags employment growth by one year. In reaction to the 2001-03 recession, net migration (the number of people moving into the region less the number of people moving out) dropped below zero in 2003. By 2007, in reaction to the economic recovery, net migration had rebounded to 48,300.



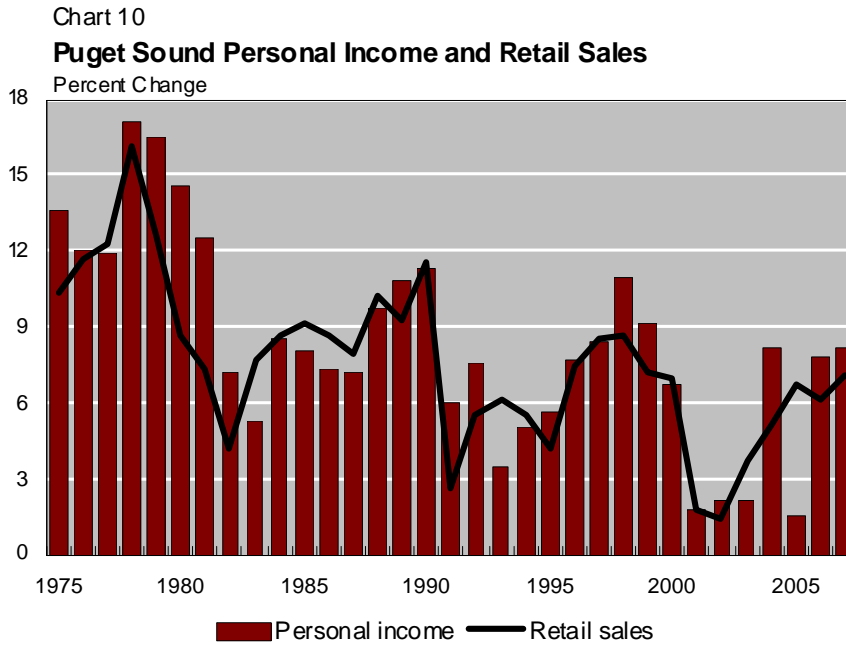
King County is the largest but slowest growing county in the Puget Sound region. Since 1990 the combined population gain in Pierce and Snohomish counties has exceeded the increase in King County by 19 percent.



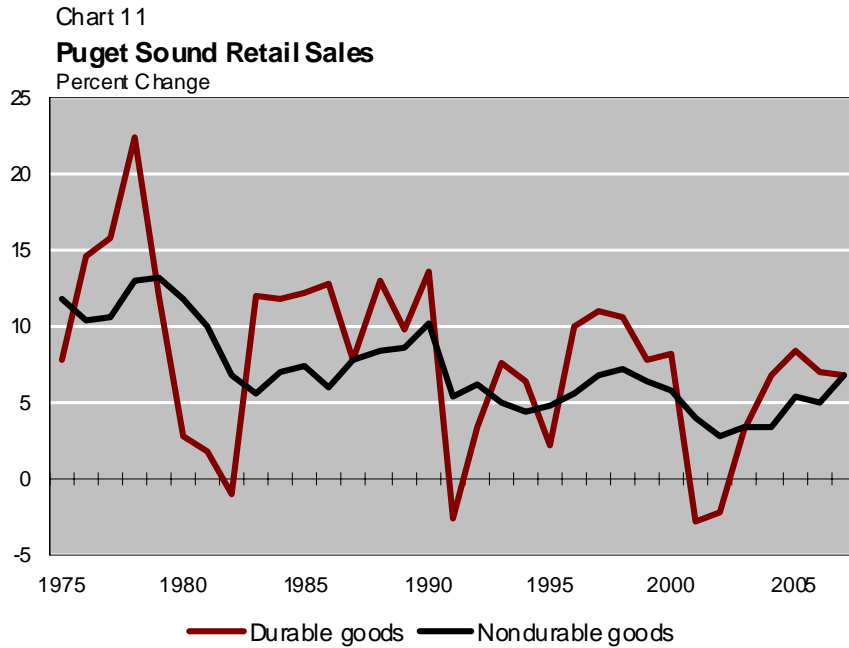
Changes in the rate of net migration, the principal determinant of population change, help keep the regional unemployment rate from straying too far from the national rate. Even the extremely high unemployment rate caused by the 1969-71 Boeing Bust did not last long, as many people soon packed up and left the region.



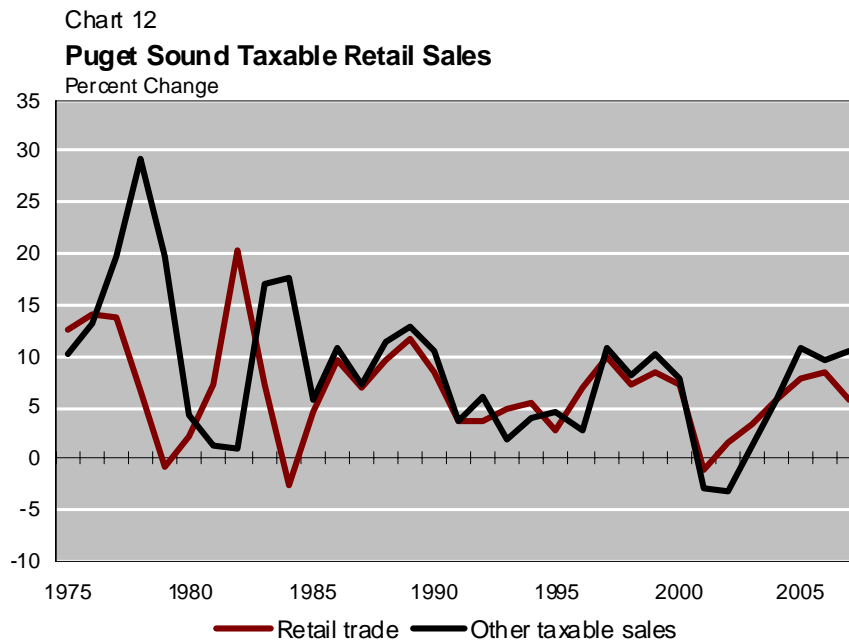
The Seattle and U.S. consumer price indexes are highly correlated, since prices are primarily established in the national marketplace. Nevertheless, the relatively severe recession suffered by the Puget Sound region earlier this decade contributed to a decline in the Seattle inflation rate compared to the U.S. rate. More recently, due to strong economic growth, the region has been running a relatively high inflation rate.



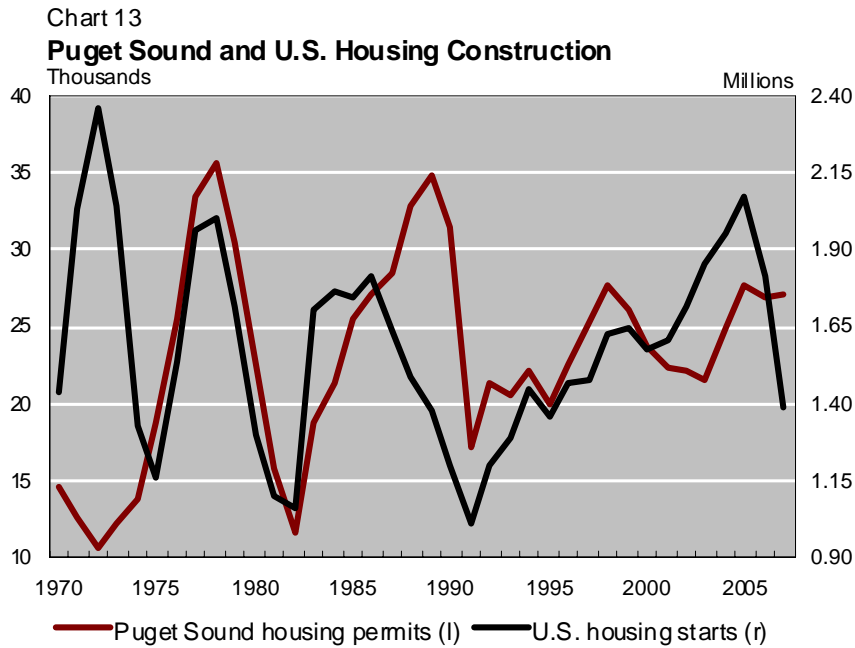
Personal income is the principal determinant of retail sales. However, retail spending, especially for durable goods, is also sensitive to variations in the unemployment rate, housing starts, and interest rates.



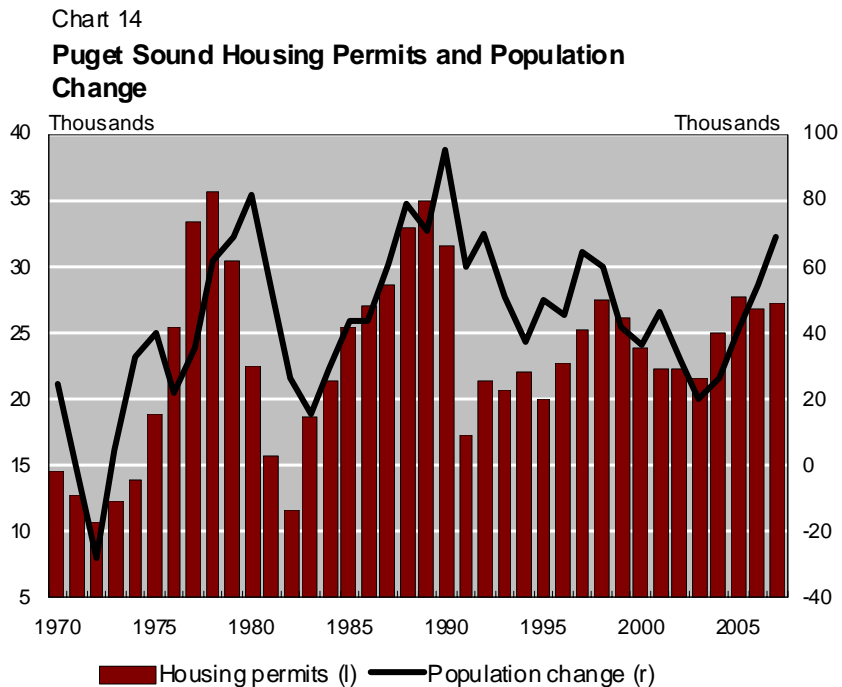
Durable retail sales (automobiles, building materials, and furniture and appliances) fluctuate widely from year to year. In contrast, nondurable sales (food, apparel, and general merchandise) grow at a relatively stable rate.



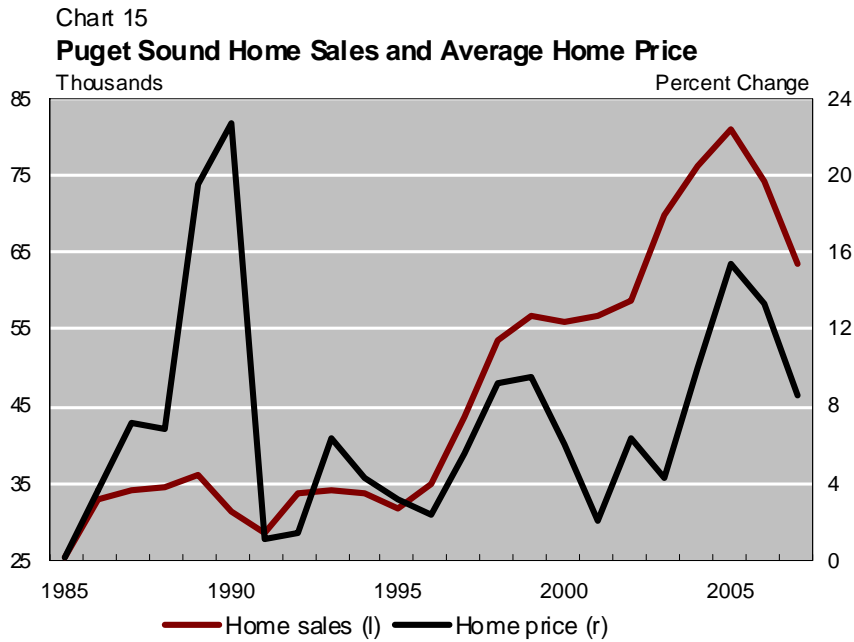
Taxable retail sales, which is the region's most important tax base, is a misnomer, since it includes not only retail trade but also new construction, wholesaling, and services. The inclusion of construction adds to the volatility of the tax base.



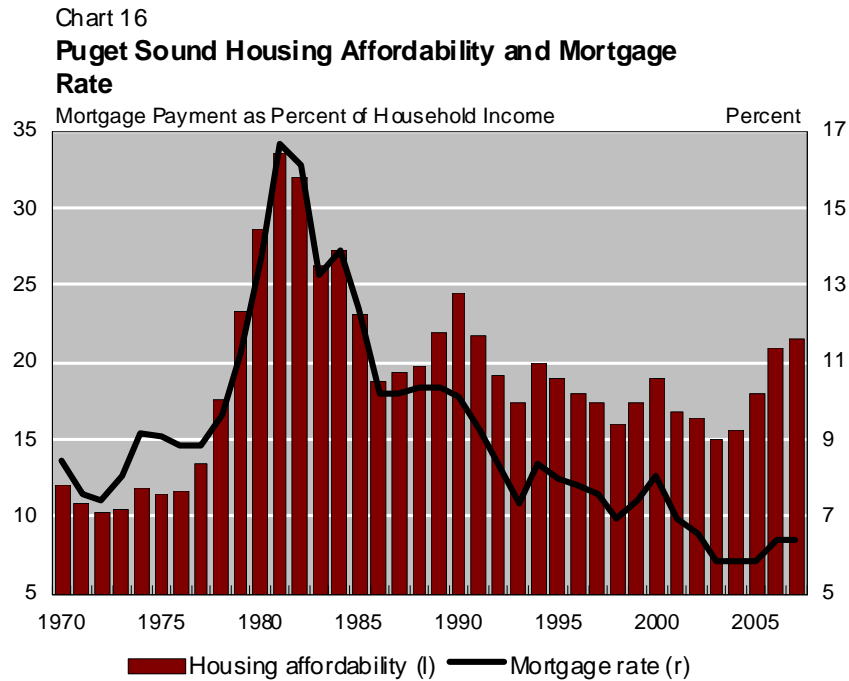
The regional and national housing markets often move in concert, since the Puget Sound region and the United States tend to share common economic and financial conditions. Low mortgage rates boosted both the national and regional housing markets earlier this decade. Between 2005 and 2007, because of increasingly unaffordable homes and the collapse of the mortgage market, U.S. housing construction plummeted, while regional homebuilding went flat.



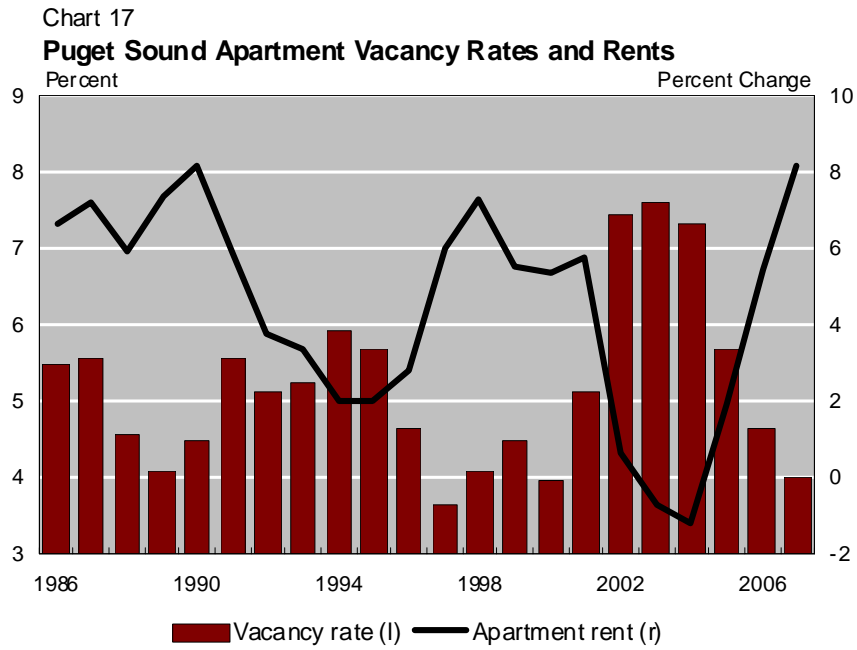
The major determinant of housing construction is household formation, which depends primarily upon population change. During the economic booms of the late 1970s and 1980s, which were accompanied by a flood of new people into the region, the construction industry built record numbers of homes.



Home sales and home prices soared during the economic booms of the late 1980s and 1990s, while home sales slumped and home prices leveled off during the subsequent slowdowns. Housing market conditions can change quickly and dramatically, as they did between 1989 and 1991. Despite the 2001-03 recession, low mortgage rates kept the housing market booming through 2005, when it finally took a turn for the worse.



Although home prices rose much faster than the overall inflation rate during the first half of the decade, housing remained generally affordable because of a falling mortgage rate. In fact, Puget Sound homes were more affordable in 2003 and 2004 than at anytime in the previous twenty-six years, helping to account for the record level of home sales. However, the turnaround in housing affordability that began in 2004 has been a major cause of the current housing downturn.



Apartment rents often behave like home prices, responding to the ups and downs of the economy. When the region is expanding briskly, as it is now, the demand for apartments increases, lowering the vacancy rate and raising rents. On the other hand, a low mortgage rate, regardless of the pace of economic growth, can lead to high vacancy rates and falling rents, as it did between 2002 and 2004.