

## A Lump of Coal

If you sense some frustration with this outlook, you are right. Based on the behavior of the national economy this year, it deserves a lump of coal in its holiday stocking. After advancing at a respectable 2.8 percent rate in 2012, real Gross Domestic Product (GDP) slowed to a sluggish 1.7 percent rate in 2013.

What has happened to the old fashioned recoveries? In the four years following the 1974-75 recession, real GDP expanded at a 4.7 percent annual rate. When the economy turned the corner after the 1981-82 slump, it soared at a 4.9 percent rate. In contrast, the recovery rate from the Great Recession over the past four years has averaged a maddening 2.2 percent.

There are reasons why the economy has had trouble getting untracked this time. The collapse of the housing and financial markets damaged the economy so badly that

there was no quick fix. After fighting a potential depression, the Federal Reserve has had little ammunition left to support the recovery. And Congress has continued to push austerity measures because of concerns over the mounting federal debt.

If there is good cheer, it is that the region will continue to outperform the nation over the next few years. But even that prognosis requires a caveat. Were it not for the recent hires at Boeing, the region would be expanding no faster than the nation, in which case we too would be worthy of some coal. Moreover, our relatively high growth rate could go the way of the Dodo bird if Boeing decided to build the 777X in another state.

### Summary Forecast

Annual Percent Change

	2012	2013	2014	2015
<b>Puget Sound Region</b>				
Employment	2.3	2.9	2.8	2.2
Personal income (cur. \$)	4.9	4.0	5.9	5.7
Consumer price index	2.5	1.4	2.0	2.4
Housing permits	51.8	2.4	13.6	12.2
Population	1.3	1.5	1.6	1.3
<b>United States*</b>				
GDP (\$09)	2.8	1.7	2.6	2.9
Employment	1.7	1.6	1.8	1.8
Personal income (cur. \$)	4.2	2.9	5.0	5.1
Consumer price index	2.1	1.5	1.8	2.2
Housing starts	28.0	18.6	19.5	18.9

\*Source: Blue Chip Economic Indicators

## Regional Outlook

### Sadly right.

Our twenty-year forecasting record confirms what most people already know: economists should refrain from predicting recessions. Take the U.S. and Puget Sound employment forecasts made on the eve of the Great Recession in 2007. Three years later, when jobs finally hit bottom, the prediction errors had ballooned to 10 percent.

On the other hand, we should be commended for getting the recovery right. In September 2009, just after the recession was declared over, we called for a slow return to normalcy. Unfortunately, we were pretty much on target.

Between 2009 and 2013, we predicted that regional employment would grow at a sluggish 1.5 percent annual rate between 2009 and 2013. The latest numbers indicate that the actual rate will be somewhat weaker, likely around 1.3 percent. We projected that the region would have 1,863,900 payroll jobs in 2013, but we now expect 1,846,800. This amounts to a 0.9 percent prediction error for total employment, which is very small for a four-year-ahead forecast.

Blue Chip economists deserve credit for the setting the right tone

for the Puget Sound outlook. The U.S. economy typically expands at a 4 or 5 percent annual rate emerging from a recession. Sensing that this recovery would be problem-

Retail Sales	4
Construction	5
Economic Timeline	6
Forecast Detail	7
Leading Index	8

INSIDE

## Regional Outlook

atic, the Blue Chip panel instead predicted that real Gross Domestic Product (GDP) would grow at a 3.0 percent rate between 2009 and 2013. As it turned out, even that forecast was too optimistic, as the actual growth rate for real GDP is now pegged at 2.2 percent.

Why did economists do a reasonably good job of forecasting the recovery? When the recession officially ended in 2009, they knew that the recovery faced an uphill battle. The economic devastation caused by the collapse of the housing and financial markets would take years to repair. The Federal Reserve had used up most of its ammunition—short-term interest rates were near zero—combating the potential depression. Furthermore, there were growing calls among elected officials for fiscal austerity to control the federal debt.

The latest numbers still portray a struggling economy. Real GDP grew at a 3.6 percent annual rate in the third quarter of 2013. However, excluding the build-up of inventories, the growth rate was only 2.0 percent. In November, the economy created 203,000 jobs, which penciled out to a good but not great 1.8 percent annual growth rate. In the same month, the unemployment rate, having dropped only 3.0 percentage points in four years, remained unacceptably high at 7.0 percent.

Next year promises to be better. After increasing 1.7 percent in 2013, real GDP will advance 2.6 percent in 2014 and 2.9 percent in 2015. U.S. employment will continue to grow at a 1.8 percent rate, while current-dollar personal income will rise

5.0 percent in 2014 and 5.1 percent in 2015. The improvement is welcome, but the economic gains still fall short of past recoveries.

We have no gripe with the Puget Sound economy, as it continues to mend much faster than the nation. Third-quarter jobs data indicate that employment will increase 2.9 percent in 2013, lowering the jobless rate to around 6 percent. With aerospace no longer expanding its workforce, job growth will slow to 2.8 percent in 2014 and 2.2 percent in 2015. As good as they are, these projections could be conservative, since the winner of the 777X program is slated to get 8,500 jobs. But it is best not to count airplanes before they hatch.

### Odds and ends.

*The newest jet.* Building the 777X is important to Boeing's future, but building the airplane in Everett is vital to the Puget Sound economy. When machinists voted down a new labor contract this fall, Boeing began shopping for another assembly

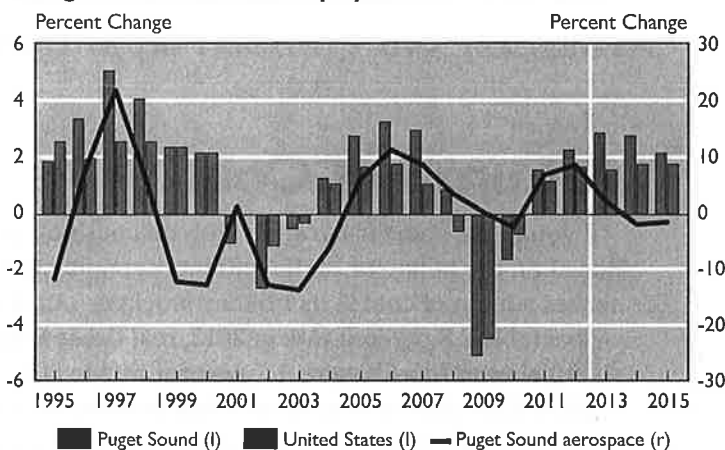
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It is hard to believe that the union and Boeing would not eventually resolve their differences. Why would machinists walk away from some of America's best blue-collar jobs? Why would the company bear the cost and risk of opening up another production plant? Admittedly, Boeing has demonstrated that it can assemble airplanes in South Carolina. But it is unclear that the venture—or the strategy of disbursed production in general—has helped its bottom line.

There is no doubt, however, that if Boeing decided to build the 777X elsewhere, the economic cost to the region would be substantial. *The Seattle Times* reports that the new airplane would support 8,500 aerospace jobs. Our calculations indicate that the total impact would amount to 25,000 jobs. But assembling the 777X in another state would raise another disconcerting question: where would Boeing build future jets? Little wonder that the governor and legislature moved quickly to extend Boeing's business and occupation tax break to 2040.

*Low pay.* Fast-food employees doffed their aprons and took to the streets this month protesting low wages. Considering how workers suffered during the Great Reces-

**Puget Sound and U.S. Employment**



### U.S. Real Gross Domestic Product

Percent Change	2012	2013	2014	2015
Gross Domestic Product (\$09)	2.8	1.7	2.6	2.9
Personal consumption	2.2	1.9	2.4	2.7
Nonresidential investment	8.8	2.3	5.2	5.1
Residential investment	12.9	13.2	14.7	18.9
State and local government	-0.7	-0.6	0.4	0.7
Federal government	-1.4	-4.5	-2.3	-1.2
Exports	3.5	2.5	5.9	5.9
Imports	2.2	1.6	5.2	6.4

## Puget Sound Employment and Unemployment Rate

	2012	2013	2014	2015
<b>Employment (% change)</b>				
Puget Sound Region	2.3	2.9	2.8	2.2
King County	2.5	3.5	3.0	2.2
Kitsap County	-0.6	-0.2	1.9	2.4
Pierce County	1.0	1.8	2.3	1.9
Snohomish County	4.1	2.2	2.6	2.6
<b>Unemployment rate (%)</b>				
Puget Sound Region	7.4	5.9	5.7	5.5
King County	6.8	5.2	5.0	4.9
Kitsap County	7.4	6.8	6.2	6.0
Pierce County	8.9	8.0	7.3	7.0
Snohomish County	7.8	5.7	5.6	5.5

sion—25 million people unemployed or underemployed—it is surprising that there have not been more labor demonstrations.

The specific issue in this case is the federal minimum wage, which has been \$7.25 per hour since 2009. This amounts to \$15,000 a year for full-time work, hardly enough to support a single person.

Is the minimum wage too low? As a college student in 1963, this writer worked in a furniture factory for \$1.25 per hour, the federal minimum wage at the time. If that wage rate had kept up with the consumer price index, it would be \$9.60 today. If the minimum wage had followed the U.S. Bureau of Labor Statistics' Employment Cost Index (compensation per employee hour worked), it would be \$12.20.

In this light, Seatac's push for a \$15.00 minimum wage does not look outrageous, though it would likely cost some jobs. Opponents to a higher wage point out that at \$9.19 (\$9.32 on January 1) Washington already has the nation's most generous minimum wage. But Washington also has a high cost of living (10 percent above the national average by some estimates) as well as a regressive tax system that places a heavy burden on low-

wage workers.

### *Cash-strapped.*

While on the topic of taxes, have you been following the fiscal situation in Olympia during the Great Recession? Despite a temporary hike in the business and occupation tax rate for services, state government tax revenue hardly budged between FY 2007 and FY 2013, increasing from \$14.1 billion to

\$15.4 billion.

Taking into account inflation and population growth, state tax revenue measured in 2009 dollars plummeted from \$2,375 per person in FY 2007 to \$2,055 per person in FY 2013, a decline of 13.5 percent. This meant that the purchasing power of state government tax revenue—the ability to provide public goods and services (education, safety, healthcare, and infrastructure) for Washington's people and businesses—declined by one-eighth over the six-year period.

*A measure of uncertainty.* Not counting Boeing, there is still considerable economic uncertainty. The causes include the usual suspects: federal policy, the European and Chinese economies, and fuel prices (though that may be a pleasant surprise).

One way to measure this uncertainty is to forecast how the Puget Sound economy would respond to the Blue Chip's highest and lowest growth scenarios for the U.S. economy, as forecast by the individual panel members.

As an example of the differences in the scenarios, the highest and lowest forecasts of real GDP growth for 2014 are 3.4 percent to 1.3 percent.

The corresponding high and low forecasts for the Puget Sound economy are shown in the "alternative scenarios" table. Reflecting the national economists' guarded optimism, the odds of the high scenario (25 percent) marginally exceed the odds of the low scenario (20 percent).

The high (low) scenario features rapid (slow) growth coupled with a high (low) inflation rate. The scenarios do foresee significantly divergent paths. Whereas the baseline scenario calls for the creation of 146,000 jobs between 2012 and 2015, the high scenario predicts

### Forecast Probabilities

Blue Chip High	25 percent
Baseline	55 percent
Blue Chip Low	20 percent

181,700 and the low scenario forecasts 106,000. Of course, if Boeing started moving out of town, we would have to crank out a recession scenario.

### Alternative Scenarios

Annual Percent Change	2013	2014	2015
<b>Blue Chip High</b>			
Employment	3.0	3.7	3.1
Personal income (cur. \$)	4.3	8.1	7.7
Consumer price index	1.7	2.6	3.1
Housing permits	9.8	38.4	11.4
Population	1.5	1.6	1.3
<b>Blue Chip Low</b>			
Employment	2.8	1.6	1.4
Personal income (cur. \$)	3.7	4.4	4.1
Consumer price index	1.3	1.5	1.8
Housing permits	-2.3	-3.6	0.6
Population	1.5	1.6	1.3

# Retail Sales

## Resilient but repressed.

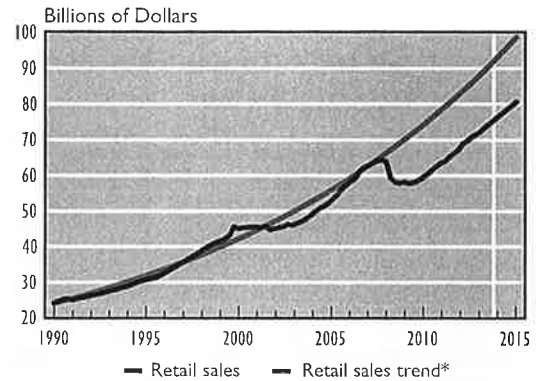
Puget Sound retail spending has fully recovered from the Great Recession. It surpassed its pre-recession peak in the first quarter of 2012 and has subsequently climbed 9.9 percent through the third quarter of 2013. Despite volatility in sales of durable goods, the advance in total retail sales has gone uninterrupted for fifteen straight quarters. Spending has held up during the uncertainty caused by the debt/deficit debacle and congressional inaction, the federal government sequester and shutdown, the confusion surrounding the course of monetary policy, the threat of international conflict, and the slack in European economies. Full credit to the consumer for the positive performance of retail sales.

And this perseverance is expected to continue. The forecast calls for total regional retail sales to

rise at a 5.5 percent annual rate in 2014 and 2015. This is a percentage point slower than in the previous two years, but it exactly matches the 1990-07 long-term growth rate. The trend-like growth expected for retail spending will be supported by rising personal income, a declining unemployment rate (though not by as much as in 2013), and further gains in housing starts (though not as robust as the increases earlier in the recovery).

Still, not all is well with the retail sector. As with many other measures of this economic recovery, retail spending is following a path far below where it would have been had the trend growth rate prior to the recession—specifically the 5.5 percent growth rate between 1990 and 2007—remained in place. This shortfall, measuring \$15.6 billion or 18 percent of total trend-line sales in the third quarter, shows no sign of closing, as it has in previous

Puget Sound Retail Sales



\*Trend growth rate is 5.5 percent

recoveries. This foregone retail spending could well be a permanent loss, the cost of the deep recession and anemic recovery.

More generally, there has been a tendency among analysts looking for the causes of the weak economic recovery to cite changes in fundamental economic variables, such as the stagnant labor force. This certainly is part of the story, but it does not rule out the possibility that policy mistakes may have also contributed. More work on this angle needs to be done.

PUGET SOUND RETAIL SALES									
	2013			2014		Years			
	2	3	4	1	2	2012	2013	2014	2015
Retail sales (bils. \$)	71.034	71.801	72.795	73.866	74.882	67.028	71.382	75.385	79.432
Building materials	4.840	4.933	5.068	5.191	5.298	4.582	4.923	5.349	5.763
Motor vehicles and parts	14.563	14.658	14.845	15.119	15.311	13.175	14.524	15.421	16.307
Furniture and electronics	3.000	3.080	3.147	3.197	3.241	2.820	3.048	3.246	3.360
General merchandise	8.564	8.670	8.806	8.905	8.996	8.158	8.614	9.051	9.368
Food and beverage	8.570	8.630	8.683	8.758	8.841	8.330	8.598	8.880	9.184
Gasoline stations	8.786	8.892	8.992	9.091	9.262	8.298	8.834	9.360	10.105
Clothing and accessories	3.461	3.484	3.527	3.577	3.625	3.301	3.476	3.643	3.818
Food services and drinking	7.068	7.153	7.243	7.350	7.436	6.846	7.117	7.478	7.834
Other retail sales	12.182	12.302	12.483	12.680	12.873	11.518	12.248	12.956	13.691
Taxable retail sales (bils. \$)	72.130	72.596	73.424	74.215	75.330	67.528	72.353	75.920	80.421
Retail trade	32.572	32.860	33.203	33.534	34.015	30.685	32.738	34.261	36.162
Other taxable sales	39.558	39.735	40.221	40.681	41.315	36.843	39.615	41.659	44.260
<b>Annual growth (% change)</b>									
Retail sales	6.5	4.3	5.5	5.9	5.5	6.5	6.5	5.6	5.4
Taxable retail sales	4.9	2.6	4.6	4.3	6.0	6.1	7.1	4.9	5.9

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

# Construction and Real Estate

## Under control.

The Puget Sound housing market continues along a bumpy road to recovery. In the third quarter of 2013, annual home sales climbed to 62,000, a robust 21.8 percent gain over the year.

Housing construction, on the other hand, sagged during the year, an apparent reaction to the uncertainty caused by the federal government shutdown. At this point, it looks like officials will issue about 18,000 housing permits in 2013, just a few more than last year.

In the Puget Sound apartment market, despite thousands of new multi-family units, the average vacancy rate remains low at around 4 percent.

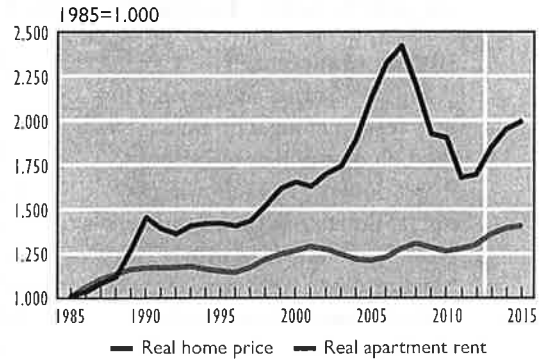
Robust home sales and a tight rental market have given a good kick to house prices and apartment rents. Between the third quarter of 2012 and the third quarter of 2013, the average home price rose from

\$334,100 to \$371,200, an increase of 11.1 percent. Concurrently, the average monthly apartment rent jumped 6.7 percent to \$1,120.

The spiraling cost of putting a roof over one's head has created concern. One analyst wondered whether the two-digit hike in home prices would ignite another round of speculation. A second observer quipped that the only affordable place to live now was the street.

But is there cause to worry? History provides some perspective. Between 1970 and 2003, which stops short of the recent housing bubble, home prices increased at an 8.1 percent annual rate (2.9 percentage points faster than the rise in the Seattle consumer price index). Between 1970 and 2013, which fully encompasses the housing bubble, the home price appreciation rate averaged only 6.8 percent (2.4 percentage points faster than the general inflation

Puget Sound Real Home Price and Apartment Rent\*



\* Home price and apartment rent relative to consumer price index.

rate). In other words, the housing bubble had the overall effect of significantly reducing the long-term home price appreciation rate. This in turn suggests that the latest run-up in prices is nothing more than a movement back to trend.

Similar calculations indicate that the current escalation of apartment rents is also an attempt to regain ground lost during the housing bubble. In any event, our outlook calls for moderate increases in home prices and apartment rents in 2014 and 2015.

## PUGET SOUND CONSTRUCTION AND REAL ESTATE

	2013			2014		Years			
	2	3	4	1	2	2012	2013	2014	2015
Housing permits (thous.)	16.9	17.9	18.5	18.9	19.9	17.3	17.7	20.1	22.6
Single-family	9.8	9.3	10.6	11.9	12.4	8.6	9.6	12.5	13.9
Multi-family	7.1	8.6	7.9	7.0	7.5	8.7	8.1	7.6	8.7
Housing permits (mils. \$)	3666.5	3608.3	3994.0	4284.3	4550.9	3449.9	3714.8	4629.9	5403.3
Single-family	2809.5	2568.4	2946.2	3335.3	3527.6	2283.6	2694.3	3583.4	4127.4
Multi-family	857.0	1039.9	1047.8	949.0	1023.3	1166.3	1020.5	1046.5	1275.9
Average home price (thous. \$)	366.4	371.2	377.3	384.6	391.5	330.2	365.1	393.9	412.3
Active home listings (thous.)	10.8	12.5	13.8	14.9	15.7	13.7	11.9	16.0	17.8
Home sales (thous.)	59.0	62.0	63.5	66.5	67.4	50.2	59.7	67.3	68.0
Apartment vacancy rate (%)	3.9	4.0	3.9	4.1	4.3	4.6	3.9	4.4	4.6
Average apartment rent (\$)	1098	1120	1130	1141	1152	1041	1106	1158	1198
<b>Annual growth (% change)</b>									
Housing permits (mils. \$)	8.5	-6.4	42.8	29.1	24.9	57.7	7.7	24.6	16.7
Average home price	24.2	5.2	6.6	7.7	7.2	3.5	10.6	7.9	4.7
Average apartment rent	8.2	8.0	3.5	4.0	3.9	4.4	6.3	4.7	3.5

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

## Special Topic: Economic Timeline (I)

### History of success.

Argosy Cruises serves up a history lesson along with delicious food on dinner jaunts around Puget Sound. The following economic timeline is based on a one-page "Timeline of Seattle History" handed out to Argosy passengers. It also draws information from HistoryLink.org:

**1792** Captain George Vancouver explores Puget Sound, naming the water and lands around it.

**1849** California Gold Rush spurs demand for Kitsap Peninsula lumber.

**1851** The Denny Party lands at Alki Point near the future site of Seattle.

**1852** Doc Maynard arrives in a canoe paddled by Chief Sealth, becoming Seattle's first merchant.

**1852** Henry Yesler erects a steam-powered sawmill, making Seattle the economic center of the region.

**1861** University of Washington is established on Denny Knoll.

**1878** Seattle Brewing and Malting Company, the predecessor to Rainier Brewing Company, is founded.

**1883** Northern Pacific Railroad builds a transcontinental rail line to Tacoma, opening up markets to the east.

**1889** On June 6 a pot of glue ignites Seattle's Great Fire, leaving sixty-four acres of the city in ruins.

**1889** Washington becomes the nation's forty-second state.

**1891** Puget Sound Naval Shipyard is established in Bremerton.

**1896** The *Miike Maru* sails into Seattle, opening up trade with Japan.

**1897** A ton of gold arriving on the *Portland* sets off the Yukon Gold Rush.

**1900** Frederick Weyerhaeuser buys 900,000 acres of Washington timberland and forms Weyerhaeuser Timber Company.

**1901** Wallin and Nordstrom shoe store, the forerunner of Nordstrom's, opens in downtown Seattle.

**1908** Seattle Car Manufacturing (later PACCAR) establishes a railcar plant in Renton.

**1907** United Parcel Service (originally called American Messenger) is founded.

**1909** The Alaska-Yukon-Pacific Exposition promotes Seattle as the gateway to Alaska and Asia.

**1916** Lumberman William Boeing builds his first airplane and starts the Boeing Airplane Company.

**1921** The *Edmore* is the first cargo ship to call at the Port of Tacoma.

**1921** Camp Lewis opens for military training.

**1923** Kenworth Motor Truck incorporates in Seattle.

**1929** Coast-to-coast air service begins at Boeing Field.

**1929** On October 29 (Black Tuesday) the stock market crashes, initiating the Great Depression.

**1933** Unemployment rises to 25 percent for all workers and 37 percent for nonfarm workers.

**1933** A citizen-approved income tax is declared unconstitutional by the Washington State Supreme Court.

**1934** Construction begins on Grand Coulee Dam to provide water, electricity, and jobs.

**1934** Eddie Bauer opens a store on the Olympic Peninsula.

**1937** Dave Beck forms the Western Conference of the Teamsters.

**1938** REI (Recreational Equipment Inc.) opens what will become the nation's largest consumer co-op.

**1938** Warren Magnuson is elected to the U.S. House of Representatives.

**1940** The Lake Washington Floating Bridge links Seattle and eastern King County.

**1941** The United States declares war on Japan.

**1942** Boeing, which eventually employs 50,000 during World War II, test flies the B-29.

**1943** Construction begins on the top-secret Hanford plutonium production facility.

# FORECAST DETAIL 55 Percent Probability

	2013			2014		Years			
	2	3	4	1	2	2012	2013	2014	2015
Employment (thous.)	1833.1	1854.5	1869.7	1882.3	1893.3	1795.1	1846.8	1898.8	1941.1
Goods producing	282.0	285.5	287.4	287.5	288.2	272.9	284.2	288.9	292.7
Natural resources and mining	0.9	1.0	1.0	0.9	0.9	1.0	0.9	0.9	0.9
Construction	90.2	94.3	96.3	96.9	98.2	85.9	93.1	99.0	104.5
Manufacturing	190.8	190.3	190.1	189.7	189.1	186.0	190.2	188.9	187.3
Aerospace	93.3	92.8	92.5	91.9	91.4	91.1	93.1	91.2	89.8
Other durable goods	66.5	66.7	66.8	66.9	66.8	65.6	66.4	66.8	66.7
Nondurable goods	31.0	30.8	30.8	30.9	30.9	29.3	30.6	30.9	30.9
Services producing	1551.1	1569.0	1582.4	1594.8	1605.0	1522.3	1562.6	1610.0	1648.3
Wholesale and retail trade	276.7	278.8	280.3	281.6	283.0	267.7	277.7	283.6	288.3
Transportation and public utilities	62.4	63.4	63.6	64.0	64.1	61.5	62.9	64.2	64.9
Information	92.8	94.4	95.8	96.7	97.2	91.8	93.8	97.4	99.3
Financial activities	98.8	99.1	98.9	99.4	99.7	96.0	98.8	99.8	100.6
Professional and business services	251.5	254.5	258.0	261.4	264.4	246.1	254.0	266.2	279.6
Other services	479.4	488.4	494.4	499.1	502.9	470.5	485.2	504.5	516.9
Government	289.4	290.2	291.4	292.6	293.7	288.7	290.2	294.2	298.7
State and local	238.3	239.7	241.1	242.4	243.5	236.4	239.2	244.0	248.4
Federal	51.1	50.6	50.3	50.2	50.2	52.3	51.1	50.2	50.2
Unemployment rate (%)	5.6	5.9	5.8	5.8	5.7	7.4	5.9	5.7	5.5
Personal income (bils. \$09)	191.3	193.0	195.1	197.8	199.5	187.1	192.3	200.3	207.1
Personal income (bils. \$)	204.5	207.2	210.3	214.2	217.0	198.3	206.2	218.4	230.8
Wage and salary disbursements	117.9	119.8	121.9	124.0	125.9	114.5	119.2	126.8	133.9
Other income	86.6	87.4	88.3	90.2	91.2	83.9	87.0	91.7	97.0
Per capita personal income (\$)	53394	53877	54436	55239	55749	52439	53725	56004	58401
Consumer price index (82-84=1.000)	2.418	2.428	2.437	2.449	2.462	2.386	2.420	2.469	2.530
Housing permits (thous.)	16.9	17.9	18.5	18.9	19.9	17.3	17.7	20.1	22.6
Population (thous.)	3829.6	3846.2	3862.6	3877.6	3893.2	3781.9	3838.1	3900.2	3952.7
Net migration (thous.)	40.2	38.7	38.1	32.2	35.0	25.6	36.3	31.9	20.9
Three-month treasury bill rate (%)	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.5
Conventional mortgage rate (%)	3.7	4.4	4.4	4.5	4.7	3.7	4.0	4.8	5.3
Annual growth (% change)									
Employment	0.7	4.7	3.3	2.7	2.3	2.3	2.9	2.8	2.2
Personal income (cur. \$)	3.1	5.4	5.9	7.5	5.3	4.9	4.0	5.9	5.7
Consumer price index	3.2	1.6	1.5	2.1	2.1	2.5	1.4	2.0	2.4
Housing permits	-16.8	25.0	12.3	9.1	21.1	51.8	2.4	13.6	12.2
Population	1.6	1.7	1.7	1.5	1.6	1.3	1.5	1.6	1.3

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

# Leading Index

**The expansion endures.**

The Puget Sound leading index increased 0.7 percent in the third quarter. Six components (help-wanted ads, housing permits, the interest rate spread, the Boeing backlog-delivery ratio, initial filings for unemployment benefits, and durable goods sales) improved, while only one component (manufacturing hours) worsened. This is a clear signal that the regional economy will continue to expand.

The slip in the length of the manufacturing workweek was a minor setback, amounting to just eighteen minutes in a workweek that has averaged 42.0 hours during the recovery. The workweek was actually a bit longer (42.3 hours)

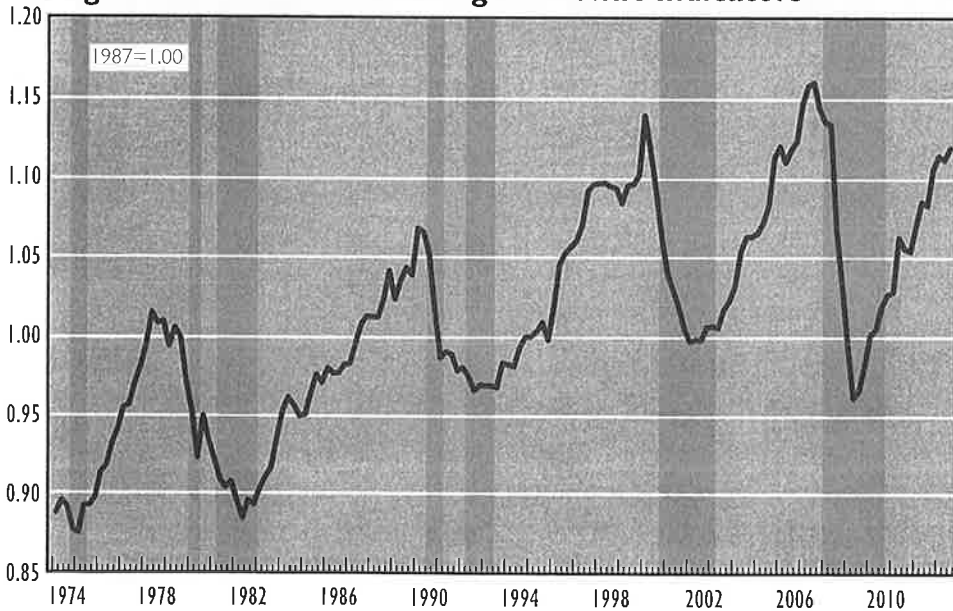
during the recession, as employers added hours while shedding jobs. The current reverse pattern is not unusual for recoveries.

More noteworthy is the widening interest rate spread (the difference between the yield on the ten-year Treasury note and the yield on the 3-month Treasury bill). Usually, this gap narrows during recoveries as short-term rates rise and then widens during recessions as the Federal Reserve eases monetary policy. But the current recovery is unique for its steady, near-zero short-term interest rates. Thus, the hike in the spread over the last four quarters is due almost solely to a 1.14 percentage point increase in the long-term Treasury yield (this

despite the Fed's unprecedented purchase of Treasury securities). Given low inflation expectations, one explanation for the higher long-term rate is that the outlook for the economy is improving.

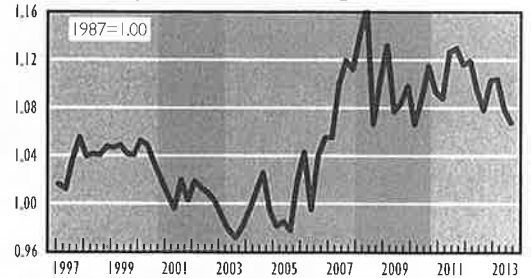
What does the leading index specifically forecast for the regional economy? A simple model that relates employment to lagged values of the leading index predicts that employment will rise by 57,000 jobs (a 2.5 percent annual rate) between the third quarter of 2013 and the fourth quarter of 2014. This is within 4,100 jobs (0.2 percent) of the prediction from our more sophisticated regional econometric model. Bottom line: all is well, according to the leading index.

**Puget Sound Index of Leading Economic Indicators**

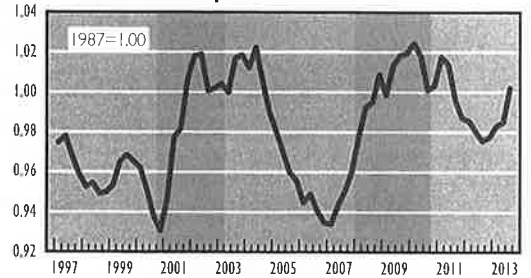


Shaded areas show recessions or periods of economic stagnation.

**Washington Manufacturing Hours**



**Interest Rate Spread**



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