

Northwest Washington Labor Market Review

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Reinhold Groepler, Ph.D., Regional Economist

101 Prospect Street, Bellingham WA 98229

Voice: (360) 676-3253

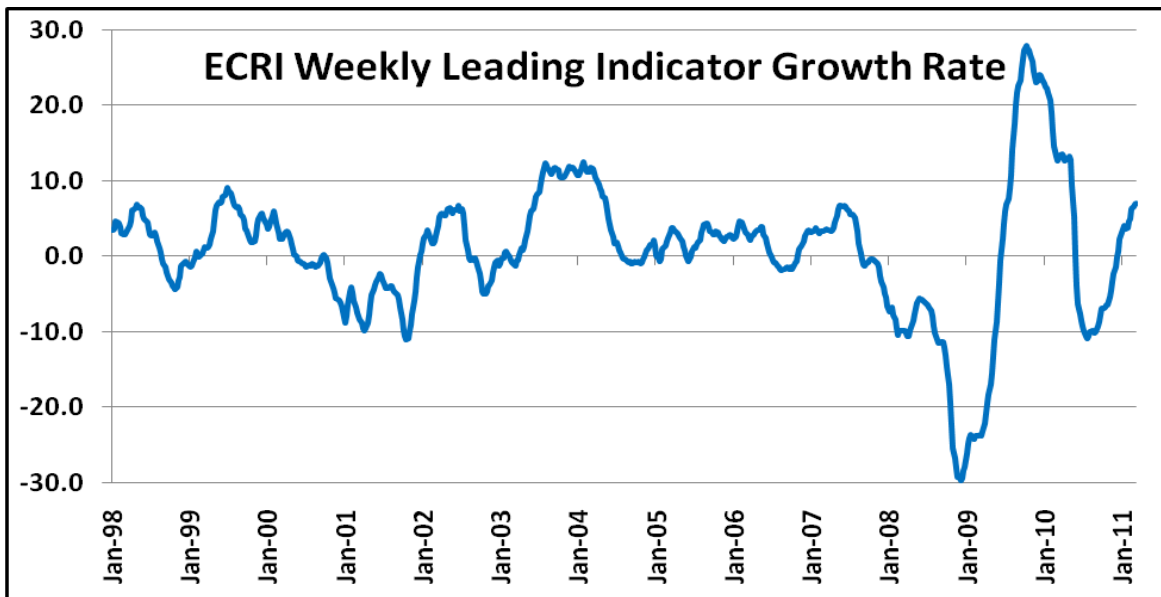
rgroepler@esd.wa.gov, www.workforceexplorer.com

National Economic Outlook

As usual, there is a national tug of war going on between reasons for economic optimism and pessimism. National leading indicators for manufacturing remain strong ([ISM PMI](#)). Consumer sentiment, auto sales, initial claims for unemployment and chain store sales likewise point to strength. Single family housing starts, real consumer spending, and rising energy and agricultural prices are some reasons for concern. The economic recovery from a burst credit bubble typically takes several years, which is why the recovery from the past recession has been very sluggish; especially for labor markets (see bullets at the end of this report). US fiscal and monetary policies have been highly stimulative to encourage the private sector of the economy to gain traction and produce jobs. Fiscal policy stimulation is largely phased out, but monetary policy is still highly stimulative. **The critical issue for the US is whether the economy can transition from the heavy fiscal and monetary stimulus to more organic growth.**

The ECRI Weekly Leading Indicator ([WLI](#)) has laid to rest the fears of another recession starting soon. The WLI does a decent job of forecasting economic growth six to nine months out. The recent rise in the WLI growth rate through March 11, 2011(see chart below) is possibly the strongest indicator for economic optimism over the short term. **Expect accelerating but still modest job gains through most of 2011 in the four northwest counties.**

| Unemployment Rates (Nonseasonally Adjusted) | | | |
|---|--------|--------|--------|
| Area | Jan-11 | Dec-10 | Jan-10 |
| USA | 9.8 | 9.1 | 10.6 |
| Washington | 9.7 | 9.2 | 10.9 |
| Whatcom | 9.6 | 8.2 | 10.1 |
| Skagit | 11.4 | 10.1 | 12.5 |
| Island | 9.7 | 8.7 | 10.8 |
| San Juan | 9.3 | 7.5 | 9.7 |



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Labor Market Outlook

The [US February labor report](#) showed continued strengthening of labor markets with “*Job gains occurred in manufacturing, construction, and several service-providing industries. Since a recent low in February 2010, total payroll employment has grown by 1.3 million, or an average of 106,000 per month [seasonally adjusted basis].*” **Nationally, small businesses have been the strongest generator of jobs for some months now, which bodes well for our local northwest economies which are based primarily on small businesses.** Small business job changes lead employment changes at large businesses, so that is another reason for optimism. For further information and the latest reports by the [National Federation of Small Businesses](#) and the [Intuit Small Business Employment Index](#) please use these highlighted links.

The [Washington State January Employment Situation Report](#) notes, “*The state added an estimated 11,000 jobs in January on a seasonally adjusted basis. It’s the largest monthly gain since November 2007, the month before the national recession began....Industries that added jobs [seasonally adjusted data] in January were professional and business services, up 5,600; education and health services, up 4,500; retail trade, up 1,500; leisure and hospitality, up 1,300; financial activities, up 1,200; transportation, warehousing and utilities, up 800; and mining and logging, up 100. Jobs were lost in construction, down 1,500; manufacturing, down 700; information, down 600; government, down 600; other services, down 500; and wholesale trade, down 100.*”

What is notable is that size of the labor force shrank year over year across all areas. This means that there are still potential workers leaving the labor force due to discouraging work prospects. On a percentage basis the labor force shrinkage was stronger in Washington and particularly in the northwest counties compared to the US.

Economic Overview of Northwest Counties for January 2011

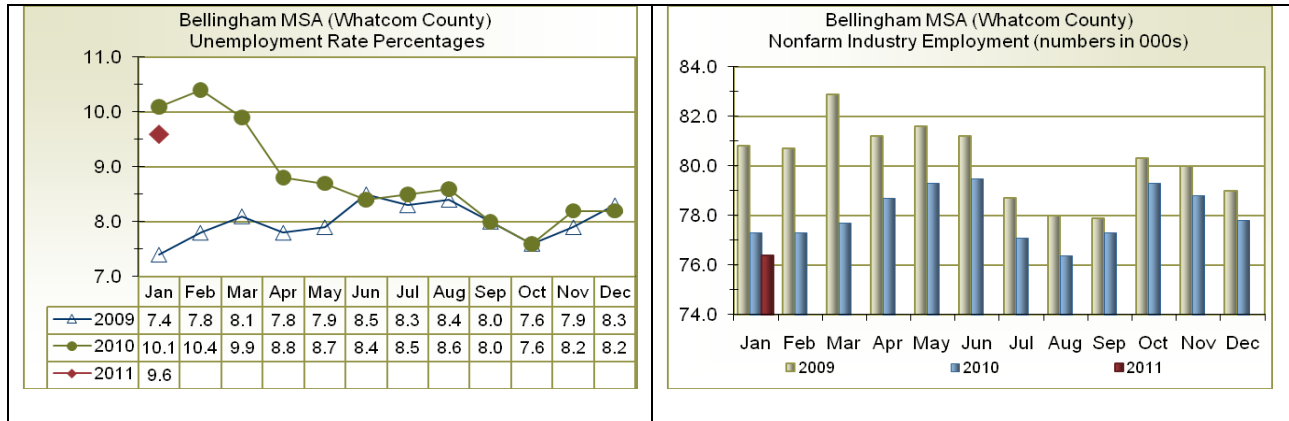
In the northwest Washington counties, manufacturing has continued its recent strength in employment despite the recent statewide losses of jobs in manufacturing. Construction jobs for single family residences are still hard to come by.

Whatcom County

Whatcom County is clearly the recent laggard among the four northwest counties whether measured by the largest percent shrinkage of the labor force due to discouraging work prospects or by being the only northwest county that has lost nonfarm jobs on a year over year basis (900 private sector jobs lost and 100 government jobs lost). The only bright spots on a year over year job basis are the 300 person increase in both manufacturing jobs and leisure & hospitality jobs. Construction employment has lost about 500 jobs compared to a year ago (but this figure includes mining and logging). The planned building of new hotels and apartments in Bellingham during this year should bring some much needed relief to unemployed residential construction workers. Besides construction, private services employment (other than those listed in the table below) lost 500 jobs year over year and 100 jobs since December of last year, so this loss in ‘private residual services’ employment continues a trend started around November of last year. One encouraging tidbit for Whatcom County is that the average (2001-2010) traditional seasonal December to January decline in private nonfarm jobs was -2.5 percent, while the recent decline was -2.3 percent.

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Whatcom County

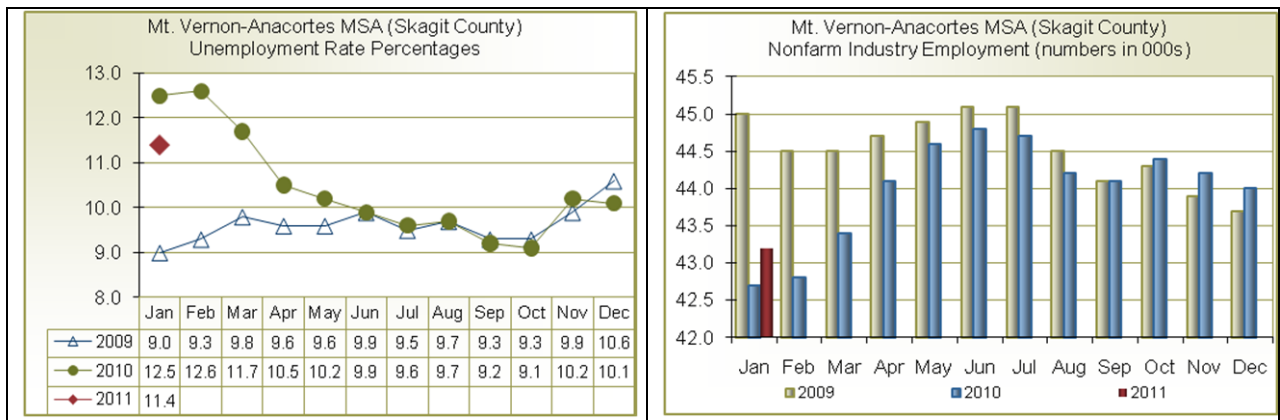


| Labor Market Information for the Bellingham Metropolitan Statistical Area (Whatcom County) Not Seasonally Adjusted/*Updated with ***QCEW Data: September 2010 | | | | | | |
|--|---------|---------|---------|--------|--------|----------|
| | | | | Change | | |
| | Prelim | Revised | Revised | 10-Dec | 10-Jan | 10-Jan |
| Employment by Place of Residence | 11-Jan | 10-Dec | 10-Jan | 11-Jan | 11-Jan | Jan-11 % |
| Civilian Labor Force | 104,880 | 106,230 | 107,070 | -1,350 | -2190 | -2.05% |
| Resident Employment | 94,860 | 97,530 | 96,240 | -2,670 | -1380 | -1.43% |
| Unemployment | 10,020 | 8,700 | 10,830 | 1320 | -810 | -7.48% |
| Unemployment Rate | 9.6 | 8.2 | 10.1 | 0.1 | -0.2 | |
| Employment by Place of Work (**NAICS Industry Titles, numbers in thousands) | | | | | | |
| Total Nonfarm 1/ | 76.4 | 77.8 | 77.3 | -1.4 | -0.9 | -1.16% |
| Total Private | 60.1 | 61.5 | 60.9 | -1.4 | -0.8 | -1.31% |
| Goods Producing | 12.9 | 13.2 | 13.1 | -0.3 | -0.2 | -1.53% |
| Mining, Logging, and Construction | 5.1 | 5.4 | 5.6 | -0.3 | -0.5 | -8.93% |
| Manufacturing | 7.8 | 7.8 | 7.5 | 0 | 0.3 | 4.00% |
| Service Providing | 63.5 | 64.6 | 64.2 | -1.1 | -0.7 | -1.09% |
| Private Services Providing | 47.2 | 48.3 | 47.8 | -1.1 | -0.6 | -1.26% |
| Trade, Transportation, Warehousing, and Utilities | 14.1 | 14.8 | 14.4 | -0.7 | -0.3 | -2.08% |
| Retail Trade | 9.7 | 10.1 | 9.7 | -0.4 | 0 | 0.00% |
| Financial Activities | 2.8 | 2.8 | 2.8 | 0 | 0 | 0.00% |
| Professional and Business Services | 6.6 | 6.7 | 6.7 | -0.1 | -0.1 | -1.49% |
| Leisure and Hospitality | 9.1 | 9.3 | 8.8 | -0.2 | 0.3 | 3.41% |
| Government | 16.3 | 16.3 | 16.4 | 0 | -0.1 | -0.61% |
| Federal Government | 1.4 | 1.4 | 1.4 | 0 | 0 | 0.00% |
| State Government | 5.5 | 5.4 | 5.4 | 0.1 | 0.1 | 1.85% |
| Local Government | 9.4 | 9.5 | 9.6 | -0.1 | -0.2 | -2.08% |
| Workers in Labor/Management Disputes | 0 | 0 | 0 | 0 | 0 | |
| 1 / Excludes proprietors, self-employed, members of the armed services, workers in private households, and agriculture. Includes all full- and part-time wage and salary workers receiving pay during the pay period including the 12th of the month. Columns may not add due to rounding. | | | | | | |
| *Prepared by the Labor Market and Economic Analysis branch using a Quarterly Benchmark process. This process uses the most recent quarter from the Unemployment Insurance Tax Reports and estimates employment from that point to present. | | | | | | |
| **North American Industry Classification System | | | | | | |
| ***QCEW = Quarterly Census of Employment and Wages | | | | | | |

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Skagit County

Skagit County is still a ‘jewel in the northwest’ when it comes to the job creation engine over the five months. On a January year over year basis, Skagit County has gained jobs (or at least not lost jobs) in every listed industry including total government (due mostly to a 400 job year over year gain in local government). The data in the following charts and table speaks for itself. One surprising industry for year over year job growth in January 2011 was a pickup of 300 jobs in leisure and hospitality. From January 2000 through December 2010, seasonally adjusted employment in this industry shrank by over 17 percent (compared to a 19.5 percent gain for Whatcom County over this period). This Skagit County industry had the greatest decline except for mining, logging and construction employment (down about 22 percent over the same timeframe). Skagit County voters will soon be deciding whether to fund a [county tourism bureau](#) for marketing and promoting tourism through an added \$2.00 hotel fee.



NORTHWEST WASHINGTON LABOR MARKET REVIEW FOR JANUARY 2011

Skagit County

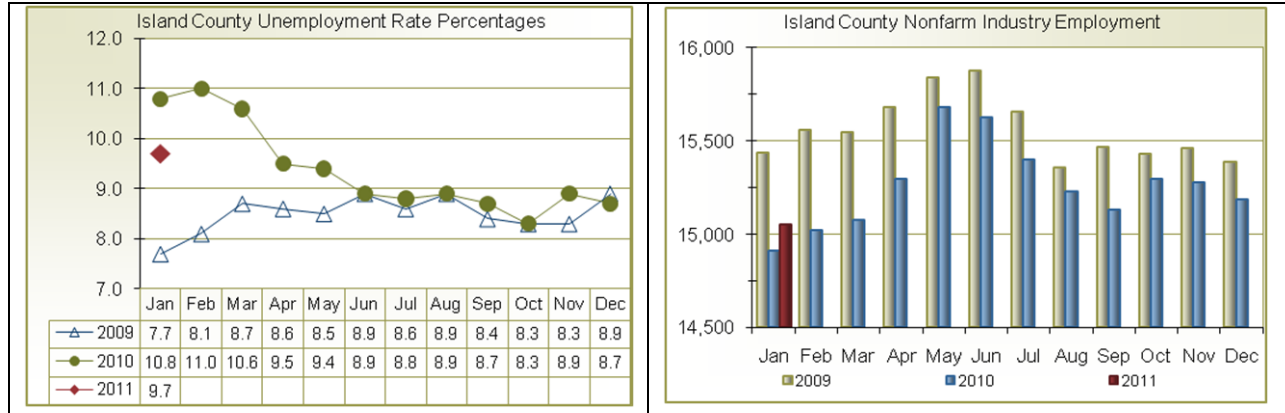
| Labor Market Information for the Mount Vernon-Anacortes Metropolitan Statistical Area (Skagit County) Not Seasonally Adjusted/*Updated w with ***QCEW Data: September 2010 | | | | | | |
|---|------------------|-------------------|-------------------|------------------|------------------|--------------------|
| | | | | Change | | |
| | Prelim 11-Jan | Revised 10-Dec | Revised 10-Jan | 10-Dec 11-Jan | 10-Jan 11-Jan | 10-Jan Jan-11 % |
| Employment by Place of Residence | | | | | | |
| Civilian Labor Force | 57,870 | 58,270 | 58,400 | -400 | -530 | -0.91% |
| Resident Employment | 51,270 | 52,400 | 51,080 | -1,130 | 190 | 0.37% |
| Unemployment | 6,600 | 5,870 | 7,320 | 730 | -720 | -9.84% |
| Unemployment Rate | 11.4 | 10.1 | 12.5 | 1 | -1 | |
| Employment by Place of Work (**NAICS Industry Titles, numbers in thousands) | | | | | | |
| Total Nonfarm 1/ | 43.2 | 44 | 42.7 | -0.8 | 0.5 | 1.17% |
| Total Private | 32.2 | 32.9 | 32 | -0.7 | 0.2 | 0.63% |
| Goods Producing | 7.6 | 7.8 | 7.4 | -0.2 | 0.2 | 2.70% |
| Mining, Logging, and Construction | 2.7 | 2.9 | 2.6 | -0.2 | 0.1 | 3.85% |
| Manufacturing | 4.9 | 4.9 | 4.8 | 0.0 | 0.1 | 2.08% |
| Service Providing | 35.6 | 36.2 | 35.3 | -0.6 | 0.3 | 0.85% |
| Private Services Providing | 24.6 | 25.1 | 24.6 | -0.5 | 0.0 | 0.00% |
| Trade, Transportation, Warehousing, and Utilities | 9.1 | 9.5 | 9.1 | -0.4 | 0.0 | 0.00% |
| Retail Trade | 6.7 | 7 | 6.7 | -0.3 | 0.0 | 0.00% |
| Leisure and Hospitality | 4.2 | 4.3 | 4.1 | -0.1 | 0.1 | 2.44% |
| Government | 11 | 11.1 | 10.7 | -0.1 | 0.3 | 2.80% |
| Federal Government | 0.4 | 0.4 | 0.4 | 0.0 | 0.0 | 0.00% |
| State Government | 1.4 | 1.4 | 1.5 | 0.0 | -0.1 | -6.67% |
| Local Government | 9.2 | 9.3 | 8.8 | -0.1 | 0.4 | 4.55% |
| Workers in Labor/Management Disputes | 0 | 0 | 0 | 0 | 0 | |
| 1/ Excludes proprietors, self-employed, members of the armed services, workers in private households, and agriculture. Includes all full- and part-time wage and salary workers receiving pay during the pay period including the 12th of the month. Columns may not add due to rounding. | | | | | | |
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| **North American Industry Classification System | | | | | | |
| ***QCEW = Quarterly Census of Employment and Wages | | | | | | |

Island County

Island County gained 140 nonfarm jobs on a January year over year basis. Of this amount, a net 30 jobs were in government. Manufacturing employment increased a robust 12 percent with a gain of 70 jobs over this period. There were job losses over the December January period as seasonal layoffs occurred across most industries. An encouraging fact is that this seasonal decline across the private sector from December to January was -1.3 percent, which compares favorably to the 2001 to 2010 average decline of -2.0 percent. One note of intermediate to long-term interest is the issue of the [location of newer generation the Navy's submarine hunter aircraft](#) which will have a profound impact on the Oak Harbor economy.

NORTHWEST WASHINGTON LABOR MARKET REVIEW FOR JANUARY 2011

Island County



| Labor Market Information for Island County | | | | | | |
|--|--------|---------|---------|--------|--------|----------|
| Not Seasonally Adjusted/*Updated w with ***QCEW Data: September 2010 | | | | | | |
| | | | | Change | | |
| | Prelim | Revised | Revised | 10-Dec | 10-Jan | 10-Jan |
| Employment by Place of Residence | 11-Jan | 10-Dec | 10-Jan | 11-Jan | 11-Jan | Jan-11 % |
| Civilian Labor Force | 32,630 | 32,880 | 33,010 | -250 | -380 | -1.15% |
| Resident Employment | 29,450 | 30,010 | 29,430 | -560 | 20 | 0.07% |
| Unemployment | 3,170 | 2,880 | 3,580 | 290 | -410 | -11.45% |
| Unemployment Rate | 9.7 | 8.7 | 10.8 | 1 | -1 | |
| Employment by Place of Work (**NAICS Industry Titles) | | | | | | |
| Total Nonfarm 1/ | 15,050 | 15,190 | 14,910 | -140 | 140 | 0.94% |
| Total Private | 10,400 | 10,540 | 10,290 | -140 | 110 | 1.07% |
| Goods Producing | 1,480 | 1,520 | 1,430 | -40 | 50 | 3.50% |
| Natural Resources, Mining, and Construction | 810 | 850 | 830 | -40 | -20 | -2.41% |
| Manufacturing | 670 | 670 | 600 | 0 | 70 | 11.67% |
| Service Providing | 13,570 | 13,670 | 13,480 | -100 | 90 | 0.67% |
| Trade, Transportation, and Utilities | 2,550 | 2,580 | 2,560 | -30 | -10 | -0.39% |
| Wholesale Trade | 130 | 130 | 130 | 0 | 0 | 0.00% |
| Retail Trade | 2,110 | 2,150 | 2,130 | -40 | -20 | -0.94% |
| Transportation, Warehousing, and Utilities | 310 | 300 | 300 | 10 | 10 | 3.33% |
| Information and Financial Activities | 790 | 780 | 810 | 10 | -20 | -2.47% |
| Government | 4,650 | 4,650 | 4,620 | 0 | 30 | 0.65% |
| Federal Government | 1,390 | 1,400 | 1,340 | -10 | 50 | 3.73% |
| State and Local Government | 3,260 | 3,250 | 3,280 | 10 | -20 | -0.61% |
| Workers in Labor/Management Disputes | 0 | 0 | 0 | 0 | 0 | |

1/ Excludes proprietors, self-employed, members of the armed services, workers in private households, and agriculture. Includes all full- and part-time wage and salary workers receiving pay during the pay period including the 12th of the month. Columns may not add due to rounding.

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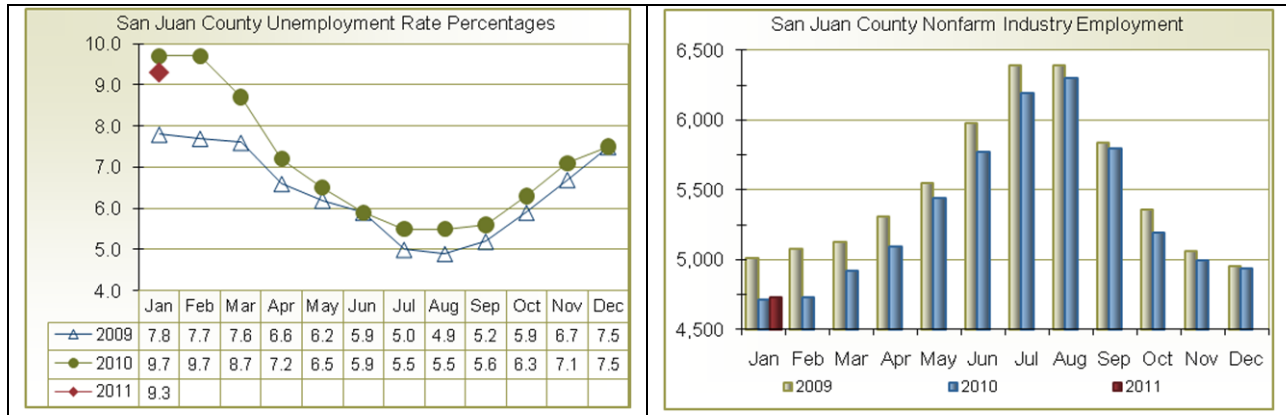
**North American Industry Classification System

***QCEW = Quarterly Census of Employment and Wages

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San Juan County

San Juan County is finally getting some relief from having the lowest number of private nonfarm payroll jobs over the past decade during a few months in 2010. It has increased these jobs by 40 positions compared to last January. The average (2001-2010) seasonal December to January decline in private nonfarm jobs was -5.3 percent, while the recent decline was -4.3 percent, so there are reasons for optimism for private job creation going forward.



| Labor Market Information for San Juan County | | | | | | |
|--|--------|---------|---------|--------|--------|----------|
| Not Seasonally Adjusted/*Updated with ***QCEW Data: September 2010 | | | | | | |
| | | | | Change | | |
| | Prelim | Revised | Revised | 10-Dec | 10-Jan | 10-Jan |
| Employment by Place of Residence | 11-Jan | 10-Dec | 10-Jan | 11-Jan | 11-Jan | Jan-11 % |
| Civilian Labor Force | 7,600 | 7,810 | 7,690 | -210 | -90 | -1.17% |
| Resident Employment | 6,890 | 7,230 | 6,950 | -340 | -60 | -0.86% |
| Unemployment | 710 | 590 | 740 | 120 | -30 | -4.05% |
| Unemployment Rate | 9.3 | 7.5 | 9.7 | 2 | 0 | |
| Employment by Place of Work (**NAICS Industry Titles) | | | | | | |
| Total Nonfarm 1/ | 4,730 | 4,940 | 4,710 | -210 | 20 | 0.42% |
| Total Private | 3,760 | 3,930 | 3,720 | -170 | 40 | 1.08% |
| Goods Producing | 830 | 900 | 850 | -70 | -20 | -2.35% |
| Natural Resources, Mining, and Construction | 670 | 710 | 710 | -40 | -40 | -5.63% |
| Manufacturing | 160 | 190 | 140 | -30 | 20 | 14.29% |
| Service Providing | 3,900 | 4,040 | 3,860 | -140 | 40 | 1.04% |
| Trade, Transportation, and Utilities | 930 | 970 | 880 | -40 | 50 | 5.68% |
| Information and Financial Activities | 280 | 280 | 270 | 0 | 10 | 3.70% |
| Government | 970 | 1010 | 990 | -40 | -20 | -2.02% |
| Workers in Labor/Management Disputes | 0 | 0 | 0 | 0 | 0 | |
| <i>1/ Excludes proprietors, self-employed, members of the armed services, workers in private households, and agriculture. Includes all full- and part-time wage and salary workers receiving pay during the pay period including the 12th of the month. Columns may not add due to rounding.</i> | | | | | | |
| <i>*Prepared by the Labor Market and Economic Analysis branch using a Quarterly Benchmark process. This process uses the most recent quarter from the Unemployment Insurance Tax Reports and estimates employment from that point to present.</i> | | | | | | |
| **North American Industry Classification System | | | | | | |
| ***QCEW = Quarterly Census of Employment and Wages | | | | | | |

Economics 101: How the Economy Works Through Burst Credit Bubbles

The private sector is the driver of the economy

- Consumption creates somebody else's income and helps to generate more jobs
- Income creates more consumption
- This is the circular flow of how the economy works in good times and bad
 - Both good and 'bad' trends tend to be self-reinforcing until a turning point occurs

The Public sector is ideally a facilitator of the private economy

- It creates a public infrastructure like roads, bridges, schools and so forth
- It also creates rules that make the economy operate more smoothly (and sometimes not!)
- Since WWII, economic cycles of growth and recession have been strongly influenced by credit market changes engineered by the Federal Reserve Bank (FED)
- To slow an overheating economy and guard against increasing inflation, the FED would raise short-term interest rates and usually tip the economy into a recession
- To get the economy out of a recession, the FED would lower short-term interest rates and typically the construction sector would lead the economy out of the recession
- The recoveries from a FED easing cycle were usually quite vigorous, with the exceptions of the 2000s recessions

The credit bubble buildup and bust is what economists call a market failure

- This was caused by poor planning and decisions made in the both the private and public sectors, not only in the US, but around the world; Credit was made too freely available especially for US residential housing and that drove housing prices higher than economic fundamentals could support
- The subsequent fall in housing prices caused consumers to retrench by spending less and saving more; Paradoxically, while it may make sense for an individual to save more, however when most of the consumers in an economy do so, it causes employment and incomes to decline; This phenomenon is known as the paradox of thrift
- Businesses are still eager to produce, sell, and make profits; Consumers are eager to work and consume
- Both groups are frustrated because this is not happening as it did in most post WWII recoveries; Business is operating with much unused capacity and labor is not employed as much as it could be
- Both businesses and consumers have been in a fearful mood due to recent extreme events
- Weak sales continue to be mentioned as small [business owner's](#) top problem
- Businesses are reluctant to hire new employees, but rather work their existing employees harder
- Without increasing employment and wages, consumers are reluctant to spend
- So we have a very slow healing process
- The recovery phase of a burst credit bubble takes 5-6 years and typically has a very slow recovery in jobs