



# Looking Up in the PNW

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Northwest Construction Consumer Council  
November 9, 2004  
SeaTac, Washington  
John W. Mitchell  
Economist Western Region  
U.S. Bank

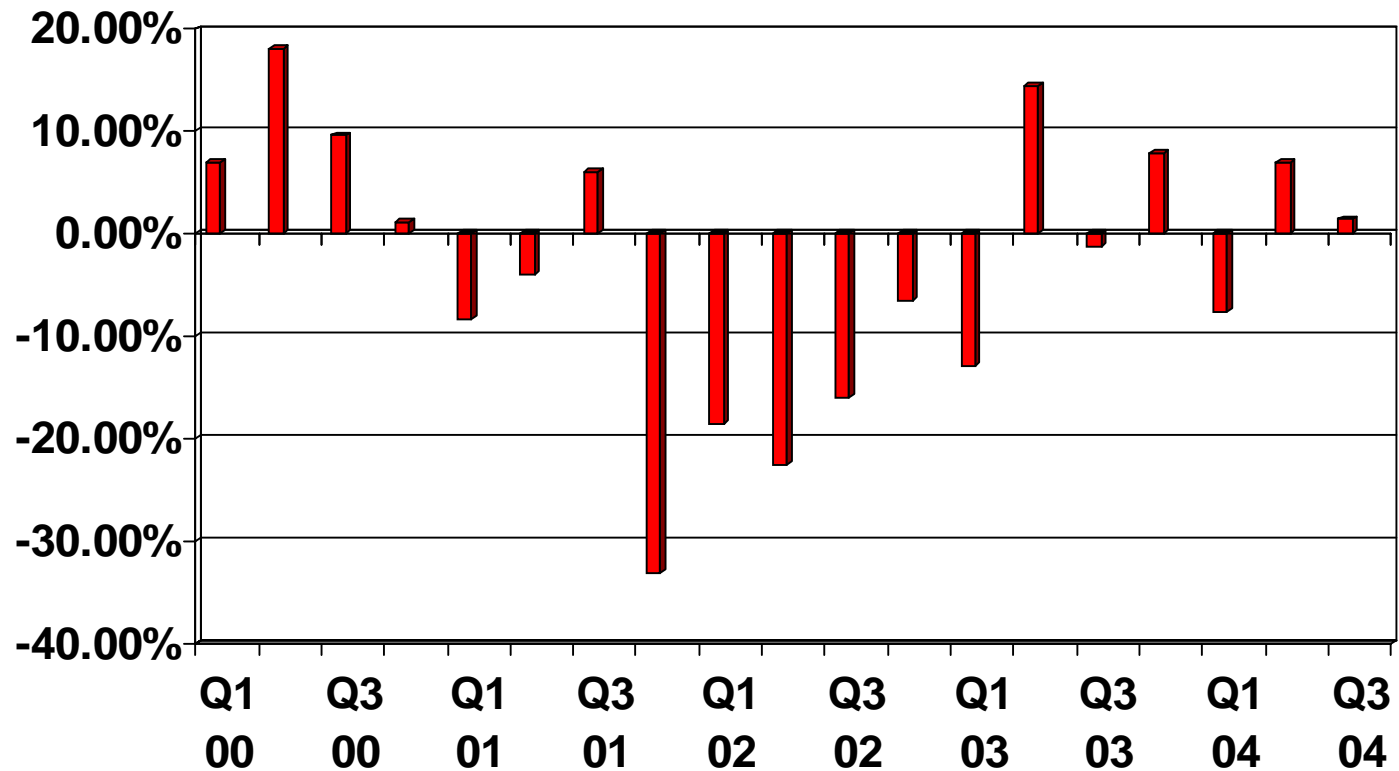


# Purveyors of Space

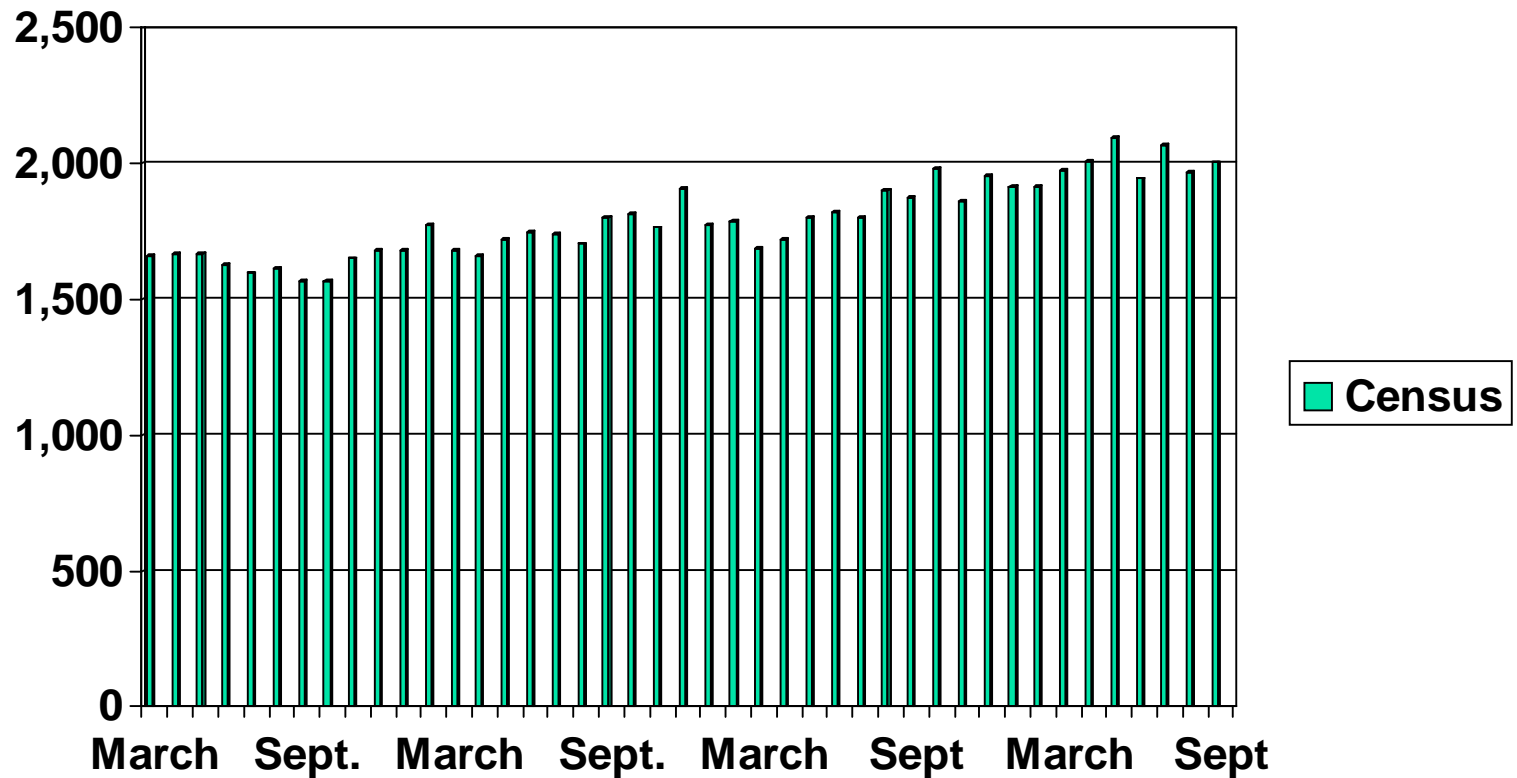
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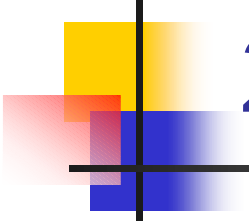
- Projects that transcend our time.
- Services provided to industries and people-not yet born.
- An Industry of Lags
- Political Lightning Rod
- “Animal Spirits”

# Revised Non-Residential Construction



# Residential Permits 2001-2004 (000, SAAR)





# Trends in 2003 and September 2004 Construction Put in Place

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- Housing 12.7% (14.6% to September 2004)
- Health Care Facilities 6.6% (9.4%)
- Office - 9.8% (7.4%)
- Communication -31.1% (1%)
- Manufacturing – 13.7% (-1.1%)
- Education .9% (1.7%)
- Sewage and Waste Disposal .6% (9%)
- Lodging 1.3% (8%)
- Commercial 1.7% (4.2%)
- Highway and Street 2.3% (6.2%)
- Source: Census Bureau



# The Expansion

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- Recession Ended in 11/01
- Fourth Year of Output Growth
- Second Year of Employment Growth
- Supportive Monetary and Fiscal Policy
- Energy Shock Once Again
- Growth Sources Transitioning

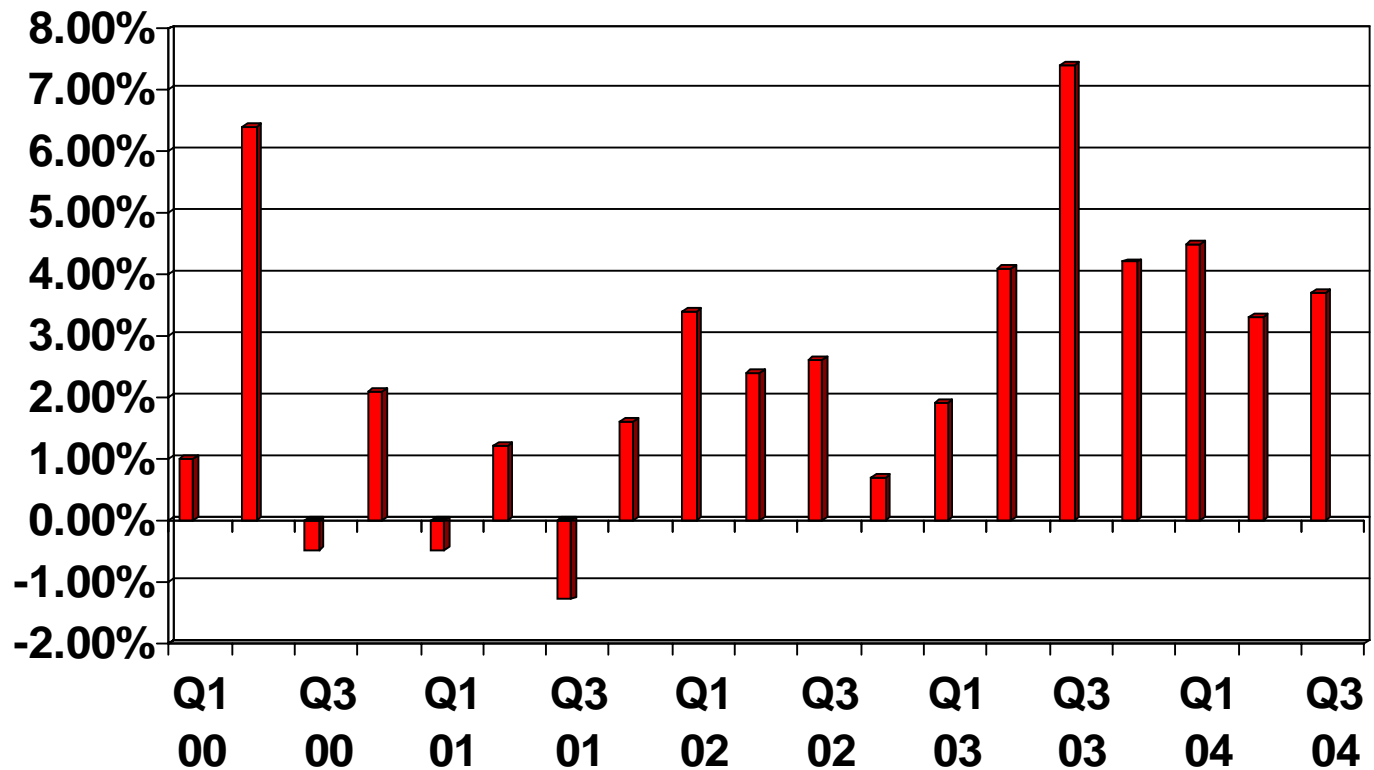


# *Job Growth Update* September Data 47 States Up

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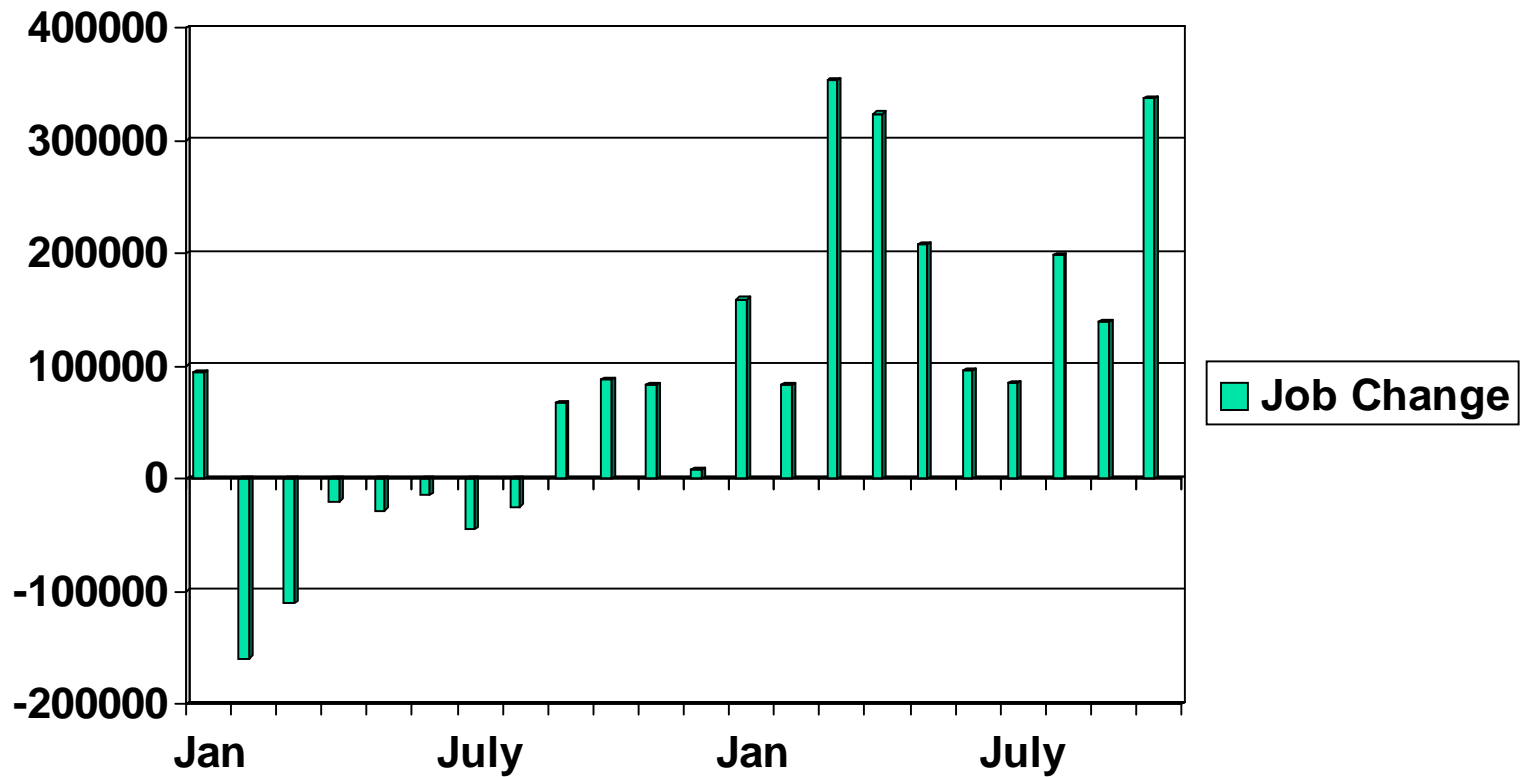
- Nevada 1
- Utah 2
- Idaho 3
- Hawaii 4
- **Oregon 8**
- **Washington 9**
- Maryland 10
- Florida 14
- Missouri 18
- North Carolina 22
- Texas 23
- Colorado 25
- Rhode Island 32
- California 33
- Massachusetts 48
- Ohio 49
- Michigan 50

# Real GDP Growth-Revised





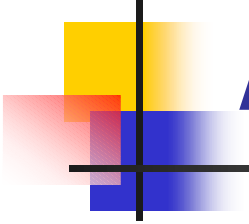
# Payroll Job Change 2003-4



# Gross Private Job Change (000s)

BLS

4 <sup>th</sup> 1999	3 <sup>rd</sup> 2001	4 <sup>th</sup> 2003
<b>Net 1,105</b>	<b>Net -1,380</b>	<b>Net 344</b>
<b>Gross Gain 9,144</b>	<b>7,749</b>	<b>7,646</b>
Expanding 7,112	5,990	6,063
Opening 2,032	1,759	1,583
<b>Gross Losses 8,039</b>	<b>9,129</b>	<b>7,302</b>
Contracting 6,264	7,174	5,816
Closing 1,775	1,955	1,486



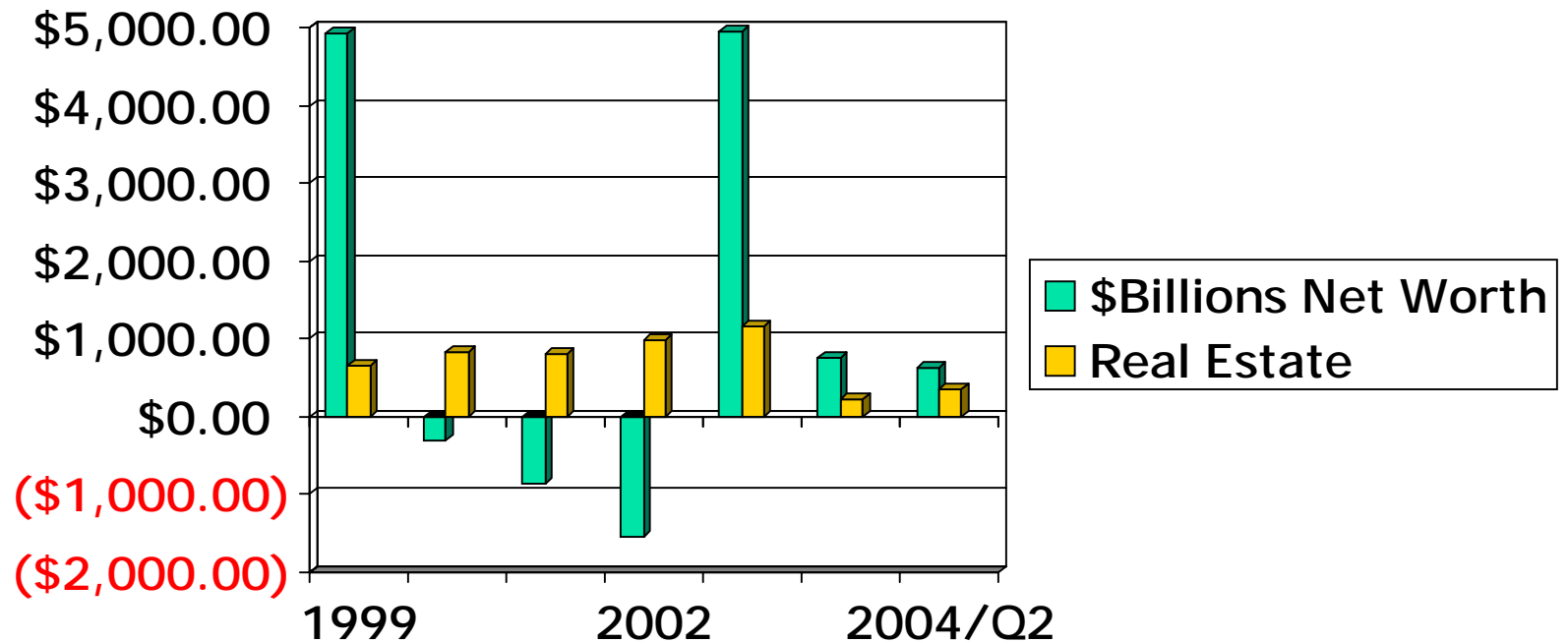
# Economics of Energy Shocks

## Again-73-74, 79-81, 90, 04

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- Income Transfer-Deterioration in Terms of Trade
- Price Level Adjustments
- Inelastic Demand Short Run
- Supply Side Changes
- Capital Stock Reduction
- Higher Inflation, Lower Employment and Slower Growth

# Changes in Net Worth- Households and Nonprofits





# House Price Index-OFHEO 2nd Quarter of 2004

	Year	Quarter	5 Year
US	9.36%	2.21%	43.59%
Nevada	22.92	7.53	53.06
Hawaii	18.90	4.47	53.79
Oregon	8.10	2.38	27.53
Washington	7.81	2.43	30.69
Las Vegas	24.94	8.12	56.69



# House Price Index-OFHEO 2nd Quarter of 2004

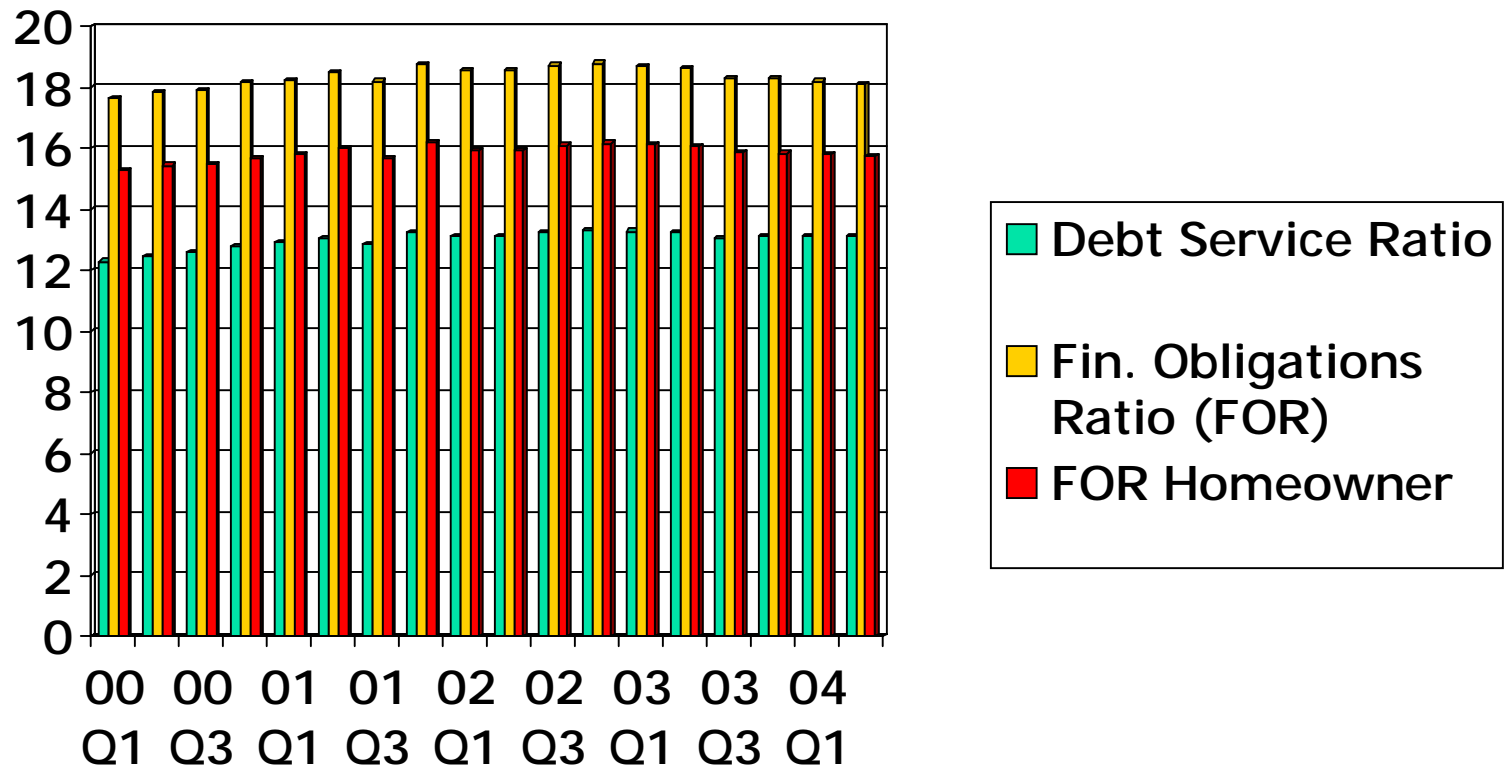
	Year	Quarter	5 Year
US	9.36%	2.21%	43.59%
Eugene	7.71	2.47	20.45
Medford	17.34	5.33	56.84
Portland	7.66	2.29	25.34
Salem	5.61	1.4	18.65
Corvallis	5.91		17.03



# House Price Index-OFHEO 2nd Quarter of 2004

	Year	Quarter	5 Year
Bellingham	14.99	3.21	39.60
Bremerton	10.99	2.61	38.49
Olympia	9.77	2.48	29.30
Spokane	7.4	2.93	18.98
Seattle	7.29	2.33	34.84
Tacoma	8.84	2.71	34.78

# Debt Service & Financial Obligations Ratios



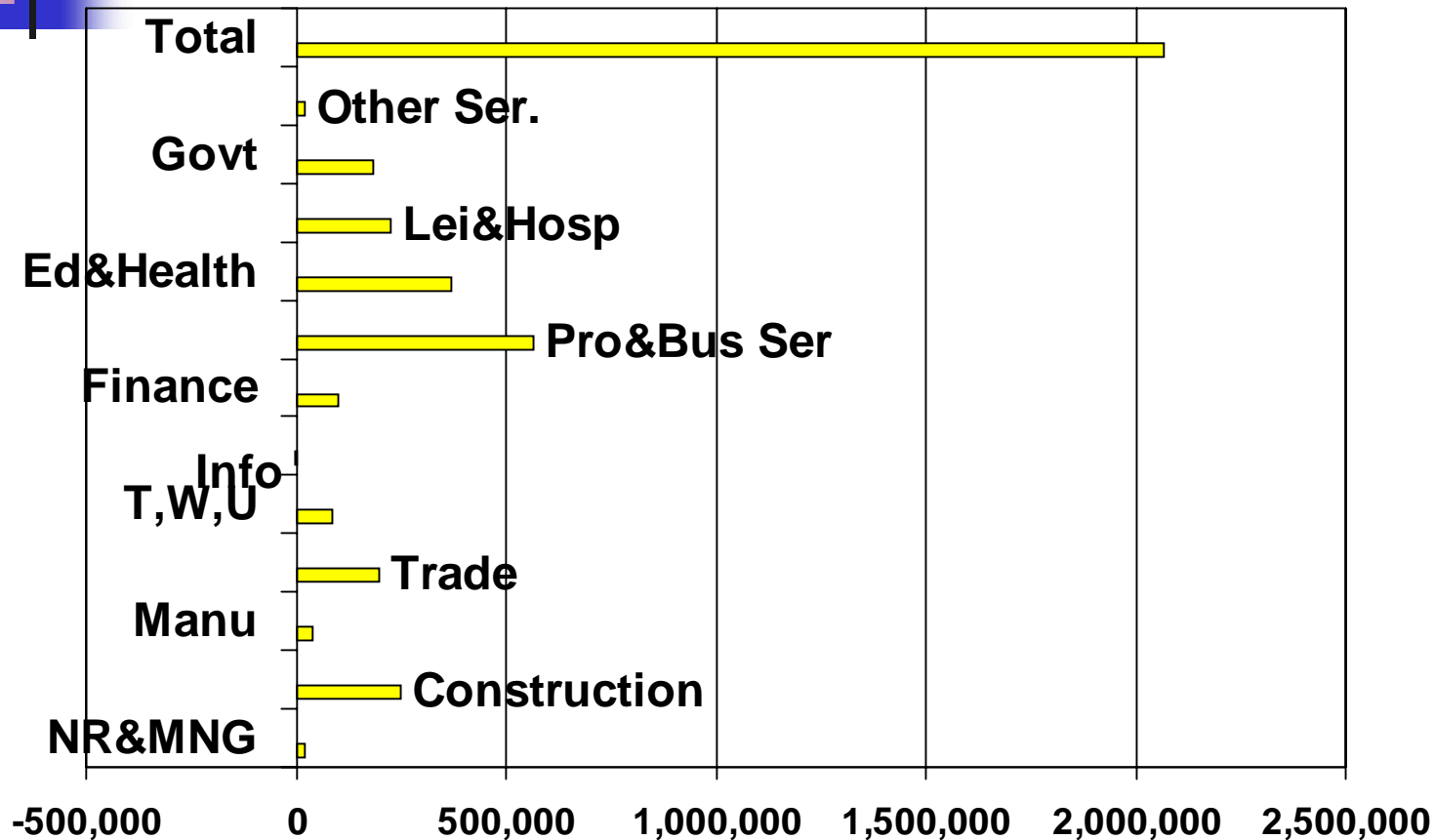




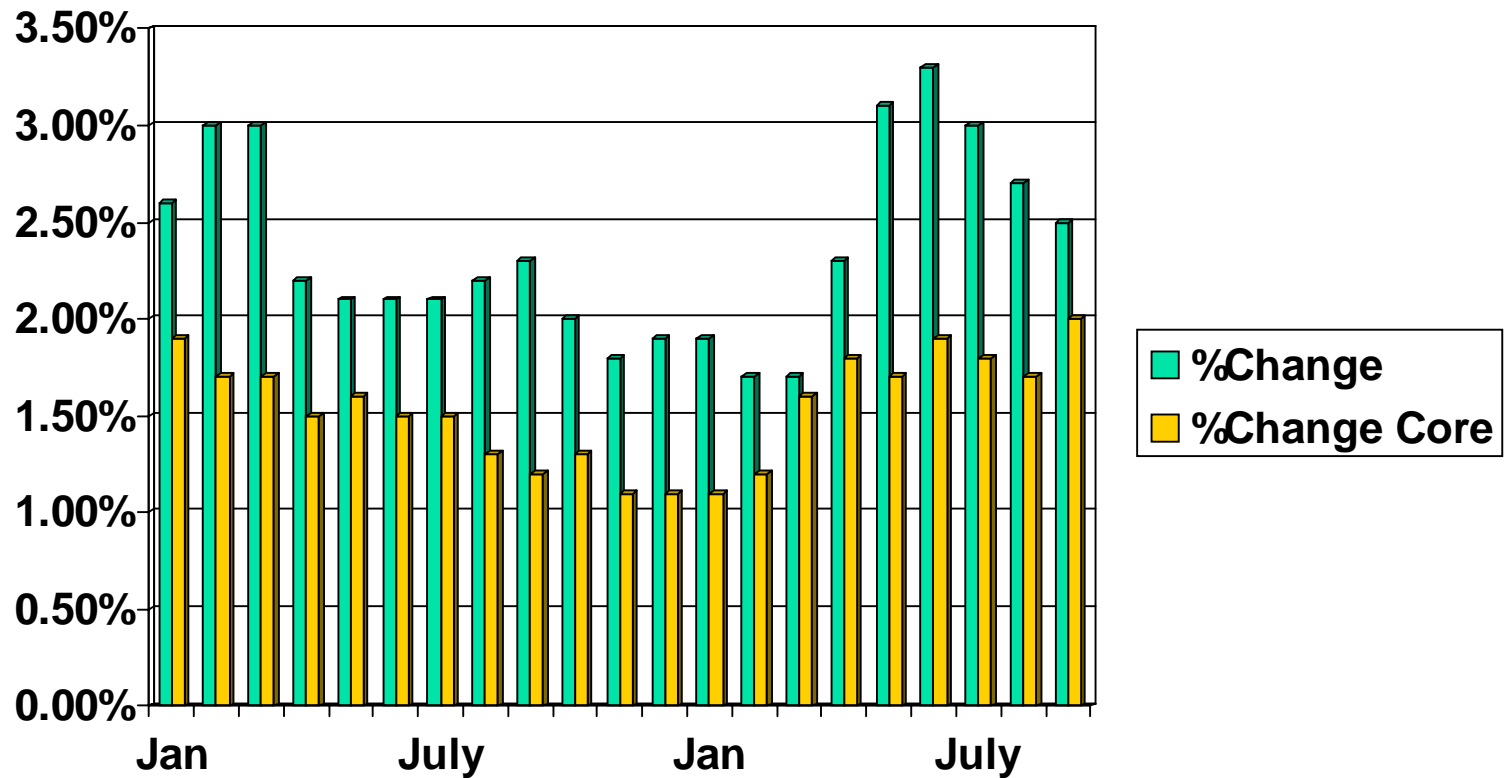
# The Last Six Quarters

	03/2	03/3	03/4	04/1	04/2	04/3
GDP	4.1%	<b>7.4%</b>	<b>4.2%</b>	<b>4.5%</b>	<b>3.3%</b>	<b>3.7%</b>
Consumer	3.9	<b>5</b>	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>4.6</b>
Equip	<b>11</b>	<b>21.7</b>	<b>12</b>	<b>8</b>	<b>14.2</b>	<b>14.9</b>
Structures	14.5	-1.3	7.9	-7.6	6.9	1.4
Residential	<b>9.1</b>	<b>22.4</b>	<b>9.6</b>	<b>5</b>	<b>16.5</b>	<b>3.1</b>
Federal	<b>22.1</b>	-3.3	4.8	7.1	2.7	4.6
S&L	-.4	2.2	-.1	0	1.9	-.5
Exports	-.8	<b>10.1</b>	<b>16.1</b>	<b>9.1</b>	<b>7.3</b>	<b>5.1</b>
Imports	2.5	2.8	17.1	10.6	12.6	7.7

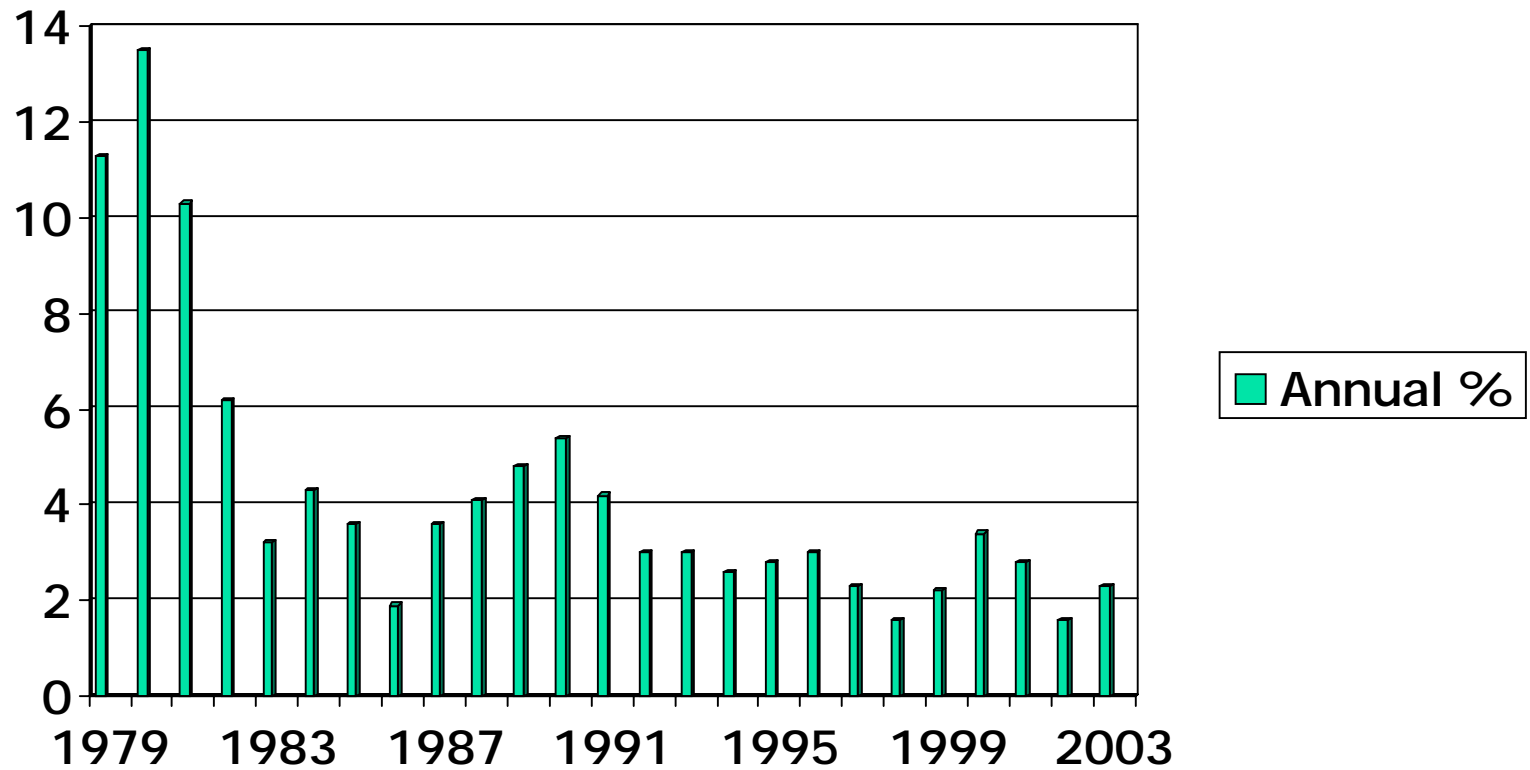
# U.S. Employment Year to October 2004 (1.6%)



# Inflation 2003-2004 Year over Year

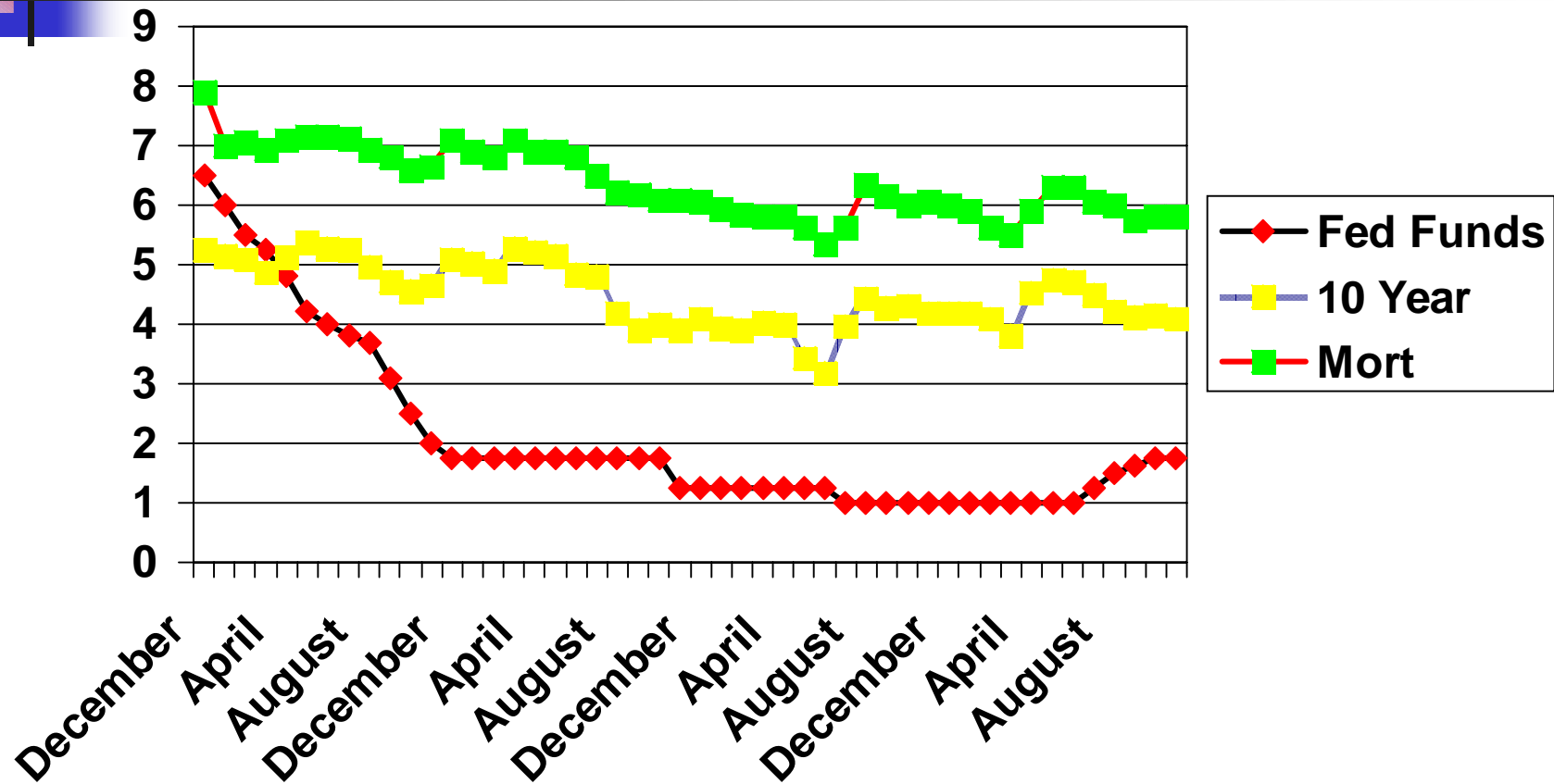


# Inflation-The Long View



# INTEREST RATES 2001-2004

## Three Clicks Back!





## 2004-2005 Prospects

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- GDP in 2004 up 4-4.5%, 3.2-3.7% in 2005
- Inflation 2-3%
- Rates-rising at a measured pace-driven by the data. Fed is "removing the punch bowl", but there may be a pause.



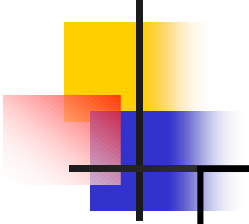
# Recent Northwest Data

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- Population Gains Oregon and Washington 1.1% in 2003
- Personal Income Growth 1.6% in OR and 2.4% in WA in the Second Quarter
- Residential Permits up 6.9% in OR and 6.2% in WA through September
- Both in the top tier of job growth, but still in recovery.

# IT Payroll In The Boom

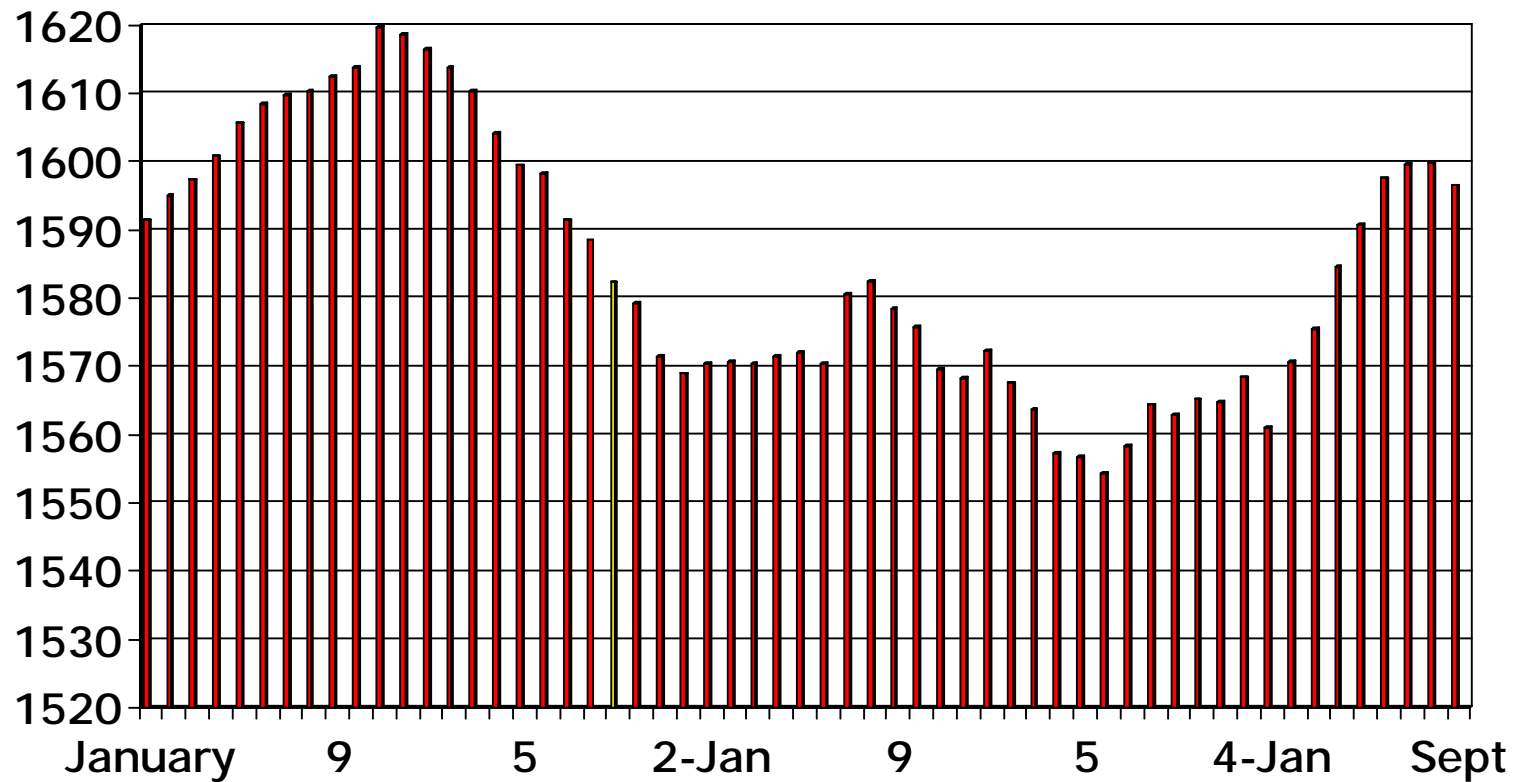
## Daly and Valletta



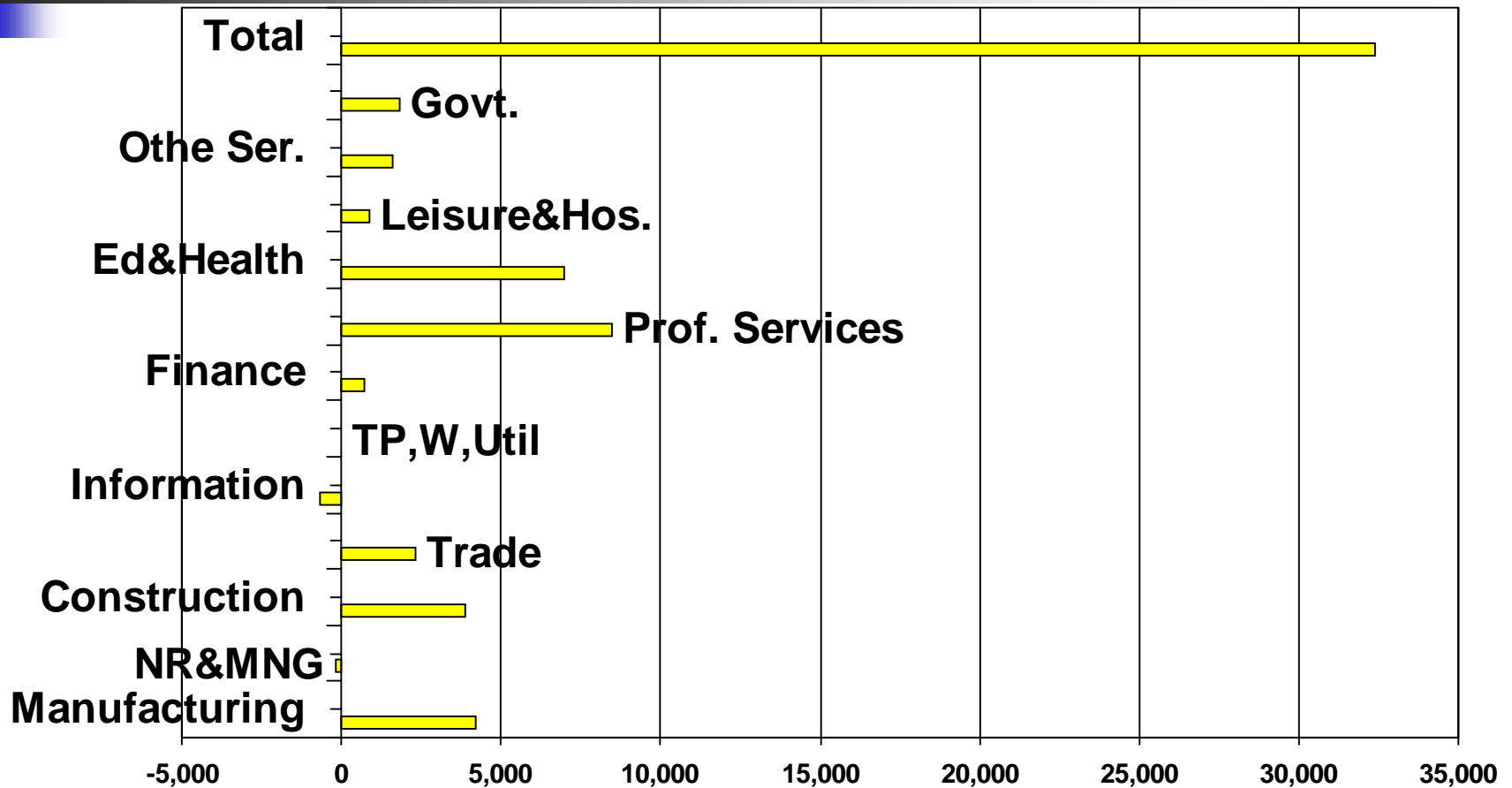
	% Payroll IT in 1995	% Payroll IT in 2000	Growth Share 95-00
US	7.5%	8.9%	14.8%
Portland	9.4	14.3	23.5
Seattle	9.6	18.3	25.5
SF Bay Area	21.4	30	37.2
Austin	15.8	16.9	21.2



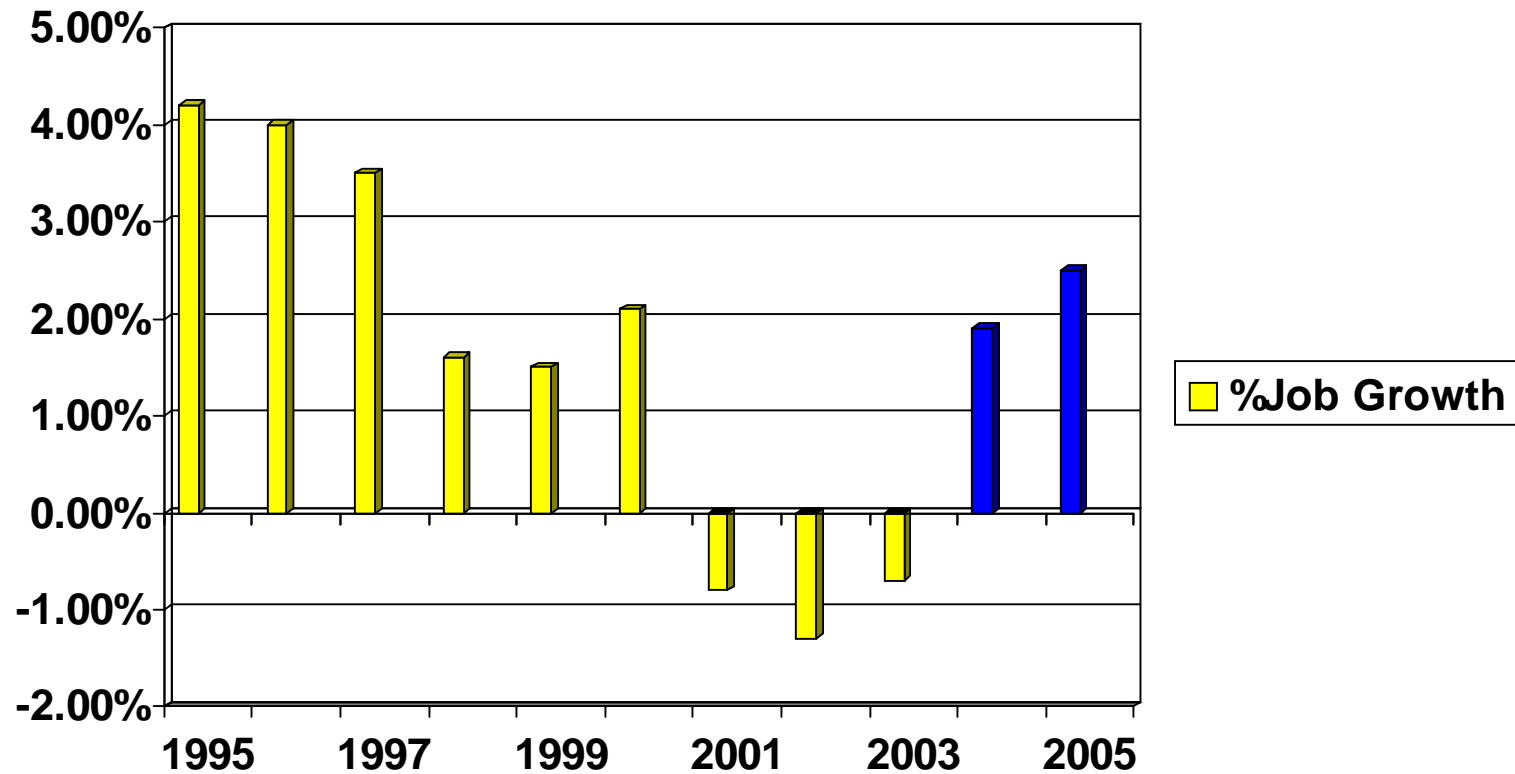
# Oregon Seasonally Adjusted Employment 2000 to 2004 (,000)



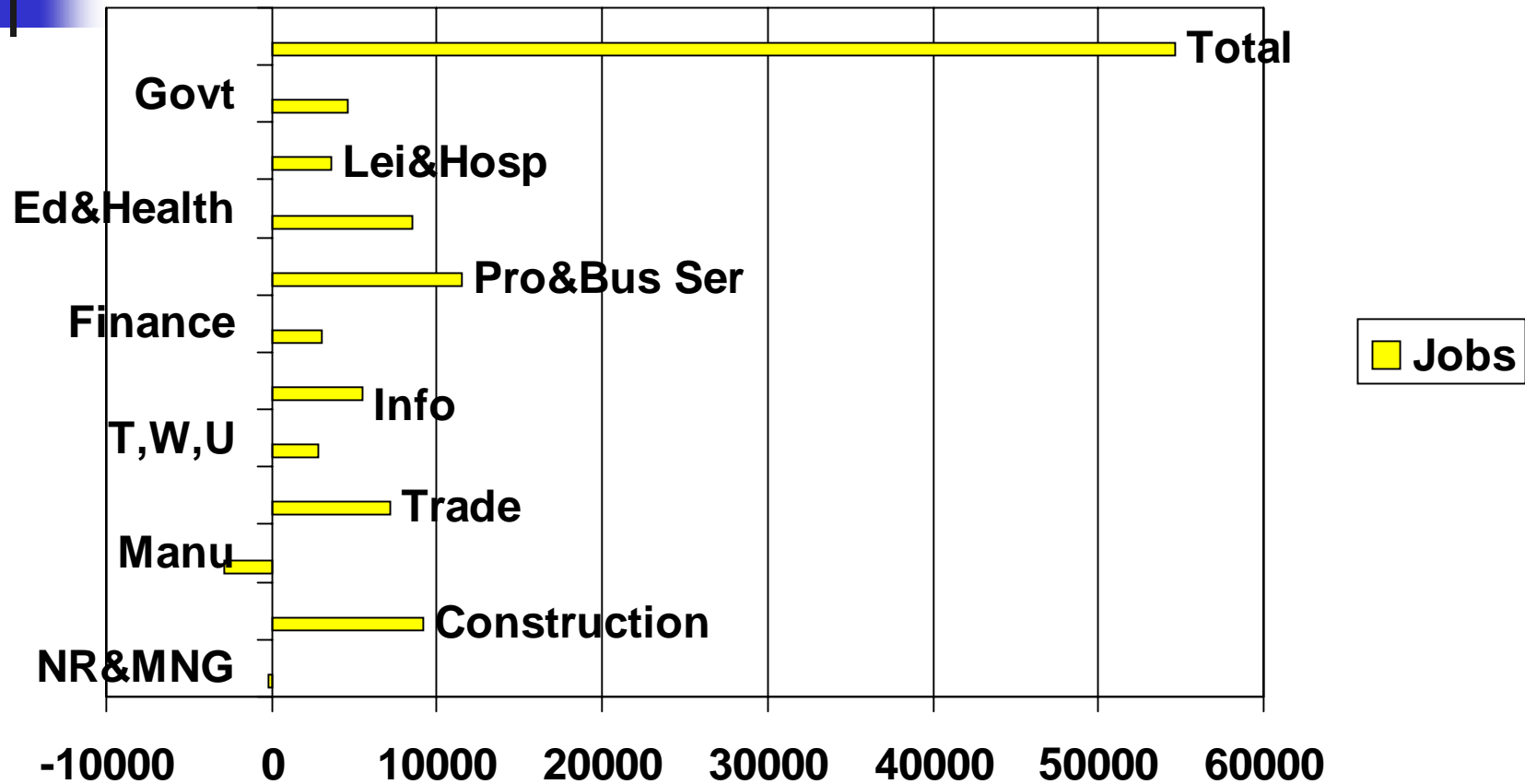
# Oregon Job Change Year to September 2004 (2.1%)



# Oregon-Long Run Employment Growth



# Washington Employment Change Year to September 2004 (2%)

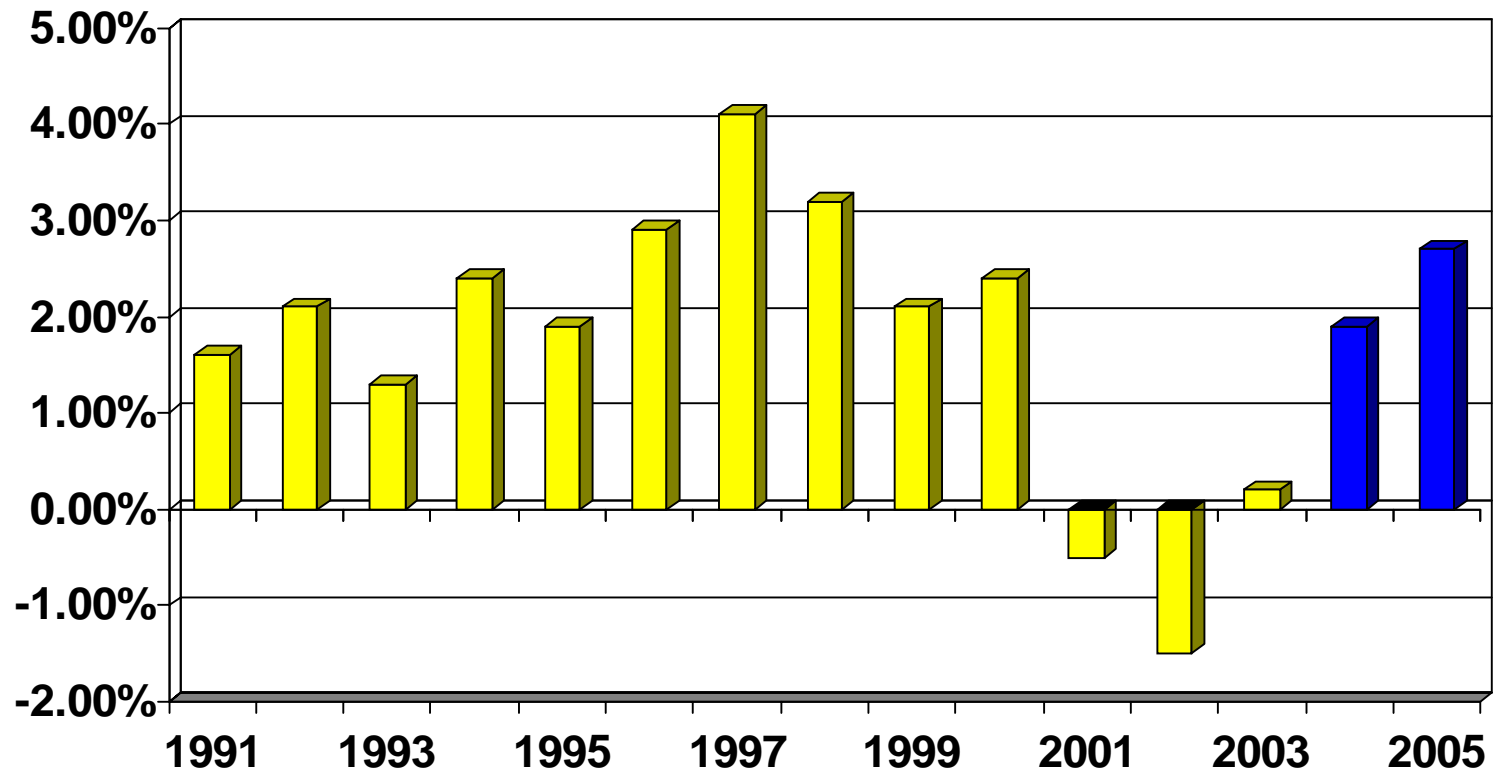




# Washington Metro Job Growth Year to September 2004

Metro	Job Change	Percentage
Bellingham	1,100	1.5
Olympia	2,100	2.3
Seattle	23,700	1.8
Spokane	3,100	1.6
Tacoma	10,500	4.2
Tri Cities	920	1.1
Clark	3100	2.6

# Washington- The Long Run





# Risks

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- Energy
- Terrorist Attack?
- House Price Bubble?
- China and the US Slowing!
- Transitioning from Fiscal and Monetary Stimulus
- Strength of Business and Consumer Spending?
- Employment Not Grow
- How long will the rest of the world supply its savings?
- The first boomer can draw SS in 1,149 days



# Concluding Thoughts

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- Employment Growth Critical for office sector.
- Long Term Fiscal Imbalance is a threat.
- Looming Demographic Change-an explosion of elderly.
- Infrastructure Possibilities abound.
- Housing seems to be peaking nationally.