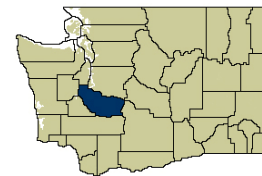




Tacoma MD (Pierce County)

Labor Area Summary

Volume 2009, Number 8



Paul Turek, Regional Labor Economist
1305 Tacoma Avenue South #201, Tacoma, WA 98402
Voice: (253) 593-7336; FAX: (253) 593-7377
pturek@esd.wa.gov; www.workforceexplorer.com

Foreword

The August 2009 employment numbers were released during the month of September. What is more noteworthy than usual is that this month marks the one-year anniversary of the meltdown in financial markets that was felt worldwide. Although the epicenter was located primarily on Wall Street, the shock waves traveling to Washington state were particularly unsettling to the Puget Sound economy and throughout the Tacoma Metropolitan Division. Not only did the phenomenon help intensify an emerging recession, but it also produced a set of events resulting in the announcement by Russell Investments this week to relocate its headquarters from Tacoma to downtown Seattle. The opportunity to relocate had been presented when Seattle-based Washington Mutual (WaMu) collapsed last September in the largest-ever U.S. bank failure. Unnerved by the implosion of Lehman Brothers, business customers began a run on the bank by withdrawing their uninsured deposits and depleting the cash reserves of WaMu. Regulators moved quickly to seize the bank, which eventually was sold to JPMorgan Chase. The new owner would also purchase the 42-story WaMu center the former bank had occupied which housed the remaining 400 or so employees. Being less vital for JPMorgan Chase purposes, the company agreed to sell the facility to Russell Investments, which will allow Russell to move by the end of next year.

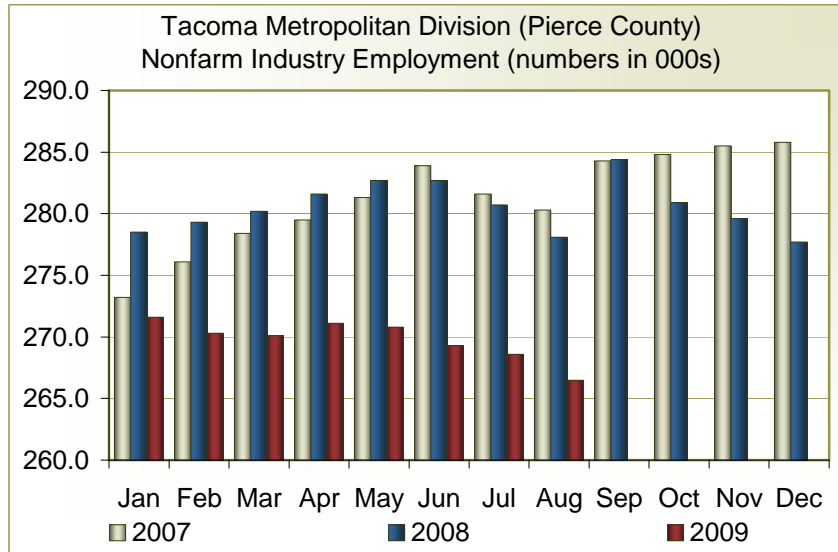
In a related development, Venture Financial Group Inc., parent company to the DuPont-based bank, had announced an after-tax loss of \$26.1 million in the third quarter of last year that was tied to investment losses related to mortgage giants Freddie Mac and Fannie Mae. Although the company reported a \$1.4 million profit in the fourth quarter last year, it still reported a full-year net loss of \$21.4 million. This month regulators also seized the bank and entered into a purchase and assumption agreement with First-Citizens Bank & Trust Company, Raleigh, North Carolina, to assume all of the deposits of Venture Bank. The events serve as a reminding notice that all markets are connected, and that considerable work still needs to be done to repair financial markets.

Summary

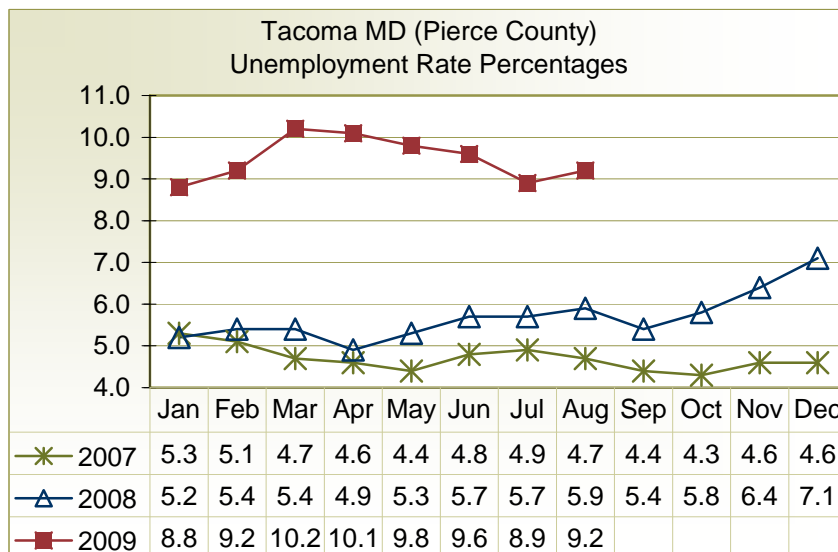
One year later, the Tacoma MD labor market continues to struggle yet improve. While the negative effects of the recession linger, there is reason to believe that the worst has been left behind. This August, the MD lost 2,100 nonfarm jobs. While on the surface this hardly qualifies as good news, some perspective must be attained. Each year, beginning with the end of the school year in June, jobs in educational services are reduced throughout the summer. This is a prime example of a seasonal effect in local labor markets, and since the county -level data is not seasonally adjusted, it produces a significant reduction in the total level of employment each July and August. Most of the jobs lost show up in local government educational services, which accounted for 1,600 of the 2,700 jobs lost in total government services this month. Tightening local government budgets resulted in 700 other jobs lost in local government, which altogether accounts for 2,300 of the total government jobs lost.

The private sector gained 600 jobs this month to offset some of the public sector job losses. Modest employment gains were registered in the trade, transportation and utilities industries along with construction, health services, leisure and hospitality, and miscellaneous or other services. Professional and business services employment, which often serves as a proxy indicator of business activity, was reduced by 400 jobs this month.

The retreat in the total employment level tends to be typical for August, but still remains elevated in magnitude compared with historical numbers. The total jobs lost this month however, were less than the 2,600 jobs lost last year at this time right before the advent of the financial crisis. Job growth should resume next month largely as a byproduct of the Puyallup Fair, which normally adds 3,000 or so seasonal jobs to the local economy every year. The real test for the local labor market will come during the last quarter of this year when it will be seen how hiring will respond to a general improvement in the overall economic environment.



The loss of jobs this month served to propel the local unemployment rate upward by three-tenths of one percentage point to 9.2 percent. One year ago at this time, the unemployment rate stood at 5.9 percent, so one can see very quickly how some of the fallout from the recession has been felt locally. Although the unemployment rate has somewhat stabilized for the time being, it will be expected to rise gradually through part of next year as hiring conditions improve slowly.



Has the Recession Ended?

More evidence continues to emerge to support a growing belief that the economy, at least technically, has escaped the grips of recession. After this month's Beige Book report by the Federal Reserve Board cited improving economic conditions across the nation, even Chairman Ben Bernanke proclaimed that the recession is "very likely over." Eleven of the Fed's 12 districts noted that economic conditions had stabilized, improved, or firmed. Only the St. Louis district noted a continued decline and even there the rate of decline had moderated. Recent economic trends established from initial claims data and the monthly jobs reports suggest that the economy may have already bottomed out, or reached a trough. National jobless claims looked to have peaked earlier this summer and are being sustained below the 600,000 level. Initial claims numbers have a long history of peaking concurrently or just ahead of the end of a recession. On the jobs front, things look to be getting better, or at least the pain is lessening. Employment fell by 216,000 in August 2009 after falling by a revised 276,000 in July and was the smallest decline this year. On that note, August represents a step in the right direction, and improves the trend considerably from the average 648,000 monthly drop that was occurring during the first four months this year.

Another positive sign that the economy is improving was the better-than-expected reading issued by the Institute for Supply Management (ISM) this month. The ISM, a trade group of purchasing executives, said its manufacturing index rose to 52.9 in August. More significant than the fact that the reading has now grown for the eighth consecutive month is that it is the first reading above 50, which indicates manufacturing expansion, since January 2008. New orders jumped nearly 10 percentage points to 64.9 in August, their highest level since December 2004. New orders, which preface production and employment advances, have been a very reliable indicator of recovery. The ISM report, coupled with the last readings on Gross Domestic Product (GDP) growth, show that producers are getting ready to restock inventories through expanded output. Norbert Ore, chair of ISM's manufacturing survey, concurs with a growing number of economists who believe GDP growth will turn positive beginning with the current quarter when government issues its next estimate in October. His statement on the ISM news release equates the current growth in the U.S. manufacturing sector with a 3.7 percent increase in GDP.

Technicalities

Although the technical end of the recession is imminent if not already here, the official end is probably a long way off. The reason behind this lies with the awaited proclamation of the event from the nation's unofficial arbiter of recession calls, the Business Cycle Dating Committee (BCDC) of the National Bureau of Economic Research (NBER). The NBER uses a more extensive working definition of recession than does the financial press, which at the same time impacts their reading for determining when recoveries begin. The popular definition of recession that is often advanced through the media involves two consecutive quarters of decline in real GDP. While the NBER does expressly consider GDP growth as part of its definition, it also considers real income, employment, industrial production, and wholesale-retail sales as part of an overall composite of economic activity. Using this approach, a recession becomes a period of diminishing economic activity. A recovery, likewise, represents a period of growing economic activity. The trough marks the end of the declining phase and the start of the rising phase of the business cycle.

Whether the BCDC assessment coincides with the growing opinion that a trough has been reached could be dependent upon labor market conditions relating to employment. Thus, the more pressing issue is not whether GDP will post a rise in the current quarter. Rather, the labor market becomes the great unknown factor. Unfortunately, the only clues to date that labor market conditions are improving rest with the downward trend in claims and the slowing incidence of job destruction, neither of which should be confused with job creation. The level of claims remains elevated to where the labor market remains unstable. Weak consumer and financial fundamentals suggest that job creation will come about grudgingly, and that will make the ultimate call by the BCDC much more difficult.

One point in this discussion should be made perfectly clear, however. Full and complete confirmation of the expectation that the recession has ended will come only after the fact. Data surrounding the variables the NBER weighs in its judgment of economic activity are collected over time. The BCDC typically will make their announcement anywhere from 6 to 18 months after the event so as to remove doubt of the event's existence. In the end, everyone will just have to wait and see. For now, though, it is probably still reasonable to think that the worst of the recession is behind us.

Consumers Tapped Out

Even as the economy appears headed in the right direction, the nature of the recovery is likely to be weak. The weakest link in the recovery chain is the consumer, who is under pressure from the job market and the financial market. Consumers, who account for roughly 70.0 percent of the total spending in the economy, no longer possess the wherewithal to spend again. Debt burdens remain high, falling home prices have depleted equity wealth, and labor market deterioration has put a big hit on incomes. During the more recent previous recessions, monetary policy leading to cuts in interest rates served as the catalyst for recovery. The low rates encouraged consumers to tap into the credit markets and unleash pent-up demand for cars, homes, and other big ticket items. The lower rates also enabled the consumers to alter their debt portfolio by shifting portions of short-run debt into long-run debt.

This recession defies such an approach. Available credit from lending institutions remains largely frozen despite the Fed's efforts to pump liquidity into the system. According to the Fed's latest monthly report assessing the state of credit markets, most of the new liquidity created by the asset purchase program and other direct asset purchases appears to have not extended beyond banks. End consumers and non-financial corporations still face declining credit growth as banks retain cash and keep their lending standards high. Without available credit, pent-up spending prospects are short-circuited, and more expensive debt cannot be serviced or replaced with cheaper short-term debt. The consumer has little choice but to pay down existing debt as best they can. Although this goes some ways to reduce the indebtedness of many consumers, the level of spending drops back dramatically and becomes unresponsive to lower interest rates. At that point, any support for spending must come almost exclusively from income, and that income must be generated by employment. All of this does not bode well for the employment picture. If consumers are not buying, employers will not be hiring.

This places the labor market in a much different light than it has been seen recently. Normally, labor markets lag the economy because incremental spending had been financed by debt. However, with a frozen credit market and a deleveraging environment, job growth becomes a more important, leading indicator of demand and the general economic condition, and employers are showing little inclination to engage in hiring. This presents a daunting challenge for climbing out of the recession hole. Having already fallen into it, there may be reason to rejoice in the prospect that the economy may have hit the bottom and survived despite suffering injuries. In fact, the injuries now seem less severe than what was feared at the end of 2008 and the beginning of 2009. But once that sense of relief from looking back dissipates and is replaced by current realities, the economic outlook will look less encouraging overall.

Summary Table

Labor Market Information for the Tacoma Metropolitan Division (Pierce County) Not Seasonally Adjusted/*Updated with ***QCEW Data: March 2009						
				Change		
	Prelim Aug-09	Revised Jul-09	Revised Aug-08	Jul-09 Aug-09	Aug-08 Aug-09	Aug-08 Aug-09 %
Employment by Place of Residence						
Civilian Labor Force	404,670	403,300	392,020	1,370	12,650	3.2%
Resident Employment	367,280	367,330	369,050	-50	-1,770	-0.5%
Unemployment	37,390	35,970	22,970	1,420	14,420	62.8%
Unemployment Rate	9.2	8.9	5.9	0.3	3.3	
Employment by Place of Work (**NAICS Industry Titles, numbers in thousands)						
Total Nonfarm 1/	266.5	268.6	278.1	-2.1	-11.6	-4.2%
Total Private	212.0	211.4	225.2	0.6	-13.2	-5.9%
Goods Producing	37.1	36.8	44.7	0.3	-7.6	-17.0%
Mining and Logging	0.4	0.4	0.4	0.0	0.0	0.0%
Construction	20.3	20.0	24.3	0.3	-4.0	-16.5%
Specialty Trade Contractors	13.0	13.0	15.4	0.0	-2.4	-15.6%
Manufacturing	16.4	16.4	20.0	0.0	-3.6	-18.0%
Services Providing	229.4	231.8	233.4	-2.4	-4.0	-1.7%
Trade, Transportation, and Utilities	52.9	52.7	56.1	0.2	-3.2	-5.7%
Wholesale Trade	10.6	10.6	11.5	0.0	-0.9	-7.8%
Retail Trade	31.6	31.5	33.0	0.1	-1.4	-4.2%
Food and Beverage Stores	5.5	5.5	5.6	0.0	-0.1	-1.8%
General Merchandise Stores	7.1	7.1	7.3	0.0	-0.2	-2.7%
Transportation, Warehousing, and Utilities	10.7	10.6	11.6	0.1	-0.9	-7.8%
Information	3.4	3.4	3.7	0.0	-0.3	-8.1%
Financial Activities	13.0	13.0	13.4	0.0	-0.4	-3.0%
Professional and Business Services	23.6	24.0	25.3	-0.4	-1.7	-6.7%
Admin, Support, Waste Mgmt., & Remediation	13.5	13.4	14.7	0.1	-1.2	-8.2%
Administrative and Support Services	11.9	11.8	13.3	0.1	-1.4	-10.5%
Educational and Health Services	41.3	41.1	40.5	0.2	0.8	2.0%
Ambulatory Health Care Services	14.3	14.2	13.8	0.1	0.5	3.6%
Hospitals	10.2	10.2	9.6	0.0	0.6	6.3%
Leisure and Hospitality	27.7	27.5	28.4	0.2	-0.7	-2.5%
Food Services and Drinking Places	21.1	21.1	22.5	0.0	-1.4	-6.2%
Other Services	13.0	12.9	13.1	0.1	-0.1	-0.8%
Government	54.5	57.2	52.9	-2.7	1.6	3.0%
Federal Government	11.9	12.1	11.0	-0.2	0.9	8.2%
State Government	10.5	10.7	10.9	-0.2	-0.4	-3.7%
State Government Educational Services	2.6	2.7	2.7	-0.1	-0.1	-3.7%
Local Government	32.1	34.4	31.0	-2.3	1.1	3.5%
Local Government Educational Services	16.8	18.4	14.4	-1.6	2.4	16.7%
Workers in Labor/Management Disputes	0.0	0.0	0.0	0.0	0.0	0.0
<p>1/ Excludes proprietors, self-employed, members of armed forces, and private household employees. 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 (currently 1st quarter 2009) and estimates employment from that point to present.</p> <p>**North American Industry Classification System. ***QCEW = Quarterly Census of Employment and Wages</p>						