

SEATTLE POST-INTELLIGENCER

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2007: A Sound economic picture

Seattle region boldly bouncing back

Monday, December 25, 2006

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P-I REPORTER

Banker Don Hirtzel considers the reports he's been getting from clients in all sorts of industries about their prospects for 2007, then says, "I don't see a particular weakness."

Public relations veteran Pat Fearey calls her industry "the best barometer of the economy there is." She says "2006 has been our best year" in recent memory, and so far clients have shown no indication they're paring back spending for 2007.

Utility executive Steve Reynolds says his company is "part of one of the most robust economies that exists, I think, anywhere in the nation, except maybe Las Vegas."

And Ron Taylor, who manages a South Seattle contract metal-fabrication shop, says: "Everybody I talk to in our industry is busy. We could get more work out if we could get more people."

Detecting a pattern here?

You'll have to search long and hard to find much wariness or skepticism about the prospects for the Seattle and Puget Sound regional economy heading into 2007. The economy is definitely on the mend from a recession in the early years of the decade, but seldom is heard a discouraging word about that trend continuing.

Then again, why shouldn't people be upbeat about regional economic prospects for 2007? The economy's two mainstays, Boeing and Microsoft, are hiring rather than laying people off. The spillover and ripple effects from that growth, combined with the contributions of other industries, have produced an economy that longtime regional economist Douglas Pedersen says should outpace the nation as a whole.

"If you're looking for risks, you've got to go to the national economy and see what would impact the regional economy," Pedersen says. What happens nationally is huge for this region since "we export so much regionally to the nation."

Those risks include a stronger contraction in consumer spending than expected, a bigger contraction in the housing market than expected,

ECONOMIC TOUR



This week, the Seattle P-I looks at regional economies in Washington. This is the first part of the five-day series.

- **Today:** Looking for reasons to doubt the Seattle region's economic performance in 2007? There aren't many.
- **Tuesday:** The Olympic Peninsula, once dependent on exporting logs and lumber, is building an economy based on the importation of people, their companies and their money.
- **Wednesday:** The Portland/Vancouver area is facing employment challenges.
- **Thursday:** Spokane enjoys a manufacturing revival.

and inflation not dropping the way it's expected to.

But so far the trends are moving in the right direction. Says Pedersen, "You have to dig to come up with some of these risks."

- Friday: In the Farm Belt, energy is now an opportunity as much as a cost.

At the core of the economic resurgence is, not surprisingly, Boeing. The aircraft manufacturer reported Washington employment at the end of November at more than 68,000, up by more than 5,000 jobs just since the end of January.

For complete coverage, see [Economic Tour](#)

While that's not up to the heady numbers of the 1990s, when statewide Boeing employment was more than 100,000, or even the 80,000 reported five days before the Sept. 11, 2001, terrorist attacks, it's still a considerable improvement from the trough of fewer than 53,000 reported in June 2004.

Microsoft, too, is providing a solid base for regional economic growth. Last July, the software company disclosed that it had added more than 3,900 employees in the Seattle area in the previous fiscal year, up 13 percent from the year before. Those increases came as Microsoft worked toward completion of its new Windows Vista operating system and its Zune portable music player.

But the economy's strength is more than just planes and software. In manufacturing, for example, Taylor, president of Capital Industries, cites a number of sectors in which demand for his company's metal components is strong: aerial lifts used in construction, large refuse containers used in the Pacific Northwest and Hawaii, oil and gas exploration equipment for Alaska's North Slope, food-processing equipment, and items for the marine industry (especially boats for homeland security).

About the only soft area Taylor sees is in transportation equipment -- specifically components for Class 8 (heavy-duty) trucks. Both Paccar's Renton-based Kenworth Truck Co. and Portland-based Freightliner have announced production cuts and layoffs.

But there are enough orders from those other lines of business, Taylor says, that "we're putting in an awful lot of overtime. We can't hire fast enough." The tight labor market is particularly acute for people with experience on the kind of machinery used at Capital.

"You can make scrap real easy if you don't know what you're doing," Taylor says. "It's unusual to find skilled people come in to the counter looking for work."

In the technology sector, the strongest growth is coming to those who provide services to other businesses, says Bill Baxter, chairman of the WSA (formerly the Washington Software Alliance) and chief executive of Snaptune Inc. With many companies choosing to outsource information technology work to concentrate on their core businesses, service providers "are barely able to keep up."

The software sales side of the technology industry is less robust, Baxter adds. "It looks like there's some recovery, but I don't think people are as optimistic about the sale of technology as the sale of services. It's not bad, it's just not as exciting."

But such is the rebound from the post-dot-com crash that some people "are getting excited about the possibility the IPO market might open again," he adds.



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Dan DeLong / P-I

Kevin Andrews welds a fender panel for use in the marine industry at Capital Industries, a South Seattle metal fabricator that is an example of the upturn in the manufacturing sector in the Puget Sound region.

Also driving the economy are people moving here to take jobs. Net migration to the region, Pedersen says, could hit 34,300 in 2006 and 40,000 in 2007 before easing, along with employment growth, in 2008. All those new jobs and residents, he adds, create increased demand and employment in secondary industries, such as retailing, health care and education.

Another indicator of that growth: Puget Energy Chief Executive Steve Reynolds says his utility has added more than 160,000 customers in the past five years, and customer counts are expected to grow at more than 3 percent a year for natural gas and more than 2 percent annually for electricity.

The one sector no one sees much of a lift from is housing, either in new-home construction or resale activity and prices.

Pedersen says in-migration and employment growth are counterbalanced by the deterioration of affordability. Puget Sound-region home sales will decline 5.5 percent in 2006, then "meander sideways" in 2007 and 2008. Housing permits will be up 6.1 percent in 2006, flat in 2007 and 2008. And he notes that construction "didn't get way ahead of the market as we did other times."

Hirtzel, chief executive of Seattle's First Sound Bank, has heard from his clients some concerns about housing construction, "but I don't think that's a long-term concern." If interest rates remain at what people consider affordable levels, "why wouldn't people continue to buy?"

Indeed that's the question many are asking about the Puget Sound regional economy in general: Why wouldn't it continue? So far the view both locally and from outside suggests the answer is, "It will."

Hirtzel recently met with a group of Canadian investors looking to do business locally.

"They were very bullish on Seattle," he says.

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