

Regional economy rolls over the bumps

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Alarm hums sounded in Olympia on Thursday.

A state surplus projected at \$1.5 billion instead softened to \$1.38 billion because residential construction and real estate have slowed somewhat in response to the same credit problems that are devastating markets in Florida, California and Michigan. Washington's economic forecasters had assumed housing sales, and the attendant excise tax revenues, would continue to supplement state income.

They were over-optimistic, but that does not change a story line featuring a strong Washington real estate market. In fact, Wenatchee's 24 percent year-over-year price increase led the nation for the second quarter. How 'bout them apples?

Washington as a whole, with 9.12 percent growth, trailed only Utah and Wyoming among the 50 states in home price appreciation. Idaho was sixth with an 8.42 percent bump.

Those figures were taken from another Thursday forecasting session hosted by Greater Spokane Incorporated. Longtime analyst John Mitchell and Eastern Washington University Professor Grant Forsyth presided. They were every bit as semi-ebullient as their Olympia peers.

Take out the abysmal performance in residential housing, Mitchell notes, and the U.S. economy has performed mightily, with a 16.2 percent jump in export growth the standout. He expects economic expansion to continue through 2008 at a pace of at least 2 percent. Inflation, a paltry 2.7 percent, will slow to 2.5 percent as oil prices moderate. The prospect of a recession in the United States is remote, with a visitation in the Northwest even less likely.

Mitchell says Washington enjoys a "dream industrial mix" led by aerospace, software and agriculture. Employment in the last year slipped only in mining and natural resources, mostly due to cuts in the timber industry.

"The expansion will roll on," Mitchell says.

Forsyth, drawing a bead on Spokane and Kootenai counties, was less optimistic, but mostly as he measured prospects for 2008 against gangbuster results for the last few years. Sometimes, he says, his gut tells him the statistics may not lie, but they may fib a little.

By the numbers, for example, Spokane home prices would be expected to climb 5 percent next year. Prices in Kootenai County would edge up 2 percent. His own conservative estimates foresee a flat Spokane market, and one off by 7 percent in Kootenai County.

Same with taxable sales. Head says 5 percent growth in Spokane, 8 percent in Spokane County. Gut says minus 2 percent city, flat county. That should unsettle the folks at City Hall, who have assumed much better sales tax revenues than Forsyth expects.

He has decidedly mixed projections for personal income for Spokane and Kootenai counties combined. He calculates a 1 percent increase for all of 2007, but suggests actual results may be much better: 4 percent growth. In 2008, however, he looks for a 4 percent drop despite calculations that show a very slight increase.

Forsyth's expectations for employment are purely optimistic; 3.5 percent growth in the two counties at best, a minimum of growth at worst.

"We're going to continue to do better than the rest of the United States," he says.

Forsyth concedes increasing odds the economy may edge into a recession color his outlook.

Mitchell sees some drag, but not an anchor. He notes the nation has experienced all of 16 months of recession since 1982. That's one-quarter century, with only intermittent periods when domestic output of goods and services declined for two consecutive quarters.

Unless the sub-prime mortgage disaster works deeper harm on credit markets, most analysts do not expect recession. But state and local budgets predicated on an optimal economy may be mistaken. Good times in Washington have provided a budget cushion, which voters have wisely decided to sit on.

With the regional economy humming, for the time being the alarm is on reset.