





THURSTON EDC EVI QUARTERLY Second Quarter 2010¹

The EDC Quarterly Report is an attempt to provide a timely assessment of Thurston County's economic climate through various assessment tools. They are all part of the Thurston County Economic Vitality Index (EVI)² which is the umbrella name for a series of indicators and indices including the following:

- ◆Thurston Consumer Confidence Index (TCCI)
- ◆Thurston EDC CEO Index (TCEOI)
- ◆Thurston Small Business Index (TSBI)
- ◆Thurston Leading Economic Indicators Index (TLEII)

The table below provides a snapshot of the results for the second quarter. All of the indices are

THURSTON INDICES SUMMARY	
	Thurston Consumer Confidence Index (TCCI)
	Thurston EDC CEO Index (TCEOI)
	Thurston Small Business Index (TSBI)
	Thurston Leading Economic Indicators Index (TLEII)

compiled quarterly except for the composite TLEII which is calculated monthly. The TCCI dropped slightly while the TCEOI, TSBI, and TLEII all increased in their respective values. The remainder of this report consists of a closer analysis each of these indices. It is hoped that this report will be of value to local business leaders, policy makers and community stakeholders.

Thurston Consumer Confidence Index (TCCI)³

Consumer spending is a major catalyst of economic growth at both the local and national levels. A survey of Thurston households provides invaluable insights into the demand side of the local economic equation by attempting to assess their willingness to participate in the marketplace. The TCCI also serves as a leading indicator by providing insights into future spending habits. Increasing confidence on the part of households will translate into large consumer purchases and serves as an economic stimulus.

¹ Report compiled by Riley Moore, Ph.D., School of Business, Saint Martin's University.

² The EVI project is a partnership between the Thurston Economic Development Council, Saint Martin's University, Jason Roberts and Associates, Thurston County Chamber of Commerce and Joseph Beaulieu of First Citizens Bank.

³ The index is based on a telephone survey of a random representative sample of 1,500 Thurston County households that were contacted. A total of 394 complete questionnaires were obtained resulting in a sample error of approximately 5 percent at a 95 percent confidence level. The survey is conducted quarterly by students at Saint Martin's University with the financial support of the Thurston Economic Development Council.

Selected participants are asked to provide their perceptions about the following five economic conditions:

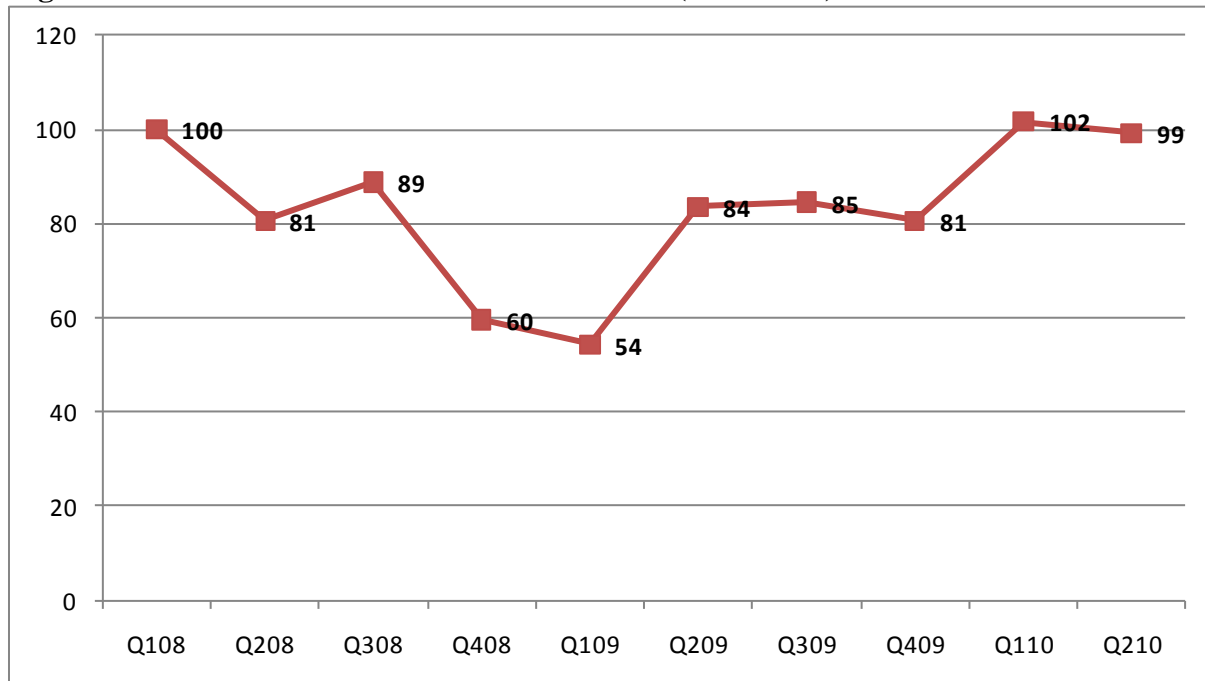
- ◆Current economic conditions for Thurston County
- ◆Economic conditions for Thurston County in the next six months
- ◆Current employment conditions for Thurston County
- ◆Employment conditions for Thurston County in the next six months
- ◆Own total family income in the next six months

Furthermore, four additional questions are asked to assess their willingness to undertake major purchases for such things as houses, major appliances, and automobiles.⁴ These additional questions are only reported individually and not incorporated into the Thurston Consumer Confidence Index.

The results from the five subjects listed above are compiled into three indexes which include the primary index TCCI and two sub-indices to assess the present situation and future expectation perceptions.

Figure 1 below shows that the TCCI now stands at 99 which represents a slight drop from last quarter's value of 102. Thus Thurston County consumers are just slightly below the level of confidence they expressed for the first quarter of 2008 when the index was started with a value of 100.

Figure 1. Thurston Consumer Confidence Index (2008-2010).

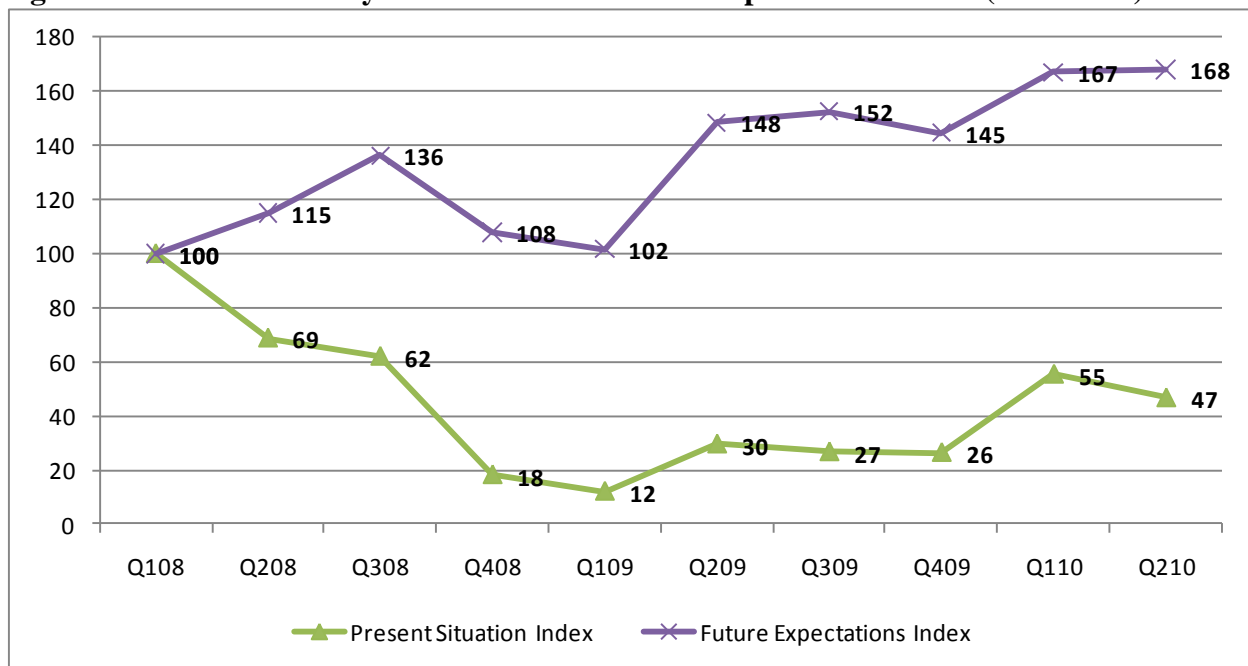


⁴ The questionnaire is composed of questions from both the Conference Board Consumer Confidence survey and the University of Michigan Sentiment survey.

As can be seen in Figure 2, the Present Situation Index reflects households' current perceptions about the economy, which dropped from 55 to 47 from the first to second quarters of 2010 respectively. It still seems to be fluctuating up and down as households fret about their current economic situations.

The Future Expectations Index, which reflects where households think the local economy is headed in six months time, improved by one point. Clearly local households have been consistent in their optimism of the future, and this is reflected in the index with a current value of 168.

Figure 2. Thurston County Consumer Present and Expectation Indices (2008-2010).



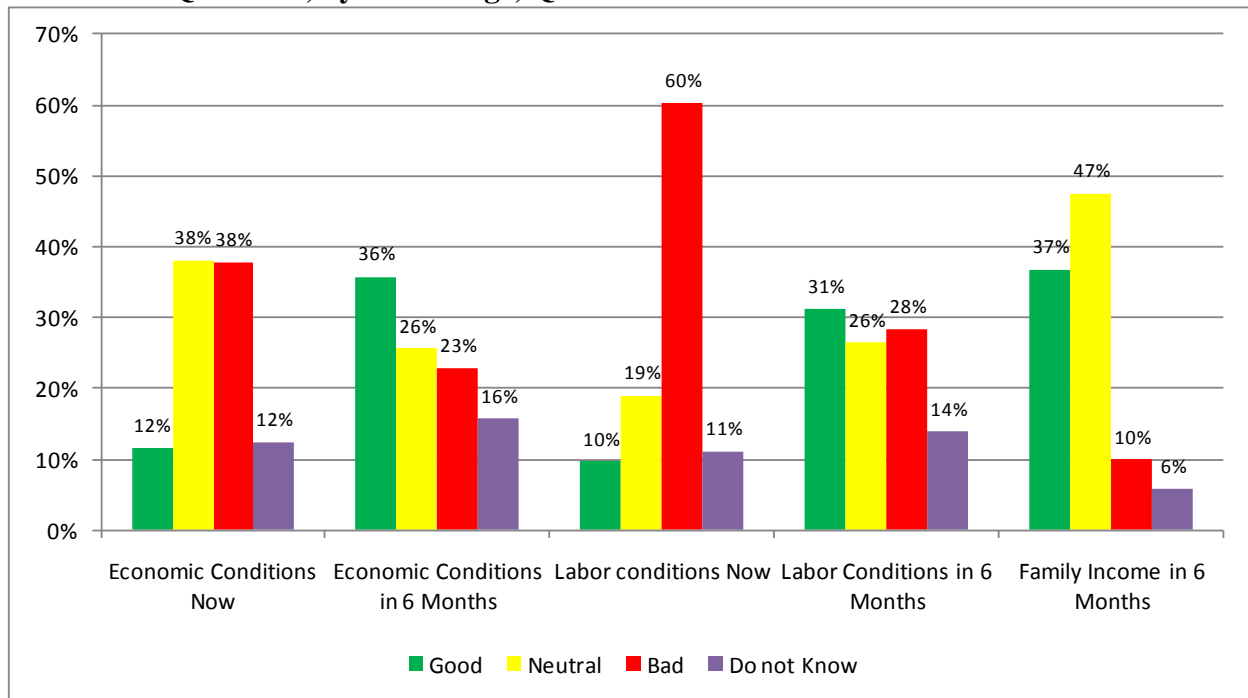
As mentioned earlier, the Present Situation and Future Expectation Indexes are combined to form the TCCI. The current drop in the TCCI can be accounted for by the decrease in the Present Situation Index which outweighs the slight increase in the Future Expectations Index. Thus, Thurston County households appear to be leveling out in their confidence in our local economy.

Figures 3 and 4 below illustrate the responses to individual questions (by percentage) from the 2010 second quarter survey. Figure 3 shows that when households were asked about local economic conditions for Thurston County, 12 percent indicated that conditions were good while 38 percent felt conditions were neutral and poor, respectively. However, when asked what they felt conditions would be like in six months, 36 percent felt conditions would be good.

When asked about current labor conditions, only 10 percent of households felt current labor conditions were good, while 60 percent felt they were bad. However, when asked what things might be like in six months, the percentage believing that conditions would improve was 31 percent, and those that still felt it would be worse was 28 percent.

When asked about household income, 47 percent of respondents stated their family income would stay the same. Of the respondents, 37 percent were optimistic that their income would increase, while only 10 percent thought it would decline.

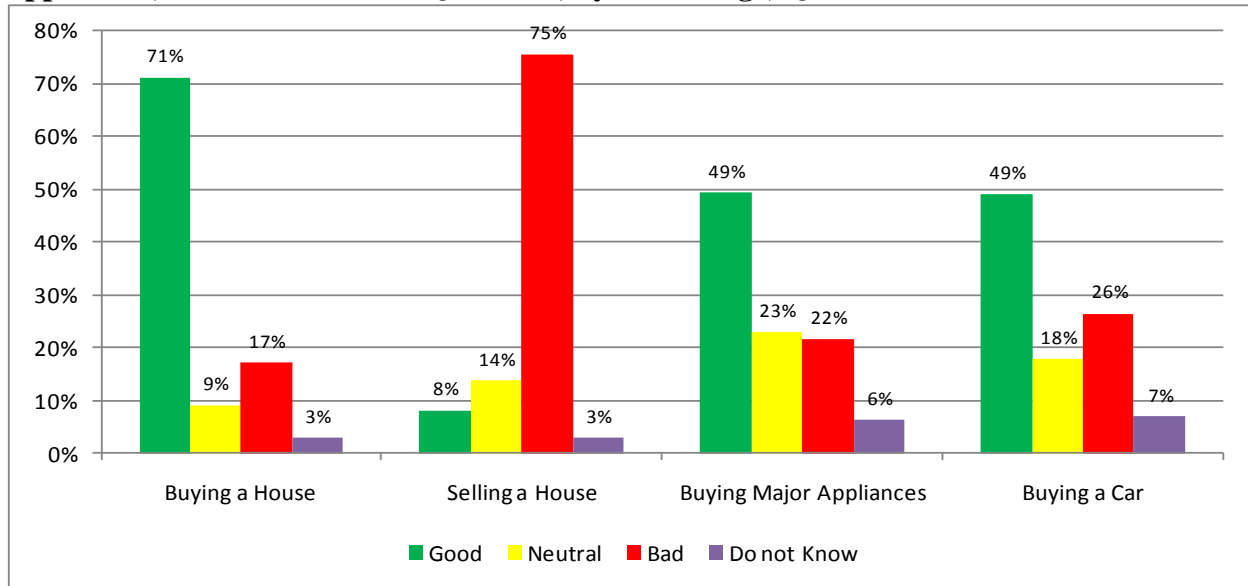
Figure 3. Thurston County Consumer Confidence Survey, Responses to Economic, Labor and Income Questions, by Percentage, Q2 2010.



Another good indicator of consumer confidence is assessing households' willingness to make major purchases. Usually the more concerned households are about the state of the economy and their own financial stability, the less likely they are to absorb more debt and/or spend savings or discretionary income. Figure 4 illustrates the responses to questions that attempt to assess their willingness to spend. Obviously buying a home is a major undertaking for most households. Interestingly, an overwhelming 71 percent of the respondents felt that this was a good time to purchase a home, reinforcing the well known fact that it is a buyers' market. However, many also responded with the caveat that financing had to be available. Just the opposite was the case with selling a home, with 75 percent of the respondents feeling that this is a bad time to place a house on the market.

Households were also becoming increasingly optimistic about this being a good time to purchase major appliances or a new car. Of the respondents, 49 percent felt it is a good time to buy large appliances as well as being a good time to buy a car, with deals available for those with cash or access to financing.

Figure 4. Thurston County Consumer Confidence Survey, Responses to House, Major Appliances, and Car Purchase Questions, by Percentage, Q2 2010.



Thurston EDC CEO Index (TCEOI)⁵

The TCEOI attempts to look at the supply side of the equation and capture Thurston County chief executive officers’ insights into local business and economic conditions. Their access to detailed information on new orders, inventory, customers, prices, suppliers and what kind of financing is available to businesses serves as a leading indicator for Thurston County’s economy.

The EDC CEOs are asked the following six questions:

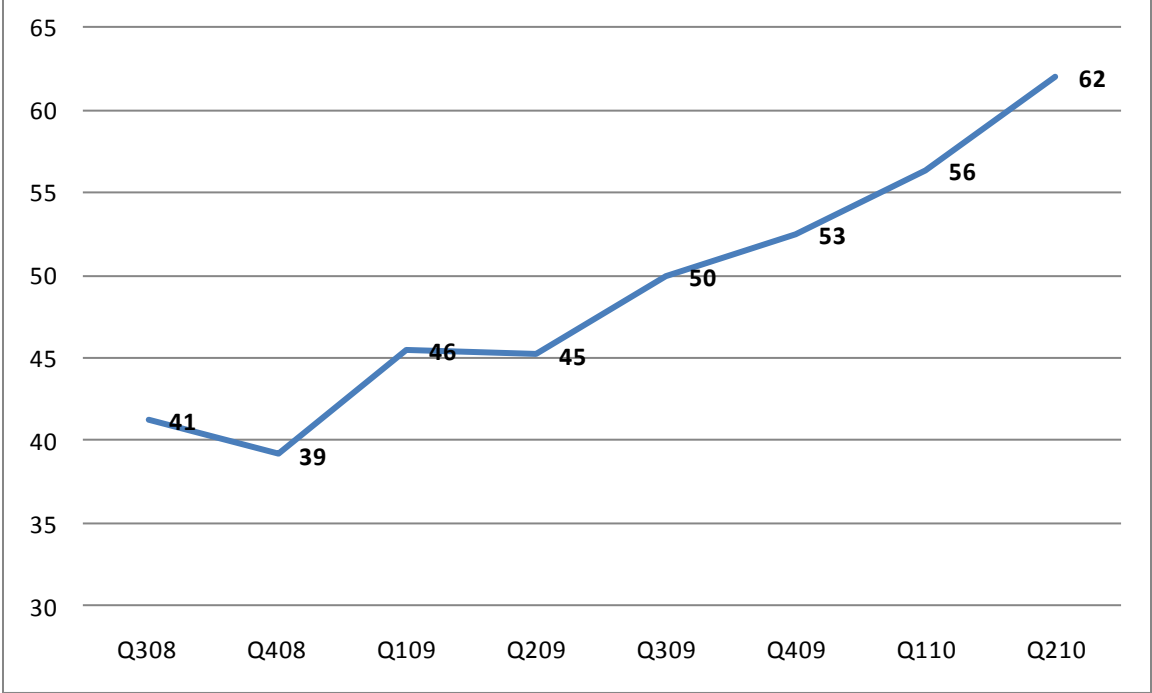
- ◆How are the current economic conditions compared to six months ago?
- ◆What are your expectations for the economy six months ahead?
- ◆What are your expectations for your own industry six months ahead?
- ◆What are the current conditions in your own industry compared to six months ago?
- ◆What are your firm's profit expectations for the next 12 months?
- ◆If you expect profits to increase, which do you foresee as the prime source of improvement?
(Answer choices: market/demand growth, cost reduction, price increase, and new technology).

An index value, which is the TCEOI, is calculated, and a value of more than 50 points on the index or any of the individual questions reflects more positive than negative responses. Figure 5

⁵ The EDC conducts a quarterly email survey of approximately 33 CEOs who represent the major industries in Thurston County, with a response rate of approximately 50 percent. It is an expert survey based on a subjective determination of key CEOs of major firms in the county. They are asked to answer six questions and to provide one of five answers (substantially better, moderately better, same, moderately worse, or substantially worse). Methods are based on the Conference Board’s CEO Confidence survey. The Conference Board provides a more detailed overview of the survey on their website: <http://www.conference-board.org/>

below shows that the TECI has continued to improve since the second quarter of 2009 and now has an index value of 62 for the second quarter of this year.

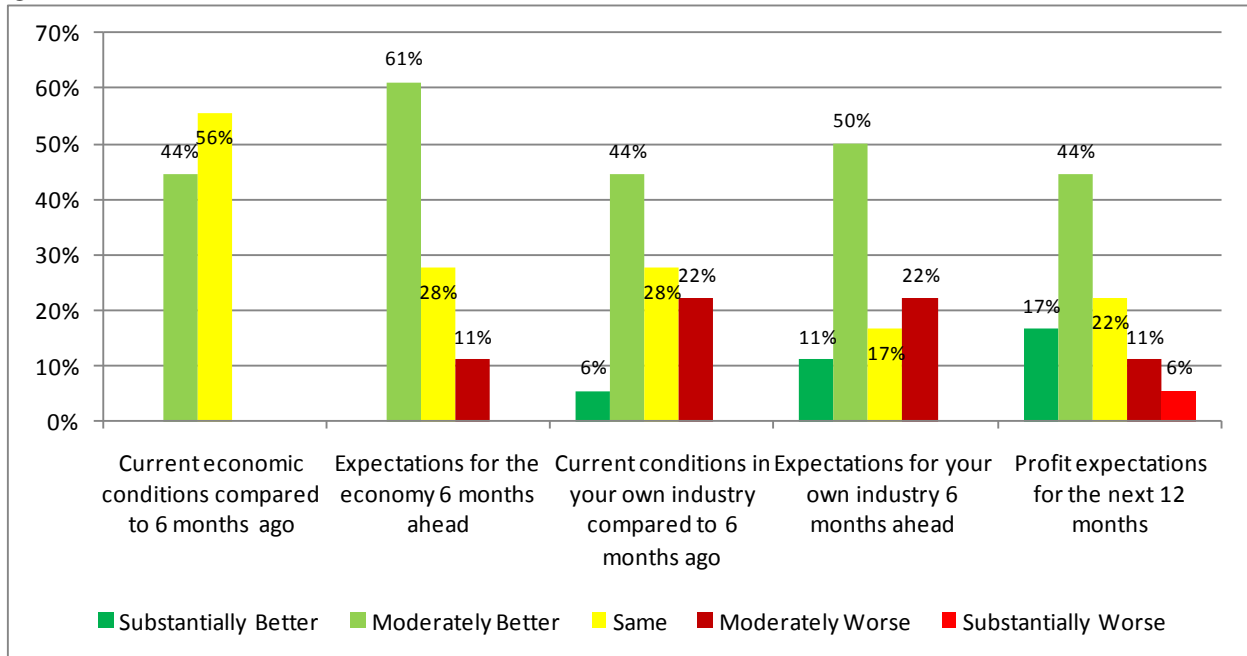
Figure 5. Thurston EDC CEO Index (2008-2010).



Results of responses to the individual questions are shown in Figure 6. When CEOs were asked about current local economic conditions for Thurston County, 44 percent indicated that conditions were ‘moderately better’ and 56 percent indicated ‘same.’ When asked about six months into the future, 61 percent of the CEOs felt that things would be ‘moderately better’ for the local economy, while 28 percent felt that conditions would be ‘same’. There were 11 percent that felt conditions could get moderately worse.

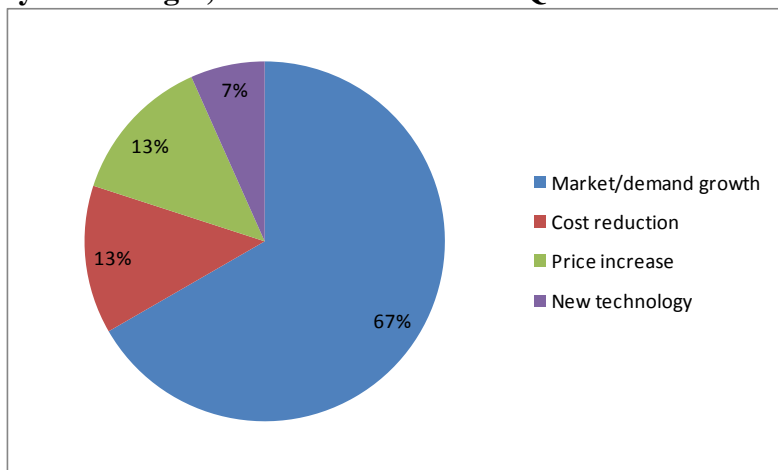
Regarding current conditions in their own industries compared to six months ago, 6 percent felt things were ‘substantially better’ while 44 percent said ‘moderately better’. When asked about their expectations for their own industries in six months, 11 percent felt things would get ‘substantially better’ while 50 percent said ‘moderately better’. There were 22 percent that felt conditions might become moderately worse. When queried about expectations for profits over the next twelve months, 44 percent said that conditions would be ‘moderately better’, while 17 percent felt they would become ‘substantially better’ over that time period. There were 6 percent that indicated that their expectations for profits would be ‘substantially worse’ and 11 percent felt ‘moderately worse.’

Figure 6. Thurston EDC CEO Survey, Responses to Individual Questions, by Percentage, Q2 2010.



When respondents were asked where profits would come from (if they were expected at all), 67 percent said they would come from an increase in demand and market growth. A tie for a distant second were ‘cost reduction’ and ‘price increases’ at 13 percent. The remaining 7 percent of the respondents indicated that profits would be generated through the use of new technology.

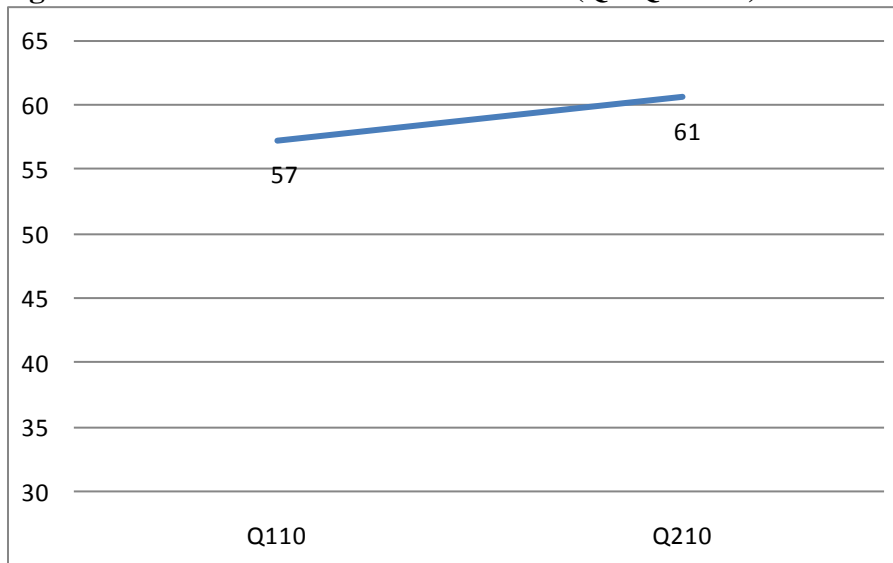
Figure 7. Thurston EDC CEO Survey Responses, by Percentages, of Sources of Profits. Q2 2010.



Thurston Small Business Index (TSBI)⁶

The TSBI is new to the EVI and was just incorporated in the first quarter of 2010. It follows the same questions and methods outlined above for the TCEOI. However, the TSBI represents a different segment of the business sector by focusing on small business owners. Small businesses are major employers and economic drivers in the local economy. As a result, their perceptions are an invaluable indicator for how strong the local economy is currently, and how it will perform in the future.

Figure 8. Thurston Small Business Index (Q1-Q2 2010).



Currently the TSBI stands at 61 for the second quarter of 2010 and is up from its inception value of 57 from last quarter. It is only one point below the TCEOI of 62. Thus small businesses appear overall to be in sync with the CEOs of the larger firms in Thurston County in regards to their expectations for local economic conditions.

Figure 9 below provides further insight by comparing the responses to individual questions included in the survey. For each of the questions, a small percentage of small business owners believed conditions are and will be ‘substantially better’. In addition, the largest response rate for all questions was ‘moderately better’. On the flip side, while there were no CEOs that thought conditions were ‘substantially worse’, there is a percentage of small businesses that did feel that way across the board.

⁶ The Thurston Chamber surveyed 871 of its members and received a response rate of 13 percent, with a 7 percent margin of error, at the 95 percent confidence level.

Figure 9. Thurston Chamber Small Business Survey, Responses to Individual Questions, by Percentage, Q2 2010.

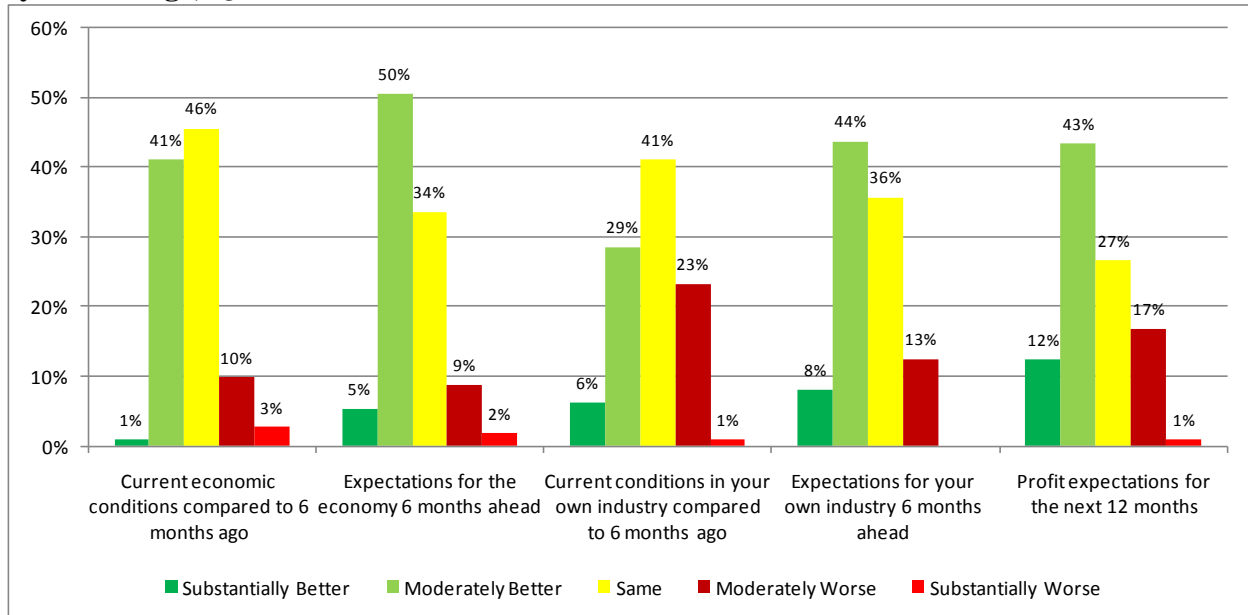


Table 1 below enables side by side comparisons between the EDC CEOs and small business owners aggregated responses to the same questions posed to both groups. When asked about local economic conditions now versus six months ago, it is worth noting that a total of 13 percent of the small business respondents indicated that conditions were worse while none of the CEO respondents indicated so. Further major differences appear when respondents were asked about conditions in their own industries versus six months ago. ‘Moderately better’ was the choice for 44 percent of the CEO respondents while only 29 percent of the small businesses owners thought so. On the other hand, 41 percent of the small business owners felt conditions were the same while only 28 percent of the CEOs thought so. Overall, there was much more variability in the responses of the small business owners versus the CEOs.

Table 1. Side-by-Side Comparison of Responses to Individual Questions between EDC CEO and Small Business Respondents, by Percentage, Q2 2010.

Individual Questions	Substantially Better		Moderately Better		Same		Moderately Worse		Substantially Worse	
	---Better---		---Better---		--Same--		---Worse---		----Worse----	
	CEO	SB	CEO	SB	CEO	SB	CEO	SB	CEO	SB
Current economic conditions vs. 6 months ago	0%	1%	44%	41%	56%	46%	0%	10%	0%	3%
Expectations economy 6 months ahead	0	5	61	50	28	34	11	9	0	2
Conditions for your own industry vs. 6 mo. ago	6	6	44	29	28	41	22	23	0	1
Expectations for your own industry 6 mo. ahead	11	8	50	44	17	36	22	13	0	0
Profit expectations for the next 12 months	17	12	44	43	22	27	11	17	6	1

The responses in Table 1 above were aggregated for all industries. With the high variability in the number of industries represented among the small businesses, an analysis by industry was

warranted.⁷ Tables 2 through 4 below illustrate how respondents felt about prospects for their own industries. The first row in each table represents the aggregated responses for all small business owners followed by the break-out by industry. For Table 2, Manufacturing, Information, Professional, Scientific, and Technical Services, Educational Services, and Accommodation and Food Services industries all exceeded the industry aggregates in both categories. The one industry that fell far below the aggregated values was the Public Administration sector which is not surprising given the budgetary constraints that sector is currently facing.

Table 2. Thurston Small Business Survey, Expectations of Business Conditions in Own Industry 6 Months Ahead and Current Conditions in Own Industry Compared with 6 Months Ago, Responses by Industry, Indexed, Q2 2010.

	-----Own Industry-----	
	Expectations 6 months ahead	Now compared to 6 months ago
All Industries	62	54
Construction	53	41
Manufacturing	63	63
Retail Trade	50	75
Transportation and Warehousing	50	75
Information	65	65
Finance and Insurance	60	52
Real Estate and Rental and Leasing	47	44
Professional, Scientific, and Technical Services	65	58
Administrative and Support and Waste Management and Remediation Services	67	54
Educational Services	75	75
Health Care and Social Assistance	67	52
Arts, Entertainment, and Recreation	50	60
Accommodation and Food Services	75	58
Other Services (except Public Administration)	70	53
Public Administration	25	25

Tables 3 and 4 below compare on a percentage basis, by industry sector, the profit expectations for the next 12 months and how will they be obtained.⁸ Again, the first row represents the aggregated values for all respondents. In the ‘substantially better’ category, Educational Services was the standout with 50 percent of respondents selecting this category. Of those that responded ‘moderately better’, the two largest were Transportation and Warehousing and Information at 100 and 80 percent respectively.

The only industry that claimed that profits would be ‘substantially worse’ was Construction with 25 percent of respondents choosing that category. For the ‘moderately worse’ category, the Arts, Entertainment, and Recreation respondents were the highest with 40 percent of their members making that prediction.

⁷ Industry classifications were based on the 2007 North American Industrial Classification System (NAICS). Only industrial classifications for those that responded to the survey are represented in the tables for this report. More information on the NAICS classifications can be found at: <http://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart=2007>

⁸ It should be noted that while the questionnaire stated profit, it was assumed that respondents that fell into the not-for-profit classification interpreted the statement as more their expectation for increases in revenue to help offset costs.

Table 3. Thurston Small Business Survey, Firm's Profit Expectations for the Next 12 Months, Responses by Industry, Percentage Basis, Q2 2010.

	Substantially Better	Moderately Better	Same	Moderately Worse	Substantially Worse
All Industries	12%	45%	26%	17%	1%
Construction	0	50	13	0	25
Manufacturing	0	0	100	0	0
Retail Trade	0	50	50	0	0
Transportation and Warehousing	0	100	0	0	0
Information	0	80	20	0	0
Finance and Insurance	13	60	20	7	0
Real Estate and Rental and Leasing	0	25	38	38	0
Professional, Scientific, and Technical Services	10	41	34	14	0
Administrative and Support and Waste Management and Remediation Services	33	33	0	30	0
Educational Services	50	50	0	0	0
Health Care and Social Assistance	20	40	20	20	0
Arts, Entertainment, and Recreation	0	60	0	40	0
Accommodation and Food Services	33	33	0	33	0
Other Services (except Public Administration)	10	40	40	10	0
Public Administration	0	0	100	0	0

Table 4 illustrates how respondents believed profits would be obtained if any were expected. The Market/Demand Growth category was selected by 50 percent of those in Educational Services. Cost Reduction appeared to be the method of choice for the majority of the industries with 100 percent of the Transportation and Warehousing respondents making that choice. The New Technology option was selected by 40 percent of those in Arts, Entertainment, and Recreation followed by 38 percent of those in Real Estate and Rental and Leasing. The only industry that had none of their respondents select any of the choices was Construction with 25 percent.

Table 4. Thurston Small Business Survey, If Profits are Expected, What Method is Foreseen as the Prime Source of Improvement, Responses by Industry, Percentage Basis, Q2 2010.

	Market/ Demand Growth	Cost Reduction	Price Increase	New Technology	Did Not Answer
All Industries	12%	45%	26%	17%	1%
Construction	0	50	13	0	25
Manufacturing	0	0	100	0	0
Retail Trade	0	50	50	0	0
Transportation and Warehousing	0	100	0	0	0
Information	0	80	20	0	0
Finance and Insurance	13	60	20	7	0
Real Estate and Rental and Leasing	0	25	38	38	0
Professional, Scientific, and Technical Services	10	41	34	14	0
Administrative and Support and Waste Management and Remediation Services	33	33	0	30	0
Educational Services	50	50	0	0	0
Health Care and Social Assistance	20	40	20	20	0
Arts, Entertainment, and Recreation	0	60	0	40	0
Accommodation and Food Services	33	33	0	33	0
Other Services (except Public Administration)	10	40	40	10	0
Public Administration	0	0	100	0	0

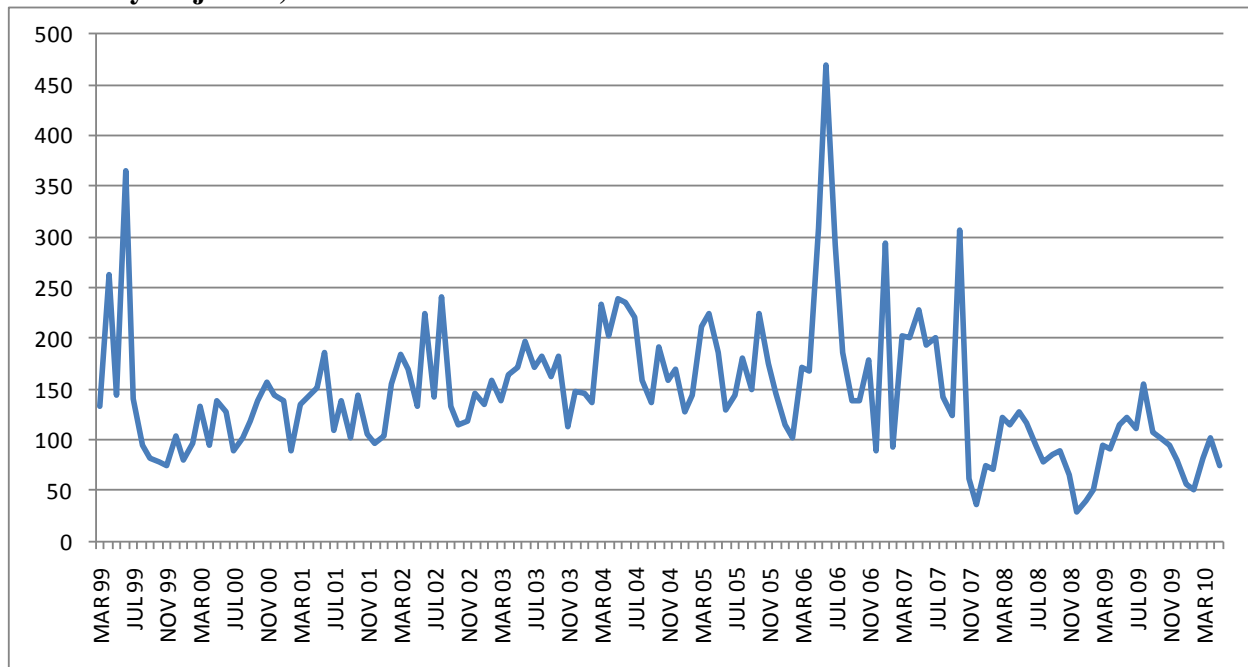
Thurston Leading Economic Indicators Index (TLEII)⁹

The composite TLEII is based on five indicators that are publically published on a monthly basis to better assist in policy making and business planning in Thurston County. Leading indicators selected needed to conform well to business cycles, demonstrate a consistent timing pattern over time, be published monthly, be economically sound, and be statistically reliable with month-to-month movements not being too erratic. The five selected leading indicators are:

- ◆ Total residential building permits for Thurston County
- ◆ Initial unemployment claims for Thurston County
- ◆ Consumer Sentiment Index
- ◆ Stocks of Local Interest Index
- ◆ Yield spread for U.S. Treasuries

Of these indicators, Figure 10 below shows the changes in Thurston County residential building permits over the 1999-2010 time period. Table 5 provides the actual numbers issued from 2005 to 2010.

Figure 10. Total Residential Building Permits for Thurston County, Number Issued, Not Seasonally Adjusted, 1999-2010.



Source: U.S. Census Bureau: Table 3 – Metropolitan Areas

⁹ The methods are outlined in a paper titled: “Developing a Composite Leading Economic Index: Economic Index of Thurston County.” It is available on the EDC website (<http://www.thurstonedc.com/>) and is not covered in this report.

Table 5. Total Residential Building Permits for Thurston County, Number Issued, Not Seasonally Adjusted, 2005-2010.

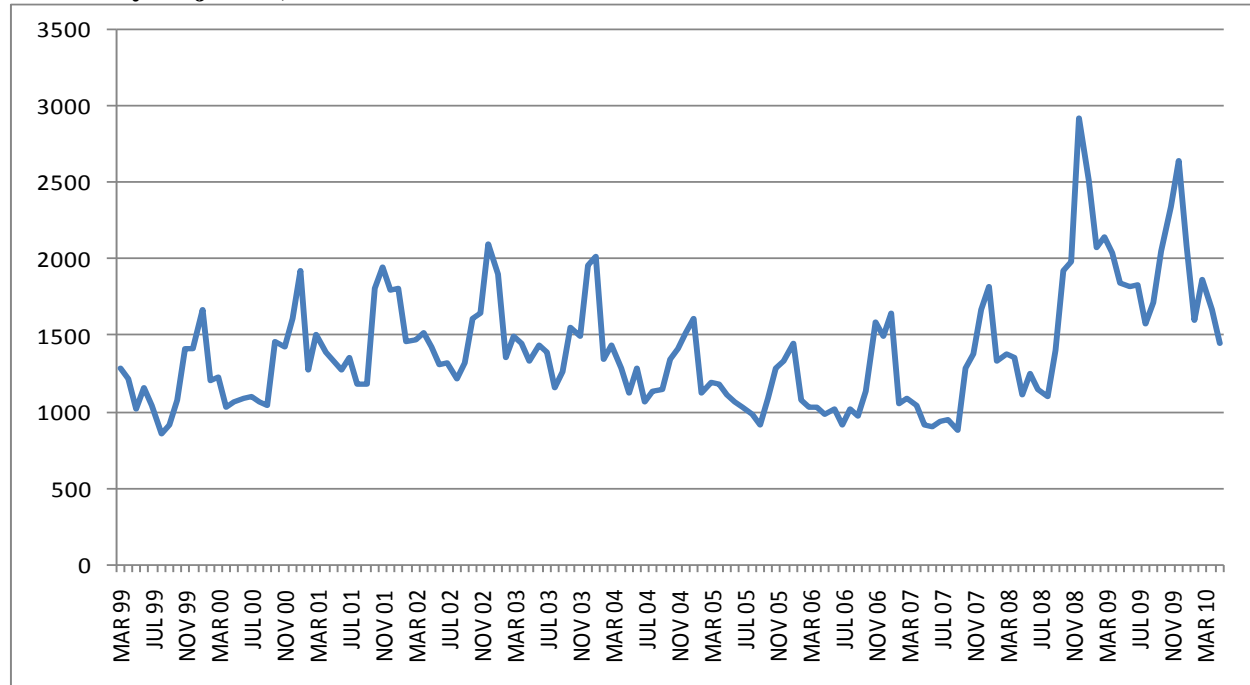
Month	2005	2006	2007	2008	2009	2010
January	128	115	294	75	40	56
February	143	101	93	71	51	50
March	211	171	202	121	95	82
April	224	168	200	115	91	101
May	186	309	228	127	114	74
June	130	470	193	116	122	
July	144	292	201	94	110	
August	180	186	142	77	154	
September	150	138	124	86	108	
October	224	138	307	88	102	
November	175	178	62	65	94	
December	146	89	35	28	80	

Source: U.S. Census Bureau: Table 3 – Metropolitan Areas

As Table 5 illustrates, there was a drop in the number of permits issued in May and overall permits are still down near the lower level of the number issued monthly over the last decade.

Figure 11 below illustrates the changes in another of the indicators in the composite index over the last decade. The graph shows that Thurston County is at the upper end of the overall trend for the number of initial unemployment claims. However, a downward trend is starting to emerge.

Figure 11. Initial Unemployment Claims, Thurston County, by Number Issued, Not Seasonally Adjusted, 1999-2010.



Source: LMEA: WA State Employment Security Department

Table 6 provides the actual numbers of initial unemployment claims. A reduction in the number of claims is obviously a good trend. The number for May illustrates that this was occurring and the value was also lower than the total number of claims recorded in May 2009.

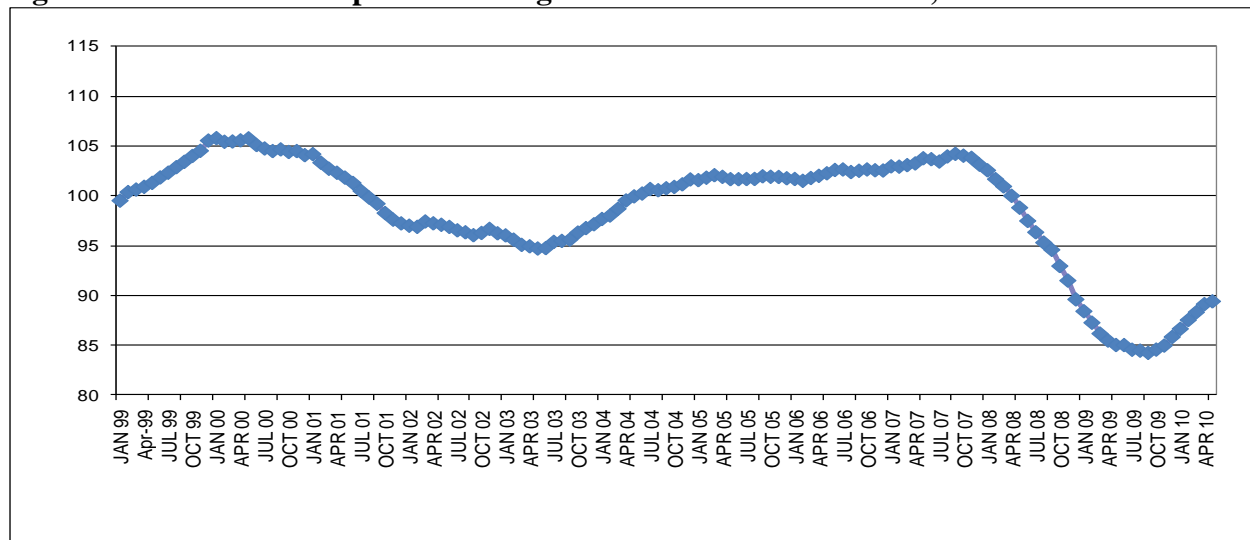
Table 6. Initial Unemployment Claims, Thurston County, by Number Issued, Not Seasonally Adjusted, 2005-2010.

Month	2005	2006	2007	2008	2009	2010
January	1,611	1,445	1,647	1,823	2,517	2,082
February	1,125	1,071	1,057	1,327	2,077	1,595
March	1,187	1,029	1,082	1,377	2,148	1,868
April	1,184	1,029	1,044	1,354	2,037	1,663
May	1,114	982	917	1,113	1,839	1,447
June	1,068	1,020	897	1,254	1,816	
July	1,033	910	935	1,141	1,828	
August	980	1,018	944	1,099	1,570	
September	908	966	874	1,401	1,713	
October	1,085	1,129	1,289	1,922	2,051	
November	1,287	1,585	1,376	1,987	2,339	
December	1,336	1,495	1,668	2,927	2,647	

Source: LMEA: WA State Employment Security Department

The two indicators illustrated above, along with a Consumer Sentiment Index, Stocks of Local Interest Index, and the yield spread for U.S. Treasuries are incorporated to create the composite TLEII which can be seen in figure 12 below. The composite index has fluctuated over the 1998 to 2010 time period. The index currently stands at 89.4 and continues to rise from its low of 84.2 in September of 2009. A leading index represents conditions that are likely to occur in the future and can be ahead of current conditions by up to 12 months. Thus a leading index can serve as a possible future planning tool for businesses and policy makers. The index currently points to a period of increasing recovery for Thurston County.

Figure 12. Thurston Composite Leading Economic Indicators Index, 1999-2010.



MAY 09	JUN 09	JUL 09	AUG 09	SEP 09	OCT 09	NOV 09	DEC 09	JAN 10	FEB 10	MAR 10	APR 10	MAY 10
85.0	85.0	84.6	84.5	84.2	84.6	85.0	85.8	86.7	87.5	88.3	89.1	89.4

Conclusions

The various indicators provide a comprehensive picture of the local economy from both the demand and supply side of the equation. This quarter, while consumers have become slightly more pessimistic, reversing the upward trend, the TCCI only dropped 3 index points. Households' negative perceptions of the labor market are a major factor in the downward trend in the overall index and their perceptions of the present situation. However, households continue to be optimistic about the future with a one index point increase in the future expectations index.

Residents continue to feel that there are good deals to be found on large expenditure items such as houses, automobiles, and major appliances as long as financing is available. But, 75 percent of the respondents still perceive that this is a bad time to try to sell a home.

On the supply side of the equation, local producers, both large and small, continue to express optimism about both current and future conditions and appear overall to be in sync. There is only one index point difference between the TCEOI and TSBI current values of 62 and 61, respectively. Particularly significant is that small business owners represent a more diverse range of feelings about economic conditions, with responses on both the positive and negative sides of those from CEOs. This is to be expected given the much larger sample size of small businesses. Both groups, though, do present a picture of stabilization and recovery in our local economy.

Particular industries appear to be doing better than others when the TSBI respondents were segmented by industry. Education Services and Accommodation and Food Services tied for the highest index value of 75 with expectations for their own industries six months ahead. The lowest index value was 25 for Public Administration followed by 47 for Real Estate and Rental and Leasing. When comparing current conditions to six months ago, again Educational Services was tied for first with a value of 75 but this time it was with Retail Trade. Again, the lowest ranking was Public Administration at 25 followed by Construction at 41.

Finally, when the composite TLEII is analyzed it is clear that Thurston County has turned the corner on the recession, as it continues its upward trend. The indicators that make up this index have historically predicted other indicators about the general direction of the economy. Overall, with the exception of the slight downturn in the Thurston Consumer Confidence Index this quarter, all the other indicators have continued to increase reflecting continued optimism for economic recovery in Thurston County.