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Southwest Washington

Labor Market News

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Monthly Review

July 2022 Unemployment Rates	July 2022	June 2022	July 2021
Seasonally Adjusted:			
U.S.	3.5	3.6	5.4
U.S. U-6*	6.7	6.7	9.2
Washington	3.7	3.8	5.2
Oregon	3.5	3.5	5.1
Portland Metro	3.4	3.5	5.0
Seattle Metro	2.5	2.6	4.3
Unadjusted:			
U.S.	3.8	3.8	5.7
Washington	3.6	3.9	5.3
Oregon	3.9	3.6	5.2
Clark	3.8	4.4	5.6
Cowlitz	4.6	5.3	6.5
Wahkiakum	5.6	6.2	7.1
Portland Metro	3.6	3.5	5.1
Seattle Metro	3.0	2.8	4.7
*See text for definition.			

"We argue in the kitchen
About whether to have children
About the world ending
And the scale of my ambition…"

King, Florence and the Machine

The Big Picture

Let's start on the bright side, for a change: southwest Washington's labor market has been doing remarkably well during the COVID recovery. The latest preliminary data have Clark in first and Cowlitz in second in terms of percentage job growth since the pandemic hit in 2020. These numbers will be revised, but still, very encouraging!

Now back to our musical quote above: Conversations among young couples in the kitchen about these topics are happening all over America. The votes are in: the *fertility rate*—the average number of children a woman will have in her lifetime—in the U.S. has dropped from 2.055 in 2008 to 1.78, where it has stayed over the last four years. The former is roughly the *replacement rate*: the number of births needed to keep population steady. The latter means that, with international migration falling, the U.S. population will eventually start to decline, beginning with the number of children and working its way up the age spectrum. Regardless of how you feel about this trend, the reasons behind it (which are complex) all too often include a not-very-hopeful question: why would I want to bring a child into this world? Economics, including the cost of housing, is also a factor.

Economics is the dismal science, so let's pile it on: A range of factors, including the increase in "deaths of despair" (suicides and substance abuse), the lack of a comprehensive health insurance and health care system, racial inequities, and income disparities has pushed U.S. life expectancy more than three years below the average of 21 peer nations, and that was before COVID. The latter led to a drop in life expectancy in the U.S.

from 78.9 in 2019 to 77.0 years in 2020. The average for peer nations was a decline from 82.1 to 81.5 years. The drop in the U.S. was 1.4 years for non-Hispanic whites, 3.2 years for non-Hispanic Blacks (from 74.8 to 71.5), and 3.7 years for Hispanics. The declines were larger for men than women. And that was for 2020. Life expectancy declined further in 2021 to 76.1 years; for Native Americans and Alaskan Natives, it fell from 71.8 in 2019 to 65.2 in 2021.

It's hard to find a corner of the earth that hasn't been touched by drought, fires and flooding, exacerbated by climate change. For example, South Africa's heaviest rain on record earlier this year led not only to destructive floods but to an explosion of locusts, which devastated 19,000 square miles of grazing land. Some perspective: Klickitat and Skamania together have less than 3,600 square miles. Currently a third of Pakistan is under water, including a substantial part of their best farm land. That's about 100,000 square miles, larger than the state of Washington. Paraguay, the Rhine, New Mexico, Jackson, Mississippi…and now scientists are warning that the collapse of the Thwaites "Doomsday" Glacier in Antarctica may happen much sooner than expected.

The Nation—current business cycle

Every morning I press the news icon on my phone and scan the articles on the economy. If nothing else, it's mildly entertaining reading all the conflicting views of what's going on and what will happen in the near future.

There's a lot of bad analysis (with occasional nuggets of wisdom, or at least, humility) out there, so here's a little guide to the click-bait:

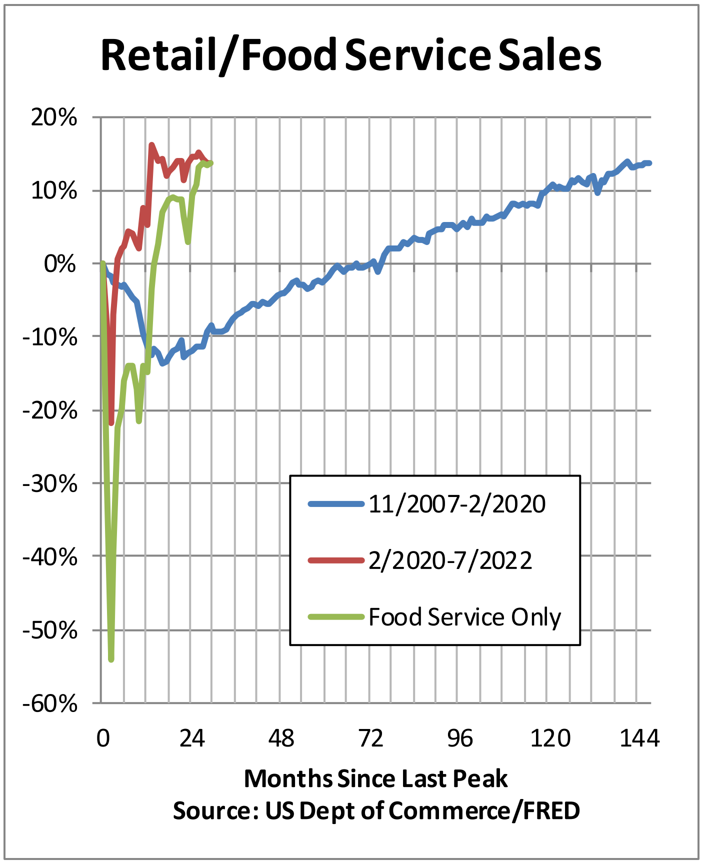
- If you read "economist(s) [or some Very Important Person] predict(s) something or other", there is a good chance they are wrong. An accurate economic forecasting model does not exist. How many economists predicted the big hiring number in July? Ummm, none. And that's only one month ahead, and one piece of data.
- If you read "most economists believe…", what they believe is very possibly, if not probably, wrong. Remind yourself, how many economists had anything close to an accurate read of the economy in 2008? Only a few, and they were roundly chastised by their fellow economists.

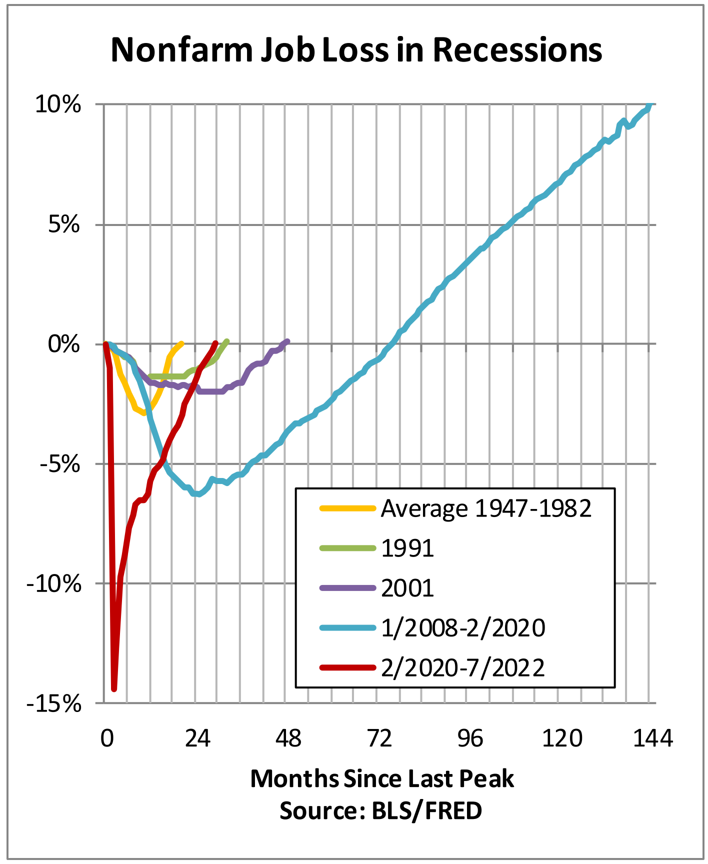
For example, there have been multiple stories over the past year using the same metaphor—employees are in the "driver's seat." There are two problems with that viewpoint: first, wages have not been keeping up with inflation. Second, corporate profits have been increasing *much faster* than inflation. Profits in the second quarter of this year were up 8.8 percent over first quarter (an annualized rate of 40 percent) and were more than 50 percent higher than the average for 2012-2019—after adjustment for inflation. How many articles have you seen about wages driving up inflation? How many on corporate profits driving up inflation? Who's in the "driver's seat"?

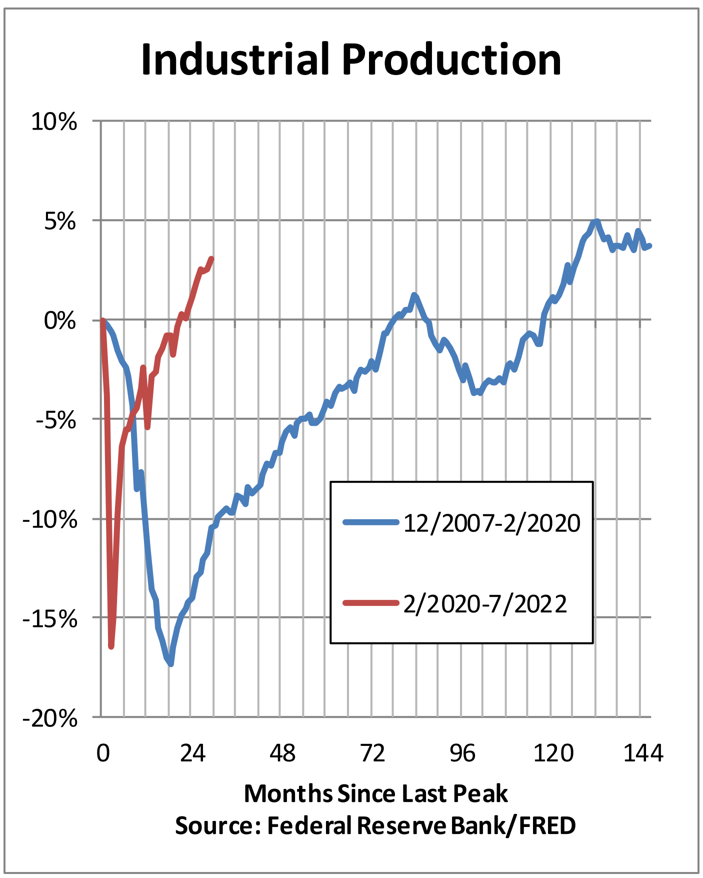
When gross domestic production (GDP)—the estimated value of all goods and services produced in the U.S.—went negative, the big question became, are we in a recession. It took a while for the mass media to catch on to the fact that a recession is not defined as two negative quarters of GDP. That's a good rule of thumb, because usually when GDP declines, other major economic measures follow suit. We see drops in factory production, employment, retail sales and personal income. But we are not in a typical economy.

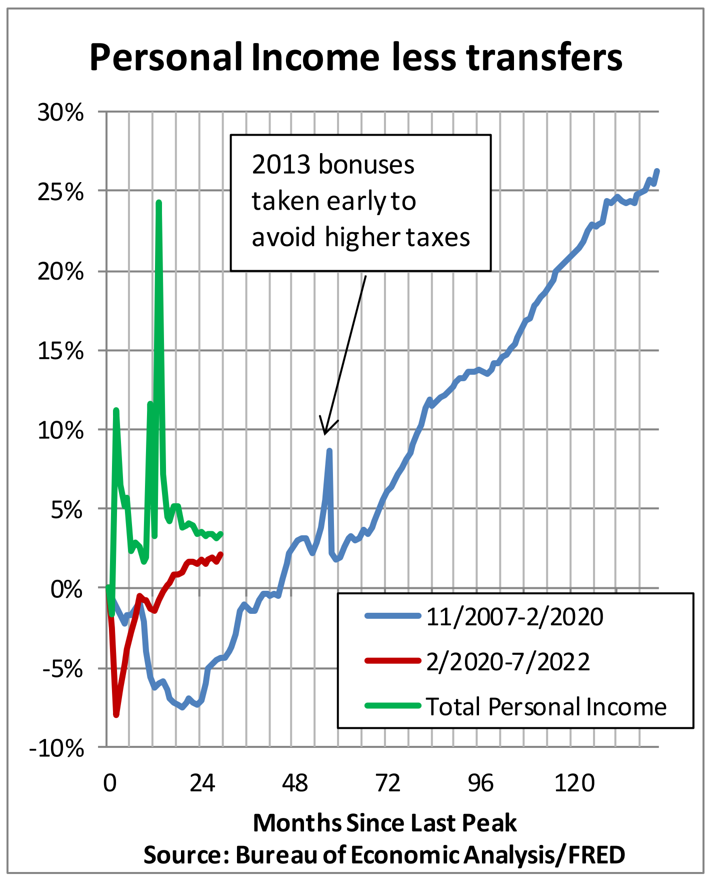
The definition of recession is somewhat subjective: a general downturn in the economy lasting more than a few months. The five factors that the panel of economists look at to determine whether we are in a recession—GDP, personal income, industrial production, retail sales, and nonfarm employment—are listed below (along with a few other indicators).

So here's your chance to be an economist for a day! Look at the actual data and make your own determination.


Retail/Food Service Sales
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
0
24
48
72
96
120
144
11/2007-2/2020
2/2020-7/2022
Food Service Only
Months Since Last Peak
Source: US Dept of Commerce/FRED


Nonfarm Job Loss in Recessions
10%
5%
0%
-5%
-10%
-15%
0
24
48
72
96
120
144
Average 1947-1982
1991
2001
1/2008-2/2020
2/2020-7/2022
Months Since Last Peak
Source: BLS/FRED

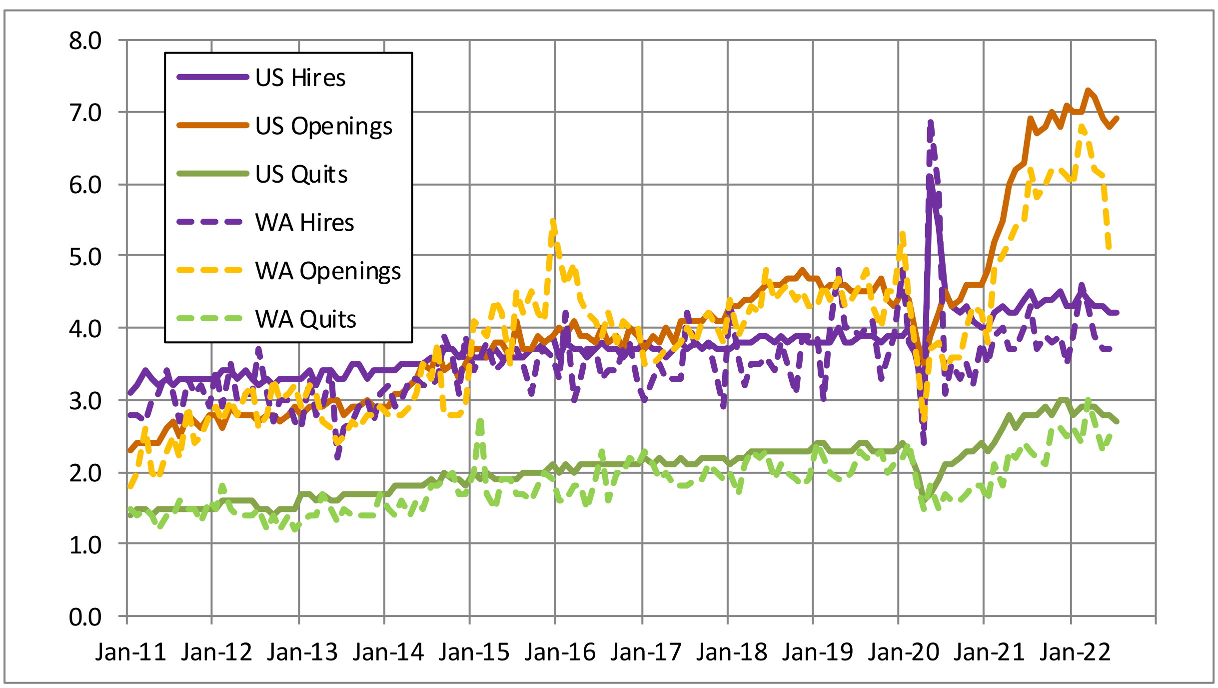

Industrial Production
10%
5%
0%
-5%
-10%
-15%
-20%
0
24
48
72
96
120
144
12/2007-2/2020
2/2020-7/2022
Months Since Last Peak
Source: Federal Reserve Bank/FRED


Personal Income less transfers
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
0
24
48
72
96
120
2013 bonuses taken early to avoid higher taxes
11/2007-2/2020
2/2020-7/2022
Total Personal Income
Months Since Last Peak
Source: Bureau of Economic Analysis/FRED

- GDP declined for the second quarter in a row, by -0.6 percent, following the -1.6 percent drop in the first quarter of the year. While exports increased (a positive), new housing investment decreased. Other investment spending was flat.

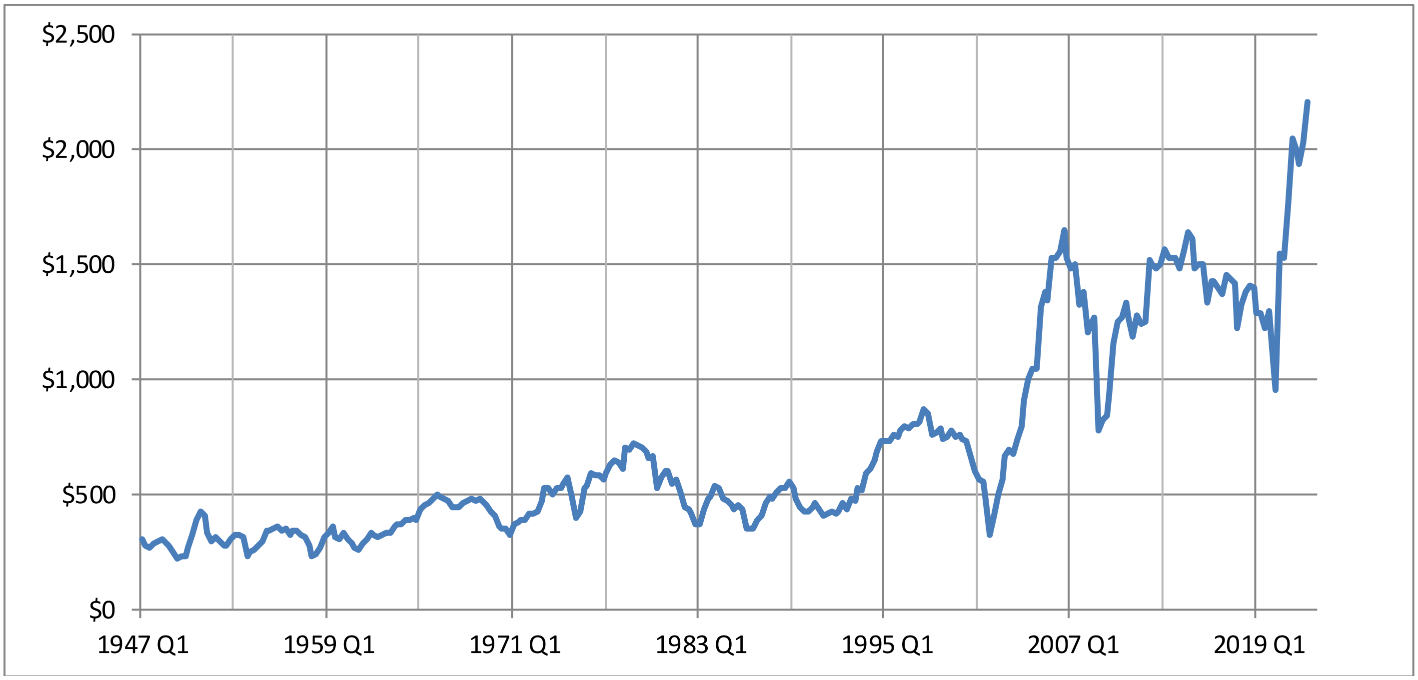
  Total personal income slipped by 0.3 percent in June but rebounded by the same amount in July. Income during the month was 3.5 percent higher than February 2020. When transfer payments like Social Security, Medicare and unemployment insurance benefits were factored out, income rose by 0.4 percent over the month, and was only 2.1 percent higher than pre-pandemic.
- After a flat June, industrial production rose by 0.6 percent in July, and was 3.1 percent above pre-pandemic levels. Manufacturing and mining (mostly petroleum) were both up 0.7 percent over the month.
- It wasn't surprising that retail and food service sales, which have been at elevated levels, declined in May and June. Sales did increase slightly (0.1 percent) in July, and were up a big 13.8 percent since the start of COVID. The food service component fell by 0.9 percent over the month, but still has increased by 12.6 percent over the pandemic. Sales have remained high as the effects of the stimulus have worn off due to an increase in consumer debt.
- The labor market defied economists' expectations by gaining 526,000 jobs, pushing unemployment to 3.5 percent. Employment was 32,000 jobs/0.0 percent above pre-COVID levels, but 2.1 million jobs/1.4 percent short when population growth is factored in.
    - August brought another 315,000 jobs, and a nice jump in labor force participation.
- The number of job openings has declined a bit over the past two months, but was still almost 2 million above trend in July. The openings rate remained extremely high. New hires and quits both trended down slightly but remained at high levels.

Job opening, hire and quit rates, adjusted for seasonal patterns
United States and Washington state, January 2011 through July 2022 (U.S.), June (State)
Source: U.S. Bureau of Labor Statistics/JOLTS



- And to repeat: corporate profits have been increasing much faster than inflation. Profits in the second quarter of this year were up 8.8 percent over first quarter (an annualized rate of 40 percent) and were more than 50 percent higher than the average for 2012-2019—after adjustment for inflation.

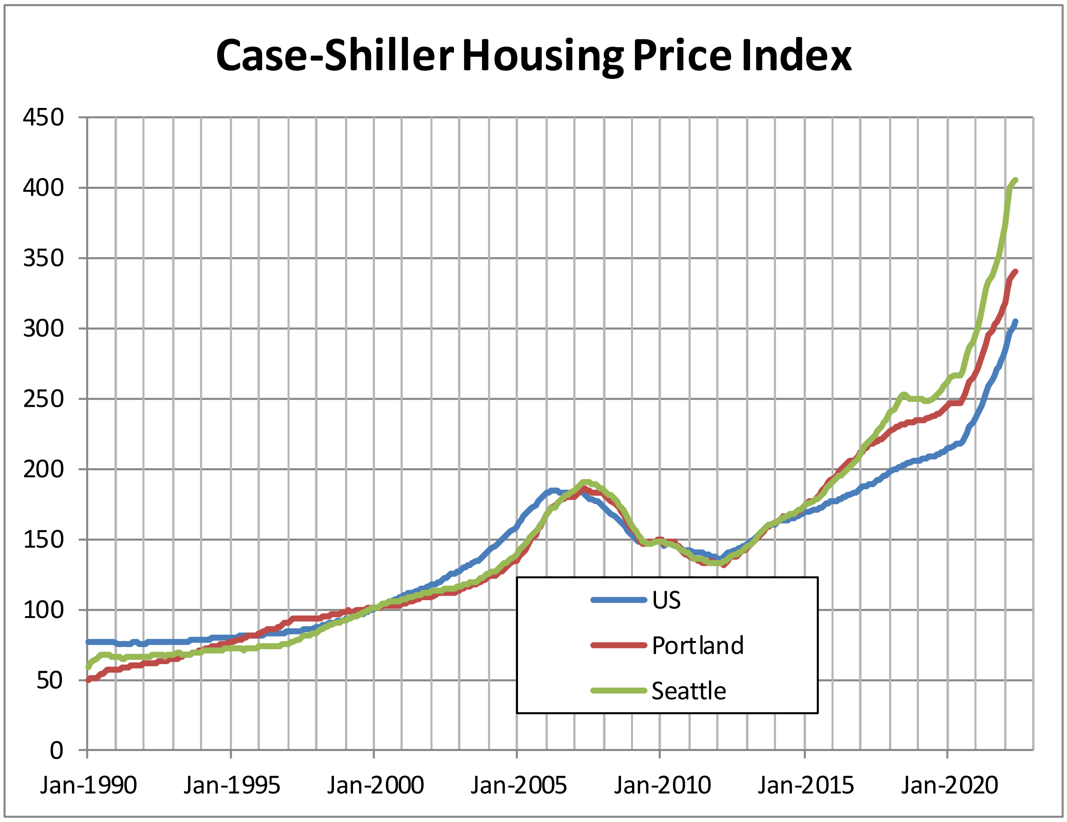
Nonfinancial corporate business: Profits before tax (without IVA and CCAdj)
United States, first quarter 1947 through second quarter 2022
Billions of dollars, adjusted for inflation to 2021 dollars using the GDP deflator
Source: U.S. Bureau of Economic Analysis



- And then there's inflation. The overall inflation rate took the month off in July, with consumer price index declining by 0.2 percent and the Federal Reserve Bank's favored measure, the personal consumption expenditure deflator, dropping by 0.8 percent. Debate continues about the three causes of inflation:
    - The COVID stimulus supported millions of households and small businesses through the worst of the COVID recession, while pushing up demand for (especially) goods (as opposed to services) and contributing to higher prices. However, the stimulus is over, and government spending has contracted for three quarters in a row. Looking ahead, consumer demand will not be the major driver of inflation, especially with incomes contracting as wages fail to keep up with inflation.
    - Supply factors remain a big factor going forward. Drought conditions and flooding in the U.S. and around the world are impacting production, which in turn will keep many prices high. There are still supply chain issues across manufacturing.
    - Corporate profits—see above.

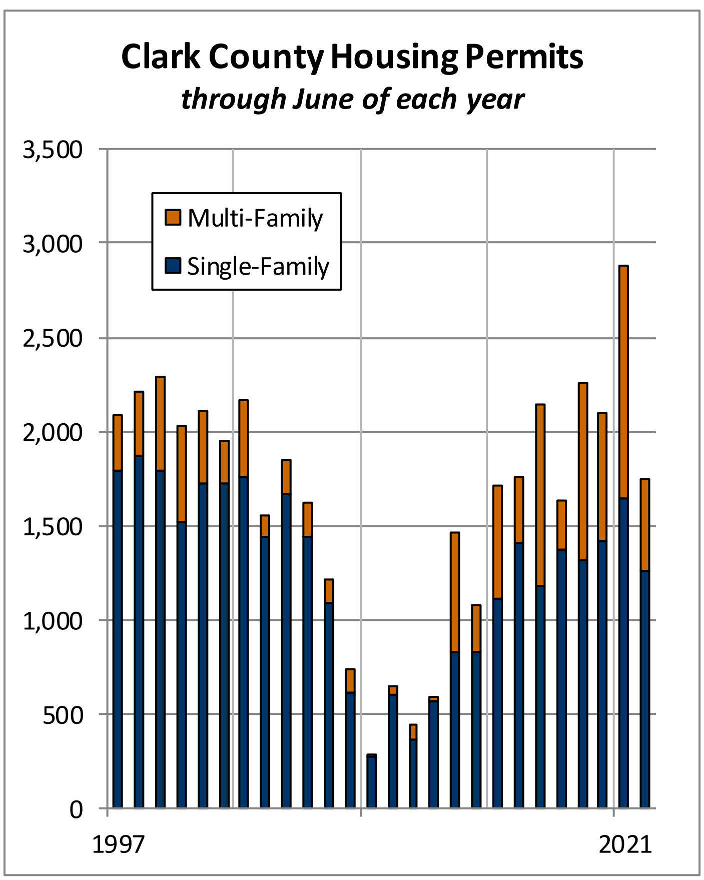
Raising interest rates will do little to address supply chain issues and soaring corporate profits. Further, "slowing the economy" usually means slower hiring or perhaps even job losses—both having huge racial equity issues, as well as disproportionately impacting whites with less than a college degree in formal education. A slower labor market will likely put an even bigger damper on wages. What we could end up with is an economy with high profits, continuing inflation, falling wages, and a stagnant labor market—making the distribution of income and wealth even more skewed.

Our famously broken housing market, updated



The chart to the right shows the trends in home prices in each area, compared with the year 2000 (when the index was set to 100), through May of this year. The national average price has tripled over that time period. In the Portland metro area, prices were up 340 percent and Seattle even more—just over 400 percent. San Diego and Los Angeles were worse. Remember the index numbers mean housing prices have gone up more in Seattle than in Portland, but do not say that housing is more expensive in Seattle.

Over the past year, prices were up "only" 17 percent in Portland, 20 percent nationally, and 23 percent in Seattle. Tampa topped all cities measured, up 36 percent. In one year!



Housing permits issued in Clark County through the first half of the year were running well below last year's record high rate. June, in particular, had a low number of permits reported. It's not clear whether there was a reporting issue, or whether this was a one-month fluke, or whether factors like rising mortgage rates were kicking in.

State of the States—and PDX

Job growth in Washington has slowed from the red-hot pace of 2021, but has still averaged almost 10,000 jobs a month this year. July was a good/normal month, with the state adding 6,600 jobs. That pushed Washington's employment above its pre-COVID level by 14,400 jobs, or 0.4 percent. The state's prime-working-age population (25 to 54) has grown by roughly 2.6 percent since the onset of COVID. Adjusting for that growth would mean the state was still about 75,000 jobs short of a full recovery in the labor market.

A status report for some key industries, starting on the sunny side of the street: construction was up 14,000 jobs/6.3 percent over the business cycle. Transportation services added 12,300 jobs/+10.5 percent, with warehousing and storage up 7,200 jobs (+42.6 percent!), trucking +2,600 jobs/+10.5 percent, and air transportation fully recovered. Employment in prepackaged software (+9,700 jobs/+13.0 percent) and computer systems design (+9,800 jobs/+16.4 percent) reflected strong demand for technology services. Finally, employment services (mostly staffing services aka temp agencies) have expanded (down from a record high in April but still +9,300 jobs/+16.5 percent over the business cycle).

In the mixed bag category: retail trade has shed 7,800 jobs since last October, and was +4,800 jobs/1.2 percent during the pandemic. Much of the decline over the past few months has been in general merchandise stores—not surprising given the run-up in demand for consumer goods early in the pandemic has abated, with consumers shifting spending towards services.

On the down side: leisure & hospitality continued its recovery, pulling within 10,800 jobs/-3.7 percent. Within that sector, food services was almost back (-1,700 jobs/-0.7 percent), while lodging, still feeling the loss of business travel, was down 9,100 jobs/-24.0 percent. Arts, entertainment & recreation was almost as bad at -11,200/-11.2 percent. Aerospace employment was still in the dumpster (-18.200 jobs/-20.2 percent), but the rest of manufacturing was close to pre-pandemic levels (-2,800 jobs/-1.4 percent). Nursing and residential facilities still have major shortages: -6,900 jobs/-10.8 percent. While we don't estimate childcare services on a monthly basis, the latest data (March 2022) show a 9 percent drop from two years earlier. Other services, which include personal services like hair salons and many non-profits, were still 14,100 jobs/10.6 percent below pre-COVID levels.

Oregon's recovery got off to a slower start than Washington's, but has strengthened over the past nine months. July brought 4,200 more jobs to the state, leaving it 15,600 jobs (-0.8 percent) short of full recovery (not counting population growth). Industries like construction, transportation and warehousing, real estate, and professional services have been expanding rapidly. Arts, entertainment & recreation continued to be in a deep hole (-4,000 jobs, -13.6 percent), as did accommodations & food services and local government.

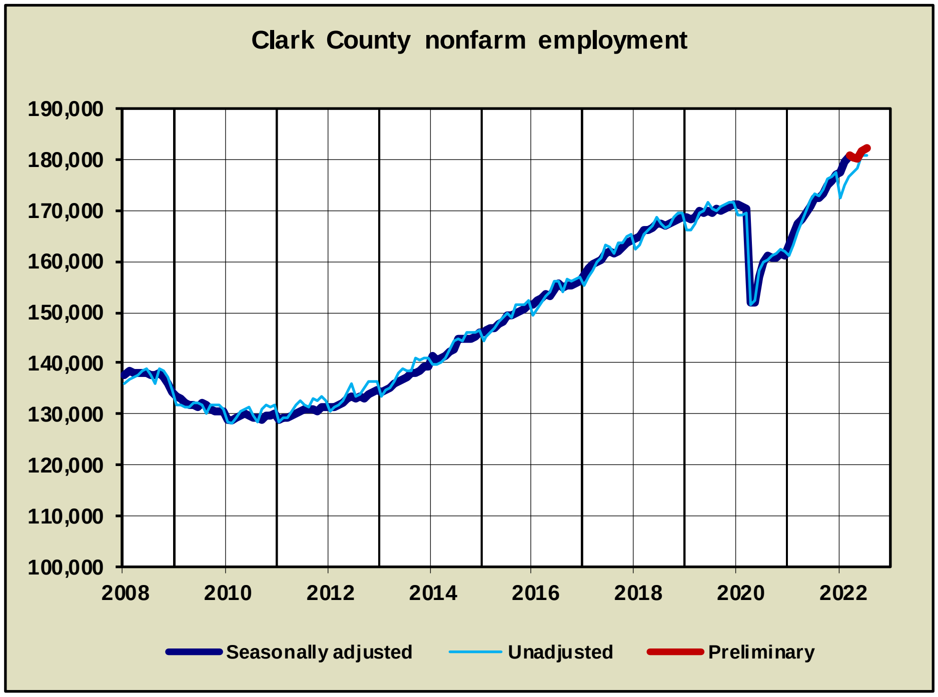
Portland and Seattle were on the same trajectory until the past few months, when Portland's recovery accelerated. In July PDX finally exceeded its pre-pandemic level (again not adjusted for population change), boosted by gains in construction, manufacturing (including, but not limited to, electronics), professional services, temp agencies, and leisure & hospitality. Despite a solid July, Seattle was still -12.500 jobs/-0.7 percent over the pandemic. Aerospace (-17,300 jobs/-20.8 percent) and leisure & hospitality (-22,100/-12.7 percent) remain the biggest challenges, along with nursing & residential care (-4,000/-15.6 percent) and other services (-9,300 jobs/-14.0 percent). On the plus side: software (+7,300, +10.2 percent) and professional services (+17,300, +11.5 percent), which includes computer systems design (+7,300, +15.0 percent). In contrast with the state as a whole, transportation & warehousing has not yet recovered.

Unemployment rates varied from 3.7 percent in Washington, 3.5 percent in Oregon, 3.4 percent in Portland, down to Seattle Metro's 2.5 percent—only the latter significantly different from the national rate of 3.5 percent. The broader U-6 labor utilization rate (which also includes "marginally attached" workers who have been in the labor force in the past year but not in the current month) was probably close to the U.S. rate of 6.7 percent.

Regional Roundup

Quarterly benchmarking for the state and most labor market areas for the first quarter of the year will be delayed until spring, due to the implementation of new NAICS industry codes for employers. Clark and Wahkiakum counties have been benchmarked, however, and preliminary estimates for January forward have been revised. The charts below show total nonfarm employment for each county, with preliminary estimates in red, starting in January 2022 for Cowlitz and April 2022 for Clark and Cowlitz.

Clark County



Clark County nonfarm employment rose by 800 jobs in July, on a seasonally-adjusted basis. Unadjusted employment rose by 200 over the month to a total of 180,800 jobs. Business services added 300 jobs, and social assistance rose by 200 jobs. Meanwhile summer school layoffs led to a drop of 300 jobs in state government and 500 jobs in K-12 education.

Since the onset of COVID in February 2020, the county has gained a net 11,400 jobs, an increase of 6.7 percent. That was better than the nation (+0.0 percent), the state (+0.4 percent), Oregon (-0.8 percent), Seattle metro (-0.7 percent) and the Portland metro area (+0.1).

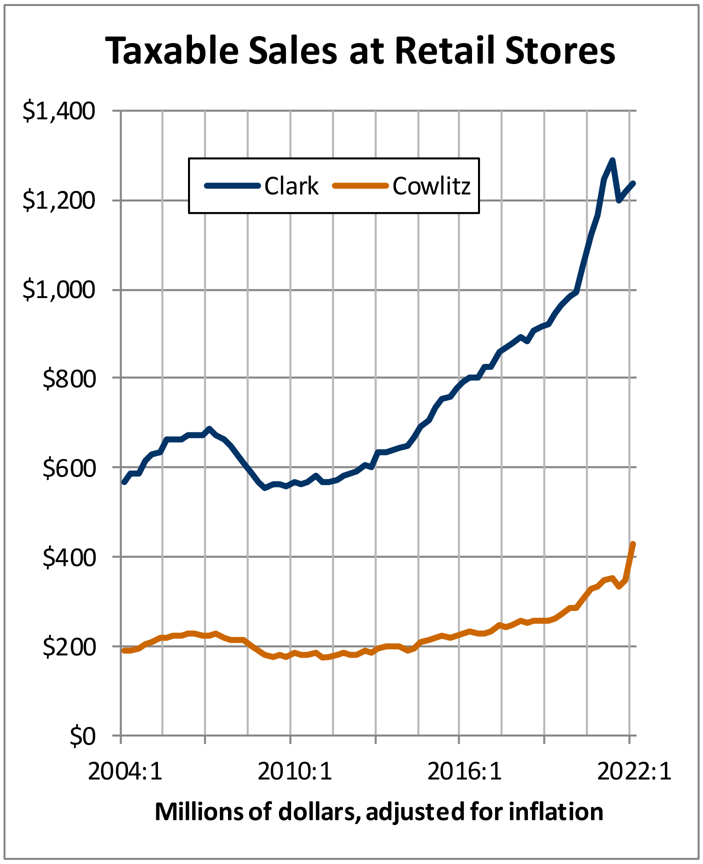
Over the year:

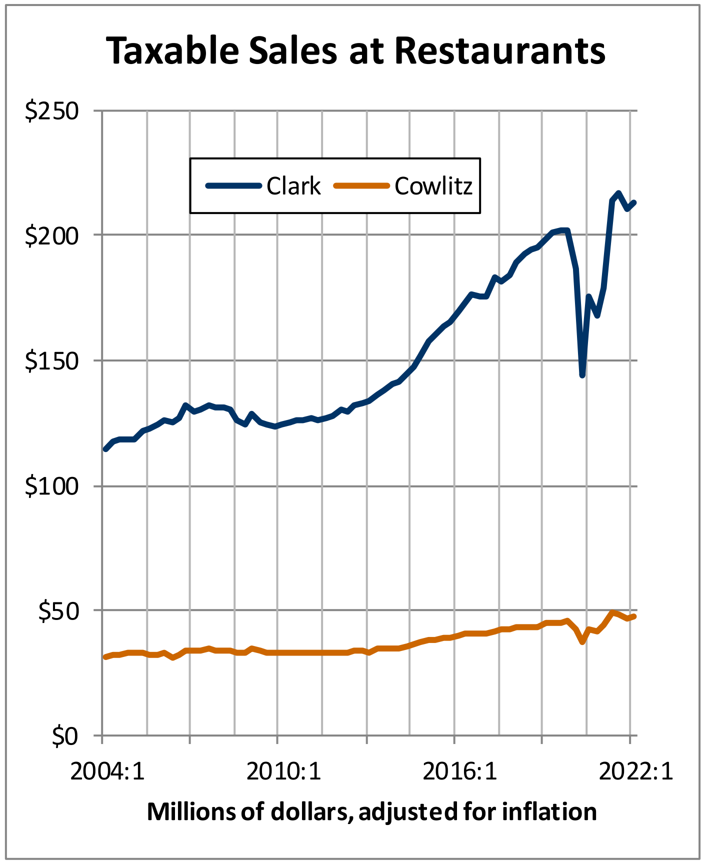
- Total employment was up 7,900 jobs (+4.6 percent).
- Eight industries have grown faster than the average for all industries:
    - Arts, entertainment & recreation (+400, +21.1 percent)
    - Business services (+1,500, +16.5 percent)
    - Private education services (+300, +15.8 percent)
    - Accommodations & food services (+1,200, +8.6 percent)
    - Other services (+400 jobs, +6.6 percent)
    - Construction, mining & logging (+1,100, +6.4 percent)
    - Professional services (+600 jobs, +6.2 percent)
    - Health care & social assistance (+1,400, +5.3 percent)
- Eight industries have added jobs, but slower than the average for all industries:
    - Manufacturing (+600, +4.3 percent)
    - K-12 public education (+400, +3.3 percent)
    - State government (+100, +3.3 percent)
    - Finance & insurance (+300, +3.2 percent)
    - Wholesale trade (+200, +3.0 percent)
    - Local government, excepting education (+200, +2.9 percent)
    - Real estate, rental & leasing (+100, +1.9 percent)
    - Federal government (+100, +1.7 percent)
- Five industries had no change or lost jobs this past year:
    - Transportation services (unchanged)

- Information services (unchanged)
- Corporate offices (unchanged)
- Retail trade (-400, -2.1 percent)
- Federal government (-400, -10.3 percent)

Clark's unemployment rate was estimated at 3.8 percent, almost two points below the 5.6 percent from July 2021. The number of unemployed residents was estimated at a bit under 9,600, 31 percent below the 13,800 estimate from a year earlier.

Looking back: taxable sales at retail stores in Clark County soared in the first half of 2021, retrenched in the third quarter, and resumed growth in the fourth quarter and the first quarter of 2022. Even with the stimulus essentially ended, sales were still well above the pre-COVID trend. Restaurant sales peaked in the third quarter of 2021—at 7.5 percent above pre-pandemic levels—and have shown little change in the subsequent two quarters. Hotel/motel sales (not shown in the charts) were still 10.6 percent lower than before COVID.



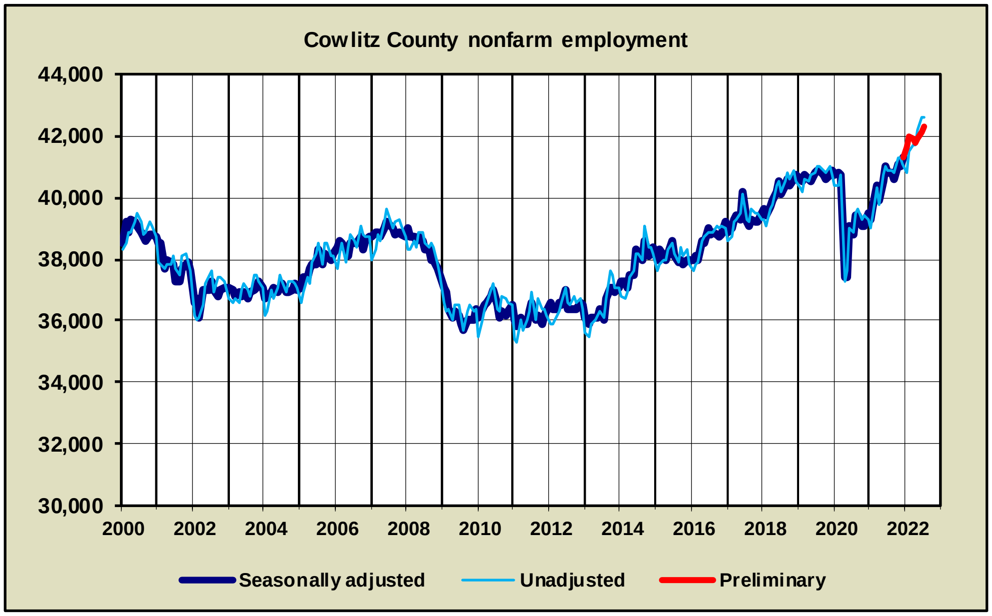


Cowlitz County

Cowlitz County added 200 nonfarm jobs in July, on a seasonally-adjusted basis. Total unadjusted employment was unchanged over the month, with only small changes at the industry level.

As a result, job counts were up 1,700, or 4.2 percent, over last July. Gains came in mining, logging & construction (+200), manufacturing (+300), education & health services (+100), leisure & hospitality (+100) and state government (+500). The latter will likely be revised down a bit next month. In addition, the "all other services" category was up 800 jobs. On the down side, trade, transportation & utilities was off 200 jobs, and local government was down 100.

Taking a little longer-term perspective, employment has increased by 1,500 jobs from the pre-pandemic level (+3.7 percent). That was better than the nation (+0.0 percent), the state (+0.4 percent), Oregon (-0.8 percent), Seattle metro (-0.7 percent) and the Portland metro area (+0.1).



The county unemployment rate was estimated at 4.6 percent, almost two points lower than the 6.5 percent from last July. The number of unemployed county residents was estimated at just over 2,200, down from about 3,100 a year earlier.

Taxable retail sales in Cowlitz County rose sharply in the first quarter of 2022. These are seasonally-adjusted data, and the first quarter is usually the lowest quarter of the year for unadjusted data, so this may be a one-quarter story. Regardless of the magnitude of the increase, consumer spending remained at high levels. Spending at restaurants declined slightly beginning in the second half of 2021, but was still 3.5 percent above pre-COVID levels.

Wahkiakum County

Wahkiakum County employment was little changed by quarterly benchmarking. In July, preliminary estimates put county employment at 750 jobs, the same as in June but 50 less than July 2021. Job losses over the year came in logging (-20), construction (-10), services (-10) and local government (-10). After adjusting for seasonal trends, employment was 10 jobs lower than in February 2020, just before the pandemic hit. The county's unemployment rate was estimated at 5.6 percent, a point and a half below last July's 7.1 percent. There were about 70 unemployed county residents, versus 100 a year ago.