Washington State Employment Security Department
Labor Market and Economic Analysis

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Northwest Washington
Labor Market Review

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Reinhold Groepler, Ph.D., Regional Economist
101 Prospect Street, Bellingham WA 98229
Voice: (360) 676-3253
rgroepler@esd.wa.gov, www.workforceexplorer.com

Executive Summary

As explained in last month's report, burst credit bubbles like the one that caused the Great Recession generally follow a slow healing process due in large part to the credit issues being resolved in the economy. The national recovery in employment is moving in the right direction and picking up some steam lately. The big question is how the transition from fiscal and monetary stimulus powering the economy to the private sector powering growth turns out over the next year or so. It also remains to be seen how inflation behaves over the next two years and the corresponding impacts that Federal Reserve Bank policy will have on the economy when they tighten credit conditions.

Leading indicators like the Economic Cycle Research Institute's (ECRI) Weekly Leading Indicator (WLI---see chart next page) are unambiguous in suggesting that US economic and employment growth will be decent at least through late summer 2011. However there are longer term risks that could cause the economy to retrench. Risks from rising inflation due to increasing energy and food prices triggered by loose monetary policy among developed nations are prominent concerns of most economists. Many rapidly growing emerging market countries are trying to apply fiscal and monetary brakes to their economies as preemptive measures to moderate growth and avoid accelerating inflation. **Although US and Washington State economic growth is decent, it is not robust enough to be resilient and that means the economy is more susceptible to damage from unforeseen adverse economic shocks.**

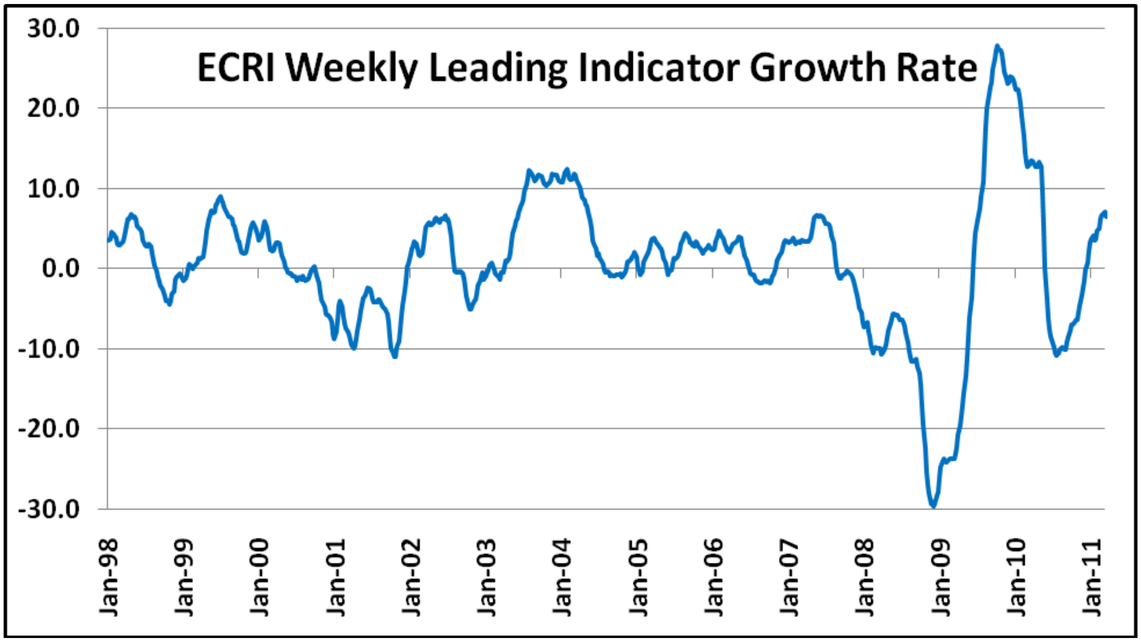
February's recently released labor market data show that compared to a year ago, as well as a month ago, that the recovery in nonfarm payroll employment for most areas has passed the bottoming out stage and are clearly in a growth stage (see table 2 on page 3). Manufacturing employment is the strongest sector for employment gains across all areas. Mining, logging and construction employment is finally showing some growth at the national level, but in the state and northwest counties this sector is still a drag except for growth in Skagit County. Private service providing industry employment is showing good gains nationally and statewide, but generally weaker in the northwest counties. Cutbacks in government employment are continuing to be a drag in many areas. **Expect accelerating but still modest job gains through most of 2011 in the four northwest counties.**

Table 1
Unemployment Rates (Nonseasonally Adjusted)

Area	Feb-11	Jan-11	Feb-10
USA (U-3)	9.5	9.8	10.4
USA (U-6)	16.7	17.3	17.9
Washington	9.8	9.9	10.9
CD-2 (est.)	10.2	10.1	11.1
NW WDA (3)	10.1	9.9	11.1
Whatcom	9.6	9.3	10.4
Skagit	11.3	11.2	12.6
Island	9.9	9.5	11.0
San Juan	8.7	9.1	9.7
Snohomish	10.3	10.2	11.1

U-6 rate counts discouraged and other workers.

For most recent state and county data, go to: http://www.workforceexplorer.com/cgi/databrowsing/?PAGEID=4&SUBID=148



National and Washington State Labor Market Outlook

The US February labor report showed continued strengthening of labor markets with *"Job gains occurred in manufacturing, construction, and several service-providing industries. Since a recent low in February 2010, total payroll employment has grown by 1.3 million, or an average of 106,000 per month [seasonally adjusted basis]."* **Nationally, small businesses have been the strongest generator of jobs for some months now, which bodes well for our local northwest economies which are based primarily on small businesses.** Small business job changes lead employment changes at large businesses, so that is another reason for optimism. For further information and the latest reports by the National Federation of Small Businesses and the Intuit Small Business Employment Index please use these highlighted links.

The Washington State February Employment Situation Report notes, *"Washington added an estimated 800 jobs in February and the unemployment rate dipped to 9.1 percent from January's revised rate of 9.2 percent. [Note: this entire discussion refers to seasonally adjusted data.] The big gainer in February was the construction industry, which added an estimated 3,900 jobs. Other industries that grew last month were government, up 1,700; and leisure and hospitality, up 1,600. Growth in the public sector is attributed primarily to military jobs and higher education. Jobs were lost in retail trade, down 1,500; wholesale trade, down 1,400; financial activities, down 1,300; professional and business services, down 1,300; and transportation, warehousing and utilities, down 400. Since February 2010, Washington has added an estimated 31,100 private-sector jobs, while losing an estimated 3,200 public-sector jobs. An estimated 341,865 people (not seasonally adjusted) in Washington were unemployed and looking for work, and 234,695 people received unemployment benefits from Washington in February."*

Looking at the recent trends in the labor force, the employed and unemployed on a nonseasonally adjusted basis for the US and Washington State brings good news from the labor markets. See summary table on first page and detailed table at end of this review.

- The nonseasonally adjusted employment rates declined nicely both over the year and month in both the state and the nation.
- One can also see from that table that the unemployment rate for the state declined by 0.1 from January to February. Historically, the Washington State unemployment rate increases by 0.1 from January to February, so this 'counter-seasonal' movement is encouraging.
- In Washington State, the number of unemployed declined; the number of employed rose; and the labor force grew.
- These all add up to a decline in discouraged workers and lower unemployment rates
- Looking at the US unemployment rate that includes discouraged and marginally attached workers (U-6) on the table in the first page shows a very encouraging decline both over the year and month.
- So overall at the national and state levels, the unemployment numbers are encouraging, both over the year and over the month

Turning to the changes in payroll employment for the state and nation, please see the following table. The NW county data is listed for comparison here and more details on the counties are given in the next section.

- All the major sectors (except government) are up for the US year over year and over the month.
- In the state, mining, logging and construction is down over the year, but up over the month.
- Manufacturing in Washington is growing over the year but flat from January.
- It therefore seems that Washington State is recovering, but slower than the nation over the recent month.

Table 2: Employment Growth Rate Comparison of Select Industry Sectors

February 2011 Nonseasonally Adjusted Data for All Areas (Preliminary)

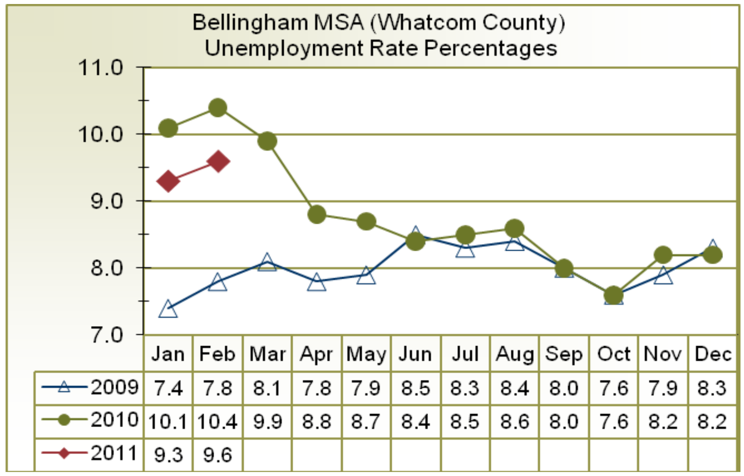
	USA		Washington		NW Counties		Whatcom		Skagit		Island		San Juan	
NAICS Industry	Y/Y %	M/M %	Y/Y %	M/M %	Y/Y %	M/M %	Y/Y %	M/M %	Y/Y %	M/M %	Y/Y %	M/M %	Y/Y %	M/M %
Total Nonfarm 1/	1.0%	0.6%	1.0%	0.2%	-0.2%	0.1%	-1.2%	0.0%	1.2%	0.2%	0.7%	0.5%	0.6%	0.6%
Total Private	1.4%	0.4%	1.4%	0.1%	-0.4%	0.1%	-1.3%	-0.2%	0.9%	0.6%	0.7%	0.4%	0.8%	0.3%
Goods Producing	1.4%	0.2%	-0.4%	0.9%	1.5%	1.0%	0.0%	0.8%	4.1%	1.3%	2.8%	0.7%	-1.2%	2.4%
Mining, Log. & Construct.	0.9%	0.1%	-3.6%	2.7%	-1.7%	2.2%	-5.5%	2.0%	7.7%	3.7%	-3.6%	0.0%	-4.3%	0.0%
Manufacturing	1.7%	0.2%	1.4%	0.0%	3.7%	0.2%	4.0%	0.0%	2.1%	0.0%	11.5%	1.5%	12.5%	12.5%
Service Providing	0.9%	0.7%	1.2%	0.1%	-0.5%	0.0%	-1.4%	-0.2%	0.6%	0.0%	0.4%	0.4%	1.0%	0.3%
Private Service Providing	1.5%	0.5%	1.7%	0.0%	-0.9%	-0.1%	-1.7%	-0.4%	0.0%	0.4%	0.3%	0.3%	1.4%	-0.3%
Government	-1.2%	1.8%	-0.7%	0.8%	0.4%	0.2%	-0.6%	0.6%	1.9%	0.2%	0.6%	0.6%	0.0%	2.1%

For more detail on county nonfarm payroll employment by sector see the most recent published report and data files at the following links in Workforce Explorer:
http://www.workforceexplorer.com/article.asp?ARTICLEID=4758
http://www.workforceexplorer.com/cgi/databrowsing/?PAGEID=4&SUBID=148

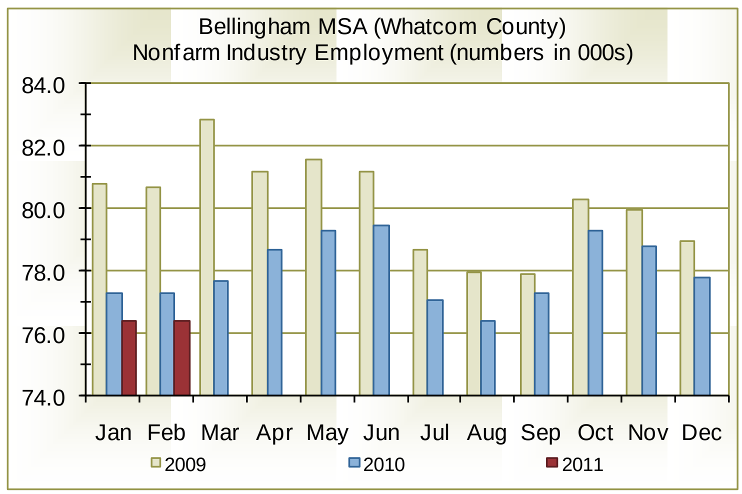
Economic Overview of Northwest Counties for February 2011

Whatcom County

The unemployment rate decreased nicely over the year from January and February of 2010 thereby indicating some healing of the labor market. In one sense, the unemployment data is somewhat discouraging for Whatcom County. The February 2011 unemployment rate of 9.6 percent (not seasonally adjusted) in Whatcom County was above the 9.3 reading in January 2011. The average January to February change in the unemployment rate for the 1990-2010 timeframe is for no change, but this year the rate went up three tenths of a percent. Looking at the unemployment rate chart, one can see that the rate rose both this and in the past two years from January to February, so perhaps this February increase is not so unusual considering the slow recovery from the Great Recession across the nation.



The growth in Whatcom County private nonfarm was nothing short of spectacular from 2001 through 2008, at least compared to the state and the nation. This growth was associated with a large amount of in-migration and a surge in residential construction activity, a heady combination for economic growth. The decline of Whatcom County private employment due to the Great Recession has not reversed nor bottomed out yet according to this and last year's nonfarm employment data. Total private nonfarm employment for January and February fell below year ago levels by about 1.3 percent for each month, which is about 800 jobs lower than last year. The only sectors showing decent growth were manufacturing employment, up 4 percent over the year for both January and February, while leisure and hospitality employment was up 3.4 percent both months over the year. Mining, logging and construction employment was down in the county about 8.9 and 5.5 percent over the year in January and February respectively. Even the January to February private nonfarm employment growth is the weakest of the six areas in Table 1. The explanation for these larger than expected declines is more likely due to the volatility in the sample data from the past few months and that once this data is benchmarked, these declines in private employment will be completely or largely reversed. The same type of revision may also occur with the jump in the February unemployment rate for Whatcom County. Two months of nonbenchmarked payroll employment declines is not a reason for concern given the gains in other areas.



Looking at major sector intermediate trends in nonseasonally adjusted nonfarm employment (12 month rolling simple moving average) in Whatcom County:

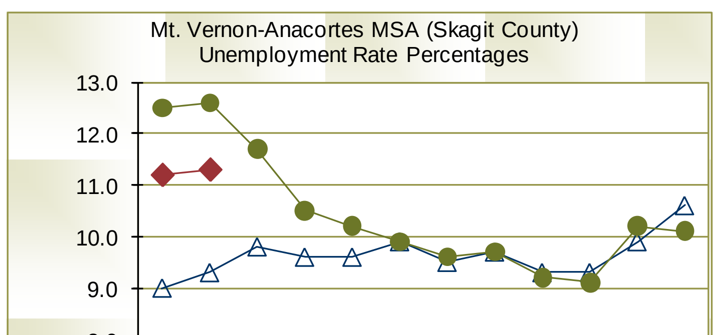
- Total private employment is still declining, but the rate of decline has considerably moderated over the past 12 months. It is also entirely possible that once the benchmarking process for private employment is completed we will see a bottoming out in employment and perhaps a slight increase.
- Local government employment has been on a steady rate of decline since the summer of 2009 and its rate of change has not slowed recently.
- State government employment has been fairly constant over the past 8-10 months.
- Federal government civilian employment started a strong growth spurt in early 2008 and has leveled off in the past 6 months or so, but this sector makes up only about 2 percent of total nonfarm employment.

Turning now to the industries in nonseasonally adjusted private nonfarm employment the intermediate trends as measured by the 12 month rolling simple moving average are:

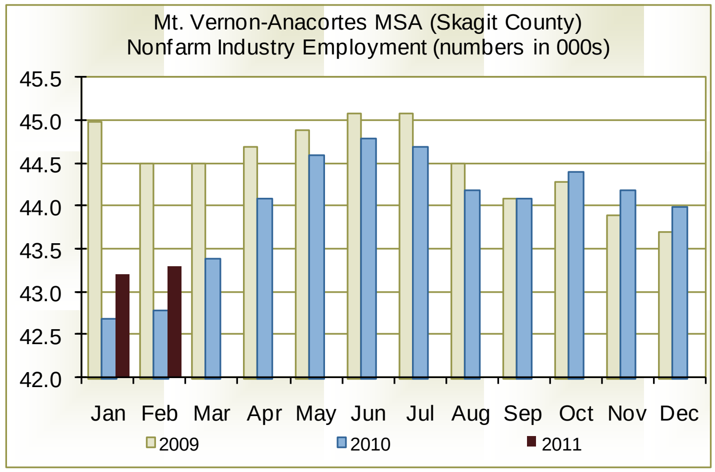
- Leisure and hospitality employment bottomed in the early summer of 2010 and is showing a strong rebound.
- Manufacturing employment is also showing that it has bottomed out in 2010 and is in an uptrend like all four of the northwest counties.
- Professional and business Services employment has bottomed out. Statewide employment in this sector is in a strong uptrend and looks to have the best rebound of any of the major employment sectors for the state.
- Retail trade employment has bottomed out and may be in the process of growing again.
- Financial activity employment has also bottomed.
- Wholesale trade, transportation, warehousing, and utilities employment after some signs of stabilizing in 2010 may be resuming the sharper rate of decline during 2009.
- Natural resources and construction employment is in a slower rate of decline compared to 2009, but has not begun any type of bottoming process yet according to the data..

Skagit County

The February 2011 unemployment rate of 11.3 percent (not seasonally adjusted) in Skagit County was above the 11.2 reading in January 2011. Digging into the labor force numbers (table, last page) a little deeper, the year over year changes in labor force composition indicate cumulative losses from the past year. What is encouraging is the recent over the month improvement in tone, whereby the labor force and the number of employed had larger percent increases than the 21 year average for January-February.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	9.0	9.3	9.8	9.6	9.6	9.9	9.5	9.7	9.3	9.3	9.9	10.6
2010	12.5	12.6	11.7	10.5	10.2	9.9	9.6	9.7	9.2	9.1	10.2	10.1
2011	11.2	11.3										



The nonfarm employment bar chart shows that of all jurisdictions graphed in this review, Skagit County is the area that has most likely bottomed out in nonfarm employment and is beginning its recovery. Private nonfarm employment in February shows a gain of about one percent year over year. The over the month February private nonfarm employment up is about 0.6 percent and is the strongest of the areas in Table 1. The mining, logging and construction sector employment is strong with 7.7 over the year growth and 3.7 percent over the month growth. The leisure and hospitality sector employment increased about five percent over the year in February. Employment up in every sector over the year for Skagit County, except in state government. Clearly, Skagit County is the major success story of economic recovery in northwest Washington.

Looking at major sector intermediate trends in nonseasonally adjusted nonfarm employment (12 month rolling simple moving average) in Skagit County:

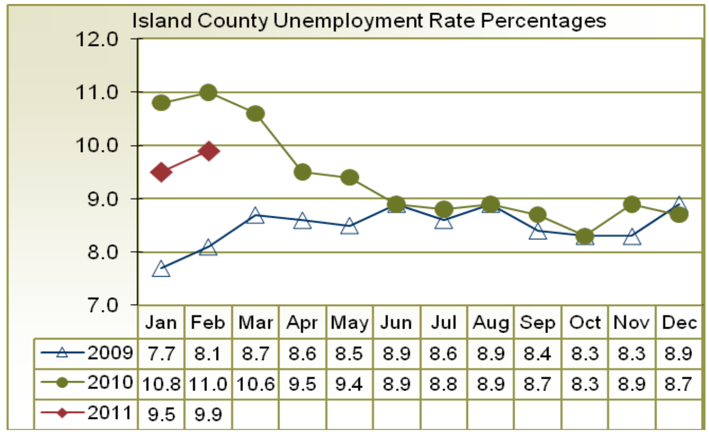
- Total private employment has bottomed over the past 12 months, but is not showing a much signs of an uptrend yet. Seasonal declines in the past two months will shortly turn to seasonal gains and the intermediate uptrend should start in a few months.
- Local government employment never fell much in the Great Recession and is now showing signs of returning to the trend that doubled employment since 1990.
- State government employment peaked in the spring of 2008 and had some significant declines through 2009, but has shown a bottoming process in 2010-2011.
- Federal government civilian employment started a strong growth spurt in early 2008 and has leveled off in the past 6 months or so, but this sector makes up only about 2 percent of total nonfarm employment.

Turning now to the industries in nonseasonally adjusted private nonfarm employment the intermediate trends as measured by the 12 month rolling simple moving average are:

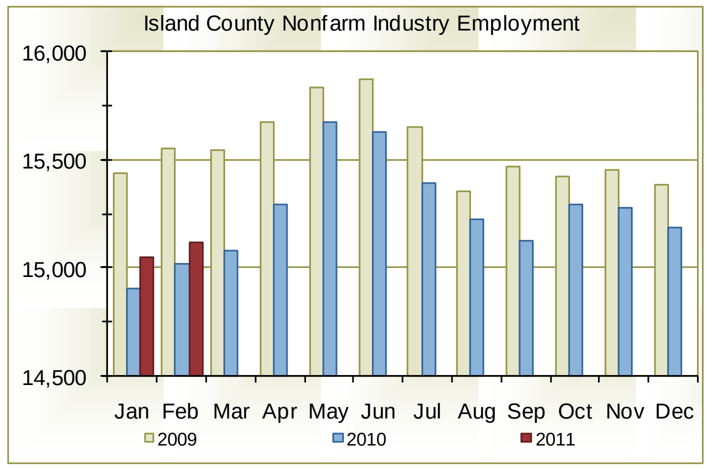
- Leisure and hospitality employment bottomed in the summer of 2010 and is showing a moderate rebound.
- Manufacturing employment is also showing that it has bottomed out in 2010 and is in a moderate uptrend like all four of the northwest counties.
- Logging, mining and construction bottomed in mid-2010 and is showing a strong rebound.
- Retail trade employment has bottomed out and may be in the process of growing again.
- Wholesale trade, transportation, warehousing, and utilities employment after some growth in the first half of 2010 leveled off and is stabilizing.

Island County

The February 2011 unemployment rate of 9.9 percent (not seasonally adjusted) in Island County was above the 9.5 reading in January 2011. The 21 year average increase in the unemployment rate from January to February is 0.2, so an increase of 0.4 in February is disappointing but not unexpected after the damage done to labor markets in the wake of the Great Recession. The unemployment rate was 11 percent in February 2010 and is nicely lower since then.



Island County was hit rather hard by the Great Recession. In 2010, private nonfarm employment had fallen so much that it was below the levels seen in all the years from 2002 onward, but above the levels in 2001. In February, employment in Island County is above the year ago levels in every major sector except mining, logging and construction (see table 2) for an overall increase of about 0.7 percent. Notwithstanding the somewhat lackluster unemployment rate data for February the year over year growth in nonfarm payroll employment for the first two months of the year is an encouraging sign.



Looking at major sector intermediate trends in nonseasonally adjusted nonfarm employment (12 month rolling simple moving average) in Island County:

- Private employment certainly appears to have bottomed out and may be starting an uptrend.
- State and local government employment has turned up from its 2009-2010 lows and appears to be stabilizing at current levels.
- Federal government employment is rather erratic in its movements and has not grown much since 1990 and is somewhat stable at its current levels, but only makes up about 1 percent of total nonfarm employment.

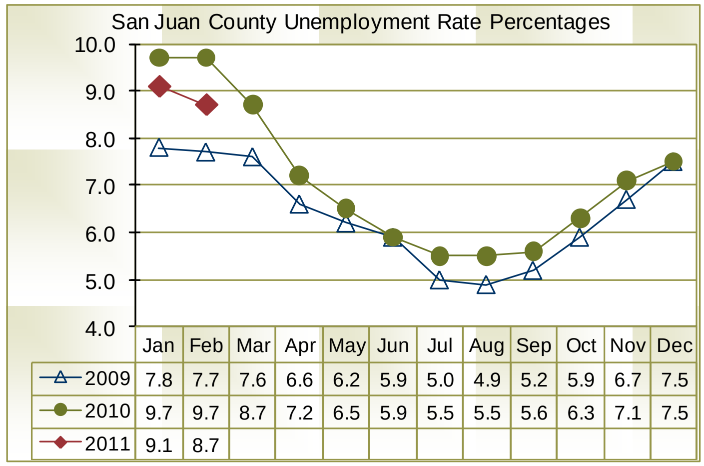
Turning now to the industries in nonseasonally adjusted private nonfarm employment the intermediate trends as measured by the 12 month rolling simple moving average are:

- Transportation, warehousing and utilities after bottoming out in the 2007 early 2009 period has been in an uptrend since then, but the trend rate of growth appears to be slowing.
- Retail trade employment seems to be bottoming and may start an uptrend soon.
- Natural Resources, mining and construction appear to have bottomed and may be starting an uptrend.

- Manufacturing bottomed early last year and is in a solid uptrend.
- Information and financial activities is still in a downtrend, but its rate of descent may be slowing.
- Wholesale trade is still in a downtrend, but its rate of descent may be slowing.

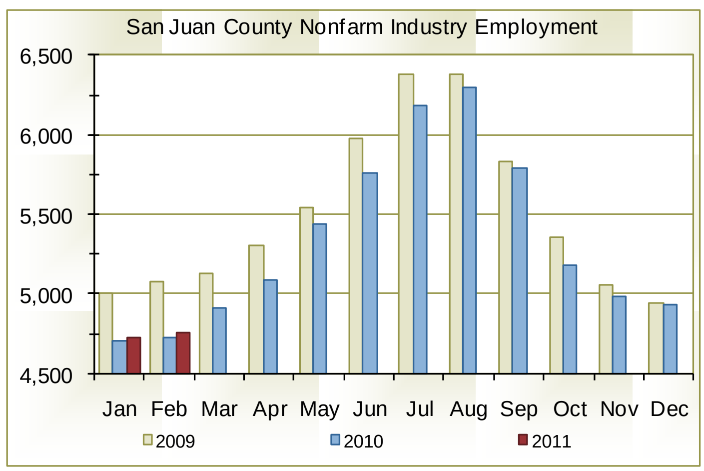
San Juan County

The February 2011 unemployment rate of 8.7 percent (not seasonally adjusted) in San Juan County was below the 9.1 reading in January 2011. Over the past 21 years in San Juan County, the average change in the unemployment rate from January to February is no change. This year the unemployment rate fell 0.4, which by bucking the seasonal pattern is an optimistic indicator. However both over the year and month the data shows that there still is some shrinkage of the labor force due to discouraging work prospects.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	7.8	7.7	7.6	6.6	6.2	5.9	5.0	4.9	5.2	5.9	6.7	7.5
2010	9.7	9.7	8.7	7.2	6.5	5.9	5.5	5.5	5.6	6.3	7.1	7.5
2011	9.1	8.7										

Turning to the payroll employment numbers gives more reason for optimism than the labor force data. This county seems to have reversed or at least stopped its annual declines in nonfarm payroll employment with year over year gains of about one percent in January and February. Manufacturing employment is up with double digit percentage gains over the year in January and February. Over the month in February, employment is positive for every sector listed with this data release except for private services (see table 2, page 3).



Looking at the sector intermediate trends in nonseasonally adjusted nonfarm employment (12 month rolling simple moving average) in San Juan County:

- Total nonfarm private employment appears to have bottomed and may be starting an uptrend.
- Total government employment bottomed in January of 2010 and has been in an uptrend since then, but may have stalled recently.
- It appears that information and financial activities employment has bottomed recently and may be starting an uptrend.
- Manufacturing has bottomed (February 2010) and is in a definite uptrend now.
- Natural resources, mining and construction may have bottomed and possibly be starting an uptrend.

- Trade, transportation and utilities employment (20 percent share of private nonfarm employment in 2010) has definitely bottomed in 2010 and is now in an uptrend.
- The real drag on employment seems to be the private services sector (excluding trade, transportation and utilities). Employment here does not seem to have convincingly bottomed yet, which is a concern, since these services employment jobs were 47 percent of all private nonfarm employment in the county in 2010.

Detailed Local Area Unemployment Statistics (LAUS)

Not Seasonally Adjusted (NSA)	February 2011 Preliminary				NSA January 2011 Revised				NSA February 2010 Revised			
	Labor Force	Employ	Unemploy	URate	Lab Force	Employ	Unemploy	URate	Lab Force	Employ	Unemploy	URate
USA (thousands)	**152,635**	**138,093**	**14,542**	**9.5**	**152,536**	**137,599**	**14,937**	**9.8**	**153,194**	**137,203**	**15,991**	**10.4**
M/M change	99	494	-395	-0.3								
Y/Y Change	-559	890	-1,449	-0.9								
Y/Y % Change	-0.4%	0.6%	-9.1%									
Washington	**3,490,870**	**3,149,000**	**341,870**	**9.8**	**3,485,010**	**3,140,760**	**344,250**	**9.9**	**3,517,040**	**3,132,190**	**384,850**	**10.9**
M/M change	5,860	8,240	-2,380	-0.1								
Y/Y Change	-26,170	16,810	-42,980	-1.1								
Y/Y % Change	-0.7%	0.5%	-11.2%									
CD-2 Est.	**585,020**	**525,240**	**59,780**	**10.2**	**582,180**	**523,540**	**58,640**	**10.1**	**588,430**	**523,110**	**65,320**	**11.1**
M/M change	2,840	1,700	1,140	0.1								
Y/Y Change	-3,410	2,130	-5,540	-0.9								
Y/Y % Change	-0.6%	0.4%	-8.5%									
NW WDA (3)	**203,210**	**182,740**	**20,470**	**10.1**	**202,830**	**182,770**	**20,060**	**9.9**	**206,030**	**183,160**	**22,870**	**11.1**
M/M change	380	-30	410	0.2								
Y/Y Change	-2,820	-420	-2,400	-1.0								
Y/Y % Change	-1.4%	-0.2%	-10.5%									
Whatcom	**104,640**	**94,640**	**10,000**	**9.6**	**104,760**	**94,970**	**9,790**	**9.3**	**106,740**	**95,610**	**11,130**	**10.4**
M/M change	-120	-330	210	0.3								
Y/Y Change	-2,100	-970	-1,130	-0.8								
Y/Y % Change	-2.0%	-1.0%	-10.2%									
Skagit	**58,340**	**51,760**	**6,580**	**11.3**	**57,840**	**51,380**	**6,460**	**11.2**	**58,630**	**51,260**	**7,370**	**12.6**
M/M change	500	380	120	0.1								
Y/Y Change	-290	500	-790	-1.3								
Y/Y % Change	-0.5%	1.0%	-10.7%									
Island	**32,650**	**29,420**	**3,230**	**9.9**	**32,640**	**29,520**	**3,120**	**9.5**	**32,980**	**29,350**	**3,630**	**11.0**
M/M change	10	-100	110	0.4								
Y/Y Change	-330	70	-400	-1.1								
Y/Y % Change	-1.0%	0.2%	-11.0%									
San Juan	**7,580**	**6,920**	**660**	**8.7**	**7,590**	**6,900**	**690**	**9.1**	**7,680**	**6,940**	**740**	**9.7**
M/M change	-10	20	-30	-0.4								
Y/Y Change	-100	-20	-80	-1.0								
Y/Y % Change	-1.3%	-0.3%	-10.8%									
Snohomish	**381,810**	**342,500**	**39,310**	**10.3**	**379,350**	**340,770**	**38,580**	**10.2**	**382,400**	**339,950**	**42,450**	**11.1**
M/M change	2,460	1,730	730	0.1								
Y/Y Change	-590	2,550	-3,140	-0.8								
Y/Y % Change	-0.2%	0.8%	-7.4%									