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FORECAST AND COMMENTARY BY DICK CONWAY AND DOUG PEDERSEN

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Changes in the Wind

Economists are often called "the dismal scientists" and for good reason. When the economy is expanding at a rapid pace—as it is now in the Puget Sound region—they start fretting about the next recession. This behavior, however, is not irrational, since given the cyclical nature of our economy adversity inevitably follows prosperity.

This year has indeed been good to the regional economy. In fact, based on data through the third quarter, it will be the best year since 2006. In 2015, Puget Sound employment will increase 3.2 percent, the jobless rate will fall to 4.5 percent, and per capita income will rise to $59,300 (24.5 percent above the national average). A host of factors are behind the region's recent success: advancing world and national economies; the astonishing expansion of Amazon.com; record aircraft production at Boeing; and enviable wage hikes offered by Microsoft.

Summary Forecast

Annual Percent Change

	2014	2015	2016	2017
Puget Sound Region				
Employment	2.8	3.2	2.3	1.5
Personal income (cur. $)	5.4	5.1	5.4	5.2
Consumer price index	1.8	1.6	2.4	2.4
Housing permits	17.1	17.9	-15.9	7.2
Population	1.4	1.3	1.3	1.2
United States*				
GDP ($09)	2.4	2.4	2.6	2.5
Employment	1.9	2.1	1.7	1.4
Personal income (cur. $)	4.4	4.2	4.5	4.9
Consumer price index	1.6	0.2	1.8	2.3
Housing starts	7.8	12.4	13.8	10.9

*Source: Blue Chip Economic Indicators

The overall economic numbers still look good, but are the winds beginning to change? There is evidence that this may be the case. The Puget Sound Index of Leading Economic Indicators, which has been rising steeply since the Great Recession, turned in a weak third-quarter reading. Regional employment growth, which on a year-over-year basis peaked at 3.4 percent in June, decelerated to a 1.8 percent annual rate between June and September.

At this point, there is no reason to be alarmed. Our current outlook calls for significant slowing over the next two years but no downturn. On the other hand, we need to keep our guard up, as recessions have a habit of hitting us by surprise.

Regional Outlook

A 25-year-old lesson.

In April of 1990, the Leadership Conference convened in Vancouver, British Columbia. Its theme was "A New Perspective on our Region." The presentation by Paul Schell, Seattle Port Commissioner and developer, epitomized the purpose of the meeting: "Two Cities, Two Countries, One Region."

I was invited to discuss the prospects for the Seattle area economy (King and Snohomish counties). The title of my talk was "The Seattle Economy: Some Changes in the Wind" (reprinted in *Counselor*, Karr Tuttle Campbell, Summer 1990). The crux of my argument was this: "With evidence of a booming economy practically everywhere we look—help-wanted signs, local government surpluses, congested freeways—it is difficult to imagine a slowdown…[But] a closer look at the nature of the Seattle economy and its recent growth portends some changes in the wind."

Afterwards I learned that my "gloomy outlook" was not well received. One critic said that it was hard to swallow in light of the good numbers. Indeed, I had painted a bullish picture of the current economy: "By mid-1990, Seattle employment will have reached 1.1 million jobs. Five percent job growth in 1990 will reduce the unemployment rate to four percent…In response to full-employment

Regional Outlook

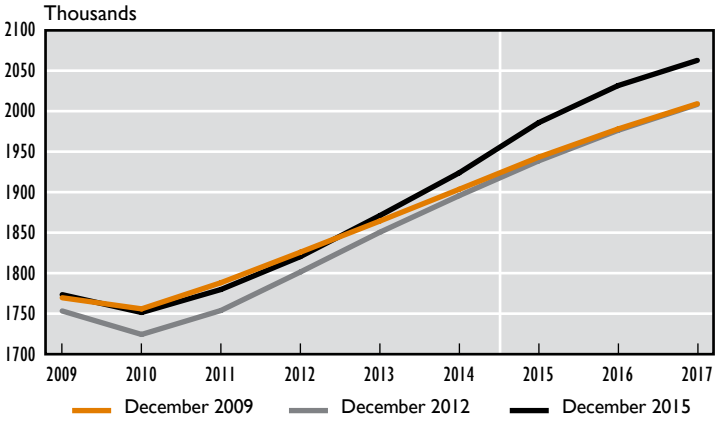
conditions, people are moving into the area at the rate of 40,000 per year and [fueling] one of the hottest housing markets in the nation."

But in my talk I had also pointed out that the Seattle economy, despite its diversity, was still highly dependent on The Boeing Company: "As the leading producer of commercial aircraft, Boeing currently employs 100,000 people in its Seattle facilities…Including Boeing's indirect impact on the economy, one out of every four jobs in Seattle is linked to the aerospace company.

"More significantly, from the standpoint of Seattle's recent growth, Boeing has created 45,000 new jobs and boosted its payroll by $2.3 billion since 1983…Counting its 'multiplier effect,' Boeing has been responsible for more than 40 percent of Seattle's seven-year gain in employment. In other words, without the Boeing surge, the local economy would have advanced at about the same rate as the nation over the last several years."

My forecast directly followed from the above observations: "Because Boeing is no longer adding jobs, Seattle's growth rate will fall more into line with the national rate. Given that the U.S. economy has entered a prolonged period of slower growth…Seattle's annual employment growth will fall from a range of 5 to 6 percent to a 1 to 2 percent range over the next several months…But, unlike 10 or 20 years ago, when large cutbacks of Boeing employment led to recessions, there are no immediate signs [of a downturn.]"

Puget Sound Employment Forecasts



The forecast was right on target. In 1990, Seattle area employment increased 4.8 percent, lowering the unemployment rate to 4.0 percent. Population growth peaked at a 3.4 percent rate, as 43,000 people on net moved into King and Snohomish counties. This resulted in the issuance of 23,400 housing permits.

By the end of 1990, however, everything had fallen apart. U.S. real Gross Domestic Product (GDP), which had expanded at a 4.4 percent annual rate in the first quarter of 1990, fell at a 3.4 percent rate in the fourth quarter. Boeing employment was down 3,100 from its peak one year earlier. As a consequence of these two developments, Seattle employment grew at a lowly 1.0 percent rate in the latter half of 1990. A drop in the population growth rate to 1.7 percent and the collapse of a housing bubble that emerged in the late 1980s—the average Puget Sound home price jumped 19.5 percent in 1989 and 22.7 percent in 1990—trimmed annual housing permits to 15,500 in the fourth quarter.

Between 1990 and 1993, while the Boeing workforce remained more or less constant, Seattle and U.S. jobs grew at similar annual rates, 0.8 percent and 0.4 percent, respectively. The Seattle unemployment rate climbed from 4.0 percent to 6.0 percent during the three-year period and housing permits slumped to 12,300 on average.

Poker trick.

Accuracy alone does not make for a good forecast, since dart throwers occasionally hit the mark. This was a good forecast because it was also reasonable. Based on a theory of regional economic growth and calibrated with thirty years of data, my forecasting model provided a logical explanation of where the Seattle area economy was likely to head.

But the accuracy of the Vancouver forecast also depended upon "tells." In poker a tell is a change in a player's behavior (e.g., betting pattern) that indicates the strength of his hand. If de-

Puget Sound Employment

Thousands

	June 2014	June 2015	October 2015	Annual Growth Rate (%) June 2014-June 2015	Annual Growth Rate (%) June 2015-October 2015
Employment	1917.5	1983.2	1995.0	3.4	1.8
Aerospace	90.9	90.3	91.5	-0.7	4.0
Construction	99.1	110.1	106.9	11.1	-8.7
Trade	287.5	300.5	303.7	4.5	3.2
Information (including software)	96.3	99.3	100.5	3.1	3.6
Professional and business services	262.2	274.7	277.4	4.8	2.9
Other	1081.5	1108.3	1115.0	2.5	1.8

tected, it gives his opponent an advantage. In economic forecasting a tell can be another set of predictions (e.g., the state forecast by the Washington Economic and Revenue Forecast Council), related economic information (e.g., our Puget Sound Index of Leading Economic Indicators), or very current information (e.g., monthly data not yet incorporated into a quarterly model).

The accuracy of the Vancouver forecast hinged on two assumptions: Boeing employment would flatten out; and the U.S. economy would abruptly come to a halt. Two facts provided some reassurance: aerospace jobs peaked in November 1989, according to available monthly data; and the Conference Board's U.S. Leading Economic Index had been falling steadily since the fall of 1988, a telltale sign that a national recession was overdue.

The story of the Vancouver forecast has relevance today; in fact, "it's déjà vu all over again," as Yogi Berra would say. Since 1990, while the regional economy has changed in many ways, its structure and behavior have remained fundamentally the same.

Instead of one dominant player, the economy now has three: Boeing, Microsoft, and Amazon.com. With a combined payroll of approximately 150,000 employees, they directly and indirectly support roughly 450,000 jobs in the economy or 23 percent of total employment.

The rest of the regional economy is diversified and tends to follow the national economy, a characteristic that has been evident during the recovery. As reported last June, while Microsoft was in neutral, the aerospace and electronic shopping industries added 27,100 jobs between 2010 and 2014. Counting the indirect impact, they contributed 75,300 of the 174,900 jobs created during the period. Without the lift from Boeing and Amazon, regional employment would have risen close to the national rate, 1.4 percent per year compared to 1.6 percent.

As this year nears the end, it is stacking up to be the best since 2006. After six years of accelerating growth, Puget Sound employment in 2015 will increase 3.2 percent, significantly greater than the 2.1 percent national gain. The unemployment rate will fall to 4.5 percent, 0.8 percentage points below the national rate, while per capita personal income will rise to $59,300, one-quarter more than the nationwide average.

Despite the strong performance, there are signs of changes in the wind. The Blue Chip economists continue to lower their projected growth of real GDP (now 2.6 percent in 2016 and 2.5 percent in 2017). Employment at Boeing and Microsoft is essentially on hold. There is a question mark regarding Amazon's expansion plans, which are kept under tight raps. One clue is the internet giant's current hiring rate, which appears to be around 1,000 employees per quarter.

Based on these assumptions, our forecast predicts that regional employment growth will decelerate from 3.2 percent in 2015 to 2.3 percent in 2016 and 1.5 percent in 2017. The new jobs should be sufficient to further reduce the unemployment rate, put upward pressure on wages, and keep nominal personal income rising at about a 5 percent rate. The outlook does indicate that two years from now the regional and national economies will be expanding at about the same speed.

There is recent information—"tells" if you will—suggesting that the slowdown may have already started. After rising steeply during the economic recovery, the Puget Sound Leading Index hardly budged in the third quarter. Regional employment growth, which on a year-over-year basis peaked at 3.4 percent in June, decelerated to a 1.8 percent annual rate between June and September. One disconcerting development in the labor market has been the loss of construction jobs, indicating that the building boom has possibly peaked.

While our forecasting record has been good since bottom of the recession, we cannot guarantee the accuracy of the current predictions. Instead, we offer alternative projections—but no recession—for your consideration. Happy holidays.

Forecast Probabilities

Prolonged recovery	30 percent
Baseline	50 percent
Misstep	20 percent

Alternative Scenarios

Annual Percent Change

	2015	2016	2017
Prolonged recovery			
Employment	3.3	2.8	2.5
Personal income (cur. $)	5.2	5.9	6.2
Consumer price index	1.7	2.5	2.6
Housing permits	19.0	-5.0	9.8
Population	1.3	1.4	1.5
Misstep			
Employment	3.0	1.8	0.5
Personal income (cur. $)	4.9	4.7	4.0
Consumer price index	1.5	2.2	2.1
Housing permits	15.0	-20.0	-2.0
Population	1.3	1.2	1.1

Retail Sales

Two observations.

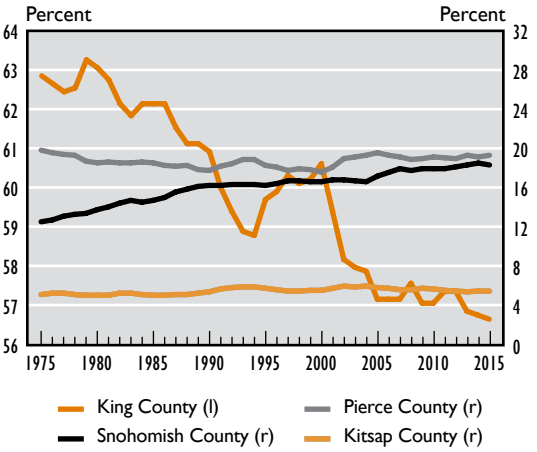
Our December outlook for Puget Sound retail spending is nearly identical to the forecast made last quarter. Puget Sound retail sales, modeled on U.S. retail sales published by the Census Bureau, are expected to rise 4.2 percent this year, 4.5 percent in 2016, and 3.9 percent in 2017. In general, retail sales will continue to track personal income though at a somewhat slower pace.

The forecast for Puget Sound taxable retail sales, modeled on data published by the Washington Department of Revenue, shows a similar deceleration in growth between 2016 and 2017 from 5.6 percent to 4.8 percent. But unexpected double-digit growth in the first half of 2015 has lifted the taxable sales growth rate for the entire year to 10.2 percent.

What explains this first-half bulge? Here is one observation to consider: the retail surge is evident in both the retail trade and non-retail trade categories of taxable sales; it occurred in each of the four central Puget Sound counties; and it affected the same kinds of retail stores in each county (motor vehicle and parts dealers, building materials stores, drug and health stores, and e-commerce and mail order retailers).

The surprise showing could be due to some unaccounted factor. However, the fact that it affected all counties in similar ways suggests a more ordinary explanation, such as a fortuitous convergence of key spending drivers. Growth in Puget Sound personal income (which affects household spending with a lag) averaged 6.3 percent during 2014; the unemployment fell below 5.0 percent in the first half of 2015; and housing permits ballooned to an annual rate 28,000 units. Still, the retail performance looks exceptional.

Share of Puget Sound Taxable Retail Trade



Here is an observation on the long-run path of retail trade in the region which does have a straightforward explanation. Over the past 40 years, the share of total retail trade spending in Snohomish County has climbed from 12 percent to 19 percent, largely at the expense of sales in King County. This clearly reflects differences in population growth, a 2.6 percent annual rate in Snohomish County versus 1.4 percent in King County.

PUGET SOUND RETAIL SALES

	2015			2016		Years			
	2	3	4	1	2	2014	2015	2016	2017
Retail sales (bils. $)	73.946	74.667	75.508	76.395	77.158	71.233	74.250	77.572	80.598
Building materials	5.828	5.747	5.847	5.835	5.868	5.304	5.798	5.935	6.277
Motor vehicles and parts	16.881	17.236	17.567	17.855	18.094	15.519	16.960	18.194	18.913
Furniture and electronics	3.316	3.402	3.432	3.452	3.511	3.190	3.387	3.529	3.652
General merchandise	8.921	9.046	9.119	9.177	9.220	8.523	8.969	9.257	9.530
Food and beverage	9.148	9.218	9.287	9.360	9.437	8.887	9.182	9.475	9.766
Gasoline stations	4.801	4.640	4.548	4.669	4.653	5.935	4.754	4.654	4.701
Clothing and accessories	3.804	3.849	3.896	3.943	3.989	3.628	3.822	4.009	4.172
Food services and drinking	7.984	8.076	8.166	8.267	8.360	7.678	8.032	8.406	8.780
Other retail sales	13.265	13.453	13.647	13.836	14.026	12.567	13.346	14.112	14.807
Taxable retail sales (bils. $)	85.228	86.593	87.622	88.372	89.595	77.502	85.419	90.187	94.509
Retail trade	36.981	37.333	37.687	37.951	38.438	34.347	36.952	38.679	40.477
Other taxable sales	48.247	49.260	49.935	50.420	51.157	43.155	48.467	51.507	54.032
Annual growth (% change)									
Retail sales	5.9	3.9	4.5	4.7	4.0	5.0	4.2	4.5	3.9
Taxable retail sales	14.6	6.4	4.8	3.4	5.5	6.6	10.2	5.6	4.8

Quarterly data are seasonally adjusted and expressed on an annual basis.

Construction and Real Estate

A bit off.

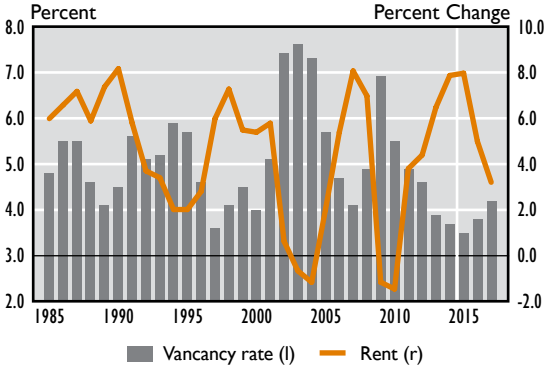
Last December we predicted that in 2015 the Puget Sound apartment market would record on average a 4.4 percent vacancy rate and a $1,253 monthly rent. Data now indicate that the actual numbers will be close to 3.5 percent and $1,291. Predictions on the high side for the vacancy rate and on the low side for rent have been a tendency of our recent forecasts.

Our forecasting model provides a couple of clues about the nature of these prediction errors. The explanatory variables in the vacancy rate equation include population change (determined by employment growth) and multi-family housing permits (a proxy for new apartment units). The principal predictors of the apartment rent are the vacancy rate and the Seattle Consumer Price Index.

A year ago, we forecast that population would increase 1.3 percent in 2015, which is still on target. Yet, we under-predicted the demand for apartments and over-predicted the vacancy rate. This implies that home-seekers continue to display an unusually strong preference for apartment living. One reason is the continuing reluctance to purchase a home in the wake of the housing bubble. Another is the young age of the newcomers to our region, many of whom are now working at Amazon.com.

We predicted a 4.9 percent rise in rent this year, but it will likely jump 8.0 percent. This prediction error can be easily explained. If we had accurately forecast the vacancy rate (3.5 percent), the rent equation in our model would have predicted a 5.8 percent increase in rent ($1,264). The remaining prediction error, amounting to 2.1 percentage points, is mostly due to what analysts call "the skew of the new." This distortion, which causes the average apartment rent to rise more than normal, occurs when a large number of new high-cost units hit the market.

Puget Sound Apartment Vacancy Rate and Rent



Due to a slowing economy, overbuilding, and more confident home-buyers, we are sticking to our forecast of a softening apartment market. In the next two years, the vacancy rate will rise to 4.2 percent, while rent will increase at a 4.0 percent average annual rate.

For more information on the apartment market, we refer you to Dupre + Scott Apartment Advisors and O'Connor Consulting Group.

PUGET SOUND CONSTRUCTION AND REAL ESTATE

	2015			2016		Years			
	2	3	4	1	2	2014	2015	2016	2017
Housing permits (thous.)	23.0	25.1	23.4	21.1	21.7	22.1	26.0	21.9	23.5
Single-family	9.0	9.6	9.3	8.6	9.1	8.9	9.2	9.3	10.9
Multi-family	14.0	15.5	14.1	12.5	12.6	13.2	16.8	12.6	12.6
Housing permits (mils. $)	4566.3	5768.2	5243.8	4806.8	5029.2	4409.6	5467.8	5139.9	5936.9
Single-family	2810.8	3144.1	3015.9	2817.7	2999.3	2680.1	2919.4	3089.7	3754.1
Multi-family	1755.5	2624.1	2227.9	1989.1	2029.9	1729.4	2548.4	2050.1	2182.8
Average home price (thous. $)	424.0	423.5	428.5	433.4	437.3	395.0	422.3	438.2	451.0
Active home listings (thous.)	10.2	9.7	10.0	10.2	10.5	12.3	10.0	10.6	11.7
Home sales (thous.)	68.5	68.9	66.7	65.6	65.8	58.4	66.5	65.8	65.3
Apartment vacancy rate (%)	3.5	3.5	3.6	3.7	3.7	3.7	3.5	3.8	4.2
Average apartment rent ($)	1280	1315	1325	1337	1349	1196	1291	1356	1399
Annual growth (% change)									
Housing permits (mils. $)	-109.7	105.3	-36.4	-33.3	18.5	14.0	24.0	-6.0	15.5
Average home price	10.4	-0.5	4.7	4.6	3.6	8.4	6.9	3.8	2.9
Average apartment rent	11.2	10.9	2.9	3.7	3.7	7.9	8.0	5.0	3.2

Quarterly data are seasonally adjusted and expressed on an annual basis.

Special Topic: State and Local Finances

Just the facts.

Initiative 1366 is the latest attempt to put a lid on taxes. The underlying presumption is that Washington state and local government taxes and expenditures are too high. But is that true? The U.S. Census Bureau reports that when compared to other states Washington taxes and spending are significantly below average.

In FY 2013, Washington state and local government revenue amounted to $58.7 billion. This included $30.8 billion from taxes (52.5 percent of total revenue), $11.5 billion from federal transfers (e.g., payments for social programs), $12.7 billion from current charges (e.g., university tuitions), and $3.7 billion from other sources. Relative to personal income, Washington garnered significantly less state and local revenue (17.8 percent) than other states (19.2 percent). The shortfall in Washington revenue amounted to $4.6 billion.

Washington was notably deficient in tax revenue. In FY 2013, collections totaled 9.3 percent of personal income, considerably less than the U.S. average of 10.4 percent. Washington had the thirteenth lowest state and local effective tax rate (tax revenue as a percent of income) in the nation. If Washington had taxed at the 10.4 percent national rate, it would have brought in another $3.4 billion in taxes.

In FY 2013, Washington state and local government expenditures totaled $59.5 billion. The major spending categories included education ($19.7 billion), social services ($16.3 billion), transportation ($5.0 billion), and other expenditures ($18.5 billion). As a percent of personal income, Washington spent less (18.1 percent) than the national average (18.8 percent). The spending gap amounted to $2.6 billion. Note that if Washington had not made liberal use of direct charges to pay for government services, the spending gap would have been $4.9 billion.

The Census Bureau also reported that only five states spent less than Washington on elementary and secondary education in FY 2013. Compared to the national average of $37.11 per $1,000 of personal income, Washington allotted only $30.55. To reach the national average, Washington would have had to spend an additional $2.2 billion.

Washington and U.S. State and Local Revenue and Expenditures, FY 2013

Billions fo Dollars

	Washington	Percent of Total	Percent of Income	United States[1]	Percent of Total	Percent of Income
General revenue	58.7	100.0	17.8	2690.3	100.0	19.2
Federal transfers	11.5	19.6	3.5	584.7	21.7	4.2
Tax revenue	30.8	52.5	9.3	1455.5	54.1	10.4
Income	0.0	0.0	0.0	391.5	14.6	2.8
Sales and gross receipts	18.6	31.7	5.6	496.4	18.5	3.5
Property	9.4	16.0	2.9	455.4	16.9	3.2
Other taxes	2.8	4.8	0.8	112.1	4.2	0.8
Current charges	12.7	21.7	3.9	444.2	16.5	3.2
Education	3.1	5.3	0.9	117.6	4.4	0.8
Hospitals	3.6	6.1	1.1	129.8	4.8	0.9
Other charges	6.0	10.2	1.8	196.7	7.3	1.4
Miscellaneous revenue	3.7	6.2	1.1	206.1	7.7	1.5
General expenditures	59.5	100.0	18.1	2639.7	100.0	18.8
Education	19.7	33.1	6.0	876.6	33.2	6.3
Social services	16.3	27.4	5.0	770.1	29.2	5.5
Transportation	5.0	8.7	1.5	187.2	7.1	1.3
Other expenditures	18.5	31.0	5.6	805.9	30.5	5.8
Personal income	329.8	---	---	14019.0	---	---

[1]All state and local governments in the United States.
Source: U.S. Bureau of the Census and U.S. Bureau of Economic Analysis

FORECAST DETAIL 50 Percent Probability

	2015			2016		Years			
	2	3	4	1	2	2014	2015	2016	2017
Employment (thous.)	1977.9	1993.7	2007.0	2018.2	2026.6	1923.4	1985.3	2031.1	2062.3
Goods producing	301.7	300.2	301.2	301.2	300.7	290.8	300.9	301.1	301.8
Natural resources and mining	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Construction	110.8	109.6	110.9	111.2	111.0	100.4	110.0	111.4	113.8
Manufacturing	189.9	189.7	189.3	188.9	188.7	189.4	189.9	188.7	187.0
Aerospace	90.0	90.6	90.6	90.5	90.6	90.7	90.4	90.6	89.9
Other durable goods	68.5	66.9	66.6	66.4	66.1	68.0	67.7	66.1	65.3
Nondurable goods	31.4	32.1	32.1	32.1	32.0	30.7	31.8	32.0	31.8
Services producing	1676.3	1693.5	1705.8	1717.0	1725.9	1632.6	1684.4	1730.0	1760.5
Wholesale and retail trade	303.5	306.8	308.9	310.1	310.3	288.6	304.1	310.7	313.2
Transportation and public utilities	67.0	68.6	68.7	69.0	69.2	65.0	67.8	69.2	69.5
Information	98.8	100.3	100.5	100.9	101.2	96.3	99.3	101.3	102.5
Financial activities	102.6	102.7	103.0	103.3	103.1	101.4	102.8	103.0	102.2
Professional and business services	272.8	275.9	280.1	283.8	287.5	264.1	274.8	289.2	301.1
Other services	532.2	535.5	539.1	542.8	546.1	523.0	534.2	547.5	558.8
Government	299.3	303.7	305.5	307.1	308.5	294.3	301.4	309.0	313.2
State and local	248.0	251.7	253.2	254.6	256.0	243.5	249.8	256.5	260.5
Federal	51.3	52.0	52.3	52.5	52.5	50.8	51.6	52.6	52.7
Unemployment rate (%)	4.5	4.3	4.2	4.1	4.1	5.3	4.5	4.1	4.1
Personal income (bils. $09)	212.0	214.2	216.0	218.2	219.9	203.6	213.3	220.7	226.9
Personal income (bils. $)	231.9	235.0	237.9	241.5	244.6	222.2	233.5	246.1	258.9
Wage and salary disbursements	133.6	135.6	137.7	139.9	141.7	128.1	134.8	142.6	149.9
Other income	98.3	99.4	100.1	101.6	102.8	94.1	98.7	103.5	109.0
Per capita personal income ($)	58982	59562	60088	60795	61367	57162	59296	61647	64101
Consumer price index (82-84=1.000)	2.496	2.516	2.521	2.533	2.548	2.459	2.497	2.556	2.618
Housing permits (thous.)	23.0	25.1	23.4	21.1	21.7	22.1	26.0	21.9	23.5
Population (thous.)	3931.7	3945.1	3958.5	3971.9	3985.1	3886.3	3938.4	3991.5	4038.6
Net migration (thous.)	27.5	27.4	27.5	27.4	26.7	28.3	27.4	26.2	17.3
Three-month treasury bill rate (%)	0.0	0.0	0.1	0.3	0.6	0.0	0.0	0.7	1.6
Conventional mortgage rate (%)	3.8	4.0	3.9	4.1	4.3	4.2	3.9	4.4	5.3
Annual growth (% change)									
Employment	3.2	3.2	2.7	2.2	1.7	2.8	3.2	2.3	1.5
Personal income (cur. $)	4.3	5.3	4.9	6.1	5.1	5.4	5.1	5.4	5.2
Consumer price index	6.7	3.2	0.7	2.0	2.3	1.8	1.6	2.4	2.4
Housing permits	-118.9	37.2	-27.2	-39.2	10.7	17.1	17.9	-15.9	7.2
Population	1.4	1.4	1.4	1.4	1.3	1.4	1.3	1.3	1.2

Quarterly data are seasonally adjusted and expressed on an annual basis.

Leading Index

Slower growth.

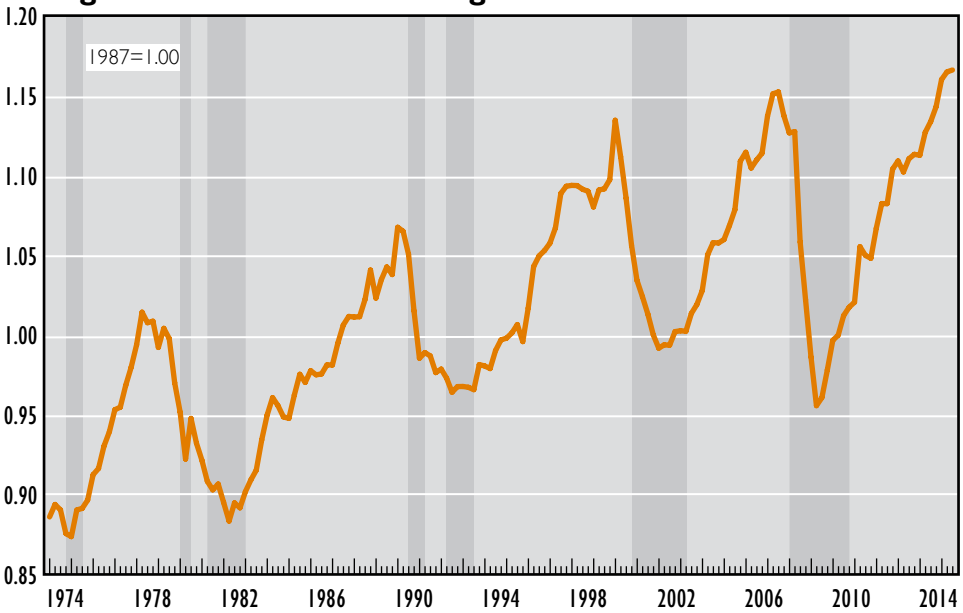
Consider our last four commentaries. In December 2014, we wondered if modest gains in the Puget Sound Leading Index meant that the economy was about to slow down. As it turned out, this was not the case. Like most everyone else, we underestimated the buildup in Amazon's workforce. In March, recapping the impressive recovery of the regional economy, we noted that business cycles do not have a fixed life expectancy and that the current upturn still had legs. In June, reflecting our outright bullishness, we wrote that "the near-term prospects for the Puget Sound economy are the best in years." And in September, despite some weakness in the leading index, we indicated that it still "fully endorses continued expansion."

The current reading for the leading index again raises the question of a slowdown. The third-quarter figure shows a minute gain of 0.1 percent in the overall index. Four of seven components (manufacturing hours, housing permits, the interest rate spread, and the Boeing backlog-delivery ratio) helped lift the index, while three components (help-wanted ads, initial unemployment claims, and real durable goods spending) acted to drag it down.

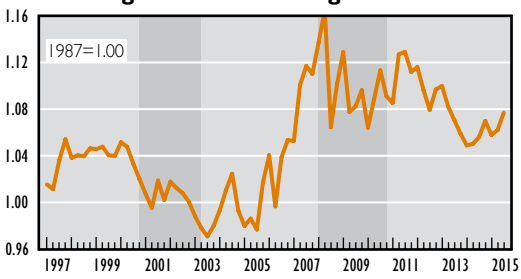
Barring another surprise source of new jobs, this latest reading suggests a cutback in the future rate of job creation. Using the leading index to project short-run job growth yields 38,200 new jobs (a 1.9 percent increase) between the fourth quarter of 2015 and the fourth quarter of 2016. This is remarkably close to the prediction provided by our regional econometric model (36,400 new jobs for a 1.8 percent advance). Yet these forecasts are down significantly from the 64,300 job gain (3.3 percent growth) between the fourth quarter of 2014 and the fourth quarter of 2015.

Bear in mind that this does not mean that the leading index is signaling a downturn. As shown over the past forty-five years, recessions are preceded by a sharp downward break in the index.

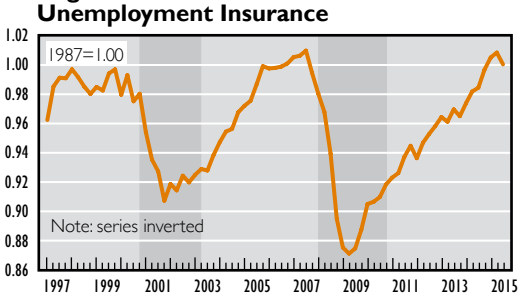
Puget Sound Index of Leading Economic Indicators



Washington Manufacturing Hours



Puget Sound Initial Claims for Unemployment Insurance



Shaded areas show recessions or periods of economic stagnation.

The Puget Sound Economic Forecaster (ISSN 1520-7250) is published four times a year. A one-year subscription to the newsletter is $395. A one-year subscription to the newsletter and web site is $695. For additional information, please visit **www.economicforecaster.com**. You may also contact **Dick Conway or Doug Pedersen at Conway Pedersen Economics, Inc., P. O. Box 2241, Seattle, WA 98111-2241. Telephone (206) 329-1707.**

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