

**Summary of the  
City of Renton Economic Forecast  
2011 - 2016**

Prepared for the  
**Department of Finance and Information Technology  
City of Renton**

by  
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## Introduction

This report updates the City of Renton Economic Forecast dated January 26, 2011. It relies on the July 2011 national economic forecast from *Blue Chip Economic Indicators*, a consensus of 50 national forecasters, and the June 2011 Puget Sound and King County economic forecast from Conway Pedersen Economics, Inc., as published in *The Puget Sound Economic Forecaster*. The Renton forecast is prepared with the aid of a simple econometric model developed for the City.

While the U.S. economy continues to expand, the pace of growth has been insufficient to meaningfully lower the unemployment rate as employers remain uncertain about the resilience of the recovery. High consumer indebtedness, the national debt and deficit crisis, and renewed anxiety in financial markets pose headwinds to restoring growth. Nevertheless, the Blue Chip panel expects that annual GDP growth will eventually reach 3.0 percent during the forecast period (2011-2016), very close to the historical average. In the Puget Sound economy job creation is finally taking hold outside of the construction and government sectors. Although modest at this point, job gains are expected to pick up lifting growth in personal income and consumer spending. Regional housing starts, still depressed, are expected to trend higher as household formation recovers, yet remain short of their historical average. The Renton economy will benefit from gains in both Boeing and non-Boeing payrolls over the forecast period. Housing activity will stay subdued in the short run but pick up later. The fundamentals favor for stronger retail sales.

### Comparative Growth Rates, 2011 – 2016

Average Annual Percent Change

	United States	Puget Sound	King County	Renton
Employment	1.7	1.9	1.9	1.5
Population	0.9	0.9	0.7	2.1 <sup>1</sup>

<sup>1</sup> Excludes effect of annexations

## Economic Conditions and Forecasts

### *The U.S. Economy*

The U.S. economy shrank 5.1 percent during the recession according to GDP data, the worst downturn in more than sixty years. However, since bottoming out in the second quarter of 2009, real GDP has expanded eight straight quarters finishing the second quarter this year within 0.4 percent of the previous peak back in the fourth quarter of 2007. While the upturn is welcome, the pace of growth has been disappointing—just 2.4 percent on an annualized basis.

Weak labor markets are another distinction of the recovery. Meager job growth has, so far, restored only about 20 percent of the 8.8 million jobs lost during the recession, holding the unemployment rate above 9 percent. Construction jobs have not yet begun to

rise and public sector jobs continue to decline. Uncertainty among employers about the staying-power of the recovery, the impact of new government policies and reforms surrounding health care and the financial services industry, the spill-over effect from Europe's debt crisis, and the unknown impact of high U.S. deficits and exploding debt appear to be significant impediments to hiring.

Notwithstanding the subpar economic growth and inadequate job creation, as well as a weak showing in recent months for several other key economic indicators such as personal income growth and manufacturing output and orders, the Blue Chip consensus forecast boldly calls for real GDP growth to climb toward an annual rate of about 3.0 percent over the next several years, very close to the long-run trend rate of growth.

Employment growth is expected to average 1.6 percent per year through the forecast period according to the consensus. This is consistent with creation of about 180,000 net new jobs per month on average, which suggests that the unemployment rate will remain stubbornly high—unlikely to move below six percent even after six years of expansion.

The Blue Chip panel expects that initially, residential investment will be supported by increased spending on home improvements. Housing starts, which have collapsed to record low rates—less than 600,000 starts per year for three straight years including 2011—will climb to 760,000 units next year and reach nearly 1.4 million units by the end of the forecast period. However, this will still be 10 percent below the long-run average.

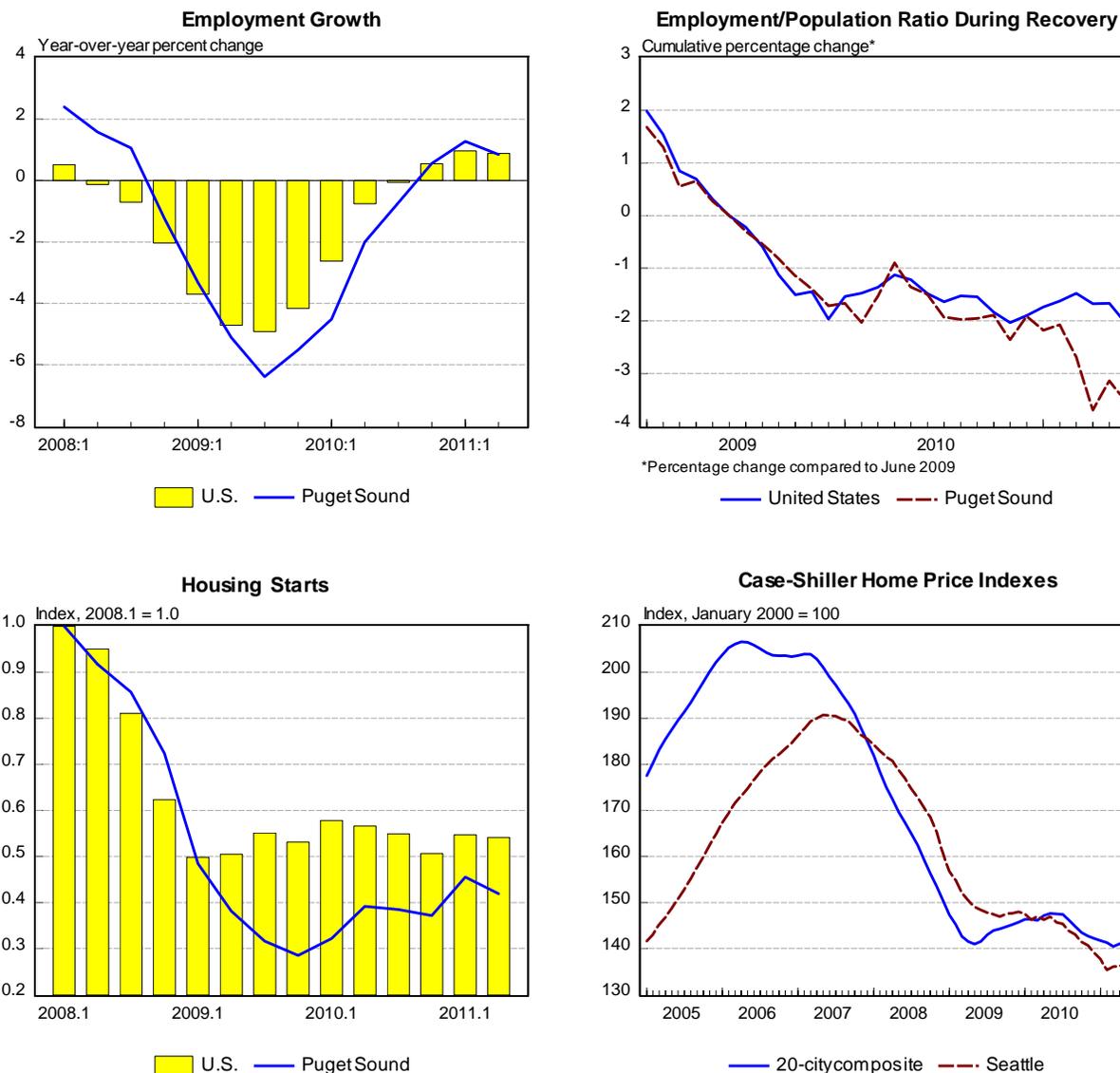
Inflation is more of a concern in the current forecast than earlier as higher food, energy, and commodity prices push the overall CPI above 3 percent this year. But, conditioned on lower oil prices, consumer inflation is expected to retreat to the 2-2½ percent range over the forecast period. Core inflation remains very low posing little constraint for monetary policy at this point.

In summary, U.S. economic prospects in coming years are encouraging, but far less than satisfying. Real GDP growth is expected to move toward the long-run trend rate, housing starts will finally rebound, and inflation will remain under control. Interest rates will rise as the economy improves. Yet, job creation is modest and the high jobless rate is indicative of significant and persistent labor market slack. The main risk to the forecast is that labor conditions will be even weaker than expected and that the economy's underlying momentum will be constrained by high levels of consumer indebtedness which take several more years to unwind. Uncertainty about gaining control of the federal deficit could also stall growth—the weak performance in the first half of the year leaves the economy vulnerable to all kinds of shocks and temporary lulls that could delay consumer and business decision making. A “downside” alternative forecast might chop one-half percentage point or more from real GDP growth in 2011 and 2012.

### *The Puget Sound Economy*

Six months ago, employment figures showed that the recovery in the Puget Sound economy was a step behind the U.S. recovery. Moreover, the regional economy, in

contrast to the nation, still had not posted positive year-over-year job growth. Now, with additional data, plus upward revisions to previously published figures, the job growth rates are more in sync at just under 1.0 percent over the last four quarters.



The Puget Sound economy lost more than 130,000 jobs (7.1 percent of the total) during the recession of which one-third were in construction. This compares to a 6.2 percent decline nationally. But with the growth in recent quarters, the region has gained back some 20,000 jobs in both goods-producing industries such as manufacturing (aerospace jobs are up 6.8 percent over the twelve months ending in June), and in service-producing industries such as wholesale and retail trade, software, and professional and business services. Notably, jobs in construction, financial activities, and state and local government, about one-quarter of the total, continue to retreat. Also troublesome is the 3.5 percentage point decline in the ratio of employment to population since June 2009.

This not only underscores the feeble job growth, but also provides perspective that, in spite of the growth, for many it may not feel much like a real recovery yet.

Housing starts, which remain in the nether regions, also defy the recovery label. Puget Sound housing starts are off their lows and even show a slight upward trend in recent quarters, but volume remains at about one-third of the peak rate of production in 2007. Just like for employment, the regional economy suffered a greater housing slide than the nation. In 2007, Puget Sound housing starts reached an annual rate of about 30,000 units, then fell to less than 8,000 units by 2009, and are now back to about 10,000 units—still less than half the long-run yearly average. While the home sales market has responded to temporary incentives over the past two years, a lasting recovery has yet to develop. Sales gains have been limited, and prices have failed to stabilize which, in turn, has held back new construction. Recently it appears that the impact of foreclosures is contributing significantly to the continued weakness in home prices.

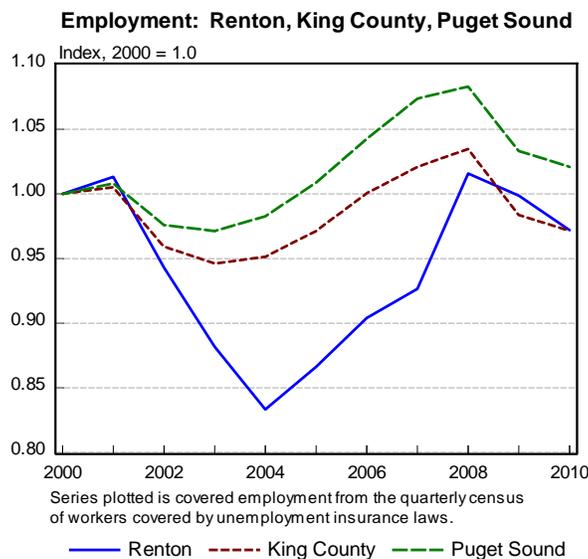
Although the Puget Sound and U.S. economies are back in step, recovering from the recession at about the same speed, both face weakened demand: consumers battling high unemployment and employers reluctant to hire; housing (and construction jobs) pinned down by falling home prices and tight credit; and government forced to tighten its belt. This means a measured pace to the recovery. For the Puget Sound area, job creation is expected to build on the recent pickup, eventually reaching an annual growth rate of about 2 percent. This produces a broad, u-shaped pattern of job recovery. Service industries such as professional and business services are expected to lead growth, but total employment will not surpass the prior 2008 peak until the latter half of the forecast period. Since the Puget Sound economy is highly integrated, county growth rates are expected to move together.

Stronger personal income and consumer spending should follow from the pickup in employment. Coupled with slow improvement in housing activity, this means that the unprecedented three-year (2008-2010), 17 percent decline in Puget Sound taxable retail sales will finally give way to renewed growth. In fact, recent quarterly figures already show gains in retail trade sales, although ongoing losses in the construction, finance, insurance, and real estate industries continue to drag down non-retail trade sales. These losses are expected to fade as the recovery progresses.

Puget Sound housing permits are forecast to revive in coming years nearly reaching the 22,200 long-run trend by 2016. This depends on recovery in the rate of household formation as well as resolution of current housing market issues—foreclosures, falling home prices, weak home sales, and high inventories. The most fundamental housing variable, household formation, should recover with stronger job creation as both the existing workforce and workers moving into the region (following jobs) set up new households. Population growth is expected to remain relatively weak through 2013, picking up in the latter half of the forecast period.

### *The Renton Economy*

The 2000s were a lost decade in terms of job growth for the Puget Sound economy. Two recessions, 2001-03 and 2008-10, robbed the region and many of its sub-areas of virtually the entire net increase in employment. Overall Puget Sound jobs rose just 2.1 percent for the ten-year period and the unemployment rate more than doubled. In the King County and Renton economies employment shrank by an identical 2.8 percent over the decade in large part due to a decline in aerospace jobs.

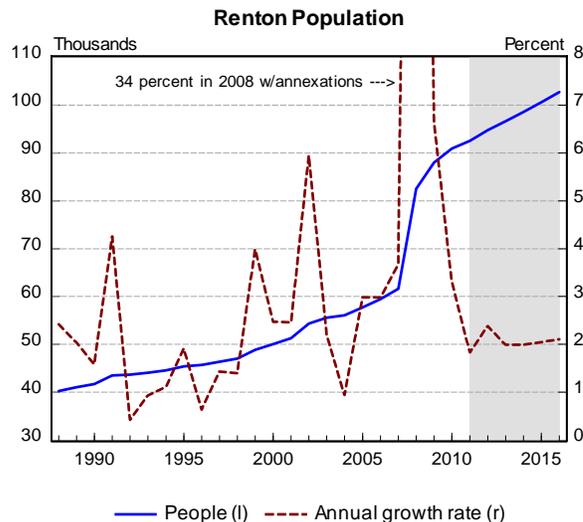
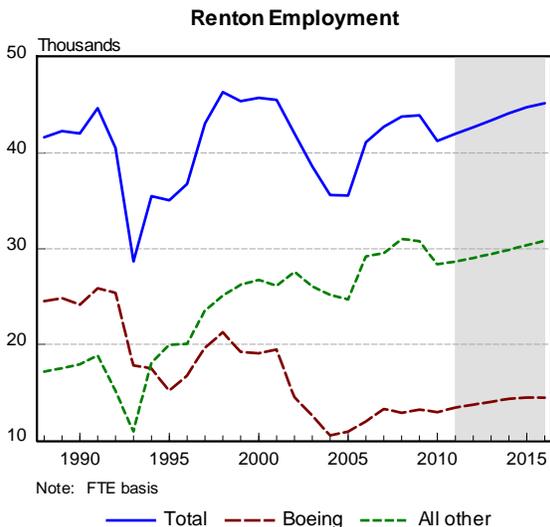
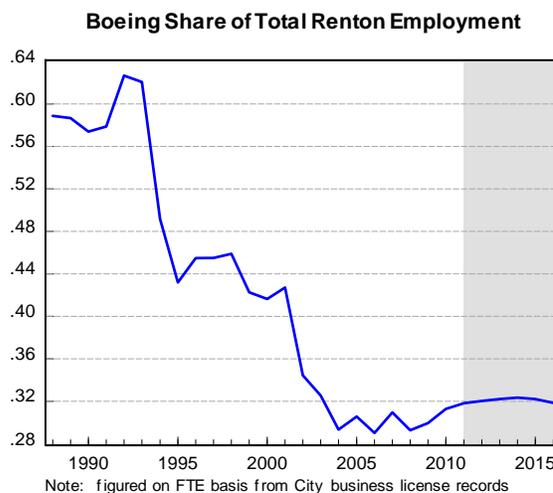
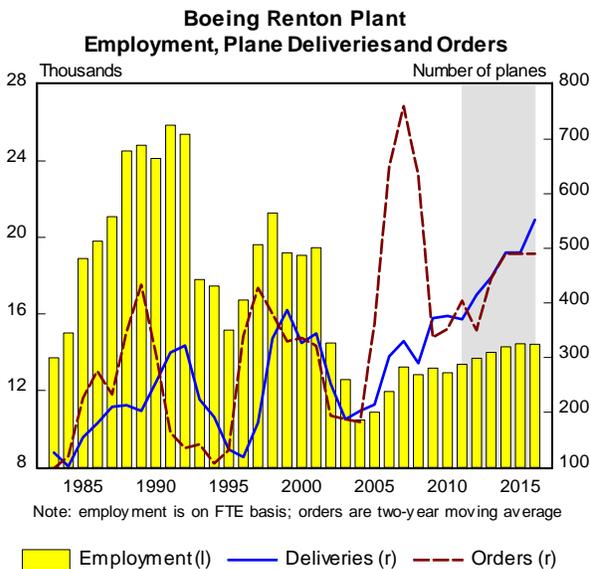


Yet, in Renton, the employment slack did not prevent gains in population, the housing stock, or retail sales. For example, between 2000 and 2010, Renton population excluding annexations rose 36 percent based on U.S. Census and Washington Office of Financial Management estimates. This compares with a 12 percent increase in King County population, leading to a 0.6 percentage point rise (from 2.9 percent in 2000 to 3.5 percent in 2010) in the Renton share of county population. Similarly, Renton taxable retail sales rose 12.9 percent over the ten-year period, compared to only 3.6 percent growth for the county. This bumped the Renton share of county taxable retail sales 0.4 percentage points, from 4.5 percent in 2000 to 4.9 percent in 2010. For a large regional economy such as the Puget Sound area, it would be very unusual to find growth in population and retail spending absent gains in employment. But for cities and sub-county areas, as illustrated by the Renton economy, this can occur when there is sufficient residential and commercial investment in place.

### Boeing Activity, Employment, Population, and Housing

As of mid-year 2011, the unfilled order backlog for 737 airplanes manufactured at Boeing's Renton plant amounted to just over 2100 planes according to company sources. Orders have swung wildly in recent years, from an average of 642 planes per year from 2005 to 2008, to 197 planes in 2009, and 508 in 2010 (much stronger than expected by

Boeing). Through the first seven months of this year, Boeing has received 142 orders for 737s (excluding the recent American Airline announcement for 200 planes including some with new, more fuel-efficient engines). This amounts to an annual rate of 243 planes. But forecasting airplane orders from an outsider's point of view, especially within a time-frame of five to six years, is very problematic. Over a longer time period, Boeing's annual *Current Market Outlook* can be used to estimate demand. The 2011 market outlook calls for customers to buy 23,370 single-aisle airplanes over the next 20 years, or 1168 planes per year. If Boeing's share of the single-aisle market was 50



percent, annual demand would average 584 planes. One scenario would be for order volume to build over the next 6-8 years or so, as more customers demand the re-engined 737, then ease toward the end of the decade and in the early 2020s, and then pick up

again later when a replacement plane is developed. In this case, orders might range from 300 to 400 planes this year and next, and closer to 500 planes per year from 2013-16.

Based on announced production rates for the 737, deliveries will climb from 31½ planes per month this year, to an average of 35 per month in 2012, 38 per month in 2013, and 42 per month in 2014. Deliveries are expected to remain strong in following years, but it is uncertain at this point whether they will move even higher. These production rates lead to annual 737 deliveries of 370 planes this year, 415 planes in 2012, and an average of 496 planes per year from 2013 to 2016.

Boeing employment in Renton, according to city business license records, slipped 1.9 percent (256 jobs) last year to 12,900 full-time-equivalent positions. This is consistent with the decline in aerospace employment in the region outside of Renton. The forecast calls for a 1500-job increase over the 2011 to 2016 period as production rates rise. This is based on a model that considers the outlook for aerospace employment in the four-county Puget Sound economy and deliveries from the Renton plant relative to total plane deliveries. Given the expected growth in other, non-Boeing jobs in Renton, the Boeing share of total employment should climb to slightly above 32 percent, up from a recent average of 30 percent.

As shown above, the decline in Boeing jobs in Renton over the last two decades has been accompanied by an offsetting rise in non-Boeing jobs (labeled “All other”) leaving total employment virtually unchanged. But during the recession, aerospace employment held up well region-wide, while non-Boeing employment in Renton and non-aerospace employment elsewhere were hit hard. In 2009 and 2010 for example, non-Boeing employment in Renton fell 8.6 percent as non-aerospace employment in King County dropped 7.1 percent. These ex-aerospace totals tend to move together over time suggesting that Renton non-aerospace jobs can be forecast as a function of King County non-aerospace employment. Thus, based on the recovery in King County non-aerospace jobs forecast by *The Puget Sound Economic Forecaster*, non-Boeing jobs in Renton, after a two-year decline, are expected to resume growth: 1.0 percent this year, 1.3 percent in 2012, and an average of 1.5 percent per year from 2013 to 2016.

Combining the forecasts for Boeing and non-Boeing jobs, total Renton employment, following a 6.1 percent decline in 2010, is expected to rise 1.8 percent this year, 1.6 percent in 2012, and average 1.4 percent growth per year from 2013 to 2016.

Renton population and housing activity are forecast simultaneously since each tends to feed the other. These series also move with their respective King County measures. Thus, growth in Renton population is dependent on growth in regional population and Renton housing activity relative to regional housing activity, and Renton housing activity is dependent on regional housing activity and population growth in Renton relative to the region. This approach yields a forecast for Renton population growth (excluding annexations) of 1.8 percent this year, 2.4 percent in 2012, and an average of 2.0 percent per year from 2013 to 2016. At the end of the forecast period, population will exceed 102,000 residents. Housing permits will remain subdued for the next several years. The

forecast calls for an average 335 units this year and next, rising to 450 units per year from 2013 to 2016.

### Taxable Retail Sales

A quick glance at the table below shows the severity of the recession's impact on city taxable retail sales. For the region as a whole, total taxable retail sales dropped 17.1 percent between 2007 and 2010. The retail trade portion fell more than 15 percent from 2007 to 2009, recovering 3.4 percent last year. But other taxable sales, which exceed retail trade sales in the region, declined 20.6 percent over three years. As shown in the chart (page 9), Renton taxable sales held up better than most other areas in 2007 and 2008 going into the recession, and fell at close to the aggregate regional rate in 2009. Although the overall decline improved to -3.1 percent in 2010, this was weaker than the regional loss of 0.5 percent. This is due almost entirely to greater contraction in Renton's other taxable sales (i.e., in non-retail trade industries) and in particular to a 20.4 percent dive in taxable sales in the construction sector versus 13.4 percent in the region, and a 30.2 percent decline in taxable sales in finance and insurance compared to a 13.0 percent loss for the region.

#### **Total Taxable Retail Sales Puget Sound and Selected Cities**

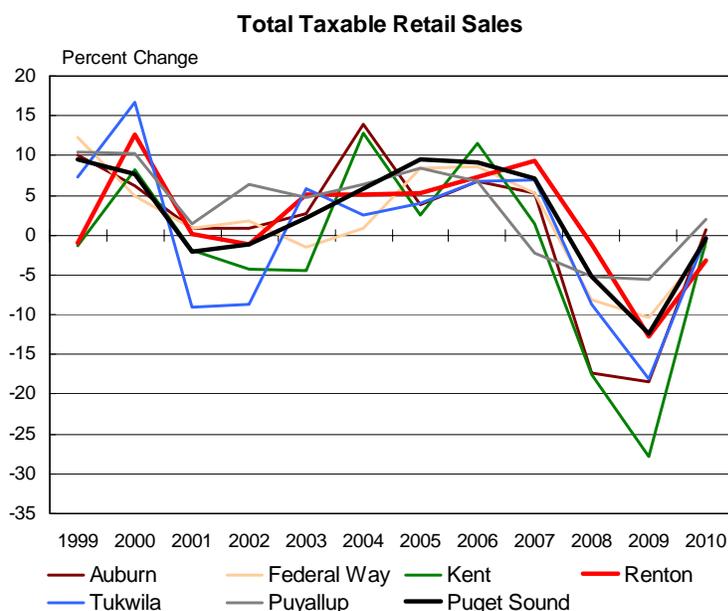
Annual Percent Change

	2003	2004	2005	2006	2007	2008	2009	2010
Auburn	2.7	13.9	3.8	6.8	5.3	-17.4	-18.8	0.6
Bellevue	0.3	4.1	11.6	9.1	15.9	-6.0	-13.8	-3.8
Everett	-0.3	3.1	11.2	16.1	6.4	-8.6	-15.5	2.6
Federal Way	-1.6	0.9	8.4	8.6	5.2	-8.1	-10.8	-1.5
Kent	-4.5	12.9	2.5	11.6	1.4	-17.6	-28.1	-0.8
Kirkland	8.1	6.9	15.7	10.1	1.2	-12.0	-14.1	2.7
Puyallup	4.7	6.3	8.4	6.7	-2.3	-5.2	-5.8	1.9
Redmond	2.8	5.8	7.0	11.4	3.1	2.4	-5.8	-1.2
Renton	5.1	5.1	5.3	7.3	9.4	-1.2	-12.9	-3.1
SeaTac	-5.6	5.4	7.5	6.1	-3.2	-3.4	-7.0	1.3
Seattle	-1.2	2.8	10.6	9.4	9.4	0.4	-11.7	-2.5
Tacoma	6.7	3.3	10.1	7.5	2.8	-8.1	-11.3	0.9
Tukwila	5.9	2.6	4.0	6.7	7.0	-8.7	-18.1	-0.3
Puget Sound <sup>1</sup>	2.2	5.8	9.5	9.1	7.2	-5.2	-12.3	-0.5

<sup>1</sup> King, Kitsap, Pierce, and Snohomish counties

As suggested by the diminishing losses last year shown in both the table and the chart, a recovery in taxable sales appears to be underway. First quarter 2011 figures (latest data available) from the Washington Department of Revenue show year-over-year gains in taxable retail trade sales of 4.9 percent for the Puget Sound region and 3.5 percent for Renton, an improvement in both cases from the 2010 performance. The city is still getting hit hard, however, from continuing decline in construction activity, with sales down 53.6 percent over the four-quarter period, as well as by weaker sales in finance and insurance, off 23.2 percent. Thus, despite the strengthening in retail trade, total taxable

sales in Renton were down 5.8 percent on a year-over-year basis in the first quarter compared to growth of 1.4 percent in the region.



The outlook for most of the key drivers of retail spending is expected to improve over the forecast period as illustrated below for the regional economy. Personal income growth is expected to strengthen, housing permits will trend higher, and the unemployment rate will decline—all supporting renewed growth in taxable retail sales. The only negative is rising interest rates, which primarily affect sales of durable goods.

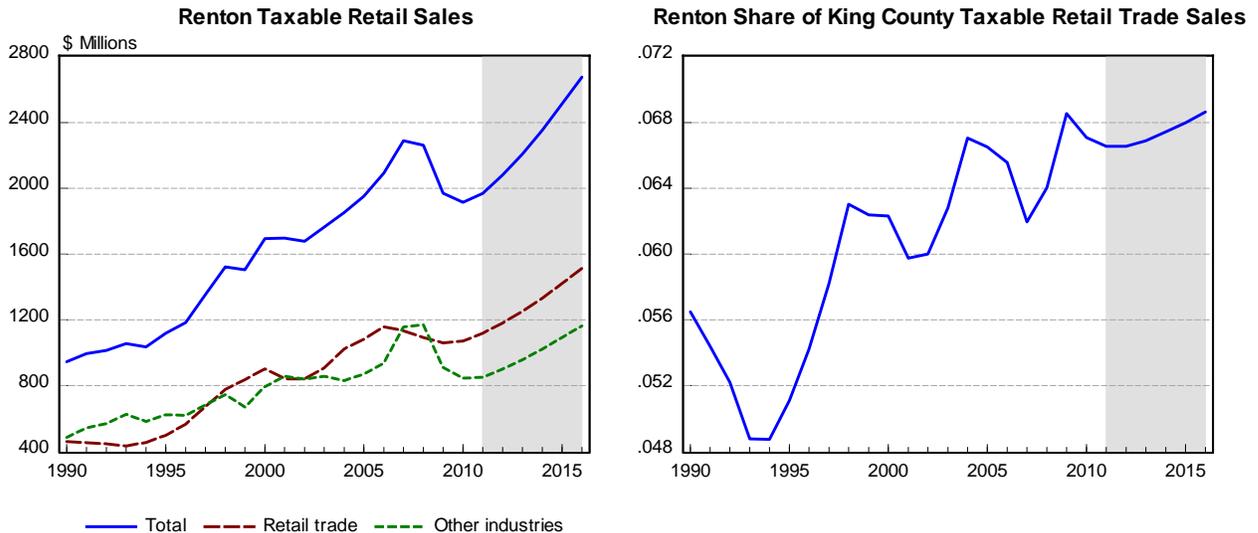
#### Factors Affecting Puget Sound Taxable Retail Sales

Annual Averages

	2011-2013	2014-2016	Comment
Personal income growth (%)	4.8	5.3	increasing support
Housing permits (units)	12,500	18,600	stronger activity
Unemployment rate (%)	8.2	6.7	improving labor market
10-year Treasury note (%)	4.23	5.17	tighter credit

The approach to forecasting Renton taxable retail sales follows the strategy used with the other variables. For taxable retail trade sales, the forecasting model considers the outlook for Puget Sound retail trade sales, Renton housing activity, and growth in Renton population relative to Puget Sound population. Following the pickup to 1.0 percent growth last year, the forecast calls for a 4.5 percent increase this year, accelerating to 5.5 percent in 2012 and 6.0 percent in 2013. The growth rate averages 6.6 percent from 2014 to 2016. This forecast will lift the Renton share of King County taxable retail trade sales to 6.9 percent. The forecasting model for other taxable retail sales in Renton uses other Puget Sound taxable sales and Renton housing activity relative to King County housing

activity as explanatory variables. Following losses in 2009 and 2010, the forecast calls for a slight 0.8 percent increase in sales this year, and growth of about 6 percent in 2012 and 2013. The average growth rate from 2014 to 2016 is 6.7 percent. Combined, the gains for total taxable retail sales amount to a 2.9 percent increase for 2011, a 5.7 percent increase in 2012, and a 6.1 percent increase in 2013. The 2014 to 2016 growth rate averages 6.6 percent.



The risk to the retail sales forecast is on the downside. If regional or Renton employment growth is weaker than expected preventing recovery in the unemployment rate, then the expected pickup in personal income growth could falter acting to hold back consumer spending. High consumer indebtedness, reduced credit availability to consumers, and continued slide in housing activity could also dampen spending.

**City of Renton  
Baseline Economic Forecast  
July 2011**

	----- Actual -----			----- Forecast -----					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Boeing Renton Plant</b>									
Orders (Planes) <sup>1</sup>	476	197	508	300	400	----- 490/year -----			
Deliveries (Planes) <sup>2</sup>	290	372	376	370	415	----- 496/year -----			
<b>Renton Employment<sup>3</sup></b>									
Total	43,818	43,946	41,271	42,023	42,708	43,406	44,162	44,791	45,224
Percent Change	2.5	0.3	-6.1	1.8	1.6	1.6	1.7	1.4	1.0
Boeing <sup>4</sup>	12,829	13,169	12,913	13,368	13,677	13,984	14,283	14,434	14,411
Percent Change	-3.0	2.7	-1.9	3.5	2.3	2.2	2.1	1.1	-0.2
Other	30,989	30,777	28,358	28,655	29,031	29,422	29,879	30,357	30,813
Percent Change	5.0	-0.7	-7.9	1.0	1.3	1.3	1.6	1.6	1.5
<b>Renton Population<sup>5</sup></b>									
Percent Change	33.9	6.7	3.3	1.8	2.4	2.0	2.0	2.0	2.1
<b>Renton Building Permits<sup>6</sup></b>									
<b>Residential - New Construction</b>									
Units Authorized	448	326	335	324	347	381	415	450	479
Value (\$ Mil.)	77.137	66.916	70.797	77.860	80.439	88.552	96.844	109.506	121.580
Average Value (\$ Thou.)	172.2	205.3	211.3	240.3	231.8	232.4	233.4	243.3	253.8
<b>Renton Taxable Sales<sup>7</sup></b>									
Retail Trade (\$ Mil.)	1,092.4	1,060.1	1,070.4	1,118.6	1,180.1	1,250.9	1,332.2	1,421.5	1,513.9
Other Industries (\$ Mil.)	<u>1,170.0</u>	<u>910.5</u>	<u>843.8</u>	<u>850.3</u>	<u>901.3</u>	<u>957.2</u>	<u>1,021.3</u>	<u>1,092.8</u>	<u>1,162.7</u>
Total (\$ Mil.)	2,262.4	1,970.6	1,914.2	1,968.9	2,081.4	2,208.1	2,353.5	2,514.3	2,676.6
Percent Change	-1.2	-12.9	-2.9	2.9	5.7	6.1	6.6	6.8	6.5

<sup>1</sup> Excludes American Airlines order announced in July but not yet recorded by Boeing

<sup>2</sup> 2008 deliveries affected by two-month machinist in September and October

<sup>3</sup> FTE employees working in Renton based on City of Renton business license records

<sup>4</sup> 2008 Boeing employment estimated at 13,537 absent strike

<sup>5</sup> Includes annexations of approx. 17,100 persons in 2008, 3,600 in 2009, and 1,000 in 2010; 2010 is Census population

<sup>6</sup> U.S. Census Department series; average value affected by mix of single family and multi-family permits

<sup>7</sup> Washington Department of Revenue series