

# Special Topic: Economic Report Card

**Good grades.**

As we turn the calendar to a new decade, we would like to offer an economic report card on the 1990s.

• **Growth.** Between 1990 and 2000, Puget Sound employment grew at an annual rate of 2.3 percent, a solid but not spectacular accomplishment. The region expanded only slightly faster than the nation (1.8 percent), and it grew much more slowly than it did in the 1970s (4.1 percent) and the 1980s (3.5 percent). Expect even slower growth in the future because of the “law of large numbers”—it is difficult for large economies to sustain high growth rates—and our aging population, which will restrict the supply of labor.

Growth	B
Stability	B
Unemployment	A
Per capita income	A
Inflation	B
Industrial diversity	B

• **Stability.** There is much to commend here. First, unlike the two prior decades, we escaped a recession in the 1990s. Second, with the employment growth rate ranging from 0.6 percent in 1993 to 5.2 percent in 1997, the region was only slightly less stable than the United States (-1.1 percent in 1991 to 3.1 percent in 1994). Finally, the regional economy has displayed increasing stability over time. In the 1970s, for example, the regional employment growth rate varied from -4.3 percent in 1971 (the Boeing Bust) to +10.1 percent in 1978. Nevertheless, there is room for improvement, which appears to be in the offing. Slower trend growth, less reliance on Boeing (still the major source of

volatility), and a more stable national economy (due in part to better monetary management by the Federal Reserve) promise a smoother ride ahead.

• **Unemployment.** The region begins 2000 with a 3.6 percent unemployment rate, significantly below the national rate, which at 4.1 percent is a 30-year low. The job picture is so good that government now defines a “distressed county” as one with a 5.8 percent unemployment rate. Until recently this would have indicated full employment. As Boeing continues to slough jobs, regional unemployment will rise but only modestly. In general, with fewer people entering the labor force, tight labor markets will become the rule rather than the exception. Businesses will be hard pressed to find qualified labor, but this will not be all bad. As businesses are compelled to make better use of their existing work force, labor productivity and our standard of living will rise.

• **Per capita income.** Currently, Puget Sound per capita personal income is \$36,700 per year. It is 24 percent above the national average, which represents a remarkable 10 percentage point improvement since 1990. Not all of the relative gain has been due to Microsoft. Without the company’s 18,000 workers and their \$8 billion in pay and stock option income, regional per capita income would

be 5 percent lower. Thus, one-half of the increase in our relative per capita income since 1990 is attributable to other factors, such as the creation of other high-paying jobs and the steep drop in the unemployment rate. This speaks well of the regional economy, but it is the kind of performance that will be difficult to repeat in the future.

• **Inflation.** During the 1990s, the region enjoyed substantial growth, declining unemployment, and a low inflation rate, an achievement that was inconceivable in the 1970s or 1980s. But, with regard to inflation, it could have been better. At 3.4 percent, the regional inflation rate exceeded the national rate by 0.7 percentage points. Moreover, there was unprecedented asset inflation, particularly in the stock market, which we fear might be setting us up for a fall. While we venture no opinion on future stock prices, we do believe that general inflation, as measured by the consumer price index, will remain around three percent.

• **Industrial diversity.** With the emergence of Microsoft and other high-technology companies in software, e-commerce, telecommunications, and biotechnology, the region broadened its economic base in the 1990s. But it is still vulnerable to the wide swings in Boeing production and employment.

Overall, in our view, the Puget Sound economy earned good grades in the 1990s.

	Puget Sound	United States
Employment, 1990-00 (annual % change)	2.3	1.8
Unemployment rate, 2000 (%)	3.7	4.1
Per capita income, 2000 (\$)	36753	29822
Consumer price index, 1990-00 (annual % change)	3.4	2.7
Population, 1990-00 (annual % change)	1.6	1.0