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Washington's Economy Continues to Lag the Nation as a Whole

Briefly

As yet, there are few signs that Washington will be one of the state's to lead the nation out of the Great Recession.

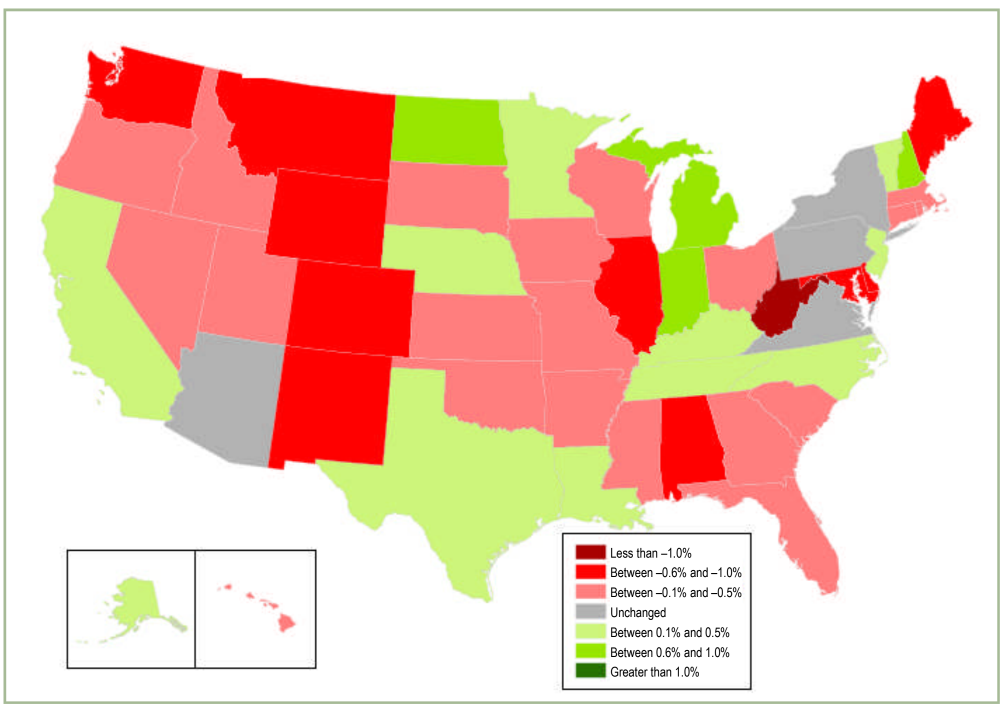
Today the Federal Reserve Bank of Philadelphia (Philadelphia Fed) released its coincident indexes for January. The Philadelphia Fed indexes are designed to provide an answer to the question "How's the economy doing?" for each of the 50 states (Crone 2006). For January the answer for Washington is "not so good."

The map below summarizes the January results. Quoting from the release:

> The Federal Reserve Bank of Philadelphia has released the coincident indexes for the 50 states for January 2010. In the past month, the indexes increased in 19 states, decreased in 23, and remained unchanged in eight . . . . Over the past three months, the indexes increased in 15 states, decreased in 31, and remained unchanged in four . . . .
>
> The Philadelphia Fed's U.S. index rose 0.1 percent in January and 0.3 percent over the past three months (FRBP 2010).

For January Washington was one of the 19 states showing a one-month decline and one of the 31 states showing a three-month decline. For one month, Washington's decline was 0.1 percent, which ranked 36th among the 50 states. For three months, Washington's decline was 0.6 percent, which ranked 40th among the states.

January State Coincident Indexes: Three-Month Change



Source: Federal Reserve Bank of Philadelphia

As measured by the Philadelphia Fed indexes, California's economy, up 0.2 percent for both one month and 3 months, has better momentum than Washington's economy has.

The conventional wisdom has been that Washington would be one of the states to lead the nation out of the Great Recession. As the nation's most trade-dependent state, so the reasoning goes, Washington stands to benefit disproportionally from the emerging synchronized global recovery. Strength in the Asian economies in particular helps our state. Boeing's backlog remains healthy, while both the 787 and 747-8 are now in flight testing. Microsoft's launch of Windows 7 has been very successful and the company stands to benefit from an upturn in business investment in computers and software.

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Thus far, however, Washington shows few signs of leadership.

Separately, the Washington State Employment Security Department today issued its February employment report (ESD 2010b). This report showed that, seasonally adjusted, the state lost 8,300 jobs from January to February. This follows a seasonally adjusted gain of 11,100 from December to January.

When originally announced, the December to January gain had been hailed as a sign that recovery had begun for Washington's economy (ESD 2010a). Employment Security Commissioner Karen Lee observed, “it’s encouraging to see jobs finally coming back. I hope it signals the beginning of a job-full recovery, not a job-less recovery.” Referring to the January job gains, Gov. Chris Gregoire said, “this is a positive sign for Washington state. We have implemented several strategies to create jobs, and it’s paying off.”

It is now clear that the December to January job gain was an artifact of seasonal adjustment. Washington employers added fewer seasonal workers than usual in November and December, and therefore laid off fewer workers than usual in January. All totaled the state lost 11,900 jobs, seasonally adjusted, from October to February.

At the release of the January employment report Governor Gregoire said, “there is more we can and should do [to create jobs] – that’s why I continue to work with leaders at both the state and federal levels to develop additional proposals that will put people to work.” The most important thing that state leaders can do to help the economy in the near term is to craft a solution to the 2009–11 budget gap that minimizes tax increases.

Longer term, state leaders must confront the structural imbalance between state spending commitments and revenues. Legislators will face another multi-billion dollar budget gap when they convene next January to write a budget for 2011–13. Because the 2009–11 general fund budget relies on more than $4 billion in one-time resources (federal stimulus funds, transfers from other state accounts and reserves), it will be impossible to continue to fund in 2011–13 everything that is funded in 2009–11.

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