WINDERMERE Economics

AN ECONOMIC FORECAST

PRESENTED BY: MATTHEW GARDNER

CHIEF ECONOMIST; WINDERMERE REAL ESTATE

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THE U.S. ECONOMY

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THE U.S. LABOR MARKET

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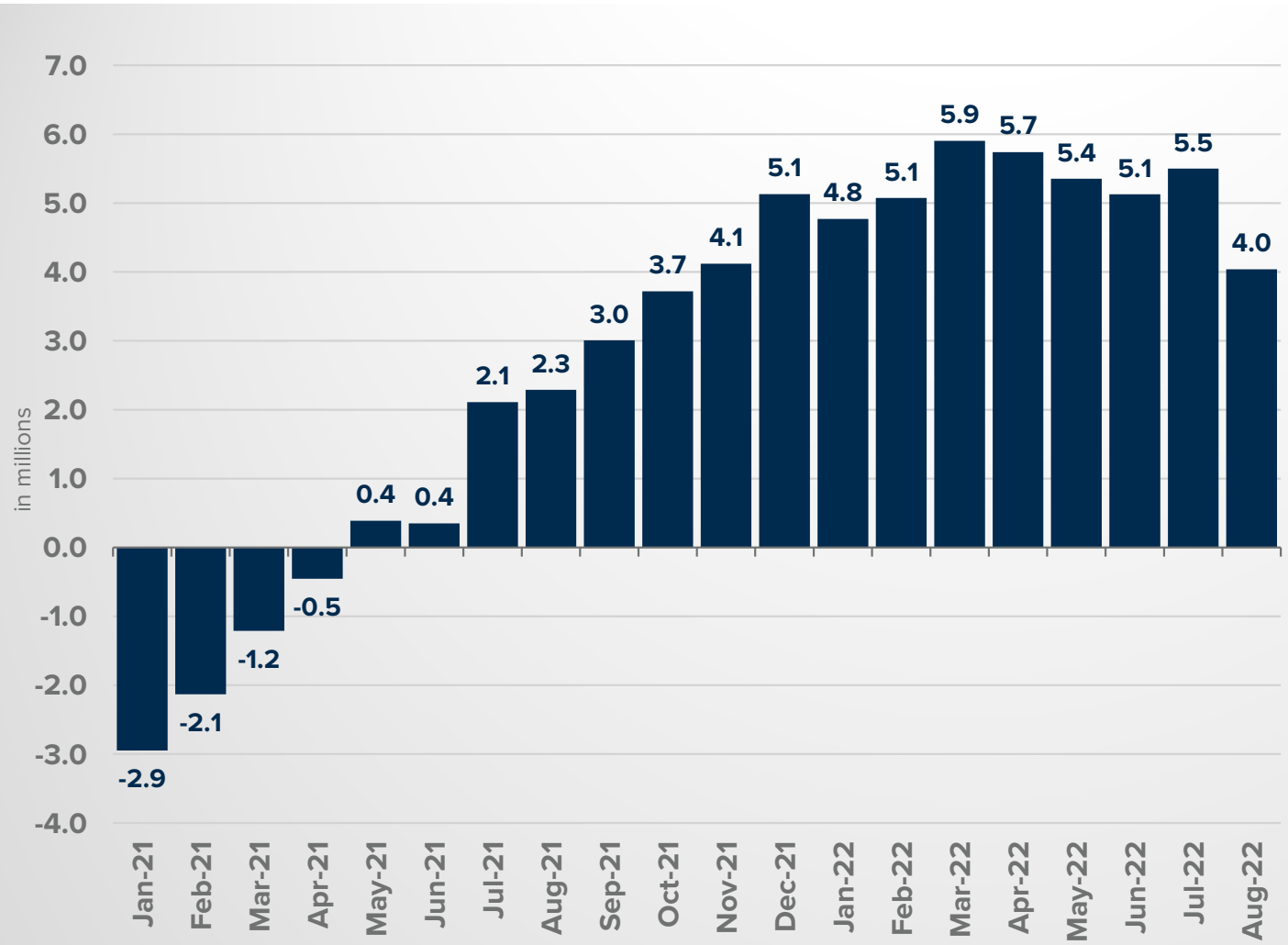
Economics



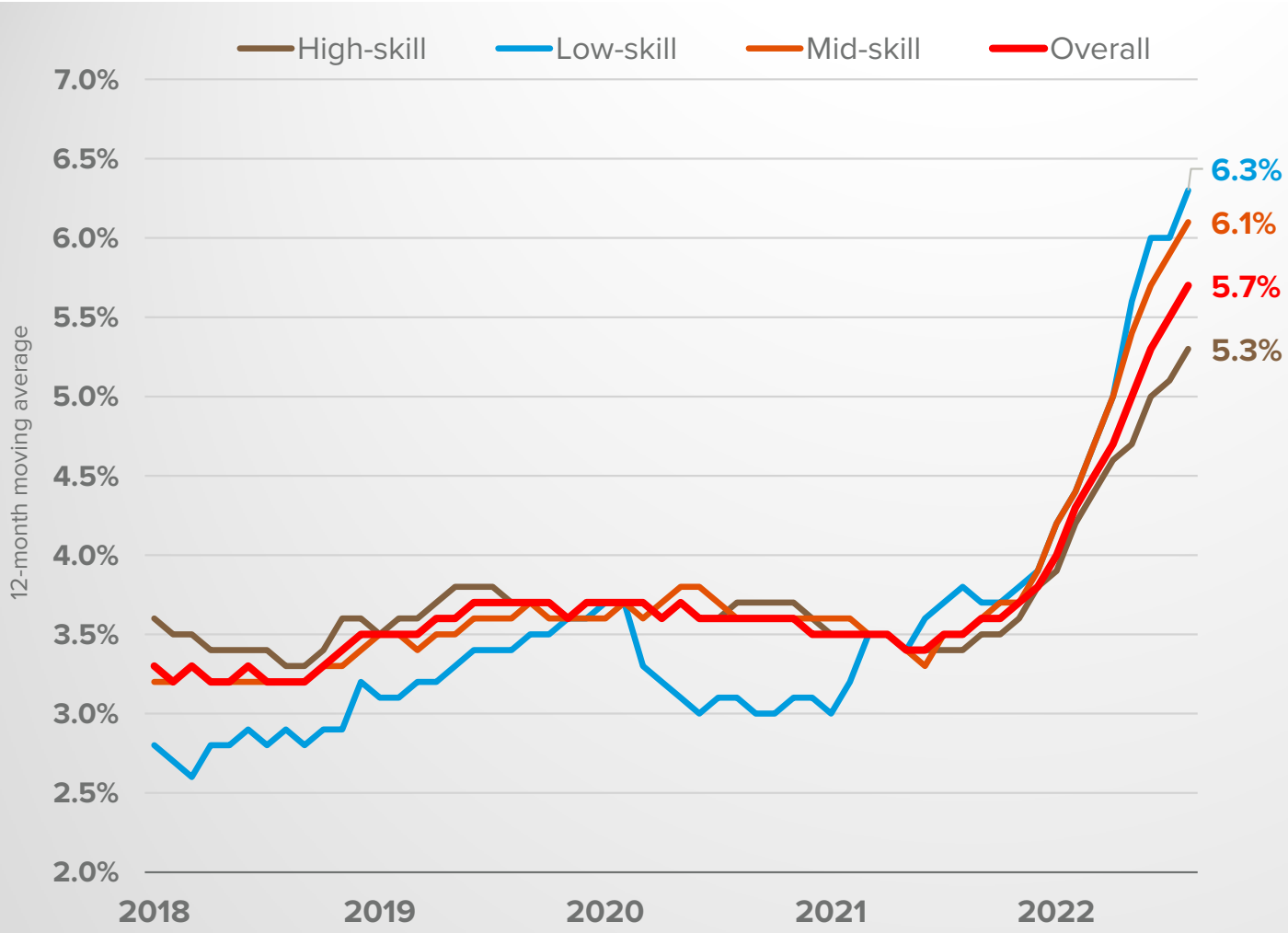
The Labor Market Remains Tight

The ratio of job openings to unemployed persons is still stubbornly high; however, job openings in August fell by over 1M

Source: Windermere Economics' analysis of BLS data; sa

JOB OPENINGS TO UNEMPLOYED PERSONS

WINDERMERE Economics



Leading Wages to Continue Rising

Further data that the Fed will use to support more rate hikes. The pace of wage growth is consistent with a tight job market and stubbornly high inflation

Source:
Atlanta Federal Reserve

WAGE GROWTH BY OCCUPATIONAL CATEGORY

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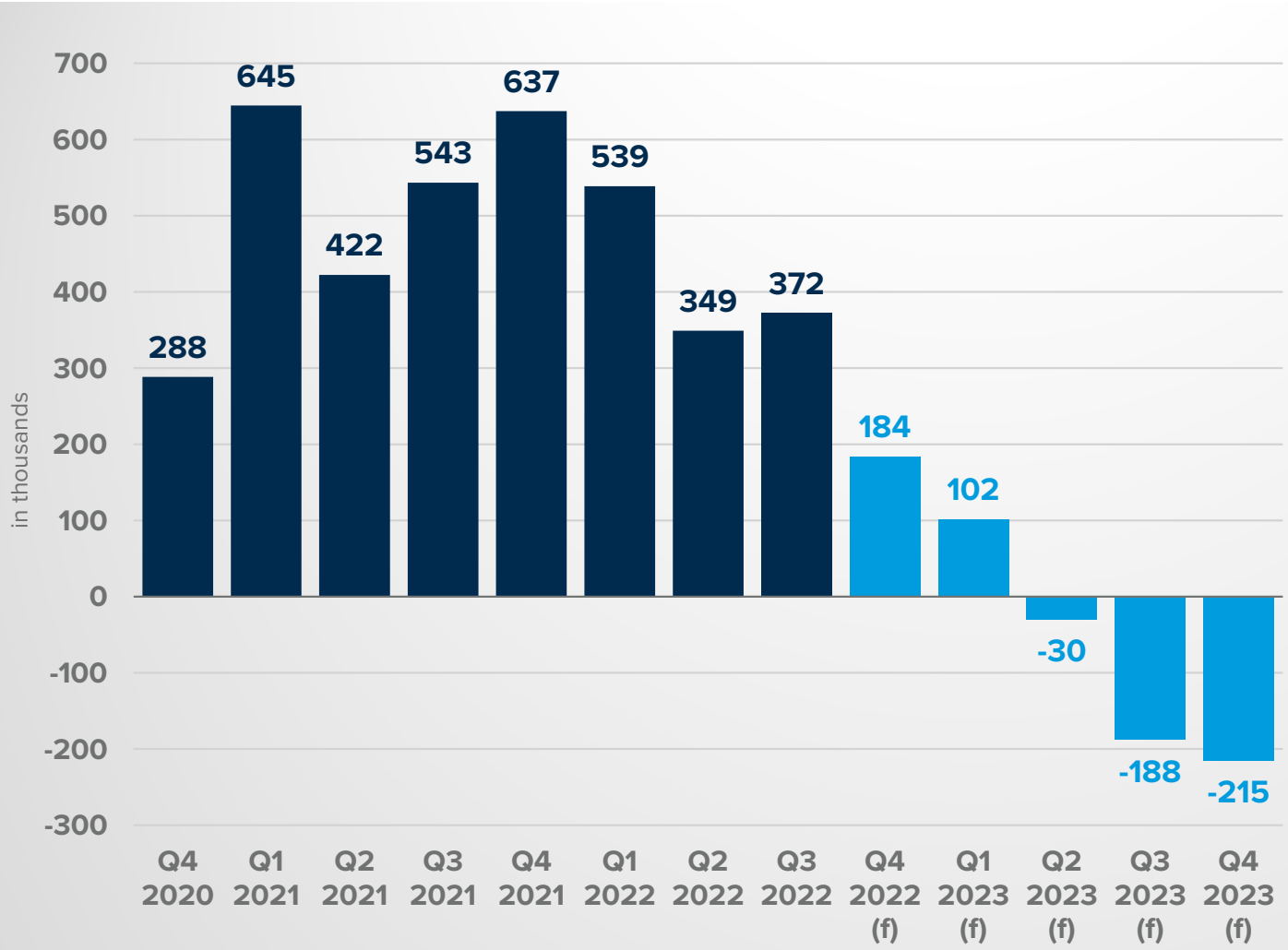

Job Growth Set to Slow

With expectations of a recession in 2023 rising significantly, job growth will continue slowing before turning negative next year

Source: Windermere Economics' forecasts using BLS historic data

U.S. Payroll Change & Forecast

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U.S. UNEMPLOYMENT

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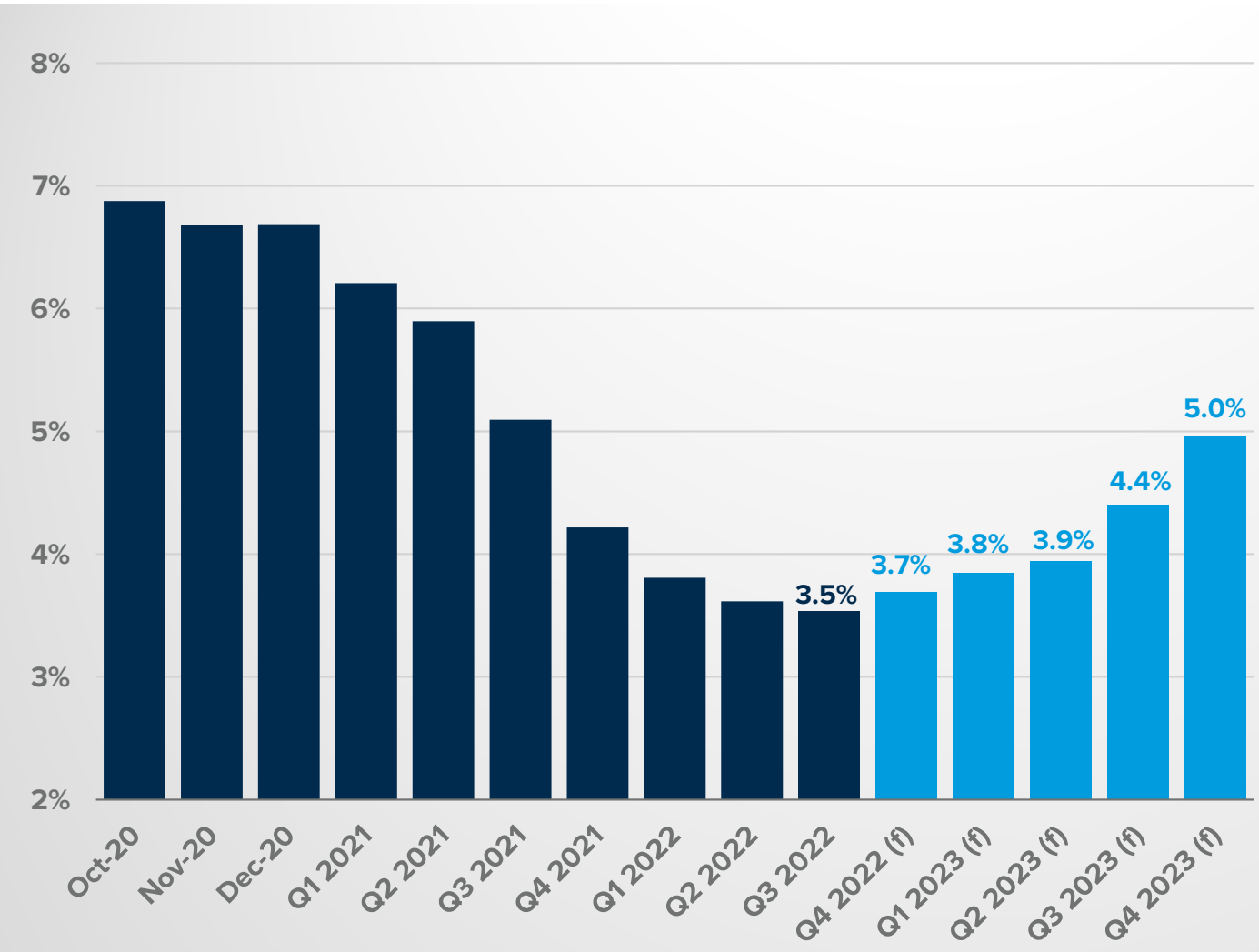
Economics



The Jobless Rate Fell in September

Returning to the all-time low of 3.5%, but an economic slowdown will lead it to start trending higher – peaking in early 2024 at 5.2%

Source: Windermere Economics' forecast using BLS historic data; U-3 criteria

U.S Unemployment Rate

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INFLATION

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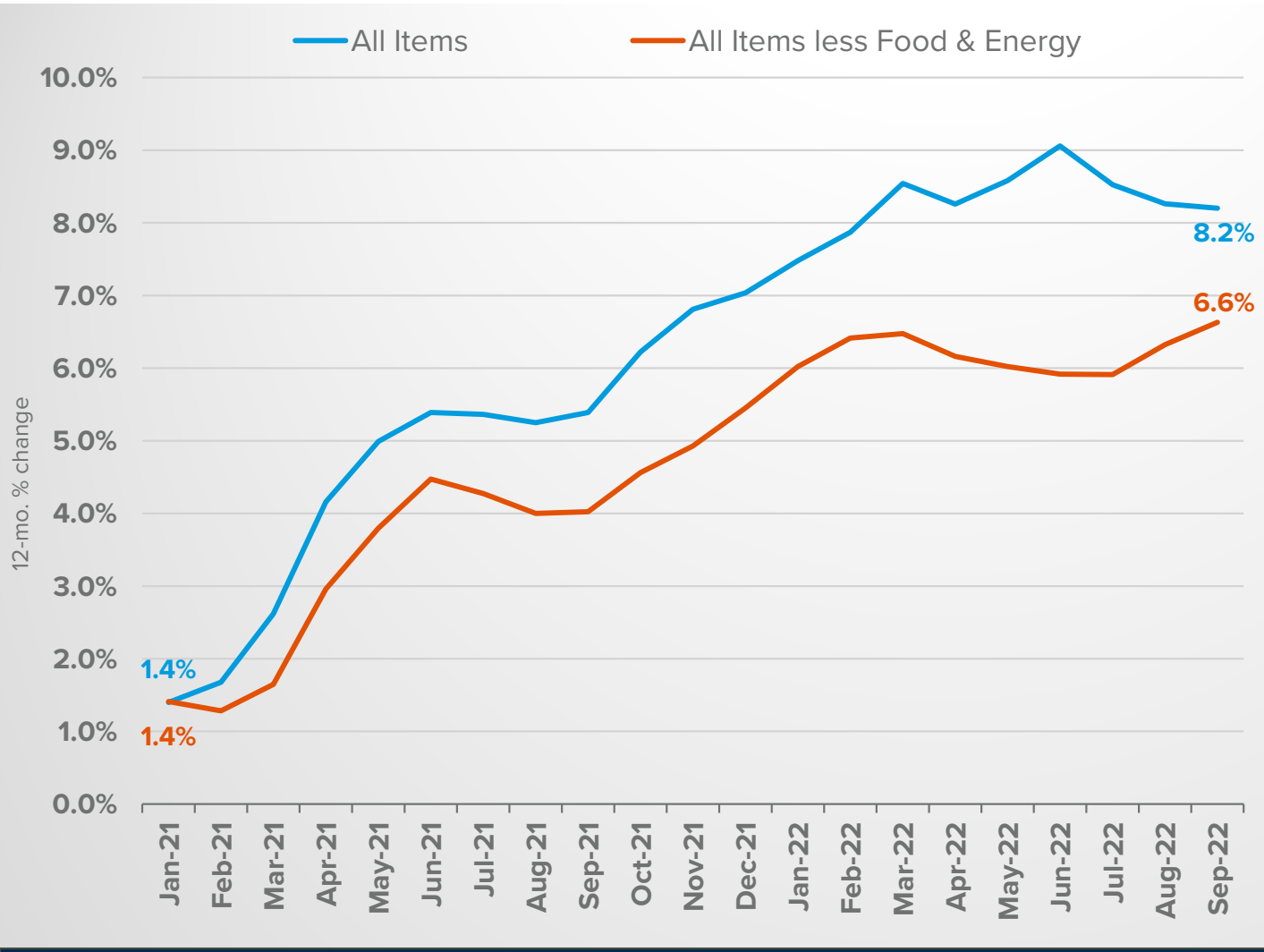
Economics



Total Inflation Appears to Have Peaked

But the headline rate remains very ugly. The uptick in the core rate was mainly due to shelter costs (+ 6.6% y/y)

Source: BLS; nsa

CONSUMER PRICE INDEX

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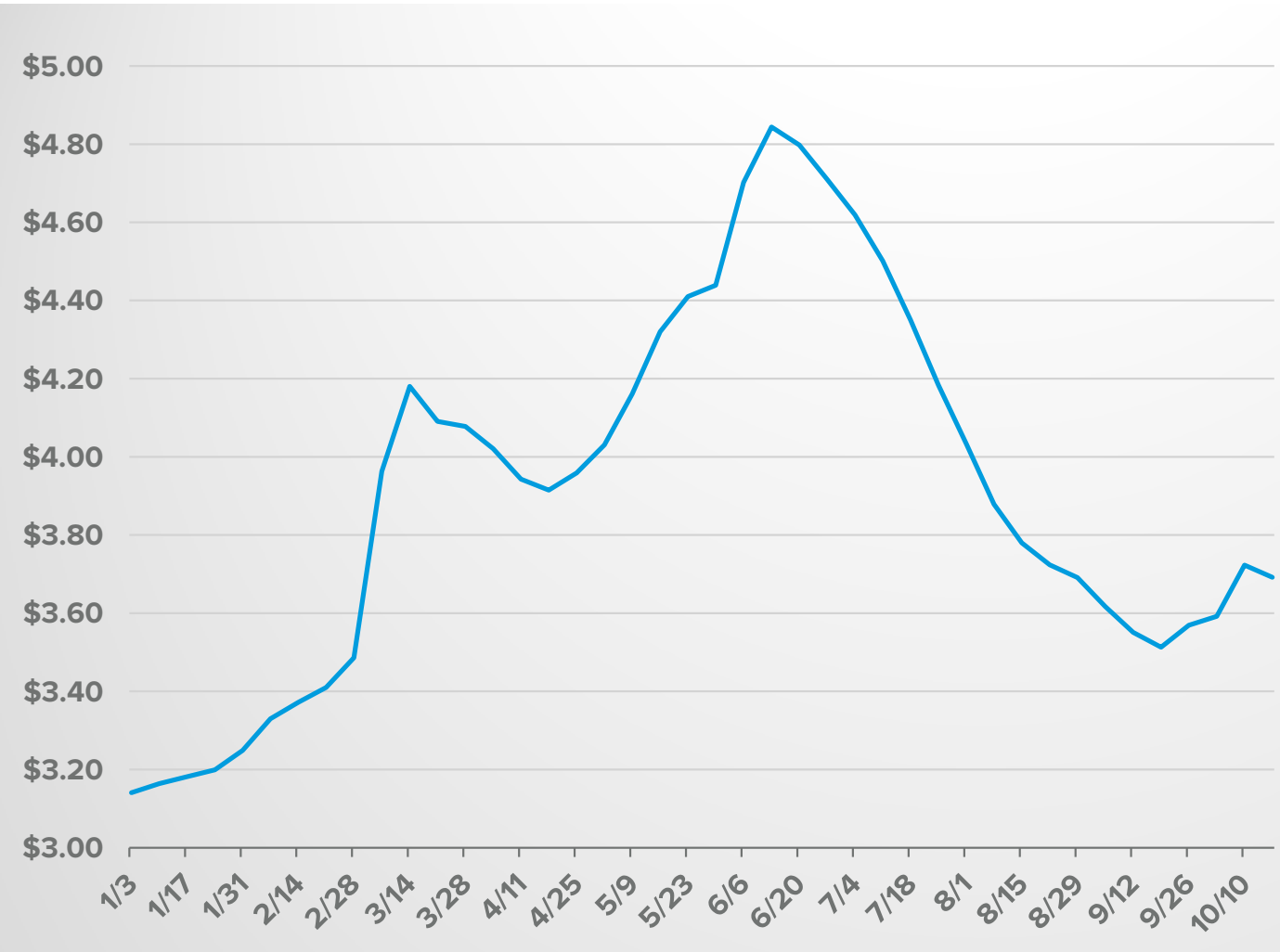

Gas Prices Tick Higher

As OPEC decides to cut production by 2 million bbs/day That said, regular gas is still trading 23% below its June peak.

Source:
US Energy Information Administration

Weekly Retail Gas Prices

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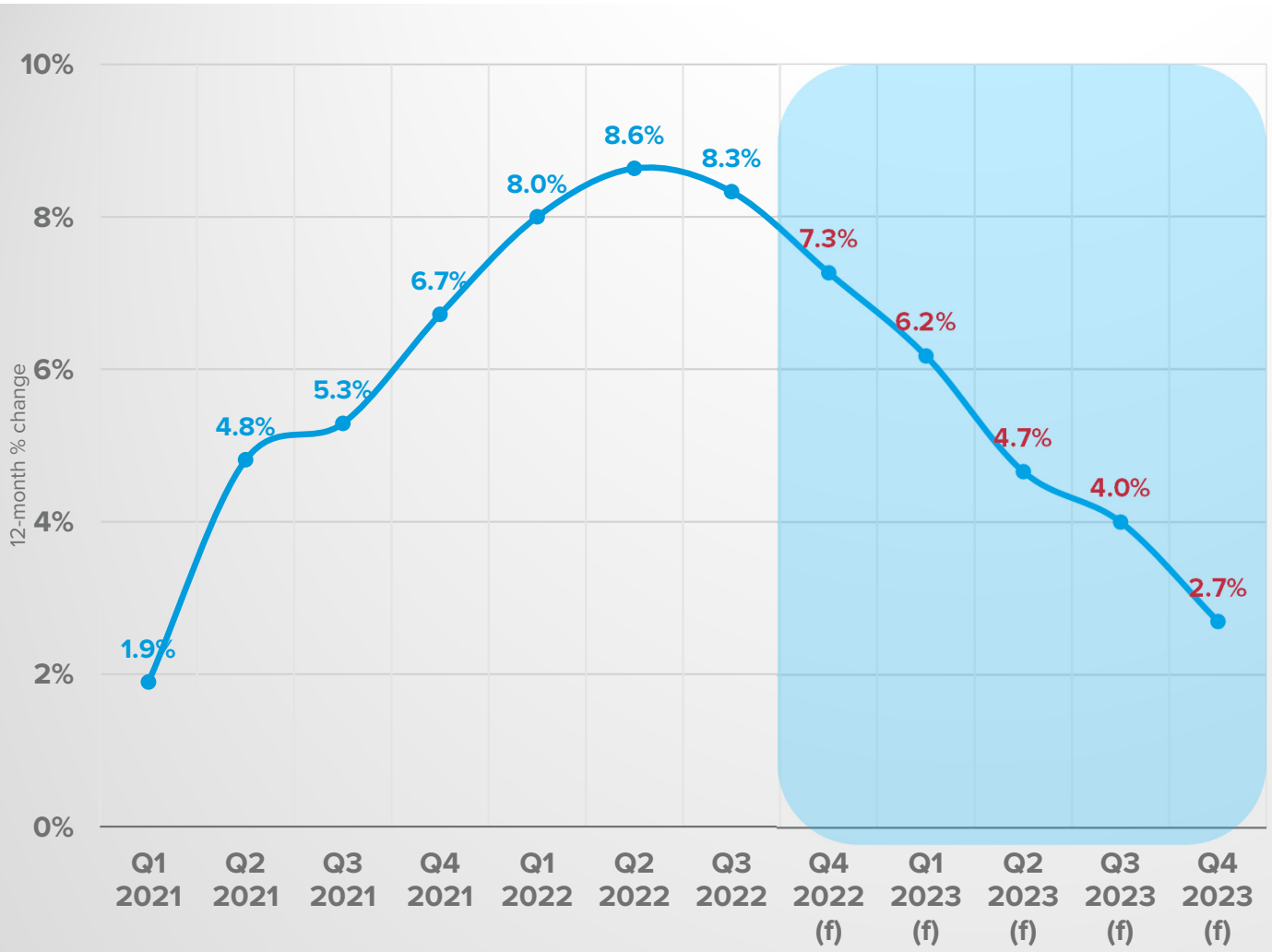


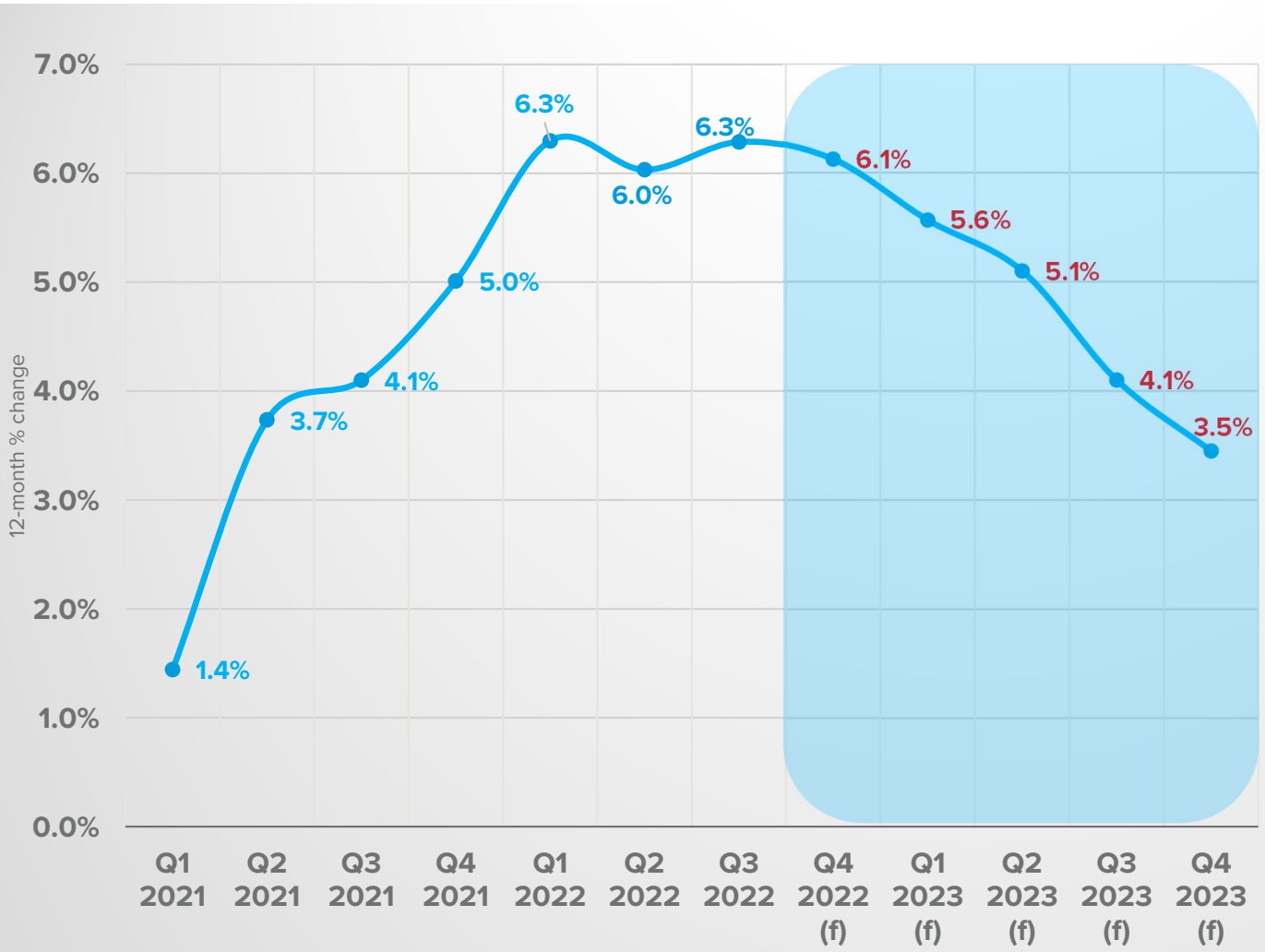
Inflation Will Start Trending Lower

But rising gas prices & strength in services mean that inflation will recede slower than I would like to see

Source: Windermere Economics' forecast using BLS historic data

Total CPI History & Forecast

WINDERMERE Economics



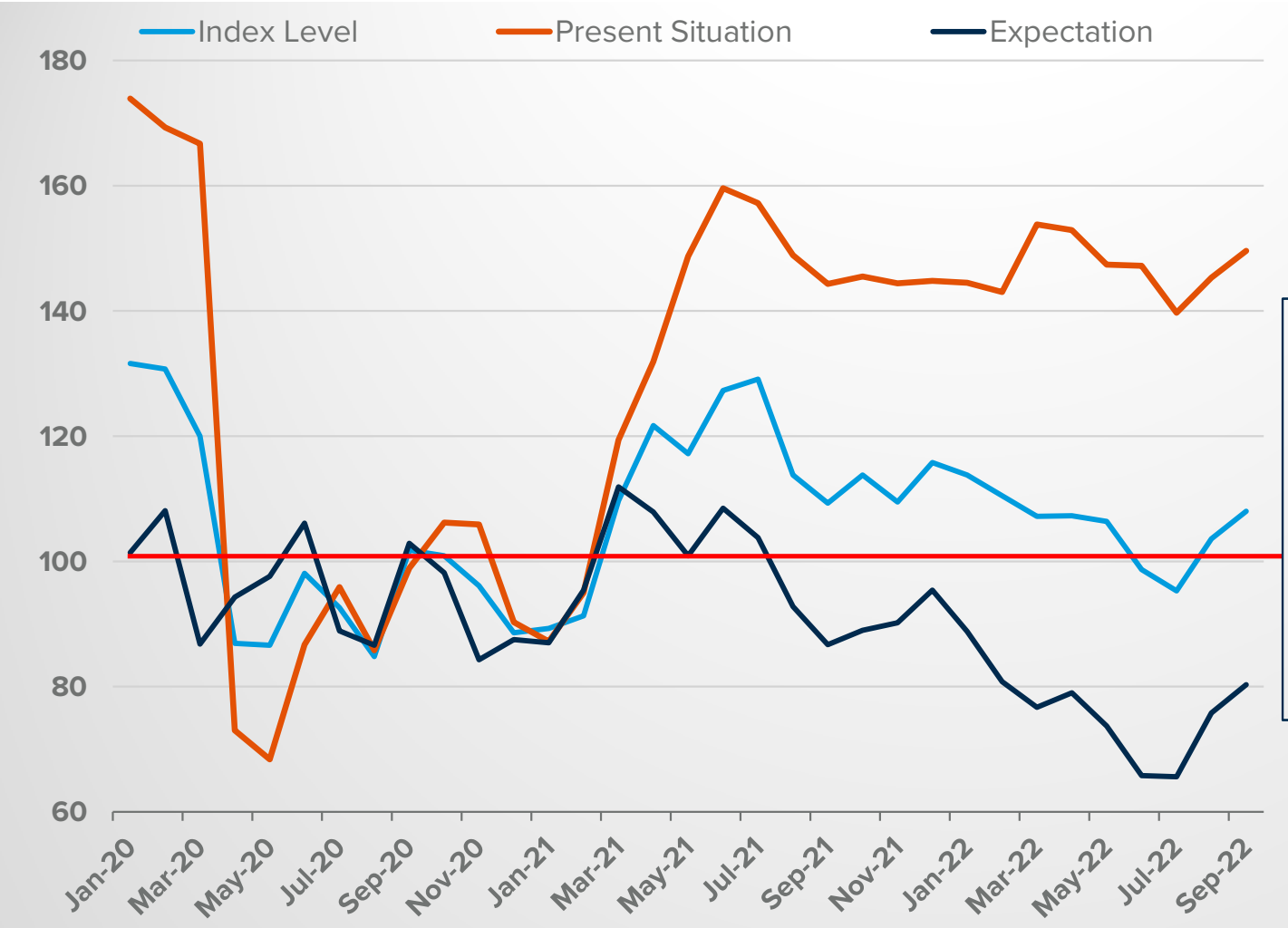
Unlikely to Return to the Feds Goal Until the end of 2024

Supply chains are starting to catch up & labor cost growth is no longer accelerating, but the core rate will remain elevated

Source: Windermere Economics' forecast using BLS historic data

Core CPI History & Forecast

WINDERMERE Economics



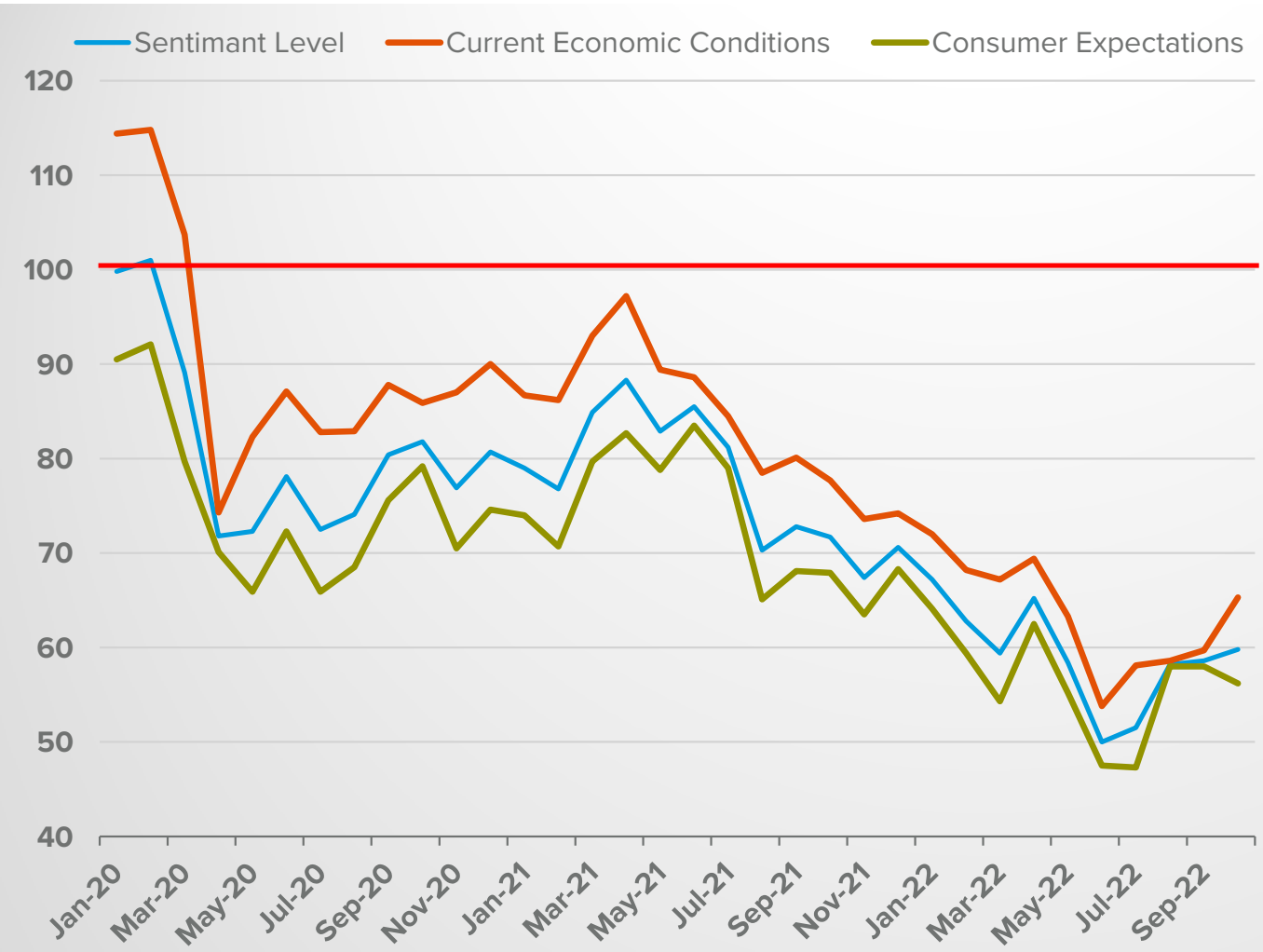
Confidence Jumps

The improvement was a function of higher job openings and wages, as well as lower fuel costs; however, consumers are worried about the future

Source:
Conference Board

CONSUMER CONFIDENCE

WINDERMERE Economics

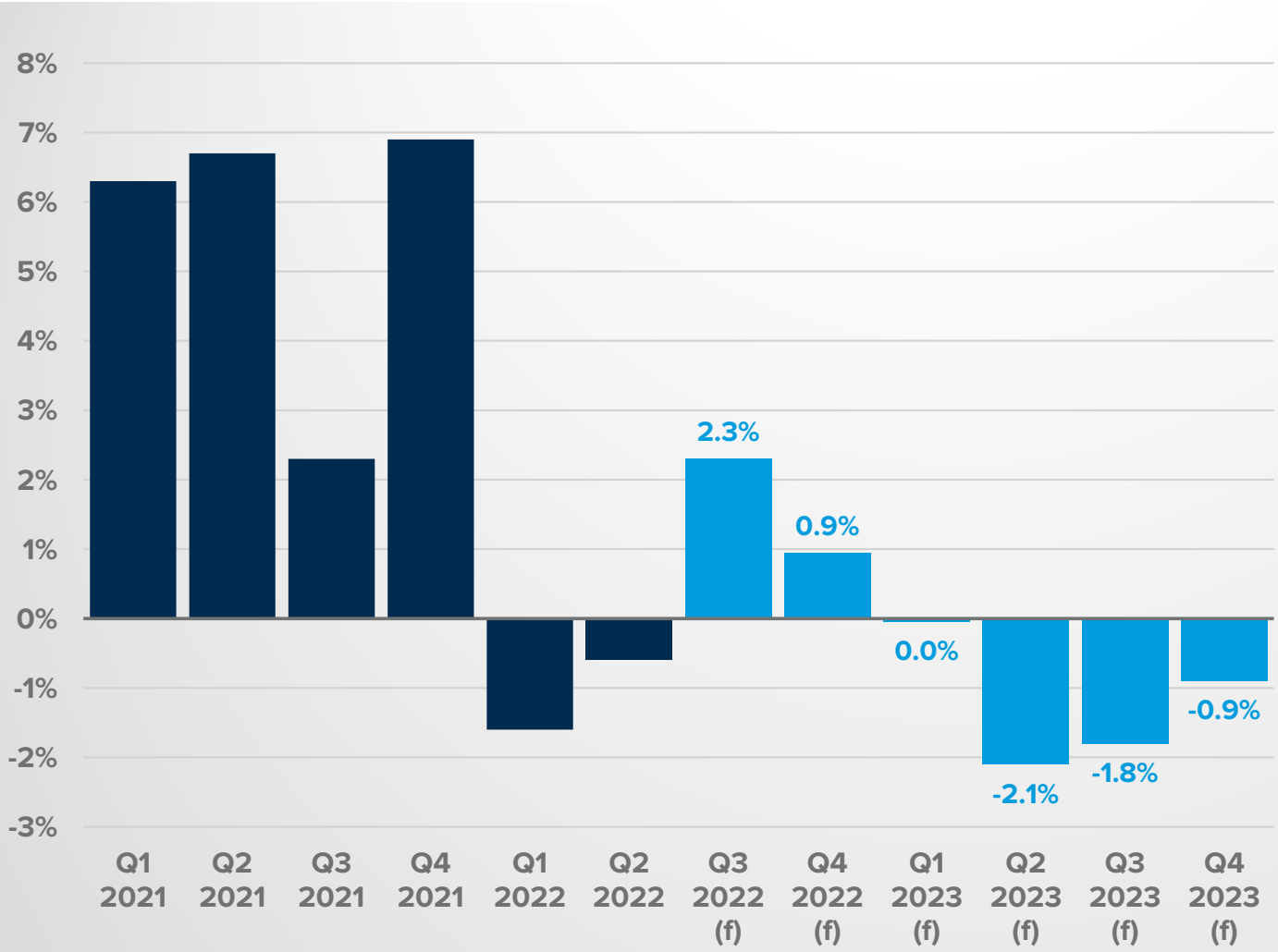


Sentiment Has Improved

But continued uncertainty over the future trajectory of prices and financial markets around the world indicate a bumpy road ahead for consumers

Source:
Conference Board

CONSUMER SENTIMENT



A Gift from the Fed?

Ultimately, I expect a recession to start in Q-2 2023; however, it will be relatively modest with a peak to trough decline of 1.2%

Source: Windermere Economics' forecast using BEA historic data
% change from preceding period; SAAR

U.S. Real GDP

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- The Fed is willing to risk recession to bring inflation to heel & a "modest" recession is expected;
- A period of retrenchment in consumer spending starts early next year;
- The FOMC will be slow to ease policy given still elevated CPI; however, as inflation recedes and the jobless rate rises, they will slowly start cutting rates beginning in Q3-2023; But
- With the country's challenging demographics weighing on labor supply growth, a recession leads the jobless rate up to "only" 5.2% by early 2024 before trending lower.

SMALL BUSINESS ECONOMIC TRENDS

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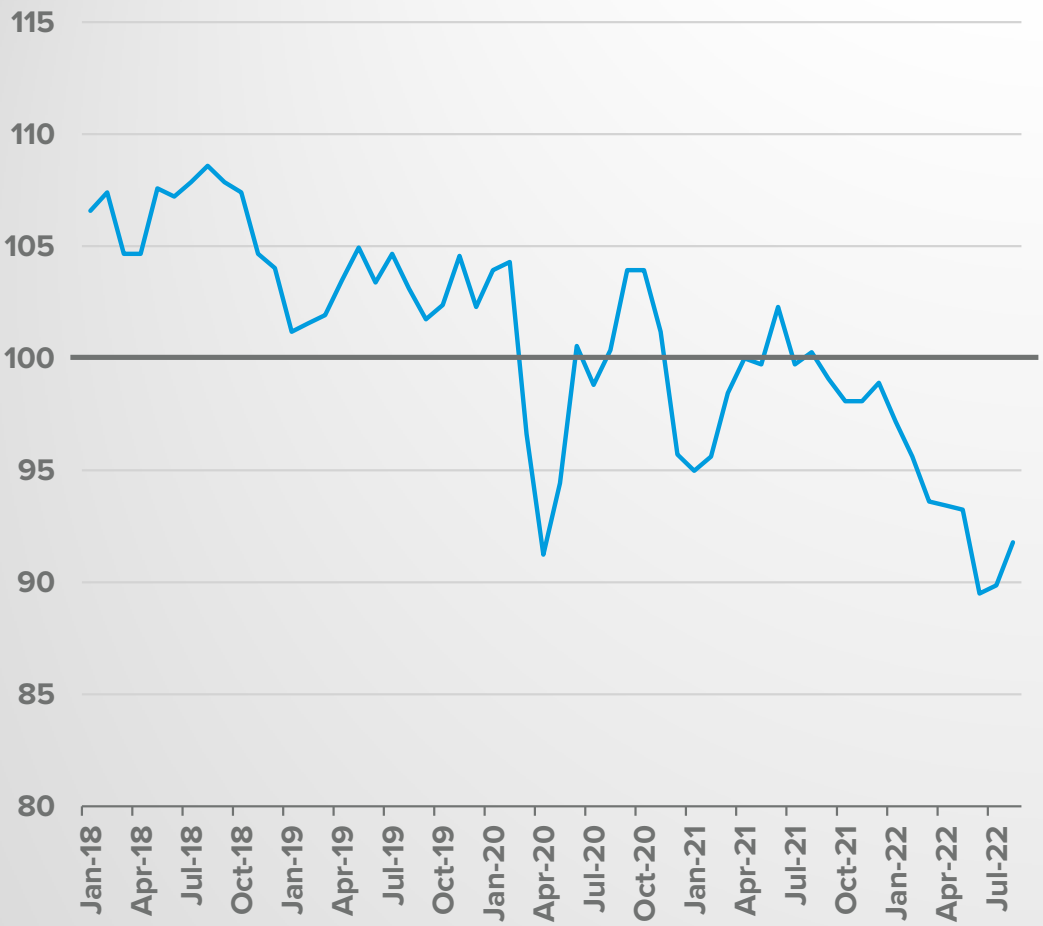
Economics

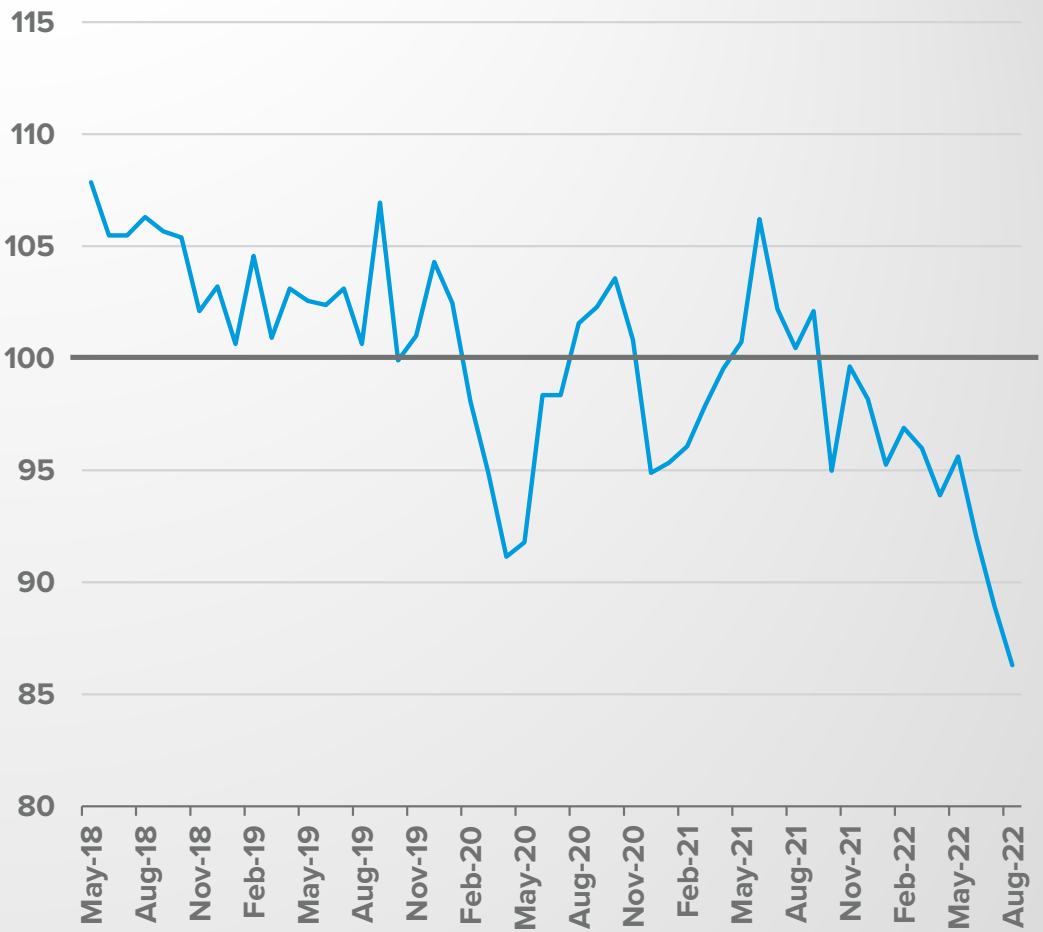
U.S. Small Business Optimism Index

Seasonally Adjusted; 1986 = 100



Pacific Region Small Business Optimism Index

Seasonally Adjusted; 1986 = 100



Source:
NFIB

SMALL BUSINESS OPTIMISM INDEX

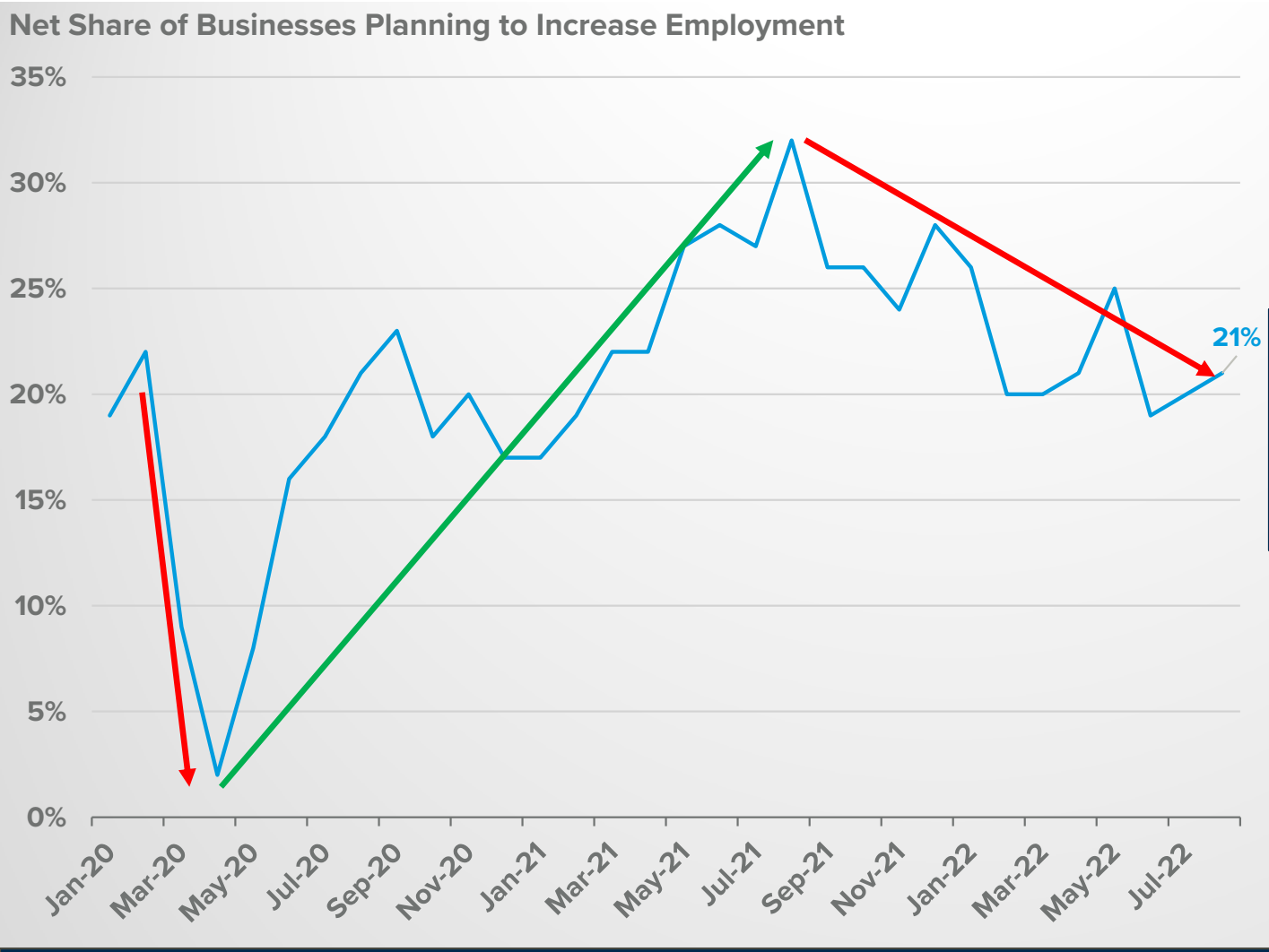
WINDERMERE Economics

Small Business Optimism Index	U.S. – 91.8 (-8.5% y/y)	Pac. 93.8 (-14.1% y/y)
Net Share of Businesses Planning on Adding Staff	21%	7%

Source:
NFIB
August 2022

SMALL BUSINESS OPTIMISM INDEX

WINDERMERE Economics



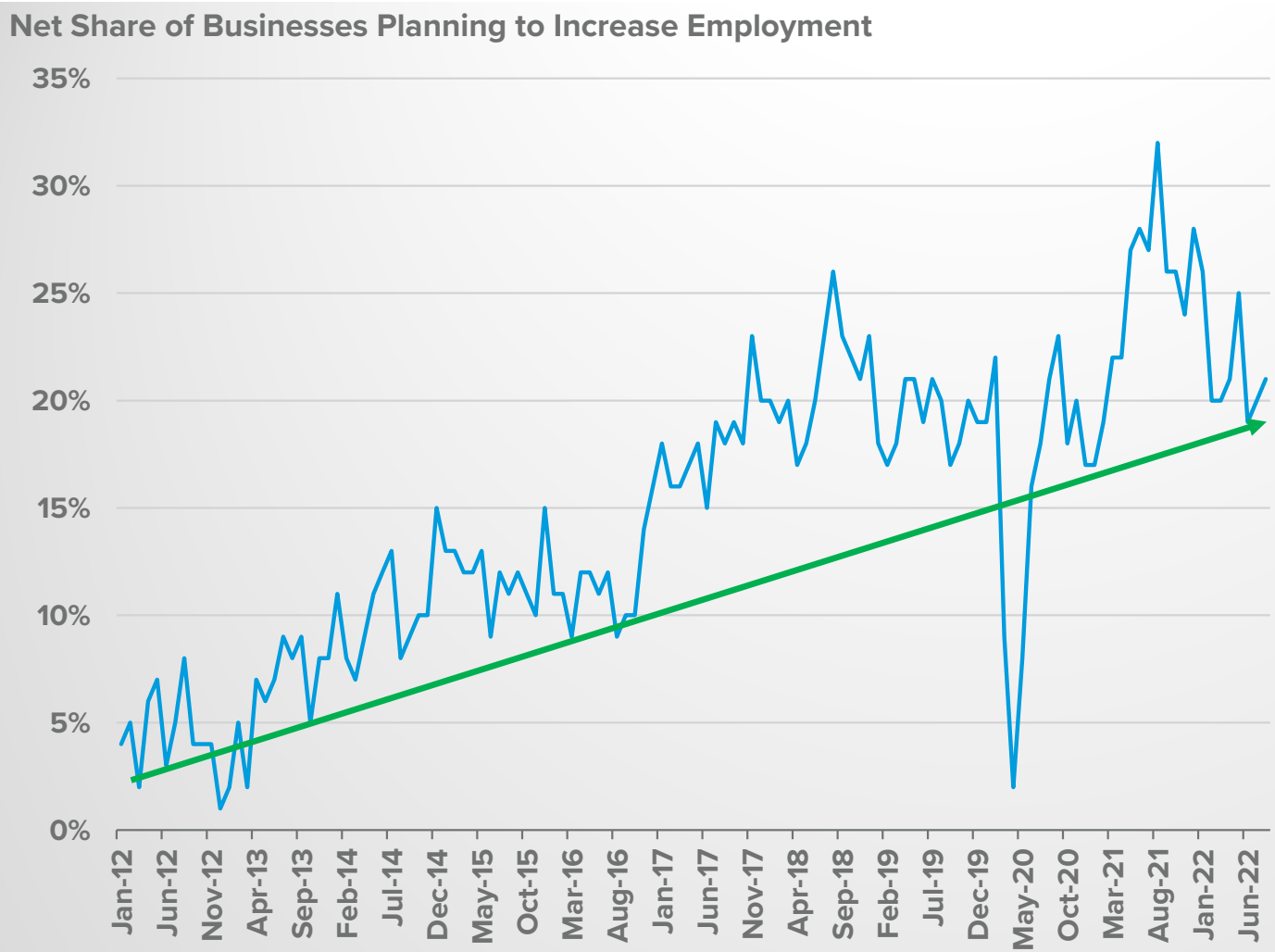
Businesses Have been Slowing New Hiring

Over 63% reported that they tried to hire in August

Source:
NFIB
August 2022

ARE BUSINESSES PLANNING ON ADDING STAFF?

WINDERMERE Economics



But the Longer-Term Trend is Telling

Over the past decade, small business plans to hire have risen from below 5% to more than 20%

Source:
NFIB
August 2022

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Source:
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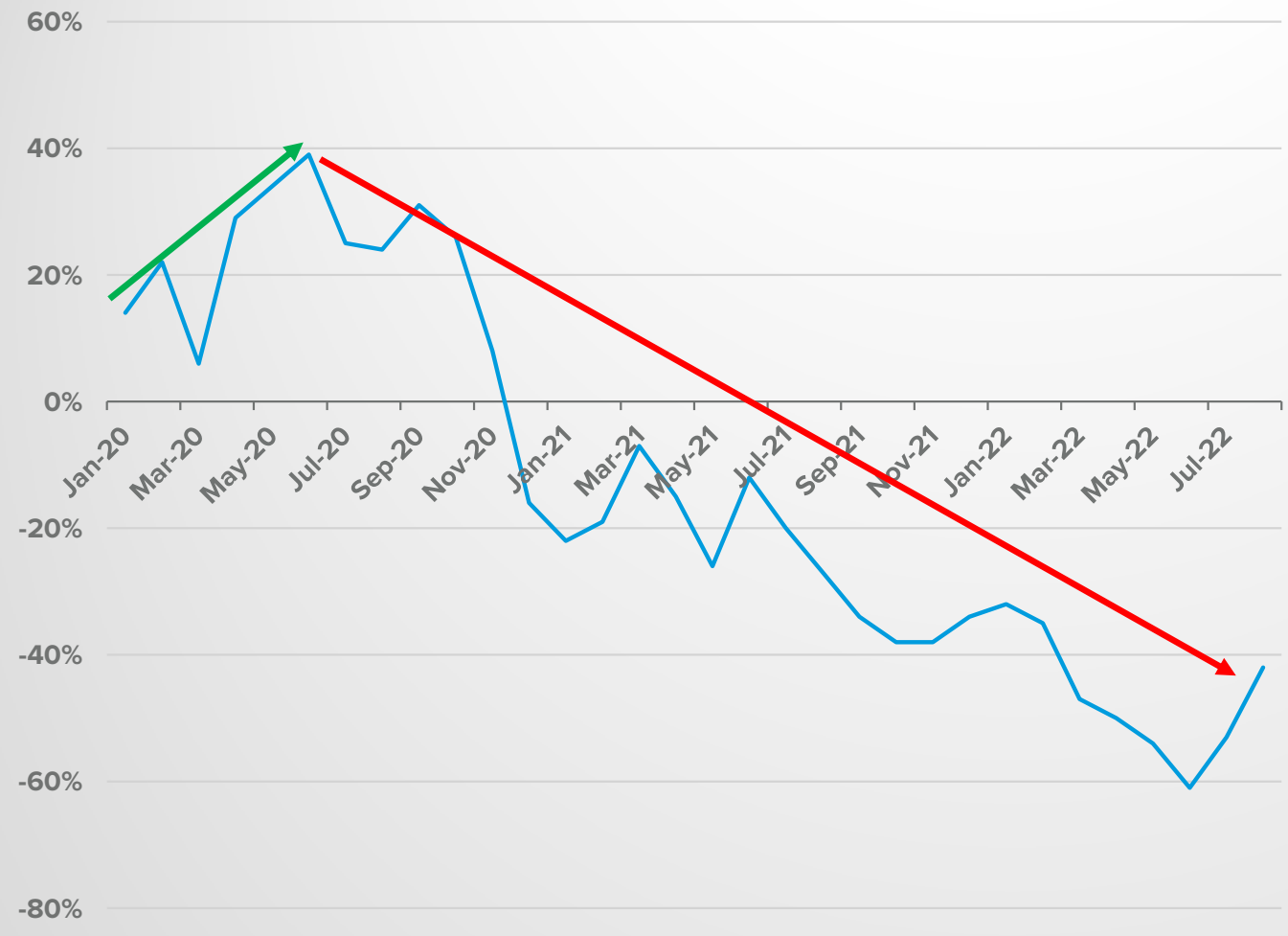
Net Share of Businesses Expecting the Economy to Improve (over next 6-Months)	-42%	-44%

Source:
NFIB
August 2022

SMALL BUSINESS OPTIMISM INDEX

WINDERMERE Economics

Net Share of Businesses Expecting the Economy to Improve



Inflation is Troubling Business Owners

And the Fed response has businesses concerned about the economic outlook

Source:
NFIB
August 2022

WILL THE ECONOMY IMPROVE OVER THE NEXT 6-MONTHS?

WINDERMERE Economics

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Source:
NFIB
August 2022

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NFIB
August 2022

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Net Share of Businesses Believing that Now is a Good Time to Expand	5%	5%

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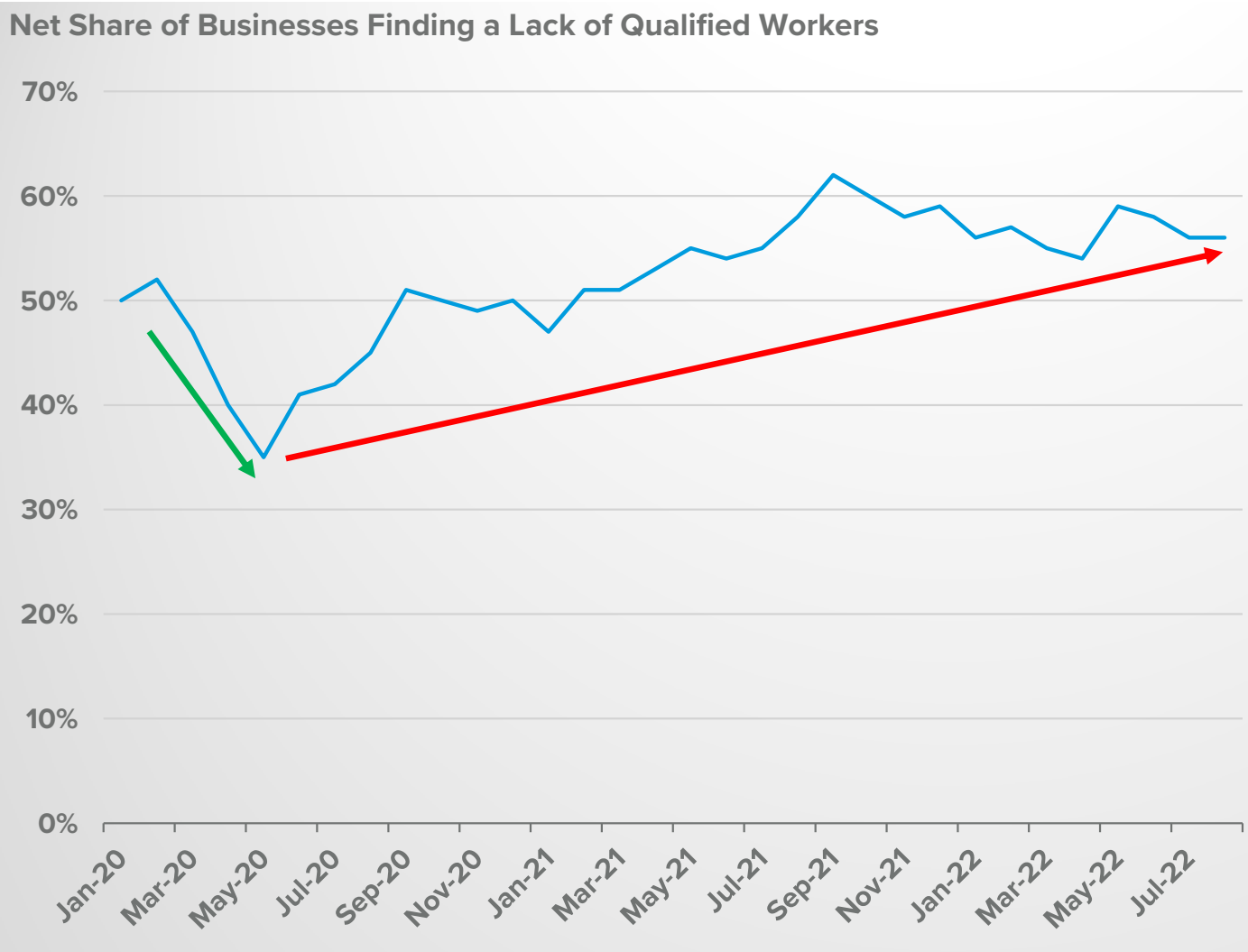
Lack of Qualified Applicants for Job Openings	56%	61%

Source:
NFIB
August 2022

SMALL BUSINESS OPTIMISM INDEX

WINDERMERE Economics



Current Job Openings are 20% Higher than Average

42% of businesses have openings for skilled workers, while 22% have openings for unskilled workers

Source:
NFIB
August 2022

CAN YOU FIND QUALIFIED WORKERS?

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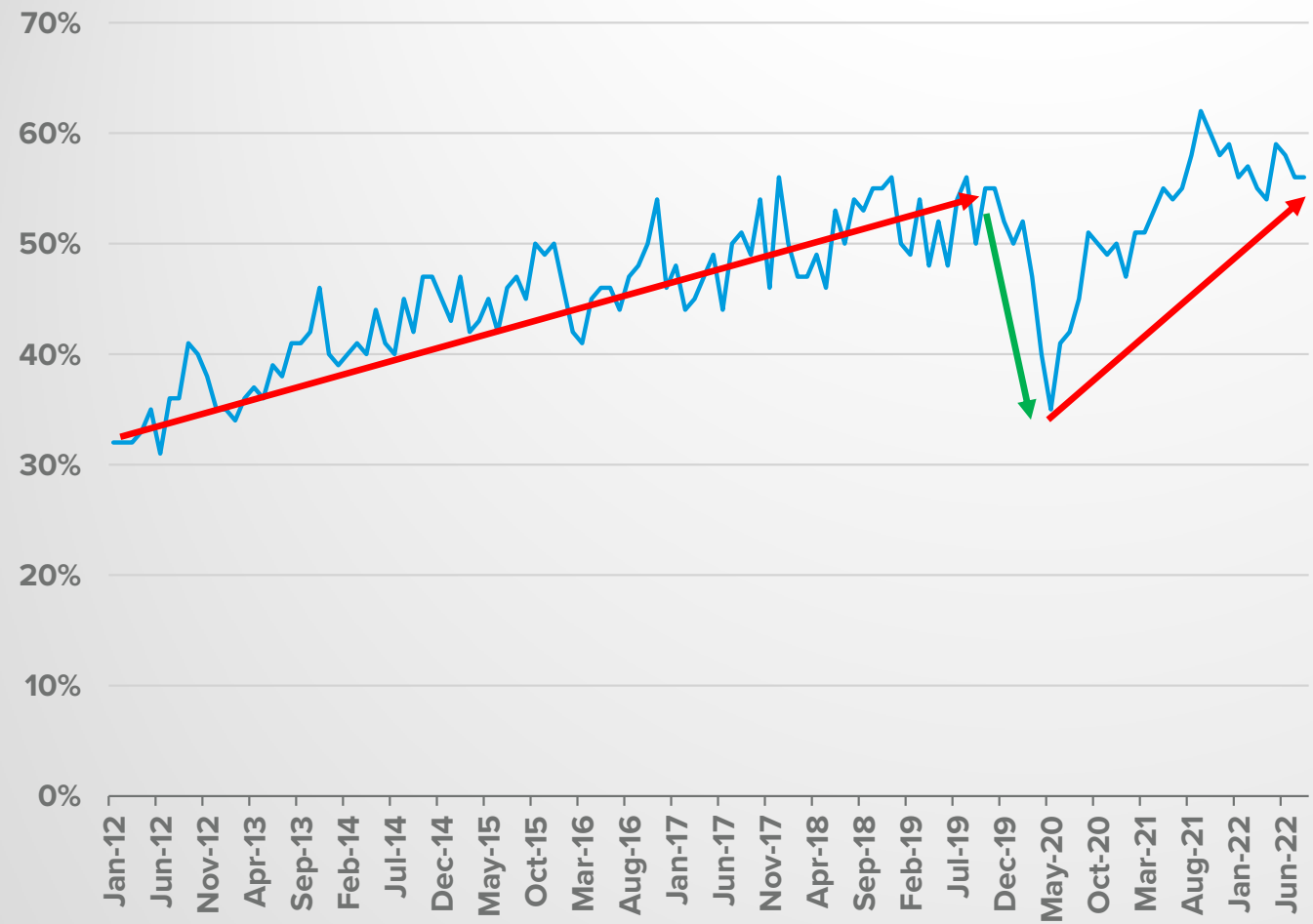
Net Share of Businesses Finding a Lack of Qualified Workers



Finding Workers is Increasingly Hard

& given demographic trends, this will be an issue going forward

Source:
NFIB
August 2022

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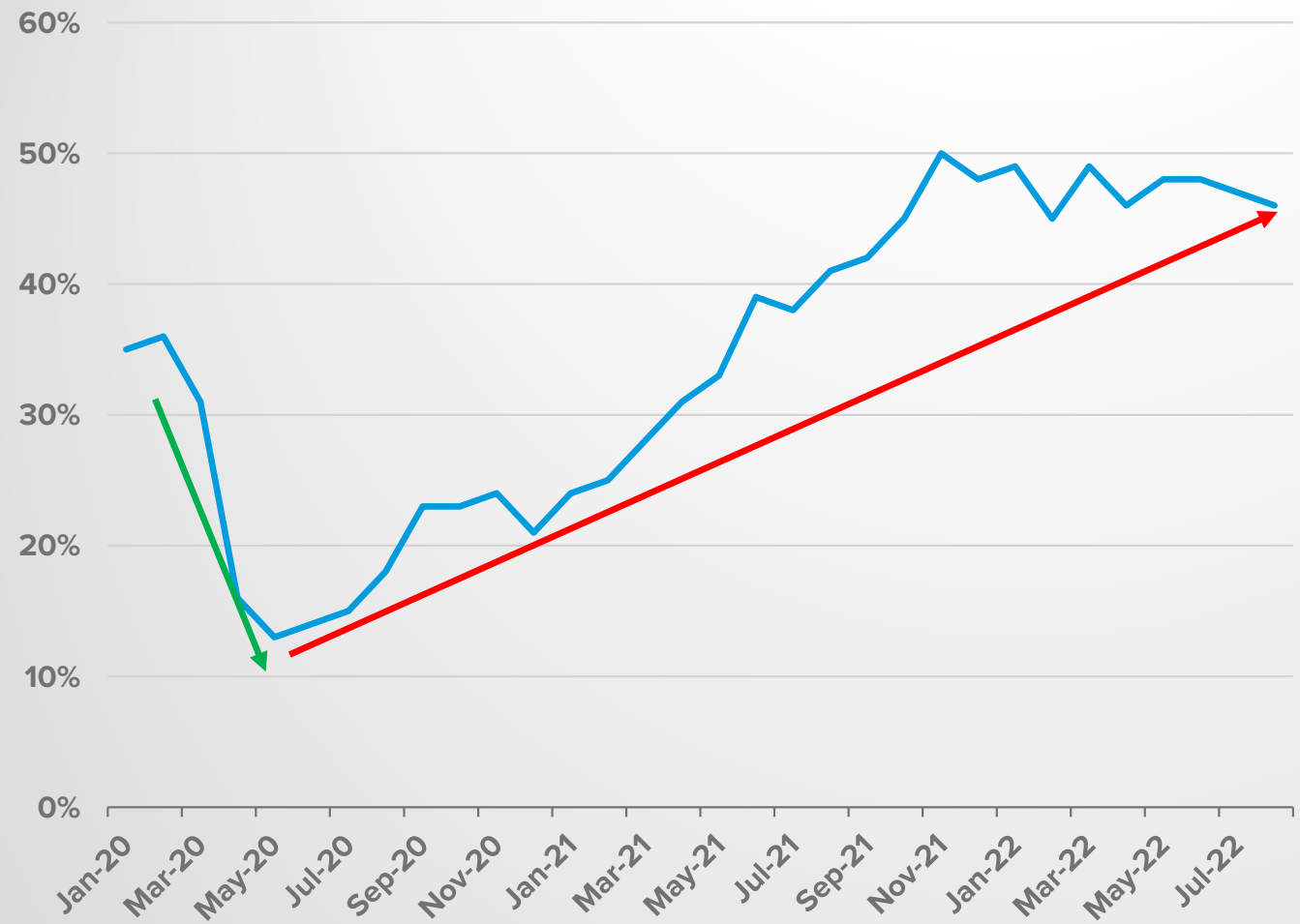
Net Share of Businesses Believing that Now is a Good Time to Expand	5%	5%
Lack of Qualified Applicants for Job Openings	56%	61%
Net Share of Businesses Who Have Raised Compensation (over last 3-months)	46%	44%

Source:
NFIB
August 2022

SMALL BUSINESS OPTIMISM INDEX

WINDERMERE Economics

Net Share of Businesses Who Have Raised Compensation



Businesses Raise Pay to Attract Workers

& 23% plan to raise wages in the next 3-months

Source:
NFIB
August 2022

HAVE YOU RAISED WAGES?

WINDERMERE Economics

Seattle Metro Area Labor Market

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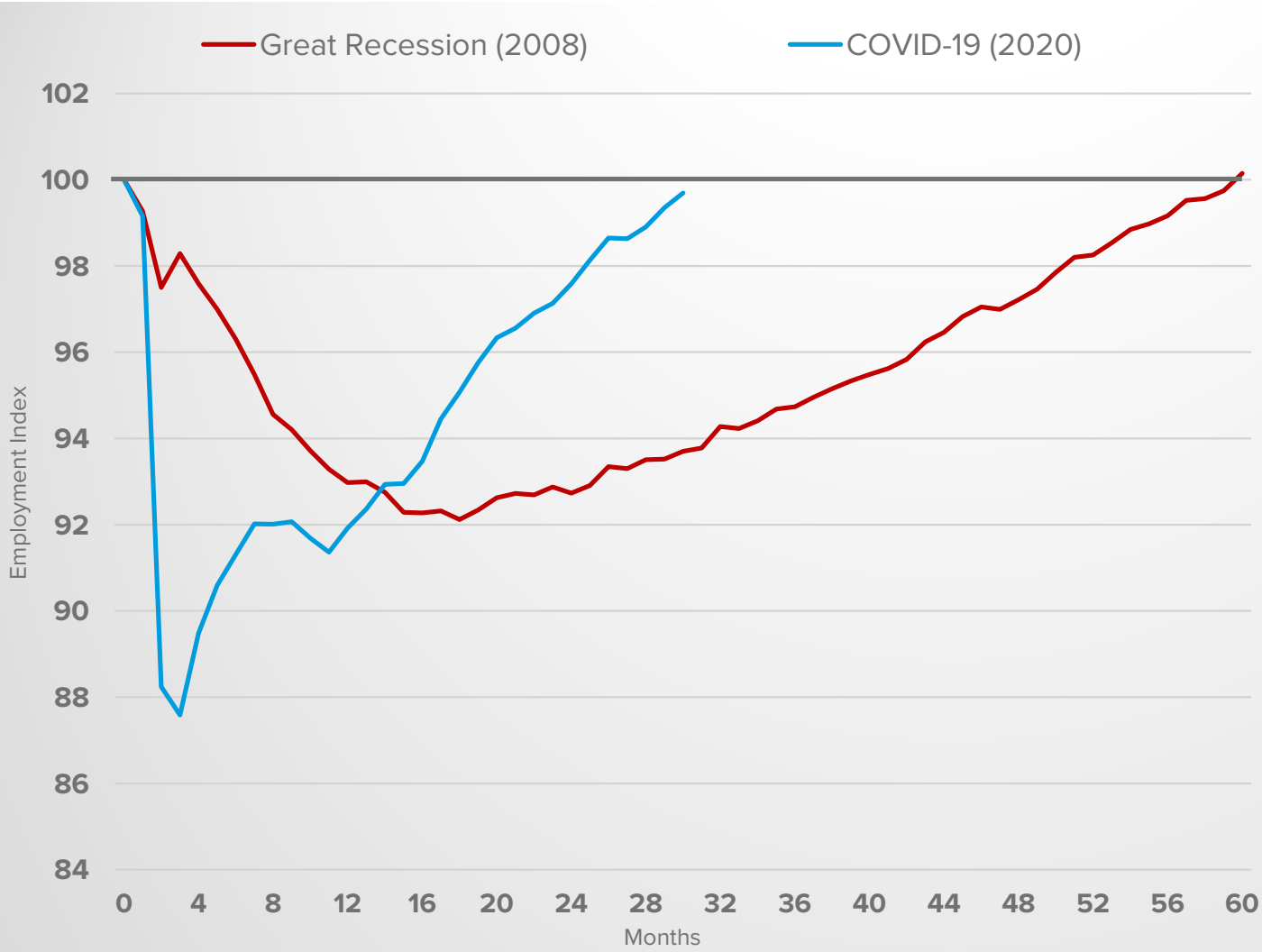
Economics



A Job Recovery Far Faster than the "Great Recession"

the Seattle metro area is down by just 5,500 jobs from the pre-pandemic peak

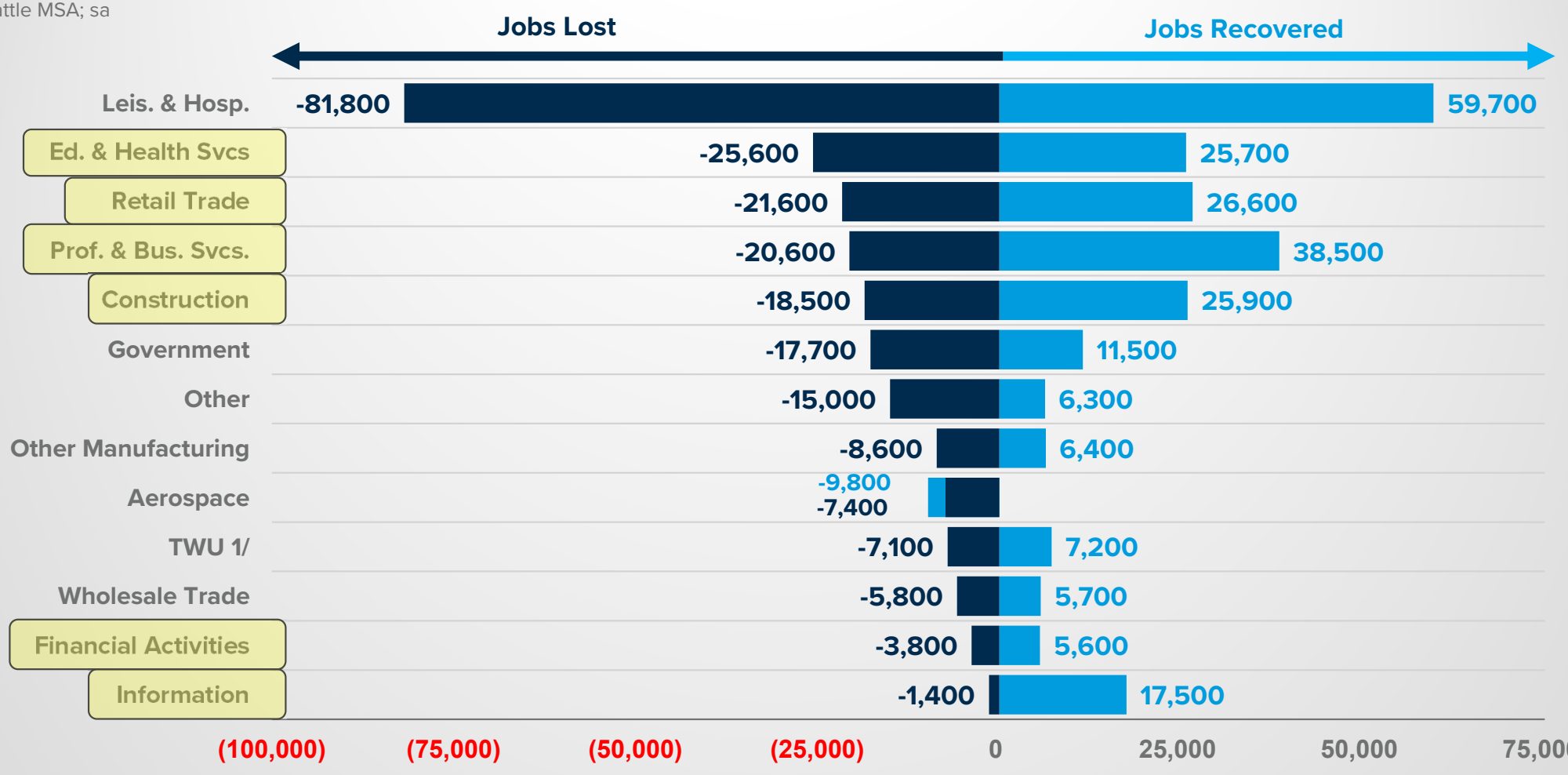
Source: WA ESD

CHANGE IN NON-AG EMPLOYMENT

WINDERMERE Economics

Job Losses/Gains by Industry Sector

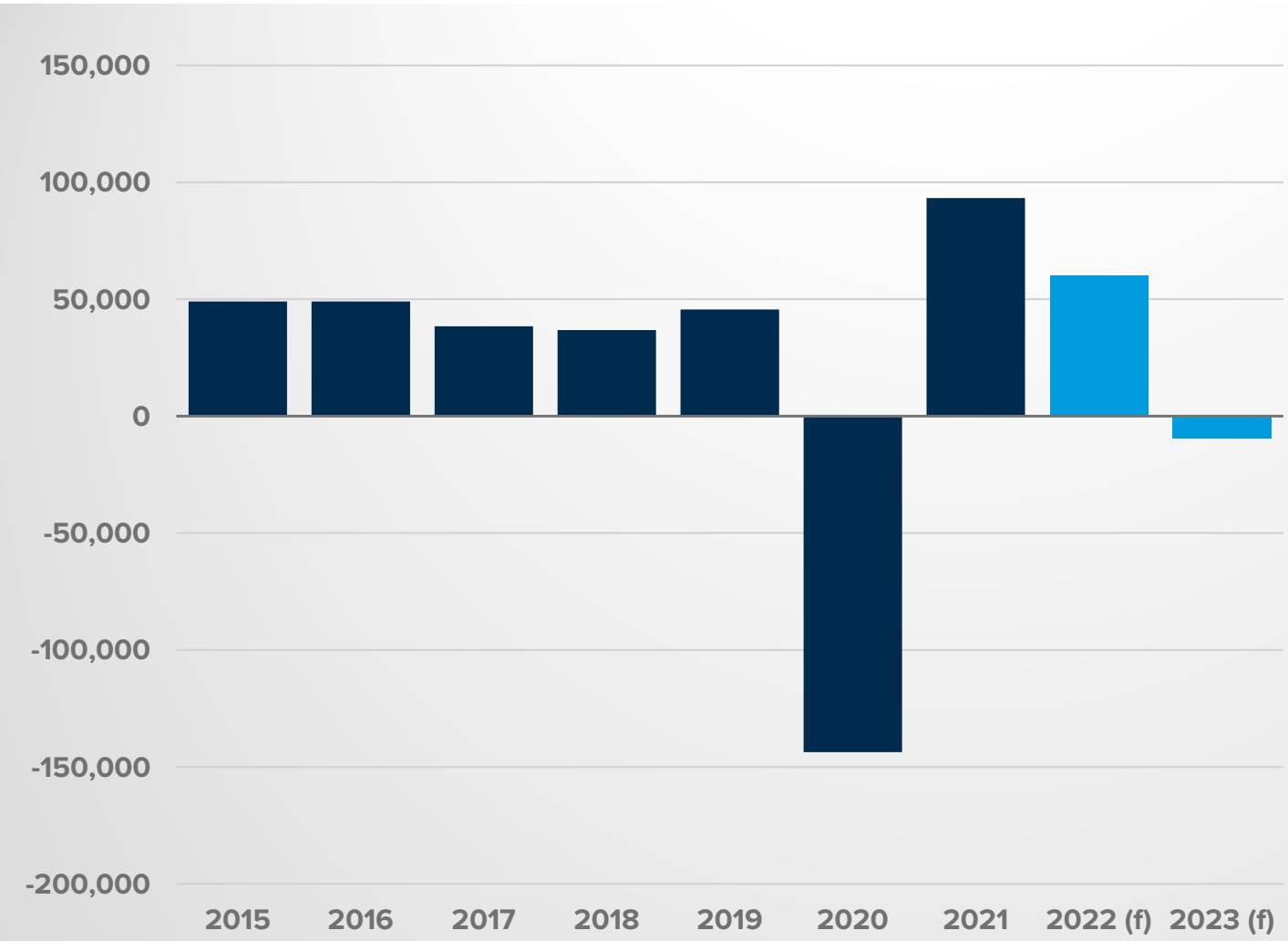
Seattle MSA; sa



Source: WA ESD
1/ Transportation, Warehousing & Utilities
Data thru' 8/22

SEVERAL SECTORS FULLY RECOVERED

WINDERMERE Economics



Employment Turns Negative in 2023

My current expectations are for a modest contraction in employment due to the pending recession

Source: Washington State ESD w/Windermere Economics' Forecasts; annual average change

SEATTLE MSA EMPLOYMENT FORECAST

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Unemployment

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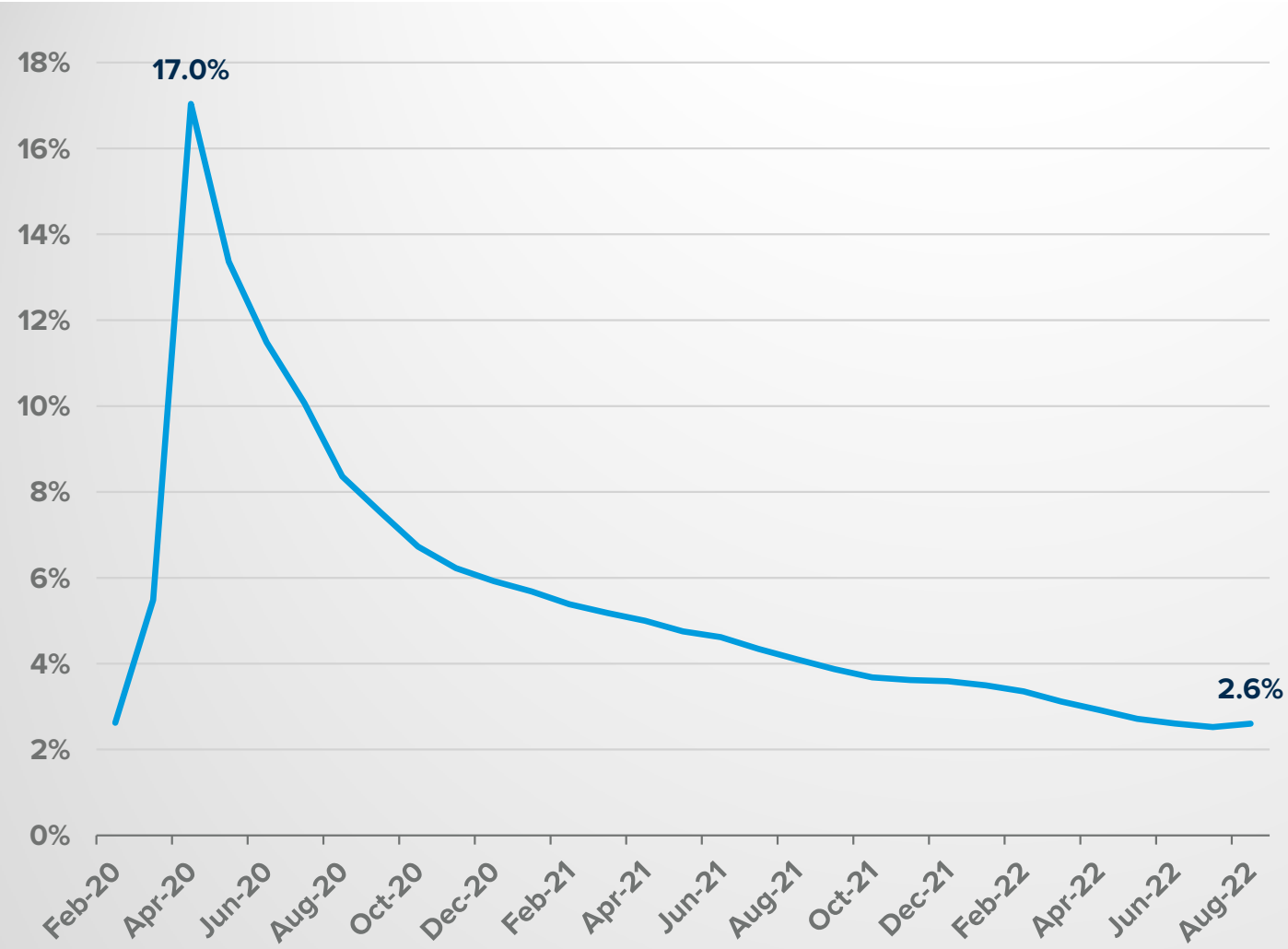
Economics



The Jobless Level is Marginally above an All-time Low

& this is important because given the tightness of the labor market, if we do see a recession, I do not expect to see the jobless rate rise above 4.5%

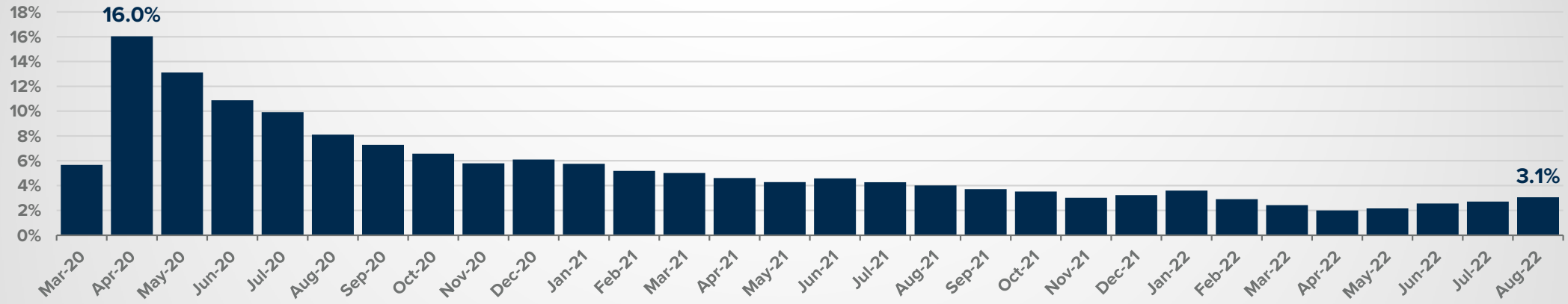
Source: WA ESD

MSA Unemployment Rate

WINDERMERE Economics

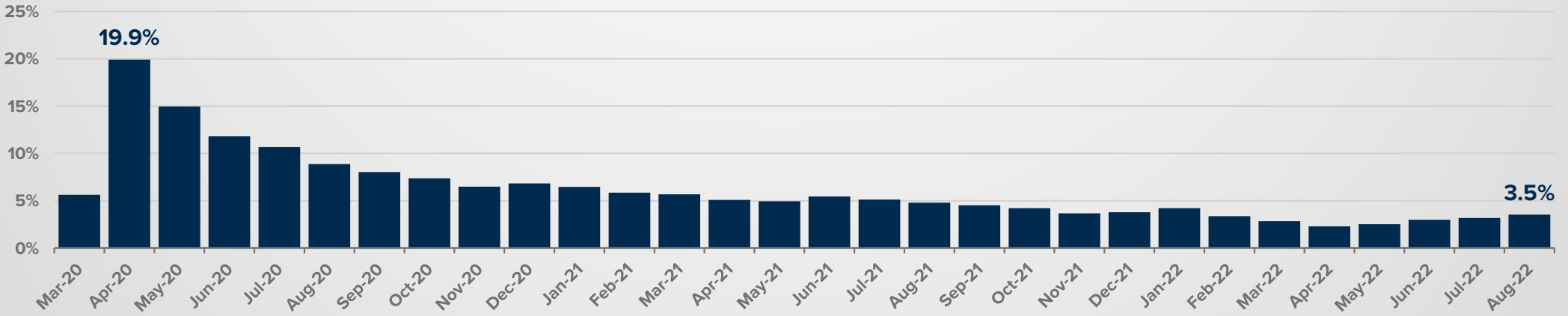
Unemployment Rates

King County; sa



Unemployment Rates

Snohomish County; sa



Source: WA ESD w/Windermere Economics' seasonal adjustments

County Unemployment Rates

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WOODINVILLE/BOTHELL DEMOGRAPHIC MAKEUP

(ZIP CODES 98011; 98012; 98028; 98072; & 98077)

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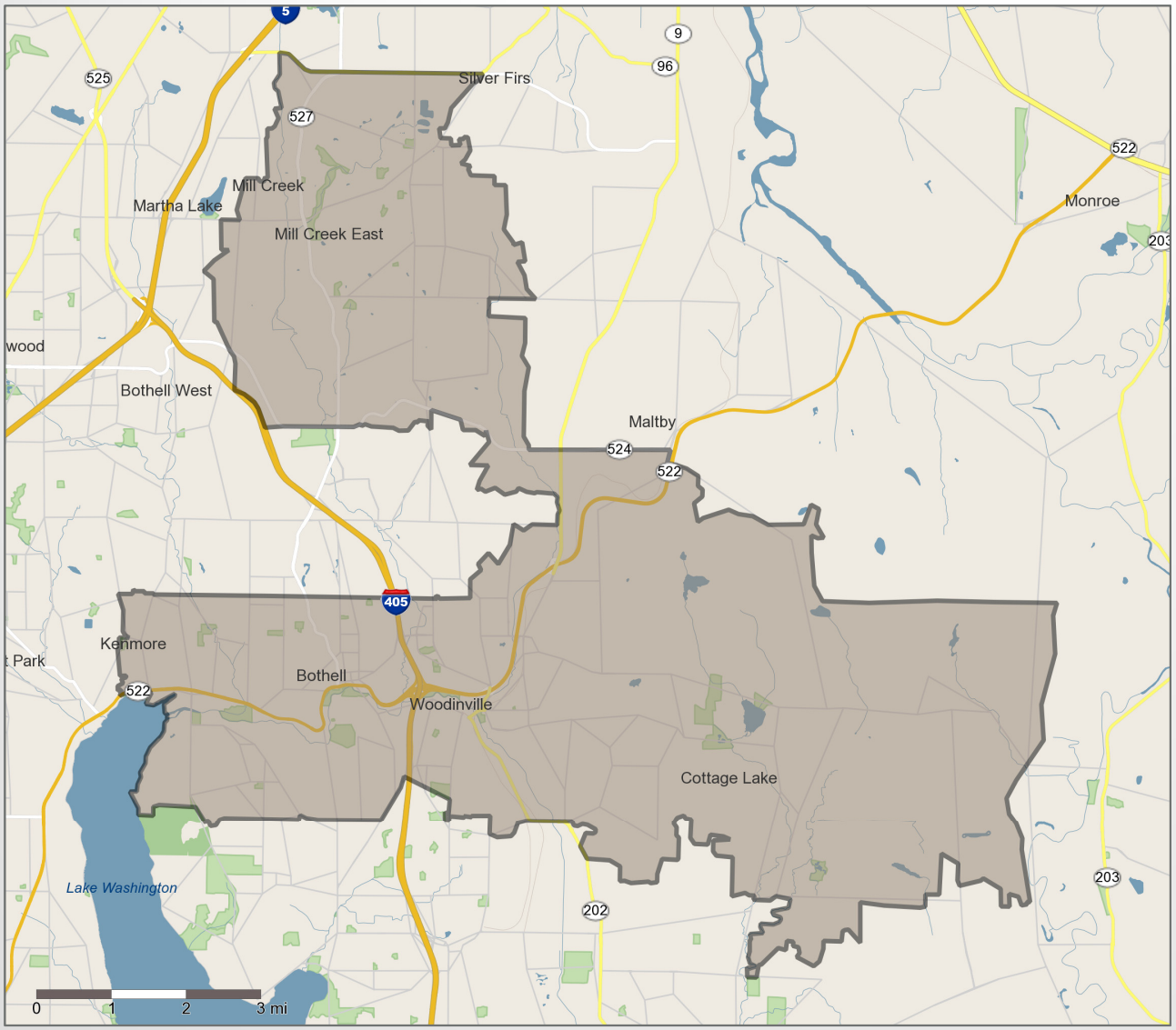

MARKET AREA

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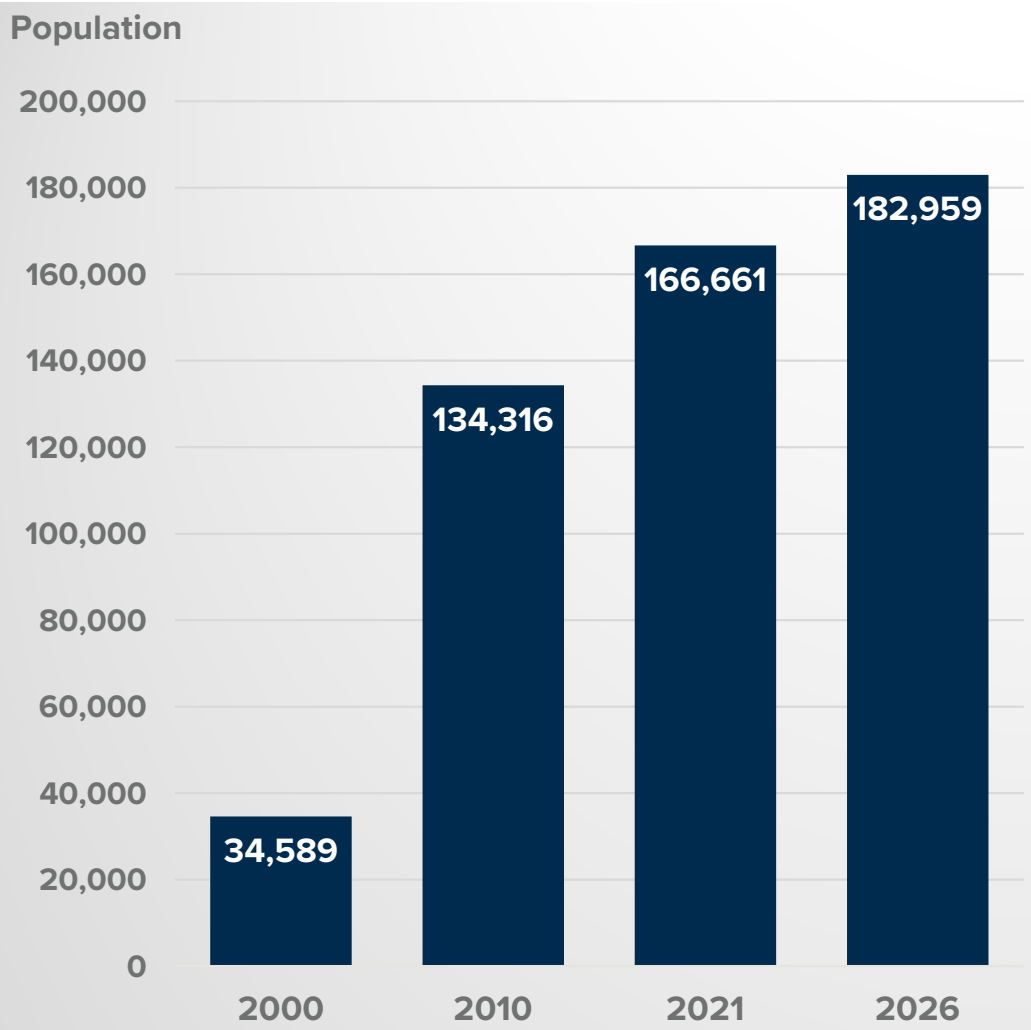
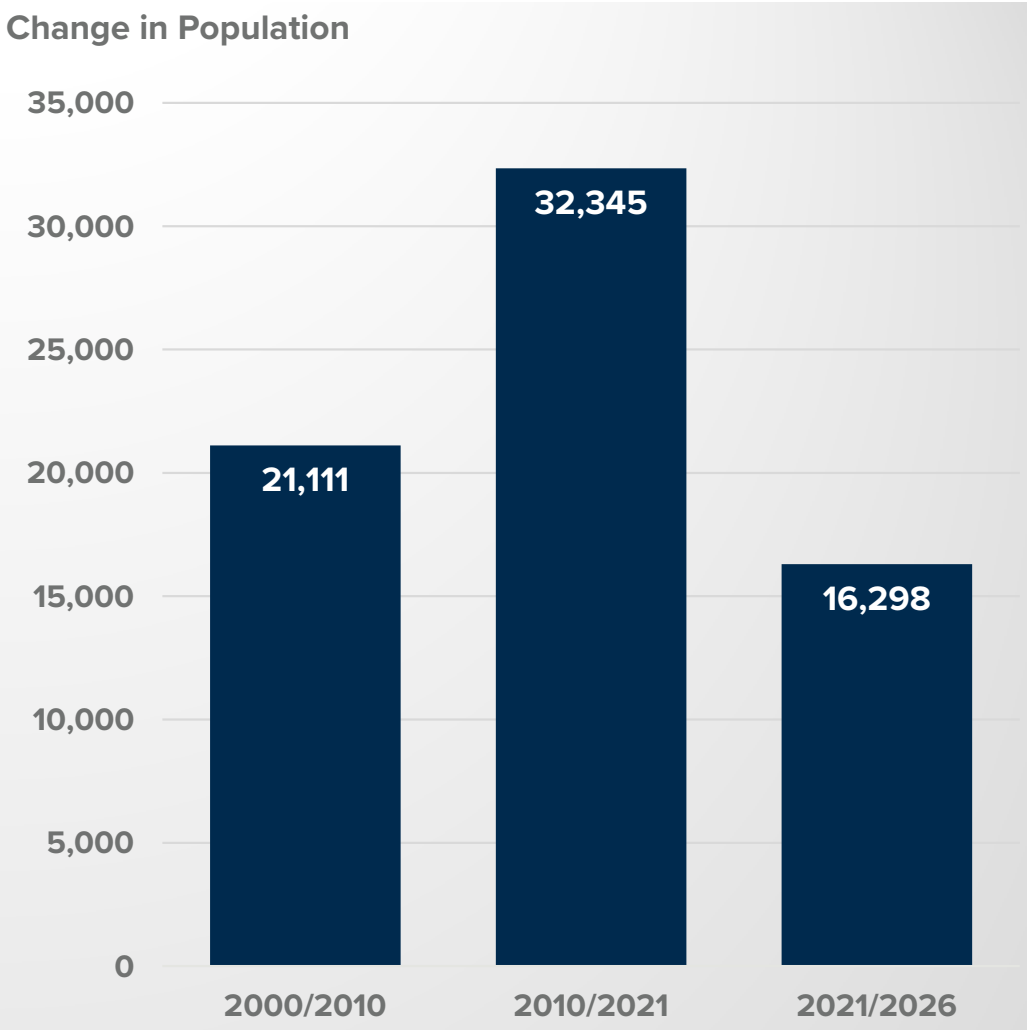
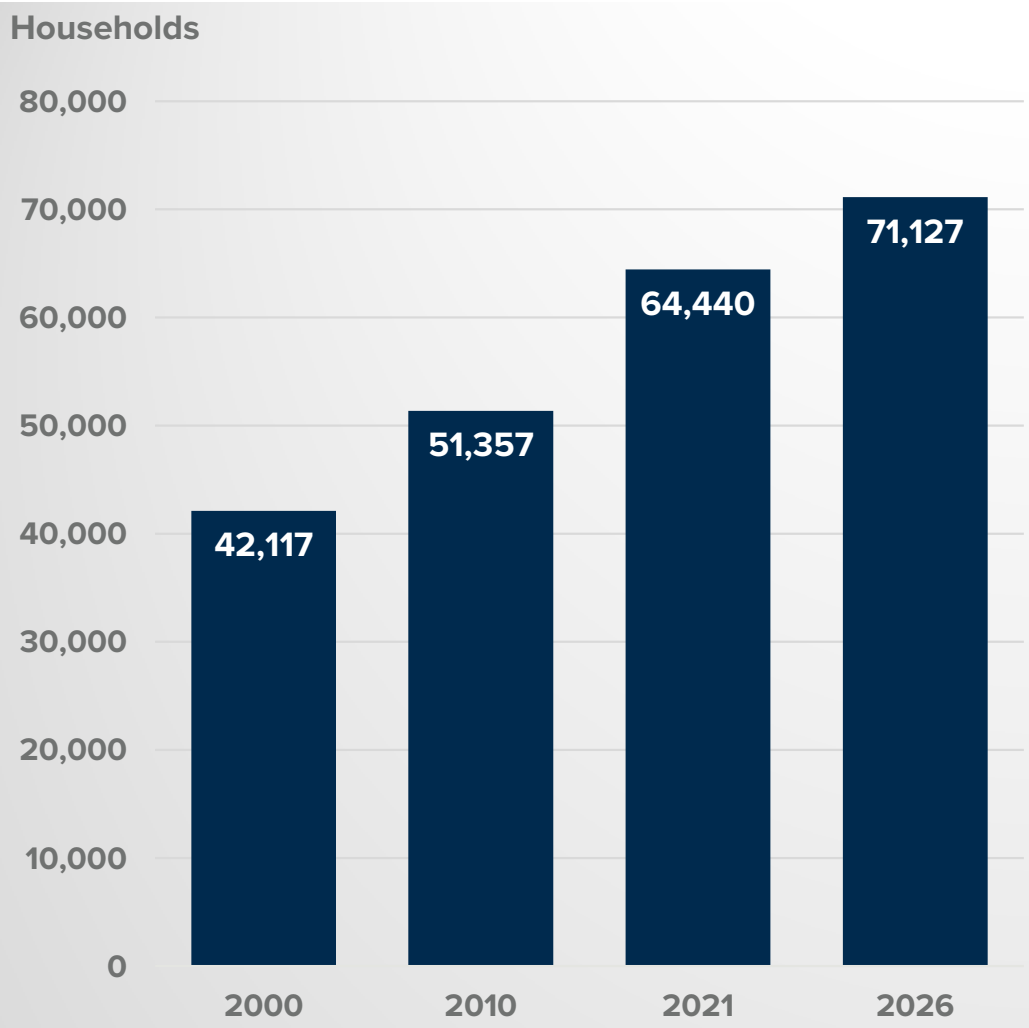


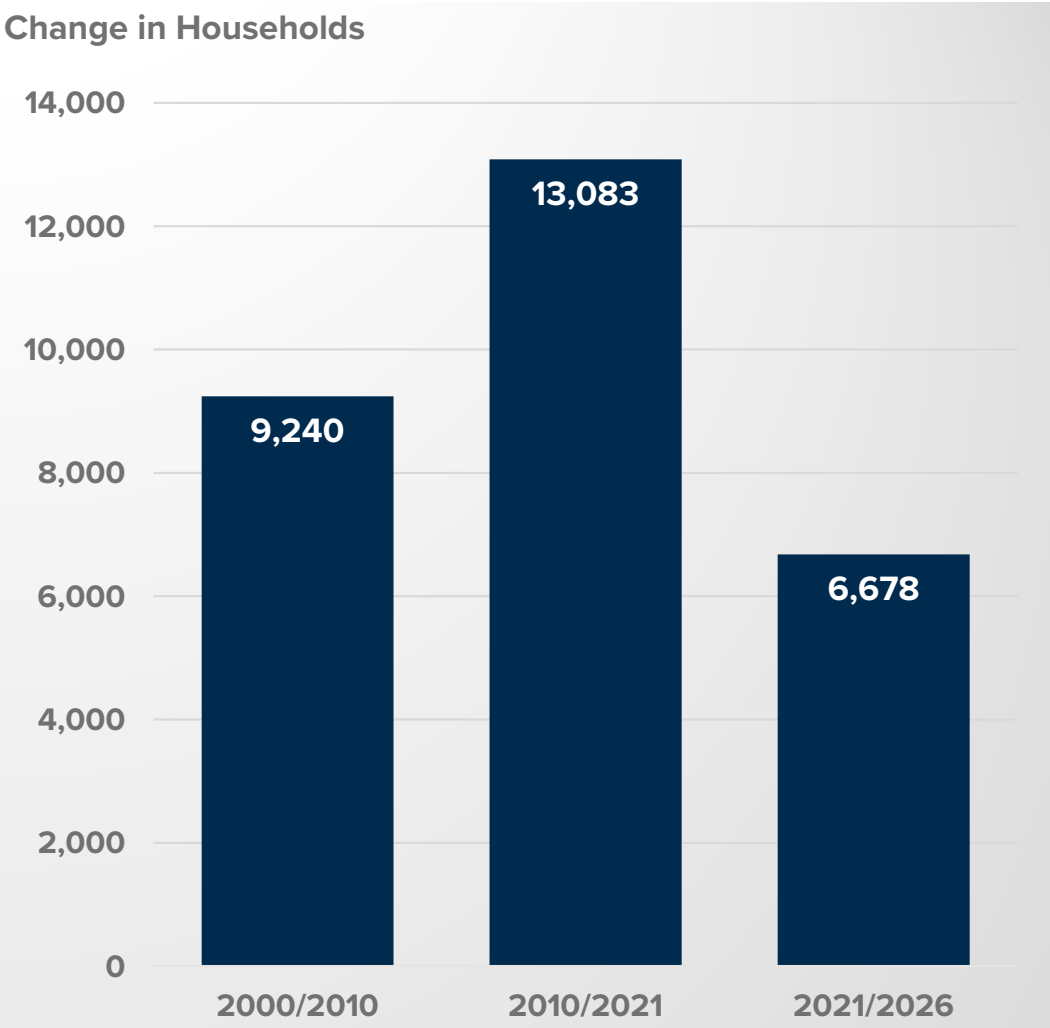


Source:
WA OFM

Population Trends

WINDERMERE Economics





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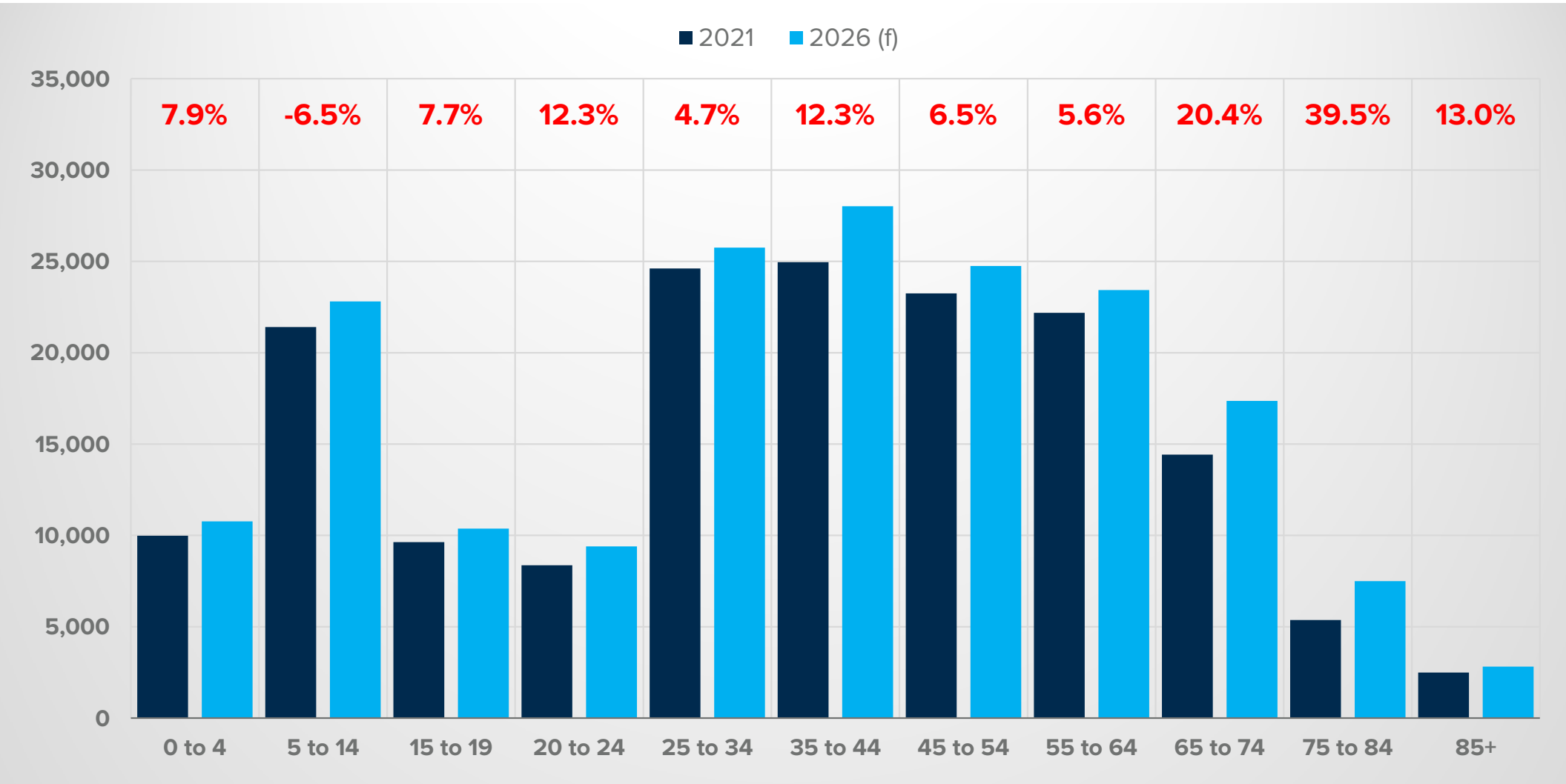
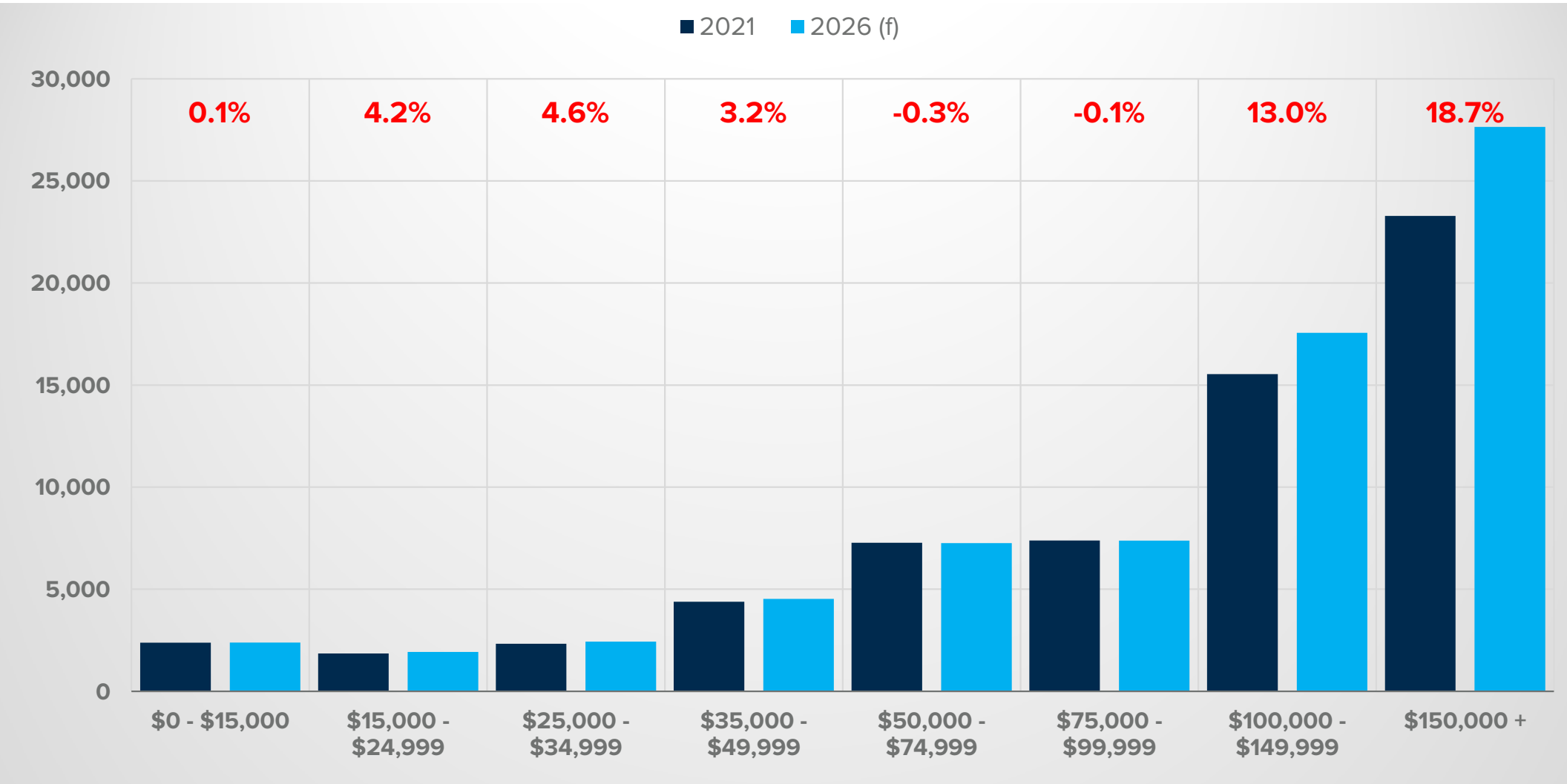
WINDERMERE Economics



Source: Windermere Economics' forecasts of Census Bureau baseline data

Population by Age

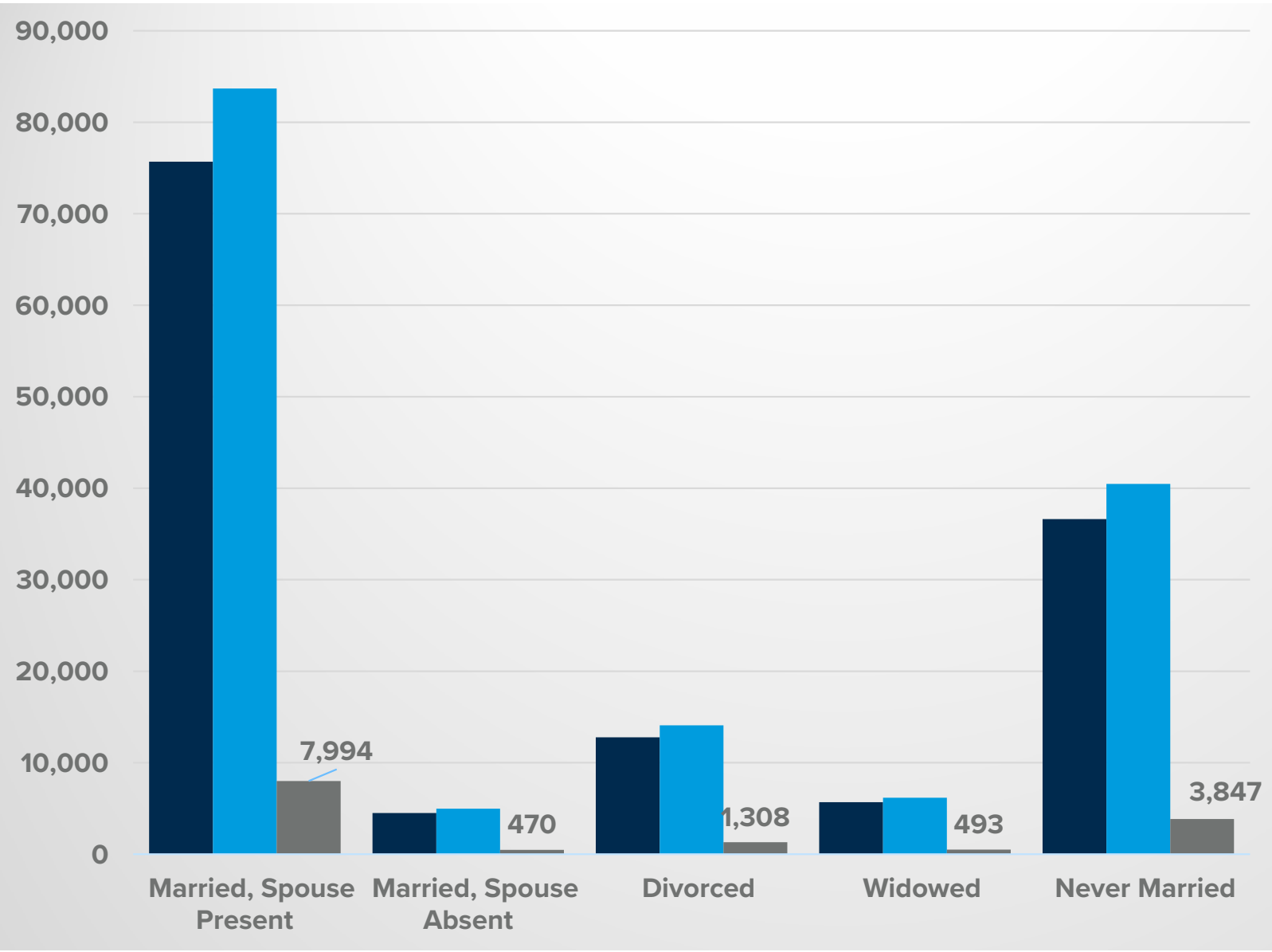
WINDERMERE Economics



Source: Windermere Economics' forecasts of Census Bureau baseline data

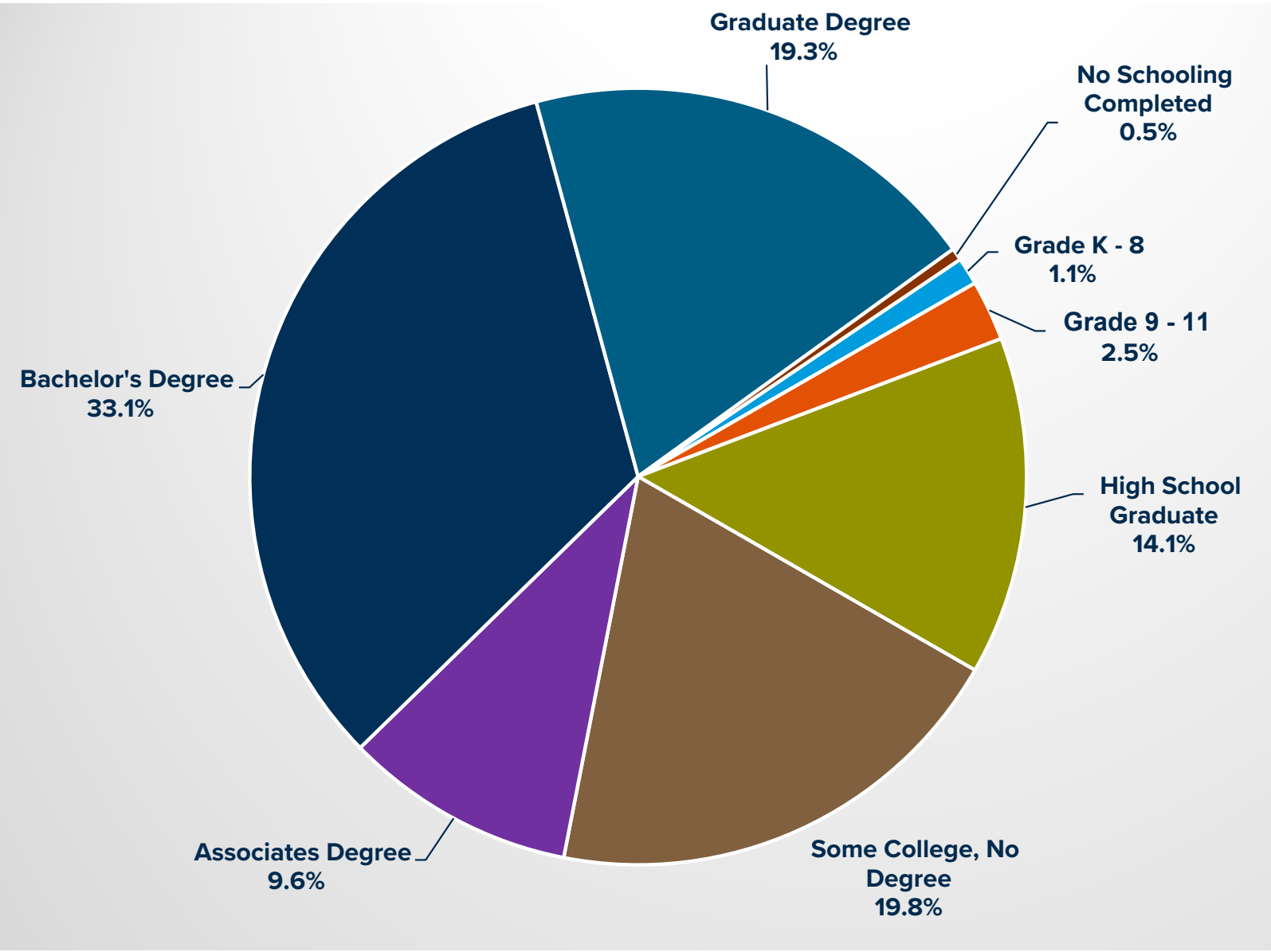
Households by Income

WINDERMERE Economics



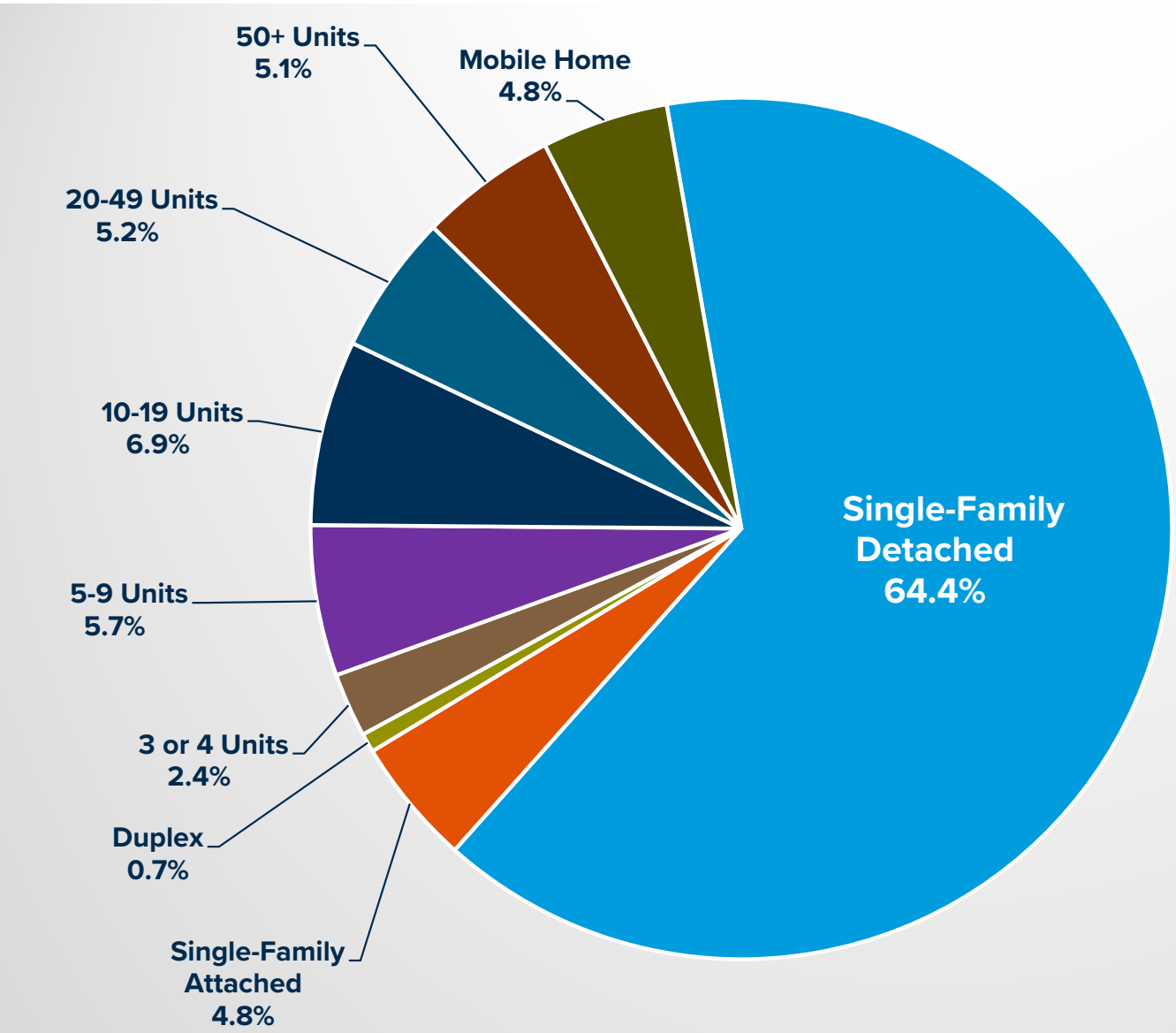
Marital Status

WINDERMERE Economics



Educational Attainment (2021)

WINDERMERE Economics



Housing
(2021)

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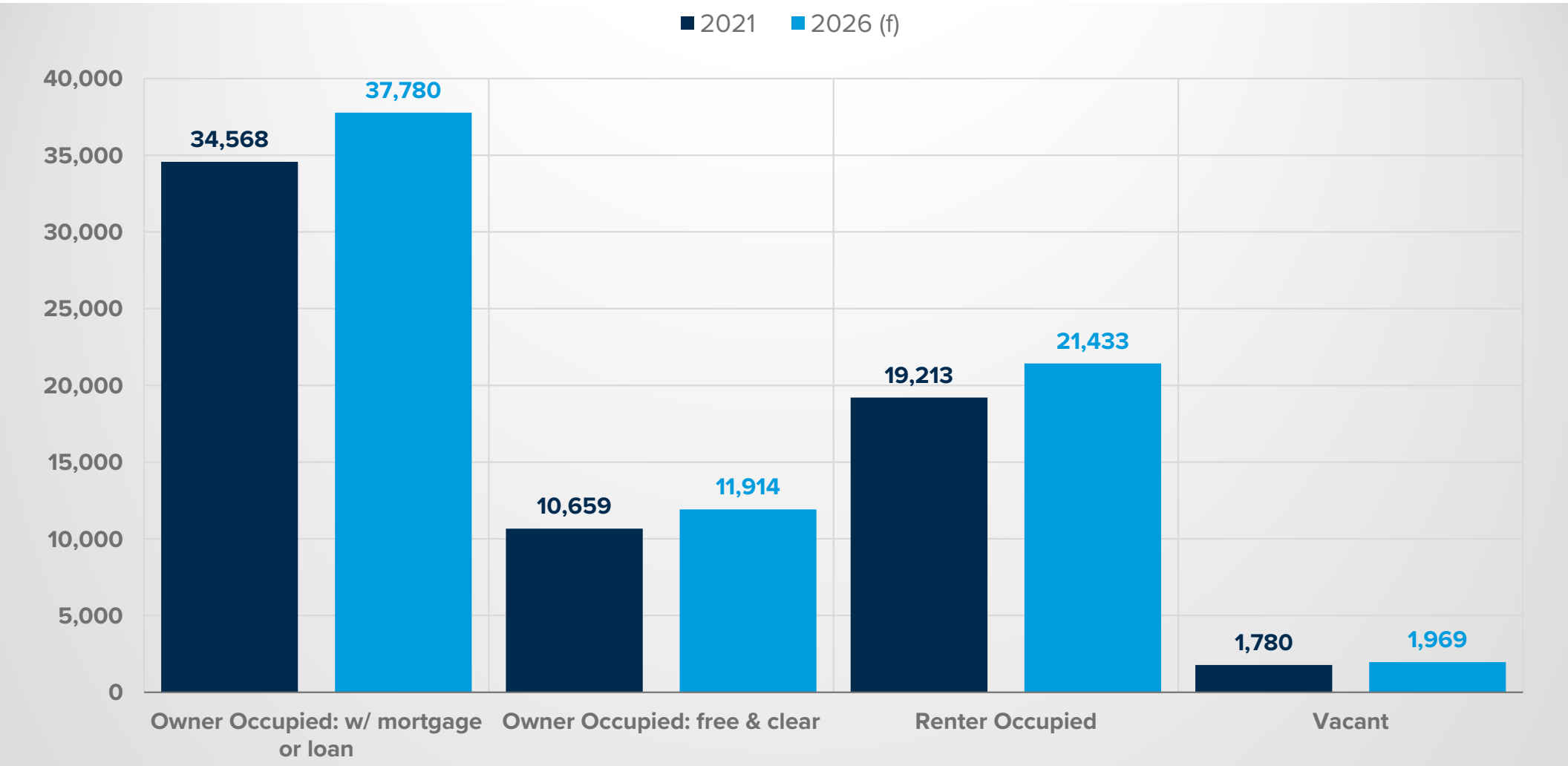

Source: Windermere Economics' forecasts of Census Bureau baseline data

OWNERSHIP TENURE

WINDERMERE Economics

OWNER HOUSEHOLDS

45,227

Current Owner Households in the Area

9.9%

Projected Growth over the Next 5-Years

4,467

Additional Owner Households to be Formed

Source: Census Bureau Base w/Windermere Economics' forecast

DEMAND FOR NEW OWNERSHIP HOUSING

WINDERMERE Economics

RENTER HOUSEHOLDS

19,213

Current Renter Households in the Area

11.6%

Projected Growth over the Next 5-Years

21,433

Additional Owner Households to be Formed

Source: Census Bureau Base w/Windermere Economics' forecast

DEMAND FOR NEW RENTAL HOUSING

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LOCAL BUSINESS DYNAMICS

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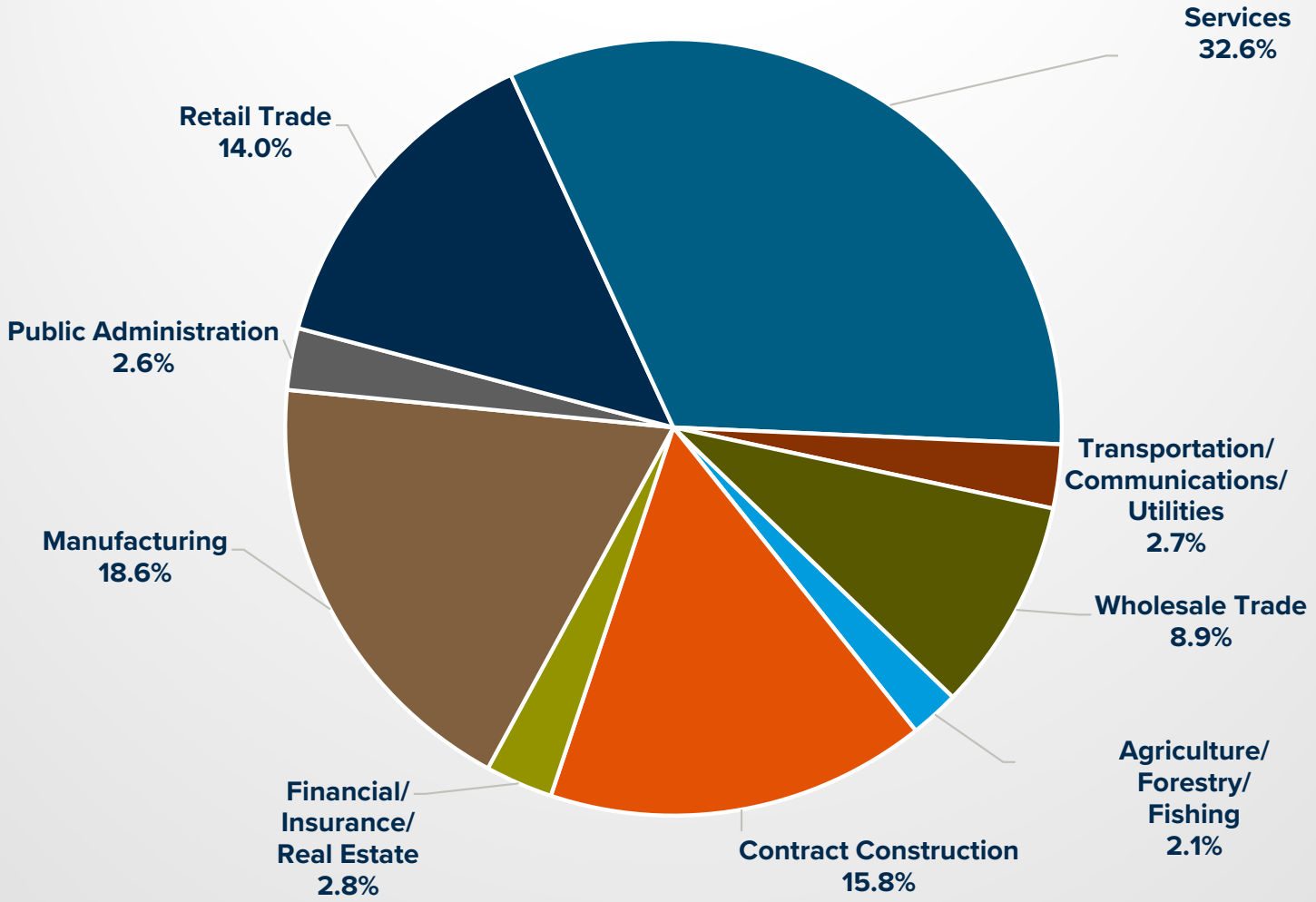
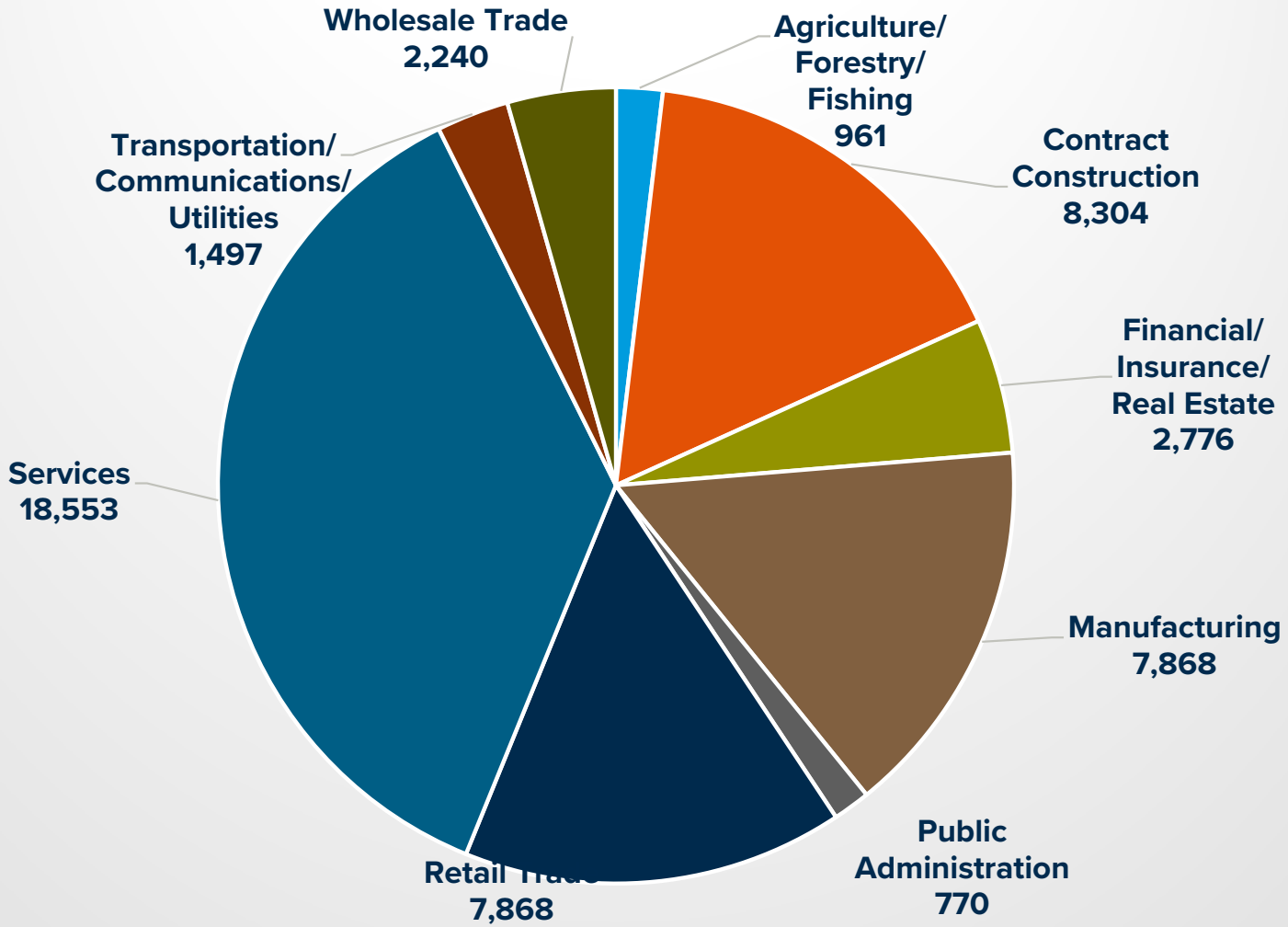


Source: Windermere Economics' forecasts of Census Bureau baseline data

LARGE BUSINESS MAKEUP

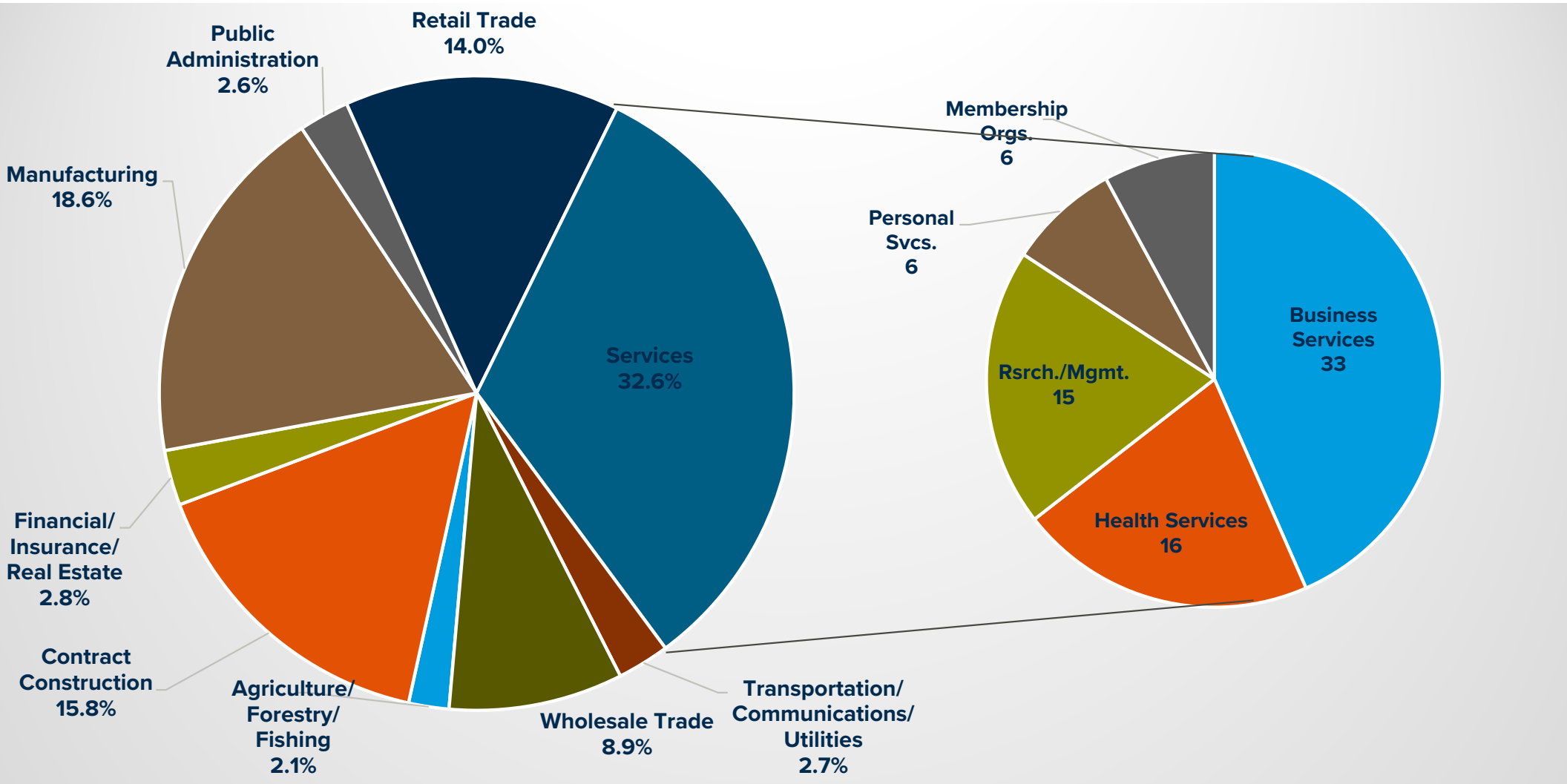
WINDERMERE Economics



Source: Windermere Economics' forecasts of Census Bureau baseline data

LARGE BUS. EMPLOYEE COUNT

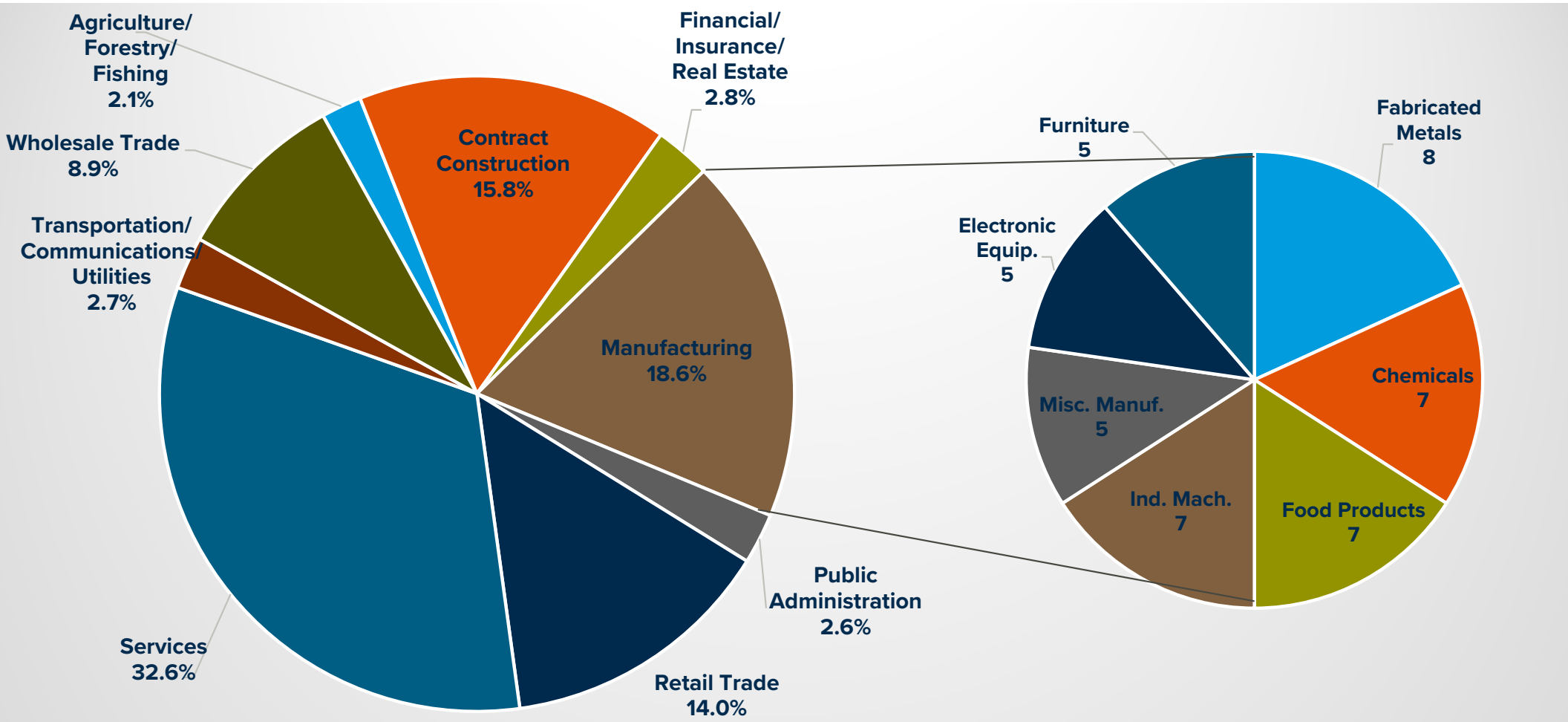
WINDERMERE Economics



Source: Windermere Economics' forecasts of Census Bureau baseline data

SERVICE BUSINESSES

WINDERMERE Economics



Source: Windermere Economics' forecasts of Census Bureau baseline data

MANUFACTURING BUSINESSES

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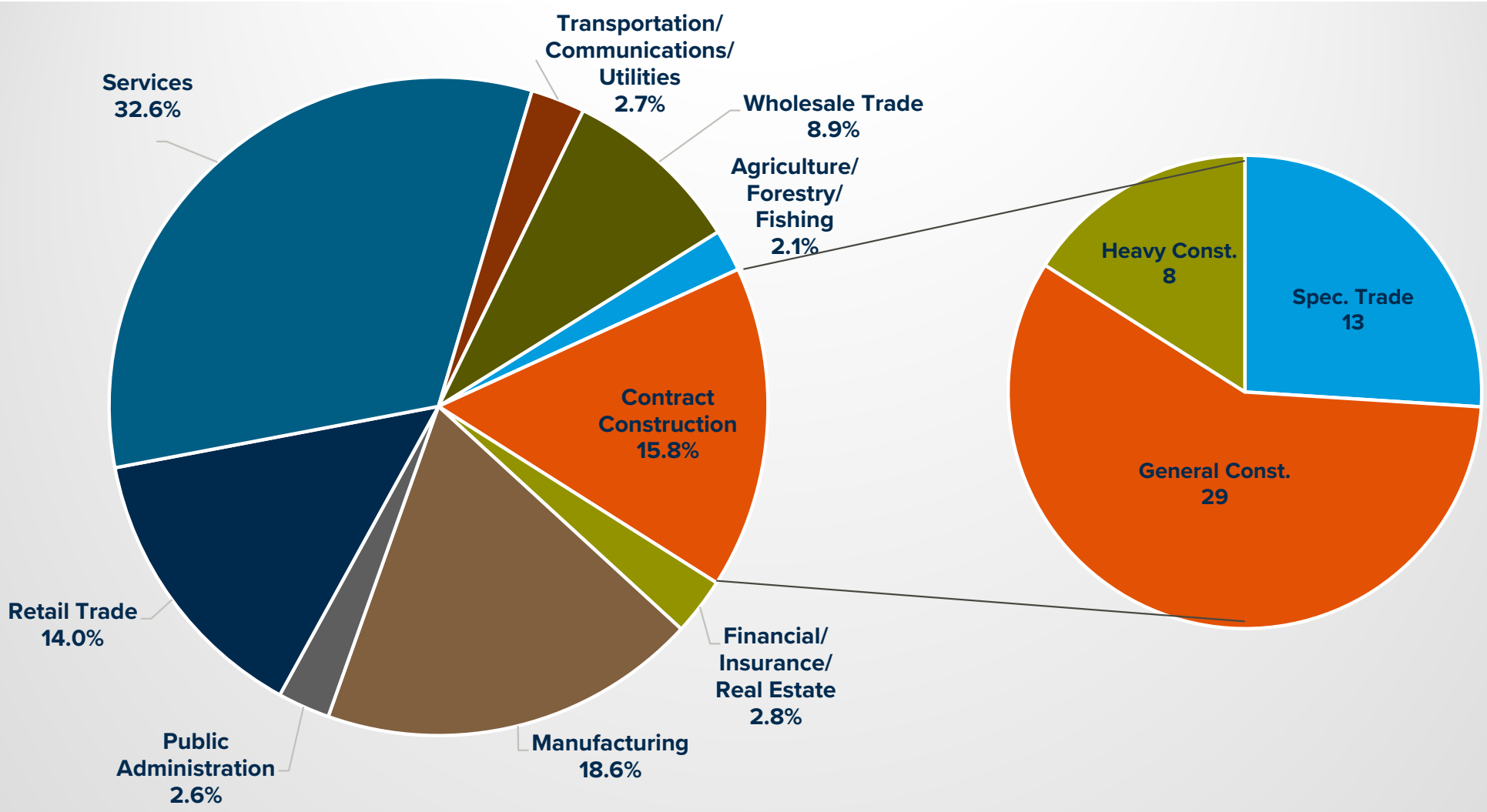
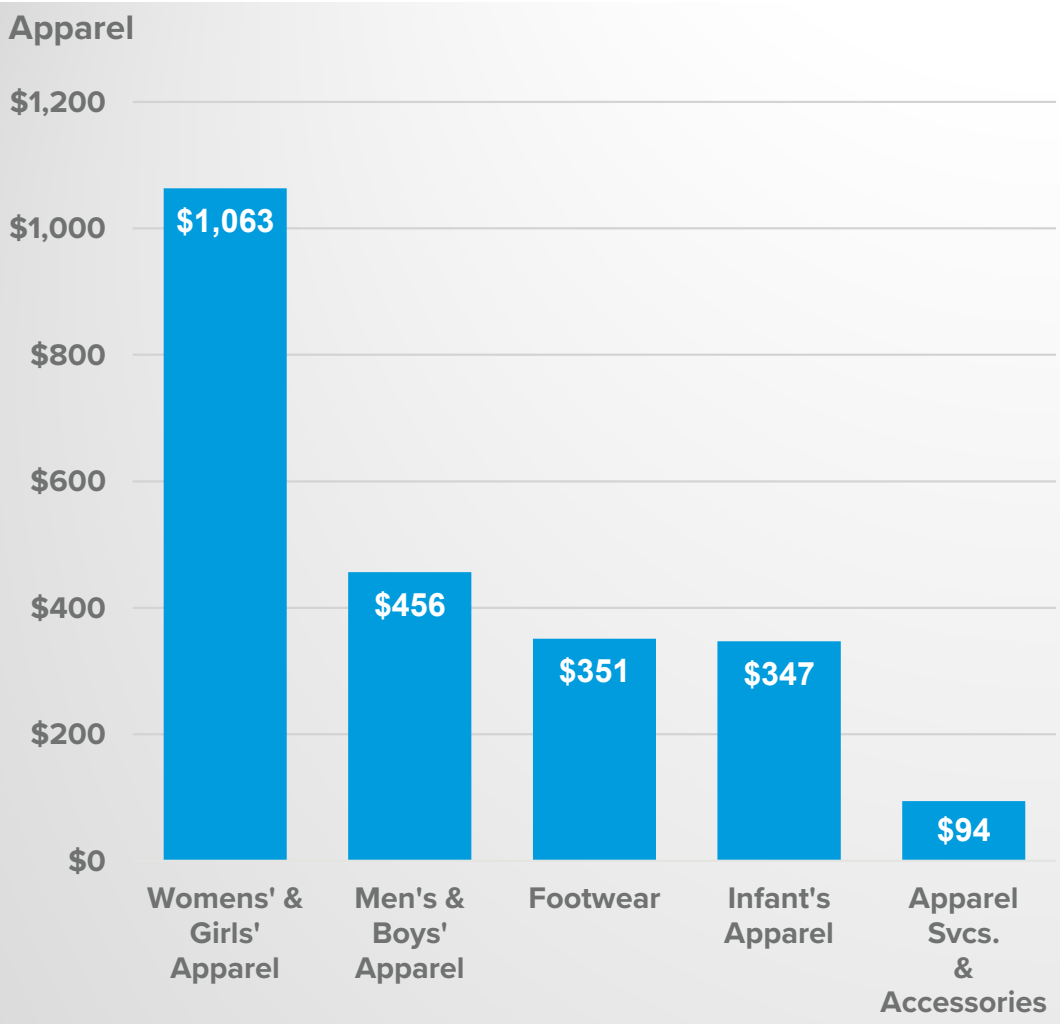
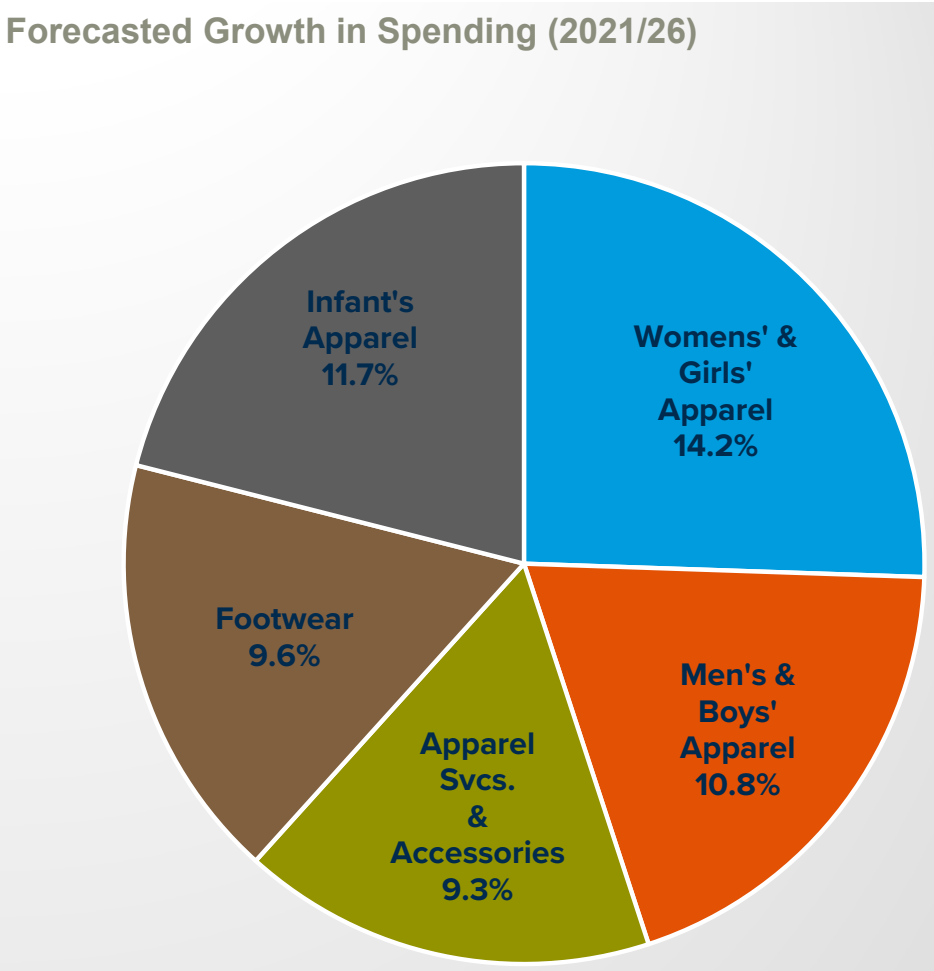


Source: Windermere Economics' forecasts of Census Bureau baseline data

CONSTRUCTION BUSINESSES

WINDERMERE Economics





Source: Windermere Economics' forecasts of Census Bureau baseline data

CONSUMER EXPENDITURES – APPAREL

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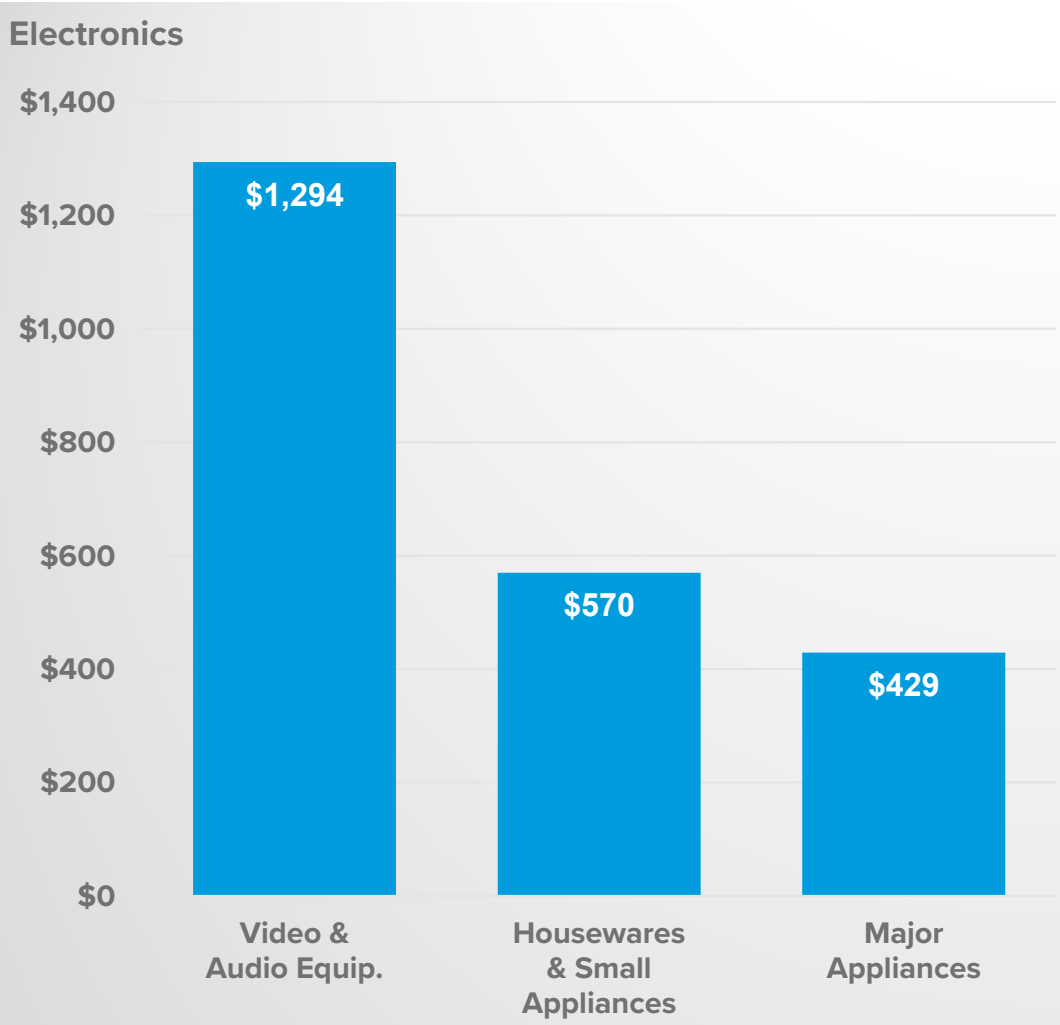

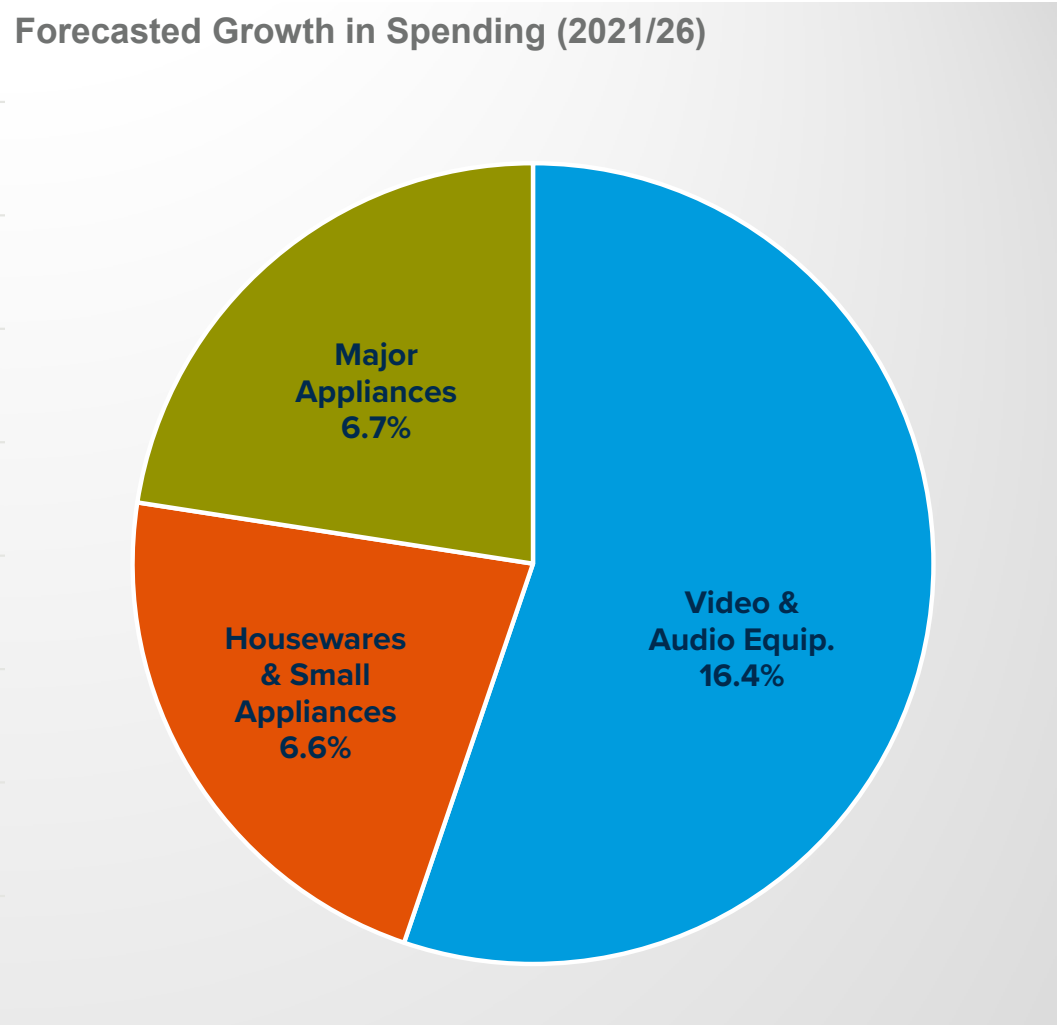

Source: Windermere Economics' forecasts of Census Bureau baseline data

CONSUMER EXPENDITURES - ELECTRONICS

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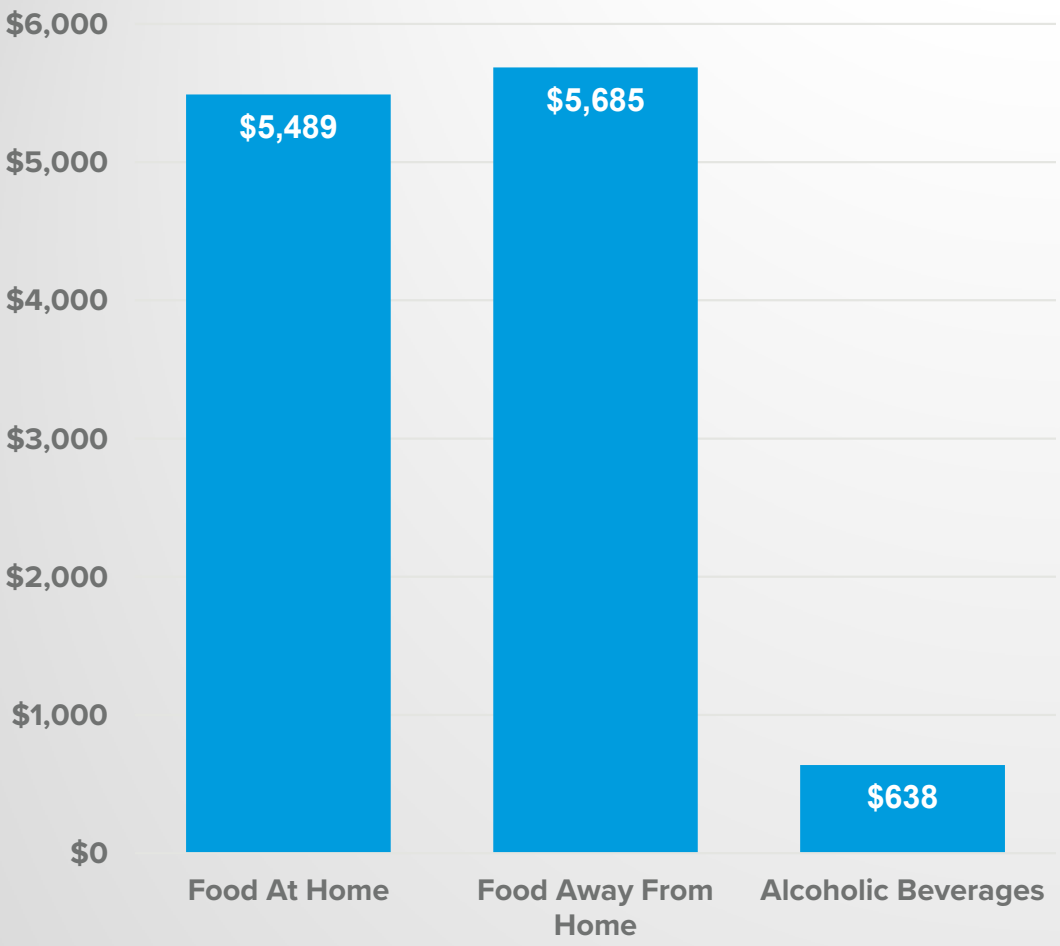
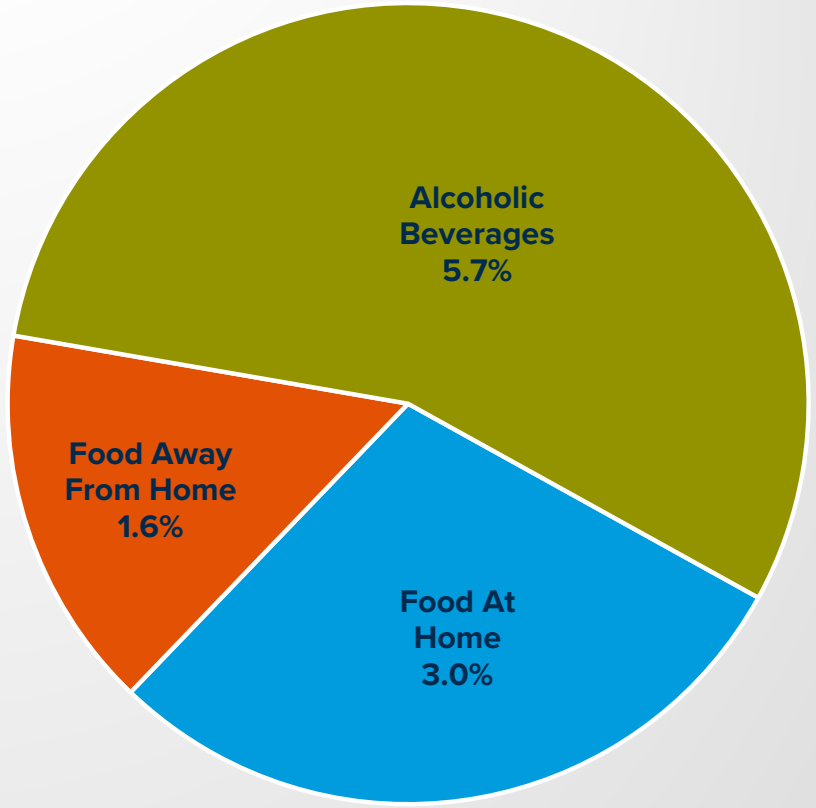
Food & Beverage



Forecasted Growth in Spending (2021/26)



Source: Windermere Economics' forecasts of Census Bureau baseline data

CONSUMER EXPENDITURES – FOOD & BEV.

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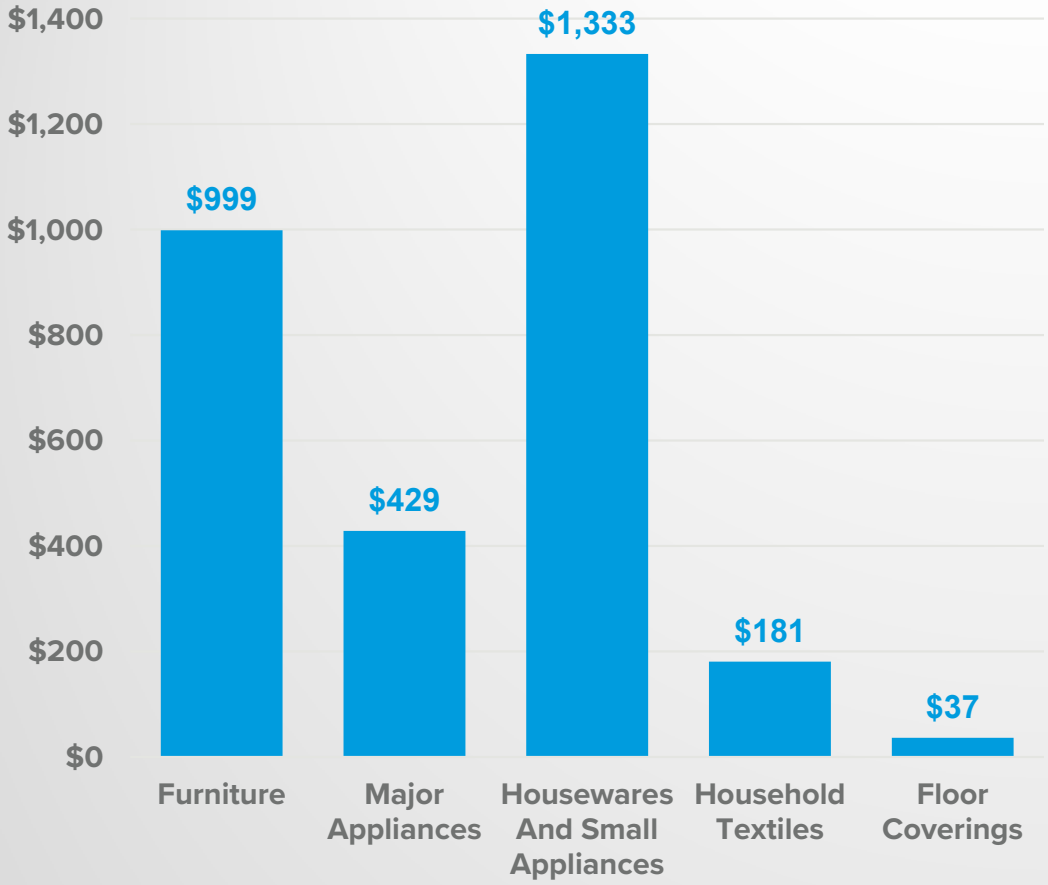
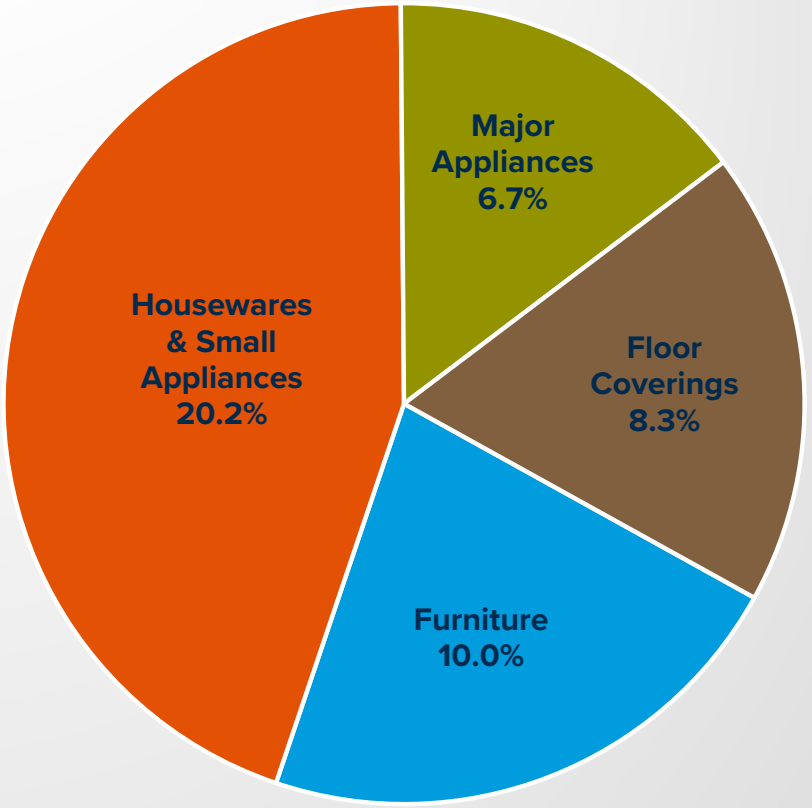
Household Furnishings



Forecasted Growth in Spending (2021/26)



Source: Windermere Economics' forecasts of Census Bureau baseline data

CONSUMER EXPENDITURES - FURNISHINGS

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FINAL THOUGHTS

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ANY QUESTIONS?

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WINDERMERE Economics

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