



HIGH PEAK STRATEGY

OneEastside Economic Outlook 2022

February 25, 2022



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Outline

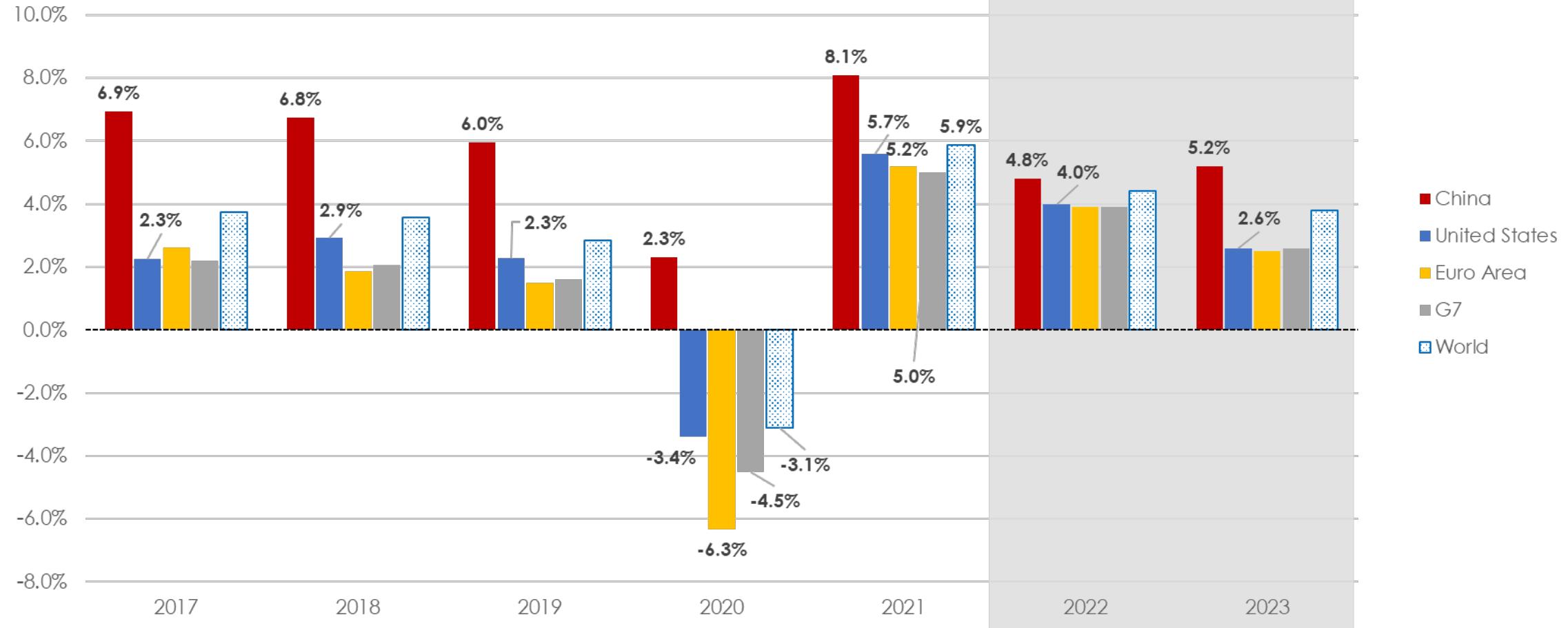
Drivers of future growth

- U.S. and international trends over the past year—shaken but recovering.
- Inflation and supply chain disruptions—sources and near-term risks.
- OneEastside economic performance, trends, and outlook.
- Economic recovery: a tale of two economies.

Real GDP Growth

Historic and forecast, 2017-2023 (f)

Annual Real GDP Growth Rate



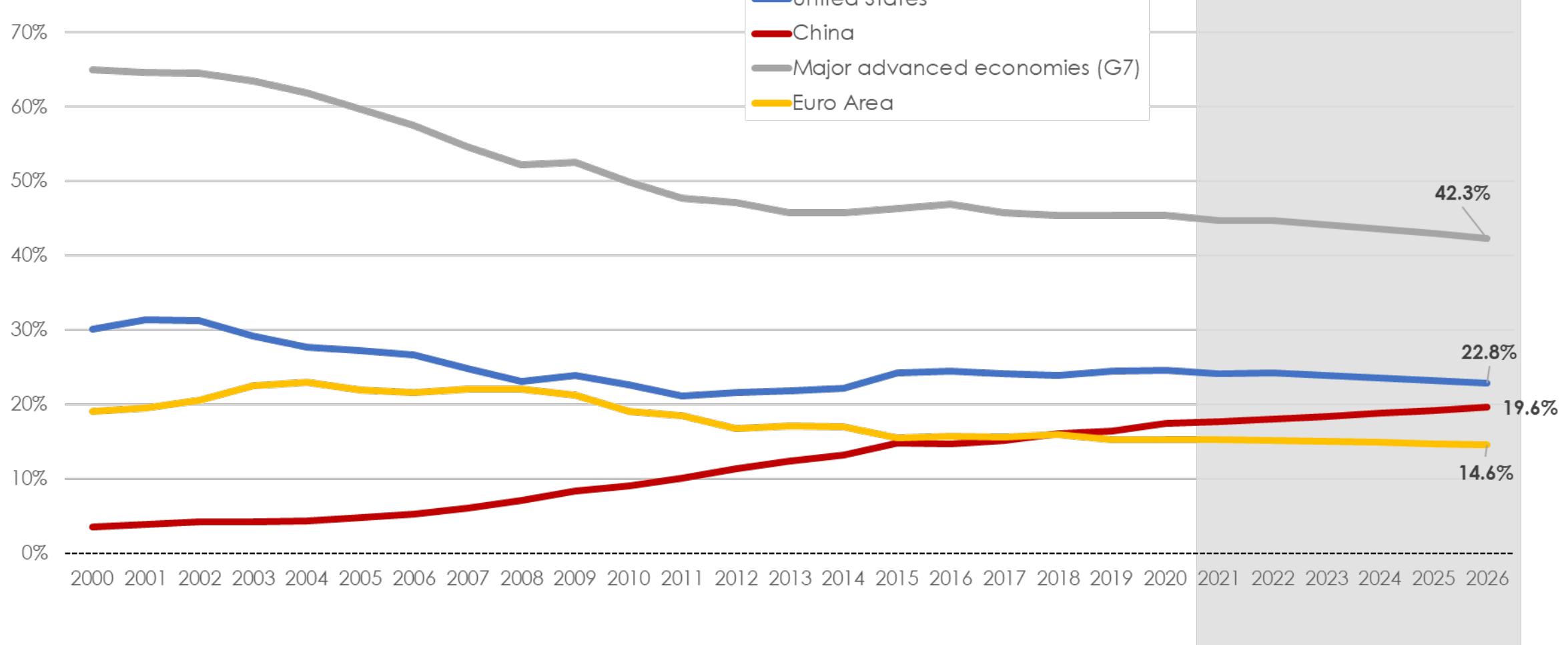
Source: International Monetary Fund, World Economic Outlook, October 2021 and January 2022.

Global Economic Output

Share of global output by country and country group, 2000-2026 (f)

Share Global Output

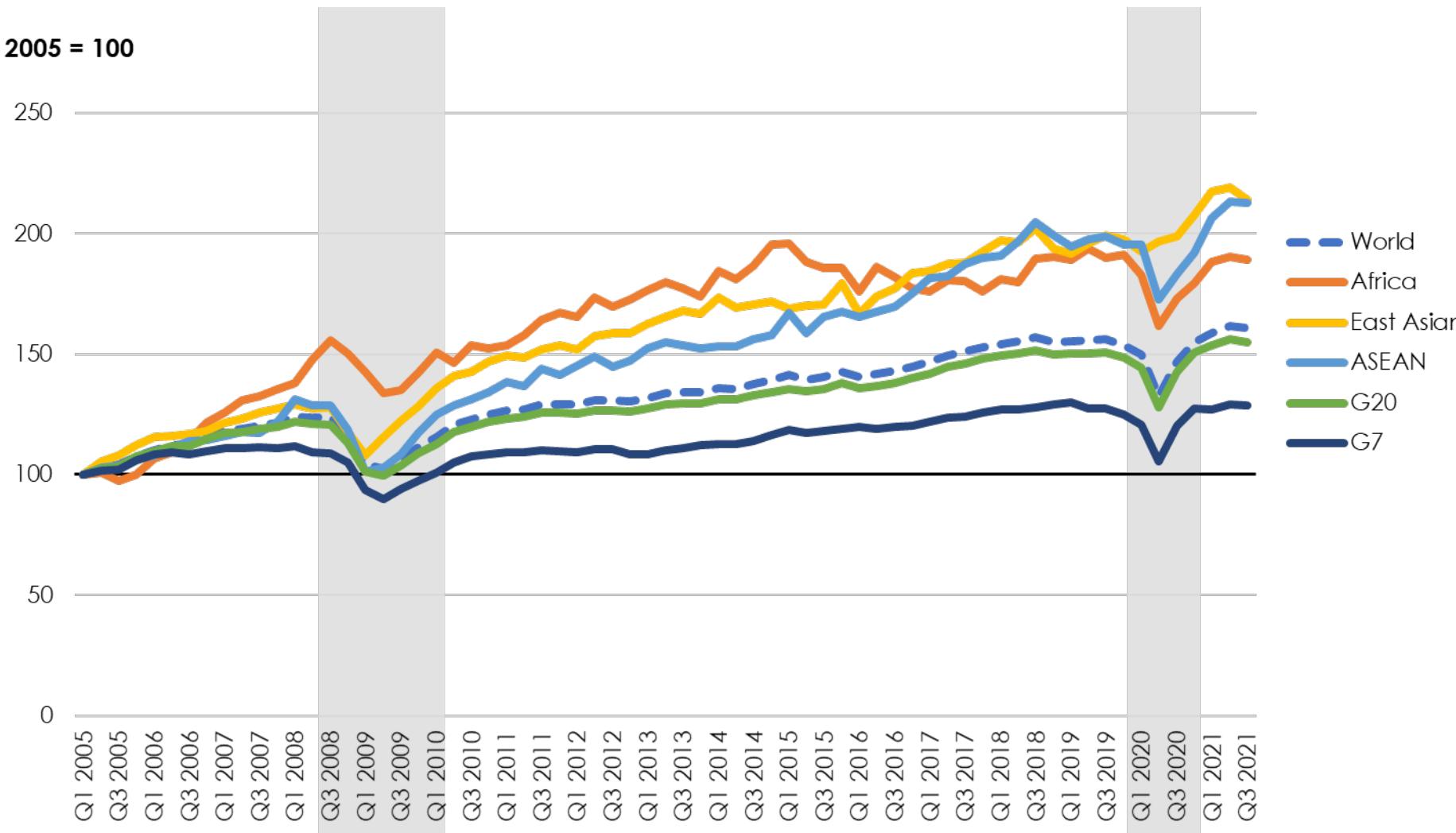
Current USD



Source: International Monetary Fund, World Economic Outlook, October 2021 and January 2022.

International Trends

Global trade, merchandise and commodities, exports and imports combined



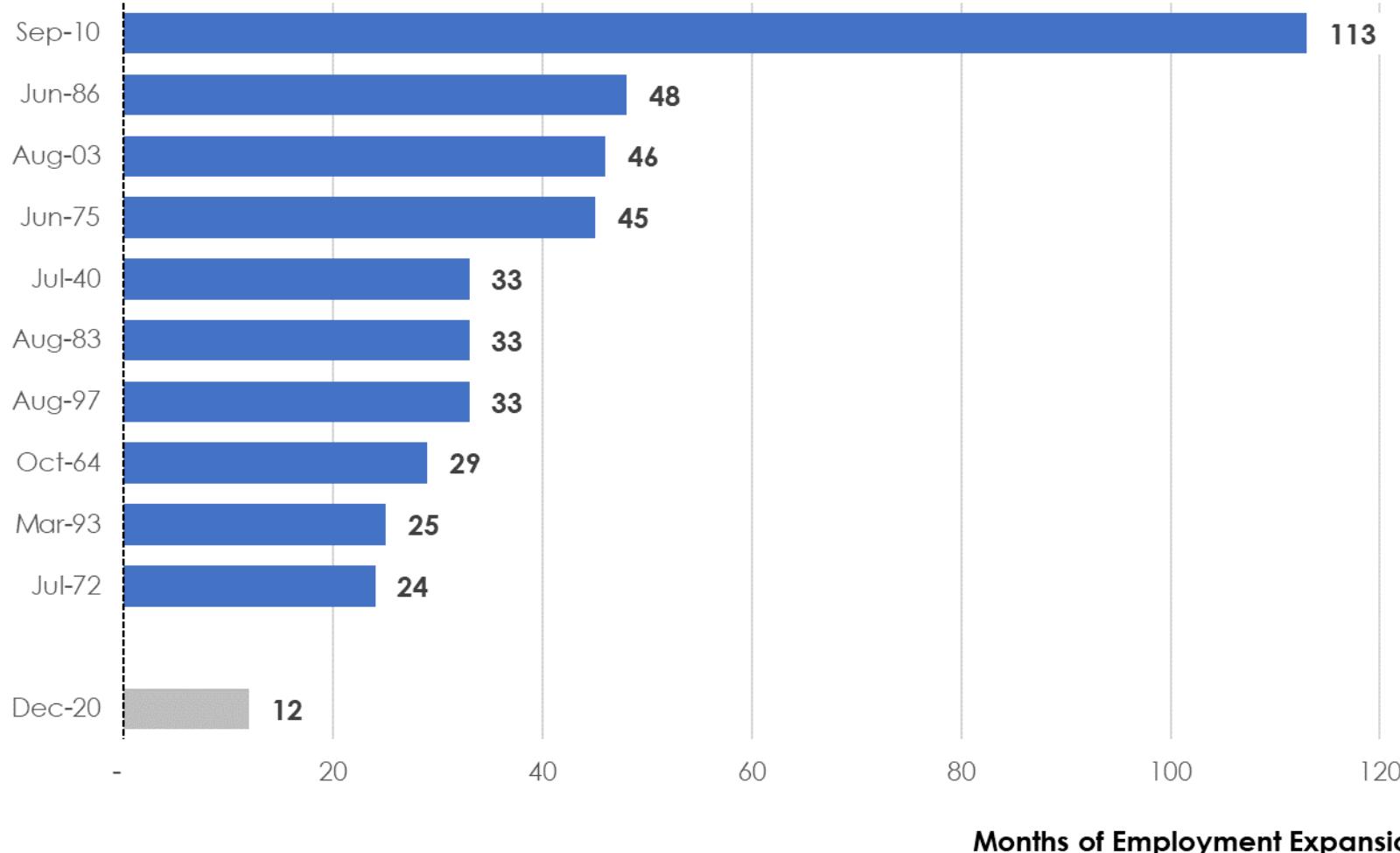
Source: United Nations Conference on Trade and Investment, 2021.

- Global trade rebounded quickly. In Q3 2021 up 10% year-over-year.
- But rapid uptick has shaken global logistics systems.

U.S. Trends

Nonfarm employment expansion, historic

First Month of Expansion



- Post-Great Recession employment expansion longest since data collected back to 1939.
- Only disrupted due to COVID.

Sources: U.S. Bureau of Labor Statistics, 2022.

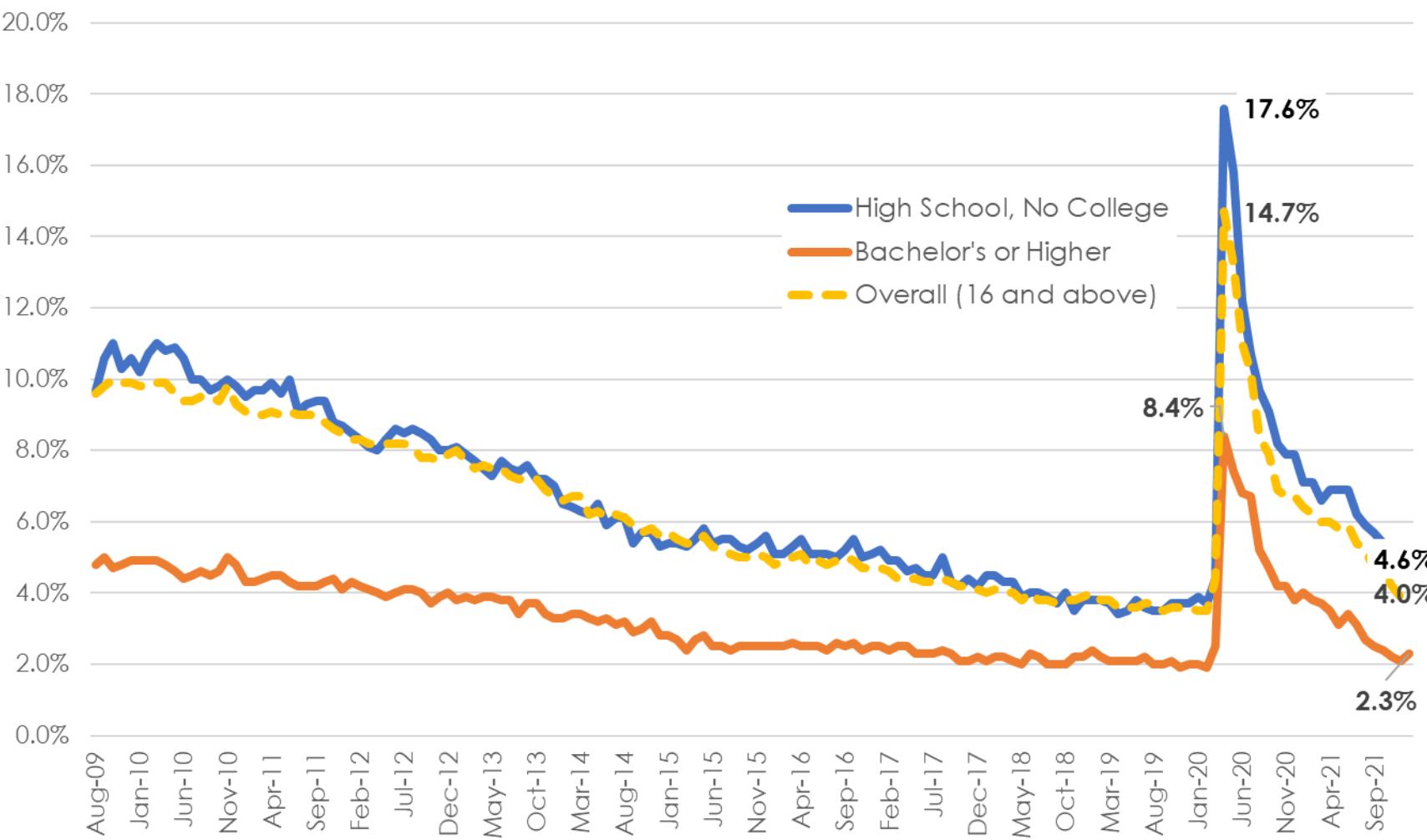
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U.S. Trends

Unemployment and labor force dynamics

Unemployment Rate



Sources: U.S. Bureau of Labor Statistics, 2022.

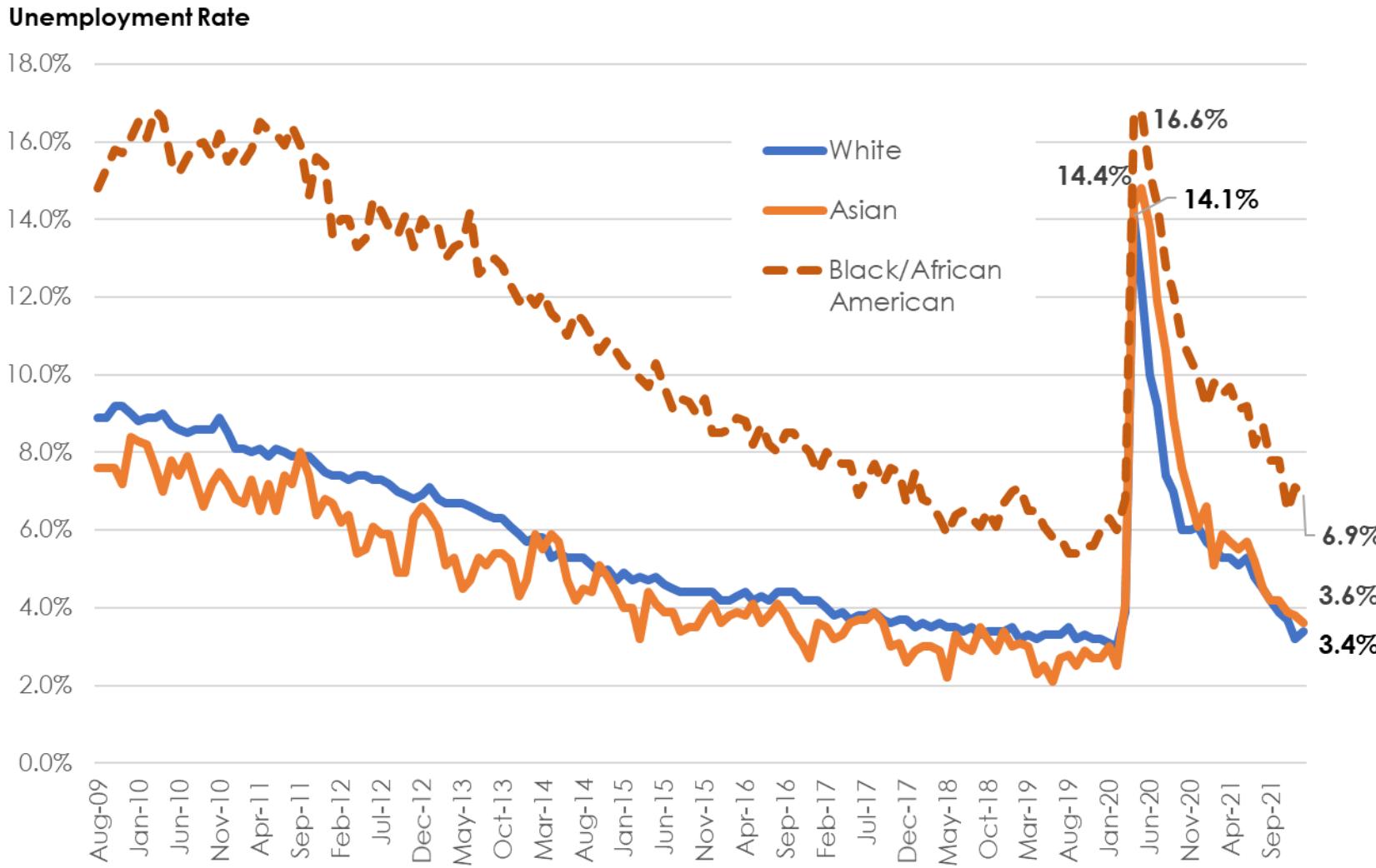
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- Those with only a high school diploma experienced unemployment 2x those who hold college degrees.

U.S. Trends

Unemployment and labor force dynamics



Source: U.S. Bureau of Labor Statistics, 2022.

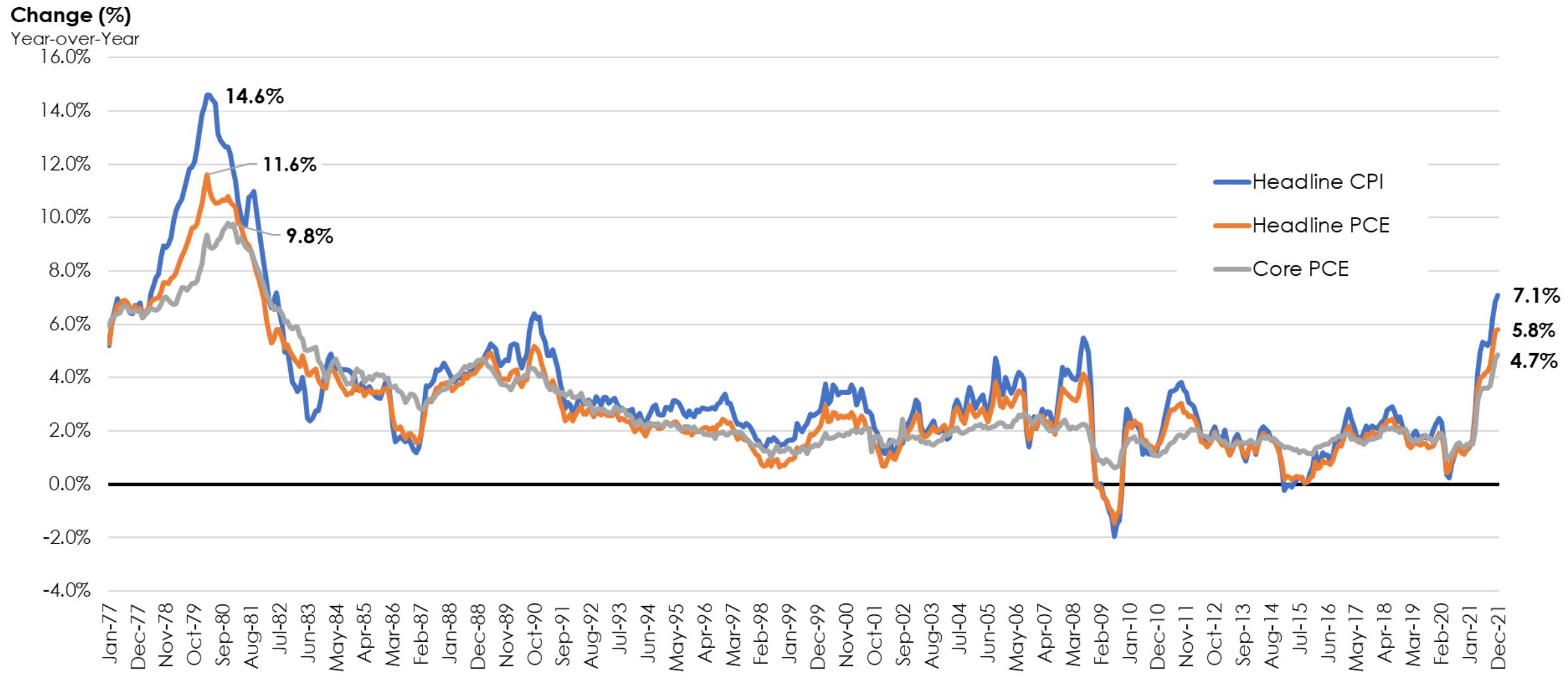
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- Unemployment rates among African Americans remain 2x those of Asians and Whites.
- Some convergence in unemployment rates up to pandemic.

Inflation Concerns Grow

Consumer price index (CPI) and personal consumption expenditure (PCE) index

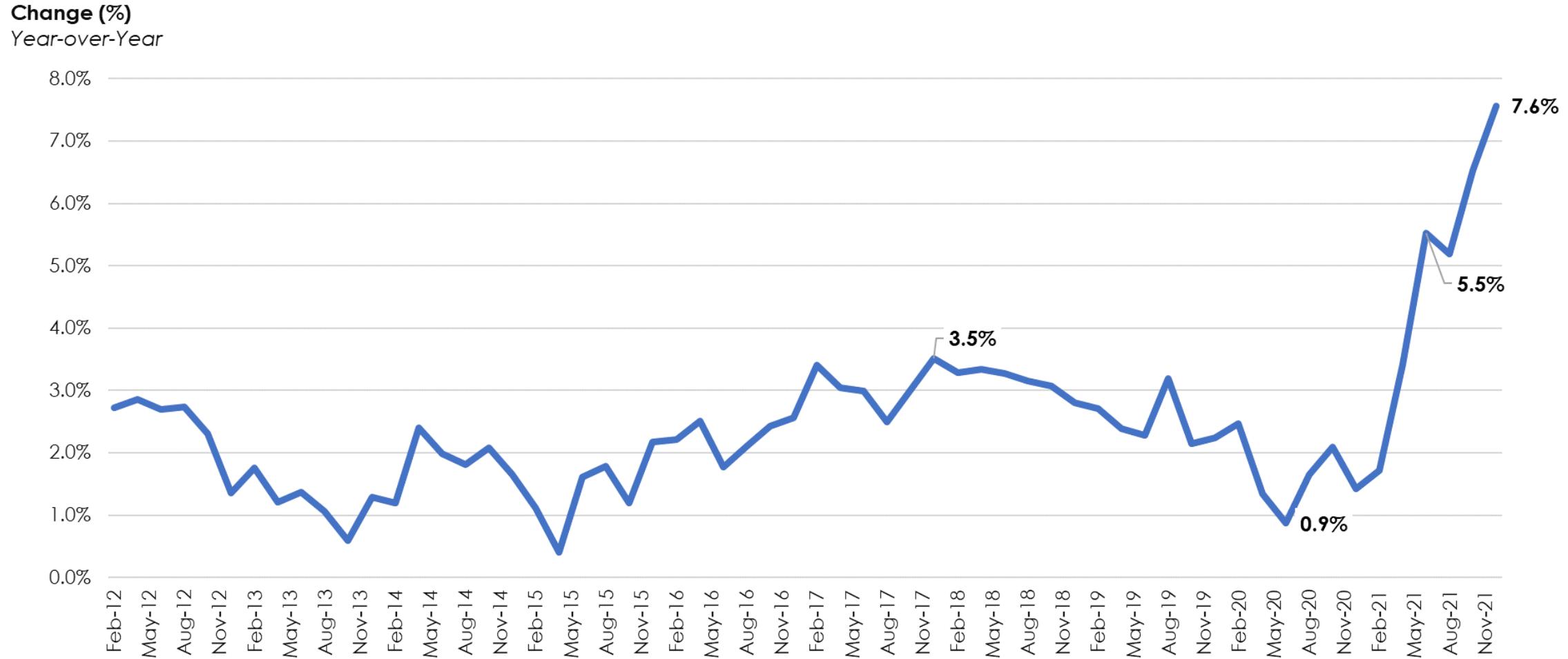


Sources: U.S. Bureau of Labor Statistics, 2022; U.S. Bureau of Economic Analysis, 2022



Inflation Concerns Grow

CPI, all urban consumers, Seattle MSA



Source: U.S. Bureau of Labor Statistics, 2022.

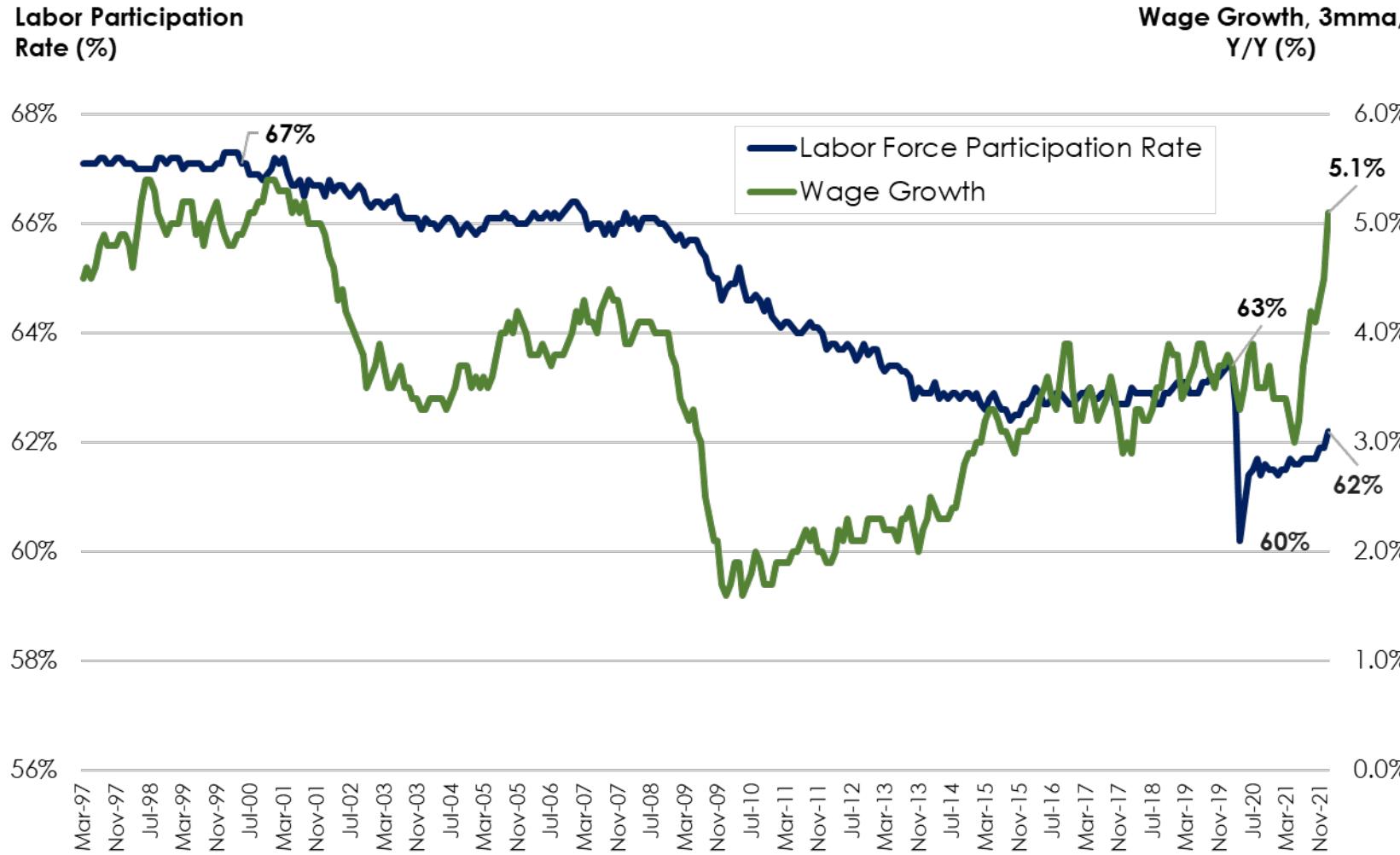
Inflation

Possible (interconnected) explanations

Possible Cause	How	But...
Excess Liquidity <i>More money chasing the same or fewer number of goods.</i>	<ul style="list-style-type: none">Fed stimulus in 2020-2021 ~ \$5 trillion, \$3.6 trillion in actual outlays thus far.	<ul style="list-style-type: none">In part filled gap in lost wages.According to SF Fed, 2021 American Rescue Plan (\$1.9 trillion) will contribute just 0.3 percentage points to inflation in 2022.
Tight Labor Market* <i>Supply-demand imbalance, demand outstripping supply of available workers.</i>	<ul style="list-style-type: none">More workers exiting workforce, or at least in low-wage services subsectors.Seasonally adjusted wages grew 5% year-over-year in 2021 Q4.Median wage in January increased 5.1%, largest increase since 2002.	
Tariffs <i>Taxes on imported goods passed down to consumers.</i>	<ul style="list-style-type: none">Punitive tariffs on Chinese imports often on final consumer goods, which are passed down to households.	<ul style="list-style-type: none">Timing mismatch—tariffs enacted in 2018-2019, whereas inflation much more recent.
Supply Chain Disruptions* <i>COVID upending supply chains and shifting consumption patterns.</i>	<ul style="list-style-type: none">Factory closures.Shifting consumption patterns, greater stress on logistics systems.Even small components, when unavailable, have big impact on price of finished goods (e.g., semiconductors).	

Inflation

Wage growth and tight labor markets



Sources: Federal Reserve Bank of Atlanta, 2022; Federal Reserve Bank of St. Louis, 2022.

Note: age-based wage growth rates based on 12-month moving average, whereas overall median wage growth based on 3-month moving average.

- Median hourly wages grew the fastest since August 2001.
- Fastest growth among people ages 16-24 (more than 10% growth for three months).

Supply Chain Disruptions, Ports, and Inflation

Leading developments in 2021

- Backlog at the Ports of Los Angeles and Long Beach (LA/LB) reached a historic high in 2021, with more than 100 vessels waiting to unload, some waiting weeks in anchor or adrift off the coast.
- An estimated 77% of ports globally are experiencing abnormally long times for turnaround container traffic.
- Total NWSA twenty-foot equivalent unit (TEU) volume increased 7.1% September 2021 compared with September 2020 and is up 15.9% year-to-date.
- Approximately 98% of warehouses in Southern California's logistics-heavy Inland Empire region are fully occupied, while the entire Western U.S. has a very low 3.6% vacancy rate.
- Southern California ports have been dealing with volumes exceeding past peak levels since August 2020.

Southern California Ports' Import Container Volumes

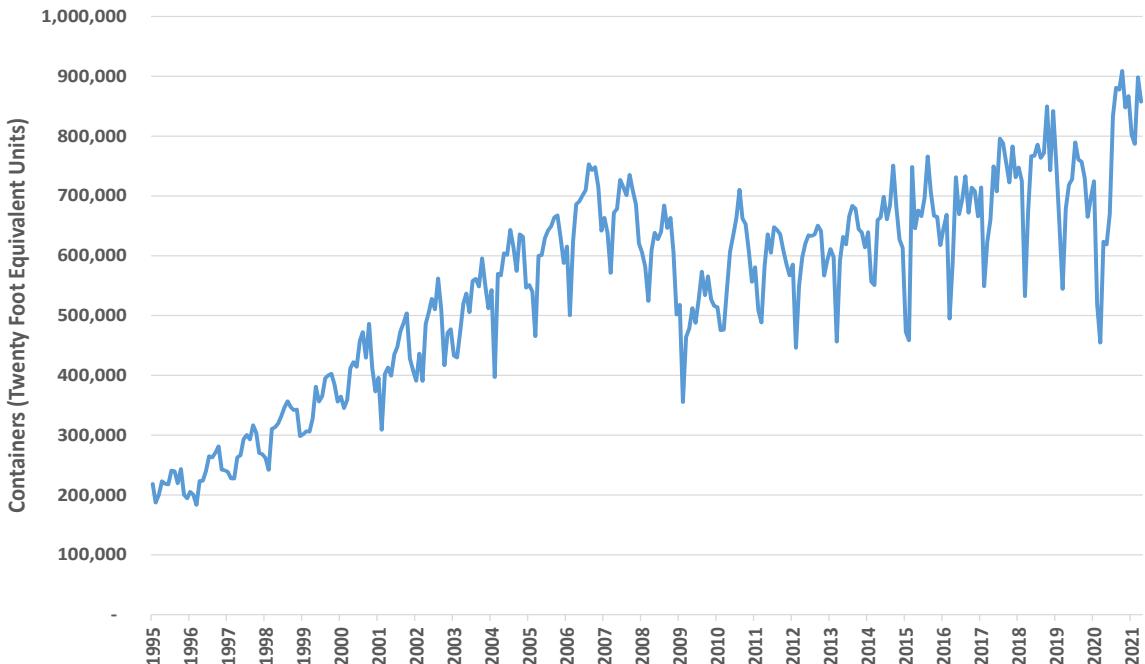
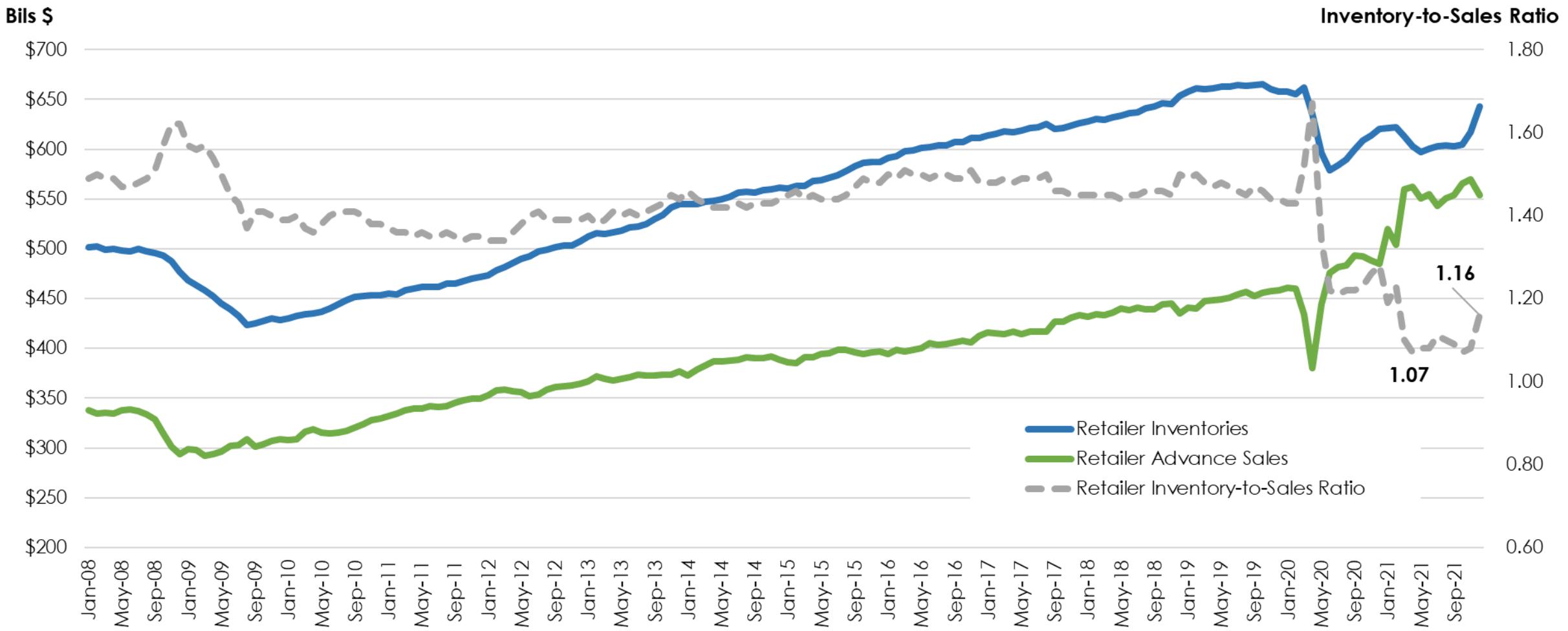


Chart provided by Walter Kemmsies, Kemmsies Group.

Supply Chain Disruptions, Ports, and Inflation

Retailer inventory-to-sales ratio at record low: 2008-2021

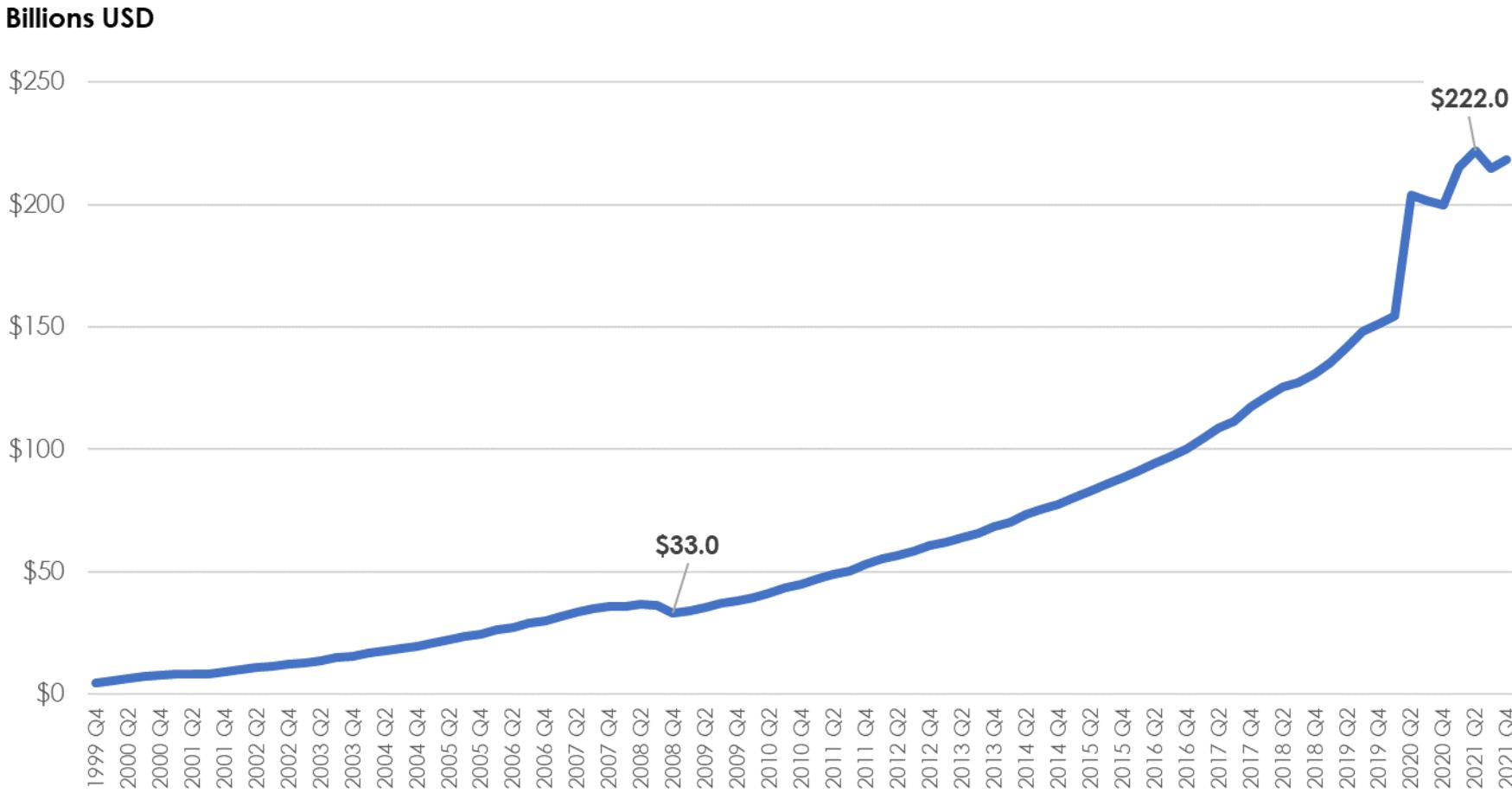


Source: Federal Reserve Bank of St. Louis, 2021.



Supply Chain Disruptions, Ports, and Inflation

E-commerce sales, U.S.: households increasing purchases of physical (mostly imported) goods



- Growth in e-commerce puts more strain on rail and port system.
- Greater demand for warehouse space.

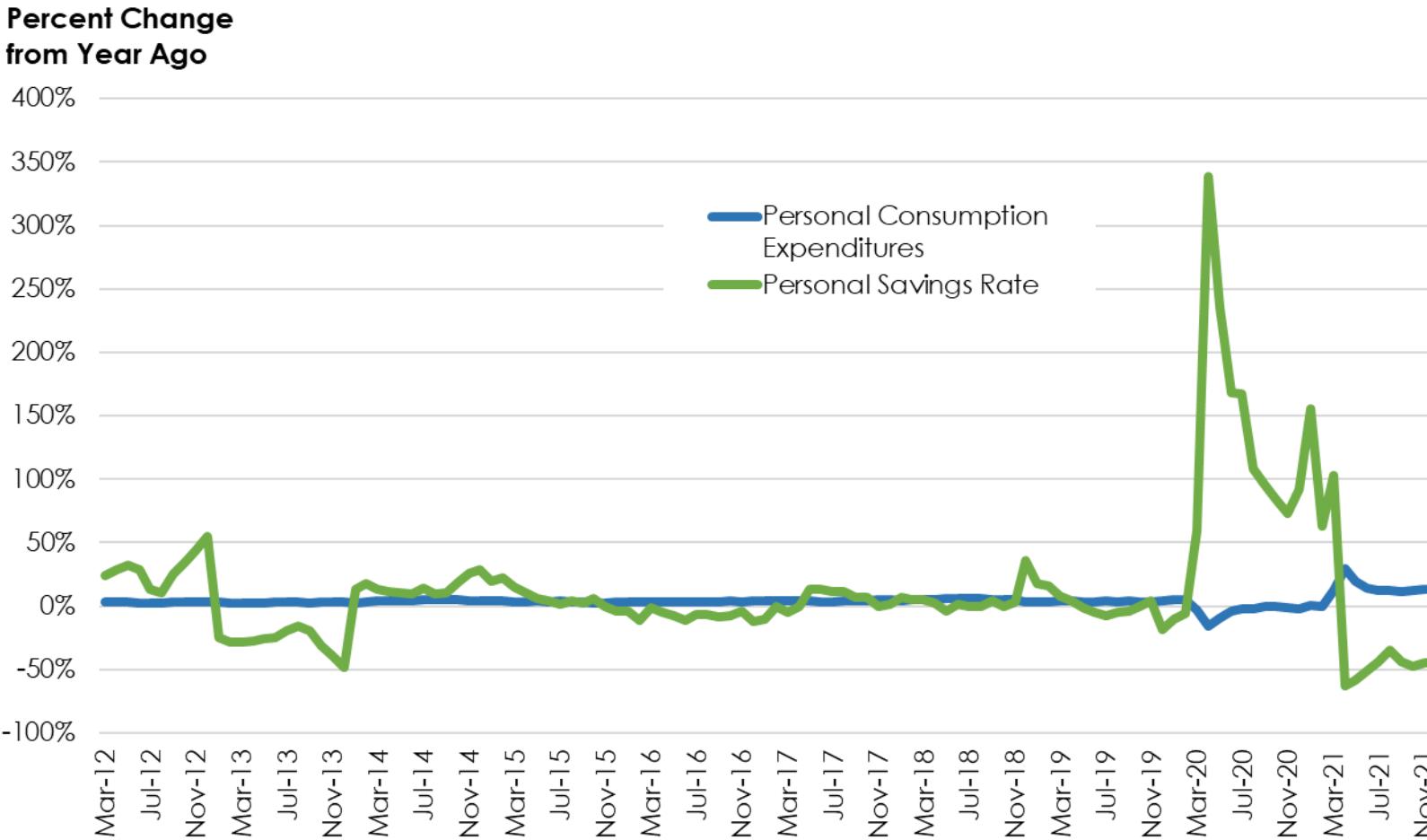
Source: U.S. Census Bureau, 2021.

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Unprecedented Swing in Household Saving and then Spending Jarred the System

Personal consumption expenditures and personal saving rate, U.S.

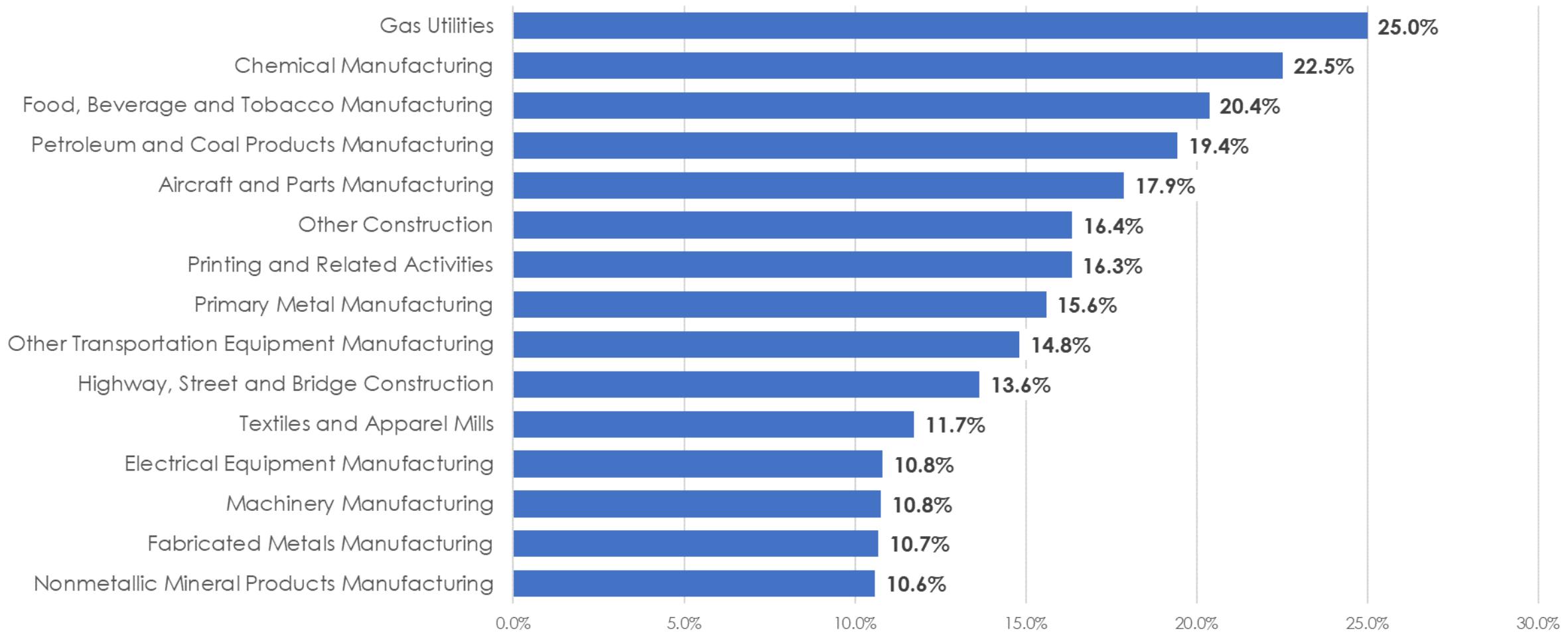


- 30% increase year-over-year in PCE in April, and 11% in October.
- Personal savings rate, 2.8% just prior to the Great Recession, and ~7% just prior to pandemic.
- Just-in-time logistics model unprepared for these swings.

Source: U.S. Bureau of Economic Analysis, 2022.

Imports are Critical to Washington's Economy

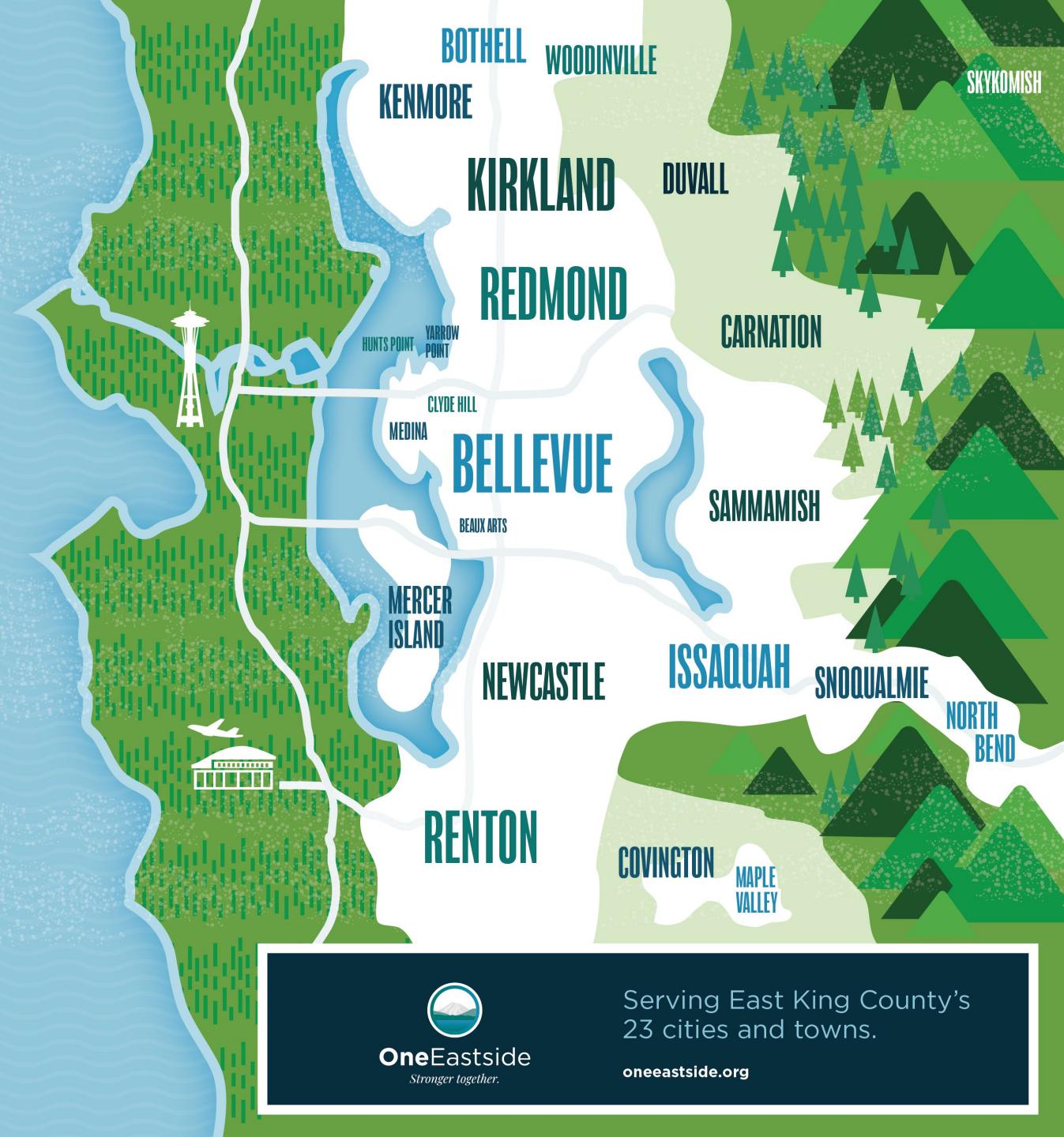
Share of imports as share of total producer purchases, Washington state



Source: Washington State Office of Financial Management, 2020.

OneEastside Region

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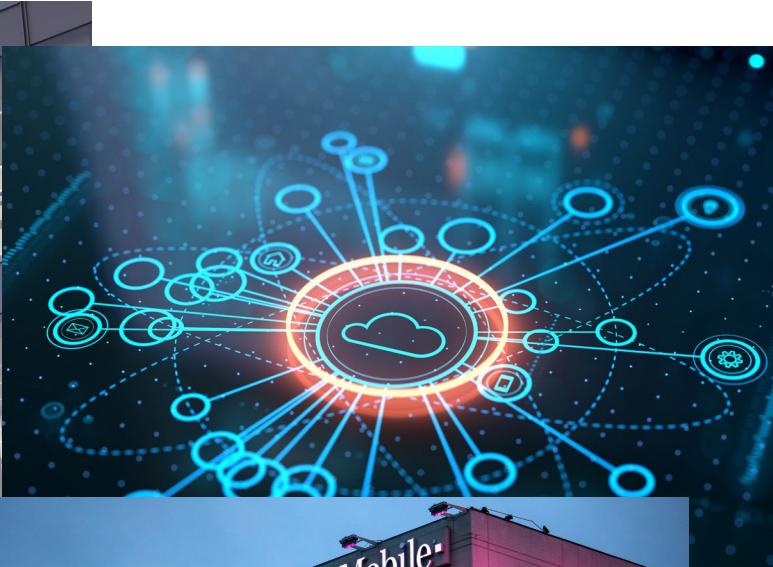
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Stronger together.

Serving East King County's
23 cities and towns.

oneeastside.org

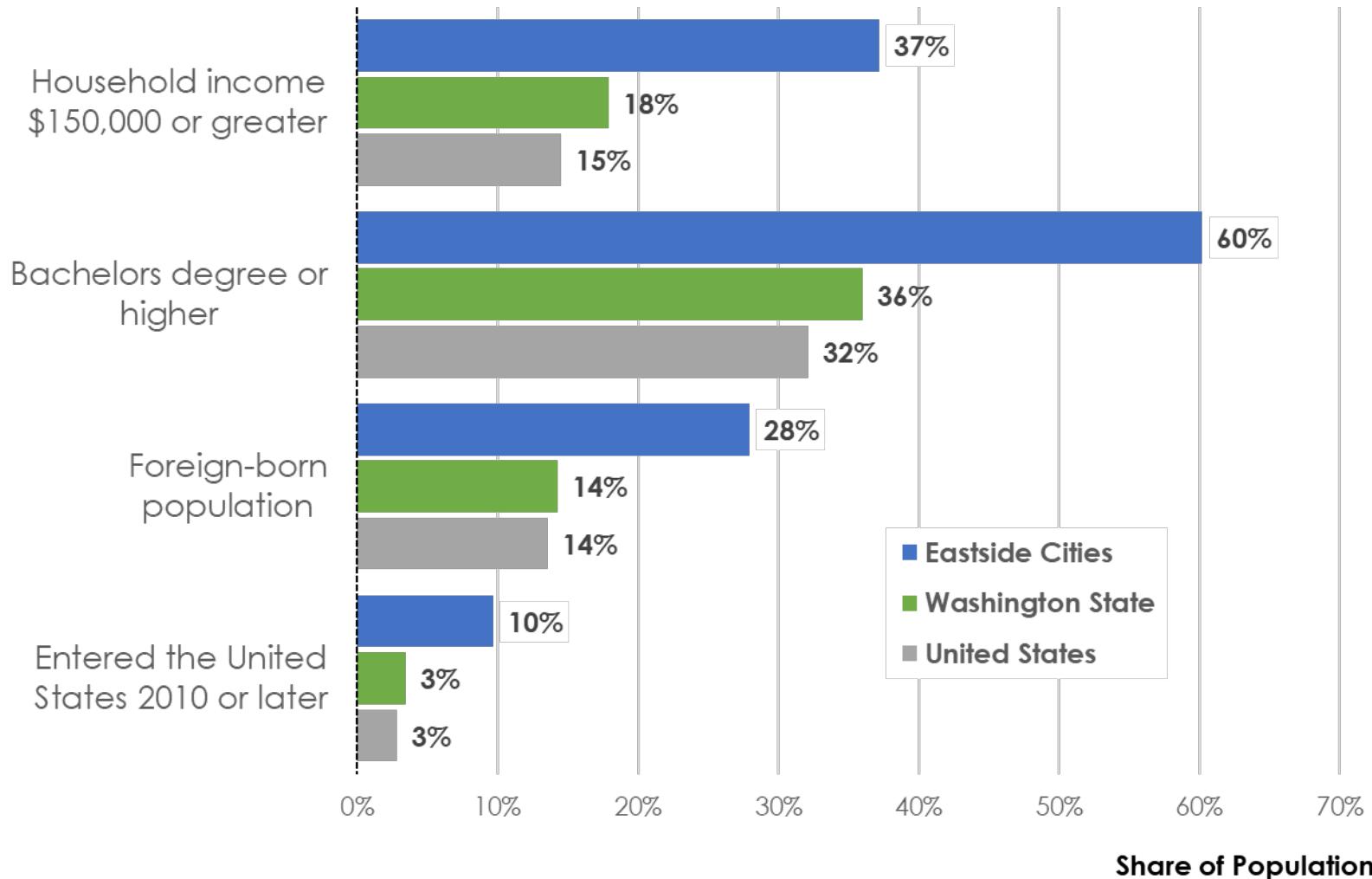
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Hub for global companies



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Educated and diverse population



- The Eastside region is among the most educated, diverse, and high income-earning in the United States.
- 18% of ALL Eastside residents came immigrated from Asia, compared with 6% and 4% of the populations of Washington state and the United States.
- Only 3.7% of population from Latin America, compared with 6.9% nationally.

Source: U.S. Census Bureau, American Community Survey 2015-2019
Five-Year Estimates, 2021.

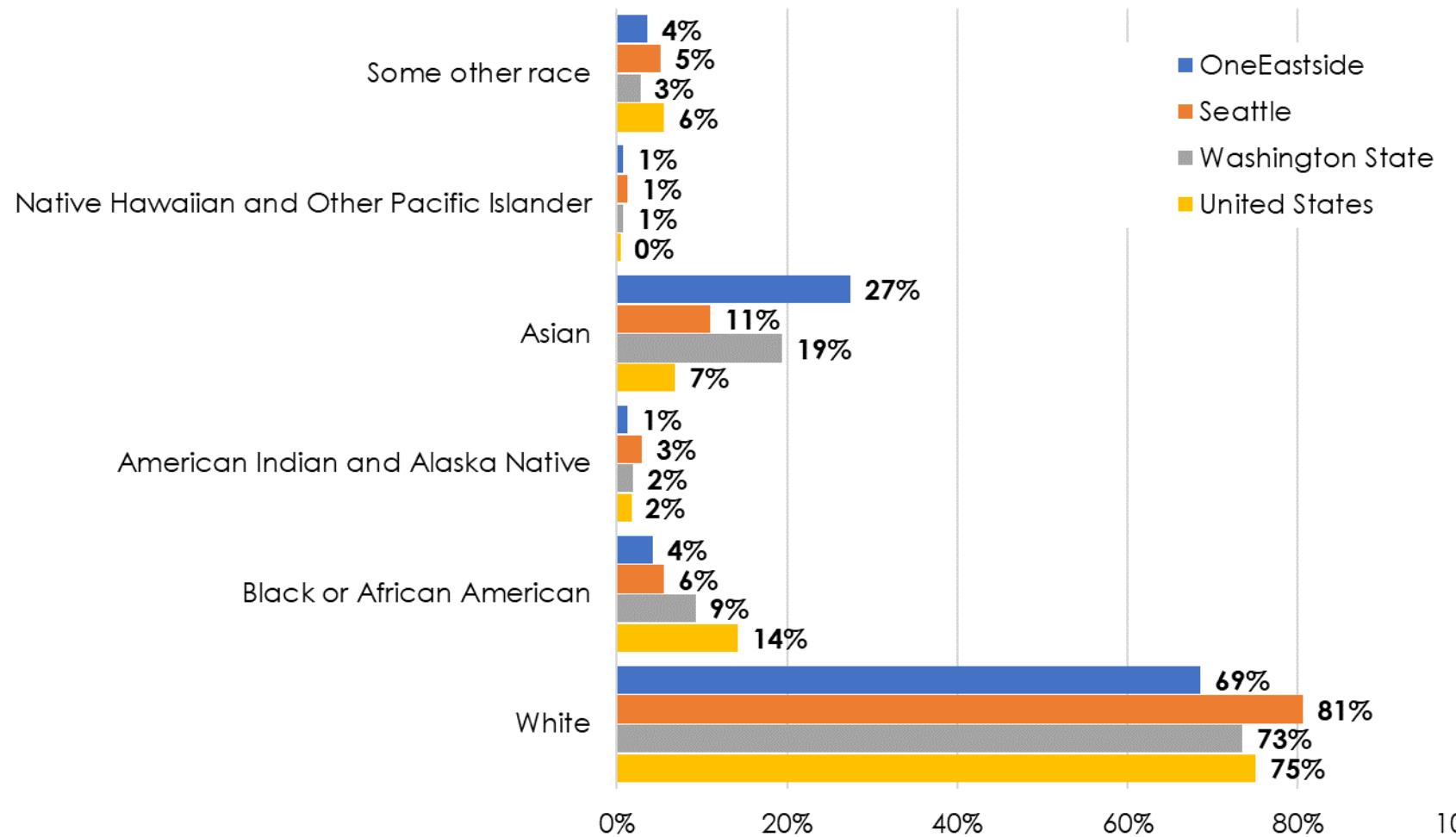
School	2021-2022
Bellevue College	13,275
UW Bothell	6,069
Renton Technical College (RTC)	4,271
Lake Washington Institute of Technology	3,536
Cascadia College	2,106
UW Business School - Technology Management MBA	90
UW GIX	57
Subtotal, Eastside	29,404

- Eastside higher ed institutions enrolled nearly 30,000 students (part-time and full-time) during 2021-2022 school year.

Sources: Washington State Board of Technical and Community Colleges, 2022; University of Washington, 2022; Bellevue College, 2022; Lake Washington Institute of Technology, 2022; Cascadia College, 2022.

Race and Ethnicity

OneEastside, Seattle, Washington State, and the United States, 2015-2019



- 27% of OneEastside residents identify as “Asian,” compared with 11% in Seattle and 7% in the U.S.
- Only 8% of OneEastside residents identify as Hispanic, compared with 18% nationally and 13% statewide.

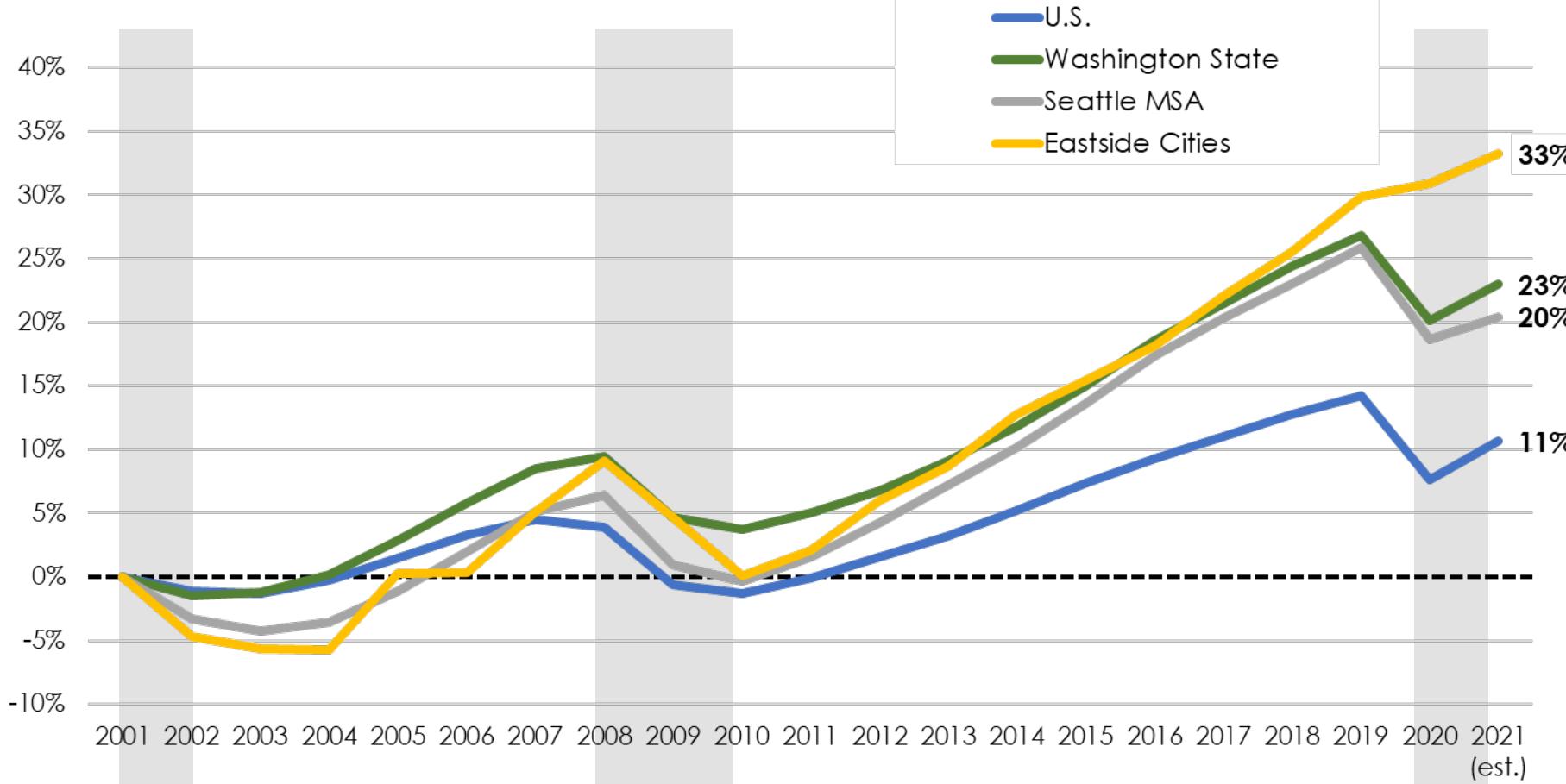
Source: U.S. Census Bureau, American Community Survey 2015-2019
Five-Year Estimates, 2021.

Washington State, Seattle MSA, and OneEastside Cities

Cumulative change in employment, 2001-2021 (est.)

Cumulative Change

Since 2001



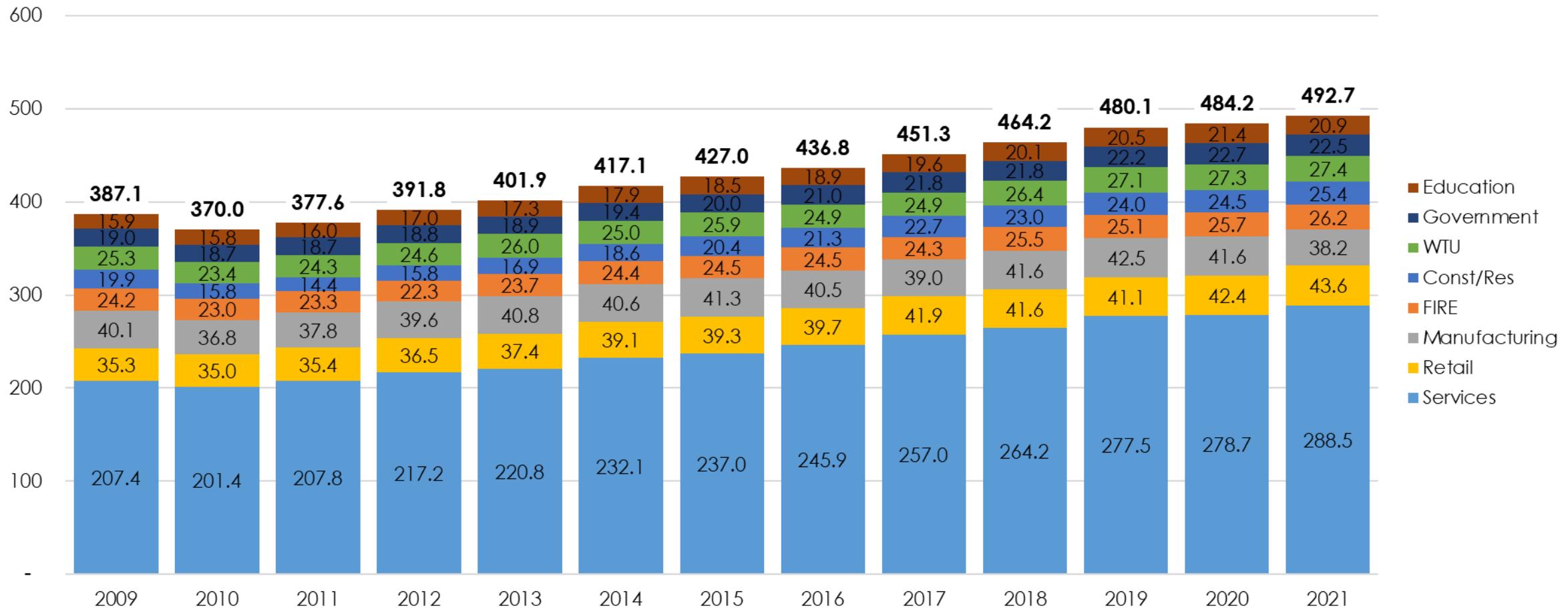
Sources: U.S. Bureau of Labor Statistics, 2022; Washington State Employment Security Department, 2022; Puget Sound Regional Council, 2021; High Peak Strategy LLC, 2022.

- In 2020, the Seattle MSA saw a net loss of over 100,000 jobs.
- Meanwhile, the Eastside *gained* more than 4,000 net jobs.
- But...some sectors still experienced severe impacts, e.g., accommodation and food services (loss of 1,600 jobs).

OneEastside Employment

Covered employment, total and by sector, 2009-2021 (est.)

Thousands of Jobs



Sources: Washington State Employment Security Department, 2022; Puget Sound Regional Council, 2021; High Peak Strategy LLC, 2022.

Economic Recovery, Resilience, and Challenges

Tech sector during the pandemic

Sector	2019	2020	Net Change	Percentage Change
Manufacturing*	295,500	274,600	(20,900)	-7.1%
Aerospace	88,500	80,000	(8,500)	-9.6%
Ship and Boat Building	19,300	19,400	100	0.5%
Food and beverage processing	49,500	46,700	(2,800)	-5.7%
Construction	206,200	200,400	(5,800)	-2.8%
Healthcare and social assistance	488,200	484,900	(3,300)	-0.7%
Agriculture, forestry, fishing and hunting	103,300	99,600	(3,700)	-3.6%
Real estate and rental and leasing	58,100	55,200	(2,900)	-5.0%
Accommodation and food services	288,600	221,900	(66,700)	-23.1%
ICT	258,600	278,900	20,300	7.8%
Statewide, all sectors	3,439,200	3,258,300	(180,900)	-5.3%

Sources: U.S. Bureau of Labor Statistics, 2021; Washington Technology Industry Association, 2021.

- While statewide employment contracted 5.3% in 2020, the tech sector grew 7.8%.
- Between the lowest point in employment during the Great Recession (2009-2010) and 2019, just prior to the pandemic, the tech sector nearly doubled (84% growth), adding 120,100 jobs. By comparison, statewide employment across all other sectors grew by just 19%.
- Tech provided 20% of Washington state's job growth between the two recessions.
- Each tech job supports an additional 3 jobs elsewhere in the economy.

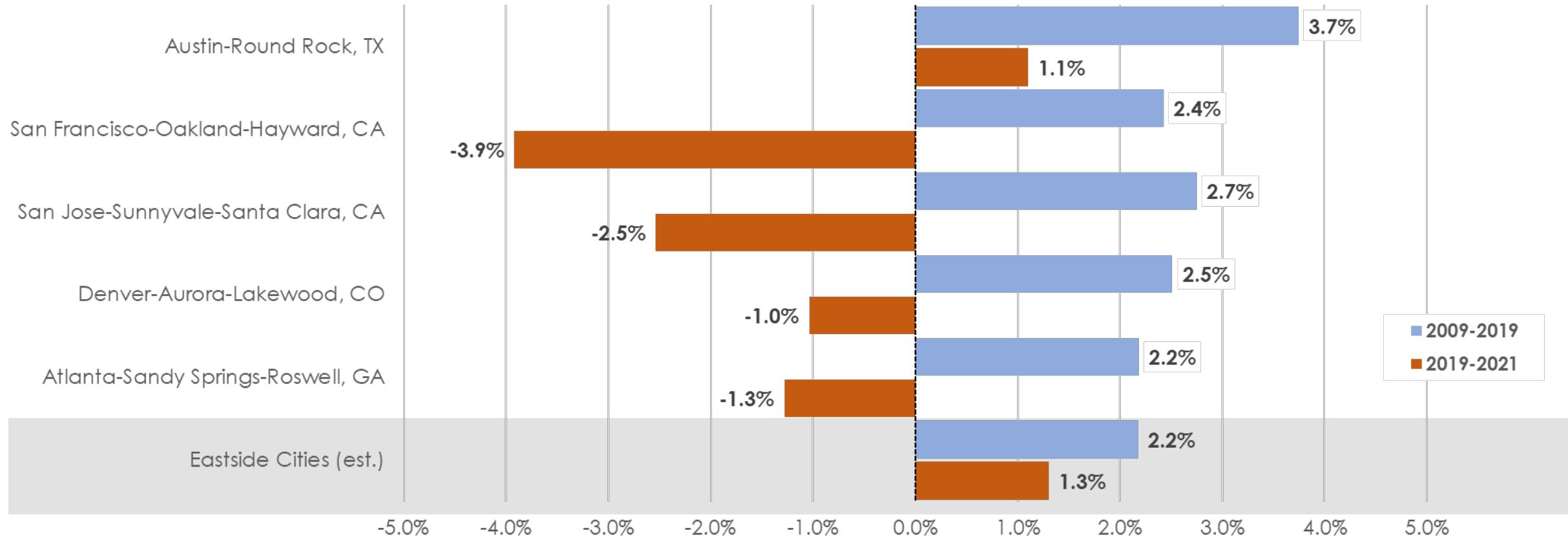
Tech is Driving Growth on the Eastside

- The state must continue to find ways to support the tech sector as a means of driving broad-based economic growth.
- According to a recent report by the real estate brokerage firm CBRE, 14 new “mega leases” propelled the region past the Bay Area for most new tech office space leases in the United States in 2020.



OneEastside Employment

Covered employment growth by sector, 2019-2021 (est.)



Sources: U.S. Bureau of Labor Statistics, 2022; Washington State Employment Security Department, 2022; Puget Sound Regional Council, 2021; High Peak Strategy LLC, 2022.

Note: OneEastside cities employment based on city-level covered employment data from the Quarterly Census of Employment and Wages series published by the Puget Sound Regional Council, whereas other regions' employment based on nonfarm employment series published monthly by the U.S. Bureau of Labor Statistics.

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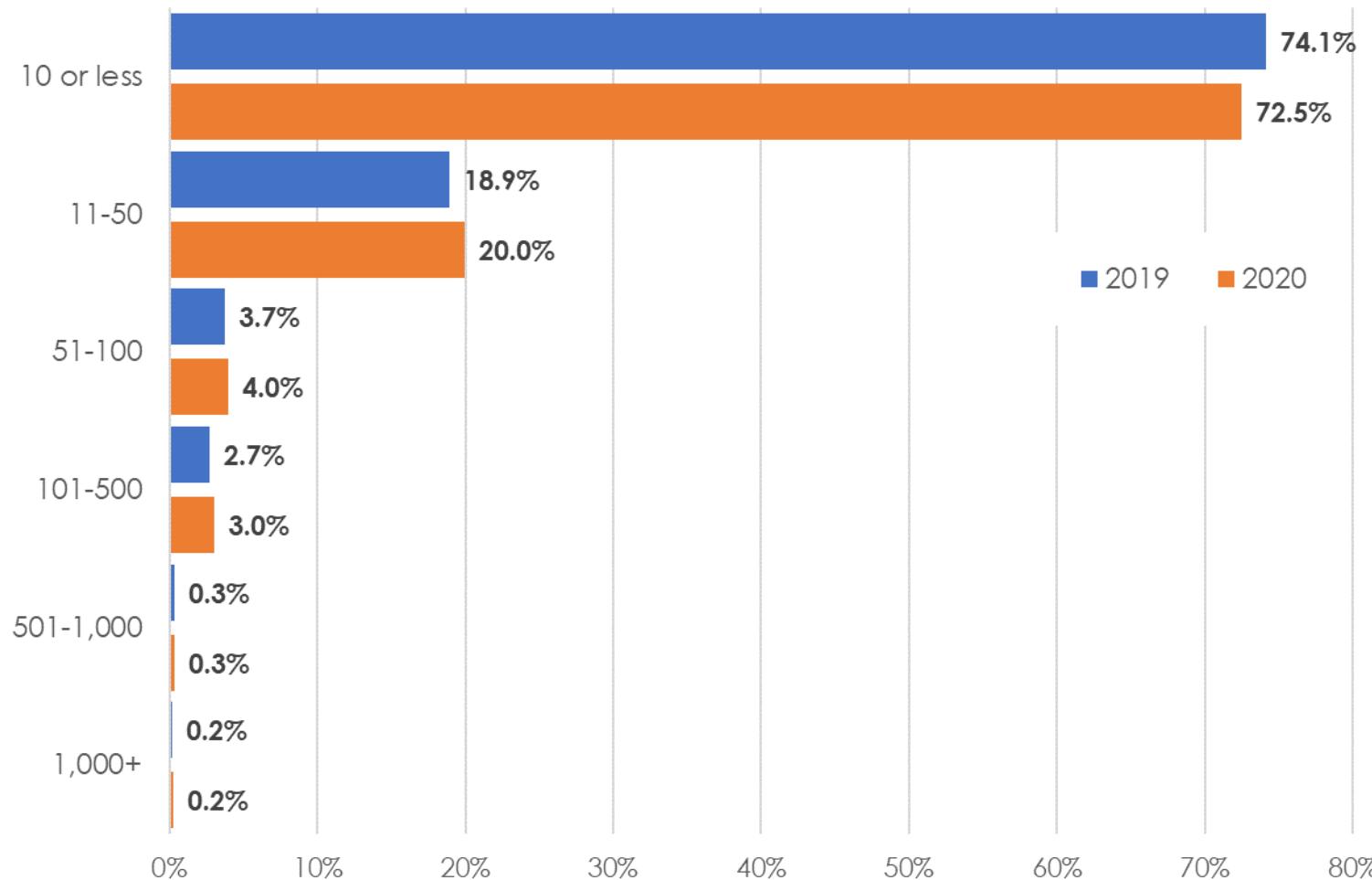
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OneEastside Employment

Share of workers and worksites by worksite size, 2019 and 2020



Source: Puget Sound Regional Council, 2022.

Note: "worksites" are a rough approximation of businesses. However, some businesses have more than one location, or worksite.

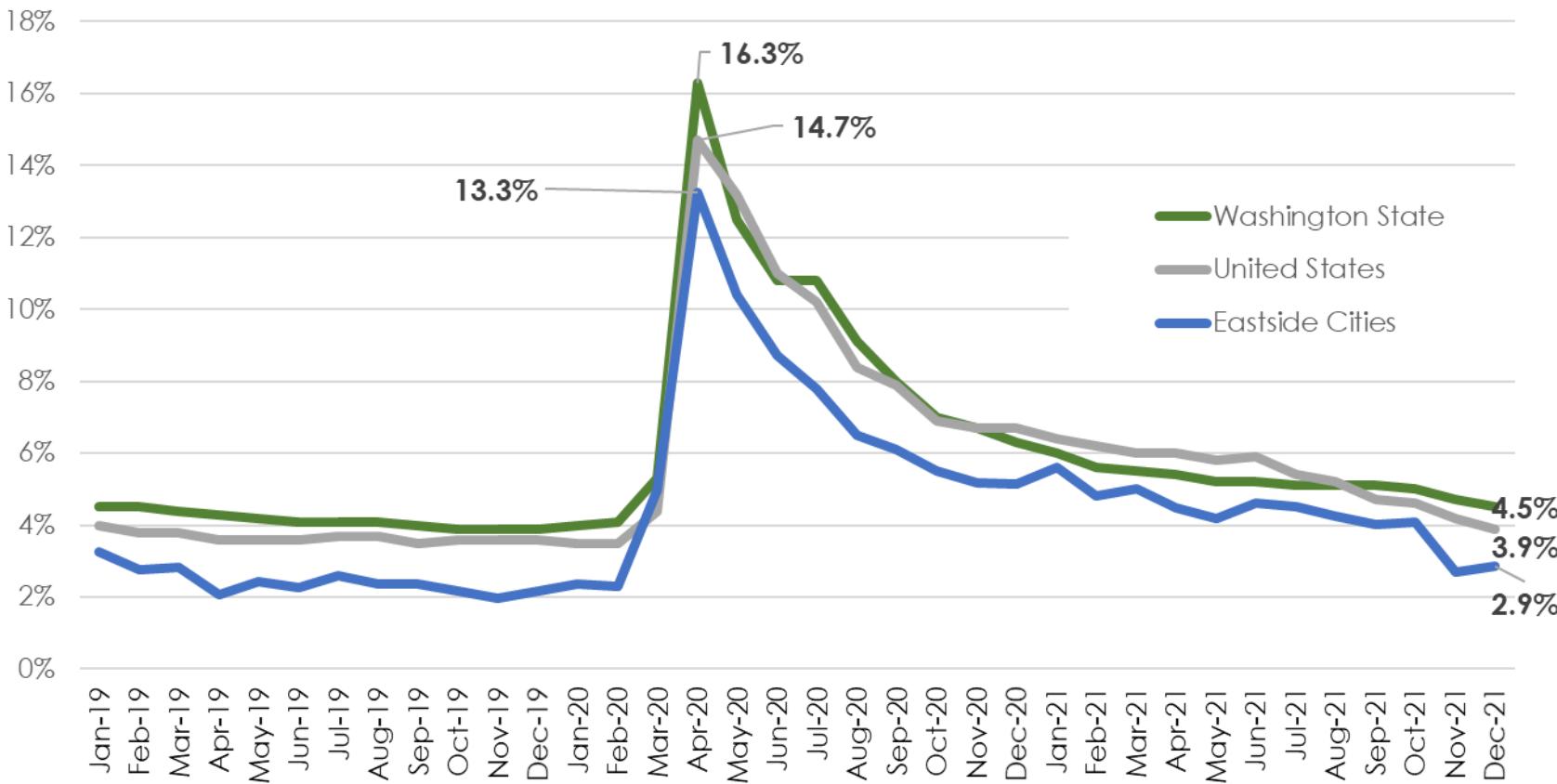
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- Nearly 1,700 business locations temporarily and permanently shuttered between 2019 and 2020, the vast majority of 10 employees or less.
- Small businesses represented 72.5% of all employers on the Eastside.
- 11% of workers on the Eastside worked at locations of 10 employees or less.

OneEastside Unemployment

Monthly unemployment rate (%) for Eastside cities, Washington state, and the United States, 2019-2021



Note: Eastside unemployment rate based on the weighted city-level labor force statistics for Bellevue, Bothell, Issaquah, Kirkland, Mercer Island, Redmond, and Renton. Labor force statistics for cities with populations less than 25,000 residents are not reported by the Washington State Employment Security Department.

Sources: Washington State Employment Security Department, 2022; U.S. Bureau of Labor Statistics, 2022.

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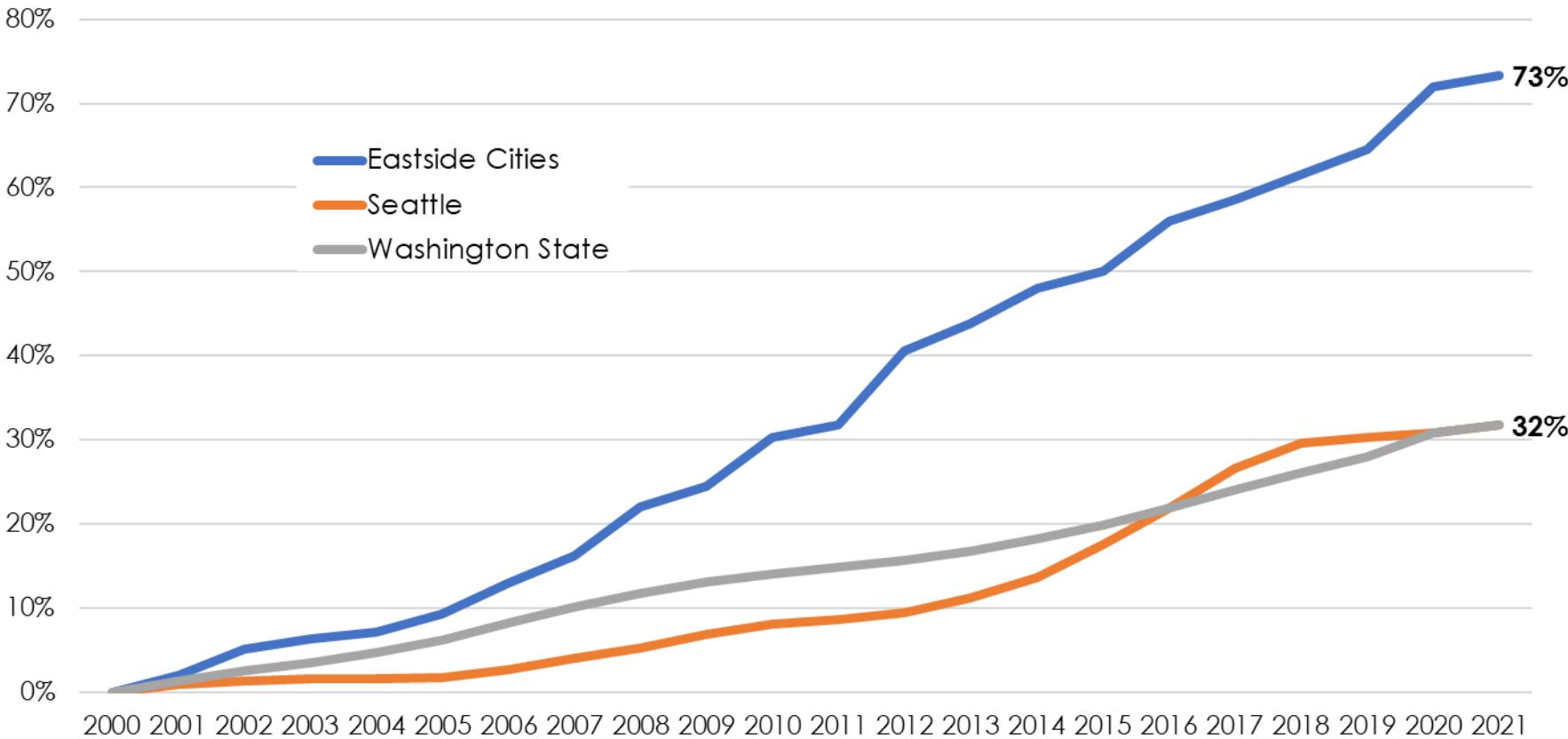
- Eastside unemployment has remained well below rates in Washington state and the United States.
- In part driven by growth and resilience of the tech sector and large share of tech workers living on the Eastside.

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Population growth, cumulative, OneEastside cities, Seattle, and Washington state

Cumulative Growth

Since 2000

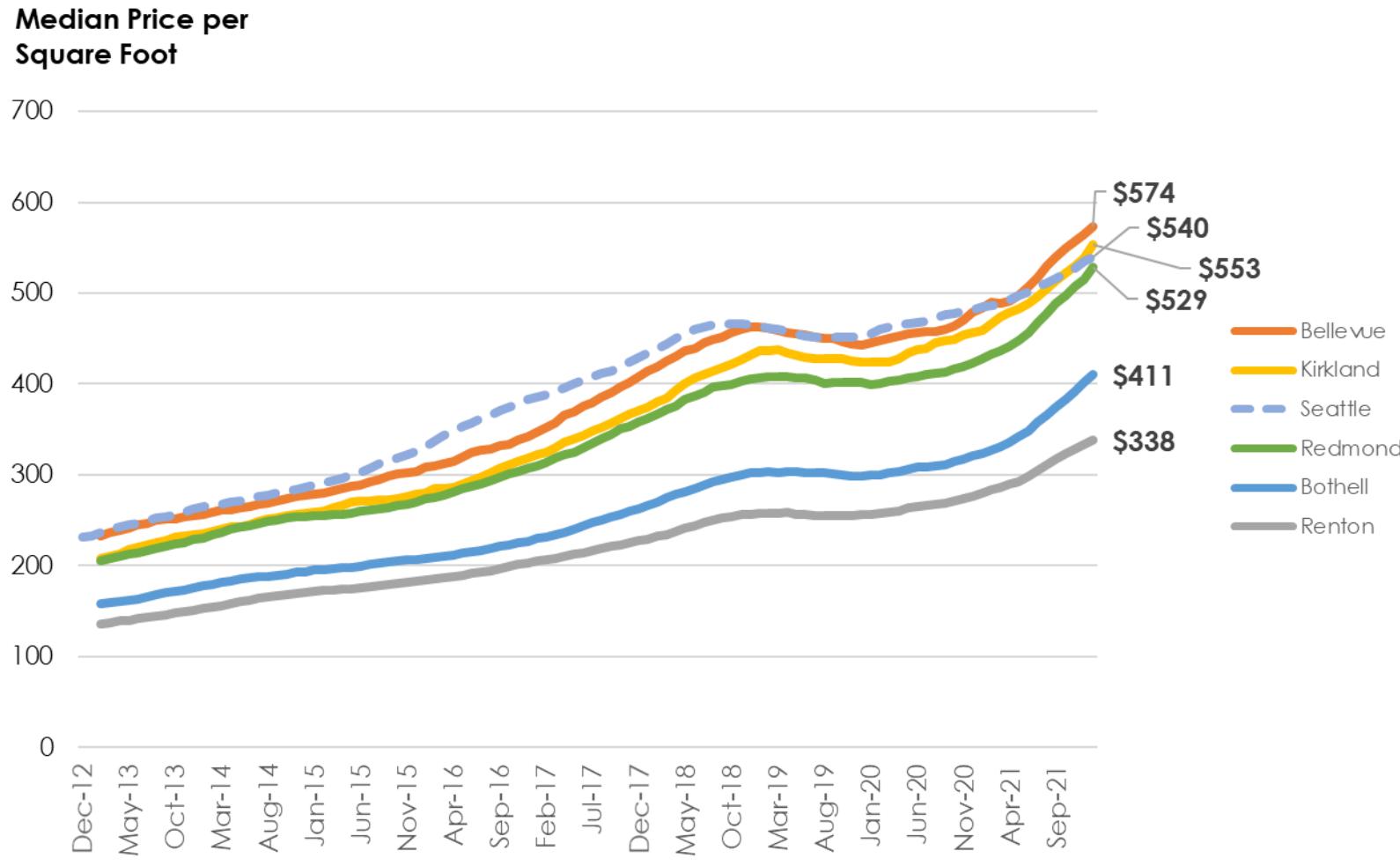


- Since 2000, the Eastside has grown in population at more than 2x the rate of Seattle and Washington state.
- 749,700 residents on the Eastside in 2021, more than the City of Seattle.
- Since 2010, the Eastside has added 186,000 new residents, or 18% of all net new residents statewide.

Source: Washington State Office of Financial Management, 2021.

OneEastside Housing Affordability

Housing costs on the Eastside, median price per square foot, 12-month moving average



Source: Redfin, 2022.

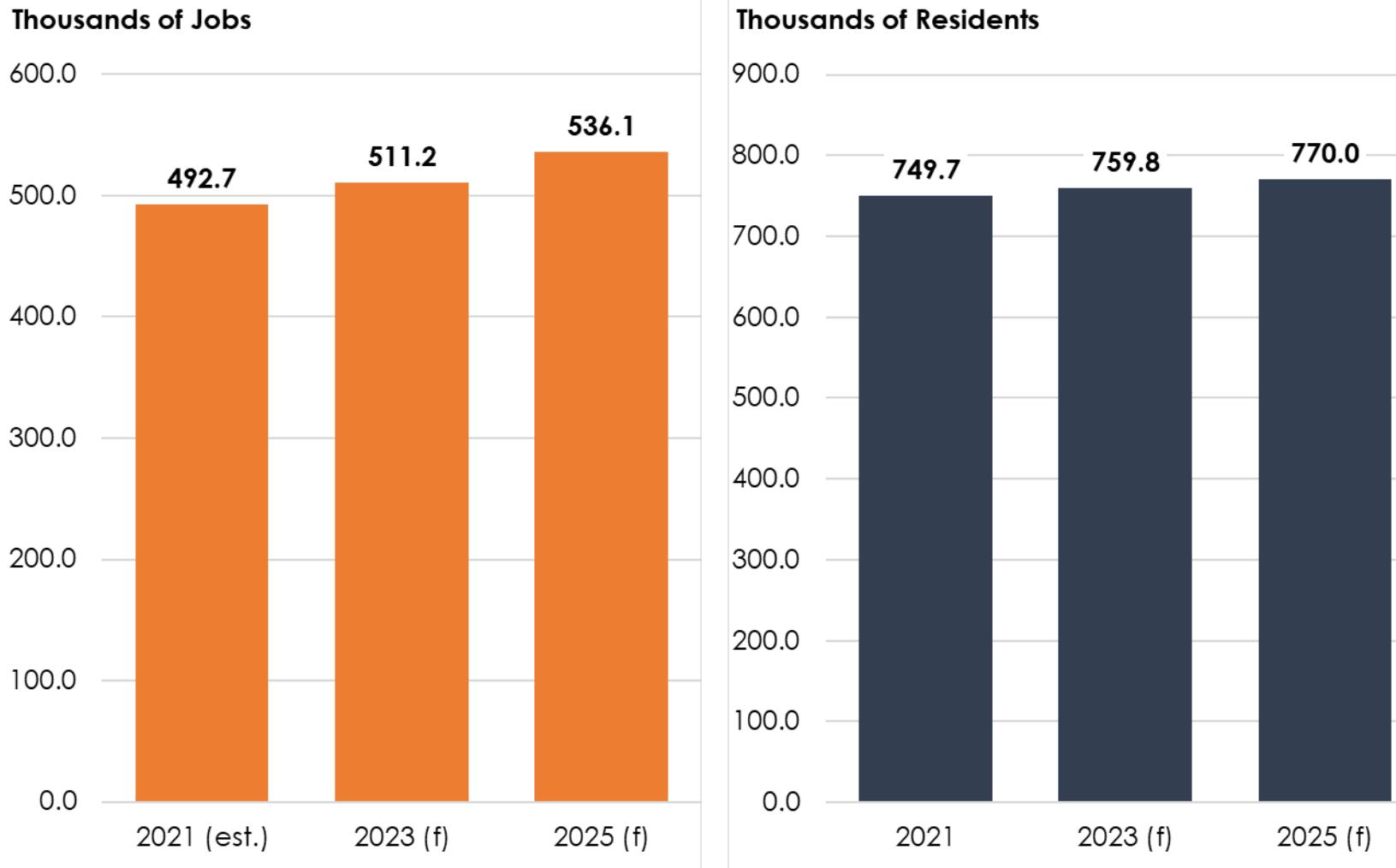
- Eastside becoming increasingly unaffordable, especially for services-based workers.
- Since 2012, cost per square foot residential floor space up 234% in Bellevue, 244% in Kirkland, 240% in Bothell, and 233% in Sammamish.
- Every community, including rural areas, experiencing rapid price increases.

Economic Recovery and Outlook

Tale of two recoveries

Economic Recovery and Outlook

Forecasted growth for the Eastside (covered employment and residents)



- The Eastside region will experience a net increase of more than 40,000 jobs between 2021 and 2025, largely driven by the tech sector, but supporting additional consumer-facing businesses.

Sources: Puget Sound Regional Council, 2021; U.S. Bureau of Labor Statistics, 2022; High Peak Strategy LLC, 2022.

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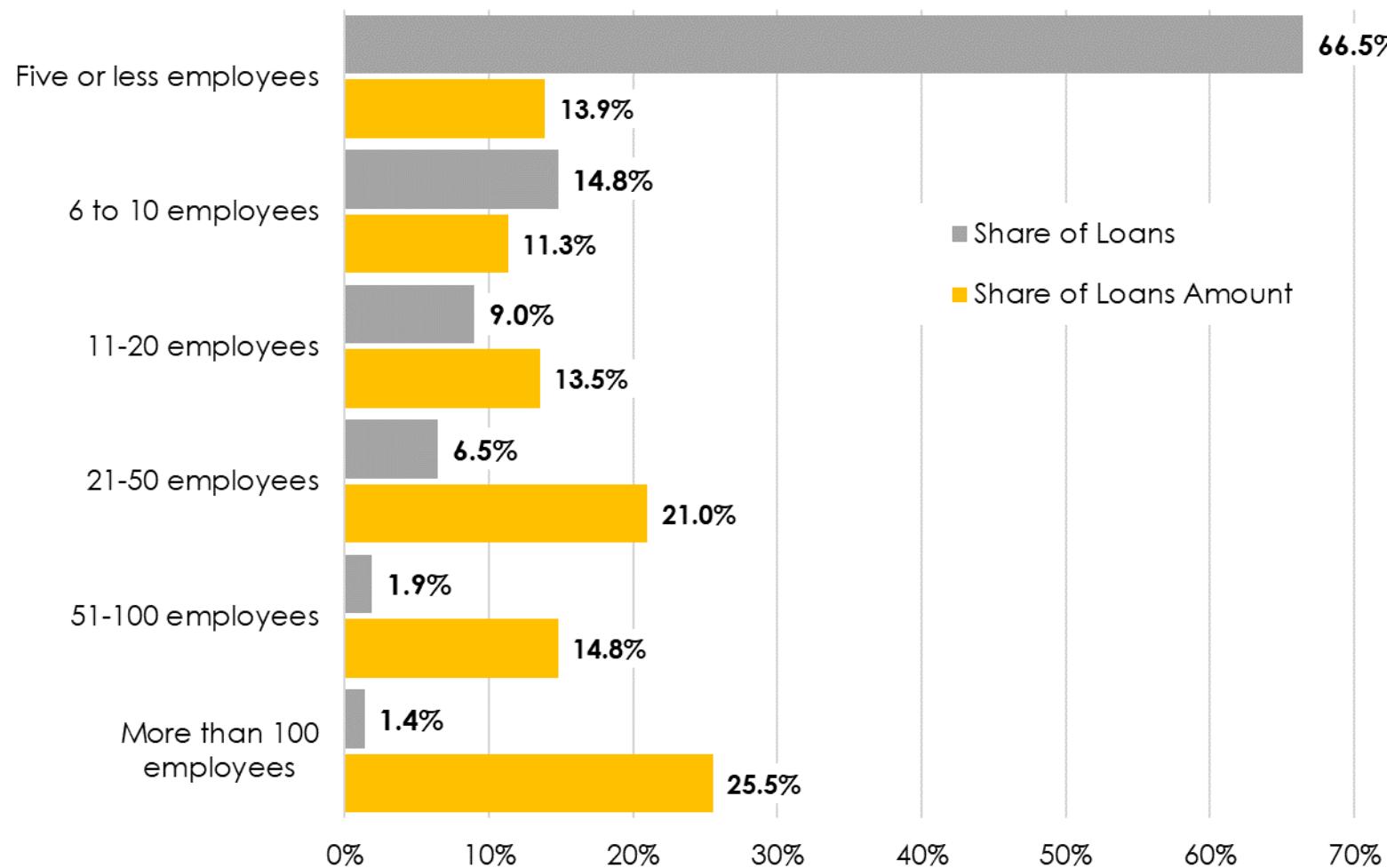
Economic Recovery and Outlook

Tale of two “recoveries”

- Tech sector has led the way.
- But small businesses and especially services sector has struggled.
- Remote work has hurt many small, services-based businesses on the Eastside.
- Most companies are planning resumption of on-site work soon as omicron fades.
- But...many businesses may embrace a hybrid (i.e., partially remote) work model, which could limit weekday consumer traffic for many small businesses.

Tale of Two Recoveries

PPP loans and grants allocated to businesses by employment size, 2020-2021, Eastside cities



- Micro businesses (5 employees or less) received 2/3 of all loans on the Eastside by number, but 14% by value.

Source: U.S. Small Business Administration, 2022.

Tale of Two Recoveries

PPP loans and grants allocated to businesses by industry, 2020-2021, Eastside cities

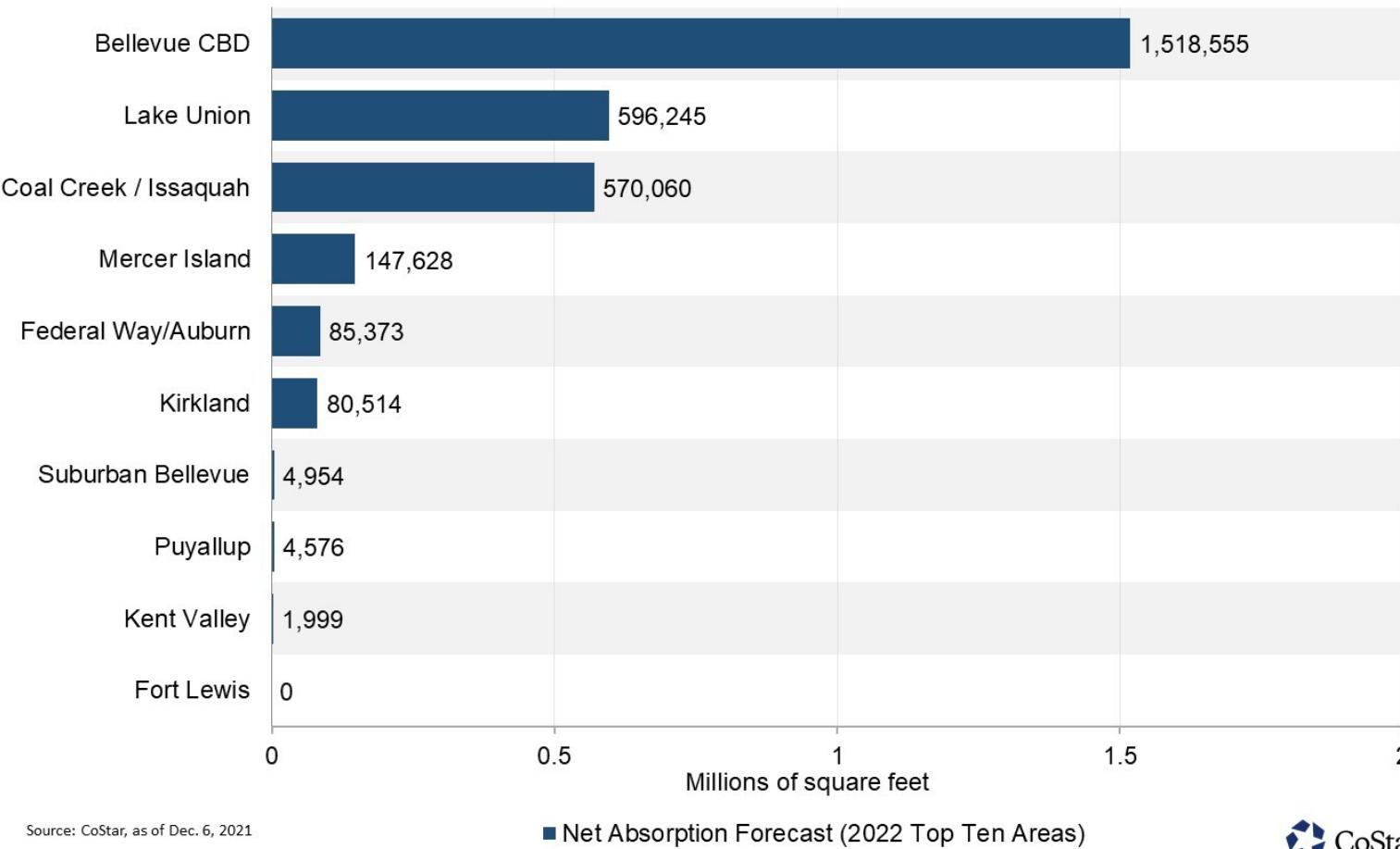
Industry	Loans	Amount (mils \$)	Average Jobs
Full-Service Restaurants	1,079	\$205.0	22
Offices of Dentists	1,000	\$88.6	8
Offices of Real Estate Agents and Brokers	950	\$37.0	3
Beauty Salons	749	\$34.0	5
Offices of Lawyers	482	\$26.9	4
Offices of Physicians (except Mental Health Specialists)	420	\$66.5	11
All Other Professional, Scientific, and Technical Services	419	\$26.4	5
All other industries	22,732	\$2,426.1	10
Total	27,831	\$2,910.4	10

Source: U.S. Small Business Administration, 2022.

Economic Recovery, Resilience, and Challenges

Office space demand on the Eastside, largely driven by the tech sector

Seattle Office Absorption For 2022 Will Be Concentrated in the Eastside



Source: CoStar, as of Dec. 6, 2021

■ Net Absorption Forecast (2022 Top Ten Areas)



- Amazon: 6 million square feet in Bellevue and plans to add 25,000 employees there within the next few years.
- Microsoft: set to complete multimillion-square-foot expansion at its campus in Redmond by 2023, in time for light rail service, adding thousands more jobs.
- Meta (aka Facebook): has committed to occupying more than 1.4 million square feet of space by 2024.

Economic Recovery, Resilience, and Challenges

Factors to consider for the next two years

- Return to on-site office work.
- Consumption patterns may not return to pre-pandemic levels.
- Inflation getting under control.
- No future (or less disruptive) COVID variants.
- Global developments: changes in supply chains, fissures in global trade and U.S.-China relations, Ukraine crisis.
- Growth that benefits all residents of the Eastside.
- Retaining and growing the arts and culture sector.
- Affordability.

Additional Questions and Feedback:

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