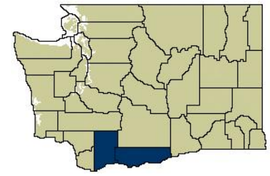
Washington State
Employment Security
Department

December, 2022

Klickitat and Skamania Counties



Labor Area Summary

Volume 2022, Number 6

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Monthly Review

"Perhaps I'll see you, the next quiet place
I furl my sails…"

David Crosby

Dec. 2022 Unemployment Rates	Dec. 2022	Nov. 2022	Dec. 2021
Seasonally Adjusted:			
U.S.	3.5	3.6	3.9
U.S. U-6**	6.5	6.7	7.3
Washington	4.2	4.0	4.5
Oregon	4.5	4.3	4.2
Portland Metro	4.0	3.9	4.2
Seattle Metro	3.0	2.9	3.6
Columbia Gorge*	5.6	5.5	4.4
Unadjusted:			
U.S.	3.3	3.4	3.7
Washington	4.4	4.2	4.0
Oregon	4.5	4.3	3.6
Columbia Gorge*	5.0	4.7	4.0
Klickitat	6.3	5.6	5.0
Skamania	5.7	5.5	4.9
Hood River	3.7	3.5	2.9
Sherman	3.5	3.2	3.3
Wasco	5.3	5.0	4.0
Clark	4.6	4.5	4.0
Cowlitz	5.8	5.7	4.9
Wahkiakum	7.2	7.3	5.1
Portland Metro	4.1	3.9	3.5
Seattle Metro	2.9	3.0	3.2

*Includes Hood River, Klickitat, Sherman, Skamania, and Wasco counties.
**See text for definition.

The Big Picture—random observations

Earlier this month I celebrated Ground Hog's Day. The ground hog is the patron saint of economists, after all. Like them, economists will crawl out of their bunkers, make a forecast, gasp in surprise at their shadow and dive back underground, only to emerge six weeks later, hoping (except in rare instances) no one remembers what their prediction was.

But there was nowhere to hide for those poor anonymous economists who the week before the press release predicted the nation would add 185,000 jobs in January. Instead, according to preliminary estimates, payrolls grew by 517,000, almost three times as much.

All across the business news metaverse there was shock and awe, along with the usual second-guessing of the numbers. The pessimists pooh-poohed the big number, arguing it was out of line with other economic indicators, and that it was due to updated factors used to adjust monthly data for seasonal trends. Optimists declared labor demand was even stronger than the jobs number showed, because the number of hours worked by the average employee increased.

A more reasonable view might be to put less attention on one data point and instead look at the underlying trend. Almost lost in the kerfuffle was the fact that January is when the Bureau of Labor Statistics revises its data for the past year (with small revisions for previous years). December's preliminary estimate was revised upward by 813,000 jobs. The COVID recovery, previously estimated as a gain of 0.8%, now stands at 1.8%. Current estimates for job growth in 2022 are significantly higher than the previous vintage—but *they are still preliminary* for April 2022 onward.

A recent article in *Forbes* (written before the latest employment report) noted that "the days of employee-centric policies are over, and the bosses are back in charge again." Well, that was quick! I hope you all enjoyed your 10 minutes of labor market power, during which you flexed your muscles and got that big pay raise that, um, didn't keep up with inflation. Which means, of course, that you got a pay cut. As did a number of CEOs, according to CNN Business:

> The pay cuts are hitting some of America's best-known and highest paid bosses…"This is a show of solidarity. CEOs need to share the pain," [according to one analyst]…Apple, for example, said it is cutting the target pay package [of CEO Tim] Cook by 40%. But that still leaves him with a massive $49 million in compensation.

In fairness to Mr. Cook, another analysis noted that he was one of the few tech CEOs who took a significant pay cut and did NOT lay off workers.

> While they may protect the CEO's reputation or placate investors, layoffs are immensely damaging for workers, even well-paid tech employees. People who are laid off face long-term career damage and harm to their mental and physical health. Not to mention that layoffs are of dubious value to the company; studies have found that layoffs are a net negative for productivity, that they suppress innovation, and that they can lead to a long-term decline in profits. Studies have also suggested that layoffs make life harder for the employees who weren't let go, especially since many of these companies cut back on benefits and other services that could help remaining workers. Given the human and business downsides of layoffs, a CEO's top priority should be to avoid them at all costs.

Economist Bill Mitchell made some interesting observations contrasting monetary policy in the U.S. and Japan. Early in the pandemic, Federal Reserve Bank Chair Jerome Powell declared that under his watch, the Fed would truly honor its dual mandate: price stability and full employment. Specifically, Powell promised to steer the Fed in a new direction. The old path, per Mitchell:

> (F)ull employment would be achieved through price stability because the market would bring the unemployment rate to a level consistent with stable inflation. So full employment became defined in terms of inflation rather than sufficient jobs to meet the desires of the workforce.

But then (with emphasis added):

> During the pandemic, it was abandoned and there was hope, particularly after statements made by the US Federal Reserve that *this approach had unnecessarily resulted in elevated levels of unemployment for decades*, that central bankers would target low unemployment as well as price stability.

Well, that was quick! The Fed quickly reverted to its old ways, with Fed Governors placing a lot of blame for inflation on rising wages—even though wages haven't been keeping up with inflation, and even with substantial evidence that supply chain issues and the 50% jump in corporate profits were the major causes of inflation. The Fed's counterparts around the world followed suit, raising interest rates willy-nilly, with one exception: Japan. The Bank of Japan has refused to jump on the raise-interest-rate bandwagon. The Bank's latest statement, boiled down by Mitchell (and condensed even more by your editor):

- "The current inflation is transitory and does not warrant interest rate rises." This was the initial belief of the Fed, which then shifted to "inflation is here to stay unless and until we beat it into submission."
- "It is 'virtuous' that profits **AND** nominal wages are rising. You won't find that sentiment expressed elsewhere where policy makers have been demanding workers accept real wage cuts."

- "The objective is to create a higher wage, higher productivity economy – the opposite ambition to other nations at present."
- "The Bank [of Japan] must do everything to maintain stimulus to allow [economic] activity to increase to support wage increases."

~~Investors~~ ~~The bond market~~ Speculators in the bond market have been betting big money (by selling short) that the Bank of Japan will fold under pressure and get back in lockstep with other central banks. The Bank has responded by buying their own bonds to keep interest rates low. If the Bank continues to hold its ground, well, we should all feel sad when speculators lose their shirts, right?

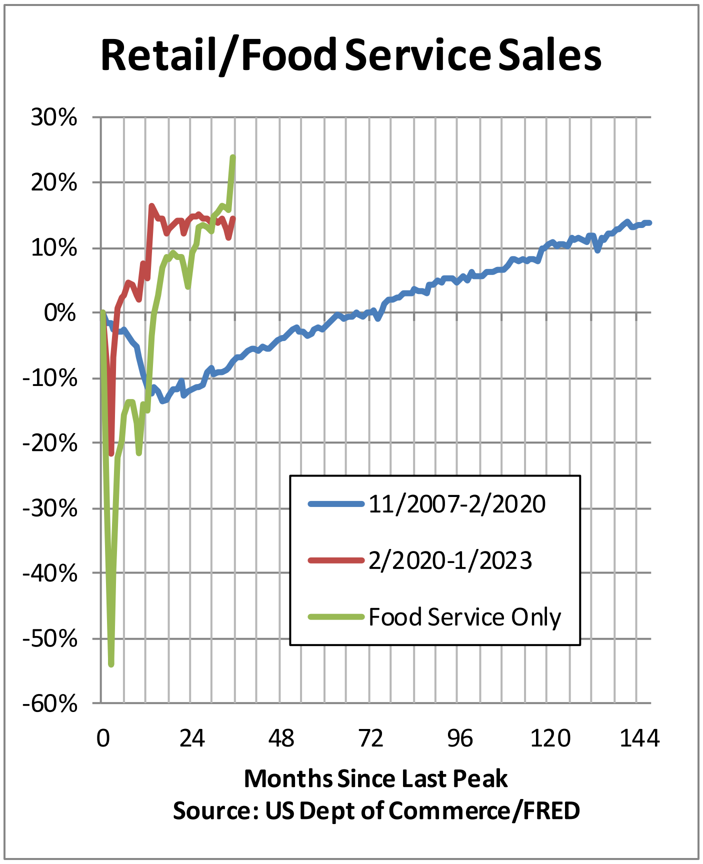
The point being, at least in one country, the central bank is putting its money where its mouth is and trying to help the average worker's wages catch up with inflation, instead of trying to beat wages down.

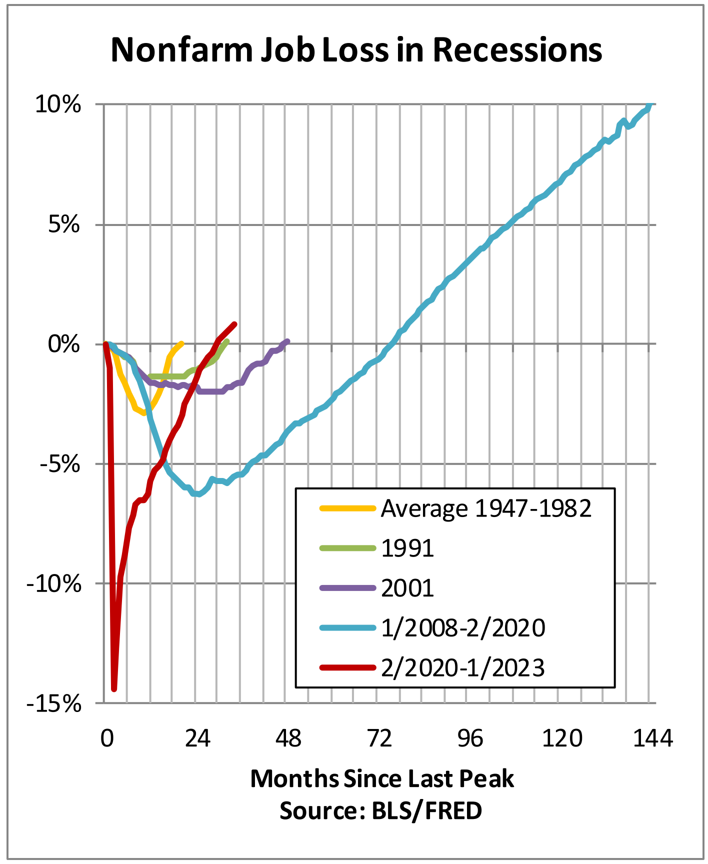
The Nation—current business cycle—where's my recession?

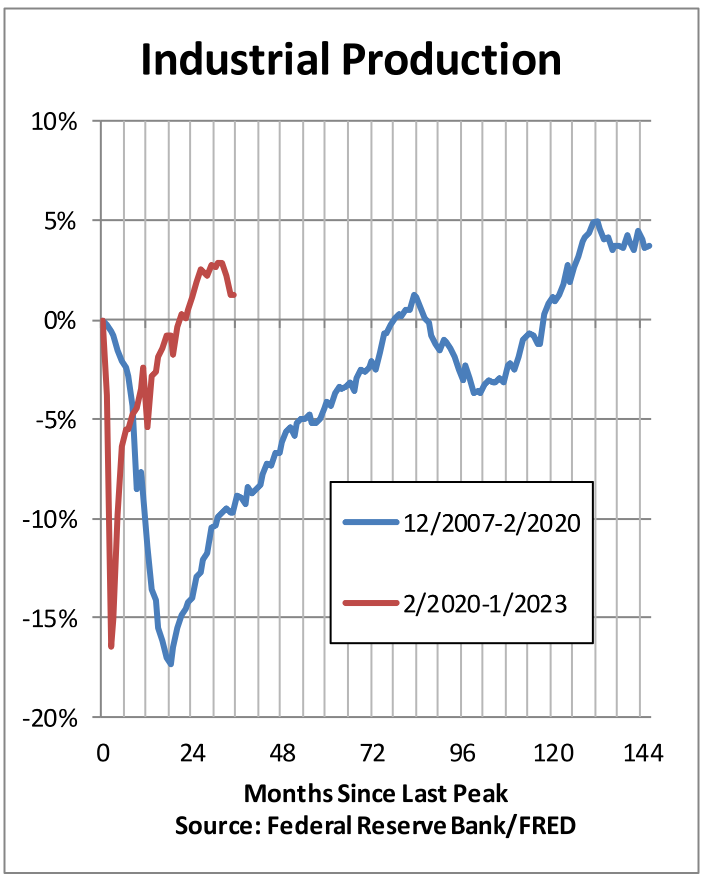
As noted in our last exciting episode (*thrills! chills!*), the official forecast for the state of Washington was for a mild recession in 2023. Specifically, the Economic and Revenue Forecast Council projected that U.S. GDP would decline in the 4th Quarter of 2022 and would fall as well in the first two quarters of 2023—a minor recession. Unemployment would rise to 5.3%, while job growth would flatten in the first quarter of the year and drop over the next three quarters by about 2 million jobs, a historically small decline. For Washington, unemployment would rise to 5.6%, while about 26,000 jobs would be lost, again a relatively small number for a recession—the state lost 83,300 jobs in the 2001-02 recession and 186,000 jobs in the Great Recession of 2008-09.

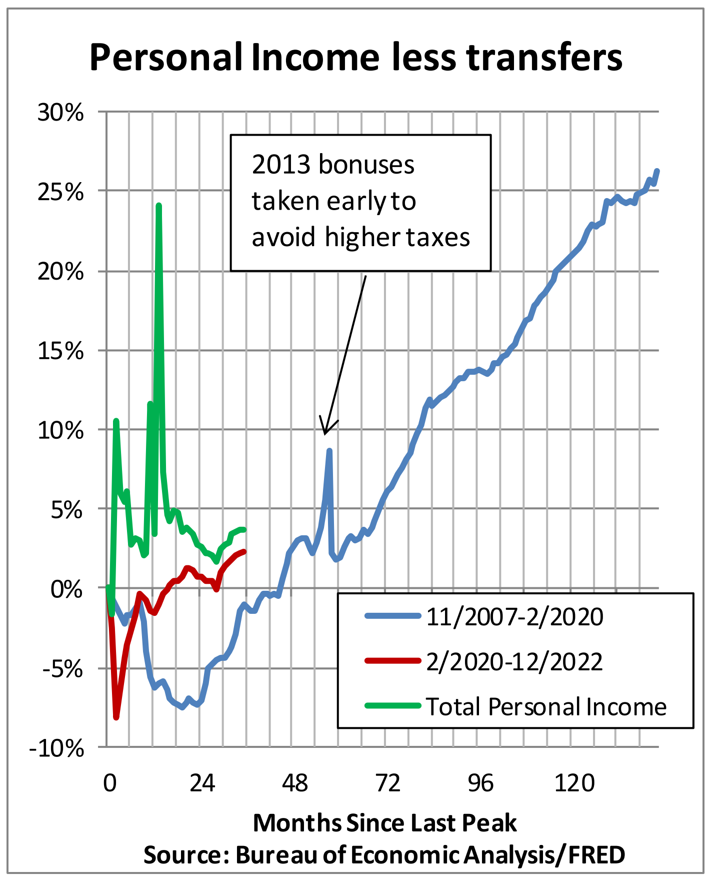
That forecast will now be revised, because instead of declining as predicted, GDP *expanded* in the fourth quarter by 2.7%—which kicks off our review of GDP and the four key national economic indicators.

- The initial estimate (two more to follow in the next two months) for GDP (the value of all goods and services produced in the U.S.) for the fourth quarter of the year (as mentioned, +2.7%) came in a lot higher than many economists were anticipating. While the headline number was good, diving into the details, it wasn't as strong as it might seem at first glance. Three-fourths of the increase in GDP was due to inventories being built up, as opposed to goods being produced and purchased. It's often not easy to tell if this is a normal adjustment by businesses or reflects a weakness on the part of customers. Consumer spending was up 1.4%, lower than the last two quarters and only slightly better than 2022 Q1. Not unexpectedly, residential housing investment continued its steep decline, while business investment spending (in commercial and industrial construction, machinery, software and equipment) was up a solid 3.3%. Exports declined slightly, imports declined a bit more, improving the trade balance, while government spending rose by 3.6%. So—not great, but could be worse. The first estimate of corporate profits for the quarter will be released at the end of March.
- Total personal income was essentially unchanged in January, end a six-month run of increases. When transfer payments like Social Security, Medicare and unemployment insurance benefits were factored out (so we can isolate income produced by economic activity), income by 0.1% over the month, the seventh consecutive gain. All in all, positive trends here (though we have no information on the distribution of this income).
- Industrial production, which includes energy, mining and manufacturing, was unchanged after two sharp declines in a row (-0.6% in November, -0.7% in December). Factory production, after falling by -0.8% in November and -1.8% in December, rose by 0.9% in January. Mining activity (mostly petroleum) had a smaller rebound after two months of lower activity.


Retail/Food Service Sales
30%
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
0
24
48
72
96
120
144
11/2007-2/2020
2/2020-1/2023
Food Service Only
Months Since Last Peak
Source: US Dept of Commerce/FRED

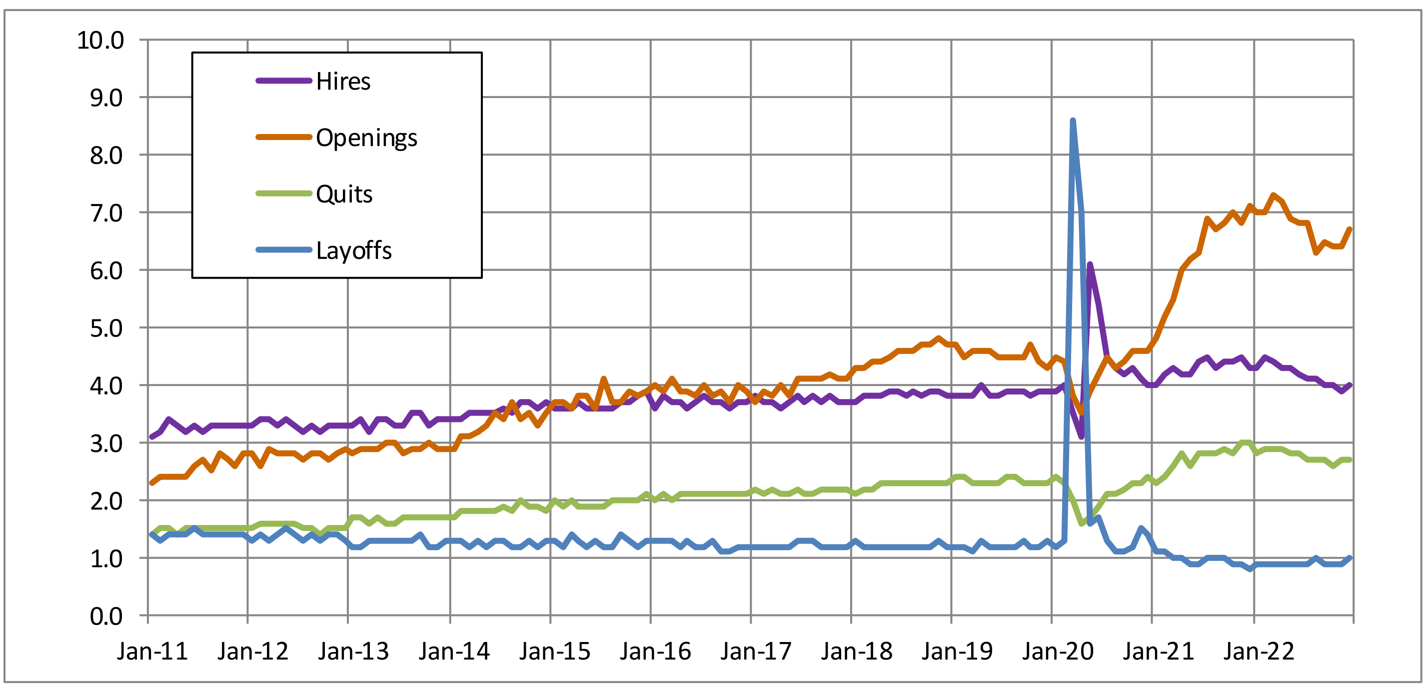

Nonfarm Job Loss in Recessions
10%
5%
0%
-5%
-10%
-15%
0
24
48
72
96
120
144
Average 1947-1982
1991
2001
1/2008-2/2020
2/2020-1/2023
Months Since Last Peak
Source: BLS/FRED


Industrial Production
10%
5%
0%
-5%
-10%
-15%
-20%
0
24
48
72
96
120
144
12/2007-2/2020
2/2020-1/2023
Months Since Last Peak
Source: Federal Reserve Bank/FRED

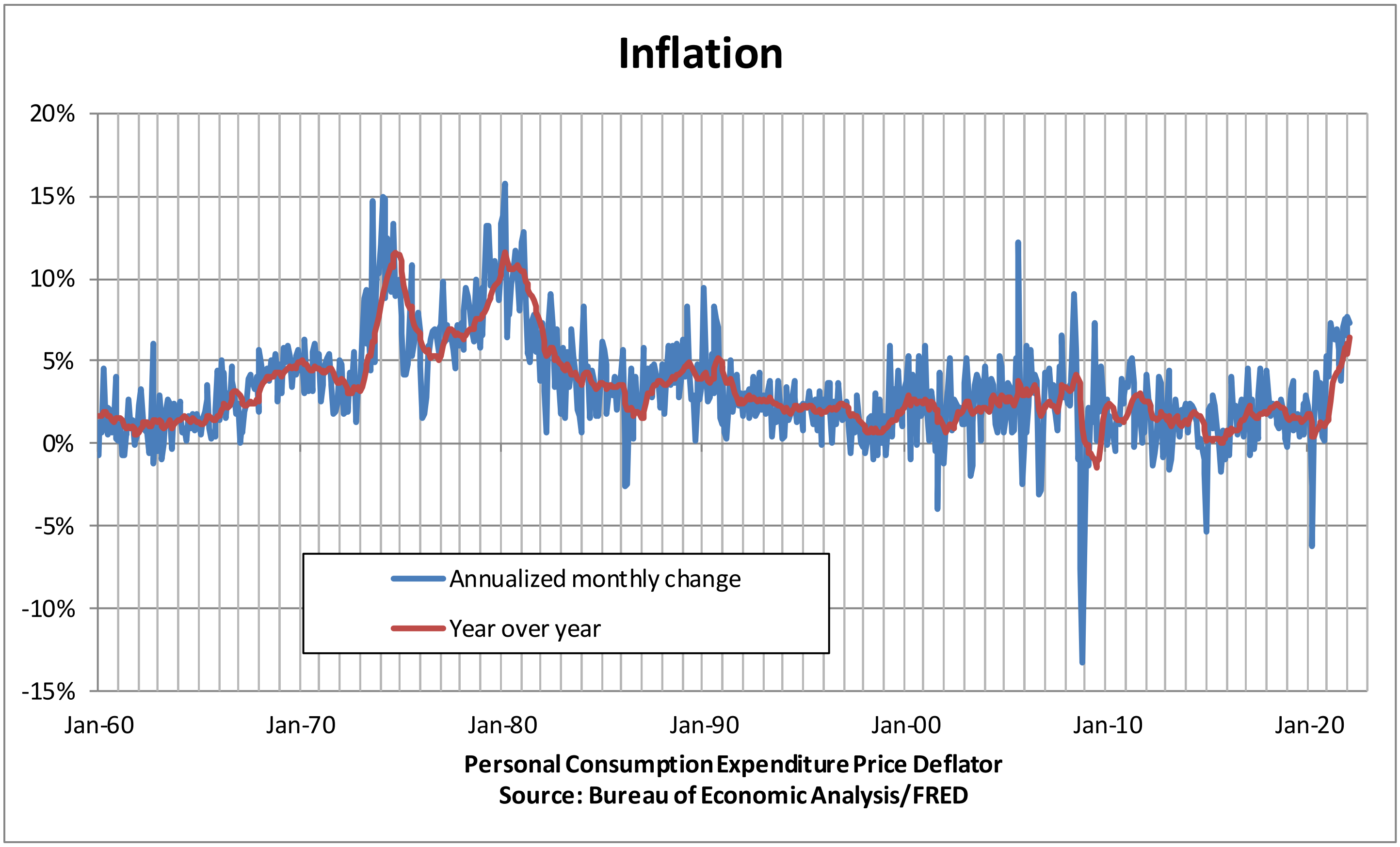

Personal Income less transfers
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
0
24
48
72
96
120
2013 bonuses taken early to avoid higher taxes
11/2007-2/2020
2/2020-12/2022
Total Personal Income
Months Since Last Peak
Source: Bureau of Economic Analysis/FRED

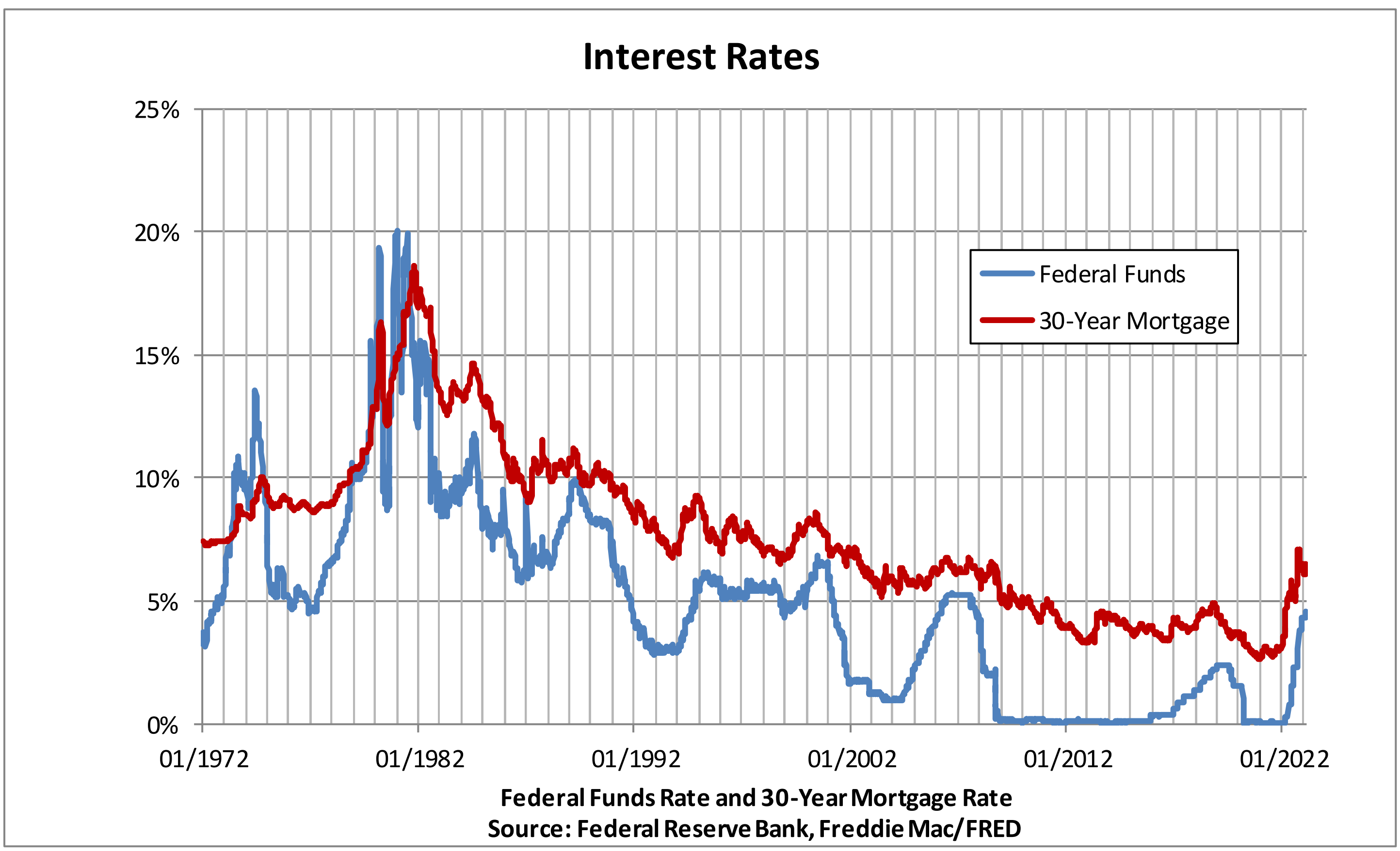
- Retail and food service sales, like industrial production, rallied after stalling for two months. Sales fell by 1.3% in November, 1.2% in December, before a big 2.5% gain in January. The increase was fueled by huge 7.0% jump in restaurant sales. As stated in previous reports, retail sales continued to be at elevated levels (compared with pre-COVID spending). Specifically, sales have risen by 14.3% over the course of the pandemic (35 months). For the 35 months before the pandemic, sales rose by only 4.8%. It's likely sales will revert to the long-term trend over the next couple of years. These are not normal times, and so we can't jump to conclusions here.
- As noted above, nonfarm employment was revised upward in 2022 and had a huge gain of 517,000 jobs in January.
    - Employment was 2.7 million jobs/1.8% above pre-COVID levels, but still 1.1 million jobs/0.7% short when population growth is factored in. This was one of the factors that didn't change despite revisions in jobs and population estimates.
    - The unemployment rate dropped to 3.4%. Just, wow. The broader U-6 rate—which includes those who want full-time work but can only find part-time work, along with discouraged workers—hit its all-time low of 6.5% in December (this measure was initiated in January 1994). It inched up a tenth of a point in January to 6.6%.
    - The unemployment rate was higher for Black men (5.6%) and Black women (5.2%), lower for Asian-Americans (2.8%). Those with a bachelor's degree or higher formal education had a 2.0% rate, vs. 4.5% for those who hadn't completed high school.
    - In December, job openings jumped by 572,000 (!), again at a time when the labor market was supposed to be slowing. Hiring, quits and layoffs were little changed. Openings, hiring and quits all remained at high levels, as shown in the chart below. Layoffs have been at very low levels for two years now.

Job opening, hire, quit and layoff rates, adjusted for seasonal patterns
United States, January 2011 through December 2022 (U.S.)
Source: U.S. Bureau of Labor Statistics/JOLTS



- Inflation slowed again in December and then picked up in January. Just when it looked like it was safe to get back in the water again… all of the various inflation measures went up. This time it was energy—after dropping steadily from June to December, prices for gasoline and home heating and lights headed back up in January in a big way.


Inflation
20%
15%
10%
5%
0%
-5%
-10%
-15%
Annualized monthly change
Year over year
Jan-60
Jan-70
Jan-80
Jan-90
Jan-00
Jan-10
Jan-20
Personal Consumption Expenditure Price Deflator
Source: Bureau of Economic Analysis/FRED


Interest Rates
25%
20%
15%
10%
5%
0%
Federal Funds
30-Year Mortgage
01/1972
01/1982
01/1992
01/2002
01/2012
01/2022
Federal Funds Rate and 30-Year Mortgage Rate
Source: Federal Reserve Bank, Freddie Mac/FRED

- It was just one month—but the increase in prices makes it more likely that The Fed will continue to raise interest rates. Federal Funds rate has been targeted for 4.5 to 4.75%—still historically low—while mortgage rates, which rose as high as 7.1% in November, dipped to 6.1% at the beginning of February before edging up to 6.5% at the end of the month.

Where have all the workers gone?

As noted above, the U.S. labor market was still short about 1.1 million workers in January. This estimate was derived by applying January 2020 labor force participation rates by age and sex to January 2023 population estimates. The likely causes of the worker shortage are still being researched. According to one study, COVID alone has reduced the U.S. labor force by 500,000 workers, while another analysis put that number as high as 4 million. In addition, had pre-pandemic immigration trends continued through 2022, about 1.3 million more immigrants would be in the labor force, about half of whom would have had a bachelor's degree or higher. The challenges of availability and cost of childcare and eldercare may also contribute to labor shortages, but no estimates of their impact are currently available.

What about all those tech layoffs?

Thousands of layoffs have been announced at Amazon, Microsoft, Google, and other "tech" companies, so why aren't we seeing a jump in unemployment and a drop in tech jobs?

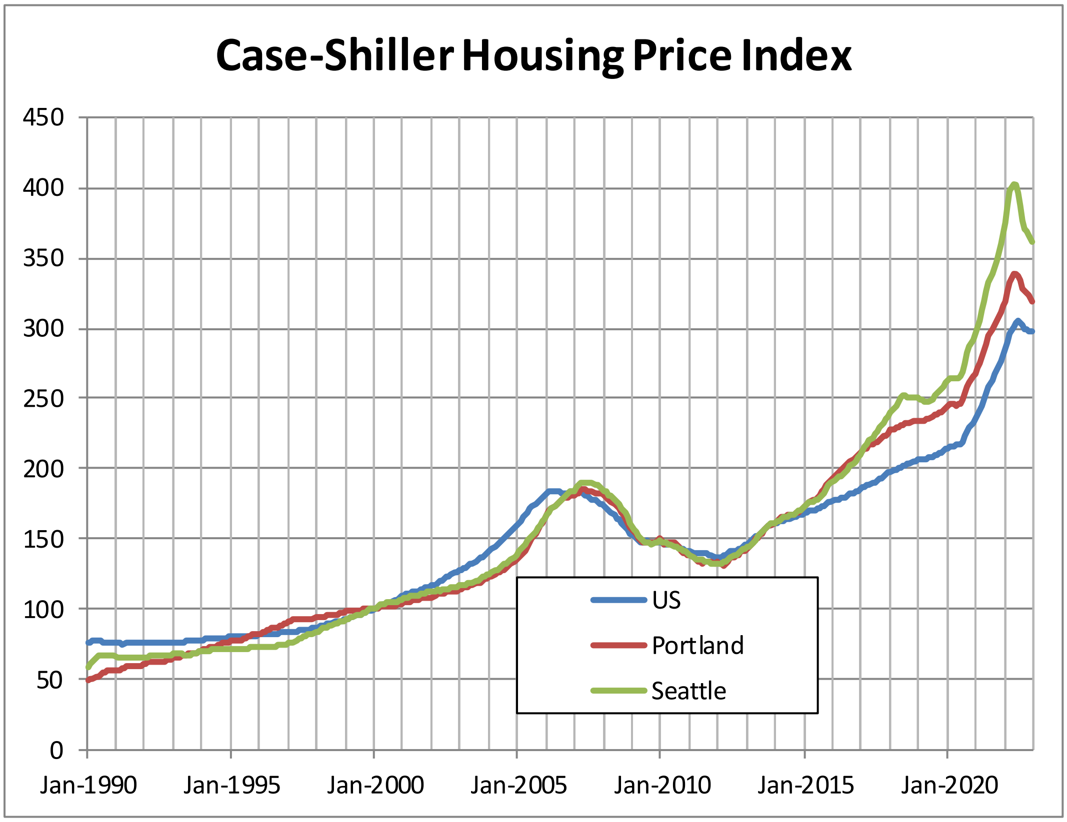
First, let's define terms. "Tech" here refers to online retail trade (e-commerce), prepackaged software (think of your favorite brand name software), all sorts of web services, including social networking, and computer systems design. The first of those used to have its own NAICS code (see below), but starting in 2022 was regrouped with its brick-and-mortar competitors. For example, online bookstores are now grouped with regular bookstores. Headquarter operations for these services have been grouped with other corporate offices. Some reasons that these layoffs have barely registered yet:

- There's sometimes a difference in timing between an announcement and actual layoffs (although not in the case for all those workers who found out they didn't have a job through an email or when they couldn't log in to their work account).
- The employer's actions may be different from what they initially announced.
- Even if a layoff occurs as announced, a different division of the employer may be expanding at the same time, so the net employment loss may be smaller. The same would be true if its competitors were hiring.
- If a laid-off worker receives a multi-month severance package, they are counted as employed during the severance period, so the job loss will not register right away.
- If an employer with a big layoff is not part of the monthly sample of employers, the loss will probably not be reflected in preliminary estimates. Employment reductions may not show up until preliminary data is revised roughly six months after the fact (statewide) or a year from now (nationally).

Unemployment claims data may also not provide much guidance. Workers still in the severance pay period will not file a claim, and many of those who may be laid off are in high-demand occupations and will be snatched up by other companies before they need to file a claim.

Adding to the complexity, a change in the NAICS North American Industry Classification Systems (NAICS) industry coding system is underway and will have a major impact on how these jobs are classified. In particular, the headquarters for non-store retailers that are currently classified in retail trade (NAICS 44-45) have been shifted to corporate headquarters (NAICS 55).

Our famously broken housing market, updated



The chart to the right shows the trends in home prices in each area, compared with the year 2000 (when the index was set to 100). Each data point is a three-month average, with the latest data for October-November-December.

Home prices have dropped seven consecutive months in Portland and Seattle, as measured by the Case-Shiller index. Most of the other 18 markets tracked have declined for at least six months in a row. Since peaking in March-April-May, home values have dropped an average of 10.0% in Seattle and 5.6% in Portland. Also hit hard: San Francisco (-12.7%), Phoenix (-7.8%) San Diego (-7.8%), Las Vegas (-7.2%), Los Angeles (-6.3%). Home values were still up 5.8% nationally and 1.1% in Portland over the past year, but Seattle was off by 1.1%. Prices still have a long ways to go to return to anywhere near "normal" affordability.

State of the States—and the big metros

Hiring slowed in Washington in December, but unemployment remained low.

Joblessness remained low. After three straight months at a record low rate of 3.7%, Washington's unemployment rate inched up to 4.0% in November and 4.0% in November. Those rates, while slightly higher, were not statistically different from the preceding months—or from the national rate. The (preliminary) average annual unemployment rate was 4.4% in 2022. It was higher for teenagers (15.1%), African Americans (7.7%) and Latinos (5.9%). Seasonally-adjusted continued unemployment claims increased in November, but at the end of 2022 were still 18% lower than December 2019.

Hiring slowed in December. The state added 12,000 jobs in November and only 1,500 in December. Employment was up 3.5% over the year, and 1.9% higher than before the pandemic. Washington ranked 14th among states in terms of percent employment growth (Idaho was first at 7.1%).

- Much-anticipated tech layoffs have yet to show up in the monthly estimates (see above) except for the loss of 600 jobs in software.
- The state has not fully recovered. The working-age population has increased by about 2.8% during the pandemic, while employment has grown by 1.9%. That leaves the state with a population-adjusted deficit of 32,000 jobs.
- In the past six months, aerospace and hotels/motels have been two of the strongest industries, while trucking and employment services have cut back some of their previous gains.

- The rate of job openings in the state rose while hires and quits held steady in October. All were slightly below the national rates. Openings continued to be much higher than normal, while hires and quits were close to the pre-COVID rates (see above chart). Layoffs remained at low levels.
- The recovery has been wildly uneven by county. In December, Clark County employment was 8.7% above its pre-pandemic count. Adams County was up 7.3%, and the Tri-Cities rose 5.0%. Ten counties were still more than one 1% below pre-COVID, with the biggest deficit in Kittitas County (-11.1%, largely due to losses in higher education).

Oregon employment had another good month in December, following November's 8,200 job gain with an additional 6,100 jobs. That put the state 21,300 jobs above the February 2020 pre-pandemic mark, still a bit behind the nation as a whole (+1.1% vs +1.4% for the U.S. in December). Three industries accounted for most of the monthly job gain: construction, manufacturing, and professional services.

Portland's November job change was revised upward from -300 to +1,500. December brought a larger 5,700 job expansion, pushing employment to +5.0% over the year and +1.9% through the pandemic. Every major sector has shown robust growth over the past year, with the exceptions of trade, transportation & utilities and information services. Seattle had another solid month of hiring, with the metro area adding 7,500 jobs. Construction and manufacturing both declined, but the service sector expanded, with two notable exceptions. Software lost 900 jobs, and business services was down 900 jobs, half at temp agencies. Seattle employment was up 4.6% over the year, and 1.3% through the pandemic. One of the industries weighing the area down has been aerospace, which lost 300 jobs over the month after a string of positive months. Aerospace was still 15,500 jobs below its pre-pandemic level. Compared with the other 50 largest metro areas, Portland's recovery ranked 19th, Seattle's 25th.

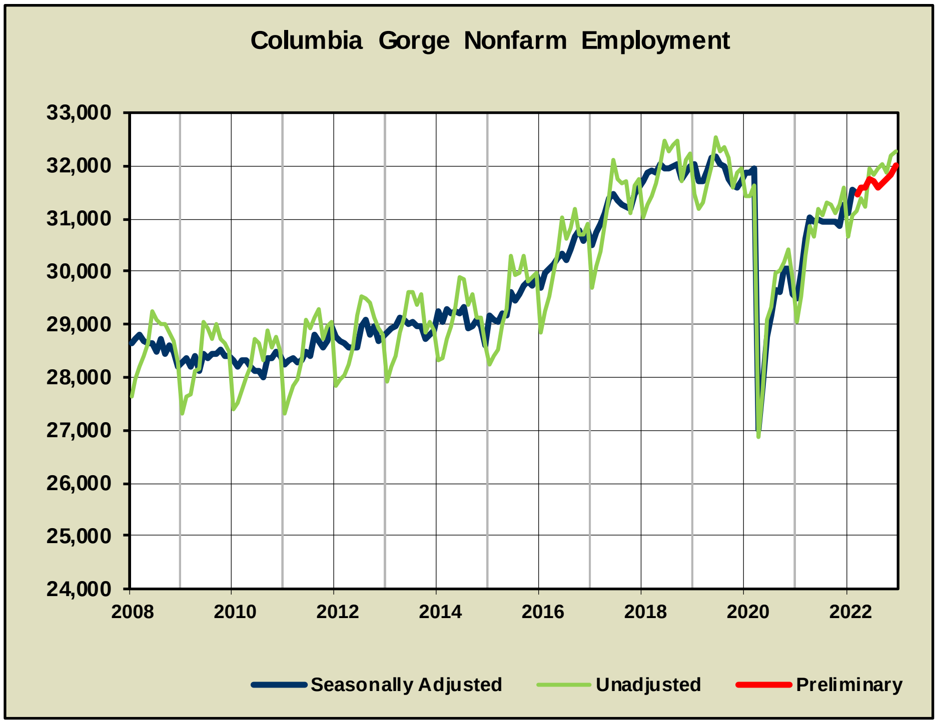
December unemployment rates varied from 4.4% in Oregon, 4.2% in Washington, 3.9% in Portland, down to Seattle Metro's 3.0%—only the former significantly different from the national rate of 3.5%.

The Gorge

The Gorge had a good month in December, adding 170 jobs on a seasonally-adjusted basis. There was more hiring than usual in leisure & hospitality, and there were smaller gains in trade, transportation & utilities along with manufacturing. Unadjusted employment rose by 80 jobs. Leisure & hospitality added 245 seasonal hires while most other industries were laying off workers, including trade, transportation & utilities (-95 jobs), manufacturing (-50), professional & business services (-30) and construction, logging & mining (-30).

Comparing December 2022 with February 2020, before COVID struck:

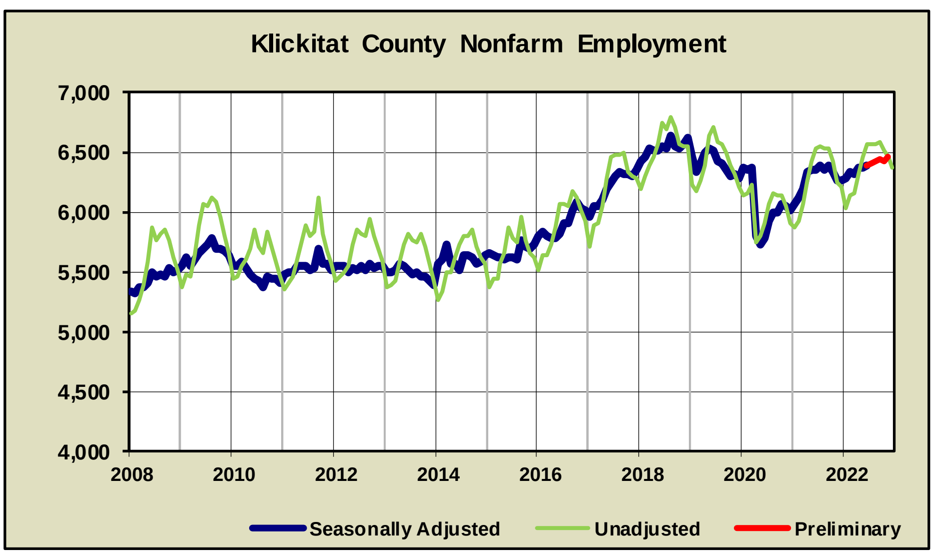
- Total nonfarm employment rose by 120 jobs, or 0.4%. The Gorge recovery has been slower than the U.S. (+1.3% through December), Washington (+1.9%), Oregon (+1.1%), Portland metro (+1.9%), and Seattle metro (+1.3%).
- Mining, logging & construction employed 1,500 in December, which after seasonal adjustment was 10 jobs less than February 2020 (-0.7%).
- Manufacturing employed 3,960; after adjustment, that was a drop of 150 jobs, a 3.6% decline.
- Trade, transportation & utilities had 6,035 employees, a gain of 350 jobs/6.5% after adjustment.
- Professional & business services employed 2,320, which after adjustment was a gain of 230 jobs or 10.6%.
- Education & health services employed 4,760 jobs, a loss of 70 jobs (-1.4%) from February 2020.
- Leisure & hospitality employment was estimated at 4,825 jobs, down 140 jobs, a 2.9% decline.
- All other service industries—including information services, finance and real estate and other services—employed 2,770, a loss of 60 jobs (-2.1%) over the course of the pandemic.
- Government declined by 30 jobs to 6,105, a -0.5% decline.



Unemployment has trended upward since June, with the unofficial seasonally-adjusted jobless rate rising from 3.5% to 5.6%. The unadjusted rate was estimated at 5.0%, in December, a point above the year-ago mark. Almost 2,200 Gorge residents were looking for work, up from 1,700 in December 2021.

Klickitat Summary

Typical late fall and early winter layoffs led to a decline in Klickitat County employment by 90 jobs in December. Reductions were scattered across a number of industries, including manufacturing (-30), professional & business services (-20) and leisure & hospitality (-20). The only positive came in K-12 education (+20). Total nonfarm employment fell to 6,360 jobs.

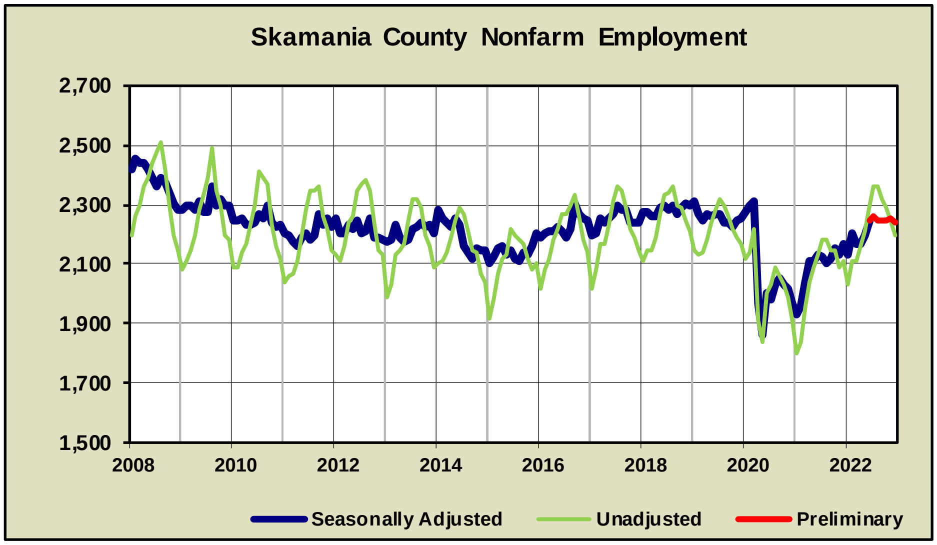


Over the year, employment rose by 160 jobs, or 2.6%. Five industries again dominated the employment picture. Manufacturing has dropped by 70 jobs (-5.3%). Professional & business services has added 90 jobs over the year (+16.7%), while leisure & hospitality payrolls rose by 70 jobs (+22.6%). Trade, transportation & utilities expanded by 50 jobs (6.3%), while government payrolls were up 40 jobs (+2.3%).

The county had 130 more jobs than it had on the eve of COVID. That translated into a 2.0% gain, better than the state, the nation, Oregon and the Portland and Seattle metro areas. Manufacturing has lost 210 during the pandemic and another 330 jobs since its previous peak in 2018. Professional services has nearly doubled over the past three years, adding 120 jobs, and industries such as retail trade, transportation & warehousing, business services and leisure & hospitality have had sizable gains.

The county unemployment rate was estimated at 6.3%, more than a point higher than the 5.0% from last December. About 610 county residents were jobless and looking for work, 110 more than a year ago.

Skamania Summary



Employment in Skamania County typically peaks in July and August, followed by seasonal layoffs over the next four months. So it was in December, with the county shedding 50 jobs over the month, 10 more than the usual trend for this time of year. The layoffs were all in leisure & hospitality, which declined by 60 jobs. Other service sector employers added 10 jobs.

Total employment fell to 2,200 jobs. That was 90 more jobs than last December, a 4.3% increase. The county was still 60 jobs short of recovery from the COVID-19 pandemic, a deficit of 2.6%. Construction has lost 20 jobs since last December, and was 40 jobs below pre-COVID. Manufacturing employment added 20 jobs over the year and was up 30 during the pandemic. Trade, transportation & utilities was the biggest source of job growth: +20 over the year/+60 jobs since the pandemic. Accommodations & food services was up 30 jobs over the year but was 120 jobs below pre-pandemic levels. Other service sector jobs have expanded by 30 over the year but were still 10 jobs below pre-COVID times.

The county's December unemployment rate was estimated at 5.7% a bit more than the 4.9% from December 2021. About 330 county residents were jobless and seeking work, 50 more than a year ago. Fewer (72) county residents filed an unemployment claim this past December than a year earlier (80).