



# Washington Labor Market Quarterly Review

Volume 32, Number 2

April - June 2008

## INDICATORS

### UNEMPLOYMENT RATE

#### Washington

##### (Seasonally Adjusted)

|                  |      |
|------------------|------|
| April 2008       | 4.7% |
| May 2008         | 5.3% |
| June 2008 (prel) | 5.5% |

#### United States

##### (Seasonally Adjusted)

|                  |      |
|------------------|------|
| April 2008       | 5.0% |
| May 2008         | 5.5% |
| June 2008 (prel) | 5.5% |

### NONAGRICULTURAL EMPLOYMENT

#### Washington (Seasonally Adjusted)

##### (in thousands)

|                  |         |
|------------------|---------|
| April 2008       | 2,962.6 |
| May 2008         | 2,964.6 |
| June 2008 (prel) | 2,962.6 |

#### Percent Change (over the year)

|                       |      |
|-----------------------|------|
| April 2007-2008       | 1.5% |
| May 2007-2008         | 1.3% |
| June 2007-2008 (prel) | 1.2% |

## IN THIS ISSUE

### MINIMUM WAGE JOBS OVER TIME

2

#### By Industry

3

#### By Region

5

### NATIONAL UPDATE

6

#### Housing and Construction

7

#### Financial Markets

7

### STATS-AT-A-GLANCE

9

### COMING SOON

11

## Minimum Wage Jobs: 2007 Update

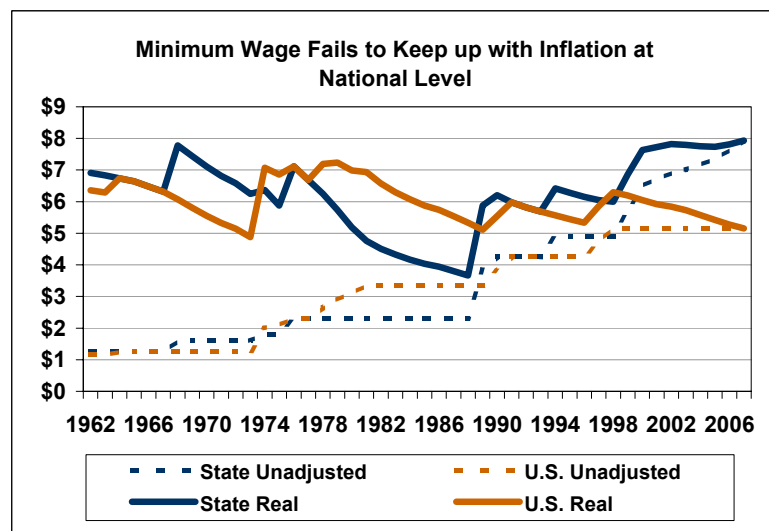
By Scott Bailey, Regional Labor Economist

- Washington continues to have the highest minimum wage among states.
- The percentage of jobs that paid the minimum was higher in the second quarter of 2007 than it had been in seven years.
- Minimum wage jobs are concentrated in three industries: food services, agriculture, and retail trade.
- Counties east of the Cascades have a higher proportion of minimum wage jobs, in part because they have a higher proportion of jobs in those three industries.

In May, 2007, President Bush signed into law the first national increase in the minimum wage since 1997. The minimum rose from \$5.15 per hour to \$5.85 in July 2007, and was just bumped up to \$6.55 per hour on July 24, 2008. A third and final jump to \$7.25 per hour is scheduled for July 24, 2009.

Even with these substantial increases, the federal minimum wage will still be well below the minimum for Washington.

Figure 1. Washington and U.S. Statutory Minimum Wage, Nominal and Adjusted for Inflation, Using U.S. Personal Consumption Expenditure Price Deflator



Source: Washington State Employment Security Department, U.S. Department of Labor

In 1998, Washington voters approved an initiative which automatically indexed the state's minimum wage to a measure of inflation, specifically the U.S. Consumer Price Index for Urban Wage earners and Clerical Workers (CPI-W). Oregon voters adopted a similar indexing in 2002.

On January 1<sup>st</sup> of this year, Washington's minimum wage increased by 14 cents an hour to \$8.07 – once again the highest in the nation. Oregon has temporarily dropped from second to fourth at \$7.95, but will likely pass two non-indexed states (California and Massachusetts, both at \$8.00) in 2009. Thirty-two states have minimums higher than the new federal standard of \$5.85 per hour, compared with twenty-four last year. Ten states have indexed their minimums so that they will rise automatically with inflation. Five states still have no legal minimum wage (reverting to the federal minimum), and one, Kansas, continues to distinguish itself by having the lowest minimum on the books at \$2.65<sup>1</sup>.

As shown in *Figure 1*, the federal minimum, after adjustment for inflation, was close to its lowest point since its inception until the recent increase. Historically, minimum wages have been increased, allowed to decline against inflation for a number of years, and then readjusted. Indexing has eliminated the sawtooth pattern in Washington; this

year's minimum wage is now roughly the same as in 1968. In contrast, the U.S. minimum was more than two dollars an hour below its 1979 peak. With inflation on the rise, the U.S. minimum will still be well below (on the order of 60 cents an hour) its peak in the 1970s.

## Minimum Wage Jobs Over Time

In the second quarter of 2007, 2.8 percent of jobs in the state of Washington paid the minimum wage, if employment is calculated on a full-time equivalency (FTE) basis<sup>2</sup>. This was the highest percentage since early 2000.

During the 1990s, minimum wage jobs averaged around one percent of total employment. The percentage fluctuated from as low as half a percent up to 1.5 percent (*Figure 2*). The first large increase in the state minimum wage in 1999 had a modest effect on the number of minimum wage jobs, but the second wage hike in 2000 appeared to compress the bottom of the wage scale. Since then, between 1.8 percent and 2.8 percent of all jobs have paid the minimum – with the exception of a low of 1.5 percent in the third quarter of 2001 – during the middle of the recession.

Beginning in 1994, the percentage of jobs paying the minimum became more volatile from quarter to quarter. In 1999,

however, a regular seasonal pattern emerged, with the first three quarters roughly equal and a drop in the percentage in the fourth quarter.

These percentages are figured on an FTE (full-time equivalency) basis of 520 hours worked in a quarter – the equivalent of working a forty-hour week all thirteen weeks over the three-month period. Because many minimum-wage jobs are part time and tend to be of shorter duration than average, the actual number and percentage of workers with a minimum wage job at any point in time is higher than indicated. In 2<sup>nd</sup> quarter 2007, 6.2 percent of jobs – where a job is any employee-employer relationship during those three months – paid the minimum.

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*On January 1, 2008, Washington's minimum wage increased by 14 cents an hour to \$8.07.*

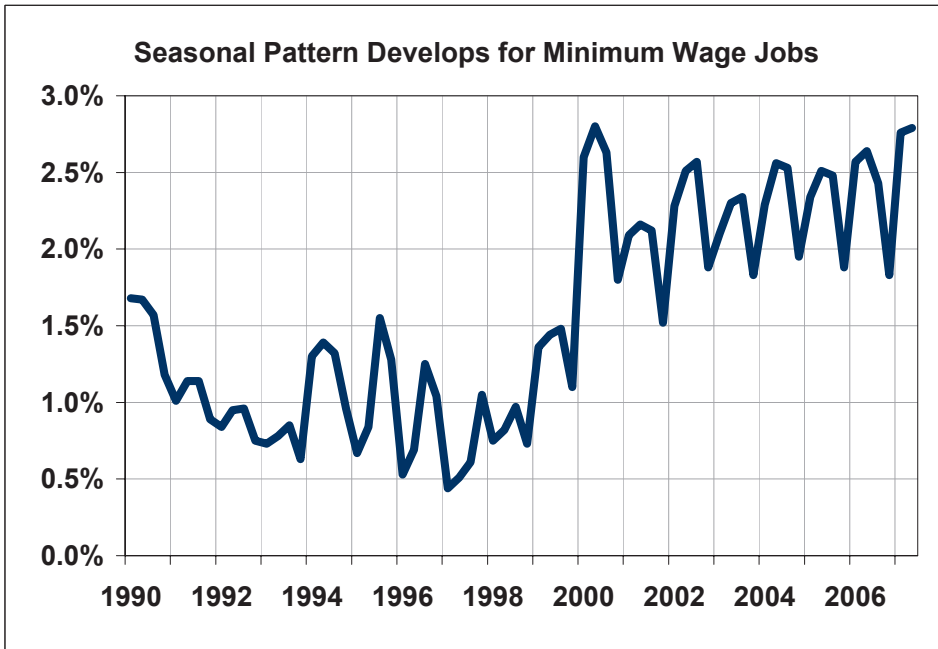
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<sup>1</sup> U.S. Department of Labor, [www.dol.gov/esa/minwage/america.htm](http://www.dol.gov/esa/minwage/america.htm).

<sup>2</sup> Minimum wage jobs were defined as those having an hourly wage within two percent of the minimum, to cover rounding errors. One FTE job is equal to 2,080 hours worked. Federal employment and employment at private households were excluded from the analysis.

Figure 2. Percent of Jobs Paying the Minimum Wage, FTE Basis, State of Washington Quarterly, First Quarter 1990 Through Second Quarter 2007



Source: Washington State Employment Security Department

### By Industry

Minimum wage jobs continue to be concentrated in a handful of industries. Food services, agriculture, and retail trade accounted for about two-thirds of the total in every quarter going back to 1990. In the second quarter of 2007, when the minimum wage was \$7.93, accommodations and food services hosted 37 percent of the state’s minimum wage jobs. Another 20 percent of these low-wage jobs were in agriculture, and 17 percent were in retail trade.

From another angle, 17 percent of agricultural jobs – one in six – paid at or near the minimum wage; on fruit and nut farms, almost a quarter of jobs paid the minimum. Seventeen percent

of accommodations and food services were in this category; as were almost a third of all jobs at limited-service restaurants (such as fast-food outlets).

There are many industries in which minimum wage jobs are relatively rare (one percent or less of all jobs), including mining, utilities, construction, manufacturing, wholesale trade, transportation, information, finance and insurance, professional services, corporate offices, private educational services, state government, and local government.

Figure 3 lists minimum wage jobs by major sector, along with data for those detailed industries with the most minimum wage jobs.

*Food services, agriculture, and retail trade accounted for about two-thirds of the total minimum wage jobs in every quarter going back to 1990.*



Figure 3. Minimum Wage Jobs by Industry, Second Quarter 2007

| NAICS     | Industry  | FTE*<br>Minimum<br>Wage Jobs | Percent<br>of All<br>Minimum<br>Wage<br>Jobs | Percent<br>of All FTE<br>Jobs in<br>Industry |
|-----------|---|------------------------------|--|--|
| <b>11</b> | <b>Agriculture, Forestry, Fishing and Hunting</b>       | <b>12,742</b>                | <b>20%</b>                                   | <b>17%</b>                                   |
| 1113      | Fruit and Tree Nut Farming                              | 6,956                        | 11%  | 24%  |
| <b>21</b> | <b>Mining</b>   | <b>8</b>                     | <b>0%</b>                                    | <b>0%</b>                                    |
| <b>22</b> | <b>Utilities</b>  | <b>1</b>                     | <b>0%</b>                                    | <b>0%</b>                                    |
| <b>23</b> | <b>Construction</b>                                     | <b>471</b>                   | <b>1%</b>                                    | <b>0%</b>                                    |
| <b>31</b> | <b>Manufacturing</b>                                    | <b>1,551</b>                 | <b>2%</b>                                    | <b>1%</b>                                    |
| <b>42</b> | <b>Wholesale Trade</b>                                  | <b>1,198</b>                 | <b>2%</b>                                    | <b>1%</b>                                    |
| <b>44</b> | <b>Retail Trade</b>                                     | <b>10,550</b>                | <b>17%</b>                                   | <b>5%</b>                                    |
| 4451      | Grocery Stores  | 1,708                        | 3%   | 4%   |
| 4471      | Gasoline Stations                                       | 1,418                        | 2%   | 14%  |
| 452       | General Merchandise Stores                              | 1,468                        | 2%   | 4%   |
| <b>48</b> | <b>Transportation and Warehousing</b>                   | <b>595</b>                   | <b>1%</b>                                    | <b>1%</b>                                    |
| <b>51</b> | <b>Information</b>                                      | <b>885</b>                   | <b>1%</b>                                    | <b>1%</b>                                    |
| <b>52</b> | <b>Finance and Insurance</b>                            | <b>219</b>                   | <b>0%</b>                                    | <b>0%</b>                                    |
| <b>53</b> | <b>Real Estate and Rental and Leasing</b>               | <b>1,151</b>                 | <b>2%</b>                                    | <b>3%</b>                                    |
| <b>54</b> | <b>Professional, Scientific, and Technical Services</b> | <b>589</b>                   | <b>1%</b>                                    | <b>0%</b>                                    |
| <b>55</b> | <b>Management of Companies and Enterprises</b>          | <b>56</b>                    | <b>0%</b>                                    | <b>0%</b>                                    |
| <b>56</b> | <b>Admin. and Support and Waste Mgmt. Svcs.</b>         | <b>2,366</b>                 | <b>4%</b>                                    | <b>2%</b>                                    |
| 561320    | Temporary Help Agencies                                 | 1,003                        | 2%   | 3%   |
| <b>61</b> | <b>Educational Services</b>                             | <b>234</b>                   | <b>0%</b>                                    | <b>1%</b>                                    |
| <b>62</b> | <b>Health Care and Social Assistance</b>                | <b>3,435</b>                 | <b>5%</b>                                    | <b>2%</b>                                    |
| 624410    | Child Day Care Services                                 | 1,412                        | 2%   | 12%  |
| <b>71</b> | <b>Arts, Entertainment, and Recreation</b>              | <b>1,770</b>                 | <b>3%</b>                                    | <b>7%</b>                                    |
| <b>72</b> | <b>Accommodation and Food Services</b>                  | <b>22,829</b>                | <b>36%</b>                                   | <b>17%</b>                                   |
| 721       | Lodging   | 1,793                        | 3%   | 8%   |
| 7221      | Full-Service Restaurants                                | 5,533                        | 9%   | 10%  |
| 7222      | Limited-Service Eating Places                           | 14,603                       | 23%  | 29%  |
| <b>81</b> | <b>Other Services</b>                                   | <b>1,900</b>                 | <b>3%</b>                                    | <b>3%</b>                                    |
| <b>92</b> | <b>State Government</b>                                 | <b>269</b>                   | <b>0%</b>                                    | <b>0%</b>                                    |
| <b>93</b> | <b>Local Government</b>                                 | <b>830</b>                   | <b>1%</b>                                    | <b>0%</b>                                    |
|           | <b>Unknown</b>  | <b>92</b>                    | <b>0%</b>                                    | <b>3%</b>                                    |
|           | <b>Total</b>  | <b>63,742</b>                | <b>100%</b>                                  | <b>3%</b>                                    |

\*One FTE job = 520 hours worked per quarter (full-time, 40-hour work week).

Source: Washington State Employment Security Department



## By Region

Minimum wage jobs are distributed unequally around the state. In Okanogan County, 14 percent of jobs paid the minimum, while in King County, only one percent paid that low. Minimum wage jobs were 6.8 percent of FTE employment in rural counties, 5.2 percent of micropolitan employment, 4.3 percent of MSA employment, and 1.6 percent of metropolitan division employment. For counties west of the Cascades, minimum wage jobs counted for 2.1 percent of jobs; on the east side, 5.6 percent.

Some of the disparity can be explained by the different industrial makeup of the various

regions in the state. The three primary sectors for minimum wage jobs – accommodations and food services, retail trade, and agriculture – are more prevalent in areas with a higher ratio of minimum wage jobs. For example, in the second quarter of 2007, these sectors made up 22 percent of statewide jobs, but were 31 percent of jobs east of the Cascades, 21 percent of metro area jobs, 29 percent of micropolitan area jobs, and 30 percent of jobs in rural counties.

Tighter labor markets and higher housing costs in urban areas are also likely contributors, exerting both a push and a pull on wages relative to rural areas. As

a result, in metro areas, a smaller percentage of jobs in retail trade and accommodations and food services pay the minimum wage than in rural areas.

Finally, in the case of accommodations and food services, the type of business has an impact. Rural counties with destination resorts such as San Juan, Jefferson, and Skamania counties have a relatively low percentage of minimum wage jobs. Micropolitan counties tend to have a higher than average concentration of limited-service restaurants (such as fast food outlets), which have a higher percentage of minimum wage jobs (25 percent) than full-service restaurants (9 percent).

Figure 4. Minimum Wage Jobs by Geographic Area, Second Quarter 2007

| Area                       | Percent of                      |                                |                                      | Area                | Percent of                      |                                |                                      |
|----------------------------|---------------------------------|--------------------------------|--------------------------------------|---------------------|---------------------------------|--------------------------------|--------------------------------------|
|                            | FTE*<br>Minimum<br>Wage<br>Jobs | All<br>Minimum<br>Wage<br>Jobs | Percent<br>of All<br>Jobs in<br>Area |                     | FTE*<br>Minimum<br>Wage<br>Jobs | All<br>Minimum<br>Wage<br>Jobs | Percent<br>of All<br>Jobs in<br>Area |
| <b>Total</b>               | <b>63,742</b>                   | <b>100.0%</b>                  | <b>2.8%</b>                          | <b>Kitsap (MSA)</b> | <b>1,815</b>                    | <b>2.8%</b>                    | <b>3.5%</b>                          |
| Metropolitan Division (MD) | 21,484                          | 33.7%                          | 1.6%                                 | Kittitas (Micro)    | 433                             | 0.7%                           | 4.1%                                 |
| Metro Area (MSA)           | 30,634                          | 48.1%                          | 4.3%                                 | Klickitat           | 397                             | 0.6%                           | 8.1%                                 |
| Micropolitan Area          | 7,658                           | 12.0%                          | 5.2%                                 | Lewis (Micro)       | 872                             | 1.4%                           | 4.4%                                 |
| Rural Counties             | 3,821                           | 6.0%                           | 6.9%                                 | Lincoln             | 76                              | 0.1%                           | 3.8%                                 |
| Adams                      | 481                             | 0.8%                           | 8.7%                                 | Mason (Micro)       | 411                             | 0.6%                           | 3.6%                                 |
| Asotin                     | 219                             | 0.3%                           | 5.6%                                 | Okanogan            | 1,712                           | 2.7%                           | 14.0%                                |
| Benton (MSA)               | 2,526                           | 4.0%                           | 4.2%                                 | Pacific             | 207                             | 0.3%                           | 4.6%                                 |
| Chelan (MSA)               | 1,415                           | 2.2%                           | 4.9%                                 | Pend Oreille        | 84                              | 0.1%                           | 3.8%                                 |
| Clallam (Micro)            | 658                             | 1.0%                           | 3.9%                                 | Pierce (MD)         | 5,945                           | 9.3%                           | 2.9%                                 |
| Clark (MSA)                | 3,202                           | 5.0%                           | 3.1%                                 | San Juan            | 24                              | 0.0%                           | 0.7%                                 |
| Columbia                   | 38                              | 0.1%                           | 4.0%                                 | Skagit (MSA)        | 1,570                           | 2.5%                           | 4.2%                                 |
| Cowlitz (MSA)              | 1,359                           | 2.1%                           | 4.5%                                 | Skamania (MSA)      | 88                              | 0.1%                           | 5.5%                                 |
| Douglas (MSA)              | 642                             | 1.0%                           | 8.6%                                 | Snohomish (MD)      | 4,233                           | 6.6%                           | 2.1%                                 |
| Ferry                      | 53                              | 0.1%                           | 4.8%                                 | Spokane (MSA)       | 5,296                           | 8.3%                           | 3.3%                                 |
| Franklin (MSA)             | 1,532                           | 2.4%                           | 7.4%                                 | Stevens             | 298                             | 0.5%                           | 4.0%                                 |
| Garfield                   | 20                              | 0.0%                           | 3.9%                                 | Thurston (MSA)      | 2,109                           | 3.3%                           | 2.8%                                 |
| Grant (Micro)              | 2,746                           | 4.3%                           | 9.8%                                 | Wahkiakum           | 15                              | 0.0%                           | 2.6%                                 |
| Grays Harbor (Micro)       | 785                             | 1.2%                           | 4.2%                                 | Walla Walla (Micro) | 937                             | 1.5%                           | 4.8%                                 |
| Island (Micro)             | 379                             | 0.6%                           | 3.6%                                 | Whatcom (MSA)       | 2,058                           | 3.2%                           | 3.4%                                 |
| Jefferson                  | 197                             | 0.3%                           | 3.1%                                 | Whitman (Micro)     | 435                             | 0.7%                           | 3.7%                                 |
| King (MD)                  | 11,306                          | 17.7%                          | 1.2%                                 | Yakima (MSA)        | 7,024                           | 11.0%                          | 8.7%                                 |
|                            |                                 |                                |                                      | Unknown             | 145                             | 0.2%                           | 1.3%                                 |

\*One FTE job = 520 hours worked per quarter (full-time, 40-hour work week).

Source: Washington State Employment Security Department

# National Update

By Scott Bailey, Regional Labor Economist

We may be in the most unusual recession ever. The housing market is cratering, the financial markets are teetering on the brink, we've had six (soon to be seven) straight months of employment losses, unemployment has jumped up a point, retail sales are down, and yet – GDP grew by 1 percent in the first quarter of the year, and may hit 2 percent in the second quarter, thanks to the much-maligned stimulus package. The rule of thumb of two quarters of decline may not hold in this case, and as a recent Wall Street Journal article mused, this could be the first recession *without* GDP going negative. The other rule of thumb – if it walks like a duck, and quacks like a duck – appears to be in play. The four major factors that recession-watchers track (industrial production, employment, retail sales, and personal income less transfer payments) are reprised from our previous *Washington Labor Market Quarterly Review* and updated below.

Why is the “real” economy (production of goods and services) doing relatively well – so far – when the financial sector is imploding? Tim Duy has given this question some thought<sup>1</sup>. One part of the answer is the “relatively” factor. The recovery from the 2001 recession

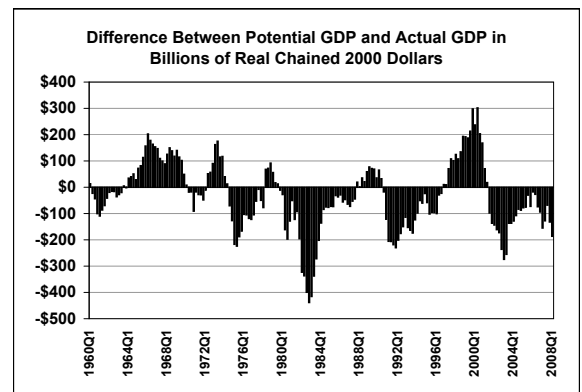
was very weak. This was the first recovery in which manufacturing employment did not increase. In fact, this was the first recovery that doesn't actually qualify as a recovery. How so? Potential GDP is a measure of the economy's long-term growth trajectory. Typically GDP falls below its potential during a recession, and then rises above it during a recovery. However, during the most recent recovery, GDP never made it back to its potential (*see graph below*). The current gap between potential and actual GDP is close to the gap during the depths of the 1991 recession.

A second part of the answer is that foreign money, chiefly from foreign governments, has been pouring into the U.S. in record amounts. A few years ago, our growing trade deficit was financed by both private sector investors and foreign governments (like China) buying up Treasury bills. Currently the private sector investors have bowed out. Thus far in 2008, according to Brad Setser<sup>2</sup>, the Chinese government has been purchasing an average of \$40 billion a month in T-bills – enough to completely finance the trade deficit. China and other countries are buying T-bills even

though it is a losing proposition (low interest rates, sliding dollar value) in order to maintain exchange rates and keep the price of their exports to the U.S. low. This cannot last forever; so-called “hot money” is now pouring into China, in anticipation of the Chinese currency appreciating against the dollar. When that happens, Chinese products will increase in price here, with negative impacts on the Chinese economy.

The third part of the answer: this recession seems to be unfolding in slow motion, and is still in its infancy. Keep your seat belt strapped on.

In the meantime, total American debt – household, business, government – continues to skyrocket. As Yves Smith pointed out in a recent post<sup>3</sup>, our collective debt is now 3.5 times GDP. This is much higher than during the 1950s (1.3), and even higher than in its last peak in the Great Depression (2.7). This is simply



Source: Congressional Budget Office

<sup>1</sup><http://economistsview.typepad.com/economistsview/2008/07/tim-duy-not-so.html>

<sup>2</sup><http://blogs.cfr.org/setser/2008/07/21/just-how-much-money-does-china-have-how-fast-are-china%e2%80%99s-foreign-assets-growing-and-how-much-is-hot-money/>

<sup>3</sup><http://www.nakedcapitalism.com/2008/07/has-deleveraging-even-begun-not-for.html>

unsustainable. Sooner or later, U.S. savings will have to rise, consumption and material living standards will fall, and the debt level will drop. This could be a long and painful process.

### *Housing and Construction*

The housing market has a number of dimensions, including new home construction, remodeling, home values, sales, foreclosures and vacancy rates. The good news is that it appears that new home construction and sales appear to have bottomed out. New home sales peaked at an annualized rate of 1.4 million in mid-2005 before plummeting to 530,000 this past June. The inventory of new homes for sale (which does not include condos or cancellations) is now 20 percent below its 2006 peak.

The bad news is that a recovery is nowhere in sight. According to the blog Calculated Risk (an excellent source of information and analysis for the housing market<sup>4</sup>), vacancy rates for owner-“unoccupied” homes, as well as for rental units, are near all-time highs. By CR’s estimate, there are about 1.75 million excess housing units nationwide, which should keep a damper on housing starts and sales prices for quite some time. Roughly a third of home sales are foreclosure resales. The number of foreclosures is understated, as the huge volume of paperwork has swamped both the mortgage companies and the courts.

As the labor market weakens, and more mortgages are reset to higher interest rates, the number of homes heading for foreclosure will not abate any time soon.

In Washington, according to HUD, just over 14,000 housing units have been issued permits thus far in 2008. That’s about two-thirds of last year’s activity for the first half of the year. If trends continue through the second half of the year, it would be the slowest year for housing construction in the state since 1983. Home values in both Seattle and Portland peaked in August 2007, and have fallen by 6 to 7 percent since then, according to the Case-Shiller index. The index actually blipped up in April for both metro areas, but dipped again in Seattle in May. A number of up-scale neighborhoods in Denver, New York, and San Francisco that were once considered to be invulnerable to the housing downturn are now reporting growing numbers of foreclosures; the idea that somehow our corner of the universe will escape unscathed is likely a fantasy. While every market will play out differently, on a national average we are perhaps about halfway through the decline in home values – and it will likely overshoot on the downside before finding a new equilibrium.

For a while, non-residential construction was taking up the slack for the residential side of the ledger. Alas, that too has

come a cropper. Vacancy rates at shopping malls, strip malls, and office buildings are rising, while hotel room occupancy rates are falling. Billings for architectural work, a leading indicator, have fallen drastically.

### *Financial Markets*

The U.S. financial system first woke up to its sorry state last August, with the revelation that hundreds of billions worth of mortgage-backed securities weren’t exactly living up to their AAA rating. Thus began the great deleveraging as over-exposed banks started writing down assets, lowering debt levels and trying to recapitalize their depleted reserves. This is not a static process, however, for as the economy has worsened, defaults are rising – first in mortgages (continuing as mortgages are reset, housing prices fall and foreclosures mount), and now in credit cards and car loans. Along the way we lost a major investment bank, and now commercial bank failures are starting to trickle in. While the closure of IndyMac was directly related to mortgages, other failing regional banks are being hurt by construction and development loans to the actual homebuilders.

From time to time, some analyst will declare that the financial system has “turned the corner.” Sadly, such pronouncements have been quickly followed by a new crisis, bigger than the previous one. Nouriel Roubini<sup>5</sup>

<sup>4</sup><http://calculatedrisk.blogspot.com/2008/07/q2-homeownership-and-vacancy-rates.html>

<sup>5</sup><http://www.rgemonitor.com/blog/roubini>

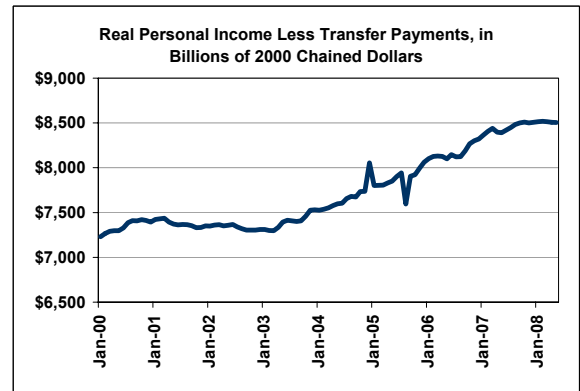
has consistently made accurate calls on the meltdown. Some choice nuggets:

- Two years Roubini predicted that Fannie Mae and Freddie Mac would end up in trouble.
- Roubini and others have pegged total losses in the global financial system at \$1.6 trillion to \$2.0 trillion, less than one-fourth of which has been written off so far.
- The FDIC will use up 15 percent of its funds, bailing out Indy Mac, and will likely run out of money and need to be recapitalized by the federal government as bank failures mount.
- Recent actions by government authorities – the Securities and Exchange Commission (SEC) banning short-sales of financial institution stocks, the Fed bailing out investment banks at the discount window, the Federal Home Loan Bank loaning billions to banks and mortgage companies like Countrywide, the proposed bailout of Fannie Mae, etc. – are subsidizing the system in unwise ways, and delaying the implementation of needed reforms.

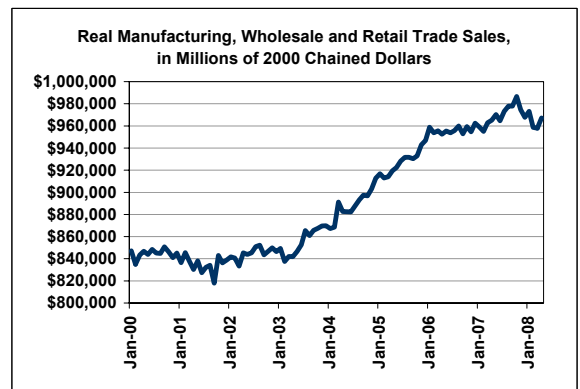
The current stresses in the system were exemplified by the actions of investment bank Merrill Lynch this past week. First, they sold off collateralized debt obligations (CDOs) for \$5.7 billion. These bundles of mortgage-backed securities were initially valued at over \$30 billion, and had already been written down to \$11 billion. The kicker – to sell them, Merrill supplied 75 percent of the financing. In other words, they just traded one form of debt for another. If the CDOs lose any more value, Merrill is out of luck. Second, the bank

put up for sale \$8 billion in stock in an effort to shore up its capital. According to Calculated Risk, when it sold stock last December, “Merrill offered to compensate Temasek Holdings [its largest shareholder] if Merrill sold additional stock, at a lower price, within one year.” So \$2.5 billion of this stock is going straight to Temasek Holdings, as a gift/penalty for diluting the value of their previous purchase. “Merrill should have been highly motivated to avoid paying this price protection penalty, and this shows a certain desperation – although the good news is there is no future reset protection for Temasek.”

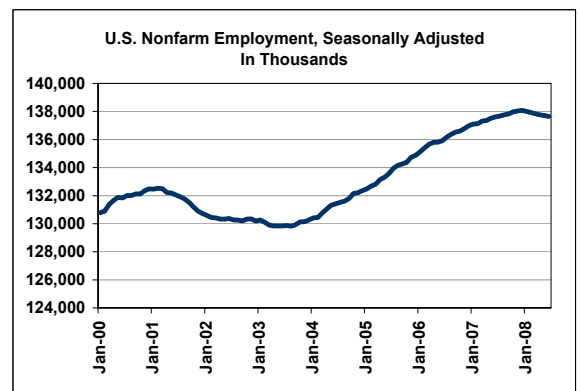
Research by Carmen Reinhart and Kenneth Rogoff<sup>6</sup> has shown that recent serious banking crises in developed countries have slowed economic growth for an average of five years. In Japan during the 1990s the government propped up failing banks for several years, resulting of which was a “lost decade” for their economy. It remains to be seen whether current policy responses in the U.S. will speed the adjustment along (as happened in Norway in 1991) or delay the inevitable (as in Japan).



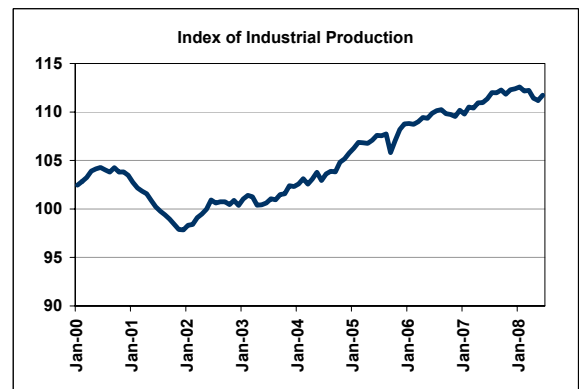
Source: U.S. Bureau of Economic Analysis / Haver Analytics



Source: U.S. Census Bureau / Haver Analytics



Source: U.S. Bureau of Labor Statistics / Haver Analytics



Source: Federal Reserve Board / Haver Analytics

<sup>6</sup>[http://www.economics.harvard.edu/faculty/rogoff/files/Is\\_The\\_US\\_Subprime\\_Crisis\\_So\\_Different.pdf](http://www.economics.harvard.edu/faculty/rogoff/files/Is_The_US_Subprime_Crisis_So_Different.pdf)





# Nonagricultural Wage and Salary Employment in Washington State, Place of Work 1/ Seasonally Adjusted

Quarterly Benchmark: December 2007

In Thousands

| Industry   | Jun.             | May              | Apr.             | Mar.             | Feb.             | Jan.             |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | 2008             | 2008             | 2008             | 2008             | 2008             | 2008             |
|  | (Prel)           | (Rev)            | (Rev)            | (Rev)            | (Rev)            | (Rev)            |
| <b>Total Nonfarm</b> .....                                   | <b>2,964,700</b> | <b>2,964,700</b> | <b>2,963,900</b> | <b>2,964,100</b> | <b>2,966,300</b> | <b>2,965,500</b> |
| Natural Resources and Mining .....                           | 7,700            | 7,800            | 8,000            | 8,000            | 8,000            | 8,000            |
| Logging .....  | 4,700            | 4,800            | 4,800            | 4,800            | 4,900            | 4,900            |
| <b>Construction</b> .....                                    | <b>204,800</b>   | <b>205,700</b>   | <b>206,800</b>   | <b>207,300</b>   | <b>207,700</b>   | <b>207,900</b>   |
| Construction of Buildings .....                              | 53,100           | 53,300           | 53,600           | 53,900           | 53,800           | 53,700           |
| Heavy and Civil Engineering .....                            | 21,900           | 22,200           | 22,700           | 23,000           | 23,100           | 23,600           |
| Speciality Trade Contractors .....                           | 129,800          | 130,200          | 130,500          | 130,400          | 130,800          | 130,600          |
| <b>Manufacturing</b> .....                                   | <b>297,300</b>   | <b>296,600</b>   | <b>296,500</b>   | <b>296,300</b>   | <b>296,600</b>   | <b>296,900</b>   |
| Durable Goods .....  | 217,000          | 216,000          | 215,800          | 215,400          | 215,400          | 215,400          |
| Wood Product Manufacturing .....                             | 18,100           | 18,100           | 18,200           | 18,300           | 18,400           | 18,500           |
| Fabricated Metal Product Manufacturing .....                 | 20,800           | 20,700           | 20,800           | 20,800           | 20,800           | 20,700           |
| Computer and Electronic Product Manufacturing .....          | 23,200           | 23,000           | 23,000           | 23,000           | 23,000           | 23,000           |
| Transportation Equipment Manufacturing .....                 | 98,500           | 97,900           | 97,300           | 97,000           | 96,800           | 96,600           |
| Aerospace Product and Parts Manufacturing .....              | 85,900           | 85,300           | 84,700           | 84,200           | 83,900           | 83,700           |
| Non Durable Goods .....                                      | 80,300           | 80,600           | 80,700           | 80,900           | 81,200           | 81,500           |
| Food Manufacturing .....                                     | 34,200           | 34,000           | 33,900           | 34,000           | 34,200           | 34,500           |
| <b>Wholesale Trade</b> .....                                 | <b>130,100</b>   | <b>130,200</b>   | <b>130,100</b>   | <b>130,300</b>   | <b>131,000</b>   | <b>131,600</b>   |
| <b>Retail Trade</b> .....                                    | <b>328,200</b>   | <b>328,100</b>   | <b>329,000</b>   | <b>329,000</b>   | <b>327,800</b>   | <b>327,800</b>   |
| Motor Vehicle and Parts Dealers .....                        | 42,300           | 42,300           | 42,600           | 42,600           | 42,700           | 42,900           |
| Food and Beverage Stores .....                               | 61,100           | 61,100           | 61,300           | 61,300           | 61,300           | 61,200           |
| Clothing and Clothing Accessories Stores .....               | 29,900           | 30,100           | 30,300           | 30,300           | 29,900           | 29,500           |
| General Merchandise Stores .....                             | 61,700           | 61,400           | 61,200           | 61,400           | 61,000           | 60,500           |
| <b>Transportation, Warehousing and Utilities</b> .....       | <b>96,200</b>    | <b>96,500</b>    | <b>96,500</b>    | <b>96,500</b>    | <b>96,500</b>    | <b>96,800</b>    |
| Utilities .....  | 4,800            | 4,700            | 4,700            | 4,700            | 4,600            | 4,700            |
| Transportation and Warehousing .....                         | 91,400           | 91,800           | 91,800           | 91,800           | 91,900           | 92,100           |
| Air Transportation .....                                     | 10,800           | 10,800           | 10,800           | 10,800           | 10,800           | 10,800           |
| Water Transportation .....                                   | 3,400            | 3,400            | 3,400            | 3,400            | 3,400            | 3,400            |
| Truck Transportation .....                                   | 24,800           | 24,700           | 24,700           | 24,700           | 24,900           | 25,200           |
| Support Activities for Transportation .....                  | 18,900           | 18,800           | 18,500           | 18,700           | 18,800           | 18,700           |
| Support Activities for Water Transportation .....            | 6,100            | 5,900            | 5,600            | 5,700            | 5,900            | 5,800            |
| Warehousing and Storage .....                                | 11,100           | 11,200           | 11,200           | 11,300           | 11,200           | 11,200           |
| <b>Information</b> .....                                     | <b>105,400</b>   | <b>104,900</b>   | <b>104,300</b>   | <b>103,900</b>   | <b>103,600</b>   | <b>103,200</b>   |
| Software Publishers .....                                    | 50,200           | 50,000           | 49,300           | 49,200           | 48,900           | 48,500           |
| Telecommunications .....                                     | 25,600           | 25,800           | 25,900           | 26,200           | 26,300           | 26,300           |
| <b>Financial Activities</b> .....                            | <b>152,500</b>   | <b>153,200</b>   | <b>153,500</b>   | <b>153,900</b>   | <b>154,500</b>   | <b>154,800</b>   |
| Finance and Insurance .....                                  | 102,100          | 102,300          | 102,400          | 102,600          | 102,900          | 103,000          |
| Credit Intermediation and Related Activities .....           | 51,500           | 51,500           | 51,500           | 51,800           | 51,800           | 51,900           |
| Insurance Carriers and Related Activities .....              | 39,000           | 39,300           | 39,300           | 39,200           | 39,400           | 39,300           |
| Real Estate and Rental Leasing .....                         | 50,400           | 50,900           | 51,100           | 51,300           | 51,600           | 51,800           |
| <b>Professional and Business Services</b> .....              | <b>352,900</b>   | <b>352,700</b>   | <b>350,000</b>   | <b>351,500</b>   | <b>352,100</b>   | <b>352,500</b>   |
| Professional, Scientific and Technical Services .....        | 162,800          | 163,000          | 161,600          | 161,200          | 162,400          | 162,200          |
| Legal Services .....   | 20,200           | 20,400           | 20,400           | 20,500           | 20,600           | 20,600           |
| Architectural and Engineering Services .....                 | 37,300           | 37,600           | 37,600           | 37,700           | 37,800           | 37,700           |
| Computer Systems Design and Related Services .....           | 30,900           | 31,200           | 31,600           | 31,600           | 31,600           | 31,300           |
| Management of Companies and Enterprises .....                | 34,600           | 34,600           | 34,500           | 34,400           | 34,400           | 34,300           |
| Admin and Support and Waste Management and Remediation ..... | 155,500          | 155,100          | 153,900          | 155,900          | 155,300          | 156,000          |
| Employment Services .....                                    | 58,300           | 58,100           | 57,100           | 58,100           | 58,000           | 58,200           |
| <b>Education and Health Services</b> .....                   | <b>355,300</b>   | <b>355,100</b>   | <b>356,400</b>   | <b>356,100</b>   | <b>356,300</b>   | <b>355,700</b>   |
| Education Services .....                                     | 46,500           | 46,400           | 47,200           | 46,800           | 46,600           | 47,200           |
| Hospitals .....  | 68,600           | 68,500           | 68,400           | 68,200           | 68,000           | 67,700           |
| Nursing and Residential Care Facilities .....                | 56,300           | 56,400           | 56,500           | 56,600           | 56,700           | 56,500           |
| Social Assistance .....                                      | 59,600           | 59,600           | 60,000           | 60,100           | 60,300           | 59,700           |
| <b>Leisure and Hospitality</b> .....                         | <b>286,800</b>   | <b>286,200</b>   | <b>286,200</b>   | <b>285,600</b>   | <b>286,400</b>   | <b>285,000</b>   |
| Arts, Entertainment and Recreation .....                     | 47,600           | 47,600           | 48,200           | 47,500           | 47,400           | 47,300           |
| Accommodation .....  | 31,500           | 31,400           | 31,100           | 31,400           | 31,200           | 31,300           |
| Food Services and Drinking Places .....                      | 207,700          | 207,200          | 206,900          | 206,700          | 207,800          | 206,400          |
| <b>Government</b> .....                                      | <b>540,000</b>   | <b>540,400</b>   | <b>539,400</b>   | <b>538,600</b>   | <b>538,900</b>   | <b>538,200</b>   |
| Federal Government .....                                     | 67,200           | 68,100           | 67,700           | 67,800           | 67,800           | 67,800           |
| Total State Government .....                                 | 149,900          | 149,800          | 149,700          | 149,100          | 149,500          | 149,500          |
| State Government Educational Services .....                  | 80,100           | 80,200           | 80,600           | 79,900           | 80,700           | 80,600           |
| Total Local Government .....                                 | 322,900          | 322,500          | 322,000          | 321,700          | 321,600          | 320,900          |
| Local Government Educational Services .....                  | 153,300          | 153,000          | 152,900          | 152,800          | 152,100          | 153,100          |
| <b>Workers in Labor-Management Disputes</b> .....            | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       | <b>0.0</b>       |

1/ Excludes proprietors, self-employed, members of armed forces, and private household employees. Includes all full- and part-time wage and salary workers receiving pay during the pay period including the 12th of the month.

2/ Workers excluded because of involvement in labor-management dispute.

Prepared by the Labor Market and Economic Analysis Branch using a Quarterly Benchmark process.

This process uses the most recent quarter from the Unemployment Insurance Tax Reports (currently fourth quarter 2007) and estimates employment from that point to present.

