

NIER

**NORTHWEST
ECONOMIC
REVIEW**

GENERAL INDICATORS:



JUL. 07	AUG. 07	SEP. 07	OCT. 07
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BORDER CROSSING

14.6%	3.1%	-14.2%	-6.3%
<small>(total Pass. & Crew, Y-Y % change)</small>			

MORTGAGE RATE

6.70	6.57	6.38	6.38
<small>(30-year fixed %)</small>			

STATE INDEX

117.4	117.0	116.7	116.0
<small>(WA State Leading Index)</small>			

EXCHANGE RATE

0.95	0.95	0.97	1.03
<small>(\$CAN/\$US Exchange Rate)</small>			

UNDERSTANDING DEMOGRAPHIC AND ECONOMIC CHANGE

In this issue of the *Northwest Economic Review* we consider several questions related to economic and demographic change. We pay particular attention to ways in which the aging of the baby boom generation is affecting the economic landscape in our region.

We often hear that retirees are moving to the area. Bellingham has been mentioned in a variety of magazines as a top spot to retire. Are we becoming a retirement area? In this issue we examine both population and income data to try to answer this question.

Looking at the bigger picture we note concerns about possible labor shortages, different service needs, and economic development in the face of an aging population. People are wondering what industries are going to play the role once played by the mill or wood products businesses. People want to know what industries will pay good wages.

The economy is always changing. Many communities in the region depended not so

long ago on forestry, fishing, and other key resource based industries. Now they have more people employed in hospitals, retail, and even government. On one level this sort of change is to be expected. Of course, it can also be threatening.

We offer several thoughts in this issue on how to think about economic change. First, numbers are relative. When you look at how fast the population is aging in a given area, how wages are changing, or something else – it is necessary to place the numbers in context. For example, it isn't so important to know whether wages are increasing in a community as it is to know how the changes in one community compare to changes in other communities. Second, we cannot always pick what we have today (or might have had yesterday) as an alternative to the future. Trying to avoid one future creates a set of conditions that gives rise to a different future. We cannot pick something we don't like about change, try to eliminate it, and then expect all other pieces of the puzzle to remain unchanged.



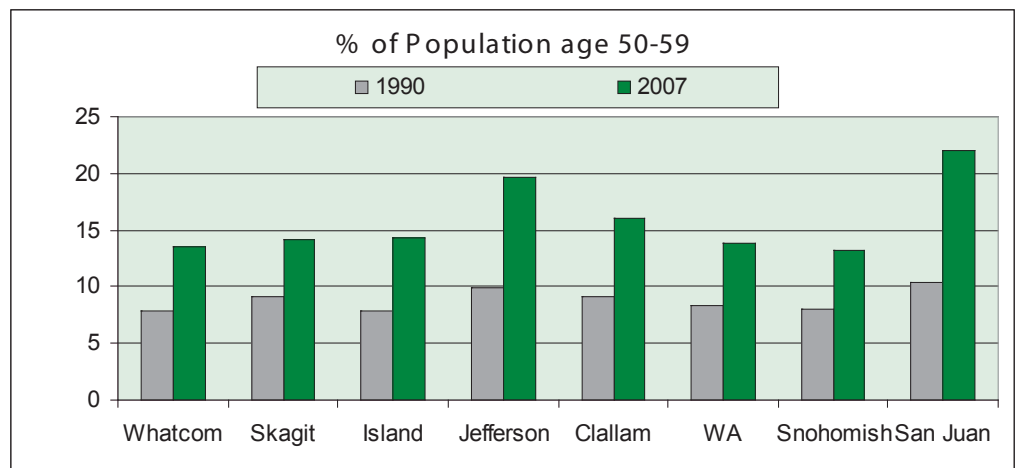
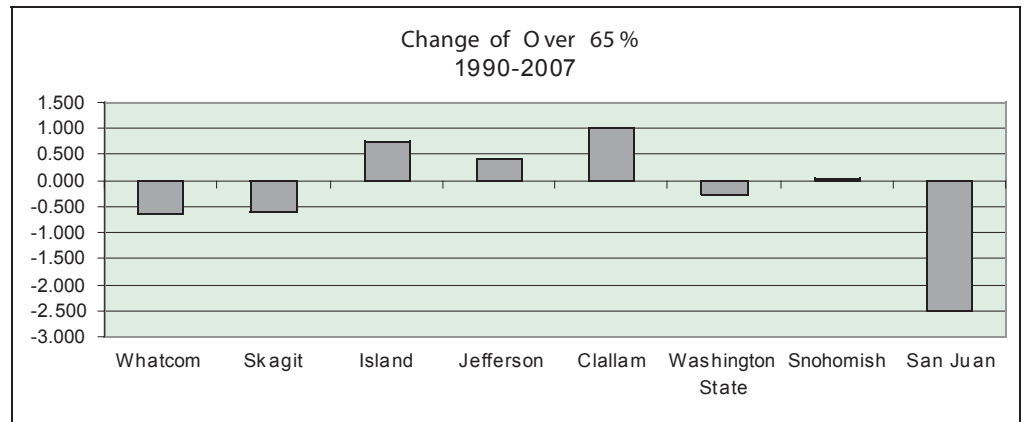
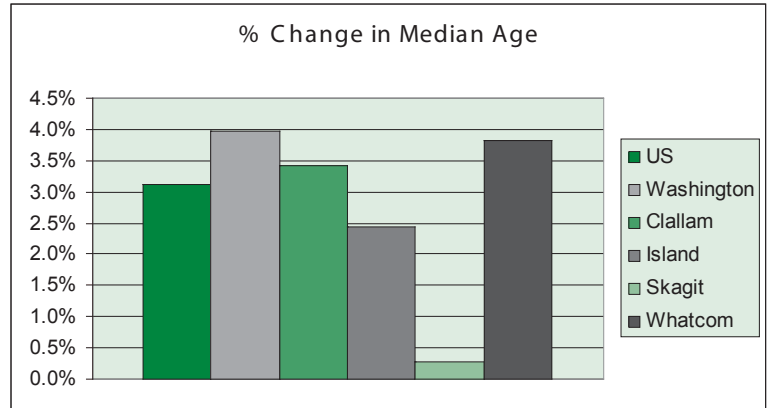
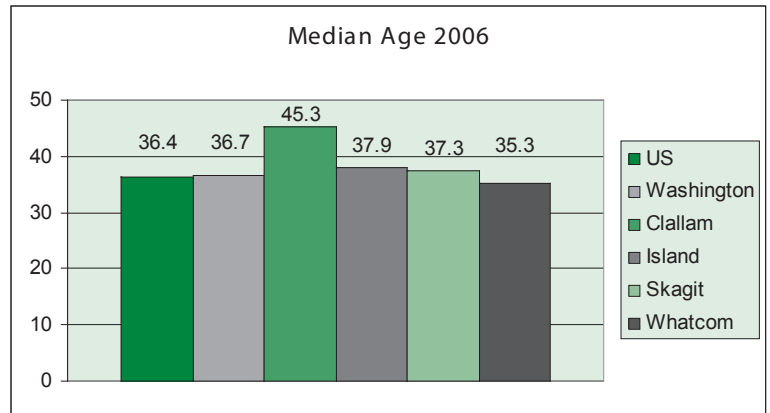
Are we becoming a retirement area?

In short, the answer is no for Whatcom and Skagit Counties... but possibly yes for some of the other counties in the area.

Population data confirm that the median age has increased in each county in the region since 2000. But that finding does not suggest each county is becoming a retirement area. In fact, the median age in several counties in our area is not increasing any faster than it is in the rest of the state.

Compared to other counties in the region, Whatcom County had a large increase in median age from 2000 to 2006. However, the percent of the population over 65 actually fell between 1990 and 2007. These changes are the result of pronounced growth in the number of people age 50-59. Other counties in the region also saw considerable growth in the number of people 50-59, reflective of both the aging of the baby boom generation and the movement of people in that age group to more rural settings in the West.

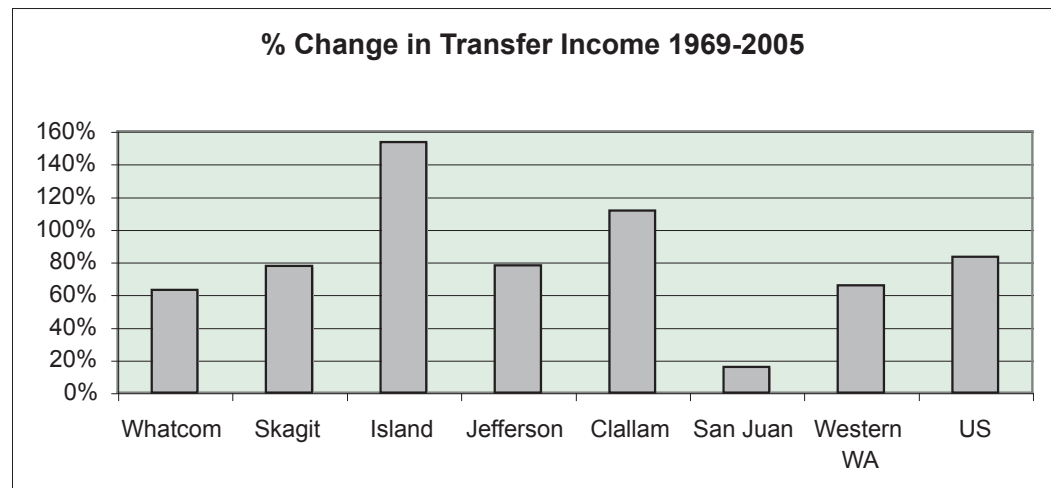
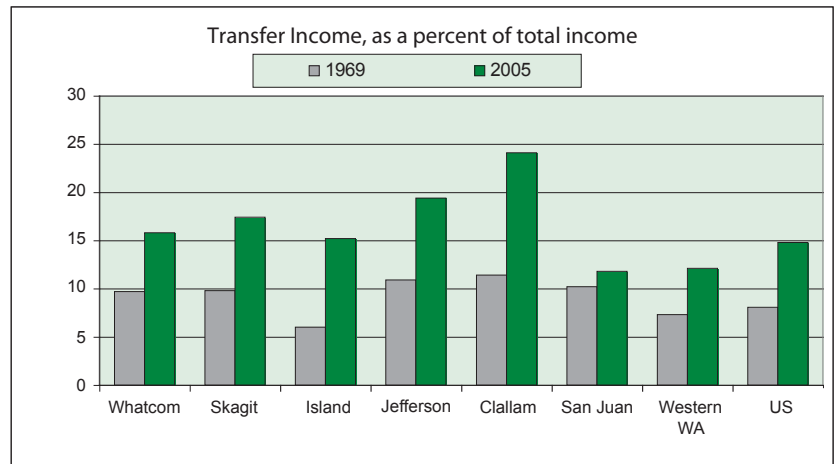
The Brookings Institute has noted declines in population in cities in the Midwest, much slower growth in many large metro areas, and solid growth in smaller metro areas in the West. In short, people seem to be making lifestyle choices and/or moving to cities that are more affordable. Our region of the country is attractive to some because of the natural amenities and size, and to others because of the relative affordability of housing and other features. Anecdotal evidence suggests that people are not retiring and moving to our area so much as they are making a lifestyle choice. They are moving here because it is attractive and they can afford it. They have left larger metro areas and moved to our region, making a job change or perhaps continuing to work with their previous employers in some capacity.



What does the income data reveal about the number of retirees in the area?

Our hypothesis is that retirement areas would have a higher relative share of income based on “transfer income” (income from social security, health benefits, and similar). We note that people in Clallam and Jefferson Counties receive a much larger share of their income from transfer payments than people in Whatcom or other counties in the region.

In the end, it is very hard to conclude that Whatcom or Skagit County is a retirement area (despite the press to that effect). Jefferson, Clallam, and perhaps Island Counties stand out as being more the retirement areas.



Should we worry about having a large share of workers age 55 and over?

An issue related to the aging of the baby boom cohort is the possible shortage of workers when boomers retire. Indeed, most counties in the U.S. have fewer people in their late 20s and 30s today than they did ten years ago. Of concern is who will replace the retiring construction workers, millwrights, nurses, and others. We note that the change in the number of people in their 30s in Whatcom County over the last decade is very close to the change in the number of people in their 30s in Washington State and the U.S. But that fact is not very comforting to many employers. They worry about how to replace the workers they know they're going to lose.

Sometimes it is helpful (fun?) to offer the counter argument. So we'll ask if the importance of attracting young workers is not being overstated. Certainly there

will be reports ten years from now that highlight the success of communities able to attract young workers in 2007. But some very interesting reports will focus on those communities that succeeded without attracting young workers in 2007. In other words, some communities will find a way to leverage the knowledge and skills of the workers they have, regardless of their age.

When looking at the composition of income, we notice the relative importance of property income in counties throughout the study area. It appears that many of the people moving to the area have more rental, interest, and dividend income than people in the rest of the state. The share of income that is property income has

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increased faster in most of the counties than in the U.S., and the share is larger in most of the counties in our region than the rest of the state or the U.S. This finding suggests that while workers are getting older, they have capital assets and possibly a knowledge base that could be a foundation for economic growth in the future.

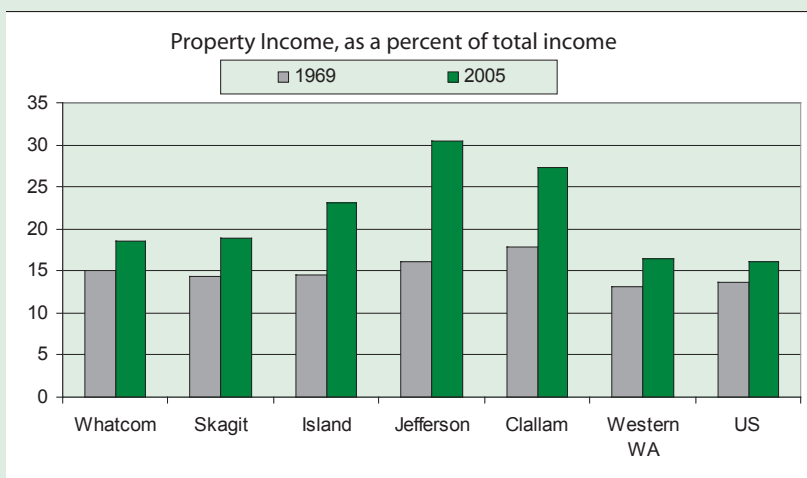
When looking at data on the age of the workforce, it may be important to note that rural areas typically have older workers compared to urban areas. Urban areas have jobs and other amenities younger workers find attractive. So yes, the counties in our region have a larger share of workers over 55 than does, say, Seattle. But that fact is to be expected. The pattern is also evident even within our

region, where the larger economies have more young workers. For example, Whatcom County has the largest employment base of all the counties in the region, as well as the smallest share of workers age 55 and older.

We note that the number of workers age 55 and older is not spread evenly across all industries. And different industries have different needs in terms of their workforce. So it is important to examine which industries have the most workers age 55 and older. We have heard concerns about a shortage of nurses in recent years, so we were expecting health care and social assistance to be one industry with a high fraction of workers over 55. In fact, the industries with the largest percent of the workers over the age of 55 were fairly consistent among the counties in our region... and health care wasn't one of the top industries. The industry at the top of the list for all counties in our region was Utilities, followed closely by Public Administration, then Real Estate and Rental and Leasing, Transportation and Warehousing, Professional, Scientific and Technical Services, and finally Health Care and Social Assistance.

As an aside, we should question whether boomers are going to retire when they turn 60 or 65. Not only is being 65 not what it used to be... some may find it difficult to retire at 65. Some won't have the savings needed to retire

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What about the cost of living?

In the previous issue of this publication we highlighted the decline in the number of young workers in the study area. We also noted that Snohomish and Clark Counties have attracted people in their 30 where Whatcom, Skagit, and other counties in the study area have not. We hypothesized that the relatively low wages in the area was a key factor. In this issue we provide a glimpse at the cost of living data available for certain cities in the larger region. (Data come from the Council on Community and Economic Research. Data for Bellingham are collected by the Center for Economic and Business Research at WWU and Council of Governments in Bellingham.)

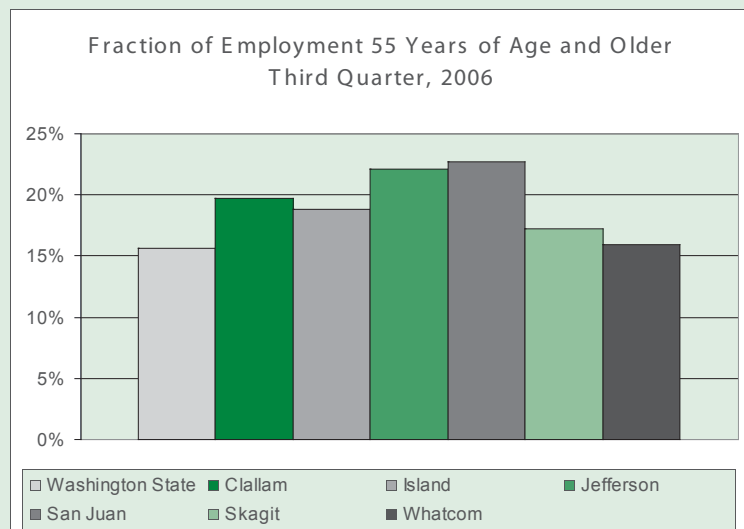
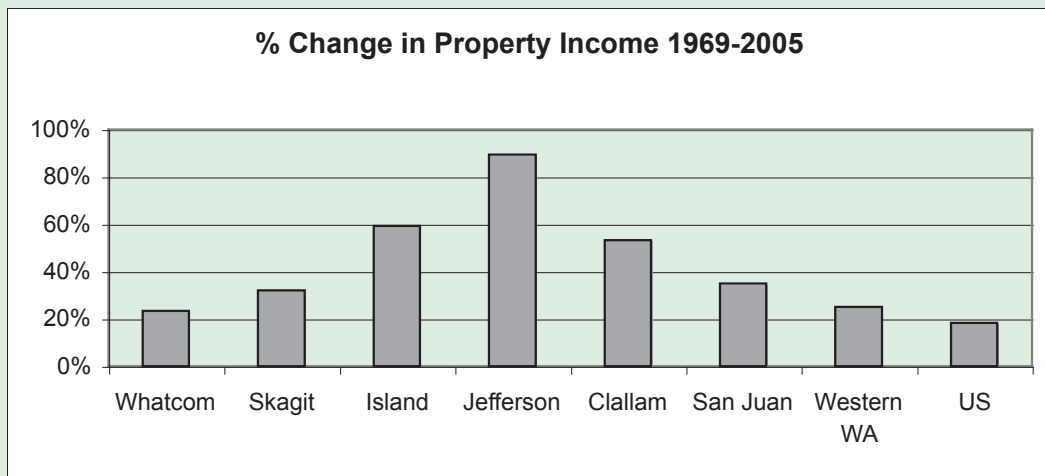
Cost of Living 2007 2nd Quarter

City	Composite Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc. Goods and Services
Bellingham	109.5	107.9	127.3	88.3	111.0	112.7	101.0
Olympia	103.0	106.0	98.6	90.8	110.9	120.7	104.7
Seattle	120.4	114.5	154.3	92.8	105.5	124.7	107.1
Portland	120.3	120.1	138.4	103.4	102.6	106.9	117.4

While wages and cost of living are not the only factors people consider when choosing where to live, we believe they are important. We also point out the wider range of options available to workers in large metro areas.

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and some may not want to stop working at such a young age. (Recall the migration patterns we are witnessing. People are making career changes and moving to new areas more than retiring.) Baby boomers have reinvented every social institution they've encountered. We should expect they'll change the meaning of



retirement. Some will retire at 65. But many will continue to work. Employers need to find ways to take advantage of that labor pool (noting that some boomers will only want to work part-time). Having workers age 55 and over need not be viewed as a problem the way it was in the past. Or maybe the better conclusion is that the age of our work force is an issue to be addressed. But the numbers should always be placed in context or kept in perspective.

Tension and Complication

As noted, many people are moving to our region because they want to live in a smaller metro area and/or coastal community. Some of the newcomers and many longer term residents do not want the area to lose its appeal or to change too fast. Indeed, researchers at the University of Oregon coined the phrase "the second paycheck" to explain the value of living in an area as appealing as ours. They noted that people received something of a second paycheck in the form of natural beauty, clean air, and limited congestion. Put another way, they hypothesized that people would be willing to live in places like Anacortes, Bellingham, and Port Townsend even if the pay was relatively low, because they were receiving something of a second paycheck in quality of life.

An important question for many of us in the region is how to protect our quality of life. In many ways, the changes we have highlighted in this issue of the Review represent a threat to what we hold so dear.

New industries are emerging to replace the old. The new industries provide new opportunities for some. But the changes also bring difficult challenges. For example, the iconic GP facility in Bellingham is now closed. While many of the workers have skills other employers desire, it is never easy to start anew.

Maybe a certain amount of tension is to be expected with so much change. Not only is change threatening, but different people have different ideas about how to respond. Some people welcome the new commercial options that come with population growth; others notice the congestion and additional construction. Tensions mount. Some

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want better jobs, others worry about what is being lost. Some want infill, others want to protect neighborhood character.

It may be worth noting that economists have discussed for many decades (if not longer) the tensions we're encountering. Joseph Schumpeter (a famous economist) used to describe modern capitalism as "constant churning" and "creative destruction." He said change was necessary and that old ideas had to be destroyed; they could not be saved and gently molded into something new so as to avoid the difficult parts of change. At the same time, John Kenneth Galbraith said people hold tightly to ideas that "promise best to avoid awkward effort or unwelcome dislocation..." So on one hand we have creative destruction and churning. On the other we have people clinging to what they know.

Economists have learned that the tension associated with economic change can be reduced if people are clear about their objectives and underlying assumptions. For

example, discussions about affordable housing, business growth, land use and many other topics are likely to be difficult. People have different objectives and/or see pieces of the puzzle fitting together in different ways. Discussions are much easier and more constructive if people are clear about their objectives and more explicit about the way they think certain pieces of the puzzle fit together.

One of the goals of this publication is to reduce the tension in discussions about topics like business growth and land use. This publication is intended to be a source of data and sound theories, providing the business community and policy makers with access to information in peer-reviewed, academic publications. In this issue we are also reminding readers about the importance of being clear and thinking carefully about tradeoffs. In particular, people need to be more open about their objectives, more complete in their descriptions of how they plan to meet those objectives, and more honest and critical in assessing the tradeoffs that might occur.

Help Us with the Spring Issue

In the spring 2008 issue we're going to focus on one aspect of the buy local issue – food. As you know, there are a variety of programs that stress the importance of buying as much of your food as possible from local growers. Some programs highlight the value of improving food quality while others stress the need to reduce "food miles" so we can reduce the environmental impacts associated with the way we eat. In fact, the topic isn't as simple as it might first appear... and we want the next issue to help improve discussions.

To make the next issue helpful, we need to hear from you.

- Do you worry about where your food is grown – why or why not?
- Are you aware of campaigns in the region to promote buying local food? If so, what do you think is the greatest positive impact the campaigns are likely to have... and what might be some of the downsides?
- Do you think reducing the distance your food travels from the farm to your table is likely to reduce the environmental impact associated with the food?

- What role do you think campaigns that promote buying local food can have in terms of helping the agriculture industry in the region (especially Whatcom and Skagit Counties)?
- What information can we provide that would improve discussions about the costs and benefits of trying to reduce food miles?

**Please send your thoughts to Karlie Wipperling,
research assistant at the Center for Economic and
Business Research: wipperk@cc.wvu.edu.**

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