

The New Economy Its Impact on Washington State

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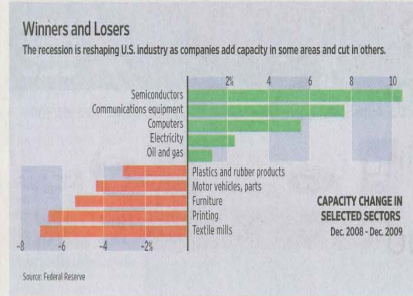
MARKETPLACE

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THE WALL STREET JOURNAL

Wednesday, February 3, 2010 B1

Radical Shifts Take Hold in U.S. Manufacturing



By MARK WHITEHOUSE

America's industrial base is undergoing its most radical restructuring in decades as manufacturers rethink their businesses in the wake of the recession.

From Dow Chemical Co. to Intel Corp., iconic companies are telling stories of wrenching change—both contraction and recovery—as they report their earnings for 2009.

Dow Chemical said Tuesday it is aiming to shed some \$2 billion worth of basic-chemical factories and other assets this year as it moves into more-profitable specialty chemicals. Appliance

maker Whirlpool Corp. said it cut about a tenth of its capacity in 2009 as it struggled with a 9.6% drop in sales. Intel, by contrast, is investing billions of dollars in its U.S. plants as demand for computer gear recovers.

"We are emerging from one of the most challenging economic environments we've seen in decades," said Whirlpool Chief Executive Jeff Fettig, on a conference call Tuesday.

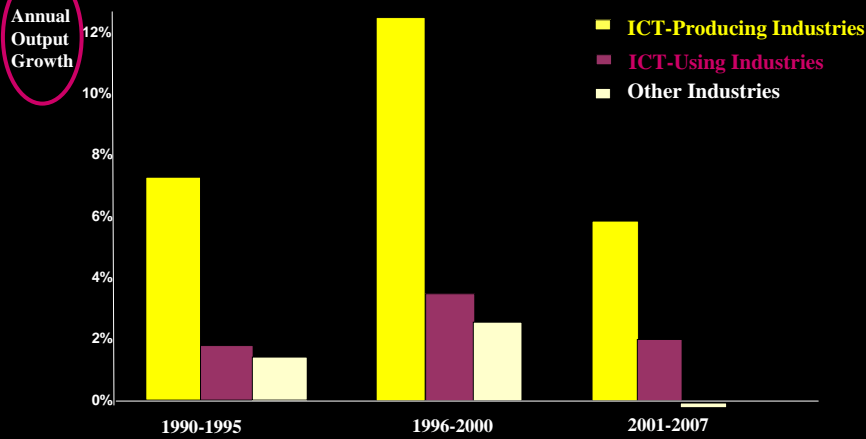
The latest moves are accelerating the U.S. manufacturing economy's longer-term shrinkage, as well as its shift away from heavy sectors, such as automobiles and basic chemicals, toward higher-tech products like

super-fast computer chips. In some cases, as with auto makers, companies are stripping down to adjust to diminished U.S. demand or investing in smaller, more-efficient facilities. In other cases, as with chemical makers, they are relocating labor-intensive operations to countries where wages are cheaper.

During 2009, the nation's capacity to produce motor vehicles and chemicals fell 4.4% and 17%, respectively, the largest such declines since at least 1949, according to Federal Reserve estimates. Its capacity to produce semiconductors, by contrast, grew an estimated 10.4%. Over-

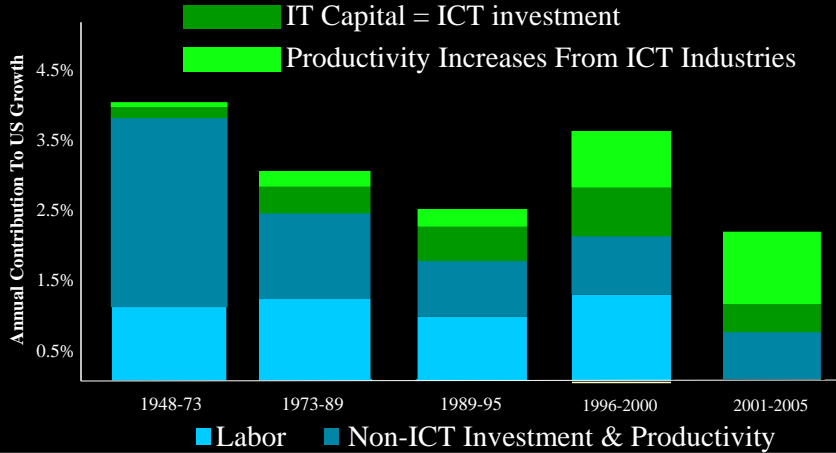
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This Trend Is Not New...



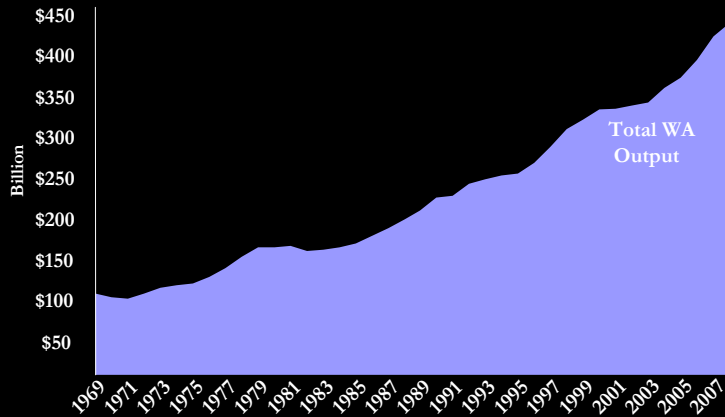
Source: *Current Issues in Economics and Finance*, Vol 10, # 13, 2004, FEDERAL RESERVE BANK OF NEW YORK, updated data from EUKLEMS

The Transformation: Manu-facturing to Menti-facturing (producing-by-hand) to (producing-with-the-mind)



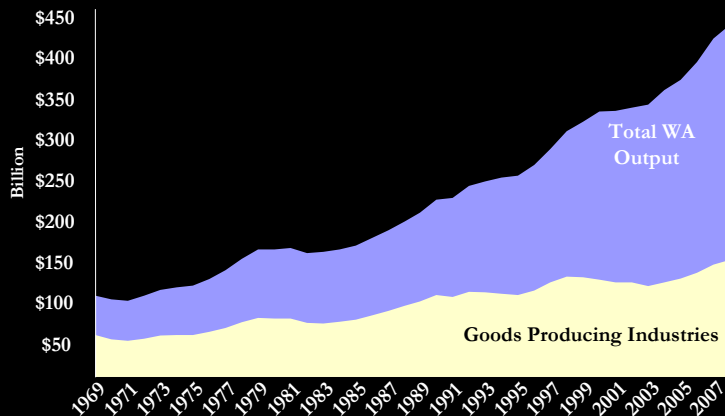
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The New Economy Transforming the Washington State Economy?



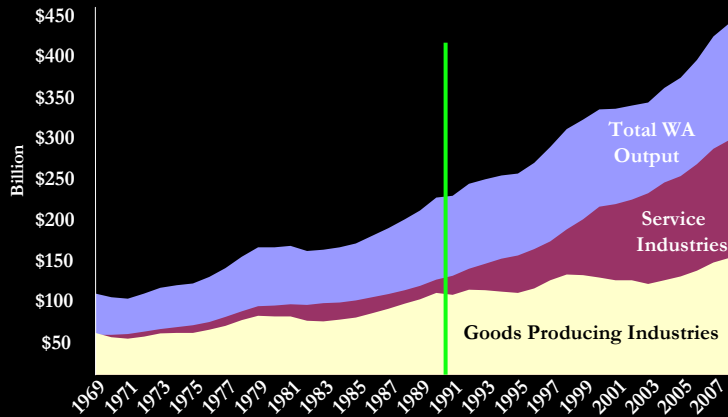
Richard Conway Associates and UW Economic Policy Research Center "The Washington Simulation and Projection Model"

Good Producing Industries Have **Not** Been Driving WA Output Growth



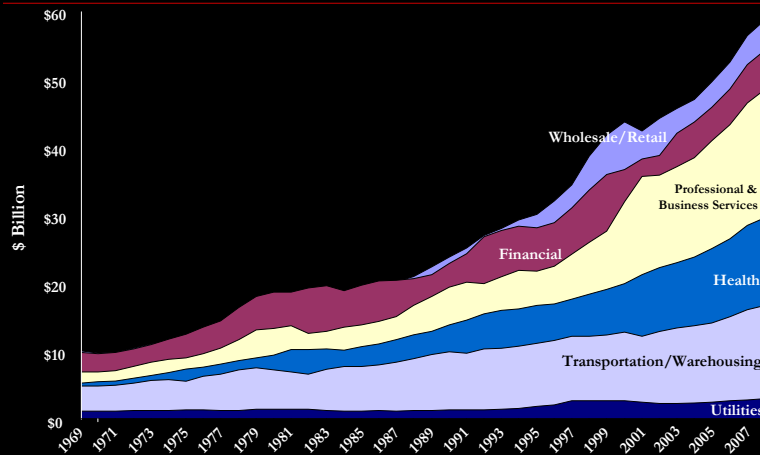
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The Transformation It Is Due To Services (post 1990)



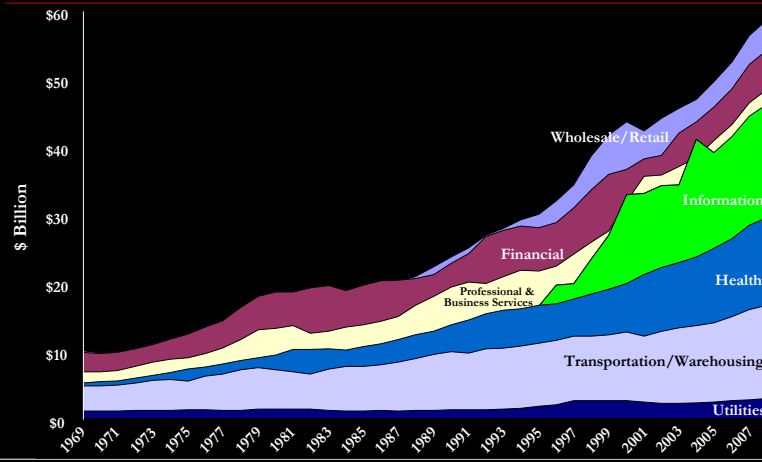
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Why Are WA Services Growing Rapidly?



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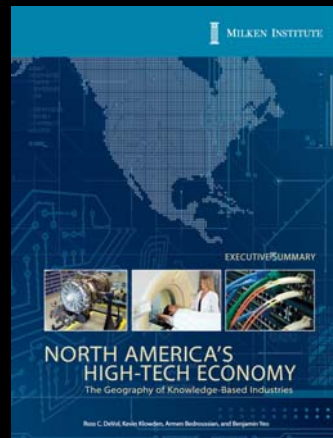
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What Is Transforming Washington State ?

- Milken Institute ranks US growth centers according to 19 high-tech industries'
 - Employment
 - Income
 - Technology Concentration

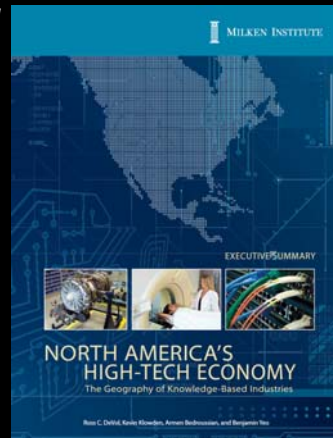


What Is Transforming Washington State

- *Seattle Ranks #2 among “US High Tech Growth Centers”*

- *“The most compelling example of its prowess in software is that Seattle captures 23.4 % of all software wages in North America.”*

- *“The strength of industry titan Microsoft and its affiliated companies gives the Seattle metro area a decisive lead in this category.”*



Total Impact of Microsoft on WA

Direct Impact (2008):

- Microsoft purchases of WA goods/services: \$2.15 bil
 - (Boeing = \$3.2 bil)
- Microsoft total compensation to 40,000 employees: \$7 bil
 - (Aerospace wages (excl/ stock/benefits): \$5.4 bil)

Total Impact of Microsoft on the WA Economy

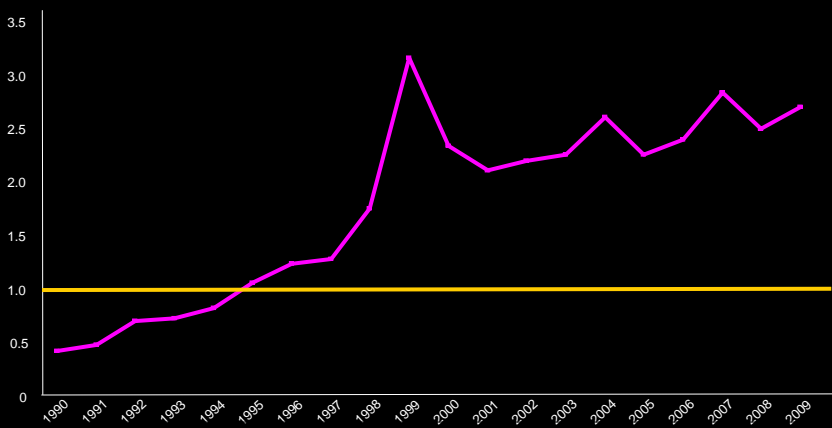
- 13% of WA GDP
- 8% of WA Employment
- 5.4% of WA Tax Revenues

WA Employment Information vs. Aerospace



US Bureau of Economic Analysis

WA Personal Income Ratio: Information / Aerospace



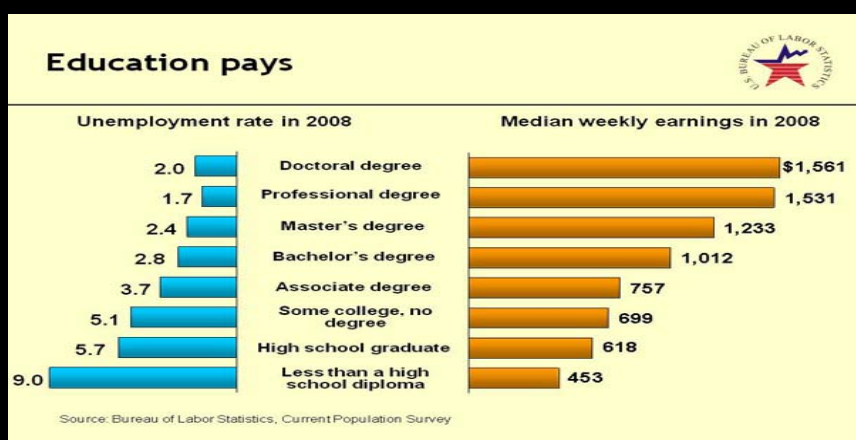
Ratio of total personal income earned by all workers in the information vs. aerospace industries

US Bureau of Economic Analysis, US Bureau of Labor Statistics

Higher Learning = Higher Earning



Higher Learning = Higher Earning & Employment



Consequences of the New Economy

- Demographic Transformation
 - Unskilled to Skilled

- Industrial Transformation
 - Leverage spillovers, facilitate cluster growth

- Global Market Place (Flat Earth)
 - Implications for outsourcing, skill mobility
 - Who will fill these jobs in the future in WA?
 - Will WA kids be competitive?

Thank You

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