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Economics Group

Special Commentary

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Charlie Dougherty, Economist
charles.dougherty@wellsfargo.com • (704) 410-6542

Seattle & Washington March to Their Own Beat

The Resurgence of COVID-19 Cases this Summer Slowed the Recovery

Following an incredible run of economic good fortune, the Seattle and Washington State economies have been severely tested this year. Seattle, which is home to two of the nation's fastest growing large companies—Amazon and Microsoft—had consistently ranked as one of the nation's fastest growing major metropolitan areas and that growth had increasingly spread into adjoining areas of the state. Washington's economy had consistently outpaced the nation in recent years, with real GDP often growing one-and-a-half to two times faster than the nation. Real GDP grew 3.8% in Washington during 2019, compared to just a 2.3% rise nationwide, using comparable data. Stronger economic growth helped pull the unemployment rate down to just 3.8% in February and helped pull in hordes of job seekers, driving demand for homes and commercial space as well as fueling a historic run-up in home prices. Of course, all of this occurred "BC" (before COVID-19).

Washington was one the first states to detect a case of COVID-19. A person returning from Wuhan, China sought help for symptoms of the disease on January 19. The first death was recorded on February 29, shortly after the community spread of the disease had been confirmed. By March 3, seven people had died from the virus in the state and a whole host of well-known Seattle area businesses reported cases among their employees and Seattle mayor Jenny Durkan declared a civil emergency. Shortly thereafter, Governor Inslee implemented emergency measures limiting social gatherings in King, Snohomish and Pierce counties, including closing schools. However, these measures were implemented too late to stop the initial spread. New cases spiked to over 500 a day by early April. The spread slowed considerably in late-April and May but accelerated again this summer, as businesses gradually re-opened and social justice protests amped up.

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Efforts to slow the spread of COVID-19 quickly shut down much of the economy, leading to massive job losses. Employers slashed 554,000 jobs from February to April, with the bulk of the job losses in the leisure & hospitality sector as most restaurants and bars were shuttered. The unemployment rate spiked to 16.3% in April from 3.8% in February before falling back to near 10% in July.

Figure 1

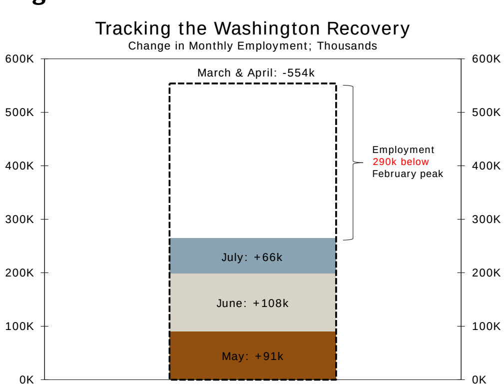
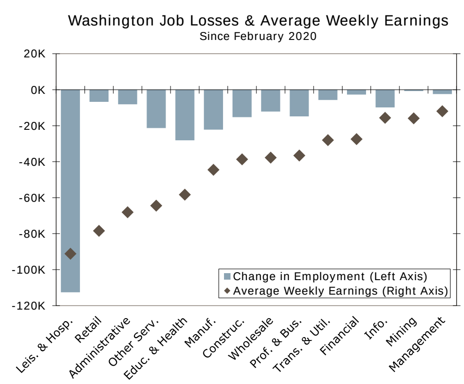


Figure 2



Source: U.S. Department of Labor and Wells Fargo Securities

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COVID-19 Grounds Washington's High Flying Economy

Washington, and Seattle in particular, had consistently ranked among the fastest growing state and metropolitan area economies during the past decade. Real GDP growth had consistently outpaced the nation, while employment and income growth typically ranked near the top of all states and metro areas. Washington is home to one of the most diverse economies in the nation, primarily due to its role of hosting the corporate headquarter for some of the world's fastest growing and most valuable companies, namely Amazon and Microsoft. Other stalwarts headquartered in the state include Starbucks, Costco, Expedia, T-Mobile, Nordstrom and Paccar. The abrupt halt in economic activity that took hold shortly after the outbreak was discovered slammed the brakes hard on the region's economy. While some of the businesses headquartered in the region have benefitted from the shift to remote work, others are clearly struggling. Boeing, which has the bulk of its production in the greater Seattle area, has seen demand for its aircraft dwindle, as airlines around the world have reduced flights in response to the severe and prolonged drought in air travel.

Most layoffs have been in industries that require a high degree of customer contact.

One of the cruel ironies of the pandemic's economic losses is how heavily they have fallen on lower paying occupations. The bulk of layoffs have been in industries that require a high degree of customer contact. The restaurant industry, bars and entertainment venues have been hardest hit. These industries make up the bulk of jobs in the leisure & hospitality sector, which saw payrolls plummet 55% from February to April, accounting for 36% all jobs lost during that period. Average weekly earnings in the leisure & hospitality sector are just $432, which is the lowest of any major industry category. For restaurants and bars, wages are even lower, with average weekly wages in 2019 of just $405. Other low paying sectors, such as retail trade, other services and administrative positions in healthcare, education and a host of other industries have also been hit hard. By contrast, employment has held up reasonably well at corporate headquarters (which are largely captured in management of companies and enterprises), information and technology and financial, business and professional services, which all rank as among the highest paying industries.

The split between high paying and low paying jobs is evident across the country but bites particularly hard in Washington because so much of its economy is concentrated in the high cost Seattle area. On an overall basis, just 48% of the jobs lost during March and April had been recouped by mid-July. Some industries have clearly fared better than other. Employment in professional and business services, which captures a larger portion of the tech sector, has surpassed its pre-pandemic peak. Hiring has also snapped back in construction, financial services and the logistics sector. But, employment has been slow to come back on track in industries requiring a high degree of customer contact or interaction. The leisure & hospitality sector has only rehired about half of the workers let go during the lockdowns, and employment remains nearly 30% below its pre-pandemic level. Employment in education and health services, other services, government and manufacturing also remains well below its pre-pandemic level.

Figure 3

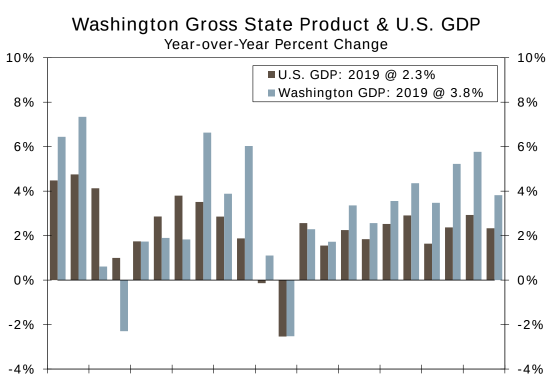
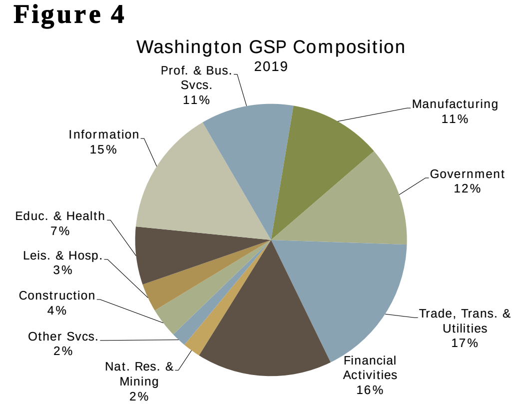


Figure 4



Source: U.S. Department of Commerce and Wells Fargo Securities

Employment conditions are expected to continue to improve in coming months. The pace is slowing, however, and the low hanging fruit from workers returning from temporary layoffs is now largely behind us. Employment conditions moderated nationwide in August but the unemployment rate also plummeted, as the number of job seekers declined following the ending of pandemic unemployment assistance. That program was beneficial to persons put out of work in the leisure & hospitality sector, as it replaced a large proportion of lost earnings. Washington has agreed to implement President Trump's temporary fix, which would provide an extra $300 a week in benefits.

Employment conditions are expected to improve further in coming months.

Hiring plans have continued to improve, particularly in areas outside Seattle. LinkedIn and Indeed show continued increases in hiring plans, although Seattle appears to be recovering much less than the state as whole. We suspect that restaurants are having a harder time bringing back more workers, particularly in Seattle where a large portion of workers have the ability to work remotely. The higher minimum wage may also be an obstacle to rehiring in lower paying industries. At $13.50 an hour, Washington has the highest minimum wage in the country and Seattle's minimum wage comes in even higher at $15.75 an hour for small employers and $16.39 an hour for firms employing more than 500 workers. These higher wages may have been supportable when the economy was booming but may create a tall hurdle for businesses struggling to re-open.

The latest data show the number of new COVID-19 cases is declining in Washington, which should help boost consumer engagement. Most of the high-frequency data, however, show the recovery from the spring's lows has slowed considerably. Of most concern is the high proportion of small businesses that still remain closed. Data from Homebase show the share of businesses open for business bottomed out in mid-April and improved through mid-July. Since then, however, there has been little improvement. Manufacturing has also been slow to come back online, likely reflecting the continuing challenges at Boeing. Airline travel remains severely depressed throughout much of the world and business travel is unlikely to return until the middle of next year or later. With airlines ordering fewer jets and trying to defer those already ordered, Boeing may choose to consolidate its 787 Dreamliner production in North Charleston, SC which would idle its large facility in Everett.

While the current environment remains challenging, Washington, and Seattle in particular, retain several key competitive advantages. The Seattle area is home to a talented and highly educated workforce that businesses continue to covet. Just this past week, Amazon announced it would lease two million more square feet in Bellevue and add 10,000 more jobs there over the next several years. The announcement comes at a time that questions had arisen about whether there might be an exodus from Seattle following the well-publicized civil unrest this summer. While apartment rents have softened a touch and commercial vacancy rates have risen, the Seattle region still appears to be a magnet for young, college-educated workers. There may be a change in the mix of where businesses expand and locate within the Seattle area, however.

While the environment is challenging, Washington retains several key competitive advantages.

Figure 5

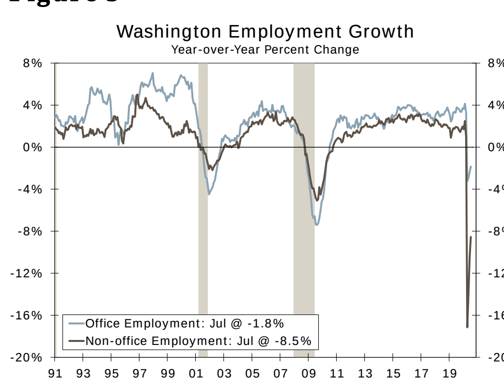
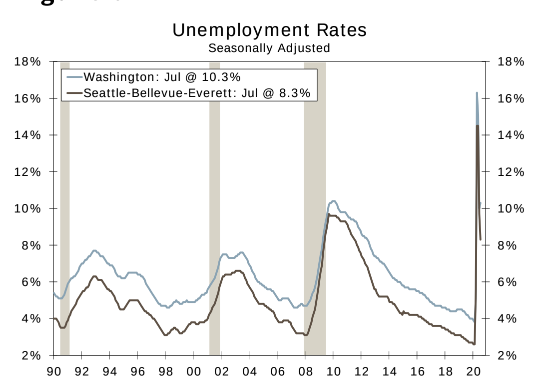
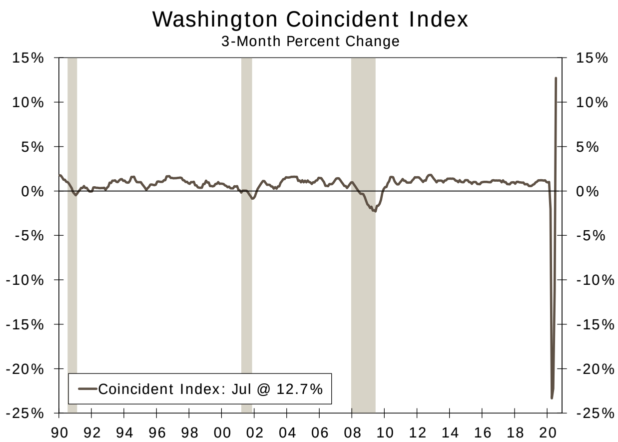


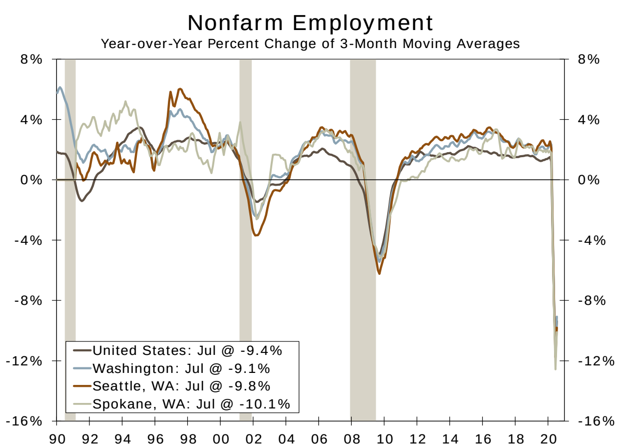
Figure 6

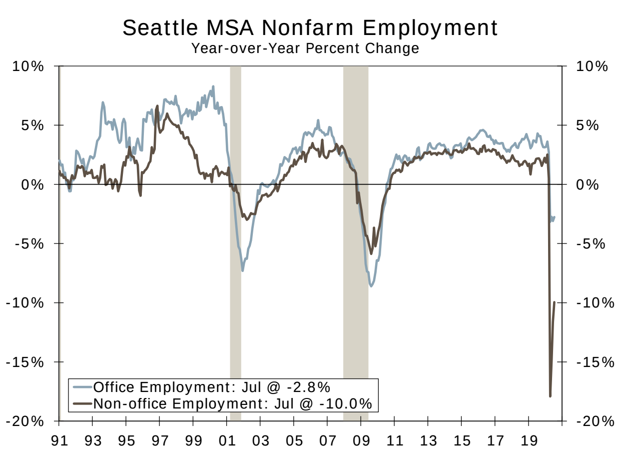


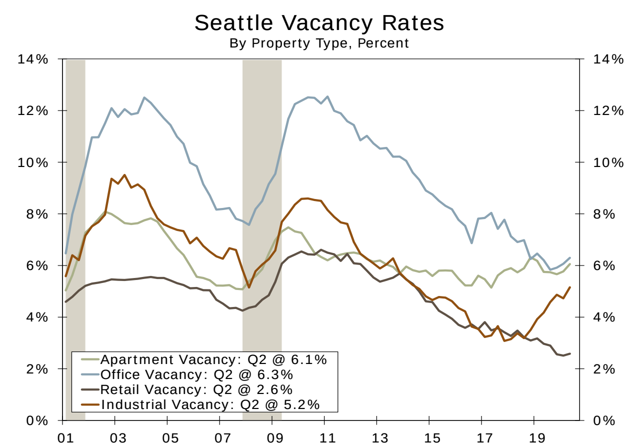
Source: U.S. Department of Labor and Wells Fargo Securities

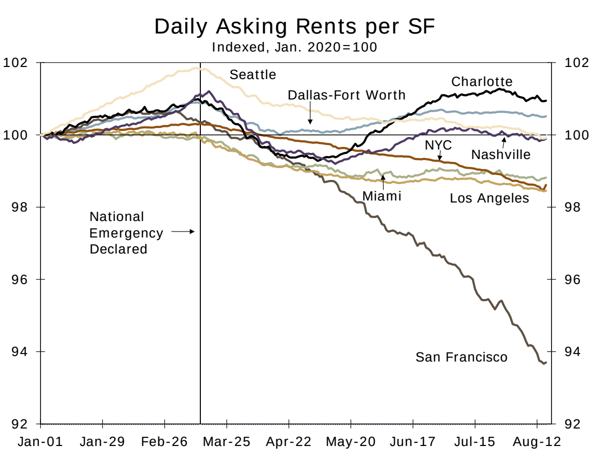
Washington Economic Conditions







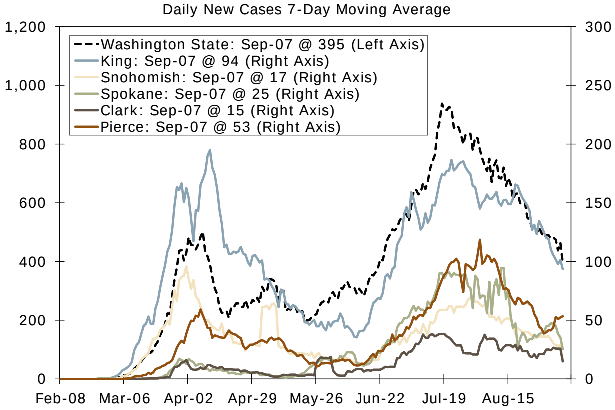




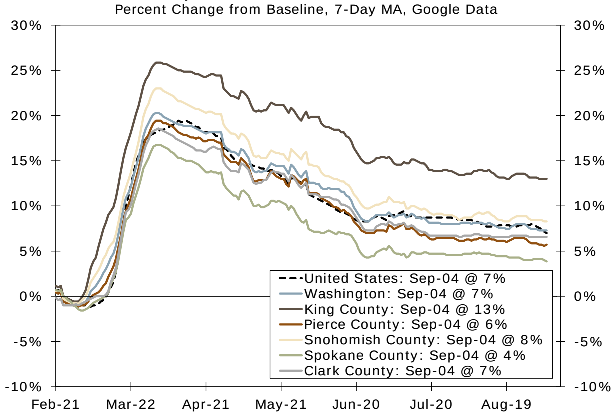
Source: U.S. Department of Labor, U.S. Census Bureau, CoStar and Wells Fargo Securities

Washington High-Frequency Data

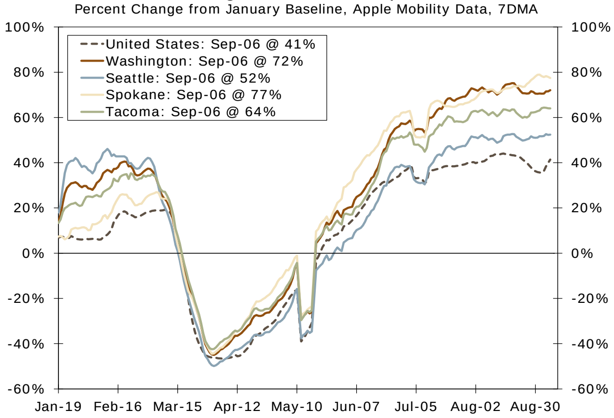
Washington COVID-19 Case Growth
Daily New Cases 7-Day Moving Average



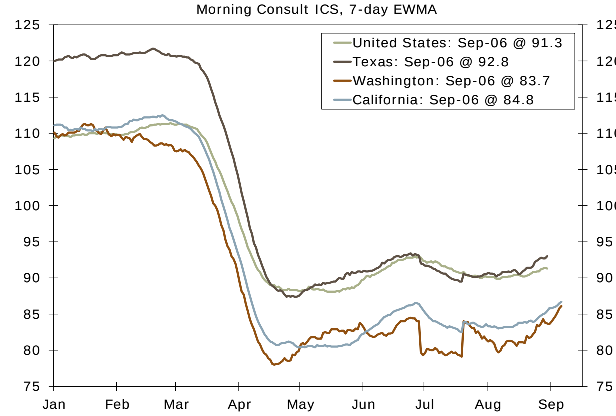
Time Spent at Residential Locations
Percent Change from Baseline, 7-Day MA, Google Data



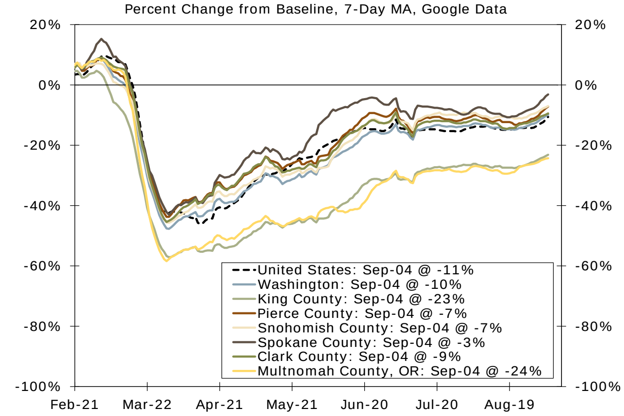
Driving Directions Requests
Percent Change from January Baseline, Apple Mobility Data, 7DMA



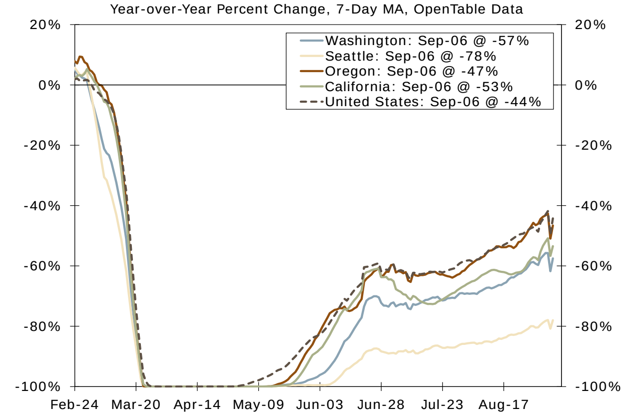
Consumer Sentiment
Morning Consult ICS, 7-day EWMA



Visits to Retail & Recreation Locations
Percent Change from Baseline, 7-Day MA, Google Data



Seated Diners
Year-over-Year Percent Change, 7-Day MA, OpenTable Data



Source: Google, OpenTable, New York Times, Apple, Morning Consult and Wells Fargo Securities

Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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