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Puget Sound BUSINESS JOURNAL Business Leaders Get It.

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Time to size up the regional outlook and shape a strategy

Puget Sound Business Journal (Seattle) - by Glenn Pascall Contributing Writer

The Puget Sound region is no stranger to the economic cycle. Our longtime signature company, Boeing, is in an industry marked by alternating surges and stall-outs of production. Our more recent standout, Microsoft, is in a sector that was thought to be immune from cycles — until the dot-com bust.

Even though Microsoft sailed through that downturn with a minimum loss in sales and revenue, its market value was hammered. The drop in share price sucked $100 billion or more of household wealth out of the regional economy at the start of the new century, with dramatic impacts on home prices and retail sales.

Until now, the sharpest drop in the regional and national economy since the Great Depression was in the early 1980s as Federal Reserve chairman Paul Volcker's draconian anti-inflationary monetary policy took hold. There was a two-year interval between strangulation of the money supply and the drop in interest rates. That hit home building — and Weyerhaeuser — especially hard, and combined with a recessionary drop in air travel to nail both of our then-largest companies.

Today it is unusually important to assess the underlying drivers of positive and negative change.

In the debit column is the headquarters presence of one of the nation's largest failed financial institutions. Not only WaMu's independence but its logo have vanished into economic history, along with 3,400 well-paid local jobs. Several other regional superstars are in a sector that, along with finance, became a bloated presence in the economy — consumer retailing. Nordstrom and Starbucks are taking their hits. Amazon.com will test its advantage online.

On the plus side, we did better than most areas in containing home price declines. The obstacles to overbuilding — regional geography as well as growth management — were complemented by a strong income base that kept us relatively safe on measures of affordability. But "safe" means price declines of 15 percent rather than 30 percent or more.

The biggest surprise in the plus column is that Boeing (and Airbus) are "well placed to weather the recession," according to an assessment from The Economist magazine. Both have orders for more than 3,700 planes, and airlines are deferring rather than canceling purchases. Meanwhile, banks see planes as unusually attractive investments because they are mobile, long-lived, standardized products that can be deployed globally. Moreover, both Boeing and Airbus stand ready to help would-be buyers with financing.

The outlook is that virtually all planes on order will be built because by the time all the orders are filled, the economy should be in its next upswing.

Back on the minus side, perhaps the greatest challenge is the Pacific Rim port and trade sector. A new report from London-based Drewry Supply Chain Consultants appeared on Nov. 28 in the Los Angeles Times under the headline, "Changing trade patterns threaten (West Coast) ports' relevance." That final word should grab our attention.

A year ago the American Association of Port Authorities said the West Coast share of Asian imports fell from 85 percent to 58 percent between 1999 and 2005, while the Panama Canal share increased from 12 percent to 40 percent. Now Drewry says a bigger-than-expected expansion of the Canal by 2014 will accelerate the shift. U.S. Gulf Coast and Southeast ports are expected to benefit.

The current recession, and the 2004 West Coast port shutdown caused by a labor dispute, can be defining events where such exposure exists. They cause a notching down in volumes that may not return if underlying economics are unsupportive. Particularly at risk are ports like ours that land a high portion of cargoes for long-haul shipment rather than local market consumption. Reflecting this, Tacoma has shown a slight decline and Seattle a sharp decline in 2008 volumes.

Similarly, the 58-day Machinists' strike, in an uncertain economic climate, gave an opening to many of the same Gulf Coast states who seek our port business to argue that they offer Boeing a more favorable labor climate than the Puget Sound area.

One clear area for action is our own infrastructure stimulus package. In a comprehensive and cogent Puget Sound Business Journal interview on Nov. 21, state transportation chair Dan O'Neal argued for "stepping up to the plate" and closing our $36 billion transportation investment gap by directly charging users of the facilities. He also noted transit capacity aids freight mobility.

In the same issue, a host of regional leaders expressed concern that voters said yes to transit but left the State Route 520 bridge and the Alaskan Way Viaduct unaddressed. Severe downturns are a good time for the stimulus of large public works, and they position the region with capacity that will be required when the recovery comes.

This suggests we need a strategy that combines effective representation in Washington, D.C., as a national stimulus plan is forged, and a willingness to "step up to the plate" with fairness-based user charges for transportation.

GLENN PASCALL's column appears regularly in the Puget Sound Business Journal.