

Stocks Today Business-Industrial Digest OVER-COUNTER QUOTATIONS Market Holds To Upward Course Gold Denies To Advance Again Sober London Trade Early Start Sighs For Exporters Investment Digest Stocks in the Spotlight Bigger Gains for Seattle Critics Charge Motors Successful Conference Tomorrow Of Train Sought

Seattle area staggered by recession

By WILLIAM P. JESKE
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The issue of whether or not the United States economy suffered a recession during 1970 has not been settled, but that isn't the case for Seattle. Without a doubt, the Seattle area entered what can be described as the longest and deepest recession of the post-war period early in 1970, and it is not yet concluded by any stretch of the imagination.

Analysis of the business cycle has been a principal task of the National Bureau of Economic Research since its establishment some 50 years ago. Largely as a result of the Bureau's work, the United States economy's record of uneven growth rates has been recorded, charted, and analyzed for underlying causes and consequences. In the course of its investigation, the Bureau has defined those periods of time when the economy was contracting on a broad front as recessions. Although we are still awaiting a final decision on whether the 1969-1970 slowing was severe enough to qualify as a recession, the evidence is certainly available to indicate that growth in the economy did come to a halt in 1970 and then turned negative for a short period.



The national slowdown has produced a slowing effect on the Pacific Northwest regional economy, as might be expected. This region has been subjected to the same retarding fiscal and monetary restraints as the rest of the country, also, as business activity eased across the nation, it resulted in softer markets for goods and services produced in the region. This is what has happened here in the Northwest during previous national recessions, and it undoubtedly took place this time as well.

'Seattle has taken disproportionate casualties in the war on inflation'

The national slowdown has not had a uniform effect on all industries. Some have been very hard hit while others have escaped completely. Similarly, some regions have been hit much harder than others, and because Seattle's industrial make-up is heavily involved with industries that are most sensitive to tight-money policies, we are one of the severely affected areas in the country today. In a real

sense, it can be said that Seattle has taken a disproportionately heavy share of the casualties in the war against inflation.

Residential construction is one of those activities that was slowed by tight and expensive money. As mortgage funds disappeared, United States housing starts fell by one-third between the first and third quarters of 1969, and wholesale prices of lumber and plywood products fell by 50 per cent in a matter of six weeks. Earnings for workers and owners alike in the forest-products industry have shrunk. So far there has been no pick-up in building-material prices even though housing has begun to recover, although recent trends point to some relief for the industry in 1971, assuming mortgage funds are plentiful.

The same cause-effect pattern can be traced for the aircraft industry to explain the massive layoffs that have occurred here and elsewhere in the industry. The nation's airlines have been squeezed by rising costs on the one side and lower passenger revenues on the other. Profits, according to the Air Transport Association, have been on a declining trend in recent years and are expected to turn negative in 1970. Hence, the industry's need for new equipment—and indeed, its ability to purchase new equipment—has been seriously cut. The high cost of money has also been a limiting factor for the airlines, just as it has been for everyone who has borrowed money for capital expansion during the past two years.

The soft commercial market for jet transports accounts for most of the contraction that The Boeing Co. has undergone since early 1969. During 1970, the firm sold only eight new planes to domestic carriers and its backlog of orders has shrunk from over \$5 billion at the beginning of 1970 to about \$3.6 billion at the end of the third quarter. Boeing's employment in Washington has fallen from just over 101,000 late in 1968 to an estimated 45,000 at year-end 1970 and further cuts are expected to be made.

The latest projections released by Boeing showed its employment dropping during 1971 to a "most likely" level of 32,500 by year-end. The projection included the SST pro-

gram, which now accounts for almost 5,000 jobs and would grow to a peak of 9,000 by mid-1971; then drop down to 6,000 at year-end.

If federal funds for the program are not approved, and this is certainly a possibility, then the employment projections for 1971 will have to be cut accordingly. This simply means that the downward adjustment that the Puget Sound area has been undergoing for two years is going to be stretched out further and deeper than would be the case with the SST.

Massive aerospace cuts, coming at the same time as the national economic slowdown, have resulted in a serious recession for the regional economy. Almost every sector of the local economy will have experienced a poorer year in terms of sales and profits in 1970 than in 1969. There will be exceptions, of course, but the aggregate volume of business transactions for 1970 will be no better than in 1969, and when adjusted for inflation, the real volume of goods and services handled will very likely be lower.

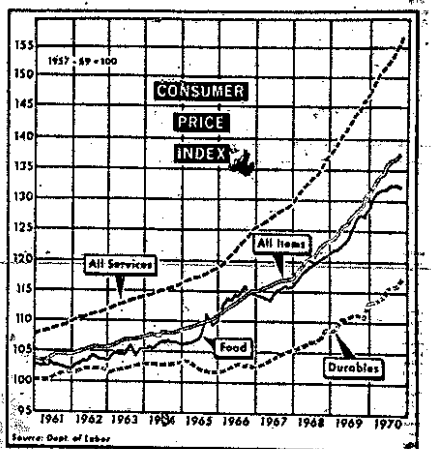
'The 89 per cent of the labor force at work is earning and spending more ...'

Employment at year-end 1970 is approximately 50,000 lower than at the same time a year ago in the Seattle-Everett Metropolitan Area (King and Snohomish Counties) while the unemployment rate has more than doubled. The last reading, as of mid-November, showed the jobless rate to be 10.9 per cent, which compares rather unfavorably with a level of slightly over 5 per cent a year ago. Approximately one out of every nine workers is now out of work.

Possibly the broadest indicator of the volume of business activity for the region is bank debits, which is a measure of the total value of checks drawn against deposits. The total volume through November for the Seattle-Everett SMSA indicates that 1970 will run approximately 3 per cent below 1969. The November reading was 7.4 per cent below November 1969. (Continued on B 8)

B Section The Seattle Times
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The index in November reached 137.8 per cent of the 1957-59 average, meaning that what cost \$10.00 then would now cost \$13.78.

Decline in airline profits increased squeeze

By WILLIAM LOTTO
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Employment growth in the Seattle-Tacoma-Everett area during the period from 1965 to 1969 was explosive, increasing from 383,000 to 760,000—a gain of 175,000 new jobs—or about 44,000 a year. This represents a compound annual gain of 6.8 per cent and is more than triple the United States growth rate during the same period. The largest employment increases occurred in aerospace, but large gains also occurred in the nonmanufacturing sectors of trade, services, and government.



William Lotto

News of major local-business expansions during this period were frequently announced with banner headlines and shouts of congratulation among residents in the community as we grew more and more secure in the knowledge that at least in this part of the country, future economic uncertainties had been eliminated. There were, of course, a few who at that time were calling for a re-evaluation and statement of our area's long-term goals, but these voices were muffled within the general din of economic prosperity. People were not particularly receptive to the idea that growth also breeds problems, and major growth breeds major problems.

'... growth breeds problems, and major growth breeds major problems'

This tranquil picture began to change in late 1969, however, as total employment began to drop and seasonally adjusted unemployment rose from 5.1 per cent in January 1970 to 9.9 per cent in May. This rate had increased, moreover, to an extremely high 10.7 per cent in November. The three basic factors leading to this sharp turnaround in our economy are not hard to isolate:

A sharp decline in commercial airline profits;
A slowdown in the overall national economy;
and a federal government battle with inflation.

These three are, of course, interrelated, and all three had and are having a serious impact on the economy of the Seattle area.

The reasons why Seattle has been so seriously affected among major cities of this nation, however, are more difficult to explain. The basic factor appears to have been the sharp decline which occurred in United States commercial airline profits. Growth in United States airline capacity over the past few years has far outstripped increases in number of passengers and tons of cargo being shipped. At the same time as company liquidity has been squeezed, moreover, airlines have been forced to pay sharply higher interest costs on new borrowings.

The result of this scissors effect on profits has been a major curtailment of new orders for commercial aircraft. Since The Boeing Co. has been the leader in this industry, it has been hit harder than any other company. Their backlog of commercial and government orders had fallen from \$5.8 billion at the end of 1967 to \$3.6 billion at the end of the third quarter of 1970. Prospects for a near-term pick-up in orders, moreover, appear at best to be only slight.

The one bright area of sales strength for this company, meanwhile, continues to be new orders originating from foreign air carriers. In the last four months of 1970, for example, of the 26 announced airplane orders received by Boeing, five came from Japan Air Lines, four from Ansett of Australia, four from Trans-Australia, four from Varig of Brazil, three from Lufthansa, three from TAP Portugal, one from BOAC, one from Malaysia-Singapore Airlines, and one from International Telephone and Telegraph.

Employment at local Boeing facilities has fallen from a

peak 102,000 in July, 1968, to 47,000 at the end of November. According to company estimates, employment will continue downward throughout 1971—reaching 32,500 by year-end. This would be their lowest employment level since 1953.

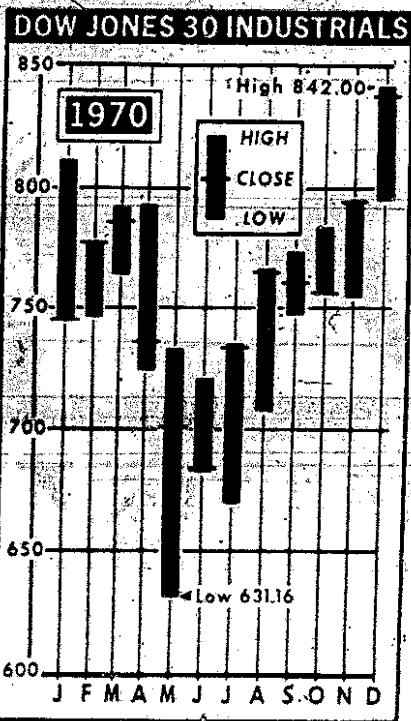
Presumably, this figure would go even lower in the absence of construction of an American SST supersonic transport.

'The outlook for this area ... is not particularly bright'

This is certainly not, of course, the only geographic area affected. Aerospace employment outside Washington has fallen from 750,000 to 607,000 over this same span for a loss in the rest of the country of 143,000 workers. Because of Boeing's long-time lead in this industry, however, the employment and income effect on it and Washington State has been by far the greatest in the nation.

The second of three important factors is the slowdown in growth occurring in the United States economy. Manufacturing employment other than aerospace in the national economy was off by 2.3 per cent in the first nine months of 1970. Employment in this same category in the Seattle-Tacoma-Everett area was off by 4 per cent — to 89,000 workers. Average third-quarter employment comparisons indicate employment losses of 4.1 per cent over the year in the national economy and 6.5 per cent in the Seattle area.

This manufacturing group, including forest products, (Continued on B 8)



starts tomorrow, 9:30 A.M.

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