

Economic Analysis of the Central Puget Sound Region



Volume II of the Regional Economic Strategy

Adopted September 27, 2005



Prosperity
PARTNERSHIP

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EXECUTIVE SUMMARY

The *Prosperity Partnership* is a unique collaboration of government, business, and community leaders from throughout the central Puget Sound region. The goal of the *Partnership* is to strengthen the region's economy by bringing together the four-county region's many disparate players to develop and implement a common economic development strategy.

The strategy offers guiding principles for the region, a strategic framework and realizable action initiatives. It also helps the *Partnership* realize its ultimate goals: ensuring the region is attractive to enterprise over the long term and that its economy is creating good jobs in a sustainable manner.

This report is the result of months of economic analysis, surveys and interviews conducted for the region. It provides the supporting documentation for the *Prosperity Partnership's* Regional Economic Strategy.

Background

The *Prosperity Partnership* has challenged the central Puget Sound region to reflect on its past economic successes and determine what the community values and expects in its future economy, while implementing an economic development policy in an integrated, coordinated and sustained manner.

Over the years, there have been a number of similar efforts, including *Foundations for the Future* and others. Through these efforts, regional leaders have shown remarkable consistency in repeatedly focusing on the themes of coordination, collaboration and sustainability. However, there is a perception that some earlier efforts at integrating the four counties' economic development policies came to life in order to confront particular crises but then dissipated quickly as the crises passed. Or the effort achieved all of the analysis and much of the process required for a unified strategy—but faltered just as it reached the implementation phase.

The *Prosperity Partnership* sets the stage for a new kind of strategic planning. It is bringing new sources of ideas and energy from throughout the four-county region. It will be integrated with growth management and transportation planning to form a new, more widely shared economic vision and economic development rationale not formally articulated before.

Industry clusters—particularly those that bring new wealth into the region—are the central, organizing element of this report and of the *Prosperity Partnership* because they drive, and will continue to drive, the region's economy. Business and government leaders are identifying critical impediments to a stronger and more vibrant economy as well as opportunities for economic development. They will then put these into priority order and begin the process of implementing concrete actions to address that which is holding back the economy from achieving its full potential. In this way, the *Prosperity Partnership* sets the stage for new thinking and new approaches to planning for and realizing the area's economic potential.

Purpose of this Report

The purpose of this report is to serve as an analytical framework around which the collaborative process and ultimate long-term economic development strategy shaped by the *Prosperity Partnership* can be structured. It is an analysis of economic trends and data. It reviews some of the ***economic challenges*** facing the region and furnishes an updated description of the region's ***economic setting***. It then identifies and defines a number of important, “traded sector” ***industry clusters*** that appear to be driving the region's economy due to their ability to export goods and services out of the region, thereby importing wealth and generating employment. Next, this report examines the region's ***economic foundations***—human resources, technology, access to capital, business climate, physical infrastructure, and quality of life and social capital—and compares these foundations to those of similar regions. Each of these comparator

regions is also examined as an example of “*best practices*” in public-private collaboration that may be instructive for the *Prosperity Partnership*. Finally, this report includes the results of dozens of *interviews* with executives of companies in each of the clusters as well as a *survey* of other major stakeholders in the economy across the region. It concludes that there are troubling warning signs on the horizon, but that the region has a wide range of powerful assets on which to build a strong and dynamic economy.

Synopsis

Part I. Economic Challenge: Major trends in the global and larger regional economies of which Puget Sound is a part—such as outsourcing, technological change and innovation, the rising price of oil, the advent of “lean manufacturing” and the rise of the “creative class”—all play a major role in shaping the context for the Puget Sound regional economy. Well-placed for global trade, the region will need to offer its industries true global connectivity while preserving the livability of its region and the high levels of investment in its human and physical resources.

Part II. Economic Setting: The Puget Sound region suffered the triple shocks of the early millennium: the dot-com bust, the national recession, and the impact of 9/11 on the aerospace and tourism industries with a steep decline in employment. Only now are the region’s employment levels returning to those seen in 2001. While recovery in employment has been slow, it does appear that the region’s productivity has remained well above national averages, allowing for higher-than-average incomes to be sustained. One negative impact of the region’s success and higher incomes is the continued upward pressure on home prices. The affordability of housing is expected to worsen over the next 10 years, and the region’s aging population is expected to grow slightly faster than that of the rest of the U.S.

Part III. Industry Clusters: The Puget Sound region is fortunate in that it is home to a wide variety of industry clusters from wood product manufacturing to cutting-edge life science research. This report identifies 15 clusters (for a complete list see Part III) of which the fastest growing are Electronic Shopping, Information Technology (IT), and Long-Term (Health) Care. The Prosperity Partnership chose five of these clusters to focus on as “pilots” during the initial stages of the project. These are: Aerospace, Environment and Alternative Energy (renamed Clean Technology), IT, Life Sciences, and Logistics and International Trade.

Part IV. Economic Foundations: This report examines six “economic foundations” underpinning the region’s economy. They are:

- **Human Resources**—The region’s workforce is highly educated and the workforce development system seems to be working well; however, skill gaps remain between the workforce and the needs of key clusters.
- **Technology**—While there are enormous resources for research and development and other sources of innovation, the system of “technology commercialization” in the region has weaknesses that result in fewer businesses being launched on the back of new technologies than should be the case.
- **Access to Capital**—The region is relatively “under-banked” in the sense that its employment in industries such as commercial banking is significantly below the national average; the availability of early-stage venture capital has been particularly scarce ever since the burst of the tech bubble in 2001; the region shows strength in Small Business Administration (SBA)-backed small business lending per employee, though firms in the region tend to be smaller, on average, than those in peer regions.

- **Public Infrastructure**—While the region hosts top-notch air and sea transportation systems, there is some overlap in shipping and container capacity, highway congestion continues to be a significant problem, and there is not enough mass transit.
- **Business Climate**—While the region ranks highly in the rate of new business formation, it ranks very low in its ability to assist and retain small businesses; the Business & Occupation (B&O) tax is particularly onerous for start-up businesses; entrepreneurial support networks are also weaker than in peer regions.
- **Quality of Life & Social Capital**—The region is home to the largest private philanthropic foundation in the world as well as a sophisticated network of non-profit institutions; its residents give generously to art, open space and other efforts to preserve our physical and cultural environments, creating a commitment to community that is exceptionally high when compared to other regions.

Part V. “Best Practices” in Regional Collaboration: This report reviews the regional collaborative processes in five of Puget Sound’s peer regions: the San Francisco Bay area, San Diego, Denver, Minneapolis, and Phoenix. Based on these reviews, a number of “best practices,” or lessons, for Puget Sound became evident. These include: (1) take time to build momentum for collaboration—building trust among a diverse set of stakeholders takes time; (2) balance top-down influence with bottom-up innovation—both of these sources of ideas and innovation are important and should complement each other; (3) encourage big ideas and achievable first steps—again, both are necessary for a successful process as participants need to feel a sense of progress; (4) always look for new ways to connect ideas and people—remain open to new paradigms and creative combinations or ideas, people and organizations; (5) demand measurable outcomes and accountability—delivering what is promised builds confidence in the process across the community and attracts new ideas, people and funding to sustain it.

Part VI. Firm-level Interviews: This report conducted 44 one-on-one interviews with senior stakeholders in the region. Seventy percent of these were with company executives in many of the region’s key clusters. The region’s *most significant strength* identified by most of the company leaders interviewed relative to other regions was its **quality of life**. Other strengths cited included: (1) its port, airport and other logistics attributes; (2) the region’s intellectual capital and research capabilities; and (3) its overall image as a center for select clusters such as aerospace and IT. A majority of the company leaders interviewed said difficulties with the region’s **transportation infrastructure** represented the *top constraint* to their company’s ability to do business. The real signal of interest is the fact that a majority of those interviewed felt that the quality of linkages between the four counties is “very important or “important”—higher than the number who felt that way about inter-firm linkages. While most companies interviewed are now global in reach (in terms of markets, supply chains, and workforce recruitment), they still rank the importance of intra-regional linkages very high. This is, again, an excellent indicator of their understanding of the degree to which their success is tied to the efficient operation of the region as a whole. **This concern about regional cooperation is far higher than in most regions around the country.** All of those interviewed agreed that lots of work needs to be done to build the region’s image as an international region, and also to build the reality behind it: better linkages, better visibility for the immigrant community, better language training, and more pro-active outreach to other countries.

Part VII. Stakeholder Survey: The project team sent out a total of 314 surveys to a variety of private companies, local government offices, non-profits, training organizations, labor unions, and other economic stakeholders in the region. The project team received 42 completed surveys.

The respondents to the survey were asked to mention what, in their opinion, worked well in the region (strengths) and what needed improvement (weaknesses) in each of the following aspects of the region: quality of life; infrastructure (roads, airport, rail, utilities, transit); housing; planning for growth; business

climate; and cluster development opportunities in the five pilot clusters. Part VII of this report is a summary of their open-ended responses.

Finally, survey respondents were asked to help set priorities for the Prosperity Partnership. When told they hypothetically had \$100 million to help move the region toward prosperity, respondents ranked the priorities for spending that money as: 40% for physical infrastructure, 32% for education and job skill training, 15% for research and development, 7% for tax relief, 2% for social service grants, 2% to other non-profits, and 2% to other categories.

When asked to indicate their orientation towards growth, the majority classified themselves as “aggressive (fast-paced growth)” across every measure (job growth, sales growth, new market development, technological innovation, and new business formation) except real estate development. For that measure, most classified themselves as “moderate growth.”

Use of this Report

The *Prosperity Partnership* has set the stage for a new kind of strategic planning. It has not simply brought the “usual suspects” into the process but new sources of ideas and energy from throughout the four-county region. It has used the economic analysis in this report to help shape the region’s plans with a new, more widely shared economic vision and economic development rationales not formally articulated before. In this way, the *Prosperity Partnership* will facilitate new thinking and new approaches to planning for and realizing the area’s economic potential.