

M A R P L E ' S

Northwest Business Letter

INSIDE THE PACIFIC NORTHWEST ECONOMY

Washington • Oregon • Idaho • Montana • Alaska



IMPORTANT

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Booming tech sector has made software engineers a hot commodity

Increased hiring by Puget Sound's longtime high-tech stalwarts, an influx of fast-growing industry giants, and a booming startup scene has created a shortage of talented software developers. Fresh graduates are being scooped up as fast as universities can churn them out. Experienced developers are being wooed by their employers' rivals.

At a time when hiring is sluggish in all but a few industries, the sector that includes software developing is booming. The explosive growth in mobile phones, tablet computers, and cloud-based computing also is creating more avenues for employment. In the rapidly evolving field, the best developers with robust, up-to-date skills are quickly landing the high-paying jobs. Developers with outdated, or highly specified, skills that aren't in demand are underemployed, while the lowest performers are out of work.

When the top software people are an estimated 100 times more productive than an average programmer, the difference in skills and abilities can't be overstated.

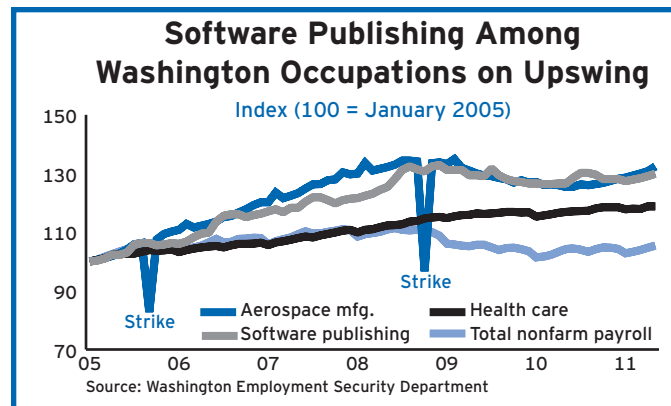
A Seattle venture capitalist sees two labor markets in the region's economy. The broad labor market is languishing, he said, "but the market for (software) engineering talent is as tight as I've seen it."

Sources told us that supply will remain that way for the foreseeable future. Washington has generated a critical mass of talent that has ratcheted up competition even further by attracting companies from outside the state. Also, more companies are adding staff that can mine and analyze data, work on Web sites, or tackle other software-related problems. It is not just that the big boys like Microsoft, Amazon.com, and Google are hiring. The pervasiveness of the Web means, a venture capitalist tells us, that "every business needs to be a software business at this point."

What's also happening is a trickle-up effect that has developers migrating to bigger companies or other businesses where they can tackle more challenging problems.

The net effect is that Washington's software publishing sector added 1,500 jobs in 2011 through June, and 2,000 jobs over the past year. Its growth rate since 2005 compares with the resurgent aerospace industry and the rock-steady health care field (see graph).

In the private sector, Washington's information industry, which is largely made up of software-related jobs, was the



third-largest contributor to the state's Gross Domestic Product in 2010, trailing only the state's manufacturing and real estate industries. The information sector was the second-fastest growing segment of the state's economy from 2009-10, and paid a higher annual wage than every other industry (see table).

Sources report college grads are receiving multiple job offers and six-figure salaries straight out of school or stock options that show up in salary data in future years.

The pace of growth doesn't look as if it will slow down in the short term. Amazon.com's Web site lists 900 openings for software developers at its Seattle headquarters. Microsoft lists roughly 1,000 jobs at its Redmond campus and around Puget Sound.

Google lists only six developer openings in Washington, but earlier announced a companywide hiring spree in 2011 that would top 2007's record of 6,000 hires. Facebook also lists only a half dozen jobs at its Seattle location, but the Silicon Valley-based social media site offers the jobs coveted by most programmers.

According to one tech-job site, Facebook is the only company that is hiring more engineers than it is losing to rivals such as Microsoft, Google, Apple, and Yahoo.

Zynga, the maker of popular Farmville and Mafia Wars games, stepped into the Puget Sound fray by opening an office in Pioneer Square this year. Mark Pincus, a founder of Zynga, and Facebook's Mark Zuckerberg both visited the area this spring to help solidify their Seattle beachheads and to juice recruiting.

To shore up their defenses, Microsoft CEO Steve Ballmer in April announced unspecified pay raises for all its employees later this year, and Google hiked wages 10% last January.

Washington's Information Industry Led State in Average Annual Wage in 2010

	Avg. annual wage	Total wages paid (millions)	% of state total wages	Avg. employment	% of state workforce
Information	\$109,766	\$11,218	8.2	102,203	3.6
Management of Companies	95,770	3,042	2.2	31,767	1.1
Utilities	77,591	374	0.3	4,815	0.2
Professional, Scientific, & Tech. Services	75,367	11,847	8.7	157,196	5.6
Finance & Insurance	70,132	6,182	4.5	88,151	3.1

Source: Washington Employment Security Department

While one source said the influx of competition drove one Puget Sound CEO to Texas to recruit, the available talent also has pulled in recruiters from elsewhere. Said Western Washington University computer science professor Geoffrey Matthews: "A company in Michigan hired one of my students and asked if I had any more."

Competition hasn't yet gotten as vicious as it has in the Silicon Valley, where companies will advertise for jobs on billboards in plain view of a rival's offices.

Room to grow

The mobile-Internet tsunami is fueling some of the growth, with tablets and smart phones as the new frontiers. "It's just like the Internet boom," said one insider. "Now everything has to have a mobile device interface."

Developers are also puzzling ways to allow you to use your keyboard less frequently. Like Microsoft's Kinect system, you will control your computer (and other devices) by motioning your hand or by voice command.

In addition to computer security, more companies will bring on experts in data gathering and analysis. Computers are

going to be so sophisticated and do so much that businesses are going to need a computer scientist to do almost anything, one source said. "Spreadsheets aren't going to cut it."

There are also mundane challenges developers will continue to tackle such as automatic parallel parking. On the other end of the spectrum, Google has been testing cars that drive themselves — without incident so far.

Despite what you may think of computer games, they are a multi-billion dollar business, and a significant part of the area's tech landscape. Seattle-based PopCap Games was just scooped up by industry giant Electronic Arts for \$1.3 billion.

Distinctive attributes of the software business are low barriers to entry and, as the PopCap deal dramatically illustrates, potentially huge payouts. One venture capitalist told us that a talented programmer with only a little initial investment can quickly get a software business up and running.

Danger: Risks ahead

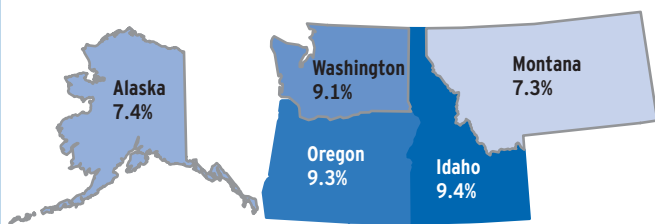
Is another tech bubble building — the dot.com bubble v2.0? Some insiders told us the investments being made in some start-ups, mostly confined to Silicon Valley for now — are outlandish. Investors are trying to back the next Zynga or Groupon, said economist Bill Conerly. He's not ready to call it a bubble yet, but he's watching it closely.

A counterargument is that the growth this go-round is more sustainable because of the global opportunity with some of the technologies and applications. And there are always new problems to solve or efficiencies to find.

Another possible pitfall for employees in the industry is the potential for companies to send jobs offshore, especially to India and China, unless the supply of software engineers

PNW Snapshot

Unemployment Rates



	Jun '11	Jun '10
U.S. Average	9.2	9.6
	May '11	May '10
Alaska	7.4	8.0
Idaho	9.4	9.2
Montana	7.3	7.2
Oregon	9.3	10.9
Washington	9.1	9.6
Metropolitan Statistical Areas	May '11	May '10
Anchorage	6.7	7.1
Bellingham	8.4	8.7
Bend	11.6	13.7
Billings	5.2	5.1

Metropolitan Statistical Areas	May '11	May '10
Boise-Nampa	8.8	9.0
Bremerton-Silverdale	7.9	7.9
Coeur d'Alene	10.2	10.1
Corvallis	5.8	6.7
Eugene-Springfield	8.8	10.6
Fairbanks	6.5	6.8
Great Falls	6.2	5.4
Idaho Falls	6.7	6.4
Kennewick-Pasco-Richland	7.4	7.3
Lewiston	6.9	7.3
Longview	11.7	12.7
Medford	10.9	12.4
Missoula	6.9	6.6
Mount Vernon-Anacortes	10.0	10.2
Olympia	8.3	8.2
Pocatello	7.8	7.7
Portland-Vancouver-Hillsboro	8.6	10.4
Salem	9.4	10.5
Seattle-Tacoma-Bellevue	8.5	9.1
Spokane	9.0	9.4
Wenatchee-East Wenatchee	8.8	9.3
Yakima	10.3	9.9

Source: Bureau of Labor Statistics. Seasonally adjusted rates not available for MSAs. State rates are seasonally adjusted. June 2011 rates not yet available for states or MSAs.

rises up to meet the demand. Most of the big companies already have labs abroad, but the savings they used to gain from them are diminishing. The wage differential between the three countries is narrowing, said Ed Lazowska, who holds the Bill and Melinda Gates Chair in Computer Science and Engineering at the University of Washington. Now the access to talent is becoming more important.

At the current rate of college graduates, the supply of software engineers in Washington is expected to fall short of demand by 1,100 by 2016. If you add in computer science degrees, the shortfall grows to 4,100, according to the Washington Higher Education Coordinating Board. From 2008 to 2018, computer and math jobs are projected to grow more than twice as fast as the average for all other occupations nationwide, with 762,700 computer specialists alone, according to the Bureau of Labor Statistics.

Proposed budget cuts to the computer science programs at UW and WWU may tighten the pipeline. Demand to get into computer science programs at WWU and the University of Washington is already on the rise. At UW, the number of applicants exceeds capacity by a factor of four.

At WWU, more than 80% of CS grads find work in their chosen field with an average salary of \$55K – the highest percentage and highest salary of any major at WWU. At UW, half go to Microsoft, Amazon.com, Google, or other big players. Another 30% go to startups or small businesses.

What is happening around Puget Sound has long been going on in Silicon Valley, and is now spreading to Boston, New York City, and emerging high-tech hotspots. In Boise, top developers become the subjects of bidding wars, said Matt Rissell, the CEO of tsheets.com and chairman of Idaho's technology council.

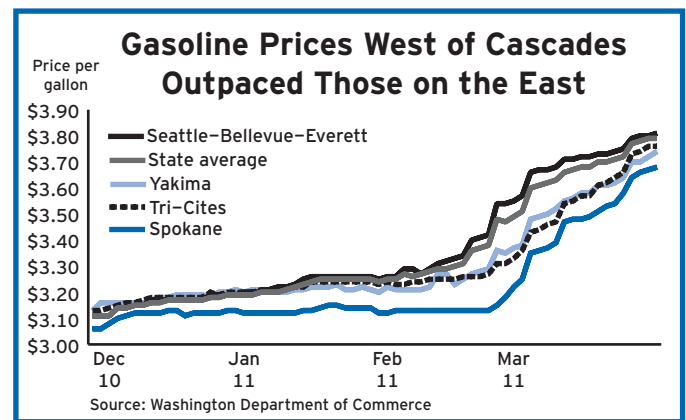
Part of the demand is pegged to globalization that is found in industries ranging from finance to farming. "It's not about Seattle," one source said. "It's a global fight for talent."

That Seattle is a key participant in this fight speaks volumes. UW's Lazowska related a quote from Steve Ballmer, where he said there are two reasons for tech companies to move to Seattle: the University of Washington and Microsoft. Indeed, they are part of the foundation that has been one of the drivers of the region's recovery. [M](#)

Closure of locks had unanticipated effect on gas prices around Washington

The biggest worry during the planned 14-week locks closure on the Columbia and Snake rivers (Marple's, Dec. 1, 2010) was what would happen to the prices of gasoline and diesel fuel in Washington east of the Cascades after the main means of fuel transportation to the region was shut down.

Almost all of the gasoline and diesel for the east side of the state is barged up the Columbia River to a distribution hub at Pasco. About 17% of the fuel annually sent upriver is transported during the period of the closure, which lasted from Dec. 10, 2010, through March 25.



The assumption was supplies in the eastside would tighten throughout the closure and put upward pressure on prices. Meanwhile, a surplus of gasoline and diesel would accumulate on the west side and make gas more affordable.

The latest in a series of reports by Washington State University's Freight Transportation Policy Institute shows the exact opposite happened. While prices rose sharply around the state because of the unrest in the Middle East, Washington Department of Commerce data shows that during the closure gas and diesel prices in cities east of the Cascades increased more slowly.

The average price of a gallon of gas in Seattle began lower but finished higher than it did in the Tri-Cities and Yakima. It was the same story for diesel. The price for a gallon of diesel east of the Cascades actually fell below the statewide average during the locks' closure.

Tidewater Barge Lines staged barges loaded with fuel at Pasco, and terminals were topped off to act as a buffer during the closure. But pipelines from Utah and Montana to Spokane and the Tri-Cities were already booked solid.

The oil companies, always tight-lipped, refused to answer researchers' inquiries about shipping methods during the closure. Citing unnamed sources, the WSU policy institute estimated that about 60% of the fuel that would have been barged went by truck, 40% by rail.

Another key finding from the report: while most shippers indicated before the closure they would likely ship their goods via rail, more were instead sent via trucks or a combination of rail and truck. Truck rates increased about 4% during the outage, while rail rates went up 2%. Shippers told researchers that the convenience of trucks and the lack of easy rail access outweighed the cost savings offered by rail.

Despite some of wheat's highest market prices of the season coming during the closure, growers didn't report major problems. One survey respondent said they deferred shipment for when the locks reopened. [M](#)

Weather adversely affecting farmers

The summer has been a dismal one for most of the Northwest. For farmers, the lingering spring-like weather has been a source of concern and has already affected crops.

Rain delayed the first cutting of hay, the supplies of which were already tight. According to Northwest Farm Credit Services, demand is pushing hay prices toward levels of 2008.

Wheat growers had to wait for the rain to let up in the spring before they could put their crops in the ground. It will also push back the harvest. Producers throughout the Northwest also have cited problems with crop disease.

Cherry growers are rallying after their fruit ripened late. That pushed the start of the harvest right up against July 4, a target date to get the fruit into stores. Damage from isolated, late rain in some pockets of the region appears to be limited. This year's crop has been projected to be the second-largest on record, and this will be the first year when more cherries will be available in August than June.

The weather also has muddied the outlook for the apple crop. The potato harvest will be delayed, which may cause shortages for processors come August. The wet spring also prompted homeowners to hold off on their gardening and landscaping projects, crimping sales at nurseries and greenhouses. [M](#)

Selected open-market transactions reported Jun 24-Jul 15 to the Securities and Exchange Commission on Forms 4 by officers, directors and shareholders of companies based in the Pacific Northwest. We summarize multiple trades and report average prices. Please note: Sellers reporting zero shares remaining may hold unexercised stock options.

INSIDER BUYING

Coldwater Creek Frank Leshar, director, 11,600 June 23 at \$1.29, total 61,049. **Esterline Technologies** Delores M. Etter, director, 1,235 July 12 at \$81.11, total 2,255. **Red Lion Hotels** Columbia Pacific Opportunity Fund, shareholder, 77,617 June 23-July 14 at \$7.93, total 4,712,850. **Rentrak** Brent David Rosenthal, director, 10,000 June 30 at \$17.99, total 33,295. William Paul Livek, CEO, 6,000 June 28-29 at \$17.67, total 103,384. David I. Chmerow, CFO, 5,500 June 29 at \$17.86, total 55,035. William E. Engel, director, 2,500 June 23 at \$16.50, total 14,545. Ralph R. Shaw, director, 1,000 June 30 at \$18.00, total 45,295. Martin B. O'Connor II, director, 1,000 June 30 at \$17.92, total 5,545.

INSIDER SELLING

Amazon.com L. Michelle Wilson, sr vp, 2,250 June 29 at \$205.00, leaving 20,479. **Ambassadors Group** Brigitte M. Bren, shareholder, 10,000 July 7 at \$9.00, leaving 4,441. **Blue Nile** Dwight Gaston, sr vp, 500 July 6 at \$44.00, leaving 1,413. **Cascade Corp.** Nicholas R. Lardy, director, 400 July 1 at \$49.36, leaving 11,744. **Concur Technologies** S. Steven Singh, chairman and CEO, 5,000 June 29-30 at \$50.07, leaving 1,149,843. Michael W. Hilton, exec vp, 3,000 (via trust) July 7 at \$52.16, leaving 56,663 (also owns 471,221 directly). **Costco** James D. Sinegal, president and CEO, 8,000 July 13 at \$80.82, leaving 2,084,161. **Dendreon** Mitchell Gold, president and CEO, 19,000 June 27 at \$38.69, leaving 252,174. **Digimarc** Robert Chamness, chief legal officer, 30,000 June 24-27 at

More on commercial real estate market

The commercial real estate market in Anchorage is better than we reported in our last issue. The Class A and B office space vacancy rates are both at 6%. Vacancy in older Class A space is 3%. It's the new Class A buildings that have come on line in the last few years that are 20% vacant, not overall Class A space.

The market is steady, said Anchorage broker Chris Stephens, although the transaction volume has slowed.

Changes are brewing for the Anchorage office-space market. A newer Class A building, the 280,000-square foot JL Tower, is filling up. Another positive: The Alaska Legislature may authorize a new building for state offices nearing the end of their lease.

However, the market will see Denali — The Alaska Gas Pipeline, one of two companies that had been vying to bring natural gas stranded on the North Slope to the Lower 48, will shut down and vacate space in 188 WNL, a relatively new Class A building in Anchorage. [M](#)

\$33.27, leaving 23,936. **FEI** Bradley J. Thies, vp and general counsel, 3,208 July 7 at \$40.00, leaving 23,586. **Flir Systems** David A. Muessle, chief accounting officer, 15,000 July 1 at \$33.44, leaving 35,602.

Greenbrier Companies Timothy A. Stuckey, president, 9,150 July 13 at \$21.31, leaving 46,850. William Glenn, sr vp, 3,374 July 13 at \$20.66, leaving 52,350. Martin Raymond Baker, sr vp and compliance officer, 2,400 July 13 at \$21.31, leaving 37,600. Anne Manning, vp, 500 June 28 at \$20.57, leaving 26,600. **Intermec** Unitrin, shareholder, 400,000 June 29-July 13 at \$11.05, leaving 8,449,764.

Marchex John Keister, exec vice chairman, 15,000 June 27-July 1 at \$8.94, leaving 656,743. **Mines Management** Jerry Pogue, director, 5,000 June 23 at \$2.00, leaving 73,143. **MWI Veterinary Supply** James S. Hay, CIO, 1,500 July 1 at \$80.74, leaving 4,002. Mary Patricia B. Thompson, sr vp, secretary and CFO, 1,000 July 1 at \$80.78, leaving 37,694. John R. Ryan, vp, 1,000 July 1 at \$80.75, leaving 10,055. **Nike** Eric D. Sprunk, vp, 172,000 July 7-8 at \$93.44, leaving 70,868. Mark G. Parker, president and CEO, 62,162 July 7 at \$93.02, leaving 266,964. David J. Ayre, vp, 50,000 June 30 at \$89.83, leaving 24,048. Donald W. Blair, vp and CFO, 22,000 June 30-July 6 at \$91.00, leaving 74,723. Jill K. Conway, director, 8,000 July 7 at \$93.52, leaving 29,462. Ralph D. Denunzio, director, 2,000 June 30 at \$90.00, leaving 160,752. **Norstrom** Michael G. Koppel, exec vp, 57,670 July 7 at \$50.29, leaving 214,734. Kevin T. Knight, exec vp, 20,942 July 7 at \$50.00, leaving 46,822. **Northwest Natural Gas** Stephen P. Feltz, treasurer and controller, 1,000 June 24 at \$44.64, leaving 15,740. **Oncothyreon** Ayer Capital Management, shareholder, 28,900 June 23 at \$8.74, leaving 2,985,238. **Seattle Genetics** Clay B. Siegall, president and CEO, 15,000 July 1 at \$20.66, leaving 1,035,667.



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