



ECONPULSE

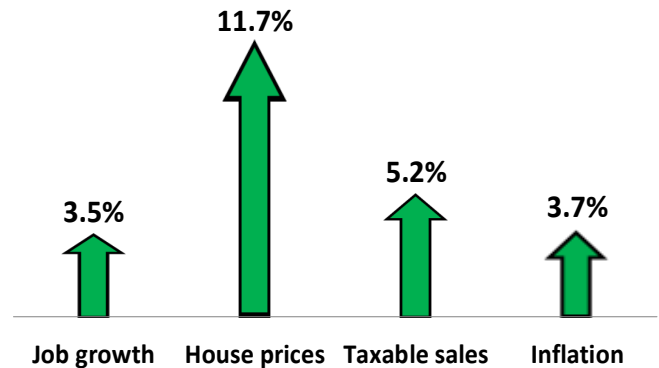
A QUARTERLY LOOK AT THE KING COUNTY ECONOMY
KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

FIRST QUARTER 2017

SUMMARY

- King County employment grew by 3.5% in the first quarter of 2017 relative to a year ago, with solid growth in trade, transportation and utilities, and education and health-related jobs.
- Home prices increased by 11.7% since the first quarter of 2016
- Taxable sales growth slowed for another quarter in King County, increasing 5.2% in January and February from a year prior.
- Inflation increased, up 3.7% in February.

**King County Key Economic Indicators
(Q1 2017 growth compared to Q1 2016)**



DETAIL

King County employment figures were positive for nearly all sectors, growing 3.5% overall. Trade, transportation, and utilities added 12,700 jobs in the first quarter compared to a year prior. Manufacturing, however, was again in decline, losing 4,200 jobs between the first quarter of 2016 and 2017. The unemployment rate for King County continues to drop, reaching 3.1% in March compared to the national rate of 4.5%. Initial claims for unemployment insurance were down to 5,276 initial claims in March, a level never before reached in our twenty years' worth of data.

**King County Total Employment
(monthly non-farm jobs, in millions)**

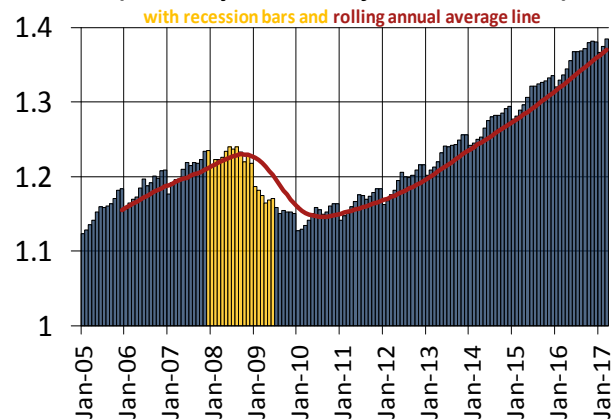


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

The Conference Board's Help Wanted Online data show new job openings continuing to increase in King County throughout the first quarter of 2017. The data show over 12,000 open positions at Amazon alone from January through April of this year. Software development and general computer occupations dominate new job postings.

DETAIL (CONT.)

Seattle House Prices
(Case Shiller index, Jan-2000=100)
with recession bars and rolling annual average line

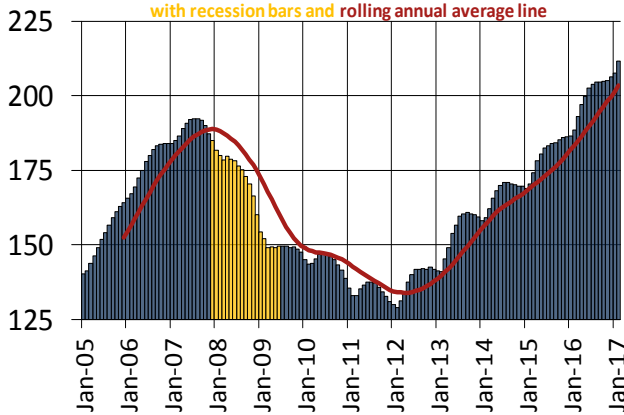


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The Seattle area was the fastest growing housing market in the country yet again, according to Case-Shiller. Home prices increased 12.2% year-over-year in February. Higher interest rates do not seem to be impacting demand, however they may be impacting supply with homeowners finding it unattractive to part with their current low interest rate mortgages to sell their homes and trade up for a new home with a higher interest rate mortgage.

The number of single family permits was down slightly in the first quarter compared to a year ago. However, the number of multi-family units permitted was up considerably from the first quarter of 2016.

King County Permit Values
(new, privately-owned, in millions \$)
with recession bars and rolling annual average line

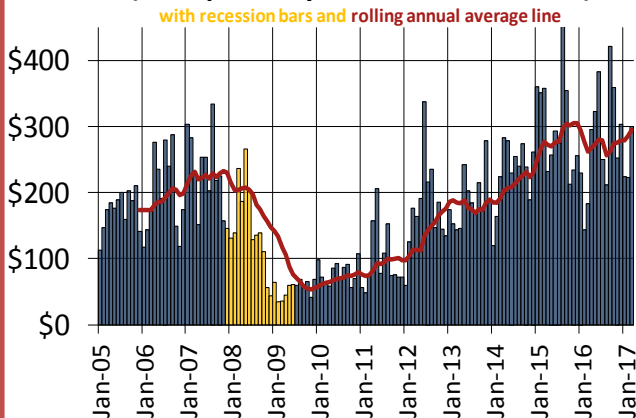


Fig. 3 Value of King County Permits (Source: U.S. Census Bureau)

Taxable retail sales grew 5.2% in January and February. Construction sales grew at 12.5%. For more about construction sales and their impact on overall taxable sales, see this quarter's Focus starting on page 4.

Taxable Sales Growth
(annual average of top four sectors)

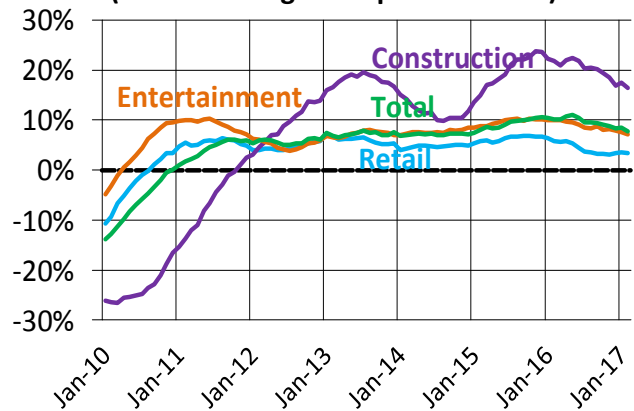


Fig. 4 Taxable Sales Growth in King County (12 month avg)
(Source: WA DOR)

Inflation rose in February compared to the prior year with a 3.7% increase in the CPI-W for Seattle. Increases in housing and transportation costs drove much of the increase.

Seattle Inflation
(CPI-W, annually adjusted)
with recession bars and rolling annual average line

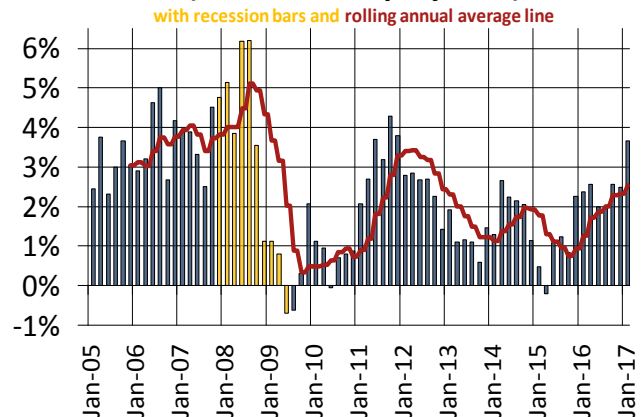


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2017:1Q	2016:1Q	Absolute change	% Change
Total Nonfarm	1,375.2	1,328.4	46.8	3.5%
Total Private	1,192.9	1,150.5	42.3	3.7%
Goods Producing	173.9	174.9	-1.0	-0.6%
Construction	71.1	68.0	3.1	4.6%
Manufacturing	102.2	106.4	-4.2	-4.0%
Service Providing	1,201.3	1,153.5	47.8	4.1%
Trade, Transportation, and Utilities	259.2	246.5	12.7	5.1%
Information	98.3	92.4	5.9	6.4%
Financial Activities	71.6	69.6	2.0	2.8%
Professional and Business Services	223.6	218.2	5.4	2.5%
Educational and Health Services	181.4	172.4	9.0	5.2%
Educational Services	29.6	28.0	1.6	5.7%
Ambulatory Health Care Services	58.4	55.6	2.8	5.0%
Hospitals	29.7	28.6	1.1	3.7%
Nursing and Residential Care Facilities	21.3	20.8	0.4	2.1%
Social Assistance	42.4	39.3	3.1	7.8%
Leisure and Hospitality	136.4	129.6	6.8	5.3%
Arts, Entertainment, and Recreation	25.9	23.8	2.1	9.0%
Accommodation	13.9	13.3	0.5	4.0%
Food Services and Drinking Places	96.6	92.4	4.2	4.5%
Other Services	48.4	46.9	1.5	3.3%
Government	182.3	177.9	4.5	2.5%

Other King County Economic Indicators

	2017:Q1	2016:Q1	% Change
Real Estate			
Single Family Permits (No. of units)	990	1,007	-1.7%
Single Family Permits (\$000)	\$ 390,515	\$ 363,645	7.4%
Multi-Family Permits (No. of units)	2,514	1,600	57.1%
Multi-Family Permits (\$000)	\$ 356,880	\$ 192,957	85.0%
Avg. sales price (NW Multiple Listing Service)	\$ 630,148	\$ 550,392	14.5%
Number of sales (NW Multiple Listing Service)	6,503	6,114	6.4%
Taxable Retail Sales (\$B, October-November)	\$ 9.15	\$ 8.70	5.2%
Retail/Wholesale	\$ 3.63	\$ 3.59	1.1%
Construction/Real Estate	\$ 2.57	\$ 2.34	9.8%
Food Service, Accommodation, Entertainment	\$ 1.50	\$ 1.44	4.2%
Other	\$ 1.44	\$ 1.32	9.1%
Inflation (February)			
CPI-W (Seattle-Tacoma-Bremerton)	255.47	246.46	3.7%

FOCUS: CONSTRUCTION SALES TAX

Since the large reduction that occurred during the Great Recession, taxable sales activity in King County has bounced back during the recovery. Taxable sales growth contracted significantly (Figure 6), dropping 14% between 2008 and 2009, a loss of more than \$6.5 billion in sales. Sales picked up in 2011 and growth rates have accelerated since then, topping out at 10.1% annual growth in 2015. A significant factor in taxable sales growth has been construction related sales. While following the same basic pattern of increasing and decreasing growth through the recession and recovery, construction sales tend to swing more dramatically in whichever

direction overall sales are trending. The volatility in construction sales is significant, as construction sales comprise a large and increasing proportion of total taxable sales. During the economic recovery, construction as a share of total taxable sales has risen to a record 21.6% (Figure 7).

Those performing retail construction services must collect and remit sales taxes on the total charge for the work including permits and other fees, labor, profit, materials and charges for subcontractors. Therefore all work including new building construction, remodeling, repairing, razing or moving structures and land clearing are required to collect and remit sales taxes. Contractors collect sales taxes based on the applicable rate in effect in the jurisdiction where the work occurs. The rules for large public works projects are more variable. Federal law prohibits states from directly imposing taxes on the United States and

so in most cases retail sales taxes are not collected directly from the federal government on construction projects. However, federal government contractors are considered consumers when they purchase materials and so there is a local sales tax impact from federal construction activity. Non-highway state and local construction projects are required to pay sales taxes and so this can be a significant source of revenue for local government. For example, the state convention center expansion in the City of Seattle is estimated to cost about \$1.6 billion and so will be a significant source of sales tax revenue from 2017-2020. State and local road projects are required to pay sales taxes on materials only and use the applicable rate in the jurisdiction they are in.

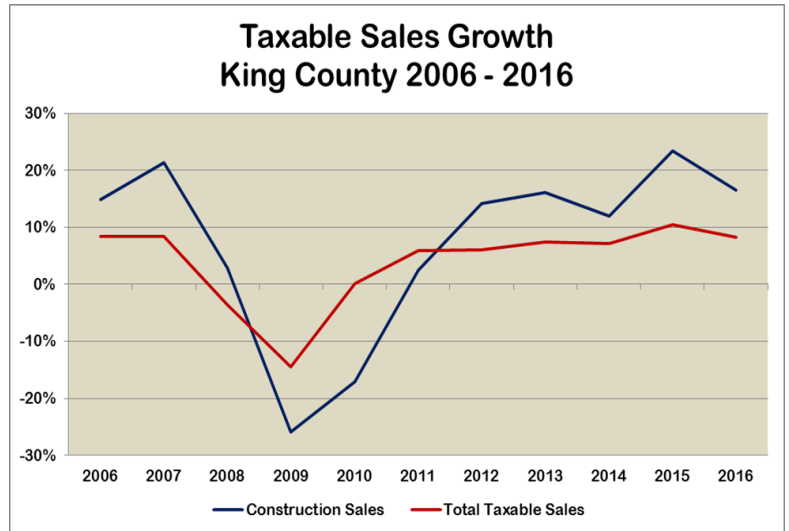


Fig. 6 KC Taxable Sales Growth (Source: WA DOR)

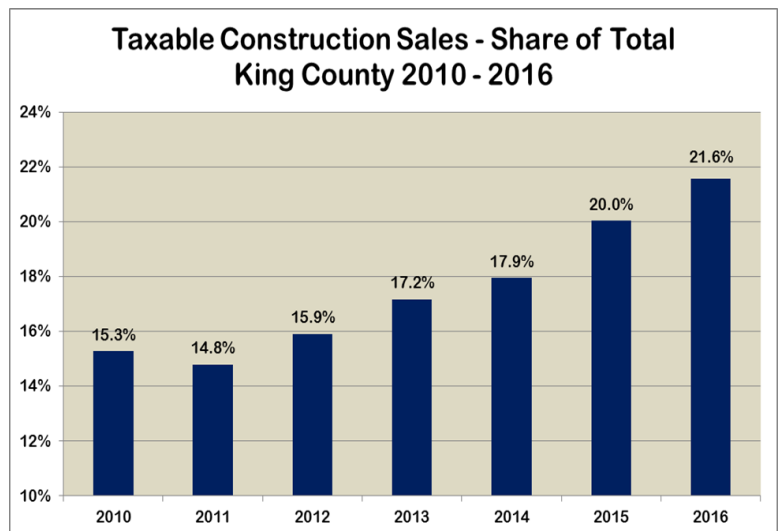


Fig. 7 Taxable Construction Sales (Source: WA DOR)

FOCUS: CONSTRUCTION SALES TAX (CONT.)

For the purposes of tracking taxable construction sales, the data is broken into three groups. The first is construction of buildings, which includes new residential and commercial building projects, and typically accounts for around 62% of total taxable construction sales. The second category is heavy and civil engineering construction, comprising projects such as highway construction, dams, open space improvement, and utility line installation. Since 2005, this category has on average been 9% of the total construction sales. The final category of taxable construction sales is specialty trade contractors, which typically accounts for the remaining 29% of the total. Sales in this subsector are generated by companies engaged in specific construction activities such as pouring foundations, plumbing, painting, and electrical work within a larger construction project. Remodeling and repair work is contained within this category.

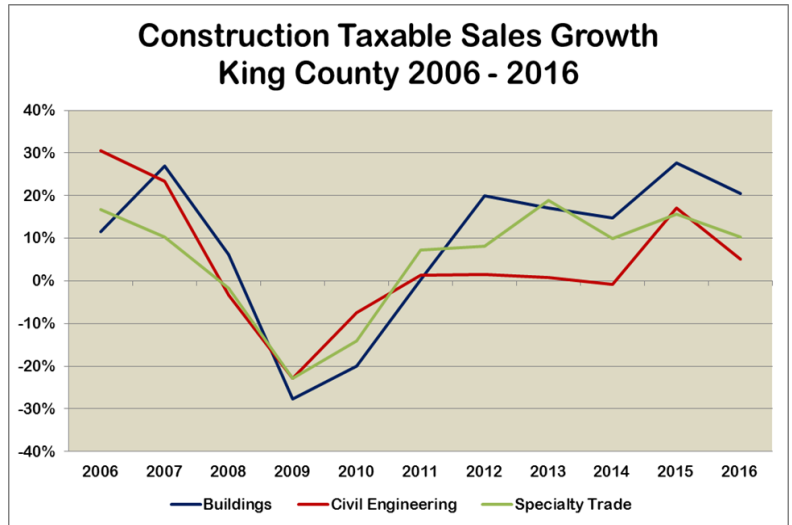


Fig. 8 Construction Taxable Sales Growth (Source: WA DOR)

Growth rates for each subsector of construction sales have been quite volatile through the Great Recession and the recovery. Construction of buildings has swung most dramatically, from a low of -27.7% annual growth from 2008 to 2009, to a high of +27.7% growth between 2014 and 2015. This category accounts for a steadily increasing share of the total taxable construction sales; while its share previously hovered near 60% of the total, in 2016 it generated 67.3% of the total.

With volatile construction sales accounting for a record high amount of total taxable sales, and building construction accounting for a record high amount of total construction, it is important to note the potential for future taxable sales volatility when the economy slows. Looking back to the Great Recession, construction taxable sales fell off dramatically as a percentage of overall taxable sales (Figure 9). While we can expect the current strong local economy to boast a thriving construction sector, the record highs currently experienced in both the growth and share of taxable construction sales are unlikely to persist. Given construction’s increasing influence over total taxable sales, the effect on overall taxable sales will likely be considerable.

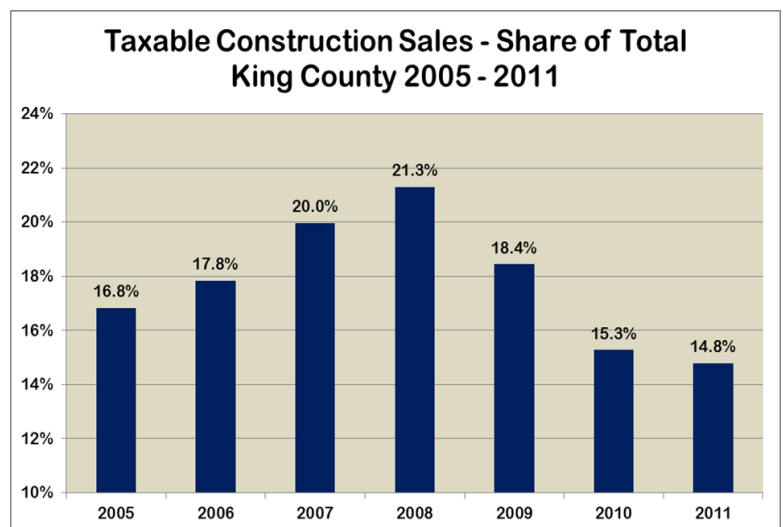


Fig. 9 Taxable Construction Sales Source: WA DOR)

The Office of Economic and Financial Analysis operates as an independent agency of King County, and provides economic and financial analysis and forecasting to support county operations and planning and the people of King County.

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