



King County

July 2012 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

July 25th, 2012

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Summary

- The economy in a word...fragile!
- Risks Remain
 - EU, fiscal cliff
- King County improving
- Good and bad news for revenues
 - Housing still down
 - Sales taxes recovering





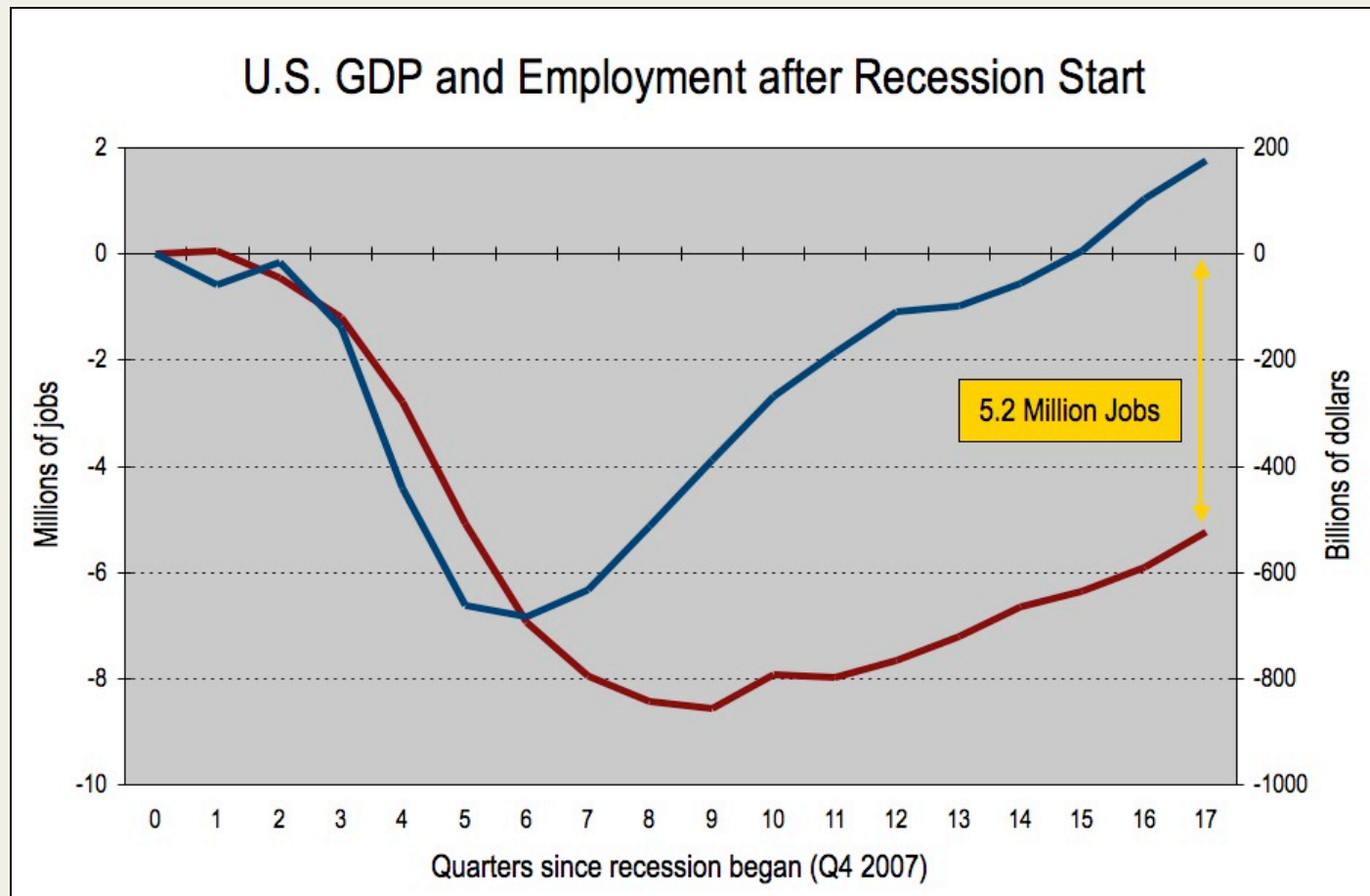
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Economic growth but where's the jobs?

Economic context: Jobs

Output is now back to pre-recession levels.

But with significantly fewer people employed.



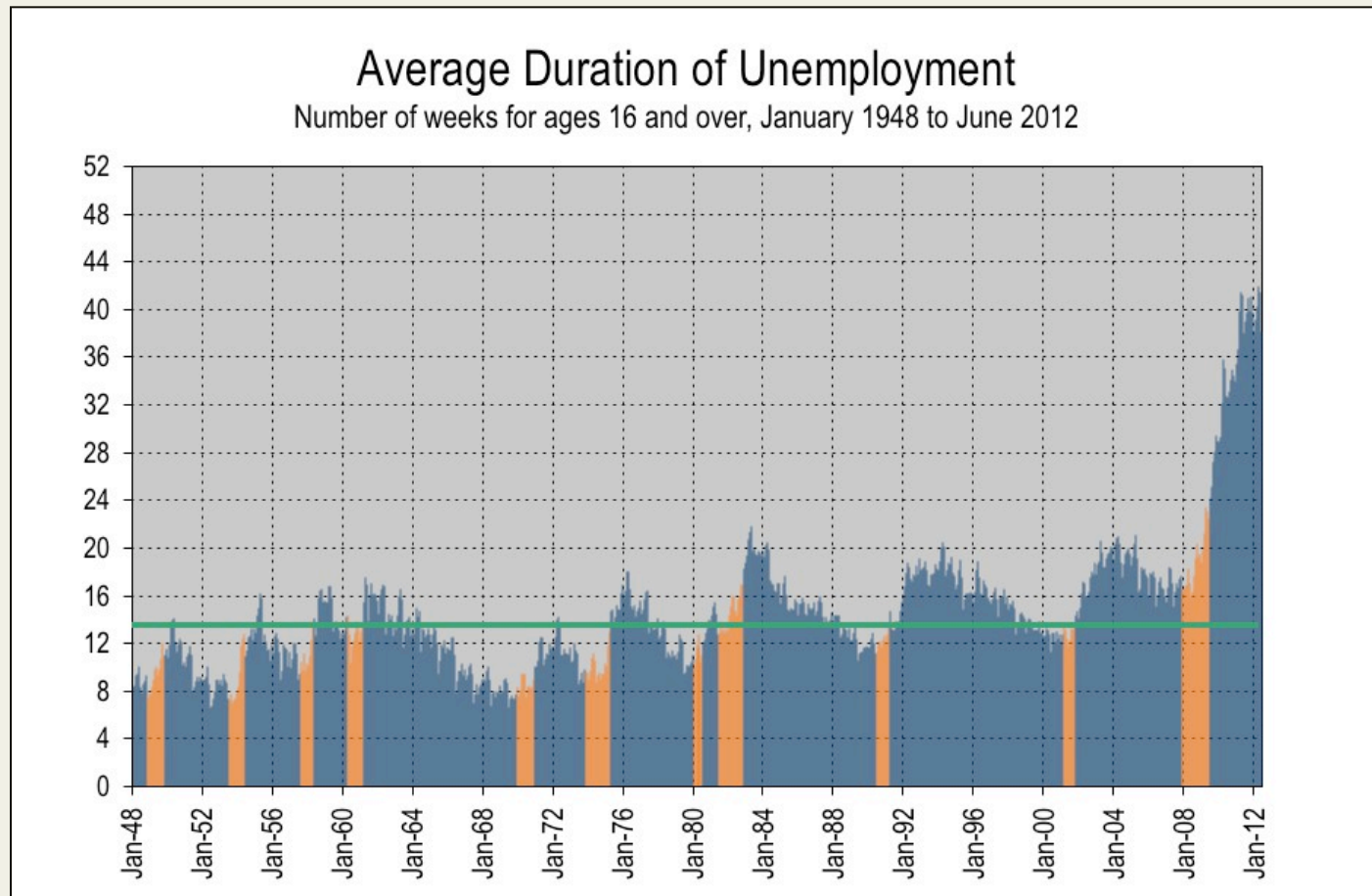
Blue = US GDP (in billions \$) Red = US Jobs (in millions)



Average duration of unemployment: this time it's different...

Economic context: Jobs

One noticeably different change from previous recessions is how long it is taking the unemployed to find a new job.



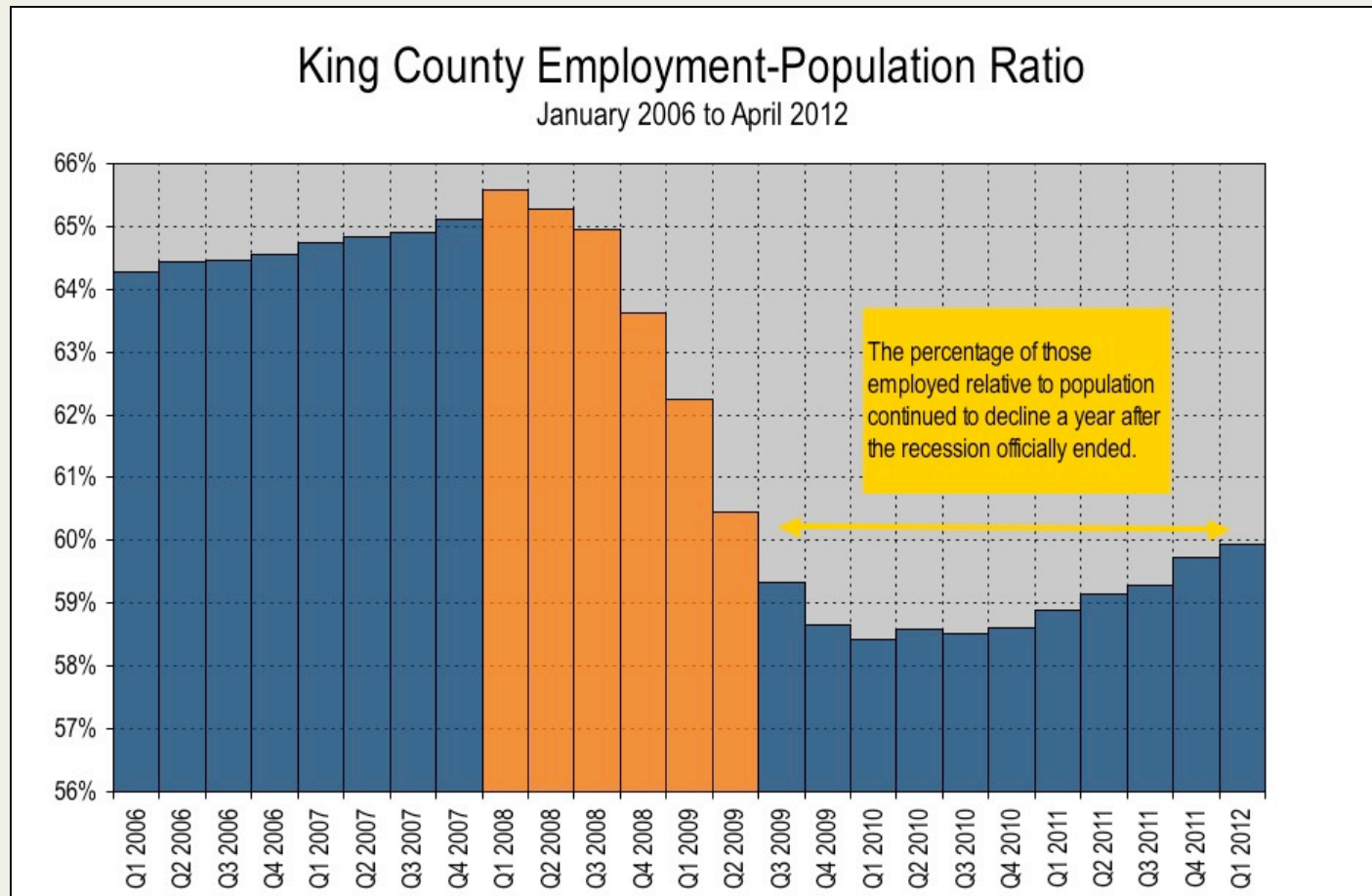
Blue = Actual Orange = Recession Green = Pre-Great Recession Average



The recession hasn't ended if you're still out of a job.

Economic context: Jobs

The ratio of employed persons compared to total population still has not reached recessionary levels nearly three years after the "End" of the Great Recession.



Blue = Actual Orange = Recession

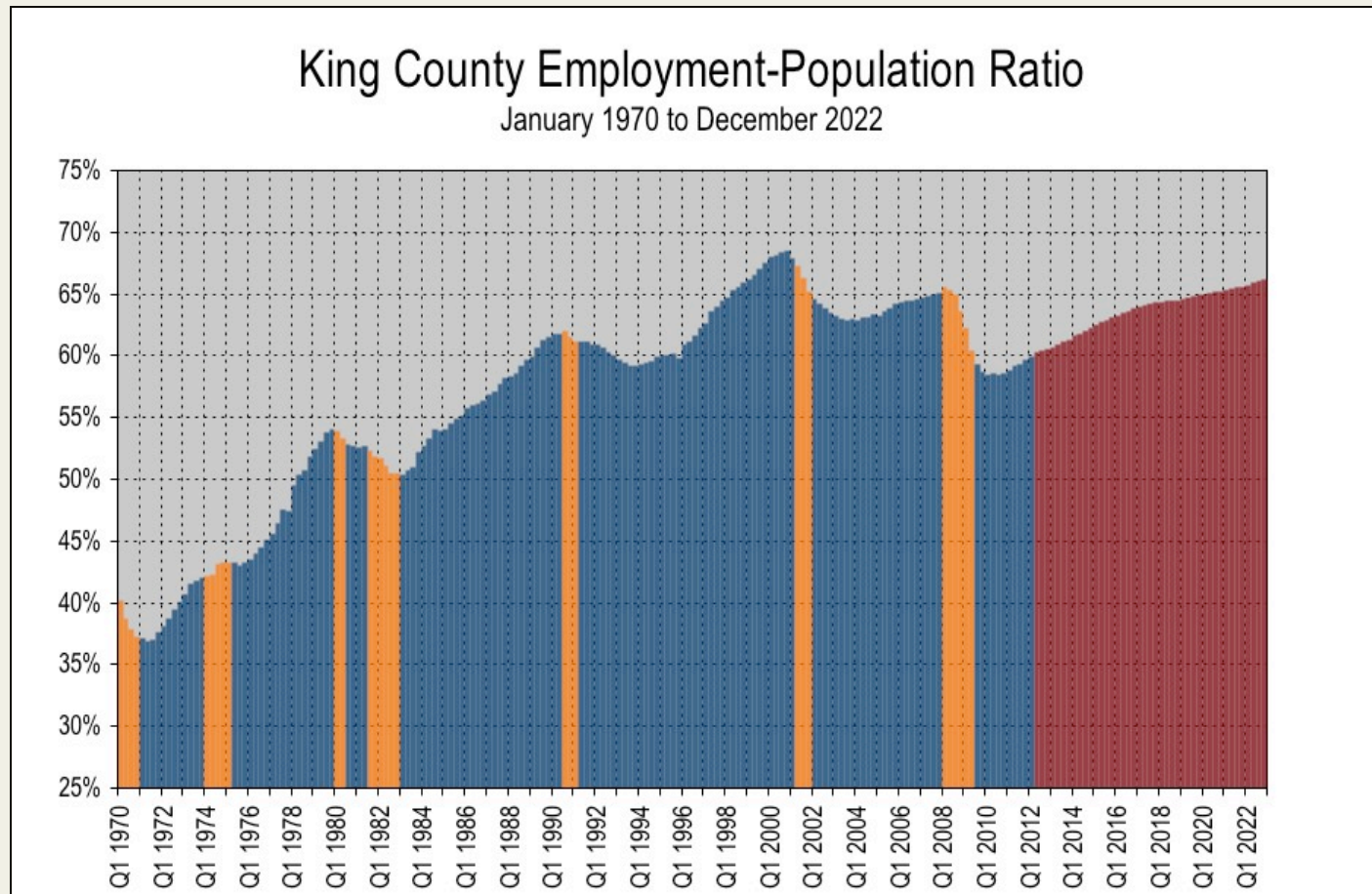


Lagging employment growth is not uncommon after recessions.

Economic context: Jobs

The Emp-Pop Ratio reflects the business cycle and longer term trends too.

Demographics, social attitudes, as well as technological shifts impact this ratio in the long-term.



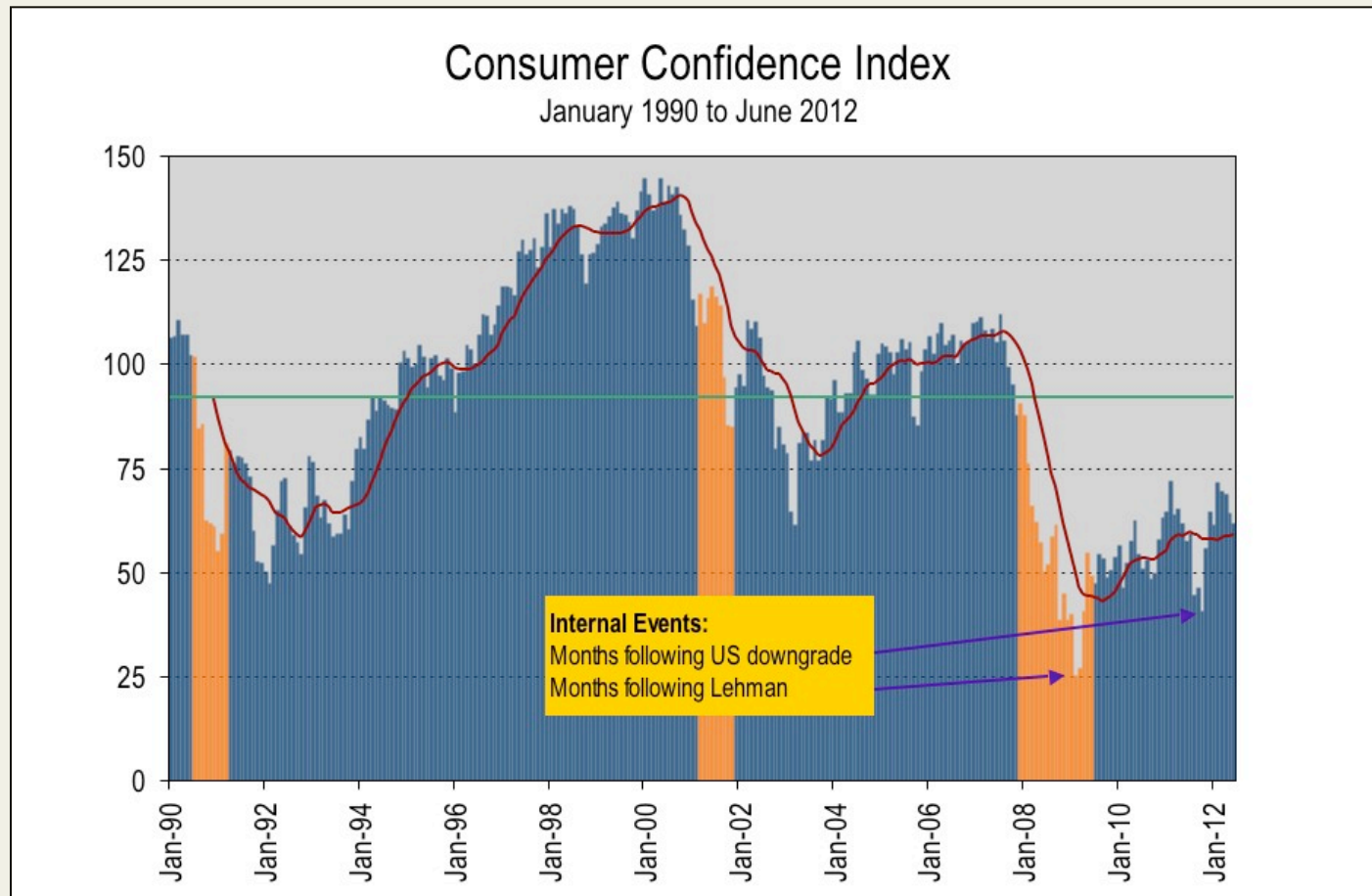
Blue = Actual Orange = Recession Red = Forecast



Consumer confidence is on the rise, but still very low overall.

Economic context: Recovery update

If we back out last summer's debt ceiling squabble (and subsequent U.S. credit downgrade), there's an uptrend following the official end of the recession. The recovery has of course been modest.



Blue = Actual Orange = Recession Red = 12 month rolling average Green = 22 year average



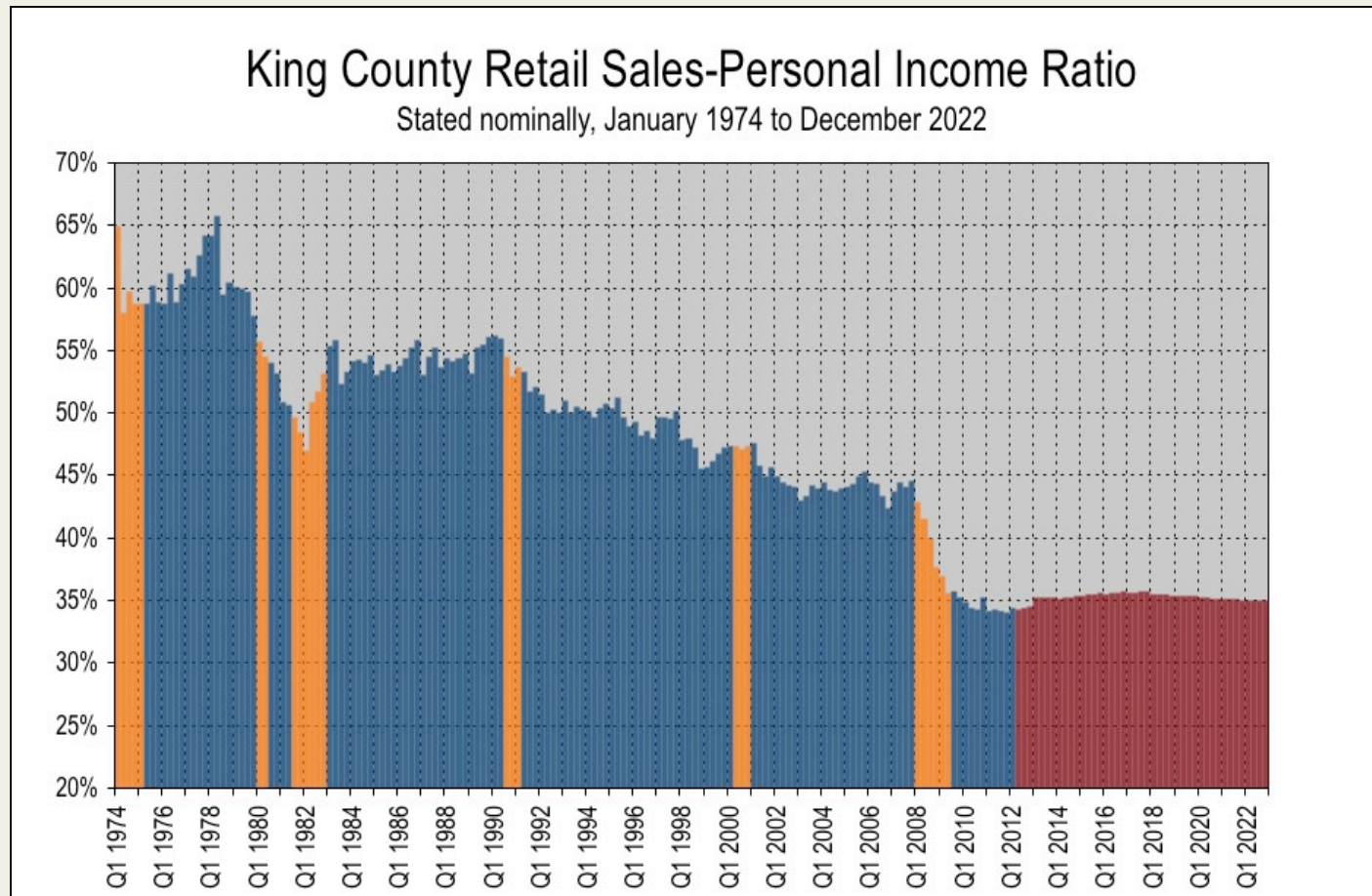
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and consumers are spending less...

Economic context: Recovery update

The percentage of income spent on retail sales has been falling.

Reduced net worth in this recession is likely a factor.



Blue = Actual Orange = Recession Red = Forecast



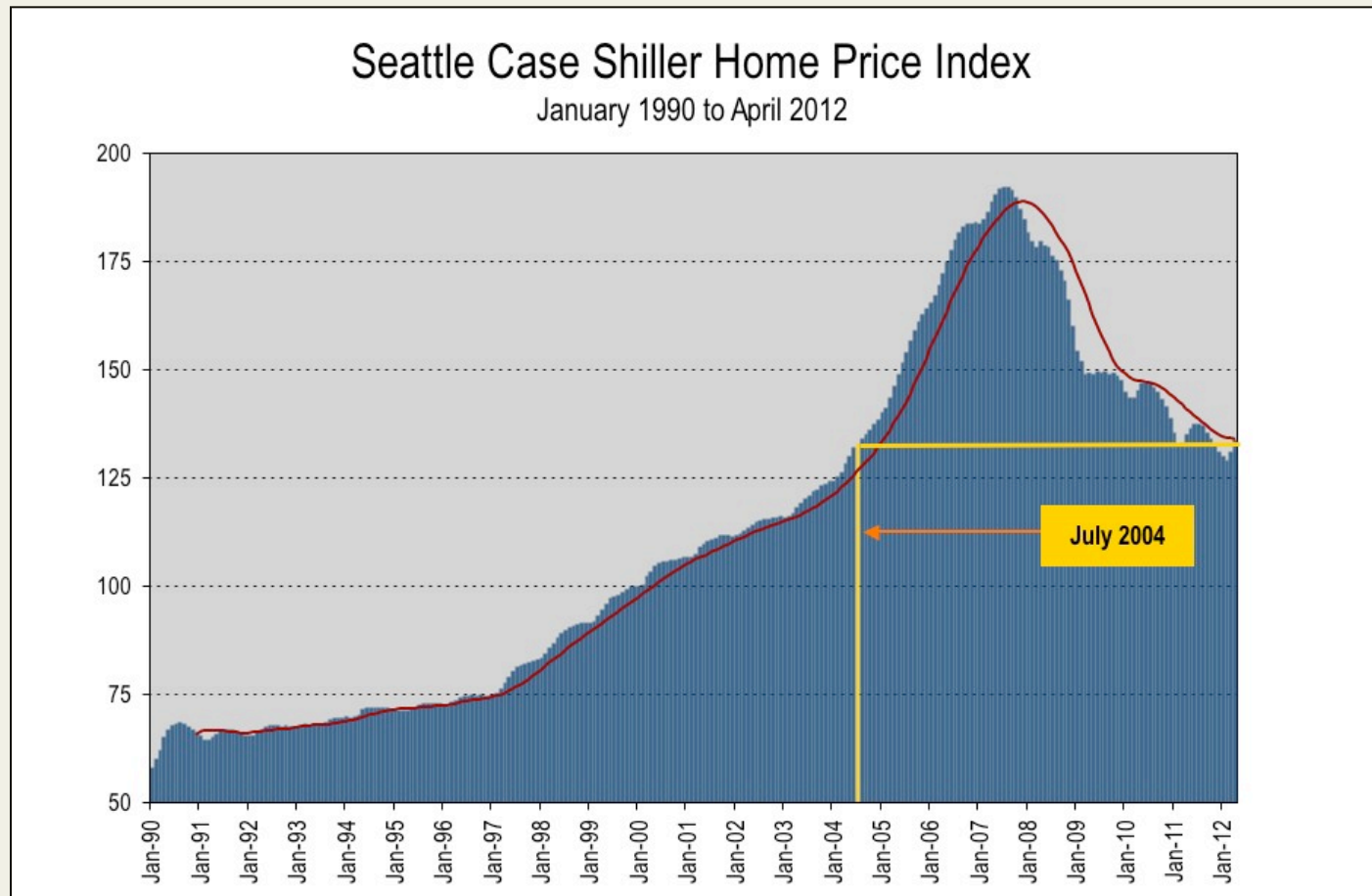
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Housing...have we reached bottom?

Economic context: Recovery update

Housing values have been falling for years.

Recent data indicates it may have started to turn up



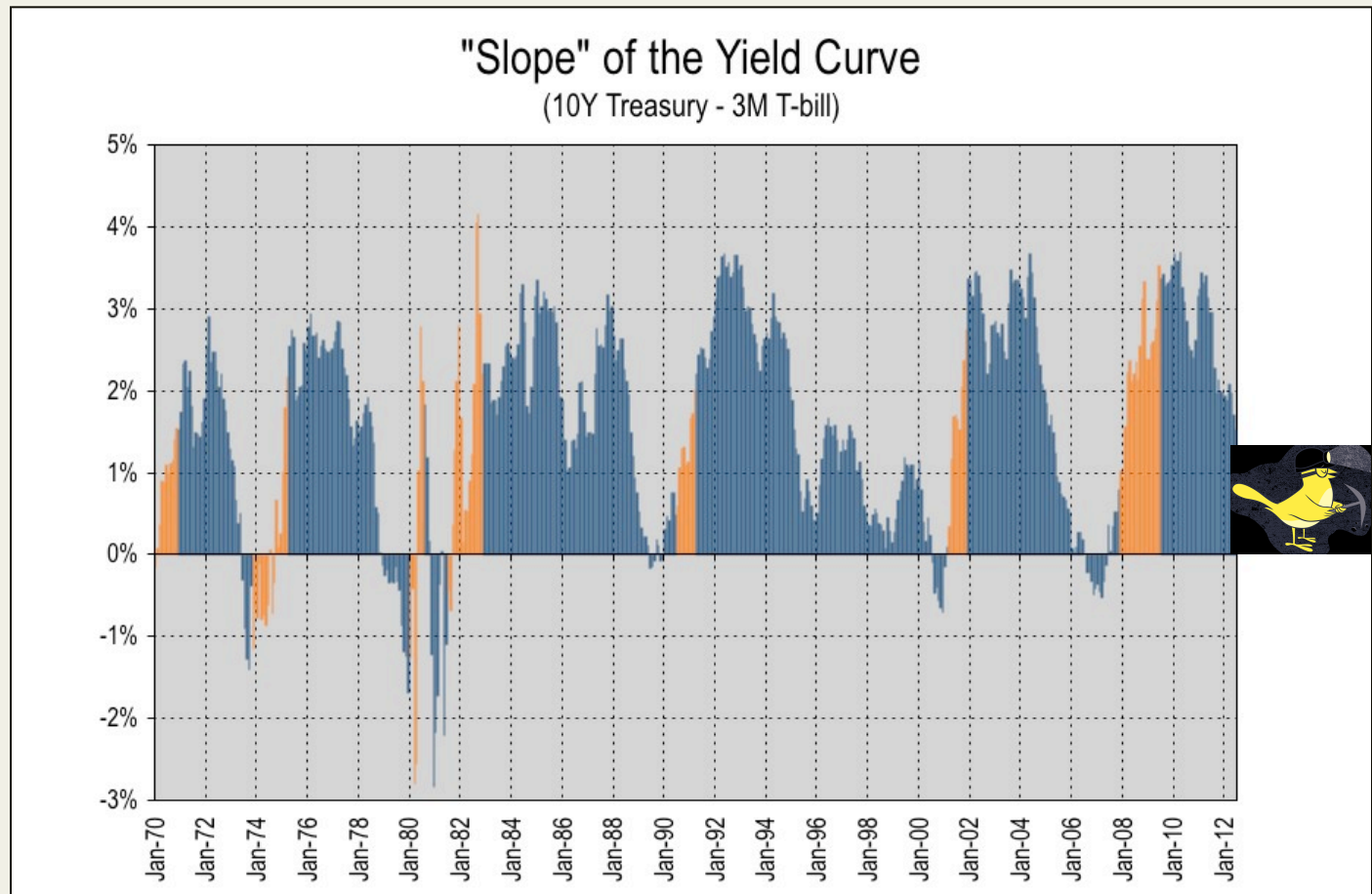
Blue = Actual Red = 12 month rolling average

The “slope” of the yield curve not signally recession at this time.

Economic context: Looking Forward

The yield curve has often signaled where the economy is headed

The yield curve is still positive and upward sloping through June.



Blue = Actual Orange = Recession



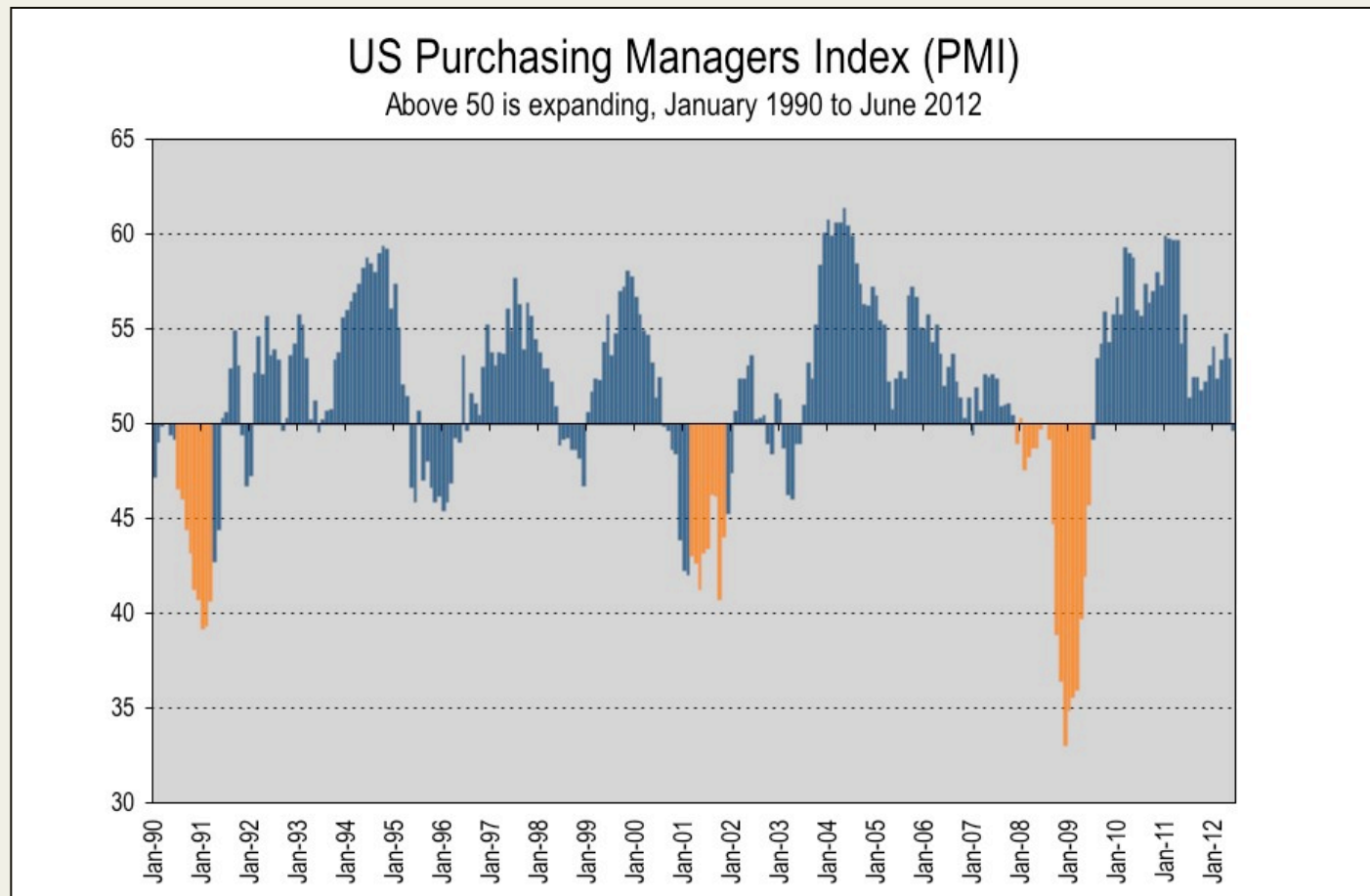
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And we are seeing growth....albeit at a reduced rate.

Economic context: Looking Forward

GDP growth in 1Q:2012 was 1.9%

Any number above 50 for the PMI indicates an expanding manufacturing sector (good).



Blue = Actual Orange = Recession



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King County's economy is showing improvement.

Economic context: King County

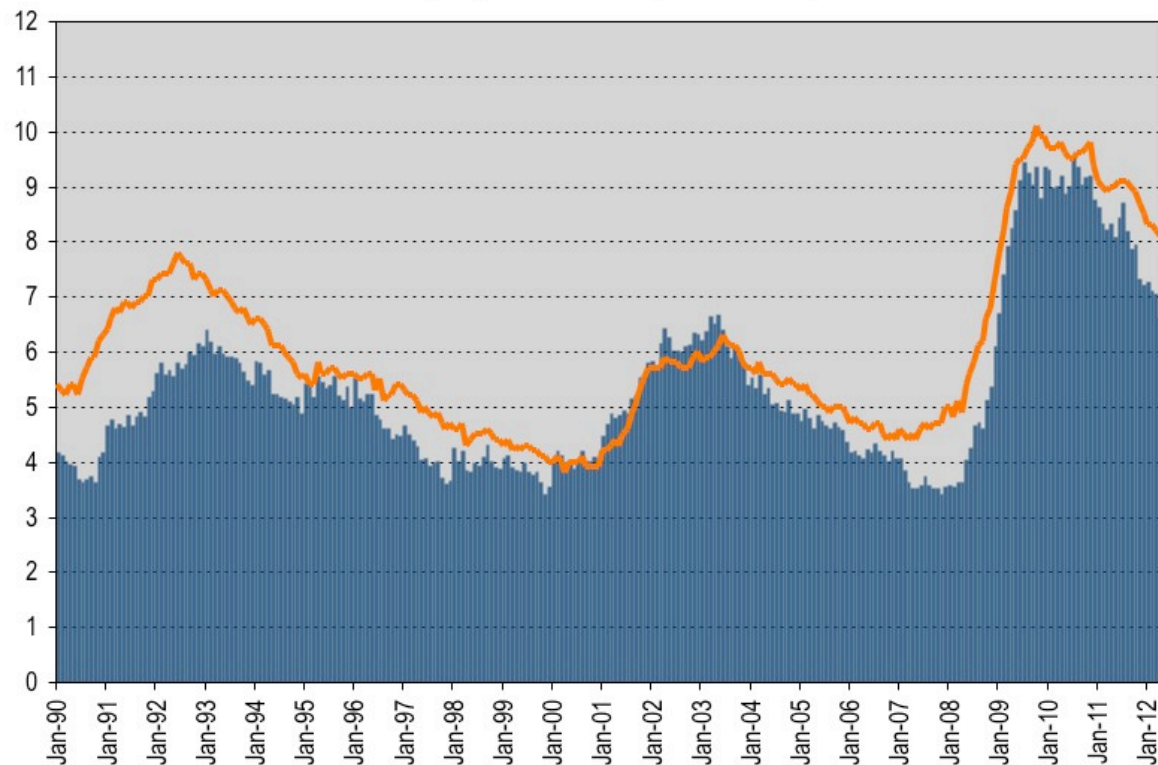
KC unemployment rate was 6.9% in May

Relatively strong economic base (e.g. Boeing, Amazon, etc.)

Taxable sales recovering

King County & U.S. Unemployment Rate

Seasonally Adjusted, January 1990 to May 2012



Blue = King County UE rate Orange = US UE rate



Cliff Notes: what is the “Fiscal Cliff” and what are the impacts of tumbling over it?

Economic context: Economic Risks

- **The “Fiscal Cliff” a.k.a. “Tax-mageddon”**

- The major potential changes beginning in 2013:
 - Expiration of the Bush tax cuts
 - Expiration of the payroll tax cut
 - Reduction in the AMT exemption
 - Others (unemployment benefits, sequester)



- **The “Fiscal Cliff” is an apt metaphor**

- The Global Insight baseline forecast (what we use) assumes a modest 2.1% growth rate for GDP in 2013 without most of these fiscal changes
- If all components are allowed to change, the GDP forecast is lowered to 0.1% for 2013
- Diving over the fiscal cliff would significantly affect the nation’s economy and would have a huge impact on growth.



Cliff Notes: is it likely we're headed over the "Fiscal Cliff"?

Economic context: Economic Risks

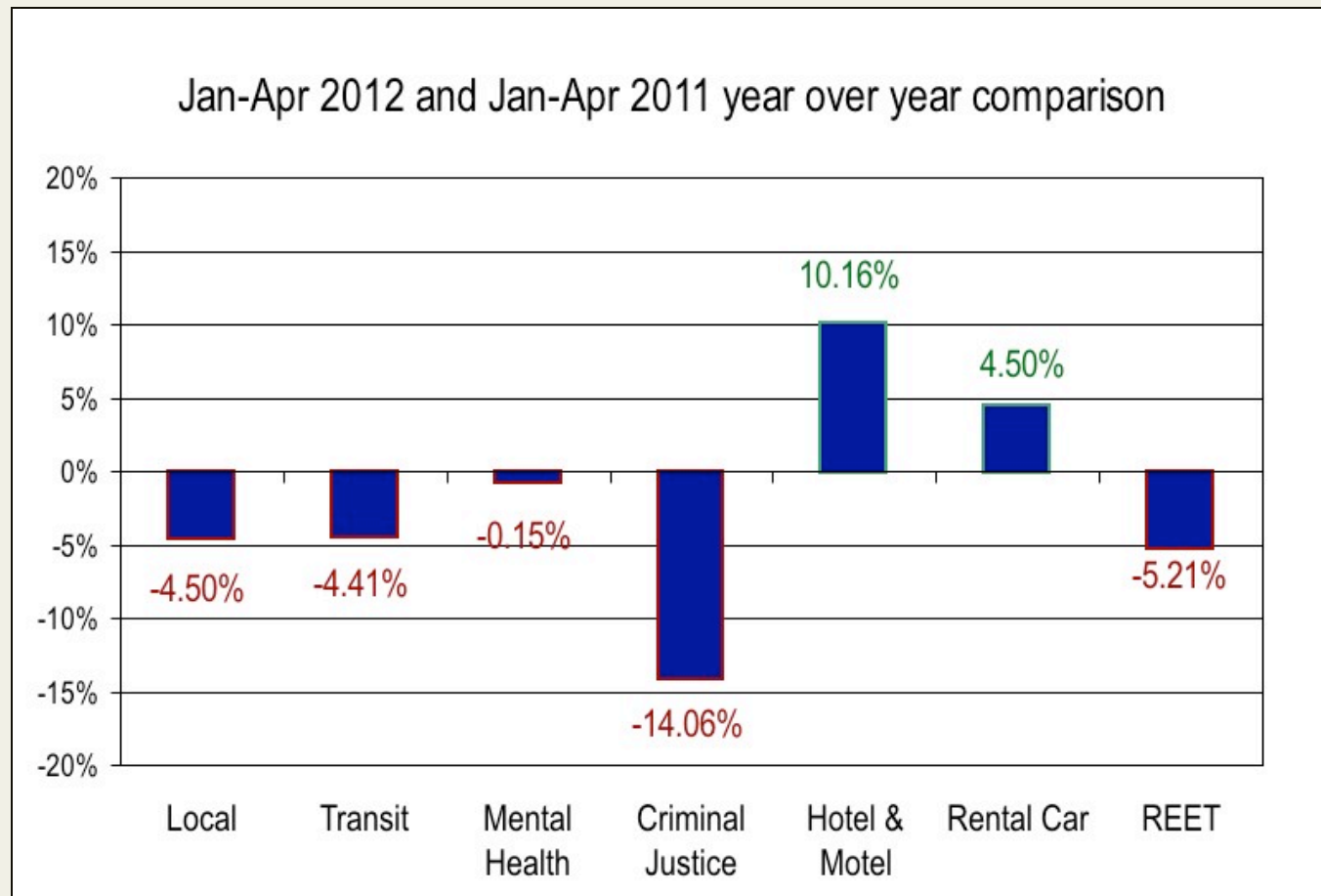
- **There's no guarantee we're headed over the "Fiscal Cliff"**
 - With the upcoming election in November there are a number of potential outcomes:
 - A) Congress extends tax cuts & delays spending cuts partway or all the way through 2013
 - B) We head over the cliff
 - C) Congress comes together with a long-term bi-partisan solution to our nation's fiscal situation (i.e. "Grand Bargain")
- **Oh yeah, and one more thing:**
 - If all that is not enough, at some point in 2013 we are going to have to re-raise the debt ceiling
 - If not raised, the U.S. faces downgrade/default/cuts



At a glance: how are we doing through Q1 2012 compared to Q1 2011?

Revenue Review

Our major sales tax revenues are down through Q1 2012. Not a surprise as we included the large amnesty payments we received from the state last March. Our forecast is for growth in 2012.



Proposed July Revenue Forecasts

Assumptions

65% Confidence Level – 65% chance revenues will come in higher than forecasted (lower for inflation/price forecasts)

All potential annexation areas are assumed to occur on schedule:

Eastgate (6-1-12)	Pop. 5,024
North Highline Y (4-1-13)	Pop. 17,629
Renton West Hill (4-1-14)	Pop. 15,853
Klahanie (4-1-14)	Pop. 10,815



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Countywide Assessed Value Forecast

Forecasts

Assessments for 2013 based on Jan. 1, 2012 value.

Residential assessments vary based on location.

Commercial AV is up so far.

Growth in 2014 and beyond.

July 2012 Countywide Assessed Value Forecast
Office of Economic and Financial Analysis
July 25, 2012

Tax Year	Value	Annual Growth	Change from March 2012 Forecast
2007	298,755,199,059	10.42%	0.00%
2008	340,995,439,590	14.14%	0.00%
2009	386,889,727,940	13.46%	0.00%
2010	341,971,517,510	-11.61%	0.00%
2011	330,414,998,630	-3.38%	0.00%
2012	319,460,937,270	-3.32%	0.00%
2013	310,439,870,319	-2.82%	-1.60%
2014	320,180,704,716	3.14%	-2.81%
2015	329,262,807,839	2.84%	-3.88%
2016	341,486,598,431	3.71%	-3.78%
2017	356,864,963,523	4.50%	-2.84%



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Unincorporated Area Assessed Value Forecast

Forecasts

Residential valuations so far indicate most unincorporated areas are down.

Annexations also affect unincorporated AV.

Forecasting growth in 2014 but annexations bring total down.

July 2012 Unincorporated Assessed Value Forecast
Office of Economic and Financial Analysis
July 25, 2012

Tax Year	Value	Annual Growth	Change from March 2012 Forecast
2007	45,145,645,420	9.35%	0.00%
2008	50,369,419,770	11.57%	0.00%
2009	52,536,624,390	4.30%	0.00%
2010	43,743,564,380	-16.74%	0.00%
2011	39,449,376,050	-9.82%	0.00%
2012	32,758,485,327	-16.96%	0.00%
2013	29,195,152,004	-10.88%	-8.92%
2014	29,131,296,899	-0.22%	-6.70%
2015	27,478,041,660	-5.68%	-15.31%
2016	28,450,970,554	3.54%	-2.15%
2017	29,659,609,067	4.25%	-0.99%



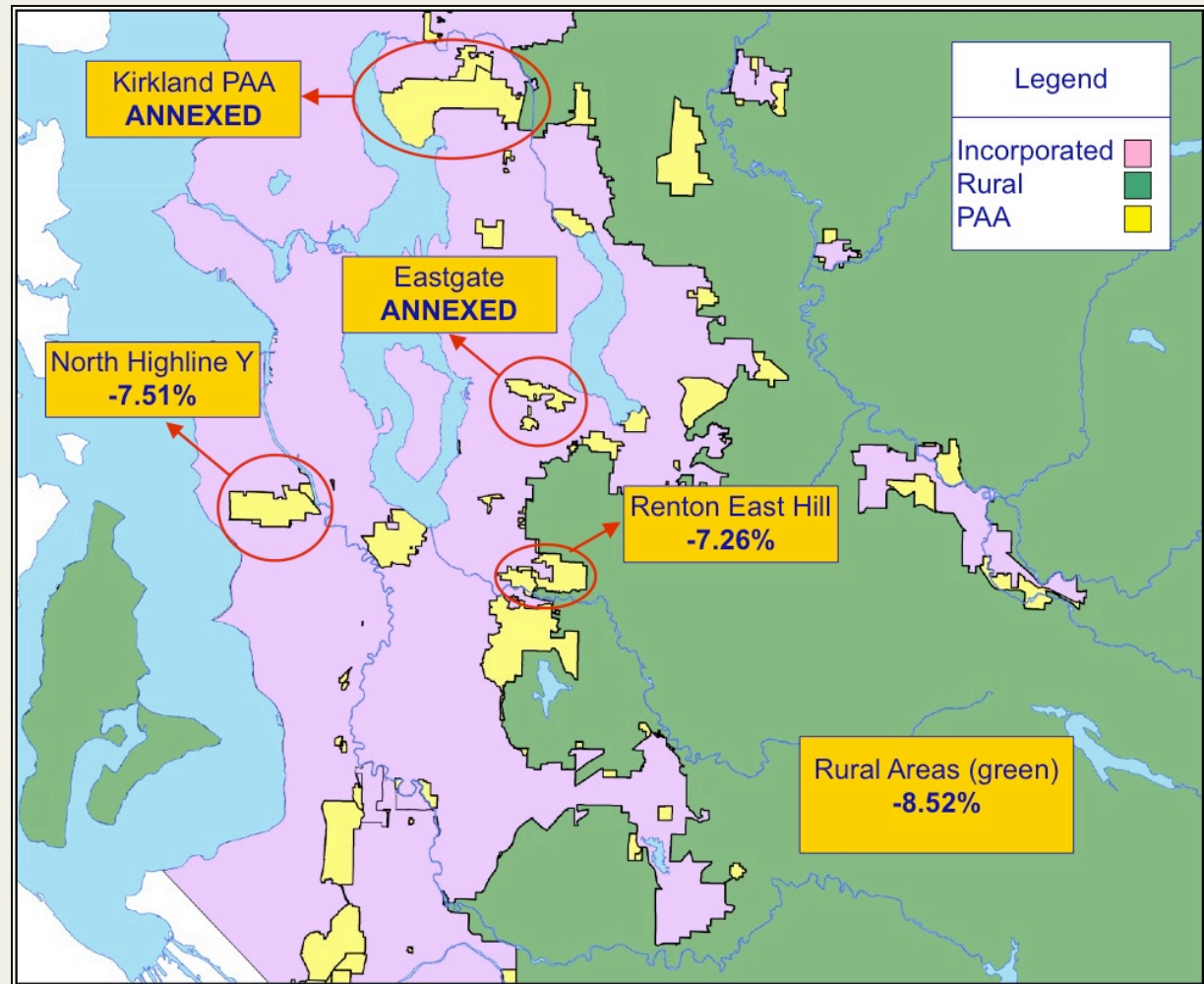
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So far so bad: unincorporated areas again trending down year-on-year for 2013

Forecasts

The value of the potential annexation areas completed so far declined.

The Unincorporated Area levy is at its \$2.25 cap, so additional drops in AV cause property taxes receipts to fall.





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New Construction Forecast

Forecasts

New construction has decreased significantly.

Positive signs for 2013-construction employment, permits.

Stabilized going forward.

July 2012 Countywide New Construction Forecast Office of Economic and Financial Analysis July 25, 2012

Tax Year	Value	Annual Growth	Change from March 2012 Forecast
2007	5,950,400,000	19.86%	0.00%
2008	6,663,100,000	11.98%	0.00%
2009	8,005,200,000	20.14%	0.00%
2010	5,205,200,000	-34.98%	0.00%
2011	2,581,310,544	-50.41%	0.00%
2012	2,438,206,813	-5.54%	0.00%
2013	2,639,788,564	8.27%	12.70%
2014	2,466,495,525	-6.56%	6.00%
2015	2,429,558,225	-1.50%	4.01%
2016	2,521,242,554	3.77%	7.11%
2017	2,692,808,772	6.80%	5.47%



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Unincorporated Area New Construction Forecast

Forecasts

Annexations occurring in tax years 2013-15 will continue to lower NC.

Unincorporated KC is 85% residential properties.

July 2012 Unincorporated New Construction Forecast
Office of Economic and Financial Analysis
July 25, 2012

Tax Year	Value	Annual Growth	Change from March 2012 Forecast
2007	1,051,911,167	17.10%	0.00%
2008	938,271,172	-10.80%	0.00%
2009	821,583,000	-12.44%	0.00%
2010	304,665,097	-62.92%	0.00%
2011	267,511,475	-12.19%	0.00%
2012	180,324,673	-32.59%	0.00%
2013	169,419,515	-6.05%	-2.20%
2014	171,621,956	1.30%	7.76%
2015	155,780,377	-9.23%	-2.56%
2016	161,659,067	3.77%	15.91%
2017	172,659,688	6.80%	14.13%



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The recovery of taxable sales will continue in 2012 and 2013

Forecasts

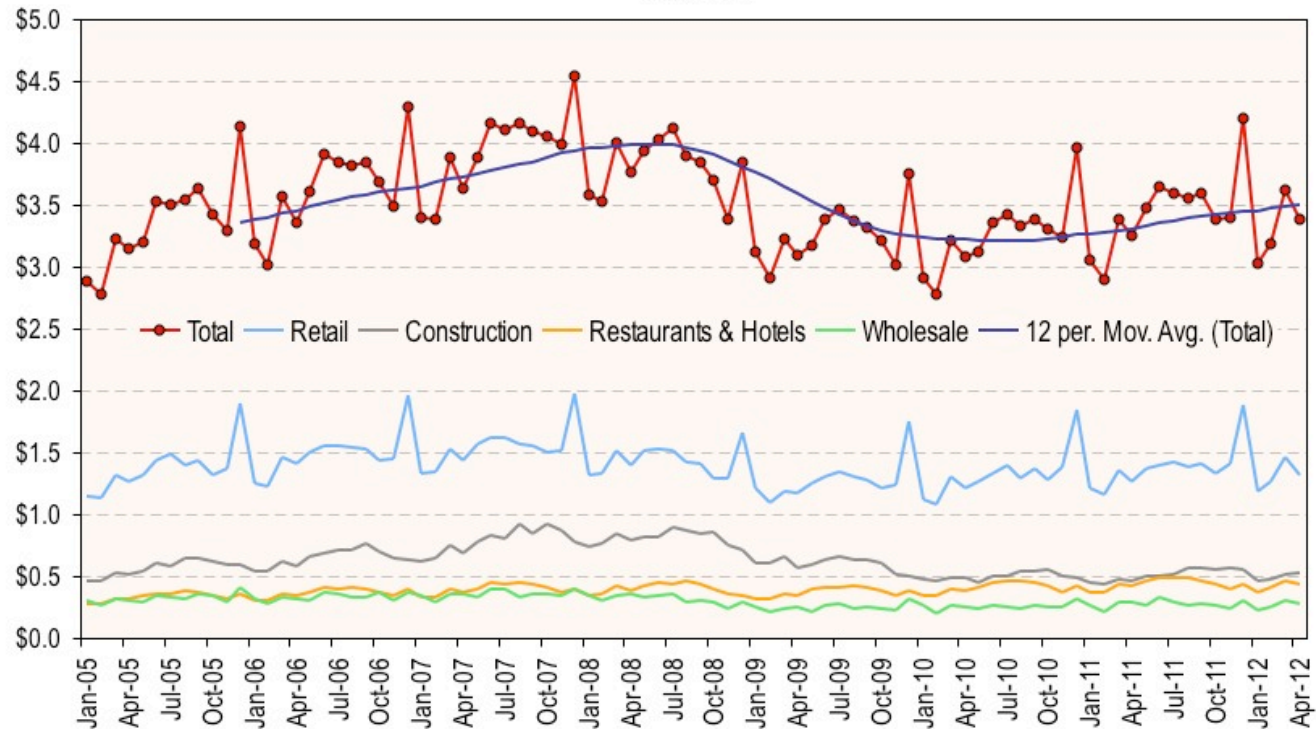
Retail and food service lead the way.

Retail makes up ~40% of taxable sales.

Construction is up 8% YOY through Q1 2012.

Current Month Taxable Sales

Net of Annual, Quarterly and Delinquent Payments
in billions \$

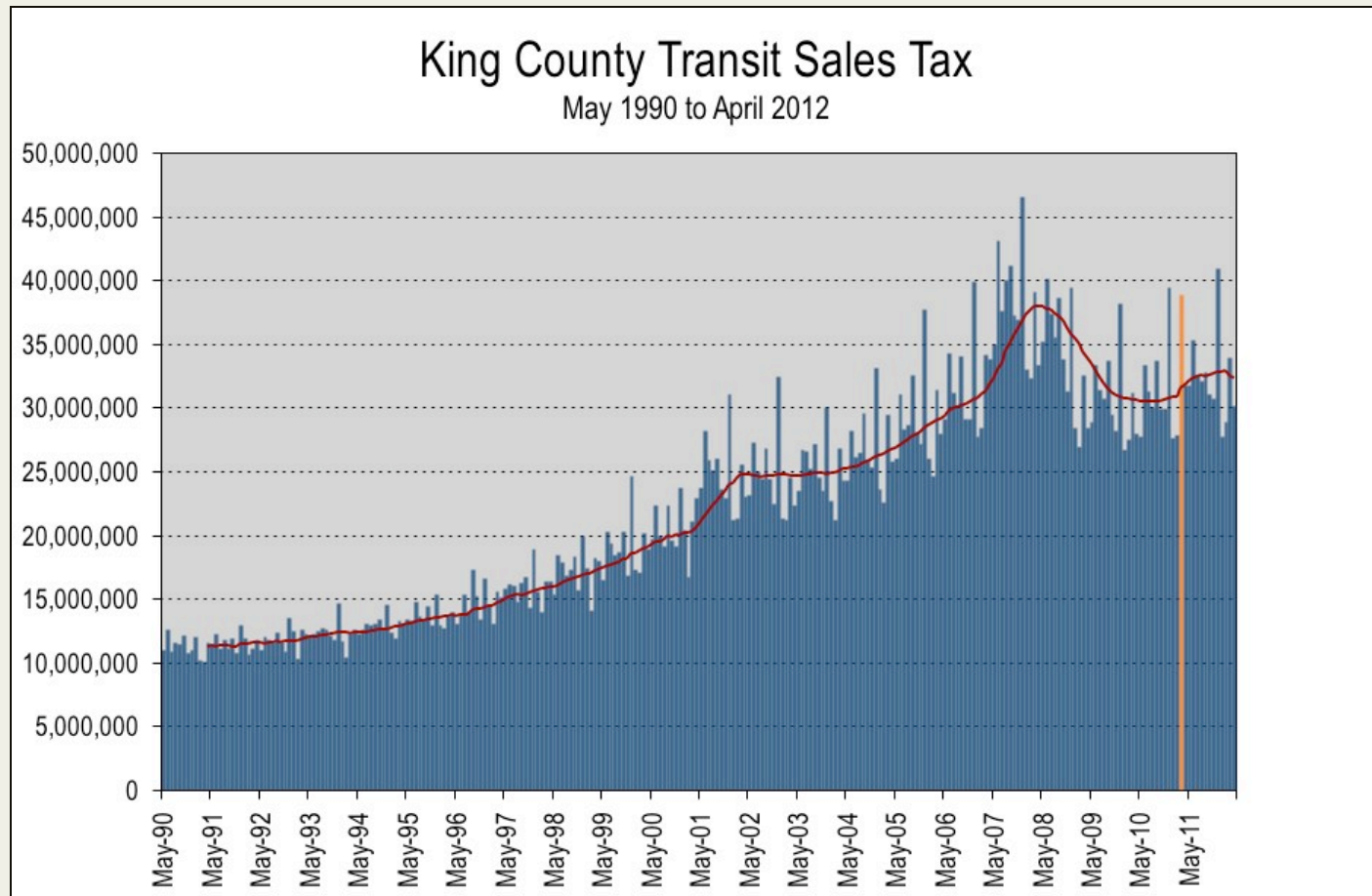




Metro sales tax has resumed growth after falling for three years

Forecasts

The amnesty we received in March 2011 gave Transit a nice short-term boost. Non-delinquent sales have been strong through Q1 2012 so we're only a little below last years greatly inflated Q1.



Blue = Actual Red = 12 month rolling average Orange = Amnesty



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Transit Sales Tax Forecast

Forecasts

OEFA estimates the amnesty added \$10M to transit in 2011. 2012 and 2013 are up because of near-term improved outlook for the drivers of transit sales tax: Personal income and a lower unemployment rate.

July 2012 Metro Transit Sales Tax Forecast
Office of Economic and Financial Analysis
July 25, 2012

Tax Year	Value	Annual Growth	Change from March 2012 Forecast
2007	442,042,300	20.36%	0.00%
2008	432,934,213	-2.06%	0.00%
2009	376,904,266	-12.94%	0.00%
2010	375,199,114	-0.45%	0.00%
2011	399,483,215	6.47%	-0.01%
2012	405,674,260	1.55%	-0.85%
2013	423,405,180	4.37%	-0.03%
2014	440,067,898	3.94%	-1.18%
2015	464,988,214	5.66%	-1.48%
2016	491,037,855	5.60%	-1.95%
2017	516,760,763	5.24%	-2.23%



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Local Sales Tax Forecast

Forecasts

2012 and beyond are up because of the economic outlook as well as new annexation assumptions. Forecasts include mitigation payments, annexations and the 2011 amnesty.

July 2012 Local and Option Sales Tax Forecast
Office of Economic and Financial Analysis
July 25, 2012

Tax Year	Value	Annual Growth	Change from March 2012 Forecast
2007	91,912,631	10.10%	0.00%
2008	87,672,896	-4.61%	0.00%
2009	76,142,480	-13.15%	0.00%
2010	76,040,263	-0.13%	0.00%
2011	81,032,753	6.57%	0.00%
2012	81,151,045	0.15%	-0.59%
2013	83,790,694	3.25%	1.39%
2014	85,684,814	2.26%	-1.39%
2015	90,140,242	5.20%	0.84%
2016	95,190,092	5.60%	0.36%
2017	100,176,604	5.24%	0.07%



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Inflation in the Seattle area has been on the rise

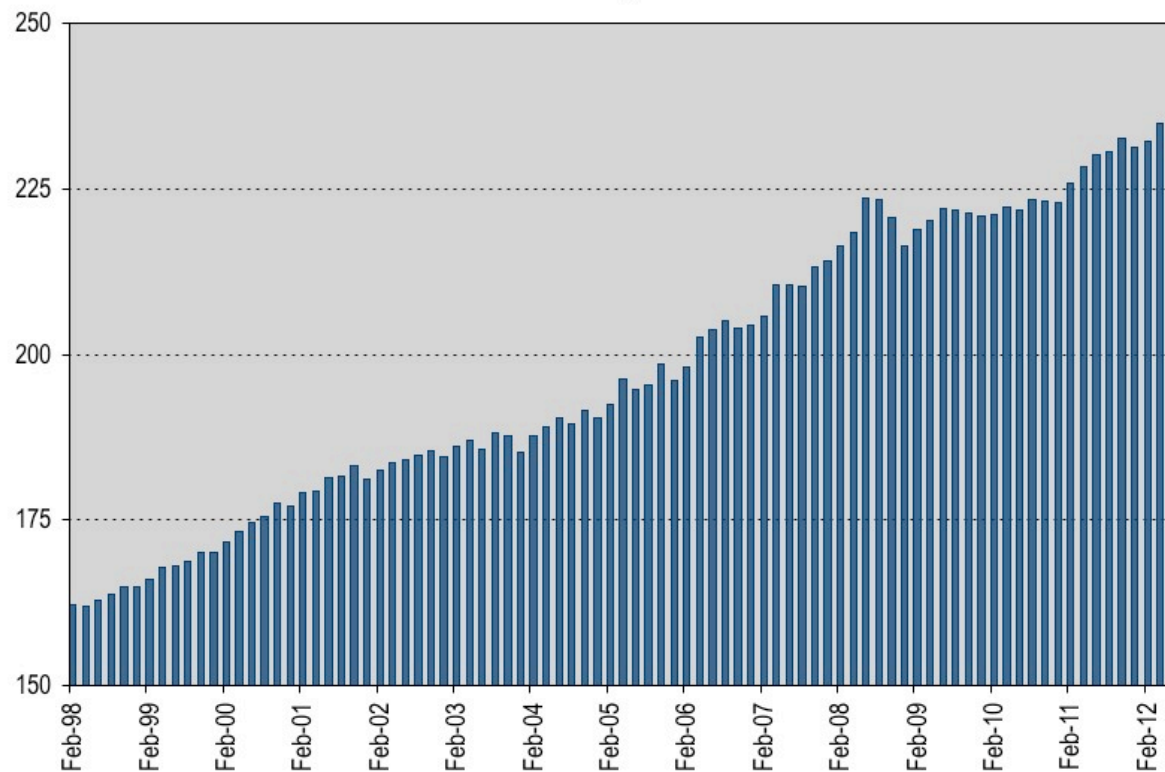
Forecasts

The Seattle CPI-W is released bi-monthly.

We actually had deflation, and a period of flat prices during and after the recession, but high gas prices have pushed up inflation.

Seattle Baseline Inflation

Seattle CPI-W February 1998 to June 2012



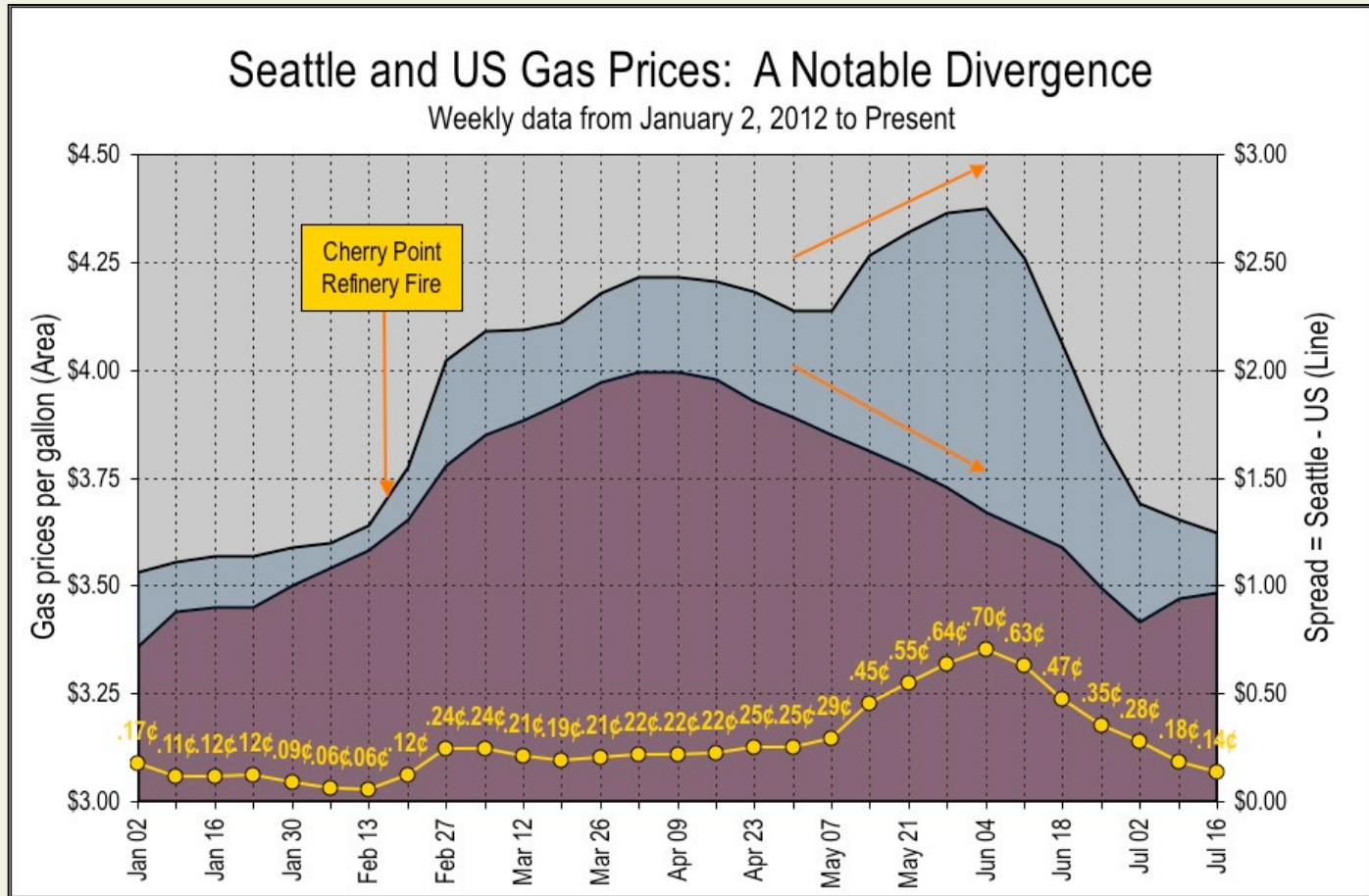


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Gas prices are dropping: Seattle drivers breathe a collective sigh of relief

Forecasts

Local gas prices unexpectedly spiked in February when the Cherry Point refinery caught fire, while other supply disruptions also contributed to high gas prices in the west.



Blue = Seattle gas prices Red = US gas prices Goldenrod = Spread

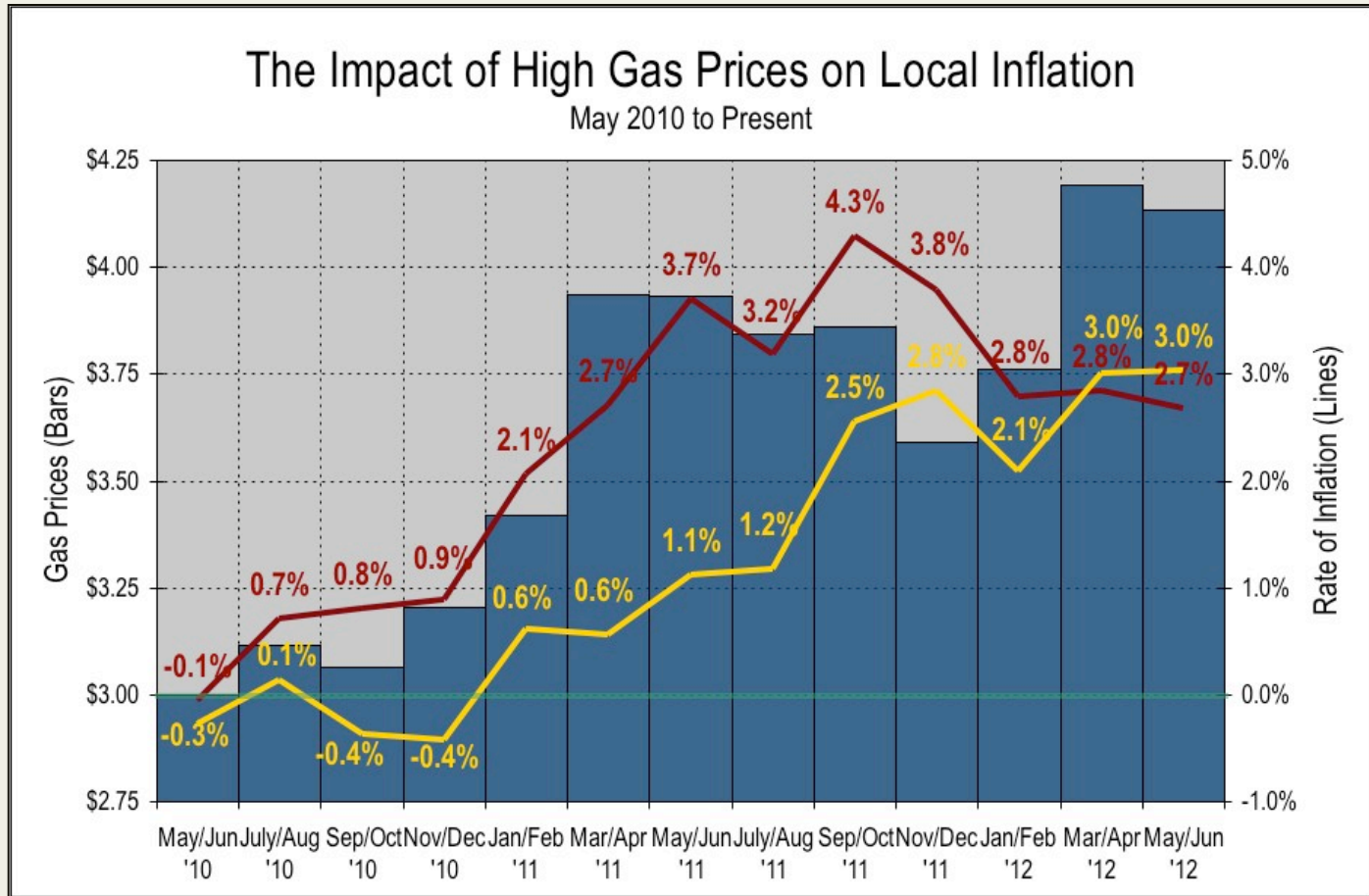


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High gas prices pushed up prices

Forecasts

With gas prices jumping nearly a dollar in less than a year, headline inflation surged in 2011. Core inflation, which excludes food and energy, remained low but is finally rising significantly in Seattle.



Blue = Seattle gas prices **Red = Seattle Headline Inflation**
Gold = Seattle Core Inflation (excl Food and Energy)



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June-June Seattle CPI-W Forecast

Forecasts

Inflation in the Seattle area rose for the third straight year.

The 2013 COLA is 3.09%.

High gas prices were a driver in early 2012.

Core inflation has recently accelerated.

July 2012 June-June Average Seattle CPI-W Forecast
Office of Economic and Financial Analysis
July 25, 2012

Tax Year	Value	Annual Growth	Change from March 2012 Forecast
2007	3.83%	0.41%	0.00%
2008	4.50%	0.67%	0.00%
2009	1.98%	-2.52%	0.00%
2010	0.62%	-1.36%	0.00%
2011	1.81%	1.19%	0.00%
2012	3.26%	1.45%	0.37%
2013	2.07%	-1.19%	-0.08%
2014	2.38%	0.32%	0.11%
2015	2.46%	0.07%	0.06%
2016	2.39%	-0.07%	-0.02%
2017	2.33%	-0.05%	-0.06%

Questions?