



King County

July 2016 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

July 21st, 2016

Dave Reich
Office of Economic and Financial Analysis



Summary

- **The U.S. economic expansion continues**
 - Currently 84 months (post-war avg.=58)
 - 2016:1Q growth was modest (+1.1%)
 - But economy expected to continue to grow
 - Remainder of 2016 & 2017-2018 still currently look OK
- **Risks: UK vote aftermath, China slowdown, others**
- **King County economic expansion still strong**
 - Significant population growth-added over 52,000 people (2.5% growth) in last year in KC
 - Continued building boom driving employment and commerce
 - Businesses (small and large) continue to thrive
- **County revenues continue to be strong**

World economic growth forecast a little lower for most...a lot for the UK

World Bank down-graded their forecast in early June (before UK referendum).

Private forecasters are calling for slower UK growth and perhaps a recession.

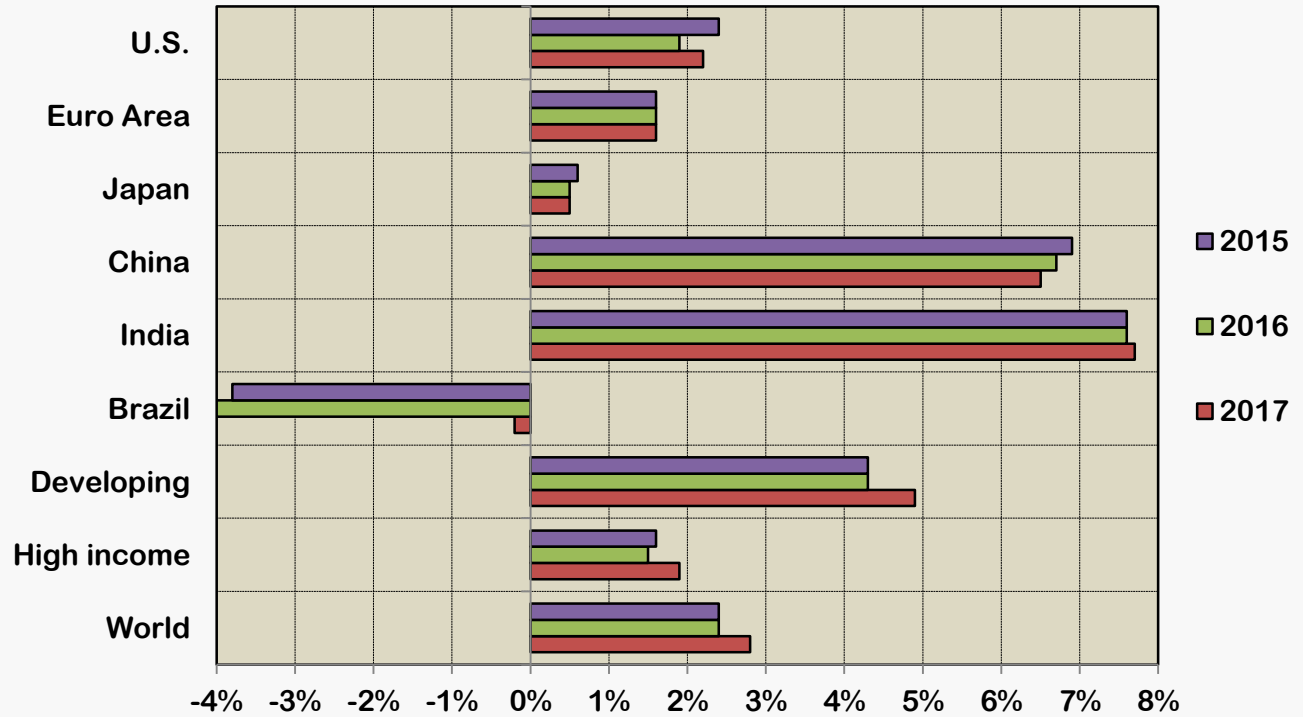
EU growth impacted modestly.

Likely very small impact on the U.S. economy.

Global Real GDP Growth

Estimate 2015, Forecast 2016-2017

Source: World Bank





U.S. job growth continues though at a slower pace than last few years

The U.S. economy has added about 14M jobs since the end of the recession.

So far in 2016, adds averaged 170K down from 225K in 2015-still good growth.

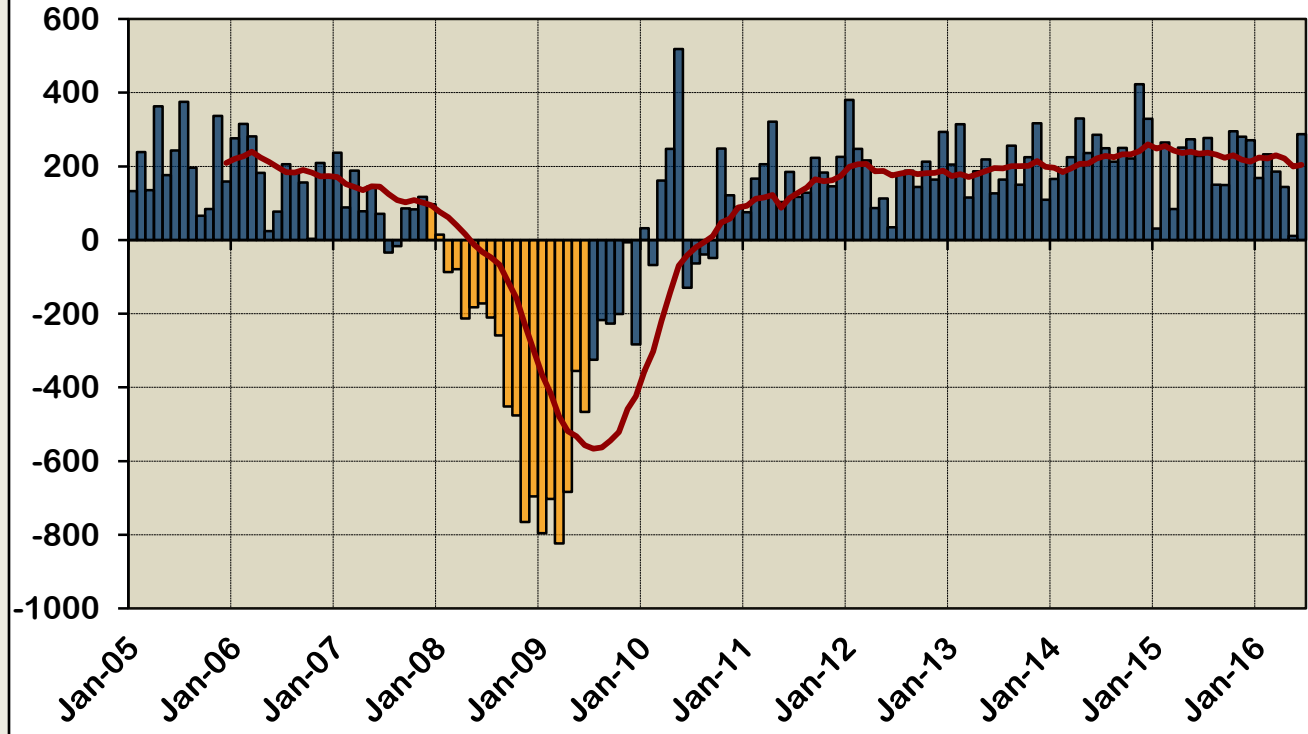
The national unemployment rate is now 4.9% (June 2016).



U.S. Monthly Employment Adds

In thousands of jobs, January 2005 to Present

Source: BLS



Blue = Actual Orange = Recession Red Line = Annual average



Unemployment near “normal”, but some labor market slack remains

The U.S. unemployment rate has been falling for over 6 years.

Is now very near the KC rate.

A key indicator of employment slack for the Fed.

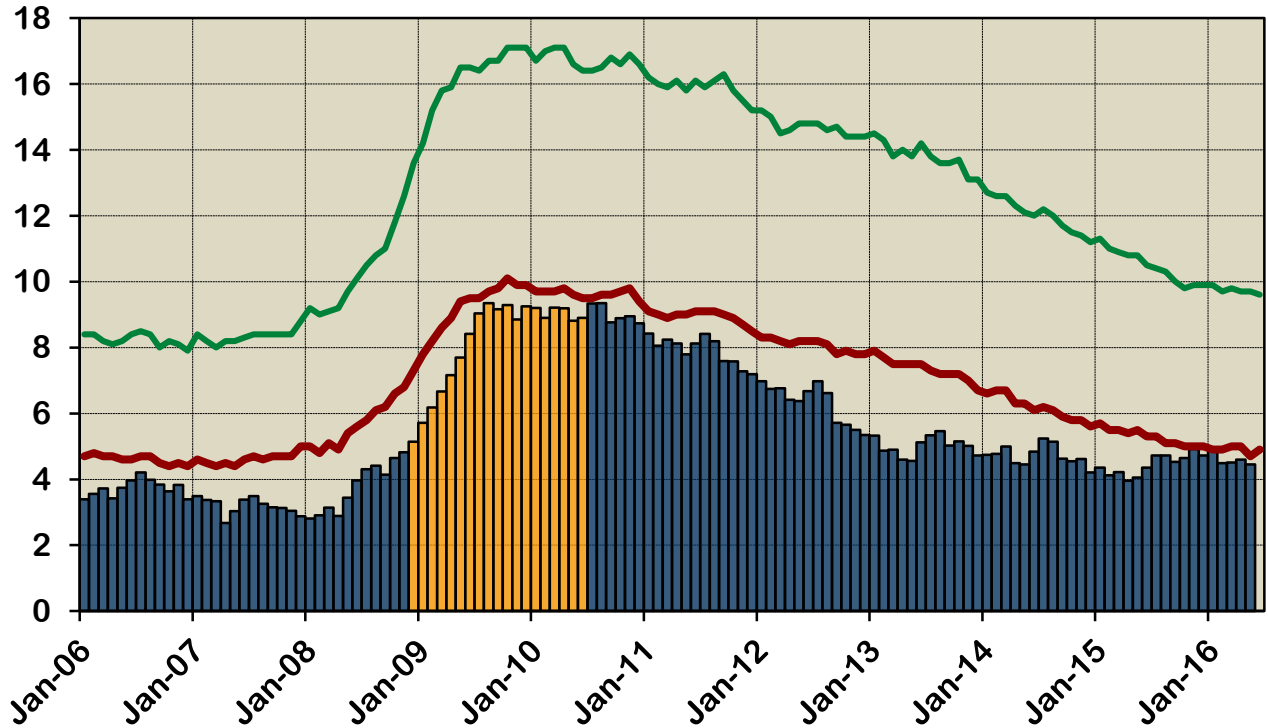
The U-6 measures remains elevated and so some slack likely remains.



King County & U.S. Unemployment Rate

Seasonally Adjusted, January 2005 to Present

Source: BLS



Blue = King County U3 rate Red = US U3 rate Green = US U6 rate Orange = Recession



And labor compensation showing some signs of increasing

Wage growth is a useful cross check on labor market slack.

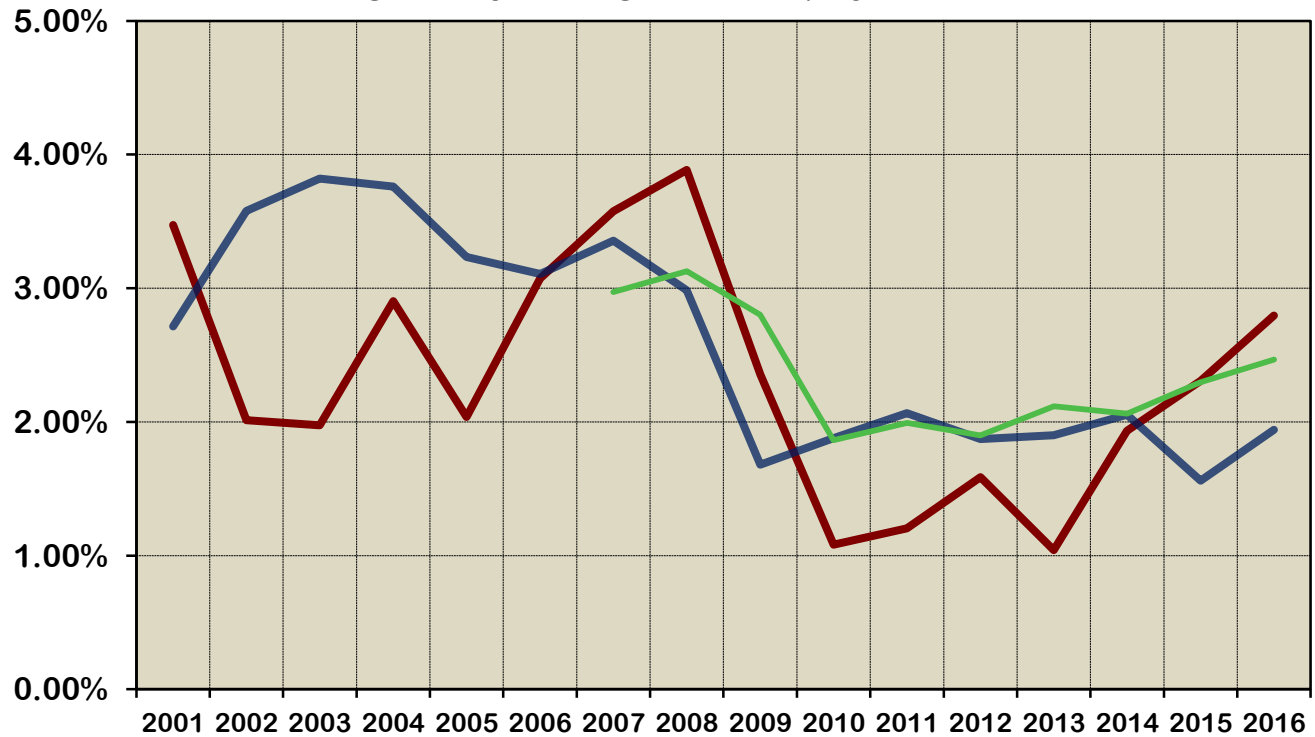
Compensation growth has been slow but we are beginning to see some growth.

Important to Fed rate increase timing.



U.S. Employment Compensation Growth

Not seasonally adjusted cost growth, nominal wage growth, and average hourly earnings for all employees Source: BLS



Blue = Employee cost index growth Red = Nominal wage growth
Green = Average hourly earnings for all employees



Longer-term; what keeps economists up at night....the productivity puzzle

Productivity growth is the major contributor to economic growth.

It has been decelerating since the mid-2000s.

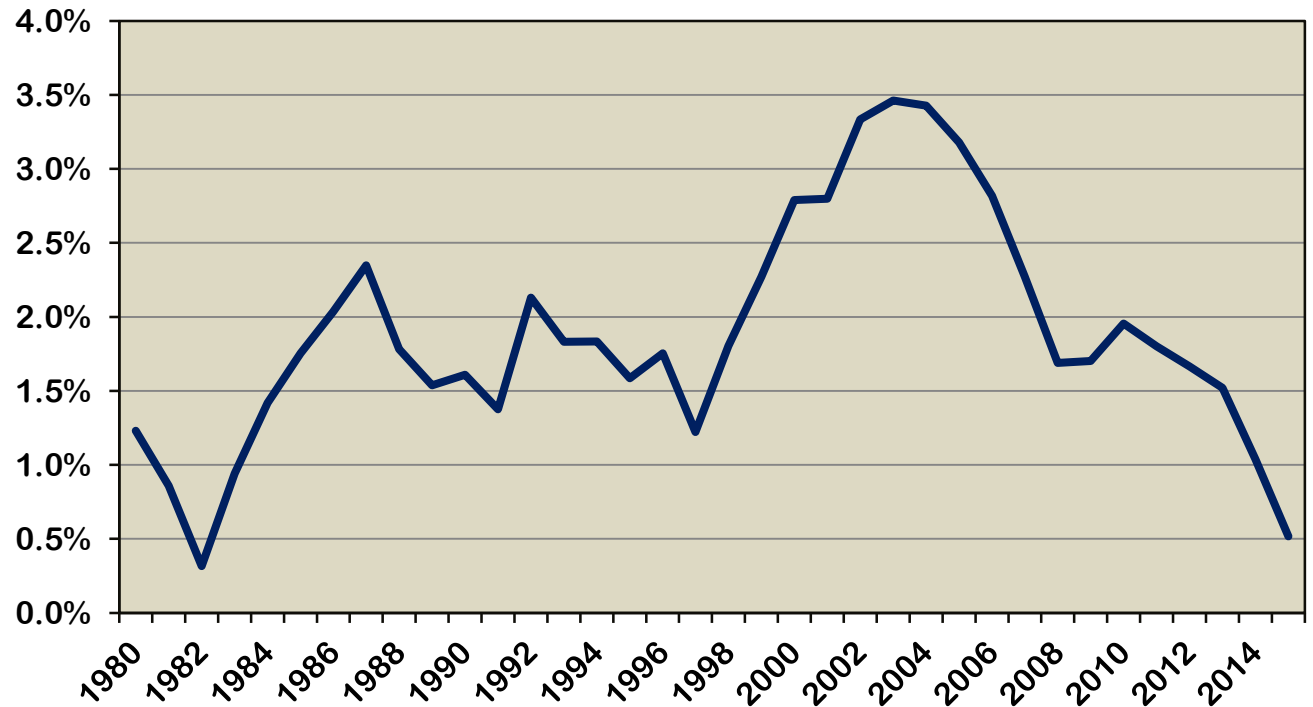
Several potential explanations:

- Recession hangover
- Stats not reflecting growth
- Other



Labor Productivity

Non-farm business, Five year rolling average, 1980-2015
Source: BLS





Employment growth in King County continues at a rapid pace

Employment was up 3.1% in 2015 with job growth in most sectors.

In 2016:1Q employment grew 3.4%.

Continued growth in services.

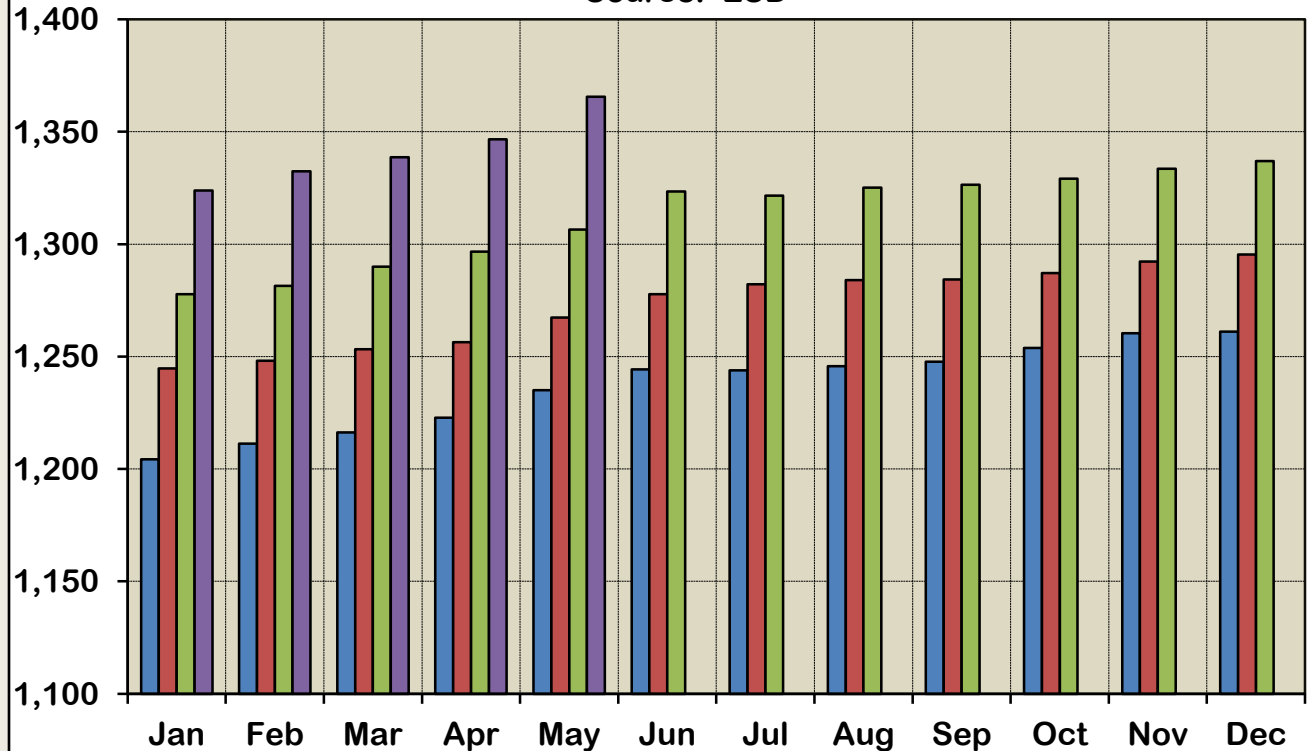
Information up 8% so far in 2016.



King County Total Non-Farm Employment

Monthly job totals, January 2012 to May 2016

Source: ESD



Blue bar = 2013 Red bar = 2014 Green bar = 2015 Violet bar = 2016



King County

The Seattle real estate market continues to see rising prices at all value levels....

Economic context: Seattle home price index by tier from Case-Shiller

Home prices continue to climb.

Case-Shiller index up 10.7% in April (yoy).

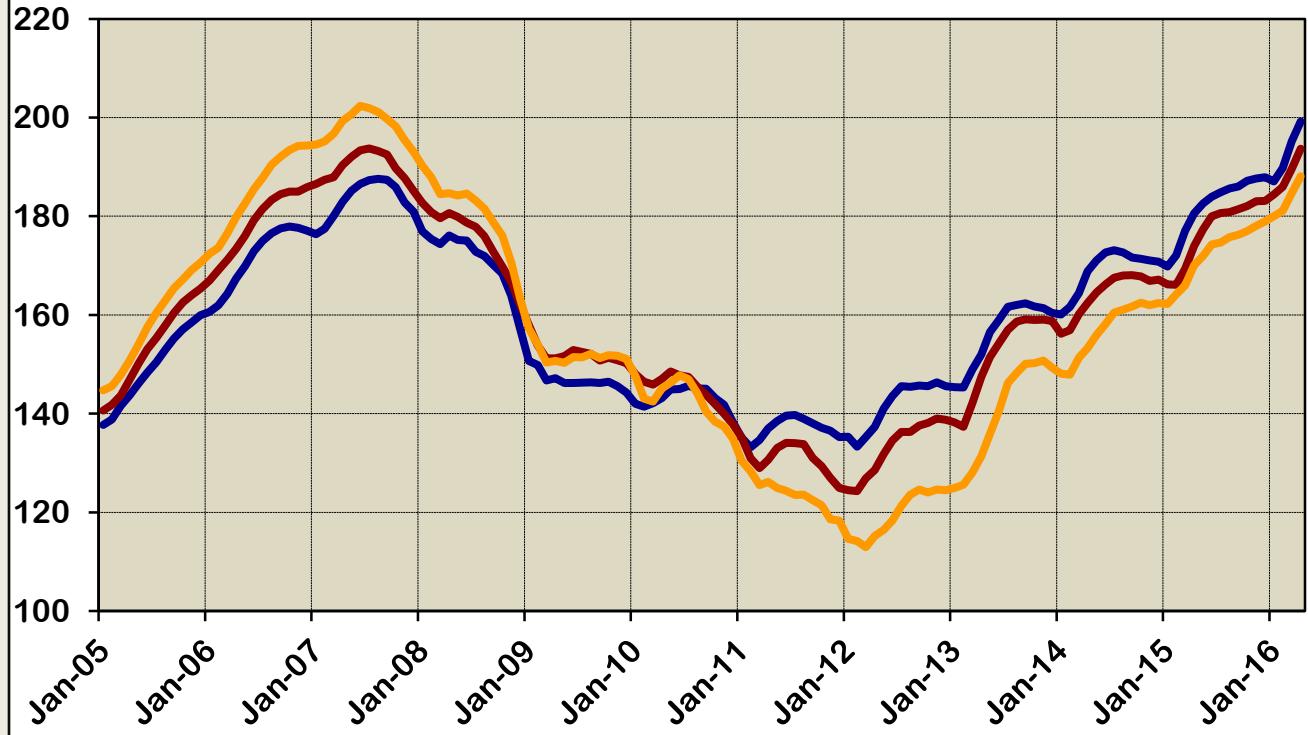
Real estate market affected by low inventory levels and strong demand.



Seattle Case-Shiller Home Price Tiers

January 2005 to Present

Source: Case Shiller Online Index



Blue bar = high tier Orange bar = middle tier Red = low tier

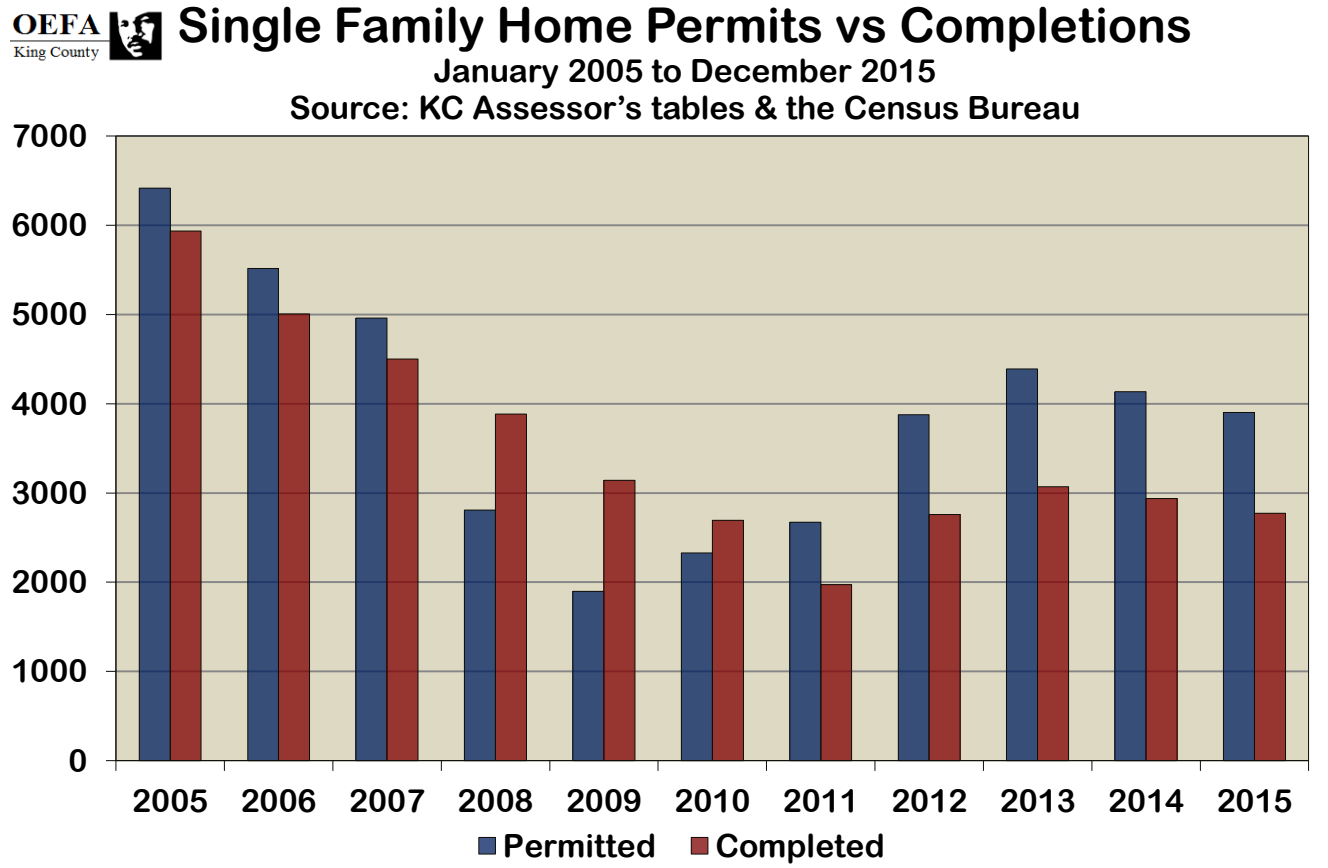
SF permitting/completion levels fell during the recession and have not recovered

Economic context: SF housing activity

Permit activity fell first during the recession and increased during the expansion.

Permits and completions not back to pre-recession levels.

But permit activity in 2016 looking to be the strongest since 2007.





King County

Top 10 cities by number of new home sales in King County in 2015.

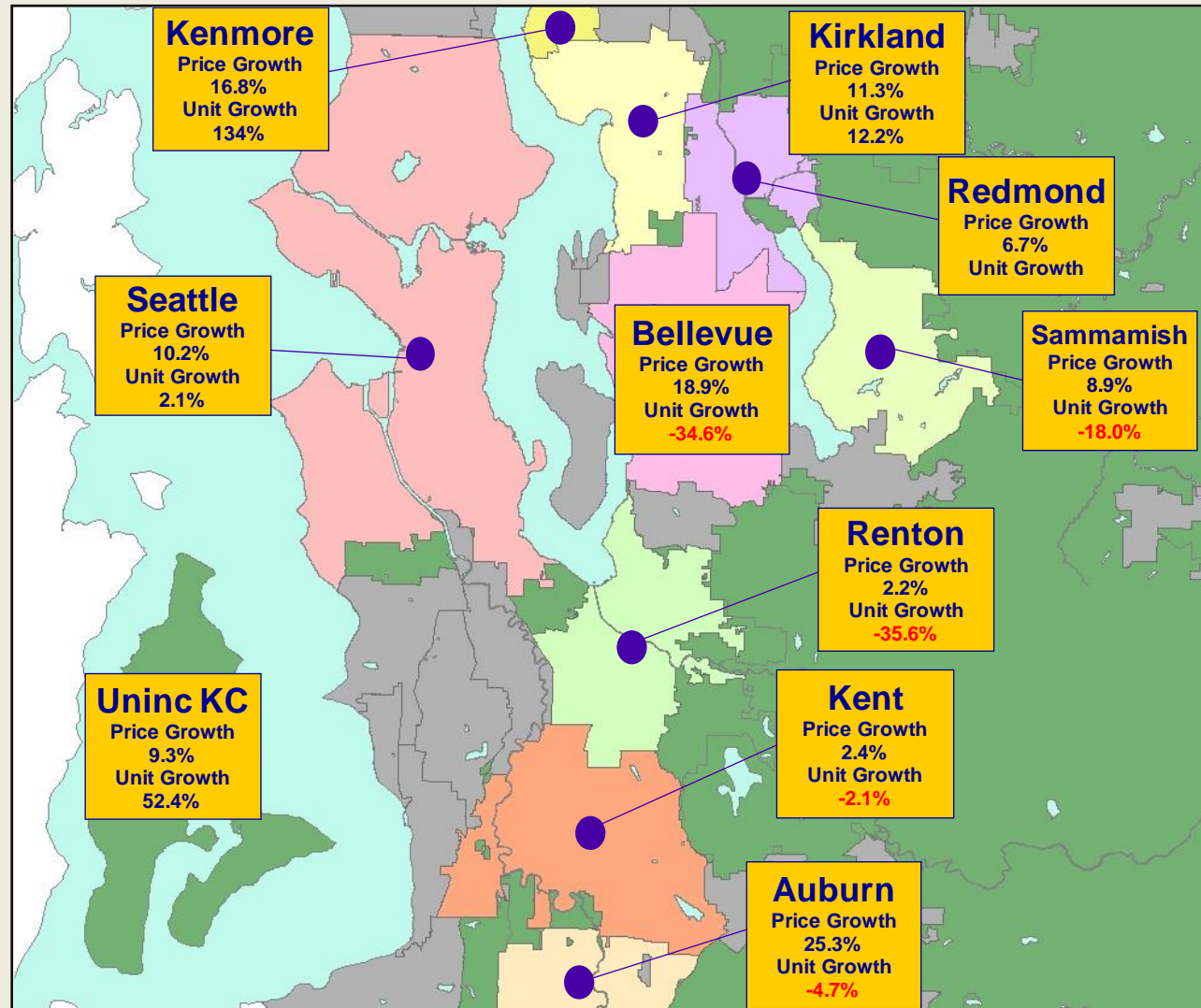
Economic context: Top jurisdictions by new home sales; data from KC Recorder/DOA

Price and unit growth are relative to 2014 levels of new home development and so are variable.

Just under 3,000 new homes sold in King County last year.

In general, new SFH completions were down about 5% last year compared to 2014.

Price growth and recovering household formation should encourage new building.





King County

Permitting activity has slowed so far in 2016

Economic context: Building

Since bottoming out in 2009 permit values have quintupled.

Multi-family permits have been a big driver.

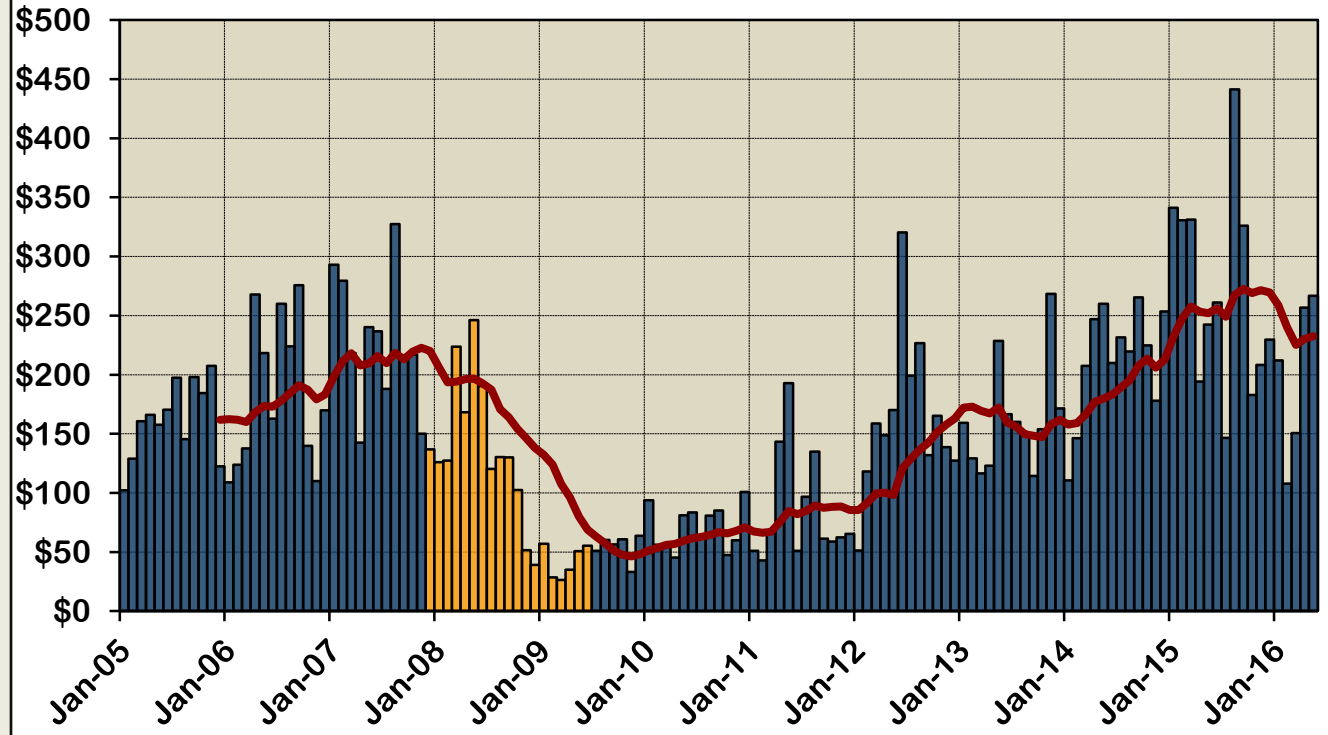
So far in 2016, units permitted are down about 35% mostly driven by reduced MF permits.



Value of all New & Privately Owned Permits

In millions of \$ for King County, January 2005 to Present

Source: Census Bureau



Blue = Value of permits Red = 12 month rolling average Orange = Recession

The KC forecast continues to call for growth but at a slower pace

13

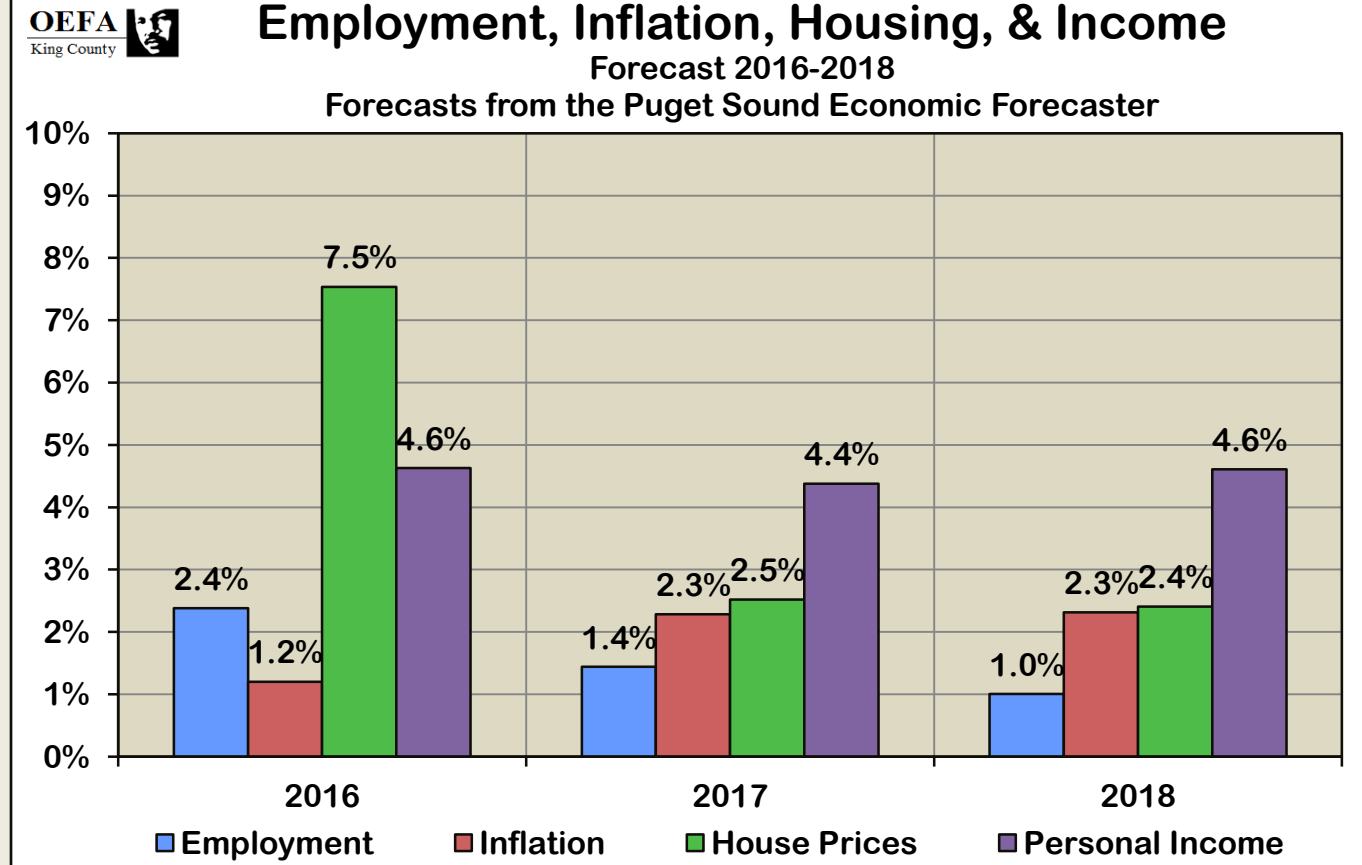
Economic forecast: Forecasts from the Puget Sound Economic Forecaster (June, 2016)

Employment growth should continue but at slower rates.

Inflation should accelerate, but be modest overall.

House prices to continue their rise but at reduced rates.

Upside risk to several of the 2016 values.



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:

Klahanie (Completed)	(01-01-16)
North Highline (Area Q/Sliver)	(01-01-18)
North Highline (Remainder)	(01-01-20)
West Hill	(01-01-20)
East Federal Way	(01-01-20)



Countywide Assessed Value Forecast

King County

15

Forecasts: Assessed value

2016 AV is new nominal high value at \$426b.

There was growth in both residential and commercial sectors.

Assessments for 2017 are based on Jan. 1, 2016 value.

Small increase in forecast values from March 2016.

July Countywide Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2016 Forecast	\$ Change from March 2016 Forecast
2014	\$340,643,616,342	8.23%	0.00%	\$0
2015	\$388,118,855,592	13.94%	0.00%	\$0
2016	\$426,335,605,836	9.85%	0.00%	(\$1)
2017	\$462,661,914,781	8.52%	0.24%	\$1,120,016,548
2018	\$490,029,242,098	5.92%	1.11%	\$5,371,830,346
2019	\$512,531,708,352	4.59%	1.51%	\$7,609,414,947
2020	\$537,256,158,373	4.82%	1.30%	\$6,883,656,933
2021	\$565,289,037,743	5.22%	0.88%	\$4,949,735,155
2022	\$596,964,205,705	5.60%	0.71%	\$4,195,356,050
2023	\$629,813,427,408	5.50%	1.06%	\$6,604,976,760
2024	\$664,002,054,239	5.43%	1.43%	\$9,385,895,883
2025	\$699,981,986,731	5.42%	1.82%	\$12,537,010,095



Unincorporated Area Assessed Value Forecast

The unincorporated area experienced growth in 2016.

The Klahanie annexation reduced the rate in 2016.

Calling for continued growth in this area.

Potential annexations will impact AV.

July Unincorporated Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2016 Forecast	\$ Change from March 2016 Forecast
2014	\$31,876,016,756	6.19%	0.00%	\$0
2015	\$36,080,918,262	13.19%	0.00%	\$0
2016	\$36,633,108,444	1.53%	0.00%	\$0
2017	\$38,860,762,484	6.08%	0.42%	\$163,368,028
2018	\$41,180,504,230	5.97%	1.08%	\$438,132,301
2019	\$42,733,801,905	3.77%	1.25%	\$526,337,777
2020	\$44,538,285,721	4.22%	1.23%	\$541,898,534
2021	\$40,493,239,808	-9.08%	0.94%	\$377,973,866
2022	\$42,557,680,476	5.10%	0.85%	\$358,465,988
2023	\$44,691,637,227	5.01%	1.31%	\$577,032,617
2024	\$46,943,413,459	5.04%	1.79%	\$823,801,477
2025	\$49,364,344,711	5.16%	2.38%	\$1,149,877,520



New Construction Forecast

King County

17

Forecasts: New construction

New construction bottomed in 2012 down 75% from the peak (\$8b).

Small growth in 2013 and large increases in 2014-2016.

Positive signs for 2017: construction employment still high, sales, and permits.

July Countywide New Construction Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2016 Forecast	\$ Change from March 2016 Forecast
2014	\$3,406,198,290	71.73%	0.00%	\$0
2015	\$4,994,659,235	46.63%	0.00%	\$0
2016	\$6,111,997,054	22.37%	0.00%	\$0
2017	\$6,739,428,083	10.27%	-2.21%	(\$152,302,478)
2018	\$6,922,398,945	2.71%	-3.40%	(\$243,392,446)
2019	\$7,082,943,248	2.32%	-2.09%	(\$151,541,085)
2020	\$7,058,552,410	-0.34%	-2.84%	(\$205,951,515)
2021	\$7,063,711,756	0.07%	-4.83%	(\$358,527,840)
2022	\$7,326,718,441	3.72%	-7.88%	(\$626,476,172)
2023	\$7,567,326,536	3.28%	-8.52%	(\$704,707,473)
2024	\$7,906,967,874	4.49%	-7.99%	(\$686,617,570)
2025	\$8,227,667,175	4.06%	-8.00%	(\$715,579,322)



King County property tax forecasts

King County

18

Forecasts: Property taxes

Small changes for most levies as most are “limit-factor” limited.

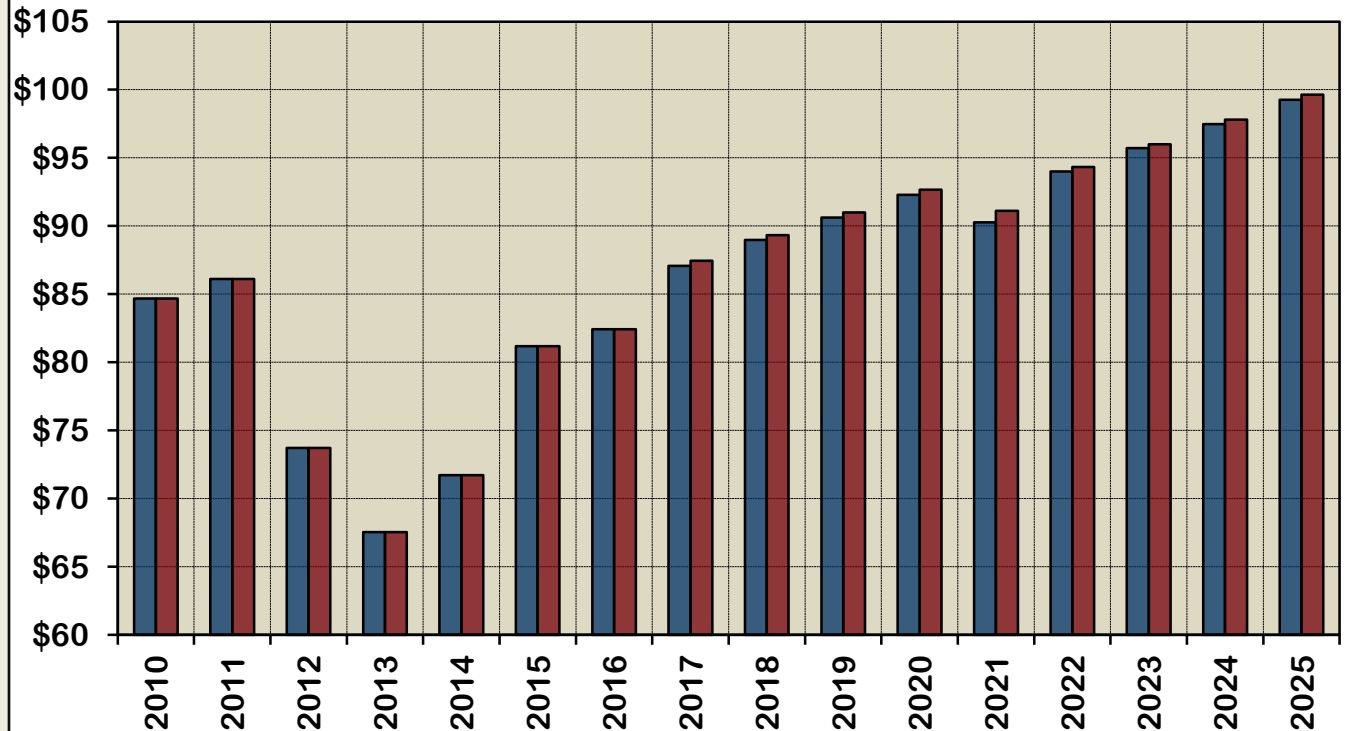
Improved outlook for unincorporated AV is good for the UAL/Roads levy.

Improved AV forecast also good for future levy lid lift renewals and pro-rating.



UAL/Roads Property Tax

2010 to 2025 Revenue Forecast in millions of dollars



Blue = March 2016 Forecast Red = July 2016 Forecast



Construction taxable sales continue to drive sales tax receipts

Construction sales grew strongly in 2012-2013, slowed in 2014 but really grew in 2015.

So far in 2016, up nearly 20%.

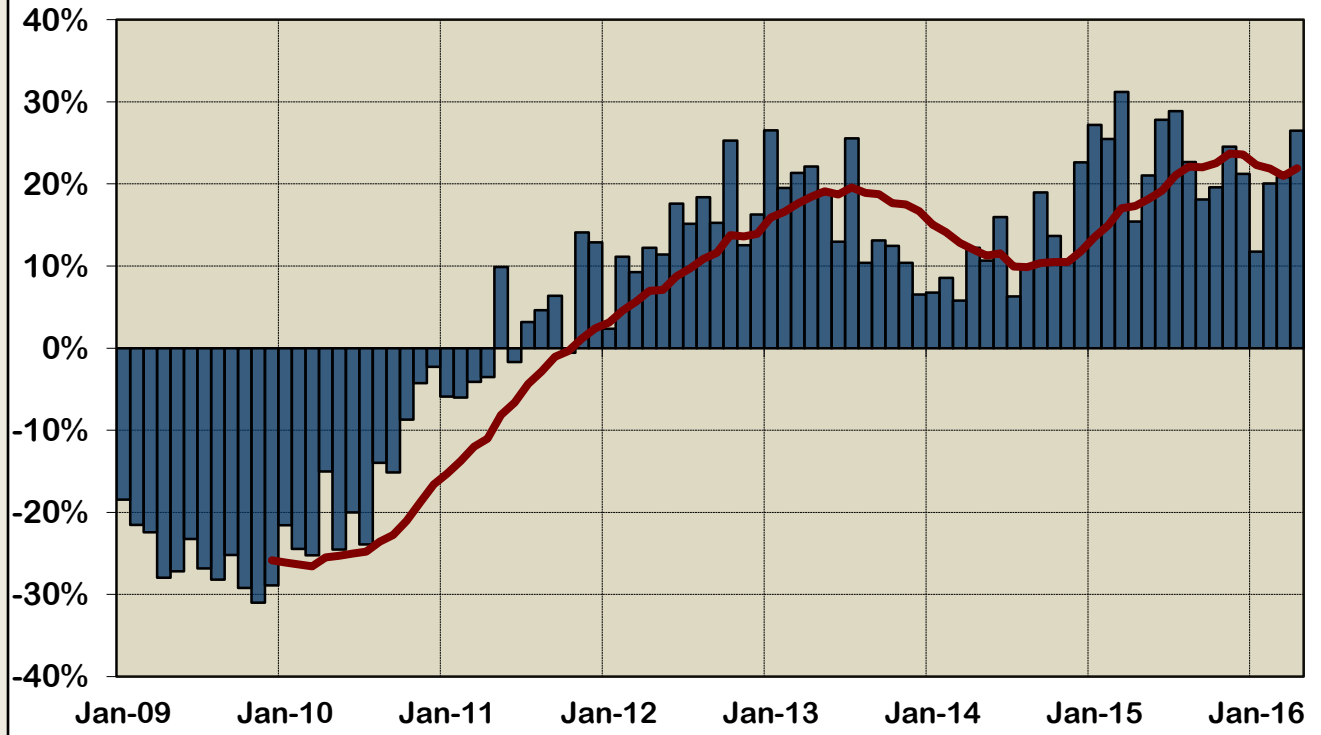
A big driver of sales tax growth the last several years.

Growth likely to continue but at slower rate.



Construction Taxable Sales Growth

Percent change, July 2009 to Present
Source: OEFA DOR sales tax DB



Blue = Actual Red = 12 month rolling average



Marijuana sales are increasing rapidly in KC

I-502 was approved by voters in 2012.

MJ taxable sales are small relative to overall but have grown rapidly.

Currently about 200 producers, processors and retailers in KC.

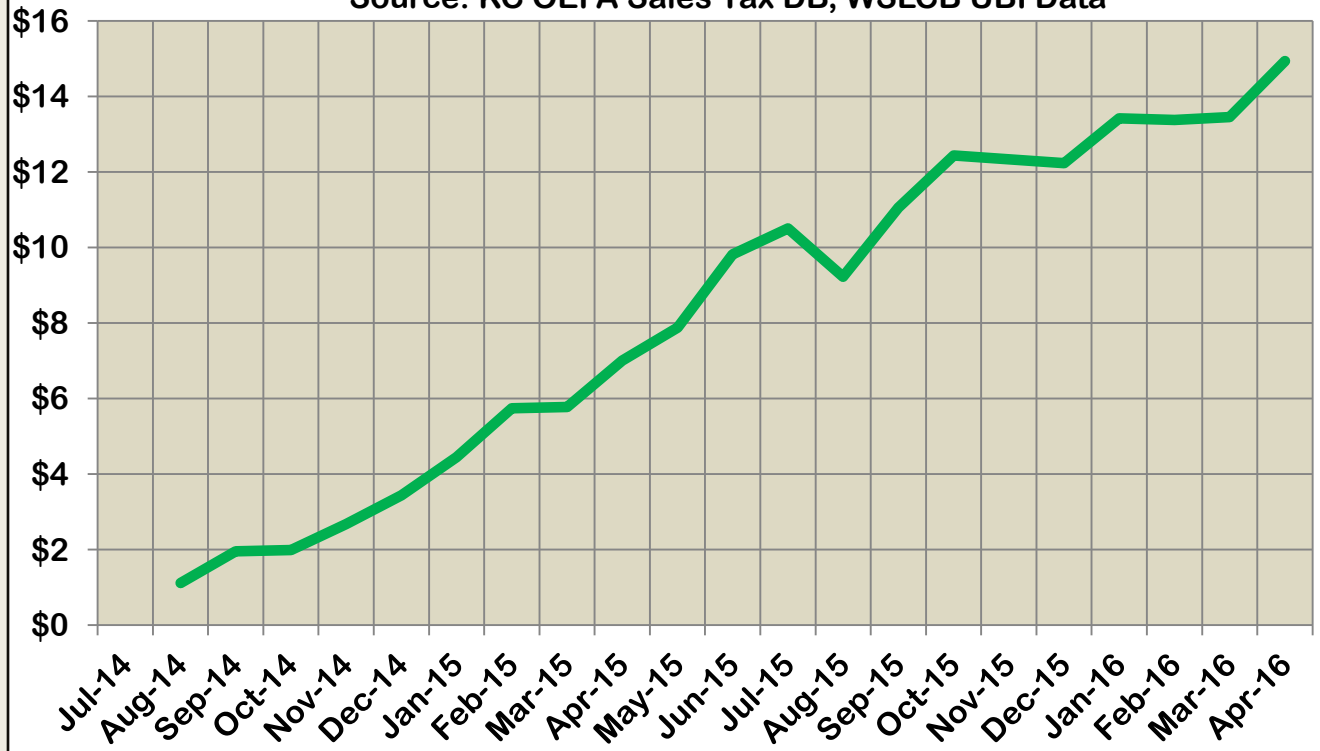
About 440 retailer permits pending.



King County Marijuana Taxbase

In millions \$

Source: KC OEFA Sales Tax DB, WSLCB UBI Data





Taxable Sales Forecast

King County

21 Forecasts: Local sales tax

2016 and beyond are looking good due to continuing economic growth.

Forecast for 2016 is for 8.8% growth.

Expect continued growth across most sectors.

Construction likely to continue to be a big contributor in 2016 and then....

July King County Sales and Use Taxbase Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2016 Forecast	\$ Change from March 2016 Forecast
2014	\$52,335,343,480	7.79%	0.00%	\$0
2015	\$57,615,757,460	10.09%	-0.06%	(\$34,242,540)
2016	\$62,689,400,359	8.81%	2.07%	\$1,273,645,166
2017	\$65,902,052,535	5.12%	3.24%	\$2,065,392,284
2018	\$67,985,951,194	3.16%	3.11%	\$2,048,806,967
2019	\$70,350,875,824	3.48%	2.67%	\$1,826,964,155
2020	\$72,378,927,440	2.88%	1.58%	\$1,127,118,368
2021	\$75,182,066,376	3.87%	1.60%	\$1,187,338,364
2022	\$78,713,843,922	4.70%	2.51%	\$1,926,188,790
2023	\$82,051,384,420	4.24%	2.74%	\$2,191,144,671
2024	\$85,353,901,097	4.02%	2.83%	\$2,345,388,652
2025	\$88,696,843,586	3.92%	2.86%	\$2,465,425,779



Transit Sales Tax Forecast

King County

22

Forecasts: Transit sales tax

2015 came in about 0.3% above forecast.

The forecast for 2016 and beyond is revised up reflecting the stronger taxable sales forecast.

Forecasts account for DOR fees, mitigation and annexations.

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

Tax Year	Value	Annual Growth	% Change from March 2016 Forecast	\$ Change from March 2016 Forecast
2014	\$479,433,577	8.26%	0.00%	\$0
2015	\$526,663,508	9.85%	0.00%	\$1,310
2016	\$575,186,245	9.21%	2.05%	\$11,561,650
2017	\$604,328,946	5.07%	3.20%	\$18,757,341
2018	\$623,213,855	3.12%	3.08%	\$18,606,744
2019	\$644,653,324	3.44%	2.64%	\$16,590,724
2020	\$663,031,757	2.85%	1.57%	\$10,230,517
2021	\$688,454,869	3.83%	1.59%	\$10,777,938
2022	\$720,500,517	4.65%	2.49%	\$17,492,886
2023	\$750,781,419	4.20%	2.72%	\$19,900,985
2024	\$780,744,531	3.99%	2.81%	\$21,302,911
2025	\$811,075,549	3.88%	2.84%	\$22,393,957



KC REET continues to reflect sales price increases in the unincorporated area

REET revenues grew 34% in 2015.

Skewed up by a very large sale in December.

Excluding that sale there was still underlying REET growth in 2015.

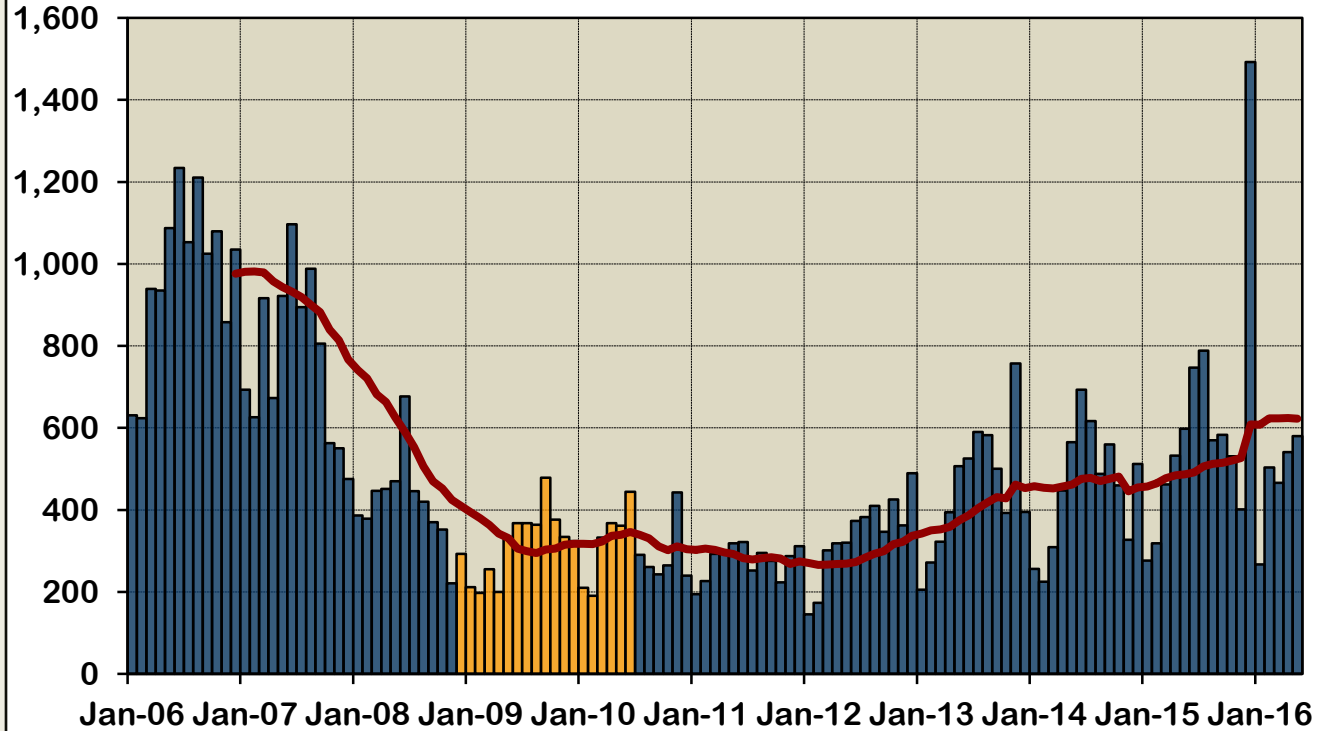
Forecast calls for contraction in 2016 then modest growth.



King County Real Estate Excise Tax

In thousands of \$, January 2006 to Present

Source: King County Financial Reports



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



REET forecast

King County

24

Forecasts: REET

2016 REET will likely come in lower than 2015.

Transactions are down 3% so far in 2016.

Average prices are up about 12%.

Growth likely to be modest in 2017 and beyond.

July Real Estate Excise Tax (REET 1) Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2016 Forecast	\$ Change from March 2016 Forecast
2014	\$5,460,692	-3.37%	0.00%	\$0
2015	\$7,300,583	33.69%	0.00%	\$0
2016	\$6,506,722	-10.87%	10.72%	\$629,879
2017	\$6,587,879	1.25%	10.08%	\$603,135
2018	\$6,712,199	1.89%	9.46%	\$580,059
2019	\$6,916,081	3.04%	7.68%	\$493,222
2020	\$6,201,115	-10.34%	6.32%	\$368,487
2021	\$6,041,170	-2.58%	-1.73%	(\$106,626)
2022	\$6,287,458	4.08%	-2.64%	(\$170,713)
2023	\$6,754,267	7.42%	-0.34%	(\$23,356)
2024	\$6,990,064	3.49%	-1.68%	(\$119,380)
2025	\$7,236,857	3.53%	-3.10%	(\$231,479)



Inflation in Seattle has been modest but is picking up

The annual Seattle inflation rate for 2015 was 0.9%.

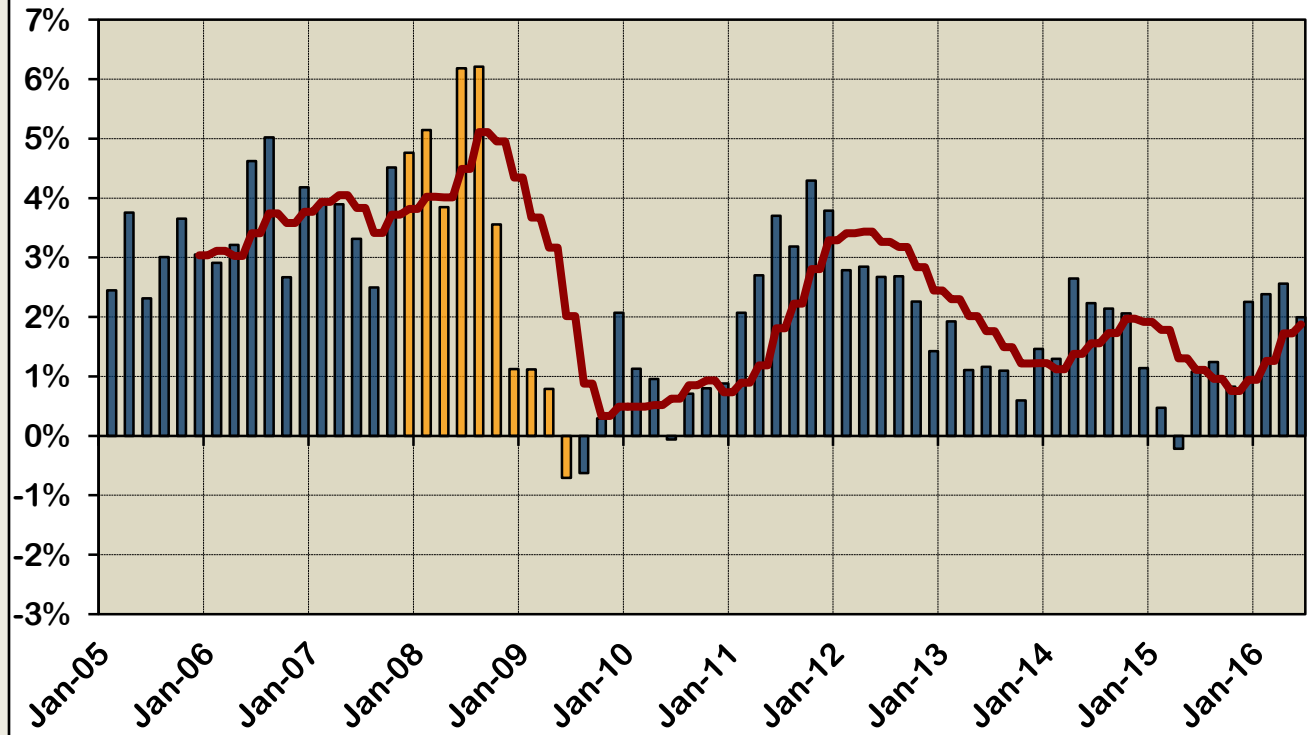
Inflation in 2016 has been stronger.

Actual Seattle June to June value was 1.99%.

Inflation in 2016 and beyond expected to be 2%-3%.

Seattle CPI-W Bi-Monthly Inflation

January 2005 to Present
Source: BLS



Blue = Actual Red = average annual inflation rate Orange = Recession

King County Office of Economic and Financial Analysis

<http://www.kingcounty.gov/business/Forecasting.aspx>