



King County

# March 2014 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

March 13<sup>th</sup>, 2014

**Dave Reich, Chief Economist**  
**Office of Economic and Financial Analysis**



# Summary

- **We have mostly good news**
- **The national economy continues to recover**
  - **The U.S. economy picked up the pace of growth in 2013:2H**
  - **Forecast is for accelerating growth**
  - **Risks (e.g. fiscal effects) reduced**
- **King County continues to do very well**
  - **Led by local employment growth**
- **Revenues continue to be strong**

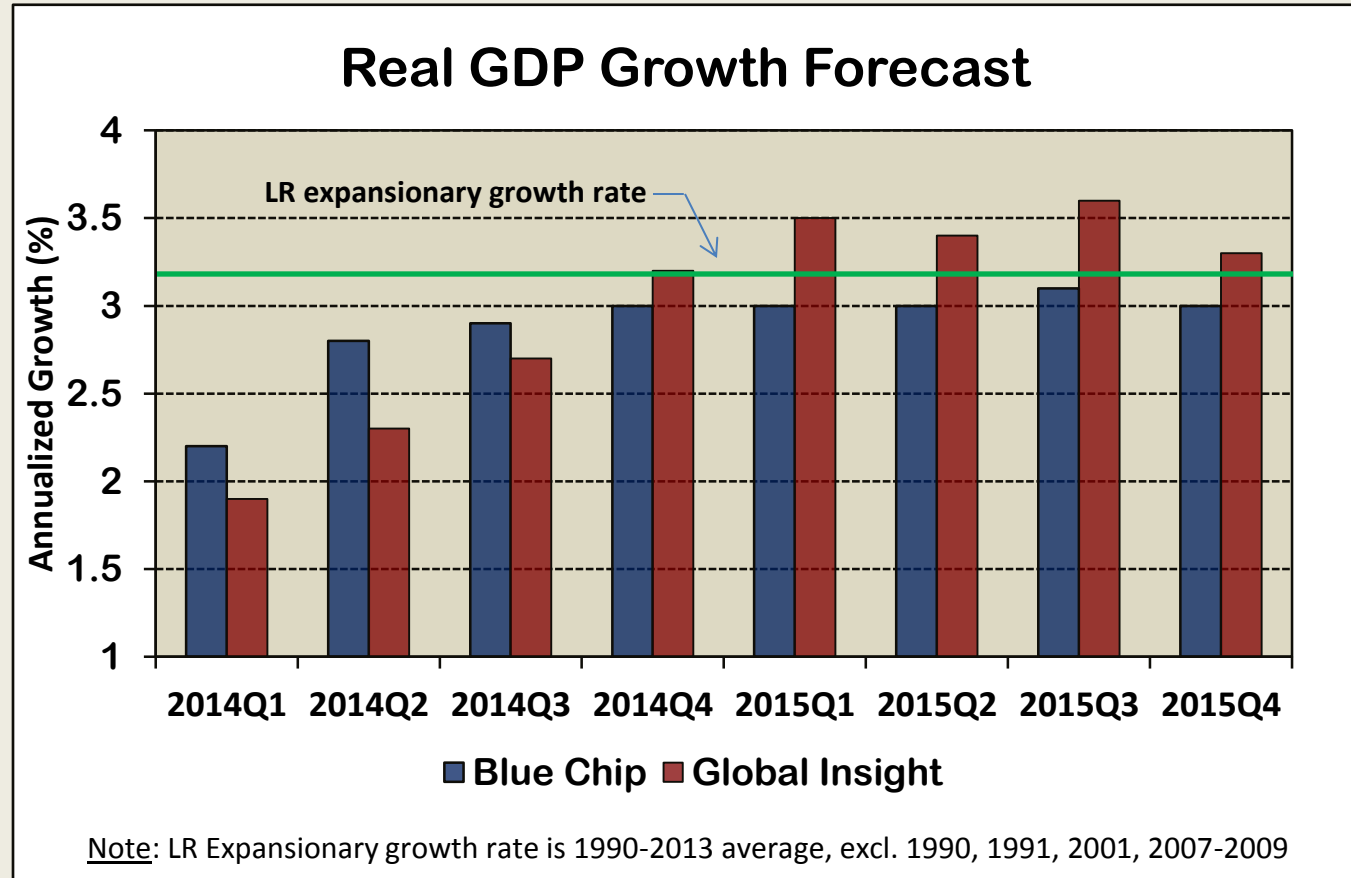


# Real GDP Growth is expected to accelerate in 2014

The 2013 GDP growth rate was 1.9%.

Long-run expansionary growth rate is about 3.2%.

Current forecast calls for growth at this rate in late 2014 or early 2015.





# The national economy continues to create jobs

The U.S. economy has added 8M jobs since the end of the recession.

In 2013, adds averaged 194K per month.

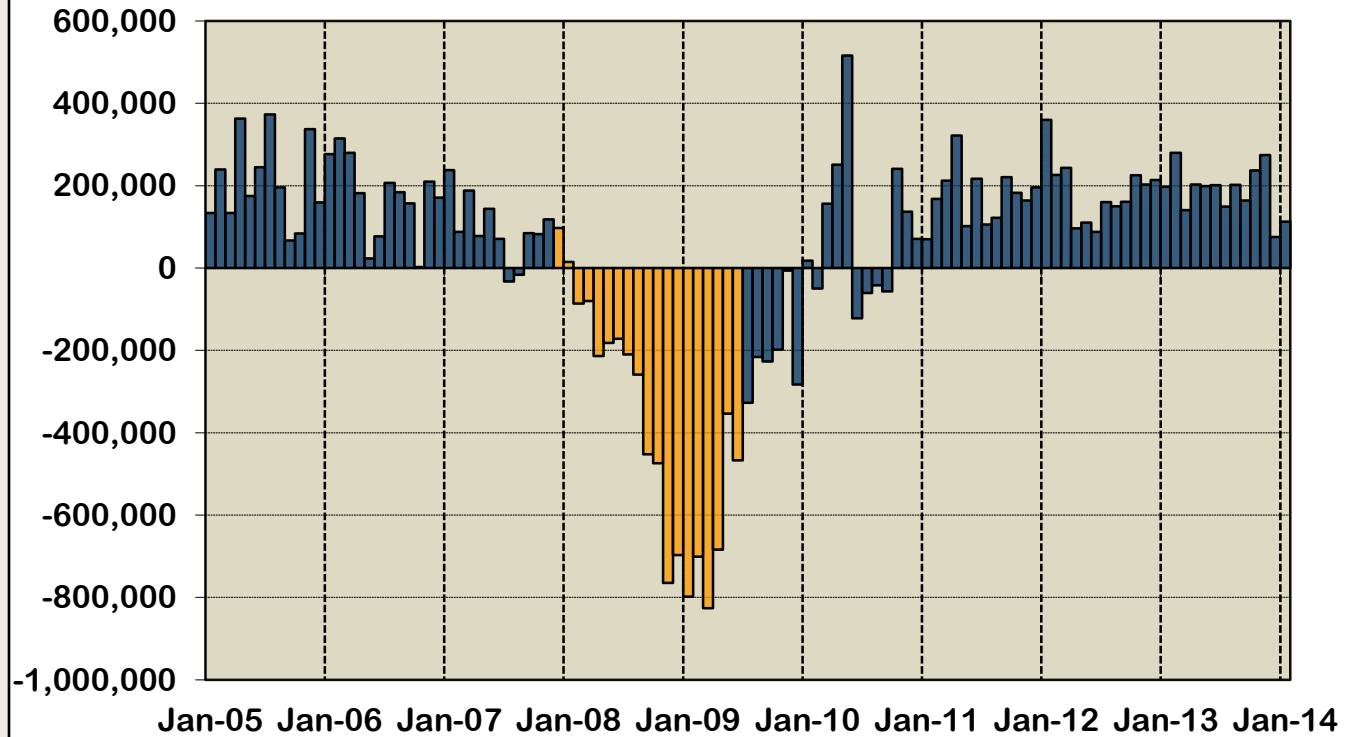
Blue Chip is calling for 217K/mo. In 2014.

The national unemployment rate is now below 7%.

## U.S. Monthly Employment Adds

January 2005 to Present

Source: BLS



Blue = Actual Orange = Recession



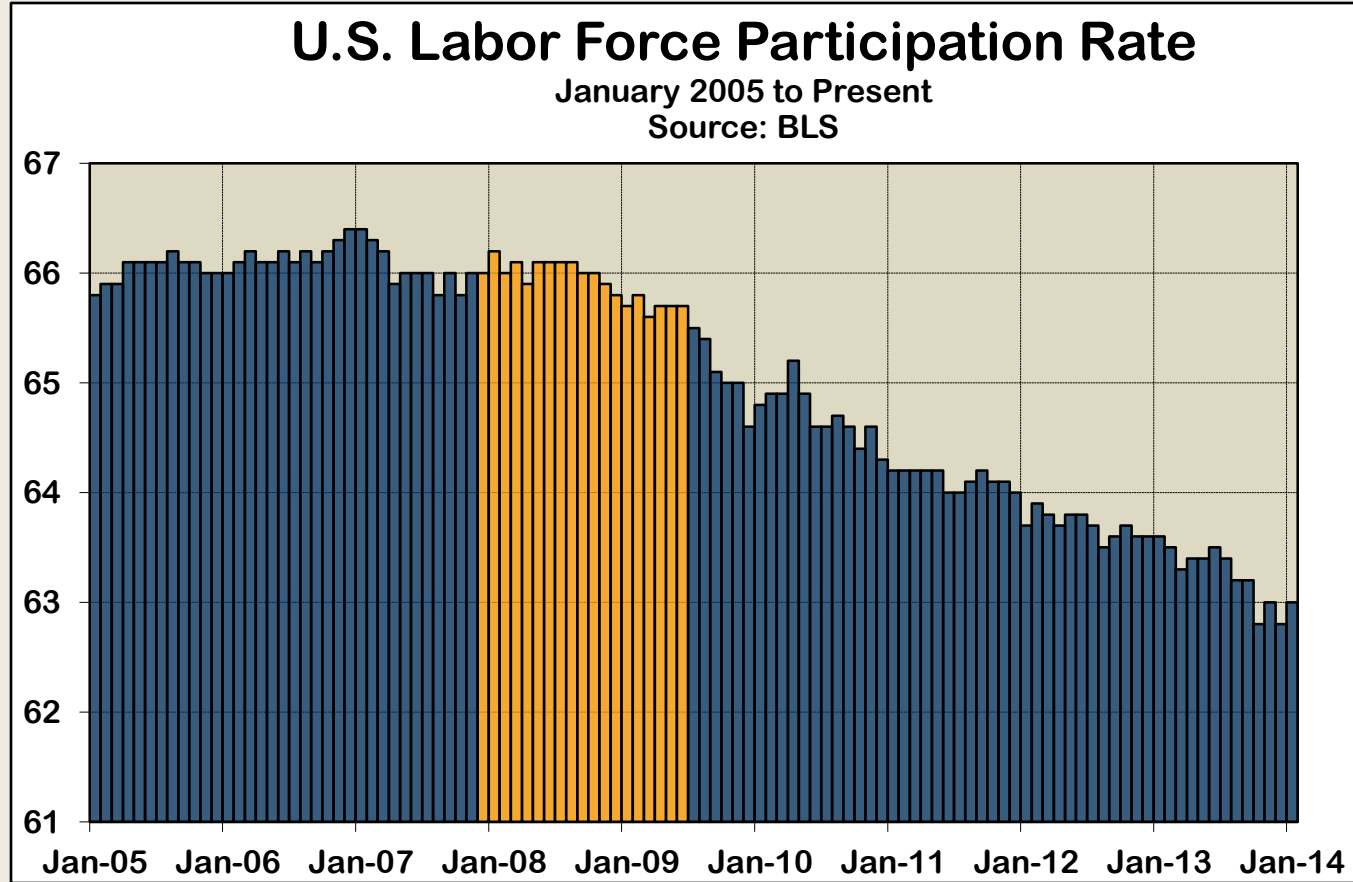
# What will happen to the labor force participation rate?

Generally, a lower unemployment rate is good news.

But people may be leaving the labor force for the “wrong” reasons.

Economists working to understand.

The Fed has tied its interest rate policy to the unemployment rate.



Blue = Actual Orange = Recession

# The Fed is reducing support and fiscal issues are resolved for now

- **The Fed**
  - **Been busy-first action on the recession was Aug. 2007 (put the economy on negative watch)**
  - **They are beginning to withdraw support**
  - **Taper expected to continue (pauses may occur depending on economic data)**
  - **Rate rise a ways off (late 2015)**
- **Fiscal status**
  - **Pretty quiet (relative to last few years)**
  - **Debt ceiling suspended**
  - **President's budget submittal**

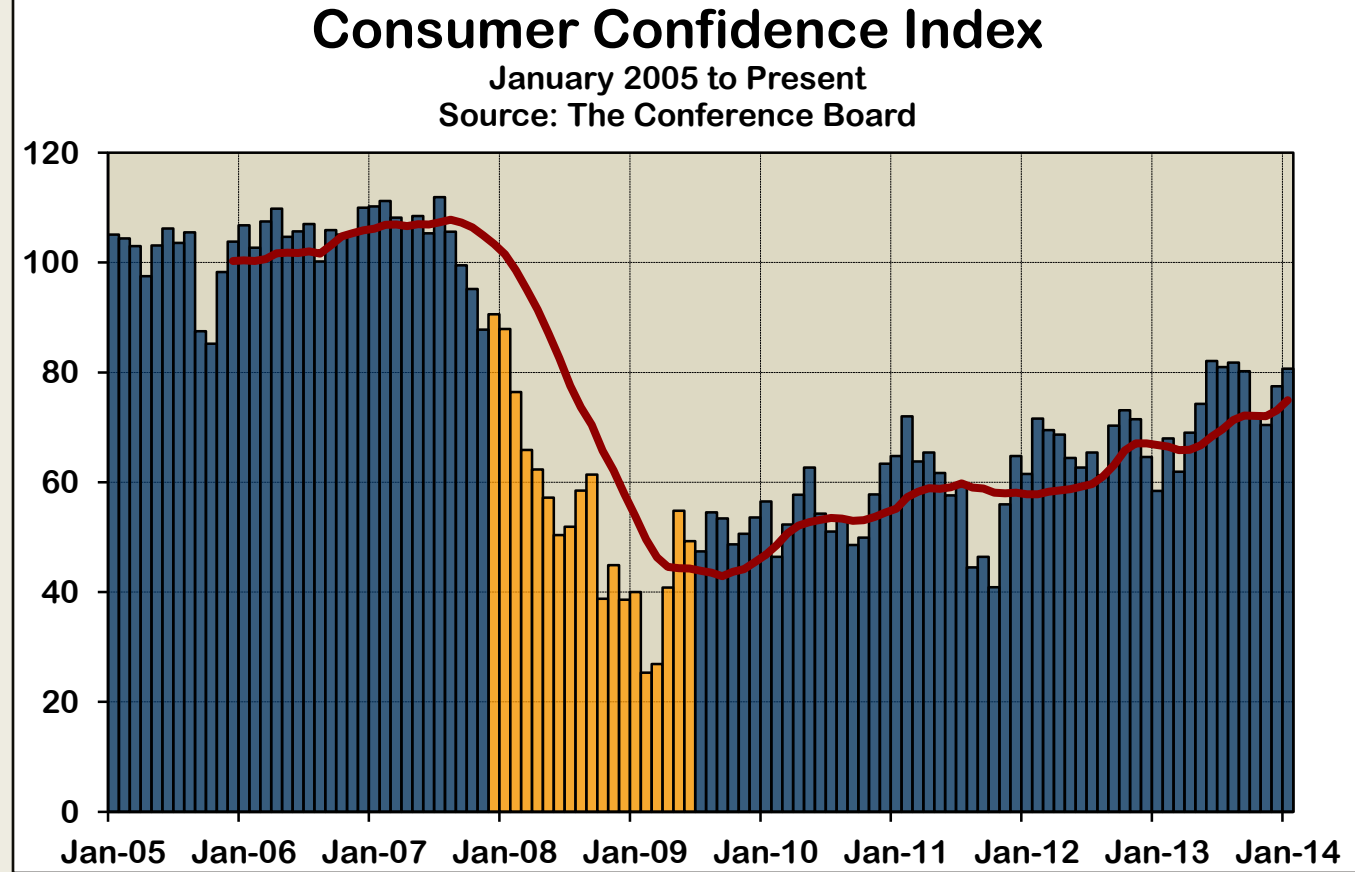


# Consumer's continue to believe in the economic recovery

Consumer confidence dropped significantly during the recession.

HH net worth set a record in 2013:3Q.

The upward trend is encouraging for the economy.



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



# King County continues to do well

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Economic context: Data from PSEF, the Case-Shiller index and the WA DOR website

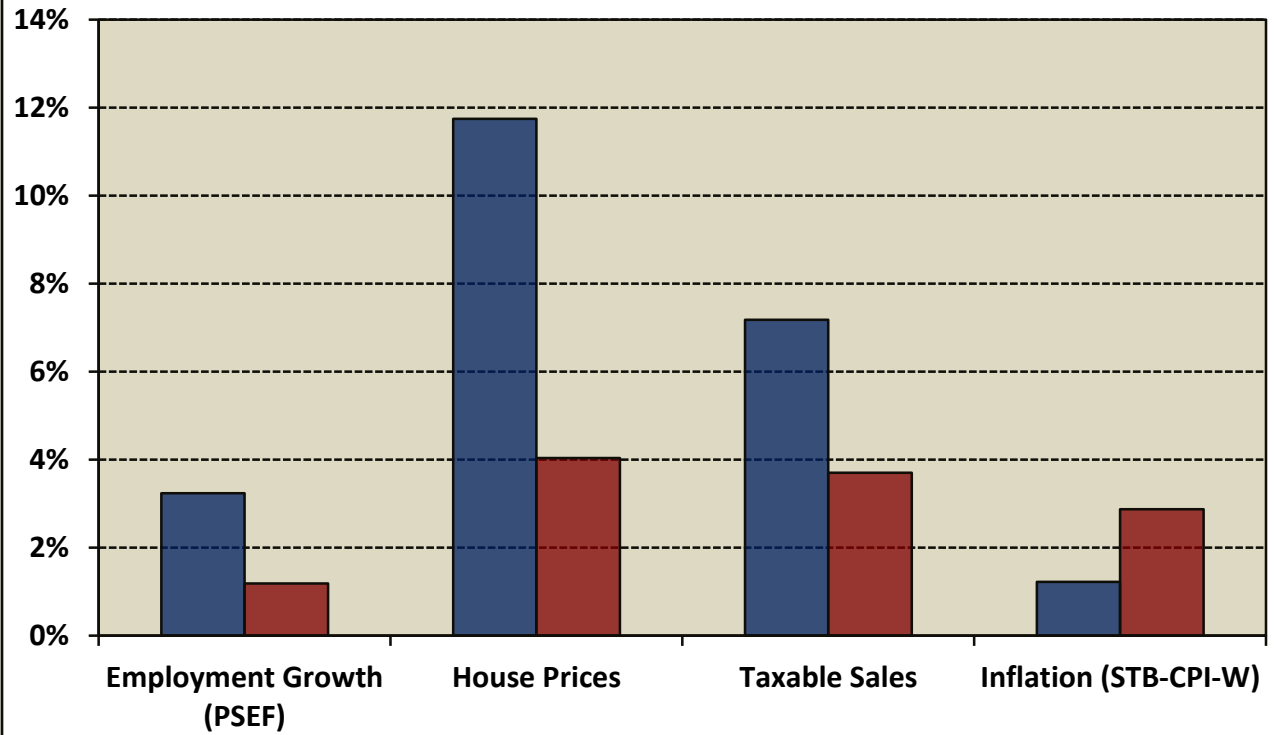
King County had a strong economic year by historical standards.

Employment growth driven by the success of our local firms.

Inflation was less than half its long run average.

## King County Economic Indicators

2013 growth rate vs. the 20 year average growth rate



Blue = 2013 actual Red = 20 year average





# Employment growth in King County has been really good

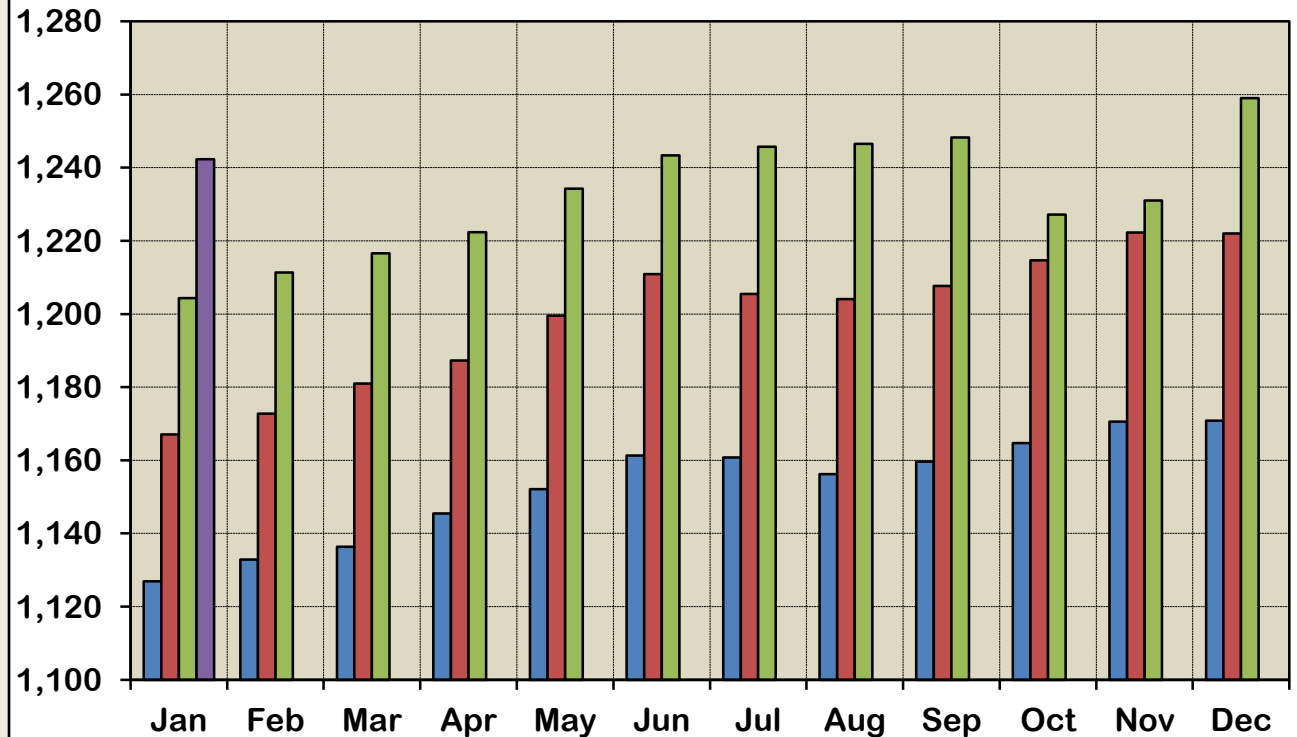
Employment was up 3.2% in 2013 with job growth in most sectors.

Construction employment grew over 6% in 2013.

The government sector is beginning to expand.

## King County Total Non-Farm Employment

Monthly job totals, January 2010 to January 2014



Blue bar = 2011 Red bar = 2012 Green bar = 2013 Violet bar = 2014



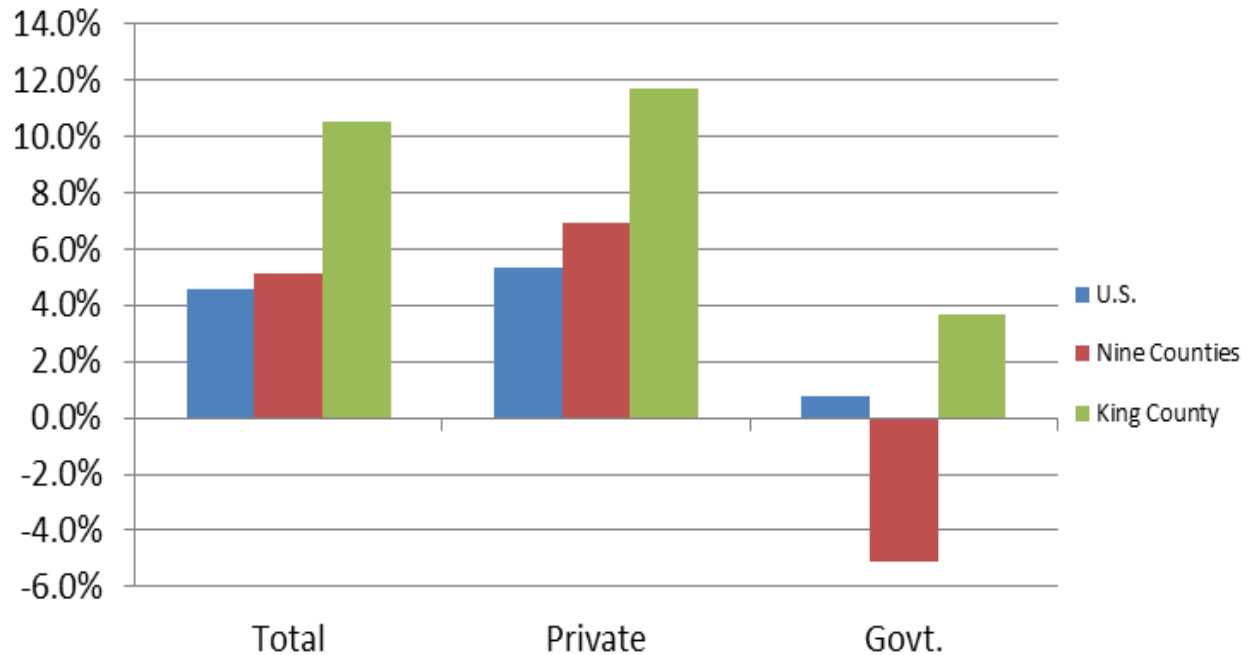
# KC employment growth has been strong over the longer-term too

Economic context: Recovery

**KC had much greater employment growth than its peers or the U.S. over the last ten years.**

**Private and public sector job growth were strong.**

## Employment Growth (2003-2013)



Source: BLS QCEW, 2Q:2003 and 2Q:2013



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# The Seattle real estate market continues to recover

Economic context: Seattle house price from Case-Shiller

Year-on-year real estate prices climbed throughout 2013.

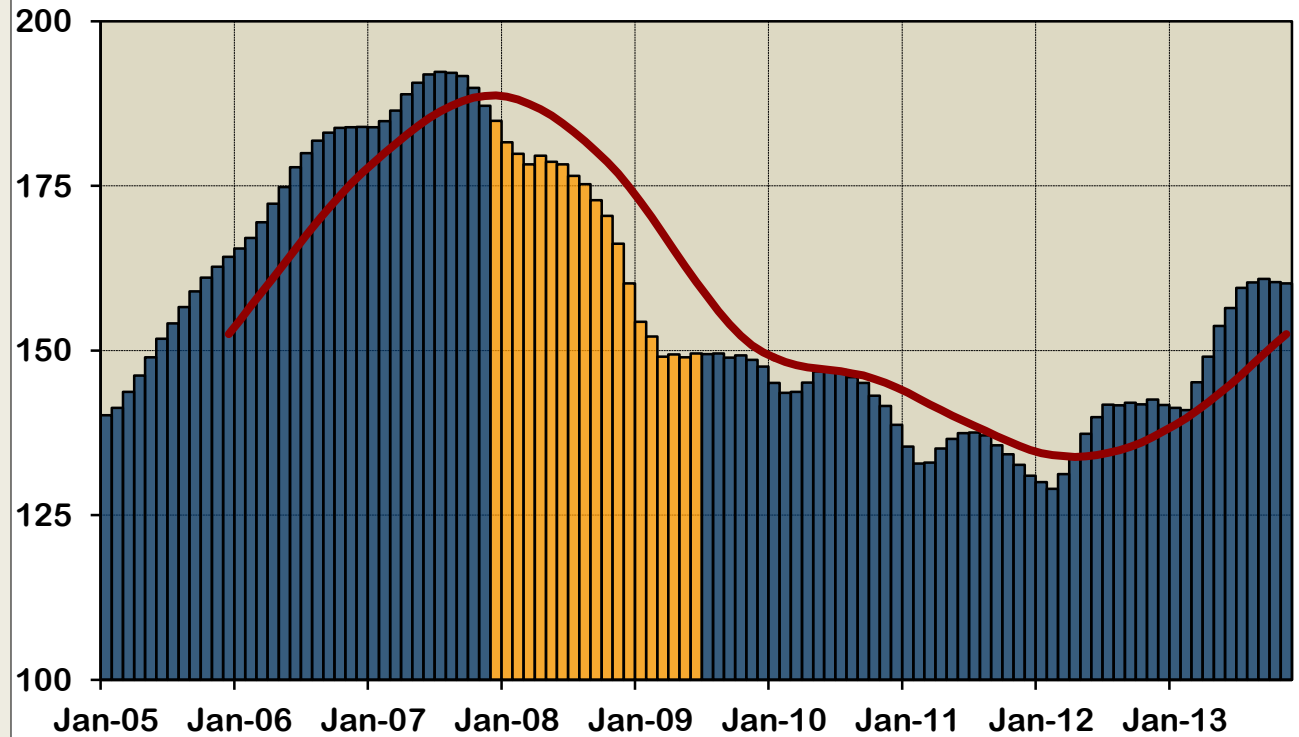
The index was up over 12% in 2013.

Forecast is for continued price growth, but at a slower pace in 2014.

## Seattle Case Shiller Home Price Index

January 2005 to Present

Source: Case Shiller Online Index



Blue bar = Seattle Case/Shiller Red line = 12 month rolling average Orange bar = Recession



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# King County Building activity continues to improve

## Economic context: Building

Permit values have increased the last two years.

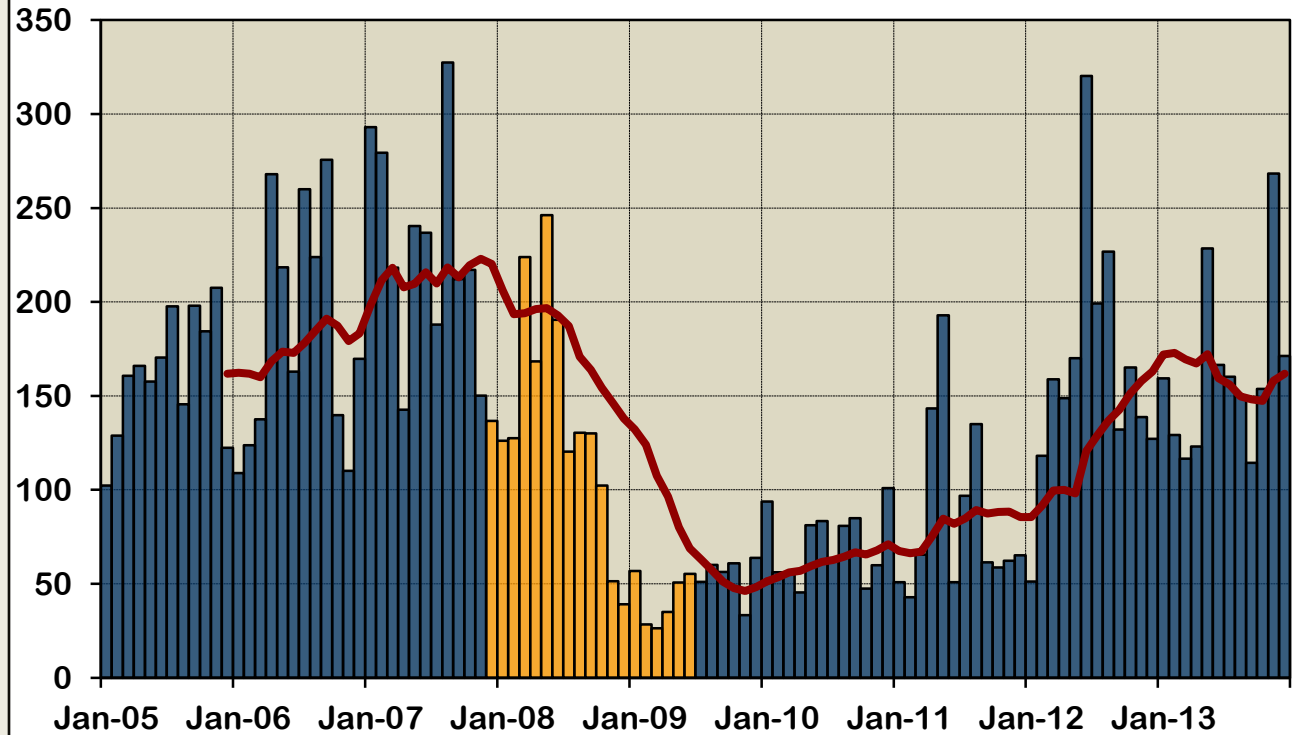
The distribution between SFH and multi-family permit values is about even right now.

Prior to the recession the distribution was about 60%-70% SFH.

### 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

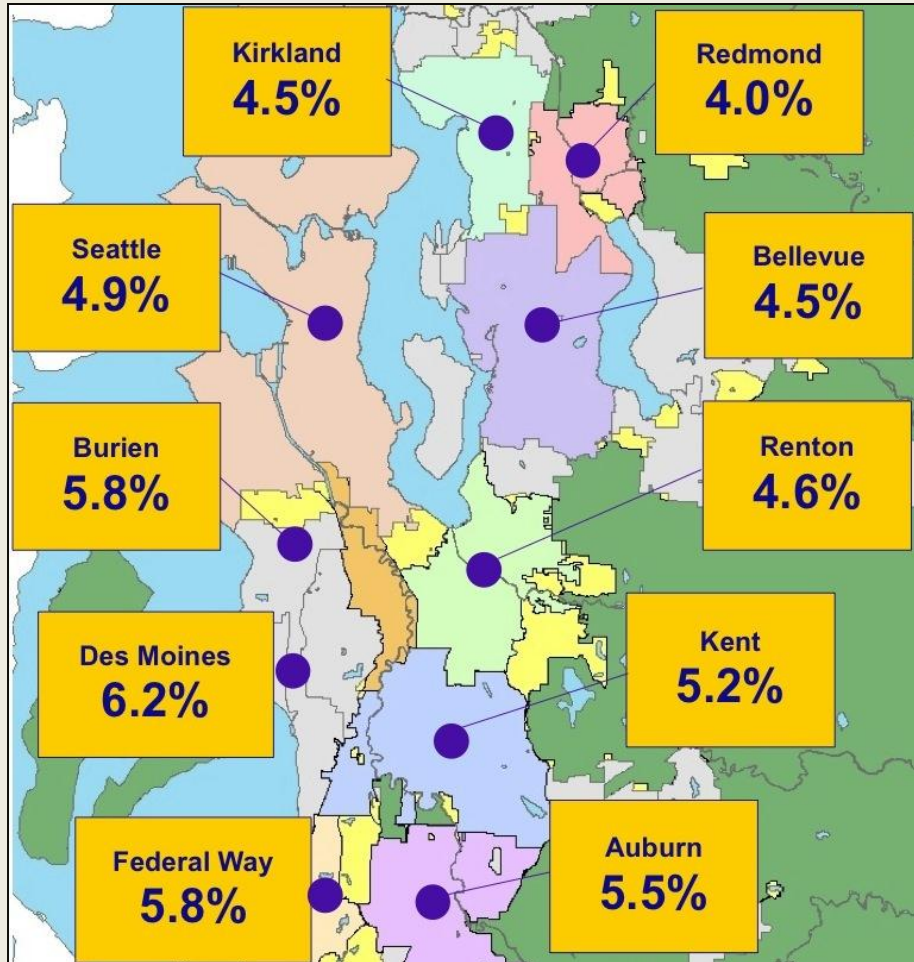


# 2013 unemployment rates around King County have fallen

This map shows unemployment rates for ten large cities in King County.

UE rates for 2013 varied across the region.

The north and east fared better than our south and west areas.



2013 OFM Population Estimates (in thousands)

- Seattle – 626.2
- Bellevue – 132.1
- Kent – 120.5
- Renton – 95.5
- Fed. Way – 89.7
- Kirkland – 81.7
- Auburn – 64.3
- Redmond – 55.8
- Burien – 48.0
- D. Moines – 29.7

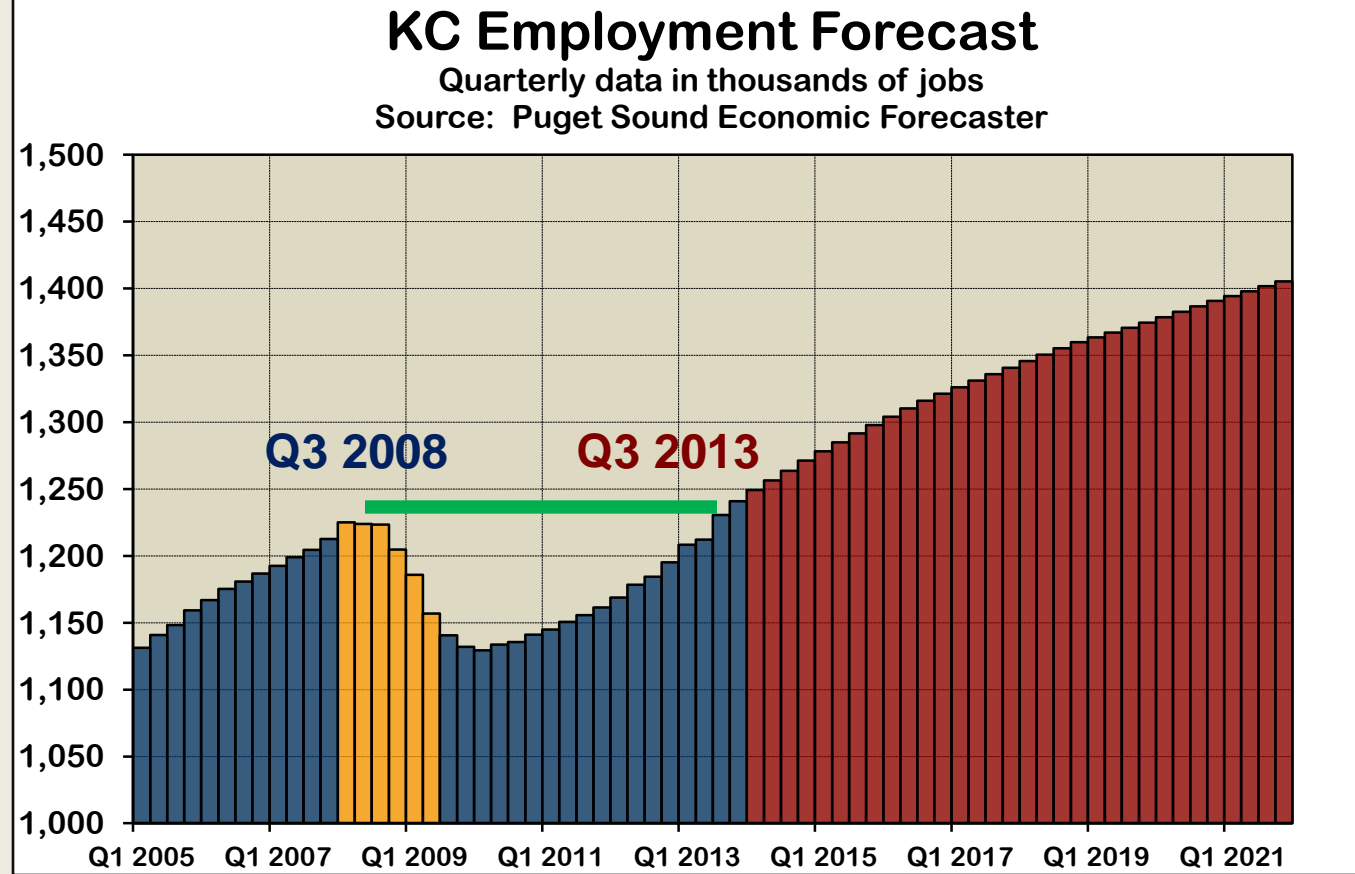


# King County economic forecast looks good for 2014 and beyond

Employment has been growing significantly faster than the nation.

Forecast is growth rate of 2.7% in 2014, and 1.9% in 2015.

Other indicators look good too (e.g. personal income).



Blue bar = Actual Red bar = Forecast Orange bar = Recession



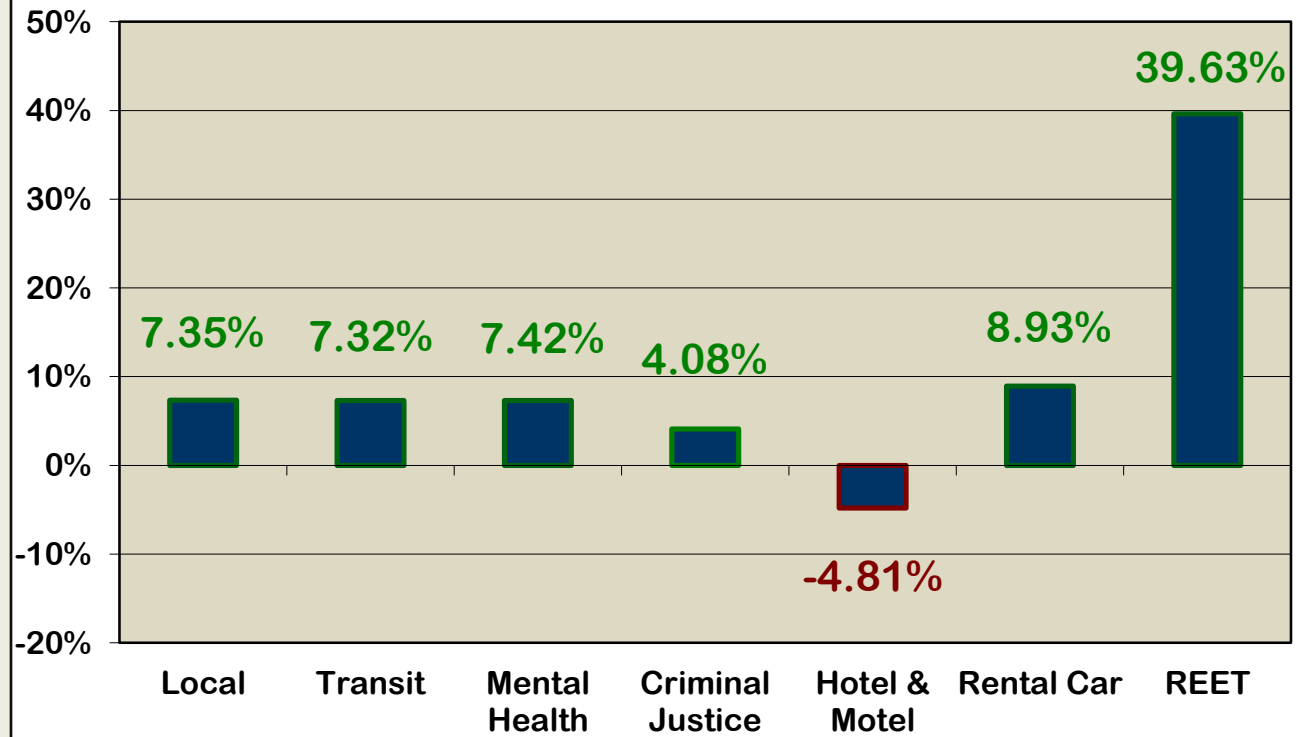
# 2013 Revenue Growth: sales tax distributions and REET

2013 was a strong year for sales taxes for the most part.

Hotel taxes were down due to the elimination of the KC tax within the City of Bellevue.

REET growth accelerated from 2012.

### 2013 to 2012 year over year comparison



# Proposed March 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:

Bothell	(02-28-14)
North Highline (Area Q/Sliver)	(01-01-15)
North Highline (Remainder)	(07-01-16)
West Hill	(01-01-18)





# Countywide Assessed Value Forecast

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Forecasts: Assessed value

**2014 AV came in 8.2% above 2013.**

**There was growth in both residential and commercial sectors.**

**Assessments for 2015 are based on Jan. 1, 2014 value.**

**Growth is forecast for 2015 and beyond.**

## March 2014 Countywide Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from August 2013 Forecast	\$ Change from August 2013 Forecast
2012	\$319,460,937,270	-3.32%	0.00%	\$0
2013	\$314,746,206,667	-1.48%	0.00%	\$0
2014	\$340,643,616,342	8.23%	1.97%	\$6,567,421,224
2015	\$361,627,622,353	6.16%	2.35%	\$8,308,417,307
2016	\$377,880,903,350	4.49%	3.46%	\$12,640,403,239
2017	\$390,649,455,408	3.38%	3.58%	\$13,505,663,383
2018	\$405,380,676,352	3.77%	3.80%	\$14,854,029,070
2019	\$422,023,651,703	4.11%	4.01%	\$16,251,422,781
2020	\$440,585,901,938	4.40%	4.29%	\$18,110,011,653
2021	\$460,638,701,325	4.55%	4.43%	\$19,520,140,511
2022	\$481,593,851,711	4.55%	4.73%	\$21,769,055,657
2023	\$502,597,291,770	4.36%	new	new



# Unincorporated Area Assessed Value Forecast

The unincorporated area experienced growth in 2014.

Calling for continued growth in this area.

However, annexations will have an impact on unincorporated AV in 2015-2018.

## March 2014 Unincorporated Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from August 2013 Forecast	\$ Change from August 2013 Forecast
2012	\$32,758,485,327	-16.96%	0.00%	\$0
2013	\$30,016,733,778	-8.37%	0.00%	\$0
2014	\$31,876,016,756	6.19%	2.38%	\$739,534,469
2015	\$33,031,121,240	3.62%	1.50%	\$488,986,164
2016	\$34,424,391,141	4.22%	7.40%	\$2,371,124,442
2017	\$34,178,889,694	-0.71%	8.48%	\$2,673,068,861
2018	\$35,337,063,429	3.39%	13.46%	\$4,193,326,133
2019	\$35,336,847,087	0.00%	9.85%	\$3,167,863,042
2020	\$36,736,241,257	3.96%	10.52%	\$3,497,071,298
2021	\$38,274,827,471	4.19%	10.94%	\$3,772,964,642
2022	\$39,934,680,583	4.34%	11.59%	\$4,146,130,731
2023	\$41,526,791,518	3.99%	new	new



# 2014 PAA assessed values generally improved

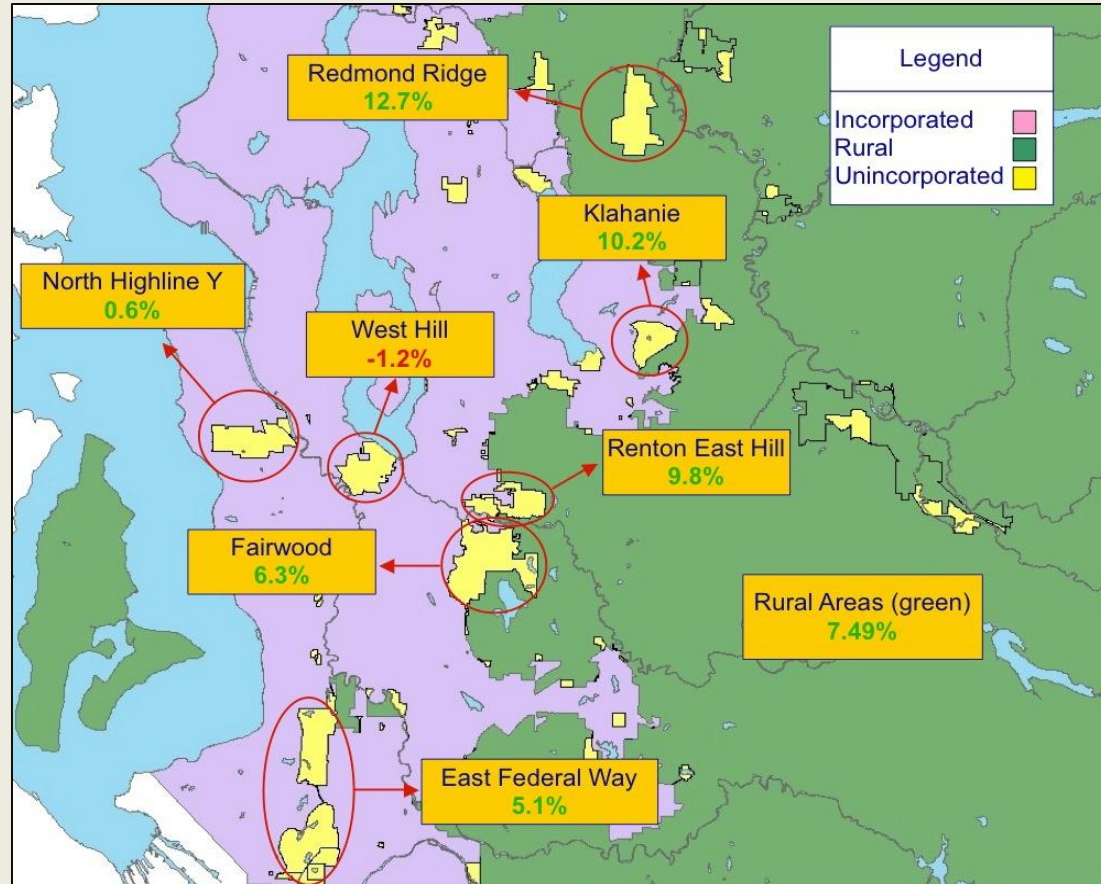
## 19 Forecasts: Assessed value growth by PAA

Most unincorporated areas are doing better.

Only values in the West Hill PAA fell in 2014 (tax year).

North Highline also grew weakly.

Map does not include new construction.





# New Construction Forecast

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20 Forecasts: New construction

New construction decreased significantly from the 2009 peak (\$8b) through 2012.

Small growth in 2013 and huge growth in 2014.

Positive signs for 2015: construction employment, sales and permits.

## March 2014 Countywide New Construction Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from August 2013 Forecast	\$ Change from August 2013 Forecast
2012	\$1,925,434,669	-21.66%	0.00%	\$0
2013	\$1,983,503,613	3.02%	0.00%	\$0
2014	\$3,406,198,290	71.73%	17.61%	\$510,136,367
2015	\$4,027,549,195	18.24%	15.71%	\$546,777,382
2016	\$4,433,065,499	10.07%	11.09%	\$442,553,752
2017	\$4,864,814,044	9.74%	16.06%	\$673,268,454
2018	\$4,851,612,961	-0.27%	12.27%	\$530,100,617
2019	\$4,886,534,911	0.72%	8.55%	\$384,963,286
2020	\$5,008,631,206	2.50%	5.19%	\$246,974,784
2021	\$5,172,270,185	3.27%	3.46%	\$172,801,702
2022	\$5,435,411,464	5.09%	3.57%	\$187,332,843
2023	\$5,707,260,858	5.00%	new	new



# Unincorporated Area New Construction Forecast

Unincorporated KC is mostly residential properties.

Residential builders have started building again in some areas.

Annexations can also greatly affect unincorporated NC.

## March 2014 Unincorporated New Construction Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from August 2013 Forecast	\$ Change from August 2013 Forecast
2012	\$180,324,673	-32.59%	0.00%	\$0
2013	\$198,251,903	9.94%	0.00%	\$0
2014	\$299,208,000	50.92%	29.21%	\$67,638,051
2015	\$345,937,013	15.62%	24.29%	\$67,613,492
2016	\$379,676,210	9.75%	24.60%	\$74,955,139
2017	\$401,015,916	5.62%	30.94%	\$94,756,177
2018	\$399,927,725	-0.27%	31.81%	\$96,504,073
2019	\$388,554,028	-2.84%	22.93%	\$72,487,987
2020	\$398,262,545	2.50%	19.12%	\$63,935,332
2021	\$411,274,339	3.27%	17.16%	\$60,249,775
2022	\$432,198,082	5.09%	17.29%	\$63,718,010
2023	\$453,814,254	5.00%	new	new



# Property Tax Forecasts

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Forecasts: Property taxes

There are only small changes for most levies.

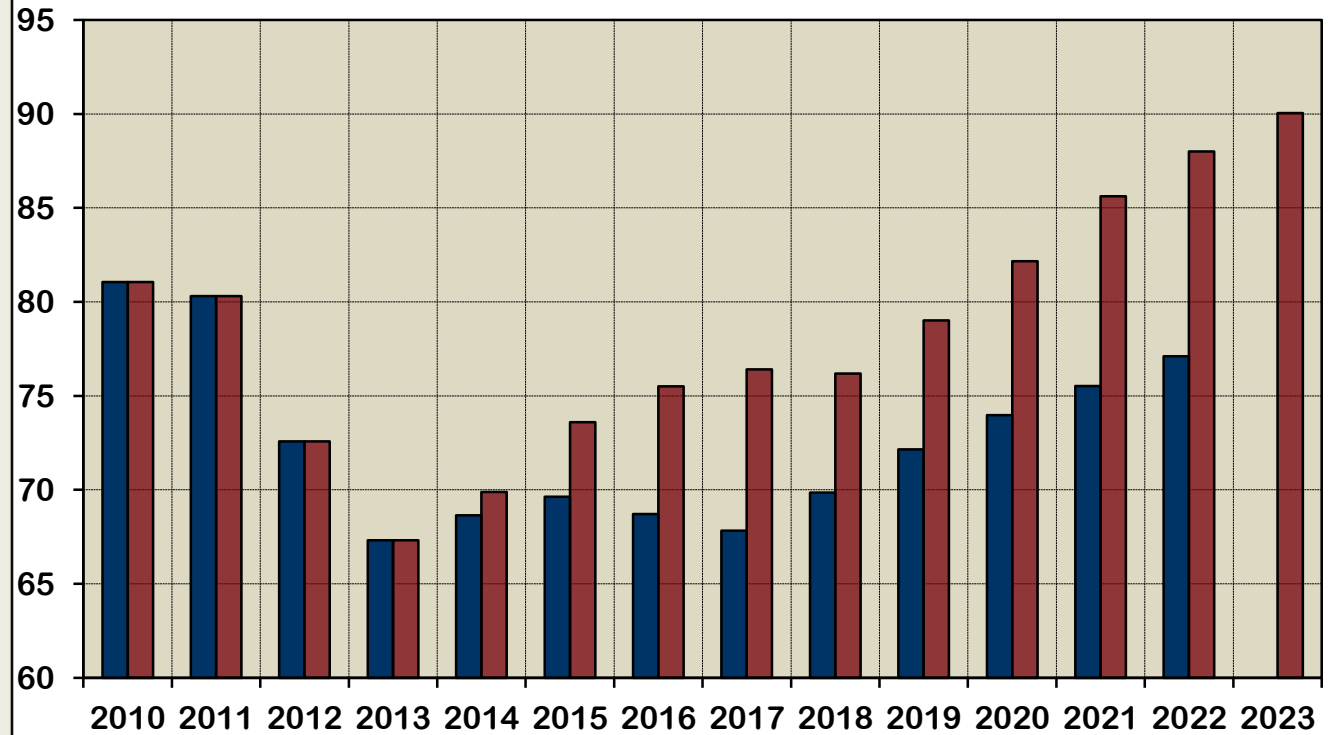
Most levies are “limit-factor” limited.

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

However, the Roads levy is still down significantly.

## UAL/Roads Property Tax

2010 to 2023 Revenue Forecast in millions of dollars



Blue = August 2013 Forecast Red = March 2014 Forecast



# Taxable sales continued to recover in 2013

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Forecasts: Taxable sales, WA Dept. of Revenue data analyzed by OEFA

**Taxable sales finished up 7.2% in 2013.**

**Construction sales grew 16% in 2013!**

**Other major sectors in 2013:**

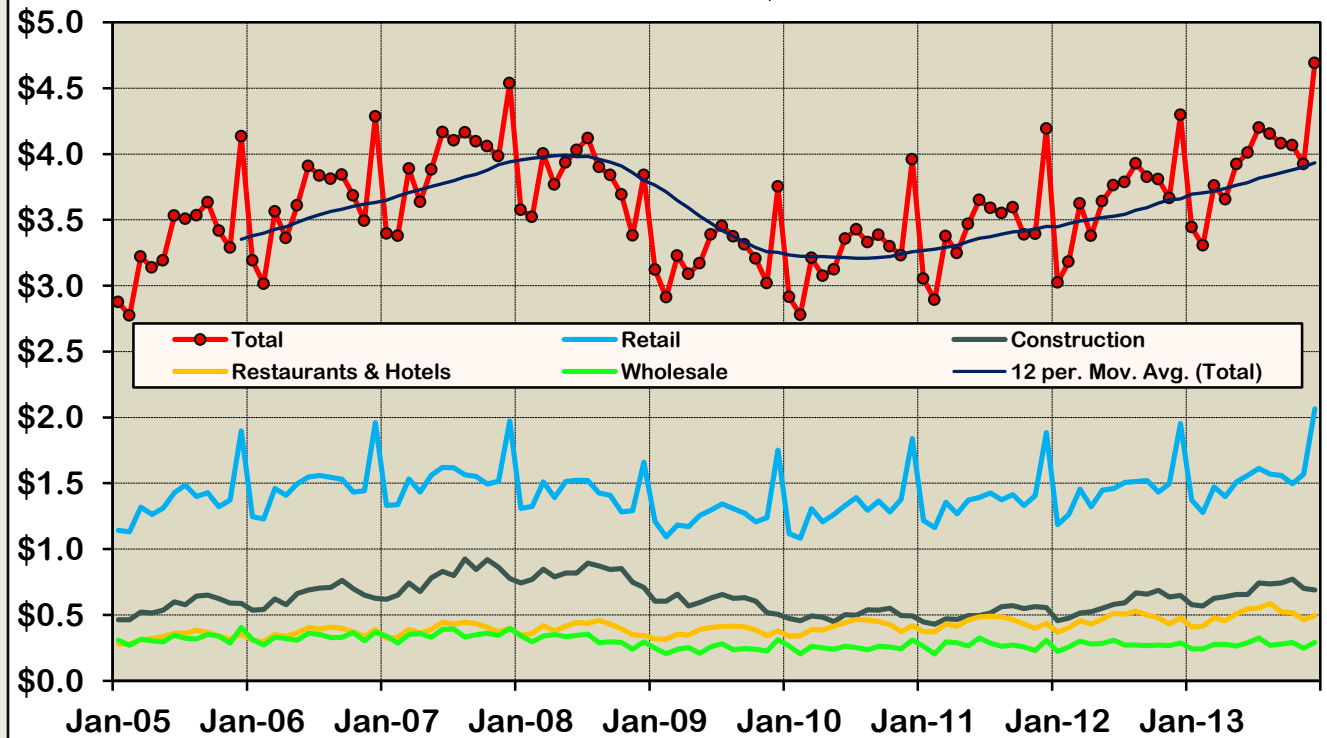
**Retail: +5.2%**

**Wholesale: -0.1%**

**Restaurants & hotels: 7.0%**

## Current Month Taxable Sales

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





# Taxable Sales Forecast

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Forecasts: Local sales tax

2014 and beyond are looking up due to the continuing recovery.

Forecast for 2014 is for 5.9% growth.

Construction sales likely to reduce pace of growth in 2014 and beyond.

## March 2014 King County Sales and Use Taxbase Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from August 2013 Forecast	\$ Change from August 2013 Forecast
2012	\$45,178,847,087	6.68%	0.00%	\$0
2013	\$48,423,300,000	7.18%	1.92%	\$913,722,862
2014	\$51,276,985,110	5.89%	3.02%	\$1,501,303,250
2015	\$54,062,390,470	5.43%	3.33%	\$1,740,802,826
2016	\$56,867,695,330	5.19%	2.77%	\$1,530,893,389
2017	\$59,764,540,800	5.09%	2.71%	\$1,576,343,202
2018	\$62,461,485,000	4.51%	2.77%	\$1,681,542,050
2019	\$64,962,120,060	4.00%	2.34%	\$1,488,043,286
2020	\$67,677,899,400	4.18%	2.22%	\$1,467,912,155
2021	\$70,319,500,400	3.90%	1.91%	\$1,315,093,551
2022	\$73,084,966,850	3.93%	1.73%	\$1,240,861,633
2023	\$76,014,857,000	4.01%	new	new





# Transit Sales Tax Forecast

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Forecasts: Transit sales tax

The improved forecast for taxable sales means metro distributions are forecast to be stronger.

Forecasts account for mitigation, annexations and the amnesty received in 2011.

## March 2014 Metro Transit Sales Tax Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from August 2013 Forecast	\$ Change from August 2013 Forecast
2012	\$412,549,492	3.27%	0.00%	\$0
2013	\$442,731,128	7.32%	1.24%	\$5,432,779
2014	\$471,437,496	6.48%	3.00%	\$13,709,988
2015	\$496,589,157	5.34%	3.30%	\$15,884,632
2016	\$521,926,548	5.10%	2.75%	\$13,975,017
2017	\$548,100,612	5.01%	2.70%	\$14,386,216
2018	\$572,462,525	4.44%	2.75%	\$15,340,481
2019	\$595,044,795	3.94%	2.34%	\$13,580,177
2020	\$619,586,659	4.12%	2.21%	\$13,395,525
2021	\$643,458,566	3.85%	1.90%	\$12,005,034
2022	\$668,460,252	3.89%	1.72%	\$11,328,803
2023	\$694,960,196	3.96%	new	new

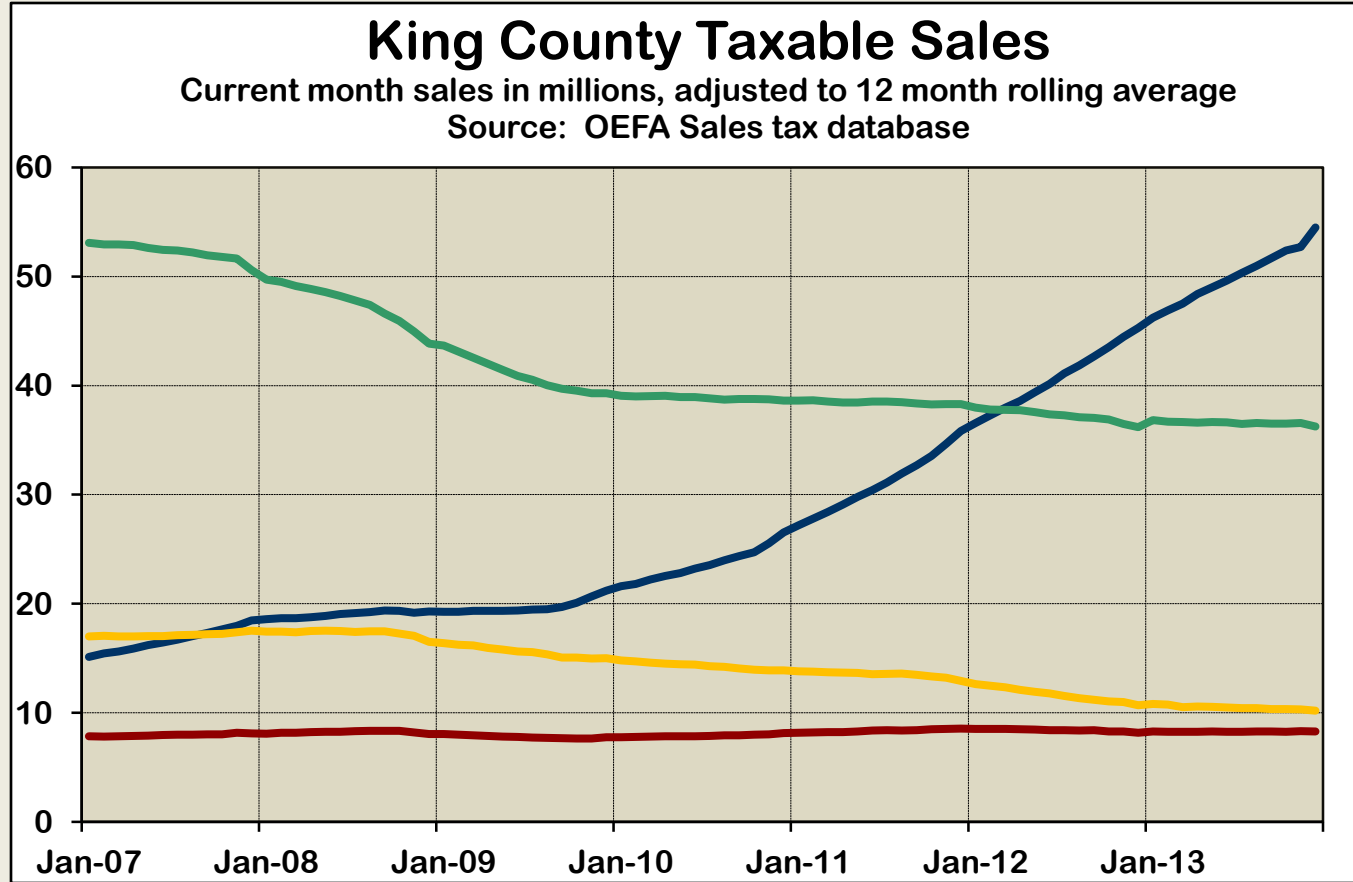


# Sales data indicates-the future is now for online retailing.

**Jeff Bezos to book stores:  
“complaining isn’t a strategy.”**

**We are buying less from brick and mortar stores.**

**Online sales are a small share of the tax base, but the growth is noteworthy.**



**Blue = Online sales   Green = Department stores   Red = Hobby & Game stores   Orange = Book stores**



# King County REET continues strong growth

REET revenues have risen significantly in 2012 and 2013.

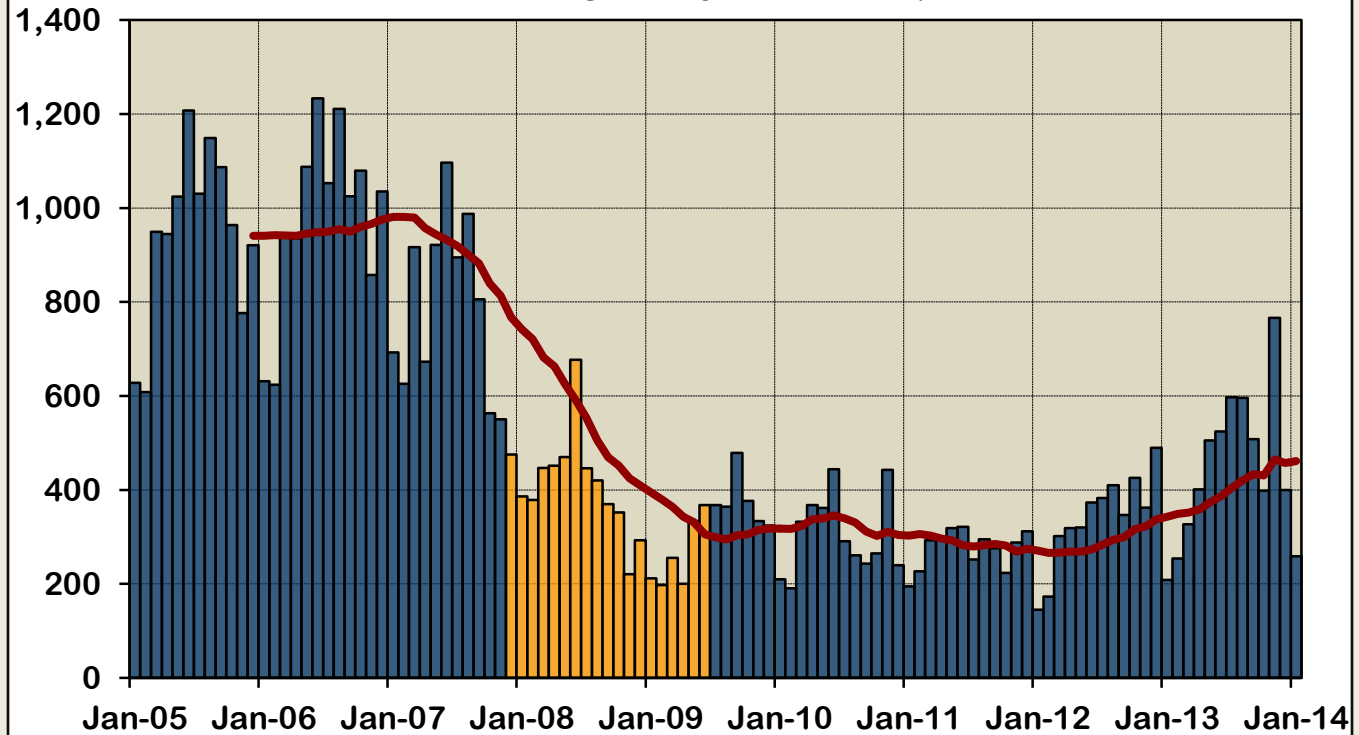
2013 results driven by both higher transactions and higher prices.

2013 had a strong finish due to some large sales.

## King County Real Estate Excise Tax

January 2005 to Present in thousands of dollars

Source: King County Financial Reports



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



# Real Estate Excise Tax Forecast

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28 Forecasts: Real estate excise tax

2014 REET is likely to grow, but at slower pace than 2013.

2013 inflated by a large timber sale.

Annexations will exert downward pressure on this revenue.

## March 2014 Real Estate Excise Tax (REET 1) Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from August 2013 Forecast	\$ Change from August 2013 Forecast
2012	\$4,047,145	22.87%	0.00%	\$0
2013	\$5,650,866	39.63%	14.27%	\$705,829
2014	\$5,926,882	4.88%	14.92%	\$769,615
2015	\$6,089,854	2.75%	22.37%	\$1,113,417
2016	\$6,106,600	0.27%	24.66%	\$1,207,870
2017	\$6,144,146	0.61%	24.64%	\$1,214,677
2018	\$6,212,317	1.11%	19.87%	\$1,029,583
2019	\$6,563,463	5.65%	10.87%	\$643,311
2020	\$6,943,788	5.79%	10.87%	\$681,009
2021	\$7,702,743	10.93%	15.98%	\$1,061,445
2022	\$8,191,904	6.35%	16.12%	\$1,137,032
2023	\$8,700,756	6.21%	new	new



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# The annual inflation rate in the Seattle area has been falling for over a year

Forecasts: Seattle bi-monthly, year-over-year inflation from the Bureau of Labor and Statistics

The annual Seattle inflation rate for 2013 was 1.2%.

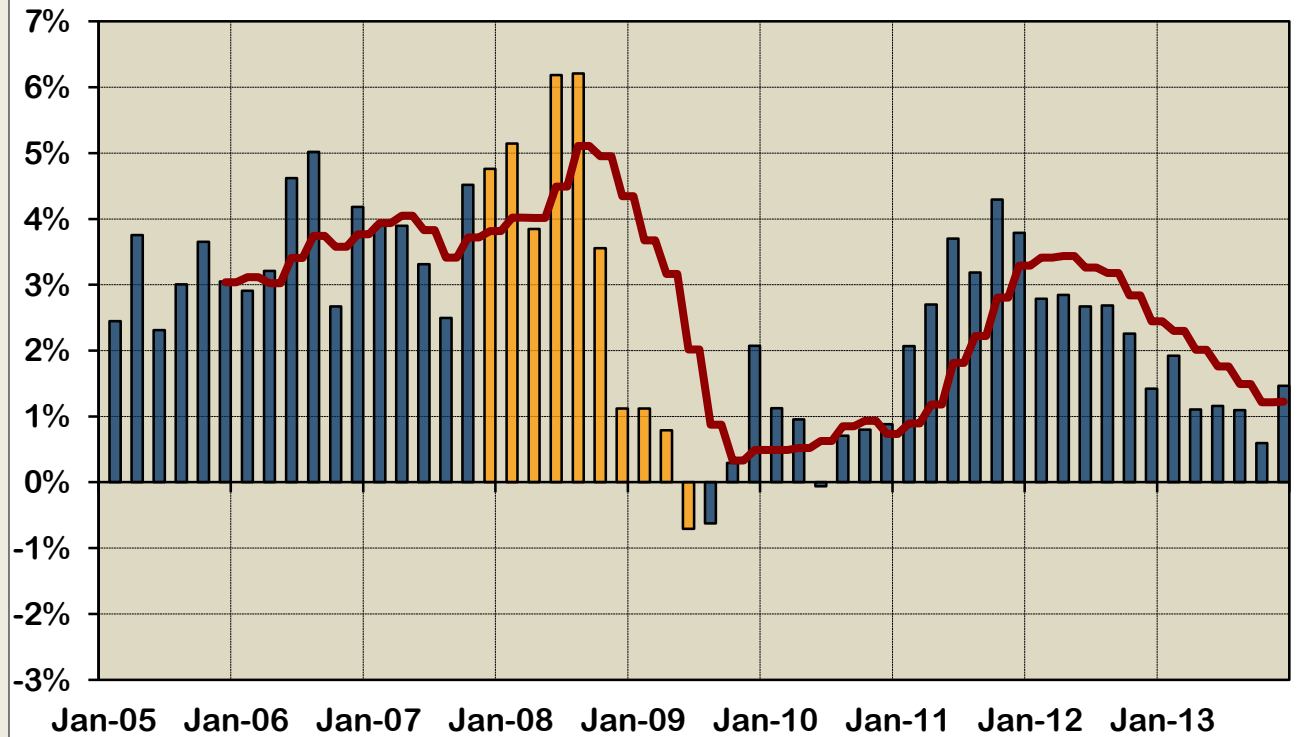
Shelter costs have been driving what inflation we've seen.

Annual 2013 inflation excluding shelter was 0.2%.

## 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>