



King County

March 2016 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

March 10th, 2016

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Summary

- **Continued solid growth in 2015**
 - Steady GDP growth (Preliminary = 2.4%, same as 2014)
 - Employment – good growth, UE rates continued to fall
 - Housing – Starts/permits growth, low inventories & rents rising
- **2016 & 2017 look to be similar**
 - Focus on global economy conditions (China, oil, central banks)
 - Forecast calls for on-going U.S. employment growth
 - Rates – Fed will adjust according to the data
- **King County economic recovery is maturing**
 - Employment growth slowing
 - Construction still strong but is likely to slow
- **County revenues continue to be strong**

Global conditions affecting lots like....a world awash in oil...

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Economic forecast: Oil

Global demand for oil is growing, but supply is forecasted to grow faster through 2017.

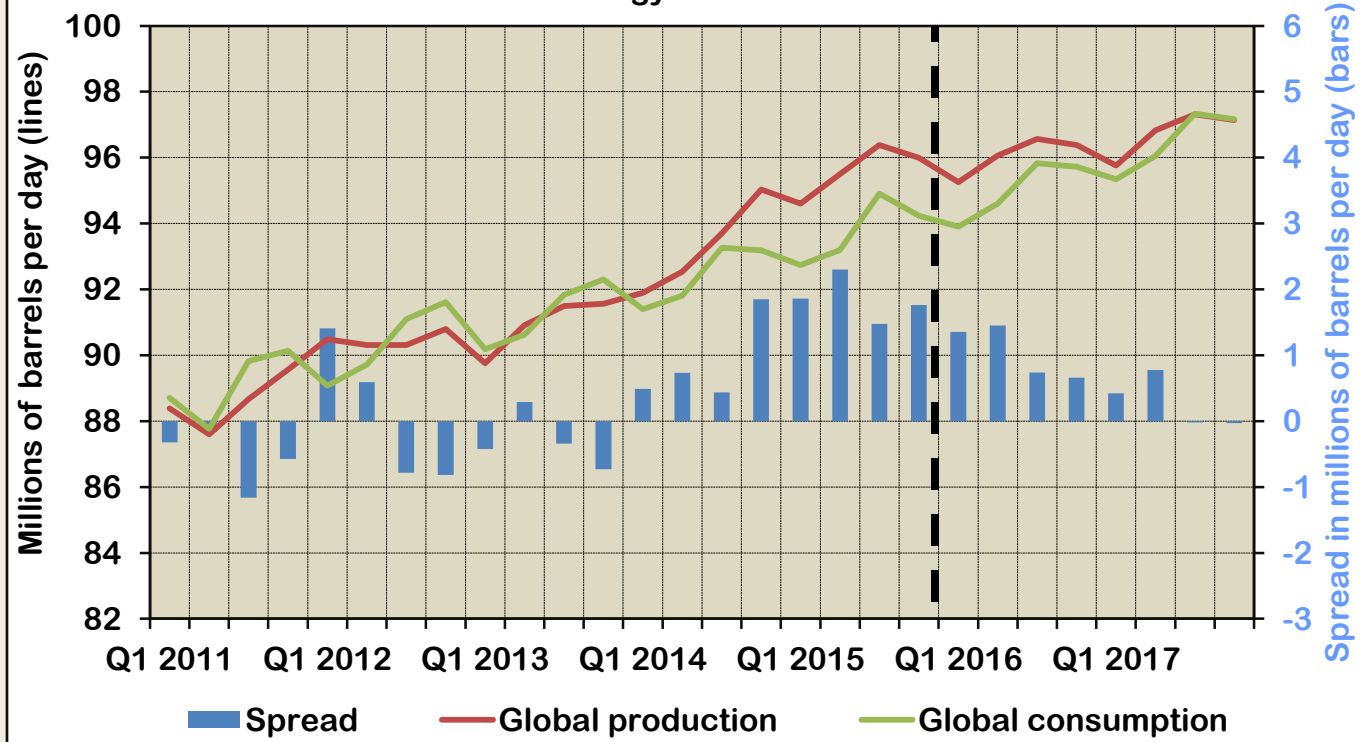
Result is lower prices.

Good for consumers but negatively impacting energy companies, banks & some oil-reliant countries.

Global Oil Production & Consumption

Actual 2011-2015, Forecast 2016-2017

Source: U.S. Energy Information Administration



...and the second largest economy slowing

China's economy has been growing rapidly for years.

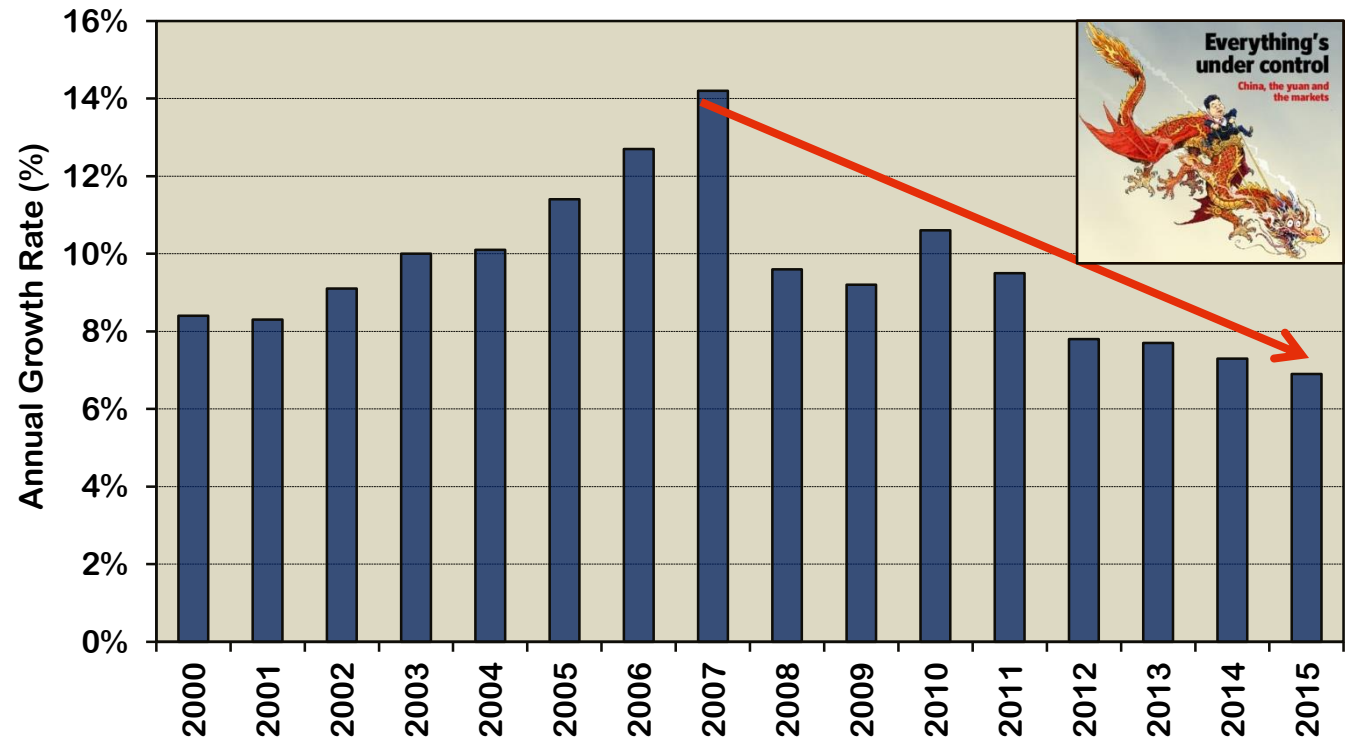
Recent slowing is impacting material suppliers and other exporters.

WA exports to China down in 2015.

A big worry...what if it is worse than we think.

China's Real GDP Growth Rates

Actual 2000-2015
Source: World Bank



But growth is still expected in most major economies

Global convergence continues.

Developed economies growing modestly.

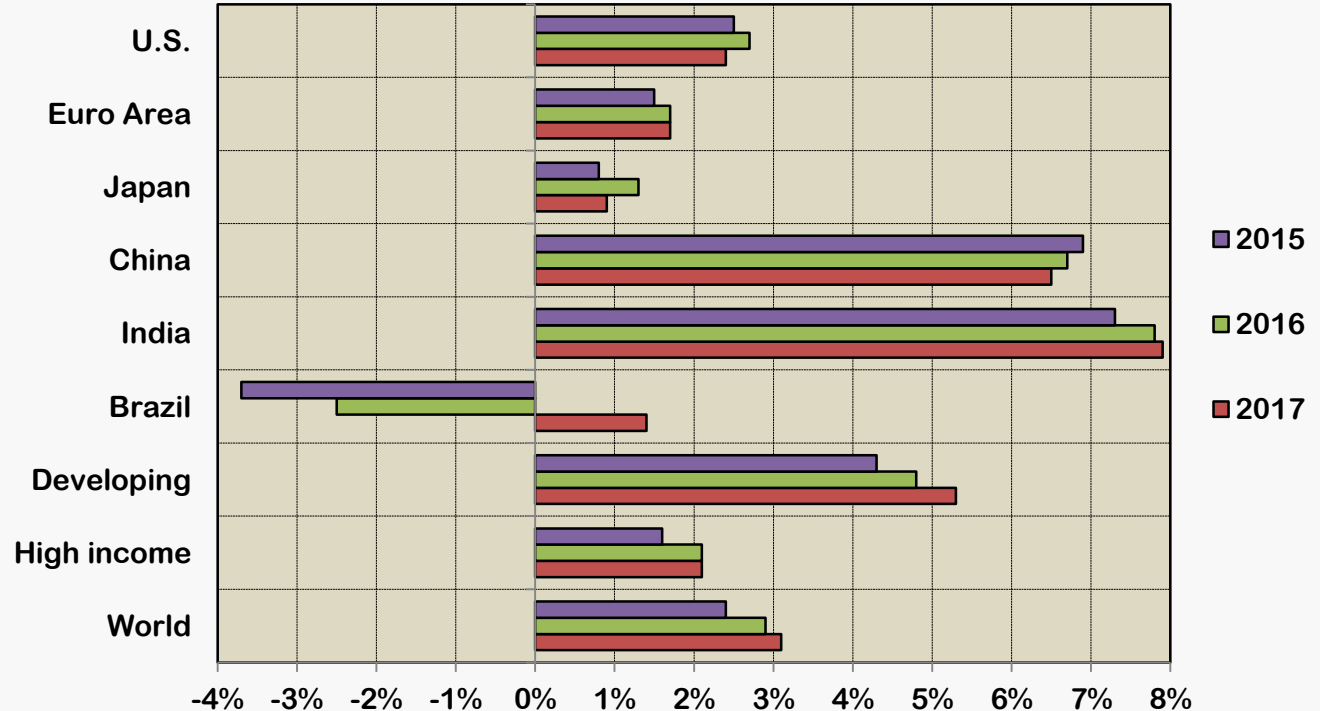
Many developing economies growing rapidly.

Risks in 2016;
China, oil, EU

Global Real GDP Growth

Estimate 2015, Forecast 2016-2017

Source: World Bank



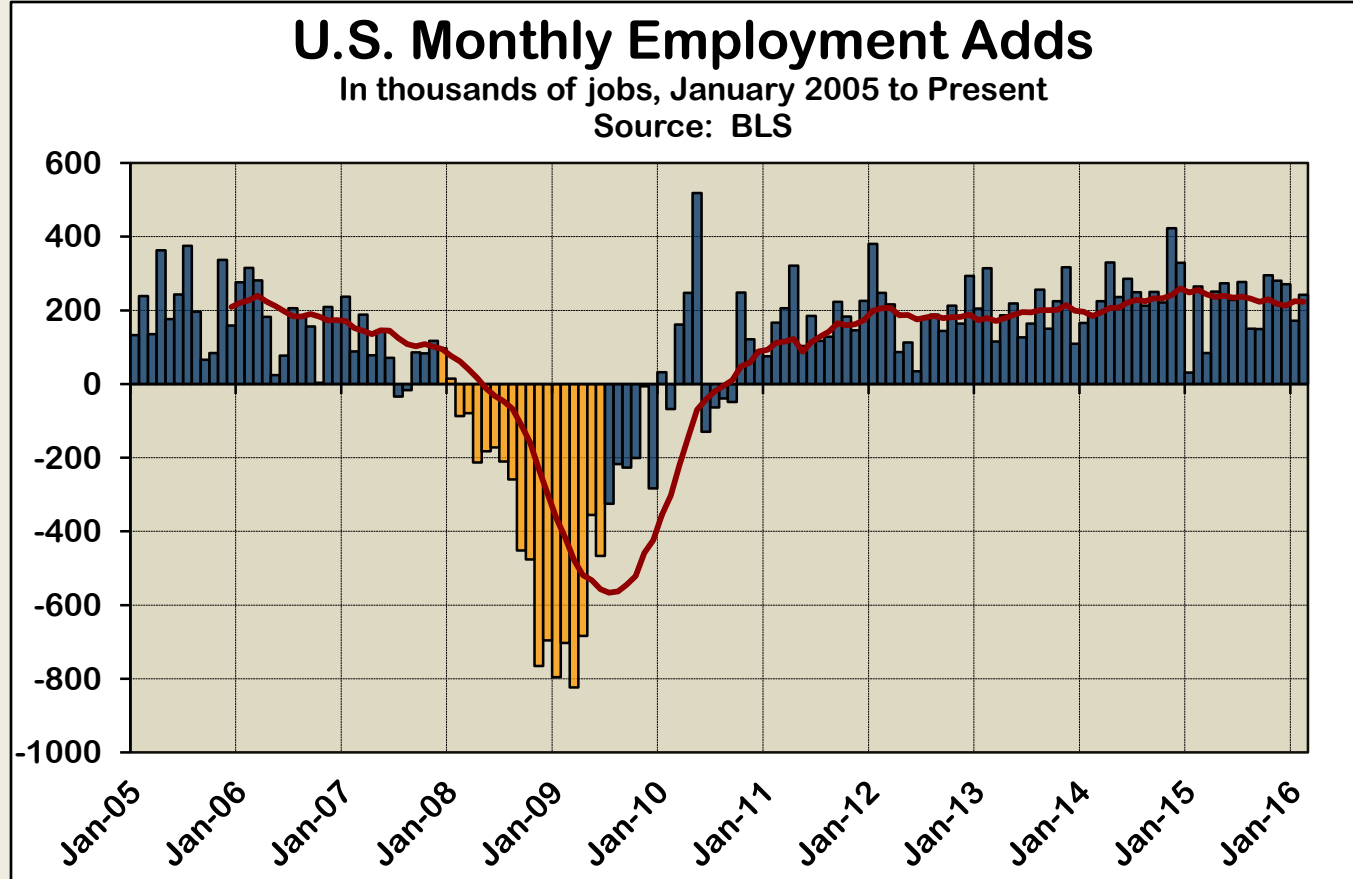


Despite global uncertainty, the U.S. economy continues to create jobs

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

In 2015, adds averaged 225K per month.

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



Blue = Actual Orange = Recession Red Line = Annual average



And labor compensation is showing some tentative signs of accelerating

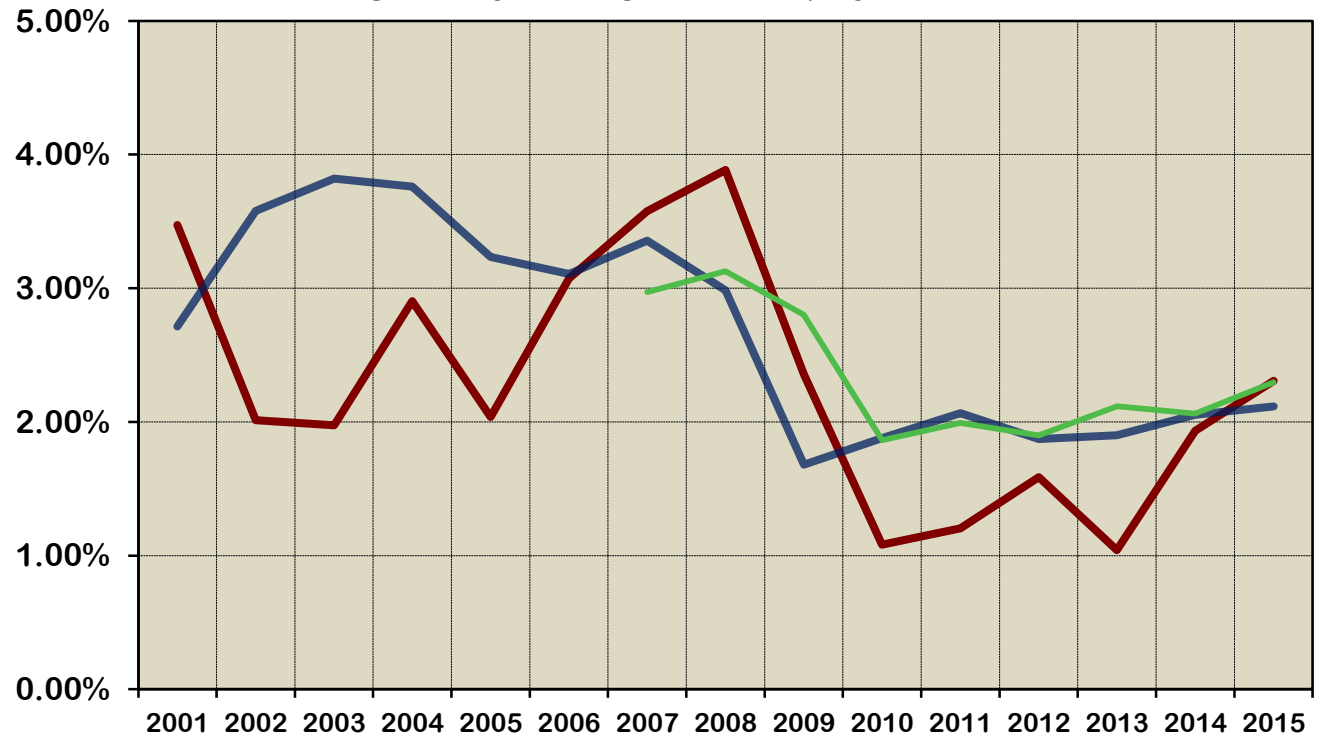
Wage growth should be a useful cross check on labor market slack.

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

Important to Fed rate increase timing in 2016.

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



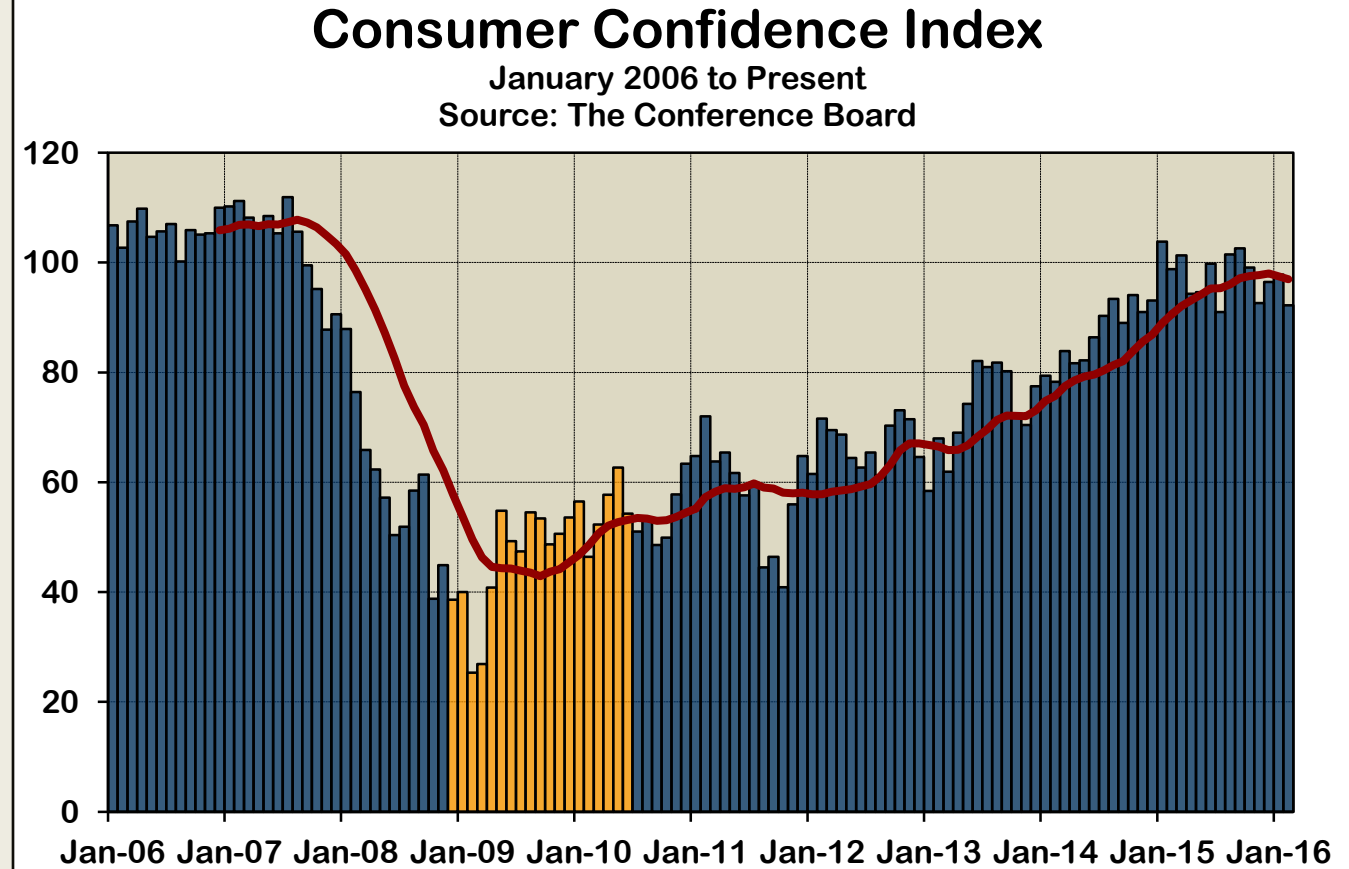
Consumer's continue to be optimistic about economic conditions

Consumer confidence has been rising since the depths of the recession.

HH net worth rising on continued increases in house prices.

Wealth to Income ratios elevated.

Recent volatility has impacted values.



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

King County indicators were strong in 2015

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

King County continues its strong economic performance.

Employment growth about 3.0% in 2015.

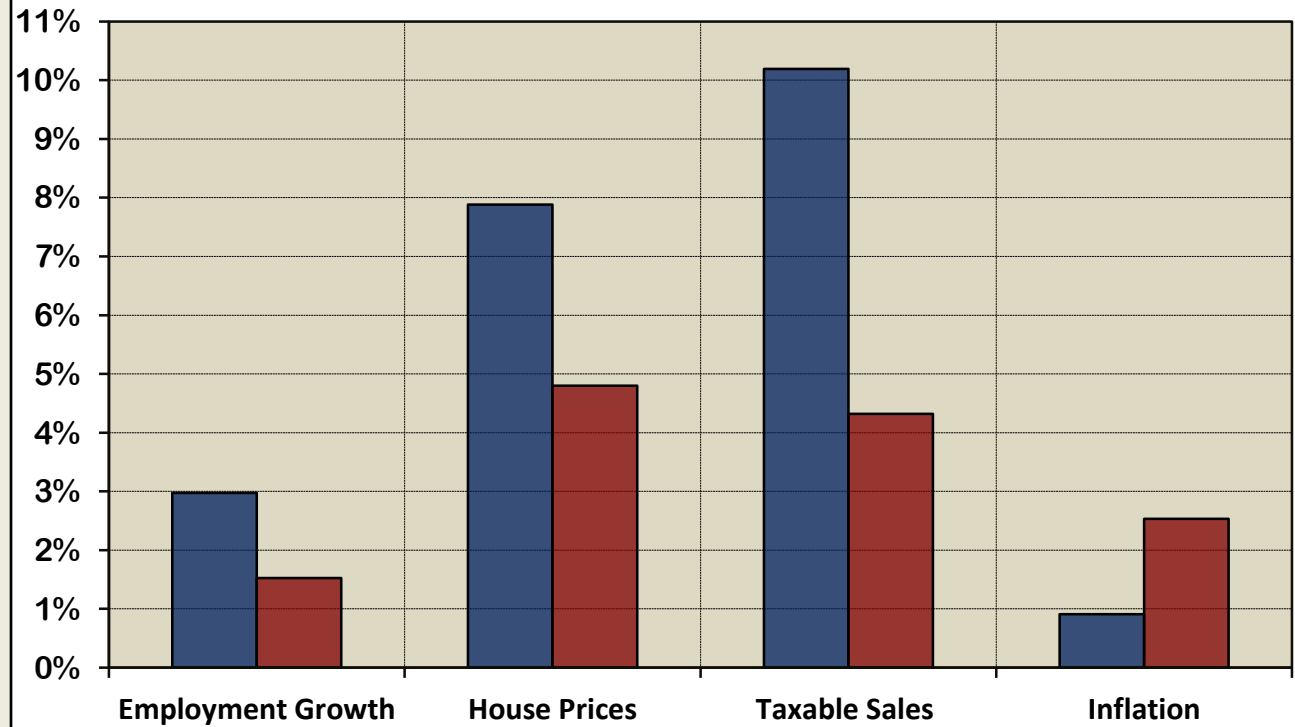
Taxable sales finish the year with double digit growth.

Inflation continues to be low.

King County Economic Indicators

2015 growth rate vs. the 20 year average growth rate

Source: PSEF, Case Shiller, WA DOR, BLS



Blue = 2015 actual Red = 20 year average



The KC economy has added 170K jobs since 2010...but that pace is likely to slow

Employment has been increasing the last five years.

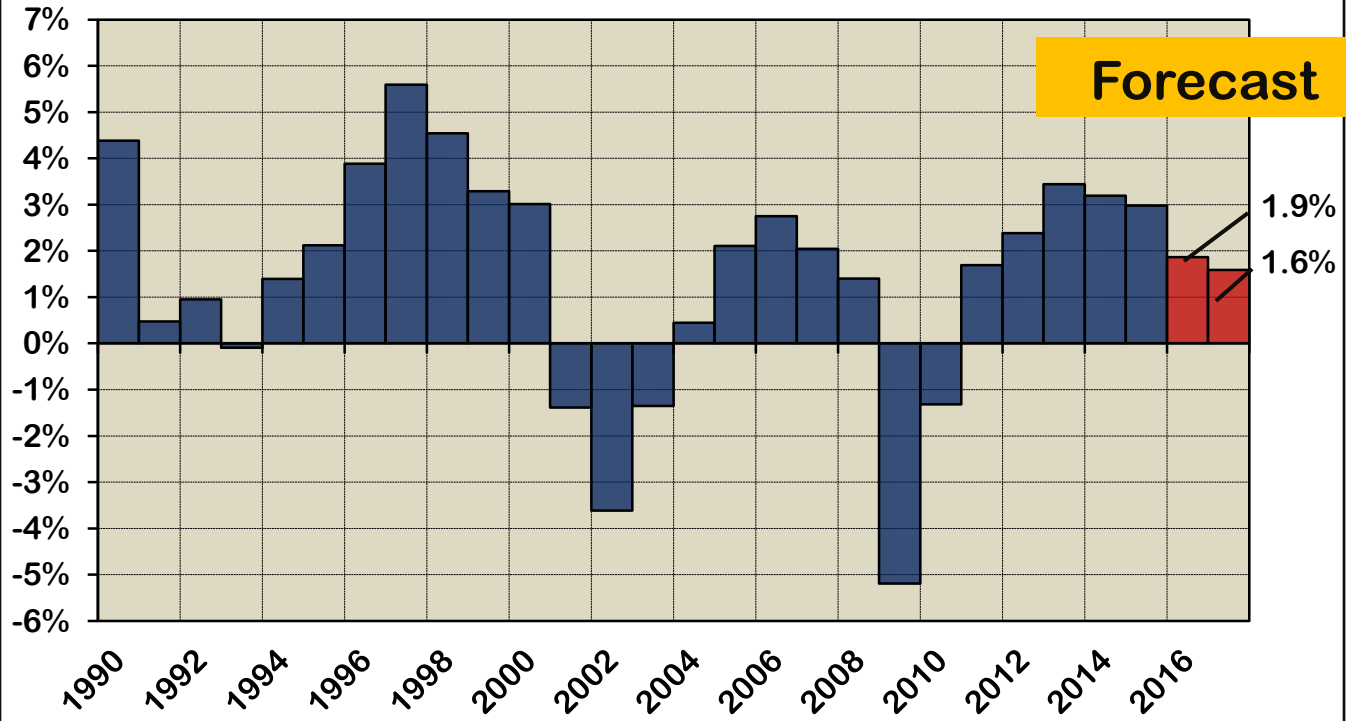
Growth has been strong, although not as strong as it was during the “dot-com” boom.

The forecast is for growth to continue, but at a slower rate.

KC Year over Year Employment Growth

January 1990 to December 2017

Annual data from Puget Sound Economic Forecaster



Blue = Actual Red = Forecast

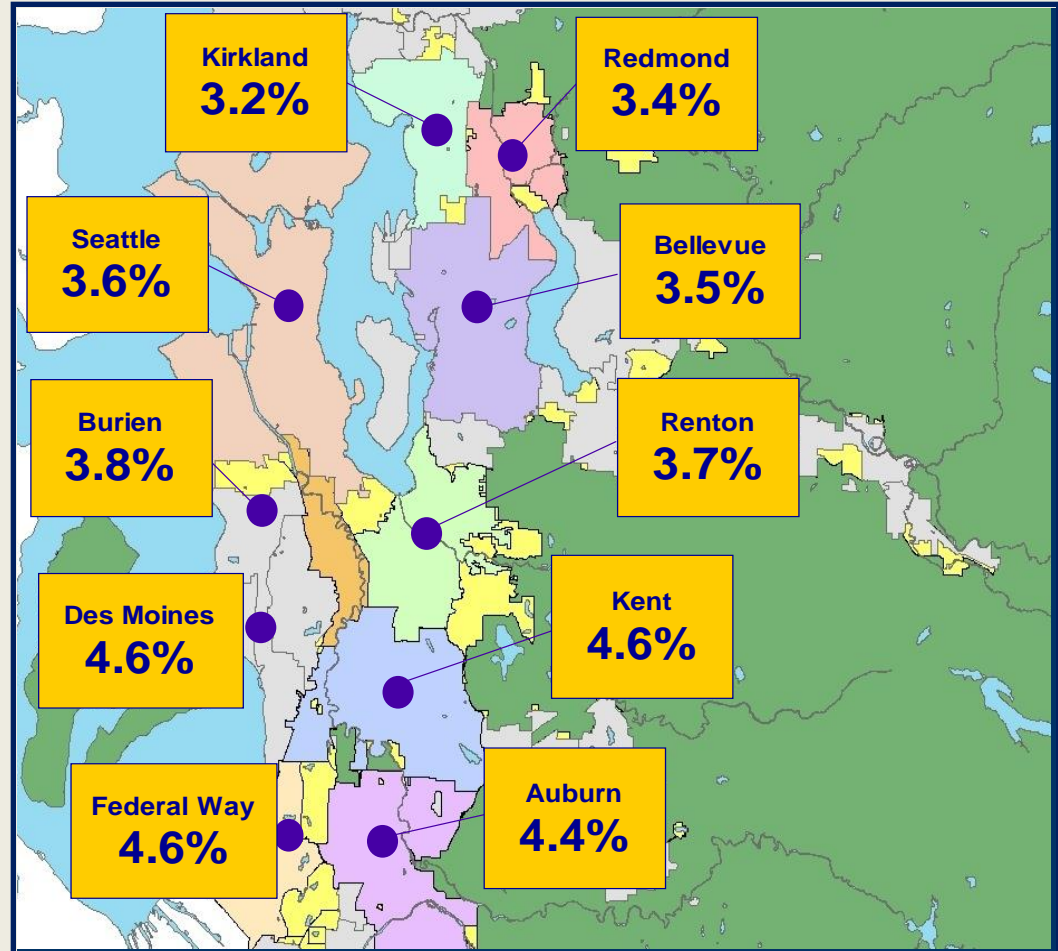


2015 average unemployment rates around King County

This map shows unemployment rates for 10 of the largest cities in 2015.

Rates varied across the region.

The north and east fared better than the southern portions.





Inflation in Seattle continues to be modest

The annual Seattle inflation rate for 2015 was 0.9%.

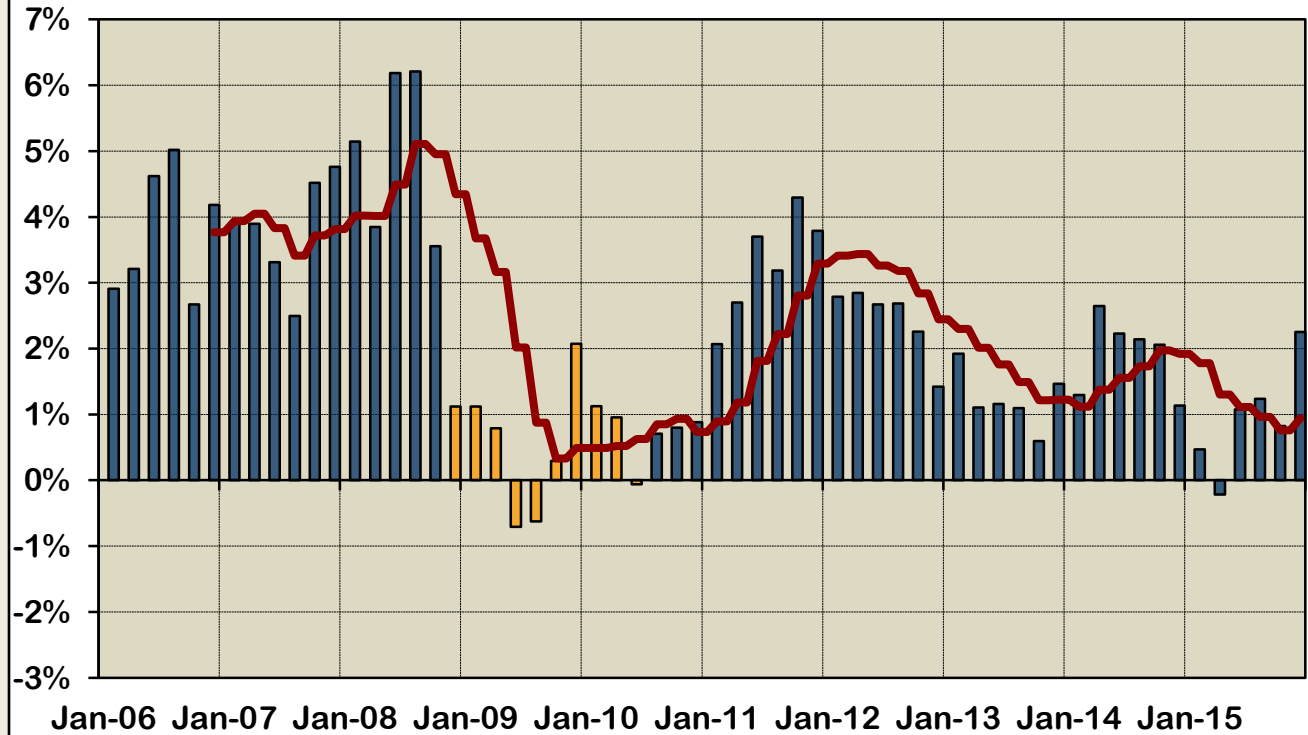
Shelter costs have been driving most of the increase.

Annual 2015 inflation excluding shelter was -1.3%.

Shelter/core price growth partially offset by lower fuel prices in 2016.

Seattle CPI-W Bi-Monthly Inflation

January 2006 to Present
Source: BLS



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

Growth of the KC index of leading indicators slowed in 2015...

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Economic context: Leading indicators index developed by OEFA

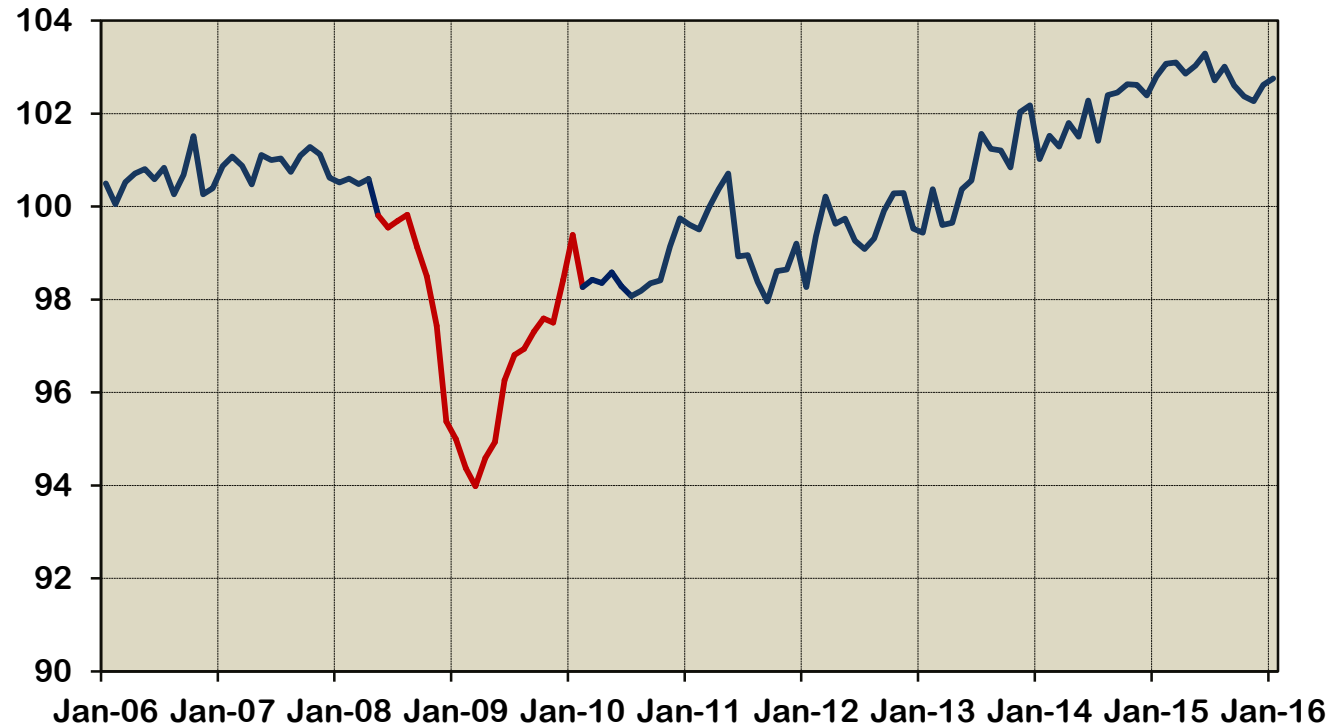
The KC ILI includes eight items that should be sensitive to economic changes.

The index has been steadily climbing, but flattened in 2015.

Local manufacturing slowed and others have flattened out.

King County Index of Leading Indicators

Index Base = July 2005



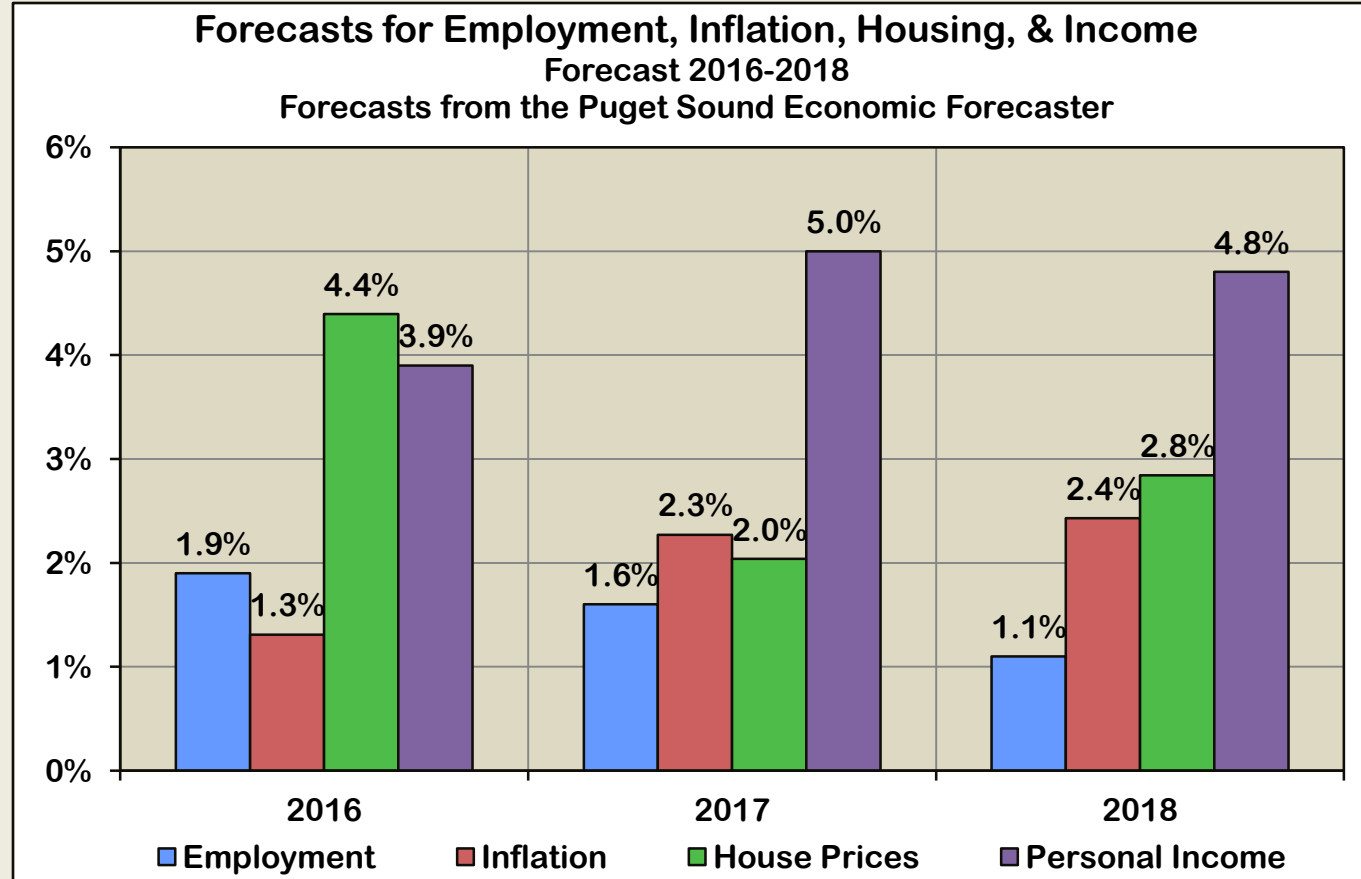
Red = Period of economic contraction in KC

...But the forecast is fine, calling for growth but at a slower pace

Employment growth should continue but at slower growth rates.

Inflation should accelerate, but be modest overall.

House prices to continue their rise but at reduced rates.



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:

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

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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.

Growth is forecast for 2017 and beyond.

March Countywide Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 Forecast
2014	\$340,643,616,342	8.23%	0.00%	\$0
2015	\$388,118,855,592	13.94%	0.00%	\$0
2016	\$426,335,605,837	9.85%	1.81%	\$7,574,827,361
2017	\$461,541,898,234	8.26%	5.71%	\$24,921,990,866
2018	\$484,657,411,752	5.01%	6.79%	\$30,831,330,934
2019	\$504,922,293,405	4.18%	6.66%	\$31,523,669,225
2020	\$530,372,501,440	5.04%	7.41%	\$36,589,627,420
2021	\$560,339,302,588	5.65%	8.40%	\$43,427,359,377
2022	\$592,768,849,654	5.79%	8.93%	\$48,577,593,772
2023	\$623,208,450,649	5.14%	9.46%	\$53,861,670,003
2024	\$654,616,158,356	5.04%	9.92%	\$59,089,953,783
2025	\$687,444,976,636	5.01%	new	new



Unincorporated Area Assessed Value Forecast

The unincorporated area experienced growth in 2016.

The Klahanie annexation reduced the rate.

Calling for continued growth in this area.

Potential annexations will impact AV.

March Unincorporated Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 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%	1.23%	\$444,256,294
2017	\$38,697,394,456	5.64%	1.96%	\$743,355,634
2018	\$40,742,371,929	5.28%	3.87%	\$1,517,763,133
2019	\$42,207,464,128	3.60%	7.61%	\$2,984,220,573
2020	\$43,996,387,187	4.24%	12.24%	\$4,799,106,438
2021	\$40,115,265,942	-8.82%	-1.95%	(\$797,773,999)
2022	\$42,199,214,488	5.19%	-1.91%	(\$823,158,809)
2023	\$44,114,604,610	4.54%	-1.76%	(\$789,365,976)
2024	\$46,119,611,982	4.54%	-1.61%	(\$753,929,086)
2025	\$48,214,467,190	4.54%	new	new



New Construction Forecast

King County

18 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.

March Countywide New Construction Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 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%	-2.13%	(\$132,729,510)
2017	\$6,891,730,562	12.76%	1.32%	\$89,802,512
2018	\$7,165,791,391	3.98%	2.60%	\$181,397,591
2019	\$7,234,484,332	0.96%	3.23%	\$226,039,216
2020	\$7,264,503,925	0.41%	1.70%	\$121,743,658
2021	\$7,422,239,596	2.17%	0.38%	\$28,427,343
2022	\$7,953,194,614	7.15%	6.12%	\$458,498,256
2023	\$8,272,034,009	4.01%	5.93%	\$463,376,404
2024	\$8,593,585,444	3.89%	6.39%	\$516,254,486
2025	\$8,943,246,497	4.07%	new	new



King County property tax forecasts

King County

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Forecasts: Property taxes

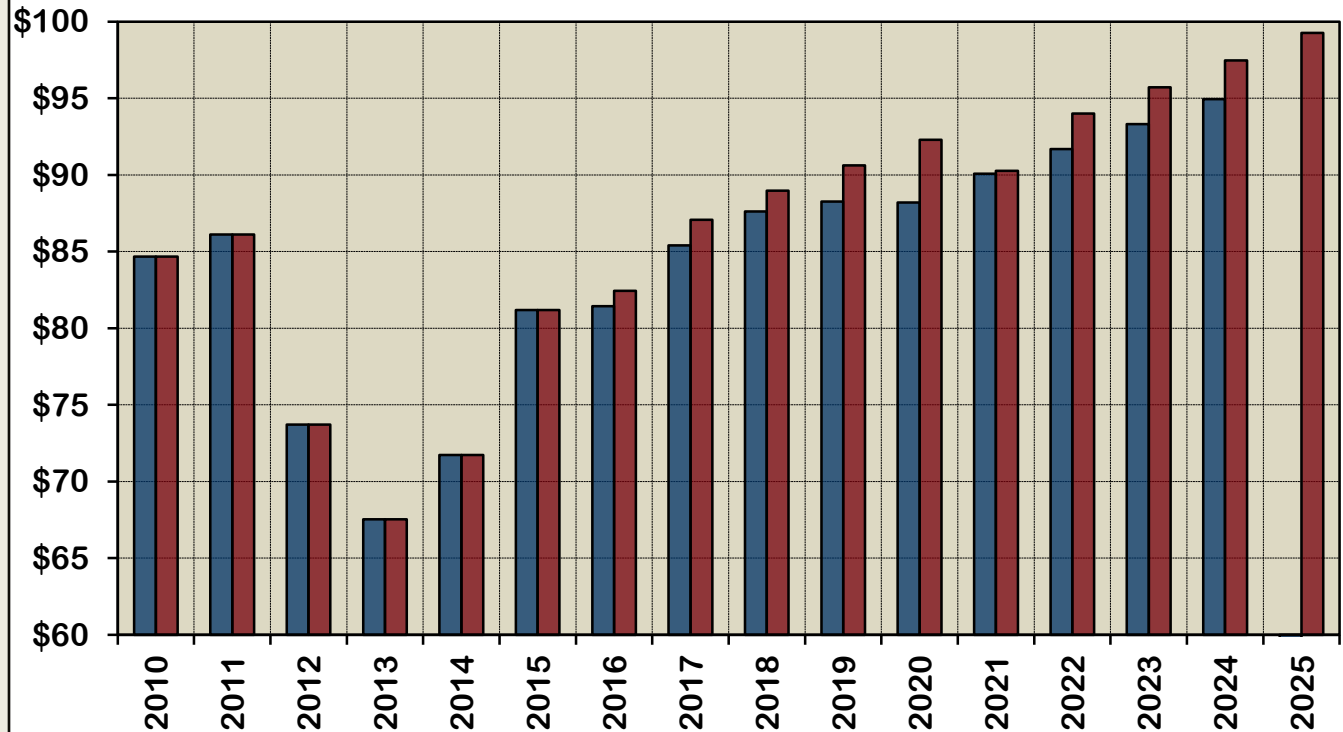
Small changes for most levies as most are “limit-factor” limited.

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

Pro-rationing impacts were higher than expected (about \$1.8M).

UAL/Roads Property Tax

2010 to 2025 Revenue Forecast in millions of dollars



Blue = September 2015 Forecast Red = March 2016 Forecast

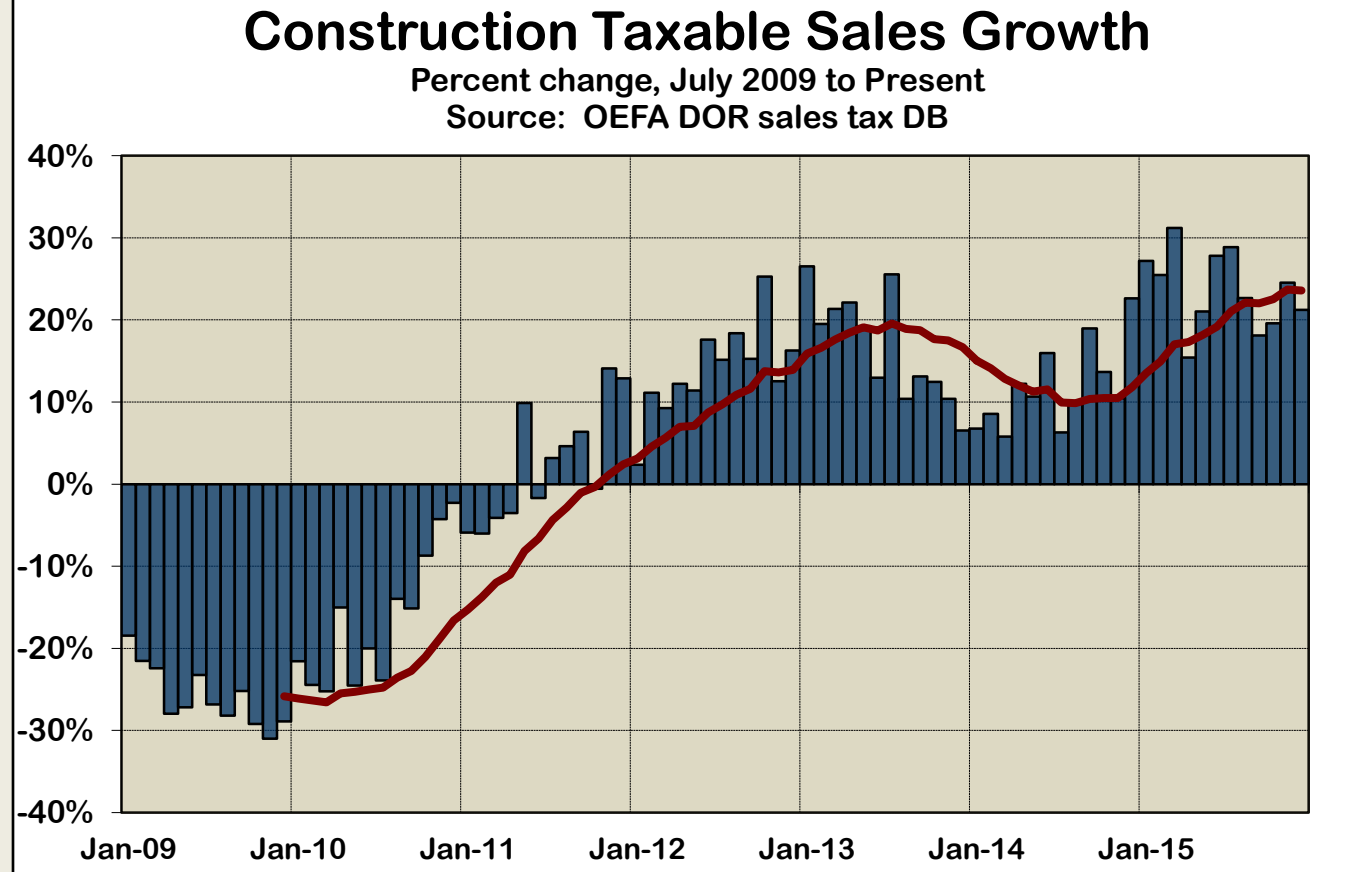


Construction taxable sales driving sales tax receipts

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

A big driver of sales tax growth the last several years. (40% of sales growth in 2015!).

Growth likely to continue then slow.



Blue = Actual Red = 12 month rolling average



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 6.5% growth.

Expect continued growth across most sectors.

Low energy costs continue to be a tailwind for consumers.

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

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 Forecast
2014	\$52,335,343,480	7.79%	0.00%	\$0
2015	\$57,650,000,000	10.16%	0.81%	\$465,574,400
2016	\$61,415,755,193	6.53%	2.81%	\$1,677,134,688
2017	\$63,836,660,251	3.94%	4.12%	\$2,525,997,667
2018	\$65,937,144,226	3.29%	3.84%	\$2,437,150,420
2019	\$68,523,911,669	3.92%	3.77%	\$2,489,116,194
2020	\$71,251,809,073	3.98%	3.90%	\$2,671,796,777
2021	\$73,994,728,012	3.85%	3.91%	\$2,782,437,707
2022	\$76,787,655,132	3.77%	4.13%	\$3,043,302,070
2023	\$79,860,239,749	4.00%	4.51%	\$3,448,235,884
2024	\$83,008,512,445	3.94%	4.75%	\$3,762,431,704
2025	\$86,231,417,807	3.88%	new	new



Transit Sales Tax Forecast

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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.

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

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 Forecast
2014	\$479,433,577	8.26%	0.00%	\$0
2015	\$526,662,198	9.85%	0.27%	\$1,421,611
2016	\$563,624,595	7.02%	2.78%	\$15,226,346
2017	\$585,571,605	3.89%	4.08%	\$22,941,140
2018	\$604,607,111	3.25%	3.80%	\$22,133,835
2019	\$628,062,599	3.88%	3.73%	\$22,606,265
2020	\$652,801,241	3.94%	3.86%	\$24,266,656
2021	\$677,676,931	3.81%	3.87%	\$25,272,334
2022	\$703,007,631	3.74%	4.09%	\$27,643,272
2023	\$730,880,434	3.96%	4.48%	\$31,323,540
2024	\$759,441,620	3.91%	4.71%	\$34,179,162
2025	\$788,681,592	3.85%	new	new



King County REET continues to indicate underlying growth

REET revenues grew 34% in 2015.

Skewed up by a very large sale in December.

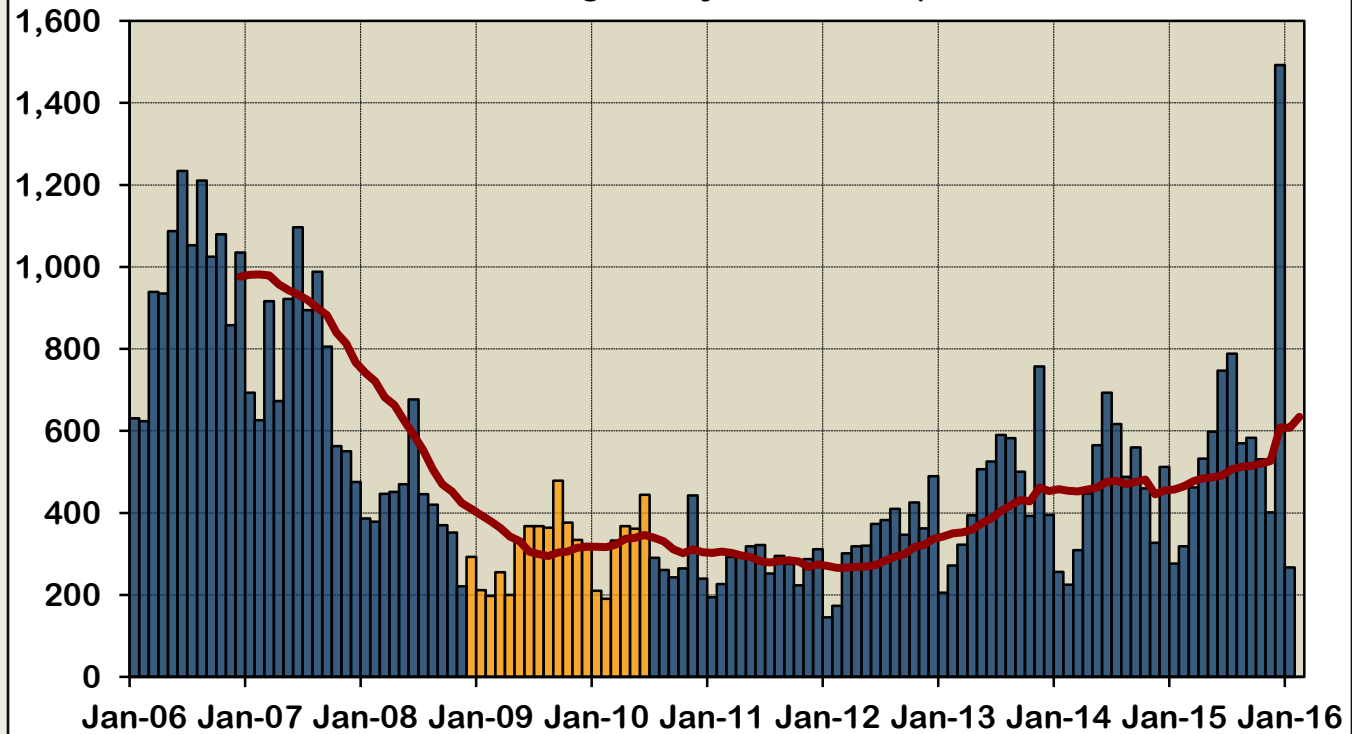
Excluding that sale there was still underlying REET growth in 2015.

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



Tax revenues on phone service are not growing and are expected to fall

Tax is \$0.7/month per account for phone service.

Slow growth for Cell and VOIP service.

But households are reducing landlines.

Net effect is slow reduction in revenue in the near term.

March E-911 Tax Forecast Office of Economic and Financial Analysis

Qtrr	Value	YOY Change	% Change from March 2015 Forecast	% Change from March 2015 Forecast
Q1 2016	\$5,806,651	1.14%	-0.70%	(\$40,891)
Q2 2016	\$5,770,406	1.00%	-1.13%	(\$65,753)
Q3 2016	\$5,741,010	-1.33%	-1.45%	(\$84,175)
Q4 2016	\$5,710,397	-0.79%	-1.74%	(\$101,308)
Q1 2017	\$5,775,380	-0.54%	-1.84%	(\$108,063)
Q2 2017	\$5,741,904	-0.49%	-2.01%	(\$117,541)
Q3 2017	\$5,708,984	-0.56%	-2.17%	(\$126,394)
Q4 2017	\$5,676,532	-0.59%	-2.32%	(\$134,624)
Q1 2018	\$5,767,841	-0.13%	-2.54%	(\$150,097)
Q2 2018	\$5,727,501	-0.25%	-2.67%	(\$157,413)
Q3 2018	\$5,687,054	-0.38%	-2.81%	(\$164,568)
Q4 2018	\$5,646,463	-0.53%	-2.95%	(\$171,597)

King County Office of Economic and Financial Analysis

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