



King County

# July 2014 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

July 18<sup>th</sup>, 2014

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**Office of Economic and Financial Analysis**



# Summary

- The July economic forecast is similar to the March forecast
- The national economy had a tough first quarter but looks to rebound
  - Forecast is for accelerating growth in 2014-2015
  - Risks remain (e.g. China, middle east)
- King County continues to do very well
  - Despite world cup productivity losses 😊
  - Led by local employment growth
- Revenues continue to be solid



# Real GDP Growth is expected to accelerate in 2014-2015

We experienced a significant contraction in the 1<sup>st</sup> quarter.

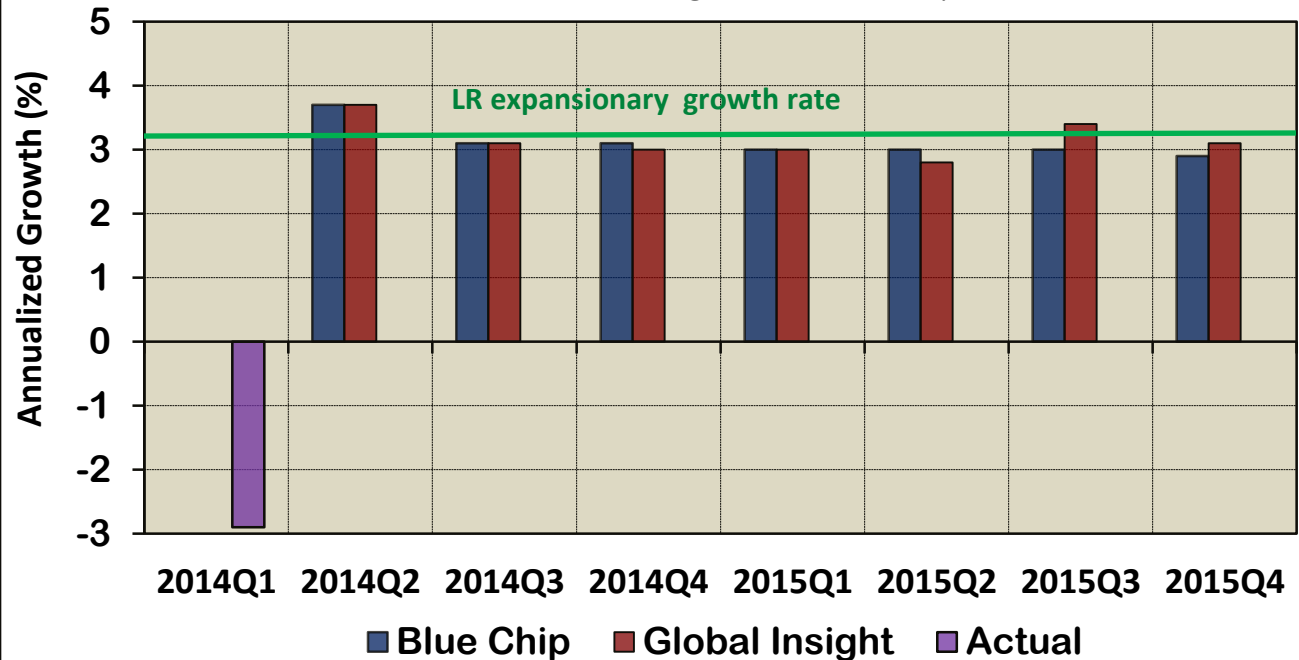
Indications are that this was largely a weather-related hiccup.

The forecast for 2014-2015 is for improved growth.

## Real GDP Growth Forecast

Q1 2014 to Q4 2015

Source: Global Insight and Blue Chip



Note: LR Expansionary growth rate is 1990-2013 average, excl. 1990, 1991, 2001, 2007-2009

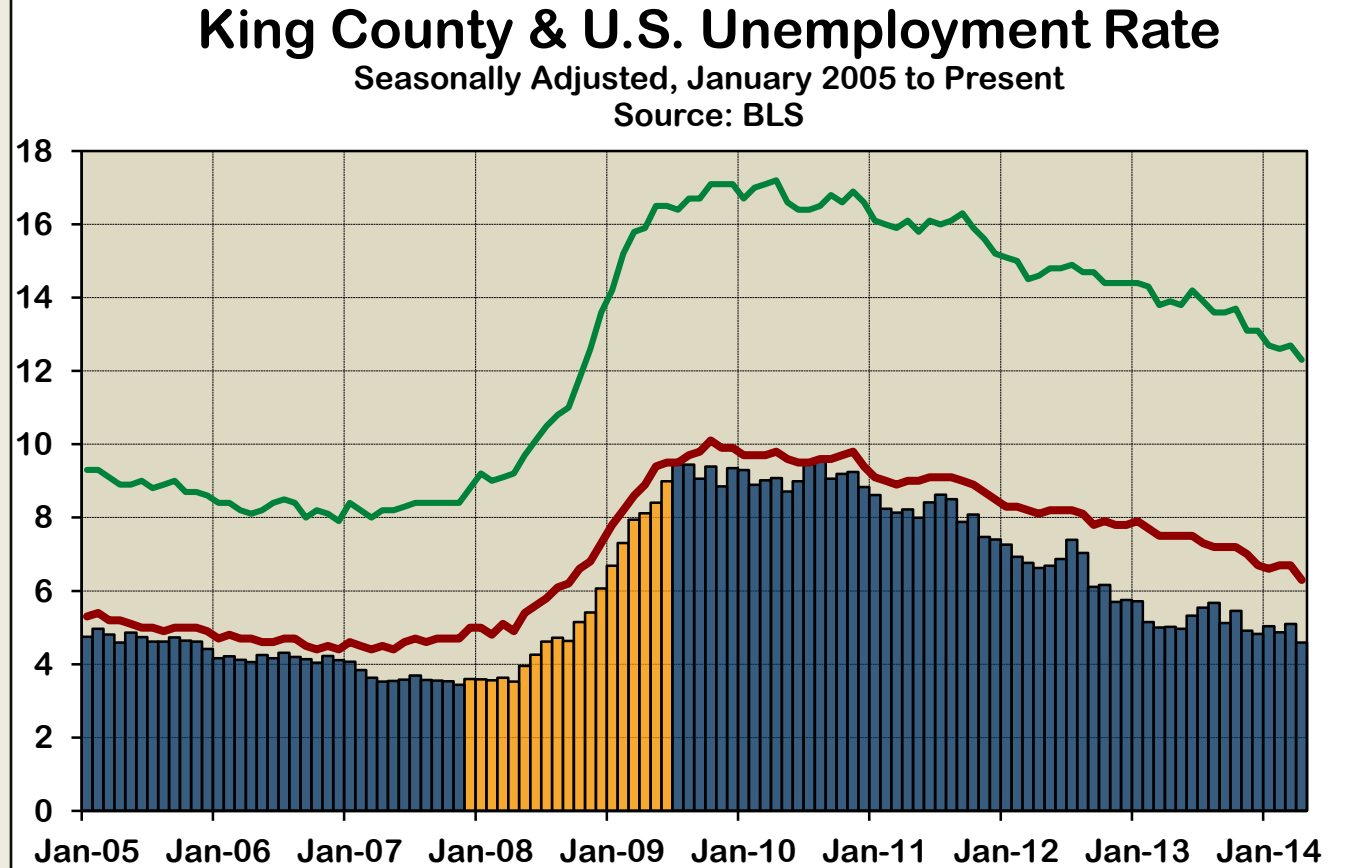


# Unemployment continues to fall, but labor market slack remains.

The U.S. unemployment rate has been falling for 4 years.

A key indicator of employment slack for the Fed.

However, some have argued that alternative measures should be considered.



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



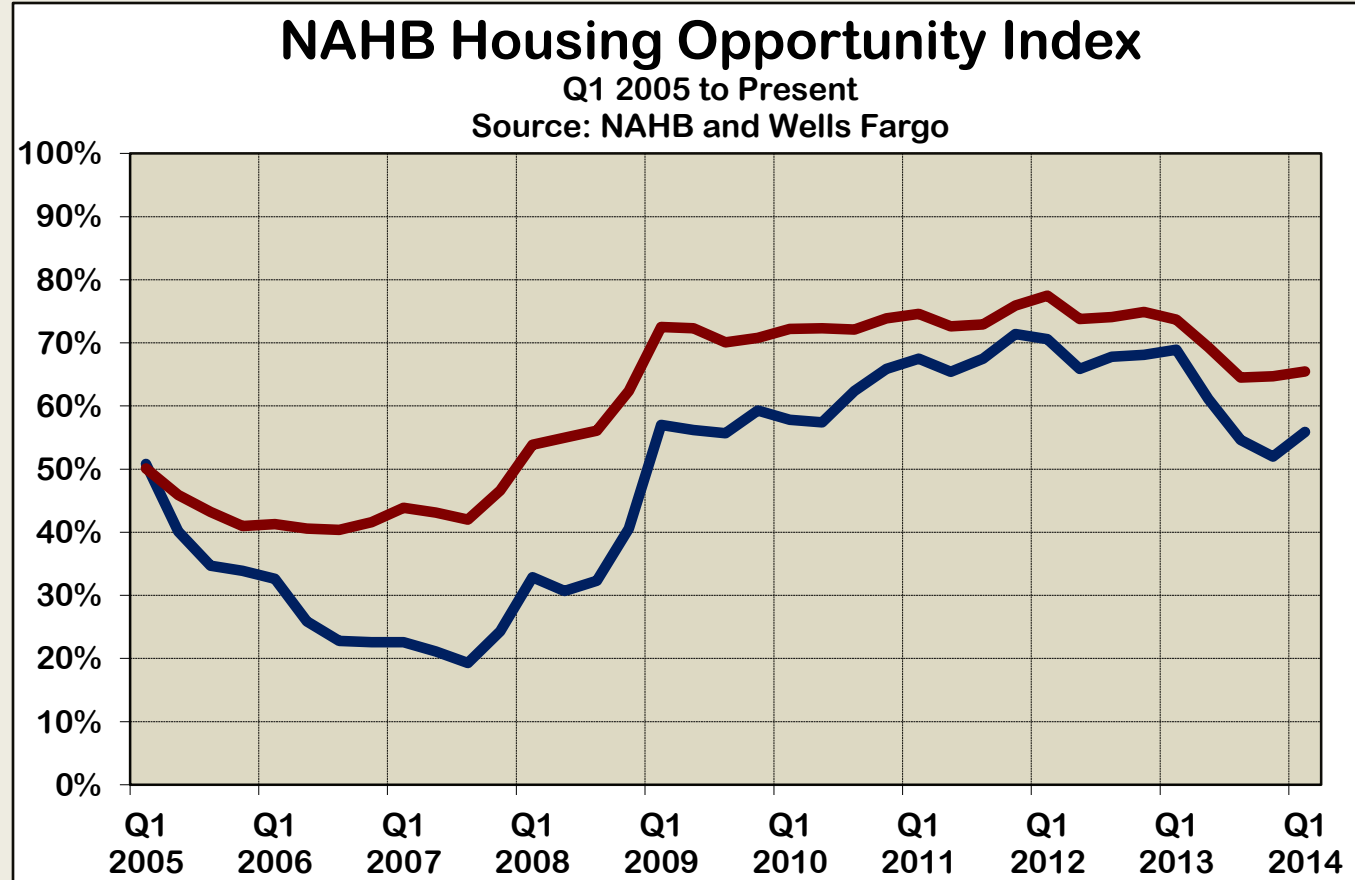
# Housing affordability has been at historic highs but is likely to fall

Percentage of homes sold that are affordable for a family earning median income.

Two components: income and prices.

Affordability rose to historic highs during the recession.

Affordability has fallen as of late.



Blue = Puget Sound HOI% Red = US HOI%



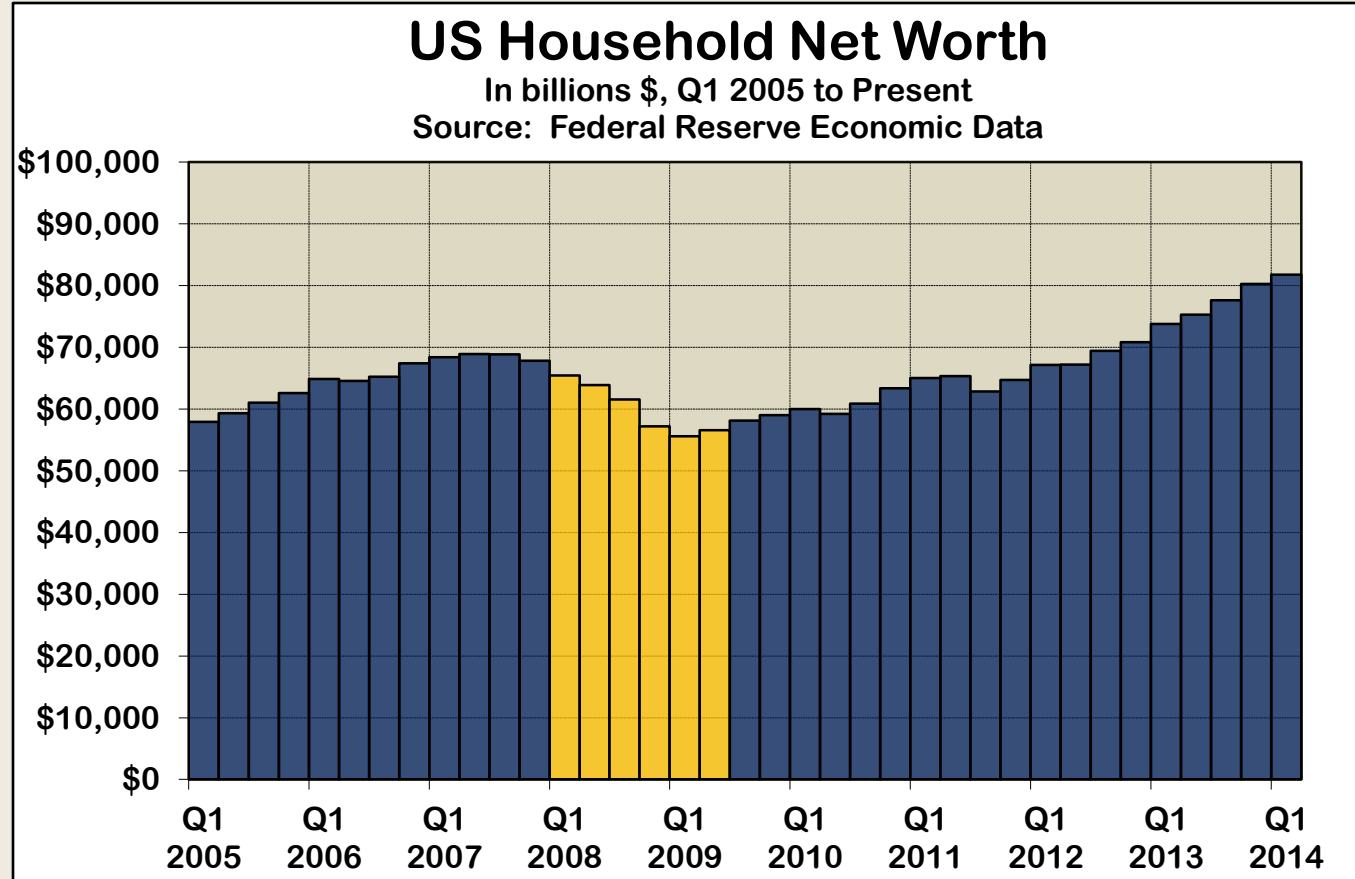
# Consumers sentiments continue to improve

Surveys show consumer sentiments rising.

Household net worth is at an all time high.

Stock and housing markets have recovered, with the jobs recovery still ongoing.

Good news for consumer spending.



Blue = Household Net Worth Actuals Orange = Recession



# Employment growth by county: King, Pierce and Snohomish

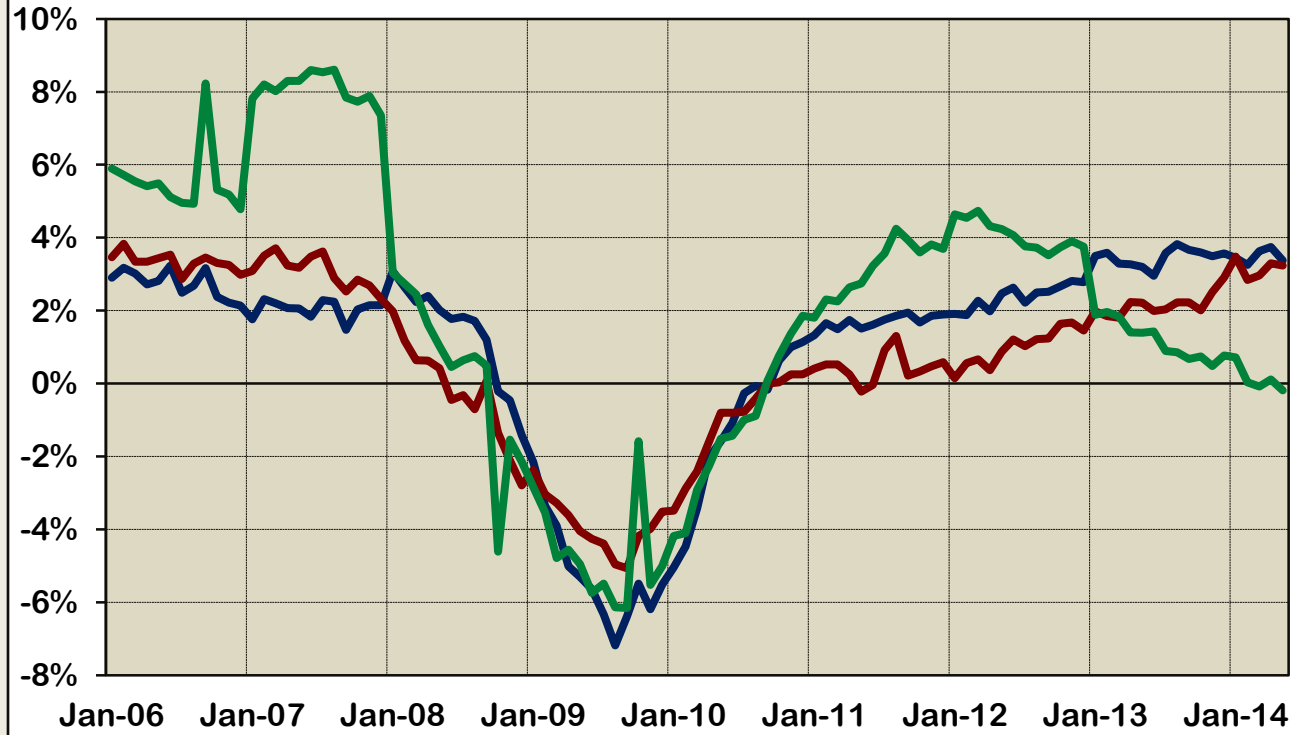
King County job growth has been positive since the fall of 2010.

Snohomish County has lost several thousand aerospace jobs in the last year.

Pierce County has seen growth in health and education.

## Employment Growth by County

YOY Growth, 2006 to Present  
Source: Washington State ESD



Blue = King Co. emp. growth Red= Pierce Co. emp. growth Orange = Snohomish Co. emp. growth



# Top-ten online help wanted ads by position in King County

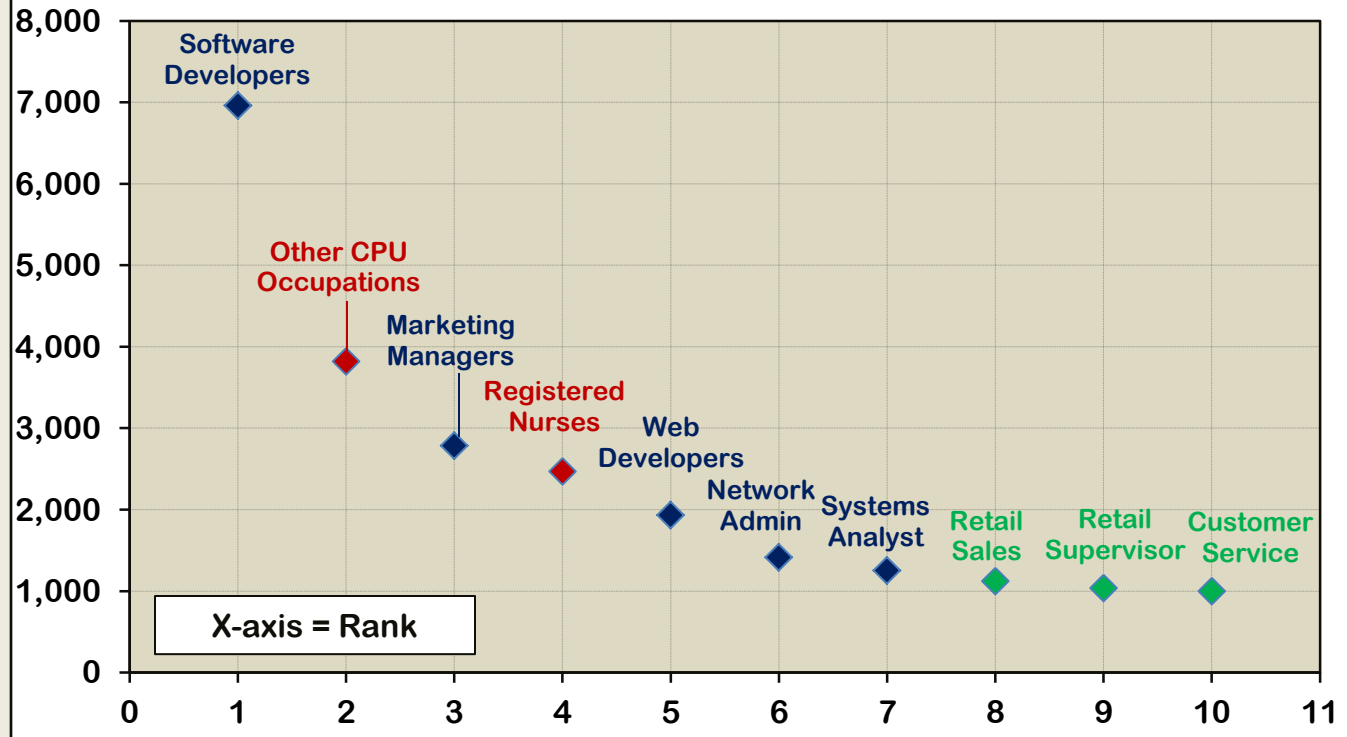
Employers with most ads in KC; Amazon and Microsoft

Tech skills are in high demand.

The jobs with most openings require more education.

## Top-ten online wanted ads by position

Number of online ads by position and rank by position  
Source: Conference board HWOL data



Blue = requires bachelor's degree Red = requires associate's degree Green = high school or less



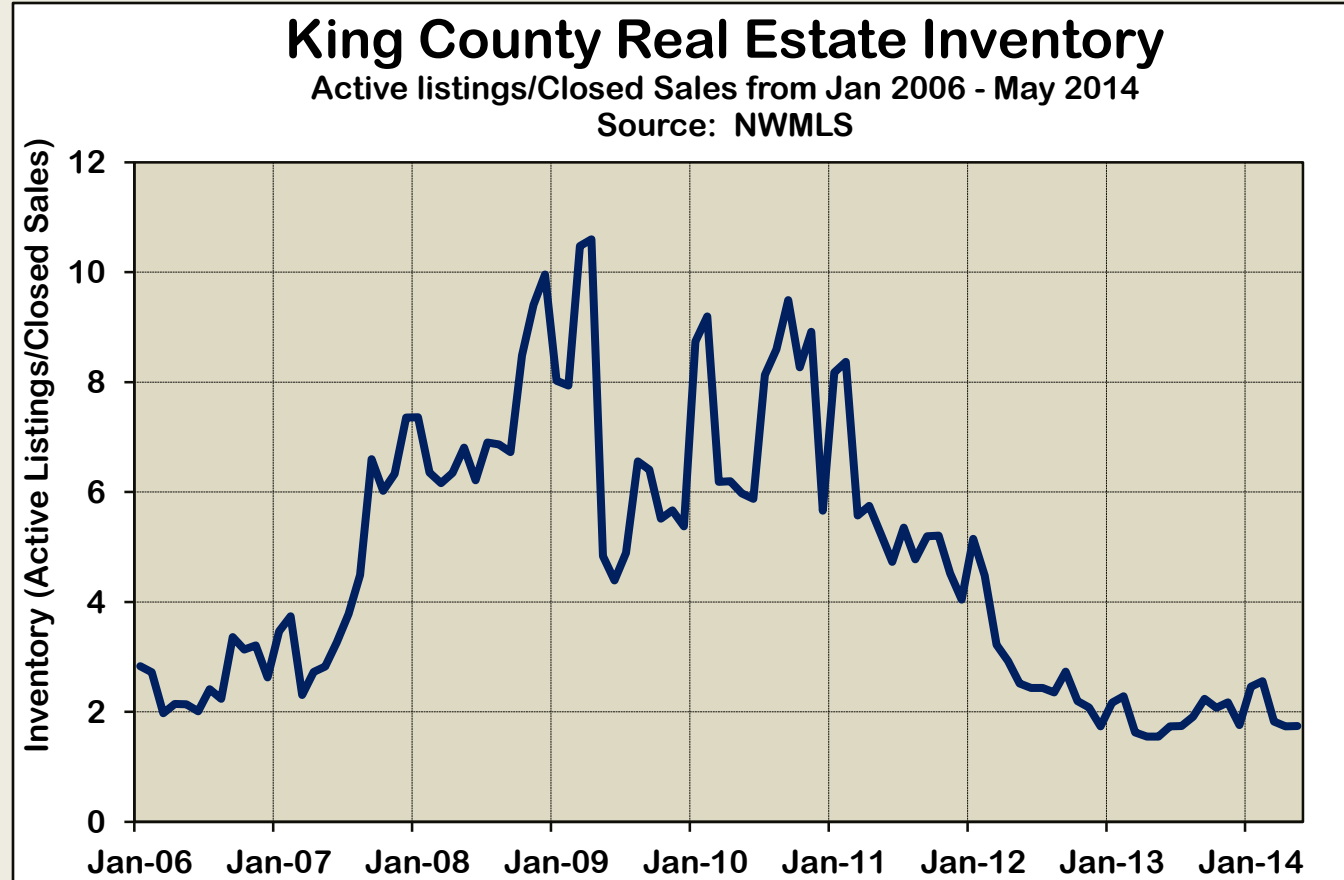


# King County housing market affected by low inventory

This chart is active listings divided by closed sales for KC homes & condos.

Inventories have diminished since 2011.

Driven by factors like low equity and prior refinancing.



Blue = King County months of residential and condo inventory



# Seattle inflation has been low, but rents have increased significantly

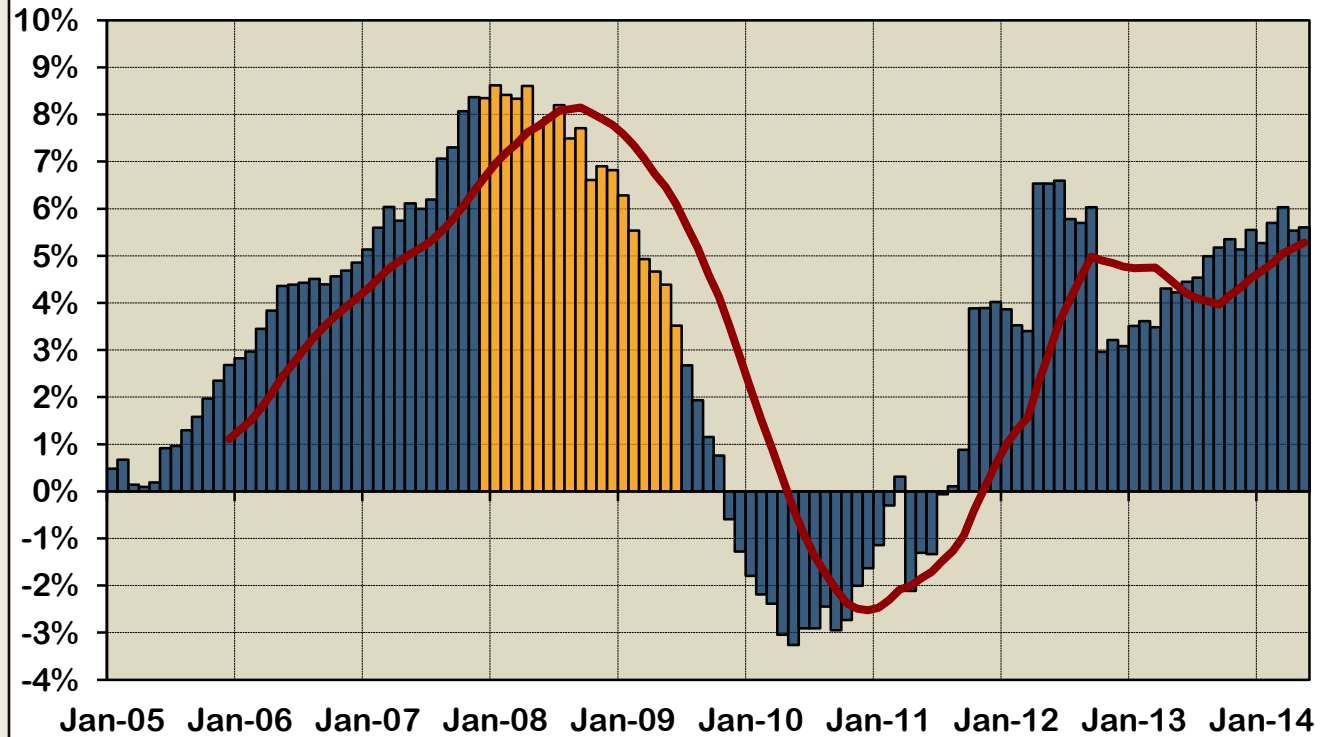
Rents in Seattle fell following the recession.

Demand to live in the city grew along with employment.

Apartment vacancies are below 5% and rents have increased significantly the last two years.

## Seattle Primary Rental Inflation

January 2005 to Present  
Source: BLS



Blue bar = Seattle rent growth Red line = 12 Month rolling average Orange bar = Recession



# King County Building activity continues to improve

Permit values have increased the last two years.

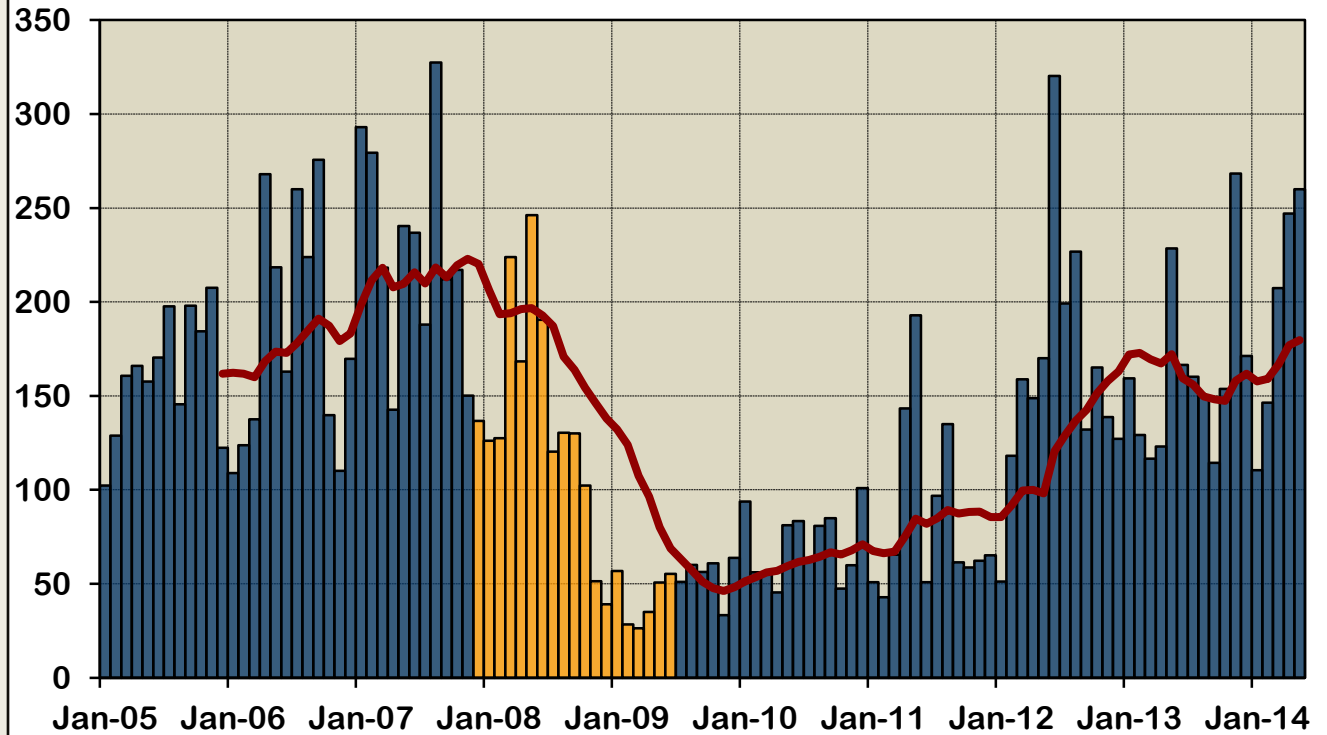
About 12,300 residential units were permitted in King County in 2013.

Through May, we are on pace to exceed that in 2014.

## 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

# 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:

Bothell	(02-28-14)
Klahanie	(01-01-16)
North Highline (Area Q/Sliver)	(01-01-16)
North Highline (Remainder)	(01-01-17)
West Hill	(01-01-18)



# Countywide Assessed Value Forecast

King County

13 Forecasts: Assessed value

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

Assessments, thus far, are showing double-digit growth in residential properties.

Growth in 2015 revised upward.

Growth is forecast for 2016 and beyond.

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

Tax Year	Value	Annual Growth	% Change from March 2014 Forecast	\$ Change from March 2014 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%	0.00%	\$0
2015	\$374,509,393,729	9.94%	3.56%	\$12,881,771,376
2016	\$391,376,673,317	4.50%	3.57%	\$13,495,769,967
2017	\$404,627,056,559	3.39%	3.58%	\$13,977,601,151
2018	\$420,868,320,942	4.01%	3.82%	\$15,487,644,590
2019	\$438,122,818,605	4.10%	3.81%	\$16,099,166,902
2020	\$458,152,938,182	4.57%	3.99%	\$17,567,036,244
2021	\$478,967,962,482	4.54%	3.98%	\$18,329,261,157
2022	\$500,496,866,580	4.49%	3.93%	\$18,903,014,869
2023	\$523,065,299,766	4.51%	4.07%	\$20,468,007,996



# 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 2015-2019.

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

Tax Year	Value	Annual Growth	% Change from March 2014 Forecast	\$ Change from March 2014 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%	0.00%	\$0
2015	\$33,532,393,763	5.20%	1.52%	\$501,272,523
2016	\$34,974,341,633	4.30%	1.60%	\$549,950,492
2017	\$34,344,570,372	-1.80%	0.48%	\$165,680,678
2018	\$34,223,160,503	-0.35%	-3.15%	(\$1,113,902,926)
2019	\$34,164,255,716	-0.17%	-3.32%	(\$1,172,591,370)
2020	\$35,607,206,375	4.22%	-3.07%	(\$1,129,034,882)
2021	\$37,096,856,424	4.18%	-3.08%	(\$1,177,971,047)
2022	\$38,614,790,070	4.09%	-3.31%	(\$1,319,890,512)
2023	\$40,237,105,140	4.20%	-3.11%	(\$1,289,686,378)



# Residential assessed value changes greater than last year in most locations

Based on KC Assessor area reports which may not match city boundaries.

So far, the residential change throughout almost all of King County is positive for 2015.

Only one area showing a decrease so far.

District	Location	2014	2015
NE	Duvall/Environs	12.7%	25.0%
NE	Redmond Ridge/Trilogy/Environs	7.4%	14.6%
NE	Alpental/Skykomish/Environs	-6.5%	-2.5%
NW	Lake Forest Park/West Kenmore	4.5%	20.5%
NW	Maple Leaf/ Northgate	9.8%	9.1%
NW	View Ridge/Cedar Park/Sheridan Beach	4.2%	16.2%
SE	Enumclaw Plateau	1.4%	3.4%
SE	Lake Youngs	6.0%	14.3%
SE	Newcastle	7.3%	15.4%
SW	Auburn	7.0%	28.0%
SW	Kentridge	16.0%	15.4%
SW	DesMoines/SeaTac/Kent	-9.0%	27.8%
WC	Magnolia	13.6%	3.6%
WC	Rainier Beach	-15.9%	25.7%
WC	Burien	0.6%	16.3%



# New Construction Forecast

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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.

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

Tax Year	Value	Annual Growth	% Change from March 2014 Forecast	\$ Change from March 2014 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%	0.00%	\$0
2015	\$4,172,968,942	22.51%	3.61%	\$145,419,747
2016	\$4,571,370,325	9.55%	3.12%	\$138,304,826
2017	\$4,840,607,871	5.89%	-0.50%	(\$24,206,173)
2018	\$4,771,499,292	-1.43%	-1.65%	(\$80,113,669)
2019	\$4,758,826,493	-0.27%	-2.61%	(\$127,708,418)
2020	\$4,869,645,824	2.33%	-2.77%	(\$138,985,382)
2021	\$5,038,996,825	3.48%	-2.58%	(\$133,273,360)
2022	\$5,231,547,839	3.82%	-3.75%	(\$203,863,625)
2023	\$5,493,279,630	5.00%	-3.75%	(\$213,981,228)





# King County property tax forecasts

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Forecasts: Property taxes

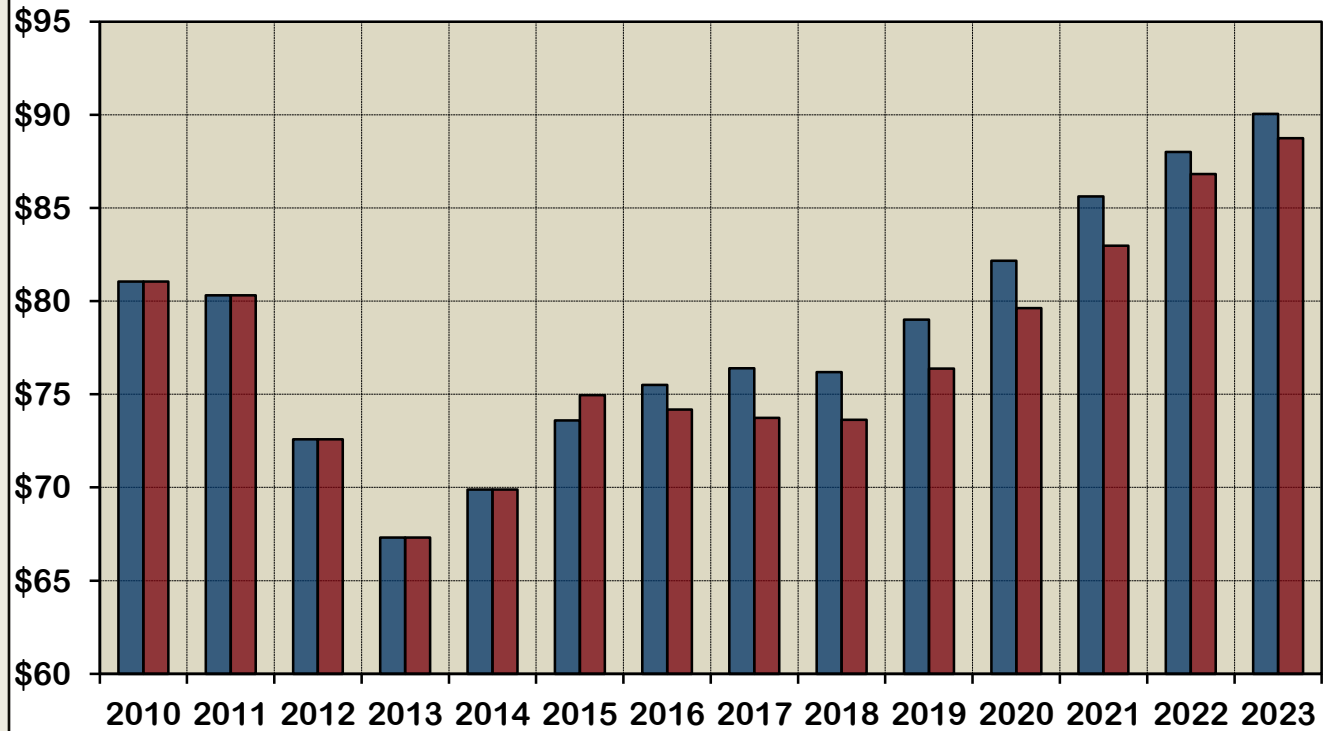
There are only small changes for most levies.

Most levies are “limit-factor” limited.

Improved outlook for unincorporated AV is good for the UAL/Roads levy but largely offset by annexations.

## UAL/Roads Property Tax

2010 to 2023 Revenue Forecast in millions of dollars



Blue = March 2014 Forecast Red = July 2014 Forecast



# King County Taxable Sales: Car Sales

King County

18 Economic context: Car Sales

New car sales are a large component of retail sales.

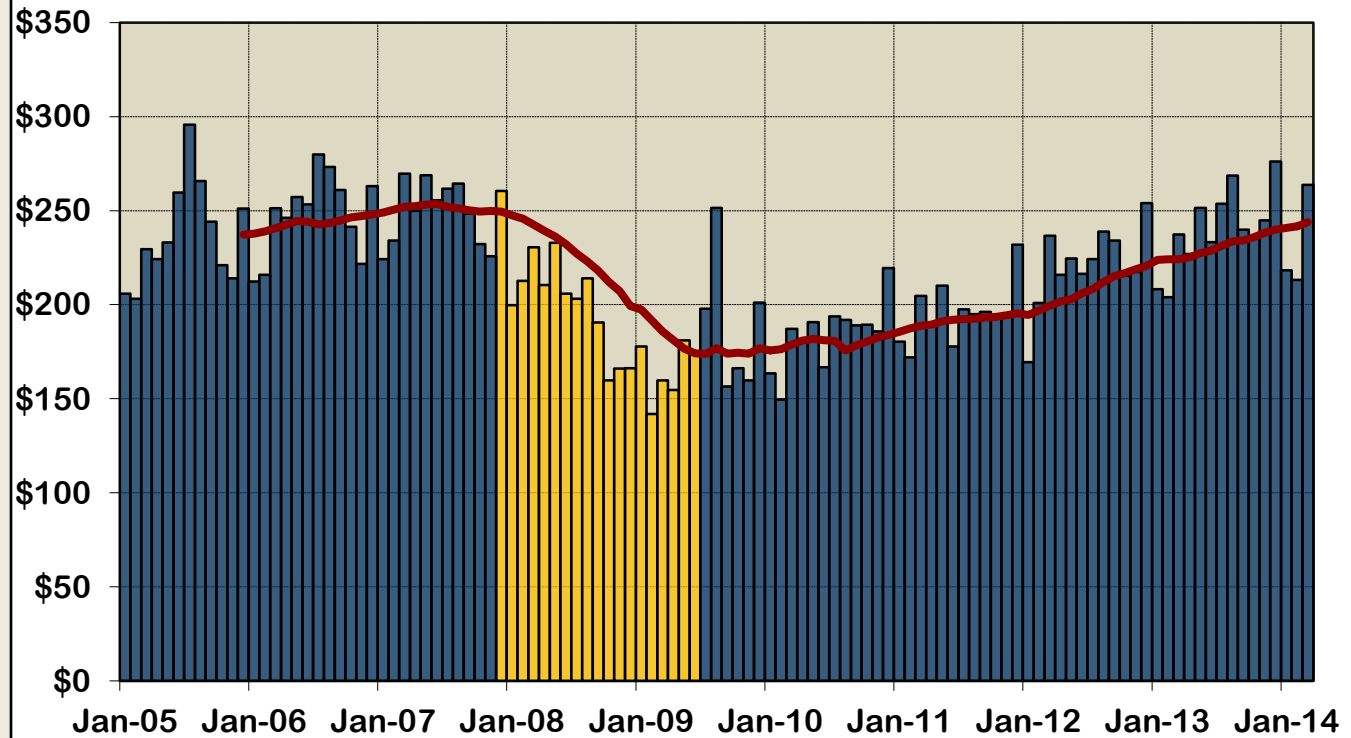
This sector is just getting back to pre-recession levels.

Growth rates of 6%-12% annually over 2011-2013.

National sales growth of 9%-10% annually over the same period.

## King County New Vehicle Taxable Sales

In millions \$, January 2005 to Present  
Source: OEFA DOR sales tax DB



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

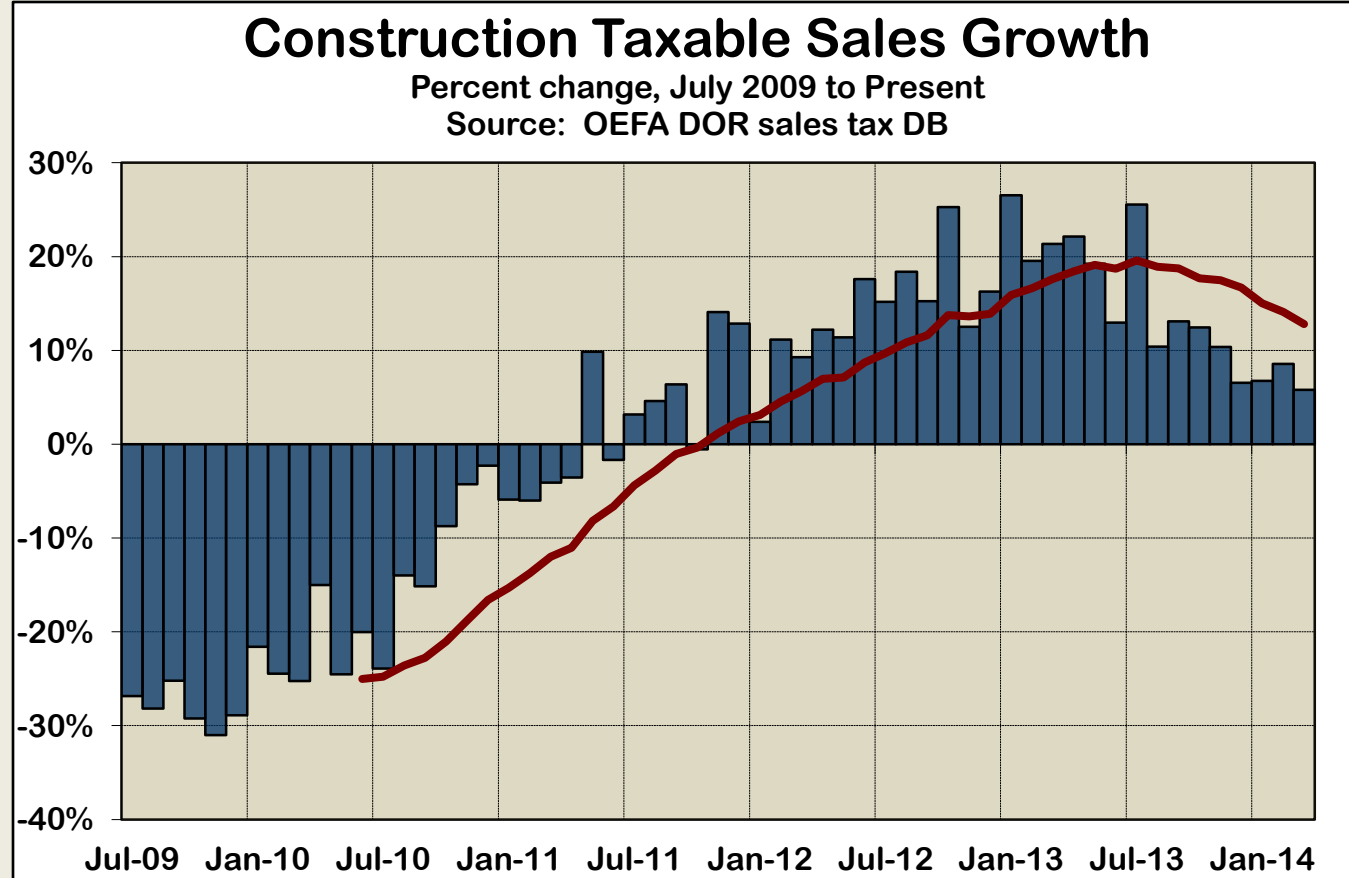


# Construction sales growth is slowing from double-digits in 2012 and 2013

Construction sales grew strongly in 2012 and growth peaked last summer.

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

We still expect solid growth going forward, but at a lower pace than seen the last few years.



Blue = Actual Red = 12 month rolling average



# Taxable Sales Forecast

King County

20 Forecasts: Local sales tax

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

Forecast for 2014 is for 5.5% growth.

Construction sales likely to reduce pace of growth in 2014.

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

Tax Year	Value	Annual Growth	% Change from March 2014 Forecast	\$ Change from March 2014 Forecast
2012	\$45,178,847,087	6.68%	0.00%	\$0
2013	\$48,553,937,860	7.47%	0.27%	\$130,637,860
2014	\$51,206,901,800	5.46%	-0.14%	(\$70,083,310)
2015	\$53,752,935,100	4.97%	-0.57%	(\$309,455,370)
2016	\$56,398,081,030	4.92%	-0.83%	(\$469,614,300)
2017	\$59,178,513,030	4.93%	-0.98%	(\$586,027,770)
2018	\$61,911,232,110	4.62%	-0.88%	(\$550,252,890)
2019	\$64,561,020,230	4.28%	-0.62%	(\$401,099,830)
2020	\$67,217,468,800	4.11%	-0.68%	(\$460,430,600)
2021	\$69,830,148,650	3.89%	-0.70%	(\$489,351,750)
2022	\$72,593,774,040	3.96%	-0.67%	(\$491,192,810)
2023	\$75,583,537,030	4.12%	-0.57%	(\$431,319,970)



# Transit Sales Tax Forecast

King County

The small change in the forecast for taxable sales means a small change in the forecast for metro.

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

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

Tax Year	Value	Annual Growth	% Change from March 2014 Forecast	\$ Change from March 2014 Forecast
2012	\$412,549,492	3.27%	0.00%	\$0
2013	\$442,835,695	7.34%	0.02%	\$104,567
2014	\$473,045,262	6.82%	0.34%	\$1,607,766
2015	\$496,224,761	4.90%	-0.07%	(\$364,395)
2016	\$520,309,388	4.85%	-0.31%	(\$1,617,160)
2017	\$545,629,276	4.87%	-0.45%	(\$2,471,337)
2018	\$570,514,267	4.56%	-0.34%	(\$1,948,258)
2019	\$594,642,938	4.23%	-0.07%	(\$401,857)
2020	\$618,832,944	4.07%	-0.12%	(\$753,716)
2021	\$642,624,034	3.84%	-0.13%	(\$834,533)
2022	\$667,793,274	3.92%	-0.10%	(\$666,978)
2023	\$695,026,904	4.08%	0.01%	\$66,708



# King County REET continues to grow

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Economic context: Real estate excise taxes from the KC Recorder's Office

REET revenues have risen significantly.

2013 results were driven by both higher transactions and higher prices.

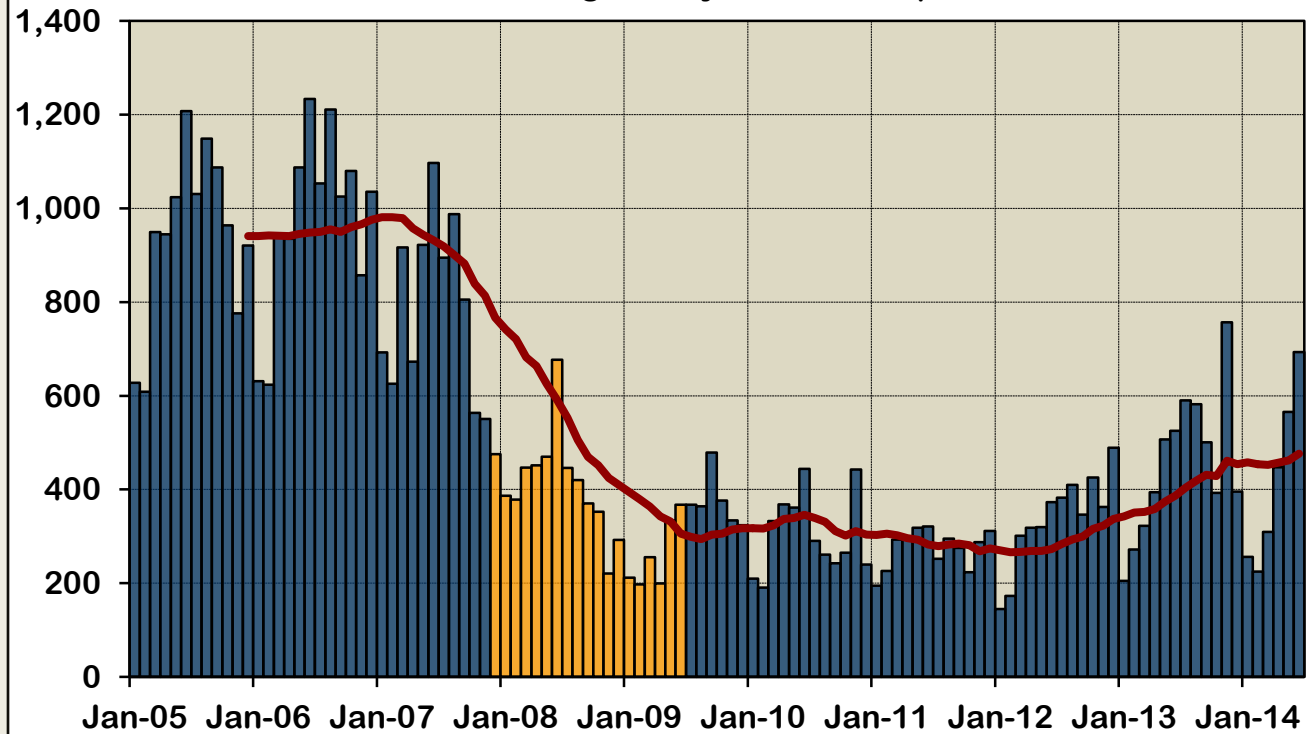
2013 also had a strong finish due to some large sales.

So far 2014 has seen much higher prices but fewer transactions

## 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

King County

23 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.

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

Tax Year	Value	Annual Growth	% Change from March 2014 Forecast	\$ Change from March 2014 Forecast
2012	\$4,047,145	22.87%	0.00%	\$0
2013	\$5,650,866	39.63%	0.00%	\$0
2014	\$5,840,385	3.35%	-1.46%	(\$86,497)
2015	\$6,057,669	3.72%	-0.53%	(\$32,185)
2016	\$5,786,667	-4.47%	-5.24%	(\$319,933)
2017	\$5,725,699	-1.05%	-6.81%	(\$418,447)
2018	\$5,740,153	0.25%	-7.60%	(\$472,164)
2019	\$6,054,188	5.47%	-7.76%	(\$509,275)
2020	\$6,405,221	5.80%	-7.76%	(\$538,567)
2021	\$7,124,143	11.22%	-7.51%	(\$578,599)
2022	\$7,579,138	6.39%	-7.48%	(\$612,766)
2023	\$8,051,882	6.24%	-7.46%	(\$648,874)



# The annual inflation rate in the Seattle area has been falling but may be firming

The annual Seattle inflation rate for 2013 was 1.2%.

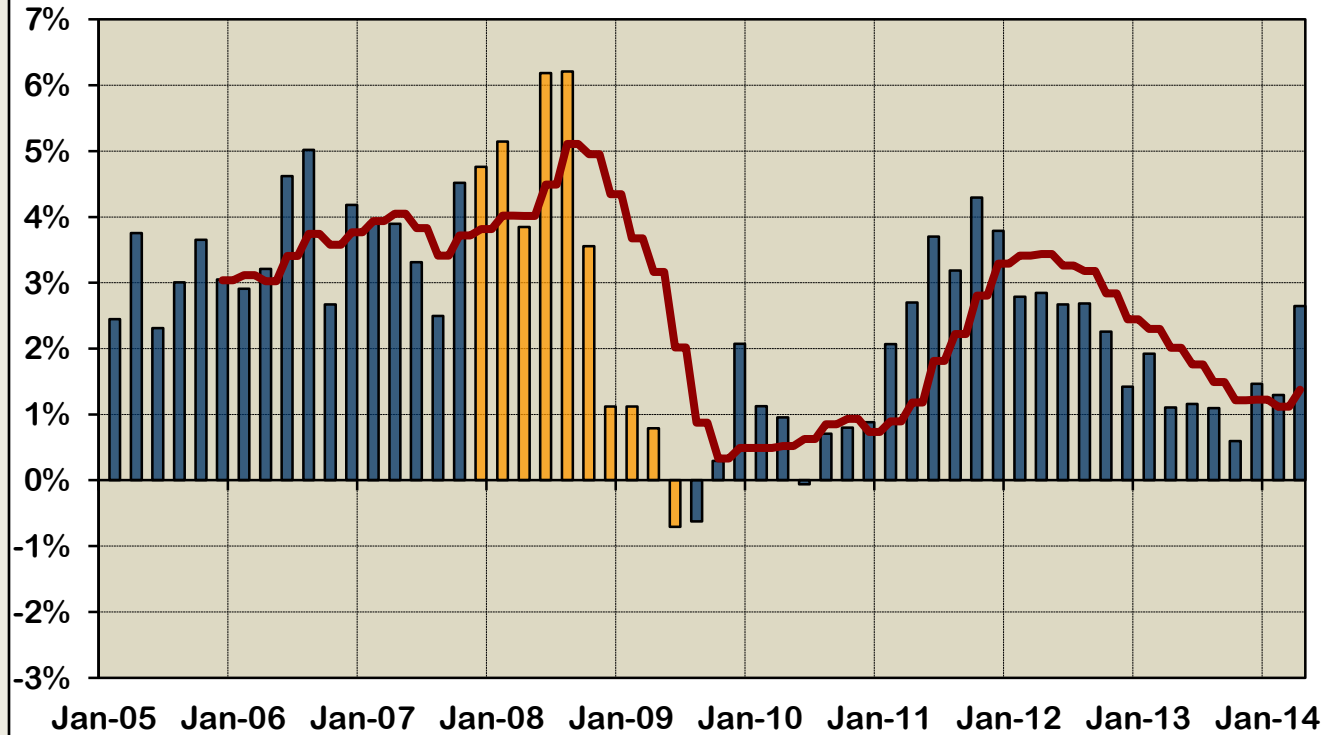
Shelter costs have been driving it.

Annual 2013 inflation excluding shelter was 0.2%.

So far in 2014, inflation appears to be firming, but forecast is for modest inflation.

## 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>