

2023 King County Economic and Revenue Forecast

Presentation to the King County Forecast Council

Presented on:
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Overview

U.S. economic picture complicated

- Covid-19 continues-new variants, vaccines, continuing risk (e.g., China)
- Inflation has risen to very elevated levels and affects everyone
- U.S. Fed is committed to getting it back to around 2%, so raising rates quickly
- Geopolitics/politics: Ukraine war, de-globalization, mid-terms
- Growth, recession, stagflation?

2022 year-to-date has been mixed but economy will slow

- Employment adds YTD average 460K/mo. and U=3.6%-strong labor market!
- June CPI over 9%-high inflation!
- GDP contracted in 1Q and possibly in 2Q-recession?!
- Fed trying to slow economic growth without a recession-tricky!
- Growth will be slow, unemployment will rise, inflation will slow

KC economy should continue growth but at a slower pace in 2022-2023

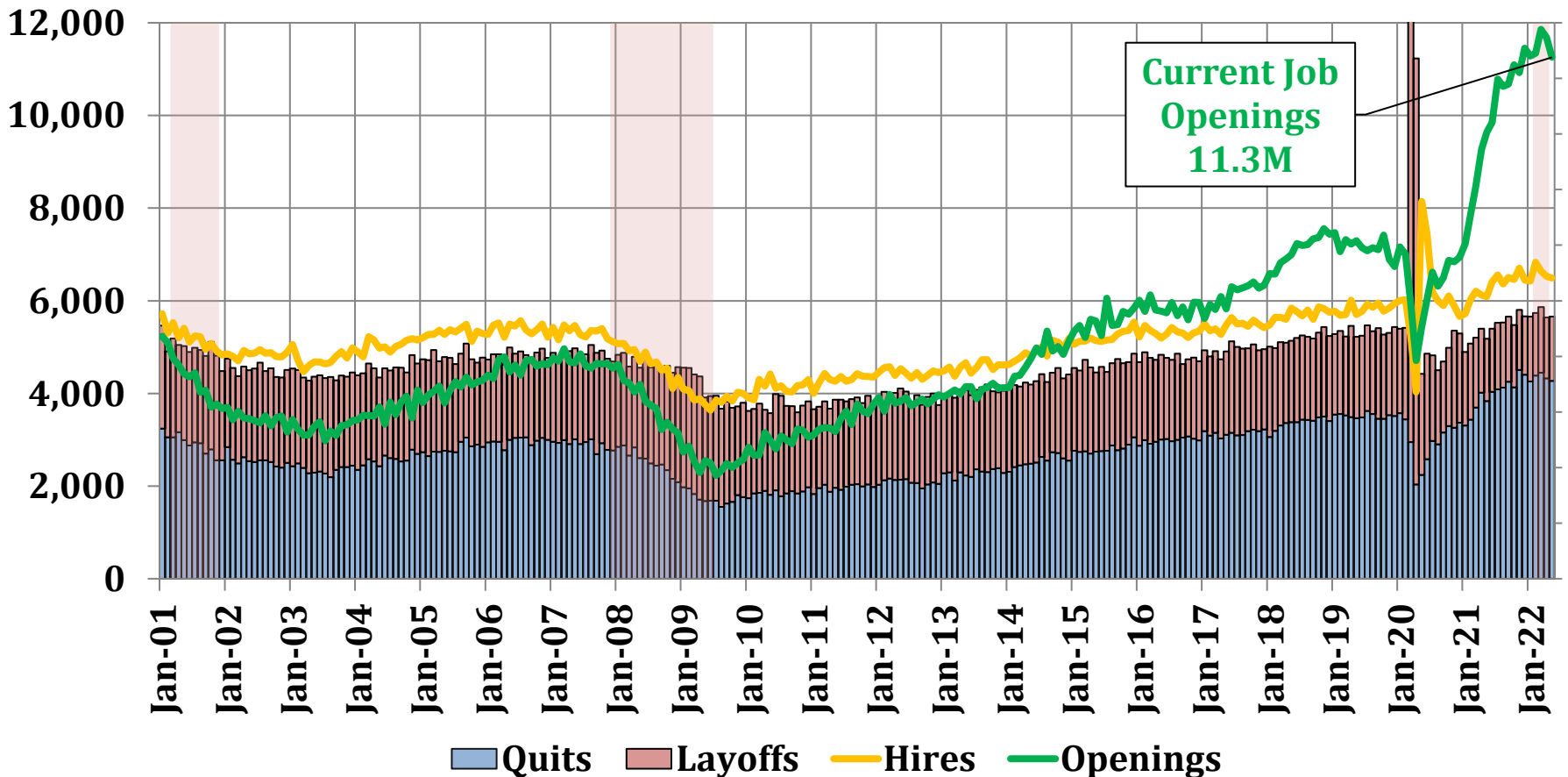
- KC likely back to pre-pandemic employment in June, U=about 2%!
- Slower rate of employment growth, real estate growth, taxable sales in the future
- Elevated risk of a recession which would mean even slower/negative growth
- Risks remain; virus variants, Ukraine and commodities, WFH

There are 11.3 million job openings putting upward pressure on wages



Hires and Separations: 11.3 Million Open Jobs

Job Openings and Labor Turnover Survey, SA (in thousands); January 2001-Present
Source: BLS



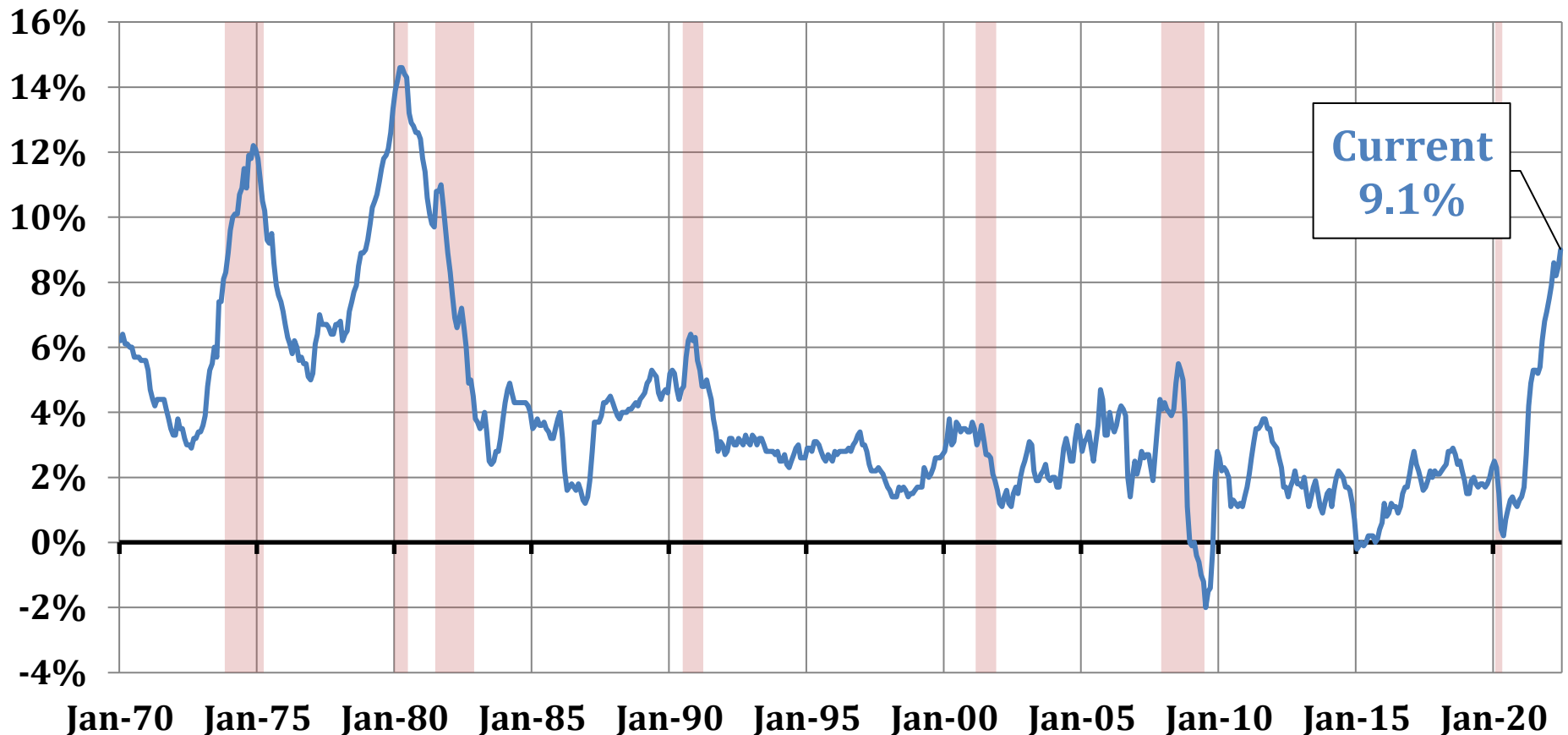
This is contributing to inflation levels not seen since the 1980s



U.S. Inflation

National CPI-U YOY% Growth; January 1970-Present

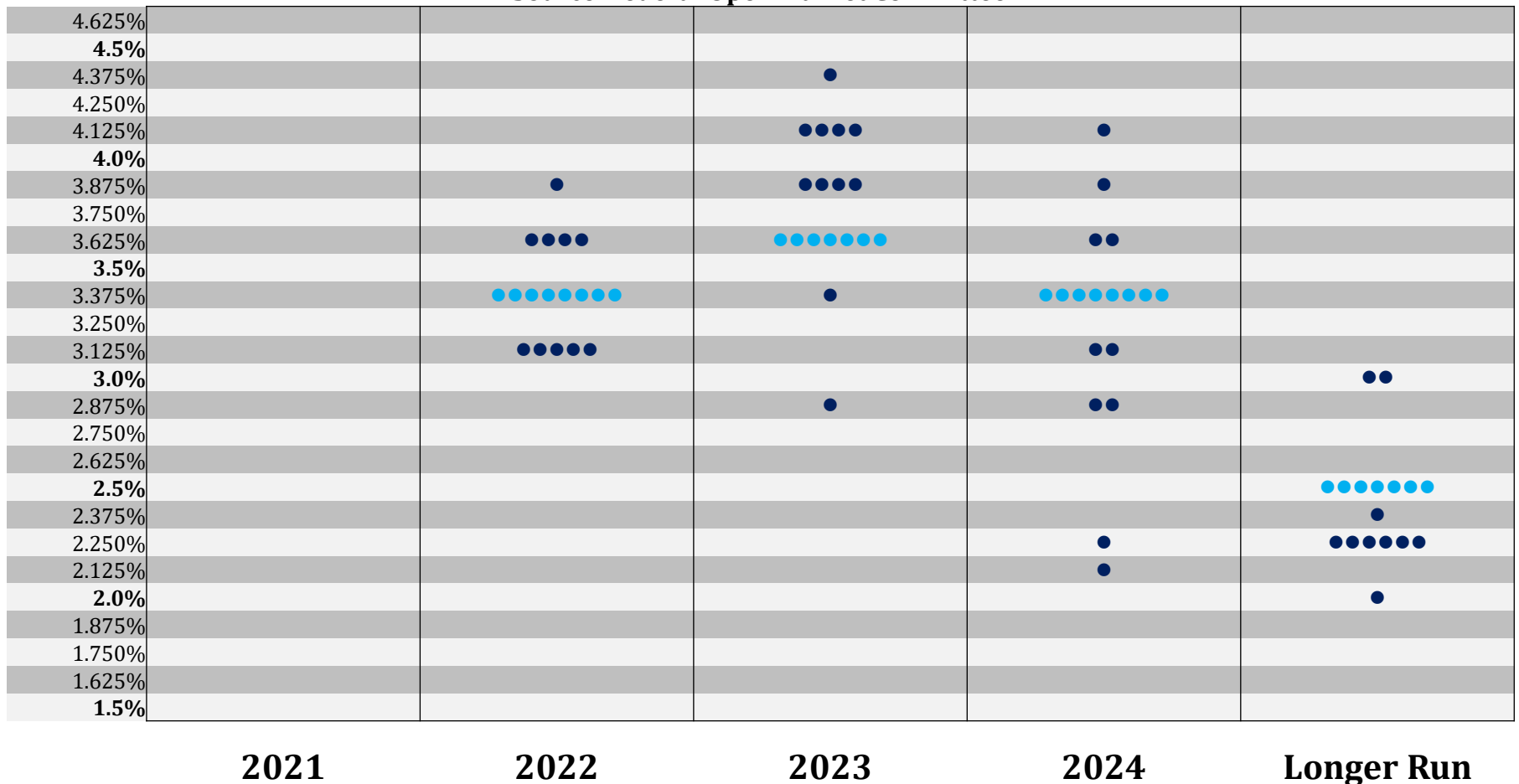
Source: FRED



The Federal Reserve expects to raise rates rapidly to slow inflation



The Fed's "Dot Plot"
 Published June 15, 2022
 Source: Federal Open Market Committee

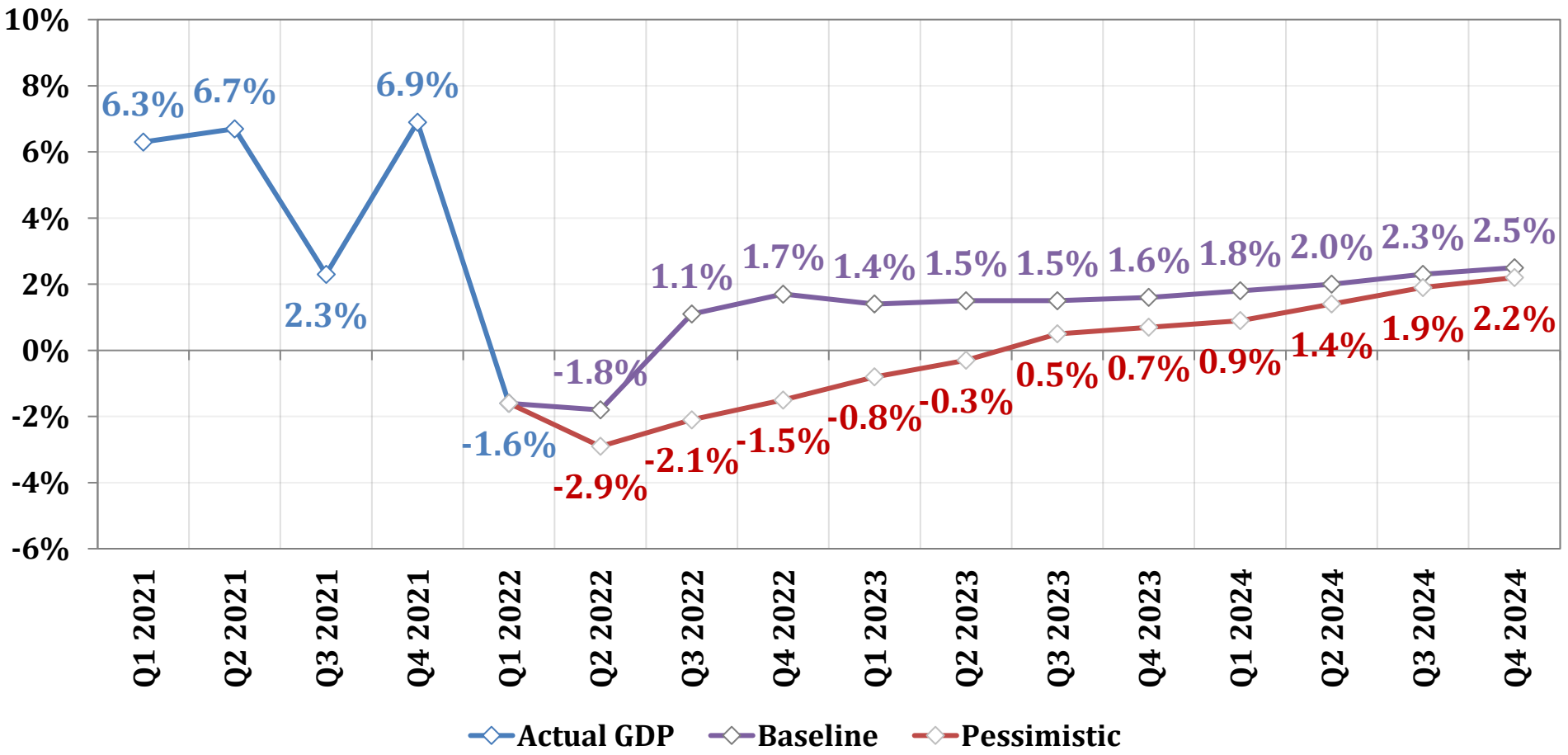


This will also slow economic (GDP) growth and increases the likelihood of a recession



U.S. Real GDP Growth Forecast

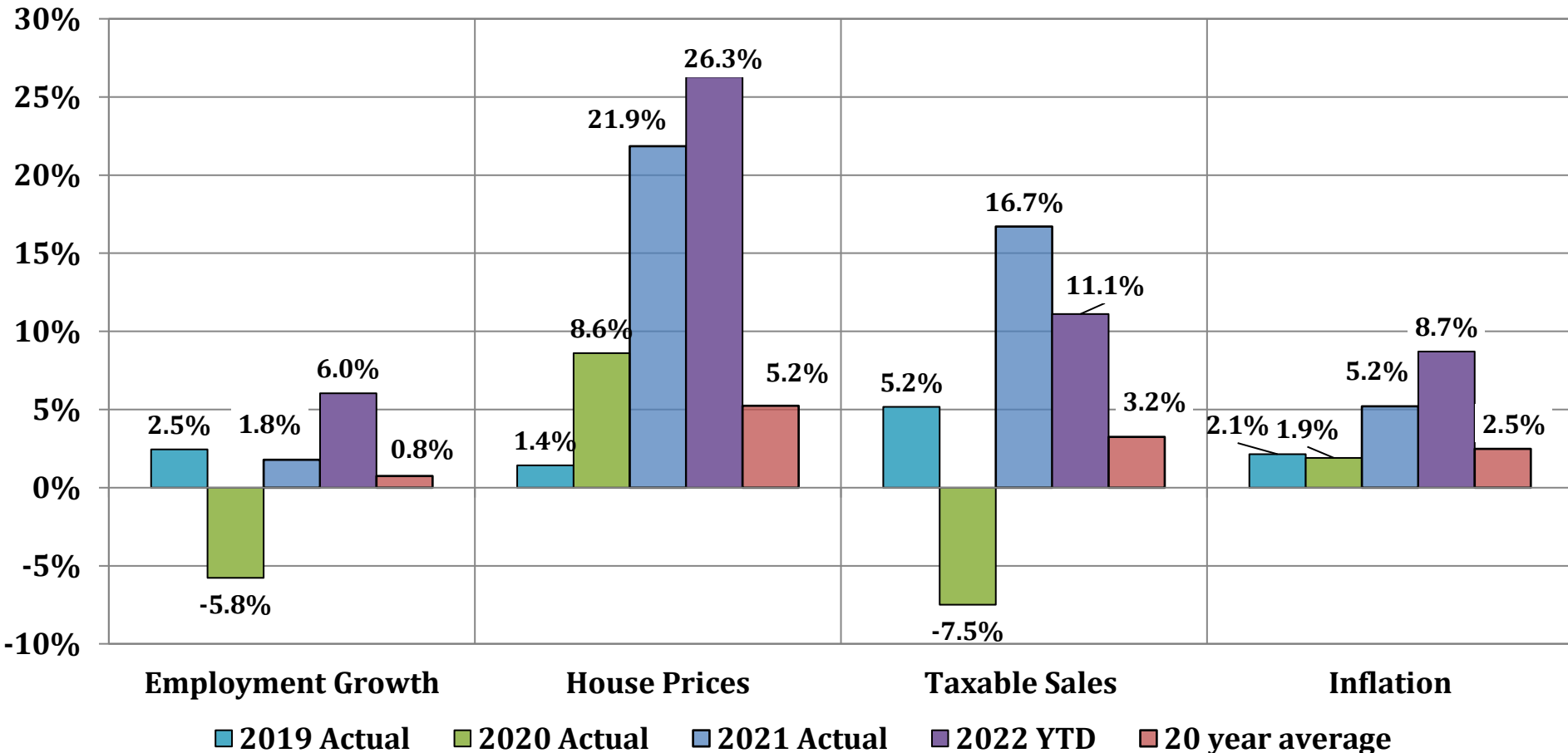
SAAR; with **Baseline** and **Pessimistic** Forecasts
Source: Blue Chip Indicators, IHS Global Insight



King County indicators continue to show recovery but also imbalances



King County Economic Indicators
2019-2021 Actuals & 2022 Actuals YTD & 20 Year Average
Source: PSEF, Case-Shiller, WA DOR, BLS

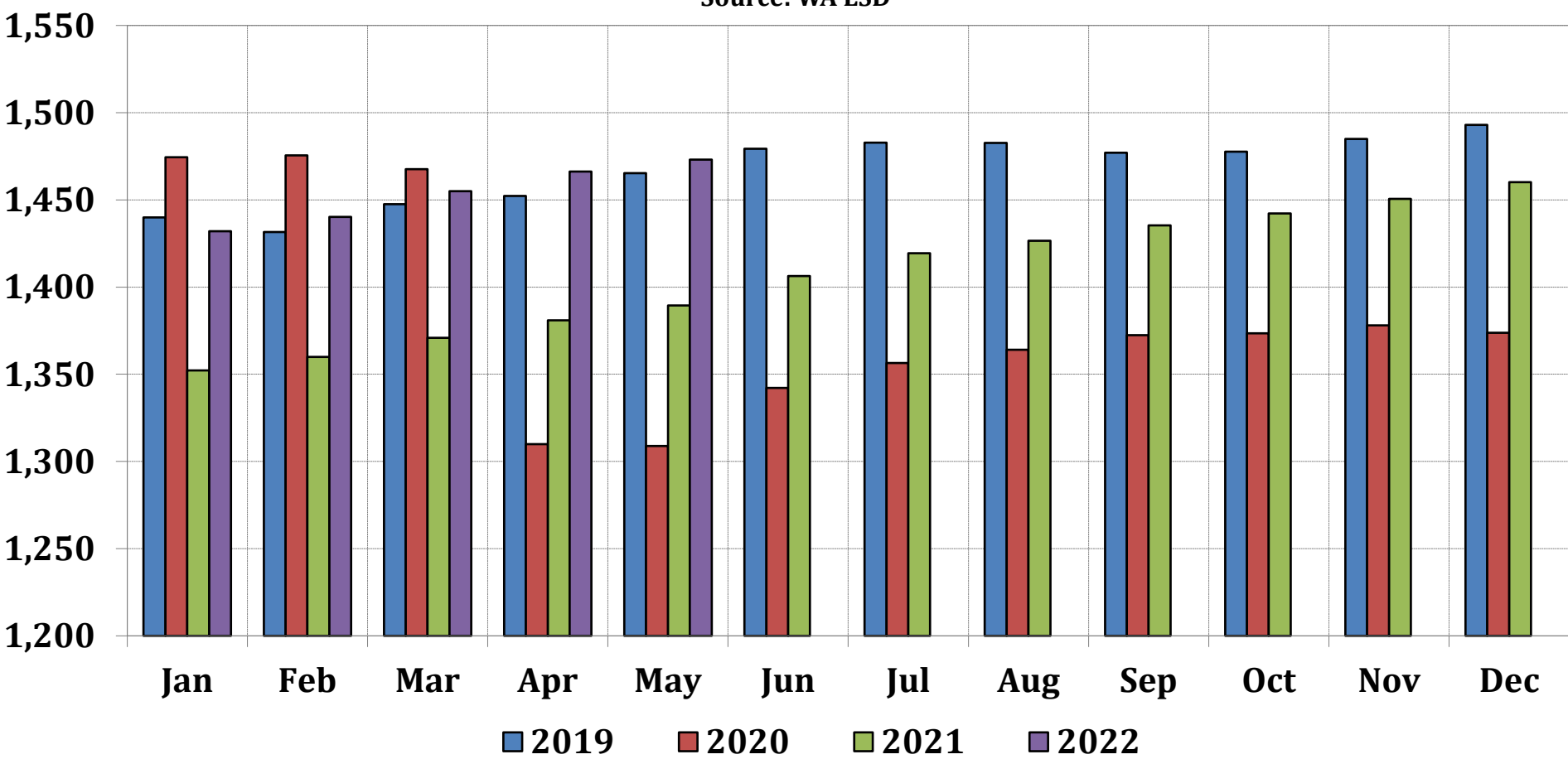


Employment is down 2,500 jobs compared with February 2020-likely fully recovered in June



King County Total Non-Farm Employment

Monthly job totals (in thousands), January 2019 to Present
Source: WA ESD



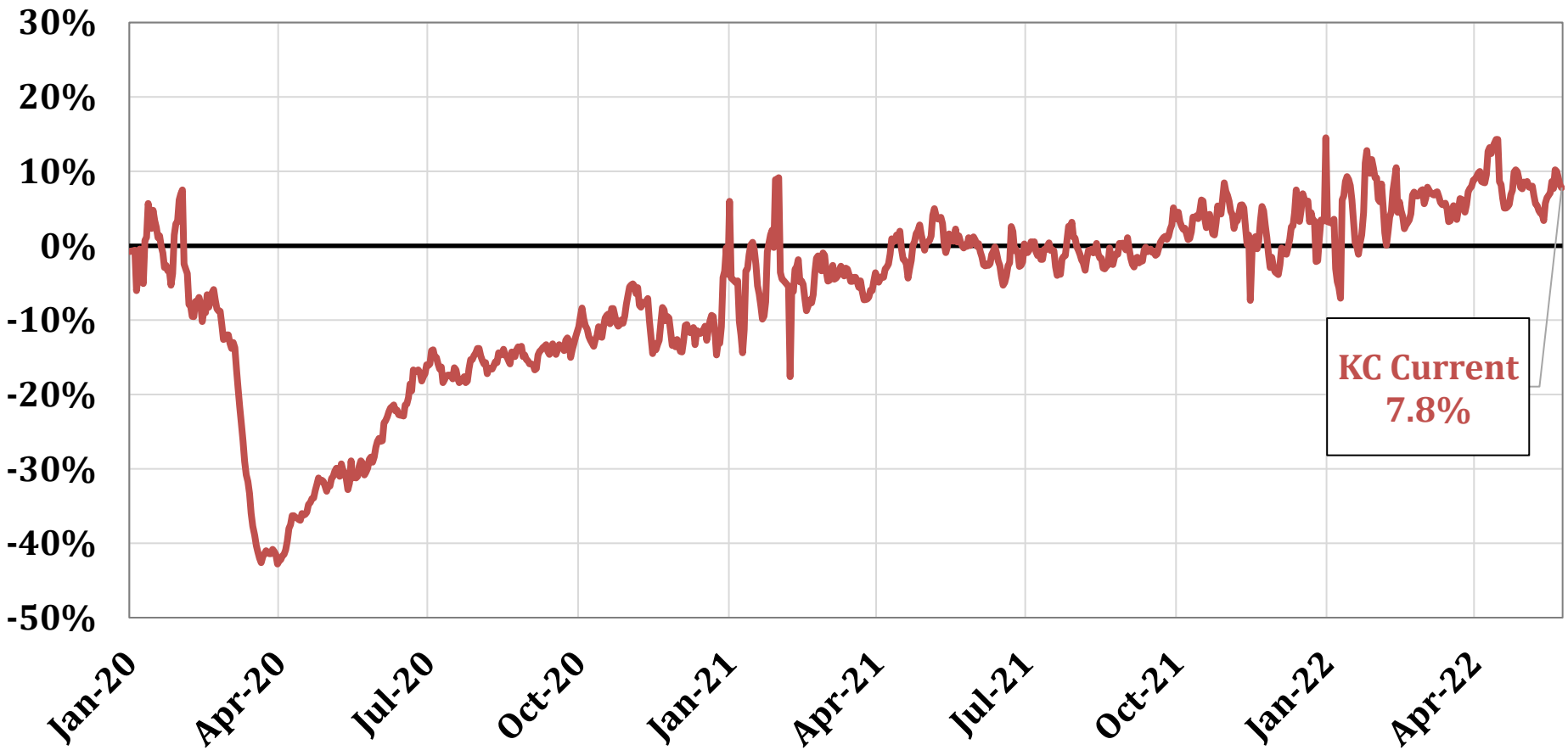
Consumer spending is holding up



Total Spending by All Consumers

Growth in Spending in KC relative to January 2020

Source: Opportunity Insights, based on card transactions from Affinity Solutions

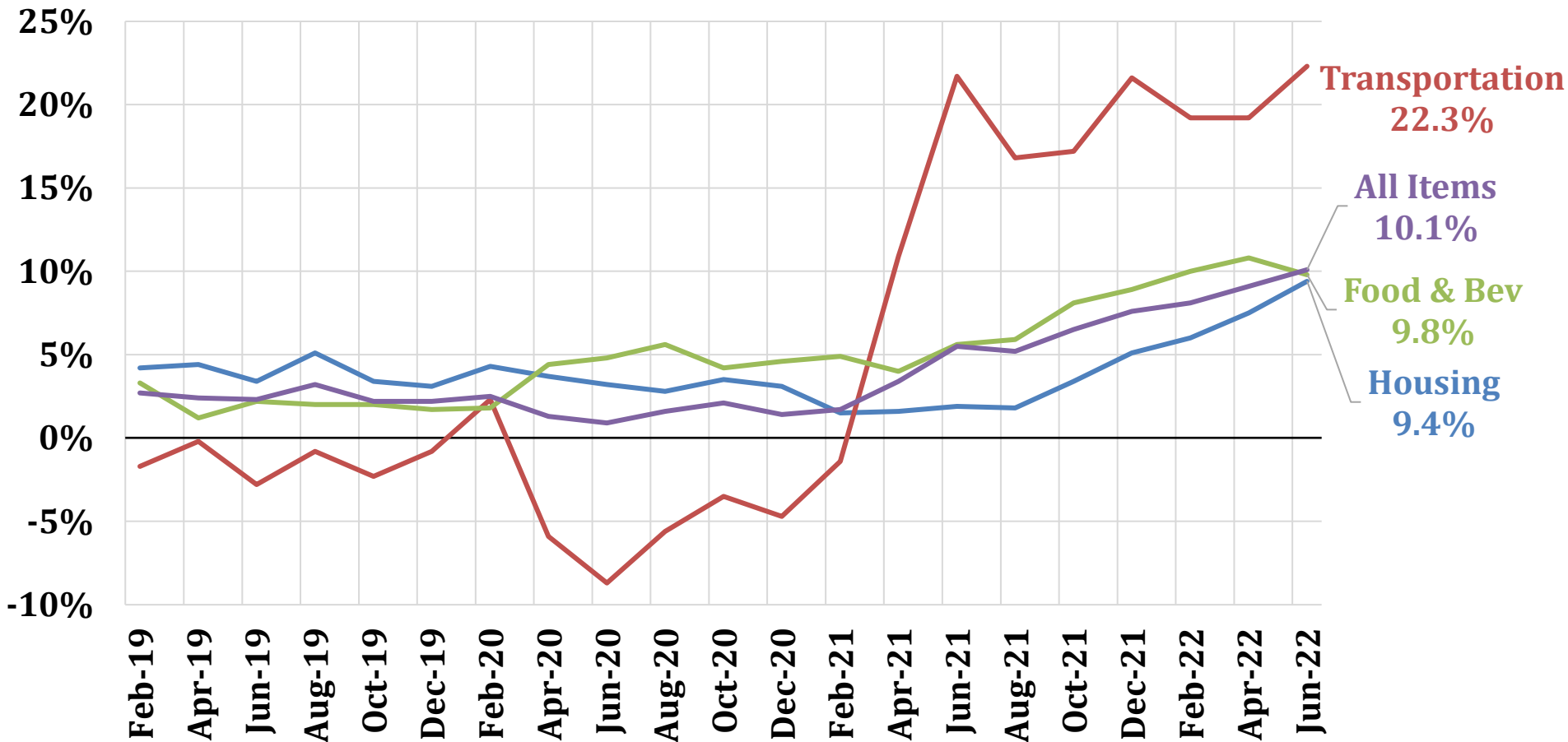


Local inflation still rising so far in 2022- looking for moderation later this year



Seattle Inflation: Food, Transportation, and Housing

Year-over-year Growth in STB CPI-U for Food, Housing, and Transportation in Seattle Area
Source: Bureau of Labor Statistics

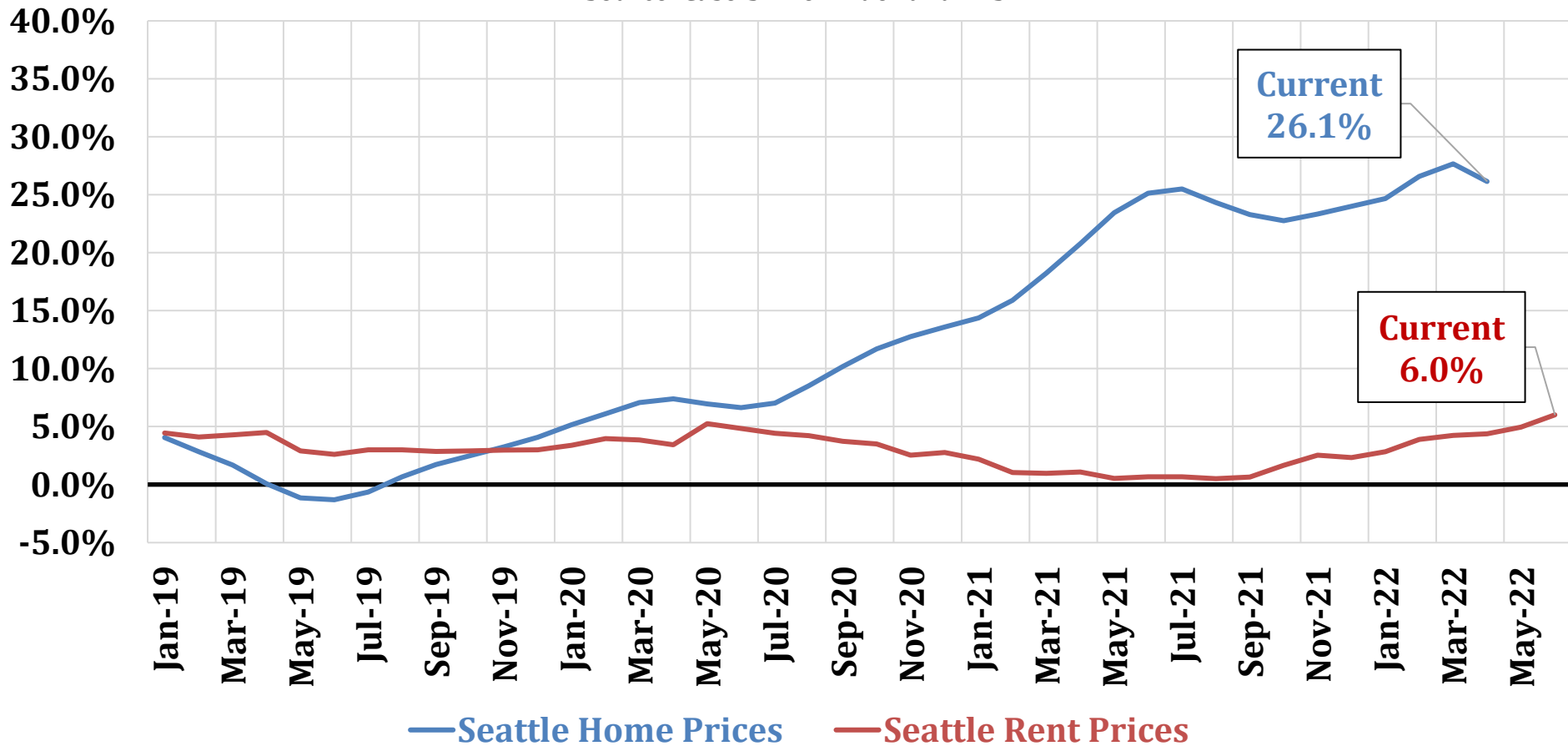


House prices have likely peaked as higher mortgage rates impact the market



Seattle House Price Growth & Rent Price Growth

Monthly year-over-year growth in House and Rental Prices; Jan 2019-Current
Source: Case-Shiller Index and BLS



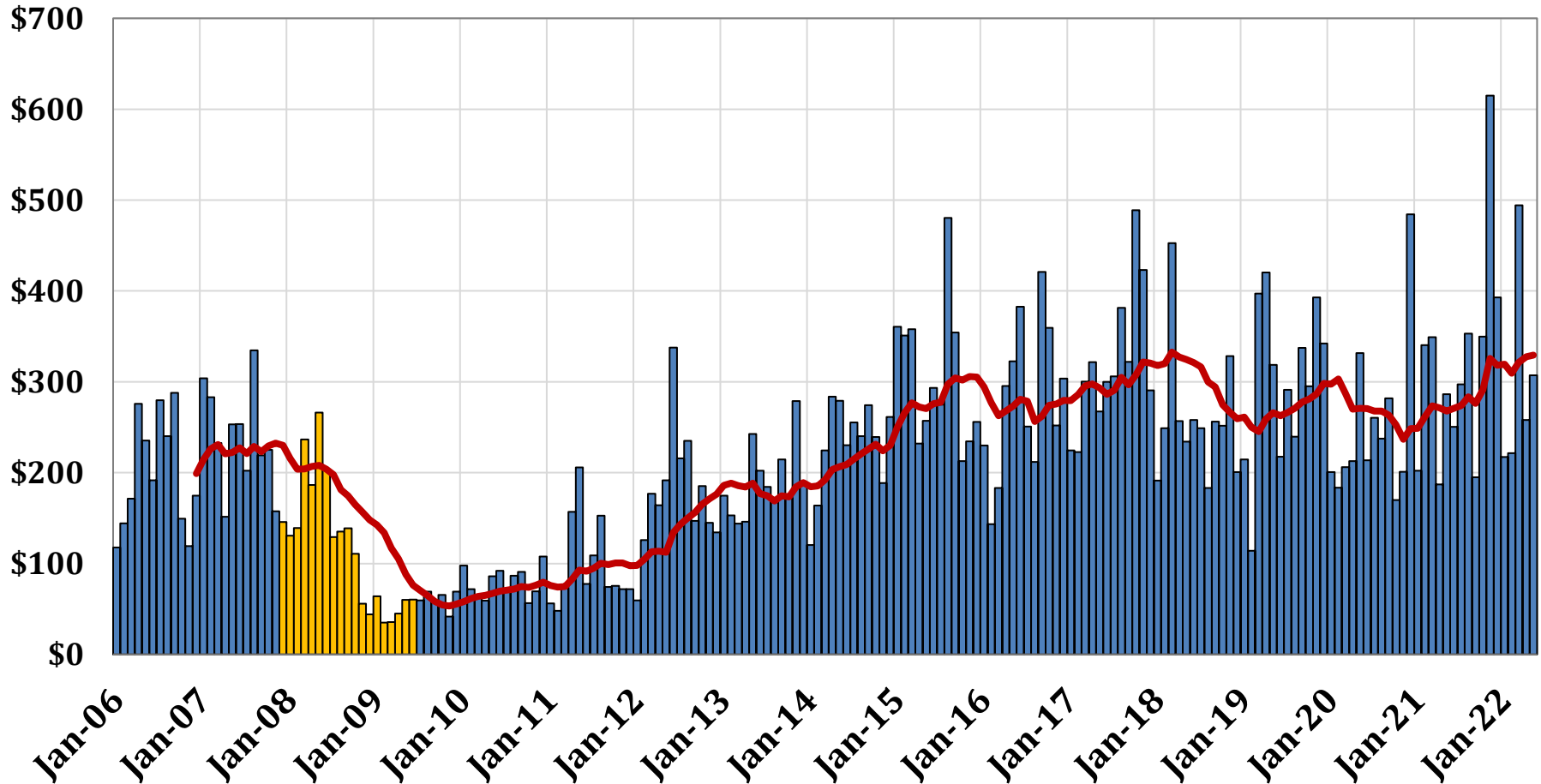
Residential permitting is holding up on continued multi-family strength



King County Residential Permit Values

Monthly Value of All Permits (in mil\$) Jan. 2006-Current with **Rolling Annual Avg.**

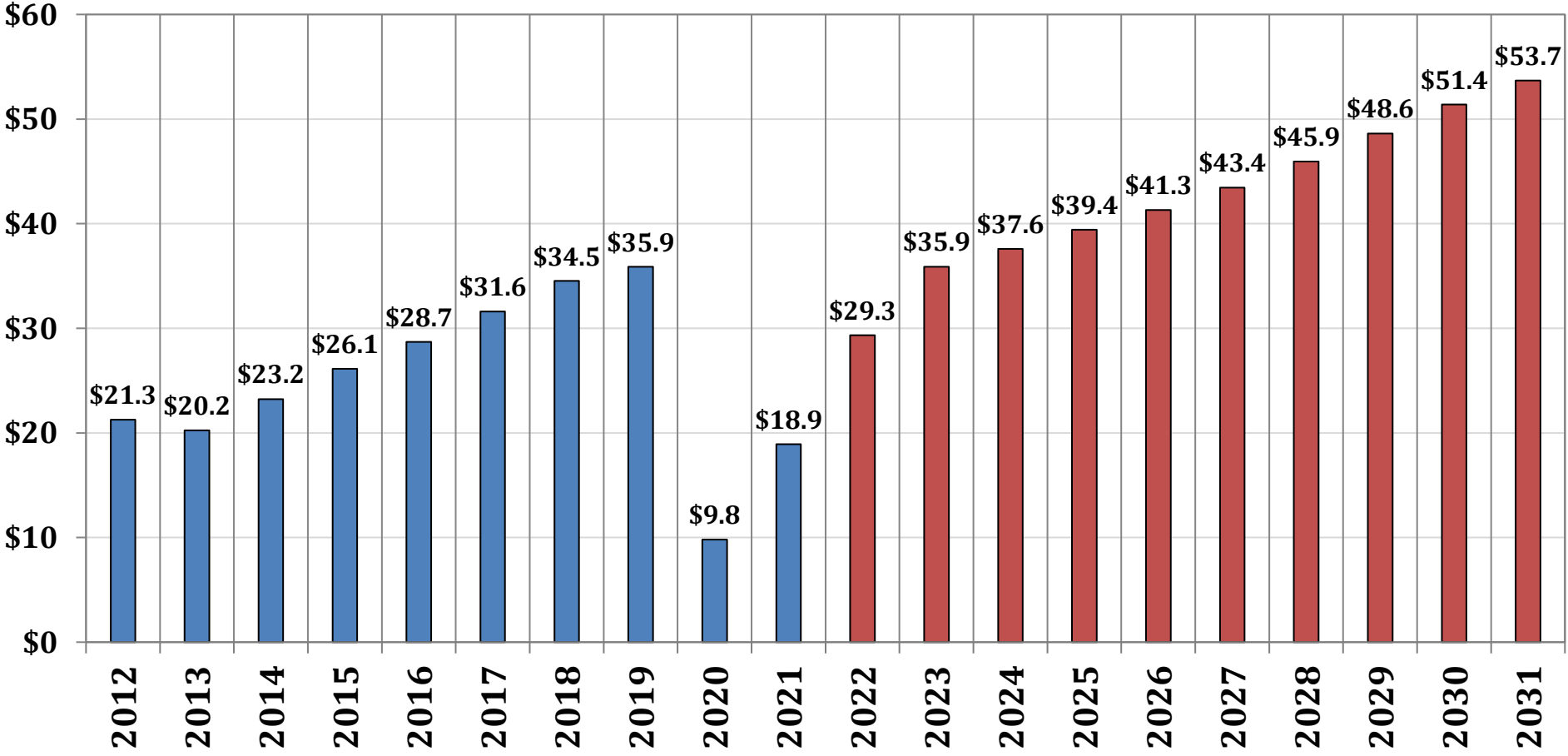
Source: Census Bureau



Tourism was hit hard during Covid but is recovering in 2022



KC Hotel Tax Forecast
In millions \$, with Actuals and Forecast bars
Source: WA DOR, King County OEFA

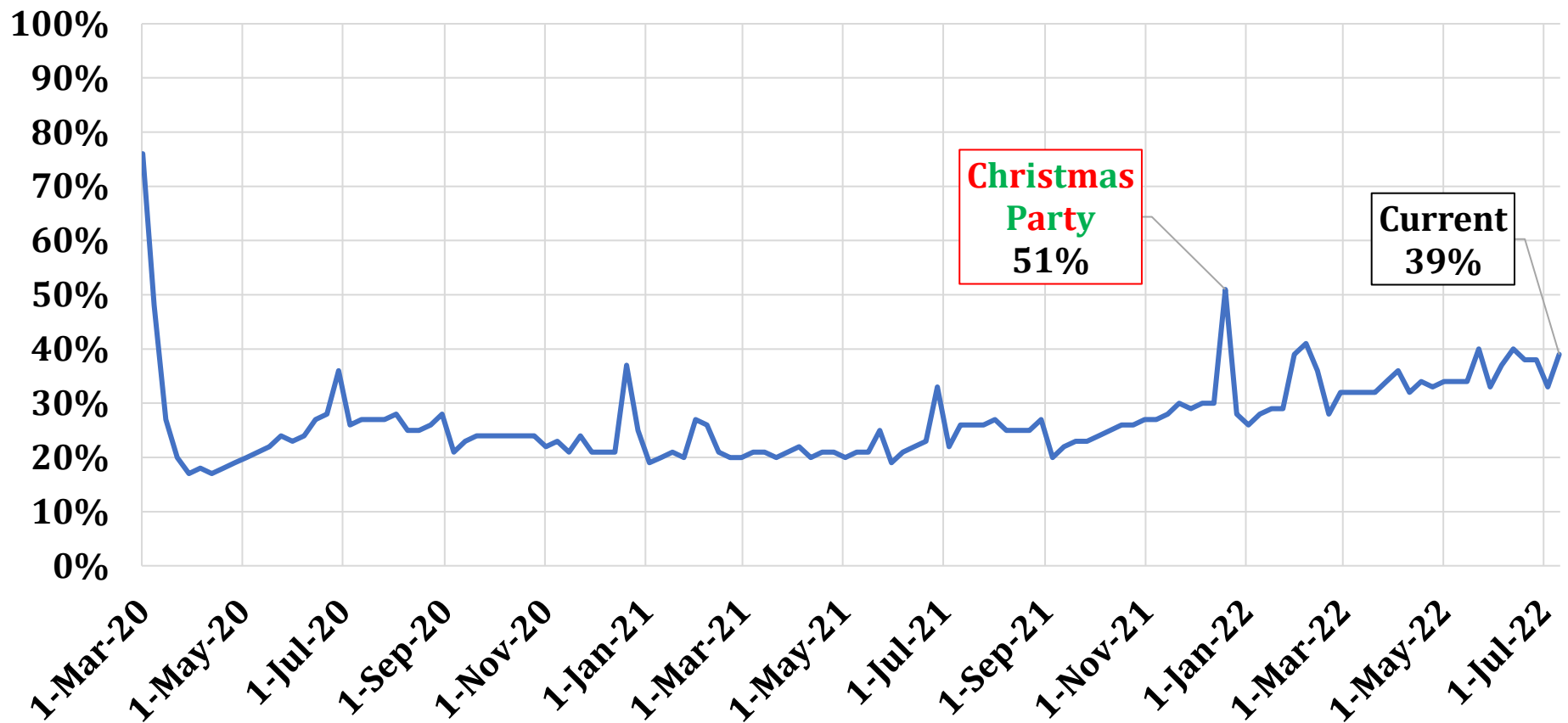


Office recovery in downtown Seattle- slow so far



Share of Office Workers Visiting Downtown

Estimated Weekly Percentage; March 2020-Current
Source: Downtown Seattle Association



July 2022 Revenue Forecasts

Assumptions:

(1) 65% Confidence Level – 65% chance revenues will come in higher than forecasted (lower for inflation/price forecasts)

(2) All potential annexation areas are assumed to occur on schedule:

-North Highline	(01-01-26)
-Renton West Hill	(01-01-26)
-Fairwood	(01-01-27)
-Renton East Hill	(01-01-28)
- N. Federal Way/Lakeland South	(01-01-28)

Countywide Assessed Value Forecast

Tax Year	Value	Annual Growth	% Change from March 2022 Forecast	\$ Change from March 2022 Forecast
2020	\$642,490,492,044	5.91%	0.00%	\$0
2021	\$659,534,881,337	2.65%	0.00%	\$0
2022	\$722,527,903,972	9.55%	0.00%	\$0
2023	\$832,973,230,370	15.29%	2.83%	\$22,942,406,809
2024	\$860,058,293,244	3.25%	-0.81%	(\$7,031,378,432)
2025	\$901,453,235,099	4.81%	-1.26%	(\$11,477,962,266)
2026	\$947,653,922,792	5.13%	-1.52%	(\$14,646,474,522)
2027	\$995,818,621,117	5.08%	-1.62%	(\$16,425,975,452)
2028	\$1,047,657,337,004	5.21%	-1.93%	(\$20,623,337,926)
2029	\$1,101,077,097,811	5.10%	-2.15%	(\$24,242,061,394)
2030	\$1,160,484,023,446	5.40%	-2.27%	(\$26,995,941,497)
2031	\$1,218,462,663,025	5.00%	-2.39%	(\$29,892,600,034)

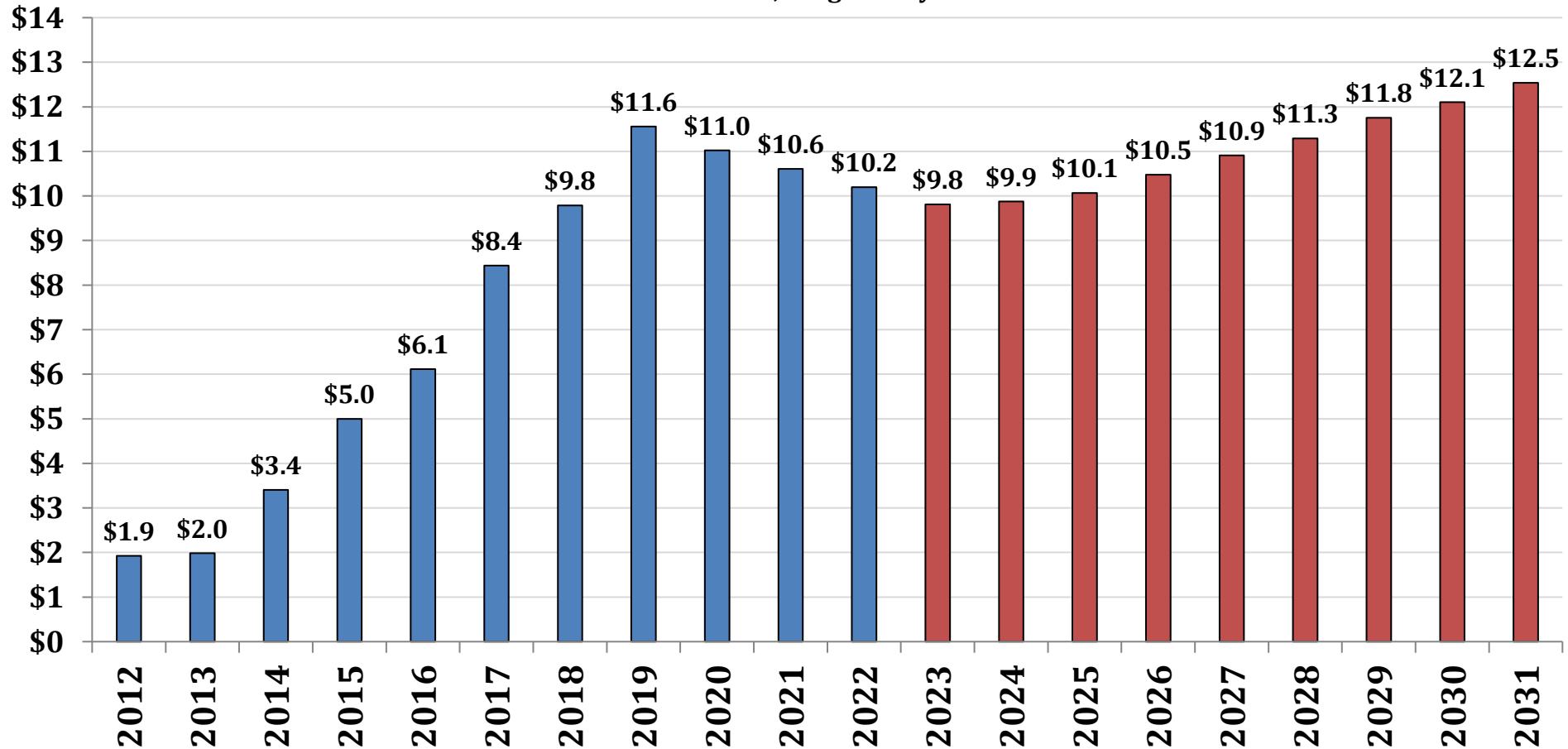
New Construction Forecast



King County New Construction Forecast

In billions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA



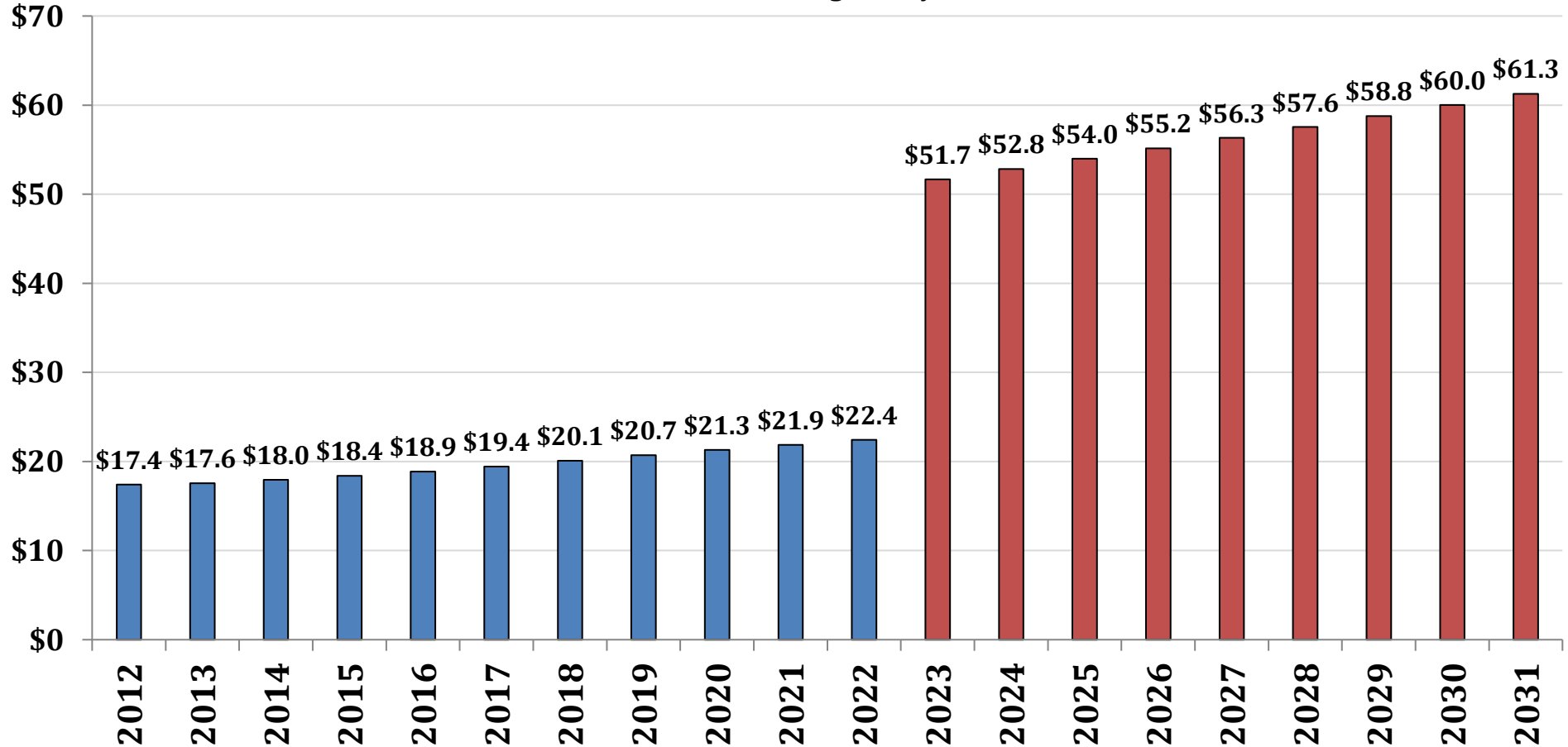
Conservation Futures Forecast



King County Conservation Futures Forecast

In millions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA

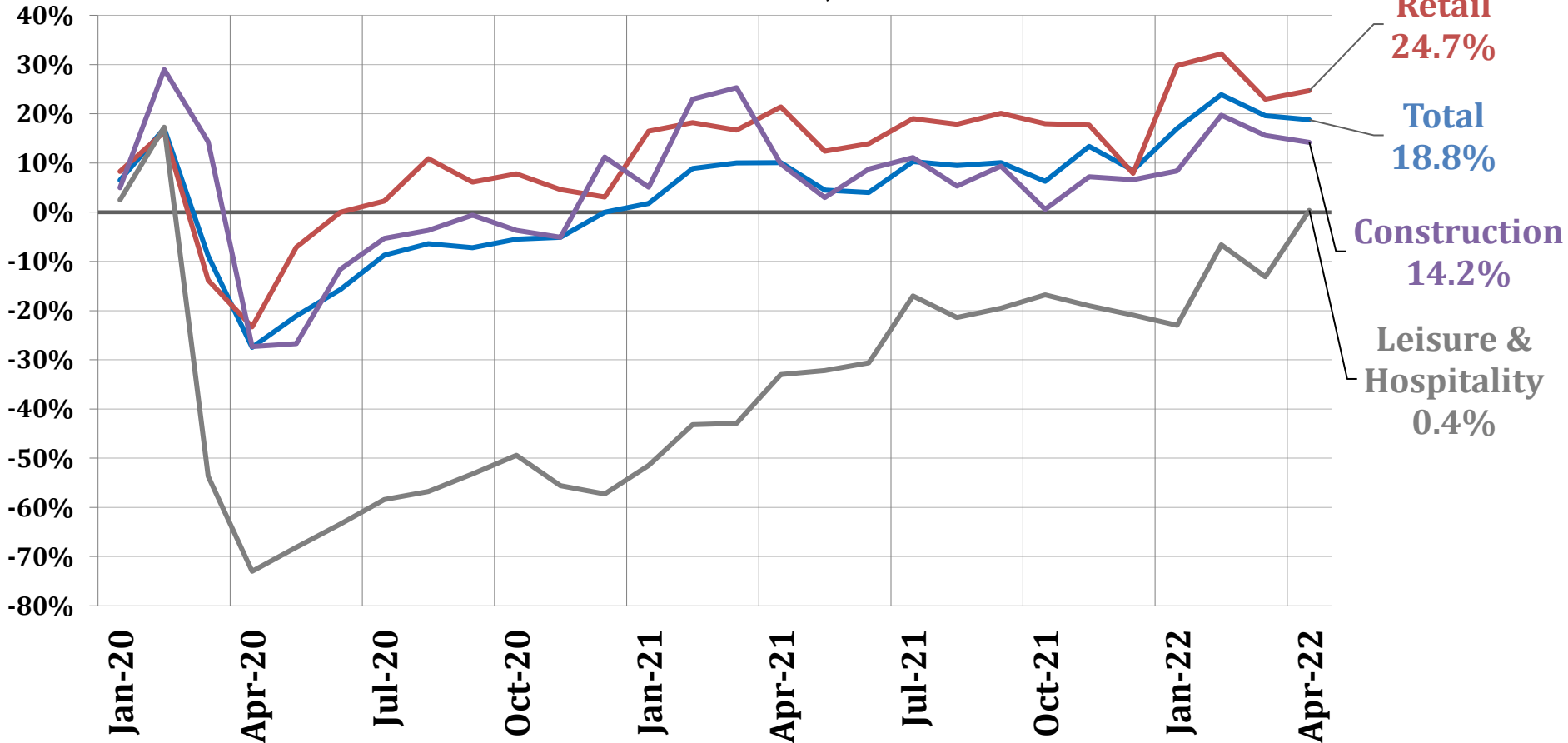


Taxable sales overall came back in 2021 but leisure and hospitality just reached positive territory in April 2022



Taxable Sales Growth

Monthly growth rates of taxable sales for select sectors relative to 2019 month
Source: WA DOR, KC OEFA



King County Taxable Sales Forecast

Tax Year	Value	Annual Growth	% Change from March 2022 Forecast	\$ Change from March 2022 Forecast
2020	\$70,728,682,615	-7.53%	0.00%	\$0
2021	\$82,495,306,590	16.64%	0.12%	\$95,306,590
2022	\$88,374,857,819	7.13%	1.37%	\$1,192,495,015
2023	\$91,952,938,450	4.05%	0.63%	\$576,002,614
2024	\$96,163,139,650	4.58%	-0.11%	(\$109,793,848)
2025	\$100,216,003,150	4.21%	-0.66%	(\$661,819,653)
2026	\$104,790,037,358	4.56%	-0.86%	(\$908,278,459)
2027	\$109,302,308,834	4.31%	-2.08%	(\$2,323,978,983)
2028	\$114,617,283,852	4.86%	-2.35%	(\$2,764,148,588)
2029	\$120,045,074,934	4.74%	-2.37%	(\$2,918,850,527)
2030	\$126,012,542,377	4.97%	-2.14%	(\$2,754,534,980)
2031	\$131,764,719,363	4.56%	-2.17%	(\$2,918,338,914)

King County Local & Option Sales Tax Forecast

Tax Year	Value	Annual Growth	% Change from March 2022 Forecast	\$ Change from March 2022 Forecast
2020	\$132,079,220	-4.04%	0.00%	\$0
2021	\$155,146,050	17.46%	0.00%	\$0
2022	\$164,961,862	6.33%	1.84%	\$2,974,242
2023	\$168,483,723	2.13%	1.58%	\$2,624,031
2024	\$175,372,602	4.09%	0.36%	\$626,109
2025	\$181,903,621	3.72%	-0.66%	(\$1,201,279)
2026	\$182,280,226	0.21%	-1.03%	(\$1,900,809)
2027	\$187,342,767	2.78%	-2.41%	(\$4,626,572)
2028	\$191,639,361	2.29%	-2.86%	(\$5,639,073)
2029	\$200,711,266	4.73%	-3.35%	(\$6,956,764)
2030	\$210,731,909	4.99%	-2.58%	(\$5,572,737)
2031	\$220,346,006	4.56%	-2.95%	(\$6,696,829)

State law on penalties and interest for delinquent property taxes has changed impacting general fund revenues

Tax Year	Value	Annual Growth	% Change from March 2022 Forecast	\$ Change from March 2022 Forecast
2020	\$20,379,665	-4.19%	0.00%	\$0
2021	\$28,056,272	37.67%	0.00%	(\$0)
2022	\$22,886,923	-18.42%	-12.39%	(\$3,236,330)
2023	\$18,195,168	-20.50%	-24.98%	(\$6,059,583)
2024	\$16,643,525	-8.53%	-29.46%	(\$6,949,629)
2025	\$16,876,300	1.40%	-29.49%	(\$7,059,439)
2026	\$17,124,966	1.47%	-29.63%	(\$7,211,318)
2027	\$17,381,820	1.50%	-29.88%	(\$7,406,779)
2028	\$17,712,219	1.90%	-29.99%	(\$7,588,737)
2029	\$18,010,603	1.68%	-30.21%	(\$7,794,688)
2030	\$18,186,466	0.98%	-30.35%	(\$7,924,889)
2031	\$18,337,106	0.83%	-30.39%	(\$8,004,923)

Estimated selected revenue impacts from recession scenarios

2022-2024 Revenue Impacts-Selected Recessions

	Revenue Item	65% CI (Base) Revenue Forecast (2022-2024)	Revenue Reduction (Modest Recession,\$)	Revenue Reduction (Modest Recession,%)	Revenue Reduction (More Severe Recession,\$)	Revenue Reduction (More Severe Recession,%)
1	Local and Option	\$509M	\$9M-\$21M	2%-4%	36M-\$42M	7%-9%
2	Metro	\$2.48B	\$46M-\$101M	2%-4%	\$170M-\$210M	7%-9%
3	MIDD	\$271M	\$5M-\$11M	2%-4%	\$18M-\$22M	7%-9%
4	CJ	\$55M	\$1M-\$2M	2%-4%	\$3M-\$5M	6%-9%
5	HTH	\$205M	\$4M-\$8M	2%-4%	\$14M-\$18M	7%-9%
6	KC Hotel	\$103M	\$2M-\$4M	2%-4%	\$5M-\$6M	5%-6%
7	KC Car Rental	\$14M	\$0.2M-\$0.4M	1%-3%	\$1M-\$1.5M	7%-11%

Note: The modest recession is based on a pessimistic scenario supplied by our vendor (Global Insight) and the 1990-1991 recession taxable sales growth rates. The more severe recession uses growth rates from the 2001 recession.

King County
Office of Economic and Financial Analysis

<http://www.kingcounty.gov/independent/forecasting.aspx>