



King County

# March 2015 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

March 13<sup>th</sup>, 2015

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**Office of Economic and Financial Analysis**



# Summary

- **2014 turned out to be pretty good**
  - Economic growth of 2.4% even with terrible 1Q
  - Accelerated employment growth
  - Housing recovery in slower speed
- **2015 & 2016 look to be solid**
  - Forecast of good economic and employment growth
  - Consumer balance sheets and low gas prices
  - The Federal Reserve will likely begin to raise rates
  - Risks remain – China, EU, strife in the Middle East and Eastern Europe, currency strength/weakness
- **King County economic recovery is maturing**
- **County revenues continue to be strong**

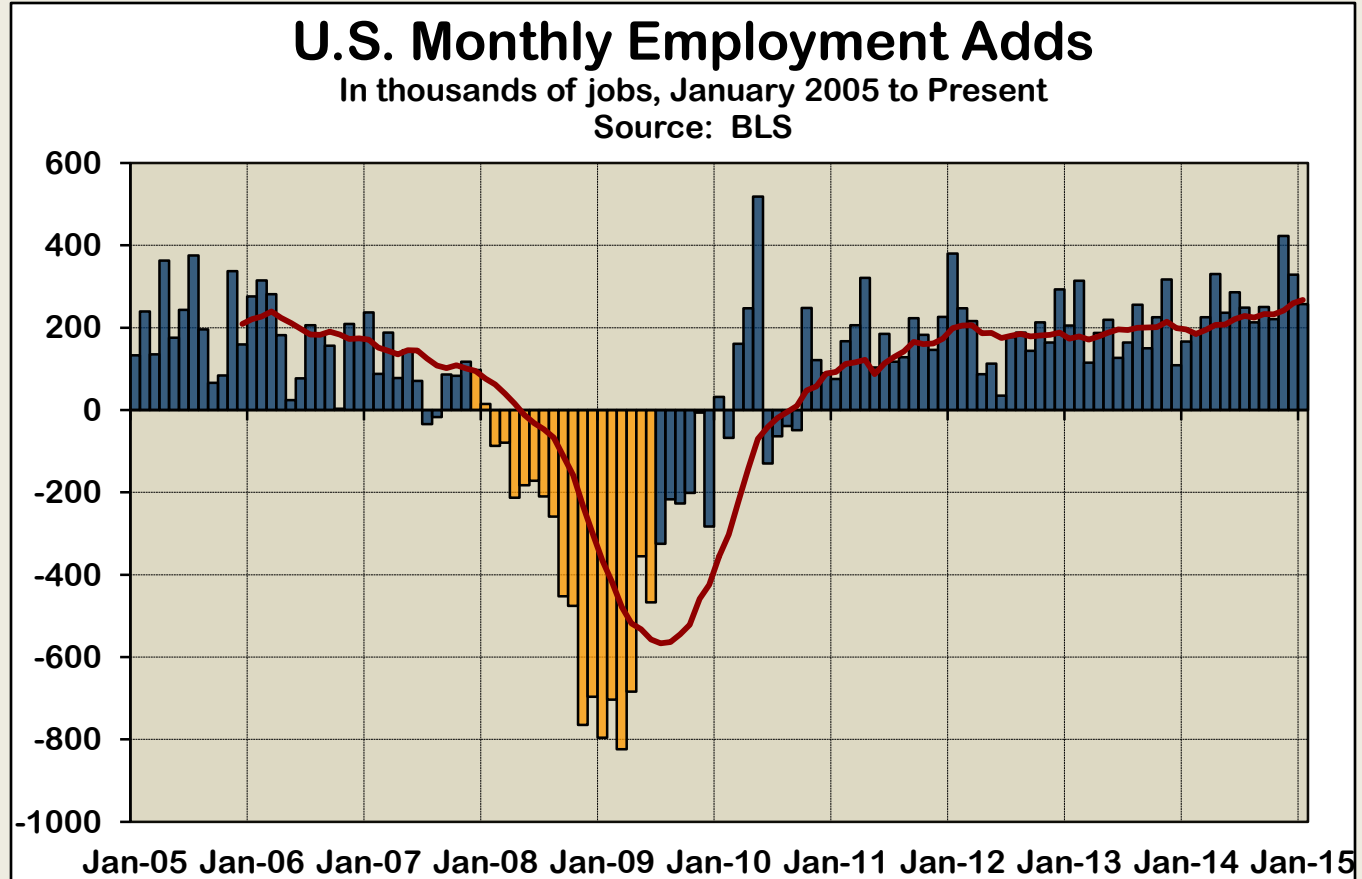


# The national economy continues to create jobs

The U.S. economy has added 10M jobs since the end of the recession.

In 2014, adds averaged 260K per month (well above forecast).

The national unemployment rate is now 5.5% (Feb.)



Blue = Actual Orange = Recession Red Line = Annual average

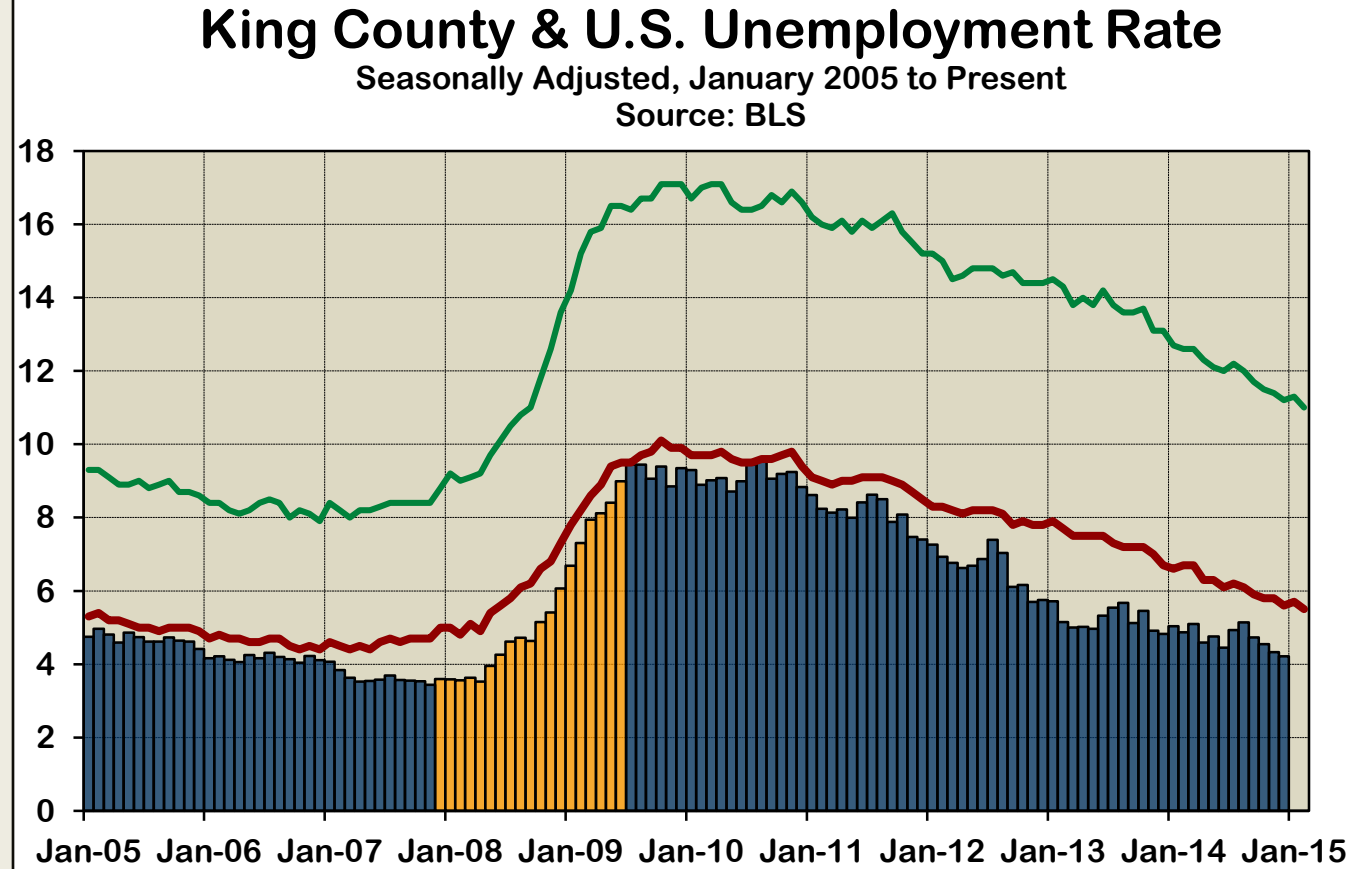


# As employment improves, labor market slack falls.....

The U.S. unemployment rate has been falling for 5 years.

A key indicator of employment slack for the Fed.

Alternative measures (like U-6) may be a better indicator of slack.



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

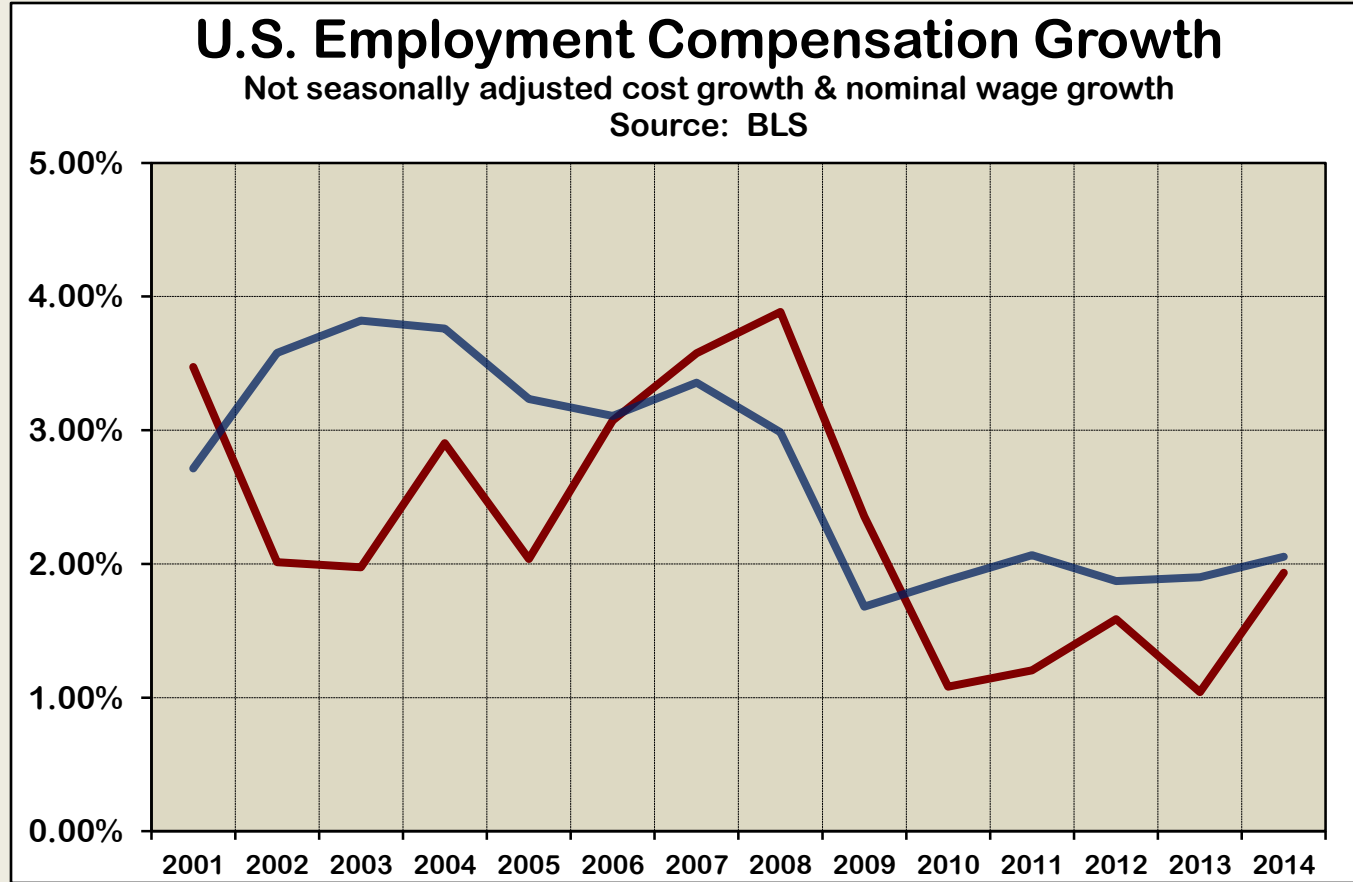


# With less slack, wages should begin to rise...but we haven't seen it yet.

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

It has not changed much however.

Important for Fed rate timing.



Blue area = Employee cost index growth Red area = Nominal wage growth



# Note to forecasters....stay humble and...weirdness continues

One surprise in 2014 was U.S. bond yields.

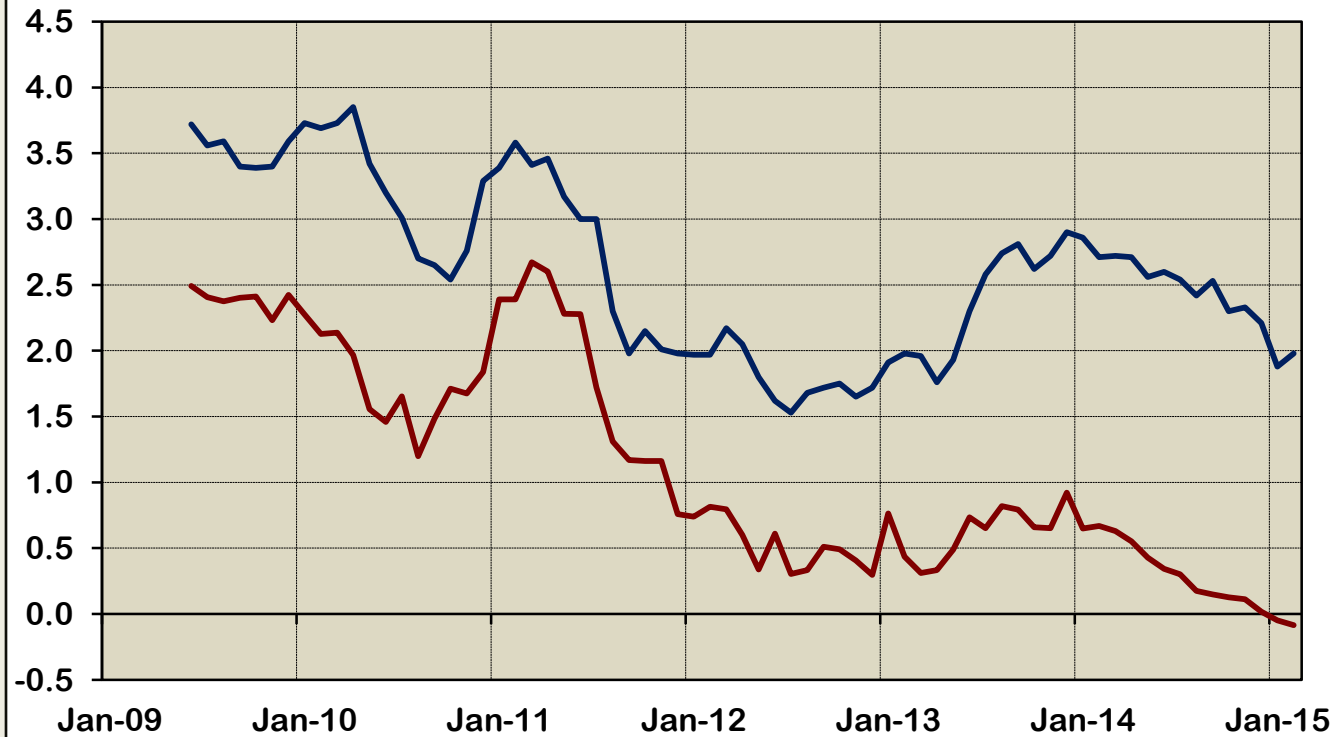
Blue Chip forecasters called for 10-year yields of 3.4% by 2014:4Q.

Germany issued five-year bonds with negative yields for the first time last month.

## US Ten and German Five Year Treasury Yields

June 2009 to February 2015

Source: The Federal Reserve and Bloomberg



Blue = US Treasuries Red = German Government Bonds

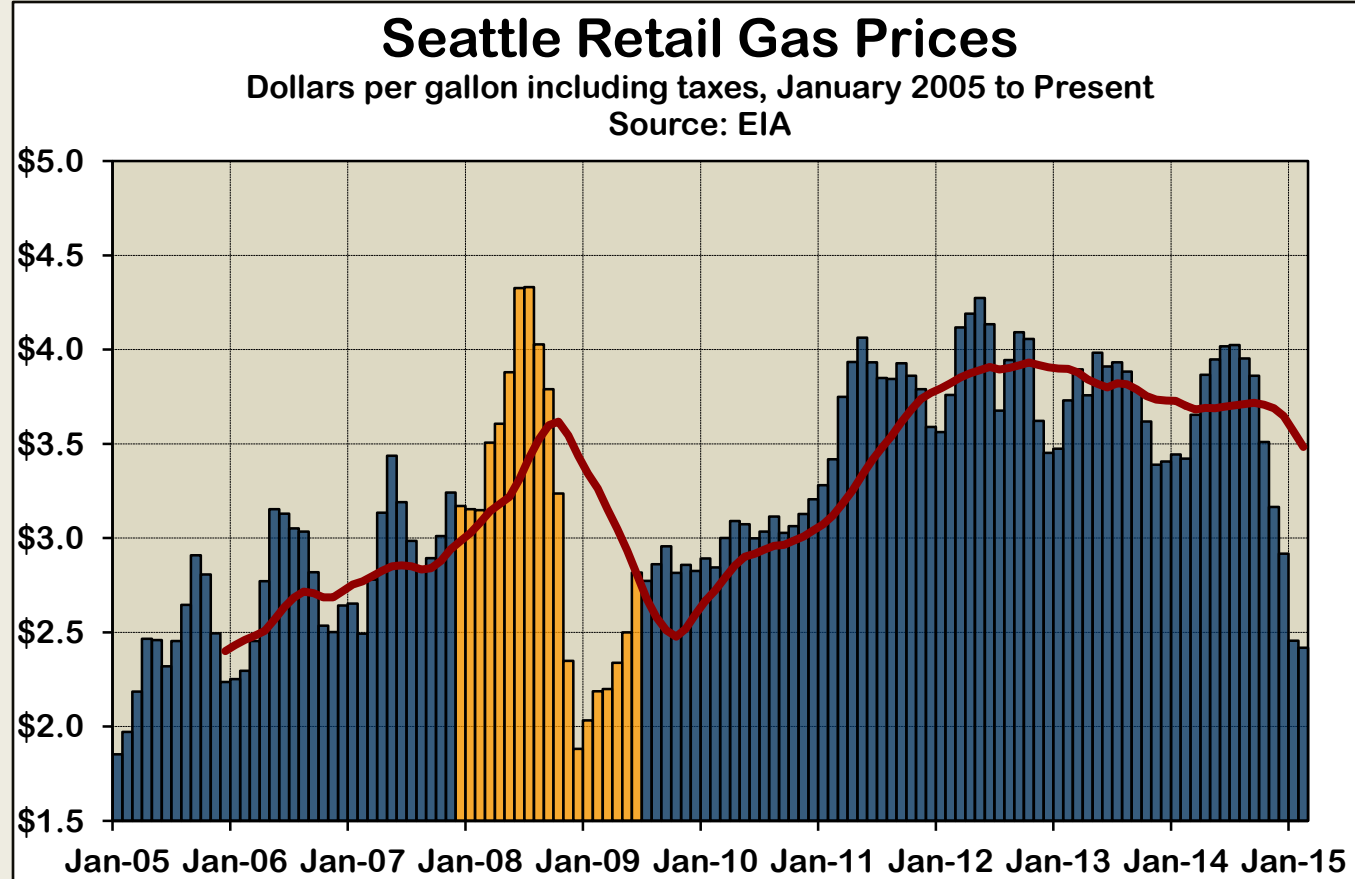


# Rapid drop in gas prices was a surprise to most...

Increased oil production (among other things) led to a large drop in oil prices at the end of 2014.

Gas prices have since fallen to under \$2.50 per gallon on average.

Ongoing volatility in gas prices should be expected.



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



# ..and acts like a tax cut freeing up income for other expenditures

Gas price changes will have different effects.

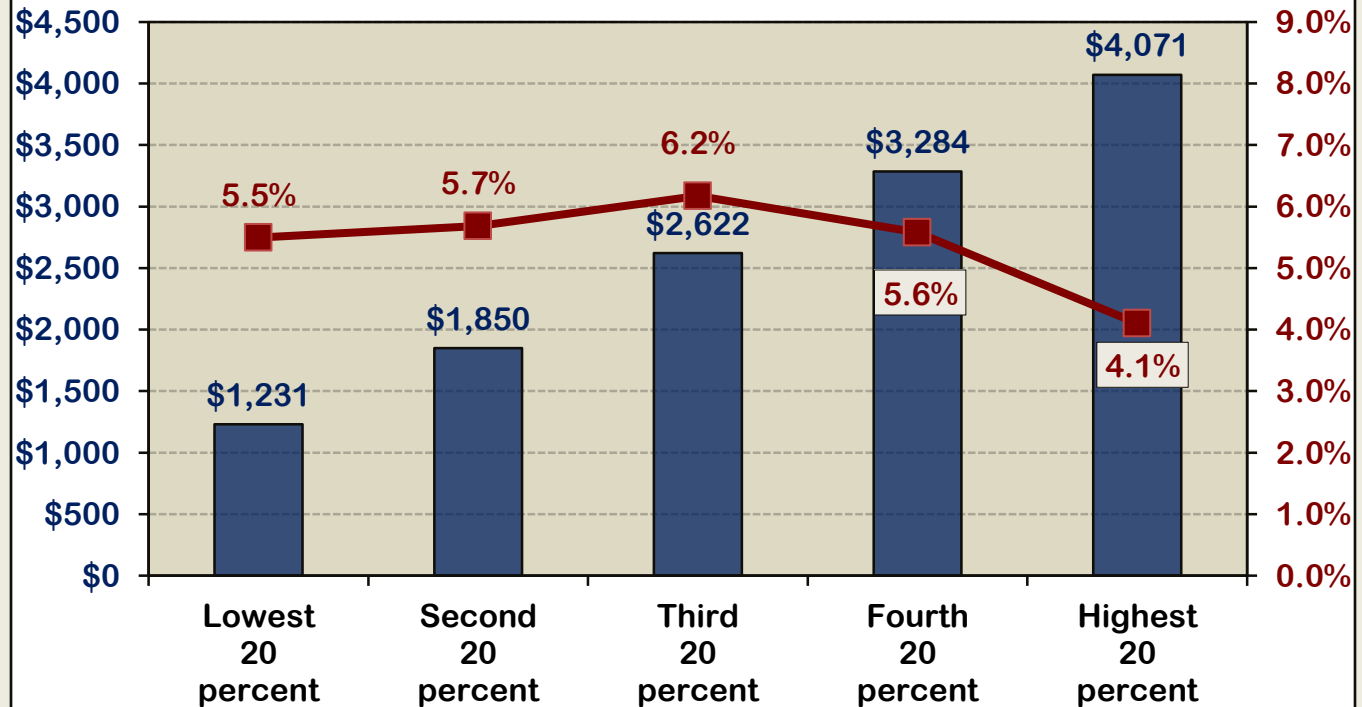
The middle quintile spends the largest share of total expenditures on gasoline.

Some research suggests different responses- increased gas purchases vs. auto purchases.

## U.S. Household Gasoline Expenditures

Data from 2013

Source: BLS, Consumer Expenditure Survey



Blue bar = Annual expenditure Red line = Share of expenditure





# King County's strong recovery continues...but should mature

Employment has been increasing the last four years.

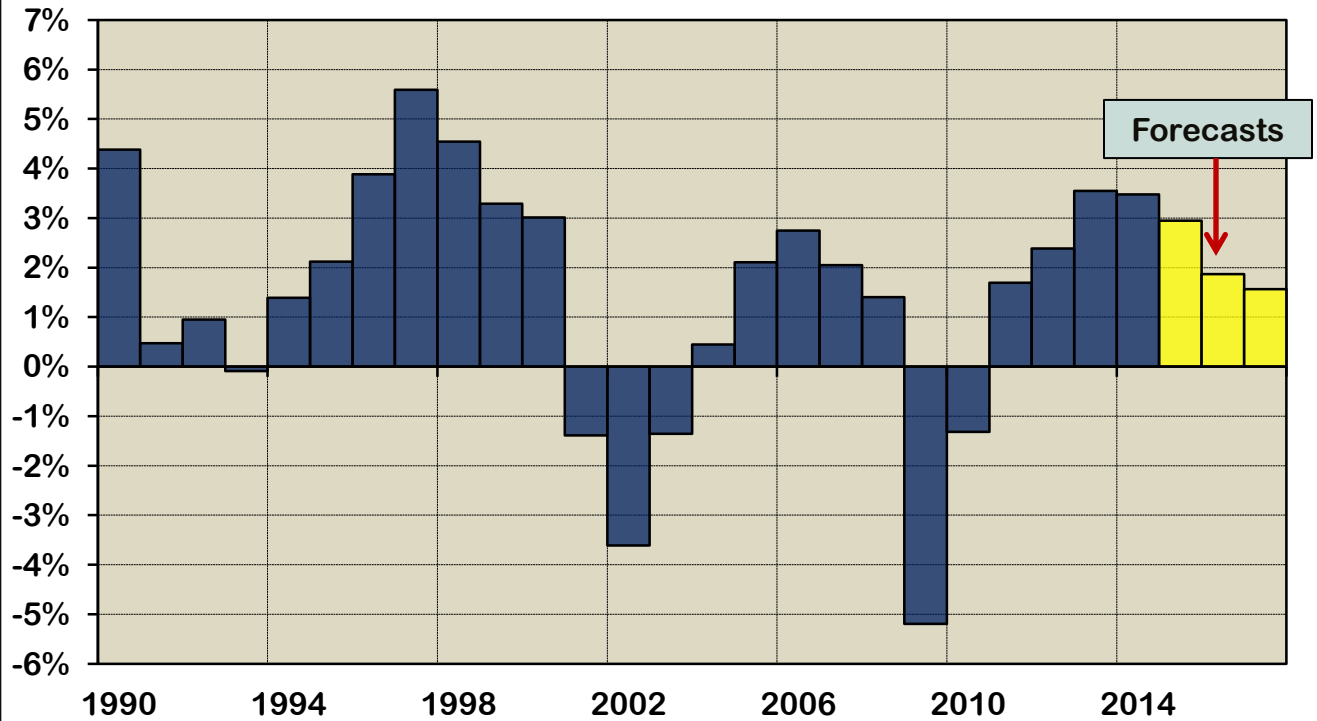
Growth has been strong, although not as strong as it was during the “dot-com” boom.

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

## KC Year over Year Employment Growth

January 1990 to December 2017

Quarterly data from Puget Sound Economic Forecaster



Blue = Actual Yellow = Forecast

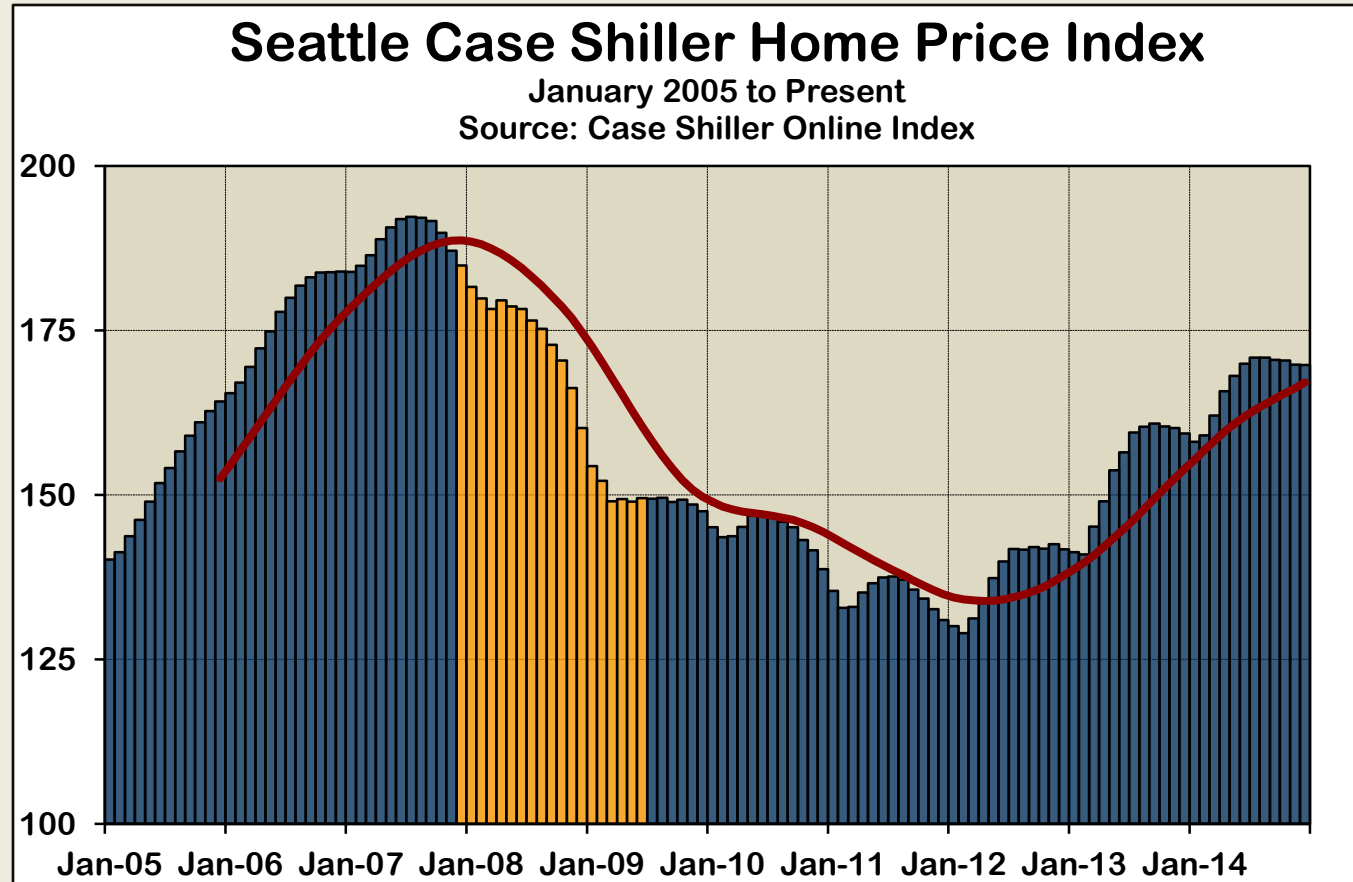


# Prices continue to rise in the Seattle real estate market but at slower pace

Year-on-year real estate prices climbed throughout 2014 averaging 8.5% growth on the year.

Current price level is 13% off previous peak (July 2007).

Forecast is for continued price growth, but at a slower pace in 2015.



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



# Forward looking indicators suggest continued job growth

Online job postings have grown steadily since the recession ended.

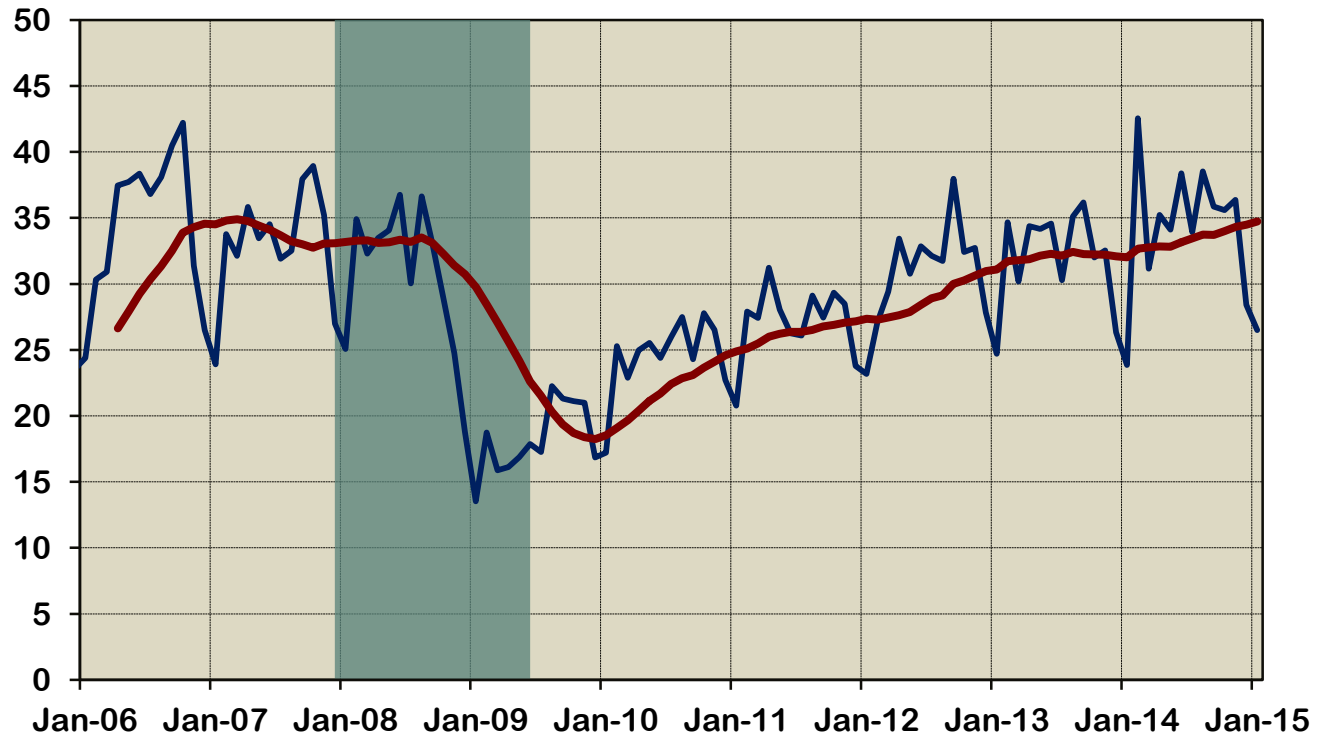
Amazon currently has 5,000 job openings in Seattle.

Postings are now near the level before the great recession.

## King County Online Employment Postings

In thousands of jobs, January 2006 to Present

Source: The Conference Board



Blue = Actual Red Line = Annual average Gray area = Recession



# Permitting activity suggests continued construction activity

Since bottoming out in 2009 permit values have nearly quintupled.

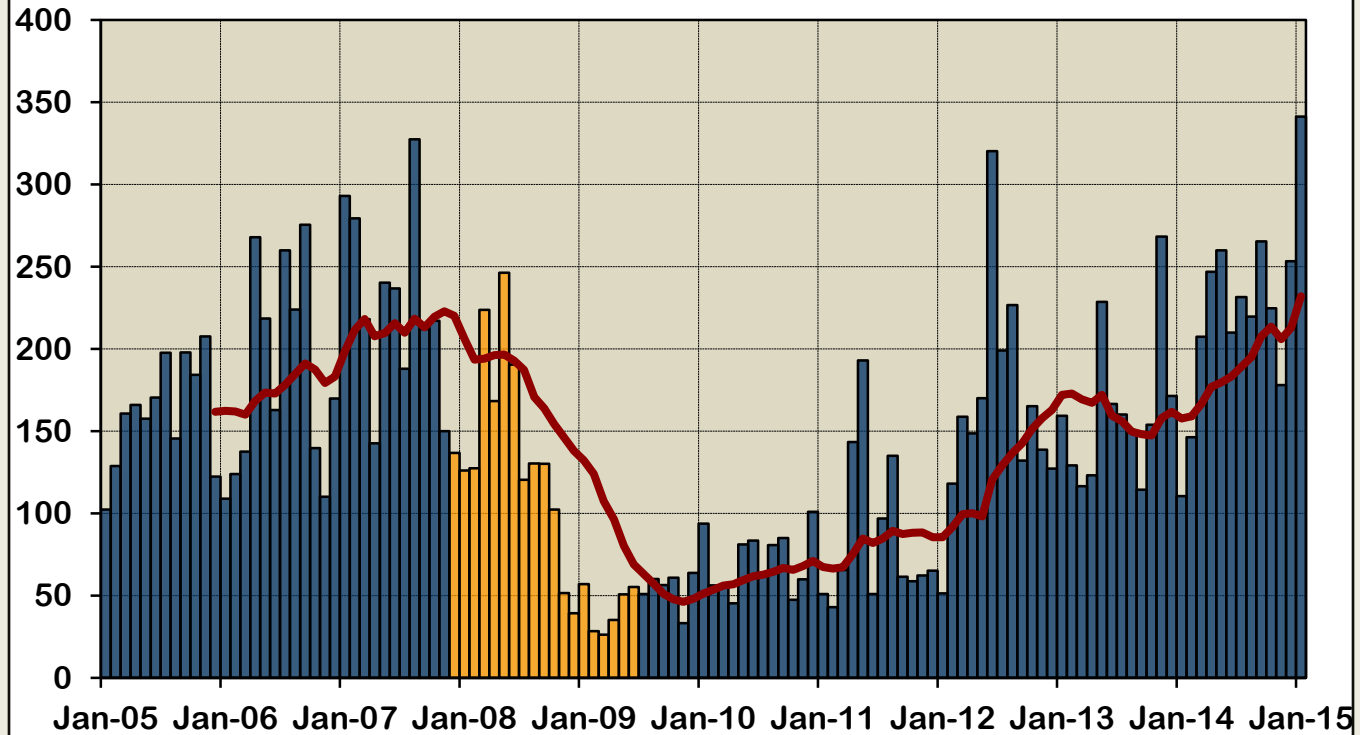
The majority of the units permitted in 2014 were multi-family.

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

# 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	(01-01-16)
North Highline (Area Q/Sliver)	(01-01-17)
North Highline (Remainder)	(01-01-18)
West Hill	(01-01-19)



# Countywide Assessed Value Forecast

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Forecasts: Assessed value

2015 AV is new nominal high value at \$388b.

There was growth in both residential and commercial sectors.

Assessments for 2016 are based on Jan. 1, 2015 value.

Growth is forecast for 2016 and beyond.

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

Tax Year	Value	Annual Growth	% Change from August 2014 Forecast	\$ Change from August 2014 Forecast
2013	\$314,746,206,667	-1.48%	0.00%	\$0
2014	\$340,643,616,342	8.23%	0.00%	\$0
2015	\$388,118,855,592	13.94%	1.98%	\$7,536,028,180
2016	\$416,460,533,410	7.30%	4.74%	\$18,846,364,113
2017	\$434,209,169,970	4.26%	5.56%	\$22,854,171,569
2018	\$449,388,016,182	3.50%	5.01%	\$21,434,566,663
2019	\$468,333,027,789	4.22%	5.02%	\$22,407,164,097
2020	\$489,326,788,949	4.48%	4.92%	\$22,948,252,356
2021	\$511,519,125,009	4.54%	4.93%	\$24,017,640,941
2022	\$536,143,296,753	4.81%	5.18%	\$26,425,524,525
2023	\$560,651,740,102	4.57%	5.25%	\$27,979,677,652
2024	\$586,636,161,403	4.63%	new	new



# Unincorporated Area Assessed Value Forecast

The unincorporated area experienced growth in 2015.

Calling for continued growth in this area.

However, annexations will have an impact on unincorporated AV in 2017-2020.

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

Tax Year	Value	Annual Growth	% Change from August 2014 Forecast	\$ Change from August 2014 Forecast
2013	\$30,016,733,778	-8.37%	0.00%	\$0
2014	\$31,876,016,756	6.19%	0.00%	\$0
2015	\$36,080,918,262	13.19%	2.94%	\$1,030,562,567
2016	\$38,918,221,985	7.86%	6.45%	\$2,359,412,017
2017	\$38,608,453,314	-0.80%	7.49%	\$2,691,796,794
2018	\$39,743,338,525	2.94%	11.05%	\$3,954,715,995
2019	\$39,726,982,062	-0.04%	11.15%	\$3,984,763,508
2020	\$39,749,451,079	0.06%	6.70%	\$2,496,407,921
2021	\$41,393,867,641	4.14%	6.67%	\$2,586,736,359
2022	\$43,195,339,085	4.35%	6.94%	\$2,802,408,872
2023	\$45,041,197,114	4.27%	7.00%	\$2,948,537,025
2024	\$47,028,355,060	4.41%	new	new



# New Construction Forecast

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Forecasts: New construction

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

Small growth in 2013 and huge growth in 2014/15.

Positive signs for 2016: construction employment, sales and permits.

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

Tax Year	Value	Annual Growth	% Change from August 2014 Forecast	\$ Change from August 2014 Forecast
2013	\$1,983,503,613	3.02%	0.00%	\$0
2014	\$3,406,198,290	71.73%	0.00%	\$0
2015	\$4,994,659,235	46.63%	18.53%	\$780,778,833
2016	\$5,895,822,189	18.04%	27.56%	\$1,273,846,187
2017	\$6,830,435,501	15.85%	38.39%	\$1,894,908,993
2018	\$6,859,223,739	0.42%	40.90%	\$1,991,049,647
2019	\$7,012,758,512	2.24%	44.73%	\$2,167,449,227
2020	\$7,153,971,829	2.01%	44.72%	\$2,210,484,431
2021	\$7,346,608,373	2.69%	43.85%	\$2,239,538,189
2022	\$7,831,533,508	6.60%	47.09%	\$2,507,398,988
2023	\$7,383,156,592	-5.73%	32.07%	\$1,792,711,461
2024	\$7,792,294,596	5.54%	new	new





# King County property tax forecasts

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Forecasts: Property taxes

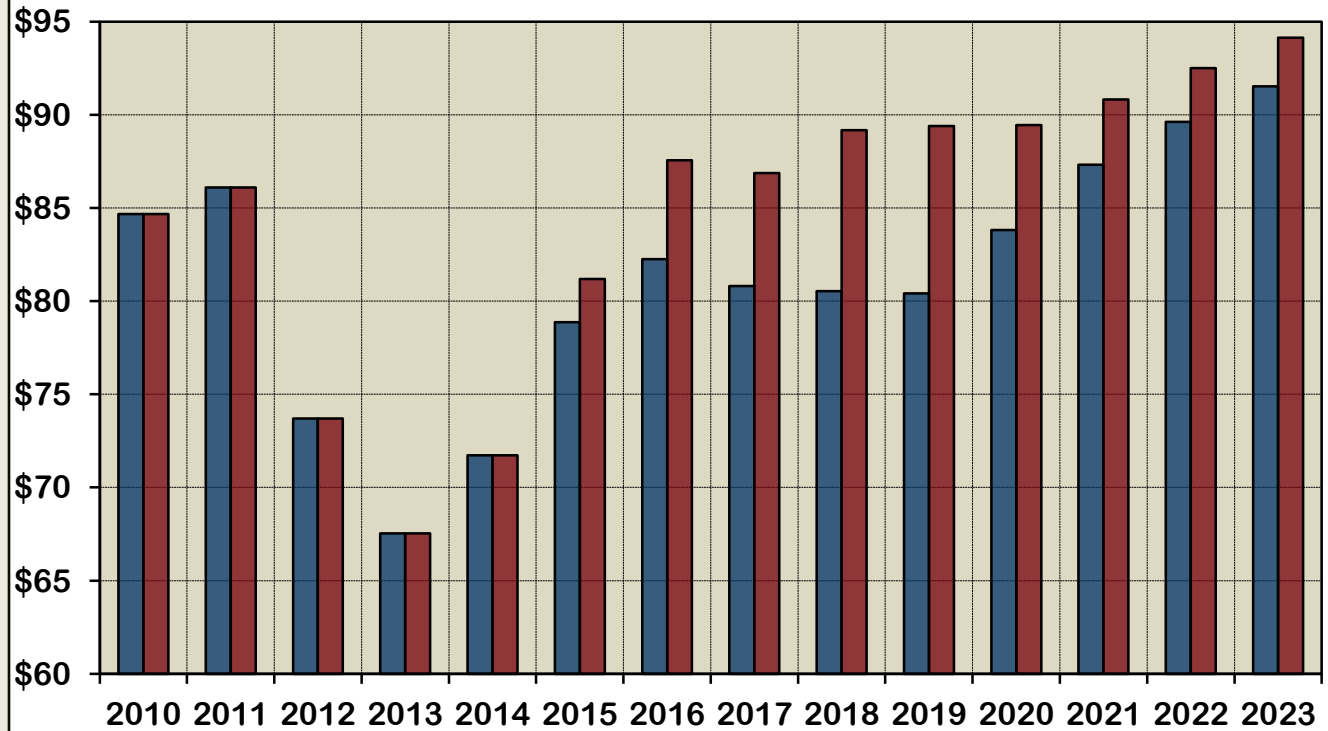
Small changes for most levies as most are “limit-factor” limited.

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

Pro-rationing impacts were lower than expected (about \$500K).

## UAL/Roads Property Tax

2010 to 2023 Revenue Forecast in millions of dollars



Blue = August 2014 Forecast Red = March 2015 Forecast



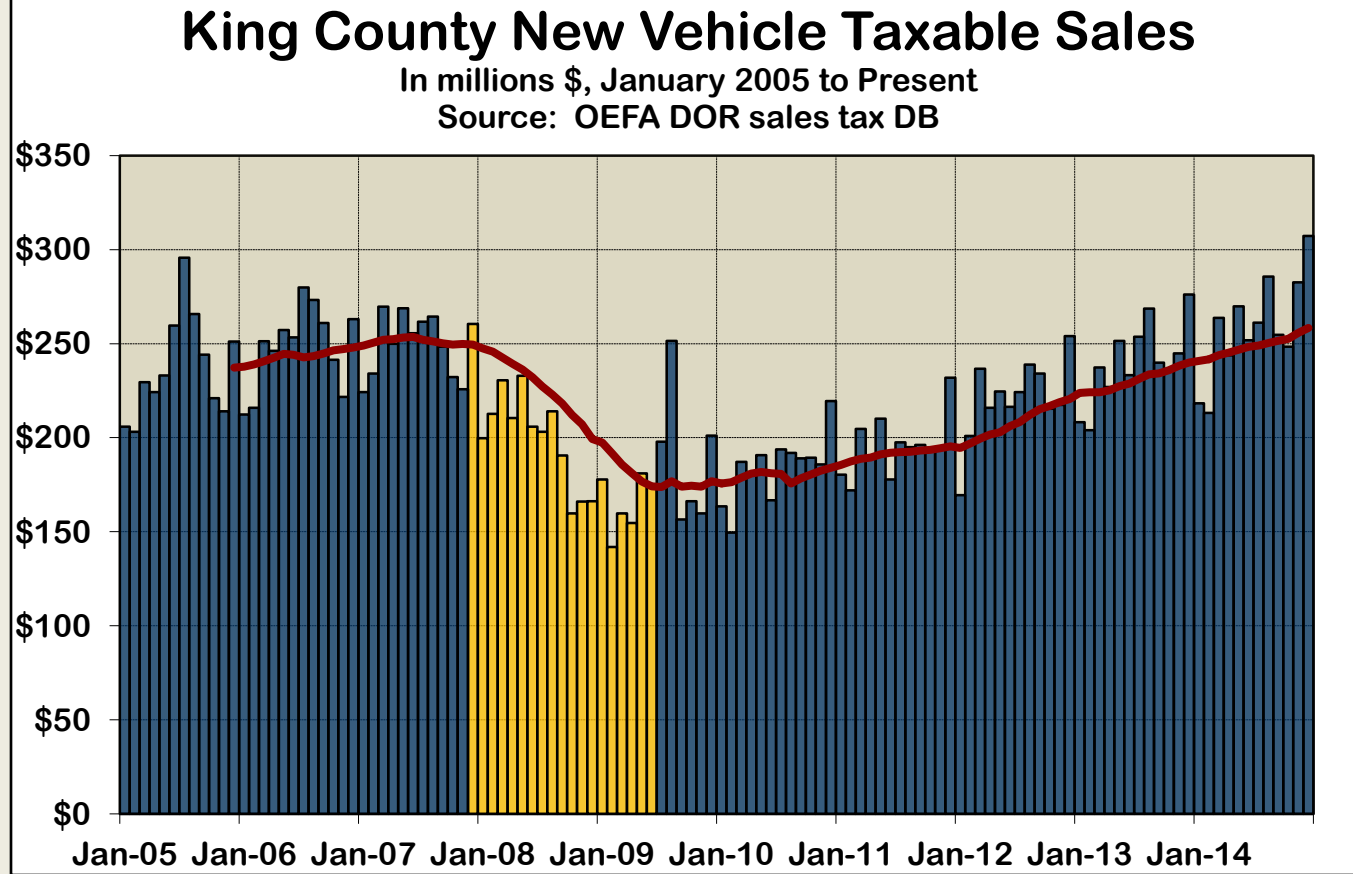
# Taxable sales in King County continue to be boosted by auto purchases....

New car sales are a large component of retail sales.

The sector is just back to pre-recession levels.

Growth rates of 6%-12% annually over 2011-2014.

Nov & Dec 2014 big gains-impacted by cheaper gas?



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

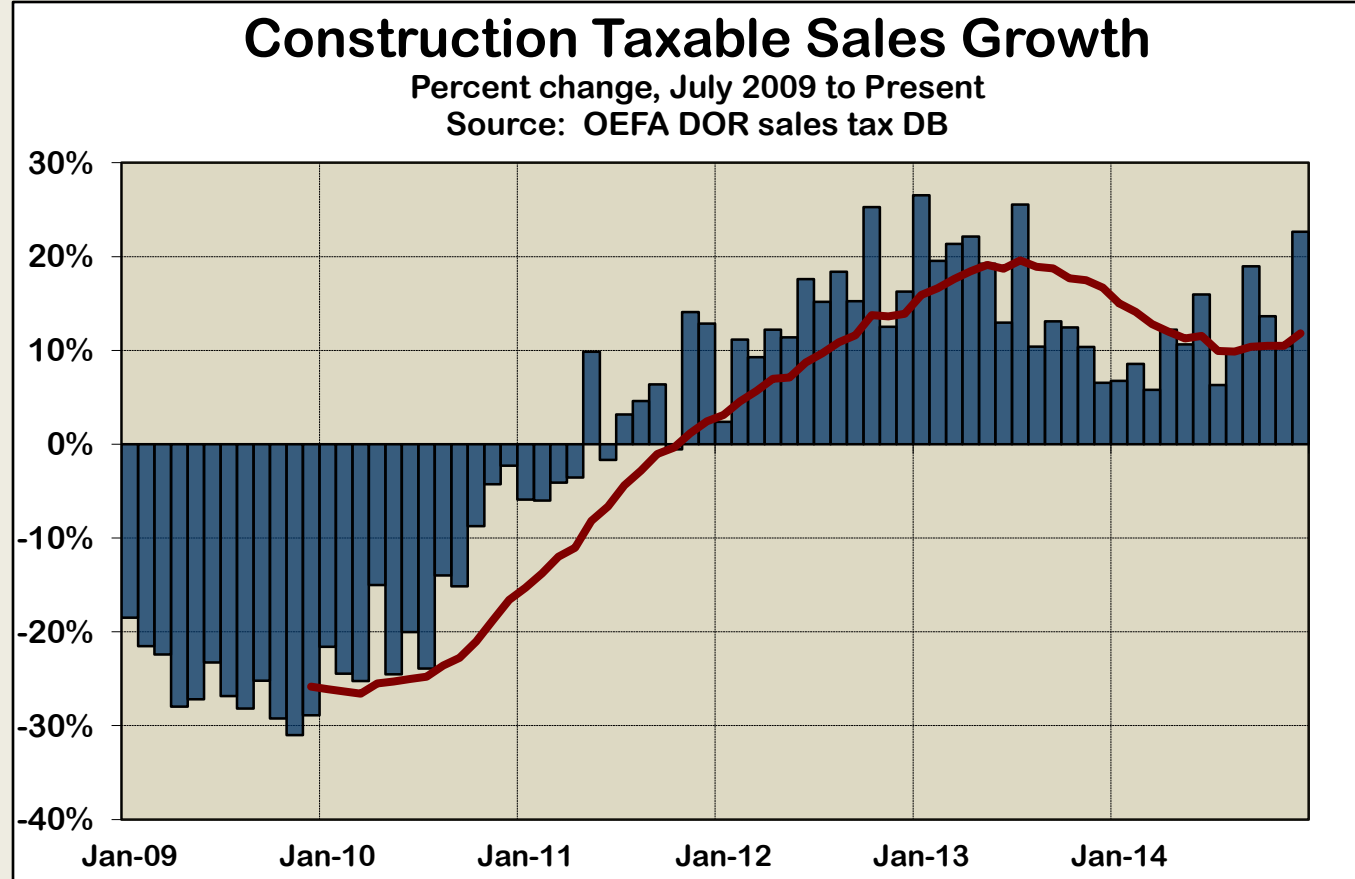


# ...and construction...although the growth rate has slowed

Construction sales grew strongly in 2012-2013. Growth in 2014 at a lower rate.

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

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



Blue = Actual Red = 12 month rolling average



# Taxable Sales Forecast

King County

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Forecasts: Local sales tax

2015 and beyond are looking good due to the continuing recovery.

Forecast for 2015 is for 6.2% growth.

Expect continued growth across most sectors.

Reduced energy costs are tailwind.

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

Tax Year	Value	Annual Growth	% Change from August 2014 Forecast	\$ Change from August 2014 Forecast
2013	\$48,553,937,856	7.47%	0.00%	(\$4)
2014	\$52,353,000,000	7.82%	1.76%	\$903,834,469
2015	\$55,610,410,449	6.22%	2.97%	\$1,603,166,148
2016	\$57,982,173,169	4.26%	2.32%	\$1,317,268,549
2017	\$60,084,973,726	3.63%	1.05%	\$626,482,668
2018	\$62,257,748,496	3.62%	0.09%	\$53,609,662
2019	\$64,615,872,872	3.79%	-0.39%	(\$250,590,432)
2020	\$67,164,970,298	3.95%	-0.55%	(\$370,509,432)
2021	\$70,113,100,340	4.39%	-0.07%	(\$47,420,030)
2022	\$72,886,570,617	3.96%	-0.07%	(\$50,650,064)
2023	\$75,555,824,793	3.66%	-0.51%	(\$385,303,677)
2024	\$78,395,362,990	3.76%	new	new



# Transit Sales Tax Forecast

King County

21 Forecasts: Transit sales tax

2014 came in about 1% above forecast.

2015-2016 forecast is up a little over 2% reflecting the stronger taxable sales forecast.

Forecasts account for mitigation, annexations.

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

Tax Year	Value	Annual Growth	% Change from August 2014 Forecast	\$ Change from August 2014 Forecast
2013	\$442,835,695	7.34%	0.00%	\$0
2014	\$479,461,651	8.27%	1.03%	\$4,871,894
2015	\$511,011,412	6.58%	2.64%	\$13,165,362
2016	\$532,510,337	4.21%	2.01%	\$10,499,878
2017	\$551,565,442	3.58%	0.76%	\$4,151,232
2018	\$571,257,041	3.57%	-0.20%	(\$1,124,584)
2019	\$592,633,686	3.74%	-0.66%	(\$3,956,533)
2020	\$615,746,476	3.90%	-0.82%	(\$5,113,872)
2021	\$642,486,293	4.34%	-0.35%	(\$2,243,948)
2022	\$667,639,302	3.91%	-0.35%	(\$2,343,536)
2023	\$691,845,702	3.63%	-0.78%	(\$5,460,942)
2024	\$717,600,200	3.72%	new	new



# King County REET continues to grow but at a slower pace

**REET revenues actually fell 3% in 2014.**

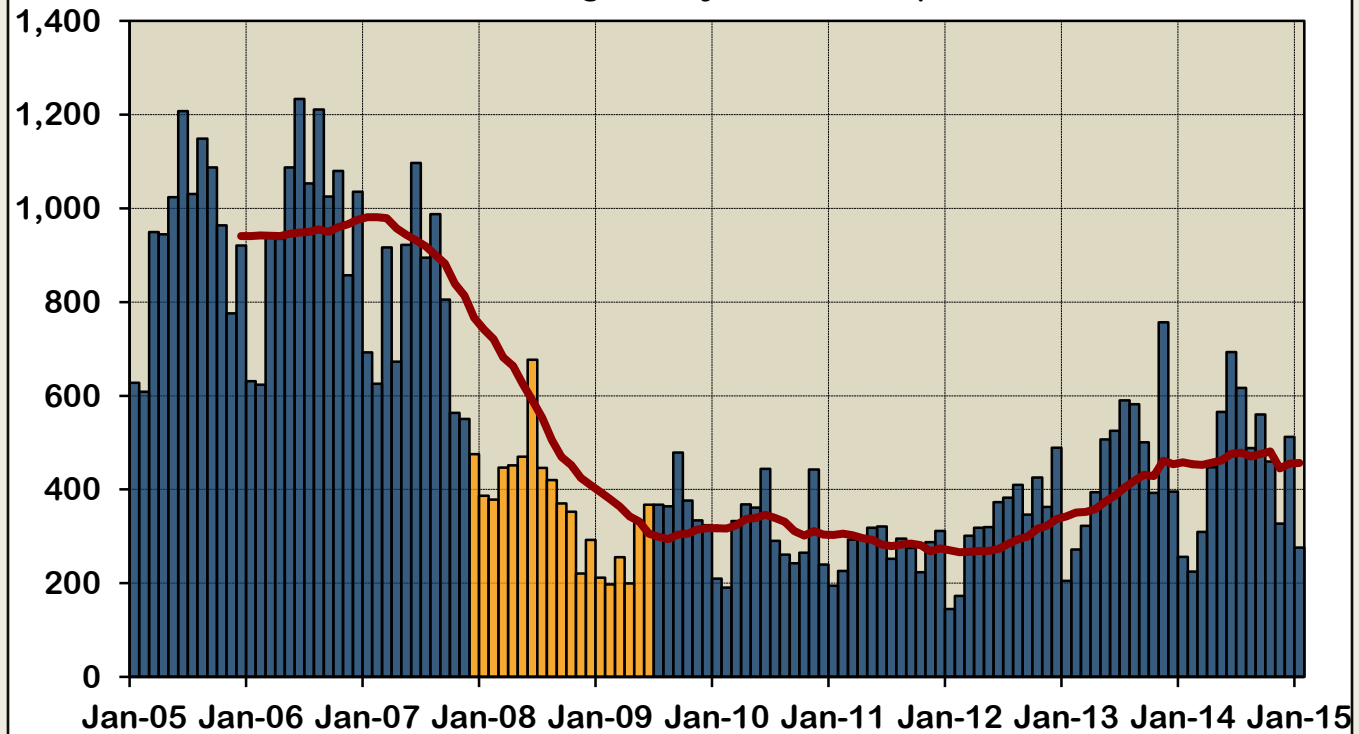
**But 2013 was skewed up by a very large sale.**

**Excluding that sale there was underlying REET growth in 2014.**

## King County Real Estate Excise Tax

In thousands of \$, January 2005 to Present

Source: King County Financial Reports



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



# Real Estate Excise Tax Forecast

King County

2015 REET is likely to grow slowly.

As mentioned, 2013 inflated by a large timber sale, which is why 2014 growth was negative.

Annexations will exert downward pressure on this revenue.

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

Tax Year	Value	Annual Growth	% Change from August 2014 Forecast	\$ Change from August 2014 Forecast
2013	\$5,650,866	39.63%	0.00%	\$0
2014	\$5,460,692	-3.37%	-4.03%	(\$229,303)
2015	\$5,598,570	2.52%	-5.17%	(\$304,949)
2016	\$5,332,142	-4.76%	-5.18%	(\$291,243)
2017	\$5,500,687	3.16%	-1.34%	(\$74,912)
2018	\$5,327,201	-3.15%	-4.77%	(\$266,853)
2019	\$5,339,530	0.23%	-9.50%	(\$560,474)
2020	\$5,610,237	5.07%	-10.12%	(\$631,762)
2021	\$6,268,400	11.73%	-9.75%	(\$676,969)
2022	\$6,638,803	5.91%	-10.18%	(\$752,048)
2023	\$7,033,615	5.95%	-10.45%	(\$820,631)
2024	\$7,454,323	5.98%	new	new



# Inflation in Seattle continues to be modest.

The annual Seattle inflation rate for 2014 was 1.9%.

Shelter costs have been driving most of the increase.

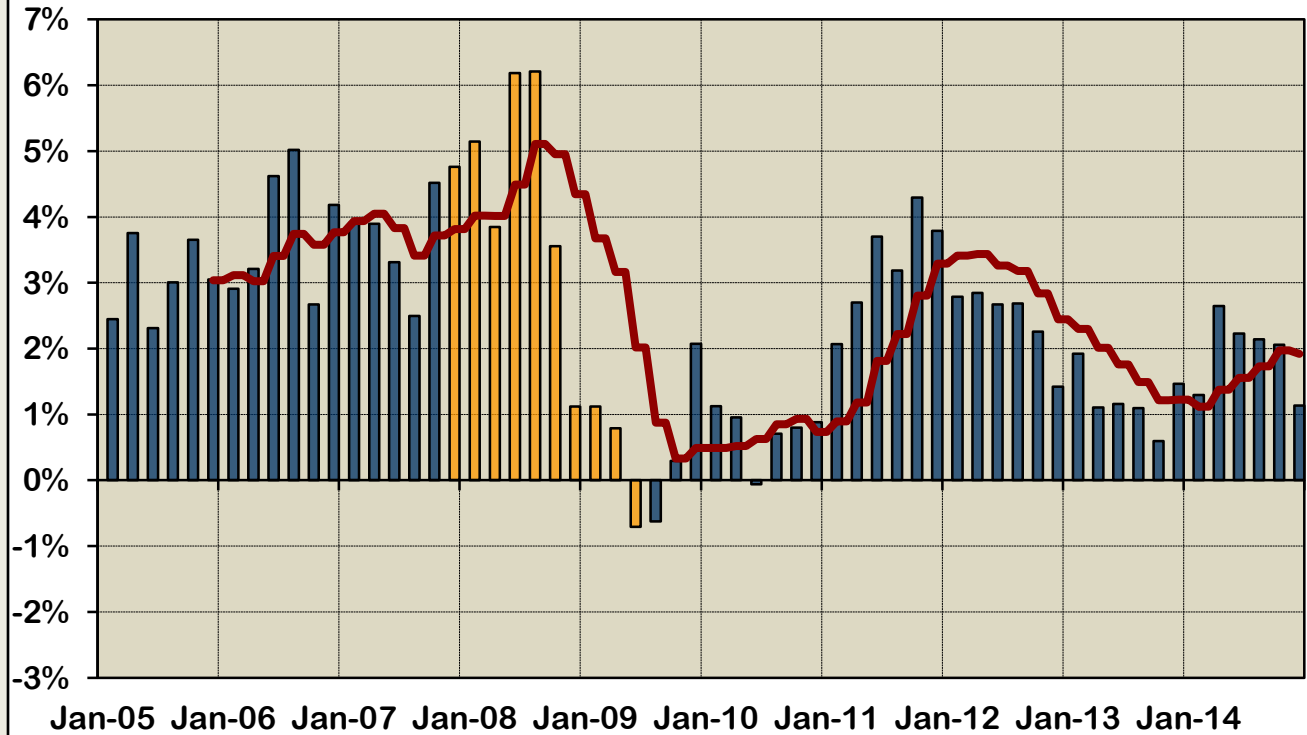
Annual 2014 inflation excluding shelter was 0.4%.

Shelter cost growth and drop in fuel prices to counteract in 2015.

## 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>

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