



King County

July 2013 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

July 24th, 2013

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Office of Economic and Financial Analysis



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Summary

- **The U.S. economy continues 4 years of growth**
 - But slow growth leading to gradual change
 - Employment growth is sluggish and though unemployment is falling some is due to reduced labor force participation
 - However, household net worth, real estate and other measures continue to recover
- **Forecast calls for slow growth this year but accelerating growth through 2014**
- **King County continues to do well**
 - Good employment growth
 - Local firms doing well
 - Real estate rebound
- **Good news for KC revenues**



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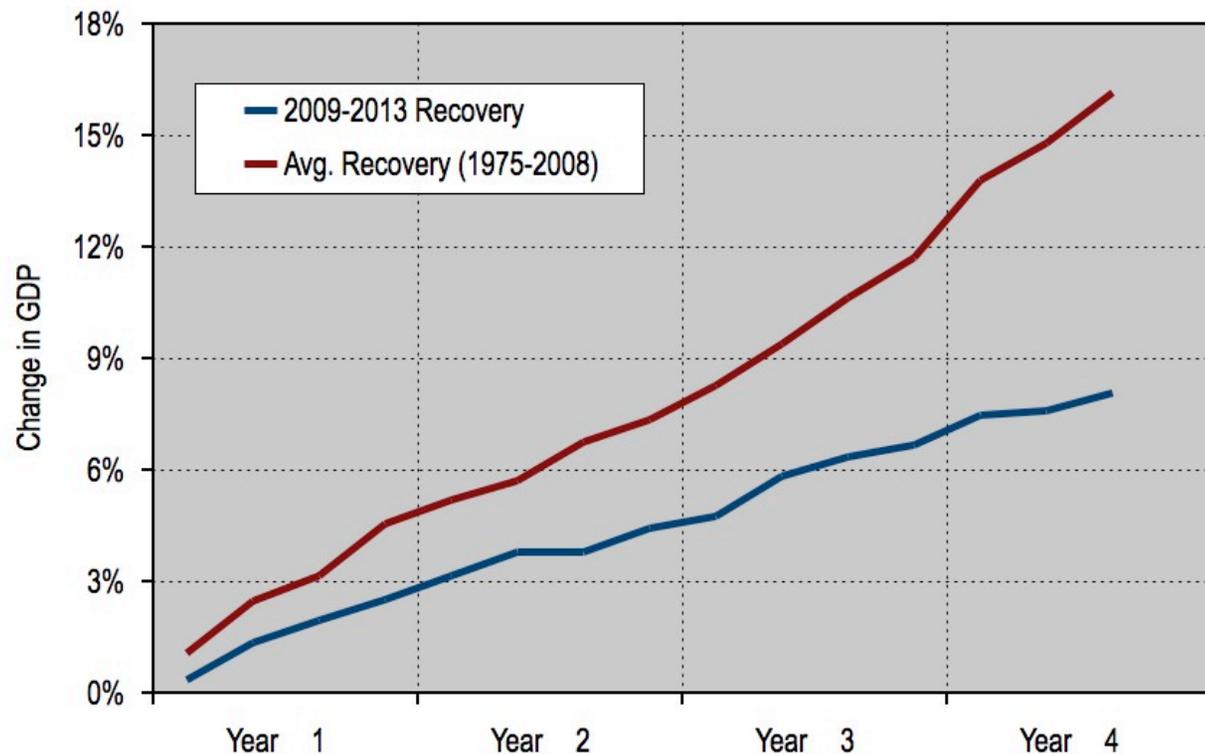
Economic growth has lagged in this Recovery

Economic context: Growth

In the five previous recoveries, economic growth was near 16% four years in.

The economy has grown just over 8% in the recovery from the Great Recession.

Economic Growth During Recoveries





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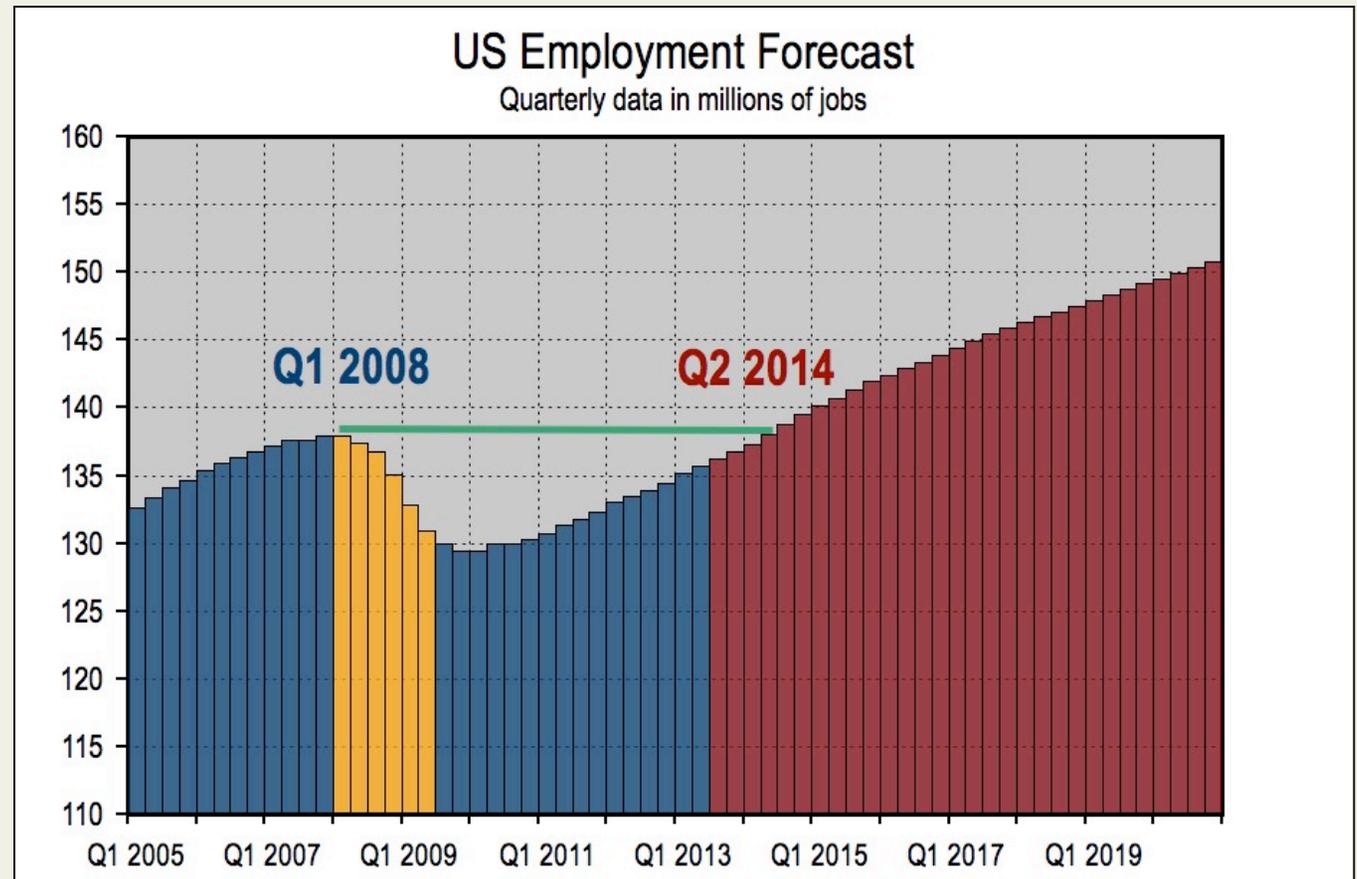
National job adds following a similar pattern

Economic context: Jobs

Job growth in this recovery has averaged 95K/mo.

For the five previous it averaged 160K/mo.

At the current pace, the previous peak of US employment will be reached in Q2 2014.



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



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U.S. unemployment rate is falling, but King County's is actually "low"

Economic context: Unemployment rates from the Bureau of Labor and Statistics

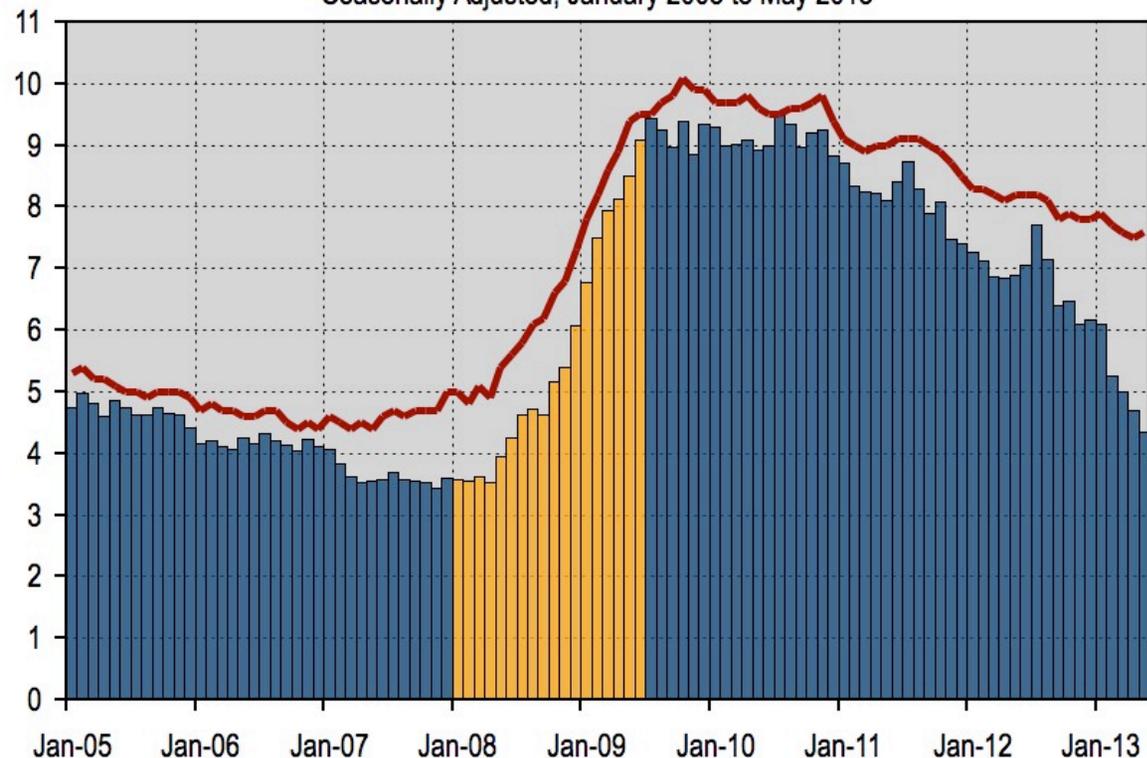
The U.S. unemployment rate has been falling for 3 years.

Rate reflects number of unemployed people divided by number in the labor force.

King County's unemployment rates is very low.

King County & U.S. Unemployment Rate

Seasonally Adjusted, January 2005 to May 2013



Blue bar = KC UE Rate Red line = US UE Rate Orange bar = Recession



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Fiscal Policy: no headline-grabbing political bickering lately... but...

- After several years of being front and center in economic discussions, fiscal policy has drifted to the back burner
- In March, the sequester went into effect and a continuing resolution was passed to keep the federal government operating
 - Sequester impacts appear to have been modest so far
 - Some effect may show up in 2H:2013
- However the debt limit was reached in May
 - Congress suspended the limit through May 18,2013
 - Treasury is implementing the “standard set of extraordinary measures”
- The debt limit and budget negotiations are likely to bring fiscal policy back to the headlines in the autumn/fall



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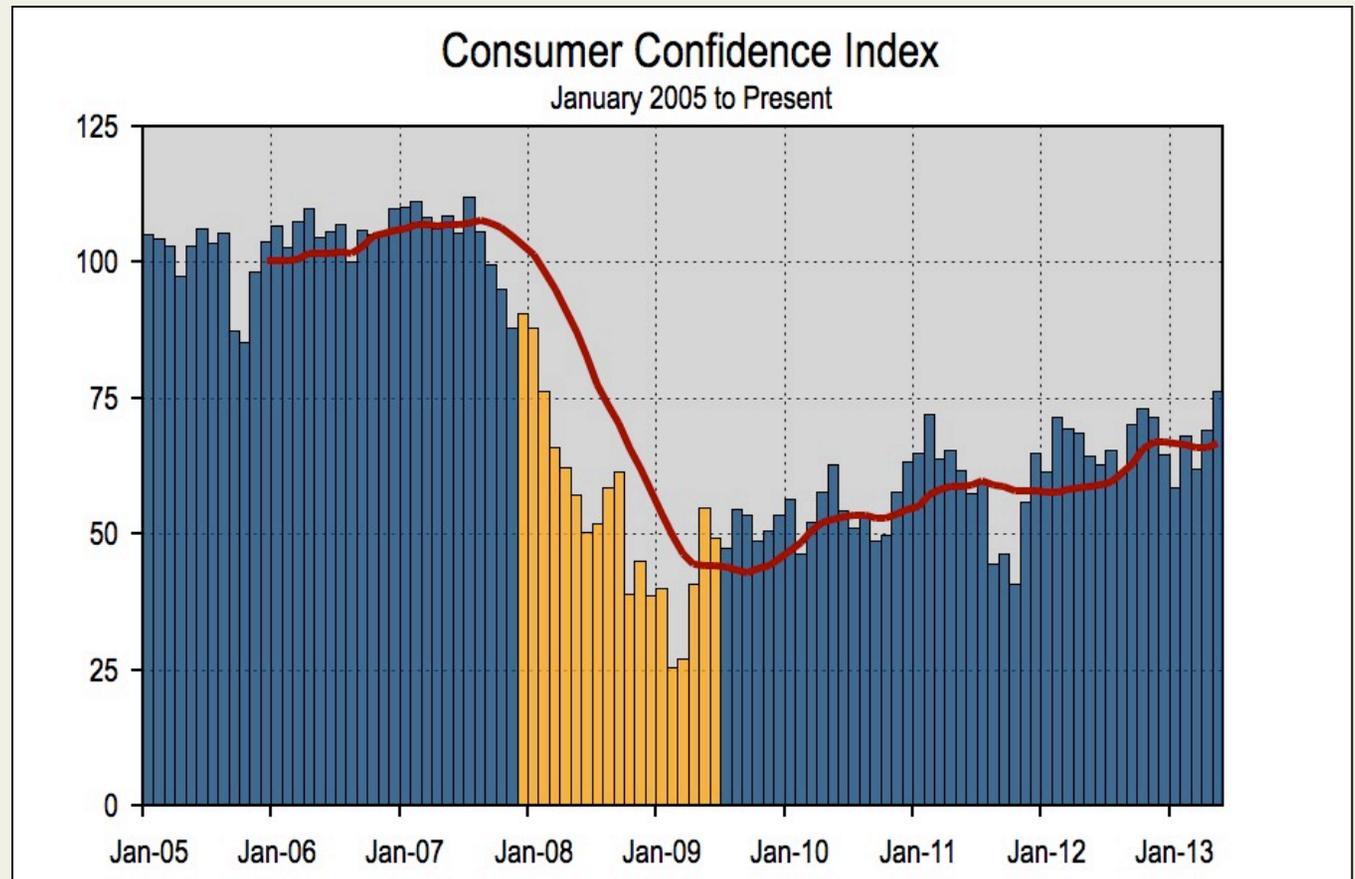
Three letter words: consumer confidence has gone from “OMG” to “meh”

Economic context: US consumer confidence index from the Conference Board

Consumer confidence dropped significantly during the recession.

Confidence is returning (which is good), but not quickly.

The upward trend is encouraging for the economy long term.



Blue bar = Confidence Red line = 12 Month rolling average Orange bar = Recession



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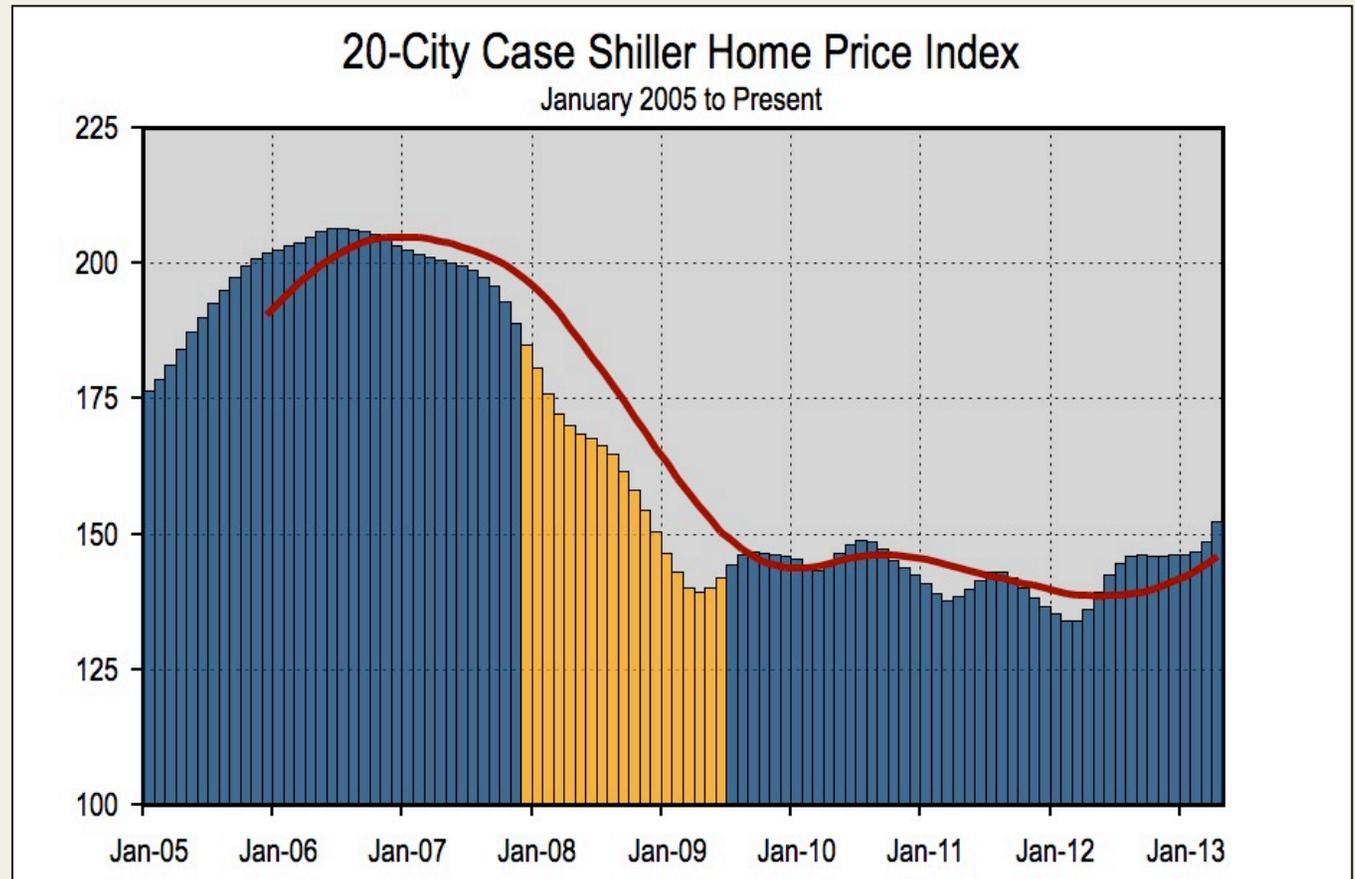
U.S. Real Estate Market: not healthy, but on the mend

Economic context: 20-city house price index from Case-Shiller

Homes prices in the nations top 20 markets are rising.

Historically low interest rates and an improving economy are likely to continue to drive the market.

Commercial real estate is also improving.



Blue bar = 20 city Case-Shiller Red line = 12 Month rolling average Orange bar = Recession



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High inflation not a worry for now...

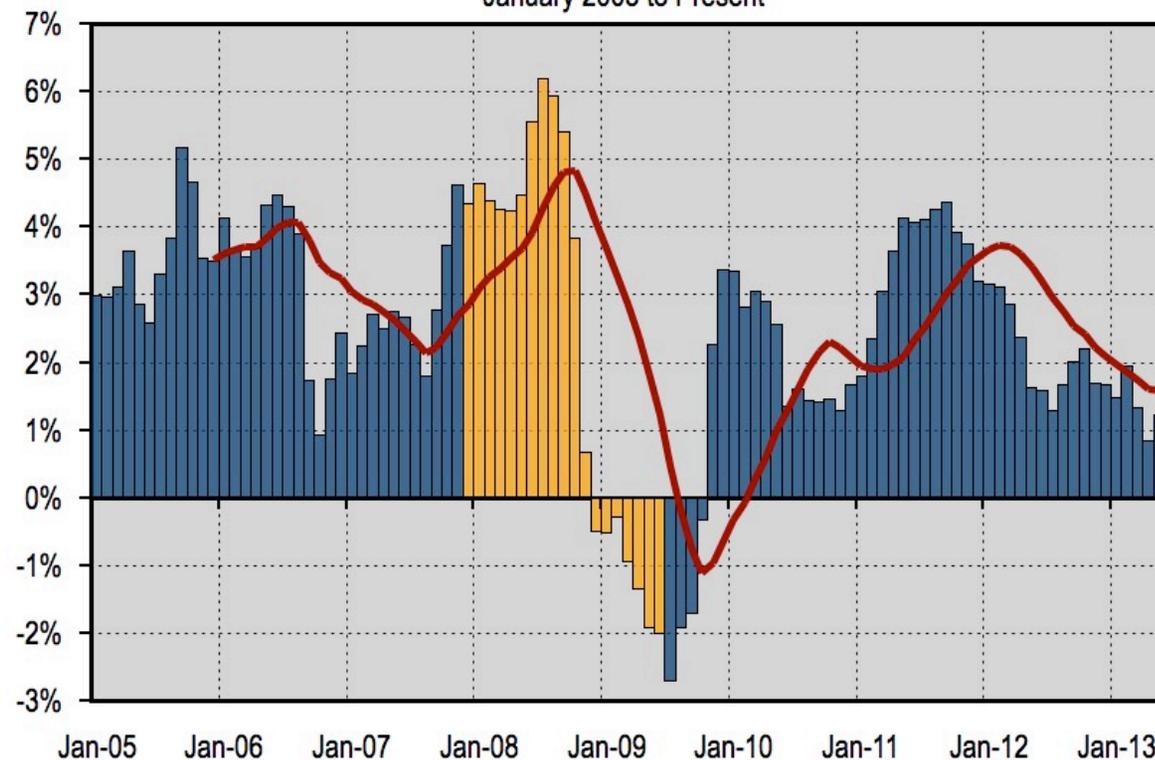
Economic context: Consumer prices from the Bureau of Labor and Statistics

Inflation jumped in 2011 due to a spike in commodity prices, but came back down in 2012.

Year-over-year growth rates for the first four months of 2013 have been low at between 1% and 2%.

National CPI-W Monthly Inflation

January 2005 to Present



Blue bar = Year over year CPI growth Red line = 12 Month rolling average Orange bar = Recession



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King County's economy is doing well overall

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Economic context: Local recovery

KC UE rate down to 4.3% (U.S. 7.6%)

Employment base strong with MSFT, BA, AMZN & others

Case-Shiller with double digit percentage growth

Taxable sales growing at solid pace.

- Employment growth: **really good** 😊
- Local firms: **good** 😊
 - ▣ Many doing well, although Boeing has been reducing employment in WA in 2013
- Real estate: **good** 😊
 - ▣ Residential recovering well, commercial is slower but recovering
- Commerce: **good** 😊
 - ▣ All sectors improving, Construction sector improving a lot
- Inflation: **good** 😊



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The Great Recession....KC Employment is growing again

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Economic context: Monthly non-farm employment figures from WA ESD

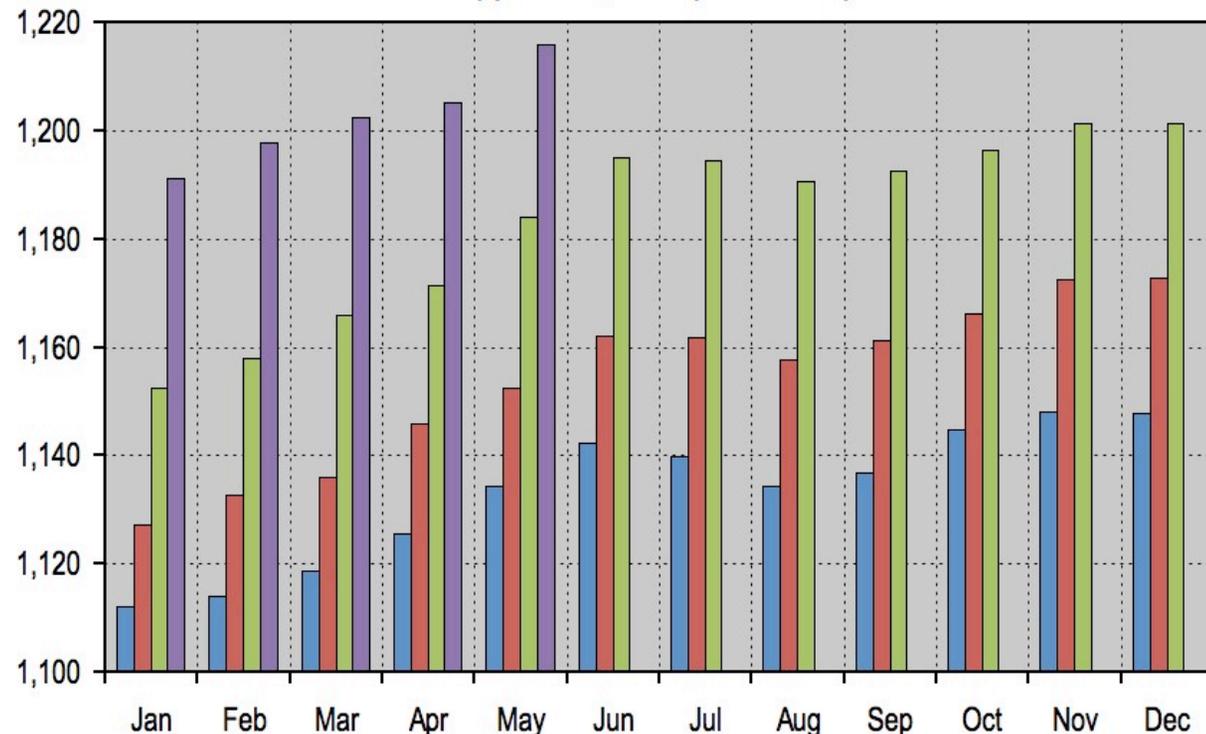
Employment was up 3.6% from 2012:1Q to 2013:1Q

Job growth in most categories

Construction jobs grew over 10% in 1st Quarter (yoy)

King County Total Non-Farm Employment

Monthly job totals, January 2010 to May 2013



Blue bar = 2010 Red bar = 2011 Green bar = 2012 Violet bar = 2013

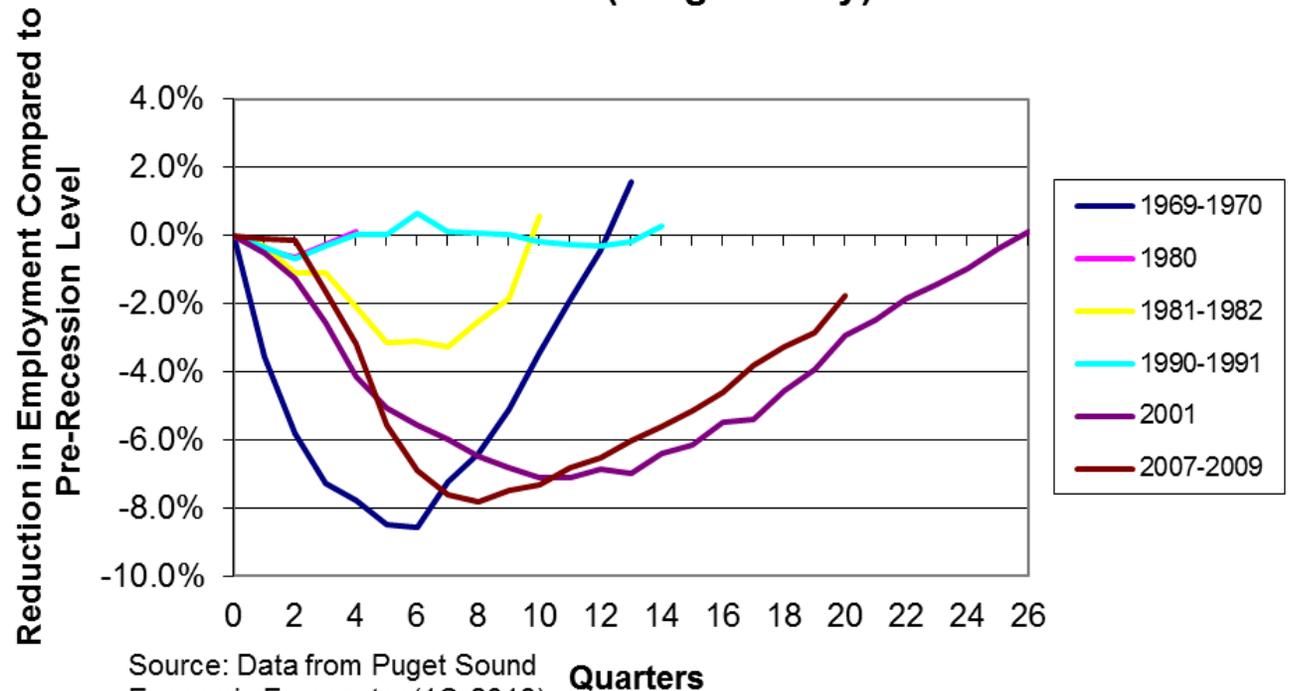


The Great Recession....KC Employment is growing again....but from way down

King County had significant employment reductions during the Recession (8% drop).

The County is now experiencing significant job growth (will likely hit pre-recession level this year).

Quarters to Employment Growth During Recessions (King County)



Source: Data from Puget Sound Economic Forecaster (1Q-2013)



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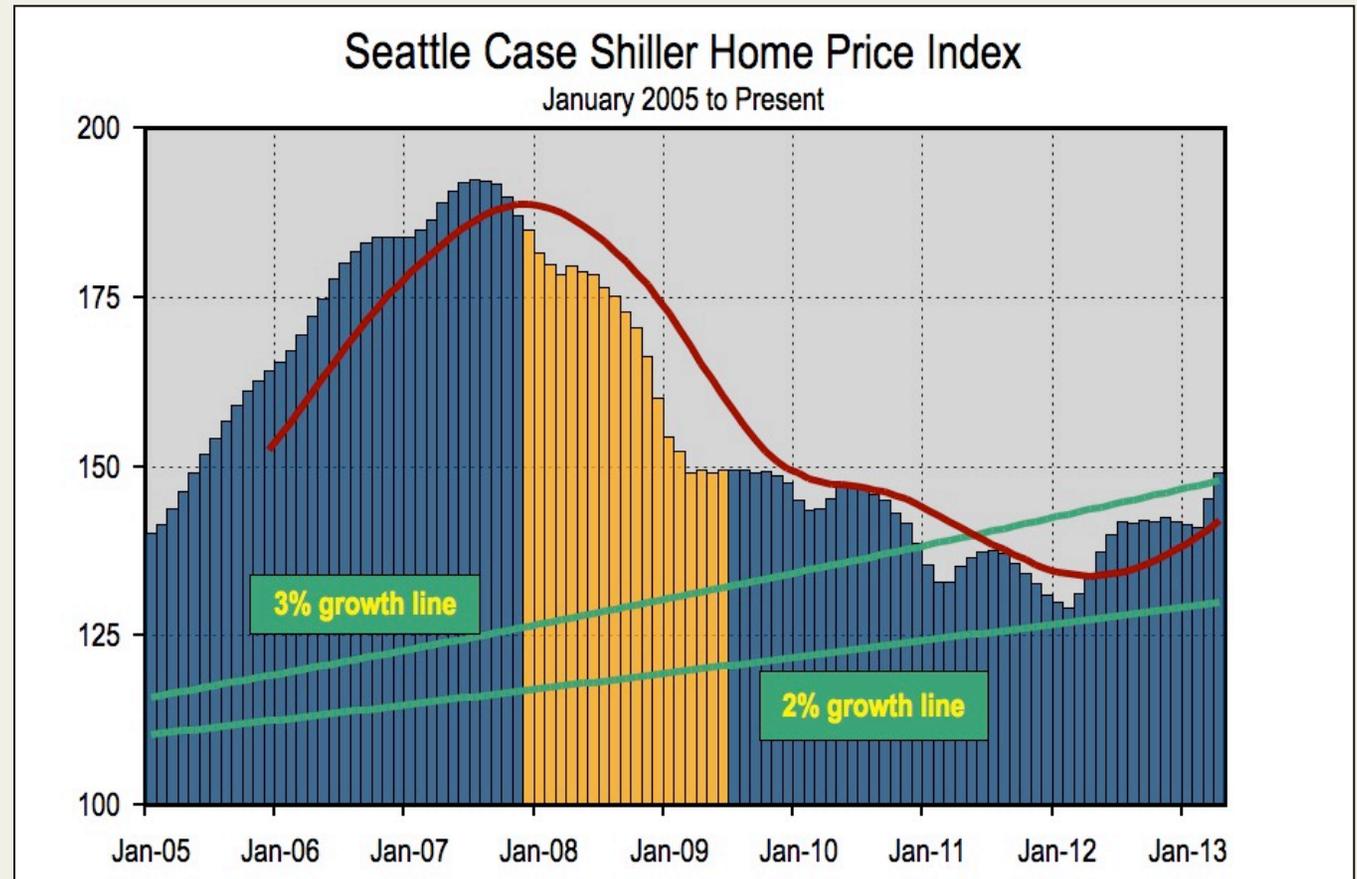
The Seattle real estate market is improving

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Economic context: Seattle house price from Case-Shiller

Realtors are reporting multiple offers, pre-offer inspections, and other indicators of a tight market.

High rents, lack of inventory, more jobs, high migration, and record low rates are making it a seller's market.



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



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King County residential permits have risen dramatically in the last year

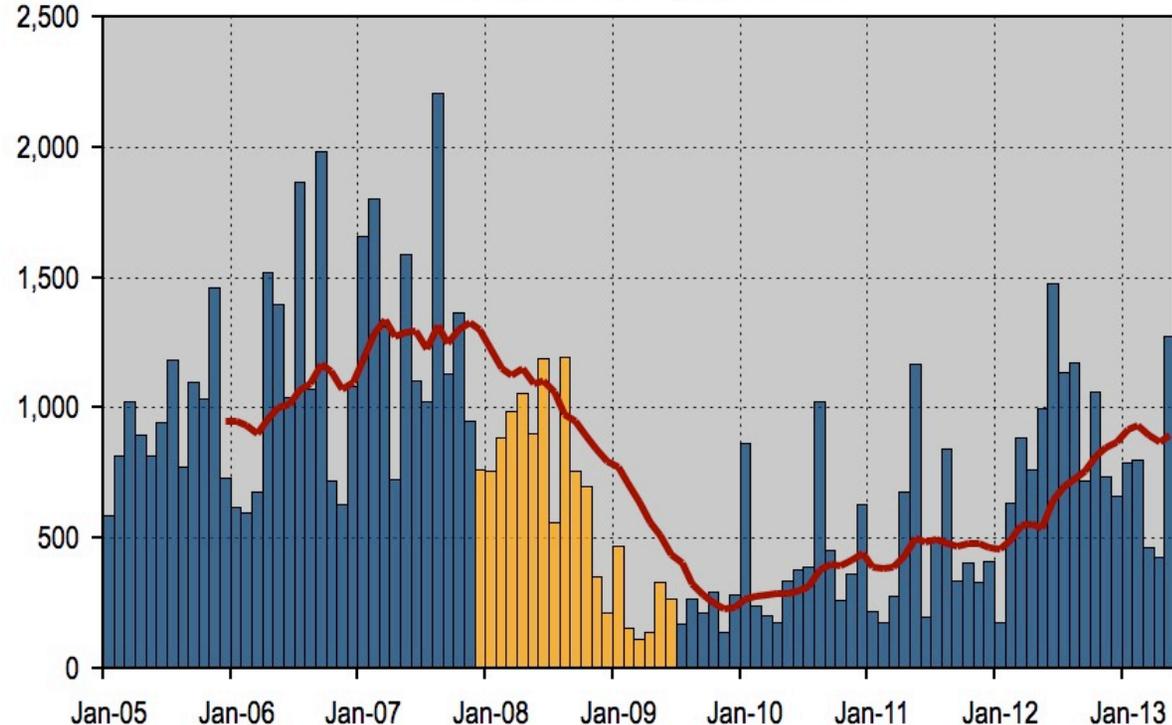
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Economic context: King County new permits from the Census Bureau

Builders are responding to rising prices by filing new permit applications.

The number of new permits has been roughly split between single family (1/3) and multi-family units (2/3).

King County total new & privately-owned residential permits



Blue bar = KC permits Red line = 12 Month rolling average Orange bar = Recession



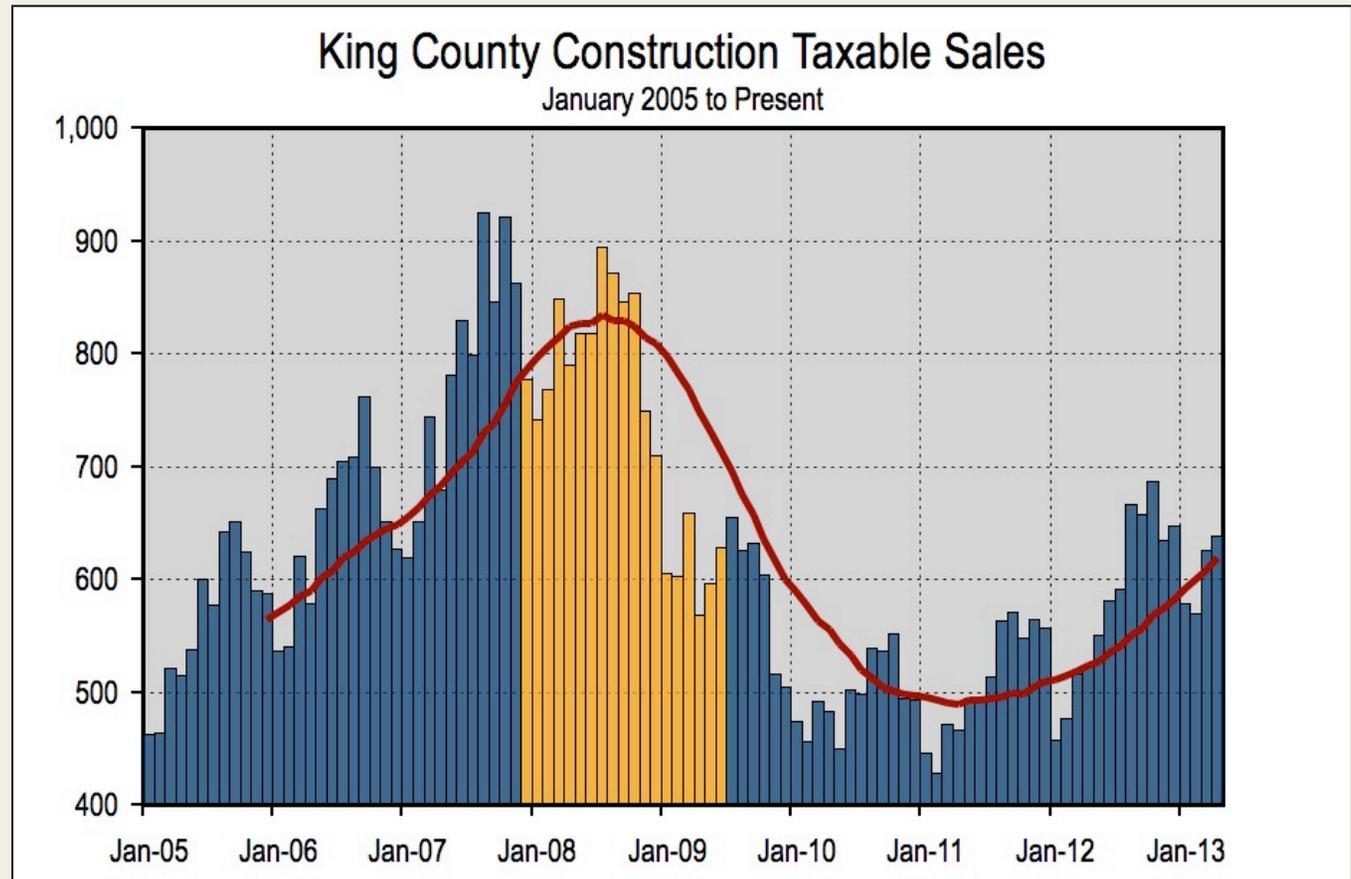
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King County construction sales are growing rapidly as well

15 Economic context: King County construction taxable sales from the WA Dept. of Revenue

Construction sales have turned around dramatically in the last few years.

Construction sales are the second largest sector behind retail taxable sales, so this is a good sign for KC sales tax revenues.



Blue bar = Monthly construction sales Red line = 12 Month rolling average Orange bar = Recession



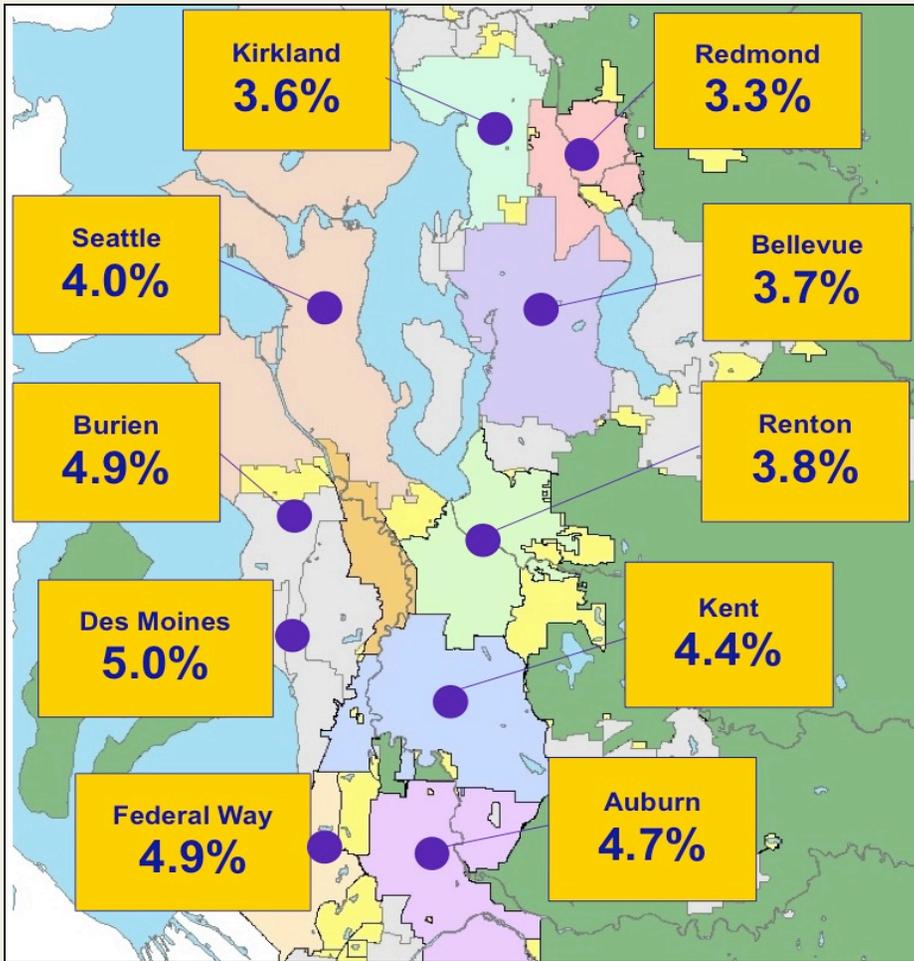
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May 2013 unemployment rates around King County

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

UE rates for May 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



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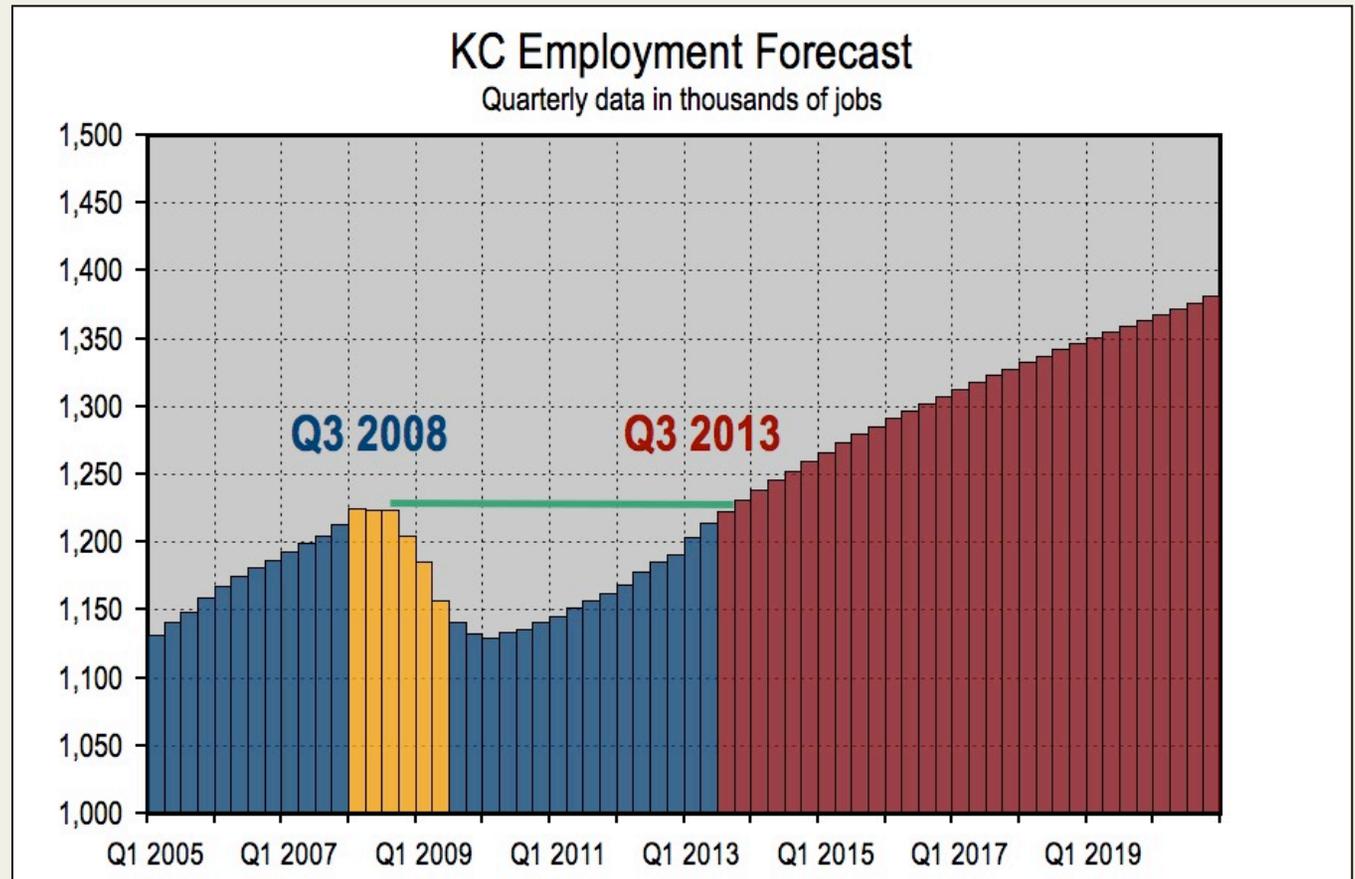
King County Economic Forecast

17 Economic context: Local employment forecast from Puget Sound Economic Forecaster

Employment has been growing significantly faster than the nation.

Forecast is growth rate of 3.1% in 2013, and 2.6% in 2014.

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



Blue bar = Actual Red bar = Forecast Orange bar = 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	(01-01-15)
North Highline, Area Q and Sliver	(01-01-16)
West Hill	(01-01-17)



Countywide Assessed Value Forecast

Assessments for 2014 based on Jan. 1, 2013 value.

March forecast called for 3.8% growth for 2014.

Assessments completed thus far imply a greater increase in AV.

Growth in 2015 and beyond.

July 2013 Countywide Assessed Value Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	330,414,998,630	-3.38%	0.00%
2012	319,460,937,270	-3.32%	0.00%
2013	314,746,206,667	-1.48%	0.00%
2014	333,923,628,048	6.09%	2.21%
2015	352,825,869,174	5.66%	3.11%
2016	364,742,458,187	3.38%	3.20%
2017	376,642,077,599	3.26%	3.27%
2018	390,017,769,945	3.55%	2.60%
2019	405,253,078,976	3.91%	2.60%
2020	421,928,287,800	4.11%	2.29%
2021	440,549,960,034	4.41%	2.14%
2022	459,236,306,230	4.24%	1.77%



Unincorporated Area Assessed Value Forecast

Assessments completed thus far indicate growth in unincorporated area as well for 2014.

Annexations will have an impact on unincorporated AV in 2014-2017.

July 2013 Unincorporated Assessed Value Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	39,449,376,050	-9.82%	0.00%
2012	32,758,485,327	-16.96%	0.00%
2013	30,016,733,778	-8.37%	0.00%
2014	30,792,595,894	2.58%	2.69%
2015	32,170,460,657	4.47%	7.28%
2016	31,687,373,494	-1.50%	2.53%
2017	31,146,268,345	-1.71%	-1.85%
2018	30,788,310,532	-1.15%	-6.47%
2019	31,801,814,449	3.29%	-6.36%
2020	32,859,351,598	3.33%	-6.74%
2021	34,107,432,802	3.80%	-6.92%
2022	35,379,279,242	3.73%	-7.36%



Residential assessed value changes improving from last year in most locations

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

So far, the residential change throughout most of King County is positive for 2014.

Some areas will see AV decreases again in 2014.

Residential Assessed Value Changes

District	Location	2013	2014
NE	Duvall	-13.1%	12.7%
NE	Carnation/Fall City	-13.2%	10.8%
NE	North Bend/Snoqualmie	-6.2%	-2.5%
NW	Bothell/E. Kenmore	-3.0%	15.7%
NW	East Ballard	-1.6%	12.4%
NW	Ravenna/University District	0.0%	8.9%
SE	East Renton	-7.2%	11.4%
SE	Convington	-8.7%	6.5%
SE	Enumclaw	-9.7%	-5.5%
SW	SE Federal Way	-9.8%	3.2%
WC	Magnolia	-2.8%	13.6%
WC	Capitol Hill	-4.8%	13.6%
WC	Queen Anne	-4.3%	6.5%
WC	White Center	-12.6%	4.0%
WC	Skyway	-12.1%	-2.3%



New Construction Forecast

New construction has decreased significantly since the 2009 peak (\$8b).

Positive signs for 2014: construction employment, sales and permits.

Stabilized going forward.

July 2013 Countywide New Construction Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	2,457,642,885	-52.78%	0.00%
2012	1,925,434,669	-21.66%	0.00%
2013	1,983,503,613	3.02%	0.00%
2014	2,183,185,142	10.07%	-1.66%
2015	2,623,966,444	20.19%	10.03%
2016	3,008,231,932	14.64%	10.38%
2017	3,159,780,522	5.04%	10.81%
2018	3,257,755,459	3.10%	9.20%
2019	3,393,492,456	4.17%	8.66%
2020	3,589,556,380	5.78%	8.50%
2021	3,768,830,087	4.99%	8.86%
2022	3,956,243,883	4.97%	9.17%



Unincorporated Area New Construction Forecast

Unincorporated KC is mostly residential properties.

Residential builders have started building again in some areas.

Annexations also affect unincorporated NC.

July 2013 Unincorporated New Construction Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	267,511,475	-12.19%	0.00%
2012	180,324,673	-32.59%	0.00%
2013	198,251,903	9.94%	0.00%
2014	216,028,043	8.97%	-1.66%
2015	259,643,730	20.19%	15.22%
2016	284,269,599	9.48%	10.38%
2017	285,704,999	0.50%	6.03%
2018	283,059,257	-0.93%	0.41%
2019	294,853,148	4.17%	-0.09%
2020	311,888,714	5.78%	-0.24%
2021	327,465,415	4.99%	0.09%
2022	343,749,390	4.97%	0.38%



Property Tax Forecasts

Small changes for most levies.

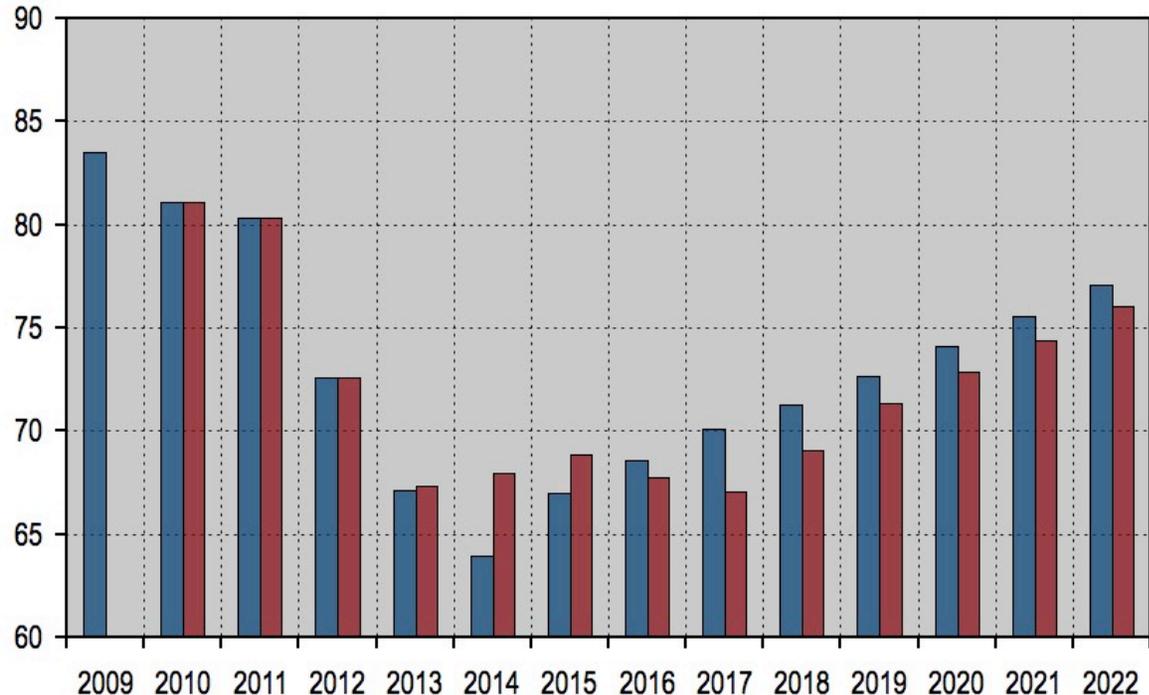
Improved AV good for Roads/Transit (EMS if approved).

UTGO levy amount down \$1M over next ten years due to refinancing.

Roads levy better in near term, worse in long term.

UAL/Roads Property Tax

2009 to 2022 Revenue Forecast in millions of dollars



Blue = March 2013 Forecast Red = July 2013 Forecast

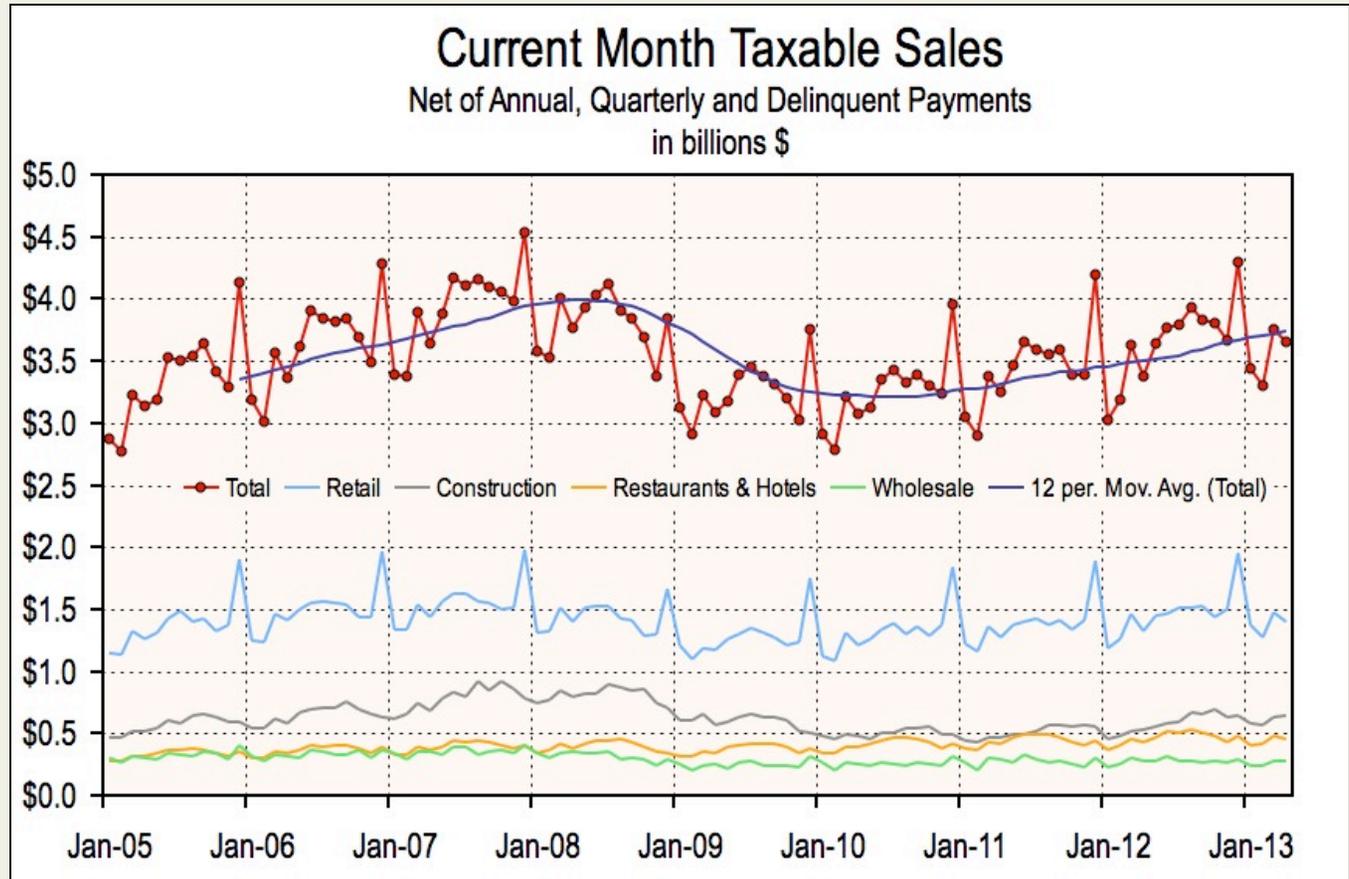


Taxable sales continue to recover in 2013

Taxable sales up over 6% (yoy) in 1Q:2013.

Construction sector is leading the way (up 22% through April, 2013).

Retail/wholesale sectors are growing over 4.0% so far this year.





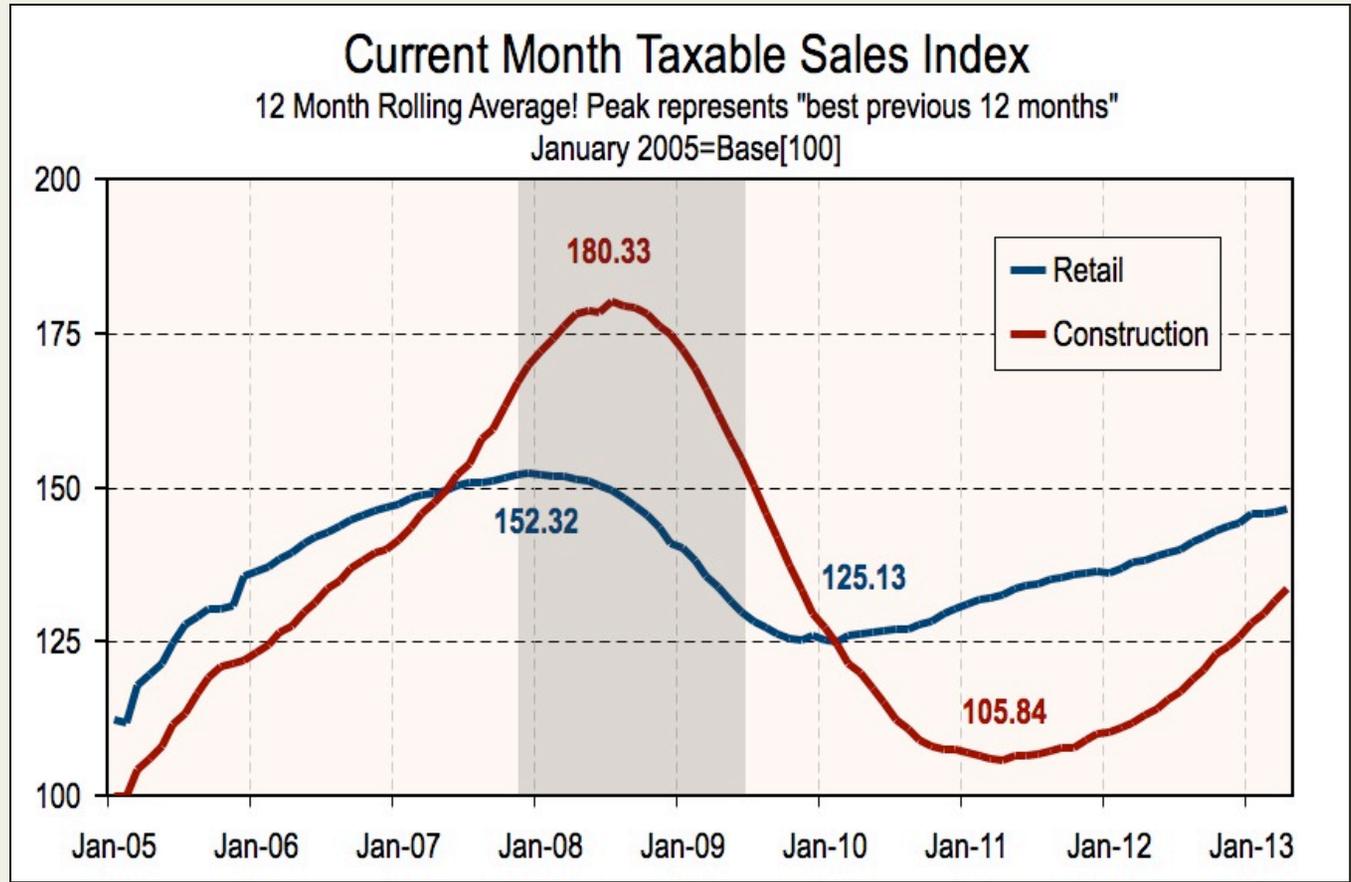
Construction sales now recovering strongly after lagging the retail recovery

Retail peaked in Dec 2007.

Construction peaked in July 2008.

Retail recovery began in February 2010.

Construction recovery began in April 2011.



Blue = Retail Index 12m rolling AVG Red = Construction Index 12m rolling AVG



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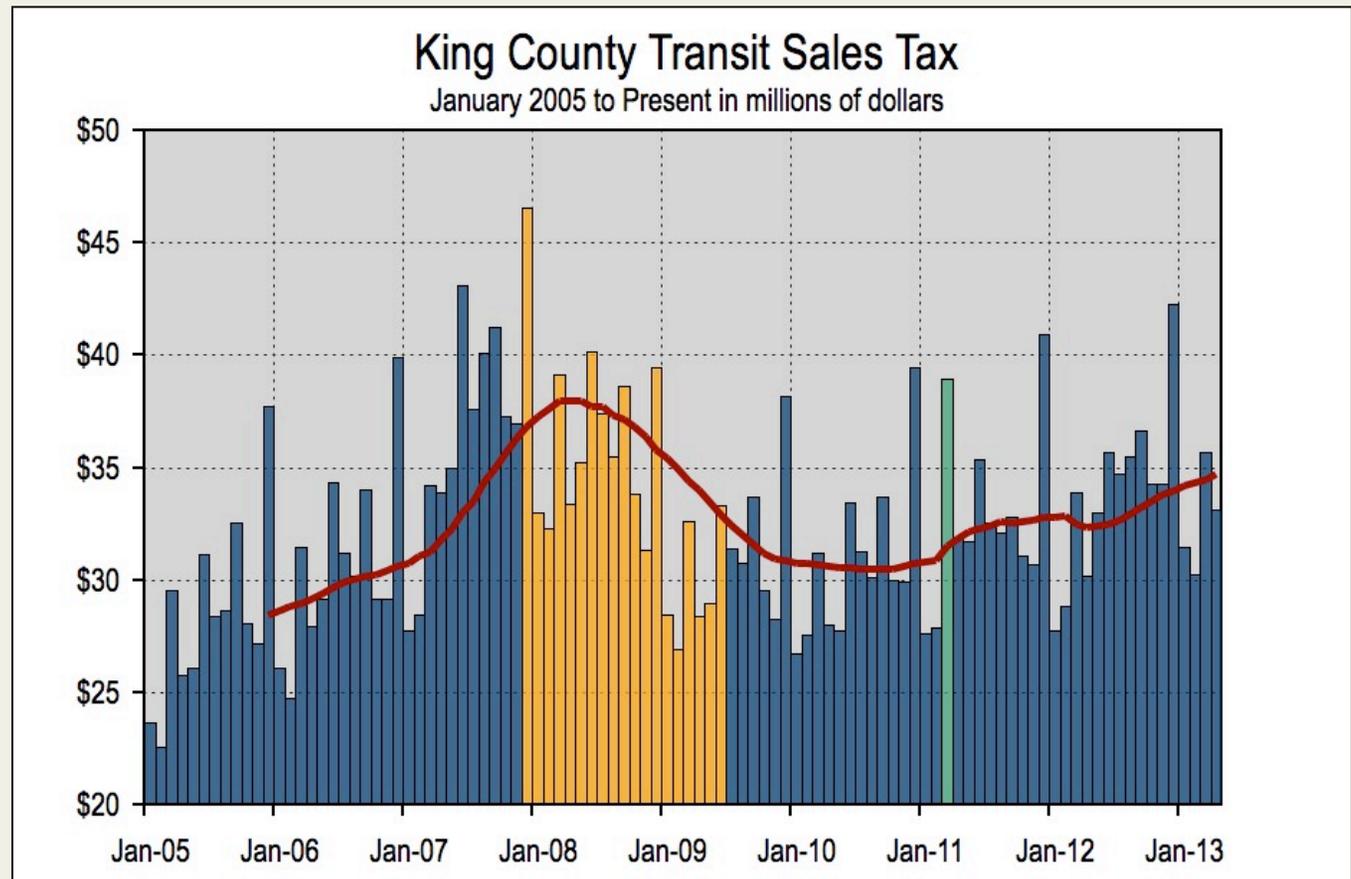
Metro sales tax revenues continue to grow

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Forecasts: Monthly transit sales tax actuals from the WA Dept. of Revenue

Transit sales tax growth has been substantial through the first four months of 2013.

In spite of the 2011 amnesty inflating our transit sales taxes, we still had 3.3% overall growth in 2012.



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



Local Sales Tax Forecast

2013 and beyond are looking up due to a recovering economy.

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

July 2013 Local and Option Sales Tax Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	81,032,753	6.57%	0.00%
2012	83,194,189	2.67%	-0.02%
2013	87,194,260	4.81%	1.23%
2014	91,315,738	4.73%	2.27%
2015	95,240,651	4.30%	1.02%
2016	99,469,488	4.44%	0.07%
2017	103,405,488	3.96%	-1.12%
2018	107,979,396	4.42%	-1.01%
2019	112,734,889	4.40%	-0.91%
2020	117,564,690	4.28%	-0.91%
2021	122,498,398	4.20%	-0.97%
2022	127,512,589	4.09%	-1.17%



Transit Sales Tax Forecast

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.

July 2013 Metro Transit Sales Tax Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	399,483,215	6.47%	0.00%
2012	412,549,492	3.27%	-0.01%
2013	436,424,308	5.79%	1.49%
2014	456,811,777	4.67%	1.75%
2015	479,741,955	5.02%	1.26%
2016	506,933,490	5.67%	1.53%
2017	532,643,899	5.07%	1.45%
2018	556,003,865	4.39%	1.56%
2019	580,296,875	4.37%	1.66%
2020	604,973,058	4.25%	1.66%
2021	630,184,047	4.17%	1.60%
2022	655,809,721	4.07%	1.43%



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King County REET is growing again

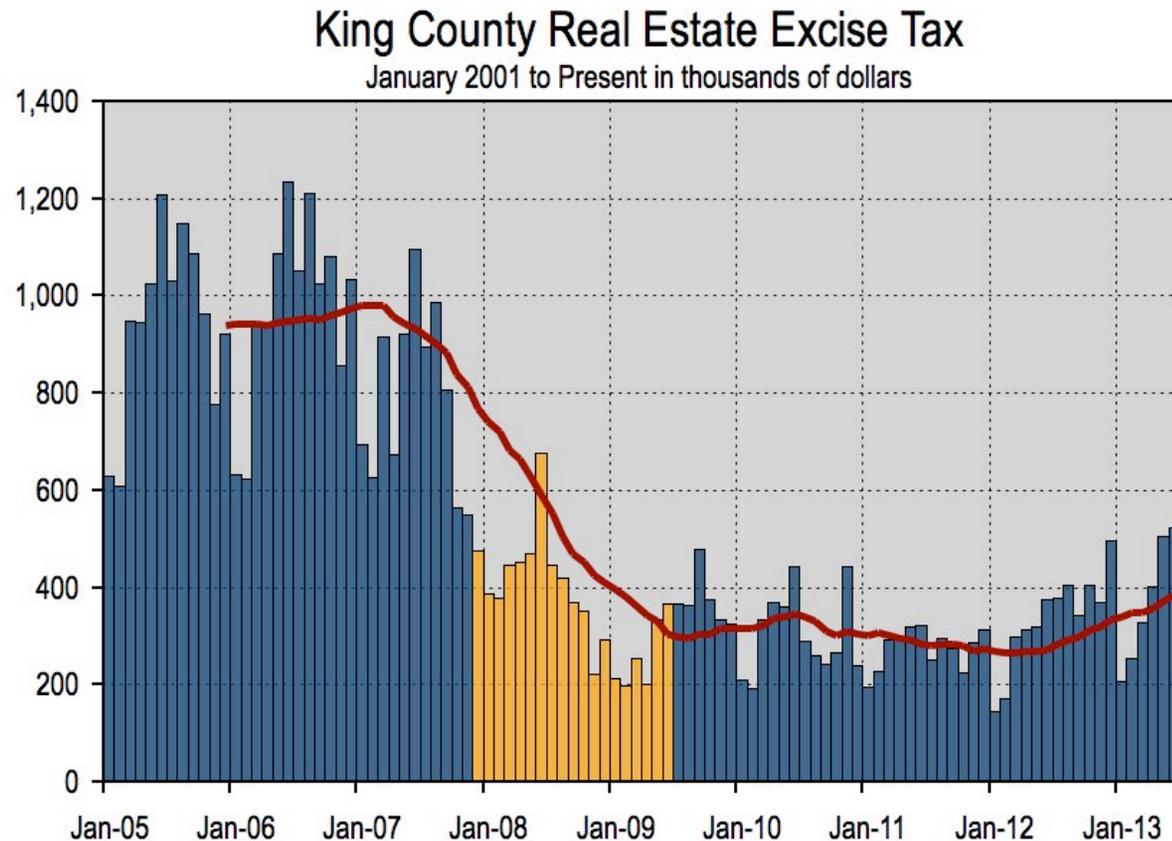
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Economic context: Real estate excise taxes from the KC Recorder's Office

2012 had a strong finish due to some large sales.

So far in 2013, both transactions and average prices are increasing

May 2013 transactions level was the highest since Nov. 2007.



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



Real Estate Excise Tax Forecast

REET revenues will rise as prices and sales volume pickup.

Annexations will exert downward pressure on this revenue.

July 2013 Real Estate Excise Tax (REET 1) Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	3,293,751	-9.71%	0.00%
2012	4,017,488	21.97%	0.00%
2013	4,805,987	19.63%	11.79%
2014	5,012,250	4.29%	12.81%
2015	4,836,503	-3.51%	7.90%
2016	4,760,982	-1.56%	4.01%
2017	4,790,856	0.63%	1.21%
2018	5,037,001	5.14%	1.25%
2019	5,753,683	14.23%	2.58%
2020	6,086,674	5.79%	2.44%
2021	6,454,550	6.04%	2.57%
2022	6,856,495	6.23%	2.72%



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

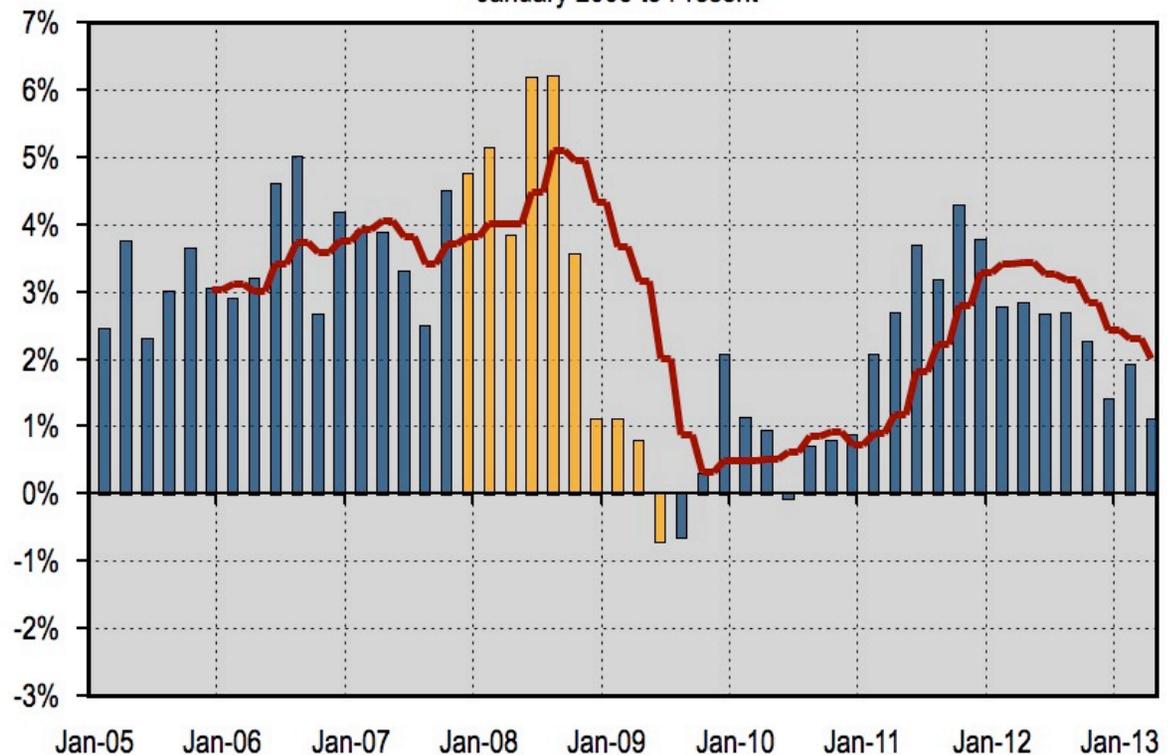
The annual inflation rate in June was 1.4%

Shelter costs have been driving what inflation we've seen

Annual June inflation excluding shelter was 0.2%.

Seattle CPI-W Bi-Monthly Inflation

January 2005 to Present



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



June-June Seattle CPI-W Forecast

This value is the percentage change in the annual averages and is used to escalate most county labor contracts

For 2013 the value was 1.76%

The 2014 COLA is 1.67%.

July 2013 June-June Average Seattle CPI-W Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from March 2013 Forecast
2011	1.81%	1.19%	0.00%
2012	3.26%	1.44%	0.00%
2013	1.76%	-1.50%	-0.35%
2014	2.22%	0.47%	-0.01%
2015	2.29%	0.07%	-0.03%
2016	2.36%	0.07%	0.03%
2017	2.34%	-0.02%	0.01%
2018	2.46%	0.11%	0.01%
2019	2.47%	0.01%	-0.06%
2020	2.50%	0.03%	-0.03%
2021	2.52%	0.02%	-0.02%
2022	2.51%	-0.01%	-0.05%

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