



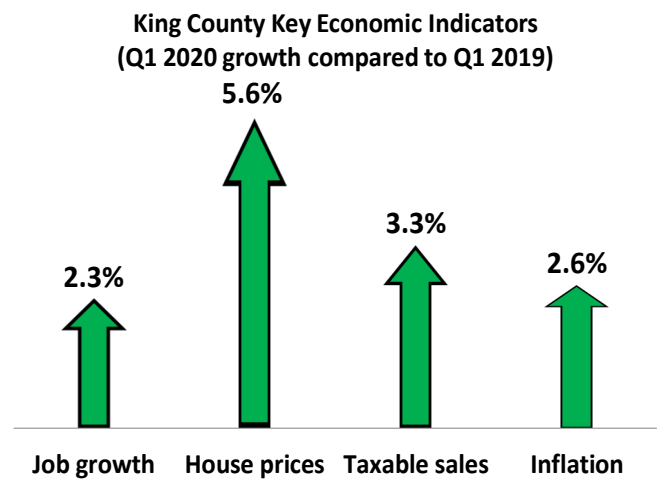
ECONPULSE

A QUARTERLY LOOK AT THE KING COUNTY ECONOMY
KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

FIRST QUARTER 2020

SUMMARY

- King County employment grew 2.3% in the first quarter of 2020 relative to 2019, with growth despite the COVID-19 crisis in information, construction, and professional and business services jobs.
- Home prices increased 5.6% compared with the first quarter of 2019.
- Taxable sales rose 3.3% in January and February.
- The inflation rate was 2.6% in February.



DETAIL

King County employment experienced modest growth in most sectors in the first quarter of 2020 compared to the year prior. The information sector added 8,100 jobs in the first quarter, a 7% increase over 2019. Construction added 5,200 jobs for a 6.8% increase. Food and drinking places registered a quarterly growth of merely 0.2%, a result of growth in January and February, followed by a 5,000 job decrease in March 2020 compared to March 2019. The leisure and hospitality sector is among the first to show the effects of the impacts of COVID-19, going from a 4% increase in jobs in January and February, to a 2.9% decrease in March relative to 2019.

The unemployment rate for King County was 2.4% in February, but rose to 5.4% in March as the first layoffs resulting from the COVID-19 pandemic began. The impact of business closures that began in March will not be fully reflected until the 2nd quarter. Initial claims for unemployment in King County numbered 4,990 in February before leaping to an unprecedented 116,077 in the month of March.

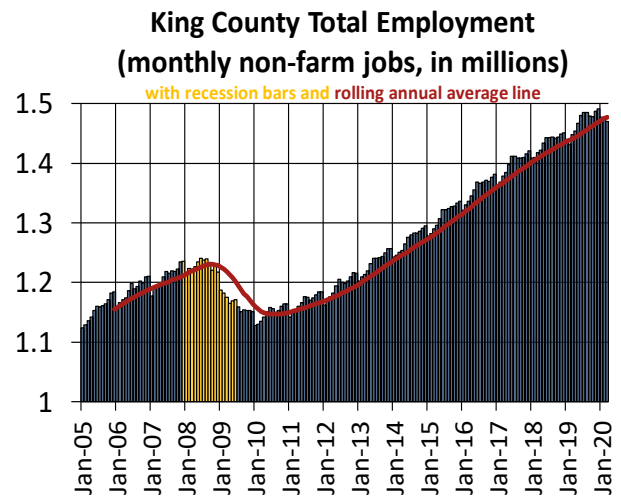


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

DETAIL (CONT.)

Seattle House Prices
(Case Shiller index, Jan-2000=100)

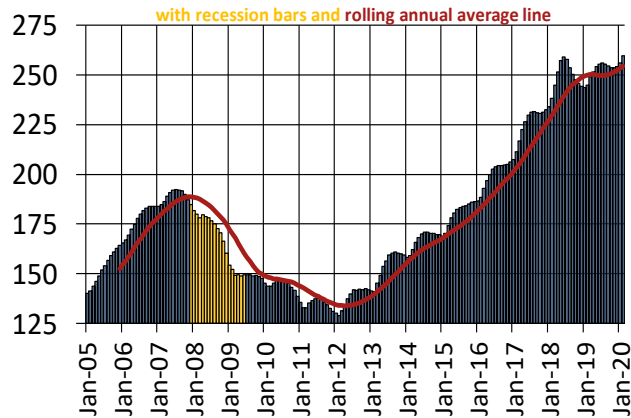


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

Seattle-area house prices rose 5.6% year over year through February (the most recent month available).

Residential permitting declined in the first3quarter of 2020, driven by steep declines in both single- and multi-family permitting in the month of March. Single-family permitting was up 8.9% year-over-year in January and February before declining 16.6% in March. Similarly, multi-family permitting increased in January and February before declining considerably in March.

King County Residential Permit Values
(new, privately-owned, in millions \$)

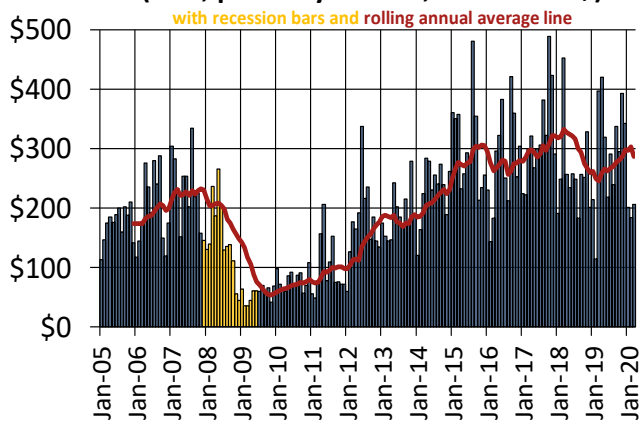


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales grew 3.3% in the first quarter of 2020, with data through February. Strong growth in construction, retail, and wholesale was offset by a steep decline in restaurants and hotels.

Taxable Sales Growth
(annual average of top four sectors)

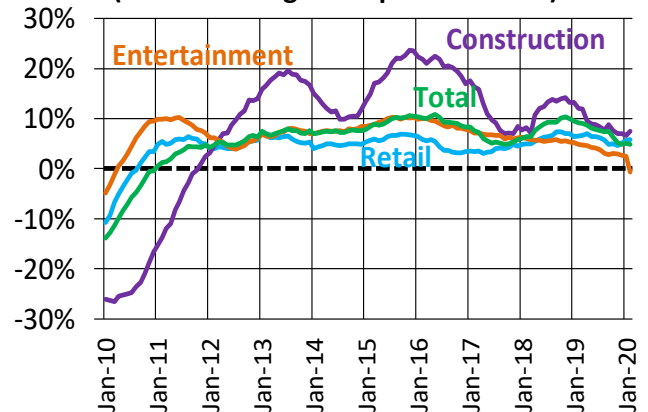


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation increased 2.6% in February as measured by the CPI-W for Seattle. Increases in prices in shelter and recreation continued to drive the increase. The national inflation rate was 1.5%.

Seattle Inflation
(CPI-W, annually adjusted)

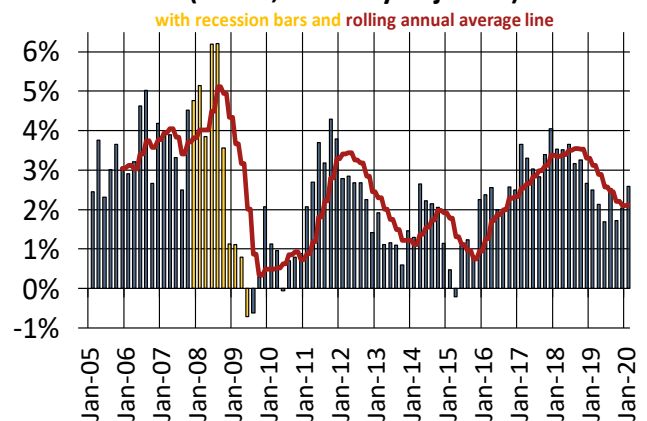


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2020:1Q	2019:1Q	Absolute change	% Change
Total Nonfarm	1,473.6	1,440.0	33.5	2.3%
Total Private	1,293.0	1,264.2	28.8	2.3%
Goods Producing	187.3	183.2	4.2	2.3%
Construction	82.1	76.9	5.2	6.8%
Manufacturing	104.8	105.8	-1.0	-1.0%
Service Providing	1,286.2	1,256.9	29.4	2.3%
Trade, Transportation, and Utilities	279.4	275.8	3.7	1.3%
Information	124.4	116.3	8.1	7.0%
Financial Activities	73.8	74.1	-0.3	-0.4%
Professional and Business Services	240.2	233.1	7.2	3.1%
Educational and Health Services	191.6	188.4	3.2	1.7%
Educational Services	31.3	31.8	-0.5	-1.6%
Ambulatory Health Care Services	64.5	61.3	3.2	5.2%
Hospitals	32.3	31.9	0.4	1.3%
Nursing and Residential Care Facilities	19.2	20.0	-0.8	-3.8%
Social Assistance	44.3	43.4	0.9	2.1%
Leisure and Hospitality	144.2	141.8	2.4	1.7%
Arts, Entertainment, and Recreation	27.9	25.9	2.0	7.6%
Accommodation	15.6	15.4	0.2	1.5%
Food Services and Drinking Places	100.7	100.5	0.2	0.2%
Other Services	52.0	51.6	0.3	0.6%
Government	180.6	175.8	4.8	2.7%

Other King County Economic Indicators

	2020:Q1	2019:Q1	% Change
Real Estate			
Single Family Permits (No. of units)	807	853	-5.4%
Single Family Permits (\$000)	\$ 324,134	\$ 333,754	-2.9%
Multi-Family Permits (No. of units)	2,021	2,440	-17.2%
Multi-Family Permits (\$000)	\$ 265,906	\$ 391,789	-32.1%
Avg. sales price (NW Multiple Listing Service)	\$ 738,086	\$ 710,293	3.9%
Number of sales (NW Multiple Listing Service)	6,006	5,660	6.1%
Taxable Retail Sales (\$B, Jan-Feb)	\$ 10.63	\$ 10.30	3.3%
Retail/Wholesale	\$ 4.25	\$ 3.98	6.8%
Construction/Real Estate	\$ 3.39	\$ 3.11	9.0%
Food Service, Accommodation, Entertainment	\$ 1.35	\$ 1.57	-14.1%
Other	\$ 1.64	\$ 1.64	0.4%
Inflation (February)			
CPI-W (Seattle-Tacoma-Bellevue)	278.08	271.04	2.6%

KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators decreased in the first quarter of 2020, driven by a decrease in March of 2.7 points, the largest single month drop in the 20 year range of the index.

The large drop in March was a product of skyrocketing initial unemployment claims and plummeting consumer sentiment. Only two indicators were positive in March: durable goods and the interest rate spread as short term rates neared zero.

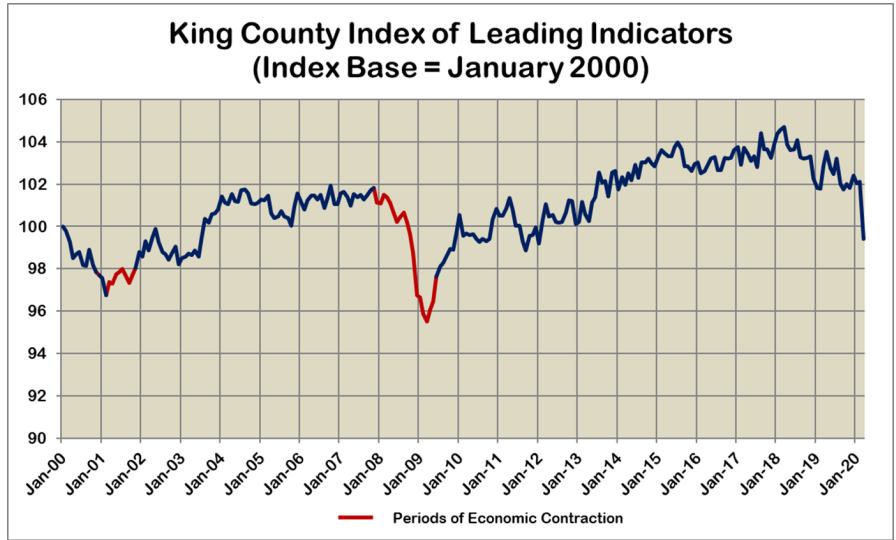


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

KING COUNTY FORECAST

The U.S. economy has been significantly affected by the Covid-19 outbreak although we are just beginning to get the hard data in on the specific impacts. OEFA delayed the King County forecast publication in part to wait until the national economic view was a little clearer so the input forecasts we use from Global Insight would help us make sense of the changes. Prior to Covid-19, the U.S. economy was looking pretty solid as it finished 2019 with good fundamentals and headed into 2020 for what looked like another year of modest, but steady growth. The U.S.- China trade war seemed to be de-escalating with the Phase 1 agreement in October and fears of a recession mid-year retreated. However, as the Covid-19 pandemic that started in China in December began to spread, it became apparent that 2020 would play out differently than initially expected. The virus became an increasing problem in King County near the end of February and rapidly escalated. By mid-March many stores were shutting down and by late March, the Governor had issued a stay at home order. Other states also experienced rapidly increased infections and by April many other states had shut down. This rapid and unprecedented “closing” of the economy has had massive impacts the magnitude of which we have not seen since the Great Depression. Initially, economy watchers had to content themselves with anecdotes and high frequency data such as internet traffic or credit card sales. All suggested very significant impacts to consumers, businesses and governments. The timeliest hard data was initial unemployment claims which have been in the millions per week which has never been seen before and when we finally received the April employment data, 20.5 million fewer people were working than a month prior. The federal government has stepped in with massive fiscal stimulus to try to reduce the impacts and the Federal Reserve has revived many tools initiated during the Great Recession to ensure liquidity in the economy.

Though there is lots of uncertainty about the path of the national economy, forecasters are pretty united on a massive contraction in the second quarter but less so about the speed of the recovery after that. The biggest source of uncertainty is the public health piece as states try to balance the opening of their economies with acceptable infection rates. Moreover, social distancing measures and other requirements will change how the economy works likely until a vaccine is available. In general, most forecasters note that the severity of the impacts in the second quarter of 2020 are unlikely to be fully reversed this year or even by 2021.

Individuals and businesses in King County were slowing activity and closing businesses at various locations throughout March but most activity officially ceased on March 23, 2020 due to the Governor’s “Stay Home, Stay Healthy” order that required all non-essential businesses to close and required people to stay home. This order has been extended several times and is now in place until at least until May 31. The Governor has clearly articulated the tradeoff we face between increasing economic activity and increasing Covid-19 infection rates and has laid out a four phase approach for getting the economy back to fully open. Phase 1 started on May 5 and allows for the return of construction on existing projects, some outdoor recreation (e.g. the state parks have opened), restoration of landscaping services, vehicle and vessels sales and curb-side retail. The Governor has noted that at least three weeks will have to pass between phases but that it could easily be longer depending on a host of Covid related indicators.

Projecting the future for the County’s economy is as uncertain as the U.S. forecast. Much like the U.S. economy, King County came into 2020 on solid footing. We have been in a very rapid expansion with significant job growth and consequent building and population increases. Employment growth averaged 2.5% in 2019 which was the same as the growth seen in 2018 but slower than the 3% annual growth values we saw earlier in the expansion. Industry growth in 2019 was led by Information (+9.3%) and other

KING COUNTY FORECAST (CONT.)

services (+6.9%). Construction employment also grew in King County but at a slower rate than years past (+2.3%). Unemployment in the county reached a record low in April, 2019 and values were consistently below 3%. The March 2020 value crept up to 5.4% as it began to reflect the impact of Covid-19.

Taxable retail sales growth has averaged 7.9% annually for the last five years. This reflects both the strength of the local economy and policy changes made like extending the sales tax to bottled water and remote sellers. Construction sales tax growth has been particularly strong averaging over 13% growth per year since 2014 and reflecting the amount of building going on in the county. It is now 23% of countywide taxable sales annually. So far in 2020 (through February) the pace of sales tax growth has slowed as the impact from Covid-19 is beginning to be felt and due to a tax filing extension provided by the state Department of Revenue in response to Covid.

The local housing market cooled significantly in 2019 with prices even falling year over year for a period around mid-year before growth returned and overall prices were up 3-4% by year-end. The first few months of 2020 saw a continuation of price growth and the data for March and April have largely held up in terms of price although April transactions fell significantly. It is expected that both fewer listings and lower demand will reduce transactions overall this year. The impact on prices is less obvious as both supply and demand appear to be contracting.

As far as looking forward, all signs indicate there will be an enormous contraction in the local economy. As indicated previously, the Index of Leading Indicators is showing a significant drop. The extent of the drop in the economy will depend on how successful we are suppressing the virus while simultaneously opening the economy. The forecast presented assumes we will be able to manage opening the economy but also assumes social distancing requirements and a sluggish return of consumer demand. However, if we are forced to close the economy later in the year or beyond, this forecast will prove too optimistic.

We expect the local economy to experience a very significant contraction in 2020, the effects of which will continue into 2021-2022. Table 1 on the following page indicates the most recent forecast. Population growth should continue but likely at a reduced pace of growth in the 1.0% to 1.2% range with about 25,000 additional people living in King County in each of 2020 and 2021. Employment growth finished up 2.5% in 2019 but is expected to contract over 6% in 2020 which is the most significant reduction in employment in any year since the data started being collected in 1980. Employment during the Great Recession fell 6.4% but over a two year period. Employment should get back to 2019 levels in 2022. Inflation is likely to be around 1.4% in 2020 before picking up the pace in 2021-2022 to levels more typically expected of around 2.5%. We also expect the pace of housing permits to slow significantly as builders pull back particularly in multi-family housing, and housing prices are likely to fall a small amount before resuming an upward climb. Taxable sales are likely to experience a very significant contraction that is dependent on the path of the virus. However, assuming the economy will be able to open up in July or so we expect taxable sales to contract by about 22% in 2020 and not return to pre-Covid levels until 2022.

King County Forecast - May 2020				
	2019	2020	2021	2022
King County-Level				
Population (thous.)	2,233.4	2,257.1	2,282.0	2,309.1
Employment (thous.)	1,468.6	1,370.8	1,424.3	1,468.1
Unemployment Rate (%)	2.8	7.5	6.7	4.7
Personal Income (mil \$)	212,388.9	201,630.9	206,985.0	221,002.4
Housing Permits	18,366	13,697	10,632	12,261
House Transactions (Residential)	30,245	22,711	30,160	30,220
House Prices (avg.)	753,307	738,419	760,099	798,529
Seattle FHFA Index	367.5	376.6	387.1	393.6
Seattle CPI-U	278.6	282.6	288.7	296.7
Taxable Retail Sales (mil \$)	76,500.0	59,674.6	68,941.7	76,485.3
King County Employment - Detail (thousands)				
Natural Resources	0.5	0.5	0.5	0.5
Construction	79.9	74.5	77.6	80.7
Manufacturing	106.2	90.6	92.0	94.1
Subtotal (Goods Employment)	186.6	165.5	170.0	175.3
Trade, Transportation and Utilities	281.0	254.7	268.5	276.2
Information	121.2	124.6	134.9	137.2
Financial Services	75.2	73.3	73.5	74.8
Professional and Business Services	238.6	236.7	239.7	256.2
Other Services	390.2	341.4	366.1	372.5
Government	175.8	174.6	171.5	175.8
Subtotal (Services Employment)	1,282.0	1,205.3	1,254.2	1,292.8
Total Employment	1,468.6	1,370.8	1,424.3	1,468.1
Annual Growth				
Population	1.5%	1.1%	1.1%	1.2%
Employment	2.5%	-6.7%	3.9%	3.1%
Personal Income	5.2%	-5.1%	2.7%	6.8%
Inflation	2.8%	1.4%	2.2%	2.8%
Taxable Retail Sales	5.2%	-22.0%	15.5%	10.9%

Table 1: King County Forecast (Source: KC OEFA)

The Office of Economic and Financial Analysis operates as an independent agency of King County, and provides economic and financial analysis and forecasting to support county operations and planning and the people of King County.

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