



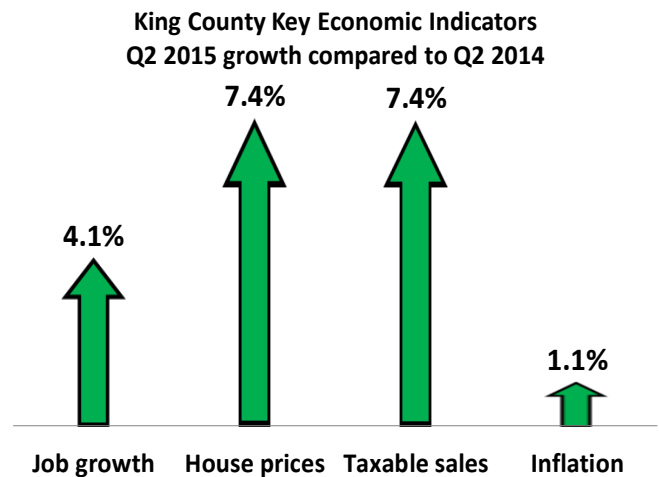
ECONPULSE

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

SECOND QUARTER 2015

SUMMARY

- King County employment grew by 4.1% in the second quarter relative to a year ago, led by construction employment, which was up 16.8%.
- Home prices increased yet again, up 7.4% since May 2014. The average sales price for a home in King County was \$540,367 in the second quarter of 2015.
- Taxable sales in King County were up 7.4% in April and May from a year prior.
- Inflation increased very slightly, up 1.1% year over year.



DETAIL

King County has added over 51,000 new jobs since the second quarter of 2014, an increase of 4.1%. Construction employment alone accounted for almost 20% of these new jobs. Nearly all sectors experienced job increases over the past year, with only the social assistance and accommodation sectors seeing very slight decreases. Unemployment in King County (not seasonally adjusted) is 4.0% as of June 2015, well below the national rate of 5.3%

Consistently strong employment growth in the service sector continues to dominate King County's job environment. For an in depth look at the changing employment landscape in King County as it relates to manufacturing employment, and aerospace in particular, see page 4.

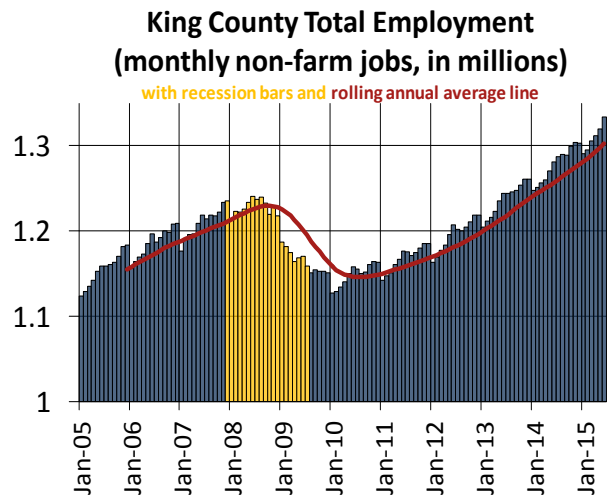


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

DETAIL (CONT.)

Seattle House Prices
(Case Shiller index, Jan-2000=100)
with recession bars and rolling annual average line

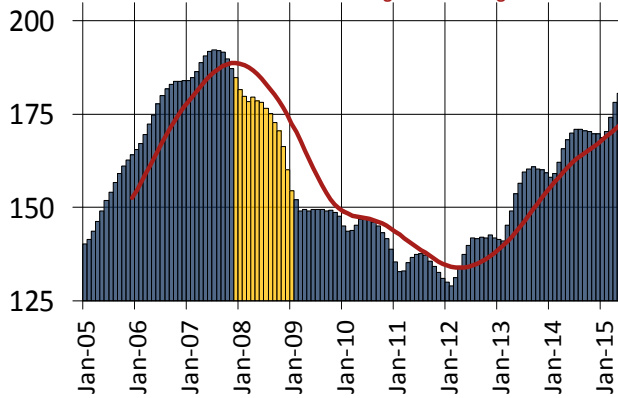


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The trend of low inventory and steadily rising prices continued in King County in the second quarter of 2015. Home prices increased 7.4% year-over-year, with low interest rates and escalating rents driving new buyers into the market. Supply pressure persists, with 24% fewer active listings in King County in June 2015 than a year prior.

Unfortunately, permitting activity suggests single-family supply constraints may continue. The number of single family permits was down 9.7% in the second quarter of 2015 year over year, while year to date, however, permitted units are up 52% from 2014 due to multi-family permits.

King County Permit Values
(new, privately-owned, in millions \$)
with recession bars and rolling annual average line

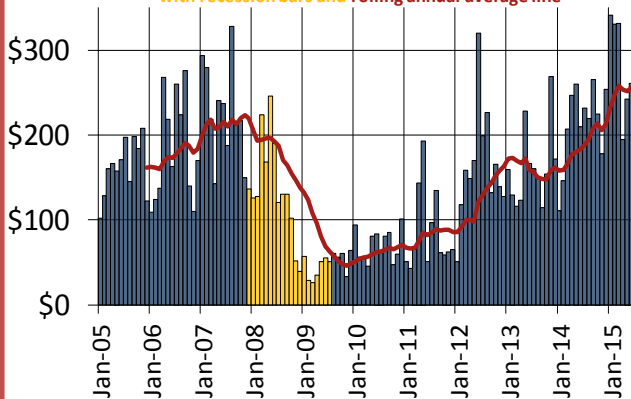


Fig. 3 Value of King County Permits (Source: U.S. Census Bureau)

Taxable retail sales increased 7.4% in April and May of 2015 compared to the previous year. Construction and real estate sales showed slower growth than in the first quarter, but were still up 16.3% over 2014. Food service and accommodation had a strong April and May, up 9.4% over the same period in 2014.

Taxable Sales Growth
(annual average of top four sectors)

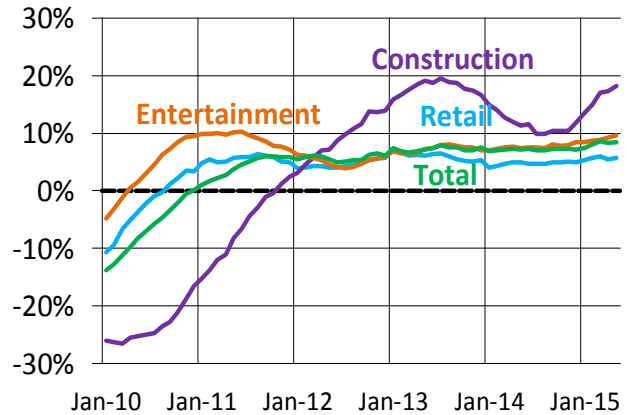


Fig. 4 Taxable Sales Growth in King County (12 month avg)
(Source: WA DOR)

Inflation picked up very slightly in the second quarter, with price increases observed in energy, shelter, and food. The CPI-W for Seattle increased 1% year-over-year in June.

Seattle Inflation
(CPI-W, annually adjusted)
with recession bars and rolling annual average line

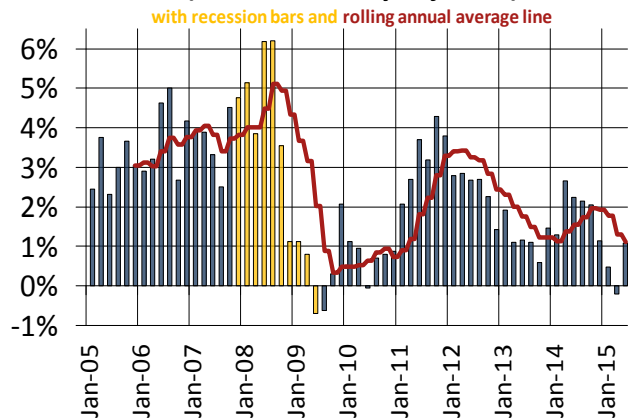


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2015:2Q	2014:2Q	Absolute change	% Change
Total Nonfarm	1,321.8	1,270.3	51.5	4.1%
Total Private	1,146.7	1,098.8	47.9	4.4%
Goods Producing	176.8	165.6	11.1	6.7%
Construction	68.7	58.8	9.9	16.8%
Manufacturing	107.6	106.3	1.3	1.2%
Service Providing	1,145.0	1,104.7	40.3	3.7%
Trade, Transportation, and Utilities	244.8	232.8	11.9	5.1%
Information	87.4	84.9	2.4	2.9%
Financial Activities	73.6	71.2	2.4	3.4%
Professional and Business Services	217.7	205.6	12.1	5.9%
Educational and Health Services	171.9	167.8	4.1	2.5%
Educational Services	28.2	26.2	2.0	7.5%
Ambulatory Health Care Services	54.6	53.6	1.0	1.8%
Hospitals	27.2	26.5	0.7	2.8%
Nursing and Residential Care Facilities	21.2	20.6	0.5	2.6%
Social Assistance	40.7	40.8	-0.2	-0.4%
Leisure and Hospitality	127.7	125.4	2.3	1.8%
Arts, Entertainment, and Recreation	25.1	24.4	0.7	2.9%
Accommodation	12.8	13.1	-0.3	-2.0%
Food Services and Drinking Places	89.8	87.9	1.9	2.1%
Other Services	46.9	45.5	1.4	3.2%
Government	175.0	171.5	3.5	2.1%

Other King County Economic Indicators

	2015:Q2	2014:Q2	% Change
Real Estate			
Single Family Permits (No. of units)	1,033	1,144	-9.7%
Single Family Permits (\$000)	\$ 391,052	\$ 387,660	0.9%
Multi-Family Permits (No. of units)	3,059	3,089	-1.0%
Multi-Family Permits (\$000)	\$ 391,398	\$ 405,365	-3.4%
Avg. sales price (NW Multiple Listing Service)	\$ 540,367	\$ 495,845	9.0%
Number of sales (NW Multiple Listing Service)	10,073	8,675	16.1%
Taxable Retail Sales (\$B, April-May)	\$ 8.75	\$ 8.15	7.4%
Retail/Wholesale	\$ 3.85	\$ 3.66	5.2%
Construction/Real Estate	\$ 2.21	\$ 1.90	16.3%
Food Service, Accommodation, Entertainment	\$ 1.52	\$ 1.39	9.4%
Other	\$ 1.17	\$ 1.20	-2.5%
Inflation (June)			
CPI-W (Seattle-Tacoma-Bremerton)	246.93	244.29	1.1%

FOCUS: MANUFACTURING EMPLOYMENT

As employment growth in King County over the last decade has been driven by services like education, health and information and more recently by big gains in construction after the Great Recession, one might be curious what role the manufacturing sector plays in the County’s future. A look at the sector’s relative health throughout the tumultuous years of globalization and offshoring reveals the strengths of local manufacturing, as well as potential threats.

Prior to 2000, the level of manufacturing jobs in the U.S. was relatively constant though the share of these jobs in the economy was declining. However,

since January 2000, the United States has lost nearly five million manufacturing jobs. Some of this reduction in jobs is likely tied to the growth of China’s economy and its exports of a large variety of inexpensive manufactured goods. For example, the initial sharp decrease in US manufacturing jobs, as illustrated in Figure 6, has been attributed to a change in US trade policy with regards to China^{1,2}. In October 2000, the US granted permanent normal trade relations to China, eliminating tariff uncertainty that had held companies back from shifting production overseas to take advantage of cheaper labor. What followed was a steep decline in domestic manufacturing, resulting in a loss of nearly three million manufacturing jobs in three years. Another steep decrease in manufacturing employment occurred during the Great Recession beginning in 2008 as all sectors in the economy were hit hard, though particularly manufacturing and construction.

While Figure 6 appears to show a mirroring of King County’s manufacturing employment trend with that of the United States, the story is quite different for the County. A small decline occurred following the trade policy revision, but the most dramatic decrease in manufacturing jobs in King County began in September 2001. That coincides with Boeing’s announcement of the elimination of 31,000 jobs company-wide in the wake of the September 11th attacks and the resulting turmoil in the airline industry. Aerospace employment in King County fell over 30% from 2001-2004 and was responsible for about 60% of the decline in manufacturing jobs over that period.

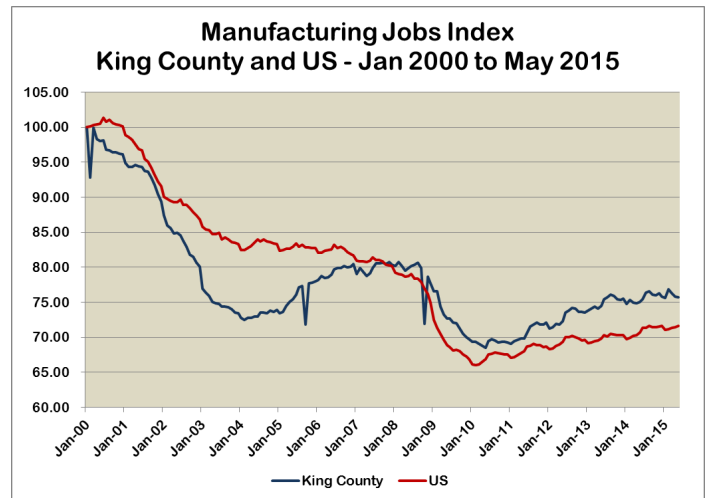


Fig. 6 Manufacturing Jobs Index (Source: BLS & WA ESD)

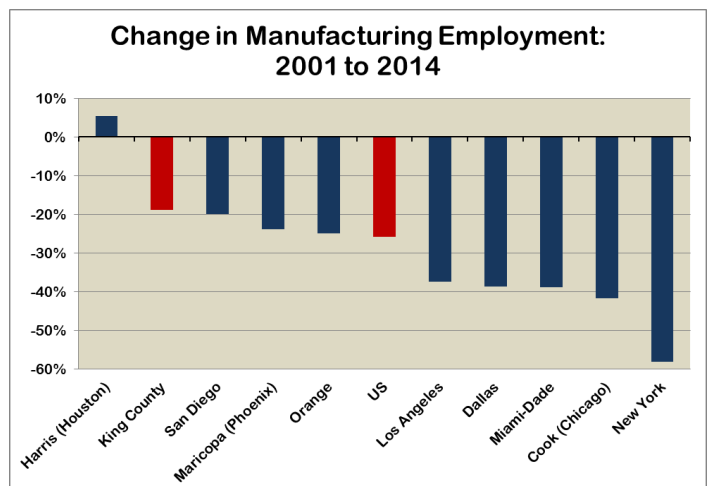


Fig. 7 Change in Manufacturing Employment by County (Source: BLS)

¹ Justin R. Pierce & Peter K. Schott, “The Surprisingly Swift Decline of U.S. Manufacturing Employment.” Working Paper 18655 (National Bureau of Economic Research, 2012)

² Autor, Dorn, & Hanson, “The China Syndrome: Local Labor Market Effects of Import Competition in the United States.” (American Economic Review, 2013)

FOCUS: MANUFACTURING EMPLOYMENT (CONT.)

This concentration of an entire sector around a single entity might signal a weakness in the local economy, and certainly the post-9/11 job losses at Boeing and related firms substantially impacted overall manufacturing employment in King County. As Figure 7 shows, from 2001 to 2014, overall manufacturing employment declined in King County by 18.8%, a loss of 24,437 jobs. Relative to our peer counties and the United States as a whole, however, King County fared better than most. Only Harris County, Texas, with its reliance on a strong domestic energy industry, saw an increase in manufacturing employment over the time period and King County saw the smallest reduction.

But are Boeing and the aerospace sector solely to blame for the County’s longer-term decline in manufacturing jobs? As Figure 8 reveals, even with the 2001 layoffs, employment in aerospace production and parts manufacturing has been stronger (or less weak, in this case) than manufacturing employment as a whole. Total manufacturing employment decreased in King County by 24% from January 2000 to May 2015, while aerospace employment fell by 21% over that time period. Of the 34,300 manufacturing jobs lost between 2000 and May 2015, about one third (11,700) were from aerospace. Other areas

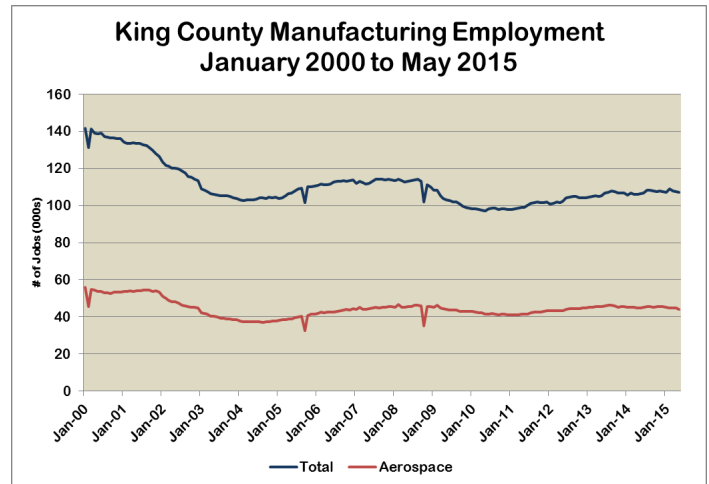


Fig. 8 King County Manufacturing Employment (Source: WA ESD)

of manufacturing that saw steep declines were Computer and Electronic Products (-35.9%) and Nondurable Goods (-29.2%). These are both areas very hard hit nationally by trade expansion into China.

All of this data suggests that King County’s reliance on Boeing as the cornerstone of the manufacturing sector has not weakened our economy but rather has buoyed the sector through turbulent times. Looking at the top manufacturing employers in King County in Figure 9 reveals that even companies not traditionally

counted as “aerospace” (ex. Honeywell, Carlisle) in industry employment numbers are linked to aerospace, indicating that local manufacturing employment is even more strongly tied to Boeing than the aerospace employment numbers alone would suggest. Our good fortune is that Boeing appears to have a particularly bright future. With a backlog of seven years (largely attributable to the Renton-built 737), Boeing commercial airplane manufacturing is poised to support aerospace manufacturing within Boeing itself and among its local suppliers for some time. Manufacturing employment will obviously be

Selected Large Manufacturing Employers in King County (500+ Employees)	
Employer	Description
Boeing	Aerospace
Carlisle Interconnect Technologies	Wire & Cable for Aerospace
Costco Wholesale Industries	Miscellaneous Consumer Goods
Exotic Metals Forming	Fabricated Metal for Aerospace
Hexcel	Composite Materials for Aerospace
Honeywell	Computer & Electronics - Incl Aerospace
Isilon Systems	Computer Data Storage
Medtronic Emergency	Medical Devices
Nintendo	Consumer Electronics
Paccar	Medium- and Heavy-Duty Trucks
Precor Inc	Fitness Equipment
Terex / Genie	Heavy Equipment & Machinery
Trident Seafoods	Seafood

Fig. 9 Largest Manufacturing Employers (Source: WA ESD)

exposed to aerospace industry-specific risks, but aerospace’s resistance to outsourcing (as evidenced by the difficulties in outsourcing much of the 787 production) and the realized benefits of “clustering”³ of aerospace talent in the area mean that Boeing will likely continue to be a boon to King County manufacturing.

³ Muro, Rothwell, Andes, Fikri, and Kulkarni. “America’s Advanced Industries: What They Are, Where They Are, and Why They Matter.” (Brookings, 2015)

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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