



ECONPULSE

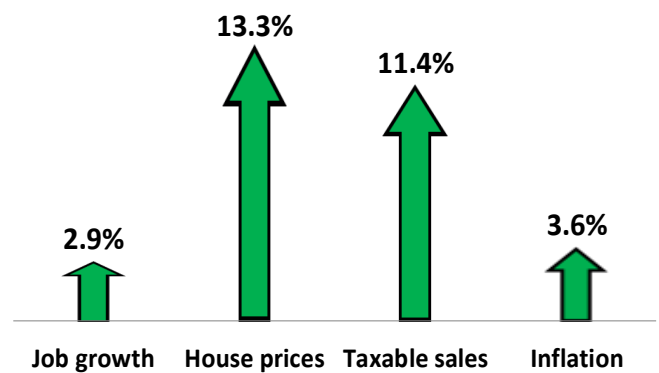
A QUARTERLY LOOK AT THE KING COUNTY ECONOMY
 KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

SECOND QUARTER 2018

SUMMARY

- King County employment growth slowed to 2.9% in the second quarter of 2018 relative to 2017, with solid growth in information and trade, transportation, and utilities jobs.
- Home prices increased by 13.3% compared with the second quarter of 2017.
- Taxable sales growth increased, rising 11.4% in April and May.
- Inflation increased to 3.6% in June.

King County Key Economic Indicators
 (Q2 2018 growth compared to Q2 2017)



DETAIL

King County employment increased in most sectors in the second quarter. Small declines occurred in the construction sector, as well as nursing facilities, arts and recreation, and government jobs. The trade, transportation, and utilities sector continued its strong growth, adding 14,400 jobs in the second quarter. However, overall employment growth has slowed the past two quarters, with the second quarter rate of 2.9% marking the slowest growth since fourth quarter 2014. Total new job postings were down 11% in the second quarter of 2018 compared to a year prior. For further commentary on employment growth, see the County Forecast beginning on page 5.

King County Total Employment
 (monthly non-farm jobs, in millions)

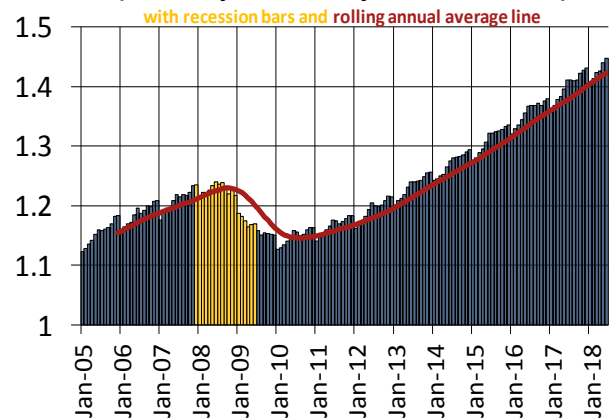


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

The unemployment rate for King County was up slightly in June, at 3.7%. Initial claims for unemployment insurance remain at historical lows, with 4,226 new claims in June.

DETAIL (CONT.)

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

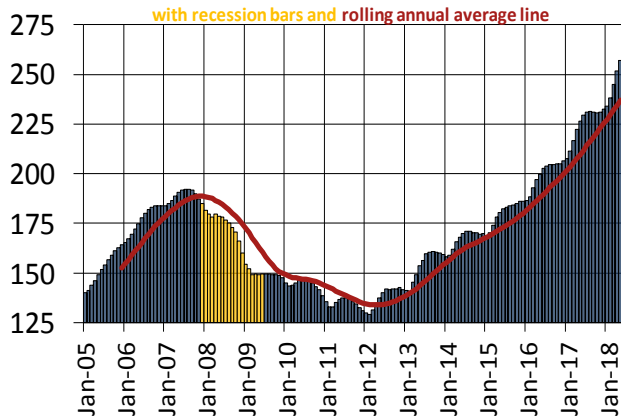


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The Seattle-area housing market continued to lead the nation in price growth, increasing 13.3% in the second quarter. The average sales price for a home in King County was \$784,396 in June.

Residential permitting decreased in the second quarter for both single- and multi-family developments. Multi-family experienced a particularly large decline of 21.3%, reversing a year-long trend of increases in that space.

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

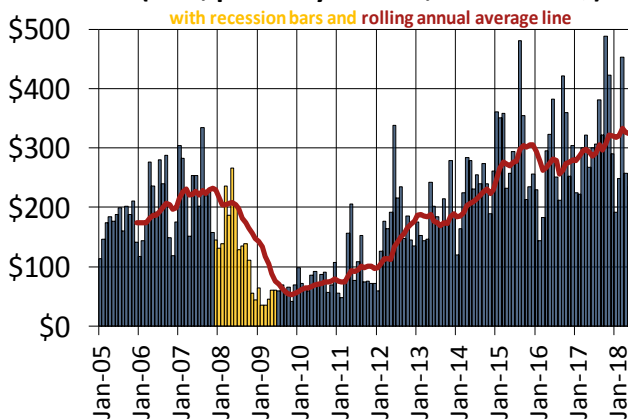


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales growth increased again, up 11.4% in April and May, with construction taxable sales increasing 22.7% compared to the same time period in 2017.

Taxable Sales Growth
(annual average of top four sectors)

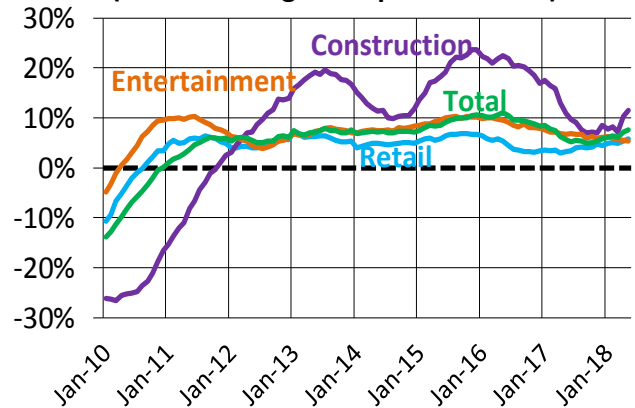


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation rose 3.6% in June, as measured by the CPI-W for Seattle, with increases in housing and fuel costs driving inflation growth. National inflation stood at 3.1% in June.

Seattle Inflation
(CPI-W, annually adjusted)

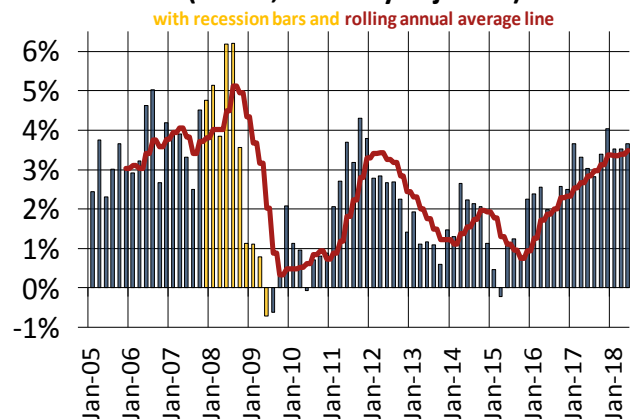


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2018:2Q	2017:2Q	Absolute change	% Change
Total Nonfarm	1,438.2	1,397.2	41.0	2.9%
Total Private	1,256.2	1,213.8	42.4	3.5%
Goods Producing	179.6	178.2	1.4	0.8%
Construction	73.7	74.3	-0.6	-0.8%
Manufacturing	105.3	103.3	2.0	1.9%
Service Providing	1,258.7	1,219.0	39.6	3.3%
Trade, Transportation, and Utilities	280.5	266.1	14.4	5.4%
Information	107.7	101.7	6.0	5.9%
Financial Activities	72.3	70.6	1.7	2.4%
Professional and Business Services	235.8	226.9	8.9	3.9%
Educational and Health Services	185.7	178.9	6.7	3.8%
Educational Services	30.8	28.9	1.9	6.6%
Ambulatory Health Care Services	62.3	59.6	2.6	4.4%
Hospitals	30.9	29.8	1.1	3.7%
Nursing and Residential Care Facilities	19.5	20.3	-0.8	-3.9%
Social Assistance	42.1	40.2	1.9	4.7%
Leisure and Hospitality	145.0	142.7	2.3	1.6%
Arts, Entertainment, and Recreation	27.0	27.4	-0.4	-1.3%
Accommodation	14.8	14.4	0.3	2.3%
Food Services and Drinking Places	103.2	100.9	2.3	2.3%
Other Services	49.7	48.6	1.1	2.2%
Government	182.0	183.4	-1.4	-0.8%

Other King County Economic Indicators

	2018:Q2	2017:Q2	% Change
Real Estate			
Single Family Permits (No. of units)	1,188	1,276	-6.9%
Single Family Permits (\$000)	\$ 445,045	\$ 484,977	-8.2%
Multi-Family Permits (No. of units)	2,424	3,079	-21.3%
Multi-Family Permits (\$000)	\$ 303,659	\$ 403,748	-24.8%
Avg. sales price (NW Multiple Listing Service)	\$ 774,898	\$ 681,387	13.7%
Number of sales (NW Multiple Listing Service)	9,460	9,673	-2.2%
Taxable Retail Sales (\$B, April-May)	\$ 11.17	\$ 10.03	11.4%
Retail/Wholesale	\$ 4.46	\$ 4.14	7.9%
Construction/Real Estate	\$ 3.42	\$ 2.75	24.5%
Food Service, Accommodation, Entertainment	\$ 1.82	\$ 1.75	3.7%
Other	\$ 1.47	\$ 1.39	5.5%
Inflation (June)			
CPI-W (Seattle-Tacoma-Bellevue)	268.96	259.49	3.6%

KING COUNTY INDEX OF LEADING INDICATORS

In the second quarter of 2018, the King County Index of Leading Indicators decreased on a seasonally adjusted basis, dropping .87 over the quarter. All indicators decreased during the quarter, with the sole exception of initial claims for unemployment insurance. The largest decreases occurred in the number of new job postings online in King County and in new residential permits.

Initial claims for unemployment insurance have been at record-low levels for over a year. In June 2018, there were only 4,226 new initial claims in King County. As seen in Figure 7, initial claims for unemployment insurance can be a very volatile indicator. However, over the last two years year levels of initial claims have been dropping steadily at an average rate of 15.2% month compared to the month a year prior. So while employment growth and hiring may be slowing, it appears those with jobs are maintaining employment.

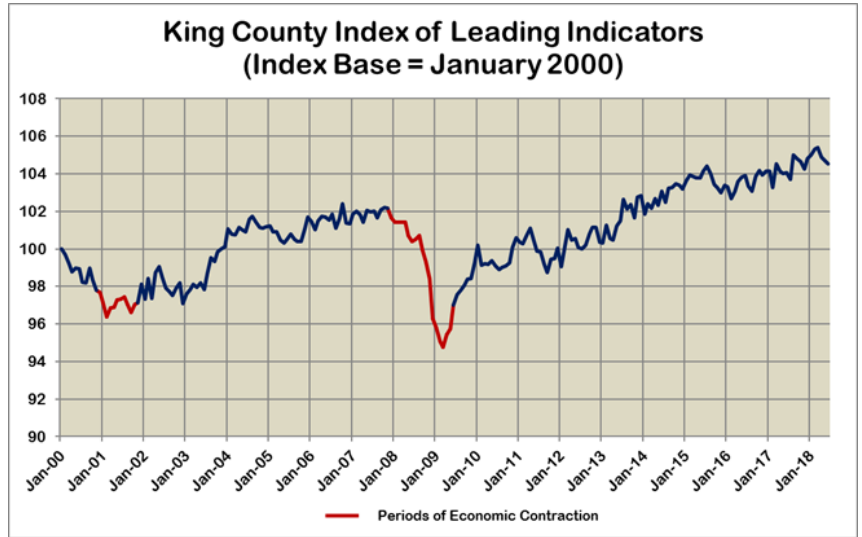


Fig. 6 King County Index of Leading Indicators (Source: KC OEFA)

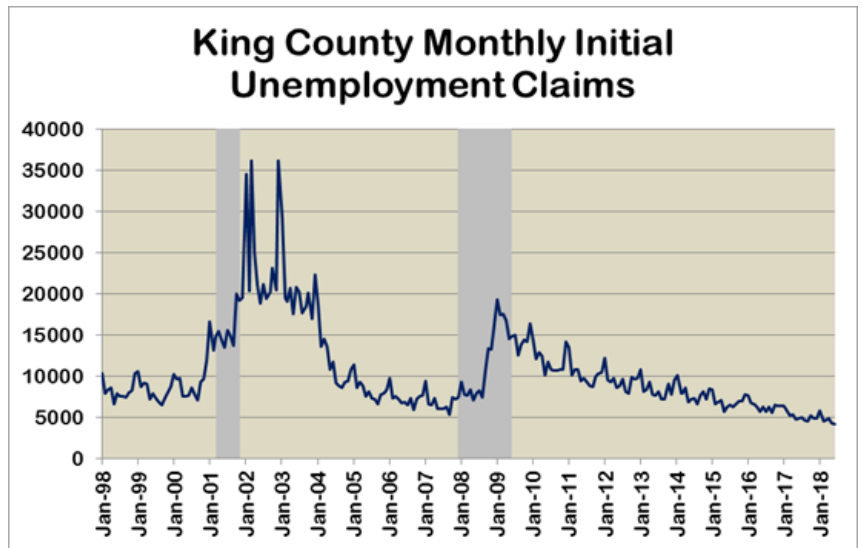


Fig. 7 KC Initial UI Claims (Source: WA ESD)

KING COUNTY FORECAST

Expectations that the U.S. economy would grow faster in 2018 due to the 2017 tax changes and the economic momentum coming into 2018 appear to be holding true. Although the first quarter grew at a modest 2.2%, the first estimate for the second quarter indicates the economy grew at a 4.1% rate and the third quarter appears to be holding up well so far. National hiring through July, has averaged about 215,000 per month. Overall, the U.S. economy has created over 19 million jobs since the end of the recession. The forecasts continue to be solid too. Unemployment has now reached 3.9% and some forecasters call for it to drop well below 3.8% this year which would yield the lowest level in over 50 years. Though wages have not increased as generally expected given the strong labor market, the price level overall has been increasing this year. Headline inflation at the national level is likely to be around 2.5%-2.7% in 2018, although it is expected to be a more modest 2.3% for the years ahead.

King County's economy continued to grow in the first and second quarters consistent with the recent past and the national economy. Employment growth in the first quarter averaged about 3.3% whereas growth slowed some in the second quarter. We have been expecting the pace of growth to slow but it is too early to determine if this is the beginning of the slowing or a temporary soft patch. Notably, construction employment contracted for the second straight month in June. Otherwise, industry growth was led by trade, transportation and utilities (+5.6%) and information (+5.3%). Unemployment in the county continues to stay about 3%-4% with the June value at 3.7%. This is very low unemployment and it has been low for a while although it has not matched the lowest value ever recorded (since 1990) in April of 2007 when it was 2.5%.

Taxable retail sales have picked up a little this year with current month sales up about 9% through May. This increased growth was expected since the State extended taxable sales to bottled water and remote sellers beginning in January, 2018. Taxable sales strength has been showing up in retail (likely reflecting the remote sellers) and resurgent construction sales taxes which are up about 14% so far this year.

The housing market continues to experience a rapid increase in sales prices. The Case-Shiller residential index is up over 13% through May. This double-digit rate of price growth has been what we've experienced for a while in King County which is why the average sales price in King County is up over 50% between 2012 and 2017. Anecdotally, some have reported an increase in listings in the last month or two and if this is true, then this should temper the rate of price

Another thing that has been growing very rapidly in King County has been the County's population. The source we use for population is the Washington Office of Management and Budget's (OMB's) April 1 population of cities and towns.¹ For the period April 1, 2017 to April 1, 2018, OMB estimates the King County population increased by 36,500. This is rapid growth (approximately 100 people per day) but down from the growth we've seen the last few years (see fig. 7).

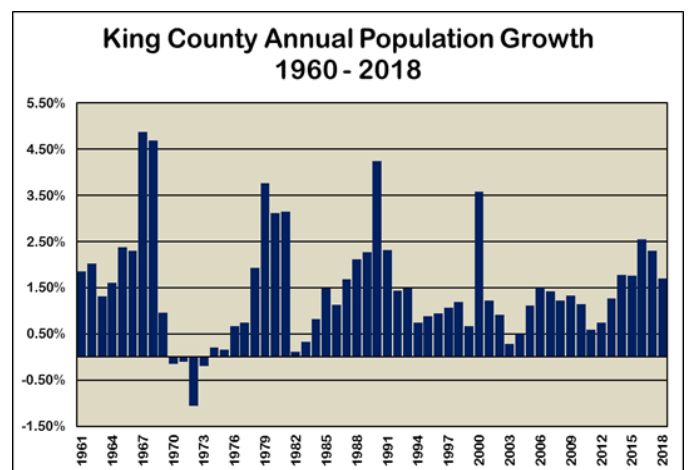


Figure 7: King County Population (Source: WA OFM)

¹ <https://ofm.wa.gov/washington-data-research/population-demographics/population-estimates>

KING COUNTY FORECAST (CONT.)

It had been expected that growth would slow in 2018 and this value was similar to the forecast. OFM estimates that the natural increase (King County births minus King County deaths) was about 12,400 so that implies around 24,100 people moved into the County (on a net basis) over that period.

The local economy is showing a few signs of a slower pace of growth. Online help-wanted ads provided by the Washington Employment Security Department (ESD) are a good example. Since about 2009, they have been growing or stable as shown in fig. 8. However, they were down in 2017 and are down again year to date in 2018, about 7% from last year. This is a sign that employment growth is slowing down but unlikely to be a signal that we are in for any kind of contraction. It's just we've been growing rapidly for so long and that pace is not sustainable for the long-run. Residential building permits are mixed so far this year with single family permits up about 4% and multi-family permits down about 2%. Inflation has been picking up lately mostly driven by higher housing costs and so the local CPI measures are exceeding 3% in 2018.

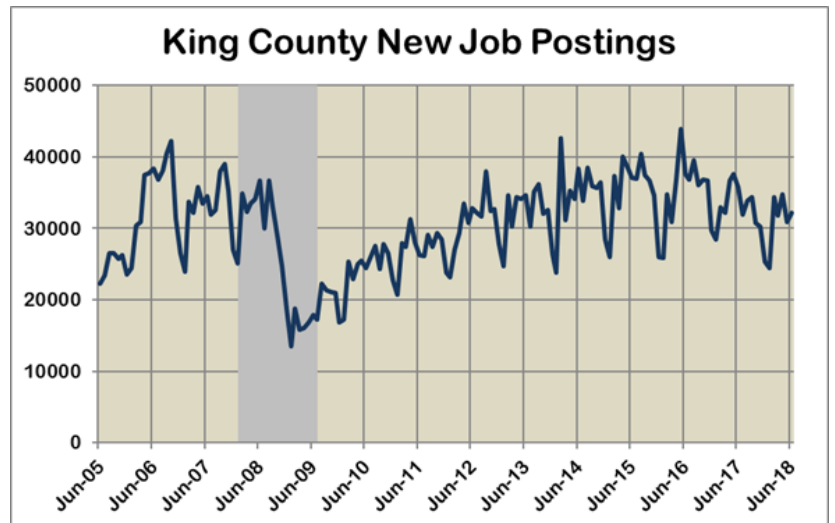


Fig. 8 King County Average House Price (Source: NWMLS/KC OEFA)

We expect the local economy to continue to grow but at a slower pace of growth going forward. The challenging part is the timing of this slower growth. Table 1 on the following page shows the forecast with slower growth beginning for most items in 2018. Population growth should continue but likely in the 1%-2% range with about 30,000-35,000 new people in each of 2019 and 2020. Employment growth should continue to be strong at 3% in 2018 and then slow to about 2.6% in 2019. Inflation is likely to accelerate in 2018 and 2019 before beginning to slow. We expect the pace of housing permits to finish down this year, but housing prices will continue to grow, albeit at a slower pace. Taxable sales growth is likely to continue to be up for 2018 reflecting the changes to the tax base but we expect slower growth in 2019-2020 as construction growth slows.

KING COUNTY FORECAST (CONT.)

King County Forecast - June 2018				
	2017	2018	2019	2020
King County-Level				
Population (thous.)	2,164.0	2,201.9	2,238.8	2,270.7
Employment (thous.)	1,398.5	1,440.2	1,477.2	1,498.9
Unemployment Rate (%)	3.7	3.6	3.4	3.6
Personal Income (mil \$)	174,815.3	184,651.4	196,490.8	208,051.2
Housing Permits	18,255	17,034	15,430	14,885
House Transactions (Residential)	33,503	33,992	31,735	31,115
House Prices (avg.)	697,804	764,657	819,099	849,051
Seattle FHFA Index	325.2	363.5	375.1	388.2
Seattle CPI-U	262.7	271.7	280.0	288.1
Taxable Retail Sales (mil \$)	65,826.1	70,775.9	72,933.3	74,659.4
King County Employment - Detail (thousands)				
Natural Resources	0.5	0.6	0.5	0.5
Construction	74.4	77.6	81.4	82.9
Manufacturing	103.0	104.6	104.3	103.1
Subtotal (Goods Employment)	177.9	182.8	186.3	186.6
Trade, Transportation and Utilities	269.2	282.8	291.1	291.2
Information	102.9	107.7	112.4	114.5
Financial Services	71.0	72.5	72.5	72.1
Professional and Business Services	227.6	232.3	241.8	253.8
Other Services	368.7	380.1	387.1	391.9
Government	181.4	182.1	186.0	188.7
Subtotal (Services Employment)	1,220.6	1,257.4	1,290.9	1,312.3
Total Employment	1,398.5	1,440.2	1,477.2	1,498.9
Annual Growth				
Population	2.2%	1.8%	1.7%	1.4%
Employment	3.0%	3.0%	2.6%	1.5%
Personal Income	5.3%	5.6%	6.4%	5.9%
Inflation	3.0%	3.4%	3.1%	2.9%
Taxable Retail Sales	5.8%	7.5%	3.0%	2.4%

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.

King County Office of Economic and Financial Analysis
500 4th Avenue ADM-FA-0540 Seattle, WA 98104
Phone: 206.477.3413 Email: david.reich@kingcounty.gov
www.kingcounty.gov/business/forecasting.aspx