



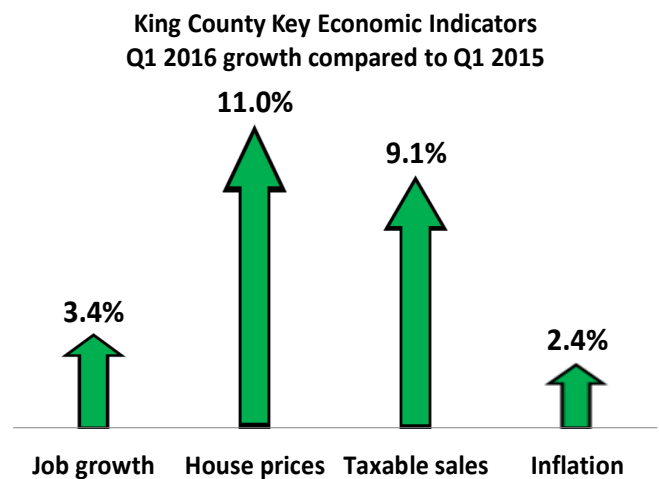
ECONPULSE

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

FIRST QUARTER 2016

SUMMARY

- King County employment grew by 3.4% in the first quarter of 2016 relative to a year ago, with strong growth in information jobs and leisure and hospitality employment
- Home prices increased by 11.0% since February 2015. The average sales price for a home in King County was \$566,720 in March 2016.
- Taxable sales in King County were up 9.1% in January and February from a year prior.
- Inflation increased, up 2.4% in February



DETAIL

King County job growth picked up again in the first quarter of 2016, with non-farm employment growing 3.4% compared to 3.0% in the previous quarter. Service-providing employment grew by 3.9% in the first quarter, with information employment adding 7,400 jobs, an increase of 8.6% since last year. Trade, transportation, and utilities added 11,700 jobs in the past year, an increase of 4.9%. Goods producing employment was relatively flat, growing at only 0.1% with manufacturing losing 2,000 jobs and a gain of 2,200 construction jobs.

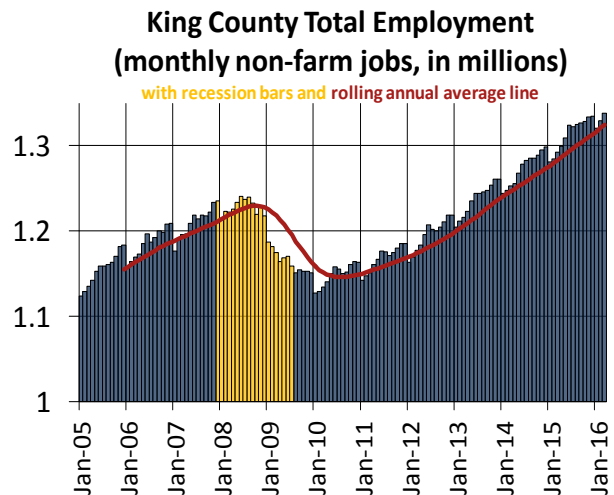


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

Unemployment in King County (not seasonally adjusted) was 4.7% in March 2016, up from 4.0% in March 2015 but slightly lower than the national rate of 5.0%.

DETAIL (CONT.)

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

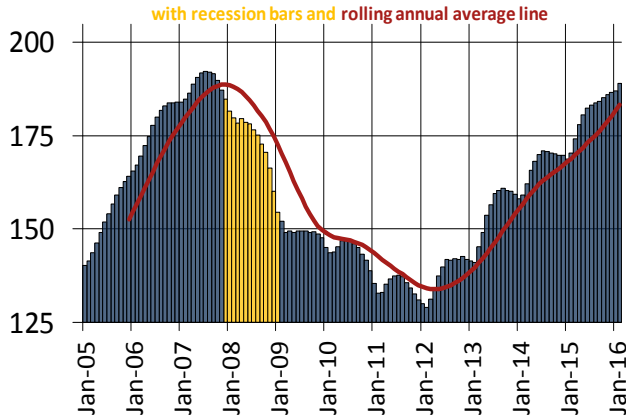


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

Housing prices increased dramatically in the first quarter of 2016 with the average sales price of a home in King County increasing 13.4% in the first quarter compared to the year prior, according to MLS. While housing inventory typically increases in the spring, there remains only 1.05 months of supply on the market in King County. A “well-balanced” market typically has four to six months of supply.

Single-family permitting activity picked up in the first quarter of 2016, increasing 15% year-over-year. Multi-family permitting slowed considerably, adding only 1,408 units, compared to 4,739 units in the first quarter of 2015.

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

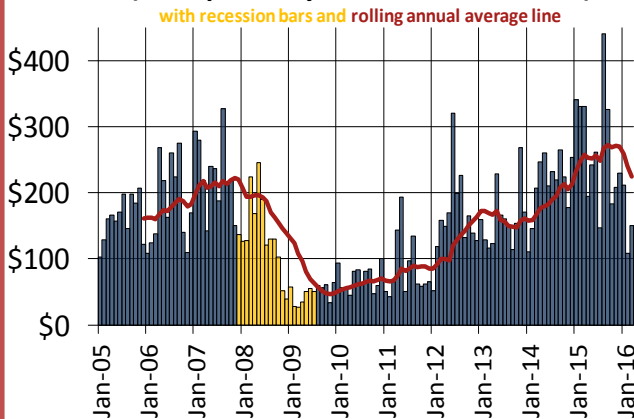


Fig. 3 Value of King County Permits (Source: U.S. Census Bureau)

Taxable retail sales increased 9.1% in January and February of 2016 compared to the year prior, down from 9.6% in the previous quarter. Retail and construction sales, while still increasing, all experienced reduced rates of growth in the first quarter.

Taxable Sales Growth
(annual average of top four sectors)

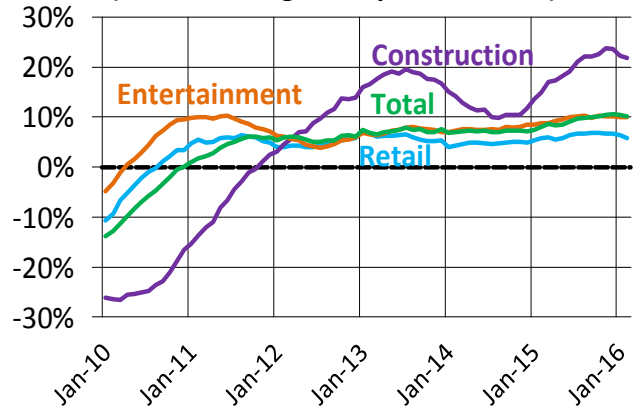


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation rose in February compared to the prior year with a 2.4% increase in the CPI-W for Seattle. Falling energy prices have had a downward impact on prices, but food and shelter indices continue rising.

Seattle Inflation
(CPI-W, annually adjusted)

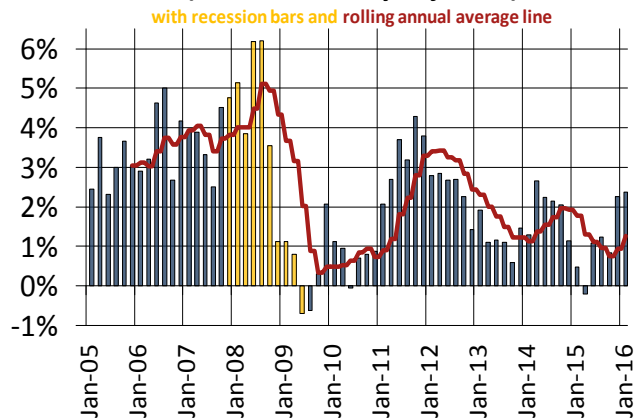


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2016:1Q	2015:1Q	Absolute change	% Change
Total Nonfarm	1,329.6	1,285.9	43.6	3.4%
Total Private	1,151.7	1,112.1	39.6	3.6%
Goods Producing	171.7	171.6	0.2	0.1%
Construction	66.1	63.9	2.2	3.5%
Manufacturing	105.1	107.2	-2.0	-1.9%
Service Providing	1,157.8	1,114.4	43.5	3.9%
Trade, Transportation, and Utilities	250.4	238.7	11.7	4.9%
Information	93.3	86.0	7.4	8.6%
Financial Activities	70.7	68.0	2.7	4.0%
Professional and Business Services	216.5	209.2	7.4	3.5%
Educational and Health Services	173.0	169.7	3.3	1.9%
Educational Services	26.7	27.1	-0.4	-1.5%
Ambulatory Health Care Services	56.3	54.7	1.6	3.0%
Hospitals	28.6	27.0	1.6	5.8%
Nursing and Residential Care Facilities	21.0	20.3	0.7	3.5%
Social Assistance	40.5	40.7	-0.2	-0.5%
Leisure and Hospitality	129.9	123.3	6.6	5.4%
Arts, Entertainment, and Recreation	23.8	22.3	1.5	6.7%
Accommodation	12.7	12.8	-0.1	-0.8%
Food Services and Drinking Places	93.4	88.2	5.2	5.9%
Other Services	46.0	45.7	0.3	0.7%
Government	177.9	173.8	4.1	2.3%

Other King County Economic Indicators

	2016:Q1	2015:Q1	% Change
Real Estate			
Single Family Permits (No. of units)	847	736	15.1%
Single Family Permits (\$000)	\$ 299,790	\$ 253,903	18.1%
Multi-Family Permits (No. of units)	1,408	4,739	-70.3%
Multi-Family Permits (\$000)	\$ 170,759	\$ 748,968	-77.2%
Avg. sales price (NW Multiple Listing Service)	\$ 550,392	\$ 485,178	13.4%
Number of sales (NW Multiple Listing Service)	6,114	6,148	-0.6%
Taxable Retail Sales (\$B, January-February)	\$ 8.70	\$ 7.97	9.1%
Retail/Wholesale	\$ 3.59	\$ 3.46	3.9%
Construction/Real Estate	\$ 2.34	\$ 1.99	17.5%
Food Service, Accommodation, Entertainment	\$ 1.44	\$ 1.32	9.4%
Other	\$ 1.32	\$ 1.20	10.1%
Inflation (February)			
CPI-W (Seattle-Tacoma-Bremerton)	246.46	240.74	2.4%

FOCUS: MARIJUANA REVENUE

In November 2012, Washington State voters passed Initiative 502, legalizing the production and possession of marijuana. While marijuana production and possession is still criminalized at the federal level, states across the country are looking toward Washington as a model for how to legalize and tax marijuana on the state level as attitudes toward marijuana soften among Americans. In 1990, only 16% of Americans supported legalization, according to a survey conducted by the Pew Research Center. That support recently has crossed over into a majority – 53% of Americans now believe marijuana should be legalized, a dramatic reversal in only 25 years. A

potent selling point for the pro-legalization camp is the revenue potential in taxed marijuana sales. As Washington has shown with the implementation of I-502, marijuana can provide a new and significant source of revenue for strained state budgets.

Initiative 502 “licenses and regulates marijuana production, distribution, and possession¹” and taxes retail marijuana sales. Producers, processors, and retailers of marijuana in Washington State must apply for a license through the state Liquor and Cannabis Board in a process similar to that of a liquor license. License fees include a \$266 application fee and a \$1062 annual renewal fee. For individuals, personal possession is limited to one ounce of usable marijuana, seven grams of marijuana concentrate for inhalation, 16 ounces of marijuana-infused product in solid form, and 72 ounces of marijuana-infused product in liquid form. I-502 imposed a 37% excise tax on all retail sales of marijuana products. License fees and excise tax revenues have been earmarked for health care and substance abuse prevention and education. Retail sales are also subject to state and local sales taxes.

In fiscal year 2015, the legal marijuana industry in Washington State recorded over \$259.5 million in total sales, resulting in a \$64.9 million excise tax receipts for the state. The current fiscal year, running through June 2016, is on pace to significantly exceed these values. Since July 1, 2015, there have been over \$726 million in marijuana sales and \$138.9 million in excise taxes. The Washington State Economic and Revenue Forecast Council estimates marijuana tax revenues will increase to \$369 million in 2019.

Slim Majority Supports Marijuana Legalization

% saying the use of marijuana should be ...

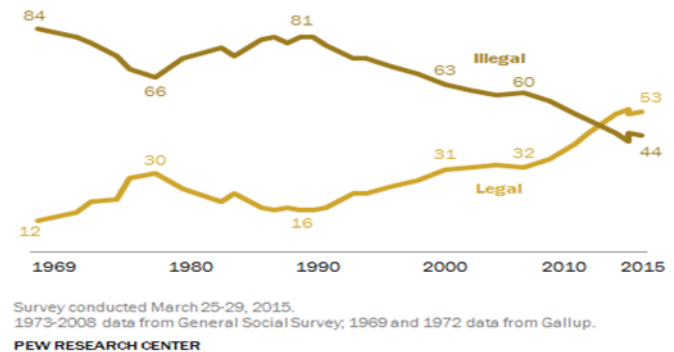


Fig. 6 Support for Marijuana Legalization (Source: Pew Research)

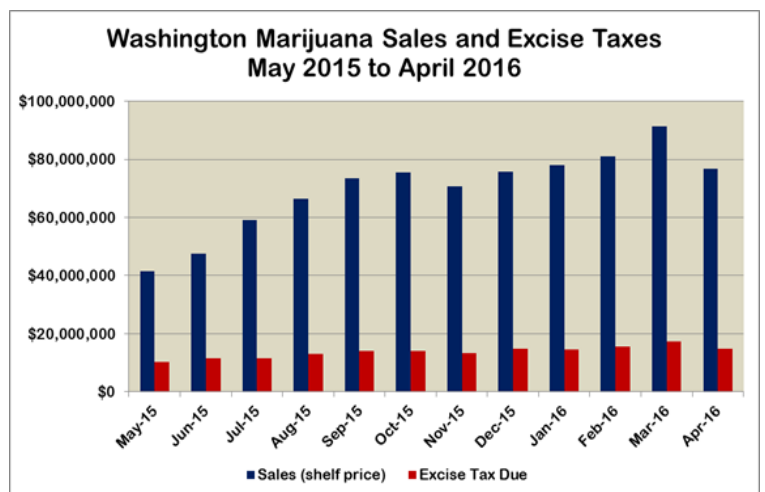


Fig. 7 Washington State Marijuana Sales and Excise Taxes (Source: WA Liquor and Cannabis Board)

¹ Washington State Liquor and Cannabis Board: <http://liq.wa.gov/mj2015/fact-sheet>

FOCUS: MARIJUANA REVENUE (CONT.)

As the legal marijuana industry has grown and expanded throughout the state, average daily sales of marijuana products have steadily risen. In the past year alone, average daily sales in Washington have nearly tripled, from \$1.14 million in sales per day on average in April 2015 to \$3.07 million per day in April 2016. King County has experienced tremendous growth as retail operations have become more established. In July 2014, the first month of legal marijuana sales, the retail market in King County rang up \$1.1 million in sales. For the month of January 2016, that number had grown to \$13.4 million.

Currently, there are 42 active licensed marijuana producers, 62 processors, and 78 retailers in King County. Many of these are overlapping entities; for example, a producer may also hold a processor license. More than half of the licensed retailers are located in Seattle, with 47 in total in the city limits and in the urban-unincorporated areas of South Park and Skyway. Some areas have higher concentrations of retailers; for example, the SoDo area of Seattle has more licensed retailers (eight) than the entire city of Bellevue (five, the next highest amount after the City of Seattle). Seattle has one marijuana retailer per every 14,094 residents, while tiny Vashon Island has two retailers for their 10,624 residents.

There are 468 marijuana retailer licenses pending in King County. Even with the relatively low number of active licenses, marijuana sales are on track to exceed the estimates made prior to the passage of I-502. The State Office of Financial Management estimated sales of \$1.9 billion in the first five years of legalization. In less than two years of legal marijuana sales in Washington State, there has already been over \$1 billion in taxable sales.

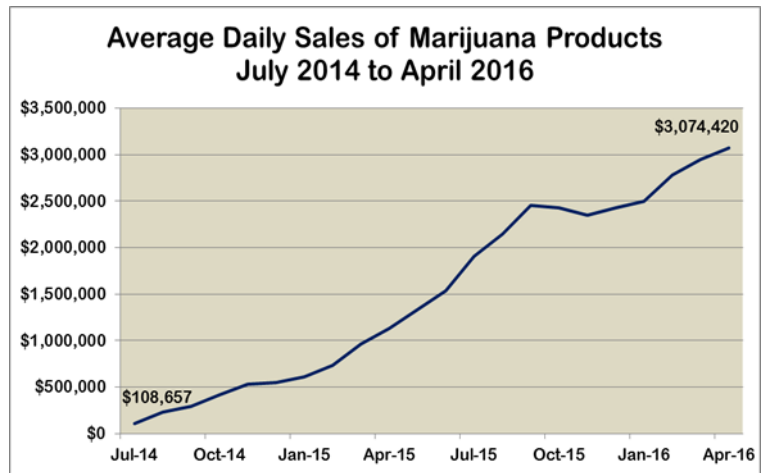


Fig. 8 Average Daily Marijuana Sales (Source: WA State Liquor and Cannabis Board)

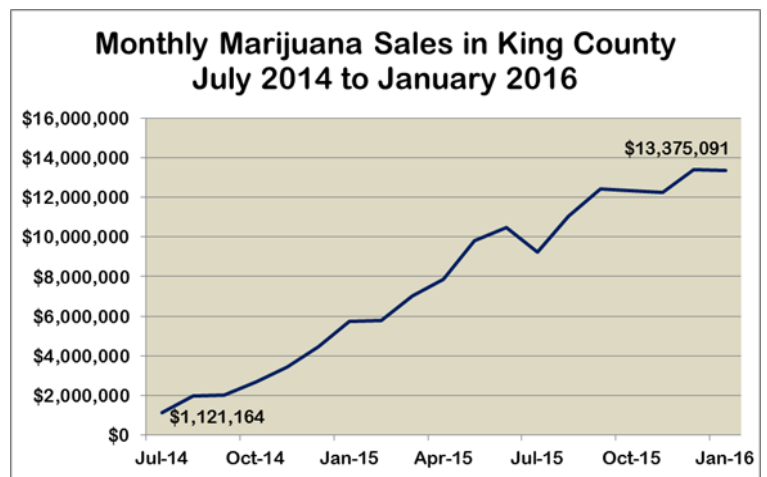


Fig. 9 Monthly Marijuana Sales in King County (Source: OEFA Analysis)

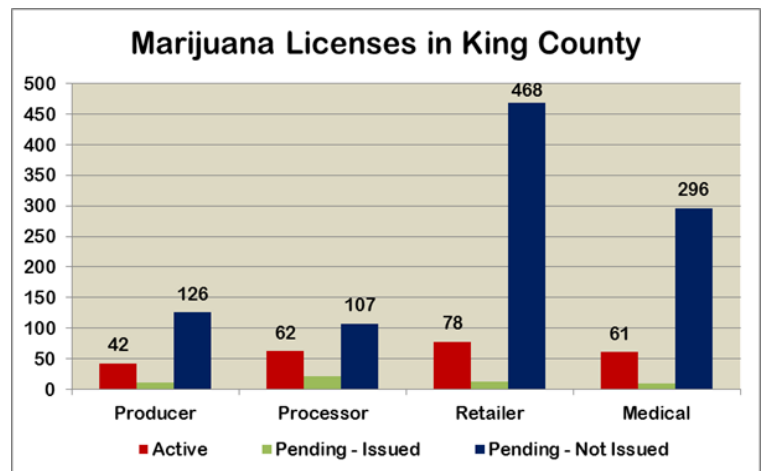


Fig. 10 Marijuana Licenses in King County (Source: OEFA Analysis)

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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