

# 2018 King County Economic and Revenue Forecast

Presentation to the King County Forecast Council

Presented on:  
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# Overview

## **2017 continued many of the trends we've seen since the end of the recession**

Lots of worry about “episodic volatility” due to the new administration

But overall economic conditions were pretty good

Growth will finish around 2%-2.5% (We've averaged about 2.2% this expansion)

Job adds around 170K/month

Unemployment at 4.1% in December

Fed raises FF rate target three times in 2017

## **2018 looks faster, lower and higher**

Growth looks to pick up a little on fiscal stimulus and momentum (2.5% - 2.8%)

Should achieve second longest expansion on record (after April, 2018)

Unemployment may fall to lowest level since the 1960s (<3.8%)

Inflation likely to pick up a little

## **2019 and 2020 also currently look to continue growth**

## **Biggest risk/uncertainty; federal gov., stock market**

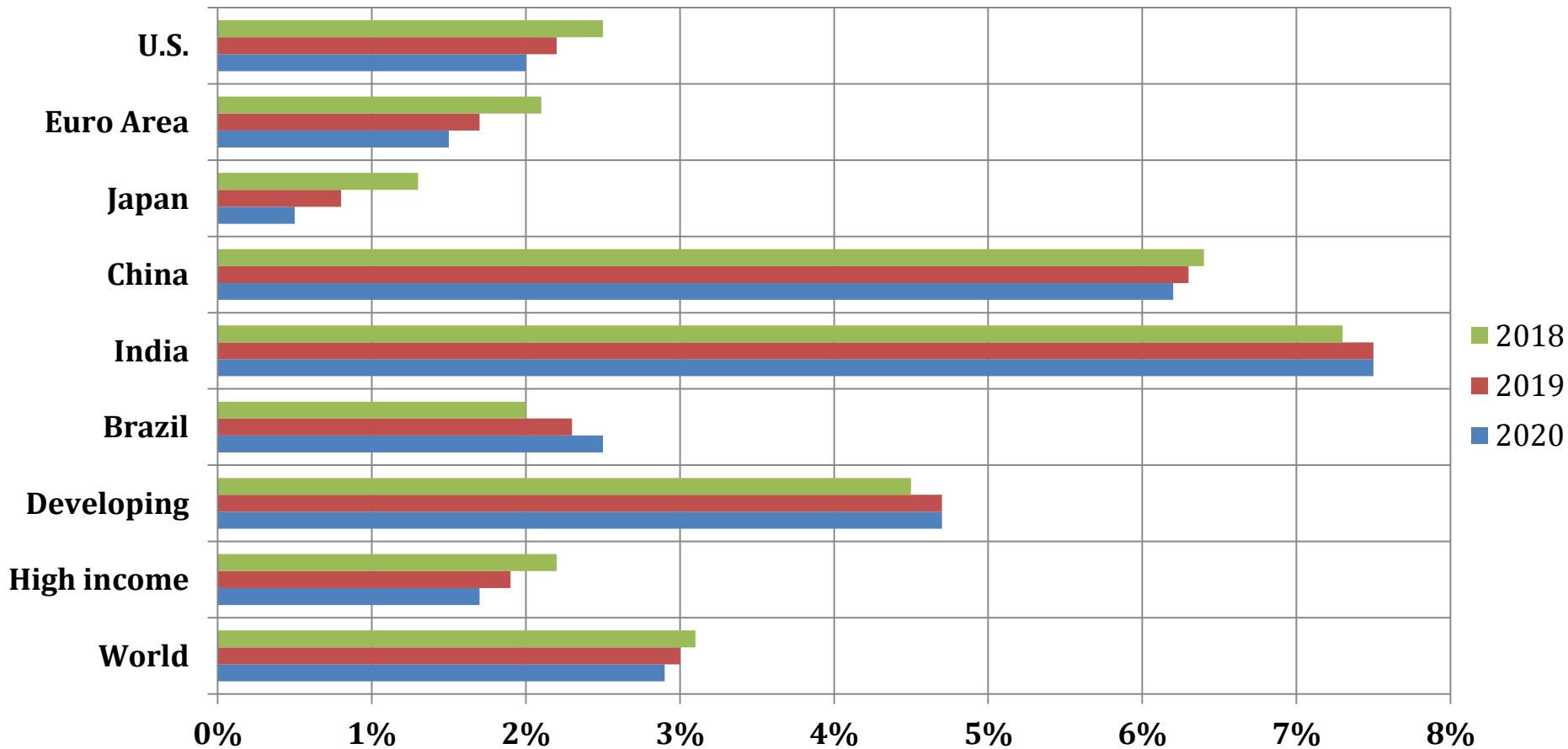
# World economic growth forecast edges up in 2018



## Global Real GDP Growth

Forecast 2018-2020

Source: World Bank, Jan. 2018



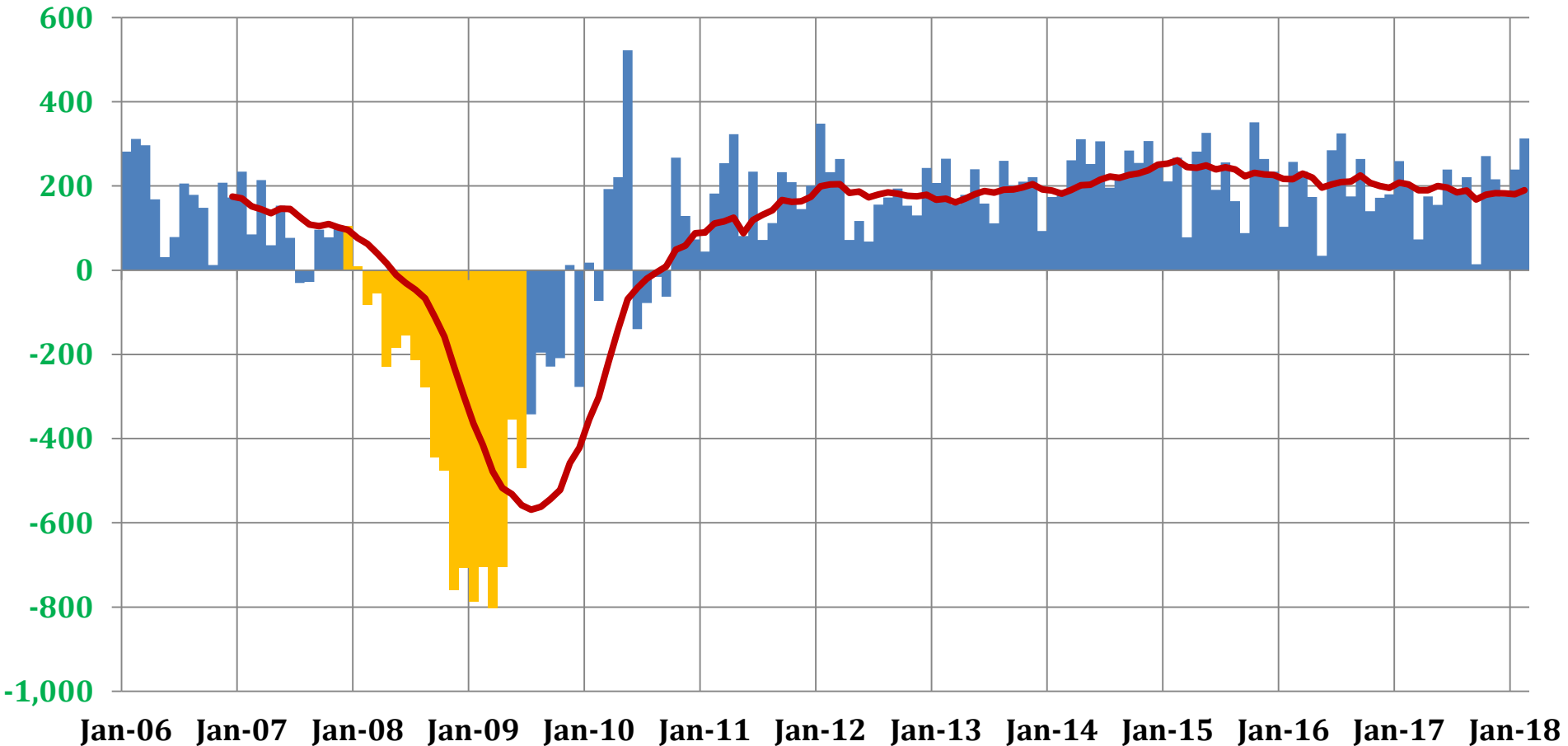
# The U.S. economy has created over 18 million jobs since the recession...



## U.S. Monthly Job Adds

In thousands, with recession bars and rolling annual average line

Source: Bureau of Labor Statistics



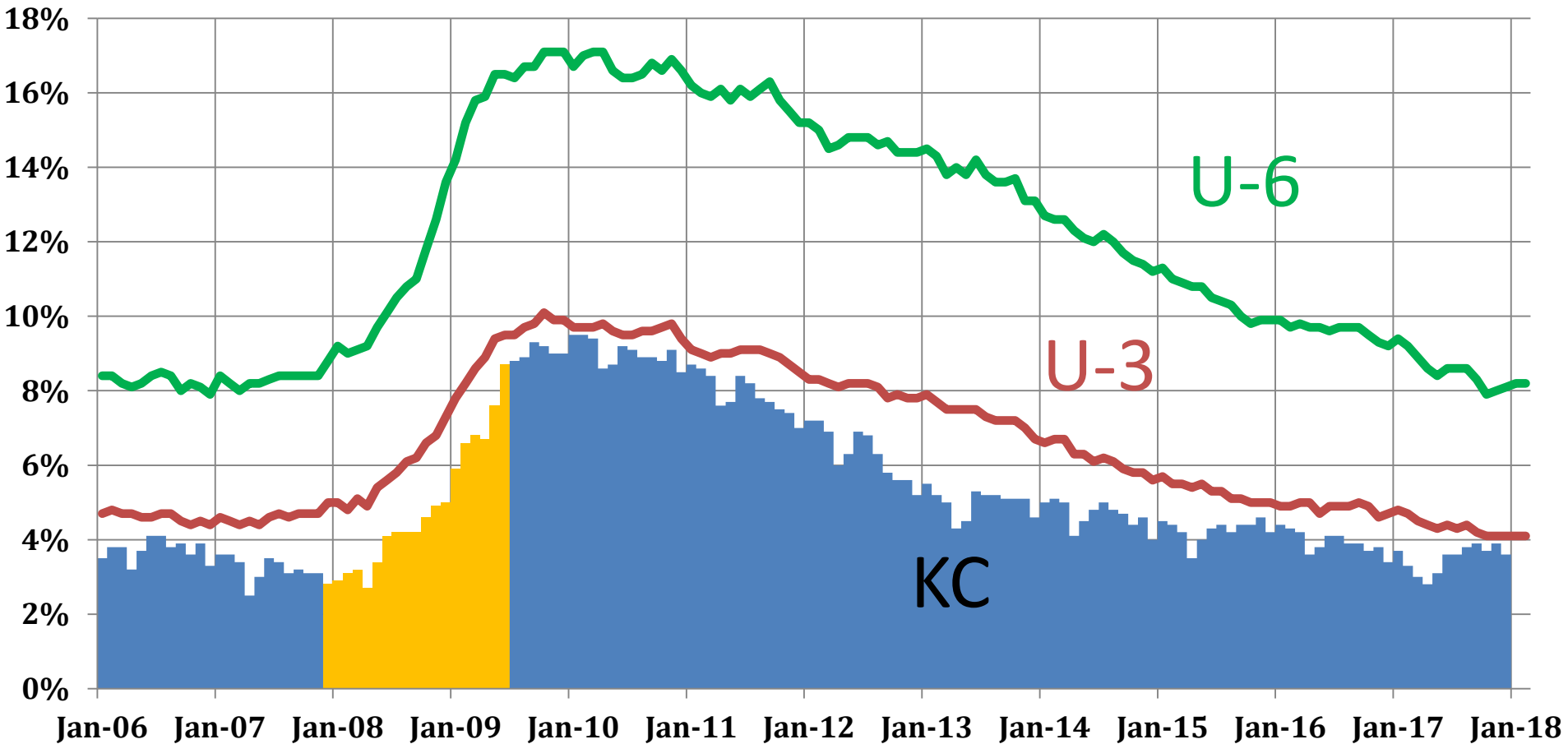
# ...And unemployment is reaching levels not seen for years



## Unemployment Rates: U.S. & King County

Recession (bar), King County (bar), U.S. U3 (line), U.S. U6 (line)

Source: Bureau of Labor Statistics

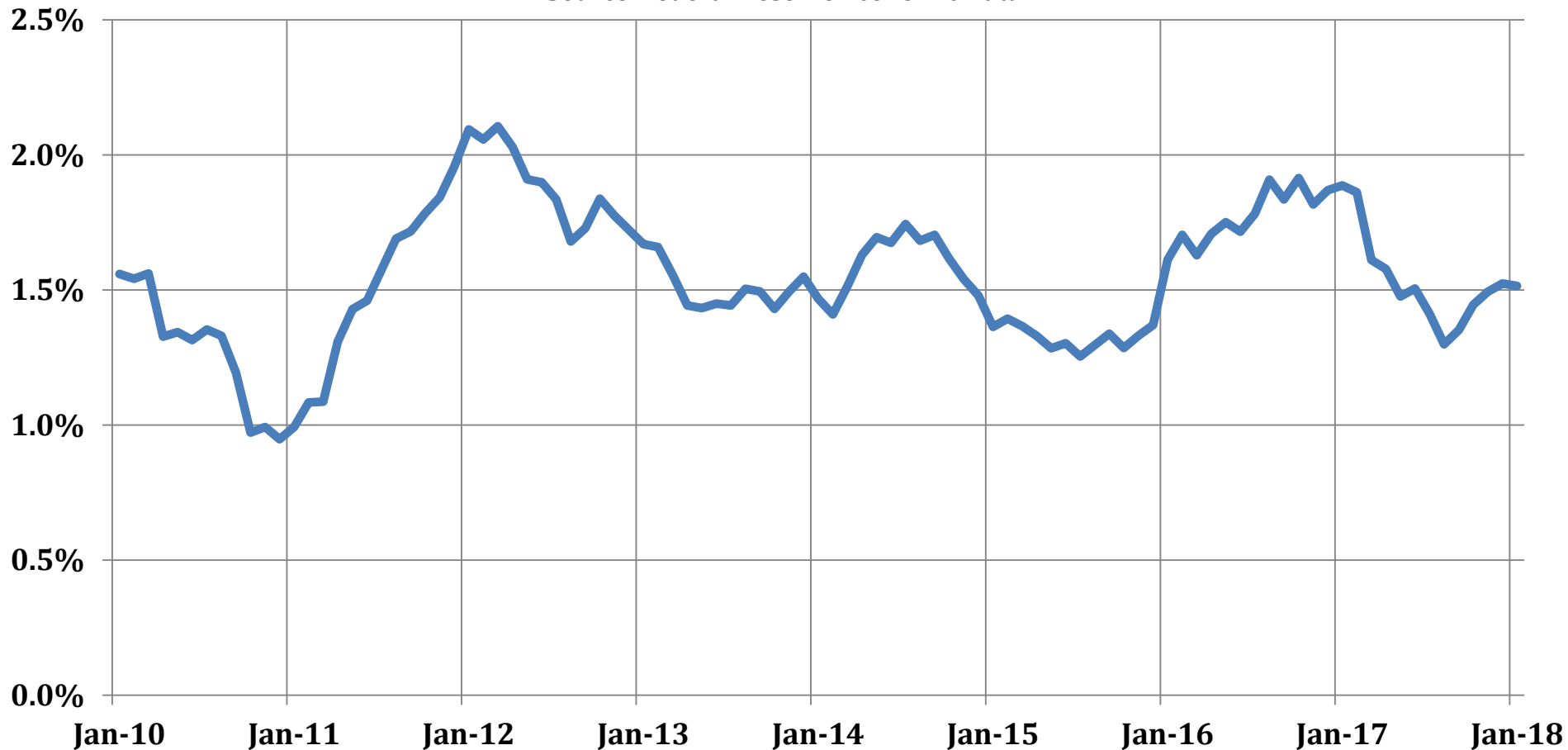


# Inflation is generally heading toward the Fed's 2% goal but took a break in 2017



## Personal Consumption Expenditure Index

Chain-type Price Index, Index 2009=100, Monthly, Seasonally Adjusted, Less Food & Energy  
Source: Federal Reserve Economic Data



# 2017 tax changes are likely to provide short-term stimulus

## Tax Changes

### Corporate

- Corporate changes included lowering the statutory rate, allowed for temporary full expensing, caps the interest deduction
- Lower one-time repatriation tax
- Likely to impact investment and therefore growth

### Personal

- 7 brackets remain but lower rates and higher thresholds
- Standard deduction now \$12K/\$24K but personal exemptions removed
- Expanded child tax credit and different indexing
- Overall, likely to be variable impacts
- Plus temporary nature mean taxes could rise in the long run

## Other

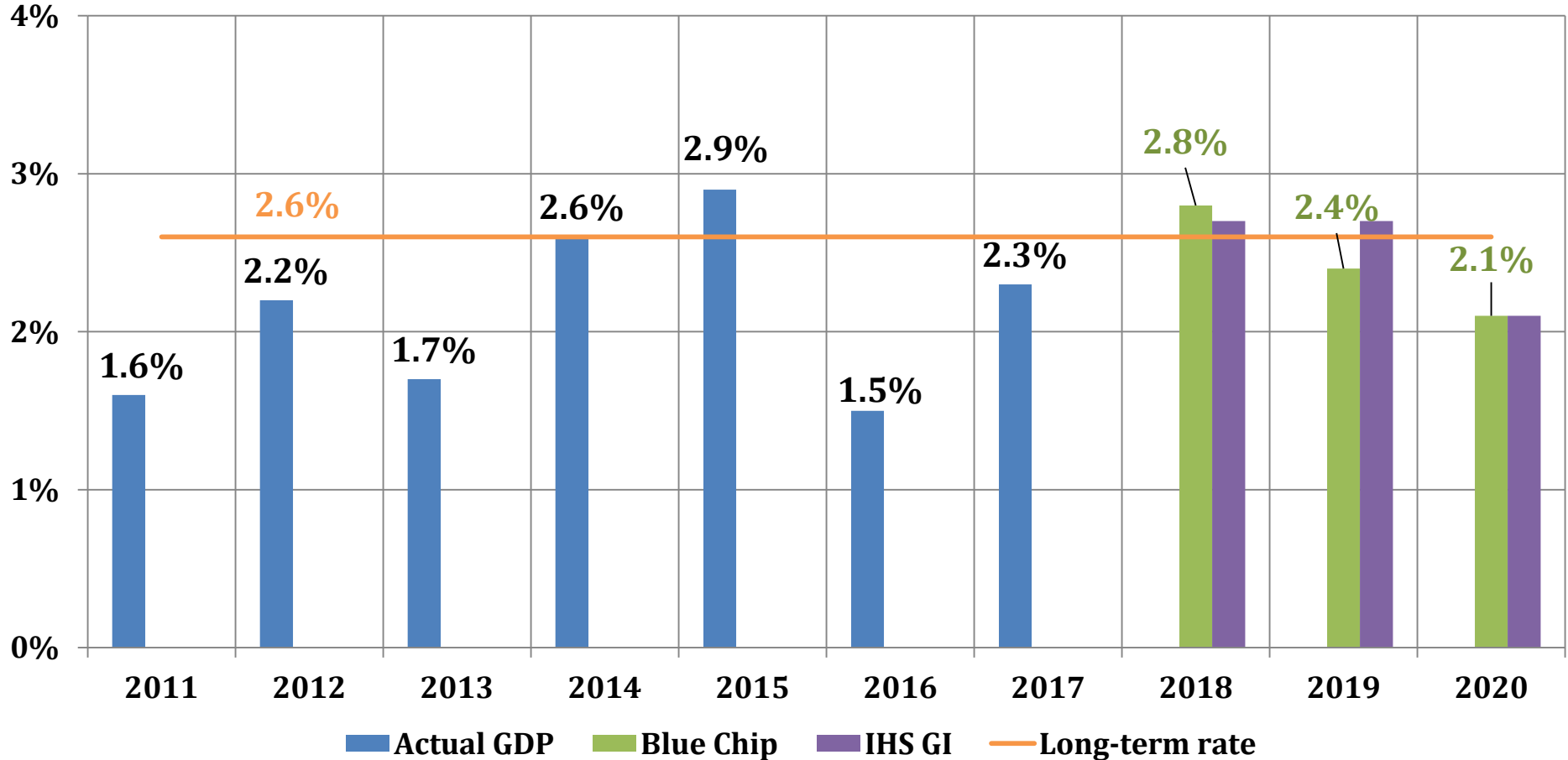
- ACA mandate repeal
- Tariffs & trade
- Infrastructure investment
- Deregulation

# The U.S. growth forecast is for slightly faster growth in 2018



## U.S. Real GDP Actuals and Forecast

Actuals 2011-2016, 2017 Prelim., Forecast 2018-2020, LR Rate 1986-2016  
Source: FRED, Blue Chip Indicators, IHS Global Insight

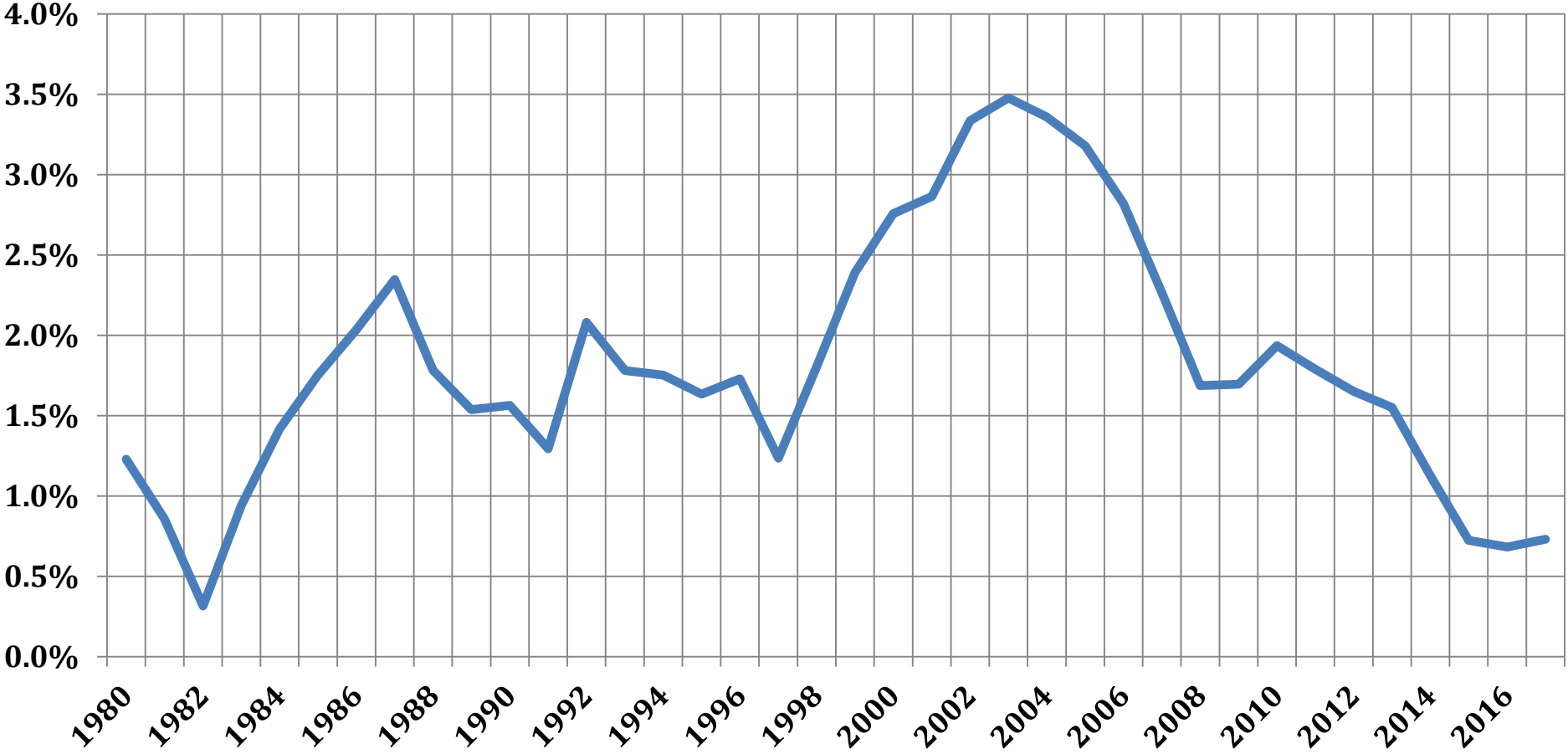




# “Stupendous” growth unlikely without a pick-up in productivity growth



**Labor Productivity Growth Rate**  
Non-farm business, Five year rolling average, 1980-2017  
Source: BLS

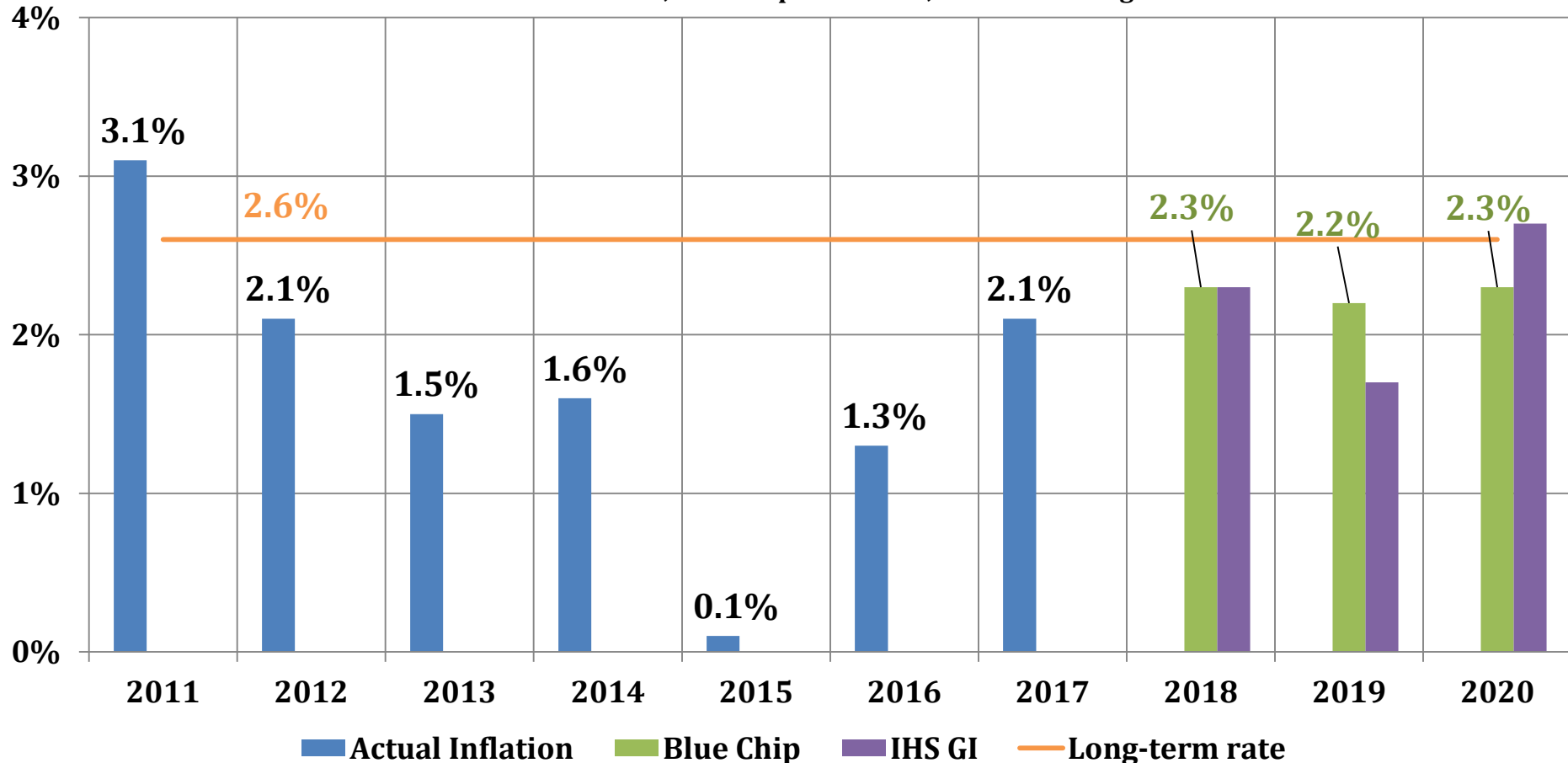


# CPI Inflation is expected to be pretty stable



## U.S. Inflation Growth

Actuals 2011-2017, Forecast 2018-2020, LR Rate 1986-2016  
Source: FRED, Blue Chip Indicators, IHS Global Insight



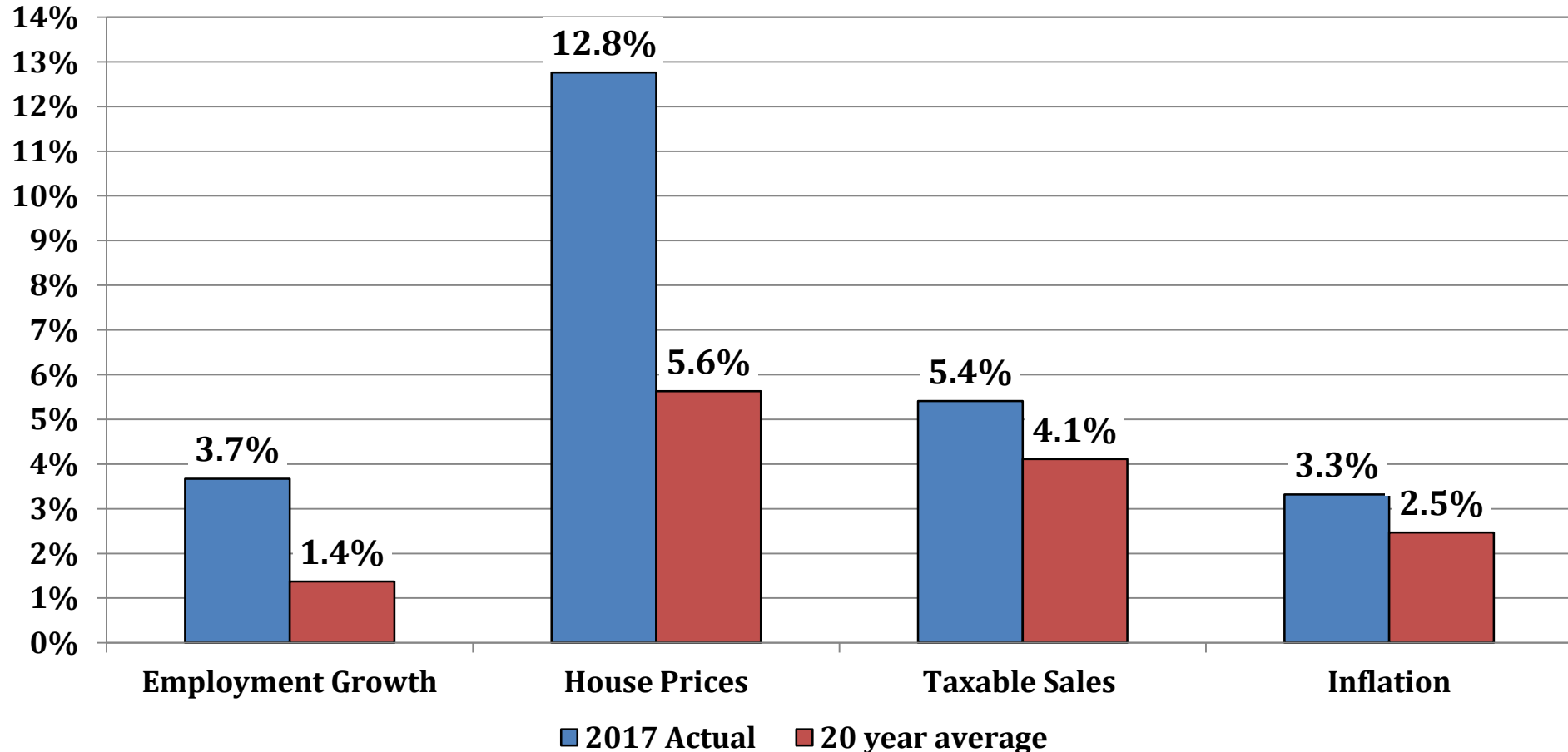
# 2017 was another year of growth for King County's economy



## King County Economic Indicators

2017 actuals vs. 20 year average

Source: PSEF, Case-Shiller, WA DOR, BLS



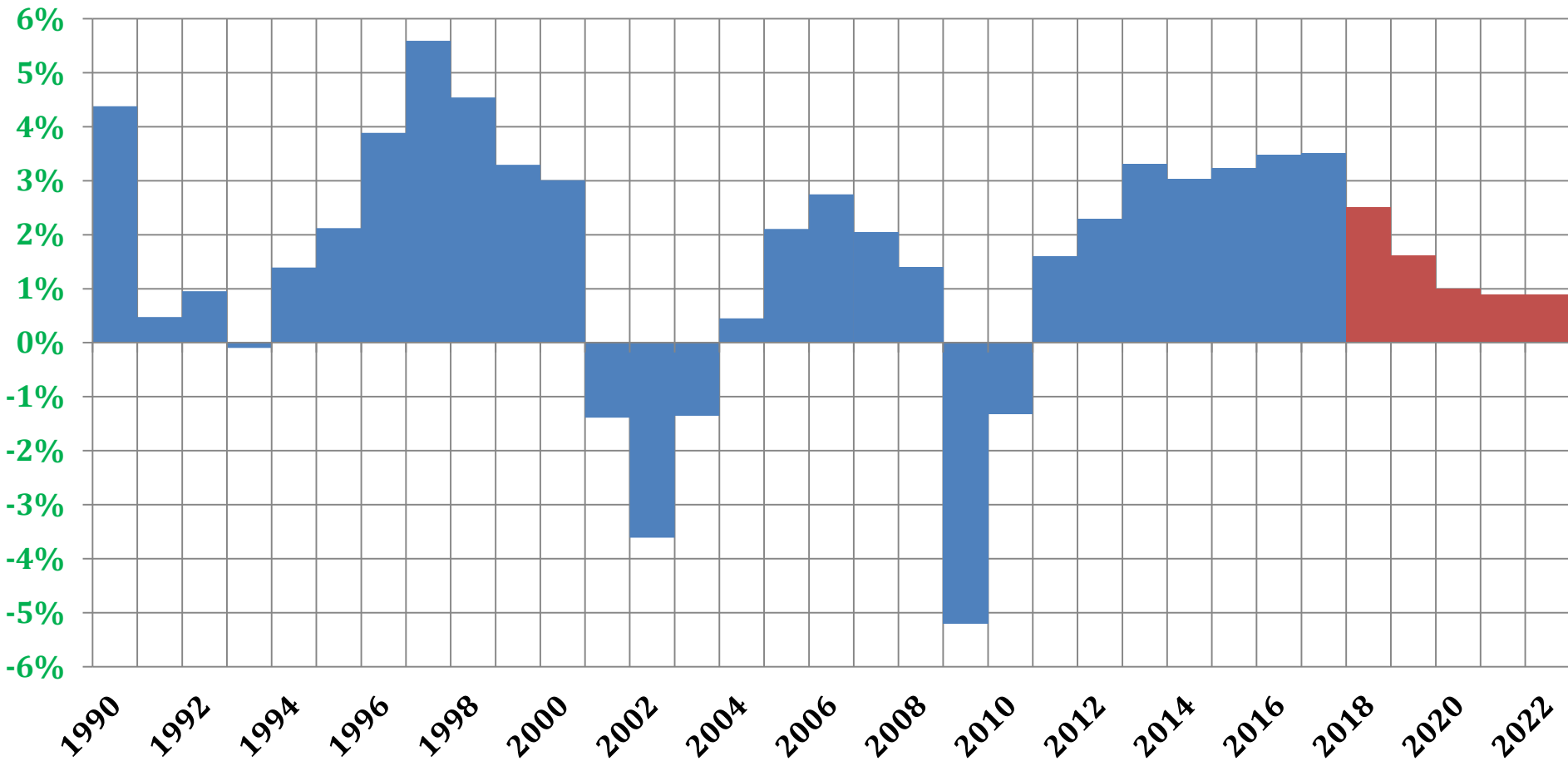
# Local job growth for seventh straight year with more likely to come!



## King County Annual Employment Growth

With Actuals and Forecast bars

Source: King County Forecast Model Q4 2017



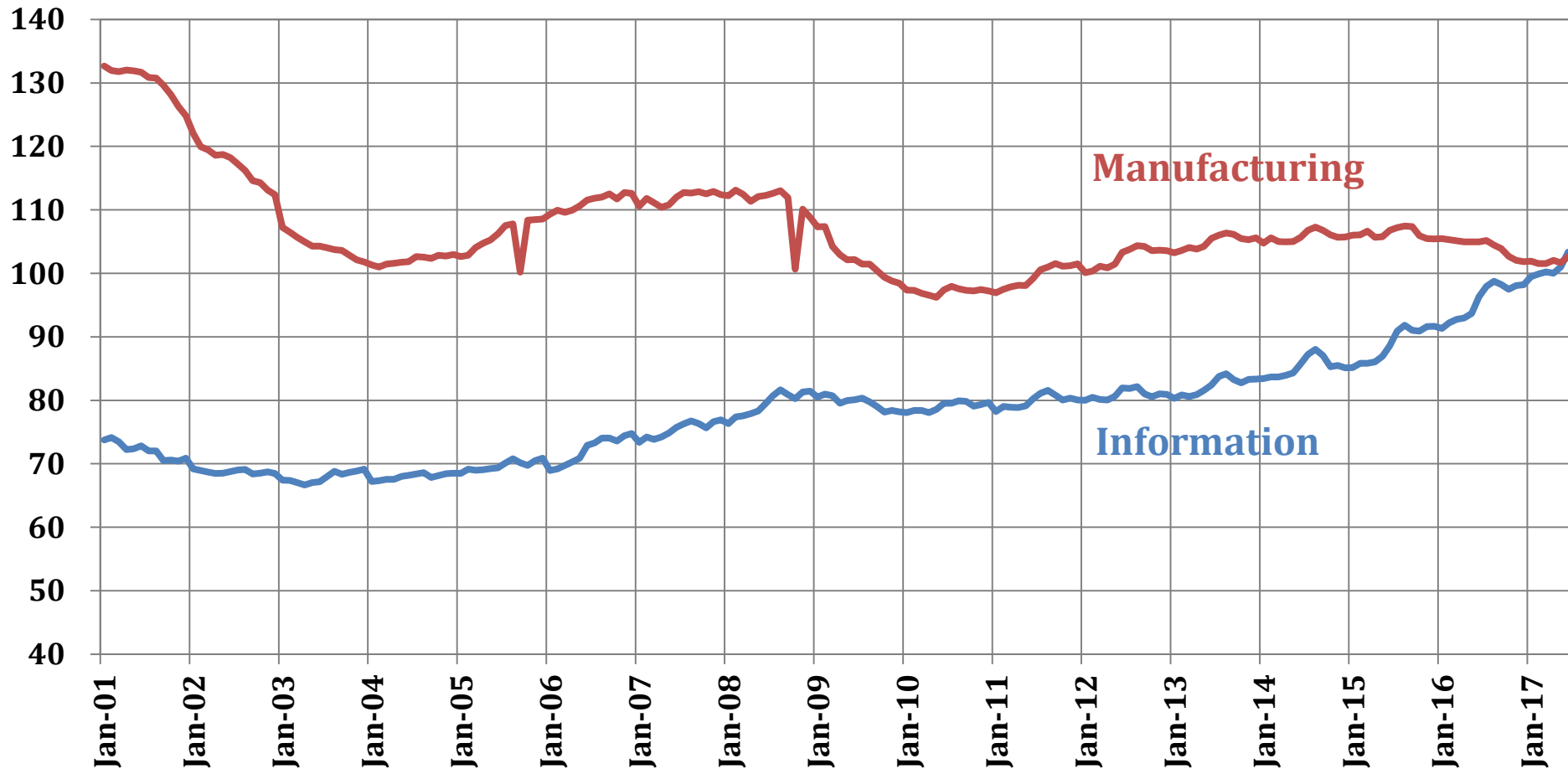
# Information employment overtook manufacturing in 2017



## King County Manufacturing and Information Employment

Manufacturing and Information jobs in thousands

Source: Bureau of Labor Statistics



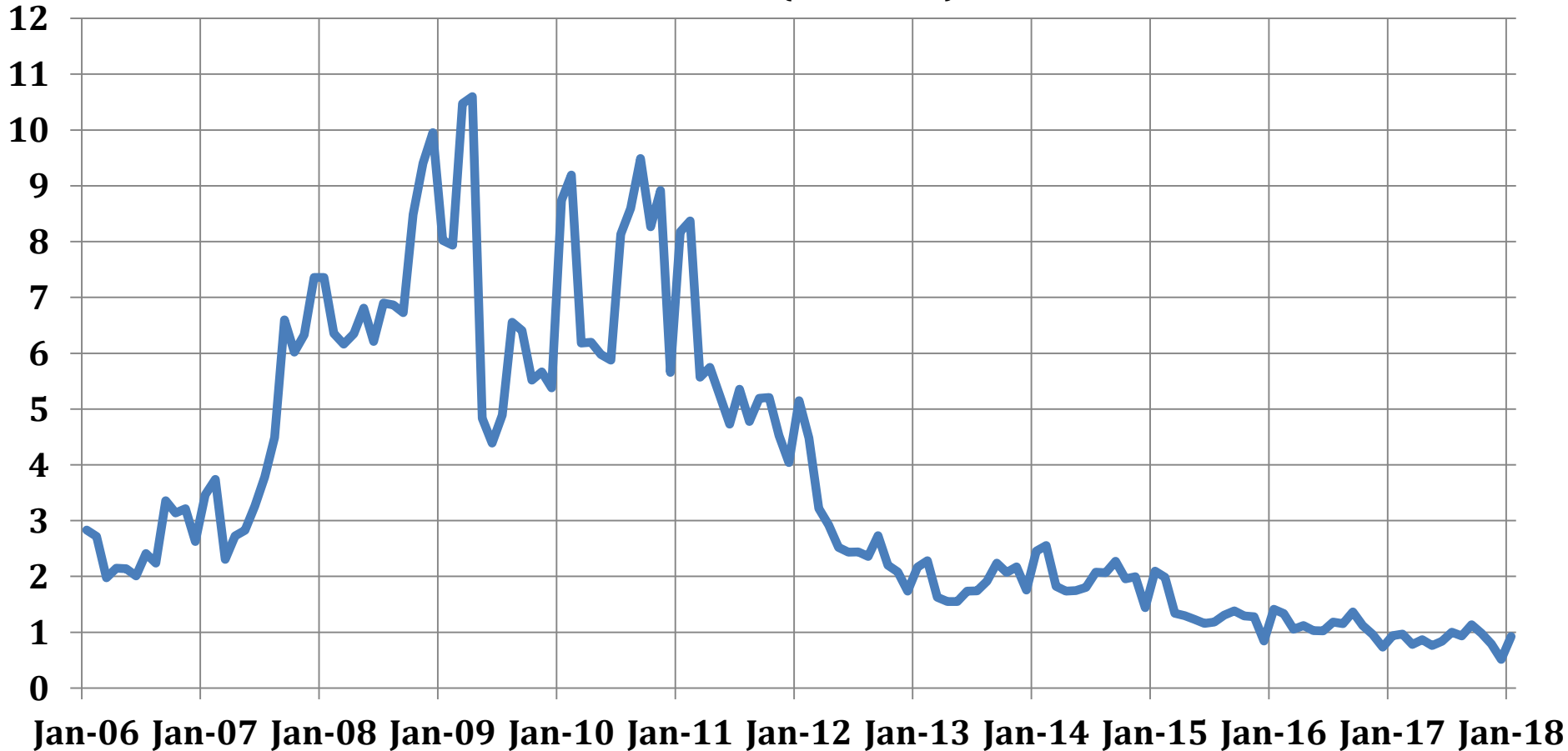
# Home prices continue to rise in part due to few homes on the market



## King County Real Estate Inventory

Inventory = Total Active Listings/Closed Sales

Source: NWMLS (SFH+Condos)



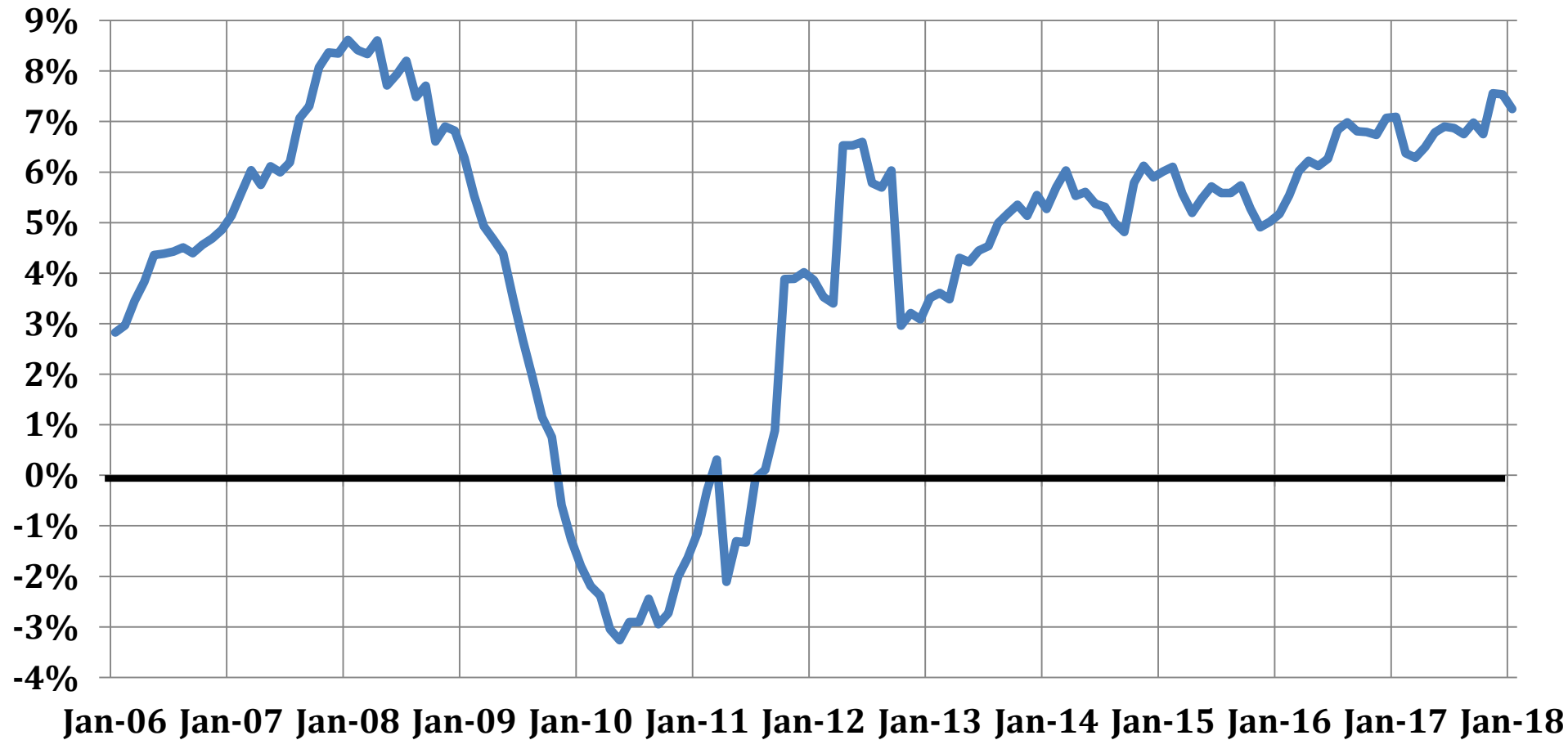
# Rents have also been increasing rapidly



## Seattle Rent of Primary Residence Growth

Growth Rate, January 2006 - January 2018

Source: BLS



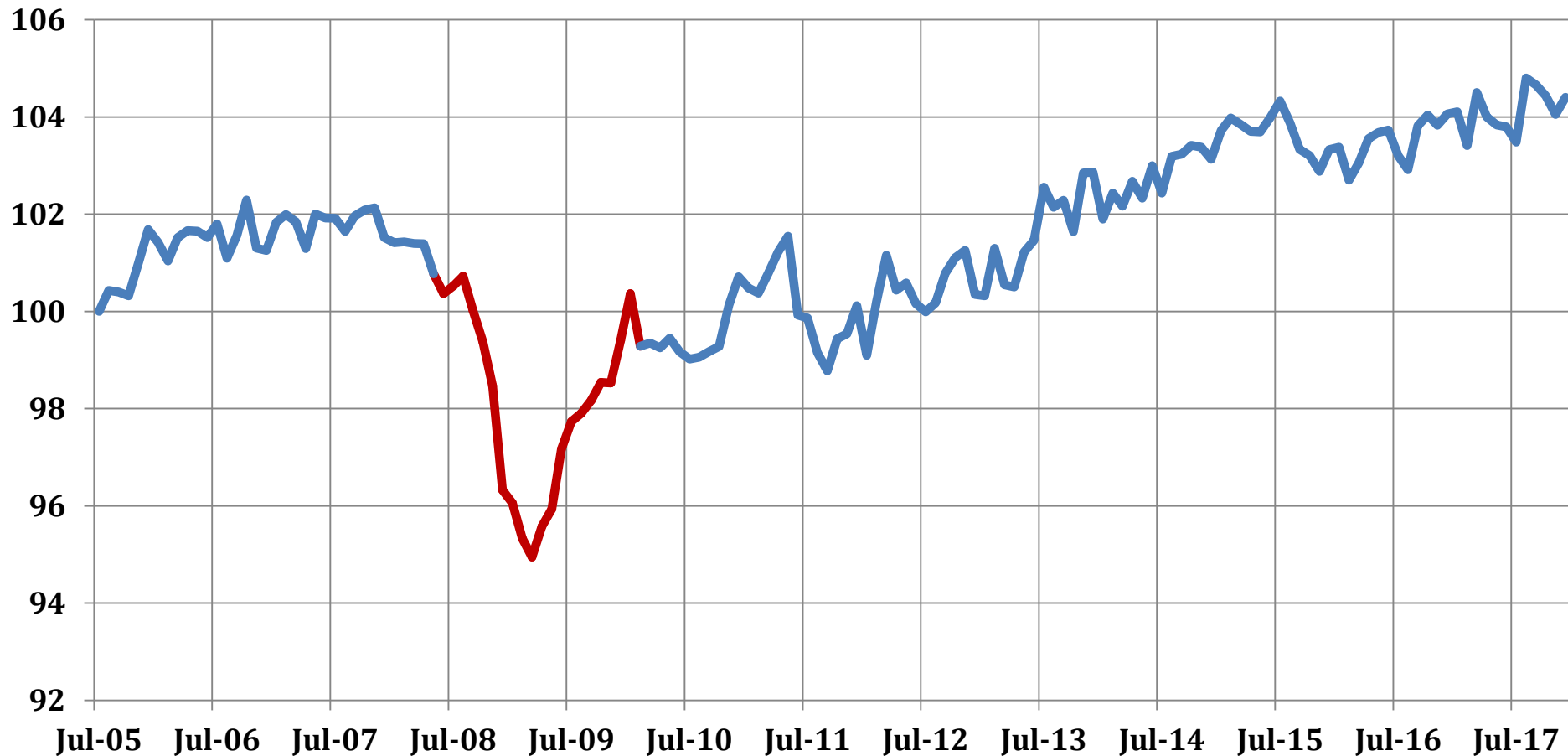
# Local economic signals still solid



## King County Index of Leading Indicators

July 2005=100, with economic contraction highlighted in red

Source: KC OEFA





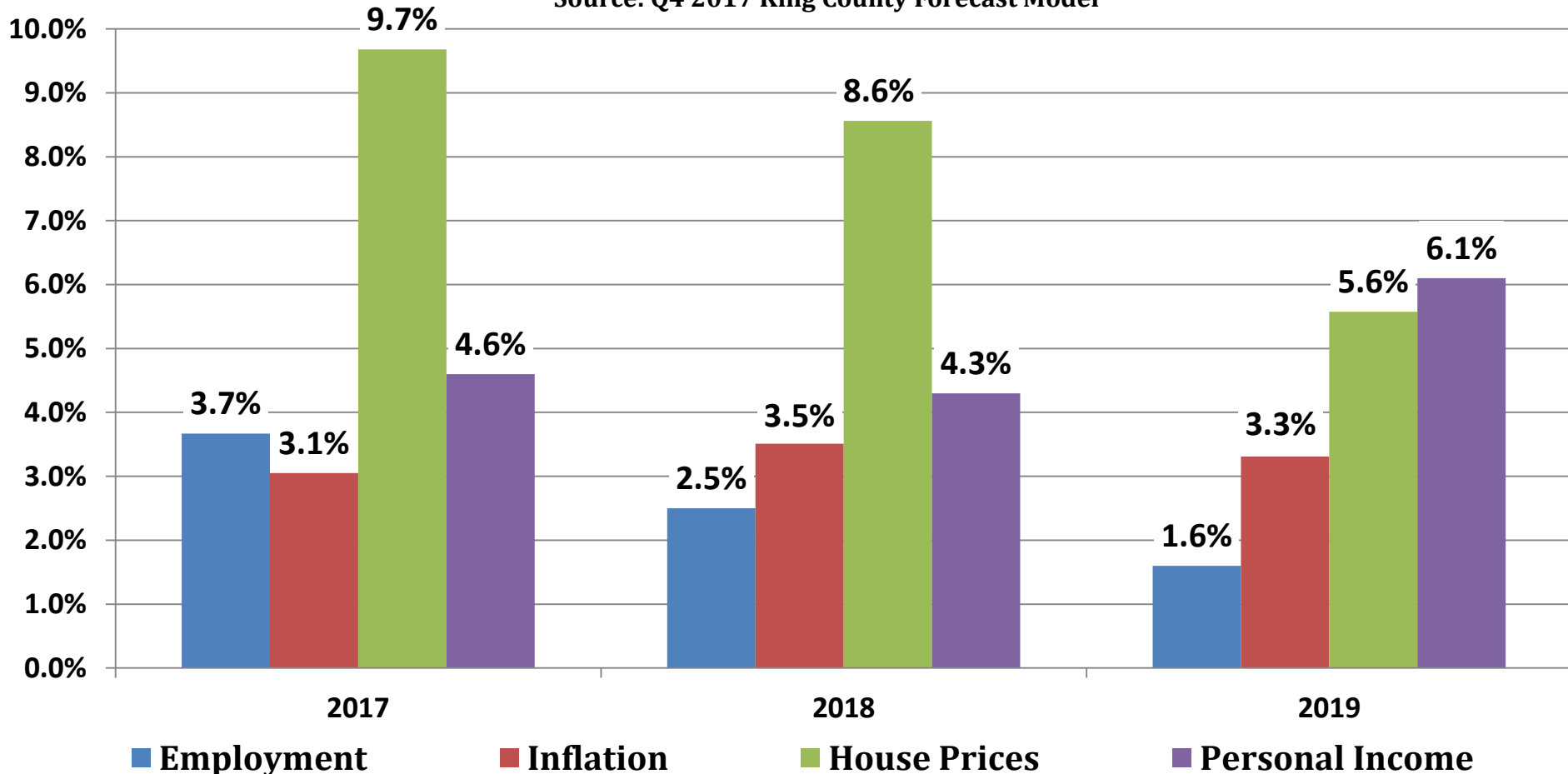
# The KC forecast for 2018-2019 calls for growth but at a reduced pace



## Employment, Inflation, Housing & Income

Actual 2017, Forecast 2018-2019

Source: Q4 2017 King County Forecast Model



# March 2018 Revenue Forecasts

## Assumptions:

(1) 65% Confidence Level – 65% chance revenues will come in higher than forecasted (lower for inflation/price forecasts)

(2) All potential annexation areas are assumed to occur on schedule:

- |                                 |            |
|---------------------------------|------------|
| -North Highline (Area Q/Sliver) | (01-01-21) |
| -North Highline (Remainder)     | (01-01-21) |
| -West Hill                      | (01-01-23) |
| -East Federal Way               | (01-01-23) |

# Countywide Assessed Value Forecast

<b>Tax Year</b>	<b>Value</b>	<b>Annual Growth</b>	<b>% Change from August 2017 Forecast</b>	<b>\$ Change from August 2017 Forecast</b>
2016	\$426,335,605,836	9.85%	0.00%	\$0
2017	\$471,456,288,020	10.58%	0.00%	\$0
2018	\$534,662,434,753	13.41%	1.69%	\$8,881,372,269
2019	\$591,603,078,768	10.65%	3.76%	\$21,411,511,055
2020	\$630,466,319,605	6.57%	5.63%	\$33,595,330,188
2021	\$668,542,389,690	6.04%	7.55%	\$46,931,540,710
2022	\$701,673,551,589	4.96%	7.71%	\$50,217,269,551
2023	\$733,057,889,944	4.47%	7.19%	\$49,159,044,958
2024	\$763,330,209,206	4.13%	6.80%	\$48,621,711,617
2025	\$800,531,956,089	4.87%	7.06%	\$52,780,434,057
2026	\$833,069,570,576	4.06%	6.62%	\$51,750,451,584
2027	\$865,814,013,340	3.93%	new	new

# Unincorporated Area Assessed Value Forecast

<b>Tax Year</b>	<b>Value</b>	<b>Annual Growth</b>	<b>% Change from August 2017 Forecast</b>	<b>\$ Change from August 2017 Forecast</b>
2016	\$36,633,108,444	1.53%	0.00%	\$0
2017	\$39,044,967,515	6.58%	0.00%	\$0
2018	\$43,501,122,097	11.41%	0.88%	\$379,325,224
2019	\$46,775,952,663	7.53%	0.33%	\$153,772,407
2020	\$49,703,754,594	6.26%	6.64%	\$3,096,867,974
2021	\$50,303,679,950	1.21%	15.89%	\$6,896,796,363
2022	\$52,499,162,903	4.36%	16.38%	\$7,390,487,096
2023	\$49,252,747,923	-6.18%	4.84%	\$2,276,000,433
2024	\$50,939,575,779	3.42%	4.63%	\$2,256,386,291
2025	\$53,200,613,033	4.44%	5.35%	\$2,702,653,362
2026	\$54,991,231,126	3.37%	5.18%	\$2,705,929,932
2027	\$56,714,249,225	3.13%	new	new

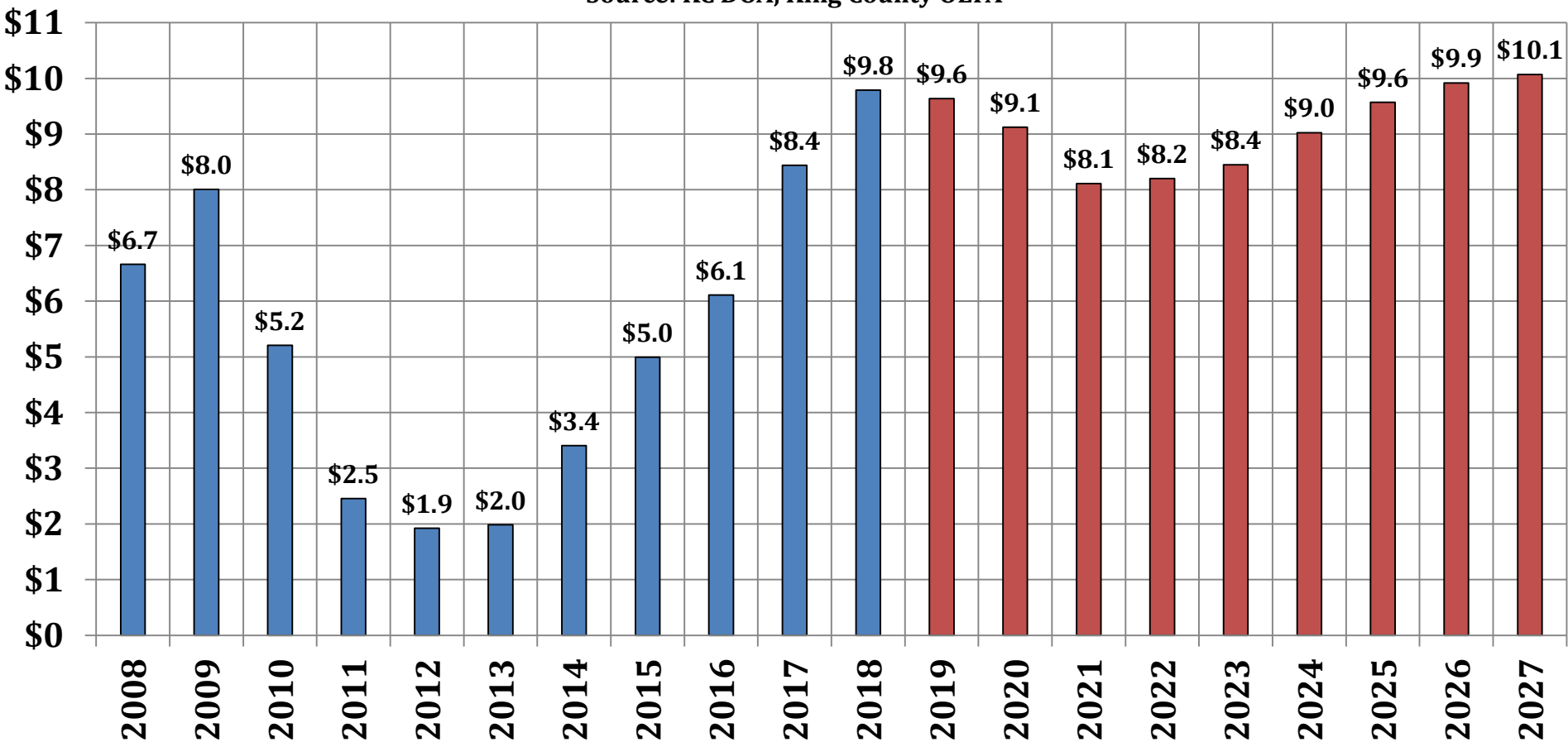
# New Construction Forecast



## King County New Construction Forecast

In billions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA



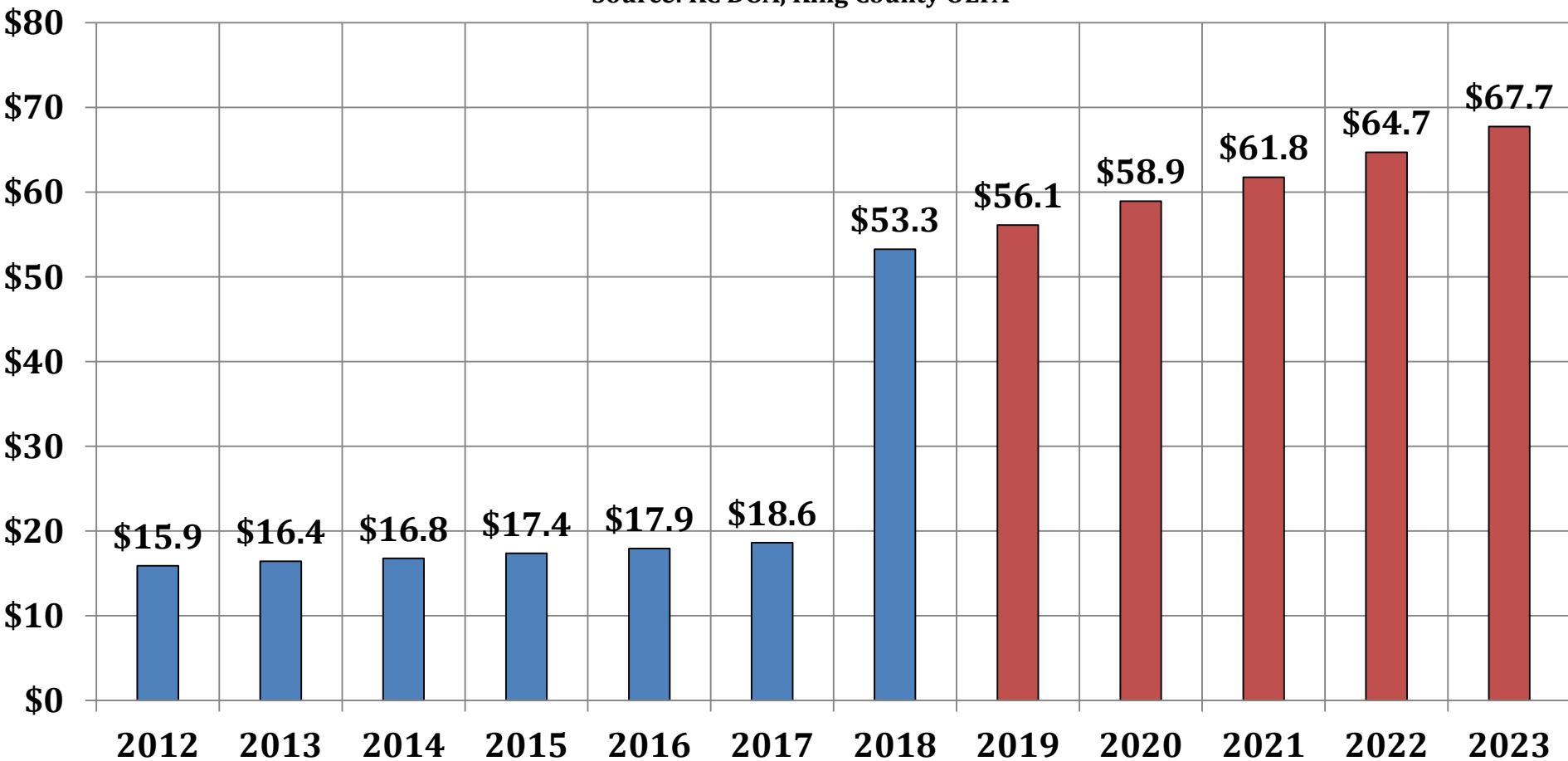
# Property tax levy forecasts mostly higher



## King County Veteran's Aid Levy

In millions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA



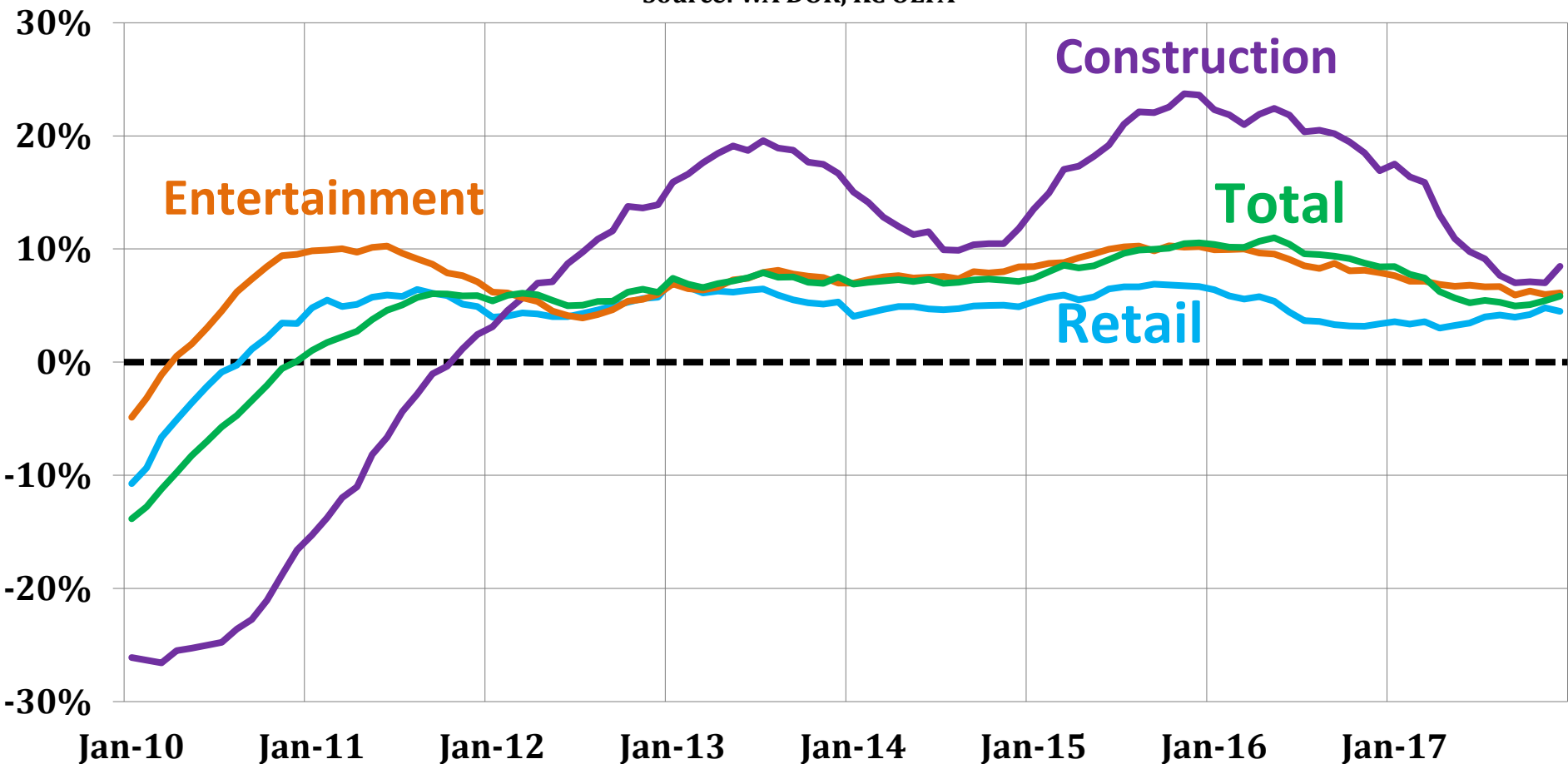
# Taxable sales continue to grow but at a slower pace



## Taxable Sales Growth

Annual rolling average of growth rates of taxable sales for select sectors

Source: WA DOR, KC OEFA



# King County Taxable Sales

Tax Year	Value	Annual Growth	% Change from August 2017 Forecast	\$ Change from August 2017 Forecast
2016	\$62,234,630,017	8.02%	0.00%	\$0
2017	\$65,600,000,000	5.41%	0.75%	\$489,558,637
2018	\$68,990,339,837	5.17%	0.30%	\$207,543,597
2019	\$70,842,548,772	2.68%	-1.43%	(\$1,024,287,850)
2020	\$72,372,608,770	2.16%	-2.63%	(\$1,952,225,610)
2021	\$75,298,097,229	4.04%	-2.37%	(\$1,827,809,667)
2022	\$77,955,869,070	3.53%	-2.91%	(\$2,339,481,456)
2023	\$80,775,050,007	3.62%	-3.06%	(\$2,550,722,282)
2024	\$84,004,746,741	4.00%	-2.66%	(\$2,295,570,295)
2025	\$87,315,525,607	3.94%	-2.09%	(\$1,864,236,489)
2026	\$90,036,836,125	3.12%	-2.20%	(\$2,022,349,651)
2027	\$92,975,133,720	3.26%	new	new



# King County Local and Optional Sales Tax Forecast

Tax Year	Value	Annual Growth	% Change from August 2017 Forecast	\$ Change from August 2017 Forecast
2016	\$112,704,886	7.63%	0.00%	\$0
2017	\$118,595,005	5.23%	1.88%	\$2,192,919
2018	\$126,383,728	6.57%	0.70%	\$880,625
2019	\$130,857,235	3.54%	-1.15%	(\$1,520,749)
2020	\$134,242,332	2.59%	0.15%	\$207,142
2021	\$136,874,748	1.96%	0.89%	\$1,210,660
2022	\$141,936,488	3.70%	0.35%	\$491,301
2023	\$143,823,778	1.33%	-2.09%	(\$3,069,978)
2024	\$149,572,979	4.00%	-1.68%	(\$2,558,765)
2025	\$155,446,549	3.93%	-1.12%	(\$1,758,367)
2026	\$160,207,961	3.06%	-1.23%	(\$1,987,234)
2027	\$165,436,250	3.26%	new	new

**King County**  
**Office of Economic and Financial Analysis**

<http://www.kingcounty.gov/independent/forecasting.aspx>