

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

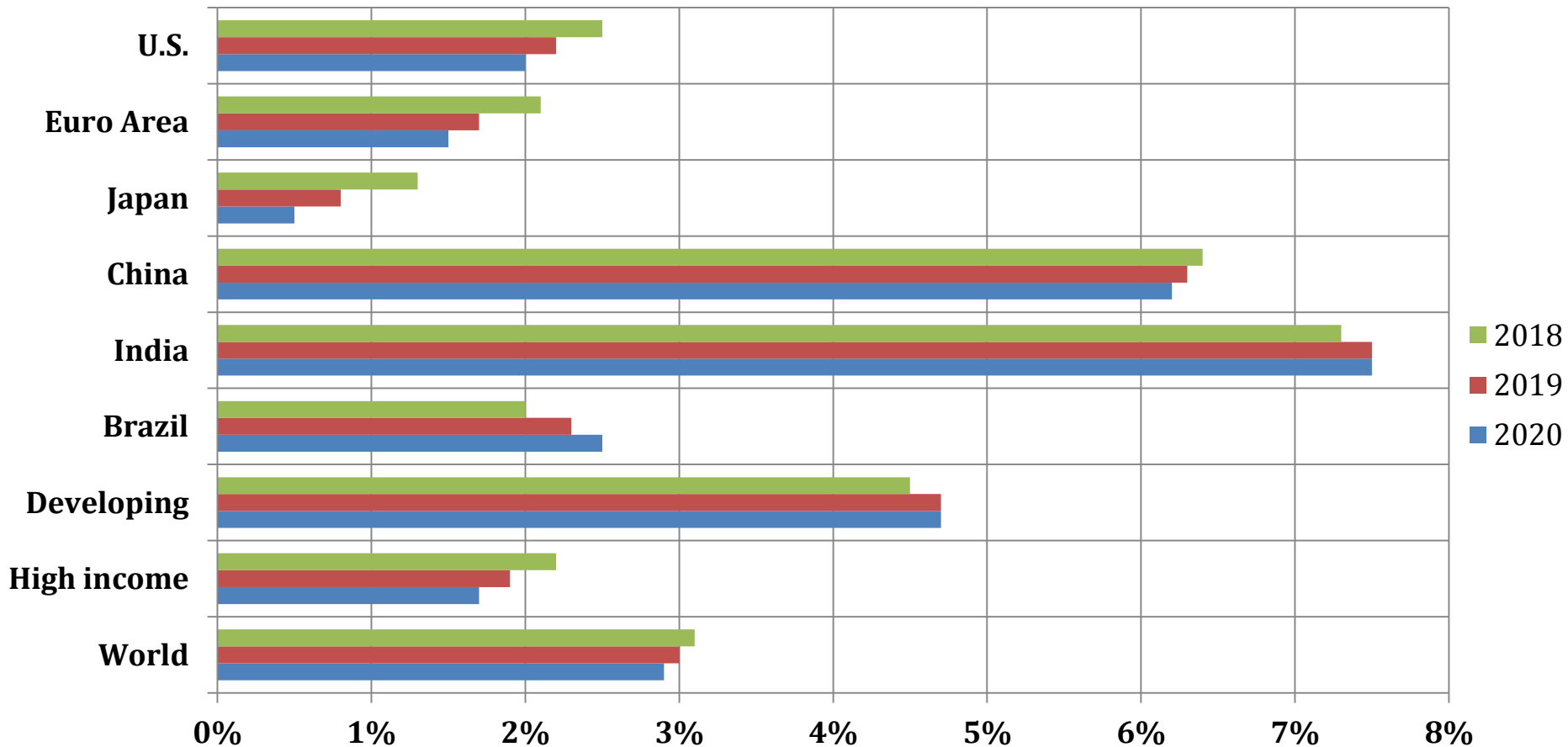
World economic growth forecast edges up in 2018



Global Real GDP Growth

Forecast 2018-2020

Source: World Bank, Jan. 2018



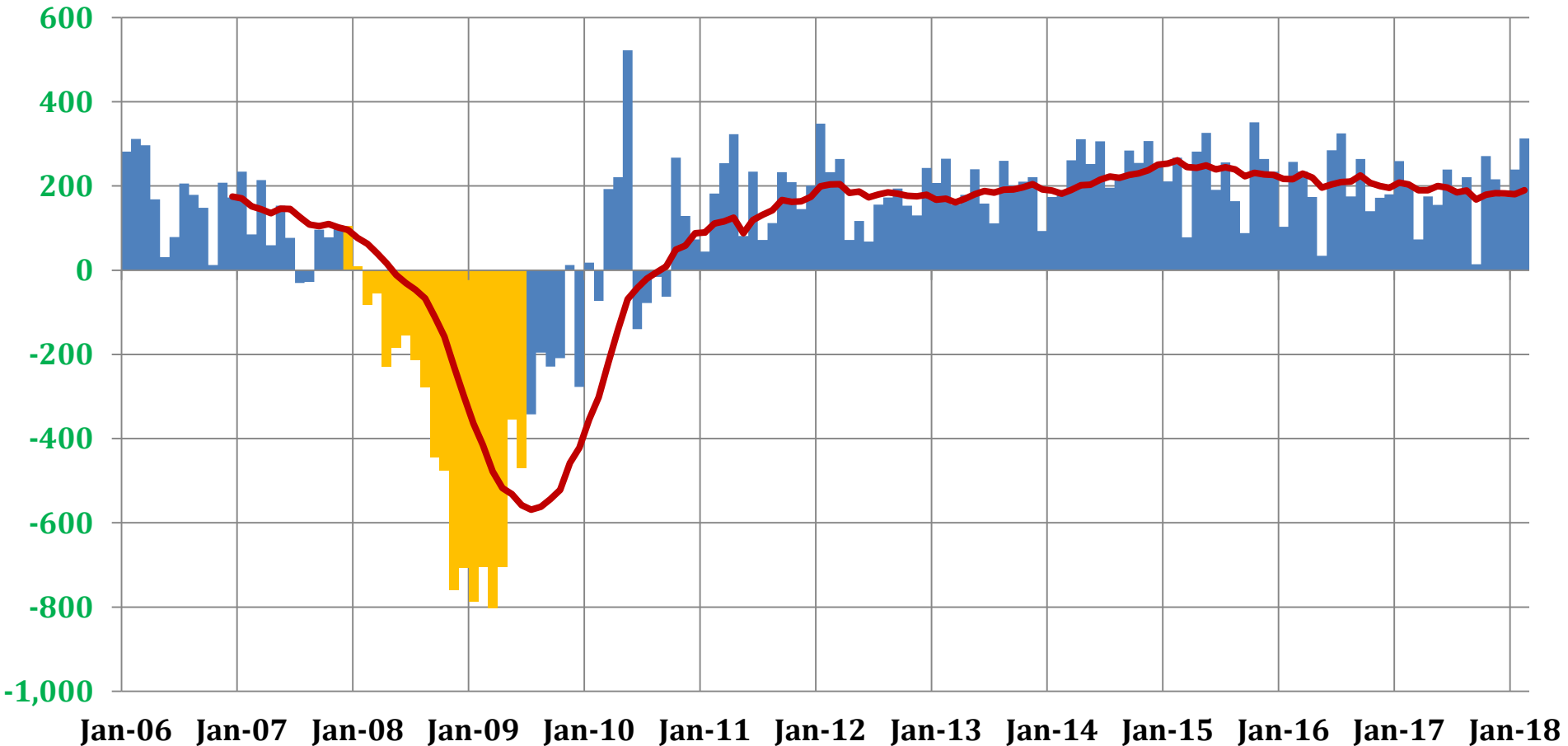
The U.S. economy has created over 18 million jobs since the recession...



U.S. Monthly Job Adds

In thousands, with recession bars and rolling annual average line

Source: Bureau of Labor Statistics



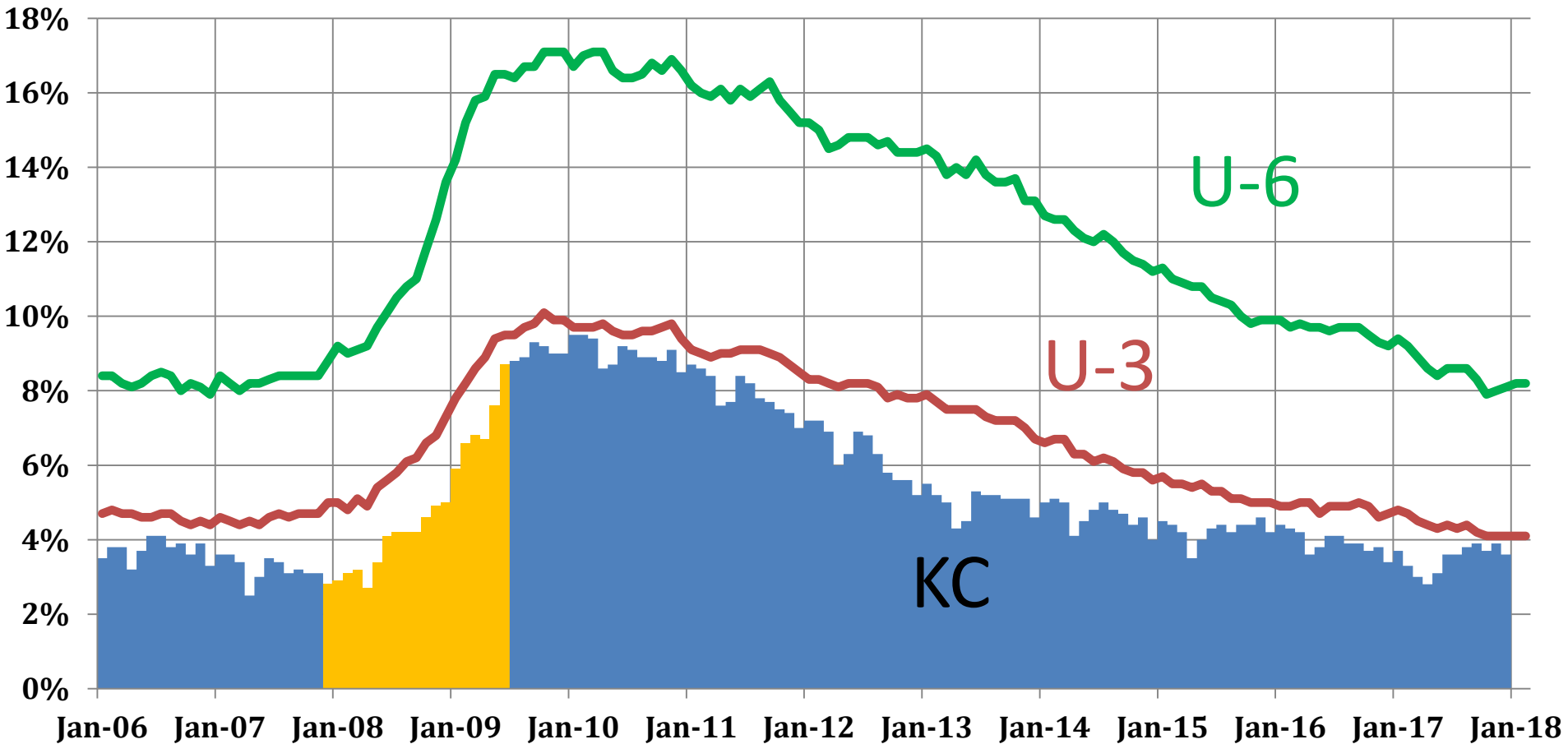
...And unemployment is reaching levels not seen for years



Unemployment Rates: U.S. & King County

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

Source: Bureau of Labor Statistics

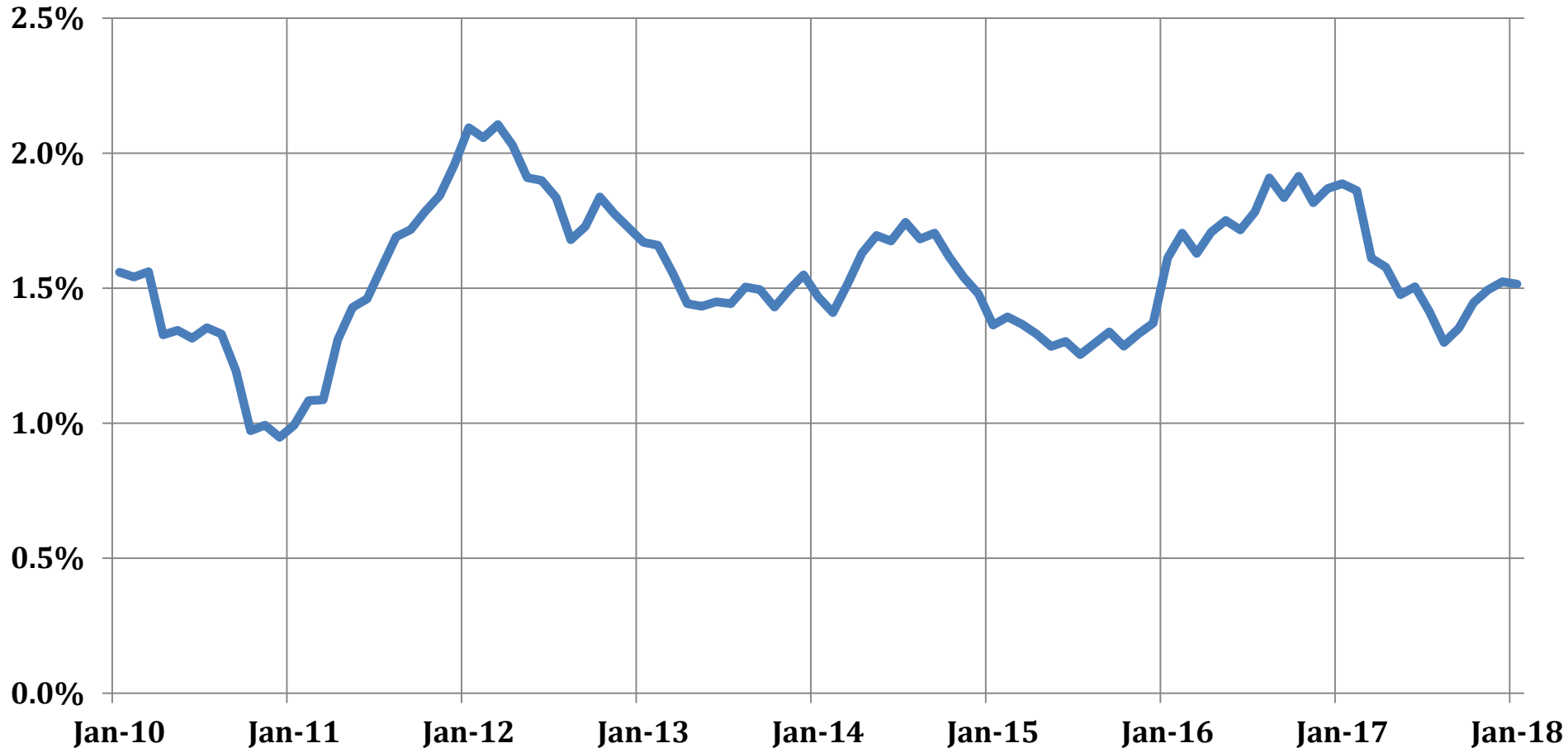


Inflation is generally heading toward the Fed's 2% goal but took a break in 2017



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

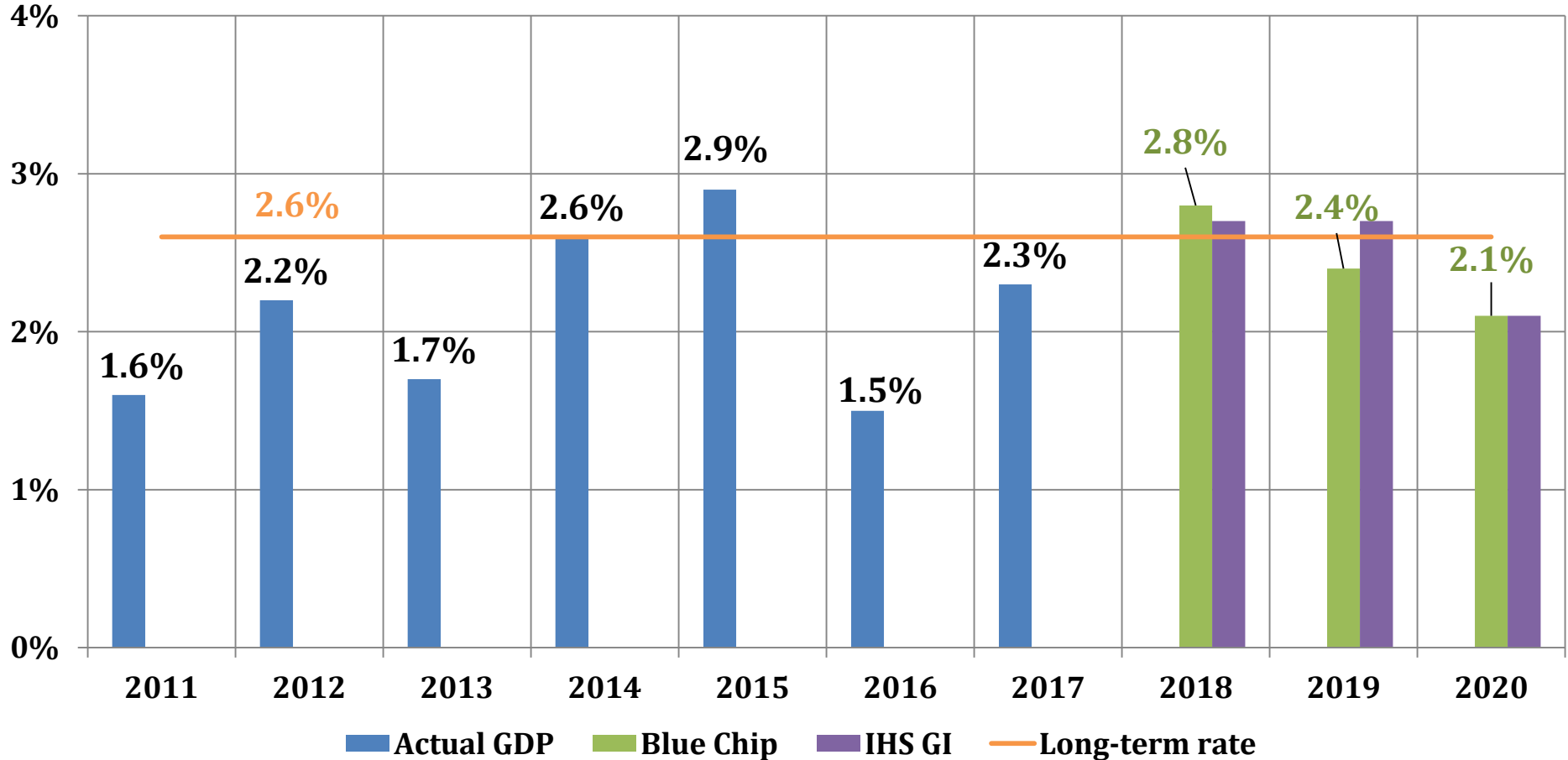
- ACA mandate repeal
- Tariffs & trade
- Infrastructure investment
- Deregulation

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



U.S. Real GDP Actuals and Forecast

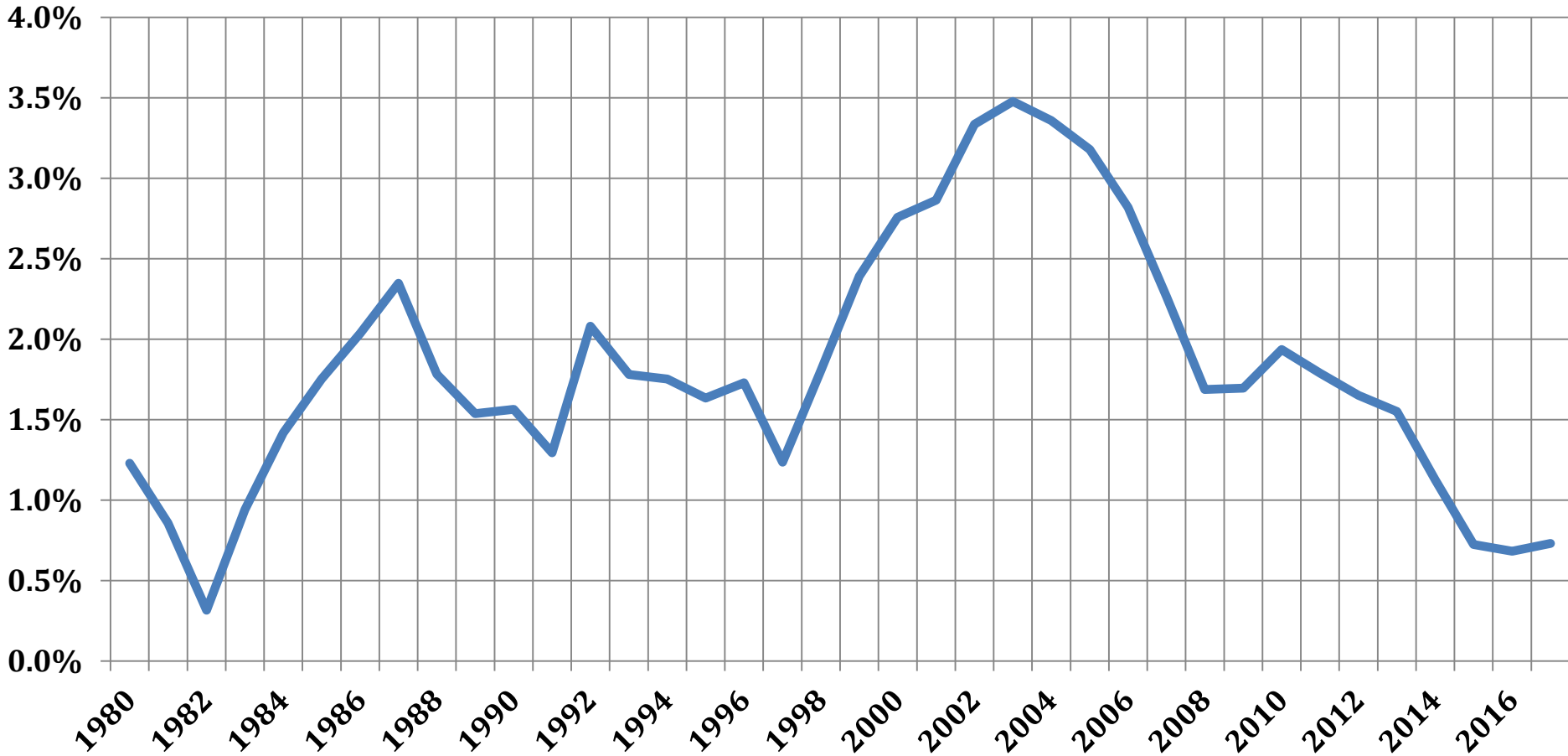
Actuals 2011-2016, 2017 Prelim., Forecast 2018-2020, LR Rate 1986-2016
Source: FRED, Blue Chip Indicators, IHS Global Insight



“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

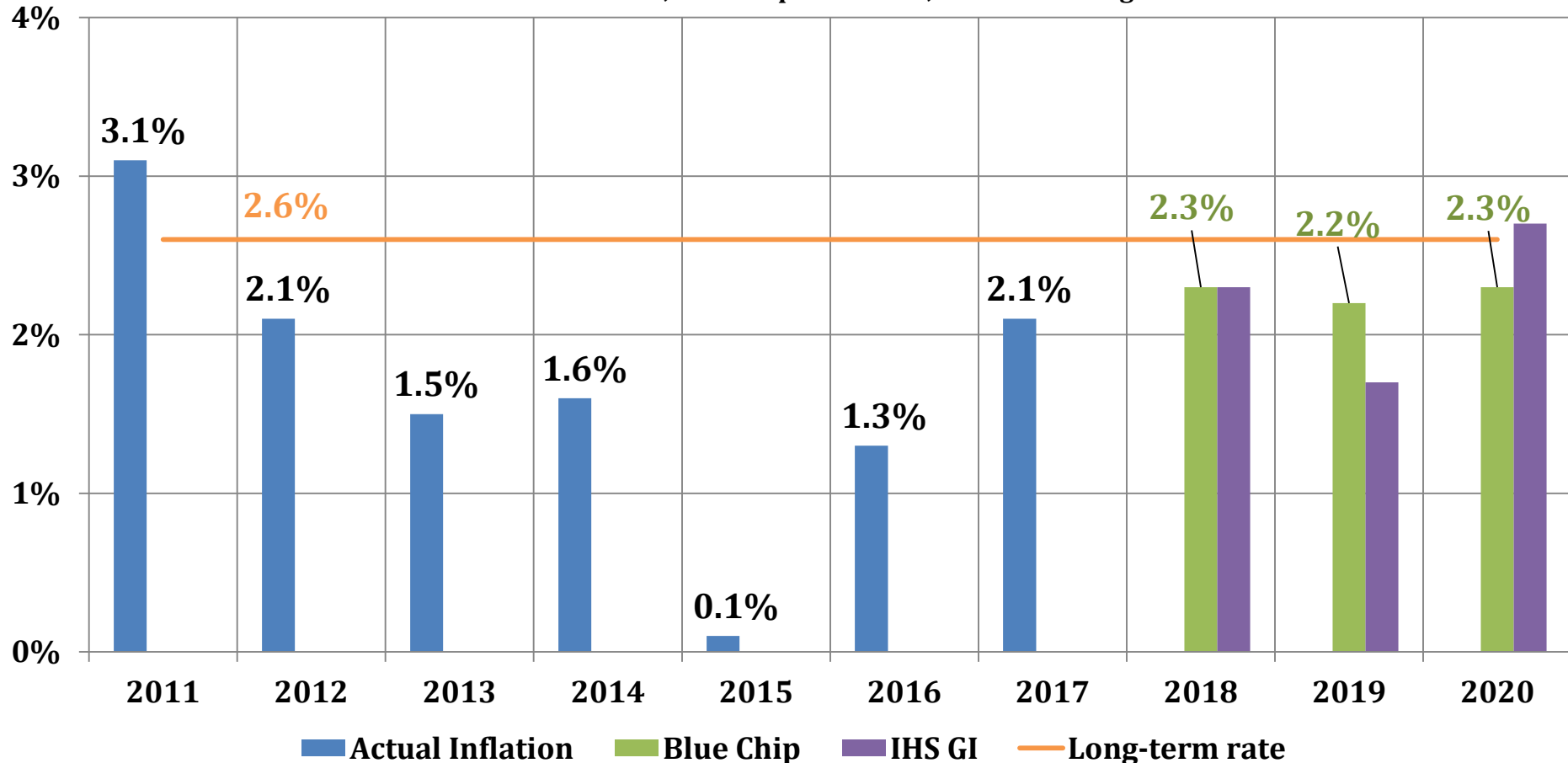


CPI Inflation is expected to be pretty stable



U.S. Inflation Growth

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



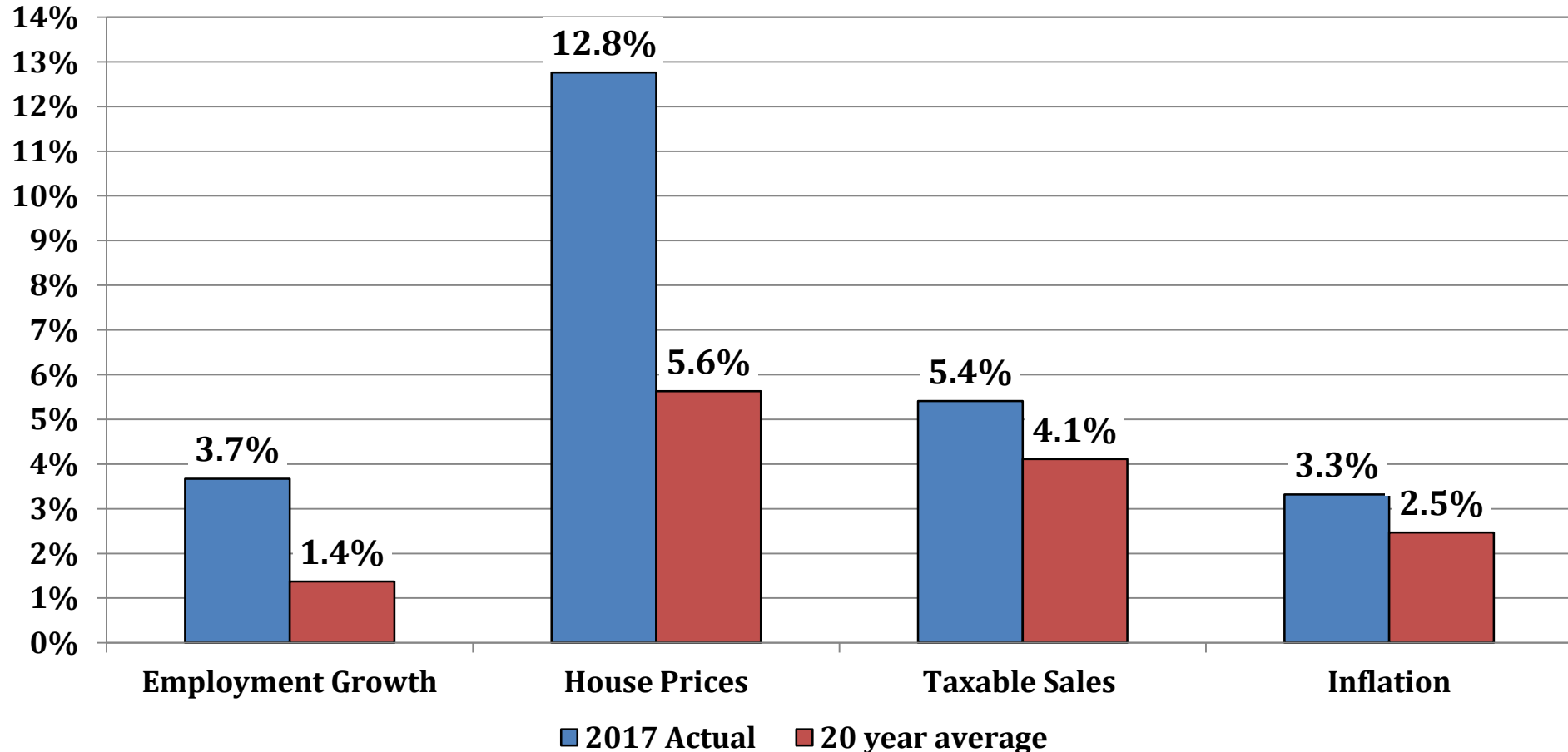
2017 was another year of growth for King County's economy



King County Economic Indicators

2017 actuals vs. 20 year average

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



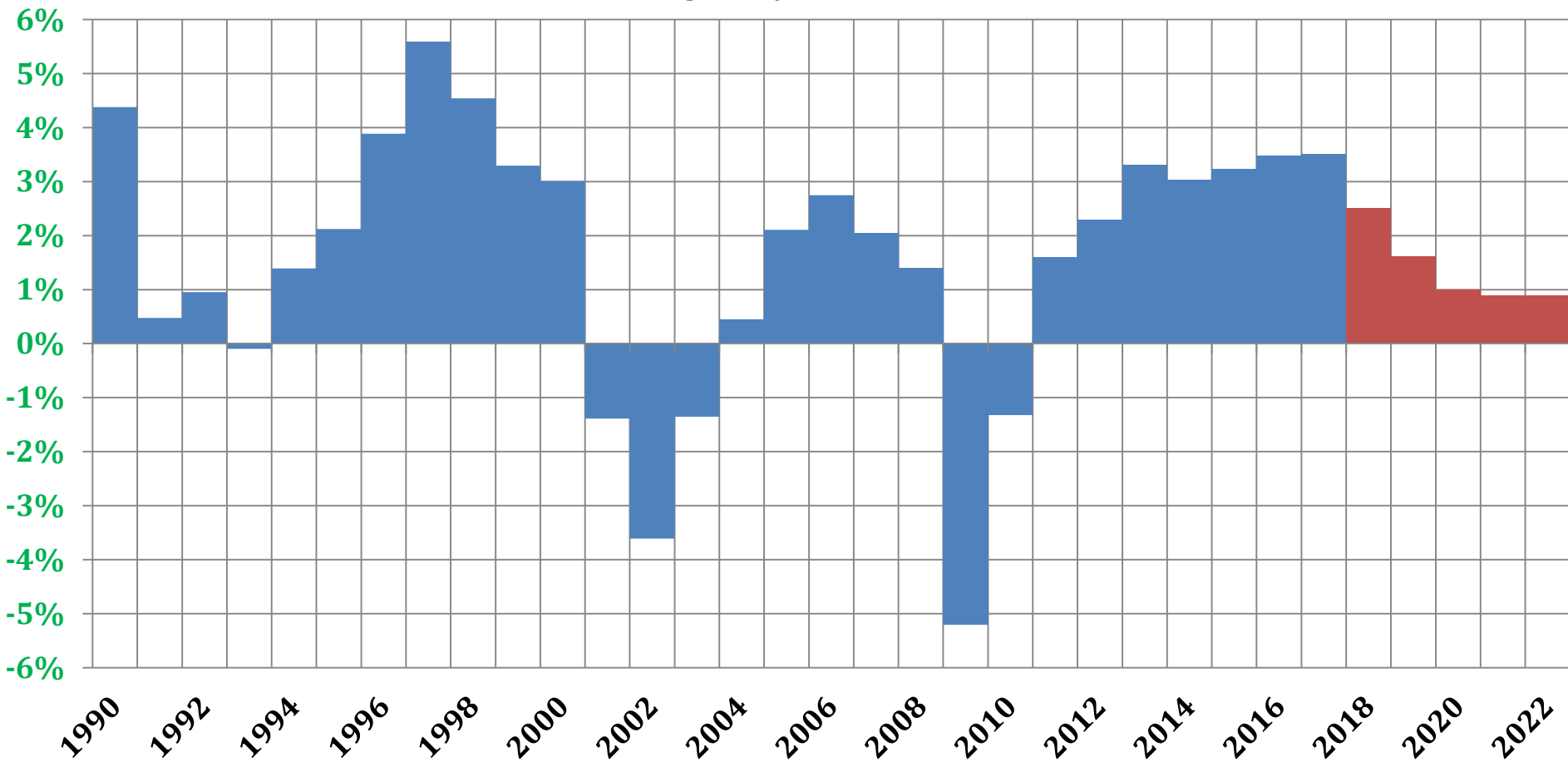
Local job growth for seventh straight year with more likely to come!



King County Annual Employment Growth

With Actuals and Forecast bars

Source: King County Forecast Model Q4 2017



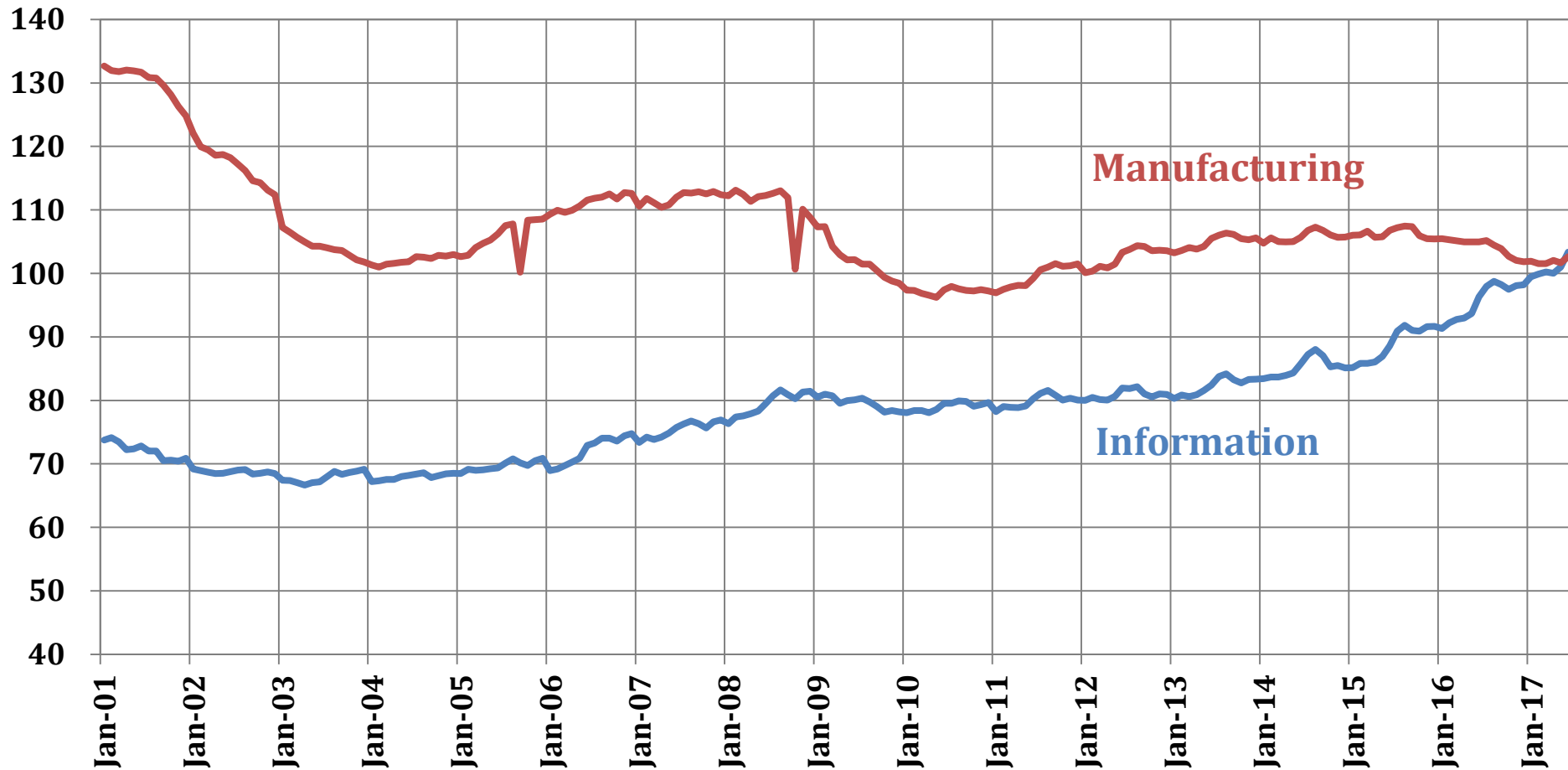
Information employment overtook manufacturing in 2017



King County Manufacturing and Information Employment

Manufacturing and Information jobs in thousands

Source: Bureau of Labor Statistics



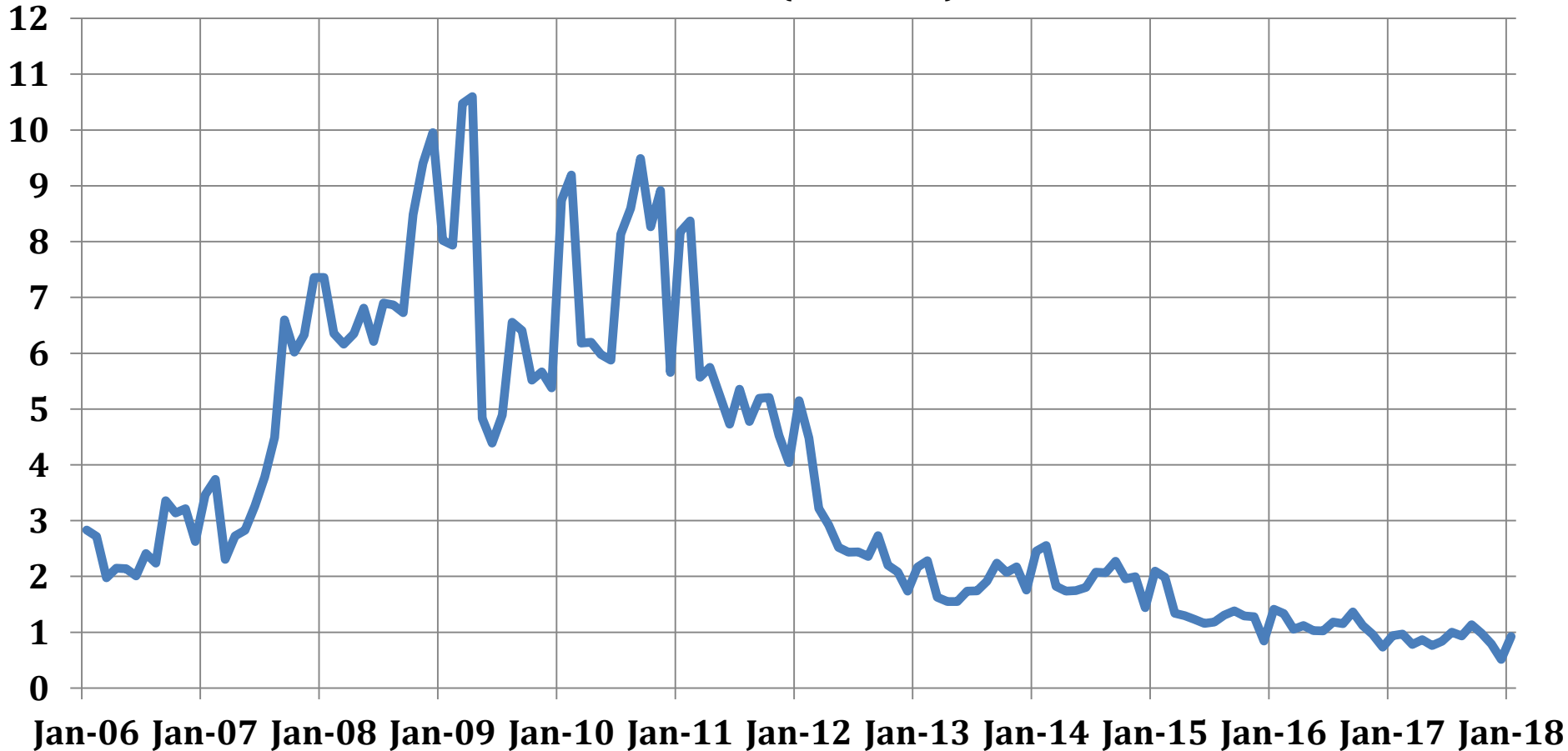
Home prices continue to rise in part due to few homes on the market



King County Real Estate Inventory

Inventory = Total Active Listings/Closed Sales

Source: NWMLS (SFH+Condos)



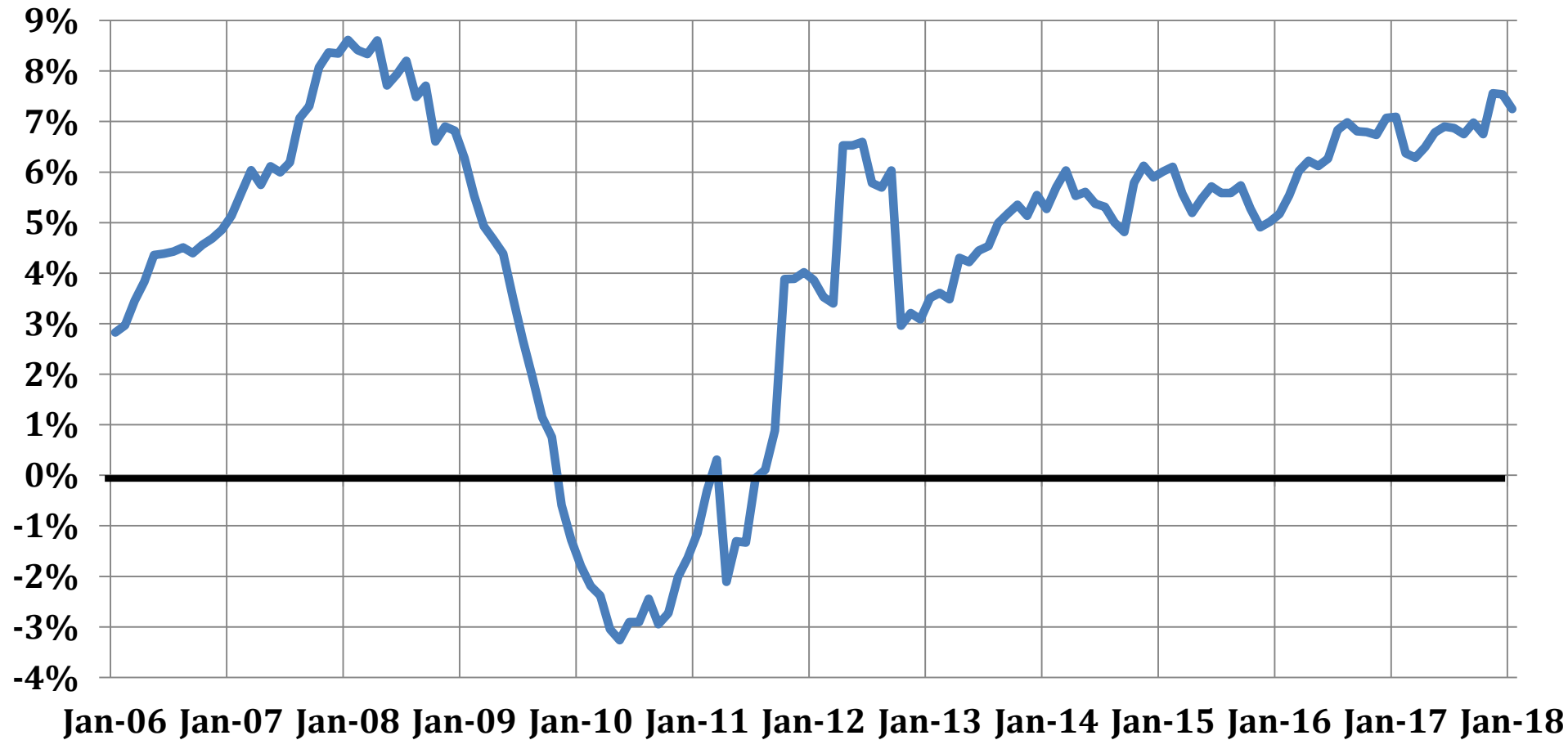
Rents have also been increasing rapidly



Seattle Rent of Primary Residence Growth

Growth Rate, January 2006 - January 2018

Source: BLS



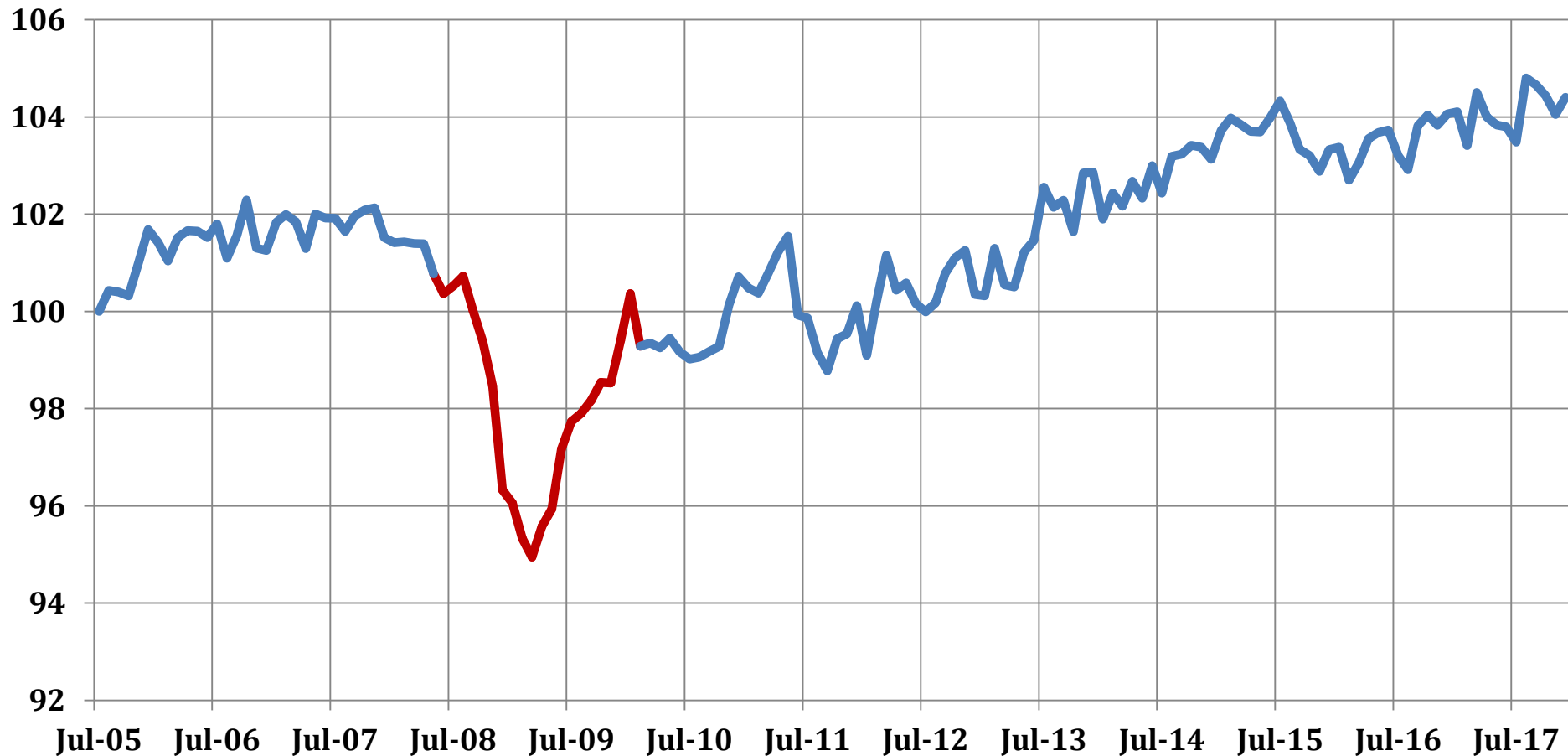
Local economic signals still solid



King County Index of Leading Indicators

July 2005=100, with economic contraction highlighted in red

Source: KC OEFA



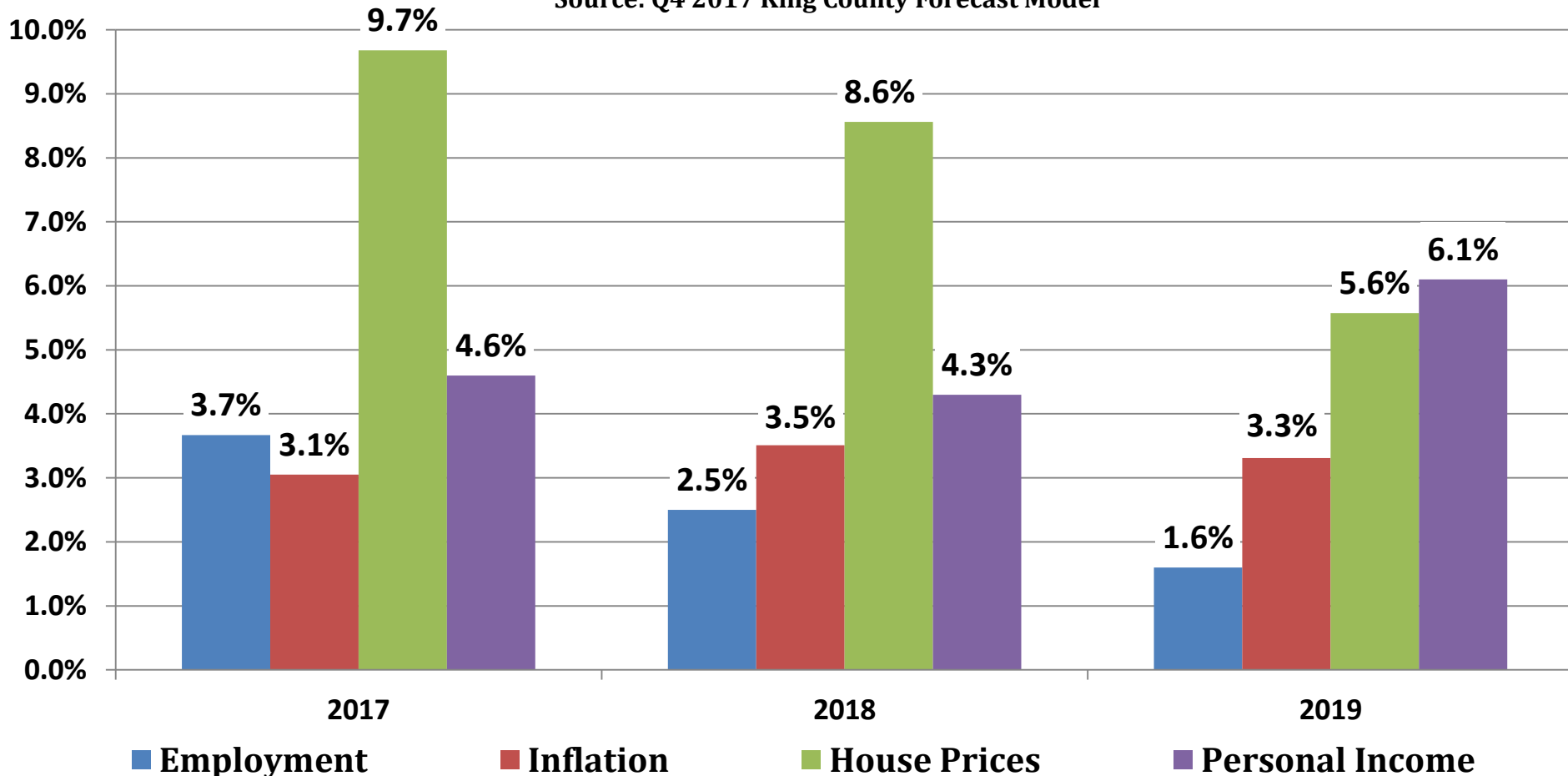
The KC forecast for 2018-2019 calls for growth but at a reduced pace



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

Tax Year	Value	Annual Growth	% Change from August 2017 Forecast	\$ Change from August 2017 Forecast
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

Tax Year	Value	Annual Growth	% Change from August 2017 Forecast	\$ Change from August 2017 Forecast
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

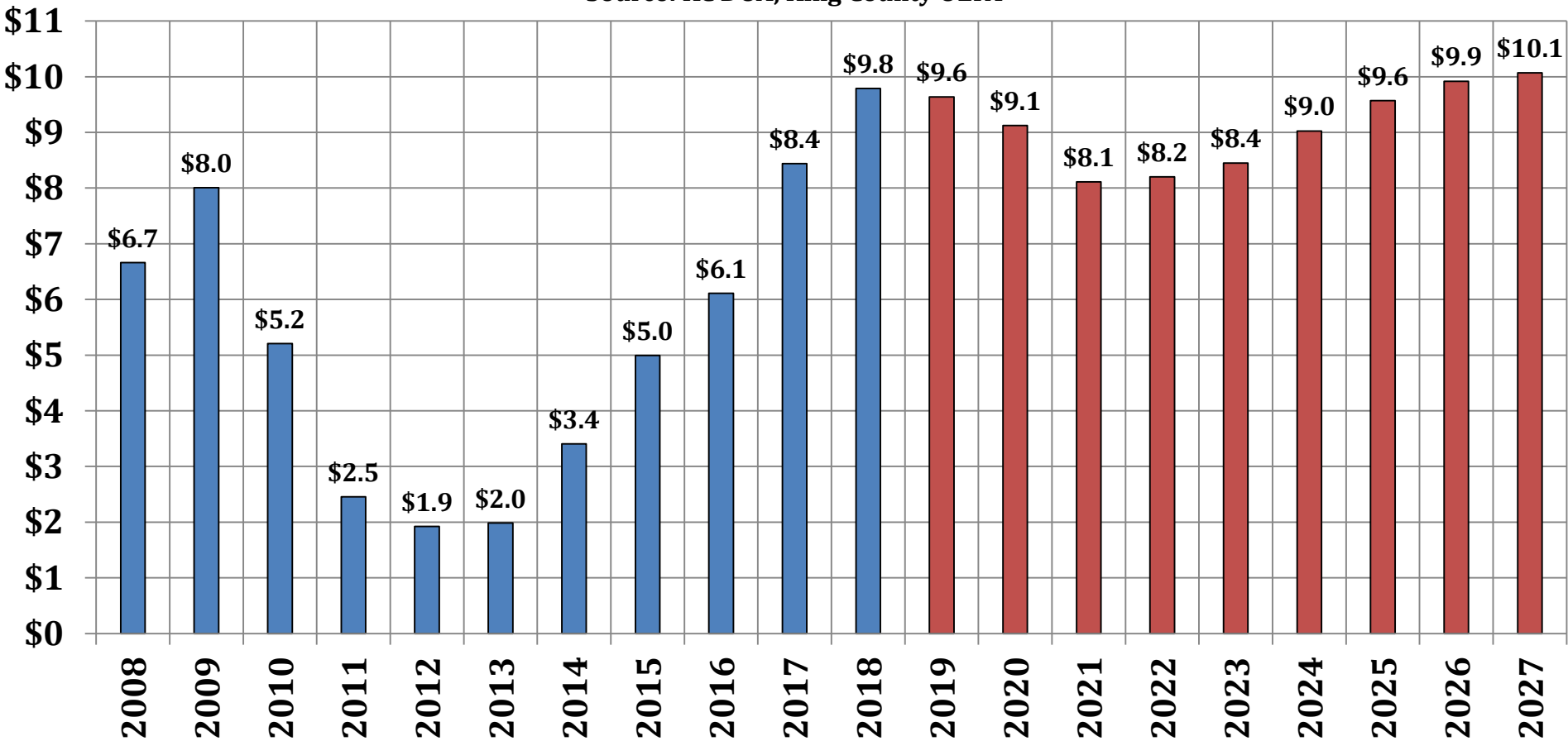
New Construction Forecast



King County New Construction Forecast

In billions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA



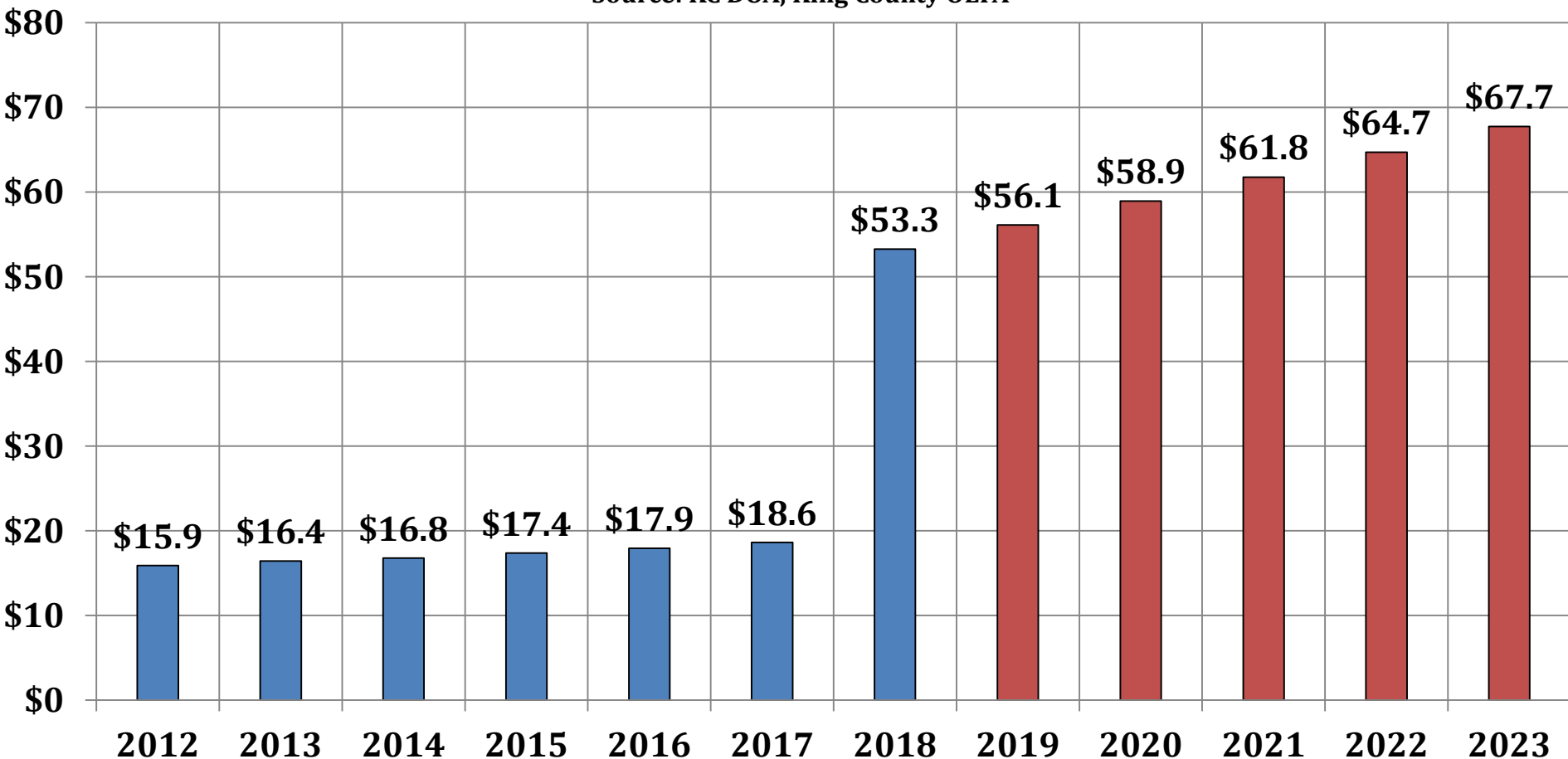
Property tax levy forecasts mostly higher



King County Veteran's Aid Levy

In millions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA



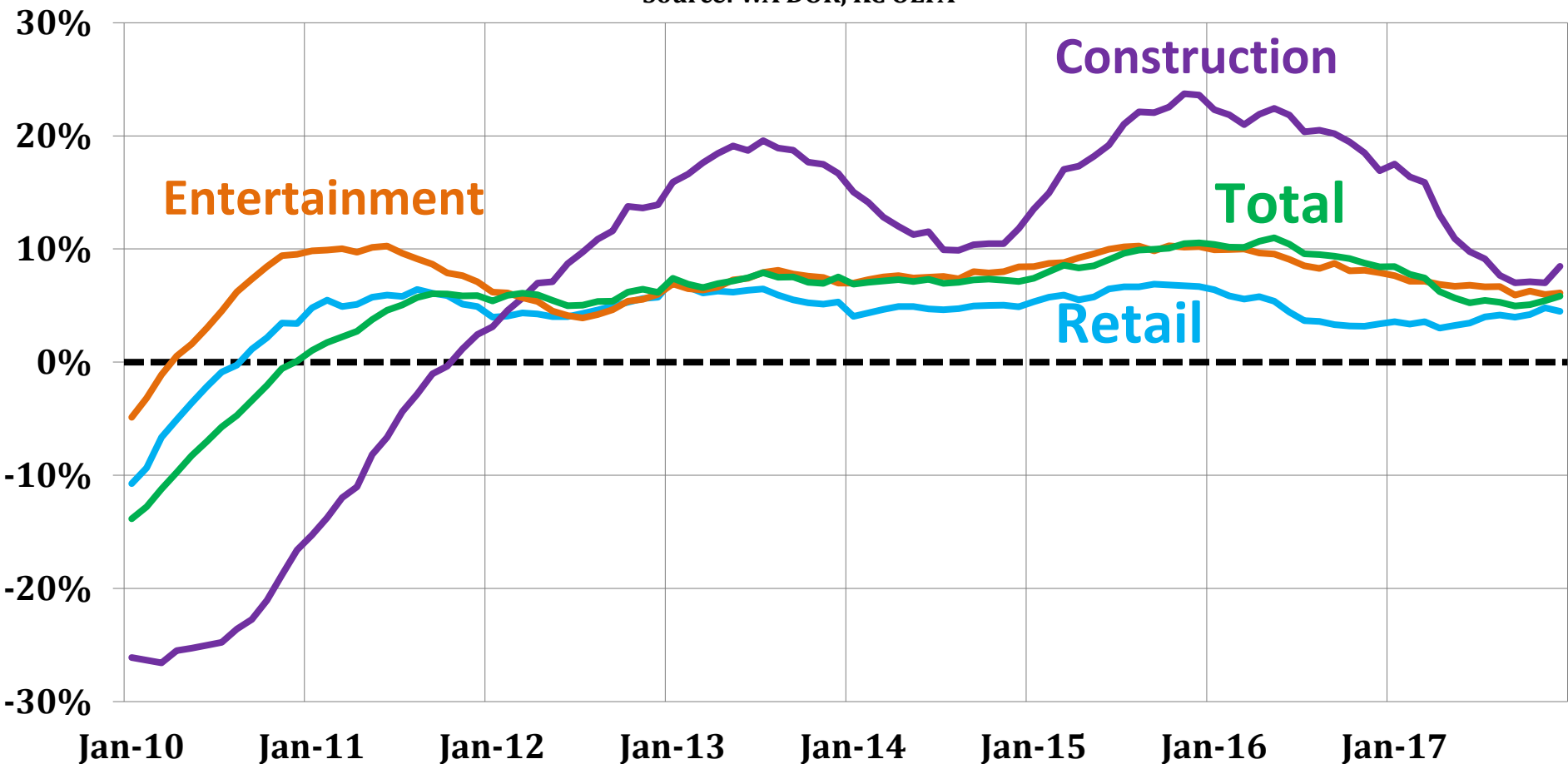
Taxable sales continue to grow but at a slower pace



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>