



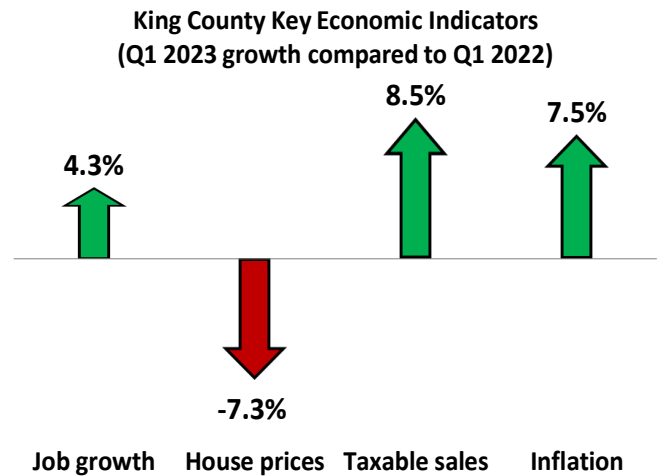
ECONPULSE

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

FIRST QUARTER 2023

SUMMARY

- King County employment increased 4.3% in the first quarter of 2023 compared to the first quarter of 2022.
- Home prices decreased 7.3% compared with the first quarter of 2022.
- Taxable sales increased 8.5% in January and February compared to the same period of 2022.
- The inflation rate was 7.5% in February 2023.



DETAIL

Employment in King County grew 4.3% in the first quarter of 2023, adding about 62,100 jobs. The leisure and hospitality sector continues to recover from the COVID-19 pandemic, adding 14,200 jobs in the first quarter. The layoffs in the tech industry appear to be hitting the overall figures as the information sector lost 1,000 jobs relative to the first quarter of 2022, the first time that sector has experienced negative growth since the Great Recession. The financial activities sector also lost jobs, decreasing 1.7% for the quarter. Most of those losses are from the real estate industry, as interest rates rise and the real estate market slows.

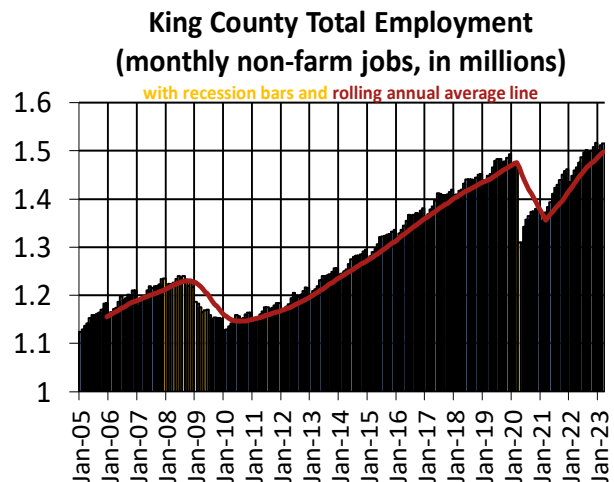


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

The unemployment rate for King County remains quite low at 2.7% in March while national unemployment stood at 3.5%. Initial claims for unemployment insurance were higher year-over-year in the first quarter of 2023 compared to 2022 but remain low, with 4,640 new filings in March.

DETAIL (CONT.)

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

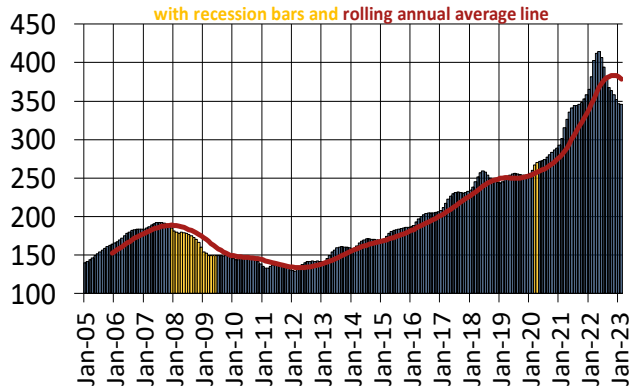


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

House prices decreased in King County in the first quarter, with the Case-Shiller housing index down 7.3%. Market activity slowed considerably, with 29% fewer closings in the first quarter of 2023 than 2022.

Single- and multi-family permitting experienced another quarter of significant decline. The number of single-family permits issued was down 36.9% in the first quarter of 2023 and multi-family permits were down 20.7%.

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

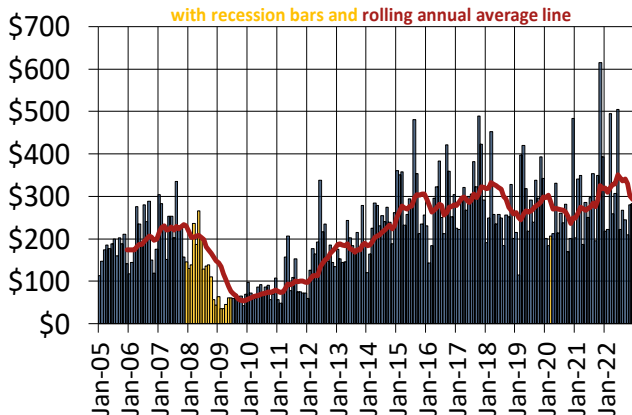


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales continued to grow in the first quarter of 2023, up 8.5% in January and February. Food service, accommodation, and entertainment continues to experience the strongest growth, increasing 25.1%, while construction also grew strongly at 14.9% year-over-year.

Taxable Sales Growth
(annual average of top four sectors)

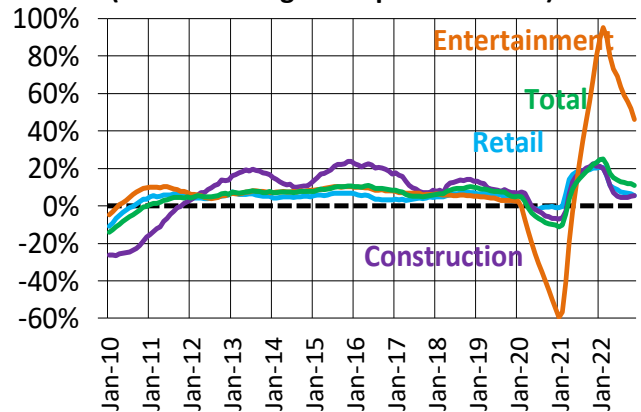


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation continued to ease, increasing 7.5% in February as measured by the CPI-W for Seattle. Food prices increased 10.4% while housing costs were up 9.6%. The national CPI-W rate was 5.78% in February.

Seattle Inflation
(CPI-W, annually adjusted)

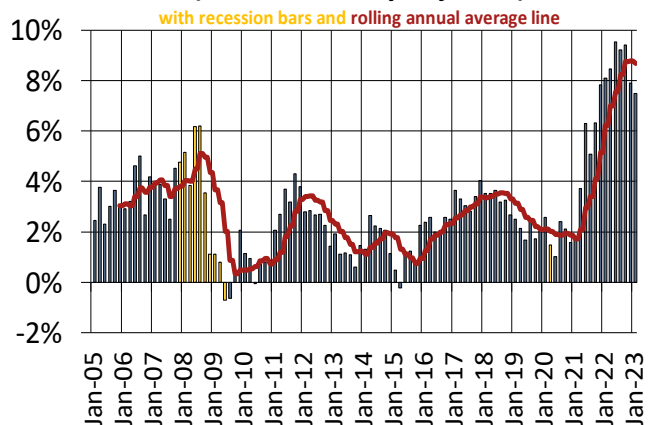


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2023:1Q	2022:1Q	Absolute change	% Change
Total Nonfarm	1,509.5	1,447.4	62.1	4.3%
Total Private	1,338.0	1,282.7	55.2	4.3%
Goods Producing	178.1	167.8	10.4	6.2%
Construction	82.9	77.2	5.7	7.4%
Manufacturing	94.8	90.1	4.7	5.2%
Service Providing	1,331.3	1,279.6	51.7	4.0%
Trade, Transportation, and Utilities	239.3	231.3	8.1	3.5%
Information	137.2	138.2	-1.0	-0.7%
Financial Activities	74.4	75.7	-1.3	-1.7%
Professional and Business Services	329.8	319.2	10.6	3.3%
Educational and Health Services	198.9	186.9	12.0	6.4%
Educational Services	34.0	31.9	2.1	6.6%
Ambulatory Health Care Services	65.1	61.2	3.9	6.4%
Hospitals	30.9	29.5	1.4	4.6%
Nursing and Residential Care Facilities	19.0	17.4	1.6	9.0%
Social Assistance	50.0	46.9	3.2	6.8%
Leisure and Hospitality	131.0	116.8	14.2	12.2%
Arts, Entertainment, and Recreation	24.8	21.9	2.8	12.9%
Accommodation	11.9	10.0	1.9	18.7%
Food Services and Drinking Places	94.4	84.8	9.6	11.3%
Other Services	49.1	46.9	2.2	4.6%
Government	171.5	164.6	6.9	4.2%

Other King County Economic Indicators

	2023:Q1	2022:Q1	% Change
Real Estate			
Single Family Permits (No. of units)	476	754	-36.9%
Single Family Permits (\$000)	\$ 206,399	\$ 304,022	-32.1%
Multi-Family Permits (No. of units)	2,494	3,146	-20.7%
Multi-Family Permits (\$000)	\$ 404,118	\$ 628,855	-35.7%
Avg. sales price (NW Multiple Listing Service)	\$ 928,555	\$ 976,123	-4.9%
Number of sales (NW Multiple Listing Service)	4,407	6,206	-29.0%
Taxable Retail Sales (\$B, Jan-Feb)	\$ 13.52	\$ 12.46	8.5%
Retail/Wholesale	\$ 5.36	\$ 5.24	2.4%
Construction/Real Estate	\$ 4.25	\$ 3.69	14.9%
Food Service, Accommodation, Entertainment	\$ 1.75	\$ 1.40	25.1%
Other	\$ 2.16	\$ 2.13	1.2%
Inflation (February)			
CPI-W (Seattle-Tacoma-Bellevue)	328.62	305.70	7.5%

KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators had a volatile first quarter of 2023, but ultimately declined overall for the fourth straight quarter. Individual indicators were mixed for the quarter as a whole, although nearly all had turned negative in March. The Index was again considerably affected by the continued inversion of the yield curve as short term interest rates climb relative to long term rates. Also dragging on the Index were the slowdown in residential permitting and continued contraction in manufacturing activity.

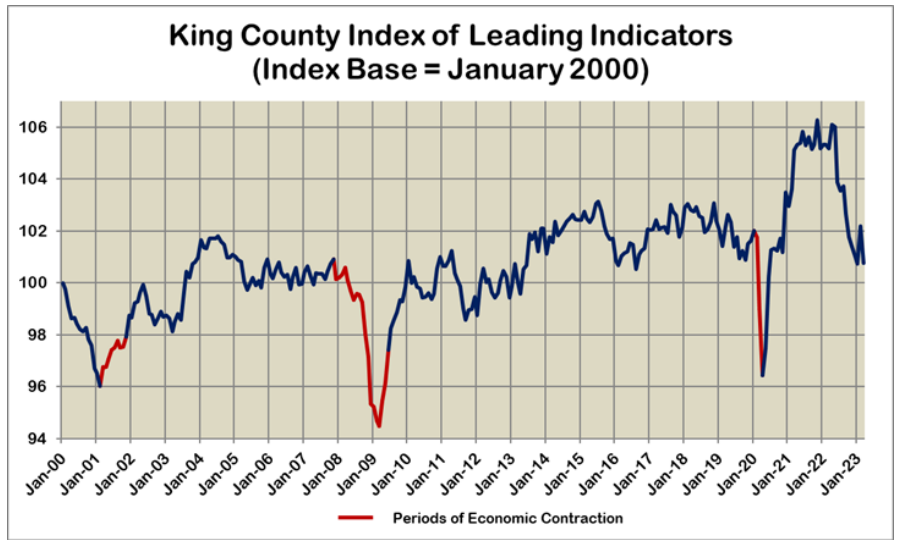


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

KING COUNTY FORECAST

The U.S. economy grew by 2.7% in the fourth quarter of 2022 driven by consumer spending, nonresidential fixed investment, inventory investment and government spending. This was the second quarterly expansion in a row after the economy contracted in the first and second quarters of 2022. This second half expansion was characterized by a very strong job market. In fact, the number of job openings hit a record level in the Spring of 2022 and has remained very elevated (10.6M in January). This also is reflected in very low unemployment and the unemployment rate in February was 3.6%. This huge unmet demand for workers has continued to put upward pressure on wages and has been a significant factor in our very high inflation in 2022 and so far in 2023. National CPI was 6.0% in February which is down from the peak in June of 9%. This high inflation reflects a combination of the supply chain issues that have been with us now for over a year, together with elevated demand for goods and services driven by the pandemic, the fiscal support provided during 2020 and 2021 and the elevated savings of households. This elevated inflation led the Federal Reserve to raise rates 4.25% (425 basis points) in 2022 and 0.5% more so far in 2023, landing at the current rate range of 4.75% to 5.0%. Most think we'll continue to see one or two more rate increases in 2023 until the Federal Reserve believes their policy is restrictive enough to slow down the economy and bring inflation closer to target.

Forecasts for the U.S. economy are mixed with some forecasters expecting a recession in the next 12 months but an increasing likelihood the U.S. economy can squeak by with very slow growth as it rebalances. Certainly, the risk of recession is elevated, but any recession that does occur is likely to be relatively modest and short. Most forecasts are calling for a slowdown in the labor market as the current imbalance between labor demand and supply has pushed wages up faster than is consistent with the Federal Reserve's 2% inflation goal. As such, we are likely to see a slowdown in employment growth and an increase in the unemployment rate reflecting the slowing economy. Inflation forecasts are very elevated and reflect the belief that inflation will take time to correct. Most forecasts call for headline CPI to be about 3% to 4% in 2023. Mortgage rates have climbed significantly which has impacted the housing market and so price growth has turned negative. We also face a risky macro environment due to the debt limit which is likely to be an issue in summer and the continuing Ukraine war.

The county economy through February is generally doing well except for the continued high inflation being experienced by all. King County employment overall has recovered fully from the Covid recession and employment has continued to climb after topping 1.5 million in August 2022. This top line recovery masks changes by industry however as losses in leisure and hospitality, government, and other services are not back to pre-Covid levels. The employment growth has been focused in construction, information, and professional and business services although recently several tech firms have announced layoffs. In general, we expect these sectors to continue to recover. However, the degree to which the Fed must raise interest rates to deal with inflation has risen and is likely to impact sectors, particularly those impacted by high interest rates like real estate and construction though the impacts have been modest so far.

Inflation continues to remain very elevated in King County. The Seattle CPI-U inflation measure peaked in June at 10.1% but fell to 8.0% in the February 2023 measure. The peak value in June mirrored what

KING COUNTY FORECAST (CONT.)

was seen nationally and it is hoped the downward trend will continue in 2023. This inflation is very impactful for King County households particularly lower income households that have less capacity to respond.

Taxable sales in King County showed solid growth in 2022 up over 10.5%. This has been led by strong retail sector sales, together with recovering leisure and hospitality and other services sales. We expect this to continue but at a slower rate of growth in 2023 as slower economic growth and higher interest rates impact behaviors.

Tourism was strong in 2022 with nearly 300 cruise trips carrying 1.2 million people leaving from Seattle and 2023 looks to be similar. Convention activity is also recovering, and the new “Summit” Convention Center addition just opened. One continuing question is the speed of the recovery in downtown Seattle and how quickly and to what extent offices re-open.

The local housing market has been on an amazing ride. It experienced double-digit gains in prices in 2021 and for the first few months of 2022, before the impact of higher interest rates and fears of a recession caused price growth to slow significantly. Prices month to month have fallen from a high in the second quarter and are down 5.1% in January 2023 relative to the same period in 2022. NWMLS indicates the average house price in February 2023 was about \$911K which is down about 4.6% from the same period in 2022. The continued elevated mortgage rates (in the 6.5% range in February 2023) will continue to put the brakes on the housing market. At the same time, the inventory of listed homes has increased some but is still near historic lows. November inventory was 1.43 months in King County up from 0.55 months in the same month of 2022. Inventory is unlikely to see a surge however as so many homeowners re-financed during the Covid recession and have locked in very low rates and so are unlikely to be interested in moving unless they must.

Looking forward, we face an elevated risk of a national recession sometime in the next 12 months. This would mean negative GDP growth, an increasing unemployment rate (though still likely in the 4%-5% range) and a still elevated though reduced inflation rate. Locally, we will also experience slower growth, higher unemployment, and elevated inflation but this is unlikely to be a deep or long recession. Households generally are in much better circumstances than a typical recession since many still have elevated savings due to the Covid shutdowns and fiscal relief and jobs remain plentiful. Business balance sheets are also strong and so entities in our economy should continue to be able to manage through this. Inflation should slow as we move forward, and this reduced inflation and the end of Fed tightening likely in the first half of 2023 should prove to be positive for consumer sentiment.

We expect the local economy to continue to grow in 2023 and 2024 though at a reduced pace from what we saw in 2022. Table 1 indicates the most recent forecast. Population growth should continue at around 1.0 percent per year resulting in around 25,000 additional people living in King County in each of 2023 and 2024. Employment likely finished up about 5.5% in 2022 as it recovered from the low levels of the pandemic, but this will slow on reduced economic growth and a slower national labor market in 2023 and beyond. Inflation surged in 2022 and finished up about 8% for the year on supply chain disruptions, very strong goods demand, and the war in Ukraine. The Federal Reserve has been rapidly

KING COUNTY FORECAST (CONT.)

raising rates to slow inflation and we have begun to see some moderation. It is anticipated inflation will remain elevated throughout 2023 though the pace should continue to moderate. We expect the pace of housing permits to be lower than past years reflecting the adverse environment facing home buyers and builders. Single-family housing prices are likely to decrease in 2023 as increased mortgage rates affect demand. House prices should begin to recover by late 2023. Taxable sales grew over 10% in 2022 but are expected to slow in 2023 and 2024 due to the slowing economy.

King County Forecast - March 2023					
	2021	2022	2023	2024	2025
King County-Level					
Population (thous.)	2,293.8	2,324.7	2,348.7	2,373.6	2,392.9
Employment (thous.)	1,407.3	1,484.1	1,499.6	1,516.7	1,538.5
Unemployment Rate (%)	4.2	2.7	3.5	3.9	4.4
Personal Income (mil \$)	243,727.6	249,704.0	255,562.2	266,164.6	278,977.2
Housing Permits	19,407	17,231	12,654	11,797	12,172
House Transactions (Residential)	36,407	26,665	18,020	18,561	19,345
House Prices (avg.)	995,087	1,083,608	988,934	1,018,226	1,065,959
Seattle FHFA Index	434.9	504.3	482.0	482.3	499.8
Seattle CPI-U	296.0	322.2	338.6	346.9	355.2
Taxable Retail Sales (mil \$)	82,495.3	91,200.0	94,810.2	98,832.5	104,419.3
King County Employment - Detail (thousands)					
Natural Resources	0.4	0.4	0.4	0.4	0.4
Construction	79.3	83.2	82.8	82.8	83.7
Manufacturing	89.0	95.2	97.0	98.9	97.9
Subtotal (Goods Employment)	168.7	178.8	180.3	182.1	182.0
Trade, Transportation and Utilities	282.6	289.4	290.3	293.2	295.7
Information	134.2	144.5	138.3	140.7	144.4
Financial Services	73.5	77.0	78.5	79.3	80.3
Professional and Business Services	245.7	265.0	270.9	277.0	287.0
Other Services	333.0	362.5	375.6	377.3	380.9
Government	169.6	166.9	165.7	166.9	168.3
Subtotal (Services Employment)	1,238.7	1,305.3	1,319.3	1,334.5	1,356.4
Total Employment	1,407.3	1,484.1	1,499.6	1,516.7	1,538.5
Annual Growth					
Population	0.8%	1.3%	1.0%	1.1%	0.8%
Employment	1.8%	5.5%	1.0%	1.1%	1.4%
Personal Income	7.5%	2.5%	2.3%	4.1%	4.8%
Inflation	4.6%	8.9%	5.1%	2.4%	2.4%
Taxable Retail Sales	16.6%	10.6%	4.0%	4.2%	5.7%

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.

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