ECONPULSE

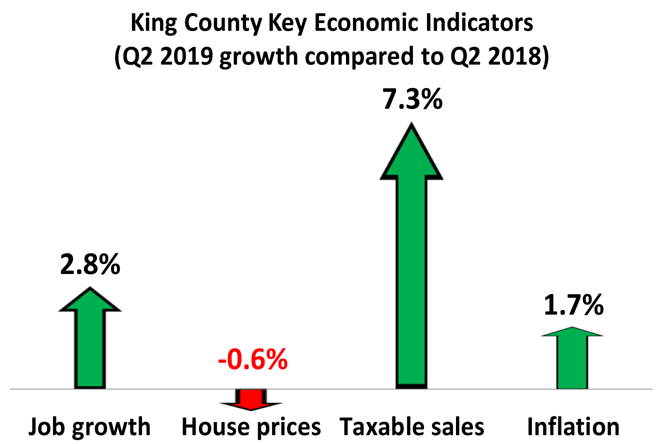
A QUARTERLY LOOK AT THE KING COUNTY ECONOMY

KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

SECOND QUARTER 2019

SUMMARY

- King County employment grew 2.8% in the second quarter of 2019 relative to 2018, with continued growth in information and construction jobs, and accelerated job growth in education and health care.
- Home prices decreased 0.6% compared with the second quarter of 2018.
- Taxable sales rose 7.3% in April and May.
- The inflation rate was 1.7% in June.



DETAIL

Employment in King County grew in all sectors in the second quarter of 2019, with the exception of government which experienced a second straight quarter of decline. The information sector added 6,500 jobs and construction jobs increased by 3,900. Other strong sectors include educational and health services, as well as professional, scientific and technical services. New job postings rebounded after a slow first quarter, but still declined about 0.9% year over year. From April through July, top employers from online ads were Providence Health and Services, Amazon, and the University of Washington.

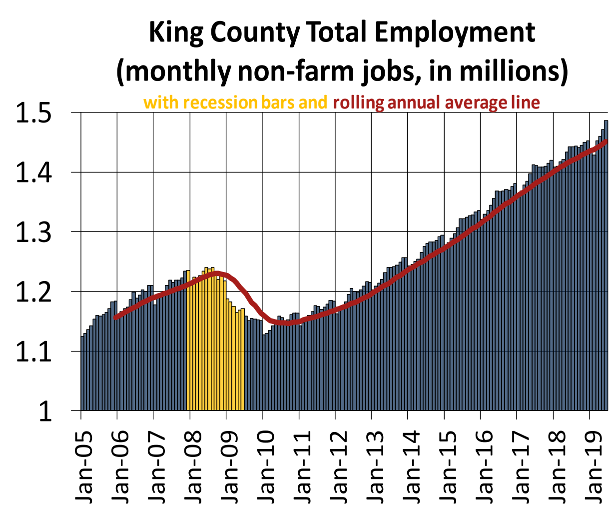


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

The unemployment rate for King County declined to 2.9% in June. However, the number of initial claims for unemployment insurance have been increasing each month since December, and were up 4.4% in the second quarter compared to the year prior.

DETAIL (CONT.)

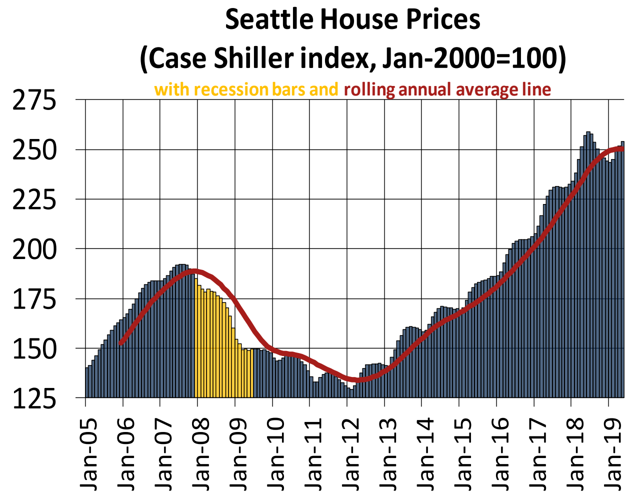


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

Seattle-area house prices declined 0.6% in the second quarter of 2019 after eighty-four months of growth. The number of home sales was flat year over year.

In the second quarter of 2019, multi-family permitting increased substantially, likely due in part to delays created by inclement weather in the first quarter. Multi-family permitting has increased 14.8% to date in 2019. Single-family permits declined in the second quarter, and have declined 18.8% to date in 2019 compared to 2018.

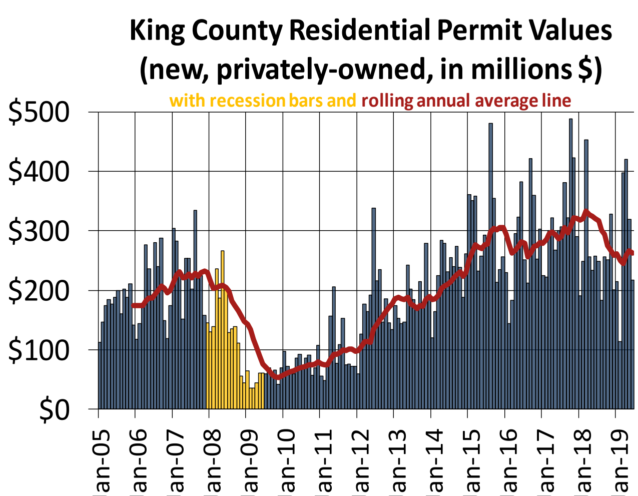


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales experienced strong growth in the second quarter, increasing 7.3%. Growth was particularly strong in construction and wholesale taxable sales.

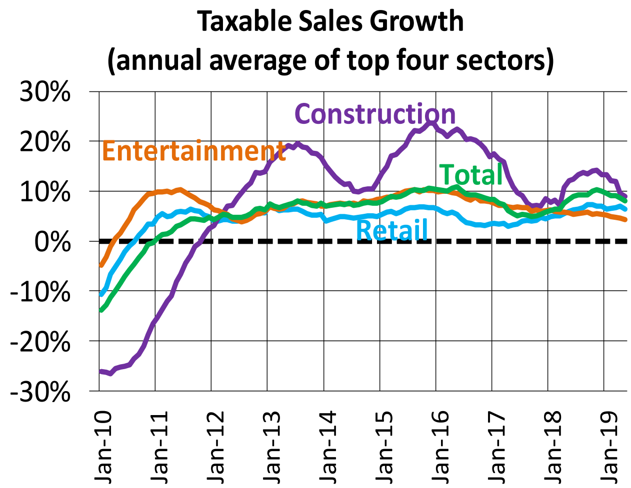


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation continued to slow, at 1.7% in June as measured by the CPI-W for Seattle. Lower energy prices and housing costs contributed to the decline. The national inflation rate was 1.4%.

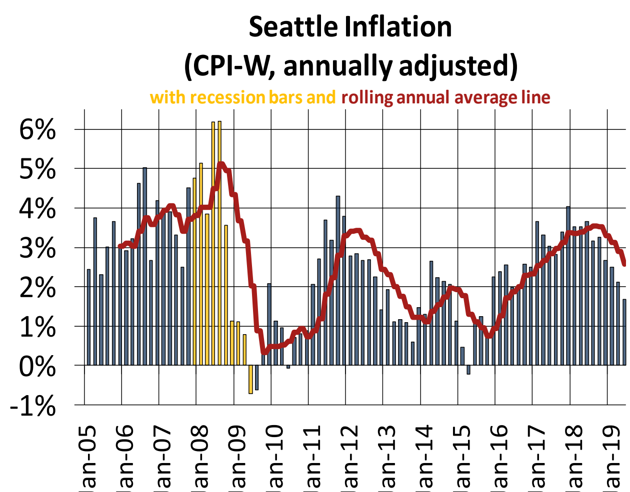


Fig. 5 Seattle Consumer Price Index (Source: BLS)

The Numbers

King County Employment (in thousands)				
NAICS Industry	**2019:2Q**	**2018:2Q**	**Absolute change**	**% Change**
Total Nonfarm	1,473.0	1,432.7	40.4	2.8%
Total Private	1,296.6	1,251.1	45.5	3.6%
Goods Producing	189.0	181.0	8.0	4.4%
Construction	81.7	77.8	3.9	5.0%
Manufacturing	106.8	102.6	4.1	4.0%
Service Providing	1,284.0	1,251.7	32.3	2.6%
Trade, Transportation, and Utilities	276.7	273.1	3.6	1.3%
Information	115.4	108.9	6.5	6.0%
Financial Activities	76.9	74.0	2.9	4.0%
Professional and Business Services	240.4	232.5	7.8	3.4%
Educational and Health Services	194.7	185.7	9.0	4.9%
Educational Services	32.5	30.5	2.0	6.7%
Ambulatory Health Care Services	63.5	61.1	2.4	3.9%
Hospitals	31.9	31.1	0.8	2.6%
Nursing and Residential Care Facilities	20.7	20.1	0.6	3.2%
Social Assistance	45.9	42.8	3.1	7.2%
Leisure and Hospitality	152.4	146.9	5.5	3.7%
Arts, Entertainment, and Recreation	28.5	28.1	0.4	1.5%
Accommodation	16.3	15.0	1.3	8.4%
Food Services and Drinking Places	107.6	103.8	3.9	3.7%
Other Services	51.2	49.1	2.0	4.1%
Government	176.4	181.6	-5.2	-2.8%

Other King County Economic Indicators			
	2019:Q2	**2018:Q2**	**% Change**
Real Estate			
Single Family Permits (No. of units)	1,066	1,188	-10.3%
Single Family Permits ($000)	$ 433,536	$ 445,045	-2.6%
Multi-Family Permits (No. of units)	3,884	2,424	60.2%
Multi-Family Permits ($000)	$ 523,135	$ 303,659	72.3%
Avg. sales price (NW Multiple Listing Service)	$ 773,128	$ 774,898	-0.2%
Number of sales (NW Multiple Listing Service)	9,474	9,460	0.1%
Taxable Retail Sales ($B, April-May)	$ 12.13	$ 11.31	7.3%
Retail/Wholesale	$ 4.81	$ 4.50	6.9%
Construction/Real Estate	$ 3.77	$ 3.49	8.0%
Food Service, Accommodation, Entertainment	$ 1.90	$ 1.84	3.7%
Other	$ 1.64	$ 1.48	10.6%
Inflation (June)			
CPI-W (Seattle-Tacoma-Bellevue)	273.49	268.96	1.7%

KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators decreased slightly in the second quarter of 2019. Sharp declines in both the yield spread and residential permitting were mostly offset by increases in durable goods orders and manufacturing.

As seen in Figure 6, the Index has not found a consistent pattern in the past few months. Individual indicators are likewise volatile on a month to month basis, with the exception of the yield curve, which has persistently trended downward.

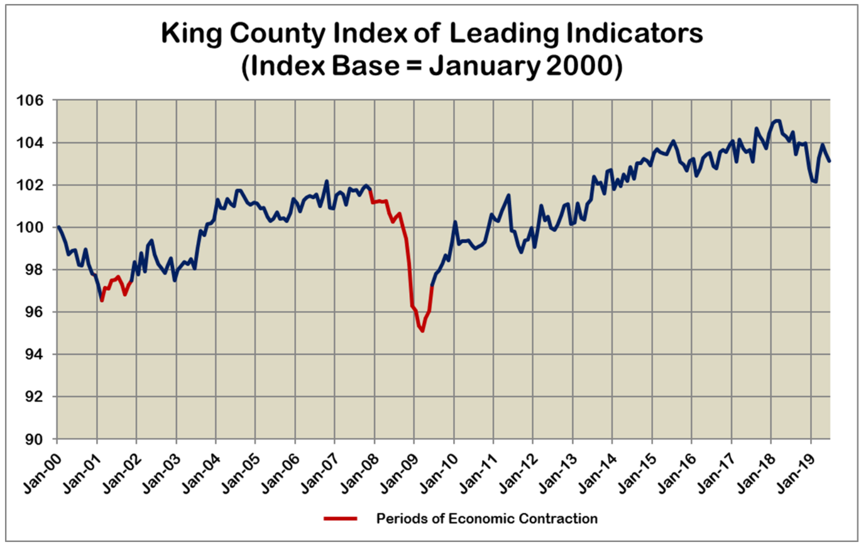


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

The inclement weather in February 2019 led to a couple of odd months of data as the effects of the resulting near shutdown in local economic activity worked its way through the index. With those months now past, we would expect the index to accurately reflect conditions. What we can see is that while the index has changed positive or negative on a month to month basis, the index reached a peak in February 2018 and has not returned to that level since. So while each month shows volatility, overall the index is down. In the past twelve months, King County durable goods and Washington new business incorporations were the only local indicators that were overall positive, while national consumer sentiment was very slightly positive. Locally, initial unemployment claims, new jobs postings, residential permits, and manufacturing all trended negative, and nationally, the yield spread has moved sharply negative in the past twelve months.

KING COUNTY FORECAST

The U.S. economy grew at a 3.1% pace in the first quarter of 2019 reflecting an acceleration in state and local government spending, private inventory investment and exports. This growth rate is relatively high compared with most of the post-recession period where growth has averaged about 2.3% although overall growth for 2018 finished up 2.9%. The accelerated growth had been expected due to favorable changes such as the tax changes implemented at the end of 2017 and the underlying momentum at the start of 2018. However, global growth indicators during the latter part of 2018 indicated the global and national economies were slowing somewhat. The U.S. job market continued to be strong with job ads averaging over 170,000 per month in the first quarter of 2019 and an unemployment rate reaching 3.6% by April 2019. Job openings continued to be plentiful with over 7.3 million unfilled jobs. Wage growth picked up some and is up about 3.6% year on year through April, 2019. Inflation has been modest so far in 2019 with the headline CPI tracking under 2% for the first four months of 2019.

King County's economy continued to grow in the first half of 2019. Employment growth averaged about 2.3% for the first five months of 2019 based on preliminary values which is down a little from the 2.4% growth in the fourth quarter of 2018. Overall employment grew 2.6% in 2018. Industry growth in 2018 was led by Information (+7.5%), Construction (+5.4%) and Education and Health (+3.7%). Unemployment in the county has reached near record lows with values in the 2% to 3% range and the May 2019 value at 2.9%.

Taxable retail sales picked up significantly in 2018 with current month sales up nearly 10.5% for the year. This increased growth was expected since the State extended taxable sales to bottled water and remote sellers beginning in January 2018. The Supreme Court's mid-year decision on Wayfair vs. South Dakota likely increased sales even more via higher compliance. So far in 2019, the pace of sales growth has slowed as the pulse from these changes passed through last year and due to severe weather in February. Sales taxes through May 2019 are up about 5.2%.

As noted last quarter, the local housing market which had experienced rapidly increasing sales prices began to slow in the second half of 2018. The Case Shiller index finished up 10.4% for 2018 but that growth has stopped in 2019 as shown in figure 7.

Fig. 7 Seattle Case-Shiller Index Growth (Source: S&P)

Besides housing, the local economy is showing other signs of a slower pace of growth. Online new job postings have been down in both 2017 and 2018. This likely reflects a more sustainable level of job postings

KING COUNTY FORECAST (CONT.)

rather than the early signs of a recession. Single family building permits are down about 20% through May of 2019. Inflation has also slowed lately both reflecting the influence of the national slowdown in price growth and the slowdown in local housing and rents. The April local CPI measures were below 2.5% annual growth for the first time in over a year.

We continue to expect the local economy to grow but at a reduced rate of growth going forward. Table 1 indicates the most recent forecast. Population growth should continue but likely in the 1% to 1.2% range with about 20,000 to 30,000 additional people living in King County in each of 2019 and 2020. Employment growth finished up 2.6% in 2018 but is expected to slow to about 2.2% in 2019. Inflation is likely to continue slowing in 2019. We expect the pace of housing permits to finish down this year, but housing prices should continue to grow at a slow pace. Taxable sales growth is likely to slow in 2019 as the pulse from the expanded tax base in 2018 passes and reflecting slower construction taxable sales growth in 2019-2020.

King County Forecast - June 2019

	2018	2019	2020	2021
King County-Level				
Population (thous.)	2,197.5	2,224.3	2,247.4	2,270.4
Employment (thous.)	1,434.2	1,465.6	1,494.8	1,512.9
Unemployment Rate (%)	3.5	3.4	3.2	3.4
Personal Income (mil $)	192,493.2	201,687.2	213,608.3	224,204.9
Housing Permits	15,526	14,358	11,106	11,989
House Transactions (Residential)	30,085	28,542	27,727	28,125
House Prices (avg.)	756,945	775,293	798,859	826,447
Seattle FHFA Index	359.5	373.2	381.7	389.8
Seattle CPI-U	271.0	277.1	282.9	289.5
Taxable Retail Sales (mil $)	72,726.6	75,711.8	78,383.4	81,750.1
King County Employment - Detail (thousands)				
Natural Resources	0.5	0.5	0.5	0.5
Construction	78.3	80.9	82.7	84.3
Manufacturing	103.3	105.7	104.8	103.0
Subtotal (Goods Employment)	**182.1**	**187.1**	**188.0**	**187.8**
Trade, Tranportation and Utilities	275.3	278.9	279.5	278.7
Information	110.5	117.7	125.3	128.0
Financial Services	73.6	75.8	75.9	75.3
Professional and Business Services	233.8	241.0	251.9	259.3
Other Services	380.4	391.2	398.5	406.4
Government	178.5	173.9	175.7	177.4
Subtotal (Services Employment)	**1,252.1**	**1,278.6**	**1,306.8**	**1,325.1**
Total Employment	**1,434.2**	**1,465.6**	**1,494.8**	**1,512.9**
Annual Growth				
Population	1.5%	1.2%	1.0%	1.0%
Employment	2.6%	2.2%	2.0%	1.2%
Personal Income	5.5%	4.8%	5.9%	5.0%
Inflation	3.2%	2.2%	2.1%	2.3%
Taxable Retail Sales	10.5%	4.1%	3.5%	4.3%

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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