



ECONPULSE

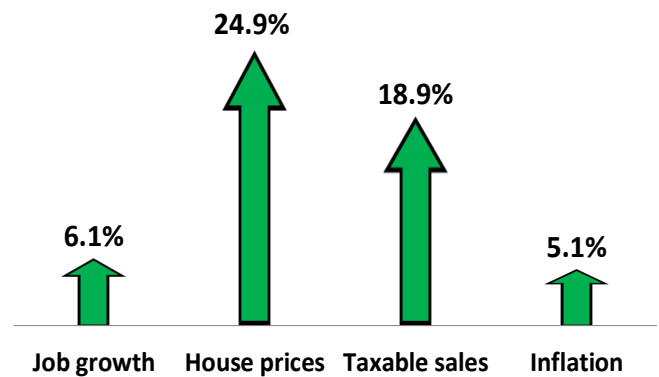
A QUARTERLY LOOK AT THE KING COUNTY ECONOMY
 KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

THIRD QUARTER 2021

SUMMARY

- King County employment increased 6.1% in the third quarter of 2021 compared to the third quarter of 2020.
- Home prices increased 24.9% compared with the third quarter of 2020.
- Taxable sales increased 18.9% in July and August compared to the same period of 2020.
- The inflation rate was 5.1% in the third quarter of 2021.

King County Key Economic Indicators
 (Q3 2021 growth compared to Q3 2020)



DETAIL

The recovery in King County employment continued in the third quarter, with 6.1% more jobs than in the same quarter of 2020. The largest increases were in industries most severely impacted by the COVID-19 pandemic, such as arts and entertainment (+56% over the second quarter of 2020), accommodation (+47%), and food service (+26%). The education sector also experienced strong growth (+10%), as in-person school resumed and child care demand increased.

The unemployment rate for King County improved again to 4.3% in September, while national unemployment stood at 4.8%. Initial claims for unemployment insurance decreased significantly in the third quarter,

down to 4,183 claims in September compared to 18,519 claims in September of 2020, which puts monthly new claims back around pre-pandemic levels.

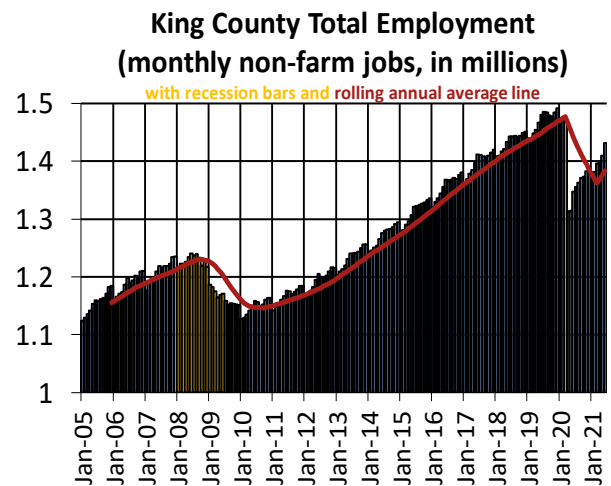


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

DETAIL (CONT.)

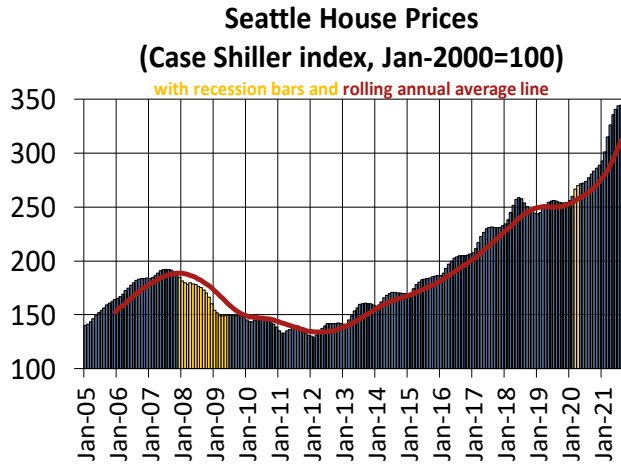


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The King County real estate market continues to grow at an unprecedented pace. The Case-Shiller housing index for the Seattle area increased 24.9% year-over-year in July and August.. Low inventory is an issue, with NWMLS noting that the volume of single-family homes for sale dropped 32.5% in September compared to the year prior.

Permitting of single-family homes will not help the supply issue anytime soon, as permitting slowed again in the third quarter, down 7.8% over 2020. Multi-family permitting, however, increased 38% year-over-year.

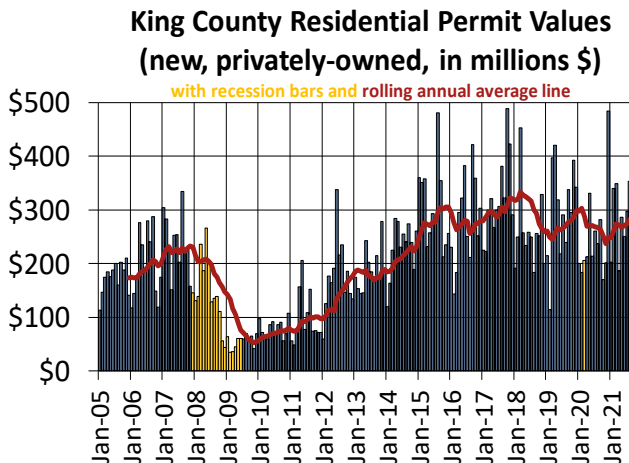


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales growth continued, albeit at a slower pace than earlier in 2021. Food service, accommodation, and entertainment sales led the way, growing 77% in the third quarter. Overall, taxable retail sales were up 18.9% over 2020.

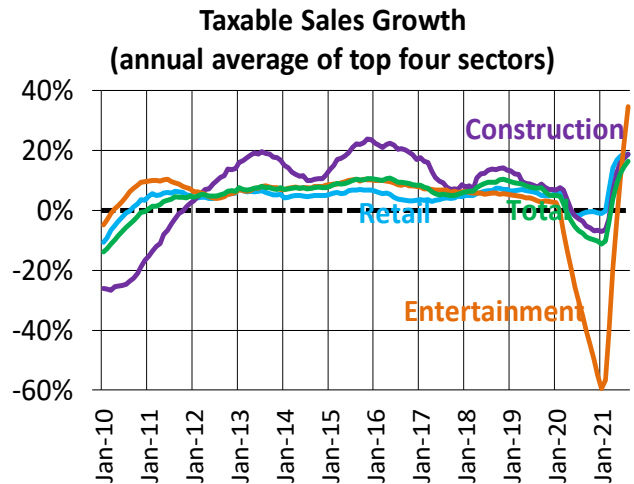


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation increased 5.1% increase in the month of August as measured by the CPI-W for Seattle. The increase was driven by increases in energy prices (+24.6% year-over-year) and food prices (+5.6%). The national inflation rate was 5.8% in August.

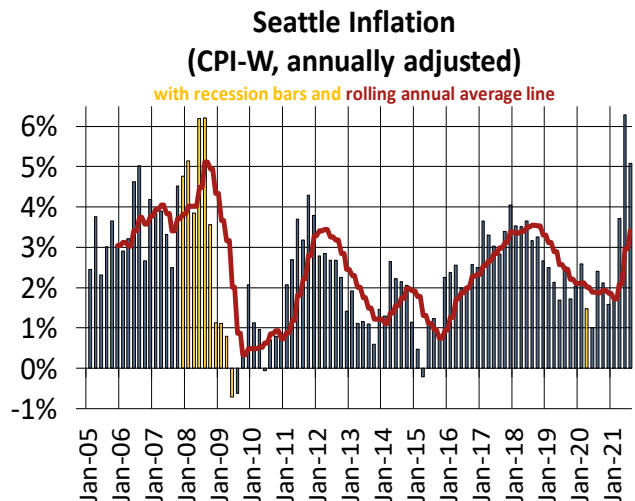


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2021:3Q	2020:3Q	Absolute change	% Change
Total Nonfarm	1,447.0	1,363.7	83.4	6.1%
Total Private	1,279.2	1,195.5	83.6	7.0%
Goods Producing	172.5	171.2	1.3	0.7%
Construction	82.2	77.9	4.3	5.5%
Manufacturing	89.9	92.8	-2.9	-3.1%
Service Providing	1,274.5	1,192.4	82.1	6.9%
Trade, Transportation, and Utilities	290.1	276.9	13.2	4.8%
Information	137.5	129.4	8.1	6.2%
Financial Activities	77.2	72.0	5.2	7.2%
Professional and Business Services	247.8	230.3	17.5	7.6%
Educational and Health Services	182.0	176.1	5.9	3.3%
Educational Services	27.4	24.9	2.5	10.2%
Ambulatory Health Care Services	61.5	58.9	2.6	4.4%
Hospitals	28.9	29.7	-0.8	-2.6%
Nursing and Residential Care Facilities	17.7	19.0	-1.3	-7.0%
Social Assistance	46.4	43.6	2.9	6.6%
Leisure and Hospitality	122.8	92.9	29.9	32.1%
Arts, Entertainment, and Recreation	24.3	15.6	8.8	56.3%
Accommodation	10.2	6.9	3.2	46.6%
Food Services and Drinking Places	88.3	70.4	17.9	25.5%
Other Services	49.3	46.6	2.7	5.8%
Government	167.9	168.1	-0.3	-0.2%

Other King County Economic Indicators

	2021:Q3	2020:Q3	% Change
Real Estate			
Single Family Permits (No. of units)	940	1,020	-7.8%
Single Family Permits (\$000)	\$ 358,114	\$ 410,660	-12.8%
Multi-Family Permits (No. of units)	3,925	2,838	38.3%
Multi-Family Permits (\$000)	\$ 486,836	\$ 368,868	32.0%
Avg. sales price (NW Multiple Listing Service)	\$ 973,116	\$ 830,024	17.2%
Number of sales (NW Multiple Listing Service)	11,228	10,411	7.8%
Taxable Retail Sales (\$B, Jul-Aug)	\$ 14.35	\$ 12.07	18.9%
Retail/Wholesale	\$ 5.94	\$ 5.34	11.3%
Construction/Real Estate	\$ 4.44	\$ 3.84	15.7%
Food Service, Accommodation, Entertainment	\$ 1.79	\$ 1.01	77.1%
Other	\$ 2.18	\$ 1.88	16.0%
Inflation (August)			
CPI-W (Seattle-Tacoma-Bellevue)	295.41	281.13	5.1%

KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators declined in the third quarter for the first time since early 2020. Most of the individual indicators decreased, as the resurgence in COVID-19 cases slowed the nascent economic recovery. Consumer sentiment, in particular, decreased by a substantial amount, with sentiment falling back down to levels experienced early in the pandemic. Locally, residential permitting and help wanted ads were down for the quarter, while new unemployment claims improved.

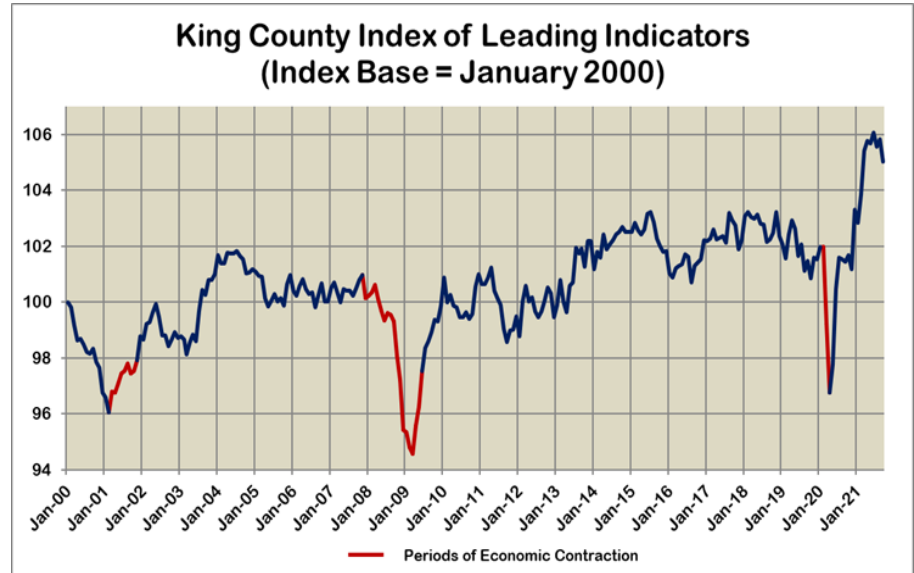


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

As a note to Figure 6, the National Bureau of Economic Research (“NBER”) identified March as the first month of an economic contraction but has not yet determined if that period has ended. While NBER has not definitely noted the month of the trough, the point at which the economy turns around back to expansion, we feel comfortable including April 2020 as a contraction month for the purposes of our analysis.

KING COUNTY FORECAST

Things were looking pretty good as we entered the third quarter of 2021. Vaccines were now widely available to those that wanted them, and more and more areas were opening up and thinking about getting back to normal life. Unfortunately, the third quarter also corresponded with the rise of the Delta variant which made much of that activity difficult or impossible, and necessitated a pullback which has had some impact on economic variables. However, the overall recovery continues as we navigate Covid, disperse vaccines, and are buoyed by the extensive fiscal support provided by the American Rescue Plan Act. 2021:2Q growth was 6.7% (saar) which was solid growth and came on top of strong first quarter growth. So far, in the first half of 2021, the U.S. economy has been growing at greater than a 6% pace. The third quarter will likely show slower growth as people pulled back somewhat due to the Delta variant. High frequency data has shown some impact, but significant economic activity continues.

Individual states in the U.S. continue to have very different Covid-19 experiences based on individual behaviors and decisions around vaccinations, social distancing, masks, and the extent to which the economies continue to operate. Many states such as Texas and Florida have experienced their worst moments of the pandemic during the third quarter of 2021. Washington also had this experience as infections hit new highs and deaths followed. The state re-instated the indoor mask mandate on Monday, August 23. A mask requirement for large outdoor gatherings followed in September. Vaccine mandates have also become commonplace among public sector employers and some private sector employers.

Overall, optimism continues to be solid for the U.S. economy in 2021-2022. The vaccine roll-out and fiscal support have provided conditions for economic improvement and second quarter indicators continued to show elevated spending. Travel is returning and individuals are enjoying getting back to a life somewhat resembling pre-Covid. However, the Delta variant has led many economists to lower the 2021 forecast and shift some activity to 2022 and beyond. Most economic forecasts originally expected 2021 economic growth to be over 6% (yoy) but some have now been revised down to reflect slower growth. Risks are still elevated as virus variants and continued resistance to vaccinations make it less clear how soon the virus will be managed. For now, some social distancing measures and other requirements will continue to be in place and impact near-term economic behaviors. Another risk is elevated inflation. Recent values have been over 5% year over year which is higher than we've seen for years. Most economists believe these are largely transitory and related to the pandemic, but some are worried that fiscal support and household savings and wealth are driving excessive spending which will lead to sustained inflation. Moreover, supply chain issues and the computer chip shortage are also putting upward pressure on prices in the near-term.

As for the county economy, things continue to improve although subject to the same conditions and risks listed above. Over 80% of eligible county residents are fully vaccinated now which should help keep the county re-opening on track, and resistance to the vaccine appears to be lower in King County than in other parts of the country. The re-opening of many businesses and a resurgence of activities like dining out and brick and mortar shopping has been in effect for a while and the return of large-scale entertainment like professional sports and arts are continuing. Associated with this has been improvements in King County job levels and we are currently down about 30,000 jobs relative to pre-Covid. By comparison, the county lost nearly 150,000 jobs in April 2020, across many economic sectors. Most of the remaining jobs that have not returned are in high contact industries like leisure and hospitality that should come back as these sectors recover.

KING COUNTY FORECAST (CONT.)

Taxable retail sales were hit very hard during the initial period of the pandemic in 2020. As the year continued, we saw recovery in some sectors while others, such as food service and accommodation lagged. By the third and fourth quarters, taxable sales had recovered much ground and were coming in 90 to 100 percent of 2019 levels. So far in 2021, we have seen a very significant expansion in sales starting in February and continuing through July 2021. Year to date, taxable sales are up over 6% above 2019 levels and even more over 2020 levels. This has been led by very strong retail sales numbers together with strong construction values. We expect the vigorous recovery to continue throughout 2021 and into 2022.

The local housing market was very strong in 2020. Sales took a large dip during March and April of 2020 (sales were down 28% in 2020:2Q) as real estate showings and listings were impacted by the pandemic, but activity rebounded significantly in the second half of the year with some price growth measures in double digits. This was at least partly pandemic driven as new long-term rules about work from home along with very low interest rates encouraged buyers. At the same time, the inventory of listed homes remained near historic lows. Through the first half of 2021, the turbo-charged market continues with the Case Shiller index up over 20% in recent months and the Multiple Listing Service indicating that average sales prices in King County are now over \$960,000. The number of transactions has rebounded significantly as well.

As we look forward, all indicators suggest the remainder of 2021 and early 2022 should continue to see significant growth although in some cases we will not be back to the levels reached prior to 2020. The massive employment losses in April 2020 in King County have been partially reversed but we are still down about 30,000 jobs from February of 2020. The speed of the recovery going forward will depend on how quickly we can get people vaccinated and how comfortable they feel returning to pre-pandemic behaviors like going out to eat and traveling. It also depends on virus metrics as a surge in cases or virus variants could force a rollback. The forecast presented assumes we will be able to manage opening the economy and assumes most people are vaccinated by fall of 2021. It also assumes continued social distancing requirements in limited circumstances through much of the rest of the year and a sluggish return of consumer demand in high contact industries.

We expect the local economy to continue to expand in 2021 and into 2022 after a very significant contraction in 2020. Table 1 indicates the most recent forecast. Population growth should continue but likely at a reduced pace of growth in the 1.2 to 1.4 percent range with around 30,000 additional people living in King County in each of 2021 and 2022. Employment growth finished up 2.5% in 2019 but contracted over 5.0% in 2020 which is the most significant reduction in employment in any year since the data started being collected. Employment should continue to recover in 2021 and 2022. Inflation was 1.5% in 2020 but has surged in 2021 to over 6% in June (CPI-W) as the low base effects from 2020 and supply chain disruptions moved through. It is anticipated inflation will remain elevated (though at a lower level than June) and moderate over the next year. We also expect the pace of housing permits to be similar to recent years reflecting continuing demand for housing but less growth than the boom period of 2015-2019. Single-family housing prices are likely to continue to increase over 2021-2022. Taxable sales are likely to exhibit very strong growth in 2021 after contracting 7.7% in 2020. Assuming the economy will be able to remain open, we expect taxable sales to grow over 13% percent in 2021 and to be above 2019 levels.

King County Forecast - September 2021					
	2019	2020	2021	2022	2023
King County-Level					
Population (thous.)	2,235.1	2,269.3	2,300.5	2,331.1	2,360.8
Employment (thous.)	1,467.8	1,384.5	1,421.2	1,480.6	1,503.7
Unemployment Rate (%)	2.6	7.6	5.1	4.5	4.0
Personal Income (mil \$)	213,956.7	225,611.3	241,568.1	242,442.7	252,527.5
Housing Permits	18,283	14,270	15,425	15,713	13,912
House Transactions (Residential)	30,398	31,842	35,275	31,237	30,581
House Prices (avg.)	749,644	824,923	912,278	965,156	1,011,296
Seattle FHFA Index	359.3	378.2	424.4	449.0	463.8
Seattle CPI-U	278.6	282.9	294.7	302.8	309.1
Taxable Retail Sales (mil \$)	76,486.2	70,728.7	80,578.7	86,152.0	91,065.4
King County Employment - Detail (thousands)					
Natural Resources	0.5	0.5	0.4	0.5	0.5
Construction	79.5	76.5	80.4	81.8	81.7
Manufacturing	106.0	95.4	88.2	89.8	88.7
Subtotal (Goods Employment)	186.0	172.3	169.0	172.1	170.8
Trade, Transportation and Utilities	280.9	276.3	287.5	291.7	293.6
Information	121.6	128.1	134.1	140.2	145.4
Financial Services	75.3	72.5	75.9	76.8	75.7
Professional and Business Services	238.9	233.9	241.2	255.8	264.2
Other Services	389.5	329.5	343.6	371.5	378.3
Government	175.6	171.9	169.9	172.4	175.7
Subtotal (Services Employment)	1,281.8	1,212.2	1,252.2	1,308.5	1,332.9
Total Employment	1,467.8	1,384.5	1,421.2	1,480.6	1,503.7
Annual Growth					
Population	1.6%	1.5%	1.4%	1.3%	1.3%
Employment	2.5%	-5.7%	2.7%	4.2%	1.6%
Personal Income	5.3%	5.4%	7.1%	0.4%	4.2%
Inflation	2.8%	1.5%	4.1%	2.8%	2.1%
Taxable Retail Sales	5.2%	-7.5%	13.9%	6.9%	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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