



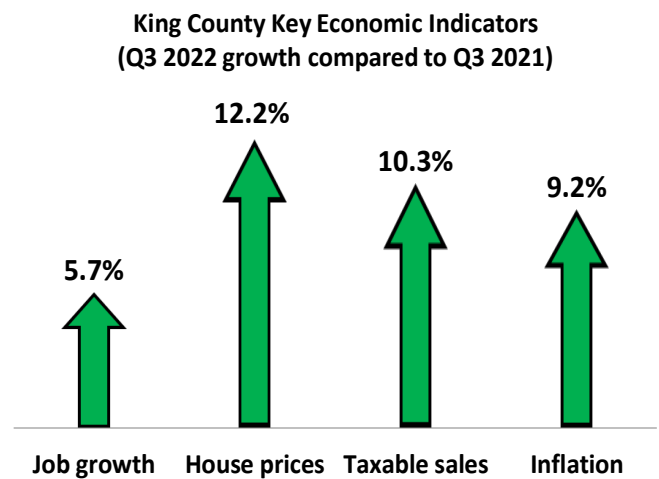
ECONPULSE

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

THIRD QUARTER 2022

SUMMARY

- King County employment increased 5.7% in the third quarter of 2022 compared to the third quarter of 2021.
- Home prices increased 12.2% compared with the third quarter of 2021.
- Taxable sales increased 10.3% in July and August compared to the same period of 2021.
- The inflation rate was 9.2% in August of 2022.



DETAIL

Employment in King County returned to pre-pandemic levels in the third quarter of 2022, reaching a total employment level of over 1.5 million jobs. The year-over-year increase of 5.7% represented consistent continuing growth. The fastest growth occurred in the leisure and hospitality sector, which added 17,800 jobs in the third quarter of 2022. However, total employment in this category still lags historical highs achieved before the COVID-19 pandemic. Professional and business services continued to grow solidly, adding 18,000 jobs, while the information sector added 14,300 jobs. The gap between employment demand and supply continues, with 34,644 new jobs posted in September compared to 9,988 job seekers, according to Washington State Employment Security Department estimates.

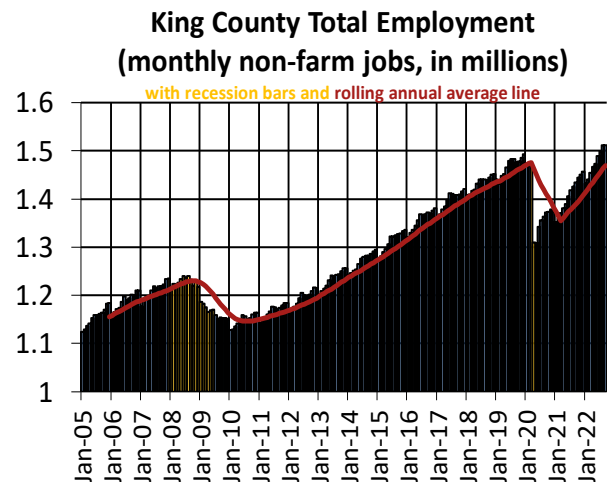


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

The unemployment rate for King County increased slightly, but remains low at 2.9% in September while national unemployment stood at 3.5%. Initial claims for unemployment insurance continue to be very low, with only 3,481 new filings in September.

DETAIL (CONT.)

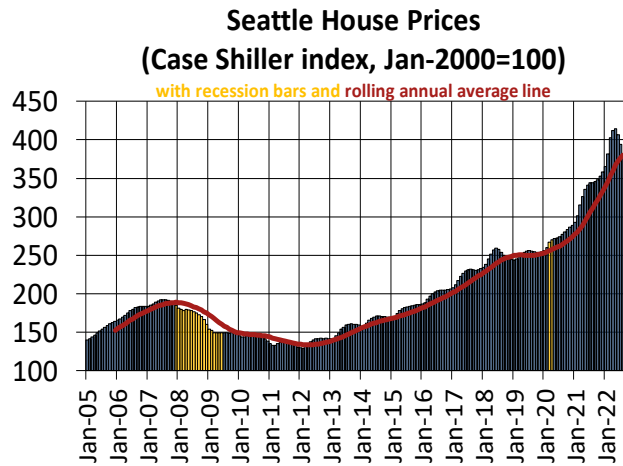


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The Case-Shiller housing index for the Seattle area increased 12.2% in July and August relative to 2021. The Case-Shiller Index peaked in May 2022 and has been declining since, with the August index 8.6% lower than the May peak. Spiking interest rates have led to slowing sales volume. The average home sales price in King County dropped below \$1 million in September after six months above the million mark.

Single- and multi-family permitting were both down over 20% in the third quarter. Estimated construction costs also declined.

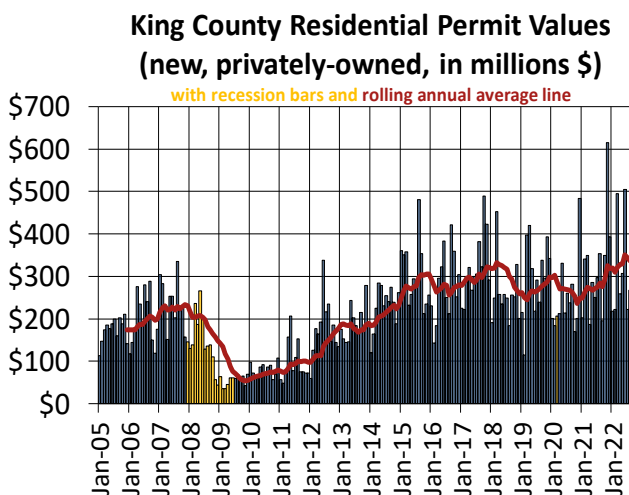


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales continued to grow in the third quarter of 2022, up 10.3% in July and August. Food service, accommodation, and entertainment continues to experience the strongest growth, with an increase of 25.9% in the third quarter of 2022.

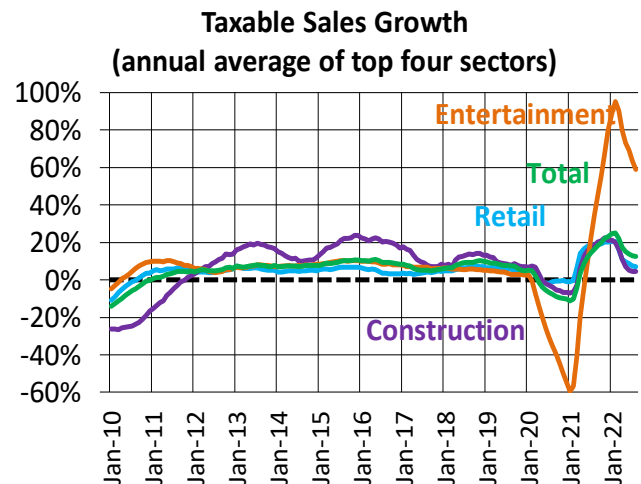


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation increased 9.2% in August as measured by the CPI-W for Seattle. Energy price growth slowed, but was still 16% higher than 2021. Housing costs were up 9.3% and food prices increased 11.6%. Prices in all categories increased, except for apparel. The national CPI-W rate was 8.7% in August and 8.5% in September.

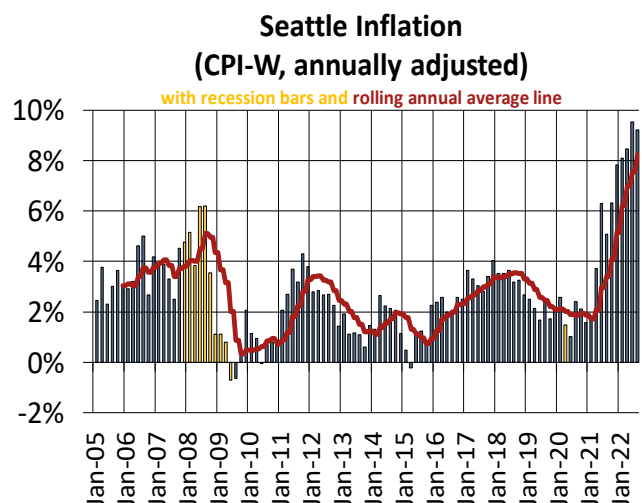


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2022:3Q	2021:3Q	Absolute change	% Change
Total Nonfarm	1,507.8	1,426.5	81.3	5.7%
Total Private	1,341.7	1,258.2	83.6	6.6%
Goods Producing	186.4	170.9	15.5	9.1%
Construction	87.5	80.9	6.5	8.1%
Manufacturing	98.5	89.6	9.0	10.0%
Service Providing	1,321.4	1,255.6	65.8	5.2%
Trade, Transportation, and Utilities	291.6	284.9	6.7	2.3%
Information	150.7	136.4	14.3	10.5%
Financial Activities	77.5	74.1	3.4	4.6%
Professional and Business Services	266.9	248.9	18.0	7.2%
Educational and Health Services	186.9	180.1	6.8	3.8%
Educational Services	30.1	28.7	1.3	4.6%
Ambulatory Health Care Services	62.0	60.7	1.2	2.0%
Hospitals	28.7	29.3	-0.6	-2.0%
Nursing and Residential Care Facilities	17.0	18.0	-1.0	-5.6%
Social Assistance	49.2	43.4	5.8	13.4%
Leisure and Hospitality	134.0	116.3	17.8	15.3%
Arts, Entertainment, and Recreation	25.3	21.8	3.5	15.9%
Accommodation	11.7	9.7	2.0	20.5%
Food Services and Drinking Places	97.0	84.7	12.3	14.5%
Other Services	47.6	46.5	1.1	2.4%
Government	166.0	168.3	-2.3	-1.4%

Other King County Economic Indicators

	2022:Q3	2021:Q3	% Change
Real Estate			
Single Family Permits (No. of units)	745	940	-20.7%
Single Family Permits (\$000)	\$ 319,667	\$ 358,114	-10.7%
Multi-Family Permits (No. of units)	3,086	3,925	-21.4%
Multi-Family Permits (\$000)	\$ 413,969	\$ 486,836	-15.0%
Avg. sales price (NW Multiple Listing Service)	\$ 1,003,446	\$ 973,116	3.1%
Number of sales (NW Multiple Listing Service)	7,484	11,228	-33.3%
Taxable Retail Sales (\$B, July-Aug)	\$ 15.82	\$ 14.35	10.3%
Retail/Wholesale	\$ 6.19	\$ 5.94	4.2%
Construction/Real Estate	\$ 4.92	\$ 4.44	10.7%
Food Service, Accommodation, Entertainment	\$ 2.25	\$ 1.79	25.9%
Other	\$ 2.46	\$ 2.18	13.1%
Inflation (August)			
CPI-W (Seattle-Tacoma-Bellevue)	322.66	295.41	9.2%

KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators continued to move in a negative direction in the third quarter of 2022. Individual indicators were mixed month-to-month and in sum for the quarter. Indicators that moved positively in the quarter were durable goods in King County, new business incorporation in Washington state, and national consumer sentiment.

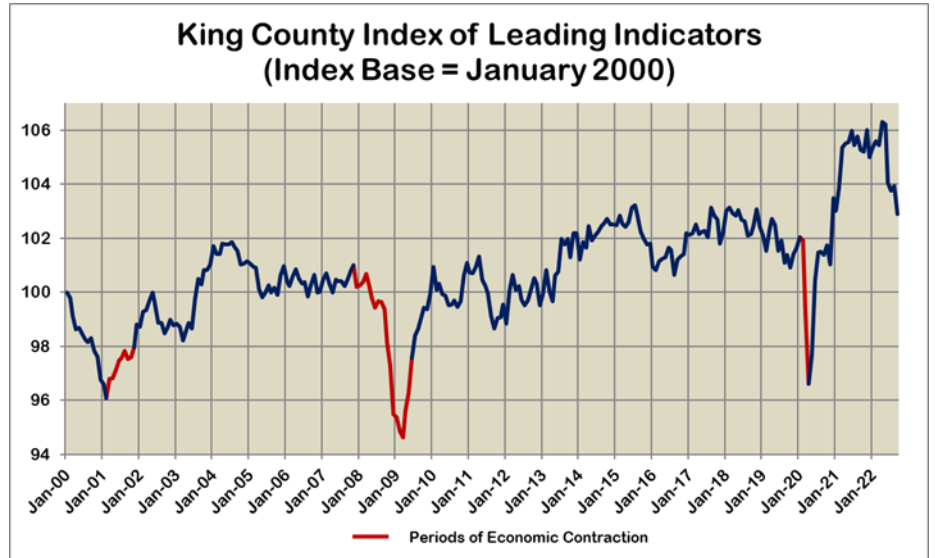


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

KING COUNTY FORECAST

The U.S. economy contracted 0.6% in the second quarter of 2022 driven by lower investment and reduced government spending. This comes after a contraction in the first quarter of 1.6% and has led some to suggest we are already in a recession. However, the rule of thumb that two consecutive quarters of contraction denotes a recession is not a standard followed by the recession dating committee. Moreover, when we are in a period of slow growth, as we are now, even a period of weakness in a particular sector (e.g., housing) could be enough to lead to contracting GDP even though the economy overall is not in recession. In fact, the National Bureau of Economic Research's recession dating committee explicitly notes that they take many economic indicators into account before determining a recessionary period. Moreover, this slight contraction comes among a very strong job market which is unusual to have in any recessionary period. In fact, the number of job openings is at a record level and the unemployment rate in August was 3.7% which is very low. This huge unmet demand for workers continues to put upward pressure on wages and is a significant factor in our very high inflation numbers. National CPI was 8.2% in August which, although very high, is down modestly 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 continued inflation has led the Federal Reserve to sequentially raise rates starting at 0.25% in March and followed by 0.5% in May, and 0.75% at each of their meetings in June, July, and September leading to the current rate range of 3% to 3.25%. Most think we'll continue to see more rate increases in November and December and perhaps into 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 and some continuing to believe the U.S. economy can squeak by with very slow growth as it rebalances. Certainly the risk of recession is very 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 from where we are now. Most forecasts call for headline CPI to be about 8% for 2022 and fall to 3% to 4% in 2023. Mortgage rates have climbed significantly which has impacted the housing market and so price growth is slowing significantly. We also face a risky macro environment as a new Congress being seated in 2023 will need to deal with the debt limit, the continuing Ukraine war, and whatever new challenges that come up.

The county economy through August is doing well except for the very high inflation being experienced by all. King County employment overall has recovered fully from the Covid recession and for the first time, employment climbed above 1.5 million in August. This overall recovery masks changes by industry however as losses in leisure and hospitality, education and health services, and other services are not back to pre-Covid levels. The growth has been focused in construction, information, and professional and business services. We expect these sectors to continue to recover assuming Covid continues to be

KING COUNTY FORECAST (CONT.)

mostly a background condition. 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 there has been little impact 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 9.0% in the August measure. The peak value in June mirrored what was seen nationally and it is hoped the downward trend will continue in October and December and into 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 continue to show solid growth in 2022 up over 10% through July. This has been led by strong retail sector sales, together with recovering leisure and hospitality and other services sales. We expect this to continue through 2022 and into 2023 but at a slower rate of growth.

Tourism continues to be strong this year with nearly 300 cruise trips carrying 1.2 million people expected to depart from Seattle. Convention activity is also recovering. 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 but are still up year over year. NWMLS indicates the average house price in August 2022 was about \$1M which is up about 4% from the same period in 2021, but down over 10% relative to the peak in April 2022. The continued increase in mortgage rates (now over 6%) 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. August inventory was 1.66 months in King County up from 0.66 months in the same month of 2021. 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 quarter of 2023 should prove to be positive for consumer sentiment.

We expect the local economy to continue to expand in 2022 and 2023 though at a slower rate as we move through 2022 and into 2023. Table 1 indicates the most recent forecast. Population growth should continue at around 1.3 percent per year resulting in around 25,000- 30,000 additional people living in King

KING COUNTY FORECAST (CONT.)

County in each of 2022 and 2023. Employment growth finished up 1.8% in 2021 and should continue to grow at over a 5 percent rate of growth in 2022 as leisure and hospitality recovers and other sectors like information continue to grow. This pace is likely to slow as we head into 2023 and the national labor market slows. Inflation was 1.5% in 2020 but surged in 2021 and reached over 10% in June 2022 (CPI) on supply chain disruptions and very strong goods demand. The war in Ukraine is also exacerbating inflation and it is anticipated inflation will remain elevated throughout the rest of 2022 and 2023 though the pace should moderate. We expect the pace of housing permits to be lower than 2021 reflecting continuing demand for housing but less growth than the boom period of 2015-2019. Single-family housing prices are likely to increase in 2022 but at a slower pace than 2021 as rising mortgage rates affect demand. House prices are expected to drop in 2023. Taxable sales are likely to exhibit solid growth in 2022 with growth over 8%.

King County Forecast - September 2022					
	2020	2021	2022	2023	2024
King County-Level					
Population (thous.)	2,267.6	2,294.8	2,328.2	2,357.6	2,382.2
Employment (thous.)	1,383.0	1,407.4	1,480.3	1,507.0	1,525.1
Unemployment Rate (%)	7.9	4.2	2.9	3.7	4.3
Personal Income (mil \$)	224,235.5	234,429.1	243,177.1	256,061.2	270,196.7
Housing Permits	14,384	19,438	16,918	15,553	14,978
House Transactions (Residential)	31,856	36,402	27,677	24,055	23,574
House Prices (avg.)	823,590	995,512	1,109,563	985,135	1,029,744
Seattle FHFA Index	377.4	434.7	492.4	493.1	516.8
Seattle CPI-U	282.9	296.0	322.2	338.1	348.6
Taxable Retail Sales (mil \$)	70,728.7	82,495.3	89,313.8	92,843.3	97,067.7
King County Employment - Detail (thousands)					
Natural Resources	0.5	0.4	0.4	0.4	0.4
Construction	76.7	79.3	81.6	81.7	81.7
Manufacturing	95.3	89.0	94.3	94.4	93.9
Subtotal (Goods Employment)	172.4	168.7	176.4	176.4	176.0
Trade, Transportation and Utilities	276.5	282.6	288.3	294.3	295.4
Information	127.9	134.2	144.7	151.8	157.5
Financial Services	72.5	73.5	76.9	76.4	75.8
Professional and Business Services	234.6	245.7	265.0	272.7	283.3
Other Services	327.3	332.9	363.5	369.8	368.2
Government	171.9	169.7	165.4	165.6	168.9
Subtotal (Services Employment)	1,210.6	1,238.7	1,303.9	1,330.6	1,349.0
Total Employment	1,383.0	1,407.4	1,480.3	1,507.0	1,525.1
Annual Growth					
Population	1.4%	1.2%	1.5%	1.3%	1.0%
Employment	-5.8%	1.8%	5.2%	1.8%	1.2%
Personal Income	8.3%	4.5%	3.7%	5.3%	5.5%
Inflation	1.7%	4.6%	8.9%	4.9%	3.1%
Taxable Retail Sales	-7.5%	16.6%	8.3%	4.0%	4.5%

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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