ECONPULSE

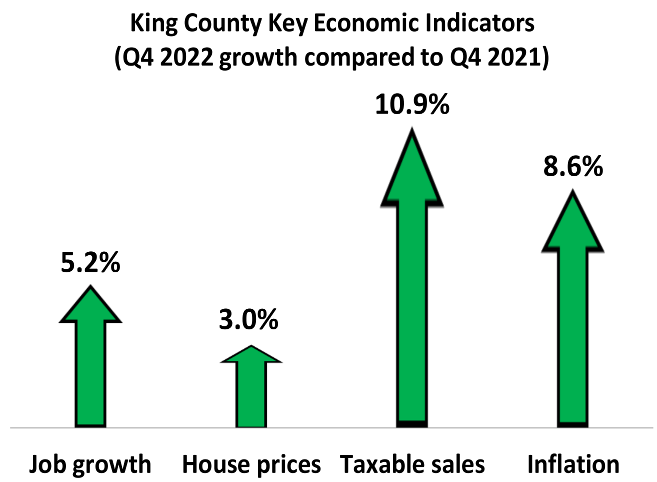
A QUARTERLY LOOK AT THE KING COUNTY ECONOMY

KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

FOURTH QUARTER 2022

SUMMARY

- King County employment increased 5.2% in the fourth quarter of 2022 compared to the fourth quarter of 2021.
- Home prices increased 3.0% compared with the fourth quarter of 2021.
- Taxable sales increased 10.9% in October and November compared to the same period of 2021.
- The inflation rate was 8.6% in October and December of 2022.



DETAIL

Employment in King County continued to grow in the fourth quarter, adding over 75,000 jobs for a 5.2% total increase. The leisure and hospitality sector had another quarter of rapid growth, trying to claw back the losses of the COVID-19 era by adding another 13,200 jobs. The well-publicized layoffs in the tech industry have yet to hit the numbers in any meaningful way, as the information sector added 9,600 jobs in the fourth quarter and professional and business services added 13,400 compared to the same time period in 2021. However, new job postings have slowed, with 24,939 new postings in December of 2022 versus 34,267 in December 2021.

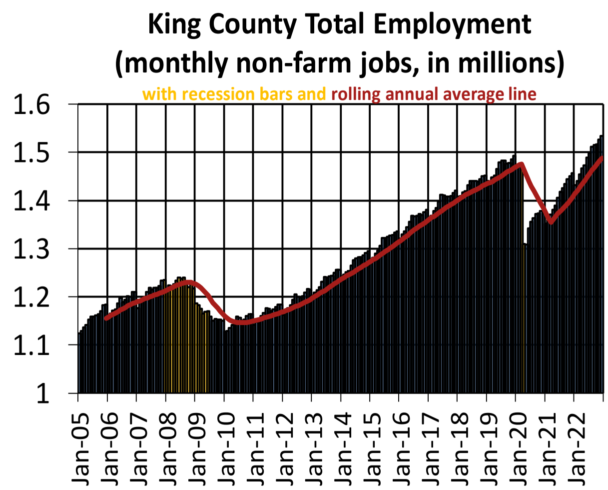


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

The unemployment rate for King County decreased slightly in the fourth quarter, down to 2.8% in December while national unemployment stood at 3.5%. Initial claims for unemployment insurance increased in the fourth quarter, but remain quite low, with 4,963 new filings in the month of December.

DETAIL (CONT.)

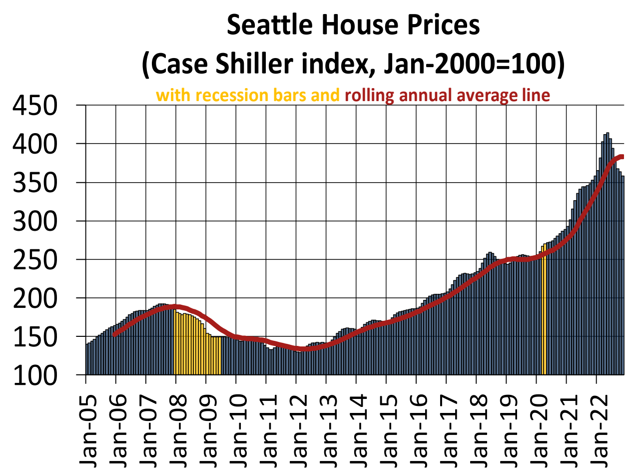


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

House price growth in King County slowed in the fourth quarter, with the Case-Shiller housing index for the Seattle area increasing only 1.5% in November relative to 2021. The average home sales price in King County dropped to $913,381, down from $1.13 million at the peak in April 2022. Sales volumes also declined, with 43% fewer closings in the fourth quarter of 2022 than the year prior.

Single- and multi-family permitting continued to decrease significantly in the fourth quarter. Single-family permitting was down 17.7% in all of 2022 relative to 2021 and multi-family permitting was down 11% year-over-year.

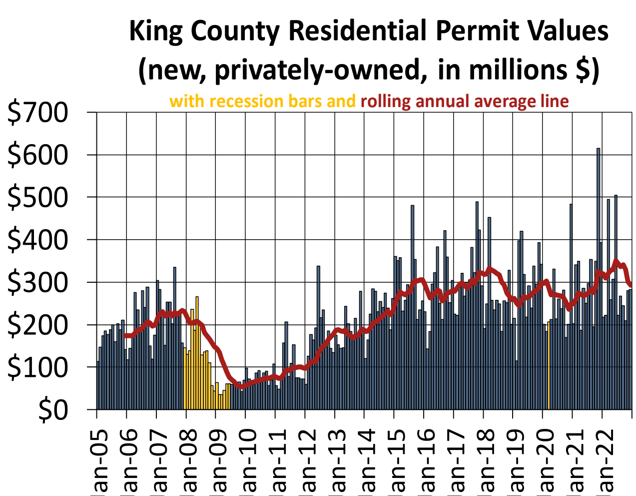


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales continued to grow in the fourth quarter of 2022, up 10.9% in October and November. Food service, accommodation, and entertainment continues to experience the strongest growth, with an increase of 20.5% in the fourth quarter of 2022.

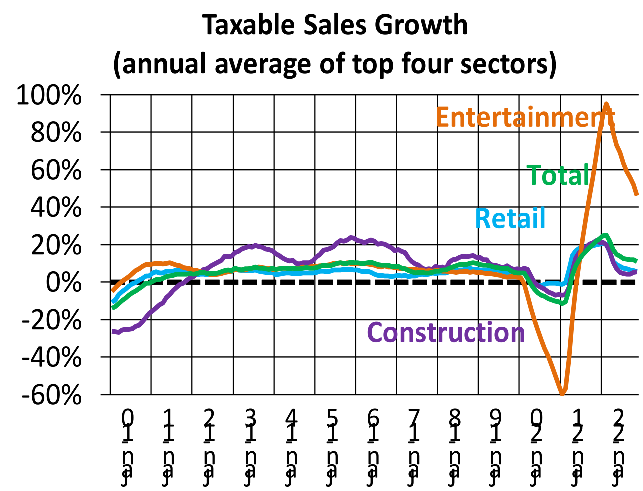


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation slowed in December, increasing 7.9% in December as measured by the CPI-W for Seattle. Food prices increased 11.3% while housing costs were up 9.5%. The national CPI-W rate was 6.25% in December.

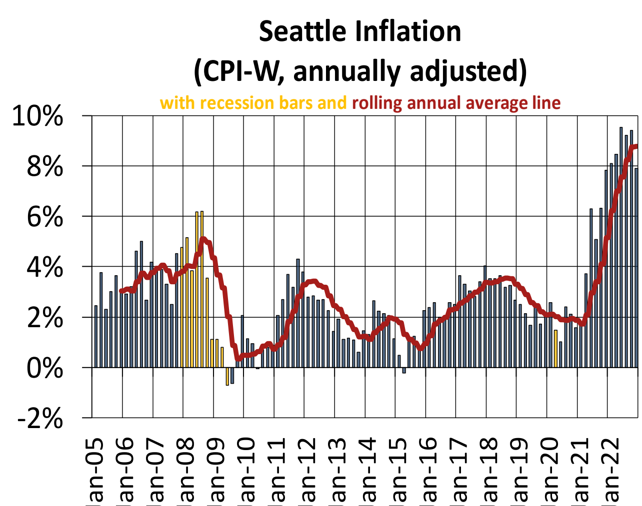


Fig. 5 Seattle Consumer Price Index (Source: BLS)

The Numbers

King County Employment (in thousands)				
NAICS Industry	**2022:4Q**	**2021:4Q**	**Absolute change**	**% Change**
Total Nonfarm	1,525.8	1,450.7	75.1	5.2%
Total Private	1,353.3	1,279.9	73.4	5.7%
Goods Producing	188.5	170.9	17.6	10.3%
Construction	89.2	80.2	9.0	11.2%
Manufacturing	98.9	90.2	8.7	9.6%
Service Providing	1,337.3	1,279.8	57.5	4.5%
Trade, Transportation, and Utilities	300.6	291.5	9.0	3.1%
Information	147.5	137.9	9.6	7.0%
Financial Activities	77.1	74.5	2.7	3.6%
Professional and Business Services	268.1	254.6	13.4	5.3%
Educational and Health Services	194.4	186.9	7.5	4.0%
Educational Services	33.5	31.4	2.1	6.7%
Ambulatory Health Care Services	63.8	61.7	2.1	3.4%
Hospitals	29.1	29.6	-0.5	-1.6%
Nursing and Residential Care Facilities	17.5	17.6	-0.1	-0.6%
Social Assistance	50.4	46.6	3.8	8.2%
Leisure and Hospitality	130.1	116.8	13.2	11.3%
Arts, Entertainment, and Recreation	22.3	20.9	1.3	6.4%
Accommodation	11.8	10.1	1.7	16.8%
Food Services and Drinking Places	96.0	85.8	10.2	11.9%
Other Services	47.1	46.8	0.3	0.6%
Government	172.5	170.8	1.7	1.0%

Other King County Economic Indicators			
	2022:Q4	**2021:Q4**	**% Change**
Real Estate			
Single Family Permits (No. of units)	467	731	-36.1%
Single Family Permits ($000)	$ 213,434	$ 281,285	-24.1%
Multi-Family Permits (No. of units)	3,138	6,032	-48.0%
Multi-Family Permits ($000)	$ 558,600	$ 1,076,326	-48.1%
Avg. sales price (NW Multiple Listing Service)	$ 956,276	$ 951,899	0.5%
Number of sales (NW Multiple Listing Service)	5,174	9,073	-43.0%
Taxable Retail Sales ($B, Oct-Nov)	$ 15.31	$ 13.81	10.9%
Retail/Wholesale	$ 6.06	$ 5.82	4.2%
Construction/Real Estate	$ 4.96	$ 4.38	13.2%
Food Service, Accommodation, Entertainment	$ 1.93	$ 1.60	20.5%
Other	$ 2.36	$ 2.01	17.6%
Inflation (October - December)			
CPI-W (Seattle-Tacoma-Bellevue)	325.40	299.51	8.6%

KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators declined again in the fourth quarter of 2022. All individual indicators decreased in the quarter, with the exception of durable goods which was flat. A significant portion of decline was due to the inversion of the yield curve as short term interest rates spiked relative to long term rates. Also contributing was the declining number of new job postings in the fourth quarter.

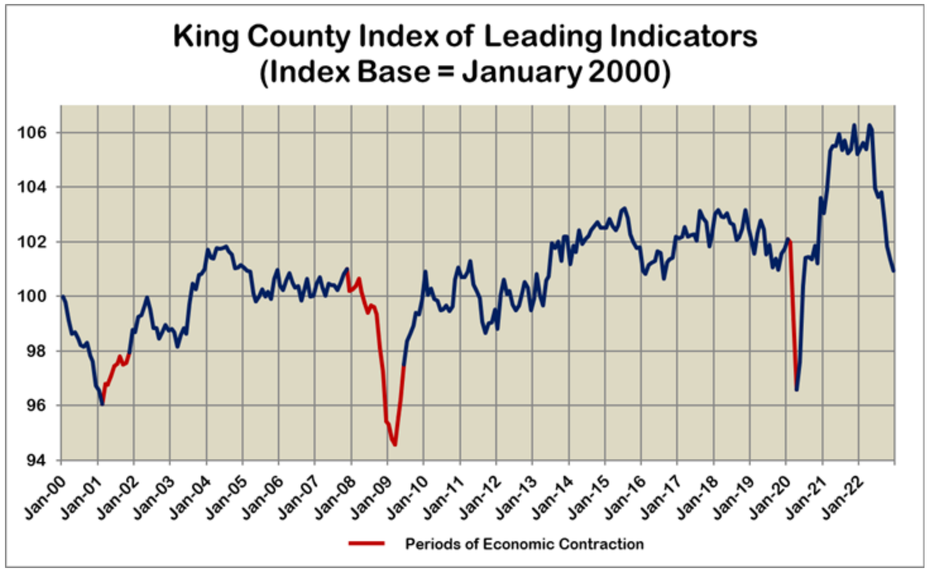


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

King County Forecast

The U.S. economy grew by 3.2% in the third quarter of 2022 driven by exports, consumer spending, nonresidential fixed investment and government spending. This expansion came after the economy contracted in the first and second quarters of 2022. These contractions happened in conjunction with 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. This shows up in very low unemployment and the unemployment rate in November 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. National CPI was 7.1% in November which, although very high, is down somewhat 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 has led the Federal Reserve to sequentially raise rates starting at 0.25% in March, 0.5% in May, 0.75% at each of their meetings in June, July, and September and lastly, 0.5% in December leading to the current rate range of 4.25% to 4.5%. Most think we'll continue to see 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 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 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 has slowed 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 November 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 there has been little impact so far.

KING COUNTY FORECAST (CONT.)

Inflation continues to remain very elevated in King County. The Seattle CPI-U inflation measure peaked in June at 10.1% but fell to 8.9% in the October measure. The peak value in June mirrored what was seen nationally and it is hoped the downward trend will continue in 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 11% through October. 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 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. 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 and are now about even with 2021 prices. NWMLS indicates the average house price in November 2022 was about $950K which is up about 0.4% from the same period in 2021, but down significantly relative to the peak in April 2022. The continued increase in mortgage rates (reaching over 7% in November) 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 2.17 months in King County up from 0.38 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 grow in 2023 and 2024 though at a reduced pace as we move from 2022 and into 2023. 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 raising rates to slow inflation and we have begun to see some moderation. It is

KING COUNTY FORECAST (CONT.)

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 in 2024. Taxable sales are likely to exhibit solid growth in 2022 with growth over 8% but will likely slow in 2023 due to the slowing economy.

King County Forecast - December 2022	2020	2021	2022	2023	2024
King County-Level					
Population (thous.)	2,275.1	2,293.8	2,324.7	2,350.7	2,374.6
Employment (thous.)	1,383.0	1,407.3	1,484.1	1,499.6	1,516.7
Unemployment Rate (%)	7.9	4.2	2.8	3.6	3.8
Personal Income (mil $)	226,652.8	243,727.6	249,804.4	255,017.7	263,932.3
Housing Permits	14,267	19,420	16,417	13,682	13,332
House Transactions (Residential)	31,870	36,400	26,745	17,358	18,968
House Prices (avg.)	823,746	995,677	1,007,638	949,323	965,800
Seattle FHFA Index	377.6	434.9	503.0	471.3	466.2
Seattle CPI-U	282.9	296.0	322.3	338.5	348.1
Taxable Retail Sales (mil $)	70,728.7	82,495.3	90,124.0	93,616.0	97,773.8
King County Employment - Detail (thousands)					
Natural Resources	0.5	0.4	0.4	0.4	0.4
Construction	76.6	79.3	83.2	82.8	82.8
Manufacturing	95.3	89.0	95.2	97.0	98.9
Subtotal (Goods Employment)	**172.4**	**168.7**	**178.8**	**180.3**	**182.1**
Trade, Tranportation and Utilities	276.5	282.6	289.4	290.3	293.2
Information	127.9	134.2	144.5	146.3	150.7
Financial Services	72.5	73.5	77.0	75.5	75.3
Professional and Business Services	234.6	245.7	265.0	268.9	274.0
Other Services	327.3	333.0	362.5	372.6	374.3
Government	171.8	169.6	166.9	165.7	166.9
Subtotal (Services Employment)	**1,210.6**	**1,238.7**	**1,305.3**	**1,319.3**	**1,334.5**
Total Employment	**1,383.0**	**1,407.3**	**1,484.1**	**1,499.6**	**1,516.7**
Annual Growth					
Population	1.6%	0.8%	1.3%	1.1%	1.0%
Employment	-5.8%	1.8%	5.5%	1.0%	1.1%
Personal Income	6.0%	7.5%	2.5%	2.1%	3.5%
Inflation	1.7%	4.6%	8.9%	5.0%	2.9%
Taxable Retail Sales	-7.5%	16.6%	9.2%	3.9%	4.4%

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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