



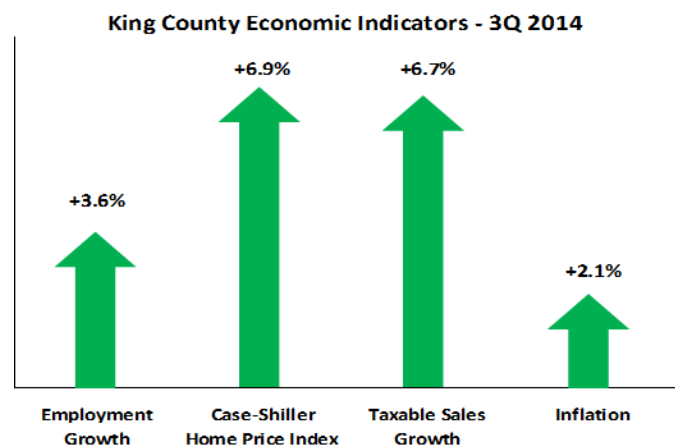
ECONPULSE

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

THIRD QUARTER 2014

SUMMARY

- King County employment grew by 3.6% in the third quarter relative to a year ago, with construction employment up 8.8% and services up 3.5%.
- Home price growth slowed to 6.9% in the third quarter compared with the same period in 2013.
- Taxable sales in King County were up 6.7% in July and August from a year prior.
- Price pressure remains subdued with inflation up 2.1% year over year.



DETAIL

The King County economy continues its rapid pace of growth. Jobs in the third quarter grew at a 3.6% pace, which was just under the 3.7 % pace for the first half of the year. This is significantly faster than the County's long run average or the employment growth for the nation. Unemployment fell to a low 4.8% rate with the number of unemployed at 55,420. The goods producing sector continued its solid growth up 3.8% year on year with very strong growth in construction and manufacturing. Service employment was up 3.5% with strong growth in professional, scientific and technical services. The leisure and hospitality sector was also up.

Local firms continue to do well. However, Boeing has continued to reduce employment in Washington, and Microsoft announced an employee reduction in the local area as well. Other firms are expanding and Amazon is experiencing significant job growth.

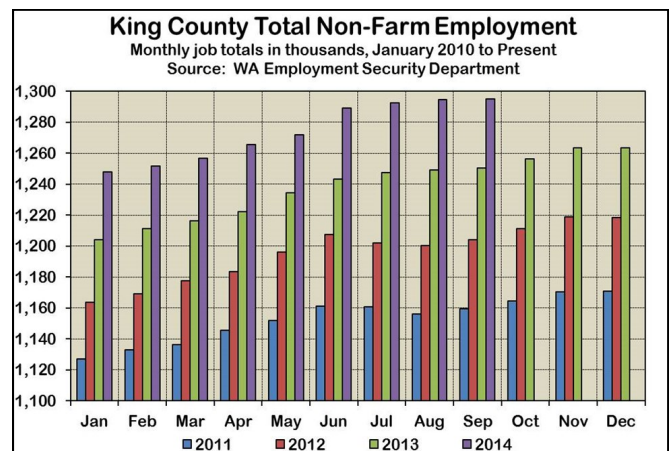


Fig. 1 Non-Farm Employment in King County by month

DETAIL (CONT.)

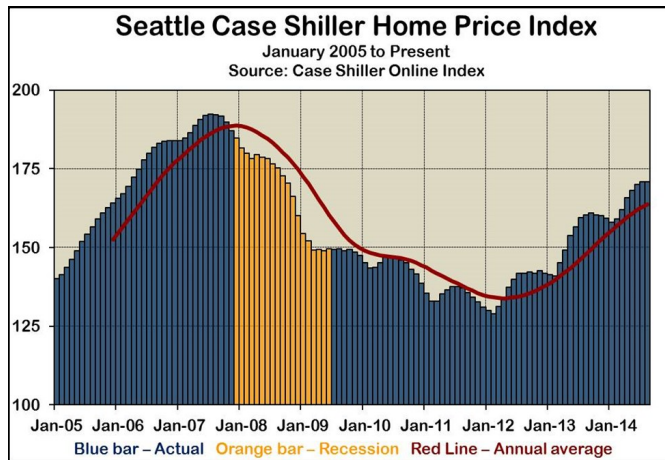


Fig. 2 Seattle Case-Shiller Index

The local real estate market continues to improve. Price indices continue to show price growth and local realtors have reported higher closing prices year on year. Listings continue to be low compared to historical levels.

Commercial brokers are also reporting improvement in the commercial sector. Building permit activity in King County is also up, especially multi-family permits.

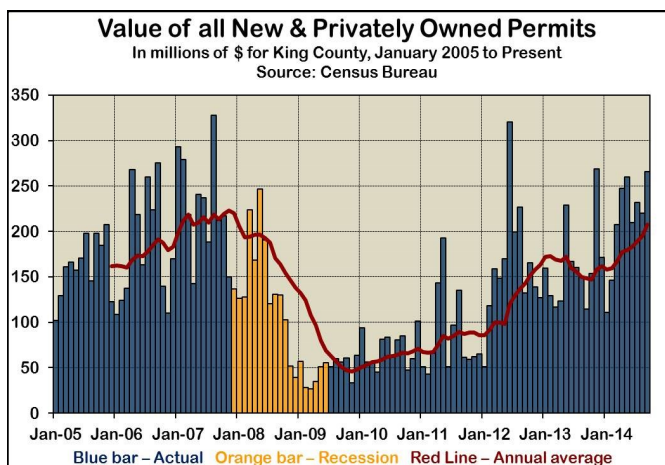


Fig. 3 Value of King County Permits from the U.S. Census Bureau

Commerce continues to be strong. Taxable sales were up 6.7% for the quarter (July and August) relative to a year prior. Hotel taxes are also up significantly, indicating robust growth in that sector.

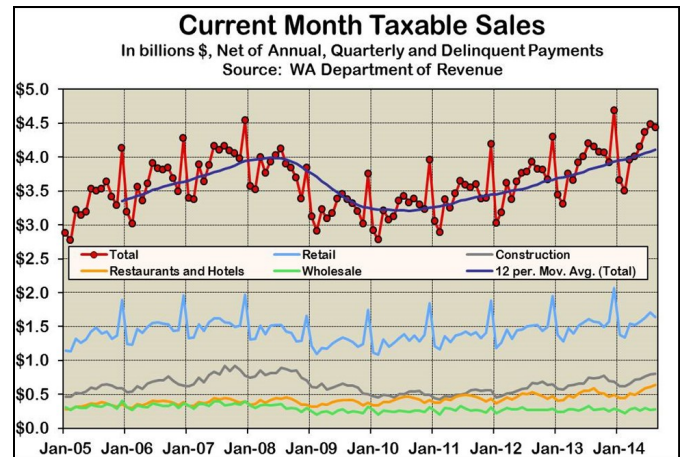


Fig. 4 Current Monthly Taxable Sales in King County

Price growth has been modest although inflation firmed a little bit in early 2014. August Seattle CPI-W was up 2.1% over August 2013.

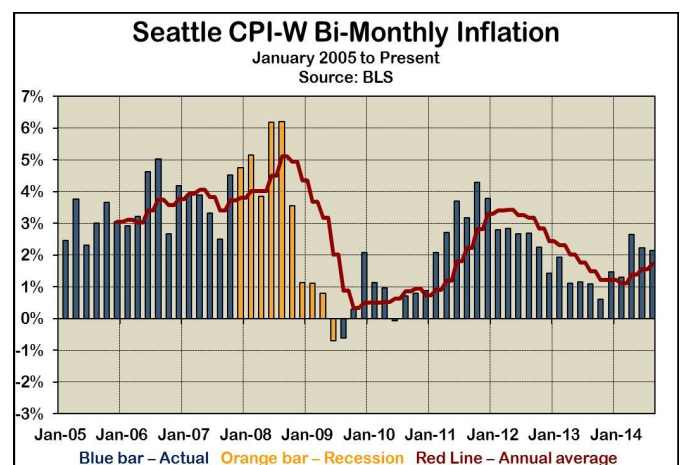


Fig. 5 Seattle Consumer Price Index (CPI-W)

THE NUMBERS

King County Employment (numbers in thousands)				
**NAICS Industry	2014:3Q	2013:3Q	Absolute Change	% Change
Total Nonfarm	1,294.0	1,249.0	45.0	3.6%
Total Private	1,128.7	1,087.5	41.1	3.8%
Goods Producing	174.1	166.5	7.6	4.6%
Construction	63.6	58.4	5.2	8.8%
Manufacturing	110.1	107.6	2.4	2.3%
Service Providing	1,119.9	1,082.5	37.4	3.5%
Trade, Transportation, and Utilities	240.8	229.5	11.3	4.9%
Information	87.7	84.3	3.4	4.0%
Financial Activities	72.2	71.7	0.5	0.7%
Professional and Business Services	211.1	202.9	8.2	4.0%
Educational and Health Services	166.4	161.8	4.6	2.8%
Educational Services	24.0	22.6	1.4	6.4%
Ambulatory Health Care Services	52.5	51.0	1.5	2.9%
Hospitals	28.6	28.1	0.5	1.8%
Nursing and Residential Care Facilities	21.2	20.3	0.8	4.1%
Social Assistance	40.2	39.8	0.4	1.0%
Leisure and Hospitality	130.9	125.8	5.1	4.1%
Arts, Entertainment, and Recreation	26.0	24.7	1.3	5.3%
Accommodation	14.2	13.7	0.5	3.7%
Food Services and Drinking Places	90.7	87.3	3.4	3.9%
Other Services	45.5	45.0	0.5	1.1%
Government	165.4	161.5	3.9	2.4%

Other King County Economic Indicators			
	2014:3Q	2013:3Q	% Change
Real Estate			
Single Family Permits (No. of units)	1,078	1,024	5.3%
Single Family Permits (\$000)	\$380,000	\$320,000	18.8%
Multi-Family Permits (No. of units)	3,131	1,961	59.7%
Multi-Family Permits (\$000)	\$390,000	\$250,000	56.0%
Avg. sales price (SF homes, July-August)	\$544,000	\$490,000	11.0%
Number of sales (SF homes, July-August)	5,279	5,647	-6.5%
Taxable Retail Sales (\$B, July-August)	8.91	8.35	6.7%
Retail/ Wholesale	3.90	3.77	3.4%
Construction/ Real Estate	2.15	1.99	8.2%
Food Service/Accommodation/Entertainment	1.63	1.51	7.9%
Other	1.23	1.08	14.1%
Inflation (Aug.)			
CPI-W (Seattle-Tacoma-Bremerton)	244.471	239.343	2.1%

FOCUS: COUNTY TAXABLE SALES EXPENDITURES

King County receives sales tax revenues on all taxable sales within the county. However, a significant long-term trend that is affecting county sales tax revenues is the reduction in the share of income spent on taxable items. Figure 6 plots this value from 1994 through 2014.

As can be seen, in the mid-1990s, about 50% of every dollar of personal income was spent on items subject to the sales tax. This declined relatively slowly until the great recession when it dropped off considerably. It has recovered a little from the depths of the recession but is still down significantly.

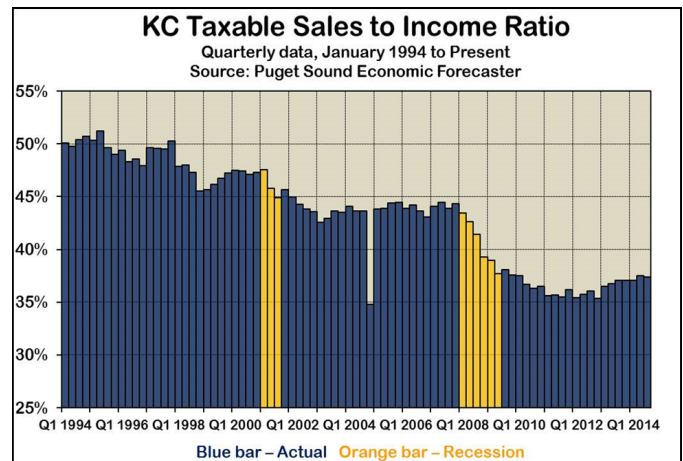


Fig. 6 Taxable Sales to Income Ratio (1994:1Q-2014:3Q)

There are lots of explanations for this trend; the price and quantity of goods and services purchased, the types of items that are taxable, the increased amount of online sales that are often not taxed, etc. This trend has important implications for the county as sales taxes are a significant source of revenue for general government expenditures like courts and elections, and a major source of funding for transit.

Consumers spend money on many different things including food, clothing, housing and entertainment. Moreover, the amounts spent change over time due to long-term trends in our economy like technological change and changing incomes and household structure. In order to better understand household consumption, the U.S. Bureau of Labor Statistics (BLS) conducts a survey called the Consumer Expenditure Survey (CES)¹. The survey asks households about their incomes and detailed questions about what they spend money on. BLS then aggregates the information for the U.S. to allow us to better understand

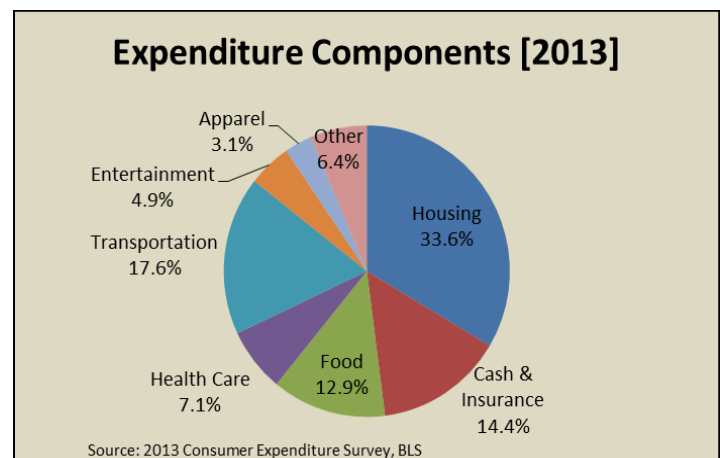


Fig. 7 Average Household Expenditure Components (2013)

changes and trends. The survey results are published by income quintile to give a sense of expenditures at different income levels. Figure 7 shows the distribution of expenditures for the average household for the year 2013.

As can be seen, the largest component of consumer expenditures in 2013 was housing at 33.6% followed by transportation at 17.6% and cash & insurance (including pension and social security

¹ <http://www.bls.gov/cex/>

FOCUS: COUNTY TAXABLE SALES EXPENDITURES (CONT.)

payments) at 14.4%. Food expenditures made up about 12.9% of expenditures. Those four groupings accounted for about 79% of the average household's expenditures in 2013.

This information can be useful in understanding one explanation for the changing taxable sales to income ratio; that changing expenditure patterns result in households spending less on taxable goods as a percentage of income. Figure 8 shows changes in selected expenditure categories for the period 2000 to 2013 based on the CES.

As can be noted, average expenditures by households increased by about 34% over the 2000-2013 period. Overall prices, as measured by the consumer price index (CPI-U) grew by 35.2% over this time so expenditure growth was in line with increases in prices. However, the growth in expenditures on selected items varied

significantly. Some expenditure categories grew faster than overall expenditures and so are now taking up a relatively greater percentage of overall spending. Expenditures related to education, health care, insurance and retirement programs, cash contributions and housing all grew faster than overall expenditures and inflation.

These expenditure changes impact the amount of taxable sales based on whether or not the good or service is taxable. Taxable sales in Washington are mostly tied to goods. Services are generally not taxed, nor is food (unless it is taken away or part of dining out). Of the categories listed in Figure 8 that grew faster than average expenditures, most are services that are not likely subject to sales taxes. Education spending is likely mostly tuition and fees which are not taxed. Textbooks and supplies would be taxed but are also available over the internet and so may escape taxation. Health care spending for things such as insurance and medical services, prescription drugs and medical supplies are mostly not taxed. The same is true for insurance and cash contributions. Some housing costs are taxable such as household supplies and repairs, furniture and appliances, but the largest component of this is likely mortgage interest which is not taxed.

Of those categories listed that grew slower than average expenditures, many are subject to sales taxes. Entertainment, food that is taken away or consumed when dining out, car sales and car repair and apparel are generally taxed. However, they make up a smaller share of expenditures in 2013 than they did 2000.

The CES allows us to understand how the nature of consumer expenditures are changing over time and how that might be affecting the County's taxable sales to personal income ratio. Since Washington's sales tax system is largely based on the purchase of goods, the continued shift to expenditures on services is one reason that sales tax growth has not kept up with growth in household incomes.

Percentage Change in Spending from 2000 to 2013 for all Households, Selected Goods and Services	
Education	80.1%
Health care	75.8%
Personal Insurance	64.3%
Cash Contributions	53.9%
Housing	39.2%
Total household spending	34.3%
Entertainment	33.2%
Food	28.0%
Transportation	21.4%
Apparel	-13.6%

Fig. 8 Change in Average Household Expenditures 2000-2013

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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