

2020 King County Economic and Revenue Forecast

Presentation to the Puget Sound Finance Officer's Association

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COVID-19: Where to Start?

COVID-19 is a hugely significant human health and economic shock, with increasing impacts as each day passes.

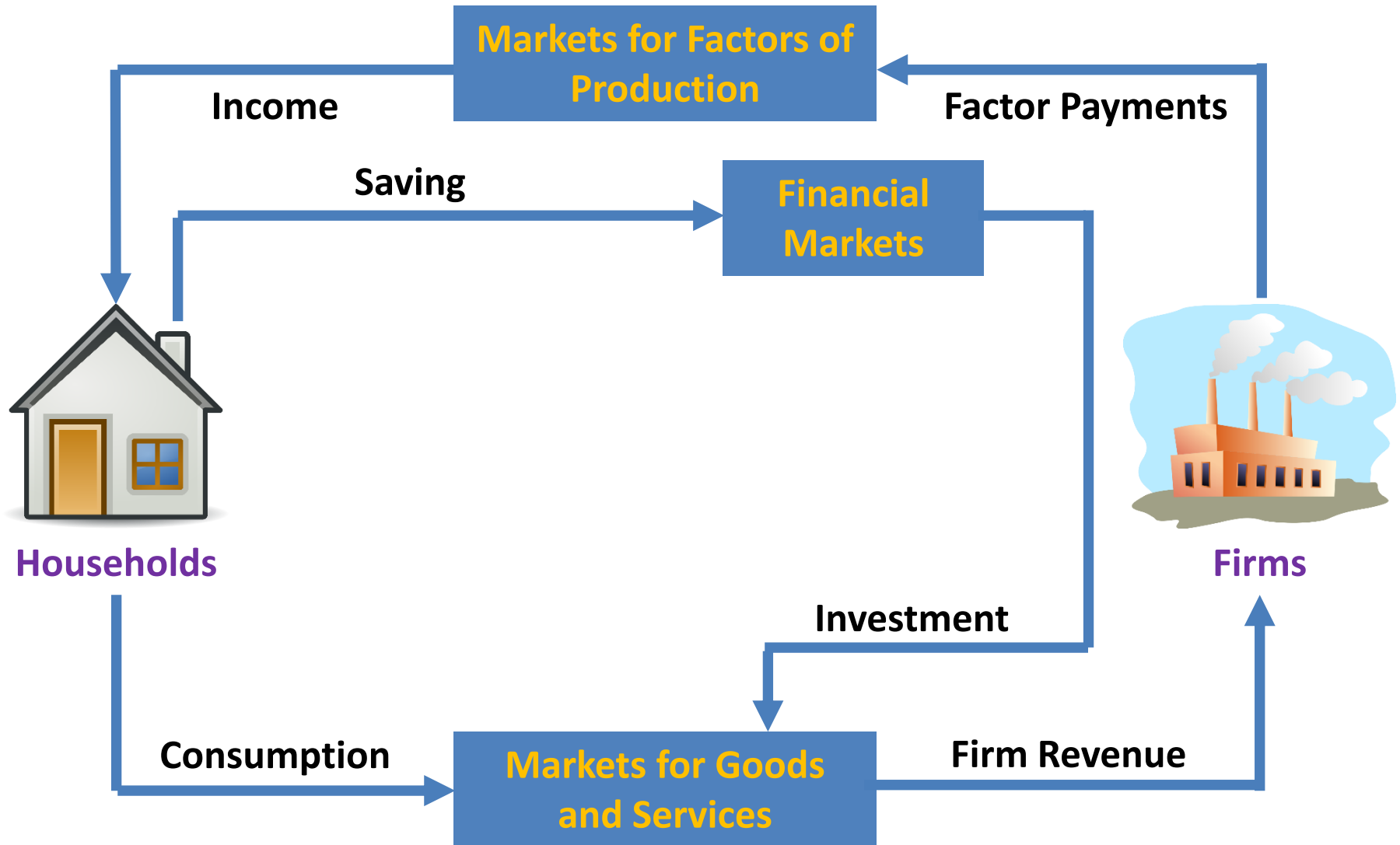
Global/National

- Near shutdown of entire sectors of global economies (e.g., airlines) together with an oil shock (negative)
- Huge increase in unemployment (14.7% in April, highest since the 1930s but fell in May)
- Question is how bad the recession will be (depends on virus, people, institutions)

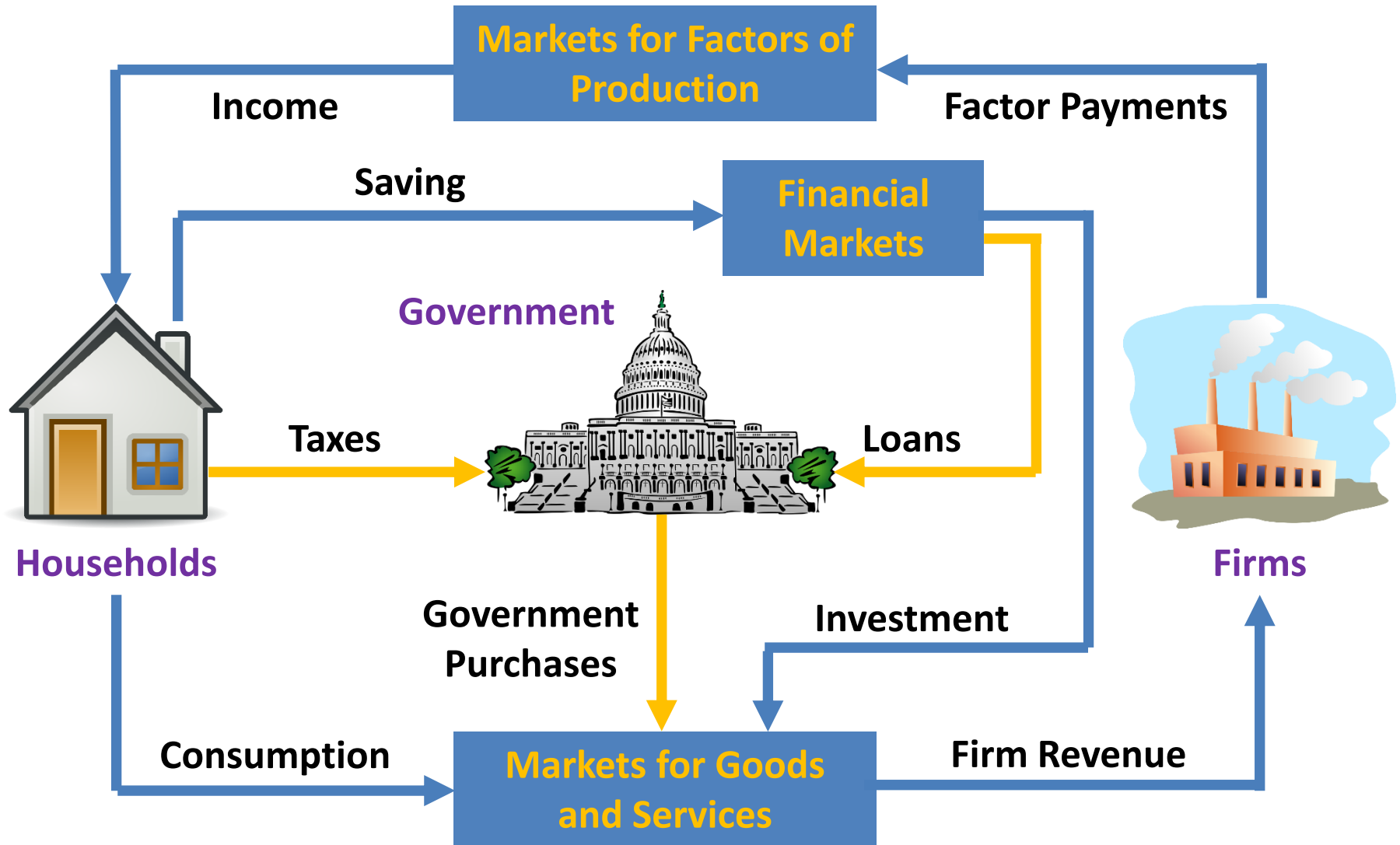
Near-Term King County Economic Impacts

- Increasing prohibitions on behavior culminating with stay-at-home order (3/23/20)
- Very significant impact to hospitality industry (food service, accommodation, tourism)
- Huge hit to central business districts (downtown Seattle, Bellevue) with closures and people working from home (maybe long-term)
- Boeing factories were closed for a period, now layoffs are occurring but production re-started (Renton has been idled since January but opened in May)
- Conference, cruises and sporting event cancellations
- Lay-offs have been massive and sudden
- Anecdotes the best source of information early, but hard data coming now
- "Nano" silver linings: bedroom communities, fuel prices, online retail, tech players

The Economy's Circular Flow



The Economy's Circular Flow



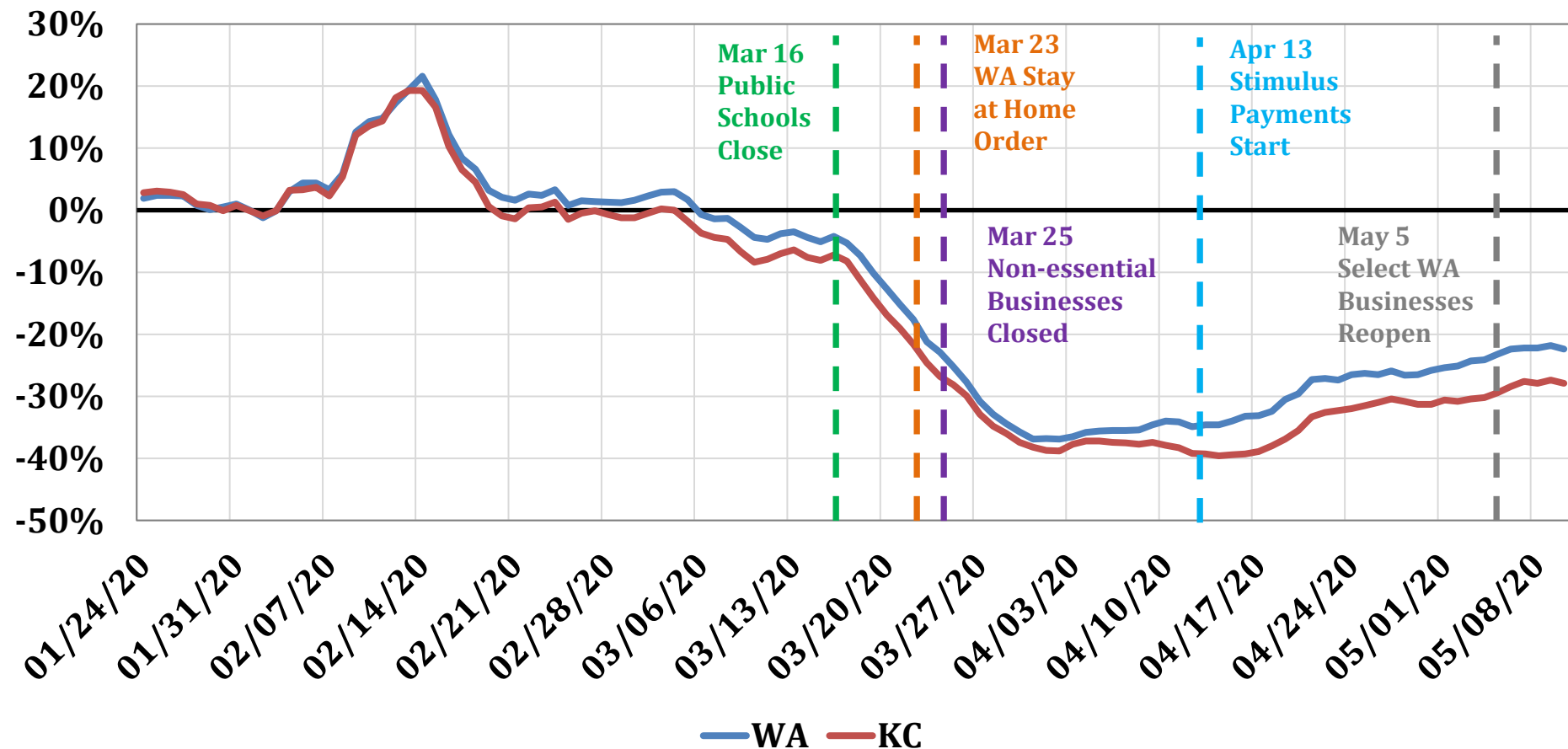
Consumer spending has fallen dramatically in 2020



Total Spending by All Consumers

Year-over-Year Change in Spending in WA and KC

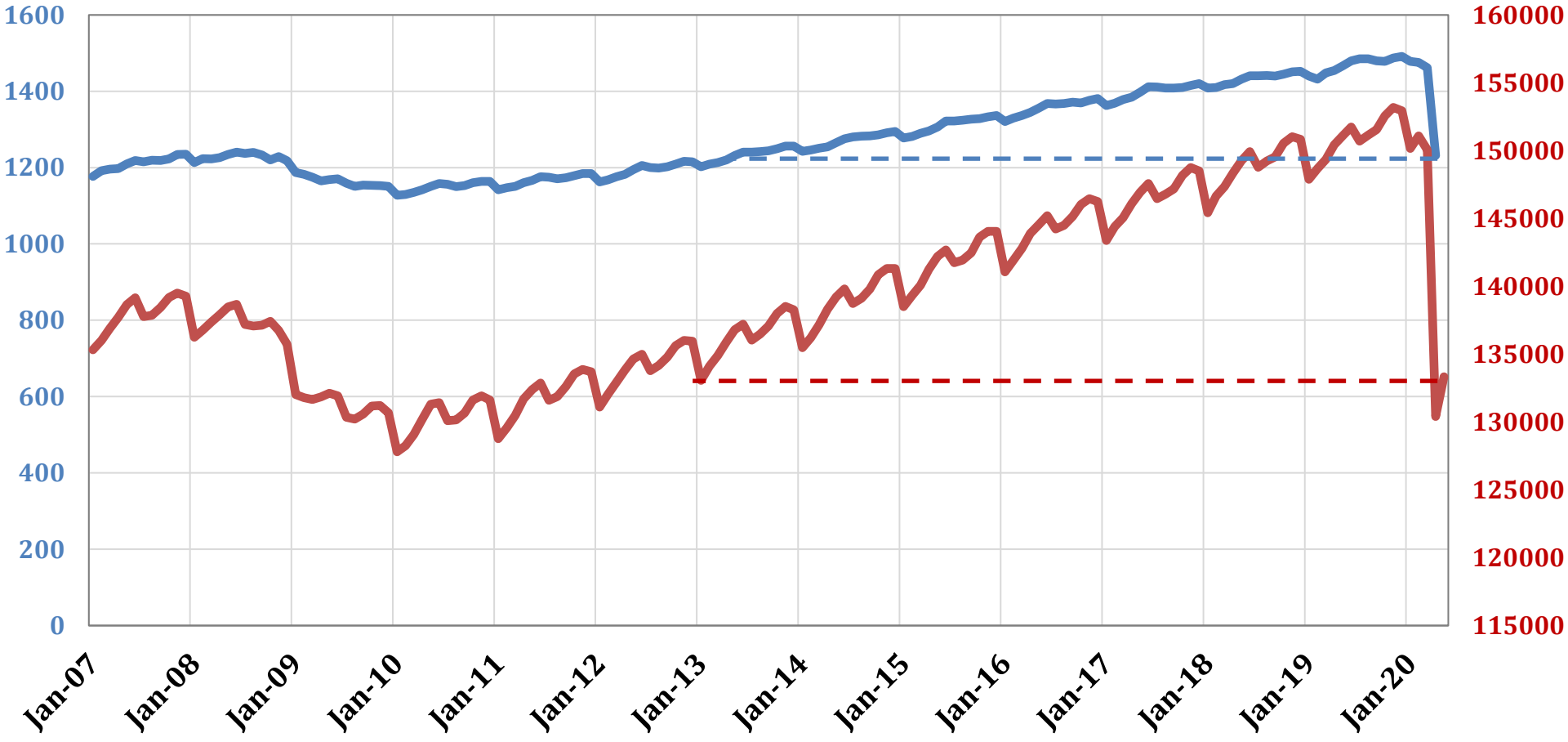
Source: Opportunity Insights, based on card transactions from Affinity Solutions



Our very strong post- Great Recession job market added 21.7 million jobs through March but we lost 20.4 million in April



U.S. and KC Annual Employment
King County and U.S. Employment (in thousands) by Month
Source: BLS and WA ESD



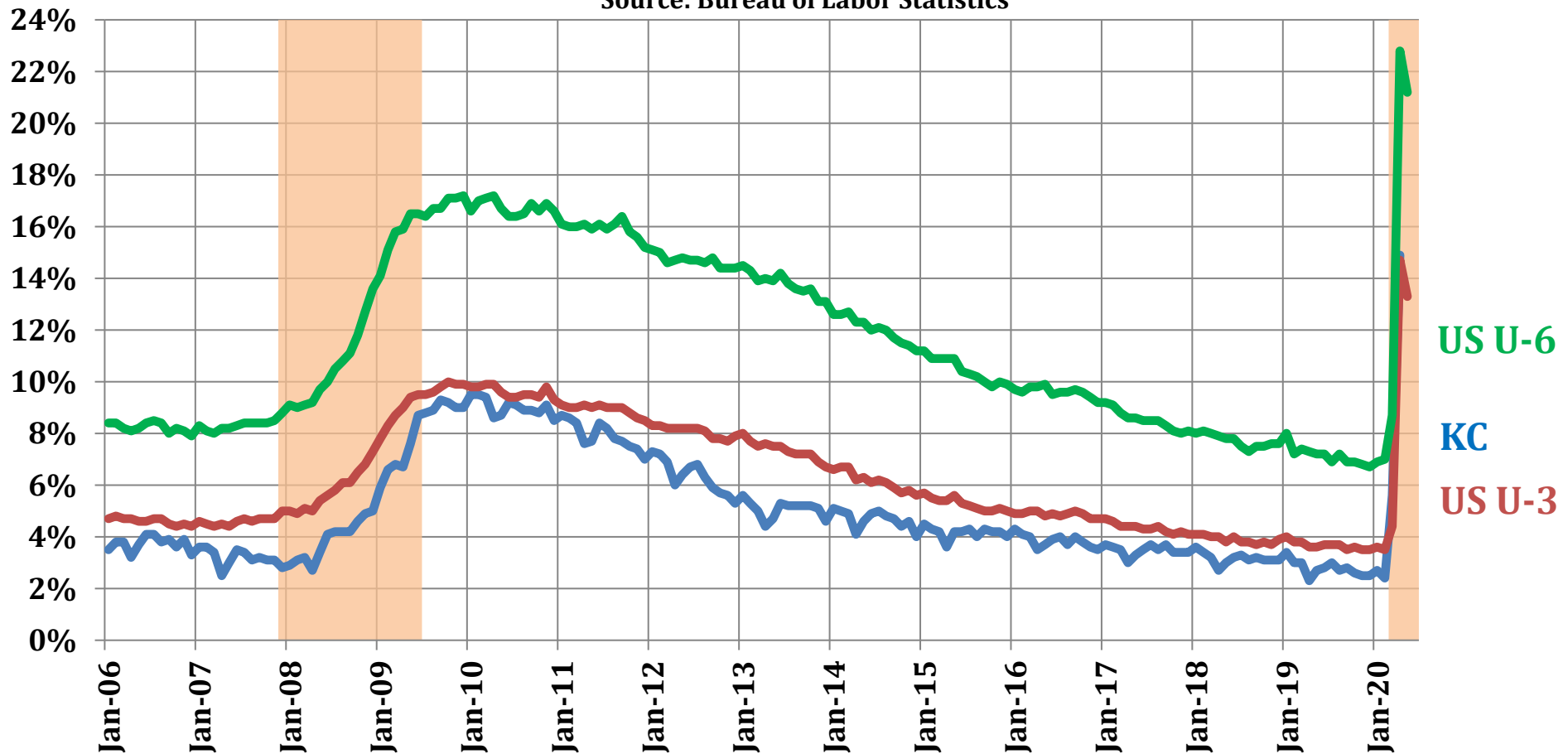
U.S. unemployment is now in double digits



Unemployment Rates: U.S. & King County

Recession (bar), King County (bar), U.S. U3 (line), U.S. U6 (line)

Source: Bureau of Labor Statistics



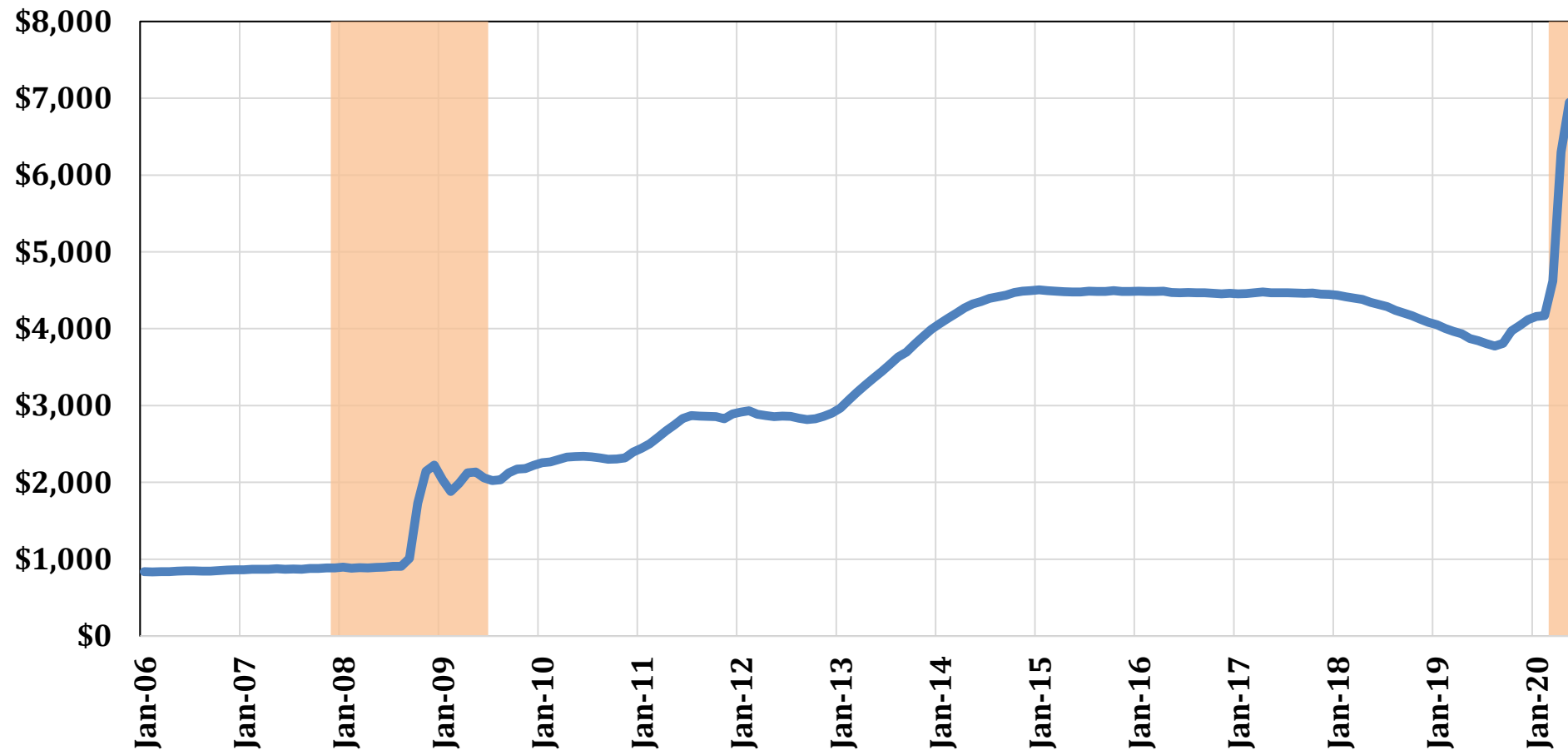
The Federal Reserve has responded quickly with numerous tools to respond to the crisis



Federal Reserve Total Assets

Recession[bar], in billions \$

Source: FRED



COVID-19: The Other First Economic Responders

Many people are working to reduce the impacts:

Government-Federal

- The federal government has been providing a fiscal response
 - Phase 1: \$8.3B for response, research, and equipment
 - Phase 2: Paid sick leave, testing, and food assistance
 - Phase 3: \$2T for checks, business assistance, and others
 - Phase 4: \$484B for more PPP loans, hospitals, disaster aid
 - Phase 5: ?

Government-State/Local

- Washington State is offering expanded unemployment benefits and tax deferrals for those who have COVID-19 or are impacted by it, eviction prohibitions
- City of Seattle is offering assistance (grants) to small businesses, evictions prohibition, guaranteed utility service, and food vouchers
- King County/others are offering tax deferrals and grants, response funding & support

Private Sector Response

- Amazon paying hourly workers and offering grants to associated businesses
- Microsoft also paying hourly workers
- Others: Comcast, Facebook, meals for emergency workers, Gates Foundation

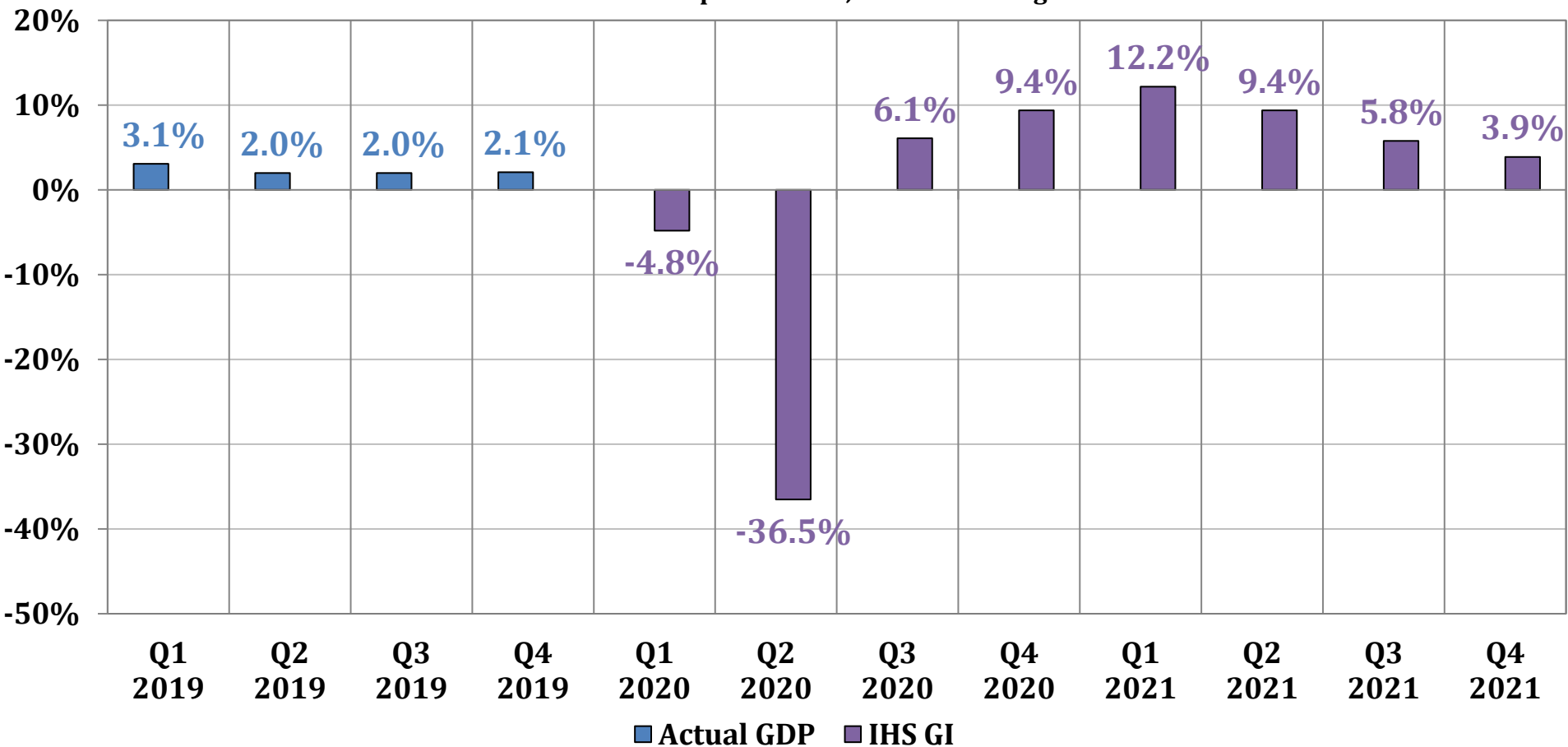
The U.S. economy is forecast to suffer a massive 2Q contraction before beginning to expand again



U.S. Real GDP Growth Forecast

Actuals 2019, Forecast Q1 2020- Q4 2021

Source: Blue Chip Indicators, IHS Global Insight



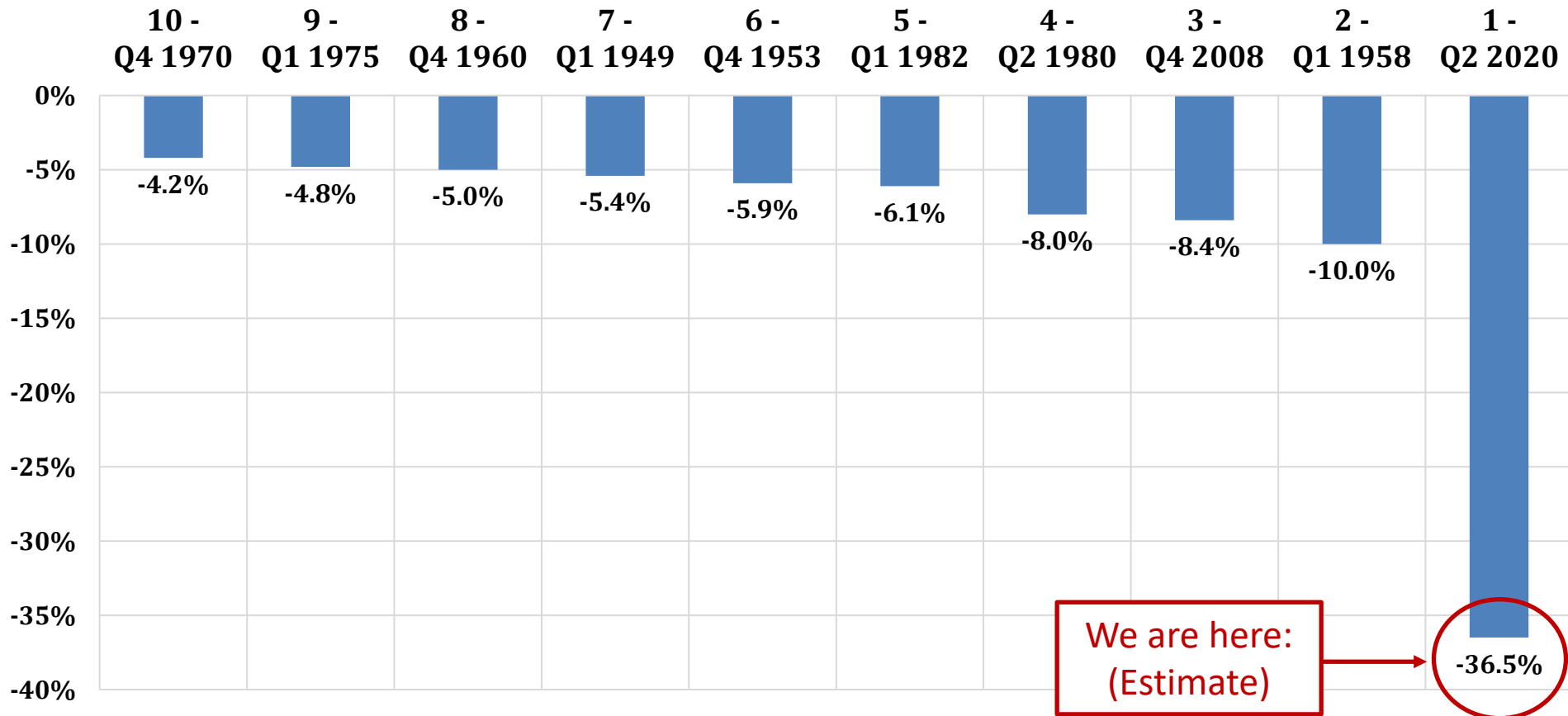
The Worst Quarters of 10 Post-War Recessions: Ranked



Ranking the Worst Quarters

SA-Real GDP, Compounded Annual Change (Quarterly) for Each US Recession

Source: Fred, IHS Global Insight



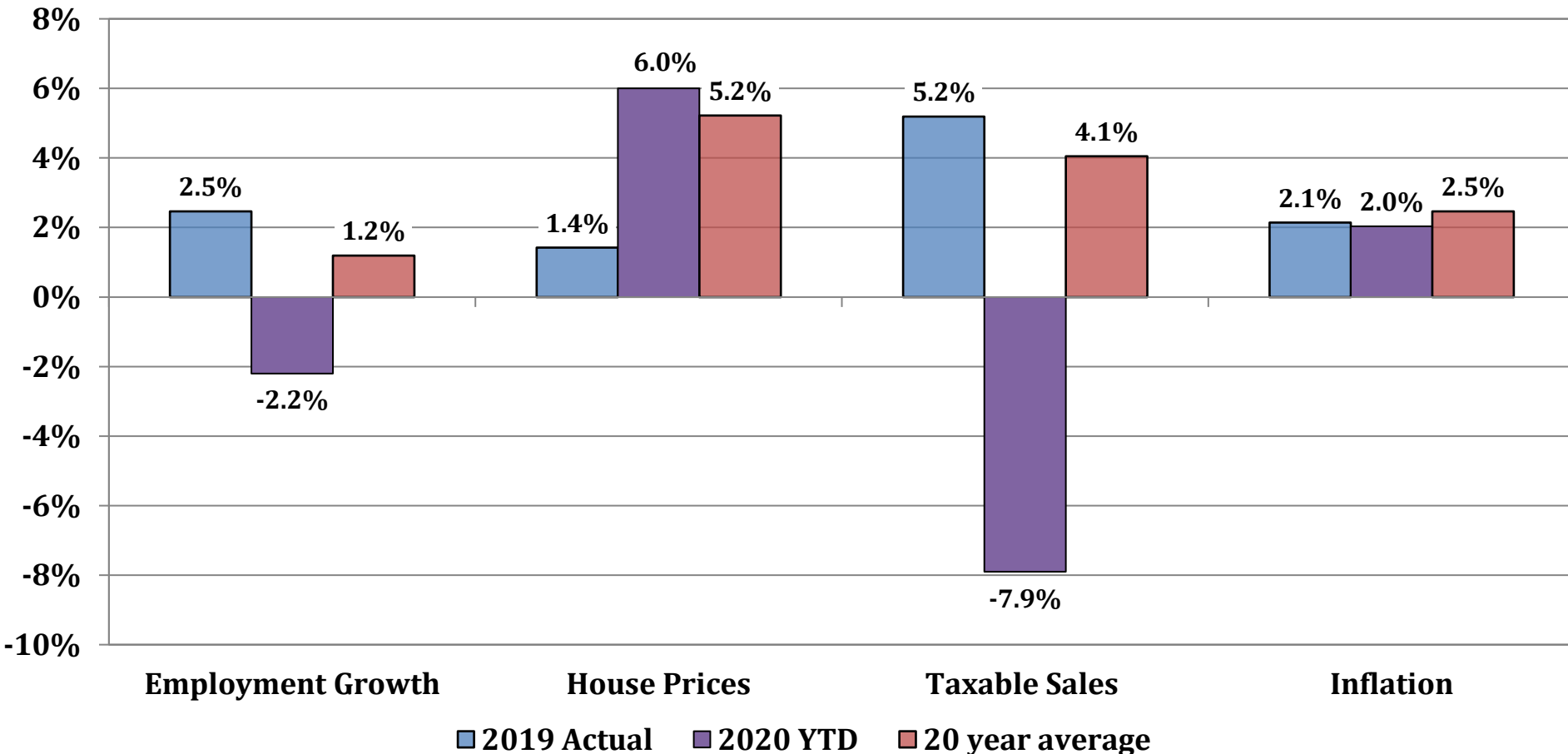
King County indicators beginning to show the impacts of Covid-19



King County Economic Indicators

2019 Actuals & 2020 YTD & 20 Year Average

Source: PSEF, Case-Shiller, WA DOR, BLS



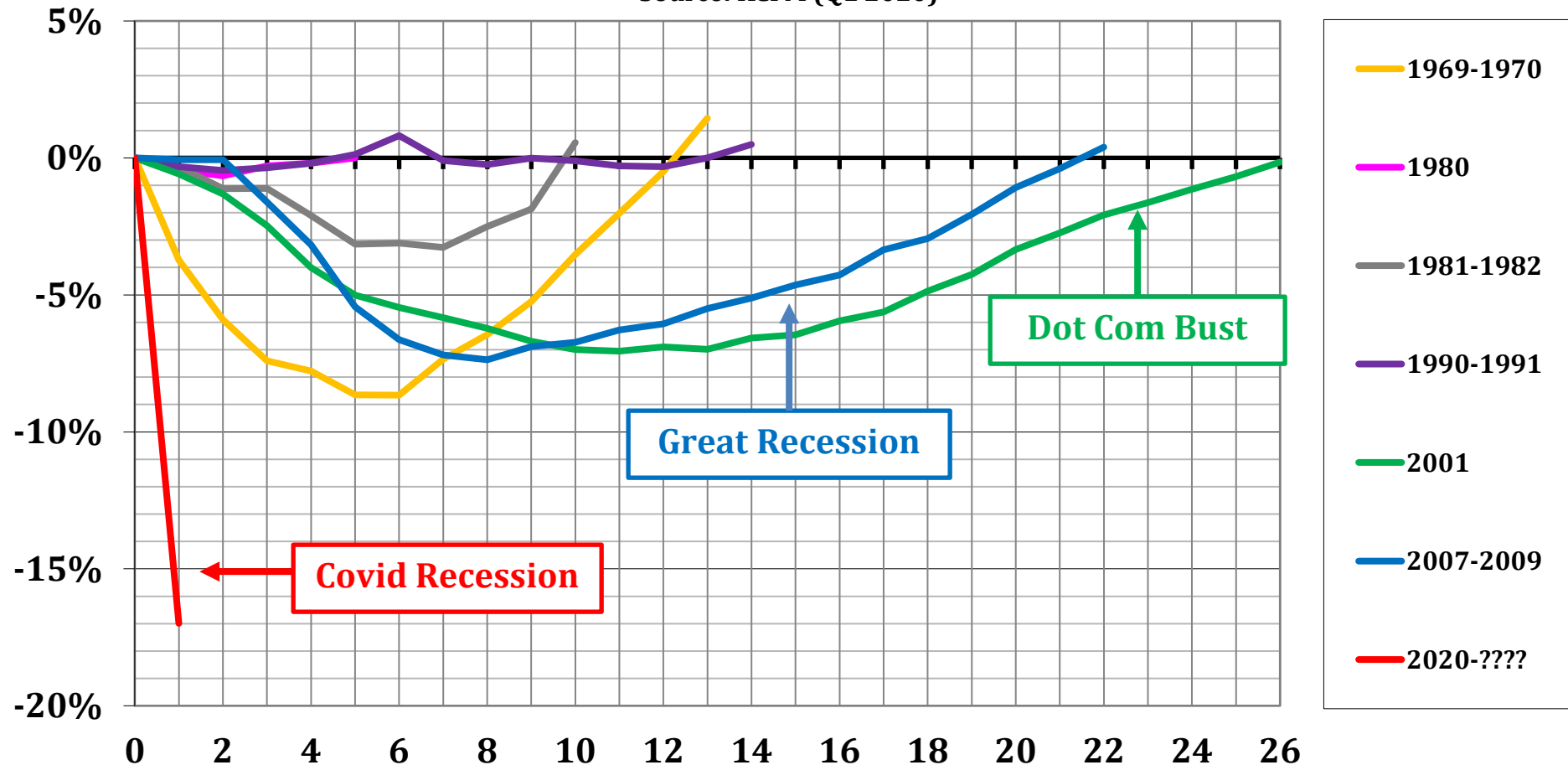
King County Quarters to Employment Growth During Recessions



Quarters Needed to Return to Growth by Recession

Quarterly Employment Change from Base Quarter

Source: KCFM (Q1 2020)



King County Employment by Sector



2019 Average Employment vs April 2020

King County Jobs by Major Sector in thousands, Initial claims April 18-May 23

Source: WA ESD

**NAICS Industry (numbers in thousands)	2019 Average	April 2020	Initial Claims
Total Nonfarm	1,469.0	1,231.6	195,306
Construction	79.9	47.6	7,195
Manufacturing	106.2	93.7	12,895
Trade, Transportation, and Utilities	281.0	250.3	32,605
Information	121.2	125.1	8,855
Financial Activities	75.2	72.1	7,358
Professional and Business Services	238.7	221.3	21,703
Educational and Health Services	189.6	163.3	32,067
Leisure and Hospitality	147.9	48.0	18,855
Other Services	52.8	36.6	49,876
Government	175.8	173.2	3,897

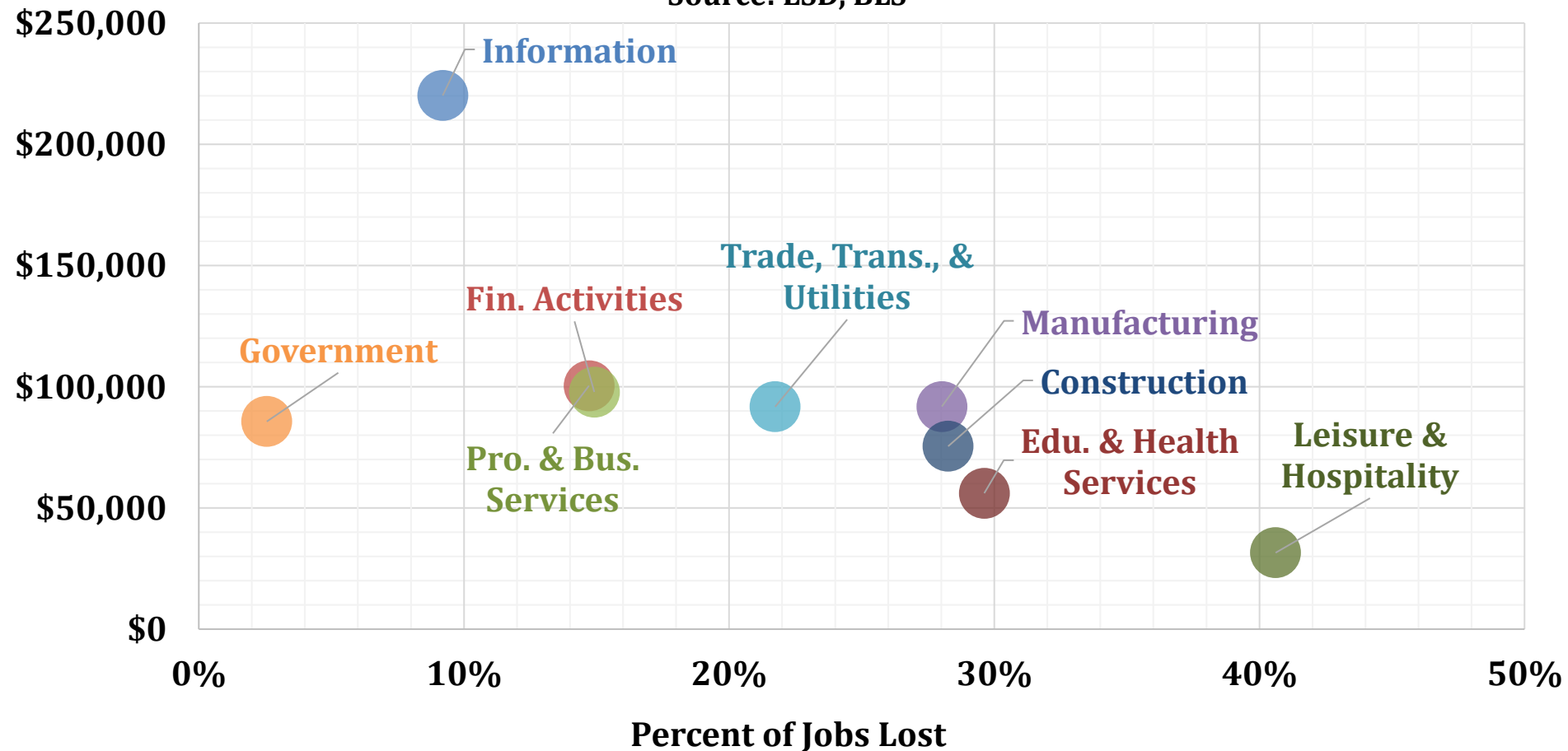
Average Annual Wage and Estimated Share of Job Loss by Sector



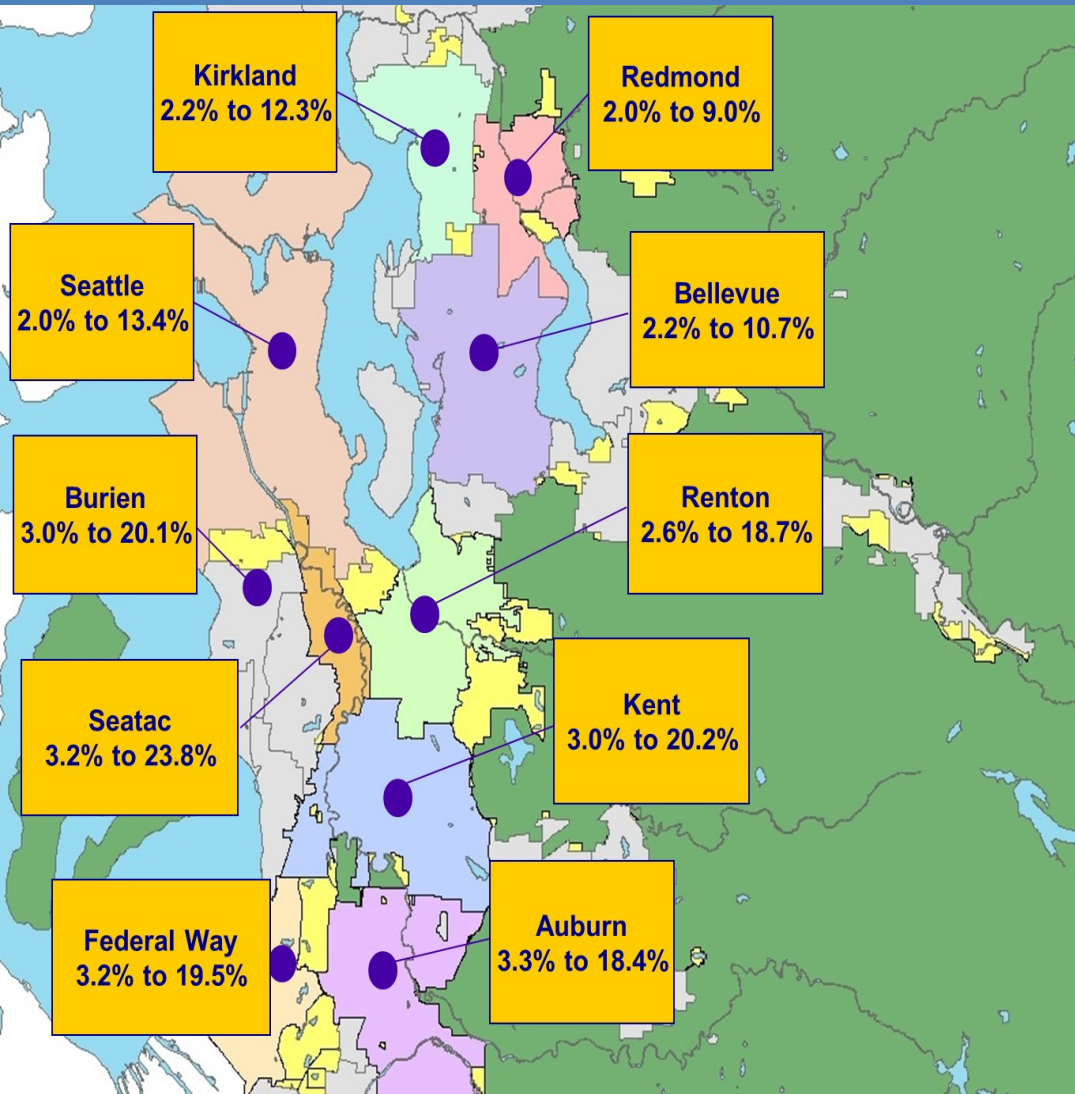
Average Annual Wage and Share of Job Loss by Sector

Wages and Job Loss in King County

Source: ESD, BLS



King County's Unemployment Rates by Select City



Rise in Unemployment for each city Feb. 2020 to Apr. 2020

- -53,600 - Seattle
- -13,700 - Bellevue
- -4,500 - Burien
- -1,700 - Seatac
- -5,700 - Federal Way
- -4,500 - Redmond
- -6,000 - Kirkland
- -6,600 - Renton
- -7,500 - Kent
- -7,000 - Auburn

Source: Bureau of Labor Statistics

Fiscal Stimulus will help some individuals through 2020

March 29, 2020 - July 31, 2020

Annual Wages (Gross)	Weekly Wage (Gross)	Estimated Base Unemployment Benefit	CARES (PUA) Supplement	Total	% of Weekly Wage
\$28,080 (min. wage)	\$540	\$270	\$600	\$870	161.2%
\$50,000	\$962	\$481	\$600	\$1,081	112.5%
\$62,338	\$1,199	\$600	\$600	\$1,200	100.1%
\$100,000	\$1,923	\$790	\$600	\$1,390	72.3%
\$150,000	\$2,885	\$790	\$600	\$1,390	48.2%
Self Employed/Part-Time	Varies	Not Eligible	Eligible	?	Varies

August 1, 2020-Dec 31,2020

Annual Wages (Gross)	Weekly Wage (Gross)	Estimated Base Unemployment Benefit	CARES (PUA) Supplement	Total	% of Weekly Wage
\$28,080 (min. wage)	\$540	\$270	\$0	\$270	50.1%
\$50,000	\$962	\$481	\$0	\$481	50.1%
\$62,338	\$1,199	\$600	\$0	\$600	50.1%
\$100,000	\$1,923	\$790	\$0	\$790	41.1%
\$150,000	\$2,885	\$790	\$0	\$790	27.4%
Self Employed/Part-Time	Varies	Not Eligible	Eligible	?	Varies

PPP Loans from SBA

(thru 5/23)

United States

Loan Count – 4,426,118

Net Approved Dollars - \$511,231,948,095

Washington State

Approved PPP Loans – 91,702

Approved PPP Amount - \$12,007,919,035

Loan Size	Loan Count	Net Dollars	% of Count	% of Amount
\$50K and Under	2,846,607	\$52,960,366,039	64.3%	10.4%
>\$50K - \$100K	648,430	\$46,191,025,305	14.7%	9.0%
>\$100K - \$150K	282,880	\$34,635,685,927	6.4%	6.8%
>\$150K - \$350K	368,316	\$82,781,572,510	8.3%	16.2%
>\$350K - \$1M	197,015	\$112,148,685,985	4.5%	21.9%
>\$1M - \$2M	52,785	\$73,130,105,931	1.2%	14.3%
>\$2M - \$5M	25,151	\$74,777,636,882	0.6%	14.6%
>\$5M	4,934	\$34,606,869,516	0.1%	6.8%

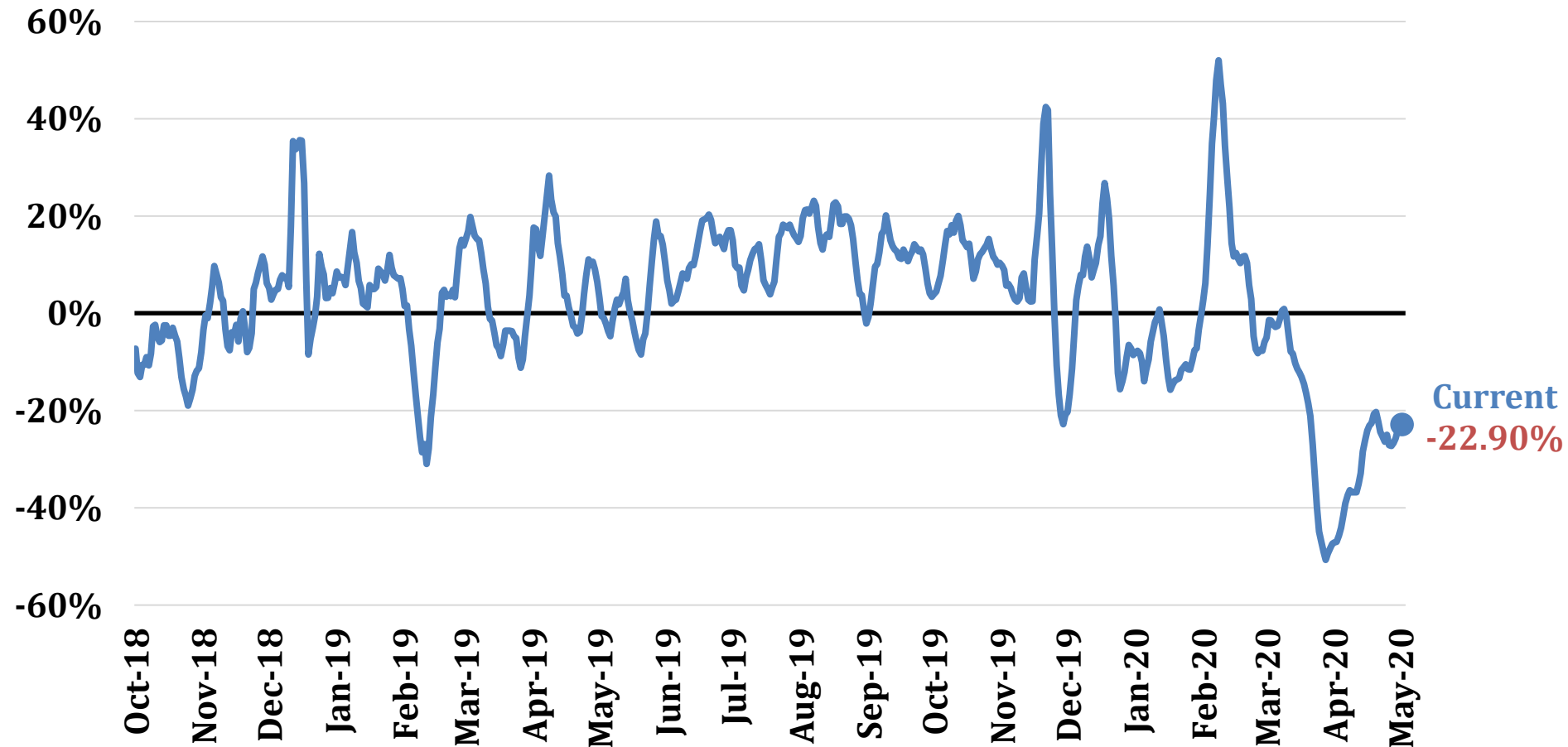
Covid-19 impacting real estate- pending sales down 23% in Seattle



New Pending Sales in Seattle

Year-over-Year Growth in Pending Sales in Seattle

Source: Zillow



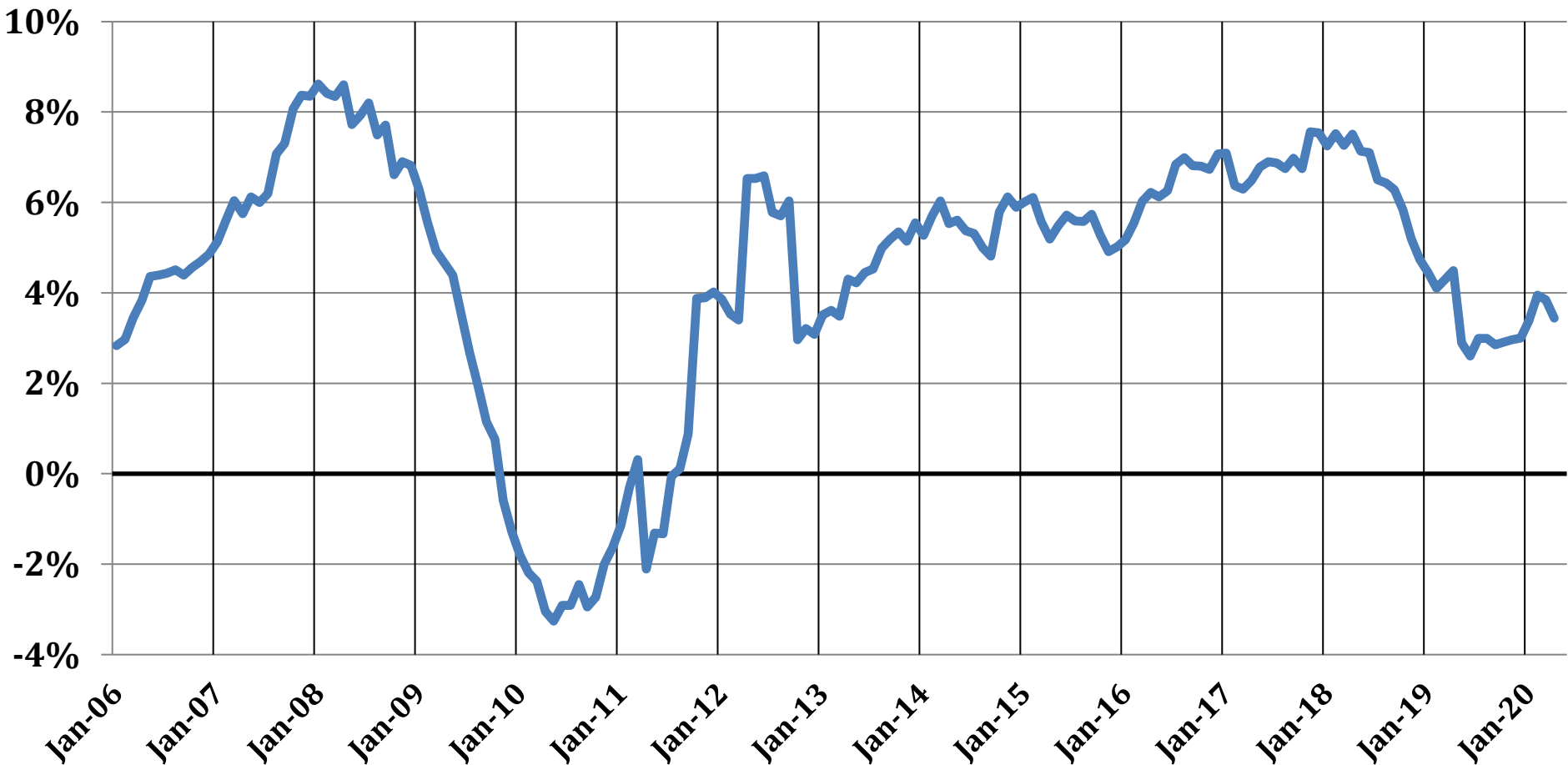
Rent growth has slowed but is still positive



Seattle Rent of Primary Residence Growth

Growth Rate, January 2006 – May 2020

Source: BLS



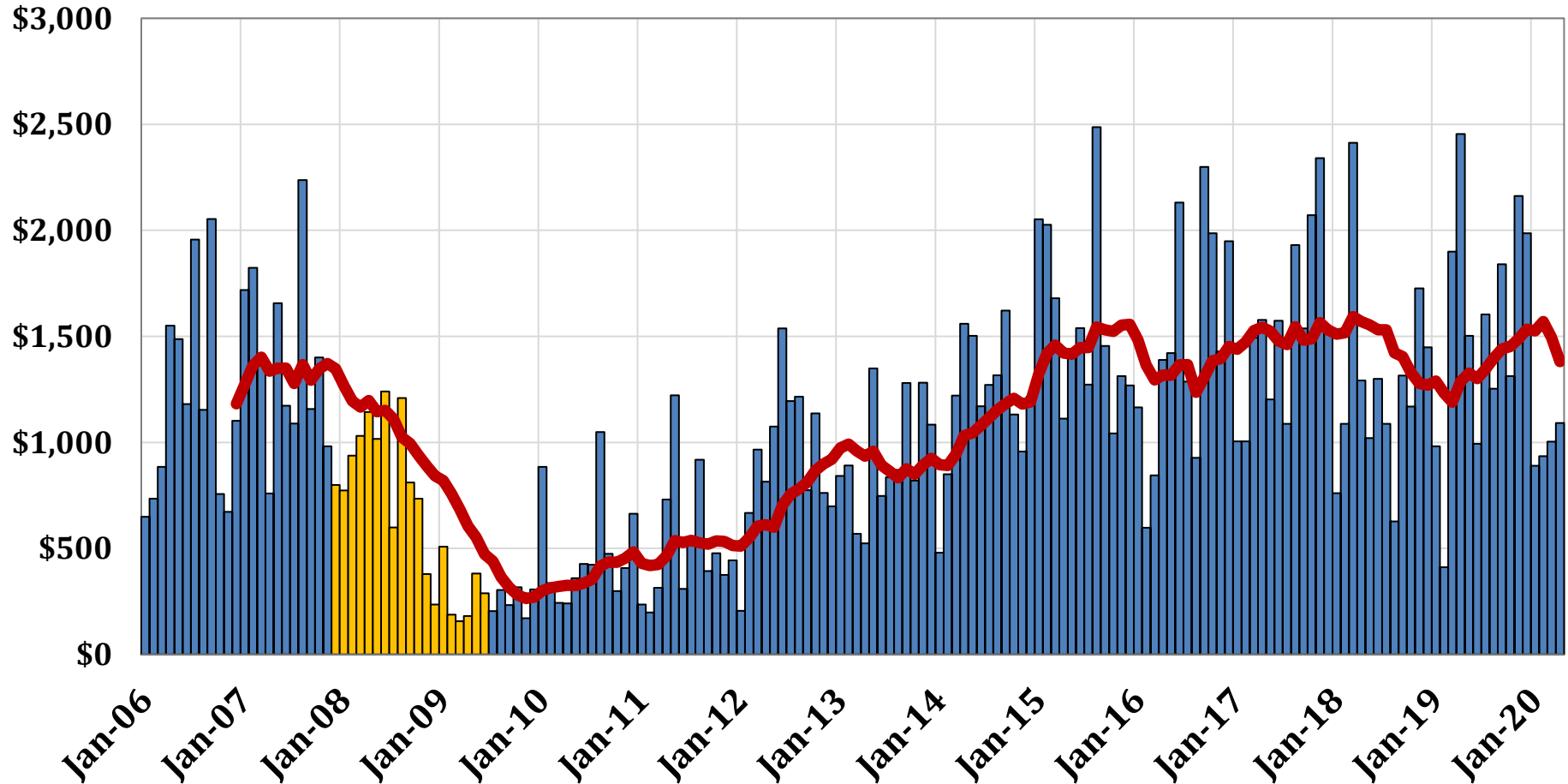
Construction has been a big factor in the local expansion but residential permitting is down so far this year



King County Residential Permit Values

Monthly Value of All Permits from Jan. 2006-May 2020 with **Rolling Annual Avg.**

Source: Census Bureau



STRANGER TIMES

(1) What are the ongoing impacts on Public Health?

(2) What are the initial impacts of the virus on the economy?

(3) What are the second (and third) order effects of the virus?

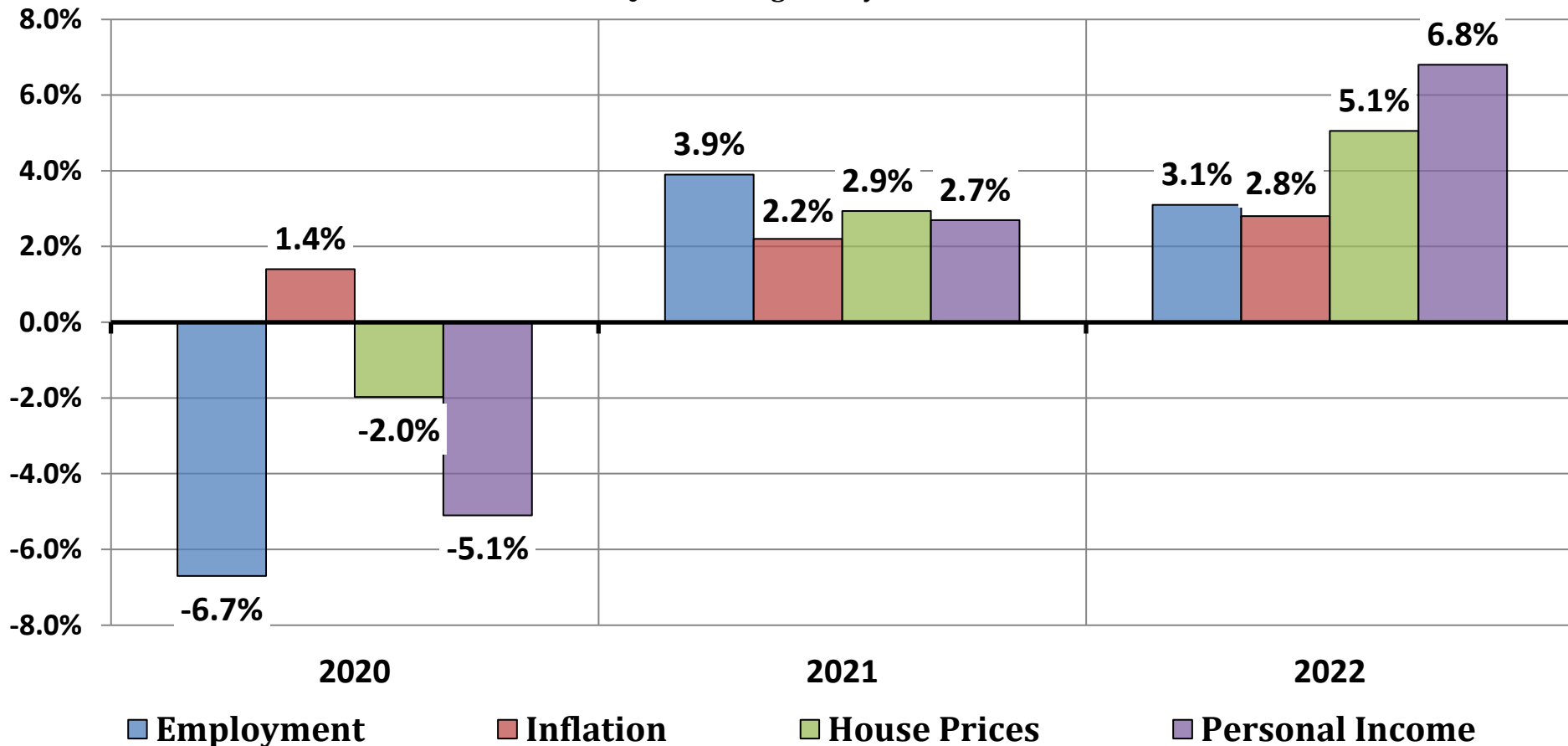
The KC forecast calls for a large contraction in 2020 followed by growth



Employment, Inflation, Housing & Income

Forecast 2020-2022

Source: Q1 2020 King County Forecast Model



May 2020 Revenue Forecasts

Assumptions:

(1) 65% Confidence Level – 65% chance revenues will come in higher than forecasted (lower for inflation/price forecasts)

(2) All potential annexation areas are assumed to occur on schedule:

-North Highline	(01-01-24)
-Renton West Hill	(01-01-25)
-Fairwood	(01-01-26)
-Renton East Hill	(01-01-27)
-East Federal Way	(01-01-28)

Countywide Assessed Value Forecast

Tax Year	Value	Annual Growth	% Change from March 2020 Forecast	\$ Change from March 2020 Forecast
2018	\$534,662,434,753	13.41%	0.00%	\$0
2019	\$606,623,698,131	13.46%	0.00%	\$0
2020	\$642,490,492,044	5.91%	0.00%	\$0
2021	\$657,107,664,495	2.28%	-1.18%	(\$7,870,833,672)
2022	\$624,458,614,366	-4.97%	-9.90%	(\$68,617,928,786)
2023	\$646,766,673,483	3.57%	-11.45%	(\$83,670,250,918)
2024	\$671,634,147,100	3.84%	-12.49%	(\$95,861,760,272)
2025	\$702,655,405,298	4.62%	-12.46%	(\$99,979,968,434)
2026	\$733,365,133,658	4.37%	-12.51%	(\$104,837,528,936)
2027	\$767,322,334,568	4.63%	-12.48%	(\$109,413,329,399)
2028	\$802,120,055,455	4.53%	-12.50%	(\$114,542,452,985)
2029	\$837,321,115,075	4.39%	-12.62%	(\$120,905,978,358)

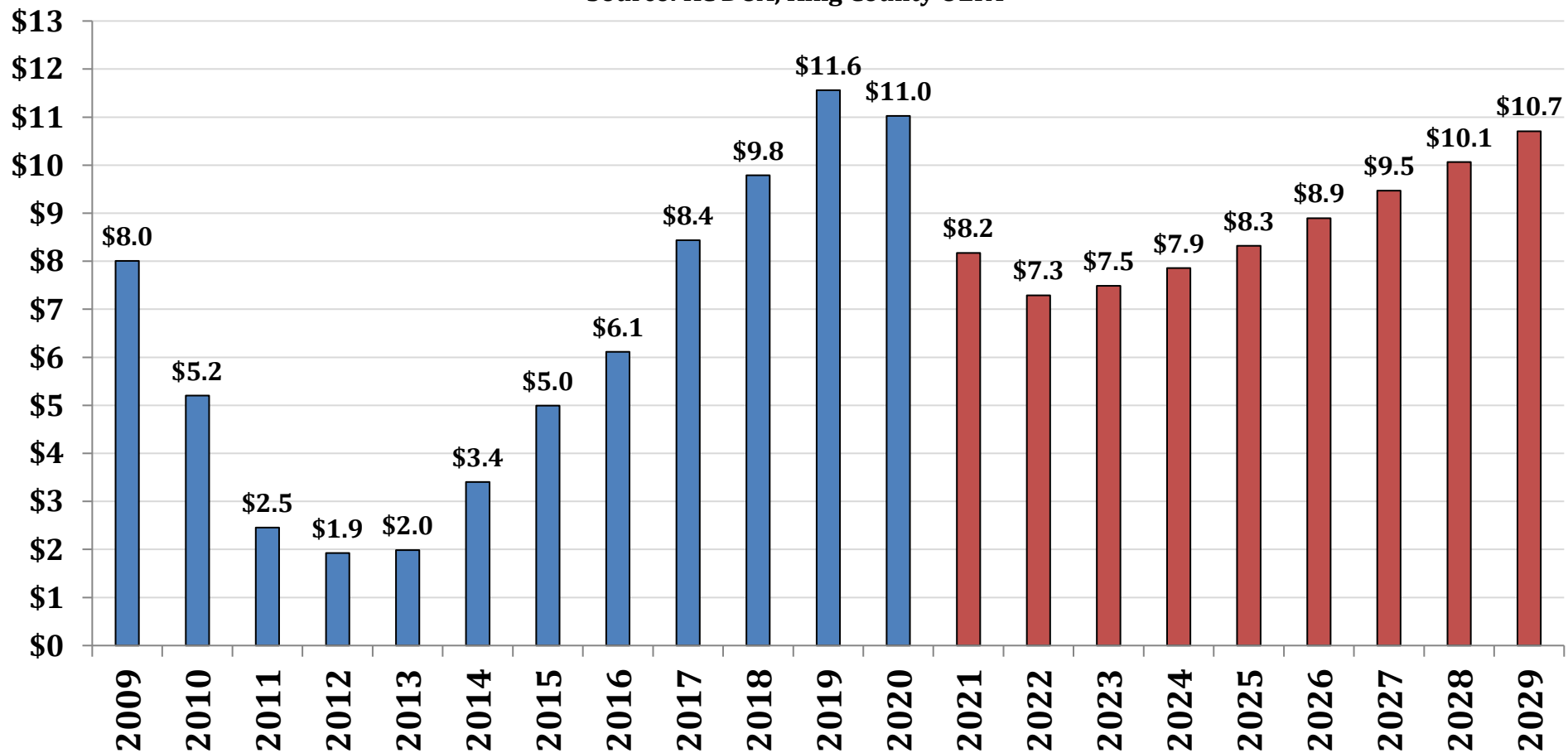
New Construction Forecast



King County New Construction Forecast

In billions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA

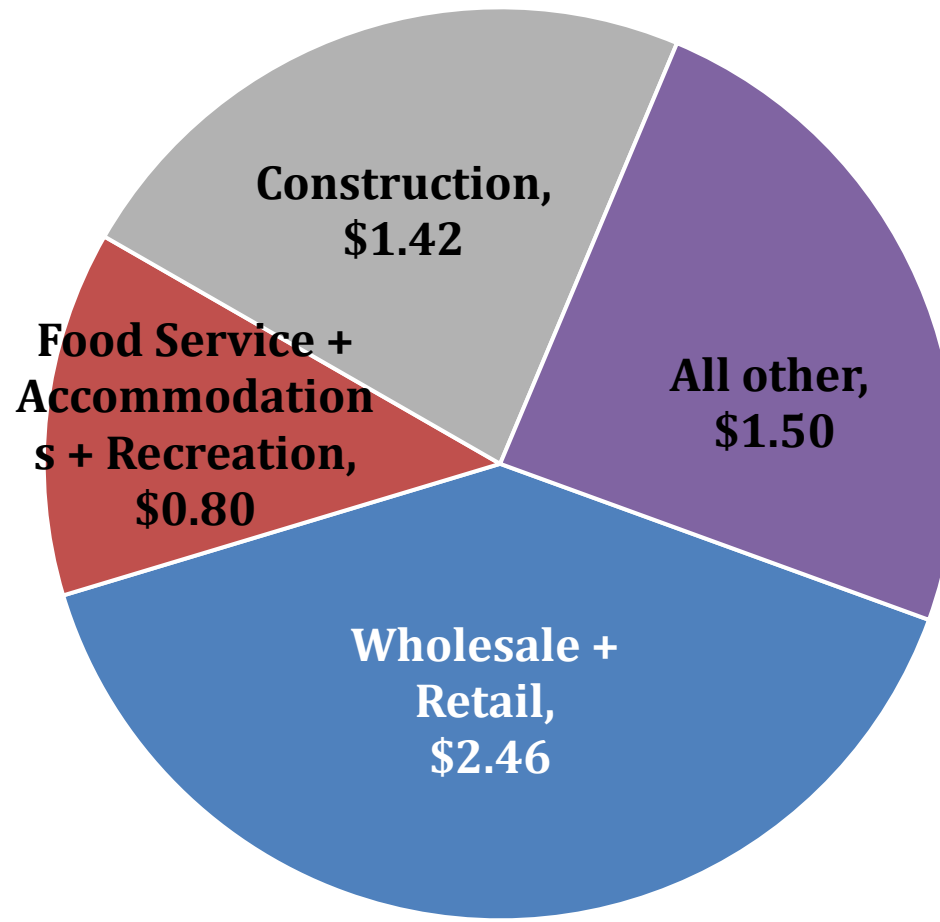


2019 Average Monthly Taxable Sales in King County

King County Average Monthly Taxable Sales

in billions \$

Source: WA DOR



King County Taxable Sales Forecast

Tax Year	Value	Annual Growth	% Change from March 2020 Forecast	\$ Change from March 2020 Forecast
2018	\$72,726,583,626	10.48%	0.00%	\$0
2019	\$76,500,000,000	5.19%	0.00%	\$0
2020	\$53,532,613,694	-30.02%	-30.90%	(\$23,937,352,059)
2021	\$64,643,577,750	20.76%	-20.33%	(\$16,491,439,216)
2022	\$71,075,059,726	9.95%	-15.83%	(\$13,365,447,717)
2023	\$75,695,877,430	6.50%	-14.26%	(\$12,594,545,425)
2024	\$78,527,028,418	3.74%	-14.76%	(\$13,601,533,664)
2025	\$81,852,873,448	4.24%	-14.35%	(\$13,717,822,025)
2026	\$85,121,244,757	3.99%	-14.40%	(\$14,320,725,707)
2027	\$89,143,973,420	4.73%	-13.69%	(\$14,139,710,972)
2028	\$92,095,066,421	3.31%	-13.87%	(\$14,836,612,044)
2029	\$95,682,040,644	3.89%	-13.82%	(\$15,338,245,709)

King County Local and Optional Sales Tax Forecast

Tax Year	Value	Annual Growth	% Change from March 2020 Forecast	\$ Change from March 2020 Forecast
2018	\$131,938,849	11.23%	0.00%	\$0
2019	\$137,639,197	4.32%	0.00%	\$0
2020	\$99,474,662	-27.73%	-28.58%	(\$39,812,378)
2021	\$116,503,277	17.12%	-20.14%	(\$29,372,035)
2022	\$128,094,354	9.95%	-15.63%	(\$23,724,008)
2023	\$136,422,179	6.50%	-14.06%	(\$22,318,072)
2024	\$138,331,543	1.40%	-14.59%	(\$23,627,663)
2025	\$142,544,025	3.05%	-14.19%	(\$23,577,213)
2026	\$146,577,435	2.83%	-14.26%	(\$24,368,796)
2027	\$152,499,001	4.04%	-13.55%	(\$23,906,362)
2028	\$155,546,182	2.00%	-13.75%	(\$24,806,086)
2029	\$161,604,488	3.89%	-13.70%	(\$25,643,675)

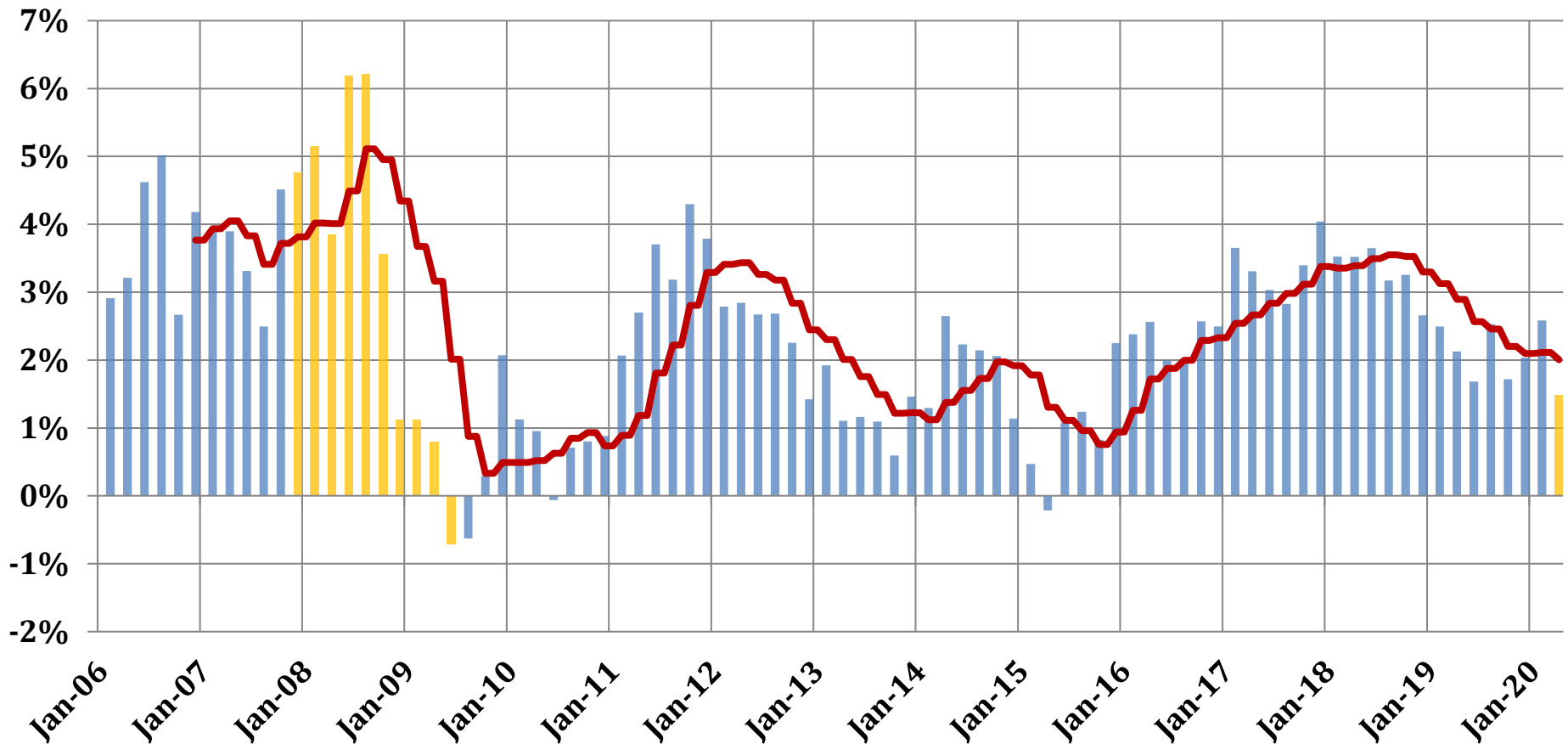
Local inflation has been slowing and should be modest over the next few years



Seattle CPI-W Annual Inflation

with recession bars and rolling annual average line

Source: Bureau of Labor Statistics



King County Office of Economic and Financial Analysis

<http://www.kingcounty.gov/independent/forecasting.aspx>