



King County

March 2016 King County Economic and Revenue Forecast

Presentation to the Puget Sound Finance Officers
Association

June 8th, 2016

Dave Reich
Office of Economic and Financial Analysis



Seattle's Regional Economy: 50 Years of Change

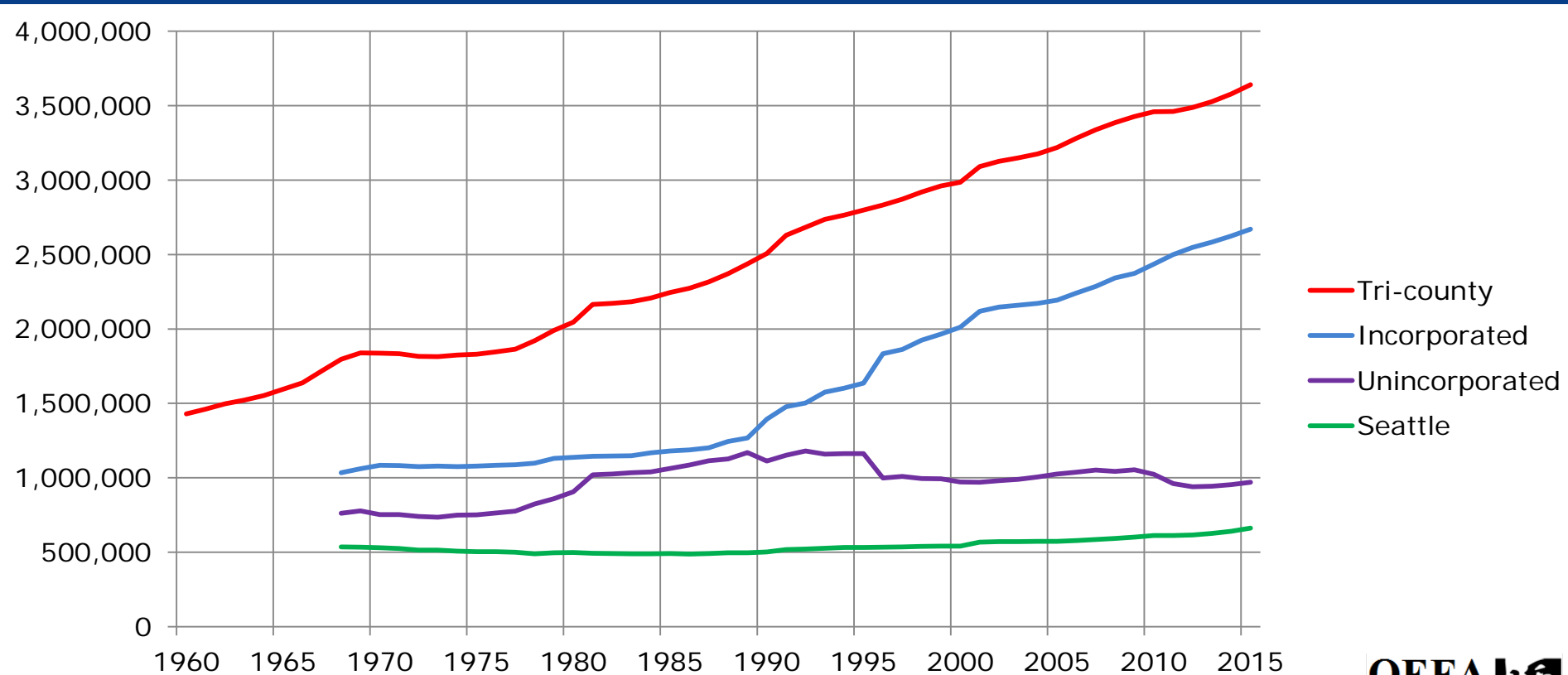
David Reich

King County Office of Economic and Financial Analysis

A lot can happen in 50 years...

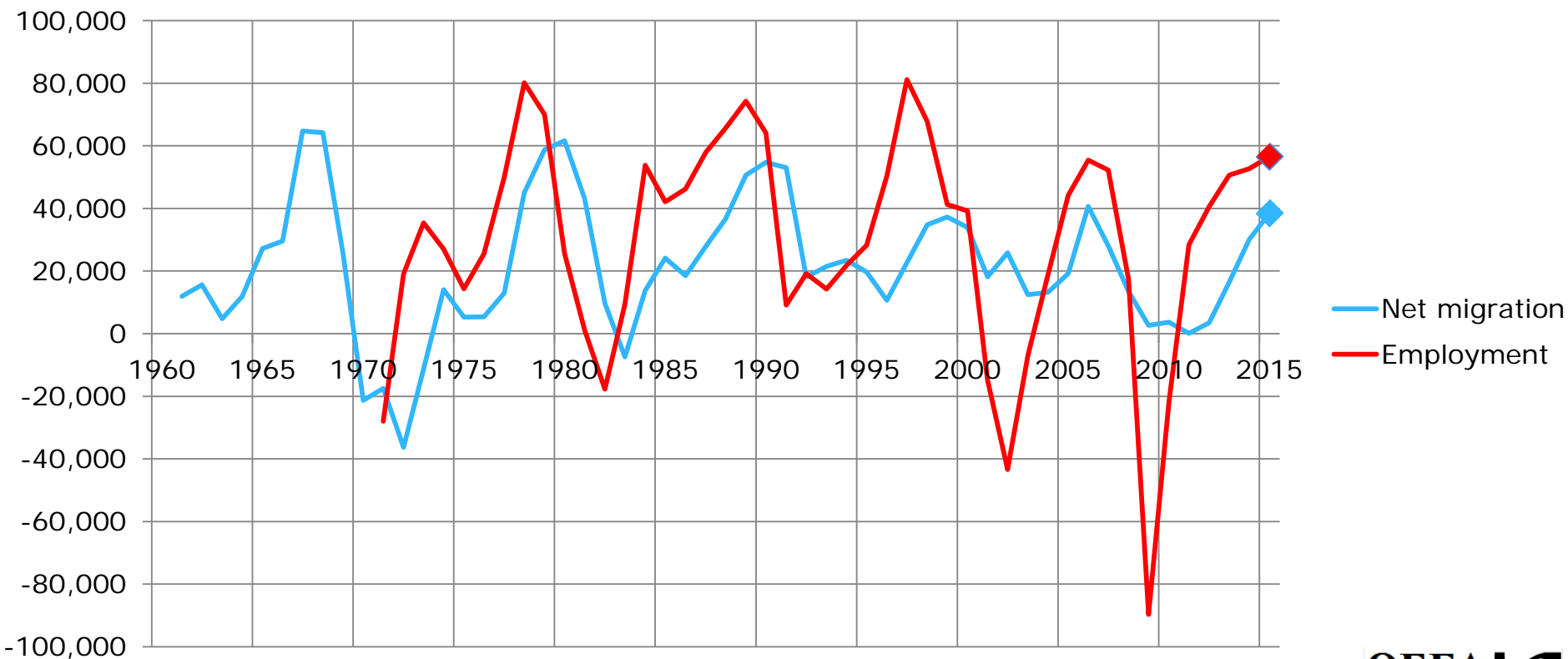


The Seattle Area Population has Grown Substantially



Source: WA OFM

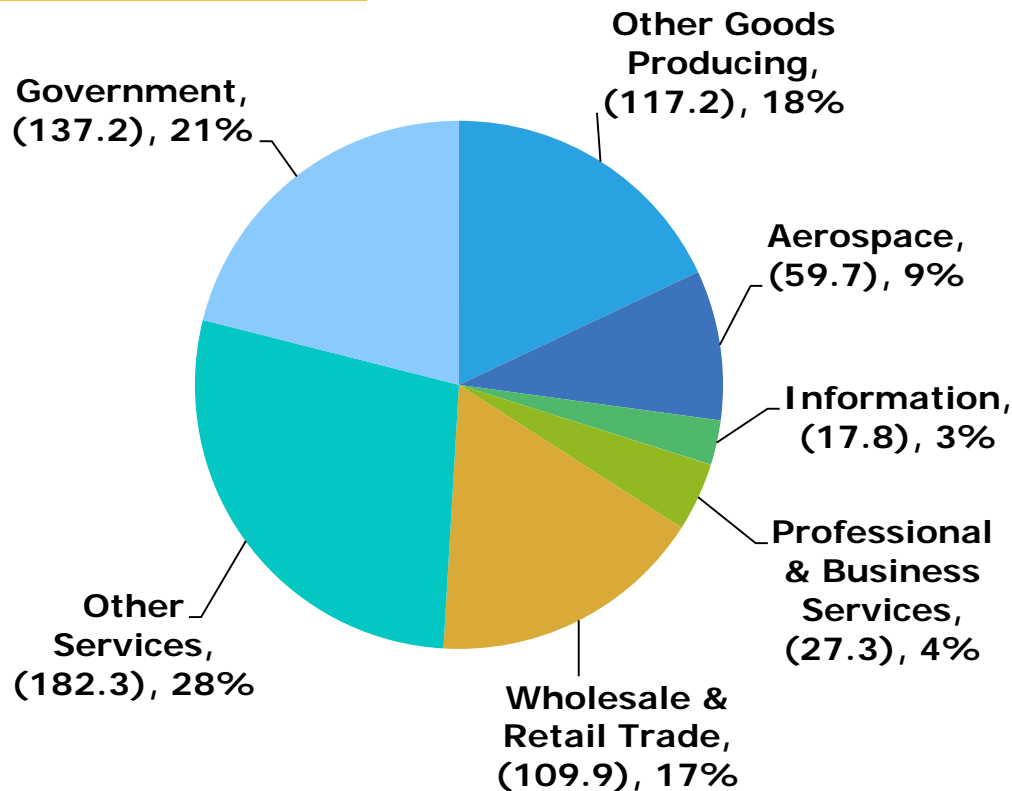
Population Growth Ebbs and Flows with the Labor Market



Source: PSEF, OFM

The Regional Industrial Mix (1970)

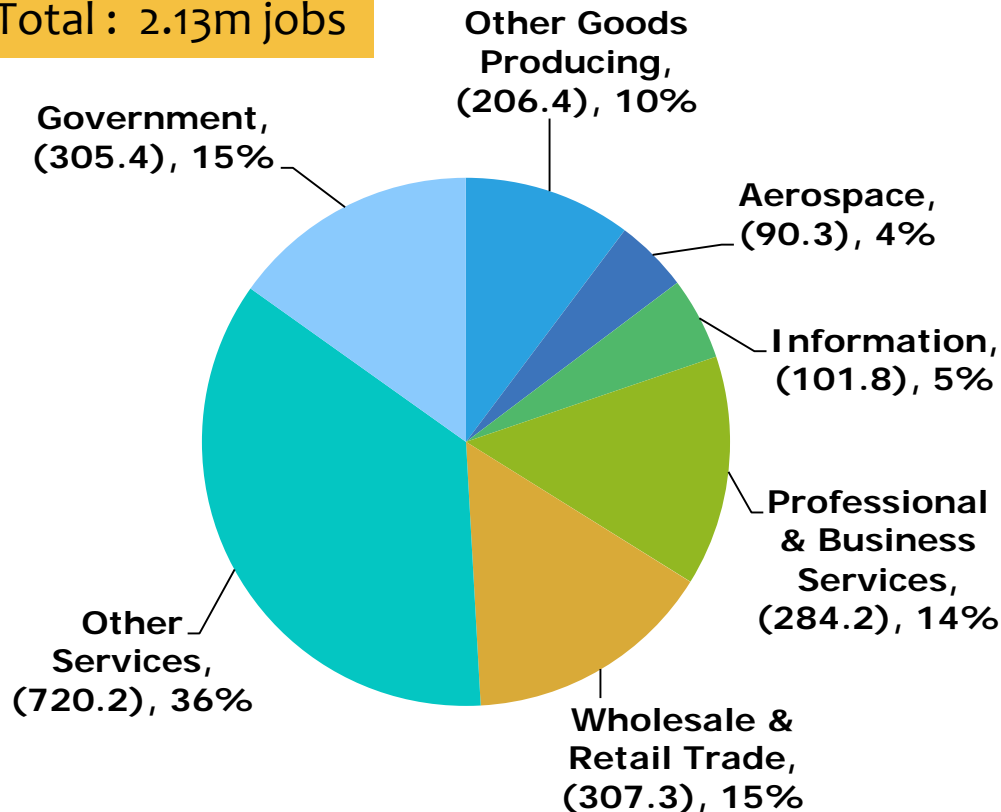
Total : 650k jobs



- **Boeing employs 100,000 in 1968 (15% of the workforce!).**
 - **First 747 (1968)**
 - **Lunar Rover**
- **Boeing bust leads to large employment reductions (39K employees by 1971)**

The Regional Industrial Mix (2015)

Total : 2.13m jobs



- Boeing employs 78,000 or about 4% of the workforce.
- Working on various commercial (e.g. 737), and defense products (e.g. P-8).
- Huge growth in professional and business services (10X)
- Information growth (5X)

Boeing's Impact Still Large in Region

From Renton's assembly plant...

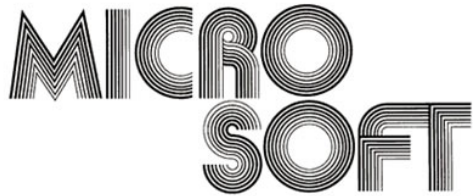


...to the great blue yonder.



- Celebrating 100 years in 2016
- Seattle a one-company town in 1960s-1970s
- Boeing bust in early 1970s..."turn out the lights..."
- 1970's challenges replaced with growth in air travel from the 80's to the present
- Continues to impact the region with facilities in all three counties and 7-yr backlog
- New contract ensures production in region through 2022-ish... and then...

Technology Entrepreneurs Brought Significant Changes to the Region



- MSFT moves to region in 1979
 - Huge growth creates millionaires in region (and some billionaires)
 - 43,000 jobs, mostly in King County
 - Former employees have created many local startups (e.g. Valve, Zillow)
 - Bill & Melinda Gates Foundation
-
- Amazon founded in 1994
 - Growth powered by innovation
 - 24,000 jobs in Washington

Now The Clouds in Seattle Bring More Than Just Rain



- Amazon Web Services (AWS) and Microsoft's Azure are huge cloud players
- Local tech talent a big draw for other tech companies
- Major tech companies maintain Seattle branches including:



Google



Facebook



Dropbox

- Other tech work on cloud, big data, virtual reality

Other Drivers - - - What's a Salted Caramel Mocha Frappuccino?



STARBUCKS®

- Started in Pike Place Market in 1970s
- U.S. coffee renaissance
- FY 2015 revenues of \$19B



- Headquarters in Issaquah
- Retail outlets worldwide
- \$1.50 for a hot dog and soda!

NORDSTROM

- Started as local shoe store
- Mainline and rack stores
- U.S., Canada and PR locations

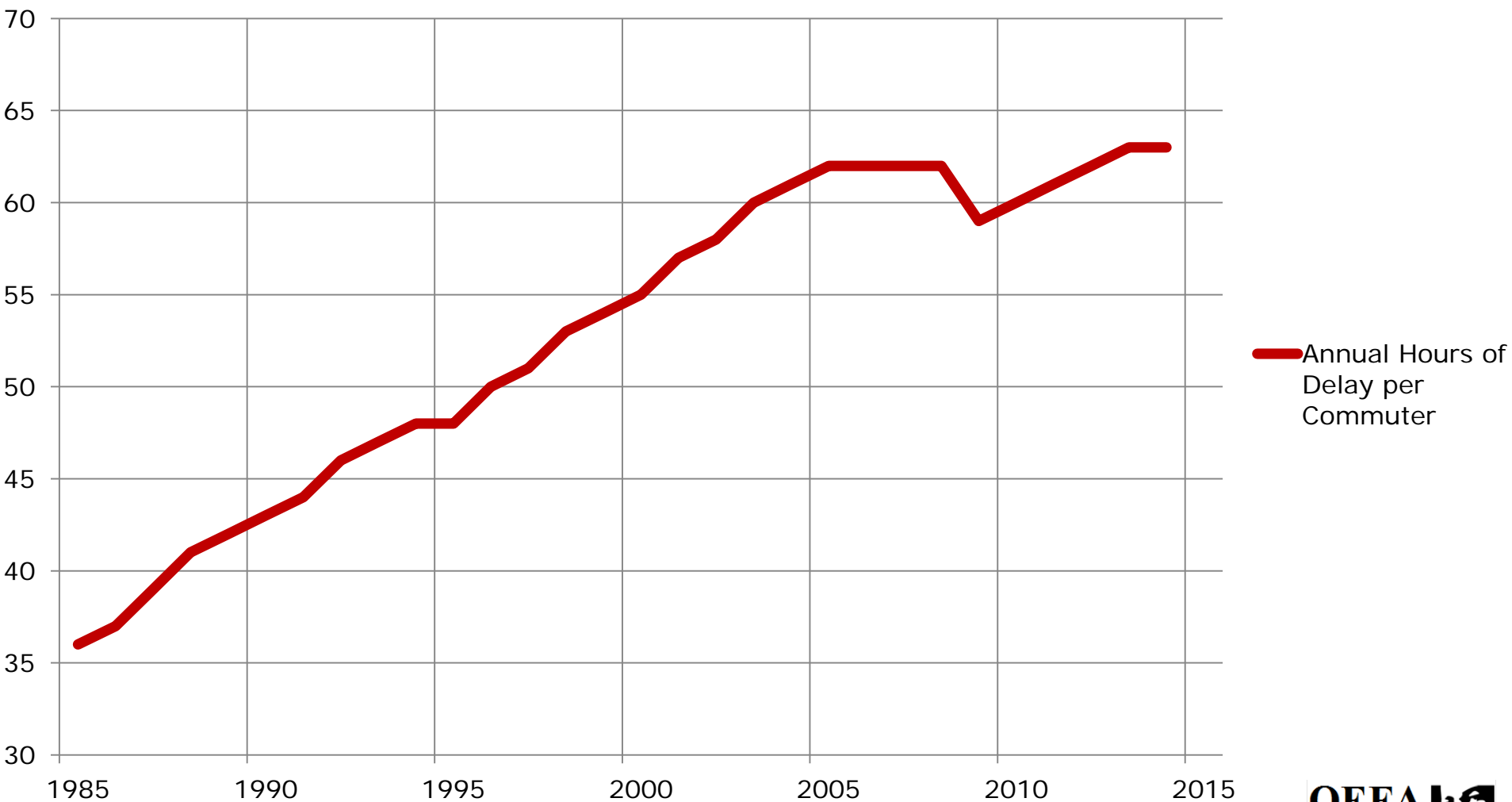


- Commercialized PNW outdoorsiness
- Broad appeal to full spectrum of outdoorsmen/women.

Other drivers/sectors

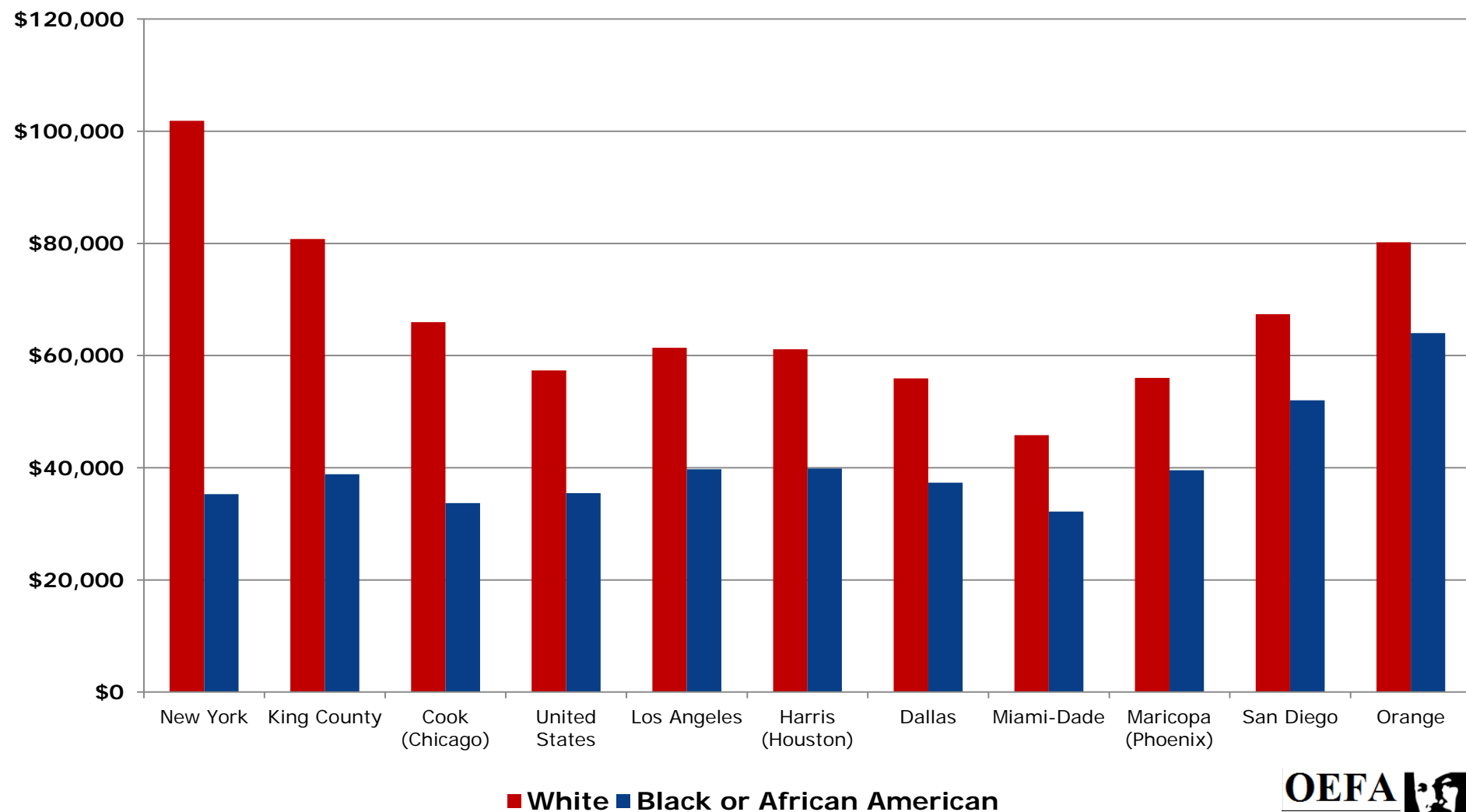
- Maritime industry
- Transportation
- Philanthropy
- JBLM

From Bad to Worse: Seattle Commuters Stuck in Traffic



Source: Urban Mobility Report, Texas A&M University

2014 Median Household Income by Race US, King County, and Peer Counties



Recent Trends & Questions

Transition to global economic region...



...new ideas...

...some left behind.



- Ongoing transition to globally focused regional economy
 - Global Cities Initiative
- Role of China
 - WA's largest trading partner
 - Alibaba, ICBC
 - Real estate/UW
- Continuing innovation
 - Global companies
 - Talent, GIX
 - Innovation districts (SLU)
- An economy for everyone?
 - Increasing inequity
 - Job growth at bottom/top
 - Local minimum wages



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Summary

- Continued solid growth in 2015
 - Steady GDP growth (2.4%, same as 2014)
 - Employment – good growth, UE rates continued to fall
 - Housing – Starts/permits growth, low inventories & rents rising
- 2016 & 2017 look to be similar
 - Focus on global economy conditions (China, oil, central banks)
 - Forecast calls for on-going U.S. employment growth
 - Rates – Fed will adjust according to the data
- King County economic recovery is maturing
 - Employment growth still strong but likely to slow
 - Construction still strong but permit growth has slowed
- County revenues continue to be strong

Global conditions affecting lots like....a world awash in oil...

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Economic forecast: Oil

Global demand for oil is growing, but supply is forecasted to grow faster through 2017.

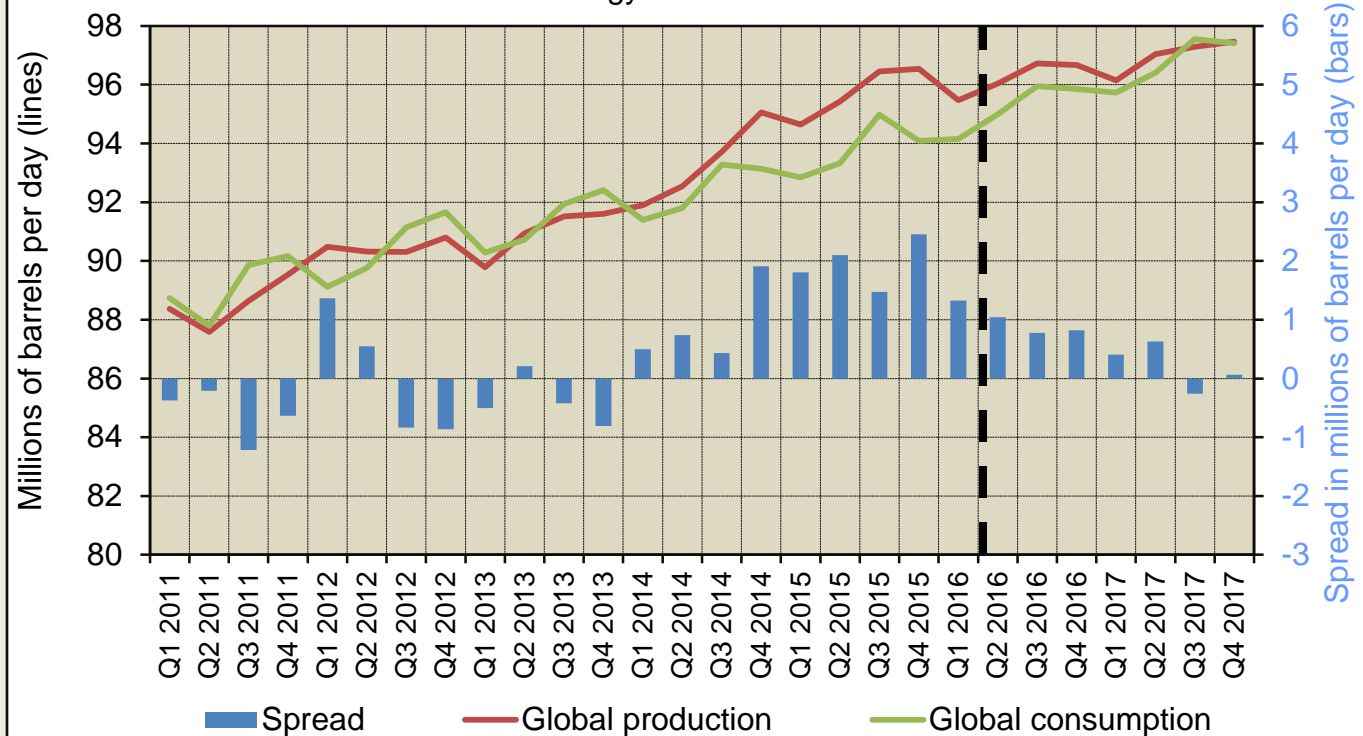
Result is lower prices.

Good for consumers but negatively impacting energy companies, banks & some oil-reliant countries.

Global Oil Production & Consumption

Actual 2011-2015, Forecast 2016-2017

Source: U.S. Energy Information Administration



...and the second largest economy slowing

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Economic forecast: China

China's economy has been growing rapidly for years.

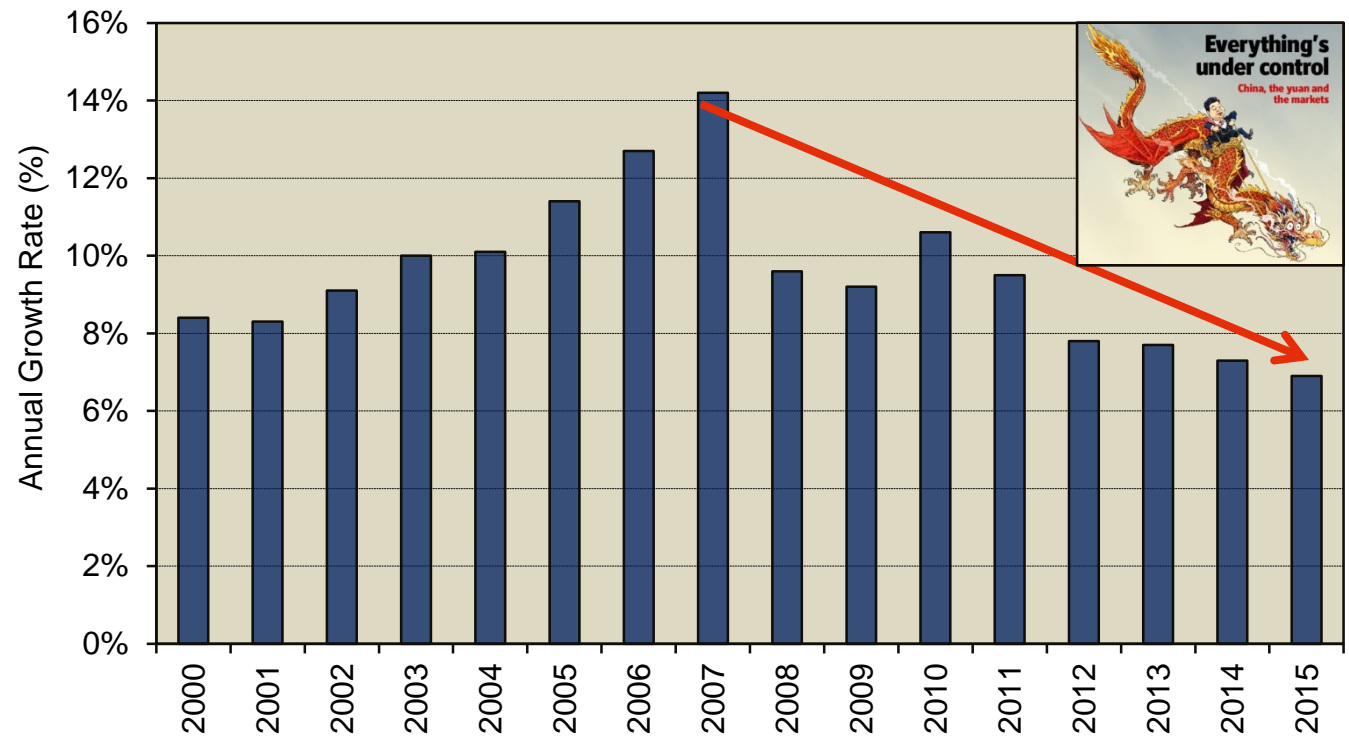
Recent slowing is impacting material suppliers and other exporters.

WA exports to China down in 2015.

A big worry...what if it is worse than we think.

China's Real GDP Growth Rates

Actual 2000-2015
Source: World Bank



But growth is still expected in most major economies

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Economic forecast: Data and forecast (Jan. 2016) from the World Bank

Global convergence continues.

Developed economies growing modestly.

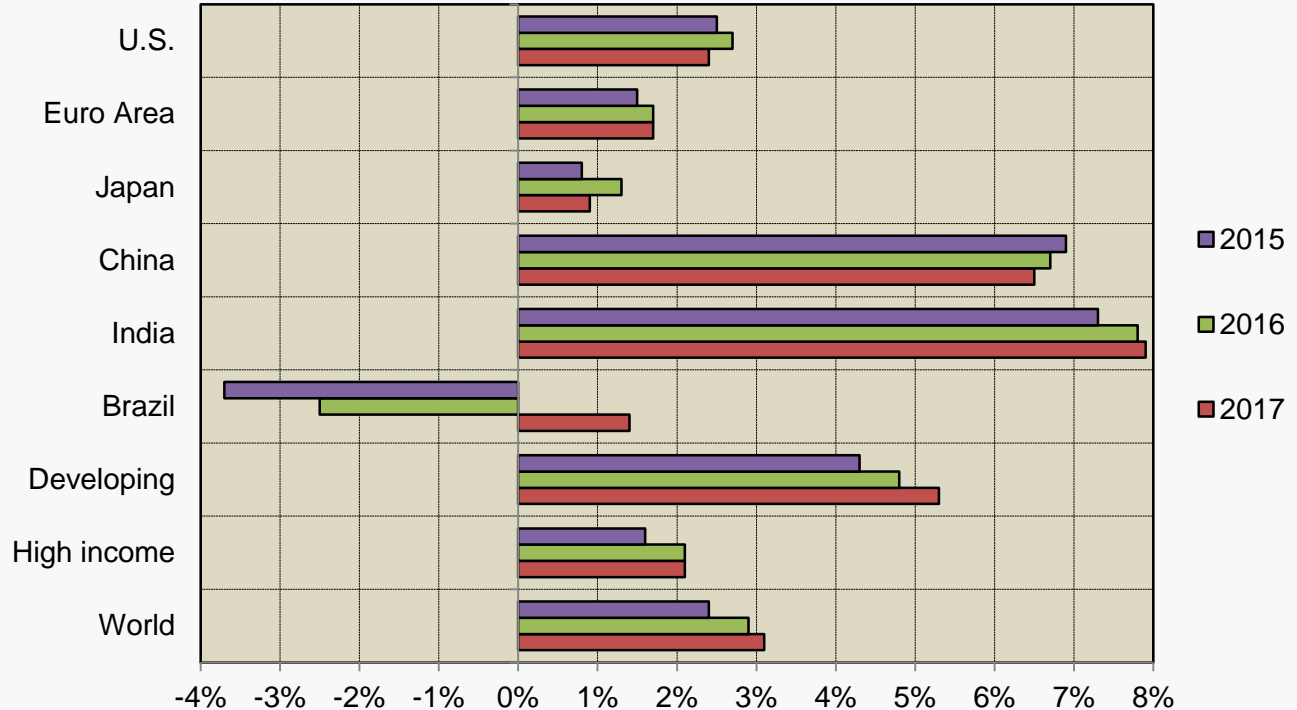
Many developing economies growing rapidly.

Risks in 2016; China, oil, EU

Global Real GDP Growth

Estimate 2015, Forecast 2016-2017

Source: World Bank





Despite global uncertainty, the U.S. economy continues to create jobs

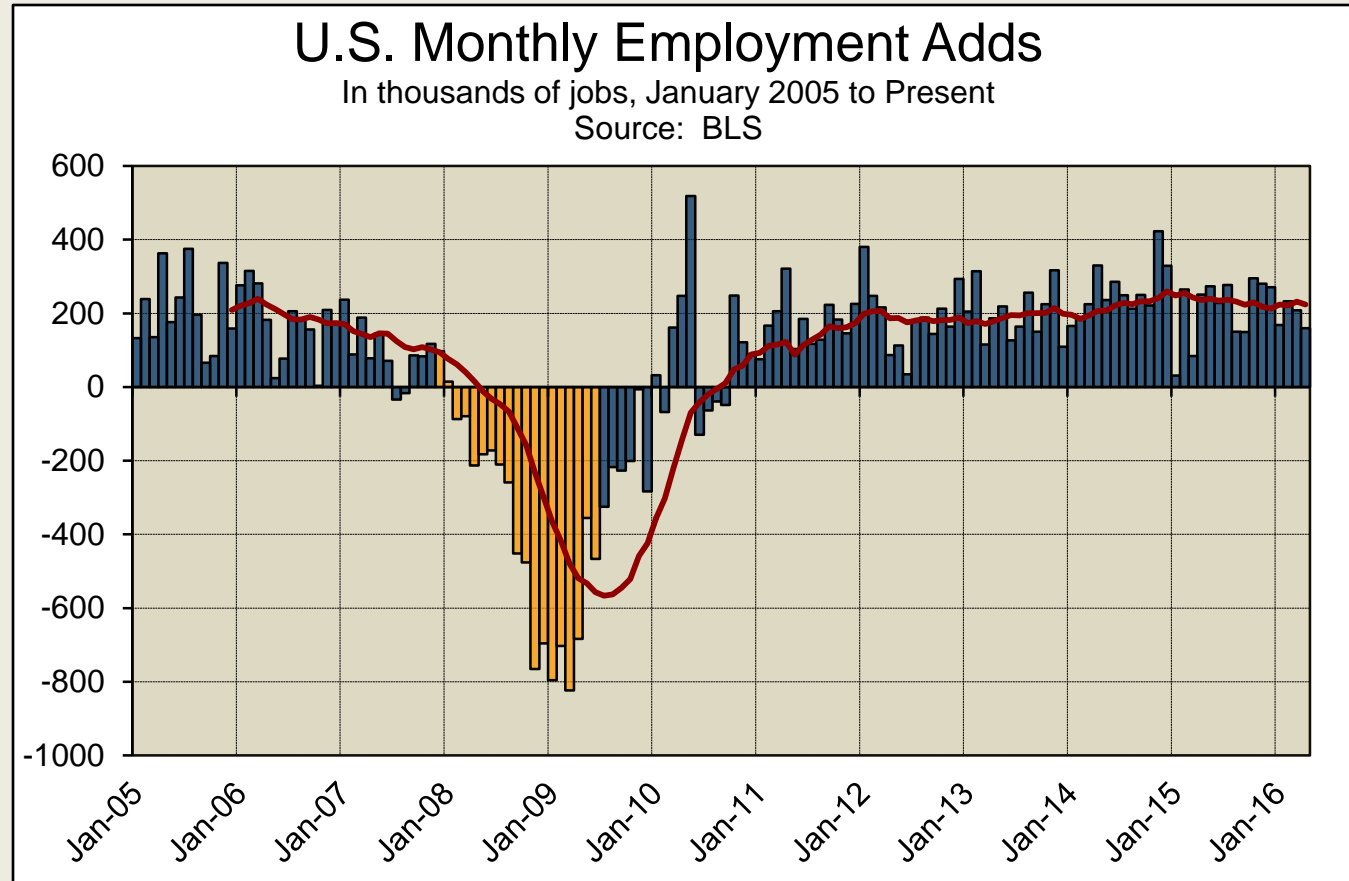
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Economic context: Monthly employment adds from the BLS

The U.S. economy has added nearly 14M jobs since the end of the recession.

In 2015, adds averaged 225K per month.

The national unemployment rate is now 4.7% (May 2016).



Blue = Actual Orange = Recession Red Line = Annual average

King County indicators were strong in 2015

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Economic context: Data from PSEF, the Case-Shiller index, WA DOR, BLS

King County continues its strong economic performance.

Employment growth about 3.0% in 2015.

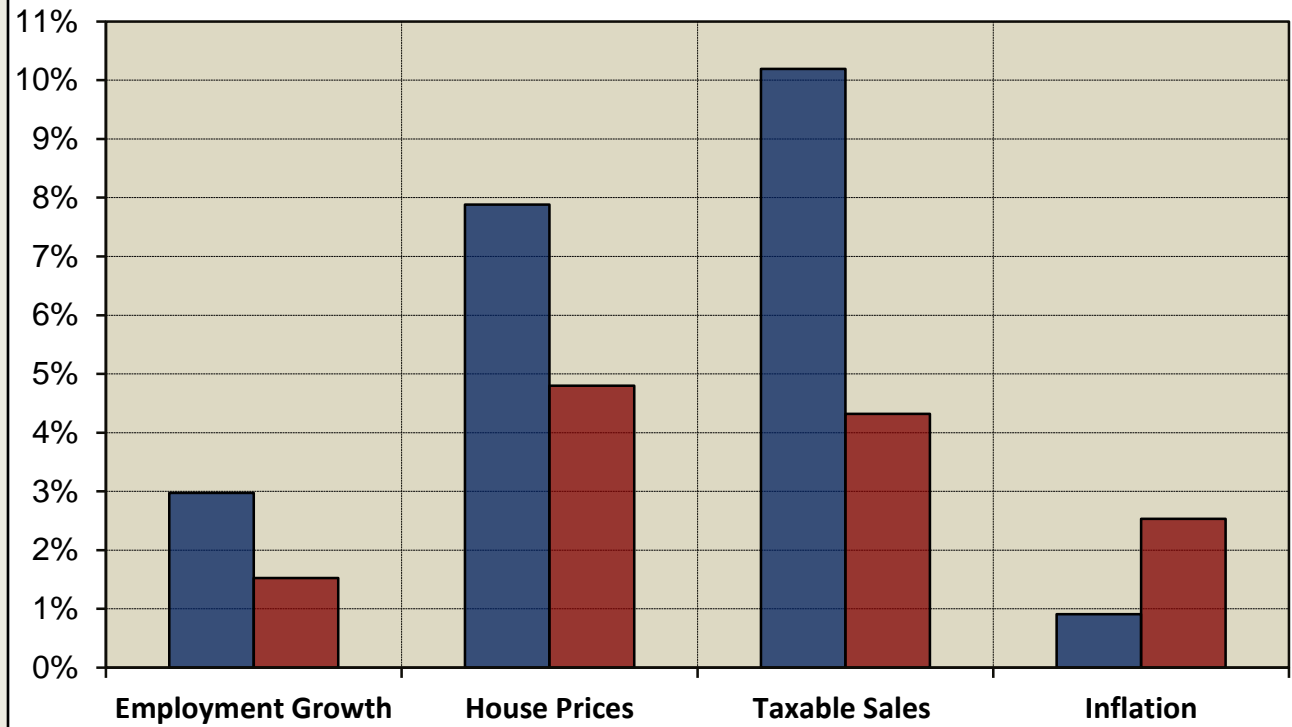
Taxable sales finish the year with double digit growth.

Inflation continues to be low.

King County Economic Indicators

2015 growth rate vs. the 20 year average growth rate

Source: PSEF, Case Shiller, WA DOR, BLS



Blue = 2015 actual Red = 20 year average



The KC economy has added 170K jobs since 2010...but that pace is likely to slow

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Economic context: KC employment growth data from the PSEF

Employment has been increasing the last five years.

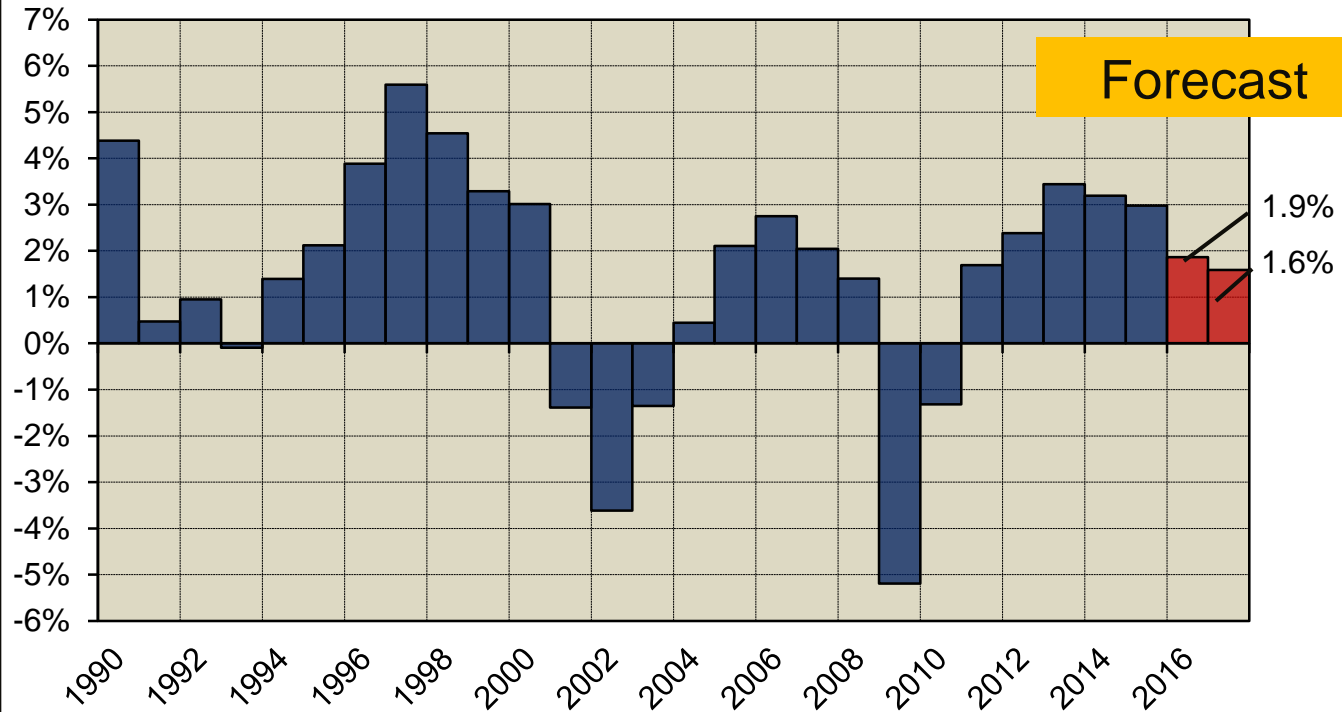
Growth has been strong, although not as strong as it was during the “dot-com” boom.

The forecast is for growth to continue, but at a slower rate.

KC Year over Year Employment Growth

January 1990 to December 2017

Annual data from Puget Sound Economic Forecaster



Blue = Actual Red = Forecast

2015 average unemployment rates around King County

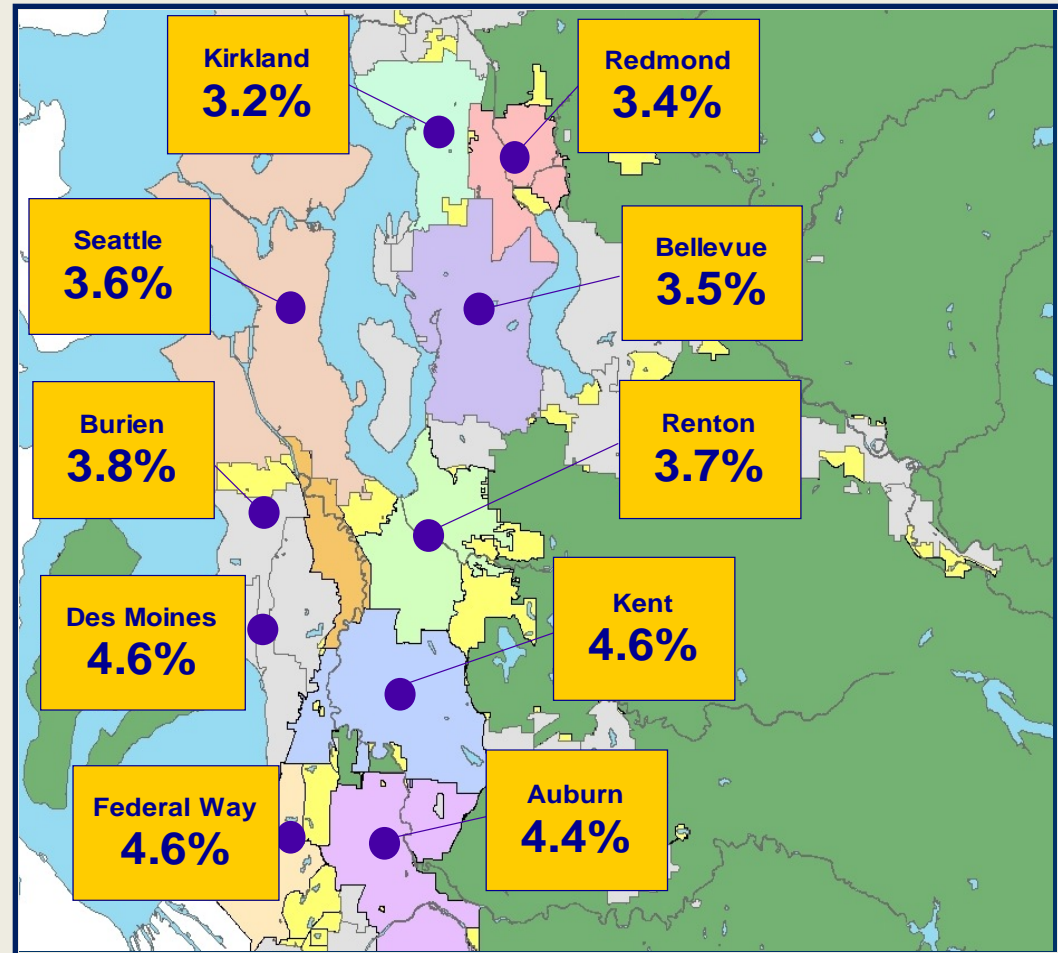
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Economic context: Unemployment, rates from the BLS

This map shows unemployment rates for 10 of the largest cities in 2015.

Rates varied across the region.

The north and east fared better than the southern portions.





Inflation in Seattle continues to be modest

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Forecasts: Seattle bi-monthly, year-over-year inflation from the Bureau of Labor and Statistics

The annual Seattle inflation rate for 2015 was 0.9%.

Shelter costs have been driving most of the increase.

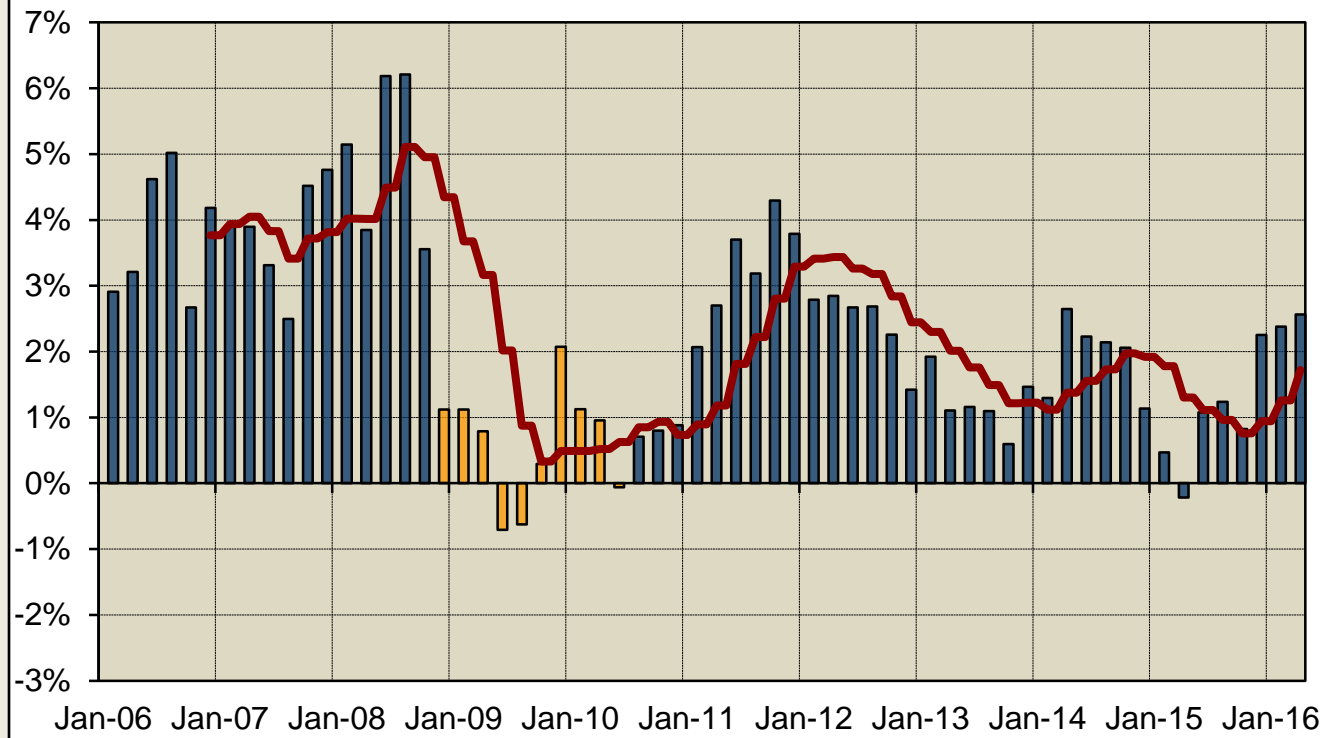
Annual 2015 inflation excluding shelter was -1.3%.

Shelter/core price growth partially offset by lower fuel prices in 2016.

Seattle CPI-W Bi-Monthly Inflation

January 2006 to Present

Source: BLS



Blue = Actual Red = average annual inflation rate Orange = Recession

Growth of the KC index of leading indicators has slowed lately...

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Economic context: Leading indicators index developed by OEFA

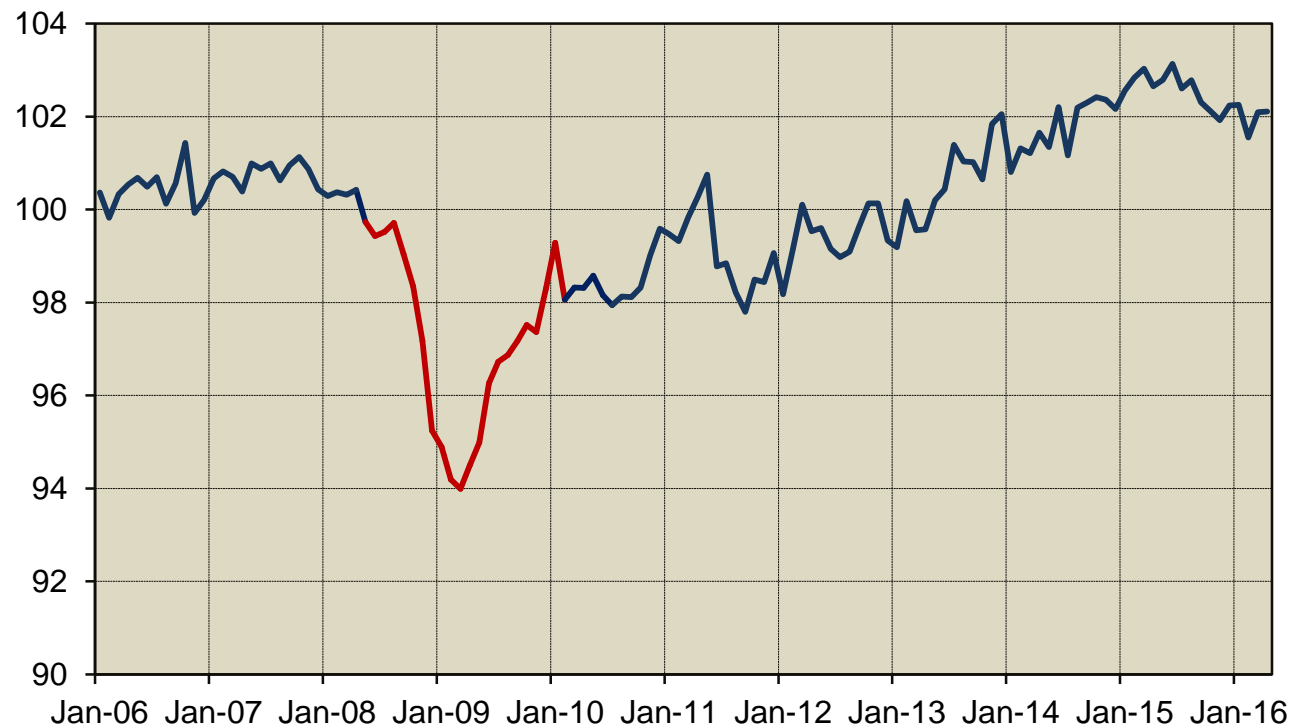
The KC ILI includes eight items that should be sensitive to economic changes.

The index has been steadily climbing, but flattened in 2015.

Local manufacturing slowed and others have flattened out.

King County Index of Leading Indicators

Index Base = July 2005



Red = Period of economic contraction in KC

...But the forecast is fine, calling for growth but at a slower pace

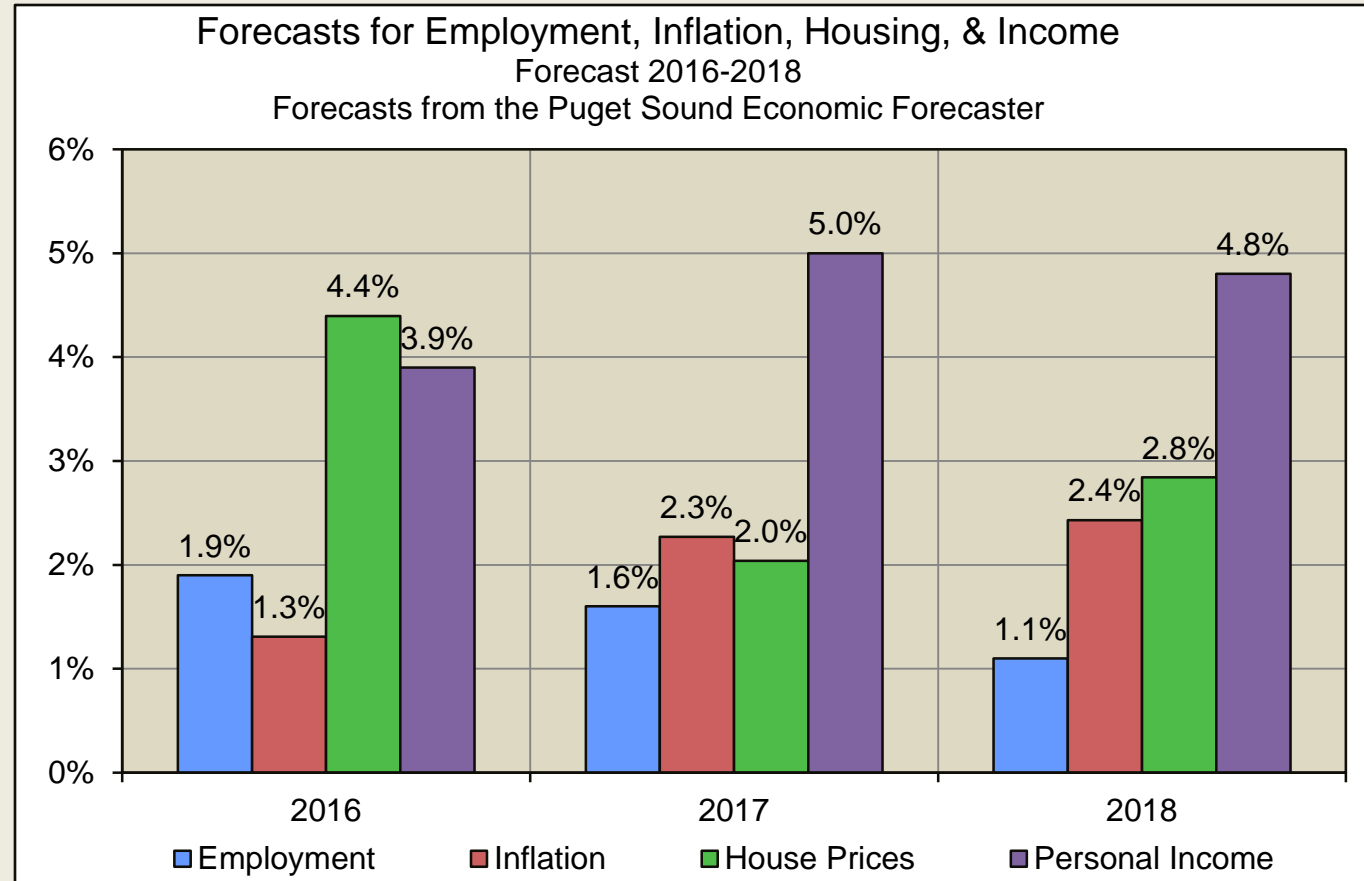
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Economic forecast: Forecasts from the Puget Sound Economic Forecaster

Employment growth should continue but at slower growth rates.

Inflation should accelerate, but be modest overall.

House prices to continue their rise but at reduced rates.



March Economic and Revenue Forecasts

Assumptions

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

All potential annexation areas are assumed to occur on schedule:

Klahanie (Completed)	(01-01-16)
North Highline (Area Q/Sliver)	(01-01-18)
North Highline (Remainder)	(01-01-20)
West Hill	(01-01-20)
East Federal Way	(01-01-20)



Countywide Assessed Value Forecast

2016 AV is new nominal high value at \$426b.

There was growth in both residential and commercial sectors.

Assessments for 2017 are based on Jan. 1, 2016 value.

Growth is forecast for 2017 and beyond.

March Countywide Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 Forecast
2014	\$340,643,616,342	8.23%	0.00%	\$0
2015	\$388,118,855,592	13.94%	0.00%	\$0
2016	\$426,335,605,837	9.85%	1.81%	\$7,574,827,361
2017	\$461,541,898,234	8.26%	5.71%	\$24,921,990,866
2018	\$484,657,411,752	5.01%	6.79%	\$30,831,330,934
2019	\$504,922,293,405	4.18%	6.66%	\$31,523,669,225
2020	\$530,372,501,440	5.04%	7.41%	\$36,589,627,420
2021	\$560,339,302,588	5.65%	8.40%	\$43,427,359,377
2022	\$592,768,849,654	5.79%	8.93%	\$48,577,593,772
2023	\$623,208,450,649	5.14%	9.46%	\$53,861,670,003
2024	\$654,616,158,356	5.04%	9.92%	\$59,089,953,783
2025	\$687,444,976,636	5.01%	new	new



New Construction Forecast

New construction bottomed in 2012 down 75% from the peak (\$8b).

Small growth in 2013 and large increases in 2014-2016.

Positive signs for 2017: construction employment still growing, sales, and permits.

March Countywide New Construction Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 Forecast
2014	\$3,406,198,290	71.73%	0.00%	\$0
2015	\$4,994,659,235	46.63%	0.00%	\$0
2016	\$6,111,997,054	22.37%	-2.13%	(\$132,729,510)
2017	\$6,891,730,562	12.76%	1.32%	\$89,802,512
2018	\$7,165,791,391	3.98%	2.60%	\$181,397,591
2019	\$7,234,484,332	0.96%	3.23%	\$226,039,216
2020	\$7,264,503,925	0.41%	1.70%	\$121,743,658
2021	\$7,422,239,596	2.17%	0.38%	\$28,427,343
2022	\$7,953,194,614	7.15%	6.12%	\$458,498,256
2023	\$8,272,034,009	4.01%	5.93%	\$463,376,404
2024	\$8,593,585,444	3.89%	6.39%	\$516,254,486
2025	\$8,943,246,497	4.07%	new	new

How taxable sales grew around the County in 2015

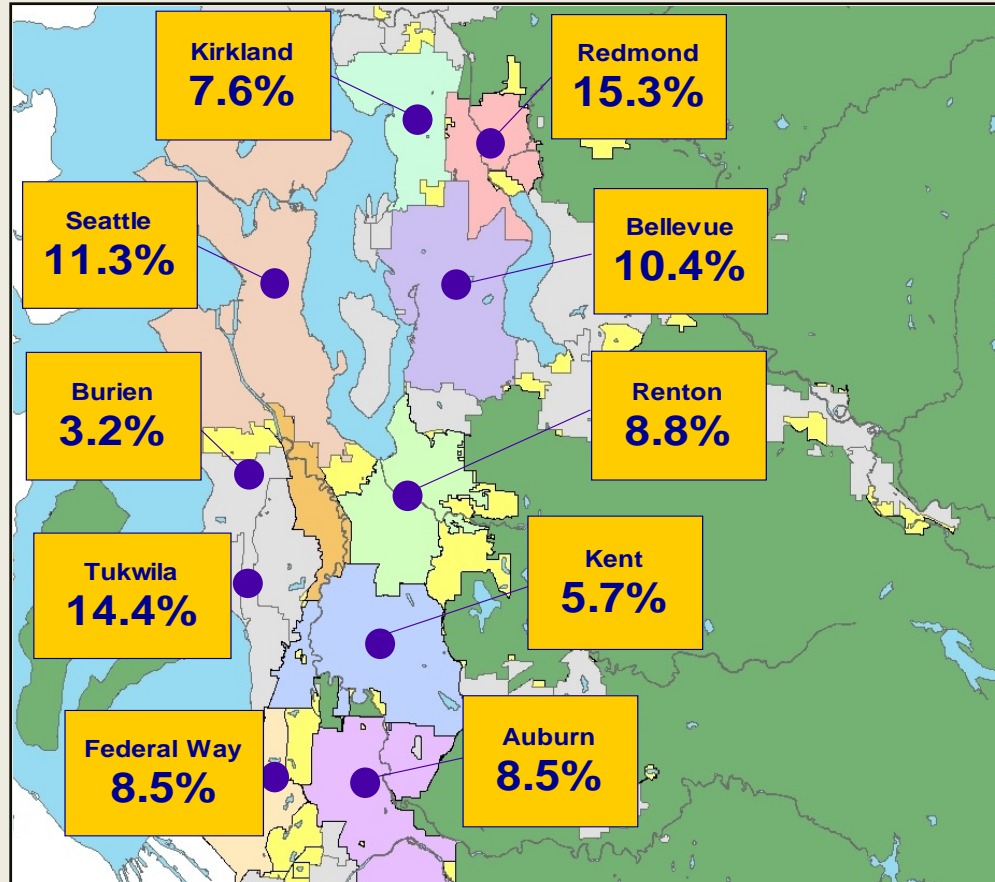
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Economic context: All taxable sales (unadjusted) from OEFA DB

This map shows nine cities that with highest taxable sales in King County.

Graphic shows the growth rate for 2015 over 2014.

Rate includes delinquencies and refunds.



2015 OFM Population Estimates (in thousands)

- (1) Seattle – 662.4
- (2) Bellevue – 135
- (3) Kent – 122.9
- (4) Renton – 98.4
- (5) Fed. Way – 90.7
- (6) Kirkland – 83.4
- (7) Auburn – 65.9
- (8) Redmond – 59.2
- ...
- (19) Tukwila – 19.2



Construction taxable sales driving sales tax receipts

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Economic context: Construction sales from the OEFA sales tax database

Construction sales grew strongly in 2012-2013, slowed in 2014 but have really grown in 2015.

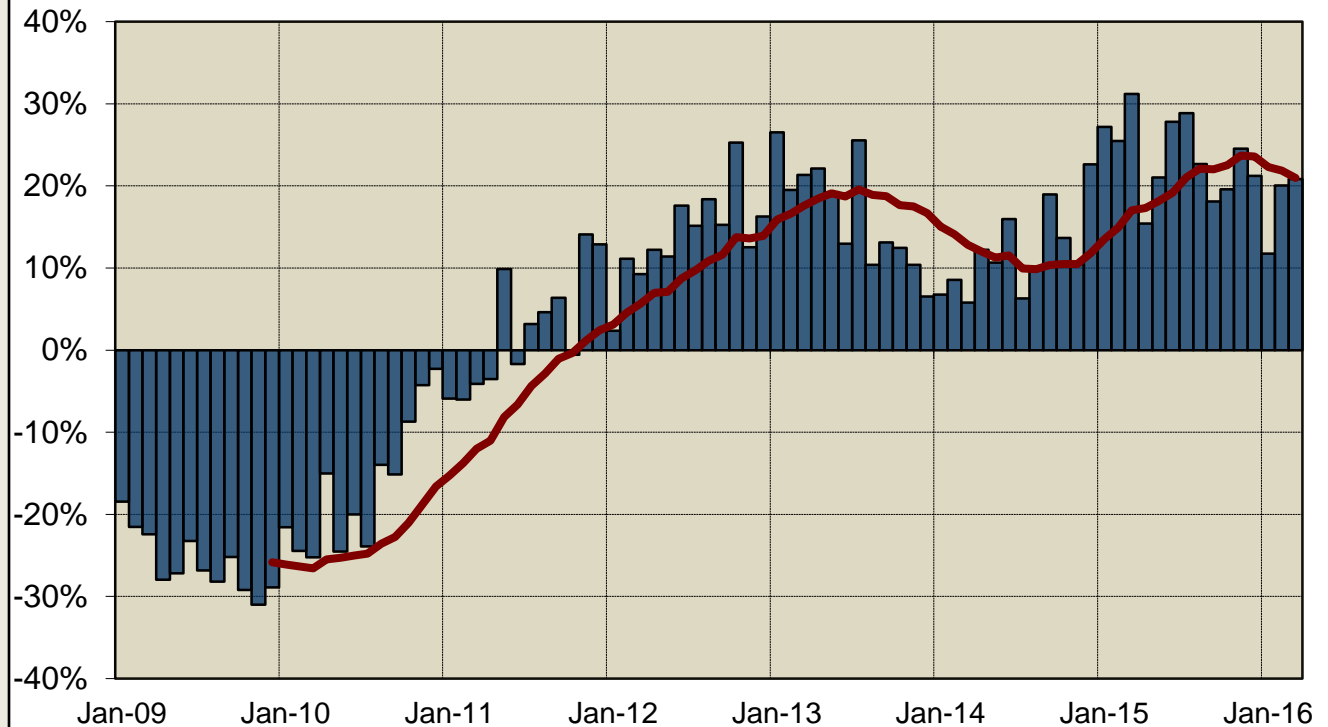
A big driver of sales tax growth the last several years. (40% of sales growth in 2015!).

Growth likely to continue then slow.

Construction Taxable Sales Growth

Percent change, July 2009 to Present

Source: OEFA DOR sales tax DB



Blue = Actual Red = 12 month rolling average



Taxable Sales Forecast

2016 and beyond are looking good due to continuing economic growth.

Forecast for 2016 is for 6.5% growth.

Expect continued growth across most sectors.

Low energy costs continue to be a tailwind for consumers.

March King County Sales and Use Taxbase Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 Forecast
2014	\$52,335,343,480	7.79%	0.00%	\$0
2015	\$57,650,000,000	10.16%	0.81%	\$465,574,400
2016	\$61,415,755,193	6.53%	2.81%	\$1,677,134,688
2017	\$63,836,660,251	3.94%	4.12%	\$2,525,997,667
2018	\$65,937,144,226	3.29%	3.84%	\$2,437,150,420
2019	\$68,523,911,669	3.92%	3.77%	\$2,489,116,194
2020	\$71,251,809,073	3.98%	3.90%	\$2,671,796,777
2021	\$73,994,728,012	3.85%	3.91%	\$2,782,437,707
2022	\$76,787,655,132	3.77%	4.13%	\$3,043,302,070
2023	\$79,860,239,749	4.00%	4.51%	\$3,448,235,884
2024	\$83,008,512,445	3.94%	4.75%	\$3,762,431,704
2025	\$86,231,417,807	3.88%	new	new



Transit Sales Tax Forecast

2015 came in about 0.3% above forecast.

The forecast for 2016 and beyond is revised up reflecting the stronger taxable sales forecast.

Forecasts account for DOR fees, mitigation and annexations.

March Metro Transit Sales Tax Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from September 2015 Forecast	\$ Change from September 2015 Forecast
2014	\$479,433,577	8.26%	0.00%	\$0
2015	\$526,662,198	9.85%	0.27%	\$1,421,611
2016	\$563,624,595	7.02%	2.78%	\$15,226,346
2017	\$585,571,605	3.89%	4.08%	\$22,941,140
2018	\$604,607,111	3.25%	3.80%	\$22,133,835
2019	\$628,062,599	3.88%	3.73%	\$22,606,265
2020	\$652,801,241	3.94%	3.86%	\$24,266,656
2021	\$677,676,931	3.81%	3.87%	\$25,272,334
2022	\$703,007,631	3.74%	4.09%	\$27,643,272
2023	\$730,880,434	3.96%	4.48%	\$31,323,540
2024	\$759,441,620	3.91%	4.71%	\$34,179,162
2025	\$788,681,592	3.85%	new	new

Countywide REET revenues continue to improve

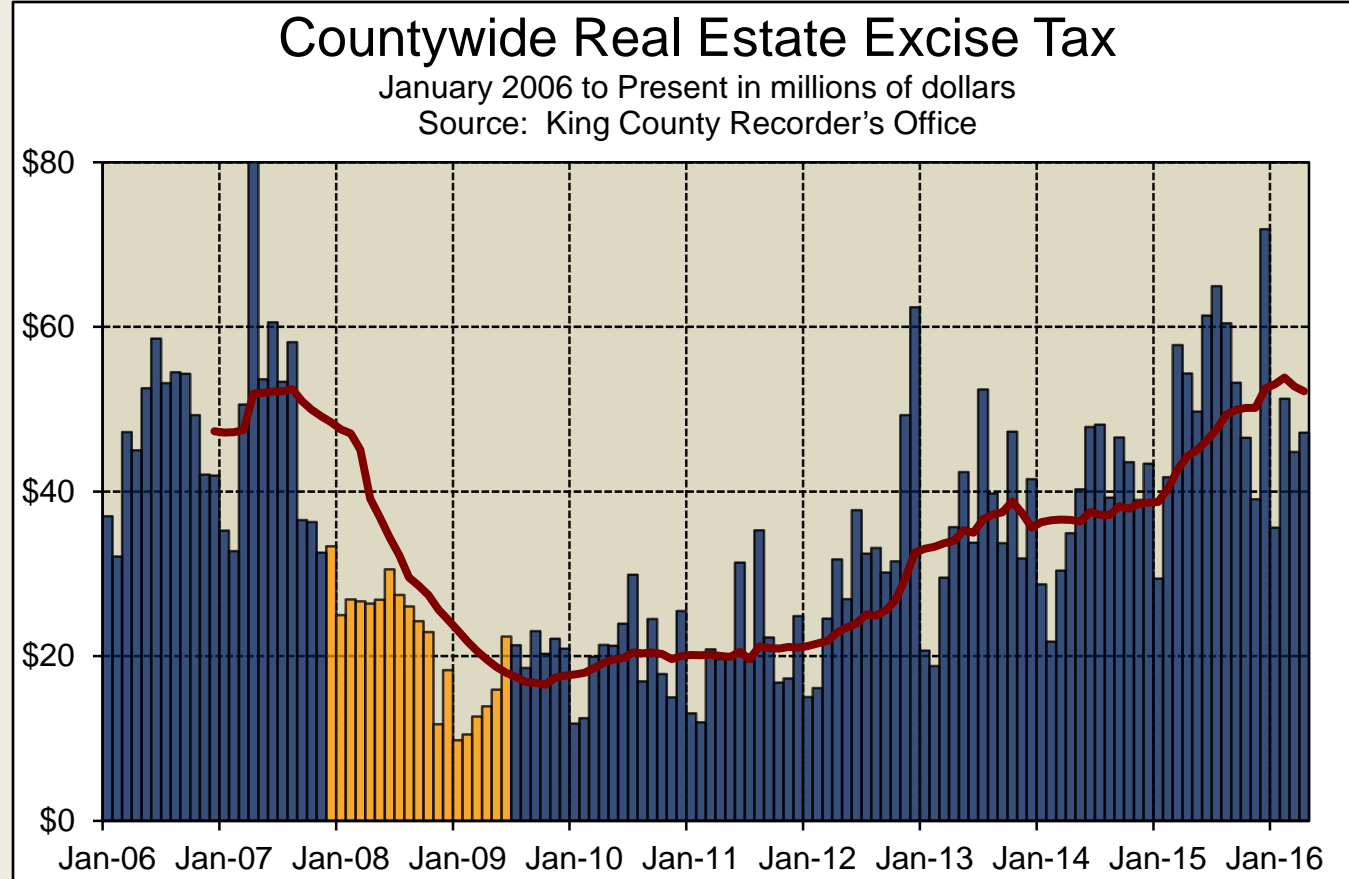
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Economic context: Real estate excise taxes from the KC Recorder's Office

REET revenues have risen significantly since the recession.

Recovering transaction numbers and strong price growth.

Significant commercial activity is also a factor.



Blue = Actual Red = 12 month rolling average Orange = Recession

King County Office of Economic and Financial Analysis

<http://www.kingcounty.gov/business/Forecasting.aspx>