



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

KCFC Resolution

Proposed No. KCFC2022-04.1

Sponsors

1 A RESOLUTION adopting the 2023 economic
2 forecast for King County.

3 WHEREAS, the King County Charter requires the chief economist to prepare and
4 submit an updated official economic and revenue forecast at least one hundred-seventy
5 days prior to the end of each year to be used as the basis for the proposed budget, and

6 WHEREAS, the chief economist has prepared both preliminary and an updated
7 forecast for 2023,

8 NOW, THEREFORE, BE IT RESOLVED BY THE KING COUNTY

9 FORECAST COUNCIL:

KCFC Resolution

- 10 The forecast council hereby adopts the 2023 economic and revenue forecast,
11 prepared in July 2022, as set forth in Attachment A to this resolution.

KCFC Resolution was introduced on and passed by the King County Forecast Council on 7/25/2022, by the following vote:

Yes: 3 - Constantine, Dively and Kohl-Welles
Excused: 1 - McDermott

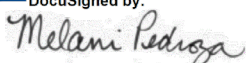
KING COUNTY FORECAST COUNCIL
KING COUNTY, WASHINGTON

DocuSigned by:

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Dow Constantine, Chair

ATTEST:

DocuSigned by:

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Melani Pedroza, Clerk of the Council

Attachments: A. 2023 King County Economic and Revenue Forecast, Presented on: July 25th, 2022,
Dave Reich, Office of Economic and Financial Analysis

2023 King County Economic and Revenue Forecast

Presentation to the King County Forecast Council

Presented on:
July 25th, 2022

Dave Reich
Office of Economic and Financial Analysis



Overview

U.S. economic picture complicated

- Covid-19 continues-new variants, vaccines, continuing risk (e.g., China)
- Inflation has risen to very elevated levels and affects everyone
- U.S. Fed is committed to getting it back to around 2%, so raising rates quickly
- Geopolitics/politics: Ukraine war, de-globalization, mid-terms
- Growth, recession, stagflation?

2022 year-to-date has been mixed but economy will slow

- Employment adds YTD average 460K/mo. and U=3.6%-strong labor market!
- June CPI over 9%-high inflation!
- GDP contracted in 1Q and possibly in 2Q-recession?!
- Fed trying to slow economic growth without a recession-tricky!
- Growth will be slow, unemployment will rise, inflation will slow

KC economy should continue growth but at a slower pace in 2022-2023

- KC likely back to pre-pandemic employment in June, U=about 2%!
- Slower rate of employment growth, real estate growth, taxable sales in the future
- Elevated risk of a recession which would mean even slower/negative growth
- Risks remain; virus variants, Ukraine and commodities, WFH

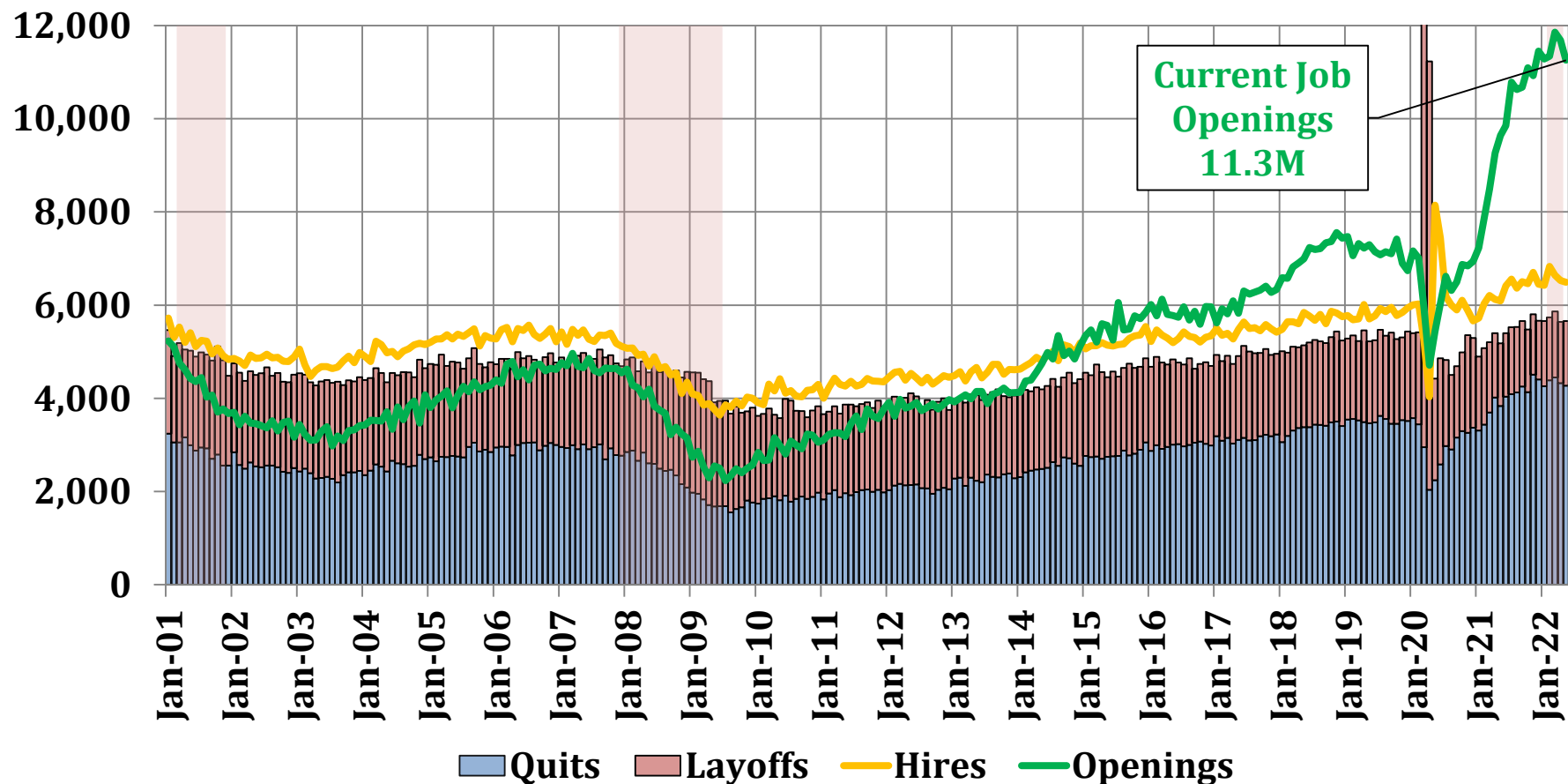
There are 11.3 million job openings putting upward pressure on wages



Hires and Separations: 11.3 Million Open Jobs

Job Openings and Labor Turnover Survey, SA (in thousands); January 2001-Present

Source: BLS



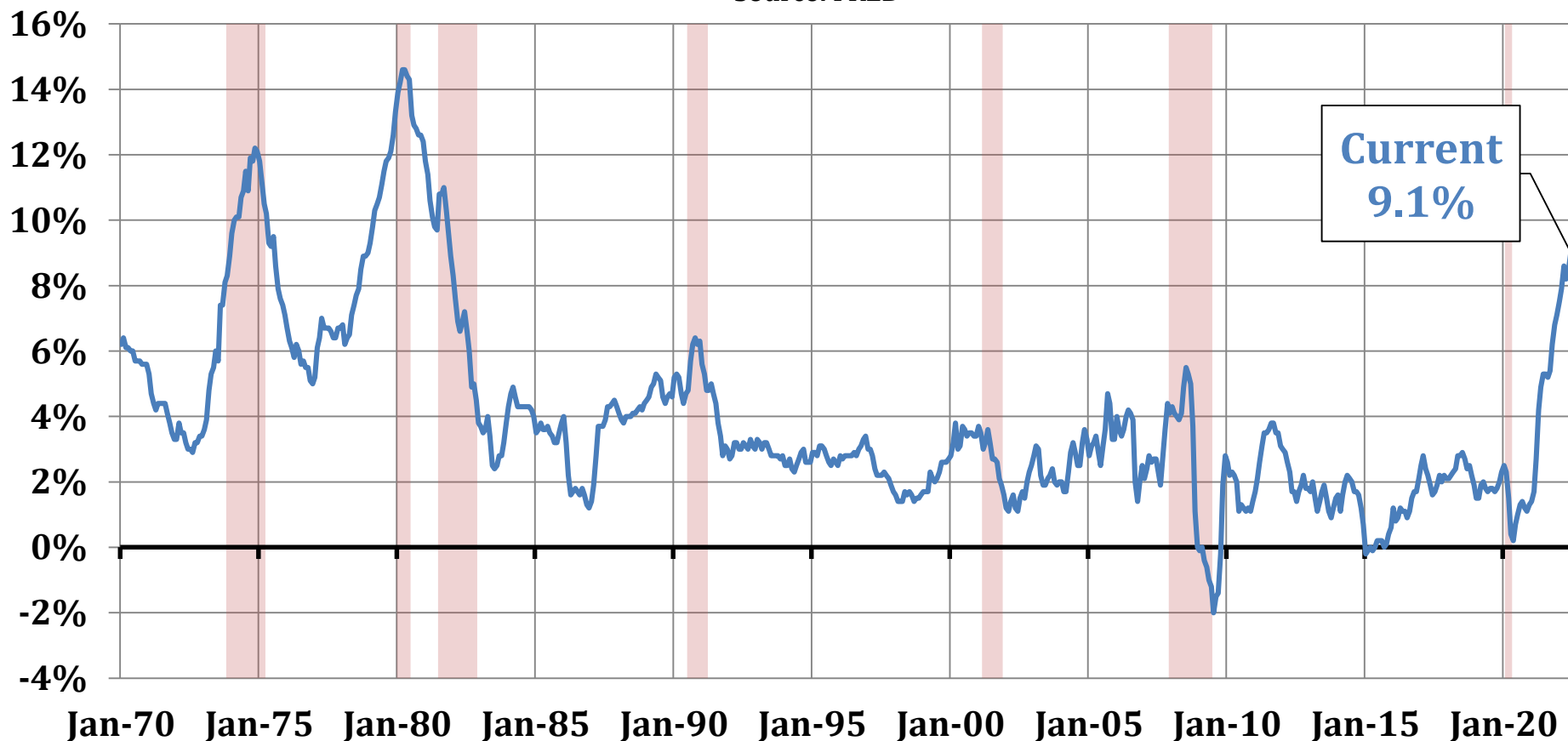
This is contributing to inflation levels not seen since the 1980s



U.S. Inflation

National CPI-U YOY% Growth; January 1970-Present

Source: FRED

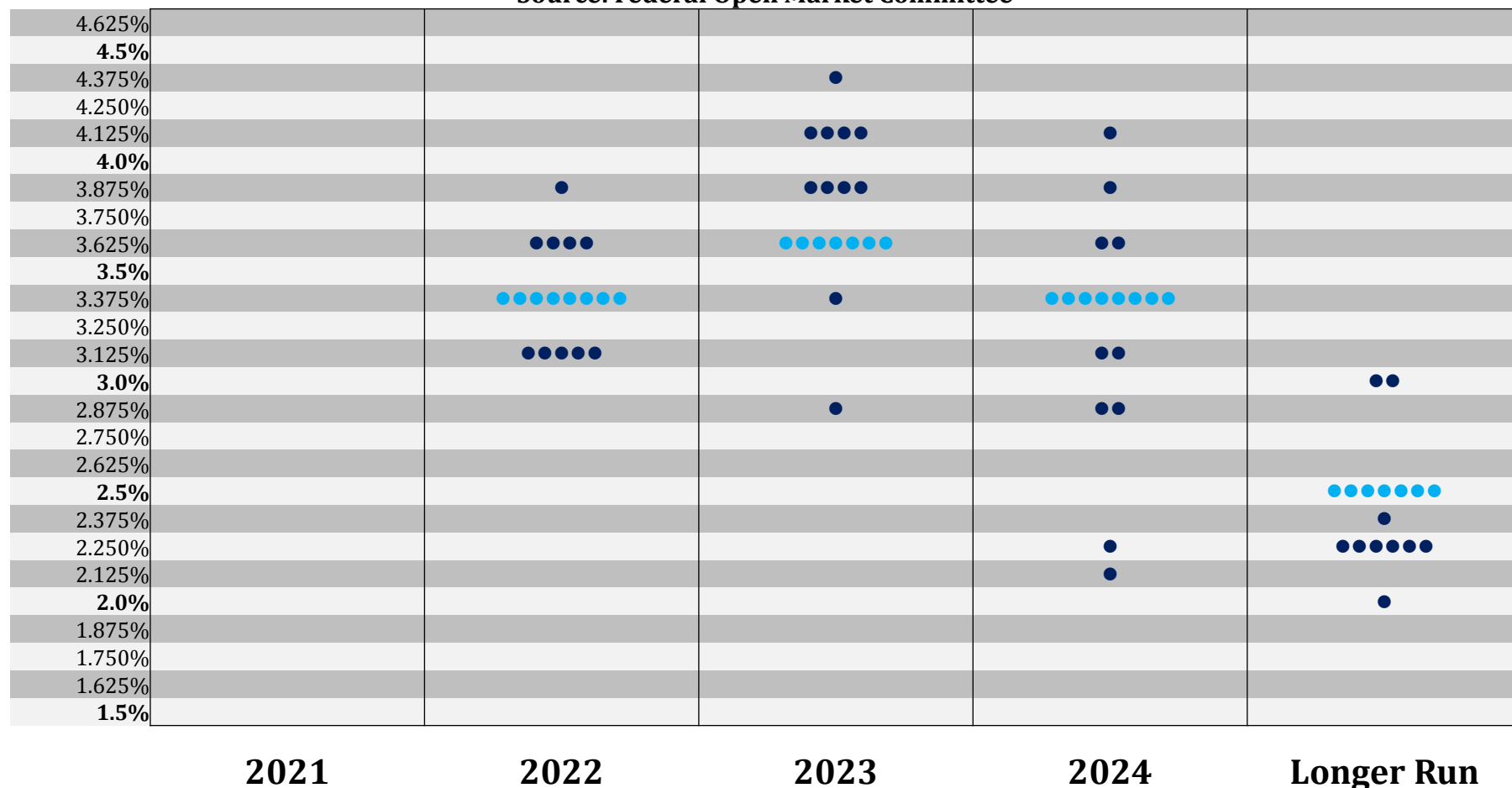


The Federal Reserve expects to raise rates rapidly to slow inflation



The Fed's "Dot Plot"

Published June 15, 2022
Source: Federal Open Market Committee



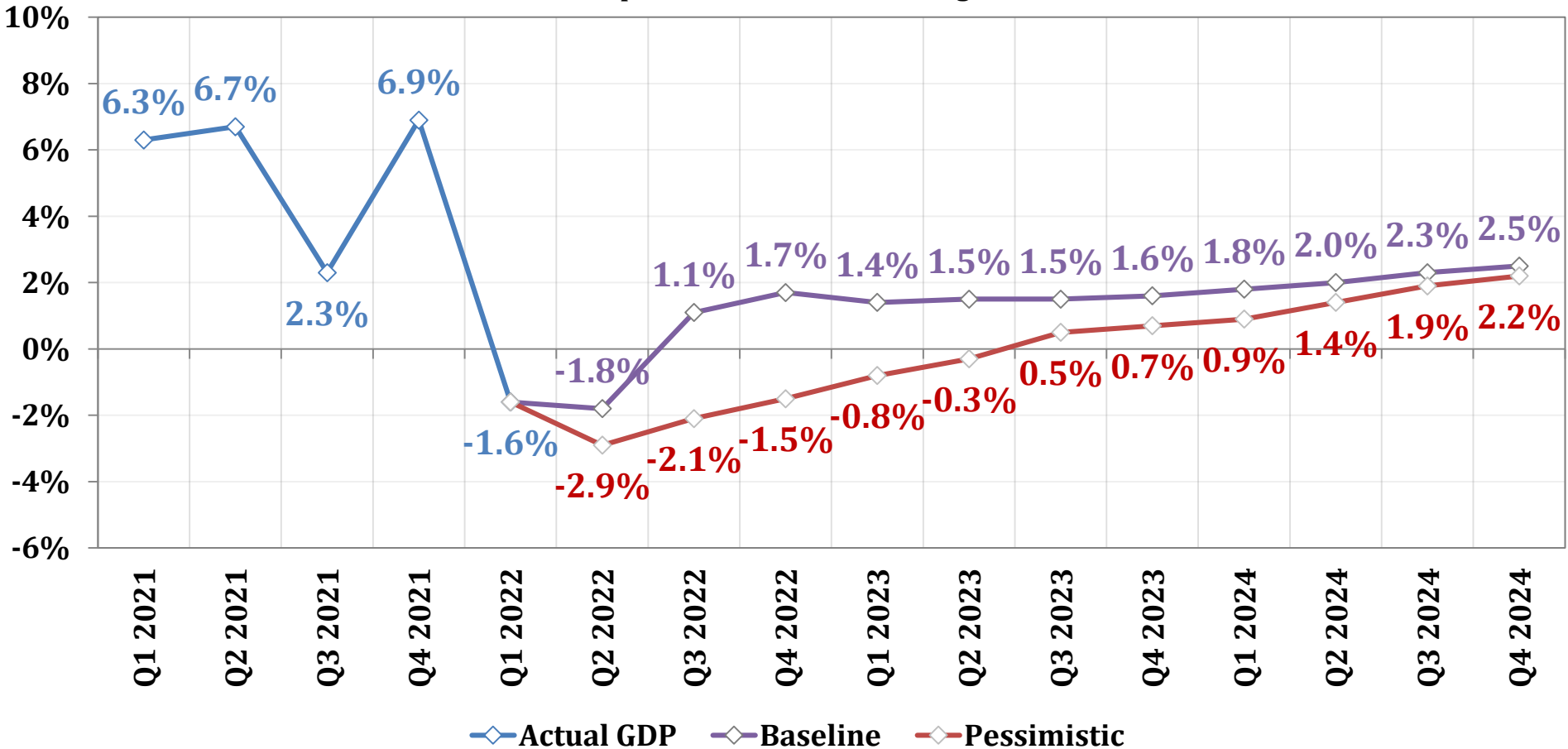
This will also slow economic (GDP) growth and increases the likelihood of a recession



U.S. Real GDP Growth Forecast

SAAR; with **Baseline** and **Pessimistic** Forecasts

Source: Blue Chip Indicators, IHS Global Insight



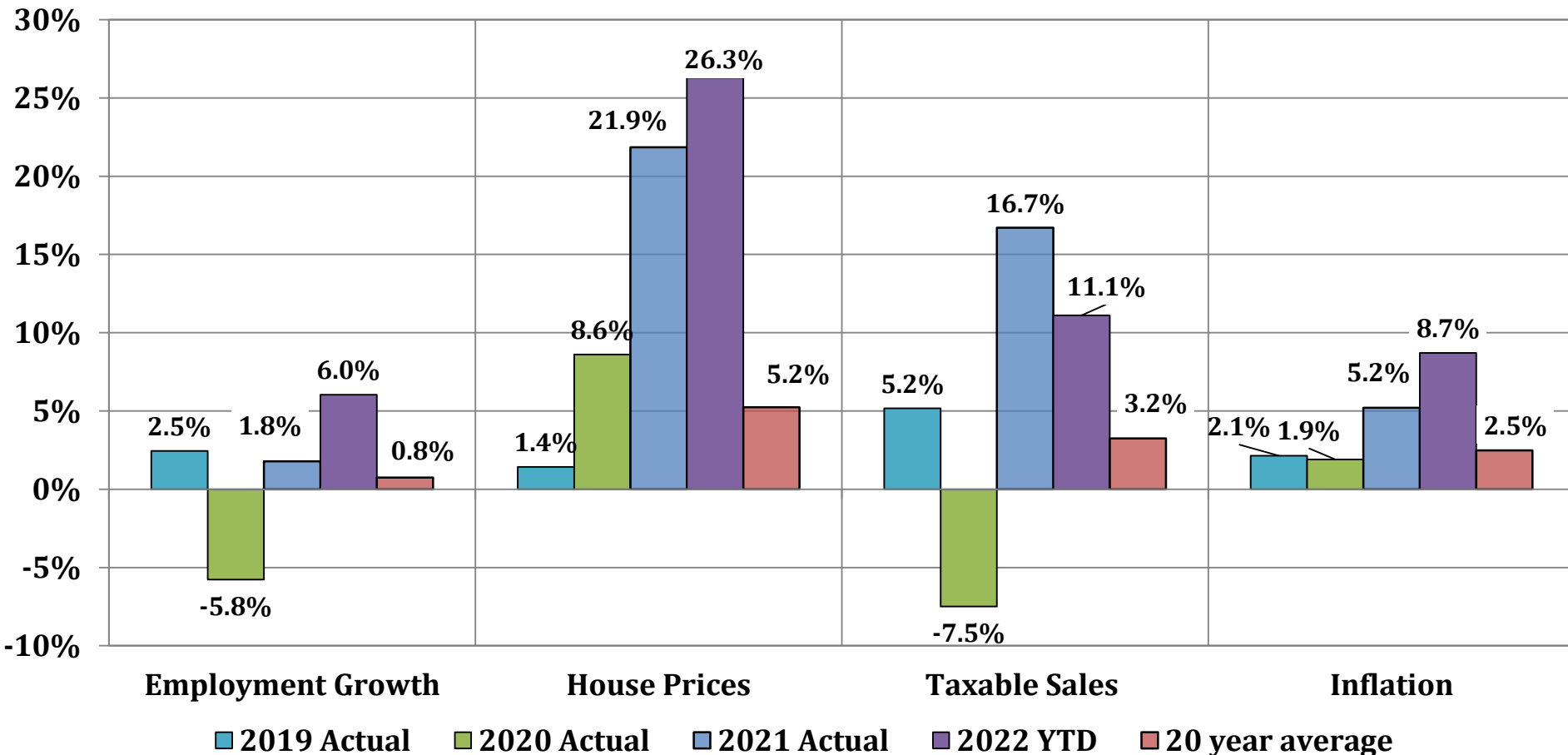
King County indicators continue to show recovery but also imbalances



King County Economic Indicators

2019-2021 Actuals & 2022 Actuals YTD & 20 Year Average

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



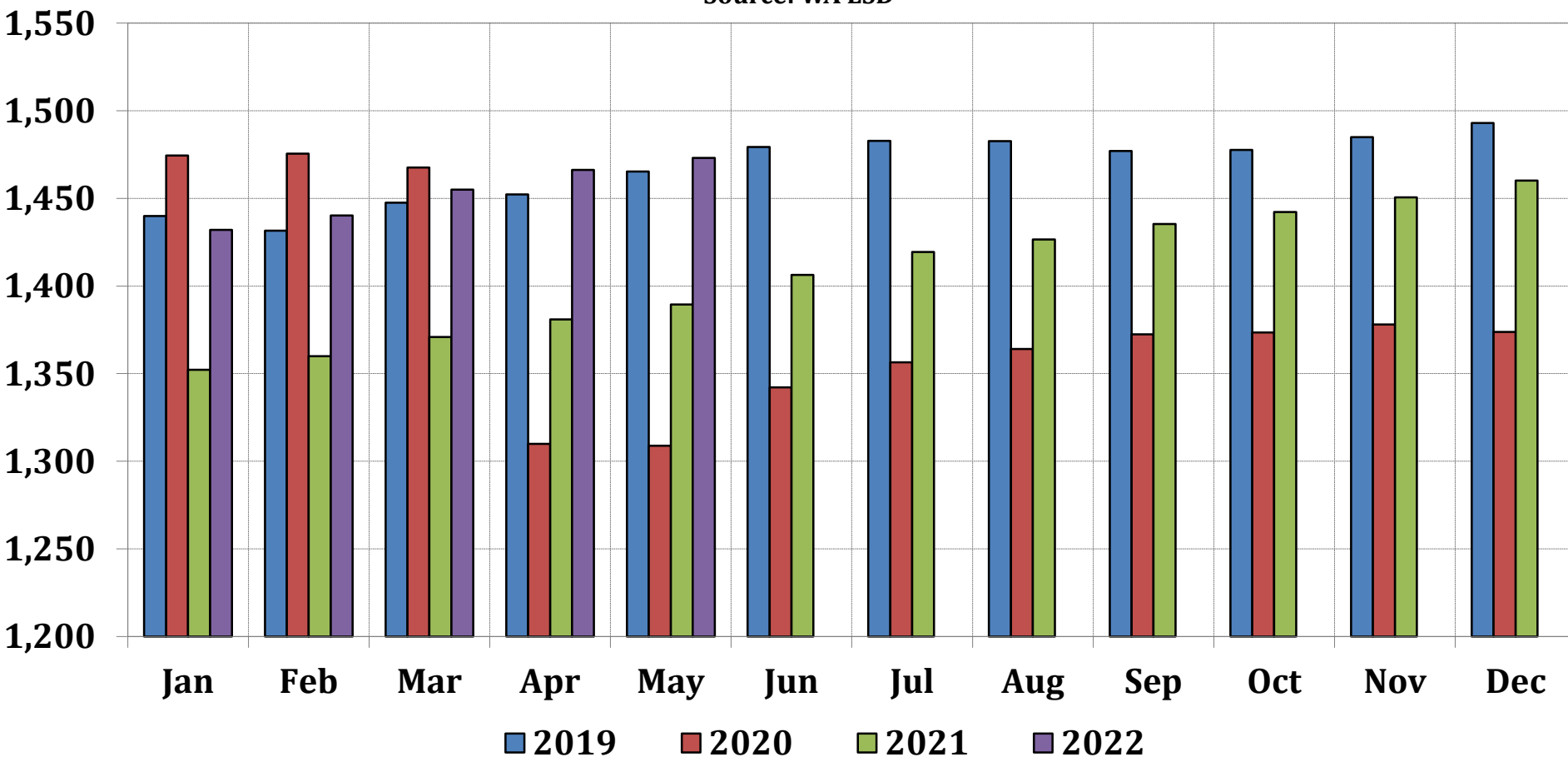
Employment is down 2,500 jobs compared with February 2020-likely fully recovered in June



King County Total Non-Farm Employment

Monthly job totals (in thousands), January 2019 to Present

Source: WA ESD



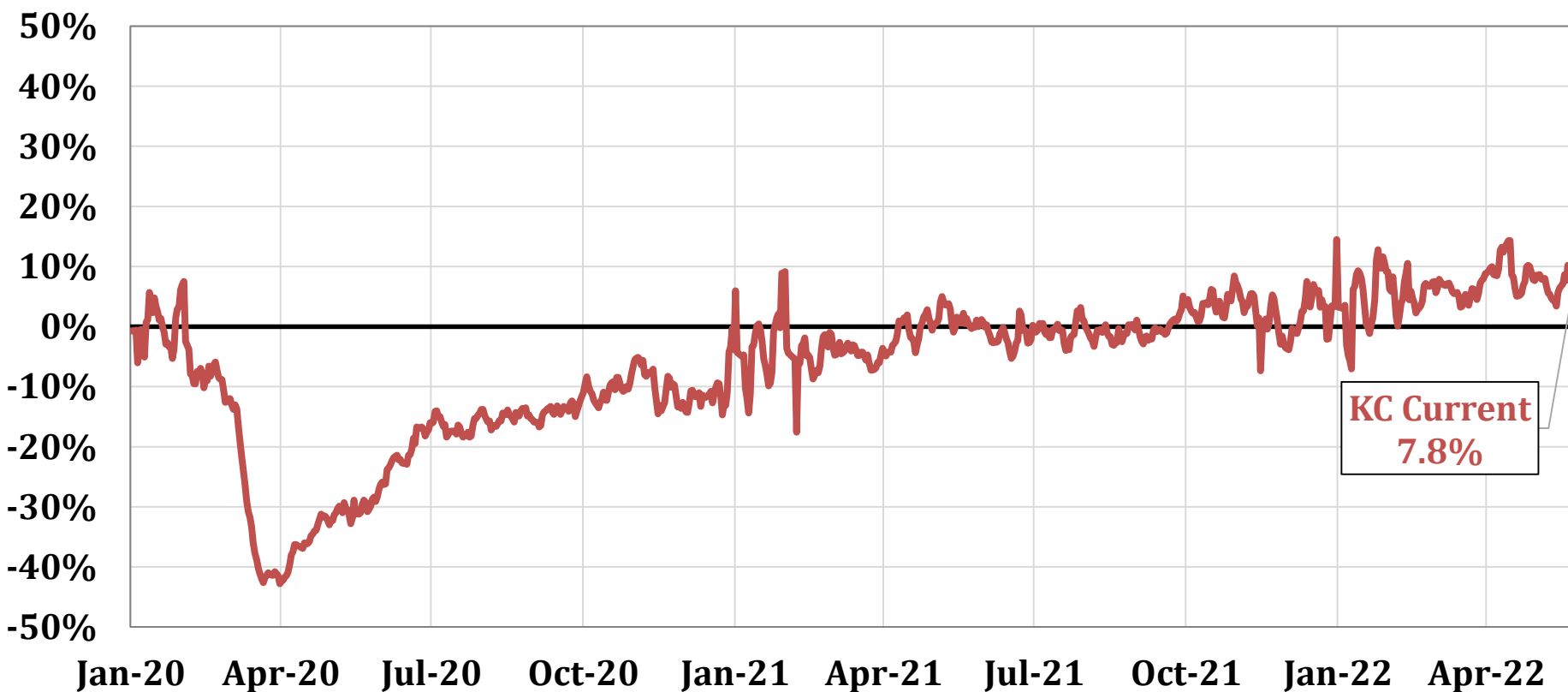
Consumer spending is holding up



Total Spending by All Consumers

Growth in Spending in KC relative to January 2020

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



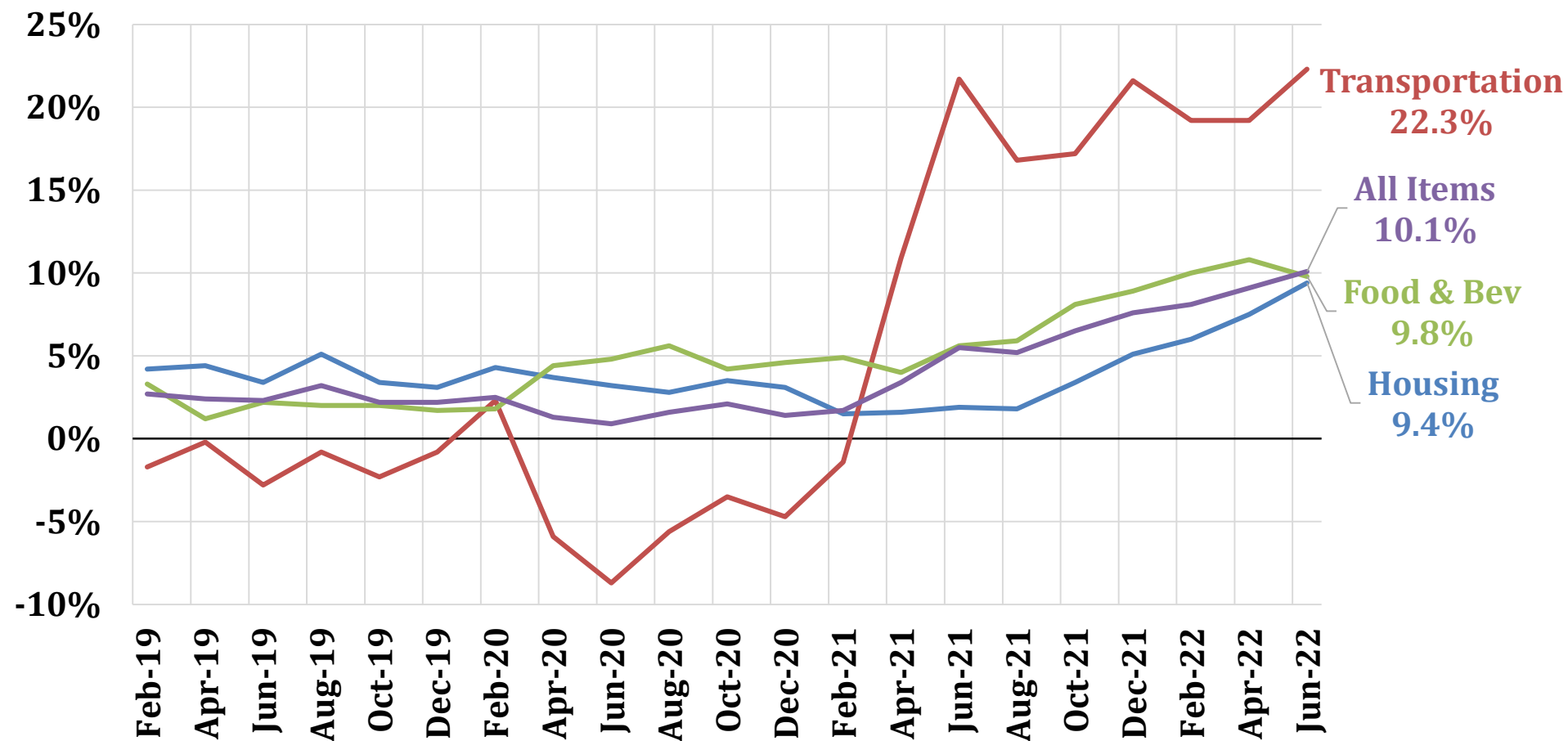
Local inflation still rising so far in 2022- looking for moderation later this year



Seattle Inflation: Food, Transportation, and Housing

Year-over-year Growth in STB CPI-U for Food, Housing, and Transportation in Seattle Area

Source: Bureau of Labor Statistics

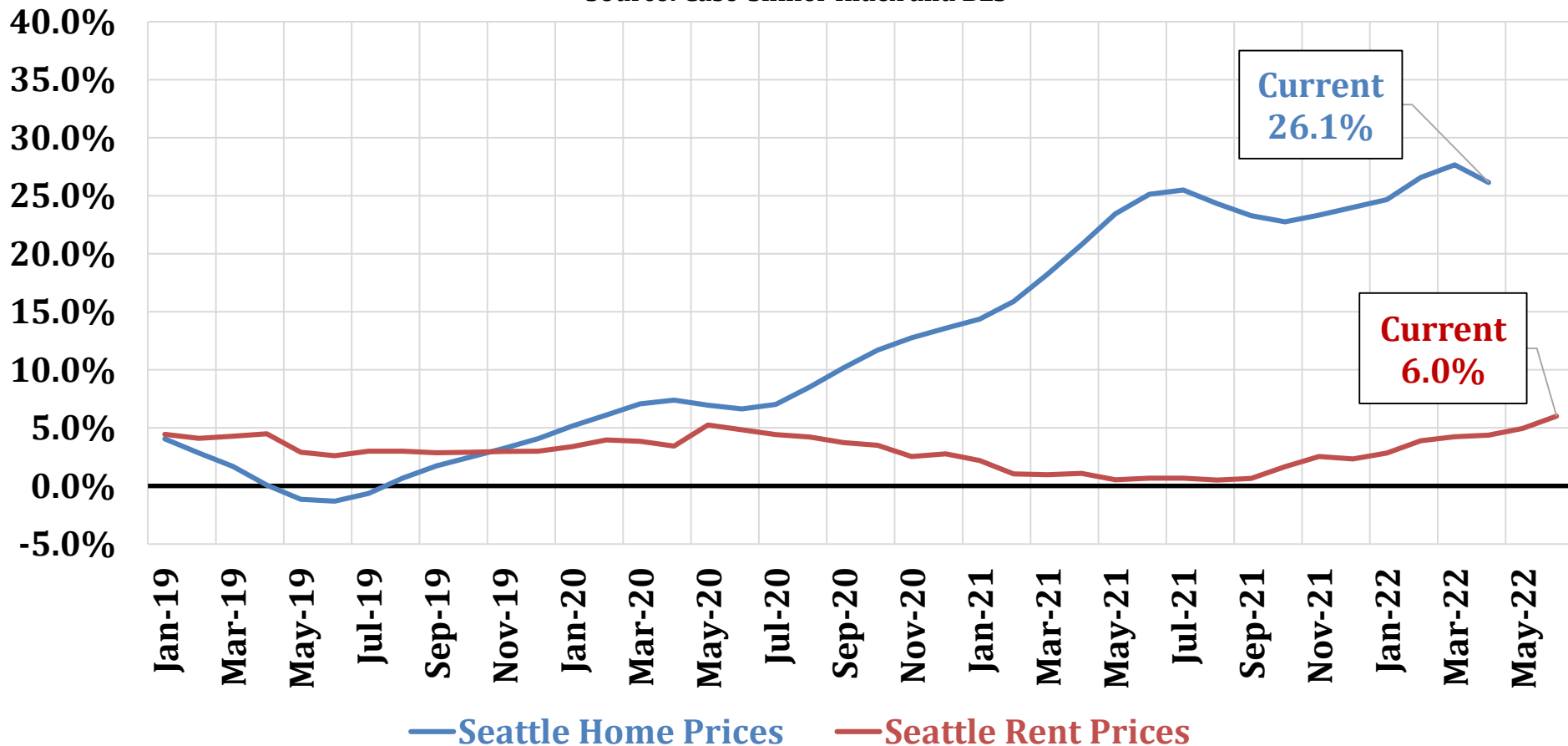


House prices have likely peaked as higher mortgage rates impact the market



Seattle House Price Growth & Rent Price Growth

Monthly year-over-year growth in House and Rental Prices; Jan 2019-Current
Source: Case-Shiller Index and BLS



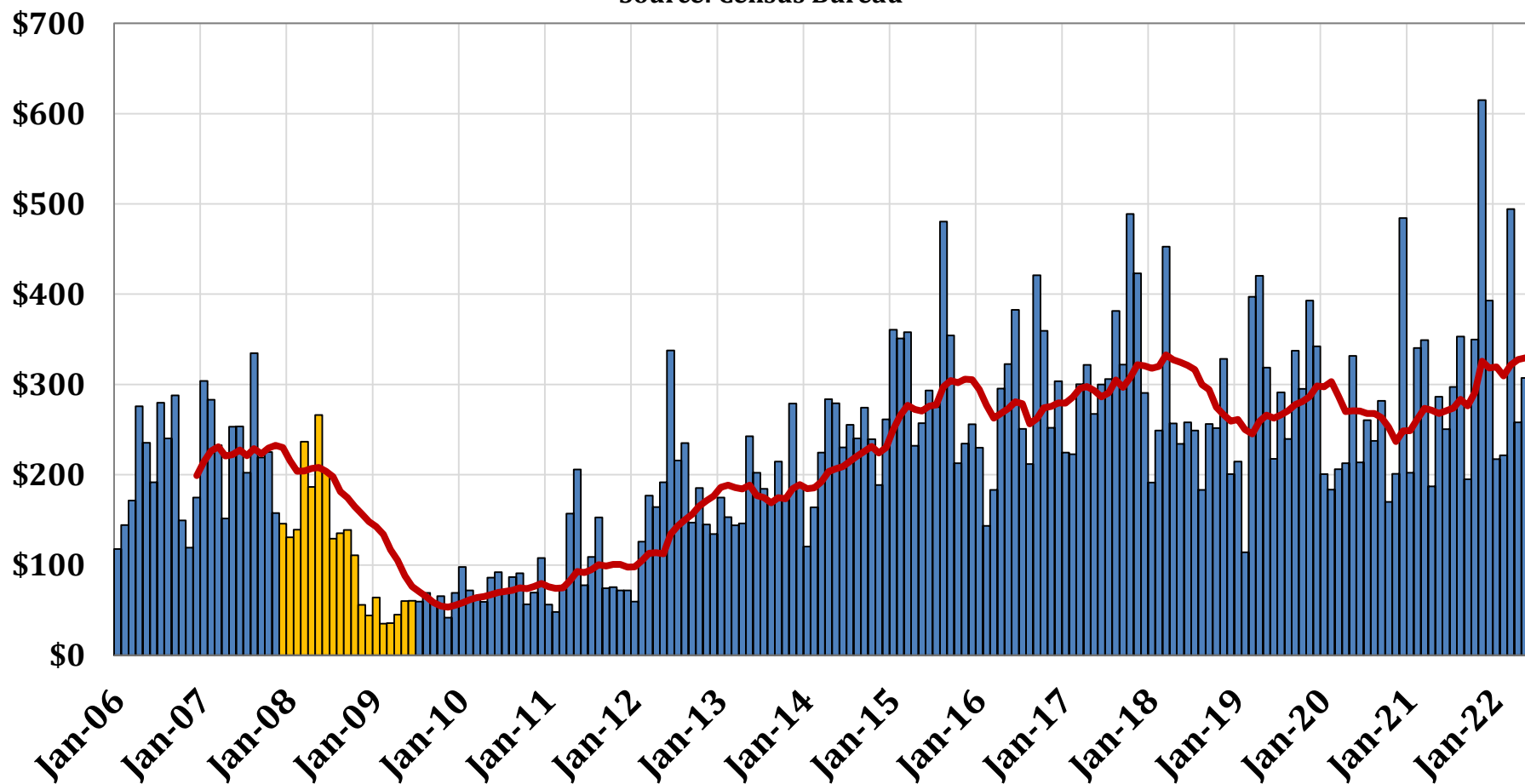
Residential permitting is holding up on continued multi-family strength



King County Residential Permit Values

Monthly Value of All Permits (in mil\$) Jan. 2006-Current with **Rolling Annual Avg.**

Source: Census Bureau



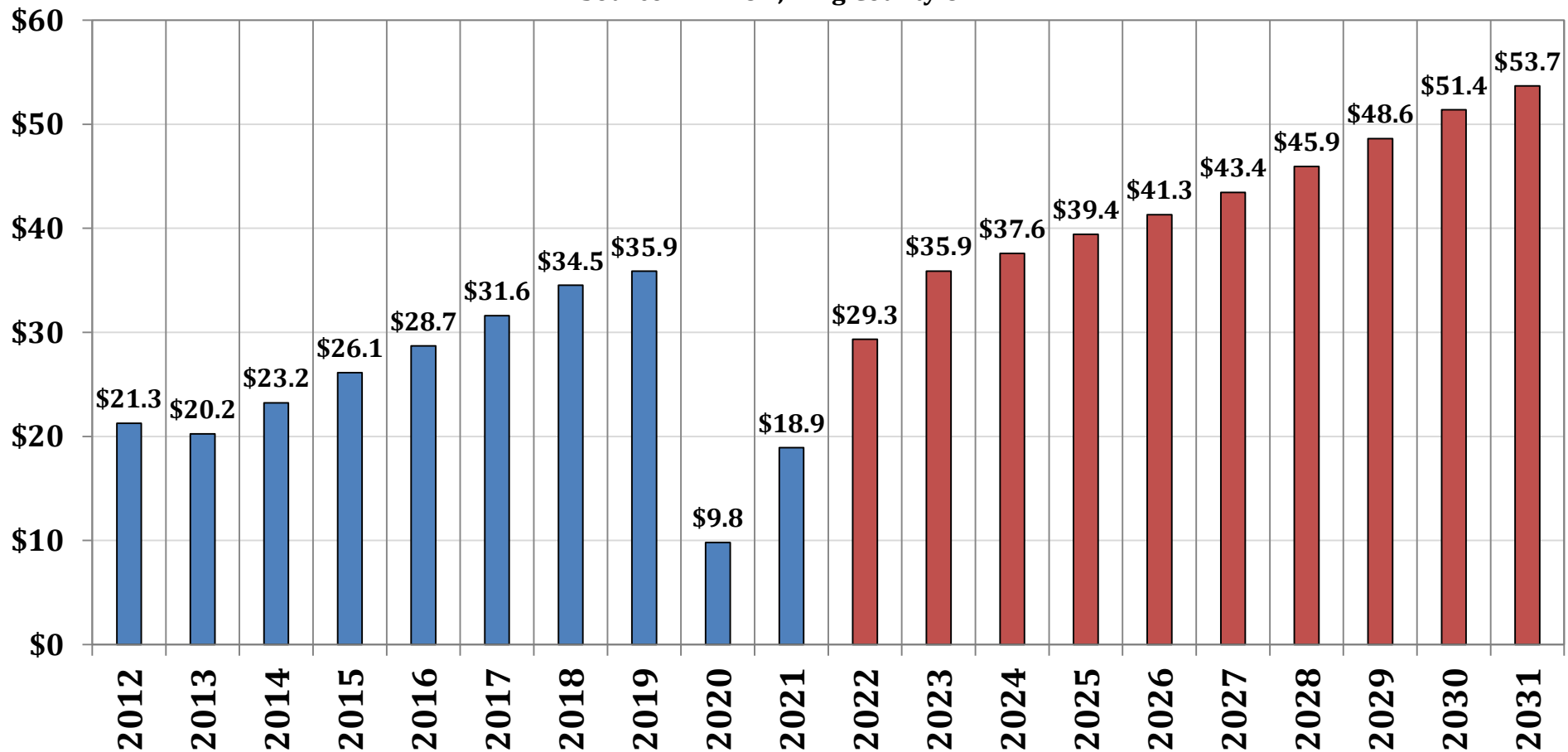
Tourism was hit hard during Covid but is recovering in 2022



KC Hotel Tax Forecast

In millions \$, with Actuals and Forecast bars

Source: WA DOR, King County OEFA



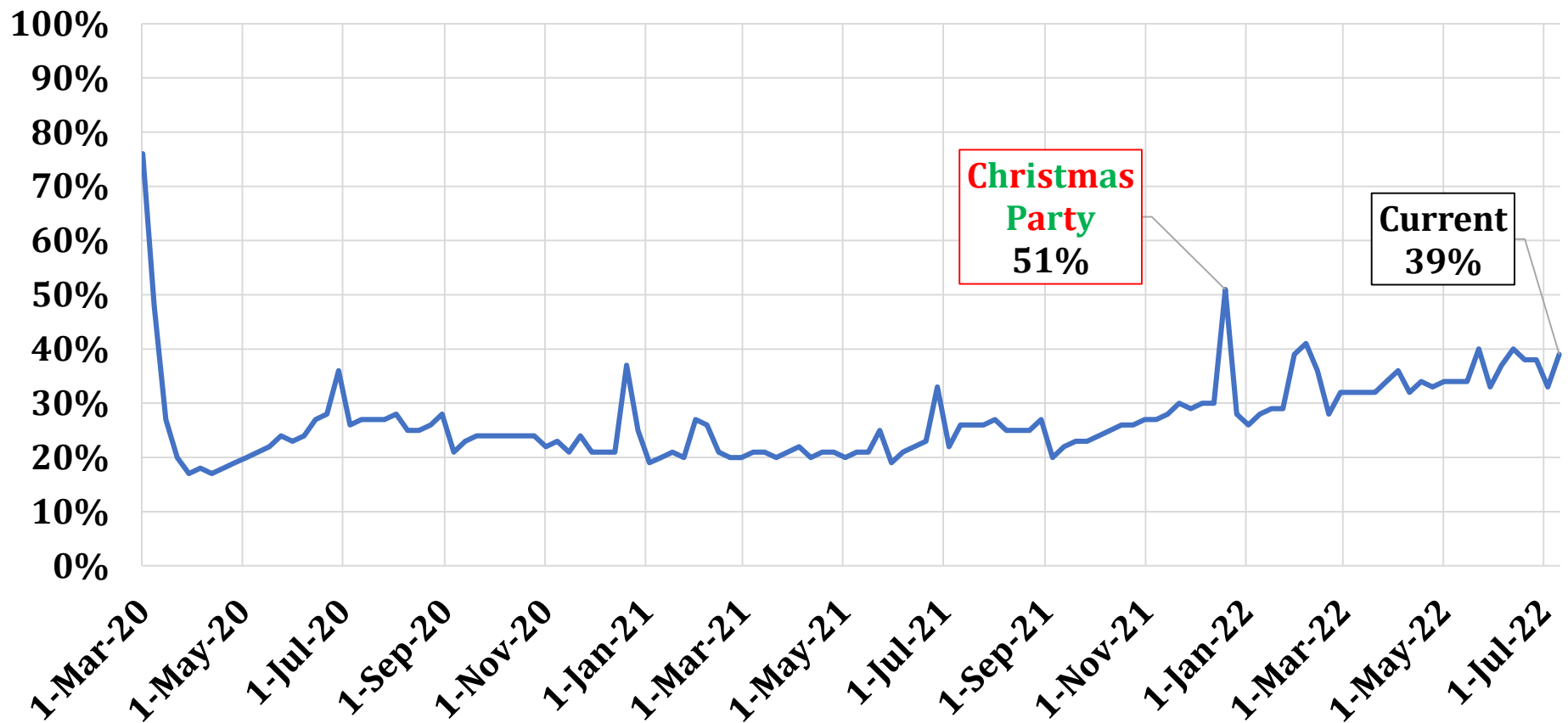
Office recovery in downtown Seattle- slow so far



Share of Office Workers Visiting Downtown

Estimated Weekly Percentage; March 2020-Current

Source: Downtown Seattle Association



July 2022 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 | (01-01-26) |
| -Renton West Hill | (01-01-26) |
| -Fairwood | (01-01-27) |
| -Renton East Hill | (01-01-28) |
| - N. Federal Way/Lakeland South | (01-01-28) |

Countywide Assessed Value Forecast

| Tax Year | Value | Annual Growth | % Change from March 2022 Forecast | \$ Change from March 2022 Forecast |
|----------|---------------------|---------------|-----------------------------------|------------------------------------|
| 2020 | \$642,490,492,044 | 5.91% | 0.00% | \$0 |
| 2021 | \$659,534,881,337 | 2.65% | 0.00% | \$0 |
| 2022 | \$722,527,903,972 | 9.55% | 0.00% | \$0 |
| 2023 | \$832,973,230,370 | 15.29% | 2.83% | \$22,942,406,809 |
| 2024 | \$860,058,293,244 | 3.25% | -0.81% | (\$7,031,378,432) |
| 2025 | \$901,453,235,099 | 4.81% | -1.26% | (\$11,477,962,266) |
| 2026 | \$947,653,922,792 | 5.13% | -1.52% | (\$14,646,474,522) |
| 2027 | \$995,818,621,117 | 5.08% | -1.62% | (\$16,425,975,452) |
| 2028 | \$1,047,657,337,004 | 5.21% | -1.93% | (\$20,623,337,926) |
| 2029 | \$1,101,077,097,811 | 5.10% | -2.15% | (\$24,242,061,394) |
| 2030 | \$1,160,484,023,446 | 5.40% | -2.27% | (\$26,995,941,497) |
| 2031 | \$1,218,462,663,025 | 5.00% | -2.39% | (\$29,892,600,034) |

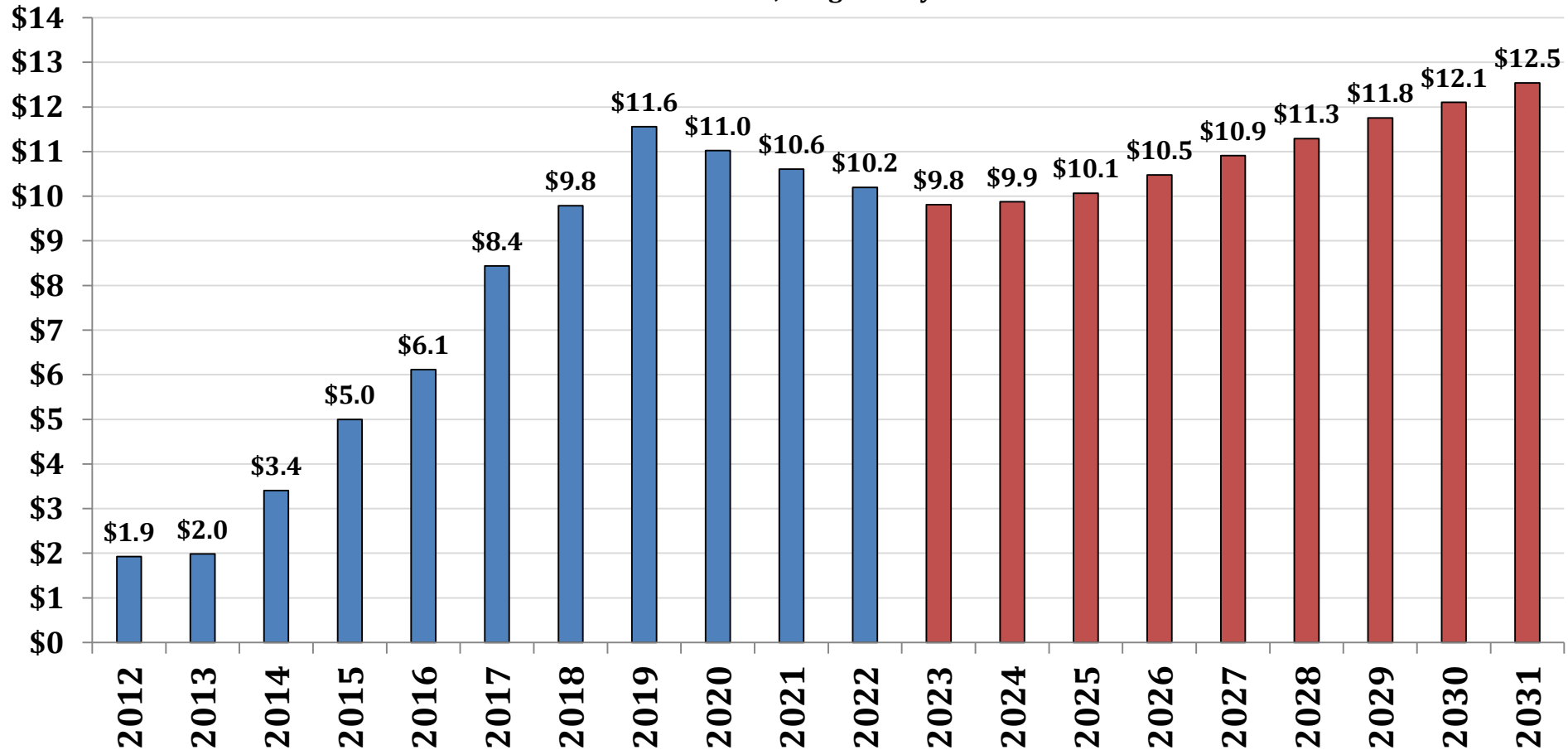
New Construction Forecast



King County New Construction Forecast

In billions \$, **with Actuals** and **Forecast bars**

Source: KC DOA, King County OEFA



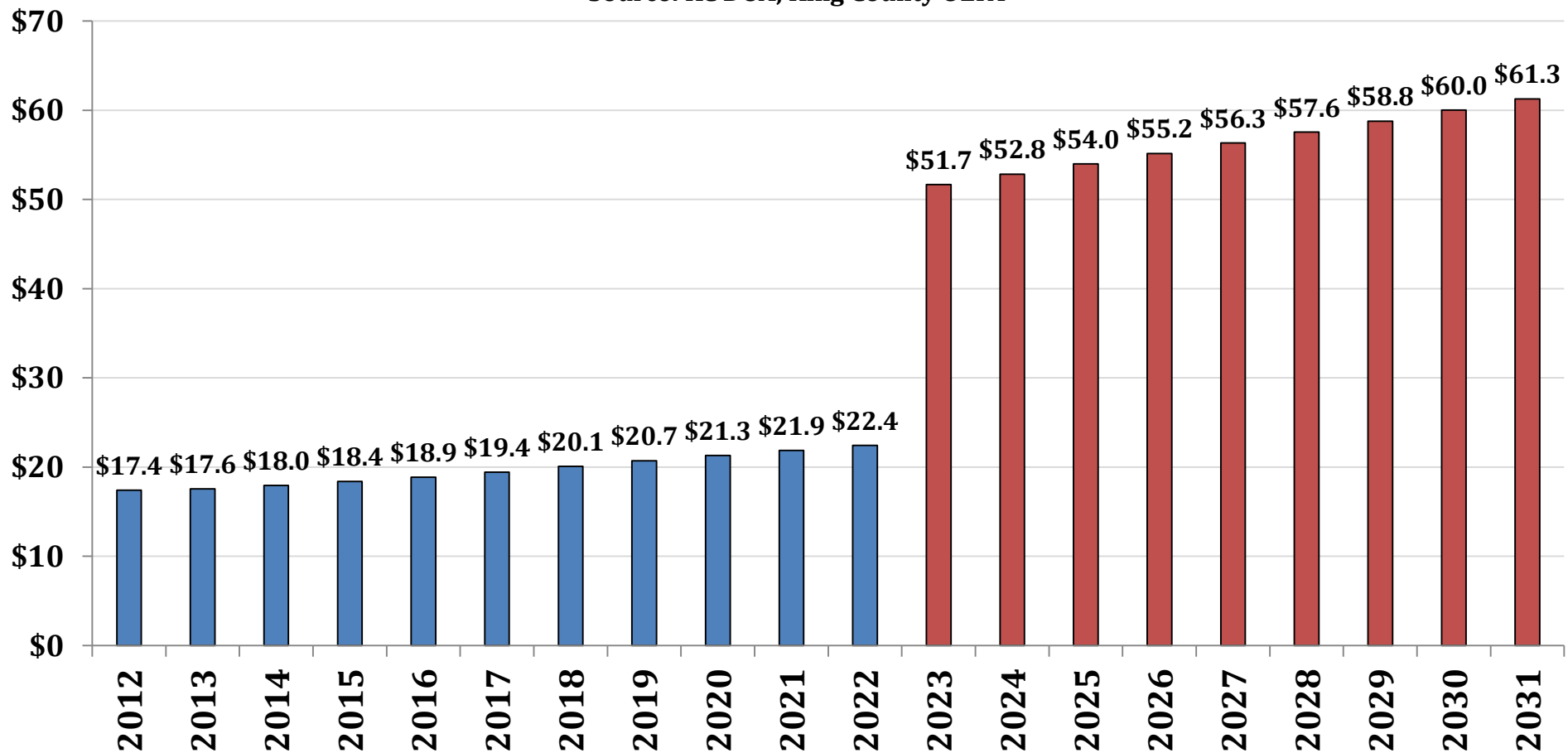
Conservation Futures Forecast



King County Conservation Futures Forecast

In millions \$, with Actuals and Forecast bars

Source: KC DOA, King County OEFA



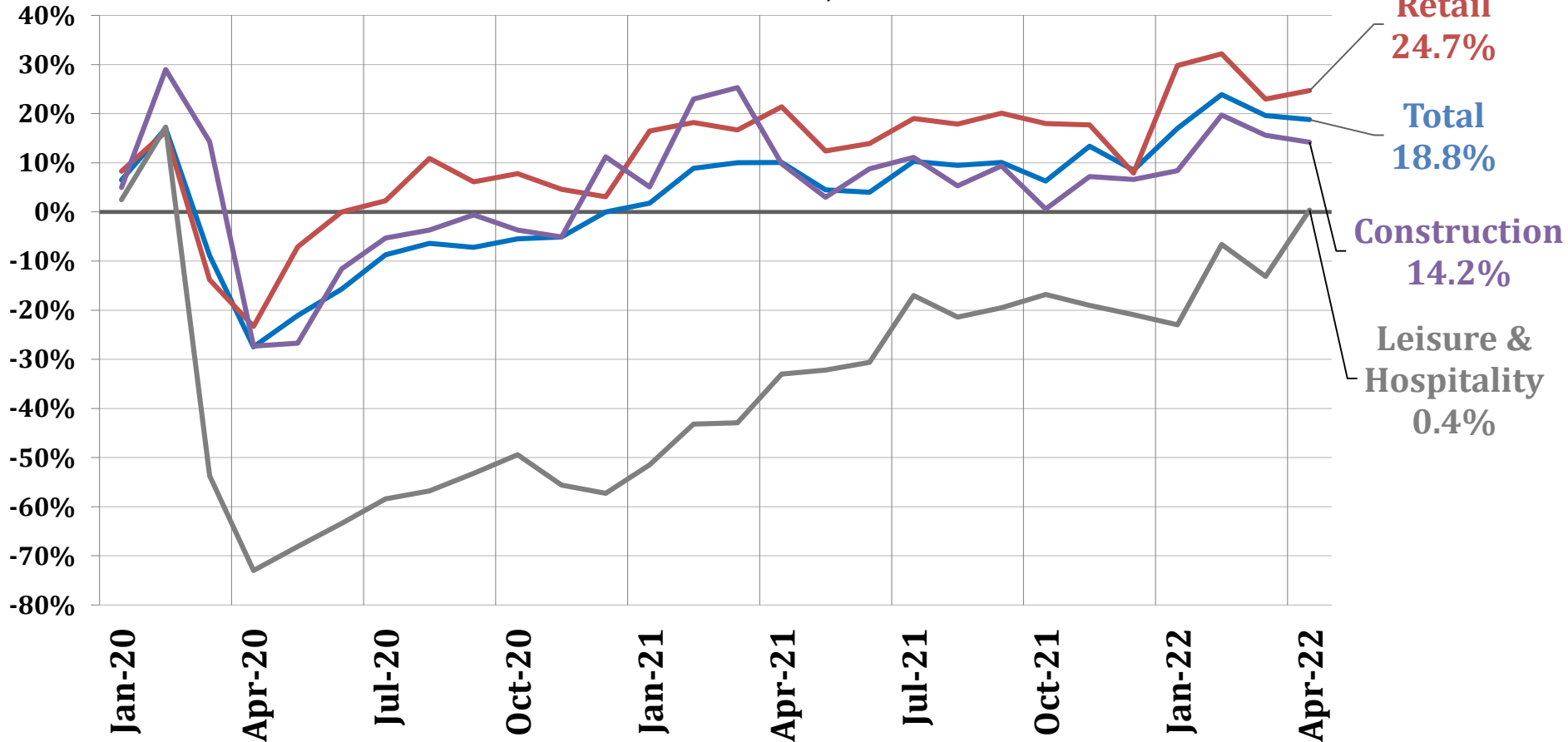
Taxable sales overall came back in 2021 but leisure and hospitality just reached positive territory in April 2022



Taxable Sales Growth

Monthly growth rates of taxable sales for select sectors relative to 2019 month

Source: WA DOR, KC OEFA



King County Taxable Sales Forecast

| Tax Year | Value | Annual Growth | % Change from March 2022 Forecast | \$ Change from March 2022 Forecast |
|----------|-------------------|---------------|-----------------------------------|------------------------------------|
| 2020 | \$70,728,682,615 | -7.53% | 0.00% | \$0 |
| 2021 | \$82,495,306,590 | 16.64% | 0.12% | \$95,306,590 |
| 2022 | \$88,374,857,819 | 7.13% | 1.37% | \$1,192,495,015 |
| 2023 | \$91,952,938,450 | 4.05% | 0.63% | \$576,002,614 |
| 2024 | \$96,163,139,650 | 4.58% | -0.11% | (\$109,793,848) |
| 2025 | \$100,216,003,150 | 4.21% | -0.66% | (\$661,819,653) |
| 2026 | \$104,790,037,358 | 4.56% | -0.86% | (\$908,278,459) |
| 2027 | \$109,302,308,834 | 4.31% | -2.08% | (\$2,323,978,983) |
| 2028 | \$114,617,283,852 | 4.86% | -2.35% | (\$2,764,148,588) |
| 2029 | \$120,045,074,934 | 4.74% | -2.37% | (\$2,918,850,527) |
| 2030 | \$126,012,542,377 | 4.97% | -2.14% | (\$2,754,534,980) |
| 2031 | \$131,764,719,363 | 4.56% | -2.17% | (\$2,918,338,914) |

King County Local & Option Sales Tax Forecast

| Tax Year | Value | Annual Growth | % Change from March 2022 Forecast | \$ Change from March 2022 Forecast |
|-----------------|---------------|----------------------|--|---|
| 2020 | \$132,079,220 | -4.04% | 0.00% | \$0 |
| 2021 | \$155,146,050 | 17.46% | 0.00% | \$0 |
| 2022 | \$164,961,862 | 6.33% | 1.84% | \$2,974,242 |
| 2023 | \$168,483,723 | 2.13% | 1.58% | \$2,624,031 |
| 2024 | \$175,372,602 | 4.09% | 0.36% | \$626,109 |
| 2025 | \$181,903,621 | 3.72% | -0.66% | (\$1,201,279) |
| 2026 | \$182,280,226 | 0.21% | -1.03% | (\$1,900,809) |
| 2027 | \$187,342,767 | 2.78% | -2.41% | (\$4,626,572) |
| 2028 | \$191,639,361 | 2.29% | -2.86% | (\$5,639,073) |
| 2029 | \$200,711,266 | 4.73% | -3.35% | (\$6,956,764) |
| 2030 | \$210,731,909 | 4.99% | -2.58% | (\$5,572,737) |
| 2031 | \$220,346,006 | 4.56% | -2.95% | (\$6,696,829) |

State law on penalties and interest for delinquent property taxes has changed impacting general fund revenues

| Tax Year | Value | Annual Growth | % Change from March 2022 Forecast | \$ Change from March 2022 Forecast |
|----------|--------------|---------------|-----------------------------------|------------------------------------|
| 2020 | \$20,379,665 | -4.19% | 0.00% | \$0 |
| 2021 | \$28,056,272 | 37.67% | 0.00% | (\$0) |
| 2022 | \$22,886,923 | -18.42% | -12.39% | (\$3,236,330) |
| 2023 | \$18,195,168 | -20.50% | -24.98% | (\$6,059,583) |
| 2024 | \$16,643,525 | -8.53% | -29.46% | (\$6,949,629) |
| 2025 | \$16,876,300 | 1.40% | -29.49% | (\$7,059,439) |
| 2026 | \$17,124,966 | 1.47% | -29.63% | (\$7,211,318) |
| 2027 | \$17,381,820 | 1.50% | -29.88% | (\$7,406,779) |
| 2028 | \$17,712,219 | 1.90% | -29.99% | (\$7,588,737) |
| 2029 | \$18,010,603 | 1.68% | -30.21% | (\$7,794,688) |
| 2030 | \$18,186,466 | 0.98% | -30.35% | (\$7,924,889) |
| 2031 | \$18,337,106 | 0.83% | -30.39% | (\$8,004,923) |

Estimated selected revenue impacts from recession scenarios

| 2022-2024 Revenue Impacts-Selected Recessions | | | | | | |
|---|------------------|--|--|---|---|--|
| | Revenue Item | 65% CI (Base) Revenue Forecast (2022-2024) | Revenue Reduction (Modest Recession,\$) | Revenue Reduction (Modest Recession,%) | Revenue Reduction (More Severe Recession,\$) | Revenue Reduction (More Severe Recession,%) |
| 1 | Local and Option | \$509M | \$9M-\$21M | 2%-4% | 36M-\$42M | 7%-9% |
| 2 | Metro | \$2.48B | \$46M-\$101M | 2%-4% | \$170M-\$210M | 7%-9% |
| 3 | MIDD | \$271M | \$5M-\$11M | 2%-4% | \$18M-\$22M | 7%-9% |
| 4 | CJ | \$55M | \$1M-\$2M | 2%-4% | \$3M-\$5M | 6%-9% |
| 5 | HTH | \$205M | \$4M-\$8M | 2%-4% | \$14M-\$18M | 7%-9% |
| 6 | KC Hotel | \$103M | \$2M-\$4M | 2%-4% | \$5M-\$6M | 5%-6% |
| 7 | KC Car Rental | \$14M | \$0.2M-\$0.4M | 1%-3% | \$1M-\$1.5M | 7%-11% |

Note: The modest recession is based on a pessimistic scenario supplied by our vendor (Global Insight) and the 1990-1991 recession taxable sales growth rates. The more severe recession uses growth rates from the 2001 recession.

King County Office of Economic and Financial Analysis

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

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Required hardware and software

| | |
|--------------------|---|
| Operating Systems: | Windows® 2000, Windows® XP, Windows Vista®; Mac OS® X |
| Browsers: | Final release versions of Internet Explorer® 6.0 or above (Windows only); Mozilla Firefox 2.0 or above (Windows and Mac); Safari™ 3.0 or above (Mac only) |
| PDF Reader: | Acrobat® or similar software may be required to view and print PDF files |
| Screen Resolution: | 800 x 600 minimum |

| | |
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