



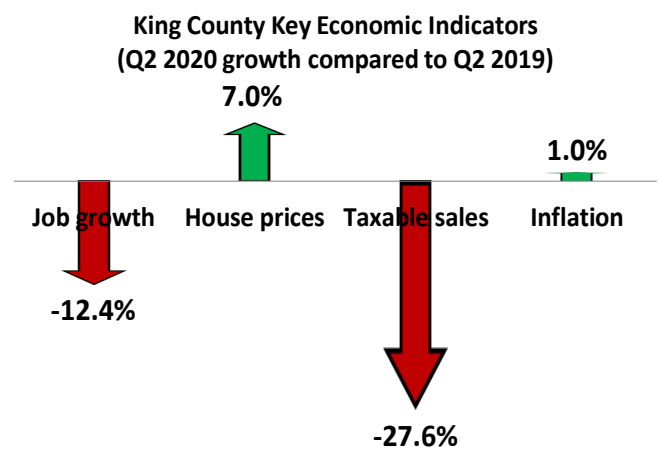
# ECONPULSE

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

SECOND QUARTER 2020

## SUMMARY

- King County employment fell 12.4% in the second quarter of 2020 as the effects of the COVID-19 crisis took hold, with enormous declines in leisure and hospitality jobs.
- Home prices increased 7.0% compared with the second quarter of 2019.
- Taxable sales plummeted 27.6% in April and May compared to the same period of 2019.
- The inflation rate was 1.0% in June.



## DETAIL

King County employment declined sharply in the second quarter, with nearly every sector experiencing significant losses. Most acutely impacted was the leisure and hospitality sector, which lost 85,500 jobs in the second quarter. Food services and drinking places lost nearly 58,000 jobs. There were nearly 13,000 fewer construction jobs in the second quarter of 2020 compared to 2019. Information and hospitals were the only sectors to add jobs, adding 3,400 and 700 jobs, respectively.

The unemployment rate for King County spiked to 14.9% in April before settling down to 9.2% in June as portions of the economy began to open again. Initial claims for unemployment also peaked in April, with 137,755 new claims. While the number of claims has since declined, there were still 32,623 in June, a rate not seen since the height of the dot-com bust in 2002. Continuing claims for unemployment topped out at 165,577 in May before decreasing to 123,478 as some King County workers were able to return to their jobs in June.

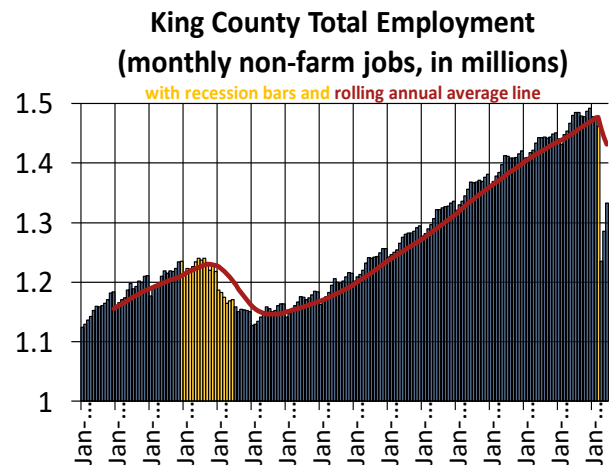


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

**DETAIL (CONT.)**

**Seattle House Prices**  
(Case Shiller index, Jan-2000=100)

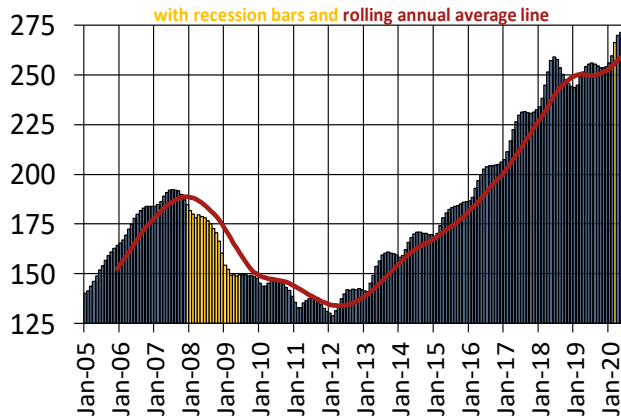


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The number of King County house sales declined significantly in the second quarter of 2020. Seattle-area house prices rose 7.0% year over year through May (the most recent month available), according to the Case-Shiller Index.

Residential permitting decreased significantly in the second quarter. New permits for single-family housing dropped 50% in April and 32% in May, but were up 11% in June. Multi-family permitting also experienced a turbulent quarter, declining 19%. In the first half of 2020, single-family permitting is down 16.8% and multi-family is down 18.6%.

**King County Residential Permit Values**  
(new, privately-owned, in millions \$)

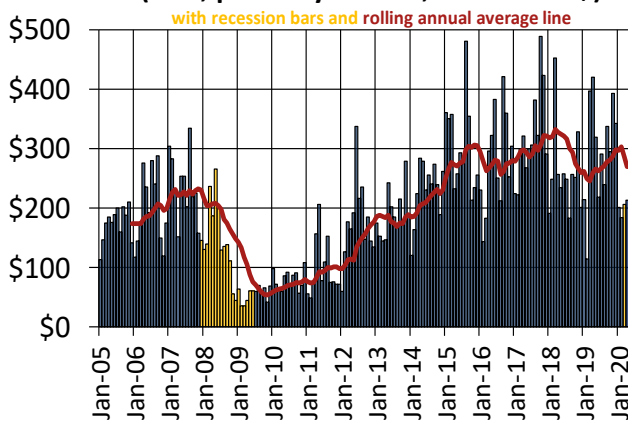


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales declined 27.6% in April and May as much of the retail economy remained closed in King County. Food service, accommodation, and entertainment sales were hardest hit, down 69% over the prior year.

**Taxable Sales Growth**  
(annual average of top four sectors)

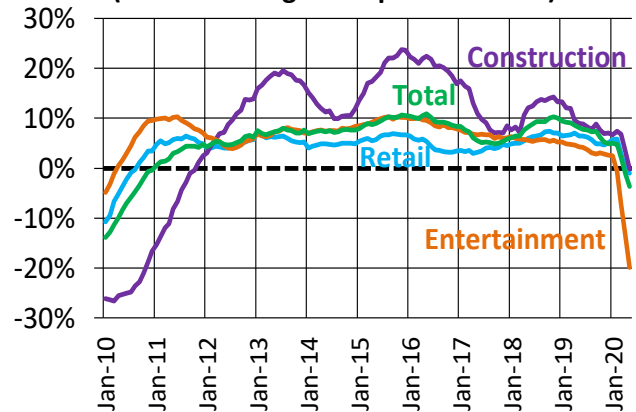


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation increased 1.0% in June as measured by the CPI-W for Seattle. Food prices increased slightly while energy prices declined. The national inflation rate was 0.5%.

**Seattle Inflation**  
(CPI-W, annually adjusted)

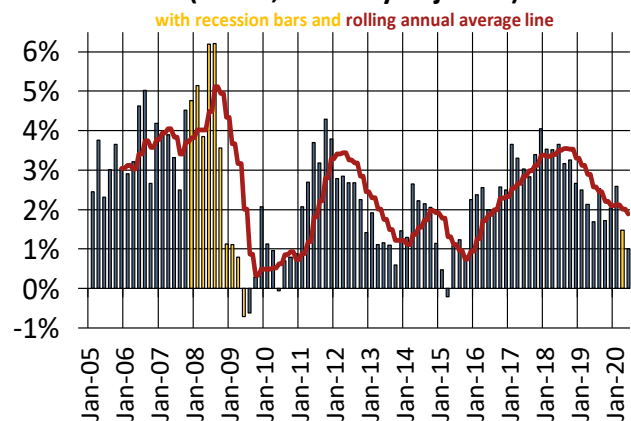


Fig. 5 Seattle Consumer Price Index (Source: BLS)

## THE NUMBERS

### King County Employment (in thousands)

NAICS Industry	2020:2Q	2019:2Q	Absolute change	% Change
Total Nonfarm	1,284.5	1,466.9	-182.4	-12.4%
Total Private	1,113.1	1,289.4	-176.3	-13.7%
Goods Producing	161.2	186.8	-25.6	-13.7%
Construction	66.8	79.7	-12.9	-16.1%
Manufacturing	93.9	106.6	-12.6	-11.9%
Service Providing	1,123.3	1,280.1	-156.8	-12.2%
Trade, Transportation, and Utilities	256.4	277.9	-21.6	-7.8%
Information	123.0	119.6	3.4	2.9%
Financial Activities	73.6	75.1	-1.5	-2.0%
Professional and Business Services	228.0	237.7	-9.7	-4.1%
Educational and Health Services	168.9	190.2	-21.3	-11.2%
Educational Services	27.2	31.6	-4.4	-14.0%
Ambulatory Health Care Services	53.9	62.4	-8.5	-13.6%
Hospitals	32.7	32.0	0.7	2.1%
Nursing and Residential Care Facilities	18.7	20.1	-1.4	-7.1%
Social Assistance	36.5	44.1	-7.7	-17.4%
Leisure and Hospitality	63.5	149.0	-85.5	-57.4%
Arts, Entertainment, and Recreation	9.6	28.2	-18.6	-65.9%
Accommodation	7.0	15.9	-8.9	-56.1%
Food Services and Drinking Places	46.9	104.8	-57.9	-55.3%
Other Services	38.5	53.0	-14.5	-27.3%
Government	171.4	177.5	-6.2	-3.5%

### Other King County Economic Indicators

	2020:Q2	2019:Q2	% Change
<b>Real Estate</b>			
Single Family Permits (No. of units)	790	1,066	-25.9%
Single Family Permits (\$000)	\$ 302,848	\$ 433,536	-30.1%
Multi-Family Permits (No. of units)	3,129	3,884	-19.4%
Multi-Family Permits (\$000)	\$ 455,031	\$ 523,135	-13.0%
Avg. sales price (NW Multiple Listing Service)	\$ 773,210	\$ 773,128	0.0%
Number of sales (NW Multiple Listing Service)	6,844	9,474	-27.8%
<b>Taxable Retail Sales (\$B, Apr-May)</b>	\$ 8.78	\$ 12.12	-27.6%
Retail/Wholesale	\$ 3.98	\$ 4.81	-17.3%
Construction/Real Estate	\$ 2.68	\$ 3.77	-29.1%
Food Service, Accommodation, Entertainment	\$ 0.59	\$ 1.90	-69.1%
Other	\$ 1.54	\$ 1.64	-5.9%
<b>Inflation (June)</b>			
CPI-W (Seattle-Tacoma-Bellevue)	276.24	273.49	1.0%

## KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators increased in the second quarter of 2020, partially recovering from a substantial drop in the first quarter.

The National Bureau of Economic Research identified the peak of economic activity in the United States as occurring in February 2020 after 128 months of expansion, thus marking March as the first month of a new recession. The end point, or trough, of the recession is at this point unknown, therefore the Index of Leading Indicators chart (Fig 6) will show only

March 2020 as a recession month until the full length of the recession has been determined.

The second quarter was notable for its turbulence. April continued the trend of sharp declines that had been experienced in the first quarter, but the indicators began to move in a positive direction in May and continued in June. Much of the positive movement in the indicator relative to the first quarter is due to the decline in initial claims for unemployment. Unemployment initial claims swung from an unprecedented high of 137,755 to a lower, but still historically high, 32,623 initial claims in June.

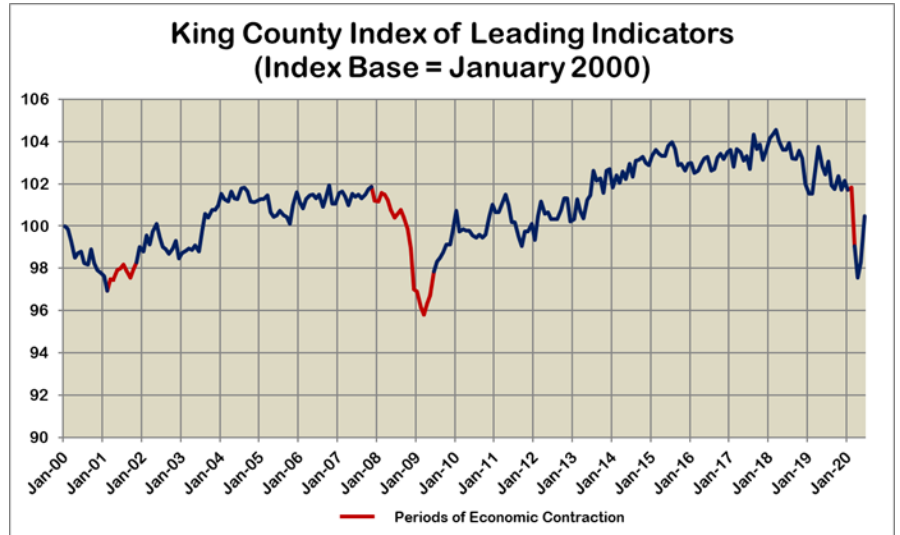


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

## KING COUNTY FORECAST

The U.S. economy has experienced a massive shock due to the Covid-19 pandemic. We have moved from the beginning of 2020 when labor markets were, by some measures, the best they'd been in 50 years to April when we had unemployment rates not seen since the Great Depression. The enormous reduction in economic output is currently forecast to lead to the worst quarterly contraction seen since modern statistics began to be kept just after World War II. The downturn has impacted some industries worse than others with the hospitality industry including restaurants, hotels, theatres, etc. hugely impacted. In terms of economic output, the U.S. economy experienced a 5% contraction in real GDP (seasonally adjusted annual rate or SAAR) in the first quarter and most forecasters are expecting a 30%-40% drop (SAAR) in the second quarter. Inflation has been low reflecting the slack in the economy. The Federal Reserve has acted quickly to lessen the damage through rate reductions, forward guidance, asset purchases and backstopping markets. The federal government has done multiple fiscal interventions that include expanded unemployment benefits, business loans, payments to individuals, tax filing extensions and others. This significant response has acted to lessen the crisis although the virus is surging in many states including Washington.

Individual states have varied in their response to Covid-19 and we are now seeing an increase in infections and deaths. The increase was expected given increased interaction as states opened up, but states are now having to balance the degree of openness while keeping an eye on their healthcare systems to ensure they are not overwhelmed. Most social distancing requirements call for hand washing, face masks and maintaining at least 6 feet from others and these requirements together with others are likely having an impact on economic activity. In Washington, the "Safe Start" plan went into effect on May 30, 2020 with counties opening at different speeds based on five criteria used to judge the status of the virus. King County is in Phase 2 and so limited openings are allowed. However, the shutdown had a huge effect on the local economy with March and April taxable sales down 22% and 32% respectively. Unemployment in King County is now over 14%.

Though there is lots of uncertainty about the path of the national economy, forecasters remain mostly united on a massive contraction in the second quarter but less so about the speed of the recovery after that. The biggest source of uncertainty is the public health piece as states try to balance the opening of their economies with acceptable infection rates. Moreover, social distancing measures and other requirements will change economic behaviors likely until a vaccine is available. In general, most forecasters note that the severity of the impacts in the second quarter of 2020 are unlikely to be fully reversed this year or even by 2021.

Projecting the future for the County's economy is as uncertain as the U.S. forecast. Much like the U.S. economy, King County came into 2020 on solid footing. We have been in a very rapid expansion with significant job growth and consequent building and population increases. Employment growth averaged 2.5% in 2019 which was a little slower than the 3% annual growth values we saw earlier in the expansion but still very rapid by historical standards. The employment impacts due to Covid-19 have been massive so far with the county losing over 225,000 jobs in April. These job losses were widespread across industries but construction employment fell by 45% and leisure and hospitality by over 60%. May construction employment rebounded significantly and was down about 10% relative to March.

Taxable retail sales have averaged 7.9% annual growth for the last five years (2014-2019). This reflects both the strength of the local economy and policy changes like extending the sales tax to bottled water and remote sellers. Construction sales tax growth has been particularly strong averaging over 13% growth per

## KING COUNTY FORECAST (CONT.)

year since 2014 and reaching approximately 23% of countywide taxable sales annually. So far in 2020 (through April) the pace of sales tax growth has slowed significantly due to the impact of the Covid-19 pandemic. April taxable sales were down approximately 32% relative to April 2019 reflecting the stay at home order. Retail sales were down 26%, construction sales were down 37%, and accommodation and food service sales were down 77%. We are likely to continue to see enormous reductions in hospitality industry sales as the virus' impacts continue. The tax filing extension provided by the Department of Revenue in response to Covid is also impacting revenues.

The local housing market cooled significantly in 2019 with prices even falling year over year around mid-year before growth returned and overall prices ended up 3%-4% by year-end. So far in 2020 we are seeing a continuation of price growth despite the pandemic. Data for March and April indicate prices are generally holding up though the number of transactions has been reduced. The Case Shiller index was up 7.2% in April and the Multiple Listing Service indicated the median sales price was also up in April. It is expected that both fewer listings and lower demand will reduce transactions overall this year.

As we look forward, all signs indicate we have experienced an enormous contraction in the local economy but that it will begin to come back as the virus and policy allow. Employment fell by over 200,000 in April in King County but 50,000 jobs were added back in May. The speed of the recovery will depend on how successful we are suppressing the virus while simultaneously opening the economy. The forecast presented assumes we will be able to manage opening the economy but also assumes social distancing requirements and a sluggish return of consumer demand.

We expect the local economy to experience a very significant contraction in 2020, the effects of which will continue into 2021-2022. Table 1 indicates the most recent forecast. Population growth should continue but likely at a reduced pace of growth in the 1.0% to 1.2% range with about 25,000 additional people living in King County in each of 2020 and 2021. Employment growth finished up 2.5% in 2019 but is expected to contract over 6% in 2020 which is the most significant reduction in employment in any year since the data started being collected. Employment during the Great Recession fell 6.4% but over a two year period. Employment should get back to 2019 levels by 2022-2023. Inflation is likely to be around 1.4% in 2020 before picking up the pace in 2021-2022 to levels more typically expected of around 2.5%. We also expect the pace of housing permits to slow significantly as builders pull back particularly in multi-family housing, but single-family housing prices are likely to increase over the year a small amount. Taxable sales are likely to experience a very significant reduction that is dependent on the path of the virus. However, assuming the economy will be able to remain open we expect taxable sales to contract by about 15.7% in 2020 and not return to pre-Covid levels until 2022-2023.

<b>King County Forecast - July 2020</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>King County-Level</b>				
Population (thous.)	2,236.8	2,269.9	2,293.1	2,317.8
Employment (thous.)	1,468.6	1,374.0	1,423.0	1,451.3
Unemployment Rate (%)	2.8	9.2	7.2	5.5
Personal Income (mil \$)	212,334.1	207,903.3	218,330.6	228,440.6
Housing Permits	18,373	13,501	10,849	11,867
House Transactions (Residential)	30,267	22,425	30,620	30,873
House Prices (avg.)	752,280	790,149	825,638	862,544
Seattle FHFA Index	366.6	375.1	383.3	393.1
Seattle CPI-U	278.6	282.5	288.4	295.5
Taxable Retail Sales (mil \$)	76,486.2	64,460.6	70,749.1	75,742.4
<b>King County Employment - Detail (thousands)</b>				
Natural Resources	0.5	0.5	0.5	0.5
Construction	79.5	74.5	78.1	82.6
Manufacturing	106.3	92.0	82.5	83.7
<b>Subtotal (Goods Employment)</b>	<b>186.4</b>	<b>167.0</b>	<b>161.2</b>	<b>166.8</b>
Trade, Transportation and Utilities	281.4	260.6	275.3	278.1
Information	121.5	126.0	132.2	135.9
Financial Services	75.3	73.8	74.3	75.7
Professional and Business Services	239.0	236.0	240.9	243.3
Other Services	389.7	336.7	366.4	375.1
Government	175.5	173.8	172.8	176.4
<b>Subtotal (Services Employment)</b>	<b>1,282.3</b>	<b>1,207.0</b>	<b>1,261.8</b>	<b>1,284.5</b>
<b>Total Employment</b>	<b>1,468.6</b>	<b>1,374.0</b>	<b>1,423.0</b>	<b>1,451.3</b>
<b>Annual Growth</b>				
Population	1.6%	1.5%	1.0%	1.1%
Employment	2.5%	-6.4%	3.6%	2.0%
Personal Income	5.1%	-2.1%	5.0%	4.6%
Inflation	2.8%	1.4%	2.1%	2.5%
Taxable Retail Sales	5.2%	-15.7%	9.8%	7.1%

*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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