



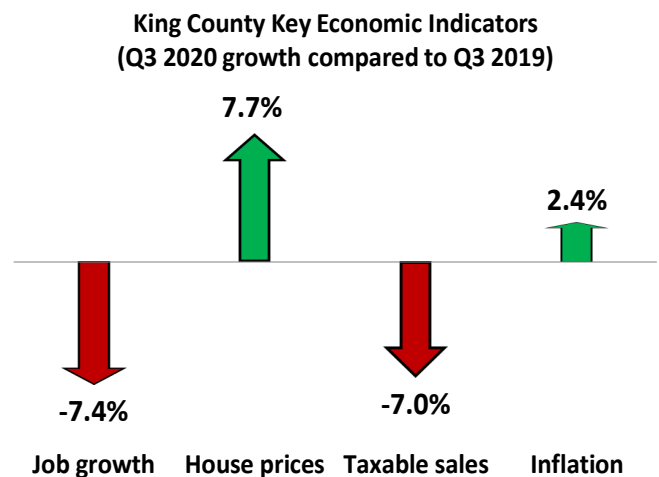
# ECONPULSE

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

THIRD QUARTER 2020

## SUMMARY

- King County employment fell 7.4% in the third quarter of 2020 as the effects of the COVID-19 crisis continued .
- Home prices increased 7.7% compared with the third quarter of 2019.
- Taxable sales declined 7.0% in July and August compared to the same period of 2019.
- The inflation rate was 2.4% in August.



## DETAIL

King County employment in the third quarter recovered from the second quarter lows, but remains well below 2019 levels. Total employment was down 7.4%, with the largest declines continuing to be in the leisure and hospitality sector which has shed more than one third of the jobs in the sector since third quarter 2019. Only construction and financial activities experienced positive job growth in the third quarter, with every other sector declining relative to the third quarter of 2019.

The unemployment rate for King County decreased in the third quarter, but remains rather high at 7.0% in September. Initial claims for unemployment insurance declined considerably from the unprecedented highs reached in the second quarter, to 18,519 in the month

While this marks an improvement from the depths of the second quarter, it is still a stubbornly high rate of initial claims, and an amount not seen during any single month of the Great Recession. Continuing claims for unemployment insurance also remain very high, totaling 93,921 claims during the month of September.

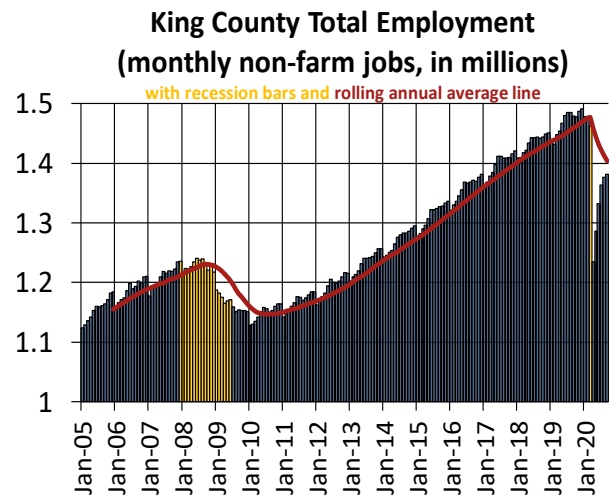


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

**DETAIL (CONT.)**

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

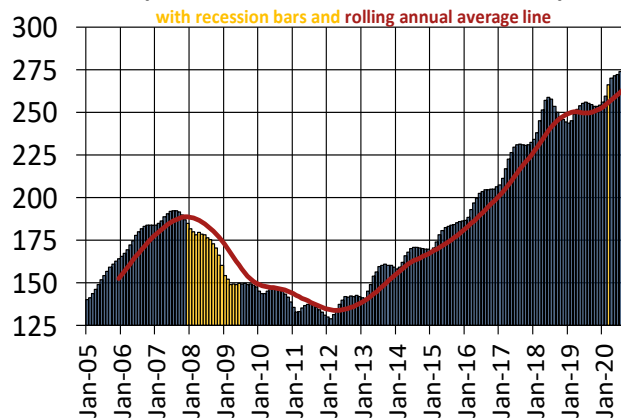


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The King County real estate market rebounded significantly in the third quarter after a very quiet second quarter. The Case-Shiller index increased 8.5% in August year over year, and activity increased as well, with 16.5% more closings in the third quarter of 2020 versus 2019.

Single-family residential permitting rebounded a bit in the third quarter, increasing 2.5%. Multi-family permitting, meanwhile, continued to decline, with 23% fewer units permitted in the third quarter of 2020 than in 2019. Year to date, single family permitting is down 10% and multi-family permitting is down 20%.

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

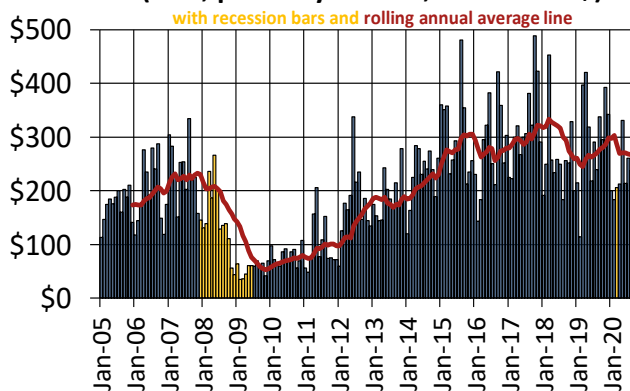


Fig. 3 Value of King County Residential Permits (Source: U.S. Census Bureau)

Taxable retail sales declined 7.0% in July and August as many sectors of the economy remain heavily constrained due to COVID-19 safety measures. Food service, accommodation, and entertainment sales were hardest hit, down 53.4% over the prior year.

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

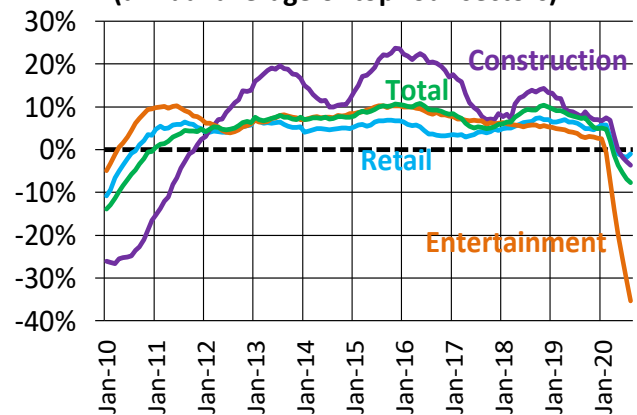


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation increased 2.4% in August as measured by the CPI-W for Seattle. Food and housing prices increased while energy prices declined. The national inflation rate was 1.4%.

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

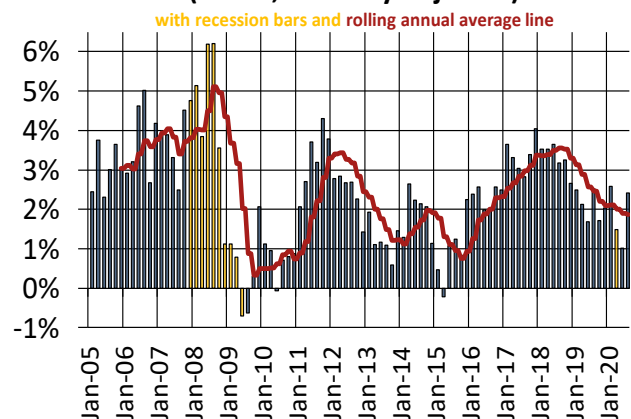


Fig. 5 Seattle Consumer Price Index (Source: BLS)

## THE NUMBERS

### King County Employment (in thousands)

NAICS Industry	2020:3Q	2019:3Q	Absolute change	% Change
Total Nonfarm	1,373.8	1,483.2	-109.3	-7.4%
Total Private	1,207.0	1,311.4	-104.4	-8.0%
Goods Producing	175.9	188.9	-13.0	-6.9%
Construction	82.7	81.4	1.3	1.6%
Manufacturing	92.8	106.9	-14.2	-13.2%
Service Providing	1,197.9	1,294.3	-96.4	-7.4%
Trade, Transportation, and Utilities	274.3	284.3	-10.0	-3.5%
Information	124.3	125.3	-1.0	-0.8%
Financial Activities	77.2	76.3	0.9	1.1%
Professional and Business Services	238.1	242.3	-4.2	-1.7%
Educational and Health Services	173.6	188.8	-15.2	-8.1%
Educational Services	25.6	29.0	-3.4	-11.7%
Ambulatory Health Care Services	57.5	63.2	-5.6	-8.9%
Hospitals	30.5	32.2	-1.7	-5.4%
Nursing and Residential Care Facilities	19.5	20.1	-0.6	-3.0%
Social Assistance	40.5	44.3	-3.8	-8.6%
Leisure and Hospitality	96.5	152.0	-55.5	-36.5%
Arts, Entertainment, and Recreation	12.5	29.7	-17.2	-57.8%
Accommodation	8.2	16.4	-8.1	-49.7%
Food Services and Drinking Places	75.7	106.0	-30.3	-28.6%
Other Services	47.2	53.5	-6.3	-11.8%
Government	166.8	171.8	-4.9	-2.9%

### Other King County Economic Indicators

	2020:Q3	2019:Q3	% Change
<b>Real Estate</b>			
Single Family Permits (No. of units)	1,020	995	2.5%
Single Family Permits (\$000)	\$ 410,660	\$ 385,710	6.5%
Multi-Family Permits (No. of units)	2,838	3,702	-23.3%
Multi-Family Permits (\$000)	\$ 368,868	\$ 482,534	-23.6%
Avg. sales price (NW Multiple Listing Service)	\$ 830,024	\$ 742,631	11.8%
Number of sales (NW Multiple Listing Service)	10,411	8,938	16.5%
<b>Taxable Retail Sales (\$B, Jul-Aug)</b>	\$ 12.07	\$ 12.97	-7.0%
Retail/Wholesale	\$ 5.34	\$ 5.07	5.4%
Construction/Real Estate	\$ 3.84	\$ 4.02	-4.5%
Food Service, Accommodation, Entertainment	\$ 1.01	\$ 2.17	-53.4%
Other	\$ 1.88	\$ 1.71	9.5%
<b>Inflation (August)</b>			
CPI-W (Seattle-Tacoma-Bellevue)	281.13	274.52	2.4%

## KING COUNTY INDEX OF LEADING INDICATORS

The King County Index of Leading Indicators rose in the third quarter, continuing to make up some of the ground lost in March and April.

While most indicators increased in the third quarter, the pace of those increases has slowed as uncertainty still abounds in the economy. The second quarter was quite turbulent, with large monthly swings between early in the quarter to the end of the quarter. In the third quarter, the sharp increases continued in July but reversed slightly in August before increasing again in September. In the

third quarter, the increase in the overall index was driven largely by the steady improvement in initial claims for unemployment insurance, which was also the case in the second quarter as employment recovers from the seismic impact of business closures in the dawn of the COVID-19 pandemic in March. Initial claims remain extremely high, however, and with the indicator for help wanted ads in King County still declining, the employment environment continues to be quite challenging.

As a note to Figure 6, the National Bureau of Economic Research identified March as the first month of an economic contraction but has not yet determined if that period has ended. Until that point is identified, only the month of March 2020 will be highlighted as a period of economic contraction.

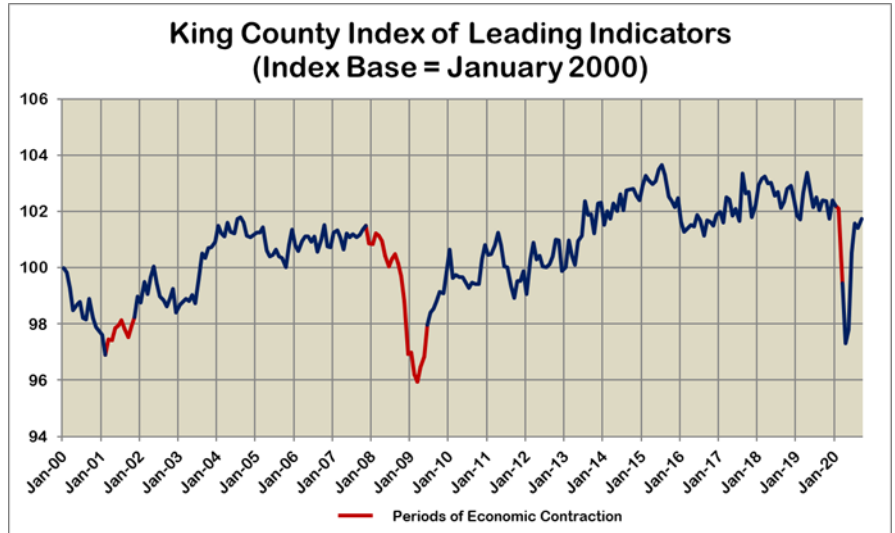


Fig 6 King County Index of Leading Indicators (Source: KC OEFA)

## KING COUNTY FORECAST

Buffeted by the Covid-19 pandemic, the U.S. economy contracted by 31.4% (seasonally adjusted annual rate or SAAR) in the second quarter of 2020 after contracting by 5% (SAAR) in the first quarter. The second quarter contraction was the largest since modern records were initiated soon after World War II. This massive contraction rapidly impacted an economy that was doing very well up to that point with historically low unemployment, low inflation and modest economic growth. The massive contraction was especially hard on industries requiring close human contact like food service, hoteling, tourism, and entertainment. Other industries like manufacturing and construction were hit hard initially but were mostly able to get back to work relatively quickly with minor adaptations including temperature checks and face masks. The Federal Reserve and the federal government acted quickly in March and April to try and limit the pandemic impacts via monetary and fiscal policy. So far in the third quarter, the economy appears to have recovered a lot of ground and major forecasters now expect 2020:3Q growth to be in the 30% to 35% range (SAAR). So far we have seen employment recover a lot of ground in many industries but some such as the hospitality sector currently employ significantly fewer people than before the pandemic.

Individual states within the U.S. have had very different experiences based on individual behaviors and decisions around social distancing, masks and the extent to which the economy continues to operate. In Washington, the “Safe Start” plan went into effect on May 30, 2020 with counties opening at different rates based on five criteria used to judge the status of the virus. King County continues to be in Phase 2 which allows much economic activity but also restricts large gatherings and the operation of much retail activity. However, the economic shutdown in late March through May had a huge effect on the local economy with March and April taxable sales down 22% and 32% respectively. Since that time, many indicators have improved dramatically with taxable sales in July coming in down only about 8%. Unemployment has dropped from a high of 14.9% in April to 7.2% in August. We expect that value to continue to decline though anticipate the pace will slow as many of the remaining jobs are unlikely to return since they are high contact jobs that are not likely to come back until there is a vaccine or more effective treatment.

Though there is lots of uncertainty about the path of the national economy, forecasters remain largely united on a very large expansion in the third quarter and then slowing growth thereafter. The biggest source of uncertainty continues to be 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 that occurred in the second quarter of 2020 are unlikely to be fully reversed this year or even by 2021 in some cases.

Projecting the future for the County’s economy continues to be highly uncertain although we have received much of the data describing the second quarter which is helpful. King County had been expanding vigorously for years coming into 2020, with significant job growth and consequent population and construction 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%. Many of those job losses rebounded quickly however, and in industries such as construction and retail most of the job losses have been reversed.

## KING COUNTY FORECAST (CONT.)

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 year since 2014 and reaching approximately 23% of countywide taxable sales annually. So far in 2020 (through July), Retail sales are down 6.6%, construction sales are down 11.6%, and accommodation and food service sales are down 56.5%. 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 has also impacted 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. Sales took a massive dip during March and April of 2020 but have rebounded significantly likely driven by many factors including historically low interest rates. We are seeing a continuation of price growth despite the pandemic. The Case Shiller index is up 6.4% (through June) and the Multiple Listing Service indicates the median sales price is also up. Transactions have rebounded significantly as well.

As we look forward, all indicators suggest that the enormous contraction in economic activity is largely behind us and we are expanding again. The massive employment losses in April in King County have reversed with over 100,000 of those jobs being added back through August. The speed of the recovery going forward 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 1.1% to 1.4% 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 about 5.9% 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. Inflation is likely to be around 1.5% 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. Single-family housing prices are likely to increase over 2020-2022. 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 11.6% in 2020 and not return to pre-Covid levels until 2022.



<b>King County Forecast - September 2020</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>King County-Level</b>				
Population (thous.)	2,236.8	2,267.0	2,293.9	2,318.6
Employment (thous.)	1,468.7	1,381.6	1,430.4	1,479.6
Unemployment Rate (%)	2.8	7.7	5.5	4.7
Personal Income (mil \$)	212,334.1	209,653.3	217,028.4	227,959.9
Housing Permits	18,345	14,568	12,045	12,706
House Transactions (Residential)	30,267	29,908	30,195	30,954
House Prices (avg.)	752,280	781,170	821,235	849,654
Seattle FHFA Index	366.6	374.8	383.4	391.3
Seattle CPI-U	278.6	282.8	289.0	296.0
Taxable Retail Sales (mil \$)	76,486.2	67,647.0	72,439.3	77,122.8
<b>King County Employment - Detail (thousands)</b>				
Natural Resources	0.5	0.4	0.5	0.5
Construction	79.5	76.0	81.1	85.2
Manufacturing	106.3	95.8	90.3	90.5
<b>Subtotal (Goods Employment)</b>	<b>186.4</b>	<b>172.3</b>	<b>171.9</b>	<b>176.2</b>
Trade, Transportation and Utilities	281.4	274.0	283.8	291.7
Information	121.5	124.5	129.4	136.3
Financial Services	75.3	74.9	75.9	76.3
Professional and Business Services	239.0	236.3	247.9	259.5
Other Services	389.7	326.2	348.1	362.6
Government	175.5	173.6	173.3	176.9
<b>Subtotal (Services Employment)</b>	<b>1,282.3</b>	<b>1,209.3</b>	<b>1,258.5</b>	<b>1,303.4</b>
<b>Total Employment</b>	<b>1,468.7</b>	<b>1,381.6</b>	<b>1,430.4</b>	<b>1,479.6</b>
<b>Annual Growth</b>				
Population	1.6%	1.4%	1.2%	1.1%
Employment	2.5%	-5.9%	3.5%	3.4%
Personal Income	5.1%	-1.3%	3.5%	5.0%
Inflation	2.8%	1.5%	2.2%	2.4%
Taxable Retail Sales	5.2%	-11.6%	7.1%	6.5%

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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