



# ECONPULSE

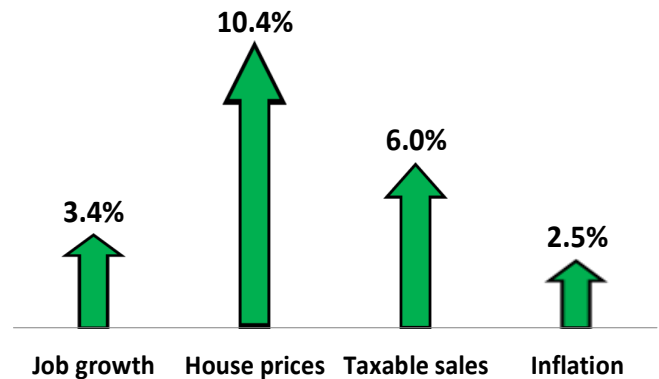
A QUARTERLY LOOK AT THE KING COUNTY ECONOMY  
 KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

FOURTH QUARTER 2016

## SUMMARY

- King County employment grew by 3.4% in the fourth quarter of 2016 relative to a year ago, with continued strong growth in information jobs
- Home prices increased by 10.4% since the fourth quarter of 2015
- Taxable sales growth slowed for another quarter in King County, increasing 6.0% in October and November from a year prior.
- Inflation increased, up 2.5% in December.

**King County Key Economic Indicators**  
 (Q4 2016 growth compared to Q4 2015)



## DETAIL

King County continued to add jobs at a solid pace, with all areas experiencing growth with the exception of manufacturing. The unemployment rate for King County dipped again, down to 3.4% in December. Nationwide, the unemployment rate was 4.7% in December. Initial claims for unemployment insurance dropped significantly year over year, with 6,399 initial claims filed in December 2016, a 17.5% drop from the previous year.

Information jobs continue to increase, adding 7,500 jobs between December 2015 and December 2016.

According to the Washington State Employment Security Department, Amazon continued its reign

as the top employer in King County as measured by job postings online, with 13,603 job postings between October and January. That is more than double their total from the same period a year prior. The most in demand positions in King County continue to be concentrated in the technology sector.

**King County Total Employment**  
 (monthly non-farm jobs, in millions)

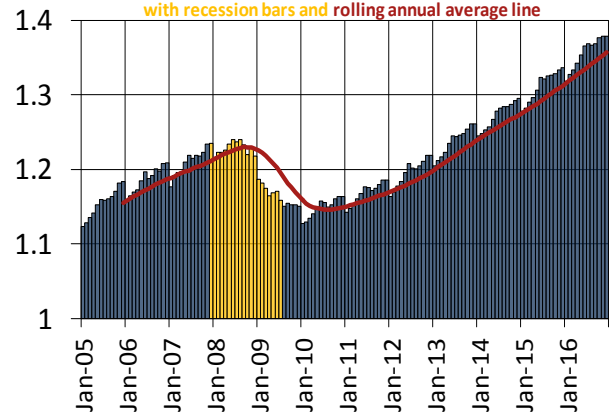


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

**DETAIL (CONT.)**

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

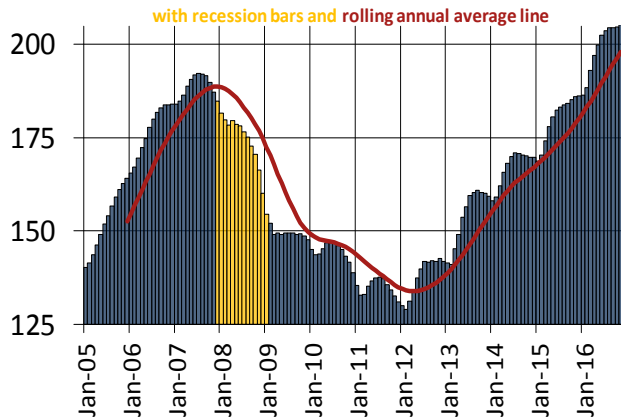


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The Seattle area was the fastest growing housing market in the country for the third straight month, according to Case-Shiller. Home prices increased 10.4% year-over-year in November. Supply remains tight, so despite rising interest rates, prices continue to march upward.

Permit data suggest some relief is coming to the single family market as single family permits were up 6.9% for the year. However, though multi-family permitting grew at a remarkable 67% in terms of the number of new units permitted in the fourth quarter, overall permits were down 10.4% in 2016.

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

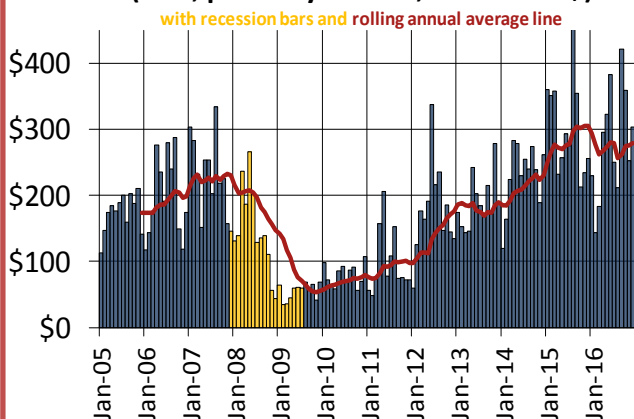


Fig. 3 Value of King County Permits (Source: U.S. Census Bureau)

Taxable retail sales grew 6% in October and November. Construction sales growth slowed to 9.9%, while retail and restaurant/hotel sales showed gains of 3.4% and 5.4%, respectively.

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

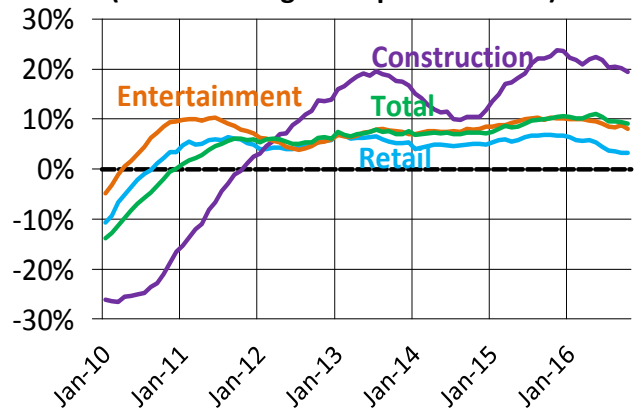


Fig. 4 Taxable Sales Growth in King County (12 month avg) (Source: WA DOR)

Inflation rose in December compared to the prior year with a 2.5% increase in the CPI-W for Seattle. Much of the increase in inflation was due to rising gasoline and shelter costs.

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

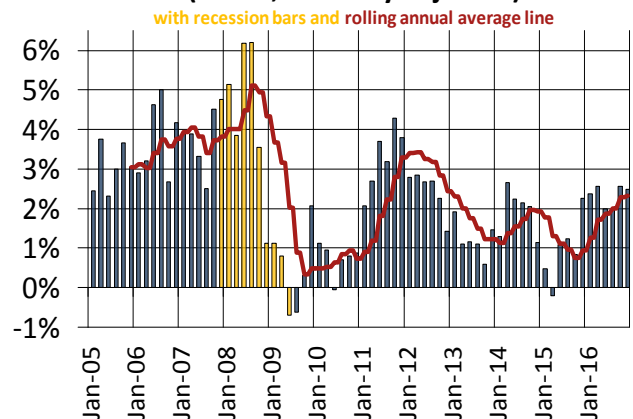


Fig. 5 Seattle Consumer Price Index (Source: BLS)

## THE NUMBERS

### King County Employment (in thousands)

| NAICS Industry                          | 2016:4Q | 2015:4Q | Absolute change | % Change |
|---|---------|---------|-----------------|----------|
| Total Nonfarm                           | 1,377.8 | 1,332.8 | 45.0            | 3.4%     |
| Total Private                           | 1,196.1 | 1,155.8 | 40.3            | 3.5%     |
| Goods Producing                         | 172.6   | 175.5   | -2.9            | -1.7%    |
| Construction                            | 69.7    | 68.3    | 1.5             | 2.1%     |
| Manufacturing                           | 102.3   | 106.7   | -4.4            | -4.1%    |
| Service Providing                       | 1,205.2 | 1,157.3 | 47.9            | 4.1%     |
| Trade, Transportation, and Utilities    | 260.0   | 251.0   | 8.9             | 3.6%     |
| Information                             | 99.1    | 91.6    | 7.5             | 8.2%     |
| Financial Activities                    | 70.9    | 70.7    | 0.2             | 0.3%     |
| Professional and Business Services      | 226.1   | 220.0   | 6.0             | 2.7%     |
| Educational and Health Services         | 180.2   | 169.9   | 10.3            | 6.1%     |
| Educational Services                    | 29.4    | 27.2    | 2.2             | 8.1%     |
| Ambulatory Health Care Services         | 57.8    | 55.8    | 2.1             | 3.7%     |
| Hospitals                               | 29.7    | 28.2    | 1.5             | 5.2%     |
| Nursing and Residential Care Facilities | 21.9    | 20.6    | 1.3             | 6.3%     |
| Social Assistance                       | 41.3    | 38.0    | 3.2             | 8.5%     |
| Leisure and Hospitality                 | 136.2   | 130.2   | 6.0             | 4.6%     |
| Arts, Entertainment, and Recreation     | 24.2    | 23.1    | 1.1             | 4.8%     |
| Accommodation                           | 14.0    | 13.3    | 0.7             | 5.0%     |
| Food Services and Drinking Places       | 98.0    | 93.8    | 4.2             | 4.5%     |
| Other Services                          | 51.1    | 46.8    | 4.3             | 9.1%     |
| Government                              | 181.7   | 177.0   | 4.7             | 2.7%     |

### Other King County Economic Indicators

|   | 2016:Q4    | 2015:Q4    | % Change |
|---|------------|------------|----------|
| <b>Real Estate</b>                                  |            |            |          |
| Single Family Permits (No. of units)                | 848        | 914        | -7.2%    |
| Single Family Permits (\$000)                       | \$ 327,208 | \$ 354,069 | -7.6%    |
| Multi-Family Permits (No. of units)                 | 4,516      | 2,708      | 66.8%    |
| Multi-Family Permits (\$000)                        | \$ 587,744 | \$ 349,004 | 68.4%    |
| Avg. sales price (NW Multiple Listing Service)      | \$ 601,656 | \$ 544,883 | 10.4%    |
| Number of sales (NW Multiple Listing Service)       | 8,884      | 7,878      | 12.8%    |
| <b>Taxable Retail Sales (\$B, October-November)</b> | \$ 9.91    | \$ 9.35    | 6.0%     |
| Retail/Wholesale                                    | \$ 4.09    | \$ 3.95    | 3.4%     |
| Construction/Real Estate                            | \$ 2.84    | \$ 2.58    | 9.9%     |
| Food Service, Accommodation, Entertainment          | \$ 1.60    | \$ 1.52    | 5.4%     |
| Other   | \$ 1.38    | \$ 1.29    | 6.7%     |
| <b>Inflation (December)</b>                         |            |            |          |
| CPI-W (Seattle-Tacoma-Bremerton)                    | 252.29     | 246.15     | 2.5%     |

## FOCUS: KING COUNTY INDEX OF LEADING INDICATORS

The United States economy is currently experiencing a long and sustained period of expansion after the Great Recession of 2007-2009. As of December 2016, the expansion has lasted ninety months, ranking among the longest expansions in US history. Since 1945, economic expansions have lasted an average of 58 months, with the period following the 1990 recession marking the longest in history at 120 months. Forecasts of continuing economic growth suggest that the current expansionary period could extend well past that mark, potentially reaching 150 months of economic growth before the next recession hits. While this rosy outlook may

provide some comfort to us forecasters, we are hardly complacent. During expansionary periods, the question remains: When will the next recession hit and how will we know?

Each recession in history has been driven by its own unique forces: tight monetary policy in the early 1980s, the dot com bust of 2001, the housing meltdown of the Great Recession, as a few examples. Because each recession is unique, how King County’s own economy responds has varied. As seen in Figure 7, in the 2001 recession, employment in King County hit its peak in December 2000 while the peak for the United States came in March 2001. Conversely, a lag occurred with the most recent Great Recession, as the impact of the financial crisis took some time before being reflected in measures of King County employment. So while it may be tempting to use the overall United States economy as a “leading indicator” for the health of the King County economy, in the 2001 recession we would have been late seeing problems in the local employment market.

Another issue is that we don’t tend to know the exact dates of a recession until long after it has already begun. For these reasons, it is important that we have an early warning of trouble in the local economy. There are a number of economic indicators that on their own can provide clues to weaknesses in the economy, both local and national. By combining a group of these indicators, we can create an index of leading indicators, giving us an indication of the health of the King County economy based on the trend revealed.

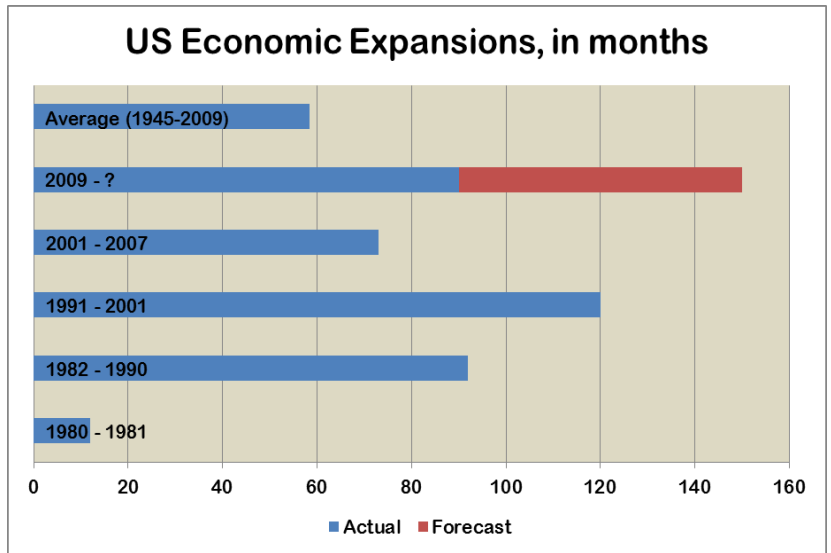


Fig. 6 US Economic Expansions (Source: NBER, WA ERFC)

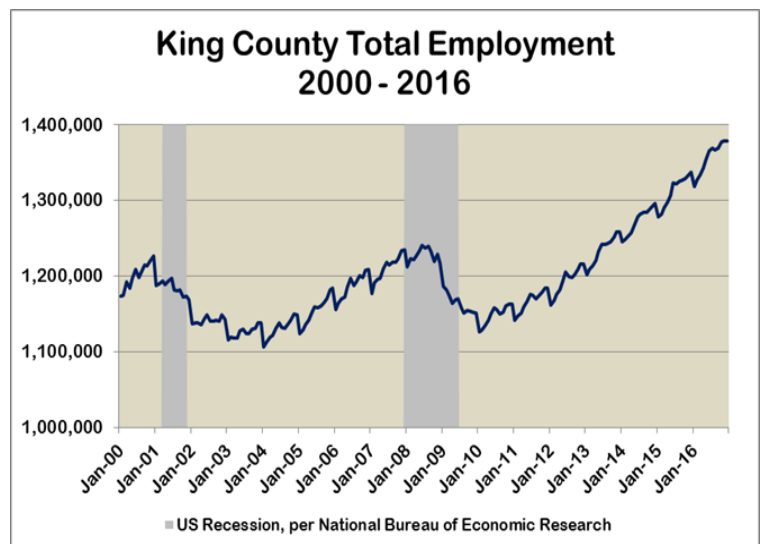


Fig. 7 King County Employment (Source: WA ESD)

## FOCUS: KING COUNTY INDEX OF LEADING INDICATORS (CONT.)

To create the index, we combed through the wide array of national, state, and county economic indicators that are considered leading indicators, or those whose behavior tends to “predict” the direction of the economy. By evaluating how each indicator behaved leading into previous recessions, we were able to select eight, listed in Figure 8, that we believe best signal the direction of the King County economy in the near future.

| <b>Leading Indicators</b>                             |
|---|
| <b>US - Treasury Yield Spread</b>                     |
| <b>US - Consumer Sentiment Index</b>                  |
| <b>NW - Purchasing Managers Index</b>                 |
| <b>WA - Initial Claims for Unemployment Insurance</b> |
| <b>WA - New Business Incorporations</b>               |
| <b>King County - Help Wanted Online Listings</b>      |
| <b>King County - Wholesale Durable Goods Sales</b>    |
| <b>King County - New Residential Building Permits</b> |

Fig. 8 Leading Indicators (Source: OEFA)

We started by creating a base index in January 2000 from which to measure the change in each indicator going forward. Each month, OEFA gathers the most recent data available for each indicator. To this data, we apply the US Census Bureau’s X-13 seasonal adjustment software to eliminate the seasonal effects on some data points, such as employment increases around the holidays. This allows for a more accurate month-to-month comparison of the changes in the overall index. Our model also smooths out the volatility created by “noisy” indicators, or those that tend to have dramatic month-to-month swings that could influence the overall index such that it nullifies the other components.

The King County Index of Leading Indicators through December 2016 is shown in Figure 9. Recessions are shown in red, but the start and end dates have been adjusted to reflect King County’s experience. As previously mentioned, King County’s Great Recession lagged that of the United States economy. Total employment in King County began dropping in the summer of 2008, reaching its lowest point in January 2010. The index peaked in October 2007 and hit its lowest point in March 2009, while the trough for the United States economy occurred in June 2009 with the recovery beginning thereafter. For our most recent example, therefore, the index was able to signal trouble ahead for the King County economy, even before the United States had been officially declared in recession.

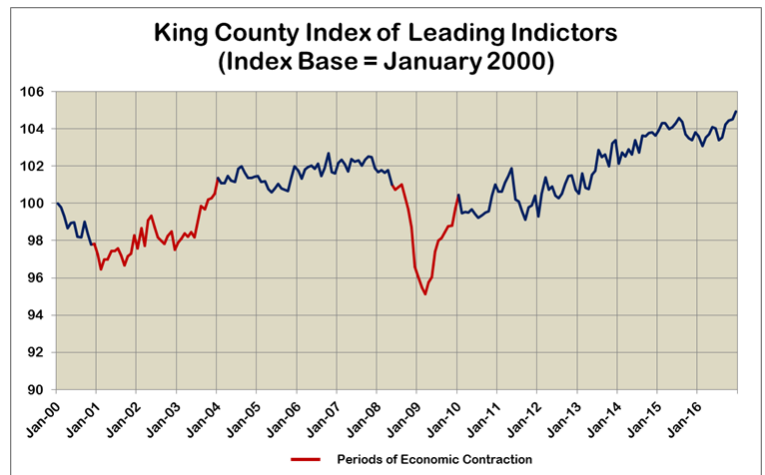


Fig. 9 King County Index of Leading Indicators (Source: OEFA)

The King County Index of Leading Indicators will be produced monthly and be available on the OEFA website, accompanied by a brief commentary on the individual drivers of changes to the index that month. As the local and national economies continue their expansion and enter uncertain times, we’re hopeful that the index may provide guidance and context.

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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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