

ORDINANCE NO. O-4731

AN ORDINANCE OF THE CITY COUNCIL
OF THE CITY OF KIRKLAND,
WASHINGTON, PROVIDING FOR THE
FORM OF THE BALLOT PROPOSITION
AND SPECIFYING CERTAIN OTHER
DETAILS CONCERNING SUBMISSION TO
THE QUALIFIED ELECTORS OF THE CITY
AT A SPECIAL ELECTION TO BE HELD
THEREIN ON NOVEMBER 3, 2020, OF A
PROPOSITION AUTHORIZING THE CITY
TO LIFT THE LEVY LIMIT ESTABLISHED
IN RCW 84.55.010 IN ORDER TO FUND
FIRE AND EMERGENCY MEDICAL
SERVICES, AND TO ACQUIRE,
CONSTRUCT, IMPROVE, EQUIP AND/OR
RENOVATE CITY FIRE FACILITIES.

1 WHEREAS, in 2011, the City Council (the "Council") of the City
2 of Kirkland (the "City") engaged the services of Emergency Services
3 Consulting International ("ESCI") to conduct an organizational review of
4 the City Fire Department; and
5

6 WHEREAS, since 2012, Fire Department staff has worked with
7 other City departments and the City Manager's Office to implement
8 certain ESCI recommendations, including through the budget process;
9 and
10

11 WHEREAS, the Council completed a Fire Strategic Plan in 2012
12 to identify needed investments in staffing, equipment and technology to
13 provide for better response times for fire and Emergency Medical
14 Services ("EMS"); and
15

16 WHEREAS, on February 21, 2017, the Council approved
17 Resolution R-5239 adopting the City's 2017-2018 Work Program to
18 "explore potential ballot measures for fire station modernization and
19 public safety operations to further the goals of Public Safety,
20 Dependable Infrastructure, and Financial Stability"; and
21

22 WHEREAS, on December 12, 2017, the Council adopted
23 Resolution R-5290, revising the 2017-2018 City Work Program to defer
24 exploration of a fire facilities and operations ballot measure to at least
25 2020 due to public concerns about the cumulative financial impact of
26 property tax increases due to state and regional legislation; and
27

28 WHEREAS, the Council subsequently implemented a two-phased
29 approach to addressing public safety needs; and

30 WHEREAS, phase one included a sales and use tax for enhanced
31 police and public safety services, which was approved by the voters at
32 an election held in November 2018, and phase two includes a bond
33 and/or levy lid lift for fire station seismic renovation, capacity expansion,
34 and additional firefighter/emergency medical technician ("EMT")
35 staffing; and
36

37 WHEREAS, on February 19, 2019, the Council adopted the 2019-
38 2020 City Work Program which ranked "exploring a potential ballot
39 measure in 2020 to fund Fire Station modernization and enhanced
40 operations to further the goal of Public Safety" as its number one
41 priority; and
42

43 WHEREAS, the City continues to experience unprecedented
44 growth and development, with new types of commercial and residential
45 structures that need fire/EMS services; and
46

47 WHEREAS, providing fire/EMS services that match this economic
48 growth and redevelopment are challenged by the expiration of the
49 annexation sales tax credit in 2021, resulting in the loss of nearly \$4
50 million annually from the City's general fund; and
51

52 WHEREAS, further, Washington State law limits the annual
53 increase of a city's regular property tax levy to 1% plus an allowance
54 for new construction, unless the voters of a city approve a levy lid lift
55 permitting the collection of regular property taxes in a greater amount;
56 and
57

58 WHEREAS, to sustainably fund these potential fire/EMS
59 investments, the City must either identify new revenues or significantly
60 reprioritize existing general fund programs such as parks maintenance
61 and street maintenance that also rank as high priorities with City
62 residents; and
63

64 WHEREAS, in 2019, the Council convened the Community Safety
65 Advisory Group ("ComSAG") to review options to improve response
66 times, keep Fire/EMS stations seismically sound, and improve firefighter
67 health and safety; and
68

69 WHEREAS, in February 2020, ComSAG recommended hiring 24
70 new firefighter/EMTs to provide a dedicated aid car at Fire Station 22 in
71 Houghton, fully staff Fire Station 24 in north Juanita, provide daily 12
72 hour dedicated patient transport during peak hours, and fund five new
73 firefighter/EMTs to improve response times throughout the City; and
74

75 WHEREAS, to improve response times and protect firefighter
76 health and safety, the ComSAG also recommended construction of a

77 new Fire Station 27 in Totem Lake, and the seismic renovation of Fire
78 Station 22 in Houghton, Fire Station 26 in Rose Hill and Fire Station 21
79 at the border of Juanita and Norkirk; and
80

81 WHEREAS, since the ComSAG completed its recommendation in
82 February 2020, the City proclaimed an emergency to combat the
83 COVID-19 pandemic and has been grappling with the escalating social
84 and economic impact of the virus and related public health and safety
85 orders on the community; and
86

87 WHEREAS, the capital and operating elements in the proposed
88 ComSAG recommendation would have significantly improved the City's
89 response to COVID-19, and the budget challenges created by the
90 economic impacts of the outbreak curtails the City's ability to fund
91 any of these additional public safety investments without a voter
92 approved revenue source; and
93

94 WHEREAS, at the May 19, 2020 Council meeting, the Council
95 directed staff to reprioritize the capital and operating elements funded
96 within the ballot measure(s) to be no more than the ComSAG's
97 recommendation of \$0.22513 per \$1,000 of assessed valuation which
98 required a deferral of some staffing and facility elements to future years;
99 and
100

101 WHEREAS, the King County Assessor has cautioned that Eastside
102 assessed valuations may decrease in 2021. Should that occur, the ballot
103 measure may not generate sufficient revenue to accomplish the
104 commitments set forth in Section 1 below on the projected timeframe
105 expected by voters. Consistent with the City's conservative fiscal
106 policies, the levy rate has been increased from \$0.22513/\$1,000AV to
107 \$0.23513/\$1,000AV to offset an up to five percent drop in assessed
108 valuations in 2021; and
109

110 WHEREAS, it is deemed necessary that the City increase its
111 regular property tax levy rate to \$0.23513 per \$1,000 of assessed value
112 for collection in 2021 and thereafter to use the resulting levy amount as
113 the basis for computing the limitations for subsequent levies as allowed
114 by chapter 84.55 RCW; and
115

116 WHEREAS, the Council deems it necessary to submit to the
117 voters of the City the proposition of whether or not the City shall levy
118 regular property taxes for collection in 2021 in excess of the limit factor
119 provided for in chapter 84.55 RCW;
120

121 NOW, THEREFORE, the City Council of the City of Kirkland does
122 ordain as follows:
123

124 Section 1. Findings. The Council hereby finds that the best
125 interests of the residents of the City require the City to fund fire and
126 emergency medical services and facilities, including but not limited to
127 the following ("Fire and EMS Services"):

- 128
- 129 - Acquire pandemic response equipment, including stockpiling
- 130 personal protective equipment;
- 131 - Acquire, construct, improve and equip a new Fire Station in
- 132 Totem Lake, including the acquisition of land;
- 133 - Modernize, improve, expand, and/or renovate existing Fire
- 134 Stations, including Fire Station 21 in Juanita, Fire Station 22
- 135 in Houghton and Fire Station 26 in Rose Hill;
- 136 - Facility seismic renovations and capacity expansion;
- 137 - Hire approximately 20 additional full-time equivalent
- 138 firefighter/emergency medical technicians (EMTs) and staff;
- 139 - Modernize and upgrade technology and public safety
- 140 facilities and equipment;
- 141 - Fund additional operating, maintenance, vehicle and capital
- 142 expenses to provide enhanced public safety services; and
- 143 - Other public safety operations, maintenance, improvements,
- 144 equipment and services as determined by the Council should
- 145 anticipated investments become infeasible or City public
- 146 safety needs significantly change.
- 147

148 The City Council shall determine the timing, order and manner of
149 funding the Fire and EMS Services and uses of levy proceeds. The cost
150 of all compensation, benefits, training, support services, equipment,
151 vehicles, infrastructure, facilities, real property, and/or administrative
152 expenses and other costs incurred in connection with the Fire and EMS
153 Services shall be deemed a part of the costs of such Fire and EMS
154 Services. The Council may alter, make substitutions to, and amend such
155 components as it determines are in the best interests of the City and
156 consistent with the general public safety descriptions provided herein.
157 The proper officials at the City shall produce an annual accountability
158 report documenting use of levy proceeds, actions and program status
159 of Fire and EMS Services.

160

161 Section 2. Calling of Election Regarding the Levy of Additional
162 Regular Property Taxes. It is hereby found and declared the best
163 interests of the City require the submission to the qualified electors of
164 the City of the proposition whether the City shall levy regular property
165 taxes above the levy limitations established in RCW 84.55.005 and
166 RCW 84.55.010 for their ratification or rejection at an election to be held
167 on November 3, 2020. For the purpose of providing funds to pay the
168 costs of the Fire and EMS Services, the King County Director of Records
169 and Elections (the "Director"), as *ex officio* supervisor of elections in
170 King County, Washington, is hereby requested to call and conduct such
171 election to be held on such day and to submit to the qualified electors

172 of the City for their approval or rejection a proposition to increase the
173 City's regular property tax levy by up to \$0.23513 per \$1,000 of
174 assessed valuation (to a total rate not to exceed \$1.22951 per \$1,000
175 of assessed valuation) for collection in 2021, as allowed by chapter
176 84.55 RCW. The 2021 levy amount will be used as the basis to calculate
177 subsequent levy limits.

178
179 Upon approval of the voters of the proposition hereinafter set
180 forth, the City may use proceeds of such levy to pay the costs of the
181 Fire and EMS Services as more particularly described in this ordinance.

182 Section 3. Election. The City Clerk is hereby authorized and
183 directed to certify the following proposition to the Director, in
184 substantially the following form. Such election shall be conducted by
185 mail unless otherwise determined by the Director.

186
187 CITY OF KIRKLAND PROPOSITION NO. 1
188 LEVY LID LIFT FOR
189 FIRE AND EMERGENCY MEDICAL SERVICES AND FACILITIES

190
191 The City Council of the City of Kirkland
192 adopted Ordinance No. O-4731
193 concerning funding for fire and
194 emergency medical services and facilities.
195 This proposition would fund public safety,
196 including stockpiling pandemic personal
197 protective equipment, constructing a new
198 fire station, seismically renovating
199 existing stations, and hiring additional
200 firefighters/EMTs to improve response
201 times by increasing the City's regular
202 property tax by approximately
203 \$0.23513/\$1,000 to a maximum rate of
204 \$1.22951/\$1,000 assessed valuation for
205 collection in 2021. The 2021 levy amount
206 will be the basis to calculate subsequent
207 levies, per RCW 84.55. Qualifying seniors,
208 disabled veterans, and others would be
209 exempt, per RCW 84.36.

210
211 Should this proposition be approved:

212 YES?..... ☐

213 NO?..... ☐

214
215 For purposes of receiving notice of the exact language of the
216 ballot proposition required by RCW 29A.36.080, the City Council hereby

217 designates: (a) the City Clerk and (b) the City Attorney, as the
218 individuals to whom such notice should be provided. The City Attorney
219 and City Clerk are each authorized individually to approve changes to
220 the ballot title, if any, deemed necessary by the Director.

221
222 The City Clerk is authorized to make necessary clerical
223 corrections to this ordinance including, but not limited to, the correction
224 of scrivener's or clerical errors, references, numbering,
225 section/subsection numbers, and any reference thereto.

226
227 The proper City officials are authorized to perform such duties
228 as are necessary or required by law to submit the question of whether
229 the regular property tax shall be increased, as provided in this
230 ordinance, to the electors at the November 3, 2020 election.

231
232 Section 4. Exemption. If the ballot proposition set forth herein
233 is approved by the voters, as authorized by RCW 84.36.381, senior
234 citizens, disabled veterans, and other people with disabilities (as defined
235 in RCW 84.36.381) shall be exempt from the tax increase resulting from
236 such levy lid lift.

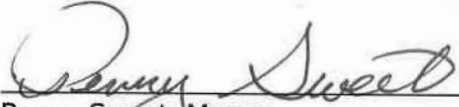
237
238 Section 5. Voters' Pamphlet. The preparation and distribution
239 of a local voters' pamphlet providing information on the foregoing ballot
240 measure is hereby authorized. The pamphlet shall include an
241 explanatory statement and arguments advocating approval and
242 disapproval of the ballot measure, if any. In accordance with RCW
243 29A.32.280, the arguments advocating approval and rejection of the
244 ballot measure shall be prepared by committees appointed by the City
245 Council. Each committee shall be composed of not more than three
246 persons; however, a committee may seek the advice of any person or
247 persons. The committee advocating approval shall be composed of
248 persons known to favor the ballot measure, and the committee
249 advocating rejection shall be composed of persons known to oppose the
250 ballot measure.

251
252 Section 6. Severability; Ratification. If any provisions in this
253 ordinance shall be declared by any court of competent jurisdiction to be
254 contrary to law, then such provision shall be null and void and shall be
255 deemed separable from the remaining provisions of this ordinance and
256 shall in no way affect the validity of the other provisions of this
257 ordinance or of the levy or collection of the taxes authorized by this
258 proposition. Any act consistent with the authority and prior to the
259 effective date of this ordinance is hereby ratified and confirmed.

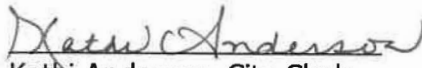
260 Section 7. Effective Date. This ordinance shall be in full force
261 and effect five days from and after its passage by the Kirkland City
262 Council and publication of a summary of this ordinance in accordance
263 with Kirkland Municipal Code 1.08.017.

264
265 Passed by majority vote of the Kirkland City Council in open
266 meeting this 21 day of July, 2020.

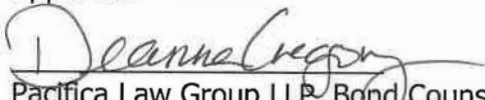
267
268 Signed in authentication thereof this 21 day of July, 2020.


Penny Sweet, Mayor

Attest:


Kathi Anderson, City Clerk

Approved as to Form:


Pacifica Law Group LLP, Bond Counsel

Publication Date: 07/28/20

PUBLICATION SUMMARY
OF ORDINANCE NO. 4731

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF KIRKLAND, WASHINGTON, PROVIDING FOR THE FORM OF THE BALLOT PROPOSITION AND SPECIFYING CERTAIN OTHER DETAILS CONCERNING SUBMISSION TO THE QUALIFIED ELECTORS OF THE CITY AT A SPECIAL ELECTION TO BE HELD THEREIN ON NOVEMBER 3, 2020, OF A PROPOSITION AUTHORIZING THE CITY TO LIFT THE LEVY LIMIT ESTABLISHED IN RCW 84.55.010 IN ORDER TO FUND FIRE AND EMERGENCY MEDICAL SERVICES, AND TO ACQUIRE, CONSTRUCT, IMPROVE, EQUIP AND/OR RENOVATE CITY FIRE FACILITIES.

Section 1. Sets forth findings of the Council, and authorizes the City to fund fire and emergency medical services and facilities, including but not limited to those operating and capital services set forth therein (the "Fire and EMS Services").

Section 2. Calls for the submission to the qualified electors of the City of the proposition whether the City shall levy regular property taxes above the levy limitations established in RCW 84.55.005 and RCW 84.55.010 for their ratification or rejection at an election to be held on November 3, 2020 for the purpose of providing funds for Fire and EMS Services.

Section 3. Sets forth the form of ballot proposition authorizing a levy lid lift for fire and emergency medical services and facilities.

Section 4. Provides for an exemption for qualified senior citizens, disabled veterans and other persons with disabilities from the regular property tax increase resulting from the levy lid lift.

Section 5. Authorizes the preparation and distribution of a local voters' pamphlet providing information on the levy lid lift ballot proposition.

Section 6. Provides for the severability of the Ordinance and ratifies prior actions taken in furtherance of the purposes of the Ordinance.

Section 7. States the effective date of the Ordinance.

The full text of this Ordinance will be mailed without charge to any person upon request made to the City Clerk for the City of Kirkland. The Ordinance was passed by the Kirkland City Council at its meeting on the 21 day of July, 2020.

I certify that the foregoing is a summary of Ordinance No. 4731 approved by the Kirkland City Council for summary publication.


Kathi Anderson, City Clerk

CERTIFICATE

I, the undersigned, City Clerk of the City of Kirkland, Washington, and keeper of the records of the City Council, DO HEREBY CERTIFY:

1. That the attached Ordinance is a true and correct copy of Ordinance No. 4731 of the City (the "Ordinance"), as finally adopted at a regular meeting of the City Council held on July 21, 2020, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that quorum of the City Council was present throughout the meeting and a legally sufficient number of members of the City Council voted in the proper manner for the adoption of said Ordinance; that all other requirements and proceedings incident to the proper adoption or passage of said Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

Dated this 21 day of July, 2020.

CITY OF KIRKLAND, WASHINGTON



Kathi Anderson, City Clerk

The Puget Sound ECONOMIC FORECASTER

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As we pass the halfway mark for 2020, this is not the year any of us would have predicted. The challenge with forecasting the unknown is the very fact that at any point anything can change the underlying assumptions – and right now as a region and as nation we are questioning many underlying assumptions.

Coronavirus, recession, and the shape of the recovery have dominated our work with the Forecaster. Sprinkle in structural changes into consumer behavior, how employers may manage their employees, and the latest news from either the tech sector or Boeing and you have yourself a ballgame.

As we have spent time with the media and countless presentations to groups (all online) it comes down to this – it is bad. The numbers from Q2 will look worse than Q1 and that makes sense. The question is duration. How much of the recovery will we see by Q4 and how much will wait until 2021? In the pages ahead we answer those questions

The short answer – it looks very promising.

Looking for insightful conversations beyond economics? Consider joining us for Western Insights. Visit <https://cbe.wvu.edu/western-insights> for more information.

Regional Outlook

Wading Through the Uncertainty

Anyone who has prepared a forecast knows that the quality of the output depends on the quality of the inputs. They also know that data get revised. In particular, most people who rely on forecasts for guidance understand the time lags in the data and know that forecasts can change a bit as new data become available.

We use the best available data on employment, retail spending, changes in population, etc., all of which take time to collect. It's a bit old by the time we (and any other analysts) receive it. That's always been true and has never been too big of an issue because the data do not change that drastically that fast. Except when they do – like this spring.

The Bureau of Labor Statistics had a very difficult time counting the number of unemployed in March. They never had to count so many people so fast and never had to consider the unique nature of many of the people filing for unemployment benefits. Some had jobs, or at least were told they had a job waiting and just needed to apply for unemployment; some were self-employed; and some weren't who they said they were (yes, fraud was a problem). The BLS also had trouble counting people as they went back to work in May. The Payroll Protection Plan encouraged employers to rehire the workers that had just filed for unemployment. Some returned to work; some did not, finding the extra emergency benefits to be adequate; and some found they did not have a job waiting as they had hoped. One challenge was counting people who had a job but were not engaged in that job at the moment. There were all sorts of wrinkles: like how to count those who go back to work, but only part-time, and those who stop filing for benefits, but also don't go back to work.

The graphics on the following page show that the initial job loss in March was bad but similar in scale to what we saw in 2008. Then things changed rather dramatically in April. The scale is just staggering.

In the end, the situation may not have been quite as bad as it appeared when the bottom fell out of the job market in March. Some of the people filing for unemployment weren't unemployed in the way we usually think about it – like

Summary Forecast

Annual Percent Change

	2018	2019	2020	2021
Puget Sound Region				
Employment	2.3	2.3	-7.2	4.0
Personal income (cur. \$)	6.4	5.0	-7.1	8.9
Consumer price index	3.2	2.6	1.1	1.7
Housing permits	-5.6	4.1	-23.8	11.0
Population	1.4	1.3	1.4	1.3
United States*				
GDP (\$12)	2.9	2.3	-5.6	3.9
Employment	1.6	1.4	-9.3	10.7
Personal income (cur. \$)	5.6	4.4	-3.9	5.2
Consumer price index	2.4	1.8	0.9	1.6
Housing starts	3.4	4.0	-11.5	9.5

*Source: Blue Chip Economic Indicators

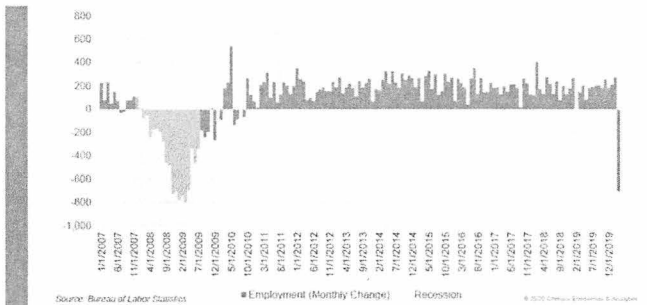


CENTER FOR ECONOMIC AND BUSINESS RESEARCH

Regional Outlook continued...

having to find a new job. But the situation was also not as positive as suggested in the first jobs report released for May. That report claimed the unemployment rate fell to 13.3%, with a surprise gain of 2.5 million jobs. Unfortunately, the BLS later noted errors in the counting process. Rather than release a correction, they will let the numbers speak for themselves in the next release.

Employment Growth (Monthly Change in Thousands) Through March 2020



Employment growth shown for U.S.

Employment Growth (Monthly Change in Thousands) Through April 2020



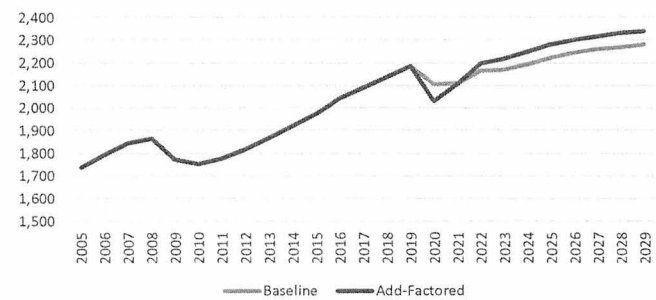
So we forecast... with the best data available.

Our approach has always been to rely on the data. But this spring we've had to play with the model, trying to guess what the data may say when it becomes available. In particular, we've tried to guess what the unemployment level might be when we get official statistics (later) that show what we are witnessing (now). We've constructed different scenarios with drops in employment and recovery rates. We've also included in the scenarios different assumptions about retail spending and income growth. We know we need to make those adjustments when firms announce pay cuts and layoffs that we won't see in the data for weeks or months.

The final graph shows our employment forecast with no adjustments. The Blue Chip forecast for US GDP and other variables drives the visible dip in employment (light blue line). With more people filing for unemployment than anticipated when the Blue Chip forecast was prepared, we made our own adjustments (dark blue line). We show a greater drop, but also faster recovery in the region,

owing to strong expectations in the information sector (e.g., Microsoft) and in the regional retail trade sector (Amazon).

Puget Sound Employment (thous.)



Perhaps the biggest challenge in constructing our scenarios is deciding on recovery rates. The stock market tells us the recovery rates should be large – pushing the economy back to “normal” by the end of the year or early 2021. Then again, we are not sure what to make of the stock market right now. We know of layoffs at Boeing and the public sector, and budget cuts likely in higher education. We also know that traffic at the airport, restaurants, and other places will not fully recovery for months – perhaps until there is a vaccine. Oh, that. Can someone tell us when there will be a vaccine, and maybe therapeutics? Having that information would be helpful when constructing a forecast.

The unknowns are staggering at the moment. And we have not mentioned the presidential election or lingering U.S.-China tensions.

We are watching infection rates very carefully. A possible increase in cases after so much gathering (Memorial Day celebrations and people simply getting tired of distancing, to the very important protests related to BLM and the killing of George Floyd) will be critical in preparing the next forecast. Learning more about unemployment and public sector budgets will also be critical.

Preparing a forecast is crucial in terms of the process. It makes you think carefully about what could make your forecast really miss the mark. Especially now, it is the process that is so helpful, not necessarily the numbers you generate. (It reminds us of the old adage – that budgets are not always that helpful, but budgeting is essential.)

One final note – keep an eye out for winners and losers. The economic impact of COVID-19 may end up being more concentrated in certain areas. Microsoft and Amazon may walk away relatively strong, while live events and tourism suffer. This is the nature of the disaster-based recession we are now in.

An Economic Crisis

But not the one you're thinking of

As extraordinary events roil the country, from the global pandemic to Black Lives Matter protests across major U.S. cities, it is clear that America is in crisis.

These events are not unrelated; the pandemic sparked the kindling of black inequality that has been here all along. Black, Hispanic/Latinx, and Native Hawai'ian/Pacific Islander residents face higher rates of coronavirus infection than White residents. Hospitalizations for those minority groups are also higher, although deaths are only statistically higher among Hispanic/Latinx residents compared to White residents. Here in the Puget Sound, as exists elsewhere in the country, there is profound inequality along racial lines.

It is not difficult to see this in the economic data. The 2018 median black household income in King County was \$55,152; the median white household income in the same place, same year, was nearly double at \$101,247. Even accounting for margin of error – an important thing when taking averages across a large population – the difference between incomes is still \$36,500.

This is the largest difference between racial household incomes in the four-county Puget Sound region, but hardly the only one. While Asian households tend to have higher incomes on average than white households in King and Snohomish, they see large disparities in Pierce and Kitsap Counties. In fact, nearly every racial group faces inequality when compared to white households across the region.

The large difference in Asian household income across the region helps to highlight that the “average” household income of any racial category is a myth, a construct of statistics. We use these numbers for ease of

calculation but each average represents a distribution of households, some wealthy, some not. These averages help clarify if households of a certain race are distributed more towards wealth or poverty, and in using them we must keep that specific purpose in mind.

By taking the difference in income and multiplying by the number of households in each racial group, we can begin to get an idea of the scope of the inequality: between \$4-9 billion (considering margin of error). In the median scenario, there is a \$6.9 billion shortfall between what minority households would have if they took home similar income to white households and what they currently take home.

There is no economic reason for inequality to fall along racial lines; this is a simple matter of the legacy of policies that consistently denied minorities opportunities throughout this country's history. However, the toll on our economy is very real. A large part of that \$6.9 billion would be spent in our region were it to exist, creating a sizable economic impact.

Our back-of-the-envelope calculations find that in the median scenario, an increase in income of \$6.9 billion would lead to an additional 52,000 jobs in the region, with an average annual wage of \$58,000. This would create \$8.7 billion in additional economic output, over half (\$5.4 billion) of which would represent a value add to society (profit, less input costs).

Accounting for margin of error on household income, the number of jobs created would range from 32,000 in the low scenario to 68,000 in the high scenario. Total economic output could also range from \$5.3 billion to \$11.5 billion.

Race/Ethnicity	Median Household Income (2018)			
	King	Snohomish	Pierce	Kitsap
Black or African American	\$55,152	\$69,796	\$59,218	\$37,095
American Indian and Alaska Native	\$63,558	\$57,325	\$73,076	\$59,699
Asian	\$111,609	\$101,661	\$59,358	\$65,750
Native Hawaiian and Other Pacific Islander	\$76,826	\$56,712	\$72,888	\$74,671
Some other race	\$57,592	\$84,272	\$50,781	\$53,608
Two or more races	\$85,337	\$67,056	\$76,836	\$73,304
Hispanic or Latino origin (of any race)	\$66,853	\$81,239	\$61,418	\$70,842
White alone, not Hispanic or Latino	\$101,247	\$88,847	\$80,320	\$80,050

All of these calculations were done using an income change scenario for the four-county Puget Sound region in IMPLAN, an economic impact modeling software. They do not represent definitive research on the topic, but through sharing this we hope to shed light on the way economic inequality along racial lines can hurt the overall economy, for everyone.

Retail Sales

Peering into the crystal ball

As America reopens county by county, a number of reports are suggesting that changes to consumer behavior may stick around for the long run. A survey by McKinsey & Company¹, a management consulting firm, found that many consumers are embracing a more digital lifestyle. This includes curbside pickup, grocery delivery, and using video services for both work and social purposes. Consumers also indicated that they were planning to reduce in-person activities like shopping and attending events, and many planned to increase their online shopping.

Not only has the pandemic changed how we shop for essentials, but non-essentials as well. In the early days of the crisis, no one was prepared. Social media was inundated with images of empty grocery store shelves, and stores struggled not only to keep shelves stocked but also to keep their online shopping sites functioning. Consumers would fill their carts only to find that there were no available delivery or pick up times or that many items were sold out.

In just a few weeks, we have seen a transformation, unlike any other by the grocery industry. Grocery giant Kroger hired more than 20,000 employees in just a few weeks and online shopping has been overhauled. The longer consumers have to adapt to this new normal, the more likely they are to form new habits and stick with them. It only takes 66 days for a habit to form, and it has now been well over 80 days since the first closures began in early March.

As stores across Washington begin opening, consumers will see a profound change to the retail landscape. Companies, both large and small, have been forced to close their doors

for good. For some, like JCPenny, the pandemic was the final blow to a company that had been on its last leg for years. For many small businesses, financial woes appeared overnight, leaving previously profitable companies unable to make their rent. Some were lucky and had understanding landlords who, in some instances, cut rent by 90² percent, but others were not so fortunate. CBS News³ reported in late March that the pandemic could permanently close 15,000 stores across the country, a significant increase over last years' record closure of over 9,500 stores.

With all these closures, both permanent and temporary, many consumers are not spending their stimulus checks. The checks contributed to personal income increasing 10.5 percent, while consumption fell 13.6 percent. Combined, this lead to the savings rate soaring to an all-time high of 33 percent⁴.



¹<https://www.mckinsey.com/business-functions/marketing-and-sales>

²<https://www.steepologie.com/>

³<https://www.cbsnews.com/news/coronavirus-15000-stores-close-year-2020/>

⁴<https://www.nytimes.com/2020/05/29/business/economy>

PUGET SOUND RETAIL SALES

	2019		2020			2021		Years		
	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2018	2019	2020	2021
Retail sales (bils. \$)	95.2	94.3	83.9	82.3	83.6	86.2	88.5	93.4	86.0	90.8
Building materials	7.5	7.4	6.6	5.9	6.3	6.8	7.0	7.4	6.6	7.2
Motor vehicles and parts	22.6	21.6	14.3	14.1	14.6	15.8	20.5	22.0	16.2	18.1
Furniture and electronics	3.4	3.4	3.1	2.9	3.0	3.1	3.3	3.4	3.1	3.3
General merchandise	10.1	10.2	10.3	10.3	10.4	10.5	9.6	10.0	10.3	10.6
Food and beverage	12.6	12.6	12.5	12.3	12.0	11.8	11.9	12.4	12.3	12.3
Gasoline stations	5.5	5.3	5.3	5.3	5.3	5.3	5.6	5.6	5.3	5.4
Clothing and accessories	3.9	3.9	3.4	3.3	3.3	3.4	3.7	3.8	3.5	3.6
Food services and drinking	11.7	11.7	10.2	9.9	10.2	10.7	10.9	11.5	10.5	11.4
Other retail sales	17.9	18.2	18.3	18.4	18.5	18.6	16.1	17.3	18.3	18.9
Taxable retail sales (bils. \$)	116.0	114.2	93.9	94.2	93.2	95.4	107.4	113.3	98.8	105.3
Retail trade	46.1	45.8	40.5	40.4	39.9	40.7	43.1	45.4	41.7	44.1
Other taxable sales	69.9	68.4	53.4	53.8	53.2	54.7	64.3	67.9	57.2	61.2
Annual growth (% change)										
Retail sales	5.0	-3.8	-44.2	-7.6	6.1	12.6	6.3	5.5	-7.9	5.6
Taxable retail sales	7.0	-6.3	-71.1	1.2	-4.3	9.4	9.7	5.5	-12.8	6.5

Construction and Real Estate

Shelter from the Storm

The Puget Sound region saw a jump in house prices just before the world was rocked by COVID-19. This price increase revives the too-familiar worry: is this growth sustainable? Rising prices pose an issue for buyers if the other conditions that contribute to the home-buying decision – primarily the mortgage rate and personal income – are not moving in a way that counteracts the pressure of rising prices. Let's first look at the context of the Puget Sound housing market to see how we got here.

In 2017 and early 2018, concerns about unsustainable growth dampened the glow of development and expansion. High-paying job opportunities and increasing prices put opposing pressures on Puget Sound housing demand. Our affordability index (at economicforecaster.com) captured this shift with a sharp decrease in 2018 Q2 trailing into early 2019. A brief cooling period assuaged these worries as lower prices and a decreasing mortgage rate created a breath of fresh air for buyers in the summer of 2019.

Right before the effects of COVID-19 took root, the Puget Sound was experiencing another growth in prices – the second-highest in the nation. The average house price grew 7 percent in January 2020, and again by 4 percent in February, landing at \$630,000. The Puget Sound has not seen price growth above 7 percent since an anomalous 20 percent jump in February of 2018 and, barring this occurrence, since early 2012. While home prices in the

region are expected to dip as a result of the pandemic, Puget Sound personal income will fare far worse as one of the crucial variables that influences price-growth sustainability.

Personal income growth per capita in our region has seen tepid oscillations in the 0-2 percent range – not enough to outpace inflation – since the beginning of 2016, with a downward slide in 2019 that ended at 0.3 percent. In Q1 this year, personal income fell 9 percent – the first decline since 2015 Q4. There are further decreases projected. With no reprieve from rising prices yet, and the decline in personal income outpacing any relief from a price drop, this leaves the mortgage rate to support affordability. Thankfully, it has maintained its historic lows. It is too soon to tell, but this mix of factors could be enough for the housing market to exit this recession with only a minor contraction.

The question of market sustainability is more than just theoretical for the Puget Sound. As a home is often the largest investment the average American will make, the rapid onset of recession is worrisome. In the last recession, homes lost nearly a third of their value. While we do not expect such a large decline, home value growth is expected to stagnate in 2020 and 2021. Don't be misled by strong housing market reports in April – in the short term losses to income will curb home buying.

PUGET SOUND CONSTRUCTION AND REAL ESTATE

	2019.4	2020.1	2020.2	2020.3	2020.4	2018	2019	2020	2021
Housing permits (thous.)	27.6	26.0	16.2	18.1	22.6	26.1	27.2	20.7	23.0
Single-family	10.6	10.1	6.4	7.3	9.2	10.1	9.7	8.2	9.8
Multi-family	17.1	15.9	9.8	10.9	13.4	16.1	17.5	12.5	13.2
Housing permits (mils. \$)	5941.2	5466.9	3528.4	4015.8	5086.0	5534.5	5707.5	4524.3	5395.7
Single-family	3397.9	3391.7	2151.7	2476.3	3168.9	3432.1	3238.2	2797.2	3438.9
Multi-family	2543.3	2075.1	1376.7	1539.5	1917.1	2102.4	2469.3	1727.1	1956.8
Average home price (thous. \$)	608.4	627.7	614.9	608.6	605.7	568.1	591.8	614.2	597.0
Active home listings (thous.)	7.0	6.5	6.7	7.0	7.4	8.0	8.6	6.9	7.5
Home sales (thous.)	67.0	66.2	58.8	54.6	47.8	66.5	65.5	56.9	49.0
Apartment vacancy rate (%)	5.1	5.0	5.4	6.0	6.8	5.1	5.0	5.8	7.2
Average apartment rent (\$)	1735	1767	1755	1765	1776	1630	1725	1766	1794
Annual growth (% change)									
Housing permits (mils. \$)	11.5	-31.9	-141.8	55.3	106.6	-9.0	3.1	-20.7	19.3
Average home price	17.6	12.7	-8.1	-4.2	-1.9	8.9	4.2	3.8	-2.8
Average apartment rent	-12.1	7.4	-2.6	2.3	2.4	4.4	5.9	2.4	1.6

Identifying and Sorting Through Income Inequality

Anneliese Vance-Sherman, Ph.D.

Regional Labor Economist, Washington Employment Security Department

At the start of 2020, the condition of the Washington state labor market was strong and overwhelmingly positive, by most conventional measures. The statewide unemployment rate reached an all-time low, with the unemployment rate in the Seattle area dipping to the low 2 percent range. Statewide, all major industry sectors had long since recovered from the Great Recession and continued to grow. (Beneath the surface, of course, questions of income inequality and uneven labor markets were present and persistent). When faced with questions about the next recession, economists (including myself) shrugged and pointed to the depth of the Great Recession as a possible explanation for the longest economic expansion on record. Of course, there could be a black swan event—there is always the lingering possibility of something nobody sees coming. At the start of 2020, a new virus was reported out of Wuhan, China, causing concern among economists about possible supply chain disruptions that could impact the American consumer in the form of increasing prices of manufactured goods.

A few weeks into the new year, a completely unexpected narrative unfolded. The first documented case of Novel Coronavirus in the United States was identified in Snohomish County on January 21, placing Washington at the North American frontier of a rapidly unfolding health and economic crisis. By early March, cases in the Puget Sound region were multiplying, and business leaders were beginning to make executive decisions to send workers home with their computers and temporarily closing buildings to facilitate deep cleaning.

By mid-March, Governor Jay Inslee issued a series of executive orders designed to slow the spread of Covid-19 in Washington state. Proclamations included limiting in-person gatherings to less than 250 persons (March 11), closing schools in King, Snohomish, and Pierce Counties (March 12), extending school closures statewide (March 13), closing dining rooms for all restaurants and bars in Washington (March 15) and halting elective surgery (March 19), and formalizing the “stay home, stay healthy order” (March 23).

This crisis unfolded differently than most economic downturns. Most large-scale economic downturns occur over a longer timeline, as businesses gather information and make decisions in response to that data. This time around, layoffs happened in nearly real-time as government directives were issued. As a result, the month or quarterly lag in many of our most reliable datasets forced economists to look to other closer-to-real-time datasets in order to make sense of the rapidly-unfolding situation.

Unemployment Insurance Claims

The Employment Security Department collects and publishes counts of unemployment insurance claims. During the rapid downturn, the Labor Market and Economic Analysis division (LMEA) began to publish weekly unemployment insurance claims data, covering multiple angles in order to offer quick and reliable information to decision-makers throughout Washington.

As claims began to flood in, we have noticed some trends:

- Workers from a few industries were impacted to a greater extent than the others. In particular, accommodations and food services, health care and social assistance, retail trade, construction, and manufacturing; work tasks in these industries rely to a large extent on in-person interactions, which introduced a certain degree of vulnerability in terms of virus transmission and are less likely to pay family-sustaining wages. These were also industries that were explicitly called out in early executive orders.
- No industry was left untouched, although the relative number of claims in industries was lower in some of the ‘high tech’ industries such as professional services and information, which were more conducive to telecommuting arrangements.

Continued on page 8

What do we read?

Take a glance over our team's shoulder by following us on your favorite social media stream. We post 4+ interesting links and articles each day.

<https://www.facebook.com/westerncebr/>

<https://twitter.com/PugetSoundEF>

<https://www.instagram.com/wwucebr/>

<https://www.linkedin.com>



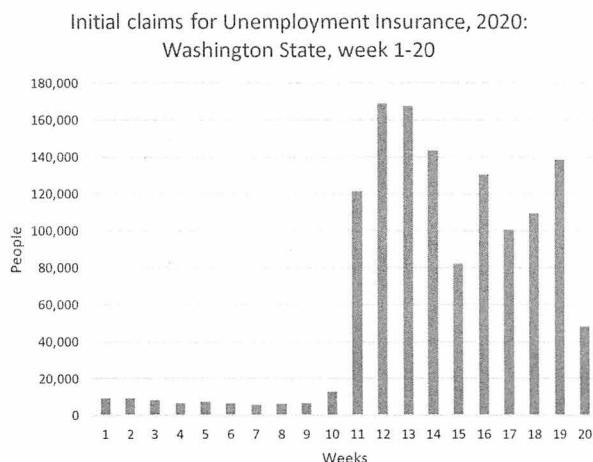
FORECAST DETAIL 60 Percent Probability

	2019.4	2020.1	2020.2	2020.3	2020.4	2018	2019	2020	2021
Employment (thous.)	2204.7	2214.0	1907.1	1995.2	2001.4	2138.0	2186.7	2029.4	2110.9
Goods producing	325.4	328.3	261.5	263.3	267.7	314.6	323.0	280.2	286.7
Natural resources and mining	1.2	1.2	1.0	1.0	1.0	1.2	1.2	1.0	1.1
Construction	136.5	139.8	94.6	100.7	105.5	131.5	134.2	110.1	120.7
Manufacturing	187.7	187.4	165.9	161.6	161.1	182.0	187.6	169.0	165.0
Aerospace	84.4	84.1	73.9	74.2	74.4	79.7	84.5	76.7	74.5
Other durable goods	69.4	69.4	60.5	56.8	55.9	69.2	69.6	60.7	58.4
Nondurable goods	33.9	33.9	31.5	30.5	30.8	33.2	33.5	31.7	32.1
Services producing	1879.3	1885.7	1645.6	1731.9	1733.8	1823.4	1863.7	1749.3	1824.1
Wholesale and retail trade	334.9	334.4	287.4	306.0	308.7	326.7	332.8	309.1	332.4
Transportation and public utilities	79.3	79.5	70.6	68.2	69.1	78.4	79.0	71.9	74.6
Information	132.8	134.9	133.5	132.4	134.1	120.6	130.2	133.7	138.1
Financial activities	107.2	106.1	104.8	103.3	100.9	104.9	106.6	103.8	99.9
Professional and business services	313.7	315.8	283.8	282.0	277.2	302.7	310.4	289.7	299.8
Other services	601.4	600.5	462.2	538.8	544.9	579.5	595.5	536.6	580.1
Government	310.1	314.5	303.3	301.2	298.8	310.7	309.3	304.4	299.2
State and local	256.8	260.8	249.4	247.2	244.8	257.7	256.1	250.6	245.1
Federal	53.3	53.7	53.8	53.9	54.0	53.0	53.2	53.9	54.1
Unemployment rate (%)	3.1	3.7	15.2	12.8	12.1	3.7	3.4	10.9	7.9
Personal income (bils. \$09)	279.1	276.5	258.2	240.4	245.8	268.2	277.7	255.2	273.6
Personal income (bils. \$)	307.8	306.0	285.5	266.5	273.6	290.0	304.6	282.9	308.1
Wage and salary disbursements	173.6	170.2	165.3	146.6	149.3	163.6	172.2	157.8	167.2
Other income	134.2	135.8	120.2	119.9	124.3	126.4	132.4	125.1	140.9
Per capita personal income (\$)	73123	72429	67318	62634	64020	70084	72671	66600	71541
Consumer price index (82-84=1.000)	2.791	2.821	2.797	2.808	2.822	2.710	2.781	2.812	2.861
Housing permits (thous.)	27.6	26.0	16.2	18.1	22.6	26.1	27.2	20.7	23.0
Population (thous.)	4209.9	4224.6	4241.5	4255.2	4273.1	4137.9	4190.8	4248.6	4305.8
Net migration (thous.)	27.7	35.0	43.8	31.3	47.8	30.6	27.6	39.5	26.3
Three-month treasury bill rate (%)	1.6	1.1	0.1	0.1	0.1	2.0	2.1	0.4	0.2
Conventional mortgage rate (%)	3.7	3.5	2.9	3.0	3.1	4.5	3.9	3.1	3.1
Annual growth (% change)									
Employment	1.5	1.7	-55.5	18.5	1.3	2.3	2.3	-7.2	4.0
Personal income (cur. \$)	2.7	-2.4	-26.7	-26.6	10.6	6.4	5.0	-7.1	8.9
Consumer price index	-1.8	4.4	-3.5	1.7	2.0	3.2	2.6	1.1	1.7
Housing permits	-20.7	-23.9	-150.2	47.1	97.9	-5.6	4.1	-23.8	11.0
Population	1.2	1.4	1.6	1.3	1.7	1.4	1.3	1.4	1.3

Identifying and Sorting Through Income Inequality - Cont.

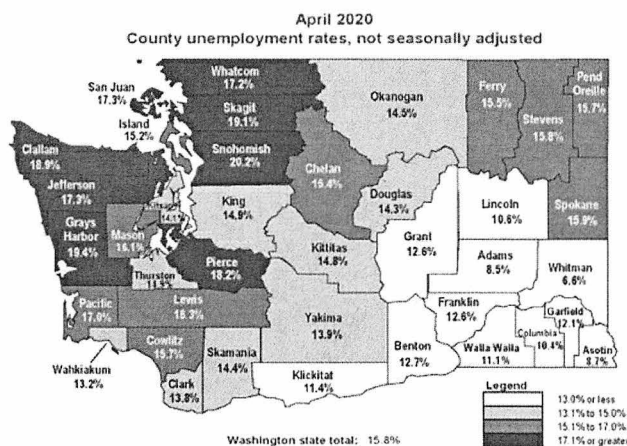
Anneliese Vance-Sherman, Ph.D.

Regional Labor Economist, Washington Employment Security Department



Labor force and Unemployment rates

Now that the Covid-19 crisis has extended a full month beyond the original anticipated deadline, our traditional data resources have matured and begun to catch up, offering more, and better optics on the situation. The unemployment rate in April jumped from a period of record lows to a seasonally adjusted record high of 15.4%.



When we look at the spatial variation around the state, a few patterns emerge:

- Counties that touch saltwater saw the highest unemployment rates. This is because of their robust tourism-based economy. The closure of restaurants and bars, paired with canceled vacations swiftly impacted Washington's coastal areas.

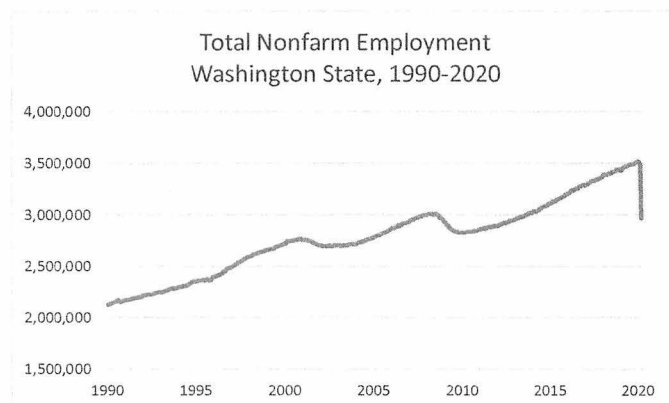
- Labor force data reflect where people live rather than where they work. Many unemployed workers in Snohomish and Pierce Counties previously had jobs based in King County.
- Snohomish County and Skagit County were also impacted by a decline in manufacturing employment.

Payroll statistics

Monthly payroll statistics shine a mirror on data collected from the Unemployment Insurance system. In April, Washington state employers reported a loss of 527,000 jobs compared to the previous month. Leisure and hospitality suffered the deepest one-month losses (-177,700), followed by construction (-81,000) and education and health services (-66,700). All major industries reported net losses over the month.

Moving forward

As we chart our path forward, each of these data resources will be critical in reflecting change, and will inform our understanding about who is affected by those changes. Executive orders in recent weeks have shifted toward phased opening of economic activities on a county-by-county basis. As regions and businesses re-open, we will inevitably see some shifts in the regional ecosystem. Some businesses will not return, others will operate differently. Telecommuting may gain more acceptance and work environments will likely change in order to protect businesses, workers and customers from health risks.



Washington State Economy

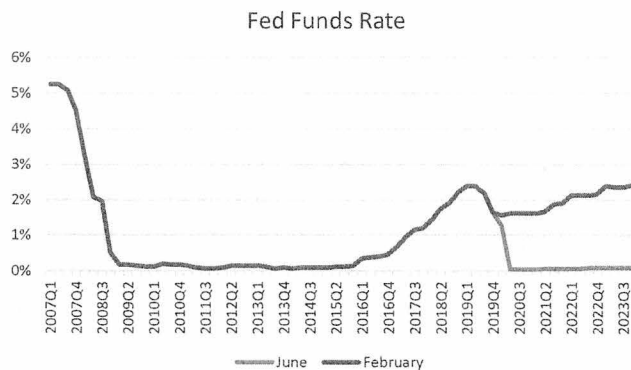
Steve Lerch

Executive Director & Chief Economist
Washington State Economic Revenues Forecast

The Washington Economic and Revenue Forecast Council released a preliminary economic forecast on June 2nd (available on the ERFC website erfc.wa.gov); a final economic and revenue forecast will be released on June 17th. The COVID-19 pandemic has drastically changed the economic landscape since our February forecast. Measures to address the pandemic have led to business closures and widespread unemployment. While the Washington economy is gradually reopening, the ongoing impacts of the pandemic create a substantial degree of uncertainty in regard to this forecast.

Interest Rates¹

Since the previous (February) forecast, the Federal Reserve has reduced the federal funds rate to a range of 0% – 0.25%. The Federal Reserve has also created a number of credit facilities to make loans and purchase bonds to support the functioning of credit markets. This forecast assumes the Federal Reserve will maintain the federal funds rate in this range throughout the forecast period and that credit facilities are utilized and effective in narrowing credit spreads.

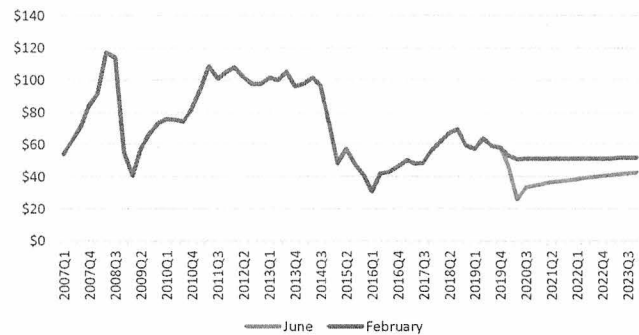


source: IHS-Markit, ERFC preliminary June 2020 forecast

Oil

Since our last forecast, oil spot prices have decreased substantially for both West Texas Intermediate (WTI) and European benchmark Brent. For the week ending May 22nd, WTI is \$33 per barrel or about \$20 lower than at the time of the February forecast while Brent dropped by \$25 per barrel to \$34 over that period. Futures prices remain below the February forecast through 2025. Oil prices paid by refiners are expected to average \$35 per barrel this year (down from \$52 in the February forecast), gradually rising to \$46 per barrel by 2025.

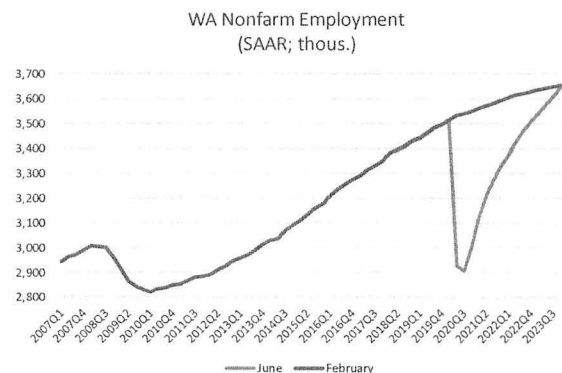
Refiners' Acquisition Price - Oil



source: U.S. Dept. of Energy, IHS-Markit, ERFC preliminary June 2020 forecast

Washington Nonfarm Employment

We have four months of new Washington employment data since the February forecast was released. The impact of the pandemic on the labor market has been unprecedented, with total nonfarm employment falling 453,000 (seasonally adjusted) in April and declining a total of 446,200 in January through April. The February forecast had expected an increase of 27,500 jobs in the January through April period. Private services-providing sectors lost 359,300 jobs in the four-month period. Construction employment declined by 47,200 jobs and manufacturing declined by 27,700 jobs, including the loss of 8,300 aerospace jobs. Government payrolls declined by 11,100 jobs in January, February, March, and April.



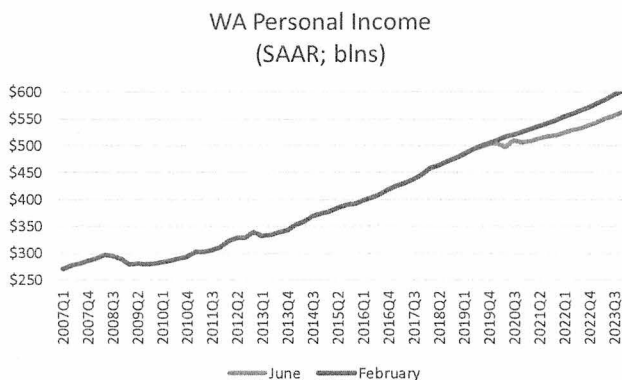
source: U.S. BLS, IHS-Markit, ERFC June 2020 prelim forecast

We expect Washington employment to decline 11.0% this year, well down from the pre-COVID 1.8% growth we had expected in the February forecast. After declining in the second and third quarters of 2020, we expect employment to increase in the fourth quarter and continue to increase through the forecast period. However, it will not reach levels expected in the February forecast until 2024.

After falling to an all-time low of 3.8% in February, Washington's unemployment rate increased to 5.1% in March and to 15.4% in April. The April unemployment rate was a new all-time high in the series that dates back to 1974. The unemployment rate is expected to average 14.9% in 2020. The unemployment rate is not expected to decline to single digits until the third quarter of 2023.

Washington Personal Income

In March, after the previous forecast was complete, the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) released state personal income estimates for the fourth quarter of 2019 and revised estimates of state personal income for the first three quarters of 2019. According to these estimates, Washington personal income rose from \$497.3 billion (SAAR) in the third quarter to \$502.1 billion in the fourth quarter. The reported 4.0% growth rate (SAAR) in Washington personal income was the 6th largest among the states and District of Columbia and exceeded the 3.0% growth rate for the U.S. as a whole. Washington personal income for all of 2019 grew by 5.7%, which also ranked 6th among the states and District of Columbia and exceeded the 4.4% growth rate for the U.S. as a whole.



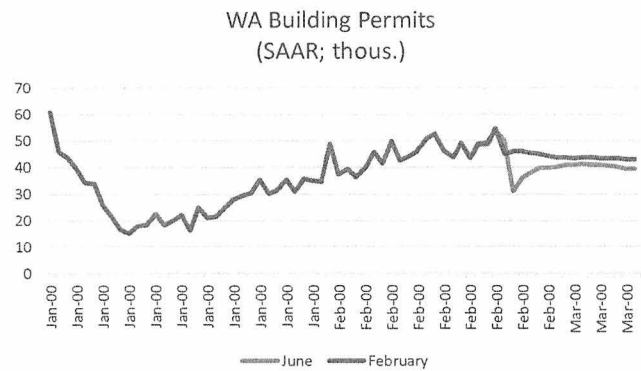
source: U.S. BEA, IHS-Markit, ERFC June 2020 preliminary forecast

First quarter 2020 personal income data, the first period in which COVID-19 impacts on personal income will be observed, are not yet available. However, our personal income forecast incorporates COVID-19 impacts and fiscal policy responses to the pandemic such as the increased unemployment benefits in the CARES Act. Personal income for 2020 is expected to be \$13.4 billion lower compared to the February forecast. After growing 2.1% this year, personal income is expected to grow by 1.9% in 2021. Personal income growth rates gradually increase, reaching 4.9% in 2025.

Real Estate and Construction

According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle home prices increased 1.1% in March compared to February and were up 6.9% over the

year. This marks eight consecutive months where Seattle-area home prices rose over the year. In comparison, the composite-20 index was up 3.9% over the year. Seattle home prices are up 102% since the December 2011 trough and exceed the May 2007 peak by 40%.



source: U.S. Census, IHS-Markit, ERFC June preliminary 2020 forecast

Total statewide real estate sales (seasonally adjusted) subject to the real estate excise tax equaled \$7.1 billion in February and \$7.6 billion in March but then declined to \$5.2 billion in April. Sales were lower both for large commercial properties and for residences.

Washington housing permits decreased from 53,700 units (SAAR) in the fourth quarter of 2019 to 49,800 units in the first quarter of 2020. First quarter permits consisted of 24,800 single-family units and 25,000 multi-family units. However, April 2020 permits appeared to be affected by the COVID-19 pandemic, dropping to 28,600 units (12,000 single family and 16,600 multi-family units). The February forecast had assumed an average rate of 44,900 units for the first quarter and 45,900 units for the second quarter of this year.

For all of 2020, we expect housing permits for 38,800 units this year compared to our February forecast of 45,500. We expect housing permits to average 40,000 units per year from 2021 through 2025, down from the average of 42,900 units in the February forecast.

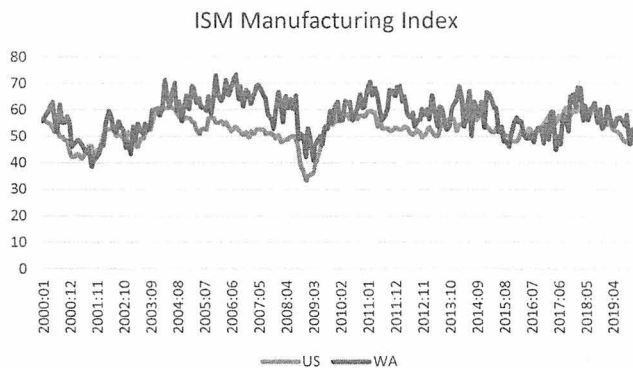
Washington construction employment is expected to average 195,400 jobs this year, about 26,000 jobs fewer than in the February forecast. We expect 2021 construction employment to decline to 187,900 jobs before gradually increasing in 2022 through 2025.

Manufacturing

After three consecutive months above 50 (index values above 50 indicate growth while values below 50 indicate contraction) in December 2019, January and February, the Institute of Supply Management - Western Washington Index (ISM-WW) has fallen below 50 in March and April. The index, which measures conditions in the

manufacturing sector, decreased from 46.0 in March to 38.5 in April. The production, orders, employment, and inventory components all indicated contraction in April. As in March, only the deliveries components indicated expansion, however this is misleading. A slowing of deliveries is a plus for the index as it normally reflects strong demand. In the current context the slowing of vendor deliveries is due to supply disruptions.

Washington manufacturing employment is now expected to be 254,900 in 2020 or 38,100 below the 293,000 expected in February. We expect manufacturing employment to grow 3.2% in 2021 and 5.9% in 2022 before growth slows to an average of 1.4% in 2022 through 2025. Despite the growth starting next year, manufacturing employment remains below the February forecast through 2025.



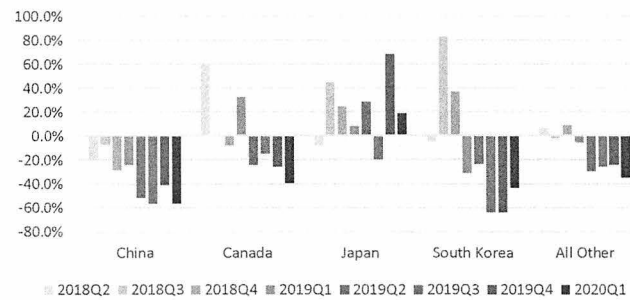
source: Institute for Supply Management, ERFC

In late April, Boeing announced a number of changes in production rates in response to the impact of COVID-19 on air travel and the demand for commercial aircraft. This included production of the 787 dropping from its current rate of 14 aircraft per month to 10 in 2020 and 7 per month in 2021; 777 production dropping from 5 per month in 2020 to 3 per month in 2021; and a gradual production increase of 31 per month for the 737 MAX (previous plans had production ramping up to 57 aircraft per month). It also announced plans to reduce jobs in its commercial aircraft division by 15%. We have incorporated these employment changes in our forecast.

Aerospace employment was 88,900 in the fourth quarter of 2019. Although employment declined by about 300 jobs in the first quarter of this year, we expect larger declines for the remainder of the year, hitting a low point of 71,700 in the fourth quarter. Aerospace employment is then expected to gradually increase to 74,000 in 2021 and 77,400 in 2022.

¹ Data sources: Washington Economic and Revenue Forecast Council, Washington Department of Revenue, Washington Employment Security Department, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Department of Energy, IHS-Markit, WISERTrade, Institute for Supply Management

Year-Over-Year Growth in Export Value, Major Trading Partners



source: WiserTrade

Exports

Washington exports declined sharply over the year for a sixth consecutive quarter. Year-over-year exports decreased 35.1% in the first quarter of 2020 following a 22.9% reduction for all of 2019. The large declines were primarily due to transportation equipment exports (mostly Boeing planes) which fell 59.2% in the first quarter of 2020 and declined 37.4% in 2019. Boeing suspended deliveries of the 737 MAX in March 2019, which clearly affected exports since the second quarter of 2019. First quarter 2020 exports of agricultural products decreased 21.3% over the year while exports of all other commodities (mostly manufactured goods) declined 5.7% over the year.

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Leading Index

A Long Way Down

Sometimes, you find out that you are looking for the wrong things. While our leading index had been faltering for the past few quarters – not quite rising, not quite falling – something was quietly lining up to land a huge blow to the global economy. That something was COVID-19, and now we begin to see its impact in the index.

The leading index fell 8.2 percent year-over-year in 2020 Q1, the largest drop since 2009. Even this is just a taste of what we expect to see next quarter, as the pandemic only picked up speed in our region at the end of Q1.

The goal of the leading index is to get ahead of the economy by monitoring a set of “leading” indicators, or ones that represent the proverbial canary in the coal mine. As we are knee-deep in another recession, this raises the question: how well did the index do at predicting this recession? Well, it’s a mixed bag.

On one hand, this is not a financial or economic recession. It is a disaster-based one. Think Hurricane Katrina. These

are generally out-of-nowhere events that cause a sharp, localized economic downturn with a decently sharp upturn, the elusive V-shaped recovery. Therefore, no element of the economy could have predicted a recession here, as this recession did not come from economic forces. The quarterly index did not find anything worrying in the economy beyond some general stagnation, and therefore did not predict this recession.

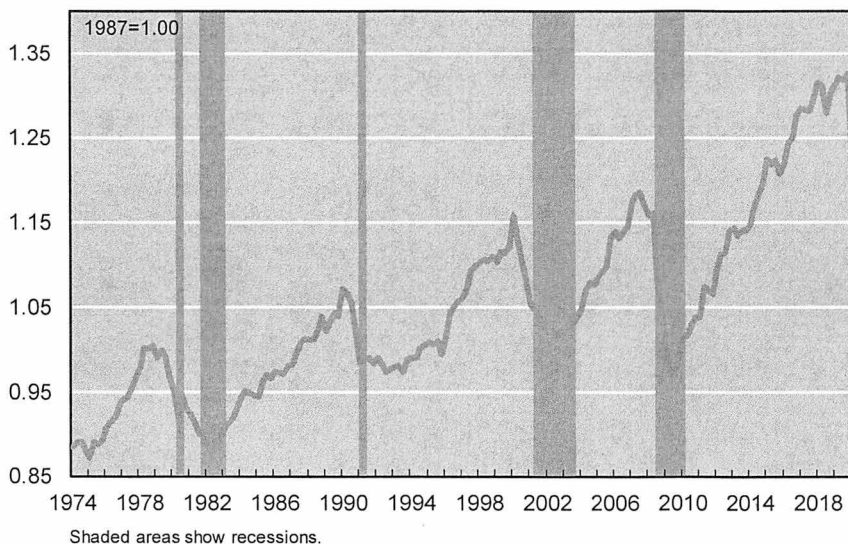
But in some ways, it did. Consumers reacted quickly to the news, lowering demand at in-person stores and restaurants before lockdowns were imposed and after they were relinquished – Atlanta stands as one example. Our monthly index began falling in mid-March. Given the very small amount of warning, the index correctly pointed to recession.

Now that we are in a recession, the index faces a similar issue with “black swan” events. While it may monitor increasing economic activity and call for expansion again, a secondary outbreak could quickly curtail any recovery. While the disaster-based recession analogy holds when your town is hit by a storm, we have few-to-no examples of a world on fire.

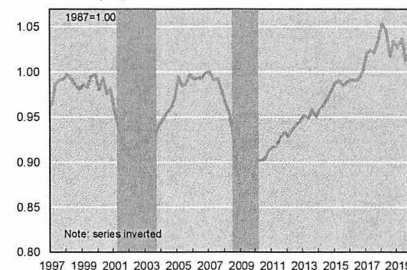
Still, it is important to look for silver linings. Puget Sound online job postings have stayed strong, even into April. The number of new unemployment claims is high while continuing unemployment claims are relatively lower – indicating some returning to work. This seems to have been supported by the May jobs report, which saw an uptick nationwide (Puget Sound numbers have not been released yet). Perhaps the labor market will bounce back stronger than expected – the stock market seems to think so.

The future is uncertain, but we’ll continue to monitor the economics and epidemiology to give you the best view of it.

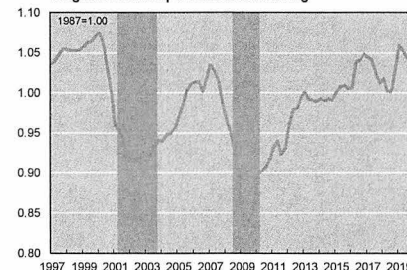
Puget Sound Index of Leading Economic Indicators



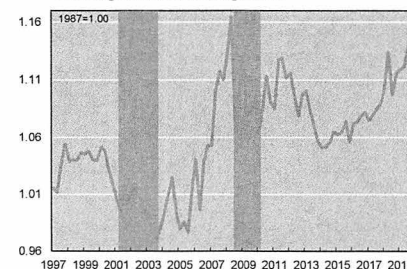
Puget Sound Initial Claims for Unemployment Insurance



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