Economic Update

Update on economic issues affecting Seattle's tax revenue performance

JULY 2003

ECONOMY

U.S. Economy. The recovery from the 2001 recession, which has been both weak and uneven throughout its 1½ year life-span, continues to fall short of expectations. One reason is that the 2001 recession was different than other recessions of the past 50 years. The 2001 recession resulted from the collapse of an investment boom and the bursting of a stock market bubble. Recovering from these conditions takes more time than does recovery from a more typical post-war recession. Consequently, expectations about the timing and magnitude of a turn around may be unrealistic. The nature of the current business cycle is very different from other recent cycles, making economists' task of forecasting more difficult than usual.

Despite the end of the Iraq war, recent economic data has been largely disappointing. Industrial production declined in April for the third consecutive month. Employment growth has been either negative or unchanged in six of the past seven months, which has pushed the nation's unemployment rate to 6.1% in May, the highest level since 1994. On the positive side, consumer confidence has risen since the war's end, and the stock market is up more than 15% since early March.

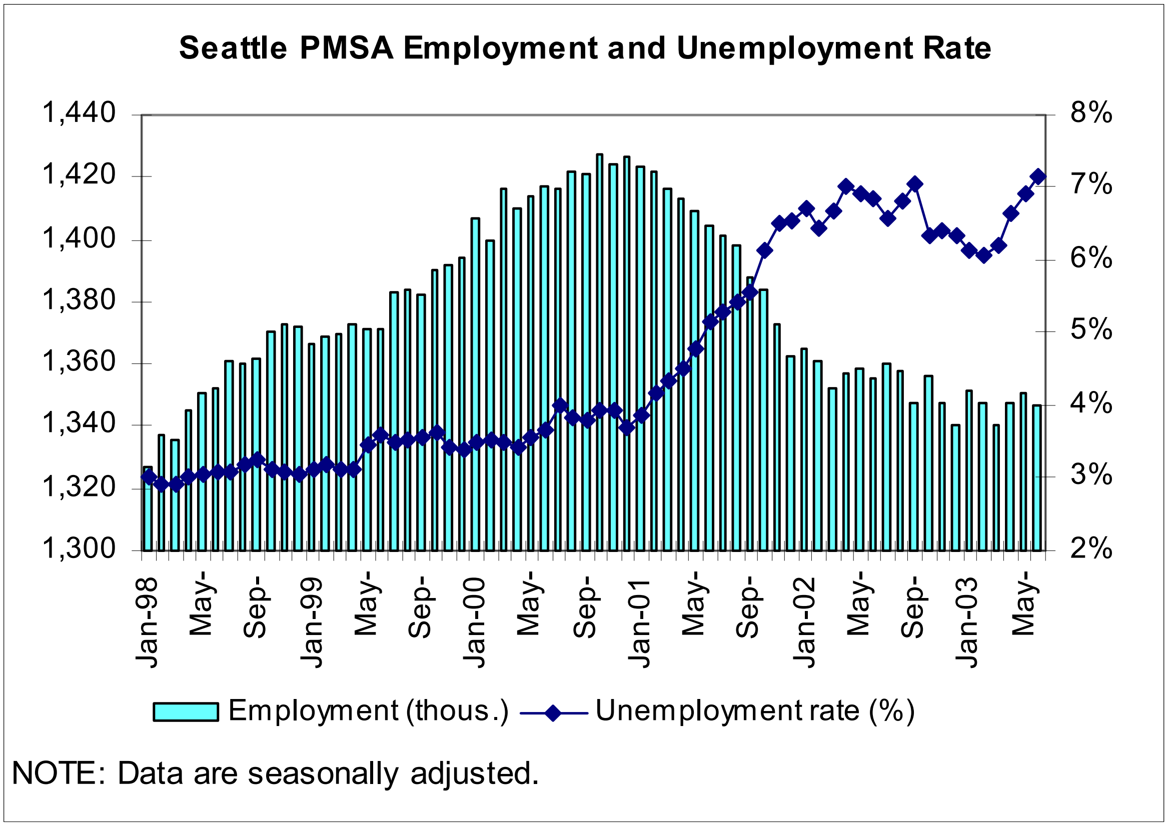
Despite the economy's sluggishness, most forecasters expect it to improve during the second half of the year, and then expand at a healthy pace in 2004. Employment is forecast to begin increasing later this year, and the economy is expected to create 2 million new jobs in 2004. The recovery will receive a boost from the recently enacted federal tax cuts; however, much of the impact of the cuts will be offset by tax increases and spending reductions by state and local governments.

Given the state of the recovery thus far, widespread weakness in the world economy, and the high debt levels of American households, a less robust outcome is a definite possibility. The economic research firm Global Insight believes there is a 25% probability of protracted sluggishness, which would be a continuation of recent conditions.

Puget Sound Region Economy. The Puget Sound Region economy has continued to struggle in 2003. After falling sharply during 2001, the region's employment continued to decline in 2002 and thus far in 2003, but at a slower pace (Figure below). The Seattle PMSA[1] has lost over 85,000 jobs since late 2000, a six percent decline.

With employment falling steeply, the Seattle PMSA unemployment rate rose sharply during 2001. It then stabilized in 2002, and has exhibited some signs of improvement in 2003. For the first four months of 2003, the unemployment rate has been lower than the rate for the equivalent month in 2002. At the state level, Washington had the second highest unemployment rate (7.3%) in the nation in April 2003, the latest month with available data. Oregon led the nation with a rate of 8.0%.

[1] King, Snohomish, and Island Counties.



A major contributor to the region's economic woes has been the large drop in Boeing employment that followed the September 11 attacks. Boeing's Washington employment declined from 80,000 in September 2001 to 57,000 in June 2003, a drop of 23,000. This is the second round of major layoffs at Boeing following the company's most recent employment peak in June 1998. Since that time Boeing has reduced its Washington employment by 47,000 jobs.

Looking to the future, the Puget Sound Economic Forecaster anticipates a flat economy in 2003, with negligible employment growth (0.1%) and weak income growth. A modest upturn is forecast for 2004, when employment is expected to increase by 1.5%, due largely to the expected improvement in the national economy. The principal risks to this forecast of modest improvement are the national economic forecast and Boeing.

Shifting Income Patterns

A historical look at Seattle's household income growth

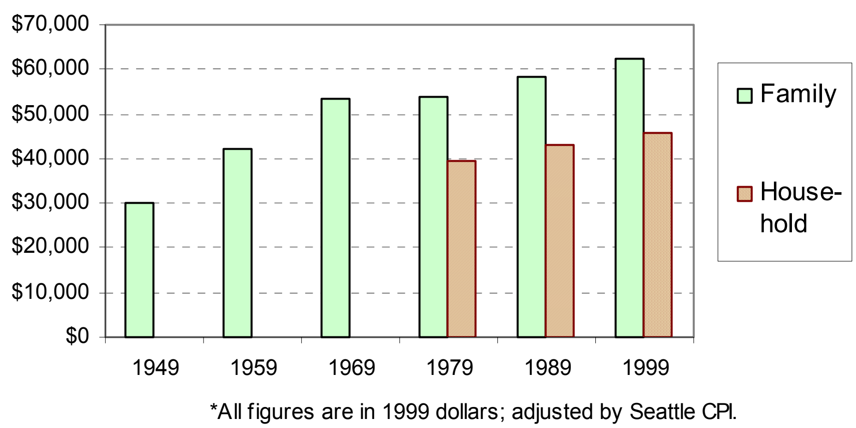
SPECIAL TOPIC: INCOME

Household income is a critical variable in understanding and forecasting the growth of City of Seattle revenue. It is also an important indicator of the health of the economy and the well being of the population. This report uses historical U.S. Census information to examine patterns of income growth in Seattle over the past 50 years, with an emphasis on the decade of the 1990s. Given the complexity of the topic, we view this report as a first step, with additional analysis to follow later.

Because it is comprehensive, household income is the preferred measure of income in this analysis. Unfortunately, the census does not contain household income data for Seattle prior to 1979, making it necessary to use family income data for time series that extend back to 1949. For the decades for which both household and family income data are available, the two series exhibit very similar growth patterns.

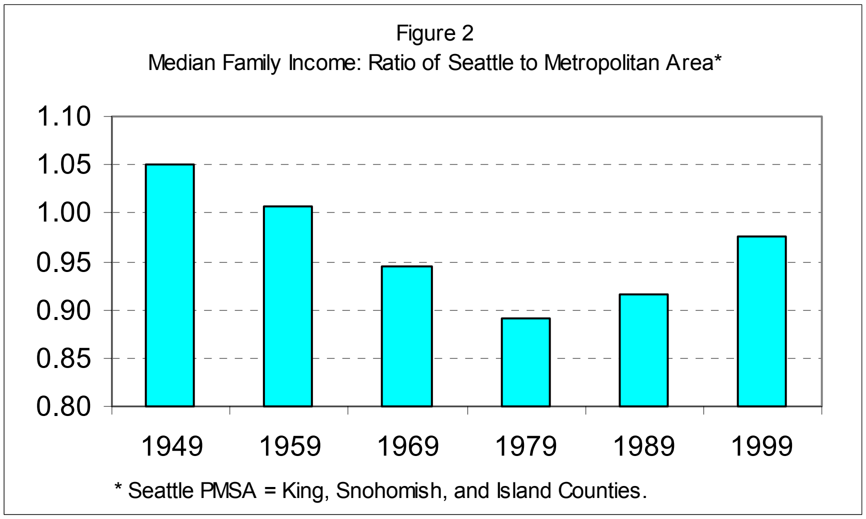
Income growth since World War II. The period since World War II has been a time of prosperity and rising incomes for most Americans. In Seattle, real (i.e., with inflation removed) median family income has more than doubled, rising from $30,000 in 1949 to $62,000 in 1999 (see Figure 1). Incomes grew rapidly during the 1950s and 1960s, then stagnated during the 1970s, when the nation's economy was beset by high inflation and two oil price shocks. Growth resumed during the 1980s and 1990s but at a more modest pace. In Seattle, median family income increased by 8.5% during the 1980s and by 6.6% during the 1990s; comparable figures for median household income were 8.6% and 6.5%, respectively.

Figure 1. Seattle Median Family and Median Household Income, in 1999 Dollars

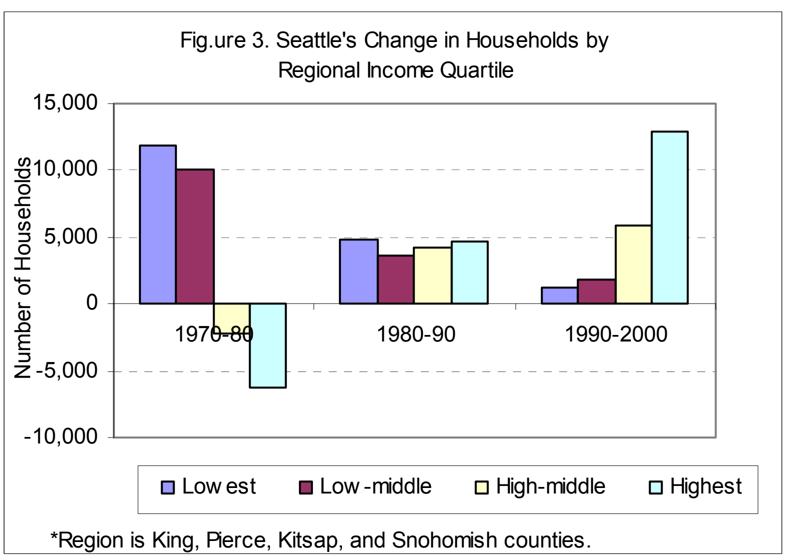


Income growth: Seattle and the Puget Sound region. Urban development during the post-war period has been characterized by rapid population growth and extensive suburbanization. Early suburbanization was generally characterized by the movement of middle and upper income households to the suburbs and the increasing concentration of lower income households in central cities. More recently, this pattern has become more complex, as some central city neighborhoods have seen an influx of middle and upper income residents while some older suburbs have seen sharp increases in lower income residents.

In 1949, when nearly two-thirds of King County residents lived in Seattle, median family income for Seattle residents was 5% higher than the metropolitan area median (see Figure 2). For the next 3 decades, incomes grew more rapidly in Seattle's suburbs than in the city. As a result, Seattle's median family income fell to parity with the metropolitan area in 1959, and continued falling to reach 89% of the metropolitan area median in 1979. This pattern has reversed in the most recent two decades, as incomes have grown faster in Seattle than in the rest of the metropolitan area since 1979. In 1999, Seattle median family income had risen to 98% of the metropolitan area median. Comparable 1999 figures for median household income and per capita income are 87% and 109%, respectively. The differences between the three income measures is due to Seattle's high proportion of non-family households, which have lower median incomes than family households, and the small size of Seattle households.



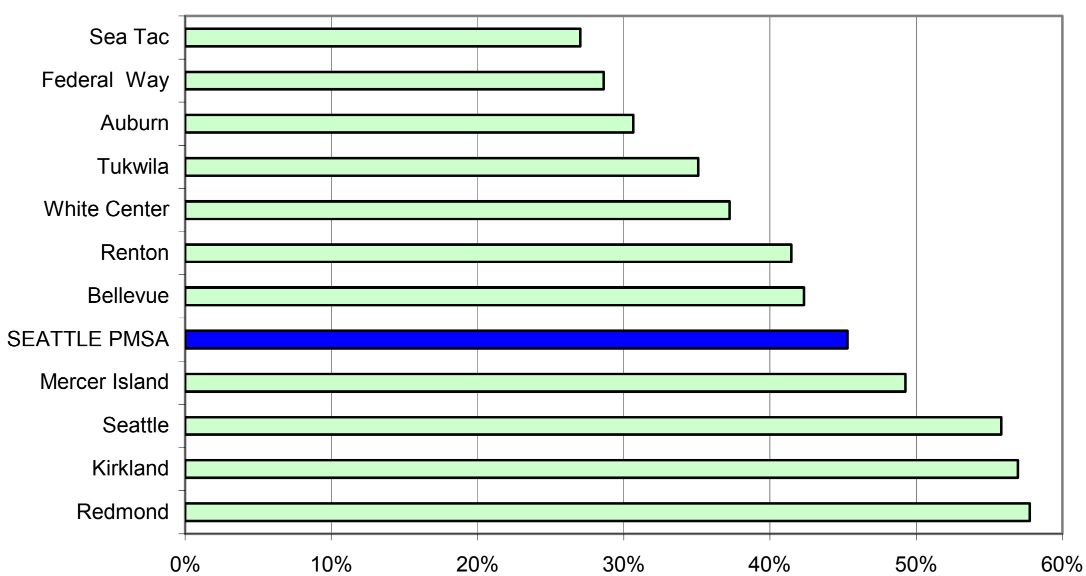
A more detailed view of Seattle's shifting income patterns is revealed by regional household income statistics prepared by the Puget Sound Regional Council (PSRC). PSRC groups the region's households into four equal quartiles based on household income (PSRC defines the region as King, Pierce, Snohomish, and Kitsap counties). The lowest quartile contains the 25% of the region's households that have the lowest median household incomes, the highest quartile contains the 25% of the region's households that have the highest incomes, and so forth. Figure 3,which portrays the change in households by quartile for Seattle for the past three decades, illustrates how Seattle's income structure has been shifting. During the 1970s, Seattle added households in the region's two lowest income quartiles and lost households in the upper two quartiles. In the 1980s growth was nearly uniform across all 4 quartiles. During the 1990s, growth shifted to the region's higher income quartiles, particularly the top quartile, which accounted for 59% of the city's increase.



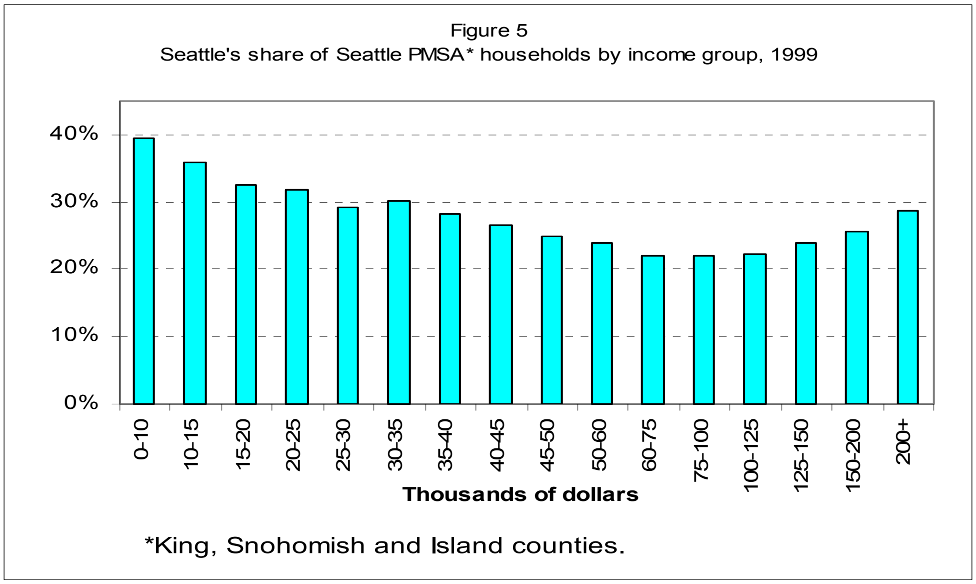
Reasons for Seattle's recent gain in higher income households are no doubt many and complex. Among the likely causes are very strong job growth in Seattle in recent decades, the growing popularity of downtown living, worsening traffic congestion, and the high tech boom of the 1990s, which was focused in Seattle and east King County. The fact that 1999 was the peak year of the high-tech and internet boom suggests the boom had a major influence of the trends of the 1990s.

With Seattle increasing its share of the region's higher income households during the 1990s, an obvious question is which areas have seen shifts in the opposite direction. Some insight can be gained by looking at income growth in King County cities and unincorporated places that did not have major boundary changes between 1990 and 2000 (Figure 4). Of the 11 places in Figure 4, only Kirkland and Redmond had gains in median household income that were comparable to Seattle's. Seven places, six of which are in south King County, had income growth rates below the Seattle metropolitan area average. These types of intra-metropolitan area income shifts are worthy of further research to identify causes and longer-term patterns, and to examine change in greater geographic detail.

Figure 4. Median Household Income Growth, 1989-99: Selected King County Places



Current Income Distribution. Although Seattle increased its share of higher income households during the 1990s, the city remains home to a higher than average share of the region's lower income households. This is reflected in Figure 5, which portrays Seattle's share of Seattle PMSA households by income range. Seattle's share is highest in the lowest income category, \$0-\$10,000, where the city accounts for 40% of PMSA households. The city's share declines steadily as incomes rise to a low of 22% for the \$75-\$100,000 category, then increases to reach 29% for the highest income category (\$200,000+). Seattle's had 27% of the PMSA's households in 1999.



Monthly Cash Update

Comparing year-to-date revenues for general fund taxes and other major revenues with revised forecast.

Year-to-date through June: the following table illustrates how actual 2003 collections for the most important general subfund revenues, through June, compare to the forecast prepared in April 2003. The presented forecast revises the one reflected in the 2003 Adopted Budget. Revenues fall short of expectations in several of the major revenues; most notably, sales tax revenues, which reflect the declining health of the local economy.

2003 CASH UPDATE THROUGH JUNE

	YEAR TO DATE				COMPARISON TO 2002		
	Cumulative Forecast	Actual	Difference	Percent	Cumulative 2002	Yr/Yr Difference	Yr/Yr Cumulative
PROPERTY TAXES							
General + EMS	91,897,000	91,509,000	-388,000	-0.4%	89,594,000	1,915,000	2.1%
Leasehold Excise Tax	1,810,000	1,864,000	54,000	3.0%	1,932,000	-68,000	-3.5%
RETAIL SALES TAX							
General	36,512,000	34,551,000	-1,961,000	-5.4%	36,167,000	-1,616,000	-4.5%
Criminal Justice	3,442,000	3,258,000	-184,000	-5.3%	3,338,000	-80,000	-2.4%
BUSINESS TAXES AND OTHER							
Business and Occupation	27,737,000	28,324,000	587,000	2.1%	26,294,000	2,030,000	7.7%
Utilities - City Light	13,645,000	13,614,000	-31,000	-0.2%	14,391,000	-777,000	-5.4%
Utilities - City Water	2,598,000	2,544,000	-54,000	-2.1%	2,171,000	373,000	17.2%
Utilities - City Drainage/Waste Wa	5,712,000	5,501,000	-211,000	-3.7%	5,325,000	176,000	3.3%
Utilities - City Solid Waste & Garba	3,231,000	3,137,000	-94,000	-2.9%	2,940,000	197,000	6.7%
Utilities - Cable Television	3,301,000	3,177,000	-124,000	-3.8%	3,212,000	-35,000	-1.1%
Utilities - Telephone	11,659,000	11,508,000	-151,000	-1.3%	12,134,000	-626,000	-5.2%
Utilities - Private Energy	5,266,000	4,281,000	-985,000	-18.7%	6,124,000	-1,843,000	-30.1%
Admission Tax	2,642,000	2,777,000	135,000	5.1%	2,190,000	587,000	26.8%
Court Fines and Forfeitures	8,678,000	7,892,000	-786,000	-9.1%	7,150,000	742,000	10.4%
Interest Income	1,175,000	795,000	-380,000	-32.3%	1,765,000	-970,000	-55.0%
Parking Meters	4,674,000	4,777,000	103,000	2.2%	4,686,000	91,000	1.9%
Misc. Revenues	2,577,000	2,966,000	389,000	15.1%	2,637,000	329,000	12.5%
TOTAL	226,556,000	222,475,000	-4,081,000	-1.8%	222,050,000	425,000	0.2%