Retail Sales Tax Update

Update on economic issues affecting Seattle's tax revenue performance

The newsletter of the City of Seattle's Economics Team/March 2009

2008 Sales Tax Revenue. Sales tax revenue for 2008 was $155.1 million, an increase of $365,000, or 0.2%, from 2007. Revenue fell short of the November forecast by $3.6 million (2.3%).

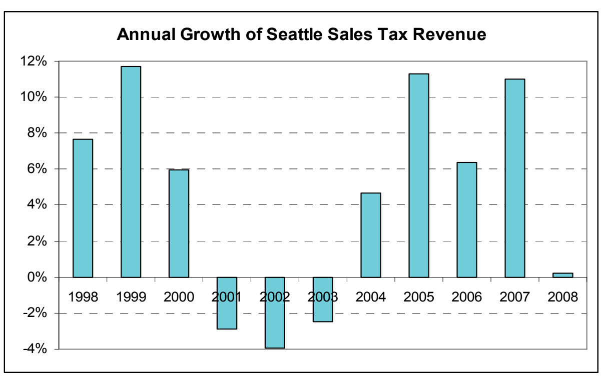
2008 Sales Tax Revenue Summary

2007	154,694,577
2008	155,059,425
2007-08 Change	364,848
Percent Change	0.2%

Comparison to November Forecast

2008 Forecast	158,700,133
2008 Actual	155,059,425
Difference	-3,640,707
Percent Diff.	-2.3%

After four years of very healthy growth, sales tax revenue essentially went flat in 2008. The very steep falloff from 11.0% growth in 2007 to 0.2% growth in 2008 was caused by the economy's transition from healthy growth at the beginning of 2008 to weak growth in mid-year to recession in the fourth quarter.



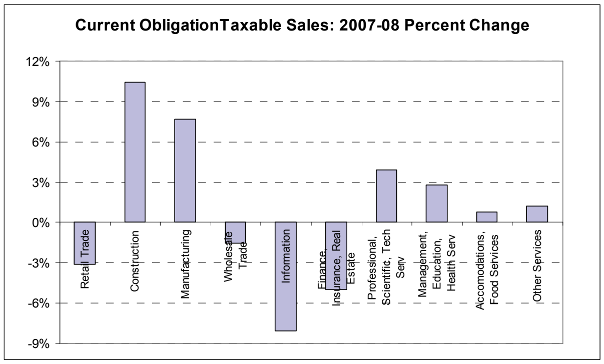
2008 Taxable Retail Sales. Taxable retail sales, which is the tax base for the retail sales tax, includes current taxable sales activity, which makes up the majority of the tax base, as well as sales related to activity that has occurred in the past, such as audit payments or refunds associated with sales that occurred in prior months or years. These two types of taxable sales are referred to as "current obligation" and "non-current" taxable sales.

Total taxable retail sales increased by 0.4% from 2007 to 2008[1]. However, the growth rate for current obligation taxable sales was a full percentage point higher, at 1.4%. That was offset by a 27.7% decline in non-current taxable sales. Non-current taxable sales are highly variable from year to year because of their sensitivity to very large audit payments or refunds.

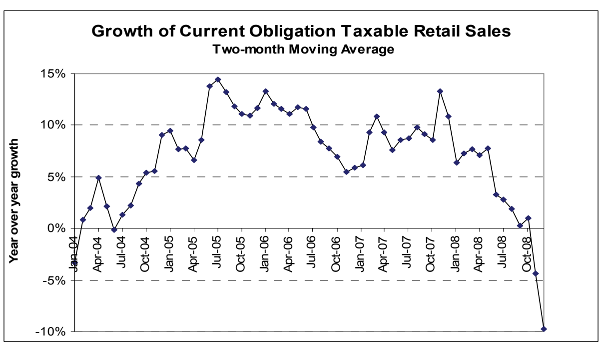
Current Obligation Taxable Sales by Industry. Construction, which accounts for 24.2% of the sales tax base, was the fastest growing industry in 2008, registering a 10.4% gain for the year; the remainder of the tax base declined by 1.2%. Manufacturing had a strong year, and most service industries saw increases from 2007, led by a 3.9% gain for professional, scientific, and technical services. Industries with declines in sales included retail and wholesale trade, information (largely telephone services), finance and insurance, and real estate, rental and leasing. The latter two industries were hurt by the housing downturn and the nation's financial crisis.

Retail trade, which constitutes 30.1% of the sales tax base, experienced a 3.1% decline in current obligation sales in 2008. The decline was led by a 20.6% drop in motor vehicle and parts sales. If motor vehicles and parts sales are excluded, the rest of retail trade had a flat year, registering a 0.1% increase from 2007. Retail industries exhibiting healthy growth for the year included electronics and appliances (7.8%), drug and health stores (6.5%), and e-commerce and mail order (10.1%). In addition to motor vehicles and parts, the following retail industries experienced a decline in current obligation taxable sales in 2008:

Furniture and home furnishings	-3.5%
Apparel and accessories	-8.9%
Sporting goods, toys, books, music	-2.7%
General merchandise stores	-3.2%



December Taxable Sales. The region's economy slowed gradually over the course of 2008, falling into recession in the fourth quarter. With its sensitivity to economic conditions, taxable retail sales followed the same pattern. Current obligation taxable sales growth dropped from 6.7% in Q1 to 2.0% in Q3, and then declined by 6.9% in Q4.



December was a particularly bad month for retail sales, with current obligation sales down 10.7% from December 2007. Unfortunately, because a severe snowstorm hit the region at the peak of the holiday shopping season in mid-December it is not possible to know how much of December's weakness was due to economic conditions and how much was due to the weather.

Five retail industries registered double digit declines in December measured on a year-over-year basis: (1) motor vehicles and parts, (2) furniture and home furnishings, (3) building materials and garden equipment, (4) apparel and accessories, and (5) sporting goods, toys, books, and music. Growth was reasonably healthy for electronics and appliances (5.4%) and food and beverage stores (4.9%). All of the larger non-retail industries registered declines in December.

[1]This increase differs slightly from sales tax revenue growth because it excludes statewide pooled revenue, which is included in the revenue figures.