Economic and Revenue Forecast
August 2024

Office of Economic and Revenue Forecasts
&
City Budget Office

Outline

Part I: Update on recent economic developments and summary of the July economic forecasts

- S&P Global's July economic forecast for U.S.
- Forecast Office's July regional economic forecast for Seattle Metropolitan Division (King and Snohomish counties)

Part II: Summary of the August revenue forecast

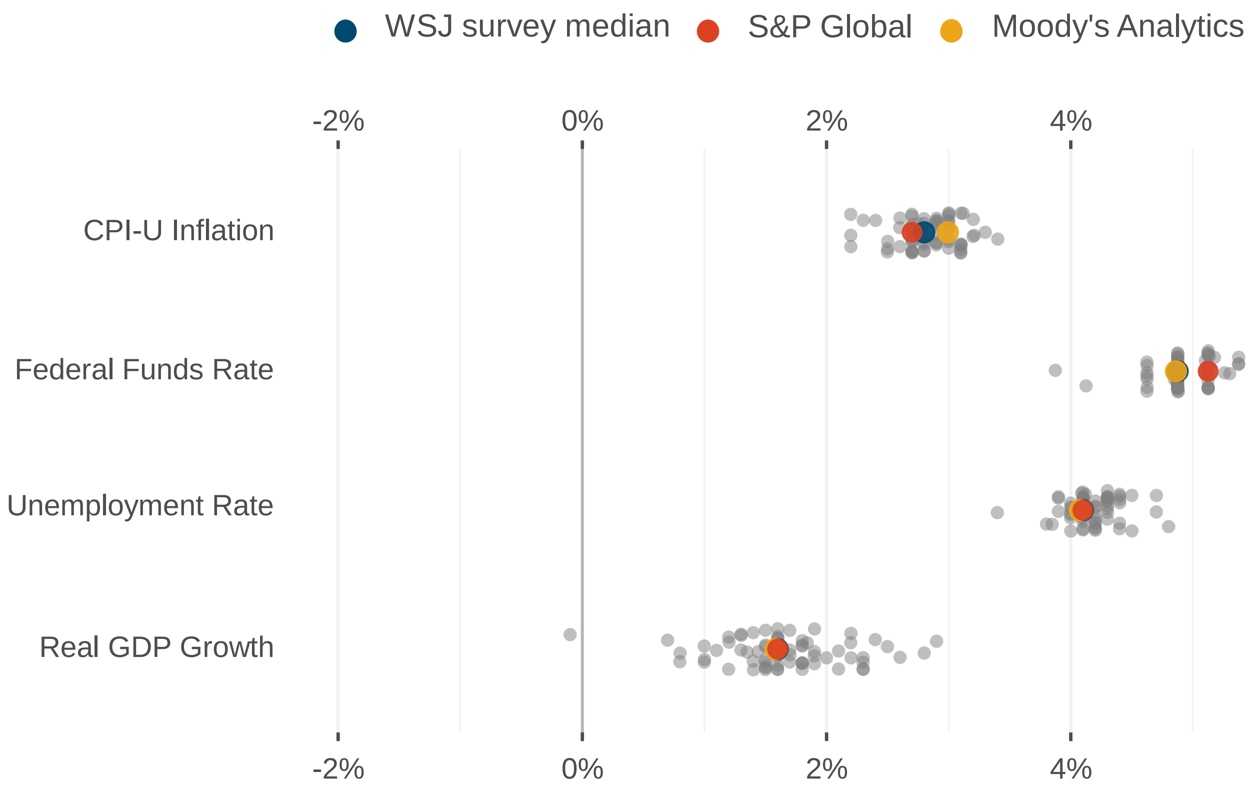
- General Fund (GF) Revenues
- Selected Other Government Revenues

Economic Outlook for U.S. and Seattle Area

WSJ survey comparison of forecasts for U.S. economy

- Forecast Office uses the forecast for U.S. economy from S&P Global as one of the main inputs when developing the regional economic forecast for Seattle Metropolitan Division (King and Snohomish counties).
- In the July 2024 Wall Street Journal Survey of economic forecasters, S&P Global's baseline scenario forecast was very similar to the forecast from Moody's Analytics and the median forecast.
- In that survey, the average across the participants for the estimated probability of a recession within 12 months was 28%

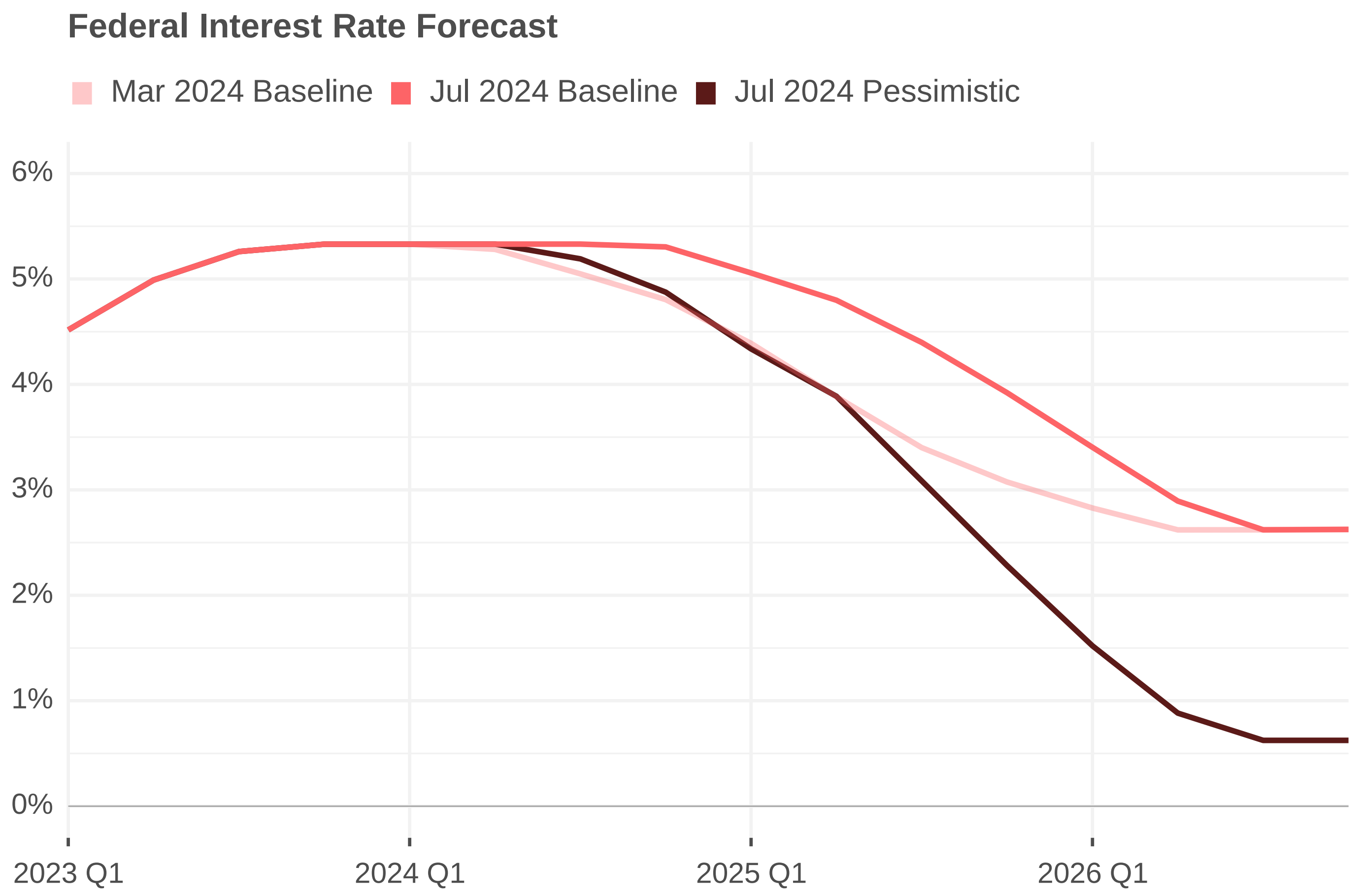
U.S. economic forecast for year-end 2024



Source: Wall Street Journal Economic Forecasting Survey, July 2024

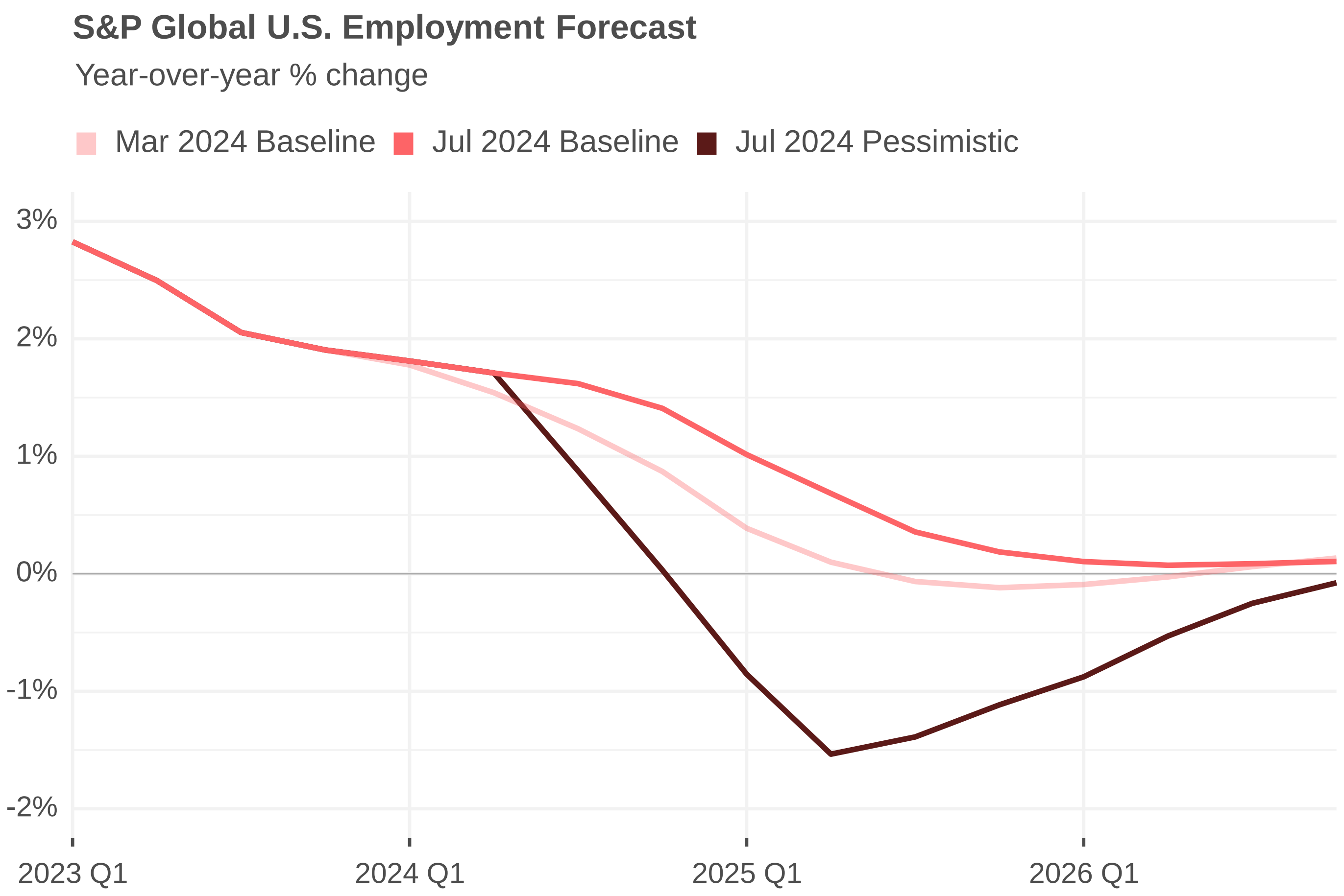
Expectations around interest rate cuts are evolving rapidly

- In March it was widely expected that Fed will start cutting interest rates in June and lower them by about 1% by year end
- Due to a series of disappointing inflation reports, coupled with solid job growth, Fed delayed cutting interest rates
- Recession fears resurfaced after weak reports on hiring, jobs creation, and unemployment in the last week of July
- This also led to speculations whether bigger cuts might be needed in the remaining three FOMC meetings this year, to avoid hard landing
- Financial markets now put the probability of a 0.5% rate cut in September at 91.5%



Until recently, U.S. labor market outperformed expectations

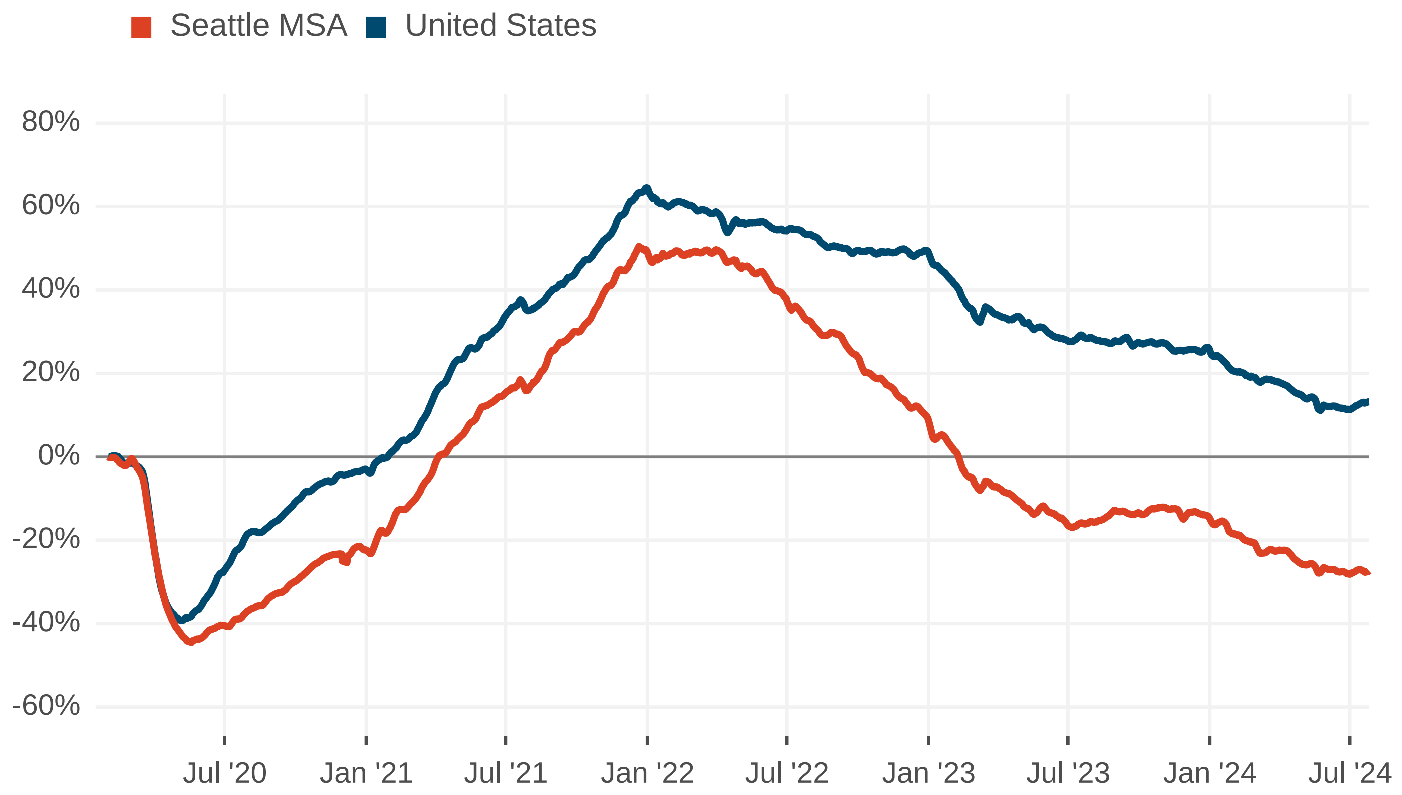
- U.S. labor market has been moderating, but outperforming expectations for past couple of months, until July
- As a result, S&P Global has between March and July revised up their baseline scenario forecast for 2024 from 1.4% to 1.6%, and the forecast for 2025 from 0.1% to 0.6%
- Last week, however, a series of reports showed weaker than expected readings on job openings and hiring, job growth slowing down to 1.6%, and unemployment rate rising to 4.3%
- This is raising some concerns about the speed of recent labor market softening



Performance of the regional labor market is notably weaker

- Regional labor market has been cooling faster that the U.S. labor market along several metrics
- Seattle metro area openings dropped below per-pandemic levels in early 2023 and continued to decline further
- Seattle area unemployment rate reached 4.3% in June, up from 3% a year ago; it has been about 0.2% higher than U.S. unemployment rate since March

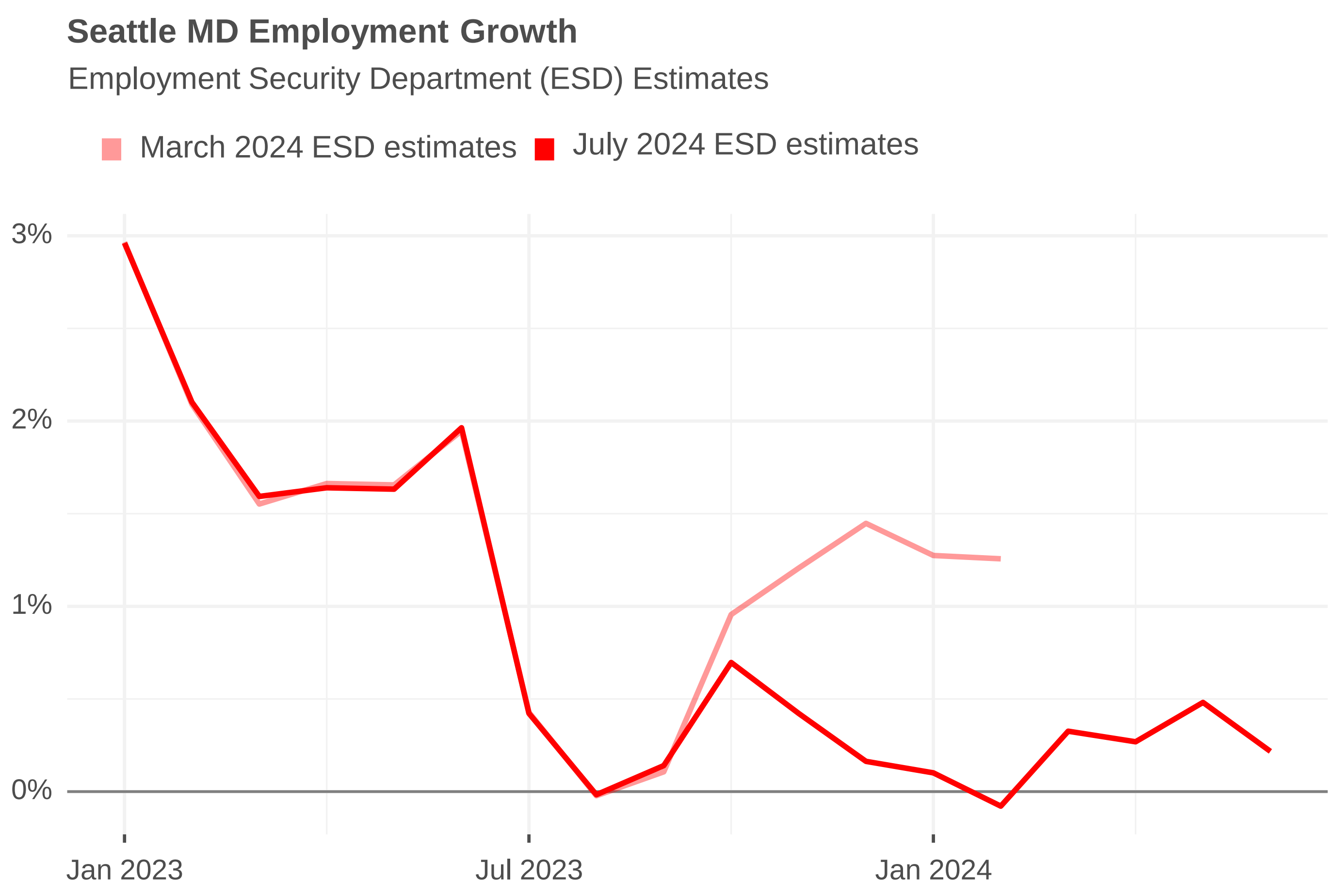
Job Postings on Indeed, Percent Change from February 2020



Source: Indeed. 7-day trailing average, seasonally adjusted

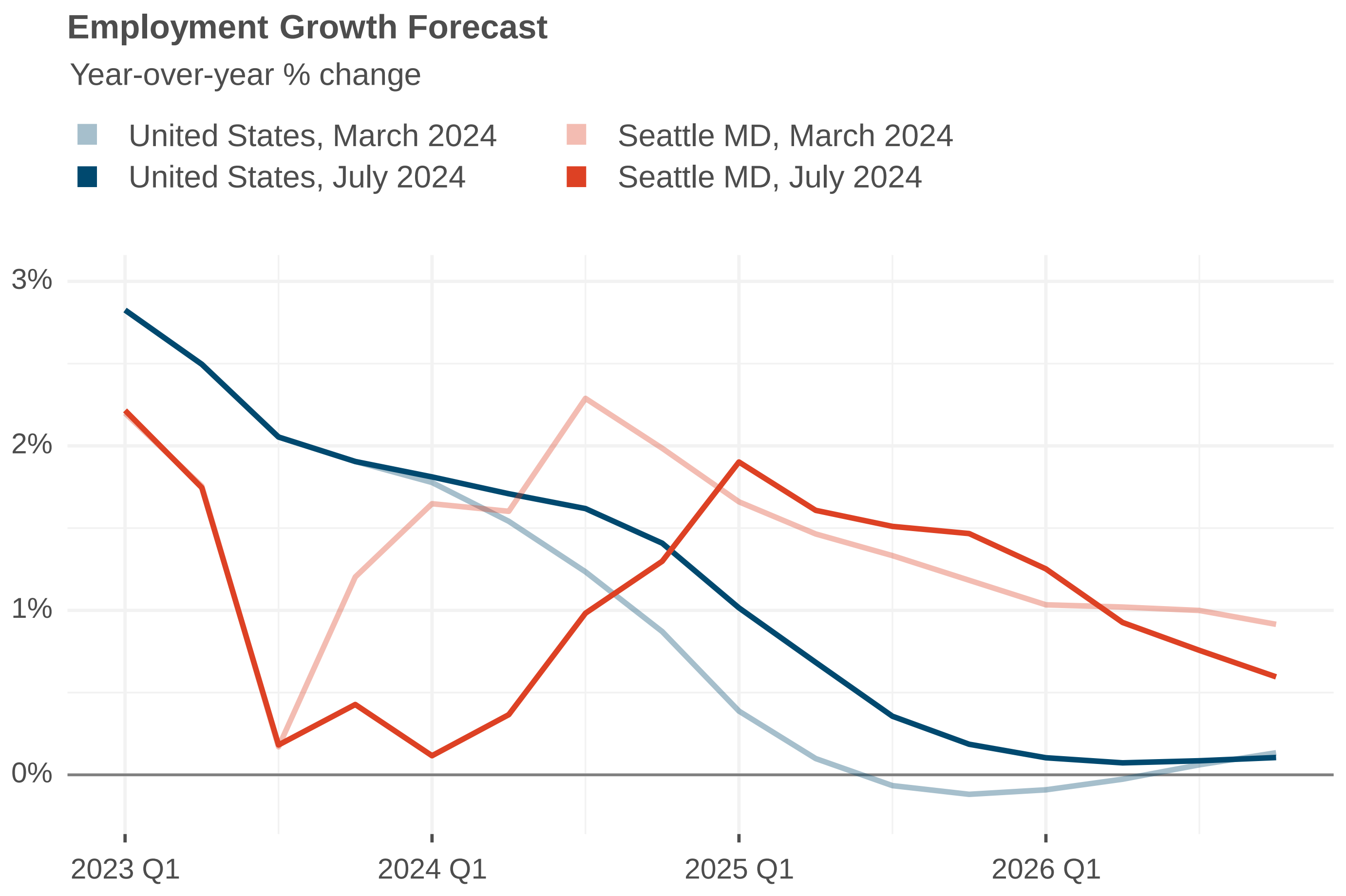
Seattle MD employment has been revised down, again

- Our employment forecasts are based on employment data from Washington State Employment Security Department (ESD)
- ESD has once again revised down their estimates for Seattle metro area employment and its growth
- Revisions were broad-based, but concentrated in trade, education, and health services
- Based on the current estimates, regional jobs growth was barely positive over last 12 months, at only 0.3%
- This implies less momentum going forward and led us to revise down our employment growth forecast



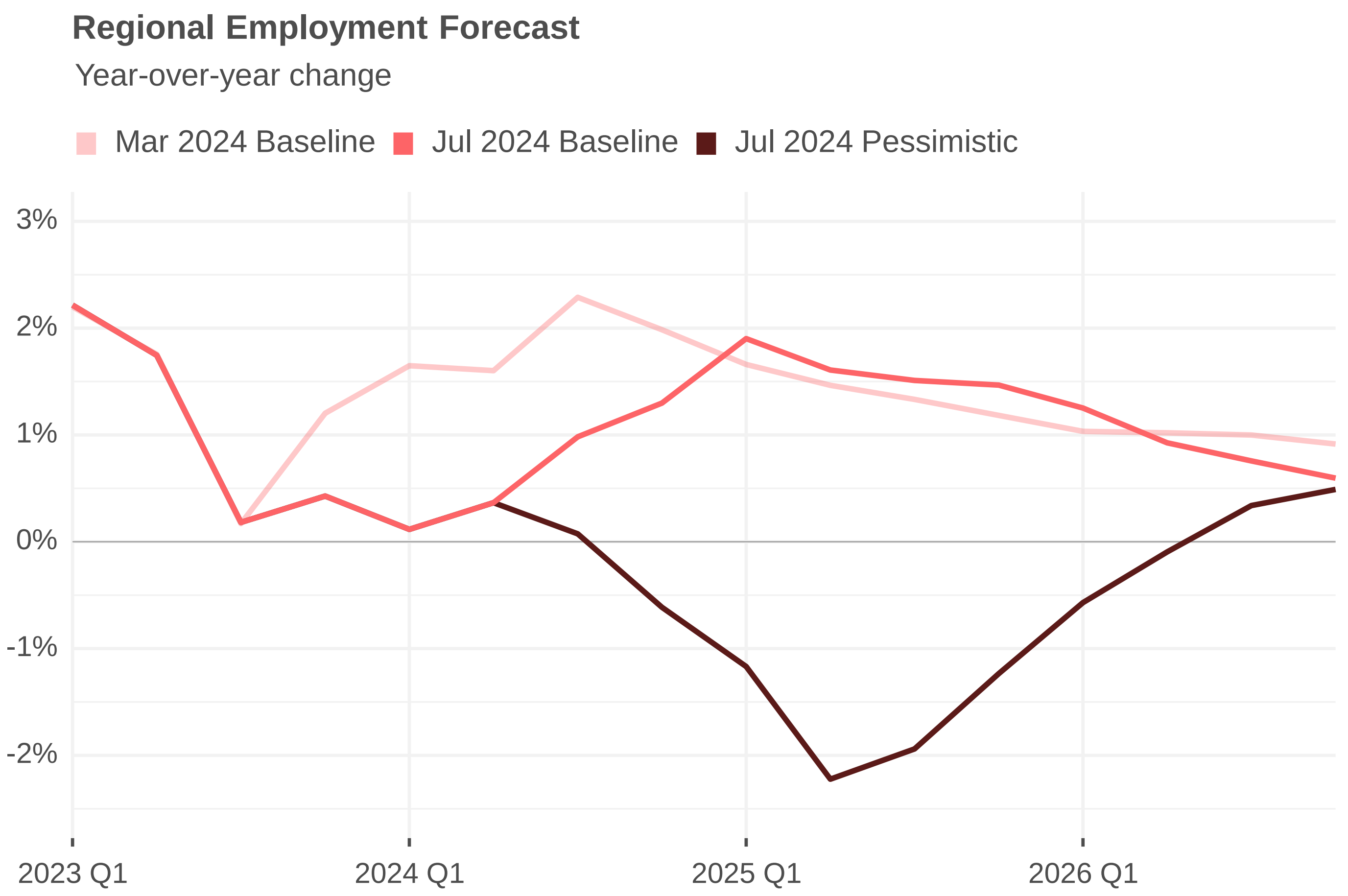
Notable gap forms between employment growth paths

- Given revisions in the employment data and employment forecasts, Seattle metro area is expected to lag both Washington State and U.S. in employment growth
- Baseline scenario employment growth forecasts for 2024:
  - S&P Global: 1.6% for U.S.
  - ERFC: 1.3% for Washington State
  - OERF: 0.7% for Seattle metro area



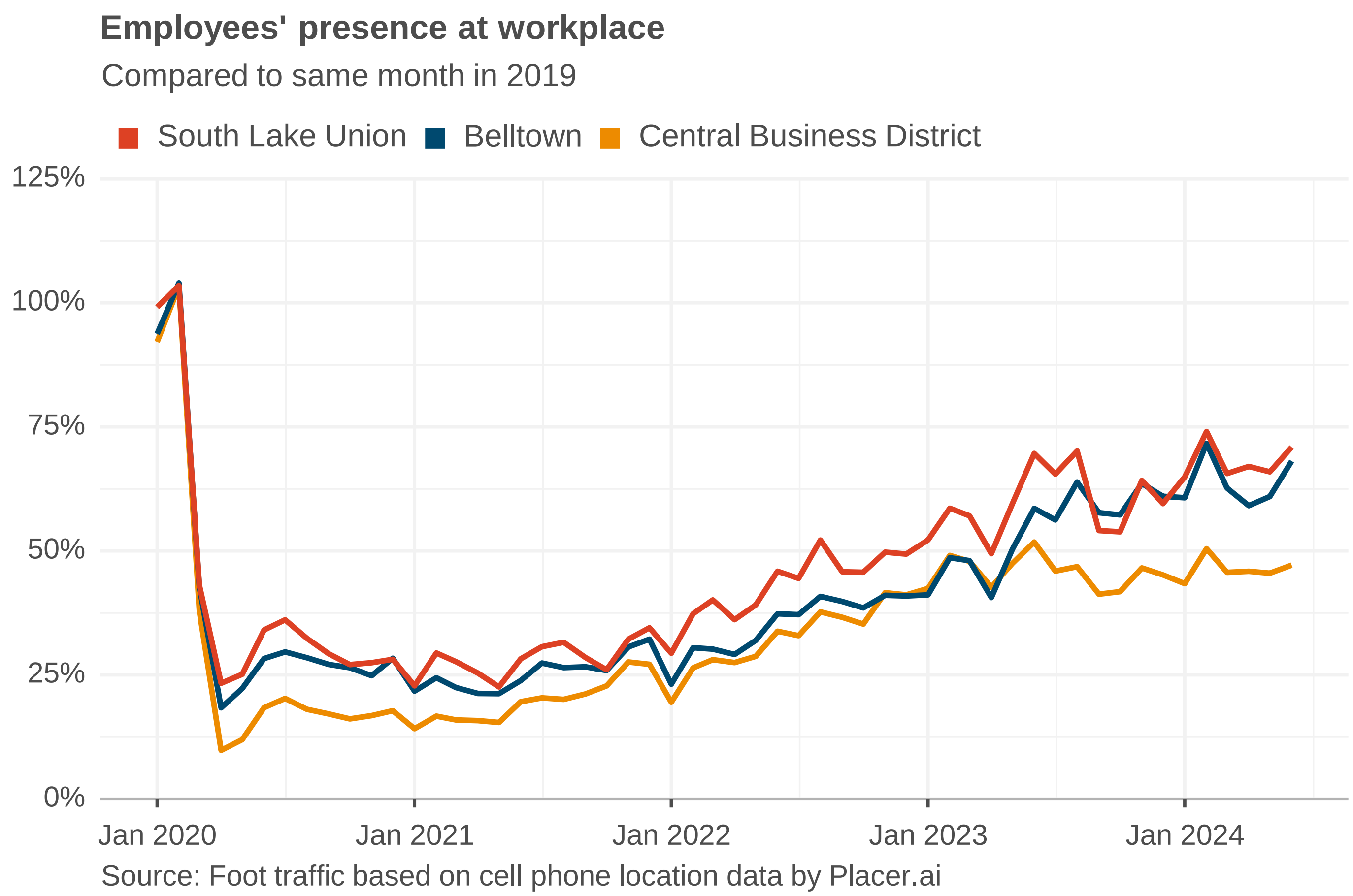
Regional employment forecast for Seattle Metropolitan Division

- S&P Global currently assigns 55% probability to their baseline scenario, 25% to the pessimistic scenario, and 20% to the optimistic scenario.
- Since March, probability of the pessimistic scenario was lowered by 5%, in favor of the optimistic scenario
- Under the pessimistic scenario by year end 2025 a recession would lead to about 2.5% fewer jobs in Seattle area compared to the current employment, and to almost 5% fewer jobs relative to the baseline scenario



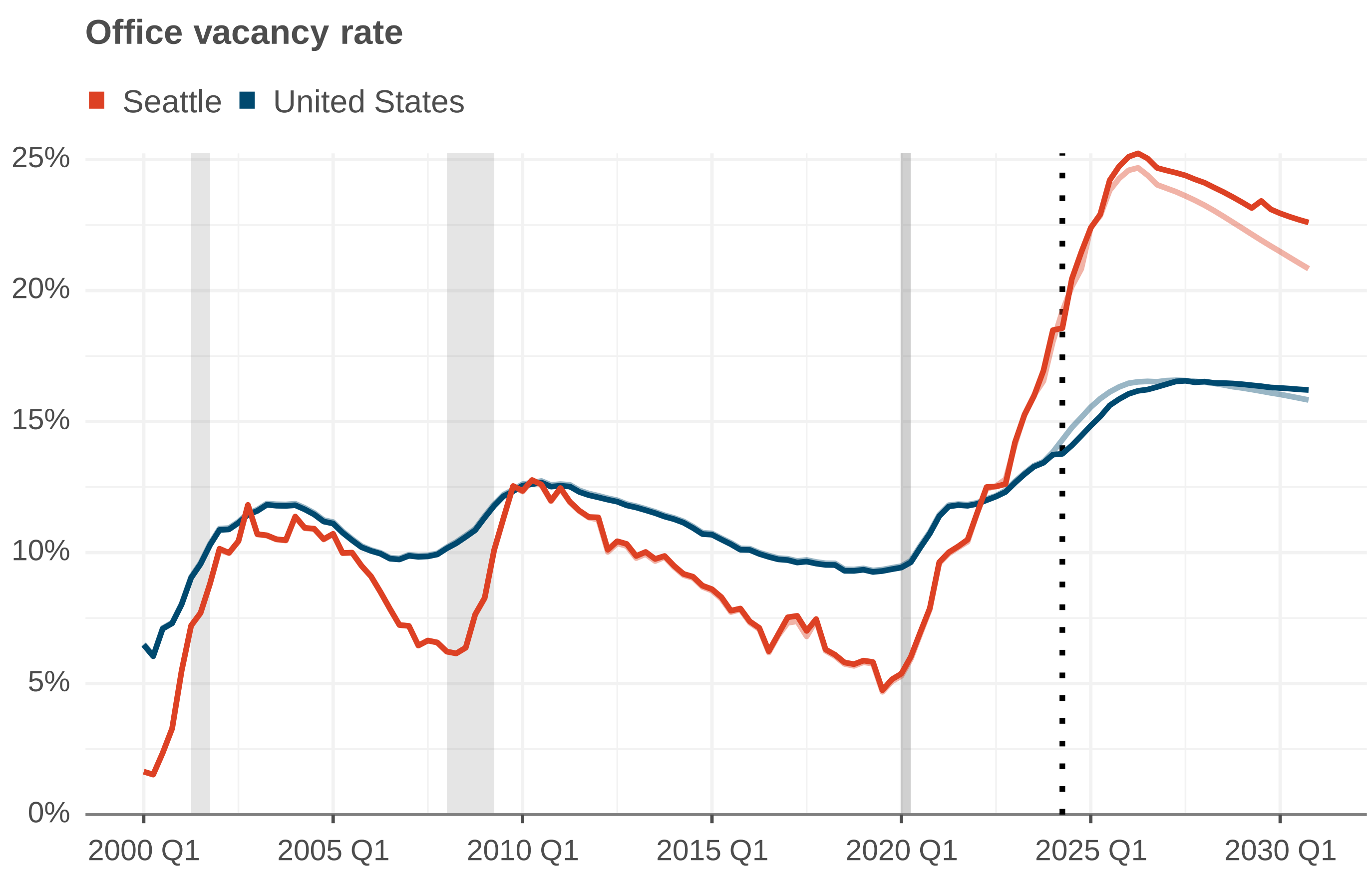
No change in the return to office trends

- Anonymized and aggregated cell phone location data provided by Placer.ai allows to analyze trends in employee workplace presence, number of visitors coming to Seattle, and attendance of various events. This data is used to inform the Payroll Expense Tax and Admission Tax forecasts.
- Workplace presence increased notably in South Lake Union and Belltown neighborhoods following Amazon's move to three days in the office last Spring.
- Central Business District lags in recovery and shows no improvements since 2023.



Office vacancy rate forecasts revised in opposite directions

- In 2024 Q2, Seattle Office Demand Index, reported by the commercial real estate platform VTS, was 37% of the 2018-2019 average, down from 47% in 2024 Q1
- This was lowest among tracked cities; overall demand in U.S. was 62%, down from 65% in 2024 Q1
- CoStar revised their office vacancy rate forecast down for U.S., but up for Seattle
- Higher office vacancy rates in general imply lower Sales Tax, Business and Occupation Tax, Payroll Expense Tax, and REET revenues



Source: CoStar. Shaded areas denote recessions.

Revenue Forecast for 2024-2026

General Fund Revenues - Baseline Scenario Forecast ($ millions)

Revenue Source	2023 Actuals	2024 Apr Forecast	2024 Aug Forecast	2024 Difference	2025 Apr Forecast	2025 Aug Forecast	2025 Difference	2026 Apr Forecast	2026 Aug Forecast	2026 Difference
Property Tax (Including Medic One Levy)	$377.8	$382.9	$382.9	$0.0	$391.6	$389.5	-$2.1	$390.9	$409.3	$18.4
Sales & Use Tax	$339.9	$338.8	$339.9	$1.1	$352.7	$348.3	-$4.4	$367.0	$358.5	-$8.5
Business & Occupation Tax	$356.3	$363.7	$358.3	-$5.4	$385.1	$379.9	-$5.2	$413.0	$404.3	-$8.7
Utility Tax - Private	$43.2	$37.8	$37.6	-$0.1	$35.9	$35.3	-$0.6	$34.5	$33.9	-$0.5
Utility Tax - Public	$185.7	$214.3	$214.8	$0.5	$211.0	$214.9	$4.0	$219.3	$222.6	$3.3
Payroll Tax - 2021 obligations	$3.6	-$3.4	-$2.1	$1.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other City Taxes	$14.1	$14.3	$13.4	-$0.9	$15.0	$14.2	-$0.8	$15.7	$14.4	-$1.2
Parking Meters	$37.0	$40.3	$39.8	-$0.5	$43.5	$41.8	-$1.7	$45.6	$43.8	-$1.8
Court Fines	$24.0	$19.4	$19.7	$0.2	$20.0	$20.0	$0.0	$20.0	$20.0	$0.0
Licenses, Permits, Interest Income and Other	$77.5	$72.9	$76.5	$3.6	$69.7	$71.5	$1.8	$68.9	$74.8	$6.0
Revenue from Other Public Entities	$19.1	$19.7	$19.6	-$0.1	$20.2	$20.0	-$0.2	$20.7	$20.5	-$0.2
Service Charges & Reimbursements	$76.2	$80.8	$81.7	$1.0	$77.9	$82.6	$4.7	$79.3	$86.1	$6.7
Grants	$34.1	$65.0	$67.6	$2.6	$14.5	$13.6	-$0.9	$11.6	$13.4	$1.8
Fund Balance Transfers	$80.5	$95.8	$95.8	$0.0	$7.3	$7.4	$0.1	$7.3	$7.4	$0.1
Total	**$1,669.1**	**$1,742.2**	**$1,745.5**	**$3.3**	**$1,644.4**	**$1,639.0**	**-$5.3**	**$1,693.8**	**$1,709.1**	**$15.3**
Total w/o Grants and Transfers	**$1,554.4**	**$1,581.5**	**$1,582.1**	**$0.6**	**$1,622.5**	**$1,618.0**	**-$6.9**	**$1,674.9**	**$1,688.3**	**$13.4**
Annual Growth w/o Grants and Transfers	-0.9%	1.7%	1.8%		2.6%	2.3%		3.2%	4.3%	
Seattle MSA CPI-U inflation	5.7%	3.8%	3.8%		2.7%	2.8%		2.9%	2.9%	

Note: Revenues highlighted blue are in the purview of the Office of Economic and Revenue Forecasts, forecasts for remaining revenues come from City Budget Office.

General Fund Revenues - Baseline Scenario Forecast ($ millions)

- Overall, changes to the total General Fund forecast are small
  - for 2024 it's $3.3 million (0.2%), excluding grants and fund balance transfers -$0.2 million (-0.01%)
  - for 2025-2026 biennium it's $10 million (0.3%), excluding grants and fund balance transfers $6.5 million (0.2%)

- The overall change for the 2025-2026 biennium is positive in large part due to the $18.4 million upward revision in the Property Tax forecast for 2026, which more than offsets the combined negative change in the remaining revenues
- Downward revision for Sales & Use tax is a result of a 1% lower forecast for retail sales by S&P Global and the expected slower regional employment growth
- Downward revision for Business & Occupation Tax, on average by 1.6% for each year from 2024 to 2026, reflects the anticipated slower employment growth and higher vacancy rates

Selected Other Revenues - Baseline Scenario Forecast ($ millions)

Revenue Source	2023 Actuals	2024 Apr Forecast	2024 Aug Forecast	2024 Difference	2025 Apr Forecast	2025 Aug Forecast	2025 Difference	2026 Apr Forecast	2026 Aug Forecast	2026 Difference
Payroll Expense Tax - w/o 2021 obligations	$315.2	$394.7	$404.4	$9.7	$416.1	$430.0	$13.9	$436.7	$451.5	$14.9
REET	$47.9	$52.3	$57.2	$4.9	$65.4	$63.9	-$1.5	$79.0	$80.2	$1.2
Admission Tax	$25.3	$25.8	$26.3	$0.4	$26.6	$27.0	$0.4	$27.3	$27.8	$0.5
Sweetened Beverage Tax	$21.5	$21.8	$20.9	-$0.9	$22.3	$21.3	-$0.9	$22.7	$21.8	-$1.0
Short Term Rental Tax	$11.4	$11.7	$11.3	-$0.4	$12.6	$11.8	-$0.8	$12.8	$12.4	-$0.4
STBD Sales Tax	$53.1	$52.9	$53.1	$0.1	$55.1	$54.4	-$0.7	$57.4	$56.0	-$1.4
STBD Vehicle License Fee	$16.5	$20.0	$19.5	-$0.5	$20.9	$20.9	$0.0	$21.2	$21.2	$0.0
Commercial Parking Tax	$51.7	$51.4	$52.4	$1.0	$53.5	$54.0	$0.6	$55.6	$54.6	-$1.0

Note: Revenues highlighted blue are in the purview of the Office of Economic and Revenue Forecasts, forecasts for remaining revenues come from City Budget Office.

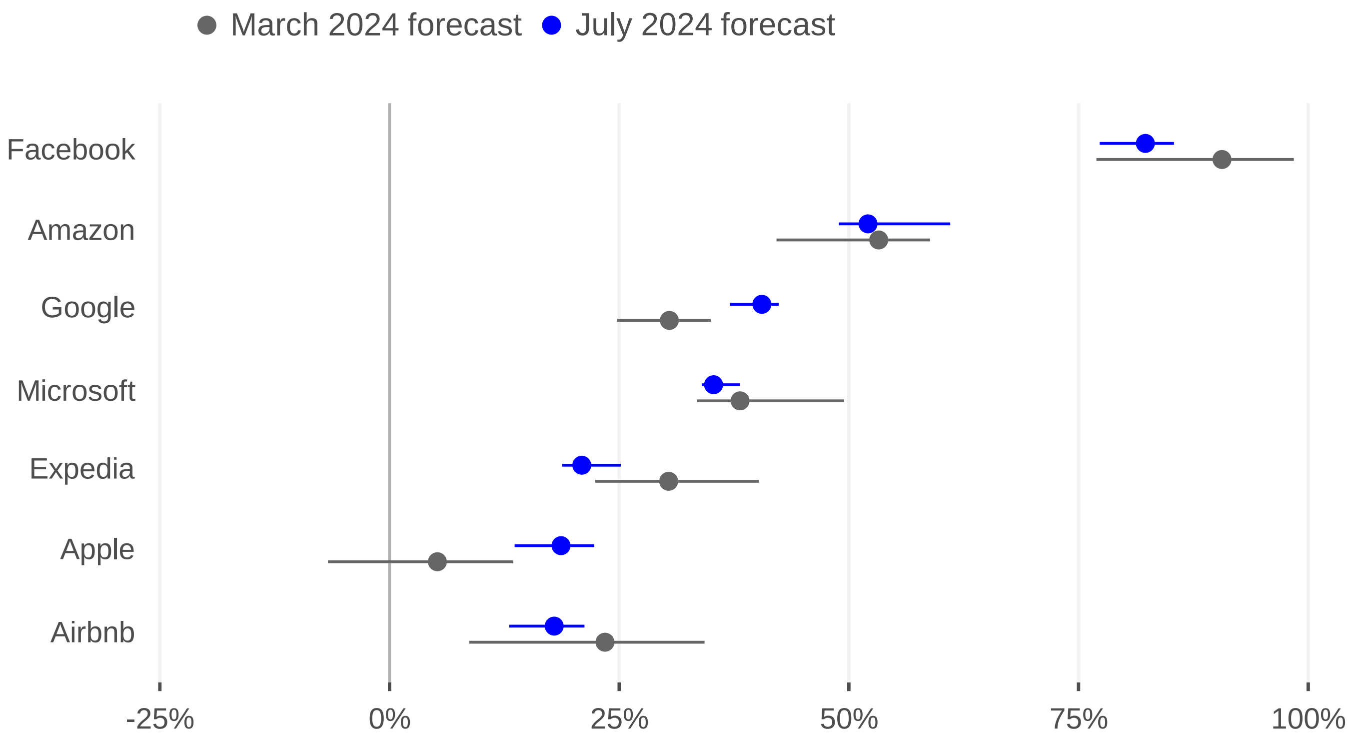
Stock prices outlook for 2024 remains very strong

- Payroll expense tax revenue forecast has been revised up, due to a better outlook for stock prices

- In the July forecast, S&P Global expected the S&P 500 index to grow about 23% in 2024, up from 19% in March 2024 forecast
- Stock market is then expected to grow only 0.4% in 2025 and decline about 3% in 2026

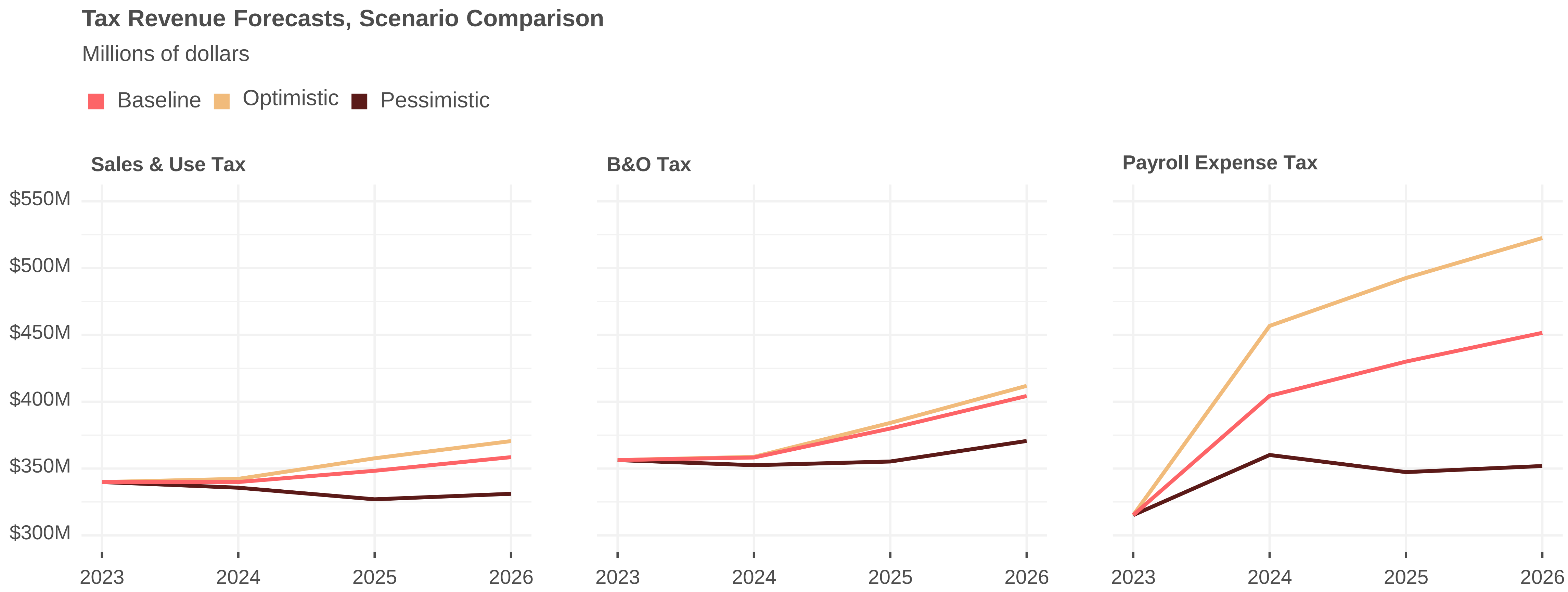
Stock price changes, 2024 over 2023

Expected change in stock price: low, average and high estimates



Source: Wall Street Journal, stock price targets from analyst ratings

How Do Forecasts Vary Across Scenarios?



Alternative scenarios – forecast differences from baseline ($ millions)

- The most significant differences between the scenarios are in Sales tax, B&O taxes, Payroll Expense Tax and REET
- The high level of uncertainty regarding payroll expense tax revenue estimates reflects the underlying tax base uncertainty due to stock price movements as well as forecasting uncertainty due to short collection history

	Difference - Pessimistic			Difference - Optimistic		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**
Sales & Use Tax	-$4.3	-$21.3	-$27.4	$2.4	$9.4	$12.0
Business & Occupation Tax	-$5.8	-$24.7	-$33.7	$0.5	$4.2	$7.6
Utility Taxes	-$10.5	-$11.5	-$12.0	$11.0	$12.1	$12.8
Total General Fund	**-$25.0**	**-$67.1**	**-$86.5**	**$18.2**	**$31.4**	**$41.0**
Payroll Expense Tax - w/o 2021 obligations	-$44.2	-$82.7	-$99.7	$52.3	$62.5	$71.0
REET	-$2.7	-$13.1	-$12.4	$3.3	$5.5	$4.5

Forecast scenario recommendation

Summary and Context

- S&P Global assigns a 55% probability to their July baseline scenario forecast and 25% to the pessimistic scenario.
- Their forecast for the national economy is neither overly optimistic nor pessimistic, compared to the July forecast from Moody's Analytics and the median in the July Wall Street Journal Survey of economic forecasters.
- The overall balance of risks did shift more towards downside in the last couple of weeks, due to a number of risks in the national, regional and local economies.
  - Weaker than expected U.S. employment reports stoked anxiety and concerns about a recession.
  - Regional employment growth has been even slower than in the U.S. economy.
  - Rising office vacancy rates and Initiative 137 pose additional risks to the job growth and City's revenues.
- At this point, however, we still consider the baseline scenario for regional economic and revenue forecasts as the scenario that is most likely to be closest to the actual outcomes in 2024-2026.

Conclusion

<u>The Forecast Office recommends using the baseline scenario for the August 2024 Revenue Forecast</u>.

Questions?