Economic and Revenue Forecast
August 2026

Economic and Revenue Forecast Council
August 7, 2026

Office of Economic and Revenue Forecasts
&
City Budget Office

Outline

Part I: Update on economic situation and a summary of the August economic forecasts

- Update on current economic developments in the U.S. economy
- U.S. economic forecasts from S&P Global and Moody's Analytics
- Forecast Office's regional economic forecast for Seattle Metropolitan Division (King and Snohomish counties)

Part II: August revenue forecast for 2026-2028

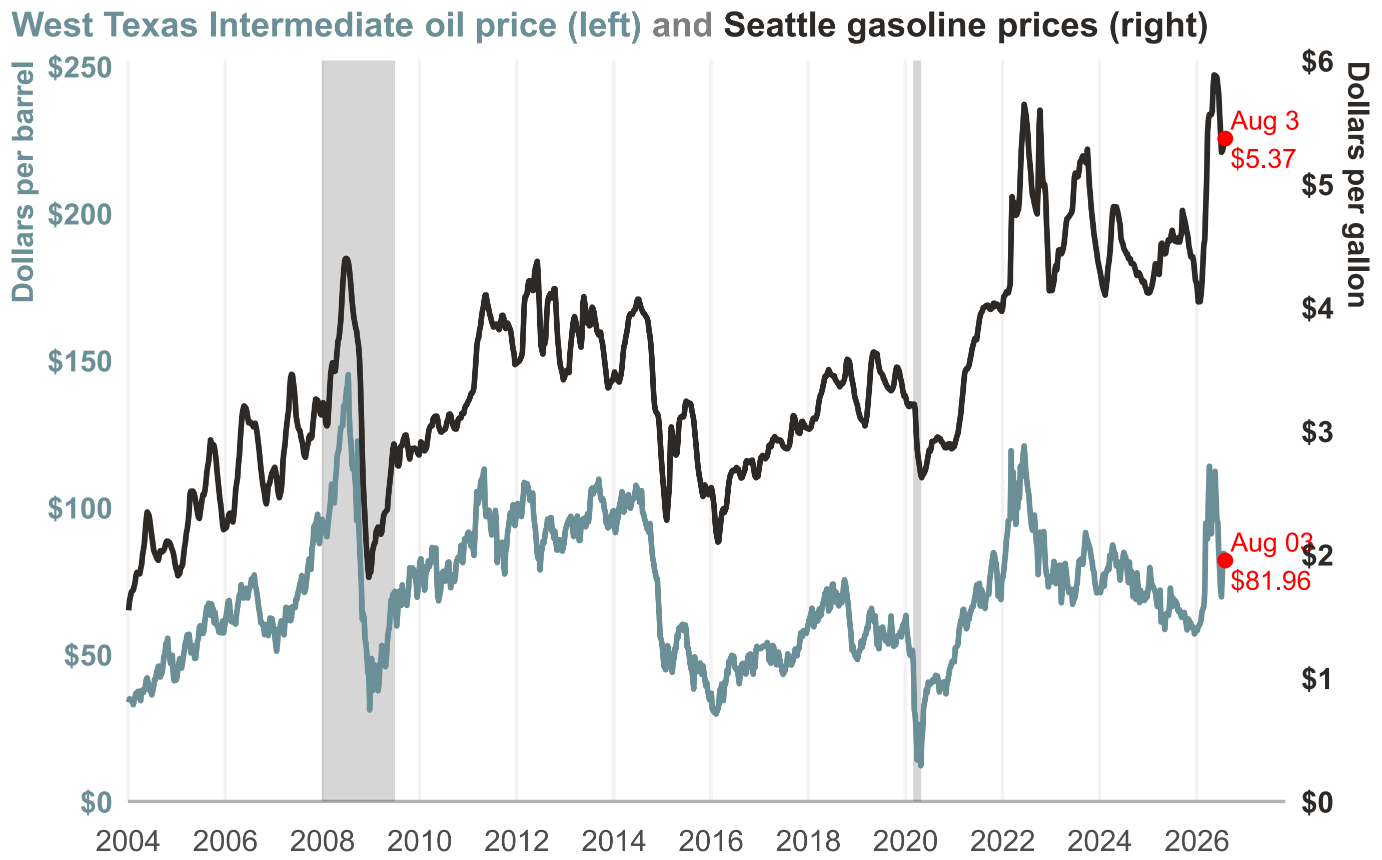
- General Fund revenues forecast
- Selected non-General Fund revenues
- Forecast risks and recommendation of the forecast scenario

Economic Situation Update

Oil and gas prices have retreated recently

- Large spike in oil prices due to the war in Iran that started on February 28th has created a notable headwind for the global economy.

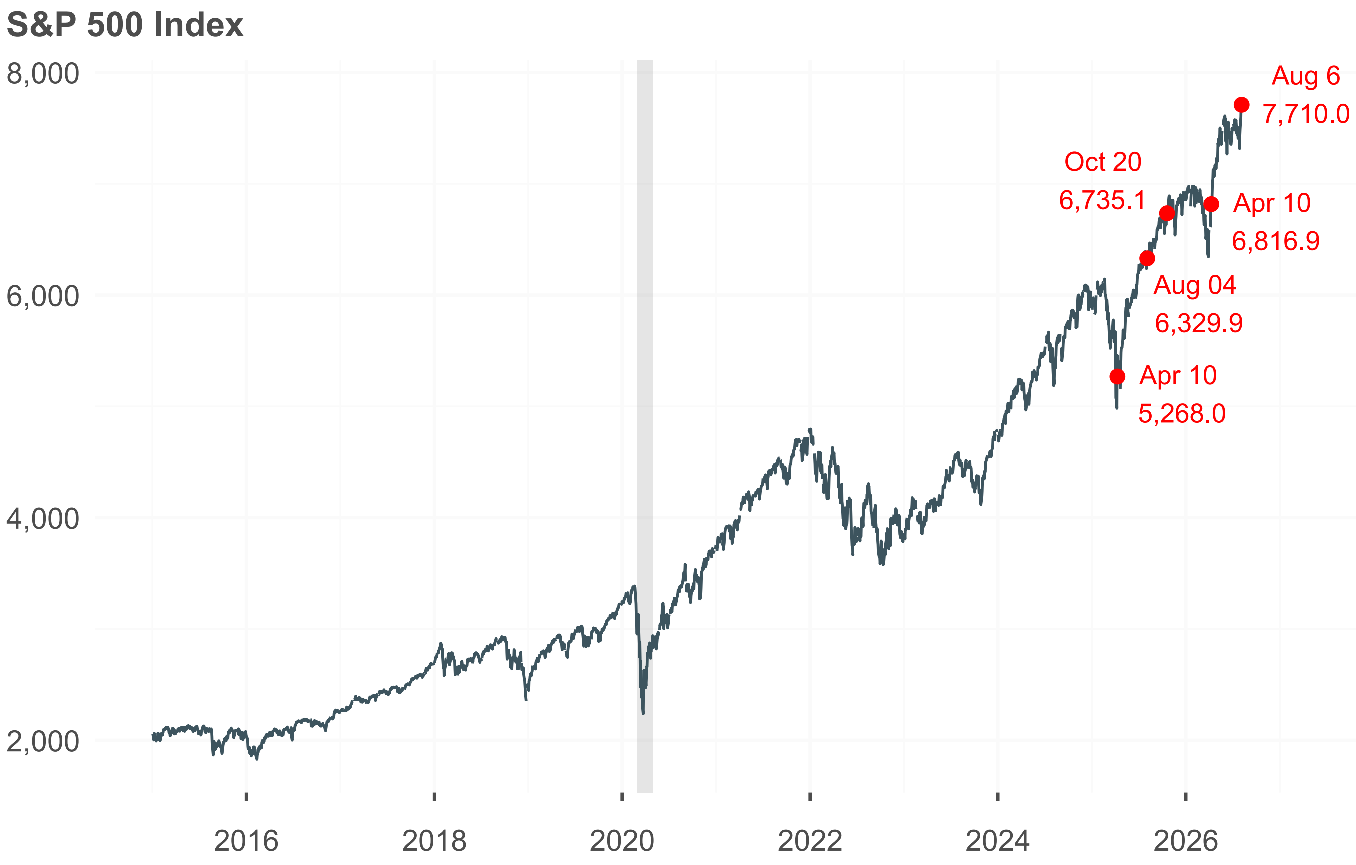
- Oil and gas prices have retreated somewhat recently, but the outlook is highly uncertain.



Note: U.S. Energy Information Administration. All Grades All Formulations Gas Price. Shaded areas denote recessions

Stock market has rebounded and grows despite lingering uncertainty

- S&P 500 Index fell about 9% between its peak in February and March 30, but it has recovered and continues to grow.
- Investment in AI continues to be a strong tailwind for the economy.
- The accompanying stock wealth effects in combination with larger tax refunds have supported consumer spending and provided some buffer against the negative impacts of higher prices due to the Iran conflict, tariffs, and immigration policies.
- There are however notable risks due stretched valuations and the high concentration of growth.



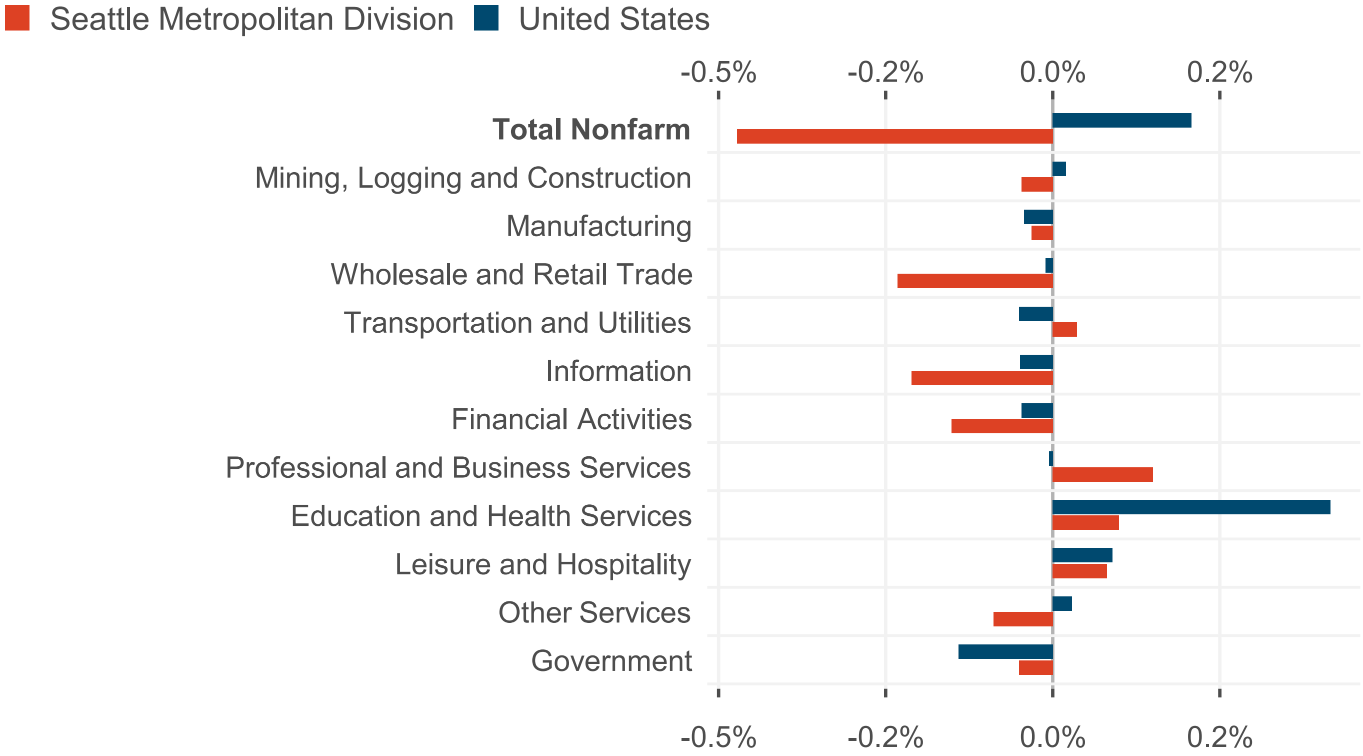
Note: Shaded areas denote recessions.

Labor market continues to be weaker in the region than in U.S.

- Low demand for office space and quickly rising office vacancy rates, combined with high interest rates, have resulted in a significant slowdown of construction activity in recent years.
- Trade sector has been negatively affected by tariffs.
- Labor demand in tech sector remains weak, as companies expect productivity gains from a wider adoption of AI and currently focus on investment in AI infrastructure and streamlining operations, rather than on headcount growth. This sector has a disproportionate impact on Seattle region, given its large share of total employment.

Total payroll employment growth and contributions by industry

% change year-over-year, year to date through June 2026



Source: U.S. Bureau of Labor Statistics, Washington State Employment Security Department. Seasonally adjusted.

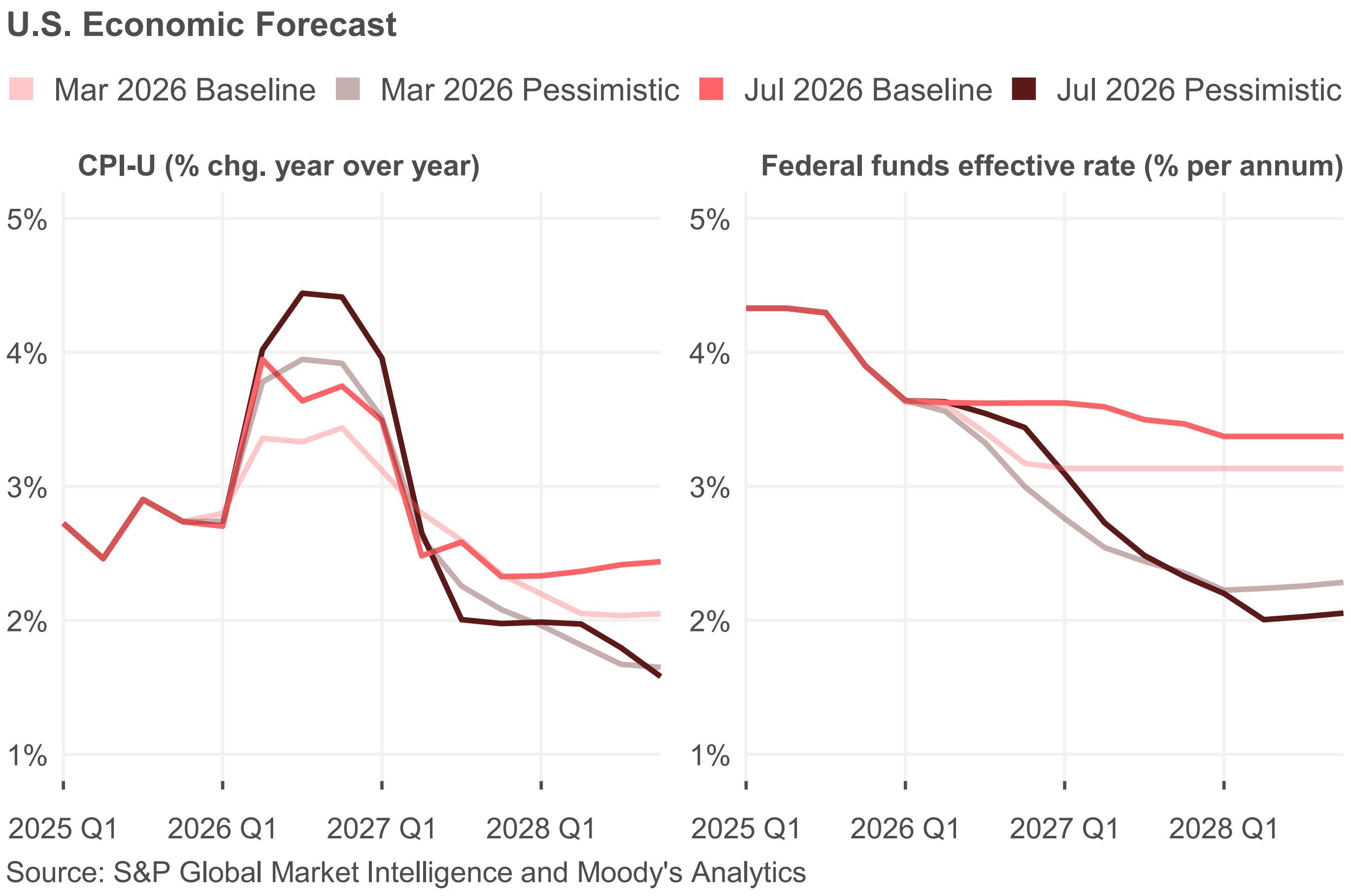
Economic outlook for U.S. and Seattle MD Area

Higher interest rates are expected as inflation spikes

- July U.S. economic forecast presented here is an average of forecasts from S&P Global and Moody's Analytics. Pessimistic scenario has 30% probability attached to it, baseline 50%.

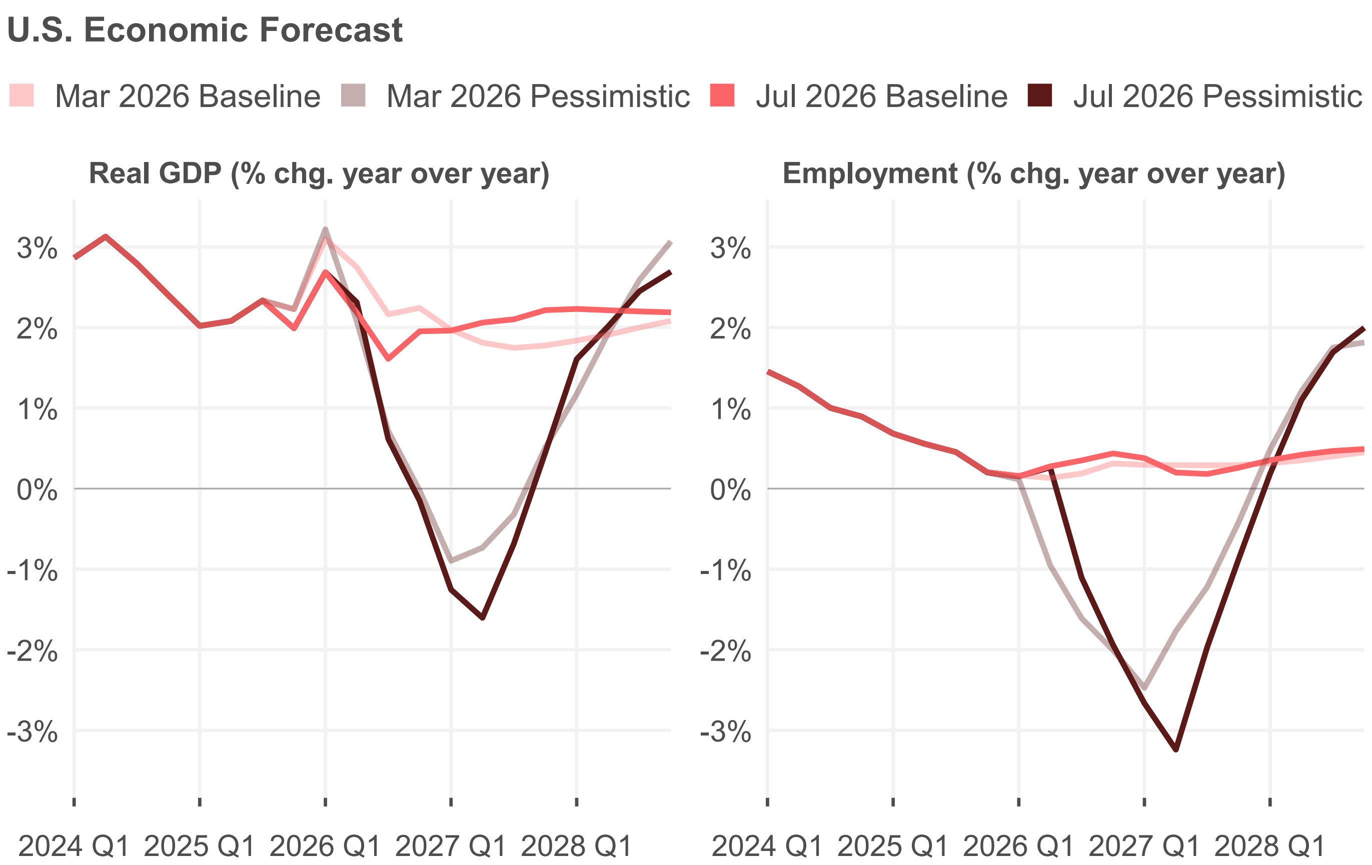
- Inflation re-accelerated, primarily due to ongoing passthrough of tariffs and large increases in oil and gas prices.
- In the July baseline scenario forecast, U.S. inflation is expected peak at 4%, about 0.5% higher than in the March forecast. In the pessimistic scenario it would reach 5.5%.

- Facing yet another supply side shock, Fed is in a challenging position. Interest rates are now expected to be higher.
- Financial markets are currently pricing in 76% probability of at least one 0.25 percentage point rate hike by year end 2026.



U.S. outlook – still solid GDP growth but slow employment growth

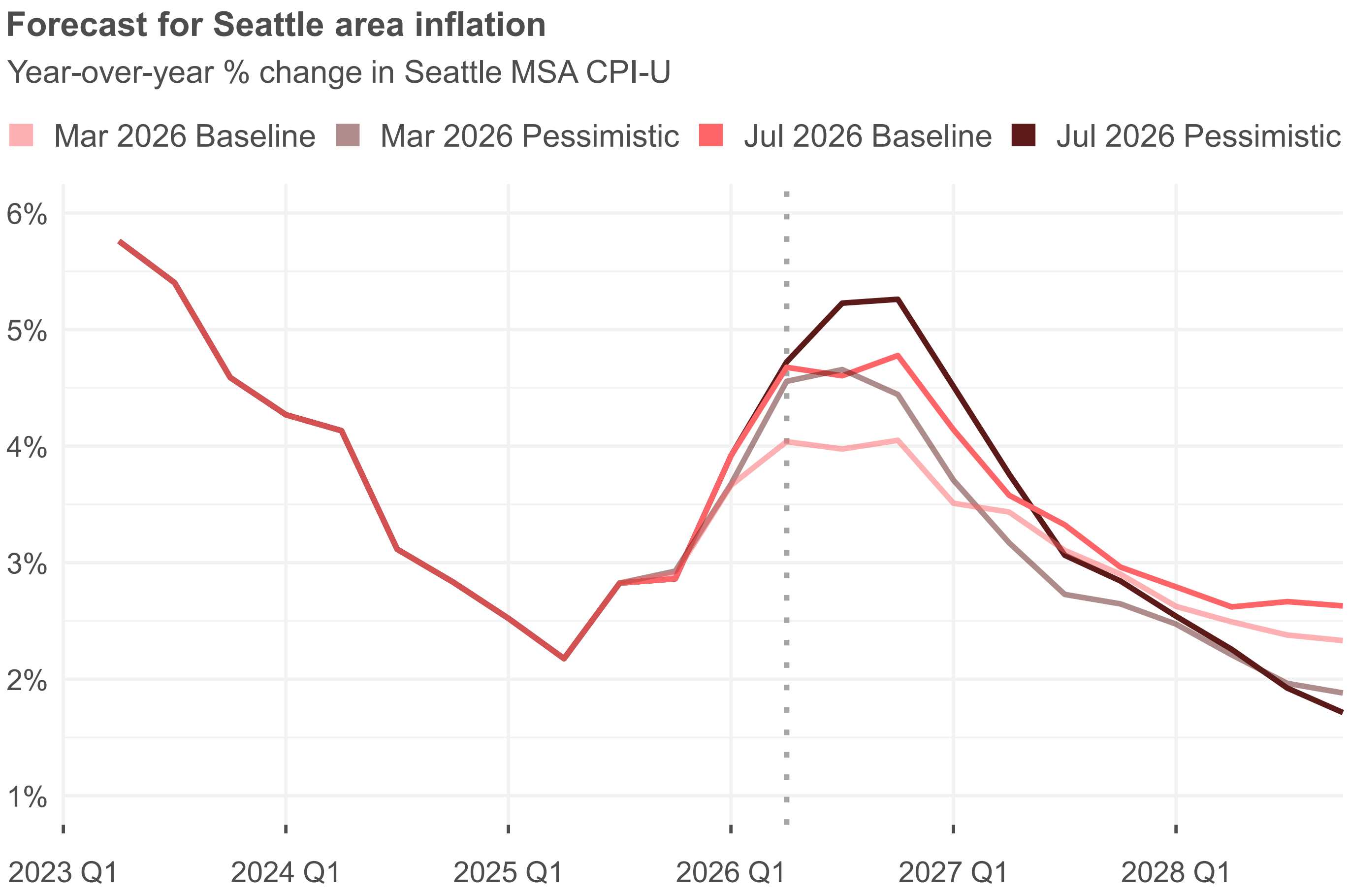
- The average for the probability of recession in the next 12 months in the Wall Street Journal July survey of economists has declined to 25%, from 33% in April.
- The outlook for economic growth is similar as in the March forecast. In the July baseline scenario forecast, the U.S. economy avoids a recession, real GDP grows at a solid pace, but little job growth is expected.
- July pessimistic scenario assumes longer disruption to oil supply and higher oil prices. Households and businesses restrict spending in face of rising costs and larger uncertainty, layoffs follow, stock prices tumble, and the economy goes into a recession in the second half of 2026.



Source: S&P Global Market Intelligence and Moody's Analytics

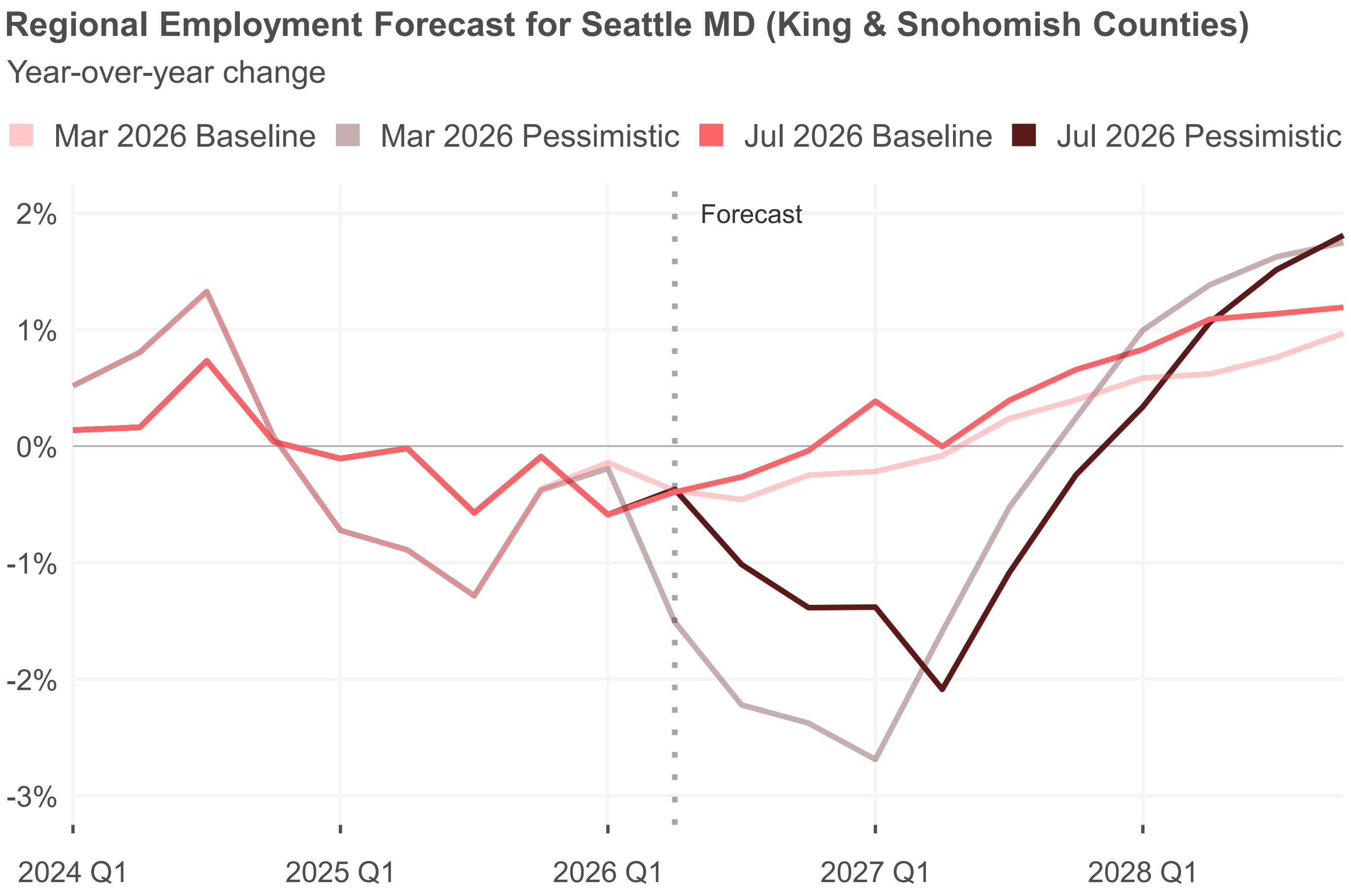
Regional inflation forecast has been revised up, just like for U.S.

- Mirroring changes to the U.S. inflation forecast, the regional inflation forecast has been revised up.
- Inflation peaks at 4.8% in 2026 in the baseline scenario and 5.2% in the pessimistic scenario.



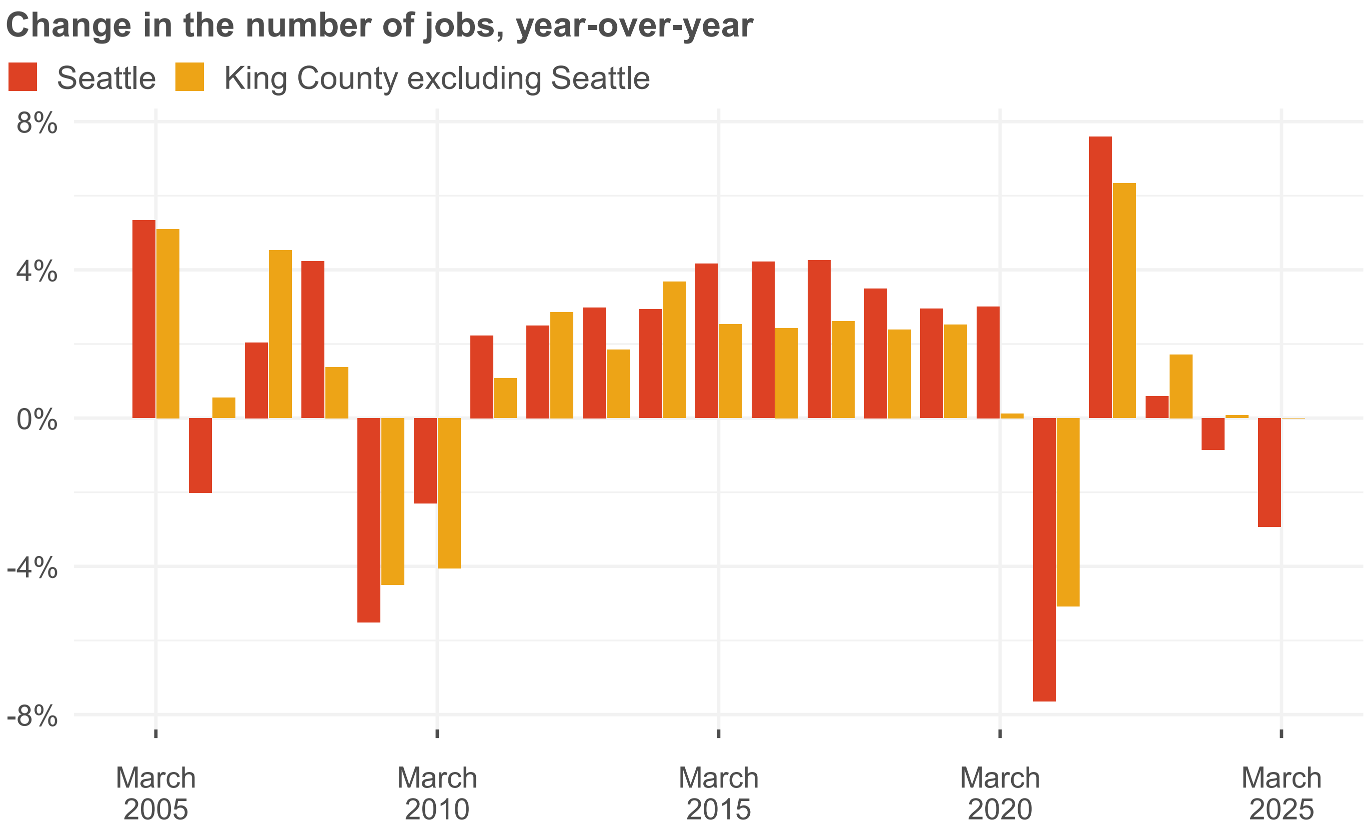
Little regional employment growth expected in near future

- Since March, Washington State Employment Security Department (ESD) has revised employment numbers down for 2023 and 2024, and slightly up for 2025.
- Regional employment growth forecast has been revised up marginally, but total employment is still expected to decline 0.3% in 2026 and only grow 0.4% in 2027.
- In the baseline scenario, regional economy will reach pre-pandemic employment level only at the end of 2027.
- In the July pessimistic scenario forecast regional employment would decline cumulatively by almost 34 thousand jobs between 2025 Q4 and 2027 Q2, as a result of a recession in the U.S. economy. Job losses would be recovered by 2028 Q4.



Differences in trends at local level within the region are notable

- Puget Sound Regional Council has last month released city level employment estimates for March 2025.
- Recent data shows notable differences in trends at local level within Seattle region.
- Based on this data, Seattle city has lost about 18 thousand jobs between March 2024 and March 2025.
- This data does not account yet for the impact of large layoffs announced by Amazon, Microsoft, and Meta Platforms in 2025 and 2026.

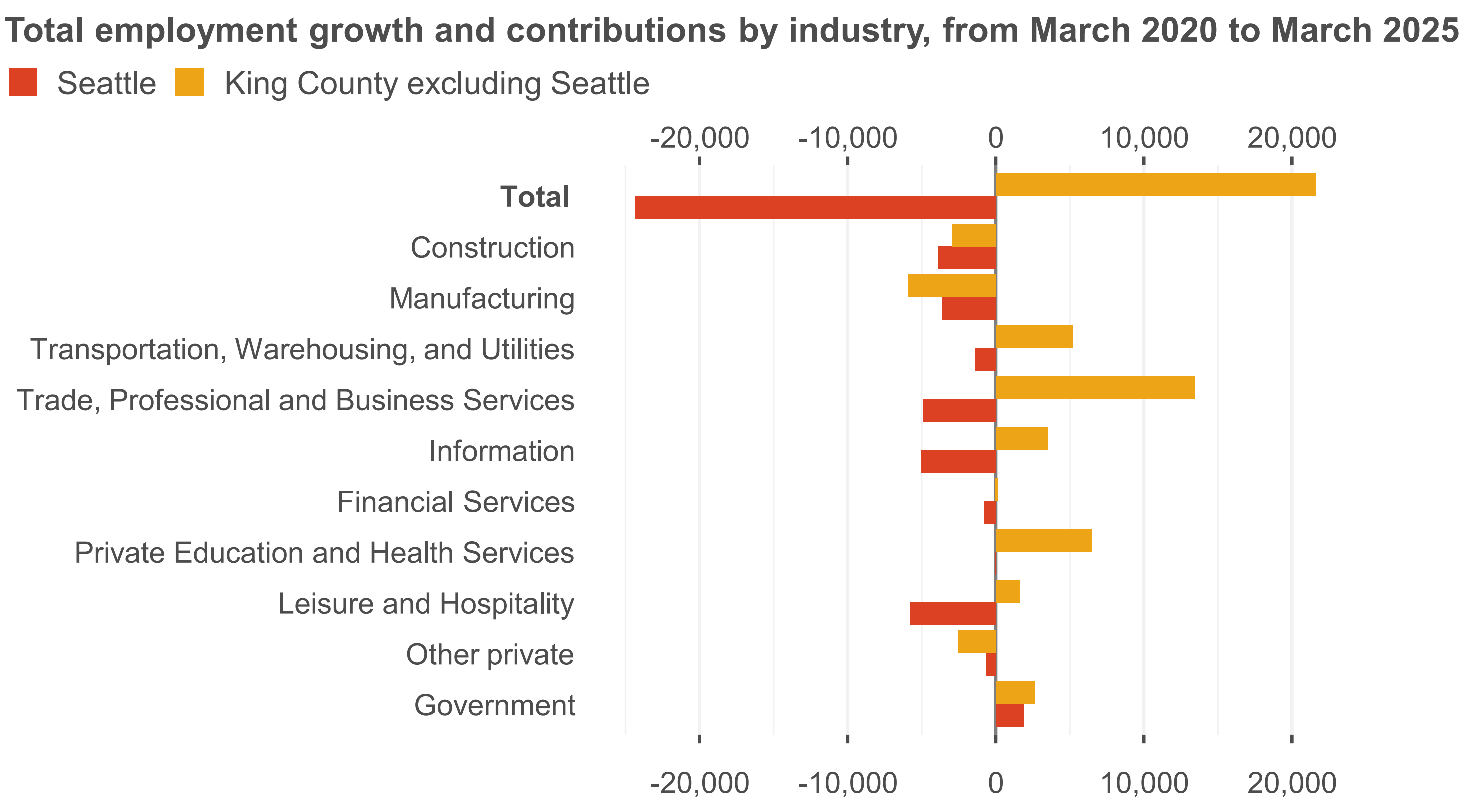


Puget Sound Regional Council, estimates based on Quarterly Census of Employment and Wages published by Washington State ESD. Data released annually in July for March previous year.

Differences in trends at local level within the region are notable

- Based on Puget Sound Regional Council employment estimates at city level released in July, there were about 24 thousand fewer jobs in Seattle in March 2025 compared to March 2020.
- Employment was lower in almost all industries, with exception of Private Education and Health Services, and Government.

- In King County excluding Seattle there were overall 21 thousand more jobs in March 2025 compared to March 2020.

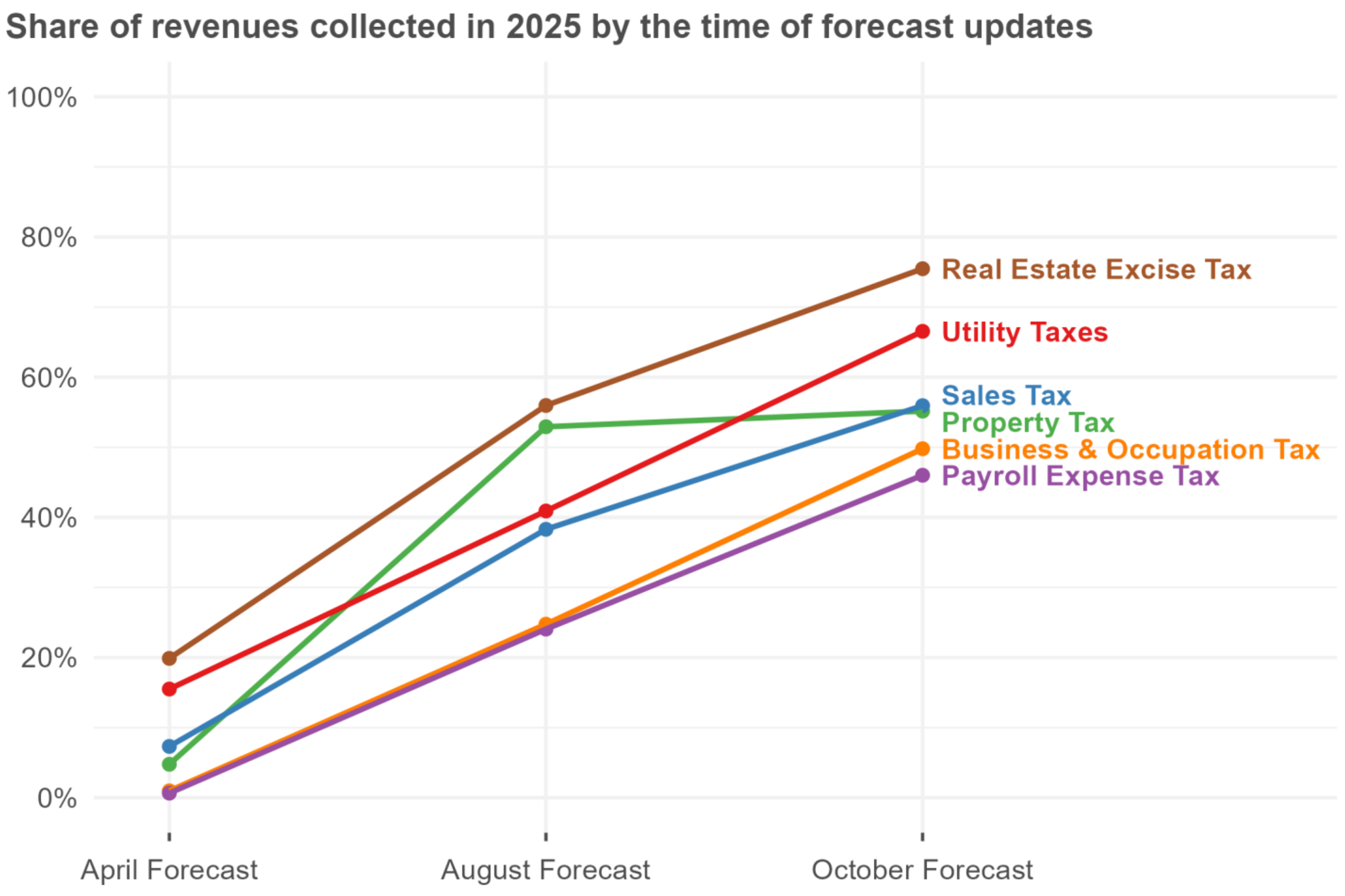


Puget Sound Regional Council, estimates based on Quarterly Census of Employment and Wages published by Washington State ESD. Data released annually in July for March previous year.
Data does not allow to separate Trade from Professional and Business Services due to 2022 NAICS reclassification

Updated Revenue Forecast for 2026-2028

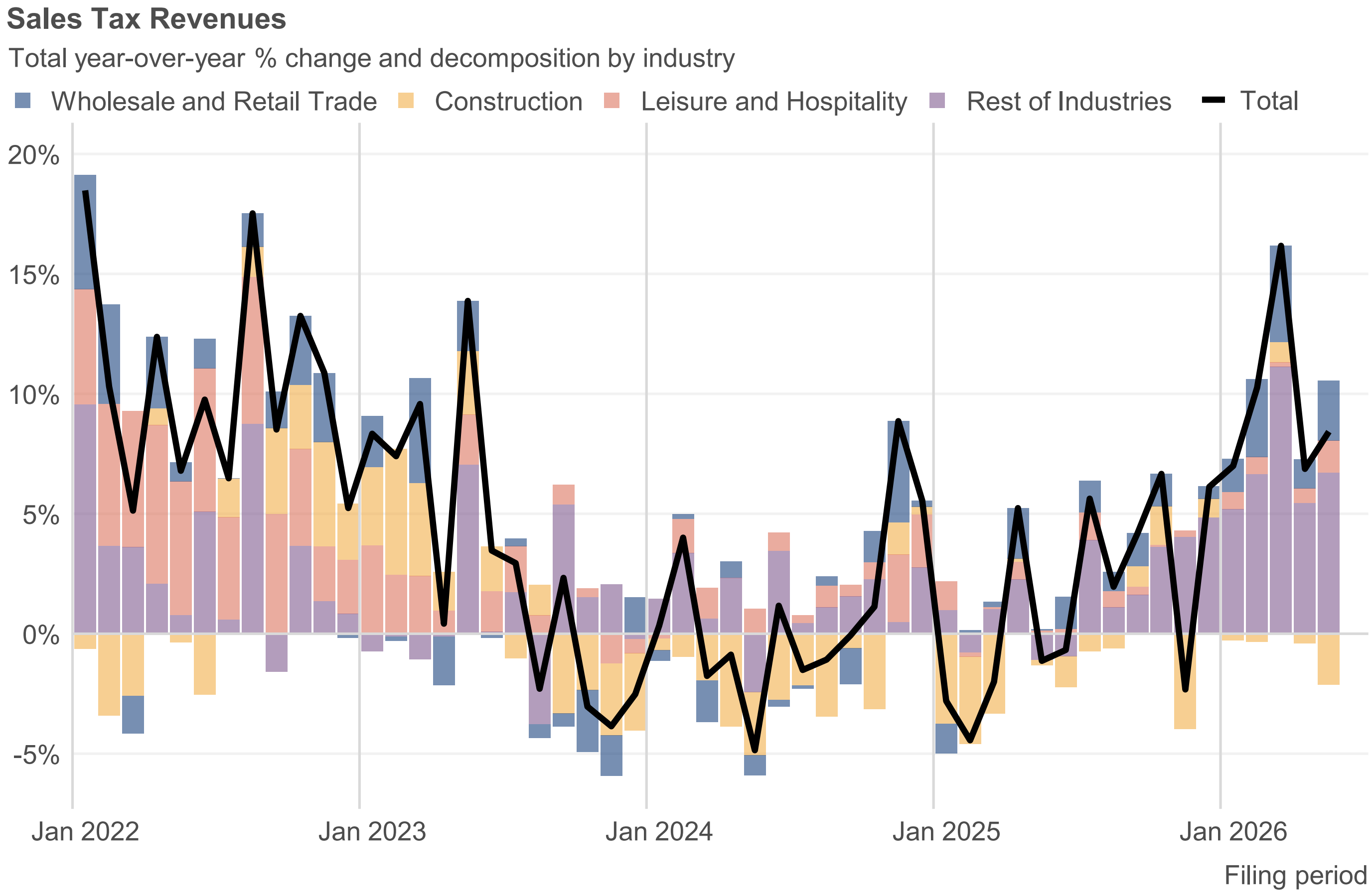
August forecast is based on Q1 obligations and some Q2 obligations

- About 36% of the annual General Fund revenues is expected by the time of the August update. The share of total annual revenue collected however varies a lot by revenue stream.
- For main economically drive revenues, August forecast incorporates
  - 2026 Q1 Business & Occupation tax returns
  - Sales Tax distributions from Washington State Department of Revenue - January though May obligation periods
  - REET for January though June
- General Fund revenues as of 2026 Q2 are about $0.92 million (0.12%) lower than expected. General Fund Excluding Grants and Fund Balance Transfers revenues are $7.55 million (1.22%) higher than anticipated.



Sales tax revenues have been boosted notably by ESSB 5814

- Total sales tax obligations grew 9.8% year-over-year in the first five month of 2026.
- Information and Professional and Business Services sectors contributed 5.6% to this total, as a result of expanded tax base due to ESSB 5814.
- Wholesale and Retail Trade contributed about 2.5%, Leisure and Hospitality only 0.7%.
- Taxable sales from Construction declined and deducted about 0.5% from the overall sales tax growth.



General Fund Revenues - Baseline Scenario Forecast ($ millions)

Revenue Source	Actuals	August Forecast			Difference from April 2026 Forecast			3 Year Total Difference
	2025	2026	2027	2028	2026	2027	2028	
Property Tax (Including Medic One Levy)	$386.4	$400.6	$417.7	$442.1	$0.0	$2.8	$5.6	$8.4
Sales & Use Tax	$348.2	$422.1	$432.9	$448.3	$19.9	$14.4	$14.0	$48.4
Business & Occupation Tax	$388.3	$471.1	$495.7	$520.4	-$0.2	-$1.2	-$1.4	-$2.8
Utility Tax - Private	$43.8	$42.3	$43.2	$44.0	-$1.9	-$1.9	-$2.0	-$5.8
Utility Tax - Public	$218.9	$223.5	$237.9	$253.1	$1.6	$0.4	$0.0	$2.0
Other City Taxes	$15.9	$16.1	$15.6	$16.4	-$0.3	-$0.1	$0.0	-$0.4
Parking Meters	$36.5	$35.8	$36.5	$37.0	-$0.3	$0.2	$0.3	$0.2
Court Fines	$23.6	$21.0	$22.7	$22.9	$1.8	$0.5	$0.3	$2.7
Licenses, Permits, Interest Income and Other	$70.7	$73.9	$68.7	$64.9	$2.2	$0.3	$1.9	$4.4
Revenue from Other Public Entities	$20.8	$20.9	$21.1	$21.7	-$0.2	-$0.5	-$0.5	-$1.2
Service Charges & Reimbursements	$82.1	$81.1	$81.0	$82.9	$1.7	$0.6	$1.0	$3.3
Grants	$30.4	$71.4	$12.8	$11.7	$18.3	$5.4	$4.4	$28.1
Fund Balance Transfers	$280.5	$211.6	$183.5	$193.0	-$1.0			-$1.0
Total General Fund	**$1,946.1**	**$2,091.4**	**$2,069.4**	**$2,158.3**	**$41.8**	**$20.9**	**$23.8**	**$86.4**
Total General Fund w/o Grants and Transfers	**$1,635.2**	**$1,808.3**	**$1,873.1**	**$1,953.6**	**$24.5**	**$15.5**	**$19.4**	**$59.4**

Annual Growth w/o Grants and Transfers	**3.5%**	**10.6%**	**3.6%**	**4.3%**
Seattle MSA CPI-U inflation	**2.4%**	**4.5%**	**3.5%**	**2.7%**

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.

Selected Other Revenues - Baseline Scenario Forecast ($ millions)

Revenue Source	Actuals	August Forecast			Difference from April 2026 Forecast			3 Year Total Difference
	2025	2026	2027	2028	2026	2027	2028	
Payroll Expense Tax	$405.9	$394.0	$407.9	$427.9	$18.3	$18.4	$21.0	$57.7
Payroll Expense Tax Fund - Interest Income	$11.1	$10.4	$8.3	$5.3	$1.0	$1.0	$1.8	$3.9
REET	$72.4	$66.6	$77.1	$88.3	-$3.7	-$9.9	-$9.4	-$23.0
Admission Tax	$24.3	$24.8	$25.6	$26.3	-$0.3	$0.2	$0.2	$0.1
Sweetened Beverage Tax	$21.6	$22.0	$20.3	$19.3	-$0.8	-$1.1	-$1.9	-$3.8
Short Term Rental Tax	$12.2	$11.7	$11.8	$12.0	-$0.6	-$0.1	-$0.1	-$0.8
Affordable Housing Sales Tax	$4.4	$4.5	$4.3	$4.3	$1.0	$0.8	$0.8	$2.6
STBD Sales Tax	$54.3	$59.1	$13.8		$2.5	$0.3		$2.9
STBD Vehicle License Fee	$20.2	$19.7	$19.9	$20.0	-$1.2	-$3.2	-$1.2	-$5.5
Commercial Parking Tax	$51.3	$51.7	$53.9	$55.8	-$1.4	$0.8	$2.1	$1.5
Automated Traffic Safety Cameras	$9.2	$19.6	$30.8	$37.9	-$3.3	$7.8	$16.6	$21.1

	2025	2026	2027	2028	2026	2027	2028	3 Year Total Difference
Grand Total, w/o Grants and Transfers	**$2,322.1**	**$2,492.4**	**$2,547.0**	**$2,650.7**	**$36.1**	**$30.6**	**$49.2**	**$115.9**
Annual Growth	**5.3%**	**7.3%**	**2.2%**	**4.1%**				

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

Unless renewed, transportation benefit district sales tax ends on April 1, 2027. If renewed at 0.3% rate, this sales tax it is estimated to generate additional $96.3 million in 2027 and $125.3 million in 2028.

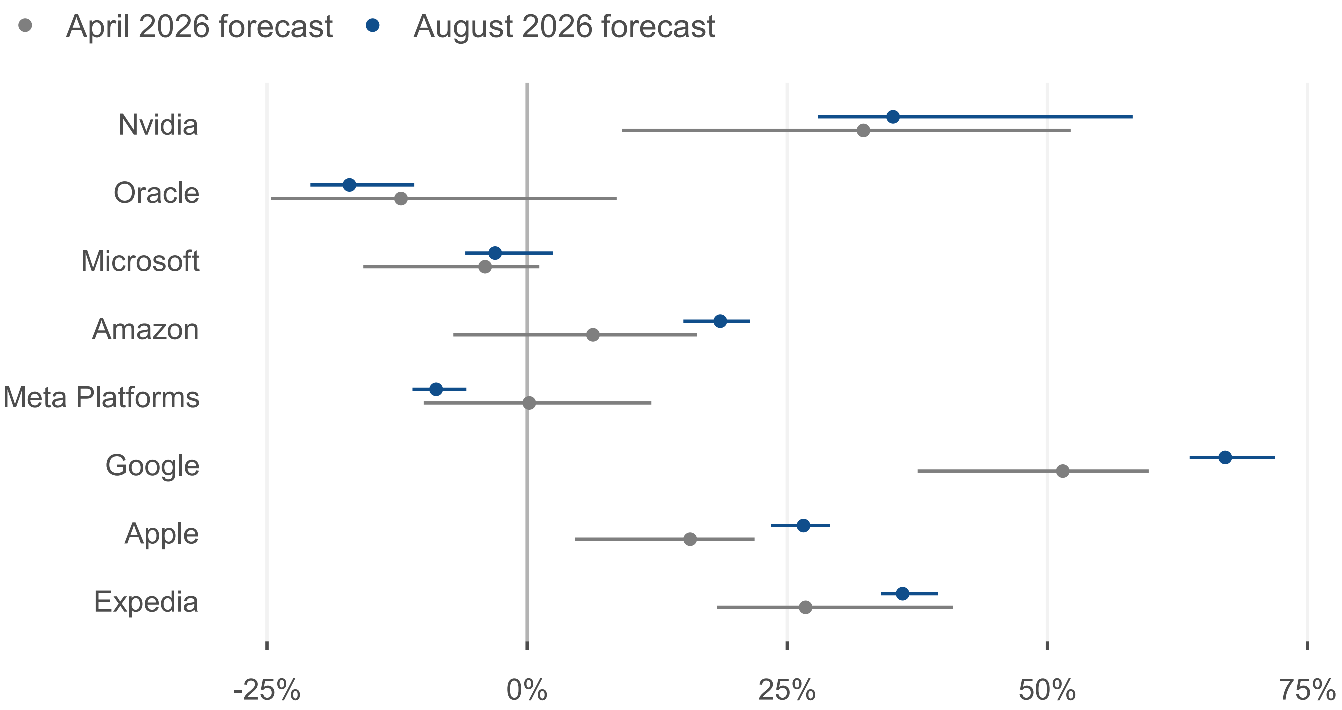
Stock prices – outlook has improved since April…

- Year to date receipts provide limited information regarding the performance of Payroll Expense Tax revenues, since obligations are on based on annual payrolls and estimated quarterly payments are typically 25% of the total obligation in the previous filing year.

- The August Payroll Expense Tax forecast is based on past and expected stock price changes, employment growth estimates for main taxpayers, and incorporates the estimated effect of layoffs announced to date.

Expected stock price changes, 2026 over 2025

Year-over-year expected change in stock price; low, average and high estimates



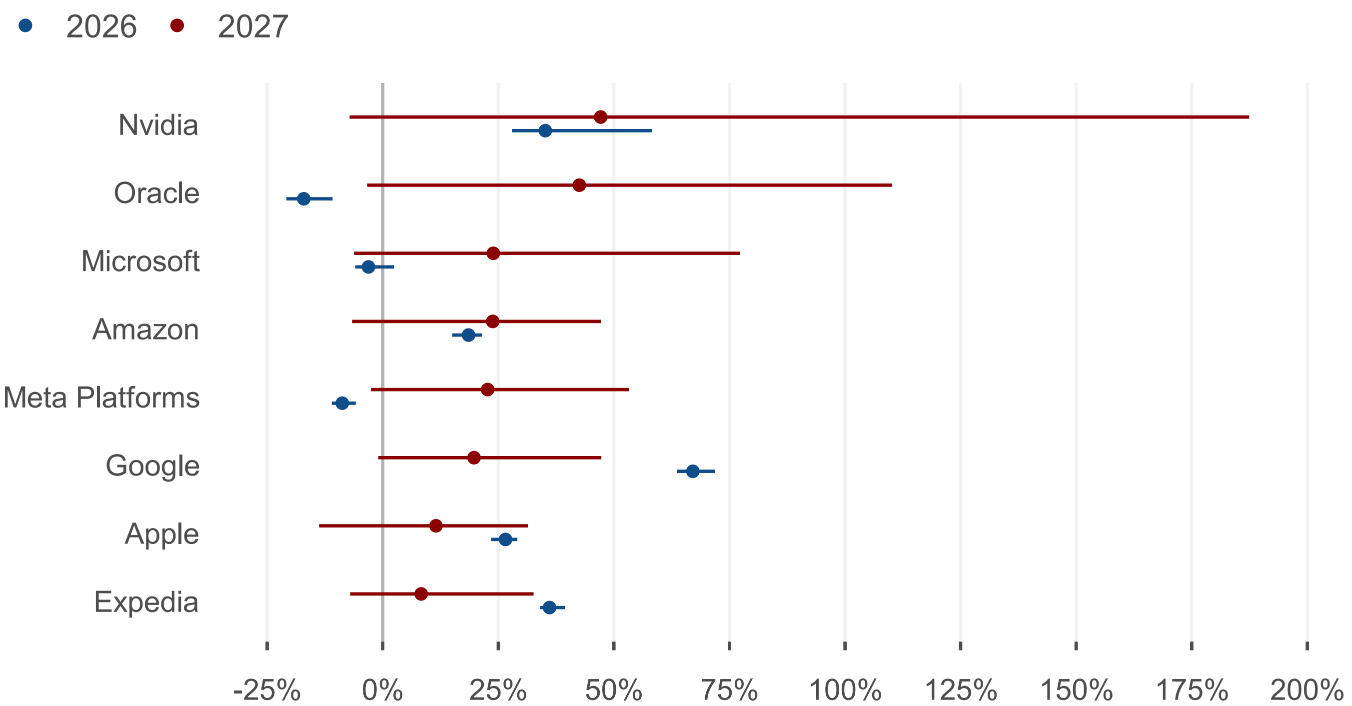
Wall Street Journal stock price targets from analyst ratings.
Companies included for illustrative purposes, not based on tax filing obligation.

…but there is very large amount of uncertainty

- Strong stock market performance is expected to offset some of the negative effects of lower job number on Payroll Expense Tax revenues.
- There is however a large amount of uncertainty regarding future stock prices, which poses a significant risk to the presented revenue forecast.

Expected stock price changes

Year-over-year expected change in stock price; low, average and high estimates



Wall Street Journal stock price targets from analyst ratings.
Companies included for illustrative purposes, not based on tax filing obligation.

General Fund Revenues - Pessimistic Scenario Forecast ($ millions)

Revenue Source	Actuals 2025	August Forecast 2026	2027	2028	Difference from April 2026 Forecast 2026	2027	2028	3 Year Total Difference
Property Tax (Including Medic One Levy)	$386.4	$400.6	$417.2	$439.7	$0.0	$2.3	$3.2	$5.5
Sales & Use Tax	$348.2	$418.5	$410.8	$425.8	$16.2	-$7.7	-$8.5	$0.1
Business & Occupation Tax	$388.3	$466.3	$475.3	$498.4	-$5.0	-$21.6	-$23.3	-$49.9
Utility Tax - Private	$43.8	$41.5	$42.1	$42.5	-$2.7	-$3.0	-$3.4	-$9.1
Utility Tax - Public	$218.9	$220.2	$232.4	$247.2	-$1.7	-$5.2	-$5.9	-$12.7
Other City Taxes	$15.9	$15.9	$15.3	$16.1	-$0.5	-$0.4	-$0.3	-$1.1
Parking Meters	$36.5	$35.1	$32.6	$31.5	-$1.0	-$3.7	-$5.2	-$9.8
Court Fines	$23.6	$20.0	$21.6	$21.8	$0.8	-$0.6	-$0.8	-$0.6
Licenses, Permits, Interest Income and Other	$70.7	$72.9	$67.2	$63.6	$1.2	-$1.3	$0.6	$0.5
Revenue from Other Public Entities	$20.8	$20.3	$20.5	$21.0	-$0.8	-$1.1	-$1.1	-$3.0
Service Charges & Reimbursements	$82.1	$81.1	$81.0	$82.9	$1.7	$0.6	$1.0	$3.3
Grants	$30.4	$71.4	$12.8	$11.7	$18.3	$5.4	$4.4	$28.1
Fund Balance Transfers	$280.5	$211.6	$183.5	$193.0	-$1.0			-$1.0
Total General Fund	**$1,946.1**	**$2,075.2**	**$2,012.3**	**$2,095.2**	**$25.6**	**-$36.2**	**-$39.3**	**-$49.9**
Total General Fund w/o Grants and Transfers	**$1,635.2**	**$1,792.2**	**$1,816.0**	**$1,890.5**	**$8.4**	**-$41.6**	**-$43.7**	**-$76.9**

	2025	2026	2027	2028
Annual Growth w/o Grants and Transfers	**3.5%**	**9.6%**	**1.3%**	**4.1%**
Seattle MSA CPI-U inflation	**2.4%**	**4.8%**	**3.6%**	**2.1%**

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.

Selected Other Revenues - Pessimistic Scenario Forecast ($ millions)

Revenue Source	Actuals	August Forecast			Difference from April 2026 Forecast			3 Year Total Difference
	2025	2026	2027	2028	2026	2027	2028	
Payroll Expense Tax	$405.9	$376.8	$360.7	$371.6	$1.0	-$28.8	-$35.4	-$63.2
Payroll Expense Tax Fund - Interest Income	$11.1	$10.1	$8.1	$5.1	$0.7	$0.8	$1.7	$3.2
REET	$72.4	$56.1	$46.1	$63.2	-$14.2	-$40.9	-$34.6	-$89.6
Admission Tax	$24.3	$23.9	$23.8	$24.3	-$1.2	-$1.7	-$1.8	-$4.7
Sweetened Beverage Tax	$21.6	$21.3	$19.6	$18.7	-$1.4	-$1.7	-$2.5	-$5.7
Short Term Rental Tax	$12.2	$11.4	$11.4	$11.7	-$0.8	-$0.4	-$0.5	-$1.7
Affordable Housing Sales Tax	$4.4	$4.4	$4.2	$4.4	$0.9	$0.7	$0.9	$2.5
STBD Sales Tax	$54.3	$58.6	$13.2		$2.0	-$0.3		$1.7
STBD Vehicle License Fee	$20.2	$19.1	$19.3	$19.4	-$1.8	-$3.8	-$1.8	-$7.3
Commercial Parking Tax	$51.3	$50.7	$49.6	$51.9	-$2.4	-$3.5	-$1.8	-$7.7
Automated Traffic Safety Cameras	$9.2	$18.6	$29.3	$36.0	-$4.3	$6.3	$14.7	$16.7

	2025	2026	2027	2028	2026	2027	2028	3 Year Total Difference
Grand Total, w/o Grants and Transfers	**$2,322.1**	**$2,443.3**	**$2,401.3**	**$2,496.7**	**-$13.0**	**-$115.1**	**-$104.8**	**-$232.9**
Annual Growth	**5.3%**	**5.2%**	**-1.7%**	**4.0%**				

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

Unless renewed, transportation benefit district sales tax ends on April 1, 2027. If renewed at 0.3% rate, this sales tax it is estimated to generate additional $88.4 million in 2027 and $119.2 million in 2028.

Alternative scenarios – differences from August baseline ($ millions)

- Sales & Use, B&O, Utility Taxes and Parking meter revenues account for 83% of General Fund revenues lost in the pessimistic scenario. Overall, General Fund revenues would be about 4.5% lower than in the baseline scenario.
- For non-General Fund revenues, the differences are particularly large for Payroll Expense Tax and REET.

Revenue Source	Pessimistic Scenario vs Baseline Scenario				Optimistic Scenario vs Baseline Scenario			
	2026	2027	2028	3 Year Total	2026	2027	2028	3 Year Total
Sales & Use Tax	-$3.7	-$22.1	-$22.5	-$48.3	$4.1	$8.1	$8.9	$21.1
Business & Occupation Tax	-$4.8	-$20.4	-$21.9	-$47.1	$1.3	$5.7	$6.6	$13.7
Utility Taxes	-$4.1	-$6.6	-$7.4	-$18.2	$3.8	$6.5	$7.4	$17.6
Total General Fund w/o Grants and Transfers	**-$16.2**	**-$57.1**	**-$63.1**	**-$136.4**	**$11.3**	**$24.5**	**$28.5**	**$64.4**
Payroll Expense Tax	-$17.2	-$47.2	-$56.4	-$120.8	$8.1	$51.7	$58.1	$118.0
REET	-$10.5	-$31.0	-$25.1	-$66.6	$3.4	$13.5	$13.5	$30.4
Total Revenues w/o Grants and Transfers	**-$49.1**	**-$145.7**	**-$154.0**	**-$348.8**	**$26.4**	**$93.6**	**$104.1**	**$224.0**
Total Revenues w/o Grants and Transfers	**-2.0%**	**-5.7%**	**-5.8%**	**-4.5%**	**1.1%**	**3.7%**	**3.9%**	**2.9%**

Social housing tax forecast update

- The tax base for Social Housing Tax is quite narrow, about 220 taxpayers reported 2025 obligation, about 110 taxpayers 2026 Q1 or Q2 obligation.
- Similarly to the Payroll Expense Tax this revenue stream is heavily concentrated: top 10 taxpayers paid about 66% of total 2025 payments, top 50 about 90%.
- Narrow tax base, dependence on the stock market performance, together with limited collection history and data availability mean that there is large amount of uncertainty associated with the forecast.

Social Housing Tax Obligations Forecast, $ millions.

Scenario	2026	2027	2028
Baseline	$131.9	$136.6	$143.3
Pessimistic	$126.1	$120.8	$124.4
Optimistic	$139.7	$159.6	$168.8

Forecast risks and scenario recommendation

Summary and Context

- The Iran conflict has caused inflationary pressures and continues to pose significant risks to economic growth. The average for the probability of a recession in the next 12 months in the Wall Street Journal survey of economists has nevertheless decreased from 33% in April to 25% in July. Baseline scenario, in which the economy avoids a recession, is thus more likely. S&P Global and Moody’s Analytics expect a solid, roughly 2% real GDP growth in 2026 and 2027.

- Employment growth is however expected to be slow, due to weak labor demand as companies face higher costs, ongoing uncertainty, and moreover expect productivity gains from wider adoption of AI. Regional economy continues to be weaker than the national one, due to layoffs in the tech sector and the high uncertainty around the impacts of AI on employment.

- Tax revenues were in the first half of 2026 boosted by ESSB 5814 more than previously anticipated. Stronger stock market growth is expected to largely offset negative effects of layoffs on Payroll Expense Tax revenues. Stretched valuations and the high concentration of growth however pose significant risks to the forecasts.

Conclusion

- **The Forecast Office recommends using the baseline scenario of the August 2026 revenue forecast, it is most likely to be the closest to the actual outcome. High uncertainty however does mean lower confidence regarding the forecasts and higher risk of larger revisions or larger than typical variance in 2026 actual revenues relative to the forecast.**

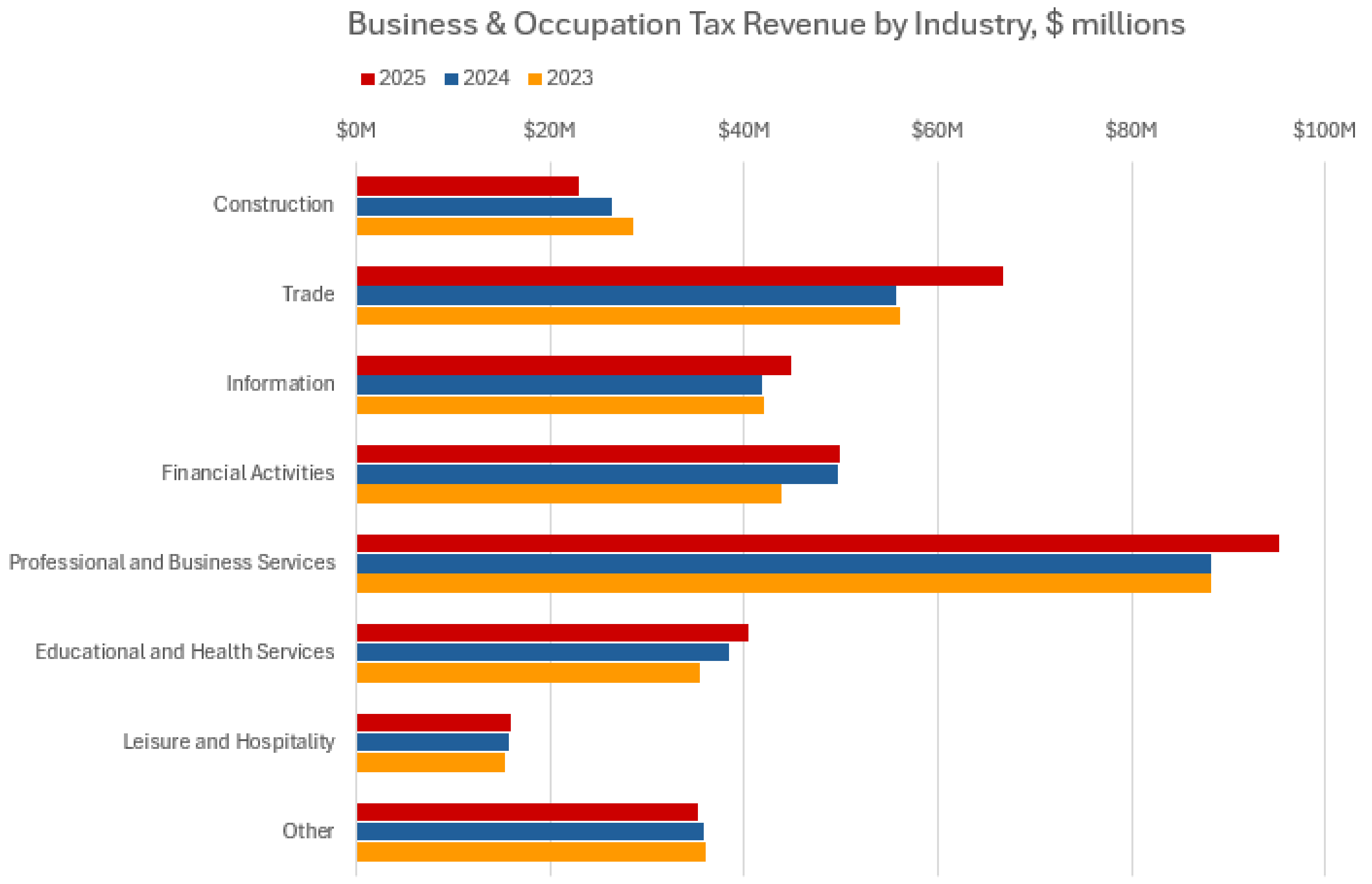
Questions?

Appendix

Business and Occupation Tax - 2025 Actuals

- Tax base for Business & Occupation tax is quite diversified, though professional and business services constitute a notably bigger share than other sectors.

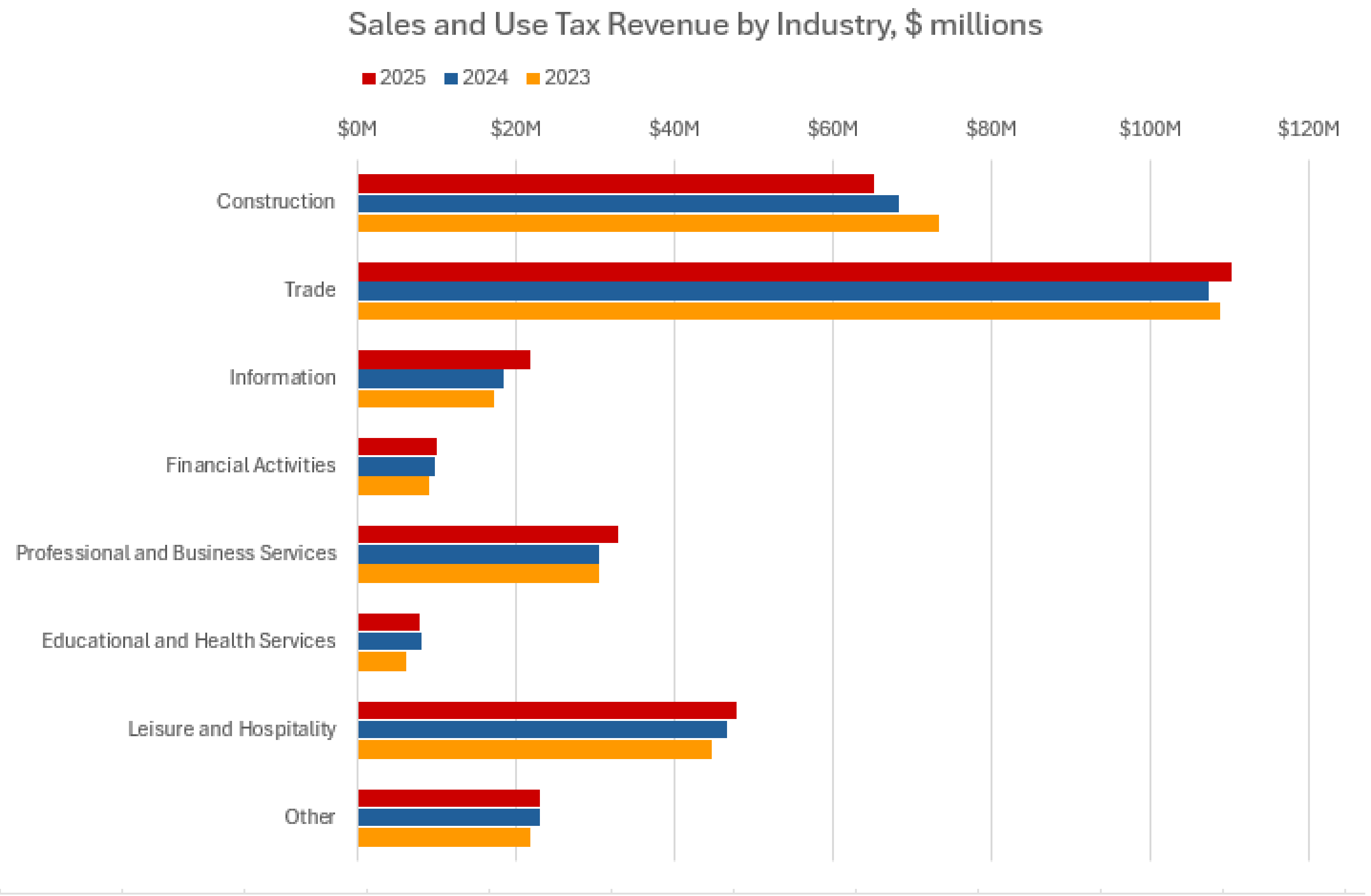
- Business & Occupation tax was paid by about 20,000 businesses in 2025.
- Top 10 taxpayers accounted for about 23% of 2025 revenues.



Sales and Use Tax - 2025 Actuals

- Tax base for sales tax revenue much less diversified than B&O tax base.
- Trade accounts for one third of total revenue.
- About one quarter of sales tax revenue was in previous years generated by construction sector.

- In 2025 approximately 73,000 taxpayers remitted sales and use tax
- Top 10 taxpayers accounted for about 10.8% of all sales and use tax revenues in 2025.



Payroll Expense Tax - 2025 Actuals

- Payroll expense tax is paid by less than 500 companies and is highly concentrated at the top.
- In 2025, top 100 companies accounted for about $360 million, or 93%, of revenues
- About $280 million, or 73%, was generated by top ten companies.