

InterOffice Memo

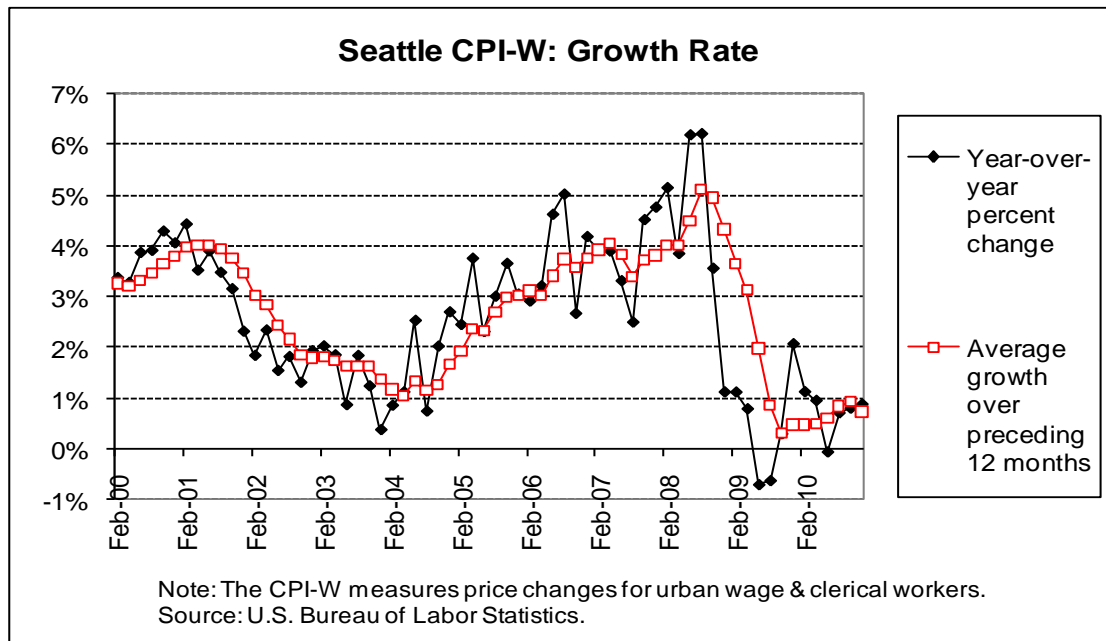
Date: January 31, 2011
To: David Bracilano, Labor Relations
From: Tom Kirn, Department of Finance and Administrative Services
Subject: Consumer Price Index (CPI) Forecast Update

We have updated our Seattle consumer price index (CPI) forecasts as part of the current budget process. The updated forecasts are shown below.

| | Seattle CPI-W (June-June growth rate) | Seattle CPI-W (growth rate for 12 months ending in June) |
|---------------|--|---|
| 2010 (actual) | -0.1% | 0.6% |
| 2011 | 1.7% | 1.2% |
| 2012 | 1.8% | 1.7% |
| 2013 | 2.1% | 2.0% |

The worst economic downturn in 80 years pushed inflation rates down to levels not seen since the 1950s. In fact, inflation at the national level was negative in 2009 and local inflation was negative for some months in both 2009 and 2010. The movement of inflation into negative territory was caused by a steep drop in energy prices from the very high levels reached in mid-2008. Core CPI, which excludes food and energy, has remained positive at the national level, though in recent months year-over-year growth rates have fallen below 1 percent. Locally, core inflation declined by 0.5% in 2010.

Looking forward, a weak economy is expected to keep downward pressure on prices in the short-term. Wage pressures will remain weak until the employment situation improves. Increases in commodity prices, including food and energy prices, during the past six months have given a modest boost to the CPI and have helped to diminish somewhat worries about deflation.



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