

An aerial view of the Seattle skyline, featuring numerous skyscrapers and buildings. In the foreground, a large Ferris wheel is visible on the waterfront, with its reflection on the water. The Space Needle is also visible on the left side of the image.

# **Economic and Revenue Forecast April 2024**

**Office of Economic and Revenue Forecasts  
&  
City Budget Office**

# Outline

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## **Part I: Update on economic developments, national vs regional economy**

## **Part II: Summary of April Economic Forecasts**

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

## **Part III: Summary of April Revenue Forecast**

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

# Part 1

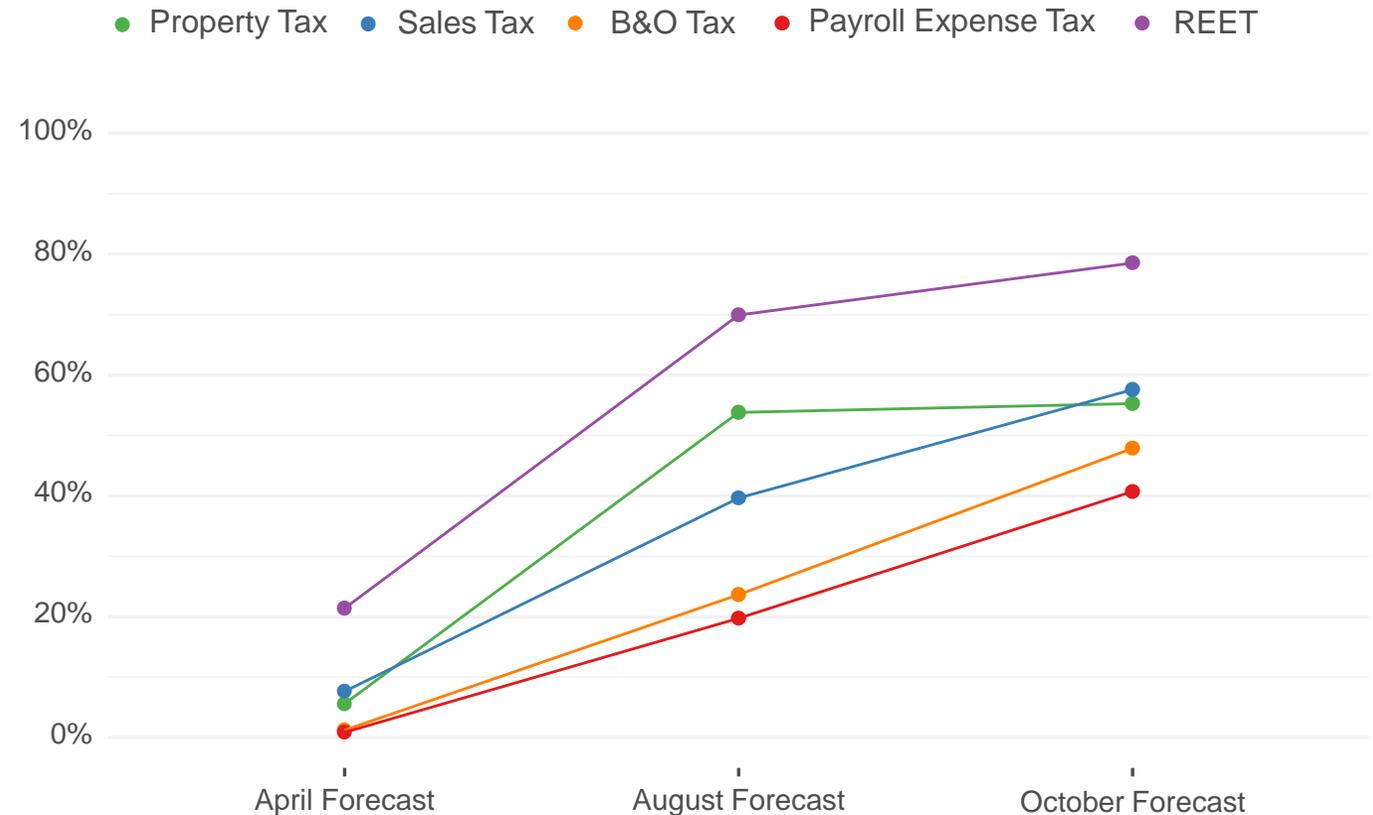
## Economic Situation Update

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# For large economically driven revenues little is collected by April

- The April revenue forecasts are informed primarily by the economic outlook for current year and information about revenue collected in the previous year - little revenue has been collected for current year so far.
- About half of the annual General Fund revenue is collected by the time of the October update.
- The share of total annual revenue collected by the time of October update however varies a lot by revenue stream. In 2023, almost 80% of REET revenue had been collected by that point, but just 40% of Payroll Expense Tax revenue.

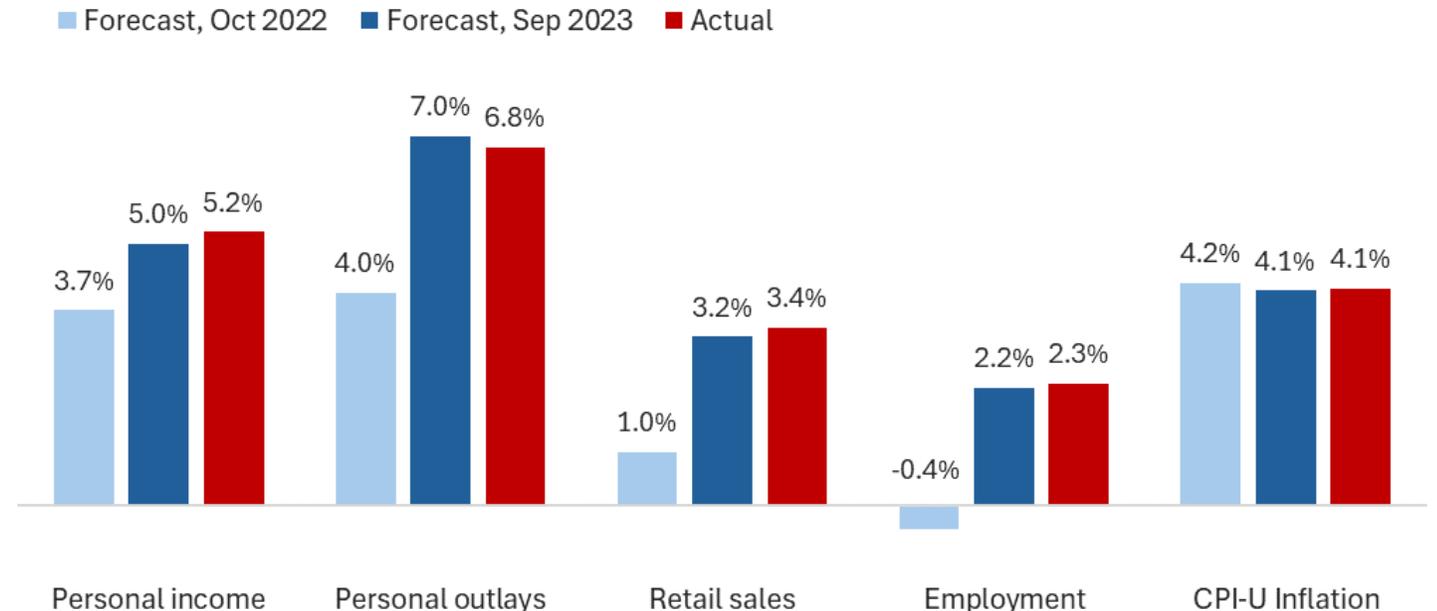
Share of revenue collected in 2023 by the time of forecast updates



# Looking back, U.S. economy showed remarkable resilience in 2023

- The prevailing expectation among economists in early 2023 was that the aggressive increase in interest rates necessary to stabilize prices would also induce a recession.
- The average for the probability of a recession in the next 12 months among the economists surveyed by Wall Street Journal in January 2023 was 60.8%.
- U.S. economy outperformed expectations, with strong growth in real GDP, employment and consumer spending despite high interest rates and tightening of financial conditions.
- Recession fears are now fading and it appears that the Federal Reserve is succeeding in guiding the economy toward a soft landing: inflation brought under control without triggering a recession.

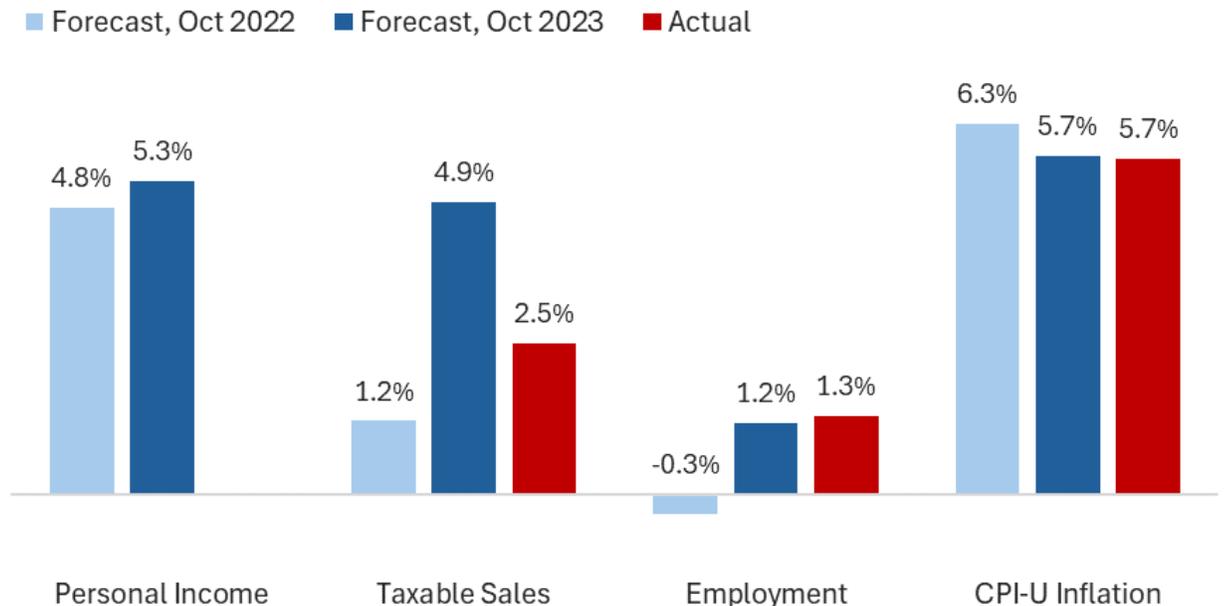
U.S. Economy in 2023, Forecast vs Actual



# Regional employment grew slower, price faster than in U.S.

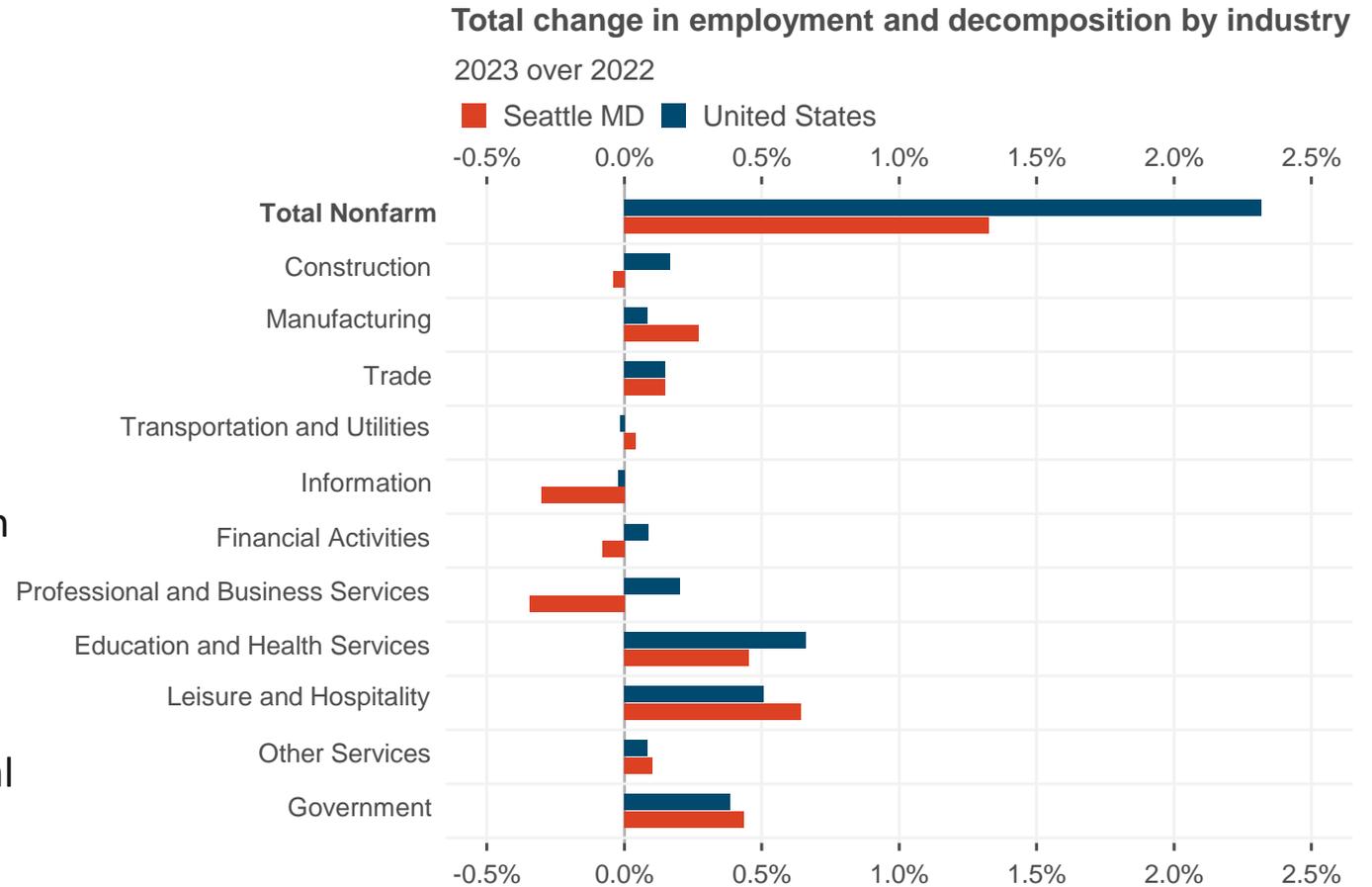
- Relative to the economic forecast from October 2022, the regional labor market has outperformed expectations in terms of overall employment growth last year.
- While outperforming expectations, regional job growth has been modest in 2023 and Seattle regional economy has trailed the performance seen at the national level.
  - Regional employment grew just 1.3% compared to 2.4% in the U.S. as whole
  - Regional inflation was 5.7% compared to 4.1% at the national level.
- Moreover, taxable sales grew significantly less than we anticipated in October 2023 forecast.

Seattle Area Economy in 2023, Forecast vs Actual



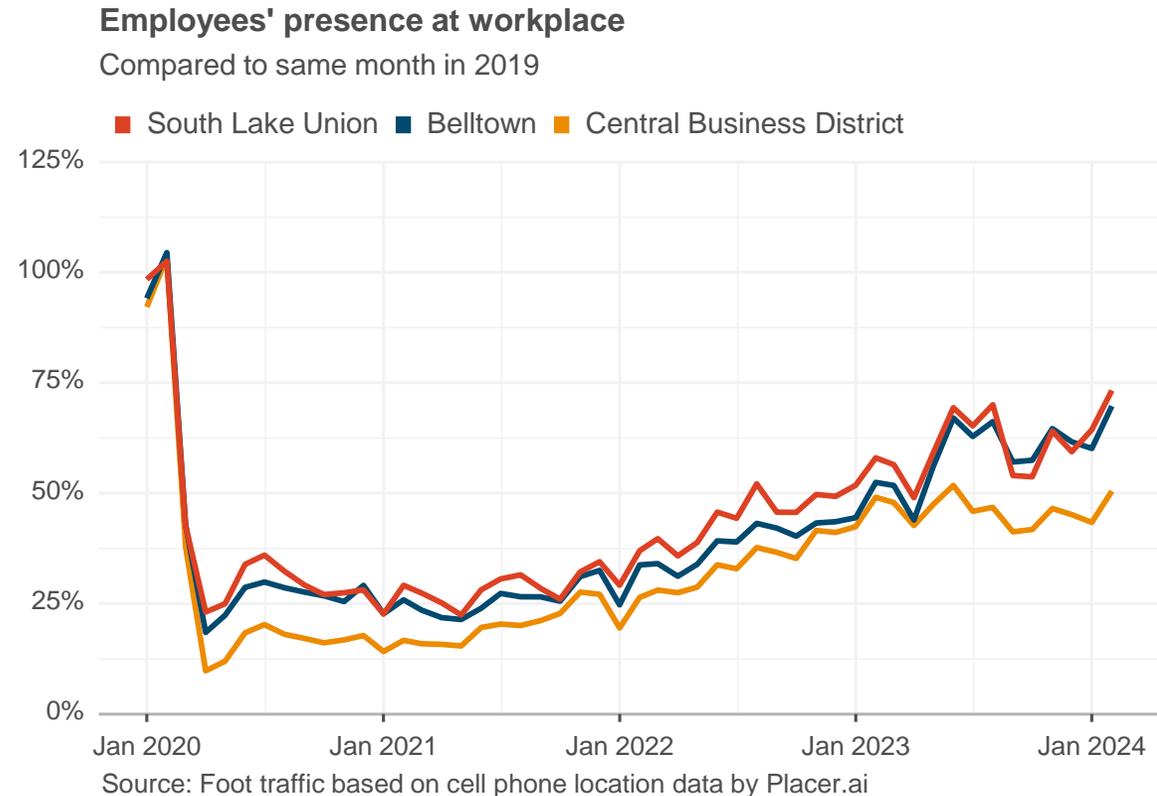
# Tech sector weighted down on regional employment growth in 2023

- Several factors have negatively affected the region's recent economic performance.
- There was a rather dramatic reversal in the technology sector, which has been a key driver of the region's post-pandemic recovery.
- From the second half of 2022, announcements of layoffs were accompanied by declining stock prices and resulted in a pullback in regional consumer spending.
- Seattle area workers have also lagged the national trends on return to office.
- Altogether, these factors led to a sharp reduction in demand for office space and rising office vacancy rates, which combined with high interest rates resulted in a slowdown of construction activity after a decade of construction boom.
- By December 2023, seasonally adjusted regional employment in the construction sector has declined 4.8% from its peak in summer 2022.



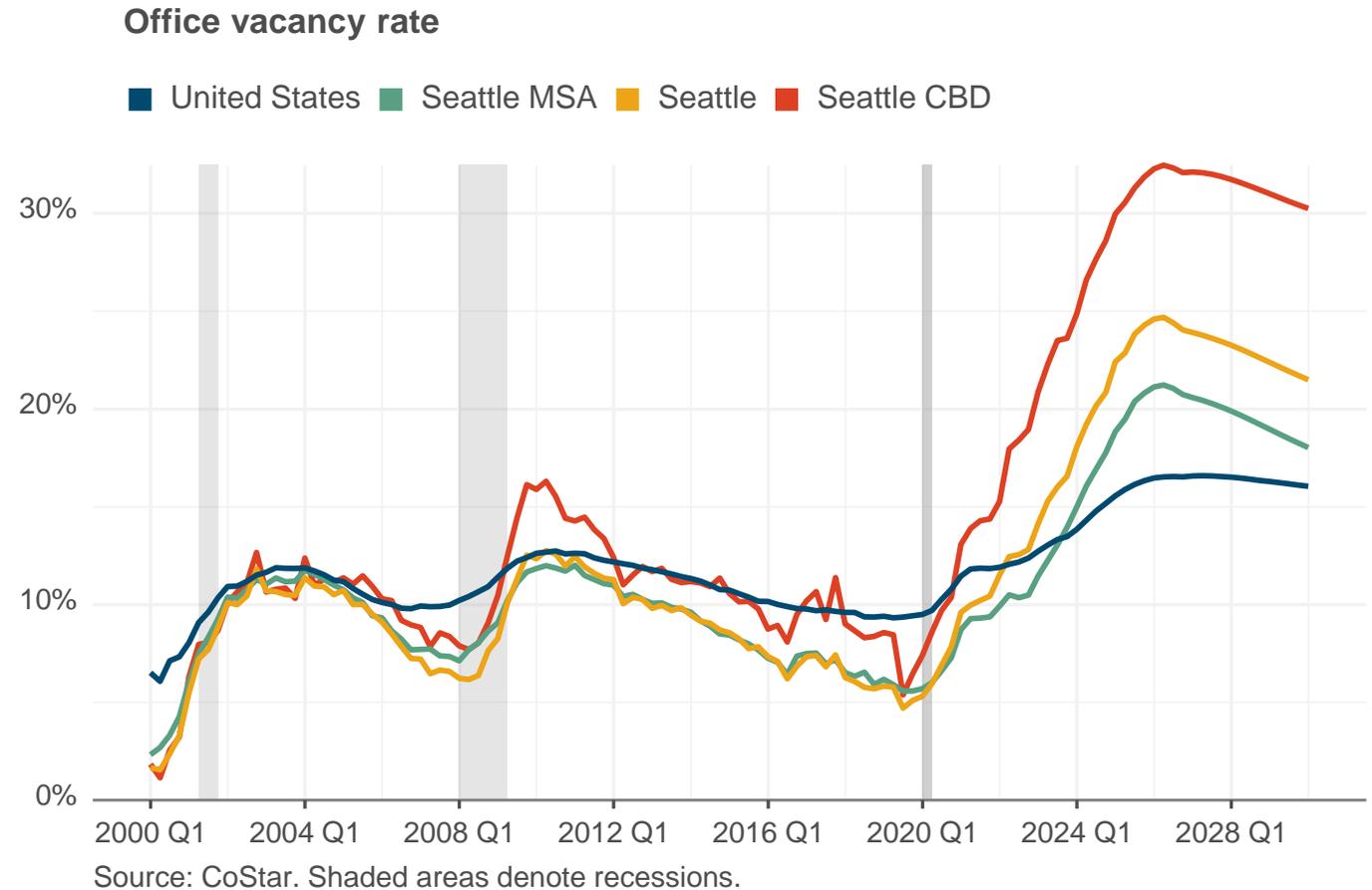
# Return to office was slow but steady over past two years

- 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.
- Overall trends show a slow but steady return to the office across the city.
- Amazon's move to three days in the office in Spring 2023 increased workplace presence notably in South Lake Union neighborhood.
- Central Business District lags in recovery and showed limited improvement in 2023.



# Less construction activity is expected in near term

- Technology sector appears to have stabilized, but demand for office space remains low and some leases that will expire will not be renewed.
- The office vacancy rates are thus expected to rise further before they turn around.



# Less construction activity is expected in near term

- Technology sector appears to have stabilized, but demand for office space remains low and some leases that will expire will not be renewed.
- The office vacancy rates are thus expected to rise further before they turn around.
- Federal Reserve is expected to pivot to monetary easing in the second half of 2024, but interest rates are unlikely to go back to the ultra-low levels of 2010s.
- As a result, demand for new construction will remain muted for a while.

## SDCI building permits value and construction taxable sales

Twelve month moving averages of monthly values, Index Jan 2016 = 100



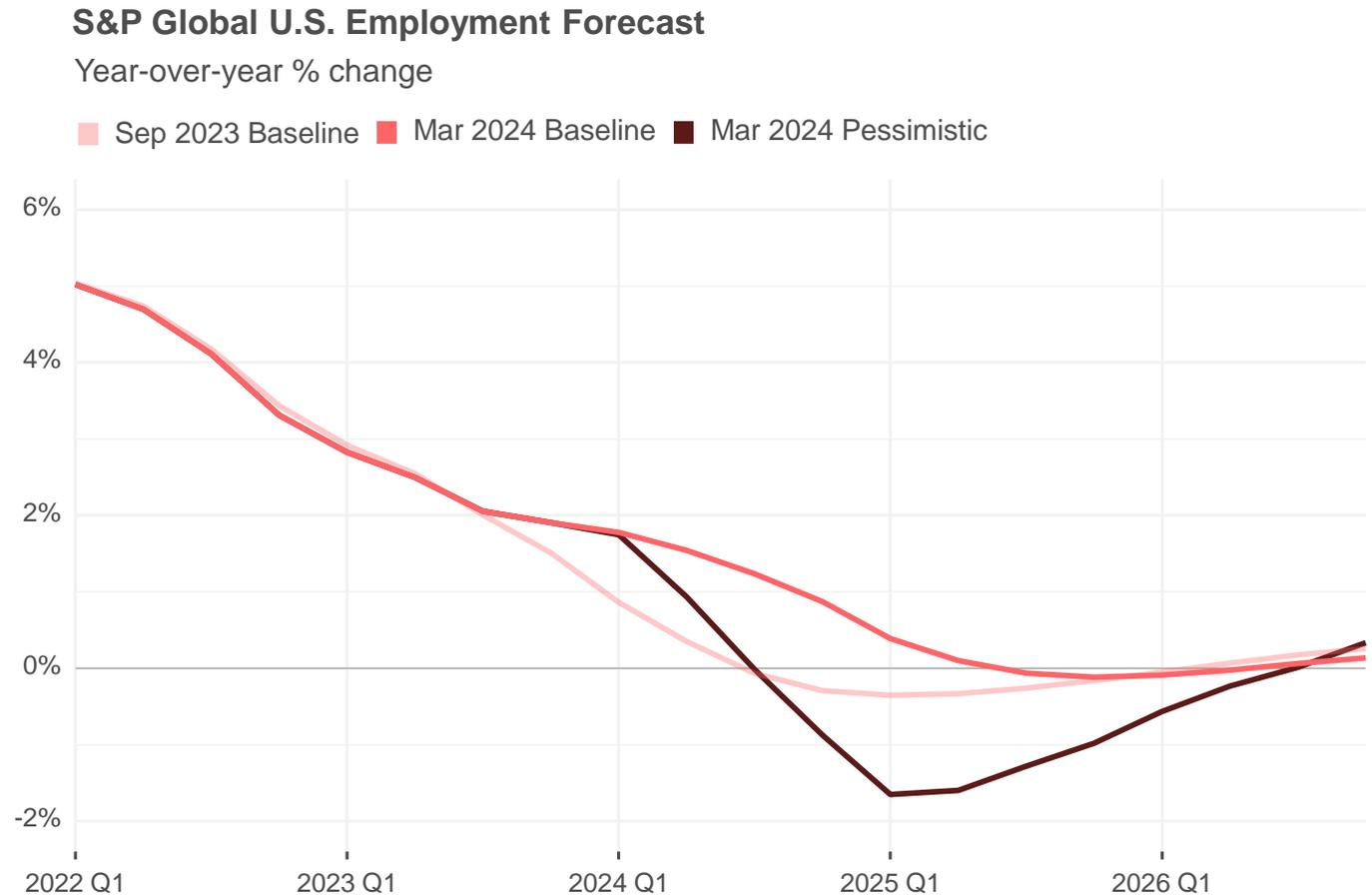
## Part 2

# Economic Outlook for U.S. and Seattle Area

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# U.S. employment forecast reflects continued strength of labor market

- U.S. employment grew about 1.8% year-over-year in the first quarter of 2024.
- The continued strength of the labor market led S&P Global to revise up the baseline scenario employment growth forecast for 2024 by more than 1%.
- Little employment growth is however expected in the following years.
- S&P Global currently assigns 55% probability to their baseline scenario, 30% to the pessimistic scenario, and 15% to the optimistic scenario.



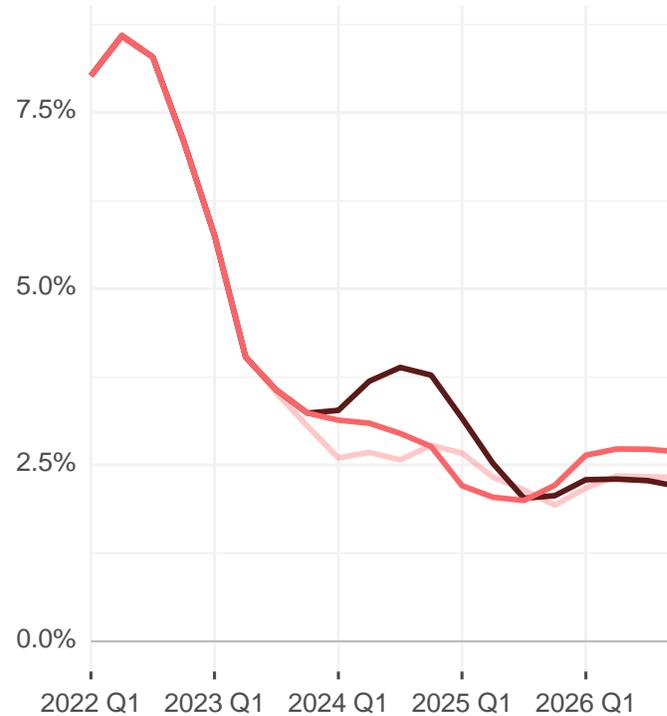
# Federal Funds interest rate and U.S. inflation forecasts

- Inflation declined notably since its peak in Summer 2022.
- While the improvements have been in recent months somewhat smaller than most economists were hoping for, Fed is expected to pivot to rate cuts in the second half of 2024.
- Continued strength of the labor market and smaller improvements with disinflation could however compel Fed to a slower approach to interest rates cuts.
- Compared to their forecast last September, S&P Global now expects CPI-U inflation to be about 0.3% higher in 2024, and comparable amount lower in 2025, before inching up again in 2026.

## S&P Global U.S. Forecast

■ Sep 2023 Baseline ■ Mar 2024 Baseline ■ Mar 2024 Pessimistic

CPI-U (% chg. year over year)

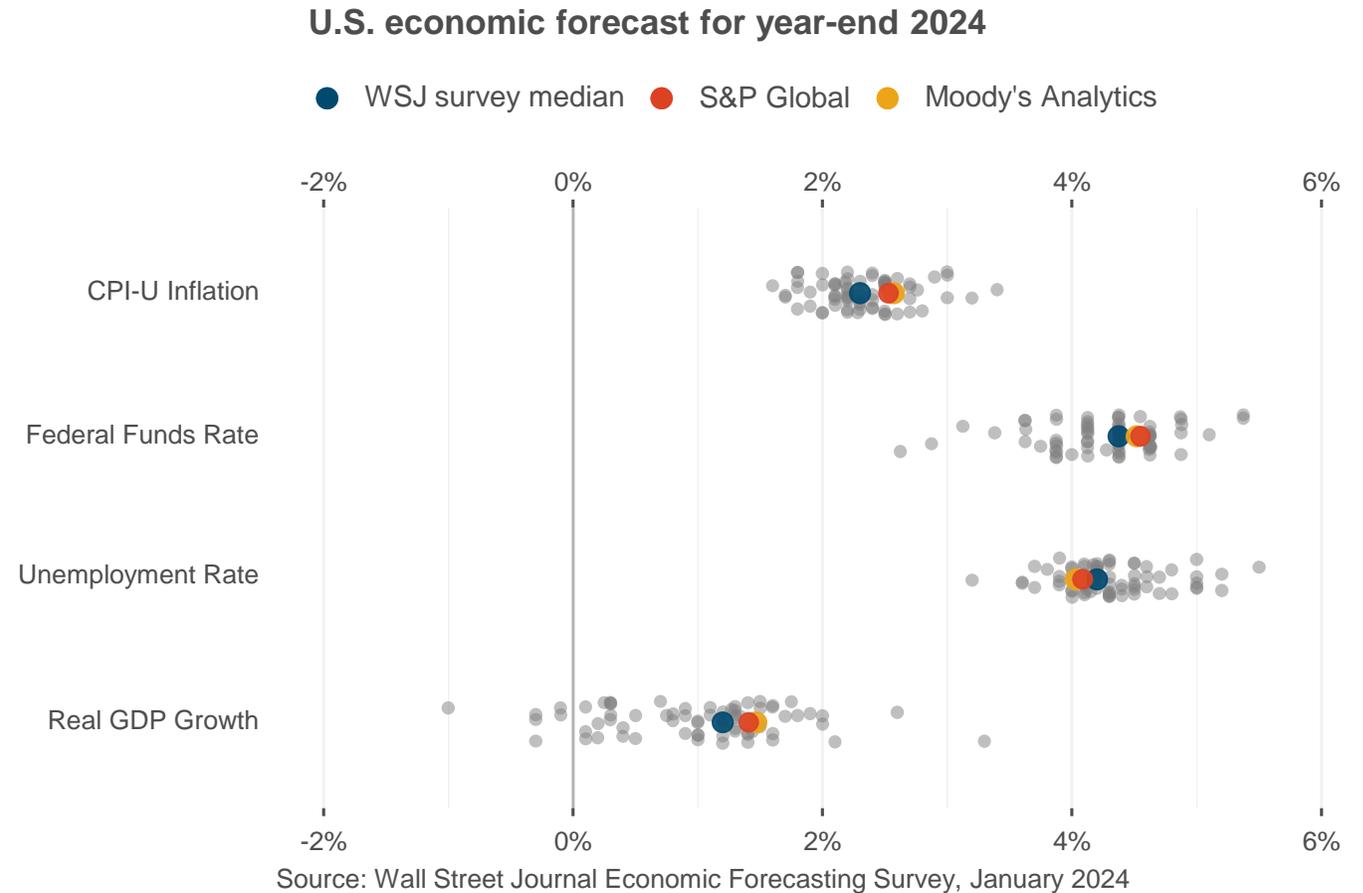


Federal funds effective rate (% per annum)



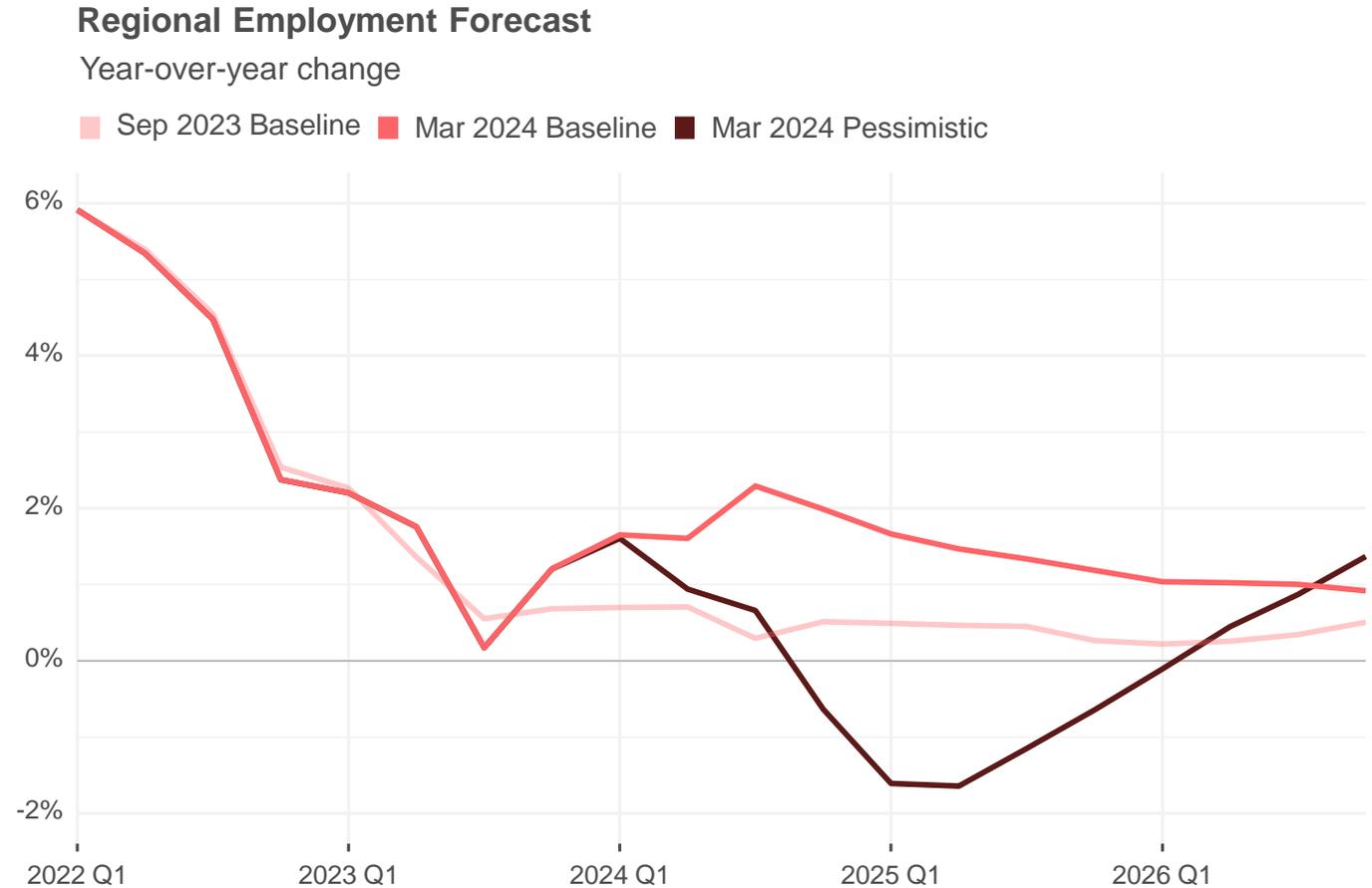
# WSJ Survey comparison of forecasts for U.S. economy

- 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).
- S&P Global baseline scenario forecast for national economy was in the January 2024 Wall Street Journal Survey of economic forecasters neither overly optimistic nor pessimistic, compared to forecasts from Moody's Analytics and the median forecast.



# Regional employment forecast for Seattle Metropolitan Division

- Employment in Seattle MD (King and Snohomish counties) grew about 1.3% year-over-year in the first two months of 2024.
- Stronger than expected job gains in Manufacturing, Leisure and Hospitality, as well as an improved outlook for the tech sector motivated an upward revision of the employment forecast growth to 1.9% in 2024, despite a weakening outlook for Construction.
- In 2025 and 2026, the employment is expected to grow 1.4% and 1% respectively.



# Forecast scenario recommendation

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## Summary and Context

- S&P Global assigns a 55% probability to their baseline scenario. Their baseline forecast for national economy is neither overly optimistic nor pessimistic, compared to forecasts from Moody's Analytics and the median in the Wall Street Journal Survey of economic forecasters.
- Our regional economic projections are consistent with the slowing growth forecast at the national level, they have been adjusted to reflect revised information about regional employment and income.
- Regional employment grew slower than in U.S. economy in 2023. There was a net loss of a significant number of regional jobs in the information and professional business services sectors, but these appear to have bottomed out.
- Construction sector is expected to decline and continue to weight down on regional growth in the short term, as a result of higher interest rates and increasing office vacancy rates.
- But even though there are a number of risks which can result in regional or local economy to notably underperform the U.S. economy, and can have significant negative impact on certain revenue streams, at this point we still consider the baseline scenario regional economic and revenue forecasts to be the most likely future outcome.

## Conclusion

The Forecast Office recommends using the baseline scenario for the April 2024 Revenue Forecast.

# Part 3

## 2023 Revenue Actuals and Forecast for 2024-2026

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# General Fund Revenues - 2023 Actuals vs Forecast (\$ millions)

Revenue Source	2023			
	Forecast Oct. 2023, \$ mil.	Actual Revenues, \$ mil.	Variance from Forecast, \$mil.	Variance from Forecast, %
Property Tax (Including Medic One Levy)	\$379.3	\$377.8	-\$1.5	-0.4%
Retail Sales Tax	\$348.0	\$339.9	-\$8.1	-2.3%
Business & Occupation Tax	\$355.4	\$356.2	\$0.8	0.2%
Utility Tax - Private	\$42.6	\$43.2	\$0.7	1.6%
Utility Tax - Public	\$192.9	\$185.7	-\$7.2	-3.7%
Other City Taxes	\$13.8	\$14.1	\$0.3	2.0%
Parking Meters	\$36.6	\$37.0	\$0.3	0.9%
Court Fines	\$22.3	\$24.0	\$1.7	7.5%
Revenue from Other Public Entities	\$18.9	\$19.1	\$0.2	0.9%
Grants	\$73.3	\$34.1	-\$39.2	-53.4%
Fund Balance Transfers	\$81.3	\$80.5	-\$0.8	-1.0%
Service Charges & Reimbursements	\$76.0	\$76.2	\$0.2	0.2%
Licenses, Permits, Interest Income and Other	\$77.0	\$77.6	\$0.6	0.8%
Payroll Expense Tax	-\$0.4	\$3.6	\$4.1	
<b>Total</b>	<b>\$1,717.0</b>	<b>\$1,669.1</b>	<b>-\$48.0</b>	<b>-2.8%</b>
<b>Total w/o Grants and Transfers</b>	<b>\$1,562.4</b>	<b>\$1,554.4</b>	<b>-\$8.0</b>	<b>-0.5%</b>

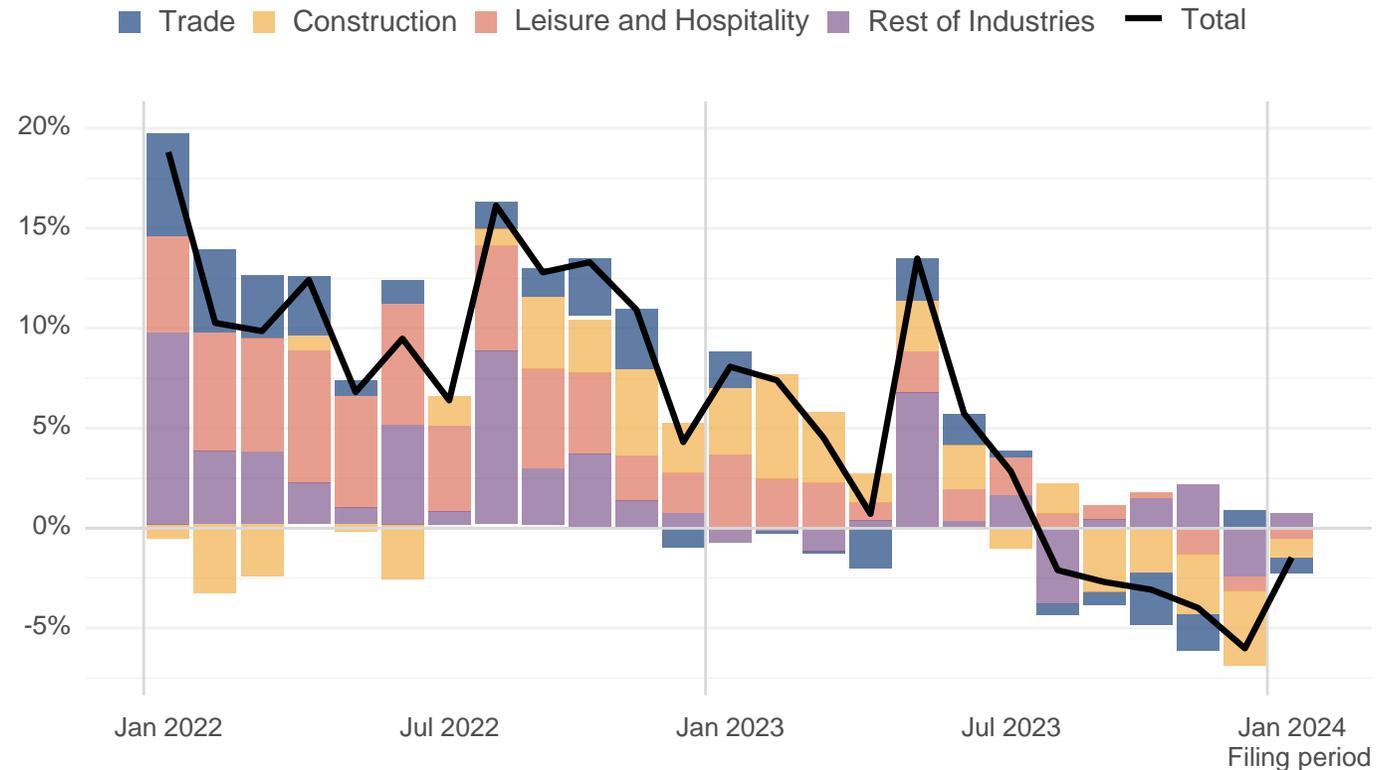


# Sales tax revenue collection underperformed unexpectedly in 2023

- Sales tax revenue collection deteriorated sharply after the October 2023 forecast.
- October 2023 forecast expected a downturn in construction sector in 2024, but the declines started already in the second half of 2023
- Taxable sales in other sectors showed surprising weakness in the second half of 2023 as well, and in several cases actually declined year-over-year in the last couple of months.
- Sales tax underperformed similarly in the Fall 2023 forecast by King County's OEFA, by 2%, and the WWU's Center for Economic and Business Research forecast for King County, by 3.5%.

## Sales Tax Revenue

Total year-over-year % change and decomposition by industry



# Large economically driven taxes - 2023 revenues by industry

More than half of the total sales tax revenue comes from just two sectors:

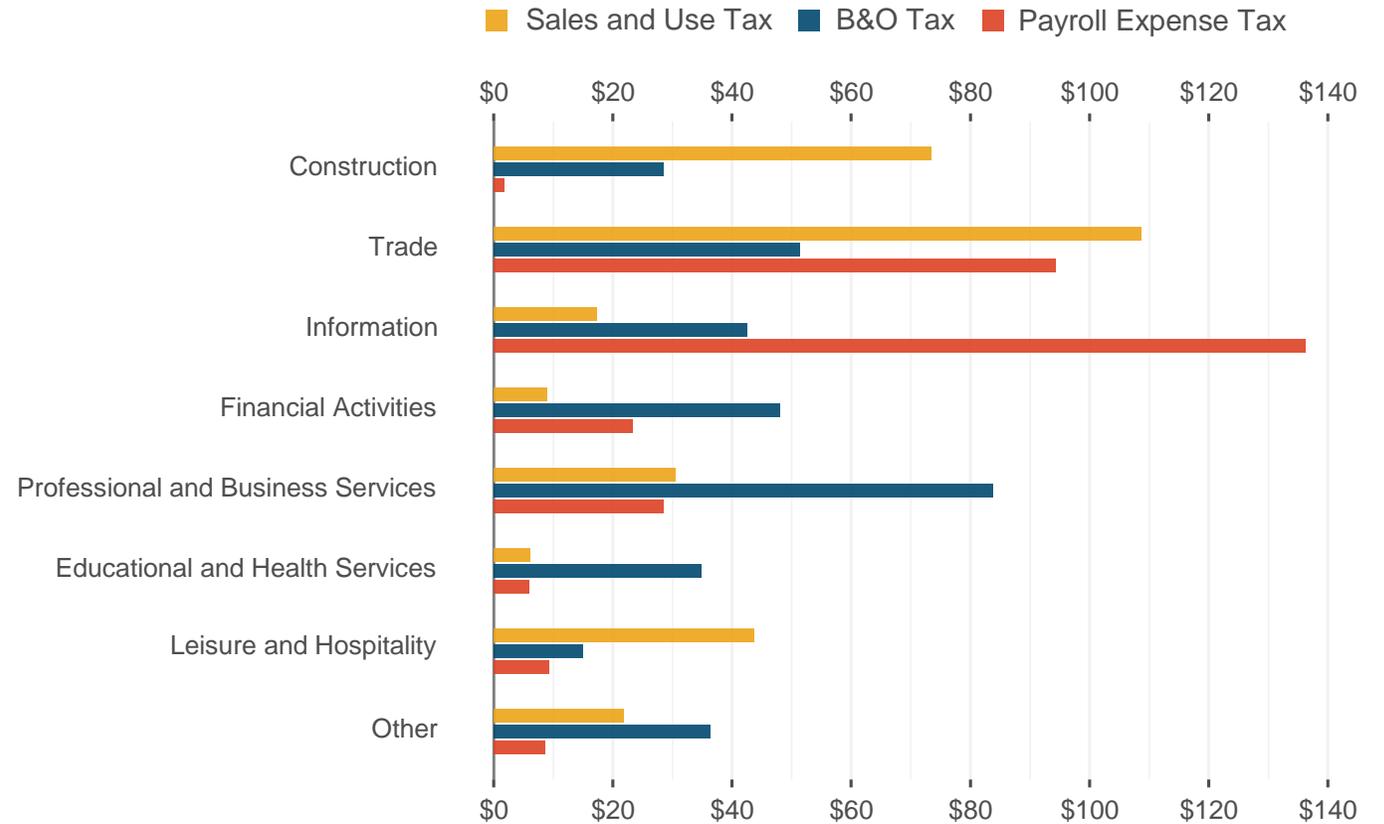
- Trade accounts for slightly more than a third.
- About one quarter was in previous years generated by construction sector.

Tax base for B&O is well diversified, though professional and business services constitute a notably bigger share than other sectors.

Payroll expense tax is paid by less than 500 companies and is highly concentrated at the top:

- In 2023, top 100 companies accounted for more than 90% of the tax revenue
- About 70% was generated from just ten companies, with eight of them in the tech sector.

Tax revenue by industry, 2023 (\$ million)



# General Fund Revenues - Baseline Scenario Forecast (\$ millions)

Revenue Source	2023	2024			2025	2026
	Actuals	Adopted	April Forecast	Difference	April Forecast	April Forecast
Property Tax (Including Medic One Levy)	\$377.8	\$385.5	\$382.9	-\$2.6	\$391.6	\$390.9
Retail Sales Tax	\$339.9	\$355.4	\$338.8	-\$16.6	\$352.7	\$367.0
Business & Occupation Tax	\$356.2	\$368.2	\$363.7	-\$4.5	\$385.1	\$413.0
Utility Tax - Private	\$43.2	\$38.4	\$37.8	-\$0.7	\$35.9	\$34.5
Utility Tax - Public	\$185.7	\$198.8	\$214.3	\$15.5	\$211.0	\$219.3
Other City Taxes	\$14.1	\$13.4	\$14.3	\$0.9	\$15.0	\$15.7
Parking Meters	\$37.0	\$45.7	\$40.3	-\$5.5	\$43.5	\$45.6
Court Fines	\$24.0	\$19.6	\$19.4	-\$0.2	\$20.0	\$20.0
Revenue from Other Public Entities	\$19.1	\$19.0	\$19.7	\$0.7	\$20.2	\$20.7
Grants	\$34.1	\$17.6	\$65.0	\$47.4	\$14.5	\$11.6
Fund Balance Transfers	\$80.5	\$94.9	\$95.8	\$0.9	\$7.3	\$7.3
Service Charges & Reimbursements	\$76.2	\$72.7	\$80.8	\$8.0	\$77.9	\$79.3
Licenses, Permits, Interest Income and Other	\$77.6	\$68.3	\$72.9	\$4.6	\$69.7	\$68.9
Payroll Tax - 2021 obligations	\$3.6	\$0.0	-\$3.4	-\$3.4	\$0.0	\$0.0
<b>Total</b>	<b>\$1,669.1</b>	<b>\$1,697.5</b>	<b>\$1,742.2</b>	<b>\$44.7</b>	<b>\$1,644.4</b>	<b>\$1,693.8</b>
<b>Total w/o Grants and Transfers</b>	<b>\$1,554.4</b>	<b>\$1,585.1</b>	<b>\$1,581.5</b>	<b>-\$3.6</b>	<b>\$1,622.5</b>	<b>\$1,674.9</b>

Annual Growth w/o Grants and Transfers	-0.9%	2.0%	1.7%	2.6%	3.2%
Seattle MSA CPI-U inflation	5.7%	5.7%	3.8%	2.7%	2.9%

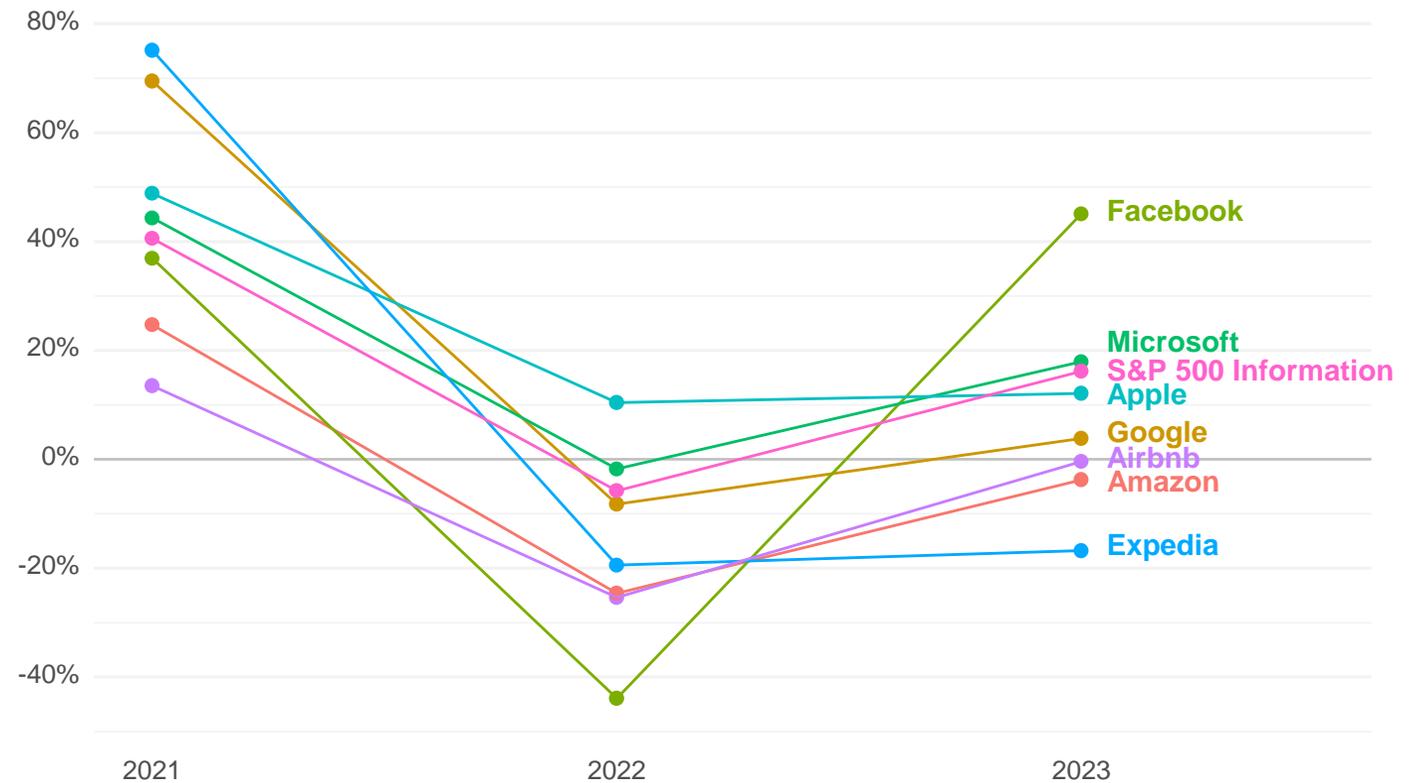
# Selected Other Revenues - Baseline Scenario Forecast (\$ millions)

Revenue Source	2023	2024			2025	2026
	Actuals	Adopted	April Forecast	Difference	April Forecast	April Forecast
Payroll Expense Tax - w/o 2021 obligations	\$313.3	\$325.7	\$394.7	\$69.0	\$416.1	\$436.7
REET	\$47.9	\$52.3	\$52.3	\$0.0	\$65.4	\$79.0
Admission Tax	\$25.3	\$24.4	\$25.8	\$1.4	\$26.6	\$27.3
Sweetened Beverage Tax	\$21.5	\$21.2	\$21.8	\$0.6	\$22.3	\$22.7
Short Term Rental Tax	\$11.4	\$11.9	\$11.7	-\$0.1	\$12.6	\$12.8
STBD Sales Tax	\$53.1	\$55.4	\$52.9	-\$2.5	\$55.1	\$57.4
STBD Vehicle License Fee	\$16.5	\$20.6	\$20.0	-\$0.7	\$20.9	\$21.2
Commercial Parking Tax	\$51.7	\$48.9	\$51.4	\$2.5	\$53.5	\$55.6

# Payroll expense tax revenue is to a large extent driven by stock prices

- For many employers, the total compensation paid to their employees includes the value of stock grants, making the taxable payroll highly dependent on the behavior of stock prices.
- This further exacerbating the volatility of payroll expense tax due to a narrow tax base.
- Taxpayers are required to file quarterly, but quarterly payments can and are mostly estimated as 25% of the total obligation for previous year, with “true up” when filing Q4 returns in February following year.
- For 2023 obligations, total payments for Q4 returns account for about 40% of the overall revenue collected.

Year-over-year change in average stock price



Source: Yahoo Finance

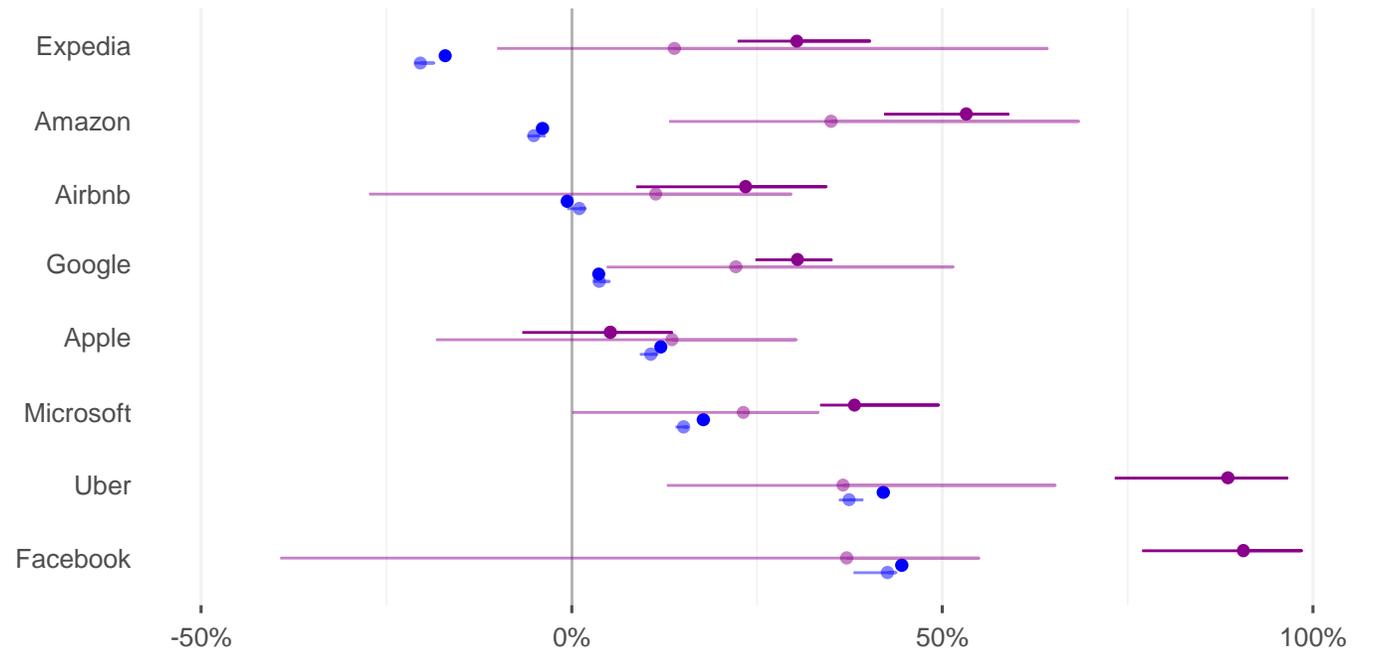
# Stock prices are expected to post strong growth in 2024

- S&P Global now expects the S&P 500 index to grow about 20% in 2024, up from essentially no growth expected in September 2023 forecast
- Stock market is then expected to grow only 1% in 2025 and decline about 2% in 2026

## Year-over-year expected change in stock prices

Low, average and high estimates

● Oct '23 forecast for 2023 ● Apr '24 forecast for 2023 ● Oct '23 forecast for 2024 ● Apr '24 forecast for 2024



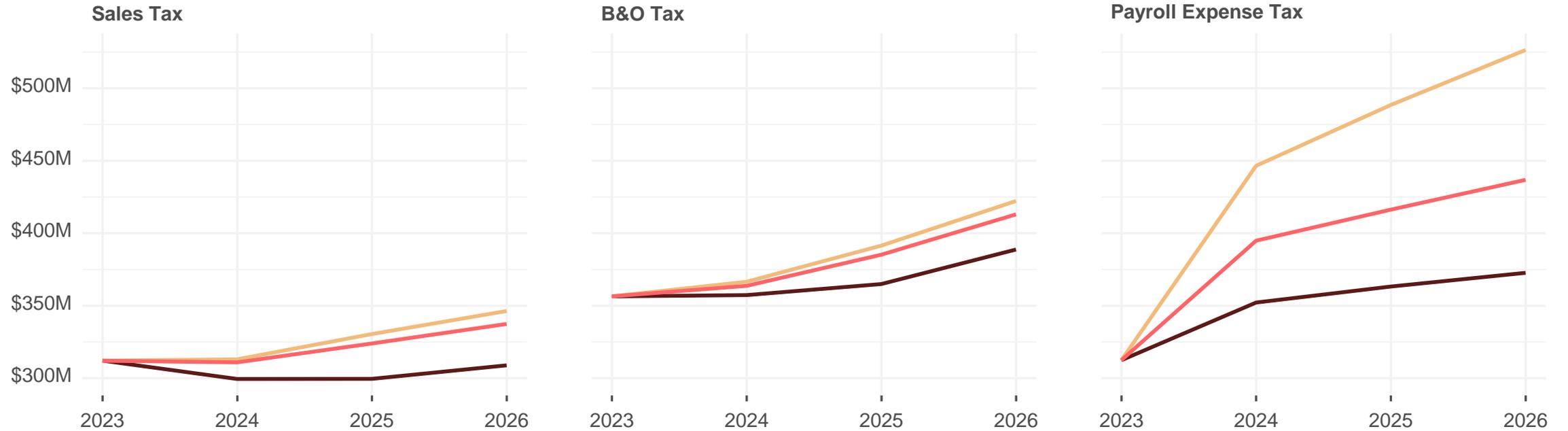
Source: Wall Street Journal, stock price targets from analyst ratings

# How Do Forecasts Vary Across Scenarios?

## Tax Revenue Forecasts, Scenario Comparison

Millions of dollars

■ Baseline ■ Optimistic ■ Pessimistic



# 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 - Optimistic			Difference - Pessimistic		
	2024	2025	2026	2024	2025	2026
Retail Sales Tax	\$2.3	\$7.1	\$9.6	-\$12.9	-\$27.7	-\$32.3
Business & Occupation Tax	\$2.8	\$6.3	\$9.3	-\$6.4	-\$20.2	-\$24.2
<b>Total General Fund</b>	<b>\$15.5</b>	<b>\$24.5</b>	<b>\$32.4</b>	<b>-\$30.8</b>	<b>-\$66.3</b>	<b>-\$77.9</b>
Payroll Expense Tax - w/o 2021 obligations	\$51.8	\$72.3	\$89.8	-\$42.6	-\$53.0	-\$64.1
REET	\$3.8	\$5.0	\$6.0	-\$4.1	-\$8.7	-\$5.8

# Questions?

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# Appendix

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# General Fund Revenue, 2022 and 2023

Revenue Source	2022 Actual Revenues, \$ mil.	2023 Actual Revenues, \$ mil.	Year/Year Change, \$mil	Year/Year % Change
Property Tax (Including Medic One Levy)	\$371.8	\$377.8	\$6.0	1.6%
Retail Sales Tax	\$331.2	\$339.9	\$8.7	2.6%
Business & Occupation Tax	\$331.6	\$356.2	\$24.5	7.4%
Utility Tax - Private	\$41.9	\$43.2	\$1.4	3.3%
Utility Tax - Public	\$192.8	\$185.7	-\$7.2	-3.7%
Other City Taxes	\$14.5	\$14.1	-\$0.4	-2.9%
Parking Meters	\$23.9	\$37.0	\$13.1	55.0%
Court Fines	\$13.3	\$24.0	\$10.7	79.9%
Revenue from Other Public Entities	\$18.4	\$19.1	\$0.6	3.5%
Grants	\$23.3	\$34.1	\$10.8	46.4%
Fund Balance Transfers	\$150.9	\$80.5	-\$70.4	-46.7%
Service Charges & Reimbursements	\$132.5	\$76.2	-\$56.3	-42.5%
Licenses, Permits, Interest Income and Other	\$50.9	\$77.6	\$26.7	52.5%
Payroll Tax	\$45.0	\$3.6	-\$41.3	-91.9%
<b>Total General Fund</b>	<b>\$1,742.1</b>	<b>\$1,669.1</b>	<b>-\$73.0</b>	<b>-4.2%</b>
<b>Total General Fund Less Grants and Transfers</b>	<b>\$1,567.8</b>	<b>\$1,554.4</b>	<b>-\$13.4</b>	<b>-0.9%</b>

# Selected Other Revenues, Forecast for 2024-2026 (\$ millions)

## Non-General Fund Revenues of Note

Revenue Source	2022 Actual Revenues, \$ mil.	2023 Actual Revenues, \$ mil.	Year/Year Change, \$mil	Year/Year % Change
Payroll Tax	\$253.1	\$313.3	\$60.3	23.8%
REET	\$91.4	\$47.9	(\$43.5)	-47.6%
Admission Tax	\$21.7	\$25.3	\$3.7	17.0%
Sweetened Beverage Tax	\$20.2	\$21.5	\$1.3	6.3%
Short-Term Rental Tax	\$9.9	\$11.4	\$1.5	15.5%

## Transportation Specific Revenues

Revenue Source	2022 Actual Revenues, \$ mil.	2023 Actual Revenues, \$ mil.	Year/Year Change, \$mil	Year/Year % Change
Trans. Ben. Dist. - Sales Tax	\$51.9	\$53.1	\$1.2	2.3%
Trans. Ben. Dist. - VLF	\$16.0	\$16.5	\$0.6	3.6%
Commercial Parking Tax	\$37.7	\$51.7	\$14.0	37.2%
SSTPI - School Zone Speed Enforcement	\$8.5	\$12.7	\$4.2	49.3%

# Comparison of Sales and Use Tax Forecasts for 2024

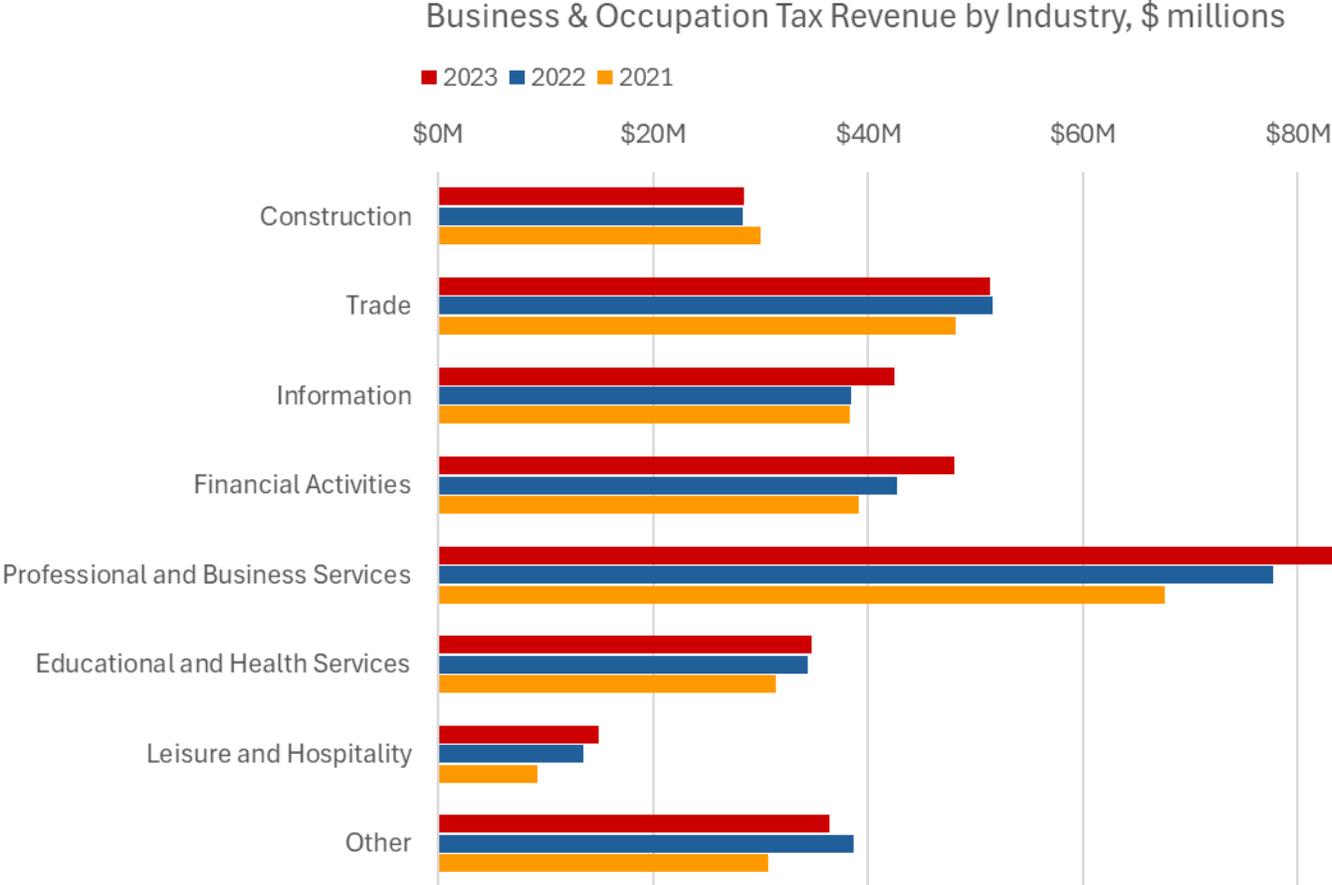
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		Forecasts for 2023		Forecasts for 2024	
		Fall 2023	Actual	Fall 2023	Spring 2024
OERF	Seattle city	4.9%	2.5%	1.9%	-0.4%
CBER WWU	King County	5.4%	1.9%	4.9%	0.0%
OEFA	King County	3.6%	1.6%	2.7%	4.2%
ERFC	Washington State		5.7%	1.8%	1.0%

Note: CBER WWU figures are taxable sales forecasts, all other are sales tax revenue forecasts.

# Business and Occupation Tax

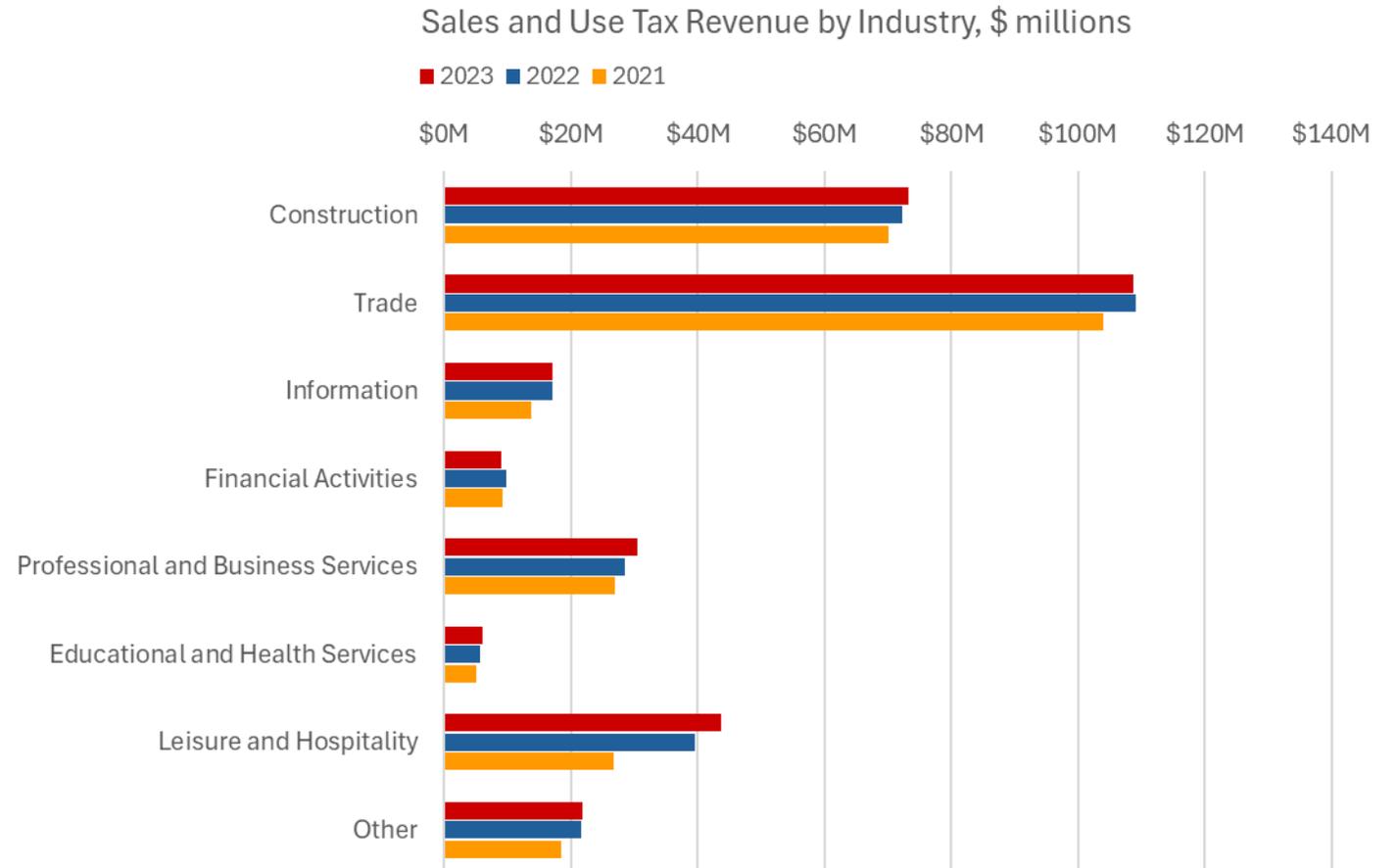
Tax base for B&O is well diversified, though professional and business services constitute a notably bigger share than other sectors.



# Sales and Use Tax

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.



# Payroll Expense Tax

- Payroll expense tax is paid by less than 500 companies and is highly concentrated at the top
  - In 2023, top 100 companies accounted for more than 90% of the tax revenue
  - About 70% was generated from just ten companies, with eight of these ten companies operating in the tech sector.

