

Economic Update

Monthly update on economic issues affecting Seattle's tax revenue performance

DECEMBER 2002

ECONOMY

U.S. Economy: For the U.S. economy, 2002 has been a year of recovery, albeit a very weak and uneven one, from the 2001 recession. Supporting the recovery have been low interest rates, federal tax cuts, and increased spending for defense and homeland security. Holding back the recovery has been a steady stream of news about corporate accounting scandals, lavish executive compensation, faulty Wall Street research, and other chicanery by corporations, executives, and Wall Street.

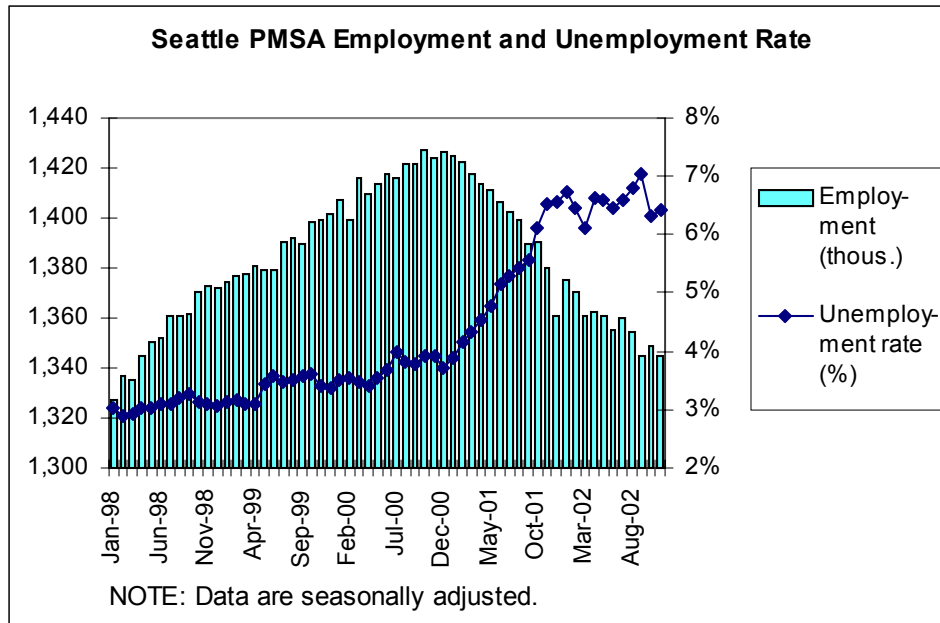
The economy's improvement was most evident in the first half of the year, which saw rising industrial production, improving consumer confidence, healthy consumer spending, and a strong housing market. In mid-2002, the economy began to falter. The stock market declined, hitting a low in October, industrial production and consumer confidence turned down, and employment, which had begun to show signs of life, went flat.

Fearing the economy might fall back into recession, the Federal Reserve cut interest rates by 0.5% in early November. Since that time, there have been some signs of improvement, including an upturn in the stock market, a small rise in consumer confidence, and a drop in the number of initial claims for unemployment compensation.

Looking to the future, most economists expect the economy to continue improving at a slow pace. Additional fiscal stimulus, probably in the form of additional tax cuts and increased federal spending, is expected in 2003. Investment spending is expected to increase following two years of decline, and labor market conditions should improve in the second half of 2003.

Puget Sound Region Economy: Unlike the national economy, the Puget Sound Region's economy has yet to show signs of improvement. In October, Weyerhaeuser announced it would cut 1,200 jobs at King County facilities. Boeing followed in November by announcing plans to cut 5,000 more jobs in its commercial aircraft division, most of them in the Puget Sound Region.

With major employers continuing to shed workers, regional employment continues to decline, though economists believe we are at or near the bottom of the downturn (see chart below). Over the two year period November 2000 – November 2002 the Seattle PMSA lost 80,200 jobs, a decline of 5.6%. Statewide job loss over the same 2 year period was 87,100, which means that the Seattle PMSA accounted for over 90% of the state's loss. After rising rapidly throughout 2001, the region's unemployment rate has more-or-less stabilized in 2002 in the 6% - 7% range.



With more job reductions coming at Boeing and Weyerhaeuser and continued weakness in the national economy, forecasts for the region's economy have been scaled back. According to the latest forecast by the Puget Sound Region Economic Forecaster, regional employment will be almost flat (0.3% growth) in 2003, with modest growth of 1.8% expected in 2004. Aerospace employment is not expected to begin increasing until 2005. The forecast anticipates that it will take until 3rd quarter 2005 for the region's employment to climb back to its pre-recession peak attained in 4th quarter 2000 - a period of 4¾ years.

Monthly Cash Update

Comparing year-to-date revenues for general fund taxes and other major revenues with adopted forecast.

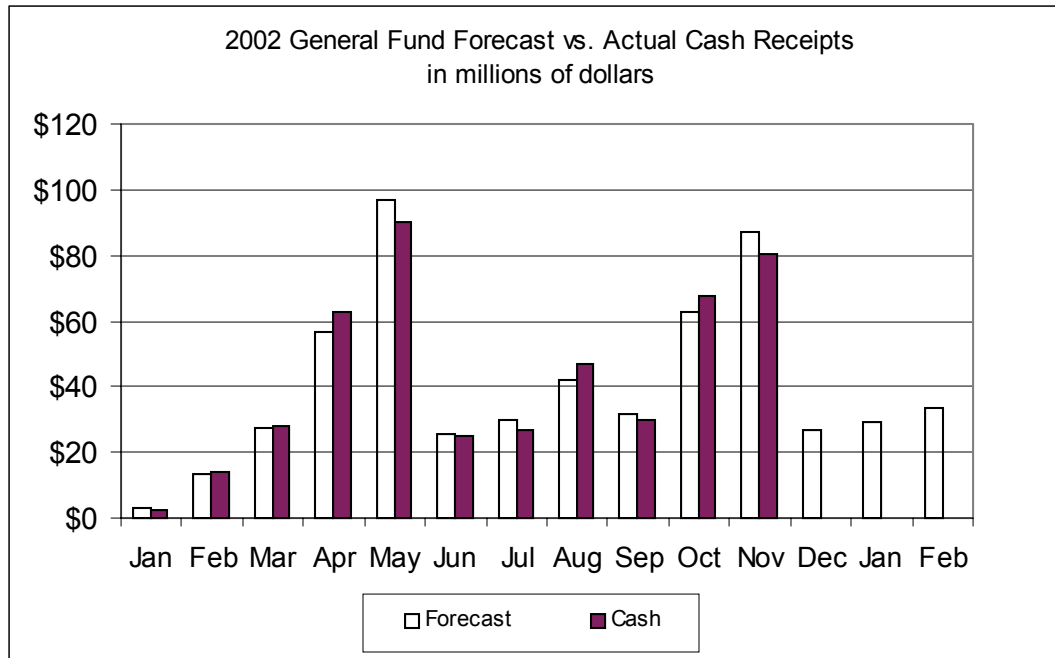
CITY REVENUE

Year-to-date through November 2002: The following describes how actual 2002 collections for the most important general subfund revenues, through November, compare to the forecast prepared in August 2002. The presented forecast revises the one prepared the previous November and benefits from the tally of several more months of actual receipts. Overall, the forecast lags actuals by \$2 million; with a big chunk due to declining telephone revenues. Offsetting telephone revenues is B&O tax revenue, which is about \$1 million over forecast. The following describes the notable differences in fuller detail.

Telephone: Although wireless activity remains positive, the telecom industry has shown severe contraction in 2002. The lackluster economy continues to harm telecom revenues amid restructuring in the industry as carriers shift positions in providing service to the end user. The long distance market has been in a slow declining mode for several years as substitution to cellular use has grown; however, the demand for long distance fell at an increasing rate in 2002. All large long-distance carriers have posted revenue declines by over 30% from last year.

Sales and B&O: With 3 months elapsed since the forecast was made, B&O tax revenue is \$1 million above forecast while sales tax revenue is nearly \$1 million short of forecast. Roughly half of the B&O gain is due to larger than expected audit revenue; the other half is due to stronger than expected growth in 3rd quarter taxable economic activity. The shortfall in sales tax receipts is due to almost entirely to a transfer

of \$818,000 of sales tax revenue from Seattle to another King County city. The transfer returns to that city sales tax revenue that was wrongly paid to Seattle in 2001 and the first half of 2002.



2002 Major General Fund Revenues through November, including REET, compared to revised budget

	YEAR TO DATE				COMPARISON TO 2001		
	Cumulative Forecast	Actual	Difference	Percent	Cumulative 2001	Yr/Yr Difference	Yr/Yr Cumulative
PROPERTY TAXES							
General + EMS	170,521,000	170,476,000	-45,000	0.0%	161,122,000	9,354,000	5.8%
Leasehold Excise Tax	2,743,000	2,850,000	107,000	3.9%	3,063,000	-213,000	-7.0%
Real estate excise tax (REET)	19,202,000	20,612,000	1,410,000	7.3%	19,035,000	1,577,000	8.3%
RETAIL SALES TAX							
General	85,085,000	84,219,000	-866,000	-1.0%	89,513,000	-5,294,000	-5.9%
Criminal Justice	7,948,000	7,968,000	20,000	0.3%	8,395,000	-427,000	-5.1%
BUSINESS TAXES AND OTHER							
Business and Occupation	85,008,000	86,046,000	1,038,000	1.2%	82,292,000	3,754,000	4.6%
Utilities - City Light	25,585,000	25,669,000	84,000	0.3%	22,200,000	3,469,000	15.6%
Utilities - City Water	6,355,000	5,997,000	-358,000	-5.6%	5,587,000	410,000	7.3%
Utilities - City Drainage/Waste Water	10,443,000	10,661,000	218,000	2.1%	9,475,000	1,186,000	12.5%
Utilities - City Solid Waste & Garbage	6,571,000	6,321,000	-250,000	-3.8%	6,619,000	-298,000	-4.5%
Utilities - Cable Television	6,503,000	6,452,000	-51,000	-0.8%	6,198,000	254,000	4.1%
Utilities - Telephone	26,552,000	24,809,000	-1,743,000	-6.6%	27,090,000	-2,281,000	-8.4%
Utilities - Private Energy	8,311,000	8,457,000	146,000	1.8%	8,844,000	-387,000	-4.4%
Admission Tax	3,940,000	4,183,000	243,000	6.2%	5,413,000	-1,230,000	-22.7%
Court Fines and Forfeitures	13,242,000	13,039,000	-203,000	-1.5%	13,646,000	-607,000	-4.4%
Interest Income	3,110,000	2,720,000	-390,000	-12.5%	3,480,000	-760,000	-21.8%
Parking Meters	8,826,000	8,734,000	-92,000	-1.0%	9,080,000	-346,000	-3.8%
Misc. Revenues	4,768,000	4,817,000	49,000	1.0%	4,906,000	-89,000	-1.8%
TOTAL (not including REET)	475,511,000	473,418,000	-2,093,000	-0.4%	466,923,000	8,072,000	1.4%