

Economic Update

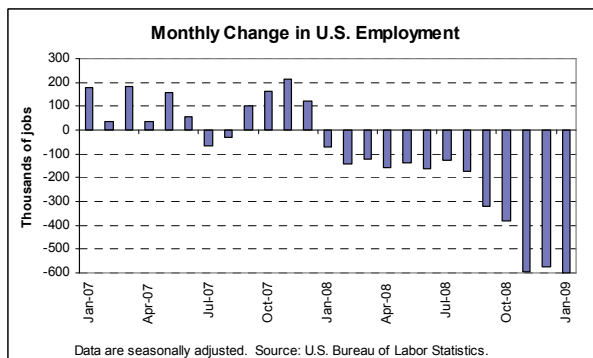
Update on economic issues affecting Seattle's tax revenue performance

The newsletter of the City of Seattle's Economics Team/February 2009

February U.S. Employment Report.

The U.S. economy lost 598,000 jobs in January, which pushed the unemployment rate up to 7.6% from 7.2% in December. The February report, which incorporates revisions to 2008 employment data, shows that 3.6 million jobs have been lost since the recession began in December 2007. Half of that loss has occurred in the past three months.

Employment reductions in February affected almost all industries, but were particularly heavy in manufacturing and construction. The only industries adding workers were education and health services, and the federal government.



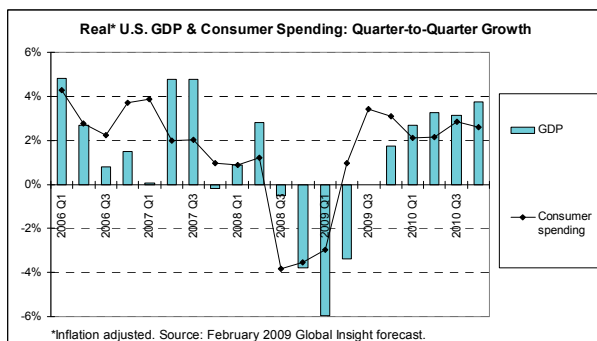
February U.S. Economic Forecast.

Perhaps the only good news in the February economic forecast is that the downward revision from the January forecast was fairly modest. This breaks a string of several months in which there were significant downward revisions from the previous month.

Global Insight's February forecast expects the economy to continue its steep decline through the first half of this year, stabilize in the second half of the year, and then begin to recover in 2010. This outcome assumes that the federal government's fiscal stimulus package and financial bailout plan are effective.

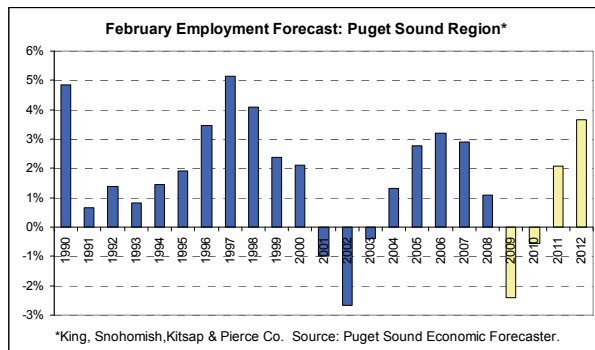
The economy enters 2009 with continuing weakness in consumer spending and housing. To make matters worse, both business equipment spending and commercial construction activity are expected to decline at double digit rates in 2009. The economy's turnaround is likely to be led by consumer spending, which Global Insight expects to turn positive in the second half of 2009. Housing construction and sales are forecast to begin increasing in the third quarter of 2009, but prices will not start rising until the second quarter of 2010.

Gross domestic product (GDP) is expected to decline for five consecutive quarters, and to drop by 3.4% from its peak in second quarter 2008 to its nadir in third quarter 2009. Employment is forecast to decline by 3.7 million in 2009, led by a loss of 1.7 million jobs in the current quarter. The recovery in employment will begin in first quarter 2010, when the unemployment rate reaches its peak of 9.4%. Global Insight expects consumer prices to fall by 1.9% during 2009, then increase by 1.7% in 2010.



February Puget Sound Region Forecast. Although the national recession began in December 2007, the region continued to grow through August 2008. However, since August the region's economy has decelerated rapidly, and is now clearly in recession.

According to the February economic forecast from the Puget Sound Economic Forecaster, which is prepared by Dick Conway and Doug Pedersen, the current recession will be the second worst since 1971, exceeded only by the 2001-03 downturn. The recession, which began in the fourth quarter of 2008, is expected to last for six quarters, with recovery beginning in the second quarter of 2010.



The region is expected to lose 67,700 jobs during the current downturn, a 3.7% decline. This compares to a loss of 82,800 jobs, a 4.8% drop, during the 2001-03 recession. The unemployment rate is expected to peak in the second quarter of 2010 at 7.4%, the highest level since 1984. During the 2001-03 recession the unemployment rate peaked at 7.0%. It didn't rise higher because at that time the economy of the rest of the nation was much healthier than the Puget Sound economy, which encouraged people to look for work outside of the region.

The February forecast predicts that the region will experience deflation during 2009, with the Seattle Consumer Price Index expected to decline by 0.5% for the year. The housing market is forecast to begin its recovery in the second half of 2009.

