

# Economic Update

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

June 2002

**U.S. Economy:** The national economy continues to recover from last year's recession, but the recovery remains weak and uneven. The labor market remains sluggish, although there were signs of modest improvement in May. May payrolls were up by 41,000 jobs, the largest monthly increase since February 2001, but a small gain in an economy with over 130 million jobs. The unemployment rate in May was 5.8%, down from 6.0% in April.

One of the factors holding back the recovery is the falling stock market. After reaching its 2002 peak in March, the broad-based S&P 500 stock market index has lost 13% of its value. A steady stream of news about questionable corporate accounting practices, inflated profits, excessively bullish advice from stock analysts, executive greed, and other ills has shaken the public's confidence in Wall Street and corporate America, causing some investors to search elsewhere for investment opportunities. Foreign investors have also reduced their appetite for U.S. stocks, in part because of the recent decline in the value of the dollar relative to other currencies.

A fall in stock prices can lead to a slowdown in consumer spending due to its impact on household wealth and consumer confidence. A stock price decline can also undermine business investment by reducing business confidence and making it more difficult for businesses to raise equity financing.

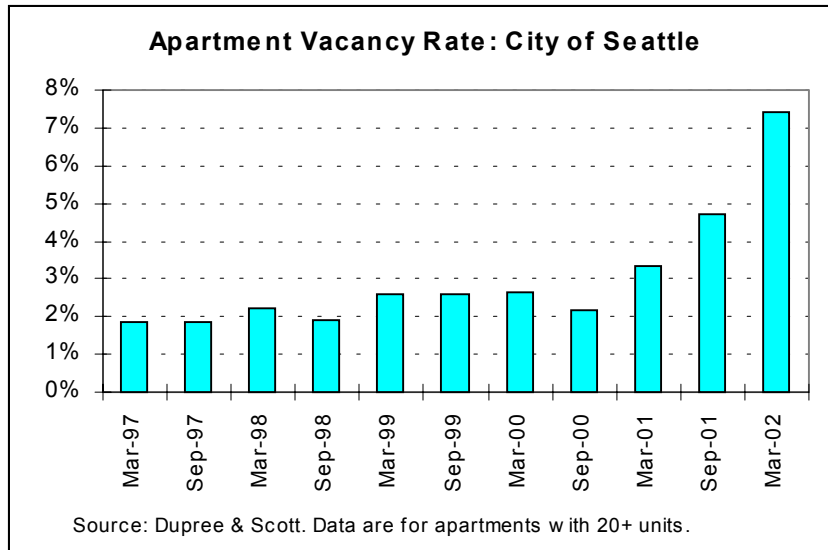
The national economic forecasting firm DRI-WEFA expects growth to remain sluggish through the 3<sup>rd</sup> quarter of this year, and then begin to pick up in the 4<sup>th</sup> quarter.

**Puget Sound Region Economy:** The May labor market report indicates that, unlike the nation, the region has yet to begin its recovery from the current recession. The Seattle PMSA (King, Snohomish, and Island Counties) unemployment rate remained unchanged from April at 6.6%, and employment has been essentially flat during the past 3 months (after adjusting for seasonal effects). Local economists expect to see the beginnings of a recovery by 4<sup>th</sup> quarter if the national economy continues to improve.

One bright spot during the recession, both locally and nationally, has been the housing market. Home sales have remained strong throughout the downturn, and prices have continued to rise, although locally the rate of price escalation has slowed since the late 1990s.

During the first five months of 2002, the number of home (single-family and condominium) sales in Seattle has increased by 12% relative to the same period in 2001, according to Northwest Multiple Listing Service (NWMLS) data. The average price for these sales is up by 4½% from last year. There is significant geographic variation in price increases, with increases highest in south and west Seattle, and more modest in north Seattle. Prices actually declined in two of the seven areas defined by the NWMLS, Queen Anne/Magnolia and Capitol Hill/Madison Park. These are the 2 most expensive areas in the city. This pattern reflects weakness at the high end of the market, but strength at the lower end.

Unlike the ownership market, the rental market has been hard hit by the recession. A combination of increasing supply and falling demand has resulted in rising vacancy rates and a moderation in rent increases. In both Seattle and the region as a whole, rents declined between September 2001 and March 2002 according to Dupree and Scott Apartment Advisors. Vacancy rates in the region have risen sharply, and are now at their highest level since 1983. In Seattle, vacancy rates have increased by over 5 percentage points between September 2000 and March 2002 (see chart below).



## Monthly Cash Update

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

### CITY REVENUE

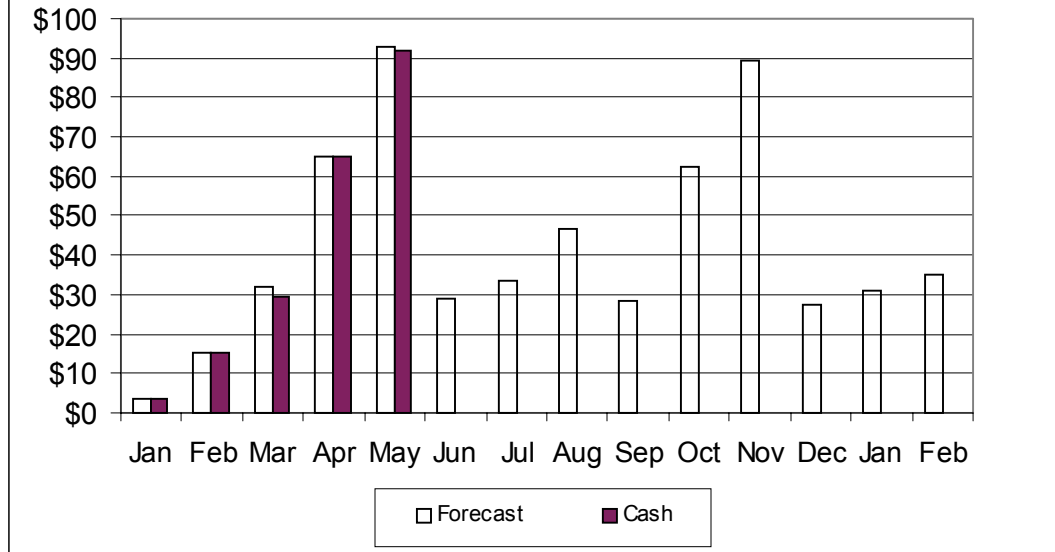
**Year-to-date through May:** The following describes how actual 2002 collections for the most important general subfund revenues, through May, compare to the forecast that was prepared in November 2001 for the adopted budget. Overall, actual revenue is lagging the forecast by 1.7%, although there is considerable variability among individual revenues. Noteworthy differences are described below.

**Property Tax:** So far, receipts from property tax are over 6% higher than this time last year. In addition to the general fund levy being increased by 1%, property tax revenue from new construction completed in 2001 added over 3% to the 2002 levy amount. Also included in this category are property tax revenue to support emergency medical services, which was reapproved by voters in 2001 at a much higher amount beginning in 2002.

**Telephone:** After many years of double-digit growth, telephone revenues have slowed considerably, lagging last year's receipts by over 10%, and coming in significantly under the forecast prepared last November. While wireless growth has tapered, it is still strong and well above inflation. Overall, revenues have been dragged down by a sharply declining long distance market and service reductions by businesses and households.

**Private Energy:** Although rates for natural gas and steam have come down since the rapid ramp up in 2001, the revenues from consumption in 2002 have been considerably stronger than forecast. This is due to a heavy rainy season and cooler-than-expected spring weather.

2002 General Fund Forecast vs. Actual Cash Receipts  
in millions of dollars



	YEAR TO DATE				COMPARISON TO 2001		
	Cumulative Forecast	Actual	Difference	Percent	Cumulative 2001	Yr/Yr Difference	Yr/Yr Cumulative
<b>PROPERTY TAXES</b>							
General + EMS	88,032,000	88,775,000	743,000	0.8%	83,421,000	5,354,000	6.4%
Leasehold Excise Tax	788,000	734,000	-54,000	-6.9%	769,000	-35,000	-4.6%
Real estate excise tax (REET)	8,388,000	8,495,000	107,000	1.3%	8,285,000	210,000	2.5%
<b>RETAIL SALES TAX</b>							
General	27,598,000	26,988,000	-610,000	-2.2%	29,693,000	-2,705,000	-9.1%
Criminal Justice	2,671,000	2,496,000	-175,000	-6.6%	2,800,000	-304,000	-10.9%
<b>BUSINESS TAXES AND OTHER</b>							
Business and Occupation	26,055,000	25,208,000	-847,000	-3.3%	27,344,000	-2,136,000	-7.8%
Utilities - City Light	11,203,000	11,763,000	560,000	5.0%	9,450,000	2,313,000	24.5%
Utilities - City Water	1,968,000	1,725,000	-243,000	-12.3%	1,642,000	83,000	5.1%
Utilities - City Drainage/Waste Water	4,644,000	4,147,000	-497,000	-10.7%	3,297,000	850,000	25.8%
Utilities - City Solid Waste & Garbage	2,735,000	2,627,000	-108,000	-3.9%	2,674,000	-47,000	-1.8%
Utilities - Cable Television	2,494,000	2,574,000	80,000	3.2%	2,625,000	-51,000	-1.9%
Utilities - Telephone	12,021,000	9,869,000	-2,152,000	-17.9%	10,960,000	-1,091,000	-10.0%
Utilities - Private Energy	4,240,000	5,162,000	922,000	21.7%	5,210,000	-48,000	-0.9%
Admission Tax	1,802,000	1,972,000	170,000	9.4%	2,125,000	-153,000	-7.2%
Court Fines and Forfeitures	7,100,000	6,084,000	-1,016,000	-14.3%	6,243,000	-159,000	-2.5%
Interest Income	1,251,000	1,093,000	-158,000	-12.6%	1,311,000	-218,000	-16.6%
Parking Meters	3,922,000	3,888,000	-34,000	-0.9%	3,892,000	-4,000	-0.1%
Misc. Revenues	1,857,000	1,645,000	-212,000	-11.4%	1,826,000	-181,000	-9.9%
<b>TOTAL, Selected Non-Tax Rev.</b>	<b>208,769,000</b>	<b>205,245,000</b>	<b>-3,524,000</b>	<b>-1.7%</b>	<b>203,567,000</b>	<b>1,678,000</b>	<b>0.8%</b>