

Economic and Revenue Forecast April 2025

**Economic and Revenue Forecast Council
April 10, 2025**

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

Outline

Part I: Update on recent economic developments and summary of the April economic forecasts

- Update on current economic developments in the U.S. economy
- S&P Global's U.S. economic forecast
- Seattle's economic performance in 2024
- Forecast Office's regional economic forecast for Seattle Metropolitan Division (King and Snohomish counties)

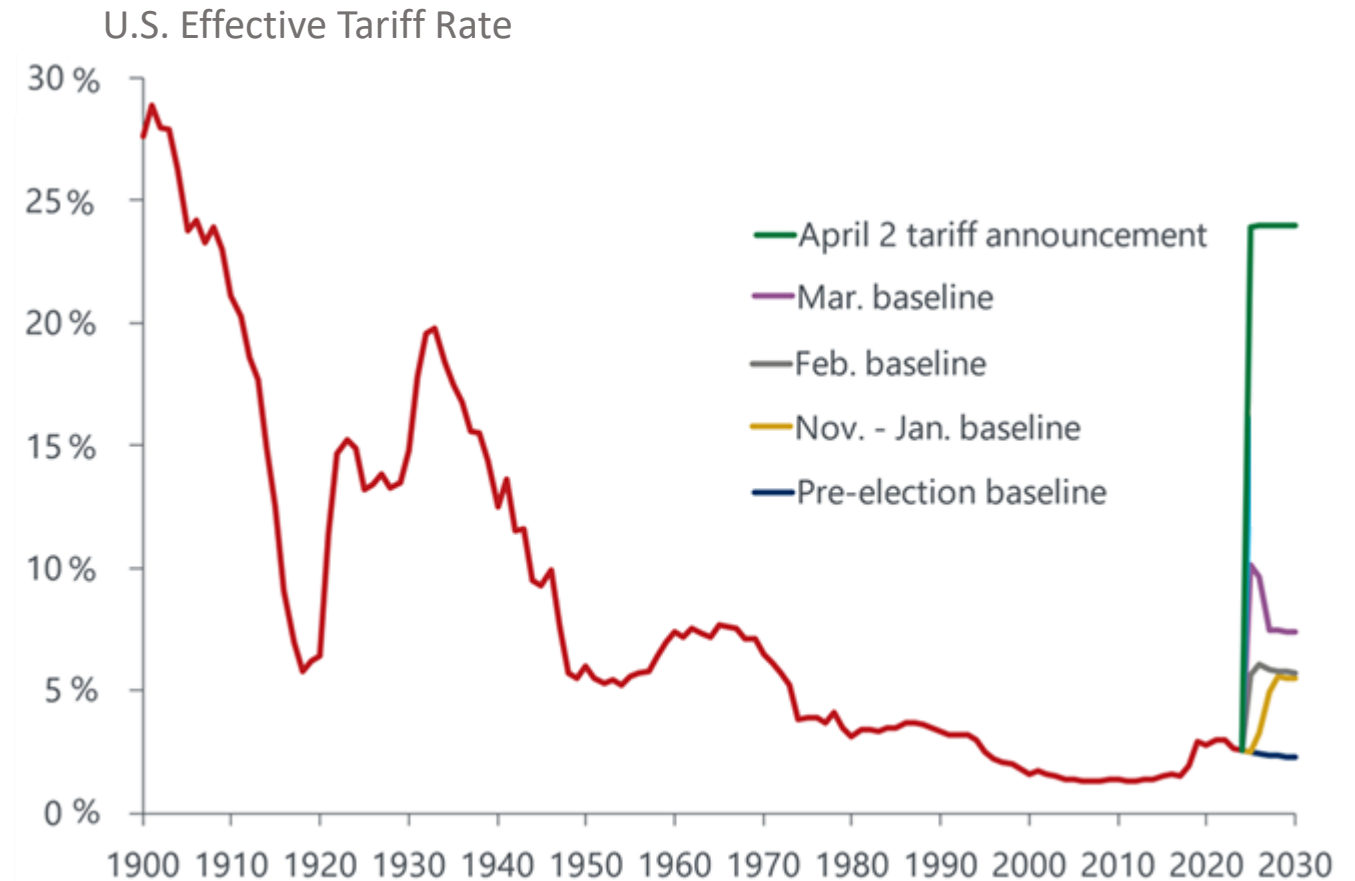
Part II: 2024 Actuals and the April revenue forecast for 2025-2026

- Actual 2024 revenues
- General Fund Revenues Forecast
- Selected Other Government Revenues

Recent economic developments

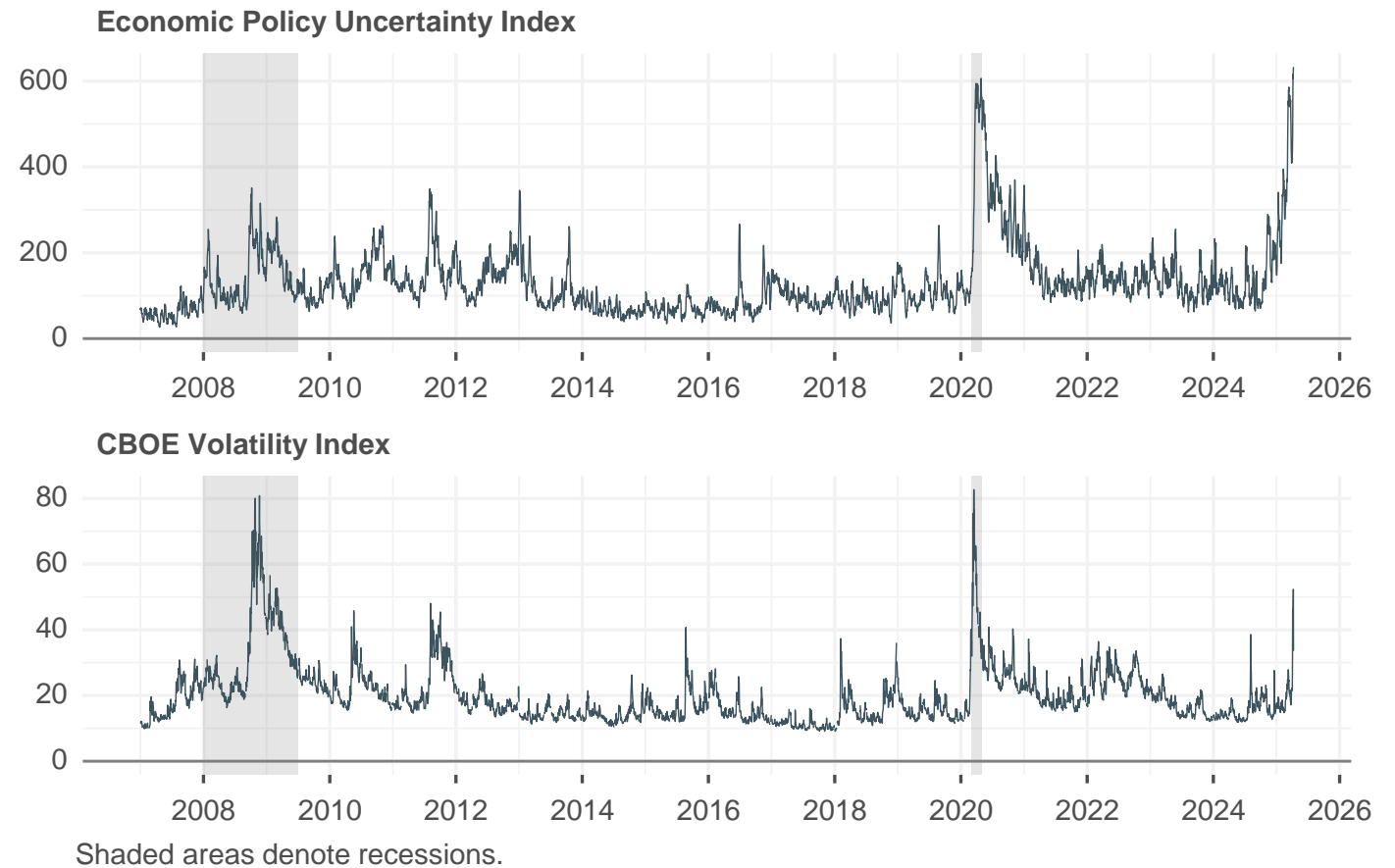
Announced tariffs are *much* larger than expected in March...

- March S&P Global forecast for U.S. economy that served as the starting point to developed the presented regional economic and revenue forecast was released on March 13
- Tariffs announced on April 2 are *much* larger than what was anticipated in March
- Oxford Economics summarized the April 2 announcement as turning the tariff dial to 11



... and there is a lot of uncertainty around them

- There's extraordinary amount of economic policy uncertainty, in particular related to the trade policy
- Large changes in trade policy will significantly impact the global economy
- Economic impacts on output, prices, and employment are however hard to assess
- This also means that the path regarding monetary policy is unclear
- The uncertainty has led to a steep drop in stock prices and a spike in the stock market volatility



Stock market went through a roller-coaster week

- Markets recovered the losses partially, but volatility will most likely linger
- Any persistent decline will have a direct impact on Payroll Expense Tax revenues
- Wealth effects of that decline would not be negligible either and would therefore impact other revenues as well
- Elevated volatility will likely have a negative impact on consumer and business sentiment and thus on consumption, investment, and hiring decisions

U.S. S&P 500 Index



Note: Shaded areas denote recessions.

Economic outlook for U.S. and Seattle MD Area



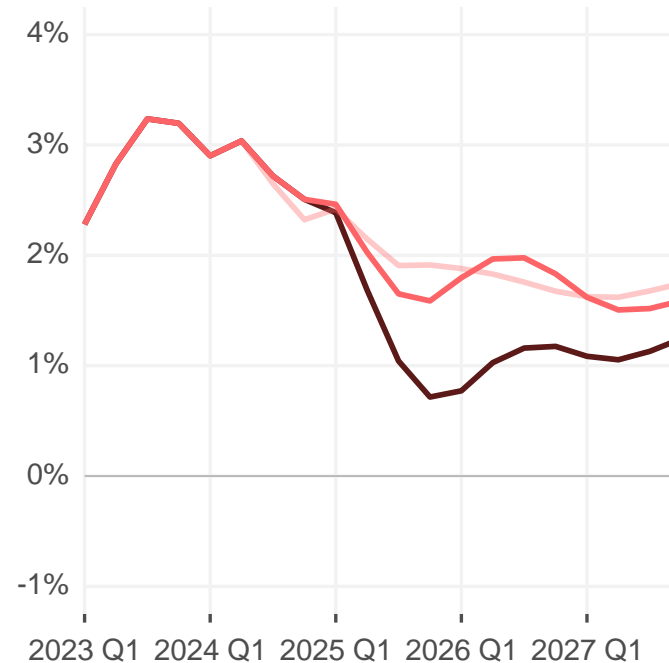
U.S. Economic Forecast – Economic and Employment Growth

- Recession fears resurfaced over past few weeks and increased dramatically after tariff announcements on April 2
- The presented March S&P Global forecast for U.S. was released on March 13, it does not feature a recession in any of the scenarios
- The pessimistic scenario is a *growth* recession – slower economic growth but real GDP does not decline
- Compared to the baseline scenario, the pessimistic scenario assumes higher tariffs and larger counterresponse by affected countries, leading to higher inflation and slower economic growth

U.S. Economic Forecast

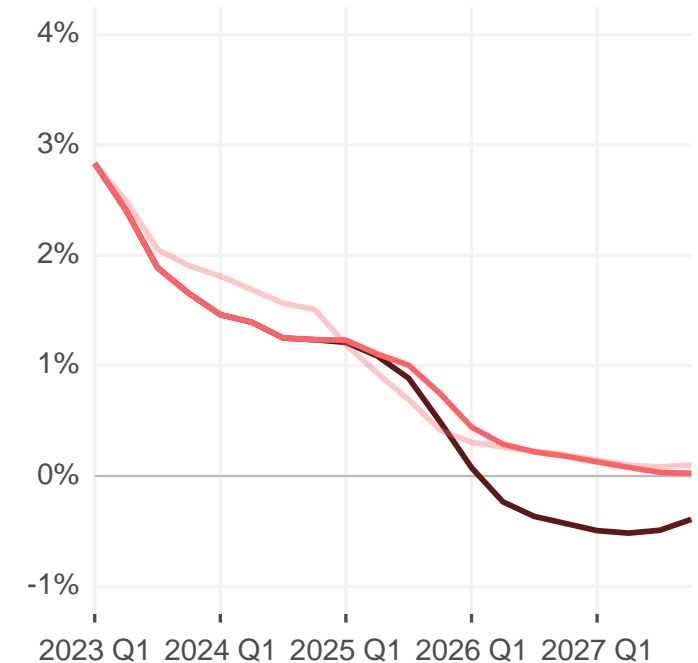
Oct 2024 Baseline Mar 2025 Baseline Mar 2025 Pessimistic

Real GDP (% chg. year over year)



Source: S&P Global Market Intelligence

Employment (% chg. year over year)



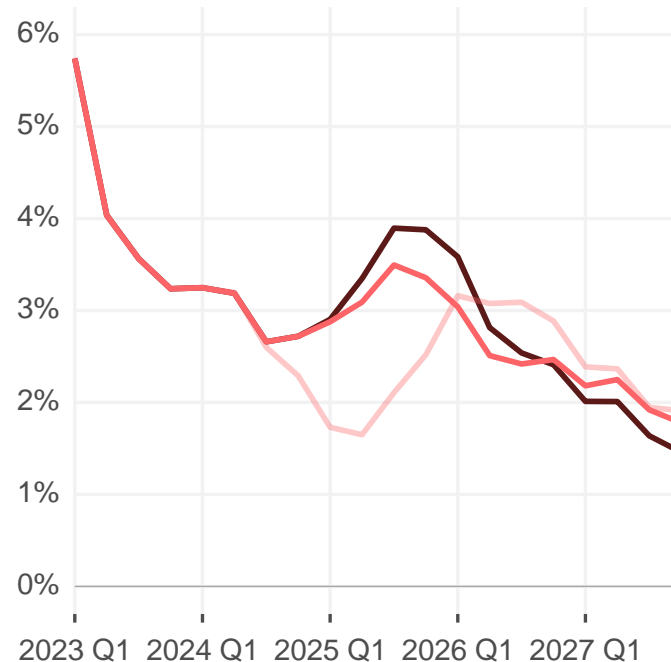
U.S. Economic Forecast – Inflation and Interest Rates

- Back in October monetary easing was expected to continue throughout 2025
- The outlook regarding monetary policy became much less clear since then
- Tariffs have made Federal Reserve's decisions more difficult
- Lower interest rates would stimulate the economy and prevent larger job losses
- Keeping interest rates higher prevents the inflation expectations from becoming “unanchored”, which would lead to rising inflation that is hard to get under control

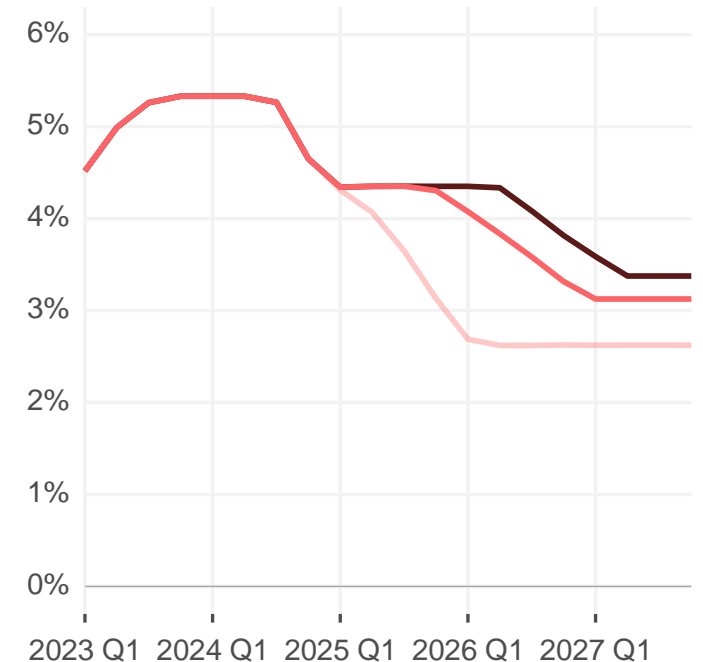
U.S. Economic Forecast

Oct 2024 Baseline Mar 2025 Baseline Mar 2025 Pessimistic

CPI-U (% chg. year over year)



Federal funds effective rate (% per annum)

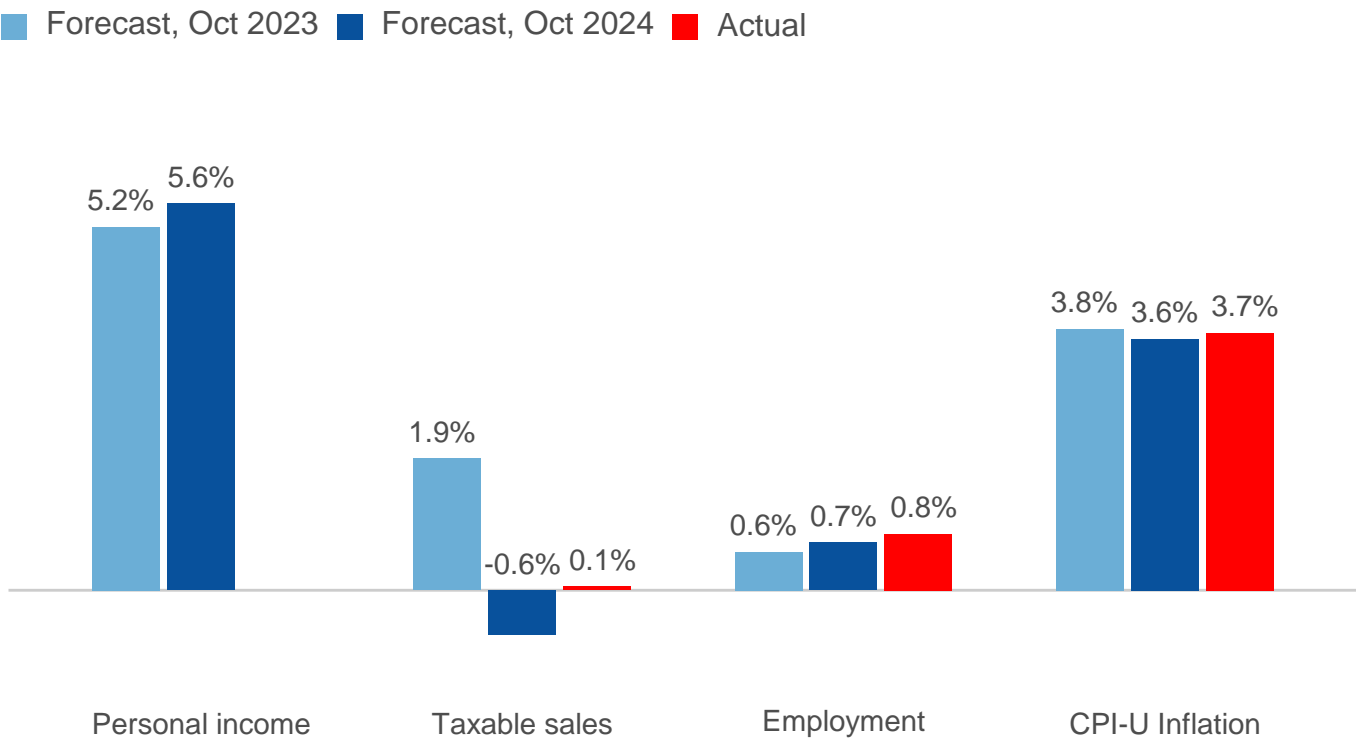


Source: S&P Global Market Intelligence

Seattle area - Economic performance in 2024, Forecast vs Actual

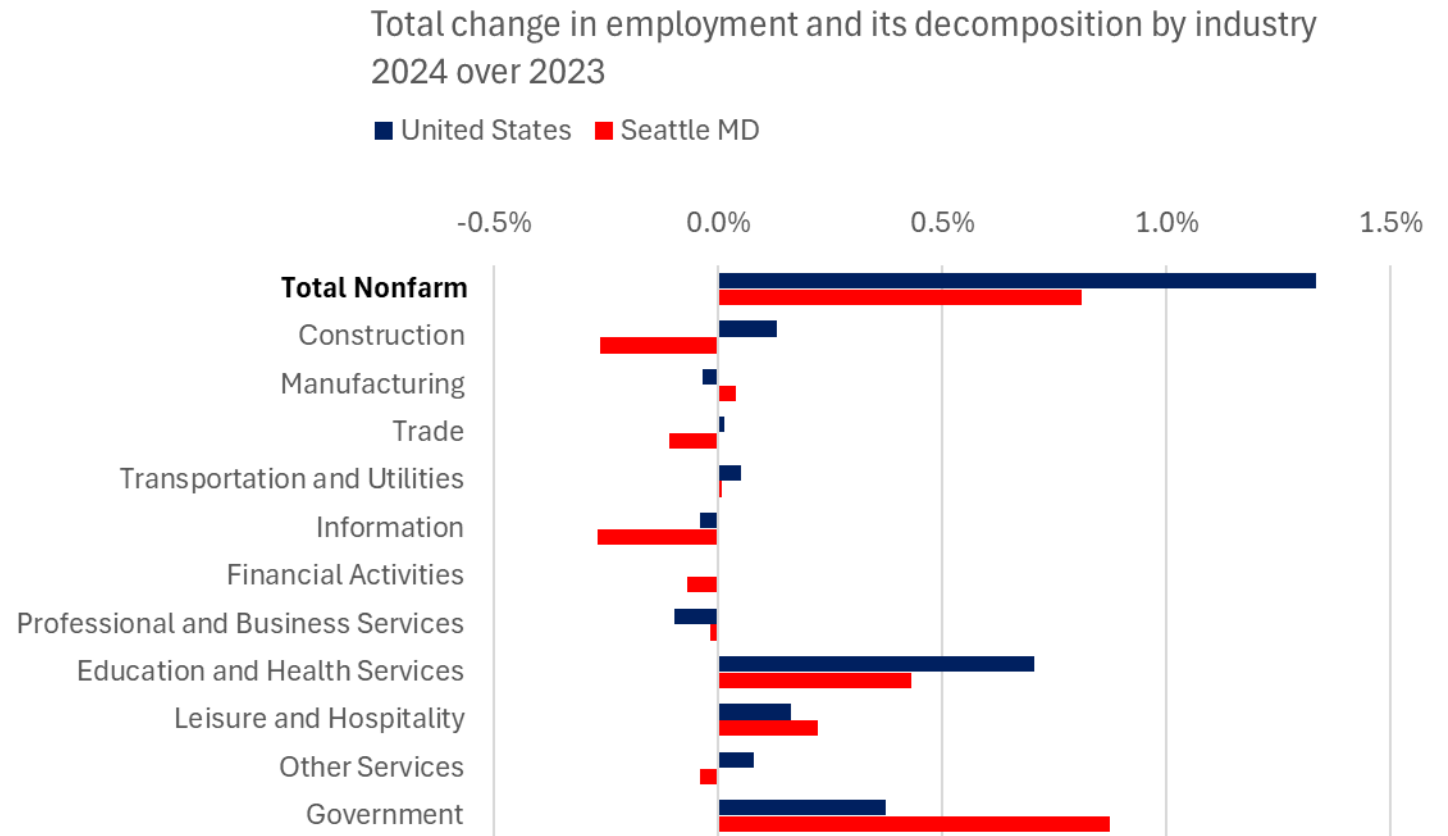
- Regional job growth was marginally above our forecasts in 2024, but it was notably weaker than in the national economy.
- Regional inflation remained higher than at the national level, but it cooled down faster and was in general in line with our expectations.
- Seattle’s taxable sales were flat. Consumer spending in the city was weaker than in national economy and the sales tax from trade sector declined 1.4% year-over-year. Moreover, taxable sales in the construction sector declined 7.1% from 2023, further weighing down on total sales tax revenue collection.

Seattle area economy, Forecast vs Actual



Job growth in Seattle MD has been weaker than in the U.S.

- Regional employment grew only 0.8% in 2024, compared to the 1.3% growth at the national level
- Solid growth in Educational and Health Services, and Government sectors was to a largely offset by notable declines in Construction, Trade, and Information.



Source: U.S. Bureau of Labor Statistics, Washington State Employment Security Department.

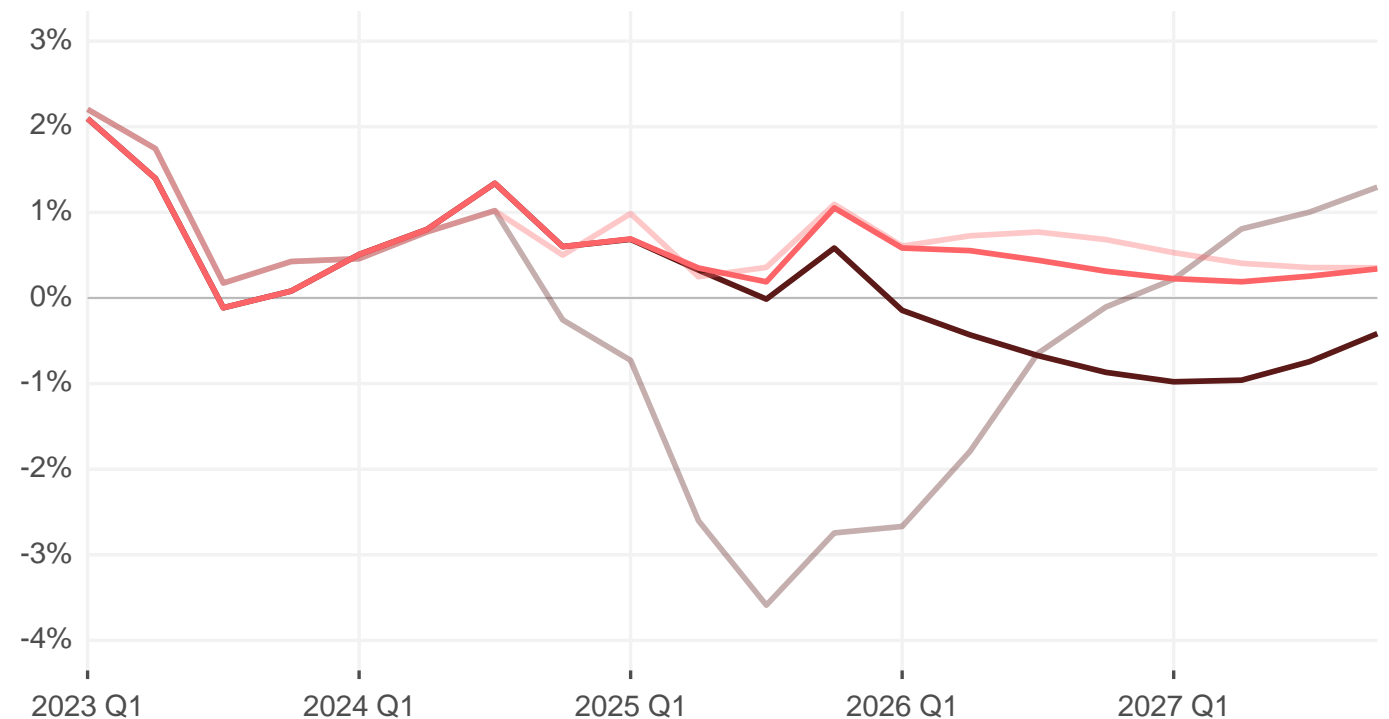
Regional employment forecast for Seattle Metropolitan Division

- In March, S&P Global assigned 50% probability to their baseline scenario, 25% to the pessimistic scenario, and 25% to the optimistic scenario.
- In the October pessimistic scenario forecast, a recession was assumed to begin in 2025, by summer 2026 it would lead to about 4.3% fewer jobs in Seattle area
- This recession would be thus somewhat milder and shorter than the 2001 recession
- In the March pessimistic scenario forecast regional employment declines about 1.5% between 2025 Q2 and 2027 Q3

Regional Employment Forecast for Seattle MD

Year-over-year change

Oct 2024 Baseline Mar 2025 Baseline Oct 2024 Pessimistic Mar 2025 Pessimistic



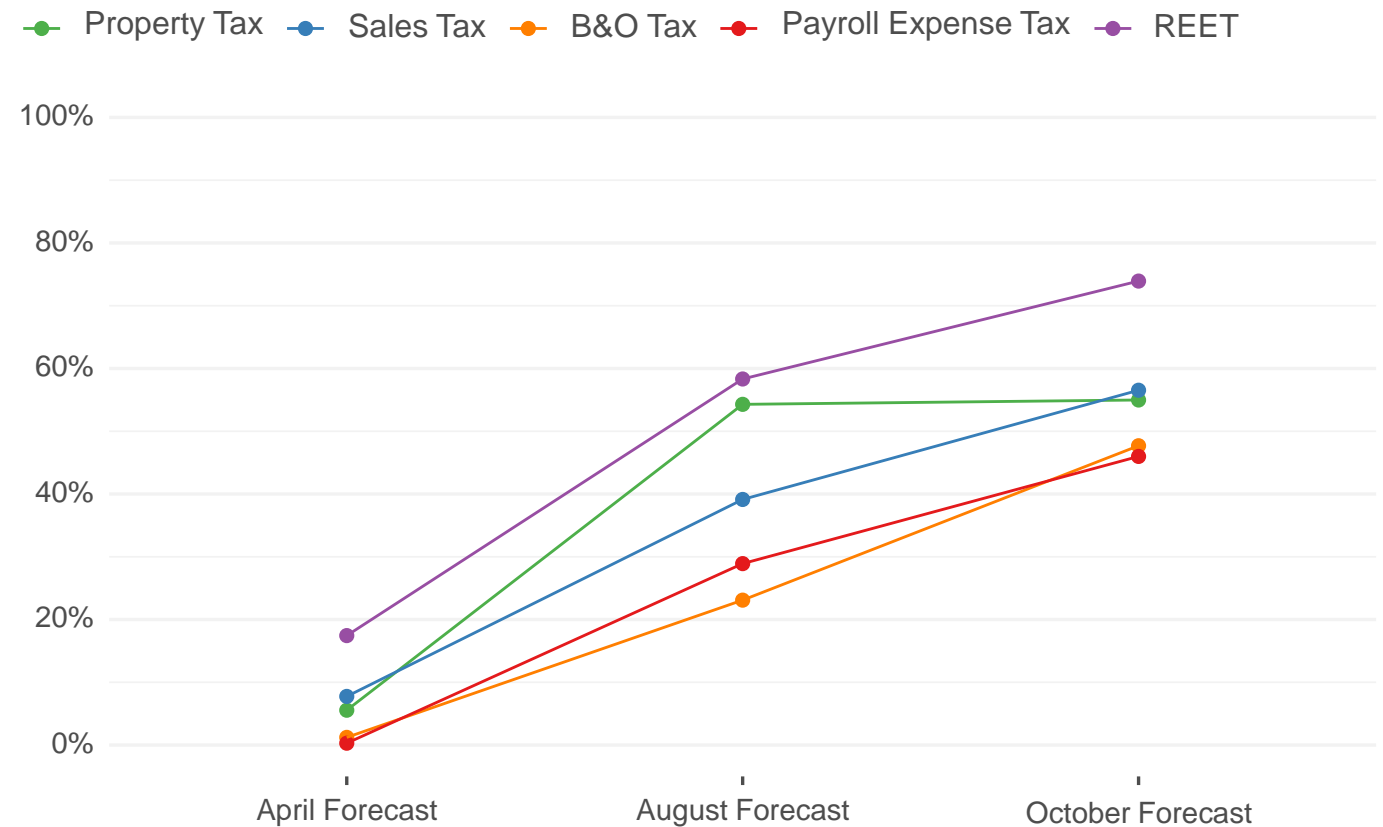
2024 Revenue Actuals



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 2024, almost 75% of REET revenue had been collected by that point, but just 46% of Payroll Expense Tax revenue.

Share of revenue collected in 2024 by the time of forecast updates



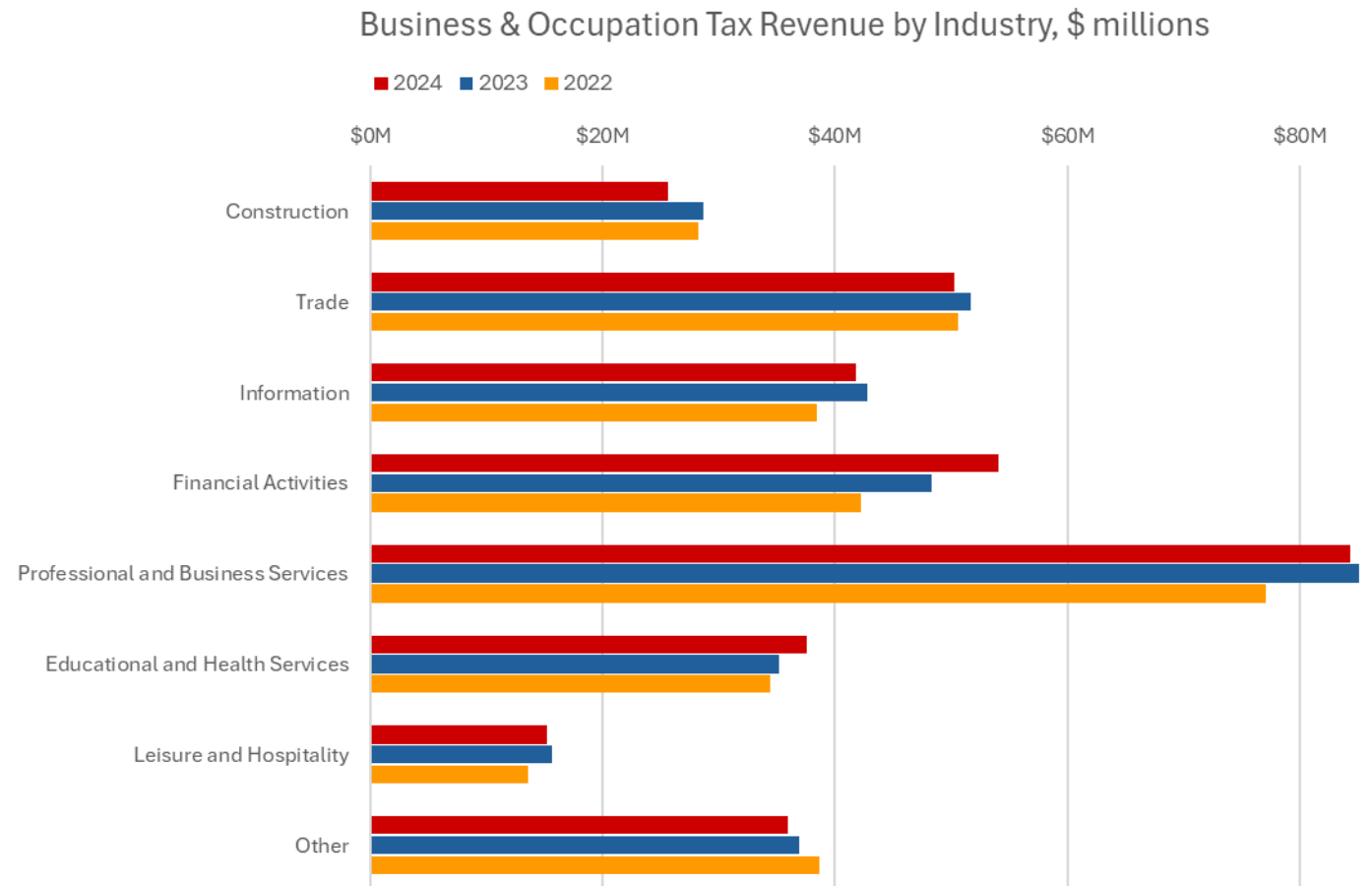
General Fund Revenues - 2024 Actuals vs Forecast (\$ millions)

Revenue Source	Forecast, Oct. 2024, \$ mil.	Actual Revenues, \$ mil.	Variance from forecast, \$ mil.	Variance from forecast, %
Property Tax (Including Medic One Levy)	\$382.9	\$379.0	-\$3.9	-1.0%
Sales & Use Tax	\$338.1	\$340.4	\$2.3	0.7%
Business & Occupation Tax	\$354.0	\$353.3	-\$0.7	-0.2%
Utility Tax - Private	\$37.4	\$40.5	\$3.1	8.3%
Utility Tax - Public	\$214.8	\$217.7	\$2.8	1.3%
Other City Taxes	\$12.7	\$14.7	\$2.1	16.2%
Parking Meters	\$39.3	\$39.2	-\$0.1	-0.4%
Court Fines	\$18.9	\$18.4	-\$0.5	-2.7%
Licenses, Permits, Interest Income and Other	\$71.1	\$72.7	\$1.6	2.3%
Revenue from Other Public Entities	\$19.7	\$19.4	-\$0.3	-1.3%
Service Charges & Reimbursements	\$83.3	\$84.1	\$0.9	1.0%
Grants	\$67.9	\$22.8	-\$45.1	-66.5%
Fund Balance Transfers	\$114.0	\$113.0	-\$1.0	-0.8%
Total General Fund	\$1,754.0	\$1,715.2	-\$38.8	-2.2%
Total General Fund w/o Grants and Transfers	\$1,572.1	\$1,579.4	\$7.3	0.5%

Note: Revenues highlighted blue are in the purview of the Office of Economic and Revenue Forecasts, forecasts for remaining revenues come from City Budget Office.

Business and Occupation Tax - 2024 Actuals

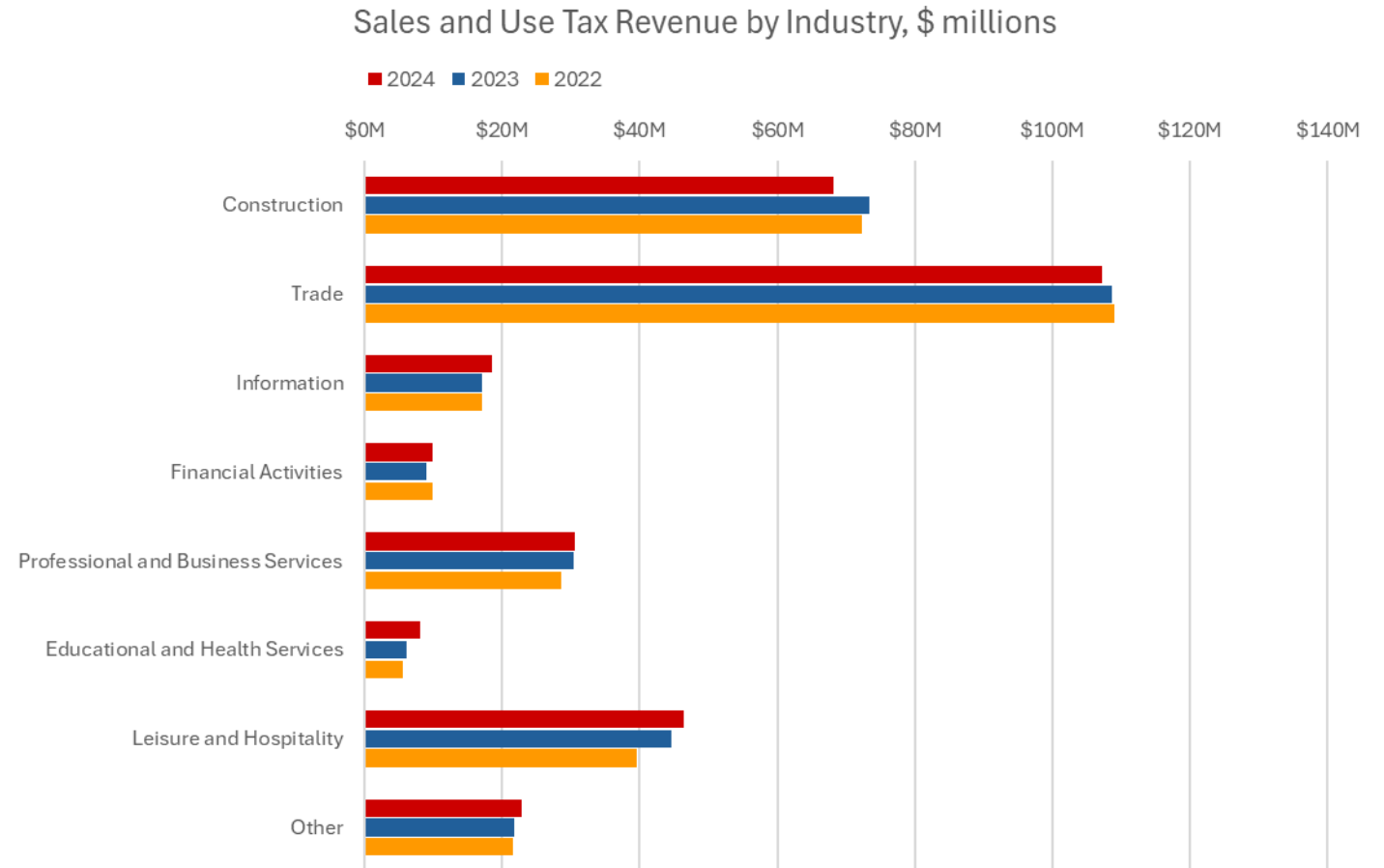
- Tax base for B&O is quite diversified, though professional and business services constitute a notably bigger share than other sectors.
- B&O tax was paid by about 20,000 businesses in 2024.
- Top 10 taxpayers accounted for about 20% of all B&O revenues.
- B&O revenues from Construction sector declined about 11% in 2024.
- B&O revenues from Trade, Information, Professional and Business Services declined 2.7% in 2024 after growing 9.1% in 2023, and on average 7.9% in the 2010-2023 period excluding 2020.



Sales and Use Tax - 2024 Actuals

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.
- In 2024 approximately 70,000 taxpayers remitted sales and use tax
- Top 10 taxpayers accounted for about 11% of all sales and use tax revenues in 2024.

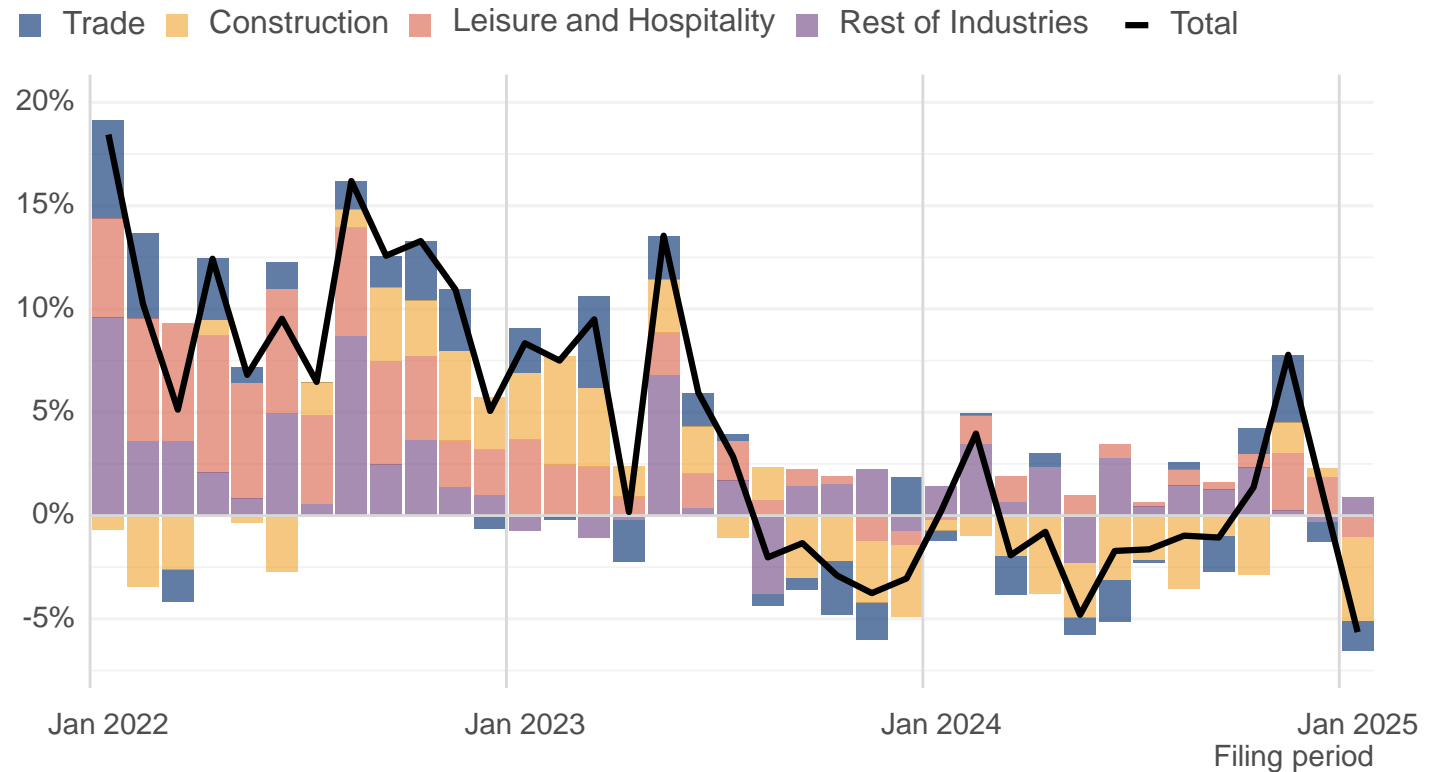


Sales and Use Tax - 2024 Actuals

- Sales tax revenue growth has been weak since the second half of 2023.
- Sales tax obligations increased just 0.1% in 2024.
- Downturn in the construction sector weighs down quite notably on overall tax collection. Taxable sales in the construction sector declined 7.1% between 2023 and 2024.
- Trade sector declined by 1.4% year-over-year.
- These two sectors thus completely offset the gains in Leisure and Hospitality and the Rest of Industries.

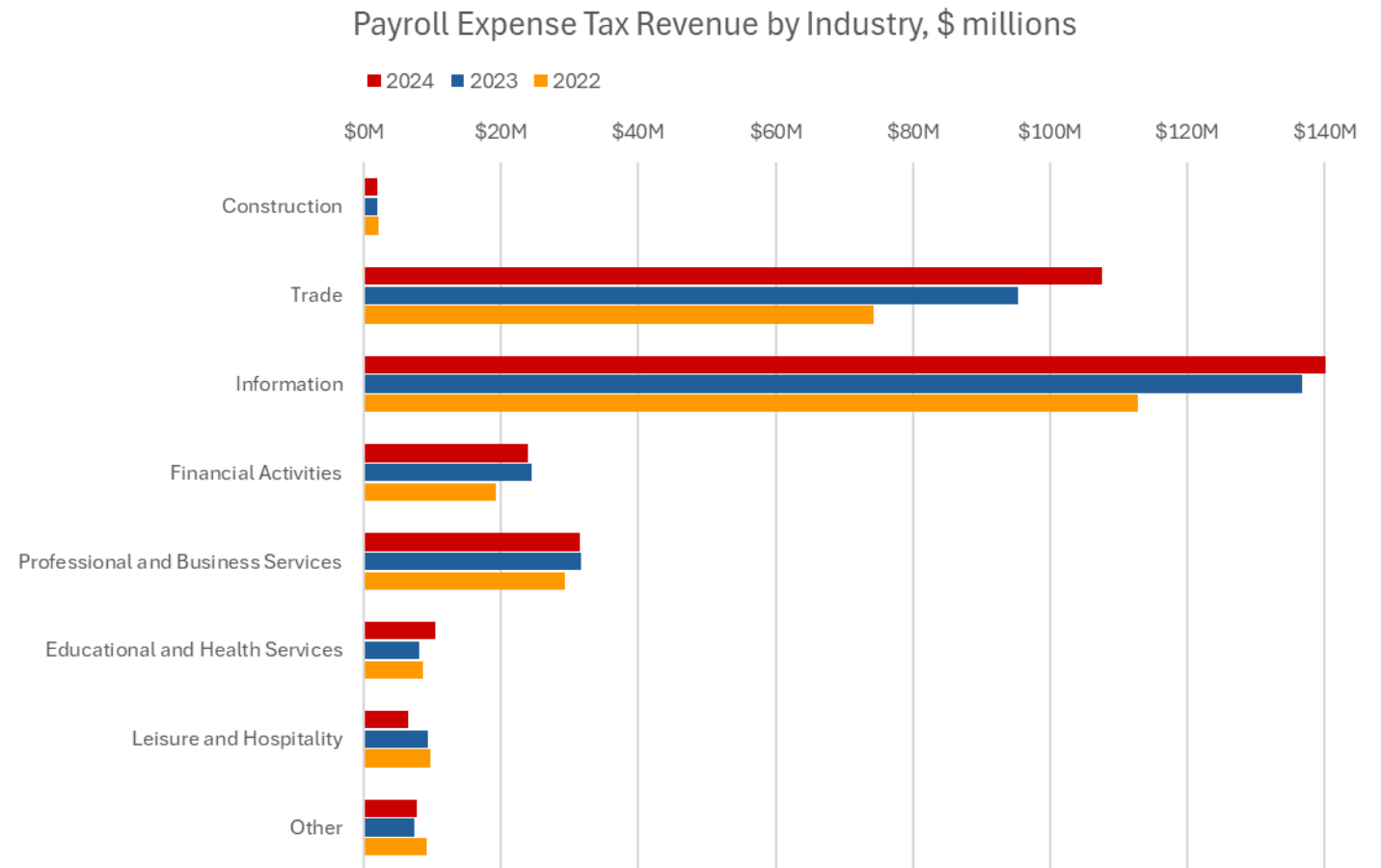
Sales Tax Revenue

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



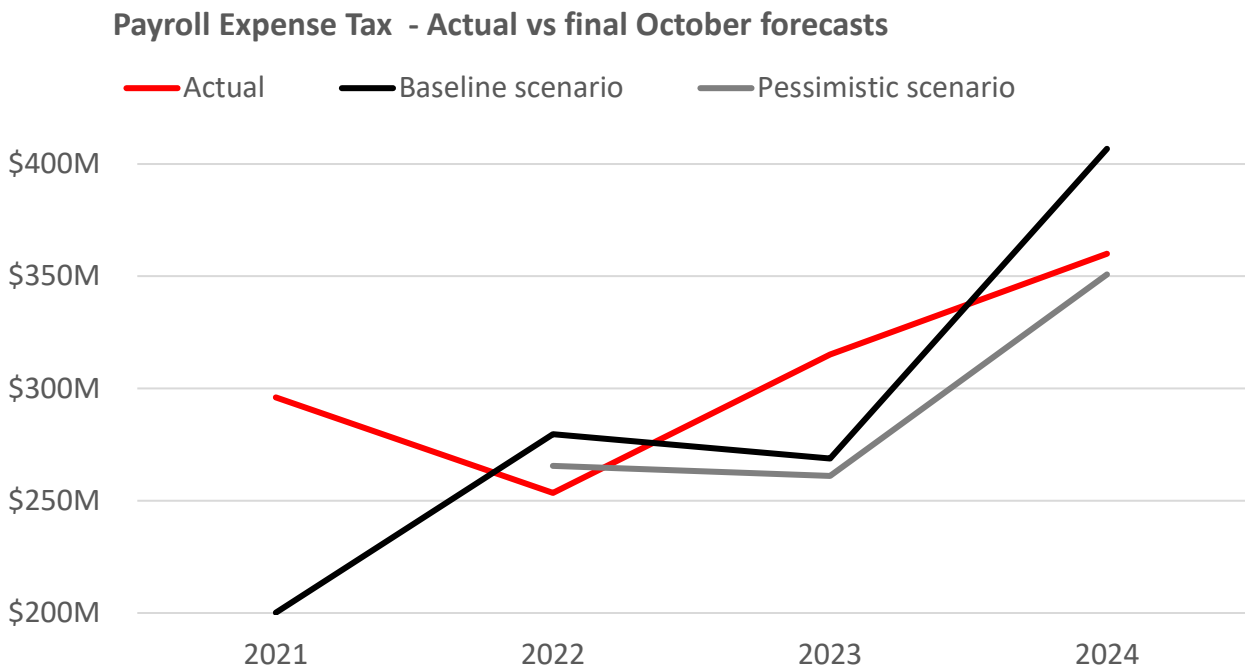
Payroll Expense Tax - 2024 Actuals

- Payroll expense tax is paid by less than 500 companies and is highly concentrated at the top
- In 2024, top 100 companies accounted for about 93% of the tax revenues
- About 75% was generated from just ten companies; nine of these ten companies operate in the tech sector (and are classified as Information, Trade, or Professional and Business Services based on their NAICS industry code).



Payroll Expense Tax - 2024 Actuals vs Forecast

- October 2024 forecast
 - \$406.8 million baseline scenario
 - \$361.2 million pessimistic scenario
- Actual 2024 revenues
 - \$360 million
 - \$46.7 million (11.5%) below the baseline scenario
 - \$1.2 million (0.3%) below the pessimistic scenario

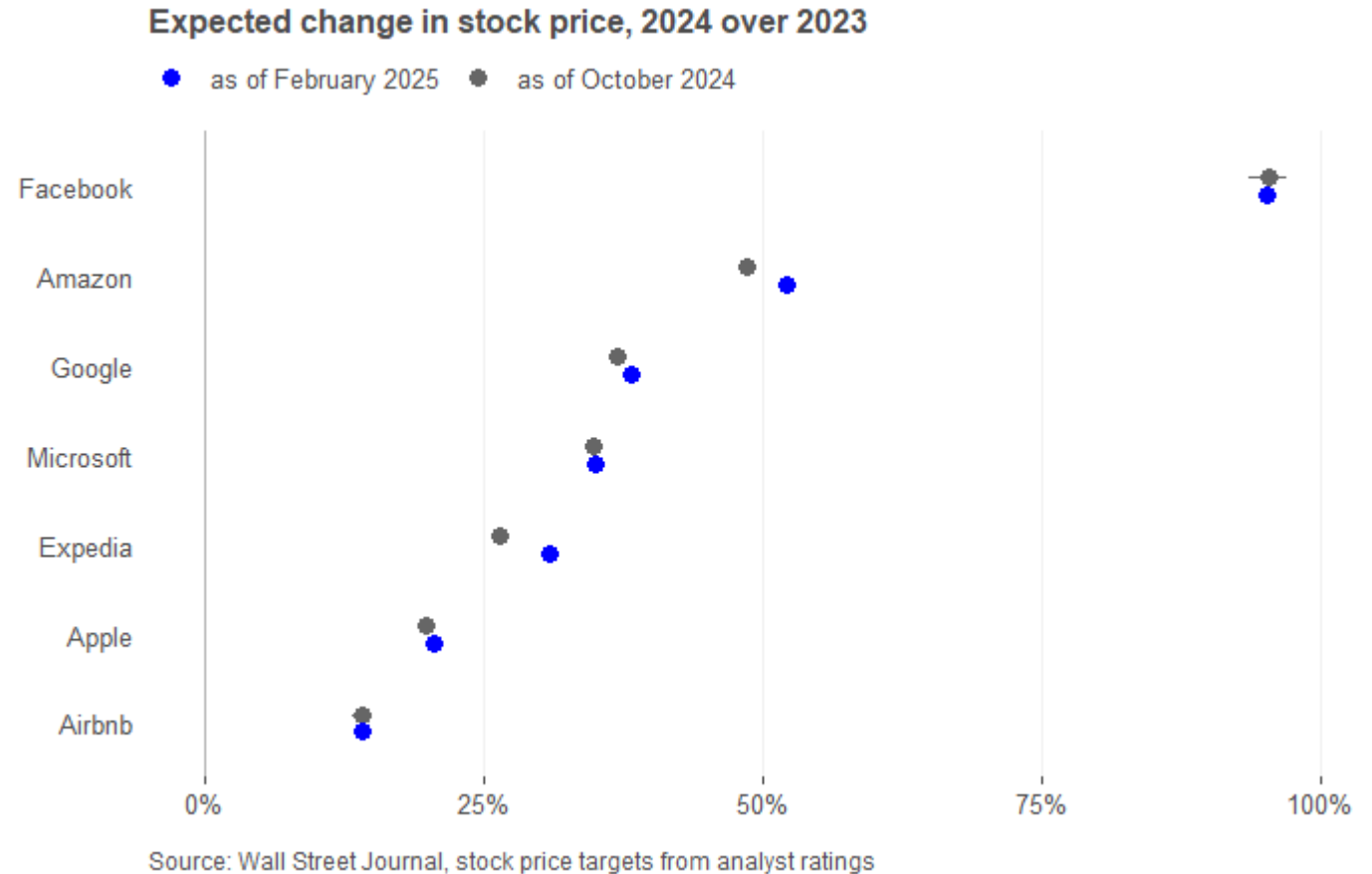


Payroll Expense Tax - Actual vs final October forecasts

	2021	2022	2023	2024
Actual revenue	\$296.0	\$253.5	\$315.2	\$360.0
Forecast error, \$ million	\$95.8	-\$26.2	\$46.4	-\$46.7
Forecast error, %	47.9%	-9.4%	17.3%	-11.5%

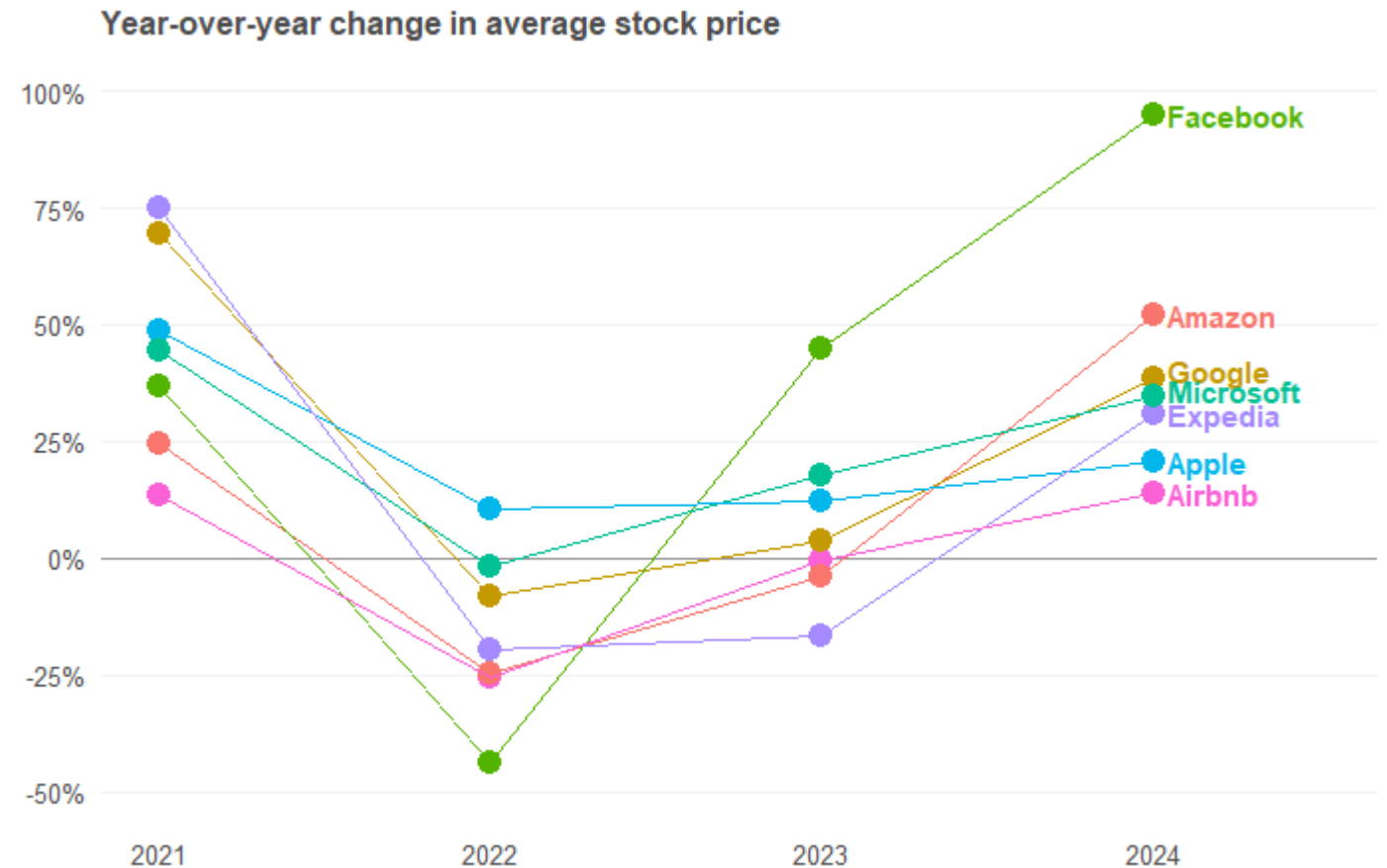
Payroll Expense Tax - 2024 Actuals vs Forecast

- Payroll Expense Tax revenues grew 14.2% year-over-year
- Only about \$347 million out of \$360 million were payments for 2024 obligations, remaining payments are for previous tax years
- Obligations grew about 11.3% in 2024
- Tax rate increased by a factor of 1.065 in 2024
- **Adjusted for the tax rate increase, tax obligations grew just 4.5% in 2024**
- Slow growth in Payroll Expense Tax revenue is even more striking given stock market's strong performance in 2024 and its close connection to the growth of wages, total payroll, and payroll tax revenue observed in past years



Payroll Expense Tax - 2024 Actuals vs Forecast

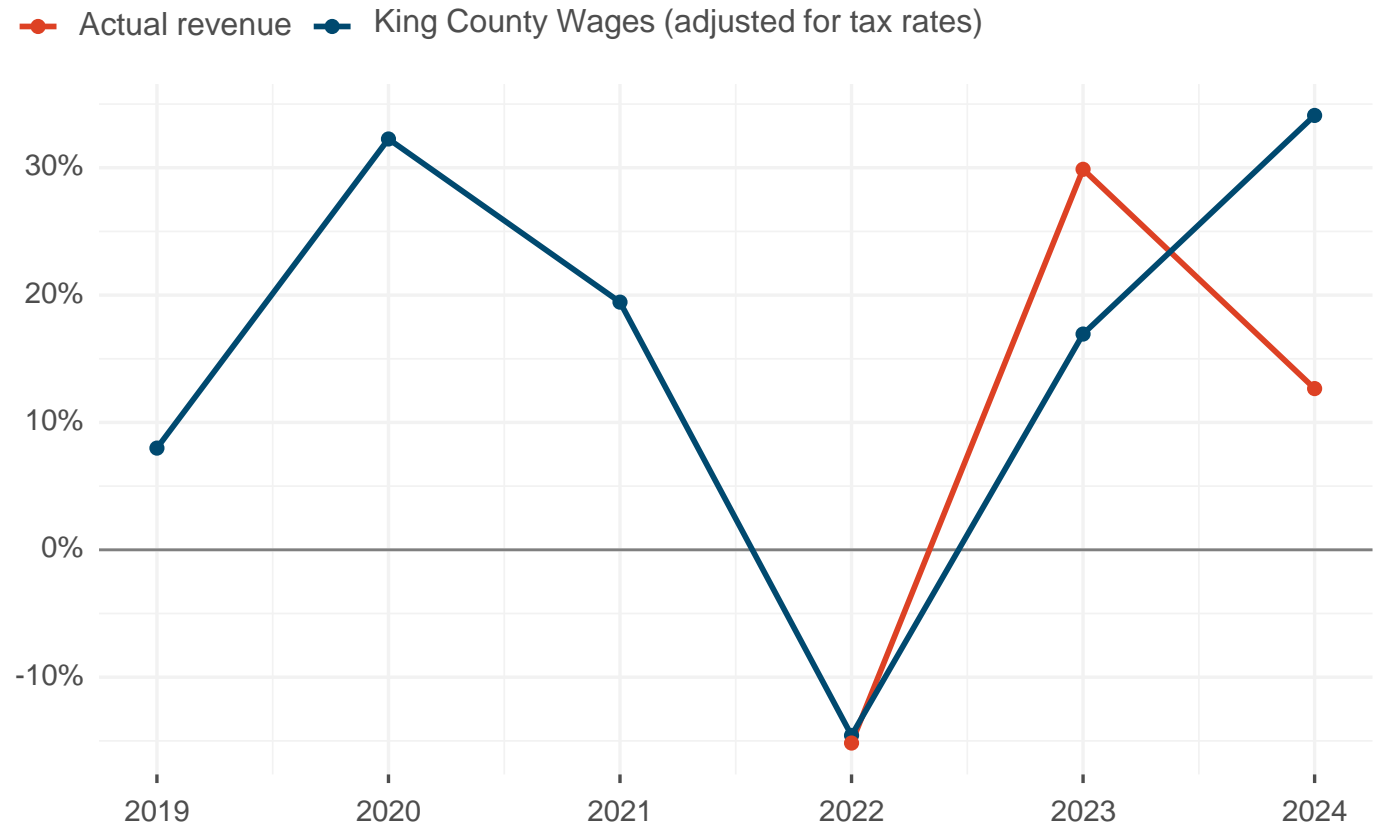
- Adjusted for the tax rate increase, Payroll Expense Tax obligations grew just 4.5% in 2024
- Slow growth in PET revenue is even more striking given stock market's strong performance in 2024 and its close connection to the growth of wages, total payroll, and payroll tax revenue observed in past years
- Stock market in 2024 Q4 in general exceeded expectations
- Stock prices grew in 2024 even faster than in 2023



Payroll Expense Tax - 2024 Actuals vs Forecast

- Consistent with the strong growth of stock prices, QCEW wages in King County grew notably faster in 2024 compared to 2023
- Payroll Expense Tax revenue growth that is significantly smaller than the growth of QCEW wages however implies that unlike in 2023, payroll growth in 2024 occurred largely outside Seattle tax base

Payroll Expense Tax Revenues vs King County Payroll, Top 15 Taxpayers



Revenue Forecast for 2025-2026



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

Revenue Source	Actuals	April Forecast		Difference from 2025-2026 Adopted		2 Year Total Difference	% Change from 2025-2026 Adopted	
	2024	2025	2026	2025	2026		2025	2026
Property Tax (Including Medic One Levy)	\$379.0	\$388.7	\$399.7	\$0.4	-\$3.4	-\$3.0	0.1%	-0.8%
Sales & Use Tax	\$340.4	\$345.2	\$350.4	\$1.2	-\$0.6	\$0.6	0.3%	-0.2%
Business & Occupation Tax	\$353.3	\$369.2	\$389.8	-\$0.3	-\$4.7	-\$5.0	-0.1%	-1.2%
Utility Tax - Private	\$40.5	\$39.6	\$38.6	\$5.1	\$5.6	\$10.7	14.7%	16.9%
Utility Tax - Public	\$217.7	\$216.1	\$223.6	\$1.1	\$1.1	\$2.2	0.5%	0.5%
Other City Taxes	\$14.7	\$14.3	\$14.6	\$0.5	\$0.3	\$0.8	3.7%	1.9%
Parking Meters	\$39.2	\$38.4	\$38.5	-\$2.3	-\$4.4	-\$6.7	-5.6%	-10.2%
Court Fines	\$18.4	\$23.7	\$22.8	-\$1.6	-\$1.3	-\$2.9	-6.4%	-5.4%
Licenses, Permits, Interest Income and Other	\$73.6	\$75.2	\$75.0	\$1.2	-\$1.8	-\$0.6	1.6%	-2.3%
Revenue from Other Public Entities	\$19.4	\$20.9	\$20.9	\$0.9	\$0.4	\$1.3	4.6%	1.9%
Service Charges & Reimbursements	\$84.1	\$79.2	\$80.5	-\$2.4	-\$4.5	-\$6.9	-2.9%	-5.3%
Grants	\$21.9	\$56.2	\$14.7	\$41.4		\$41.4	281.5%	
Fund Balance Transfers	\$113.0	\$315.0	\$275.8					
Total	\$1,715.2	\$1,981.5	\$1,944.9	\$45.2	-\$13.3	\$32.0	2.3%	-0.7%
Total w/o Grants and Transfers	\$1,580.3	\$1,610.4	\$1,654.4	\$3.8	-\$13.3	-\$9.5	0.2%	-0.8%

Annual Growth w/o Grants and Transfers

1.7%

1.9%

2.7%

0.2%

-1.1%

Seattle MSA CPI-U inflation

3.7%

3.3%

3.0%

0.8%

-0.1%

Note: Revenues highlighted blue are in the purview of the Office of Economic and Revenue Forecasts, forecasts for remaining revenues come from City Budget Office.



General Fund Revenues - Pessimistic Scenario Forecast (\$ millions)

Revenue Source	Actuals	April Forecast		Difference from 2025-2026 Adopted		2 Year Total Difference	% Change from 2025-2026 Adopted	
	2024	2025	2026	2025	2026		2025	2026
Property Tax (Including Medic One Levy)	\$379.0	\$388.4	\$398.9	\$0.1	-\$4.1	-\$4.0	0.0%	-1.0%
Sales & Use Tax	\$340.4	\$343.2	\$342.5	-\$0.8	-\$8.5	-\$9.3	-0.2%	-2.4%
Business & Occupation Tax	\$353.3	\$368.6	\$385.0	-\$0.8	-\$9.6	-\$10.4	-0.2%	-2.4%
Utility Tax - Private	\$40.5	\$39.1	\$37.8	\$4.6	\$4.8	\$9.4	13.3%	14.7%
Utility Tax - Public	\$217.7	\$208.2	\$215.5	-\$6.7	-\$7.1	-\$13.8	-3.1%	-3.2%
Other City Taxes	\$14.7	\$14.0	\$14.2	\$0.2	-\$0.1	\$0.1	1.7%	-0.7%
Parking Meters	\$39.2	\$38.0	\$37.0	-\$2.7	-\$5.9	-\$8.6	-6.7%	-13.7%
Court Fines	\$18.4	\$23.9	\$22.9	-\$1.4	-\$1.2	-\$2.6	-5.4%	-4.9%
Licenses, Permits, Interest Income and Other	\$73.6	\$73.2	\$72.7	-\$0.8	-\$4.0	-\$4.9	-1.1%	-5.3%
Revenue from Other Public Entities	\$19.4	\$20.4	\$20.5	\$0.5	-\$0.1	\$0.4	2.4%	-0.3%
Service Charges & Reimbursements	\$84.1	\$79.2	\$80.5	-\$2.4	-\$4.5	-\$6.9	-2.9%	-5.3%
Grants	\$21.9	\$56.2	\$14.7	\$41.4		\$41.4	281.5%	
Fund Balance Transfers	\$113.0	\$315.0	\$275.8					
Total	\$1,715.2	\$1,967.5	\$1,918.0	\$31.2	-\$40.2	-\$9.0	1.6%	-2.1%
Total w/o Grants and Transfers	\$1,580.3	\$1,596.3	\$1,627.5	-\$10.2	-\$40.2	-\$50.4	-0.6%	-2.4%

Annual Growth w/o Grants and Transfers

1.7%

1.0%

1.9%

-0.6%

-1.9%

Seattle MSA CPI-U inflation

3.7%

3.6%

3.4%

1.1%

0.3%

Note: Revenues highlighted blue are in the purview of the Office of Economic and Revenue Forecasts, forecasts for remaining revenues come from City Budget Office.



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

Revenue Source	Actuals	April Forecast		Difference from 2025-2026 Adopted		2 Year Total Difference	% Change from 2025-2026 Adopted	
	2024	2025	2026	2025	2026		2025	2026
Payroll Expense Tax	\$360.0	\$373.1	\$391.2	-\$67.3	-\$75.0	-\$142.3	-15.3%	-16.1%
REET	\$62.7	\$67.2	\$83.2	\$0.8	-\$2.6	-\$1.8	1.2%	-3.0%
Admission Tax	\$24.6	\$25.6	\$26.3	-\$0.9	-\$0.9	-\$1.8	-3.4%	-3.2%
Sweetened Beverage Tax	\$20.1	\$19.9	\$19.8	-\$1.4	-\$2.0	-\$3.4	-6.7%	-9.1%
Short Term Rental Tax	\$12.1	\$12.2	\$12.6	-\$0.3	-\$0.6	-\$0.8	-2.3%	-4.2%
STBD Sales Tax	\$53.0	\$53.8	\$54.6	\$0.1	-\$0.2	-\$0.1	0.1%	-0.4%
STBD Vehicle License Fee	\$19.6	\$20.4	\$20.7	-\$0.5	-\$0.6	-\$1.1	-2.5%	-2.8%
Commercial Parking Tax	\$50.0	\$51.0	\$52.0	-\$3.1	-\$2.7	-\$5.8	-5.7%	-4.9%

Note: Revenues highlighted blue are in the purview of the Office of Economic and Revenue Forecasts, forecasts for remaining revenues come from City Budget Office.

Selected Other Revenues - Pessimistic Scenario Forecast (\$ millions)

Revenue Source	Actuals	April Forecast		Difference from 2025-2026 Adopted		2 Year Total Difference	% Change from 2025-2026 Adopted	
	2024	2025	2026	2025	2026		2025	2026
Payroll Expense Tax	\$360.0	\$359.2	\$380.0	-\$81.3	-\$86.1	-\$167.4	-18.5%	-18.5%
REET	\$62.7	\$65.2	\$80.1	-\$1.2	-\$5.6	-\$6.8	-1.8%	-6.5%
Admission Tax	\$24.6	\$25.4	\$26.0	-\$1.1	-\$1.3	-\$2.3	-4.1%	-4.6%
Sweetened Beverage Tax	\$20.1	\$19.8	\$19.6	-\$1.5	-\$2.1	-\$3.7	-7.2%	-9.8%
Short Term Rental Tax	\$12.1	\$11.8	\$12.2	-\$0.6	-\$0.9	-\$1.5	-4.9%	-7.1%
STBD Sales Tax	\$53.0	\$53.5	\$53.4	-\$0.2	-\$1.5	-\$1.7	-0.4%	-2.7%
STBD Vehicle License Fee	\$19.6	\$20.1	\$20.2	-\$0.8	-\$1.1	-\$1.9	-3.9%	-5.1%
Commercial Parking Tax	\$50.0	\$51.1	\$51.9	-\$2.9	-\$2.7	-\$5.6	-5.4%	-4.9%

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Forecast risks and scenario recommendation

Summary and Context

- S&P Global assigned 50% probability to their March baseline scenario forecast and 25% to the pessimistic scenario.
- The outlook has however deteriorated rather dramatically since then.

Forecast Risks

- Large uncertainty regarding the impact of federal, state, and local policies on job growth in Seattle.
- Washington State and Seattle economies are dependent on trade and tourism
- Higher interest rates and uncertainty will further contribute to the construction sector downturn

Given recent developments and the risks to the forecast, we consider the presented pessimistic scenario for economic and revenue forecasts to be more likely.

Conclusion

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

Questions?

