InterOffice Memo

Date: September 20, 2012

To: David Bracilano, Labor Relations

From: Tom Kirn, Finance and Administrative Services

Subject: Consumer Price Index (CPI) Forecast Update

We have updated our Seattle consumer price index (CPI) forecasts as part of the current budget process. The updated forecasts are shown below.

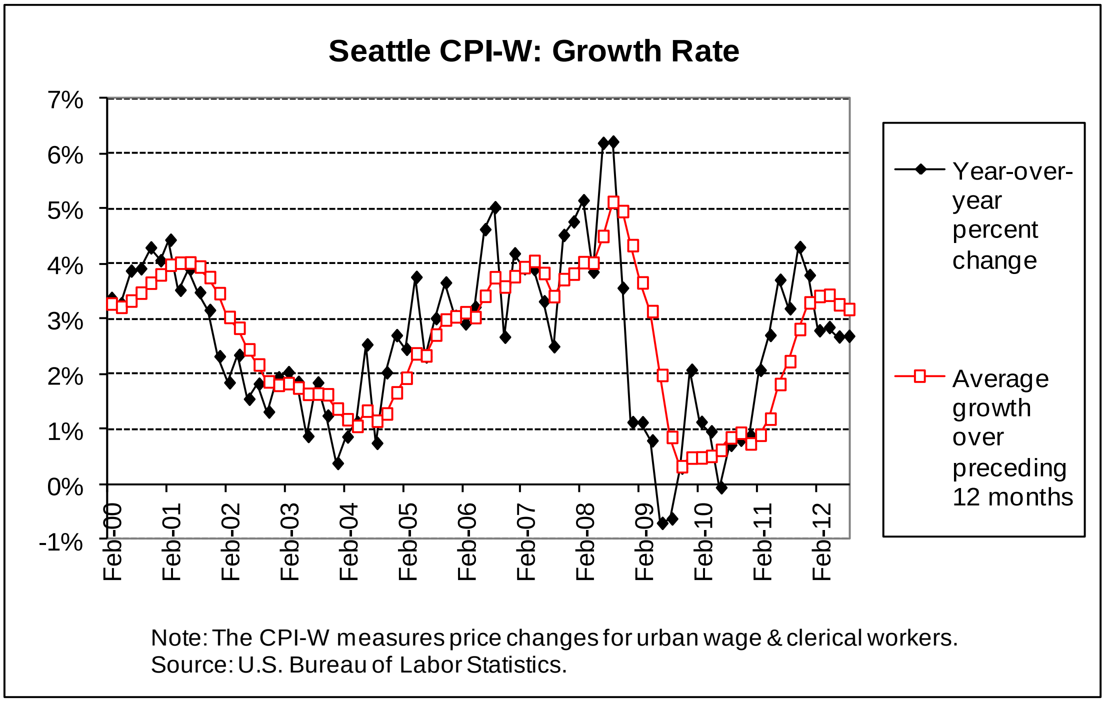
	Seattle CPI-W (June-June growth rate)	**Seattle CPI-W** (growth rate for 12 months ending in June)
2011 (actual)	3.7%	1.8%
2012 (actual)	2.7%	3.3%
2013	2.1%	2.3%
2014	2.5%	2.3%
2015	2.4%	2.5%

Background. The 2007-09 recession, the worst downturn in 80 years, pushed inflation rates down to levels not seen since the 1950s. Inflation at the national level was negative in 2009 and local inflation was negative for some months in both 2009 and 2010. The movement of inflation into negative territory was caused in large part by a steep drop in energy prices from the very high levels reached in mid-2008.

Inflation began to pick up in 2010 as the economy began to recover, and accelerated further in 2011 driven by a 16.3% increase in energy prices (Seattle CPI-W) during the year. Inflation has eased a bit in 2012, primarily because energy price increases have slowed. Consumer prices increased by 3.2% in 2011 and 2.7% during the first eight months of 2012, as measured by the Seattle CPI-W.

Contributing to the rise in inflation over the past year has been an upturn in shelter costs. Shelter costs, which declined in 2010, have risen at a 2.9% rate during the past twelve months. With shelter costs now rising faster in Seattle than nationally, Seattle inflation is higher than national inflation.

Inflation is expected to remain subdued. In the short- to medium-term, inflationary pressures are expected to remain subdued, as the weakness of the global economy restrains price pressures for commodities, goods, and services. With unemployment likely to remain elevated for several years, wage pressures will also remain subdued. Going forward, the CPI is expected to grow at between two and two-and-a-half percent per year, though there will likely be some movement outside of this range if energy or food prices rise or fall steeply. This summer's drought will keep grain prices high until 2013, and push up meat prices later this year and early next year. The price of food may replace the price of gasoline as the consumer's main inflation worry.



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