

# Economic and Revenue Forecast, August 2021

August 17, 2021

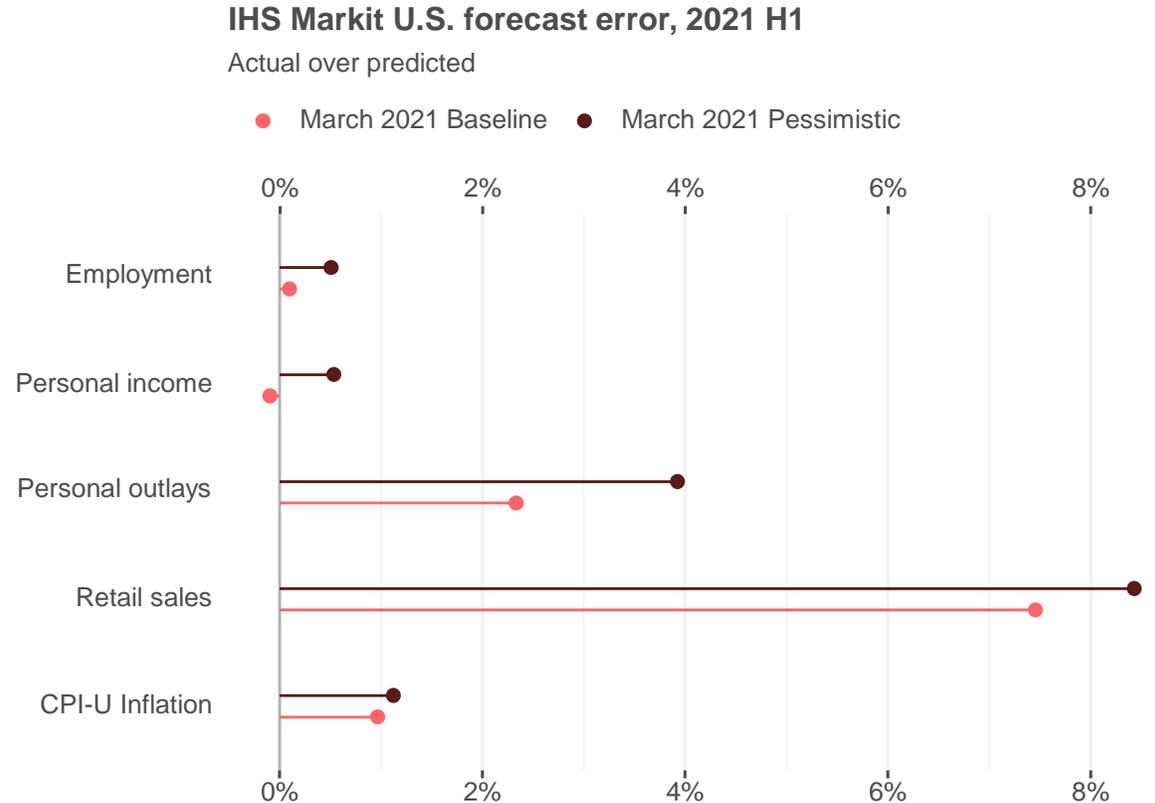


# Economic Update



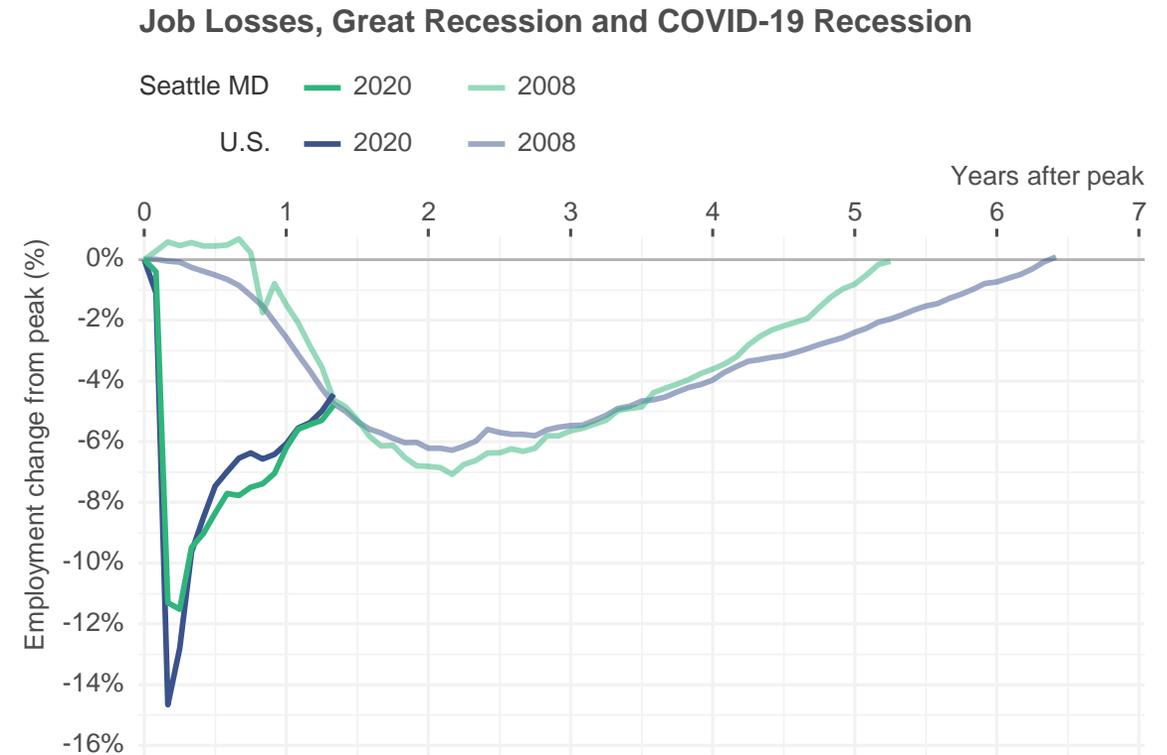
# Recovery faster than expected in the first half of 2021

- NBER recession dating committee announced that recession ended in April 2020
- Real GDP surpassed pre-pandemic level in 2021 Q2, personal outlays in 2021 Q1
- **Massive federal fiscal stimulus arrived earlier, fueled consumer demand already in 2021 Q1**
- Outlays, retail sales, prices grew much faster than predicted in March



# Employment is recovering slower than consumer demand...

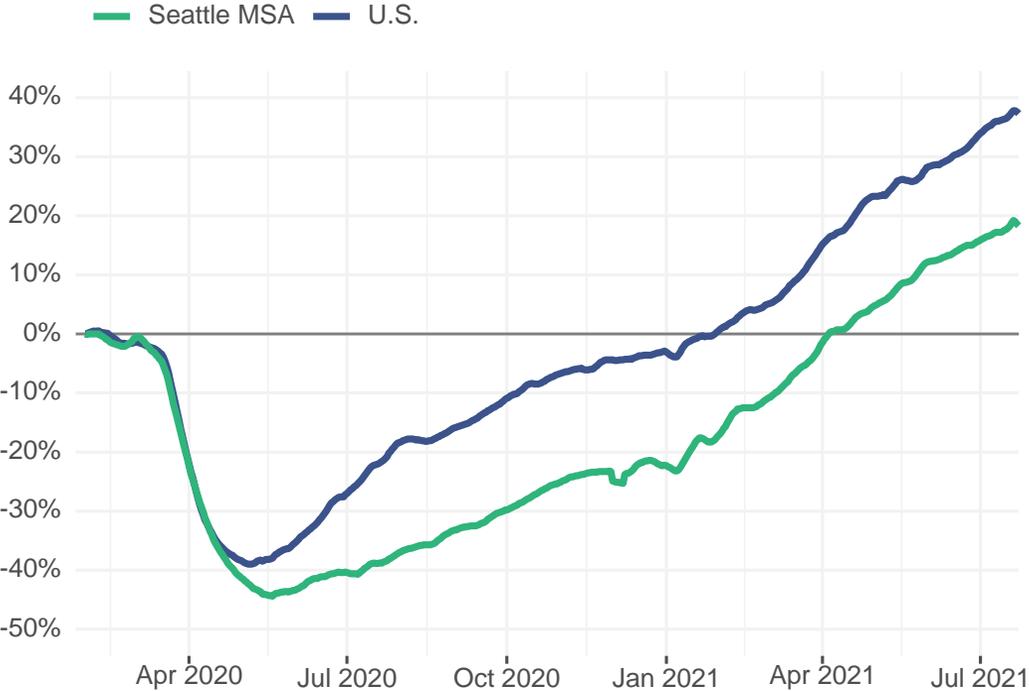
- Employment recovery picked up pace in the first half of 2021 but is slower than recovery of real GDP and personal outlays
- Job losses as of June 2021
  - Seattle MD 4.8%
  - U.S. 4.4%



Source: U.S. Bureau of Labor Statistics. Seasonally Adjusted.

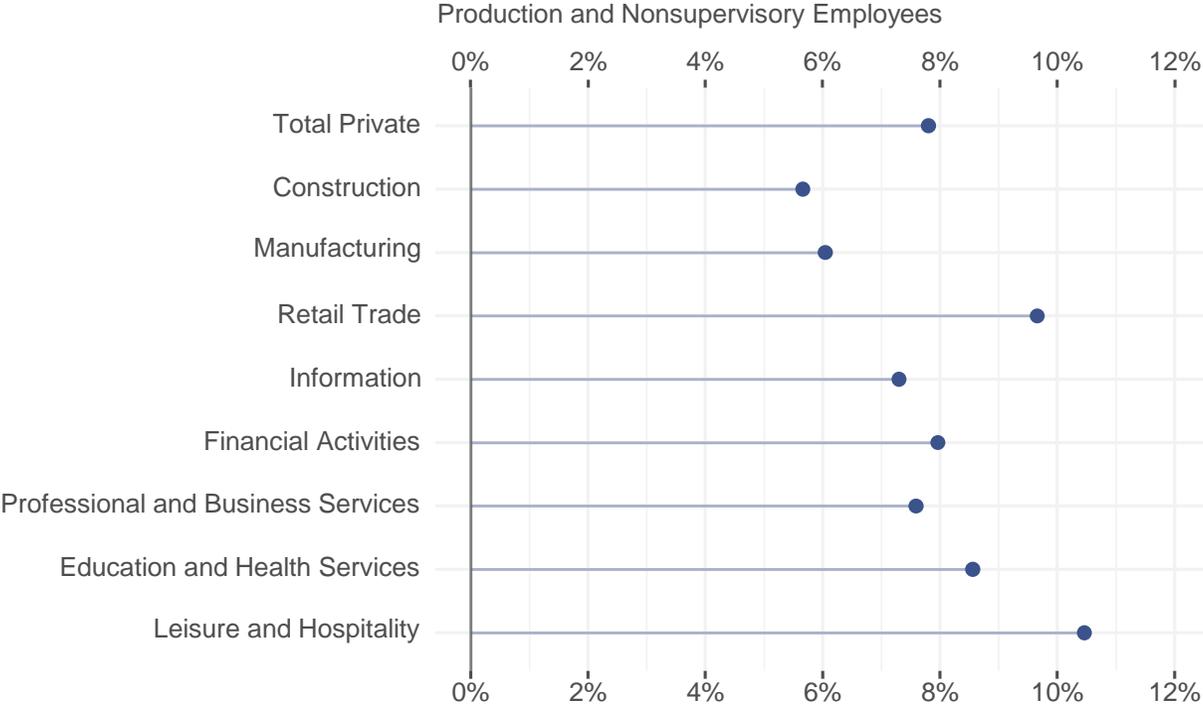
# ...though job openings are record high and wages are growing

Job Postings on Indeed, Percent Change from Feb 1, 2020



Source: Federal Reserve Board of St. Louis FRED. 7-day average, Seasonally Adjusted.

Average Hourly Earnings, Percent Change from Feb 2020

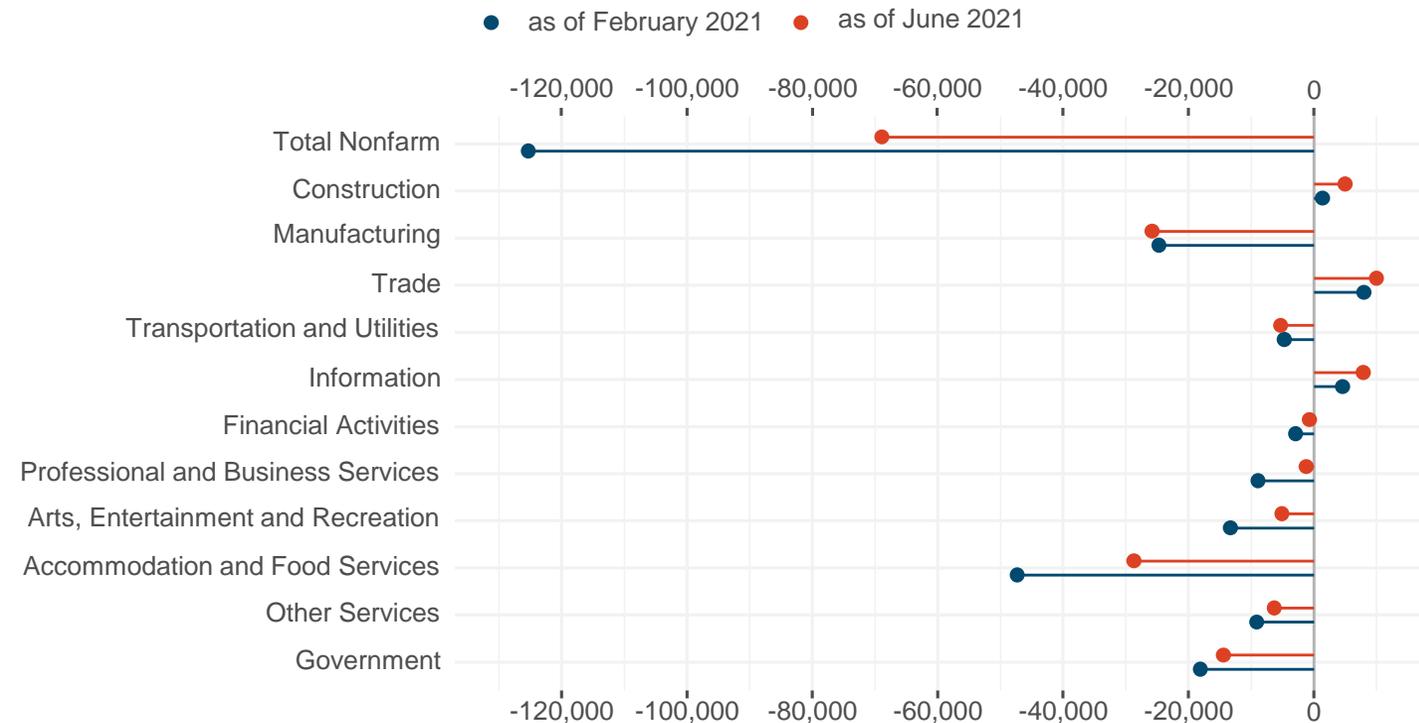


Source: U.S. Bureau of Labor Statistics. Seasonally Adjusted.

# Shortage of available workers is slowing down employment recovery

- Mismatch in location and skills
  - some workers moved
  - some changed preferences
- Labor force participation low
- Health risk concerns, family care
- Extended unemployment benefits and relief checks allow some workers to be more choosy in their job search

Change in Seattle MD employment, from February 2020



Source: Washington Employment Security Department. Not Seasonally Adjusted.



# Demand for office space remains low

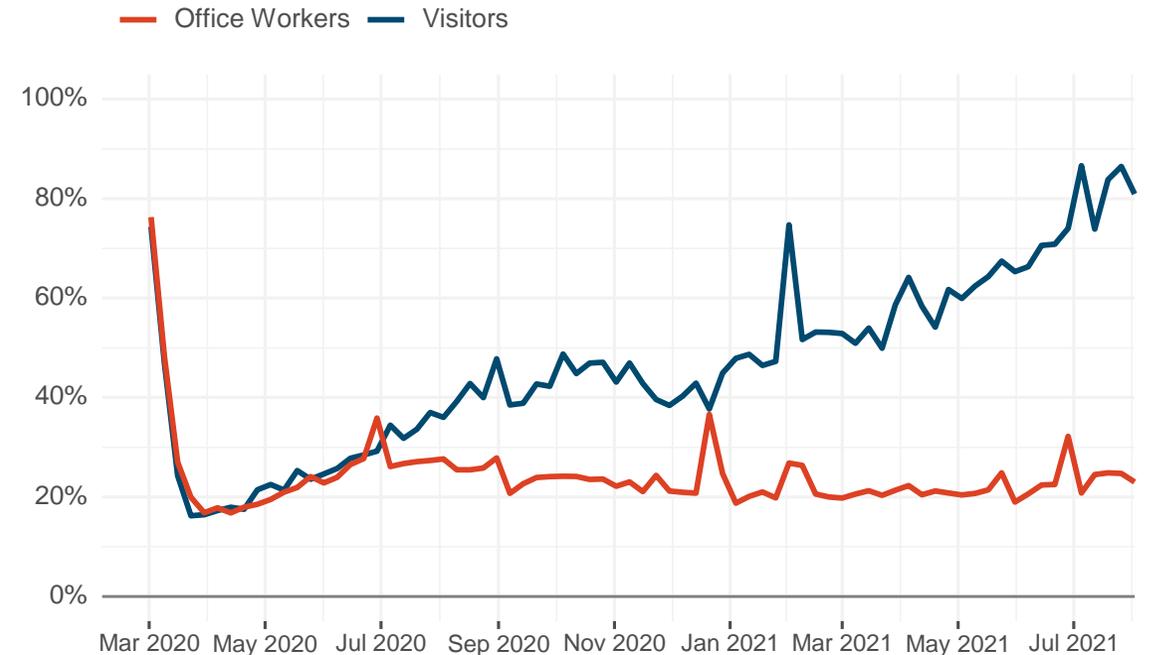
- Office vacancy rates reported by CBRE show large increase from 2019 Q4 to 2021 Q2

	2019 Q4	2021 Q2
U.S.	12.1%	16.5%
Seattle CBD	8.9%	20.6%
Seattle Downtown	7.3%	17.5%
Eastside	7.0%	10.6%
Bellevue CBD	4.3%	10.2%

- June 2021 Seattle VTS Office Demand Index was 71% of the 2018-2019 average, for U.S. it was 86%

## Downtown Seattle Recovery

Compared to equivalent week in 2019



Source: Downtown Seattle Association, foot traffic based on cell phone location data by Placer.ai



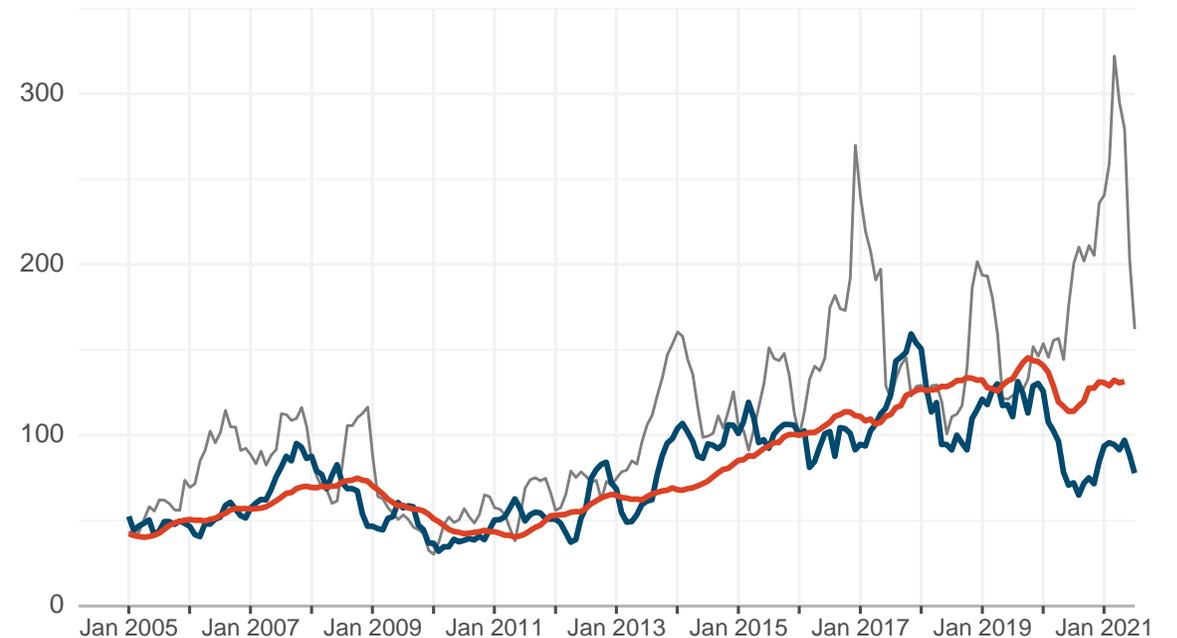
# Construction sector outlook is uncertain

- Value of building permits issued by SDCI
  - 27.0% lower in first seven months of 2021 compared to 2019
- **Commercial real estate accounted for 80.4% of the overall decline relative to 2019**
  - 56.4% of the total value of permits in 2019
  - total value 42.2% lower though July
- **Decline somewhat offset by residential permits**
  - 31.8% of the total value of permits in 2019
  - total value 15.0% higher though July

**SDCI building permits value and construction taxable sales**

Six month moving averages of monthly values, Index Jan 2016 = 100

— Construction taxable sales — SDCI permit issue — SDCI permit intake



# U.S. economic forecast revised up considerably

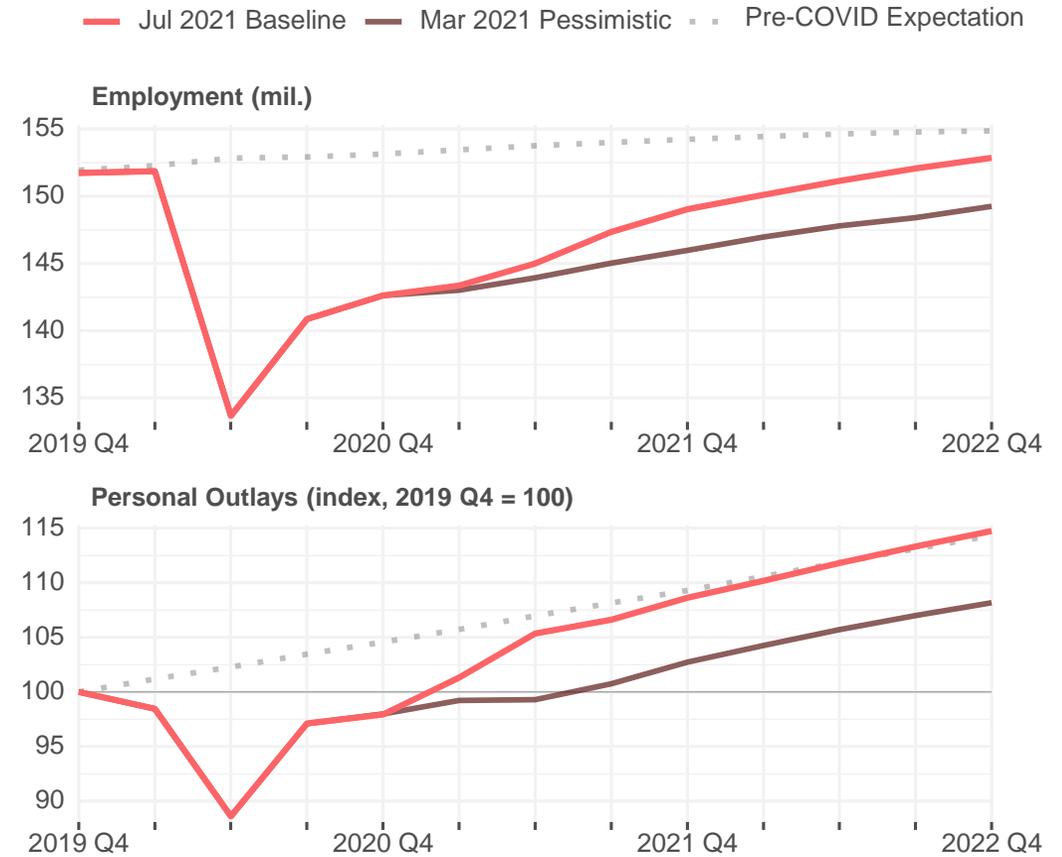
- IHS Markit July 2021 scenario probabilities
  - Baseline 50%
  - Pessimistic 20% (down from 25% in March)

## Large upward revision for 2021 outlays and sales

	March 2021 Pessimistic	July 2021 Baseline	% Change
Employment (mil.)	144.5	146.2	<b>1.2%</b>
Personal outlays (\$ bn.)	\$15,408.7	\$16,170.9	<b>4.9%</b>
Retail sales (\$ bn.)	\$6,767.6	\$7,265.1	<b>7.4%</b>

- CPI-U inflation forecast for 2021 up from 1.9% to 3.7% as increased demand faces supply-chain disruptions

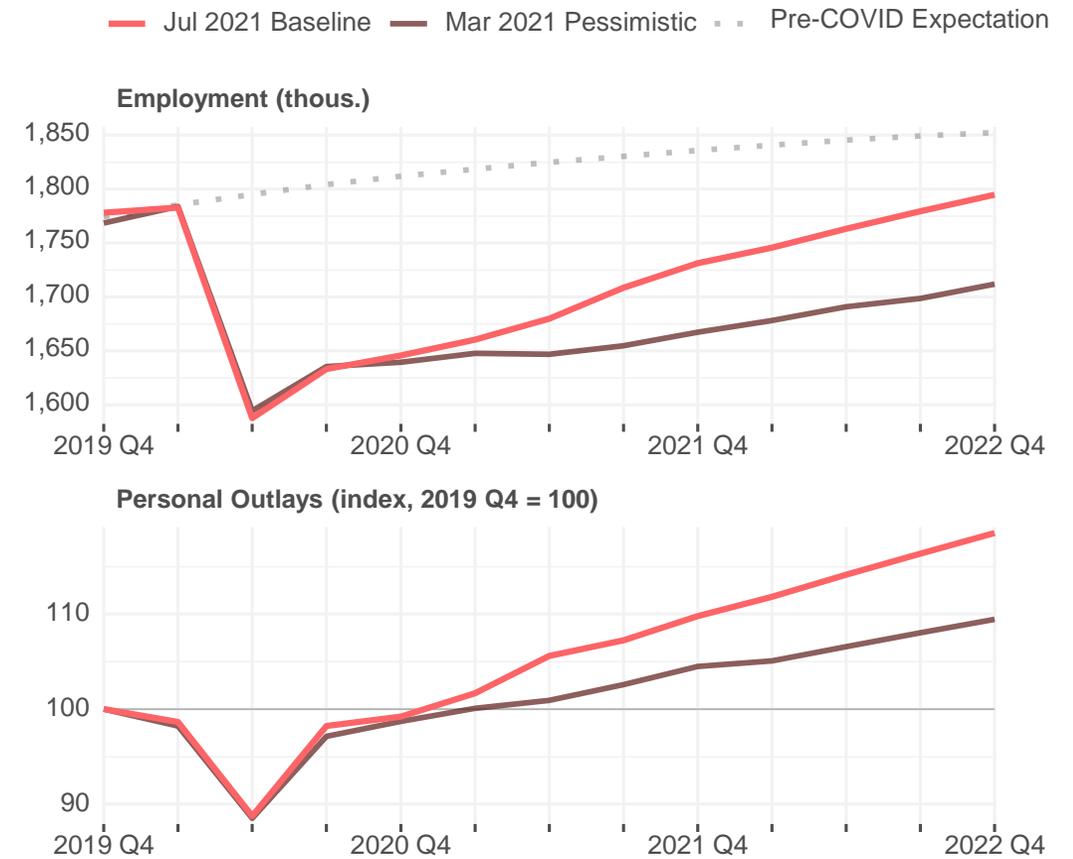
IHS Markit U.S. Forecast, July 2021 vs March 2021



# Regional Economic Forecast for Seattle MD

- Seattle MD forecast upward revision for 2021: employment 2.5% higher, personal outlays 4.2% higher than predicted in March
- Seattle MSA CPI-W inflation forecast for 12 months ending June 2022 up from 2.8% to 4.8%

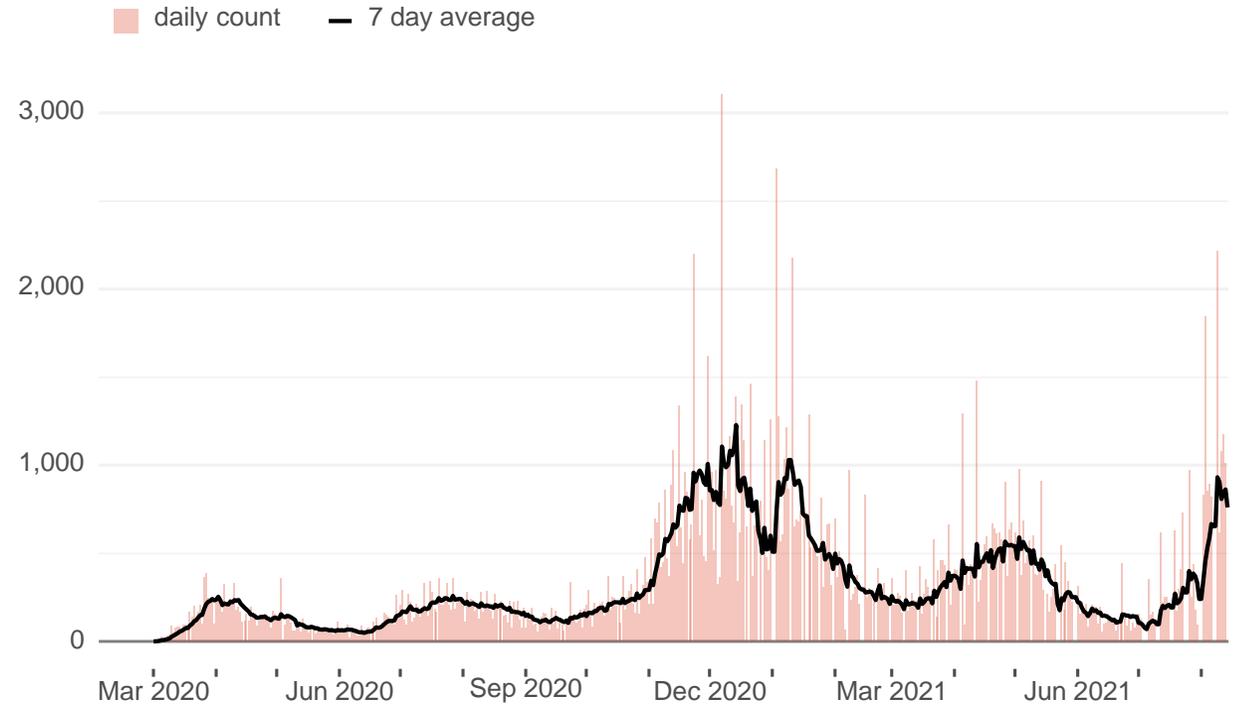
Seattle MD Forecast, July 2021 vs March 2021



# Economic Forecast Risks

- Rising number of cases due to Delta variant
- Consumers may delay returning to pre-pandemic spending patterns
- High inflation, supply-chain disruptions, shortage of available workers
- Potential global drop in demand due to virus surges

COVID-19 cases, Seattle MD



Source: Data from The New York Times, based on reports from state and local health agencies.



# Revenue Update



# Revenue Forecast Scenarios

- Current forecast is based on the baseline scenario
- Throughout 2020 and in the April 2021 forecast, we have used the “pessimistic” growth scenario while Seattle’s revenues tracked that slower growth trajectory
- Sales tax and B&O tax receipts have exceeded April forecast in 2021 Q1 and Q2
- Forecast probabilities have shifted from virtually even in mid-2020 to current 50% baseline and 20% pessimistic
- Future virus-induced policy adjustments restricting local and regional economic activity may again lead to Seattle’s deviation from national forecast expectations



# Payroll Expense Tax

- Updated revenue estimate using 2020 data from Washington State Employment Security Department
- Revenue estimate for 2021 revised up by \$3.5 million to \$217.7 million
- Forecast risks
  - Additional revenue from businesses with payroll expense above \$1 billion
  - Location in ESD data largely reflects centralized payroll reporting rather than actual work location
  - Work from home, hours worked method
  - Employers responding to tax disincentive effects
  - All thresholds are inflation adjusted, 2021 June-over-June Seattle MSA CPI-U inflation reached 5.5%, significantly higher than previously predicted



# Sales Tax, B&O Tax revenue forecasts improved

- Outperformed April forecast as a result of higher personal outlays and stronger than expected retail sales

## Sales tax - Regular and Optional

- March through July distribution \$105.1 mil. so \$8.4 mil. (8.7%) above April forecast

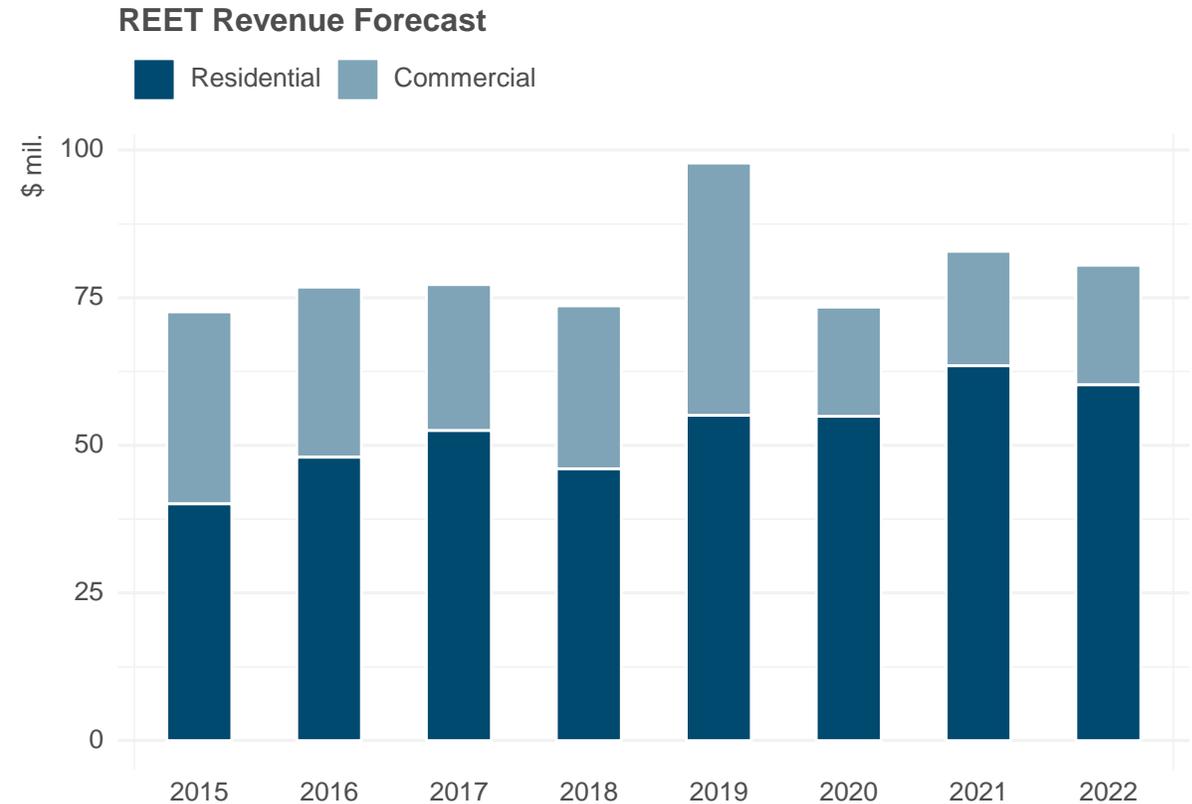
## B&O tax

- 2021 Q1 obligations revenue \$62.8 mil. so \$1.9 mil (3.0%) above April forecast
- 2021 Q2 obligations revenue \$69.2 mil. so far, \$3.5 mil. (5.3%) above April forecast



# Real Estate Excise Tax

- REET revenue \$55.4 mil. through July, on track to reach \$82.9 mil. forecast from April
- Average sale price of homes rising faster than expected in March, revised up by 7.0%
- Sales of existing single-family homes however predicted to be 8.9% lower, condos 8.4% lower



# Tax Revenue Forecast

Revenues (\$ thousands)	2020 Actuals	2021 Adopted	2021 April	2021 August	2021 Change Aug over Apr	2022 April	2022 August	2022 Change Aug over Apr
Property Taxes	353,787	356,740	360,499	360,500	1	372,329	372,330	0
Sales Taxes	255,124	273,950	278,647	297,284	18,638	300,955	304,217	3,261
Business & Occupation Taxes & Licenses	249,184	263,168	268,833	286,408	17,575	290,473	318,792	28,319
Utility Taxes	215,379	208,364	217,291	212,555	(4,736)	220,796	215,924	(4,872)
Payroll Tax	-	214,284	214,284	217,749	3,465	-	-	-
Court Fines/Parking	27,488	31,454	30,375	39,638	9,263	39,489	46,121	6,632
Licenses & Permits	31,327	32,029	33,183	32,507	(675)	37,667	39,027	1,360
Grants & Transfers	156,397	87,137	86,409	94,021	7,611	13,084	12,983	(102)
All Else	96,629	106,861	104,731	106,911	2,180	117,939	112,337	(5,602)
<b>General Fund Total</b>	<b>1,385,316</b>	<b>1,573,988</b>	<b>1,594,251</b>	<b>1,647,573</b>	<b>53,322</b>	<b>1,392,733</b>	<b>1,421,730</b>	<b>28,997</b>
Payroll Tax	-	-	-	-	-	233,911	234,627	716
Short-term Rental Tax	3,763	5,775	5,775	7,190	1,415	9,450	9,807	357
Sweetened Beverage Tax	15,674	20,772	20,772	20,772	-	22,292	22,292	-
Mercer Megablock Sale	-	-	66,500	66,500	-	-	-	-
Commercial Parking Tax	19,354	29,181	29,181	30,891	1,710	42,404	40,158	(2,246)
School Zone Camera Fund	3,130	4,713	7,298	5,443	(1,855)	14,622	10,622	(4,000)
<b>Other General Government Revenues - Total</b>	<b>41,921</b>	<b>60,441</b>	<b>129,526</b>	<b>130,795</b>	<b>1,269</b>	<b>322,679</b>	<b>317,507</b>	<b>(5,172)</b>
<b>Grand Total - General Government Resources</b>	<b>1,427,237</b>	<b>1,634,429</b>	<b>1,723,778</b>	<b>1,778,369</b>	<b>54,591</b>	<b>1,715,411</b>	<b>1,739,204</b>	<b>23,792</b>



# Tax Revenue Forecast

Revenues (\$ thousands)	2020 Actuals	2021 Adopted	2021 April	2021 August	2021 Change Aug over Apr	2022 April	2022 August	2022 Change Aug over Apr
Admission Tax	1,742	5,457	5,457	8,696	3,239	9,186	18,682	9,497
Real Estate Excise Tax (REET)	76,642	65,360	82,871	82,871	-	80,492	80,492	-
STBD Sales Tax	26,708	33,404	33,990	36,285	2,295	47,243	47,755	512
STBD Vehicle License Fee	29,794	10,855	11,843	11,843	-	16,012	16,012	-
<b>Seattle Transportation Benefit District (STBD)</b>	<b>56,502</b>	<b>44,259</b>	<b>45,834</b>	<b>48,128</b>	<b>2,295</b>	<b>63,255</b>	<b>63,767</b>	<b>512</b>

