

Economic and Revenue Forecast April 2025

**Finance, Native Communities, and Tribal Governments
Committee
April 16, 2025**

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

Outline

This presentation is an abbreviated version of that provided to the Forecast Council on April 10th. In addition, it includes relevant information and data that became available since then.

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

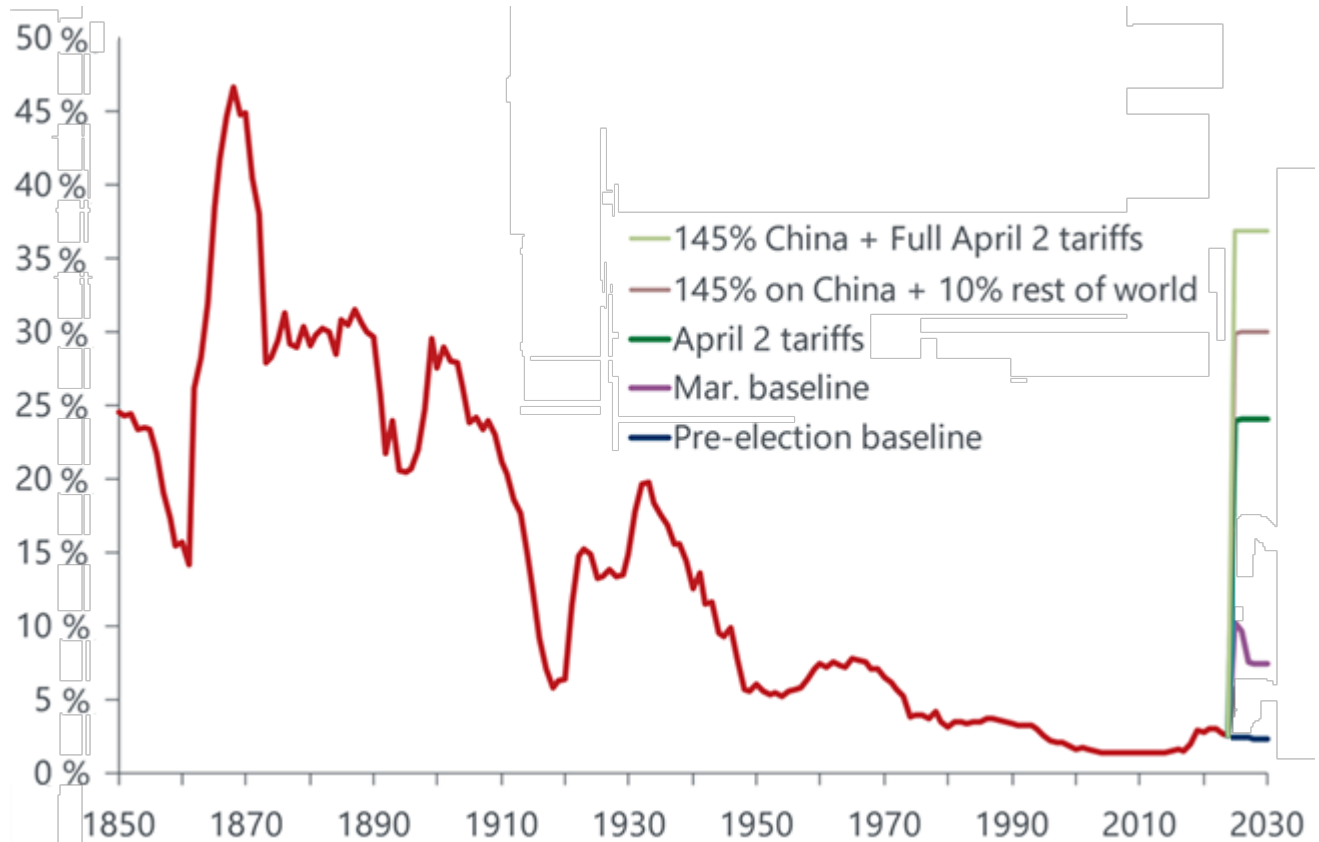
- Actual 2024 revenues
- General Fund Revenues Forecast
- Selected Other Government Revenues

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.
- On April 9, a 90-day pause was announced for the larger country-specific April 2 tariffs, reverting to an across-the-board 10% tariff, except for China.
- Total tariffs imposed on China jumped to 145%, China will place an 125% tariff on its imports from the U.S.

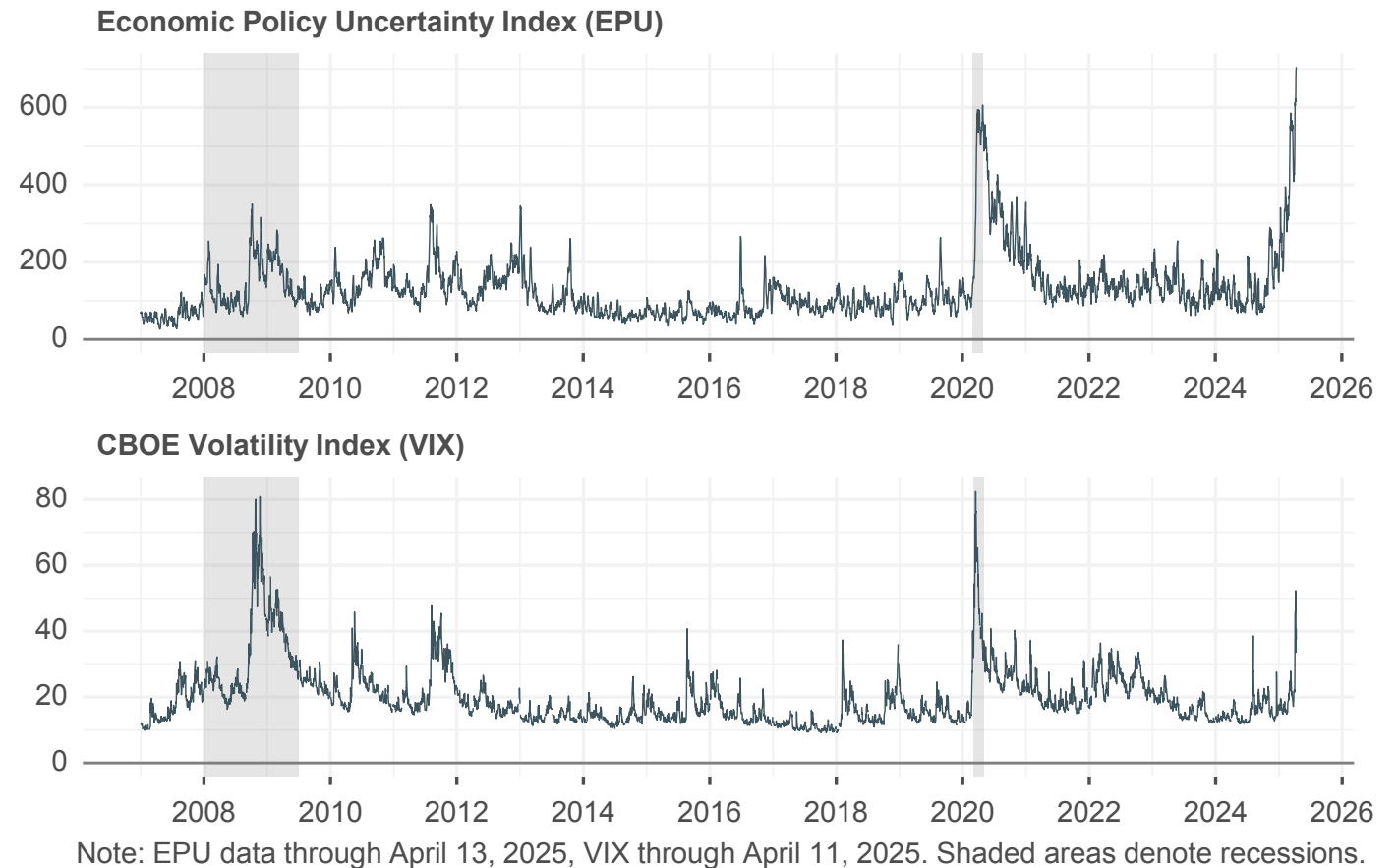
U.S. Effective Tariff Rate



Source: Oxford Economics

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

- **There's an extraordinary amount of economic uncertainty.**
- Large changes in trade policy will significantly impact the global economy. Economic impacts on output, prices, and employment are however hard to assess.
- The uncertainty has led to a steep drop in stock prices and a spike in the stock market volatility.
- Recession fears resurfaced over past few weeks and increased dramatically after tariff announcements on April 2.
- In the survey of 64 economists conducted by the Wall Street Journal between April 4 and 8, the average for the probability of a recession in the next 12 months was 45%.



Stock market has been in turmoil since April 2

- Markets recovered from the losses partially, but volatility will most likely linger.
- Any persistent decline will have a direct impact on Payroll Expense Tax revenues.
- Wealth effects will not be negligible either, so other revenues will be affected as well.
- Elevated volatility and uncertainty will likely have a negative impact on consumer and business sentiment and thus on consumption, investment, and hiring decisions. This will further weigh down on City's revenues.

U.S. S&P 500 Index



Note: Data through April 11, 2025. Shaded areas denote recessions.

Economic outlook for U.S. and Seattle MD Area

April Forecast - Adopted forecast scenario

- **During the April 10 meeting, based on the recommendation of the Forecast Office, the Forecast Council adopted the pessimistic scenario of the regional economic and revenue forecast as the official April 2025 forecast.**
- **The adopted pessimistic scenario forecast for regional economy and City's revenues is based on the pessimistic scenario forecast for U.S. national economy, released by S&P Global on March 13th.**
- 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. The March pessimistic scenario does not assume a recession, estimates of recession probability have however recently reached 40%-60%.
- In addition, there are several notable 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.
 - Tariffs, higher interest rates, and uncertainty will further contribute to the construction sector downturn.
- Given recent developments and the risks to the forecast, the Forecast Office considers the March pessimistic scenario for economic and revenue forecasts to be the more likely outcome.

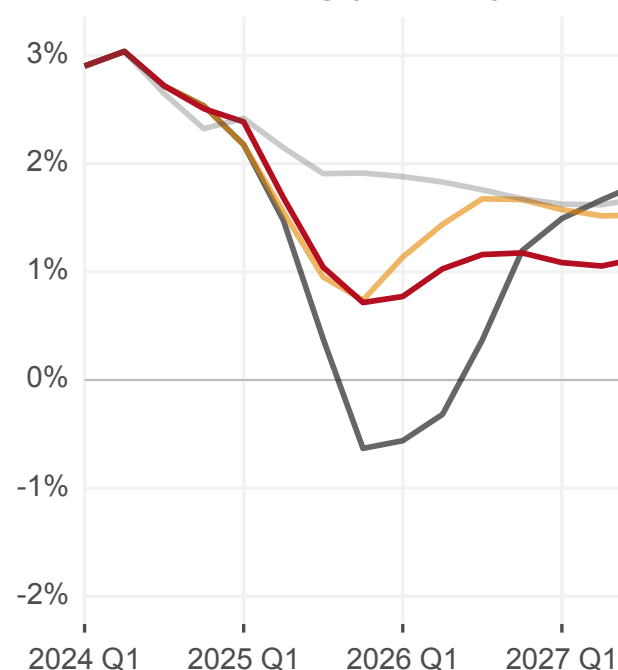
U.S. Economic Forecast – Economic and Employment Growth

- The March S&P Global forecast for U.S. was released on March 13.
- Compared to the March baseline scenario, the March pessimistic scenario assumes higher tariffs and larger counterresponse by affected countries, leading to higher inflation and slower economic growth.
- March pessimistic scenario is a *growth* recession – slower economic growth but real GDP does not decline.
- The April S&P Global forecast for U.S. was released after April 10th Forecast Council meeting. April baseline scenario is very similar to March pessimistic scenario. April pessimistic scenario features a recession, with real GDP and employment declines starting in 2025 Q3.

U.S. Economic Forecast

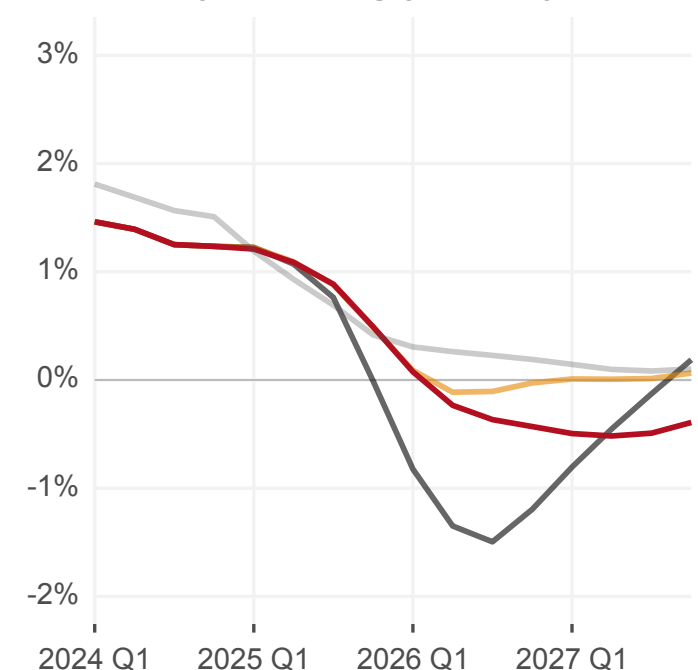
■ Oct 2024 Baseline ■ Mar 2025 Pessimistic ■ Apr 2025 Baseline ■ Apr 2025 Pessimistic

Real GDP (% chg. year over year)



Source: S&P Global Market Intelligence

Employment (% chg. year over year)



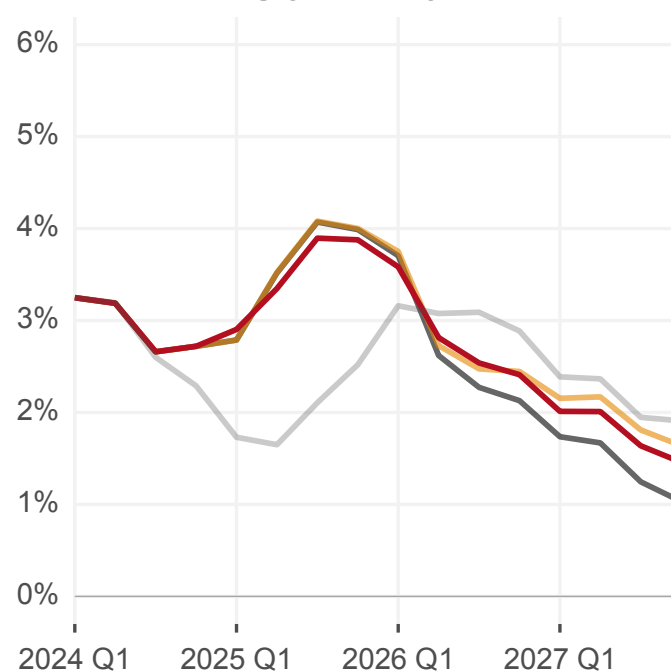
U.S. Economic Forecast – Inflation and Interest Rates

- Back in October 2024, monetary policy easing was expected to continue throughout 2025.
- The outlook regarding monetary policy has become much more uncertain 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.

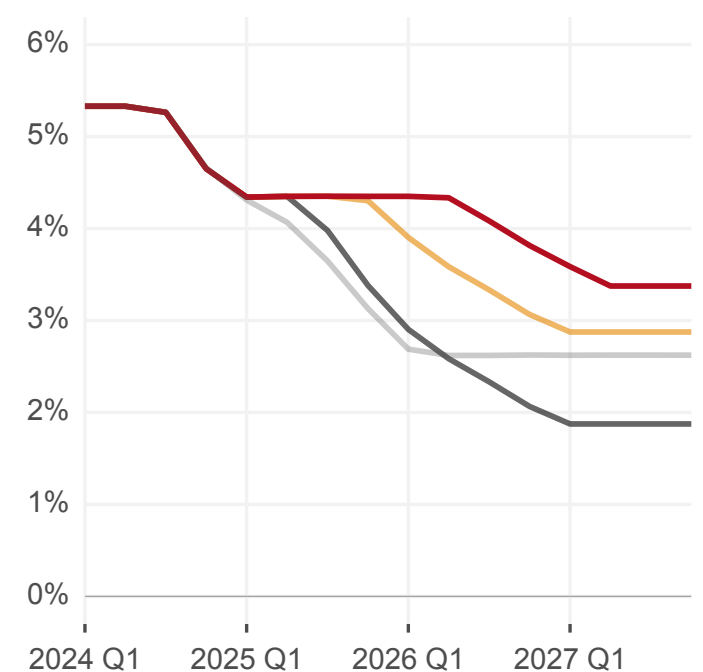
U.S. Economic Forecast

■ Oct 2024 Baseline ■ Mar 2025 Pessimistic ■ Apr 2025 Baseline ■ Apr 2025 Pessimistic

CPI-U (% chg. year over year)



Federal funds effective rate (% per annum)

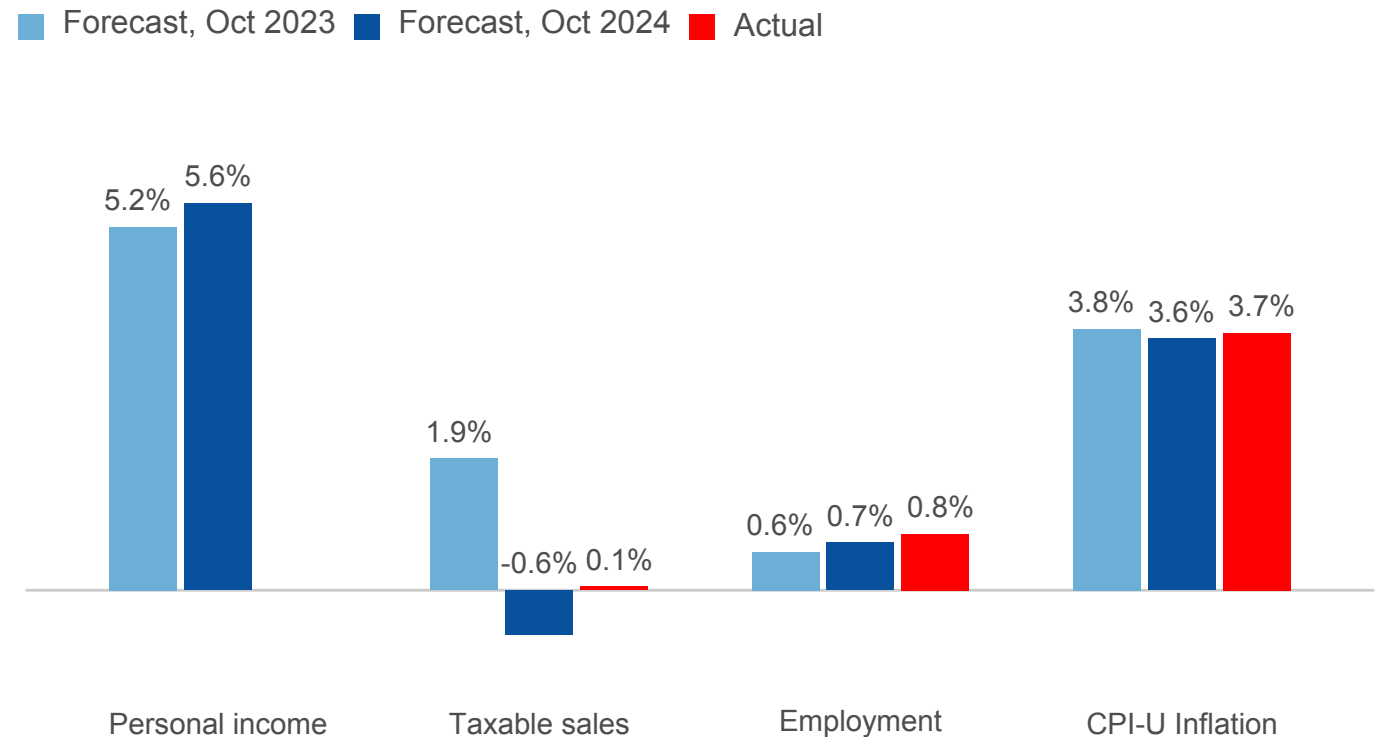


Source: S&P Global Market Intelligence

Seattle area - Economic performance in 2024, Forecast vs Actual

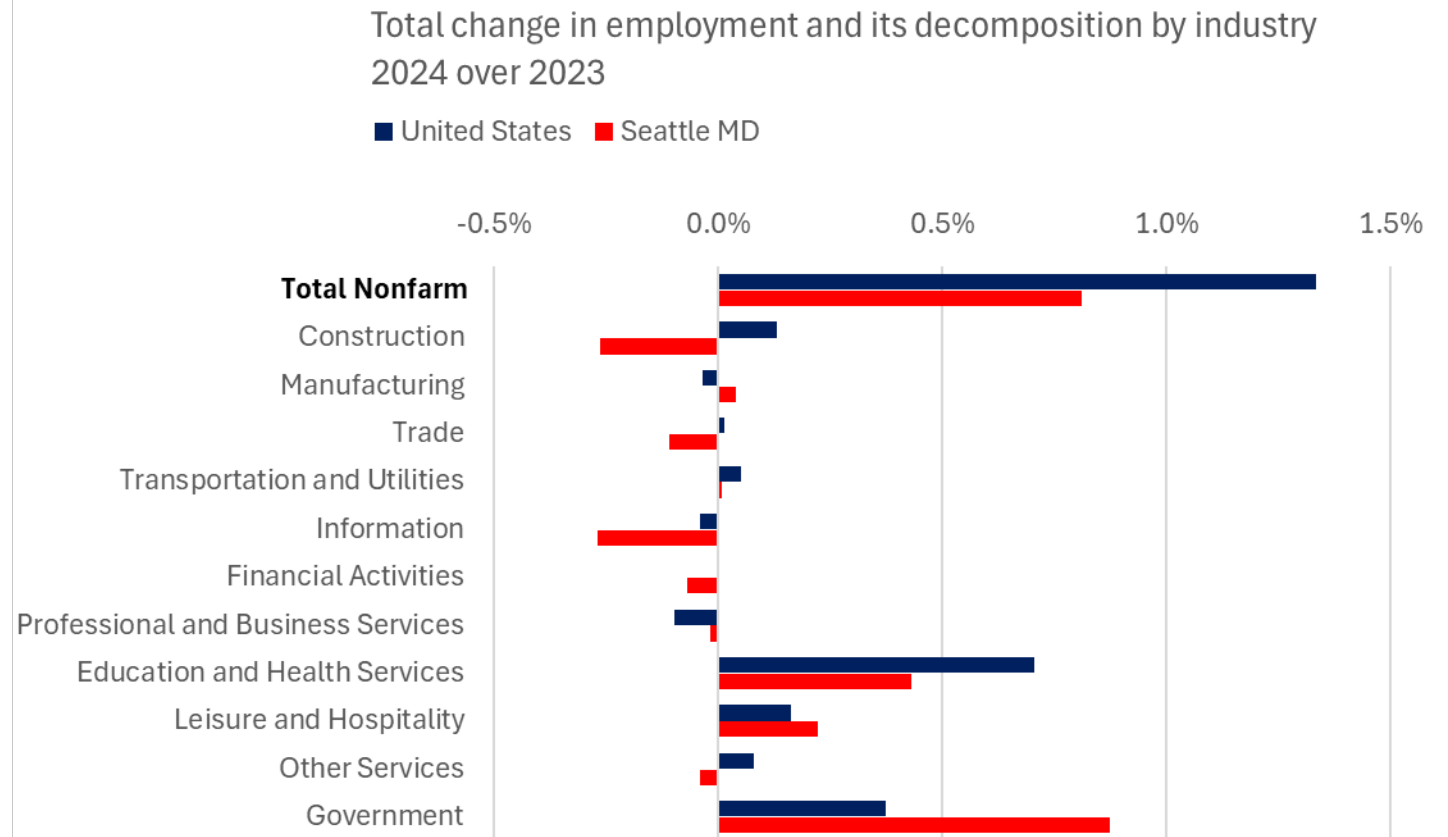
- Regional job growth was marginally above our forecasts in 2024, but it was notably weaker than in the national economy.
- Regional inflation remained higher than at the national level, but it cooled down faster and was in general in line with our expectations.
- Seattle's taxable sales were flat. Consumer 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 largely offset by notable declines in Construction, Trade, and Information.



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

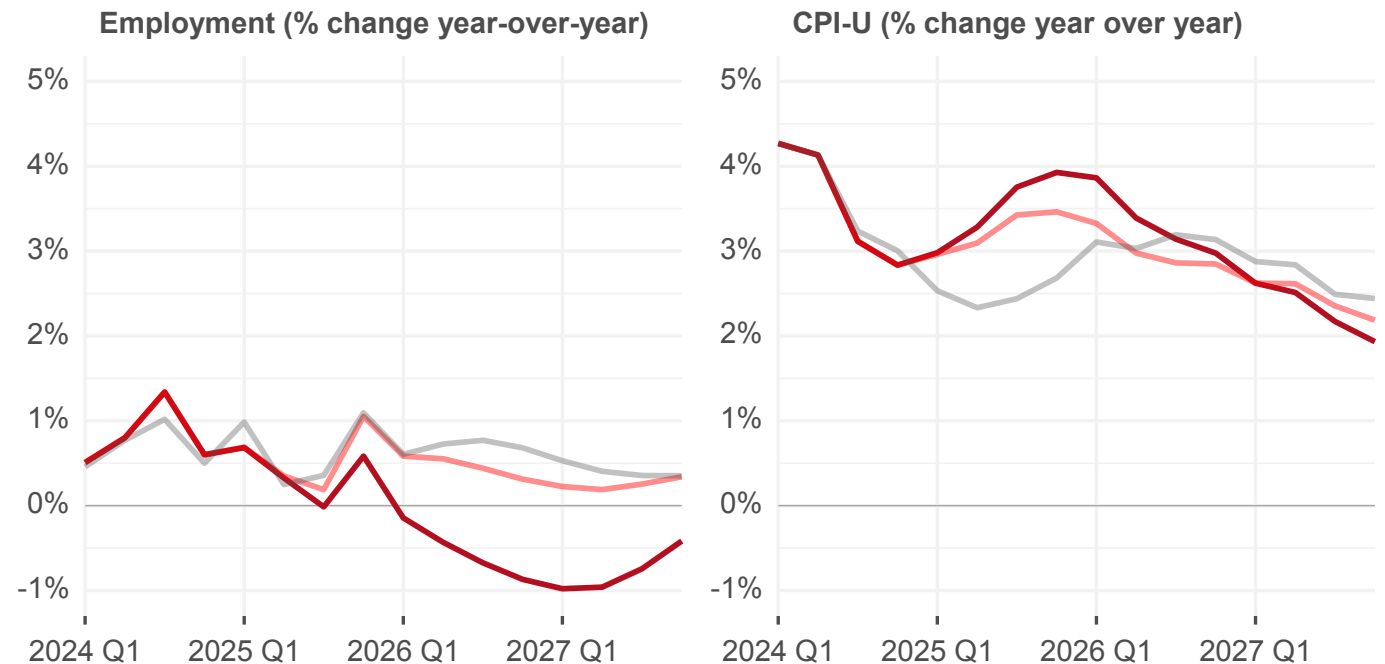
Regional employment forecast for Seattle Metropolitan Division

- Regional economic forecast was developed based on the March S&P Global forecast for U.S. economy released on March 13.
- In March, S&P Global assigned 50% probability to their baseline scenario, 25% to the pessimistic scenario, and 25% to the optimistic scenario.
- March pessimistic scenario is a *growth* recession – slower economic growth but real GDP does not decline.
- In the March pessimistic scenario, adopted by the Forecast Council as the official forecast, regional employment declines about 1.5% between 2025 Q2 and 2027 Q3

Regional Forecast for Seattle area

Year-over-year CPI-U change

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



Note: Employment for Seattle MD (King & Snohomish counties), CPI-U for Seattle MSA (King, Snohomish, Pierce)

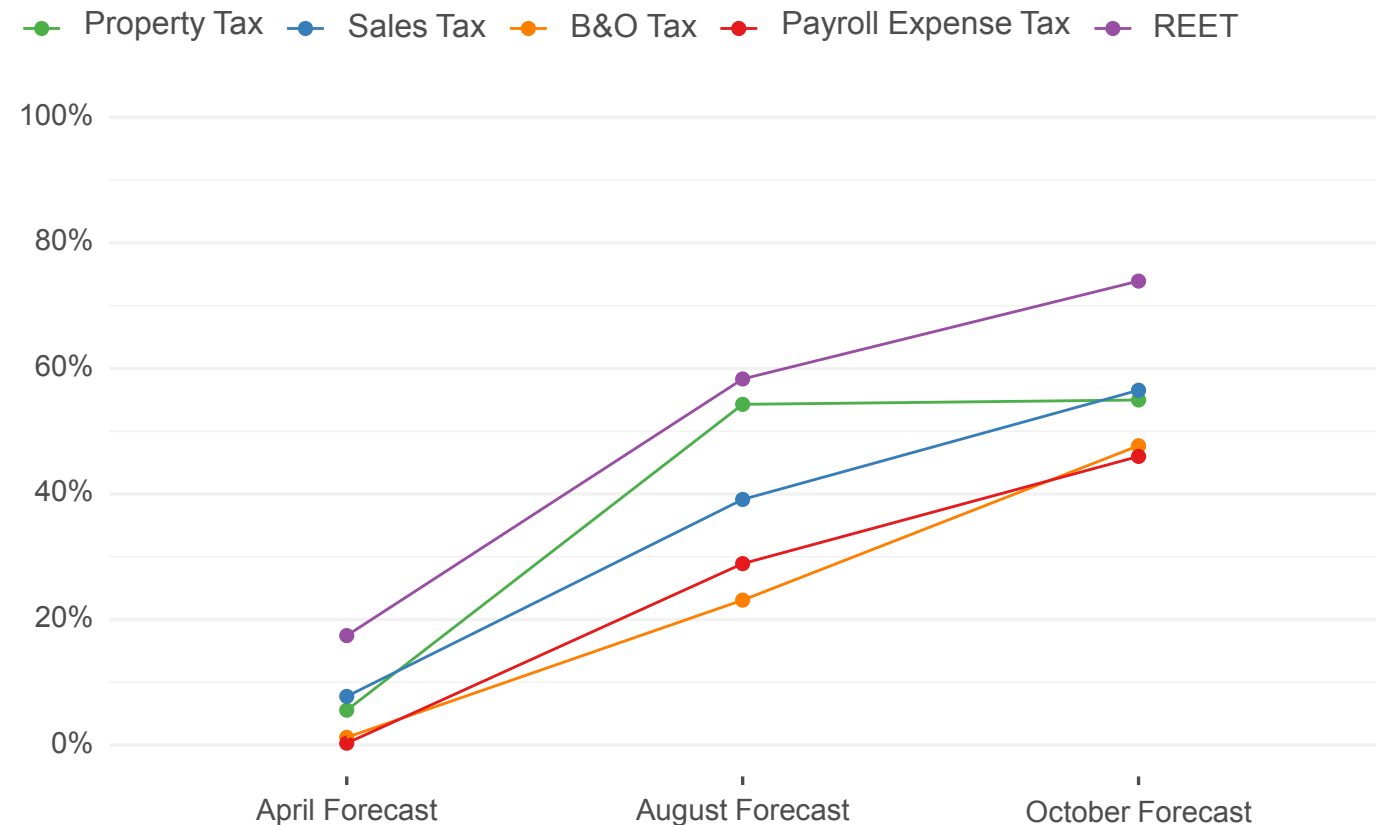
2024 Revenue Actuals



For largest 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.

Selected Other Revenues - 2024 Actuals vs Forecast (\$ millions)

Revenue Source	Forecast, Oct. 2024, \$mil.	Actual Revenues, \$ mil.	Variance from forecast, \$ mil.	Variance from forecast, %
Payroll Expense Tax	\$406.8	\$360.0	-\$46.7	-11.5%
Real Estate Excise Tax	\$58.9	\$62.7	\$3.9	6.5%
Admission Tax	\$25.8	\$24.8	-\$1.0	-3.9%
Sweetened Beverage Tax	\$20.9	\$20.2	-\$0.8	-3.7%
Short Term Rental Tax	\$11.9	\$12.1	\$0.1	1.2%
STBD Sales Tax	\$52.8	\$53.0	\$0.2	0.4%
STBD Vehicle License Fee	\$19.5	\$19.6	\$0.2	0.8%
Commercial Parking Tax	\$52.4	\$50.0	-\$2.4	-4.5%
SSTPI - School Zone Speed Enforcement	\$9.8	\$8.5	-\$1.3	-12.8%

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.

Revenue Forecast for 2025-2026

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 - 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%

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.

April 2025 Pessimistic Scenario Forecast - Summary

- The pessimistic scenario revenue forecast is based on the March pessimistic scenario regional economic forecast developed by the Forecast Office and the March pessimistic scenario U.S. economic forecast from S&P Global.
- Relative to the Adopted Budget forecast from October 2024, the April forecast for General Fund excluding Grants and Transfers has revised the revenues down by \$10.2 million for 2025 and \$40.2 million for 2026.
- The main factor behind the revision is a notably weaker economic outlook, in large part due to remarkably high economic uncertainty around proposed policies and their effects.
- The forecast for Payroll Expense Tax has been revised down by \$81.3 million for 2025 and \$86.1 million in for 2026. This reflects the lower than expected revenue collection in 2024 and a significantly weaker outlook for stock price performance of the main taxpayers (which affects the compensation their employees receive in form of stock grants).
- The pessimistic scenario forecast does not assume an outright recession. The probability of a recession has however increased dramatically over the last couple of weeks. In the survey of 64 economists conducted by the Wall Street Journal between April 4 and 8, the average for the probability of a recession in the next 12 months was 45%.

Questions?

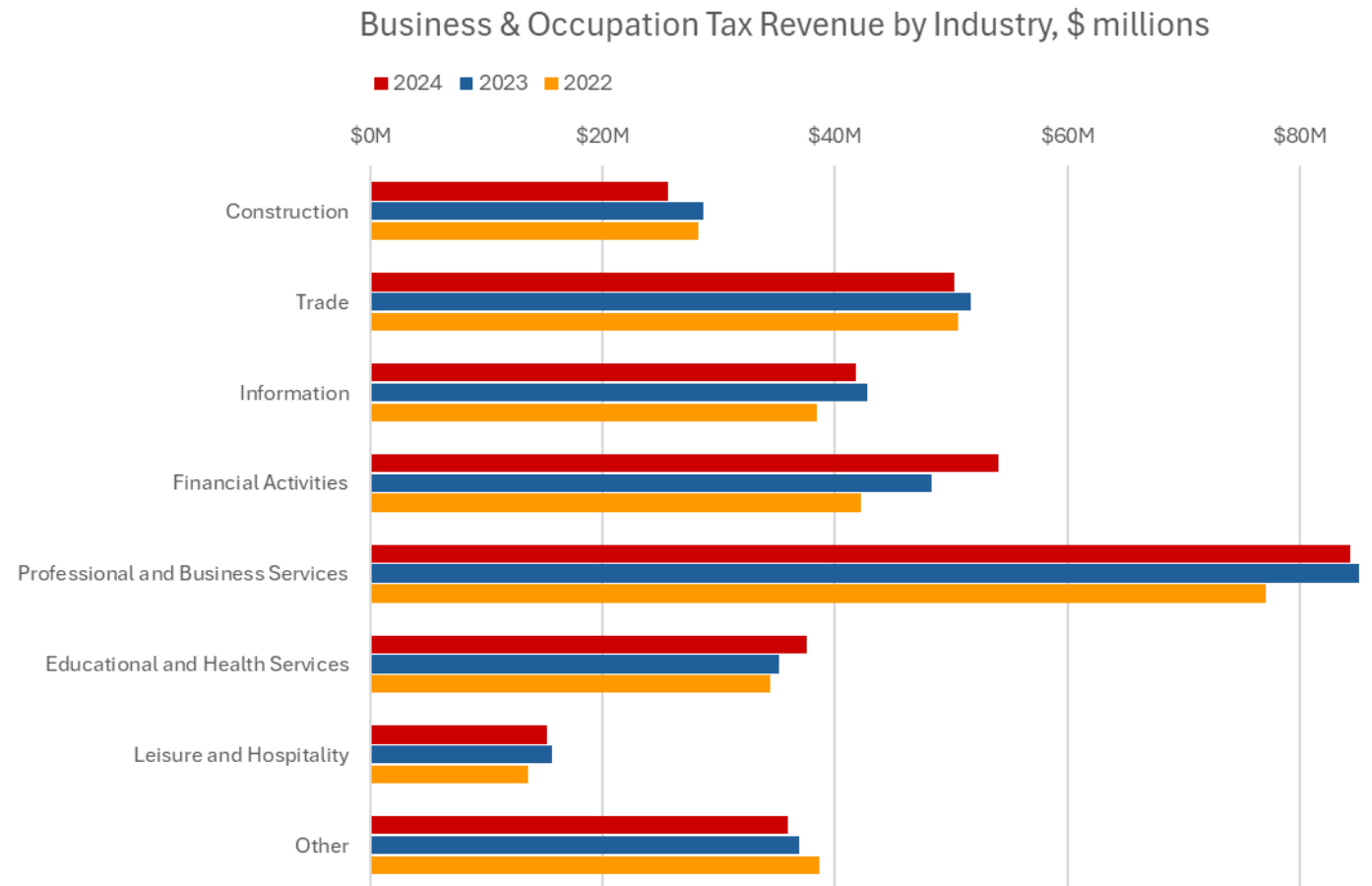


Appendix



Business and Occupation Tax - 2024 Actuals

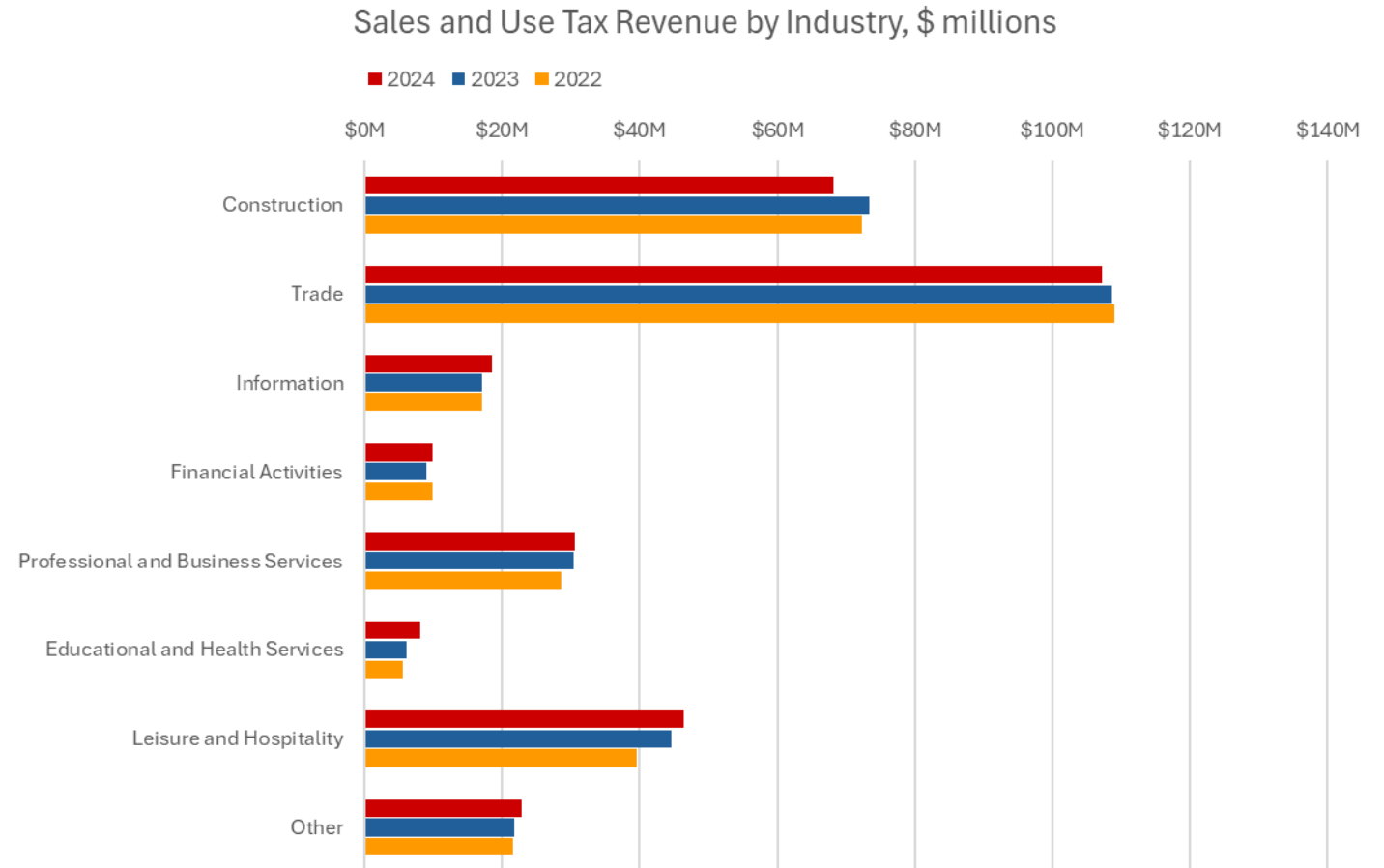
- Tax base for B&O is quite diversified, though professional and business services constitute a notably bigger share than other sectors.
- B&O tax was paid by about 20,000 businesses in 2024.
- Top 10 taxpayers accounted for about 20% of all B&O revenues.
- B&O revenues from Construction sector declined 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.

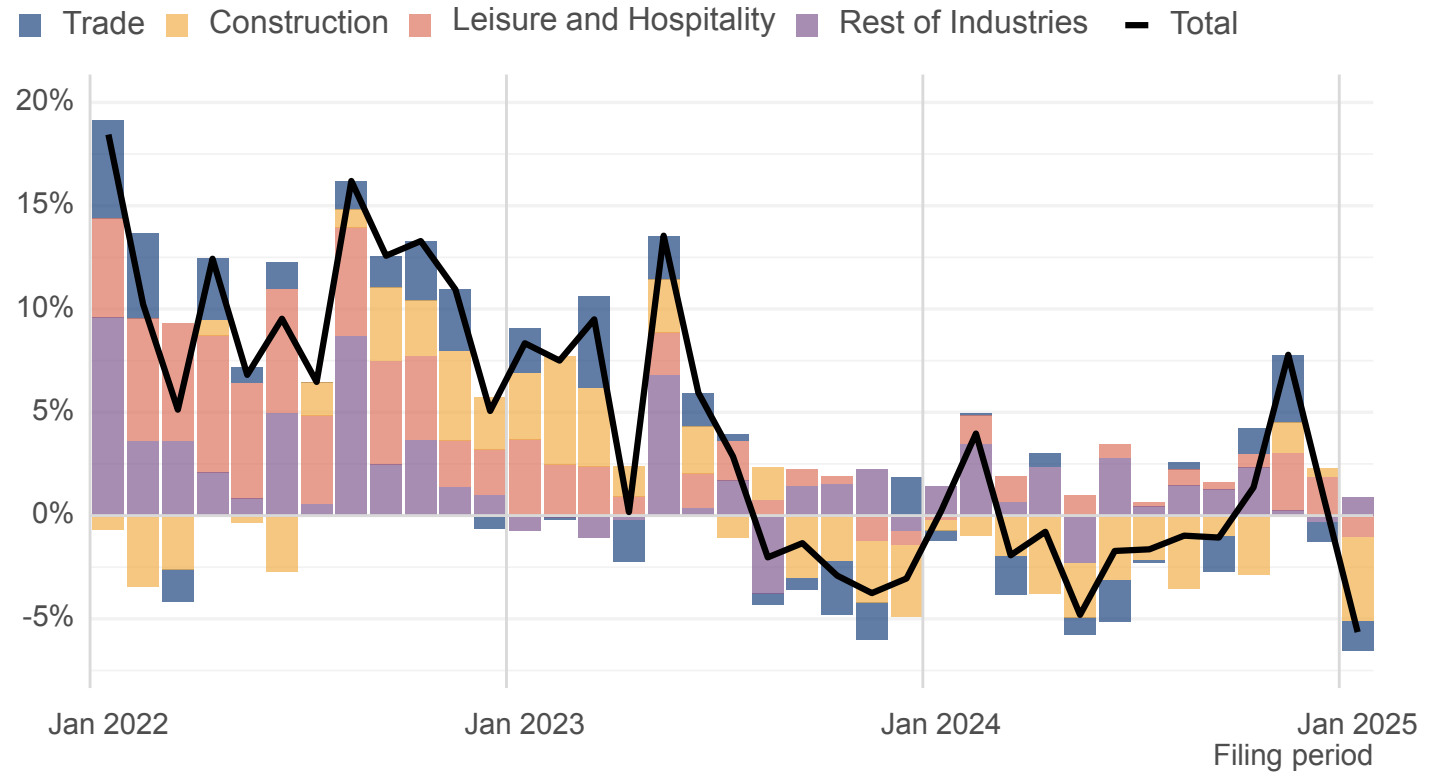


Sales and Use Tax - 2024 Actuals

- 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.

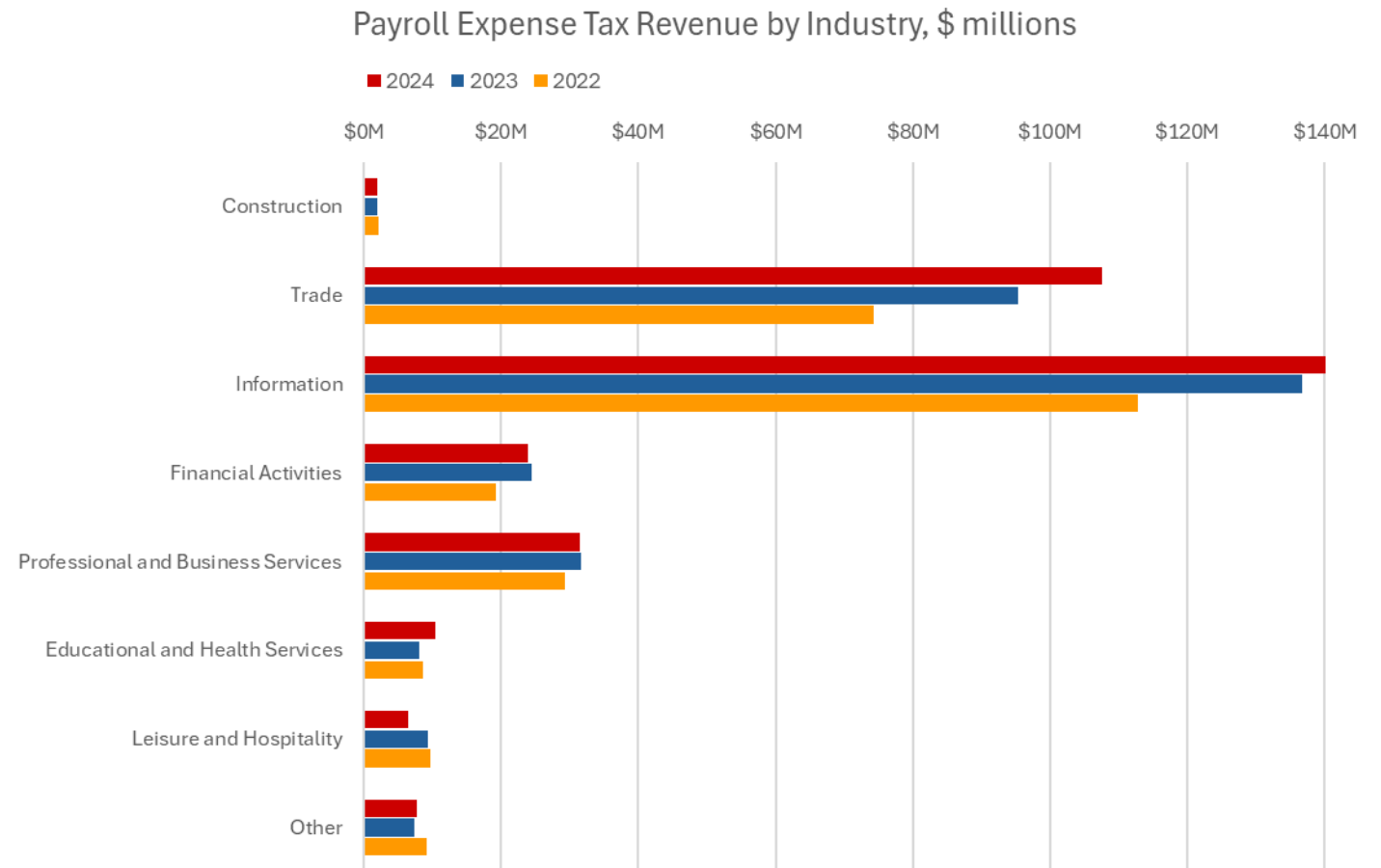
Sales Tax Revenue

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



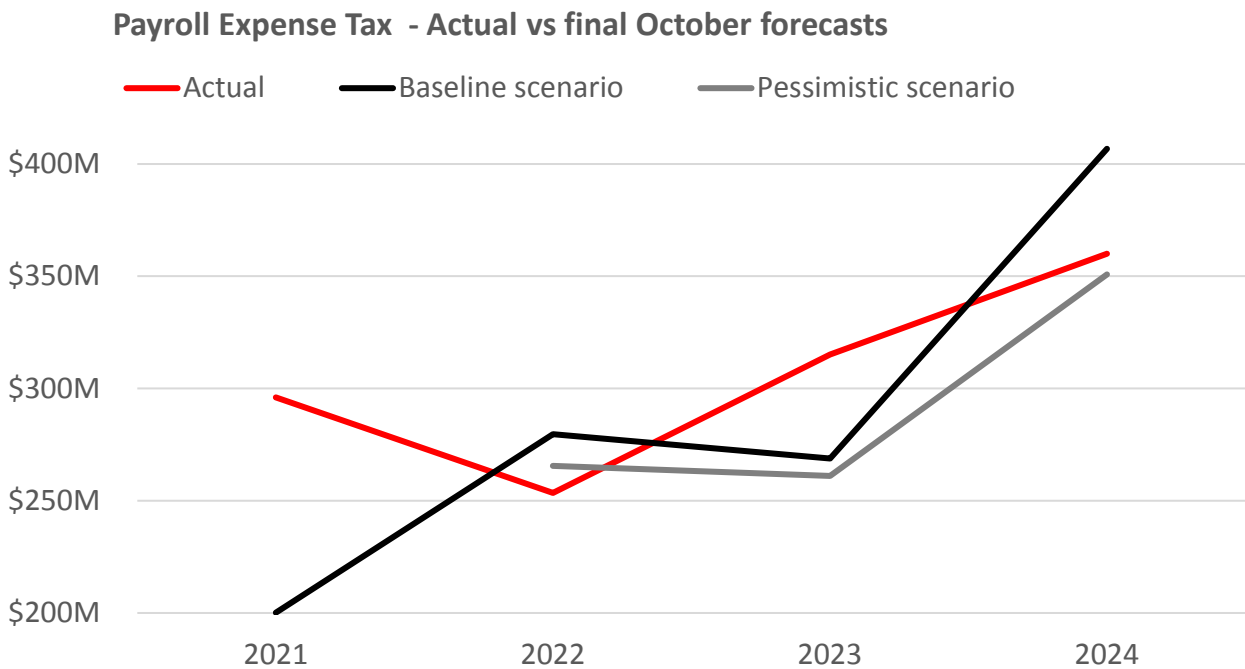
Payroll Expense Tax - 2024 Actuals

- 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

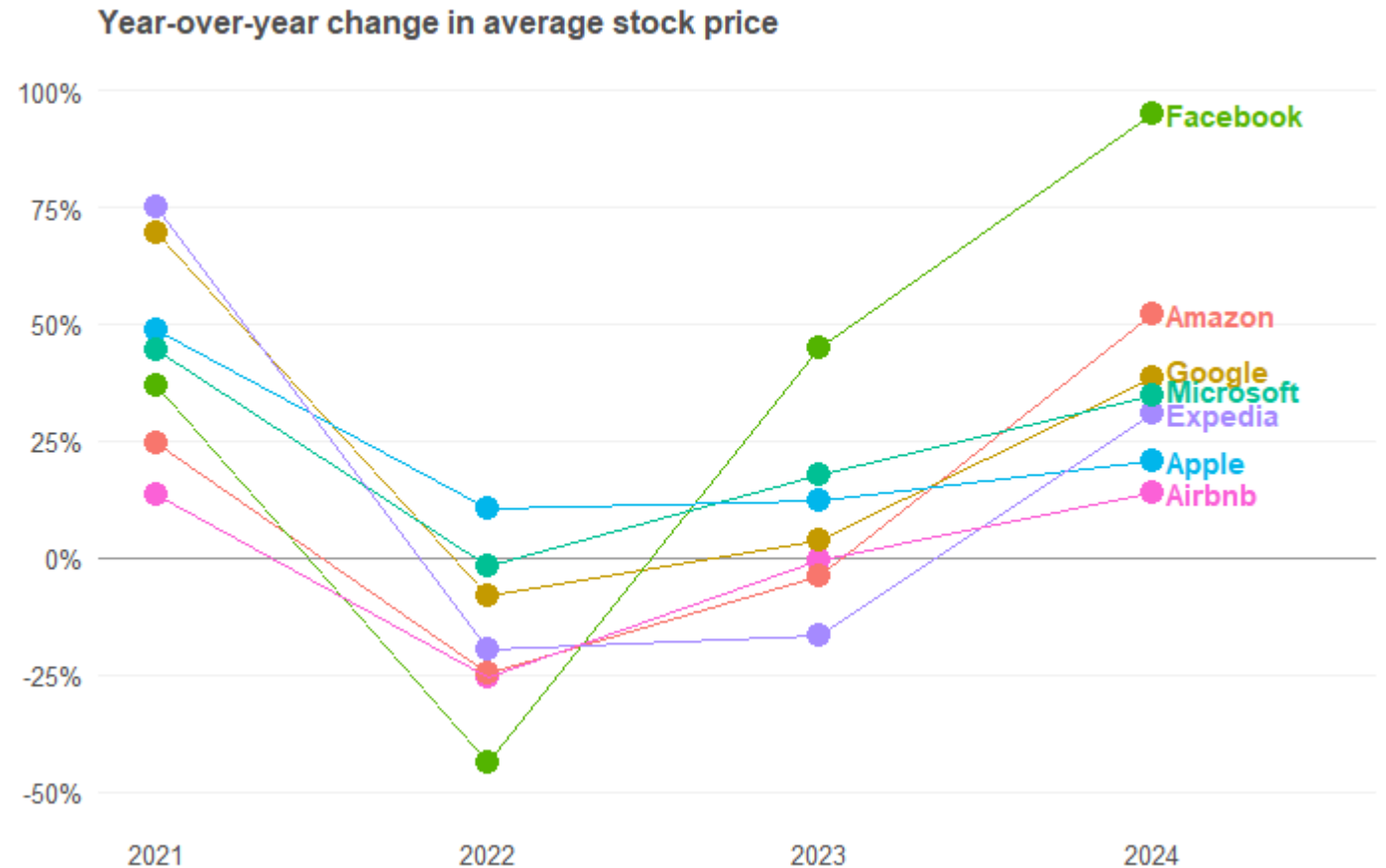


Payroll Expense Tax - Actual vs final October forecasts

	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

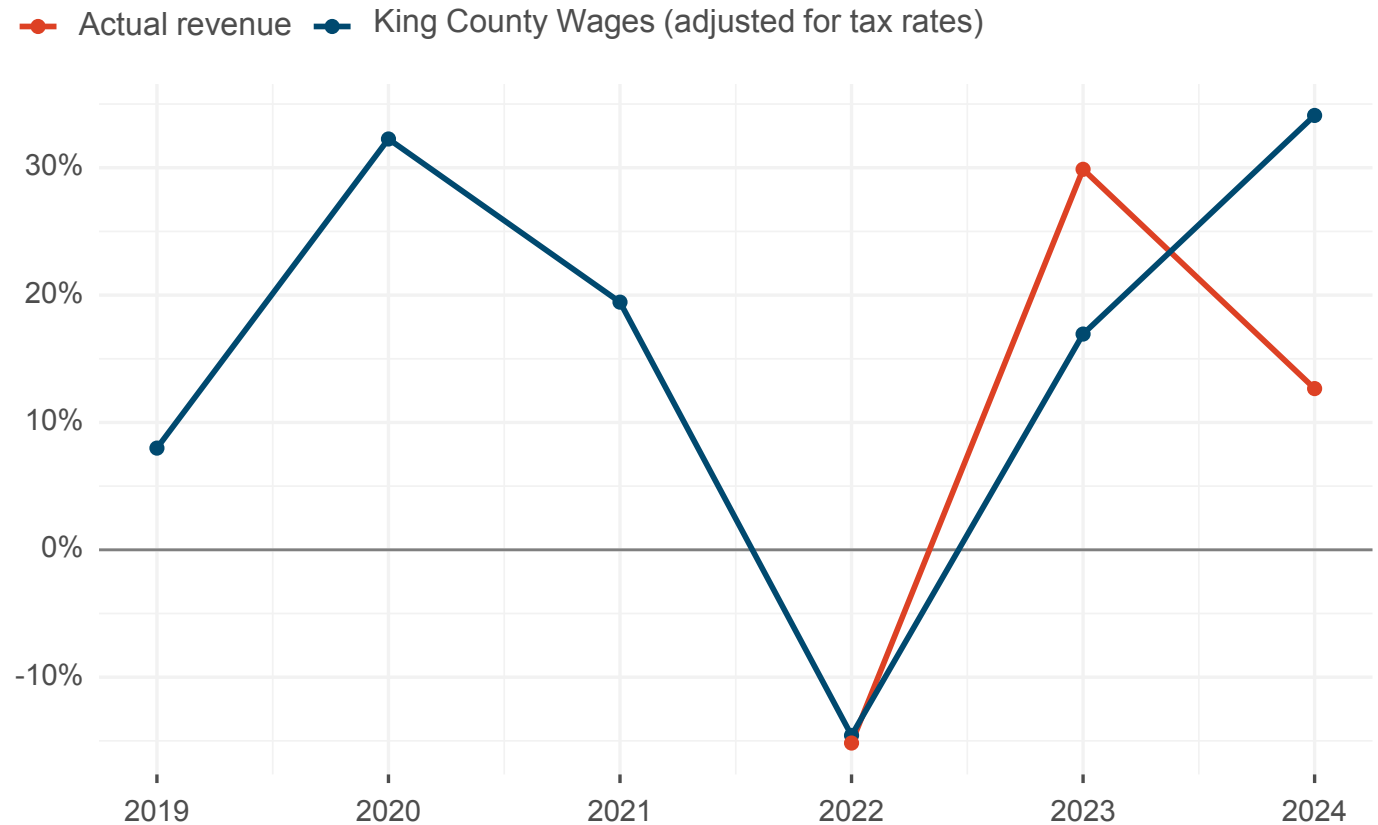
- Payroll Expense Tax revenues grew 14.2% year-over-year
- Only about \$347 million out of \$360 million were payments for 2024 obligations, remaining payments are for previous tax years
- Obligations grew about 11.3% in 2024
- Tax rate increased by a factor of 1.065 in 2024
- **Adjusted for the tax 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

- 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



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.



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.