August 2025 Economic and Revenue Forecast Update

Finance, Native Communities, & Tribal Governments Committee

August 6, 2025

Office of Economic and Revenue Forecasts
&
City Budget Office

Outline

This presentation is largely an abbreviated version of that provided to the Forecast Council on August 4th.

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

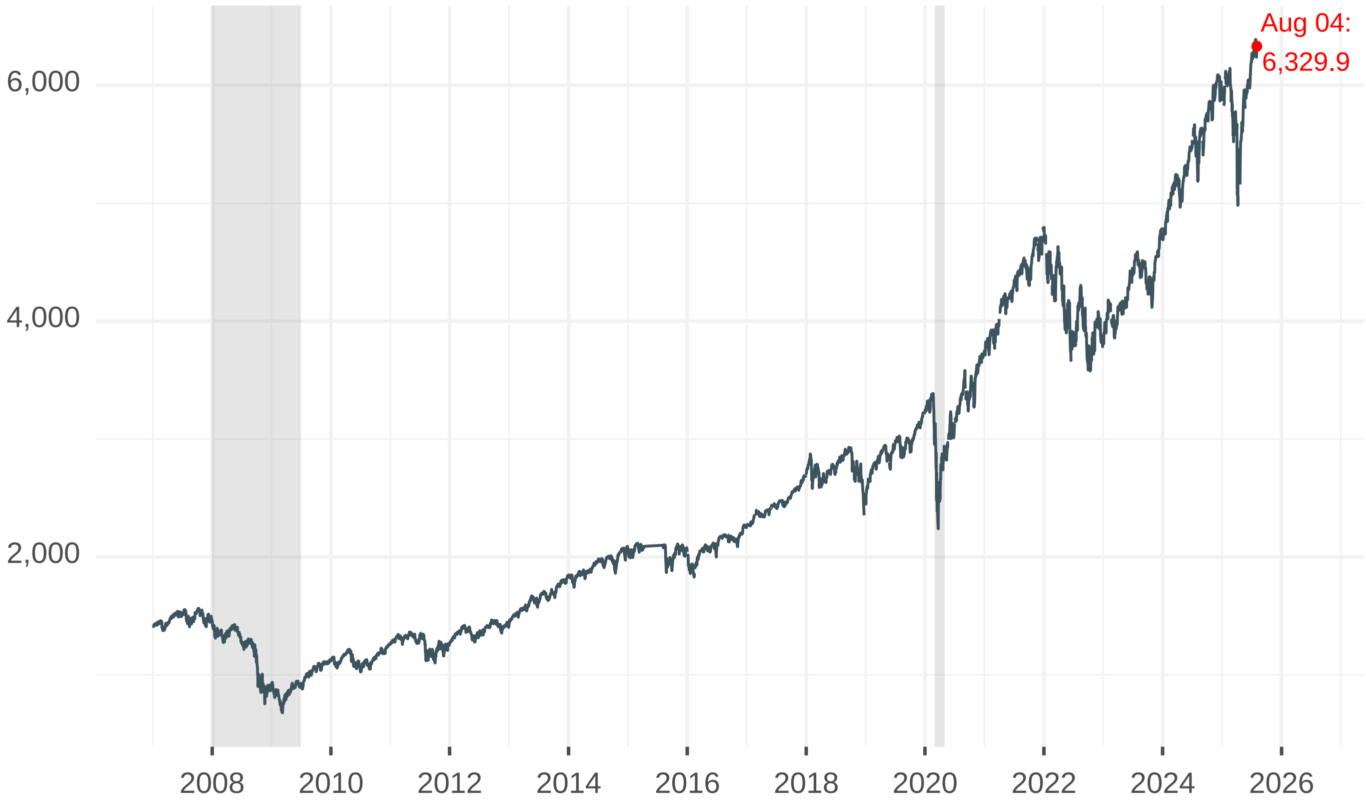
- Update on current economic developments in the U.S. economy
- July U.S. economic forecast from S&P Global and Moody's Analytics
- Forecast Office's July regional economic forecast for Seattle Metropolitan Division (King and Snohomish counties)

Part II: August revenue forecast for 2025-2026

- General Fund Revenues Forecast
- Selected Other Government Revenues

Economic uncertainty is still high, but markets have calmed down

- Tariffs announcement in April led to a large drop in stock prices and a spike in volatility.
- Markets have regained those losses, but economic uncertainty is still high.
- The probability of a recession in the next 12 months was 33% in the July survey of economists conducted by The Wall Street Journal, down from 45% in April.
- Last week, the overall balance of risks has shifted towards the downside, after new tariffs were announced on July 31 and a weak employment report was released on August 1.
- But layoffs have not picked up yet and economists still think that the U.S. economy can avoid a recession.

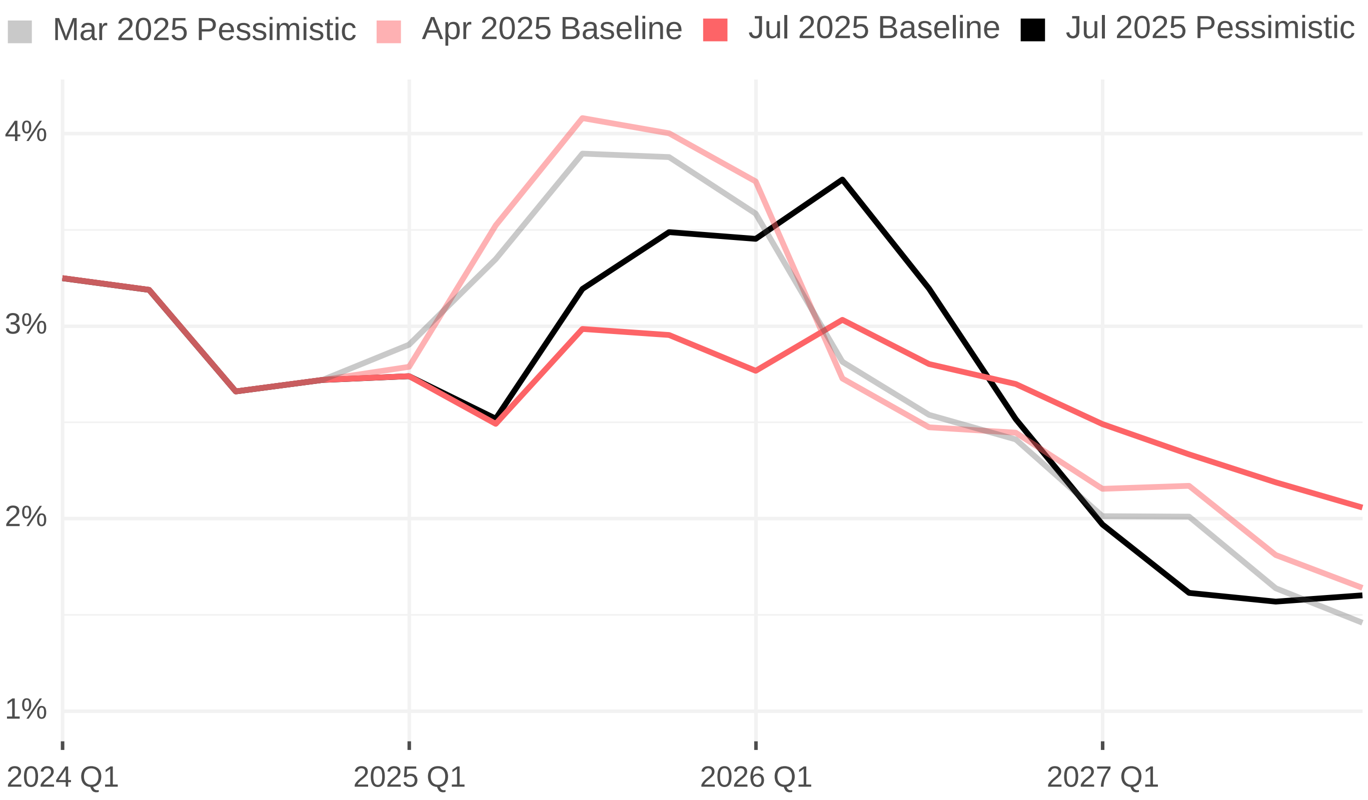


Note: Data through April 11, 2025. Shaded areas denote recessions.

Tariffs have not resulted in higher inflation (yet)

- 2025 Q2 inflation was just 2.5%, much lower than 3.3% predicted by S&P Global in March and 3.5% predicted in April.
- Tariffs are still expected to increase inflation in the coming months, but the timing and magnitude are quite uncertain.
- Fed's FOMC has decided to keep its interest rate unchanged on July 30.
- After weak employment data was released on August 1, financial markets expect Fed to cut the rate at the next meeting in September. As of August 5, trades imply a roughly 90% chance of a 0.25% rate cut.
- One or possibly even two 0.25% cuts are expected by financial markets to follow in October and/or December.

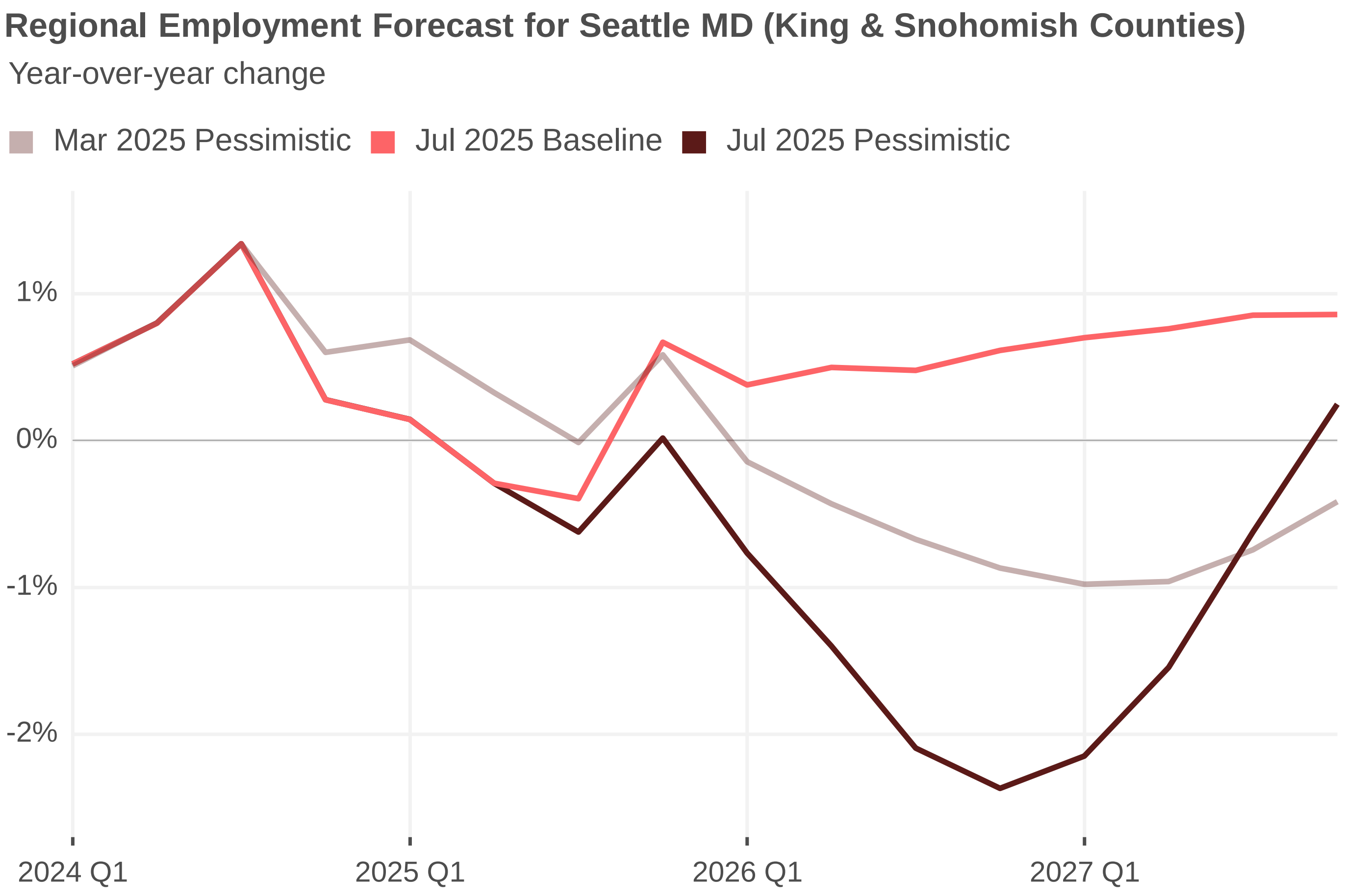
U.S. CPI-U Inflation Forecast



Source: S&P Global Market Intelligence and Moody's Analytics

Regional employment forecast for Seattle Metropolitan Division

- Presented regional and revenue forecasts are based on the average of U.S. economic forecasts from S&P Global and Moody's Analytics.
- In the July baseline scenario (50% probability) U.S. economy avoids a recession. As Fed resumes monetary easing, regional employment growth recovers, but remains below 1% until 2028.
- In the July pessimistic scenario (25% probability) higher tariffs, stricter immigration policy, and deteriorating financial conditions erode consumer and business confidence and the economy goes into a recession. This is fundamentally different from the March pessimistic scenario used for April revenue forecast, which did not incorporate a recession.
- In the July pessimistic scenario forecast regional employment declines cumulatively about 2.9% between by 2027 Q2, job losses would be recovered by 2029 Q2. This downturn would be similar to the 2001 recession.



Adopted forecast scenario

In the August 4 meeting, Forecast Office recommended to adopt the baseline scenario as the official August 2025 forecast, but noted that funding decisions should recognize a high risk of a future downward revision, and strongly encouraged to plan for such an eventuality.

Acknowledging the risks, the Forecast Council adopted the recommended scenario.

- Economic outlook has improved since April, with significantly lower inflation in 2025 Q2 and weaker but ongoing employment growth.
- The probability of a recession in the next 12 months was 33% in the early July survey of economists conducted by The Wall Street Journal, down from 45% in April, but still higher than 22% in January.
- S&P Global assigns a 50% probability to their July baseline scenario forecast, 25% to the optimistic scenario, 25% to the pessimistic scenario (which now again incorporates a recession). S&P Global's forecast is more optimistic than the median forecast in the July Wall Street Journal Survey; to address this risk, the Forecast Office has developed the current forecast based on the average of the S&P Global's forecast and the Moody's Analytics economic forecast.
- The overall balance of risks did shift towards the downside due to new tariffs announced on July 31, weak July employment numbers, and a downward revision for May and June employment released on August 1.
- Layoffs have however not picked up yet and economists still think that the U.S. economy can avoid a recession. Fed is expected to resume monetary easing in September, with additional rate cuts expected in October and/or December.
- The upward revision in baseline scenario revenue forecast is to a large degree driven by reasons other than improved economic outlook, most notably ESSB 5814, and in case of Payroll Expense Tax additional late payments and the outlook for stock prices of tech companies which is largely shaped by anticipated gains due to a wider adoption of AI.
- Additional risks to the revenue forecast arise from the uncertainty around the response of employers to the larger tax burden due to a number of recent tax changes in a relatively short period of time.

General Fund Revenues – August Baseline Scenario ($ millions)

Revenue Source	Actuals	August Forecast		Difference from April Forecast		2 Year Total Difference	% Change from April Forecast	
	2024	2025	2026	2025	2026		2025	2026
Property Tax (Including Medic One Levy)	$379.0	$389.2	$398.4	$0.8	-$0.5	$0.4	0.2%	-0.1%
Sales & Use Tax	$340.4	$344.7	$361.1	$1.4	$18.6	$20.0	0.4%	5.4%
Business & Occupation Tax	$353.3	$383.0	$390.6	$14.4	$5.6	$20.0	3.9%	1.5%
Utility Tax - Private	$40.5	$39.2	$39.5	$0.1	$1.7	$1.8	0.1%	4.5%
Utility Tax - Public	$217.7	$217.4	$222.8	$9.2	$7.3	$16.5	4.4%	3.4%
Other City Taxes	$14.7	$14.6	$13.9	$0.6	-$0.3	$0.2	4.1%	-2.4%
Parking Meters	$39.2	$37.3	$36.5	-$0.7	-$0.5	-$1.2	-1.8%	-1.3%
Court Fines	$18.4	$22.8	$22.6	-$1.1	-$0.3	-$1.4	-4.5%	-1.3%
Licenses, Permits, Interest Income and Other	$73.6	$75.8	$73.9	$2.6	$1.2	$3.8	3.5%	1.7%
Revenue from Other Public Entities	$19.4	$20.9	$21.6	$0.5	$1.1	$1.6	2.4%	5.4%
Service Charges & Reimbursements	$84.1	$80.6	$80.2	$1.4	-$0.4	$1.0	1.7%	-0.4%
Grants	$21.9	$55.2	$14.6	-$1.0	-$0.1	-$1.2	-1.8%	-1.0%
Fund Balance Transfers	$113.0	$281.7	$275.8	-$33.3		-$33.3	-10.6%	
Total	**$1,715.2**	**$1,962.4**	**$1,951.4**	**-$5.1**	**$33.4**	**$28.3**	**-0.3%**	**1.7%**
Total w/o Grants and Transfers	**$1,580.3**	**$1,625.6**	**$1,661.0**	**$29.2**	**$33.6**	**$62.8**	**1.8%**	**2.1%**
Annual Growth w/o Grants and Transfers	1.7%	2.9%	2.2%	1.8%	0.2%			
Seattle MSA CPI-U inflation	3.7%	2.8%	3.3%	-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.

Forecast risks for Sales Tax, Business & Occupation Tax

- Downturn in the construction sector weighs down quite notably on overall tax collection. Lower demand for new construction can be also seen in the value of construction permits issued by SDCI. In the 12 months ending June 2025, the value of permits issued was just $2 billion, about 52.6% lower than the 2016-2019 average of $4.3 billion.
- Demand for office space is low, current CoStar forecast does not expect office vacancy rates to meaningfully decline at least until mid-2030s.
- For Leisure and Hospitality sector, Tourism Economics predicts a 27% decline in the number of international overnight visitors coming to Seattle in 2025. Growth resumes next year boosted by the 2026 World Cup, but a full recovery is anticipated only in 2028.
- There is limited data to estimate the direct impacts of Washington State Senate Bill 5814, which made certain services subject to the sales tax and to the lower B&O tax rate for retail sales. Further uncertainty for B&O revenues comes from the proposed restructure, which would narrow the tax base and increase tax rates significantly.
- It is difficult to predict exactly how large businesses will react to the cumulative impact of larger tax burden due to a number of tax policy changes in recent years. Several large employers have recently moved thousands of jobs out of Seattle. Increasing the tax burden could further exacerbate this problem, leading to lower job and income growth in the local economy, as well as lower B&O Tax, Payroll Expense Tax, and Sales Tax revenue growth in the coming years.

Selected Other Revenues – August Baseline Scenario ($ millions)

Revenue Source	Actuals	August Forecast		Difference from April Forecast		2 Year Total Difference	% Change from April Forecast	
	2024	2025	2026	2025	2026		2025	2026
Payroll Expense Tax	$360.0	$382.9	$388.0	$23.7	$8.0	$31.7	6.6%	2.1%
REET	$62.7	$68.2	$77.2	$3.0	-$2.9	$0.1	4.6%	-3.6%
Admission Tax	$24.6	$23.9	$25.4	-$1.5	-$0.6	-$2.1	-5.9%	-2.2%
Sweetened Beverage Tax	$20.1	$20.0	$22.2	$0.3	$2.6	$2.8	1.3%	13.0%
Short Term Rental Tax	$12.1	$11.9	$12.9	$0.0	$0.7	$0.7	0.3%	5.7%
STBD Sales Tax	$53.0	$53.8	$56.4	$0.3	$3.0	$3.3	0.5%	5.6%
STBD Vehicle License Fee	$19.6	$21.0	$22.3	$0.9	$2.2	$3.1	4.7%	10.8%
Commercial Parking Tax	$50.0	$50.2	$50.5	-$0.9	-$1.4	-$2.4	-1.8%	-2.8%
SSTPI School Zone Speed Enforcement	$8.5	$8.2	$17.7	-$2.9	-$3.1	-$6.1	-26.5%	-15.0%

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.

Alternative scenarios – differences from August baseline ($ millions)

- For General Fund, the most significant differences between the scenarios are in Sales & Use, B&O, and Utility Taxes.
- For non-General Fund revenues, the differences are particularly large for Payroll Expense Tax and REET.
- The high level of uncertainty regarding Payroll Expense Tax revenue estimates reflects the underlying tax base uncertainty due to stock price movements as well as forecasting uncertainty due to limited tax collection history.

Revenue Source	**Pessimistic Scenario vs Baseline Scenario**			**Optimistic Scenario vs Baseline Scenario**		
	2025	**2026**	**2 Year Total**	**2025**	**2026**	**2 Year Total**
Sales & Use Tax	-$0.7	-$13.2	-$13.9	$2.7	$12.6	$15.3
Business & Occupation Tax	-$0.2	-$12.2	-$12.5	$1.3	$6.8	$8.1
Utility Taxes	-$4.4	-$6.0	-$10.3	$5.8	$7.8	$13.6
Total General Fund	**-$8.2**	**-$38.4**	**-$46.6**	**$12.5**	**$32.0**	**$44.4**
Payroll Expense Tax	-$15.8	-$54.7	-$70.6	$3.6	$26.0	$29.6
REET	-$1.6	-$18.1	-$19.7	$2.7	$11.5	$14.3
Total Revenues	**-$28.0**	**-$118.7**	**-$146.7**	**$21.9**	**$77.5**	**$99.4**

Social Housing Tax

- Employment Security Department payroll data was used to develop an estimate for 2025 tax year obligations, which are due on January 31, 2026.
- The $65.8 million estimate has a large amount of uncertainty attached to it ($39.2 million to $80 million, but even larger variance can not be ruled out) due to data limitations.

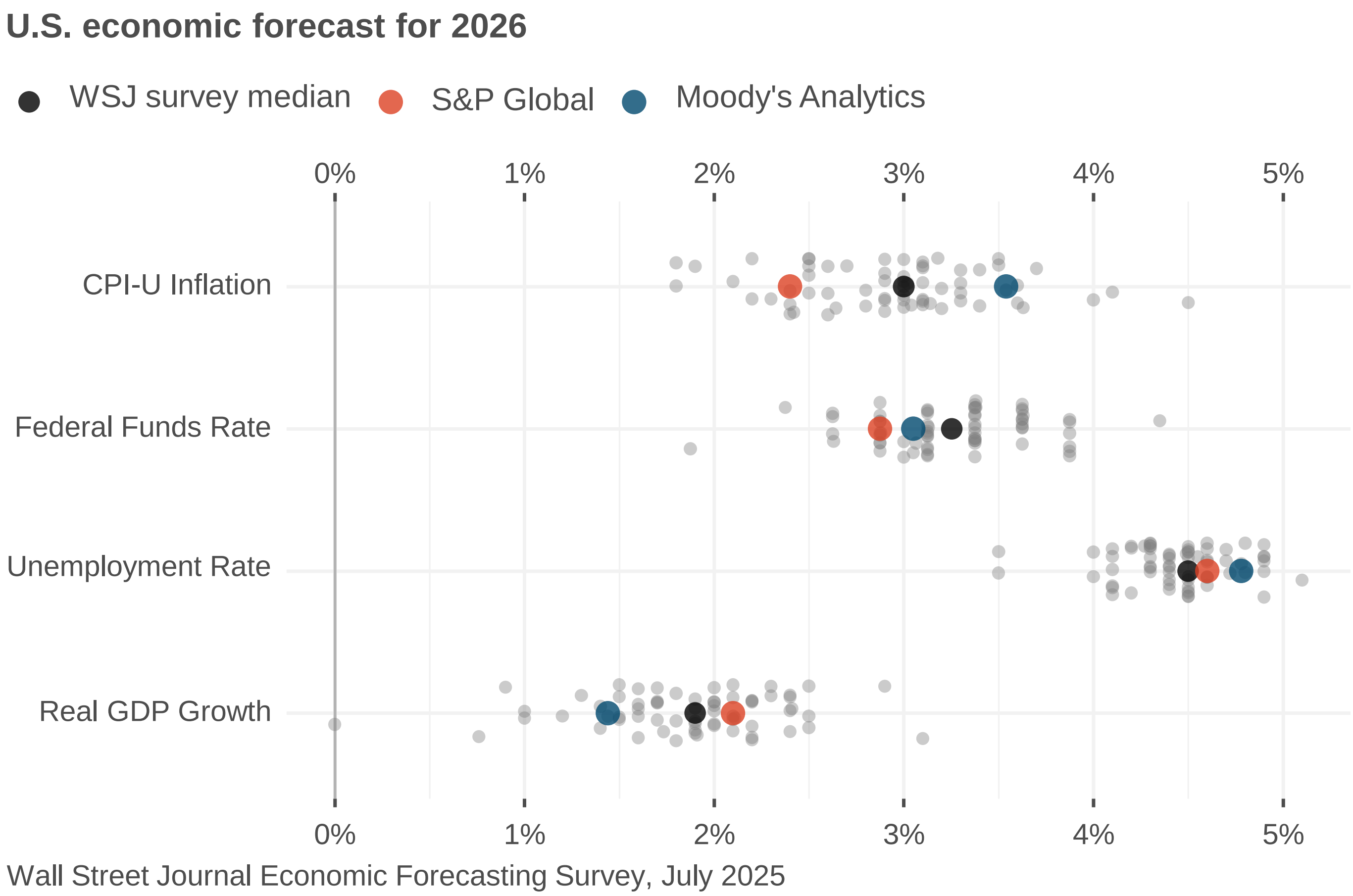
Questions?

Appendix

U.S. economic outlook – impacts of tariffs are hard to predict

- Tariffs have not resulted in higher inflation so far and employment growth remained weaker but steady until July.
- This has compelled S&P Global to improve their outlook significantly between April and July.
- Their Jully forecast is notably more optimistic that the median forecast in the July Wall Street Journal survey.

- To address this risk, while the March regional and revenue forecasts are based on U.S. forecast from S&P Global, the July forecasts are based on the average of the S&P Global forecast and the Moody's Analytics forecast.

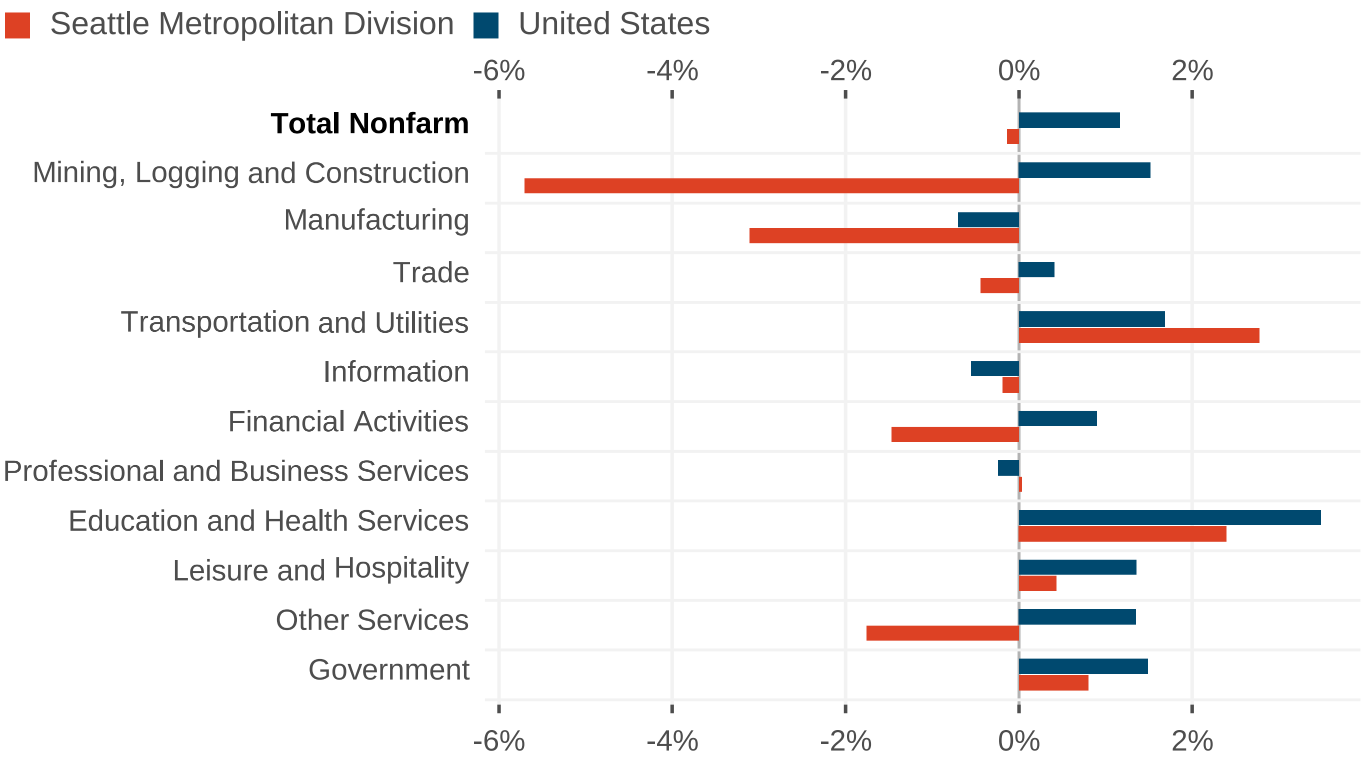


Regional labor market is considerably weaker than national

- Regional employment in Seattle Metropolitan Division (King and Snohomish counties) declined 0.1% in the first half of 2025 relative to first half of 2024.
- U.S. employment grew 1.1% during the same period.
- Particularly large declines were reported for regional employment in Construction, Manufacturing, Financial Activities, and Other Services.

Payroll employment by industry

% change year-over-year, January through June 2025



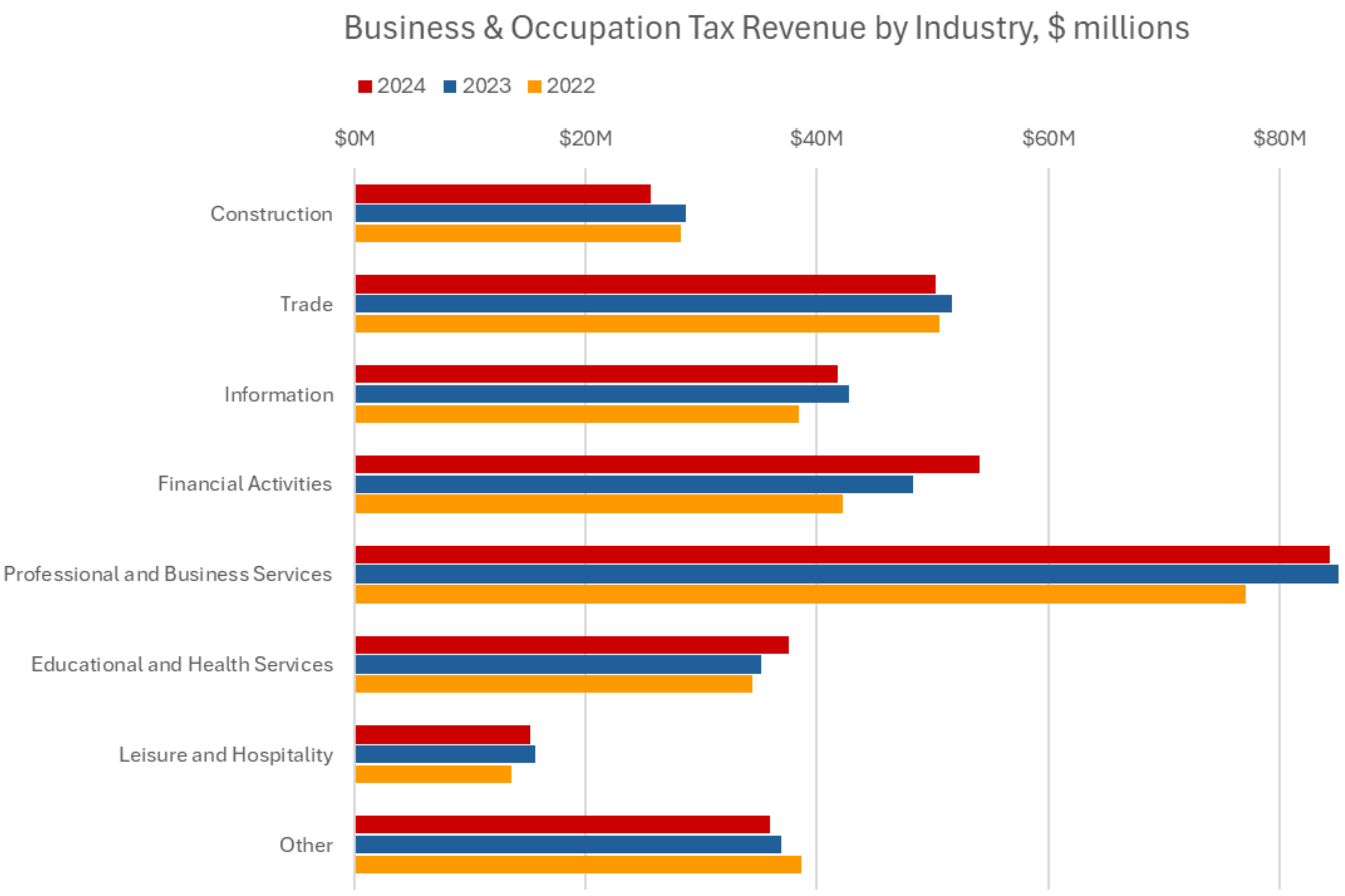
Source: U.S. Bureau of Labor Statistics, Washington State Employment Security Department. Seasonally Adjusted.

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.

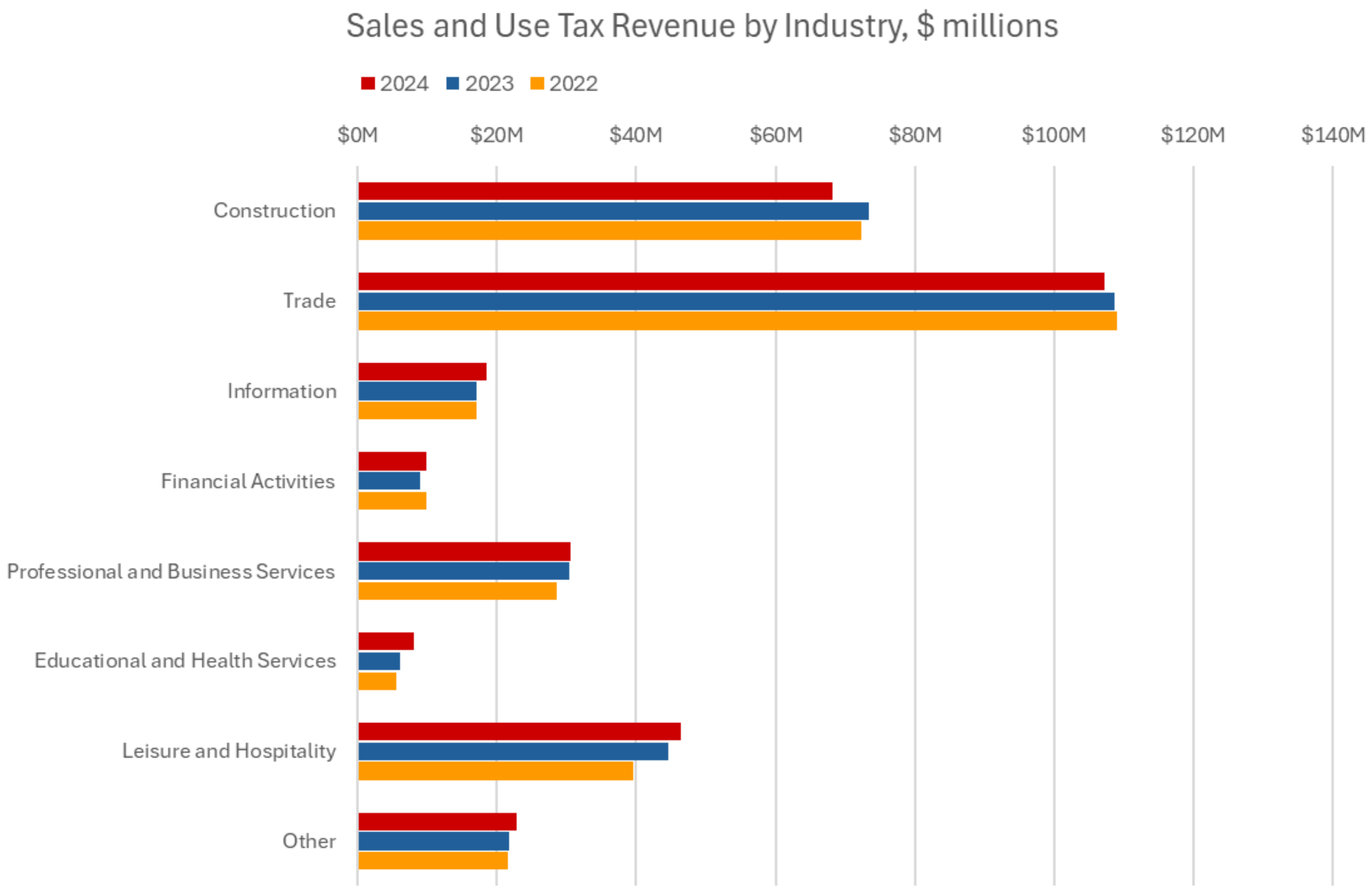


Sales and Use Tax - 2024 Actuals

Tax base for sales tax revenue much less diversified than B&O tax base.

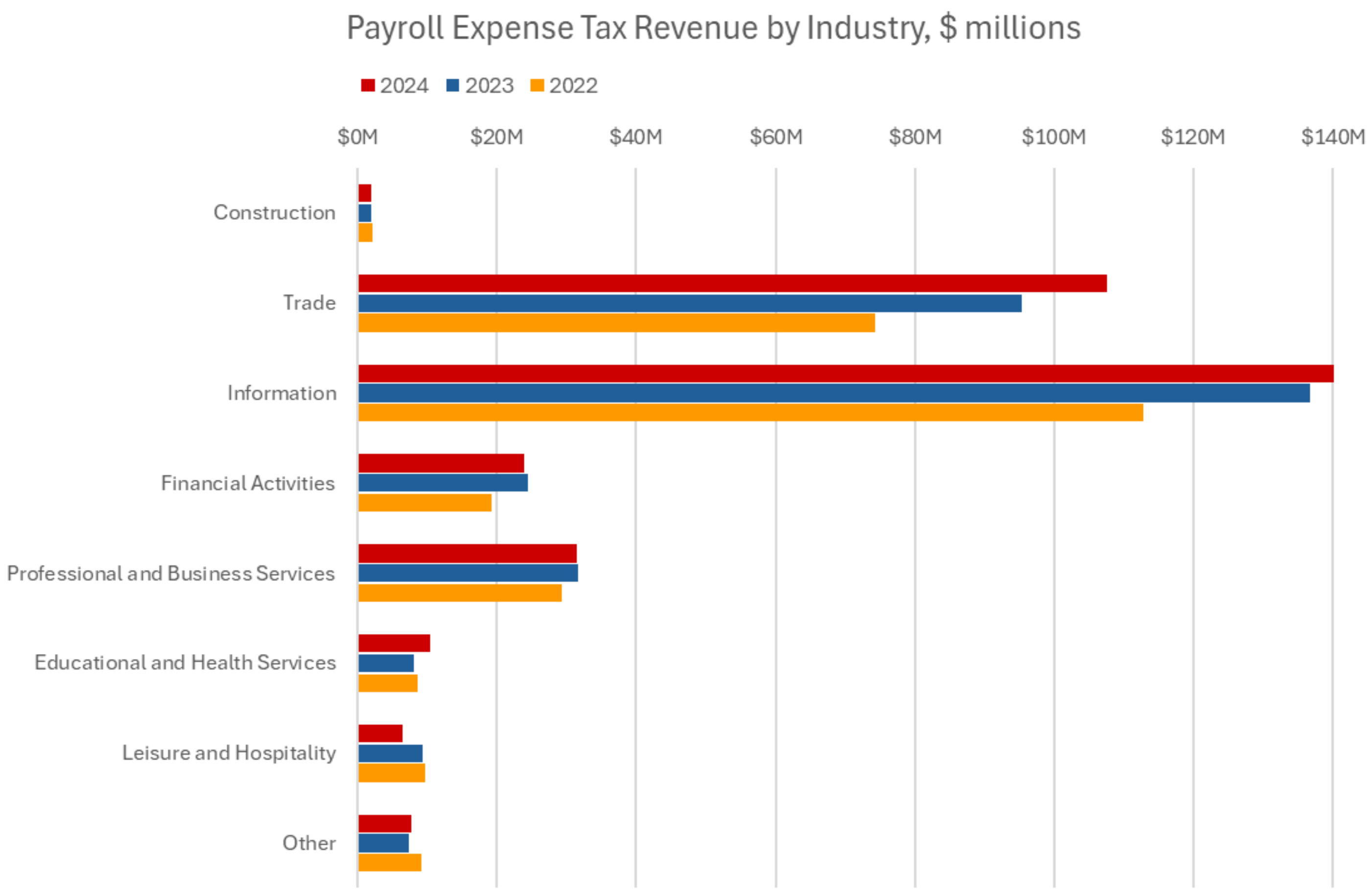
- Trade accounts for one third of total revenue.
- About one quarter of sales tax revenue was in previous years generated by construction sector.

- 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.



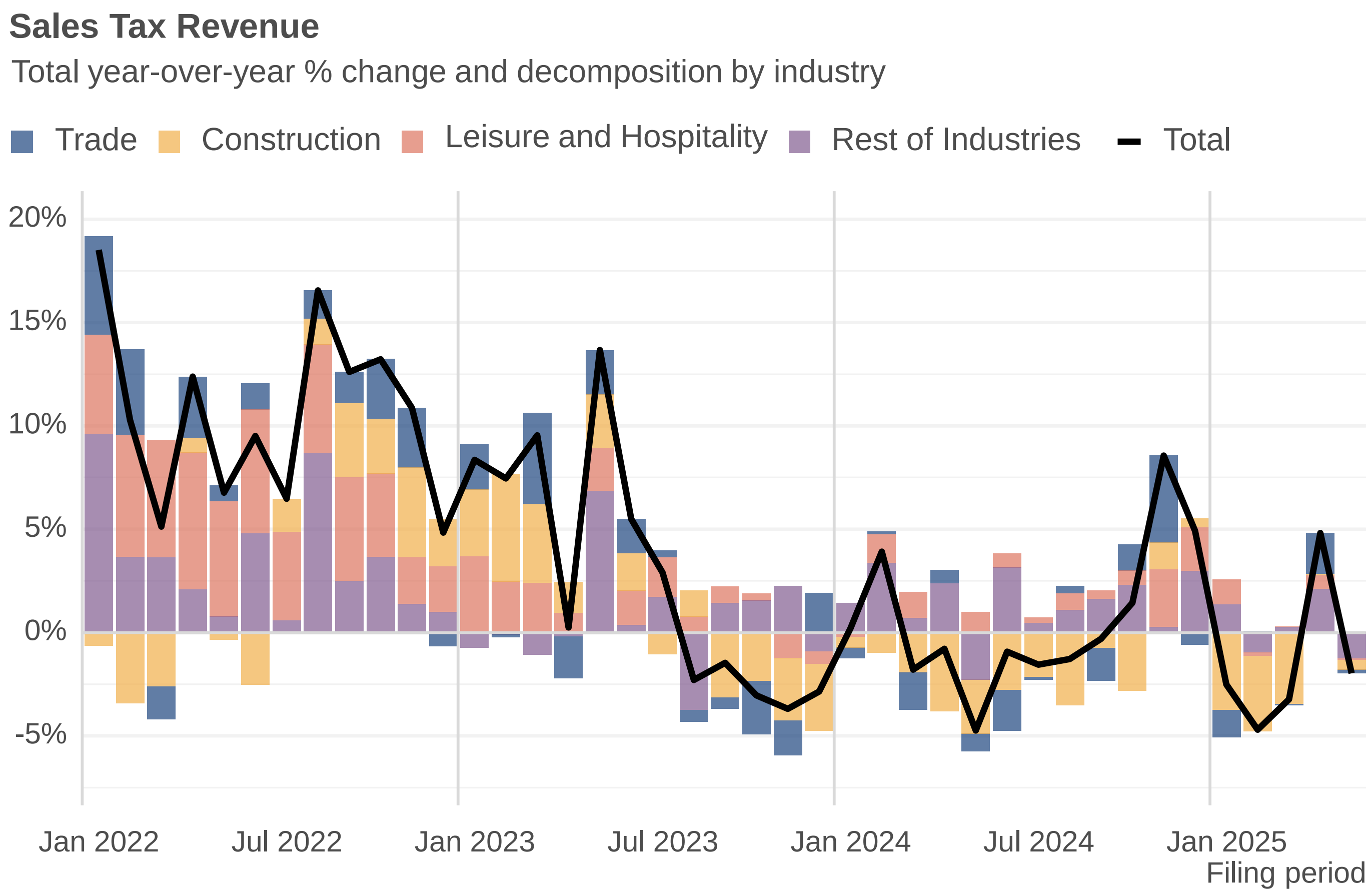
Payroll Expense Tax - 2024 Actuals

- 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).



Collection, outlook, and forecast risks - Sales tax

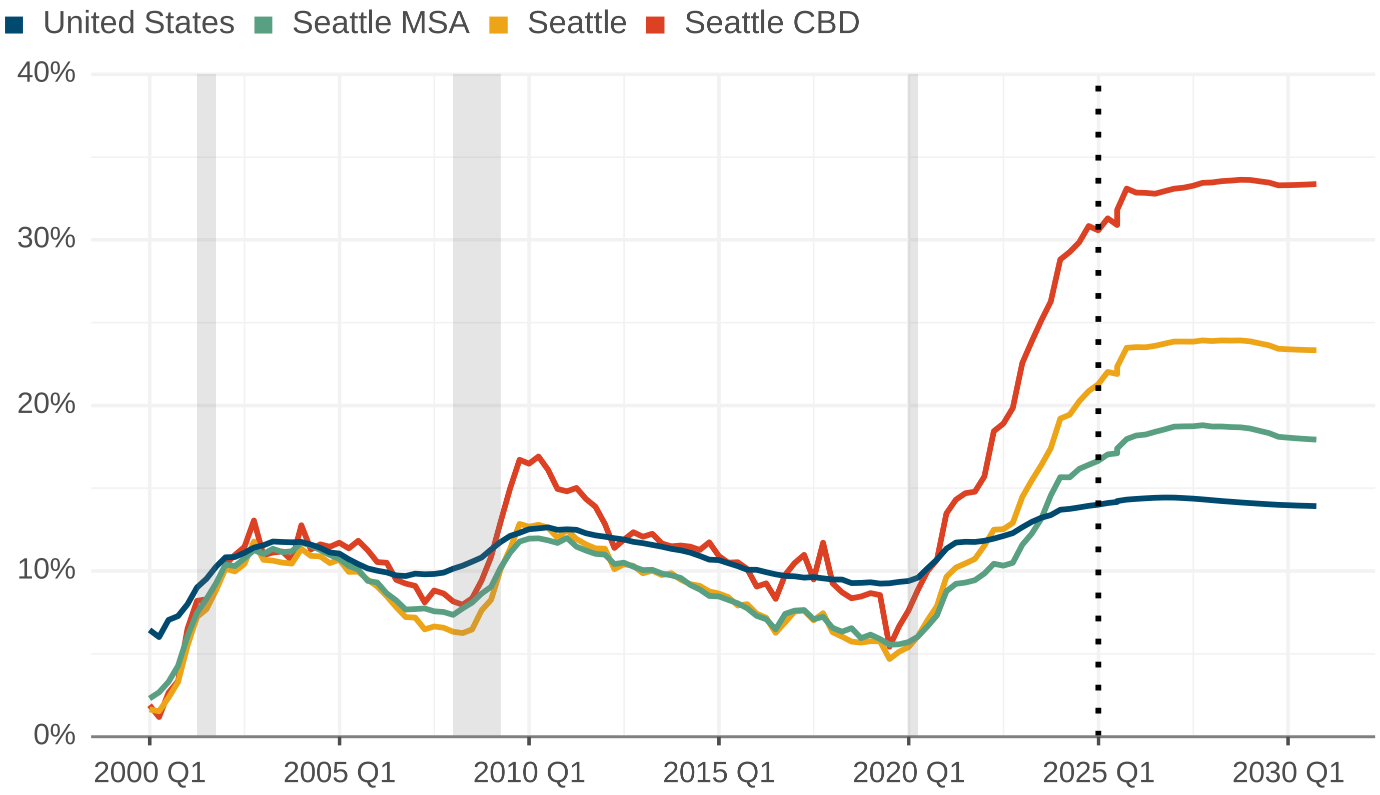
- Sales tax revenue collection has been weak since the second half of 2023.
- Downturn in the construction sector weighs down quite notably on overall tax collection.
- Lower demand for new construction can be also seen in the value of construction permits issued by SDCI, which has declined from $3.8 billion in 2021 to $2.3 billion in 2024.
- For the 12 months ending June 2025, the value of permits issued was just $2 billion, so about $2.3 billion or 52.6% lower than the 2016-2019 average of $4.3 billion.



Demand for office space remains low

- In 2025 Q2, Seattle Office Demand Index, as reported by the commercial real estate platform VTS, was 32% of the 2018-2019 average.
- This was again lowest among tracked cities; overall demand in U.S. was 70%. The report noted that the demand is particularly low in the Downtown Seattle area, relative to the Eastside/rest of the metro area.
- Current CoStar forecast does not expect office vacancy rates to meaningfully decline at least until the mid-2030s.

Office vacancy rate



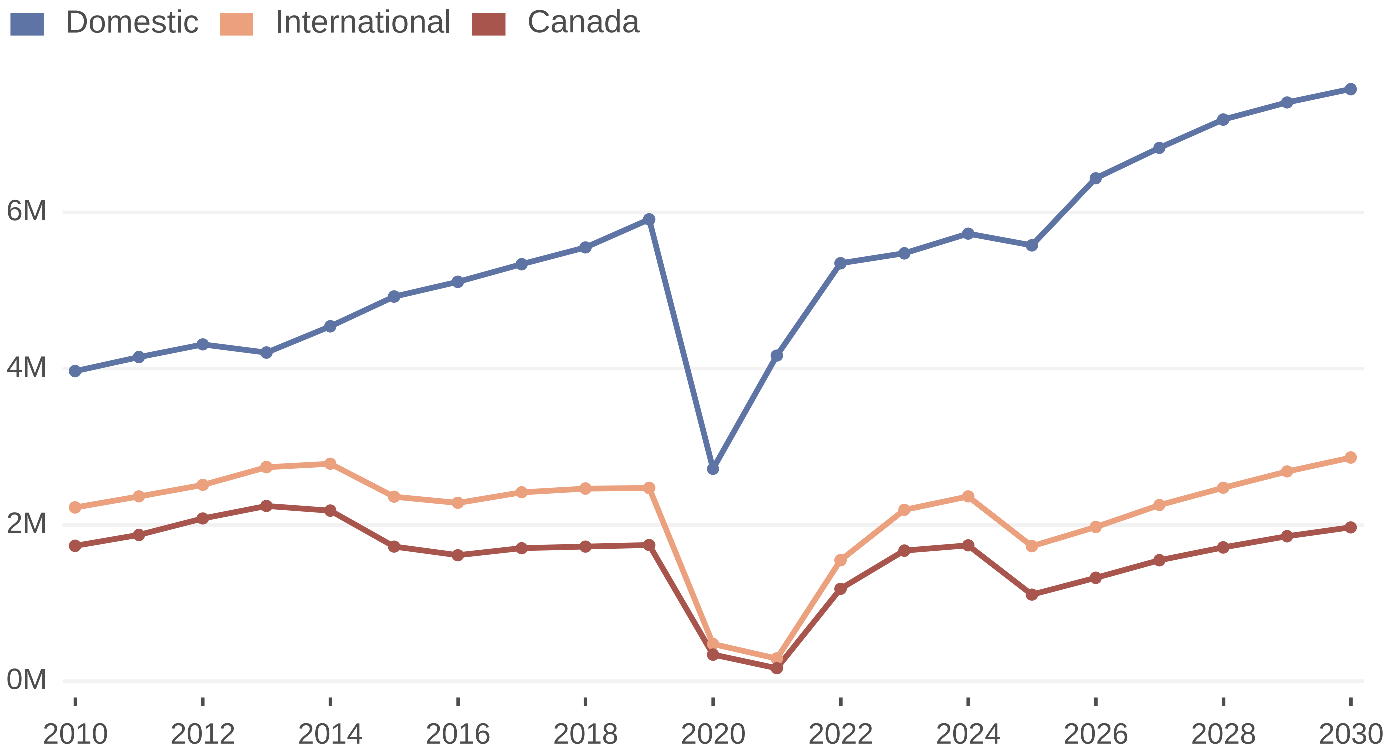
Source: CoStar. Shaded areas denote recessions.

Fewer international visitors are expected in Seattle in 2025

- Sales tax revenues from leisure and hospitality sector are highly dependent on tourism.
- Tourism Economics - a subsidiary of Oxford Economics that provides economic analysis regarding travel and tourism industry – predicts a 27% decline in the number of international overnight visitors coming to Seattle in 2025.
- Number of overnight international visitors is expected to grow again in 2026, but a full recovery is only anticipated in 2028.

Overnight visits to Seattle by origin

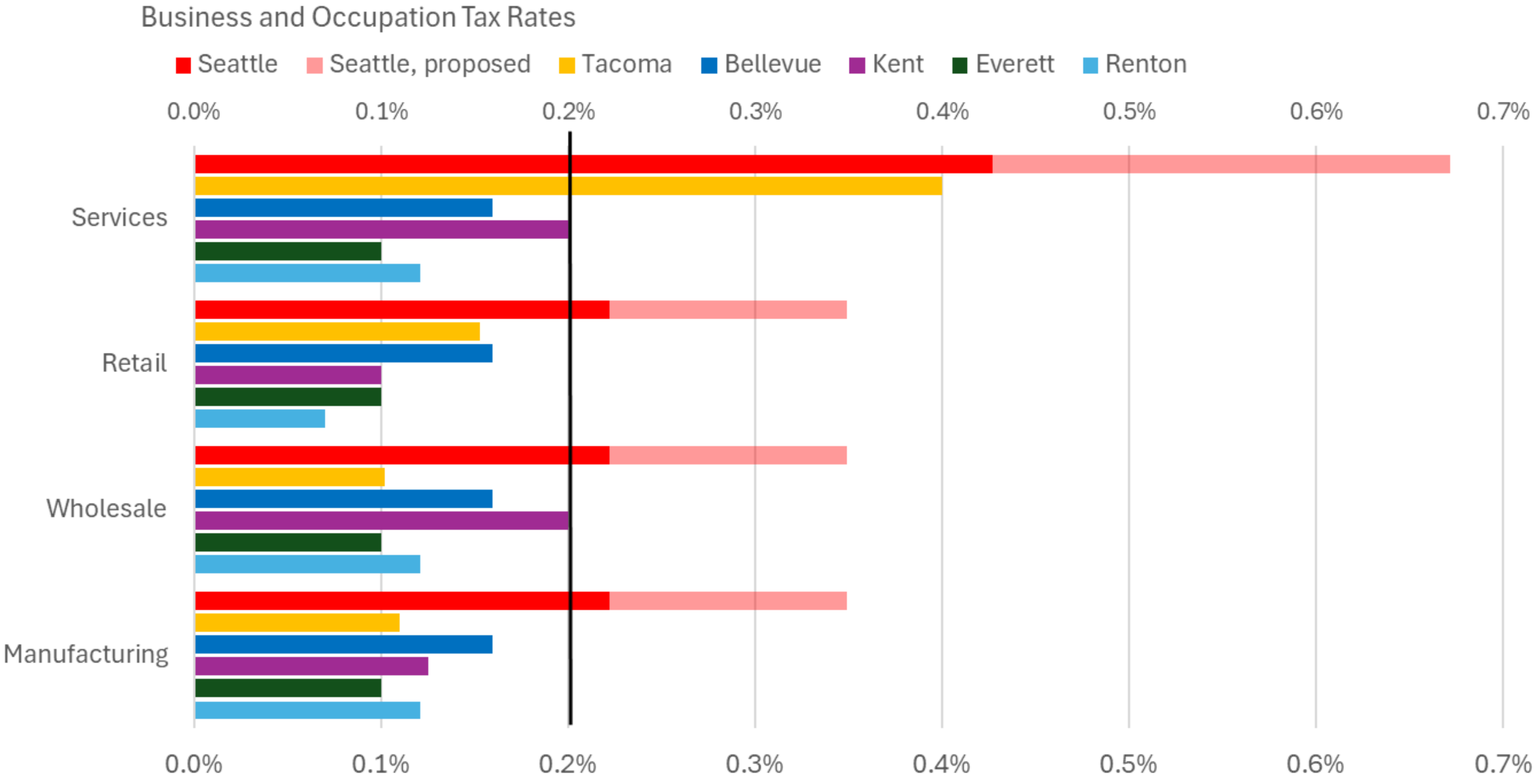
Millions



Source: Tourism Economics

Outlook and forecast risks – Business and Occupation Tax

- Washington State Senate Bill 5814, made certain services subject to the sales tax and the lower B&O tax rate for retail sales.
- The proposed restructure of the Seattle B&O would narrow the tax base and increase tax rates significantly.
- There is very limited data to estimate the direct impacts of these two large policy changes.
- It is also difficult to predict how exactly large businesses will react to the cumulative impact of a larger tax burden due to a number of tax policy changes in recent years.



Note: Black line denotes 0.2% statutory limit. Redmond and Kirkland do not impose Business and Occupation tax.

General Fund Revenues – August Pessimistic Scenario ($ millions)

Revenue Source	Actuals	August Forecast		Difference from April Forecast		2 Year Total Difference	% Change from April Forecast	
	2024	2025	2026	2025	2026		2025	2026
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Utility Tax - Private	$40.5	$38.7	$38.8	-$0.4	$0.9	$0.5	-1.0%	2.4%
Utility Tax - Public	$217.7	$213.5	$217.6	$5.3	$2.1	$7.4	2.5%	1.0%
Other City Taxes	$14.7	$14.4	$13.2	$0.4	-$1.0	-$0.6	2.8%	-7.2%
Parking Meters	$39.2	$36.9	$33.1	-$1.1	-$3.9	-$5.1	-3.0%	-10.6%
Court Fines	$18.4	$21.8	$21.5	-$2.1	-$1.4	-$3.5	-9.0%	-6.0%
Licenses, Permits, Interest Income and Other	$73.6	$75.2	$73.4	$2.0	$0.7	$2.7	2.8%	1.0%
Revenue from Other Public Entities	$19.4	$20.4	$21.0	-$0.1	$0.5	$0.4	-0.5%	2.4%
Service Charges & Reimbursements	$84.1	$80.6	$80.2	$1.4	-$0.4	$1.0	1.7%	-0.4%
Grants	$21.9	$55.2	$14.6	-$1.0	-$0.1	-$1.2	-1.8%	-1.0%
Fund Balance Transfers	$113.0	$281.7	$275.8	-$33.3		-$33.3	-10.6%	
Total	**$1,715.2**	**$1,954.2**	**$1,913.0**	**-$13.3**	**-$5.0**	**-$18.2**	**-0.7%**	**-0.3%**
Total w/o Grants and Transfers	**$1,580.3**	**$1,617.4**	**$1,622.6**	**$21.0**	**-$4.8**	**$16.2**	**1.3%**	**-0.3%**
Annual Growth w/o Grants and Transfers	1.7%	2.3%	0.3%	1.3%	-1.6%			
Seattle MSA CPI-U inflation	3.7%	2.9%	3.7%	-0.6%	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 – August Pessimistic Scenario ($ millions)

Revenue Source	Actuals 2024	August Forecast 2025	August Forecast 2026	Difference from April Forecast 2025	Difference from April Forecast 2026	2 Year Total Difference	% Change from April Forecast 2025	% Change from April Forecast 2026
Payroll Expense Tax	$360.0	$367.0	$333.3	$7.9	-$46.7	-$38.8	2.2%	-12.3%
REET	$62.7	$66.6	$59.1	$1.4	-$21.0	-$19.7	2.1%	-26.2%
Admission Tax	$24.6	$23.5	$25.0	-$1.9	-$1.0	-$2.8	-7.4%	-3.7%
Sweetened Beverage Tax	$20.1	$19.4	$21.5	-$0.3	$1.9	$1.5	-1.7%	9.6%
Short Term Rental Tax	$12.1	$11.7	$12.5	-$0.2	$0.3	$0.1	-1.6%	2.6%
STBD Sales Tax	$53.0	$53.7	$54.5	$0.2	$1.1	$1.4	0.4%	2.1%
STBD Vehicle License Fee	$19.6	$20.4	$21.7	$0.3	$1.5	$1.8	1.5%	7.5%
Commercial Parking Tax	$50.0	$50.1	$47.9	-$1.0	-$4.0	-$5.0	-2.0%	-7.7%
SSTPI School Zone Speed Enforcement	$8.5	$7.7	$16.8	-$3.4	-$4.0	-$7.3	-30.2%	-19.2%

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