



# **Economic and Revenue Forecast October 2025**

**Select Budget Committee  
October 20, 2025**

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

# Outline

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**This presentation is largely an abbreviated version of that provided to the Forecast Council on October 20<sup>th</sup>.**

## **Part I: Update on recent economic developments and a summary of the October economic forecasts**

- U.S. economic forecasts from S&P Global and Moody's Analytics
- Forecast Office's regional economic forecast for Seattle Metropolitan Division (King and Snohomish counties)

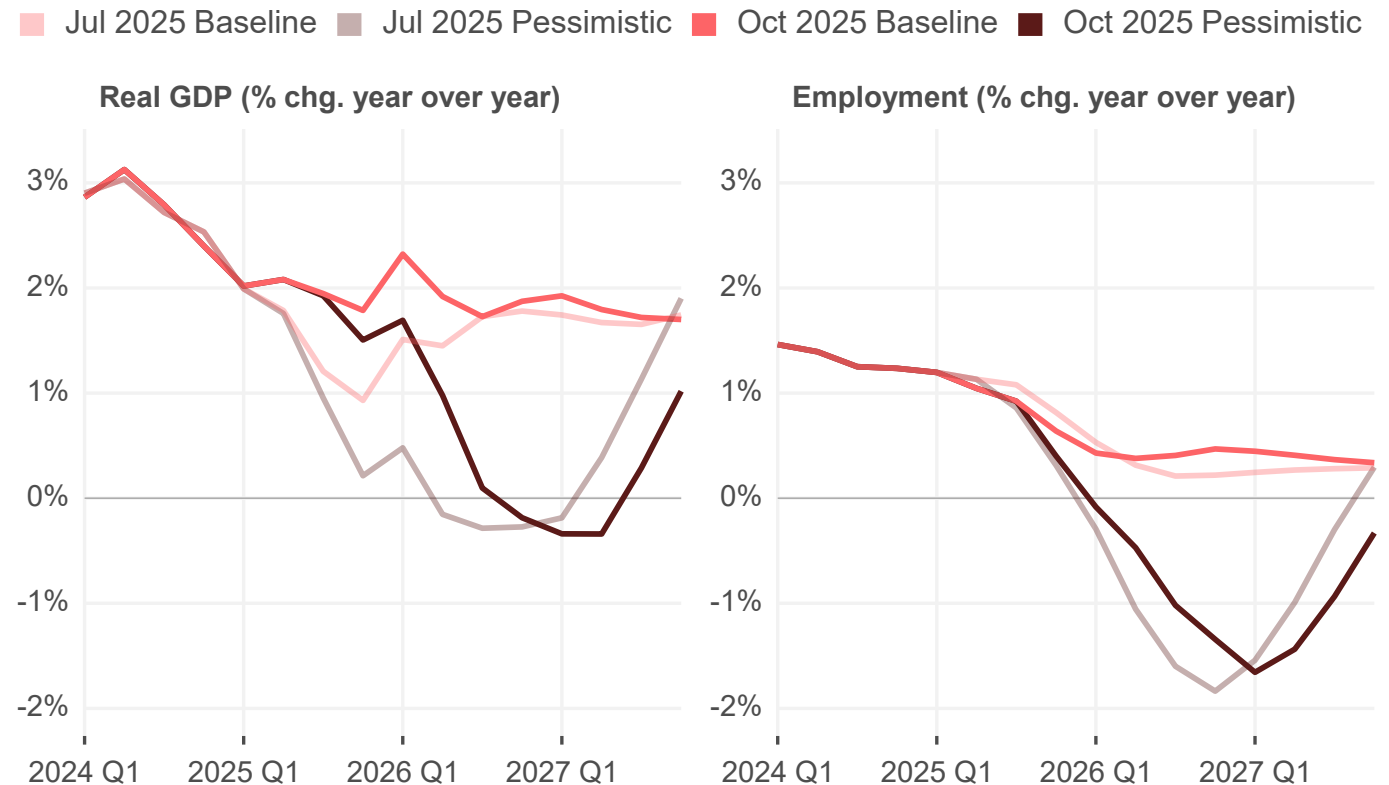
## **Part II: October revenue forecast for 2025-2026**

- General Fund Revenues Forecast
- Selected Other Government Revenues

# U.S. economic outlook has improved slightly since July

- As in August, presented U.S. economic forecasts are averages of the S&P Global forecast and the Moody's Analytics forecast.
- Solid real GDP growth but at the same time weaker employment growth are expected, as a result of AI related investments, trade and immigration policies, and elevated uncertainty.
- Pessimistic scenario assumes higher tariffs and larger response from trading partners, stricter immigration policy and deteriorating financial conditions. Consumer and business confidence erodes as a result as well and the economy goes into a recession.

## U.S. Economic Forecast



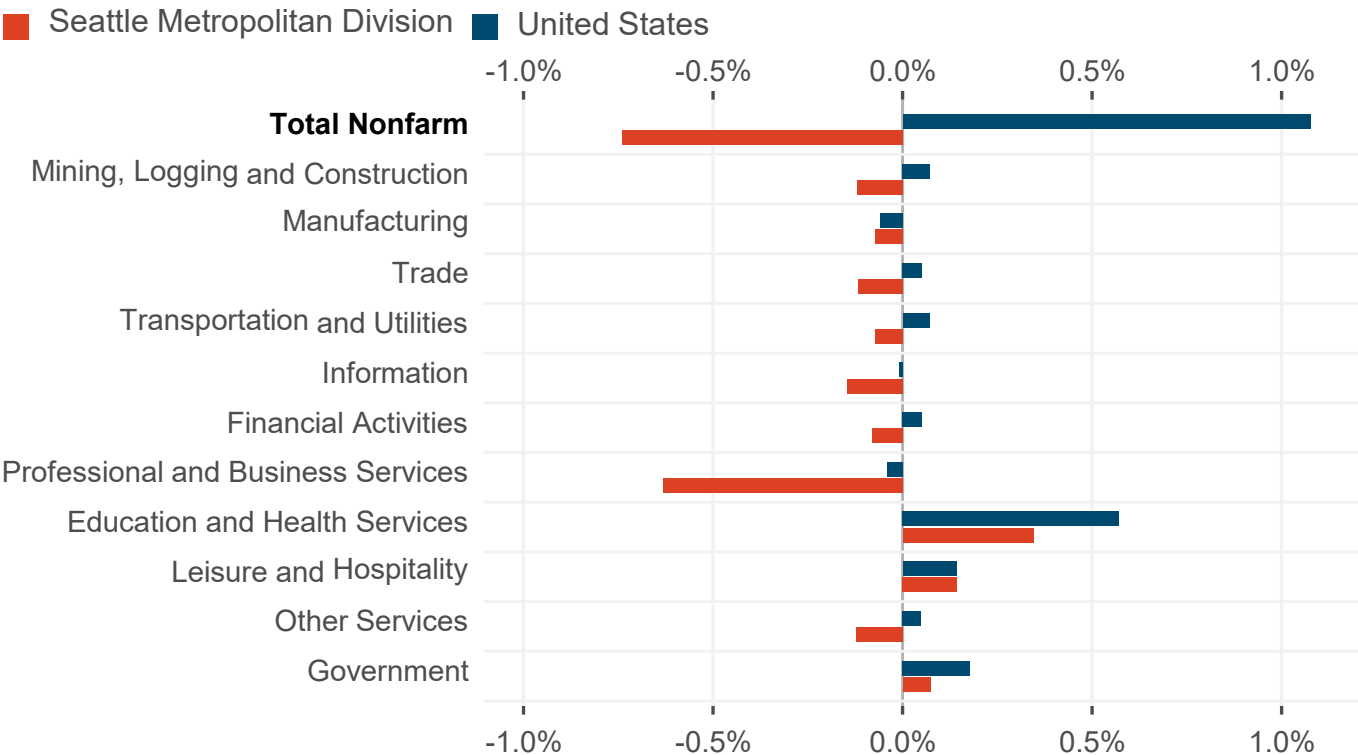
Source: S&P Global Market Intelligence and Moody's Analytics

# Regional economy is however weaker than national economy...

- Washington State Employment Security Department has revised down employment estimates going back to 2024 Q4.
- Employment in Seattle Metropolitan Division (King and Snohomish counties) has declined by 0.7%, so about 13 thousand jobs, in the first eight months of 2025 relative to the same period in 2024.
- Regional employment decline was broad based. Education and Health Services, Leisure and Hospitality, and Government were the only sectors that added jobs.

## Total payroll employment growth and contributions by industry

% change year-over-year, year to date through August 2025



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



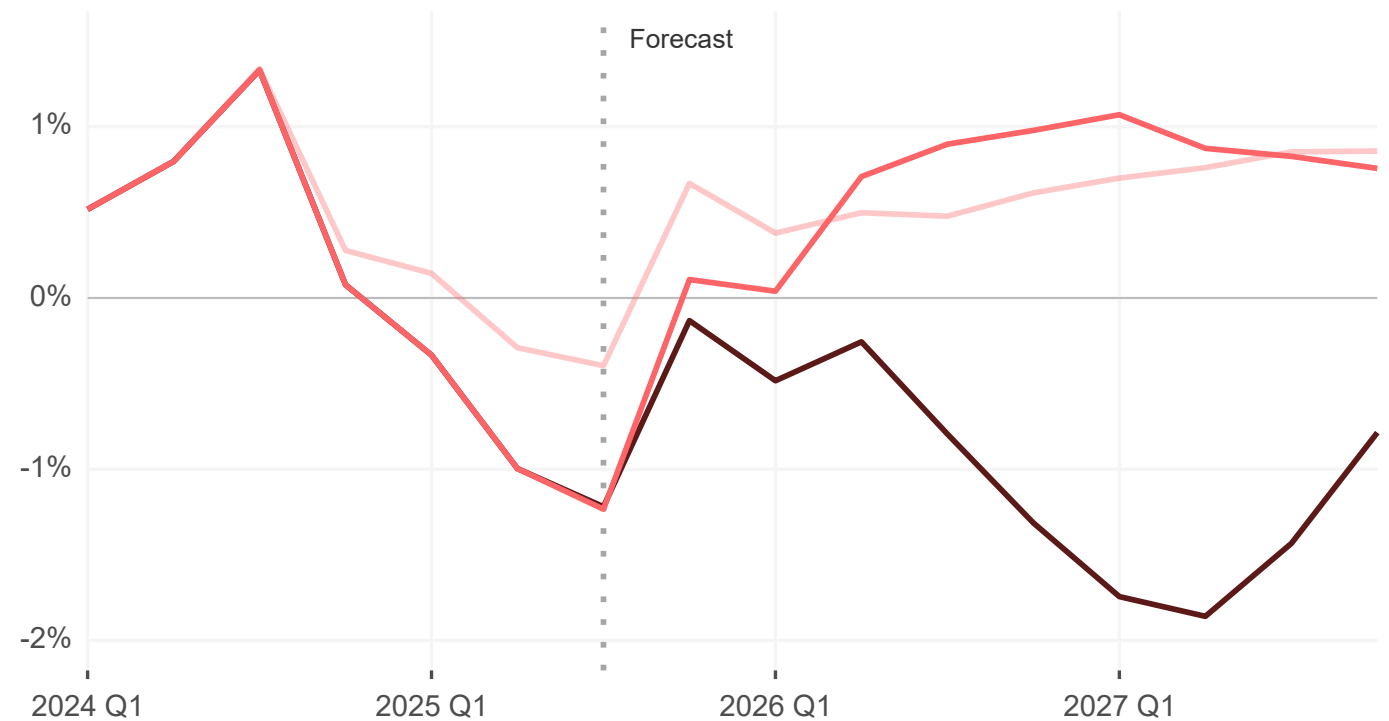
# ... and only modest growth is expected in near future

- Washington State Employment Security Department has revised down employment estimates going back to 2024 Q4.
- This has led to a lower forecast for employment growth through 2026 Q2.
- In the baseline scenario, employment growth is expected to resume in 2026, but remain low, below 1%.
- In the pessimistic scenario forecast regional employment would decline cumulatively about 2.4% from 2025 Q1 to 2027 Q3, as a result of a recession in the U.S. economy. Job losses would be recovered by 2029 Q3.
- This downturn would be thus more closely comparable to the 2001 recession, rather than the 2008 or the 2020 recession.

## Regional Employment Forecast for Seattle MD (King & Snohomish Counties)

Year-over-year change

■ Jul 2025 Baseline ■ Oct 2025 Baseline ■ Oct 2025 Pessimistic



# Adopted forecast scenario

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**During the October 20<sup>th</sup> meeting of the Forecast Council, the baseline scenario was recommended by the Forecast Office scenario as the official October forecast.**

**Funding decisions should however recognize lower confidence regarding the 2026 forecast and a high risk of a larger than typical variance in the 2026 actual revenues relative to the current forecast.**

## **Context**

- Economic outlook has improved slightly between August and October. S&P Global and Moody's Analytics expect stronger real GDP growth, but at the same time somewhat weaker employment growth.
- As expected in August, to address the deteriorating labor market, Fed has resumed monetary easing in September. At least one, but more likely two, additional 0.25% cuts are expected by the end of 2025.
- The probability of recession in the next 12 months was 33% in the October survey of economists conducted by The Wall Street Journal, unchanged from July and down from 45% in April.
- Regional labor market is even weaker than in the national one, regional household spending is weak as well, and construction sector is in a middle of a notable downturn. All of these are reflected in both the baseline and the pessimistic economic and revenue forecasts, in particular the B&O and sales tax.
- Data available to estimate the impact of ESSB 5814 on City's sales tax and B&O tax collection is very limited. This will most likely result in a larger than typical variance in the 2026 actual revenues relative to the current forecast.



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

| Revenue Source                                     | Actuals          | October Forecast |                  | Difference from August Forecast |              | 2 Year Total Difference | % Change from August Forecast |             |
|----------------------------------------------------|------------------|------------------|------------------|---------------------------------|--------------|-------------------------|-------------------------------|-------------|
|                                                    | 2024             | 2025             | 2026             | 2025                            | 2026         |                         | 2025                          | 2026        |
| Property Tax (Including Medic One Levy)            | \$379.0          | \$389.2          | \$402.5          |                                 | \$4.1        | \$4.1                   |                               | 1.0%        |
| Sales & Use Tax                                    | \$340.4          | \$344.4          | \$401.9          | -\$0.3                          | \$1.8        | \$1.6                   | -0.1%                         | 0.5%        |
| Business & Occupation Tax                          | \$353.3          | \$385.0          | \$393.5          | \$2.0                           | \$2.9        | \$4.9                   | 0.5%                          | 0.7%        |
| Utility Tax - Private                              | \$40.5           | \$40.8           | \$40.2           | \$1.7                           | \$0.7        | \$2.3                   | 4.2%                          | 1.7%        |
| Utility Tax - Public                               | \$217.7          | \$217.4          | \$222.8          |                                 |              |                         |                               |             |
| Other City Taxes                                   | \$14.7           | \$14.7           | \$14.1           | \$0.1                           | \$0.2        | \$0.3                   | 0.4%                          | 1.4%        |
| Parking Meters                                     | \$39.2           | \$36.8           | \$35.6           | -\$0.5                          | -\$0.9       | -\$1.4                  | -1.3%                         | -2.4%       |
| Court Fines                                        | \$18.4           | \$22.6           | \$22.6           | -\$0.2                          | \$0.0        | -\$0.3                  | -1.1%                         | 0.0%        |
| Licenses, Permits, Interest Income and Other       | \$73.6           | \$75.5           | \$73.6           | -\$0.3                          | -\$0.4       | -\$0.7                  | -0.4%                         | -0.5%       |
| Revenue from Other Public Entities                 | \$19.4           | \$20.8           | \$20.8           | -\$0.2                          | -\$0.8       | -\$0.9                  | -0.8%                         | -3.5%       |
| Service Charges & Reimbursements                   | \$84.1           | \$82.8           | \$78.9           | \$2.2                           |              | \$2.2                   | 2.7%                          |             |
| Grants                                             | \$21.9           | \$55.8           | \$13.0           | -\$0.2                          | -\$0.3       | -\$0.5                  | -0.3%                         | -2.5%       |
| Fund Balance Transfers                             | \$113.0          | \$281.7          | \$200.5          |                                 |              |                         |                               |             |
| <b>Total General Fund</b>                          | <b>\$1,715.2</b> | <b>\$1,967.5</b> | <b>\$1,919.8</b> | <b>\$4.3</b>                    | <b>\$7.3</b> | <b>\$11.6</b>           | <b>0.2%</b>                   | <b>0.4%</b> |
| <b>Total General Fund w/o Grants and Transfers</b> | <b>\$1,580.3</b> | <b>\$1,630.0</b> | <b>\$1,706.3</b> | <b>\$4.5</b>                    | <b>\$7.6</b> | <b>\$12.1</b>           | <b>0.3%</b>                   | <b>0.5%</b> |

|                                        |      |      |      |
|----------------------------------------|------|------|------|
| Annual Growth w/o Grants and Transfers | 1.7% | 3.1% | 4.7% |
| Seattle MSA CPI-U inflation            | 3.7% | 2.7% | 3.4% |

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 & Occupation tax restructure

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- In line with past practice, because the Business & Occupation tax restructure has not been approved by voters yet, it is not included in the General Fund forecast presented in the previous table
- 2026 Proposed Budget assumed \$81 million in additional revenues if this proposal passes
- The updated amount for 2026 is \$85.6 million



# Selected Other Revenues – October Baseline Scenario (\$ millions)

| Revenue Source                             | Actuals | October Forecast |         | Difference from August Forecast |               | 2 Year Total Difference | % Change from August Forecast |              |
|--------------------------------------------|---------|------------------|---------|---------------------------------|---------------|-------------------------|-------------------------------|--------------|
|                                            | 2024    | 2025             | 2026    | 2025                            | 2026          |                         | 2025                          | 2026         |
| Payroll Expense Tax                        | \$360.0 | \$385.4          | \$392.7 | \$2.6                           | \$4.6         | \$7.2                   | 0.7%                          | 1.2%         |
| Payroll Expense Tax Fund - Interest Income | \$11.2  | \$10.1           | \$9.7   | \$10.1                          | \$2.3         | \$12.4                  | N/A                           | 31.1%        |
| REET                                       | \$62.7  | \$69.6           | \$76.1  | \$1.4                           | <b>-\$1.1</b> | \$0.3                   | 2.1%                          | <b>-1.5%</b> |
| Admission Tax                              | \$24.6  | \$23.9           | \$25.4  |                                 |               |                         |                               |              |
| Sweetened Beverage Tax                     | \$20.1  | \$20.3           | \$22.3  | \$0.2                           | \$0.2         | \$0.4                   | 1.2%                          | 0.8%         |
| Short Term Rental Tax                      | \$12.1  | \$12.1           | \$12.5  | \$0.2                           | <b>-\$0.4</b> | <b>-\$0.2</b>           | 1.6%                          | <b>-3.2%</b> |
| STBD Sales Tax                             | \$53.0  | \$53.8           | \$56.6  | \$0.0                           | \$0.3         | \$0.3                   | 0.0%                          | 0.5%         |
| STBD Vehicle License Fee                   | \$19.6  | \$21.3           | \$22.1  | \$0.3                           | <b>-\$0.2</b> | \$0.1                   | 1.4%                          | <b>-1.0%</b> |
| Commercial Parking Tax                     | \$50.0  | \$50.3           | \$52.1  | \$0.2                           | \$1.6         | \$1.7                   | 0.3%                          | 3.1%         |
| Automated Traffic Safety Cameras           | \$8.5   | \$7.9            | \$17.7  | <b>-\$0.2</b>                   | <b>\$0.0</b>  | <b>-\$0.2</b>           | <b>-2.5%</b>                  | <b>0.0%</b>  |

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.

# Questions?

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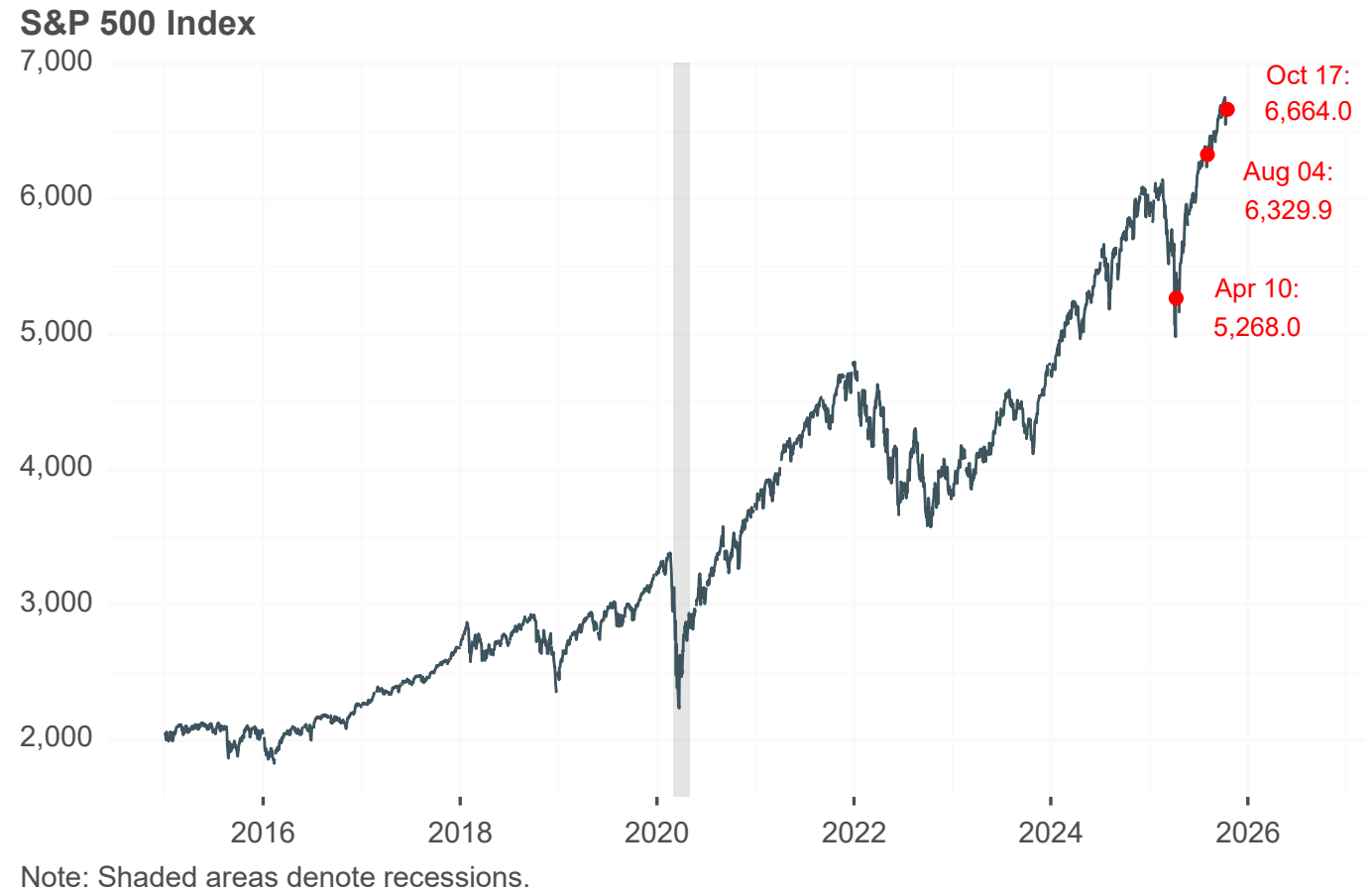
# Appendix

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# Uncertainty remains elevated but the stock market continues to grow

- S&P 500 index fell almost 20% between February and April, as uncertainty around the trade policy and fears of a trade war rattled the markets.
- Over time, as trade negotiations continued, retaliation by main U.S. trade partners remained limited, and the impact on inflation turned out to be smaller than initially feared, the stock markets have recovered.
- S&P 500 has reached new records in October, growing about 5% since August 4 and more than 30% since the bottom on April 8, despite lingering uncertainty.
- Gains are heavily concentrated in the tech sector, driven by expectations around AI.

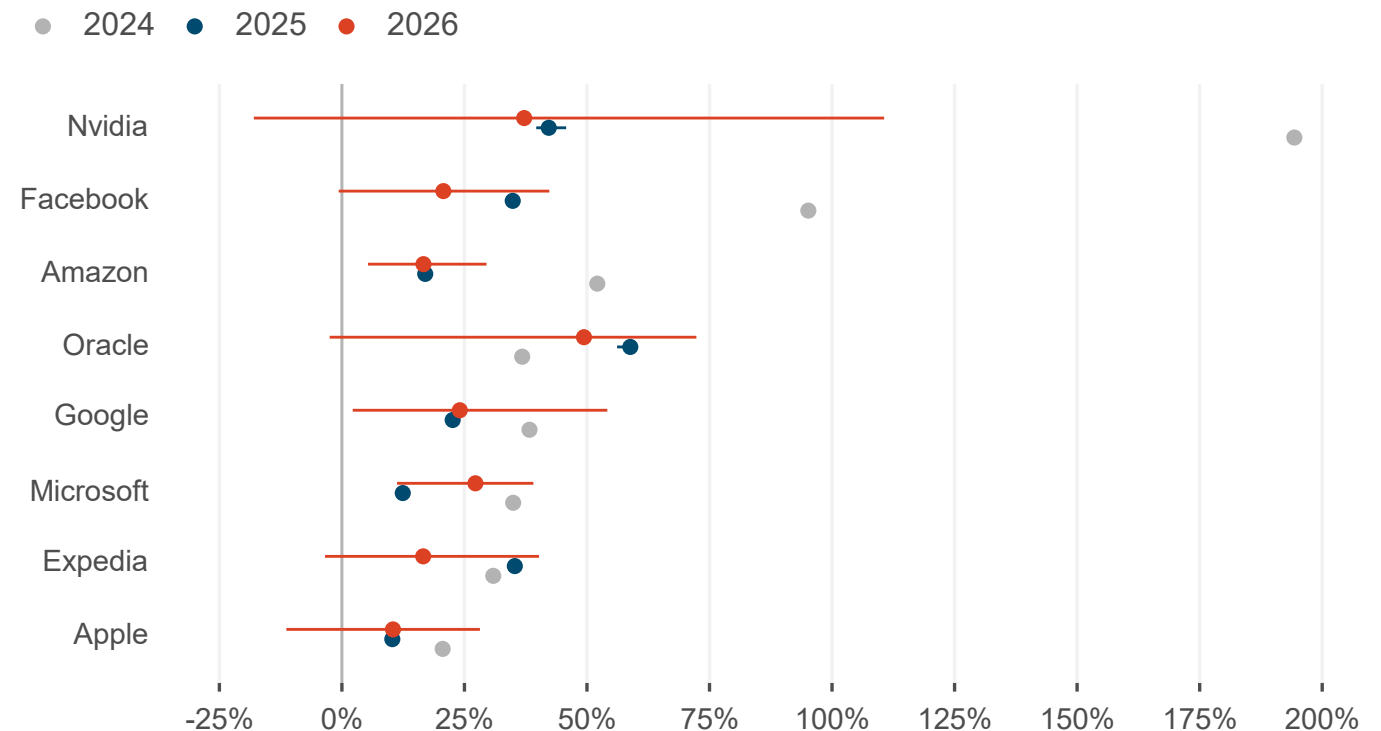


# Outlook for stock prices is quite positive, but with large uncertainty

- In the baseline scenario, the S&P 500 index is expected to grow 13.7% in 2025 and 2.1% in 2026.
- In the pessimistic scenario, the overall economic downturn would also lead to a moderate decline in S&P 500 index in 2026, by 4.8%.
- Stock price targets from analyst ratings show on average even more positive outlook for main tech companies, though with large amount of uncertainty.
- As in past, we expect this to be a one of the significant factors for the performance of Payroll Expense Tax revenues.

## Predicted stock price changes

Year-over-year expected change in stock price; low, average and high estimates

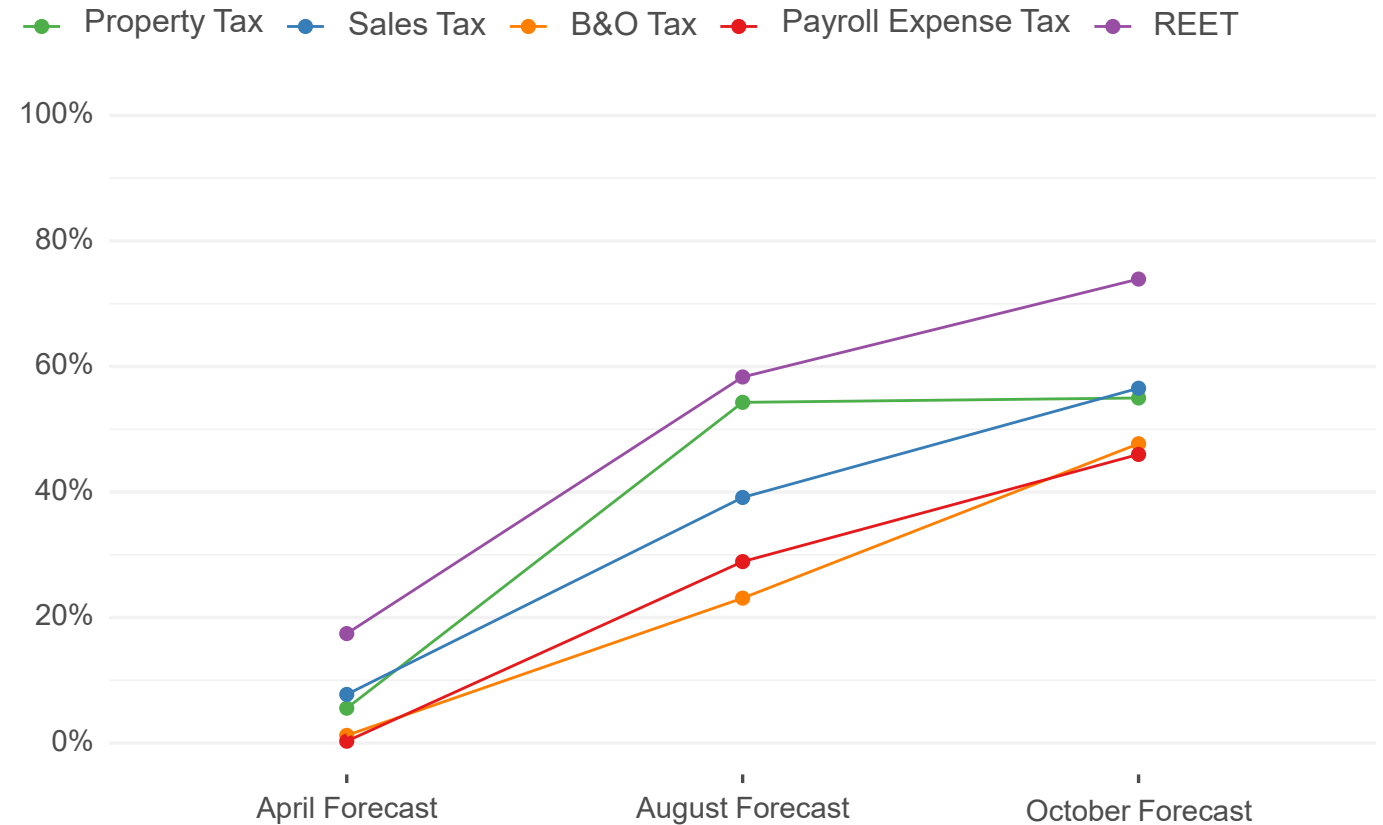


Source: Wall Street Journal, stock price targets from analyst ratings

# October forecast incorporates in general obligations through Q2

- New tax information since August forecast
  - 2025 Q2 Business & Occupation tax returns
  - August and September Sales Tax distributions from Washington State Department of Revenue
  - August and September REET
- Typically, about half of the total annual General Fund revenues are collected by the time of the October forecast update.
- The share of total annual revenues collected however varies a lot by tax.
- In 2024, about 75% of REET revenues had been collected by that point, but just 45% of Payroll Expense Tax revenues.

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





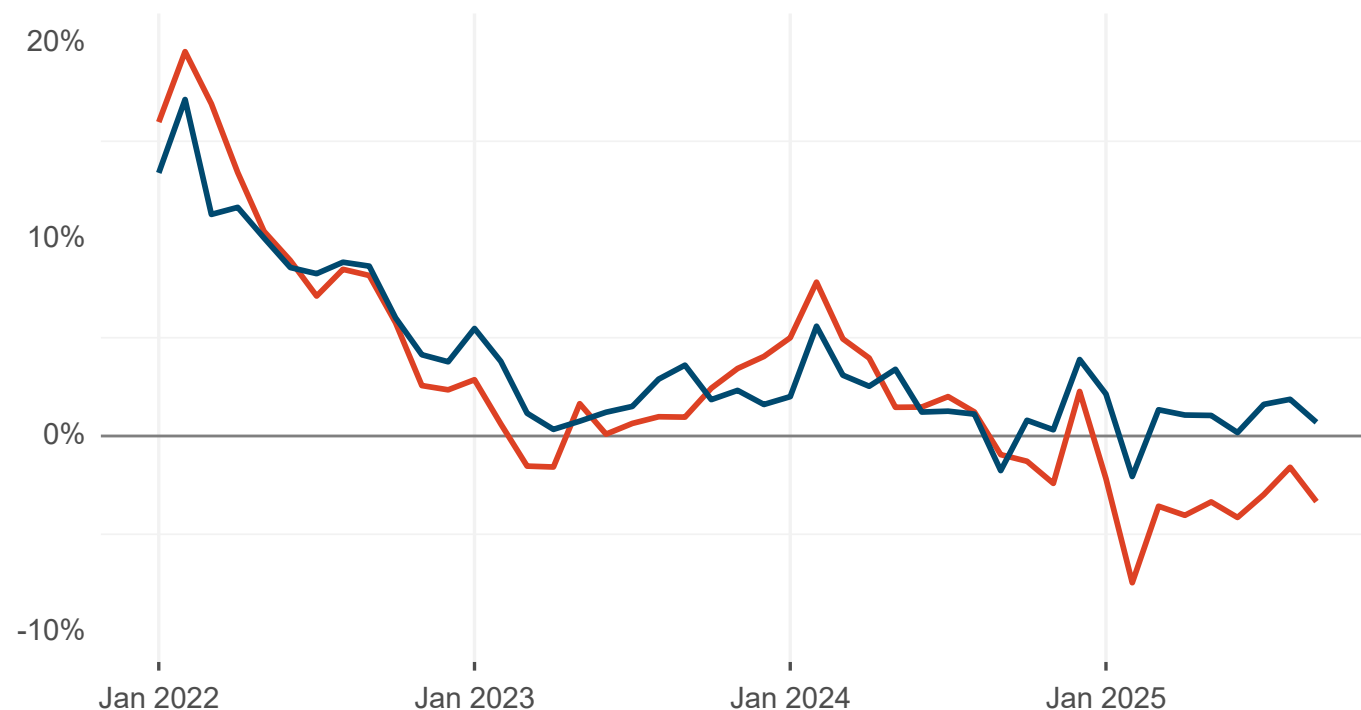
# Consumer spending is rather weak

- Weaker regional labor market is reflected also in weak consumer spending.
- In the first 3 quarters of 2025, consumer credit and debit card spending grew about 0.9% in U.S. as whole but declined about 3.6% in Seattle metro area.
- This is also in line with recently declining sales tax revenues.

## Consumer Credit and Debit Card Spending

Year-over-year % change

■ United States ■ Seattle Metropolitan Statistical Area



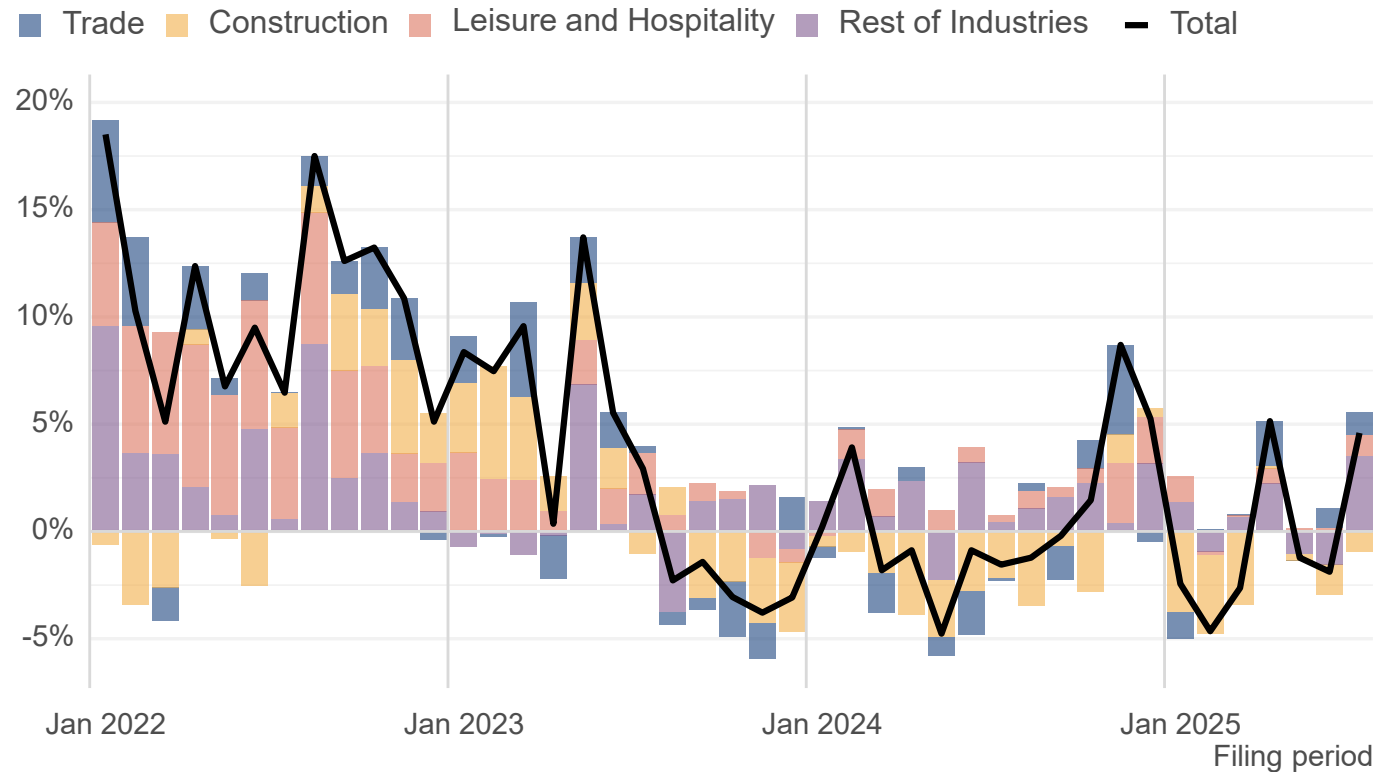
Source: Earnest Analytics

# Sales tax revenues are expected to grow mainly due to policies

- Sales tax has been weak since the second half of 2023. Obligations have declined year-over-year in 18 out of last 24 months.
- Declining revenues are largely due to a downturn in the construction sector, but lower revenues from retail trade and weakening leisure and hospitality sector revenues have contributed as well.
- Lower interest rates should provide some relief in 2026, but without the additional revenues due to ESSB 5814 and HB 2015, growth would be below the rate of inflation.

## Sales Tax Revenues

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



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

| Revenue Source                                     | Actuals          | October Forecast |                  | Difference from August Forecast |                | 2 Year Total Difference | % Change from August Forecast |              |
|----------------------------------------------------|------------------|------------------|------------------|---------------------------------|----------------|-------------------------|-------------------------------|--------------|
|                                                    | 2024             | 2025             | 2026             | 2025                            | 2026           |                         | 2025                          | 2026         |
| Property Tax (Including Medic One Levy)            | \$379.0          | \$389.2          | \$402.5          |                                 | \$4.1          | \$4.1                   |                               | 1.0%         |
| Sales & Use Tax                                    | \$340.4          | \$344.4          | \$393.6          | -\$0.3                          | -\$6.4         | -\$6.7                  | -0.1%                         | -1.6%        |
| Business & Occupation Tax                          | \$353.3          | \$382.0          | \$377.0          | -\$1.0                          | -\$13.6        | -\$14.6                 | -0.3%                         | -3.5%        |
| Utility Tax - Private                              | \$40.5           | \$40.3           | \$39.5           | \$1.2                           | -\$0.1         | \$1.1                   | 3.0%                          | -0.2%        |
| Utility Tax - Public                               | \$217.7          | \$213.5          | \$217.6          | -\$3.9                          | -\$5.2         | -\$9.1                  | -1.8%                         | -2.3%        |
| Other City Taxes                                   | \$14.7           | \$14.5           | \$13.6           | -\$0.1                          | -\$0.3         | -\$0.4                  | -0.7%                         | -2.5%        |
| Parking Meters                                     | \$39.2           | \$36.7           | \$33.3           | -\$0.7                          | -\$3.2         | -\$3.8                  | -1.8%                         | -8.6%        |
| Court Fines                                        | \$18.4           | \$21.5           | \$21.5           | -\$1.3                          | -\$1.1         | -\$2.4                  | -5.7%                         | -4.7%        |
| Licenses, Permits, Interest Income and Other       | \$73.6           | \$75.0           | \$73.1           | -\$0.8                          | -\$0.9         | -\$1.7                  | -1.1%                         | -1.2%        |
| Revenue from Other Public Entities                 | \$19.4           | \$20.2           | \$20.2           | -\$0.8                          | -\$1.4         | -\$2.1                  | -3.6%                         | -6.3%        |
| Service Charges & Reimbursements                   | \$84.1           | \$82.8           | \$78.9           | \$2.2                           |                | \$2.2                   | 2.7%                          |              |
| Grants                                             | \$21.9           | \$55.8           | \$13.0           | -\$0.2                          | -\$0.3         | -\$0.5                  | -0.3%                         | -2.5%        |
| Fund Balance Transfers                             | \$113.0          | \$281.7          | \$200.5          |                                 |                |                         |                               |              |
| <b>Total General Fund</b>                          | <b>\$1,715.2</b> | <b>\$1,957.6</b> | <b>\$1,884.1</b> | <b>-\$5.6</b>                   | <b>-\$28.4</b> | <b>-\$34.0</b>          | <b>-0.3%</b>                  | <b>-1.5%</b> |
| <b>Total General Fund w/o Grants and Transfers</b> | <b>\$1,580.3</b> | <b>\$1,620.1</b> | <b>\$1,670.6</b> | <b>-\$5.5</b>                   | <b>-\$28.0</b> | <b>-\$33.5</b>          | <b>-0.3%</b>                  | <b>-1.7%</b> |

|                                        |      |      |      |
|----------------------------------------|------|------|------|
| Annual Growth w/o Grants and Transfers | 1.7% | 2.5% | 3.1% |
| Seattle MSA CPI-U inflation            | 3.7% | 2.7% | 3.7% |

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 – October Pessimistic Scenario (\$ millions)

| Revenue Source                             | Actuals | October Forecast |         | Difference from August Forecast |         | 2 Year Total Difference | % Change from August Forecast |        |
|--------------------------------------------|---------|------------------|---------|---------------------------------|---------|-------------------------|-------------------------------|--------|
|                                            | 2024    | 2025             | 2026    | 2025                            | 2026    |                         | 2025                          | 2026   |
| Payroll Expense Tax                        | \$360.0 | \$374.5          | \$359.4 | -\$8.4                          | -\$28.6 | -\$36.9                 | -2.2%                         | -7.4%  |
| Payroll Expense Tax Fund - Interest Income | \$11.2  | \$9.8            | \$9.4   | \$9.8                           | \$2.0   | \$11.8                  | N/A                           | 27.2%  |
| REET                                       | \$62.7  | \$68.9           | \$60.1  | \$0.7                           | -\$17.2 | -\$16.5                 | 1.1%                          | -22.2% |
| Admission Tax                              | \$24.6  | \$23.5           | \$25.0  | -\$0.4                          | -\$0.4  | -\$0.7                  | -1.5%                         | -1.5%  |
| Sweetened Beverage Tax                     | \$20.1  | \$19.7           | \$21.7  | -\$0.4                          | -\$0.5  | -\$0.9                  | -1.8%                         | -2.2%  |
| Short Term Rental Tax                      | \$12.1  | \$12.0           | \$12.1  | \$0.1                           | -\$0.8  | -\$0.7                  | 0.6%                          | -6.1%  |
| STBD Sales Tax                             | \$53.0  | \$53.8           | \$55.5  | \$0.0                           | -\$0.9  | -\$0.9                  | 0.0%                          | -1.6%  |
| STBD Vehicle License Fee                   | \$19.6  | \$20.7           | \$21.5  | -\$0.3                          | -\$0.9  | -\$1.2                  | -1.6%                         | -4.0%  |
| Commercial Parking Tax                     | \$50.0  | \$50.3           | \$50.5  | \$0.1                           | \$0.0   | \$0.2                   | 0.3%                          | 0.0%   |
| Automated Traffic Safety Cameras           | \$8.5   | \$7.6            | \$16.8  | -\$0.6                          | -\$0.9  | -\$1.5                  | -7.4%                         | -5.0%  |

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.

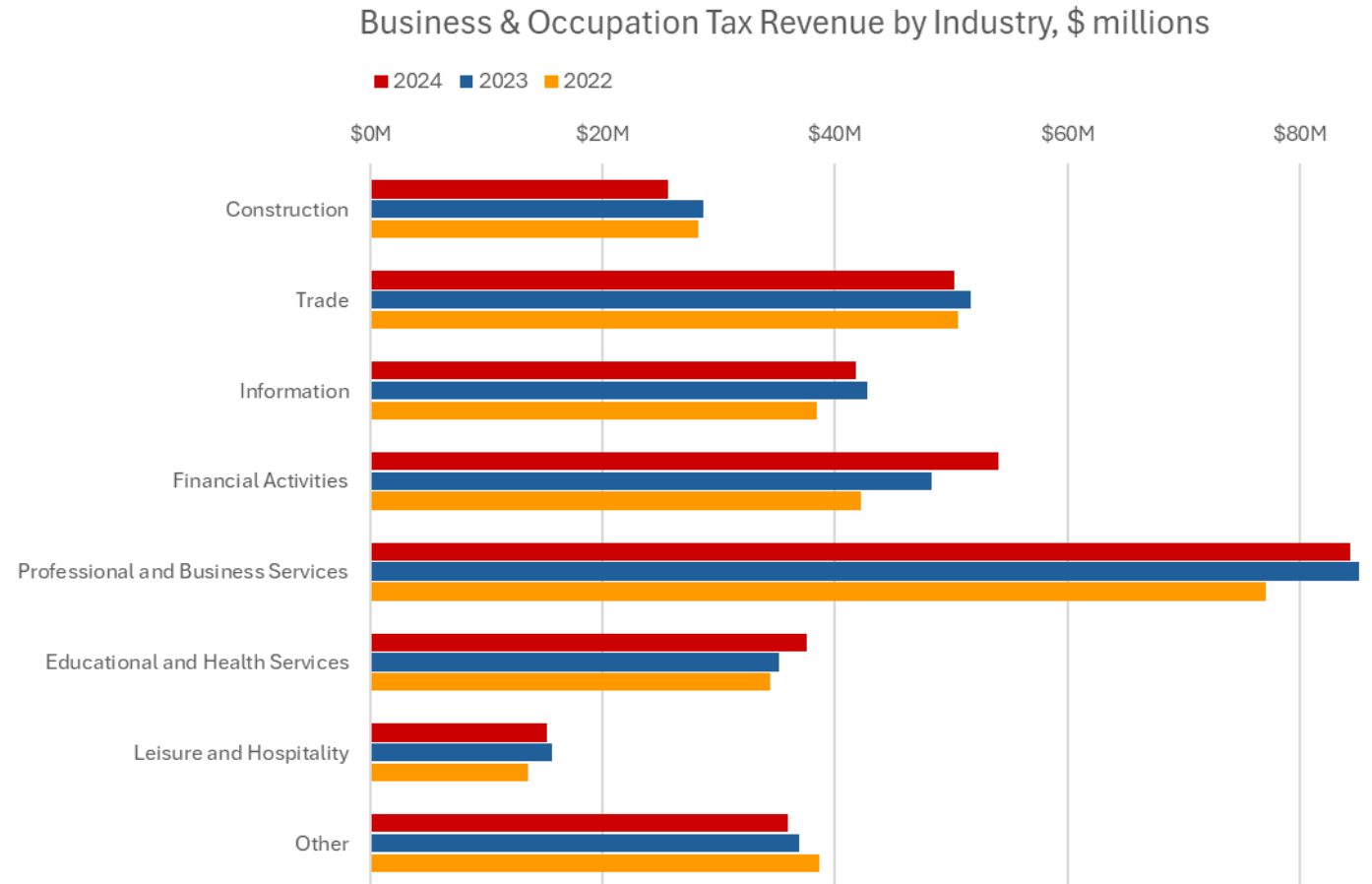
# Alternative scenarios – differences from October baseline (\$ millions)

- 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.
- Higher level of uncertainty regarding Payroll Expense Tax revenue estimates reflects uncertainty about the tax base due to changes in stock price and employment, 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                                    | -\$0.1                                    | -\$8.3         | -\$8.3          | \$0.9                                    | \$10.4        | \$11.3        |
| Business & Occupation Tax                          | -\$3.0                                    | -\$16.5        | -\$19.5         | \$0.5                                    | \$4.3         | \$4.8         |
| Utility Taxes                                      | -\$4.4                                    | -\$5.9         | -\$10.3         | \$5.9                                    | \$7.8         | \$13.7        |
| <b>Total General Fund w/o Grants and Transfers</b> | <b>-\$9.9</b>                             | <b>-\$35.7</b> | <b>-\$45.6</b>  | <b>\$8.7</b>                             | <b>\$26.2</b> | <b>\$34.8</b> |
| Payroll Expense Tax                                | -\$10.9                                   | -\$33.2        | -\$44.2         | \$12.8                                   | \$35.9        | \$48.7        |
| REET                                               | -\$0.7                                    | -\$16.0        | -\$16.7         | \$0.5                                    | \$0.9         | \$1.4         |
| <b>Total Revenues</b>                              | <b>-\$24.0</b>                            | <b>-\$90.9</b> | <b>-\$114.4</b> | <b>\$24.7</b>                            | <b>\$70.0</b> | <b>\$94.1</b> |

# Business and Occupation Tax - 2024 Actuals

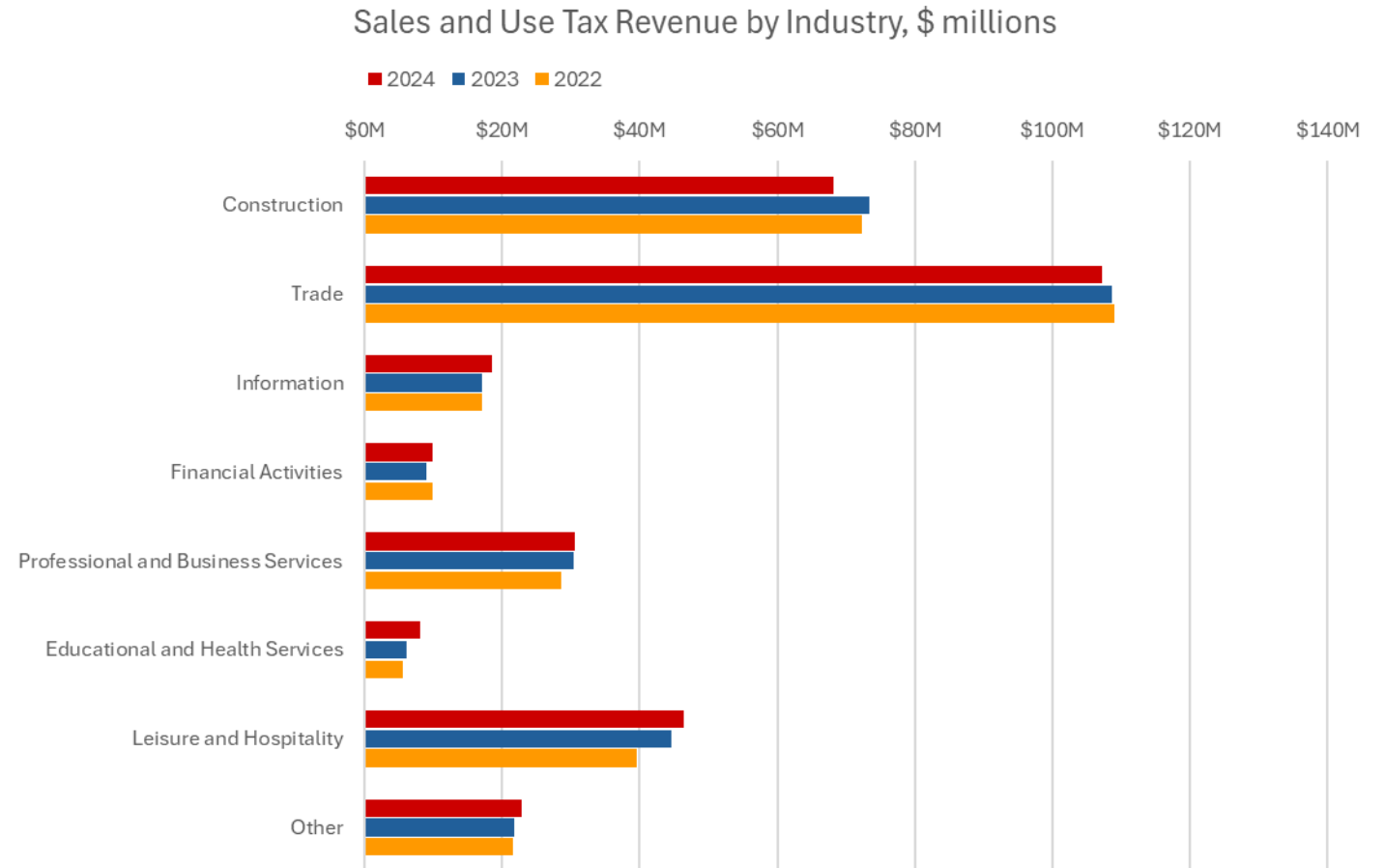
- Tax base for B&O is quite diversified, though professional and business services constitute a notably bigger share than other sectors.
- B&O tax was paid by about 20,000 businesses in 2024.
- Top 10 taxpayers accounted for about 20% of all B&O revenues.
- B&O revenues from Construction sector declined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

