

City of Renton Economic Forecast
2007 - 2009

Prepared for

Finance and Information Services
City of Renton

by

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Introduction and Summary

This report updates forecasts for the United States, Puget Sound, King County, and City of Renton economies. It relies on the October 2007 national economic forecast from Blue Chip Economic Indicators, a consensus of 50 national forecasters, and the September 2007 Puget Sound economic forecast from Conway Pedersen Economics, Inc. as published in *The Puget Sound Economic Forecaster*.

Consideration of the outlook for the U.S. and Puget Sound economies is a necessary first step to forecasting the Renton economy because of the importance of national and regional markets to local firms. Moreover, national and regional business conditions (e.g. inflation, interest rates, credit availability, population growth) can have direct bearing on local business conditions.

According to the consensus forecast, the U.S. economy will expand at below average growth rates in coming quarters as the downturn in the housing sector causes consumers to rein in spending. The forecast calls for only 1.280 million housing starts in 2008, the lowest level since 1993 and growth in real personal consumption expenditures of only 2.3 percent, the smallest year-to-year rise since 1991. Real GDP will increase 2.0 percent this year and 2.4 percent in 2008, well below the trend rate. The emerging impact of tighter credit conditions represents a source of uncertainty in the forecast; there is the potential for reduced credit availability to deter business investment as well as consumption, leading to weaker growth than forecast and possibly a recession.

The Puget Sound and King County economies will likely perform better than the U.S. economy, although growth rates are expected to ease over the forecast period. The region is currently benefiting from strong job creation in primary industries, which is fueling net migration and household formation, and in turn providing support to consumer markets—retail spending as well as housing. However, the maturing regional expansion and the expected “topping out” of aerospace employment will lead to slower growth. Job growth for the region and King County, estimated at 2.8 percent for both areas this year, is expected to fall by about a percentage point over the next two years, while population growth eases by about one-half a percentage point.

Comparative Growth Rates, 2007 – 2009

Average Annual Percent Change

	United States	Puget Sound	King County	City of Renton
Employment	1.4	2.3	2.2	2.8
Population	0.9	1.6	1.3	2.4

Although Renton employment fluctuates with the ups and downs of the aerospace business cycle, over the long run, as Boeing jobs in the city have shrunk, job creation by other employers has offset the Boeing losses. Seemingly independent of employment growth, Renton population, housing stock, and taxable retail sales have all outpaced respective growth rates for King County and the overall Puget Sound economy. This is

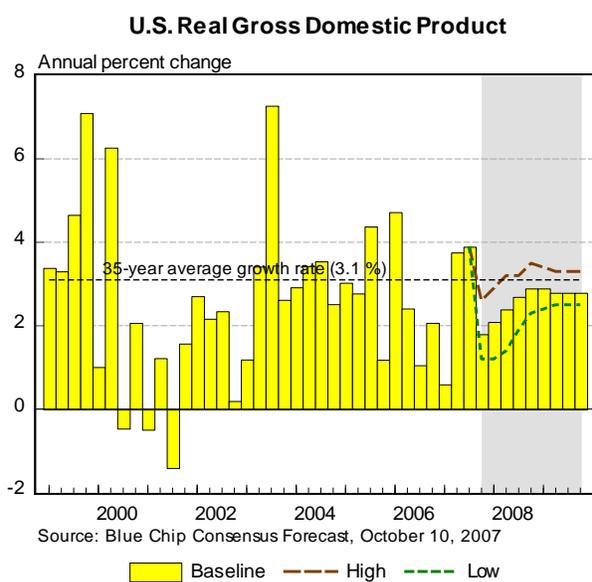
expected to persist over the forecast period. With gains in both Boeing and non-Boeing jobs, Renton employment growth is expected to average 2.8 percent per year from 2007 to 2009, one-half a percentage point above the expected growth rate for the Puget Sound economy. Population growth will average 2.4 percent per year, 0.8 percentage points higher than expected for the region. Huge increases in multi-family building permits this year, associated with several large development projects, may bump the population growth rate even higher.

Forecasts

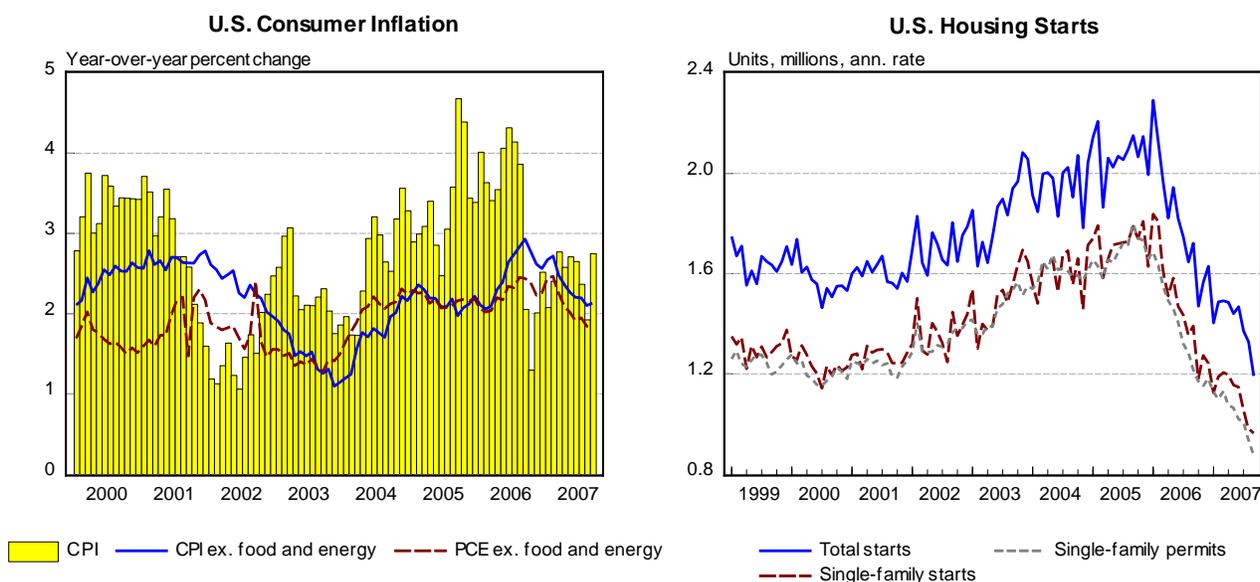
The U.S. Economy

The U.S. economy expanded at an impressive 3.9 percent annualized growth rate in the third quarter of 2007 according to the Commerce Department's preliminary estimate, following growth of 3.8 percent in the second quarter. Consumer spending climbed at a 3.0 percent rate (double the second quarter pace), but fixed investment faltered as a sharp decline in residential spending more than offset growth in business spending on nonresidential structures, equipment and software. Export growth and government spending quickened in both periods.

Despite the solid growth rates, the latest Blue Chip consensus forecast calls for much lower real GDP growth in coming quarters, reflecting concern that the recent disorder in the credit markets and downturn in housing (the drop in residential spending last quarter was the seventh straight quarterly decline) will cause consumers to pull back spending. The housing drag and spillover effects on spending will hold real GDP growth to 2.0 percent this year and 2.4 percent in 2008. Even in 2009, real GDP growth rates will fall short of the 35-year average of 3.1 percent according to the consensus. Blue Chip panel members place the odds of a recession within the next twelve months at 32 percent.



The maturing U.S. economic expansion (now six years running) is evident in the slowing rate of job creation—an average of 125,000 net new jobs per month this year (through October) versus a monthly average of 200,000 in 2005 and 2006. This slowdown is expected to hold the employment growth rate to 1.3 percent this year (down from 1.9 percent in 2006) and put upward pressure on the unemployment rate, which was 4.7 percent in October. While the Blue Chip panel expects slight improvement in the job growth rate in 2008 and 2009, the weaker labor market conditions are of concern because they may contribute, along with reduced housing wealth, to lower consumer spending.



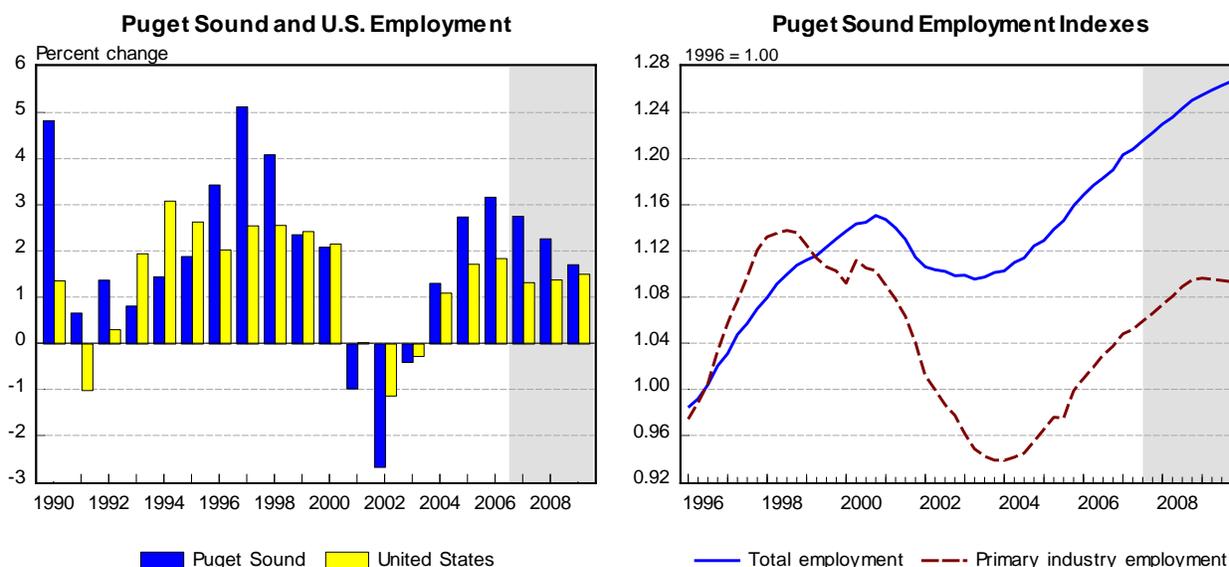
Consumer inflation rates, excluding the volatile food and energy components, have cooled in recent months with year-over-year increases in the core consumer price index averaging slightly above 2.0 percent, and increases in the core personal consumption expenditure index running slightly below 2.0 percent. The latter measure, favored by the Federal Reserve, is within Chairman Ben Bernanke's 1-2 percent comfort zone and the lowest pace since March 2004. The Blue Chip panel expects these lower inflation rates (with food and energy excluded) to prevail in coming quarters, however, they acknowledge an upside risk to inflation if consumer spending stays strong, financial markets stabilize, and the Fed keeps interest rates low. The year-over-year increase in the overall consumer price index jumped to 2.8 percent in September reflecting a surge in energy prices.

After nearly two and one-half years of declining home sales and two years of falling home construction, the U.S. housing market still appears to be searching for a bottom. In recent months, the housing collapse has been exacerbated by financial market disruptions which are still not fully resolved. U.S. new and existing home sales slipped below 5.8 million units on an annualized basis in September, the lowest rate since 1999, down 19.7 percent from the year-earlier level and 32.0 percent from the peak in June 2005.

Inventories of homes for sale have climbed rapidly, reaching 10.5 months at current sales rates for existing homes in September and 8.3 months for new homes. The average and median new home price (seasonally adjusted) have retreated 9.3 percent and 8.1 percent respectively from the peaks in March of this year. Meanwhile, U.S. housing starts are now at levels that prevailed in the early 1990s—an annualized rate of 1.191 million units in September, down 48.0 percent from the peak in January 2006. The large overhang in housing inventory and the widening gap between single-family starts and single-family permits means that housing starts will continue to retreat, at least over the near term. The Blue Chip forecasters see a glimmer of recovery next year, calling for annual housing starts of 1.280 million units.

The Puget Sound Economy

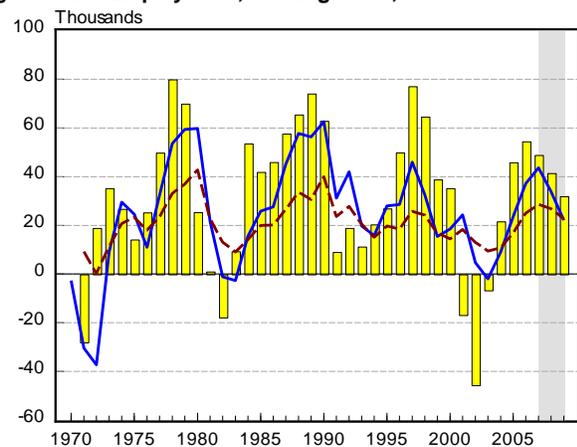
The Puget Sound economy (King, Kitsap, Pierce, and Snohomish counties) faces some of the same constraints and risks to growth as the U.S. economy, but with qualifications—most important of which is that growing regional economies with rising employment and population, like the Puget Sound area, are better able to deal with shocks such as the housing downturn and financial market turmoil. The Puget Sound economy is diverse, primary industry job growth is strong (Boeing and Microsoft are still adding high-wage jobs), net migration and household formation are at cyclical highs, and the weakening dollar continues to benefit regional exporters—all advantages that will help the region withstand the problematic housing and credit market conditions.



Since the trough of the recession in the second quarter of 2003, Puget Sound regional employment has climbed at a 2.6 percent annual rate (hitting 3.2 percent in 2006), a full percentage point faster growth than the comparable U.S. rate. Payrolls at Puget Sound primary industries—those such as aerospace and software with principal markets outside the region—have expanded at an average rate of 3.5 percent. This pace is expected to slow in 2008 and 2009 as aerospace employment tops out. While this will lead to slower

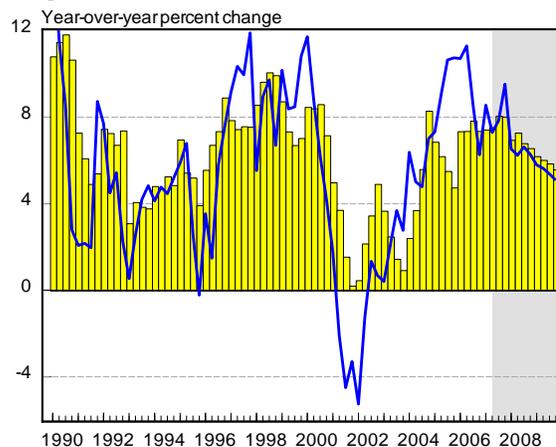
overall job growth, the region is still expected to outpace the nation. Slower growth in construction employment will also play a roll is this ratcheting down in overall job growth, although strong nonresidential building is currently offsetting weakness on the residential side. Regional construction jobs, which rose at double-digit rates last year, are expected to average just 2 percent growth in 2008 and 2009.

Puget Sound Employment, Net Migration, and Household Formation



■ Employment change — Net migration - - Household formation

Puget Sound Personal Income and Taxable Retail Sales

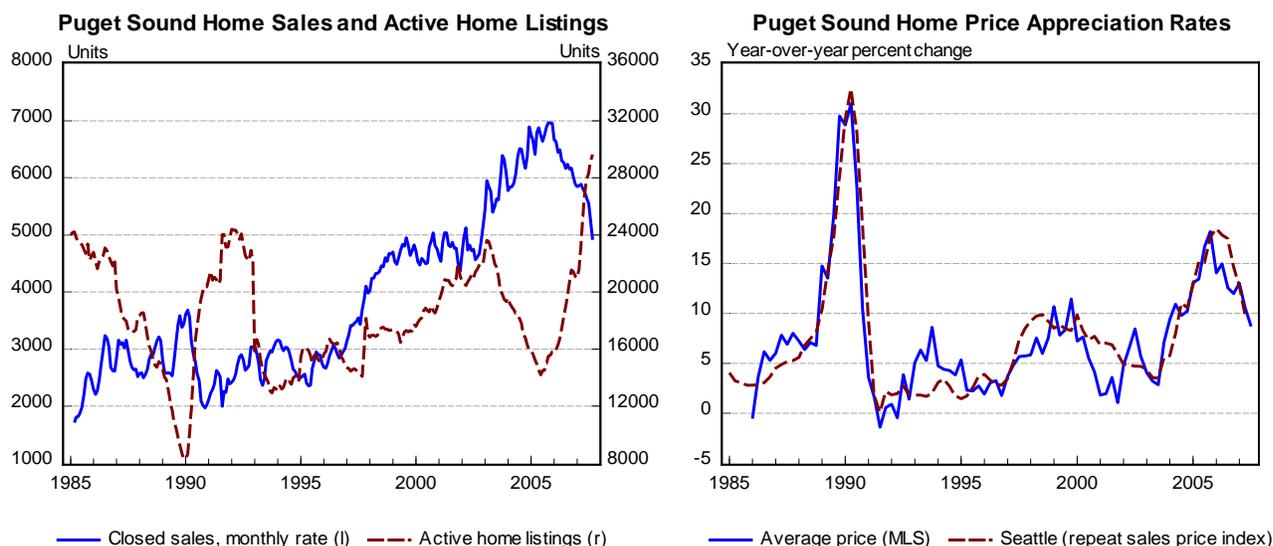


■ Personal income — Taxable retail sales

As shown above, Puget Sound net migration and household formation tend to lag changes in regional employment by about one year; thus, the strong job growth in 2006 set the stage for strong growth in new residents and households in 2007. Net migration in the region is expected to reach 43,700 new residents this year, the largest increase since 1997, while new households amount to 29,400, the most since 1990. Since these population-related variables are important determinants of consumer demand—both expenditures for goods and services and residential spending—these gains (over the short-run) should help offset some of the pullback in spending stemming from the housing downturn and credit crunch. The slower job growth expected for 2008 and 2009, however, will eventually reduce net migration and household formation to about their long-run trend rates.

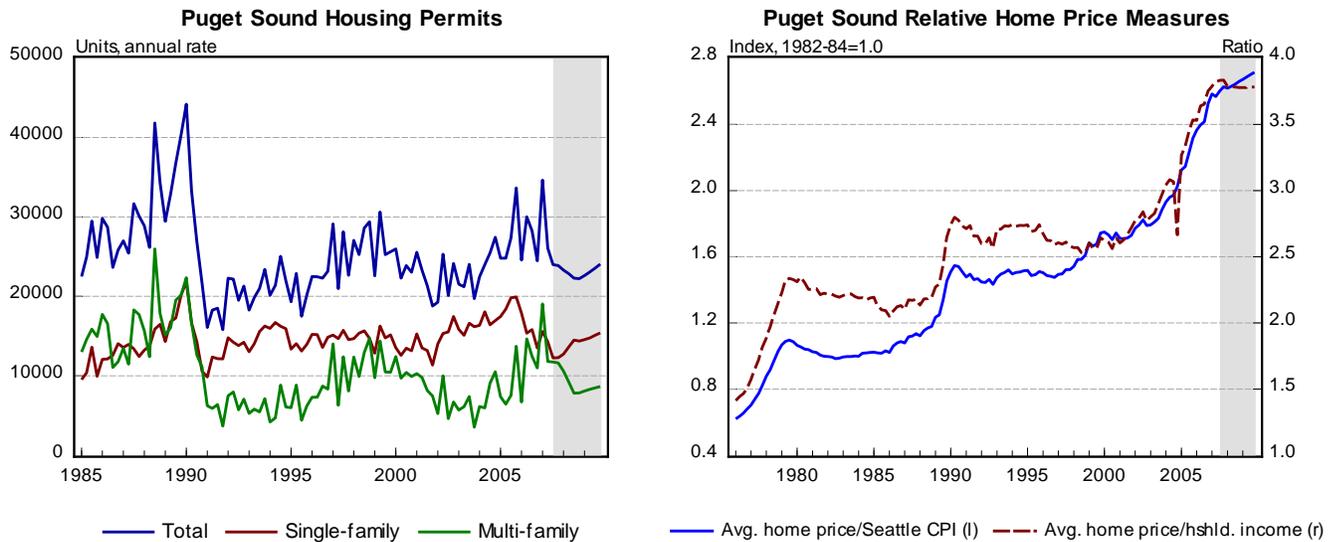
Notwithstanding the demographic support, the key economic variable driving consumer spending is growth in personal income, which is expected to follow the lead from employment and slow by nearly two percentage points over the forecast period. After a strong advance this year, Puget Sound taxable retail sales growth is expected to ease to 5.5 percent in 2009. The risk to this forecast, moreover, is likely on the downside given the uncertainty about the impact of the housing slump and loss in homeowner equity on consumer spending. Retail sales of building materials and home furnishings are directly affected by the housing downturn, but other retail sales will also be hit. It is estimated that a ten percentage point drop in the home price appreciation rate will slow the growth rate of “non-housing” retail sales by 1.7 percentage points other things equal.

Puget Sound closed home sales have dropped about 30 percent over the last seven quarters, from a monthly average of 7,000 units in the fourth quarter of 2005, to 4,900 units in the third quarter of 2007. Over the same period, housing inventory, reflecting the slump in sales as well as the rapid rise in new listings, has bulged by more than 13,400 units or 85 percent—similar to the buildup in the early 1990s.



Not surprisingly, home price appreciation rates have moderated significantly, although unlike national prices, Puget Sound home prices were still above year-earlier levels as of the third quarter of 2007. Conditions in the regional housing market are likely to continue to worsen as mortgage credit is tightened and economic growth slows. At this point there is scant evidence in the data of any stabilizing trend other than some “flatness” in seasonally-adjusted home prices in recent months. In the region’s favor, compared to the U.S. housing market, is strong fundamental demand for housing, as evidenced by good job growth and household formation at a cyclical peak.

With the decline in home sales and run-up in active home listings in recent quarters, the annual rate of single-family permitting has dropped sharply—from 19,900 units in the fourth quarter of 2005, to 12,250 units in the third quarter of 2007. Pickup in volatile multi-family permitting has offset some of the single-family slack, but this is not expected to persist throughout the forecast period. Improvement in home sales would ordinarily be a precondition to rebound in new construction. A fundamental change affecting both the sales and new construction markets is the decline in the housing investment incentive—that is, the reduction in the rate of home price appreciation relative to the mortgage rate. Absent this stimulus, housing markets will remain lackluster.



Historical perspective on housing prices suggests that an extended period of adjustment lies ahead. Puget Sound housing cycles over the last thirty years have been characterized by periods of rapid run-up in housing prices relative to other prices and relative to household income. But this has been followed by even longer periods when housing prices have risen at close to the inflation rate and slightly below the growth rate for household income. Over time, the average Puget Sound home price has climbed 3.3 percent per year relative to the Seattle consumer price index, and 2.2 percent per year relative to regional household income growth. In view of the downturn in home sales and housing permits, and with relative housing prices so far above the long-run trend lines, the historic pattern is expected to play out in coming quarters and endure for several years. On the one hand, the fact that this readjustment of housing prices is typical of housing cycles is reassuring—it is not an unknown event; on the other hand it represents an abrupt change from recent housing conditions, likely to come with significant costs for some participants.

Within the Puget Sound region, the surrounding counties measured by employment, personal income, and population are expected to post faster growth rates than King County. Employment and personal income growth from 2007 to 2009 in Kitsap, Pierce, and Snohomish counties combined will average 0.3 and 0.5 percentage points above the respective growth rates for King County. Total population growth for the three counties over the forecast period is expected to average 0.7 percentage points above the growth rate for King county.

Summary Forecast: U.S., Puget Sound, and King County
Annual Percent Change

	----- Actual -----			----- Forecast -----		
	2004	2005	2006	2007	2008	2009
United States						
GDP (\$00)	3.9	3.2	3.3	2.0	2.4	2.9
Employment	1.1	1.7	1.9	1.3	1.4	1.5
Personal income (cur. \$)	6.2	5.2	6.4	6.3	5.6	5.5
Consumer price index	2.7	3.4	3.2	2.7	2.4	2.3
Housing starts	5.1	6.4	-12.5	-22.8	-7.9	12.5
Puget Sound Region¹						
Employment	1.3	2.8	3.2	2.8	2.3	1.7
Personal income (cur. \$) ²	8.2	1.5	7.6	7.8	7.0	5.9
Consumer price index	1.1	2.8	3.8	3.9	2.9	2.6
Housing permits	15.0	11.3	-3.0	1.1	-16.5	2.9
Taxable retail sales	5.8	9.5	9.2	8.3	6.4	5.5
Population	0.8	1.2	1.6	1.9	1.7	1.4
King County						
Employment	0.8	2.2	2.9	2.8	2.2	1.5
Personal income (cur. \$) ²	10.4	-0.8	7.5	7.9	6.6	5.6
Housing permits	15.6	12.3	10.2	10.4	-21.1	0.7
Taxable retail sales	5.3	8.4	8.8	9.2	6.3	5.2
Population	0.7	1.1	1.5	1.6	1.3	1.0

¹ King, Kitsap, Pierce, and Snohomish counties.

² Growth rates for 2004 and 2005 reflect impact of one-time Microsoft stock dividend recorded in fourth quarter of 2004.

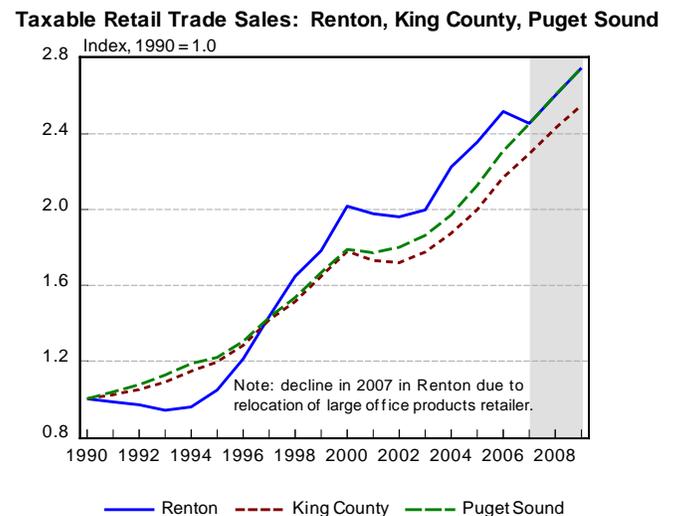
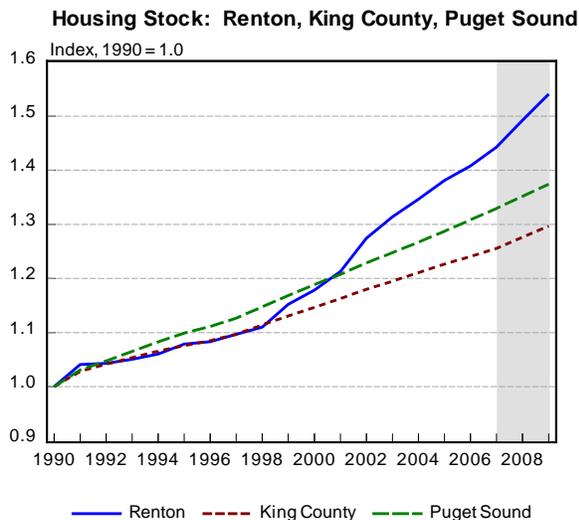
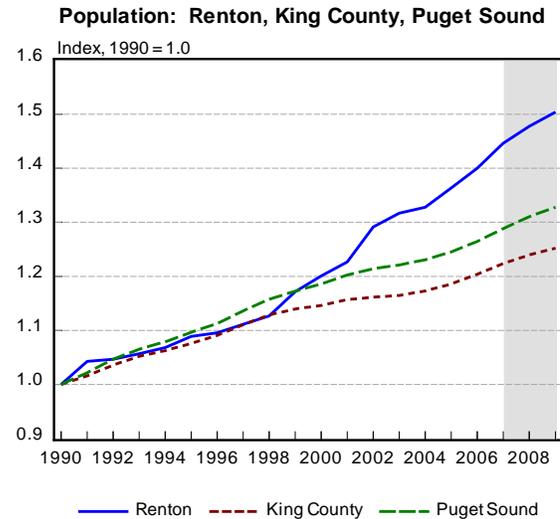
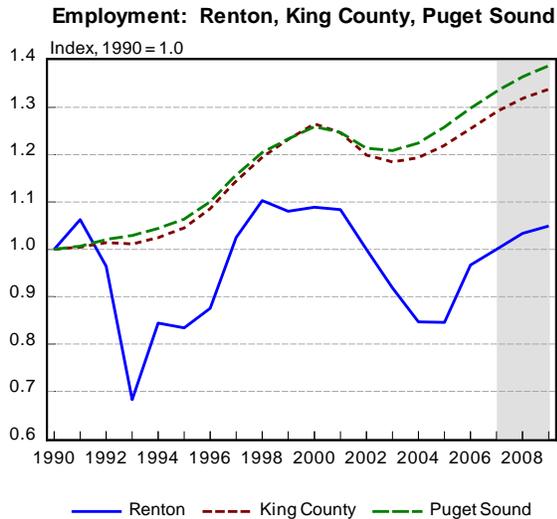
Source: *Blue Chip Economic Indicators*, October 2007; *The Puget Sound Economic Forecaster*, September 2007.

The Renton Economy

Employment is the key driver of large regional economies such as the four-county Puget Sound area. Changes in employment lead to changes in population through net migration and to subsequent growth in housing and consumer spending. At the regional level, without sustained job growth, this process would languish resulting in relatively small, stagnant economies.

Renton's long-run growth illustrates the role of a dominant (and cyclical) regional employer in a growing regional economy and, in particular, the integrated nature of the Puget Sound economy. Renton's full-time-equivalent employment this year, based on City business license records, will be virtually unchanged from the level in 1990. As shown below, over the seventeen-year period and through two aerospace-led recessions, employment swung from a low of about 70 percent of the 1990 level to 110 percent.

Decline in Boeing employment over time (amounting to 11,400 jobs) has been offset by nearly identical growth at other employers, both large and small. In contrast to this “no change” result, employment for all of King County and for the overall Puget Sound economy, which suffered through the same two recessions as the Renton economy, increased by about 30 percent. The different outcomes stem from the fact that aerospace jobs amount to 4 percent of total Puget Sound employment but 30 percent of Renton employment.



A glance at the other charts, however, shows that despite the slack in overall employment, growth in Renton population, housing stock, and retail spending has far outpaced comparable measures for King County and the Puget Sound economy. This reflects decisions households make about where they want to live, availability of housing, Renton’s well-established retail base, and the extensive commuting of the regional workforce across county and city jurisdictions.

Based on the long-standing relationships between the Renton and Puget Sound economies, these patterns are expected to prevail through the forecast period. Thanks mostly to the large across-the-board jump in Renton jobs in 2006, employment growth for the City is expected to outpace King County employment growth over the 2005-2009 period, similar to the way it did in the second half of the 1990s. Growth in the City's taxable retail trade sales (excluding the impact of The Landing development) is expected to fall short of the county pace due to relocation of a large office products retailer outside city limits last year.

Renton and King County
Comparison and Forecast of Key Economic Indicators
Average Annual Percent Change

	1990-95	1995-00	2000-05	2005-09
Renton				
Employment	-3.6	5.5	-4.9	5.5
Population	1.7	2.0	2.6	2.5
Taxable retail sales	3.4	8.7	2.9	5.6
Retail trade ¹	0.9	14.0	3.1	3.9
Other industries	5.6	3.8	2.5	7.6
King County				
Employment	0.9	3.9	-0.7	2.3
Population	1.5	1.3	0.7	1.4
Taxable retail sales	3.7	8.3	1.3	7.4
Retail trade	3.6	8.3	2.4	6.3
Other industries	3.7	8.4	0.6	8.1

¹ Excludes impact of The Landing retail and residential development, 2005-2009.

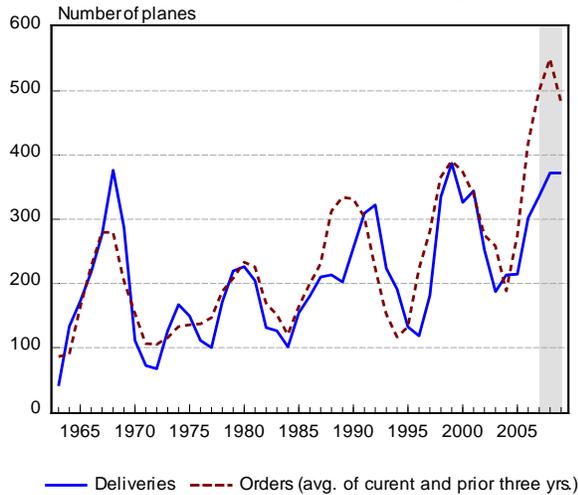
Boeing Activity

Year-to-date (through October 2007), Boeing has received orders for 515 single-aisle 737 airplanes assembled at the Renton plant. Added to the 1,309 orders logged in 2005 and 2006 brings the three-year total to more than 1,800 planes, an unprecedented run. As of September 2007, the unfilled 737 order backlog amounted to 1,796 airplanes, up 24 percent from the year-earlier level and representing 5.4 years of production at current rates.

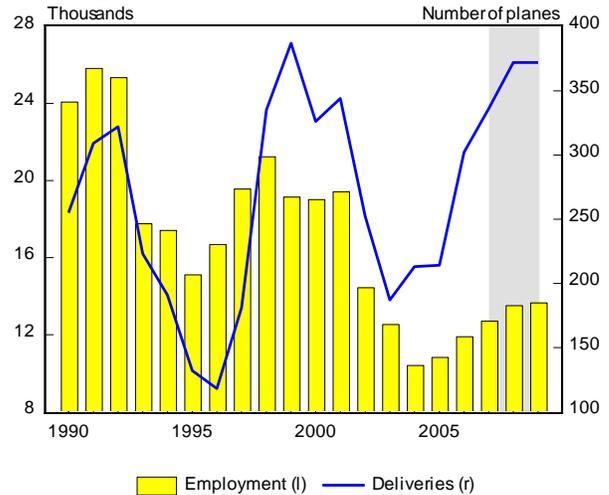
The recent record order pace is expected to ease back over the forecast period but still remain relatively strong. According to Boeing's 2007 *Current Market Outlook*, single-aisle airplanes will account for nearly two-thirds of all commercial jet deliveries worldwide over the next 20 years, with demand driven by growth in air travel and the need to replace substantial numbers of existing planes. Rapidly growing low-cost or short-haul carriers will take over half of single-aisle deliveries.

North America will be the largest single-aisle market according to Boeing's analysis. Moreover, there is some urgency for U.S. carriers to step up orders over the near term to replace their aging fleets. After years of operating losses, totaling billions of dollars, the majority of U.S. airlines have finally returned to profitability. However, the extended slump (2001-2005) forced capacity reductions and drove large numbers of planes into retirement. Now, the resurgence of profits, coupled with escalating fuel prices, is expected to prompt significant replacement demand over the near term. Following an estimated 540 orders for 737 airplanes this year, the forecast calls for 650 orders over the next two years.

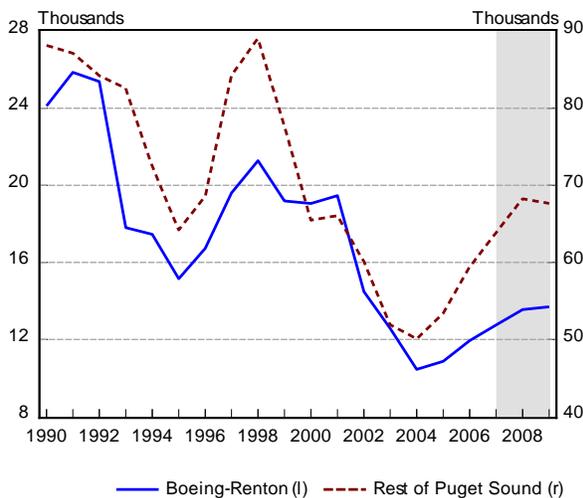
Airplane Deliveries and Orders from Boeing Renton Plant



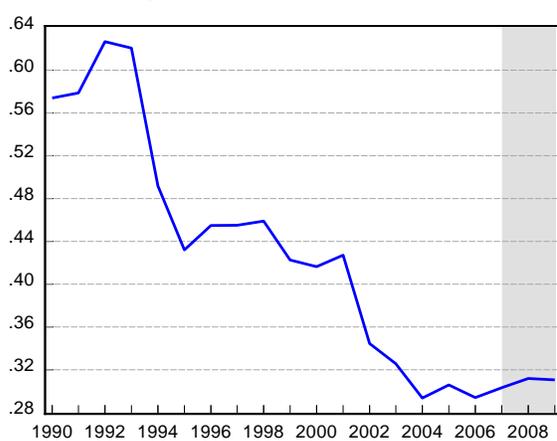
Boeing Renton Employment and Airplane Deliveries



Puget Sound Aerospace Employment



Boeing Share of Total Renton Employment



As shown above, airplane deliveries are highly correlated with orders over the current and prior three years. Thus, the stepped up order pace is expected to drive deliveries upward. The 737 production rate, which averaged 28 planes per month over the first nine

months of the year, is forecast to climb to 31 planes per month in 2008 and 2009, leading to 372 deliveries per year. It is possible that production could eventually exceed 31 planes per month. In the meantime, total 2007-2009 deliveries will amount to 1,080 planes, the most ever over any three-year period at Renton.

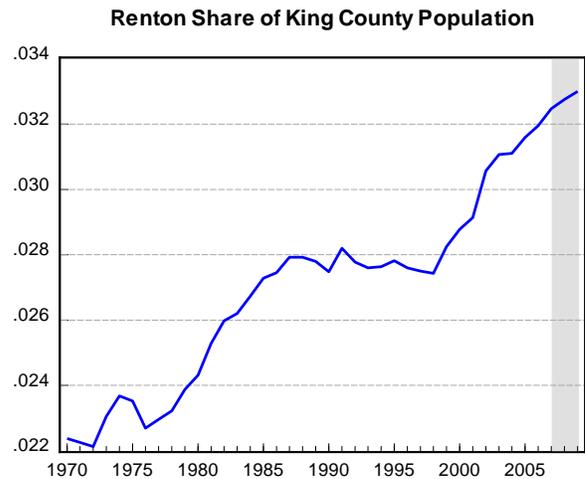
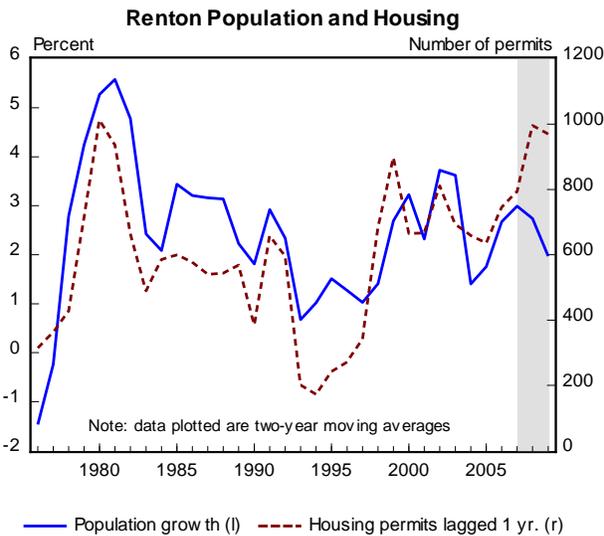
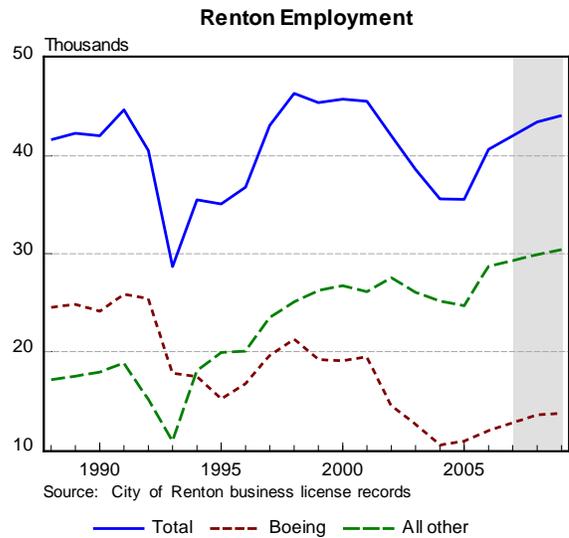
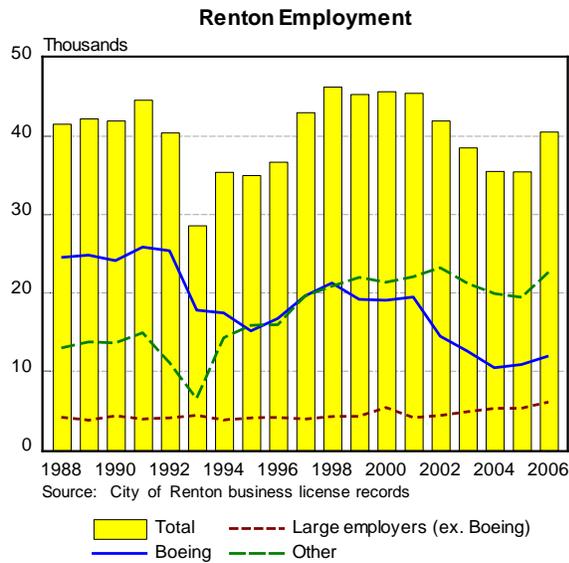
As deliveries rise, so also will Boeing employment in Renton. This forecast is based on the aerospace job outlook for the Puget Sound region and expected airplane delivery rates from the Renton plant relative to total deliveries. After climbing 9.9 percent in 2006 to 11,900 jobs, this model predicts that Boeing employment will increase 6.7 percent this year, 6.3 percent in 2008, and 1.1 percent in 2009 reaching 13,700 jobs—a gain of 1,800. Aerospace employment in the rest of the region is expected to increase by about 8,300 jobs over the three-year period. Boeing jobs will average 31 percent of total Renton employment in 2008 and 2009, up slightly from the 2006 share.

Employment, Population, and Housing

The total number of jobs in Renton in 2007 amounts to about the same number as in 1990 largely because growth in payrolls of small employers has offset a 50 percent drop in Boeing jobs (see chart on page 13). Boeing accounted for 58 percent of total employment in 1990 versus an estimated 30 percent in 2007. Non-Boeing jobs, including those at other large employers such as Paccar, Valley Medical Center, and the Renton School District, but two-thirds of which are at smaller employers, have grown at a 2.9 percent annual rate over the seventeen year period. This is nearly a full percentage point faster than comparable growth in the region. Following a large, double-digit jump in 2006 (due, in part, to expansion at Valley Medical Center), non-Boeing employment is expected to increase 2.1 percent in 2007 and 2008, before easing to 1.7 percent growth in 2009. Together, the expected Boeing and non-Boeing job increases will lift total Renton employment by 3.4 percent this year and next and 1.5 percent in 2009. On average over the three-year period, Renton job growth will exceed King County and Puget Sound job growth by 0.5 percentage points per year, a departure from the long-run trend.

Renton population growth depends to a certain extent on Renton housing activity (note the strong correlation in the chart on page 13 between the City's population growth rate over time and housing permits lagged one year); however, the converse holds too—housing activity depends on population growth. Both variables also move with changes in the respective King County and Puget Sound variables. Taking this simultaneity into account, as well as the expected slowing in King County population growth (from 1.6 percent this year to 1.0 percent in 2009) and decline in housing permits (from 15,500 units this year to 12,300 in 2009) leads to a forecast of weaker population growth for the Renton economy over the next two years and a drop in housing permits. After climbing 3.3 percent in 2007, according to the Washington Office of Financial Management (2.8 percent excluding annexations), Renton population growth is expected to slow to 2.2 percent in 2008 and 1.8 percent in 2009. This will raise Renton's share of King County population to 3.3 percent. A complicating factor in this forecast, however, is the extraordinary jump in housing permits in 2007 due to large multi-family projects such as The Landing and Southport. Through September, multi-family permits for 950 units had

been issued, which will easily lead to an all-time record for the year. Ordinarily, this would quickly feed into population growth, but the uncertainty about current housing market conditions is a reason to be skeptical about how fast this effect will occur. A related question is to what extent the “outsized” multi-family totals this year will result in reduced activity in subsequent years. The forecast calls for total single-family and multi-family permits this year to reach 1,295 units. In 2008 and 2009 permits are expected to be cut in half but could go significantly lower.



Taxable Retail Sales

Taxable retail sales are one of the few series available at the regional level that measure consumer and business spending. Consumer spending for goods is captured in retail trade categories such as motor vehicles, furniture and home furnishings, electronics, and general merchandise. Business-related spending, that is subject to the retail sales tax, is largely in construction and wholesaling, and in service categories such as real estate, professional and health services, and accommodation and food services. In the Puget Sound economy, business-related spending (i.e. non-retail trade), which tends to be much more volatile than its retail trade counterpart, accounted for 56 percent of total taxable sales in 2006. Spending in this category has been especially strong over the last two years, increasing at an average rate of 10.2 percent. Gains in the retail trade portion of taxable retail sales have averaged 8.2 percent. The slower growth forecast for Puget Sound personal income and employment over the next two years, along with the decline in housing activity, is expected to trim growth rates for both spending categories. Growth in total taxable retail sales, at 9.2 percent last year, is expected to slow to 8.3 percent this year, 6.4 percent in 2008, and 5.5 percent in 2009.

As shown in the table below, large cities in the region, especially Seattle, Bellevue, and Everett, have enjoyed relatively strong growth in total taxable sales over the last two years. Renton's growth, averaging 6.3 percent for 2005 and 2006, was in the middle of the pack. However, a portion of this "average" performance results from a large drop in miscellaneous retail trade sales due to relocation of an office supply retailer outside city limits in the fourth quarter of 2006. Figured without this shift, total taxable sales would have increased 7.7 percent last year.

Total Taxable Retail Sales Puget Sound and Selected Cities

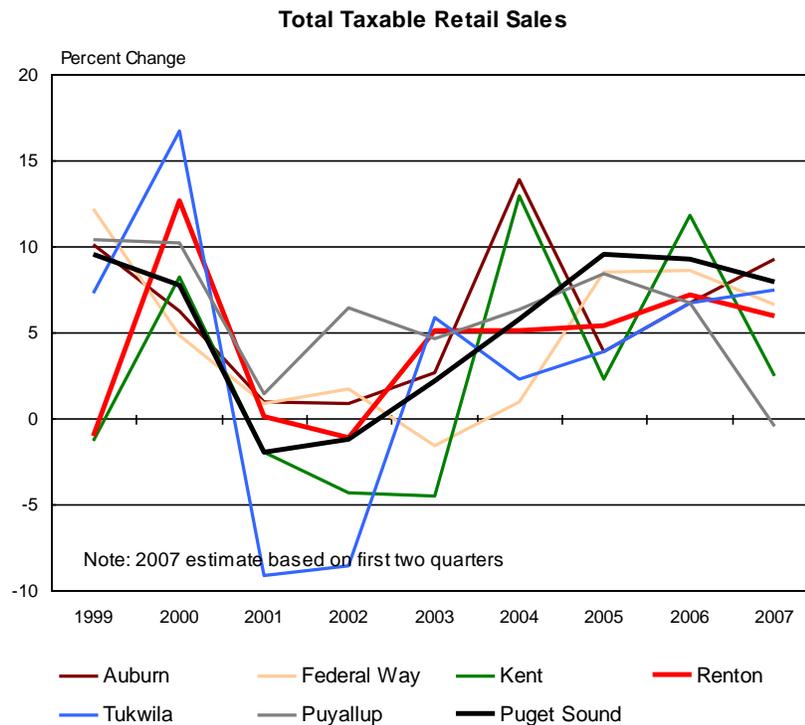
Annual Percent Change

	2000	2001	2002	2003	2004	2005	2006	2007 ¹
Auburn	6.2	0.9	0.9	2.7	13.9	3.8	8.5	9.2
Bellevue	7.2	-10.7	-3.4	0.3	4.1	11.6	9.1	19.0
Everett	3.6	-2.5	-3.4	-0.3	3.1	11.2	16.1	7.9
Federal Way	4.8	0.9	1.7	-1.6	0.9	8.4	8.6	6.6
Kent	8.2	-2.0	-4.4	-4.5	12.9	2.5	11.6	2.5
Kirkland	5.9	-8.3	-4.0	8.1	6.9	15.7	10.1	5.7
Puyallup	10.2	1.4	6.4	4.7	6.3	8.4	6.7	-0.5
Redmond	3.0	-11.1	-6.6	2.8	5.8	7.0	11.4	1.2
Renton	12.6	0.1	-1.2	5.1	5.1	5.3	7.3	5.9
SeaTac	7.0	-0.6	8.3	-5.6	5.4	7.5	6.1	-10.7
Seattle	7.0	-4.4	-2.7	-1.2	2.8	10.6	9.4	9.4
Tacoma	4.8	2.5	-1.5	6.7	3.3	10.1	7.5	5.8
Tukwila	16.7	-9.1	-8.6	5.9	2.6	4.0	6.7	7.5
Puget Sound ²	7.6	-2.0	-1.2	2.2	5.8	9.5	9.2	7.9

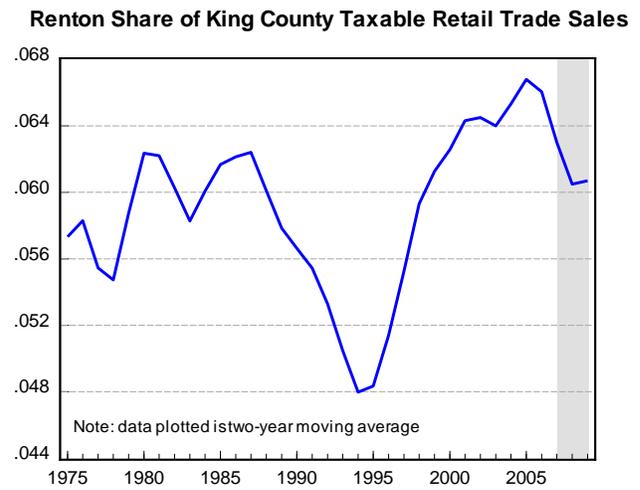
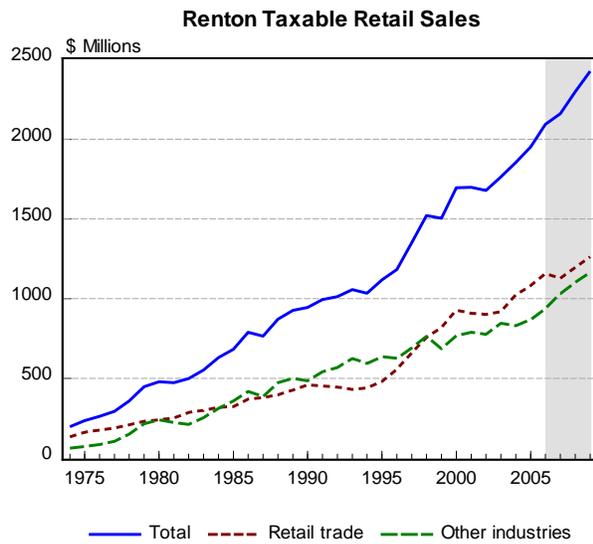
¹ two quarters of 2007 versus two quarters of 2006

² King, Kitsap, Pierce, and Snohomish counties

Through the first half of 2007, total taxable sales in Renton increased 5.9 percent compared to the first half of 2006, with retail trade sales down 2.5 percent and sales in the non-retail trade category up 16.5 percent led by the construction sector. Within retail trade, sales at auto dealers, furniture and home furnishing stores, and appliance stores (nearly 70 percent of the total) are flat, while sales in the miscellaneous retail trade category are down 43.0 percent, effectively subtracting 4.3 percentage points of growth. Excluding the miscellaneous category, retail trade sales in the first half of the year are up 1.8 percent compared to the year-earlier level, while total taxable sales are up 8.7 percent. Absent the sales drop in miscellaneous retail trade (assuming other things unchanged), growth in Renton's total taxable sales in the first half of the year would be close to the top among nearby cities.



The procedure for forecasting Renton taxable retail sales considers the outlook for Puget Sound taxable retail sales, the forecast for residential building in Renton, and the expected change in Renton population relative to the change in Puget Sound population. This approach attempts to capture both the regional drivers of retail spending (through the Puget Sound variable) and the particular forces affecting spending in Renton. Separate forecasts are made for the retail trade and non-retail trade categories. According to the models, and in view of the decline in retail trade sales in the first half of the year, total taxable retail sales are expected to rise only 3.1 percent in 2007. Growth will pick up to 6.4 percent in 2008, but ease slightly to 5.6 percent in 2009. Note that this forecast does not take into account the impact of The Landing retail and residential development. The Renton share of King County taxable retail trade sales will slip to about 6 percent before steadying out.



As discussed in previous reports, wide swings in several of the taxable retail sales categories pose a significant challenge to forecasting. The sales forecasts might best be viewed as baseline projections and made more accurate by separately accounting for large construction projects that have been permitted but not yet started, and for expected changes to retail business activity underway but not yet complete.

**City of Renton
Baseline Economic Forecast
October 31, 2007**

	----- Actual -----				----- Forecast -----		
	2003	2004	2005	2006	2007	2008	2009
Boeing Renton Plant							
Orders (Planes)	213	152	570	739	540	350	300
Deliveries (Planes)	187	213	214	302	336	372	372
Renton Employment¹							
Total	38,616	35,598	35,551	40,650	42,049	43,460	44,106
Percent Change	-8.2	-7.8	-0.1	14.3	3.4	3.4	1.5
Boeing	12,568	10,448	10,865	11,942	12,743	13,546	13,694
Percent Change	-13.2	-16.9	4.0	9.9	6.7	6.3	1.1
Other	26,048	25,150	24,686	28,708	29,306	29,914	30,412
Percent Change	-5.5	-3.4	-1.8	16.3	2.1	2.1	1.7
Renton Population							
Percent Change	2.0	0.8	2.7	2.7	3.3	2.2	1.8
Renton Building Permits²							
Residential - New Construction							
Units Authorized	669	602	889	697	1,295	643	610
Value (\$ Mil.)	126.311	106.322	144.758	121.903	180.476	127.754	125,798
Average Value (\$ Thou.)	188.8	176.6	162.8	174.9	139.4	198.7	206.2
Renton Taxable Sales³							
Retail Trade (\$ Mil.)	918.2	1,022.6	1,082.2	1,157.0	1,128.1	1,195.7	1,262.3
Other Industries (\$ Mil.)	<u>845.4</u>	<u>830.7</u>	<u>869.0</u>	<u>936.2</u>	<u>1,030.9</u>	<u>1,101.8</u>	<u>1,163.8</u>
Total (\$ Mil.)	1,763.6	1,853.3	1,951.2	2,093.2	2,159.0	2,297.5	2,426.1
Percent Change	5.1	5.1	5.3	7.3	3.1	6.4	5.6

¹ FTE employees working in Renton; based on City of Renton business license records.

² U.S. Census Department series.

³ Washington Department of Revenue series; forecast excludes impact of The Landing retail and residential development.