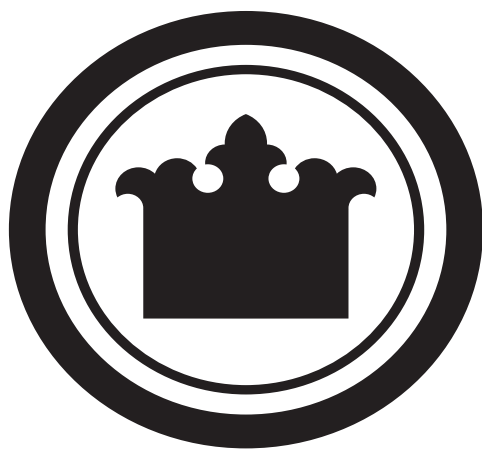


QUARTERLY ECONOMIC REPORT

4th Quarter, 2003



KING COUNTY
OFFICE OF MANAGEMENT AND BUDGET

SUMMARY

Although uneven and inconsistent, growth is finally displacing a nearly three year economic slowdown. The strength and scope of the recovery remains uncertain in the absence of improvement to labor market conditions. Moreover, questions about the impact of interest rates on a debt-heavy economy have cast a shadow on the prospects for long-term growth.

Local conditions have generally improved in the past quarter, as has the future outlook with protracted but ultimately positive decisions in the region’s favor on the Boeing 7E7 jetliner and 767 Air Force tanker lease. Generally positive data has buoyed the county financial position. Real estate related revenues continued to exhibit strength in the second half of the year. After a first half decline, sales tax collections through November have rebounded to slightly exceed comparable period 2002 results.

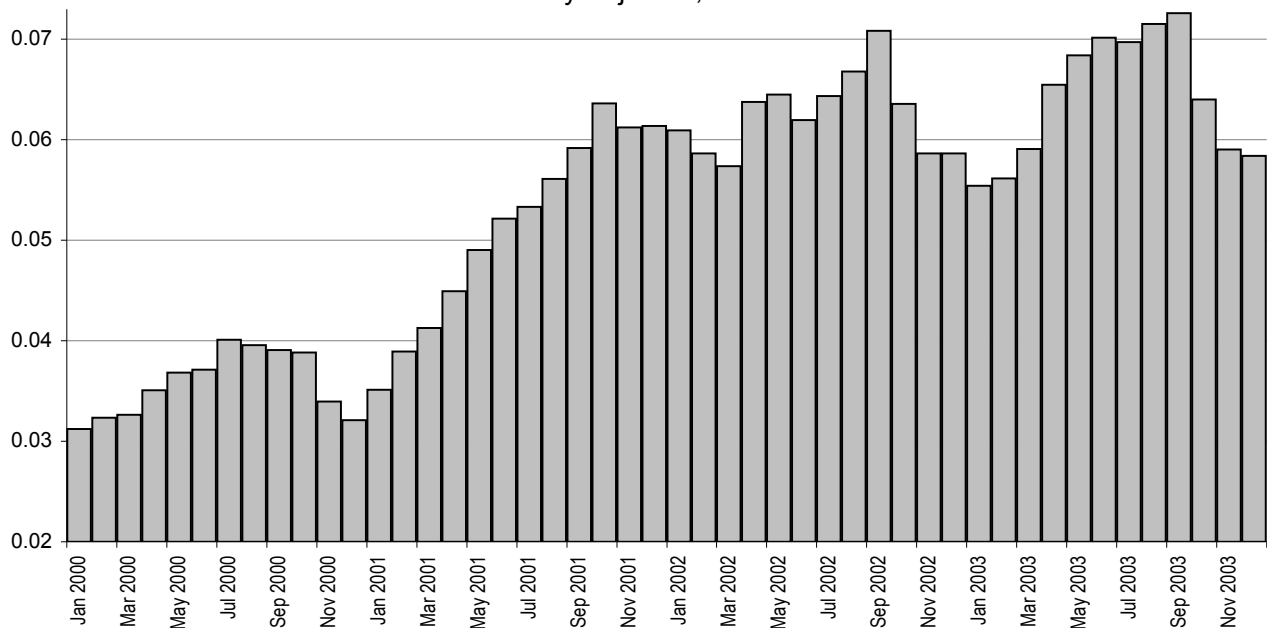
Nonetheless, concerns remain about the sustainability of what appears to be a jobless recovery. The outyear economic forecast has been revised to factor in this risk and higher interest rates due to the likelihood of federal budget deficits for the foreseeable future.

REVIEW OF ECONOMIC CONDITIONS

Lower than expected GDP numbers for the fourth quarter (4.0 percent growth) should not detract from the economic strength increasingly evident since the US ended offensive operations in Iraq in May. Manufacturing activity, as measured by the Institute for Supply Management index, has risen eight of the last nine months to reach a 21 year high, while the anticipated slowdown in residential construction has sharply reversed.

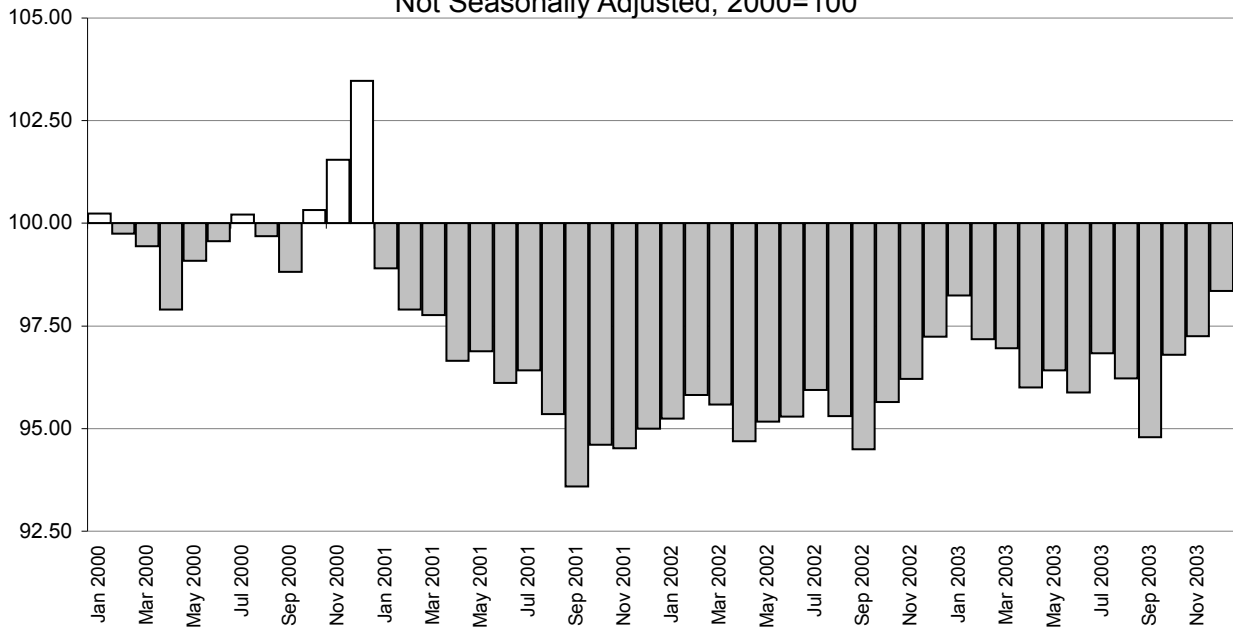
Nonetheless, fears of a jobless recovery have been largely realized. Net job creation in recent months has been positive, but still far short of the approximately 200,000 new jobs needed to keep pace with population growth, let alone make up for the roughly three million jobs lost since 2000. Economic and employment growth are not expected to perfectly coincide; historically, labor

King County Unemployment Rate
Seasonally Adjusted, 2000-2003



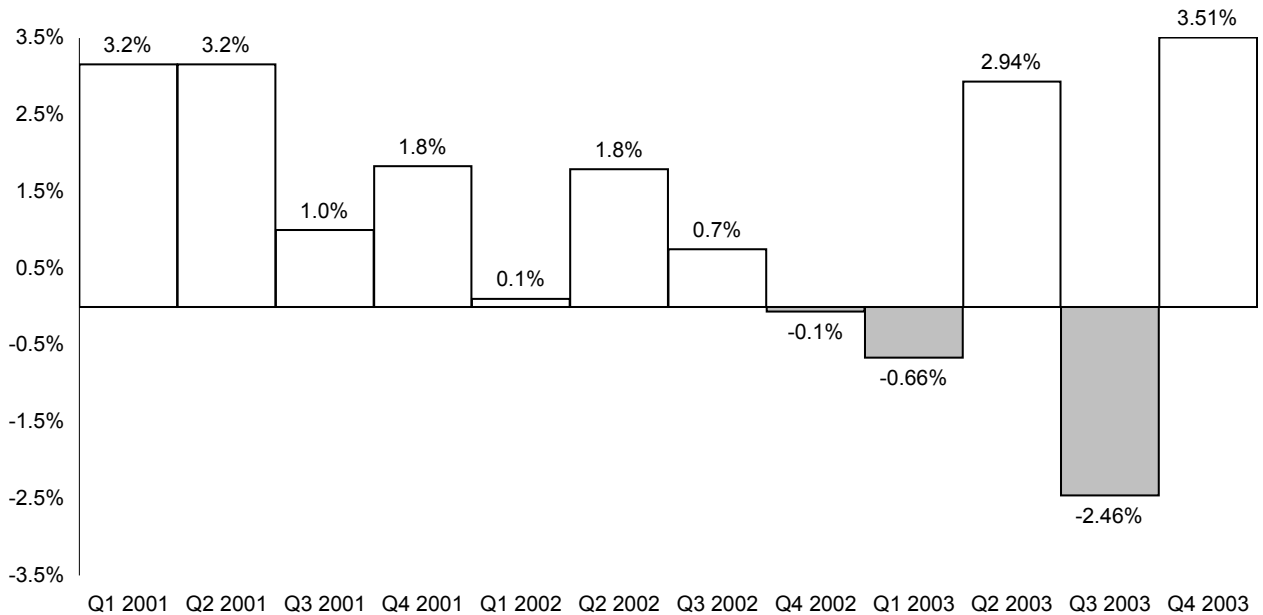
King County Total Employment

Not Seasonally Adjusted, 2000=100



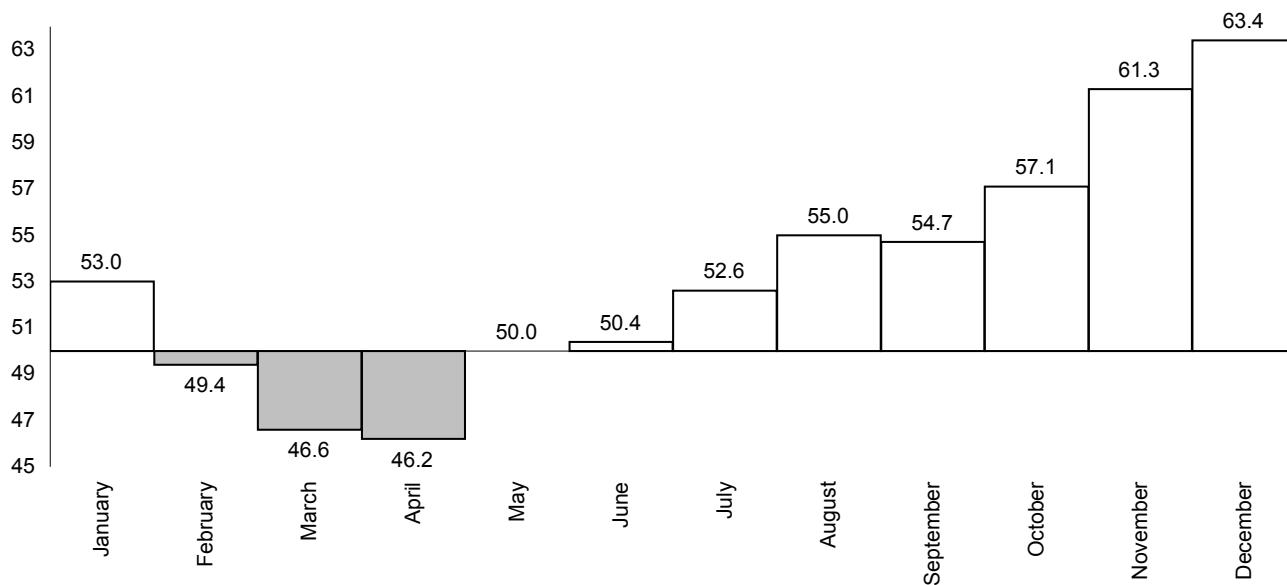
US Private Residential Construction

Seasonally Adjusted Quarterly Change, Completed Units



US Manufacturing Activity Index

PMI Monthly Data since January 2003; Scores Below 50 Indicate Contraction



conditions improve only after economic growth is established. Yet employment growth is thought to be critical to sustaining long term economic growth, and the lack of appreciable labor market improvement clearly undermines the economic outlook.

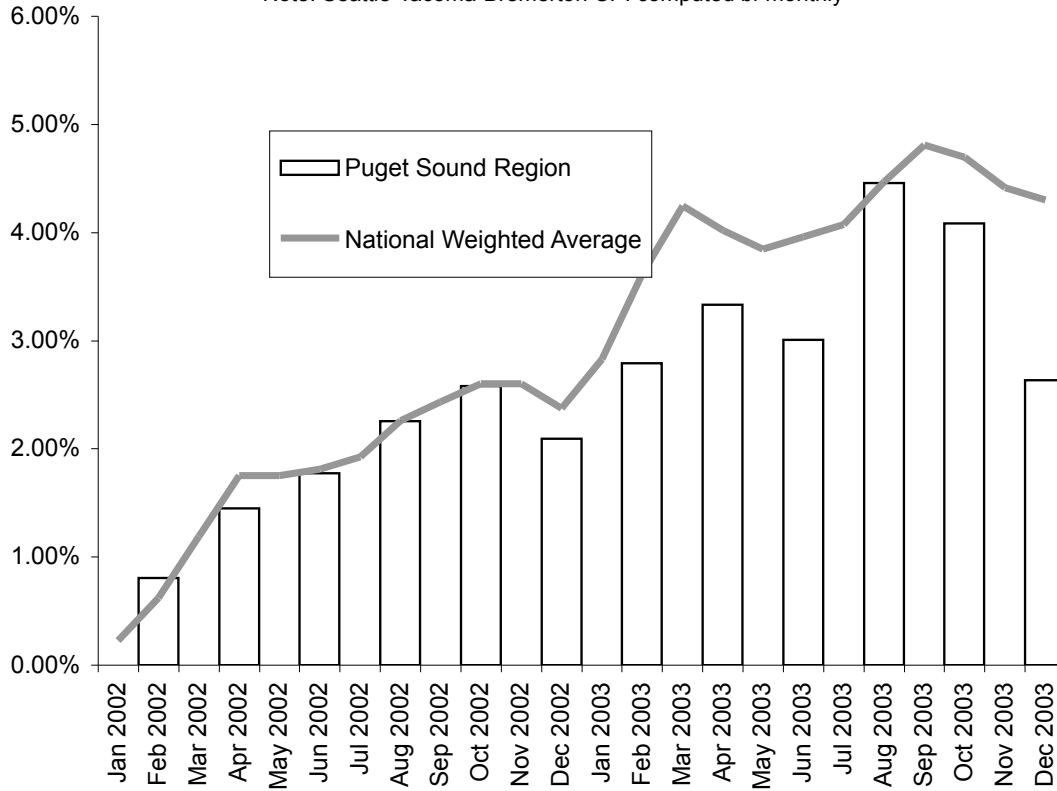
While the expanding economy has been uneven, employment has not matched strength with strength. Indeed, manufacturing and construction employment has fallen even as those sectors have otherwise boomed. Coupled with high productivity numbers, it is clear that many industries are expanding output without increasing employment. In the long run, productivity serves as the fundamental engine of growth. In the short run, however, a decline in the unemployment rate can only be attributable to the jobless giving up altogether.

Another source of concern is the accumulation of national debt – record borrowing by the federal government, a burgeoning trade deficit, and perhaps most significant of all, staggering consumer debt levels. While bond markets reacted to last week’s relatively mild statement from the Open Market Committee, long term interest rates will inevitably increase, even if the Federal Reserve were to maintain a one percent federal funds target indefinitely. How the economy would respond is less clear – but higher debt levels can only make the economy more sensitive to interest rate fluctuation.

Energy price volatility has again swung upward, with price stability eluding futures markets. Prices are still below peak levels reached at the start of US military action in Iraq, but violence and unrest have clearly kept energy markets on edge. Future contracts for subsequent month delivery are 72 percent above January 2002 levels. Given the political dilemma facing the Bush administration on Iraqi self-rule transition deadlines, energy prices are unlikely to stabilize in 2004.

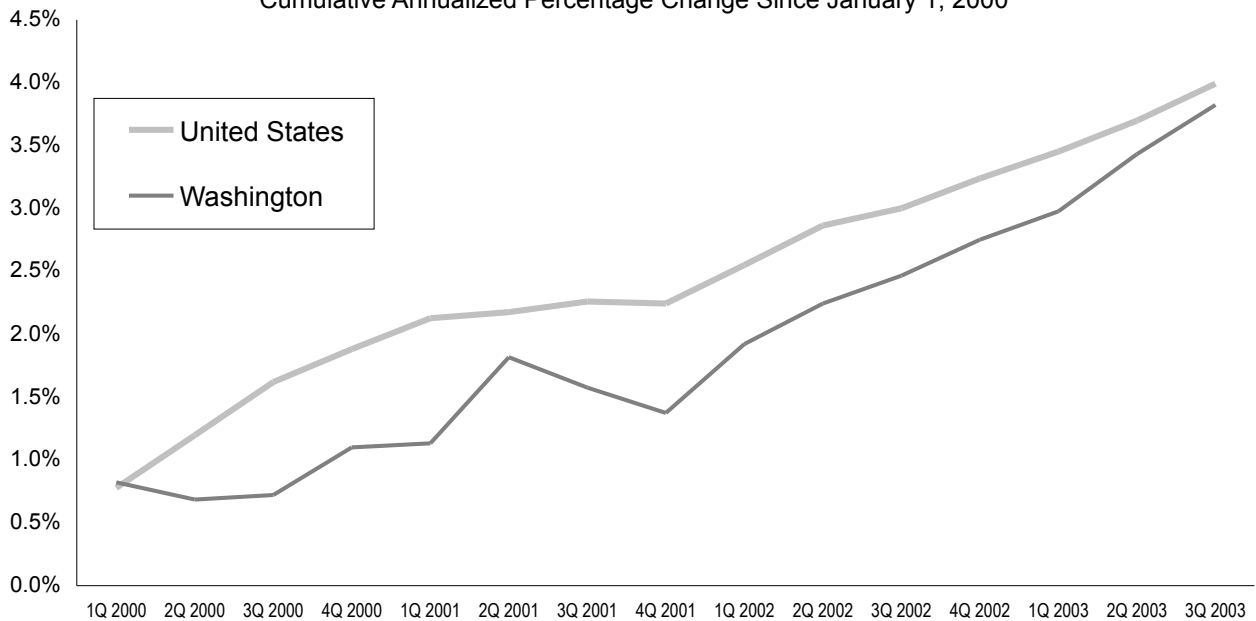
National and Local Inflation Comparison

CPI-U, cumulative change since 2001
 Note: Seattle-Tacoma-Bremerton CPI computed bi-monthly



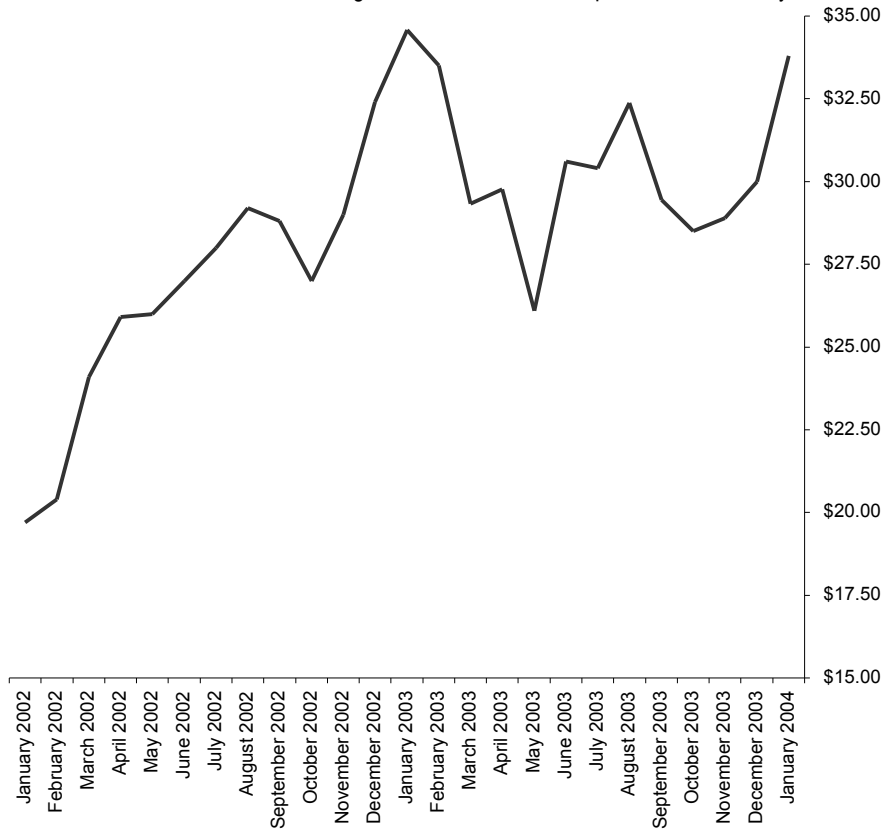
Nominal Personal Income Growth

Cumulative Annualized Percentage Change Since January 1, 2000



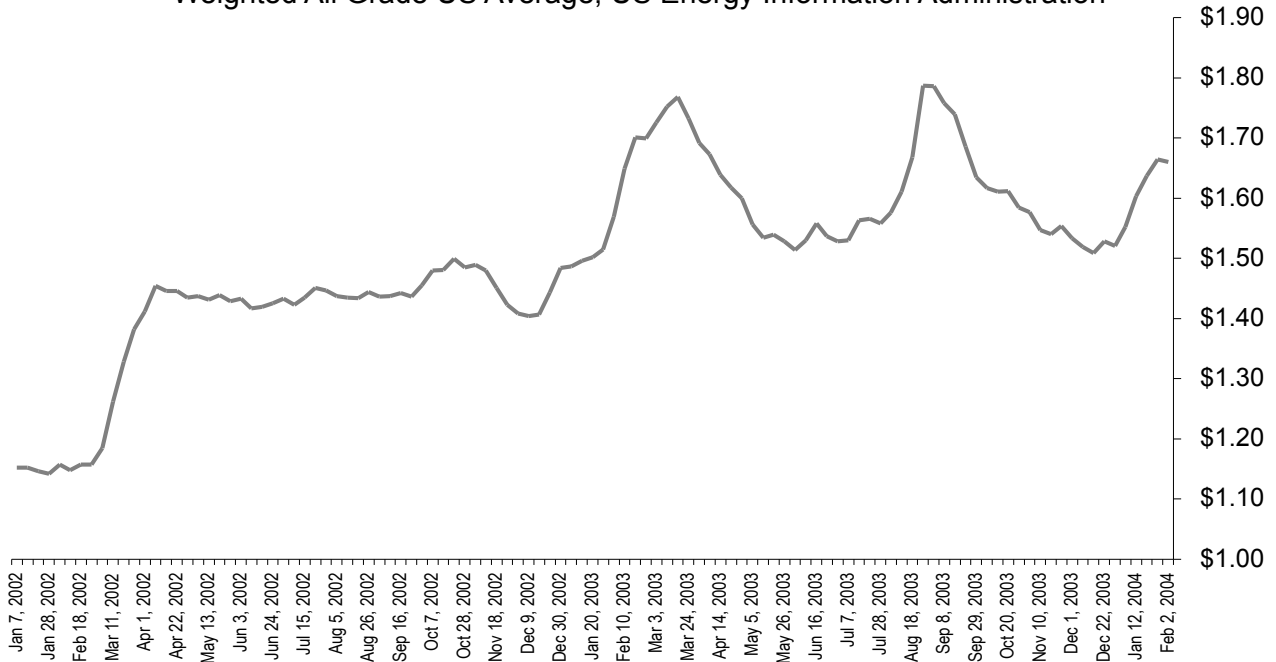
Light, Sweet, Crude Oil Price

New York Mercantile Exchange, Initial Price on Subsequent Month Delivery



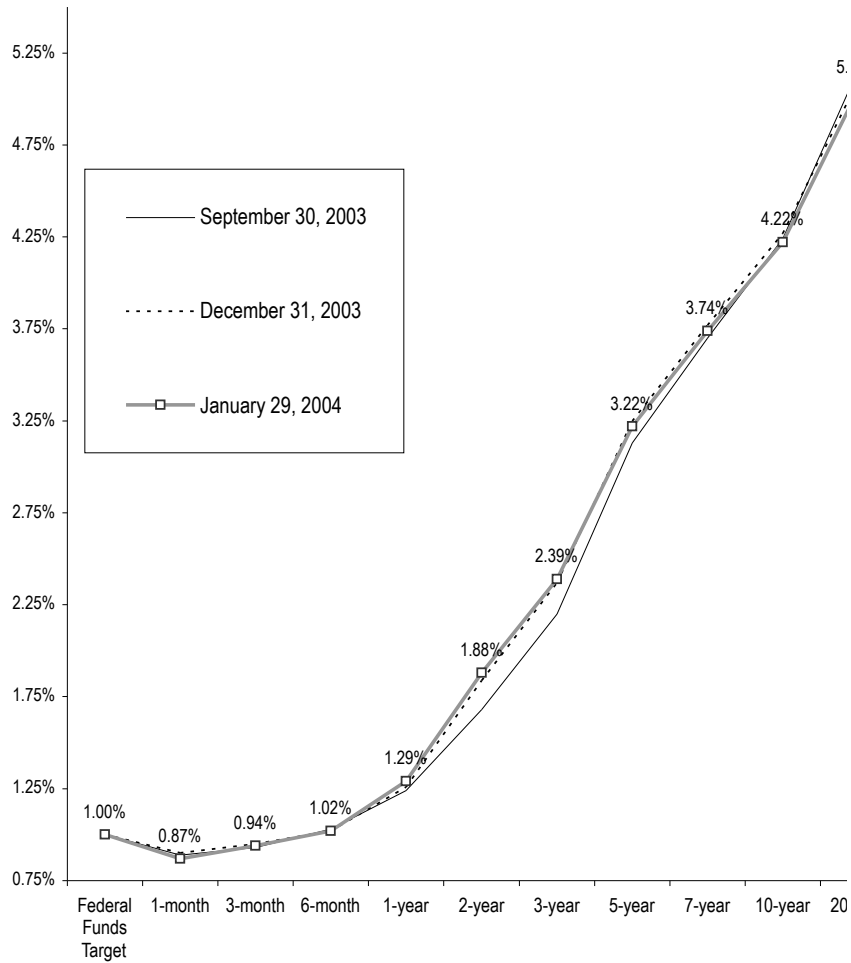
Average Retail Gasoline Price per Gallon

Weighted All Grade US Average, US Energy Information Administration



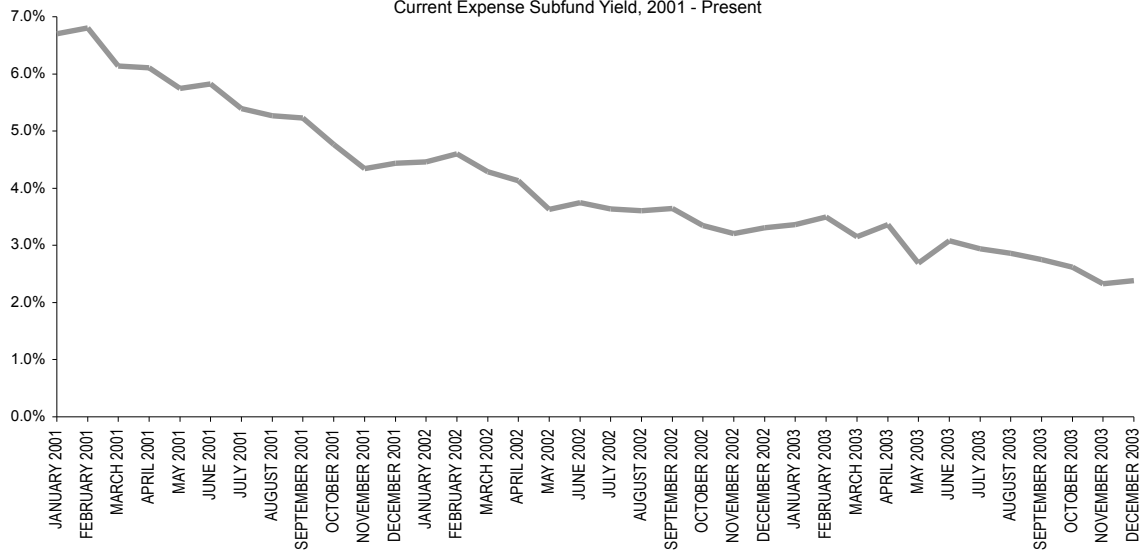
US Government Securities Yield Curve

Close of market bids, Constant Treasury Maturity Yields



Net Rate of Return on Pool Fund Balances

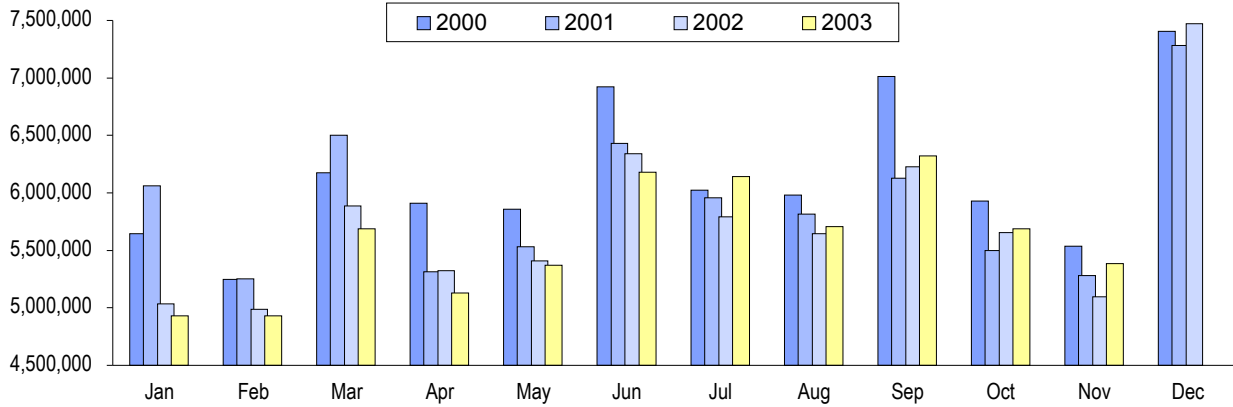
Current Expense Subfund Yield, 2001 - Present



JANUARY FINAL

February 04, 2004 2:59

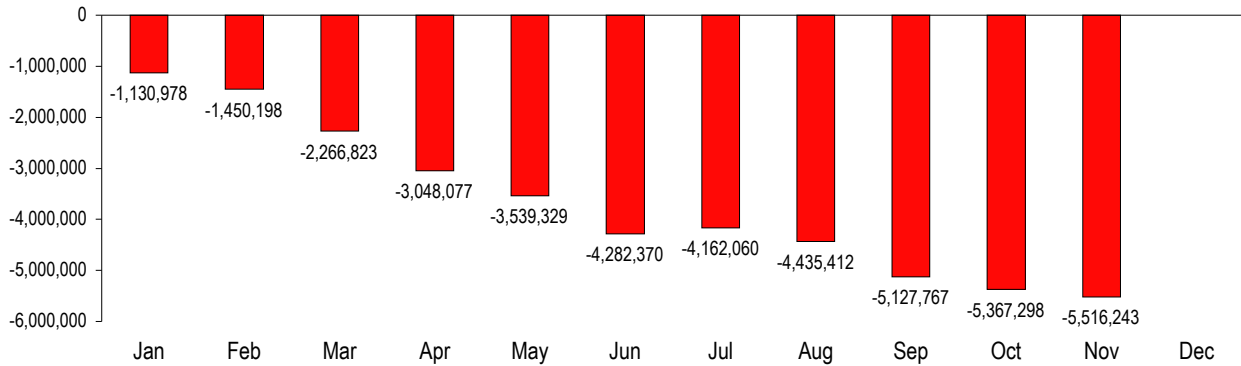
King County Monthly Sales Tax Collections



Monthly Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2000	5,643,746	5,247,801	6,175,848	5,908,357	5,860,285	6,924,611	6,023,919	5,982,095	7,013,757	5,929,100	5,534,585	7,407,359
2001	6,062,931	5,251,282	6,503,883	5,313,379	5,533,086	6,431,011	5,958,177	5,815,392	6,127,737	5,499,377	5,280,576	7,282,334
2002	5,036,669	4,988,719	5,884,638	5,321,370	5,407,187	6,339,046	5,792,913	5,645,463	6,228,228	5,656,303	5,096,438	7,471,553
2003	4,931,954	4,932,061	5,687,259	5,127,102	5,369,033	6,181,570	6,144,228	5,708,742	6,321,403	5,689,569	5,385,641	

Year-to-Date 2003 Variance from 2000-2001 Peak



Year-to-Date Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2000	5,643,746	10,891,548	17,067,396	22,975,752	28,836,037	35,760,649	41,784,567	47,766,662	54,780,419	60,709,520	66,244,105	73,651,464
2001	6,062,931	11,314,213	17,818,096	23,131,476	28,664,562	35,095,573	41,053,750	46,869,143	52,996,879	58,496,256	63,776,832	71,059,166
2002	5,036,669	10,025,388	15,910,026	21,231,396	26,638,583	32,977,629	38,770,542	44,416,005	50,644,233	56,300,536	61,396,974	68,868,527
2003	4,931,954	9,864,015	15,551,273	20,678,376	26,047,409	32,228,980	38,373,208	44,081,950	50,403,353	56,092,922	61,478,563	

* Data presented are total local option sales tax collections less Department of Revenue 1 percent administration fee. 90.4 percent of County sales tax receipts are deposited in the current expense fund. The remainder are dedicated to the Sales Tax Contingency Reserve (5.0 percent) and the Children and Families Set-Aside (4.6 percent).

REVIEW OF REVENUE COLLECTIONS

Final 2003 financial results will not be available until later this month, but preliminary data places all major revenue accounts at or above forecasted levels. Based on current information, we have revised three real estate related revenues – auditor recording fees, delinquent property tax interest and penalties, and real estate excise taxes.

Sales tax collections have rebounded in the second half of the year to slightly exceed 2002 levels through November. 2002 ended with record December collections largely attributable to large payments from annual filers in the construction industry. December 2003 collection data will be available at the end of the month.

ECONOMIC FORECAST

The outlook for 2004 has improved somewhat, with the exception of employment growth. In light of warnings from the International Monetary Fund and analysis by the Brookings Institution on the impact of federal budget deficits, personal income growth for 2005 and beyond has been adjusted downward.

Summary Economic Forecast

Percentage Change from Preceding Year

	2001	2002	2003	2004	2005	2006
King County						
Employment	-3.9%	-0.6%	0.0%	1.6%	2.9%	2.4%
Nominal Personal Income	1.7%	1.5%	2.0%	4.3%	4.8%	4.8%
Housing Permits	-18.7%	-4.0%	2.2%	-3.9%	-1.4%	0.5%
Population	1.1%	1.0%	0.3%	0.5%	0.9%	0.9%
Consumer Price Index *	3.7%	1.9%	1.5%	1.9%	2.0%	2.3%
Washington State						
Employment	-2.9%	1.7%	0.6%	1.6%	2.2%	2.0%
Nominal Personal Income	2.6%	3.4%	3.5%	4.4%	4.6%	4.8%
Housing Permits	-1.7%	4.8%	4.0%	-3.8%	-3.0%	-1.1%
United States						
Employment	0.2%	-1.1%	-0.3%	1.0%	1.8%	1.8%
Nominal Personal Income	3.3%	2.7%	3.3%	4.8%	4.9%	5.0%
Housing Starts	2.0%	6.5%	0.0%	-3.8%	-0.9%	-0.8%
Three-month Treasury Yield	-22.0%	-47.1%	-11.3%	4.6%	39.0%	61.2%
Consumer Price Index	2.8%	1.6%	2.3%	2.1%	2.2%	2.3%
Real GDP	0.3%	2.4%	2.7%	3.6%	3.1%	3.1%

* Puget Sound Region