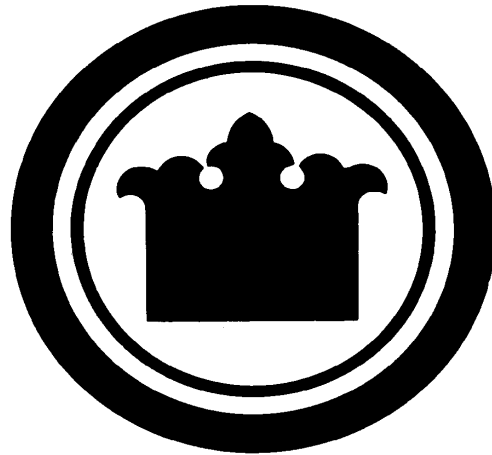


QUARTERLY ECONOMIC REPORT
2nd Quarter
2004



KING COUNTY
OFFICE OF MANAGEMENT AND BUDGET

SUMMARY

Continuing a trend of uneven growth, the economy remains highly inconsistent. A 25 basis point increase in the federal funds rate has done little to steady erratic long-term interest rates. Oil prices, more than a year after the invasion of Iraq, have surged past \$43 per barrel. And inflation, fueled only in part by energy prices, has accelerated rapidly since the start of the year.

After six months of marked improvement, local employment has again slipped downward. The short-term outlook improved with recent news: both Boeing and Microsoft announced plans to hire several thousand new employees by the end of the year.

REVIEW OF ECONOMIC CONDITIONS

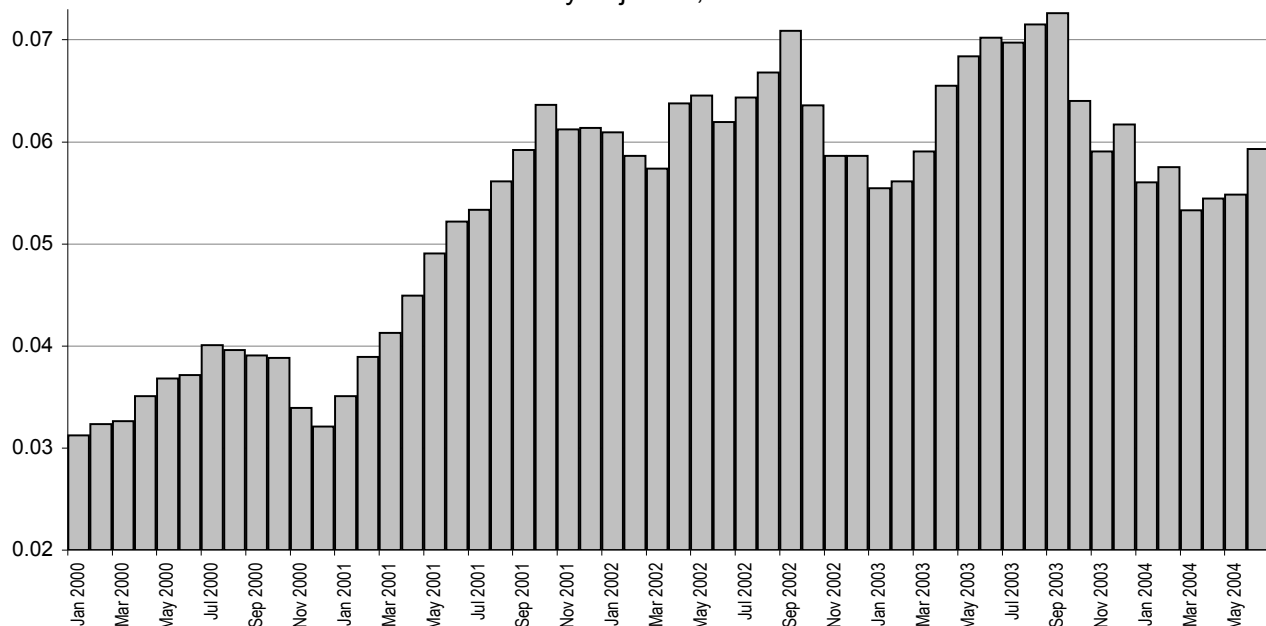
Strong first quarter results, culminating with the Federal Reserve's Open Market Committee action to raise the Federal Funds Target Rate to 1.25 percent at the end of June, has given way to sobering second quarter results. Preliminary GDP estimates for the second quarter pegged growth at a 3 percent annual rate compared with a revised 4.5 percent pace from January to March. Lower than expected retail sales and durable good orders for the month of June illustrates one pitfall of the recovery's dependence on consumer consumption levels. The personal consumption expenditure component of GDP grew at just 1 percent, down from the first quarter's annual growth rate 4.1 percent.

Three months of relatively robust job growth fell in half in June. Employment has grown by 1.5 million jobs since last August, roughly half a million short of the net job creation needed to keep pace with population growth over the same period, let alone the three million jobs lost since 2000.

Strained oil supplies have sparked unprecedented speculation in the futures market. Energy prices have reacted in turn to disruption to Iraq's primary oil terminal, terrorist attacks in Saudi Arabia, a labor dispute in Norway, and most recently, the Russian government's escalating dispute with Yukos, the country's second largest oil producer. While energy speculation has clearly incorporated

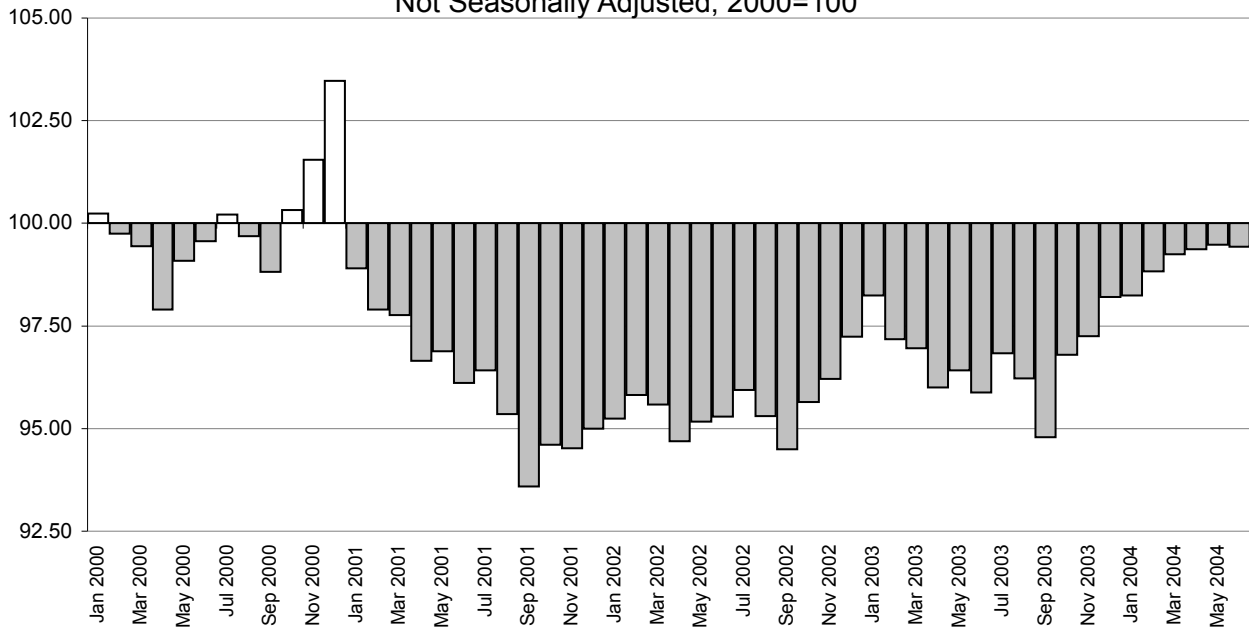
King County Unemployment Rate

Seasonally Adjusted, 2000-2004



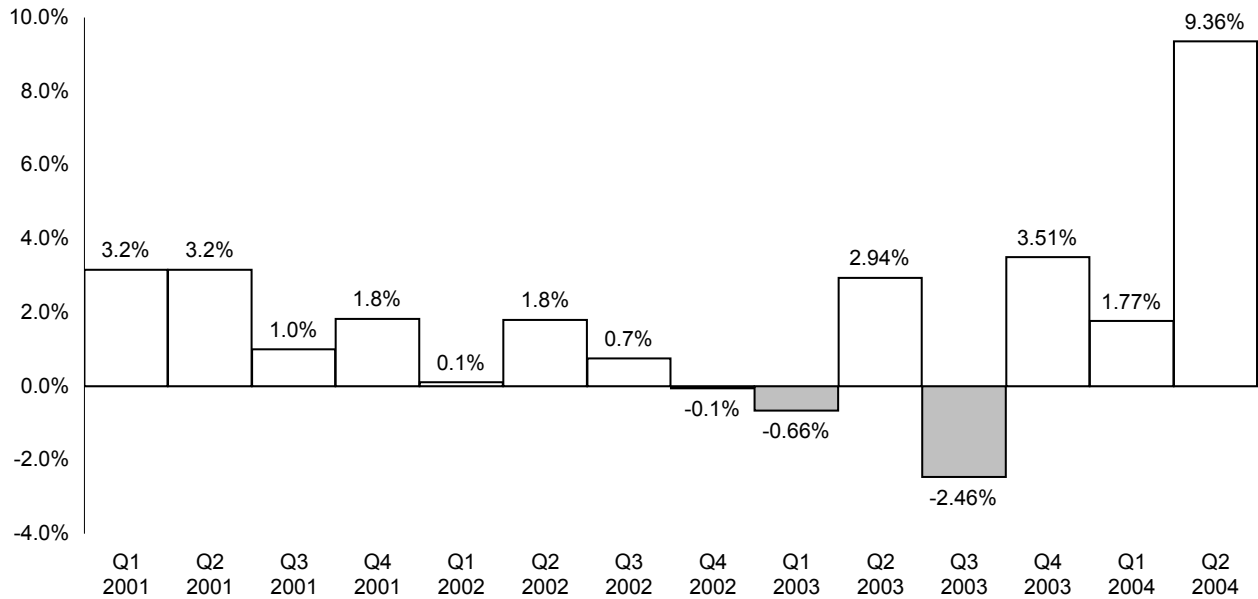
King County Total Employment

Not Seasonally Adjusted, 2000=100



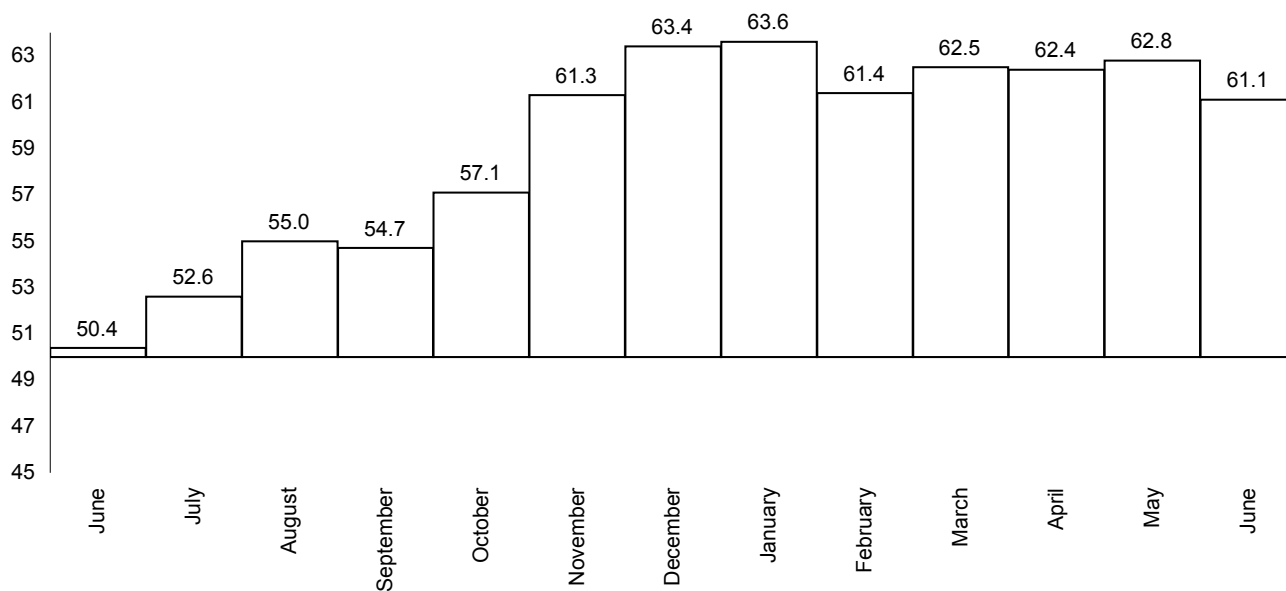
US Private Residential Construction

Seasonally Adjusted Quarterly Change, Completed Units



US Manufacturing Activity Index

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



– and exacerbated – a terrorism premium, it is probably little more than a few dollars per barrel. Rising worldwide demand, particularly in China, and inevitable devaluation of the dollar suggests that even if the perceived risk of terrorism subsides high oil prices will continue.

The consumer price index rose 2.9 percent through the first half of the year – an annualized rate of 5.9 percent. The core rate of inflation for the same period, excluding energy and food prices is up 1.5 percent, annualized to 3.1 percent. While downward adjustment in energy prices in the second half of the year will slow the overall statistics, there is no question that prices are on the rise, inertia that the Federal Reserve is unlikely to appreciably alter before the second half of 2005.

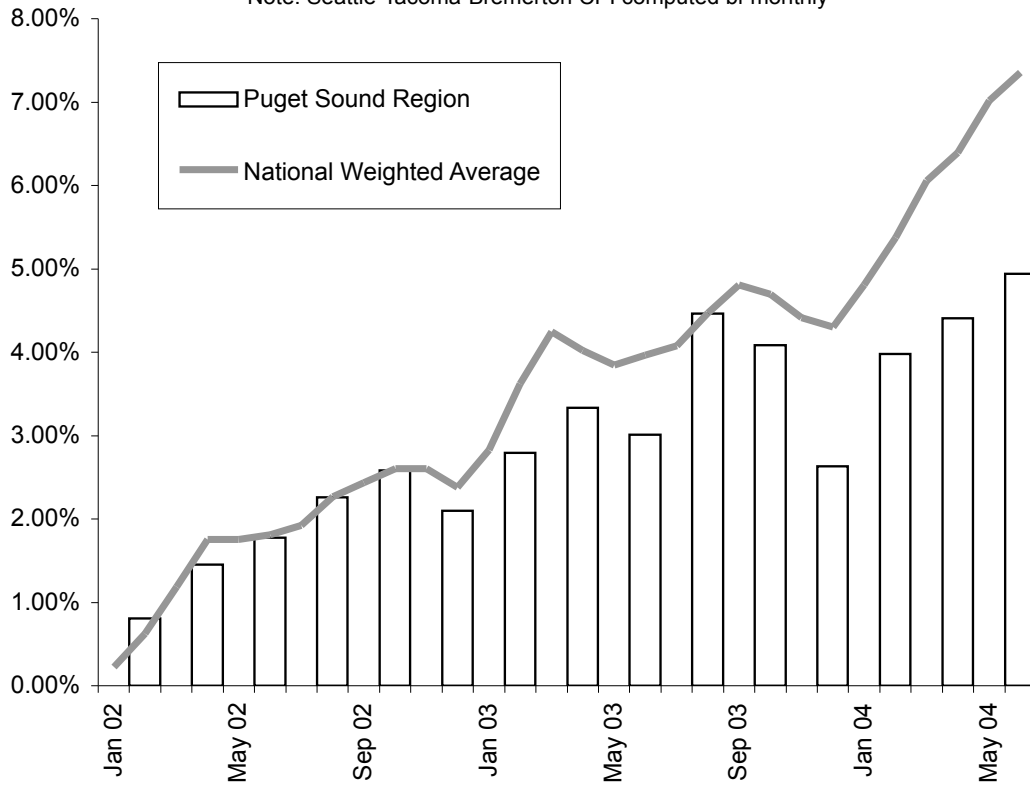
Election year action by the Open Market Committee is notoriously unpredictable. While there has been ample evidence of intent to gradually tighten credit, recent testimony before congressional finance and banking committees suggests that gradual may be quite protracted indeed. Future markets have priced a less than 50 percent chance of another 25 basis point increase at the committee's August 10th meeting, but the market still anticipates a more than 50 basis point increase by the end of the year. Given the resurgence in inflation, the nation currently faces negative real short-term interest rates, an unsustainable position in the long run.

REVIEW OF REVENUE COLLECTIONS

Revenue numbers have been adjusted to reflect small positive variances in final 2003 financial results published last month in the Comprehensive Annual Financial Report.

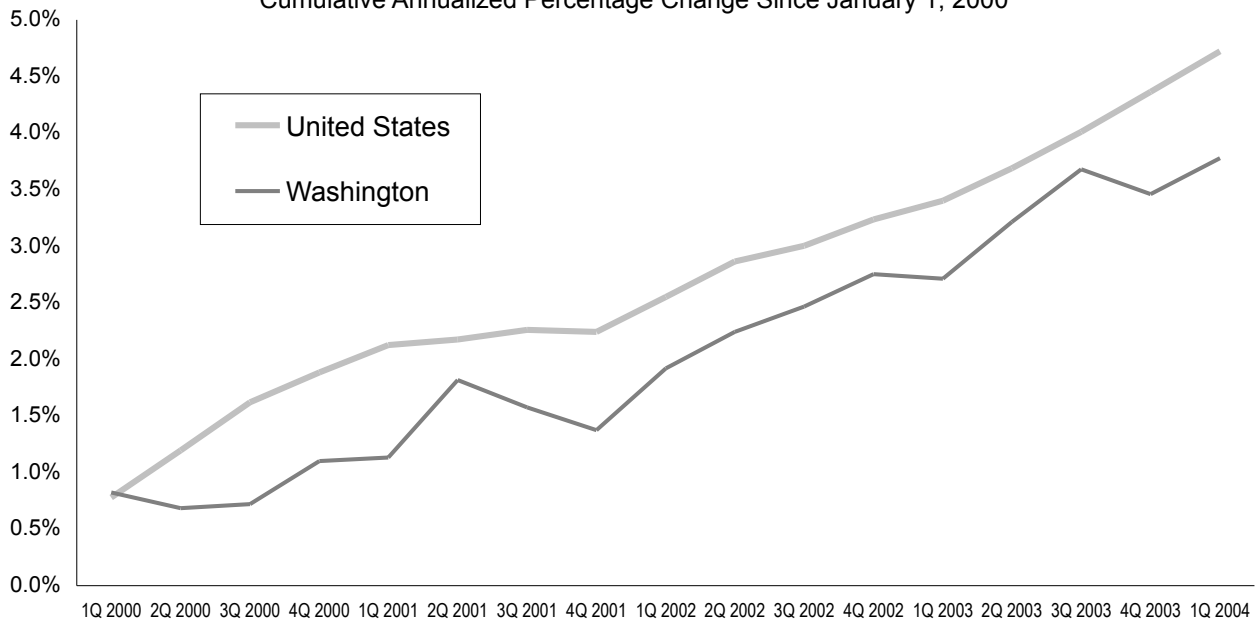
National and Local Inflation Comparison

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



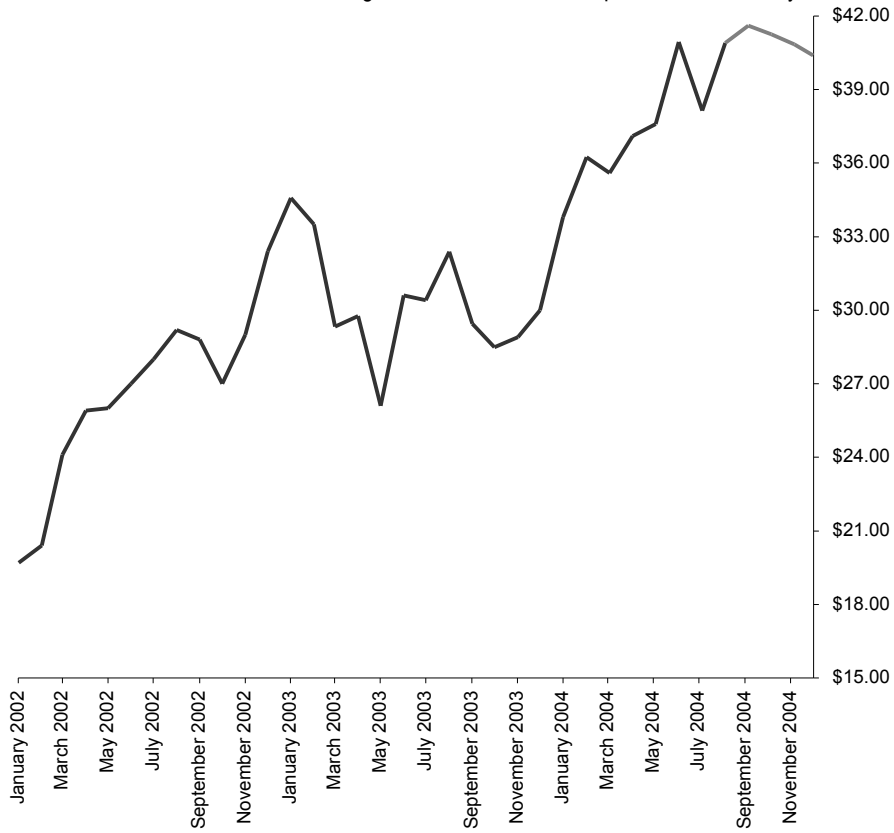
Nominal Personal Income Growth

Cumulative Annualized Percentage Change Since January 1, 2000



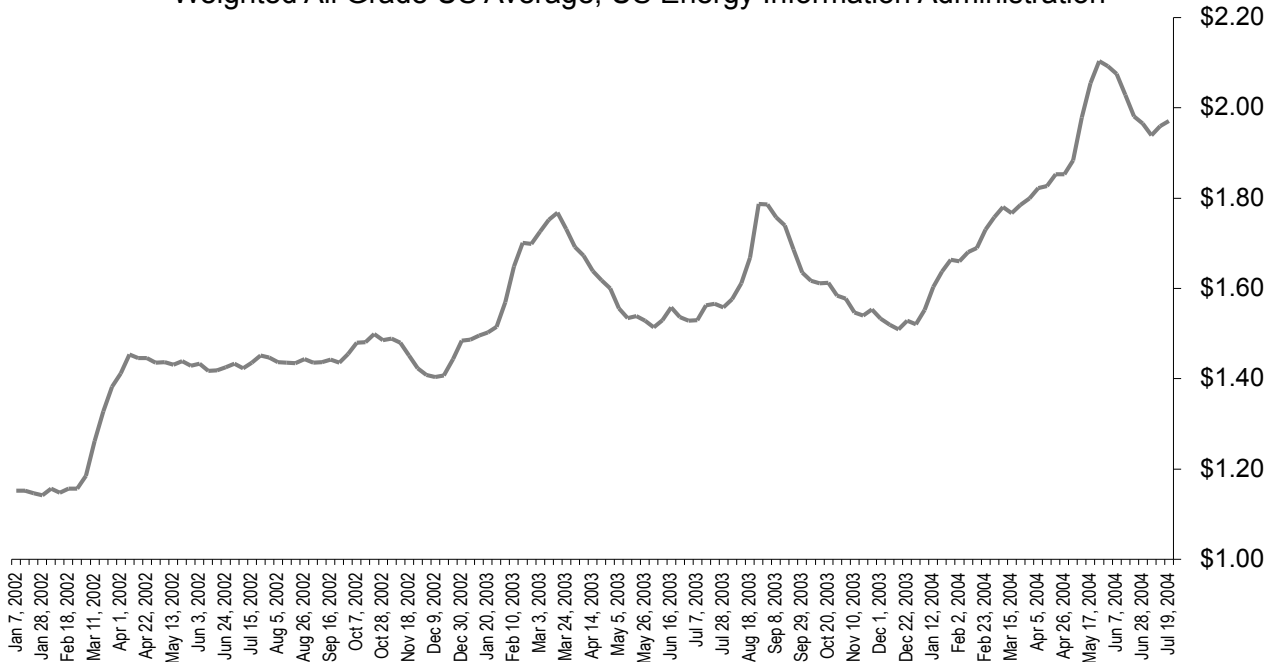
Light, Sweet, Crude Oil Price

New York Mercantile Exchange, Initial Price on Subsequent Month Delivery



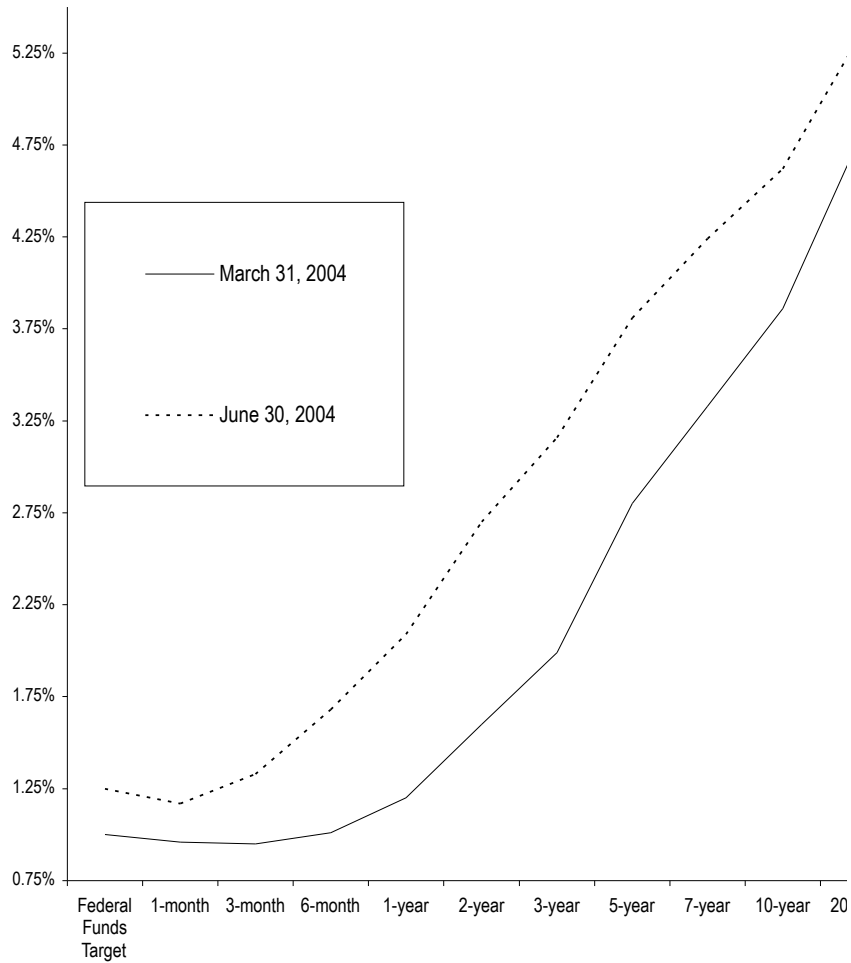
Average Retail Gasoline Price per Gallon

Weighted All Grade US Average, US Energy Information Administration



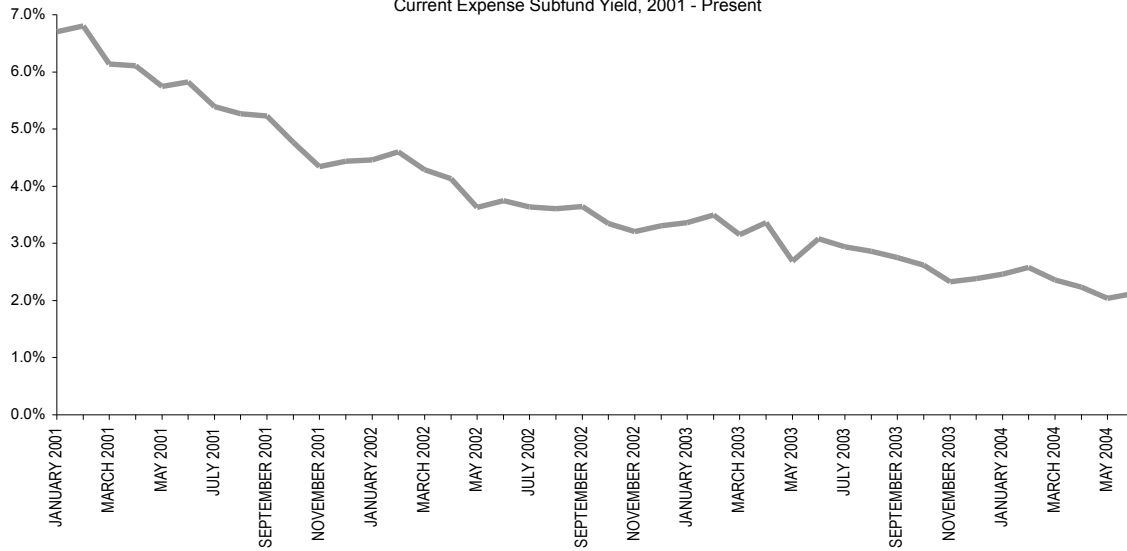
US Government Securities Yield Curve

Close of market bids, Constant Treasury Maturity Yields



Net Rate of Return on Pool Fund Balances

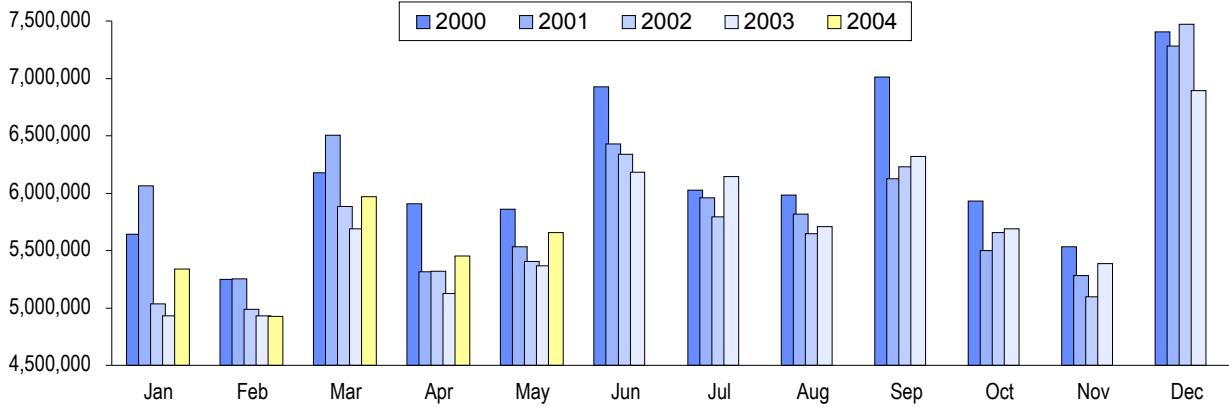
Current Expense Subfund Yield, 2001 - Present



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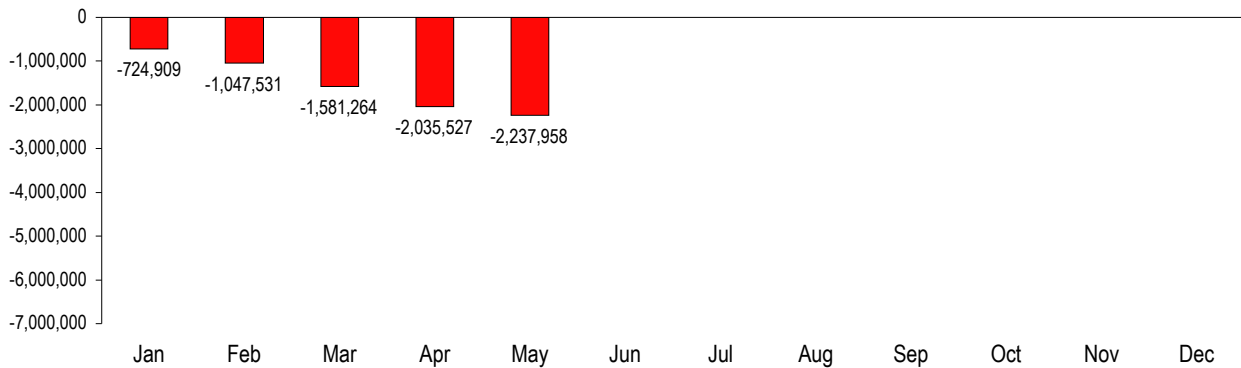
King County Monthly Sales Tax Collections



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	6,894,946
2004	5,338,022	4,928,659	5,970,150	5,454,094	5,657,854							

Year-to-Date 2004 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	68,373,509
2004	5,338,022	10,266,682	16,236,832	21,690,926	27,348,780							

* 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).

Estimated 2004 revenues have been adjusted to reflect lower than anticipated new construction numbers. Each year, the proposed budget is submitted prior to the availability of final new construction numbers from the Office of the Assessor, resulting in subsequent technical adjustments.

Sales tax collections have shown substantial strength in the first five months of the year. Given week national data for June, we will closely watch August's disbursement of local June collections from the state revenue department for any related weakness.

A new study from researchers at the University of Tennessee suggests that electronic commerce – untaxed internet sales shipped from outside of the state – will undermine sales tax revenues at a faster than anticipated rate through 2008. The 2005 proposed budget will incorporate this research in forecasting outyear sales tax levels.

ECONOMIC FORECAST

The outlook for 2004 is largely unchanged. Uncertainty in equity markets belies an investment community that awaits definitive resolution of both economic trends and political campaigns. We expect an occasionally faltering recovery through the end of the year, with accelerating growth in 2005.

Summary Economic Forecast

Percentage Change from Preceding Year

	2001	2002	2003	2004	2005	2006
King County						
Employment	-3.9%	-0.6%	-0.7%	1.1%	2.7%	2.5%
Nominal Personal Income	1.7%	1.5%	2.0%	4.0%	4.8%	4.8%
Housing Permits	-18.7%	-4.0%	1.4%	-1.8%	-3.0%	0.5%
Population	1.1%	1.0%	0.3%	0.5%	0.9%	0.9%
Consumer Price Index *	3.7%	1.9%	1.6%	2.5%	2.4%	2.5%
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%	2.7%	2.6%	2.6%
Real GDP	0.3%	2.4%	2.7%	3.6%	3.1%	3.1%

* Puget Sound Region