

COVID-19 Anticipated Economic Impacts in Seattle and Washington

Anticipated Economic Impacts for Near-Term and Longer-Term Considerations

March 17, 2020



Washington's Source for Employee Benefits



THE CHAMBER

seattle metropolitan chamber of commerce

Prepared by





More Than Insurance - A Resource

Business Health Trust (sponsored by the Seattle Metropolitan Chamber of Commerce) is Washington's source for employee benefits, but we offer more than just insurance. Our core value is to be a resource to employers in Washington State to our 850+ employers in Washington State.

As part of our dedication to being a resource to employers, we partnered with Community Attributes to provide information that can aid business leaders in decision making as well as to highlight the needs of employers arising from the current COVID-19 pandemic in Washington State.

Business Health Trust offers comprehensive, affordable employee benefits to employers with 2 - 200 employees in the state so that they can provide competitive employee benefit programs for organizations and help create healthy, productive employees.

To learn more about why we are Washington's Source for Employee Benefits and what we are doing to support employers during COVID-19 pandemic, visit us at www.businesshealthtrust.com or email us at info@businesshealthtrust.com.



*Community Attributes tells data-rich stories about communities
that are important to decision-makers.*

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CRITICAL CONCERNS

- The Puget Sound economy is experiencing an economic shock that will take many months and beyond to recover from.
- Temporary impacts in the very near-term severely affect roughly 40% of all jobs in King, Pierce, and Snohomish counties, with either wage reduction or temporary layoffs (Boston Consulting Group estimate). Many of these jobs will start again once the virus threat has passed and the economy starts up again. Not all businesses will survive this challenge.
- Economic recovery projections depend on predictability of the control of the virus. The immediate focus of all businesses in Washington state should be to help stop the spread of the virus.
- Lower earning households and wage earners have been affected first, with typical jobs affected paying on average \$38,000 per year, which includes lower and somewhat higher earners.
- All industries will be affected. A very select few industries may see temporary increased demand, such as household supplies and food providers. Some industries may be able to cope through at-home working and new routines, but all industries will be negatively affected through 2020.
- The economic recovery will require support from all sectors, including policy initiatives to guide resources to support workers most heavily affected.

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INTRODUCTION

Background and Purpose

The COVID-19 virus is now a World Health Organization-classified global pandemic. The virus began in central China and is now spreading rapidly in Washington and across the U.S. The Greater Seattle region is experiencing heavy economic impacts from the spread of the COVID-19 virus. The virus continues to escalate and negatively impact Seattle's economy and economies around the world. Washington's close international linkages and position as a global hub for trade and commerce further exposes our economy to the negative impacts of this unprecedented event.

The Business Health Trust at the Seattle Metropolitan Chamber of Commerce will lead conversations with members of the business community on these impacts and how to respond to these developments. This paper is intended to help frame these discussions and set the stage for future additional research and analysis in a rapidly developing situation.

Methods

This paper makes intensive use of secondary research, including studies and news reports, interviews with industry representatives and supporting data, and preliminary analysis and projections.

Organization of the Report

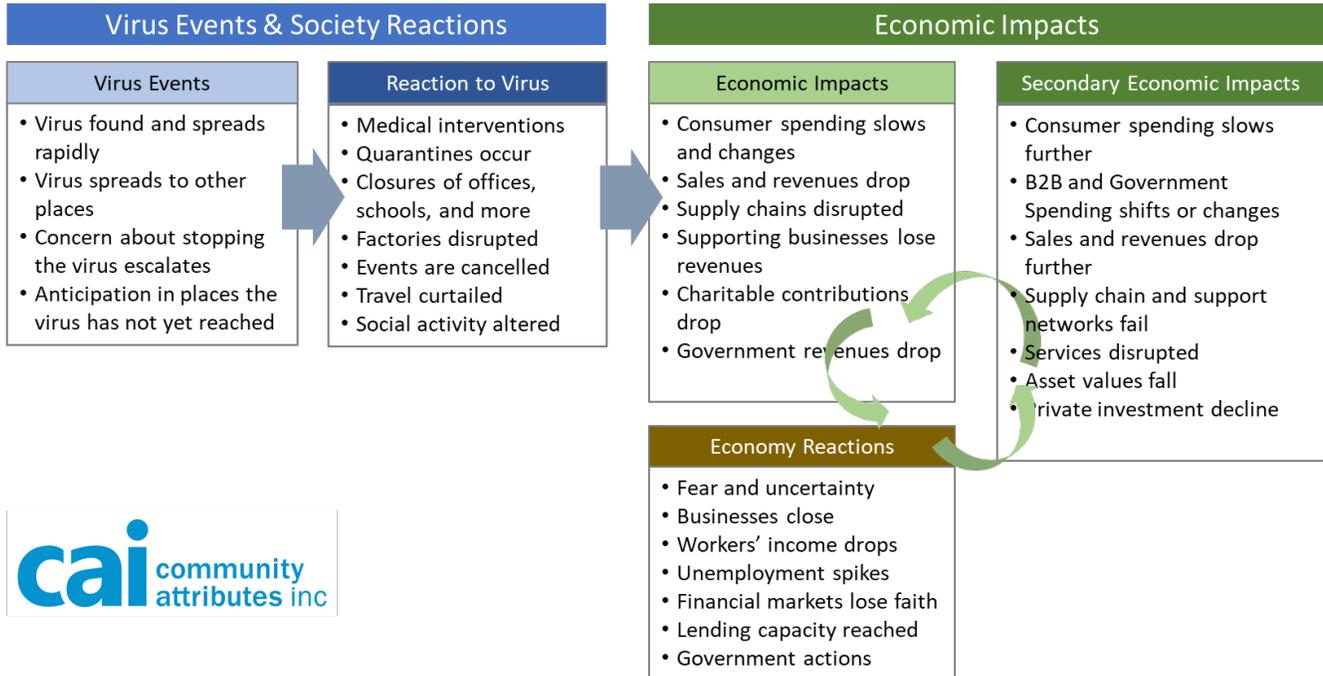
The remainder of this report is organized as follows:

- **Overview of COVID-19 Spread.** Including types of impacts and those in Washington most economically vulnerable.
- **Developments and Impacts in Washington State.** Types of economic impacts already occurring or likely to occur in Washington.
- **International Events with Washington Impacts.** Latest developments potentially impacting Washington state.
- **Economy-Wide Impacts.** A summary of recession progression and macroeconomic concerns.

OVERVIEW OF COVID-19 IMPACTS

The impacts of COVID-19 are multifaceted and will reach into nearly every corner of Washington’s economy. **Exhibit 1** illustrates varied transmission linkages between the virus and local economic costs.

Exhibit 1. Societal Reactions and Economic Impacts of COVID-19



Decline in consumer and business spending. The Washington economy, like the U.S. economy, sustains itself largely with consumer spending. Quarantines, office closures and a severe change in spending patterns result in immediate losses to small businesses, and consumer-based business. The most vulnerable workers are hit immediately with loss of employment or loss of income, including independent and temporary workers and contractors, sometimes referred to as the gig economy. This net reduction in turn impairs many small businesses, particularly labor-intensive services-based businesses such as restaurants and visitor-dependent businesses.

Event cancellations. Many organizations and companies depend on a few major events each year. Conferences, concerts, spectator sports, fund-raiser events and more are the cornerstone of many businesses, whether as the support industries or as the direct provider and beneficiary.

Tourism and visitations lowered. Visitors to the region alter travel plans, including vacations in Seattle, cruises, and more. The halt in

hotel room purchases and visitor spending hits goods and services providers locally, including additional damages to restaurants and retailers (the latter of which have been challenged by on-line sales in recent years as well).

Loss of wages and benefits to employees and contractors. As business revenues falter, employees and contract staff suffer immediate damages. Layoffs, employment termination, wage reduction, and cease of benefits will be immediate for business owners to reduce risk and liabilities. The wage decline will have immediate effect on housing, health care, basic needs, and consumer spending.

Disruptions to supply chains and global trade. Factory closures overseas restrict access to key intermediate components and reduced demand in foreign markets for Washington state products and services. Our major industrial employers in aerospace, maritime, trade and logistics and more depend on the global supply chain to maintain productivity.

Reduced activity in global logistics systems. An escalated number of blank sailings and less cargo flowing through Washington ports means less work for various businesses and independent contractors throughout the global logistics system, such as longshoremen, owner-operator truckers, many of whom operate under thin margins, warehousing, and intermodal operations.

Impacts on business productivity. Flight cancellations and remote work may adversely affect labor productivity, especially among services and tech firms that depend on face-to-face interaction for project work and to close deals. Technology in 2020 fortunately mitigates these losses tremendously through enhanced communication options (video conferences, file sharing and much more). Seattle's cloud-based technology systems lead technology infrastructure reliability.

Real estate, capital investments and asset value declines. Rent defaults will cancel some property investments under consideration (commercial and residential). Lenders will be asked to restructure and postpone debt service. Asset value will decline.

Uncertainty and broader risk of a U.S. economic downturn and recession. The virus may likely be the event that pushes the U.S. and world into a recession, catalyzing sustained economic contraction which had been a concern off and on in 2019 leading into the virus impacts.

Government revenues and fiscal impacts. Washington state's dependency on retail spending and business revenues will see

immediate impacts in March and throughout the second quarter of 2020. Many businesses will be slow to return to full operations and return to normal state and local tax payments through the third quarter. State and local revenues will decline in 2020, as government spending increases to serve immediate needs. Difficult budget choices will play out in Q3 and Q4.

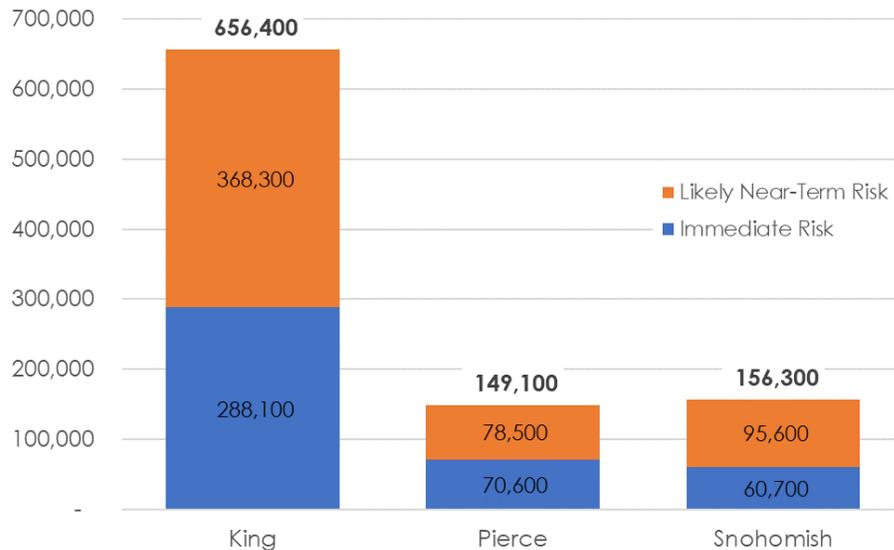
Most Vulnerable to Economic Impacts

The government prohibitions on large gatherings (50 or more people), encouragement of social distancing, abrupt transition for many office workers from office work to telecommuting, and reticence among households and individuals to spend time outside the home significantly curtail consumption.

CAI collaborated with Boston Consulting Group to identify industries that are at immediate risk from the virus-related impacts and likely near risk. Through the first three quarters of 2019, an estimated 961,800 workers fall under these two categories of risk, with 419,400 workers categories as in industries that are facing immediate risk. Across both categories, 656,400 workers are employed in King County (**Exhibit 2**).

Most of these occupations pay between \$15 to \$25 per hour, skewed to the lower end of the range, plus tips in some cases (**Exhibit 3**). Nearly all of these workers qualify for state unemployment insurance benefits.

Exhibit 2. Workers in At-Risk Industries, King, Snohomish, and Pierce Counties, Average through Q3 2019



Sources: U.S. Bureau of Labor Statistics, 2020; Boston Consulting Group, 2020; Community Attributes Inc., 2020.

Exhibit 3. Occupations and Wages Among Workers in Immediate Risk Industries, King, Pierce, and Snohomish Counties, through Q3 2019

Occupation	Estimated Jobs, Q3 2019	Median Wage
Retail Salespersons	48,900	\$15.37
Combined Food Preparation and Serving Workers, Including Fast Food	39,300	\$12.95
Waiters and Waitresses	32,500	\$14.59
Cashiers	23,200	\$14.02
Cooks, Restaurant	20,100	\$16.76
First-Line Supervisors of Food Preparation and Serving Workers	11,100	\$19.97
First-Line Supervisors of Retail Sales Workers	9,500	\$23.42
Stock Clerks and Order Fillers	8,600	\$16.92
Bartenders	7,700	\$17.43
Dishwashers	7,300	\$13.50
<i>Subtotal</i>	208,200	
Other Occupations	211,200	
All Immediately At-Risk Industries	419,400	

Sources: U.S. Bureau of Labor Statistics, 2020; Boston Consulting Group, 2020; Community Attributes Inc., 2020.

Households spend less due to heightened anxiety and fear of the virus, compliance with state guidance on social distancing, and wealth depletion. This altered spending behavior reduces demand for restaurant services and retail, the providers of which are often small businesses.

Many small businesses depend on daytime office workers. Small business service providers in downtown Seattle suffer from the reduced workforce downtown. Amazon alone employs more than 50,000 workers in downtown Seattle.¹ Many small businesses in Seattle thrive on consumer demand for these workers, such as at lunch-time restaurants, cafes, and downtown shopping. Downtown workers and residents in Seattle spend about **\$25 per day** on these purchases, according to a 2017 survey.²

According to data from the Washington State Employment Security Department, statewide business establishments³ with 19 or fewer

¹ Nickelsburg, Monica. "Amazon surpasses Microsoft in number of Seattle region employees amid big growth plans across US." Geekwire, September 9, 2019. Accessed at: <https://www.geekwire.com/2019/amazon-surpasses-microsoft-number-seattle-region-employees-amid-big-growth-plans-across-us/>

² <https://www.seattletimes.com/seattle-news/data/tourists-spend-195-a-day-in-downtown-seattle-thats-twice-as-much-as-local-visitors/>

³ Establishments are places of employment. Firms can have multiple establishments representing multiple employment locations.

workers represented 87% of all employers and 23% of all hired workers in 2018. More than 80% of retail businesses and 72% of food services businesses employ fewer than 20 workers statewide.⁴ **Within King County, approximately 86% of establishments are less than 20 employees.**

Small businesses are closing and cutting hours to reflect the precipitous decline in sales due to these closures.⁵ According to the DSA, retail sales were down between 20% and 50% -- prior to the Governor's directive for all restaurants and bars to cease operations.

Retail, Hospitality and Restaurant Sectors

On Monday March 16, Governor Inslee directed all restaurants and bars to cease operations. Many will not reopen. Some restaurants have taken steps to retain their workforce with modified business plans, such as converting to a drive-thru operation and delivery service.

Sectors most directly impacted from these developments include retailers, hospitality, and restaurants (and bars and related), with 336,000 workers in these sectors in 2019.

Gig Economy

Non-employee workers or workers engaged in alternative work arrangements—temporary, on-call, contract, and independent workers or freelancers—have little to no chance for support during an economic shut down. Many non-employee workers are not entitled to regular employee benefits such as sick pay, workers' compensation or health benefits. Many service providers, such as car drivers and trades workers, cannot work from home and lose their earnings to self-isolate. Moreover, the lack of worker protection and sick pay can force workers to work while ill, contributing to the spread of the disease.

The effects can differ by geography as well as the type of work performed. For example, in cities where major local employers like

⁴ Washington State Employment Security Department, *Quarterly Census of Employment and Wages, Establishment Size by Number of Employees, 2018*, published in March 2019. Accessed at: https://esdorchardstorage.blob.core.windows.net/esdwa/Default/ESDWAGOV/labor-market-info/Libraries/Industry-reports/FirmSize/Establishment-size_2018-1.xlsx

⁵ Swaby, Natalie. "Small businesses in Seattle feeling big impact from coronavirus concerns." King5 News, March 8, 2020. Accessed at: <https://www.king5.com/article/news/health/coronavirus/coronavirus-concerns-slow-sales-for-small-businesses/281-46ab0a51-7170-4725-b9e4-2c27fbb39464>

Amazon and Microsoft sent their workers home, Lyft and Uber drivers are experiencing a decrease in demand for rides. According to the Seattle Rideshare Drivers Association, which represents 700 local drivers, **the number of rides has decreased by 50% compared to a regular week**. Conversely, grocery delivery drivers report a significant increase in business as people are needing more home deliveries from self-isolating. Also, if public transport shut down, demand for ride-hailing companies could recover, as many rely on these companies for transport.

There is no definitive source for accurate and comprehensive data on the size of the non-traditional work arrangements. According to an Independent Contractor Study by the Department of Commerce, roughly **320,000 workers or 9% of Washington's workforce perform independent contract work** as their primary source of income. The sectors with the most independent contractors in Washington include professional, scientific and technical services; real estate and rental leasing; retail trade and other services. The study also reports that half of the independent contractors that participated in the study reported their total earnings from the previous week came from independent contract work. They said those earnings were essential to meeting their basic needs.

DEVELOPMENTS AND IMPACTS IN SEATTLE AND WASHINGTON STATE

The economic impacts of the COVID-19 virus continue to evolve rapidly. The impacts will have long-term repercussions and may have lasting impacts on many industries and how they manage risk. The sections below discuss known economic events to date and their likely impacts on Washington state.

Business and School Closures

Most the region's largest employers have closed their offices and allowed employees to work remotely for those who can. These include Amazon, Microsoft, the University of Washington, Boeing, Google, Facebook, F5, and Weyerhaeuser. Some have closed temporarily to clean and disinfect workspaces while others, like Amazon and Microsoft, have sent employees home till the end of March. Amazon alone has over 50,000 employees in the downtown area, while Microsoft has a similar number in Redmond.

Governor Inslee announced an executive order closing all schools in King, Pierce, and Snohomish counties from March 17-April 27, followed the next day with a closure of all schools statewide. For these children and their families, school closure has a dramatic effect on daily lives. Parents who are not already working from home may now be required to do so or look for daytime childcare. Parents whose companies allow remote work may experience a loss of productivity or find that they cannot conduct business while simultaneously caring for school age children. In addition to students and families, hourly workers employed by these 43 school districts will lose income. There is currently no plan for how or if hourly employees would continue being paid.

The closure of public schools has the added strain of closing social services at public schools, such as food distribution and access to other basic needs. In Seattle, more than 15,000 (29% of the district's 54,000 students) qualify for free and reduced price meals and 4.1% are experiencing homelessness.

Event Cancellations and Postponements

Event organizers began to announce program cancelations in February as the prevalence of the virus expanded into Washington state. These cancellations and postponements escalated dramatically after the state government declared gatherings of 250 or more people prohibited, rendering many of these events infeasible. **Exhibit 4** provides a

sample, incomplete list of notable Washington state events and sporting matches cancelled or postponed as a result of these developments.⁶

Exhibit 4. Examples of Washington State Events Cancelled or Postponed Due to COVID-19

Name of Event	Location	Status
Annual Cask Beer Festival	Seattle	Canceled
Annual PEPS Luncheon	Seattle	Canceled
Seattle Sounders Matches	Seattle	Postponed
Seattle Dragons XFL	Seattle	Canceled
Communities in Schools Mardi Gras	Seattle	Canceled
Emerald City Comic Con	Seattle	Canceled
Irish Festival Seattle	Seattle	Canceled
Kirkland Urban KU Kids Second Saturday event	Kirkland	Canceled
Landesa Seed the Change Gala	Seattle	Canceled
Make-A-Wish Wish Night Gala	Seattle	Postponed
Microsoft Most Valuable Professional Summit	Bellevue, Redmond	Canceled (Online)
MOHAI events	Seattle	Postponed/Canceled
PEAK 2020 Annual Conference	Seattle	Canceled
Princess Cruises, Celebrity Cruises first sailings	Seattle (port of call)	Canceled
Quilter's Anonymous Quilt Show	Monroe (Evergreen State Fairgrounds)	Canceled
Redmond Historical Society speaker series	Redmond	Canceled
Seattle Art Museum events	Seattle	Postponed
Seattle Parks Lifelong Recreation	Seattle	Postponed
Seattle Public Library events	Seattle	Postponed
Seattle Young Artists Music Festival	Seattle	Canceled
St. Patrick's Day Parade	Seattle	Canceled
Taste Washington	Seattle	Canceled
Washington Global Issues Conference	Seattle	Canceled
WWU Winter Commencement	Bellingham	Postponed

Sources: Seattle Times, 2020; Community Attributes Inc., 2020.

Festivals and conferences directly support jobs and generate revenue for local businesses by bringing in thousands of visitors. Cancellation of events has a negative impact on economic activity in the region, as visitor expenditure on hotels, restaurants, entertainment and other services is lost.

Several major events that were planned to take place at the Washington State Convention Center in March and April have been cancelled and the Emerald City Comic Con was postponed. While postponements are somewhat less impactful to the region as those groups may re-book with different dates in the future, cancellations are a definite loss. Visit Seattle estimates that the **lost economic impact of events cancelled at the Washington State Convention Center is \$20.6 million in March and \$14.1 million in April.** Together the

⁶ “Ban on gatherings to stop spread of coronavirus forces Seattle-area sports to cancel events or proceed without fans.” *The Seattle Times*. March 11, 2020. <https://www.seattletimes.com/sports/gov-inslees-ban-on-gatherings-over-250-forces-mariners-to-change-opening-homestand-plans/>

events cancelled had an **expected attendance of roughly 14,000 visitors**. If the current situation extends to April and May, further events may be cancelled, generating additional losses in revenue. The economic impact of April and May events at the Convention Center sums up to \$136.6 million.

Travel Impacts

Demand for air travel has dropped sharply, driven by CDC recommendations against travel to high-risk areas, voluntary business and personal travel cancellations, and a potential decrease in consumer willingness to spend. All major airlines will reduce flights, with cuts announced ranging from 10% to 25% down from flights prior to the outbreak.⁷ As of mid-March, airlines have announced 554 international flight cancellations out of Sea-Tac International Airport.⁸

Domestic and international travel has been a norm for doing business in the U.S. and Seattle for several decades. This disruption will alter large segments of the Seattle economy, drastically reducing both inbound and outbound business and leisure travel. Employment and wages paid for direct travel workers will all decline, including pilots, in-flight workers and total staffing at airports.

Flight bans worldwide continue to escalate. Travel cancellations, whether by airline or federal order, will affect manufacturing and the entire airline supply chain. Boeing airplane orders may be delayed or cancelled. This will send economic shock waves across already beleaguered Boeing business lines with its commercial airline business, still suffering from grounding of the 737 maxes for more than a year now.

The abrupt reduction or cancellation of business travel further complicates business operations and productivity. Business travel is critical to face-to-face team meetings, business development, client engagements, and deal closing. According to a survey published in 2020 by Skift & TripActions, 91.3% of business travelers surveyed agreed or strongly agreed that business is important to their company's growth, and 90% among corporate travel managers.⁹ According to research by Oxford Economics, for every dollar invested in business travel companies realize \$12.50 in incremental revenue.¹⁰ The reduction in air

⁷ Bloomberg News.

⁸ Kazue Ishiwata. Port of Seattle. Email. March 11, 2020.

⁹ Skift & TripActions. *The State of Business Travel 2020*.

¹⁰ Oxford Economics. *The Return on Investment of U.S. Business Travel*. September 2009.

travel, if sustained, could result in lost or delayed business sales and lowered business productivity.

In 2017, an in-terminal survey of air passengers visiting the Seattle area reported that 29% of all travelers were visiting for business.¹¹ Given that this survey was conducted during the summer months, when there is a large surge in seasonal vacation travelers to the region, the annual share of business travelers is likely high. Business travel is critical to face-to-face team meetings, business development, client engagements, and deal closing.

Tourism and Visitors

The fourth largest industry in Washington, tourism employed more than 188,000 workers and generated \$24.4 billion in annual spending and \$2.1 million in state and local taxes and an additional \$1.5 million in federal taxes. Tourism activity has been declining and is expected to take a plunge in the coming weeks and months. As authorities encourage social distancing and impose travel bans, more people are cancelling their vacations, business trips and other travel plans.

According to data from Visit Seattle, several hotels across the Seattle metro area experienced declines in occupancy rates. King County hotels, including Seattle, recorded a 51.1% occupancy for the week, compared to 71.4% during the same period of last year. This has led to a decrease in hotel revenues, from 20.2% for SeaTac hotels to 50.6% for Seattle Center/South Lake Union hotels. This puts some hotels at risk of not being able to afford their debt service payments and needing to consider layoffs.

Cruise lines are pausing operations for the health and safety of their guests, team members and communities. The Port of Seattle announced the cancellation of the April 1 and April 5 planned sailings of the Seattle 2020 cruise season on March 11 due to public health concerns related to COVID-19.

Many visitor attractions such as museums, art galleries and theaters as well as entertainment venues have decided to close temporarily through March 31st following state recommendations to help slow the spread of the virus. One major theater in Seattle has projected a minimum loss between \$1 and \$1.5 million and expressed concerns about being able to

¹¹ Port of Seattle. *Sea-Tac International Airport Economic Impacts*. January 2018, p.18.

pay artists. Some of these organizations may be reeling from the impact of the outbreak long after the crisis has passed.

INTERNATIONAL EVENTS WITH WASHINGTON IMPACTS

Disruptions to Global Supply Chains and International Trade

The rapid spread of the COVID-19 virus has already disrupted markets and supply chains around the globe. China continues to be the global epicenter of the outbreak. China's economy represents 16% of the global economy (2018), 17% of global exports, 15% of global intermediate goods exports, and 28% of global growth. The economic slowdown in China had already been felt in the U.S. when the virus hit Washington state, and this was on top of U.S. economic damages from new tariffs in recent months.

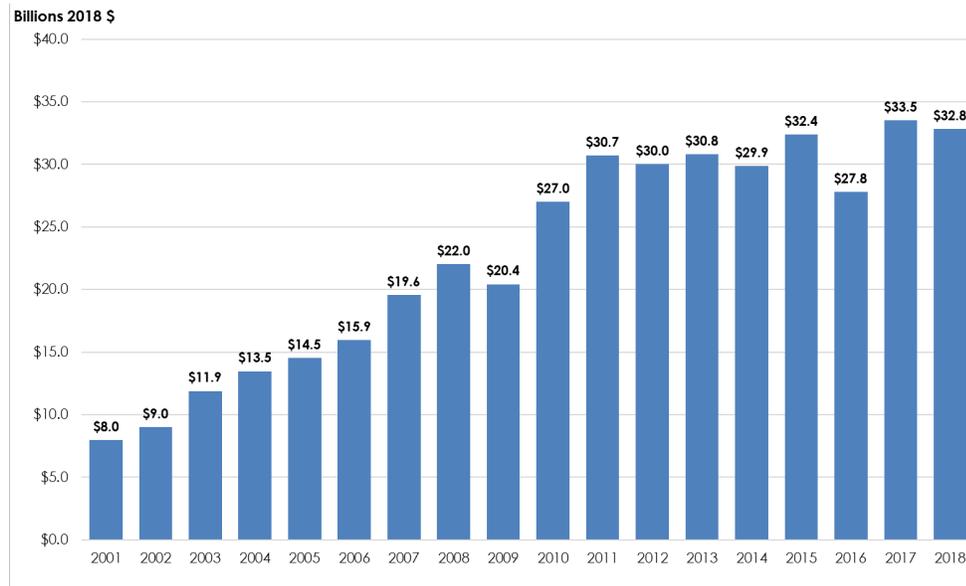
Disruptions in manufacturing of intermediate goods in China have downstream impacts for U.S. companies that rely on these components, as well as manufacturers that contract for final assemblage of products in China.

The closure or only partial operation of factories in China and other affected countries adversely impacts businesses in Washington directly tied to these supply chains. The suspension or slowdown of trade has ramifications for exporters that depend on foreign markets, businesses that rely on foreign imported components, and Washington's global trade and supply chain management system.

Closures and only partial openings of factories overseas create backlogs and bottlenecks for Washington businesses waiting on delivery of key components. These effects come on the back of a damaging trade war that involved the escalation of tariffs on Washington state goods in China and U.S. imports of Chinese goods, weakening price competitiveness for U.S. companies and forcing local firms to bear the near-term cost of these taxes.

China is the largest source of intermediate manufactured goods in the world. In 2018, China exported to the U.S. \$37.3 billion worth of intermediate goods (**Exhibit 5**).

Exhibit 5. U.S. Imports of Chinese Intermediate Goods, Billions 2018 \$



Sources: World Bank, *World Integrated Trade Solution*, 2020; Community Attributes Inc., 2020.

Worker shortages and factory closures in China have led to delayed deliveries of key manufactured inputs. These slowdowns have also occurred in other key trading partners, either directly through factory closures or due to delays tied to supply chain linkages with China.

Other impacts include:

- **Worldwide export hubs shut down.** 4 out of top 5 global export hubs of intermediate goods significantly impacted by COVID-19.
- **Seafood processing.** The Seattle area exports seafood. Firms that are dependent on airfreight cannot ship their products to markets.
- **Risk of force majeure.** Cessation of contractual obligations due to unforeseeable circumstances that prevent fulfillment of a contract.
- **Small and Medium Business Damages.** Loss of export markets and hit to SMEs with less cash reserves.

Slowdown in Work in Global Logistics System

Delays in factory production overseas have led to a reduction in cargo volumes handled at Washington's ports. As of early March, annual blank sailings—when a cargo vessel scheduled to set sail is cancelled—totaled 32, compared with 14 through same period in 2019. These reduced cargo volumes translate into fewer hours of work for longshoremen, intermodal operations, warehousing, drayage and long-haul trucking, and across various other elements of the global trade and supply chain management system.

In longshoring, less work results in fewer and fewer hours for casual laborers, comprised of workers accumulating hours to qualify to join the International Longshore and Warehouse Union (ILWU), delaying eventual higher wages. Trucking companies are often owner-operators. A slowdown in work, especially for those with truck loans and operating with thin margins, impacts earnings and family disposable income.

Marine cargo operations at the Ports of Tacoma and Seattle directly support an estimated 20,100 jobs per year and \$5.9 billion in business revenues. The handling of containerized cargo directly supported nearly 15,000 jobs in 2017. The total economic impact of handling containerized cargo—factoring in upstream business-to-business transactions (indirect) and worker earned income household consumption (induced) of 45,000 jobs, or approximately 12 jobs for every 1,000 twenty-foot equivalent units (TEU). If volumes remain 30% below last year, on annualized basis this trend could adversely affect the work of 1,000 workers in stevedoring, trucking, warehousing, and other key cargo-related activities.¹²

ECONOMY-WIDE IMPACTS IN WASHINGTON

Impacts to Business Productivity

Business productivity is adversely impacted by the disruptions caused by the virus. These disruptions include cancellation of business travel, relocation of thousands of workers from office environments to remote locations, including home, and potential reduced workforce due to sick leave.

The effects of remote working are varied, depending on the nature of work, business structure, and other intermediating factors. In some industries, such as software development and other team-oriented project work, in-person interactions are often an effective medium for discussing analytic problems, tasking work, and maintaining a desired cadence on work progress. Despite the ubiquity of various online meeting and teaming solutions, a loss of efficiency will occur over an indefinite period of time. Some industries will adjust better than others, but most will experience a loss in productivity.¹³

¹² Long, Katherine Khashimova. “2 Seattle cargo terminals close as coronavirus, trade war slow shipping; here’s what that means for workers.” *Seattle Times*. March 13, 2020.

¹³ See, for example: Nicholas Bloom; James Liang; John Roberts, and Zhichuan Jenny Ying. “Does Working from Home Work? Evidence from a Chinese Experiment.” *Quarterly Journal of Economics*. 2014, pp. 165-2018.

All these factors could result in a lower productivity per worker. For example, the tech industry in Washington state employed an estimated more than 250,000 workers in 2019. A 5% reduction in annual labor productivity from these disruptions could result in a lost or delayed business output of more than \$30,000 per worker, or \$7.5 billion in annual business income statewide.¹⁴

Government Revenue Impacts

Washington state, both at the local and state level is highly reliant on revenue sources collected through sales and gross receipts taxes, including Sales Tax and Business and Occupation Tax. In 2019, according to the U.S. Census Bureau, Washington reported a total of \$22.8 billion in state tax revenues. Of this 71% are sales and gross receipts taxes. Washington state is more reliant on sales and gross receipts taxes compared to the nation as a whole. Nationally sales and gross receipts taxes represented 46% of total 2019 state tax revenue. Washington ranks 8th in the nation in reliance on sales and gross tax receipts, behind Texas, South Dakota, Nevada, Florida, and Tennessee.

The General Fund is the City of Seattle's primary fund and provides funding for the majority of the City's services, other than capital projects. The City of Seattle's forecast of revenue for the General Fund for 2020 projected more than \$593 million in sales and B&O tax revenues, or 40% of the total annual General Fund revenues. In 2018, Sales Taxes represented 21% of the County's total sources of revenue.

Event cancellations, disruptions in travel and reductions in tourism, as well as office, business and other closures are leading to reduction in taxable retail sales. This in turn will lead to proportionate reductions in government revenue from sales and gross receipts taxes, the largest source of state and local tax revenue for Washington state, the City of Seattle and an important component of King County's revenue as well.

Many communities across Washington receive significant tax revenue from the furnishing of lodging to fund tourism promotion activities. Taxes include Lodging Taxes, Convention Center Taxes, Special Hotel/Motel Taxes, Tourism Promotion Area Taxes, and Transient

¹⁴ Employment estimates based on the Washington Technology Industry Association's 2015 statewide economic impact study, produced by CAI, and updated to 2019 using more recent statewide employment figures for relevant sectors. Washington Technology Industry Association. *Information & Communication Technology Economic and Fiscal Impact Study*. February 2015. Accessible/Obtainable at: <https://www.washingtontechnology.org/sign-up-to-receive-ict-study/>.

Rental Taxes. In total, taxes on lodging totaled more than \$230 million in 2019, with nearly \$14.5 million distributed to communities.

- King County RTA and the Bellevue RTA collected nearly **\$112 million in Convention Center taxes** in 2019.
- Statewide nearly **\$15 million was collected in Tourism Promotion Area Taxes** in 2019, including nearly \$4 million in Des Moines, as well as \$1.4 million by the Pierce County RTA and nearly \$1.2 million by the Snohomish County RTA.
- **Transient Rental Taxes totaled more than \$54.5 million** across Washington in 2019, including more than \$20 million in King County between the King County RTA, Bellevue RTA and Bothell.
- **Special Hotel/Motel Taxes totaled more than \$49 million** in 2019, including nearly \$5.7 million across King County cities and RTAs.

Lodging taxes provide a significant source of dedicated funding for the economic development activities related to tourism promotion, including providing promotion for the state's businesses reliant on tourism spending. Reductions in travel and tourism due to the COVID-19 pandemic will result in proportionate reductions in tax collections from lodging taxes, limiting the ability of Cities and Counties to provide promotional support for tourism reliant industries.

Overall Uncertainty and Broader Risks of a U.S. Economic Downtown

There are important, substantive differences between today's economic downturn and the 2008-2009 recession. However, neither is the result of the more common recession brought on by undulations in business cycles and the slowdowns in company inventories.

The 2008-2009 was a structural phenomenon brought on by an asset bubble in the housing market and unregulated, profligate lending practices and opaque risk assessment. Unlike normal recessions, the 2008-2009 recession was the outcome of a financial crisis whose closest sibling was the Great Depression of the 1930s, requiring deep and extensive interventions by the federal government in the form of fiscal stimulus and quantitative easing to prevent the seizing up of the financial system.

The current economic situation is the outcome of an exogenous, non-economic event—the sudden incidence and spread of a new virus whose properties experts are still working to understand. The virus has adversely affected multiple sectors of the economy, including financial

markets, consumer and investor confidence, disruptions to supply chains, and rapid reduction in travel and air transportation. These changes in Washington represent both supply shocks (from overseas factory closures early on) and demand shocks from reduced consumer and household spending.

The uncertainties of the COVID-19 virus make economic predictions highly difficult. Given the rapid pace of the virus's spread, previous modeled forecasts may have limited utility. Below are recent forecasts for global and U.S. economic growth factoring in the COVID-19 virus:

- The Organisation for Economic Co-operation and Development (OECD) has lowered its global forecast for 2020 by 0.5 percentage points, with possible negative growth in the first quarter. U.S. economic growth, already projected to slow to 2.0% for 2020 (compared with 2.3% in 2019), was further adjusted downward by 0.1%.¹⁵
- Moody's Analytics' global pandemic scenario revised forecast for 2020 projects an overall annual contraction of 0.2%, and -0.1% for the global economy.¹⁶
- According to Bloomberg Economics, the impact of the virus on the U.S. economy can range from negligible for the course of 2020 to a 2.4% contraction.¹⁷

The volatility and dramatic devaluations of equity markets further erodes consumer confidence. Many families, especially those saving for retirement, have seen their investments lose considerable value over a very short period of time, creating a negative wealth effect whereby households and individuals feel less certain about the future and more inclined to raise their savings rate and reduce consumption. Nearly 70% of the U.S. economy is personal consumption, and 80% of U.S. growth.¹⁸ Any reduction in consumer confidence and spending would lower overall U.S. GDP.

Washington state has outperformed the U.S. economy in recent years, averaging 1.5 percent points more growth than the U.S. overall since

¹⁵ Organisation for Economic Co-operation and Development (OECD). *OECD Interim Economic Assessment: Coronavirus: The world economy at risk*. March 2, 2020.

¹⁶ Moody's Analytics. "COVID-19: Gauging the Pandemic." March 2020.

¹⁷ Tom Orlik, Jamie Rush, Maeva Cousin, and Jinshan Hong. "Coronavirus Could Cost the Global Economy \$2.7 Trillion. Here's How." *Bloomberg*. March 6, 2020.

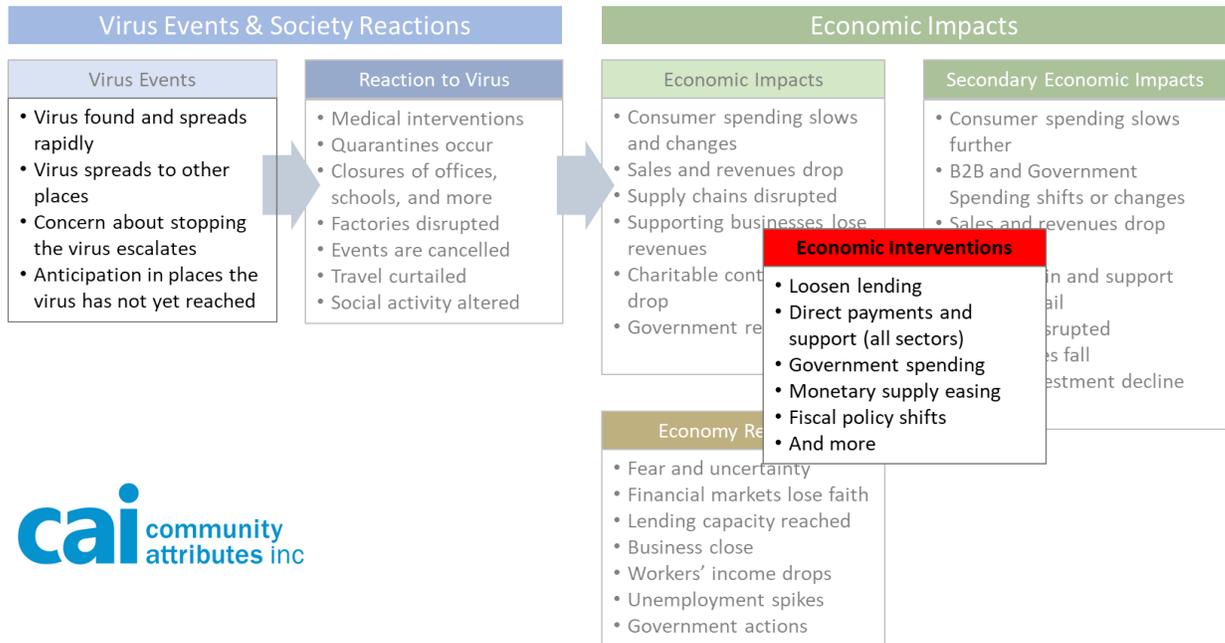
¹⁸ U.S. Bureau of Economic Analysis. *National Income and Product Accounts*. March 2020.

2011.¹⁹ However, many of the tenants of this growth are directly affected by the coronavirus, such as supply chains, our state’s strong reliance on trade, role as an international hub for research collaboration, foreign students, tourism, and innovation.

REBUILD STRATEGIES

The extent of these impacts reaches economywide and may linger for generations. At the time of this draft, the virus still spreads, and new economic shockwaves follow daily. Ultimately, the impacts will persist through the need for direct intervention on into restructuring debt and asset management. **Exhibit 6** brings a high level summary of strategies required to support economic recovery, summarized following the exhibit.

Exhibit 6. Impacts and Strategies



- **Loosen Lending and Monetary Policy.** Monetary policy includes the primary tools of the federal government, but lending support to borrowers must be broadly implemented.
- **Rent and debt service relief.** Landlords, their financiers, and the federal government must collaborate to give renters and borrowers (commercial and residential) significant flexibility for three or more months *after* the virus is

¹⁹ Based on real GDP data published by the Federal Reserve Bank of St. Louis, 2020.

under control (which is an undetermined date at this point.) This must go beyond support for small businesses and include medium sized and some larger businesses as well. Offices with employees numbering into the several hundreds will face choices of paying rent or retaining employees.

- **Direct payments and support (all sectors).** Major employers with capital reserves have stepped into the role traditionally for government to provide direct assistance to small businesses affect in their area. Government provides grants and immediate relief. Employees and households will need direct support.
- **Government spending.** Capital investments must proceed. Infrastructure investments support communities directly and they create jobs that support local and regional economies.
- **Fiscal policy shifts.** Washington and its cities depend primarily on sales and use and similar taxes, excise taxes, and property taxes. Cities and the state will find budgeting very difficult in the months ahead to cover the costs of spending critical for relief right now. New funding sources and new approaches to revenue management will be required.