CITY OF ISSAQUAH WASHINGTON

2013 Third Quarter Financial Status Report

AT A GLANCE:

- **Building permit revenue continues to perform strongly due to the expansion of a large construction project in the Issaquah Highlands and single family development.**
- **Court fines & fees revenue is declining largely in part because fewer photo enforcement citations are being issued as there is enhanced compliance with the speed limit.**

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Introduction

The Quarterly Financial Status Report provides a summary budget-to-actual comparison of revenue and expenditures for the General Fund and Utility Funds through the end of the most recently completed fiscal quarter.

Fall color at City Hall

Revenue and expenditure comparisons are also made to the same period in prior years. Relevant statistical summaries are provided if deemed pertinent.

In addition, an update on the current national and local economic outlook is provided.

Performance at a Glance

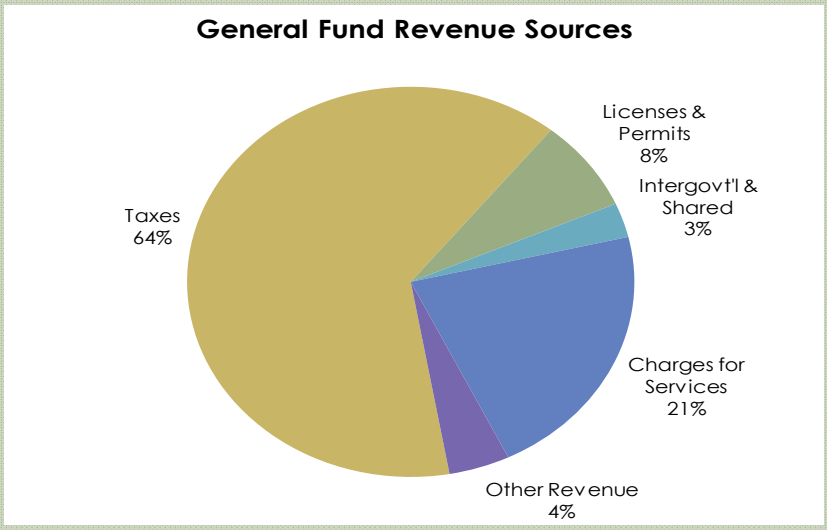
	Year-to-Date Performance	Compared to Budget
General Fund Expenditure vs. Budget	Neutral	0.2%
General Fund Revenue vs. Budget	Neutral	0.3%
Tax Revenue Performance	Warning	-2.4%
Utility Funds Expenditures vs. Budget	Positive	-1.5%
Utility Funds Revenues vs. Budget	Positive	3.4%

Key to ExpenditureTrend Indicators		Key to Revenue Trend Indicators	
Neutral	= variance of -1.0% to 1.0%	Neutral	= variance of -1.0% to 1.0%
Positive	= variance > -1.0%	Positive	= variance > 1.0%
Warning	= variance > 1.0%	Warning	= variance > -1.0%

Prepared October 16, 2013

General Fund: Third Quarter Highlights

Revenue



The primary revenue sources for the General Fund include property tax, sales tax, business and occupation (B&O) tax and utility taxes. Together, these taxes comprise about 64% of the total General Fund revenue. Sales and B&O tax revenue sources are highly dependent on the local economy.

Third quarter revenue was $24,153,024 – 69% of the 2013 budgeted amount, and 11% higher than the same period in 2012.

Building permit, sales tax and B&O tax revenue were the major contributors to the increase over 2012, coming in at 21%, 13%, and 13% greater respectively.

The continued increase in building permit revenue is related to the expansion of the Regency development project in the Issaquah Highlands. This increase in development activity affects sales tax and B&O tax positively as well.

Court Fines/Fees revenue continued to decline from its all time high water mark in 2011 - down 10% in 2012 and another 19% in 2013. The decline is attributed to lower photo enforcement revenue.

Expenditures

Expenditures for the third quarter were $25,911,564 - 73% of the 2013 budgeted amount.

On a four-year average, expenditures year-to-date through the third quarter usually represents 72% of total budgeted expenditures.

General Fund Major Revenue Sources - Actual Revenue Received

YTD Through Third Quarter

Revenue Source	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change From 2012
Property Tax	$ 3,838,200	$ 3,655,662	$ 3,769,625	$ 3,881,318	3%
Sales Tax	$ 5,317,980	$ 6,288,562	$ 5,267,599	$ 5,976,491	13%
B&O Tax	$ 1,734,377	$ 1,921,887	$ 1,659,565	$ 1,880,851	13%
Utility Taxes	$ 3,120,258	$ 3,248,034	$ 3,354,775	$ 3,499,307	4%
Building Permits	$ 1,841,230	$ 1,137,597	$ 1,324,259	$ 1,599,786	21%
Jail Services	$ 818,819	$ 1,181,413	$ 1,107,769	$ 1,079,952	-3%
Court Fines/Fees	$ 785,088	$ 846,826	$ 760,631	$ 615,218	-19%
Recreation Fees	$ 1,424,044	$ 1,434,456	$ 1,581,319	$ 1,664,330	5%

Expenditures vs. Revenues

General Fund - Actual Expenditures & Revenue
YTD Through Third Quarter

General Fund	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change From 2012
Revenue	$ 21,304,189	$ 22,615,836	$ 21,846,011	$ 24,153,024	11%
Expenditures	$ 21,836,195	$ 22,483,738	$ 23,252,704	$ 25,911,564	11%
Difference	**$ (532,006)**	**$ 132,098**	**$ (1,406,692)**	**$ (1,758,540)**	

Typically the first quarter and third quarter revenue to expenditure coverage results in a negative net difference while the second and fourth quarters show a positive differential. This is due to the timing of the receipt of property taxes. The City receives the first half of the year's property taxes in April, while the second half is received in October.

The variance between revenue and expenditures in 2013 in part is attributed to several transactions related to 2012 business activity.

In March 2013 a payment was made to a vendor for $371,109 for services that were incurred in 2012. Also in July of 2013, there was a retro payment for a labor contract that represented 2012 activity. Together these two items represent $421,306.

If these transactions were recorded in the 2012 fiscal year, the adjusted variance between revenue and expenditures in 2013 would be a positive variance of $69,458. A prior period adjustment will be recorded to reflect these transactions. The adjusted 2012 fund balance would be $8,174,612.

After adjustment for the 2012 transactions and after recognition of second half property taxes, the General Fund is still expected to end 2013 with a negative differential of $623,637, and a fund balance of $7,972,281.

Also of Note

The City's Mitigation Fund - which is funded from revenue received from developers and used to fund specific capital projects—is projected to end the year with a fund balance of $11,575,090.

This represents an increase of over $9,000,000 received from Lakeside Industries as part of a development agreement.

Actual and Projected Year-End Fund Balance Performance

	2009	2010	2011	2012	2013 (Estimate)
Beginning Fund Balance	$ 7,086,279	$ 5,836,723	$ 7,293,777	$ 8,775,545	$ 8,595,918
Revenues	$28,620,717	$30,552,535	$31,490,602	$31,550,374	$ 33,909,002
Expenditures	29,870,273	29,095,442	29,873,951	31,730,001	34,532,639
Difference	$ (1,249,556)	$ 1,457,093	$ 1,616,651	$ (179,627)	$ (623,637)
Ending Fund Balance	$ 5,836,723	$ 7,293,816	$ 8,910,428	$ 8,595,918	$ 7,972,281

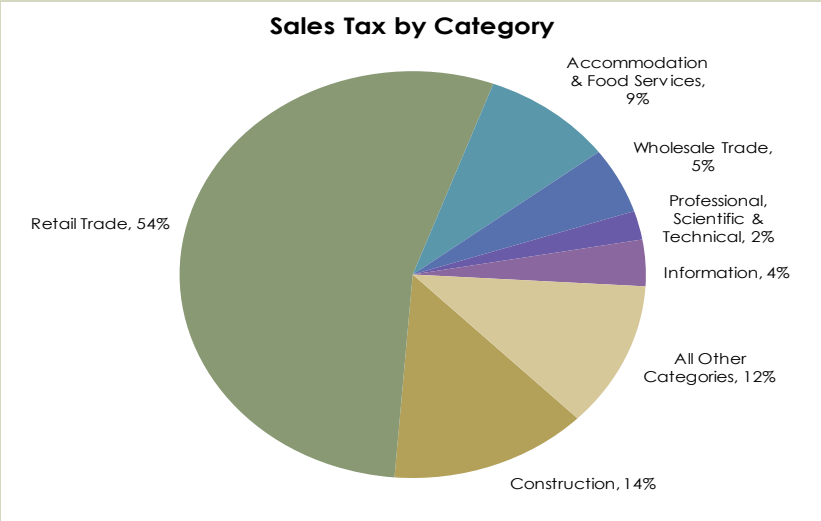
General Fund: Revenue from All Sources

Revenue Source	Actual for the Quarter	Year-to-Date Actual	Budget	Year-to-Date % of Budget
Property Tax	$ 162,825	$ 3,881,318	$ 7,129,954	54%
Sales Tax	2,069,470	5,976,491	8,039,000	74%
Business & Occupation Tax	654,115	1,880,851	2,450,000	77%
Utility Taxes	1,065,032	3,499,307	4,520,000	77%
Other Taxes	33,820	117,774	190,000	62%
Total Taxes	*3,985,261*	*15,355,740*	*22,328,954*	*69%*
Building Permits	$ 465,245	$ 1,599,786	$ 1,965,238	81%
Business Licenses	58,734	191,914	275,000	70%
Other Licenses/Permits	18,048	56,517	62,000	91%
Total Licenses & Permits	*542,026*	*1,848,217*	*2,302,238*	*80%*
Federal Grants	$ 5,690	$ 11,475	$ 15,000	76%
State & Local Grants	-	13,369	35,000	38%
Sales Tax Mitigation	143,574	422,969	500,000	85%
Criminal Justice (State)	10,599	30,361	40,000	76%
Liquor	70,008	210,006	290,000	72%
Total Intergovt'l/Shared	*229,872*	*688,181*	*880,000*	*78%*
Jail Services/Fees	$ 414,559	$ 1,079,952	$ 1,595,000	68%
Other Public Safety Charges	24,601	126,430	168,500	75%
Municipal Court Fees	166,518	615,218	1,322,500	47%
Recreation/Pool Fees	523,982	1,664,330	2,245,000	74%
Engineering/Inspection Fees	110,316	729,697	1,150,500	63%
Plan Check Fees	185,446	490,303	115,000	426%
Dispatch Services	94,082	289,688	334,000	87%
Other Fees & Charges	65,136	199,327	248,300	80%
Total Charges for Services	*1,584,639*	*5,194,945*	*7,178,800*	*72%*
Investment Interest	$ 57,051	$ 123,934	$ 256,100	48%
Rents & Leases	224,936	668,511	701,600	95%
Other Miscellaneous Revenue	30,330	47,417	70,822	67%
Total Miscellaneous Revenue	*312,317*	*839,862*	*1,028,522*	*82%*
Operating Transfers-In	$ 73,450	$ 220,350	$ 1,057,800	21%
Misc. Other Sources	500	5,730	-	
Total from Other Sources	*73,950*	*226,080*	*1,057,800*	*21%*
Total General Fund Revenue	**$ 6,728,065**	**$ 24,153,024**	**$ 34,776,314**	

General Fund Revenue: Sales Tax Analysis

Retail sales tax is the largest source of revenue for the City's General Fund. Total year-to-date collection of $5,976,491; or 74% of total budgeted retail sales tax. In comparison to the previous year, the City collected $708,892 or 13% more.

The City is projecting sales tax revenues to be right on target with budget projections at year-end.



The City of Issaquah receives the majority, 68%, of its retail sales tax from two categories: Retail Trade – 54% and Construction – 14%.

Retail trade sales tax revenue for the year to date through September 30 is 8% higher than the same period last year.

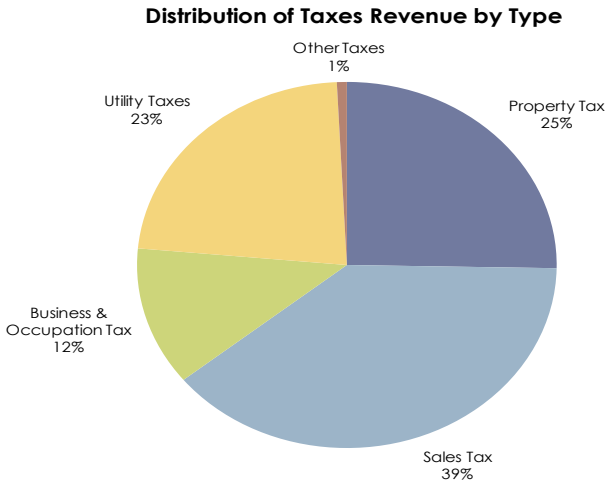
Construction-related sales tax for the year to date through September 30 is 37% higher than the same period last year. This large change is due to the volatility of construction-related projects.

In 2011 the City received $1,563,973 in construction-related sales tax due to the construction of Swedish Hospital and residential development. Construction-related sales tax in 2012 decreased by 69% compared to 2011. There is an increase in activity for 2013 which reflects the improvement of the local economy and additional new construction activity in the City.

General Fund: Other Major Taxes

Property Tax

Property tax is the second largest source of revenue in the General Fund and primarily funds services in the General Fund. Taxes are due in two equal installments on April 30th and October 31st. Collections are remitted the month following collection to the appropriate taxing district by the County Treasurer.



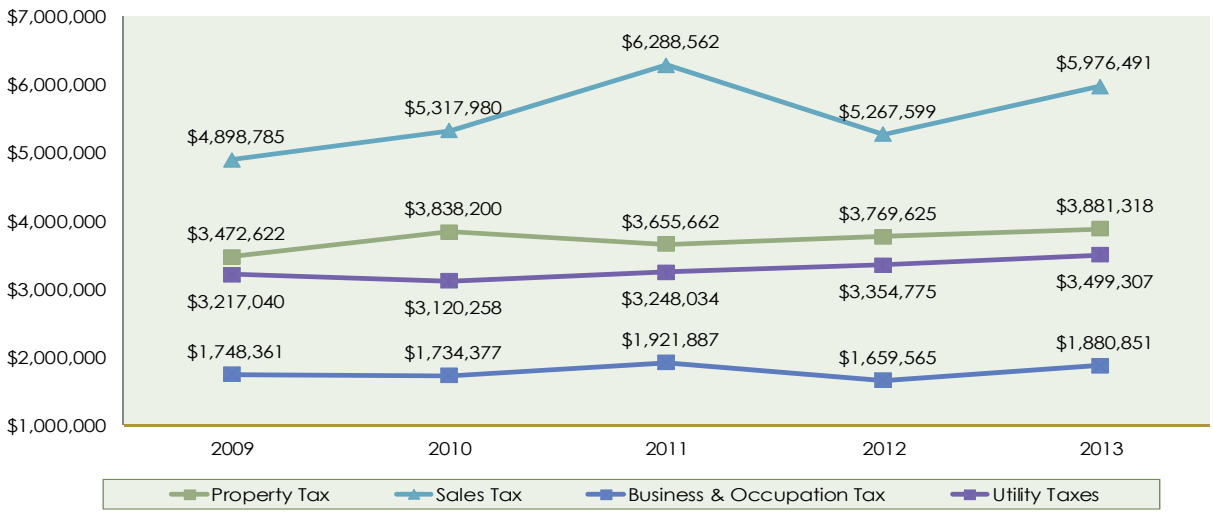
Utility Taxes

Utility taxes are the third largest source of General Fund revenue, comprising 23% of all tax revenue received. Utility taxes are levied on the gross income derived from sales of utility services provided in the city. Such services include electricity, natural gas, water, garbage, telephone and cable television. Utility taxes are collected monthly.

B&O Tax Categories	
Retailing	46%
All Other Businesses	27%
Manufacturing	13%
Wholesaling	11%
Retail Services	2%
Printing, Publishing, Extracting, Processing Hire	1%

Business & Occupation Tax

Business and occupation (B&O) taxes are imposed and collected directly by the City upon all business activity within the City of Issaquah. B&O taxes are collected quarterly from businesses grossing more than $5,000 in a quarter. B&O tax categories are listed at left.



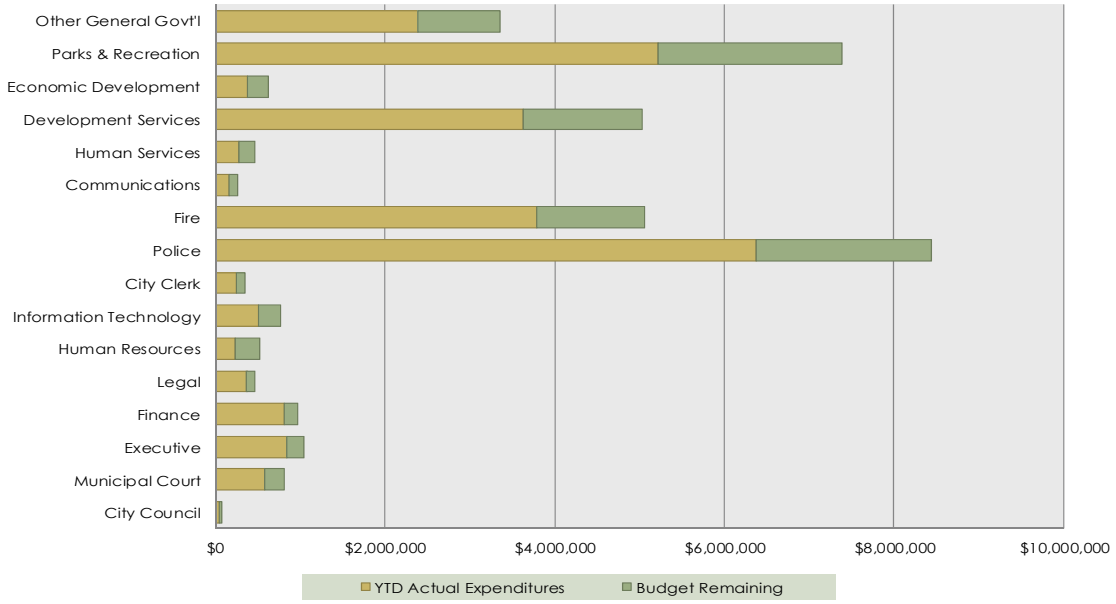
General Fund: Expenditures

General Fund Departments - Actual Expenditures

Year-to-Date Through Third Quarter 2013

Department Name	Actual for the Quarter	Year-to-Date Actual	Budget	Year-to-Date % of 2013 Budget
City Council	$ 16,733	$ 55,608	$ 76,039	73%
Municipal Court	$ 193,475	$ 587,614	$ 809,010	73%
Executive	$ 186,974	$ 837,165	$ 1,051,542	80%
Finance	$ 205,548	$ 813,130	$ 980,907	83%
Legal	$ 140,008	$ 374,328	$ 465,000	81%
Human Resources	$ 73,675	$ 243,261	$ 520,306	47%
Information Technology	$ 146,806	$ 504,644	$ 766,536	66%
City Clerk	$ 83,867	$ 255,783	$ 356,656	72%
Police	$ 2,153,190	$ 6,378,816	$ 8,440,846	76%
Fire	$ 1,264,115	$ 3,792,344	$ 5,063,217	75%
Communications	$ 55,417	$ 163,436	$ 259,101	63%
Human Services	$ 82,381	$ 283,990	$ 472,270	60%
Development Services	$ 1,097,507	$ 3,632,903	$ 5,029,880	72%
Economic Development	$ 133,372	$ 381,292	$ 623,672	61%
Parks & Recreation	$ 1,814,210	$ 5,219,362	$ 7,388,609	71%
Other General Govt'l	$ 578,447	$ 2,387,886	$ 3,351,735	71%
Total GF Departments	**$ 8,225,727**	**$ 25,911,564**	**$ 35,655,326**	73%

Department Expenditures & Percent of Annual Budget Remaining



General Fund Expenditures - Four-Year Comparison

YTD Through Third Quarter

Revenue Source	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change From 2012
City Council	$ 54,336	$ 52,809	$ 57,188	$ 55,608	-3%
Municipal Court	$ 395,778	$ 425,966	$ 497,370	$ 587,614	18%
Executive	$ 690,918	$ 725,021	$ 710,100	$ 837,165	(a) 18%
Finance	$ 624,418	$ 689,027	$ 665,267	$ 813,130	22%
Legal	$ 329,393	$ 331,234	$ 346,160	$ 374,328	8%
Human Resources	$ 413,597	$ 473,699	$ 305,444	$ 243,261	(b) -20%
Information Technology	$ 674,700	$ 691,096	$ 693,789	$ 504,644	(c) -27%
City Clerk	$ 209,401	$ 213,335	$ 220,041	$ 255,783	16%
Police	$ 5,267,379	$ 5,554,798	$ 5,805,707	$ 6,378,816	10%
Fire	$ 3,426,204	$ 3,457,953	$ 3,530,350	$ 3,792,344	7%
Communications	$ -	$ -	$ -	$ 163,436	n/a
Human Services	$ 276,263	$ 258,663	$ 265,848	$ 283,990	7%
Development Services	$ 2,303,176	$ 2,369,976	$ 2,378,001	$ 3,632,903	(d) 53%
Economic Development	$ -	$ -	$ 104,800	$ 381,292	(e) 264%
Parks & Recreation	$ 4,693,293	$ 4,771,405	$ 5,130,626	$ 5,219,362	2%
Other General Govt'l	$ 2,477,339	$ 2,468,755	$ 2,542,012	$ 2,387,886	-6%
Total GF Departments	**$ 21,836,195**	**$ 22,483,738**	**$ 23,252,704**	**$ 25,911,564**	**11%**

Department Expenditures: Explanation of Significant Expenditure Variance

(a) **Executive +18%** - Variance due to retirement payouts.

(b) **Human Resources -20%** - Health Reimbursement Account (HRA) expenses have been historically budgeted and expended in the Human Resources budget. Beginning in 2013, the expenses were distributed to the individual department budgets. A mid-year adjustment was made to reflect this change.

(c) **Information Technology -27%** - Decrease represents the reduction of one staff member and the reassignment of another to the Public Works Engineering department which is not funded by the General Fund.

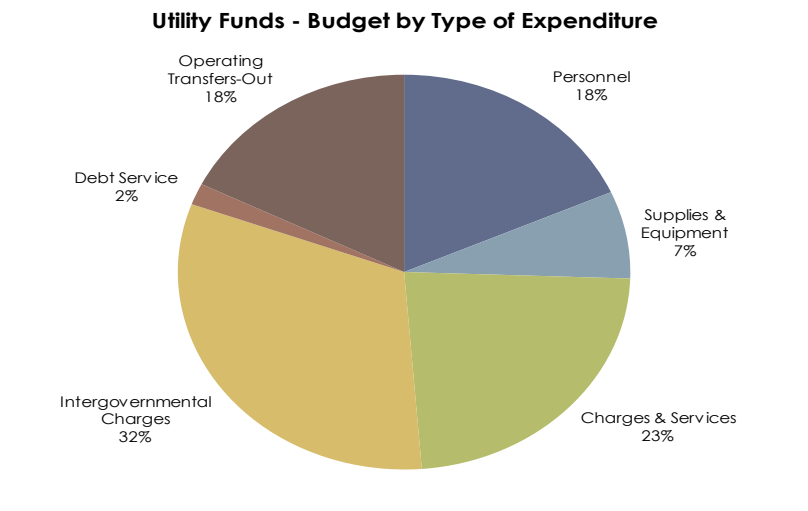
(d) **Development Services +53%** - Increase in the Development Services Department is offset by corresponding revenue as a result of increased permit activity.

(e) **Economic Development +264%** - 2013 is the first full year for this department. The department was created mid-year 2012 making their 2012 YTD total to only include one year of existence, while 2013 YTD includes three full quarters of actual expenditures.

Utility Funds Performance

Expenditures

Expenditures in the utility funds are comprised of six major components: Personnel, Supplies & Equipment, Charges & Services, Intergovernmental Charges, Debt Service and Operating Transfers-out. The distribution of these costs over the three utilities are displayed at left.



Through the third quarter, utility fund expenditures are running around 1.5% less than budgeted.

Revenue

96% of utility fund revenue is earned through charges for services with the other 4% comprised primarily of miscellaneous revenue which includes rent, investment interest, contributions and donations as well as transfers-in.

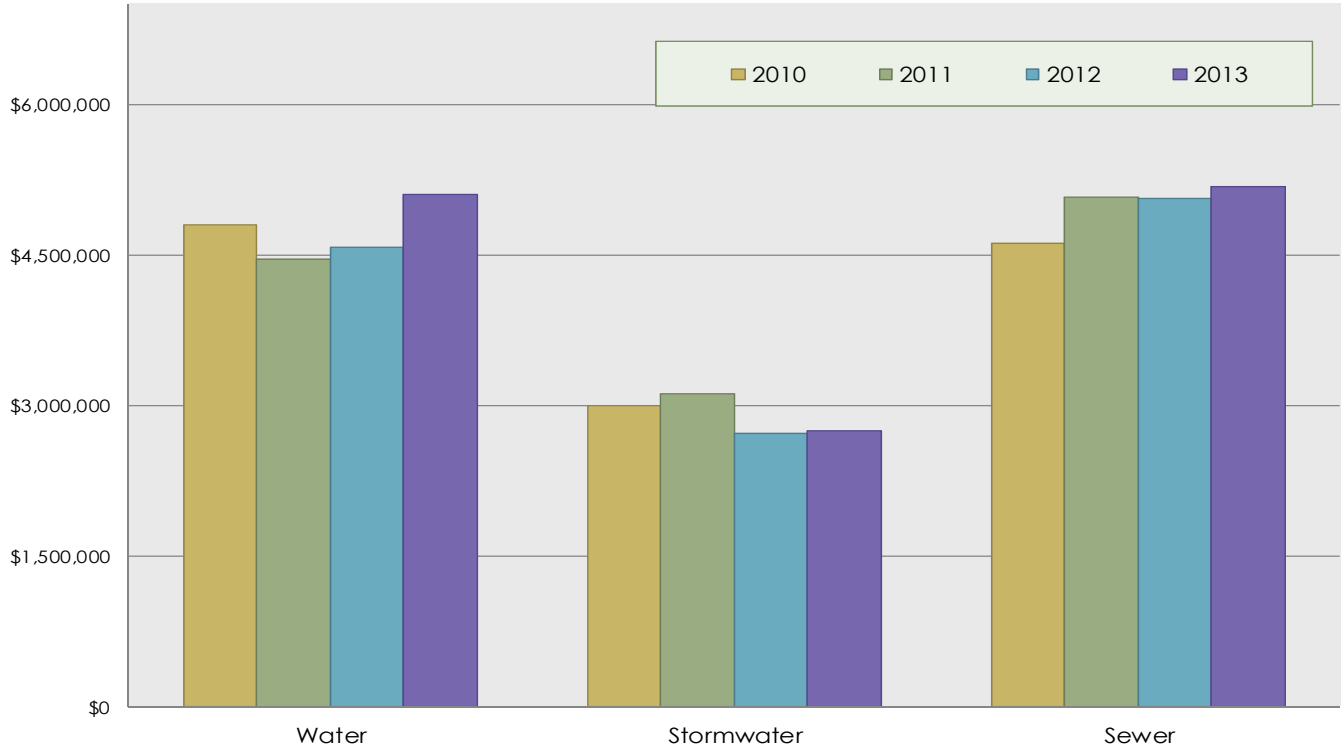
Through the third quarter, utility fund revenue is performing at about 3% above the original budgeted amounts.

More detailed information on the specific performance of each utility fund can be found in the pages that follow.

Utility Funds: Expenditures

Utility Fund Name	3rd Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Water	$ 2,011,551	$ 5,105,471	$ 6,712,495	76%
Stormwater	$ 903,629	$ 2,744,968	$ 4,276,792	64%
Sewer	$ 1,843,756	$ 5,175,579	$ 7,850,675	66%

Four-Year Comparison of Actual Expenditures Through Third Quarter

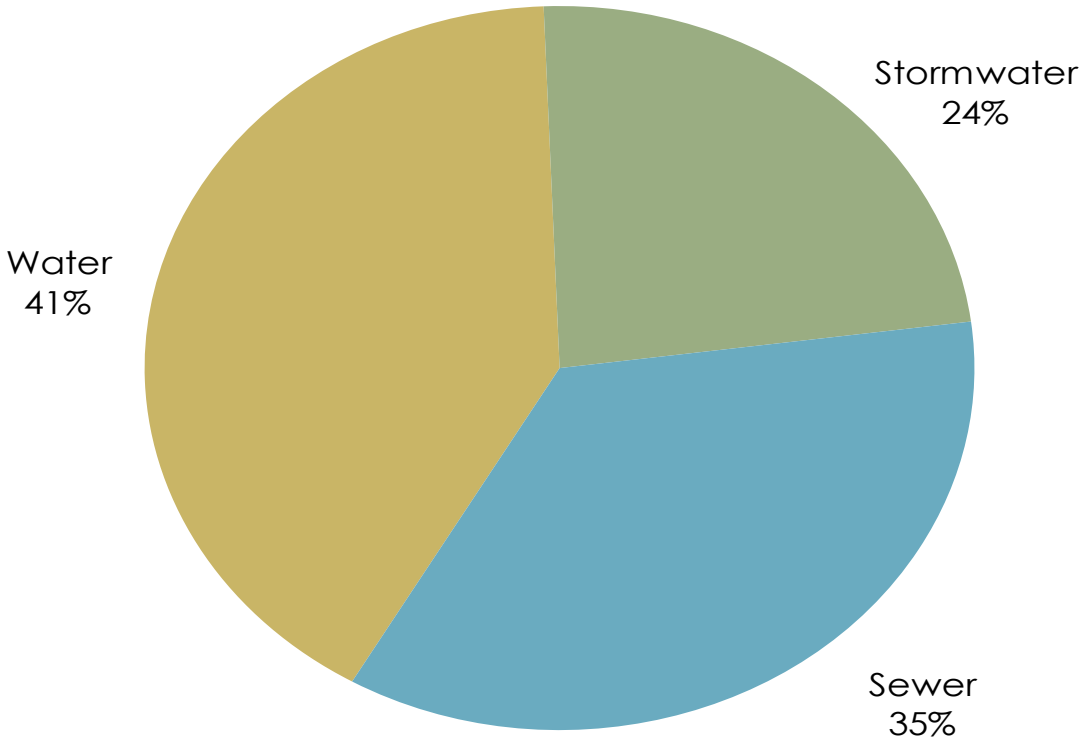


Utility Fund Name	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
Water	$ 4,802,910	$ 4,454,652	$ 4,567,741	$ 5,105,471	*12%*
Stormwater	$ 3,001,043	$ 3,116,629	$ 2,723,628	$ 2,744,968	*1%*
Sewer	$ 4,609,485	$ 5,077,071	$ 5,058,546	$ 5,175,579	*2%*

- **2011 Sewer includes a METRO pass-through increase of 13.2%**
- **2013 Sewer includes a METRO pass-through increase of 10.4%**

Utility Funds: Revenue

Actual Revenue Received Through Third Quarter 2013: Distribution by Utility



Utility Funds Year-to-Date Revenue: Budget to Actual

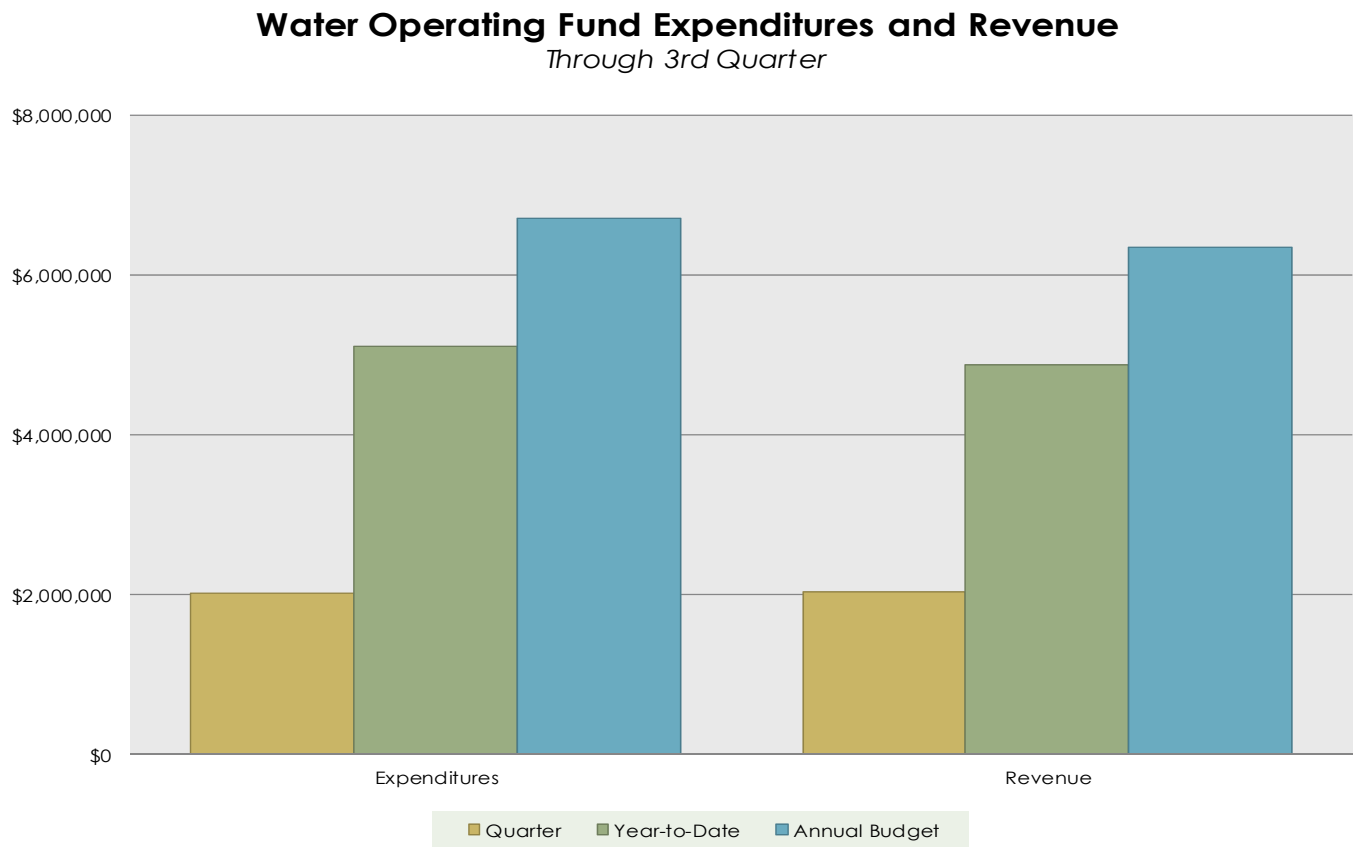
Utility Fund Name	3rd Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Water	$ 2,034,106	$ 4,879,970	$ 6,358,424	*77%*
Stormwater	$ 1,167,680	$ 3,289,192	$ 4,284,812	*77%*
Sewer	$ 1,753,034	$ 5,370,261	$ 7,647,774	*70%*

Four-Year Comparison of Actual Revenue Through Third Quarter

Utility Fund Name	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
Water	$ 3,958,070	$ 3,808,620	$ 4,363,145	$ 4,879,970	*12%*
Stormwater	$ 3,237,318	$ 3,148,770	$ 3,234,384	$ 3,289,192	*2%*
Sewer	$ 4,574,495	$ 5,005,337	$ 4,867,204	$ 5,370,261	*10%*

- **Water revenue reflects a 9% rate increase which began with the February 2012 bill**
- **Sewer revenue includes a METRO pass-through increase of 13.2% in 2011 and 10.4% in 2013**

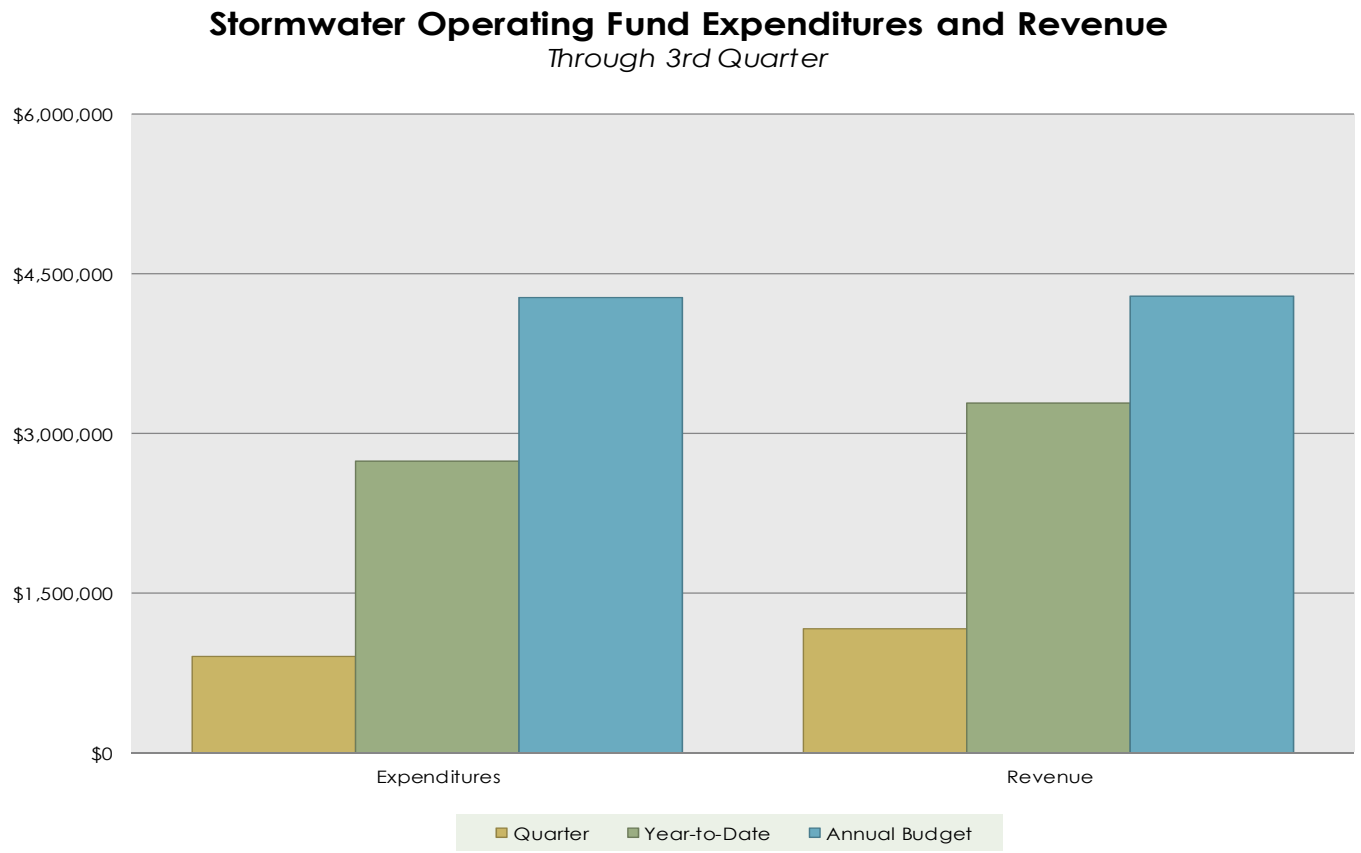
Individual Utility Funds Performance



Water Operating Fund	3rd Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	$ 2,034,106	$ 4,879,970	$ 6,358,424	77%
Expenditures	$ 2,011,551	$ 5,105,471	$ 6,712,495	76%
Net Difference	**$ 22,555**	**$ (225,501)**	**$ (354,071)**	

Net Difference is the use of operating funds for budgeted capital projects.

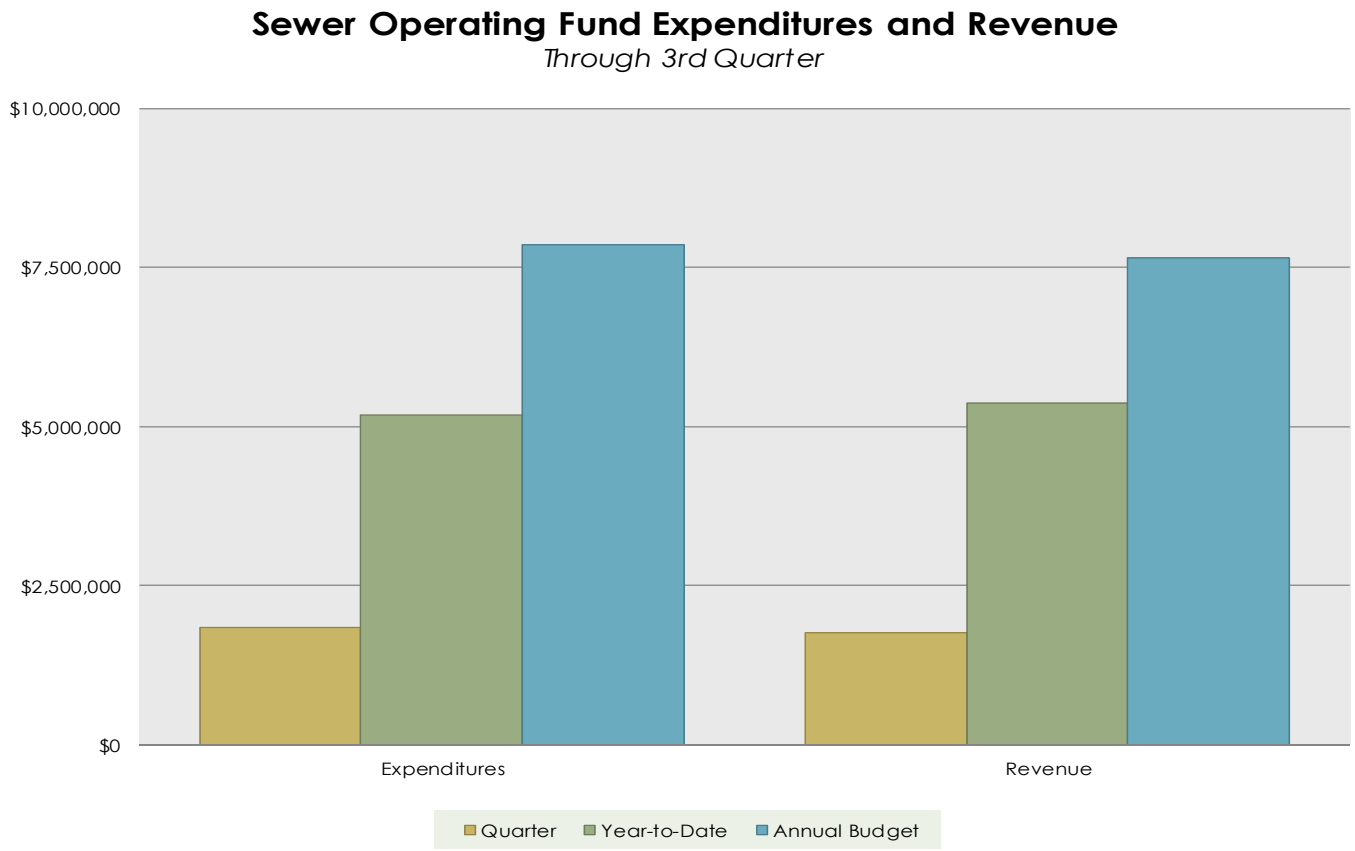
Individual Utility Funds Performance



Stormwater Operating Fund	3rd Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	$ 1,167,680	$ 3,289,192	$ 4,284,812	77%
Expenditures	$ 903,629	$ 2,744,968	$ 4,276,792	64%
Net Difference	**$ 264,051**	**$ 544,224**	**$ 8,020**	

There have been no rate increases in the Stormwater Fund since 2008.

Individual Utility Funds Performance



Sewer Operating Fund	3rd Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	$ 1,753,034	$ 5,370,261	$ 7,647,774	70%
Expenditures	$ 1,843,756	$ 5,175,579	$ 7,850,675	66%
Net Difference	**$ (90,722)**	**$ 194,682**	**$ (202,901)**	

Net Difference is the use of operating funds for budgeted capital projects.

The majority of the Sewer Operating Fund revenue and expenses are directly related to King County METRO Sewer pass-through charges. King County METRO provides sewer treatment services to the City of Issaquah's Sewer Utility customers.

In 2011 METRO pass-through charges increased 13.2%, and in 2013 increased an additional 10.4%.

KC Metro Sewer	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
Expenses	$ 3,224,727	$ 3,652,585	$ 3,544,325	$ 3,450,855	-3%
% of Total Expenses	70%	72%	70%	67%	
Revenue	$ 3,182,174	$ 3,586,112	$ 3,472,530	$ 3,892,250	12%
% of Total Revenue	70%	72%	71%	72%	

Sewer Fund Revenue	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
METRO	$ 3,182,174	$ 3,586,112	$ 3,472,530	$ 3,892,250	12%
City Sewer	$ 1,385,944	$ 1,380,108	$ 1,380,069	$ 1,450,220	5%

Economic Environment Update

Delay in Availability of Some Data

Without a budget or continuing resolution to fund the federal government, non-essential federal employees were furloughed and a variety of facilities were closed on October 1st. Although Congress has subsequently passed legislation to provide back pay for furloughed federal employees and the Department of Defense has recalled some workers, federal government activities ranging from Federal Aviation Administration certification of aircraft to collection and publication of economic data have stopped.

Economy in Brief

* The October 1st federal government shutdown appears to be affecting consumer confidence.
* Gasoline and petroleum prices have declined over the last month.
* U.S. manufacturing growth has strengthened but non-manufacturing growth has slowed.
* Washington employment and income continue to grow moderately.
* Washington housing construction has weakened but prices continue to rise.

The U.S. and Washington economies continue to grow, Although at a slow pace.

(Continued on page 17)

(Continued from page 16)

Washington and Region

The Washington economy added 11,400 net new jobs in the last three months, translating into an annualized growth rate of 1.6%. The vast majority of the new jobs (9,200) were in private, service-providing sectors while the construction sector added 2,200 net new jobs in June, July, and August. The manufacturing sector shed 400 jobs in the last three months, of which 200 were in aerospace.

Construction has become Washington's fastest growing industry with employment growth of 7.5% over the last year.

At the state level, housing construction dropped sharply in the second quarter of 2013 after rising rapidly throughout 2012 and early 2013. The number of housing units authorized by building permits fell from 36,000 (SAAR) in the first quarter of 2013 to 27,700 in the second quarter.

3rd Quarter Building Permit Activity in Issaquah

Permit Type	2009	2010	2011	2012	2013
Single Family:					
New	17	25	35	72	43
Alterations	29	28	37	19	16
Multi-family:					
New	2	2	0	4	0
Alterations	12	23	10	6	2
Commercial:					
New	3	5	4	1	2
Alterations	19	30	28	36	53

Preliminary data for the third quarter suggest little change. In July and August there were an average of 27,000 units authorized by building permits (SAAR) consisting of 18,300 single family units and 8,700 multi-family units.

	Aug 2012	Aug 2013
United States		
Unemployment Rate	8.1%	7.3%
Washington		
Unemployment Rate	8.2%	7.0%
Resident Labor Force	3,476,400	3,481,400
Unemployed	284,300	242,500
Seattle/Bellevue/Everett		
Unemployment Rate	7.0%	5.2%
Resident Labor Force	1,507,600	1,538,100
Unemployed	106,200	80,700

Due to the shutdown of the federal government, no data were available from the Bureau of Labor Statistics for the unemployment rate or for the employment changes in September.

Regional home prices continue to rise. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last 17 months and, as of July, are now 12.4% higher than in the previous July. Though prices and mortgage rates have risen, homes are still relatively affordable. Even with the recent gains, Seattle area home prices are 18.1% lower than their 2007 peak.

Risks to the forecast are generally from factors outside the state, including a weaker Chinese economy, uncertain federal fiscal

Number of Active Issaquah Business Licenses

2010	4,646
2011	4,331
2012	4,715
2013**	4,848

***1,214 active licensees have applied for and qualified to file B&O Tax returns annually*

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policy and possible disruptions to the housing recovery.

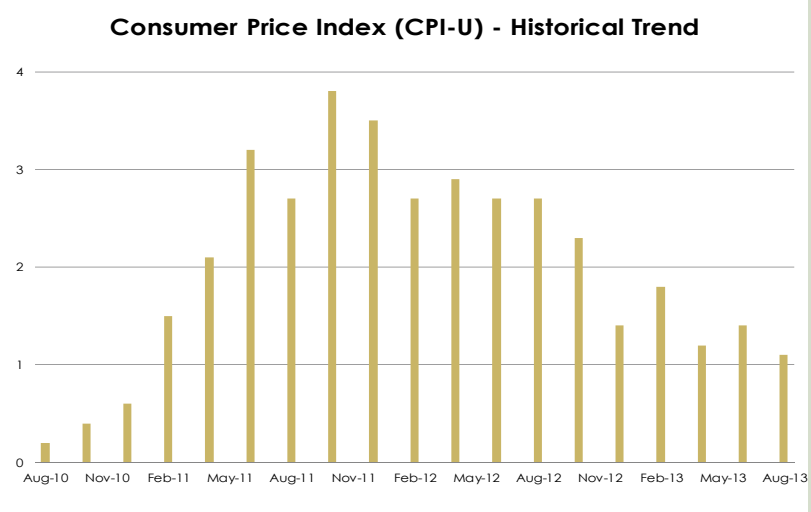
(Source: State of Washington Economic & Revenue Forecast Council, October 11, 2013 Report)

Consumer Price Index

Prices in the greater Seattle Area, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), were unchanged for the two months ending August 2013. Regional Commissioner Richard J. Holden noted that although overall prices remained unchanged in August, shelter prices rose during the two-month period. (Data in this report are not seasonally adjusted. Accordingly, month-to-month changes may reflect seasonal influences.)

Over the last 12 months, the CPI-U advanced 1.1% Energy prices edged up 0.1%, largely the result of an increase in the price of electricity. The index for all items less food and energy rose 1.3% since August 2012.

The Seattle index is calculated bi-monthly.



(Source: U.S. Bureau of Labor Statistics)

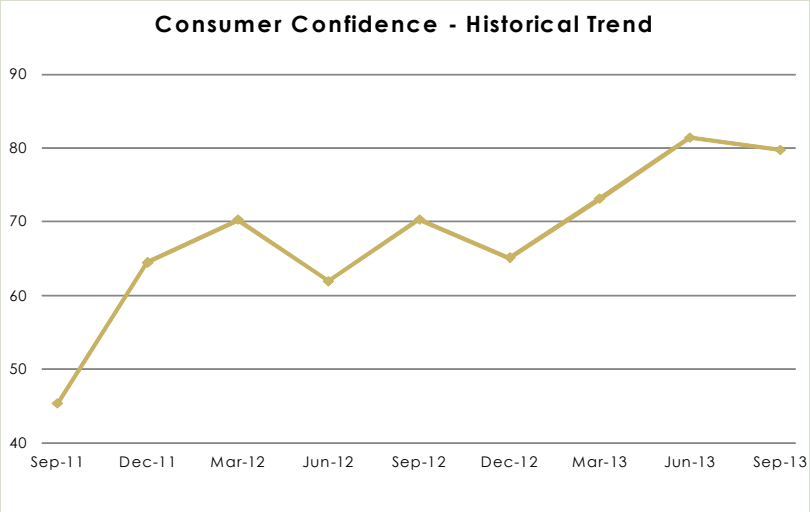
Consumer Confidence

The Conference Board index of consumer confidence, which declined in July but increased in August, decreased by 2.1 points in September to 79.7. This is the first time the index has been below 80 points since May of this year.

The October 1st federal government shutdown appears to be affecting consumer confidence.

The impact of the federal government shutdown and concerns about the debt ceiling debate are unlikely to be fully reflected in these September figures. Consumer Confidence decreased in September as concerns about the short-term outlook for both jobs and earnings resurfaced, while expectations for future business conditions were little changed. While overall economic conditions appear to have moderately improved, consumers are uncertain that the momentum can be sustained in the months ahead.

An index of 90 indicates a stable economy and one at or above 100 indicates growth.



(Source: The Conference Board Research Center, September 24, 2013)