

Economic Review Meeting

February 2, 2012



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

February 2, 2012
2:30 p.m.

- De-facto approval of November 17, 2011 Meeting Minutes
- Presentation of economic outlook and revenue collection experience

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STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

**Meeting Minutes
Revenue Review**

November 17, 2011

John A. Cherberg, Hearing Room 3

Economic and Revenue Forecast

Council Members Present

Ed Murray, Senate
Joseph Zarelli, Senate
Ed Orcutt, House of Representatives
Ross Hunter, House of Representatives
Suzan DelBene, Department of Revenue
Marty Brown, Office of Financial
Management

Staff

Arun Raha, Executive Director, ERFC

Call to Order

The meeting was called to order by Representative Orcutt at 10:02 a.m.

Motion

Director Brown moved and Director DelBene seconded to adopt minutes from the Economic Review Meeting. Minutes from the November 4, 2011 Economic Review Meeting were adopted at 10:03 a.m.

Presentation on Revenue Forecast

Dr. Raha presented information on the revenue forecast. Dr. Raha summarized the forecast changes and provided background information on both the U.S. and Washington economies.

Motion

Director Brown moved to adopt the baseline revenue forecast, seconded by Representative Orcutt.

Motion passed unanimously at 10:32 a.m.

Adjournment

Meeting adjourned at 10:32 a.m.

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**Economic & Revenue Forecast Council
State of Washington**



Economic Review: February 2, 2012

Executive Summary

- In the three months since the November forecast, events have unfolded as expected in the baseline scenario. We continue to see a muddle-through economy, with low growth, high unemployment and weak confidence. Despite the relatively small change in the economic forecast, the high level of downside uncertainty in the baseline remains the same as before.
- Factors outside the state are the reason for the high downside risk. The biggest threat to the U.S. and Washington economies remains the sovereign debt crisis in Europe. It is likely that Europe will enter another recession or is already in one. If the sovereign debt crisis leads to a financial crisis, the U.S. economy will enter a new recession as well.
- The weakness in Europe has contributed to a slowdown in Asia as well. We expect China in particular to slow. So far it looks as though they will experience a soft landing as growth is intentionally slowed to prevent an overheating economy. If this is not managed properly and the Chinese economy experiences a hard landing, this could create another global recession.
- Political gridlock in Washington D.C. has left fiscal policy up in the air. Congress extended the payroll tax cut and emergency unemployment benefits, but only for two months, thereby maintaining the maximum possible uncertainty. We should see renewed negotiations as this month unfolds. Our current forecast discounts the possibility of any significant discretionary fiscal policy prior to the next general election. We have therefore removed from our forecast Global Insight's assumption that the current payroll tax cut and unemployment benefits will be extended after February 2012.
- Unlike the discordant notes from fiscal policy, the stance of monetary policy has been quite clear. At their meeting on January 25, the Federal Open Market Committee indicated they expect to maintain the target fed funds rate at the lower bound "at least through late-2014" in order to provide additional accommodation to the economy. However, it continues to look as if the economy is caught in a classic "Liquidity Trap" where monetary policy playing a lone hand has lost its effectiveness. In such conditions, for macroeconomic policy to be effective, both monetary and fiscal policies need to be working in tandem. That does not appear likely right now.
- Data releases since the November forecast have been encouraging. Real gross domestic product grew at a seasonally adjusted annualized rate of 2.8% in the fourth quarter, the strongest rate since the winding down of the stimulus. Real consumer spending grew 2.0% in the fourth quarter. Still, the sustainability is questionable since real final sales increased at just a 0.8%

rate. Most of the growth in GDP for the quarter came from inventories which contributed 1.9 percentage points to the total 2.8% rate.

- Housing remains weak, although the worst is now behind us. Housing starts fell 4.1% in December, to a 657,000 annual rate, still the second-highest monthly reading since April 2010. More importantly for the future, housing permits are improving. Single-family permits climbed to their highest level in 12 months. Multi-family permits are faring even better than the single-family permits. Despite declining 3.7% in December, a clear upward trend is discernable. New home sales, which are a small fraction of the market, fell 2.2% to 307,000 (SAAR) units. Existing home sales rose 5.0% to 4.6 million (SAAR) units, the third consecutive monthly increase. The Case-Shiller 20-city index declined in November, and was 3.7% below a year ago. Prices are expected to stay weak as more foreclosed properties hit the market.
- Real GDP is now above its pre-recession peak, but it is being produced with 6.2 million fewer jobs. Growth in jobs has been excruciatingly slow in this recovery. As we go to press, the employment situation report for January is not yet available to us. The December employment report's establishment survey showed job growth picking up with the economy gaining 200,000 (SA) net new jobs that month. Private sector gains of 212,000 were partially offset by public sector job losses of 12,000. The unemployment rate continued to trend down but remains elevated at 8.5%.
- Industrial production grew 0.4% (SA) in December, following a 0.3% (SA) decline in November. The Institute for Supply Management's manufacturing Purchasing Managers Index for December increased 1.2 percentage points to 53.9, the highest reading since June 2011. Readings above 50 indicate growth. The non-manufacturing index which increased six-tenths of a percentage point to 52.6 also indicates continuing growth in services. Core capital goods orders (i.e. durables excluding aircraft and military) which are a proxy for business investment, increased 2.9% in December, after declining 1.2% in November and 0.9% in October.
- Consumer confidence has shown signs of firming in recent months, but remains at levels typically associated with recessions rather than recoveries. The Conference Board's index dropped to 61.1 in December, although the recent trend remains positive. The University of Michigan consumer sentiment measure moved up to 74.0, the fifth consecutive month the index has increased.
- January light motor vehicle (LMV) sales increased 4.6% to 14.2 million (SAAR) units. The trend remains positive although this is more due to replacement demand rather than a return of confidence. The average light vehicle on the road remains over 10 years old.
- The Blue Chip Consensus real GDP growth forecasts, our objective starting point each forecast cycle, are now at 2.2% and 2.6% for 2012 and 2013 compared to 2.1% and 2.8% in our November forecast. This is our first forecast for the 2013-15 biennium. The Blue Chip forecast for real GDP growth in 2014 and 2015 is 2.9% per year.

- The Washington economy is recovering as expected in the November forecast. There have been no major developments since November that have altered the outlook significantly. The state's economy is likely to outperform the U.S. in the near term. Boeing and Microsoft are both hiring again. The aerospace sector has added 11,500 jobs since May 2010, which is nearly double the 6,000 lost during the recession, while the software sector has added 1,800 jobs since December 2009, making up for most of the 2,500 jobs lost during the recession. Export growth is slowing but still strong. Total exports in the fourth quarter through November were up by 17 percent year-over-year. Exports of transportation equipment (mostly Boeing planes) account for nearly 50 percent of the state's exports and were up 27 percent from the previous year. Exports other than transportation equipment were up 9 percent. Boeing has approximately seven years of commercial orders on the books.
- On the downside, construction, which has a disproportional impact on revenue, remains weak. While no longer falling, employment in the construction sector is flat. Government employment continues to decline, especially at the state and local level. The state's economy is also vulnerable to potential adverse national and global developments.
- We have two months of new Washington employment data since the November forecast was released. Employment growth in November and December was slightly better than the November projection. The Washington economy added a total of 6,500 jobs in the final two months of the year compared to the 4,300 net new jobs expected in the forecast. The private sector added 7,800 jobs (we had expected 4,600) but the public sector lost 1,300 jobs (we had expected a loss of 300). The manufacturing sector continues to show strong employment growth, adding 3,600 jobs of which 2,300 were in aerospace but construction employment declined by 400. Private service-providing industries added the majority of new jobs in the two month period at 4,600 jobs. We had expected an increase of 3,700 private-service-providing jobs.
- Housing construction remains weak but the fourth quarter was slightly better than expected in the November forecast. Single-family permits averaged 13,900 units (SAAR) which is higher than our forecast of 11,500 units for the quarter. Multi-family permits were also slightly higher than expected, averaging 8,600 units compared to the 8,000 expected for the quarter. Overall permits averaged 22,500 units compared to 19,400 expected in the November forecast. We continue to believe the trend is positive in multi-family housing due to rising rents and declining apartment vacancies. The near-term outlook for single-family construction is flat to negative.
- The Bureau of Economic Analysis (BEA) has released estimates for personal income through the third quarter of 2011. The preliminary BEA estimate for the third quarter of 2011 is \$900 million (0.3%) lower than predicted in the November forecast.
- Both headline and core inflation rates in Seattle are higher than in the U.S. and higher than we expected in our November forecast. The main reason for higher inflation in Seattle than in the U.S. is shelter costs. Shelter costs rose 3.0% over the year in Seattle compared to 1.9% for the U.S.

- We continue to believe the Washington economy will outperform the U.S. economy. Washington is benefitting from strong export growth and hiring at both Boeing and Microsoft. We have raised our Washington job growth forecast for 2012 and 2013 to 1.6% and 2.0% from 1.2% and 1.9% in the November forecast. We also raised our forecast for personal income growth to 3.0% and 4.8% from 2.8% and 4.7% in November. Our initial forecast for 2014 and 2015 calls for job growth of 1.9% in each year and income growth of 6.0% and 5.9%. While our baseline forecast is similar to the November forecast, considerable uncertainty remains.

Downside Risks:

- The level of uncertainty in the baseline is high. Downside risks are still very elevated.
- The European sovereign-debt crisis takes a turn for the worse, with Greece exiting the Eurozone.
- A European banking crisis that affects U.S. banks.
- A hard landing in China.
- Turmoil in the Strait of Hormuz.
- Unexpected events – natural disasters, political upheaval, etc.

Upside Risks:

- Underlying pent-up demand continues to drive the recovery.
- Hiring picks up, and triggers a virtuous cycle.
- Greek debt restructuring is successful, the rest of the Eurozone provides sufficient, credible, and early support to stabilize financial markets and prevent any contagion.
- European governments are able to build a firewall around their banks, so the sovereign debt crisis does not turn into a banking crisis.
- Political gridlock in the nation's capital eases.
- An extension of the payroll tax cuts and unemployment insurance benefits.

Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Interim Executive Director

February 2, 2012
Olympia, Washington



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Summary

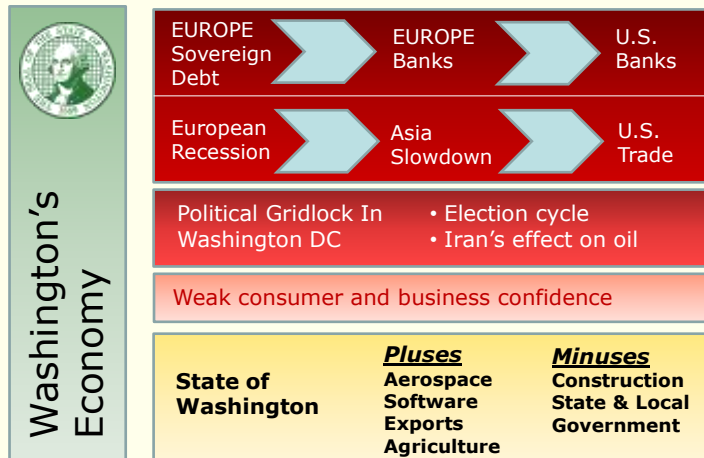
- Events are unfolding as expected in the November forecast
- However, the uncertainty in the baseline remains very high
- Adjusted revenues since the November forecast are \$2.8 million (0.3%) above expectations
- Factors outside the state are mostly responsible for the states current distress
- Except construction, and state and local governments, the WA economy is sound

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The state's risk matrix shows most risks from outside state



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Source: ERFC

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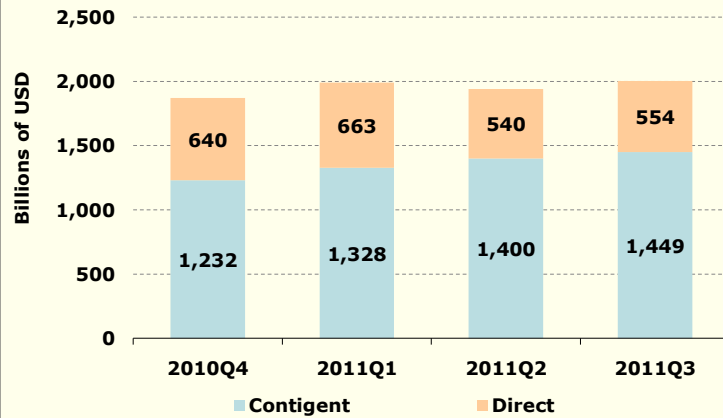
U.S. banks have reduced their direct exposure to European banks

Contingent liabilities continue to increase

Total value at risk remains close to \$2 trillion

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U.S. Bank Exposure



Source: Bank of International Settlements, 2011 Q3

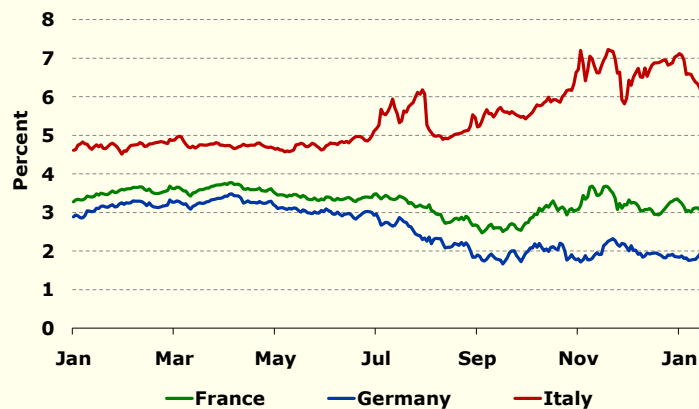
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European bond yields are signaling more risk

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European 10-year Bond Yields

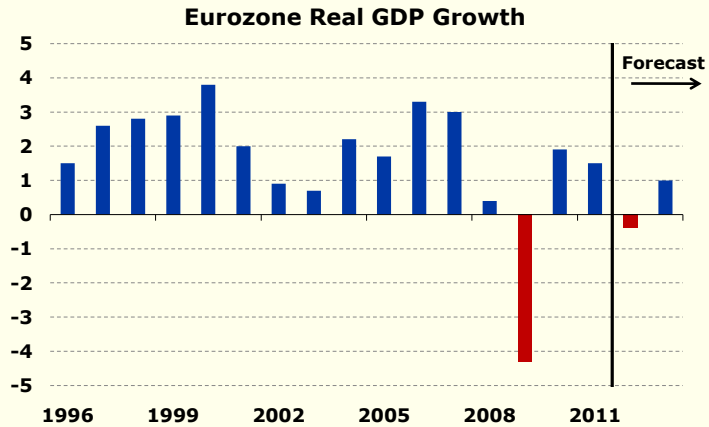


Source: Bloomberg; data through January 2012

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Europe is likely in recession



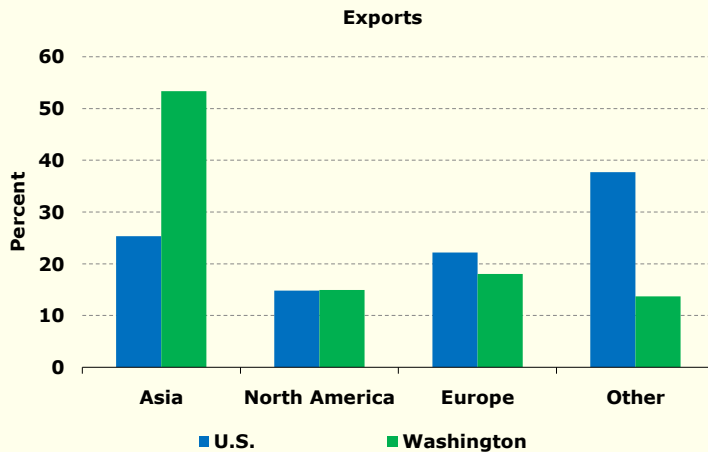
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Source: Eurostat, Blue Chip Economic Indicators, data through December 2011

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Washington trade is more exposed to Asia



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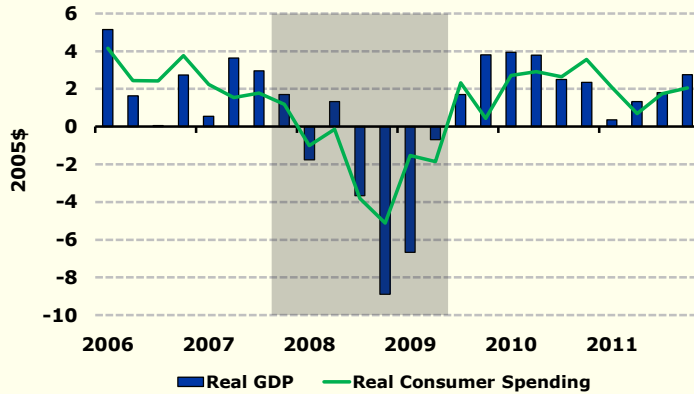
Source: Wiser Trade Data; through 2010

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Real GDP growth is improving

Percent growth, SAAR



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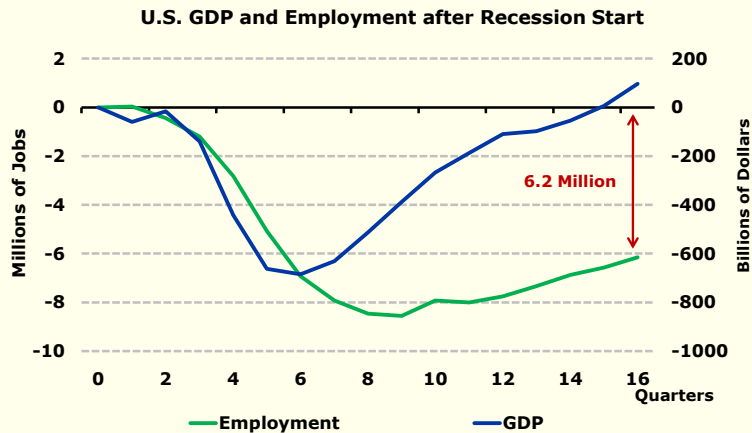
Source: BEA, data through 2011 Q4, advance estimate

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The U.S. economy is now producing its pre-recession output with fewer jobs

Data normalized to recession start, 2007Q4 = 0



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Source: BEA, BLS, ERFC; data through 2011 Q4

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Labor productivity growth remains low, helping job growth

Any increase in final demand will translate to job growth after labor productivity declines.

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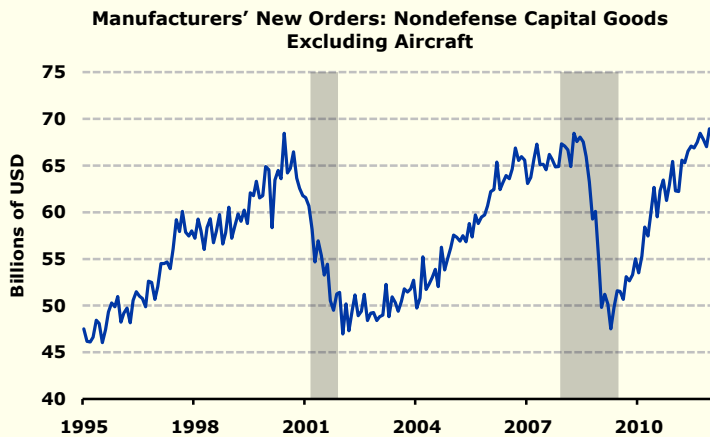
Source: BLS; data through 2011 Q4

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Spending on equipment has returned to pre-recession peak

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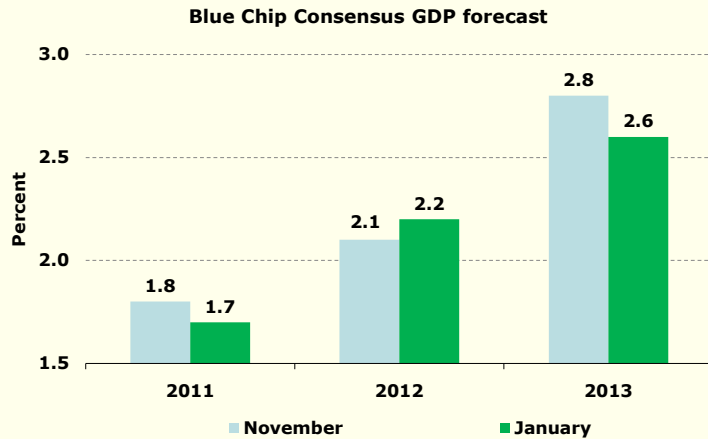


Source: U.S. Census Bureau; data through December 2011

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The consensus economic outlook has been fairly steady recently



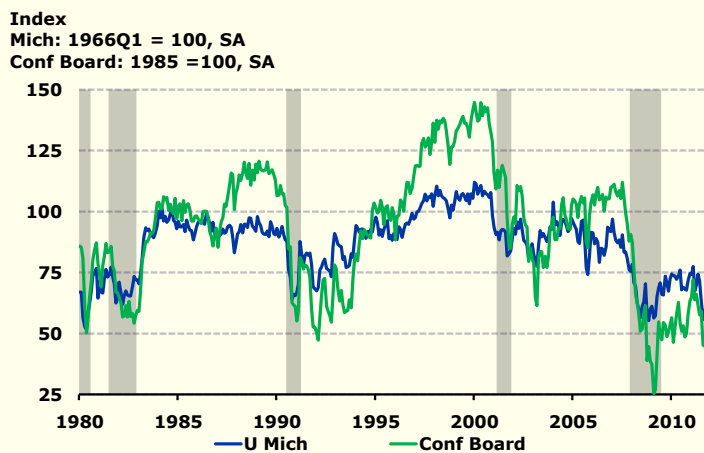
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Source: Blue Chip Economic Indicators, data through January 2012

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Consumer confidence is showing some signs of firming, but still weak



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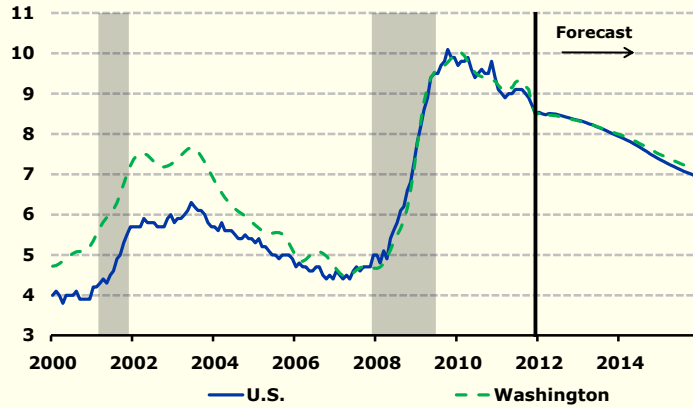
Source: University of Michigan; Conference Board, data through January 2012

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Unemployment will remain high

Unemployment Rate, SA



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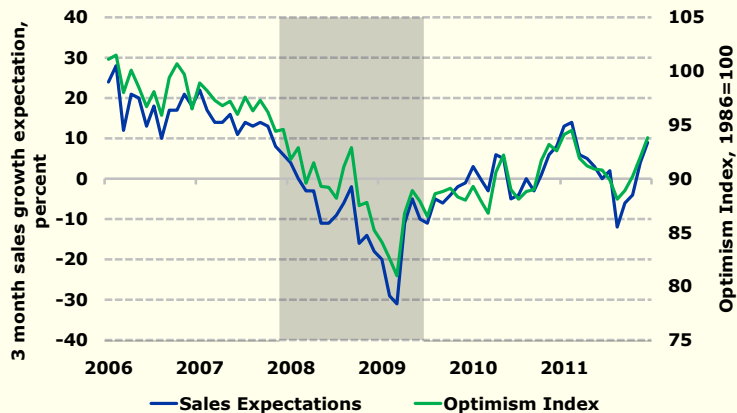
Source: ERFC February 2012 forecast; actual through December 2011

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Small business optimism and sales expectations are weak but improving

National Federation of Independent Business



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Source: National Federation of Independent Business; data through December 2011

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Stock market volatility down but EU slow burn continues



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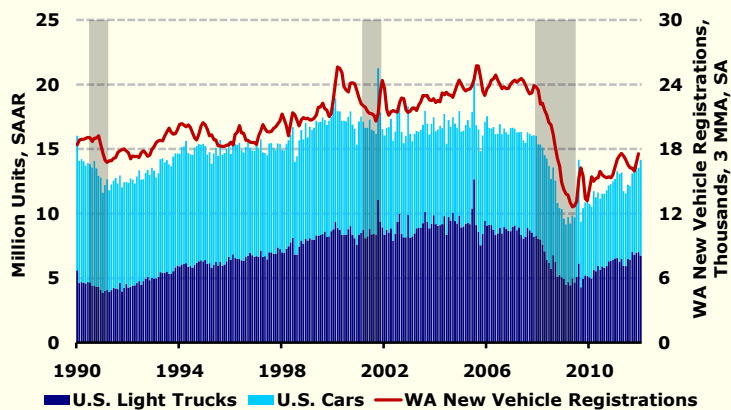
Source: Yahoo! Finance; data through January 31, 2012

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U.S. LMV sales have recovered from recent supply chain disruptions

U.S. LMV sales in January were up 11.2% Y/Y.



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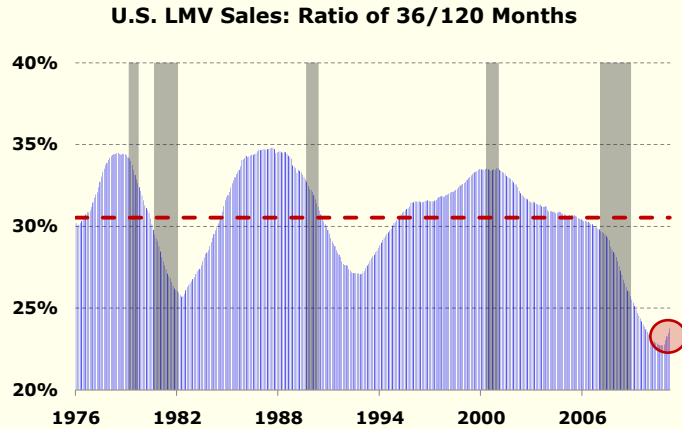
Source: Autodata Corporation, WA DOL; data through January 2012

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Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road was at a historic high in June and has now been falling over the last 7 months.



Source: Autodata Corporation, ERFC; data through January 2012

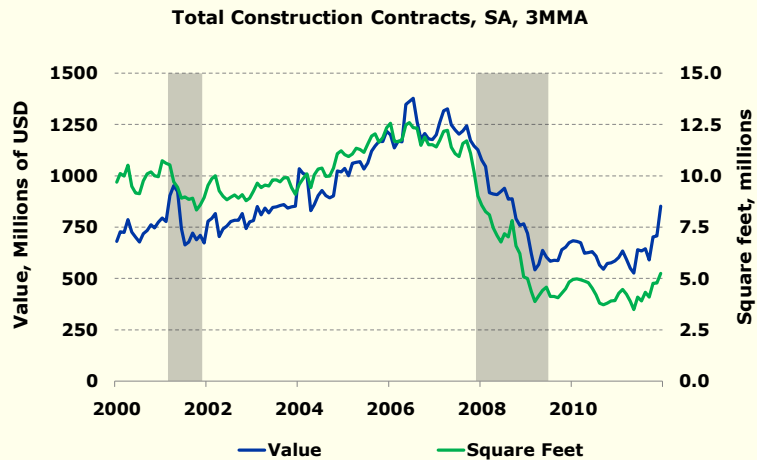
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Contract data signals a turning point in construction

Total square footage is down 58% and value down 37% since the peak in 2006.



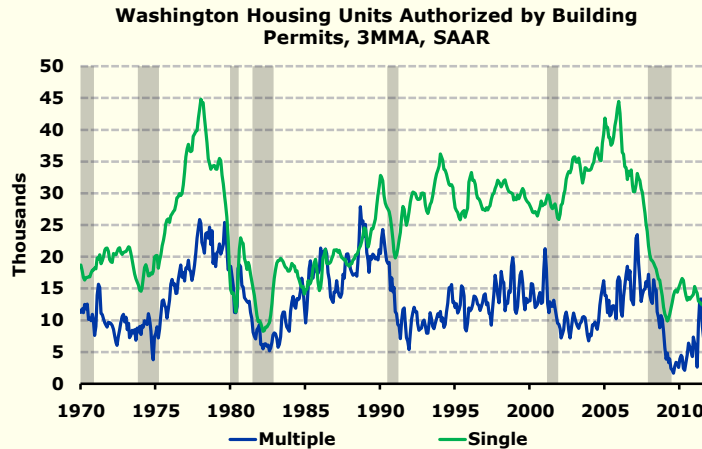
Source: Dodge, ERFC; data through December 2011

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WA multi-family building permits are improving



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Source: U.S. Census Bureau; data through December 2011

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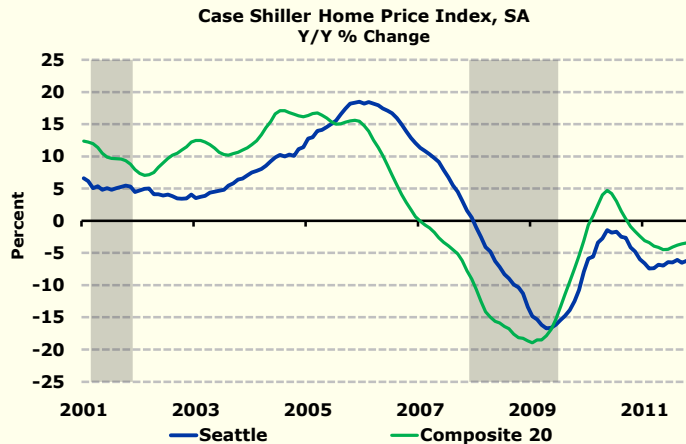


Single-family home prices continue to decline

Nov 2011

U.S. is
down
3.7%

SEA is
down
6.3%



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Source: S&P/Case-Shiller; data through November 2011

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More foreclosures can be expected...

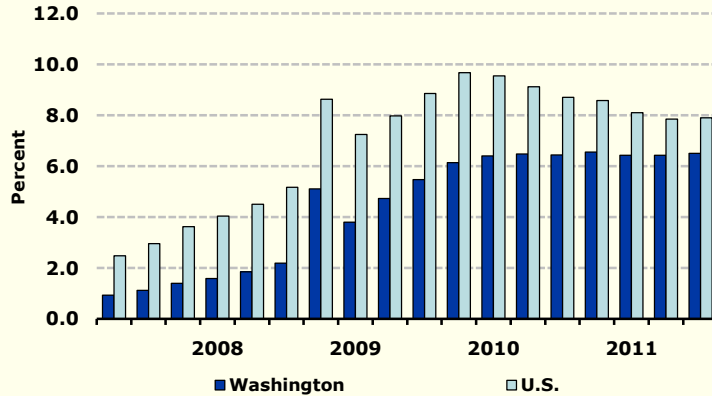
WA Rank:

2011Q2 : 23
2011Q3 : 23

Seriously Delinquent = 90+ Days Past Due or in foreclosure

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Seriously Delinquent



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q3

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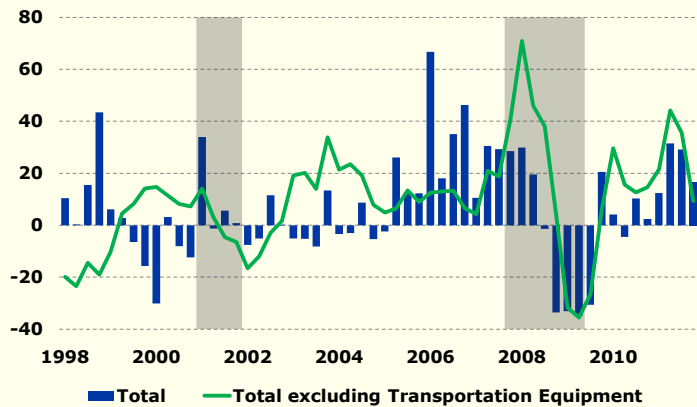
WA export growth has slowed, but remains strong

Total exports were up 17% Y/Y in Q4 YTD.

Trans Equip exports were up 27% Y/Y in Q4 YTD.

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Exports Percent Change, year ago



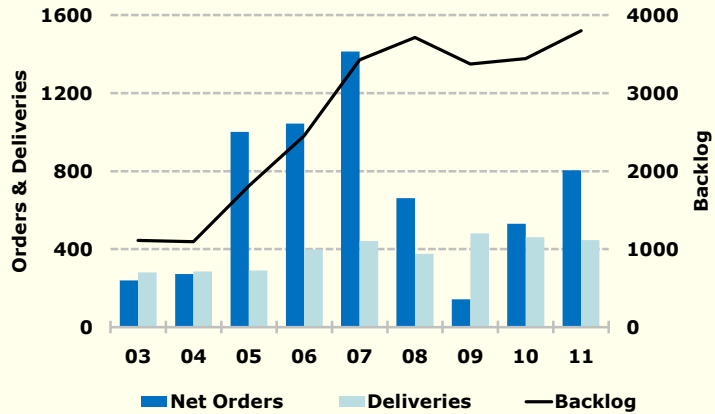
Source: Wisner Trade Data; through November 2011

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Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



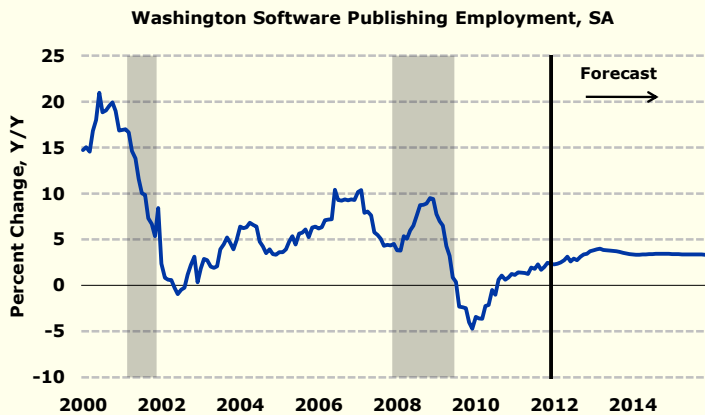
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Source: Boeing, data through December 2011

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Software publishing employment is growing



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Source: ERFC February 2012 forecast; actual through December 2011

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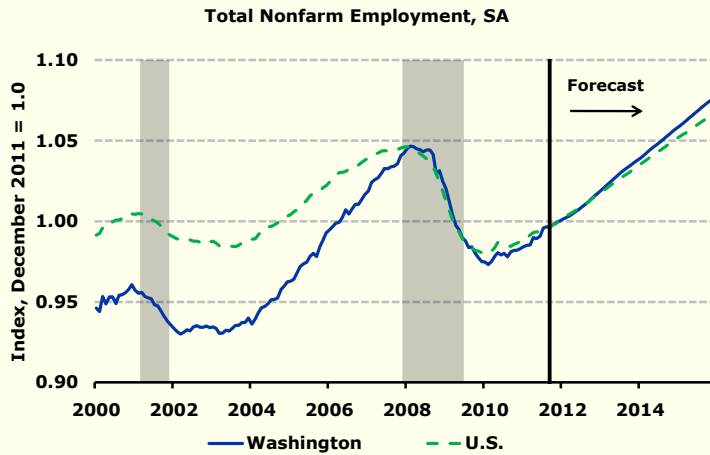
WA employment will recover slightly faster than the U.S.

WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

Both WA and the U.S. reached a trough in Feb. 2010

Date of regaining peak:
WA – Jun 2014
U.S. – Sep 2014

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Source: ERFC February 2012 forecast; actual through December 2011

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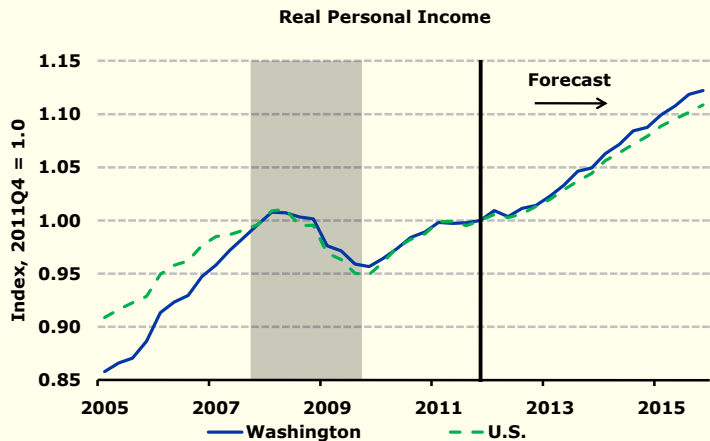
WA personal income will recover faster than that of the U.S.

Date of regaining peak:

WA:
 2012Q1

U.S.:
 2012Q4

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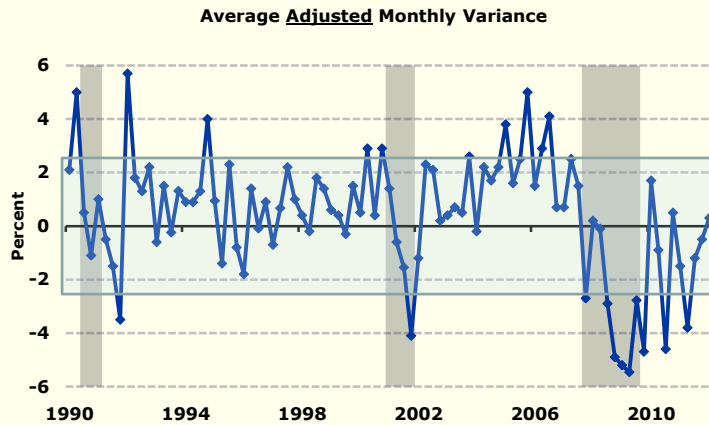
Source: ERFC February 2012 forecast; actual data through 2011Q4

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Revenue is coming in close to the November forecast

The variances reported here are net of unexpected one-time payments.



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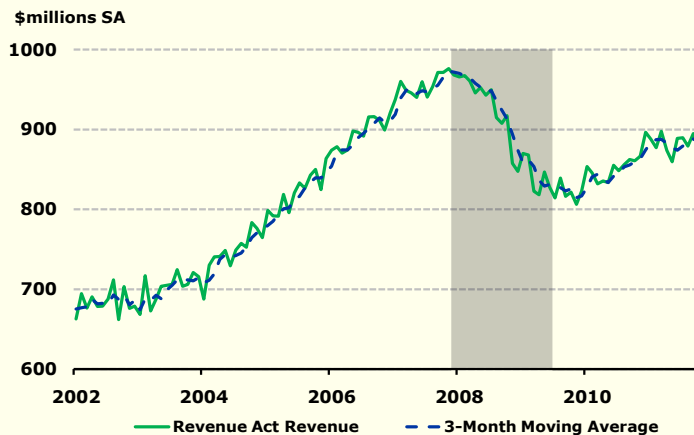
Source: ERFC; collections through January 10, 2012

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Revenue Act collections are growing slowly

Adjusted collections were up 4.0% Y/Y in the December 11, 2011-January 10, 2012 collection period.



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* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

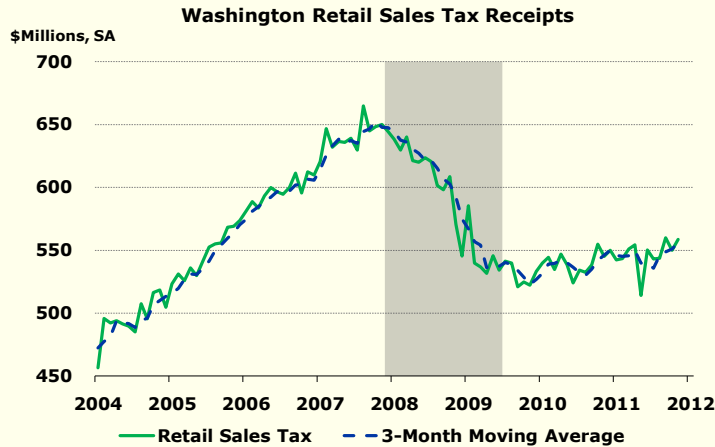
Source: DOR and ERFC; monthly data through estimated November 2011 activity

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WA sales tax receipts show signs of picking up

Preliminary seasonally adjusted sales tax receipts were up 3% Y/Y for November activity.



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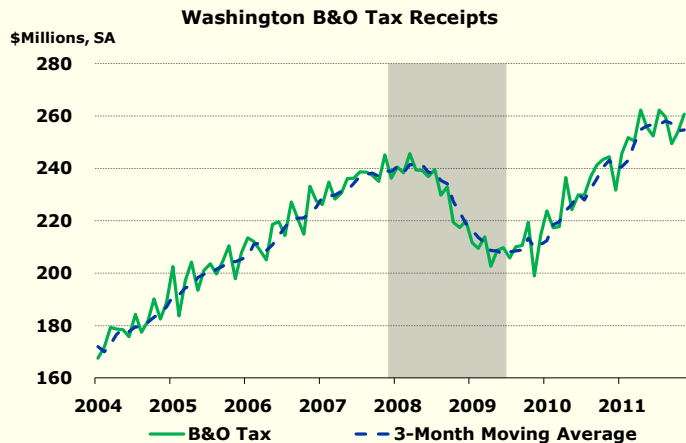
Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through November 2011 preliminary activity

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Trend B&O tax growth still positive despite recent slowdown

Much of the spring boost and late fall slowdown in B&O taxes was due to the effects of oil and gas prices on gross receipts of oil refineries and gas stations. Oil and gas prices are once again on the rise.



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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through November 2011 preliminary activity

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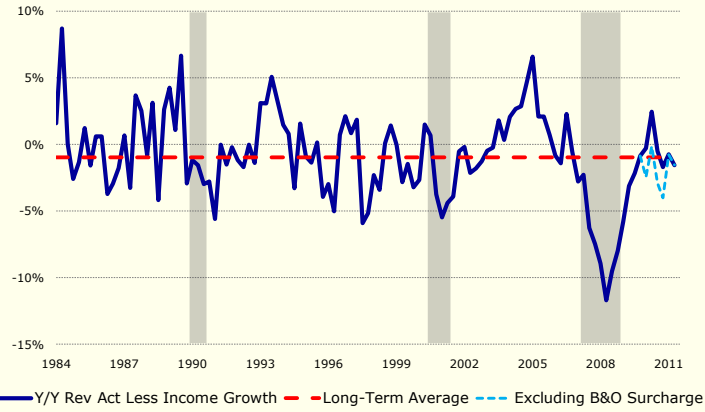


After growth spurt from B&O surcharge, Rev Act growth relative to income close to long-term average

Revenue act receipts (adjusted for large payments and amnesty payments) grew at 3.9% Y/Y in the third quarter and will grow at 2.5% in the fourth quarter if February 10th collections are close to the forecast.

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Year-Over Year Rev Act* Growth Less State Personal Income Growth



*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q4 2011 estimated, November income estimates

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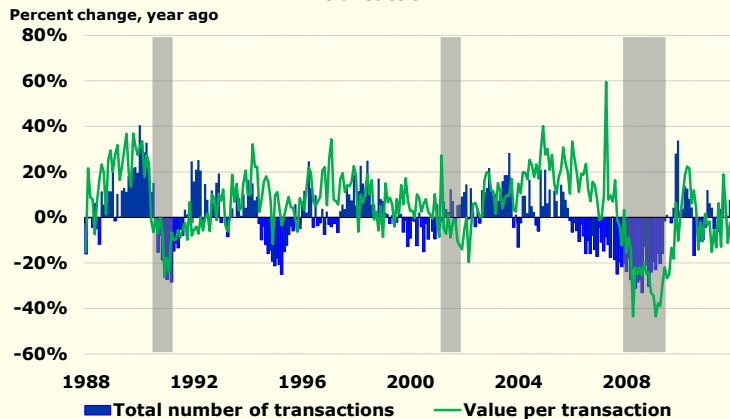


REET transactions growing year over year but values still trending down

The number of transactions for November collections (Oct. and Nov. activity) was up 7.7% Y/Y but the average value per transaction was down 2.2%.

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Real estate activity - number of transactions and value per transaction*



*Taxable activity divided by the total number of transactions.
Source: DOR and ERFC; data through November 2011

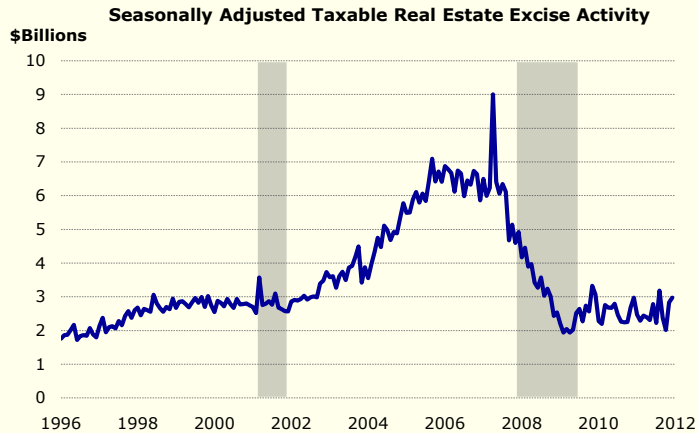
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



REET activity is very erratic

Taxable activity reported in November and December was much higher than anticipated. December activity was up 0.1% Y/Y, but last December was strong too. November activity was up 5.3% Y/Y.

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Source: ERFC; Monthly data through December 2011 preliminary

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- We continue to expect the U.S. and WA economies will experience slow growth and muddle through conditions through the biennium
- WA is still likely to outperform the nation
- Uncertainty remains high
- Europe appears headed for a recession along with a slowdown in Asia
- The next revenue collection update will be published on the 13th of February, and our new revenue forecast will be presented on the 16th

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

U.S. Forecast Comparison**Fiscal Years**

	2012	2013	2014	2015
Real GDP				
2005 USD billions				
February Preliminary Forecast	13,459	13,784	14,167	14,590
<i>Growth</i>	1.9%	2.4%	2.8%	3.0%
November Forecast	13,459	13,784	#N/A	#N/A
<i>Growth</i>	1.9%	2.4%	#N/A	#N/A
Difference in level	0	-1	#N/A	#N/A
<i>Difference in growth forecast</i>	0.0%	0.0%	#N/A	#N/A

Real Consumption

2005 USD billions

February Preliminary Forecast	9,518	9,720	9,957	10,266
<i>Growth</i>	1.9%	2.1%	2.4%	3.1%
November Forecast	9,532	9,753	#N/A	#N/A
<i>Growth</i>	2.1%	2.3%	#N/A	#N/A
Difference in level	-14	-33	#N/A	#N/A
<i>Difference in growth forecast</i>	-0.1%	-0.2%	#N/A	#N/A

Implicit Price Deflator

Index 2005 = 100

February Preliminary Forecast	114.9	117.0	119.4	122.2
<i>Growth</i>	2.3%	1.9%	2.0%	2.4%
November Forecast	114.9	116.4	#N/A	#N/A
<i>Growth</i>	2.3%	1.3%	#N/A	#N/A
Difference in level	0.0	0.6	#N/A	#N/A
<i>Difference in growth forecast</i>	0.0%	0.6%	#N/A	#N/A

Unemployment Rate

Percent of Labor Force

February Preliminary Forecast	8.7%	8.3%	7.9%	7.4%
November Forecast	9.0%	8.8%	#N/A	#N/A
<i>Difference in forecast</i>	-0.3%	-0.4%	#N/A	#N/A

30 Year Fixed Mortgage Rate

Annual Average

February Preliminary Forecast	4.2%	4.9%	5.3%	5.8%
November Forecast	4.2%	4.9%	#N/A	#N/A
<i>Difference in forecast</i>	-0.1%	0.0%	#N/A	#N/A

3 Month T-Bill Rate

Annual Average

February Preliminary Forecast	0.0%	0.1%	0.2%	1.0%
November Forecast	0.1%	0.1%	#N/A	#N/A
<i>Difference in forecast</i>	0.0%	0.0%	#N/A	#N/A

Year-Over-Year Employment Growth by Industry (December 2010 to December 2011)

Washington vs. U.S.

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	48.1	1.7%	1.3%
Aerospace Product and Parts Manufacturing	9.8	11.9%	NA
Transportation, Warehousing and Utilities	5.1	5.8%	1.7%
Manufacturing Excluding Aerospace	6.8	3.8%	NA
Wholesale Trade	4.6	3.8%	1.5%
Professional and Business Services	8.7	2.6%	2.6%
Leisure and Hospitality	6.7	2.5%	2.0%
Software Publishers	1.2	2.3%	NA
Education and Health Services	7.6	2.0%	2.1%
Retail Trade	5.6	1.8%	1.7%
Mining and Logging	0.1	1.7%	12.4%
Other Services	1.4	1.3%	0.9%
Construction	-0.3	-0.2%	0.9%
Financial Activities	-0.5	-0.4%	0.1%
Information Excluding Software	-0.5	-1.0%	NA
State and Local Gov Education	-3.6	-1.5%	-0.8%
State and Local Gov Non-Education	-4.8	-2.3%	-1.5%
Information	0.7	0.7%	-1.3%
Manufacturing	16.6	6.4%	1.9%

Source: WA State ERFC Kalman filtered data, U.S. Bureau of Labor Statistics

**County Taxable Retail Sales
Quarter 3, 2010 to Quarter 3, 2011
(Dollars in Thousands)**

Rank	County	3rd Quarter, 2010	3rd Quarter, 2011	Percent Change	Taxbase Distribution
1	Garfield	7,484	38,464	414.0%	0.1%
2	Wahkiakum	5,608	9,030	61.0%	0.0%
3	Columbia	10,801	14,926	38.2%	0.1%
4	Skamania	24,162	33,352	38.0%	0.1%
5	Lincoln	26,213	33,986	29.7%	0.1%
6	Grant	319,423	408,114	27.8%	1.5%
7	Adams	53,994	66,649	23.4%	0.2%
8	Pend Oreille	30,650	36,616	19.5%	0.1%
9	Douglas	122,105	143,489	17.5%	0.5%
10	Grays Harbor	227,141	261,069	14.9%	1.0%
11	Whitman	126,853	145,456	14.7%	0.5%
12	Lewis	252,581	276,352	9.4%	1.0%
13	Ferry	15,307	16,555	8.2%	0.1%
14	Skagit	526,328	569,222	8.2%	2.1%
15	Franklin	244,746	264,289	8.0%	1.0%
16	Walla Walla	169,433	182,320	7.6%	0.7%
17	Benton	704,687	754,695	7.1%	2.8%
18	Jefferson	91,089	96,185	5.6%	0.4%
19	King	10,057,336	10,535,483	4.8%	38.6%
20	Okanogan	136,460	142,768	4.6%	0.5%
21	Clark	1,054,784	1,103,430	4.6%	4.0%
22	Whatcom	766,414	797,712	4.1%	2.9%
23	Kittitas	172,754	179,128	3.7%	0.7%
	Statewide	26,469,373	27,312,138	3.2%	100.0%
24	Yakima	714,192	736,746	3.2%	2.7%
25	Spokane	1,784,270	1,823,420	2.2%	6.7%
26	Island	187,142	189,166	1.1%	0.7%
27	Stevens	96,875	97,650	0.8%	0.4%
28	Pacific	59,265	59,584	0.5%	0.2%
29	Chelan	368,764	369,803	0.3%	1.4%
30	Snohomish	2,525,716	2,532,504	0.3%	9.3%
31	Mason	134,958	135,200	0.2%	0.5%
32	Kitsap	787,242	784,534	-0.3%	2.9%
33	Clallam	258,022	256,720	-0.5%	0.9%
34	Asotin	66,417	65,587	-1.2%	0.2%
35	San Juan	115,747	113,902	-1.6%	0.4%
36	Pierce	2,800,847	2,709,527	-3.3%	9.9%
37	Thurston	1,003,593	952,237	-5.1%	3.5%
38	Cowlitz	351,927	316,059	-10.2%	1.2%
39	Klickitat	68,043	60,211	-11.5%	0.2%

King/Snohomish/Pierce	15,383,899	15,777,514	2.6%	57.8%
Remainder of State	11,085,474	11,534,624	4.1%	42.2%

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Governor's Council of Economic Advisor's Forecast

Calendar Years

February 2, 2012

	2012	2013	2014	2015
U.S.				
Real GDP				
<i>Growth</i>				
ERFC	2.2	2.6	2.9	2.9
GCEA Average	2.0	2.4	2.6	2.7
Real Consumption				
<i>Growth</i>				
ERFC	2.1	2.1	3.0	2.7
GCEA Average	2.0	2.1	2.3	2.4
Implicit Price Deflator, PCE				
<i>Growth</i>				
ERFC	1.8	1.9	2.2	2.5
GCEA Average	2.0	2.0	2.1	2.2
Mortgage Rate				
<i>Percent</i>				
ERFC	4.5	5.1	5.5	6.1
GCEA Average	4.3	4.7	5.2	5.4
Oil Price (WTI)				
<i>USD per barrel</i>				
ERFC	99.5	97.7	94.3	91.7
GCEA Average	94.0	96.2	97.7	96.7

What is the probability that Europe is already in recession?

74%

How many percentage points would a European recession take off U.S. GDP growth this year?

0.5%

Washington State

Real Personal Income

<i>Growth</i>				
ERFC	1.1	2.8	3.7	3.3
GCEA Average	1.3	2.0	2.6	2.7

Wage and Salary Employment

<i>Growth</i>				
ERFC	1.6	2.0	1.9	1.9
GCEA Average	1.3	1.7	1.8	1.8

Manufacturing Employment

<i>Growth</i>				
ERFC	4.1	2.2	0.9	1.4
GCEA Average	3.4	2.4	1.5	1.8

Construction Employment

<i>Growth</i>				
ERFC	0.8	3.8	7.0	8.4
GCEA Average	0.7	2.4	4.5	5.5

Housing Permits

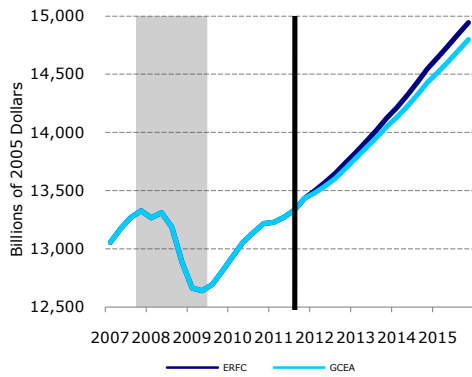
<i>Thousands of authorized units</i>				
ERFC	20.2	25.8	32.7	36.8
GCEA Average	20.8	25.2	29.0	31.9

Washington Average Annual Wage

<i>Growth</i>				
ERFC	2.2	3.0	3.5	3.6
GCEA Average	2.3	2.5	2.8	2.9

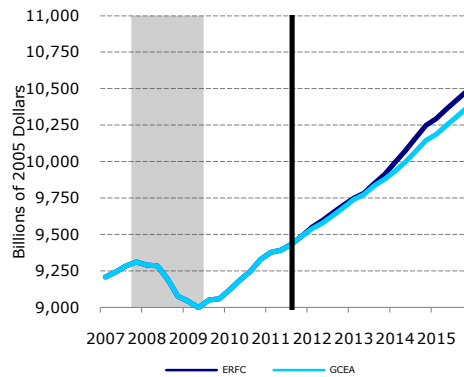
U.S. Forecast Comparison

Real GDP



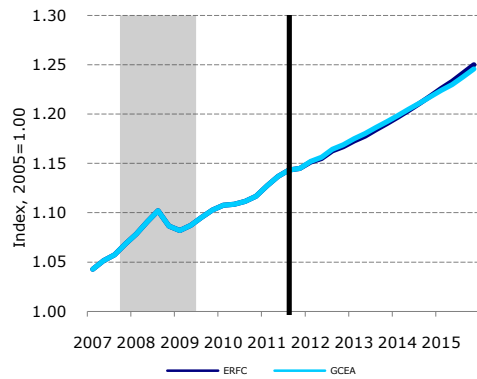
Source: BEA, ERFC, GCEA; Actual data through 2011 Q3

Real Consumption



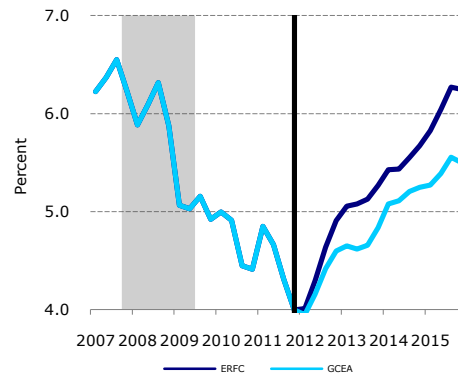
Source: BEA, ERFC, GCEA; Actual data through 2011 Q3

Implicit Price Deflator, PCE



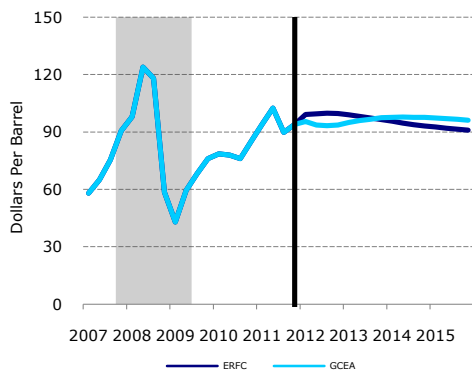
Source: BEA, ERFC, GCEA; Actual data through 2011 Q3

Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; Actual data through 2011 Q3

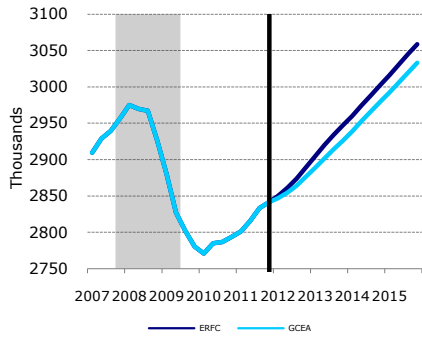
WTI Oil Price



Source: EIA, ERFC, GCEA; Actual data through 2011 Q4

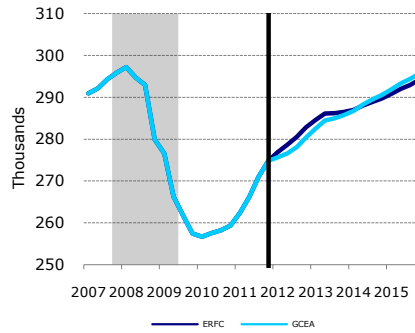
Washington Forecast Comparison

Nonfarm Payroll Employment



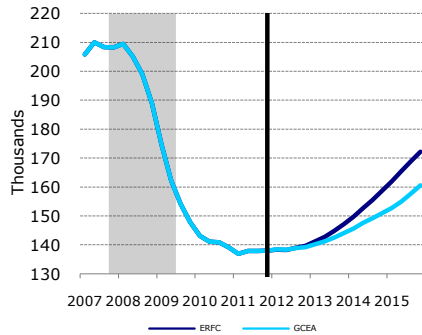
Source: ESD, ERFC, GCEA; Actual data through 2011 Q4

Manufacturing Employment



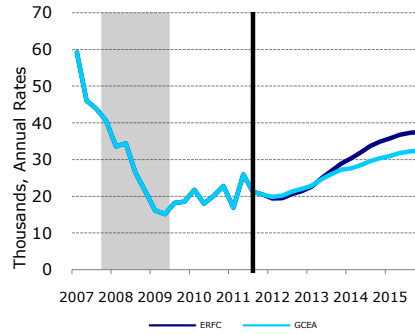
Source: ESD, ERFC, GCEA; Actual data through 2011 Q4

Construction Employment



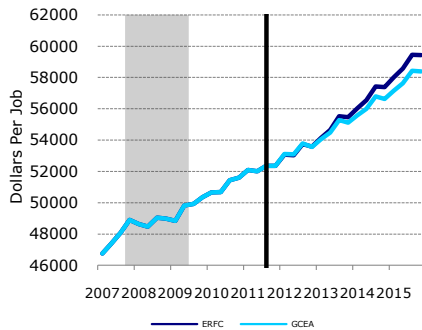
Source: ESD, ERFC, GCEA; Actual data through 2011 Q4

Housing Units Authorized



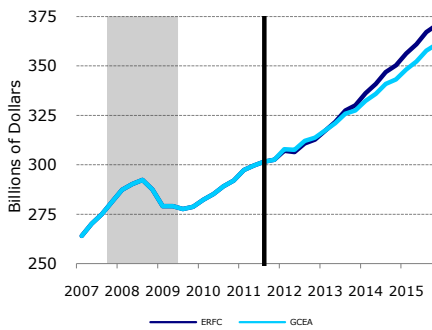
Source: Census, ERFC, GCEA; Actual data through 2011 Q3

Average Annual Wage



Source: BEA, ESD, ERFC, GCEA; Actual data through 2011 Q3

Personal Income



Source: BEA, ERFC, GCEA; Actual data through 2011 Q3