

Economic Review Meeting

November 6, 2014



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

November 6, 2014
2:30 p.m.

- Approval of meeting minutes: September 18, 2014
- 2015 Proposed Meeting Schedule
- Budget Outlook criteria for assuming transfers or revenue redirections in the ensuing biennium
- 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**

September 18, 2014

John L. O'Brien, Hearing Room A

Economic and Revenue Forecast Council

Members Present

Andy Hill, Senate (via phone)
Terry Nealey, House of Representatives (via phone)
James McIntire, State Treasurer (via phone)
Carol Nelson, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Steve Lerch, ERFC

Call to Order

The meeting was called to order by Director Schumacher at 1:35 p.m.

Presentation on Revenue Forecast

Dr. Lerch presented information on the final economic and revenue forecast. Dr. Lerch summarized the forecast changes. Discussion ensued regarding the Washington jobs outlook and cannabis tax estimates.

Motion

Treasurer McIntire made a motion to approve the meeting minutes from the September 4, 2014, seconded by Director Nelson. Council approved the motion at 1:58 p.m.

Motion

Treasurer McIntire moved, seconded by Representative Nealey, that the baseline revenue forecast be adopted. Council unanimously approved the motion at 1:58 p.m.

Adjournment

Meeting adjourned at 1:58 p.m.

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

**2015 PROPOSED ERFC PUBLIC MEETING
SCHEDULE**

January Budget Outlook

10 a.m., Wednesday, January 14, 2015	Methodology Review
10 a.m., Wednesday, January 21 28 , 2015	Outlook Adoption

March Quarterly Forecast

2:30 p.m., Wednesday, March 4, 2015	Economic Review
10 a.m., Wednesday, March 18, 2015	Revenue Review

May Budget Outlook

TBA dependent on budget adoption and within 30 days of enactment	Outlook Adoption
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June Quarterly Forecast

2:30 p.m., Wednesday, June 3, 2015	Economic Review
10 a.m., Wednesday, June 17, 2015	Revenue Review

September Quarterly Forecast

2:30 p.m., Wednesday, September 2, 2015	Economic Review
10 a.m., Wednesday, September 16, 2015	Revenue Review; Executive Director contract review

November Quarterly Forecast

2:30 p.m., Wednesday, November 4, 2015	Economic Review
10 a.m., Wednesday, November 18, 2015	Revenue Review

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November 4, 2014

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Criteria for use of resources and preparation of the November 2014 Outlook

The State Budget Outlook Work Group poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the November 2014 Outlook.

Criteria for Resources Assumed in the Outlook

At the 1 May 2014 Outlook meeting, the ERFC directed the workgroup to develop options regarding criteria for when resources may be reflected in the outlook and present these to the ERFC at the June 17th meeting. Representative Hunter makes the following proposal for considering when resources may be assumed in the Outlook.

The Outlook may assume a resource related to a revenue redirection or transfer in the ensuing biennium, provided:

- A. Enactment of separate legislation requiring the revenue redirection or transfer in the ensuing biennium, or
- B. Absent separate legislation, the current biennium's budget provides legislative intent language to continue the current budget's revenue redirection or transfer in the ensuing biennium's budget. The revenue redirection or transfer in the ensuing biennium (1) may be assumed only to the extent there is a projected balance in the fund in the ensuing biennium; and (2) must be consistent with and not exceed the policy in the current budget. Fund balance determination in the ensuing biennium must reflect the continuation of the current budget's policy and the official revenue forecast as adjusted to reflect the current budget's policy.

The Outlook adopted on May 1, 2014 reflects \$52.7 million in resources in the 2015-17 biennium related to the Life Sciences Discovery Fund (LSDF). The 2014 Supplemental budget includes language expressing the Legislature's intent to direct all the resources from the strategic contributions to the Education Legacy Trust Account (ELTA) rather than to the LSDF in the 2015-17 biennium. The Governor vetoed the transfer of LSDF in the 2013-15 budget. With the above criteria, a November outlook would not include LSDF resources in the ensuing biennium because the Governor's veto severed the continuation of the current budget's policy.

Outlook Growth Factors

At its September 4, 2014 meeting the ERFC adopted updated growth factors for the Outlook. The K-12 growth factor has two components: K-12 enrollment growth is 0.66% and K-12 Materials, Supplies and Operating Costs (MSOC) is 2.01%. The K-12 MSOC factor is increased by enrollment growth and the Implicit Price Deflator (IPD) for the biennium.

The Budget Outlook Work Group seeks clarity regarding whether the ERFC would like MSOC growth factor updated with each ERFC Forecast to reflect the revised IPD. All other growth factors will remain constant for Outlooks prepared during the 2015-17 biennium, from November 2014 through the Outlook on the enacted 2016 supplemental budget.

Initiative 1351

Initiative 1351, concerning K-12 Education, is on the November 4th General Election ballot. The Outlook Work Group needs guidance from the ERFC on whether the November Outlook should reflect the initiative costs based on initial election results. The election results will not be officially certified until November 28th, after the November Outlook is prepared.

If the ERFC would like to include I-1351, the Work Group proposes the November Outlook would reflect the fiscal impact statement for the Initiative prepared by the Office of Financial Management. It should be noted that there is discretion regarding the phase in of costs and other funding levels; actual funding levels would be determined through the Legislative process.

2015 Supplemental Budget

While no Outlook is prepared for the 2015 supplemental budget, the revenues and appropriations in FY 2015 affect the beginning balance in FY 2016 for the 2015-17 Outlook. For the November 2014 Outlook the Work Group proposes including items that appear at both policy and maintenance level and include, but are not limited to Fire Suppression & Emergency Response for approximately \$100 million

The November 2014 Outlook will also reflect actual reversions in FY 2014.

Other Issues

The Outlook on the Enacted 2014 Supplemental budget included items affecting the ensuing biennia, both 2015-17 and 2017-19, that are not included in either Carry-forward or Maintenance Level for 2015-17. The work group proposes displaying these under a category titled “Other Outlook Items” for the November Outlook.

Should the November 2014 Outlook separately reflect these items:

1. Low Income Health Care (Basic Health Plan Account): Savings in FY 16 and FY 17 of \$15 million and \$46 million, respectively. Would the ERFC propose to continue the \$46 million in the 2017-19 biennium?
2. DEL Electronic Child Care System: Savings of \$12.5 million per year were assumed in the 2015-17 biennium however the IT system will no longer be implemented on July 2015 therefore savings in the first year would not be achieved. Should the amounts reflected in 2015-17 be adjusted and what amounts, if any should be included in the 2017-19 biennium?
3. ECEAP phase-in: ECEAP becomes an entitlement in 2019. ECEAP costs are part of the November Outlook because it includes costs through FY 2019. A linear phase-in has costs in fiscal years 2016-2018. Should the November outlook reflect the entitlement only in FY 2019 or the linear phase-in?

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



Economic Review: November 6, 2014

Executive Summary

- This preliminary forecast was based on a modified version of Global Insight's October 2014 Control forecast for the U.S. economy. As usual, we have adjusted real gross domestic product (GDP) to match the Blue Chip "Consensus" GDP forecast. In the October Blue Chip release, the average forecast for real GDP growth in 2014 and 2015 is 2.2% and 3.1% compared to 2.1% and 3.0% in September. The slightly higher near term growth is due mainly to stronger growth in the second quarter of 2014. The October Blue Chip release also updated the long term forecast for the first time since March. The new forecast for growth in 2016, 2017, 2018, and 2019 is 2.9%, 2.7%, 2.5%, and 2.4% which is slightly weaker than the previous forecast.
- The Blue Chip forecast was released prior to the October 30th release of the advance estimate for third quarter GDP growth of 3.5% (SAAR). The third quarter GDP estimate will be incorporated in the final November forecast.
- Our oil price forecast continues to rely on the futures markets, primarily the Brent (North Sea) oil price but also the West Texas Intermediate (WTI) benchmark. This forecast was based on the closing prices for Brent and WTI futures on Tuesday, October 28, 2014. Prices for both have plummeted since the September forecast. The refiner's acquisition price of crude oil in the fourth quarter of 2014 is now expected to be \$81 per barrel which is \$12 less than the \$93 in the September forecast. However, prices are expected to gradually rise during the remainder of the forecast rather than fall as in the September forecast. By the end of 2019 the refiner's acquisition price is expected to increase to \$84 compared to \$89 in the September forecast.
- After a weak employment report in August, nonfarm employment increased by 248,000 jobs in September. July and August employment data were also revised up by a total of 69,000 jobs. With the updates to July and August data, average monthly employment has increased by 227,000 jobs so far this year. The unemployment rate decreased by 0.2 percentage points to 5.9%. October employment data will be available on November 7th and will be incorporated into the final November forecast.
- The two major consumer confidence measures both indicated improved expectations regarding the economy in October. The Conference Board index of consumer confidence, which had declined in September, increased 5.5 points to 94.5 in October. The Conference Board found consumers more positive about both the current job market and the outlook for the economy over the next six months. The University of Michigan consumer sentiment survey for October also increased, rising to 86.9 from September's reading of 84.6. The gains in the University of Michigan index were due to an improved outlook for the economy over the next 12 months.
- Initial claims for unemployment insurance increased by 3,000 to 287,000 (SA) in the week ending October 25th. Initial claims have remained under

300,000 since mid-September. The four-week moving average for initial claims declined by 250 to 281,000.

- October light motor vehicle sales remained strong at 16.5 million units (SAAR). Vehicle sales have remained above 16 million units for eight consecutive months.
- Industrial production increased by 1.0% (SA) in September compared to August and is 4.3% above its year-ago level. Sectors with particularly strong monthly growth included utilities (+3.9%), furniture (+2.4%), aerospace (+1.7%), and apparel (+1.5%), while production decreases occurred in motor vehicles (-1.4%) and wood products (-0.8%). New orders for core capital goods (i.e., durables excluding aircraft and military), which are a proxy for business investment, decreased by 1.6% (SA) in September after a revised increase of 0.4% in August. Manufacturing activity, as measured by the Institute for Supply Management's Purchasing Managers Index (PMI), increased to 59.0 in October (50 or higher indicates growth) from 56.6 in September. The new orders and backlog of orders components of the index showed particularly strong growth. The index has remained above 50 for 17 consecutive months. The non-manufacturing PMI for October decreased by 1.5 points to 57.1. However, non-manufacturing activity has now increased for 57 consecutive months.
- Home sales and construction activity strengthened slightly in September. Housing units authorized by building permits in September increased by 1.5% (SAAR) compared to their August level and by 3.8% compared to September 2013. September housing starts increased by 6.3% compared to August and were 17.8% above their year-ago level. Existing home sales in September increased by 2.4% (SAAR) compared to August. While this is the strongest pace for existing home sales so far this year, it is still 1.7% below September 2013 sales. New single family home sales in September were 0.2% (SAAR) above the August level and 17.0% above September 2013 sales. Home prices increased modestly in August. The seasonally-adjusted Case-Shiller national home price index for August was 0.4% above its July level and 5.1% above its year-ago level.
- Major threats to the U.S. and Washington economies remain, including slowing Asian economies (especially China), the possibility of a slowdown in the housing recovery, the ongoing concern about slow growth and debt issues in Europe, and instability in the Middle East and the Ukraine.

Washington

- We have only one more month of Washington employment data since the September forecast was released. Total nonfarm payroll employment rose 1,500 in September, 3,000 less than the 4,500 expected in the September forecast. The shortfall in growth was more than accounted for by private services-providing industries whose employment fell 1,000. The forecast had expected an increase of 4,700. Construction employment grew 1,500 in September which was better than the 500 increase expected in the forecast and manufacturing employment rose 200 which was also better than the 1,300 decline expected in the forecast. Public sector employment growth slightly exceeded the forecast with 700 net new jobs compared to a forecast

of 500 net new jobs. The state's unemployment rate edged up to 5.7% in September from 5.6% in August.

- We have also incorporated another quarter of Quarterly Census of Payrolls and Employment (QCEW) benchmark employment data. The new QCEW data and other revisions raised the estimated level of total employment in August 2014 by 7,800 jobs. As a result of the upward revisions to history combined with weaker than expected growth, the net effect is 4,800 (0.2%) more jobs in September 2014 than expected in the September forecast.
- As in September, we assume a gradual decline in aerospace employment throughout the forecast. We continue to believe that this downturn will be relatively mild due to the large and increasing backlog of orders. The current reductions are due to improvements in productivity rather than reductions in production.
- The forecast incorporates the Microsoft layoffs first announced in July. The company-wide impact is estimated to be 18,000 of which we assume about 2,700 will be in the Puget Sound region. After these layoffs are complete, we expect moderate software employment growth.
- In late September, the Bureau of Economic Analysis released estimates for state personal income through the second quarter of 2014 along with revisions to historical estimates dating back to 2001. We have incorporated the new BEA estimates as well as additional Washington Quarterly Census of Employment and Wages (QCEW) and other wage data through the second quarter of 2014. Our current estimate of Washington personal income in the second quarter of 2014 is \$346.0 billion which is \$5.2 billion (1.5%) higher than assumed in September. The higher estimate for Washington personal income is almost entirely due to a large increase in the historical estimates for property income (dividends, interest, and rent).
- Single-family housing construction was once again weaker than expected in the third quarter of 2014 according to the building permit data. Single-family permits averaged 17,500 units (SAAR) in July, August, and September compared to a forecast of 18,300. Multi-family construction came in right on forecast at 15,600 units. Total housing units authorized by building permits averaged 33,100 (SAAR) in the third quarter. The September forecast had assumed 33,900 units.
- Seattle home prices may be peaking. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices increased 0.2% in August but have fallen in two of the last four months. Previously prices had risen for 29 consecutive months since the trough in November 2011. Seattle home prices are still up 6.5% over the previous August and are 26.4% higher than the November 2011 trough.
- Seattle shelter costs continue to rise much more rapidly than U.S. city average shelter costs but other prices are rising much more slowly, with the result that headline inflation in Seattle is close to the national average. The Seattle CPI rose 1.8% from August 2013 to August 2014 compared to 1.7% for the U.S. city average. Similarly, core prices increased 1.7% in Seattle matching U.S. core inflation over the year. However, shelter costs rose 4.4% over the year in Seattle compared to 2.9% for the U.S. city average. All items excluding shelter rose only 0.6% in Seattle compared to the national average increase of 1.2%.

- The Institute of Supply Management - Western Washington Index (ISM-WW) edged down from 62.9 in August to a still healthy 60.3 in September (index values above 50 indicate positive growth while values below 50 indicate contractions). The production and orders components declined in September while the employment, inventories, and deliveries components increased. The last time the ISM-WW index was below 50 was July 2009.
- Washington car and truck sales declined in September. New vehicle registrations totaled 286,500 (SAAR) in September which was 1.7% less than the post-recession-high 291,400 vehicles registered in August. September registrations were still 7.6% higher than in September 2013.
- Washington exports increased 9.2% in the third quarter of 2014 compared to the third quarter of 2013 on strong growth in transportation equipment and agriculture. Exports of transportation equipment (mostly Boeing planes) increased 15.0% over the year and exports of agricultural products increased 29.8% over the year. Exports of all other Washington commodities fell 5.6% over the year. This was the first year-over-year decline in "other" exports in two years.
- Overall, our preliminary November forecast for Washington State is similar to the forecast adopted in September. Washington employment growth is expected to grow 2.7% this year compared to 2.6% expected in the September forecast. The upward revision to growth in 2014 is due to higher historical employment data through September. The November forecast for average annual employment growth from 2015 through 2019 is now 1.5% per year, down slightly from the 1.6% growth rate forecasted in September. Our November forecast for nominal personal income growth this year of 4.7% is unchanged since the September forecast, however, our new forecast for nominal personal income growth from 2015 through 2019 averages 5.4% per year, down slightly from 5.5% in the September forecast.

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Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

November 6, 2014
Olympia, Washington



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Summary

- Oil prices are lower than in the September forecast
- Washington personal income is higher than expected in September due to historical data revisions
- Risks to the baseline include the potential for slower Chinese and European economic growth, possible disruptions to the housing recovery, and geopolitical unrest
- Adjusted revenue collections since the September forecast are \$14.4 million (1.2%) above expectations
- The Washington economy continues to grow modestly, with employment rising in most sectors

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Economic news continues to suggest risks to forecast

- **Upside:**
 - Declining initial unemployment claims
 - Net monthly employment gains average over 200,000 jobs this year
 - Lower gasoline prices
 - Lower mortgage rates
- **Downside:**
 - Slowing Chinese, European economies
 - Lackluster housing activity
 - Stock market volatility
 - Instability in Middle East, Ukraine/Russia

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Unemployment claims have declined to pre-recession levels



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Source: U.S. Dept. of Labor; data through October 25, 2014

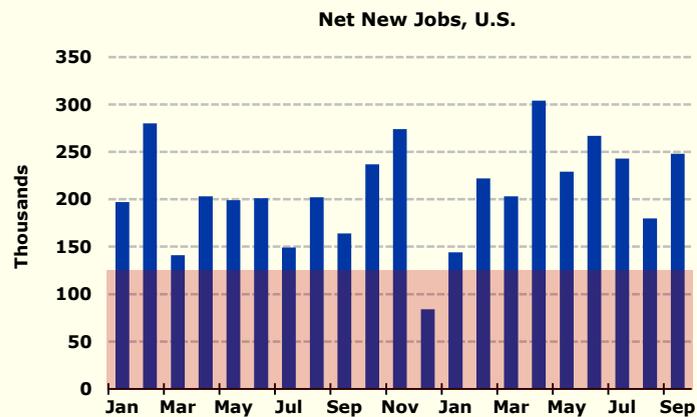
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Job growth slowed in August but bounced back in September

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



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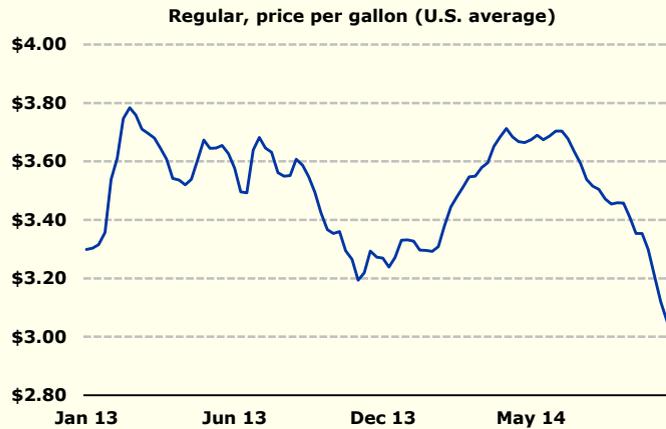
Source: Bureau of Labor Statistics, data through September 2014

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Gasoline prices are falling



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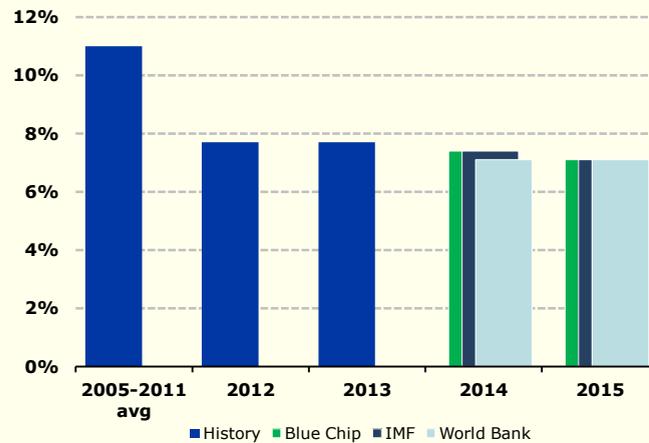
Source: Dept. of Energy, weekly data through November 3, 2014

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China's 2014 & 2015 GDP growth expected to be below 2013 rate



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Source: Blue Chip, IMF; data and forecasts through October 2014; World Bank, June 2014 forecast

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Housing starts are trending up but remain below historic average



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Source: U.S. Census; data through September 2014

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Stock markets declined recently over concerns about global economic growth but are bouncing back

Although only 22% of households own stock or mutual funds outside of retirement accounts, stock prices can have a major impact on purchases



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Sources: Federal Reserve Survey of Consumer Finances 2013; Dow Jones, daily data Jan 3 - Oct 31 2014

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Small business optimism and sales expectations remain below pre-recession levels



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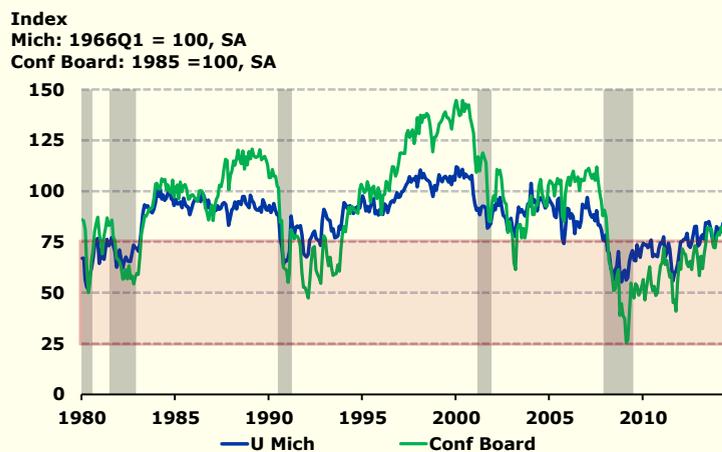
Source: National Federation of Independent Business; data through September 2014

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Consumer confidence improving but also below pre-recession levels



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Source: University of Michigan; Conference Board, data through October 2014

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U.S. retail sales declined slightly in September

Preliminary U.S. retail trade and food services sales were up 4.8% year over year in August and 4.5% in September

Excluding autos and gas, sales were up 4.5% year over year in August and 4.0% in September

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Source: U.S. Department of Commerce, Census Bureau; Data through September 2014 advance

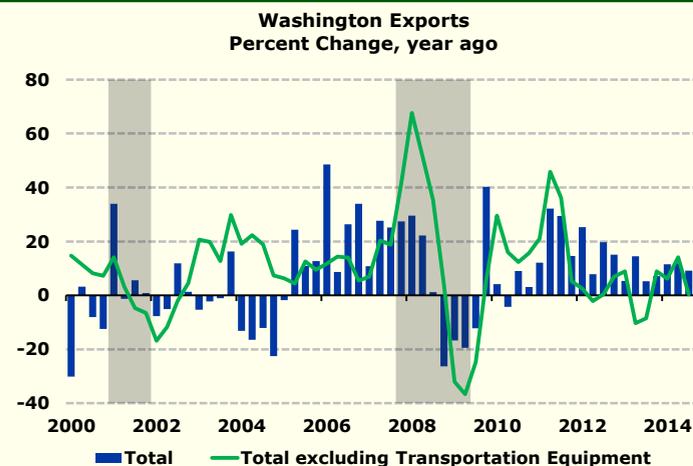
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Non-transportation equipment export growth remains weak

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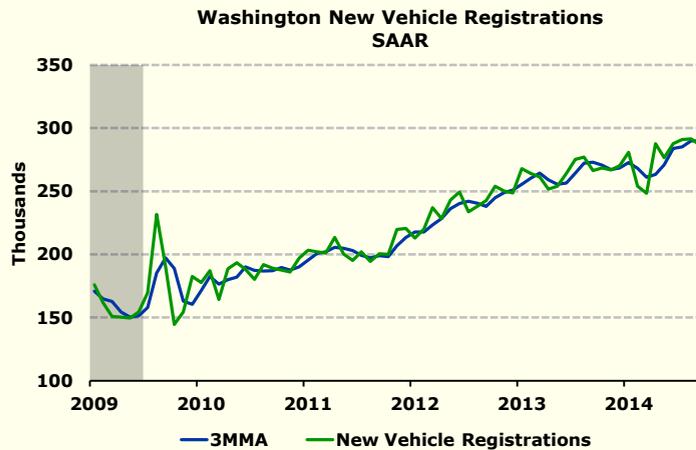


Source: Wisier Trade Data; through 2014Q3

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Washington new vehicle registrations have resumed growth



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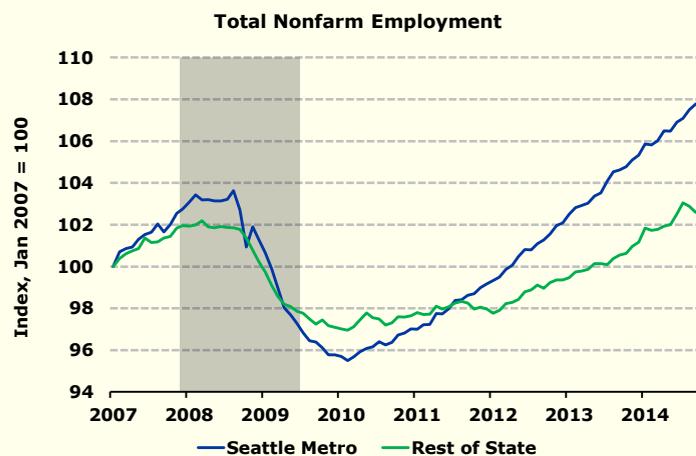
Source: Dept. of Licensing, ERFC; data through September 2014

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Seattle area employment is growing much faster than the rest of the state



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Source: Employment Security Department, ERFC; data through September 2014

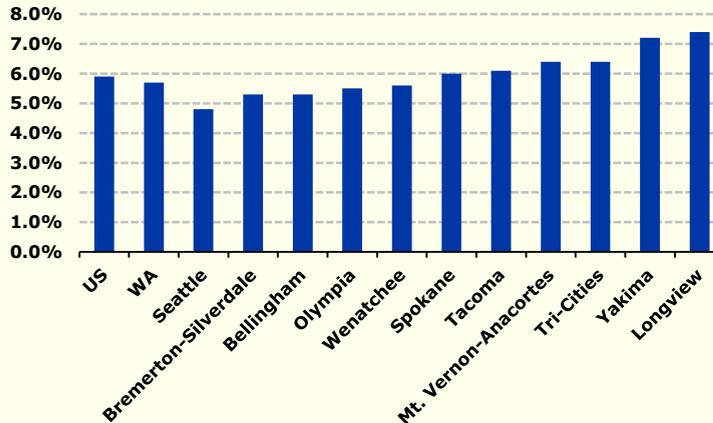
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Seattle continues to have the lowest unemployment rate among state metropolitan areas

September unemployment rate



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Source: Employment Security Dept., September 2014 data

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GDP growth is quite similar to the September forecast

Real GDP



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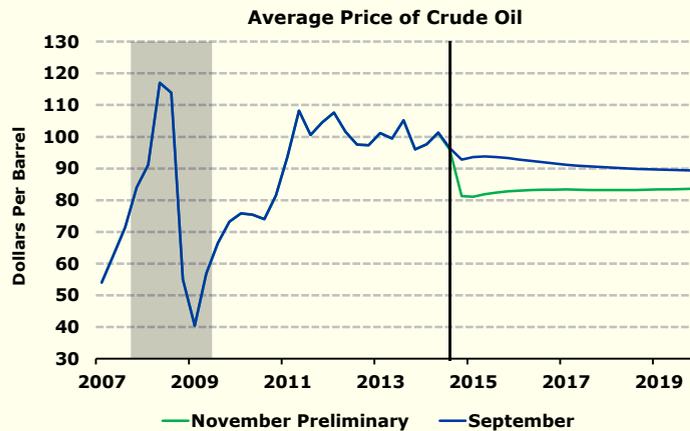
Source: Global Insight, ERF November 2014 Preliminary forecast; historical data through 2014Q2

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Oil prices lower in the near term but no longer declines throughout the forecast



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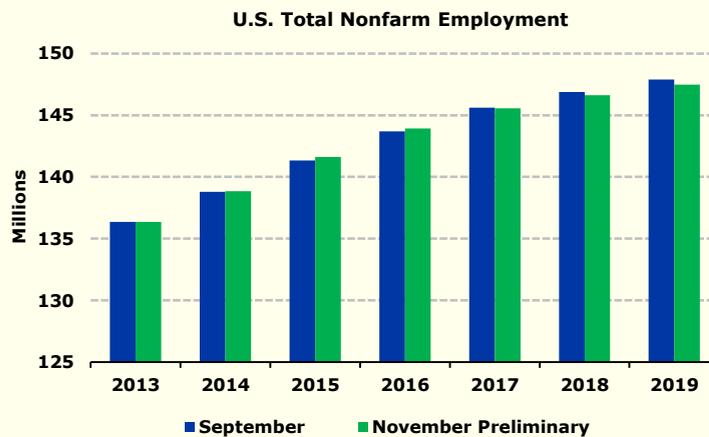
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Source: DOE, ERFC November 2014 Preliminary forecast; historical data through 2014Q3

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U.S. employment forecast essentially unchanged



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Source: BLS, ERFC November 2014 Preliminary forecast; historical data through 2013

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Average U.S. wage growth is barely outpacing inflation

Year-over-year growth in U.S. real hourly wages



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Source: U.S. Bureau of Labor Statistics, data through September 2014

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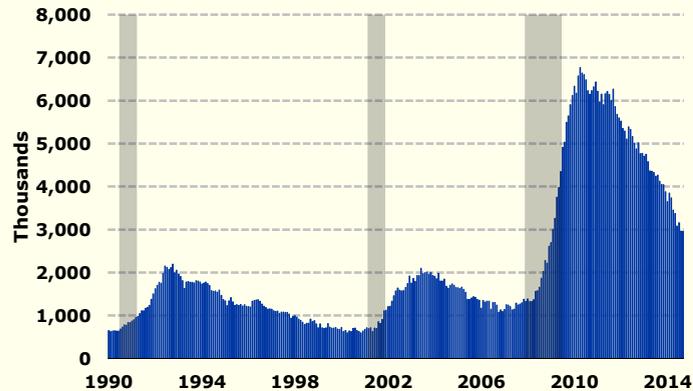
Number of long-term unemployed workers remains high

Long-term unemployed as share of all unemployed:

Apr. 2010:
45%

Sep. 2014:
32%

Workers unemployed 27+ weeks



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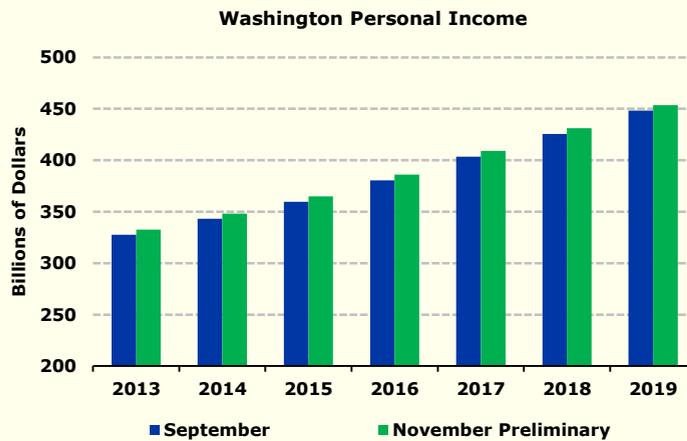
Source: Bureau of Labor Statistics; data through September 2014

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Washington personal income forecast revised up



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Source: ERFC November 2014 Preliminary forecast; historical data through 2013

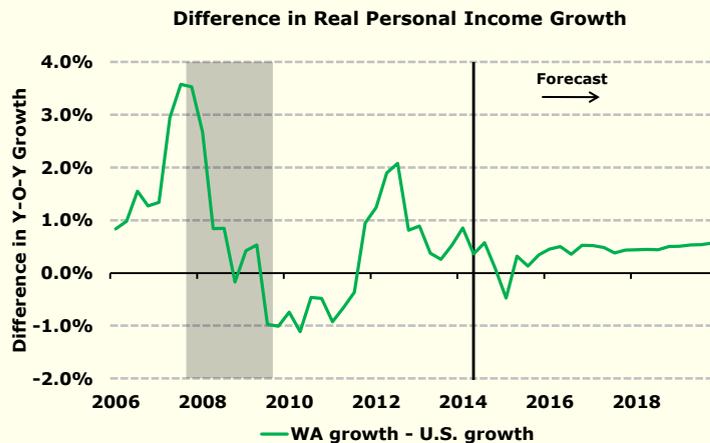
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State personal income will grow slightly faster than the U.S.

Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus



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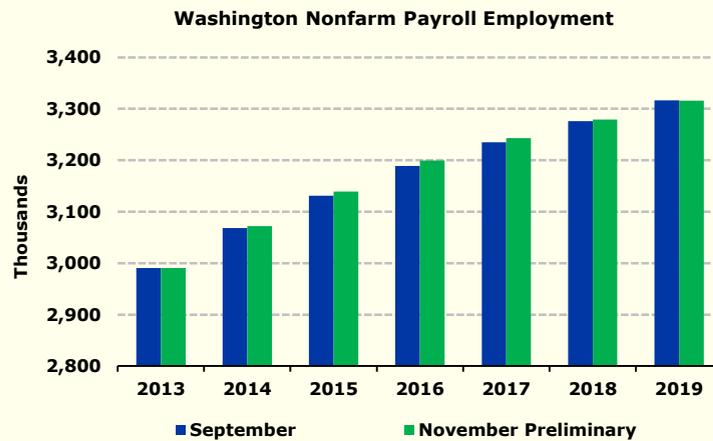
Source: ERFC November 2014 Preliminary forecast; historical data through 2014Q2

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Washington employment forecast revised up



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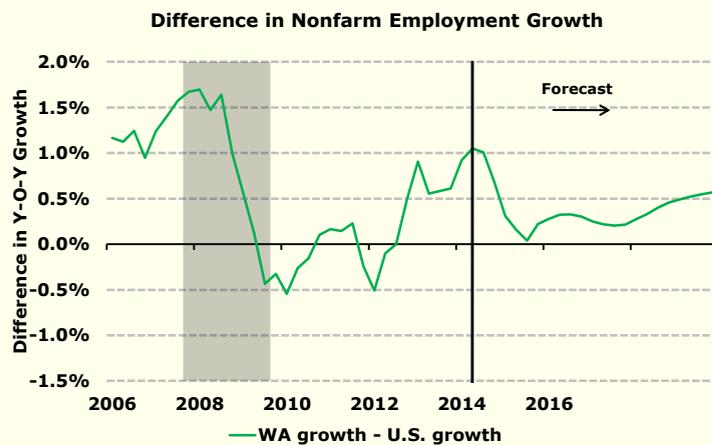
Source: ERFC November 2014 Preliminary forecast; historical data through 2013

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Washington employment will grow slightly faster than the U.S.



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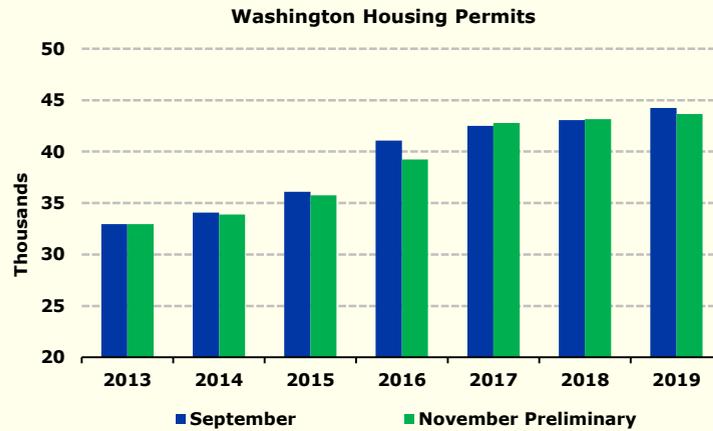
Source: ERFC November 2014 Preliminary forecast; historical data through 2014Q2

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Washington housing permits forecast is lower in 2016



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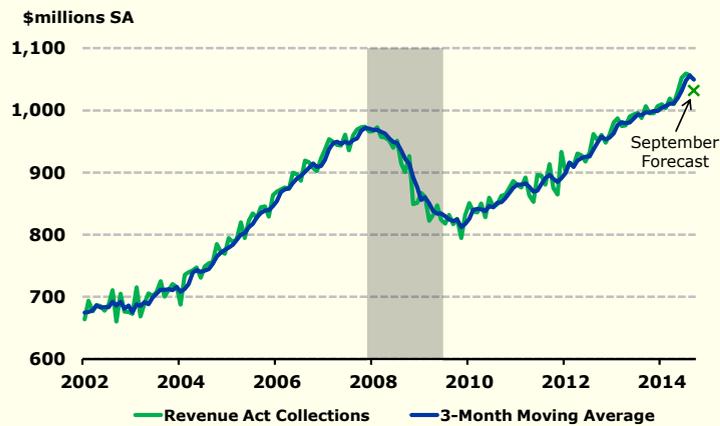
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Source: ERFC November 2014 Preliminary forecast; historical data through 2013

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Seasonally adjusted Revenue Act collections decreased in October and were forecasted to decrease in November



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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 October 10, 2014 collections

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Sales tax growth was strong in the second quarter

Adjusted sales tax collections were up 4.6% year-over-year for 1st quarter activity and 7.9% for 2nd quarter activity.

Growth in Q3 was forecasted at 6.5% in September

There was strong 2nd quarter growth in construction, auto sales, and building materials stores

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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through August 2014 preliminary activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue collections to date

**Cumulative Variance Since September Forecast
(September 11 – October 10, 2014)
dollars in thousands**

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$1,188,083	\$1,203,314	\$15,231	1.3%
All other agencies	\$7,815	\$6,944	(\$871)	-11.1%
Total GF-S	\$1,195,899	\$1,210,259	\$14,360	1.2%

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November 6, 2014

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- The economic forecast is similar to September's forecast with the notable exception of lower oil prices; we expect the modest pace of economic recovery to continue
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic recovery include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and geopolitical unrest
- The next monthly collection report will be available on November 12th and the revenue forecast will be presented on November 19th

Economic Review
November 6, 2014

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Questions



Economic Review
November 6, 2014

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Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912

www.ercf.wa.gov
360-534-1560

U.S. Economic Forecast Comparison

October 2014

	2014Q3	2014Q4	2015Q1	2015Q2	2014	2015	2016	2017	2018	2019
Real GDP, Percent Change, Annual Rate										
ERFC Preliminary November	3.0	3.0	3.0	2.9	2.2	3.1	2.9	2.7	2.5	2.4
Global Insight	3.7	3.0	2.1	2.2	2.3	2.7	2.9	3.1	2.8	2.7
Economy.com	3.2	3.1	3.4	3.7	2.2	3.5				
Blue Chip Average*	3.1	3.0	2.9	2.9	2.2	3.1	2.9	2.7	2.5	2.4
Blue Chip Top 10*	3.6	3.5	3.5	3.5	2.3	3.5	3.3	3.1	2.9	2.9
Blue Chip Bottom 10*	2.7	2.5	2.2	2.4	2.1	2.6	2.4	2.2	2.1	1.9
Real Consumption, Percent Change, Annual Rate										
ERFC Preliminary November	2.1	2.8	3.0	2.8	2.3	2.7	2.7	2.6	2.5	2.4
Global Insight	2.1	3.2	2.9	2.7	2.3	2.8	3.1	3.2	2.8	2.6
Economy.com	2.8	3.0	4.0	4.0	2.4	3.6				
Blue Chip Average*	2.3	2.8	2.8	2.8	2.3	2.7	2.7	2.6	2.5	2.4
Blue Chip Top 10*	2.8	3.3	3.5	3.4	2.4	3.2	3.2	3.1	2.8	2.7
Blue Chip Bottom 10*	1.8	2.1	2.2	2.3	2.1	2.3	2.3	2.2	2.1	2.1
Federal Funds Rate										
ERFC Preliminary November	0.1	0.1	0.1	0.3	0.1	0.4	1.6	3.3	3.8	3.8
Global Insight	0.1	0.1	0.1	0.3	0.1	0.4	1.6	3.3	3.8	3.8
Economy.com	0.1	0.1	0.1	0.1	0.1	0.3				
Three Month T-Bill Rate										
ERFC Preliminary November	0.0	0.0	0.1	0.3	0.0	0.1	0.1	0.3	0.5	0.7
Global Insight	0.0	0.0	0.1	0.3	0.0	0.1	0.1	0.3	0.4	0.7
Blue Chip Average*	0.0	0.1	0.1	0.3	0.1	0.5	1.9	2.9	3.4	3.4
Blue Chip Top 10*	0.0	0.1	0.3	0.6	0.1	0.8	2.9	3.9	4.4	4.3
Blue Chip Bottom 10*	0.0	0.0	0.0	0.1	0.0	0.3	0.9	1.7	2.1	2.4
10-Yr. T-Note Yield										
ERFC Preliminary November	2.5	2.6	2.9	3.0	2.6	3.1	3.6	4.1	4.3	4.3
Global Insight	2.5	2.6	2.9	3.1	2.6	3.2	3.6	4.2	4.4	4.4
Economy.com	2.5	2.7	3.0	3.3	2.7	3.4				
Blue Chip Average*	2.5	2.7	2.9	3.1	2.7	3.2	3.8	4.2	4.4	4.4
Blue Chip Top 10*	2.5	3.0	3.2	3.5	2.7	3.6	4.4	5.0	5.0	5.1
Blue Chip Bottom 10*	2.5	2.5	2.6	2.7	2.6	2.8	3.2	3.5	3.7	3.7
Consumer Price Index, Percent Change, Annual Rate										
ERFC Preliminary November	0.9	-0.2	0.4	1.5	1.6	0.9	1.6	1.9	1.9	2.0
Global Insight	1.0	1.6	1.0	1.4	1.8	1.4	1.6	2.0	2.1	2.1
Economy.com	1.2	1.7	2.4	2.3	1.8	2.1				
Blue Chip Average*	1.4	1.6	1.9	2.0	1.8	1.9	2.2	2.3	2.4	2.3
Blue Chip Top 10*	2.1	2.2	2.5	2.7	2.0	2.4	2.7	2.8	2.9	2.8
Blue Chip Bottom 10*	0.9	0.7	1.0	1.3	1.7	1.5	1.9	1.9	1.9	1.9
Payroll Employment, Millions										
ERFC Preliminary November	139.2	139.9	140.6	141.3	138.8	141.6	143.9	145.5	146.6	147.5
Percent Change, Annual Rate	2.0	2.0	1.9	2.1	1.8	2.0	1.6	1.1	0.7	0.6
Global Insight	139.2	139.9	140.5	141.1	138.8	141.4	143.5	145.4	146.9	148.2
Percent Change, Annual Rate	2.0	2.0	1.7	1.8	1.8	1.8	1.5	1.3	1.0	0.9
Economy.com	139.2	139.9	140.7	141.5	138.8	142.1				
Percent Change, Annual Rate	2.0	1.9	2.3	2.4	1.8	2.3				
Unemployment Rate, Percent										
ERFC Preliminary November	6.1	5.9	5.8	5.6	6.2	5.6	5.3	5.3	5.3	5.3
Global Insight	6.1	5.8	5.8	5.7	6.2	5.7	5.5	5.3	5.2	5.1
Economy.com	6.1	6.1	5.9	5.8	6.3	5.7				
Blue Chip Average*	6.1	5.9	5.8	5.7	6.2	5.6	5.4	5.3	5.2	5.3
Blue Chip Top 10*	6.1	6.0	5.9	5.9	6.3	5.9	6.0	5.9	5.7	5.7
Blue Chip Bottom 10*	6.1	5.8	5.6	5.4	6.2	5.3	5.0	4.7	4.6	4.7
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC Preliminary November	2.5	3.3	3.8	2.3	2.7	3.2	3.5	3.8	3.3	3.0
Global Insight	2.5	2.3	3.3	2.0	2.6	2.8	3.6	4.0	3.4	3.1
Blue Chip Average*	2.7	2.7	2.9	2.7	2.7	2.9	2.9	3.0	2.7	2.6
Blue Chip Top 10*	3.4	3.5	3.6	3.4	2.8	3.3	3.9	3.9	3.5	3.2
Blue Chip Bottom 10*	1.9	1.8	2.2	2.1	2.4	2.5	2.4	2.3	2.2	2.1

* Forecasts beyond 2015 are from the October 2014 Blue Chip Economic Indicators

U.S. Forecast Comparison	Fiscal Years					
	2014	2015	2016	2017	2018	2019
Real GDP						
Billions of 2009 dollars						
November Preliminary Forecast	15,885	16,309	16,781	17,260	17,707	18,137
<i>Growth</i>	2.5%	2.7%	2.9%	2.9%	2.6%	2.4%
September Forecast	15,881	16,286	16,752	17,247	17,705	18,156
<i>Growth</i>	2.4%	2.6%	2.9%	3.0%	2.7%	2.5%
Difference in level	4	23	29	13	2	-19
<i>Difference in growth forecast</i>	0.0%	0.1%	0.0%	-0.1%	-0.1%	-0.1%
Real Consumption						
Billions of 2009 dollars						
November Preliminary Forecast	10,820	11,088	11,392	11,692	11,996	12,286
<i>Growth</i>	2.4%	2.5%	2.7%	2.6%	2.6%	2.4%
September Forecast	10,820	11,088	11,390	11,694	11,996	12,285
<i>Growth</i>	2.4%	2.5%	2.7%	2.7%	2.6%	2.4%
Difference in level	1	-1	2	-2	0	1
<i>Difference in growth forecast</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Implicit Price Deflator						
Index 2009 = 100						
November Preliminary Forecast	108.1	109.3	110.6	112.4	114.3	116.3
<i>Growth</i>	1.3%	1.1%	1.2%	1.6%	1.7%	1.8%
September Forecast	108.1	109.6	111.0	112.7	114.5	116.4
<i>Growth</i>	1.3%	1.4%	1.3%	1.5%	1.6%	1.6%
Difference in level	0.0	-0.3	-0.4	-0.3	-0.3	-0.1
<i>Difference in growth forecast</i>	0.0%	-0.3%	-0.1%	0.1%	0.1%	0.2%
Unemployment Rate						
Percent of Labor Force						
November Preliminary Forecast	6.8%	5.8%	5.4%	5.3%	5.3%	5.3%
September Forecast	6.8%	6.0%	5.7%	5.5%	5.4%	5.3%
<i>Difference in forecast</i>	0.0%	-0.1%	-0.3%	-0.2%	-0.1%	0.0%
30 Year Fixed Mortgage Rate						
Annual Average						
November Preliminary Forecast	4.3%	4.4%	5.1%	5.8%	6.2%	6.2%
September Forecast	4.3%	4.5%	5.2%	6.0%	6.2%	6.1%
<i>Difference in forecast</i>	0.0%	-0.1%	-0.1%	-0.2%	0.0%	0.0%
3 Month T-Bill Rate						
Annual Average						
November Preliminary Forecast	0.0%	0.1%	1.0%	2.5%	3.5%	3.5%
September Forecast	0.0%	0.1%	1.0%	2.9%	3.5%	3.5%
<i>Difference in forecast</i>	0.0%	0.0%	-0.1%	-0.4%	0.0%	0.0%

Washington Forecast Comparison **Fiscal Years**

2014 2015 2016 2017 2018 2019

Real Personal Income

Billions of 2009 dollars

November Preliminary Forecast	314.7	325.9	339.1	353.8	367.7	380.2
<i>Growth</i>	1.9%	3.6%	4.1%	4.3%	3.9%	3.4%
September Forecast	310.4	320.3	333.1	347.8	361.8	375.3
<i>Growth</i>	2.7%	3.2%	4.0%	4.4%	4.0%	3.7%
Difference in level	4.2	5.6	6.1	6.0	5.9	4.9
<i>Difference in growth forecast</i>	-0.8%	0.4%	0.1%	-0.1%	-0.1%	-0.3%

Nominal Personal Income

Billions of dollars

November Preliminary Forecast	340.0	356.2	375.0	397.6	420.2	442.2
<i>Growth</i>	3.2%	4.7%	5.3%	6.0%	5.7%	5.2%
September Forecast	335.4	351.0	369.7	392.0	414.4	436.8
<i>Growth</i>	4.0%	4.6%	5.3%	6.0%	5.7%	5.4%
Difference in level	4.6	5.2	5.3	5.6	5.8	5.5
<i>Difference in growth forecast</i>	-0.8%	0.1%	0.0%	0.0%	0.0%	-0.1%

Nonfarm Payroll Employment, End of Period

Thousands

November Preliminary Forecast	3,030.6	3,106.7	3,171.1	3,223.6	3,261.1	3,297.1
<i>Growth</i>	2.5%	2.5%	2.1%	1.7%	1.2%	1.1%
September Forecast	3,029.5	3,100.4	3,160.8	3,214.0	3,255.2	3,296.4
<i>Growth</i>	2.5%	2.3%	1.9%	1.7%	1.3%	1.3%
Difference in level	1.0	6.3	10.2	9.6	5.9	0.6
<i>Difference in growth forecast</i>	0.0%	0.2%	0.1%	0.0%	-0.1%	-0.2%

Housing Permits

Units Authorized, Thousands

November Preliminary Forecast	33.7	34.2	37.4	41.4	43.1	43.3
<i>Growth</i>	7.7%	1.7%	9.2%	10.7%	4.0%	0.5%
September Forecast	33.7	34.5	38.6	42.3	42.7	43.5
<i>Growth</i>	7.7%	2.4%	11.9%	9.7%	0.8%	2.0%
Difference in level	0.0	-0.2	-1.2	-0.9	0.4	-0.2
<i>Difference in growth forecast</i>	0.0%	-0.7%	-2.7%	1.0%	3.2%	-1.5%

**Year-Over-Year Employment Growth by Industry
(September 2013 to September 2014)
Washington vs. U.S.**

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	82.8	2.8%	1.9%
Construction	11.5	7.6%	3.9%
Information Excluding Software	2.5	4.8%	NA
Software Publishers	2.3	4.2%	NA
Professional and Business Services	14.4	4.0%	3.8%
Mining and Logging	0.2	4.0%	5.9%
Wholesale Trade	4.7	3.6%	1.9%
Retail Trade	11.9	3.6%	1.7%
Leisure and Hospitality	9.6	3.3%	2.6%
Manufacturing Excluding Aerospace	5.6	3.0%	NA
Other Services	2.7	2.4%	0.9%
State and Local Gov Non-Education	4.7	2.3%	0.3%
Education and Health Services	10.0	2.3%	1.9%
Transportation, Warehousing and Utilities	1.7	1.8%	2.8%
Financial Activities	2.5	1.6%	1.1%
State and Local Gov Education	1.4	0.6%	0.5%
Aerospace Product and Parts Manufacturing	-2.6	-2.7%	NA
Information	4.8	4.5%	0.4%
Manufacturing	3.1	1.1%	1.3%

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

**County Taxable Retail Sales
Quarter 2, 2013 to Quarter 2, 2014
(Dollars in Thousands)**

Rank	County	2nd Quarter, 2013	2nd Quarter, 2014	Percent Change	Taxbase Distribution
1	Columbia	12,352	69,708	464.3%	0.2%
2	Klickitat	48,029	63,519	32.3%	0.2%
3	Garfield	5,865	7,491	27.7%	0.0%
4	Whitman	153,065	174,279	13.9%	0.6%
5	Adams	67,504	76,856	13.9%	0.2%
6	Lewis	253,941	286,361	12.8%	0.9%
7	San Juan	91,440	103,047	12.7%	0.3%
8	Kittitas	169,797	189,529	11.6%	0.6%
9	Yakima	807,872	899,325	11.3%	2.9%
10	Chelan	359,767	396,440	10.2%	1.3%
11	Grays Harbor	199,402	219,439	10.0%	0.7%
12	Ferry	10,727	11,802	10.0%	0.0%
13	Mason	124,270	136,398	9.8%	0.4%
14	Clark	1,191,060	1,300,220	9.2%	4.2%
15	Cowlitz	341,937	372,220	8.9%	1.2%
16	Walla Walla	189,241	205,393	8.5%	0.7%
17	Franklin	290,010	313,921	8.2%	1.0%
18	King	11,310,912	12,203,926	7.9%	39.4%
19	Stevens	95,268	101,760	6.8%	0.3%
	Statewide	28,998,108	30,970,409	6.8%	100.0%
20	Okanogan	142,169	151,695	6.7%	0.5%
21	Spokane	1,911,098	2,037,044	6.6%	6.6%
22	Snohomish	2,717,331	2,876,630	5.9%	9.3%
23	Skamania	21,063	22,292	5.8%	0.1%
24	Pierce	3,008,258	3,181,111	5.7%	10.3%
25	Island	184,836	195,080	5.5%	0.6%
26	Kitsap	823,109	868,357	5.5%	2.8%
27	Asotin	67,340	70,898	5.3%	0.2%
28	Pacific	54,132	56,932	5.2%	0.2%
29	Thurston	993,052	1,043,048	5.0%	3.4%
30	Lincoln	30,372	31,470	3.6%	0.1%
31	Skagit	584,091	599,503	2.6%	1.9%
32	Whatcom	853,193	874,583	2.5%	2.8%
33	Clallam	236,474	240,787	1.8%	0.8%
34	Benton	821,514	829,174	0.9%	2.7%
35	Douglas	193,859	189,183	-2.4%	0.6%
36	Jefferson	95,404	92,900	-2.6%	0.3%
37	Wahkiakum	6,568	6,172	-6.0%	0.0%
38	Grant	498,265	443,377	-11.0%	1.4%
39	Pend Oreille	33,521	28,539	-14.9%	0.1%

King/Snohomish/Pierce	17,036,501	18,261,667	7.2%	59.0%
Remainder of State	11,961,607	12,708,742	6.2%	41.0%

Governor's Council of Economic Advisor's Forecast

Calendar Years

November 6, 2014

	2014	2015	2016	2017	2018	2019
U.S.						
Real GDP						
<i>Growth</i>						
ERFC	2.2	3.1	2.9	2.7	2.5	2.4
GCEA Average	2.2	3.0	2.8	2.6	2.3	2.3
Real Consumption						
<i>Growth</i>						
ERFC	2.3	2.7	2.7	2.6	2.5	2.4
GCEA Average	2.3	2.7	2.6	2.6	2.4	2.3
Implicit Price Deflator, PCE						
<i>Growth</i>						
ERFC	1.4	0.9	1.5	1.7	1.7	1.8
GCEA Average	1.6	1.5	1.8	1.8	1.9	2.0
Mortgage Rate						
<i>Percent</i>						
ERFC	4.2	4.8	5.4	6.0	6.2	6.2
GCEA Average	4.2	4.8	5.4	6.0	6.0	6.0
Oil Price (Brent)						
<i>Dollars per barrel</i>						
ERFC	101.5	88.8	90.9	91.0	91.0	91.3
GCEA Average	99.3	84.9	86.3	86.8	87.2	87.8

Will Eurozone GDP growth experience a negative quarter within the next year?

75% Yes

Washington State

Real Personal Income

<i>Growth</i>						
ERFC	3.3	3.8	4.3	4.2	3.6	3.4
GCEA Average	3.4	3.6	3.7	3.5	3.2	3.1

Wage and Salary Employment

<i>Growth</i>						
ERFC	2.7	2.2	1.9	1.4	1.1	1.1
GCEA Average	2.5	2.2	1.8	1.4	1.2	1.2

Manufacturing Employment

<i>Growth</i>						
ERFC	0.8	0.8	1.1	0.1	-0.1	0.0
GCEA Average	0.8	0.8	0.6	-0.1	-0.3	-0.3

Construction Employment

<i>Growth</i>						
ERFC	7.2	6.0	6.3	4.8	4.1	2.9
GCEA Average	6.2	4.8	4.2	3.4	2.9	2.1

Housing Permits

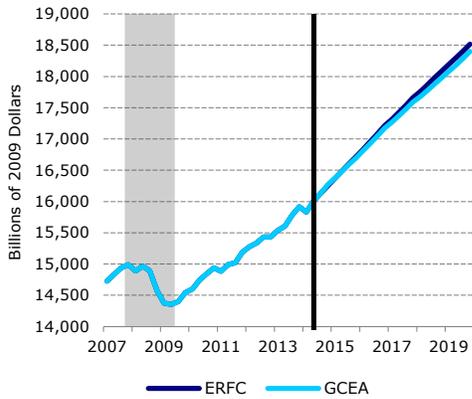
<i>Thousands of authorized units</i>						
ERFC	33.9	35.8	39.2	42.8	43.1	43.6
GCEA Average	34.4	37.2	42.1	41.8	42.2	42.4

Washington Average Annual Wage

<i>Growth</i>						
ERFC	2.6	2.6	3.5	3.8	4.1	4.2
GCEA Average	2.6	2.8	3.2	3.4	3.6	3.6

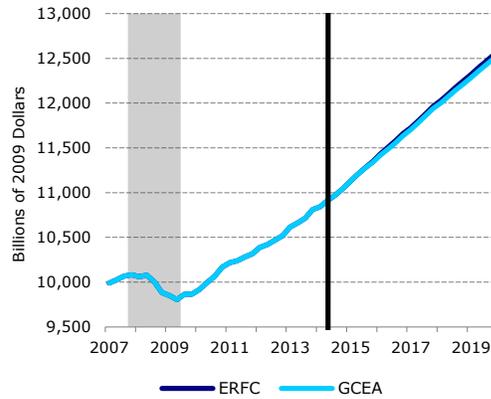
U.S. Forecast Comparison

Real GDP



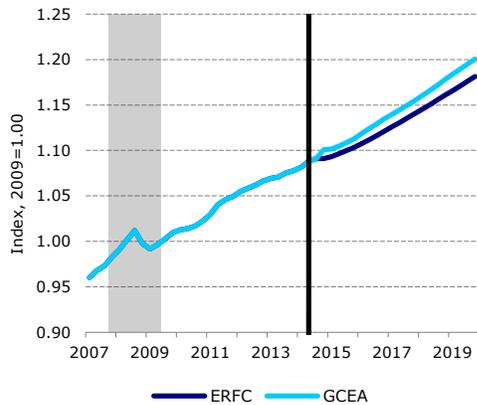
Source: BEA, ERFC, GCEA; data through 2014 Q2

Real Consumption



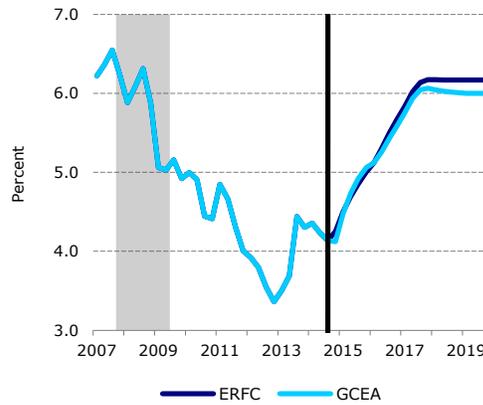
Source: BEA, ERFC, GCEA; data through 2014 Q2

Implicit Price Deflator, PCE



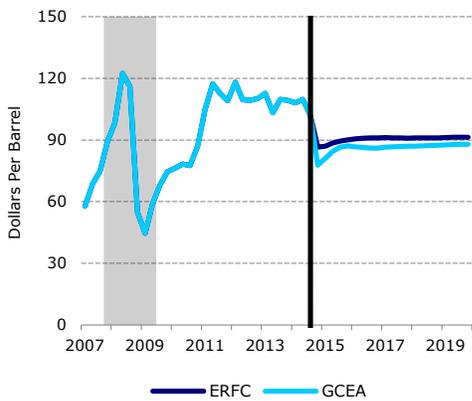
Source: BEA, ERFC, GCEA; data through 2014 Q2

Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; data through 2014 Q3

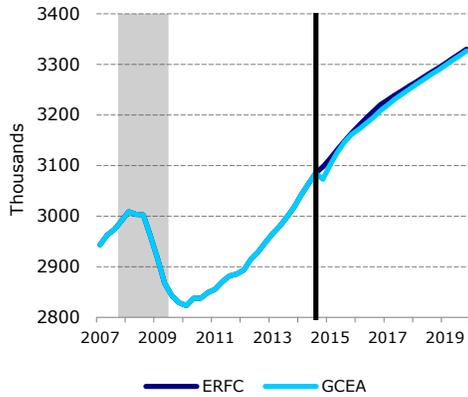
Brent Oil Price



Source: EIA, ERFC, GCEA; data through 2014 Q3

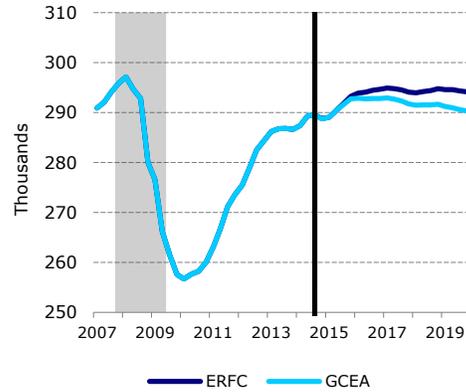
Washington Forecast Comparison

Nonfarm Payroll Employment



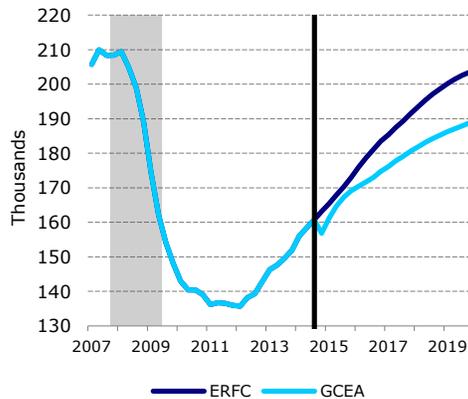
Source: ESD, ERFC, GCEA; data through 2014 Q3

Manufacturing Employment



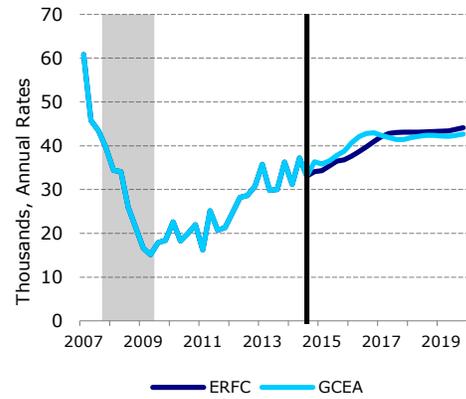
Source: ESD, ERFC, GCEA; data through 2014 Q3

Construction Employment



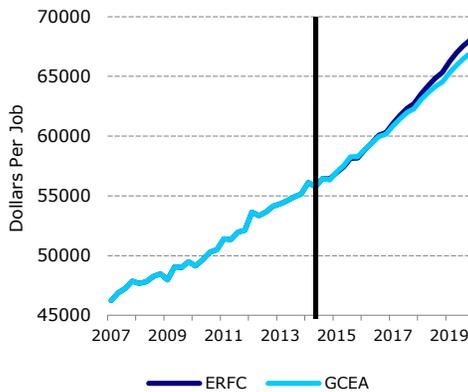
Source: ESD, ERFC, GCEA; data through 2014 Q3

Housing Units Authorized



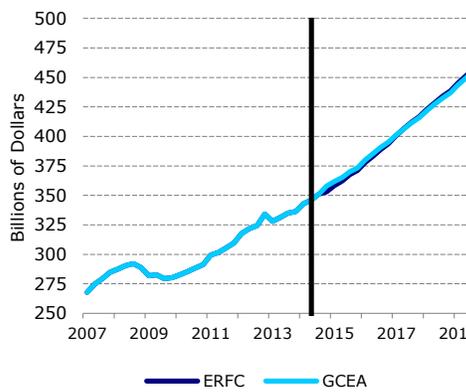
Source: Census, ERFC, GCEA; data through 2014 Q3

Average Annual Wage



Source: BEA, ERFC, GCEA; data through 2014 Q2

Personal Income



Source: BEA, ERFC, GCEA; data through 2014 Q2