

Economic Review Meeting

November 4, 2015



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

November 4, 2015
2:30 p.m.

- Approval of meeting minutes: September 14, 2015
- Discussion: Synchronizing Balanced Budget Outlook & Expenditure Limit: EHB 2267
- 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 14, 2015

John A. Cherberg, Hearing Room 3

Economic and Revenue Forecast Council

Members Present

Andy Hill, Senator, Chair (via phone)

Jim Hargrove, Senator (via phone)

Terry Nealey, House of Representatives (via phone)

Vikki Smith, Department of Revenue

David Schumacher, Office of Financial Management

James McIntire, Treasurer

Staff

Steve Lerch, Executive Director,
ERFC

Call to Order

The meeting was called to order by Director Schumacher at 3:02 p.m.

Motion

Treasurer McIntire made a motion to approve the meeting minutes from September 2, 2015, seconded by Director Smith. Council approved the motion at 3:02 p.m.

Forecast Presentation

Dr. Lerch presented information on the final economic and revenue forecast. Dr. Lerch summarized the forecast changes. Discussion ensued regarding the duration economic expansions, the pessimistic forecast, and recent collection experience.

Motion

Treasurer McIntire moved, seconded by Vikki Smith, that the baseline revenue forecast be adopted. Council unanimously approved the motion at 3:26 p.m.

Adjournment

Meeting adjourned at 3:26 p.m.

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September 24, 2015

To: Economic and Revenue Forecast Council

Senator Andy Hill, Chair

Senator Jim Hargrove

Representative Terry Nealey

David Schumacher, Director, Office of Financial Management

James L. McIntire, State Treasurer

Vikki Smith, Director, Department of Revenue

Note: A position representing the Democratic Caucus in the House of Representatives is vacant.

Expenditure Limit Committee

Senator Andy Hill, Chair, Senate Ways and Means Committee

Senator Jim Hargrove, Ranking Member, Senate Ways and Means Committee

Representative Hans Dunshee, Chair, House Appropriations Committee

Representative Bruce Chandler, Ranking Member, House Appropriations Committee

David Schumacher, Director, Office of Financial Management

Bob Ferguson, Attorney General

From: State Budget Outlook Work Group

Subject: EHB 2267 (Chapter 29, Laws of 2015, 3rd Special Session)

This memo relates to EHB 2267 and actions it requires of the Expenditure Limit Committee (ELC) and the Economic and Revenue Forecast Council (ERFC). The bill suspends the state expenditure limit until the 2021-23 fiscal biennium. Relative to the ELC and ERFC, section 4 provides:

"The economic and revenue forecast council, in consultation with the state expenditure limit committee, shall prepare draft legislation for introduction in the 2016 legislative session that revises the state expenditure limit to synchronize the requirements of this chapter with the four-year balanced budget requirement under RCW 43.88.060 and the state budget outlook under RCW 82.33.060."

To meet the requirements of this section, the State Budget Outlook Work Group (Work Group) seeks guidance from the ELC and the ERFC. At the November 4, 2015 meeting of the ERFC, the Work Group will present the attached summary comparing the requirements and processes of the Expenditure Limit and the Balanced Budget/Outlook. Work Group staff are available to meet with members of the ELC and the ERFC prior to the November 4 meeting. Future meetings of the ERFC, November 18, 2015 and in January 2016, may be used to provide guidance to the Work Group staff on draft legislation.

Attachment

Copy: Budget Outlook Work Group

Richard Ramsey, Senate Ways and Means Committee Staff
Melissa Palmer/Dave Johnson, House Appropriations Committee Staff
Pam Davidson, Office of Financial Management
Steve Lerch, Economic and Revenue Forecast Council
Tom Jensen, Legislative Evaluation and Accountability Program
Elaine Deschamps, Caseload Forecast Council
Rick Peterson, Office of the State Treasurer

Expenditure Limit

4-year Balanced Budget and State Budget Outlook

Summary	Limits State General Fund expenditures in a particular fiscal year; the limit is suspended until 2021	Requires the enacted budget to balance over 4 years
Approval Authority	Expenditure Limit Committee (RCW 43.135.025 (5)); if the Committee does not act to set the limit the Attorney General sets the limit	Economic and Revenue Forecast Council (RCW 82.33.010); if the Council does not act to adopt the Outlook, the Outlook as presented to the Council is adopted
Membership	OFM Director, Attorney General, Chairs and Ranking members of the House and Senate Ways and Means Committees	2 members appointed by the Governor (currently the OFM Director and the Director of the Department of Revenue); State Treasurer; 4 members, one each appointed by the 2 largest caucuses in the House and Senate
Subject funds	State General Fund	State General Fund, Education Legacy Trust Account, Opportunity Pathways Account
Timing for analysis	Each November, prior to November 30th; the expenditure limit is not required until July 1, 2021 (Chapter 29, Laws of 2015, 3rd Special Session (EHB 2267))	3 times each year: November to reflect the adopted budget plus updated information; January to reflect the Governor's proposed budget(s); within 30 days of enactment of the legislative budget
Calculation	The previous fiscal year's expenditure limit, adjusted for actual expenditures (rebasings) and transfers, and increased by the 10-year average growth in personal income	"Projected maintenance level" shall not exceed the available fiscal resources for the next ensuing biennium (RCW 43.88.055 (b)); RCW 82.33.060 (2) specifies process and requirements for this calculation.
Exclusions	No exclusions, except provided by EHB 2267	The 4-year balancing is not required when an appropriations bill makes net reductions in the general fund or when an appropriation is made from the Budget Stabilization Account (RCW 43.88.055 (3) and (4))
Time horizon	Each fiscal year	The current biennium and the ensuing biennium; 4-years
Preparation/Staffing	Not specified; by practice, staff from the House Office of Program Research, Senate Committee Services and Office of Financial Management	State budget outlook work group: staff from the OFM, LEAP, State Treasurer, Economic and Revenue Forecast Council, Caseload Forecast Council, Senate Ways and Means Committee, House Ways and Means Committee (RCW 82.33.070)

November 2, 2015

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Criteria for use of resources and preparation of the November 2015 Outlook

The State Budget Outlook Work Group (work group) poses the following issues for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the November 2015 Outlook.

Methodology for November 2015

Resource Updates

- The November 2015 Outlook will be updated for the November 2015 revenue forecast. However, the extraordinary revenue growth (ERG) calculation based on the November 2015 forecast will not be available. The work group will use the ERG calculation from the September 2015 forecast.
- Reversions for fiscal year 2015 will reflect actuals. Future year reversion assumptions will not be changed.

Maintenance Level Updates

- The November 2015 Outlook will begin with the enacted budget and include a preliminary estimate of maintenance level costs. These estimates are to reflect projected expenditures based on the estimated cost of providing services currently authorized in the budget. This estimate of maintenance level is not final.

Initiative 1366

- The November 2015 Outlook will not reflect Initiative 1366 as the election results will not be officially certified at the time of Outlook preparation. Additionally, should Initiative 1366 be enacted, the effect varies as it is dependent upon legislative action.

Other Items

- The November 2015 Outlook will include the preliminary updates to maintenance level, however there have been costs in the past that are not maintenance level that the ERFC has opted to include. In prior Outlook preparations, these costs were limited to costs incurred from certain lawsuits and fire/disaster response.
 - Costs related to fire mobilization in 2015 will continue to be further refined but initial costs are estimated to be \$155 million. Does the ERFC want to include fire mobilization costs?
 - The Washington Supreme Court issued contempt sanctions of \$100,000 per day until the Legislature submits a plan related to *McCleary* lawsuit. Does the ERFC want to include the costs of sanctions? If so, should the costs be through November 18, 2015 (date the Outlook is prepared), the beginning of legislative session, or some other date?

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



Economic Review: November 4, 2015

Executive Summary

- This preliminary forecast was based on a modified version of Global Insight's October 2015 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 2015 and 2016 is 2.5% and 2.7%, the same rates as in the September forecast. For the first time since March there is a new long term Blue Chip forecast. The new forecast growth rates for 2017 through 2019 are 2.5%, 2.4%, and 2.2%, down from 2.7%, 2.6%, and 2.4%.
- 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 Wednesday, October 28, 2015 closing prices for Brent and WTI futures. The latest futures prices are very similar to the prices used in the September forecast. The refiner acquisition price of crude oil in the fourth quarter of 2015 is now expected to average \$46 per barrel compared to \$47 in the September forecast. As in September, oil prices are expected to rise during the remainder of the forecast. By the end of 2019, the refiner acquisition price is expected to increase to \$59 compared to \$60 in the September forecast.
- The U.S. labor market continues to expand but at a slower pace than in 2014. Employment grew by 136,000 jobs in August and 142,000 jobs in September; this compares to average monthly gains of 260,000 jobs in 2014. The number of persons working part-time for economic reasons (i.e., cannot find full-time employment) declined to 6.0 million (SA) in September, down from 6.5 million in August but still above pre-recession levels. The unemployment rate in September was 5.1% (SA), unchanged from August.
- The two major consumer confidence measures have now moved in opposite directions for three consecutive months. The Conference Board index of consumer confidence, which had increased in August and September, decreased in October. The University of Michigan consumer sentiment survey declined in August and September, then increased in October. While the University of Michigan survey data cited gains in confidence particularly among lower income households this month, Conference Board survey respondents had a generally less positive view of the current economic situation than in September.
- Initial claims for unemployment insurance increased by 1,000 to 260,000 (SA) in the week ending October 24th. The four-week moving average of initial claims decreased by 4,000 to 259,250. Initial claims have remained under 300,000 for the last 32 weeks.
- October light motor vehicle sales remained at 18.2 million units (SAAR) for a second straight month. Prior to last month, vehicle sales had not exceeded 18 million units since July 2005.

- Industrial production in September declined for a second straight month, falling 0.2% (SA) below its August level. New orders for core capital goods (i.e., durables excluding aircraft and military), which are a proxy for business investment, decreased by 0.1% (SA) in September after declining by 1.4% in August. Manufacturing activity in October, as measured by the Institute for Supply Management's Purchasing Managers Index (PMI), decreased by 0.1 points to 50.1 (50 or higher indicates growth). Despite this month's slower pace, manufacturing activity has expanded for 34 consecutive months. The October non-manufacturing PMI increased by 2.2 points to 59.1, the 69th consecutive month of expansion.
- September housing starts increased by 6.5% (SA) compared to August and remained above 1 million units for a sixth consecutive month. Housing units authorized by building permits in September decreased by 5.0% (SA) compared to August but were 4.7% above their September 2014 level. Existing home sales increased in September by 4.7% (SA) compared to August and have now increased year-over-year for 12 consecutive months. New single family home sales in September were 11.5% (SA) below August sales. Despite this drop, new home sales have remained above the 450,000 unit level (SAAR) since August 2014. The seasonally-adjusted Case-Shiller national home price index for August was 0.4% above its July level and 4.7% above its year-ago level.
- Major threats to the U.S. and Washington economies remain, including a slowing global economy, instability in the Middle East and the Ukraine, and weaker export growth linked to a stronger dollar.

Washington

- We have just one month of new Washington employment data since the September forecast was released. Total nonfarm payroll employment rose 4,000 (seasonally adjusted) in September, 2,400 less than the 6,400 expected in the September forecast. The shortfall in job growth was in private, service-providing sectors which added only 1,600 jobs in September. The September forecast had expected an increase of 5,200. The construction sector added 100 jobs in September and the manufacturing sector added 800 jobs thanks to an increase of 700 in aerospace. Government payrolls expanded by 1,600 jobs in September.
- We have also incorporated another quarter of benchmark employment data from the Quarterly Census of Employment and Wages (QCEW). The new QCEW data and other revisions lowered the estimated level of total employment in August 2015 by 2,700 jobs. As a result of the downward revision to history and weaker-than-expected growth, the total effect is 5,100 (0.2%) fewer jobs in September 2015 than expected in the September forecast.
- The Microsoft layoffs first announced in July 2014 were completed by the end of December 2014. Microsoft announced further cuts of up to 7,800 in July and 1,000 in October. We expect most of these will be outside of Washington State as was the case in 2014.
- 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.

- In September, the Bureau of Economic Analysis (BEA) released estimates for state personal income through the second quarter of 2015. The September release also incorporated the annual revision of the National Income and Product Accounts. We have incorporated the new BEA estimates as well as additional Washington Quarterly Census of Employment and Wages and other wage data also through the second quarter. Our current estimate of Washington personal income in the second quarter of 2015 is \$369.1 billion which is \$2.1 billion (0.6%) higher than assumed in the September forecast. However, we estimate that \$1.4 billion of that \$2.1 billion variance is due to unusually strong stock option redemptions in the second quarter which are not expected to be repeated in the future.
- Washington housing permits improved to 37,400 units (SAAR) in the third quarter of 2015 from 36,800 units in the second quarter. The September forecast projected 35,500 units in the third quarter. Single-family permits totaled 19,700 units in the third quarter compared to the forecast of 19,300 units and 17,700 multi-family units were permitted compared to the forecast of 16,200 units.
- Seattle home prices surged in August after three months of essentially no change. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices jumped 0.7% in August following changes of -0.1%, 0.1%, and -0.1% in May, June, and July. Seattle home prices are up 7.6% over the previous August and are 36.0% higher than the November 2011 trough. Seattle area home prices have recovered to just 5.6% below the May 2007 peak.
- Seattle area consumer price inflation remains tame thanks to falling energy costs. Over the last year, from August 2014 to August 2015, consumer prices in the Seattle area rose 1.8% compared to 0.2% for the U.S. city average. Core prices, which exclude food and energy, were up 2.9% in Seattle compared to 1.8% for the nation. The higher Seattle inflation is largely due to more rapid growth in shelter costs. During the year, shelter costs in Seattle rose 5.4% compared to 3.1% for the nation. However, other prices are also rising more rapidly here. Even with shelter excluded, Seattle inflation was -0.1% compared to -1.1 % for the nation.
- As in August, the Institute of Supply Management - Western Washington Index (ISM-WW) signaled contraction in the manufacturing sector in September. The index was 48.0 in September, the same level as in August (index values above 50 indicate positive growth while values below 50 indicate contractions). The orders component improved, the inventory component worsened, and the production, employment, and deliveries components were unchanged in September. Prior to August 2015, the index had been above 50 in every month since July 2009.
- Washington car and truck sales improved in September but are still down from a post-recession high in July. Washington new vehicle registrations rose 1.9% to 303,500 (SAAR) in September following a 4.2% decline in August. Registrations are down 2.5% from the July peak but are up 5.8% over the year.

- Second quarter exports were down 0.4% over the year in spite of an 11.4% increase in transportation equipment exports (mostly Boeing planes). Exports other than transportation equipment were 17.0% lower than a year ago. The drop likely reflects the negative influence of a stronger dollar and weak growth abroad.
- Overall, our preliminary November forecast for Washington State is similar to the September forecast. Washington employment is expected to grow 2.7% this year compared to 3.0% expected in the September forecast. The preliminary November forecast for average annual employment growth from 2016 through 2019 is 1.5% per year, the same rate as in the September forecast. Our preliminary November forecast for nominal personal income growth this year of 5.3% is slightly higher than the 5.1% rate in the September forecast, however, our new forecast for nominal personal income growth from 2016 through 2019 averages 5.2% per year, down slightly from 5.3% in the September forecast.

Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

November 4, 2015
Olympia, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The preliminary economic forecast expects slightly weaker growth in U.S. GDP, U.S. employment and WA employment than in September
- The forecast assumes the Federal Reserve will gradually increase interest rates starting in December
- Risks to the baseline include slowing economic growth in China, impact of a stronger dollar on exports, and weaker manufacturing activity
- Adjusted revenue collections since the September forecast are \$21.8 million (1.8%) above expectations

Economic Review
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Economic news continues to suggest risks to forecast

- **Upside:**
 - Lower oil, gasoline prices
 - Stronger housing construction and sales
- **Downside:**
 - Slower employment growth
 - Slowing Chinese and emerging market economies, lackluster growth in Japan and Eurozone
 - Negative impact of stronger dollar on exports
 - Weaker manufacturing activity

Economic Review
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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



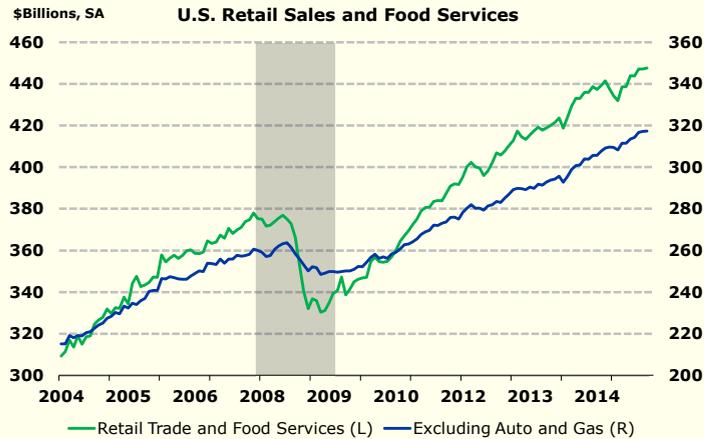
U.S. retail sales growth was flat in September but year-over-year growth remains positive

Preliminary U.S. retail trade and food services sales were up 1.9% Y-O-Y in August and 2.4% in September.

Excluding autos and gas, sales were up 3.8% Y-O-Y in August and September.

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Slide 3



Source: U.S. Department of Commerce, Census Bureau; Data through September 2015 advance

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Housing starts are close to historic average



Economic Review
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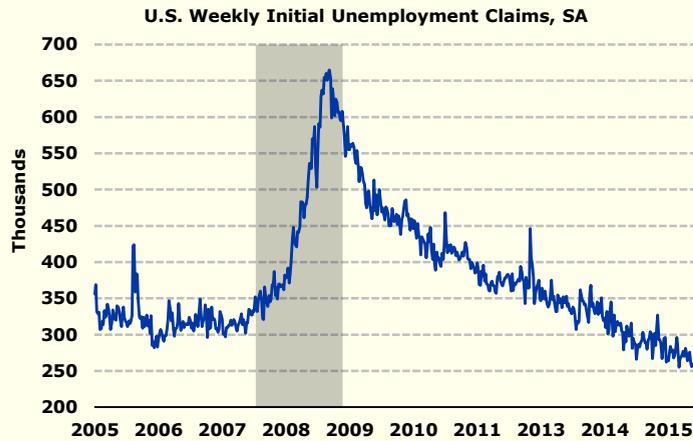
Slide 4

Source: U.S. Census; data through July 2015

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Unemployment claims are below pre-recession levels



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Source: U.S. Dept. of Labor; data through October 24, 2015

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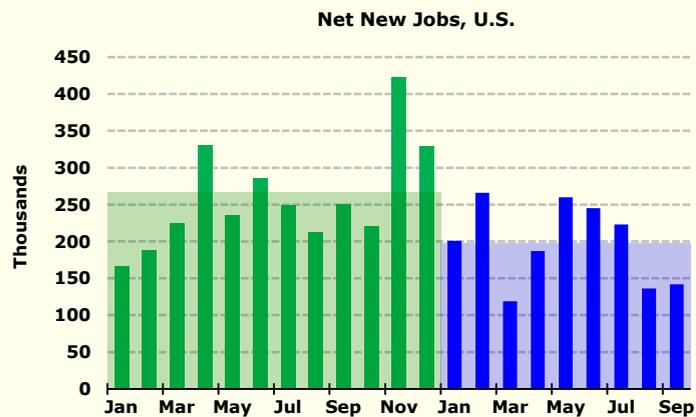


Labor market continues to expand but at slower pace than in 2014

Average monthly employment change:

2014 = 260,000

2015 = 198,000 through Sept.



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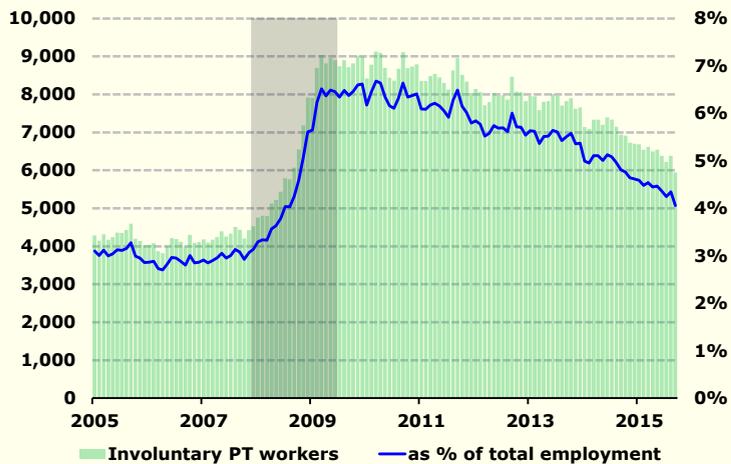
Source: Bureau of Labor Statistics, data through September 2015

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Involuntary part-time employment remains above pre-recession levels



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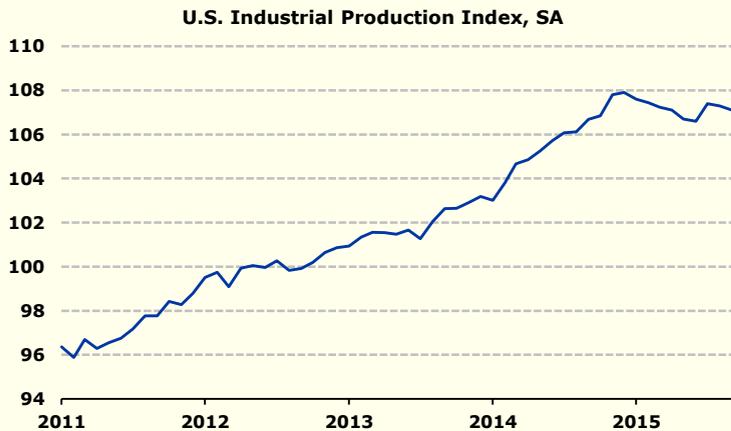
Source: U.S. Bureau of Labor Statistics; data through Sept. 2015

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Industrial production has turned back down



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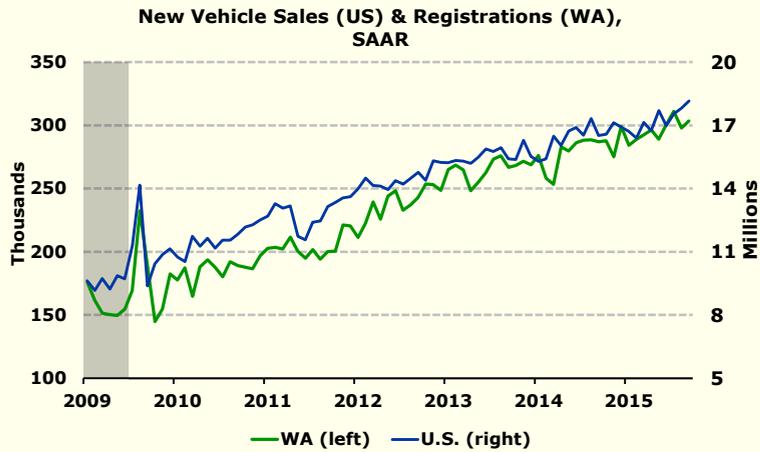
Source: Board of Governors, Federal Reserve; data through September 2015

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New vehicle sales continue to grow



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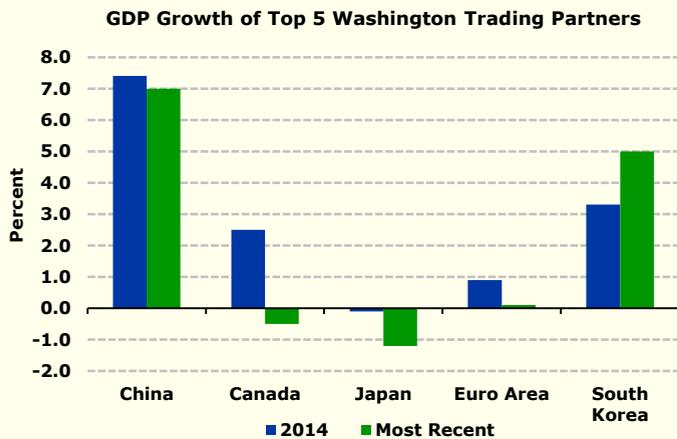
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Source: Dept. of Licensing, ERFC, MotorIntelligence.com; data through September 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Economic growth is slowing for many of Washington's largest export markets



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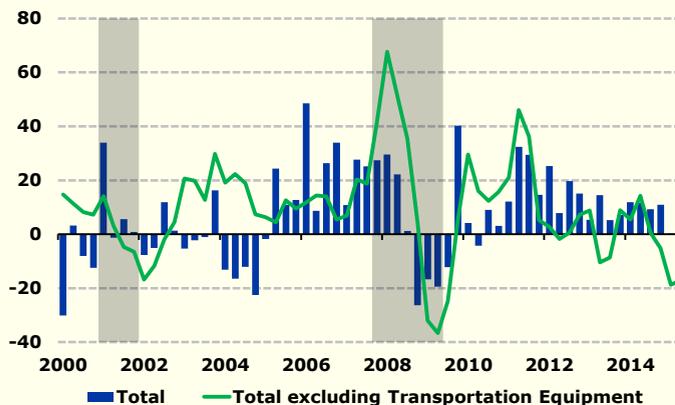
Source: Blue Chip, Eurostat, Bank of Korea, Trading Economics; data through 2015 Q3

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Non-transportation equipment exports have declined

Washington Exports
Percent Change, year ago



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Source: Wisner Trade Data; through 2015Q2

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Consumer confidence trend unclear as UMich., Conference Board indexes diverge

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



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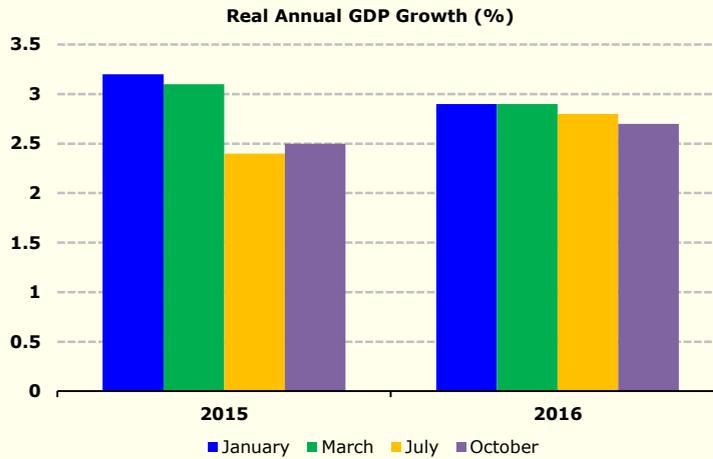
Sources: University of Michigan, Conference Board; data through October 2015

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Blue Chip GDP growth forecasts have weakened since January



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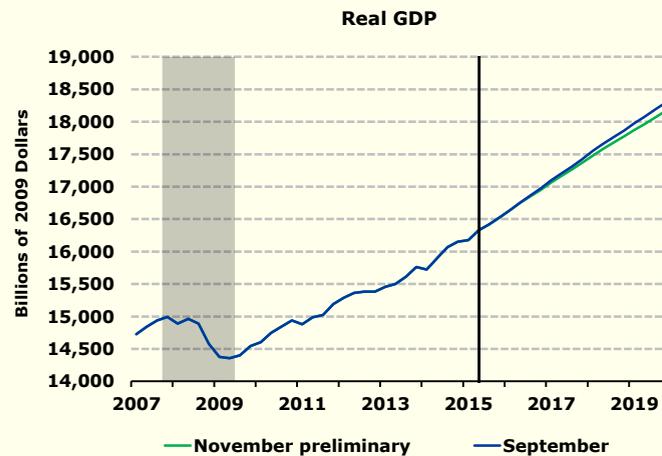
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Source: Blue Chip Economic Forecasts, January - October 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



GDP is slightly lower than in the September forecast



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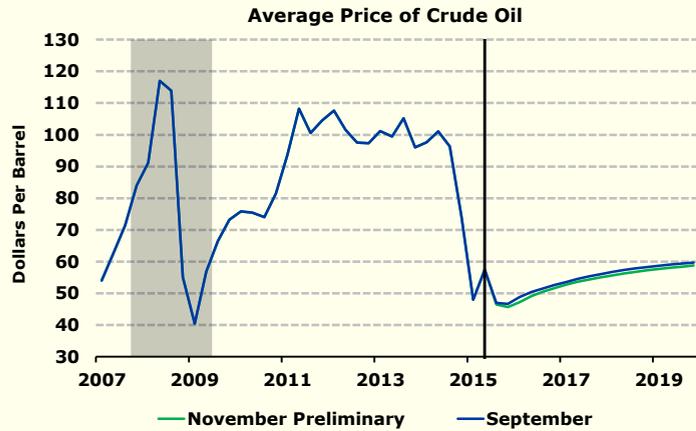
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Source: Global Insight, ERFC November 2015 Preliminary forecast; historical data through 2015Q2

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Oil prices are very similar to the September forecast



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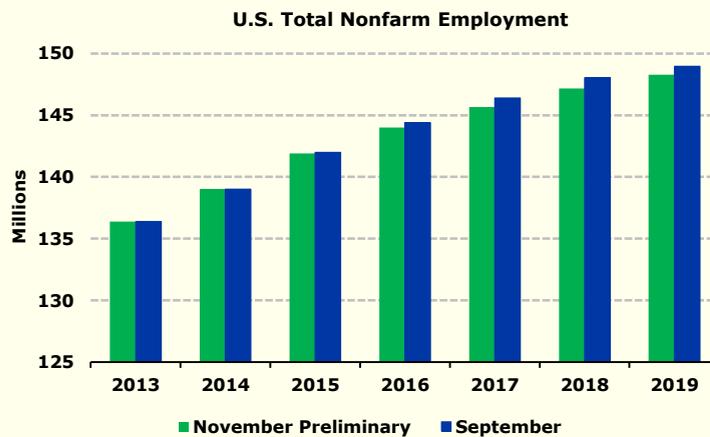
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Source: DOE, ERFC November 2015 Preliminary forecast; historical data through 2015Q2

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U.S. employment forecast is 0.5% lower by 2019 compared to September



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Source: BLS, ERFC November 2015 Preliminary forecast; historical data through 2014

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Average U.S. wage growth has turned positive



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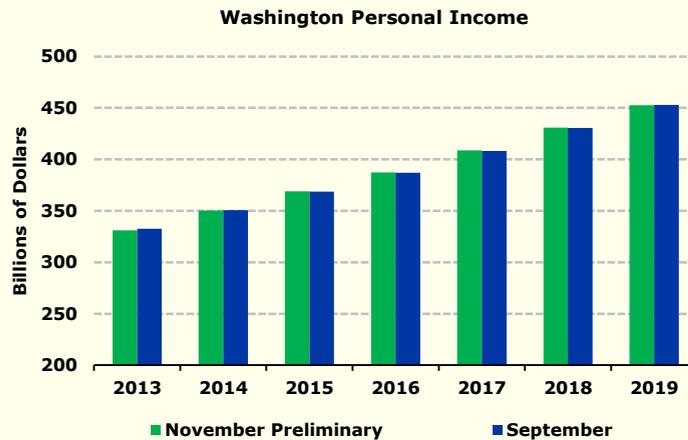
Source: U.S. Bureau of Labor Statistics, data through Sept. 2015

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington personal income is very similar to the September forecast



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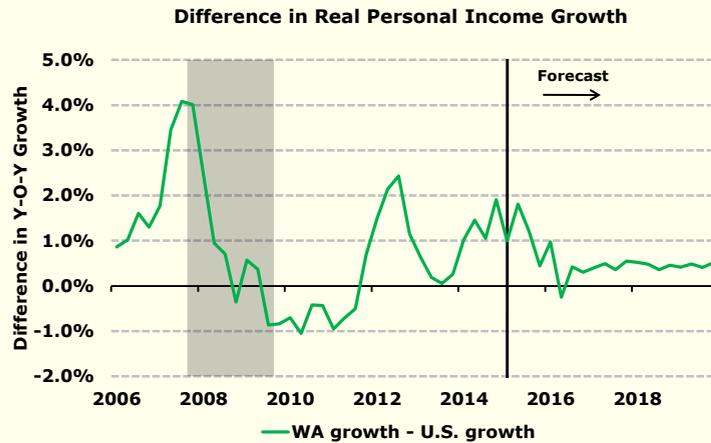
Source: ERFEC November 2015 Preliminary forecast; historical data through 2014

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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



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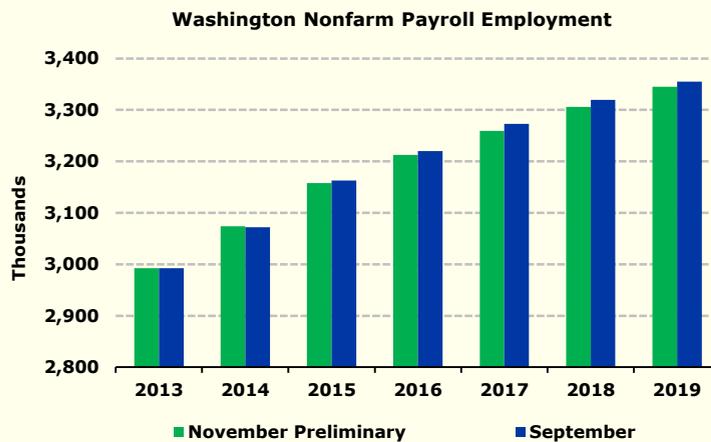
Source: ERFC November 2015 Preliminary forecast; historical data through 2015Q2

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington employment forecast revised down slightly



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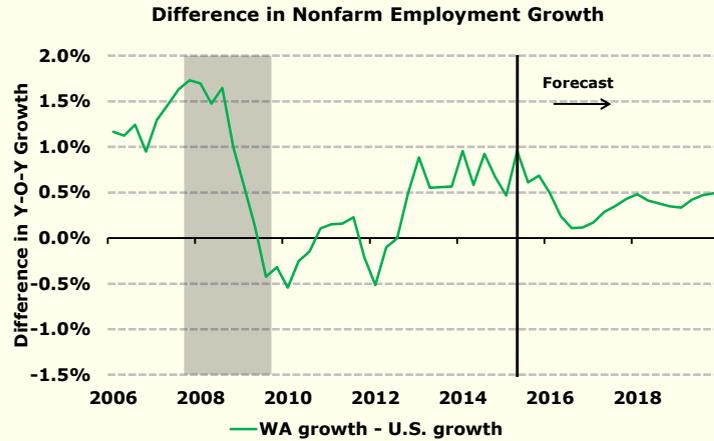
Source: ERFC November 2015 Preliminary forecast; historical data through 2014

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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



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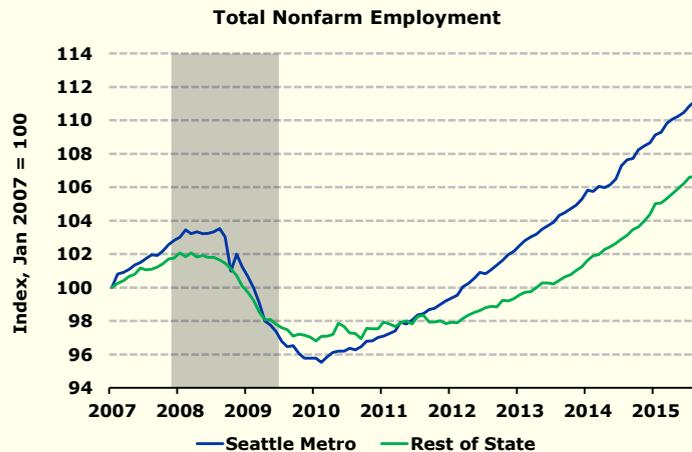
Source: ERFC November 2015 Preliminary forecast; historical data through 2015Q3

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Seattle area employment continues to grow faster than the rest of the state



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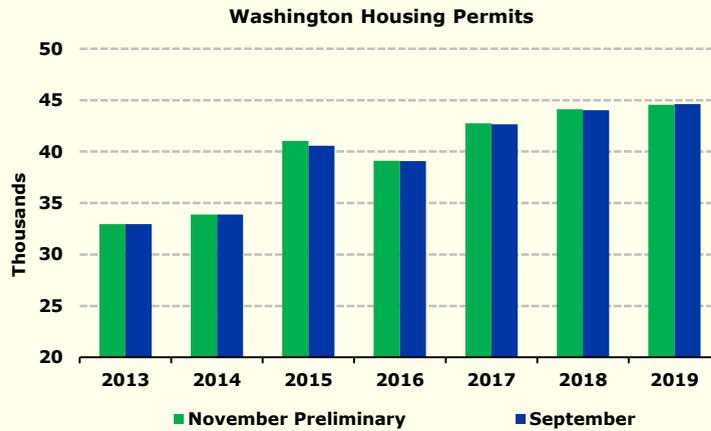
Source: Employment Security Department, ERFC; data through September 2015

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington housing permits forecast is very similar to September



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Source: ERFC November 2015 Preliminary forecast; historical data through 2014

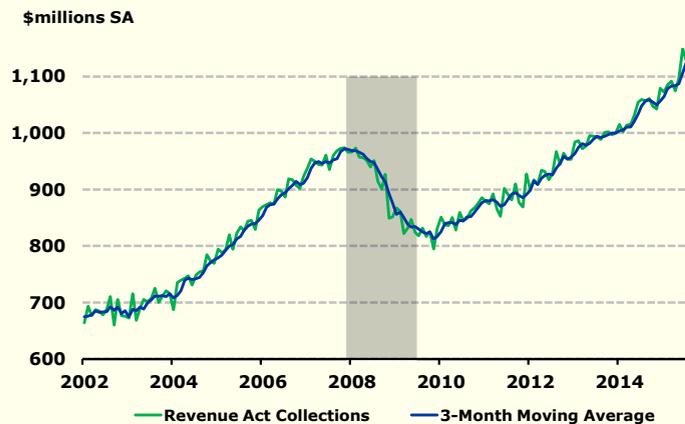
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue Act collections moving back to trend after spike in August

Y-O-Y growth in August 10th collections, adjusted for large payments and refunds, was 10.9%.

Adjusted September 10th collections grew at 6.4% and October 10th collections grew at 4.3%.



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

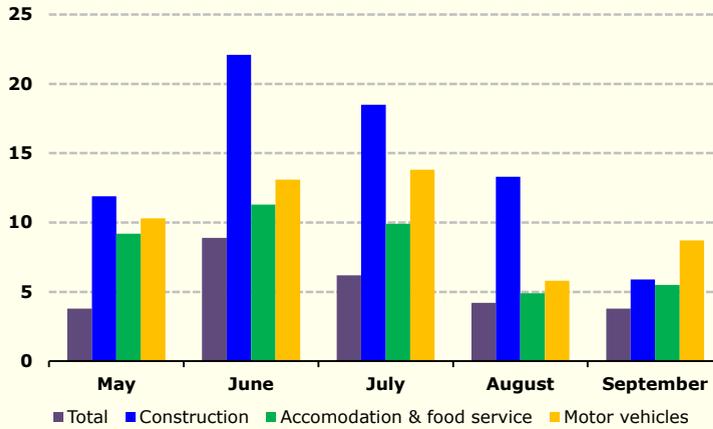
Source: DOR and ERFC; monthly data through estimated August 2015 activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Growth in payments from electronic filers have slowed in last three months

Year-over-year growth, electronic filer tax payments



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Source: Dept. of Revenue, ERFC; activity through September 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

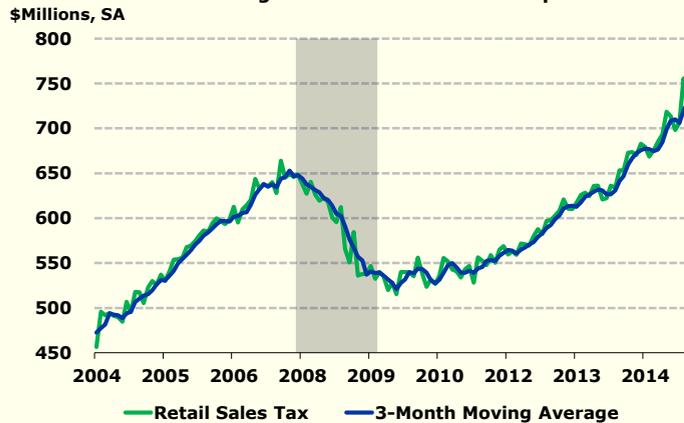


Sales tax growth slowing but still strong

Adjusted sales tax collections were up 8.4% Y-O-Y for 1st quarter activity and 9.2% for 2nd quarter activity.

3rd quarter Y-O-Y growth will be 6.7% if November 10th collections come in as forecasted in September.

Washington Retail Sales Tax Receipts



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November 4, 2015

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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

Source: ERFC; Monthly data through August 2015 preliminary activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue collections to date

Special factors:

\$6.1 million large one-time payment not included in forecast.

Collections Variance Since September Forecast (September 11 – October 10, 2015) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$1,235,238	\$1,263,435	\$28,197	2.3%
All other agencies	\$7,563	\$7,252	(\$311)	-4.1%
Total GF-S	\$1,242,802	\$1,270,688	\$27,886	2.2%
Total excluding special factors	\$1,242,802	\$1,264,577	\$21,776	1.8%

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November 4, 2015

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- The economic forecast is slightly weaker than in September but continues to expect moderate growth
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic expansion include slower economic growth in China, the impact of a stronger dollar on exports, and a slowdown in manufacturing
- The next monthly collection report will be available on November 12th and the revenue forecast will be presented on November 18th

Economic Review
November 4, 2015

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Questions

Economic Review
November 4, 2015

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

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U.S. Economic Forecast Comparison

October 2015

	2015Q3	2015Q4	2016Q1	2016Q2	2014	2015	2016	2017	2018	2019
Real GDP, Percent Change, Annual Rate										
ERFC (Preliminary November)	2.0	2.7	2.7	2.7	2.4	2.5	2.7	2.5	2.4	2.2
Global Insight	1.9	2.7	2.9	2.9	2.4	2.5	2.9	3.0	2.6	2.5
Economy.com	1.7	3.2	3.4	3.5	2.4	2.5	3.2	3.2		
Blue Chip Average*	2.1	2.7	2.6	2.7		2.5	2.7	2.5	2.4	2.2
Blue Chip Top 10*	2.7	3.2	3.0	3.2		2.6	3.0	2.9	2.8	2.7
Blue Chip Bottom 10*	1.5	2.2	2.1	2.3		2.4	2.3	2.1	1.7	1.6
Real Consumption, Percent Change, Annual Rate										
ERFC (Preliminary November)	3.2	3.0	3.0	2.8	2.7	3.2	2.9	2.5	2.4	2.3
Global Insight	3.7	3.2	3.2	3.1	2.7	3.2	3.3	3.1	2.8	2.6
Economy.com	3.6	4.1	3.7	3.8	2.7	3.3	3.9	3.8		
Blue Chip Average*	3.3	3.0	2.8	2.8		3.2	2.9	2.5	2.4	2.3
Blue Chip Top 10*	3.7	3.5	3.3	3.4		3.2	3.3	2.9	2.8	2.6
Blue Chip Bottom 10*	2.7	2.4	2.2	2.3		3.0	2.5	2.1	2.0	2.0
Federal Funds Rate										
ERFC (Preliminary November)	0.1	0.2	0.5	0.8	0.1	0.2	0.9	1.9	2.9	3.3
Global Insight	0.1	0.2	0.5	0.8	0.1	0.2	0.9	1.9	2.9	3.3
Economy.com	0.1	0.3	0.5	0.8	0.1	0.2	0.9	2.3		
Three Month T-Bill Rate										
ERFC (Preliminary November)	0.0	0.1	0.4	0.7	0.0	0.1	0.8	1.8	2.8	3.0
Global Insight	0.0	0.1	0.4	0.7	0.0	0.1	0.8	1.8	2.8	3.0
Blue Chip Average*	0.0	0.2	0.4	0.7		0.1	0.8	2.0	2.8	3.1
Blue Chip Top 10*		0.4	0.7	1.0		0.1	1.1	2.9	3.7	4.0
Blue Chip Bottom 10*		0.0	0.2	0.4		0.0	0.5	1.3	1.8	2.3
10-Yr. T-Note Yield										
ERFC (Preliminary November)	2.2	2.3	2.5	2.6	2.5	2.2	2.6	2.8	3.2	3.5
Global Insight	2.2	2.3	2.5	2.6	2.5	2.2	2.6	2.9	3.3	3.6
Economy.com	2.2	2.3	2.6	2.8	2.5	2.2	3.0	4.0		
Blue Chip Average*	2.2	2.3	2.5	2.7		2.2	2.7	3.4	3.8	4.0
Blue Chip Top 10*		2.5	2.7	3.1		2.2	3.2	4.2	4.4	4.7
Blue Chip Bottom 10*		2.1	2.2	2.3		2.1	2.4	2.8	3.0	3.3
Consumer Price Index, Percent Change, Annual Rate										
ERFC (Preliminary November)	2.1	-0.4	3.0	1.6	1.6	0.1	1.8	2.2	2.2	2.0
Global Insight	1.5	-1.3	3.1	2.4	1.6	0.0	1.8	2.4	2.8	2.4
Economy.com	1.8	1.4	2.1	2.3	1.6	0.2	2.1	2.8		
Blue Chip Average*	1.6	0.9	1.9	2.3		0.2	2.0	2.3	2.4	2.4
Blue Chip Top 10*	2.1	2.1	2.8	3.3		0.4	2.5	2.8	2.9	2.7
Blue Chip Bottom 10*	1.1	-0.5	1.0	1.6		0.1	1.6	2.0	2.0	2.0
Payroll Employment, Millions										
ERFC (Preliminary November)	142.2	142.7	143.3	143.8	139.0	141.9	144.0	145.7	147.2	148.3
Percent Change, Annual Rate	1.7	1.3	1.7	1.5	1.9	2.1	1.5	1.2	1.0	0.8
Global Insight	142.2	142.7	143.3	143.9	139.0	141.9	144.1	146.0	147.8	149.2
Percent Change, Annual Rate	1.7	1.4	1.6	1.6	1.9	2.1	1.5	1.3	1.2	1.0
Economy.com	142.2	142.8	143.5	144.2	139.0	141.9	144.6	147.7		
Percent Change, Annual Rate	1.7	1.7	1.8	2.1	1.9	2.1	1.9	2.2		
Unemployment Rate, Percent										
ERFC (Preliminary November)	5.2	5.2	5.1	5.1	6.2	5.3	5.1	5.1	5.1	5.2
Global Insight	5.2	5.1	5.1	5.1	6.2	5.3	5.0	4.9	5.0	5.0
Economy.com	5.2	5.0	5.0	5.0	6.2	5.3	5.0	4.7		
Blue Chip Average*	5.2	5.0	4.9	4.8		5.3	4.8	4.7	4.7	4.7
Blue Chip Top 10*		5.2	5.1	5.0		5.3	5.0	5.0	5.1	5.1
Blue Chip Bottom 10*		5.0	4.7	4.6		5.2	4.5	4.2	4.1	4.2
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC (Preliminary November)	3.1	4.2	3.1	2.9	2.7	3.2	3.2	3.3	3.4	3.0
Global Insight	3.5	4.9	3.0	2.4	2.7	3.3	3.2	3.4	3.1	3.0
Blue Chip Average*	3.1	3.0	2.6	2.4		3.2	2.6	2.8	2.7	2.5
Blue Chip Top 10*	4.2	4.2	3.5	3.2		3.5	3.1	3.6	3.4	3.2
Blue Chip Bottom 10*	2.3	2.1	1.9	1.7		3.0	2.1	2.1	2.1	2.0
West Texas Intermediate										
ERFC (Preliminary November)	46.4	46.1	47.6	49.3	93.0	49.8	49.7	53.3	55.8	57.7
Global Insight	46.4	40.0	43.9	53.1	93.0	48.3	50.7	58.9	74.3	81.2
Economy.com	46.6	50.0	52.0	54.5	93.2	50.7	55.7	64.8		

* Forecasts beyond 2016 are from the October 2015 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	15,751	16,183	16,580	17,008	17,423	17,824
<i>Growth</i>	2.1%	2.7%	2.5%	2.6%	2.4%	2.3%
September Forecast	15,751	16,180	16,584	17,036	17,487	17,921
<i>Growth</i>	2.1%	2.7%	2.5%	2.7%	2.6%	2.5%
Difference in level	0	2	-3	-29	-64	-97
<i>Difference in growth forecast</i>	0.0%	0.0%	0.0%	-0.2%	-0.2%	-0.2%
Real Consumption						
Billions of 2009 dollars						
November Preliminary Forecast	10,710	11,053	11,392	11,691	11,980	12,257
<i>Growth</i>	2.1%	3.2%	3.1%	2.6%	2.5%	2.3%
September Forecast	10,710	11,050	11,371	11,686	11,989	12,288
<i>Growth</i>	2.1%	3.2%	2.9%	2.8%	2.6%	2.5%
Difference in level	0	3	21	6	-8	-31
<i>Difference in growth forecast</i>	0.0%	0.0%	0.2%	-0.1%	-0.1%	-0.2%
Implicit Price Deflator						
Index 2009 = 100						
November Preliminary Forecast	108.4	109.2	110.3	112.0	114.1	116.1
<i>Growth</i>	1.4%	0.8%	0.9%	1.6%	1.9%	1.7%
September Forecast	108.4	109.2	110.2	111.9	113.9	115.9
<i>Growth</i>	1.4%	0.8%	0.9%	1.5%	1.8%	1.7%
Difference in level	0.0	0.0	0.0	0.1	0.2	0.2
<i>Difference in growth forecast</i>	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Unemployment Rate						
Percent of Labor Force						
November Preliminary Forecast	6.8%	5.7%	5.1%	5.1%	5.1%	5.2%
September Forecast	6.8%	5.7%	5.1%	5.1%	5.1%	5.1%
<i>Difference in forecast</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
30 Year Fixed Mortgage Rate						
Annual Average						
November Preliminary Forecast	4.3%	3.9%	4.1%	4.6%	4.9%	5.4%
September Forecast	4.3%	3.9%	4.2%	4.6%	4.9%	5.4%
<i>Difference in forecast</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3 Month T-Bill Rate						
Annual Average						
November Preliminary Forecast	0.0%	0.0%	0.3%	1.3%	2.3%	3.0%
September Forecast	0.0%	0.0%	0.4%	1.3%	2.3%	3.0%
<i>Difference in forecast</i>	0.0%	0.0%	0.0%	0.0%	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	313.5	329.8	342.8	355.1	367.9	380.5
<i>Growth</i>	1.6%	5.2%	3.9%	3.6%	3.6%	3.4%
September Forecast	314.4	329.7	342.6	355.0	367.9	381.1
<i>Growth</i>	2.0%	4.9%	3.9%	3.6%	3.6%	3.6%
Difference in level	-0.9	0.0	0.2	0.1	0.0	-0.6
<i>Difference in growth forecast</i>	-0.4%	0.3%	0.0%	0.0%	0.0%	-0.2%
Nominal Personal Income						
Billions of dollars						
November Preliminary Forecast	339.7	360.2	377.9	397.8	419.9	441.7
<i>Growth</i>	3.0%	6.0%	4.9%	5.3%	5.5%	5.2%
September Forecast	340.7	360.2	377.7	397.2	419.2	441.7
<i>Growth</i>	3.4%	5.7%	4.9%	5.2%	5.5%	5.4%
Difference in level	-1.0	0.1	0.2	0.6	0.7	0.0
<i>Difference in growth forecast</i>	-0.4%	0.3%	0.1%	0.1%	0.0%	-0.2%
Nonfarm Payroll Employment, End of Period						
Thousands						
November Preliminary Forecast	3,030.5	3,118.5	3,188.8	3,234.8	3,284.4	3,325.7
<i>Growth</i>	2.5%	2.9%	2.3%	1.4%	1.5%	1.3%
September Forecast	3,030.5	3,118.8	3,194.2	3,246.7	3,297.7	3,338.2
<i>Growth</i>	2.5%	2.9%	2.4%	1.6%	1.6%	1.2%
Difference in level	0.0	-0.4	-5.4	-11.9	-13.3	-12.5
<i>Difference in growth forecast</i>	0.0%	0.0%	-0.2%	-0.2%	0.0%	0.0%
Housing Permits						
Units Authorized, Thousands						
November Preliminary Forecast	33.1	39.8	37.4	41.3	43.5	44.4
<i>Growth</i>	5.3%	20.4%	-6.0%	10.4%	5.4%	2.1%
September Forecast	33.1	39.8	36.9	41.2	43.5	44.3
<i>Growth</i>	5.3%	20.4%	-7.2%	11.7%	5.4%	2.0%
Difference in level	0.0	0.0	0.5	0.1	0.1	0.1
<i>Difference in growth forecast</i>	0.0%	0.0%	1.3%	-1.3%	0.0%	0.1%

**Year-Over-Year Employment Growth by Industry
(September 2014 to September 2015)
Washington vs. U.S.**

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	84.3	2.5%	2.0%
Construction	13.3	7.1%	3.3%
Professional and Business Services	17.4	4.2%	3.2%
Leisure and Hospitality	12.3	4.1%	2.9%
Retail Trade	14.1	3.8%	2.0%
Information Excluding Software	2.3	3.8%	NA
Other Services	2.4	2.2%	1.0%
State and Local Gov Non-Education	3.4	2.2%	0.5%
Manufacturing Excluding Aerospace	2.9	1.6%	NA
Mining and Logging	0.1	1.4%	-11.1%
Education and Health Services	6.2	1.3%	2.6%
Financial Activities	1.7	1.2%	1.8%
Transportation, Warehousing and Utilities	1.0	1.1%	2.9%
Wholesale Trade	2.0	1.0%	1.2%
State and Local Gov Education	4.4	0.7%	0.9%
Aerospace Product and Parts Manufacturing	-1.1	-0.6%	NA
Software Publishers	-0.4	-0.6%	NA
Information	2.0	1.6%	1.6%
Manufacturing	1.8	0.9%	0.9%

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

**County Taxable Retail Sales
Quarter 2, 2014 to Quarter 2, 2015
(Dollars in Thousands)**

Rank	County	2nd Quarter, 2014	2nd Quarter, 2015	Percent Change	Taxbase Distribution
1	Clallam	240,787	288,978	20.0%	0.9%
2	Clark	1,300,220	1,494,946	15.0%	4.4%
3	Benton	829,174	944,649	13.9%	2.8%
4	Jefferson	92,900	105,530	13.6%	0.3%
5	Wahkiakum	6,172	7,006	13.5%	0.0%
6	Island	195,080	220,354	13.0%	0.7%
7	Kittitas	189,529	213,212	12.5%	0.6%
8	Mason	136,398	152,926	12.1%	0.5%
9	Skamania	22,292	24,990	12.1%	0.1%
10	King	12,203,926	13,587,843	11.3%	40.1%
11	Kitsap	868,357	963,563	11.0%	2.8%
12	Franklin	313,921	347,424	10.7%	1.0%
13	Thurston	1,043,048	1,151,980	10.4%	3.4%
14	San Juan	103,047	112,774	9.4%	0.3%
	Statewide	30,970,409	33,883,425	9.4%	100.0%
15	Skagit	599,503	655,708	9.4%	1.9%
16	Snohomish	2,876,630	3,145,570	9.3%	9.3%
17	Pierce	3,181,111	3,462,682	8.9%	10.2%
18	Chelan	396,440	429,860	8.4%	1.3%
19	Spokane	2,037,044	2,154,793	5.8%	6.4%
20	Okanogan	151,695	160,256	5.6%	0.5%
21	Grays Harbor	219,439	231,675	5.6%	0.7%
22	Whatcom	874,583	922,204	5.4%	2.7%
23	Walla Walla	205,393	216,416	5.4%	0.6%
24	Lewis	286,361	300,675	5.0%	0.9%
25	Pacific	56,932	59,392	4.3%	0.2%
26	Garfield	7,491	7,808	4.2%	0.0%
27	Stevens	101,760	105,590	3.8%	0.3%
28	Pend Oreille	28,539	29,495	3.3%	0.1%
29	Grant	443,377	458,035	3.3%	1.4%
30	Yakima	899,325	923,738	2.7%	2.7%
31	Douglas	189,183	194,246	2.7%	0.6%
32	Cowlitz	372,220	375,517	0.9%	1.1%
33	Asotin	70,898	71,167	0.4%	0.2%
34	Whitman	174,279	171,692	-1.5%	0.5%
35	Klickitat	63,519	60,593	-4.6%	0.2%
36	Ferry	11,802	10,915	-7.5%	0.0%
37	Lincoln	31,470	29,067	-7.6%	0.1%
38	Adams	76,856	70,735	-8.0%	0.2%
39	Columbia	69,708	19,422	-72.1%	0.1%
	King/Snohomish/Pierce	18,261,667	20,196,095	10.6%	59.6%
	Remainder of State	12,708,742	13,687,330	7.7%	40.4%

Governor's Council of Economic Advisor's Forecast

Calendar Years

	2015	2016	2017	2018	2019
U.S.					
Real GDP					
<i>Growth</i>					
ERFC	2.5	2.7	2.5	2.4	2.2
GCEA Average	2.5	2.7	2.6	2.5	2.2
Real Consumption					
<i>Growth</i>					
ERFC	3.2	2.9	2.5	2.4	2.3
GCEA Average	3.2	2.9	2.6	2.4	2.3
Implicit Price Deflator, PCE					
<i>Growth</i>					
ERFC	0.3	1.5	1.8	1.8	1.7
GCEA Average	0.4	1.7	2.0	2.0	1.9
Mortgage Rate					
<i>Percent</i>					
ERFC	3.9	4.4	4.7	5.2	5.5
GCEA Average	3.9	4.5	4.9	5.3	5.5
Oil Price (Brent)					
<i>Dollars per barrel</i>					
ERFC	54.4	53.4	58.4	61.2	63.0
GCEA Average	53.6	55.8	60.9	63.8	66.5

What is the probability a recession will begin in the current biennium (by 2017Q2)? 28%

Washington State

Real Personal Income

<i>Growth</i>					
ERFC	5.0	3.5	3.7	3.5	3.3
GCEA Average	4.8	3.4	3.4	3.3	3.1

Wage and Salary Employment

<i>Growth</i>					
ERFC	2.7	1.7	1.5	1.4	1.2
GCEA Average	2.9	2.0	1.7	1.5	1.3

Manufacturing Employment

<i>Growth</i>					
ERFC	0.4	-0.4	0.4	0.5	0.5
GCEA Average	0.6	-0.1	0.1	0.2	0.1

Construction Employment

<i>Growth</i>					
ERFC	8.4	0.7	4.1	4.7	3.1
GCEA Average	8.9	2.7	3.3	2.9	2.2

Housing Permits

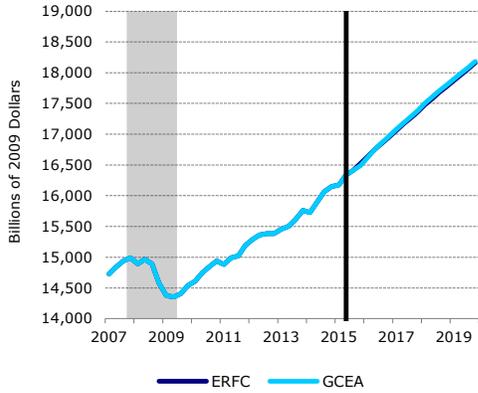
<i>Thousands of authorized units</i>					
ERFC	41.0	39.1	42.8	44.1	44.5
GCEA Average	40.2	39.8	41.0	41.4	41.8

Washington Average Annual Wage

<i>Growth</i>					
ERFC	2.6	3.1	3.9	3.7	3.8
GCEA Average	2.6	3.2	3.6	3.6	3.5

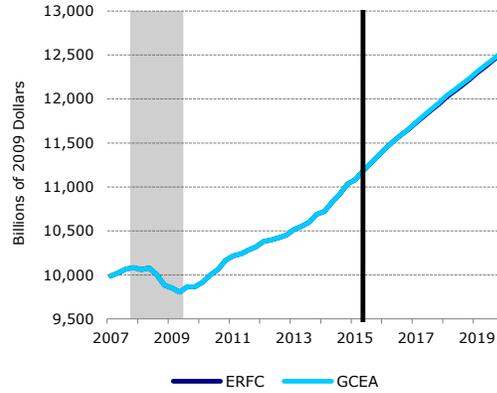
U.S. Forecast Comparison

Real GDP



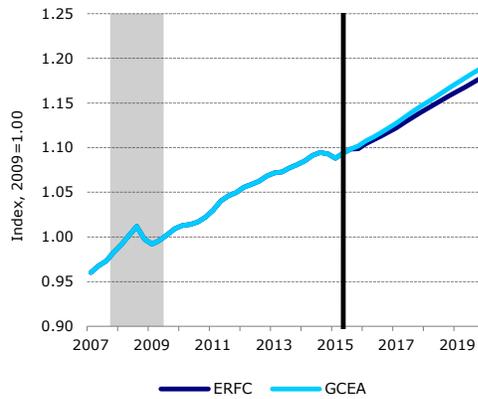
Source: BEA, ERFC, GCEA; data through 2015 Q2

Real Consumption



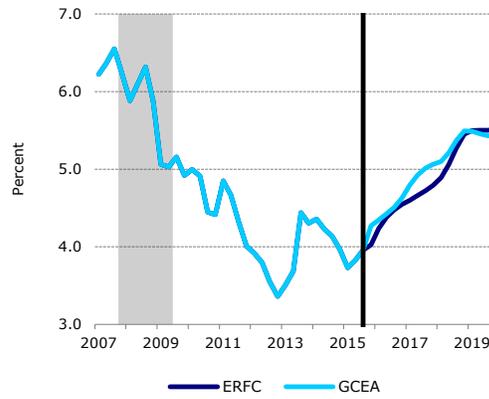
Source: BEA, ERFC, GCEA; data through 2015 Q2

Implicit Price Deflator, PCE



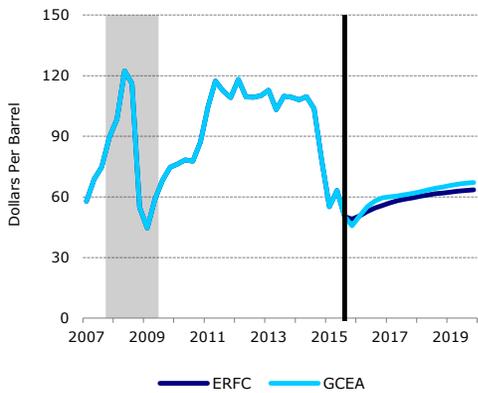
Source: BEA, ERFC, GCEA; data through 2015 Q2

Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; data through 2015 Q3

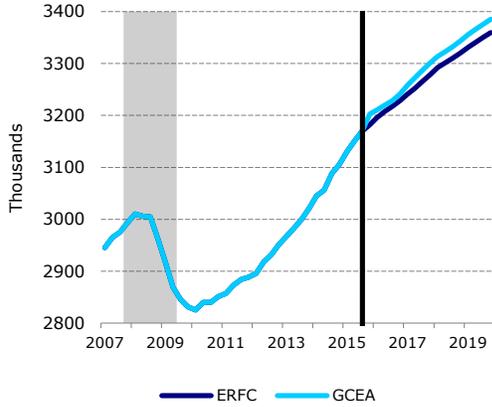
Brent Oil Price



Source: EIA, ERFC, GCEA; data through 2015 Q3

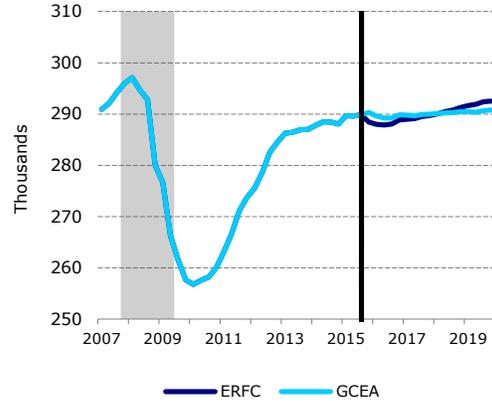
Washington Forecast Comparison

Nonfarm Payroll Employment



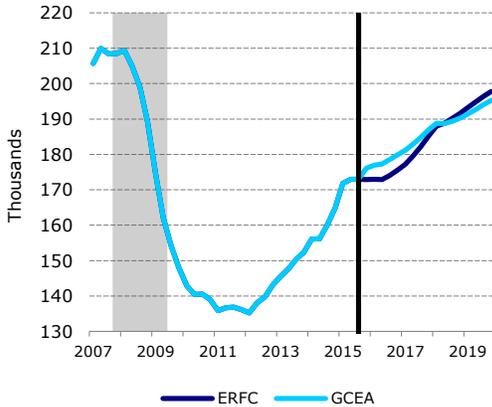
Source: ESD, ERFC, GCEA; data through 2015 Q3

Manufacturing Employment



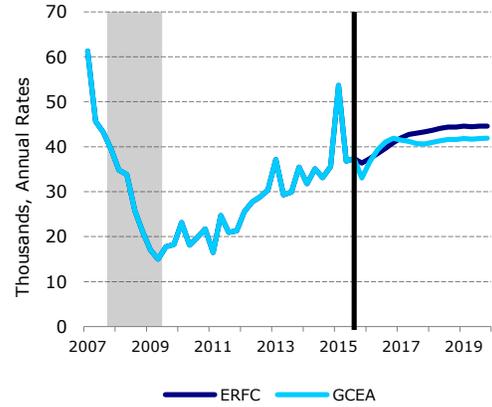
Source: ESD, ERFC, GCEA; data through 2015 Q3

Construction Employment



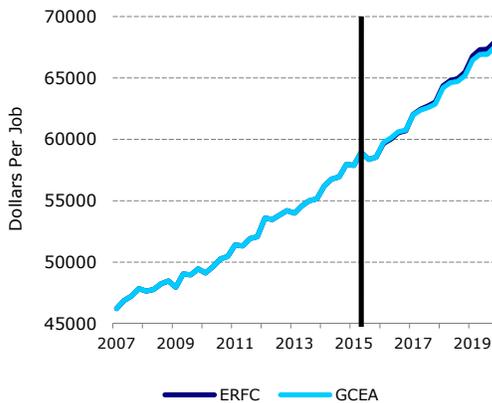
Source: ESD, ERFC, GCEA; data through 2015 Q3

Housing Units Authorized



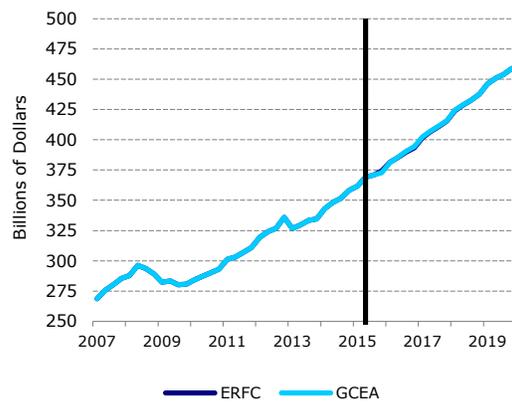
Source: Census, ERFC, GCEA; data through 2015 Q3

Average Annual Wage



Source: BEA, ERFC, GCEA; data through 2015 Q2

Personal Income



Source: BEA, ERFC, GCEA; data through 2015 Q2