



February 2015 Economic Forecast

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This forecast was based on a modified version of Global Insight's February 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 February Blue Chip release, the average forecast for real GDP growth in 2015 and 2016 is 3.2% and 2.9% compared to 3.0% and 2.9% in November. The forecast growth rates for 2017 through 2019 are unchanged as the Blue Chip long term forecast has not been revised.

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 Tuesday, February 10, 2015 closing prices for Brent and WTI futures. Prices for both have declined since the November forecast. The refiner's acquisition price of crude oil in the first quarter of 2015 is now expected to be \$49 per barrel compared to \$77 in the November forecast. Oil prices are expected to rise slightly faster during the remainder of the forecast than assumed in November. By the end of 2019, the refiner's acquisition price is expected to increase to \$71 compared to \$83 in the November forecast.

A comparison of the U.S. forecast with the forecast adopted in November is shown in Table 2.

We have three months of new Washington employment data since the November forecast was released. Total nonfarm payroll employment rose 31,600 (seasonally adjusted) in November, December, and January, 13,300 more than the 18,300 expected in the November forecast. Nearly half the three-month employment growth occurred in the month of January. We believe that unusually mild weather accounted for some of the strong growth in January. Construction employment grew 7,700 in the three-month period which was much better than the 2,200 increase expected in the forecast and manufacturing employment rose 3,600 which was also better than the 100 increase expected in the forecast. Private services-providing employment grew 18,800 compared to a forecast of 14,700 and public sector employment growth

slightly exceeded the forecast with 1,400 net new jobs compared to a forecast of 1,200 net new jobs.

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 raised the estimated level of total employment in October 2014 by 2,600 jobs. As a result of the upward revisions to history and stronger-than-expected growth, the total effect is 15,900 (0.5%) more jobs in January 2015 than expected in the November forecast.

In late December, the Bureau of Economic Analysis released estimates for state personal income through the third quarter of 2014. We have incorporated the new BEA estimates as well as additional Washington Quarterly Census of Employment and Wages (QCEW) and other wage data also through the third quarter. Our current estimate of Washington personal income in the third quarter of 2014 is \$350.2 billion which is \$1.2 billion (0.3%) lower than assumed in November.

Housing construction improved in the fourth quarter of 2014. The number of housing units authorized by building permits increased to 35,000 (SAAR) in the fourth quarter from 32,600 in the third quarter. The November forecast predicted 34,100 units. The number of single-family units increased from 17,700 to 18,800, exceeding the forecast of 17,600 units. The number of multi-family units also increased, from 14,900 to 16,200, but fell slightly short of the 16,500 units forecasted in November.

As in November, 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.

Overall, our February forecast for Washington State is similar to the forecast adopted in November. Washington employment is expected to grow 2.9% this year compared to 2.3% expected in the November forecast. The upward revision to growth in 2015 is mostly due to higher employment data through January. The February forecast for average annual employment growth from 2016 through 2019 is now 1.6% per year, up slightly from the 1.4% growth rate forecasted in November. Our February forecast for nominal personal

income growth this year of 4.8% is unchanged since the November forecast, however, our new forecast for nominal personal income growth from 2016 through 2019 averages 5.7% per year, down slightly from 5.8% in the November forecast.

A comparison of the preliminary Washington forecast with the forecast adopted in November is shown in Table 3.

Table 1
U.S. Economic Forecast Comparison
 February 2015

	2014Q4	2015Q1	2015Q2	2015Q3	2014	2015	2016	2017	2018	2019
Real GDP, Percent Change, Annual Rate										
ERFC	2.6	2.7	3.0	3.0	2.4	3.2	2.9	2.7	2.5	2.4
Global Insight	2.6	2.4	2.9	2.5	2.4	3.0	2.7	2.8	2.6	2.8
Economy.com	2.6	3.1	4.1	3.8	2.4	3.6	3.5			
Blue Chip Average*		2.7	2.9	3.0		3.2	2.9	2.7	2.5	2.4
Blue Chip Top 10*		3.5	3.4	3.4		3.5	3.2	3.1	2.9	2.9
Blue Chip Bottom 10*		2.1	2.4	2.6		2.9	2.5	2.2	2.1	1.9
Real Consumption, Percent Change, Annual Rate										
ERFC	4.3	3.1	3.2	3.0	2.5	3.3	2.8	2.6	2.5	2.4
Global Insight	4.3	3.4	3.9	3.7	2.5	3.6	3.3	2.9	2.5	2.5
Economy.com	4.3	4.2	4.8	4.6	2.5	4.2	4.2			
Blue Chip Average*		3.2	3.2	3.0		3.3	2.8	2.6	2.5	2.4
Blue Chip Top 10*		4.1	3.8	3.7		3.7	3.3	3.1	2.8	2.7
Blue Chip Bottom 10*		2.4	2.5	2.6		2.9	2.5	2.2	2.1	2.1
Federal Funds Rate										
ERFC	0.1	0.1	0.3	0.5	0.1	0.4	1.6	3.3	3.8	3.8
Global Insight	0.1	0.1	0.3	0.5	0.1	0.4	1.6	3.3	3.8	3.8
Economy.com	0.1	0.1	0.1	0.2	0.1	0.2	1.9			
Three Month T-Bill Rate										
ERFC	0.0	0.0	0.3	0.5	0.0	0.0	0.1	0.2	0.4	0.6
Global Insight	0.0	0.0	0.2	0.5	0.0	0.0	0.1	0.2	0.4	0.6
Blue Chip Average*		0.1	0.2	0.4		0.4	1.6	2.9	3.4	3.4
Blue Chip Top 10*		0.1	0.4	0.7		0.6	2.4	3.9	4.4	4.3
Blue Chip Bottom 10*		0.0	0.1	0.1		0.1	1.0	1.7	2.1	2.4
10-Yr. T-Note Yield										
ERFC	2.3	1.9	2.2	2.5	2.5	2.4	3.5	3.8	3.8	3.8
Global Insight	2.3	1.8	2.1	2.4	2.5	2.3	3.4	3.9	4.0	4.0
Economy.com	2.3	2.3	2.6	2.7	2.5	2.6	3.8			
Blue Chip Average*		2.0	2.2	2.5		2.4	3.2	4.2	4.4	4.4
Blue Chip Top 10*		2.4	2.6	2.9		2.7	3.8	5.0	5.0	5.1
Blue Chip Bottom 10*		1.8	1.9	2.1		2.0	2.7	3.5	3.7	3.7
Consumer Price Index, Percent Change, Annual Rate										
ERFC	-1.2	-3.4	2.0	2.3	1.6	0.0	2.2	2.0	2.1	2.1
Global Insight	-1.2	-4.9	-0.2	2.5	1.6	-0.7	2.3	2.7	2.7	2.5
Economy.com	-1.2	-2.0	2.4	2.9	1.6	0.6	2.6			
Blue Chip Average*		-2.0	1.9	2.3		0.4	2.3	2.3	2.4	2.3
Blue Chip Top 10*		0.6	3.2	3.3		1.1	2.9	2.8	2.9	2.8
Blue Chip Bottom 10*		-4.5	0.7	1.4		-0.2	1.7	1.9	1.9	1.9
Payroll Employment, Millions										
ERFC	140.2	141.1	141.9	142.6	139.0	142.2	145.0	147.1	148.5	149.6
Percent Change, Annual Rate	2.5	2.6	2.2	1.9	1.9	2.3	2.0	1.5	0.9	0.8
Global Insight	140.2	141.1	141.8	142.4	139.0	142.1	144.8	146.8	148.2	149.6
Percent Change, Annual Rate	2.5	2.5	2.0	1.8	1.9	2.2	1.9	1.4	0.9	1.0
Economy.com	140.2	141.0	141.9	142.8	139.0	142.3	145.8			
Percent Change, Annual Rate	2.5	2.2	2.5	2.6	1.9	2.4	2.4			
Unemployment Rate, Percent										
ERFC	5.7	5.6	5.5	5.5	6.2	5.5	5.3	5.1	5.1	5.1
Global Insight	5.7	5.6	5.6	5.5	6.2	5.5	5.3	5.1	5.1	5.1
Economy.com	5.7	5.7	5.5	5.4	6.1	5.5	5.2			
Blue Chip Average*		5.6	5.4	5.3		5.4	5.0	5.3	5.2	5.3
Blue Chip Top 10*		5.7	5.6	5.5		5.6	5.4	5.9	5.7	5.7
Blue Chip Bottom 10*		5.5	5.3	5.1		5.2	4.7	4.7	4.6	4.7
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC	3.8	6.0	1.7	2.0	2.4	3.3	2.9	3.9	3.4	3.2
Global Insight	3.8	7.1	3.0	1.7	2.4	3.8	2.7	3.5	3.0	3.0
Blue Chip Average*		4.8	2.6	2.7		3.3	2.8	3.0	2.7	2.6
Blue Chip Top 10*		7.4	3.6	3.6		4.0	3.9	3.9	3.5	3.2
Blue Chip Bottom 10*		2.7	1.6	1.9		2.8	2.1	2.3	2.2	2.1

* Forecasts beyond 2016 are from the October 2014 Blue Chip Economic Indicators

Table 2

U.S. Forecast Comparison

	2014Q4	2015Q1	2015Q2	2015Q3	2013	2014	2015	2016	2017	2018	2019
Real GDP (Billions of 2009 Dollars)											
February Forecast	16,312	16,421	16,541	16,664	15,710	16,090	16,602	17,078	17,539	17,977	18,409
Percent Change	2.6%	2.7%	3.0%	3.0%	2.2%	2.4%	3.2%	2.9%	2.7%	2.5%	2.4%
November Forecast	16,243	16,361	16,479	16,601	15,710	16,059	16,541	17,021	17,480	17,917	18,347
Percent Change	2.3%	3.0%	2.9%	3.0%	2.2%	2.2%	3.0%	2.9%	2.7%	2.5%	2.4%
Real Consumption (Billions of 2009 Dollars)											
February Forecast	11,115	11,200	11,289	11,374	10,700	10,968	11,330	11,647	11,950	12,248	12,541
Percent Change	4.3%	3.1%	3.2%	3.0%	2.4%	2.5%	3.3%	2.8%	2.6%	2.5%	2.4%
November Forecast	11,031	11,112	11,191	11,267	10,700	10,937	11,228	11,531	11,830	12,125	12,416
Percent Change	2.6%	3.0%	2.9%	2.8%	2.4%	2.2%	2.7%	2.7%	2.6%	2.5%	2.4%
Implicit Price Deflator, PCE (2009=1.00)											
February Forecast	1.090	1.085	1.089	1.094	1.073	1.088	1.092	1.112	1.130	1.150	1.170
Percent Change	-0.5%	-1.7%	1.6%	1.8%	1.2%	1.3%	0.4%	1.8%	1.7%	1.8%	1.8%
November Forecast	1.092	1.094	1.098	1.102	1.073	1.088	1.100	1.117	1.137	1.158	1.180
Percent Change	0.2%	0.7%	1.6%	1.6%	1.2%	1.4%	1.1%	1.6%	1.8%	1.9%	1.9%
Real Personal Income (Billions of 2009 Dollars)											
February Forecast	13,699	13,918	14,000	14,083	13,199	13,531	14,047	14,529	15,115	15,604	16,043
Percent Change	4.3%	6.5%	2.4%	2.4%	0.8%	2.5%	3.8%	3.4%	4.0%	3.2%	2.8%
November Forecast	13,754	13,895	13,991	14,097	13,199	13,571	14,052	14,590	15,159	15,639	16,091
Percent Change	4.0%	4.2%	2.8%	3.1%	0.8%	2.8%	3.5%	3.8%	3.9%	3.2%	2.9%
Nonfarm Payroll Employment (Millions)											
February Forecast	140.2	141.1	141.9	142.6	136.4	139.0	142.2	145.0	147.1	148.5	149.6
Percent Change	2.5%	2.6%	2.2%	1.9%	1.7%	1.9%	2.3%	2.0%	1.5%	0.9%	0.8%
November Forecast	139.9	140.7	141.5	142.1	136.4	138.9	141.7	144.1	145.8	146.9	147.7
Percent Change	2.1%	2.3%	2.1%	1.9%	1.7%	1.8%	2.1%	1.7%	1.2%	0.7%	0.6%
Unemployment Rate (Percent of Labor Force)											
February Forecast	5.7	5.6	5.5	5.5	7.4	6.2	5.5	5.3	5.1	5.1	5.1
November Forecast	5.8	5.7	5.5	5.4	7.4	6.2	5.5	5.2	5.1	5.1	5.2
30 Year Fixed Mortgage Rate (Percent, average)											
February Forecast	4.0	3.7	3.9	4.1	4.0	4.2	4.1	5.4	5.7	5.7	5.7
November Forecast	4.1	4.4	4.8	5.0	4.0	4.2	4.8	5.5	6.1	6.1	6.1
3 Month T-Bill Rate (Percent, average)											
February Forecast	0.0	0.0	0.3	0.5	0.1	0.0	0.4	1.6	3.2	3.5	3.5
November Forecast	0.0	0.1	0.3	0.6	0.1	0.0	0.5	1.6	3.2	3.5	3.5

Table 3

Washington Forecast Comparison

	2014Q4	2015Q1	2015Q2	2015Q3	2013	2014	2015	2016	2017	2018	2019
Real Personal Income (Billions of 2009 Dollars)											
February Forecast	323.6	330.0	332.6	335.1	309.9	319.8	333.7	346.8	362.5	376.0	388.5
Percent Change	3.4%	8.1%	3.2%	3.0%	1.3%	3.2%	4.3%	3.9%	4.5%	3.7%	3.3%
November Forecast	323.5	327.4	330.1	333.7	309.9	320.1	331.7	346.2	361.4	374.5	387.4
Percent Change	1.8%	4.9%	3.4%	4.3%	1.3%	3.3%	3.6%	4.4%	4.4%	3.6%	3.4%
Personal Income (Billions of Dollars)											
February Forecast	352.7	358.1	362.3	366.7	332.7	347.8	364.4	385.5	409.7	432.4	454.7
Percent Change	2.9%	6.3%	4.8%	4.9%	2.5%	4.6%	4.8%	5.8%	6.3%	5.5%	5.2%
November Forecast	353.2	358.0	362.4	367.7	332.7	348.3	364.9	386.8	410.8	433.6	457.2
Percent Change	2.0%	5.6%	5.0%	6.0%	2.5%	4.7%	4.8%	6.0%	6.2%	5.6%	5.4%
Nonfarm Payroll Employment (Thousands)											
February Forecast	3106	3134	3152	3169	2990	3071	3161	3232	3287	3327	3370
Percent Change	2.7%	3.7%	2.3%	2.2%	2.4%	2.7%	2.9%	2.2%	1.7%	1.2%	1.3%
November Forecast	3100	3119	3136	3152	2990	3073	3144	3206	3251	3287	3323
Percent Change	1.8%	2.4%	2.2%	2.1%	2.4%	2.8%	2.3%	2.0%	1.4%	1.1%	1.1%
Unemployment Rate (Percent of Labor Force)											
February Forecast	6.1	6.2	6.2	6.1	7.0	6.0	6.1	5.9	5.7	5.6	5.6
November Forecast	6.0	5.9	5.8	5.7	7.0	6.0	5.7	5.5	5.4	5.4	5.4
Manufacturing Employment (Thousands)											
February Forecast	290.0	292.8	294.2	295.3	286.6	288.7	295.0	301.0	303.6	304.4	304.2
Percent Change	1.3%	4.0%	1.9%	1.5%	2.3%	0.7%	2.2%	2.1%	0.8%	0.3%	-0.1%
November Forecast	290.6	291.2	292.3	293.5	286.6	289.4	293.0	296.5	297.7	298.0	298.1
Percent Change	0.5%	0.7%	1.6%	1.6%	2.3%	1.0%	1.2%	1.2%	0.4%	0.1%	0.1%
Construction Employment (Thousands)											
February Forecast	162.2	167.5	168.6	170.4	148.8	158.1	169.8	178.2	187.1	195.1	201.9
Percent Change	8.3%	13.6%	2.7%	4.5%	7.0%	6.2%	7.4%	5.0%	5.0%	4.3%	3.5%
November Forecast	163.3	165.6	167.9	170.3	148.8	159.6	169.2	179.1	187.5	195.8	202.3
Percent Change	6.6%	5.6%	5.7%	5.9%	7.0%	7.3%	6.0%	5.9%	4.7%	4.4%	3.3%
Housing Permits (Thousands)											
February Forecast	35.0	34.4	35.4	36.1	33.0	33.3	35.6	38.7	41.9	43.2	44.0
Percent Change	33.9%	-6.9%	12.0%	7.8%	17.2%	1.1%	6.9%	8.7%	8.3%	3.0%	1.8%
November Forecast	34.1	34.3	34.8	35.8	33.0	33.9	35.3	38.7	42.5	43.2	43.9
Percent Change	12.8%	2.0%	6.9%	11.7%	17.2%	2.8%	4.0%	9.7%	9.9%	1.7%	1.6%