



May 2015 Economic Forecast

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This forecast was based on a modified version of Global Insight's May 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 May Blue Chip release, the average forecast for real GDP growth in 2015 and 2016 is 2.5% and 2.8% compared to 3.2% and 2.9% in February. The much lower growth rate for 2015 mostly reflects the disappointing first quarter GDP growth rate of just 0.2% (SAAR). In February the Blue Chip average projected a 2.7% growth rate for the first quarter. The forecast growth rates for 2017 through 2019 have been very slightly revised to reflect the new long-range Blue Chip forecast released in March which predicts growth rates of 2.7%, 2.6%, and 2.4%. The previous forecast called for growth rates of 2.7%, 2.5%, and 2.4% in 2017, 2018, and 2019.

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, May 12, 2015 closing prices for Brent and WTI futures. Near-term prices for both have increased since the February forecast. The refiner's acquisition price of crude oil in the second quarter of 2015 is now expected to average \$59 per barrel compared to \$54 in the February forecast. However, oil prices are expected to rise slower during the remainder of the forecast than assumed in February. By the end of 2019, the refiner's acquisition price is expected to increase to \$69 which is slightly less than the \$71 assumed in February.

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

We have three months of new Washington employment data since the February forecast was released. Total nonfarm payroll employment rose 17,200 (seasonally adjusted) in February, March, and April, just 500 short of the 17,700 expected in the February forecast. As is usually the case, most of the jobs created in February, March, and April were in private, service-providing sectors which added 12,700 jobs. The February forecast had

expected an increase of 15,700. The construction sector added 2,800 jobs in the last three months. The forecast had assumed a decline of 500 construction jobs after the very strong increase in January. The manufacturing sector lost 600 jobs in February, March, and April thanks to a decline of 700 in aerospace. The forecast had assumed an increase of 1,500 manufacturing jobs. Government payrolls expanded by 2,500 jobs in the last three months compared to the forecast of 1,100 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 lowered the estimated level of total employment in January 2015 by 7,100 jobs. As a result of the downward revisions to history and slightly weaker-than-expected growth, the total effect is 7,600 (0.2%) fewer jobs in April 2015 than expected in the February forecast.

In March the Bureau of Economic Analysis released estimates for state personal income through the fourth 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 fourth quarter. Our current estimate of Washington personal income in the fourth quarter of 2014 is \$358.7 billion which is \$6.0 billion (1.7%) higher than assumed in February. Roughly one-third (\$1.9 billion) of the forecast variance was due to unusually large bonus payments in the fourth quarter that are not expected to carry forward.

Housing construction got off to a very strong start in 2015 as the number of units authorized by building permits soared to 53,600 (SAAR) in the first quarter of 2015, the highest quarterly rate since the first quarter of 2007. The February forecast assumed an average of 34,400 units in the first quarter. The forecast error was almost entirely in multi-family housing. Single-family permits came in at 18,500 units in the first quarter which was almost exactly the 18,400 units expected in the forecast but the number of multi-family units was 35,200, more than twice the 16,000 in the forecast. The first quarter strength should be viewed cautiously for a couple of reasons. First, the weather was unseasonably mild. Second, the strength was in the volatile multi-family segment. We do not believe the exceptionally high rate of multi-family permits will continue.

As in February, 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 assumes the Microsoft layoffs first announced in July 2014 are now complete. The company had announced a total of 2733 layoffs in the Washington State in accordance with the Worker Adjustment and Retraining Notification (WARN) act. The beginning layoff dates ranged from 9/15/2014 to 12/28/2014. Now that these layoffs are believed to be complete, we expect moderate software employment growth to resume.

Overall, our new forecast for Washington State is similar to the forecast adopted in February. Washington employment is expected to grow 2.6% this year compared to 2.9% expected in the February forecast. The downward revision to growth in 2015 is mostly due to a downward revision to growth in the fourth quarter of 2014. The forecast for average annual employment growth from 2016 through 2019 is 1.6% per year, the same rate forecasted in February. Our forecast for nominal personal income growth this year of 4.9% is slightly higher than the 4.8% expected in February, however, our forecast for nominal personal income growth from 2016 through 2019 averages 5.6% per year, down slightly from 5.7% in the February forecast.

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

Table 1
U.S. Economic Forecast Comparison
 May 2015

	2015Q1	2015Q2	2015Q3	2015Q4	2014	2015	2016	2017	2018	2019
Real GDP, Percent Change, Annual Rate										
ERFC	0.2	2.8	3.1	3.0	2.4	2.5	2.8	2.7	2.6	2.4
Global Insight	0.2	2.1	2.9	2.6	2.4	2.3	2.9	2.8	2.6	2.6
Economy.com	0.2	2.6	4.0	4.0		2.6	3.5	3.0		
Blue Chip Average*		2.9	3.1	3.0		2.5	2.8	2.7	2.6	2.4
Blue Chip Top 10*		4.0	3.6	3.4		2.8	3.2	2.9	2.9	2.9
Blue Chip Bottom 10*		1.9	2.5	2.5		2.2	2.5	2.3	2.2	1.9
Real Consumption, Percent Change, Annual Rate										
ERFC	1.9	3.3	3.1	3.0	2.5	3.1	2.8	2.7	2.5	2.5
Global Insight	1.9	3.0	3.3	3.1	2.5	3.0	3.0	2.9	2.7	2.5
Economy.com	1.9	4.3	4.3	4.6		3.5	4.1	3.8		
Blue Chip Average*		3.3	3.1	3.0		3.1	2.8	2.7	2.5	2.5
Blue Chip Top 10*		4.0	3.7	3.5		3.3	3.2	3.2	3.1	3.0
Blue Chip Bottom 10*		2.6	2.6	2.5		2.8	2.4	2.2	2.1	2.0
Federal Funds Rate										
ERFC	0.1	0.1	0.3	0.5	0.1	0.3	1.2	2.9	3.8	3.8
Global Insight	0.1	0.1	0.3	0.5	0.1	0.3	1.2	2.9	3.8	3.8
Economy.com	0.1	0.1	0.2	0.6		0.2	1.7	3.2		
Three Month T-Bill Rate										
ERFC	0.0	0.1	0.3	0.5	0.0	0.2	1.2	2.9	3.5	3.5
Global Insight	0.0	0.0	0.2	0.5	0.0	0.2	1.2	2.8	3.5	3.5
Blue Chip Average*		0.1	0.2	0.5		0.2	1.3	2.7	3.2	3.3
Blue Chip Top 10*		0.2	0.4	0.8		0.4	1.8	3.6	4.0	4.1
Blue Chip Bottom 10*		0.0	0.1	0.2		0.1	0.8	1.7	2.1	2.5
10-Yr. T-Note Yield										
ERFC	2.0	2.1	2.3	2.5	2.5	2.2	3.0	3.6	3.9	3.8
Global Insight	2.0	2.0	2.2	2.4	2.5	2.2	2.9	3.6	4.0	4.0
Economy.com	2.0	2.2	2.3	2.6		2.3	3.2	4.0		
Blue Chip Average*		2.1	2.3	2.5		2.2	3.0	3.9	4.2	4.3
Blue Chip Top 10*		2.4	2.6	2.9		2.4	3.6	4.6	4.8	5.0
Blue Chip Bottom 10*		2.0	2.1	2.2		2.1	2.6	3.1	3.3	3.5
Consumer Price Index, Percent Change, Annual Rate										
ERFC	-3.1	3.1	1.8	1.3	1.6	0.2	2.1	2.2	2.1	2.1
Global Insight	-3.1	1.0	1.5	1.2	1.6	-0.2	2.0	2.5	2.6	2.5
Economy.com	-3.1	3.0	2.1	3.4		0.4	2.6	2.7		
Blue Chip Average*		2.0	2.2	2.2		0.2	2.2	2.3	2.4	2.4
Blue Chip Top 10*		3.3	3.2	3.0		0.5	2.7	2.8	2.8	2.8
Blue Chip Bottom 10*		0.7	1.5	1.6		-0.1	1.8	2.0	2.0	2.0
Payroll Employment, Millions										
ERFC	141.0	141.7	142.3	142.9	139.0	142.0	144.1	146.1	147.7	149.0
Percent Change, Annual Rate	2.2	2.0	1.8	1.5	1.9	2.1	1.5	1.4	1.1	0.9
Global Insight	141.0	141.6	142.2	142.6	139.0	141.9	143.9	145.9	147.5	148.9
Percent Change, Annual Rate	2.2	1.7	1.7	1.3	1.9	2.0	1.4	1.4	1.1	0.9
Economy.com	141.0	141.6	142.3	143.1		142.0	145.5	148.4		
Percent Change, Annual Rate	2.2	1.7	1.9	2.5		2.1	2.5	2.0		
Unemployment Rate, Percent										
ERFC	5.6	5.3	5.3	5.2	6.2	5.3	5.0	4.9	5.0	5.0
Global Insight	5.6	5.4	5.3	5.3	6.2	5.4	5.1	5.0	5.1	5.2
Economy.com	5.6	5.3	5.3	5.3		5.4	5.1	4.8		
Blue Chip Average*		5.4	5.3	5.1		5.4	5.3	4.9	5.0	5.0
Blue Chip Top 10*		5.5	5.4	5.4		5.4	5.3	5.4	5.4	5.5
Blue Chip Bottom 10*		5.3	5.1	5.0		5.3	4.6	4.3	4.2	4.2
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC	6.2	1.2	1.7	2.1	2.5	3.3	2.5	3.6	3.5	3.3
Global Insight	6.2	2.4	1.7	1.9	2.5	3.5	2.4	3.5	3.2	3.1
Blue Chip Average*		2.3	2.3	2.4		3.5	2.5	2.8	2.7	2.5
Blue Chip Top 10*		3.5	3.0	3.1		3.9	3.1	3.3	3.2	3.1
Blue Chip Bottom 10*		1.1	1.5	1.5		3.1	1.9	2.3	2.1	1.9

* Forecasts beyond 2016 are from the March 2015 Blue Chip Economic Indicators

Table 2

U.S. Forecast Comparison

	2015Q1	2015Q2	2015Q3	2015Q4	2013	2014	2015	2016	2017	2018	2019
Real GDP (Billions of 2009 Dollars)											
May Forecast	16,305	16,420	16,543	16,665	15,710	16,086	16,483	16,951	17,409	17,862	18,290
Percent Change	0.2%	2.8%	3.1%	3.0%	2.2%	2.4%	2.5%	2.8%	2.7%	2.6%	2.4%
February Forecast	16,421	16,541	16,664	16,783	15,710	16,090	16,602	17,078	17,539	17,977	18,409
Percent Change	2.7%	3.0%	3.0%	2.9%	2.2%	2.4%	3.2%	2.9%	2.7%	2.5%	2.4%
Real Consumption (Billions of 2009 Dollars)											
May Forecast	11,173	11,263	11,348	11,431	10,700	10,969	11,304	11,624	11,938	12,236	12,542
Percent Change	1.9%	3.3%	3.1%	3.0%	2.4%	2.5%	3.1%	2.8%	2.7%	2.5%	2.5%
February Forecast	11,200	11,289	11,374	11,457	10,700	10,968	11,330	11,647	11,950	12,248	12,541
Percent Change	3.1%	3.2%	3.0%	3.0%	2.4%	2.5%	3.3%	2.8%	2.6%	2.5%	2.4%
Implicit Price Deflator, PCE (2009=1.00)											
May Forecast	1.085	1.091	1.095	1.099	1.073	1.088	1.092	1.111	1.131	1.152	1.171
Percent Change	-2.0%	2.4%	1.5%	1.3%	1.2%	1.3%	0.4%	1.8%	1.8%	1.8%	1.7%
February Forecast	1.085	1.089	1.094	1.099	1.073	1.088	1.092	1.112	1.130	1.150	1.170
Percent Change	-1.7%	1.6%	1.8%	1.9%	1.2%	1.3%	0.4%	1.8%	1.7%	1.8%	1.8%
Real Personal Income (Billions of 2009 Dollars)											
May Forecast	13,928	13,982	14,059	14,160	13,199	13,542	14,032	14,441	14,964	15,484	15,970
Percent Change	6.1%	1.5%	2.2%	2.9%	0.8%	2.6%	3.6%	2.9%	3.6%	3.5%	3.1%
February Forecast	13,918	14,000	14,083	14,188	13,199	13,531	14,047	14,529	15,115	15,604	16,043
Percent Change	6.5%	2.4%	2.4%	3.0%	0.8%	2.5%	3.8%	3.4%	4.0%	3.2%	2.8%
Nonfarm Payroll Employment (Millions)											
May Forecast	141.0	141.7	142.3	142.9	136.4	139.0	142.0	144.1	146.1	147.7	149.0
Percent Change	2.2%	2.0%	1.8%	1.5%	1.7%	1.9%	2.1%	1.5%	1.4%	1.1%	0.9%
February Forecast	141.1	141.9	142.6	143.3	136.4	139.0	142.2	145.0	147.1	148.5	149.6
Percent Change	2.6%	2.2%	1.9%	1.9%	1.7%	1.9%	2.3%	2.0%	1.5%	0.9%	0.8%
Unemployment Rate (Percent of Labor Force)											
May Forecast	5.6	5.3	5.3	5.2	7.4	6.2	5.3	5.0	4.9	5.0	5.0
February Forecast	5.6	5.5	5.5	5.4	7.4	6.2	5.5	5.3	5.1	5.1	5.1
30 Year Fixed Mortgage Rate (Percent, average)											
May Forecast	3.7	3.8	4.0	4.2	4.0	4.2	3.9	4.8	5.5	5.8	5.7
February Forecast	3.7	3.9	4.1	4.5	4.0	4.2	4.1	5.4	5.7	5.7	5.7
3 Month T-Bill Rate (Percent, average)											
May Forecast	0.0	0.1	0.3	0.5	0.1	0.0	0.2	1.2	2.9	3.5	3.5
February Forecast	0.0	0.3	0.5	0.7	0.1	0.0	0.4	1.6	3.2	3.5	3.5

Table 3

Washington Forecast Comparison

	2015Q1	2015Q2	2015Q3	2015Q4	2013	2014	2015	2016	2017	2018	2019
Real Personal Income (Billions of 2009 Dollars)											
May Forecast	334.6	334.9	337.2	339.6	309.9	322.3	336.6	347.6	361.7	376.0	389.6
Percent Change	6.9%	0.3%	2.9%	2.8%	1.3%	4.0%	4.4%	3.3%	4.1%	3.9%	3.6%
February Forecast	330.0	332.6	335.1	337.0	309.9	319.8	333.7	346.8	362.5	376.0	388.5
Percent Change	8.1%	3.2%	3.0%	2.3%	1.3%	3.2%	4.3%	3.9%	4.5%	3.7%	3.3%
Personal Income (Billions of Dollars)											
May Forecast	362.9	365.3	369.3	373.0	332.7	350.5	367.6	386.4	409.3	433.0	456.4
Percent Change	4.8%	2.7%	4.4%	4.1%	2.5%	5.4%	4.9%	5.1%	5.9%	5.8%	5.4%
February Forecast	358.1	362.3	366.7	370.5	332.7	347.8	364.4	385.5	409.7	432.4	454.7
Percent Change	6.3%	4.8%	4.9%	4.2%	2.5%	4.6%	4.8%	5.8%	6.3%	5.5%	5.2%
Nonfarm Payroll Employment (Thousands)											
May Forecast	3125	3145	3162	3178	2993	3072	3153	3212	3263	3310	3353
Percent Change	3.7%	2.6%	2.2%	2.0%	2.4%	2.7%	2.6%	1.9%	1.6%	1.4%	1.3%
February Forecast	3134	3152	3169	3187	2990	3071	3161	3232	3287	3327	3370
Percent Change	3.7%	2.3%	2.2%	2.3%	2.4%	2.7%	2.9%	2.2%	1.7%	1.2%	1.3%
Unemployment Rate (Percent of Labor Force)											
May Forecast	6.2	5.7	5.6	5.4	6.9	6.3	5.7	5.2	5.1	5.2	5.2
February Forecast	6.2	6.2	6.1	6.0	7.0	6.0	6.1	5.9	5.7	5.6	5.6
Manufacturing Employment (Thousands)											
May Forecast	289.5	288.9	289.2	290.7	286.7	288.5	289.6	292.2	294.0	296.3	297.8
Percent Change	2.1%	-0.8%	0.4%	2.1%	2.3%	0.6%	0.4%	0.9%	0.6%	0.8%	0.5%
February Forecast	292.8	294.2	295.3	297.7	286.6	288.7	295.0	301.0	303.6	304.4	304.2
Percent Change	4.0%	1.9%	1.5%	3.3%	2.3%	0.7%	2.2%	2.1%	0.8%	0.3%	-0.1%
Construction Employment (Thousands)											
May Forecast	173.4	176.3	178.5	181.1	149.0	159.3	177.3	185.0	191.0	198.7	204.8
Percent Change	23.7%	7.1%	5.1%	5.8%	7.1%	7.0%	11.3%	4.3%	3.3%	4.0%	3.0%
February Forecast	167.5	168.6	170.4	172.7	148.8	158.1	169.8	178.2	187.1	195.1	201.9
Percent Change	13.6%	2.7%	4.5%	5.4%	7.0%	6.2%	7.4%	5.0%	5.0%	4.3%	3.5%
Housing Permits (Thousands)											
May Forecast	53.6	37.4	37.5	38.1	33.0	33.3	41.7	40.0	43.3	44.4	44.7
Percent Change	449.6%	-76.4%	1.3%	6.3%	17.2%	1.1%	25.0%	-3.9%	8.0%	2.6%	0.8%
February Forecast	34.4	35.4	36.1	36.6	33.0	33.3	35.6	38.7	41.9	43.2	44.0
Percent Change	-6.9%	12.0%	7.8%	6.1%	17.2%	1.1%	6.9%	8.7%	8.3%	3.0%	1.8%