



September 2015 Preliminary Economic Forecast

CONTACT: Bret Bertolin, Senior Economist
PHONE: 360.534.1566

This forecast was based on a modified version of Global Insight's August 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 August Blue Chip release, the average forecast for real GDP growth in 2015 and 2016 is 2.3% and 2.7% compared to 2.5% and 2.8% in the June forecast. The forecast growth rates for 2017 through 2019 are unchanged at 2.7%, 2.6%, and 2.4% as the Blue Chip long term forecast has not been updated since March.

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 Friday, August 21, 2015 closing prices for Brent and WTI futures. Near-term prices for both have declined sharply since the June forecast. The refiner acquisition price of crude oil in the fourth quarter of 2015 is now expected to average \$42 per barrel compared to \$64 in the June forecast. However, oil prices are expected to rise faster during the remainder of the forecast than assumed in the June forecast. By the end of 2019, the refiner acquisition price is expected to increase to \$57 which is still less than the \$69 in the June forecast.

We have not made any explicit adjustments for the recent decline in the stock market. However, we would be very interested in your views about whether the recent market decline will have any noticeable impacts on the forecast.

A comparison of the preliminary September U.S. forecast with the June U.S. forecast is shown in Table 2.

We have three months of new Washington employment data since the June forecast was released. Total nonfarm payroll employment rose 19,800 (seasonally adjusted) in May, June, and July, just 1,600 more than the 18,300 expected in the June forecast. As is usually the case, most of the jobs created in May, June, and July were in private, service-providing sectors which added

18,100 jobs. The June forecast had expected an increase of 15,200. The construction sector added 700 jobs in the last three months. The forecast had assumed an increase of 2,200 construction jobs. The manufacturing sector lost 600 jobs in May, June, and July in spite of an increase of 200 in aerospace. The forecast had assumed an increase of 100 manufacturing jobs. Government payrolls expanded by 1,800 jobs in the last three months compared to the forecast of 900 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 April 2015 by 9,500 jobs. As a result of the upward revision to history and slightly stronger-than-expected growth, the total effect is 11,000 (0.3%) more jobs in July 2015 than expected in the June forecast.

In June, the Bureau of Economic Analysis released estimates for state personal income through the first quarter of 2015. 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 first quarter. Our current estimate of Washington personal income in the first quarter of 2015 is \$362.7 billion which is \$0.2 billion (0.1%) lower than assumed in the June forecast.

As expected in the June forecast, Washington housing permits declined sharply from an eight-year-high 53,600 units (SAAR) in the first quarter of 2015 to a more sustainable 36,800 units in the second quarter. The June forecast projected 37,400 units in the second quarter. In the June forecast we viewed the first quarter surge in permits with skepticism both because the weather was unseasonably mild and because the strength was in the volatile multi-family segment. This view appears to be validated by the recent data. Single-family permits totaled 18,900 units in the second quarter compared to the forecast of 19,200 units and 17,900 multi-family units were permitted compared to the forecast of 18,200 units.

The Microsoft layoffs first announced in July 2014 were completed by the end of December 2014. The June forecast had assumed that there would be no further major layoffs. However, in July 2015 Microsoft announced further cuts of up to 7,800 company-wide, mostly related to its phone business. We expect most of the cuts will be outside of Washington State as was the case in the previous round.

As in June, 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.

Overall, our preliminary September forecast for Washington State is similar to the June forecast. Washington employment is expected to grow 3.0% this year compared to 2.6% expected in the June forecast. The upward revision to growth in 2015 is mostly due to revisions in the historical employment data. The preliminary September forecast for average annual employment growth from 2016 through 2019 is 1.6% per year, the same rate as in the June forecast. Our preliminary September forecast for nominal personal income growth this year of 5.2% is slightly higher than the 4.9% in the June forecast, however, our new forecast for nominal personal income growth from 2016 through 2019 averages 5.3% per year, down slightly from 5.6% in the June forecast.

A comparison of the preliminary September Washington forecast with the June Washington forecast is shown in Table 3.

Table 1
U.S. Economic Forecast Comparison
 August 2015

	2015Q2	2015Q3	2015Q4	2016Q1	2014	2015	2016	2017	2018	2019
Real GDP, Percent Change, Annual Rate										
ERFC (Preliminary September)	2.3	2.8	2.8	2.7	2.4	2.3	2.7	2.7	2.6	2.4
Global Insight	2.3	2.1	3.1	2.8	2.4	2.2	2.8	2.8	2.6	2.6
Economy.com	2.3	3.0	3.9	3.7	2.4	2.4	3.4	3.0		
Blue Chip Average*		2.7	2.8	2.7		2.3	2.7	2.7	2.6	2.4
Blue Chip Top 10*		3.5	3.2	3.1		2.5	3.0	2.9	2.9	2.9
Blue Chip Bottom 10*		2.2	2.5	2.2		2.2	2.5	2.3	2.2	1.9
Real Consumption, Percent Change, Annual Rate										
ERFC (Preliminary September)	2.9	3.0	3.0	2.8	2.7	3.0	2.9	2.7	2.5	2.5
Global Insight	2.9	3.1	3.2	3.1	2.7	3.0	3.1	2.9	2.7	2.5
Economy.com	2.9	4.0	5.0	4.4	2.7	3.3	4.3	3.9		
Blue Chip Average*		3.0	3.0	2.8		3.0	2.9	2.7	2.5	2.5
Blue Chip Top 10*		3.5	3.6	3.3		3.2	3.2	3.2	3.1	3.0
Blue Chip Bottom 10*		2.6	2.6	2.8		2.9	2.5	2.2	2.1	2.0
Federal Funds Rate										
ERFC (Preliminary September)	0.1	0.2	0.5	0.8	0.1	0.2	1.2	2.5	3.3	3.3
Global Insight	0.1	0.2	0.5	0.8	0.1	0.2	1.2	2.5	3.3	3.3
Economy.com	0.1	0.1	0.4	0.8	0.1	0.2	1.4	3.0		
Three Month T-Bill Rate										
ERFC (Preliminary September)	0.0	0.1	0.5	0.8	0.0	0.2	1.1	2.4	3.0	3.0
Global Insight	0.0	0.1	0.5	0.8	0.0	0.2	1.1	2.4	3.0	3.0
Blue Chip Average*		0.2	0.4	0.7		0.2	1.1	2.7	3.2	3.3
Blue Chip Top 10*		0.4	0.6	1.1		0.3	1.5	3.6	4.0	4.1
Blue Chip Bottom 10*		0.0	0.2	0.5		0.1	0.8	1.7	2.1	2.5
10-Yr. T-Note Yield										
ERFC (Preliminary September)	2.2	2.4	2.5	2.6	2.5	2.3	2.8	3.2	3.4	3.4
Global Insight	2.2	2.4	2.5	2.6	2.5	2.3	2.8	3.3	3.6	3.6
Economy.com	2.2	2.4	2.7	2.9	2.5	2.3	3.2	4.1		
Blue Chip Average*		2.4	2.6	2.7		2.3	2.9	3.9	4.2	4.3
Blue Chip Top 10*		2.5	2.7	2.9		2.4	3.3	4.6	4.8	5.0
Blue Chip Bottom 10*		2.3	2.4	2.5		2.2	2.6	3.1	3.3	3.5
Consumer Price Index, Percent Change, Annual Rate										
ERFC (Preliminary September)	3.0	1.7	-0.4	2.0	1.6	0.1	1.4	2.0	2.1	2.1
Global Insight	3.0	1.7	-0.7	2.6	1.6	0.1	1.7	2.4	2.6	2.4
Economy.com	3.0	0.3	1.4	2.4	1.6	0.0	2.0	3.0		
Blue Chip Average*		2.1	1.7	2.0		0.3	2.1	2.3	2.4	2.4
Blue Chip Top 10*		2.9	2.5	2.7		0.4	2.5	2.8	2.8	2.8
Blue Chip Bottom 10*		0.9	0.7	1.3		0.1	1.8	2.0	2.0	2.0
Payroll Employment, Millions										
ERFC (Preliminary September)	141.6	142.3	142.8	143.3	139.0	141.9	144.2	146.4	148.0	148.9
Percent Change, Annual Rate	1.7	1.9	1.3	1.4	1.9	2.1	1.6	1.6	1.1	0.6
Global Insight	141.6	142.3	142.8	143.2	139.0	141.9	144.1	146.2	147.8	149.1
Percent Change, Annual Rate	1.7	1.8	1.4	1.3	1.9	2.1	1.5	1.5	1.1	0.8
Economy.com	141.6	142.3	143.0	143.8	139.0	142.0	145.1	148.3		
Percent Change, Annual Rate	1.7	1.9	2.1	2.2	1.9	2.1	2.2	2.2		
Unemployment Rate, Percent										
ERFC (Preliminary September)	5.4	5.3	5.3	5.2	6.2	5.4	5.2	5.0	4.9	5.0
Global Insight	5.4	5.3	5.3	5.2	6.2	5.4	5.2	5.2	5.2	5.1
Economy.com	5.4	5.2	5.1	5.0	6.1	5.3	4.9	4.7		
Blue Chip Average*		5.3	5.1	5.0		5.3	4.9	4.9	5.0	5.0
Blue Chip Top 10*		5.3	5.2	5.2		5.4	5.1	5.4	5.4	5.5
Blue Chip Bottom 10*		5.2	4.9	4.8		5.3	4.5	4.3	4.2	4.2
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC (Preliminary September)	1.5	4.3	3.0	3.5	2.7	3.3	3.2	3.4	3.6	3.0
Global Insight	1.5	4.2	3.3	3.1	2.7	3.3	3.0	3.2	3.3	2.9
Blue Chip Average*		2.7	2.7	2.6		3.2	2.6	2.8	2.7	2.5
Blue Chip Top 10*		4.0	3.5	3.5		3.6	3.3	3.3	3.2	3.1
Blue Chip Bottom 10*		1.6	2.1	1.8		2.9	2.1	2.3	2.1	1.9
West Texas Intermediate										
ERFC (Preliminary September)	58.0	44.4	41.2	43.3	93.0	48.0	45.5	50.2	53.6	55.7
Global Insight	58.0	47.7	42.7	47.7	93.0	49.3	54.4	66.9	78.5	87.5
Economy.com	57.7	52.1	54.5	56.4	93.2	53.2	58.1	65.1		

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

Table 2

U.S. Forecast Comparison

	2015Q2	2015Q3	2015Q4	2016Q1	2013	2014	2015	2016	2017	2018	2019
Real GDP (Billions of 2009 Dollars)											
September Forecast, Preliminary	16,270	16,383	16,498	16,609	15,583	15,962	16,332	16,776	17,229	17,676	18,101
Percent Change	2.3%	2.8%	2.8%	2.7%	1.5%	2.4%	2.3%	2.7%	2.7%	2.6%	2.4%
June Forecast	16,420	16,543	16,665	16,779	15,710	16,086	16,483	16,951	17,409	17,862	18,290
Percent Change	2.8%	3.1%	3.0%	2.8%	2.2%	2.4%	2.5%	2.8%	2.7%	2.6%	2.4%
Real Consumption (Billions of 2009 Dollars)											
September Forecast, Preliminary	11,162	11,246	11,330	11,409	10,590	10,876	11,205	11,525	11,836	12,131	12,434
Percent Change	2.9%	3.0%	3.0%	2.8%	1.7%	2.7%	3.0%	2.9%	2.7%	2.5%	2.5%
June Forecast	11,263	11,348	11,431	11,510	10,700	10,969	11,304	11,624	11,938	12,236	12,542
Percent Change	3.3%	3.1%	3.0%	2.8%	2.4%	2.5%	3.1%	2.8%	2.7%	2.5%	2.5%
Implicit Price Deflator, PCE (2009=1.00)											
September Forecast, Preliminary	1.094	1.098	1.098	1.102	1.076	1.091	1.094	1.108	1.126	1.146	1.166
Percent Change	2.2%	1.4%	0.1%	1.5%	1.4%	1.4%	0.3%	1.2%	1.6%	1.8%	1.8%
June Forecast	1.091	1.095	1.099	1.104	1.073	1.088	1.092	1.111	1.131	1.152	1.171
Percent Change	2.4%	1.5%	1.3%	1.9%	1.2%	1.3%	0.4%	1.8%	1.8%	1.8%	1.7%
Real Personal Income (Billions of 2009 Dollars)											
September Forecast, Preliminary	13,915	14,066	14,175	14,305	13,078	13,468	14,003	14,465	14,954	15,434	15,867
Percent Change	1.7%	4.4%	3.1%	3.7%	-0.3%	3.0%	4.0%	3.3%	3.4%	3.2%	2.8%
June Forecast	13,982	14,059	14,160	14,286	13,199	13,542	14,032	14,441	14,964	15,484	15,970
Percent Change	1.5%	2.2%	2.9%	3.6%	0.8%	2.6%	3.6%	2.9%	3.6%	3.5%	3.1%
Nonfarm Payroll Employment (Millions)											
September Forecast, Preliminary	141.6	142.3	142.8	143.3	136.4	139.0	141.9	144.2	146.4	148.0	148.9
Percent Change	1.7%	1.9%	1.3%	1.4%	1.7%	1.9%	2.1%	1.6%	1.6%	1.1%	0.6%
June Forecast	141.7	142.3	142.9	143.3	136.4	139.0	142.0	144.1	146.1	147.7	149.0
Percent Change	2.0%	1.8%	1.5%	1.4%	1.7%	1.9%	2.1%	1.5%	1.4%	1.1%	0.9%
Unemployment Rate (Percent of Labor Force)											
September Forecast, Preliminary	5.4	5.3	5.3	5.2	7.4	6.2	5.4	5.2	5.0	4.9	5.0
June Forecast	5.3	5.3	5.2	5.1	7.4	6.2	5.3	5.0	4.9	5.0	5.0
30 Year Fixed Mortgage Rate (Percent, average)											
September Forecast, Preliminary	3.8	4.1	4.2	4.3	4.0	4.2	4.0	4.5	5.0	5.3	5.3
June Forecast	3.8	4.0	4.2	4.5	4.0	4.2	3.9	4.8	5.5	5.8	5.7
3 Month T-Bill Rate (Percent, average)											
September Forecast, Preliminary	0.0	0.1	0.5	0.8	0.1	0.0	0.2	1.1	2.4	3.0	3.0
June Forecast	0.1	0.3	0.5	0.8	0.1	0.0	0.2	1.2	2.9	3.5	3.5

Table 3

Washington Forecast Comparison

	2015Q2	2015Q3	2015Q4	2016Q1	2013	2014	2015	2016	2017	2018	2019
Real Personal Income (Billions of 2009 Dollars)											
September Forecast, Preliminary	335.5	338.8	340.7	346.3	309.2	321.4	337.1	349.5	363.0	376.6	389.2
Percent Change	2.6%	3.9%	2.3%	6.7%	1.1%	3.9%	4.9%	3.7%	3.9%	3.7%	3.3%
June Forecast	334.9	337.2	339.6	343.2	309.9	322.3	336.6	347.6	361.7	376.0	389.6
Percent Change	0.3%	2.9%	2.8%	4.4%	1.3%	4.0%	4.4%	3.3%	4.1%	3.9%	3.6%
Personal Income (Billions of Dollars)											
September Forecast, Preliminary	367.0	371.9	374.1	381.6	332.7	350.6	368.9	387.2	408.7	431.5	453.7
Percent Change	4.8%	5.5%	2.4%	8.2%	2.5%	5.4%	5.2%	4.9%	5.6%	5.6%	5.1%
June Forecast	365.3	369.3	373.0	378.8	332.7	350.5	367.6	386.4	409.3	433.0	456.4
Percent Change	2.7%	4.4%	4.1%	6.4%	2.5%	5.4%	4.9%	5.1%	5.9%	5.8%	5.4%
Nonfarm Payroll Employment (Thousands)											
September Forecast, Preliminary	3155	3174	3187	3200	2993	3070	3163	3222	3283	3334	3374
Percent Change	2.8%	2.4%	1.6%	1.6%	2.4%	2.6%	3.0%	1.9%	1.9%	1.5%	1.2%
June Forecast	3145	3162	3178	3192	2993	3072	3153	3212	3263	3310	3353
Percent Change	2.6%	2.2%	2.0%	1.8%	2.4%	2.7%	2.6%	1.9%	1.6%	1.4%	1.3%
Unemployment Rate (Percent of Labor Force)											
September Forecast, Preliminary	5.4	5.2	5.2	5.2	6.9	6.3	5.5	5.1	5.0	5.0	5.1
June Forecast	5.7	5.6	5.4	5.3	6.9	6.3	5.7	5.2	5.1	5.2	5.2
Manufacturing Employment (Thousands)											
September Forecast, Preliminary	288.5	287.8	287.5	288.6	286.7	288.2	288.3	290.3	294.0	297.9	301.2
Percent Change	-1.3%	-1.0%	-0.4%	1.6%	2.3%	0.5%	0.0%	0.7%	1.3%	1.3%	1.1%
June Forecast	288.9	289.2	290.7	291.7	286.7	288.5	289.6	292.2	294.0	296.3	297.8
Percent Change	-0.8%	0.4%	2.1%	1.4%	2.3%	0.6%	0.4%	0.9%	0.6%	0.8%	0.5%
Construction Employment (Thousands)											
September Forecast, Preliminary	174.5	175.7	176.8	178.0	149.0	159.3	174.9	179.9	187.5	196.5	203.3
Percent Change	4.6%	2.8%	2.4%	2.8%	7.1%	6.9%	9.8%	2.9%	4.2%	4.8%	3.5%
June Forecast	176.3	178.5	181.1	183.1	149.0	159.3	177.3	185.0	191.0	198.7	204.8
Percent Change	7.1%	5.1%	5.8%	4.6%	7.1%	7.0%	11.3%	4.3%	3.3%	4.0%	3.0%
Housing Permits (Thousands)											
September Forecast, Preliminary	36.8	37.5	37.5	38.3	33.0	33.9	41.3	39.7	42.8	44.3	44.6
Percent Change	-77.9%	8.1%	-0.3%	9.1%	17.2%	2.8%	22.0%	-4.0%	7.8%	3.5%	0.9%
June Forecast	37.4	37.5	38.1	38.8	33.0	33.3	41.7	40.0	43.3	44.4	44.7
Percent Change	-76.4%	1.3%	6.3%	8.2%	17.2%	1.1%	25.0%	-3.9%	8.0%	2.6%	0.8%