

Economic Review Meeting

February 6, 2014



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

February 6, 2014
2:30 p.m.

- Approval of meeting minutes: January 28, 2014
- 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 Budget Outlook

January 28, 2014

John A. Cherberg Building, Hearing Room 2

Economic and Revenue Forecast Council

Members Present

Ross Hunter, House of Representatives, Chair
Andy Hill, Senator
Jim Hargrove, Senator
Terry Nealey, House of Representatives
Carol Nelson, Department of Revenue
David Schumacher, Office of Financial Management
Treasurer James McIntire

Staff

Steve Lerch, Executive Director, ERFC

Budget Outlook representatives:

Pam Davidson
Melissa Palmer
Richard Ramsey

Call to Order

The meeting was called to order by Representative Hunter at 9:04 am.

Motion

Senator Hill made a motion to approve the meeting minutes from November 20, 2013, January 16, 2014, and January 23, 2014, seconded by Representative Nealey. Council approved the motion at 9:05 am.

Presentation on the Washington State Budget Outlook

Members from the Budget Outlook Work Group presented the January 2014 outlook for the Governor's proposed 2014 supplemental budget. Discussion ensued regarding the budget stabilization account, the use of the 4.5% growth rate, and the recent changes to the assumptions utilized to complete the outlook.

Motion

Senator Hill made a motion to adopt the budget outlook as presented, seconded by Treasurer McIntire. The motion passed unanimously at 9:17 a.m.

Adjournment

Meeting adjourned at 9:17 am.

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



Economic Review: February 6, 2014

Executive Summary

- The first estimate of real GDP growth for the fourth quarter of 2013 was 3.2% at an annual rate. Increases in consumer spending, most categories of business investment, and net exports all contributed positively to GDP growth; a decline in federal government spending reduced growth by almost 1.0%. Based on this estimate, GDP growth for all of 2013 was 1.9%; the November forecast had assumed a 1.7% growth rate for 2013.
- 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, January 28, 2014 closing prices for Brent and WTI which are almost identical to oil prices in the November forecast.
- Nonfarm employment increased by a disappointing 74,000 jobs in December after increases of over 200,000 in the previous two months. The December unemployment rate decreased by 0.3 percentage points to 6.7%. January employment data will be released on February 7th and will be incorporated in the final economic forecast.
- The Conference Board index of consumer confidence increased for a second straight month, rising 3.2 points to 80.7 in January. By way of comparison, the January 2013 index was 58.4. The final University of Michigan consumer sentiment survey for January moved in the opposite direction, decreasing by 1.3 points to 81.2. However, like the Conference Board index, the University of Michigan survey is still well above its January 2013 reading of 73.8.
- Initial claims for unemployment insurance increased by 19,000 to 348,000 (SA) in the week ending January 25th. The four-week moving average for initial claims also increased, rising by 750 to 333,000.
- Based on the Census Bureau advance estimate, December retail and food services sales increased by 0.2% (SA) after increasing by 0.7% in November. Total sales for 2013 were 4.2% higher than in 2012.
- Light motor vehicle (LMV) sales for January totaled 15.2 million units (SAAR). Although down from last year's monthly average of 15.6 million units, bad weather in much of the country is likely to be responsible for the slower sales.
- Growth in manufacturing has slowed but remains positive. Industrial production increased by 0.3% in December (SA) after having increased by 1.0% in November. Manufacturing activity, as measured by the Institute for Supply Management's Purchasing Managers Index (PMI), decreased to 51.3 in January (50 or higher indicates growth) from 56.5 in December. However, the manufacturing PMI has remained above 50 for the last eight months. Core capital goods orders (i.e., durables excluding aircraft and military) which are a proxy for business investment, decreased by 0.6% (SA) in December but were up by 4.5% for 2013 compared to 2012.

- The housing sector appears to have hit another soft patch. December housing units authorized by building permits were 3.0% (SAAR) below their November level, dropping to 986,000 units after having been above one million units in the previous two months. Existing home sales in December were 1.0% (SAAR) higher than in November after having declined in the three previous months. For all of 2013, existing homes sales reached 5.09 million, which is 9.1% above the 2012 sales level. New home sales have decreased for two consecutive months, with December sales 7.0% lower (SAAR) than in November. However, an estimated 428,000 new homes were sold in 2013, 16.4% above 2012 new home sales. Pending home sales decreased by 8.7% in December, falling to the lowest level since August 2011. Despite the slowdown in activity, home price appreciation has continued. The seasonally adjusted Case-Shiller 20-city home price index has increased for twenty-two consecutive months through November 2013. The index is now 13.8% above the year-ago level (SA).
- As has been true for the last several forecasts, major threats to the U.S. and Washington economies remain slowing Asian economies (especially China), the uncertainty surrounding U.S. tax and budget policy, and most recently concerns about a slowdown in the housing recovery.

Washington

- In the two months since the November forecast was adopted, the Washington economy added 9,500 jobs which is 900 more than the 8,700 expected in the November forecast. 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 October 2013 by 13,200. As a result of the upward revisions to history and slightly weaker than expected growth, the net effect is 14,100 (0.5%) more jobs in December 2013 than expected in the November forecast.
- 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 bonus Boeing paid its Washington-based machinists this month. There are approximately 31,000 Boeing machinists in Washington, each due \$10,000 as part of the contract extension agreement reached earlier this month. The effect of the bonus payment will be to raise income growth in the first quarter but lower it in the second quarter. The estimated \$310 million addition to personal income in 2014 amounts to slightly less than one-tenth of one percent of total personal income for the year. Boeing employees also received incentive pay in the first quarter under ongoing programs. These are assumed to be accounted for by seasonal adjustment.
- Despite the downturn in aerospace employment, the Institute of Supply Management - Western Washington Index (ISM-WW) continues to indicate positive growth in the broader manufacturing sector. After three months in the low 50's (index values above 50 indicate positive growth while values below 50 indicate contractions) the index bounced back to 61.1 in November

and 62.3 in December. The last time the Western Washington index was below 50 was in July 2009.

- In late December, the Bureau of Economic Analysis released estimates for state personal income through the third quarter of 2013. We have incorporated the new BEA estimates as well as additional Washington QCEW wage data through the third quarter. Our estimate of Washington personal income in the third quarter of 2013 is \$329.4 billion which is just \$303 million (0.1%) higher than assumed in November.
- Washington housing construction rebounded in the fourth quarter of 2013 after a slump in the middle of the year. The number of housing units authorized by building permits rose to 34,600 (SAAR) in the fourth quarter from 27,900 in the third quarter and 27,800 in the second quarter. The November forecast had assumed 30,100 units in the fourth quarter. Single-family permits were a little disappointing, coming in at 18,300 units compared to the forecast of 19,400 units but multi-family units exceeded the forecast coming in at 16,300 compared to a forecast of 10,800.
- Regional home prices continue to rise. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last 21 months and, as of November, are now 12.4% higher than in the previous November. Though prices and mortgage rates have risen, homes are still relatively affordable. Even with the recent gains, Seattle area home prices are 16.2% lower than their 2007 peak.
- After a strong recovery from the recession, Washington car and light truck sales appear to be reaching a plateau. Washington new light vehicle registrations edged up to 268,600 vehicles (SAAR) in December from 265,500 in November. Despite the improvement in December, new vehicle registrations are still below the post-recession high of 279,800 reached in August 2013. December new light vehicle registrations were 8.3% higher than in the previous December.
- Washington exports grew 5.1% from the third quarter of 2012 to the third quarter of 2013. Exports of transportation equipment (mostly Boeing planes) increased 17.1% over the year but exports of agricultural products fell 43.2%. Exports from all other Washington industries rose 4.4% over the year.
- Inflation in the Seattle area remains moderate and slightly weaker than in the nation. In December 2013, the Seattle all items CPI was 1.3% higher than in the previous December which was slightly weaker than the 1.5% increase for the U.S. city average. Core inflation in Seattle was 1.3% compared to 1.7% for the nation.
- Overall, our preliminary February forecast for Washington State is very similar to the forecast adopted in November. Washington employment growth is expected to grow at an average annual rate of 1.8% per year in 2014 through 2017, which is slightly higher than the 1.7% average rate assumed in November. Our new forecast for nominal personal income growth averages 5.2% per year which is also slightly higher than the 5.1% per year assumed in the November forecast. This is the first forecast to extend through 2019. Washington employment is expected to grow at an average rate of 1.2% per year in 2018 and 2019 and Washington personal income is expected to grow at an average rate of 4.7% per year.

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Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

February 6, 2014
Olympia, Washington



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ECONOMIC AND REVENUE FORECAST COUNCIL**

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Summary

- The economic forecast is quite similar to November, with slightly stronger GDP growth in 2014 & 2015
- Recent data indicate that state employment is higher than expected in November
- Risks to the baseline are the same as in November: the potential for slower Chinese economic growth, uncertain fiscal policy and possible disruptions to the housing recovery
- Adjusted revenue collections since the November forecast are \$0.9 million (0.0%) above expectations
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government

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Four major risks to the forecast



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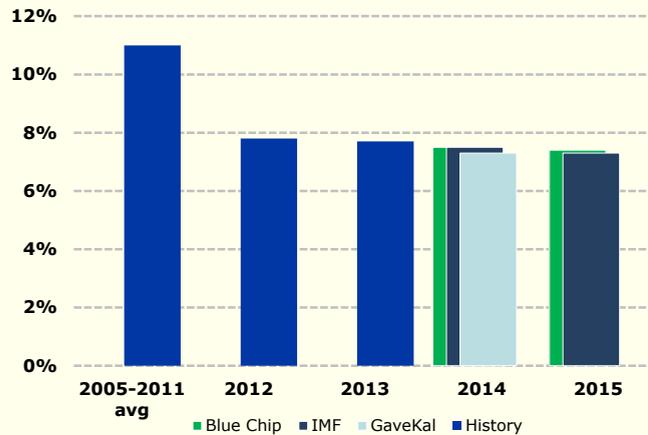
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Source: ERFC

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China's 2014 & 2015 GDP growth expected to be at or below 2013 rates



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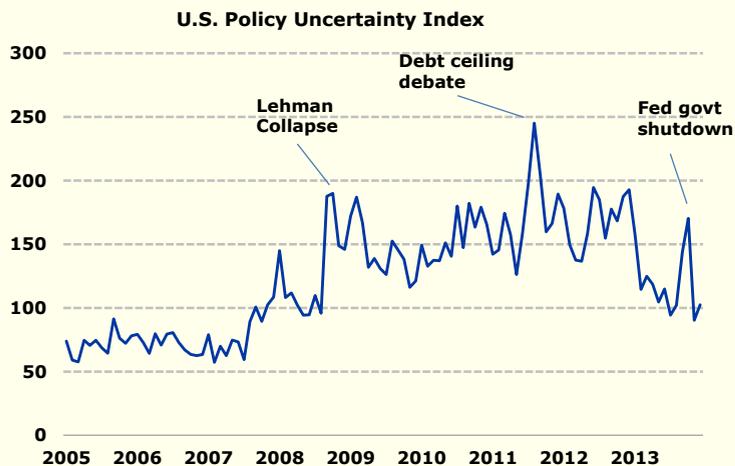
Source: Blue Chip, IMF, ISI; data and forecasts through January 2014

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Federal debt ceiling, budget issues have increased uncertainty in the past

Index based on news articles, expiring tax provisions, economic forecaster differences



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Source: www.policyuncertainty.com; data through December 2013

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Debt ceiling debate spiked short-term interest rates



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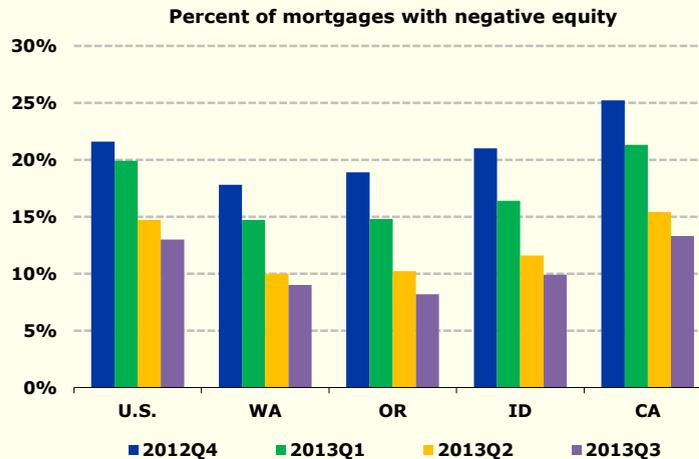
Slide 5

Source: U.S. Treasury; data through February 4, 2014

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Rising home prices have reduced the number of underwater mortgages



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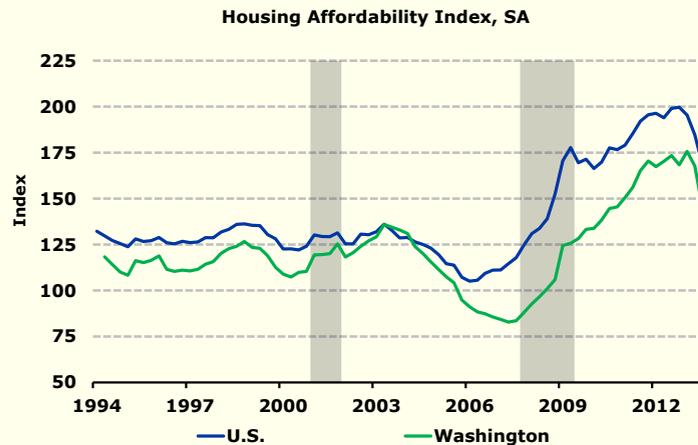
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Source: CoreLogic, ERFC, data through November 2013

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Rising mortgage rates and home prices have reduced affordability



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Source: Global Insight, WA Center Real Estate Research, ERF; data through 2013Q3

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New home prices are at record highs but construction remains weak



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Source: U.S. Census Bureau; data through 2013Q3

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Home sales remain on an upward trend



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Source: National Association of Realtors; data through December 2013

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Euro area GDP has returned to positive growth

Eurozone
Forecast:

2013:	-0.4%
2014:	0.9%
2015:	1.3%



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Source: Eurostat, Centre for Economic Policy Research; data through 2013Q3

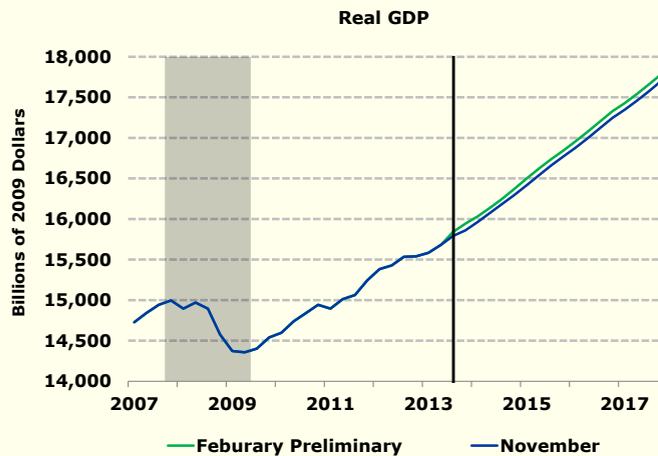
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The Blue Chip forecast for GDP is up slightly from November

Real GDP growth is slightly higher through 2015



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Source: Global Insight, ERFC February 2014 Preliminary forecast; historical data through 2013Q3

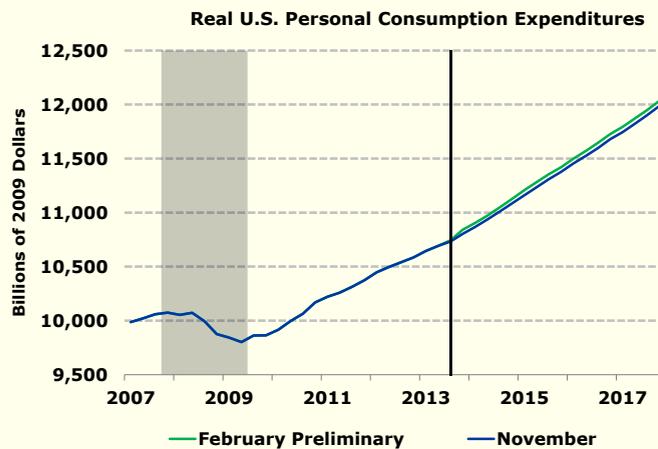
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National consumer spending is slightly higher

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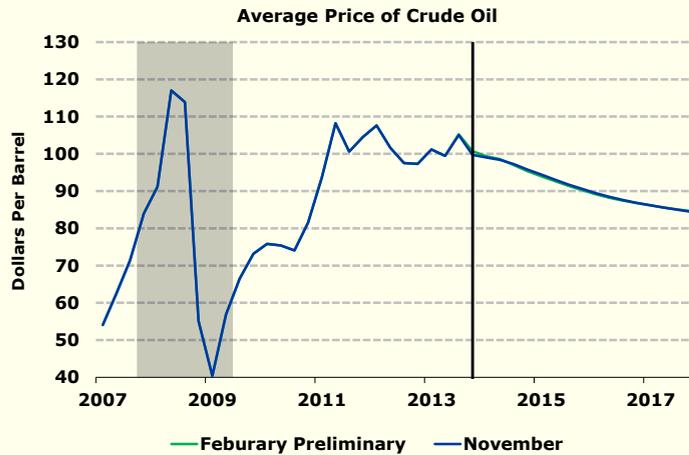


Source: Global Insight, ERFC February 2014 Preliminary forecast; historical data through 2013Q3

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Oil prices are essentially unchanged



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Source: DOE, ERFC February 2014 Preliminary forecast; historical data through 2013Q4

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GDP growth forecasted to be near non-recessionary average in 2015

Non-recessionary average growth of 3.2% excludes 1990, 1991, 2001, 2007-2009



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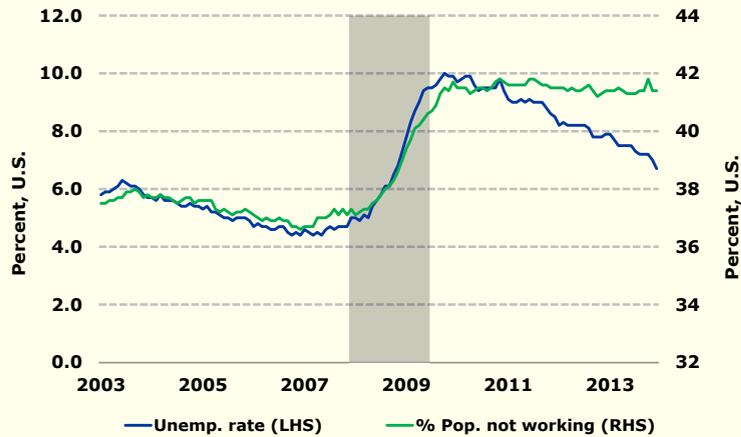
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Source: U.S. Dept of Commerce, BEA, ERFC February 2014 Preliminary Forecast

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Although the unemployment rate is falling, share of the population not working remains stable



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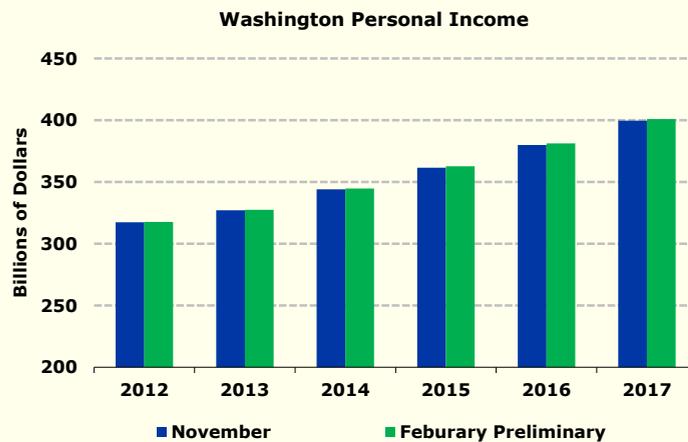
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Source: Bureau of Labor Statistics; data through December 2013

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Washington personal income forecast is essentially unchanged...



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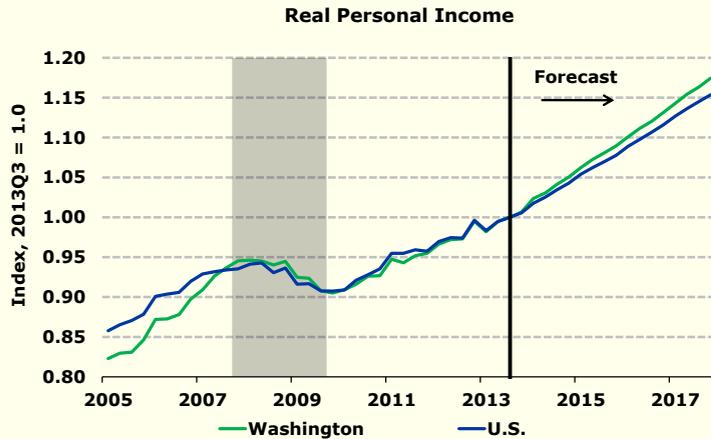
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Source: ERFC February 2014 Preliminary forecast; historical data through 2012

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State personal income will recover faster than the U.S.



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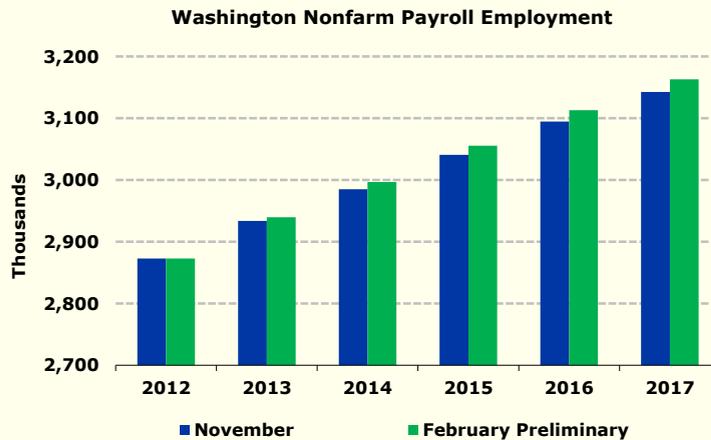
Source: ERFC February 2014 Preliminary forecast; historical data through 2013Q3

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Washington payroll employment forecast is higher



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Source: ERFC February 2014 Preliminary forecast; historical data through 2012

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Washington employment will recover faster than the U.S.

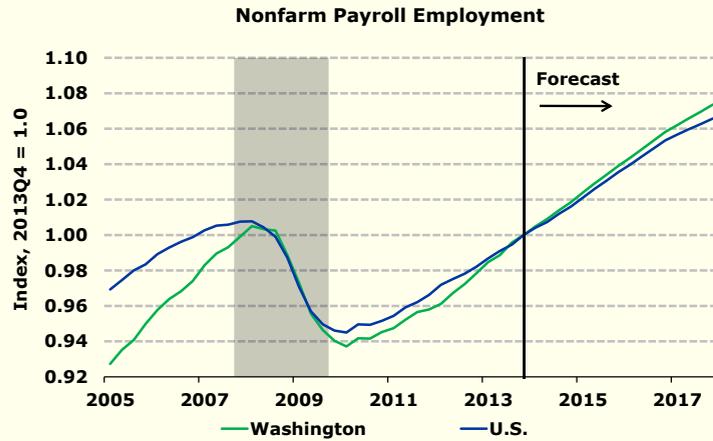
Date of regaining peak:

WA:
2014Q2

U.S.:
2014Q3

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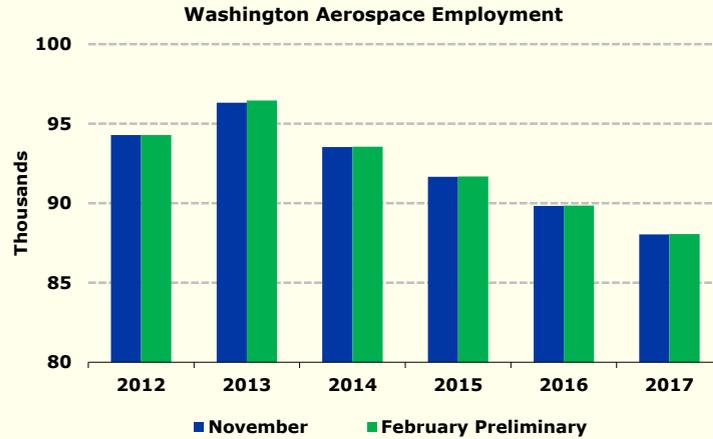


Source: ERFC February 2014 Preliminary forecast; historical data through 2013Q4

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Aerospace employment is declining



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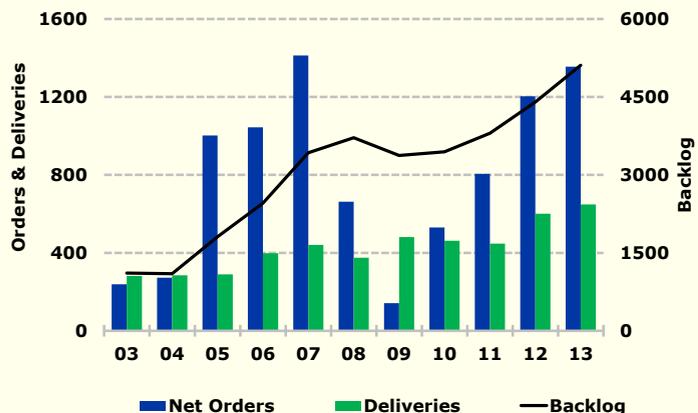
Source: ERFC February 2014 Preliminary forecast; historical data through 2012

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Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



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Source: Boeing, data through December 2013

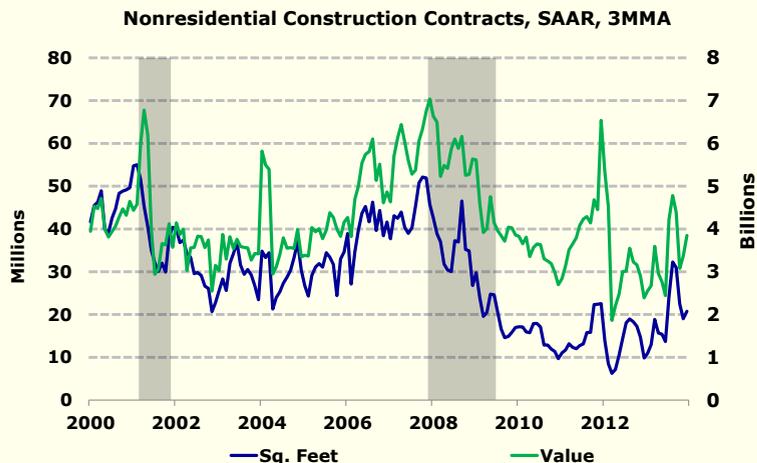
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Contract data indicates an increase in non-residential activity

Non-Residential square footage is up 111%, and value is up 61% year over year (3mma).



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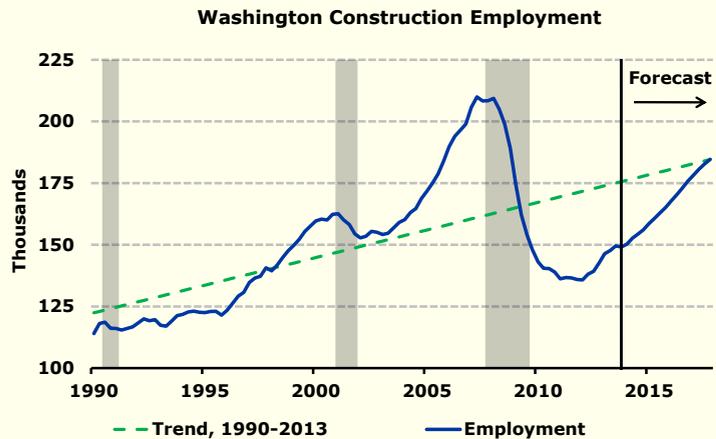
Source: Dodge, ERFC; data through December 2013

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Washington construction employment is recovering



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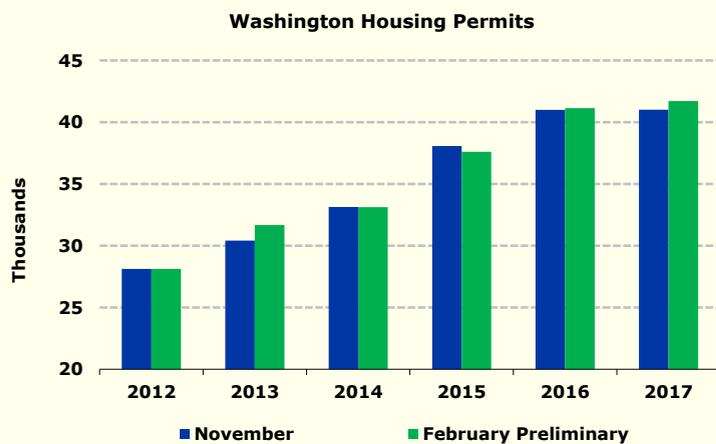
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Source: ERFC February 2014 Preliminary forecast; historical data through 2013Q4

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Washington housing permits forecast is slightly higher in 2016 and 2017



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Source: ERFC February 2014 Preliminary forecast; historical data through 2012

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Revenue Act collections still above their pre-recession peak

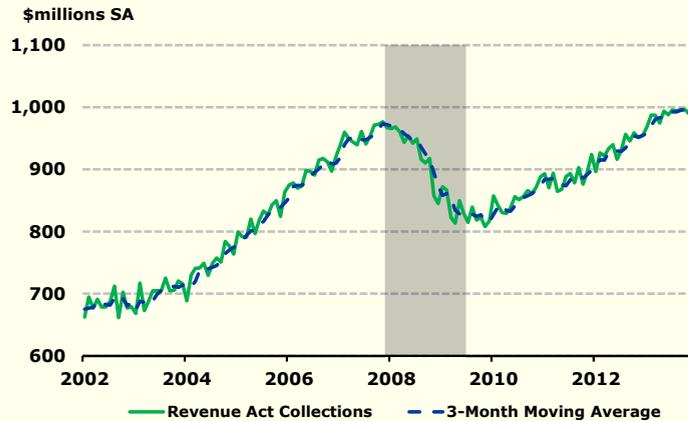
Adjusted for large one-time payments, January 10th collections were up 3.3% year-over-year

Year-over-year growth has slowed due to the expiration of the B&O services surtax on July 1st

The surtax brought in \$20-\$26 million per month

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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 November 2013 activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Retail sales tax receipts are close to but not yet above the pre-recession peak

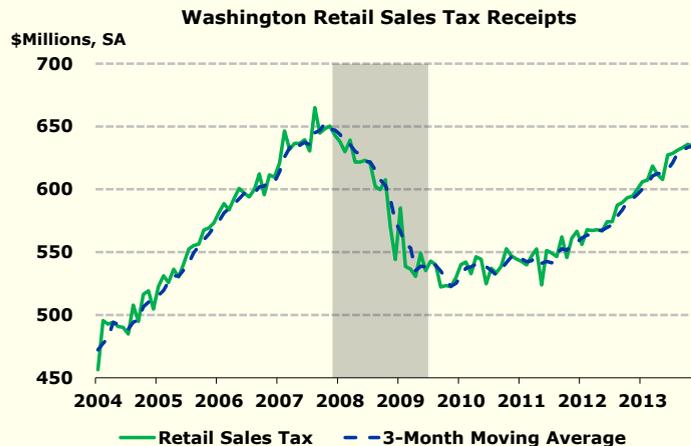
Sales tax growth has been high due to increased construction activity

Collections were up 8.1% year-over-year for third quarter activity (August 11, – November 10, 2013 collections)

Preliminary collections for the first two months of Q4 were up 7.1% year-over-year

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

Source: ERFC; Monthly data through November 2013 preliminary activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue collections to date

Cumulative Variance Since November Forecast (November 11, 2013 – January 10, 2014) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$2,980,783	\$2,975,156	(\$5,627)	-0.2%
All other agencies	\$14,158	\$15,005	\$847	6.0%
Total GF-S	\$2,994,942	\$2,990,160	(\$4,782)	-0.2%
Excl. Special Factors*	\$2,994,942	\$2,995,847	\$906	0.0%

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*\$5.7 million refund not included in forecast

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Conclusion

- The economic forecast is quite similar to November's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic recovery include slowing Asian economies, uncertainty around federal fiscal issues and a slowdown in housing activity
- The next monthly collection report will be available on February 11th and the revenue forecast will be presented on February 19th

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U.S. Economic Forecast Comparison

January 2014

	2013Q4	2014Q1	2014Q2	2014Q3	2014	2015	2016	2017	2018	2019
Real GDP, Percent Change, Annual Rate										
ERFC Preliminary February	2.6	2.2	2.6	2.8	2.8	3.0	2.8	2.7	2.6	2.5
Global Insight	2.6	2.0	2.5	2.7	2.7	3.2	3.4	3.2	2.8	2.7
Economy.com	3.0	2.8	3.2	3.5	3.2					
Blue Chip Average*	2.4	2.5	2.8	2.9	2.8	3.0	2.8	2.7	2.6	2.5
Blue Chip Top 10*	3.1	3.1	3.5	3.5	3.2	3.5	3.4	3.2	2.9	2.9
Blue Chip Bottom 10*	1.5	1.9	2.1	2.2	2.3	2.4	2.4	2.2	2.2	2.1
Real Consumption, Percent Change, Annual Rate										
ERFC Preliminary February	3.7	2.3	2.6	2.8	2.6	2.8	2.6	2.6	2.5	2.4
Global Insight	3.7	2.2	3.0	3.2	2.8	3.1	3.1	3.2	2.8	2.5
Economy.com	4.1	3.0	3.7	4.2	3.4					
Blue Chip Average*	3.3	2.5	2.7	2.8	2.6	2.8	2.6	2.6	2.5	2.4
Blue Chip Top 10*	4.1	3.1	3.4	3.8	3.1	3.5	3.1	3.0	2.8	2.7
Blue Chip Bottom 10*	2.2	2.0	2.1	2.0	2.2	2.2	2.2	2.1	2.1	2.0
Federal Funds Rate										
ERFC Preliminary February	0.1	0.1	0.1	0.1	0.1	0.4	2.2	3.8	4.0	4.0
Global Insight	0.1	0.1	0.1	0.1	0.1	0.4	2.2	3.8	4.0	4.0
Economy.com	0.1	0.1	0.1	0.1	0.1					
Three Month T-Bill Rate										
ERFC Preliminary February	0.1	0.1	0.1	0.0	0.1	0.4	2.2	3.6	3.7	3.7
Global Insight	0.1	0.1	0.1	0.1	0.1	0.4	2.2	3.6	3.7	3.7
Blue Chip Average*	0.1	0.1	0.1	0.1	0.1	0.5	2.0	3.0	3.4	3.5
Blue Chip Top 10*	0.1	0.1	0.1	0.2	0.2	1.0	3.0	4.2	4.5	4.6
Blue Chip Bottom 10*	0.1	0.0	0.1	0.1	0.0	0.1	1.1	1.8	2.2	2.2
10-Yr. T-Note Yield										
ERFC Preliminary February	2.8	2.9	3.0	3.0	3.0	3.3	3.8	4.4	4.5	4.5
Global Insight	2.7	2.9	3.0	3.0	3.0	3.3	3.9	4.5	4.6	4.6
Economy.com	2.7	3.0	3.2	3.5	3.3					
Blue Chip Average*	2.8	3.0	3.1	3.2	3.2	3.7	4.2	4.6	4.7	4.8
Blue Chip Top 10*	2.8	3.1	3.3	3.5	3.4	4.1	4.8	5.3	5.5	5.6
Blue Chip Bottom 10*	2.8	2.8	2.9	3.0	3.0	3.3	3.4	3.7	3.8	3.8
Consumer Price Index, Percent Change, Annual Rate										
ERFC Preliminary February	0.6	1.2	2.3	1.7	1.5	1.7	1.5	1.5	1.5	1.3
Global Insight	0.8	0.9	2.1	1.7	1.4	1.8	1.8	1.9	2.0	1.9
Economy.com	1.6	1.9	2.3	2.4	2.0					
Blue Chip Average*	0.8	1.8	1.8	2.0	1.6	2.0	2.3	2.4	2.4	2.4
Blue Chip Top 10*	1.4	2.5	2.4	3.0	2.1	2.5	2.8	2.8	2.9	3.0
Blue Chip Bottom 10*	0.3	1.2	1.2	1.4	1.4	1.6	2.0	2.0	2.0	1.9
Payroll Employment, Millions										
ERFC Preliminary February	136.9	137.5	137.9	138.6	138.3	140.8	143.3	145.3	146.7	147.6
Percent Change, Annual Rate	2.2	1.7	1.3	1.8	1.7	1.8	1.8	1.4	1.0	0.6
Global Insight	136.8	137.3	137.9	138.6	138.3	141.0	143.9	146.4	148.1	149.3
Percent Change, Annual Rate	1.8	1.6	1.6	2.1	1.7	2.0	2.0	1.7	1.2	0.8
Economy.com	136.7	137.4	138.0	138.7	138.4					
Percent Change, Annual Rate	1.7	1.8	2.0	2.0	1.8					
Unemployment Rate, Percent										
ERFC Preliminary February	7.0	6.7	6.6	6.5	6.5	6.1	5.8	5.6	5.6	5.5
Global Insight	7.1	6.8	6.6	6.4	6.5	5.9	5.4	5.1	5.0	5.0
Economy.com	7.0	6.7	6.5	6.4	6.4					
Blue Chip Average*	7.0	7.0	6.8	6.7	6.8	6.3	6.1	5.8	5.6	5.6
Blue Chip Top 10*	7.0	7.2	7.0	7.0	7.0	6.6	6.7	6.4	6.2	6.2
Blue Chip Bottom 10*	7.0	6.8	6.6	6.5	6.6	5.9	5.6	5.2	5.1	5.1
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC Preliminary February	1.8	4.6	2.9	3.2	3.3	3.4	3.6	3.7	3.2	2.7
Global Insight	1.3	4.7	3.1	3.4	3.3	3.5	3.7	3.8	3.1	2.6
Blue Chip Average*	2.1	2.3	2.5	2.6	2.6	2.8	2.8	2.8	2.7	2.6
Blue Chip Top 10*	3.8	3.7	3.2	3.4	3.4	3.6	3.7	3.7	3.4	3.2
Blue Chip Bottom 10*	0.7	1.1	1.8	1.8	2.0	2.2	2.2	2.2	2.2	2.0

* Forecasts beyond 2015 are from the October 2013 Blue Chip Economic Indicators

U.S. Forecast Comparison	Fiscal Years					
	2014	2015	2016	2017	2018	2019
Real GDP						
Billions of 2009 dollars						
February Preliminary Forecast	15,987	16,435	16,904	17,376	17,836	18,288
<i>Growth</i>	2.6%	2.8%	2.9%	2.8%	2.6%	2.5%
November Forecast	15,921	16,358	16,827	17,293		
<i>Growth</i>	2.2%	2.7%	2.9%	2.8%		
Difference in level	66	76	77	82		
<i>Difference in growth forecast</i>	0.4%	0.1%	0.0%	0.0%		
Real Consumption						
Billions of 2009 dollars						
February Preliminary Forecast	10,865	11,165	11,461	11,759	12,062	12,358
<i>Growth</i>	2.4%	2.8%	2.6%	2.6%	2.6%	2.5%
November Forecast	10,834	11,122	11,416	11,710		
<i>Growth</i>	2.1%	2.7%	2.6%	2.6%		
Difference in level	31	43	45	48		
<i>Difference in growth forecast</i>	0.3%	0.1%	0.0%	0.0%		
Implicit Price Deflator						
Index 2009 = 100						
February Preliminary Forecast	107.7	109.1	110.6	112.1	113.6	115.0
<i>Growth</i>	1.0%	1.3%	1.3%	1.3%	1.3%	1.2%
November Forecast	107.8	109.4	111.1	112.8		
<i>Growth</i>	1.1%	1.5%	1.5%	1.5%		
Difference in level	-0.1	-0.3	-0.5	-0.7		
<i>Difference in growth forecast</i>	-0.1%	-0.2%	-0.2%	-0.2%		
Unemployment Rate						
Percent of Labor Force						
February Preliminary Forecast	6.9%	6.3%	5.9%	5.7%	5.6%	5.5%
November Forecast	7.1%	6.6%	6.2%	6.0%		
<i>Difference in forecast</i>	-0.2%	-0.3%	-0.3%	-0.3%		
30 Year Fixed Mortgage Rate						
Annual Average						
February Preliminary Forecast	4.4%	4.8%	5.3%	6.1%	6.6%	6.5%
November Forecast	4.4%	4.7%	5.2%	6.1%		
<i>Difference in forecast</i>	0.1%	0.1%	0.1%	0.0%		
3 Month T-Bill Rate						
Annual Average						
February Preliminary Forecast	0.1%	0.1%	1.2%	3.1%	3.7%	3.7%
November Forecast	0.1%	0.1%	1.2%	3.1%		
<i>Difference in forecast</i>	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						
February Preliminary Forecast	311.4	324.1	336.1	348.8	361.8	374.3
<i>Growth</i>	2.9%	4.1%	3.7%	3.8%	3.7%	3.5%
November Forecast	310.8	322.6	333.5	345.5		
<i>Growth</i>	2.9%	3.8%	3.4%	3.6%		
Difference in level	0.6	1.5	2.6	3.3		
<i>Difference in growth forecast</i>	0.0%	0.3%	0.3%	0.2%		
Nominal Personal Income						
Billions of dollars						
February Preliminary Forecast	335.5	353.7	371.7	390.9	410.9	430.3
<i>Growth</i>	4.0%	5.4%	5.1%	5.2%	5.1%	4.7%
November Forecast	335.1	352.9	370.5	389.6		
<i>Growth</i>	4.0%	5.3%	5.0%	5.2%		
Difference in level	0.4	0.9	1.2	1.3		
<i>Difference in growth forecast</i>	0.0%	0.1%	0.1%	0.0%		
Nonfarm Payroll Employment, End of Period						
Thousands						
February Preliminary Forecast	2,969.5	3,025.6	3,084.3	3,139.5	3,185.0	3,223.6
<i>Growth</i>	2.2%	1.9%	1.9%	1.8%	1.4%	1.2%
November Forecast	2,957.6	3,012.9	3,067.6	3,119.9		
<i>Growth</i>	1.8%	1.9%	1.8%	1.7%		
Difference in level	11.9	12.7	16.7	19.7		
<i>Difference in growth forecast</i>	0.4%	0.0%	0.1%	0.1%		
Housing Permits						
Units Authorized, Thousands						
February Preliminary Forecast	31.6	35.3	39.8	41.6	42.0	42.6
<i>Growth</i>	2.7%	11.5%	13.0%	4.3%	1.0%	1.7%
November Forecast	30.4	35.6	40.1	41.1		
<i>Growth</i>	-0.7%	16.8%	12.7%	2.6%		
Difference in level	1.2	-0.3	-0.2	0.4		
<i>Difference in growth forecast</i>	3.5%	-5.3%	0.3%	1.7%		

**Year-Over-Year Employment Growth by Industry
(December 2012 to December 2013)
Washington vs. U.S.**

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	64.4	2.2%	1.6%
Retail Trade	12.7	3.9%	2.6%
Mining and Logging	0.2	3.5%	3.6%
Construction	5.1	3.5%	2.2%
Software Publishers	1.9	3.5%	NA
Leisure and Hospitality	9.8	3.5%	2.7%
Wholesale Trade	4.4	3.5%	1.7%
Professional and Business Services	9.2	2.6%	3.4%
Education and Health Services	9.7	2.5%	1.5%
Financial Activities	3.2	2.2%	1.0%
State and Local Gov Education	4.6	1.9%	0.2%
Transportation, Warehousing and Utilities	1.7	1.9%	1.2%
Manufacturing Excluding Aerospace	3.3	1.7%	NA
Other Services	1.2	1.1%	0.6%
State and Local Gov Non-Education	0.1	0.1%	0.2%
Information Excluding Software	-0.1	-0.1%	NA
Aerospace Product and Parts Manufacturing	-1.3	-1.3%	NA
Information	1.8	1.7%	-0.4%
Manufacturing	2.0	0.7%	0.7%

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

**County Taxable Retail Sales
Quarter 3, 2012 to Quarter 3, 2013
(Dollars in Thousands)**

Rank	County	3rd Quarter, 2012	3rd Quarter, 2013	Percent Change	Taxbase Distribution
1	Columbia	13,802	26,787	94.1%	0.1%
2	Grant	389,704	501,829	28.8%	1.6%
3	Douglas	147,603	178,306	20.8%	0.6%
4	Adams	64,780	77,845	20.2%	0.3%
5	Pacific	60,962	70,170	15.1%	0.2%
6	Chelan	374,477	422,450	12.8%	1.4%
7	Okanogan	148,138	164,543	11.1%	0.5%
8	Lincoln	31,875	35,341	10.9%	0.1%
9	Pierce	2,878,289	3,189,468	10.8%	10.3%
10	Benton	754,148	834,887	10.7%	2.7%
11	Cowlitz	325,551	359,811	10.5%	1.2%
12	Asotin	66,773	72,987	9.3%	0.2%
13	Kittitas	186,551	203,133	8.9%	0.7%
14	Clark	1,178,643	1,281,713	8.7%	4.1%
15	Snohomish	2,724,563	2,940,352	7.9%	9.5%
16	Jefferson	96,274	103,865	7.9%	0.3%
17	Yakima	778,800	839,702	7.8%	2.7%
	Statewide	28,788,887	30,982,462	7.6%	100.0%
18	Island	187,072	201,068	7.5%	0.6%
19	King	11,296,472	12,133,966	7.4%	39.2%
20	Pend Oreille	33,045	35,445	7.3%	0.1%
21	Lewis	259,085	275,863	6.5%	0.9%
22	Whatcom	860,868	915,278	6.3%	3.0%
23	Kitsap	815,216	865,233	6.1%	2.8%
24	Franklin	271,712	286,760	5.5%	0.9%
25	Skagit	598,555	631,587	5.5%	2.0%
26	Clallam	252,680	265,700	5.2%	0.9%
27	Spokane	1,887,055	1,974,081	4.6%	6.4%
28	Grays Harbor	224,782	232,391	3.4%	0.8%
29	Wahkiakum	8,744	8,970	2.6%	0.0%
30	Thurston	987,963	1,012,711	2.5%	3.3%
31	Mason	137,251	139,310	1.5%	0.4%
32	San Juan	123,782	125,637	1.5%	0.4%
33	Klickitat	59,989	60,300	0.5%	0.2%
34	Stevens	104,995	105,017	0.0%	0.3%
35	Walla Walla	192,063	191,918	-0.1%	0.6%
36	Skamania	29,577	25,165	-14.9%	0.1%
37	Whitman	204,797	172,655	-15.7%	0.6%
38	Ferry	19,093	14,686	-23.1%	0.0%
39	Garfield	13,158	5,528	-58.0%	0.0%

King/Snohomish/Pierce	15,781,390	17,036,501	8.0%	58.8%
Remainder of State	11,041,879	11,961,607	8.3%	41.2%

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Governor's Council of Economic Advisor's Forecast

Calendar Years

February 6, 2014

	2014	2015	2016	2017	2018	2019
U.S.						
Real GDP						
<i>Growth</i>						
ERFC	2.8	3.0	2.8	2.7	2.6	2.5
GCEA Average	2.8	2.8	2.6	2.5	2.4	2.4
Real Consumption						
<i>Growth</i>						
ERFC	2.6	2.8	2.6	2.6	2.5	2.4
GCEA Average	2.6	2.6	2.6	2.6	2.4	2.4
Implicit Price Deflator, PCE						
<i>Growth</i>						
ERFC	1.1	1.3	1.4	1.3	1.3	1.1
GCEA Average	1.4	1.7	1.8	1.8	1.8	1.8
Mortgage Rate						
<i>Percent</i>						
ERFC	4.6	5.0	5.7	6.5	6.6	6.5
GCEA Average	4.6	5.0	5.6	6.0	6.2	6.1
Oil Price (Brent)						
<i>Dollars per barrel</i>						
ERFC	105.8	101.2	97.1	94.5	92.5	90.9
GCEA Average	102.9	99.2	96.4	95.7	94.8	94.2

Washington State

Real Personal Income

<i>Growth</i>						
ERFC	4.1	3.8	3.7	3.8	3.5	3.4
GCEA Average	3.8	3.5	3.4	3.4	3.3	3.2

Wage and Salary Employment

<i>Growth</i>						
ERFC	1.9	2.0	1.9	1.6	1.3	1.1
GCEA Average	1.9	1.9	1.8	1.6	1.5	1.3

Manufacturing Employment

<i>Growth</i>						
ERFC	1.4	2.0	0.8	0.3	0.6	0.6
GCEA Average	0.8	1.1	0.4	0.2	0.3	0.2

Construction Employment

<i>Growth</i>						
ERFC	3.5	5.6	6.1	5.7	3.7	1.6
GCEA Average	3.9	4.8	5.0	4.1	3.1	1.8

Housing Permits

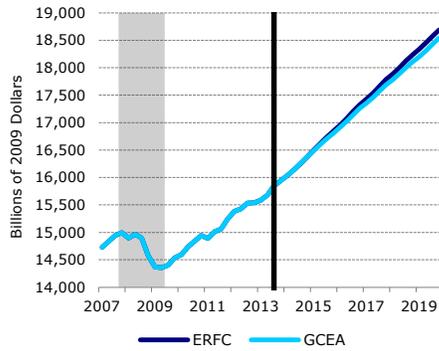
<i>Thousands of authorized units</i>						
ERFC	33.1	37.6	41.1	41.7	42.3	42.9
GCEA Average	34.5	40.5	42.9	43.5	42.8	43.1

Washington Average Annual Wage

<i>Growth</i>						
ERFC	3.2	3.2	3.0	2.9	3.0	3.0
GCEA Average	2.8	3.0	2.9	2.9	3.0	3.0

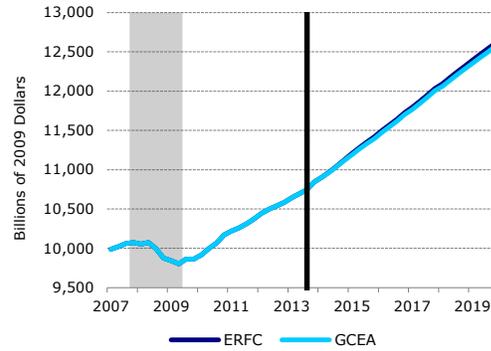
U.S. Forecast Comparison

Real GDP



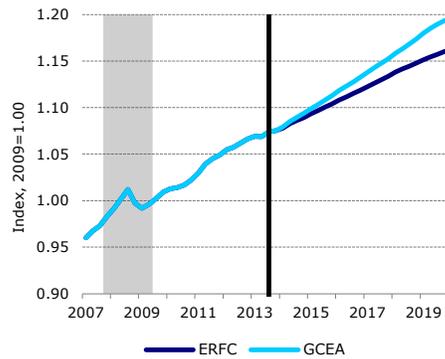
Source: BEA, ERFC, GCEA; data through 2013 Q3

Real Consumption



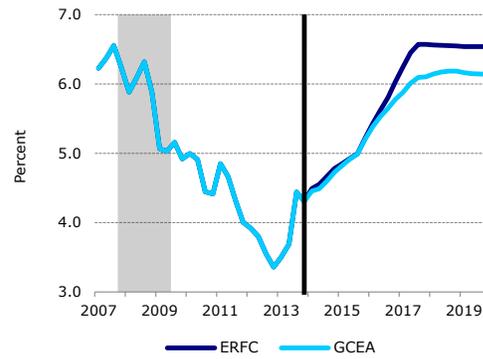
Source: BEA, ERFC, GCEA; data through 2013 Q3

Implicit Price Deflator, PCE



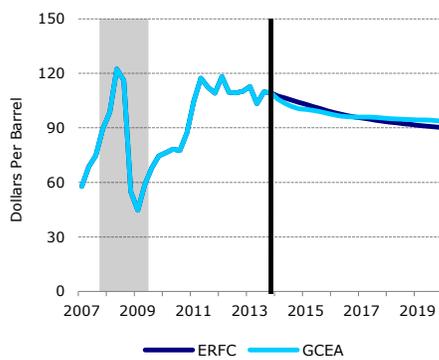
Source: BEA, ERFC, GCEA; data through 2013 Q3

Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; data through 2013 Q4

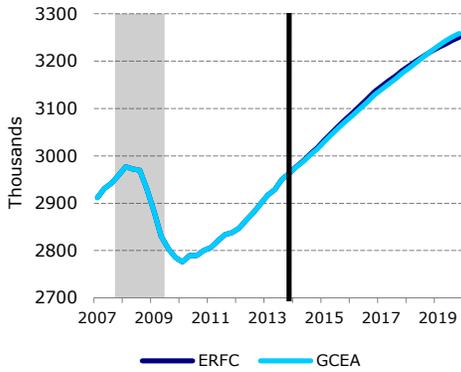
Brent Oil Price



Source: EIA, ERFC, GCEA; data through 2013 Q4

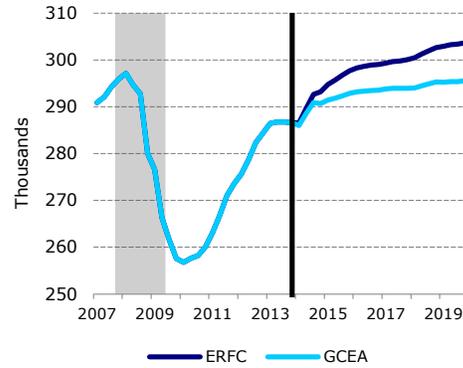
Washington Forecast Comparison

Nonfarm Payroll Employment



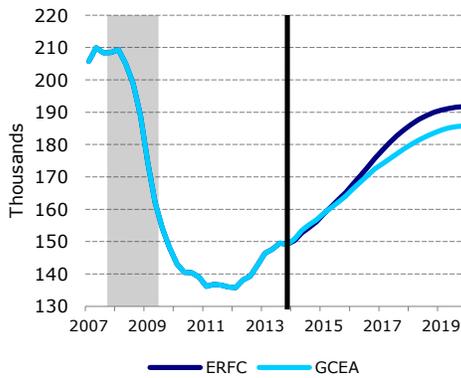
Source: ESD, ERFC, GCEA; data through 2013 Q4

Manufacturing Employment



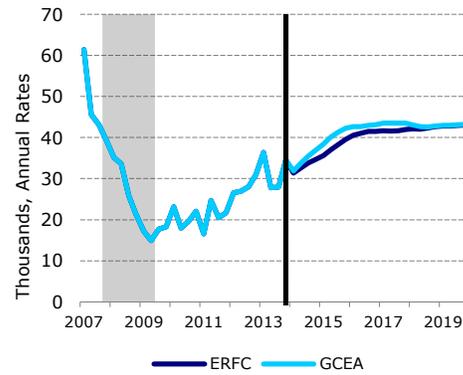
Source: ESD, ERFC, GCEA; data through 2013 Q4

Construction Employment



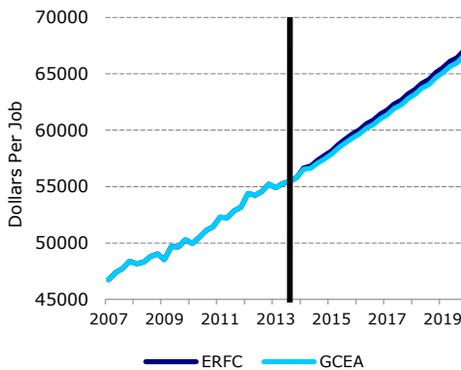
Source: ESD, ERFC, GCEA; data through 2013 Q4

Housing Units Authorized



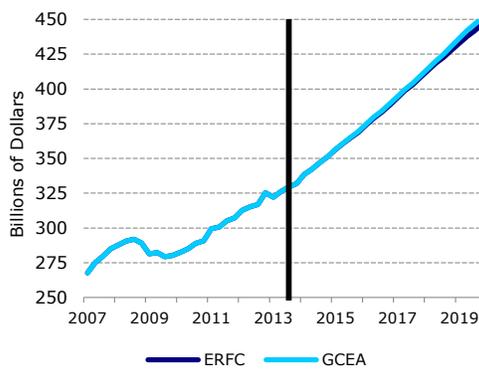
Source: Census, ERFC, GCEA; data through 2013 Q4

Average Annual Wage



Source: BEA, ESD, ERFC, GCEA; data through 2013 Q3

Personal Income



Source: BEA, ERFC, GCEA; data through 2013 Q3