

Washington State Economic and Revenue Outlook

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The economic forecast has remained stable, with moderate economic growth in the U.S. and WA
- We continue to expect the slightly stronger employment and income growth in WA compared to the national economy
- The forecast assumes the Federal Reserve will gradually increase interest rates starting in December
- Risks to the baseline include slowing economic growth in the U.S. and globally, impact of a stronger dollar on exports, and weaker manufacturing activity



Economic news continues to suggest risks to forecast

Upside risks:

- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

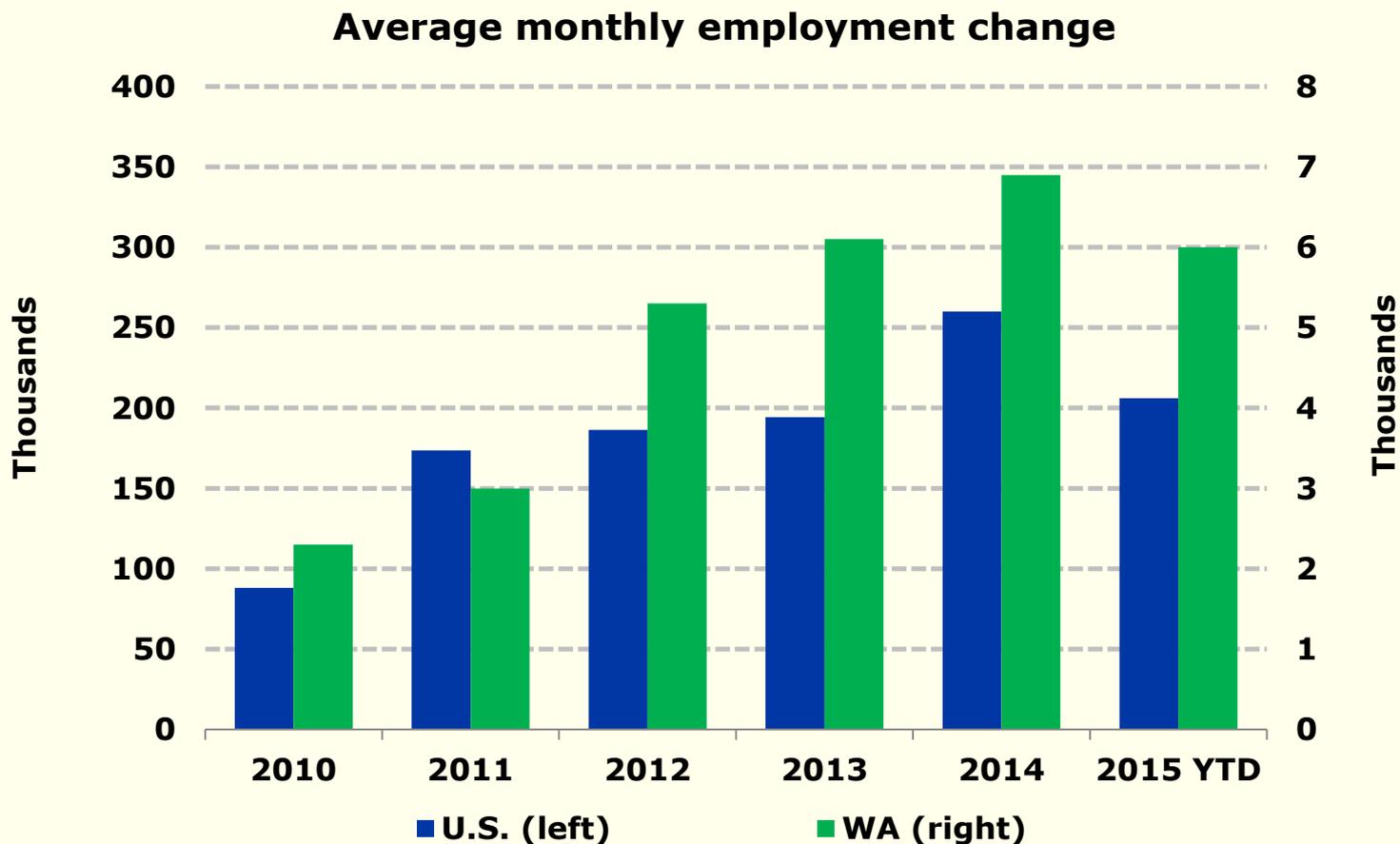
Downside risks:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weaker manufacturing activity
- Impact of Federal Reserve actions



Job creation is slightly weaker in both the U.S. and WA so far this year

October job gains:
U.S.: 271,000
WA: 6,400

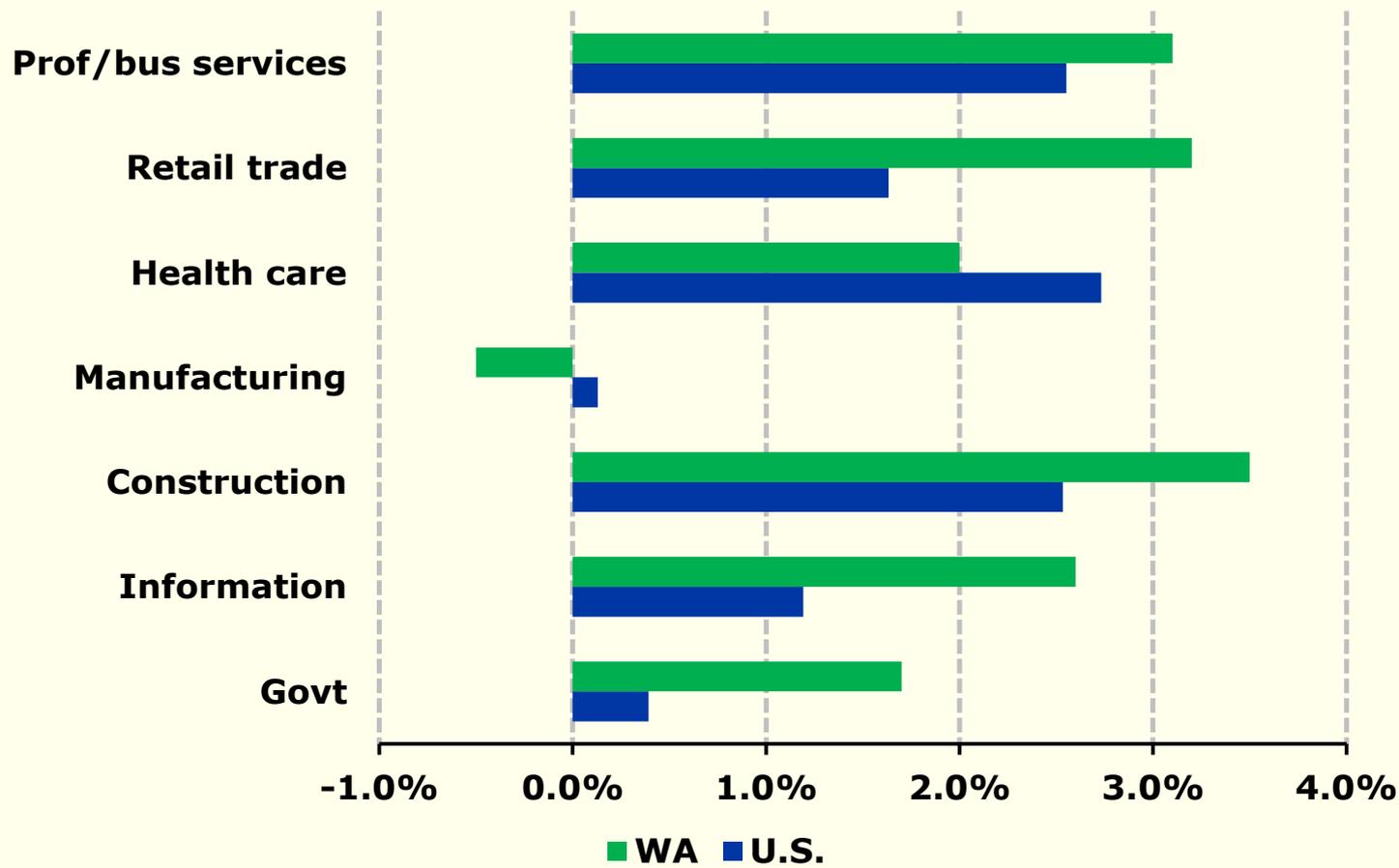


Source: Bureau of Labor Statistics, ERFC; data through October 2015

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Year to date employment growth, selected industries



Source: BLS, ERFC; data through October 2015

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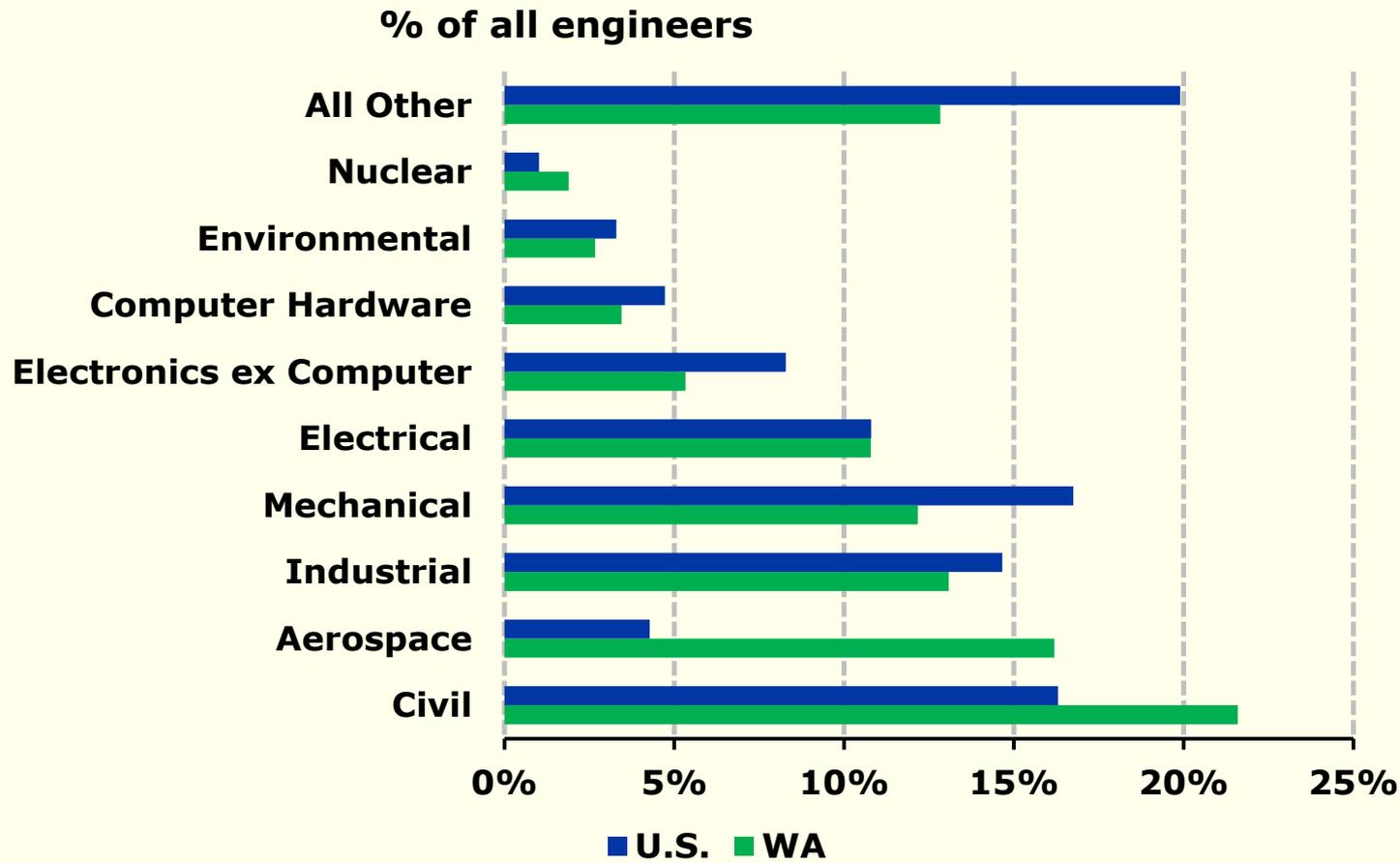


U.S. and WA engineers by specialty, 2014

Engineers as
% of nonfarm
employment:

U.S.: 1.2%

WA: 1.8%

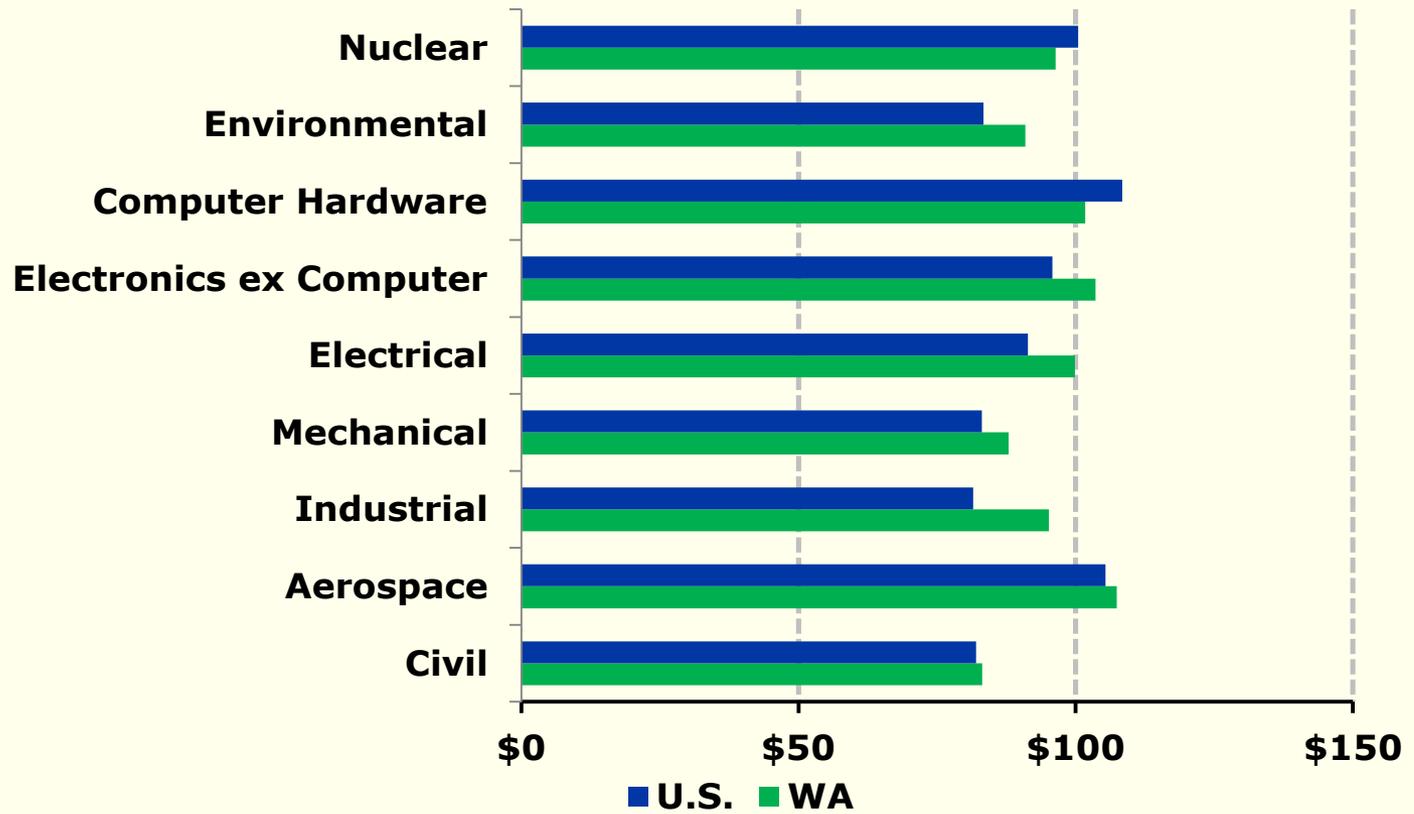


Source: BLS Occupational Employment Statistics, May 2014



Median annual engineering wages by selected specialties, US and WA, 2014

Thousands



Source: BLS Occupational Employment Statistics, May 2014

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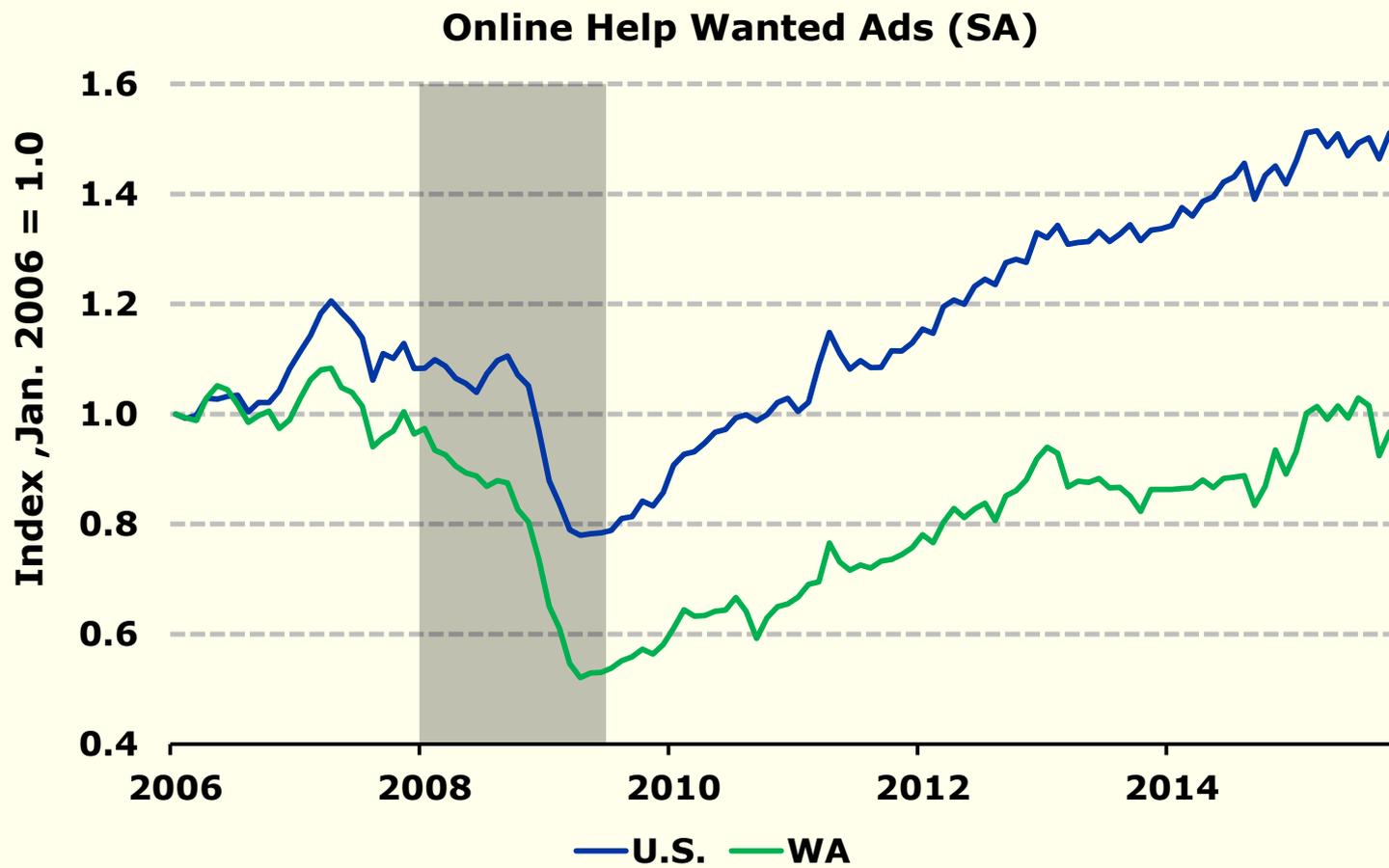


Average U.S. wage growth has turned positive





Job openings trending up nationally, slowing in Washington



Source: Conference Board; data through October 2015

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Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Oct. 2015: 27%

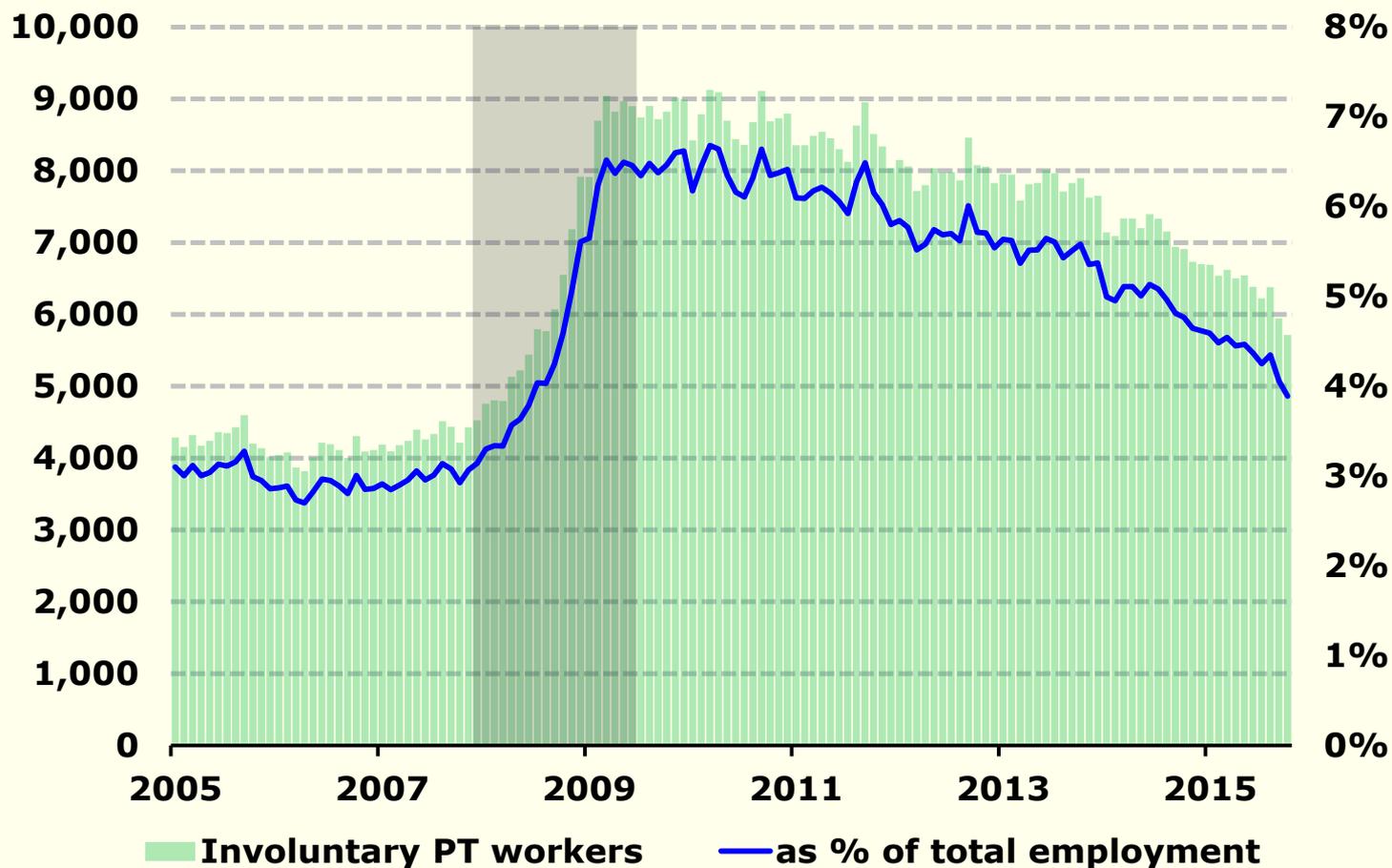


Source: Bureau of Labor Statistics; data through October 2015

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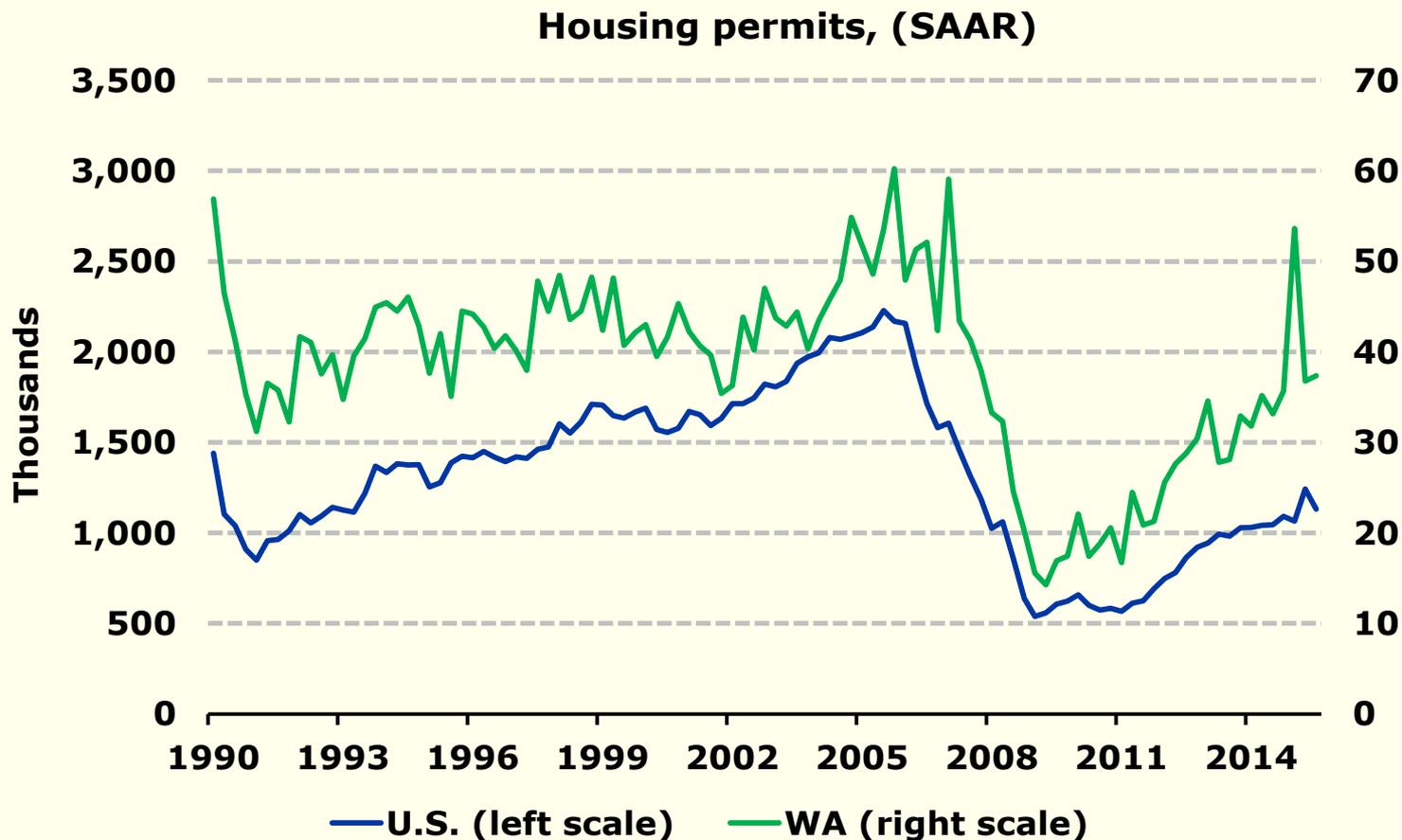
Involuntary part-time employment remains above pre-recession levels



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



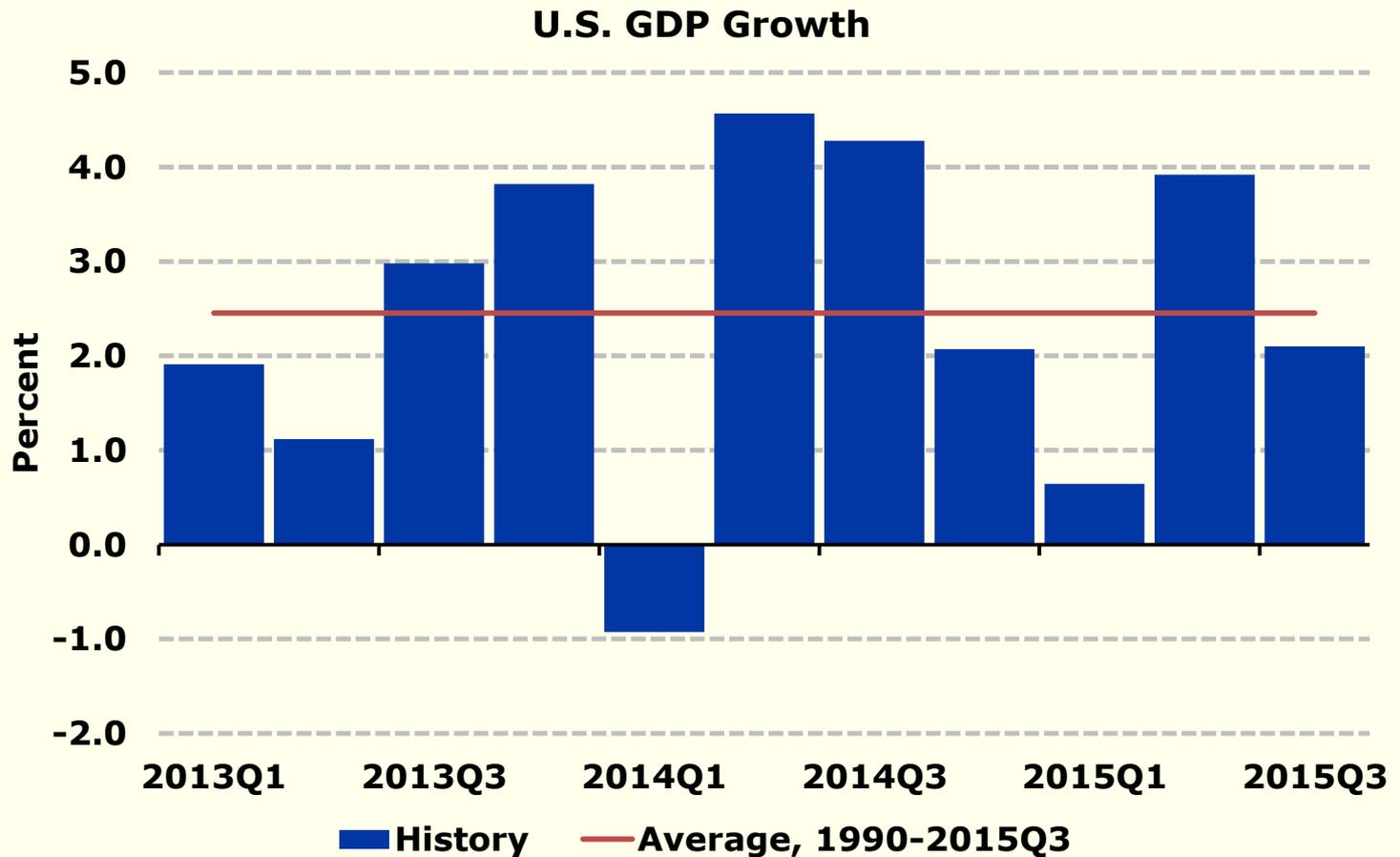
Both U.S. and WA housing permits trending up since 2011





U.S. economic growth weakened in the third quarter

Forecast GDP growth:
2.7% in 4th Q,
2.6% in 2016



Source: U.S. Dept. of Commerce, BEA, data through 2015Q3



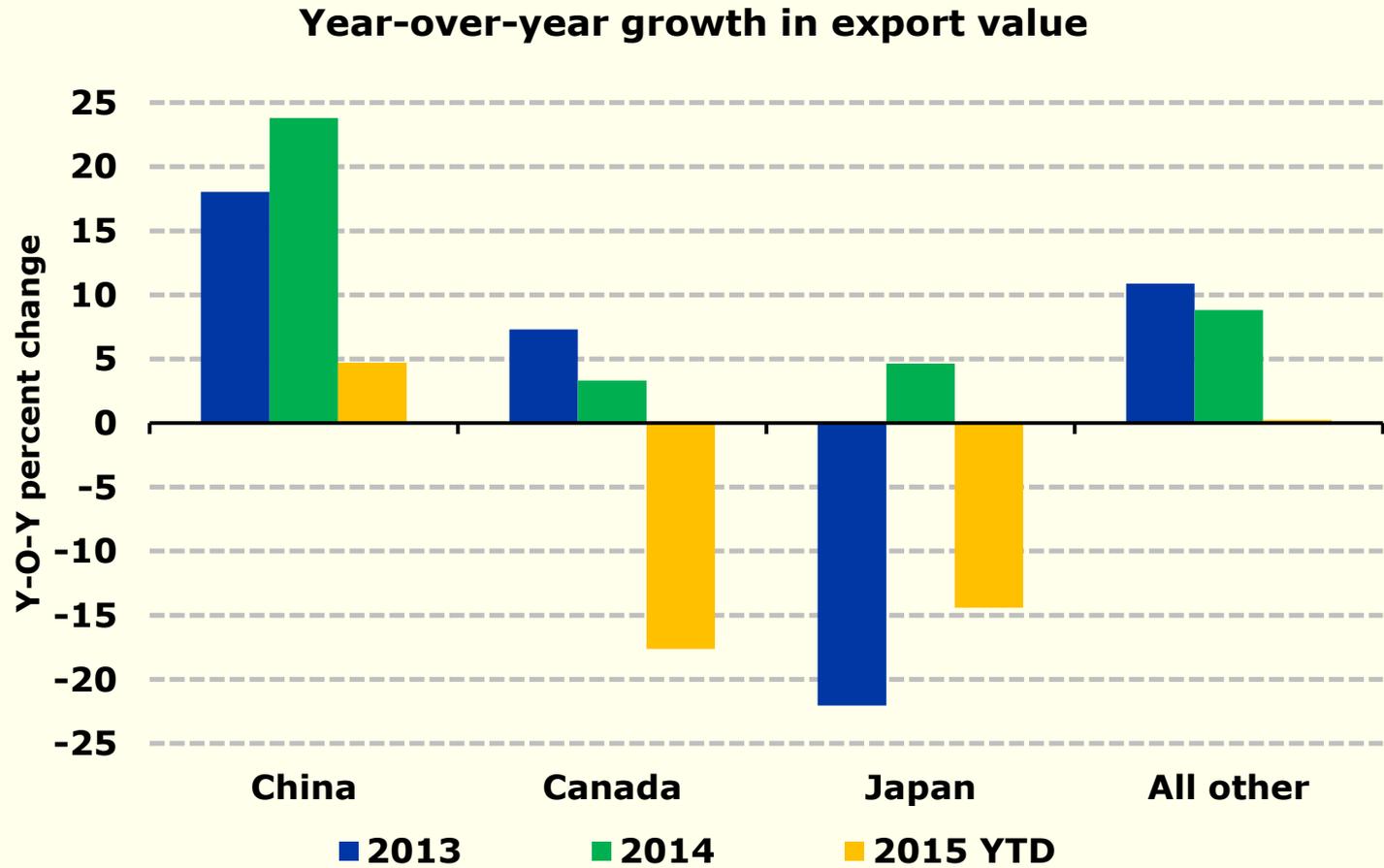
Corporate profits in 3rd quarter had largest annual decline since recession

Corporate profits, year over year change





WA exports to major trading partners have slowed

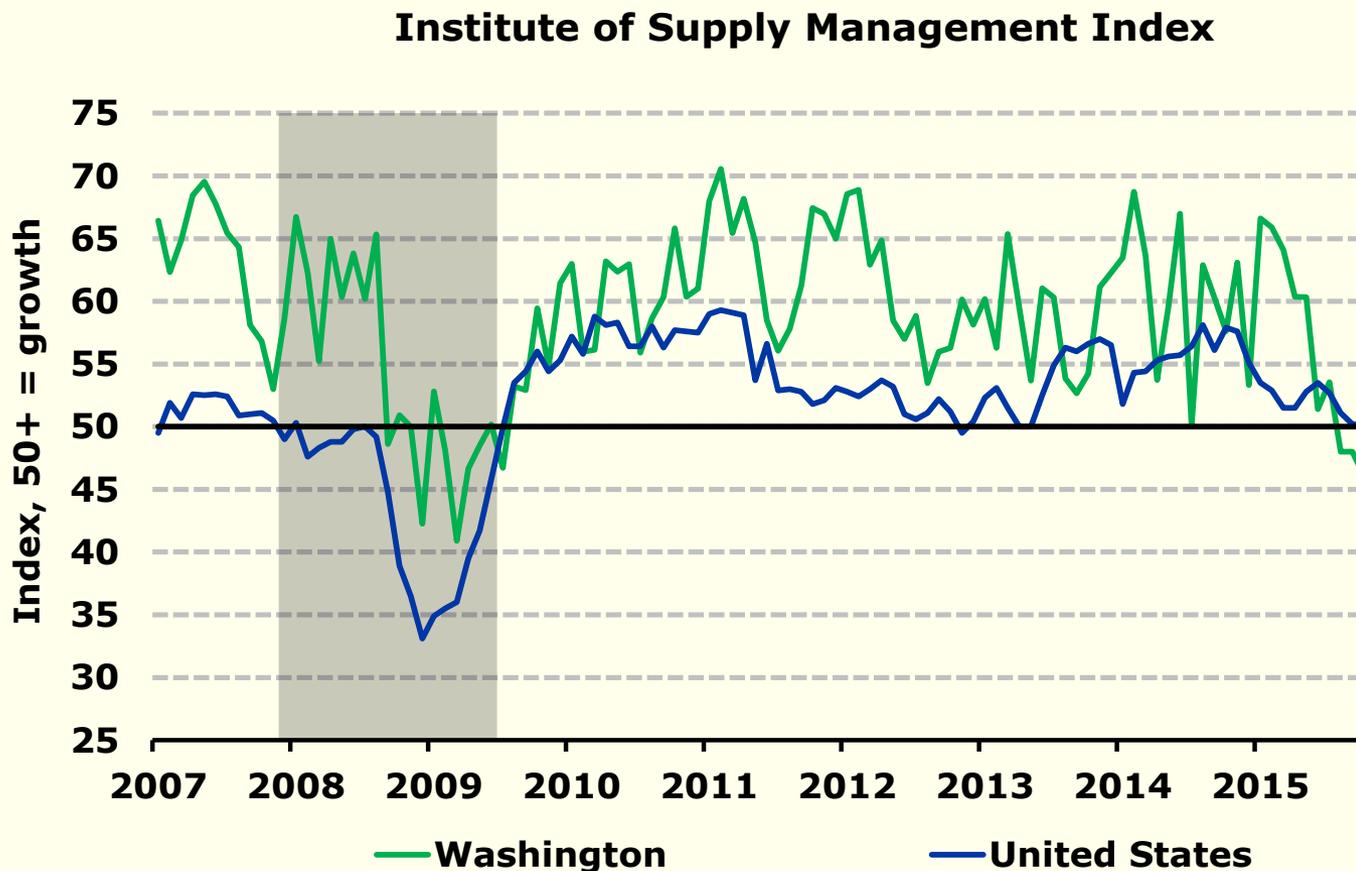


Source: WISERTrade; data through September 2015

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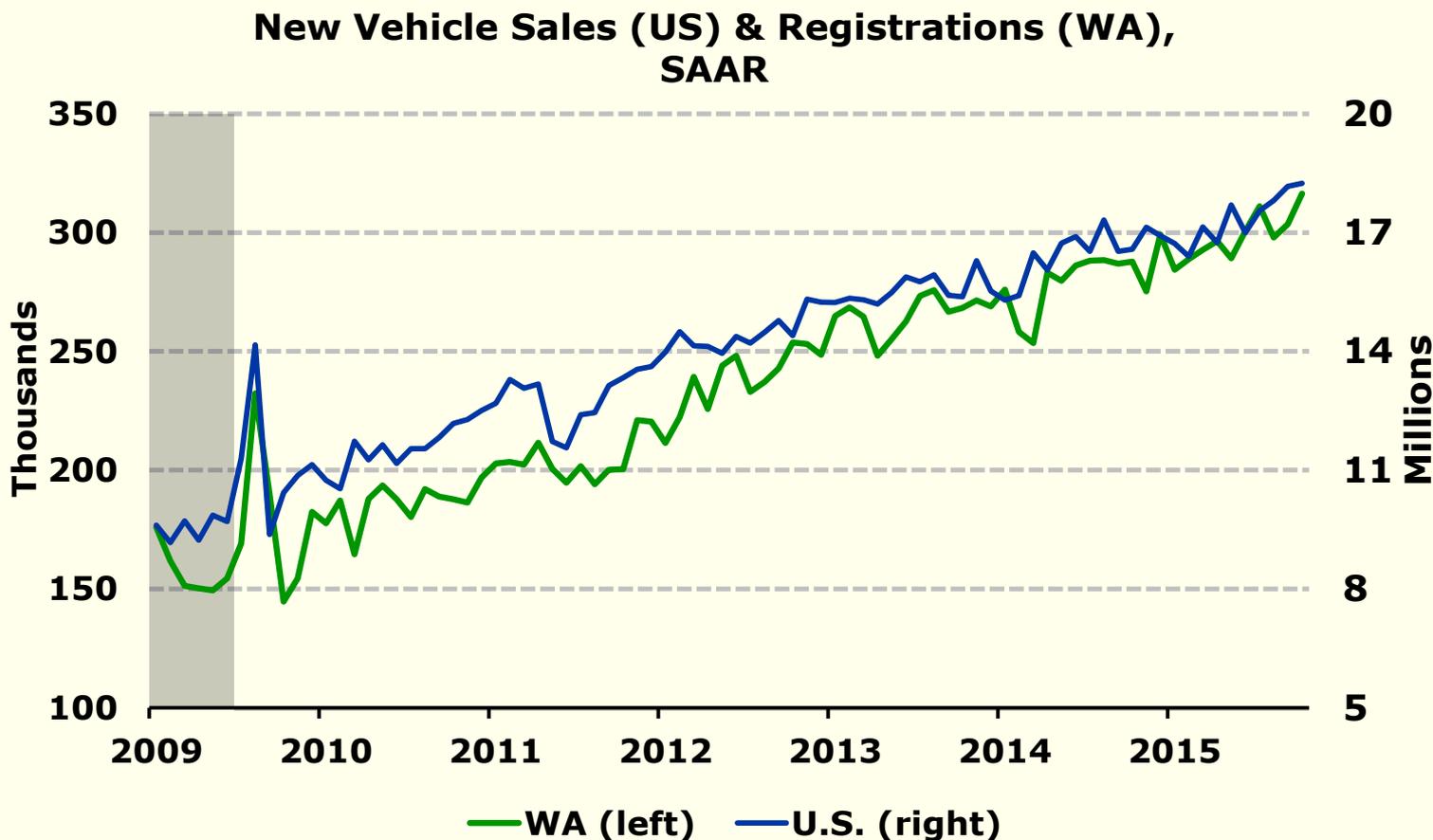
Manufacturing is declining in Washington



Source: ISM; data through October 2015

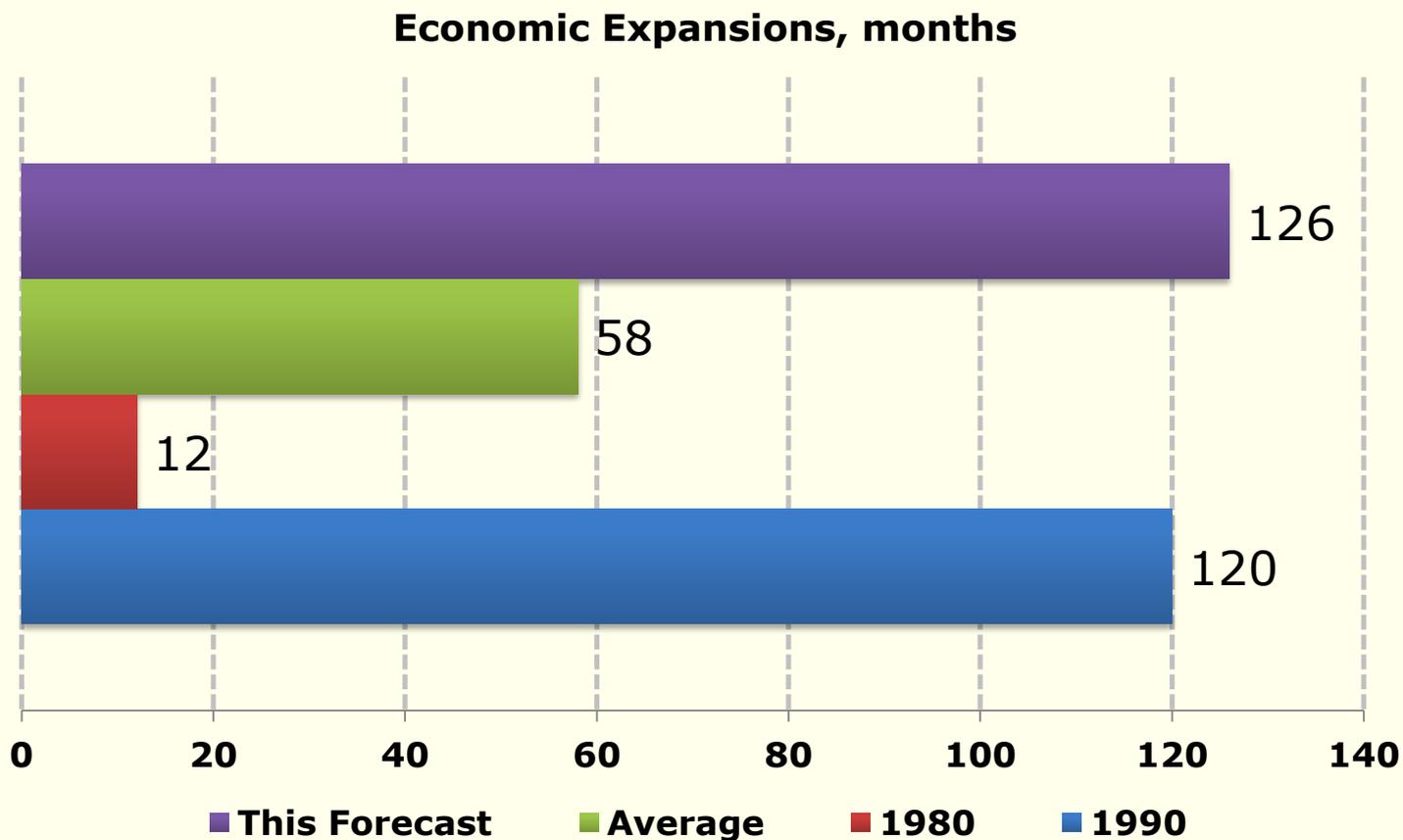


New vehicle sales continue to grow





U.S. Economic Expansions since 1945



Sources: NBER, ERFC November 2015 forecast

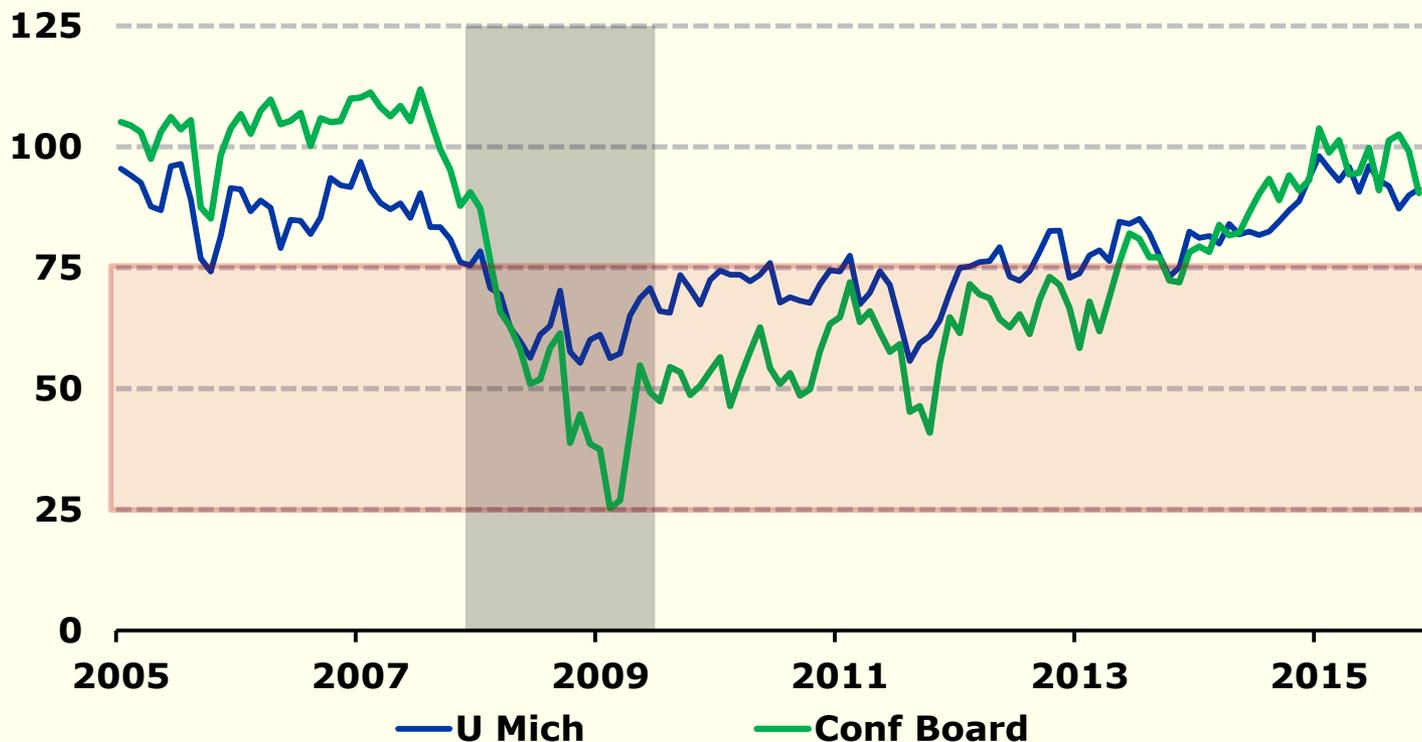


Consumer confidence trend unclear as UMich., Conference Board indexes moving in different directions

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

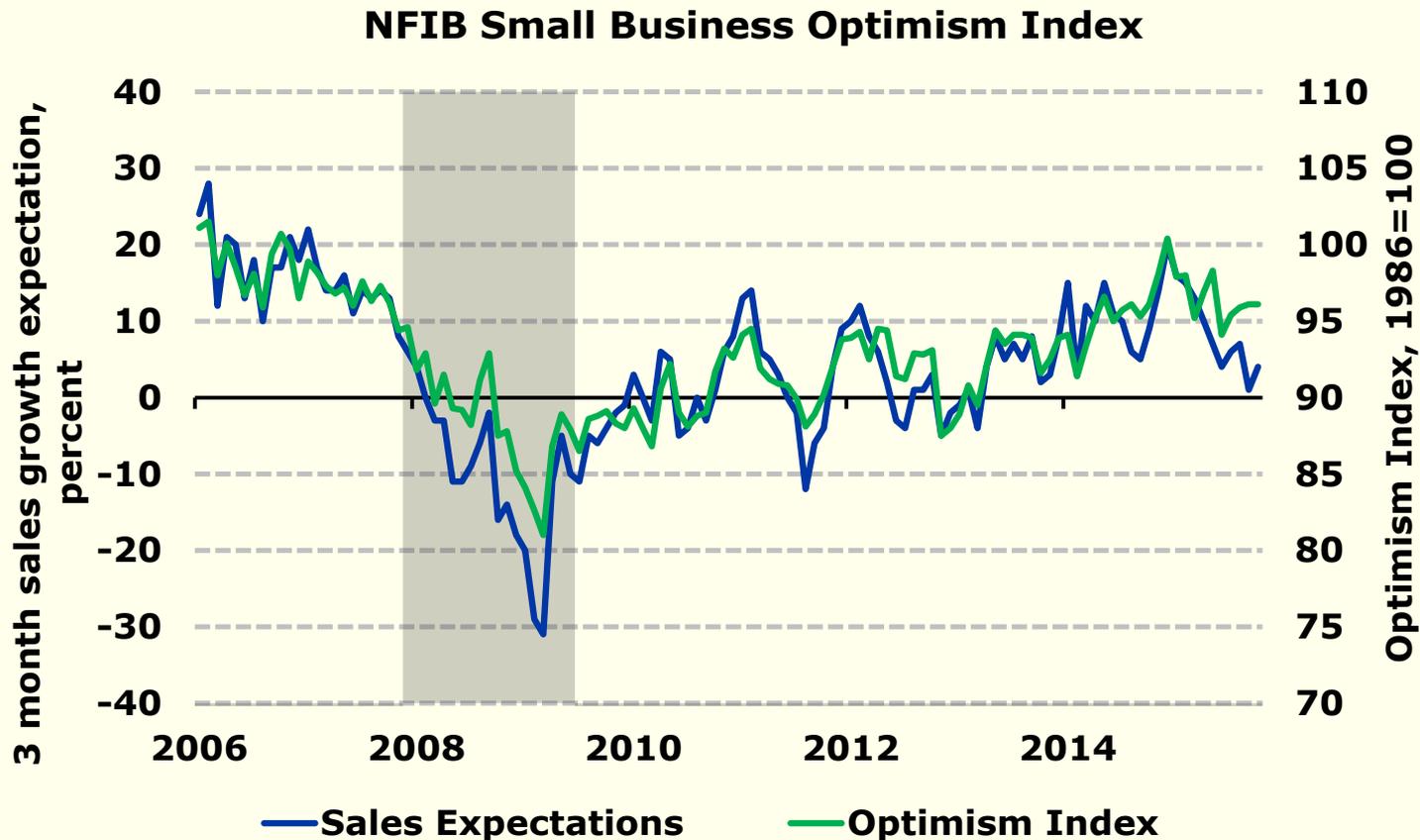


Sources: University of Michigan, Conference Board; data through November 2015

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Small business optimism and sales expectations have weakened recently

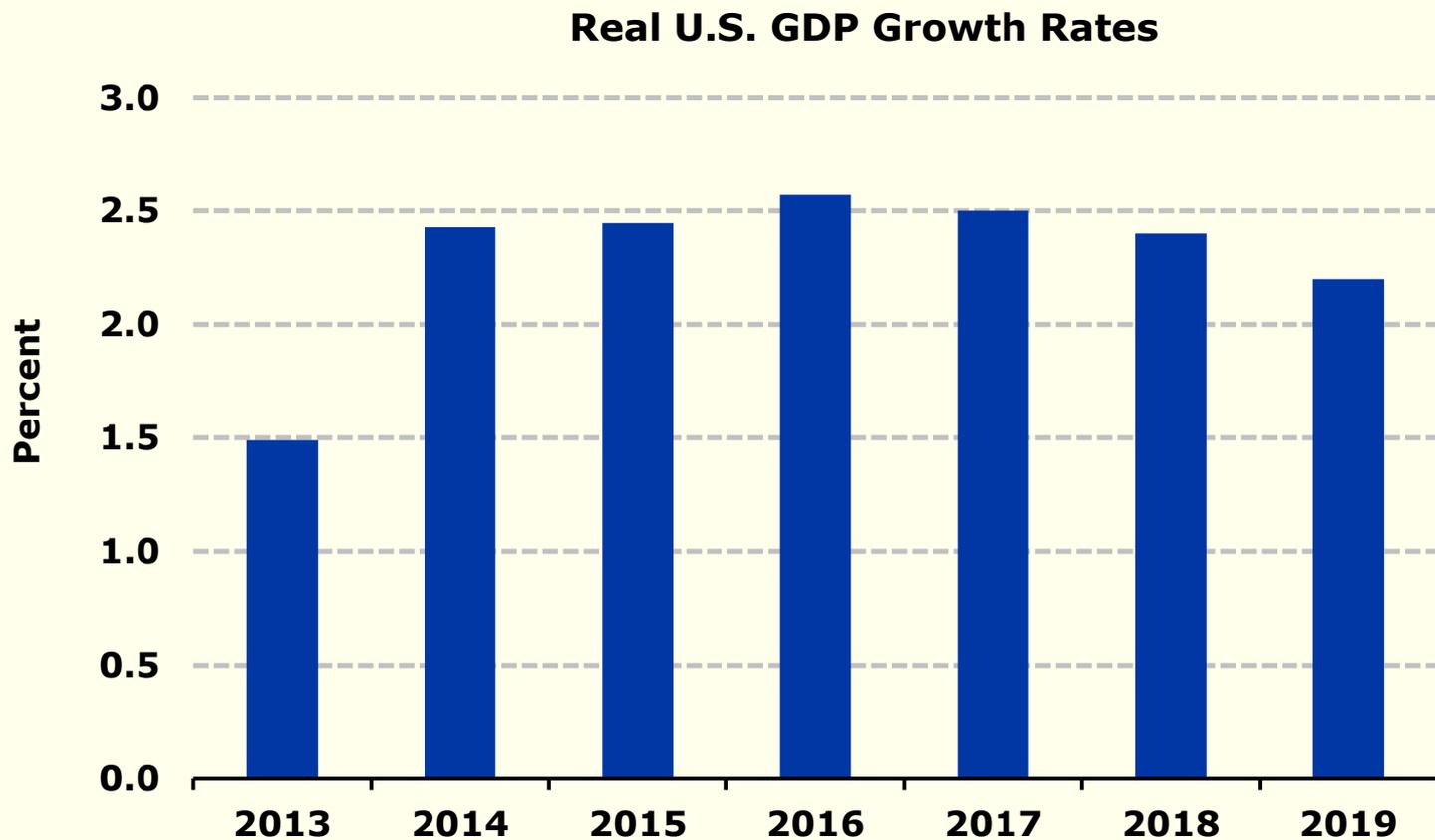


Source: National Federation of Independent Business; data through October 2015

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Forecasted real GDP growth is slightly lower than in the September forecast

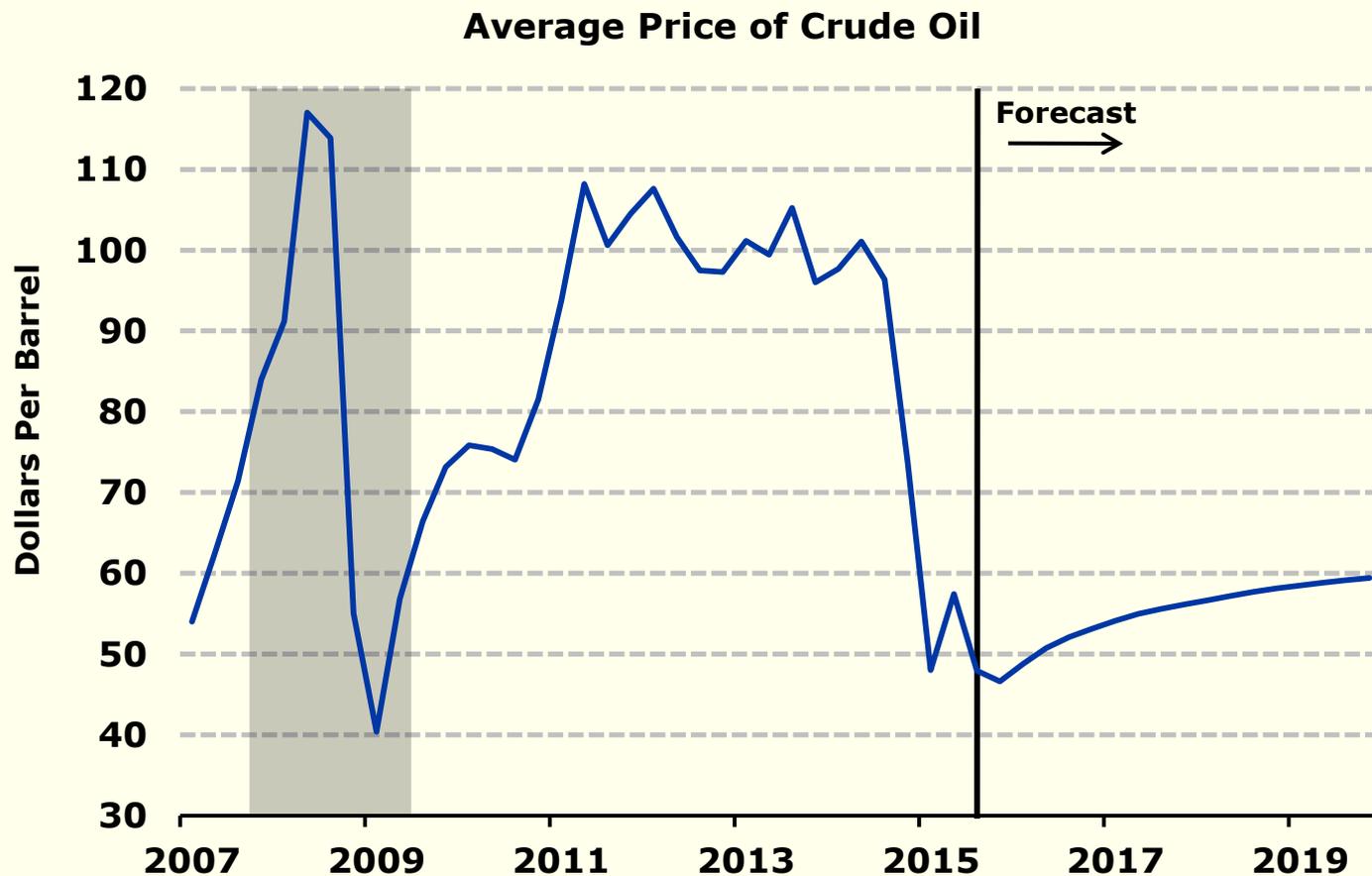


Source: ERFC November 2015 forecast; historical data through 2014

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Oil prices are expected to rise gradually starting next year

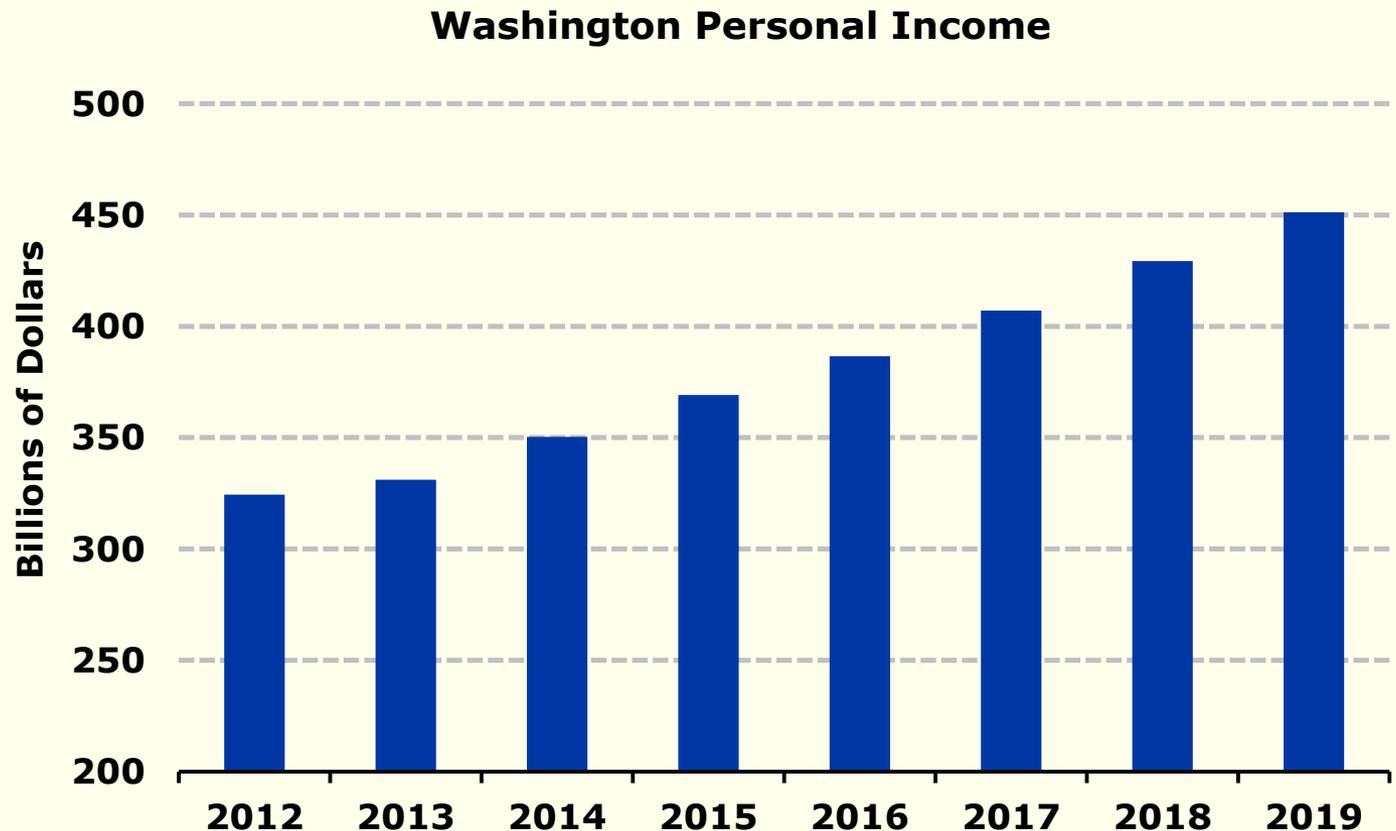


Source: DOE, ERFC November 2015 forecast; historical data through 2015Q3

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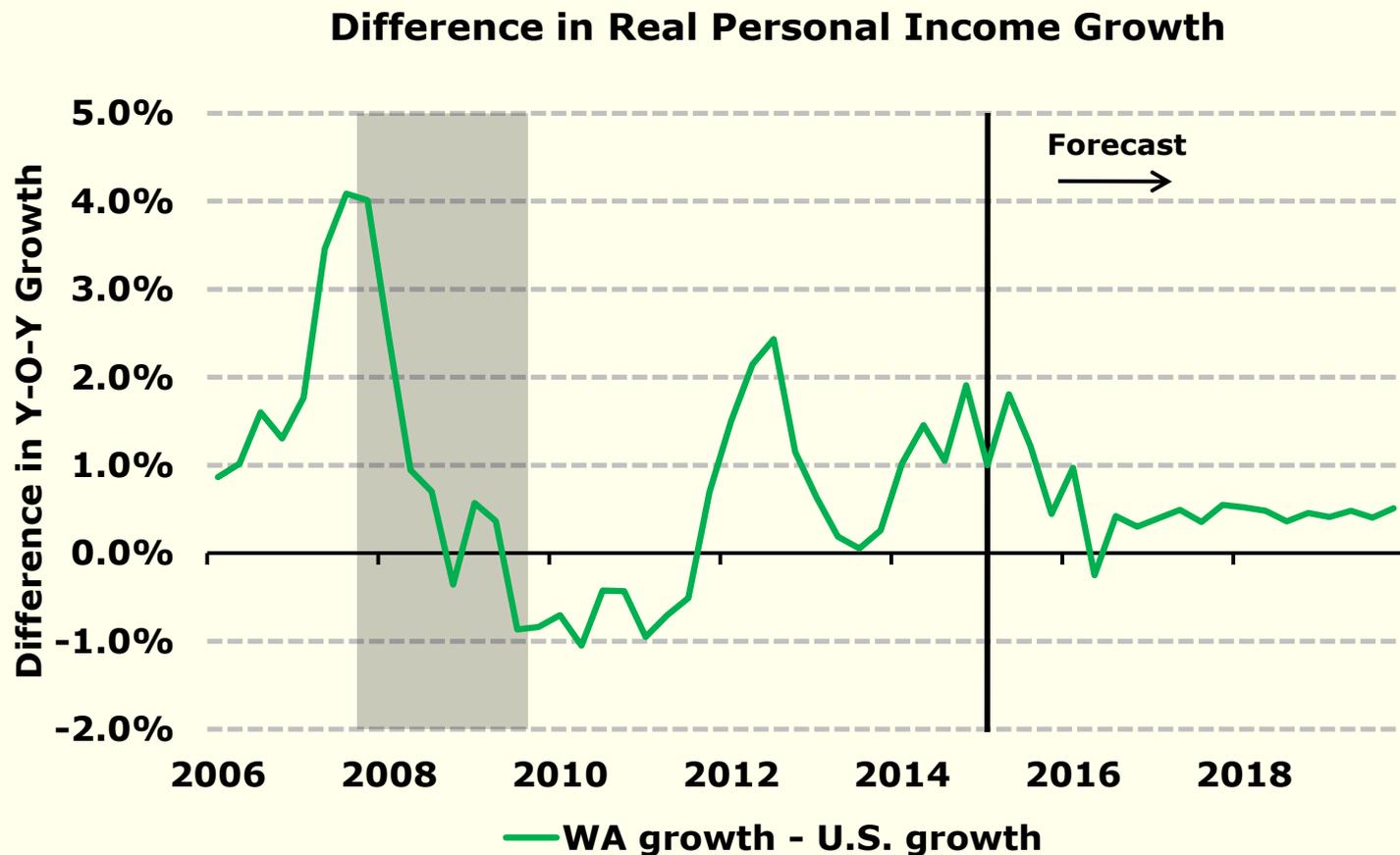
Washington annual personal income growth is expected to average 5.2% for 2016-19



Source: ERFC November 2015 forecast; historical data through 2014

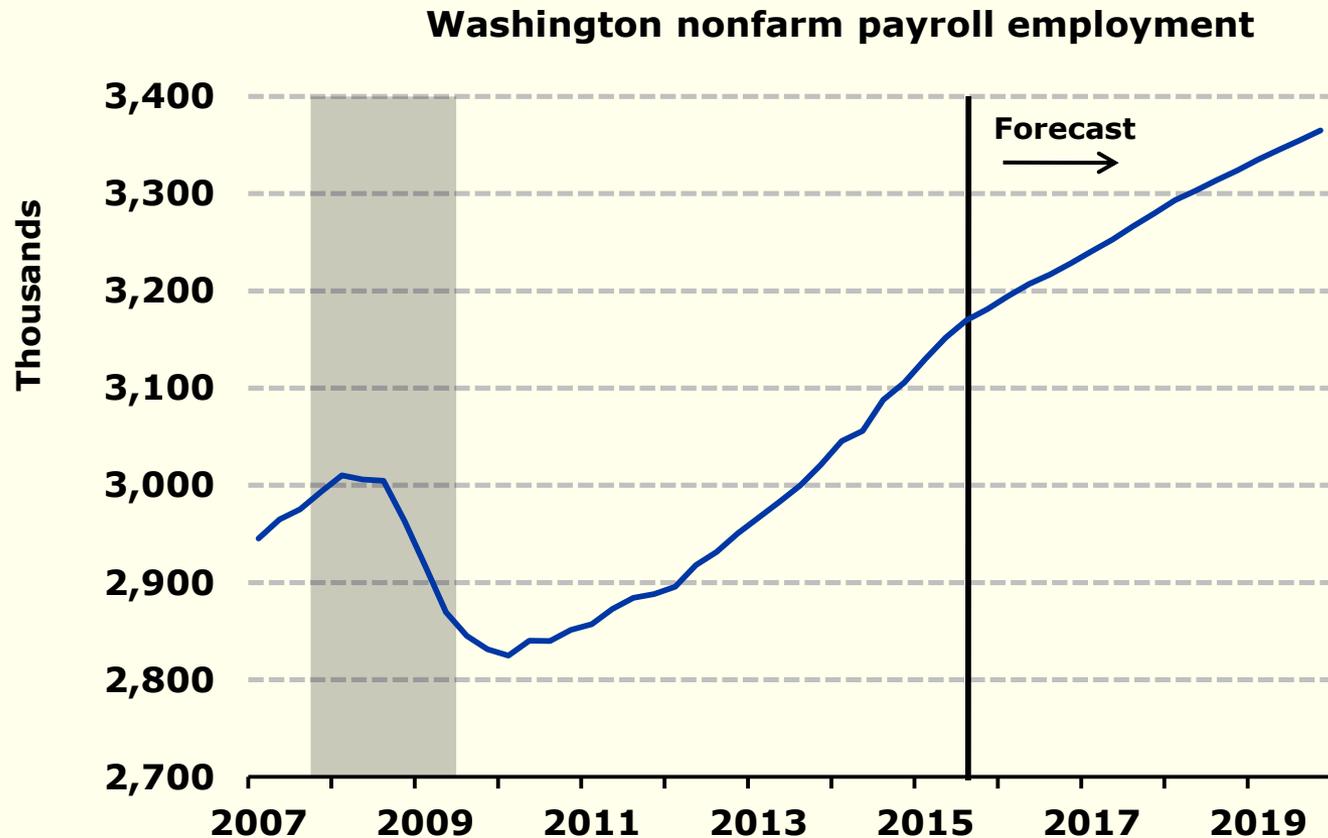


State personal income will grow slightly faster than the U.S.



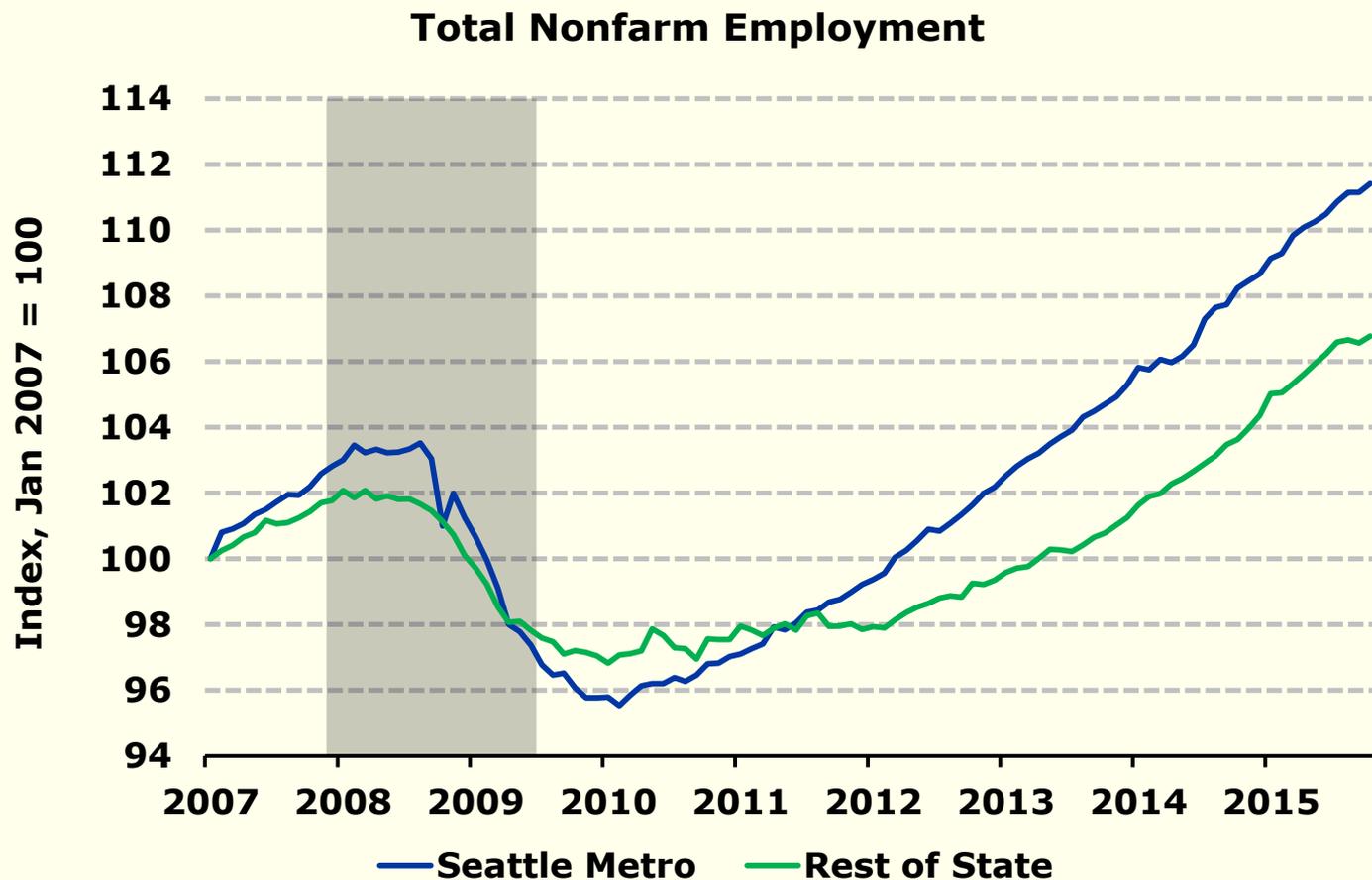


Washington employment forecast is for average annual growth of 1.5%



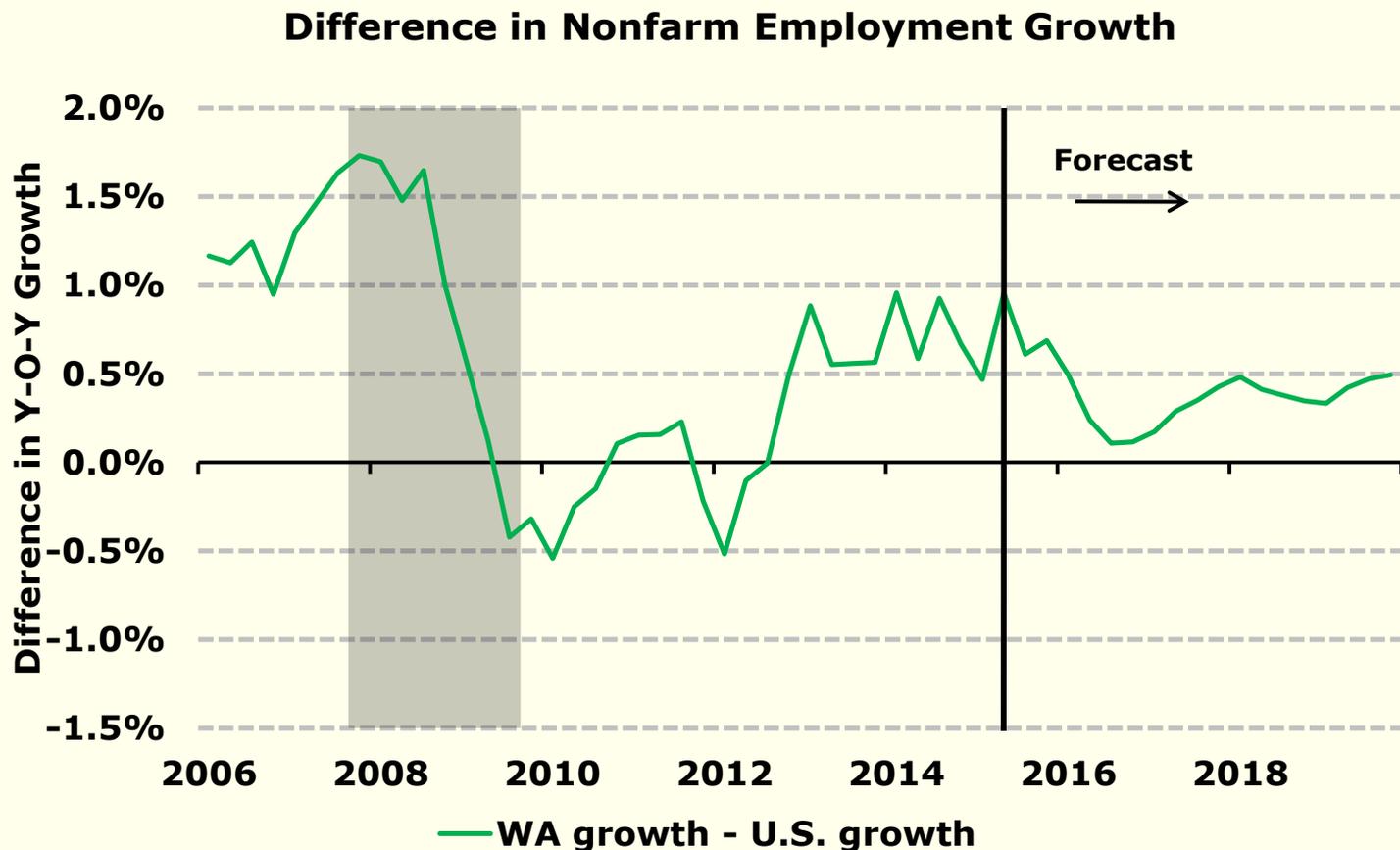


Seattle area employment continues to grow faster than the rest of the state



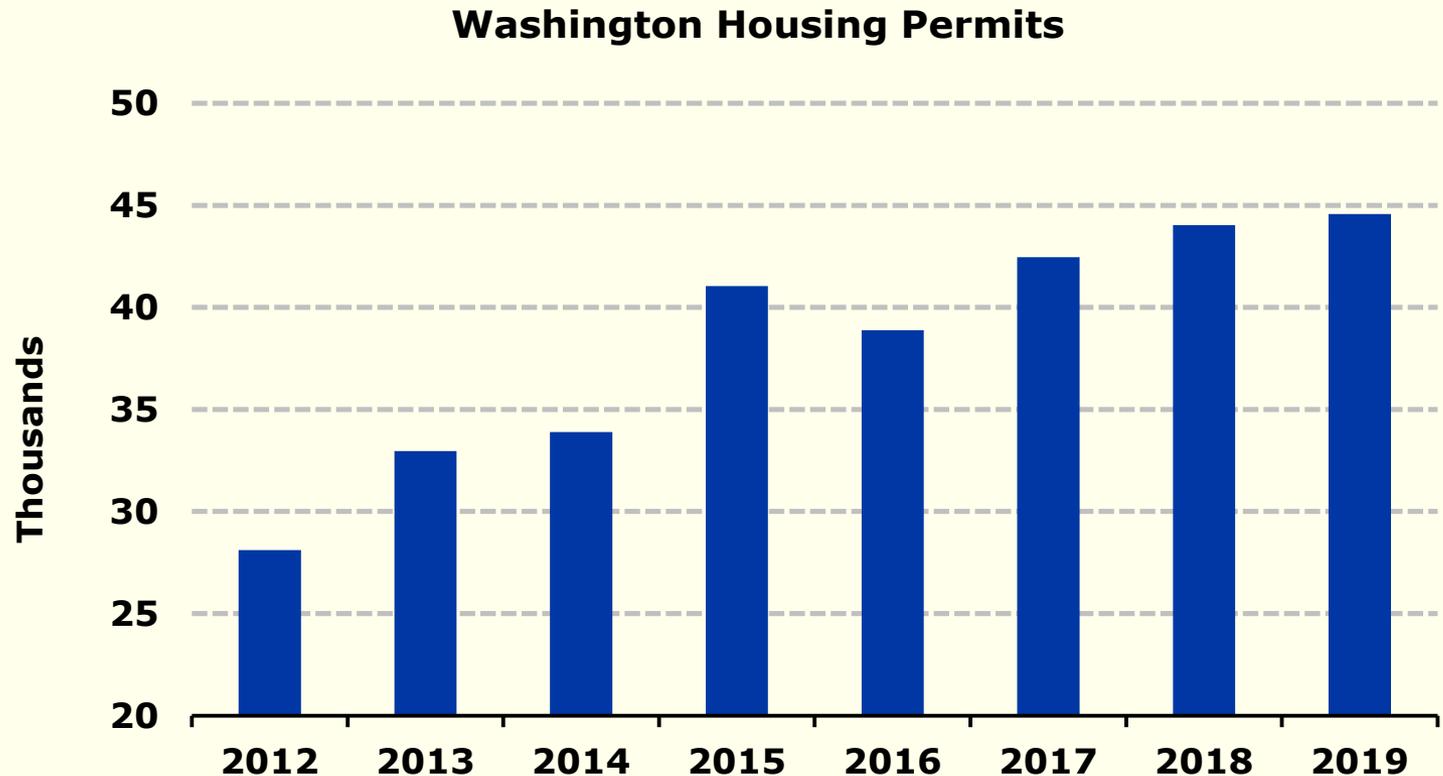


Washington employment will grow slightly faster than the U.S.





Washington housing permits forecast is for moderate growth after 2016



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

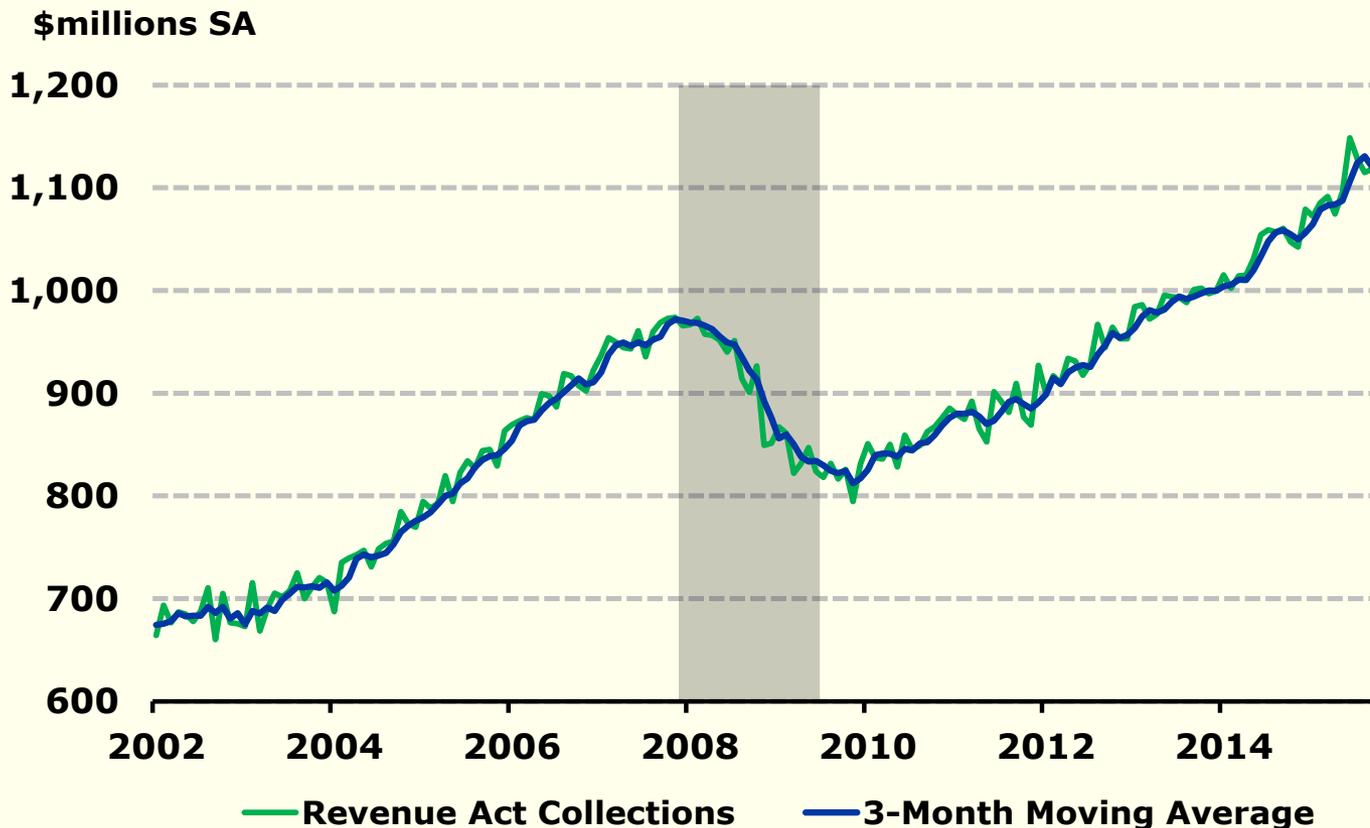
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Q3 Revenue Act collections growth slowed after a strong Q2

Adjusted Y-O-Y revenue growth for third quarter activity slowed to 5.5% after 7.3% growth in the second quarter.

Adjusted Y-O-Y growth was 4.3% for August activity and 5.8% for September activity.



* 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 September 2015 activity

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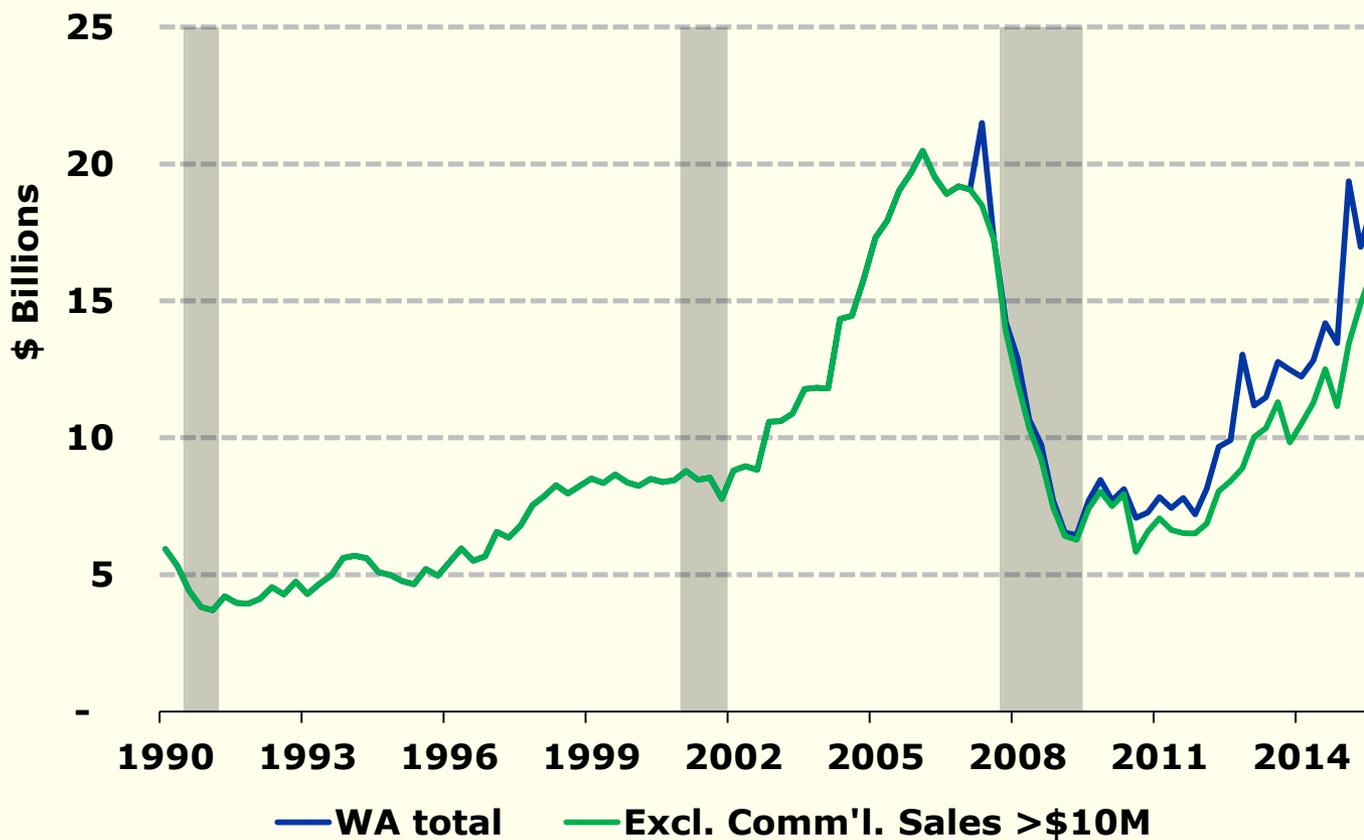


Large commercial property sales have had major impact on REET collections

Residential taxable activity has been growing rapidly for the last three quarters but future growth is expected to slow due to a lack of inventory.

Large commercial property sales are also expected to slow.

Taxable real estate sales, SA



Source: ERFC, data through 2015 Q3

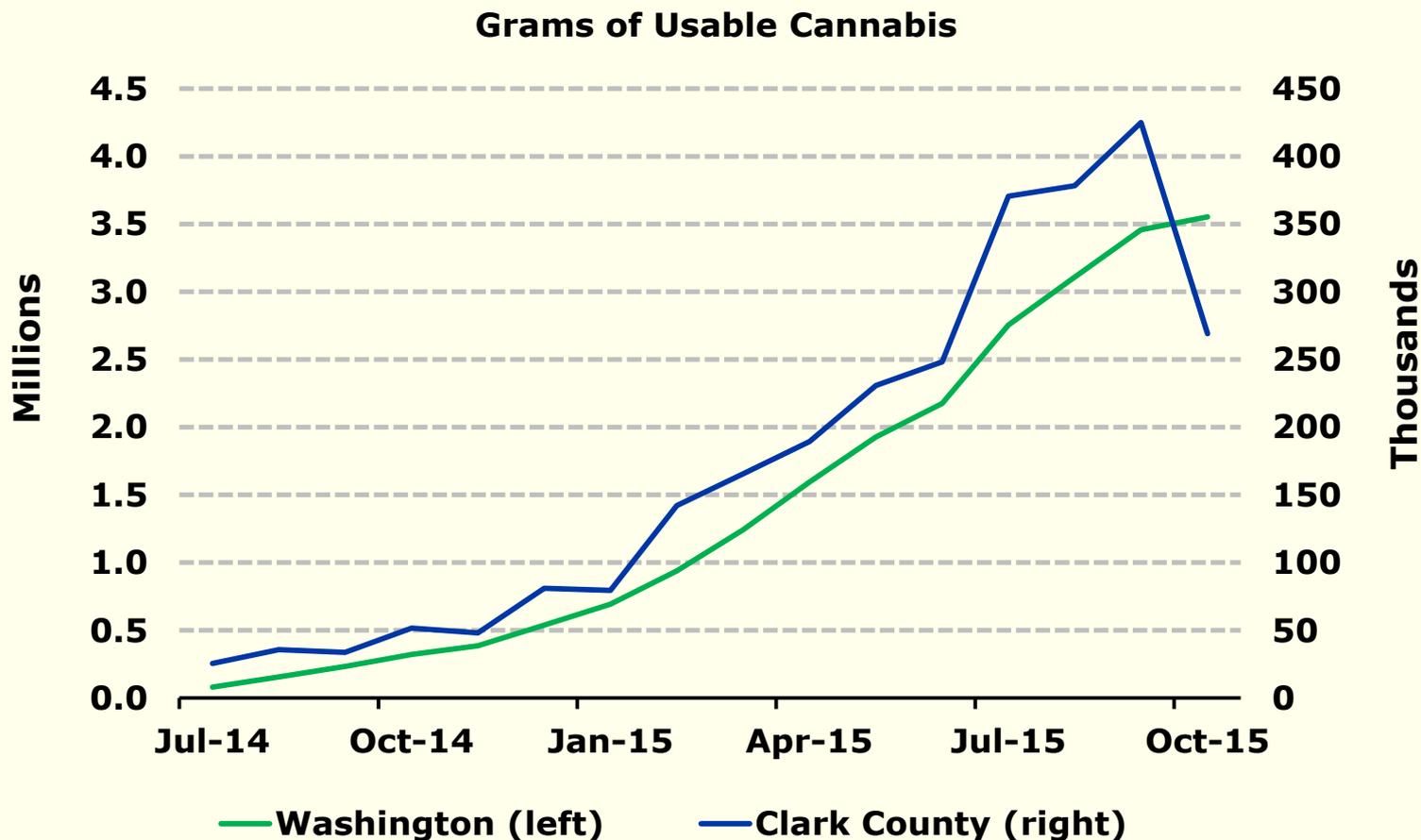
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Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12.8% of total sales by quantity.

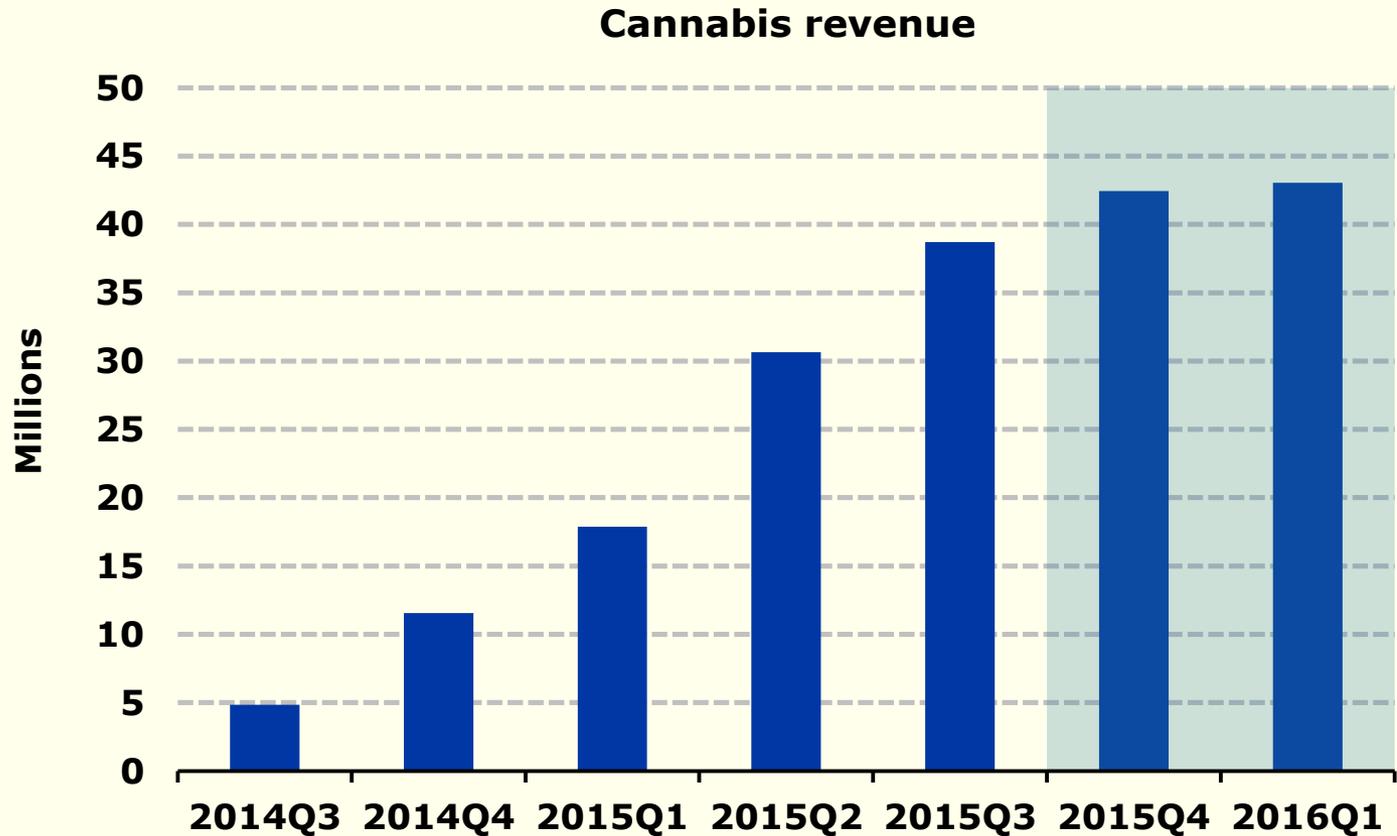
In October, Clark County accounted for 7.6% of total sales by quantity.



Source: WA LCB; data through October 2015



Cannabis revenue has been strong



Source: LCB, ERFC November 2015 forecast; historical data through 2015 Q3

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Cannabis excise tax and license fee estimates

Total change from September forecast:

•2015-17
+\$11 M

•2017-19
+\$2 M

\$Millions

November Forecast

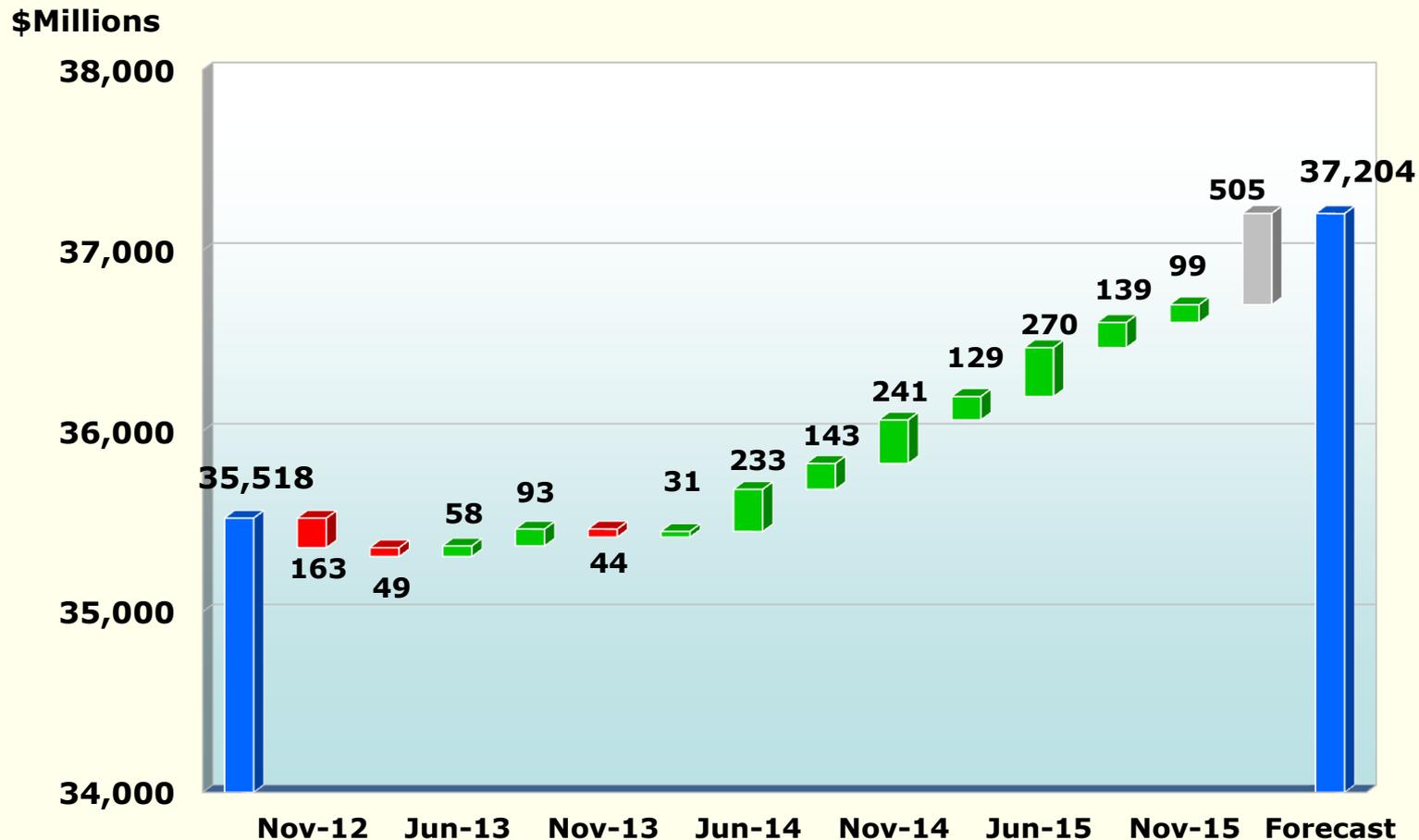
	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$15	\$133	\$230
Non-GF	\$52	\$300	\$475
Total	\$67	\$433	\$705

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis



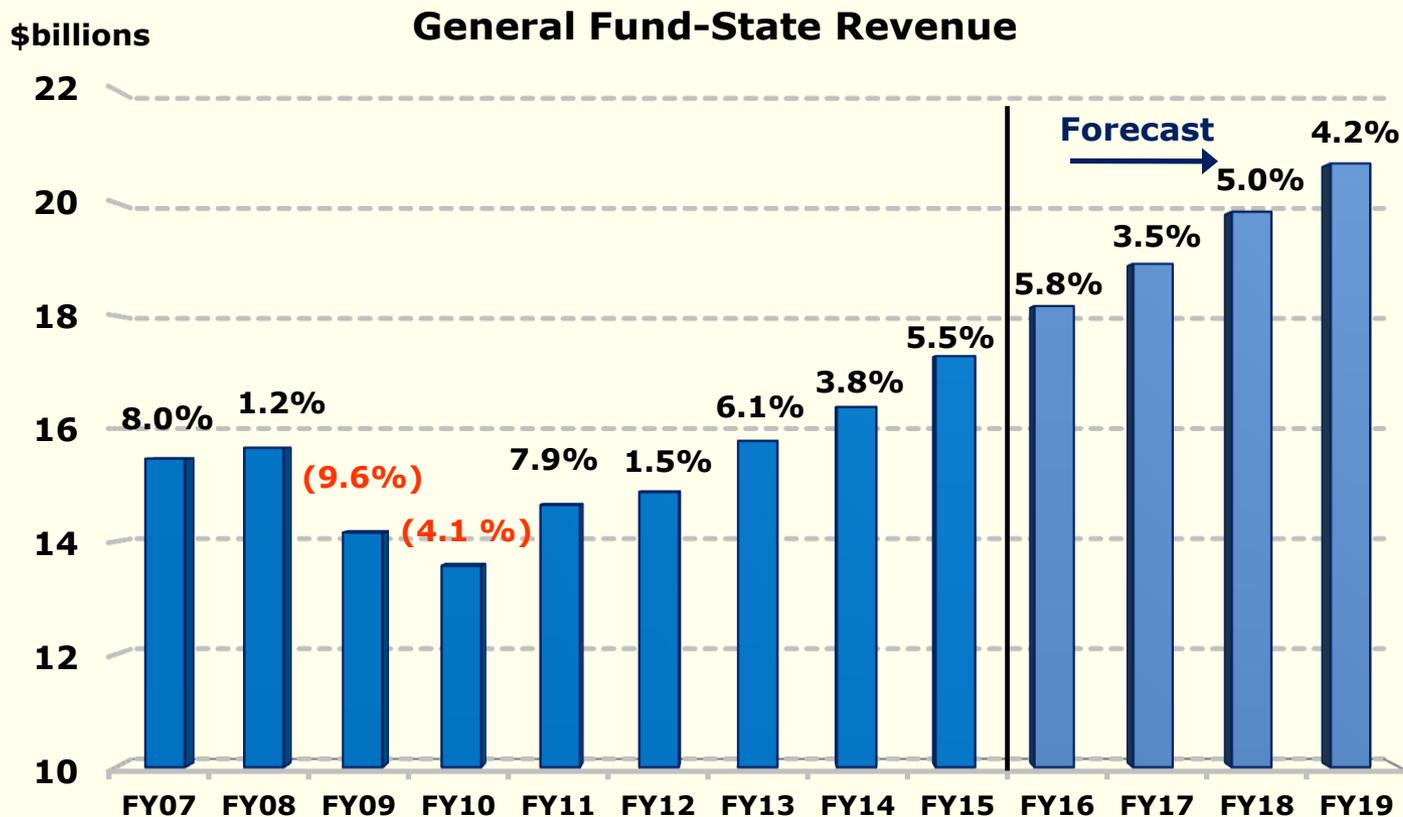
GF-S forecast revisions to the 2015-17 biennium



Gray area indicates total noneconomic change
Source: ERFC September 2012 – November 2015 forecasts



General Fund-State* forecast by fiscal year



*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17
Source: ERFC forecast, November 2015



Conclusion

- The economic forecast expects slightly weaker growth in personal income and employment than in September
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- GF-S revenues are expected to grow 10.5% between the 2013-15 and 2015-17 biennia and 9.0% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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