

# Washington State Economic Outlook

Presented to  
Central Washington University Economic Outlook  
Conference

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Ellensburg, Washington



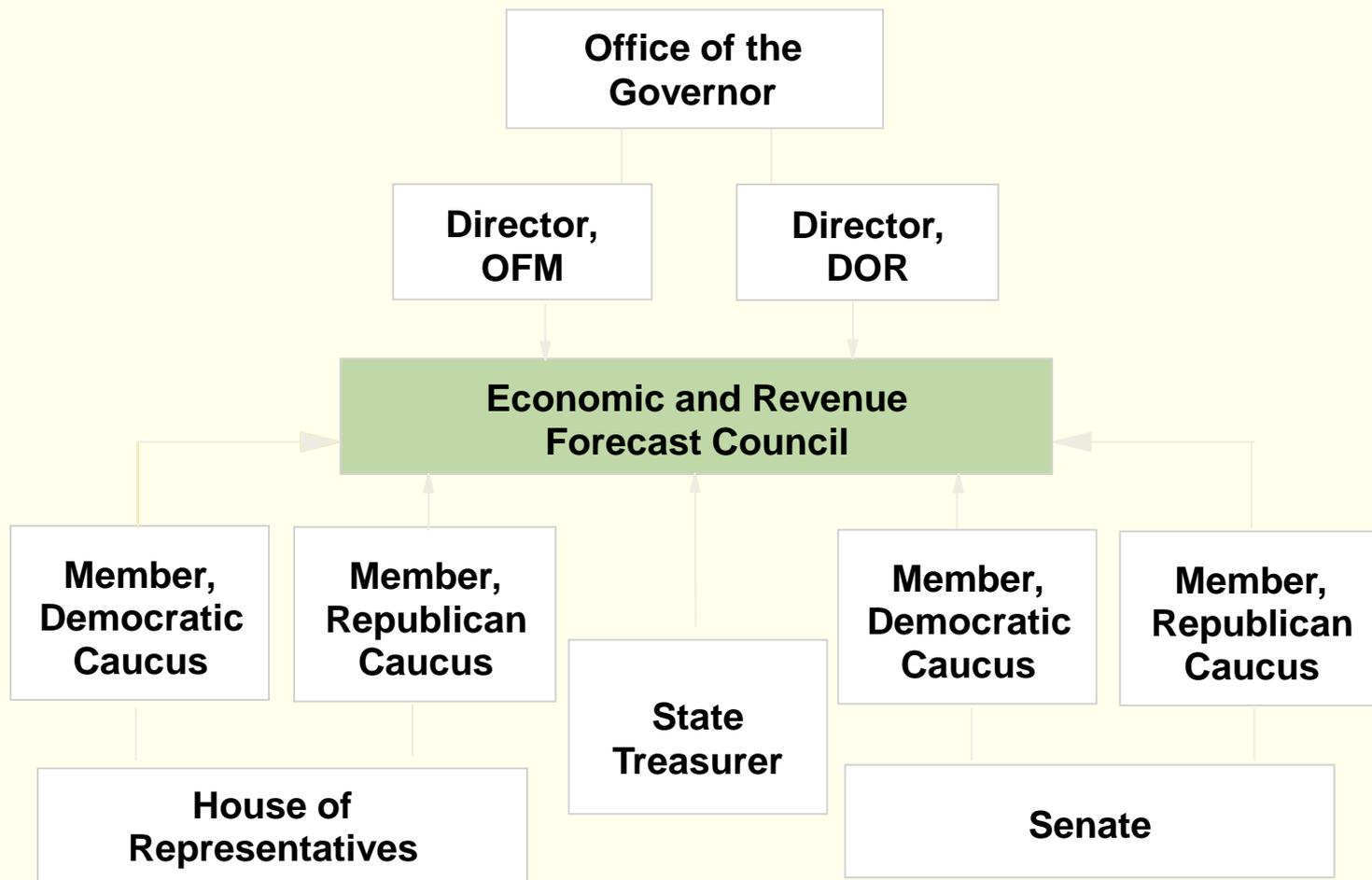
**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**



# Economic and Revenue Forecast Council Organization Chart

## ERFC

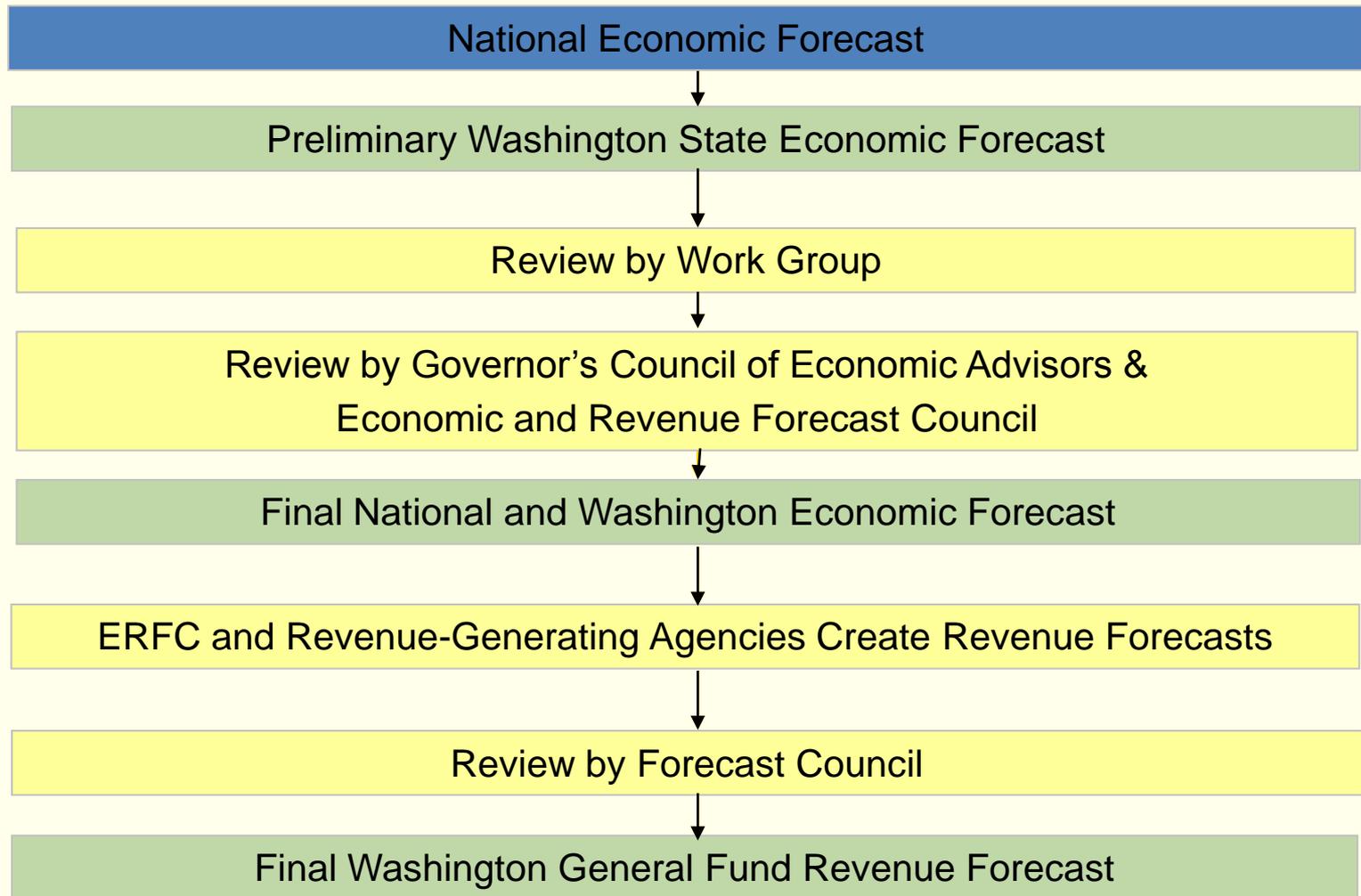
- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990





# ERFC Forecast Process

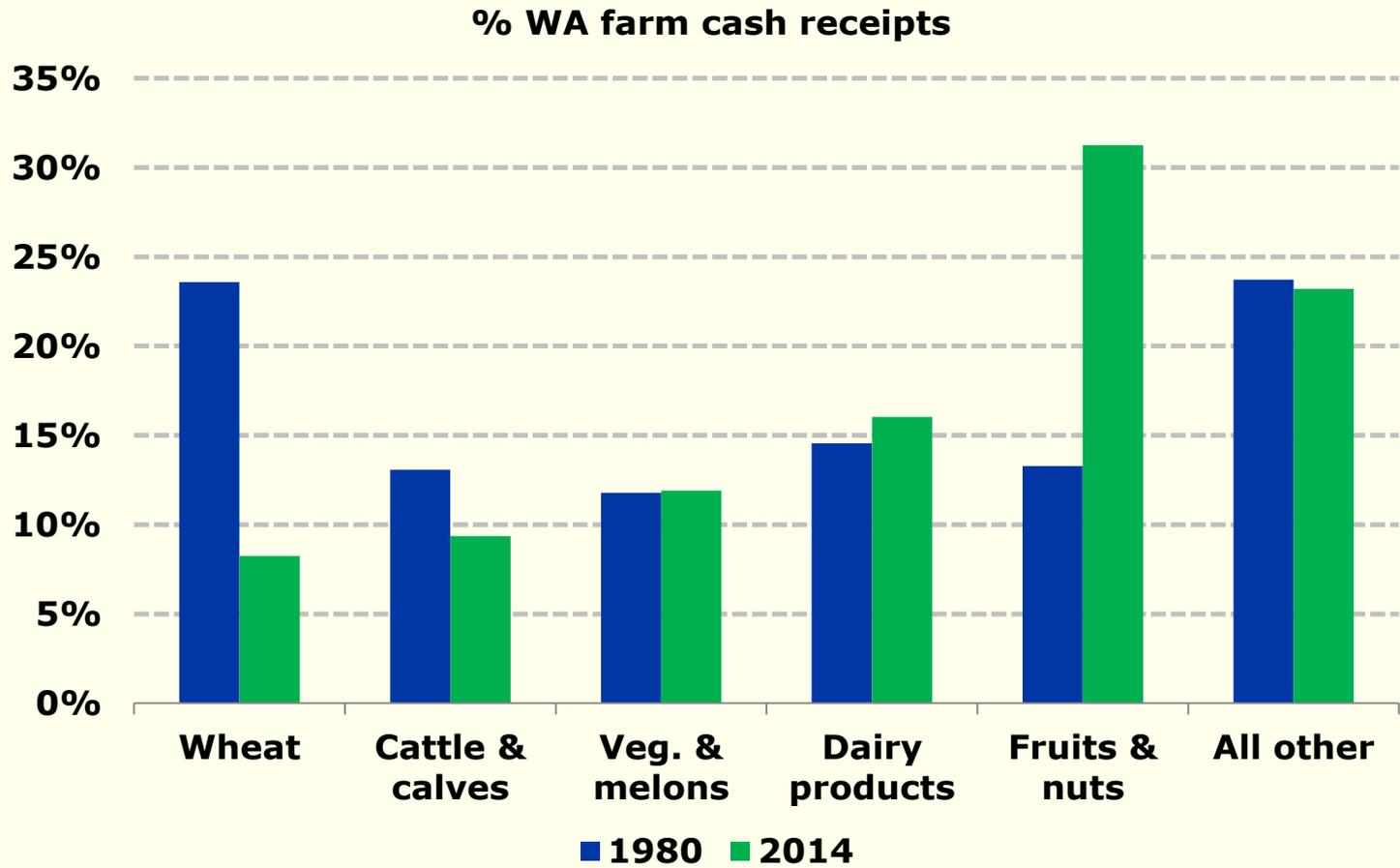
The national economic forecast is based on the Global Insight model



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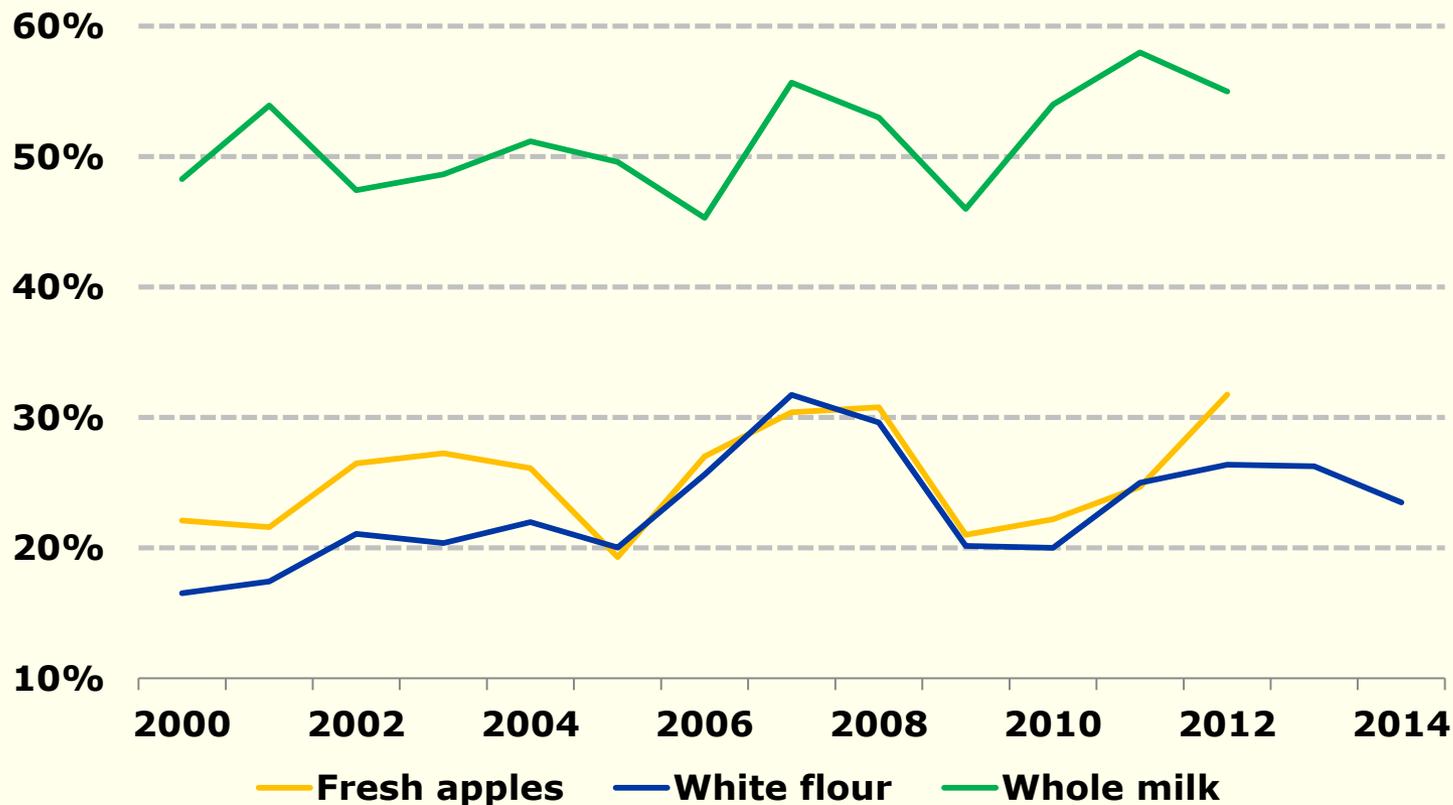
# WA farm cash receipts by selected commodities



Source: U.S. Dept. Agriculture, Economic Research Service

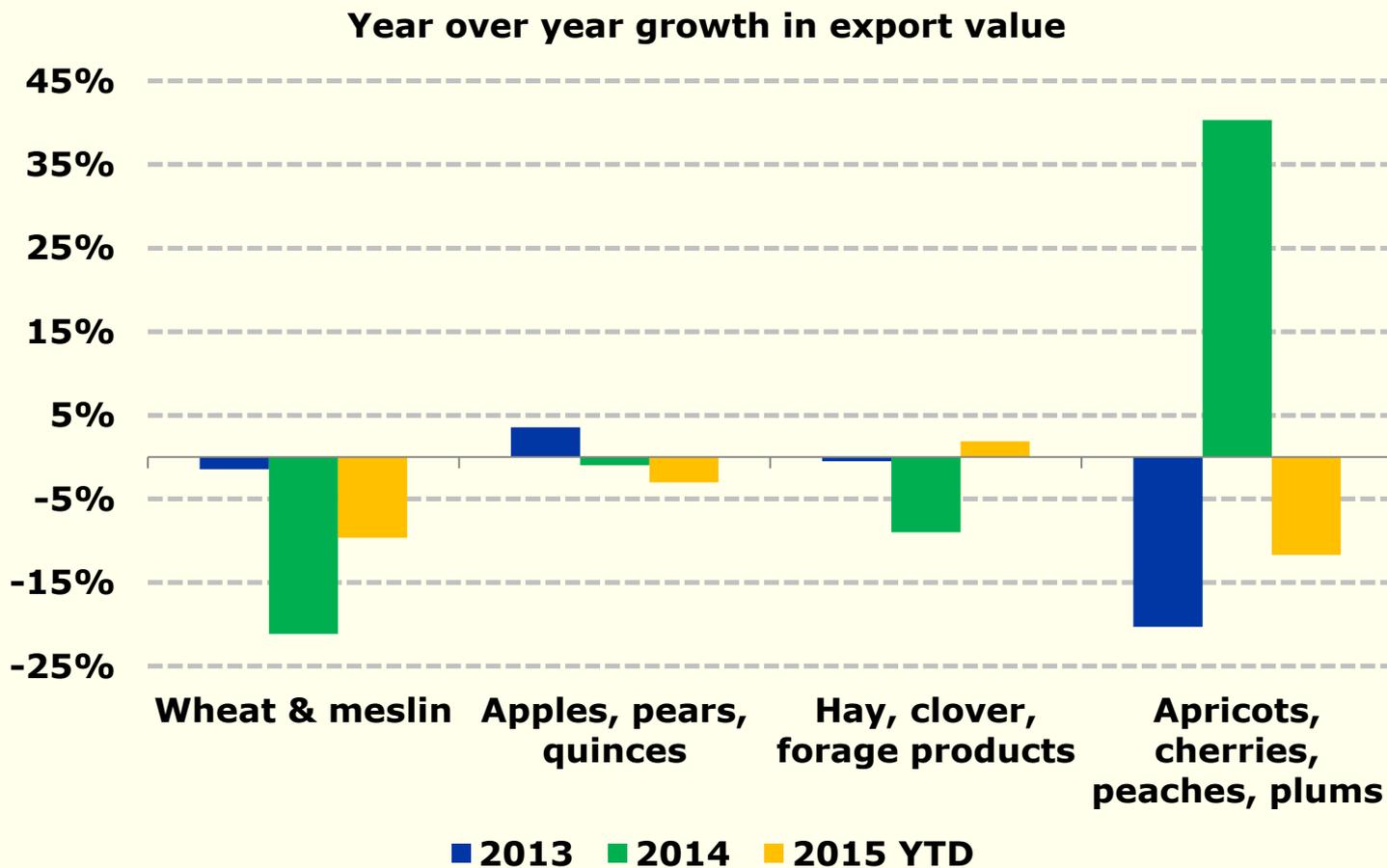


# Farm share of retail prices for apples, flour and milk





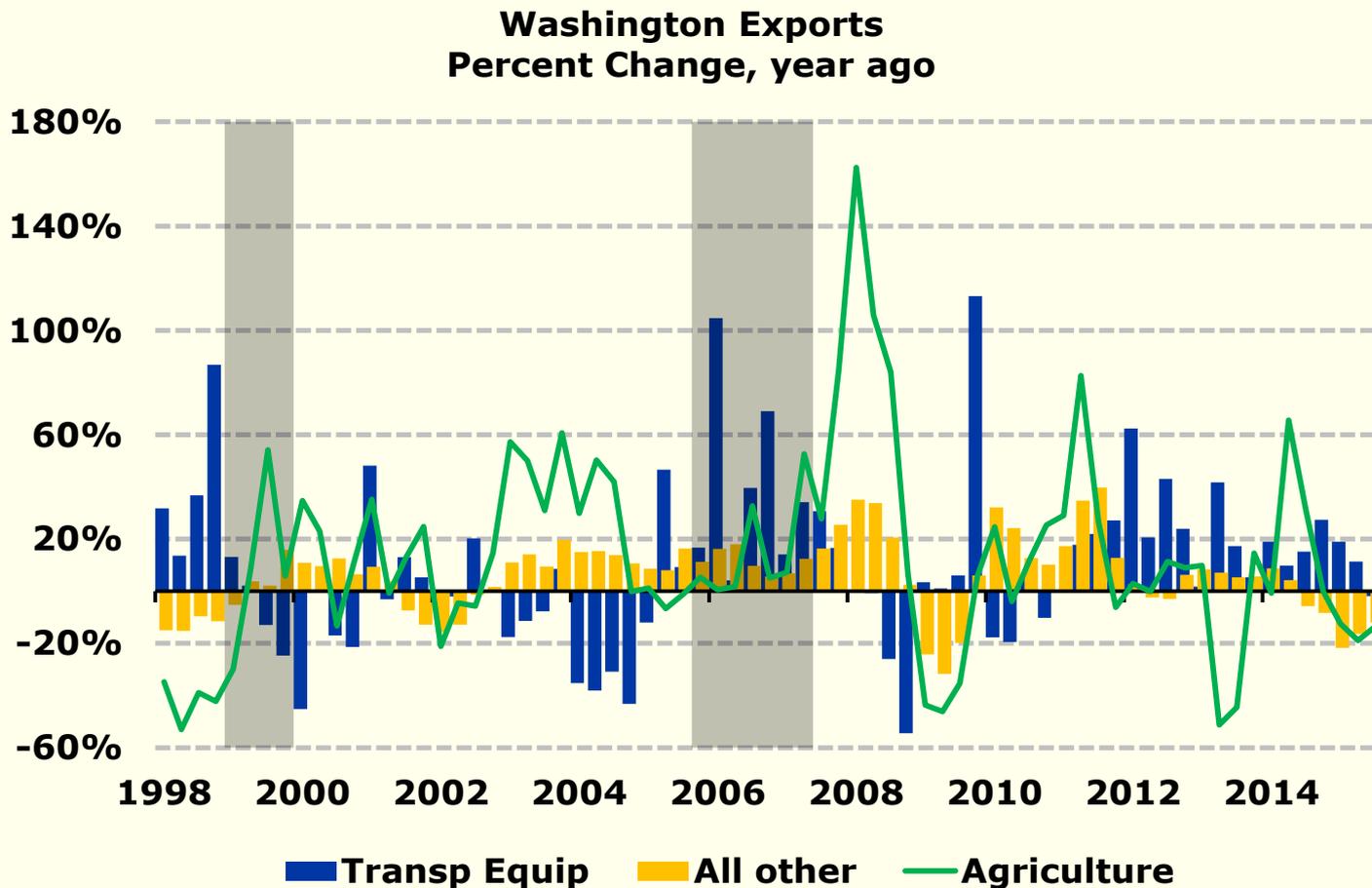
# Port slowdown, strong dollar have negatively impacted WA agricultural exports



Source: Wisser Trade data



# Export growth has slowed



Source: Wisser Trade Data; through 2015Q3



# Summary

- The preliminary economic forecast expects slightly lower U.S. GDP, WA personal income and WA employment than in November
- Oil prices are lower than in November
- The forecast assumes the Federal Reserve will continue to gradually increase interest rates, with the next rate increase in June
- Risks to the baseline remain slowing economic growth in China, impact of a stronger dollar on exports, and weaker manufacturing activity



# Economic news continues to suggest risks to forecast

## **Upside:**

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

## **Downside:**

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Stock market volatility

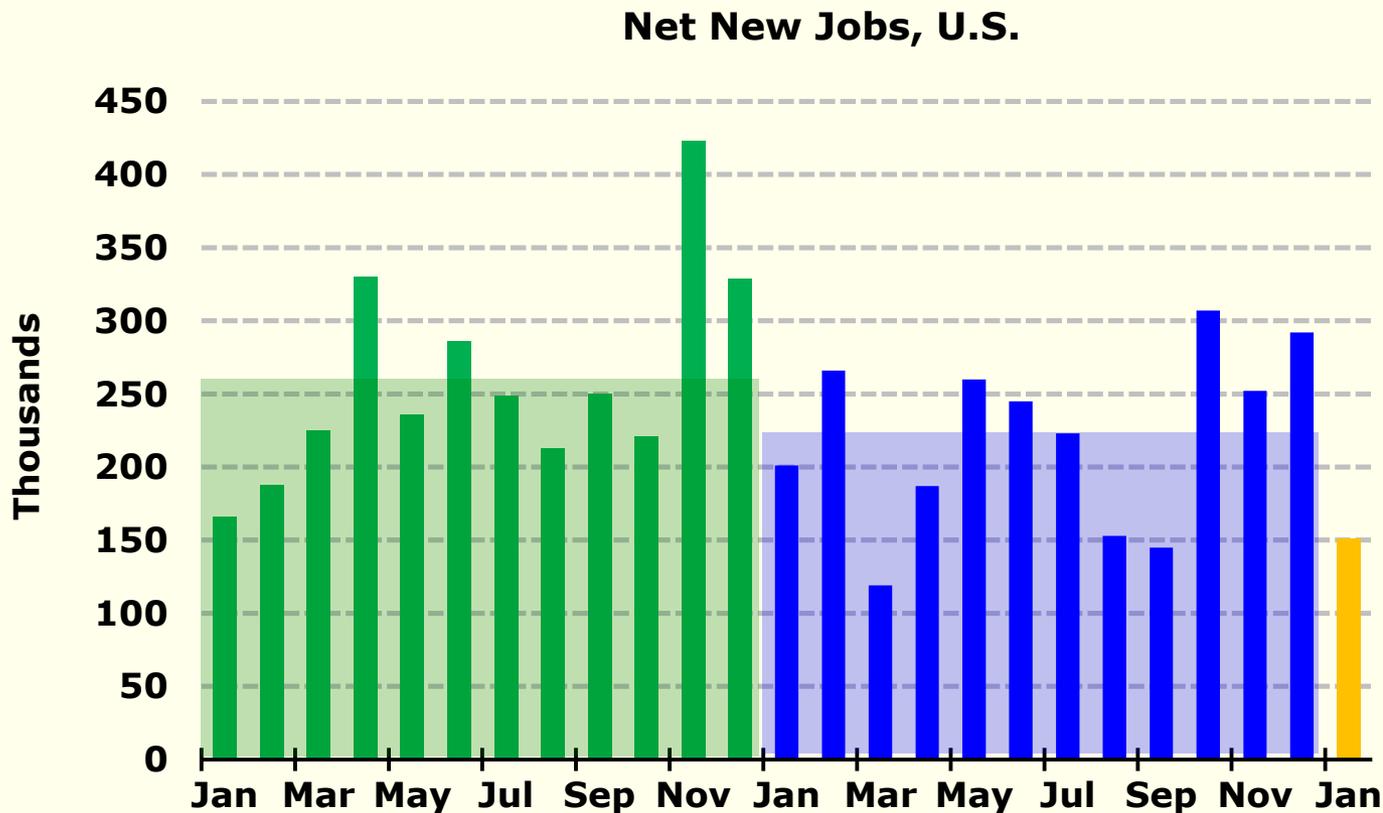


# Labor market continues to expand but at slightly slower pace than in 2014

Average monthly employment change:

2014 = 260,000

2015 = 221,000



Source: Bureau of Labor Statistics, data through January 2016



# Average U.S. wage growth started to turn up in late 2015

## Year-over-year Growth in U.S. Hourly Wages



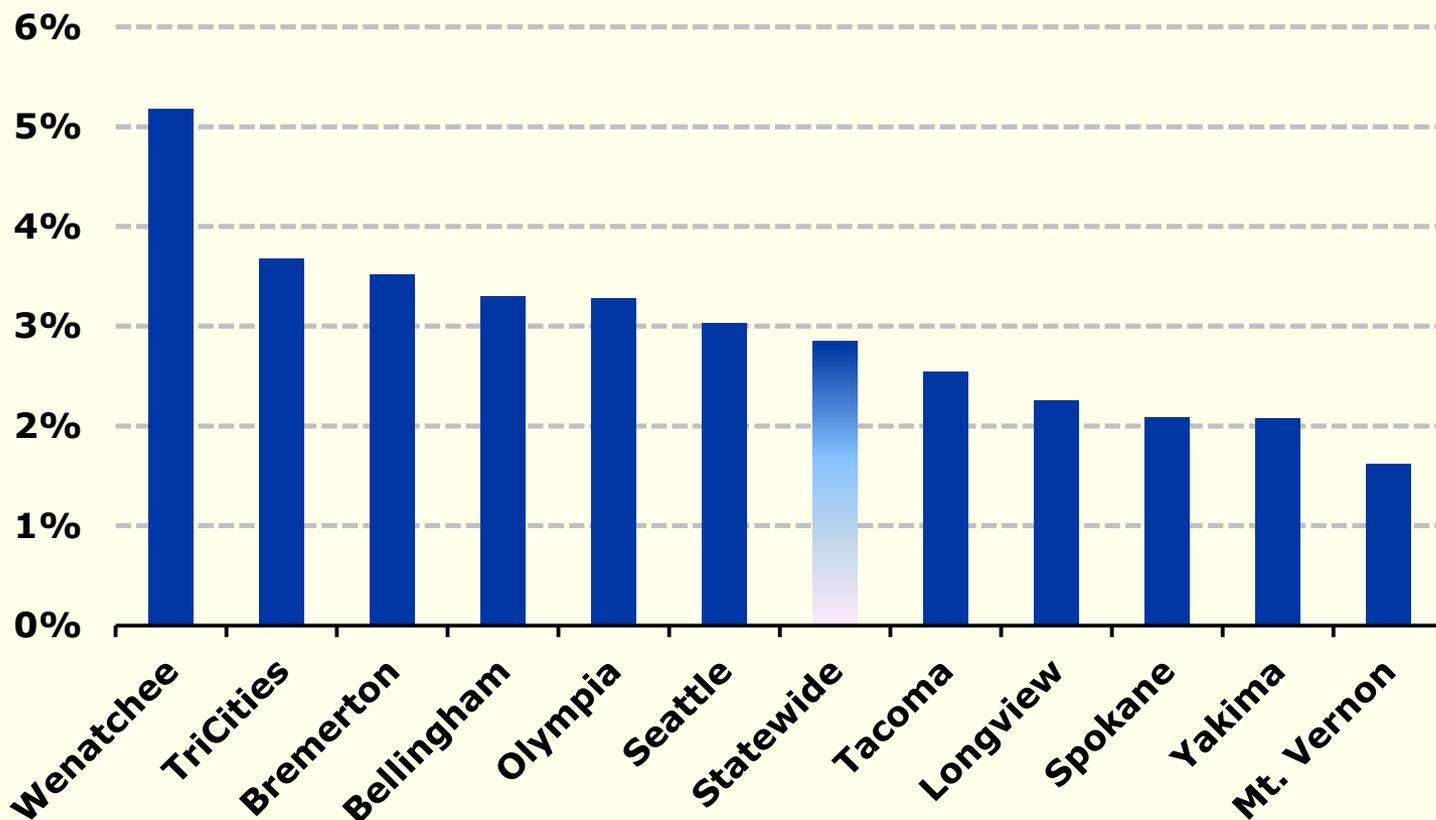
Source: U.S. Bureau of Labor Statistics, data through Dec. 2015; production & nonsupervisory employees only

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# Employment growth varied widely across state metro areas

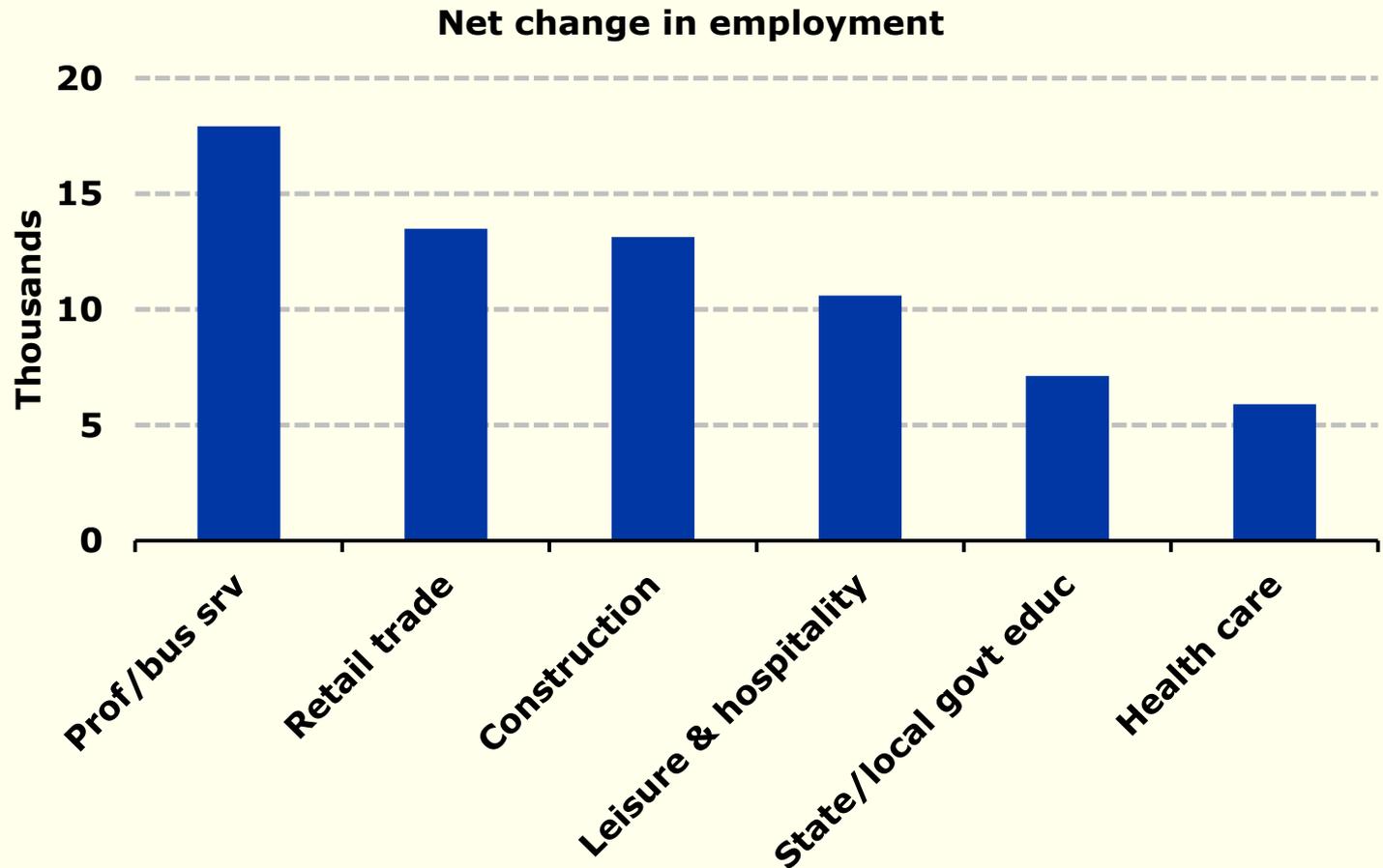
2015 employment growth by metro area





# Washington employment gain by selected sectors, 2015

Statewide, employment increased by 85,000 jobs in 2015

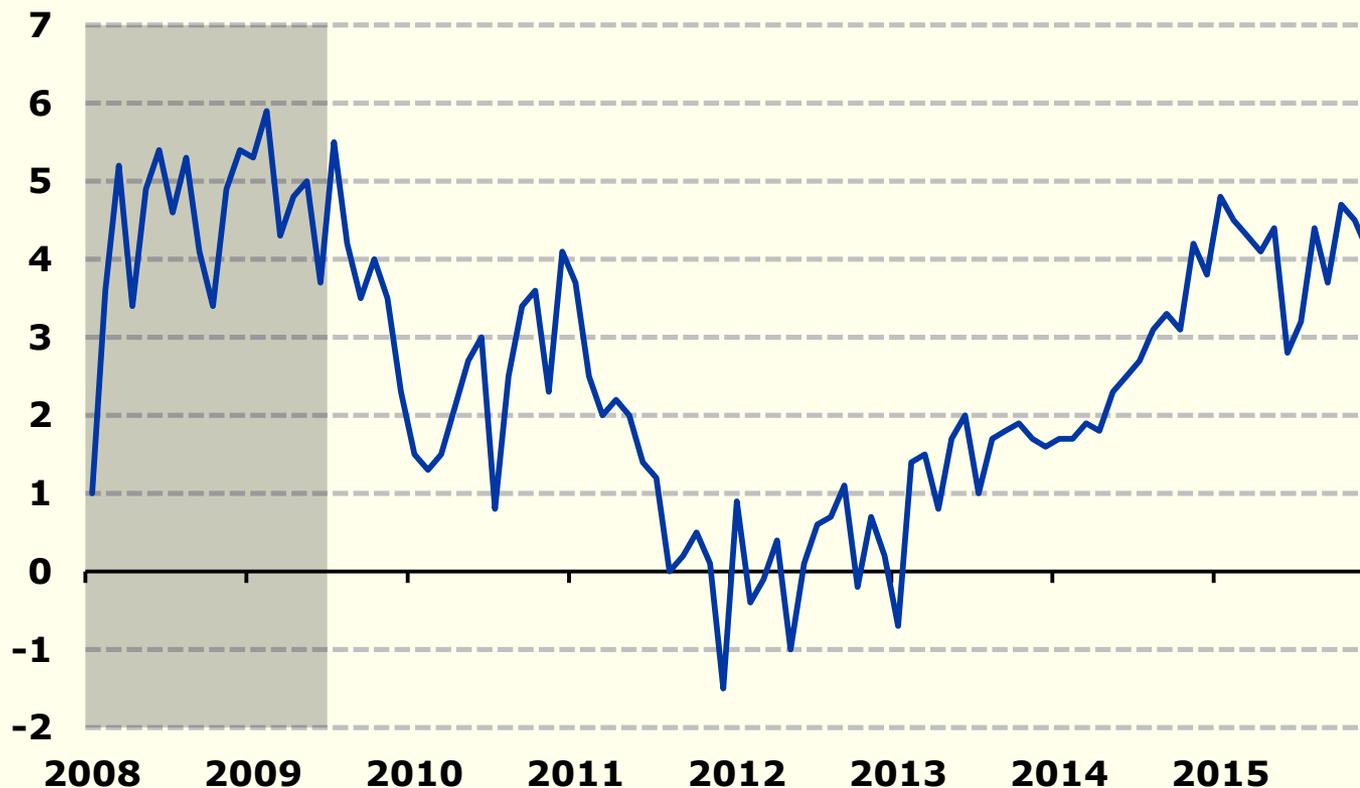


Sources: WA State Employment Security Dept., ERFC



# Average WA wage growth has strengthened since late 2014

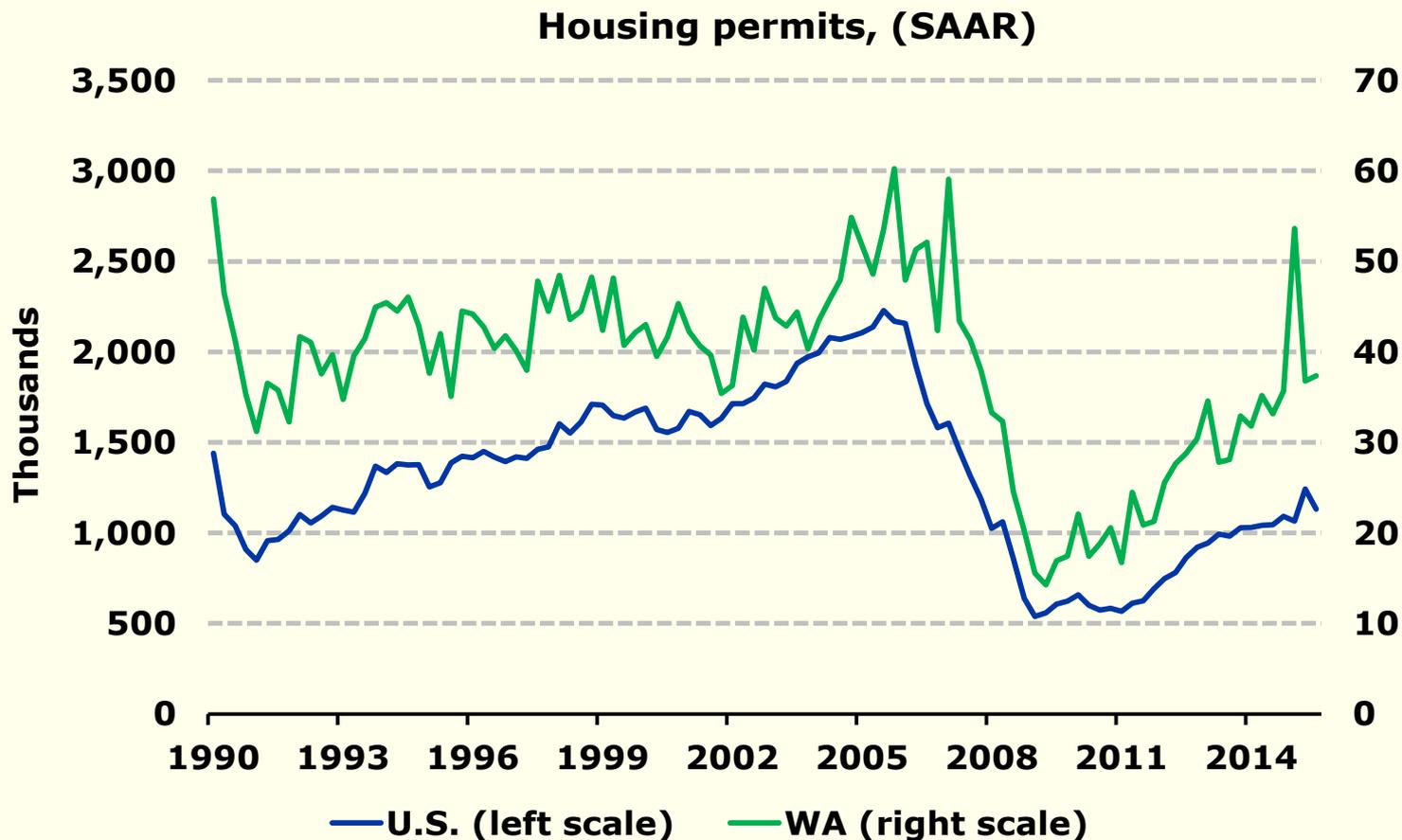
**Year-over-year Growth in WA Hourly Wages, %**



Source: U.S. Bureau of Labor Statistics, data through Dec. 2015; private sector employees only



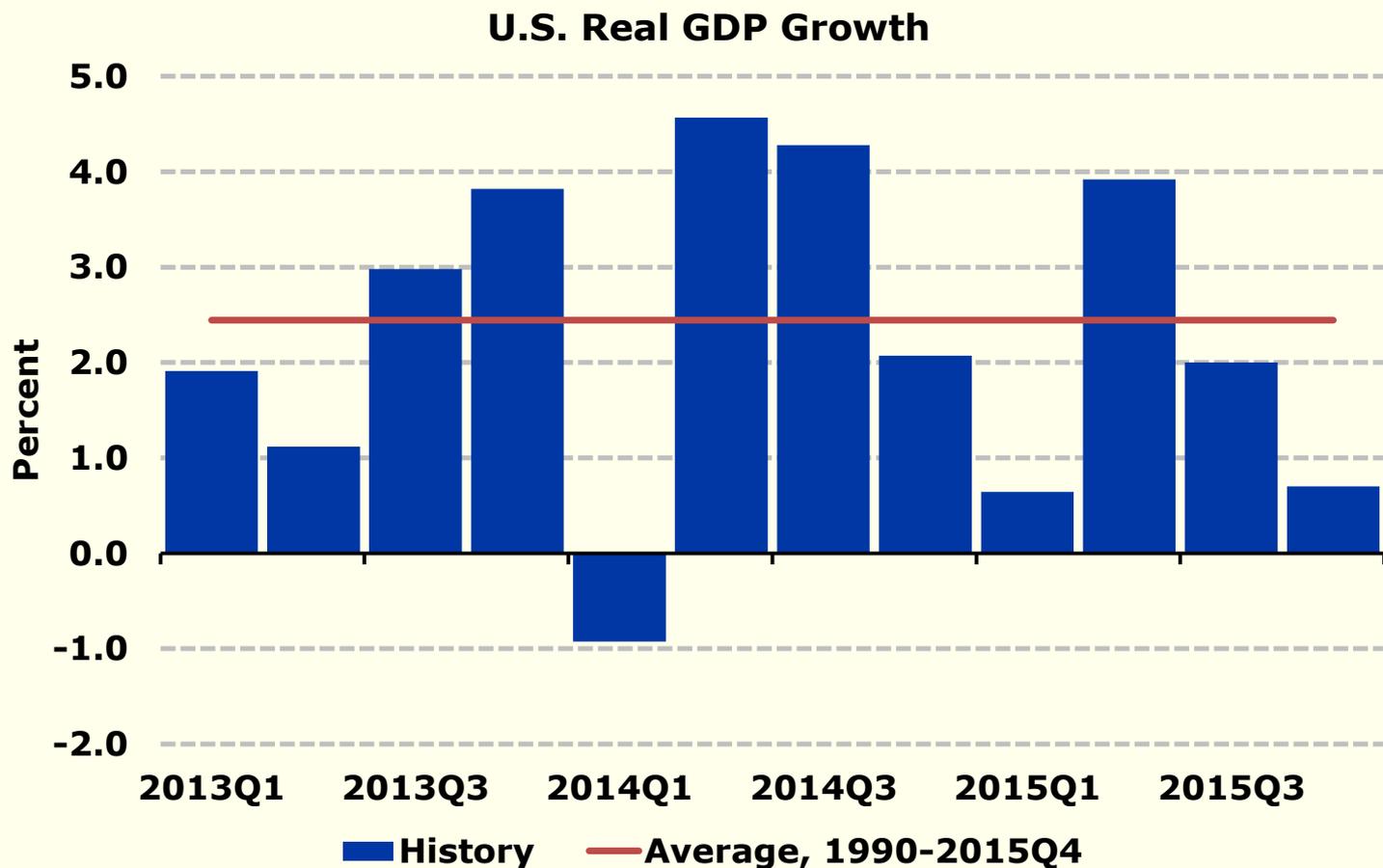
# Both U.S. and WA housing permits trending up since 2011



Source: U.S. Census Bureau, data through 2015 Q3



# U.S. economic growth weakened in the third and fourth quarters



Source: U.S. Dept. of Commerce, BEA, data through 2015Q4



# Global GDP growth has slowed



Source: International Monetary Fund, Jan. 2016; historic data through 2014

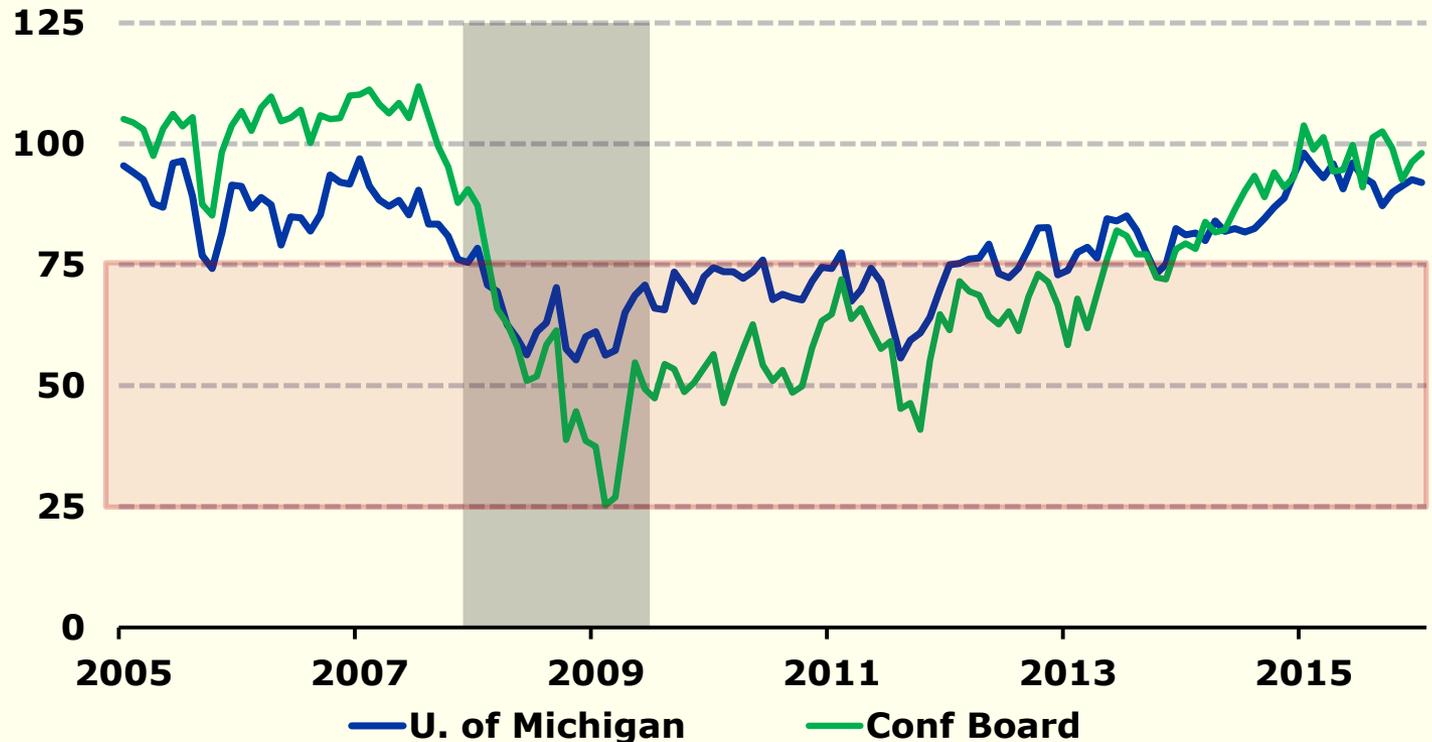


# Conference Board, U. of Michigan indexes have been moving in opposite directions

## Index

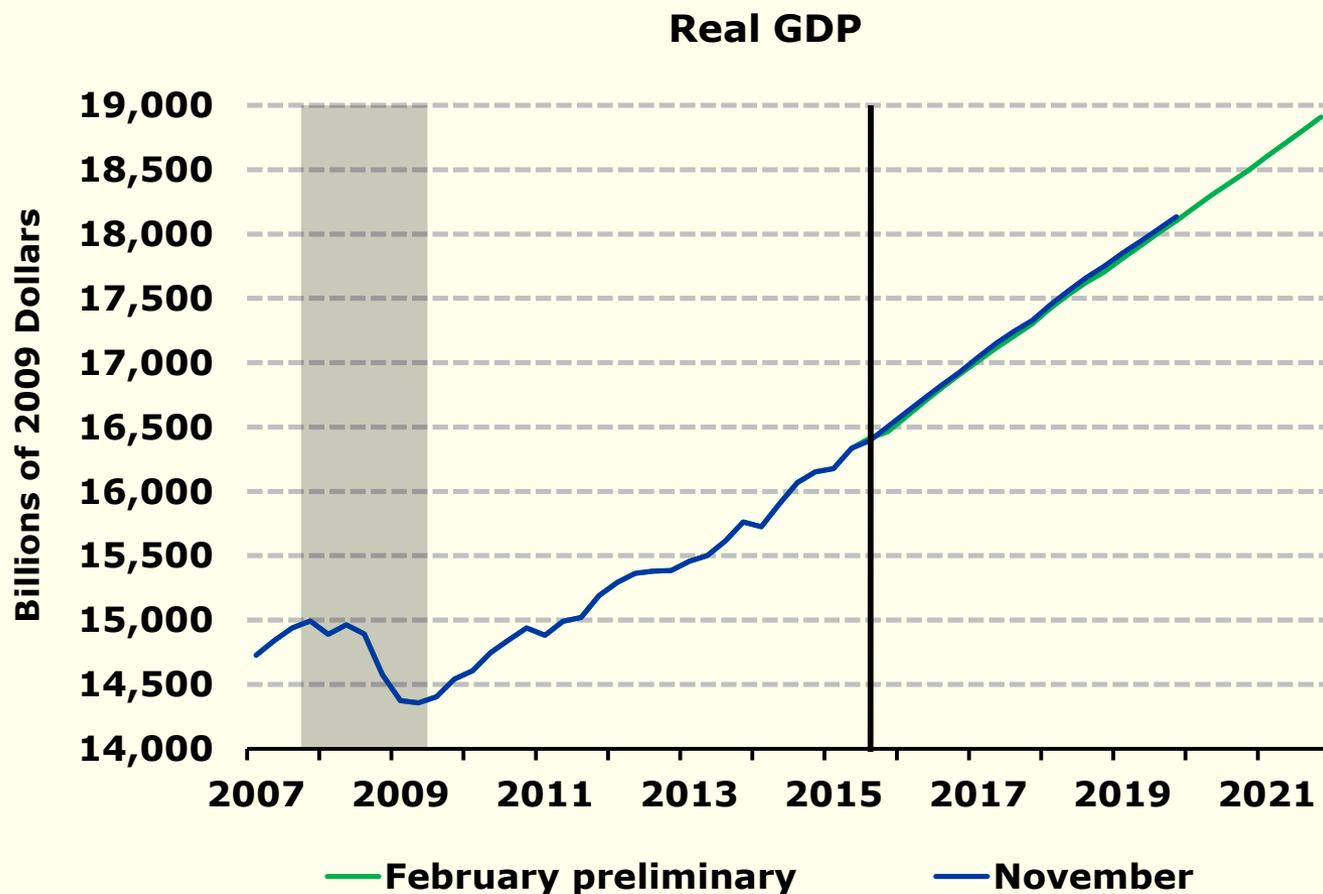
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



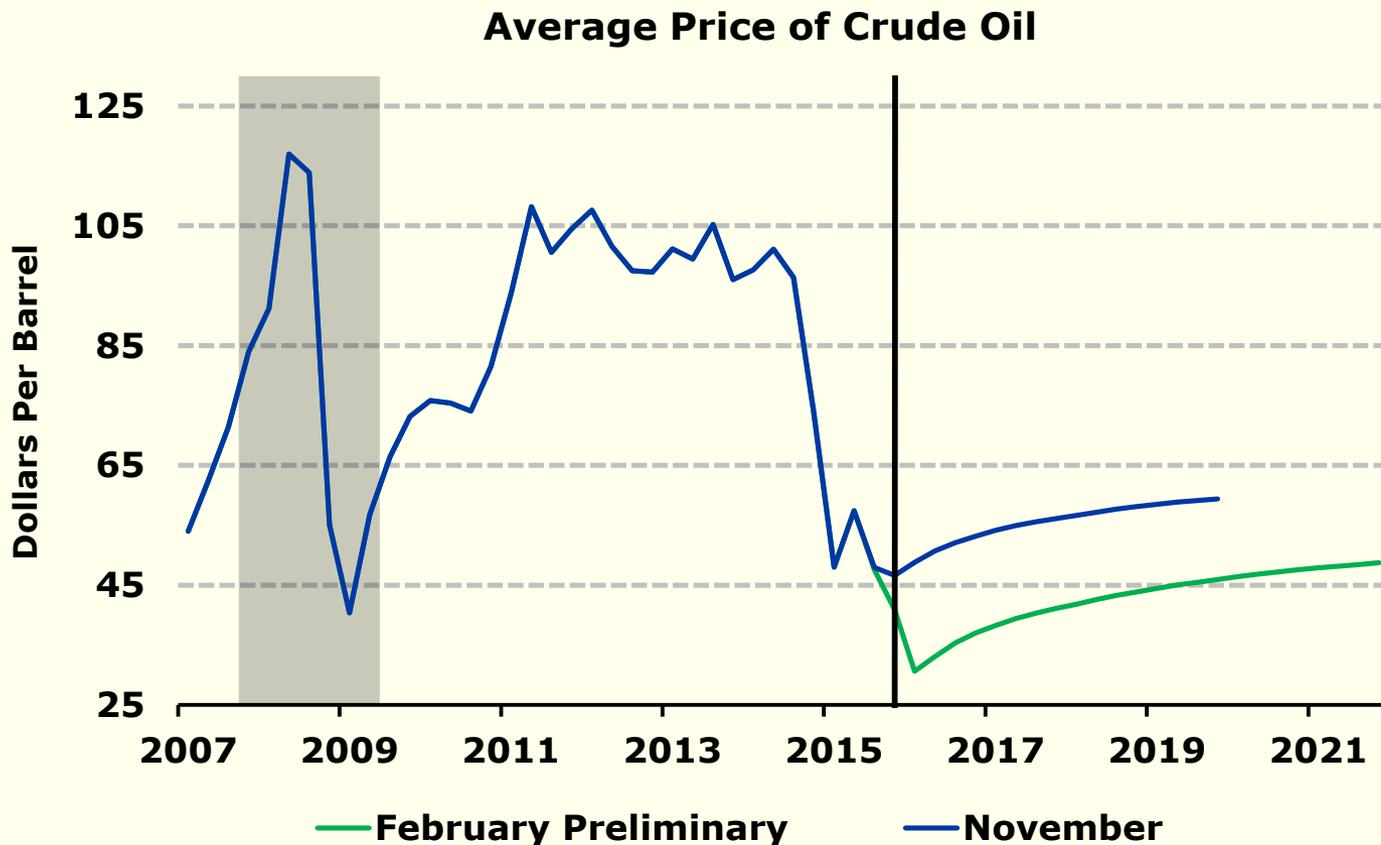


# GDP is slightly lower than in the November forecast



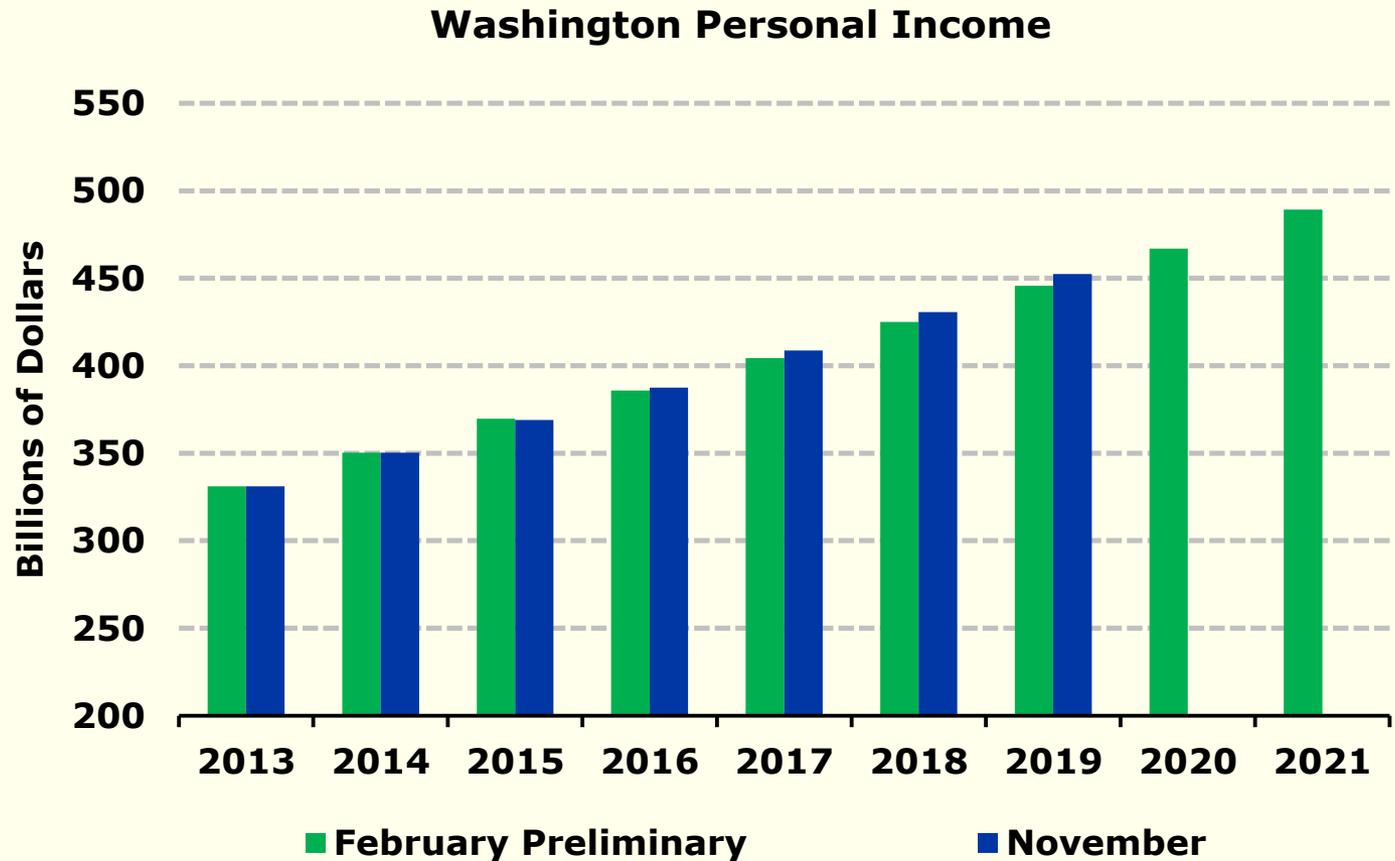


# Oil prices are lower than in the November forecast





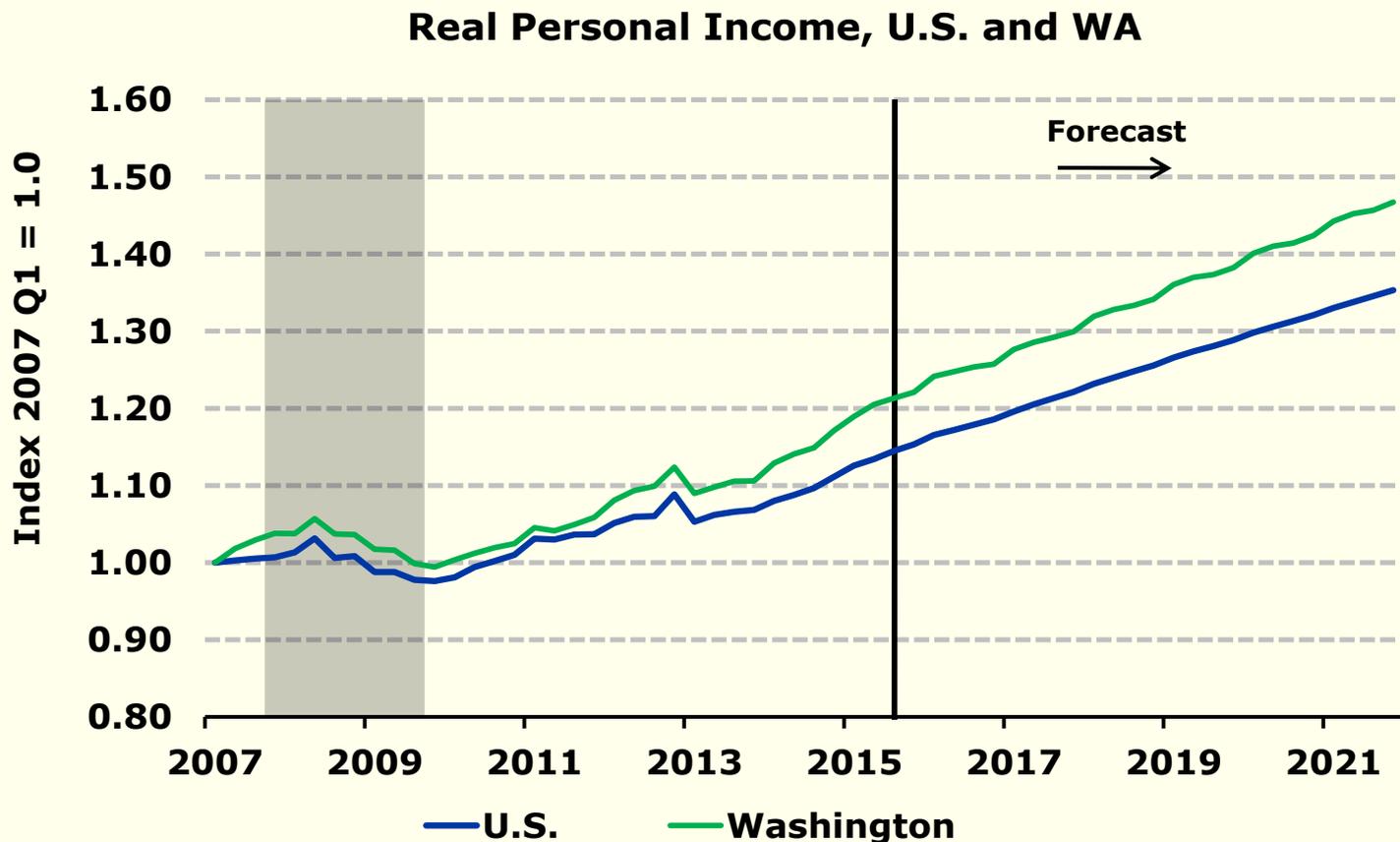
# Washington personal income is slightly lower than in the November forecast



Source: ERFC February 2016 Preliminary forecast; historical data through 2014



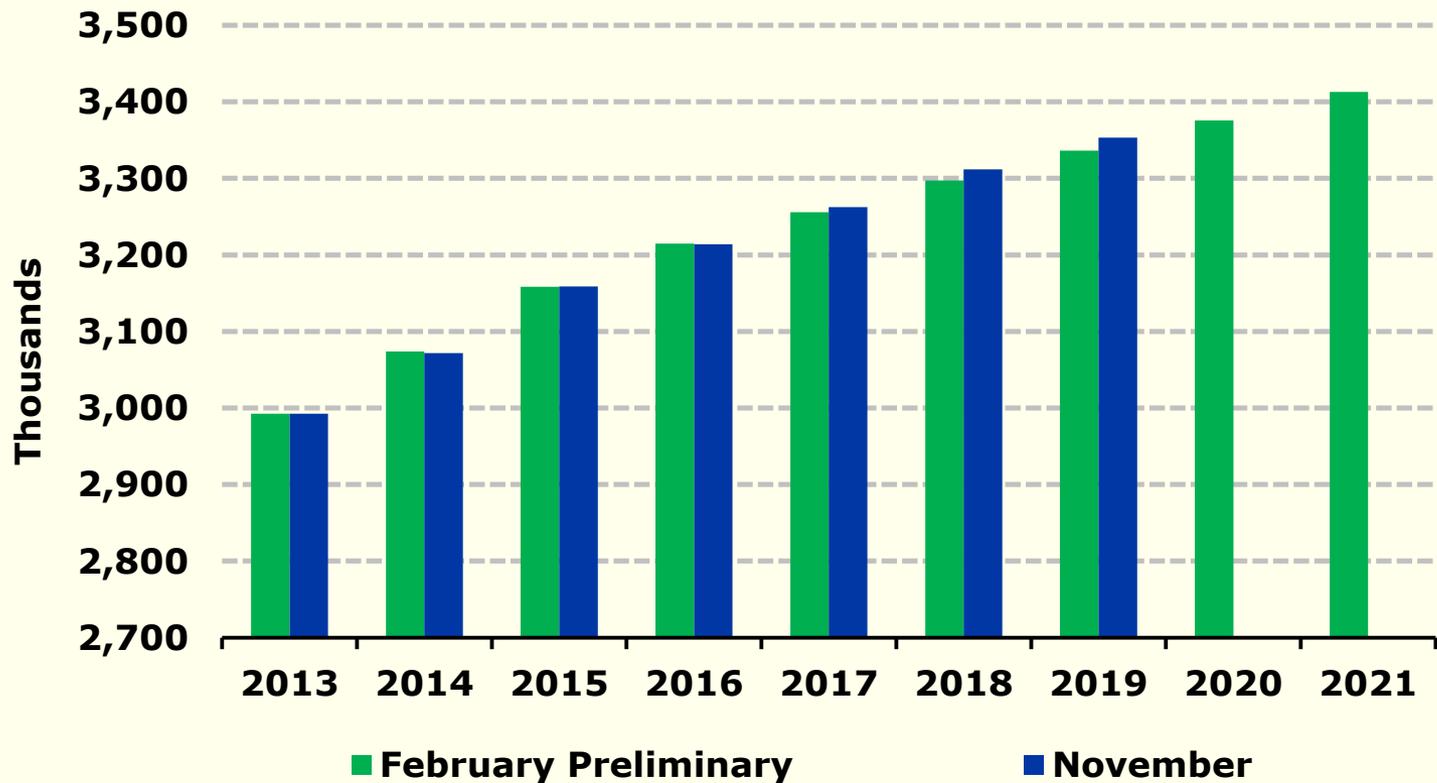
# State personal income will continue to grow slightly faster than the U.S.





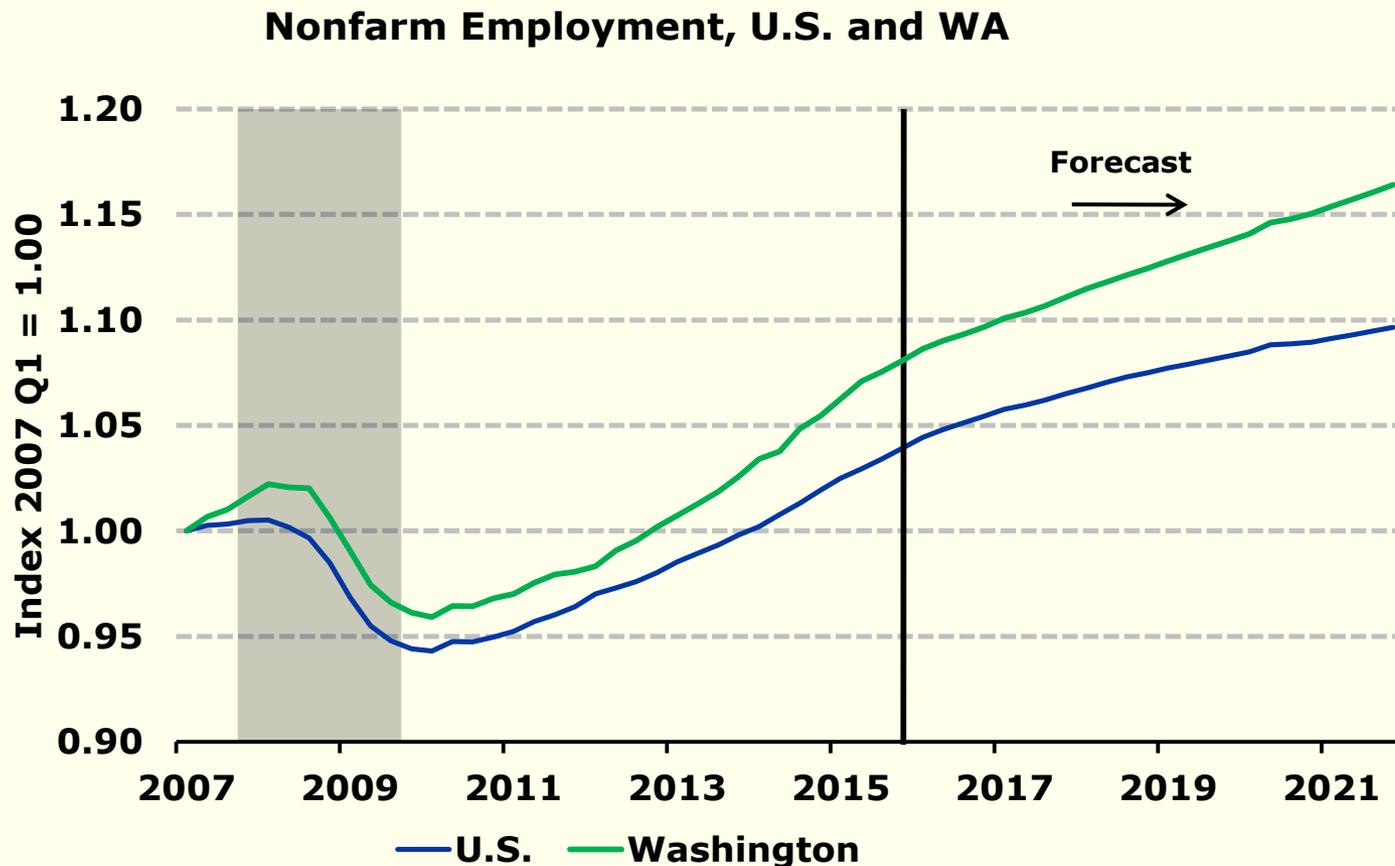
# Washington employment forecast revised down slightly in 2017 - 2019

## Washington Nonfarm Payroll Employment





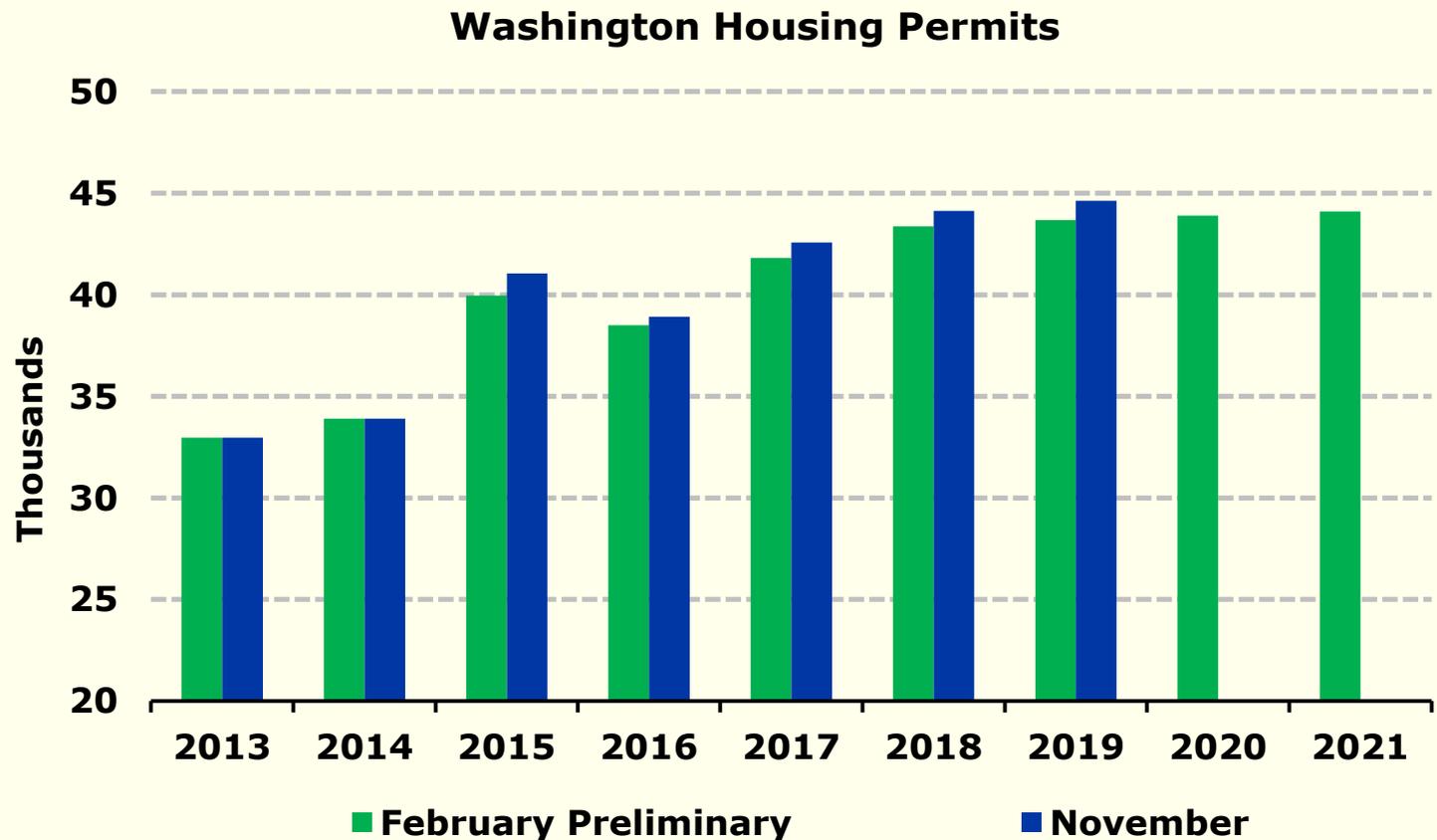
# Washington employment will continue to grow slightly faster than the U.S.



Source: ERFC February 2016 Preliminary forecast; historical data through 2015Q4



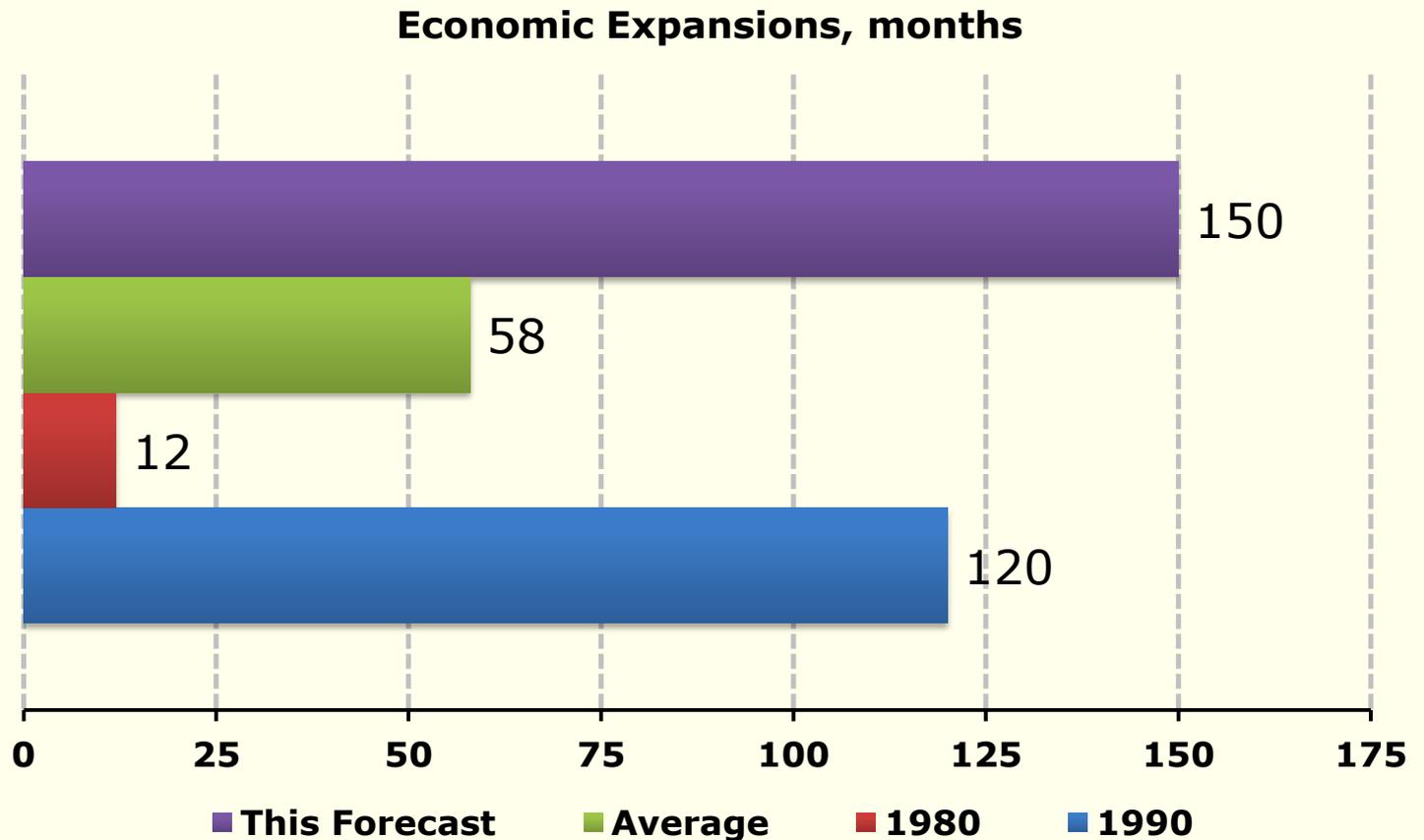
# Washington housing permits forecast is slightly lower than in November



Source: ERFC February 2016 Preliminary forecast; historical data through 2014



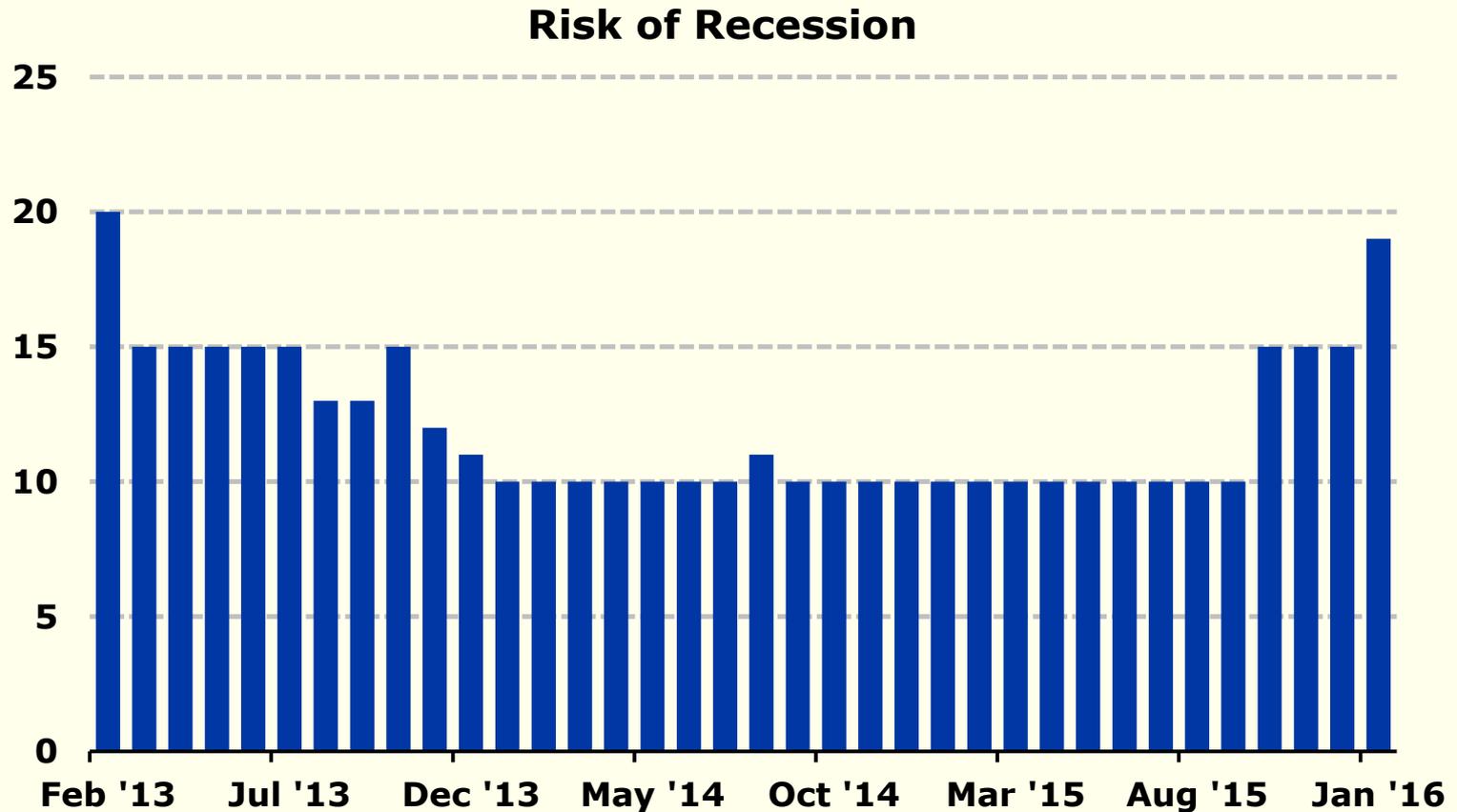
# U.S. Economic Expansions since 1945





# Bloomberg economist survey indicate risk of recession has increased but remains low

Jan. 2016  
*Wall Street Journal*  
economist  
survey places  
recession  
probability at  
17%

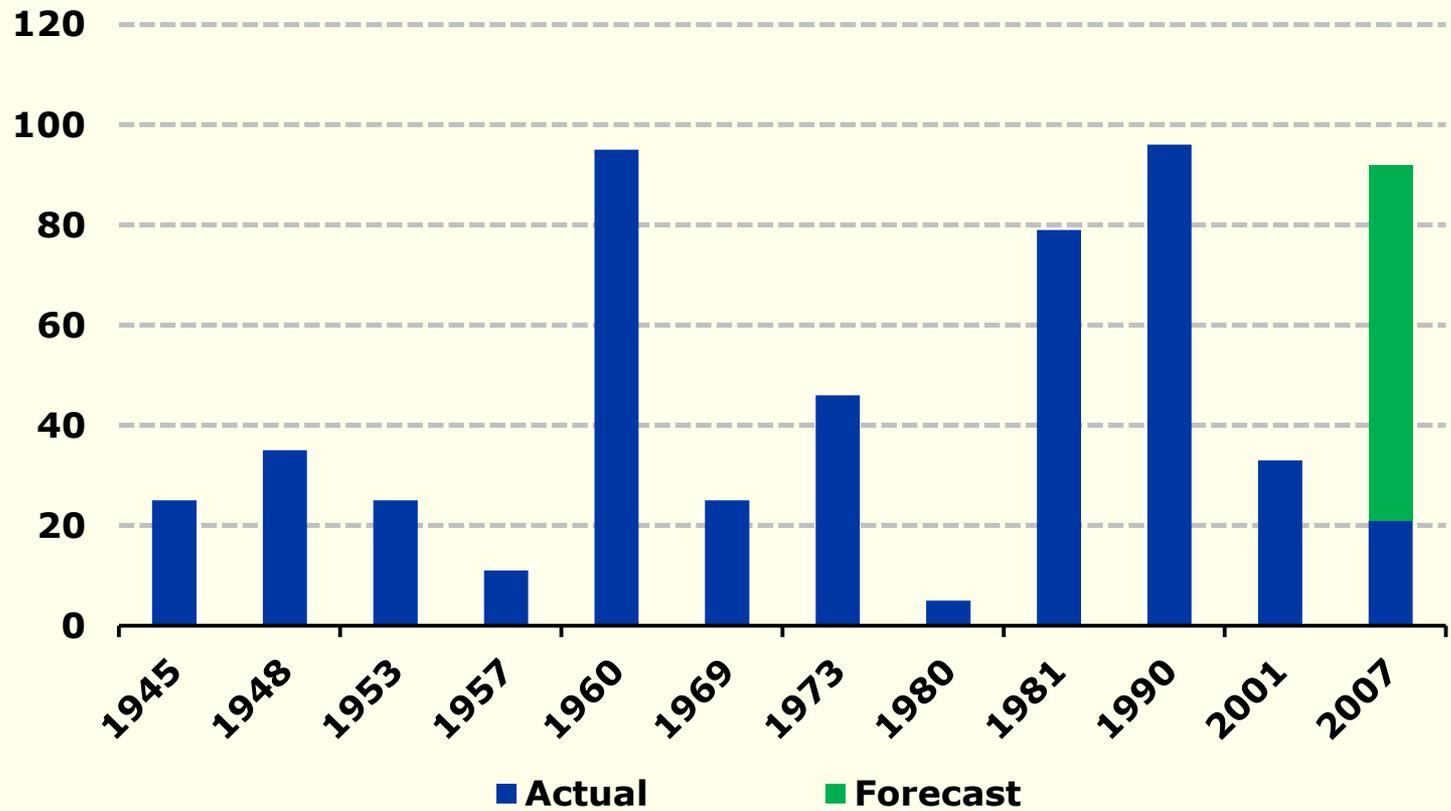


Source: Bloomberg surveys; forecasts through January 2016



# Initial slow recovery points to extended expansion

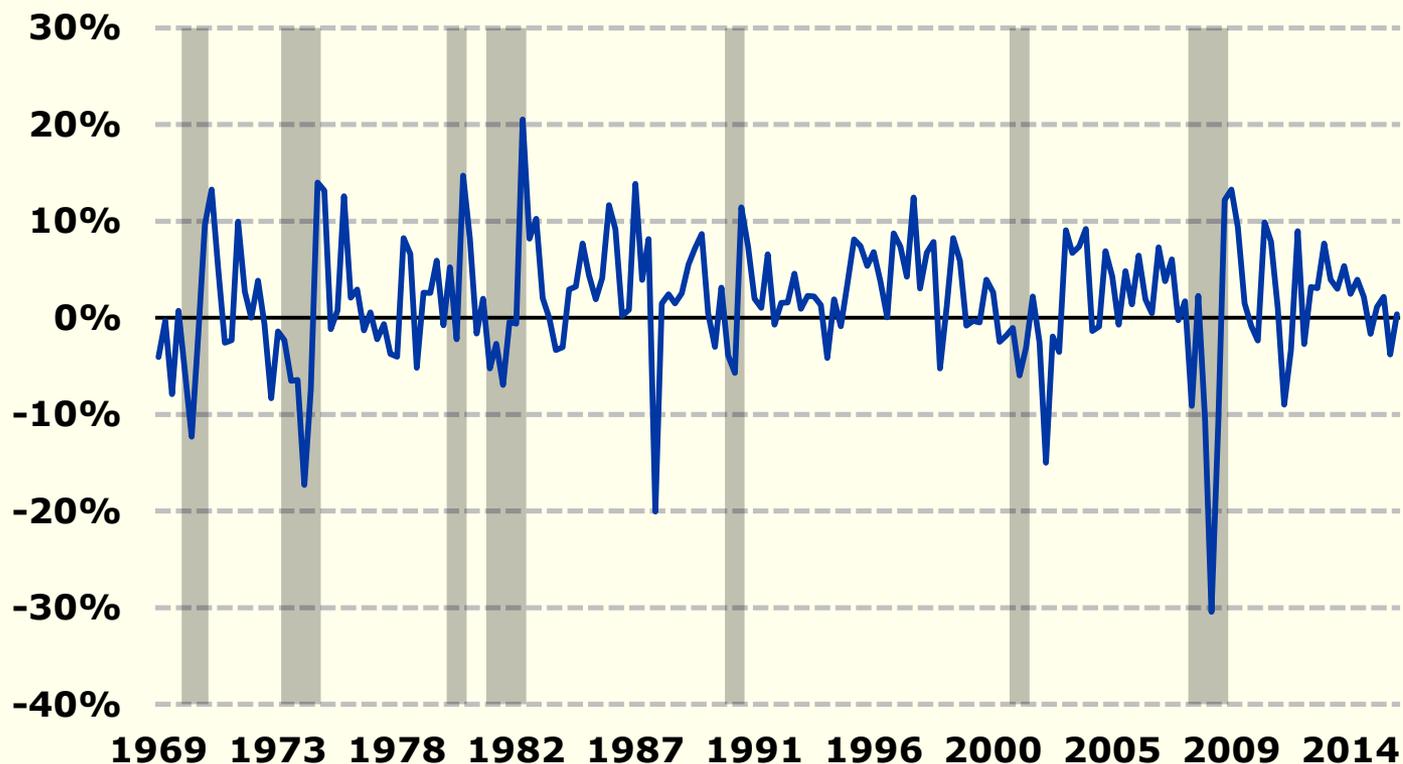
Months of Recovery After Reaching Previous Peak in Employment



Sources: NBER, ERFC February 2016 Preliminary forecast



# “The stock market has forecast 9 out of the last 5 recessions”

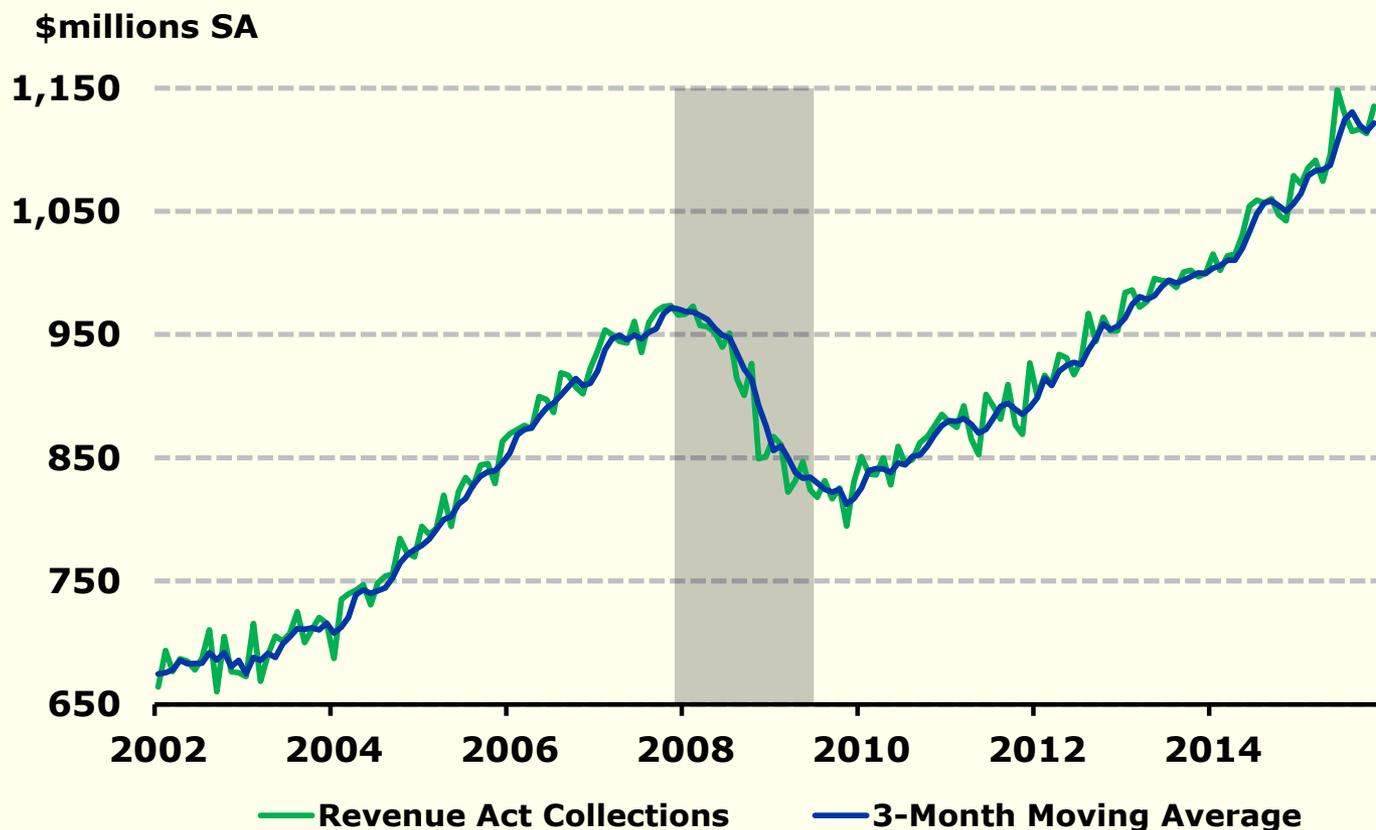


— Change in U.S. stock market value, quarterly

Source: OECD Main Economic Indicators, through 2015Q1; DJ Total US Market 2015Q2 – Q4



# Revenue Act collections back to trend after spike in August collections



\* 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 2015 activity

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# December saw another spike in large commercial property sales

Large commercial sales (>\$10 million) spiked to a total of \$2.1 billion in December after sales of \$570 million in November.

November residential sales fell but they rebounded somewhat in December.

### Seasonally Adjusted Taxable Real Estate Excise Activity

\$Billions



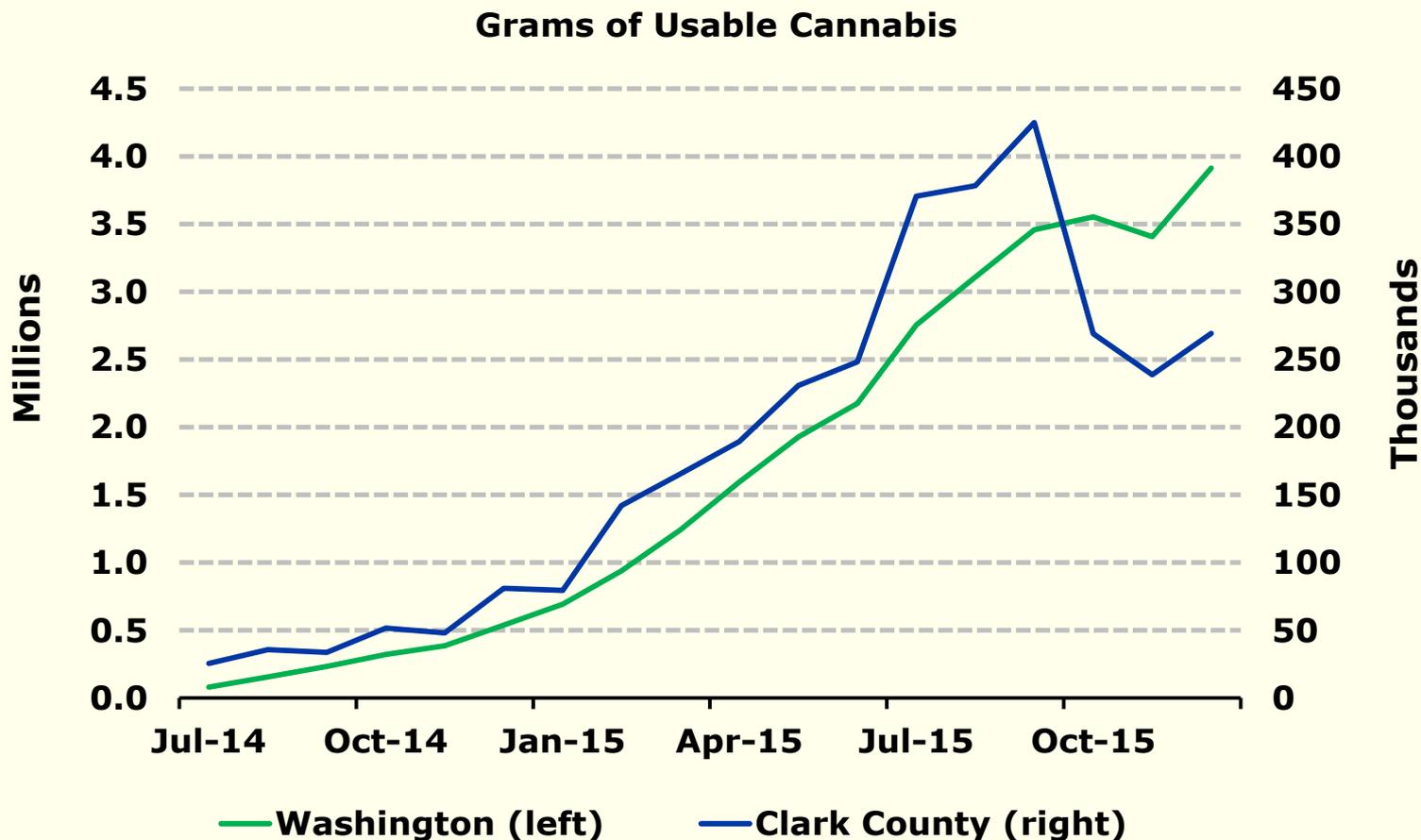
Source: ERFC; Monthly data through December 2015 preliminary



# 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 December, Clark County accounted for 7.8% of total sales by quantity.

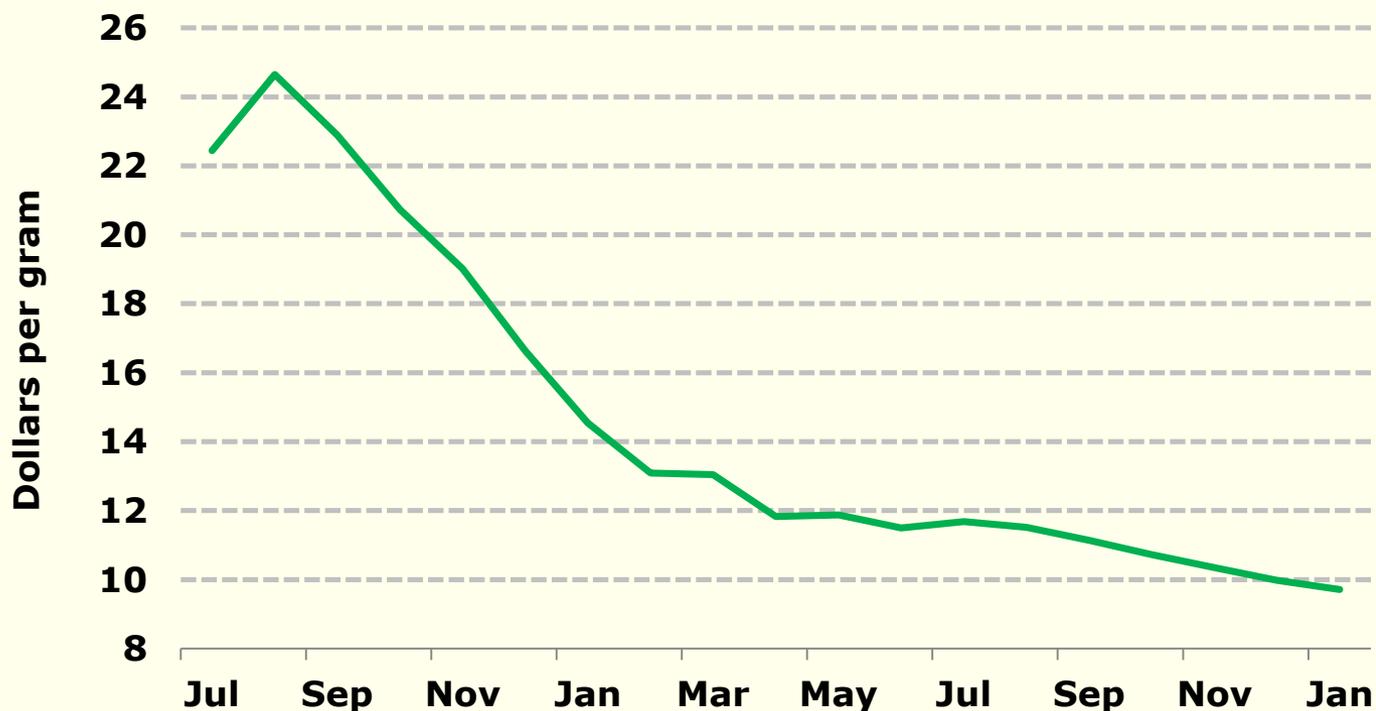


Source: WA LCB; data through December 2015



# The price of cannabis has plummeted

**Price of Recreational Cannabis Sold at Retail Stores**



Source: LCB, ERFC; data through January 2016



# Conclusion

- The economic forecast is slightly weaker than in November but we continue to expect moderate growth
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic expansion include slower economic growth in China, the impact of a stronger dollar on exports, and a slowdown in manufacturing



# Questions



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