

National and Local Economic Issues

Presented to
Department of Financial Institutions & the Northwest
Credit Union Association

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SeaTac, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- Our economic forecasts for both the U.S. and Washington continue to call for moderate growth
- U.S. job growth has been weaker so far this year compared to 2014; WA job growth has also slowed somewhat
- Housing activity nationally and in WA continues to improve
- Risks to the baseline forecast are tilted towards the downside; they include the potential for slower global economic growth, slower U.S. and WA employment growth, and the potential for a U.S. default



Economic news continues to suggest risks to forecast

- Upside:
 - Declining initial unemployment claims
 - Stronger housing construction, sales
 - Lower oil, gasoline prices
- Downside:
 - Slower employment growth
 - Sluggish Chinese, emerging market, and European economies
 - Congress fails to act on debt limit
 - Recession?



Unemployment claims have declined to pre-recession levels nationally...



Source: U.S. Dept. of Labor; data through September 19, 2015

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...and in Washington

WA monthly initial unemployment claims, SA

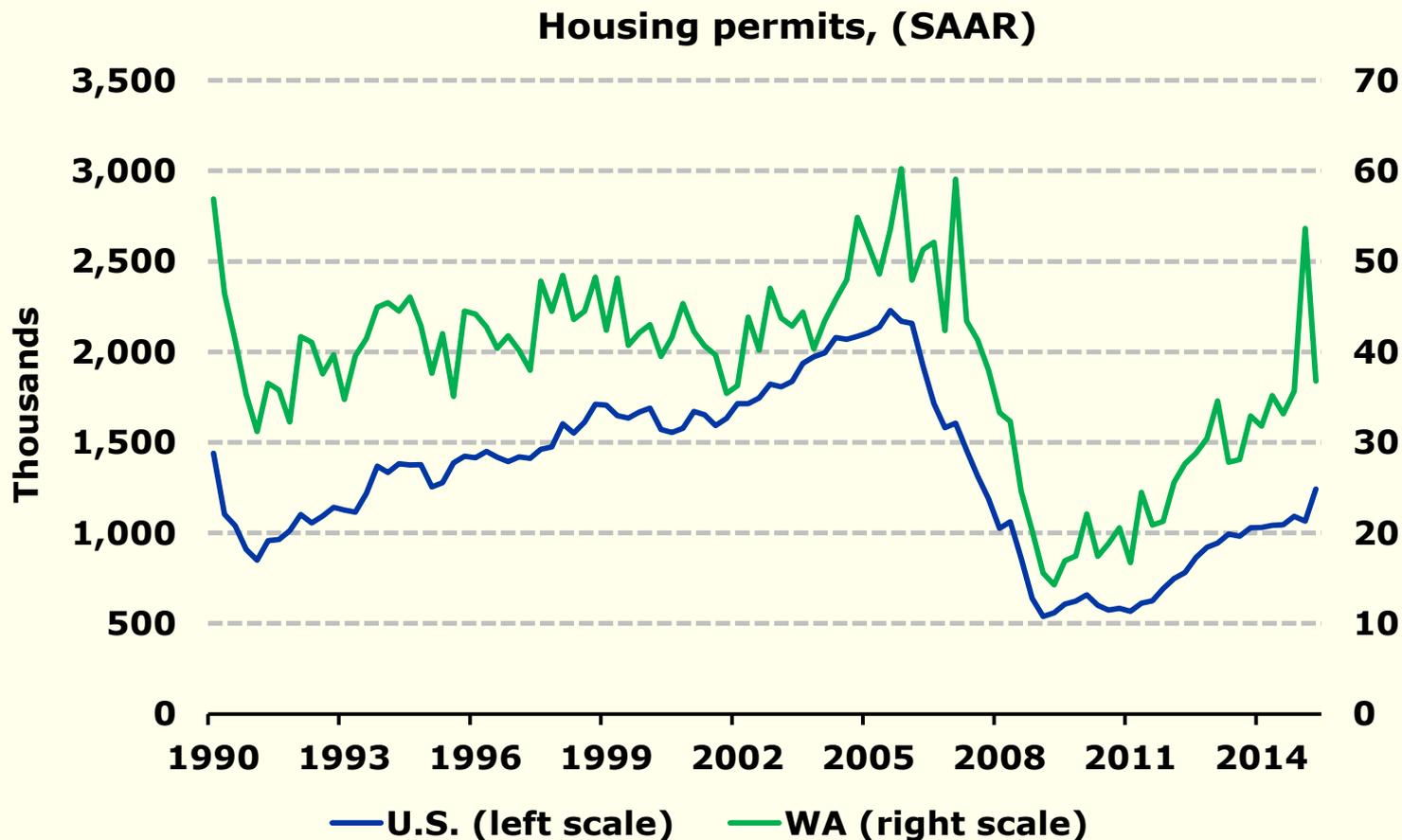


Source: WA Employment Security Dept., ERFC; data through September 2015

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Both U.S., WA housing permits trending up

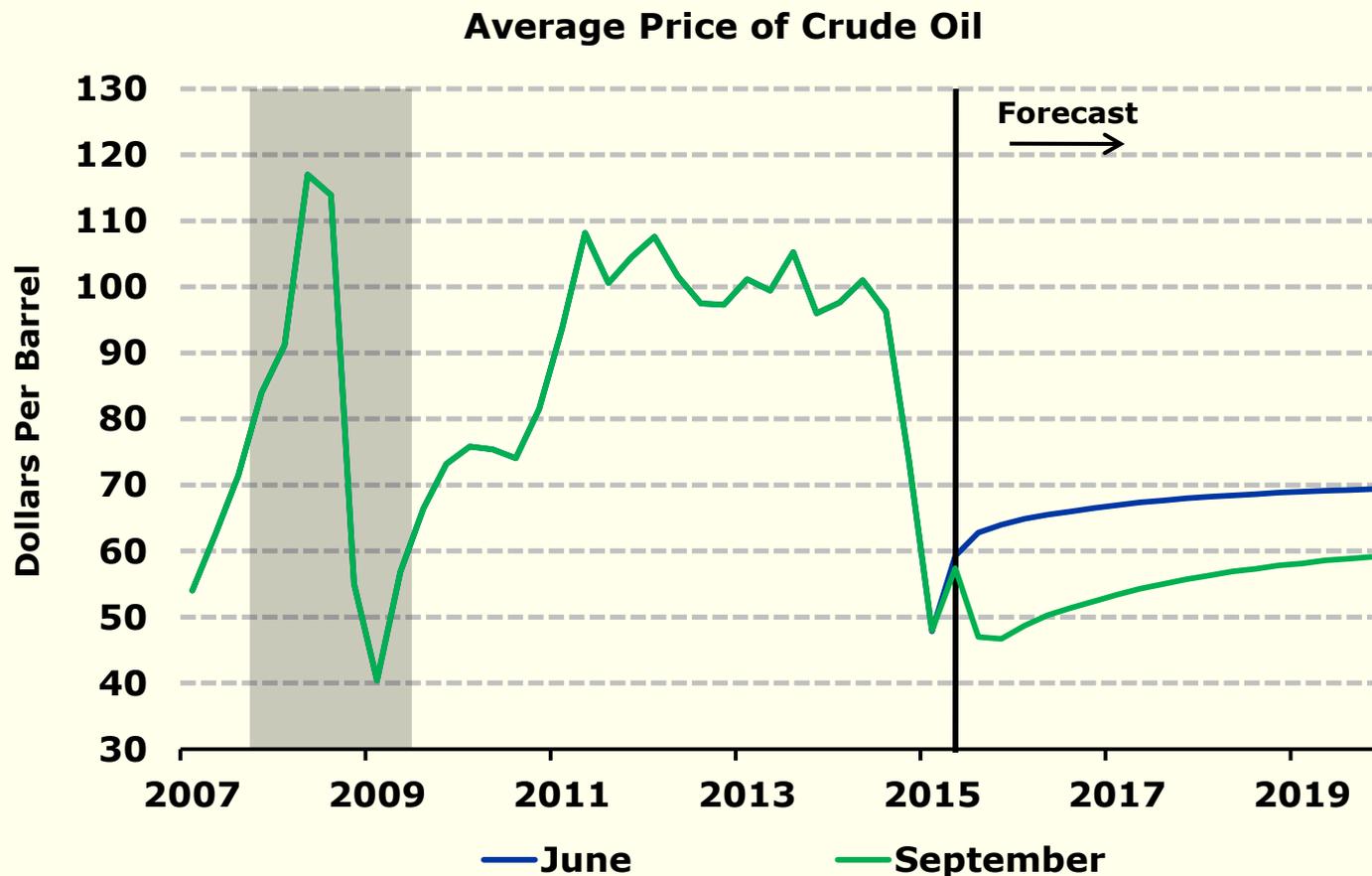


Source: U.S. Census Bureau, data through 2015 Q2

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Oil prices have declined and are expected to remain low

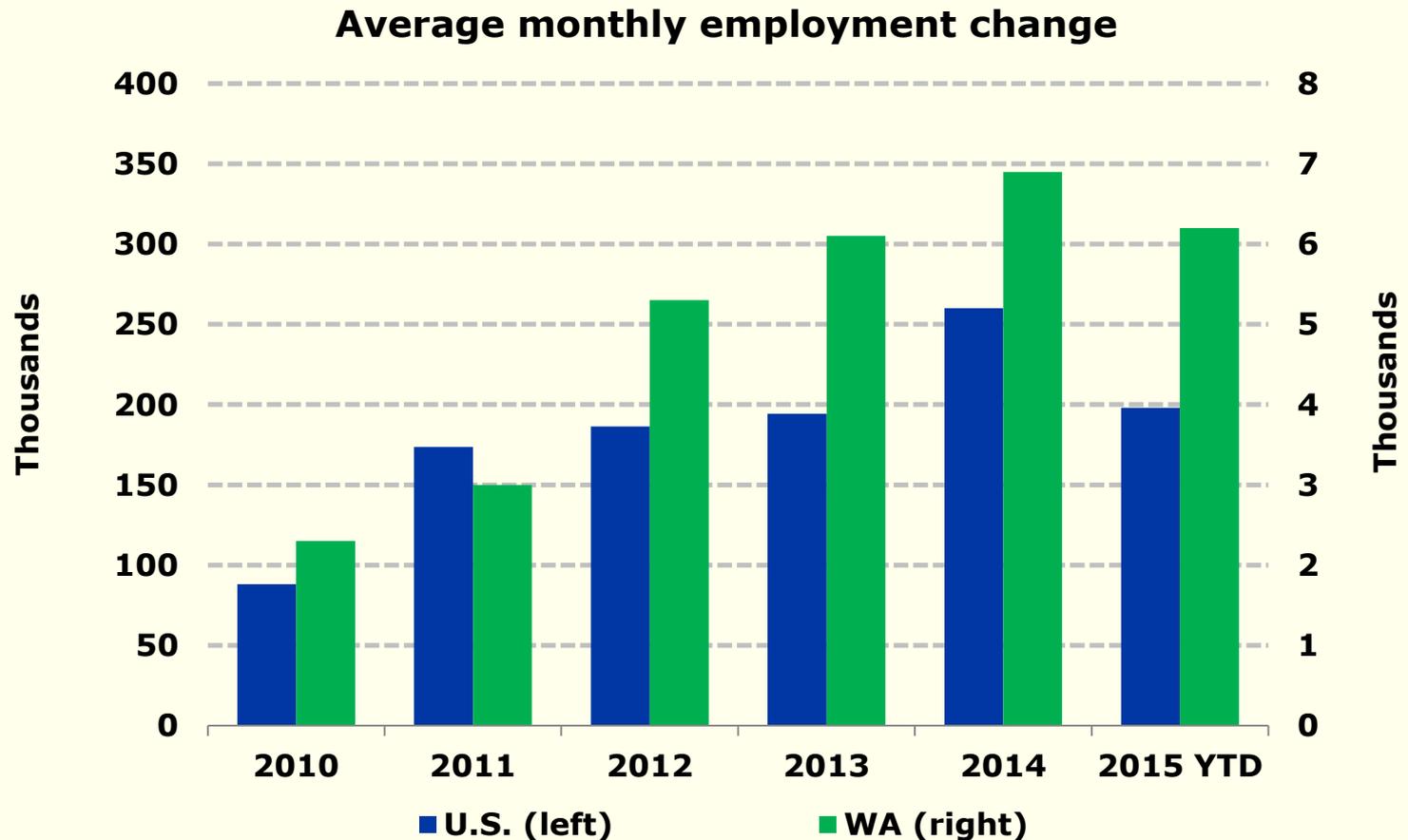


Source: DOE, ERFC September 2015 forecast; historical data through 2015Q2

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

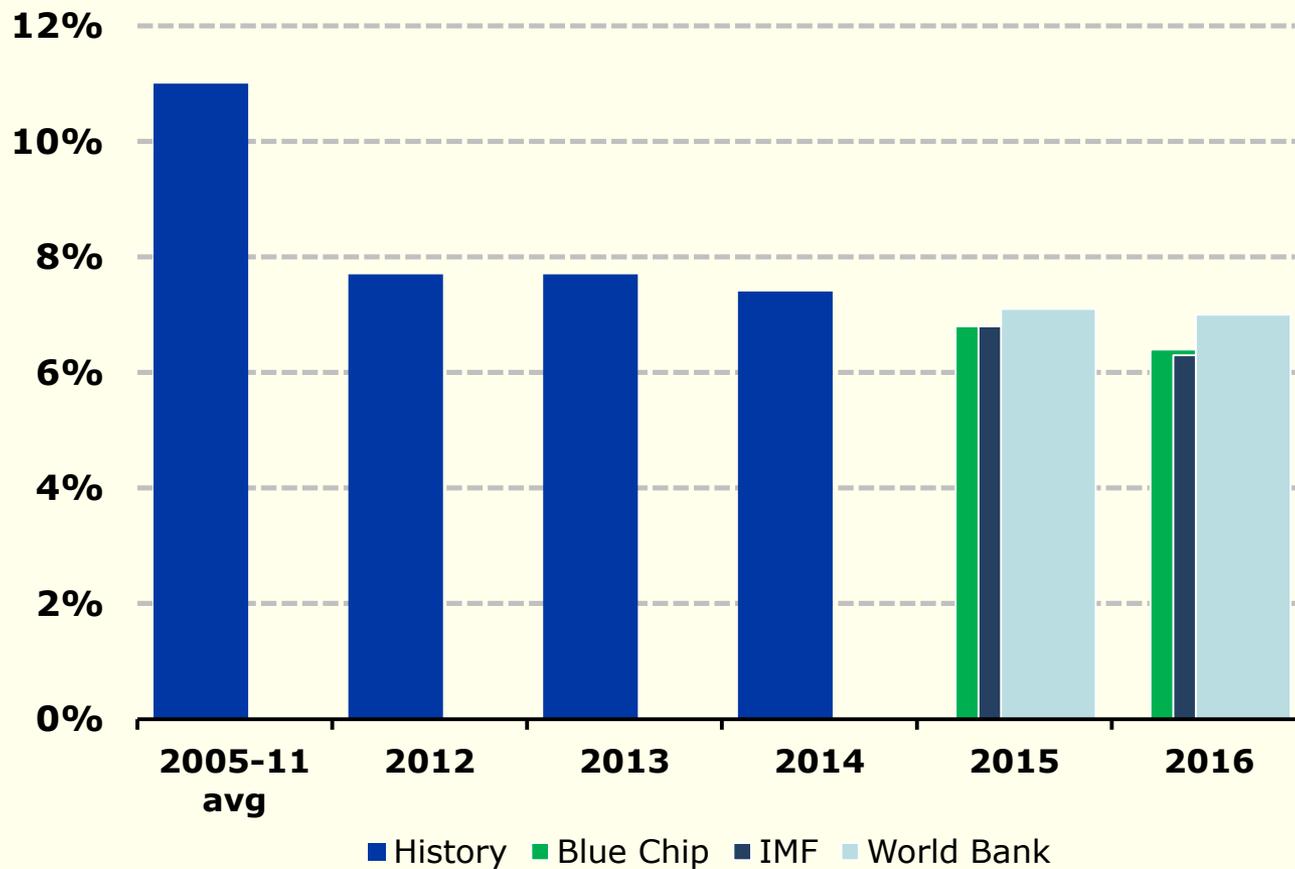


Source: Bureau of Labor Statistics, ERFC; data through September 2015

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China's 2015 & 2016 GDP growth expected to be below 2014 rate



Source: Blue Chip, Oct. 2015 forecast; IMF, Oct. 2015 forecast; World Bank, Jun. 2015 forecast

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China is the largest market for Washington exports

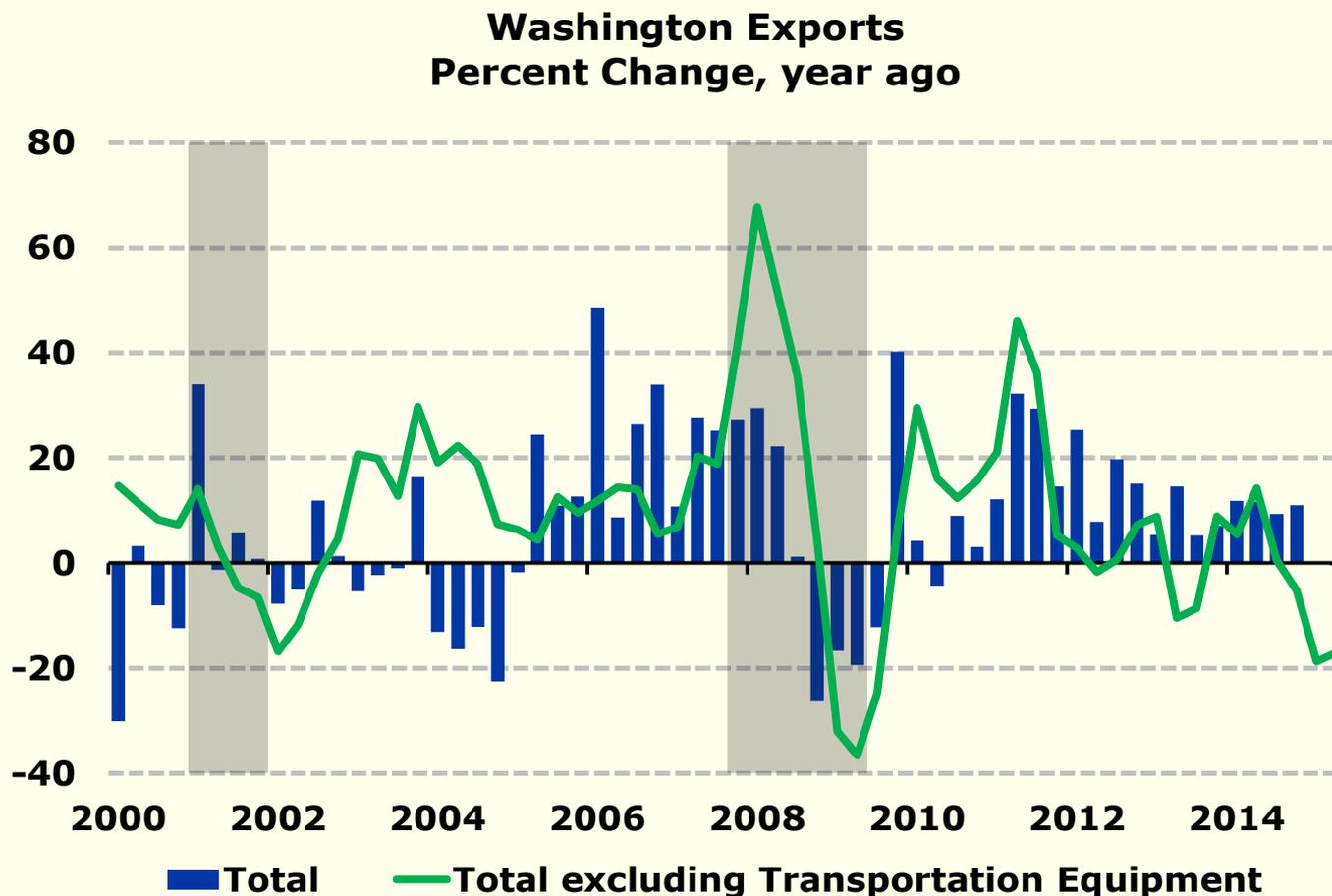
Percent of Washington exports by destination

2012		2013		2014	
China	18.7%	China	20.5%	China	22.8%
Japan	11.9%	Canada	11.0%	Canada	10.3%
Canada	11.1%	Japan	8.6%	Japan	8.1%
United Arab Emirates	6.7%	United Arab Emirates	4.7%	United Arab Emirates	3.6%
South Korea	4.5%	Mexico	3.9%	South Korea	3.0%

Source: WISERTrade



Non-transportation equipment exports are declining

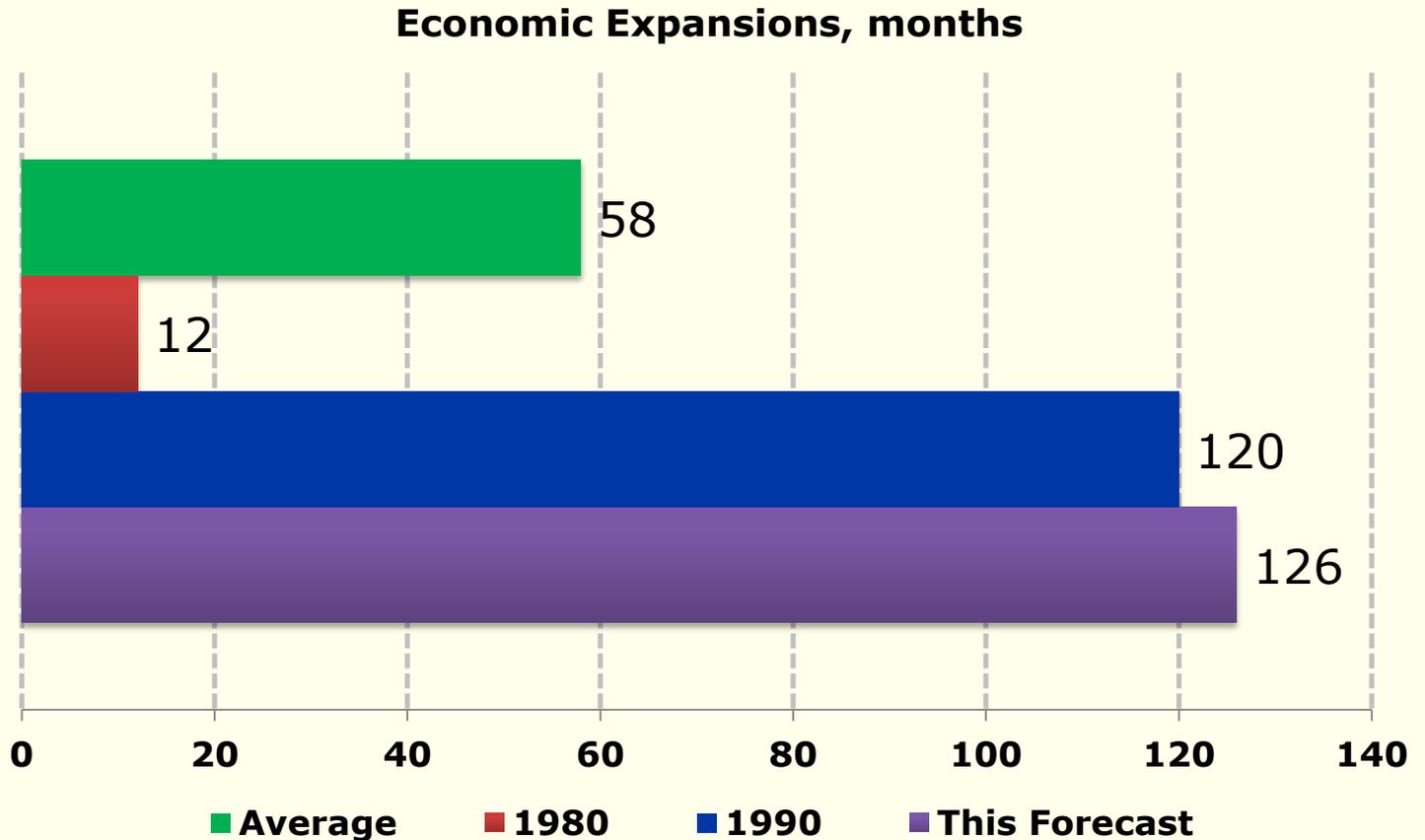


Source: Wiser Trade Data; through 2015Q2

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U.S. Economic Expansions since 1945



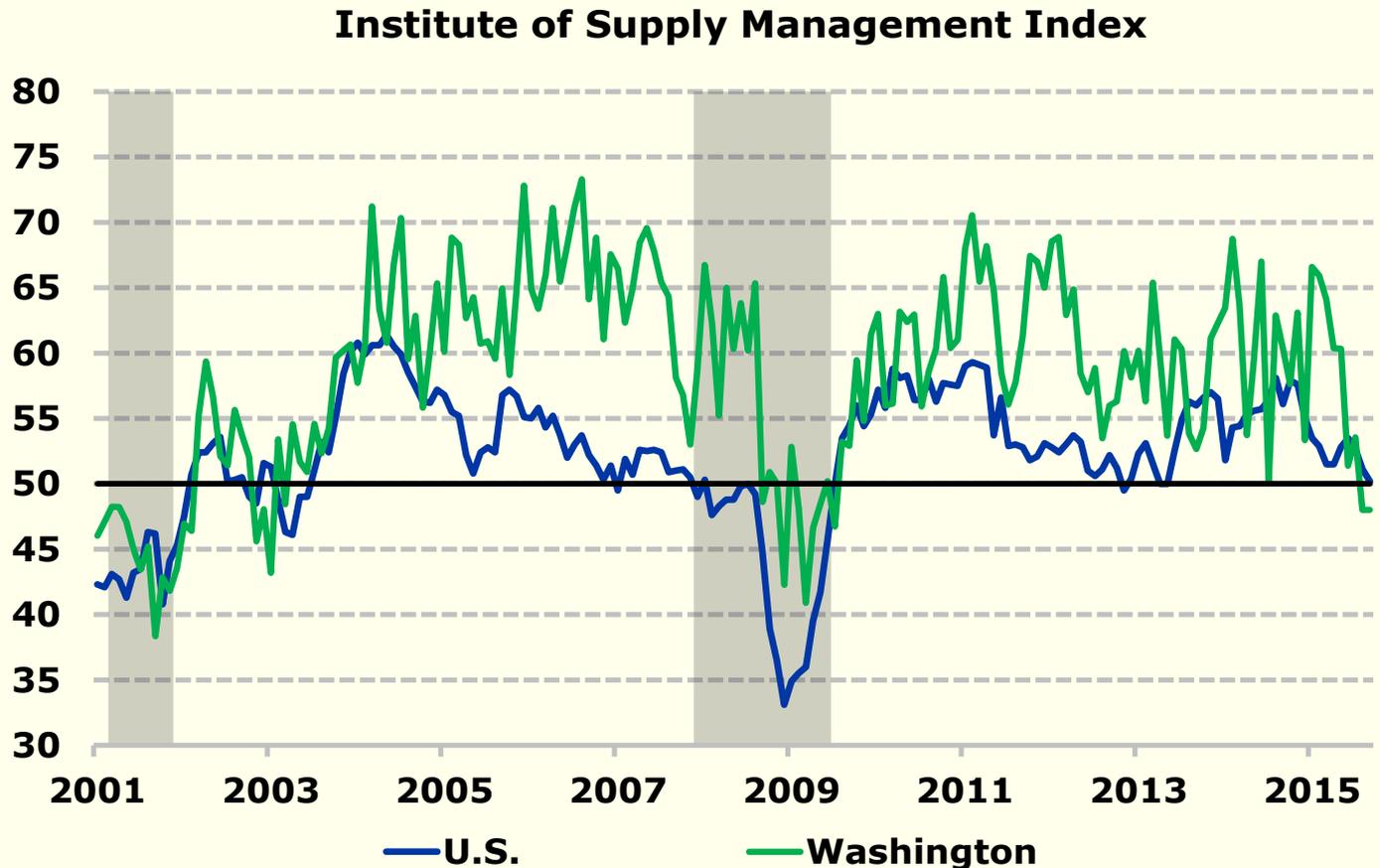
Sources: NBER, ERFC September 2015 forecast

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Manufacturing activity: ISM index for Washington below 50 for first time since recession

An index greater than 50, implies growth

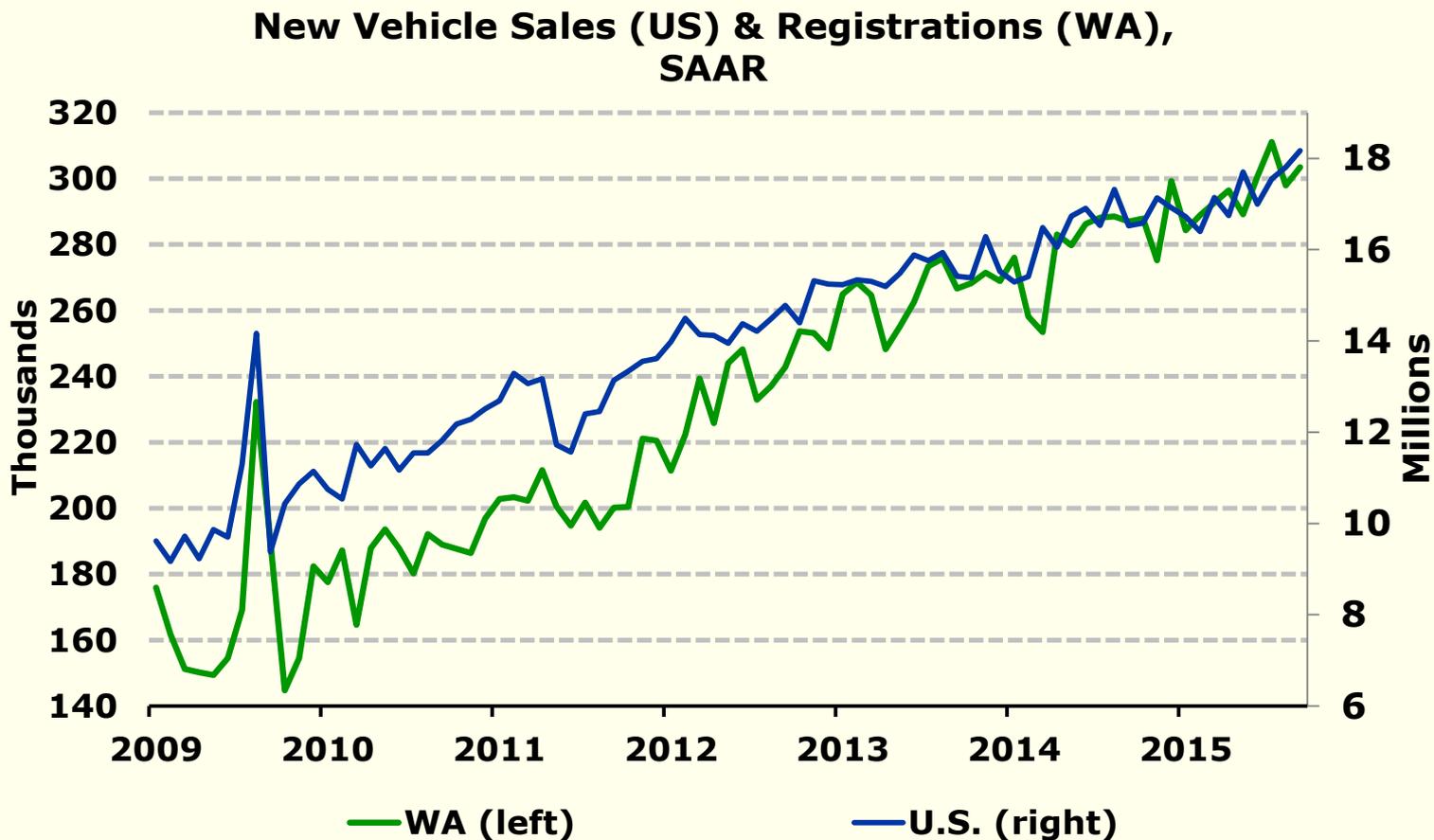


Source: Institute of Supply Management; data through September 2015

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New vehicle sales continue to grow

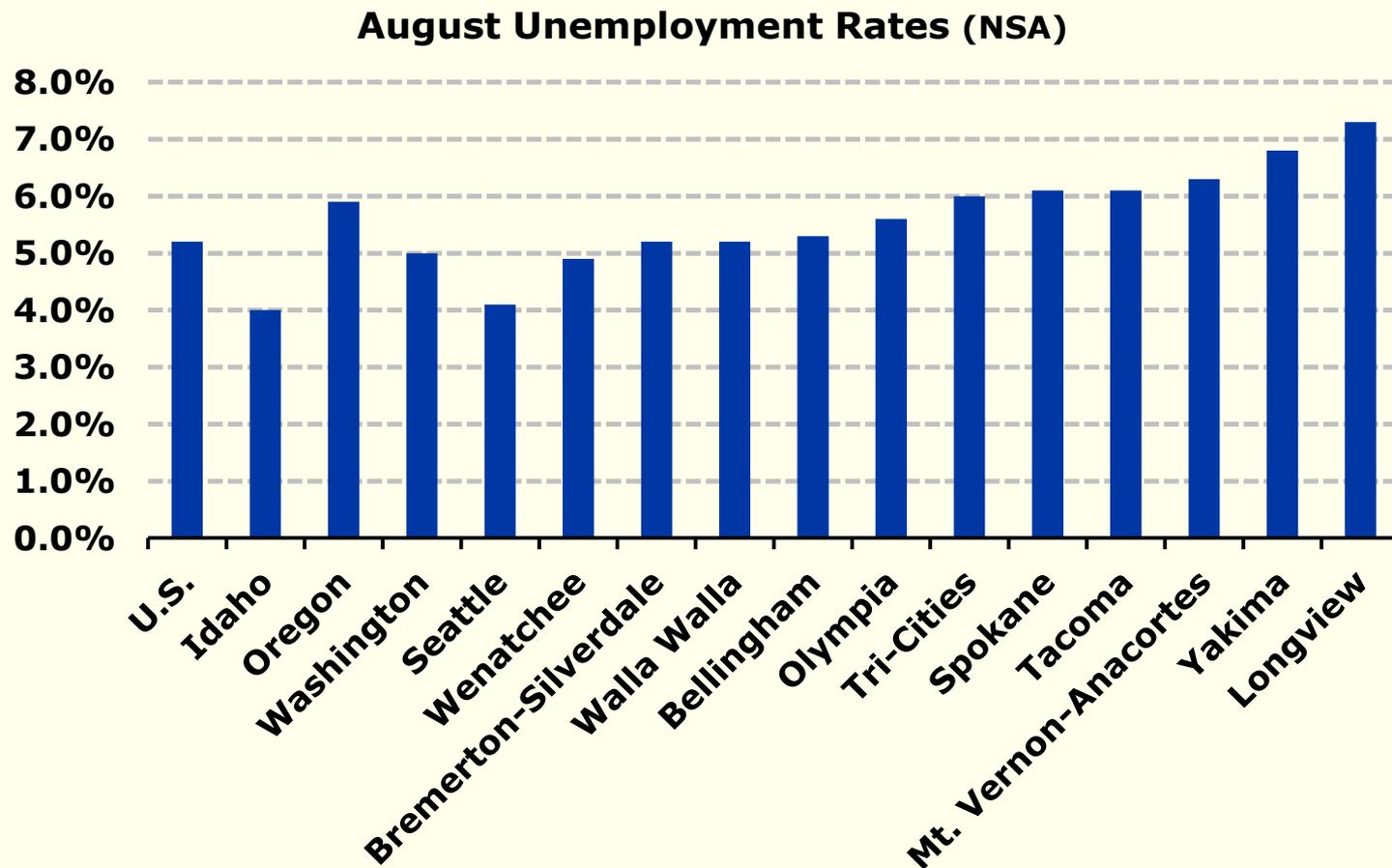


Source: Dept. of Licensing, ERFC, MotorIntelligence.com; data through September 2015

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Seattle continues to have the lowest unemployment rate among WA metropolitan areas

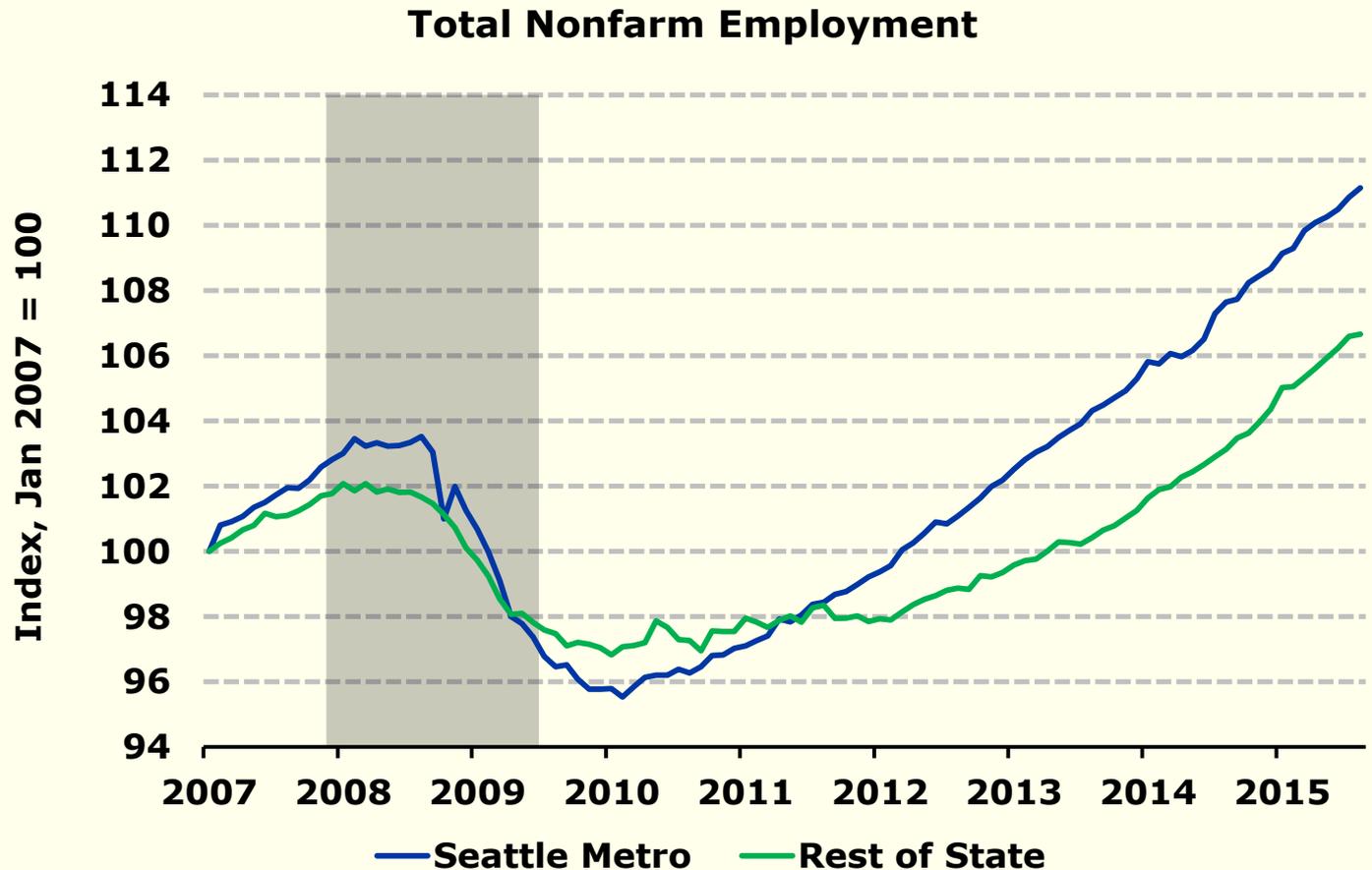


Source: Employment Security Dept., BLS; August 2015 data

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

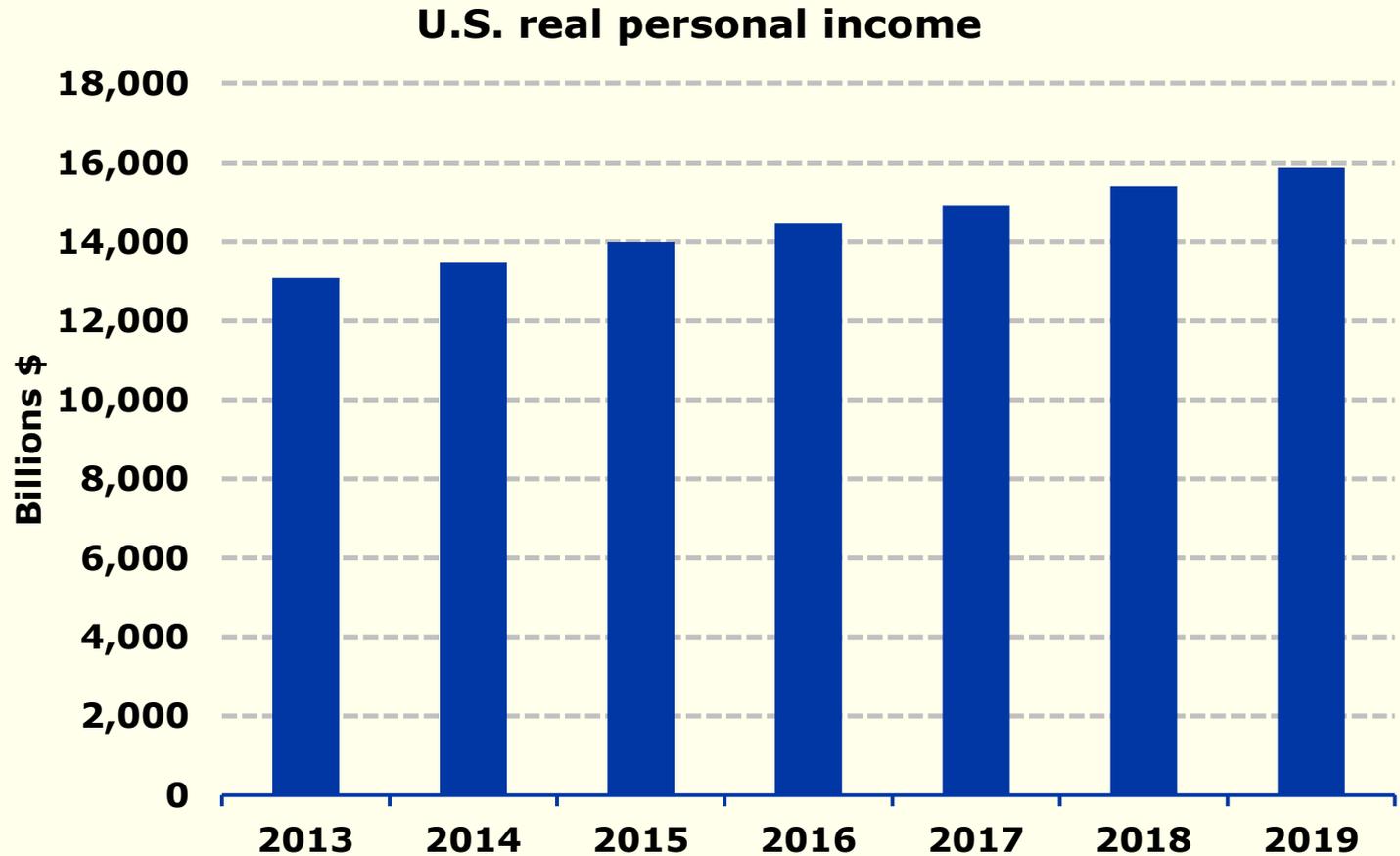


Source: Employment Security Department, ERFC; data through September 2015

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U.S. real personal income growth for 2015 to 2019 is expected to average 3.3%

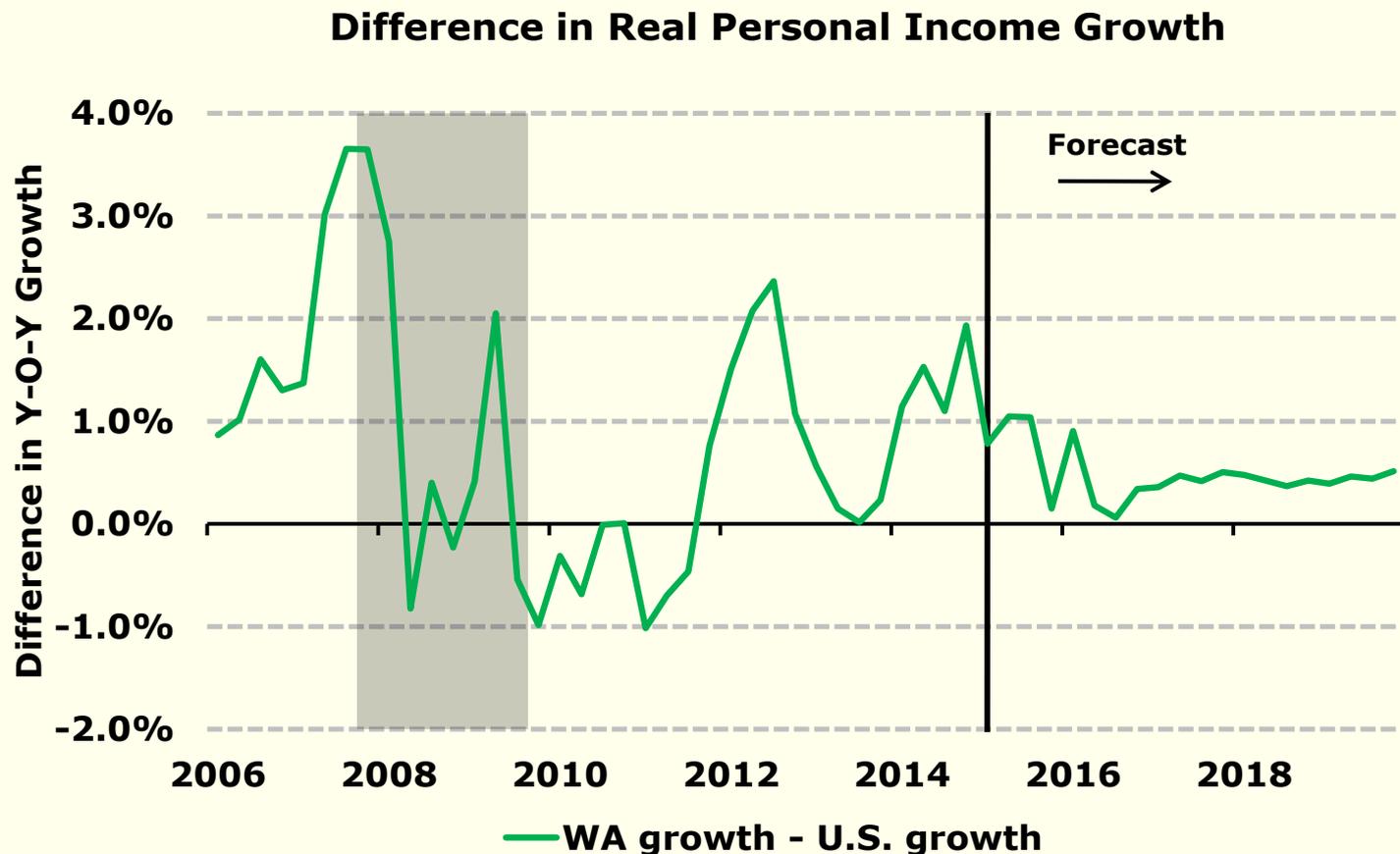


Source: Bureau of Economic Analysis, ERFC Sept. 2015 forecast; historical data through 2014

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



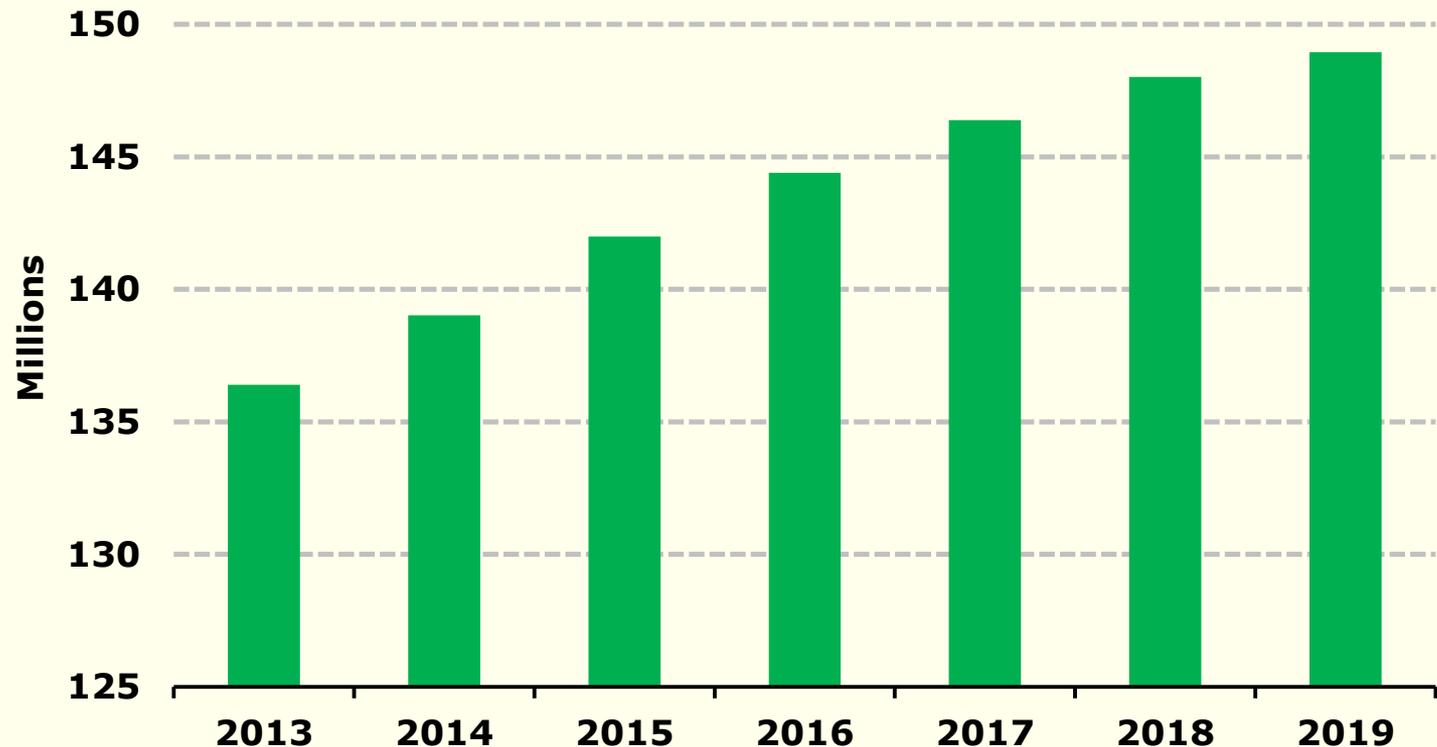
Source: ERFC September 2015 forecast; historical data through 2015Q2

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U.S. employment is forecast to grow by an average of 1.4% annually between 2015 and 2019

U.S. Total Nonfarm Employment

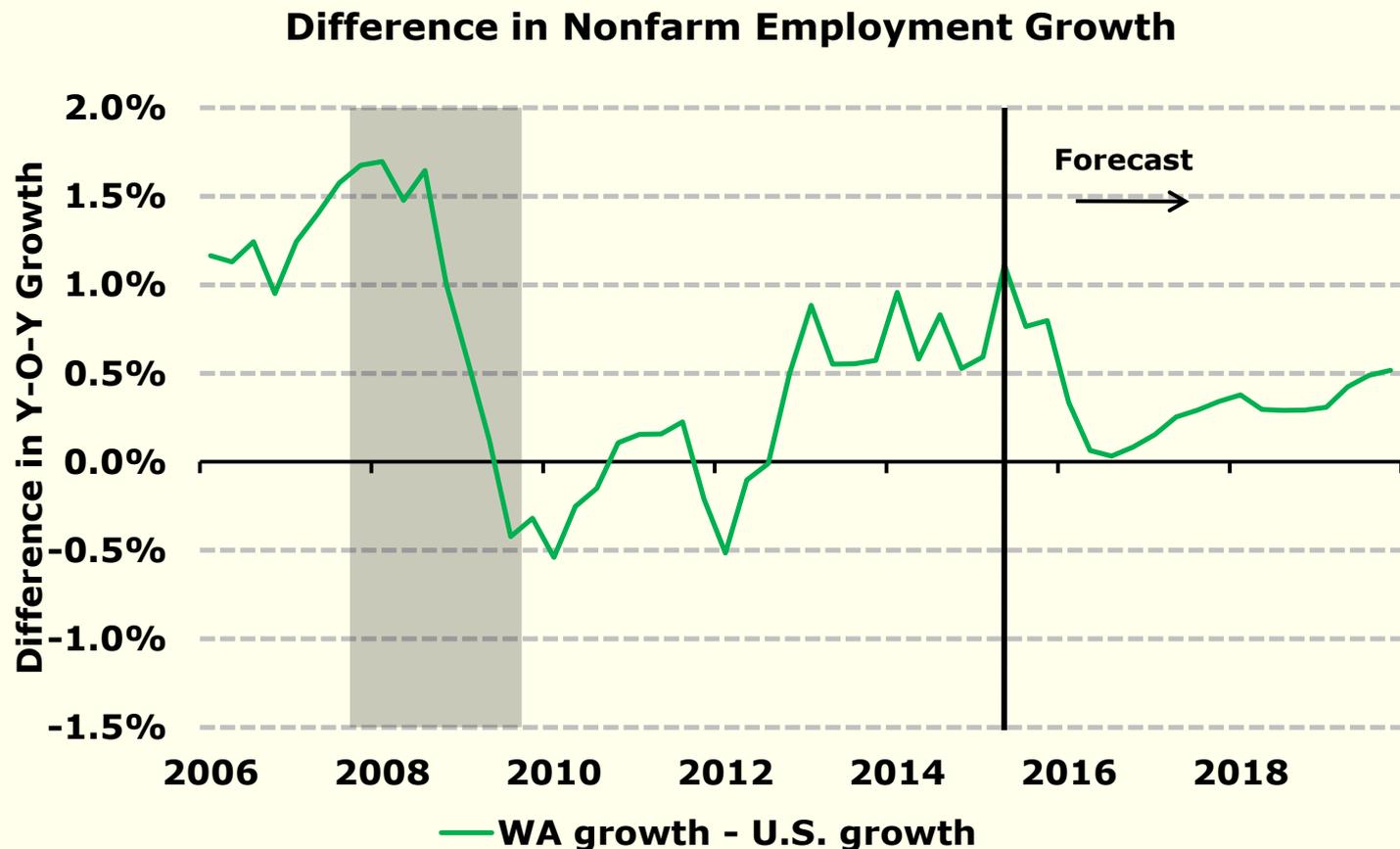


Source: BLS, ERFC September 2015 forecast; historical data through 2014

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



Source: ERFC September 2015 forecast; historical data through 2015Q2

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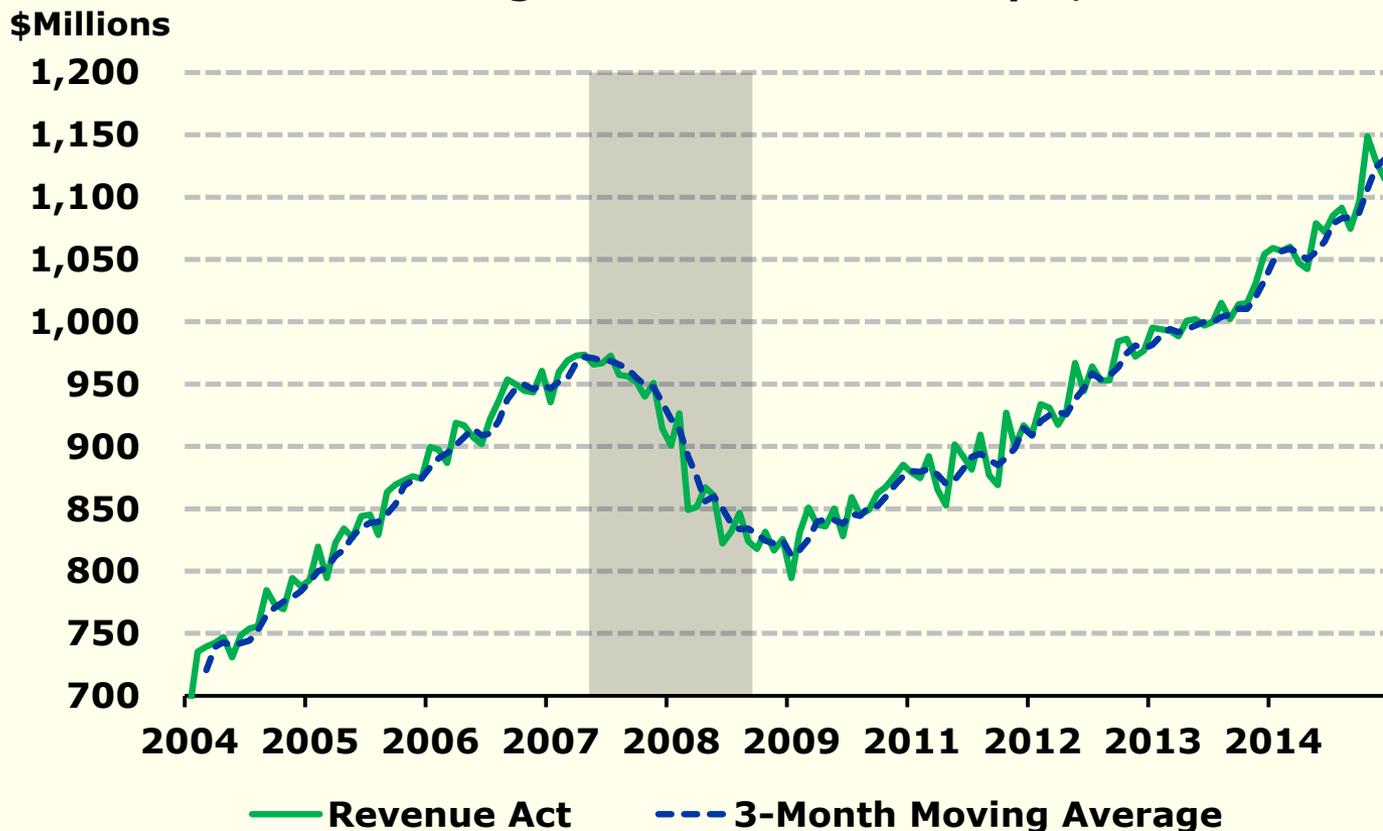


Revenue Act growth was strong in the second quarter but has moderated

Adjusted Y-O-Y growth for 2nd quarter activity was 7.1%.

Adjusted Y-O-Y growth for July activity was 6.4% but slowed to 4.3% for August activity.

Washington Revenue Act Receipts, SA



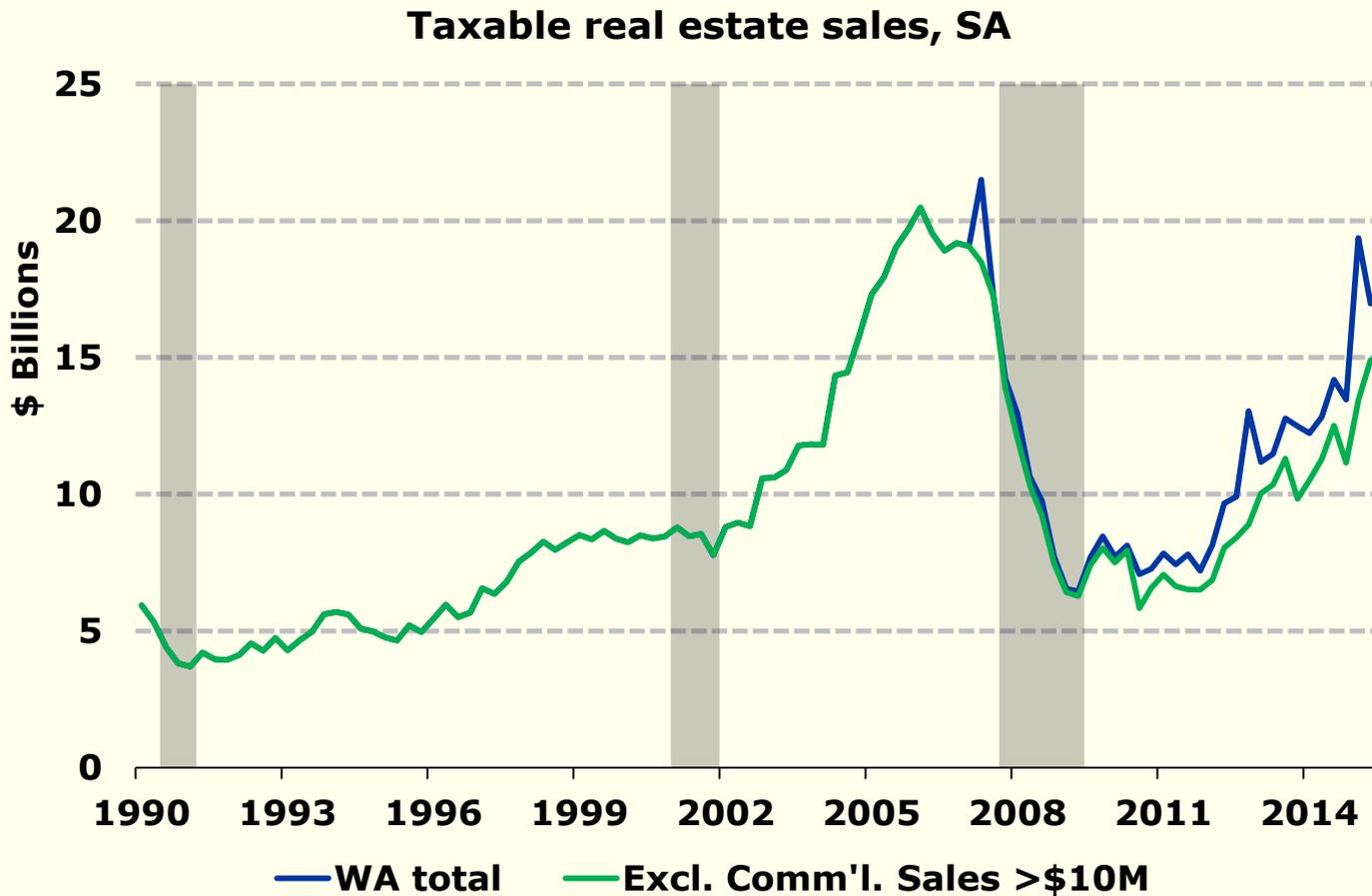
Source: ERFC; Monthly data through August 2015 activity

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

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Large commercial property sales have had major impact on REET collections

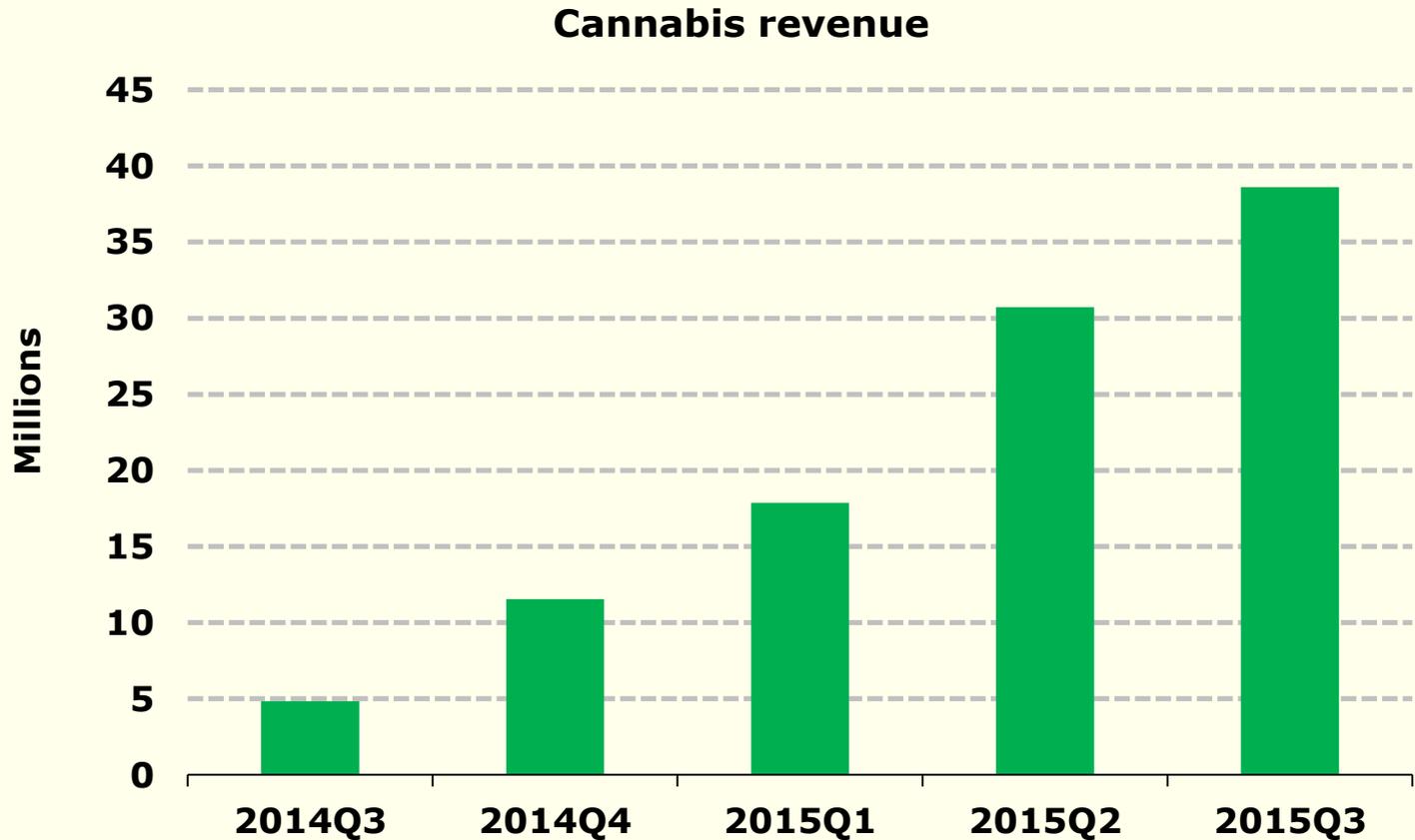


Source: ERFC, data through 2015 Q2

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Cannabis revenue growth continues to be strong



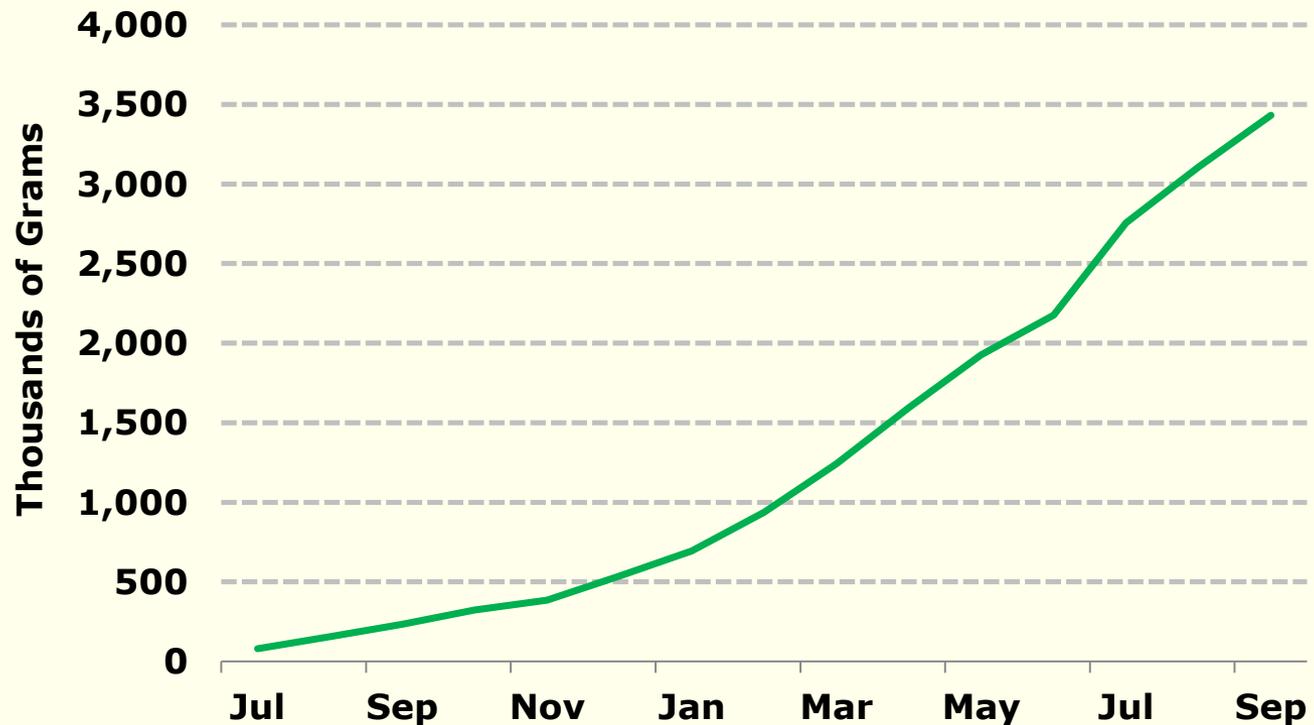
Source: LCB, ERFC; revenue data through 2015Q3

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Quantity of usable cannabis sold through licensed stores continues to increase

Quantity of Recreational Cannabis Sold at Retail Stores



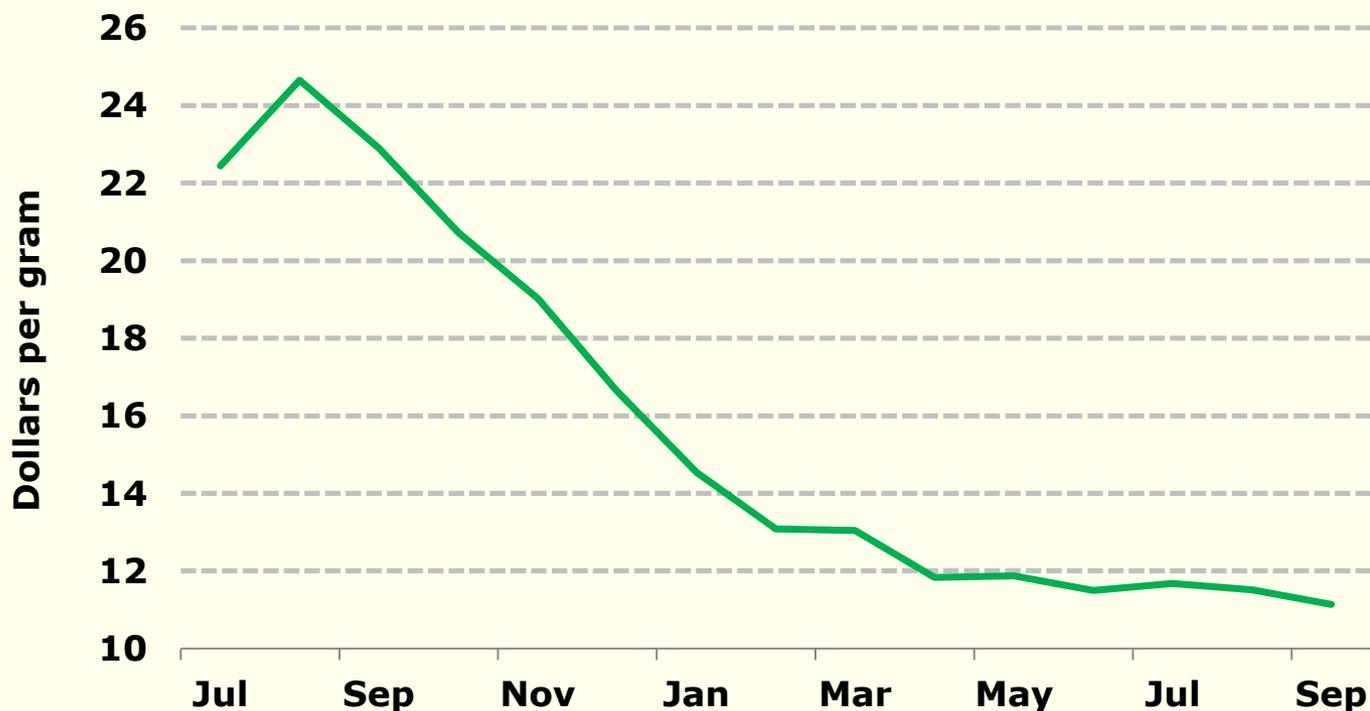
Source: LCB, ERFC; data through September 2015

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The price of cannabis has plummeted

Price of Recreational Cannabis Sold at Retail Stores



Source: LCB, ERFC; data through September 2015

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Conclusion

- The November economic forecast is likely to be similar to recent forecasts; we expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- Threats to economic expansion include the potential for slower Chinese economic growth, slower U.S. and WA employment growth, and the potential for a U.S. default
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy



Questions



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2015 CEO Outreach
Event

October 28, 2015

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