

National and Local Economic Issues

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

Steve Lerch
Executive Director

March 23, 2016
SeaTac, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- Our economic forecast expects continued growth in the U.S. and Washington economies but at a slightly slower pace than in November and with lower inflation
- Oil prices are lower than in November; moderate growth is expected over the forecast period
- The forecast assumes the Federal Reserve will increase interest rates twice this year
- Risks to the baseline include slowing global and U.S. economic growth, impact of a stronger dollar on exports, and weaker manufacturing activity



Economic news continues to suggest risks to forecast

Upside:

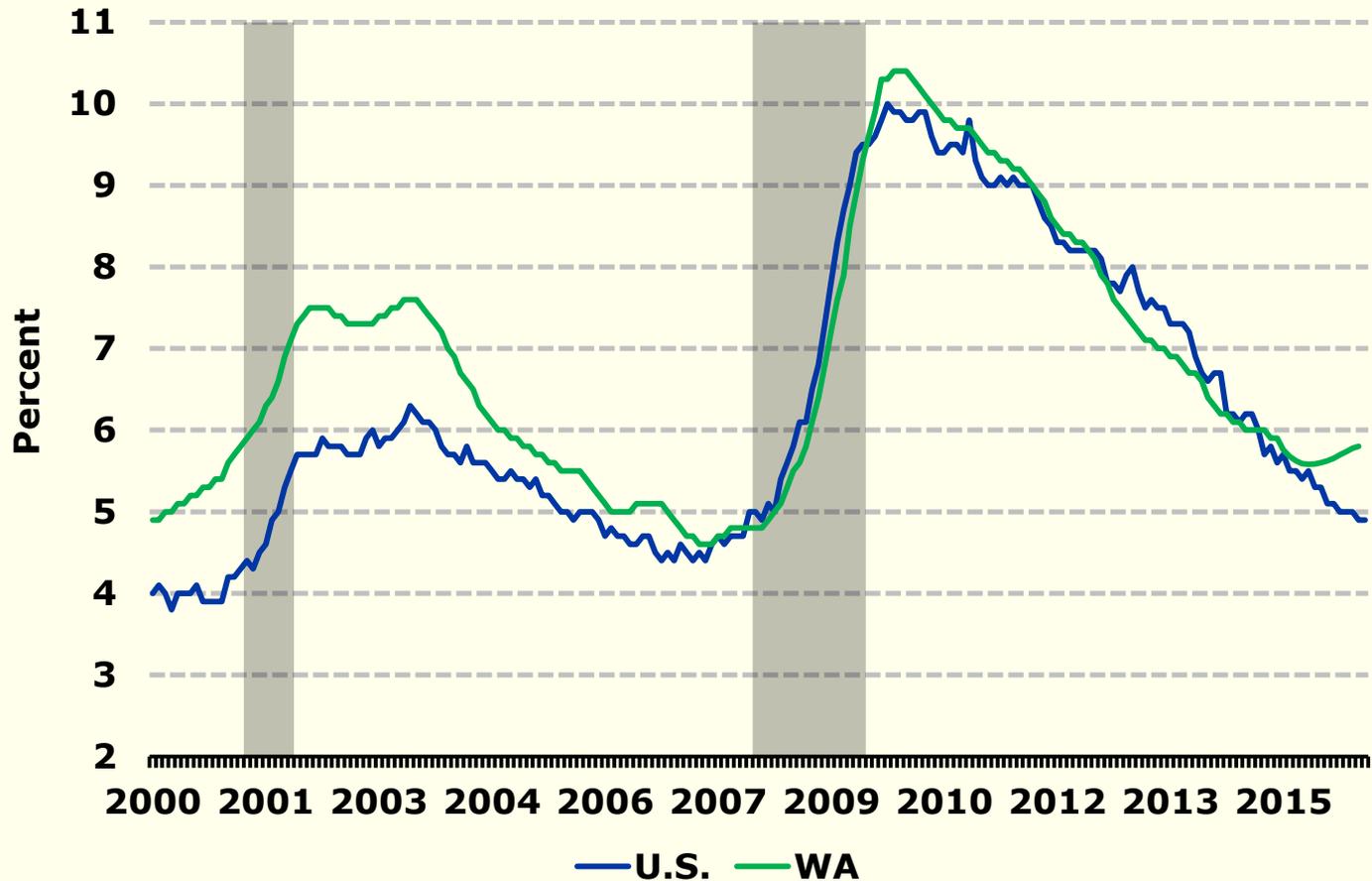
- Declining unemployment rates
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

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



U.S., WA unemployment rates trending down



Source: Bureau of Labor Statistics; U.S. data through Feb. 2016; WA data through Jan. 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Feb. 2016: 28%

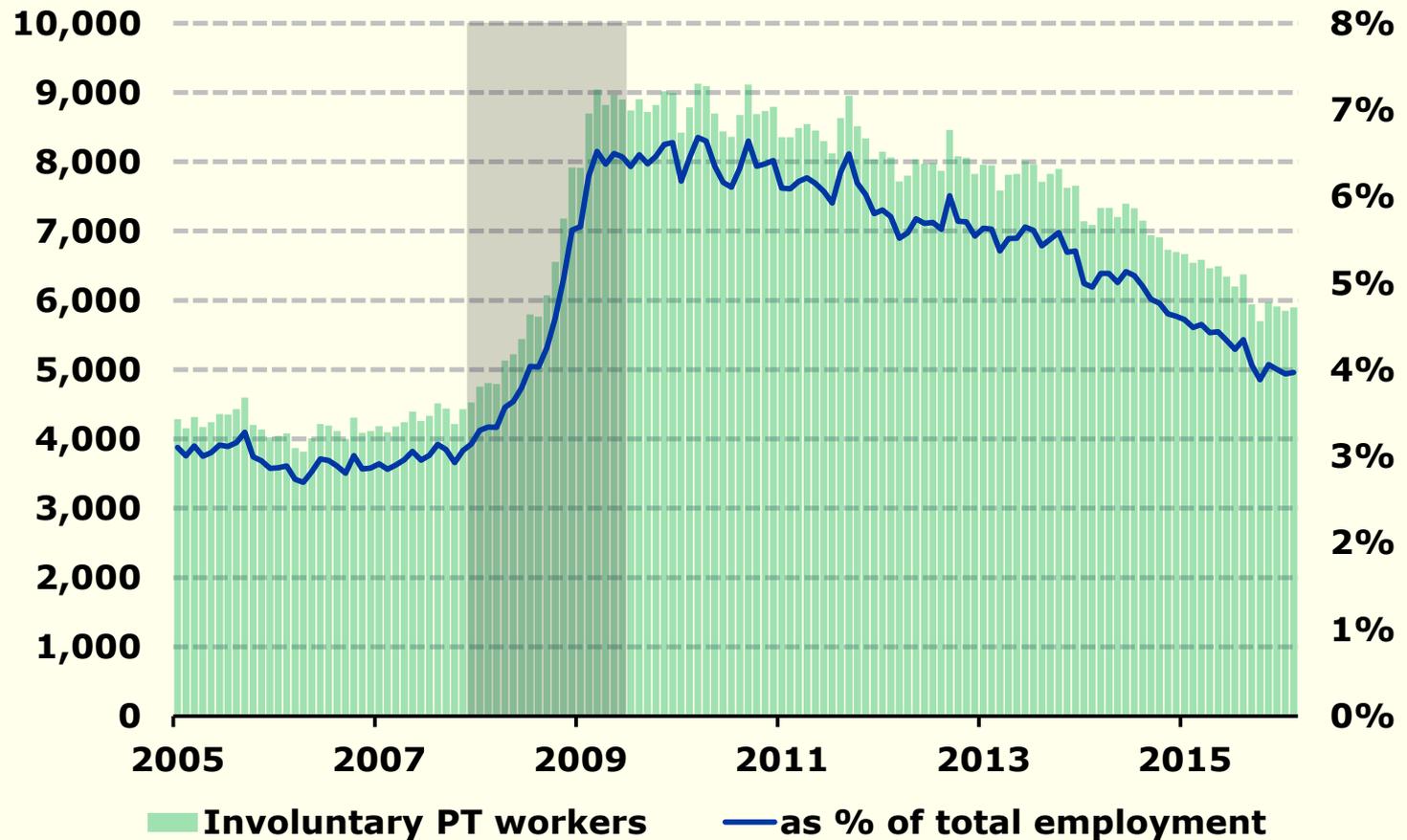


Source: Bureau of Labor Statistics; data through February 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Involuntary part-time employment remains above pre-recession levels

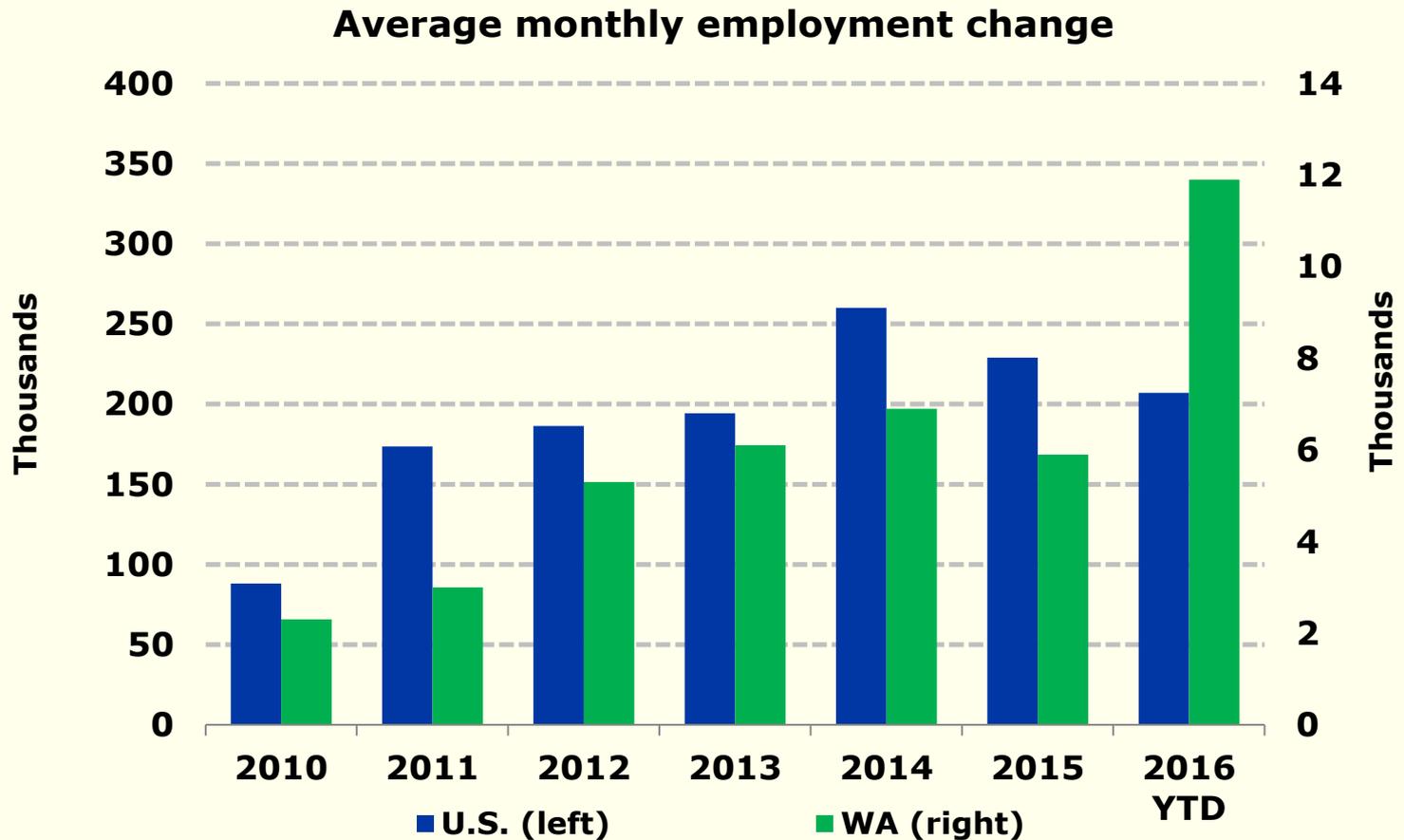


Source: U.S. Bureau of Labor Statistics; data through Feb. 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Job creation slightly weaker in 2015 than 2014; WA strong in January 2016



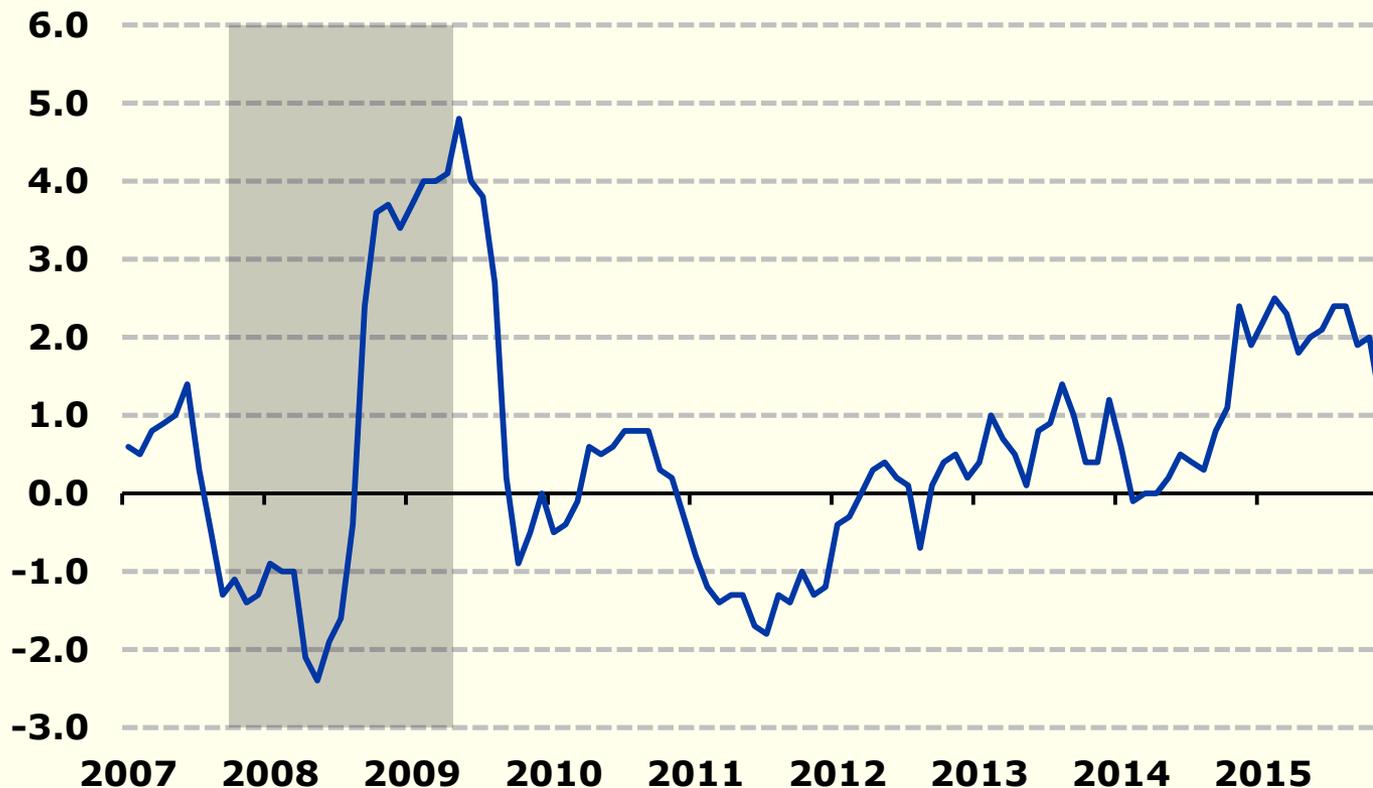
Source: Bureau of Labor Statistics, ERFC; U.S. data through Feb. 2016; WA data through Jan. 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Average U.S. wage growth has turned positive but slowed in January

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

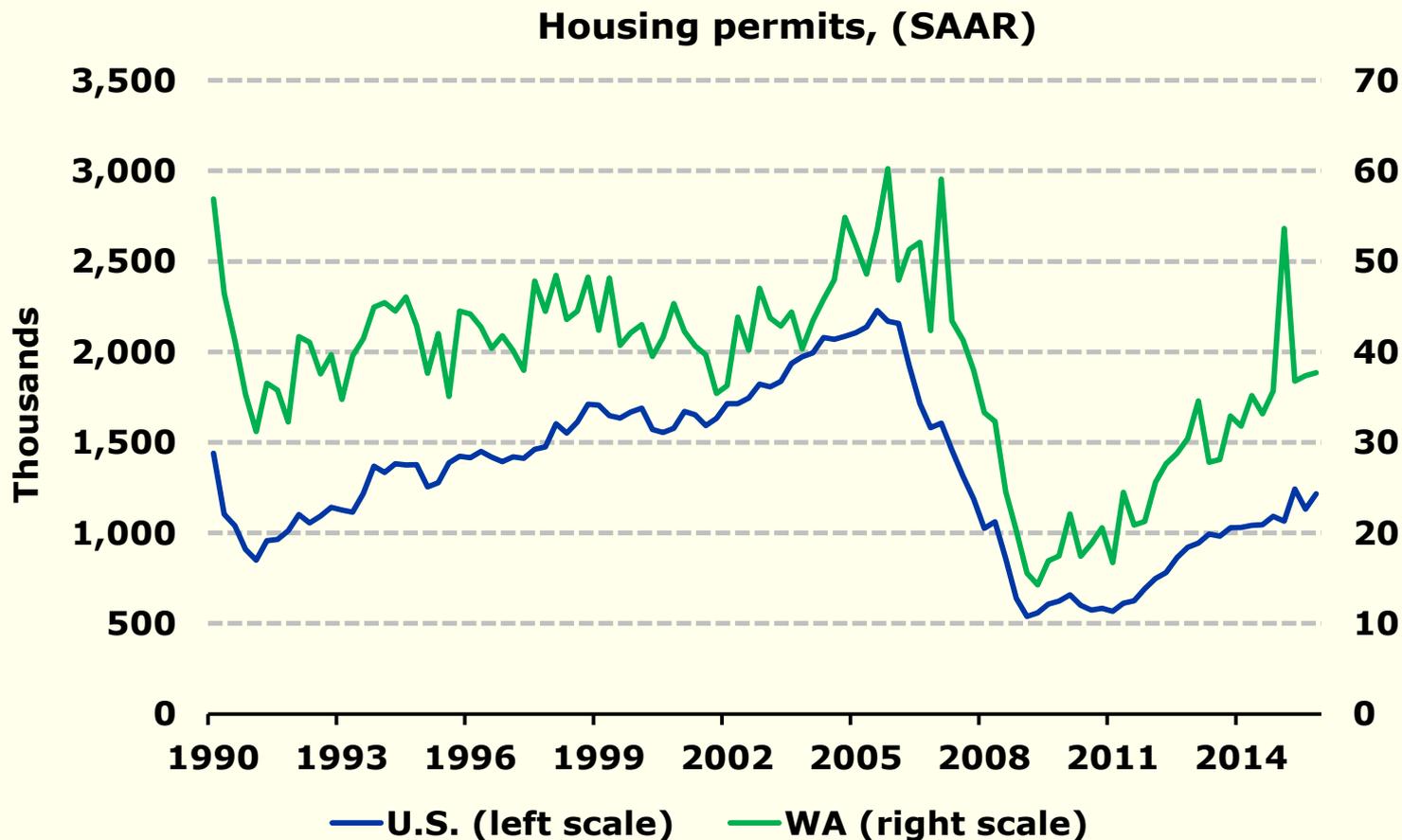


Source: U.S. Bureau of Labor Statistics, data through Jan. 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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

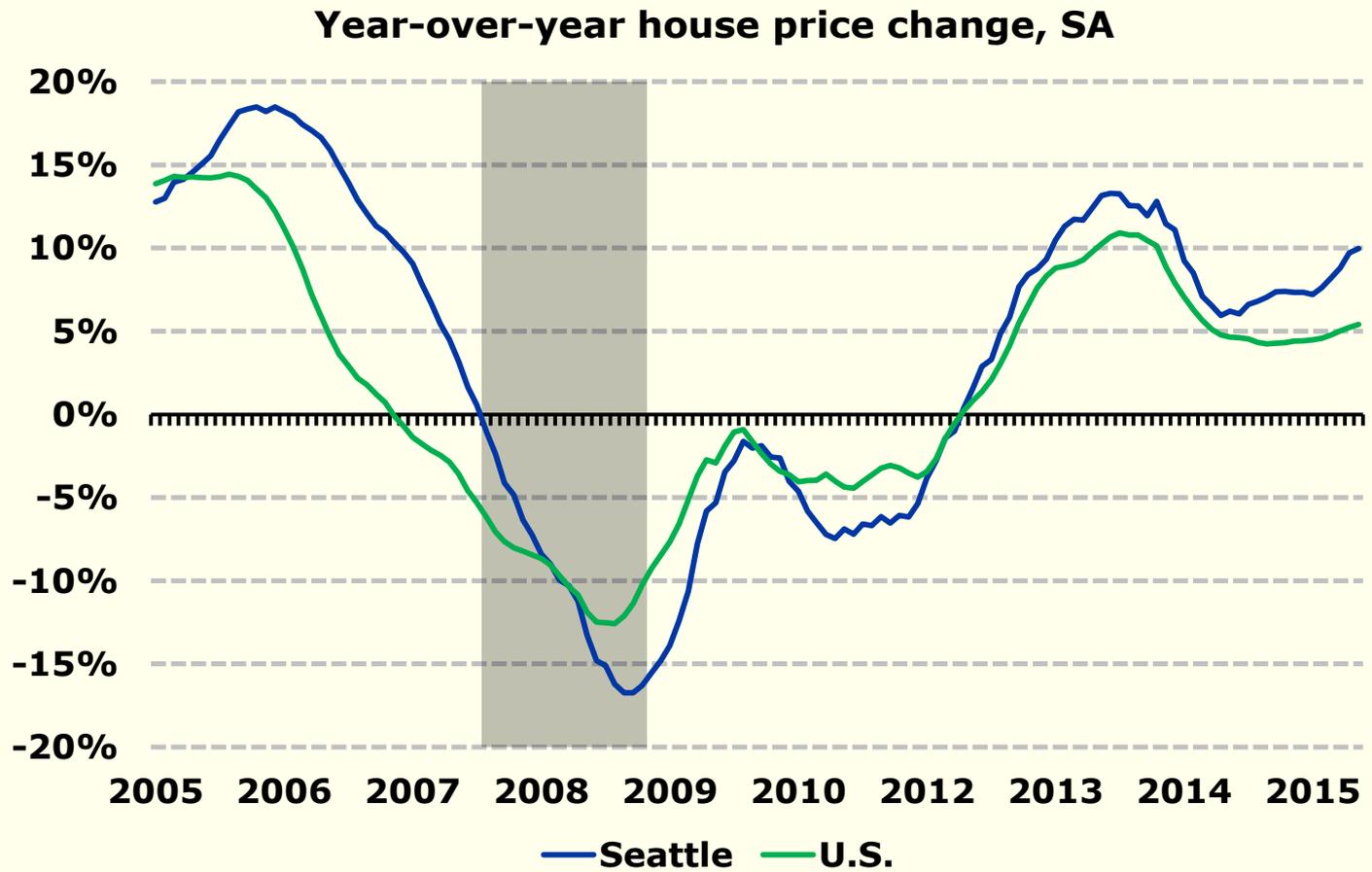


Source: U.S. Census Bureau, data through 2015 Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Seattle home prices have been rising faster than prices nationally



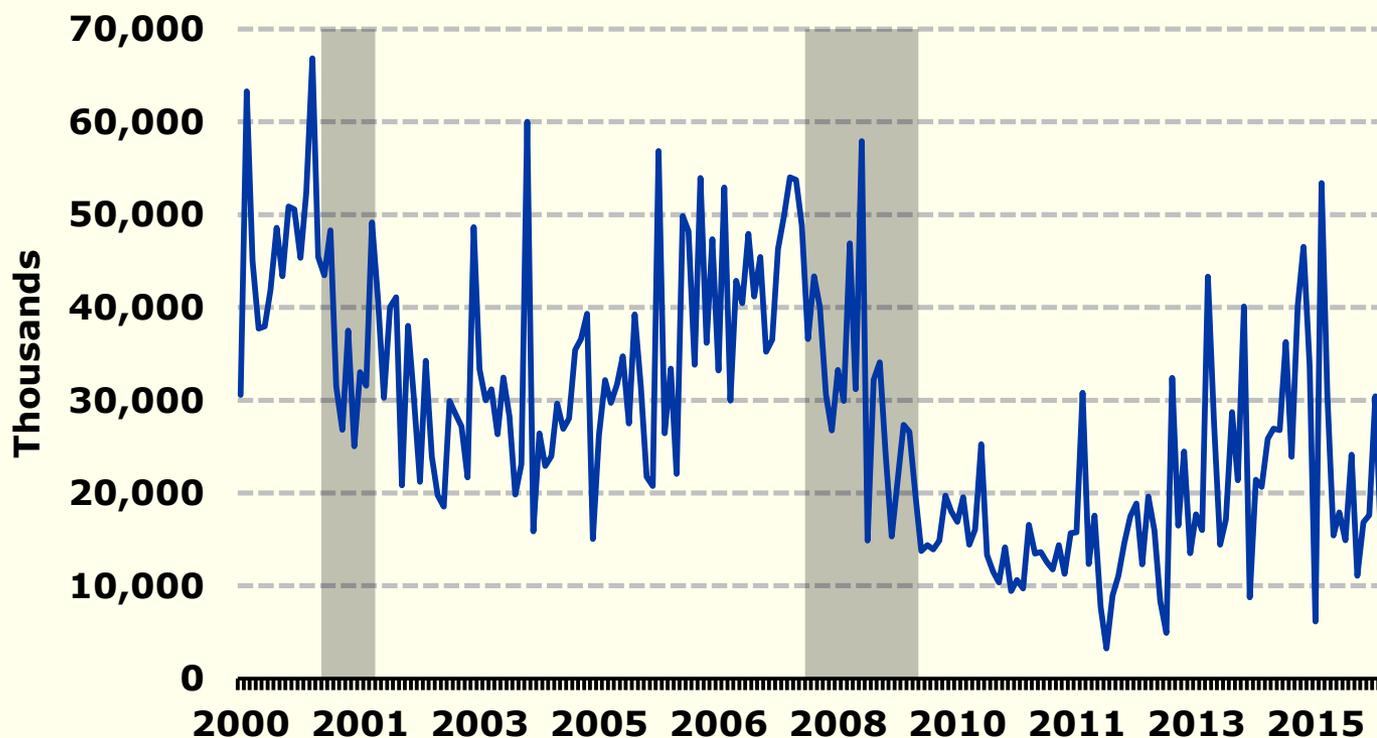
Source: S&P/Case-Shiller; data through Dec. 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Nonresidential construction activity appears to be slowing

Square feet under contract, WA nonresidential projects
(SAAR)

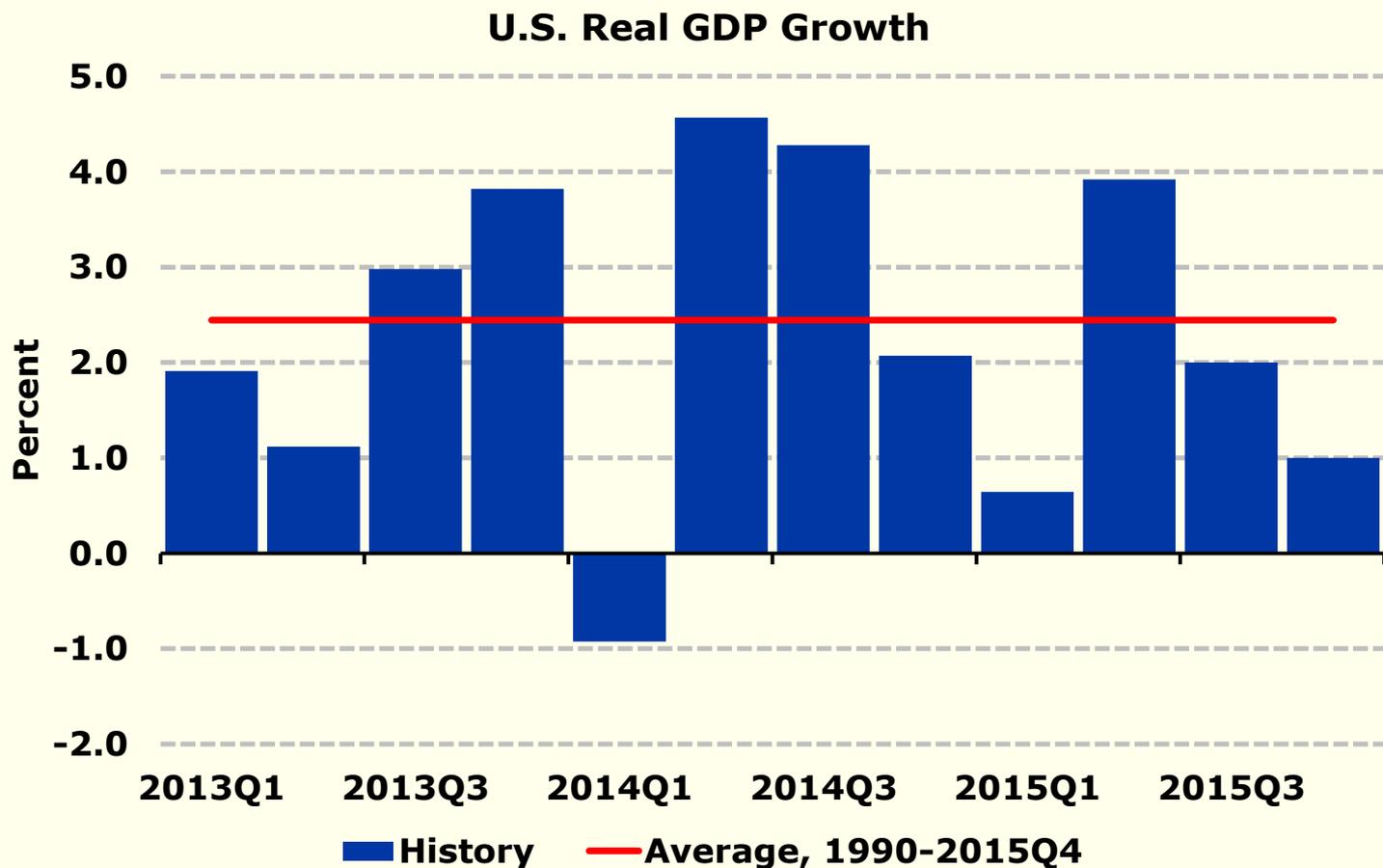


Source: Dodge Data & Analytics; data through Jan. 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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

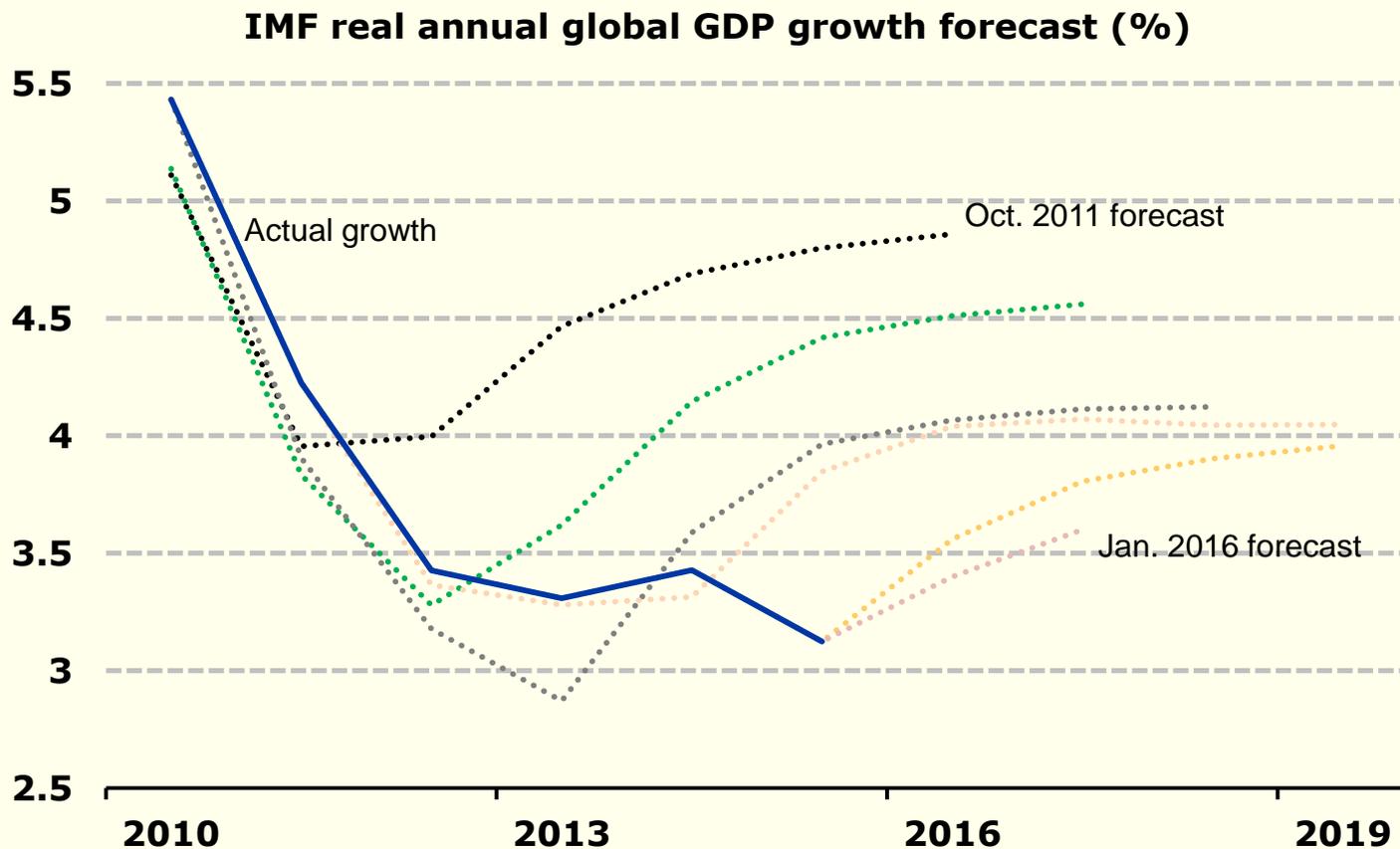


Source: U.S. Dept. of Commerce, BEA, data through 2015Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Global GDP forecasts have been consistently revised down

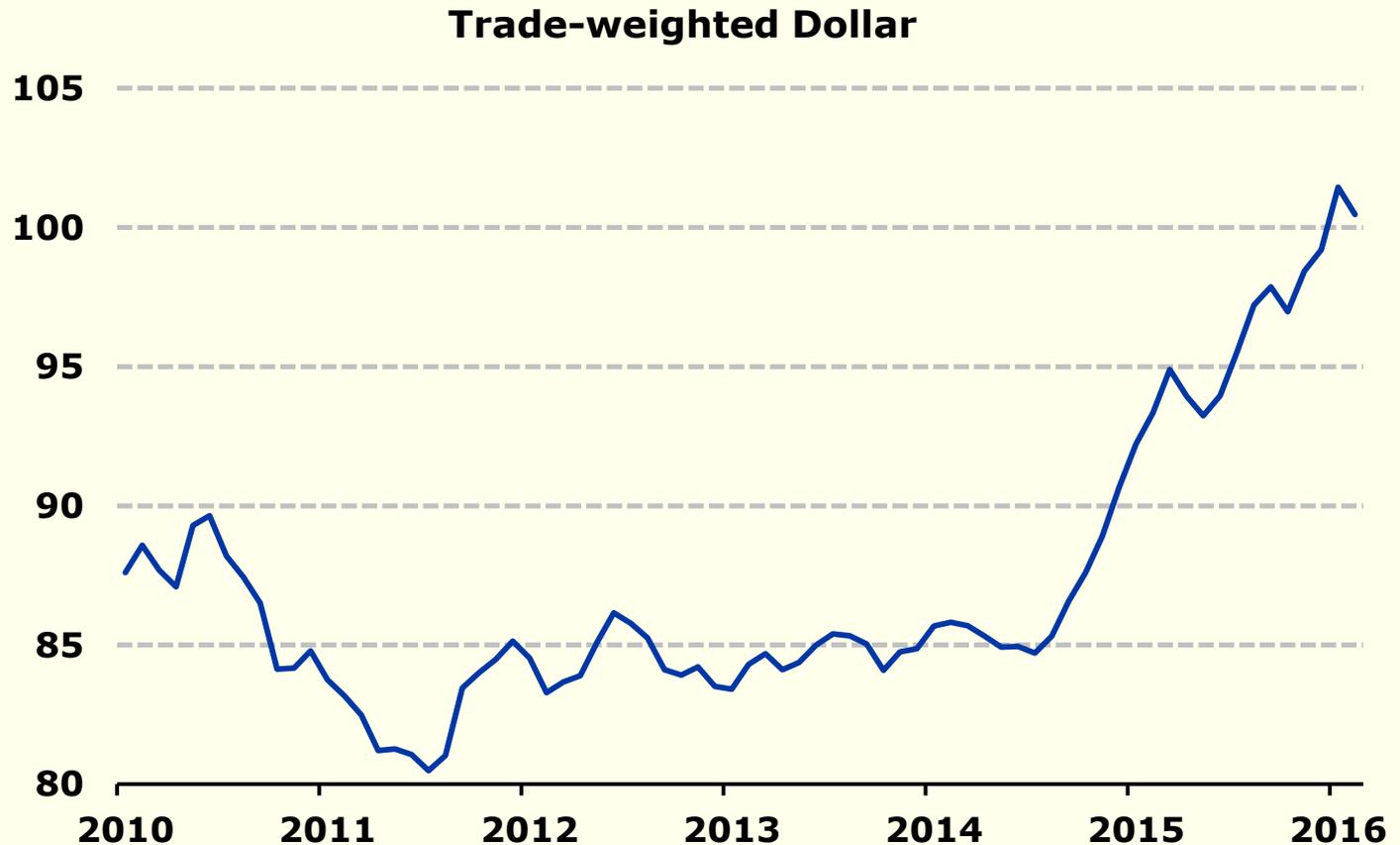


Source: International Monetary Fund, World Economic Outlook; historic data through 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The dollar has increased in value relative to currencies of U.S. trading partners



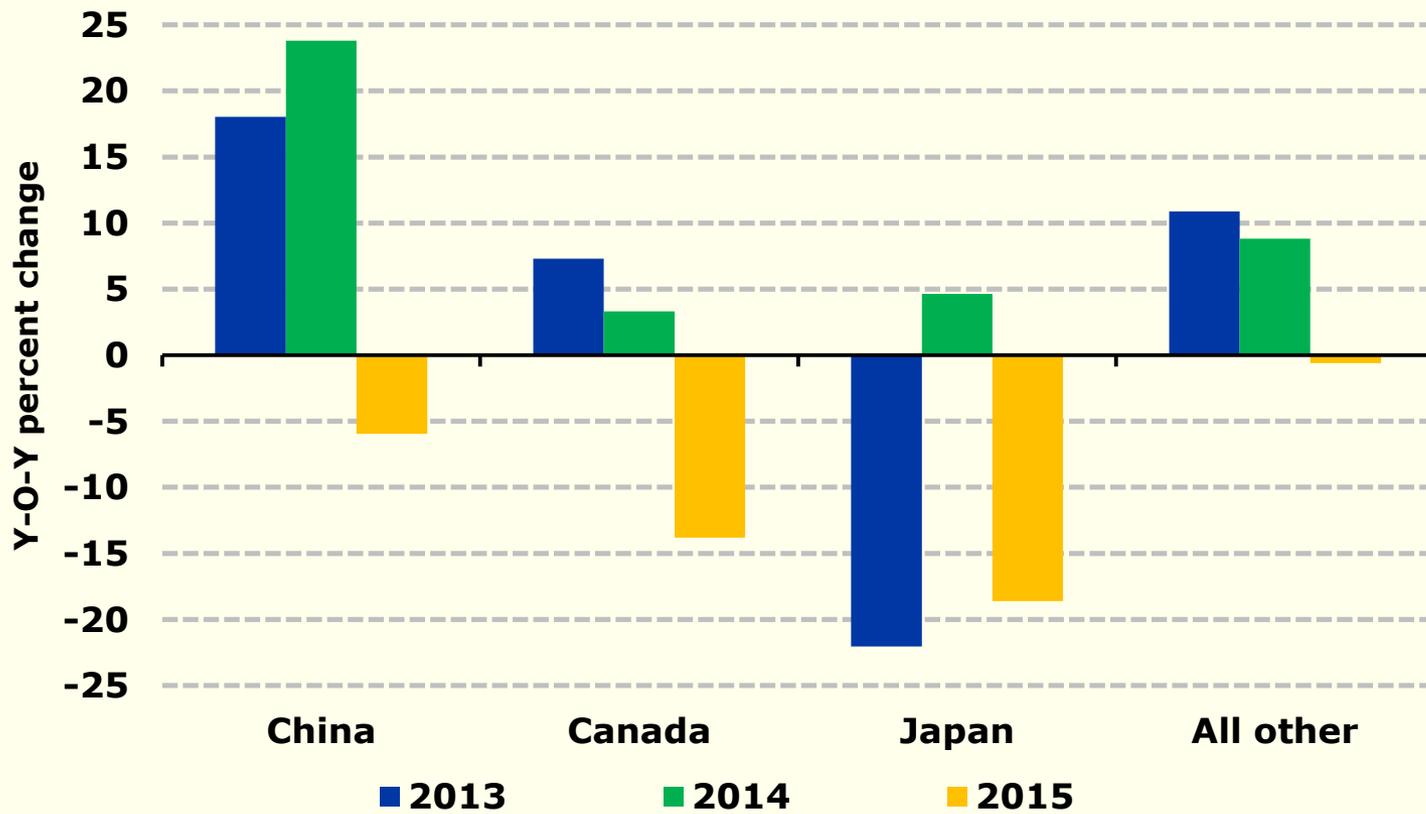
Source: Federal Reserve; data through February 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA exports in 2015 declined for the first time since 2009

Year-over-year growth in export value



Source: WISERTrade; data through December 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Growth in 2015 aerospace exports was offset by declines for most other industries

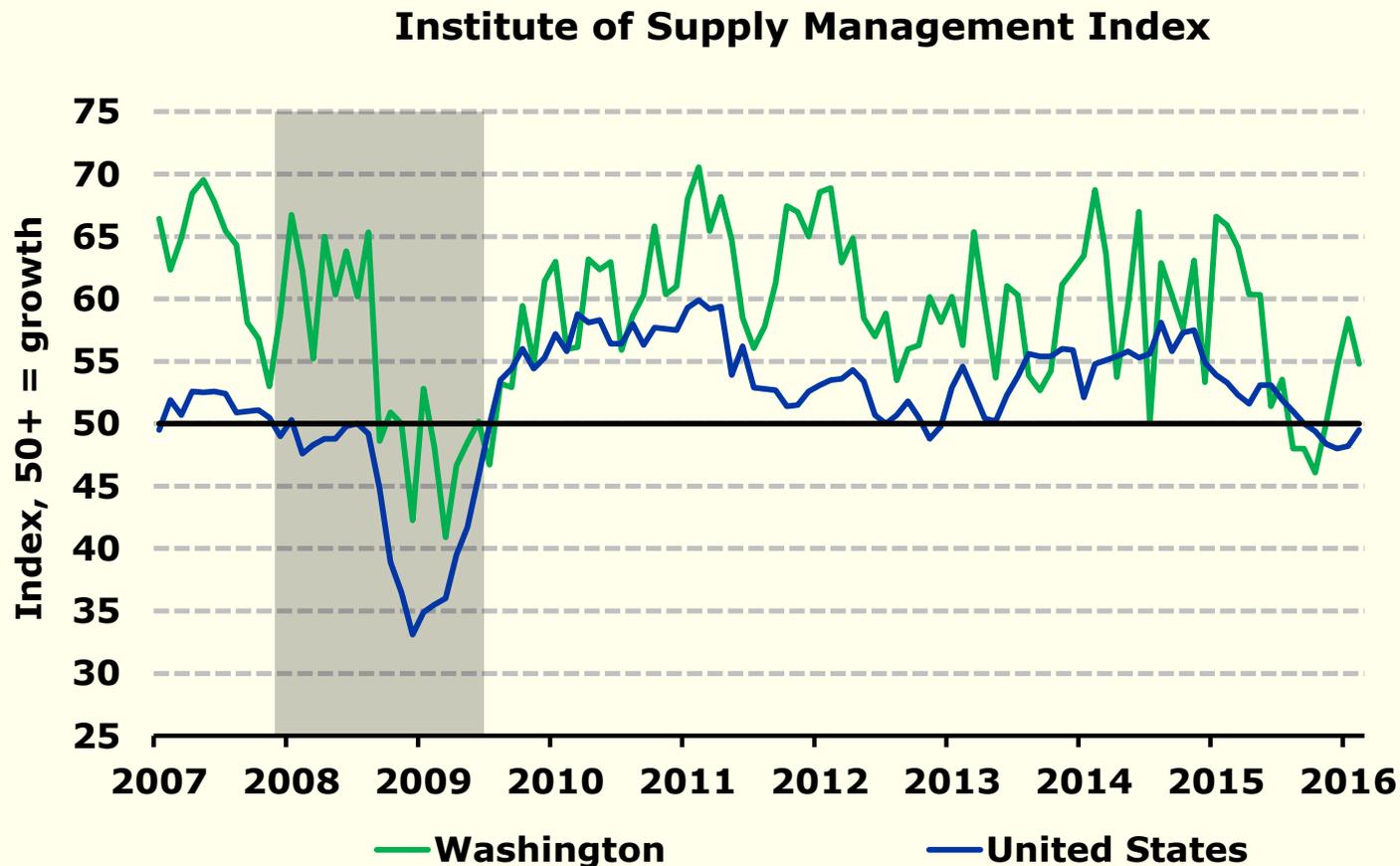


Source: WISERTrade, data through 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Manufacturing: slowing nationally, improving in Washington

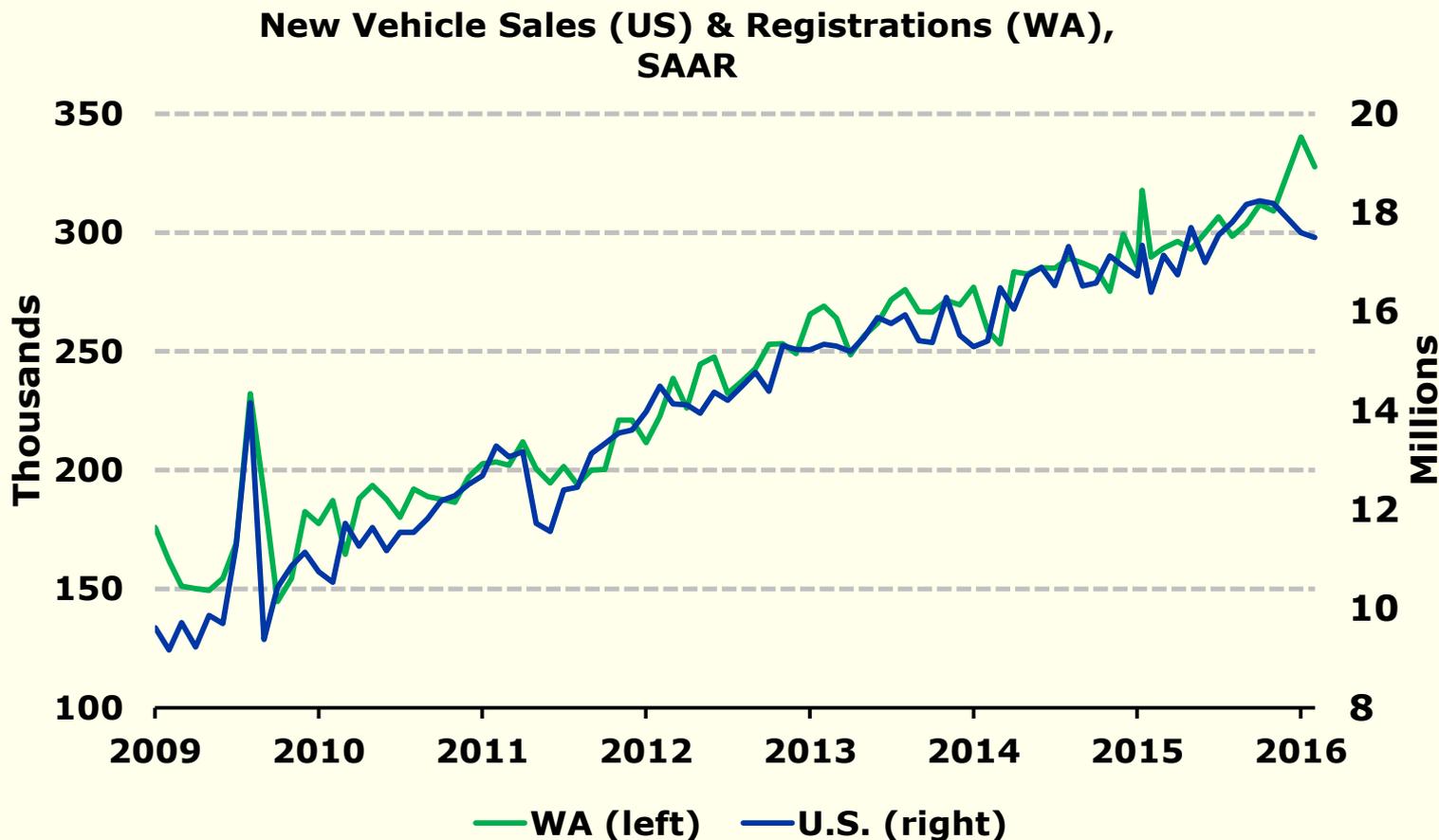


Source: ISM; data through Feb. 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



New vehicle sales remain strong; WA had record new car registrations in January



Source: Dept. of Licensing, ERFC, MotorIntelligence.com; data through February 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

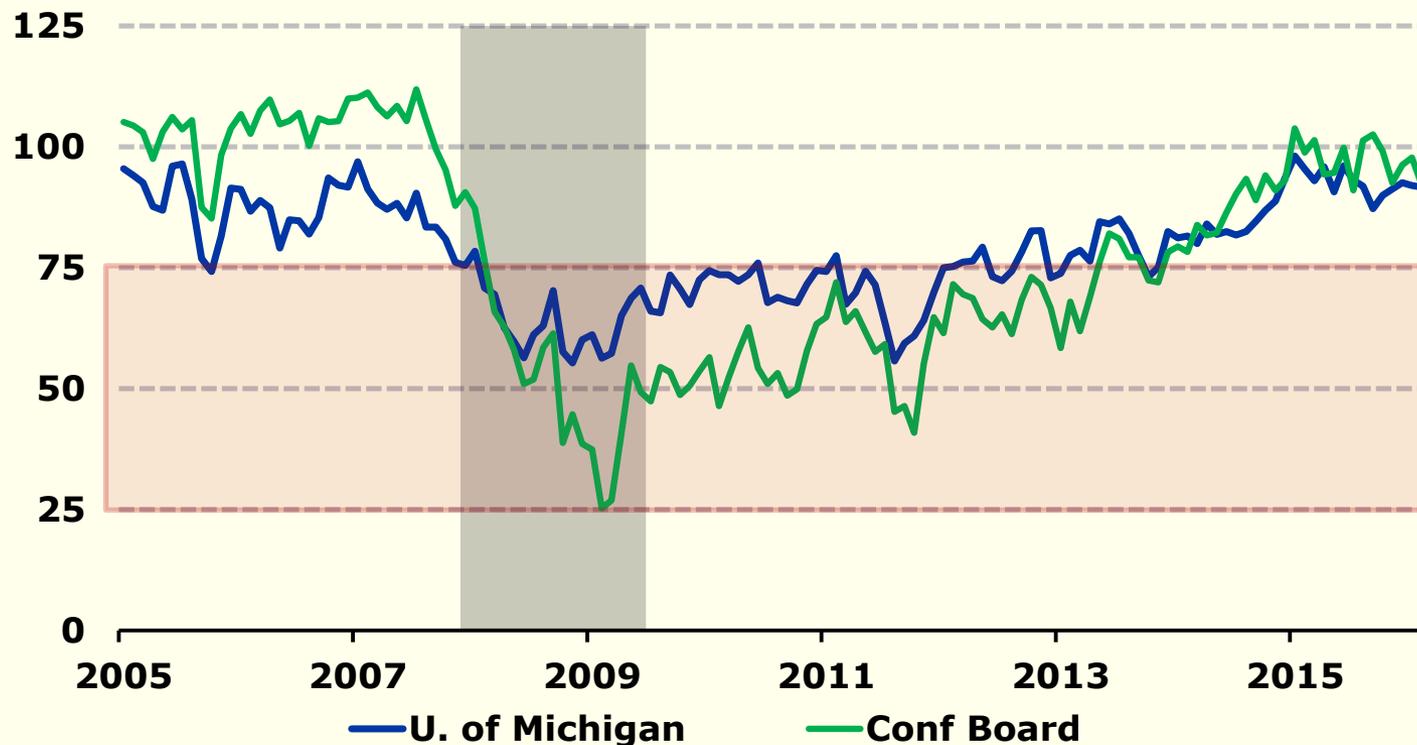


Conference Board, U. of Michigan indexes both down in February

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

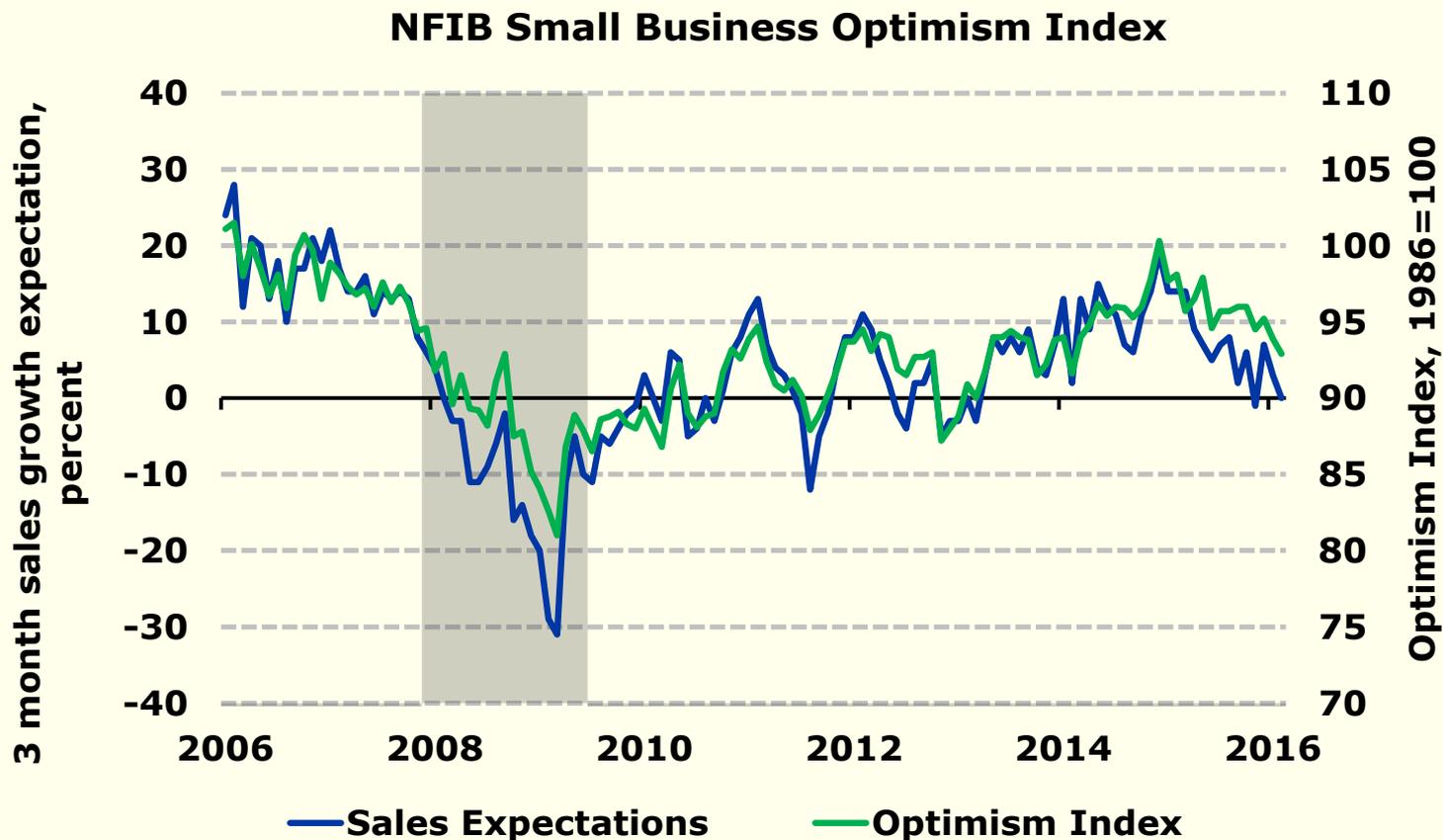


Sources: University of Michigan, Conference Board; data through February 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Small business optimism and sales expectations weakened in 2015

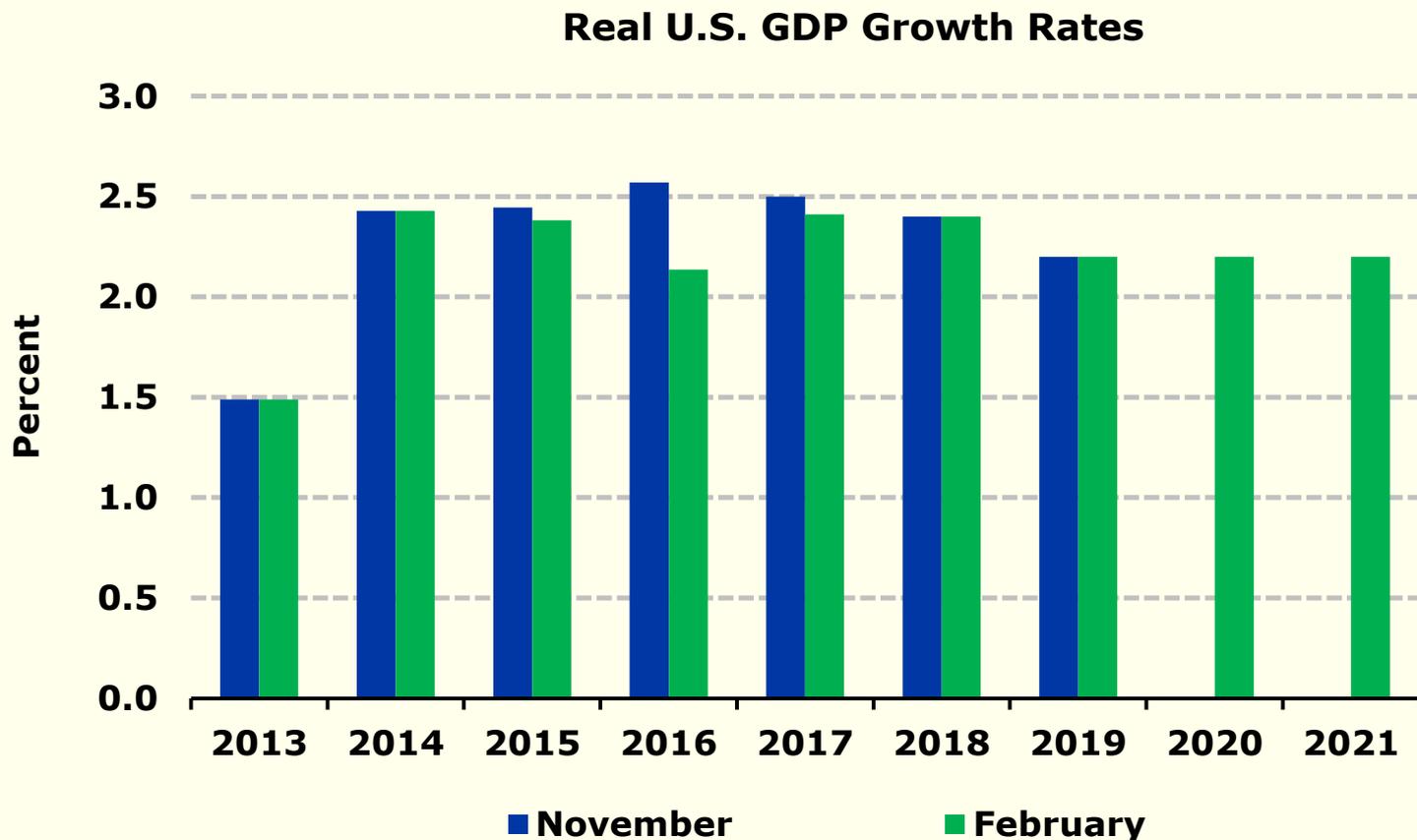


Source: National Federation of Independent Business; data through February 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast

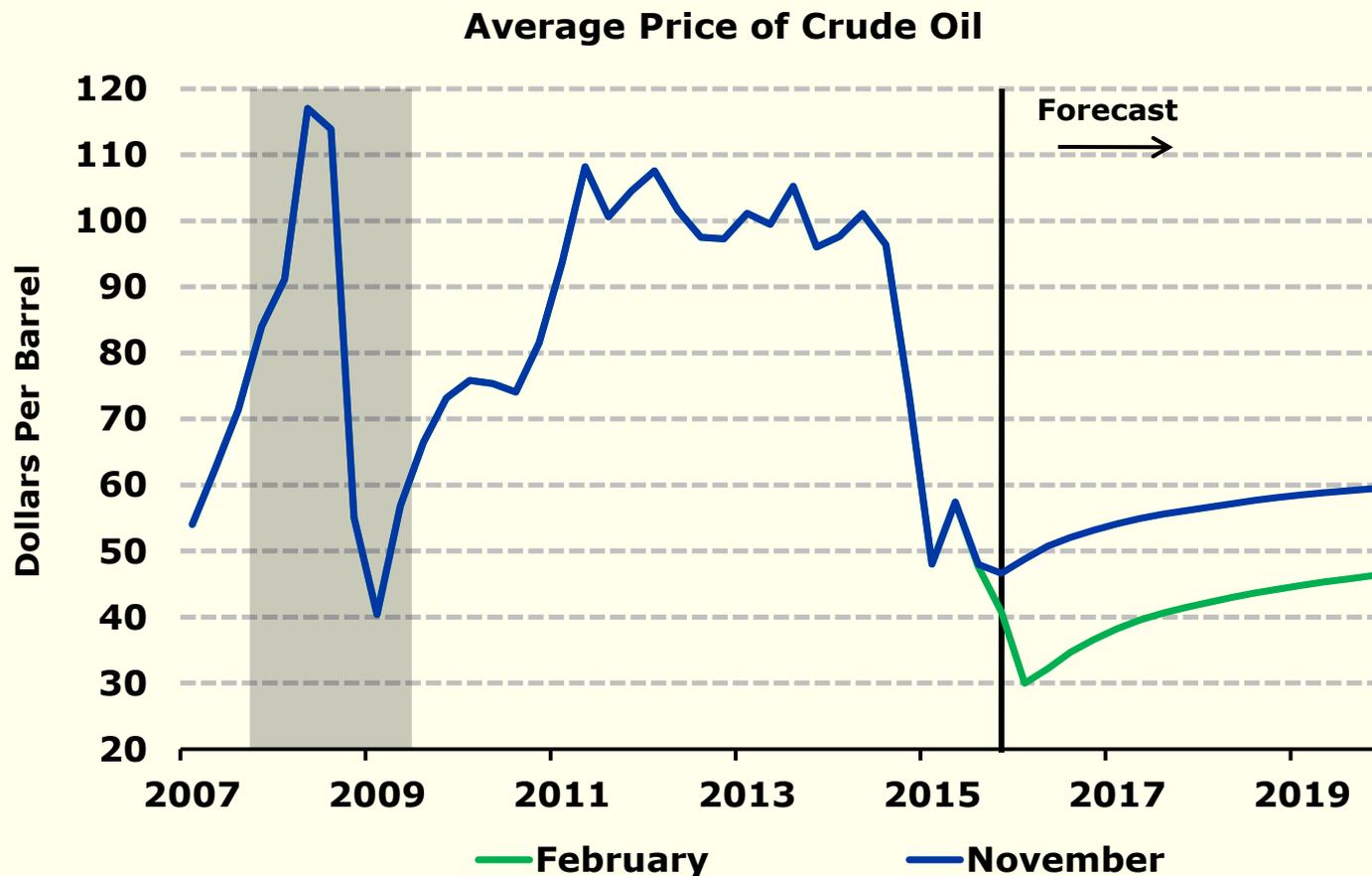


Source: ERFC February 2016 forecast; historical data through 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Oil prices have fallen since the November forecast

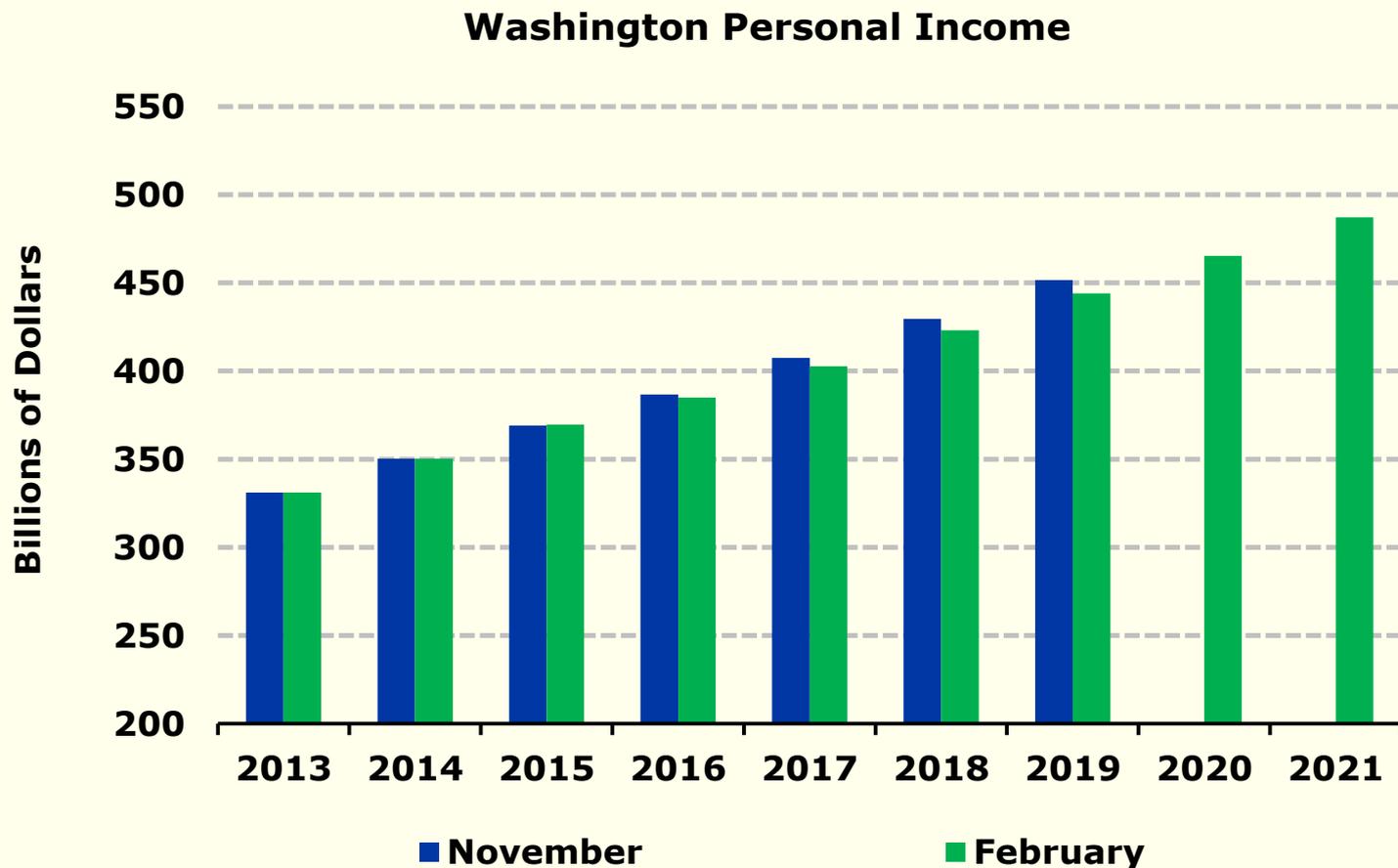


Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington personal income is lower in 2016 – 2019 compared to the November forecast

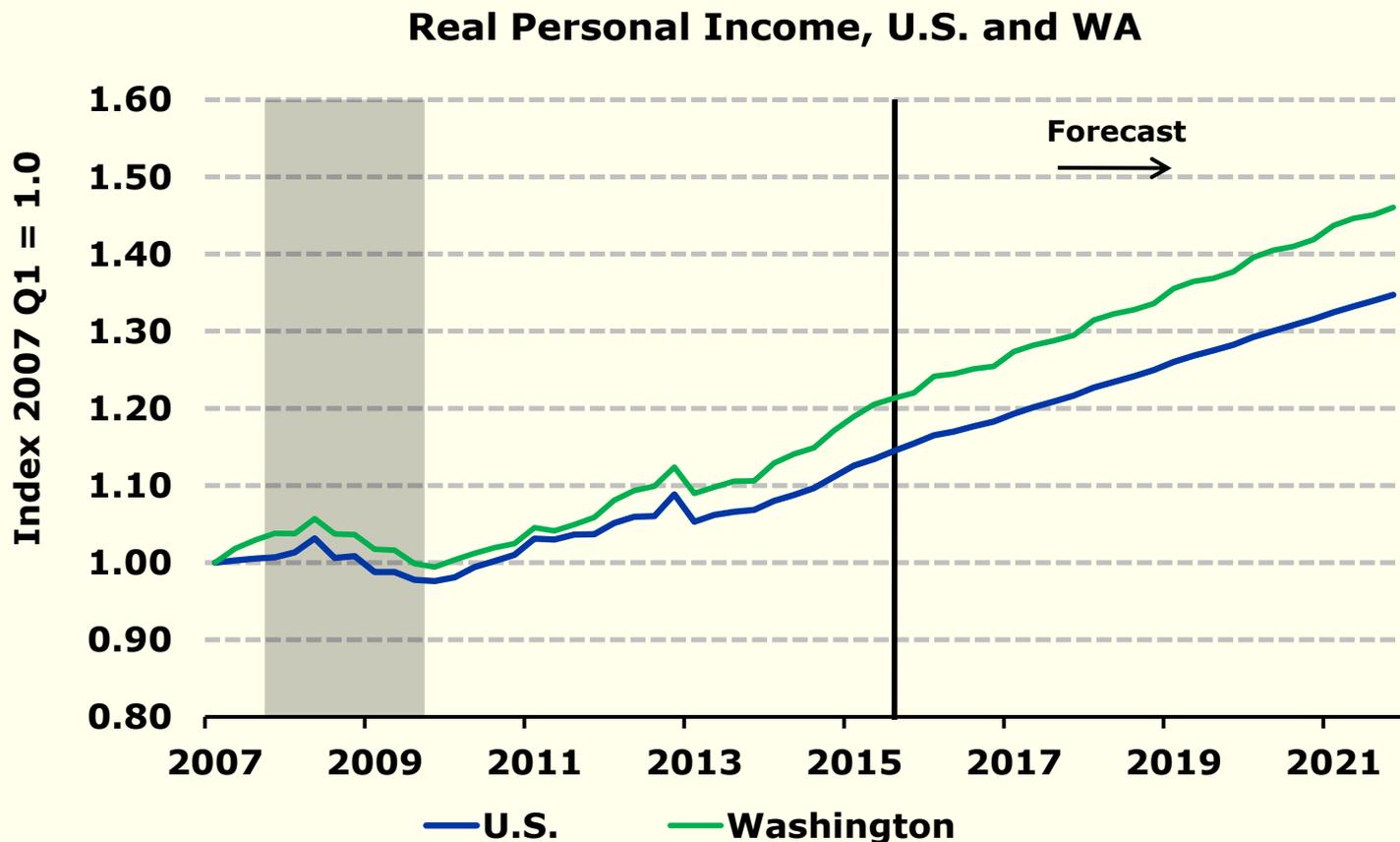


Source: ERFC February 2016 forecast; historical data through 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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



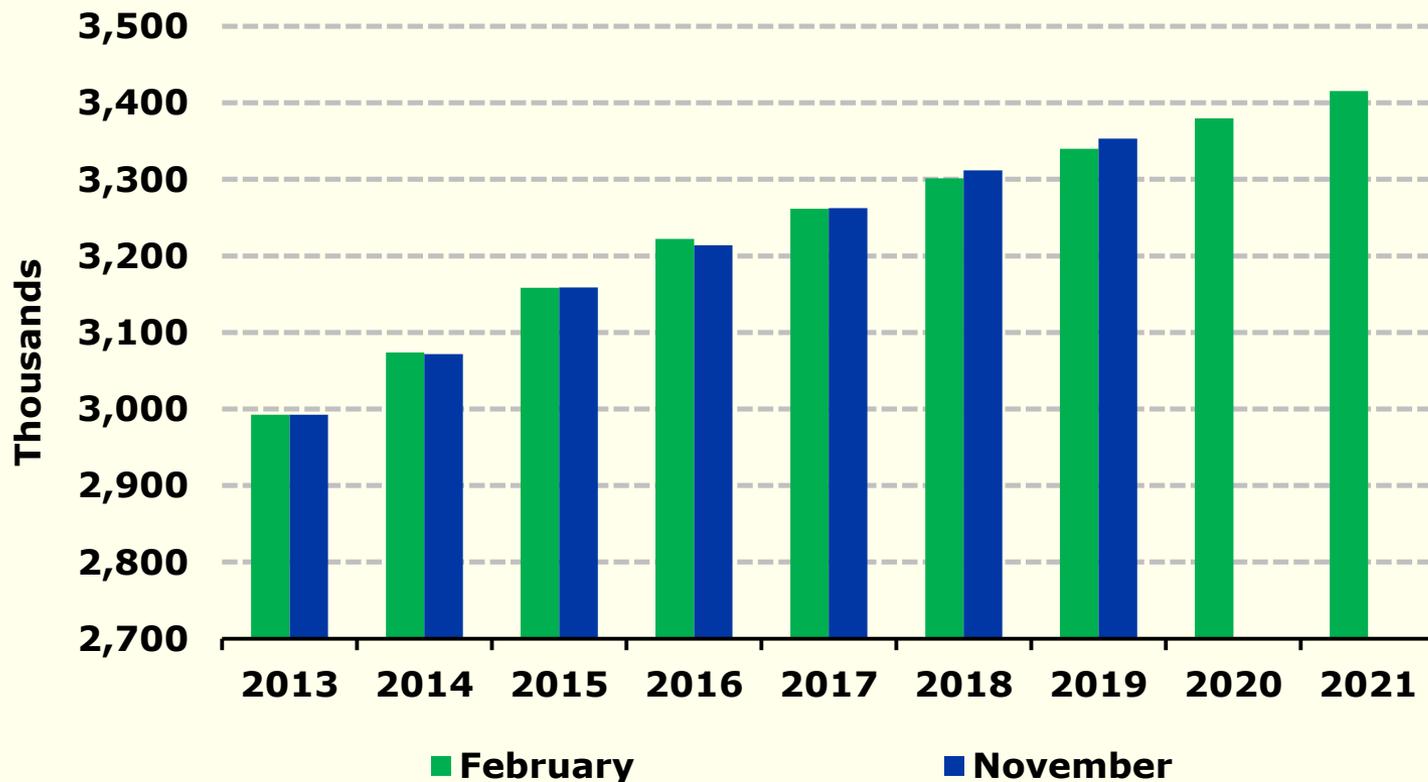
Source: ERFC February 2016 forecast; historical data through 2015Q3

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington employment forecast revised down slightly in 2017 - 2019

Washington Nonfarm Payroll Employment



Source: ERFC February 2016 forecast; historical data through 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington Employment Trends

Washington has gained 378,000 nonfarm jobs since February 2010

Employment Change since Trough (thousands)



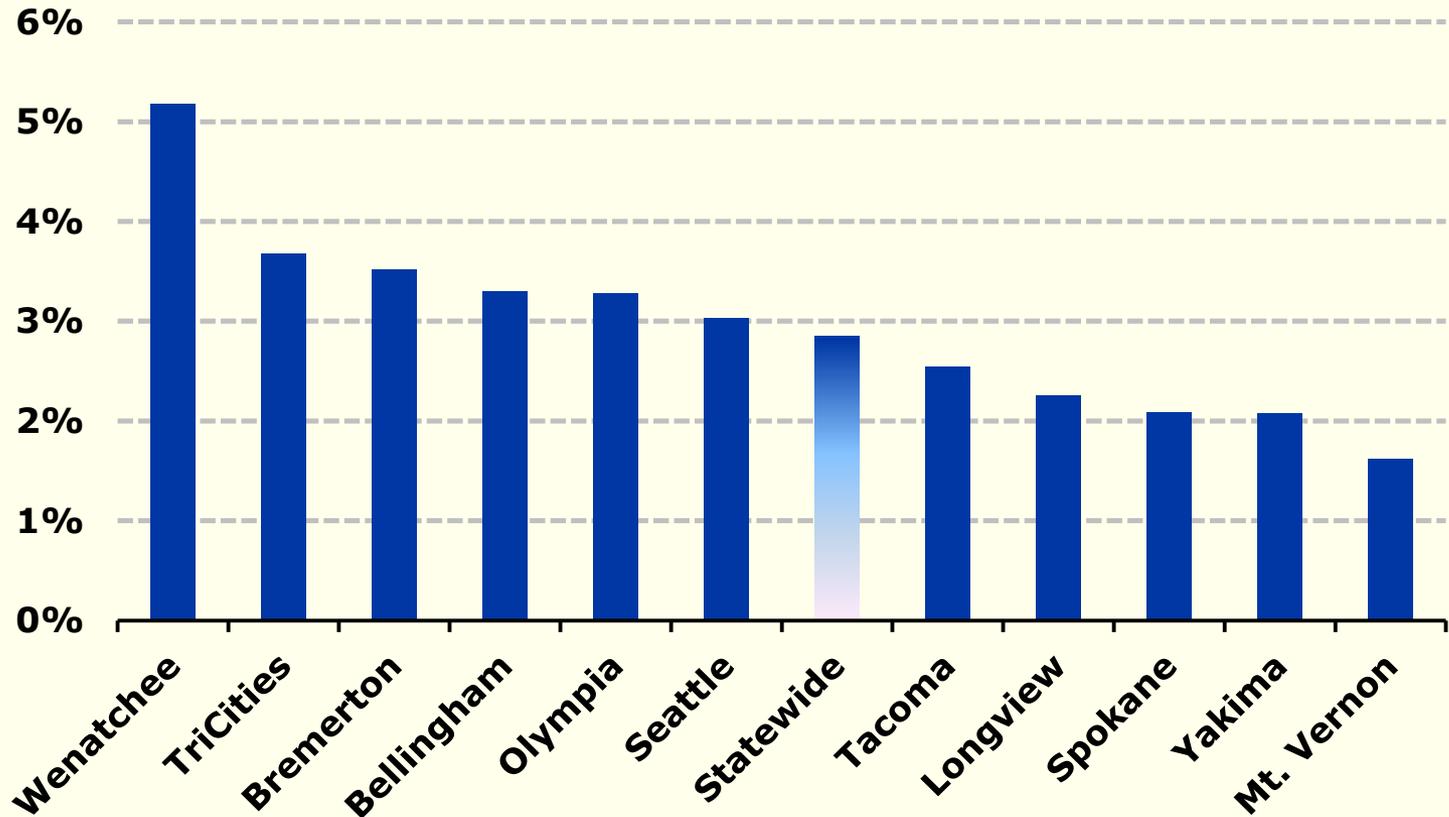
Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through Jan. 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Employment growth varied widely across state metro areas

2015 employment growth by metro area

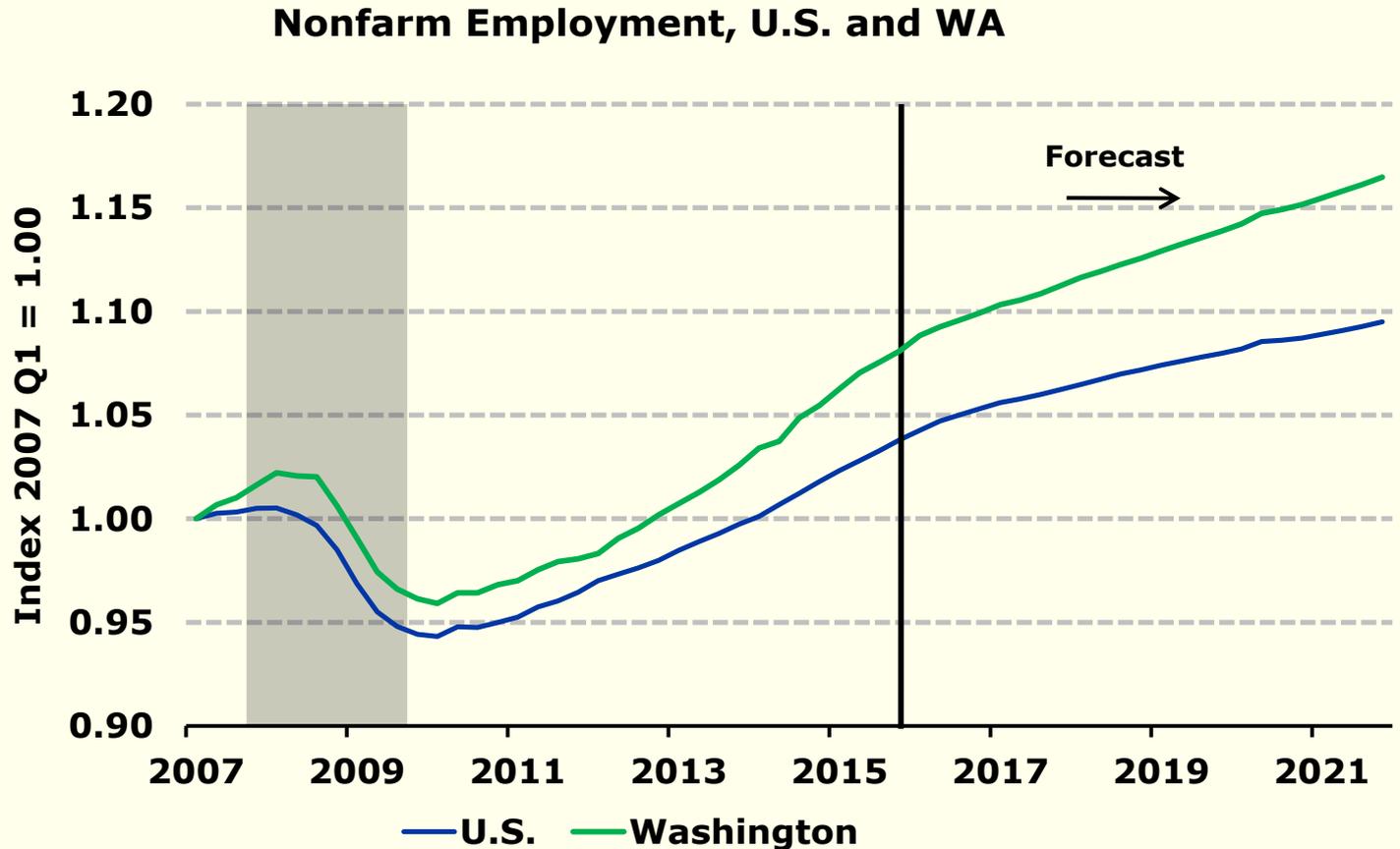


Source: WA State Employment Security Department

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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

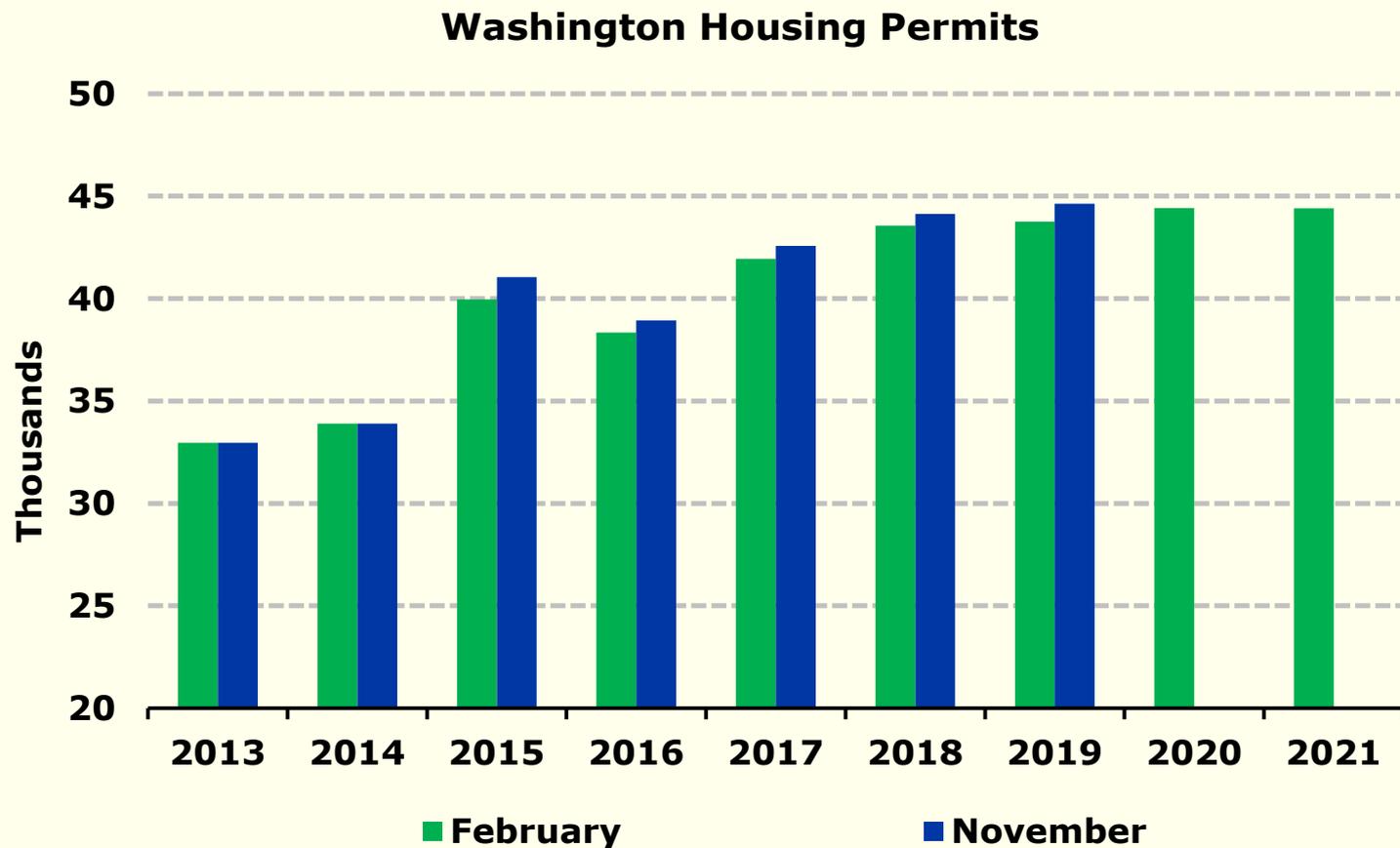


Source: ERFC February 2016 forecast; historical data through 2015Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington housing permits forecast is slightly lower than in November

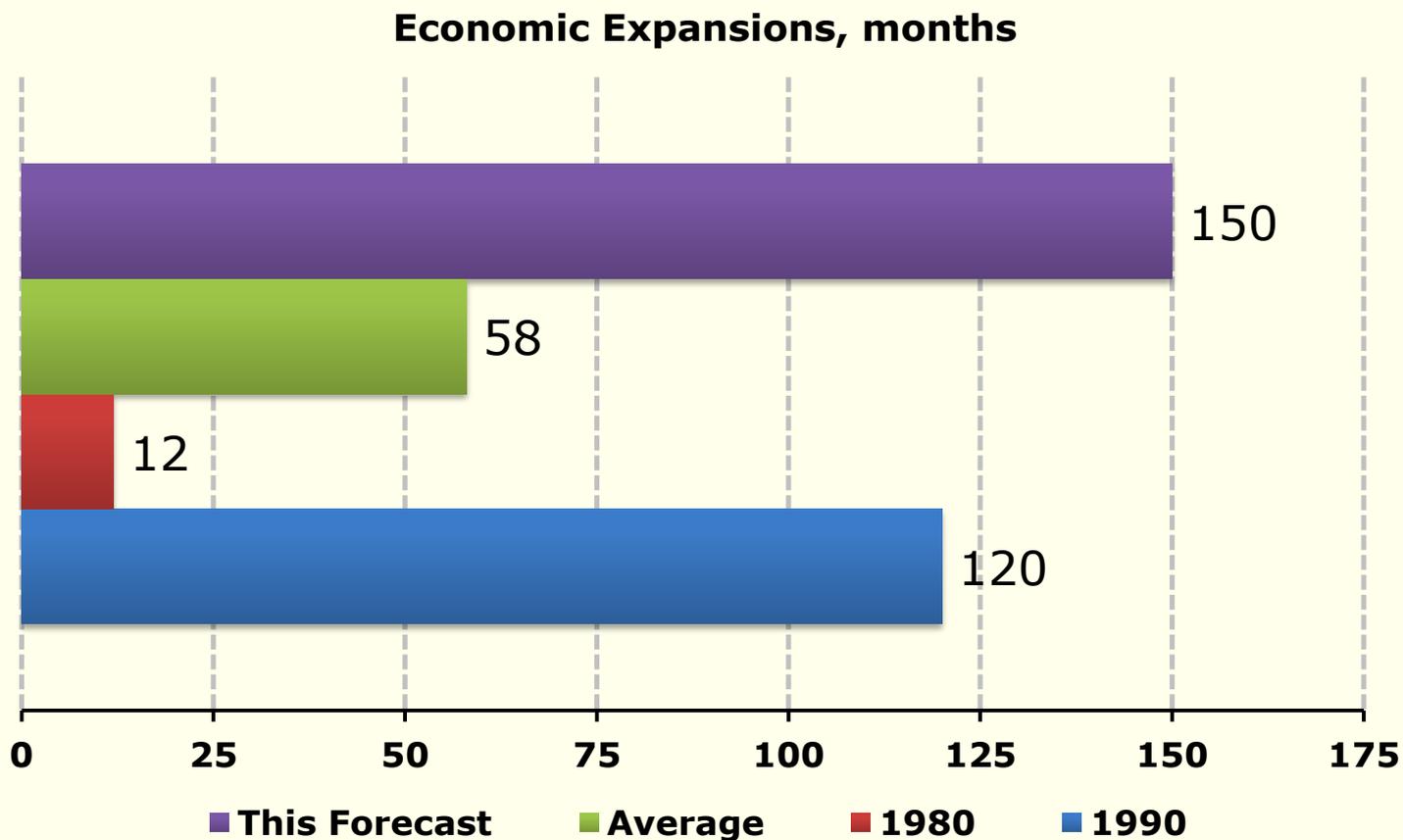


Source: ERFC February 2016 forecast; historical data through 2014

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



U.S. Economic Expansions since 1945



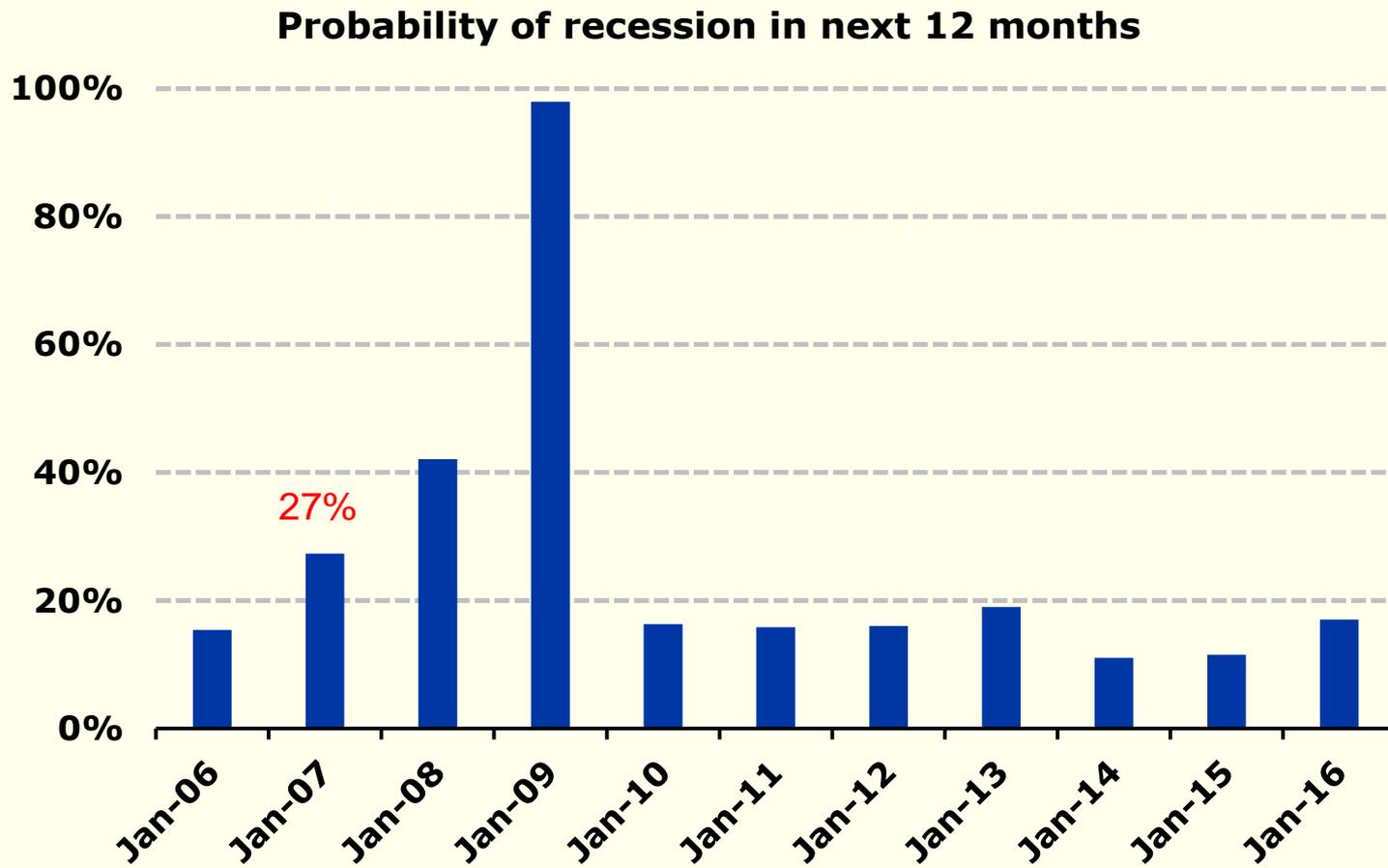
Sources: NBER, ERFC February 2016 Preliminary forecast

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Wall Street Journal survey shows low but rising probability of recession

Feb. 2012
WSJ survey
places
probability at
21%



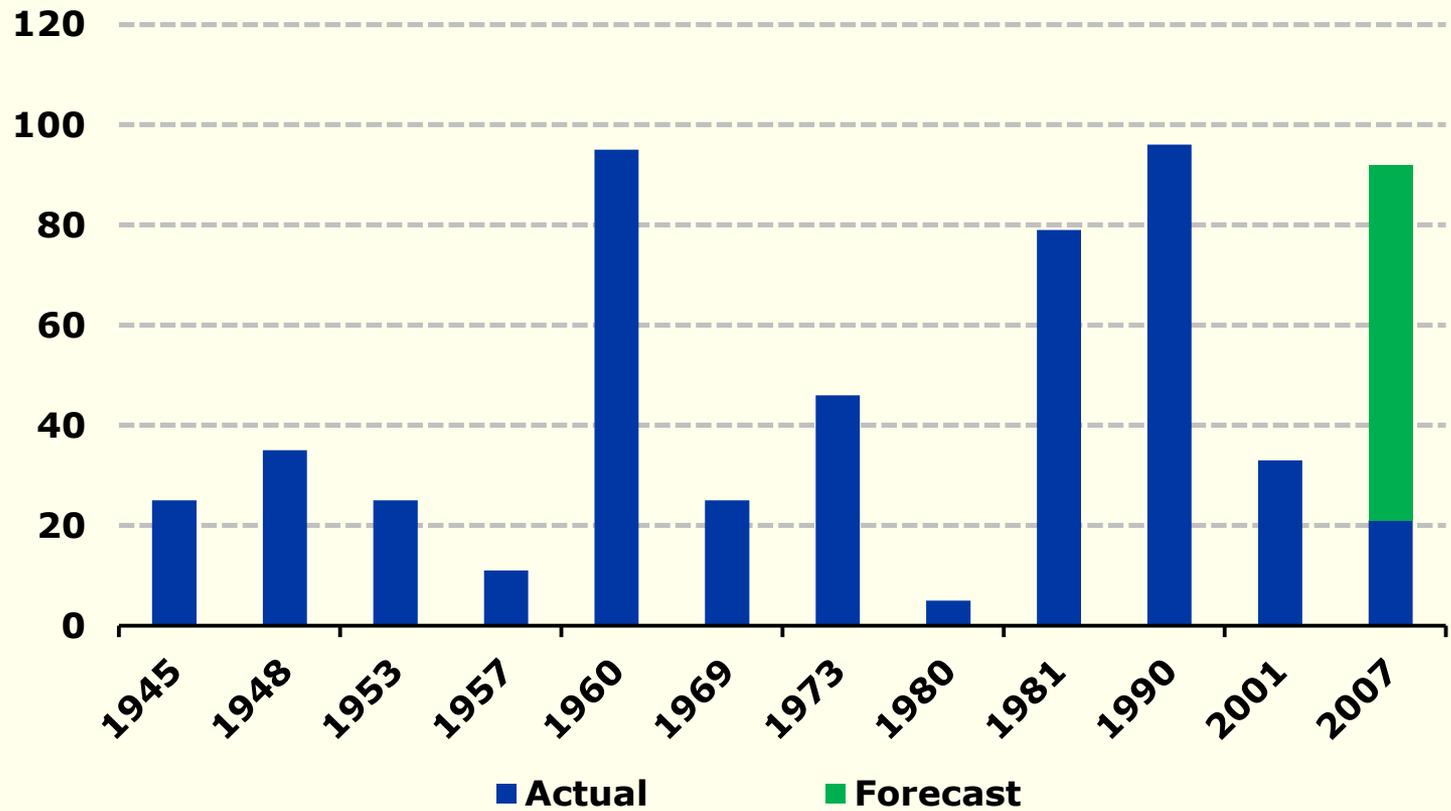
Source: Wall Street Journal Economic Forecasting Survey

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment

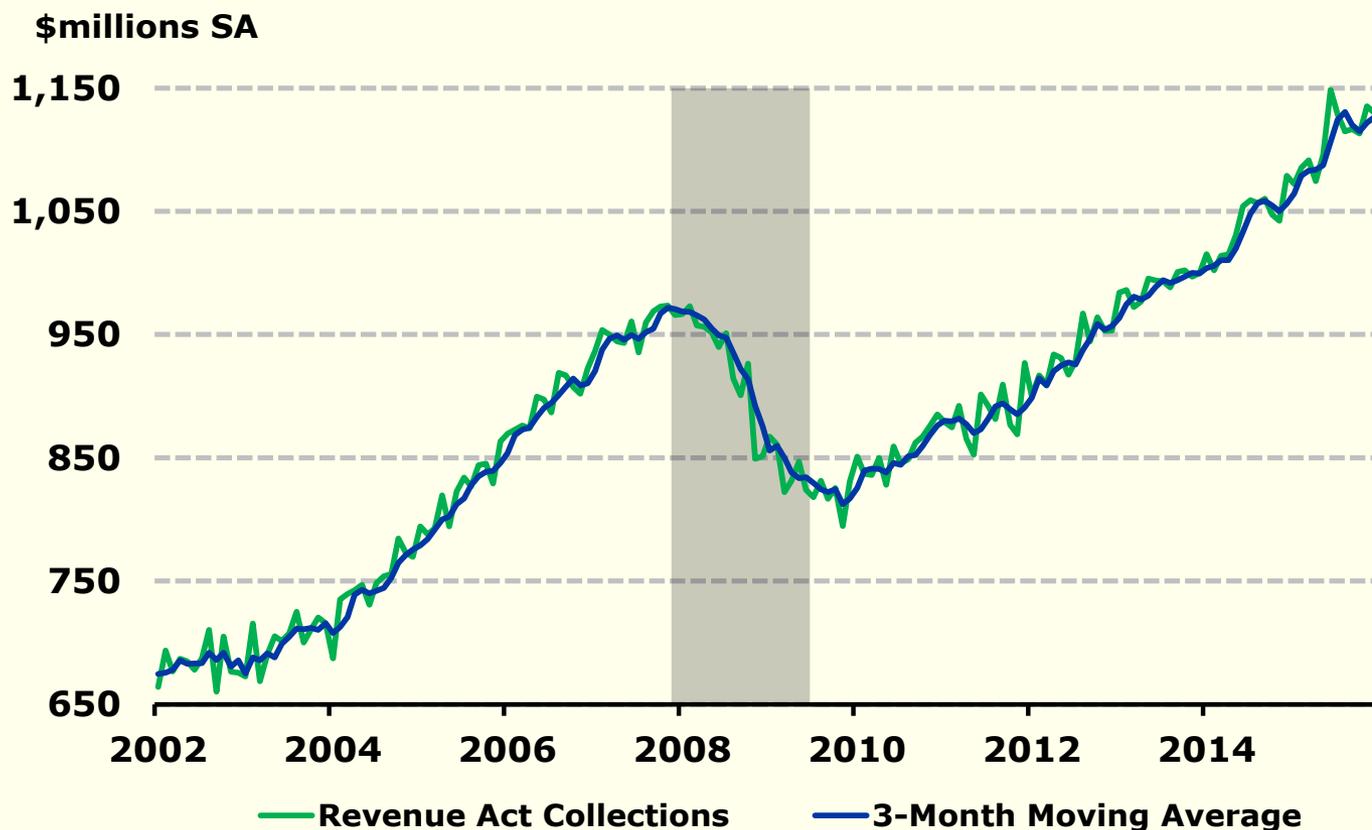


Sources: NBER, ERFC February 2016 forecast

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue Act collections close to previous 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 December 2015 activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Large commercial property sales have had major impact on REET collections

Residential taxable activity and smaller commercial sales grew rapidly for the first 3 quarters of 2015 but declined in the 4th quarter.

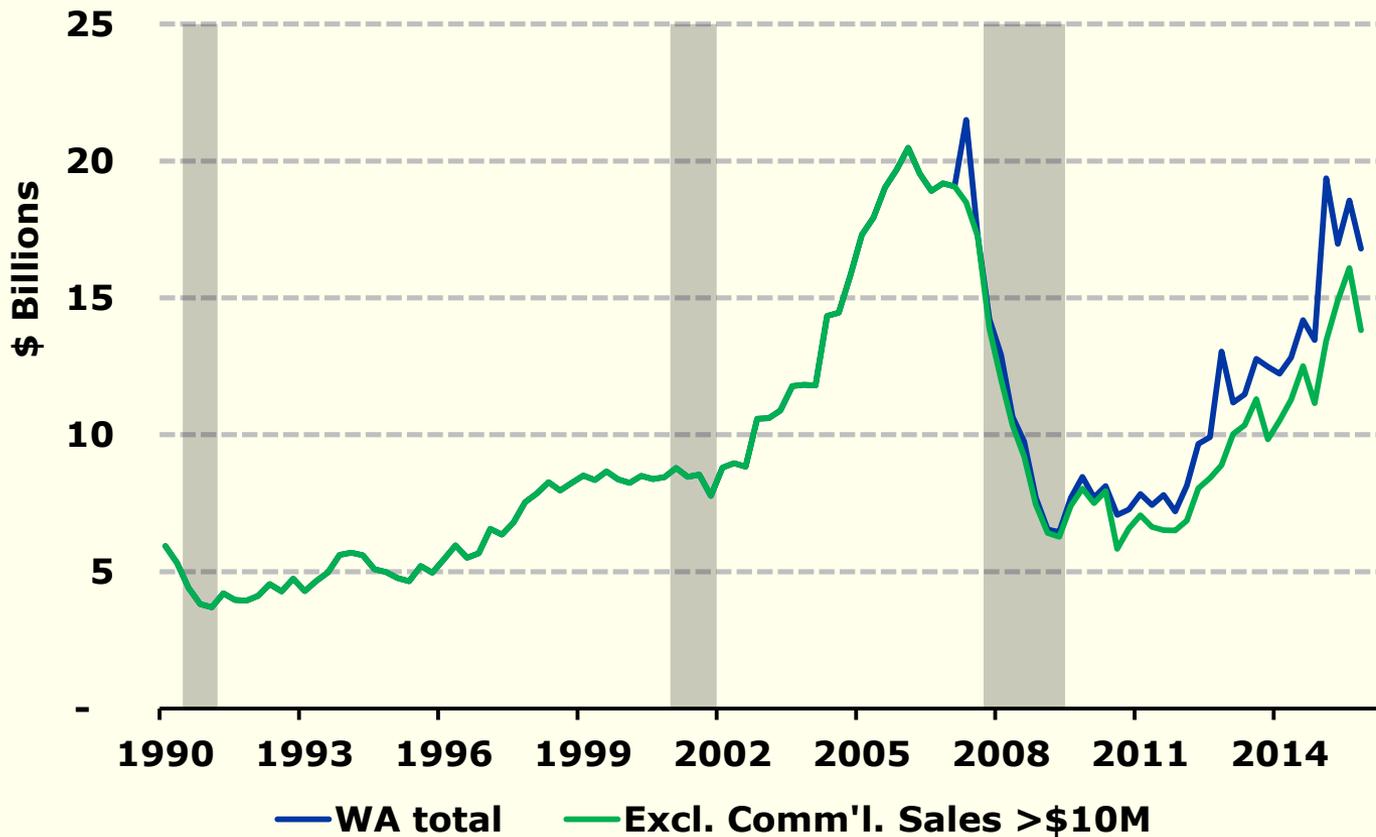
Large commercial property sales are expected to decrease from the elevated levels of the past few years.

Credit Union
Executive Forum

March 23, 2016

Slide 33

Taxable real estate sales, SA



Source: ERFC, data through 2015 Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



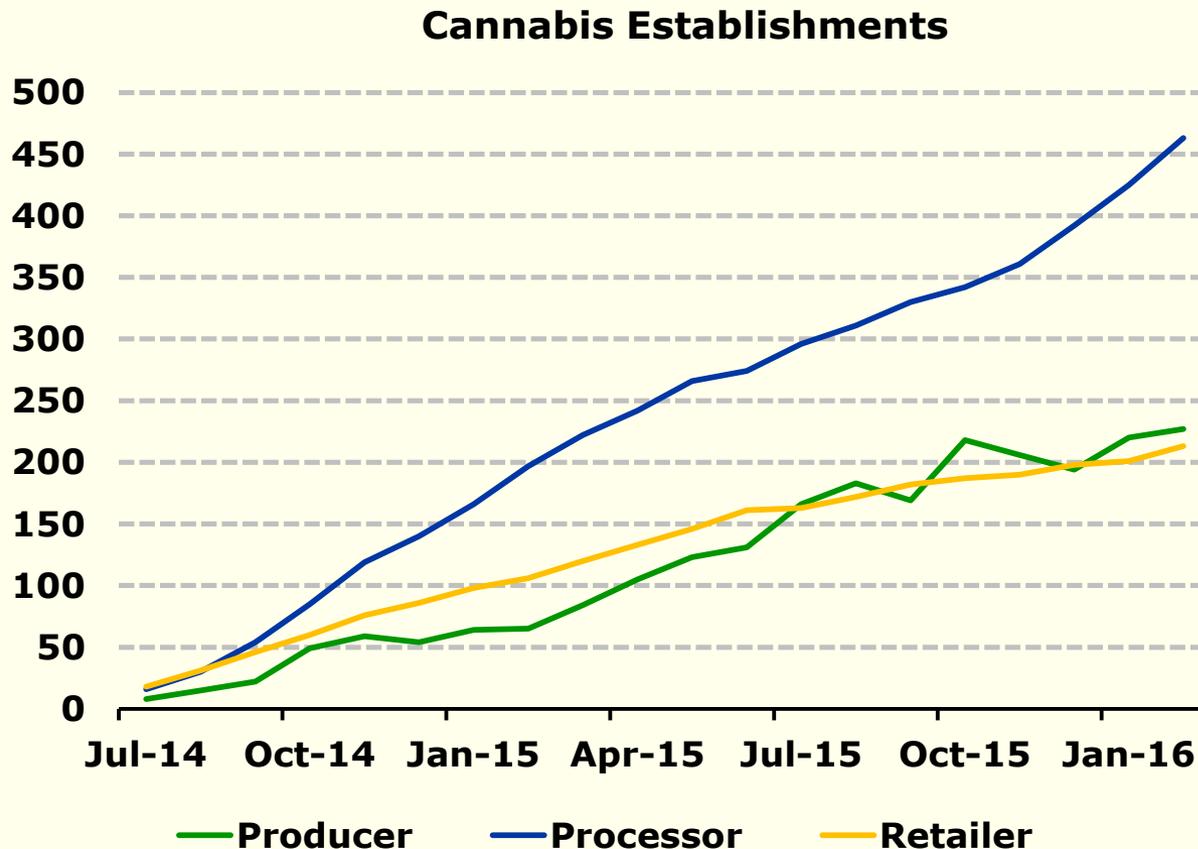
The number of cannabis establishments continues to grow

Annual Growth in Establishments:

Producer
65 to 227

Processor
197 to 463

Retail
106 to 213



Source: LCB, ERFC; data through February 2016

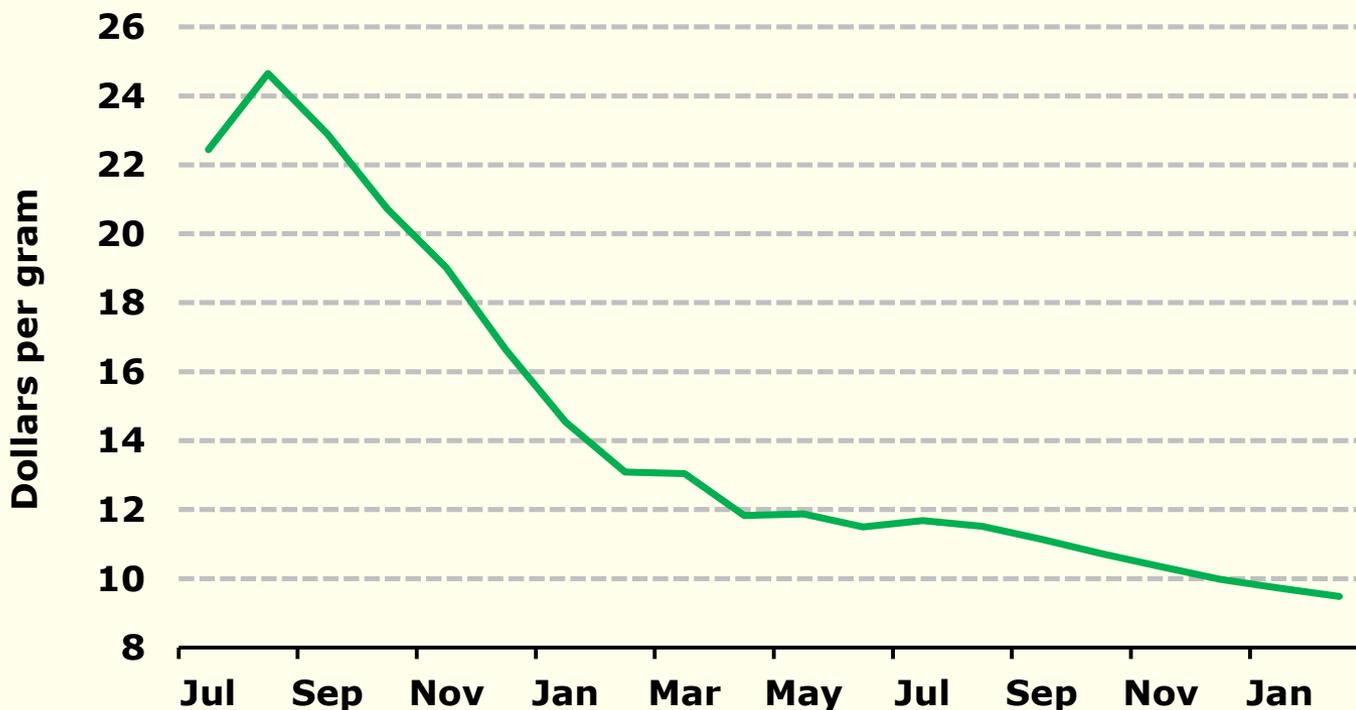
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The price of cannabis has plummeted

Black market prices average \$6.65 to \$8.21 per gram

Price of Recreational Cannabis Sold at Retail Stores



Source: LCB, ERFC; data through February 2016

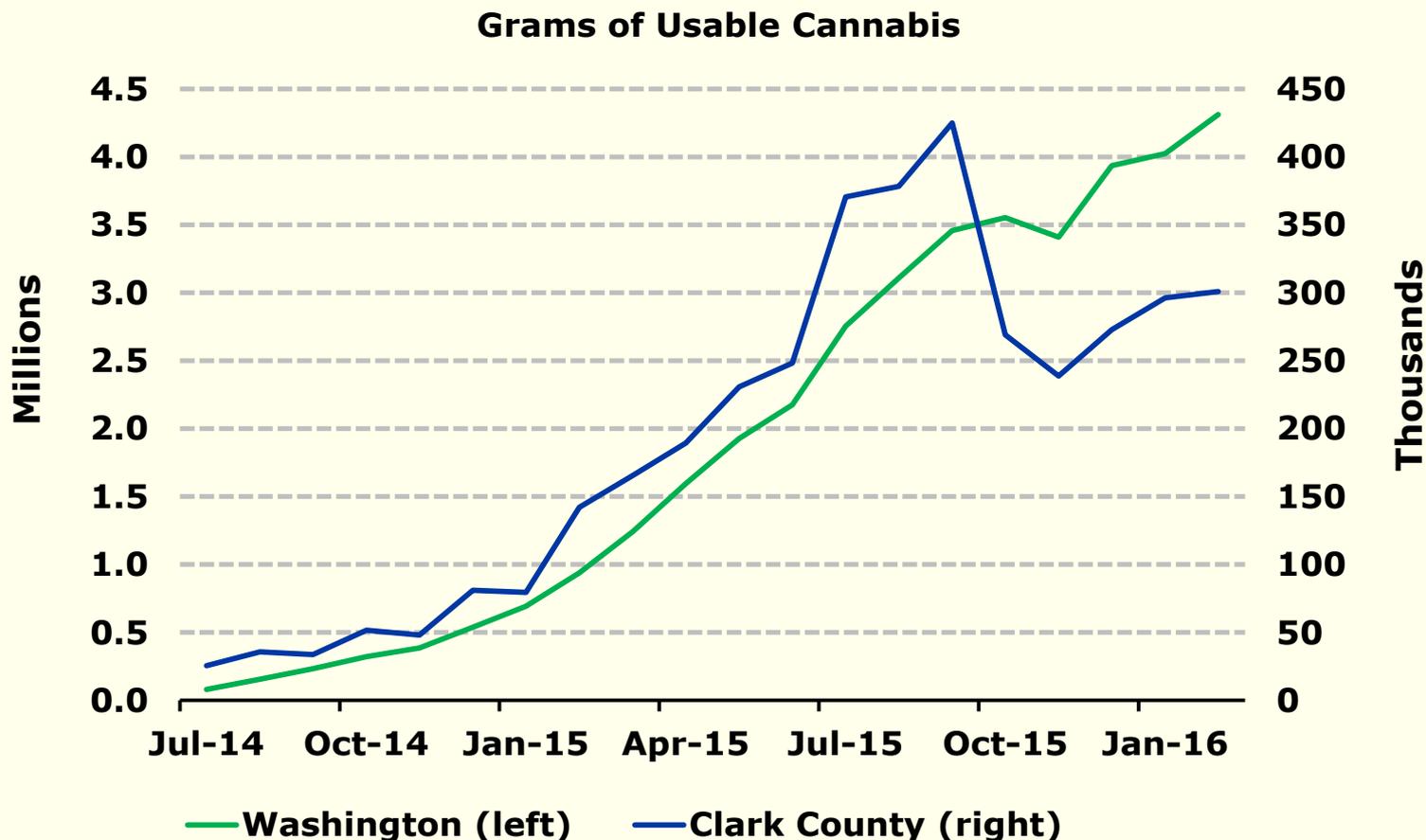
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



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% of total sales by quantity.

In February, Clark County accounted for 7% of total sales by quantity.



Source: WA LCB; data through February 2016

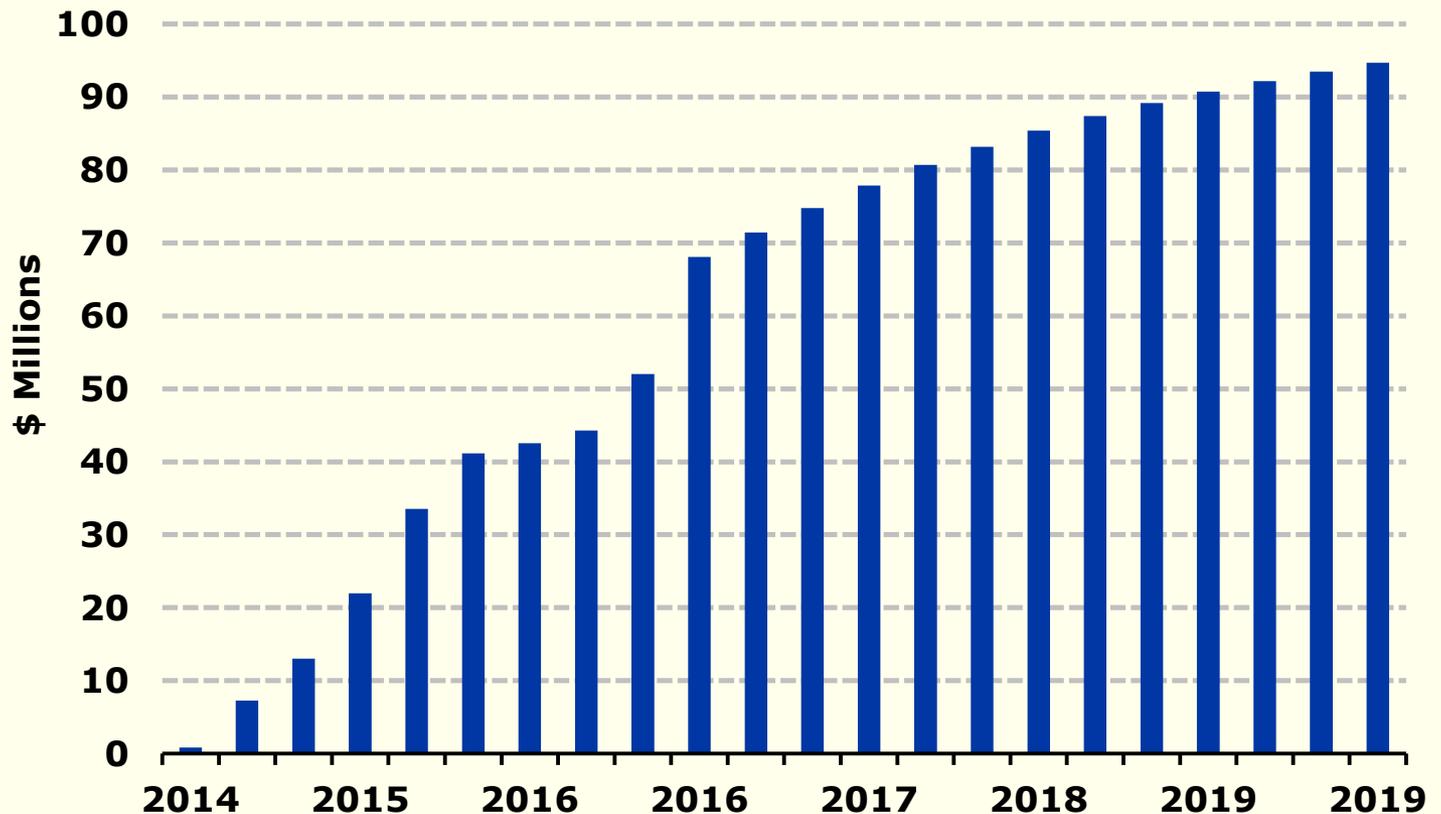
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Medical & recreational cannabis sales merge as of July 2016

Currently, only recreational sales subject to 37% tax; starting in July, medical sales will also be taxed at 37%

Cannabis excise tax collections



Source: ERFC February 2016 forecast; actual data through 2015 Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- The economic forecast expects slower growth in U.S. GDP, WA personal income and WA employment than in November
- We continue to expect the WA economy to outperform the U.S. by a small margin
- GF-S revenues are expected to grow 10.3% between the 2013-15 and 2015-17 biennia and 8.0% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



**Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912**

**www.erfc.wa.gov
360-534-1560**

Credit Union
Executive Forum

March 23, 2016

Slide 39