

Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

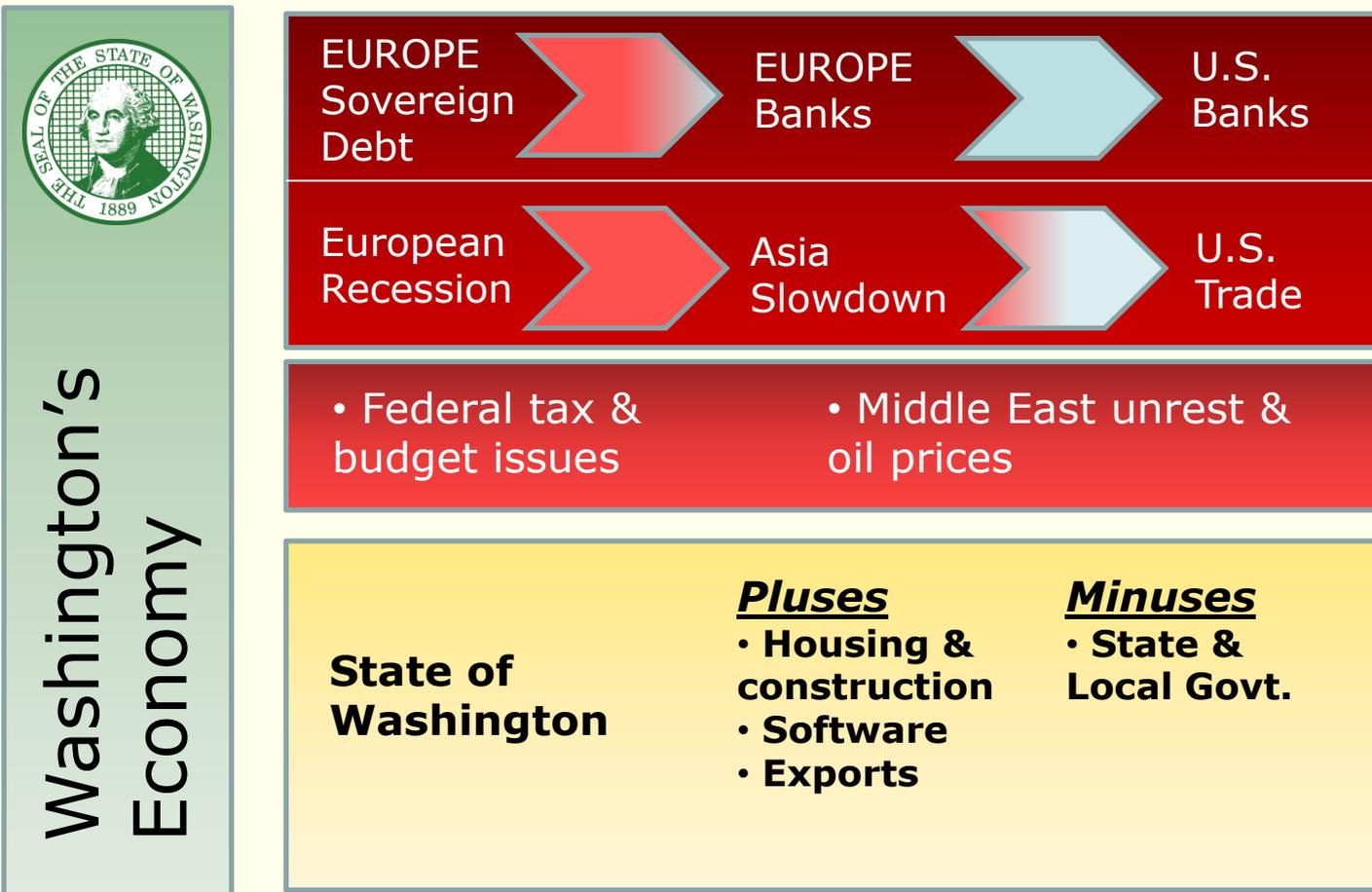


Summary

- The economy is generally behaving as expected in the March forecast
- Risks to the baseline remain high
- Factors outside the state are mostly responsible for this uncertainty
- Revenues since the March forecast are \$86 million (4.1%) above expectations, but \$48 million of the surplus was due to timing issues and a one-time audit payment
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and government



The state's risk matrix shows most risks from outside state



Source: ERFC

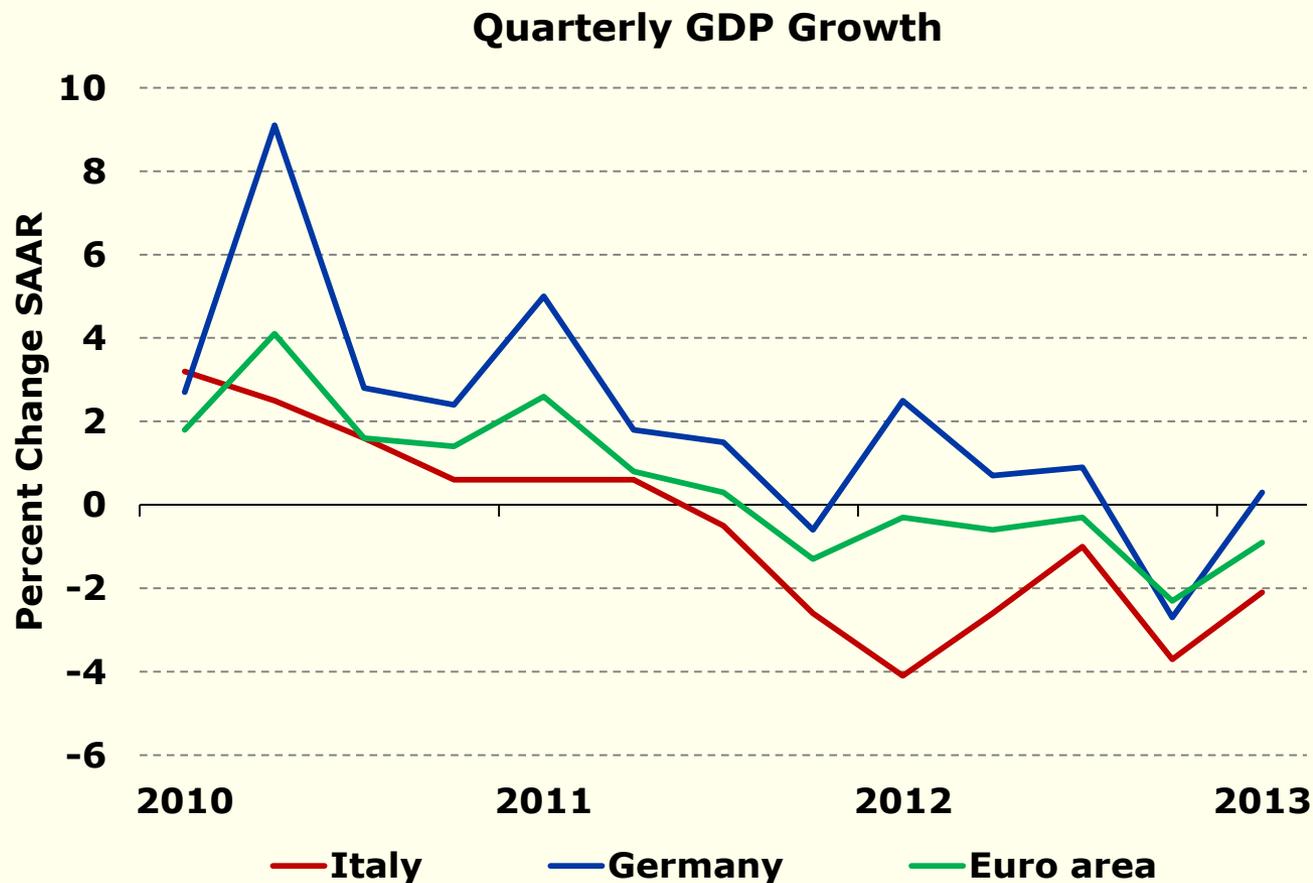


Euro area GDP growth is negative

Eurozone
Forecast:

2013: -0.5%

2014: 0.7%

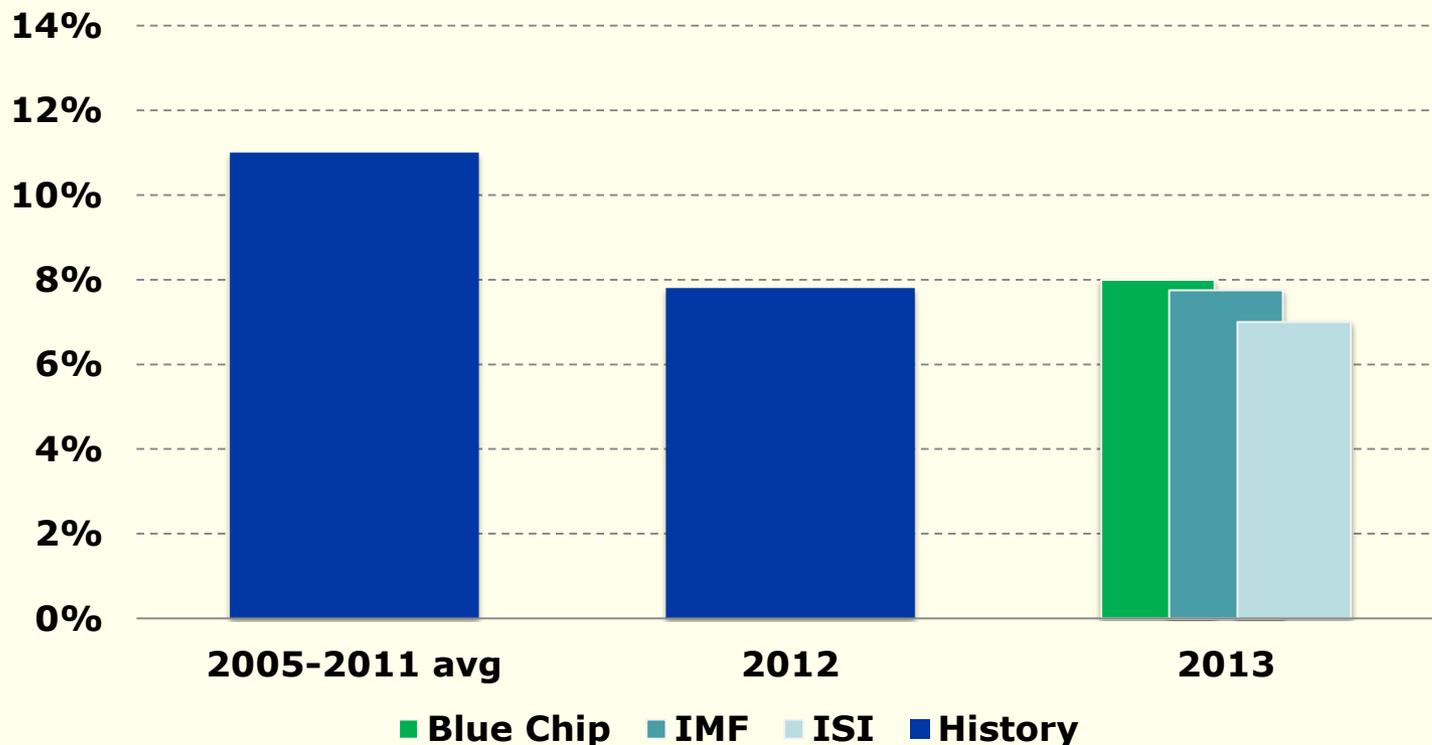


Source: Eurostat; data through 2013Q1



China's Economic Growth has Slowed

China Real GDP Growth

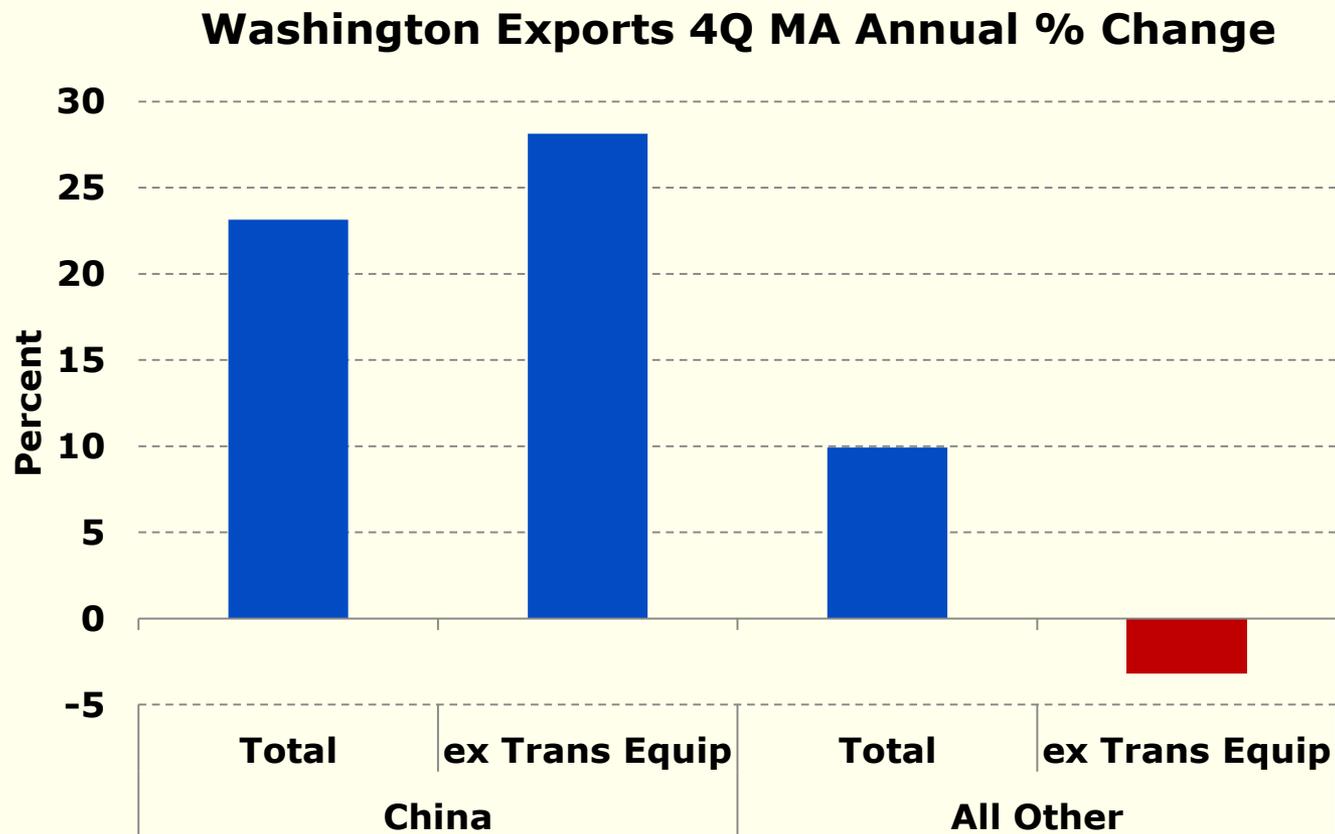


Source: Blue Chip, IMF, ISI; data through 2013

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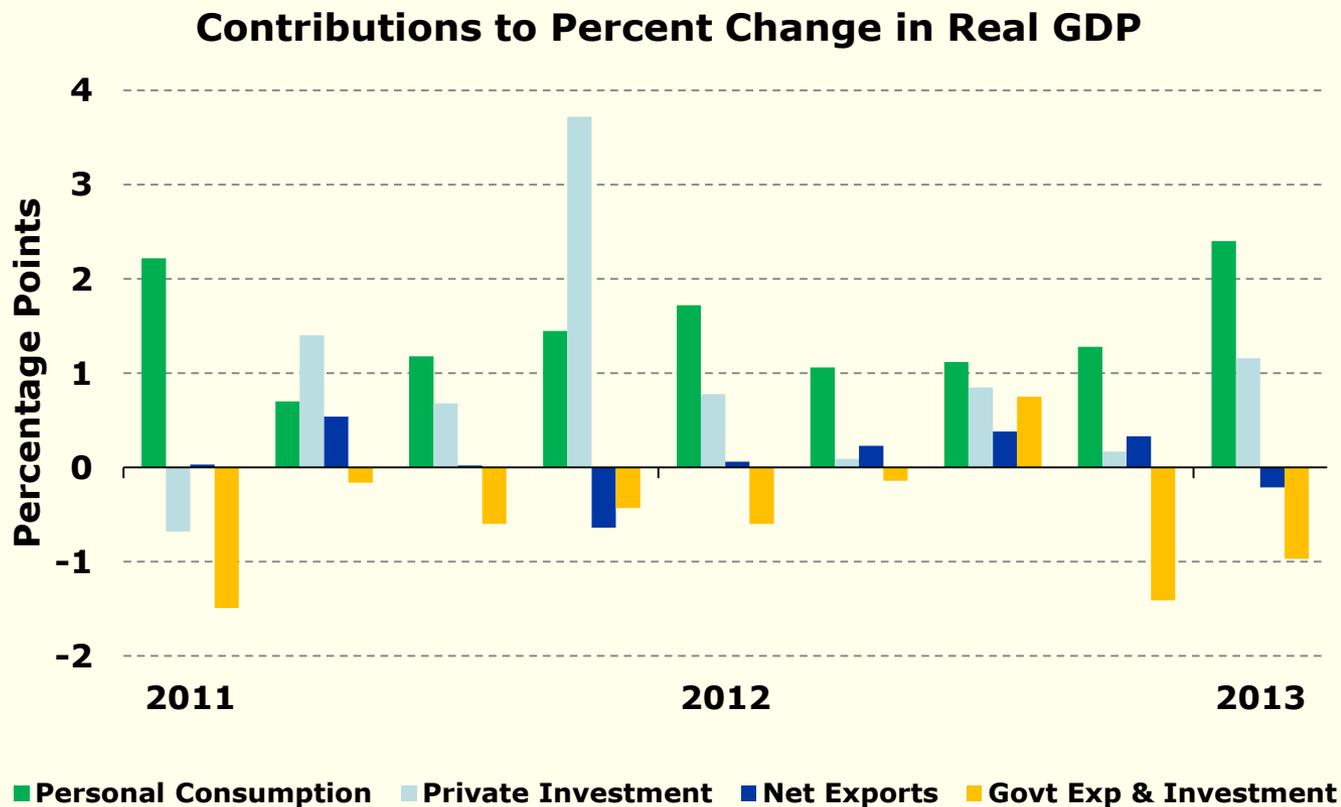


Excluding aerospace, exports outside of China are declining





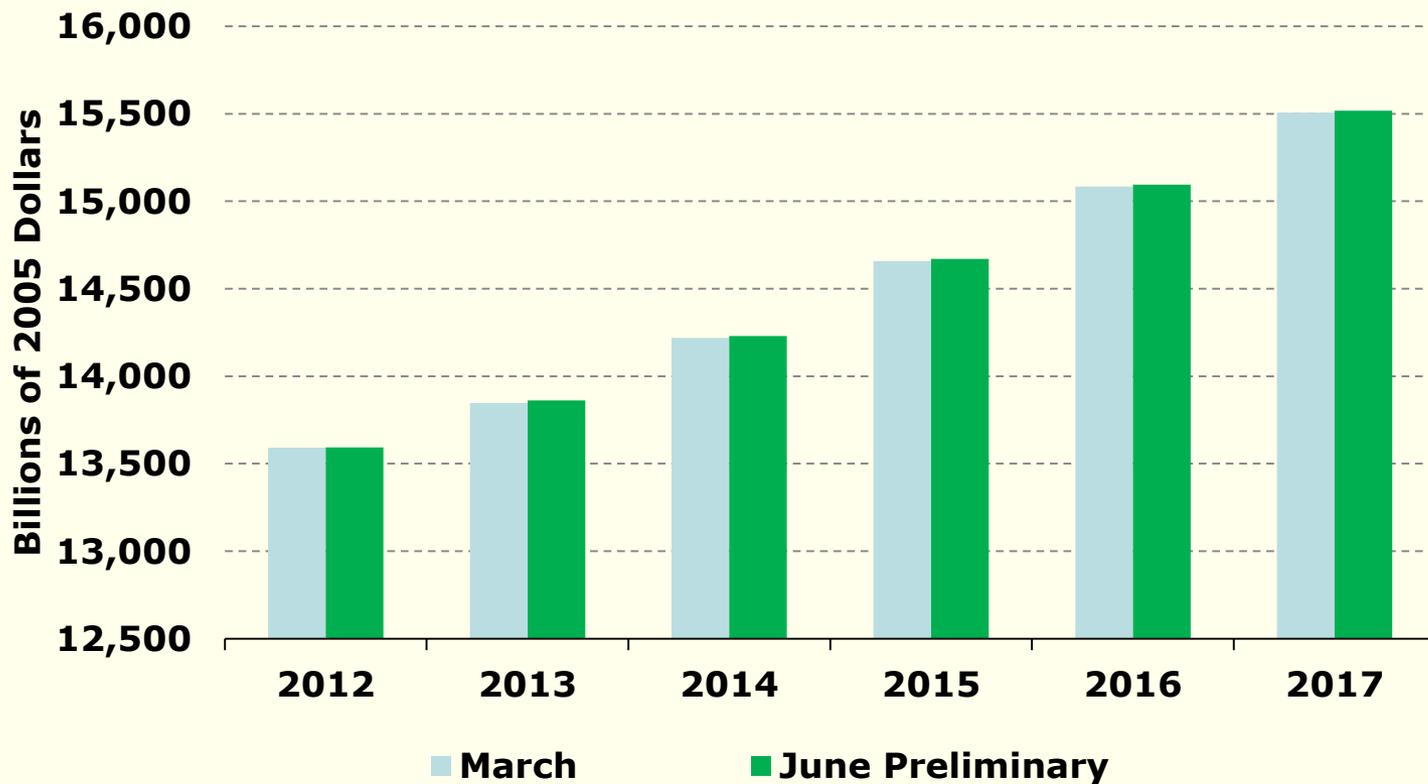
Slowing government expenditures a drag on GDP growth





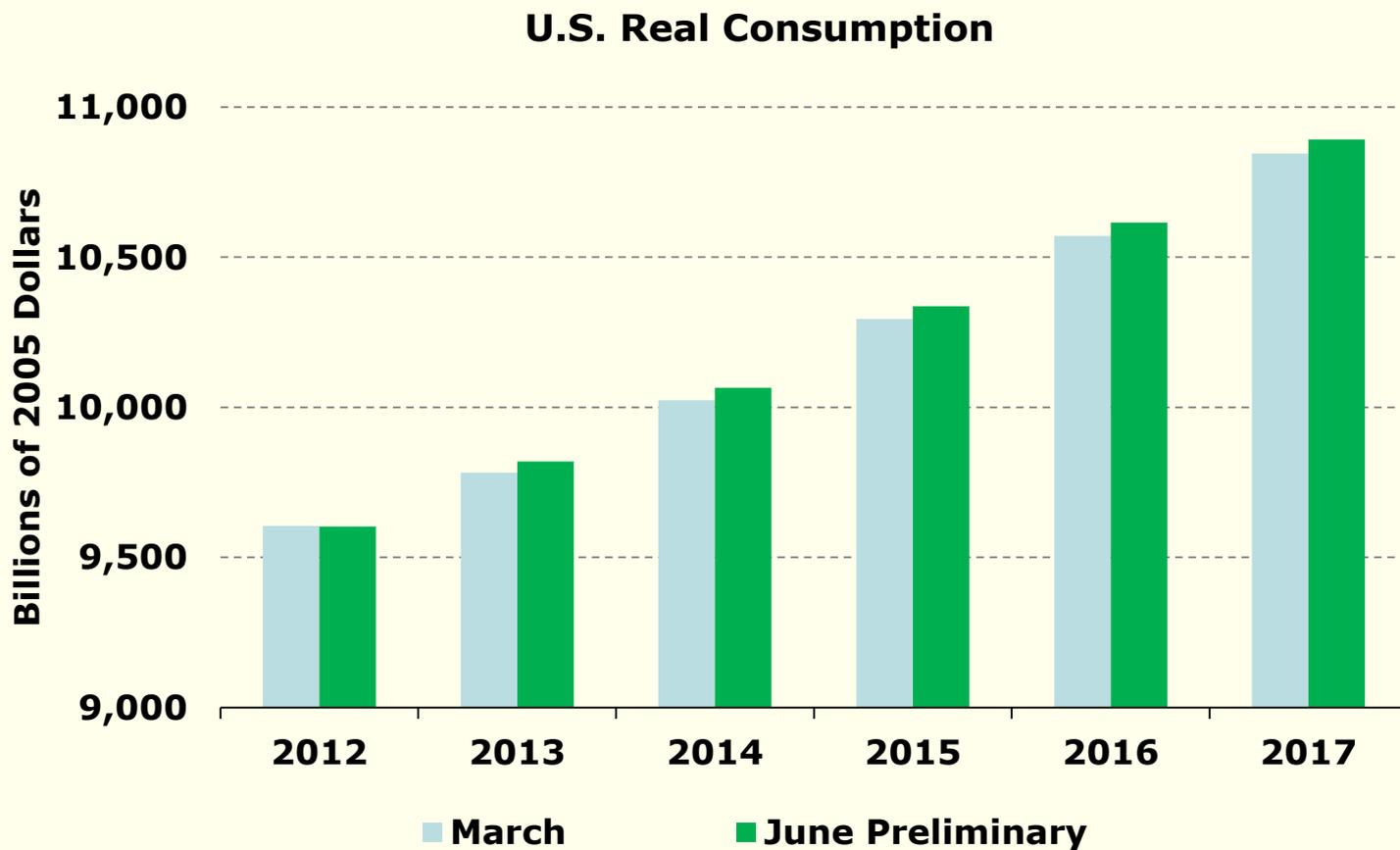
U.S. GDP Forecast Slightly Higher

Blue Chip Consensus Real GDP forecast



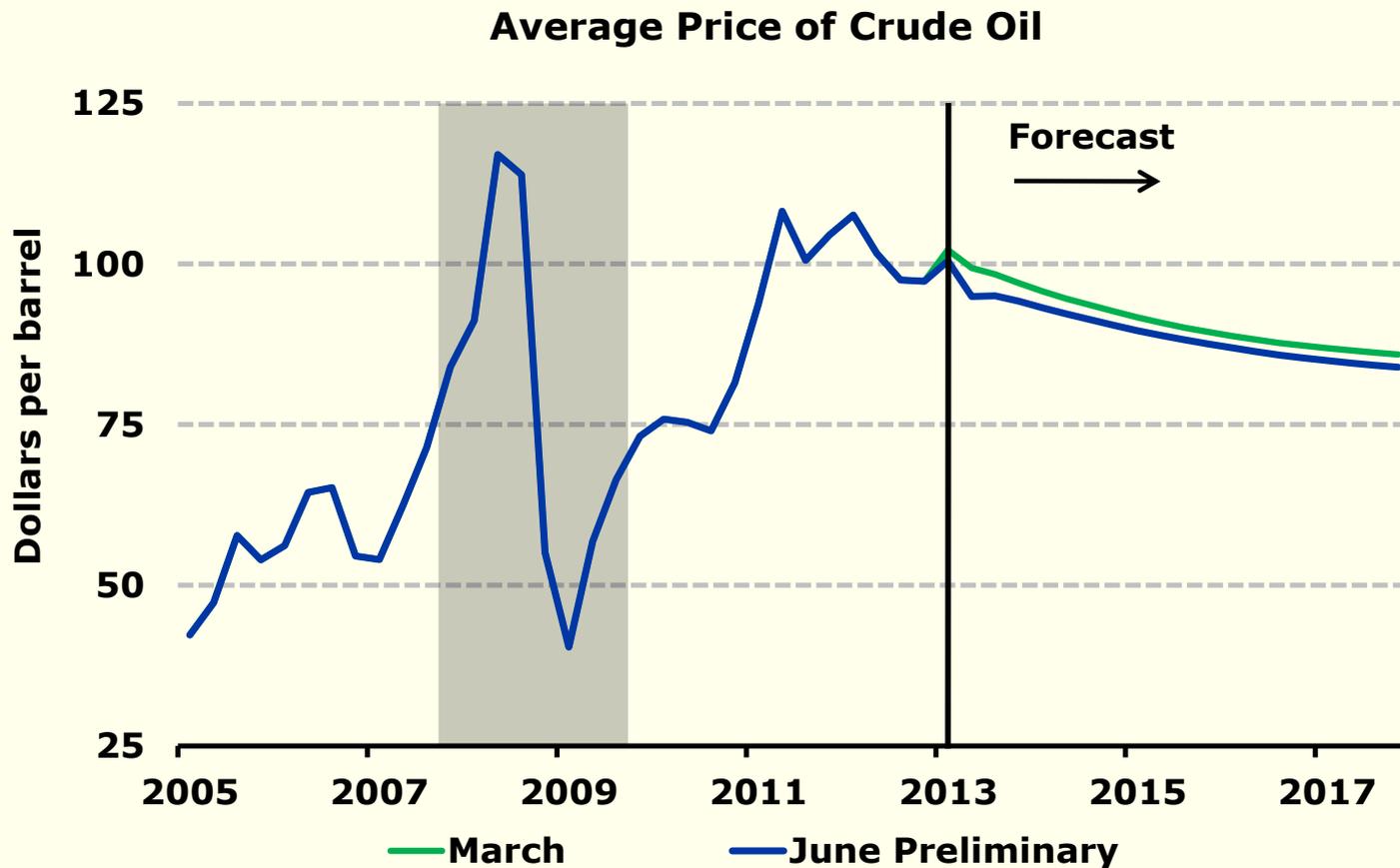


Household Consumption has Been Stronger than Expected



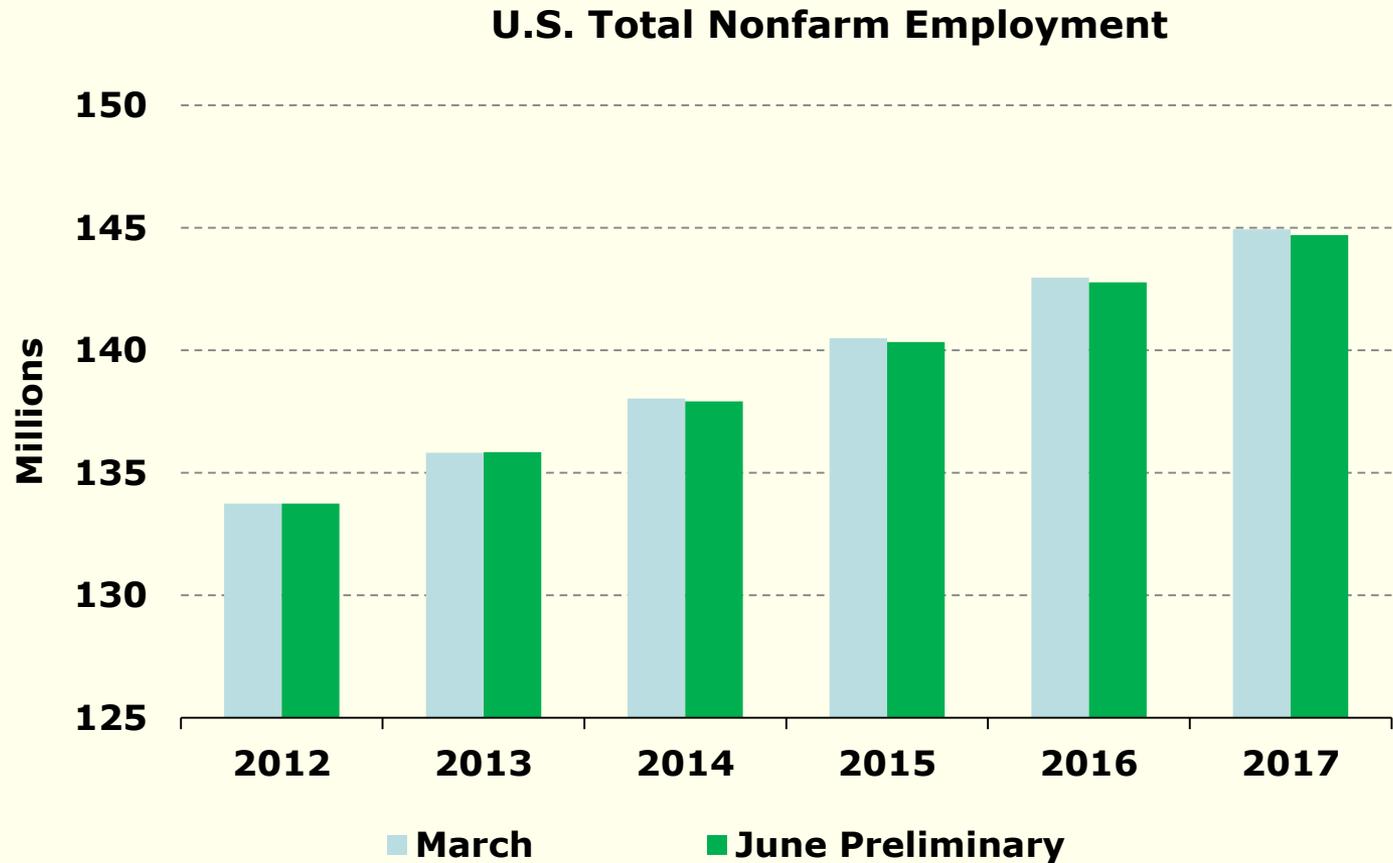


Oil prices are expected to be slightly lower





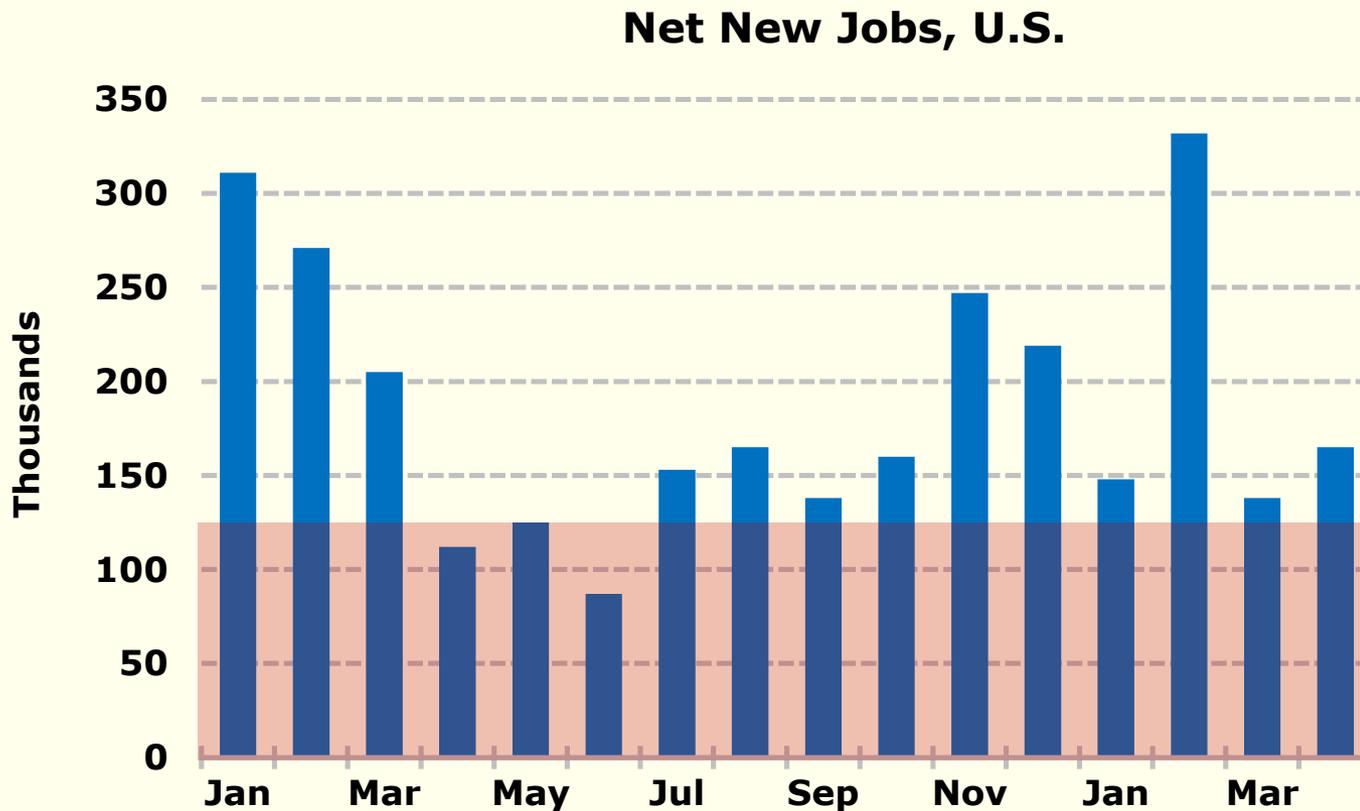
Minimal Changes in Nonfarm Employment





Job growth remains modest

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force

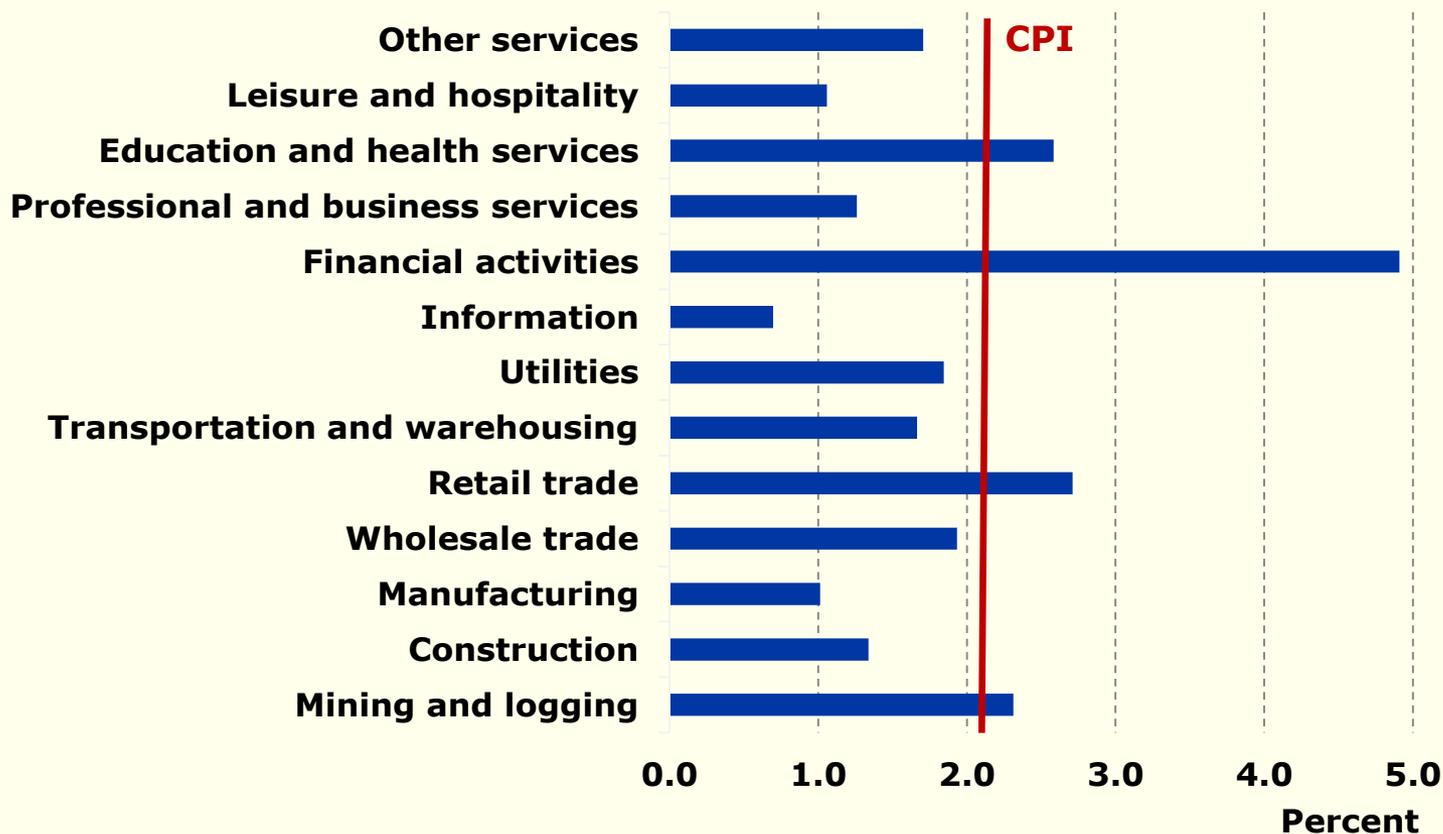


Source: Bureau of Labor Statistics, data through April 2013



Wage growth has been weak in most industries

Annual Growth in Average Hourly Earnings, 2012



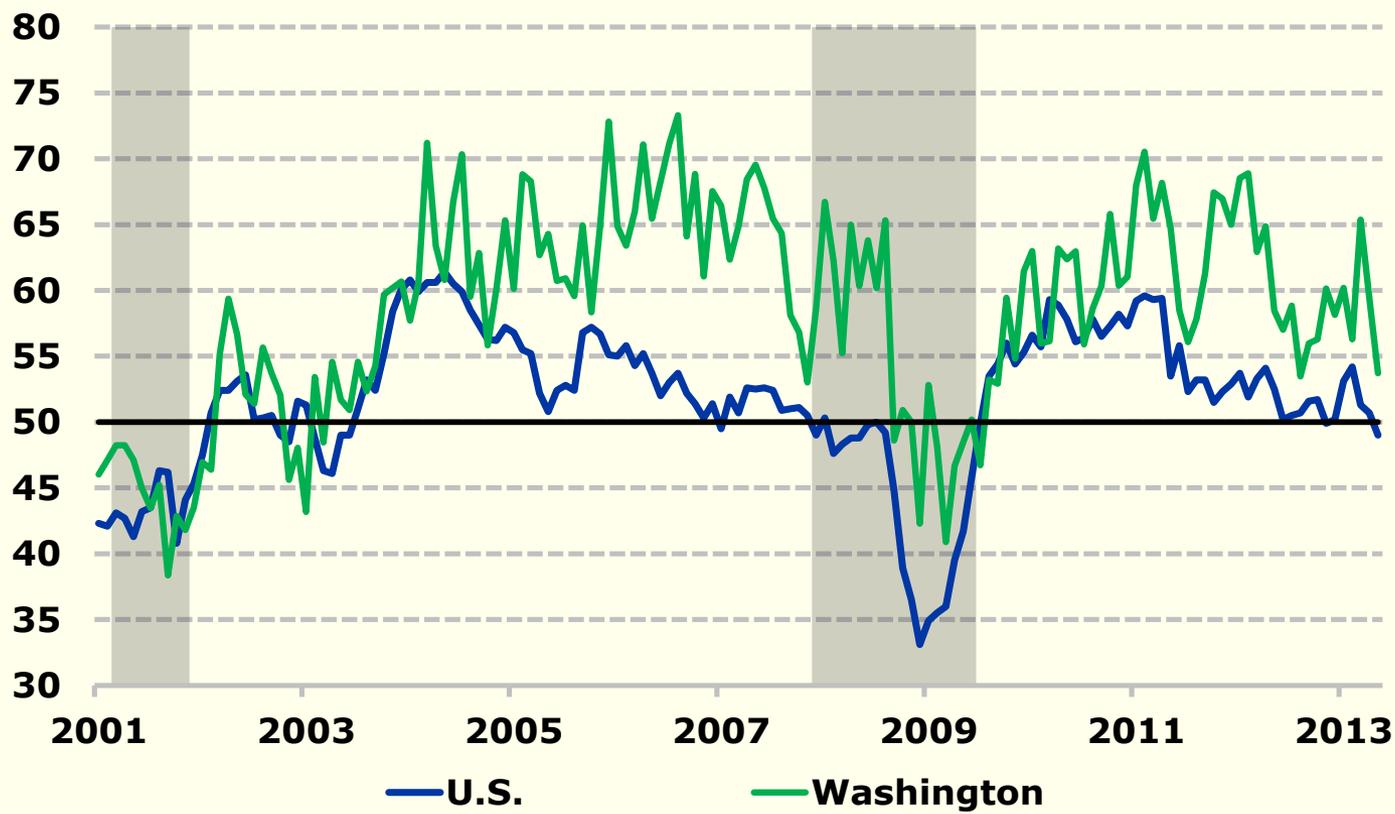
Sources: BLS; data through 2012



Manufacturing remains weak nationally

An index greater than 50, implies growth

Institute of Supply Management Index



Source: Institute of Supply Management; data through May 2013

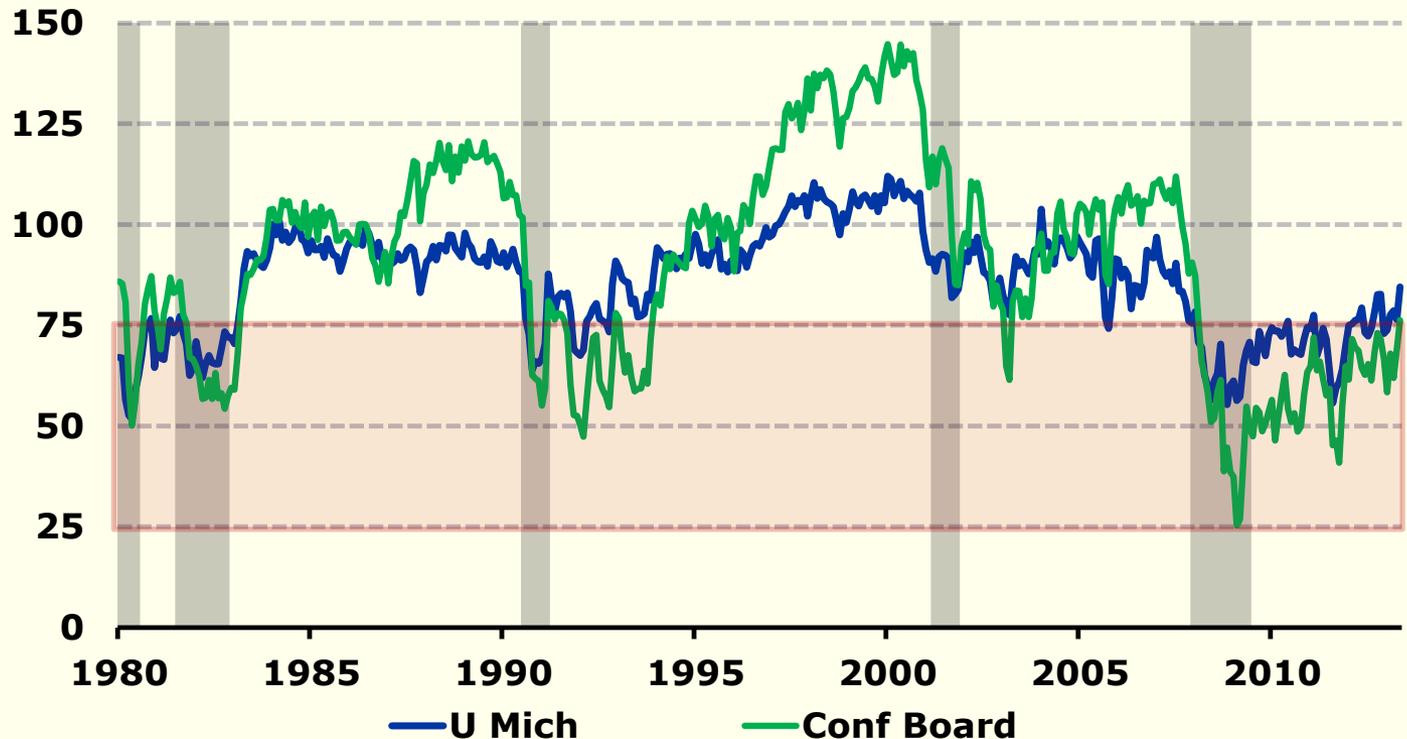


Consumer confidence is beginning to strengthen

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



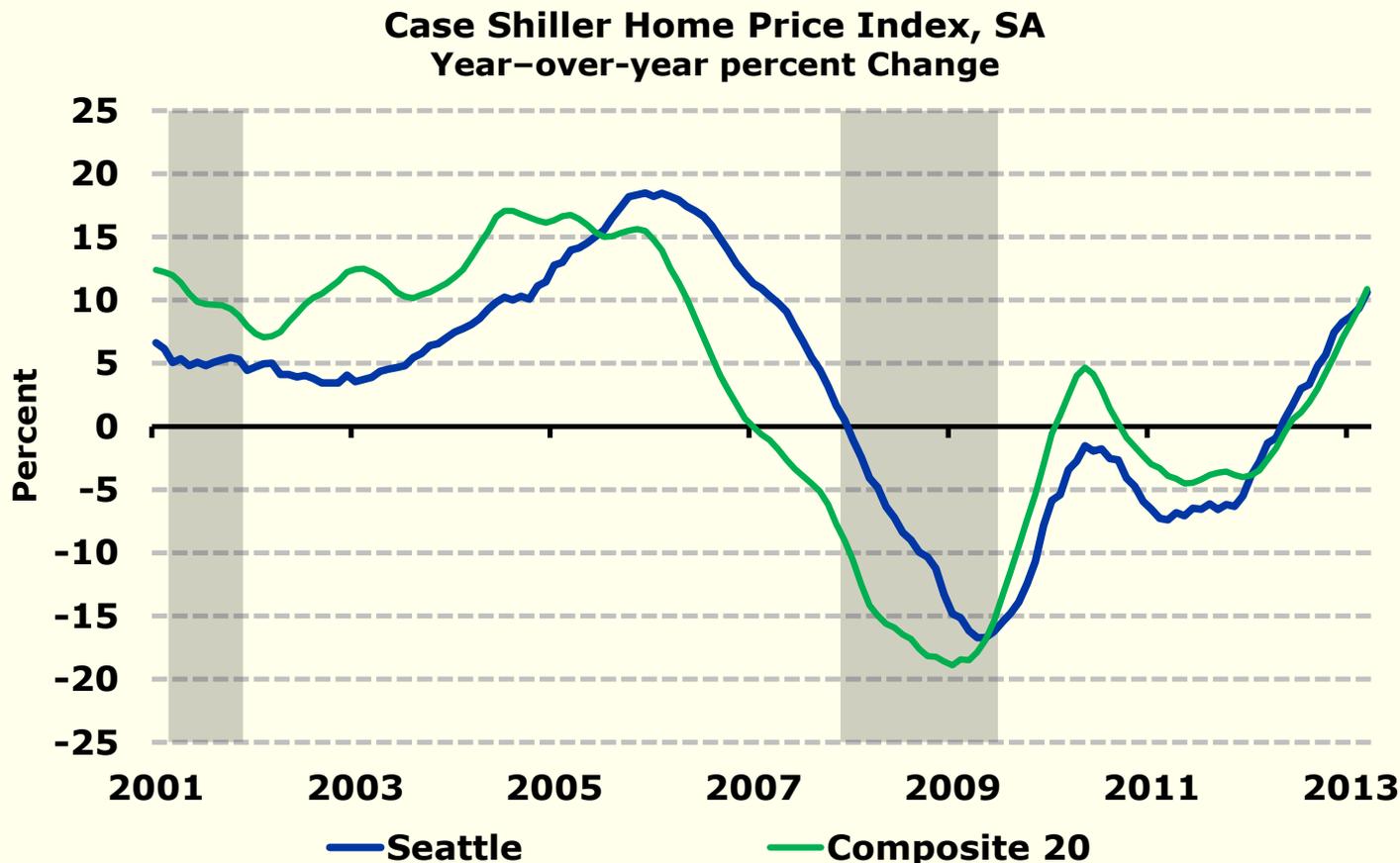


Single-family home prices continue to increase

Mar 2013

U.S. is up
10.9%

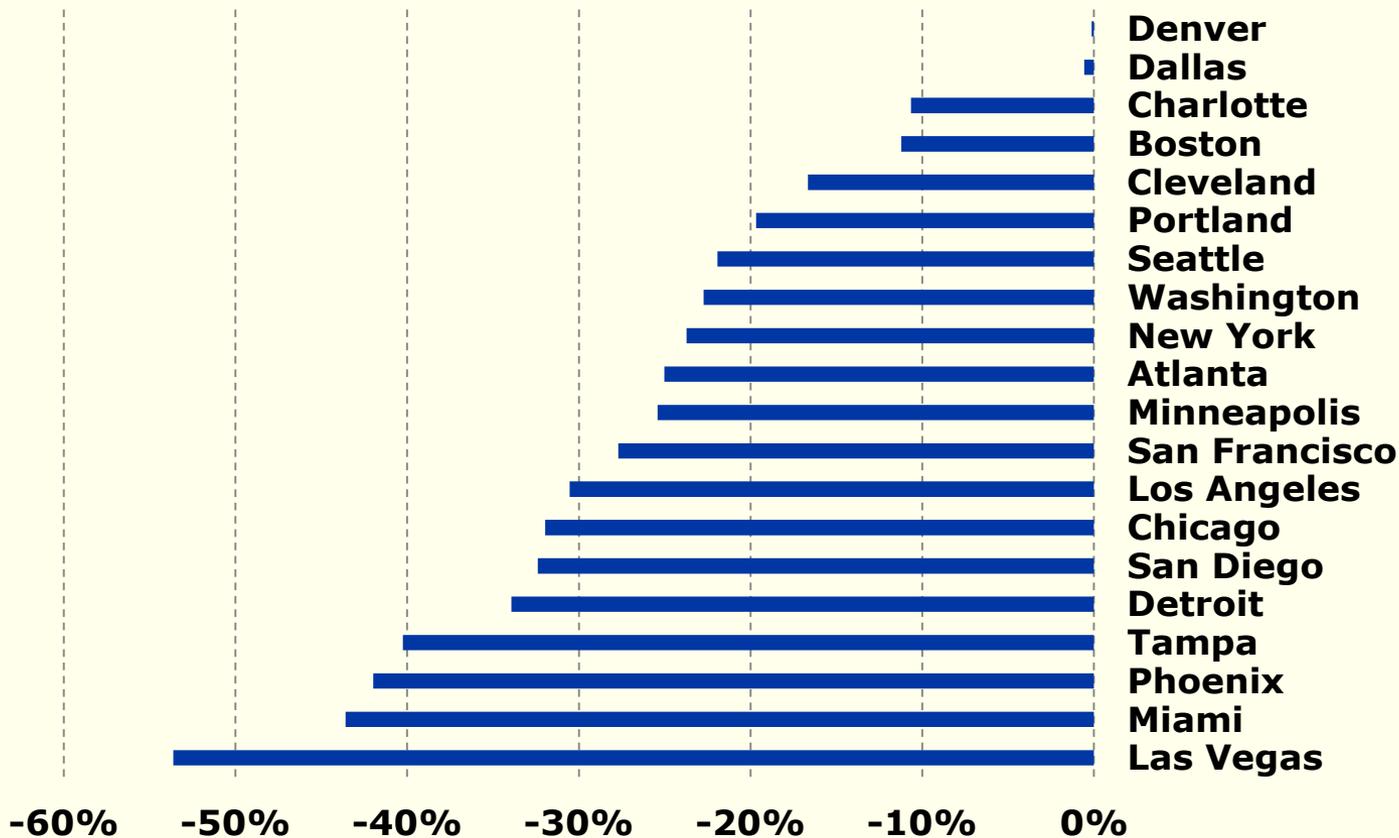
Seattle is
up 10.6%



Source: S&P/Case-Shiller; data through March 2013



Percent decline in home prices from peak as of March 2013





Stock market has recovered from recession losses

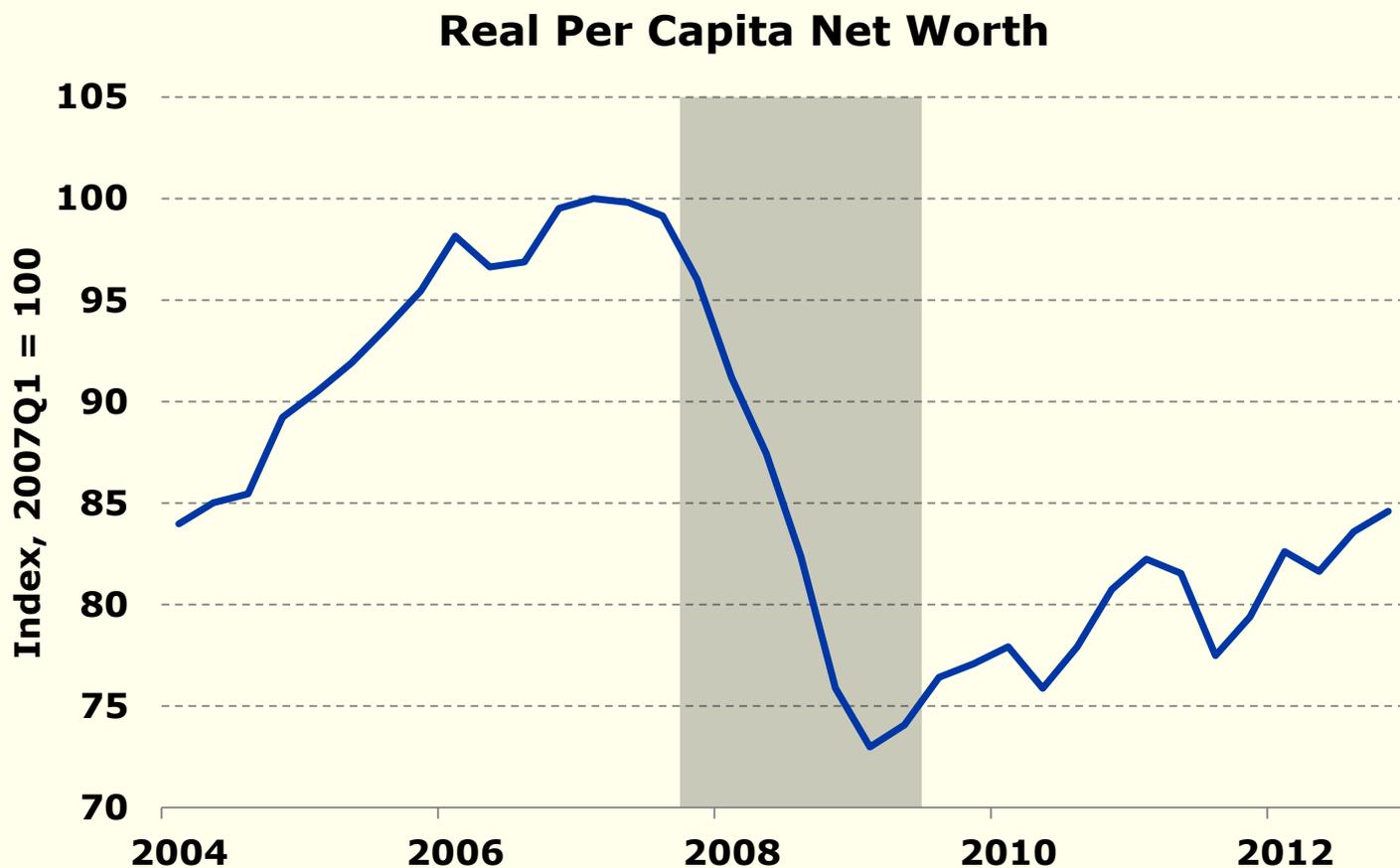
In 2010, 49.9% of families owned stocks directly or in retirement accounts



Source: Federal Reserve, Yahoo! Finance; data through May 31, 2013

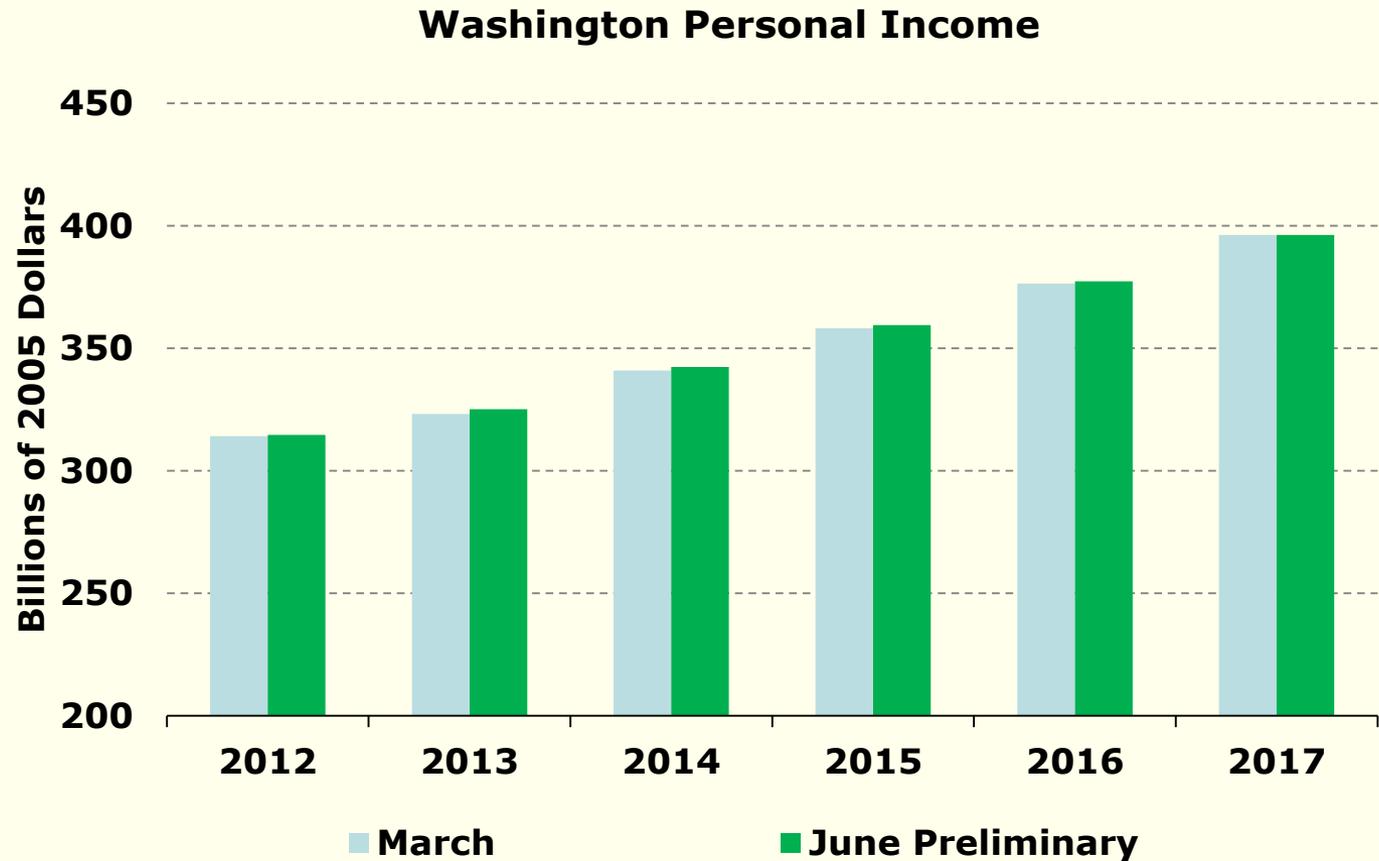


Despite stock market and house price gains, net worth has not recovered





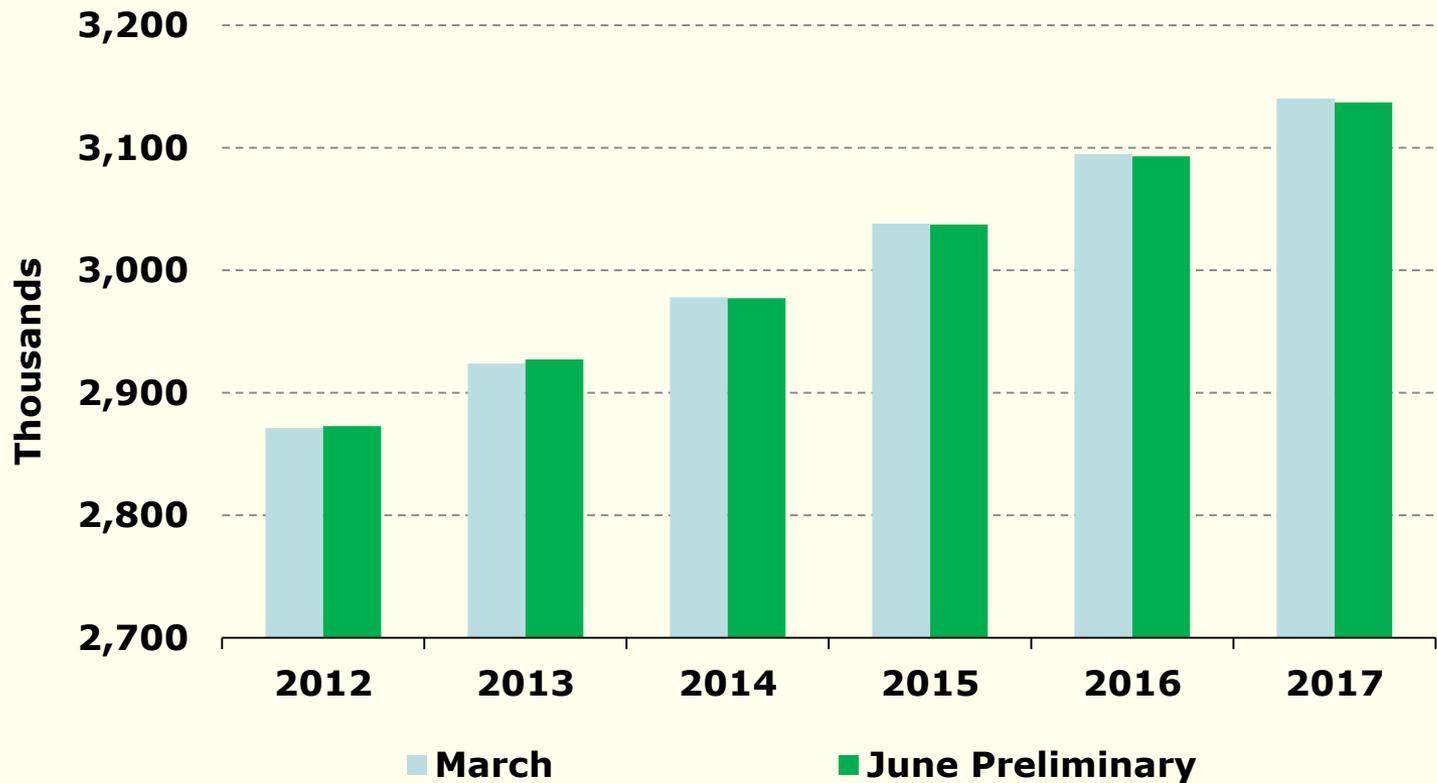
Washington Personal Income Forecast is Slightly Higher





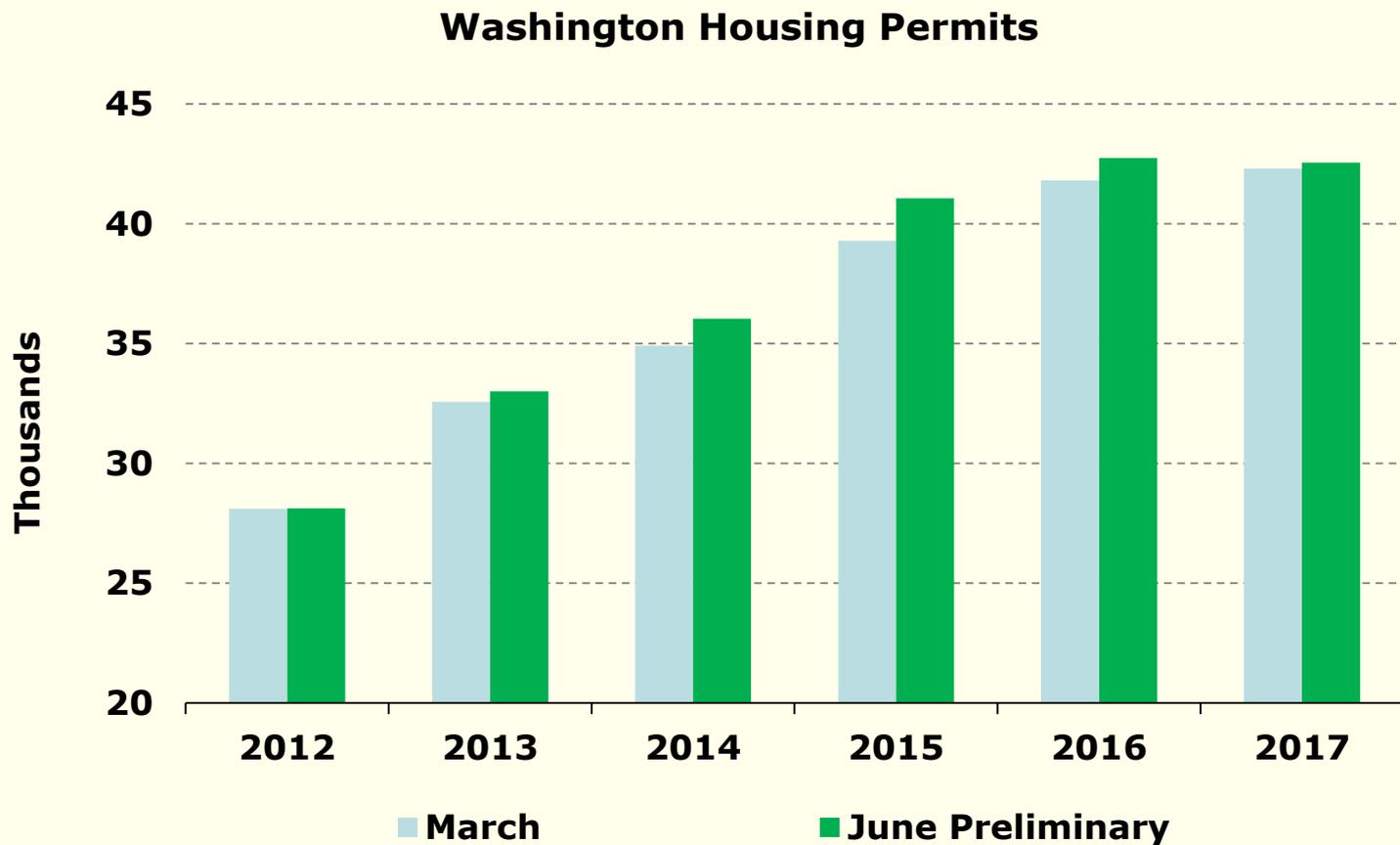
Washington Payroll Employment Forecast is Slightly Lower

Washington Nonfarm Payroll Employment



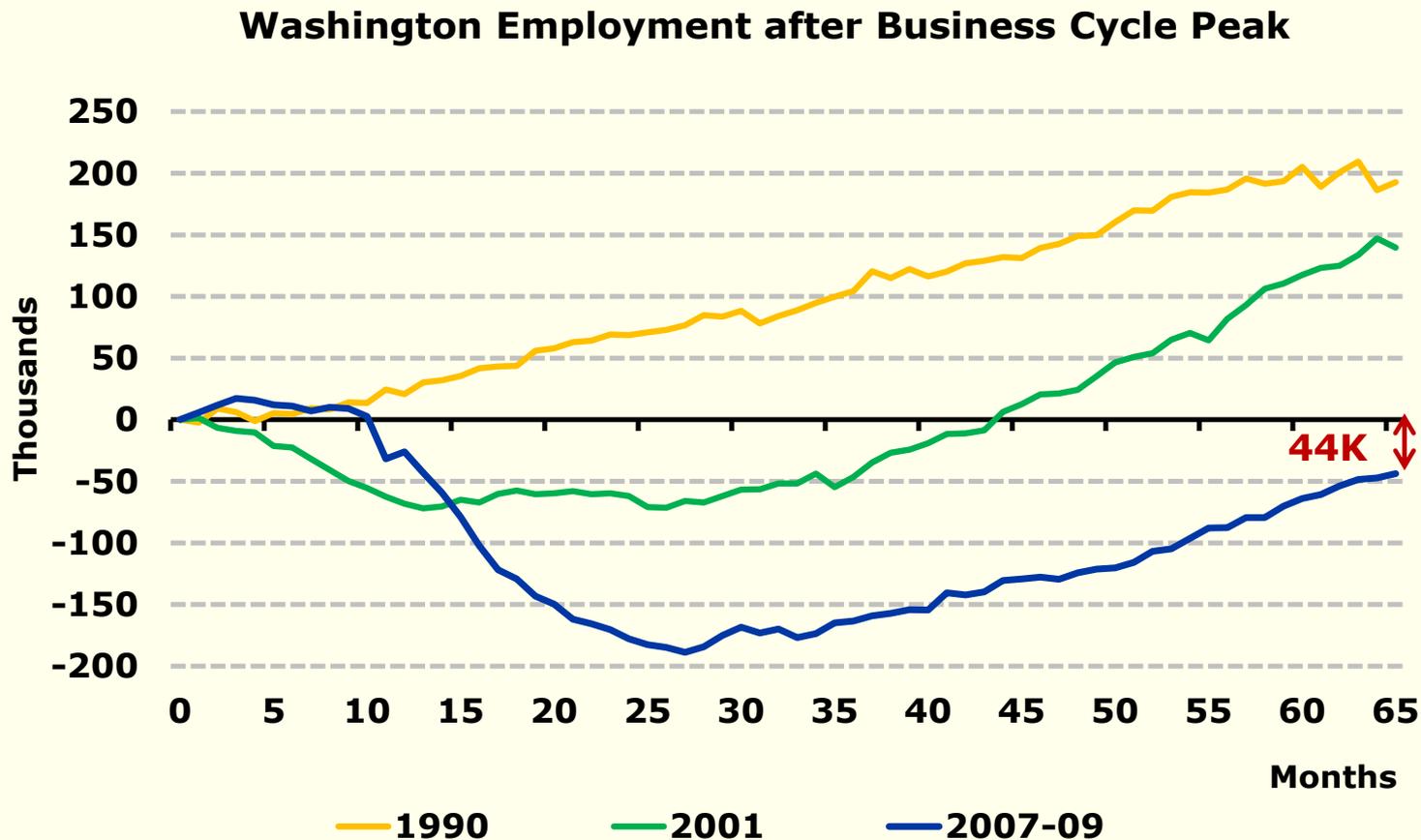


Washington Housing Permits Forecast is Higher



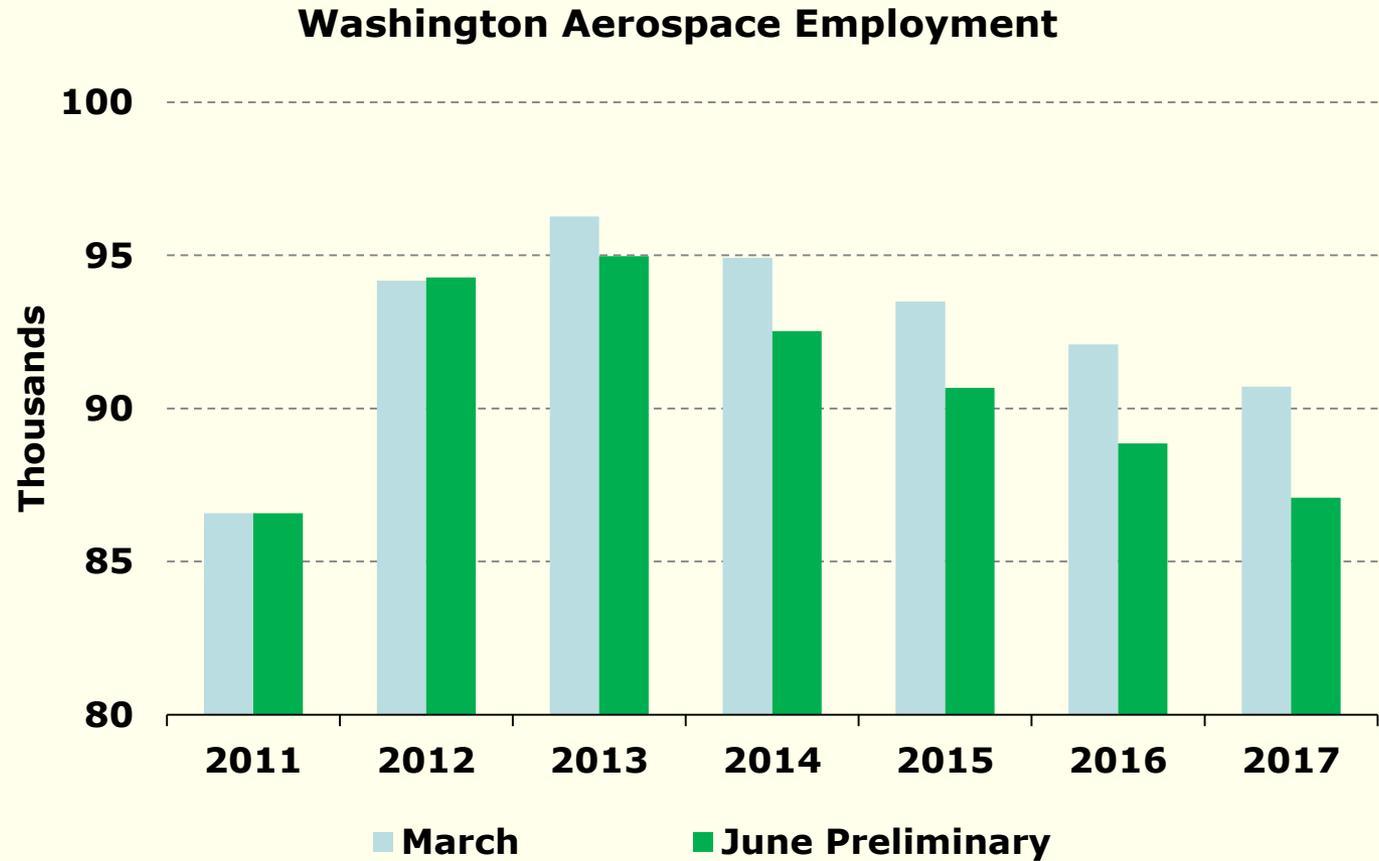


After 5 years, Washington employment has still not recovered





Aerospace employment is declining

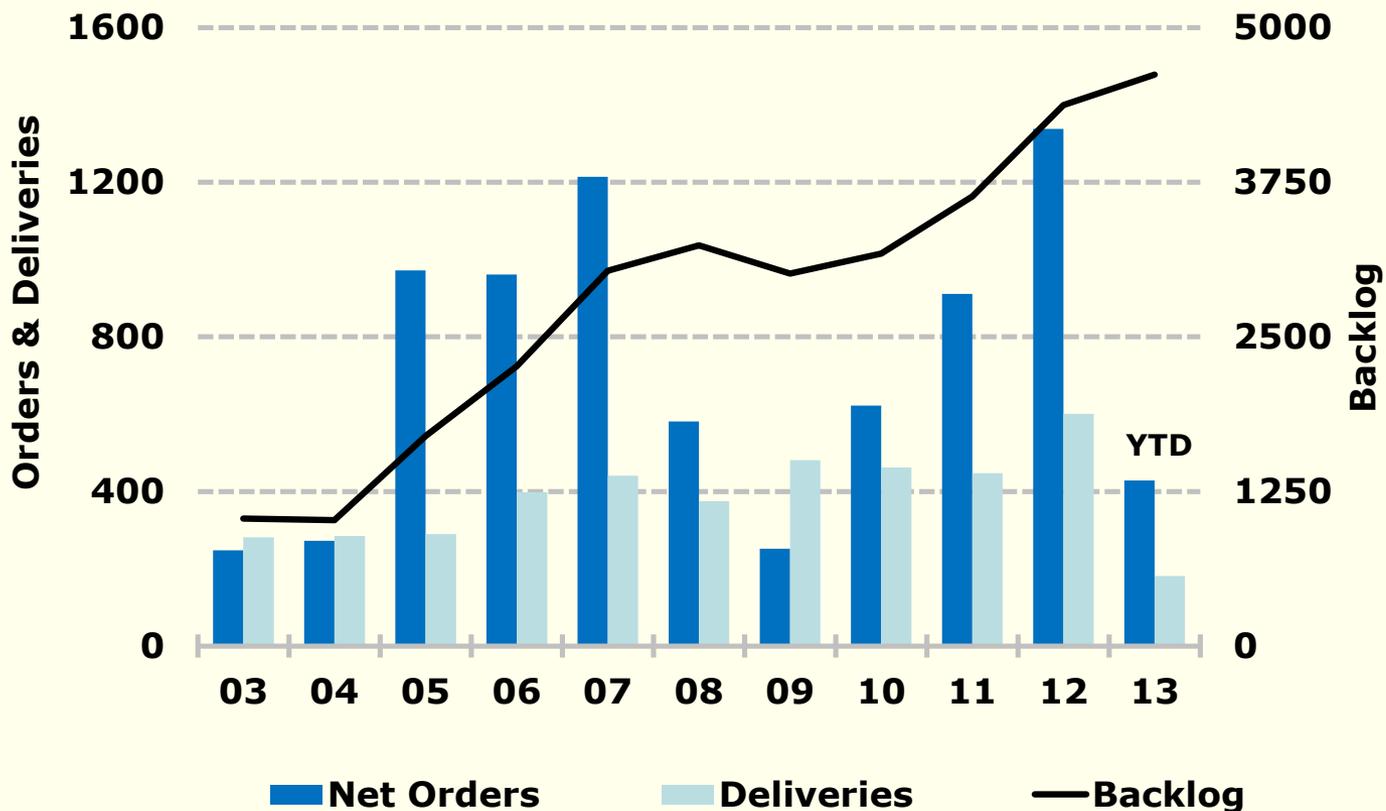




Boeing has 7 years of commercial orders on its books

The 787 accounts for 18% of the backlog

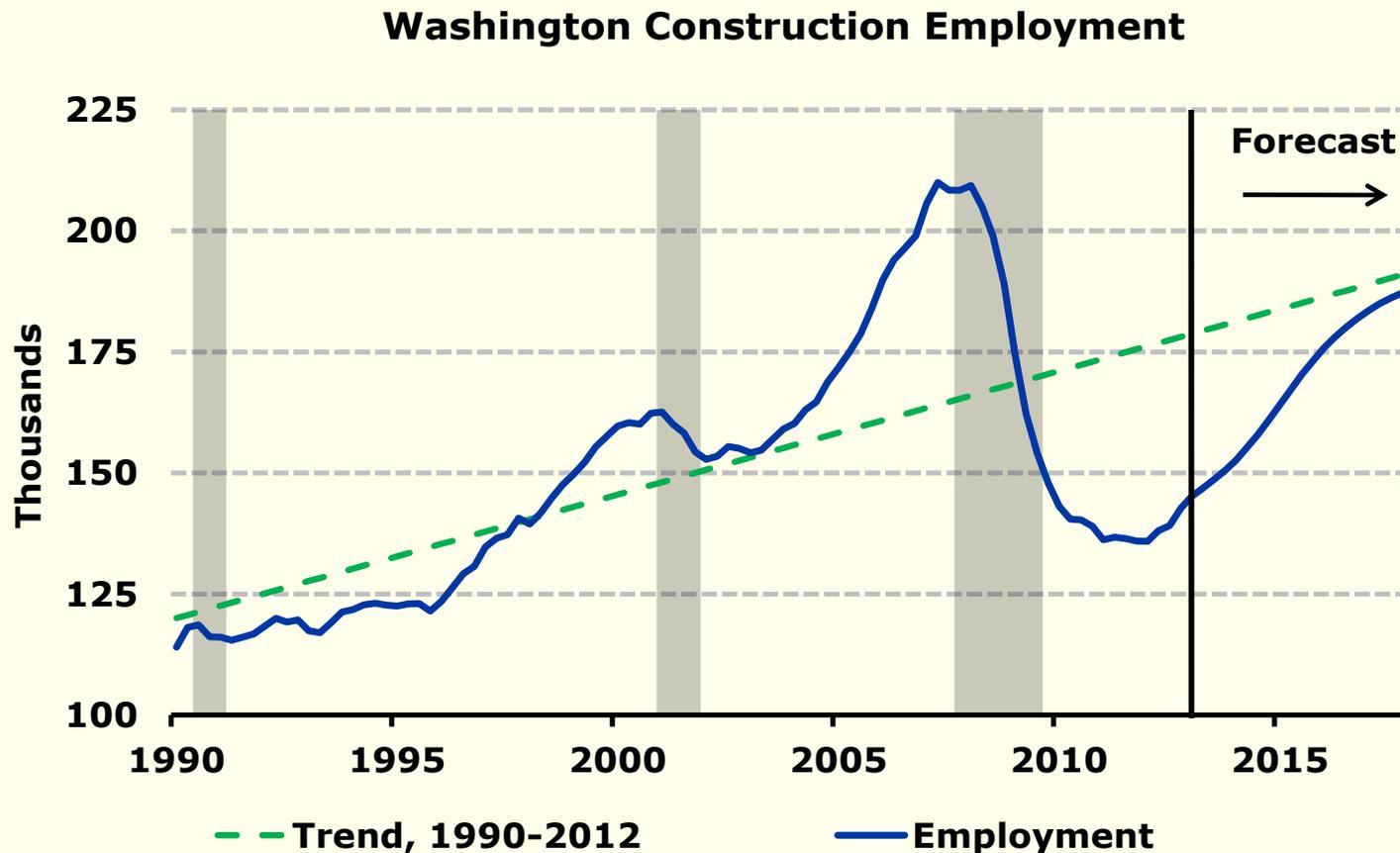
Excludes the military's new refueling tanker



Source: Boeing, data through April 2013



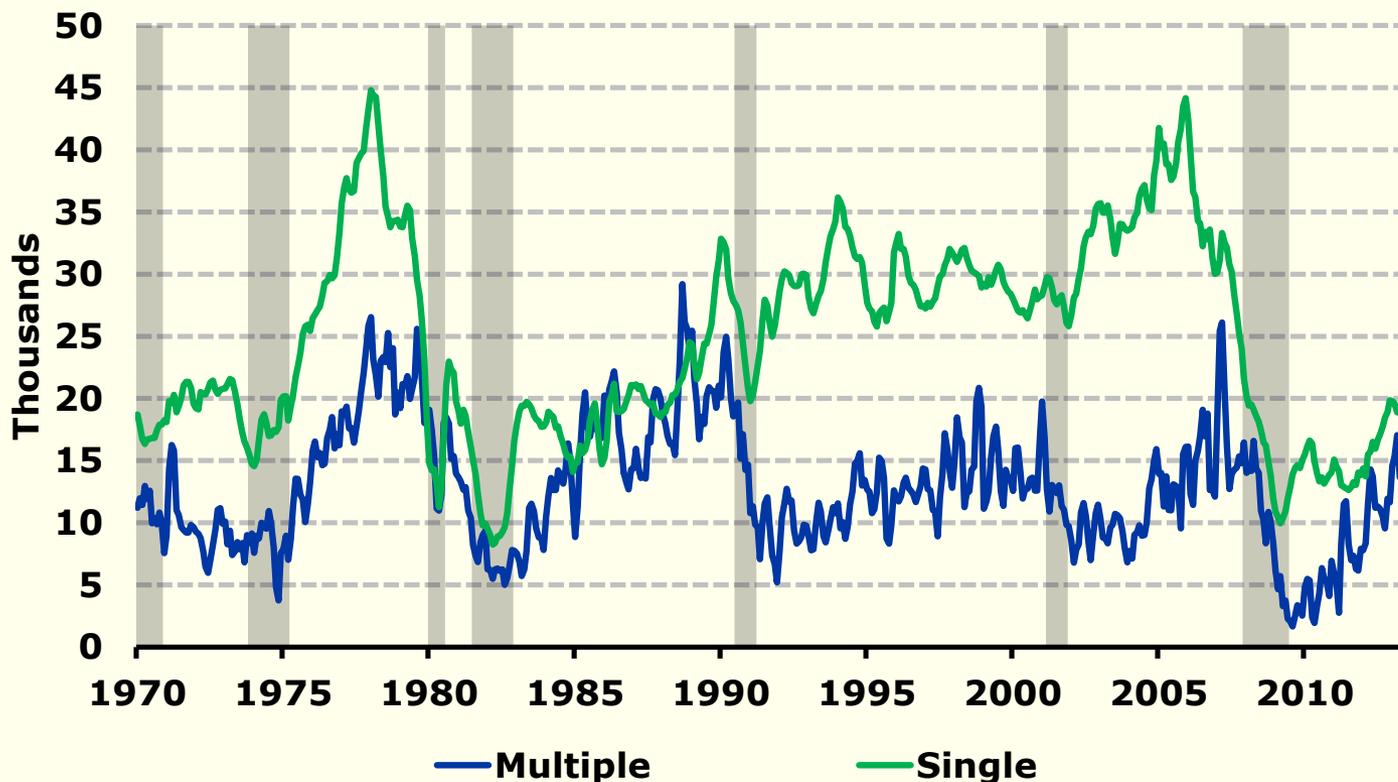
Washington construction employment is recovering





Washington building permits are increasing

Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



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

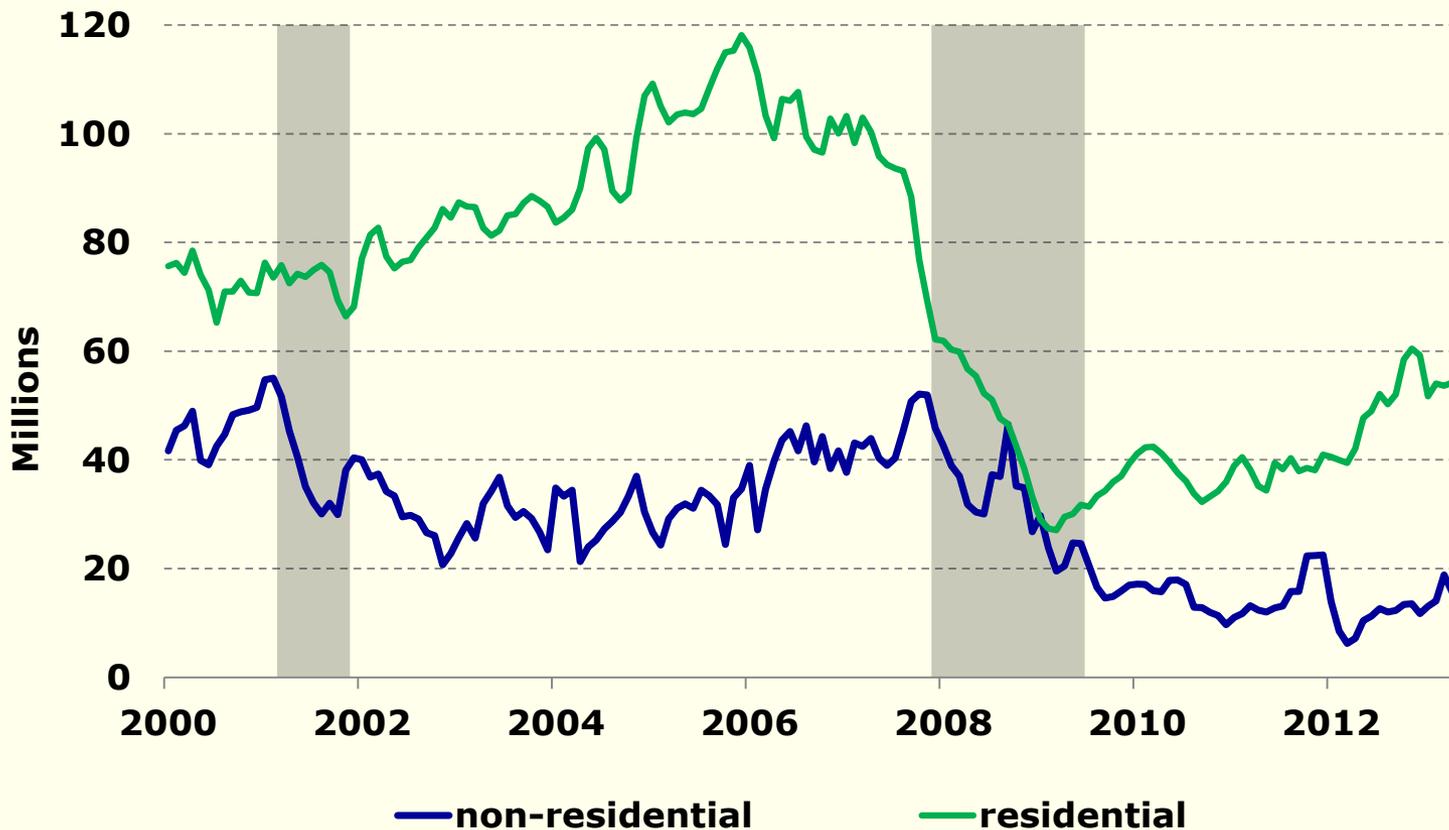


Contract data signal a turning point in non-residential construction

Residential square footage is up 29%, and value up 22% year over year (3mma).

Non-Residential square footage is up 120%, and value is up 34% year over year (3mma).

Square Footage of Construction Contracts, SAAR, 3MMA



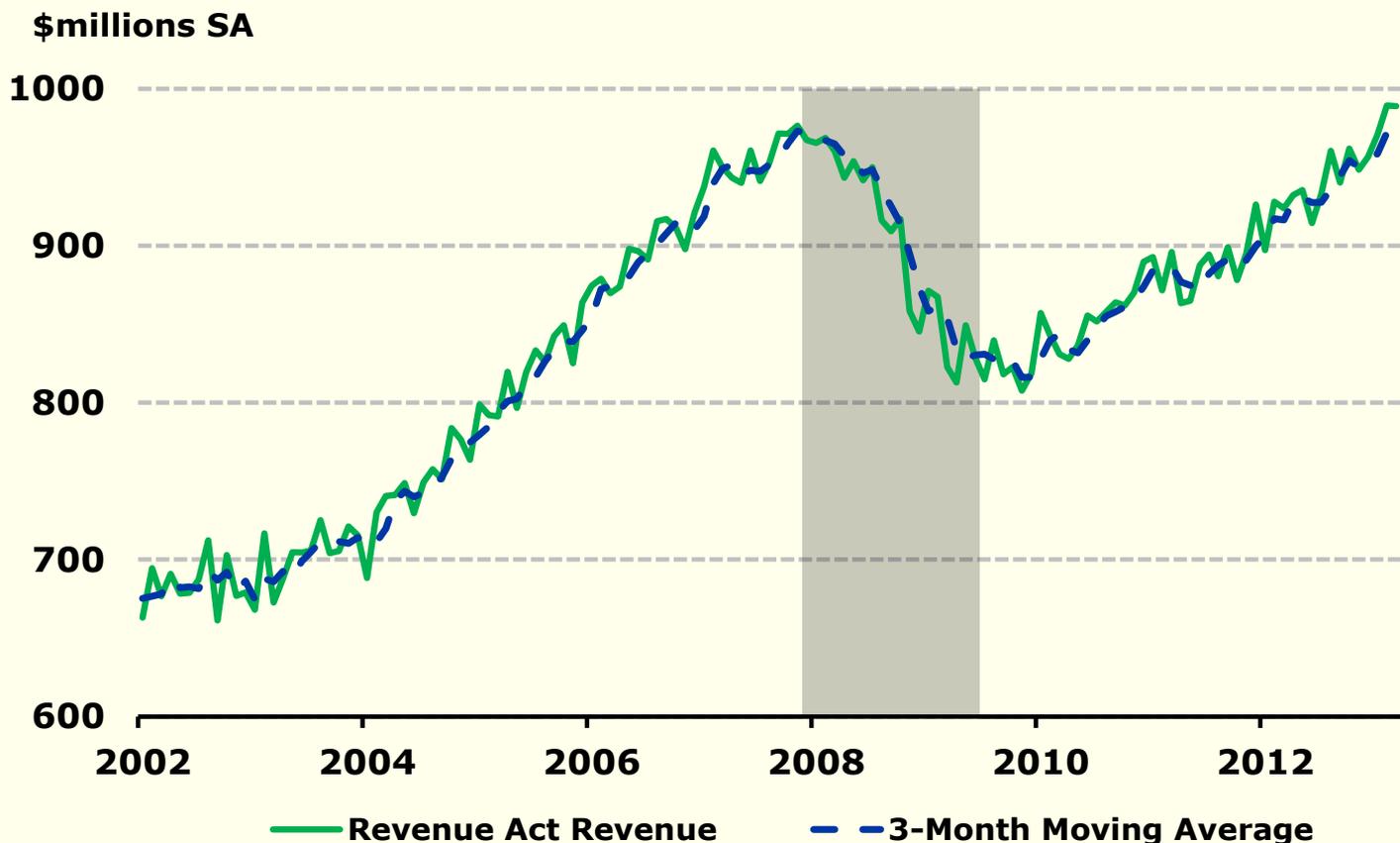
Source: Dodge, ERFC; data through April 2013

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Revenue Act collections are on an upward trend

Collections were up 7.1% year-over-year for first quarter 2013 activity (February 11, – May 10, 2013 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 March 2013 activity

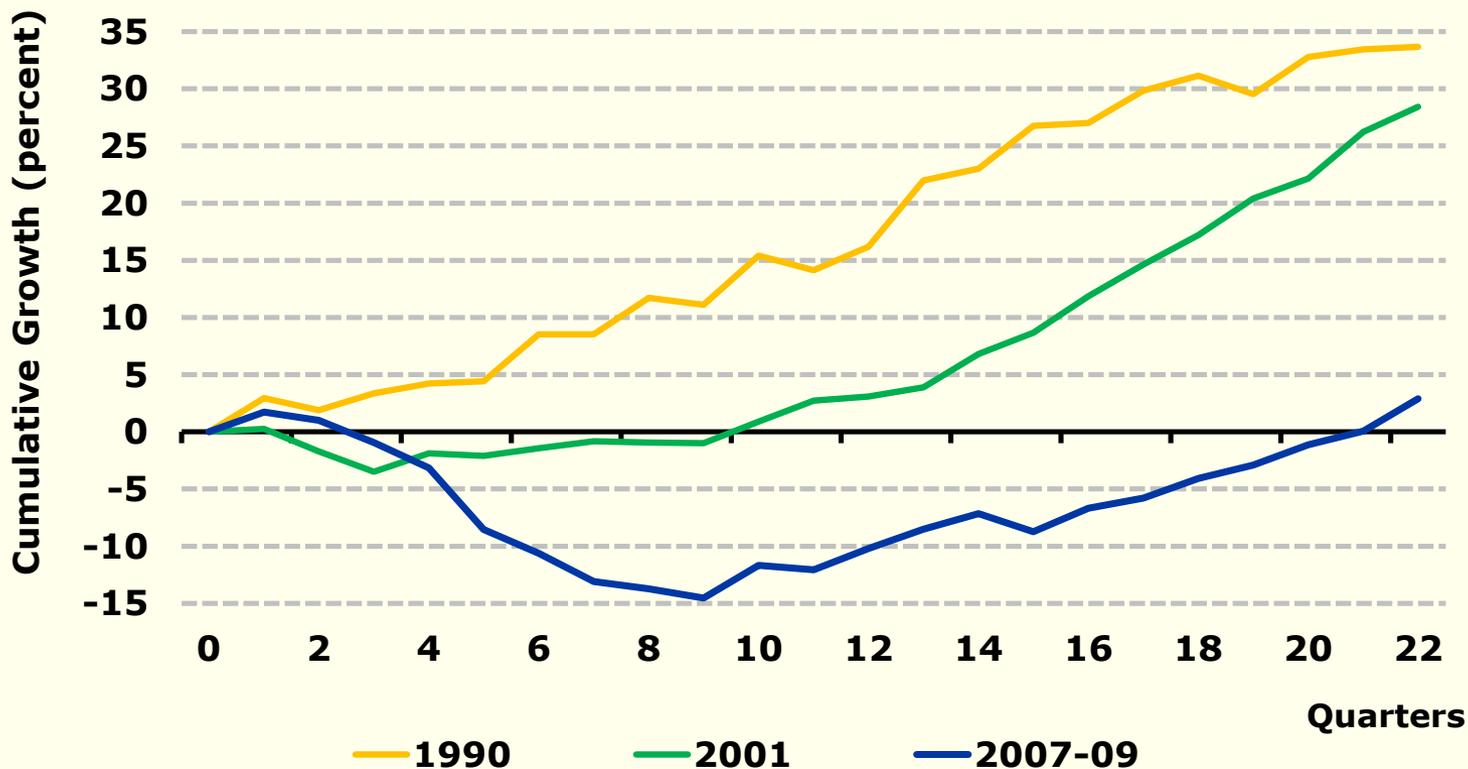
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Revenue collections have been weak compared to past recoveries

Revenue Act collections have now exceeded their previous peak reached in Q1 2008

Revenue Act Collections after Business Cycle Peak



Source: ERFC; data through 2013 Q1



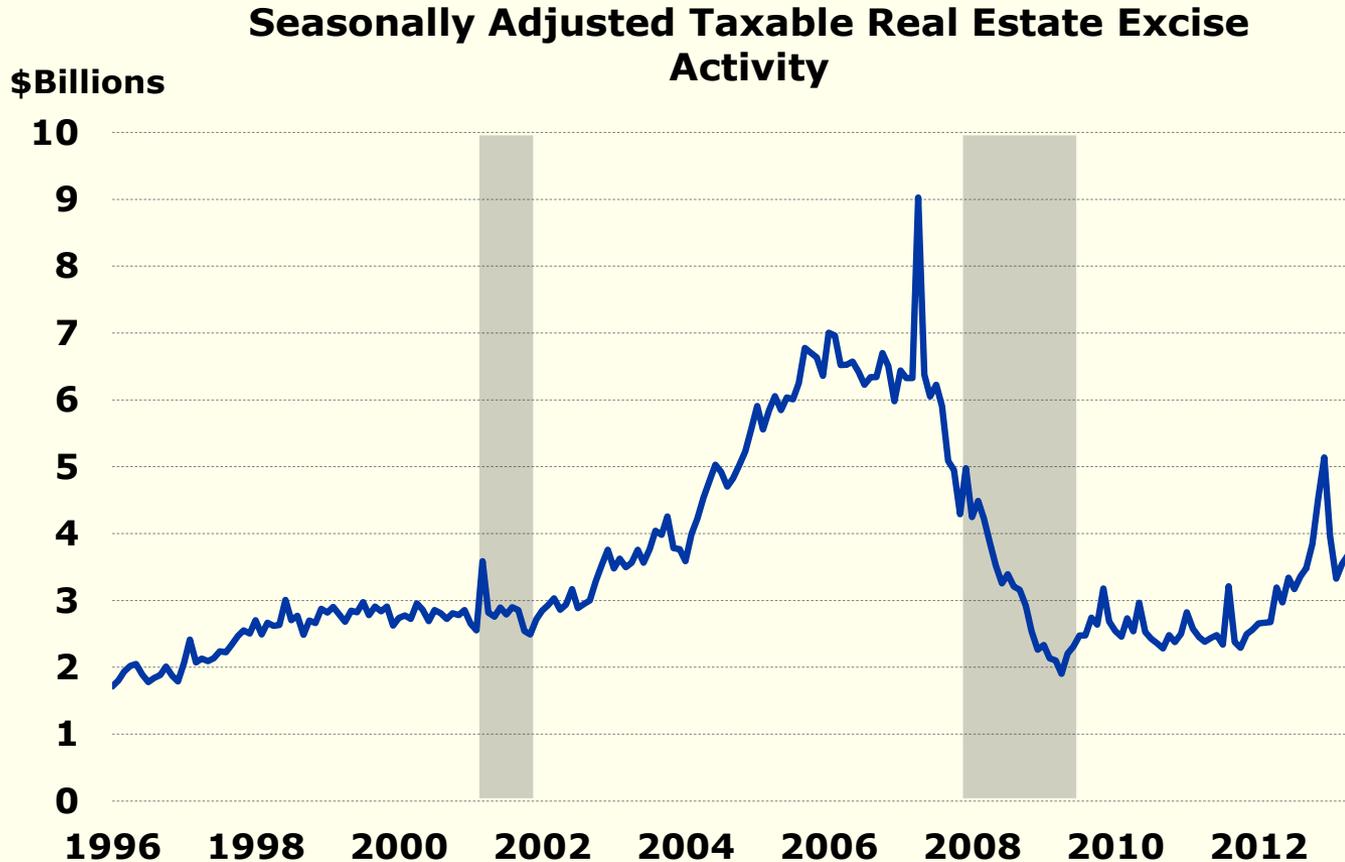
REET still showing growth after end of year rush

2012 real estate sales were elevated due to the incentive to claim capital gains before taxes increased in 2013, with a particularly large rush at the end of the year.

Sales since the rush have been stronger than expected but a current shortage of houses for sale might limit short-term growth.

Economic Review
June 6, 2013

Slide 30



Source: ERFC; Monthly data through April 2013 preliminary



Revenue collections to date

Cumulative Variance Since March Forecast (March 11 – May 10, 2013) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$2,130,815	\$2,217,580	\$86,764	4.1%
All other agencies	\$18,903	\$18,530	(\$373)	-2.0%
Total GF-S	\$2,149,718	\$2,236,110	\$86,392	4.0%
Excl. Special Factors*	\$2,149,718	\$2,187,749	\$38,031	1.8%

*Large audit payment and early property tax payments



Conclusion

- 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 remain the same: the European debt crisis and recession, slowing Asian economies and uncertainty around federal budget and tax issues
- The next revenue collection update will be published on June 11th and our new revenue forecast will be presented on June 18th



Questions



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