

# Washington State Economic & Revenue Outlook

Presented to  
Senate Economic Development , Trade & Innovation

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WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



# Summary

- 2010 will be a year of transition
  - The economy will gain traction by mid-year
  - The recovery in revenues is underway, but progress will be slow
- The economic recovery faces headwinds
  - Real estate, especially commercial
  - Banking, particularly local and regional banks
- On the upside, a synchronized global recovery now unfolding, means exports will kick in earlier in the cycle
- Since revenues were first projected for the 2009-11 Biennium in February 2008, they have been cumulatively reduced by over \$6 billion

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Slide 1

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# At this stage in 1982-83, employment had started to recover

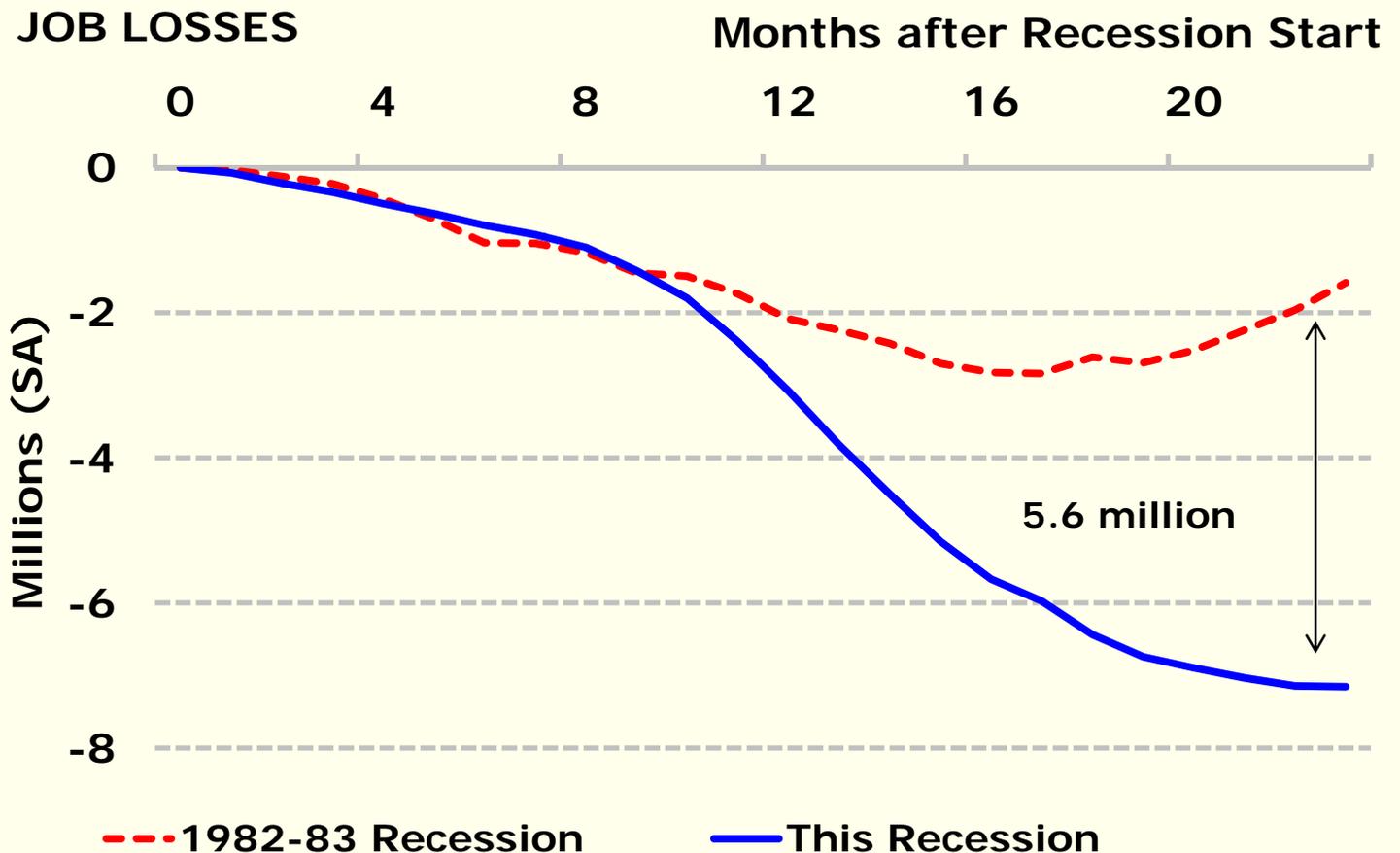
Cumulative  
job losses  
at 23  
months

**1982-83:**

1.4% of  
labor force

**This time:**

4.7% of  
labor force



Source: BLS, ERFC; data through November 2009

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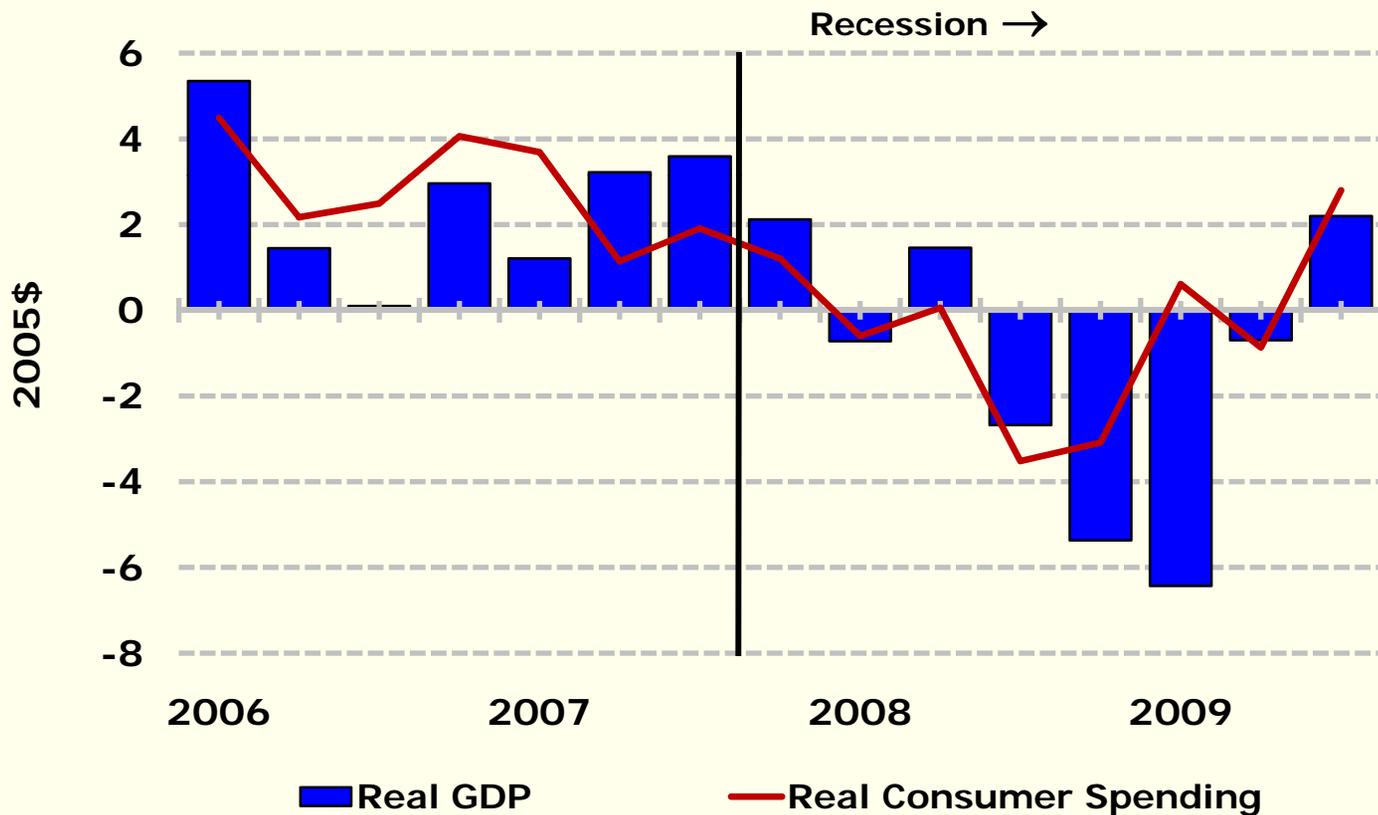
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# GDP returned to growth in Q3

Percent growth, SAAR



Source: BEA, data through 2009 Q3

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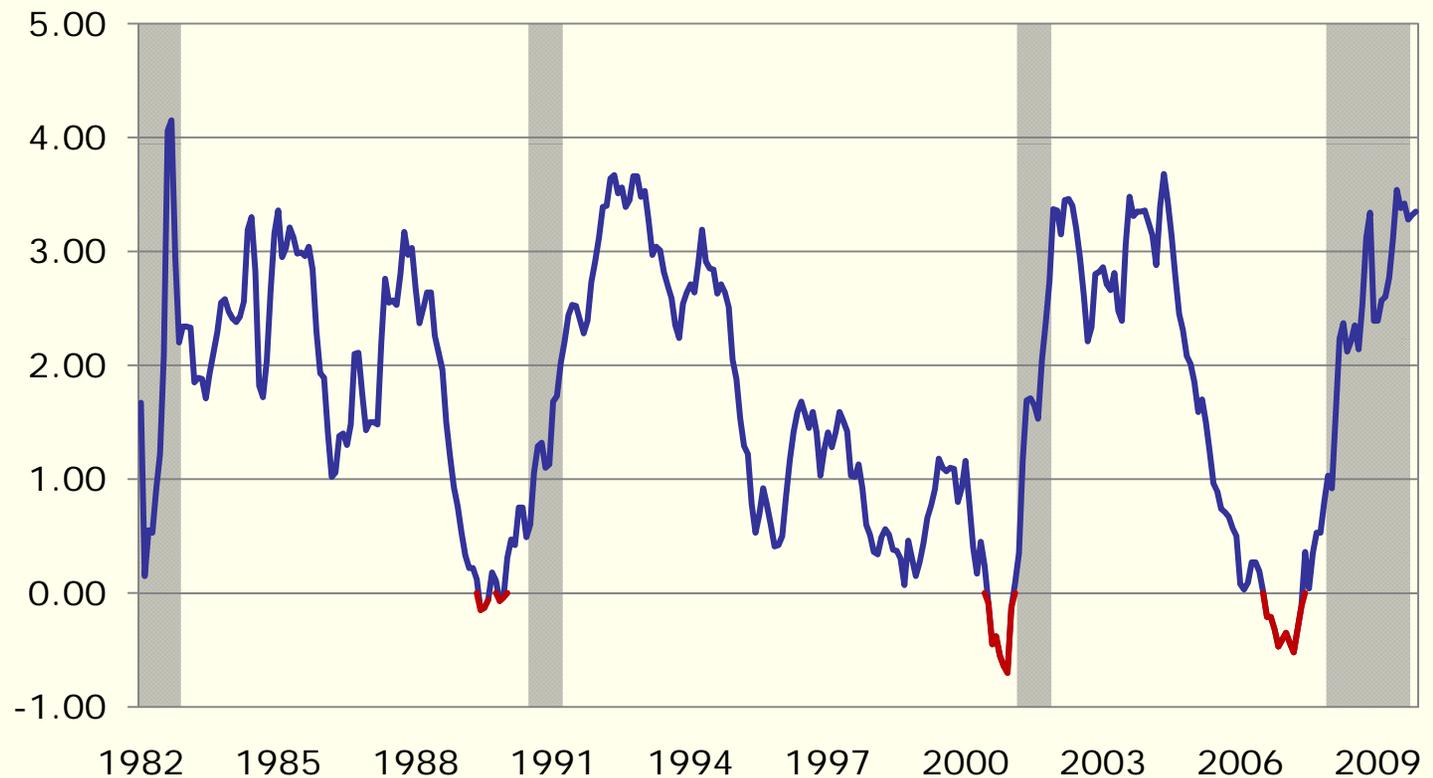
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# Increasing yield curve spread points to growth

An inverted yield curve typically precedes a recession while a steepening yield curve signifies a recovery

## Yield Curve Spread 10-Year minus 3-Month U.S. Treasuries



Source: Federal Reserve Board, ERFC; data through November 2009

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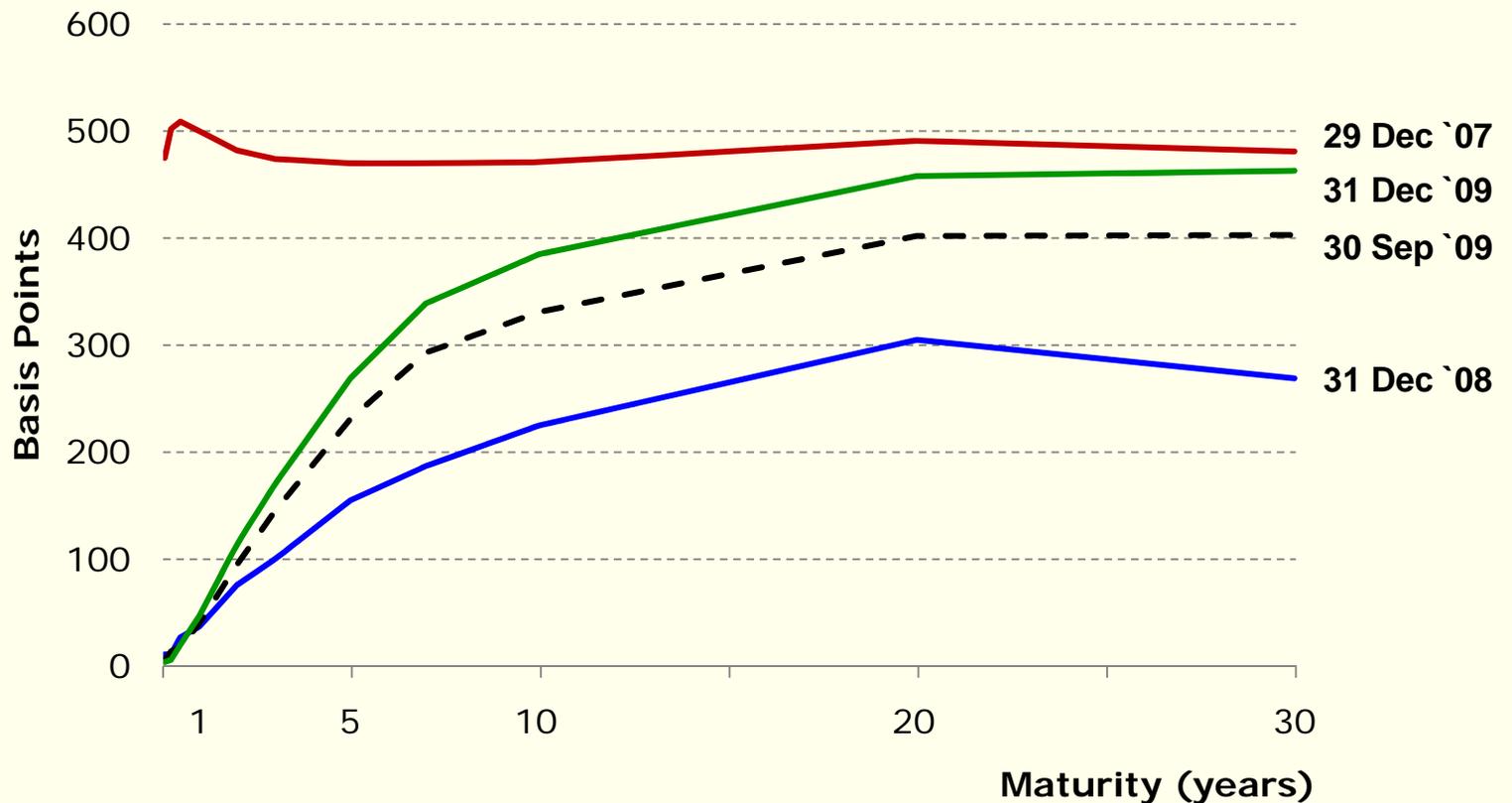
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# Steepening yield curve reflects expectations the economy will grow

## Yield Curve U.S. Treasuries, constant maturities



Source: Federal Reserve Board, ERFC

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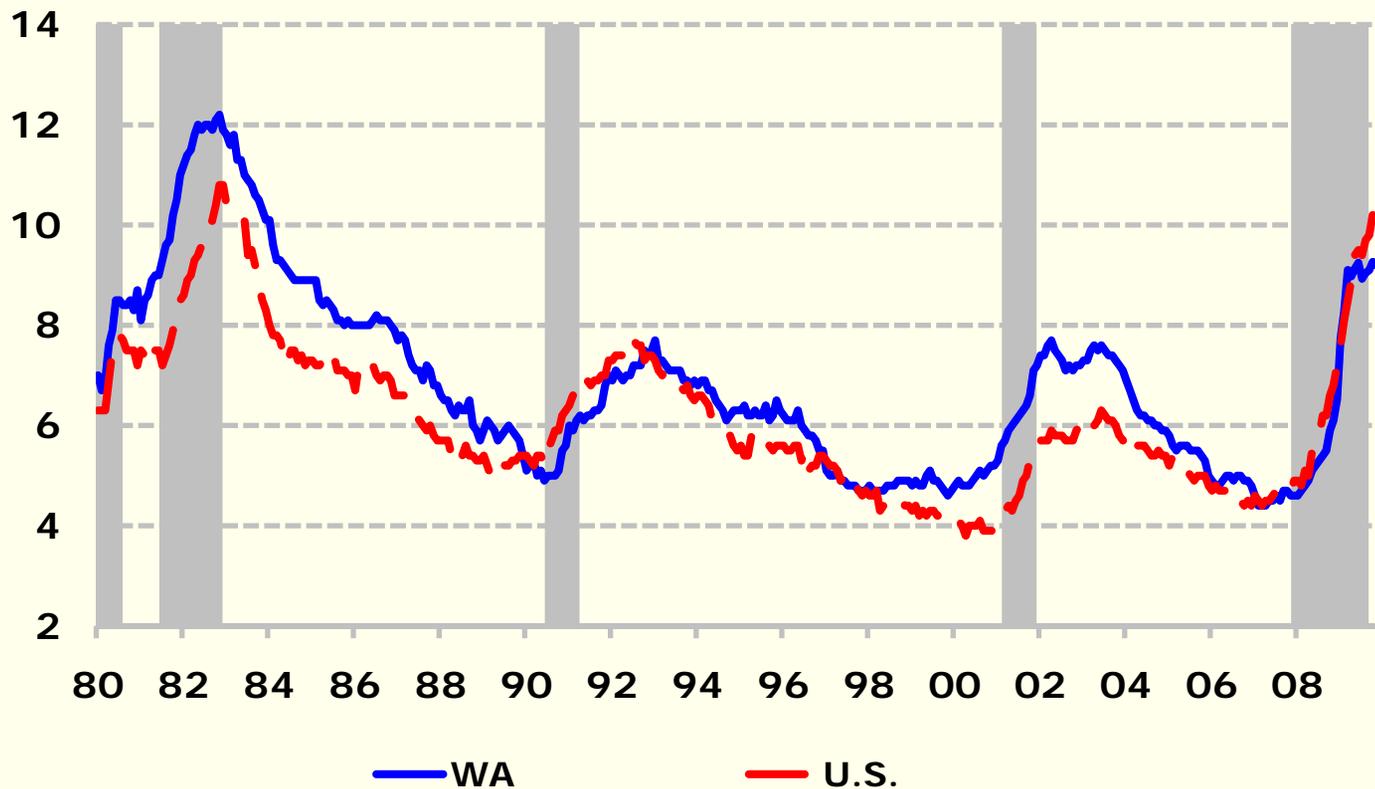
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# Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

Unemployment Rate, Percent, SA



Source: WA ESD, BLS; data through December 2009

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# The recovery in employment has been slow, but is poised to improve

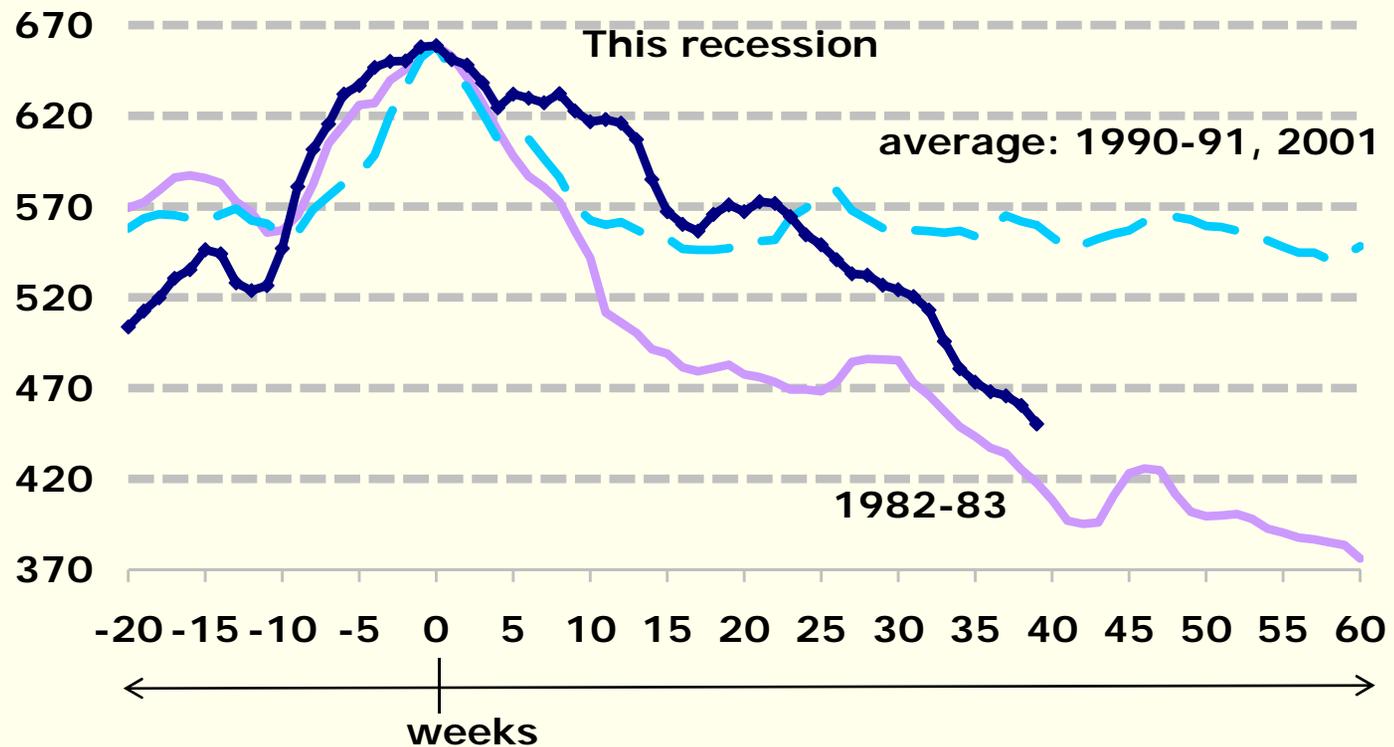
It is normal for the unemployment rate to continue to rise, even after job losses end

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## U.S. Initial Unemployment Claims

Thousands, 4-week MA



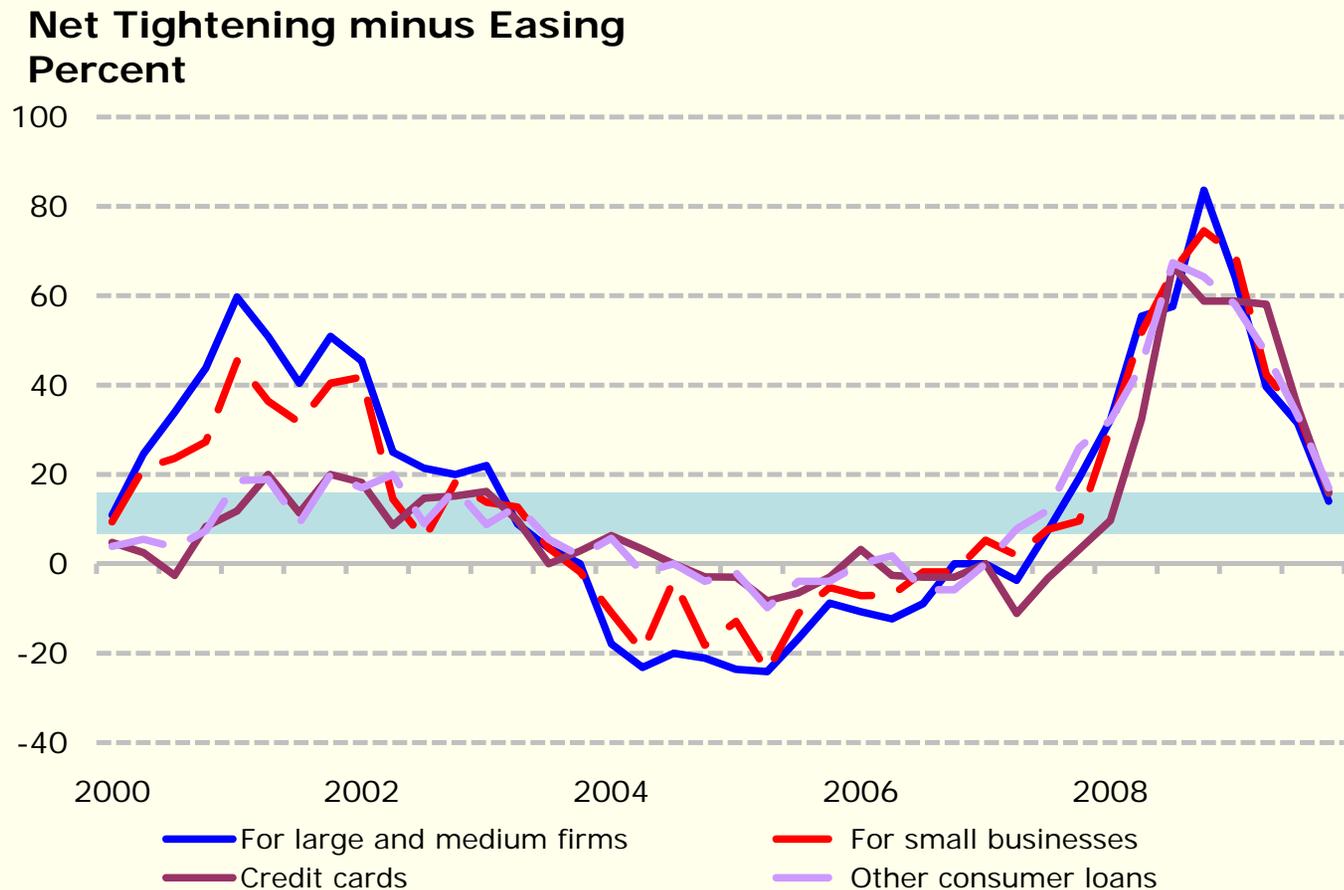
Source: U.S. Department of Labor, ERFC; data through Jan 2, 2010

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# Bank lending to businesses and consumers appears to be easing, but...

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks



Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through October 2009 survey

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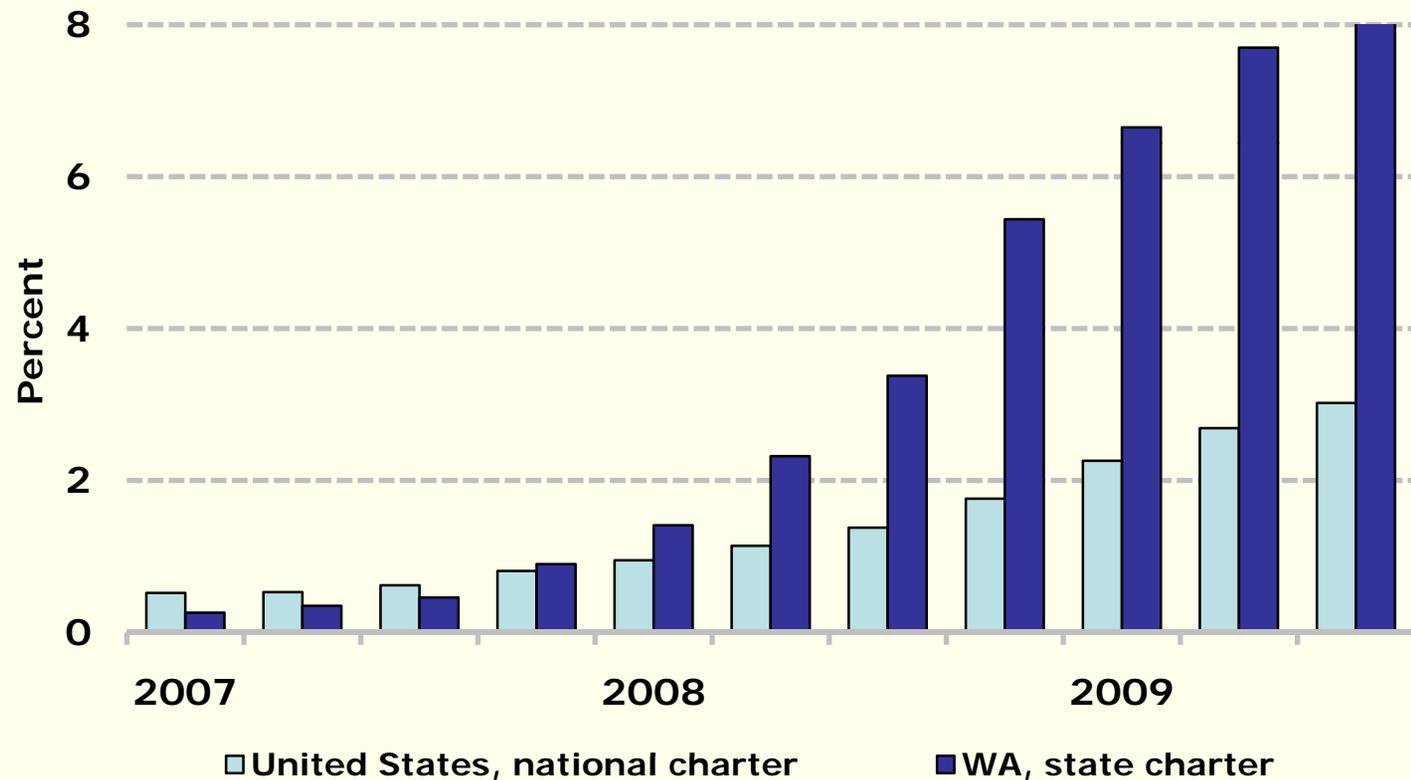
# ... asset quality of regional banks is deteriorating because of over exposure to commercial real estate...

This is generally true for state chartered banks in other states as well

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### Ratio of Non-Performing to Total Assets

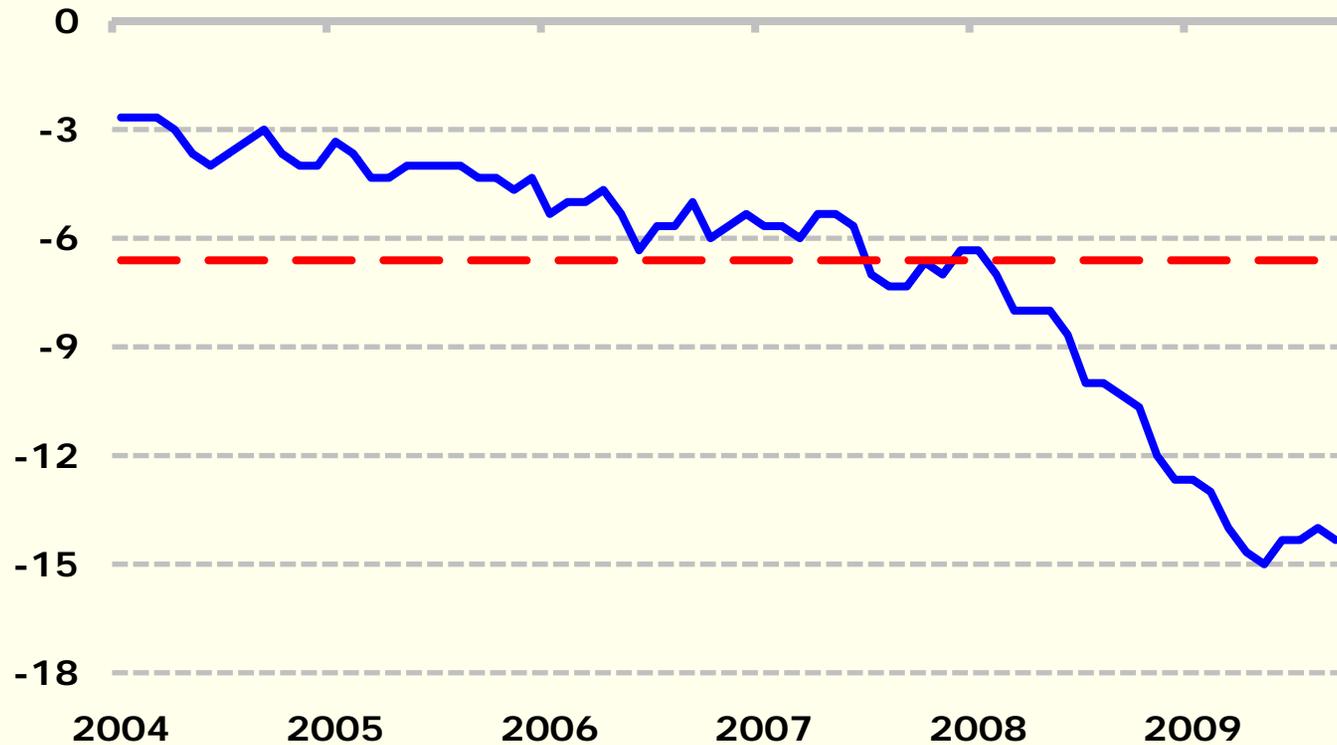


Source: FDIC, data through 2009 Q3



# ... and credit conditions remain tight for small business...

Availability of Loans  
Net Percent ("Easier" minus "Harder"), 3mma



Source: National Federation of Independent Business; data through November 2009

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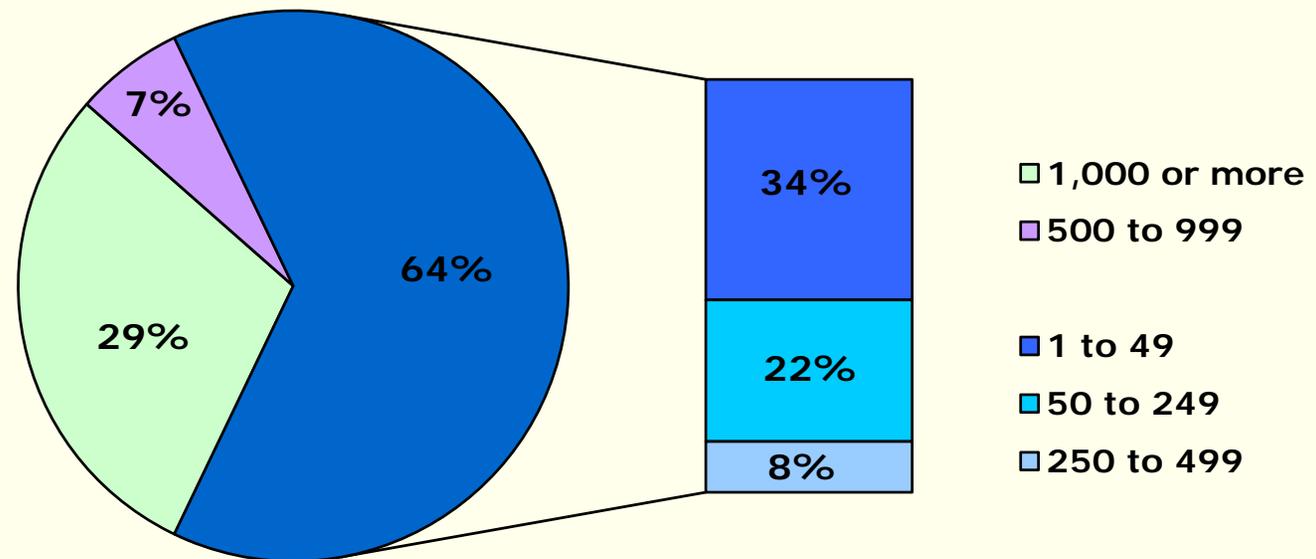
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# ... who create most of the jobs

Since 1992, 64% of the net change in employment has occurred in small businesses



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Source: BLS, data from 1992 Q3 to 2009 Q1

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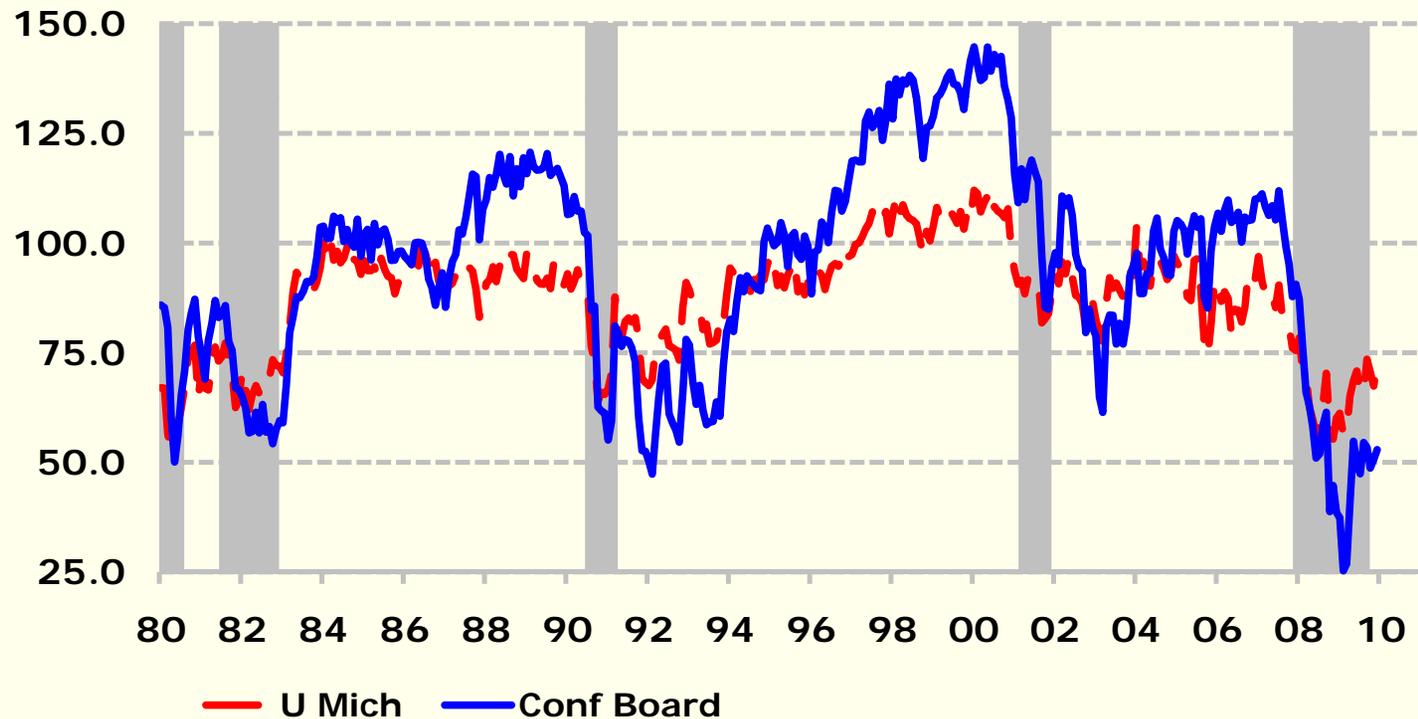


# Consumer confidence is looking for direction

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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Source: University of Michigan; Conference Board, data through December 2009, preliminary

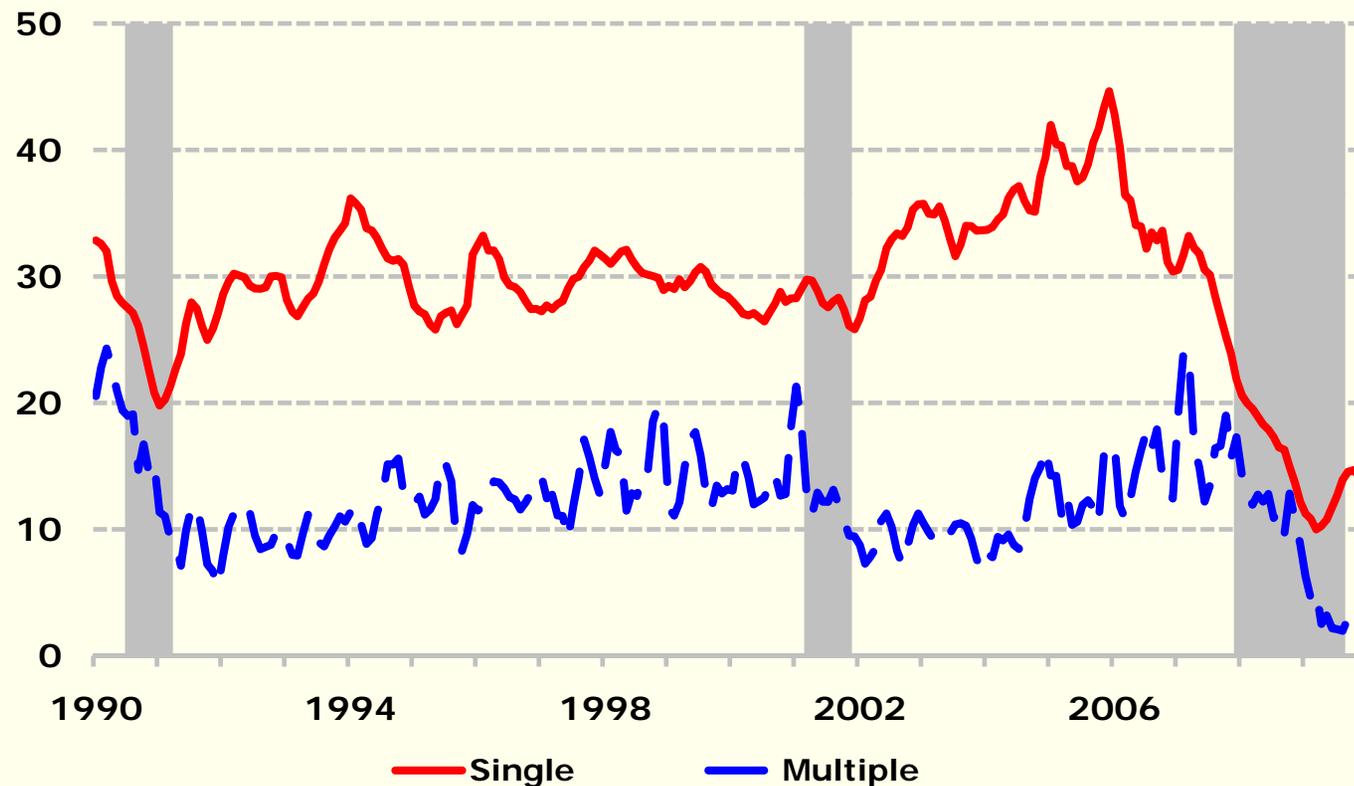
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# WA single family building permits are doing better than multi-family

Thousands, SA, 3MMA



Source: U.S. Census Bureau; data through November 2009

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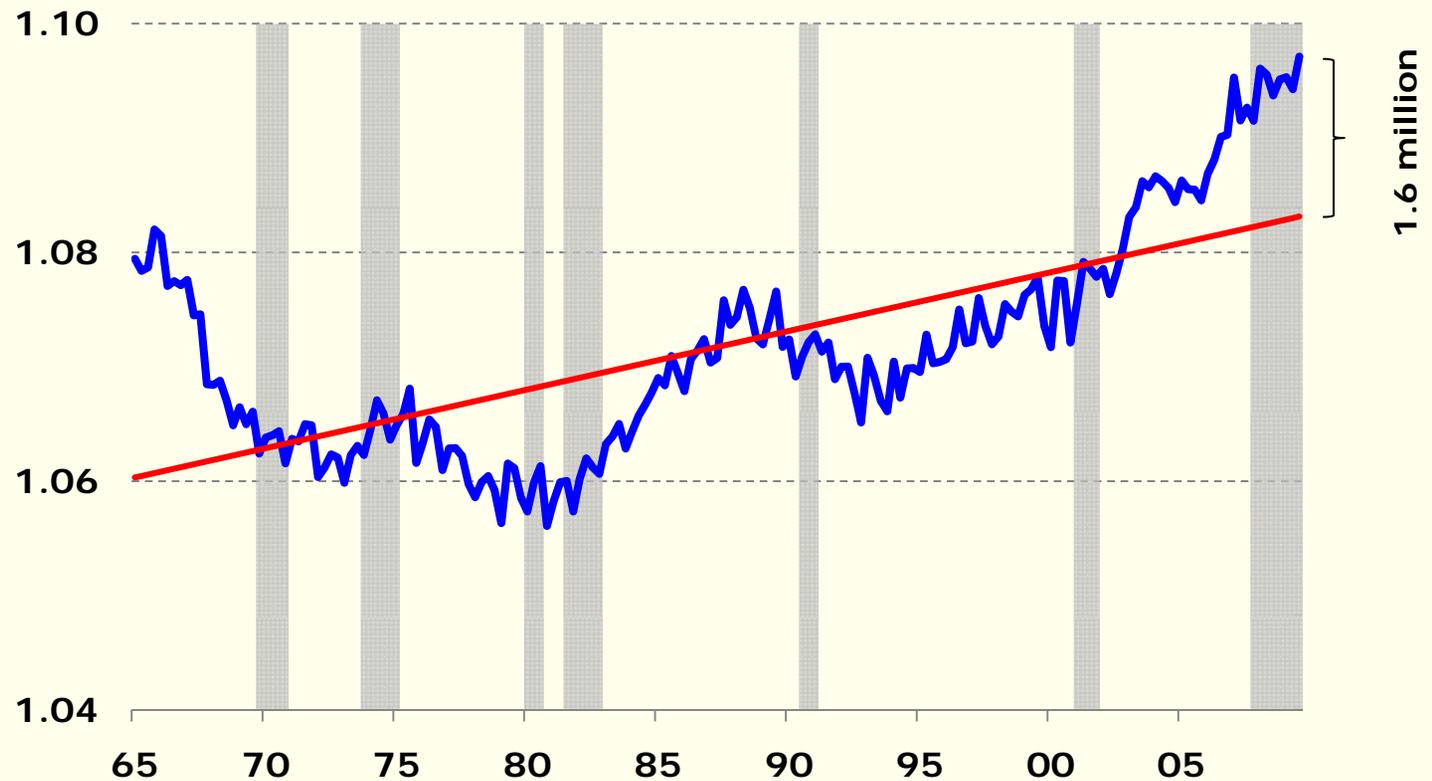
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# Housing inventory remains well above trend

Housing Units per Household



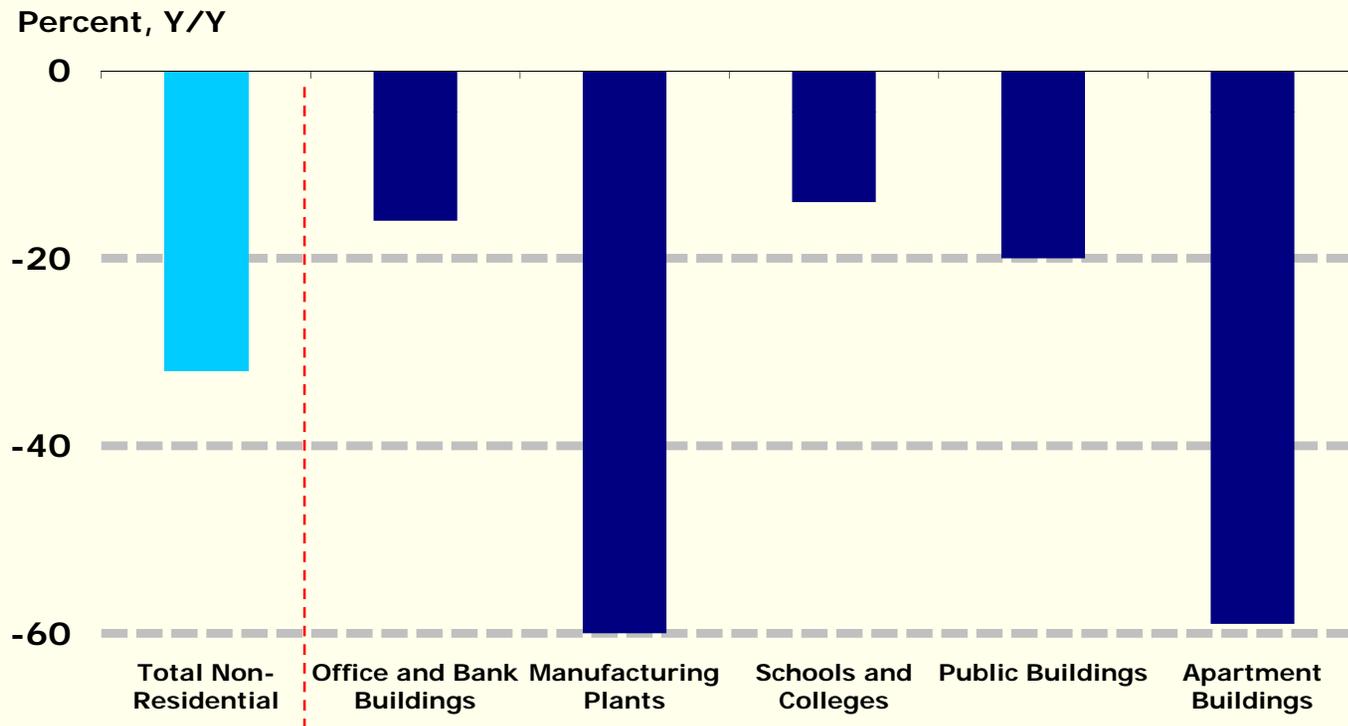
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Source: U.S. Census Bureau, ERFC; data through 2009 Q3



# Contract data indicate WA non-res construction will remain weak

## Washington State Contracts for New, Addition and Major Alteration Projects (Cumulative YTD)



Source: McGraw-Hill Construction, data through November, 2009

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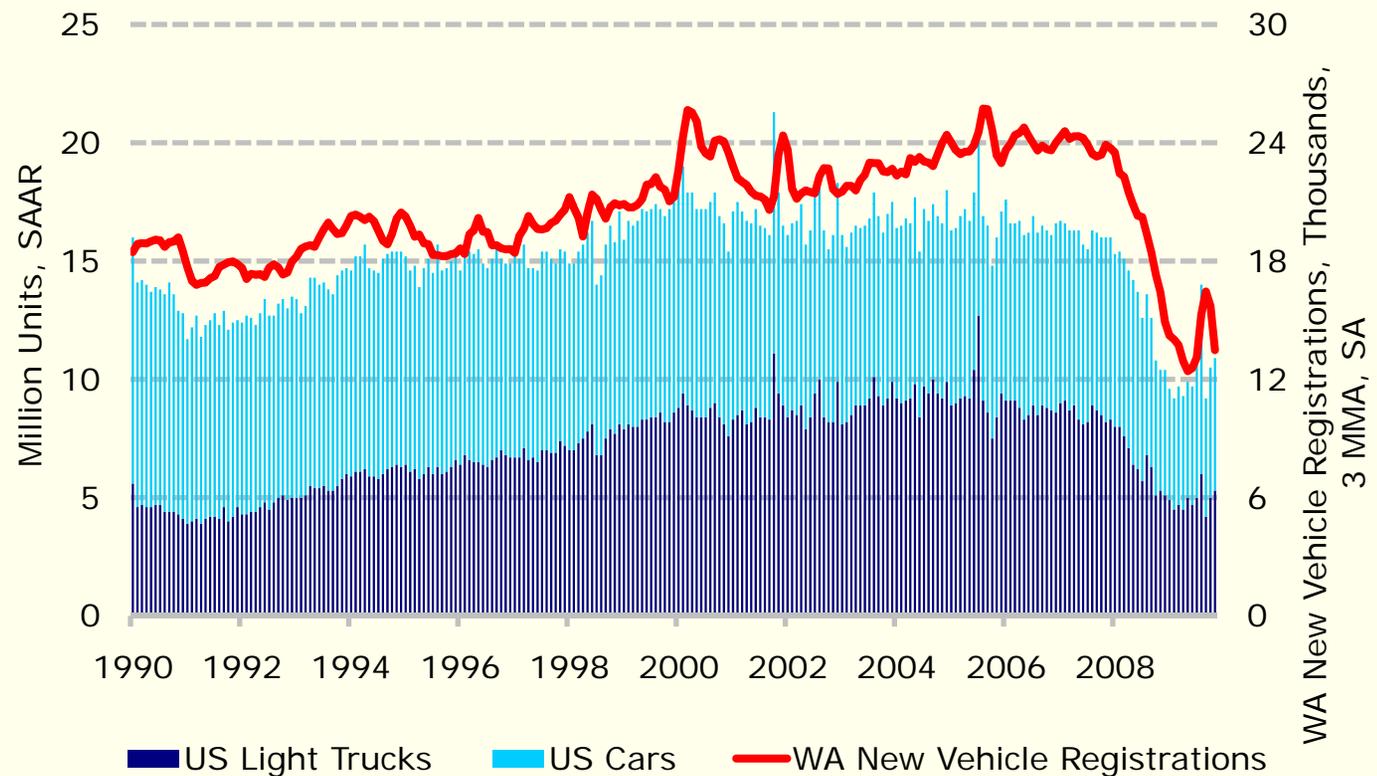
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# Automotive sales have stabilized nationally and in the state

National car sales were 2 million units higher in December than in January



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Source: Autodata Corporation, WA DOL; data through Dec 2009, WA through Nov 2009

Slide 17

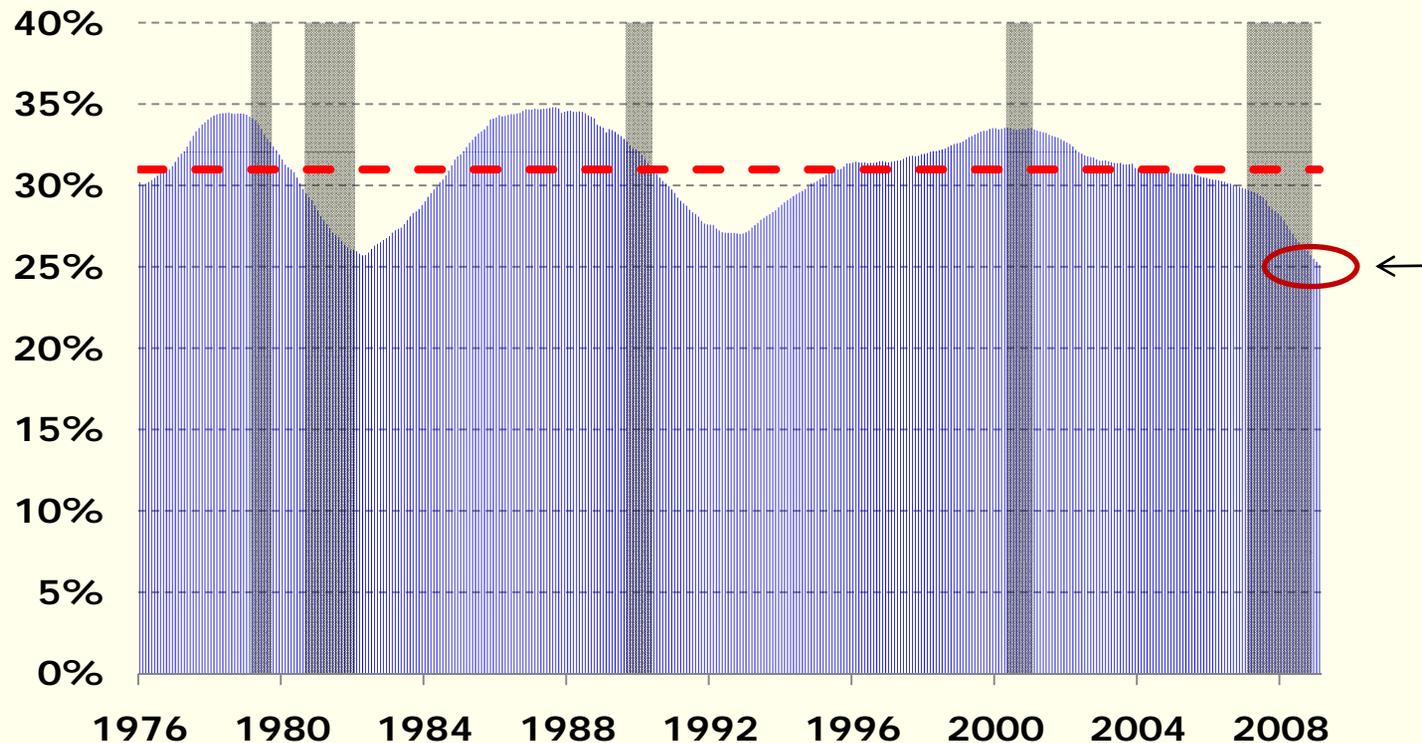
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# Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

### U.S. LMV Sales: Ratio of 36/120 Months



Source: Autodata Corporation, ERFC; data through December 2009

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# We are witnessing an unprecedented global recovery

These economies represent 32% of global GDP.

The US is 25% of global GDP

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	GDP share	Q/Q, SAAR %		
		2009 Q1	2009 Q2	2009 Q3
Japan	8.0%	-14.2	2.7	4.8
China	6.2%	5.6	16.0	11.5
Germany	6.0%	-13.4	1.8	2.9
France	4.7%	-5.7	1.0	1.3
India	2.0%	7.0	6.5	13.9
Korea	1.9%	0.5	9.7	12.3
Indonesia	0.8%	1.7	4.8	7.5
Taiwan	0.7%	-11.3	18.8	8.3
Thailand	0.4%	-5.9	9.1	5.3
Hong Kong SAR	0.4%	-16.1	14.8	1.6
Malaysia	0.3%	-17.7	12.3	8.7
Singapore	0.3%	-12.2	20.7	14.9
Philippines	0.3%	-8.3	7.0	4.1

Source: Goldman Sachs, ERFC

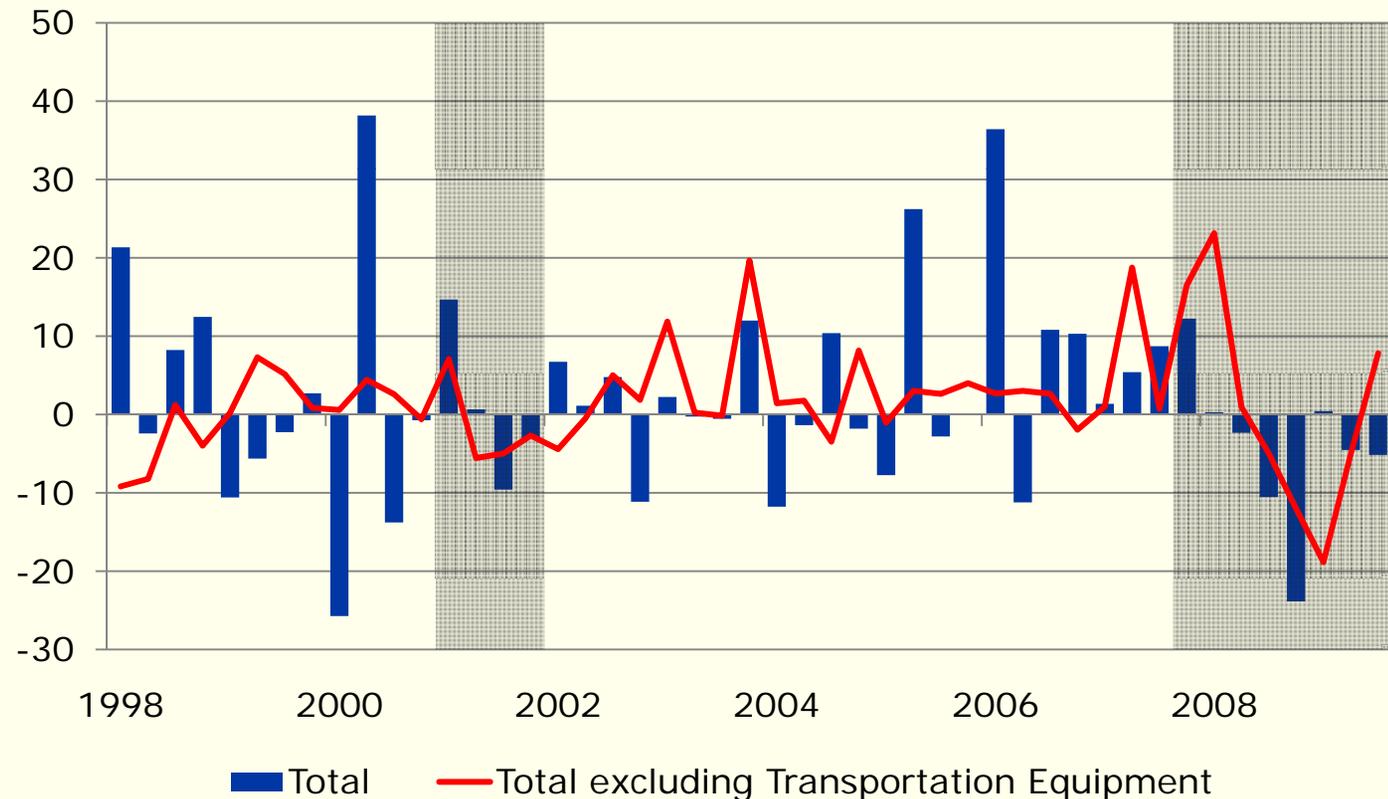
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# Exports will help the state recover faster than the nation

Exports excluding transport equipment was up 8% in Q3

**Exports, SAAR**  
Percent Change, quarter ago



Source: Wiser Trade Data; through 2009 Q3

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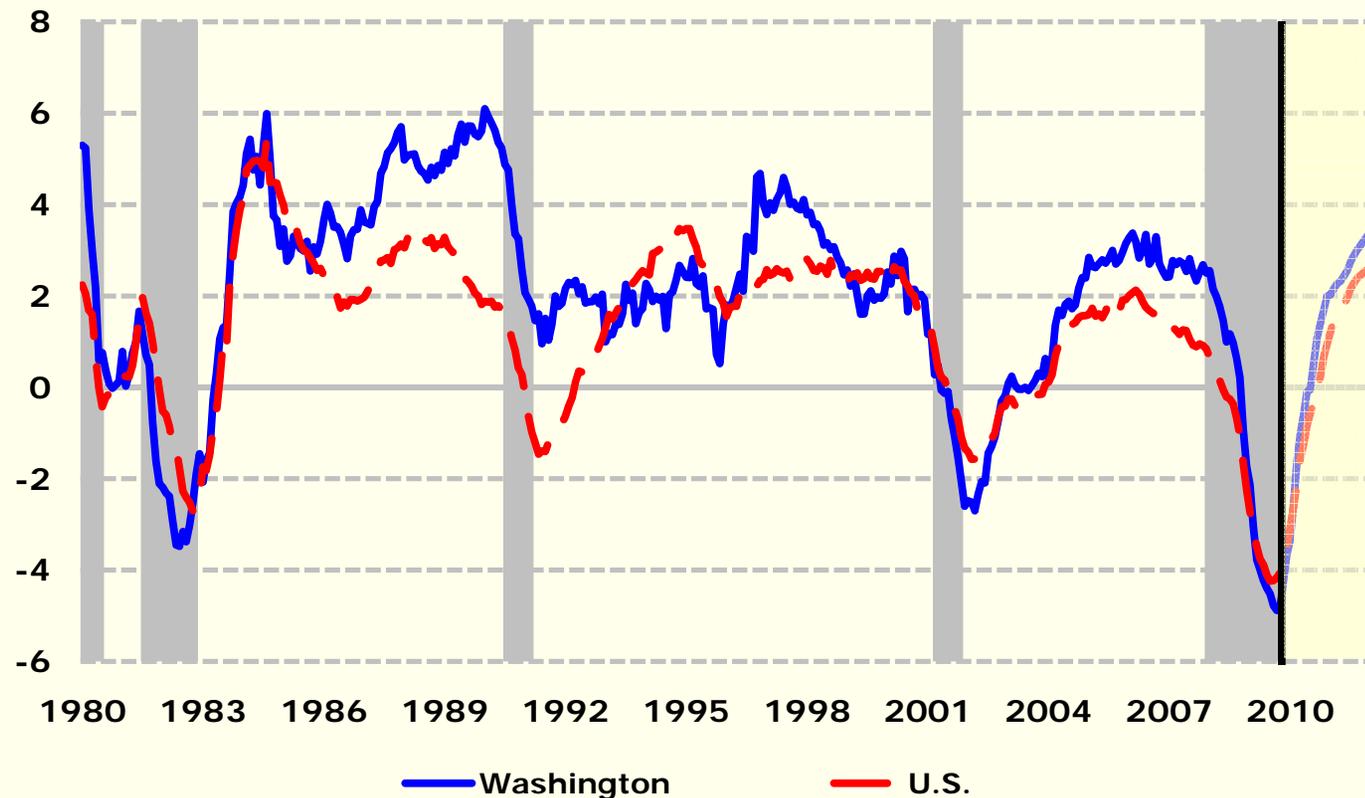
Slide 20

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# WA employment lagged the nation in the downturn and will recover a little stronger than the nation

Percent change, year ago



Source: ERFC November 2009 forecast; actual through October 2009

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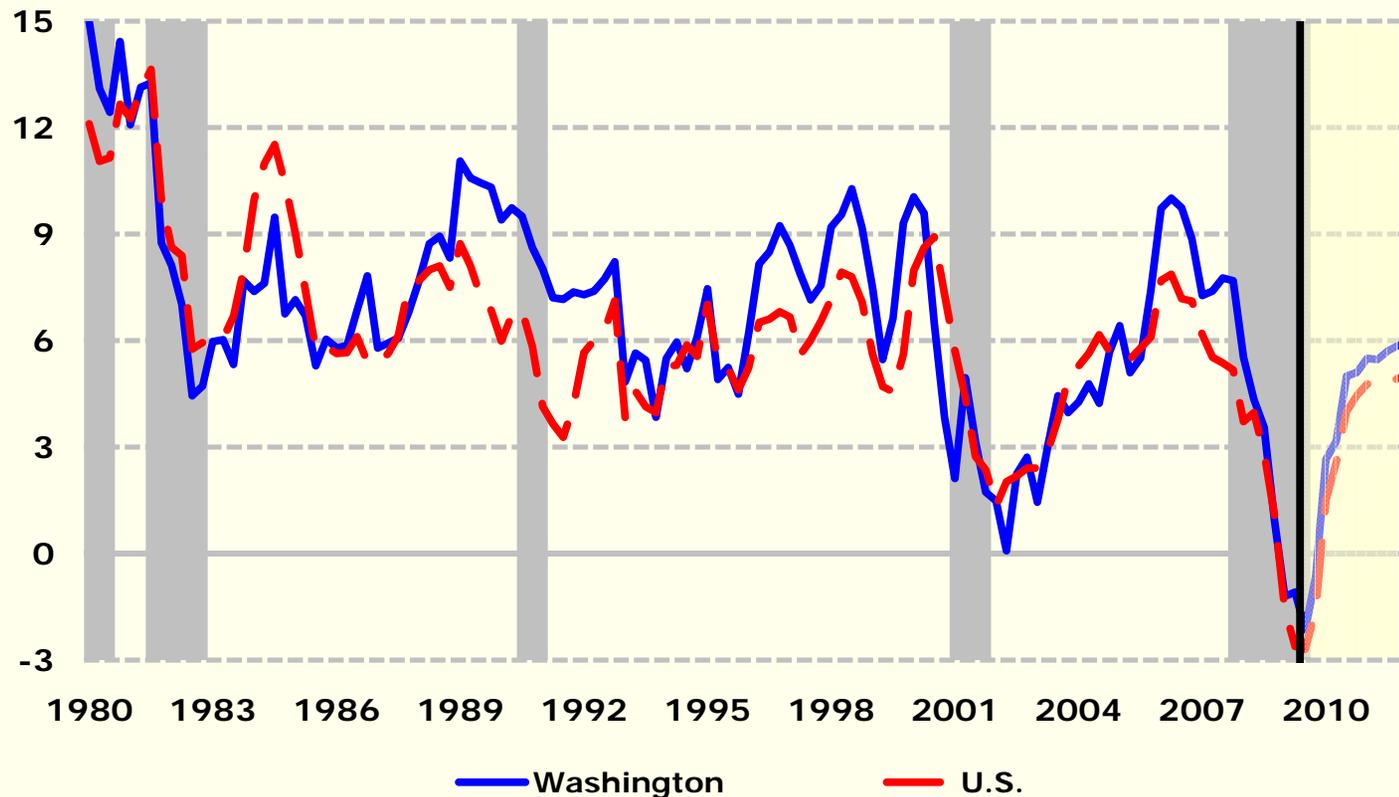
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# The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago



Source: ERFC November 2009 forecast; actual data through 2009Q2

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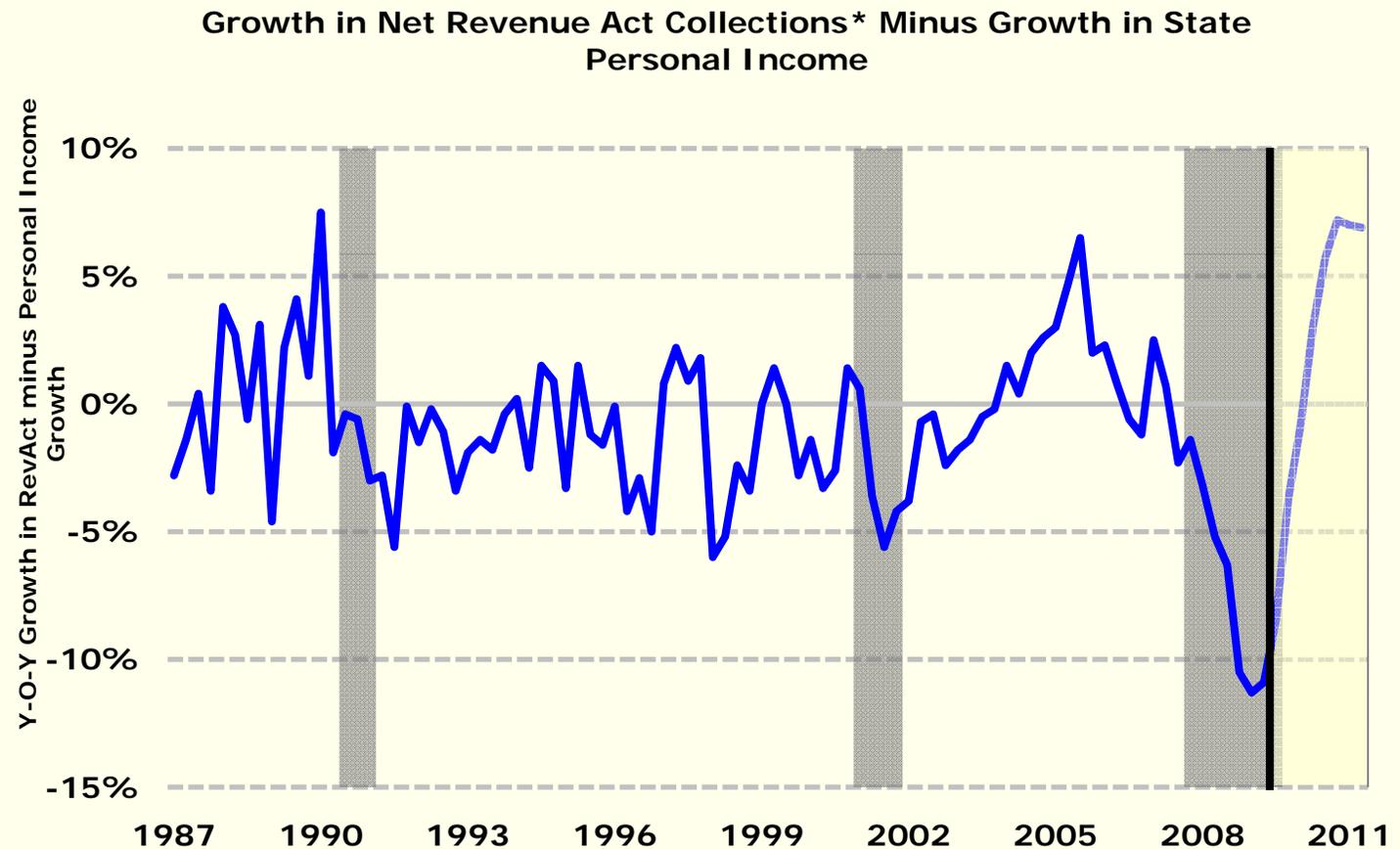
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# Revenue growth relative to income growth has turned around

\* Adjusted for new legislation and special factors



Source: ERFC forecast; actual collections through 2009Q3

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# Forecast changes: General Fund State, 2009-2011 Biennium

Sept.  
Forecast:  
\$29,603  
million

USD millions	November '09 Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$97)	\$0	(\$655)	\$27,386	(\$752)
All other agencies	\$0	\$0	(\$8)	\$1,457	(\$8)
<b>Total GF-S</b>	<b>(\$97)</b>	<b>\$0</b>	<b>(\$663)</b>	<b>\$28,843</b>	<b>(\$760)</b>

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\* Detail may not add to total due to rounding

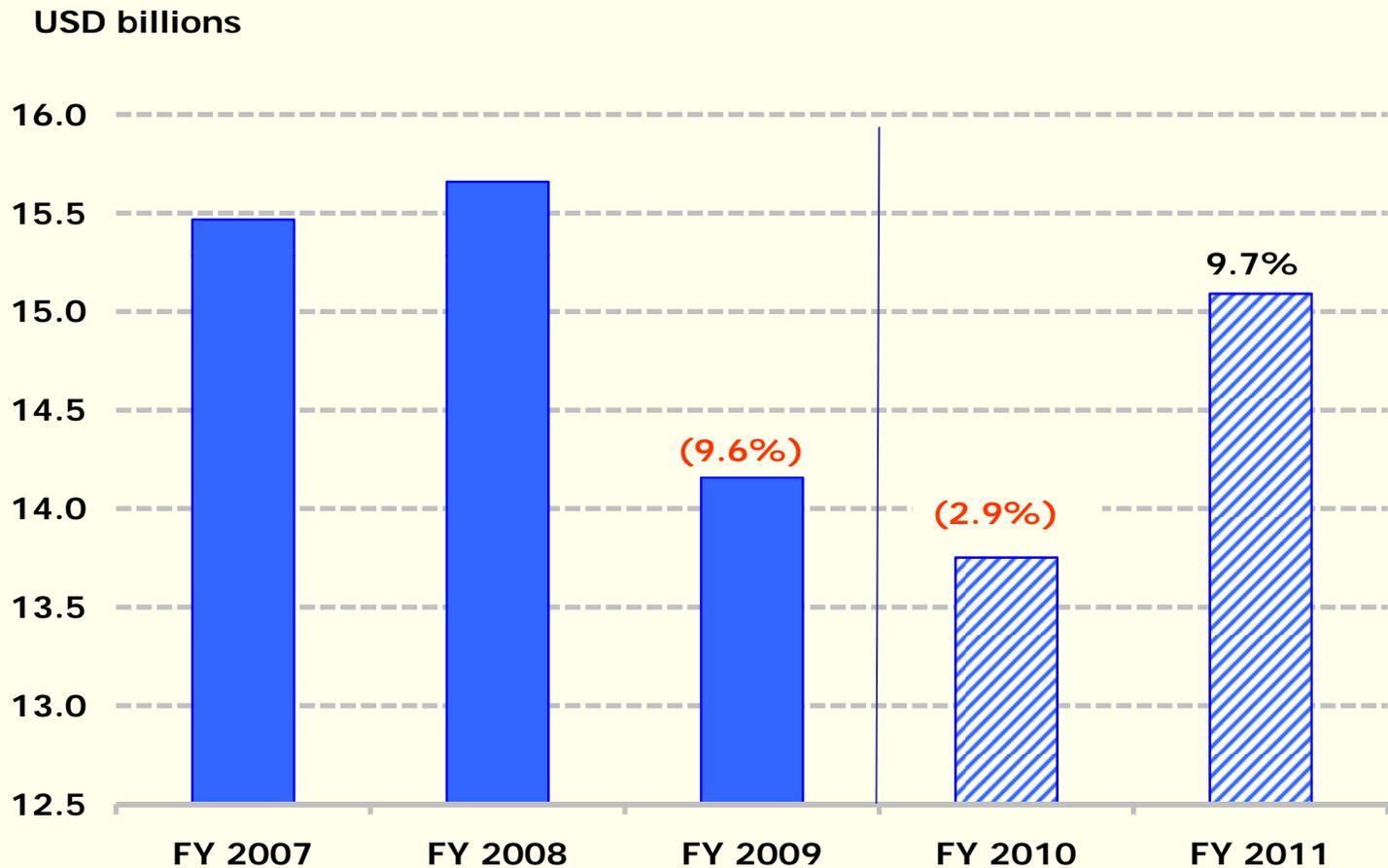


# General Fund\* forecast by fiscal year

\* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10, and 11

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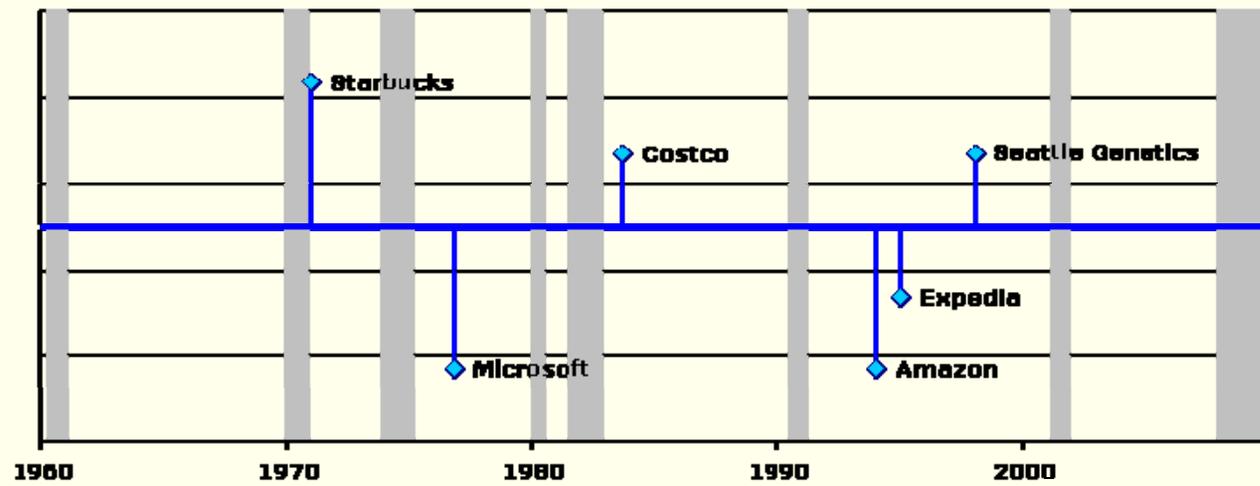
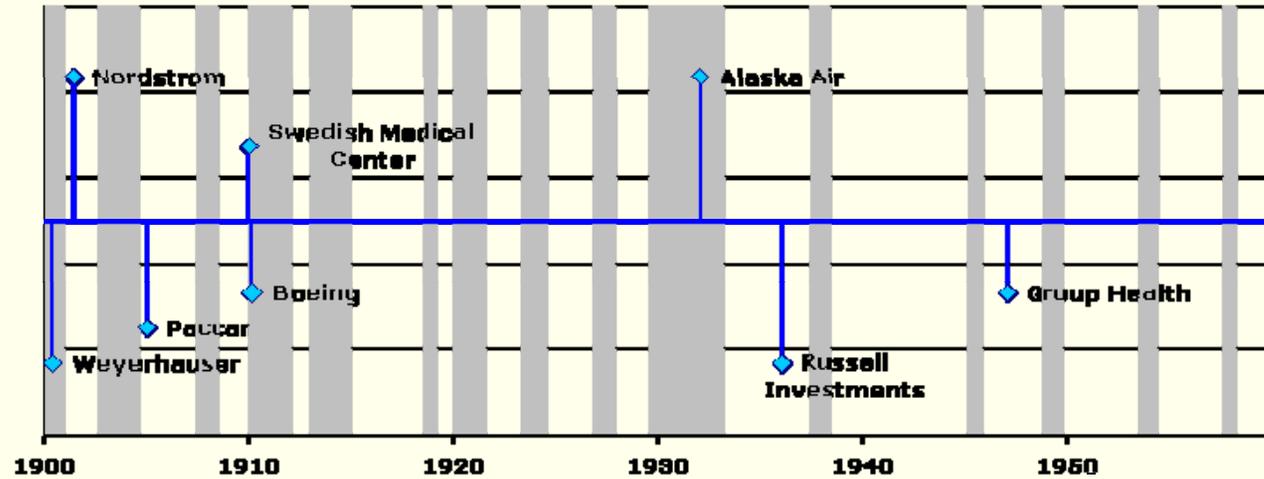


Source: ERFC forecast, November 2009



# Innovation follows recessions

Gray bars correspond to national recessions



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# Conclusion

## Pluses

- Recovery in progress
- Employment likely to improve soon
- Car sales have stabilized
- Large banks able to extend credit

## Minuses

- Problems at community banks
  - Weak consumer confidence
  - Slow recovery in construction
- Consumer spending has to recover for this to become a self-sustaining recovery and for revenues to grow again
  - Revenues in the 2009-11 Biennium are expected to be 3.3% below collections in the 2007-09 Biennium

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# Questions

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