

Economic Outlook Webinar

Presented to
Northwest Energy Efficiency Council

Steve Lerch
Chief Economist & Executive Director

February 25, 2014



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The WA and U.S. economic forecasts have been fairly consistent since early 2012 – slow growth and relatively weak labor markets
- Compared to our November forecast, GDP is slightly higher as is Washington employment
- Risks to the baseline are much the same as in November: the potential for slower Chinese economic growth and possible disruptions to the housing recovery; risks associated with federal fiscal policy have been reduced



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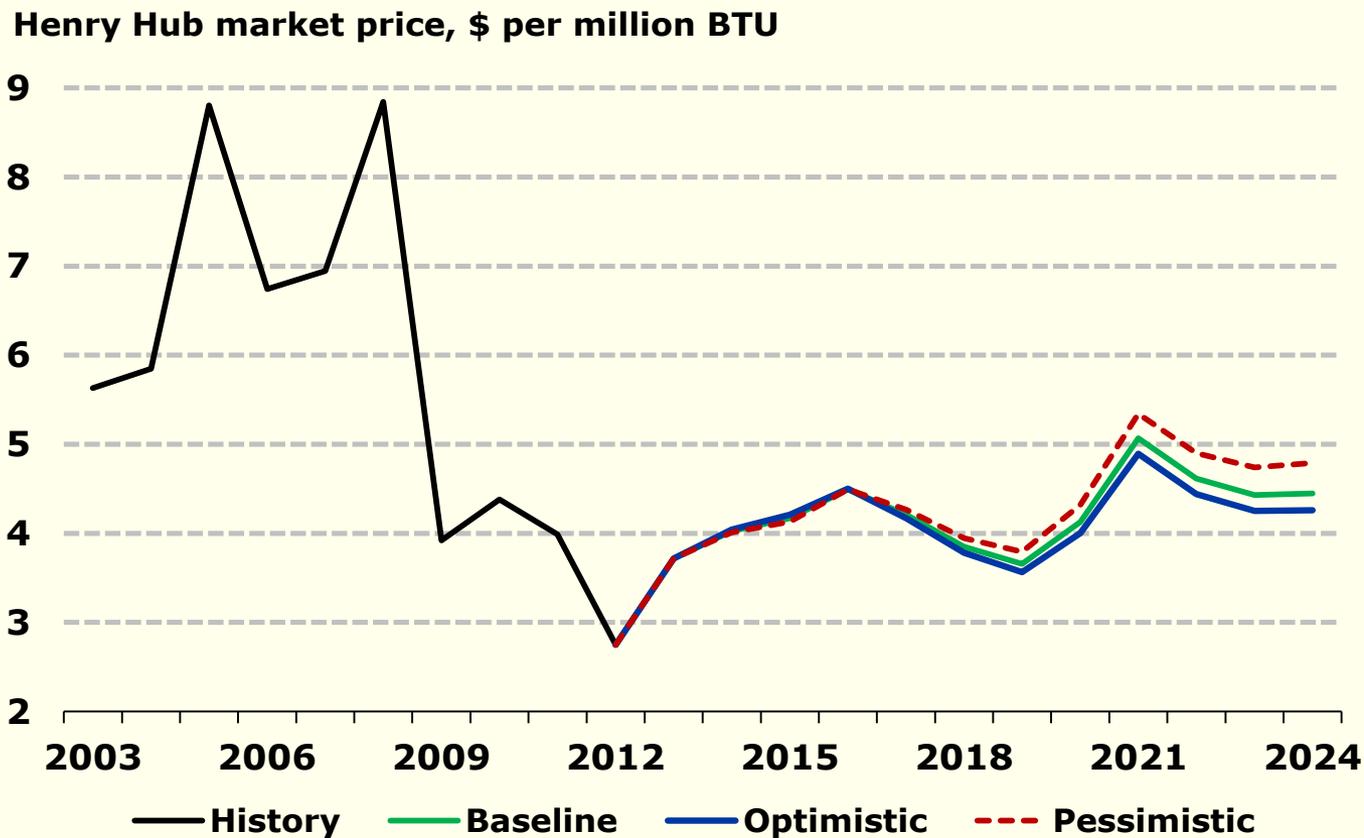
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Natural gas price – history and forecast scenarios

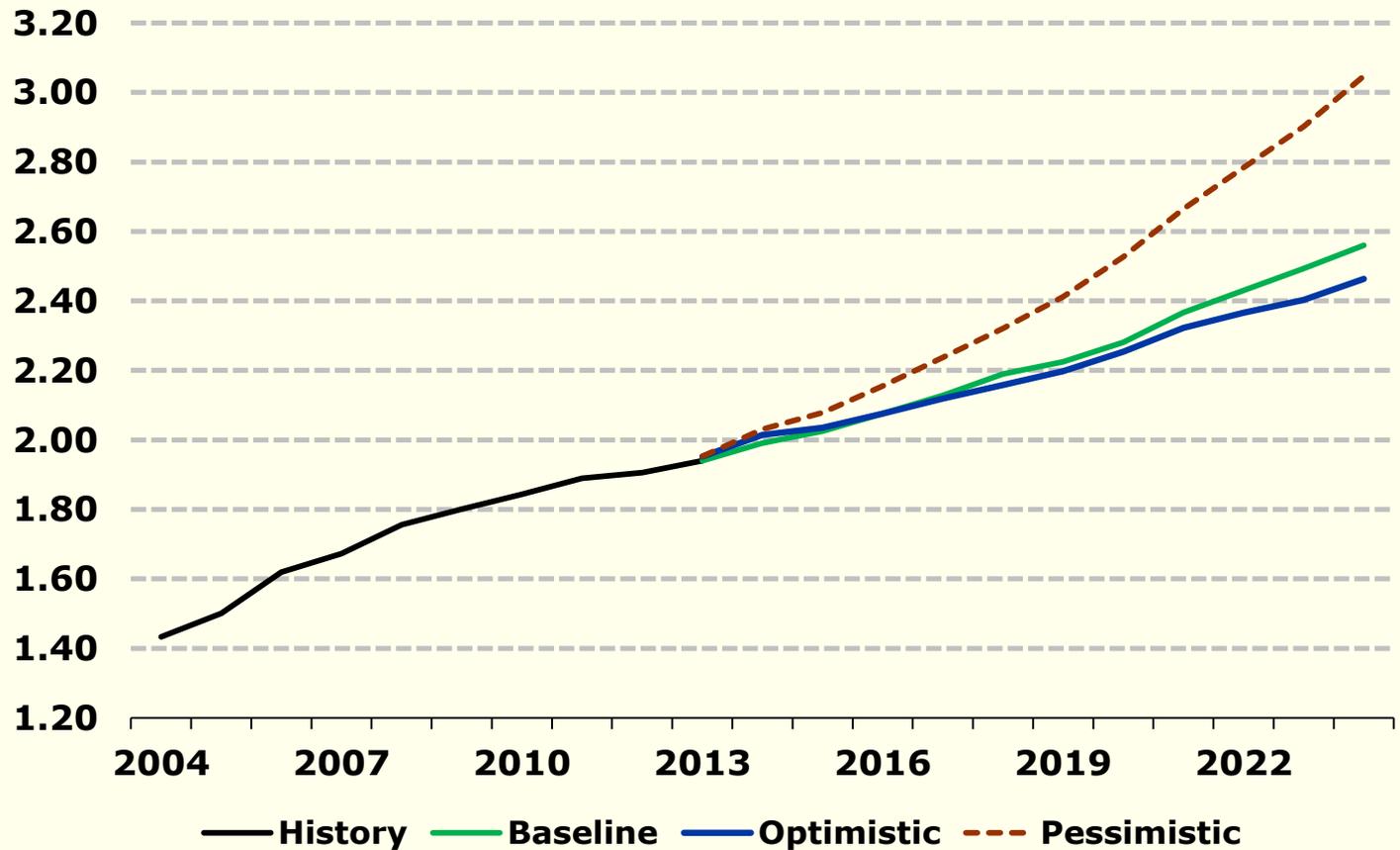


Source: IHS Global Insight, February 2014 forecast



Electricity price – history and forecast scenarios

Producer price index for electric power; 1982 = 1.0



Source: IHS Global Insight, February 2014 forecast

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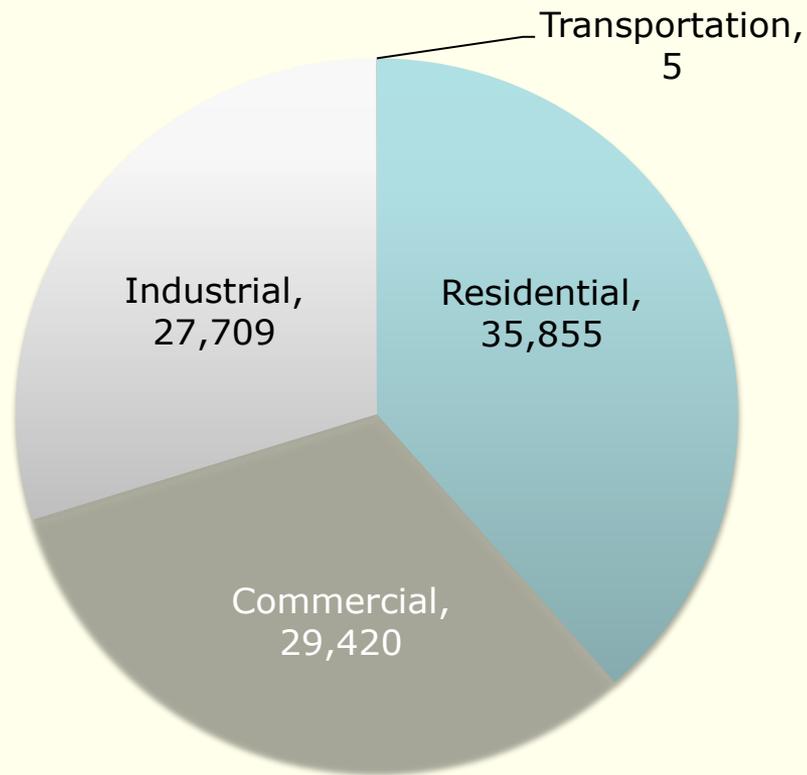
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Washington Electricity Sales, 2013

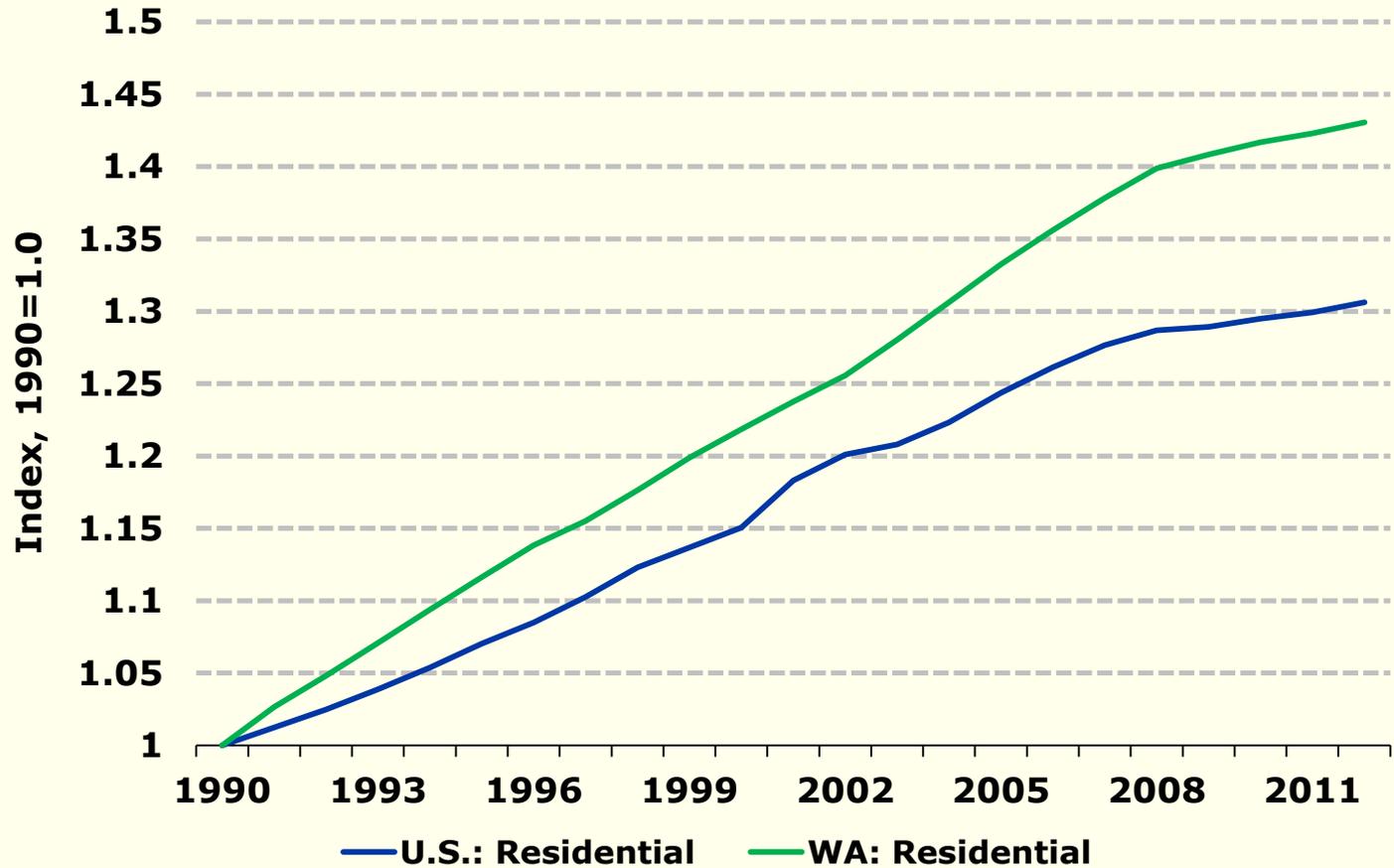
Electricity Sales by End-use Sector



Source: U.S. Dept. of Energy, EIA; million kilowatthours



Growth in residential electricity customers, U.S. and Washington

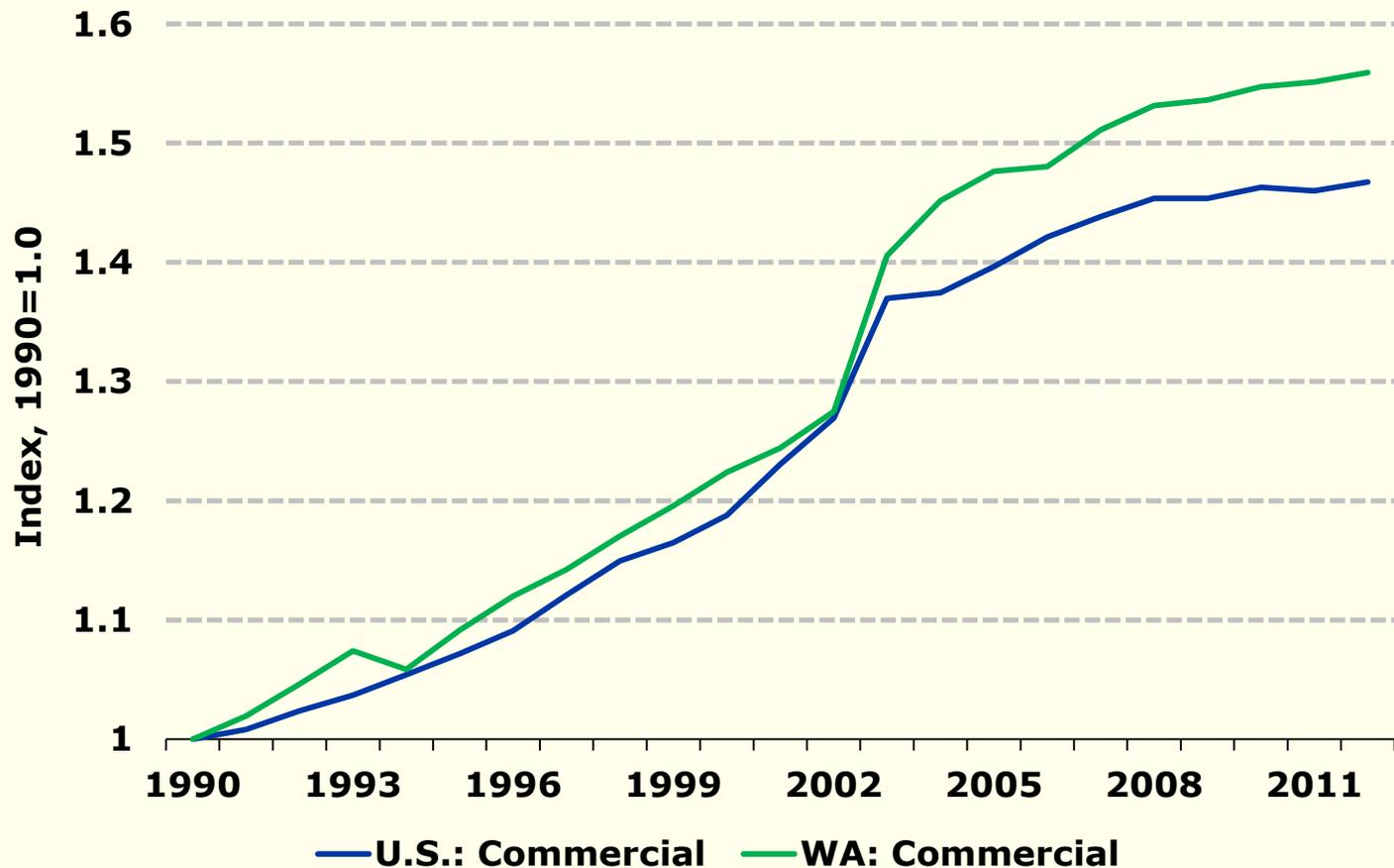


Source: U.S. Dept. of Energy, EIA; data through 2012

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Growth in commercial electricity customers, U.S. and Washington

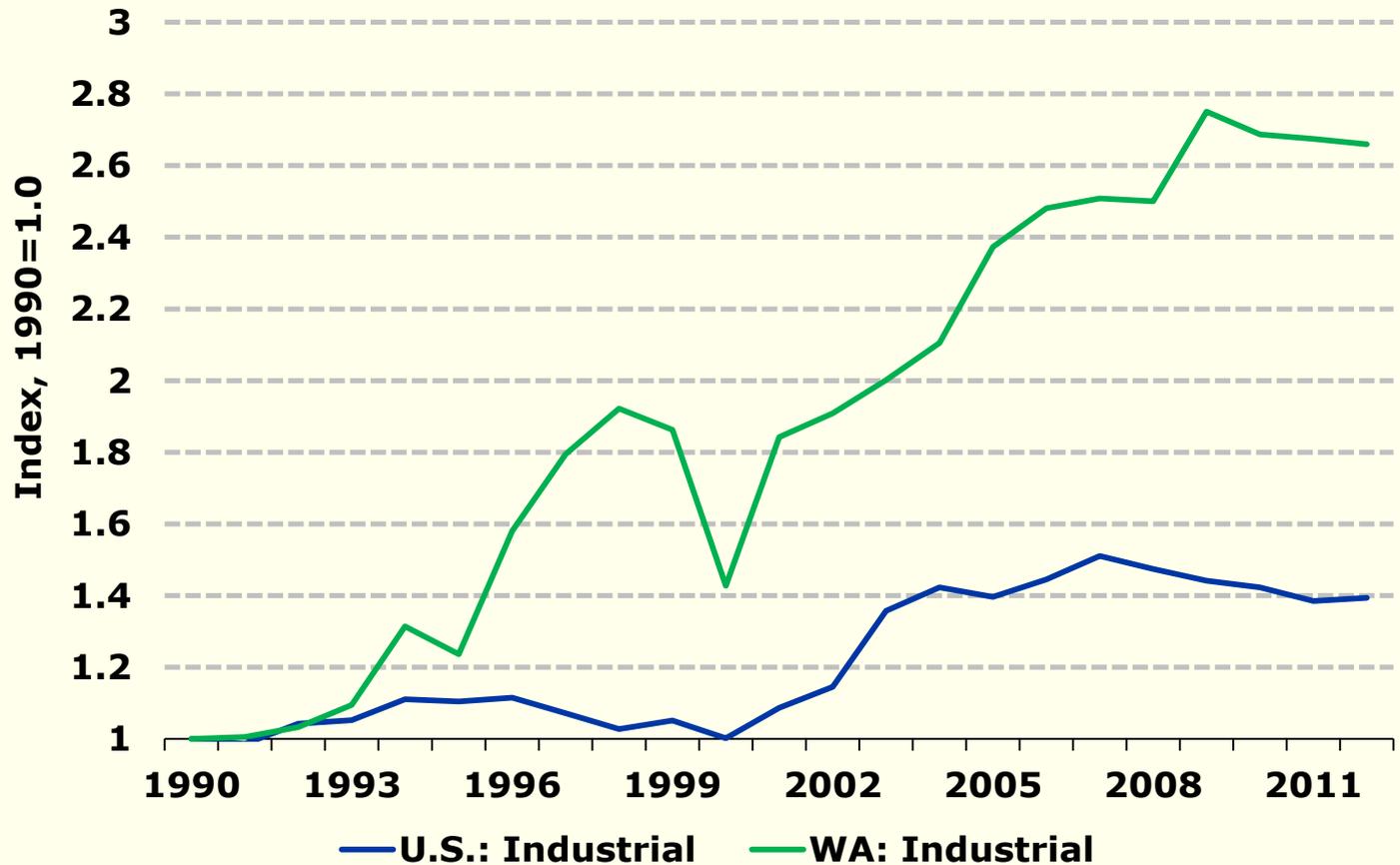


Source: U.S. Dept. of Energy, EIA; data through 2012

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Growth in industrial electricity customers, U.S. and Washington

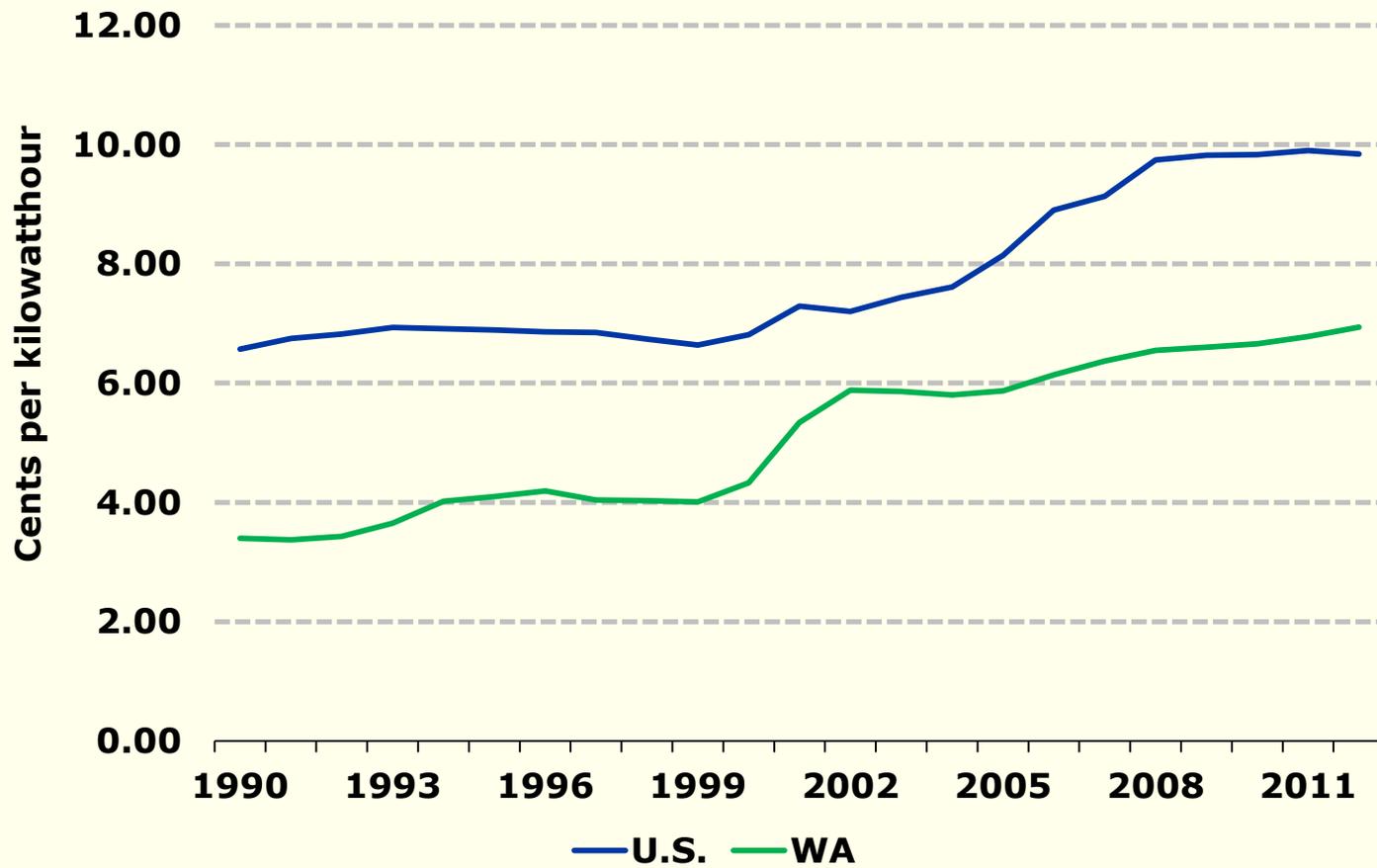


Source: U.S. Dept. of Energy, EIA; data through 2012

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Average electricity price, U.S. and Washington



Source: U.S. Dept. of Energy, EIA; data through 2012



February 2014 Forecast

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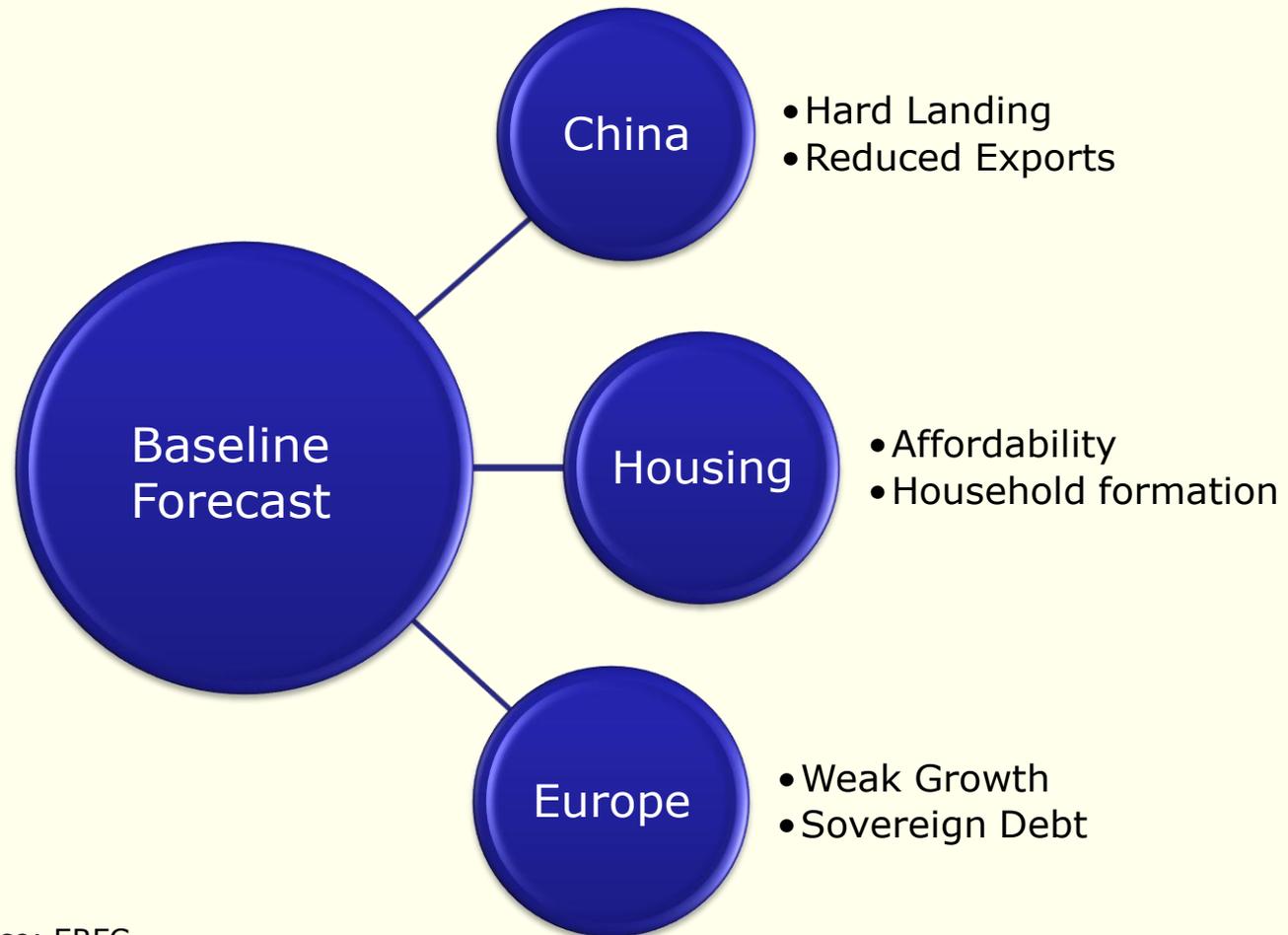
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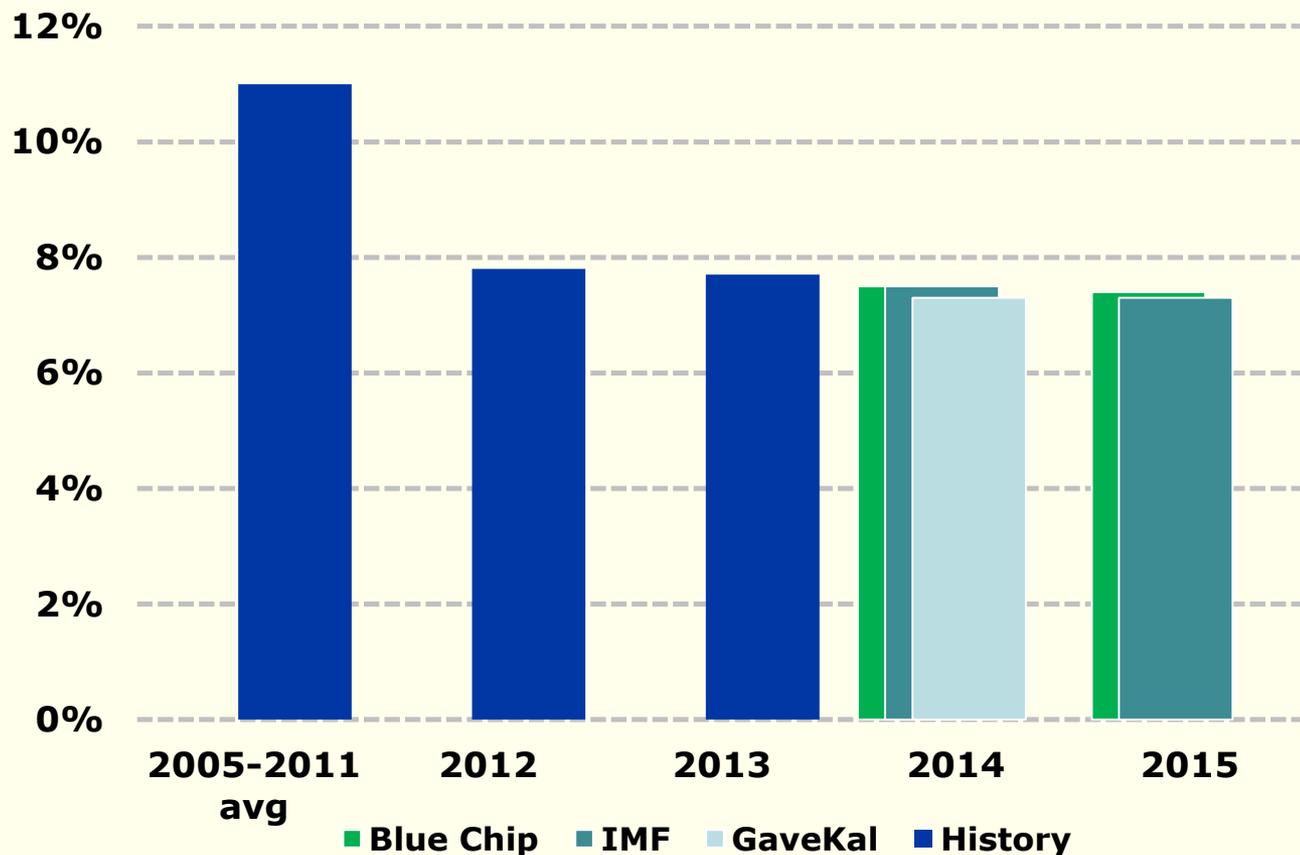
Three major risks to the forecast



Source: ERFC



China's 2014 & 2015 GDP growth expected to be at or below 2013 rates



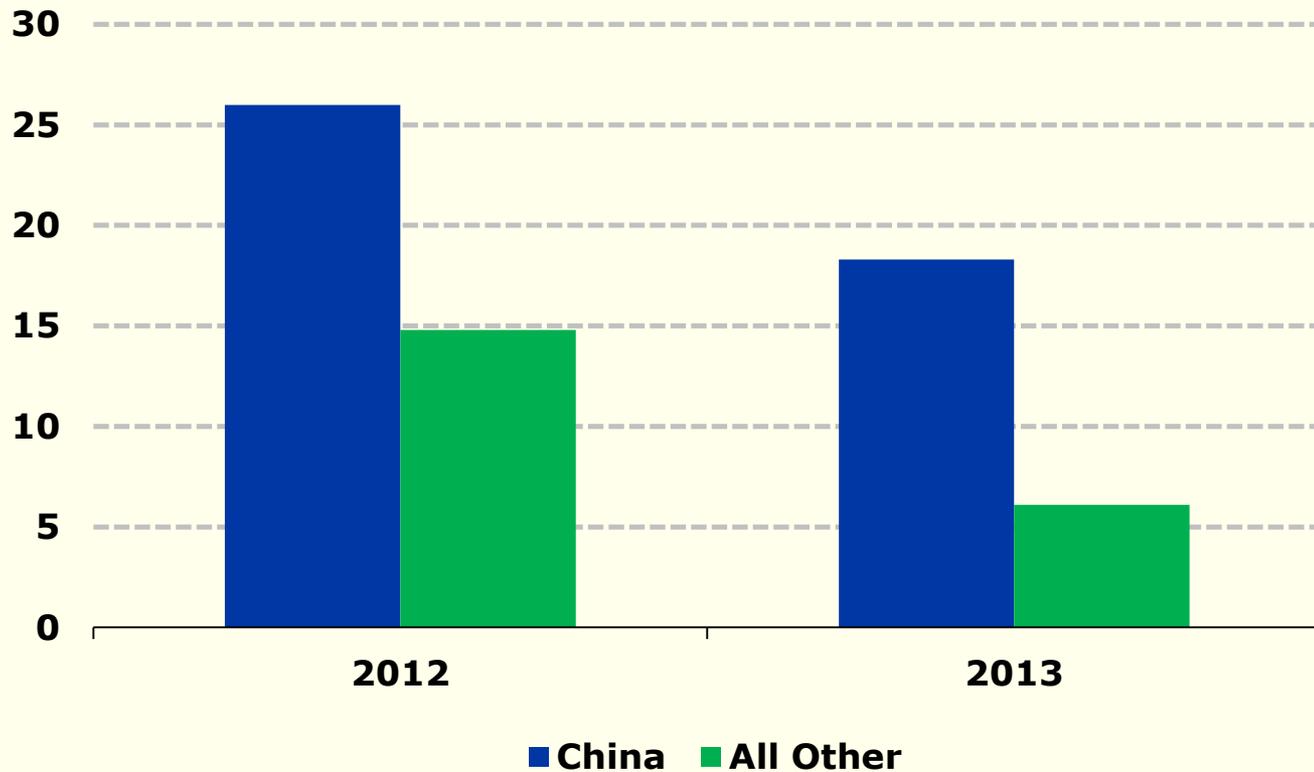
Source: Blue Chip, IMF, ISI; data and forecasts through January 2014

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Exports to China have slowed but remain stronger than other export markets

Washington Exports, Annual % Change



Source: Wisner Trade Data; through December 2013

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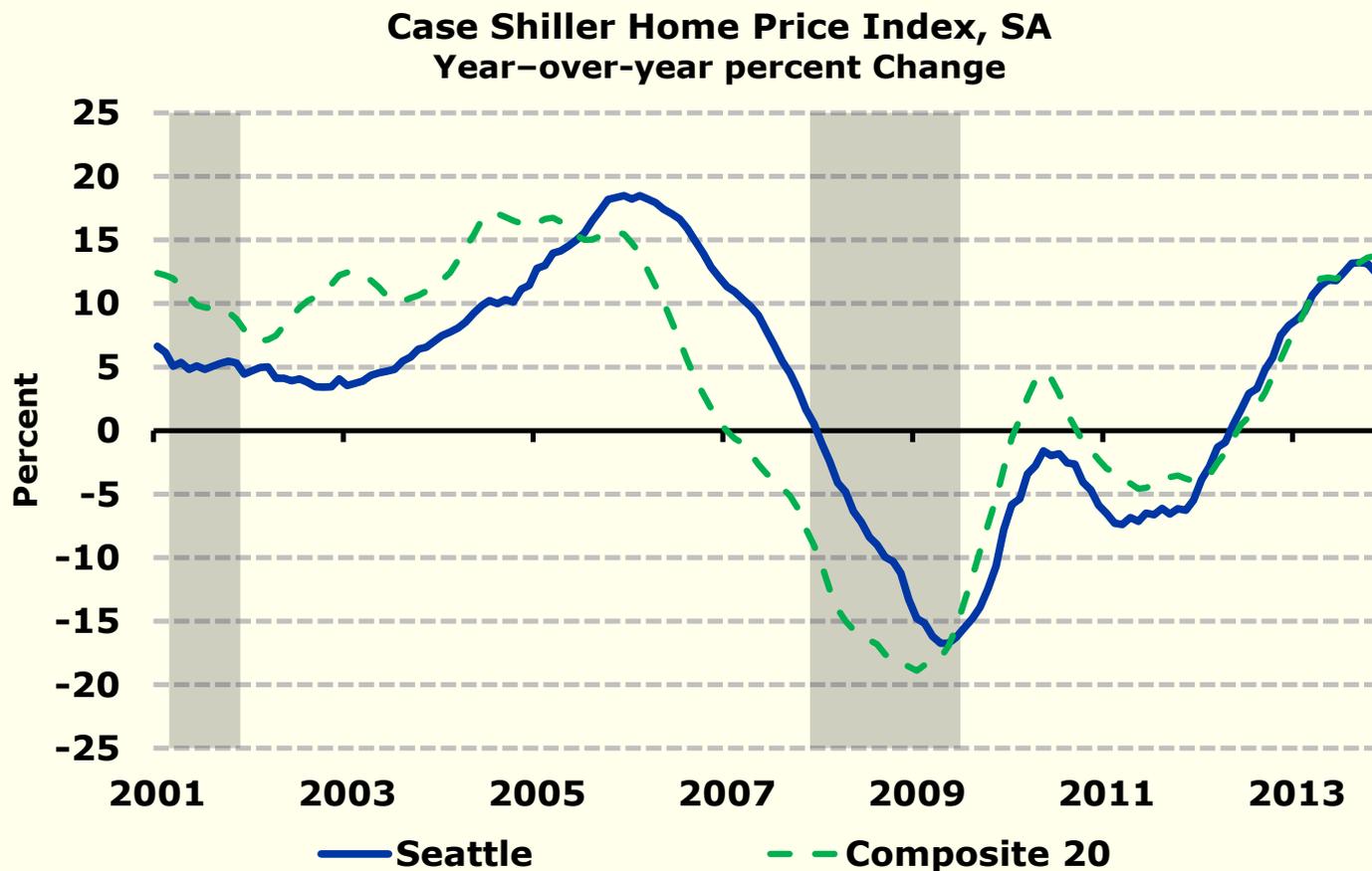


Single-family home prices continue to increase

Nov 2013

U.S. is up
13.8%

Seattle is
up 12.4%



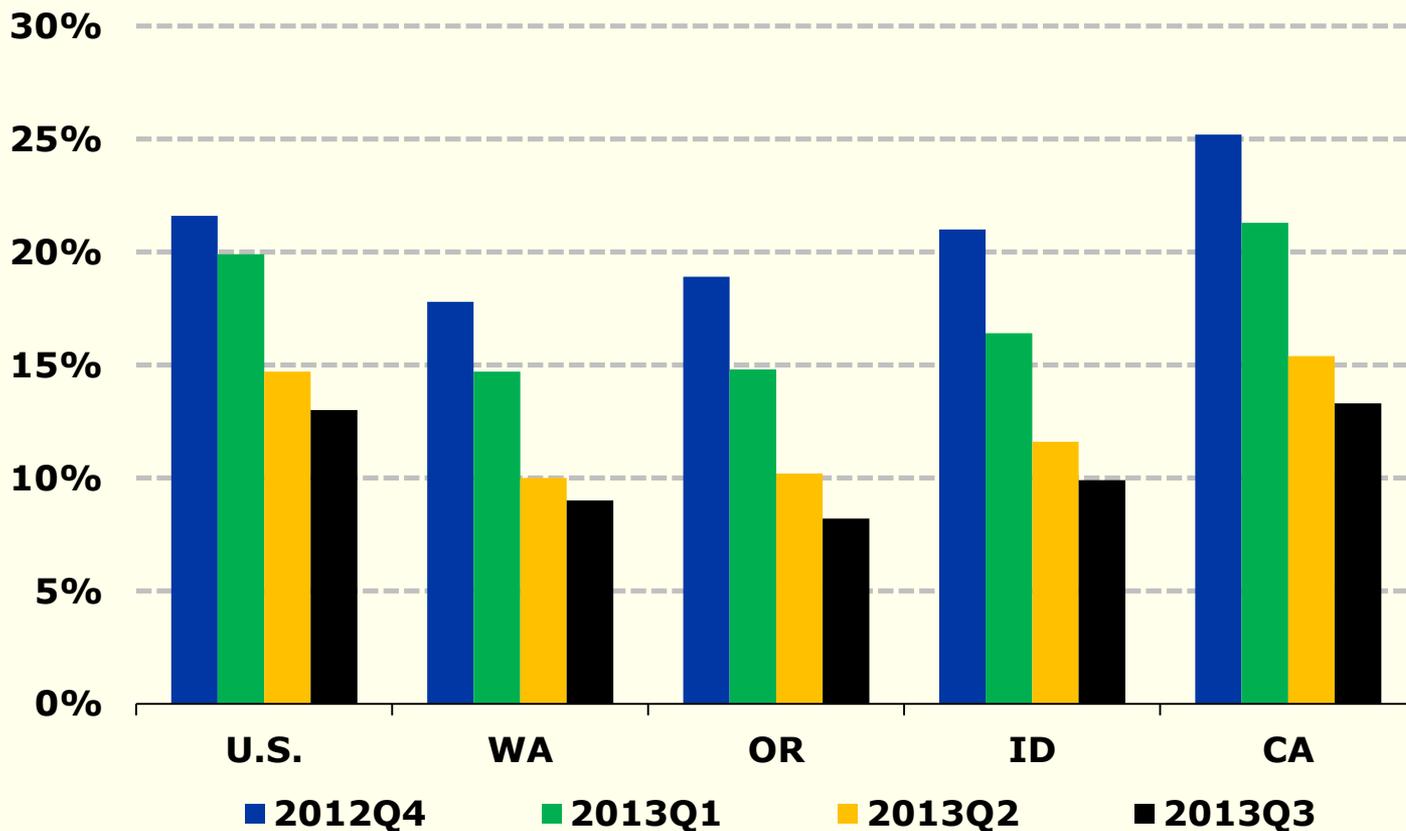
Source: S&P/Case-Shiller; data through November 2013

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Rising home prices have reduced the number of underwater mortgages

Percent of mortgages with negative equity



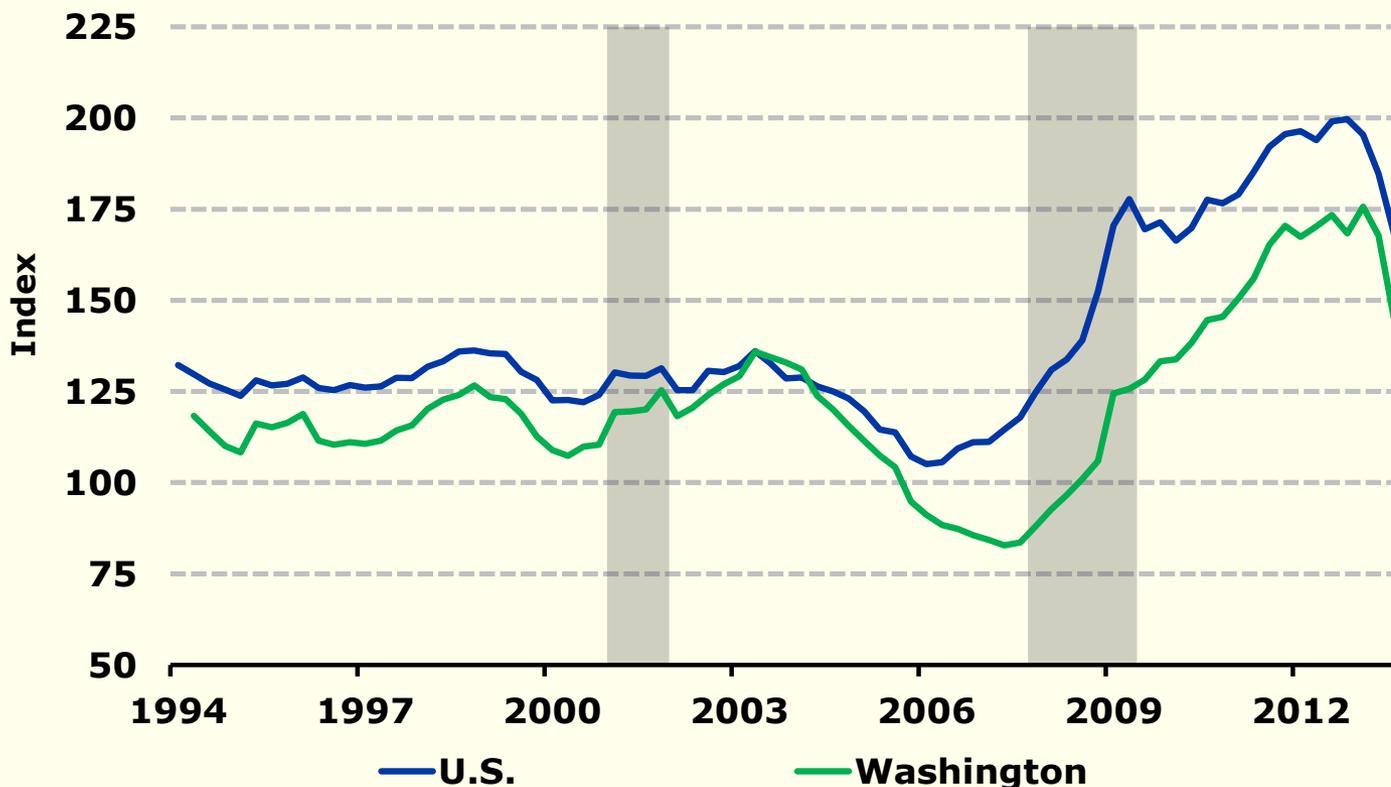
Source: CoreLogic, ERFC, data through November 2013

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Rising mortgage rates and home prices have reduced affordability

Housing Affordability Index, SA

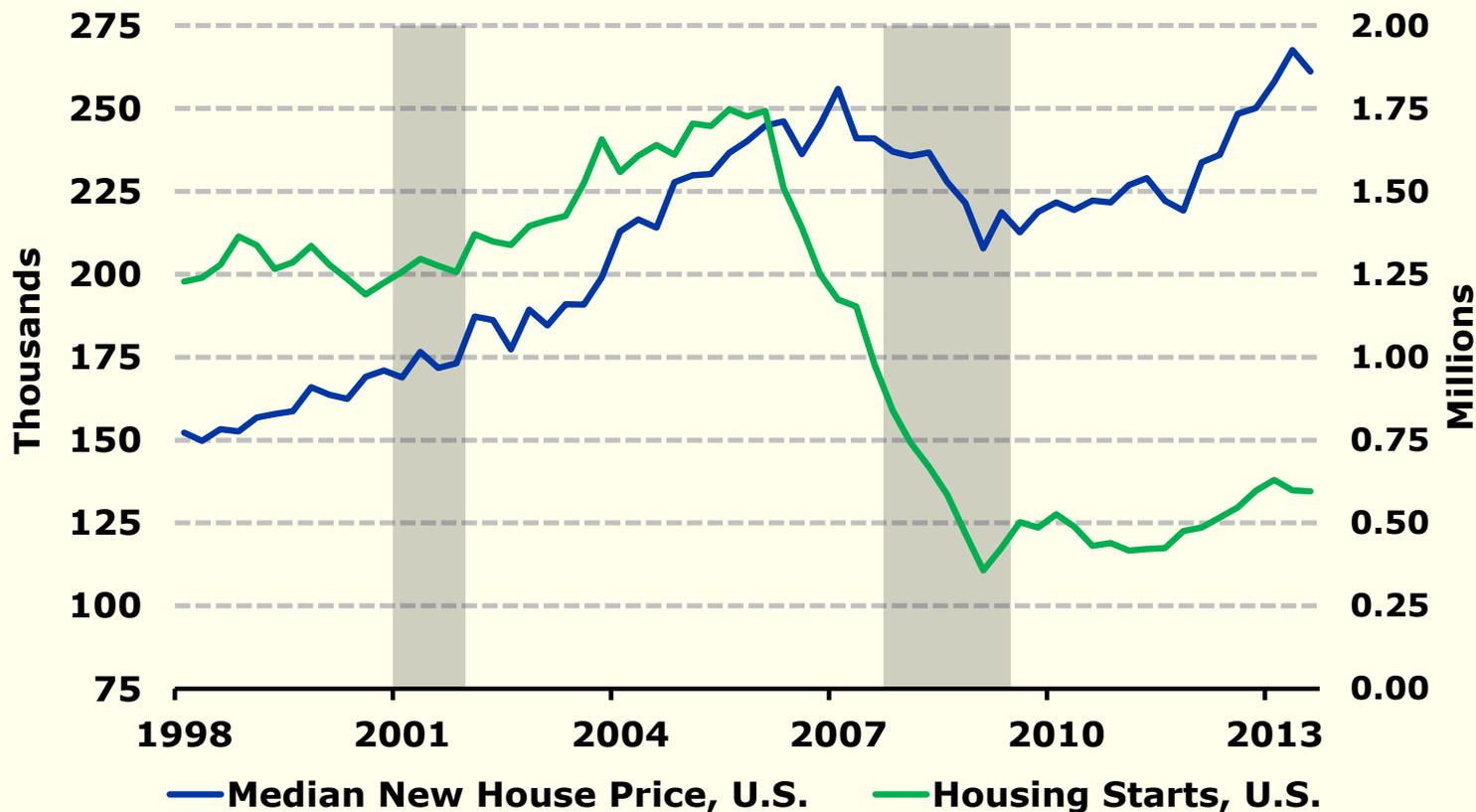


Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q3

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New home prices are at record highs but construction remains weak



Source: U.S. Census Bureau; data through 2013Q3

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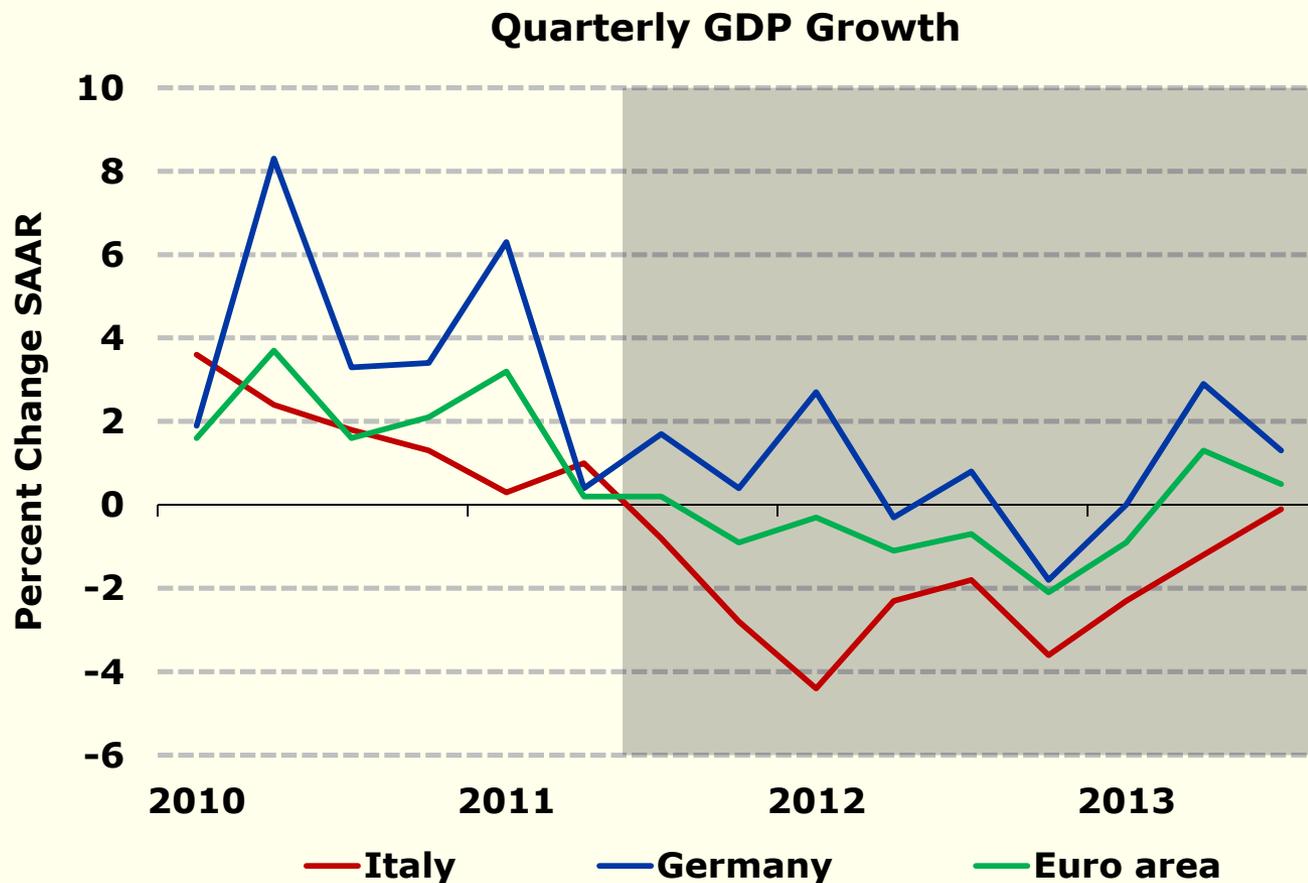
Euro area GDP has returned to positive growth

Eurozone
Forecast:

2013: -0.4%

2014: 0.9%

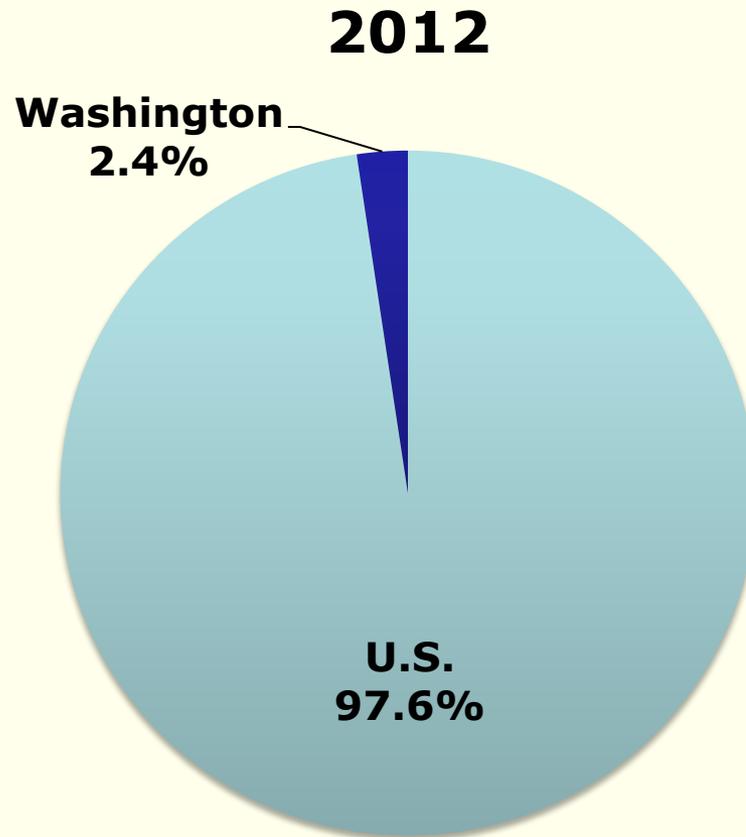
2015: 1.3%



Source: Eurostat, Centre for Economic Policy Research; data through 2013Q3



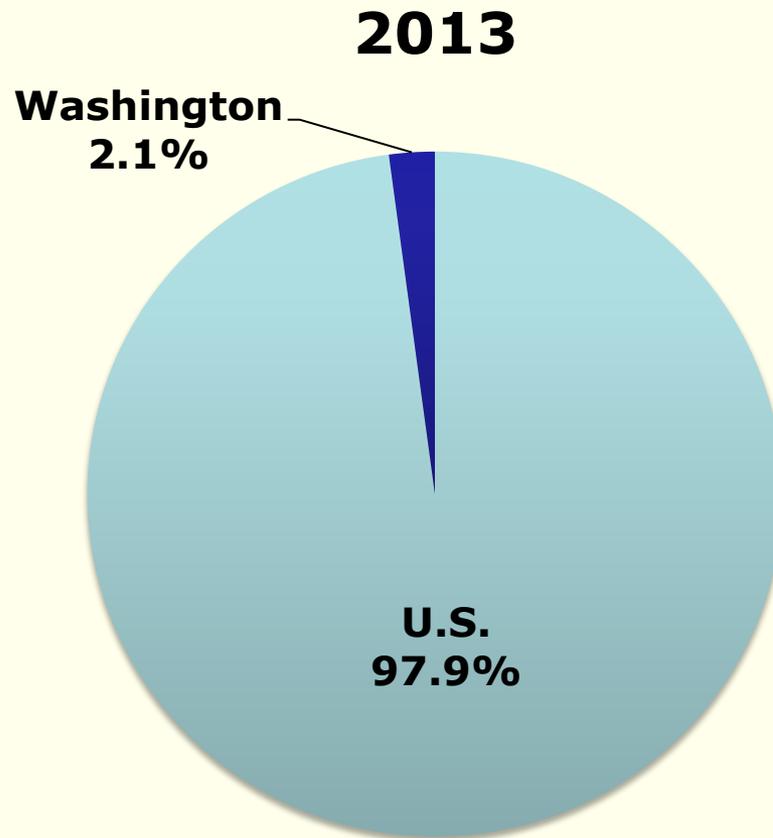
Washington's share of U.S. GDP



Source: U.S. Dept. of Commerce, BEA



Washington's share of U.S. employment



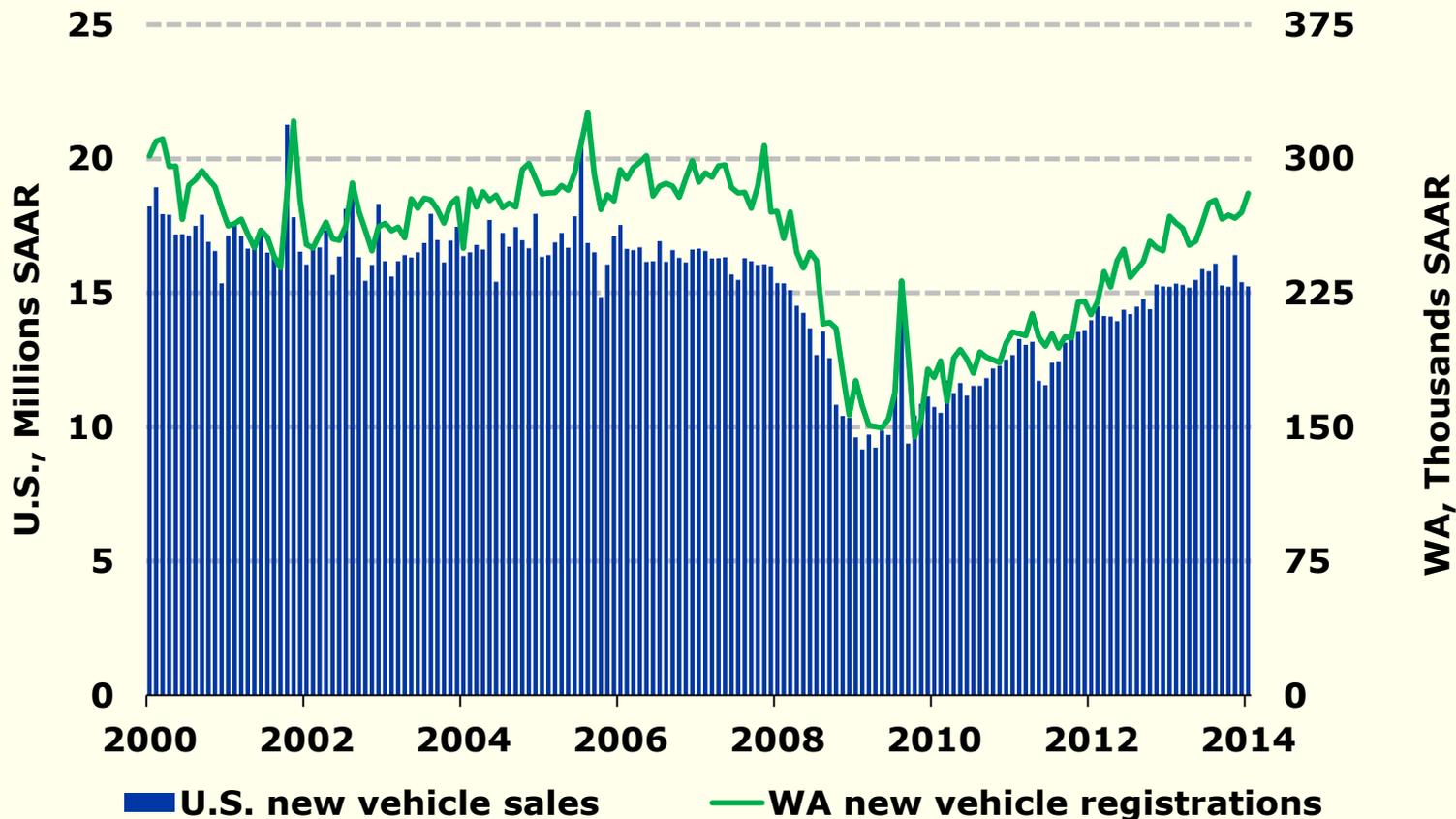
Sources: U.S. Dept. of Labor, BLS; ERFC

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Vehicle sales trend remains positive

WA new vehicle registrations in January were up 4.8% year-over-year.

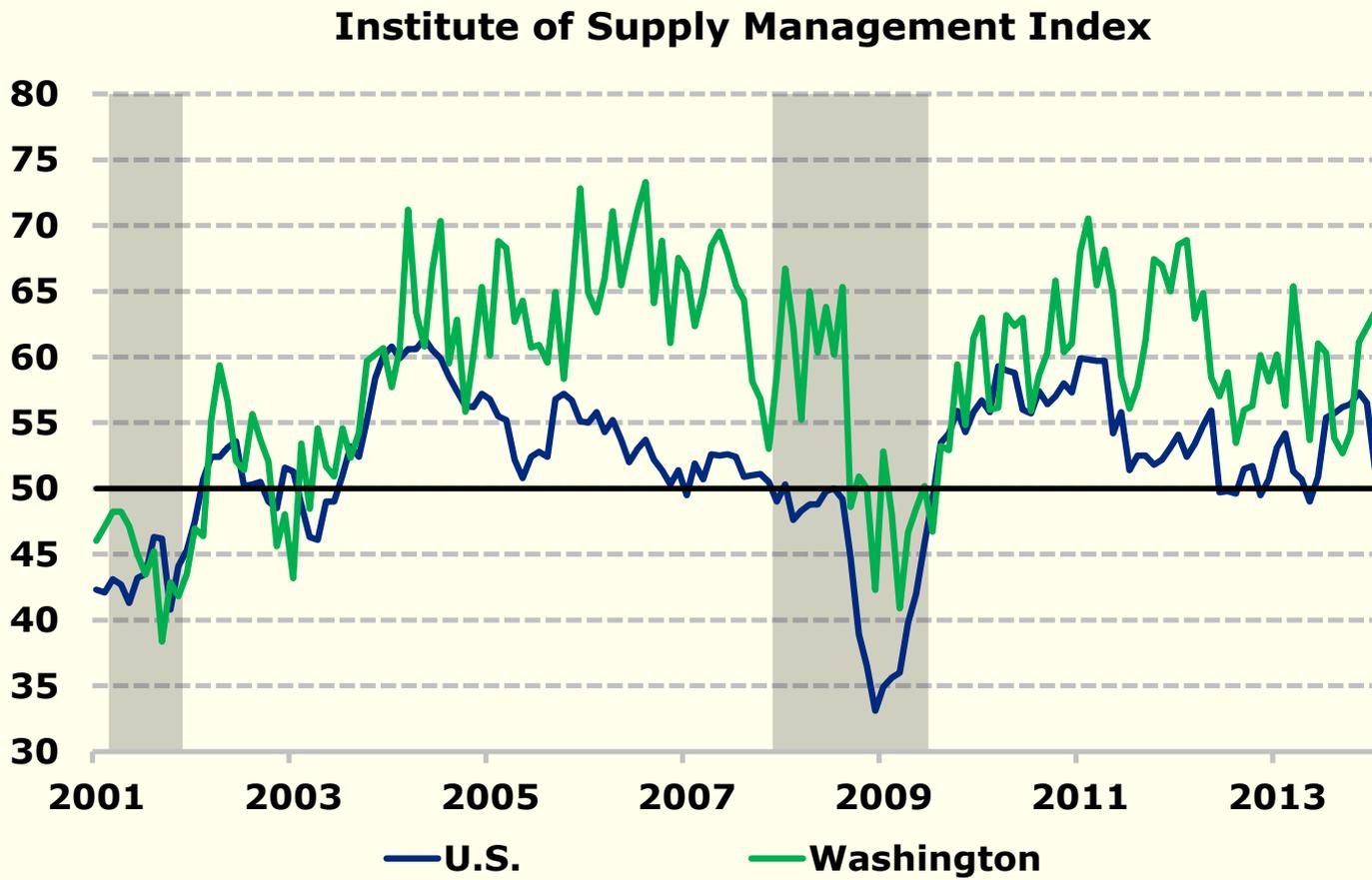


Sources: Autodata Corp., WA DOL; data through January 2014



Manufacturing remains weak nationally

An index greater than 50, implies growth

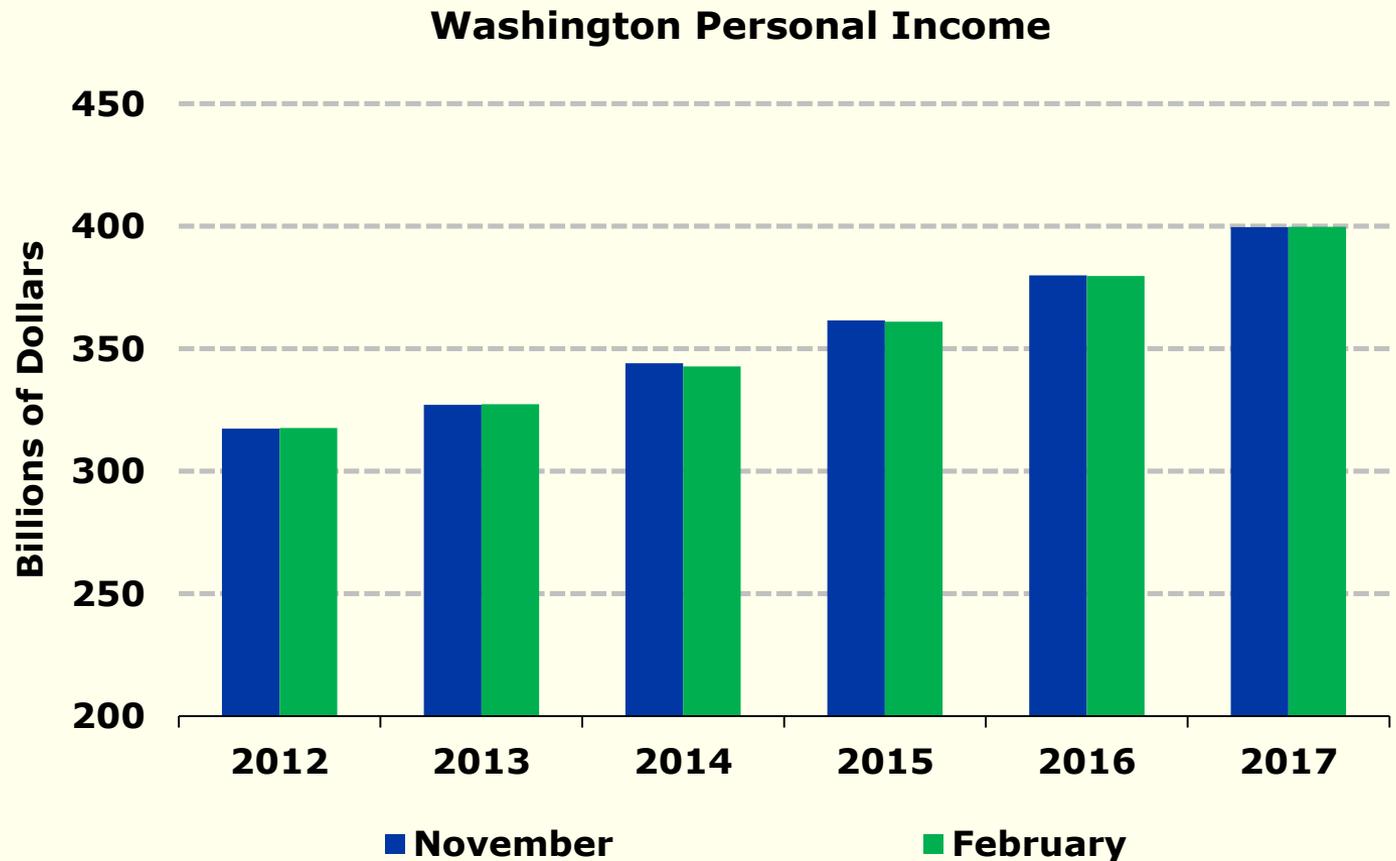


Source: Institute of Supply Management; data through January 2014

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Washington personal income forecast is essentially unchanged...

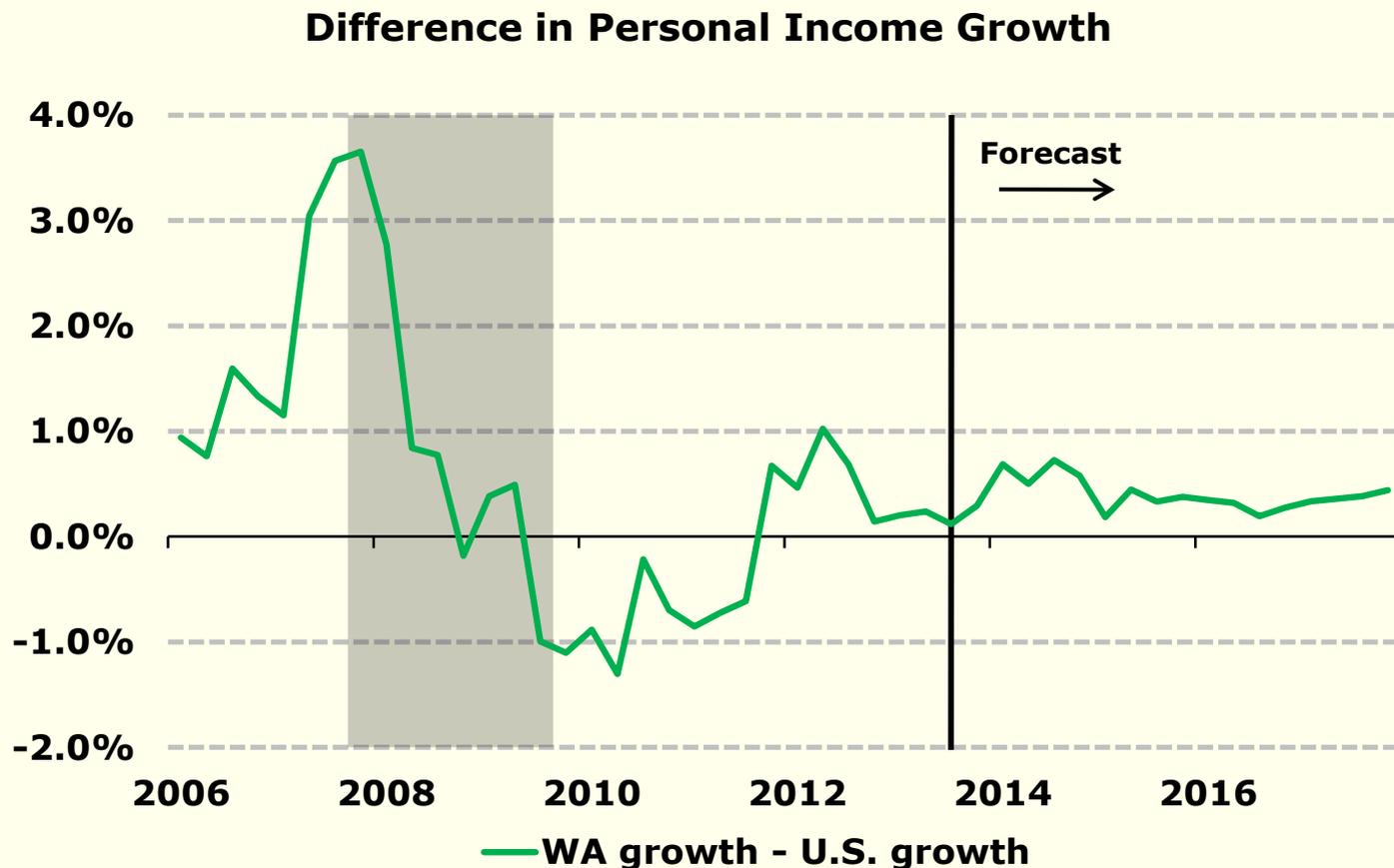


Source: ERFC February 2014 forecast; historical data through 2012

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



Source: ERFC February 2014 Forecast; historical data through 2013Q3

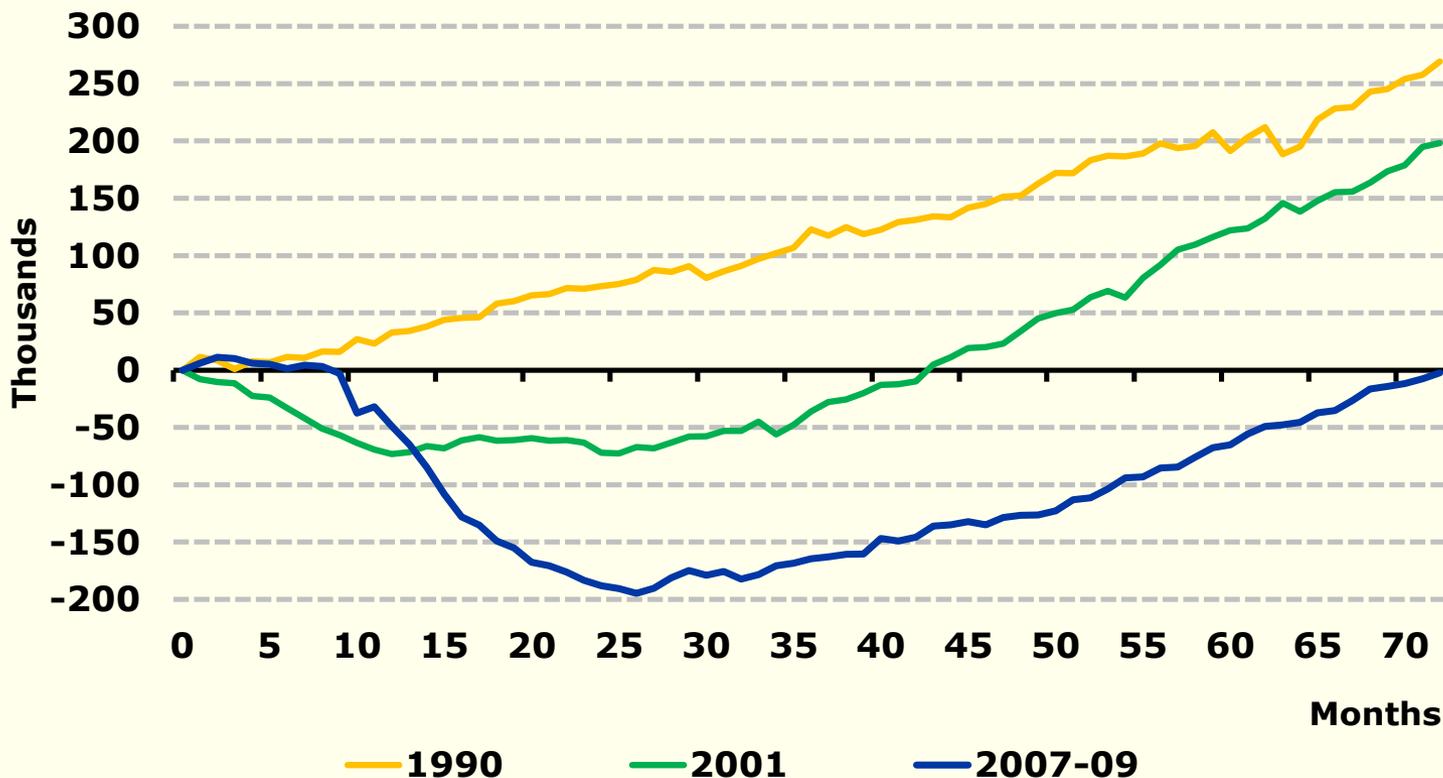
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After 6 years, Washington employment has still not recovered

Washington remains 2,000 jobs below the start of the recession

Washington Employment after Business Cycle Peak

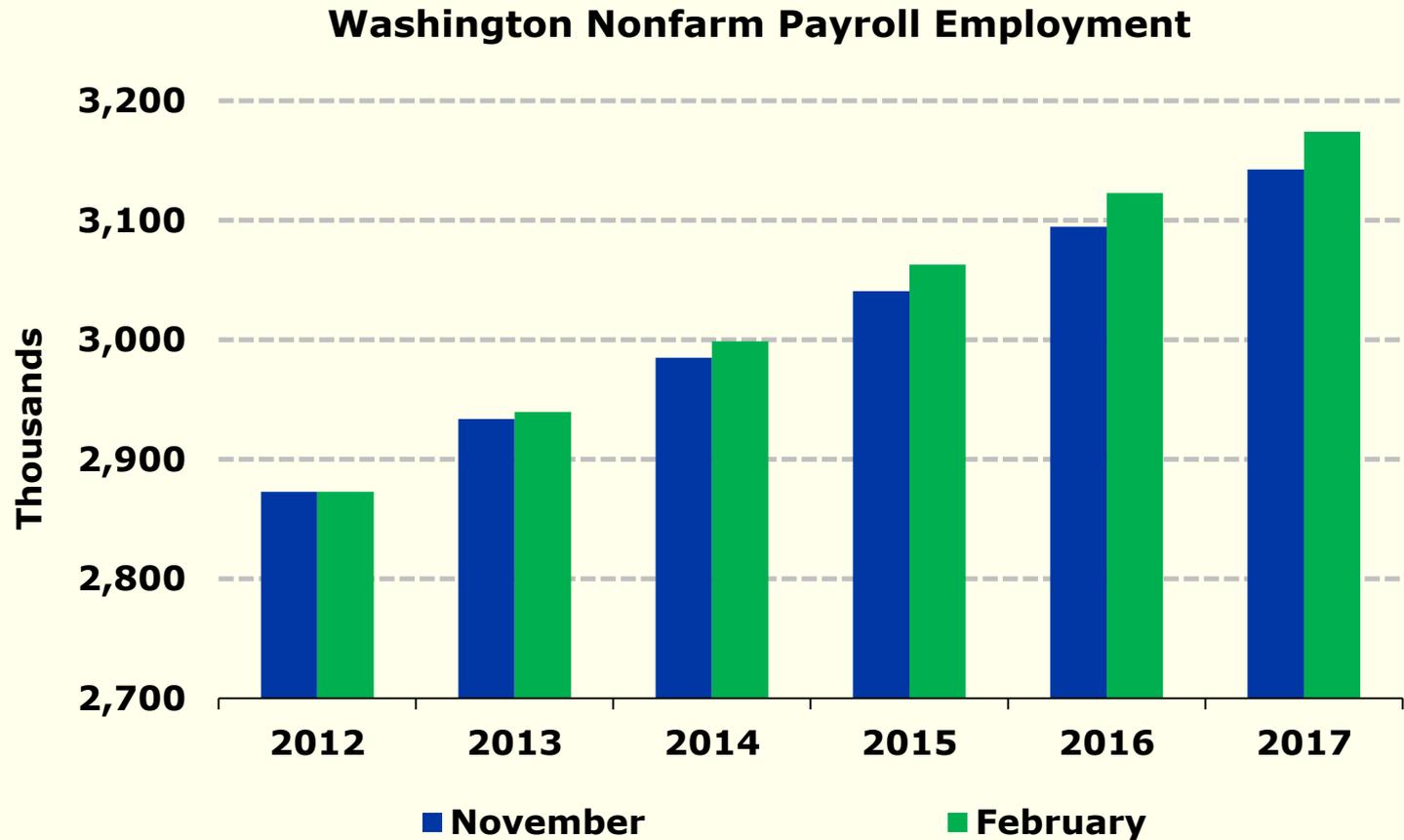


Source: WA ESD, ERFC; data through December 2013

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Washington payroll employment forecast is slightly higher



Source: ERFC February 2014 forecast; historical data through 2013

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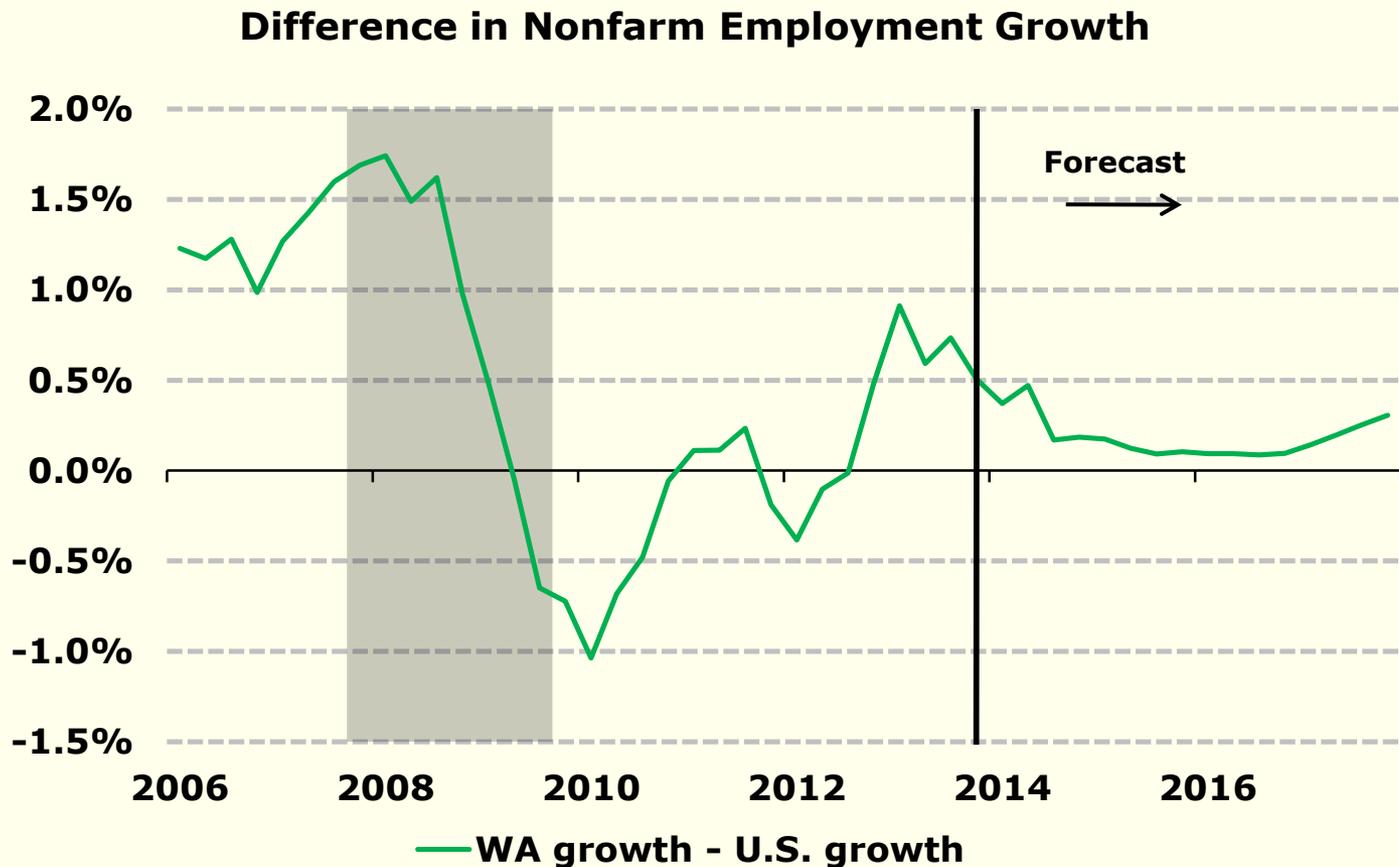


Washington employment will grow slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q2

U.S.:
2014Q3



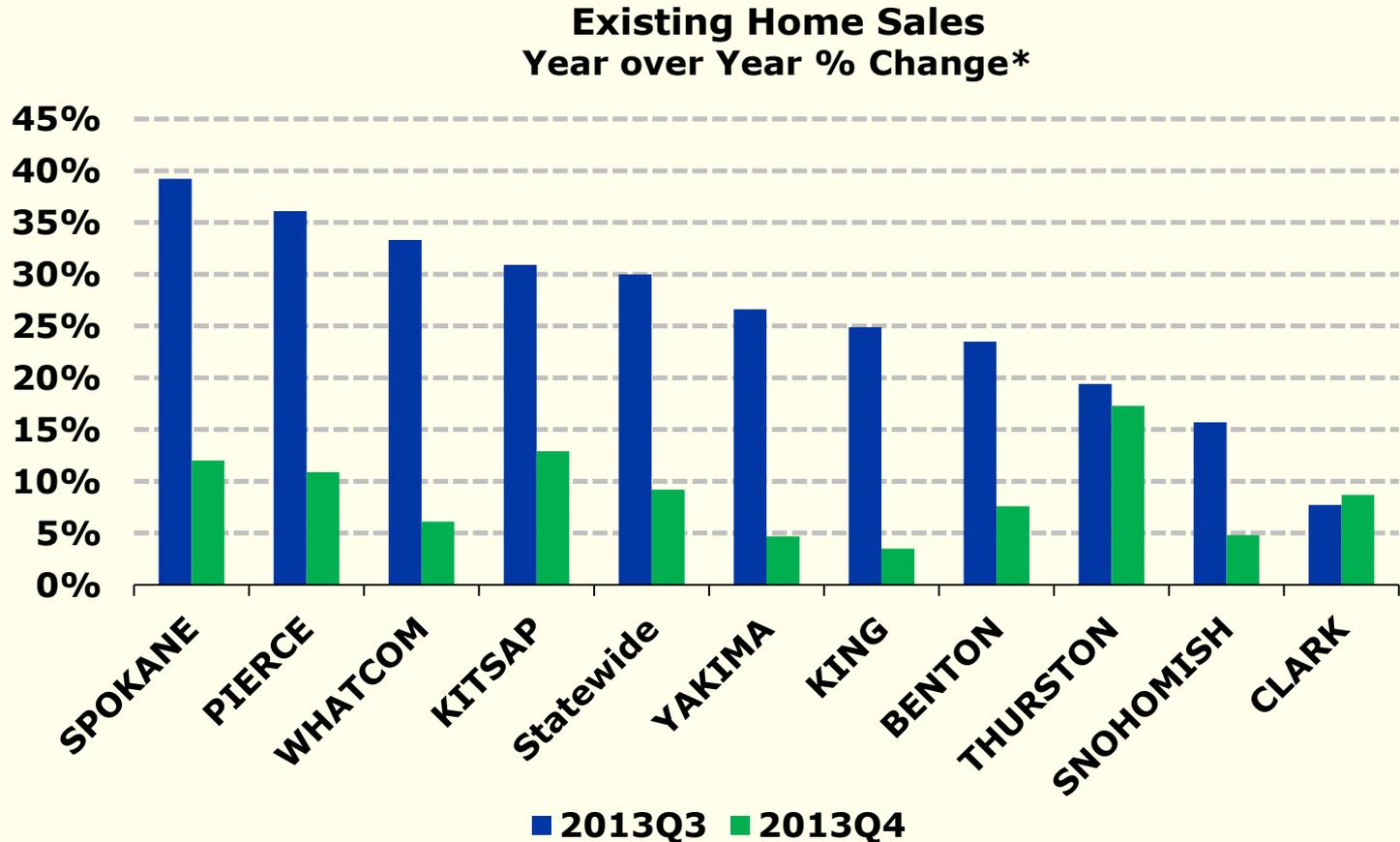
Source: ERFC February 2014 forecast; historical data through 2013Q4

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Growth in existing home sales slowed in fourth quarter 2013

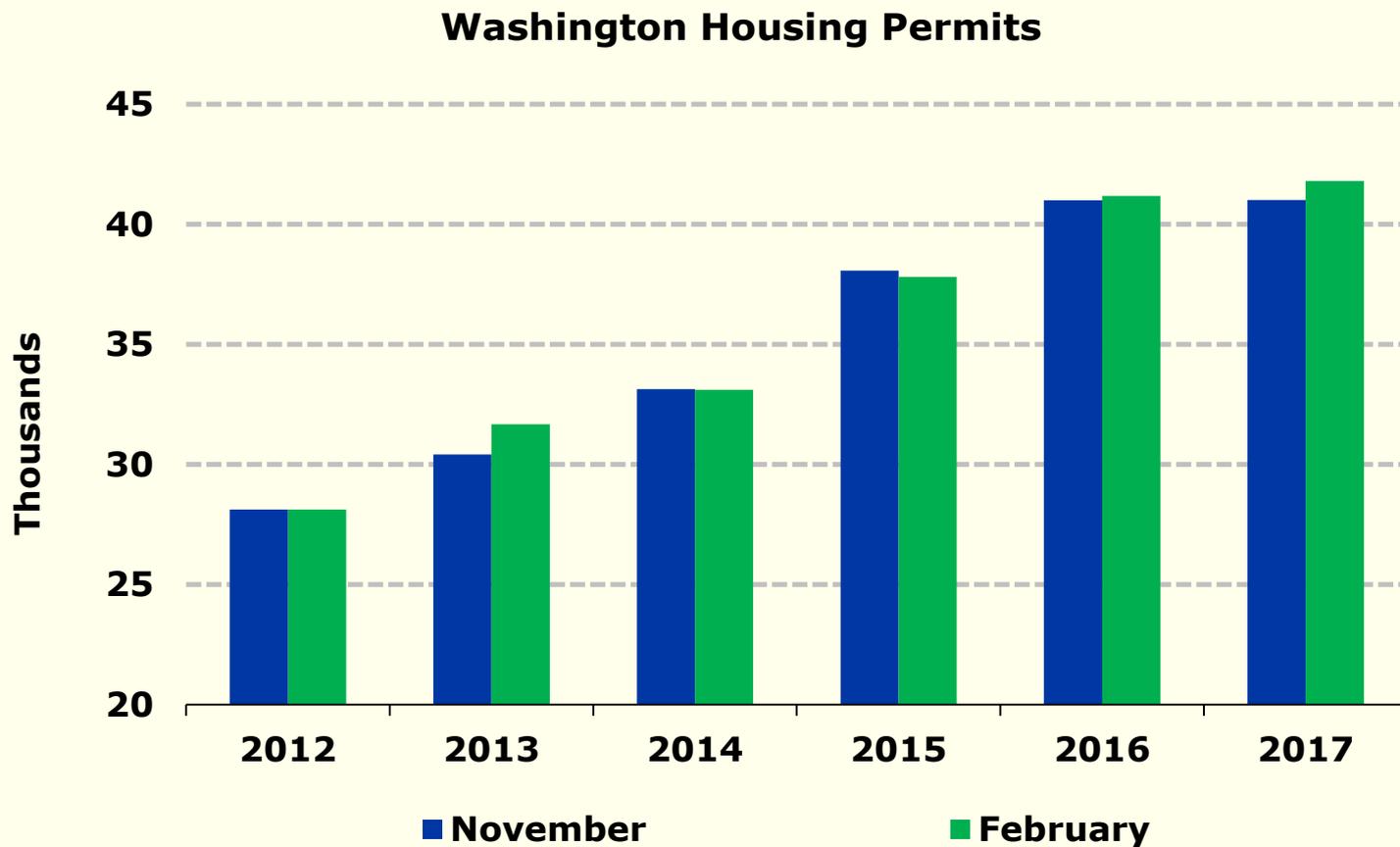
*Ten counties with highest existing home sales, 2013Q3



Source: WA Center for Real Estate Research, ERFC; 2013Q3 & Q4 data



Washington housing permits forecast is slightly higher in 2016 and 2017



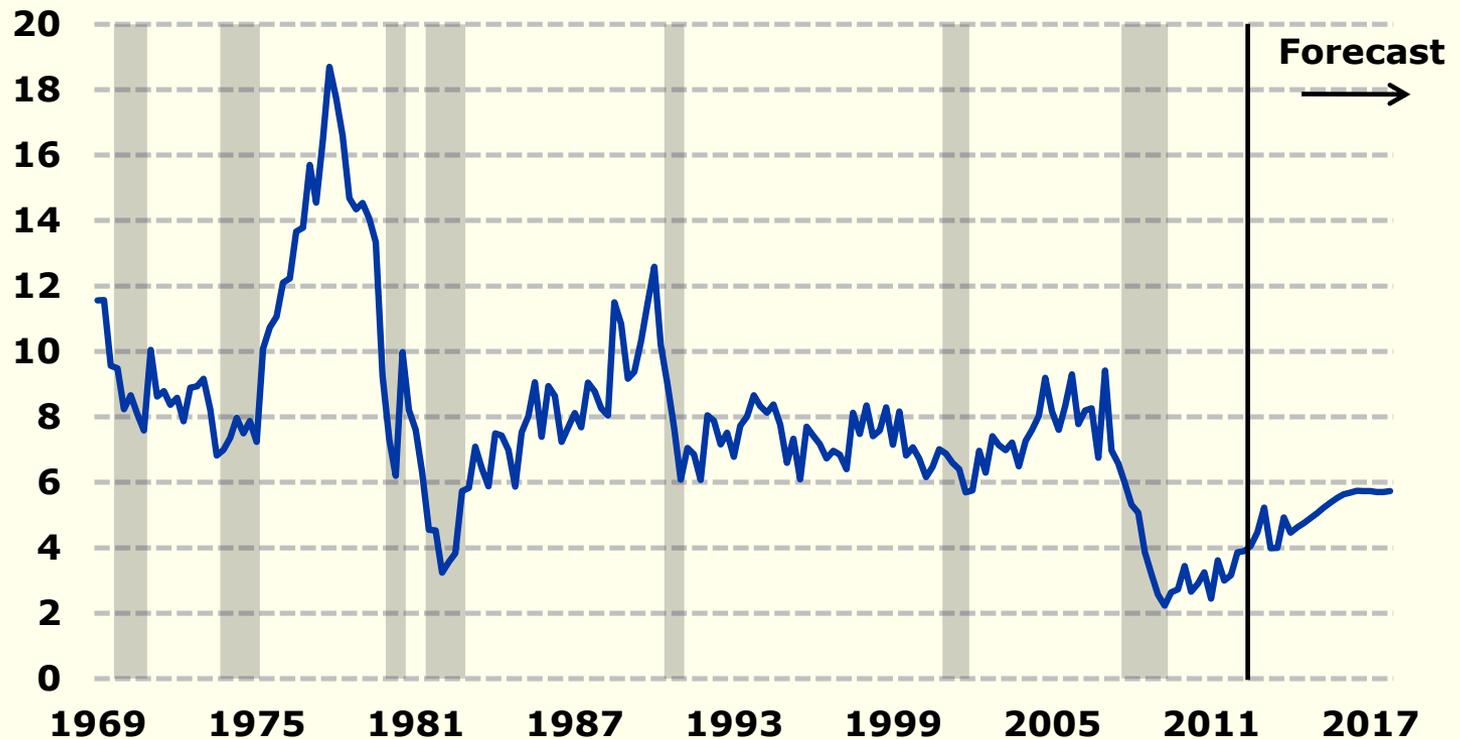
Source: ERFC February 2014 forecast; historical data through 2013

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Housing permits relative to population will still be below historic levels in 2017

Washington Housing Permits per 1,000 People



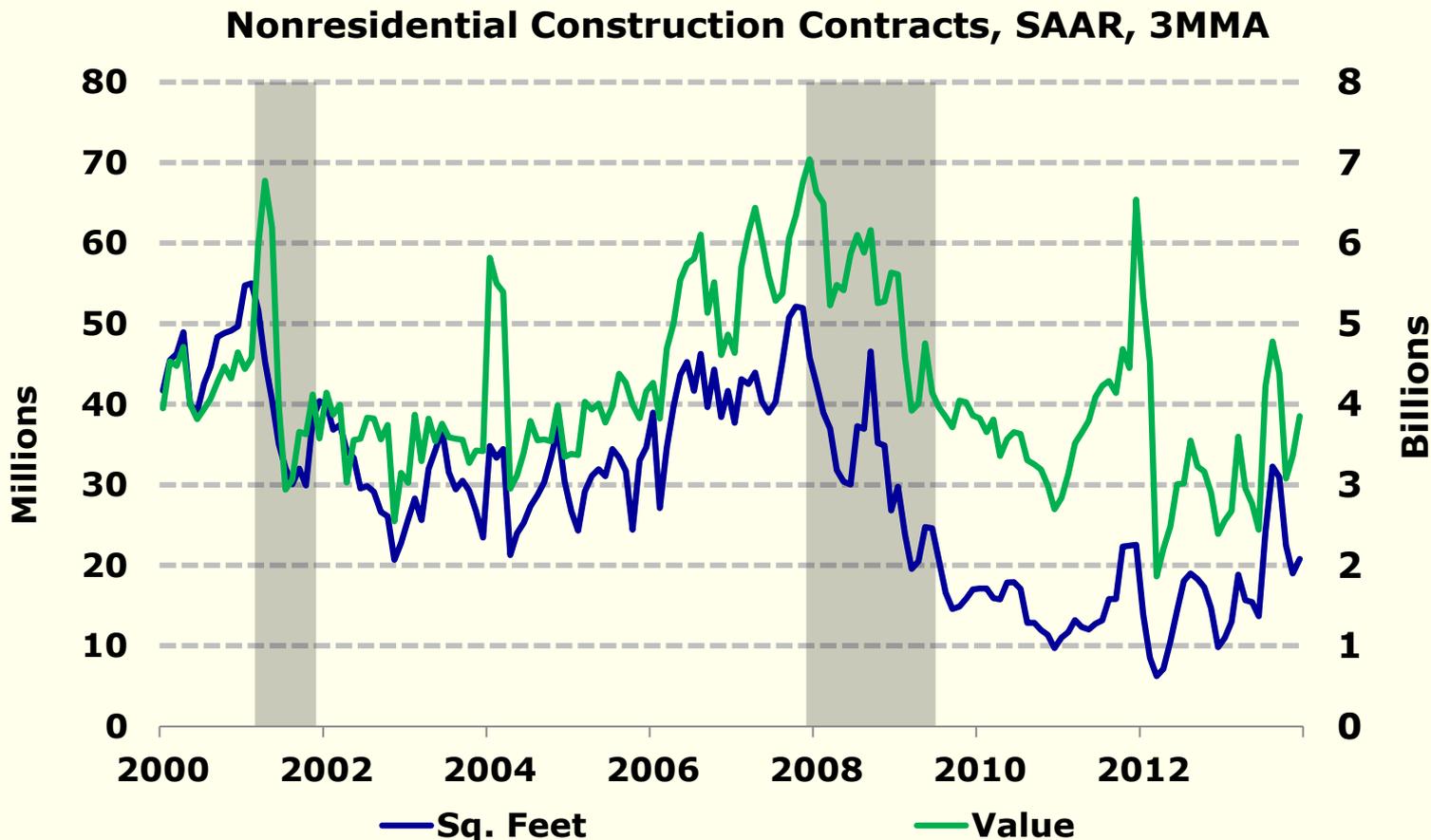
Source: U.S. Census Bureau, ERFC February 2013 Forecast; historical data through 2013 Q4

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Contract data indicates an increase in non-residential activity

Non-Residential square footage is up 111%, and value is up 61% year over year (3mma).

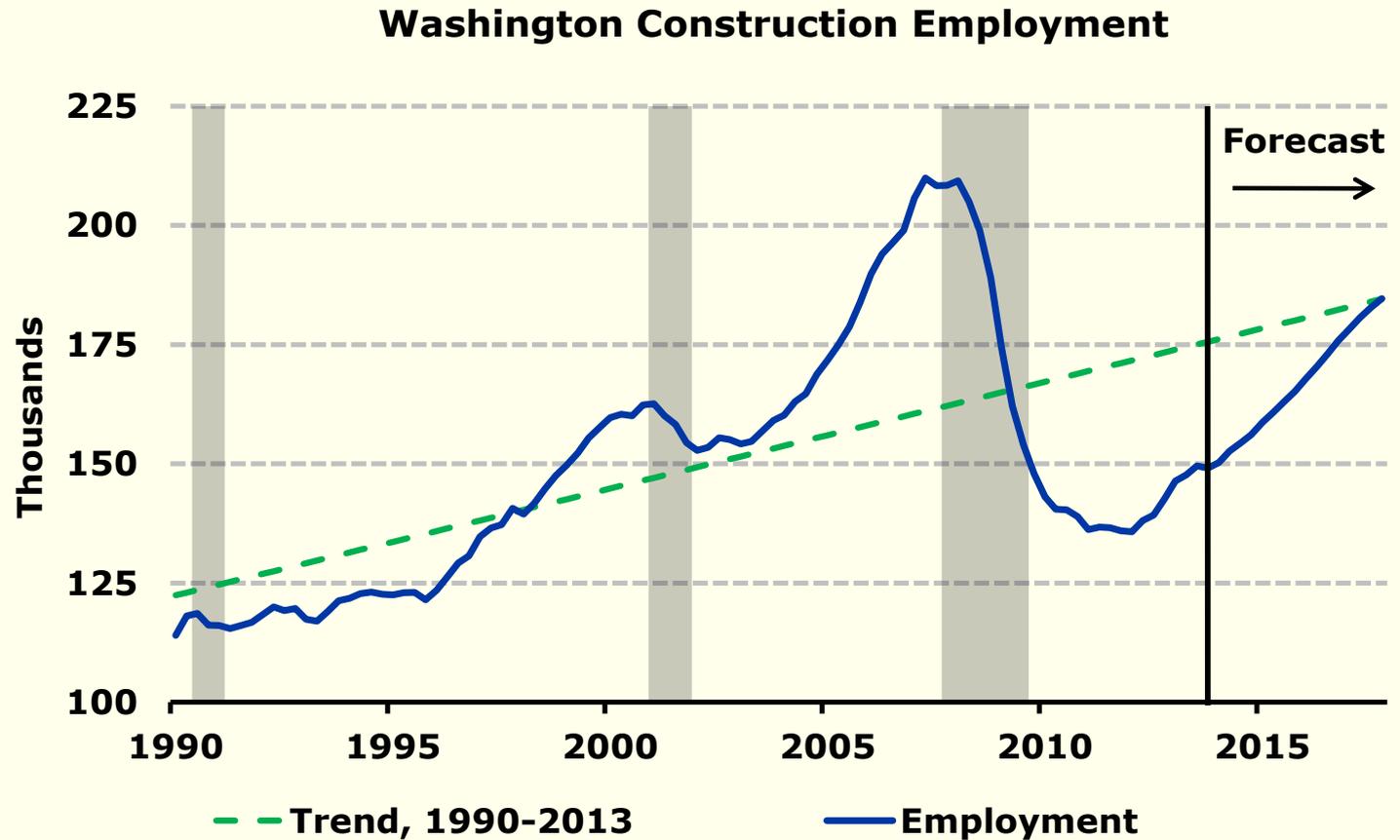


Source: Dodge, ERFC; data through December 2013

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Washington construction employment is recovering

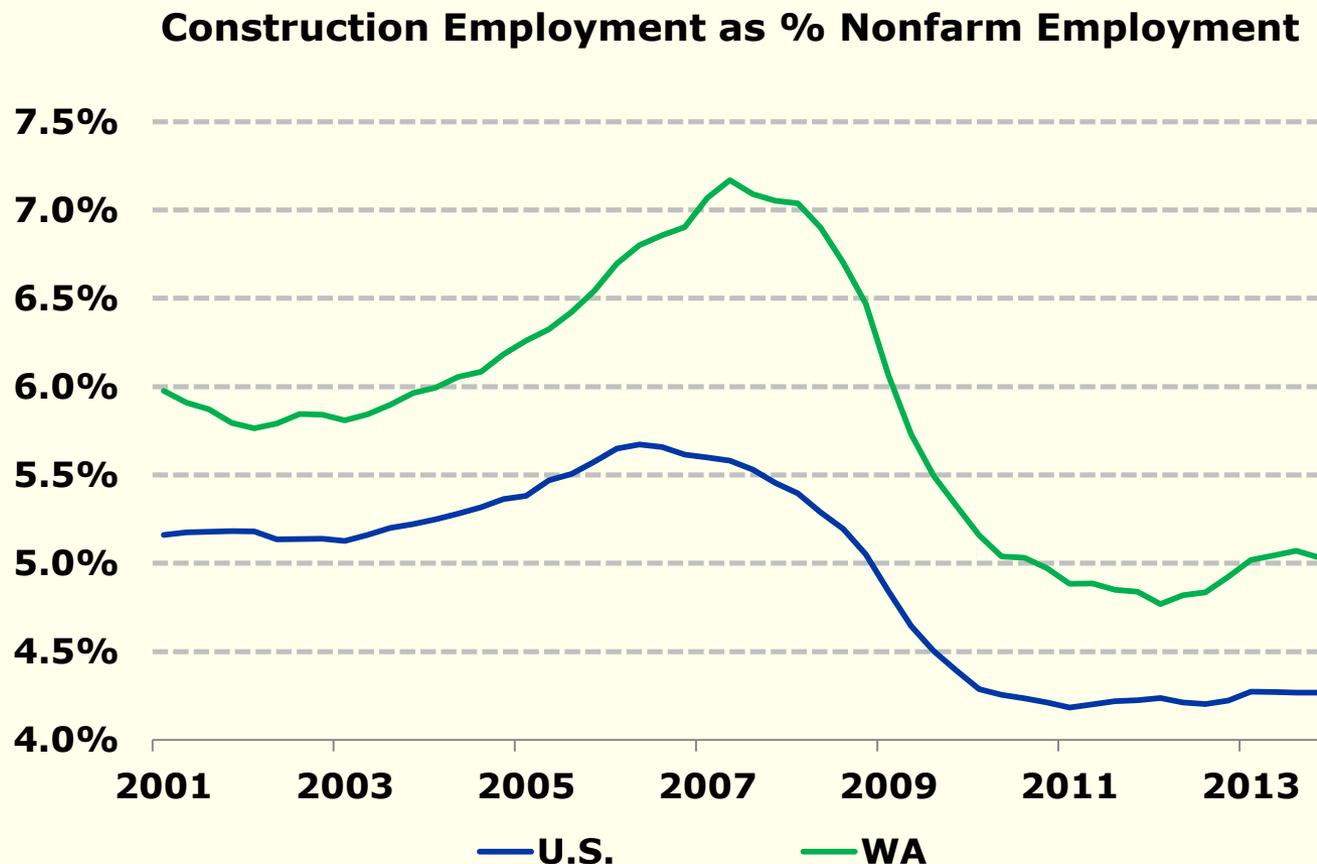


Source: ERFC February 2014 forecast; historical data through 2013Q4

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Construction employment share larger in Washington than U.S.

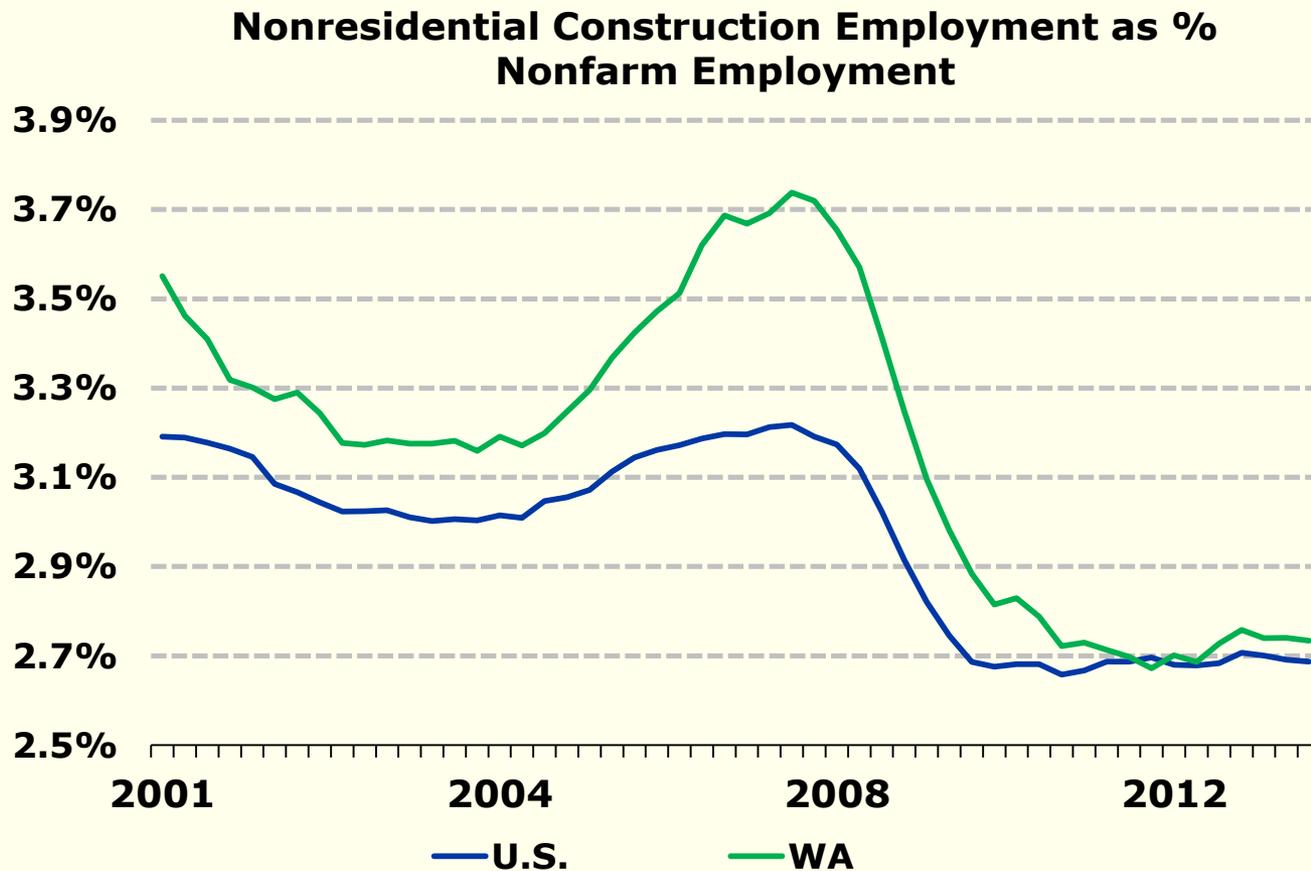


Sources: U.S. Dept. of Labor, BLS; ERFC; data through December 2013

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Nonresidential employment shares have converged

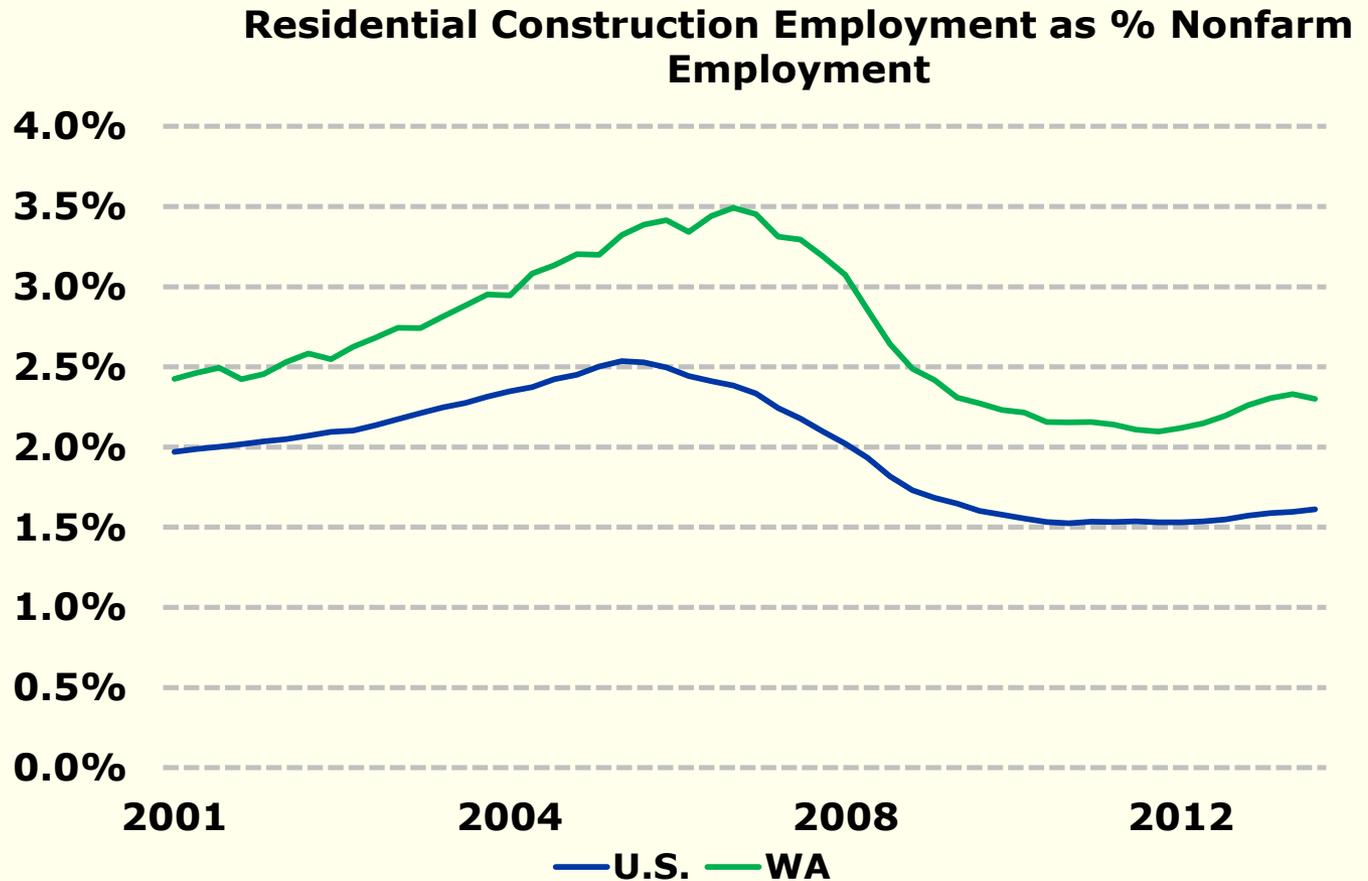


Sources: U.S. Dept. of Labor, BLS; ERFC; data through December 2013

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Residential employment shares consistently larger in WA



Sources: U.S. Dept. of Labor, BLS; ERFC; data through December 2013

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Residential REET growth slowed in Q4 but commercial sales still going strong

The residential market is trending upward but growth slowed in Q4 2013

REET is currently being supported by large commercial sales



Source: ERFC; Monthly data through January 2014 preliminary



Conclusion

- The economic forecast is quite similar to November's forecast; 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 include slowing Asian economies, uncertainty around federal fiscal issues and a slowdown in housing activity



Questions



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

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

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