

# Economic Outlook and More

Presented to  
Financial Education Public-Private Partnership

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March 26, 2013  
Olympia, Washington



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



# Today's Presentation

## Random Financial Education Topics

- Access to credit – households vs. government
- Public goods, externalities, free riders
- Interest rate impacts

## Economic and Revenue Forecast

- Process
- March Forecast Summary

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# Access to credit: households

## Income

- Sources: primarily wages
- Stability: employment history, living situation

## Assets & liabilities

- House, bank accounts, etc.
- Other loans, credit card balances

## Credit rating

- Payment history, credit mix, etc.

## Personal preference & knowledge



# Access to credit: state government

## Income

- Sources: taxes, fees

## Assets & Liabilities

- Reserves, mineral rights, land
- Outstanding bonds, entitlements, etc.

## Credit rating

- Payment history, economic health, budget stability/process

Constitutional limits: up to 8.5% of general revenues



# Access to credit: federal government

## Income

- Sources: taxes, fees

## Assets & Liabilities

- Reserves, mineral rights, land
- Outstanding bonds, entitlements, etc.

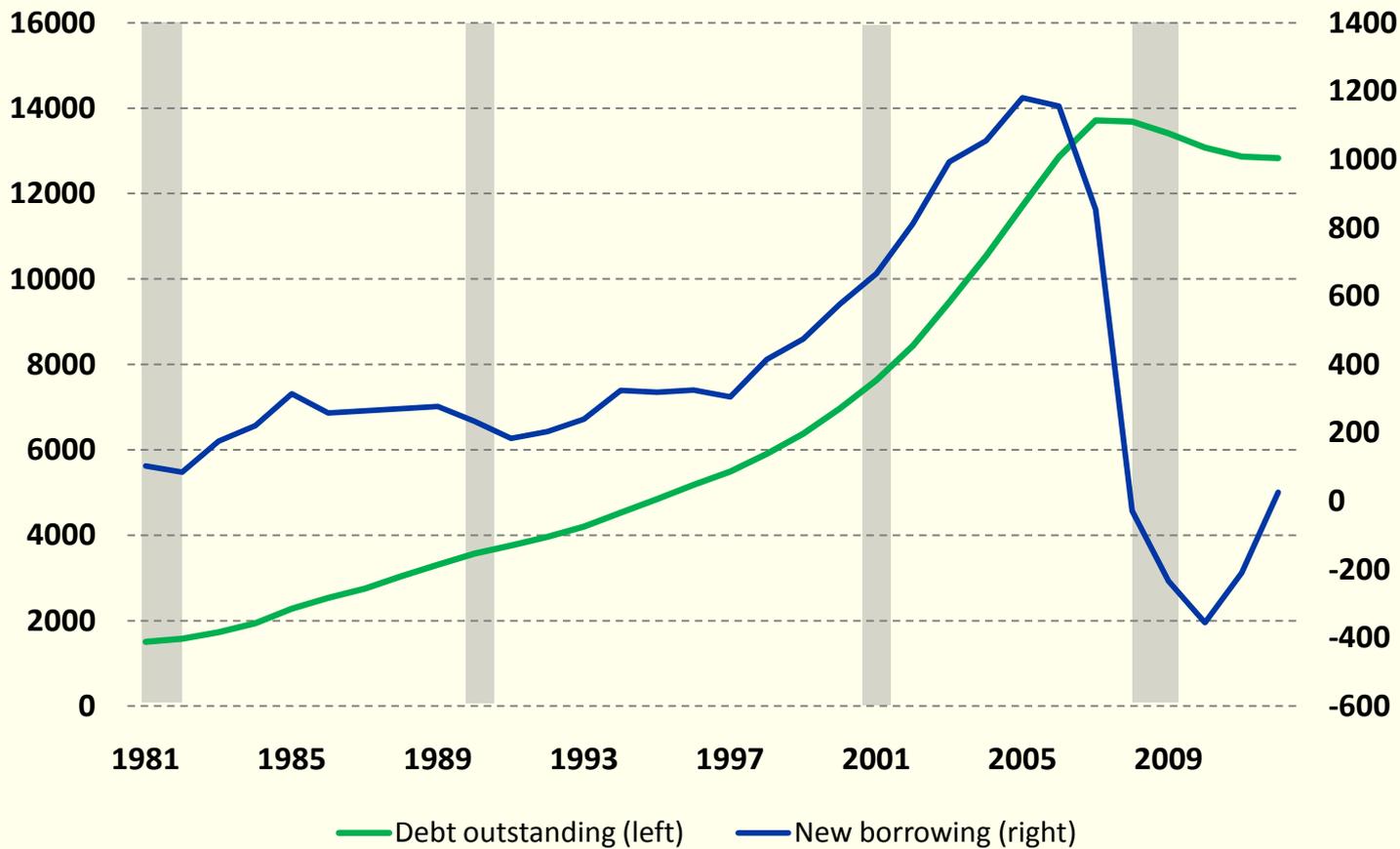
## Credit rating

- Payment history, economic health, budget stability/process

Legal limits: dollar ceiling based on act of Congress



# U.S. household debt and borrowing (\$ billions)

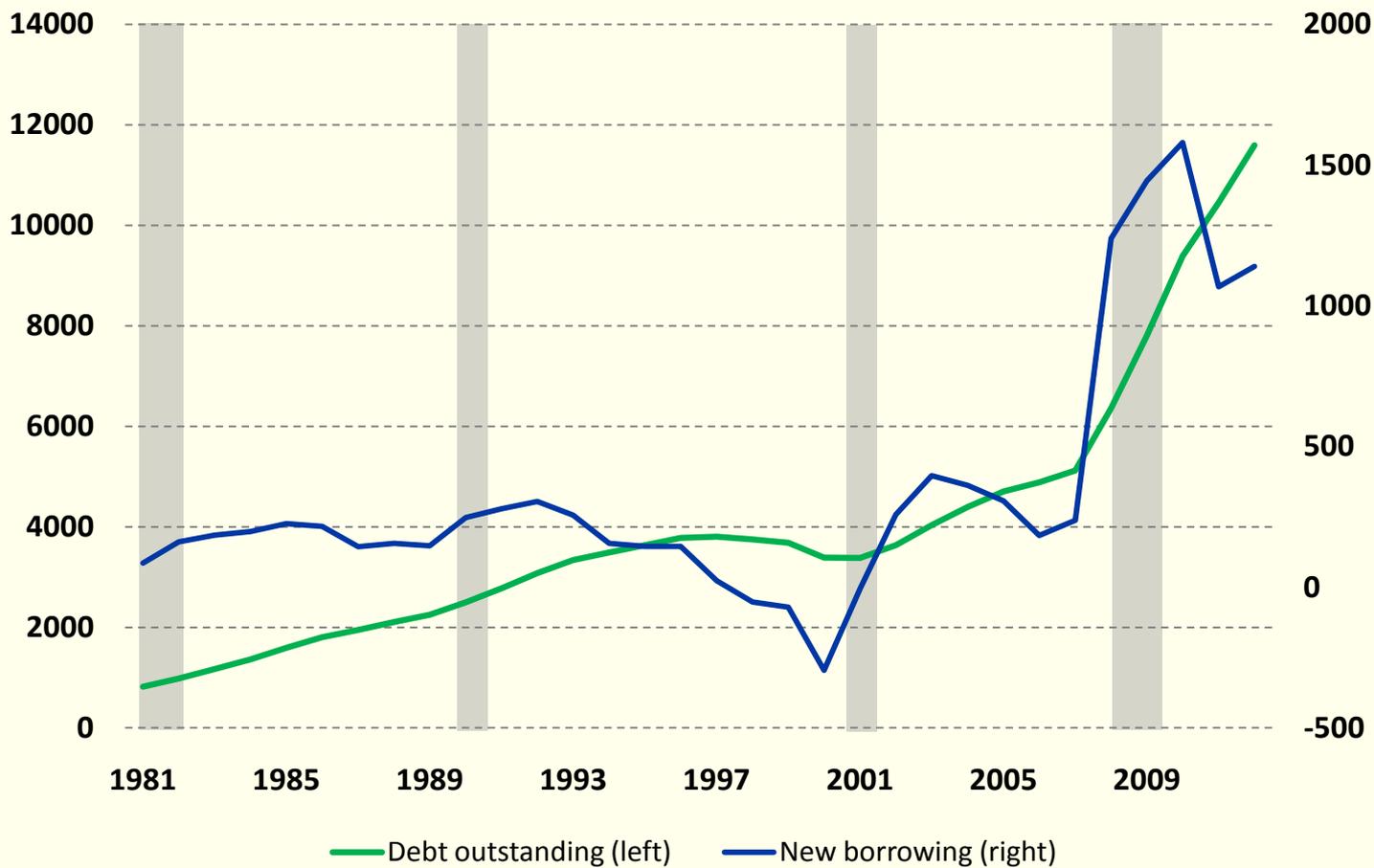


Source: Federal Reserve Board Flow of Funds data, through 2012

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# U.S. government debt and borrowing (\$ billions)



Source: Federal Reserve Board Flow of Funds data, through 2012

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# Why can't government be run like a business?

Public goods - goods or services for which:

- Excluding an individual's use is costly or impossible
- Use by one individual has little or no impact on use by others
- Examples: national defense, clean air, street lights, flood control systems

Private sector will undersupply these goods because they are not profitable



# Why can't government be run like a business? (cont.)

## Externalities and free riders:

- Some activities generate private benefits while imposing costs on society
  - Air, water, noise pollution
- Some activities generate social benefits which exceed private benefits
  - K-12 education
- If individuals cannot be excluded from a service, they may pay less than the value they place on the service
  - Police protection



# Interest rate impacts

- Borrowers: low interest rates reduce costs of purchases and investments
- Lenders and savers: low interest rates reduce return on assets
- Corporate pension plans: low interest rates increase liabilities



# Interest rate impacts (cont.)

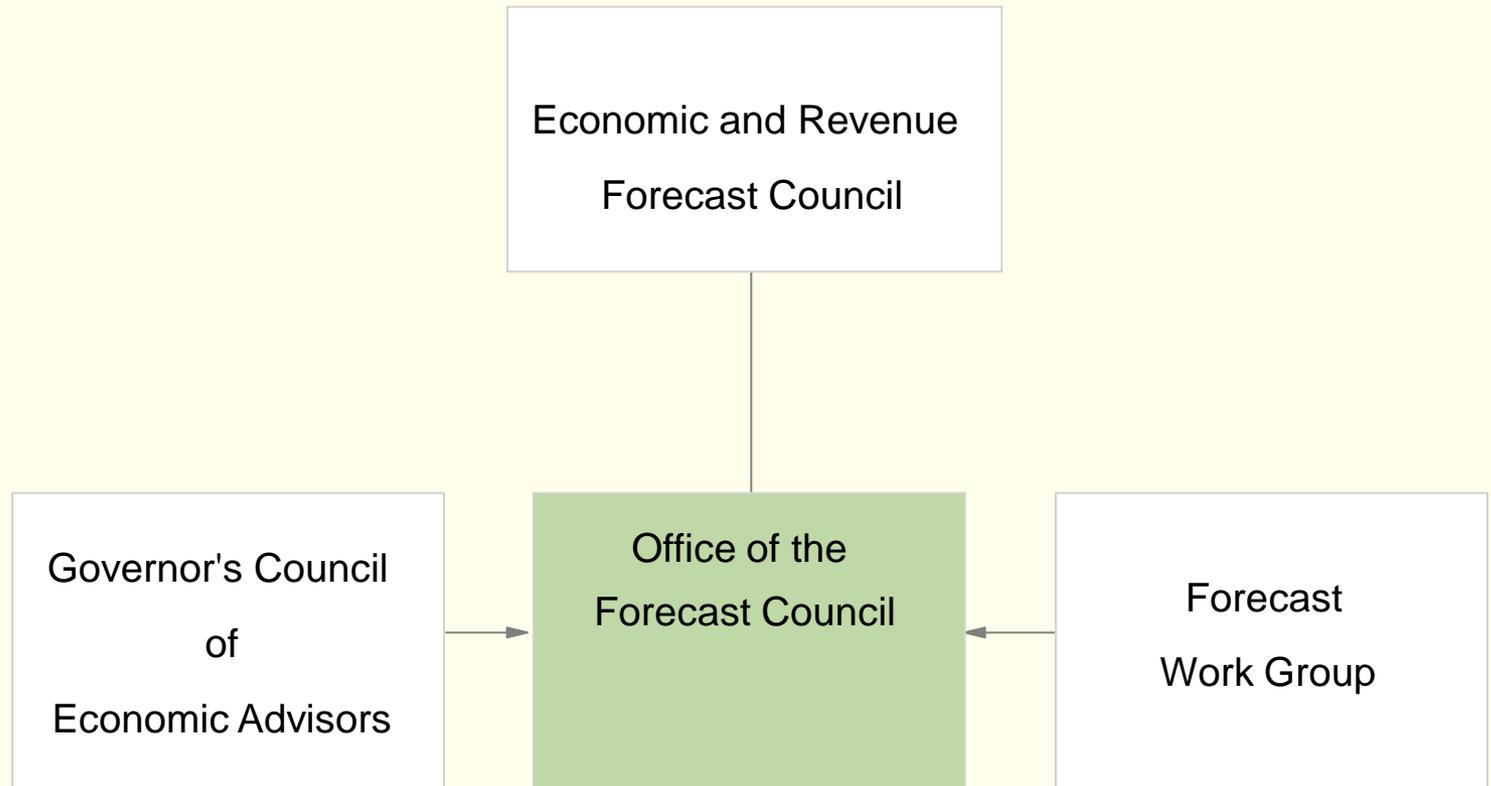
- Borrowers:
  - do low interest rates encourage businesses to replace workers with machinery?
- Lenders, savers, corporate pension plans:
  - do low interest rates encourage investing in higher risk assets?



# Forecast Oversight

## **ERFC**

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five



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# ERFC Forecast Process

The national economic model is provided by Global Insight & modified by ERFC staff



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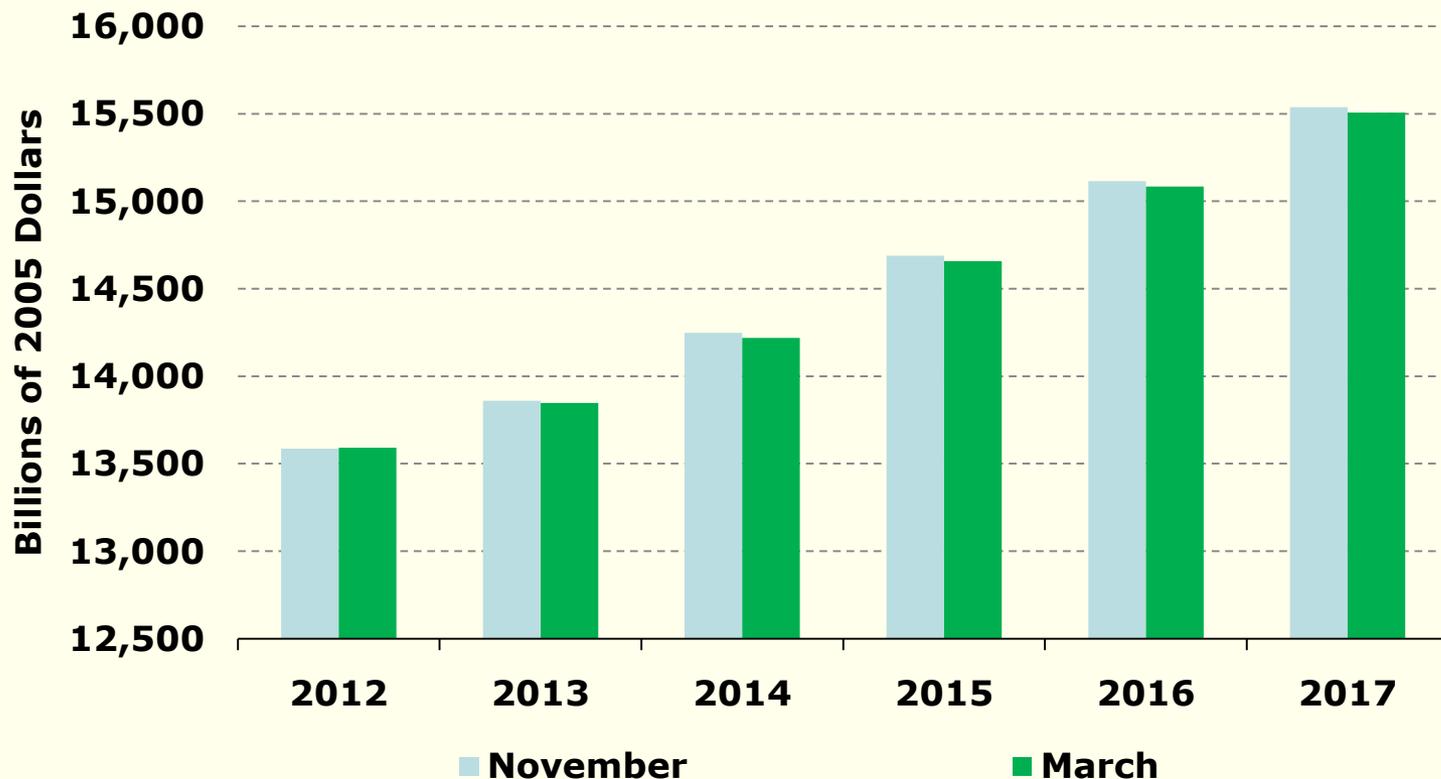
# ERFC Forecast Process (cont.)

- Forecasts are updated four times per year
  - Most recent forecast was March 20<sup>th</sup>
  - Forecasts cover state General Fund revenue sources which fund the operating budget
  - Includes sales tax, business & occupations tax, property tax, liquor taxes, cigarette tax
  - For now, we are not assuming any revenue associated with I-502 (marijuana legalization)



# U.S. GDP Forecast Slightly Lower

**Blue Chip Consensus Real GDP forecast**



Source: BEA, Blue Chip Economic Indicators March 2013; historical data through 2012

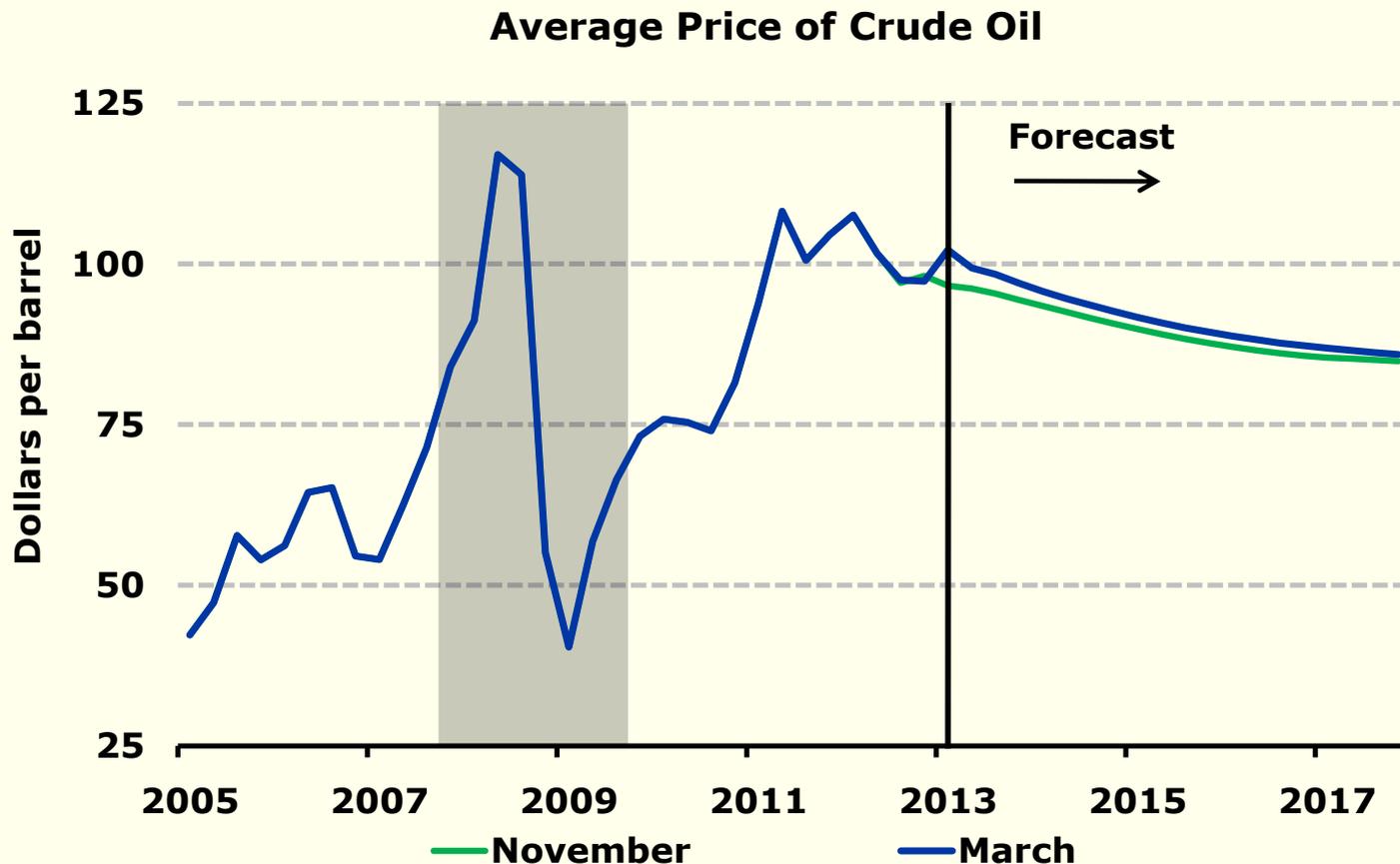
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# Oil prices: higher than in November but expected to decline



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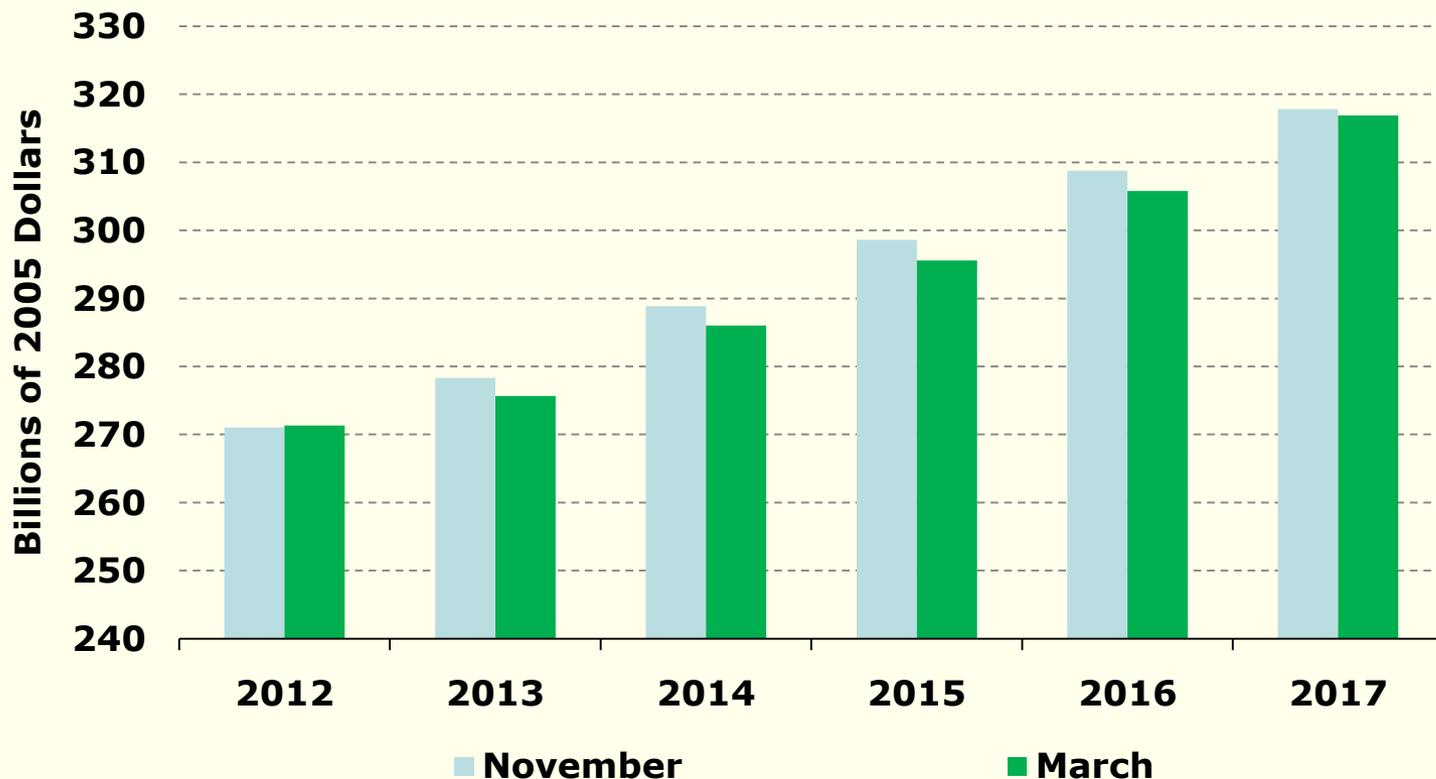
Source: DOE, ERFC March 2013 forecast; historical data through 2013Q1

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# WA Personal Income Forecast Slightly Lower

## Washington Real Personal Income

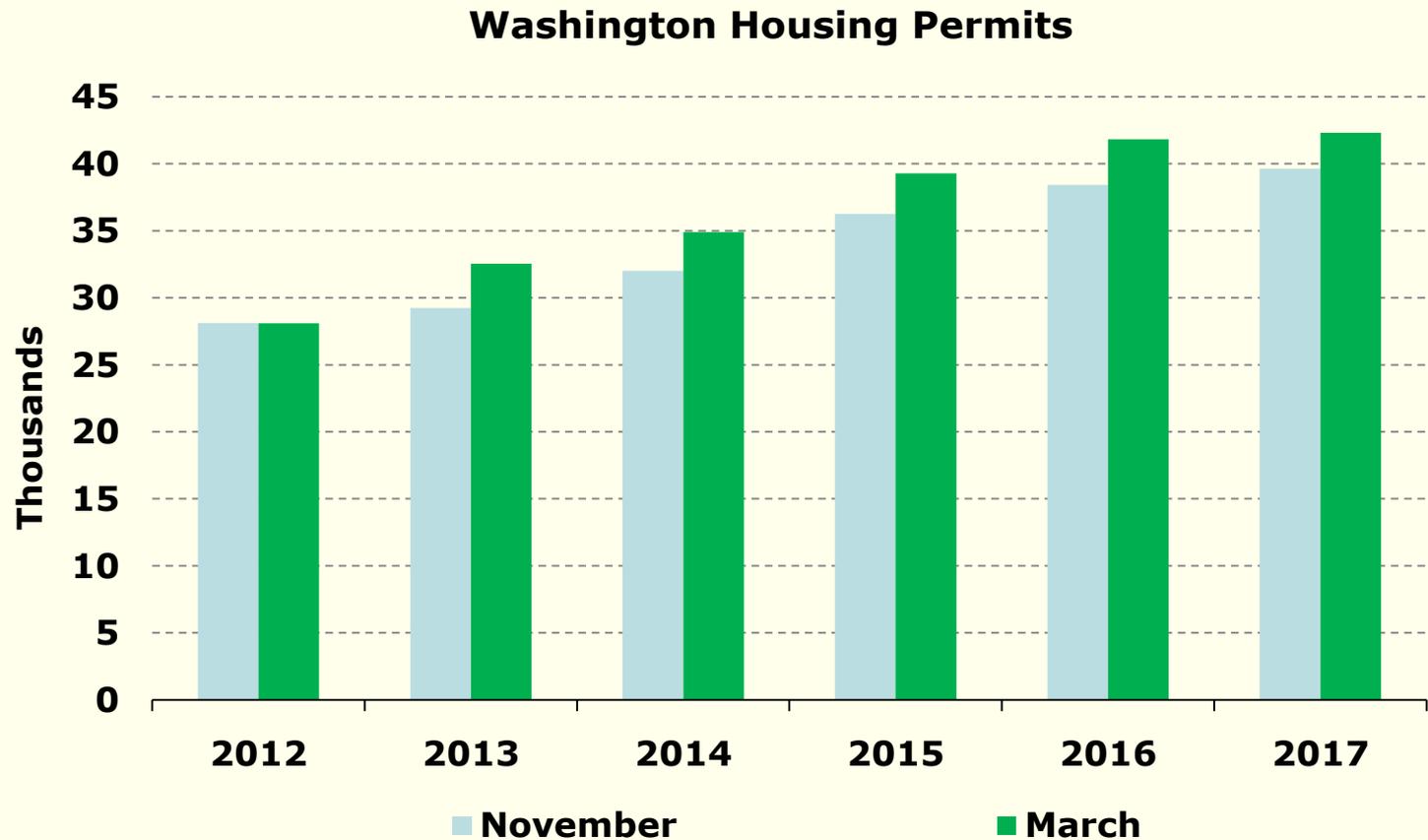


Source: BEA, ERFC March 2013 Forecast; historical data through 2012

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# Washington Housing Permits Forecast is Slightly Higher



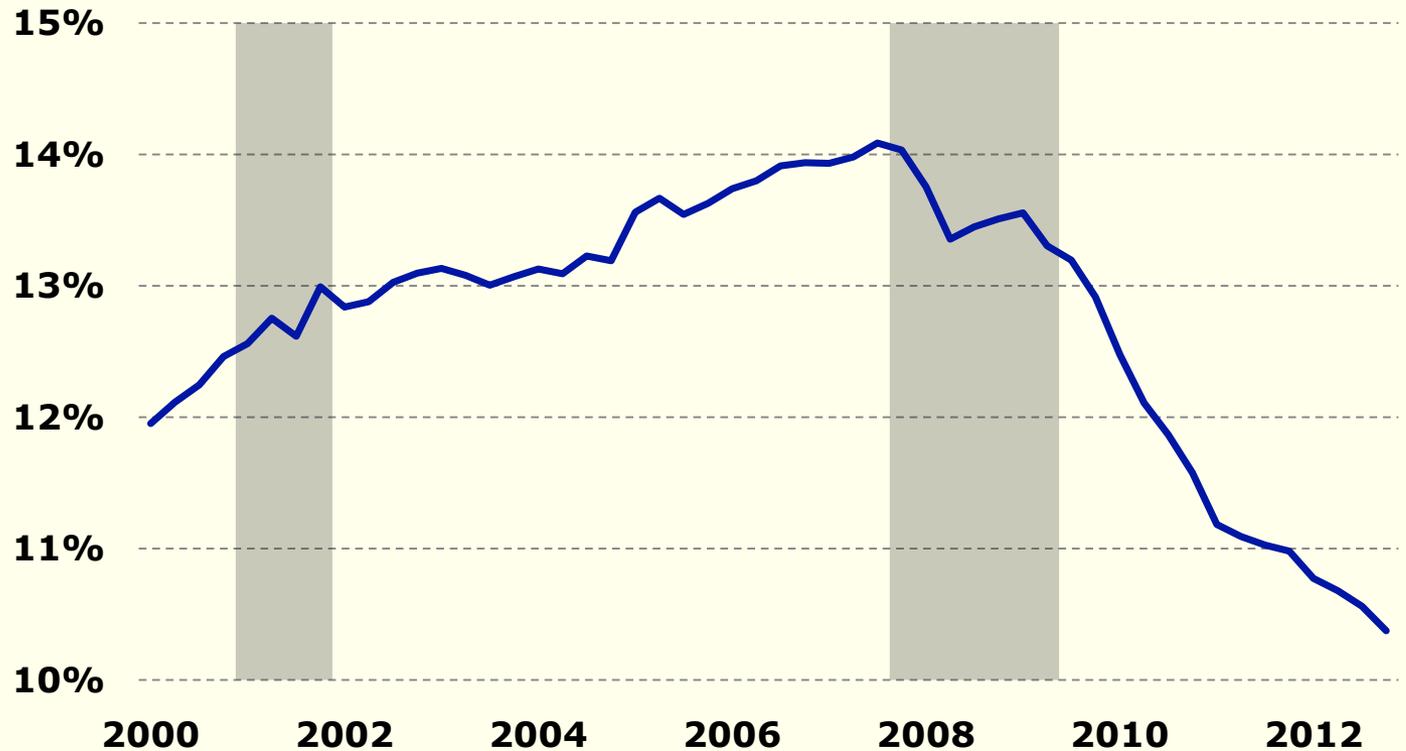
Source: ERFC March 2013 forecast; historical data through 2012

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# Household debt relative to income has declined

**Mortgage & debt payments as a percent of disposable personal income**



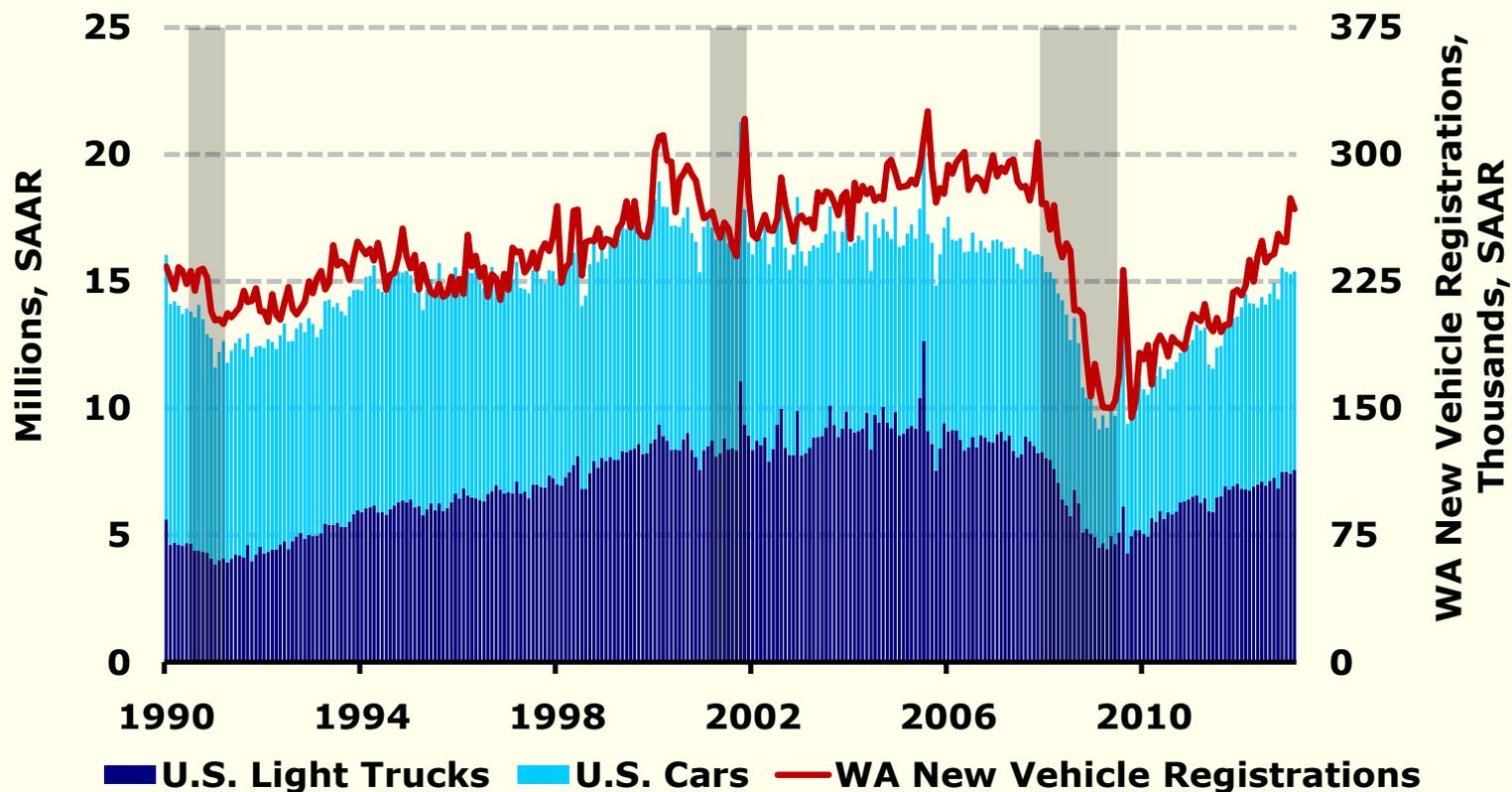
Source: Federal Reserve Board, data through 2012Q4

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# Vehicle sales continue their upward trend

WA new vehicle registrations in February were up 20% year-over-year.



Source: Autodata Corporation, WA DOL; data through February 2013

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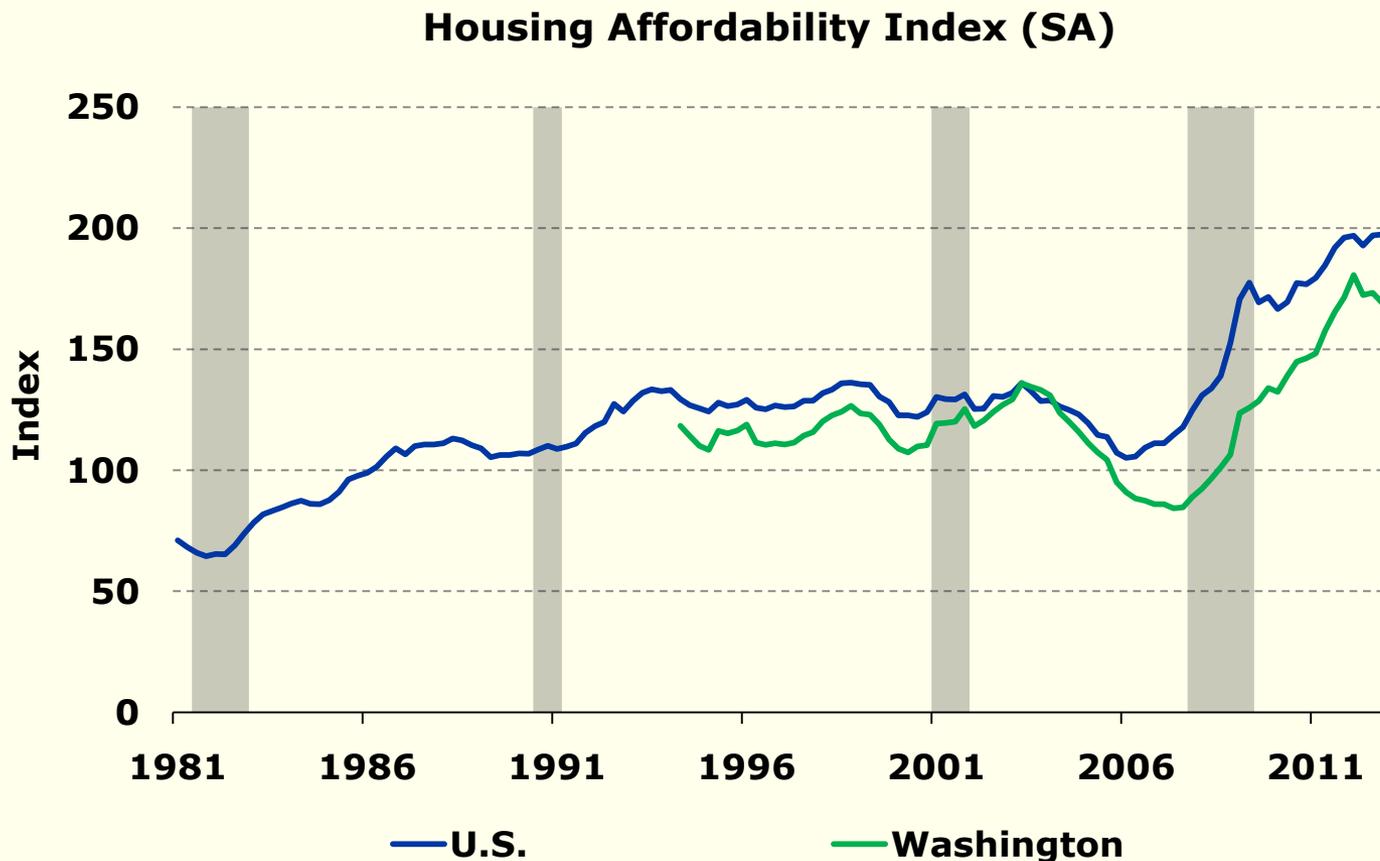
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# Home affordability remains in record territory

Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home



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Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research, ERFC; data through 2012 Q4

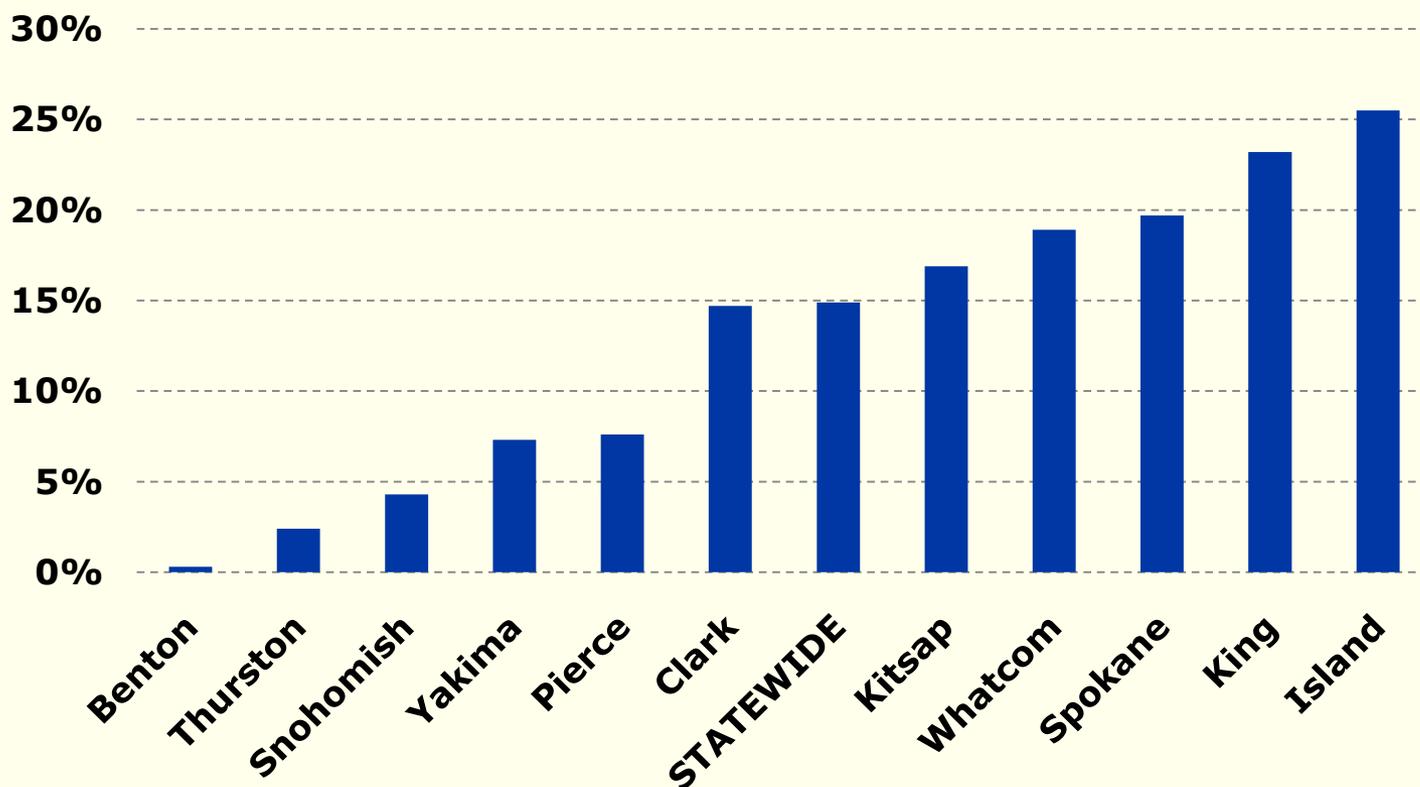
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# Strong growth in existing home sales statewide

\*Counties with 2% or more of existing home sales, 2012Q4

**Existing Home Sales  
Year over year % Change\***



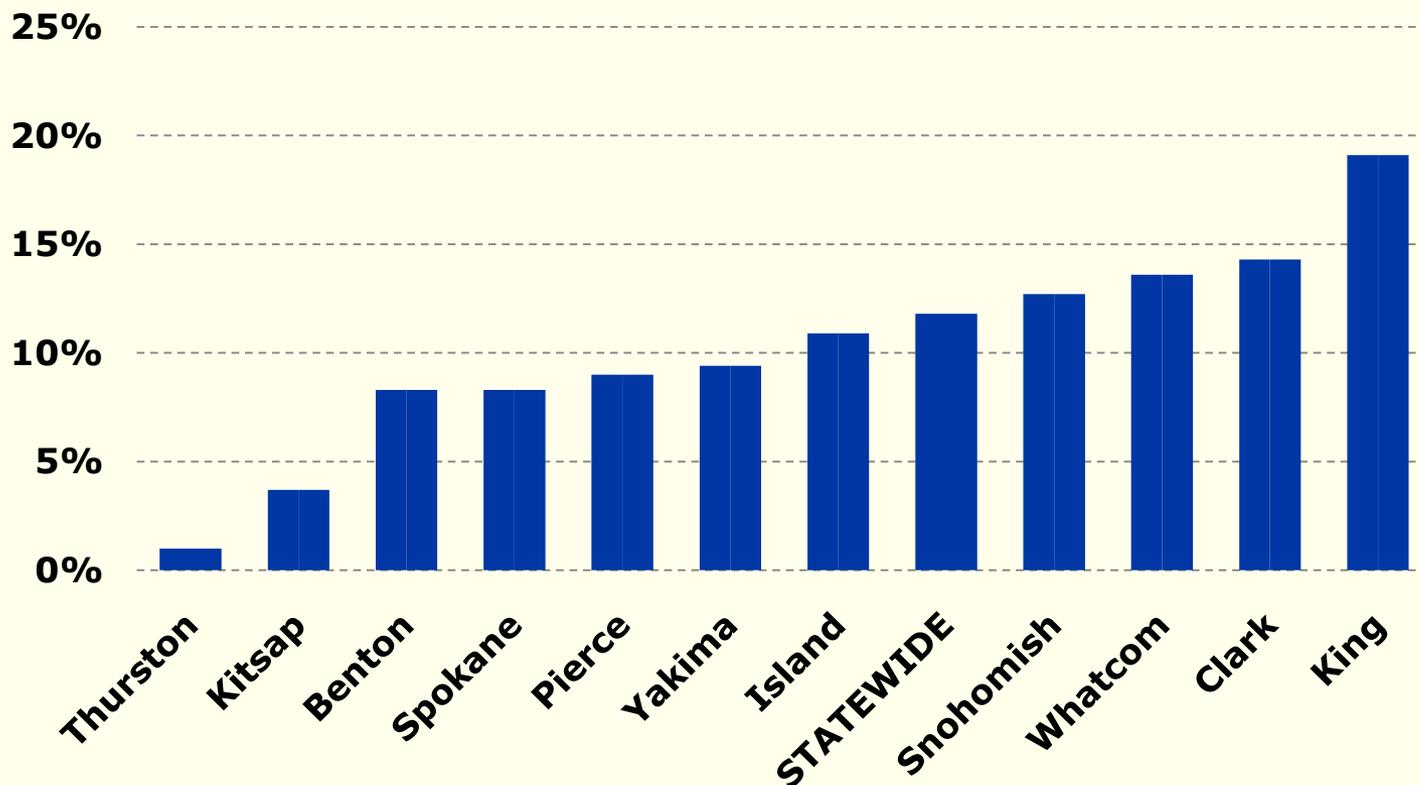
Source: WA Center for Real Estate Research, ERFC; 2012Q4 data



# Considerable variation in home price changes across state

\*Counties with 2% or more of existing home sales, 2012Q4

**Median Home Price  
Year over year % Change\***



Source: WA Center for Real Estate Research, ERFC; 2012Q4 data



# Federal budget and tax changes

## Tax increases effective January 1<sup>st</sup>

- Payroll tax: \$1,000 more in taxes for family with \$50,000 in wages
- Higher taxes on wages, capital gains for upper income (\$450,000+) families

## Deficit reduction

- Baseline assumes sequester through June
- \$35 B in spending cuts for 2013
- Additional \$912 B in taxes, spending cuts FFY 2014 - 2023

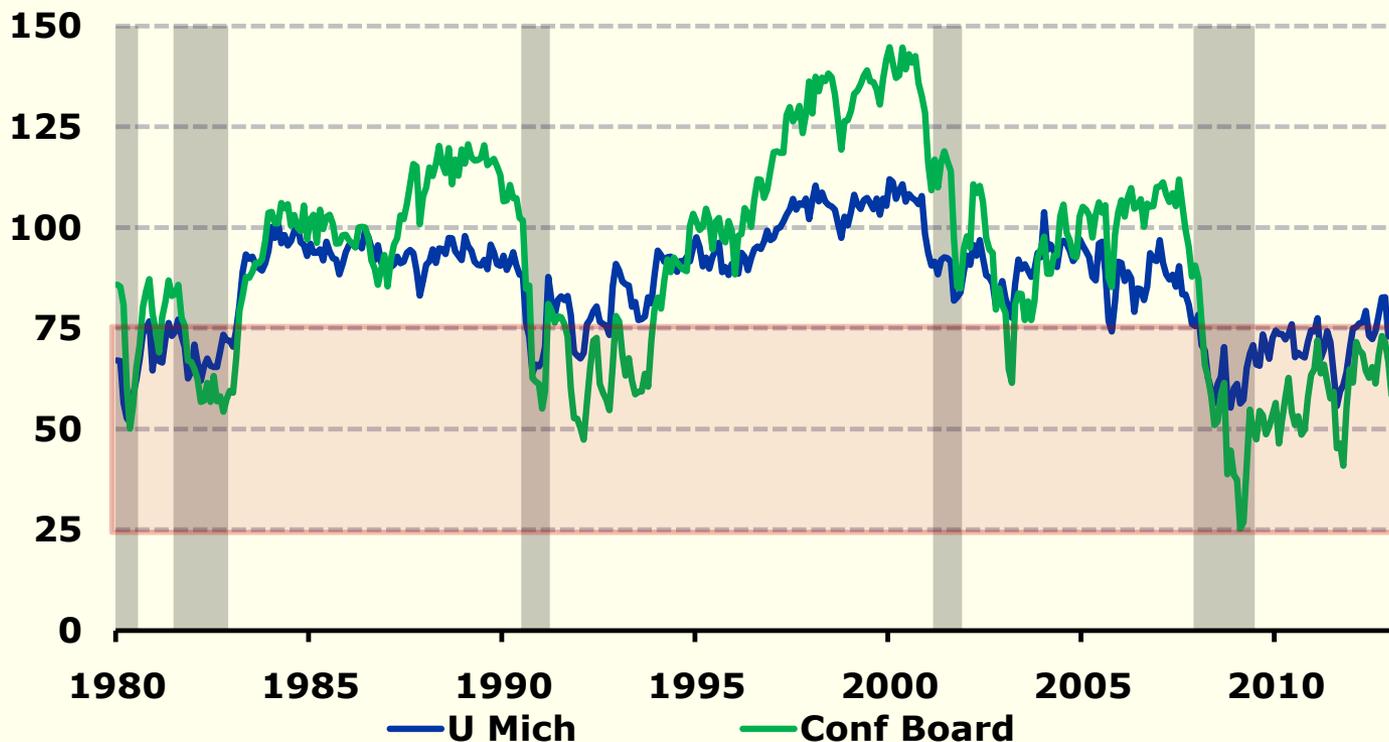


# Consumer confidence remains fragile

## Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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Source: University of Michigan; Conference Board, data through March 2013

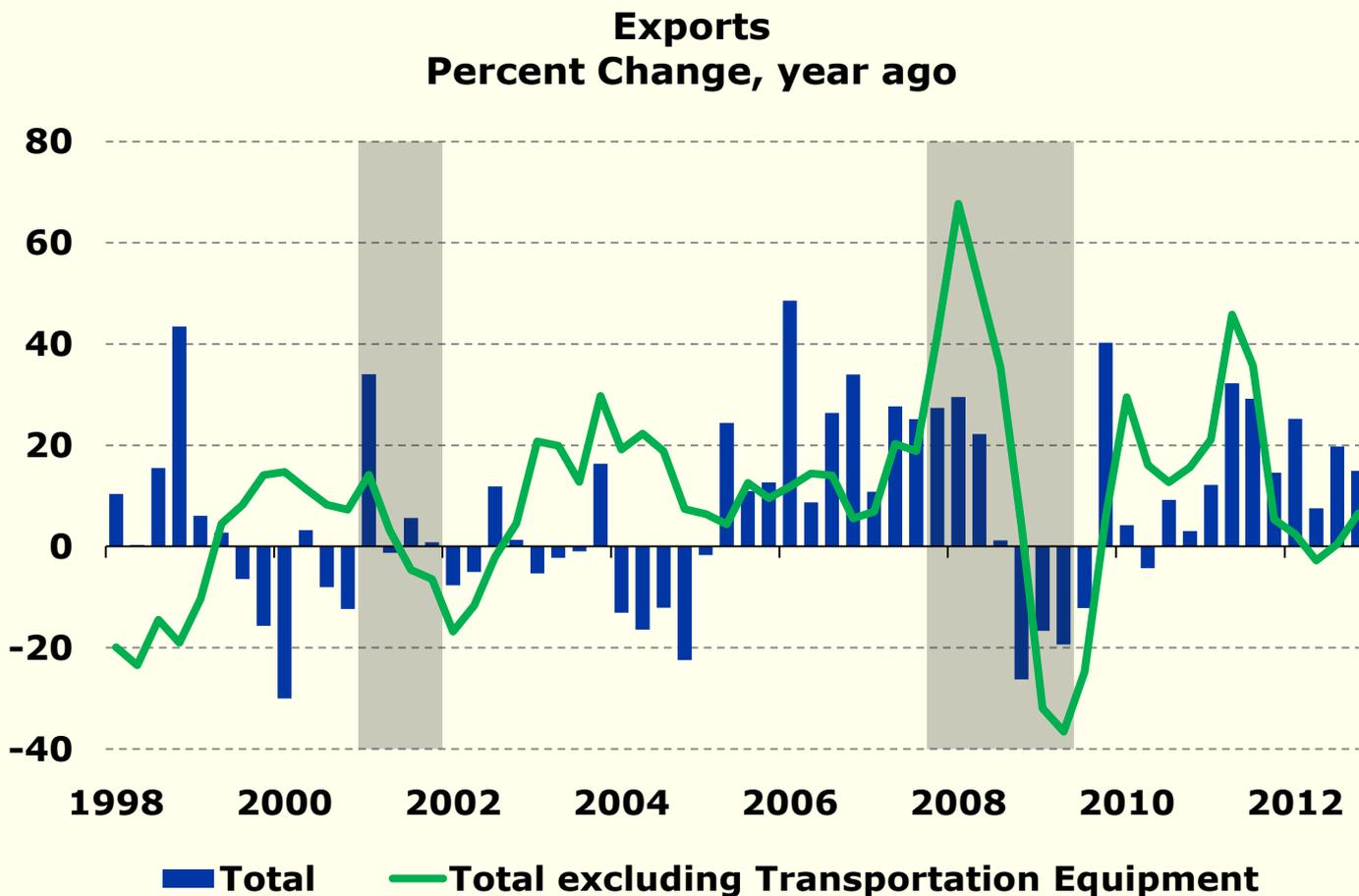
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# WA export growth has slowed

Trans. Equip. exports are up 24% year-over-year in Q4

All other exports are up just 7% year-over-year in Q4



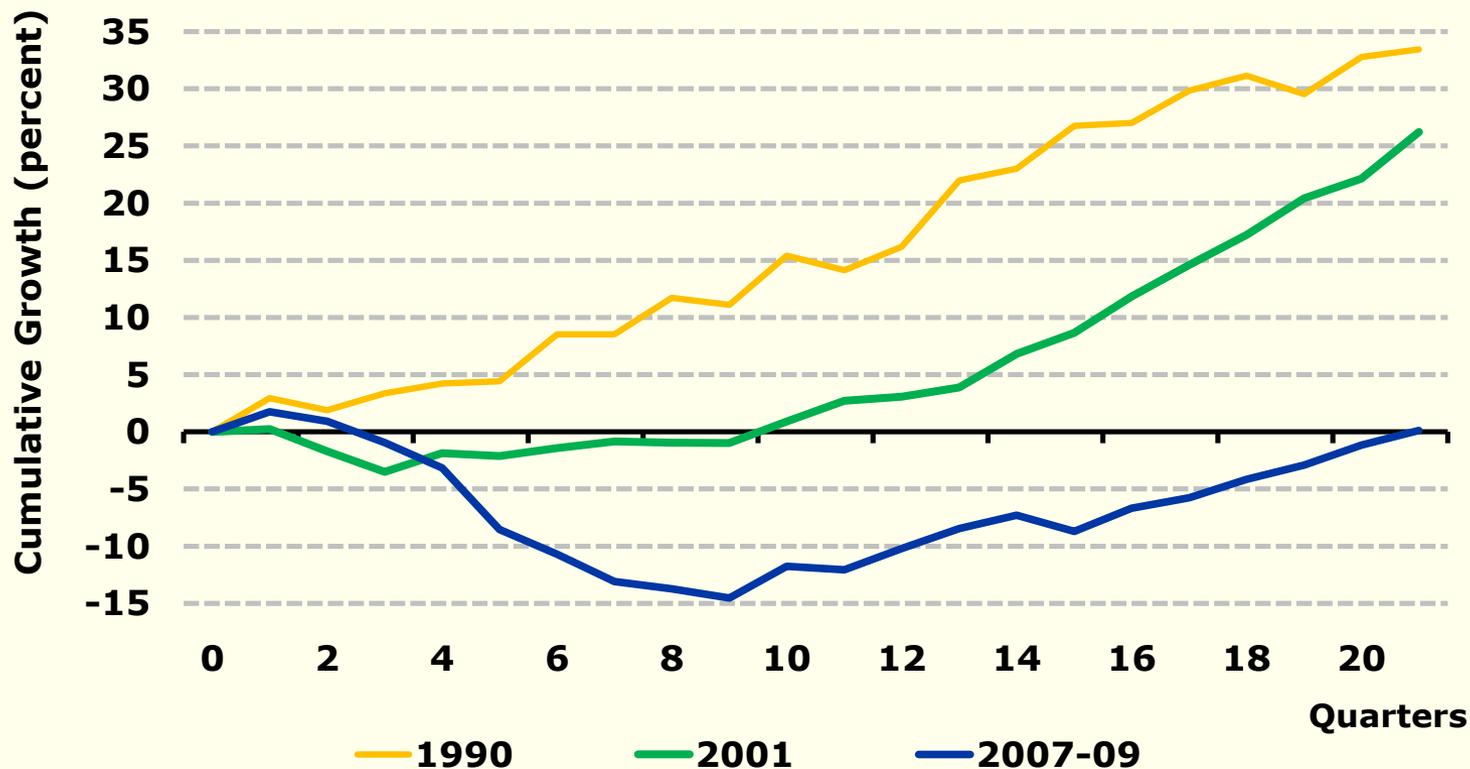
Source: WISER Trade Data; data through 2012 Q4

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# Revenue collections have been weak compared to past recoveries

## Revenue Act Collections after Business Cycle Peak



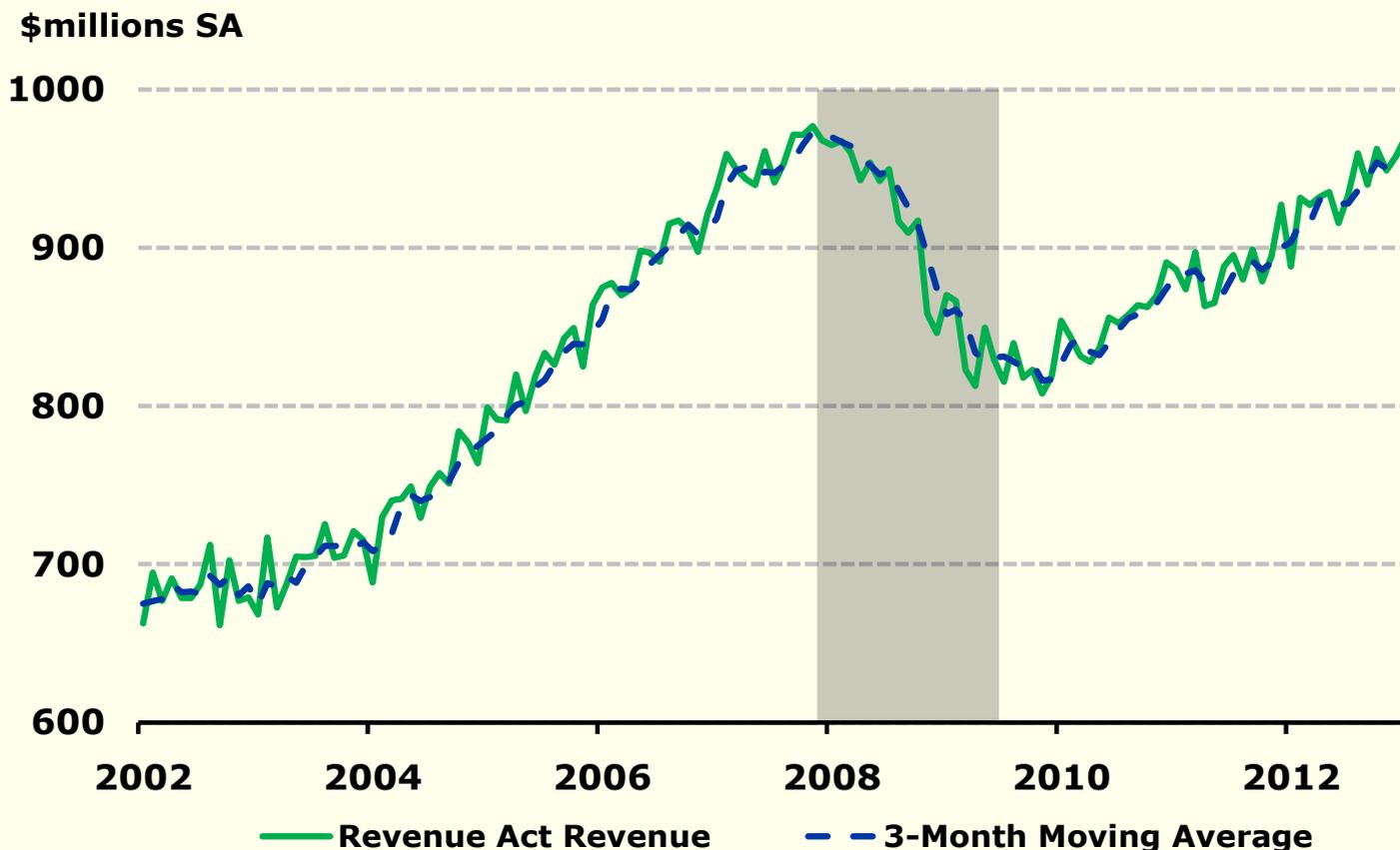
Source: ERFC; data through 2012 Q4

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# Revenue Act collections are still on an upward trend

Collections were up 5.0% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 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 January 2013 activity

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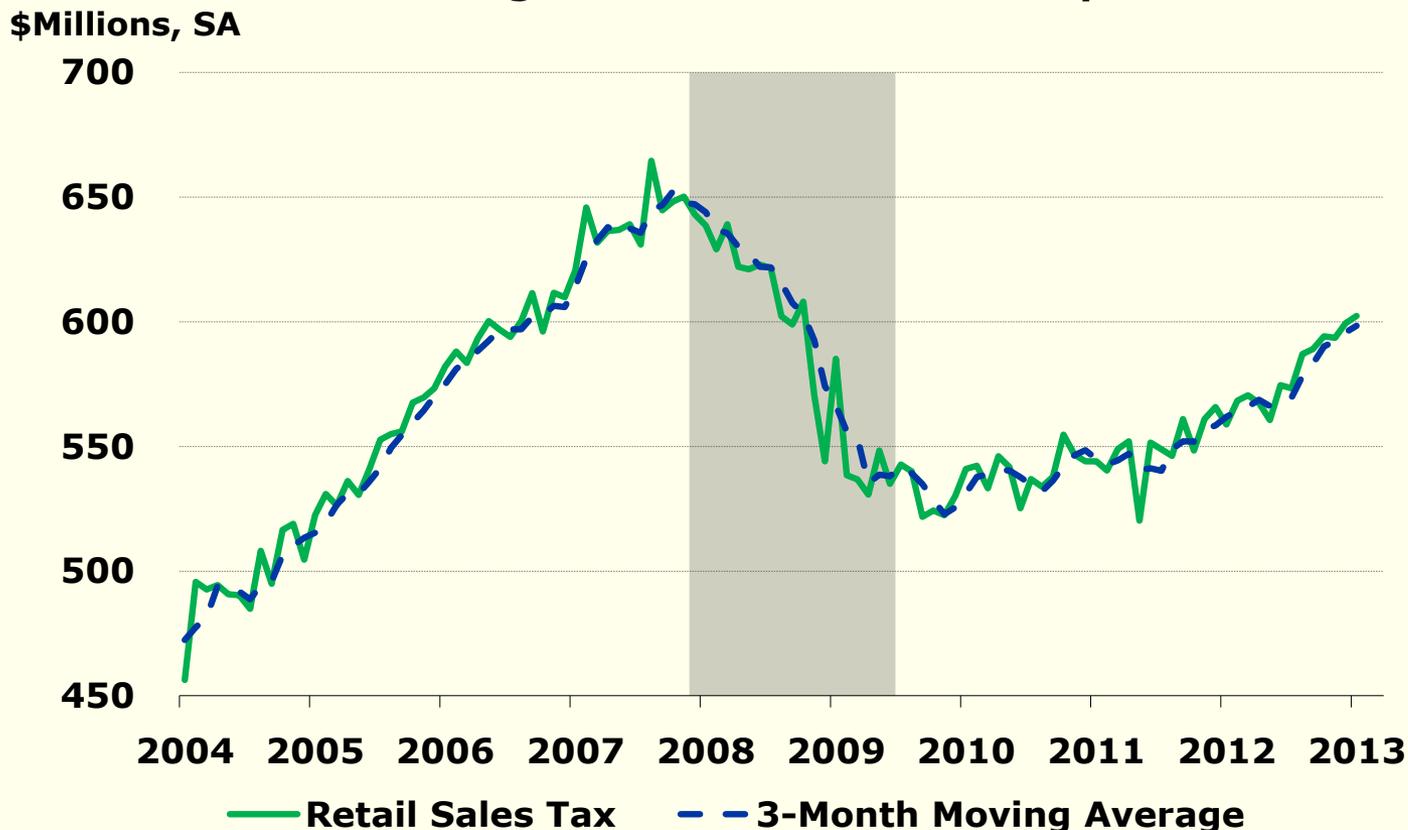
# WA sales tax growth improved in the fourth quarter of 2012

Sales tax collections were up 5.9% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 10, 2013 collections)

Collections for third quarter activity were up 4.7% year-over-year

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## Washington Retail Sales Tax Receipts



Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change  
Source: ERFC; Monthly data through January 2013 preliminary activity

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# B&O tax growth also improved in the fourth quarter of 2012

B&O tax collections were up 7.6% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 10, 2013 collections)

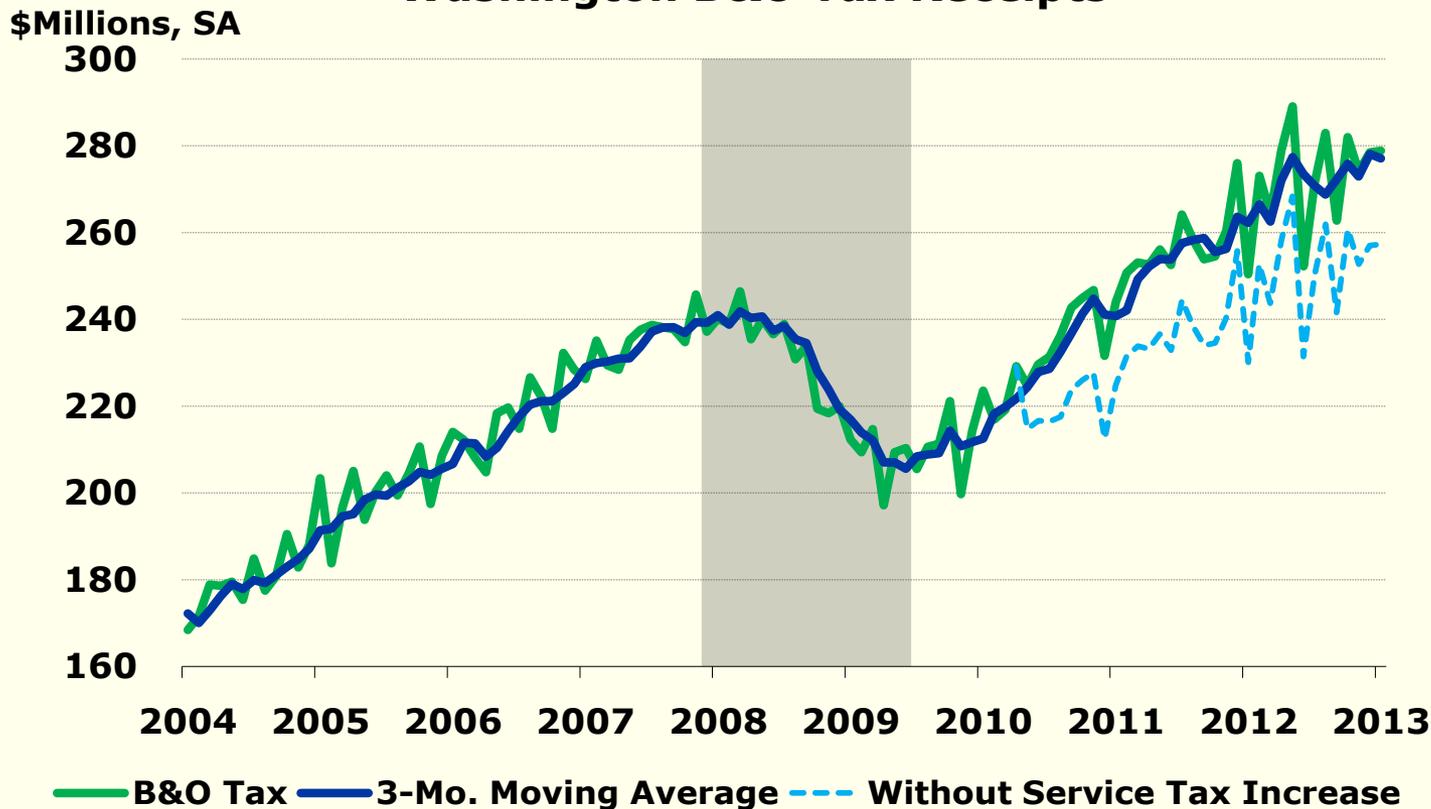
Collections for third quarter activity were up 4.9% year-over-year

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## Washington B&O Tax Receipts



Source: ERFC; Monthly data through January 2013 preliminary activity

Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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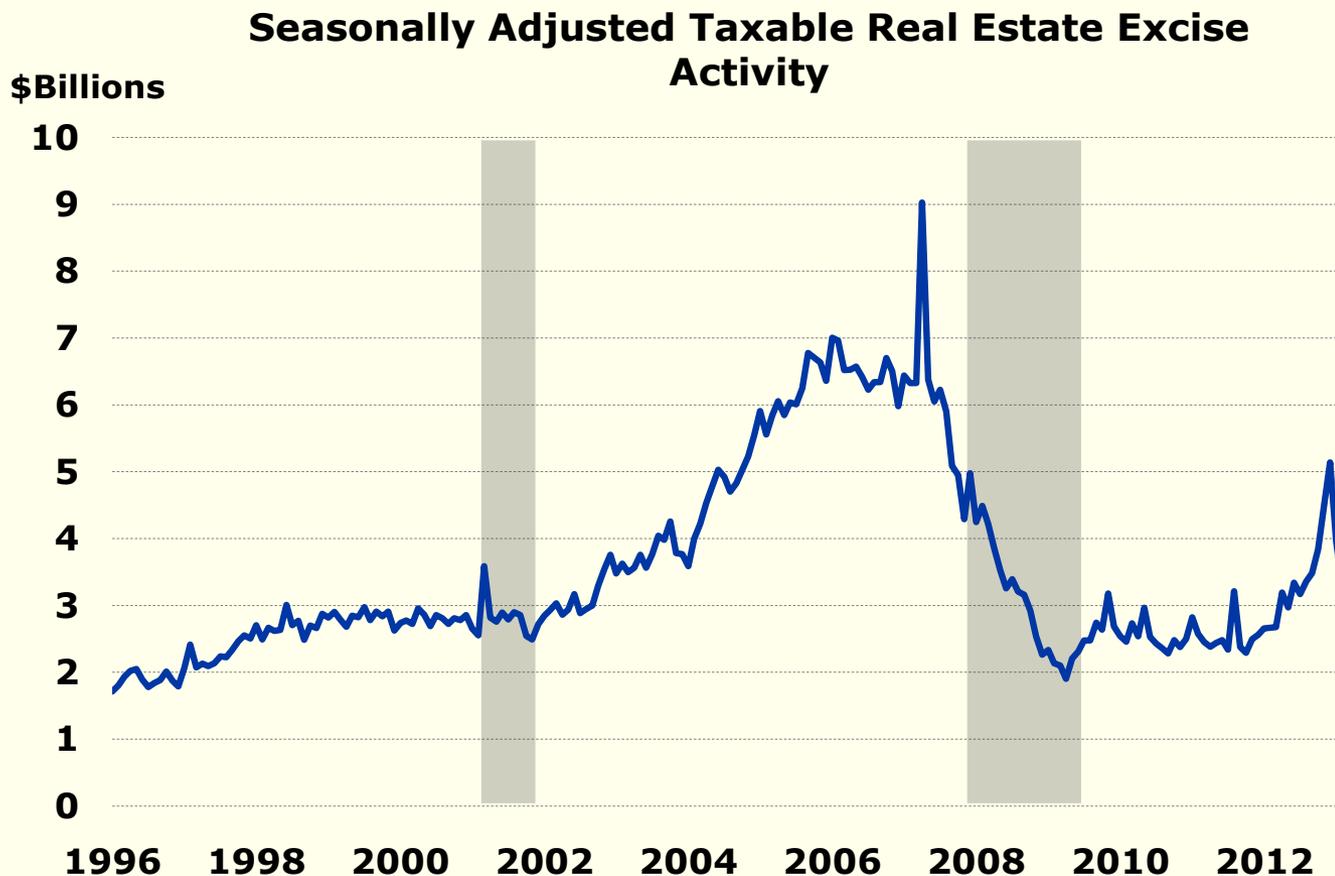
# REET activity returning to prior trend after end-of-year rush

2012 real estate sales were elevated due to the incentive to claim capital gains before taxes increased in 2013.

There was a rush in sales at the end of the year, particularly in commercial real estate and high-end residential properties.

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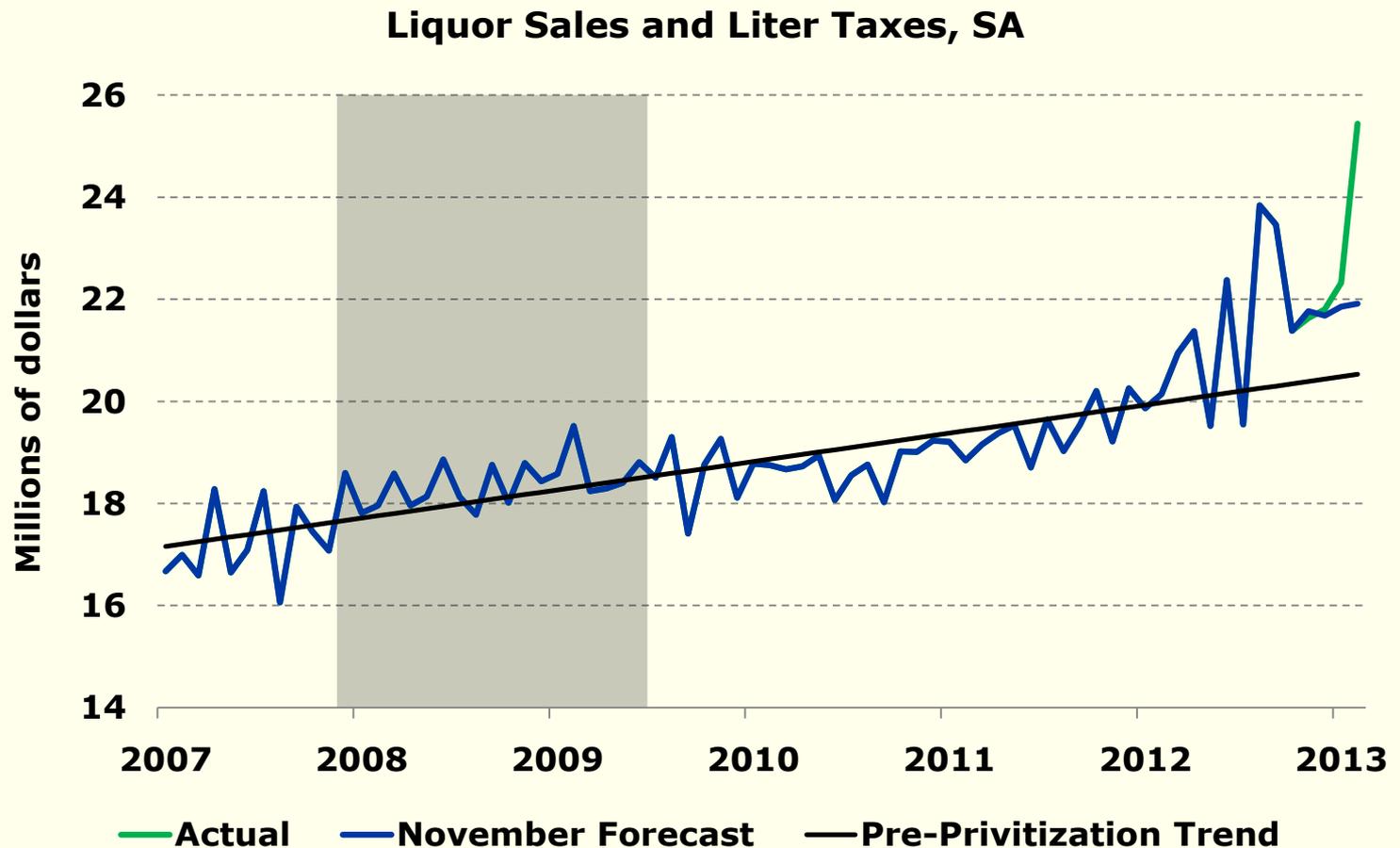


Source: ERFC; Monthly data through February 2013 preliminary



# Revenue for liquor sales has been volatile recently

Revenue was \$3.6 million (3.9%) above the November forecast



Source: DOR, ERFC; data through February 2013

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# Forecast changes: General Fund State, 2011-2013 Biennium

**November Forecast:**

**\$30,477 million**

USD millions	March Forecast			
	<u>Collection Experience</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$126	(\$53)	\$28,925	\$73
All other agencies	(\$0)	(\$14)	\$1,611	(\$14)
<b>Total GF-S</b>	<b>\$125</b>	<b>(\$67)</b>	<b>\$30,536</b>	<b>\$59</b>

\* Detail may not add to total due to rounding

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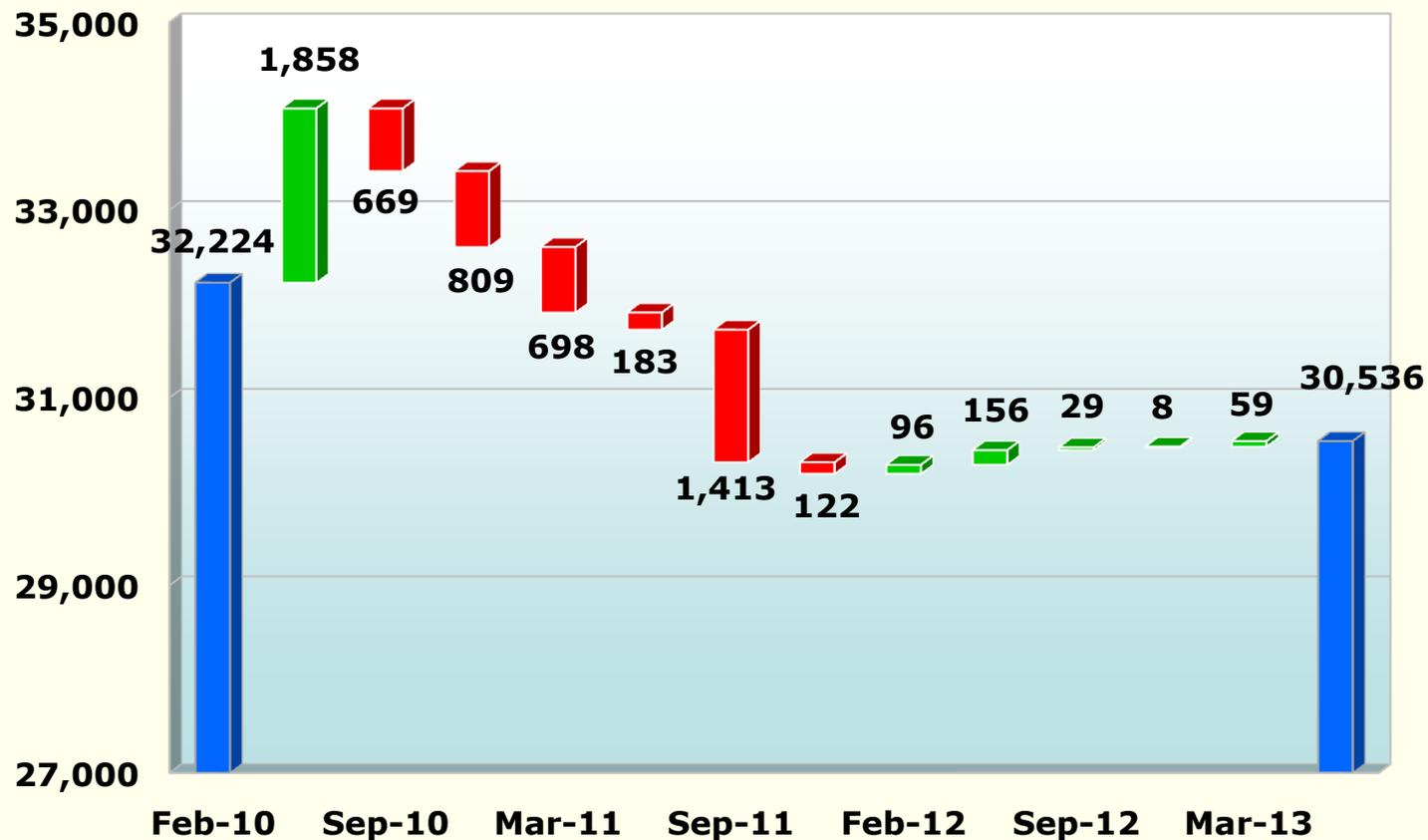
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# Forecast revisions to the 2011-13 biennium

**GF-S**  
**New**  
**Definition**

USD,  
millions



Source: ERFC March 2013 forecast

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# Forecast changes: General Fund State, 2013-2015 Biennium

**November Forecast:**

**\$32,561 million**

USD millions	March Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	(\$38)	\$30,963	(\$38)
All other agencies	\$0	\$18	\$1,578	\$18
<b>Total GF-S</b>	<b>\$0</b>	<b>(\$19)</b>	<b>\$32,541</b>	<b>(\$19)</b>

\* Detail may not add to total due to rounding

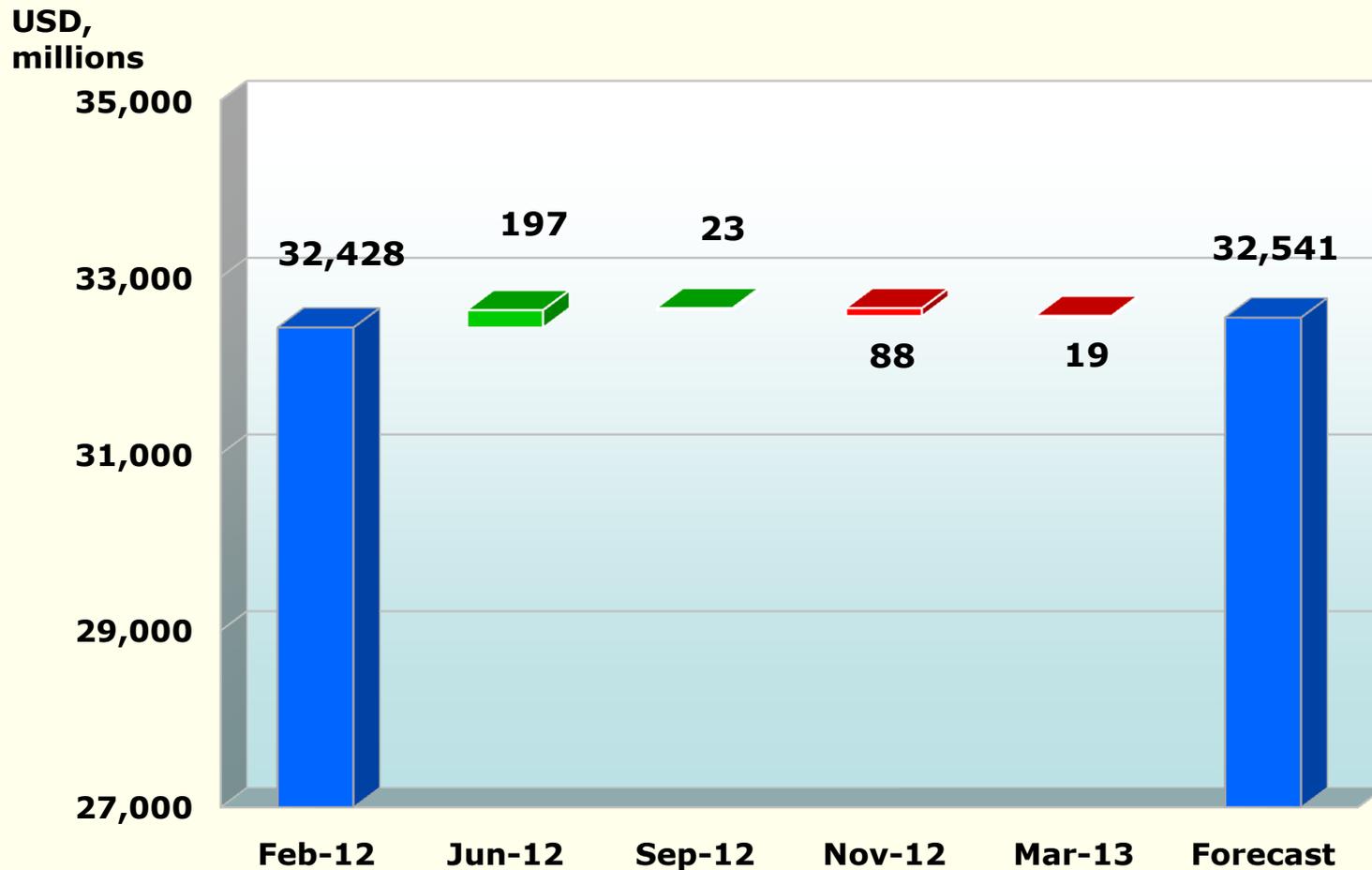
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# Forecast revisions to the 2013-15 biennium

**GF-S**  
**New**  
**Definition**



Source: ERFC March 2013 forecast

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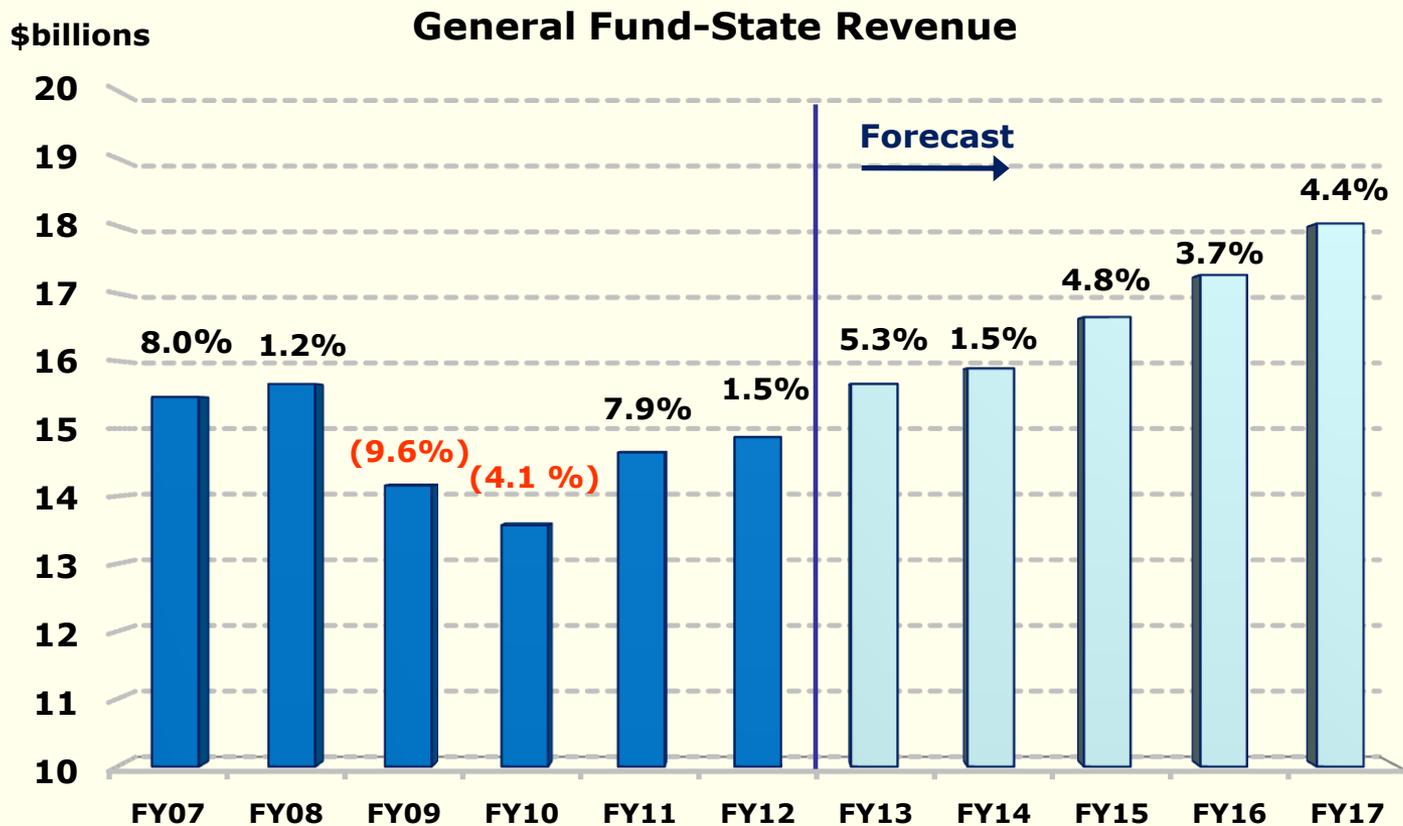
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# General Fund\* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S



\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-17  
 Source: ERFC forecast, March 2013

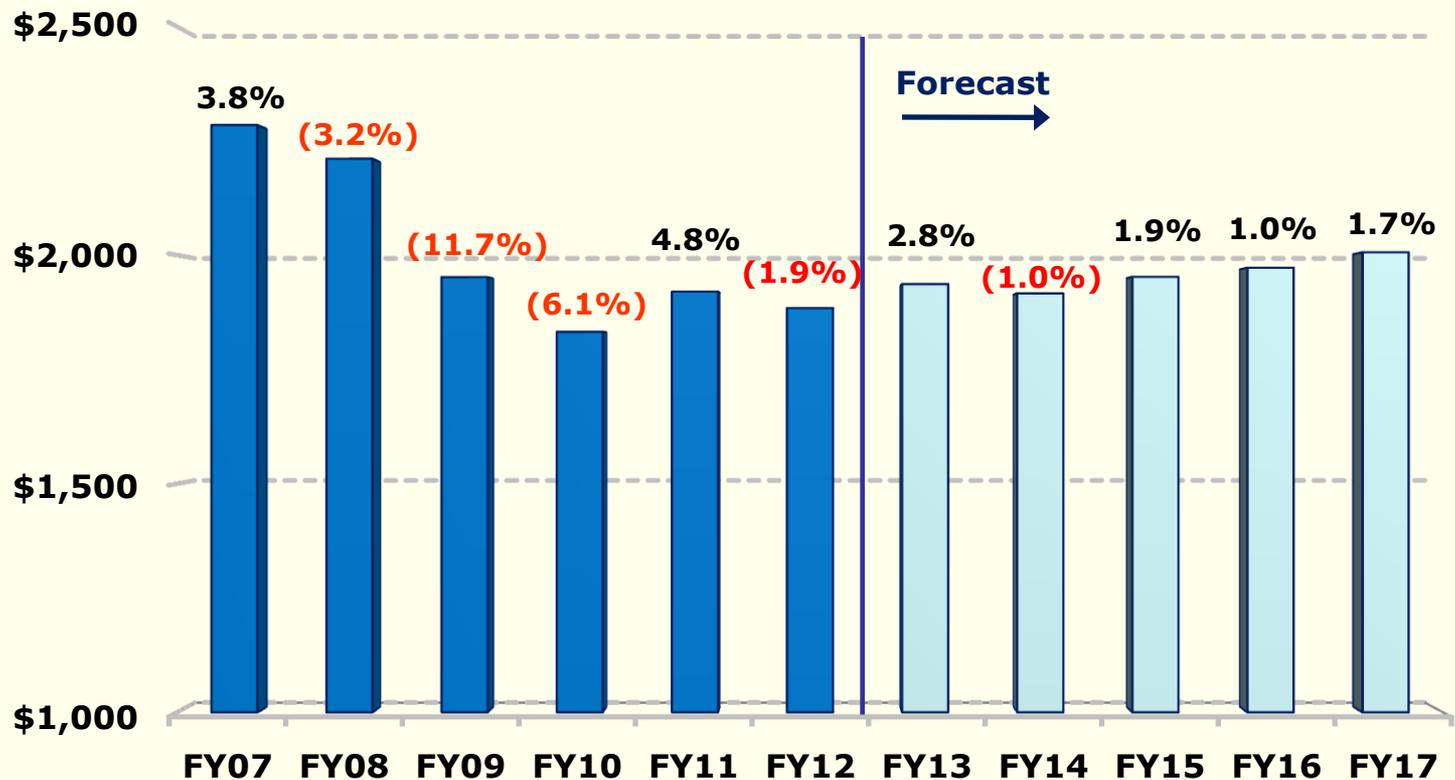
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# Real Per Capita General Fund\*-State Revenue

\* General Fund & Related Funds for FY 2007-2009, General Fund – new definition, for FY 2010-2017

Per Capita GF-S\*, \$2005



Source: ERFC forecast, March 2013

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# 2011-13 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	<b>2011-13 Biennium</b>	<b>Difference From the baseline</b>
<b>March 2013 Baseline (50%)</b>	<b>\$30,536</b>	
<b><u>March 2013 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$30,833</b>	<b>\$296</b>
<b>Pessimistic (35%)</b>	<b>\$30,228</b>	<b>(\$308)</b>
<b>Probability Weighted Average</b>	<b>\$30,473</b>	<b>(\$63)</b>

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# 2013-15 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	<b>2013-15 Biennium</b>	<b>Difference From the baseline</b>
<b>March 2013 Baseline (50%)</b>	<b>\$32,541</b>	
<b><u>March 2013 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$35,267</b>	<b>\$2,726</b>
<b>Pessimistic (35%)</b>	<b>\$29,755</b>	<b>(\$2,787)</b>
<b>Probability Weighted Average</b>	<b>\$31,975</b>	<b>(\$566)</b>

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# Conclusion

- The forecast for the 2011-13 Biennium is \$59 million higher than in November
- The forecast for the 2013-15 Biennium is \$19 million lower than in November
- Revenues are expected to grow 8.2% between the 2009-11 and 2011-13 biennium and 6.6% between the 2011-13 and 2013-15 biennium
- We continue to forecast slow economic and job growth for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



# Questions



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