

U.S. and Washington Economic Forecast

Presented to
Grays Harbor Monthly Business Forum

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**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 have declined dramatically; 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:

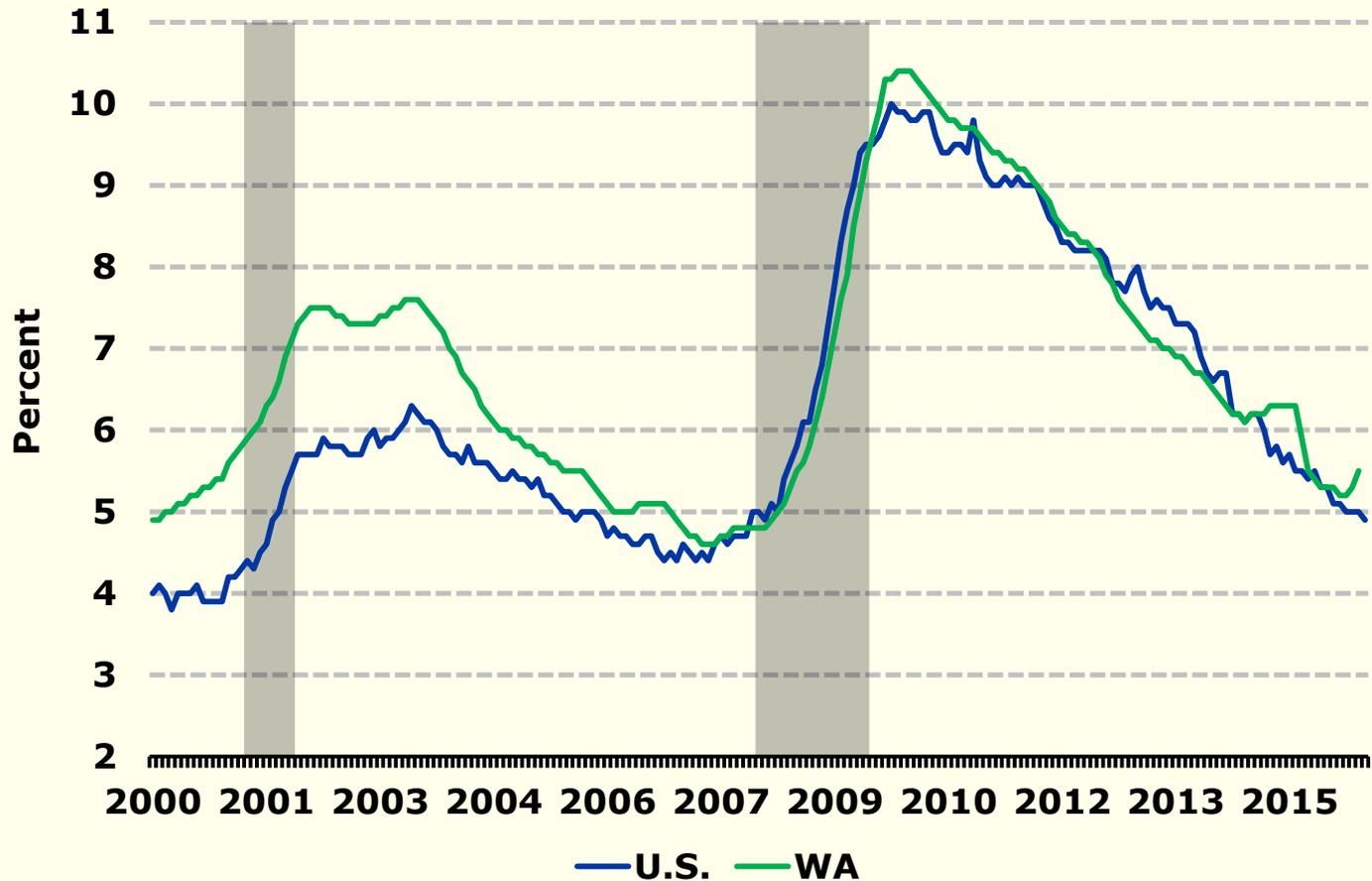
- Declining unemployment rates
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

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



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Source: Bureau of Labor Statistics; U.S. data through Jan. 2016; WA data through Dec. 2015

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

Long-term unemployed as share of all unemployed:

Apr. 2010:
45%

Jan. 2016:
27%

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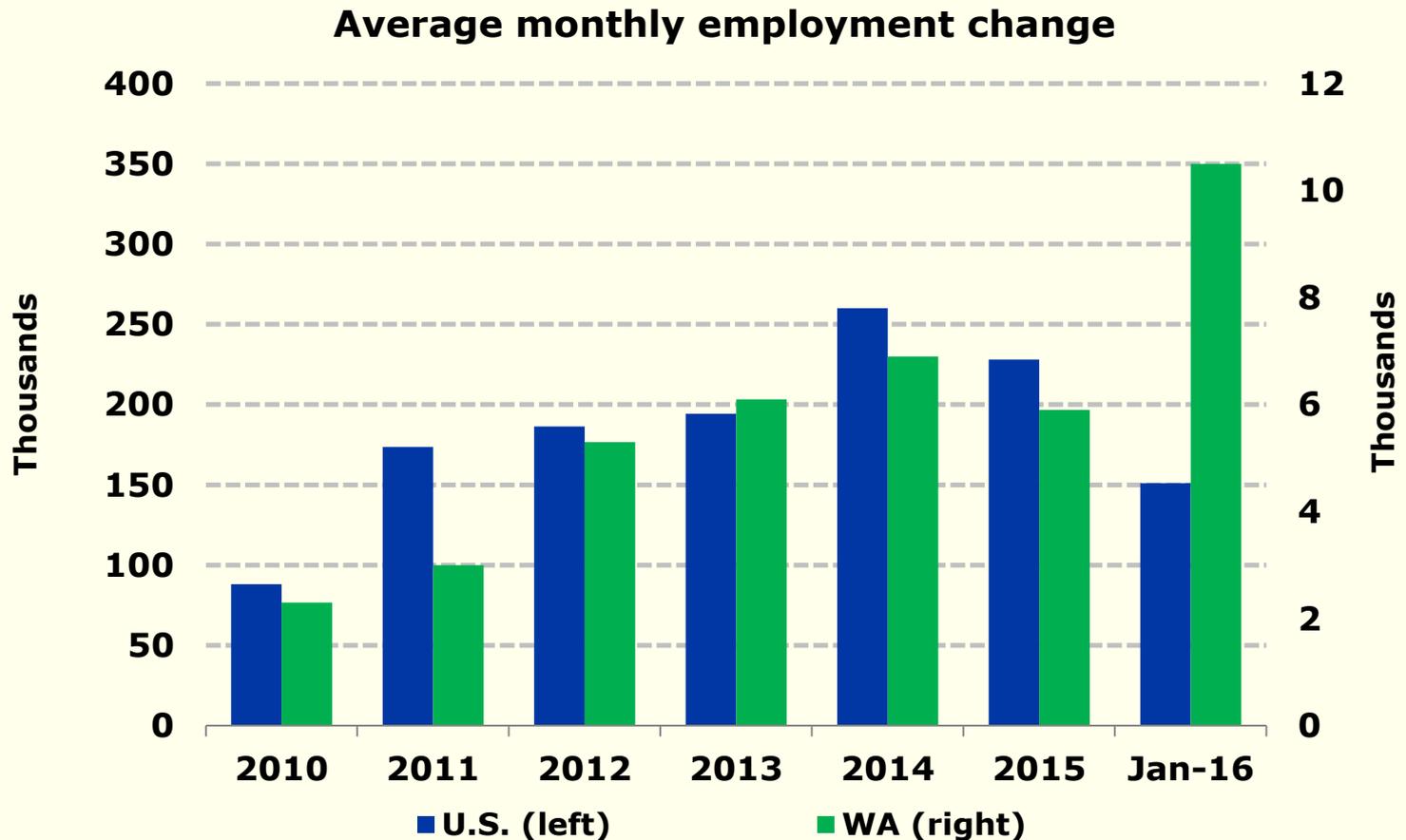
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Source: Bureau of Labor Statistics; data through January 2016



Job creation slightly weaker in 2015 than 2014; U.S. weak, WA strong in January 2016



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Source: Bureau of Labor Statistics, ERFC; data through Jan. 2016

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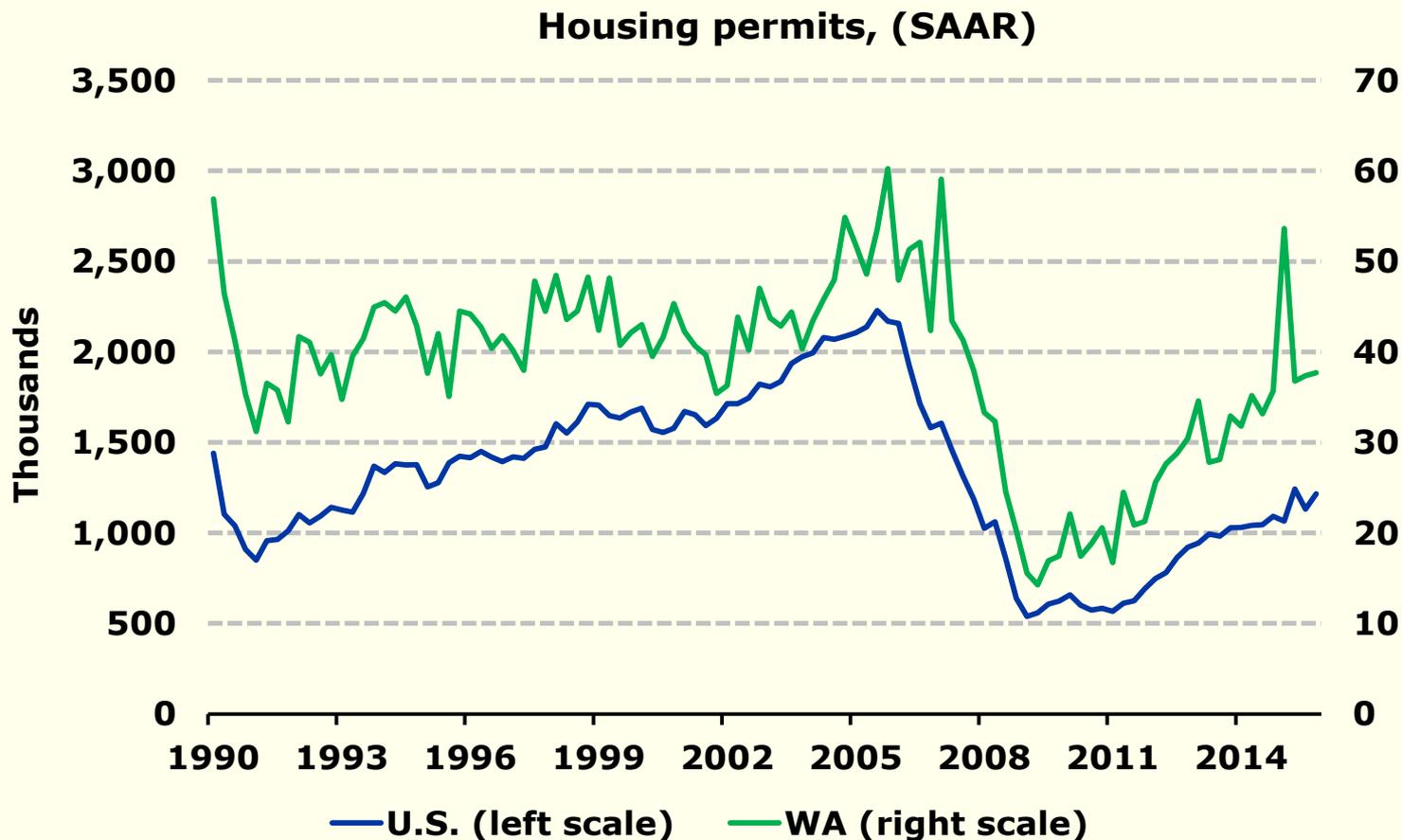
Average U.S. wage growth has turned positive but slowed in January

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





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



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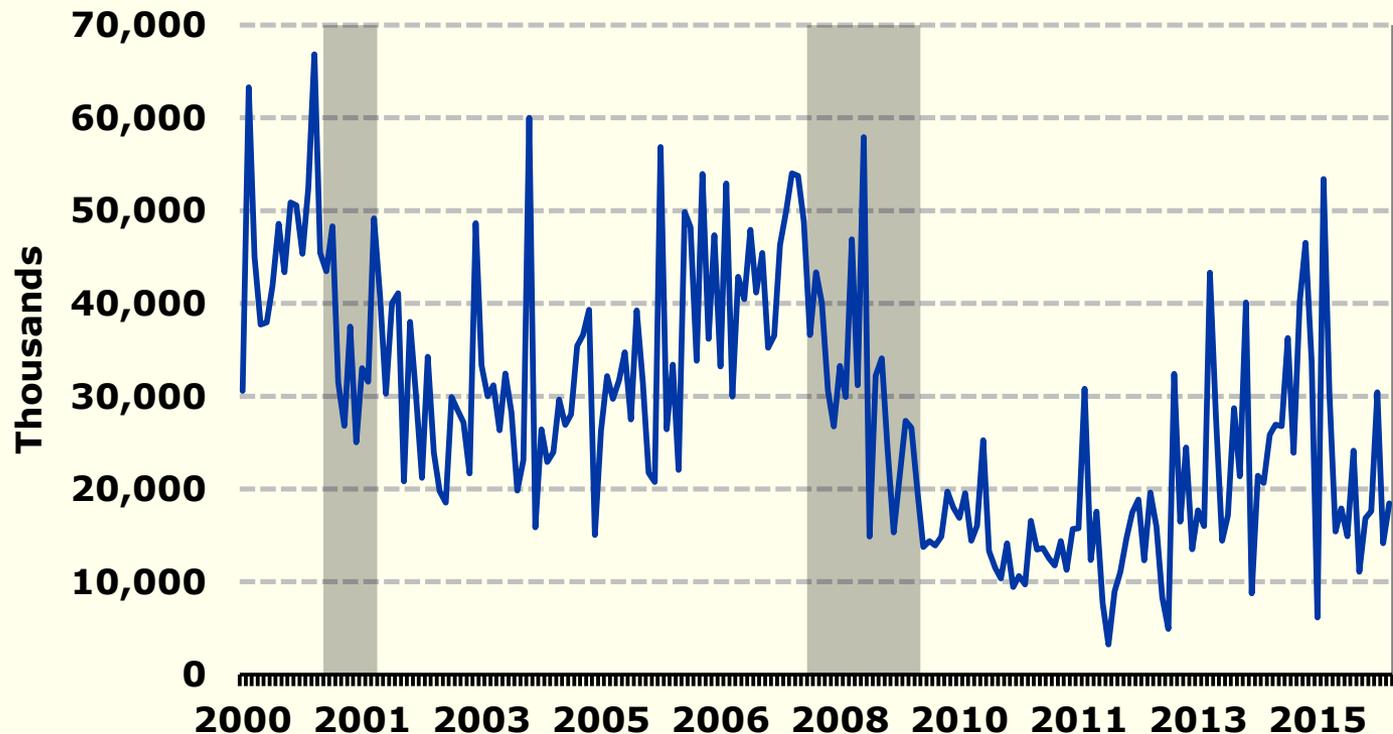
Source: U.S. Census Bureau, data through 2015 Q4

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Nonresidential construction activity appears to be slowing

Square feet under contract, WA nonresidential projects
(SAAR)



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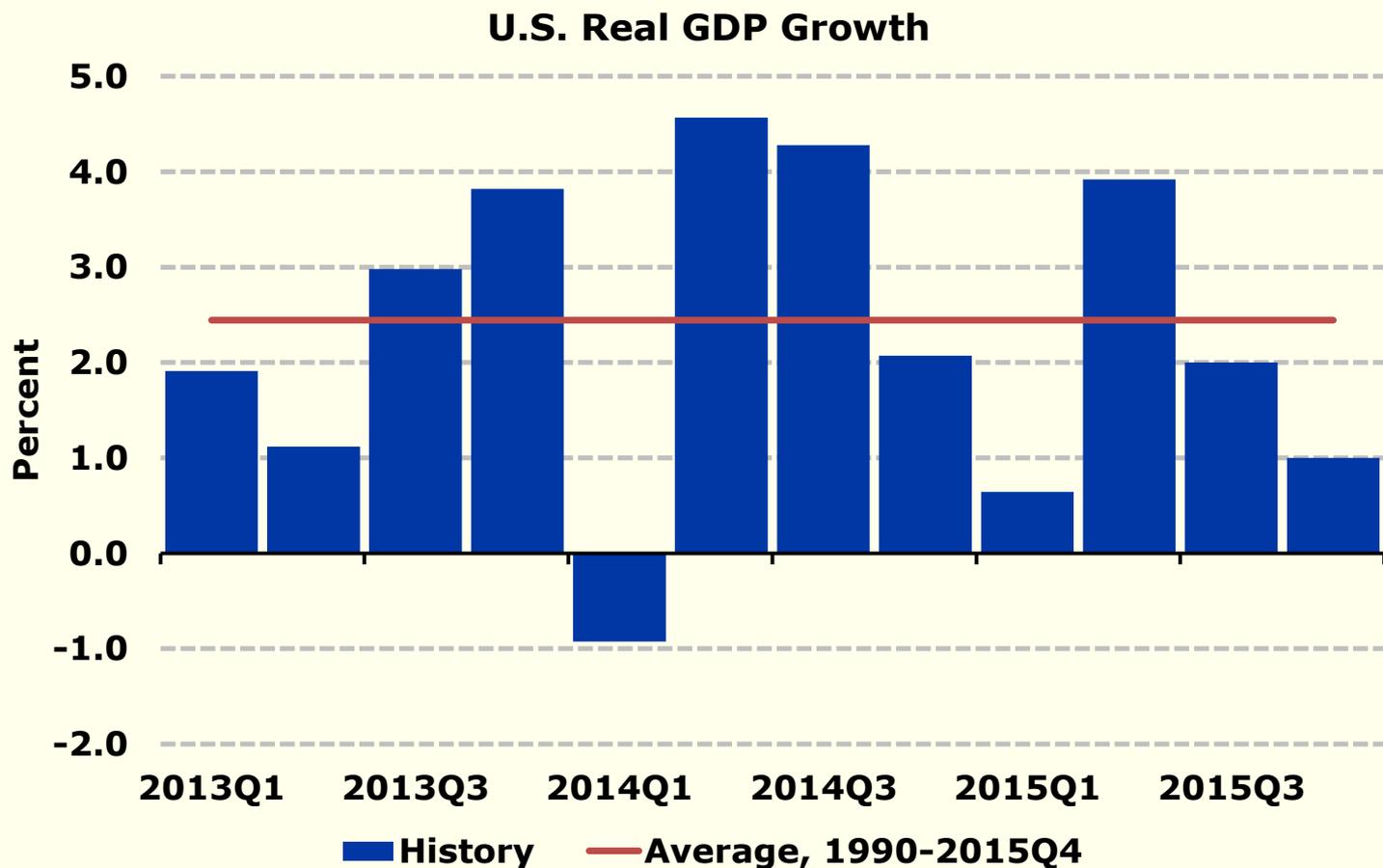
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Source: Dodge Data & Analytics; data through Jan. 2016

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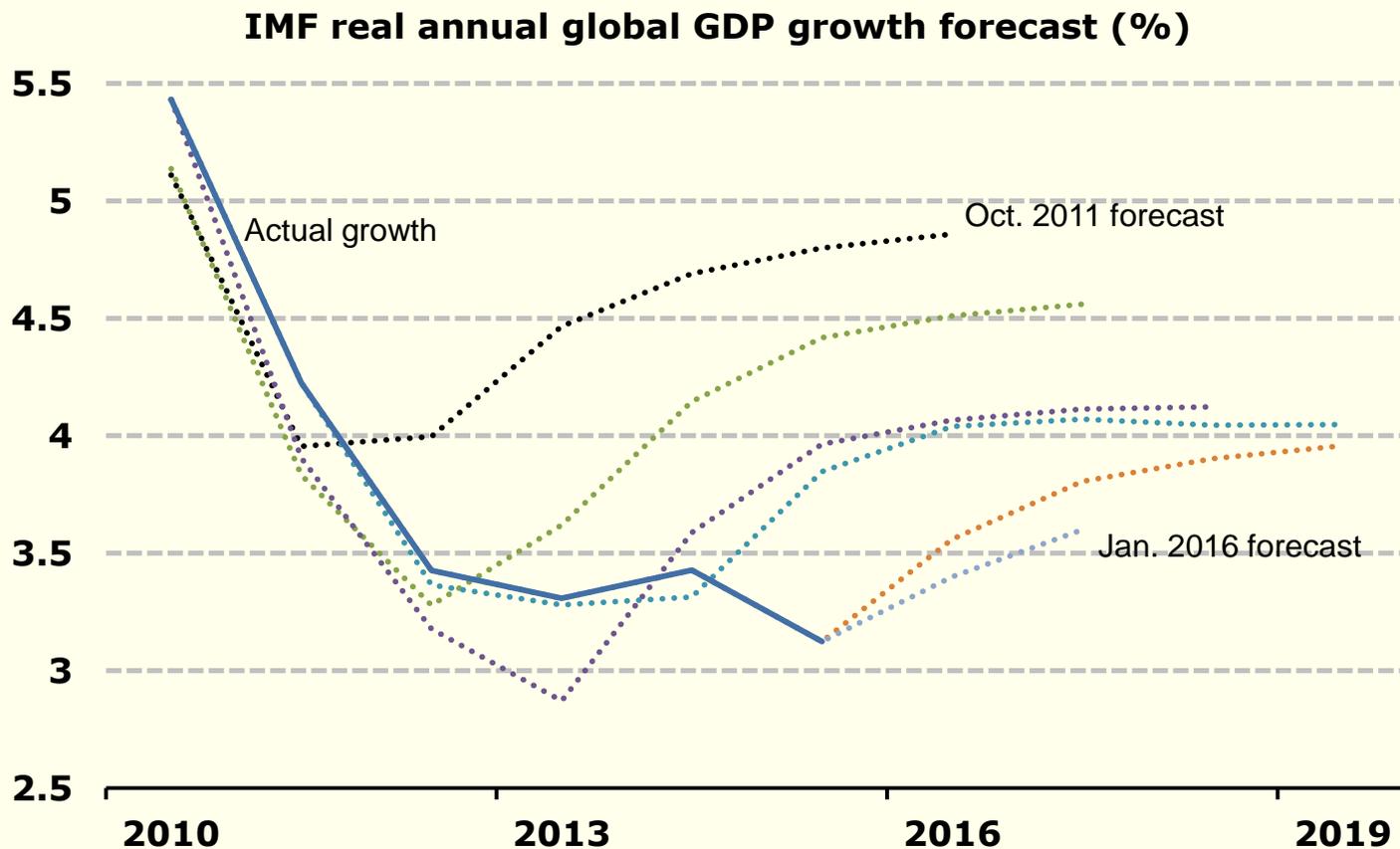


U.S. economic growth weakened in the third and fourth quarters



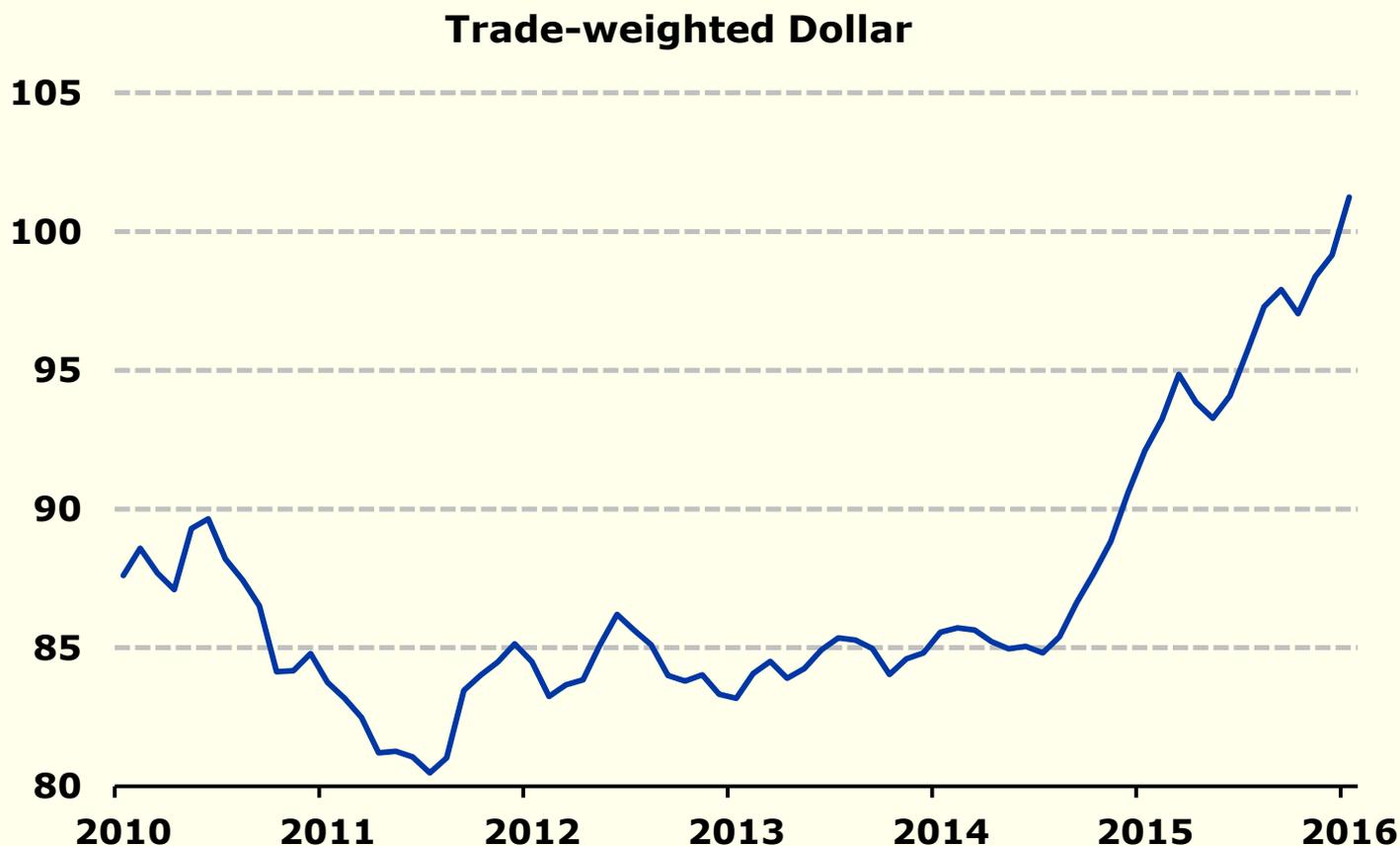


Global GDP forecasts have been consistently revised down





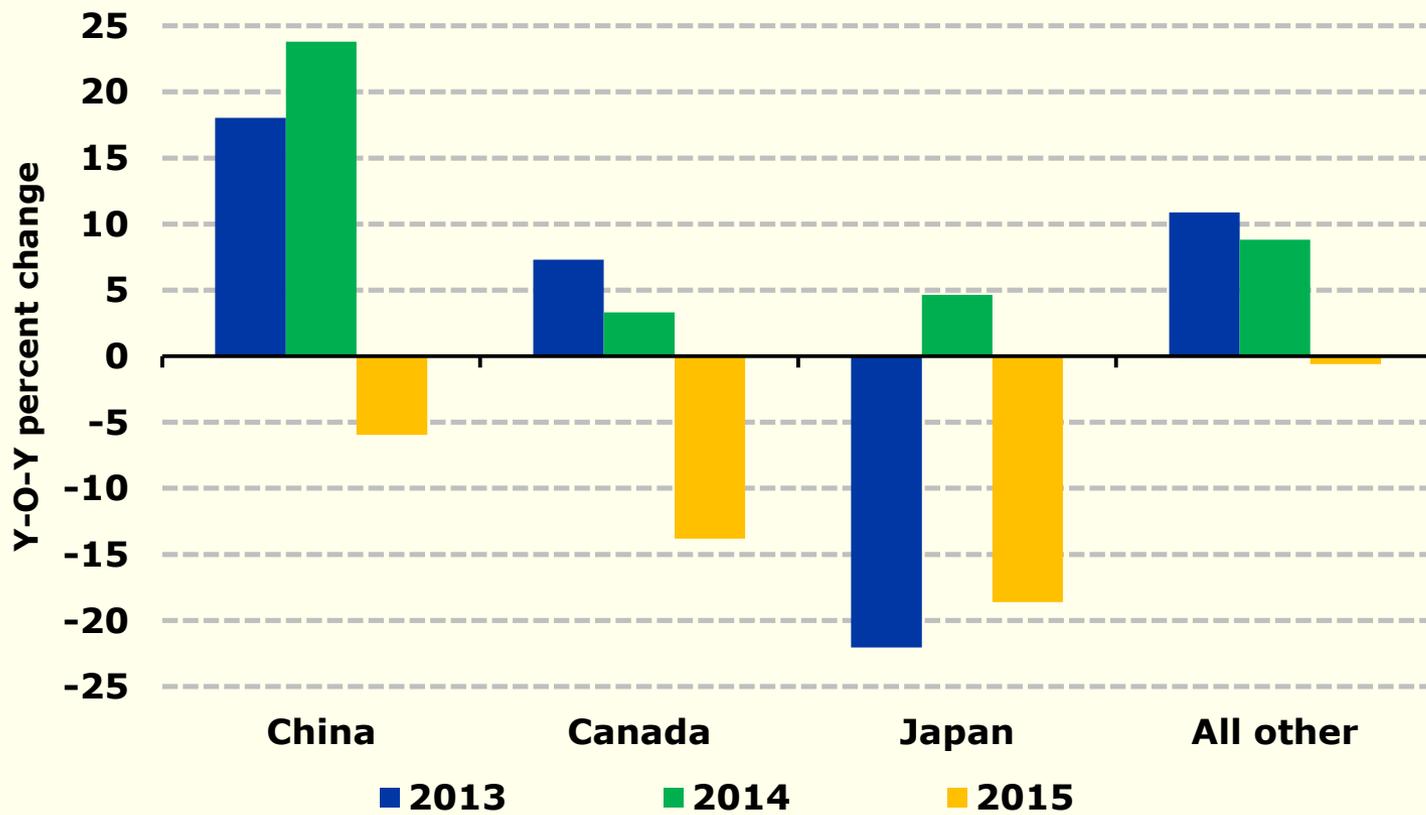
The dollar has increased in value relative to currencies of U.S. trading partners





WA exports in 2015 declined for the first time since 2009

Year-over-year growth in export value



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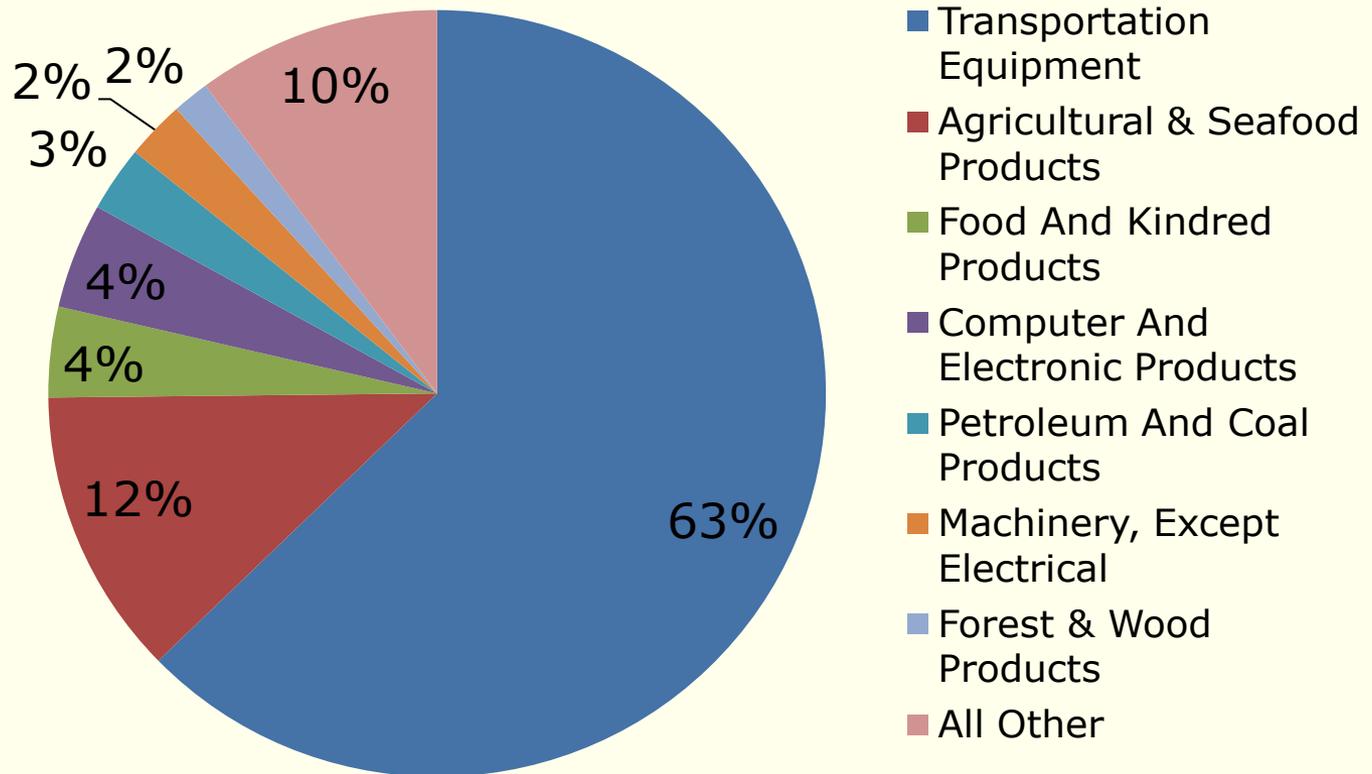
Source: WISERTrade; data through December 2015

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Washington exports by share of value, 2015

WA export value, 2015: \$86.3 B



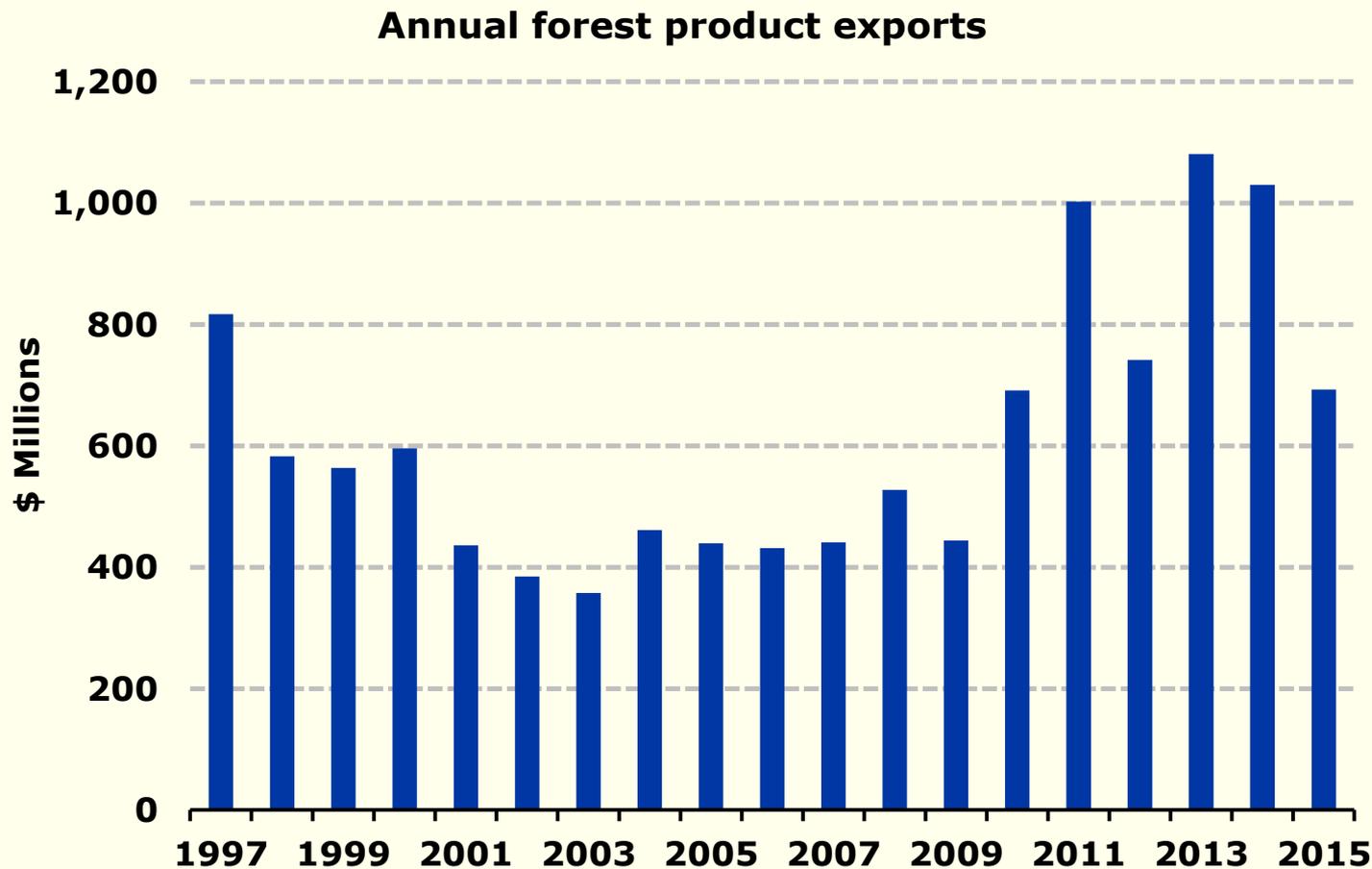
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WA forest product exports hit a high point in 2013



Source: WiserTrade; data through 2015



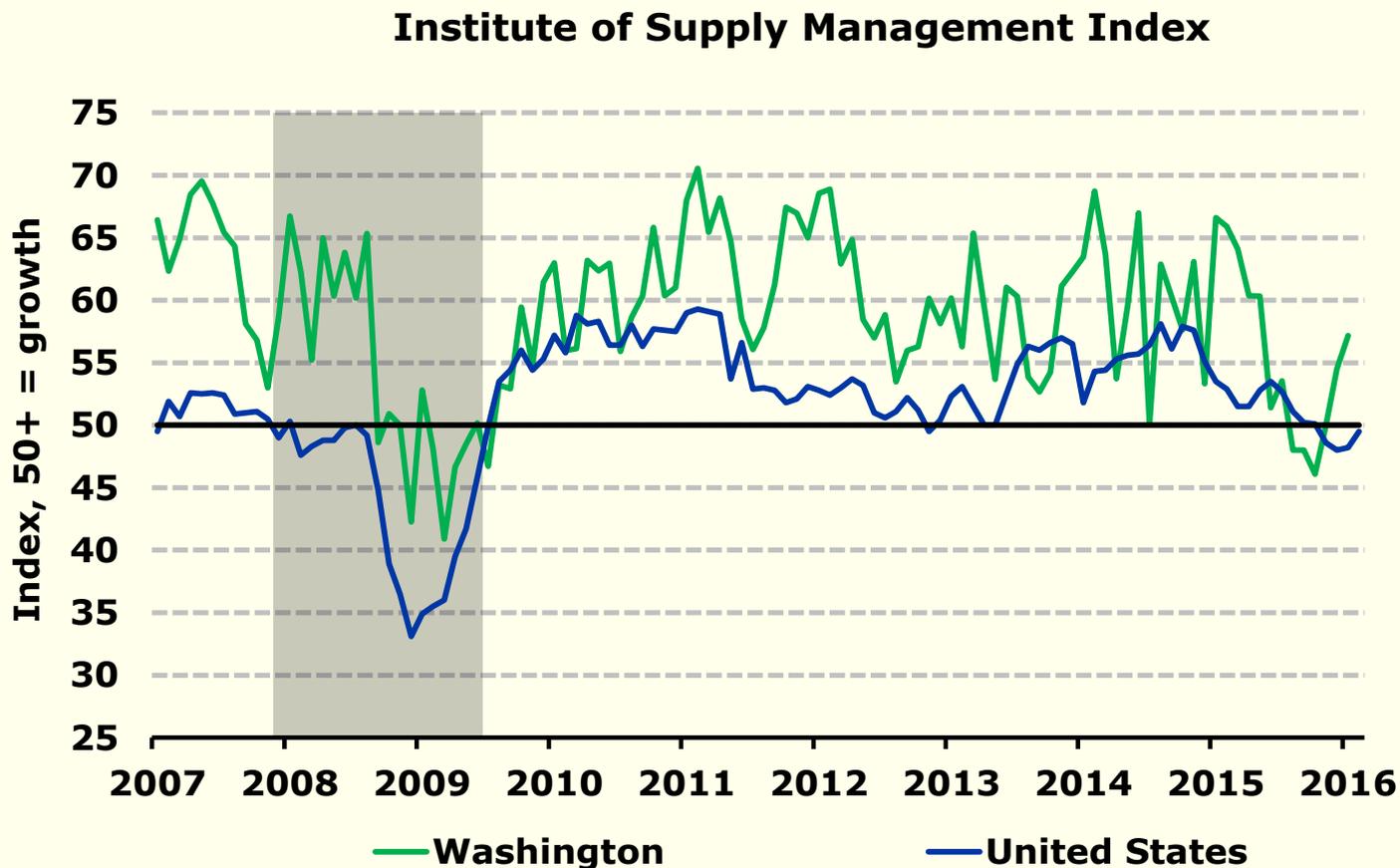
...as did WA manufactured wood product exports



Source: WiserTrade; data through 2015



Manufacturing: slowing nationally, improving in Washington



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Source: ISM; WA data through Jan. 2016; U.S. data through Feb. 2016

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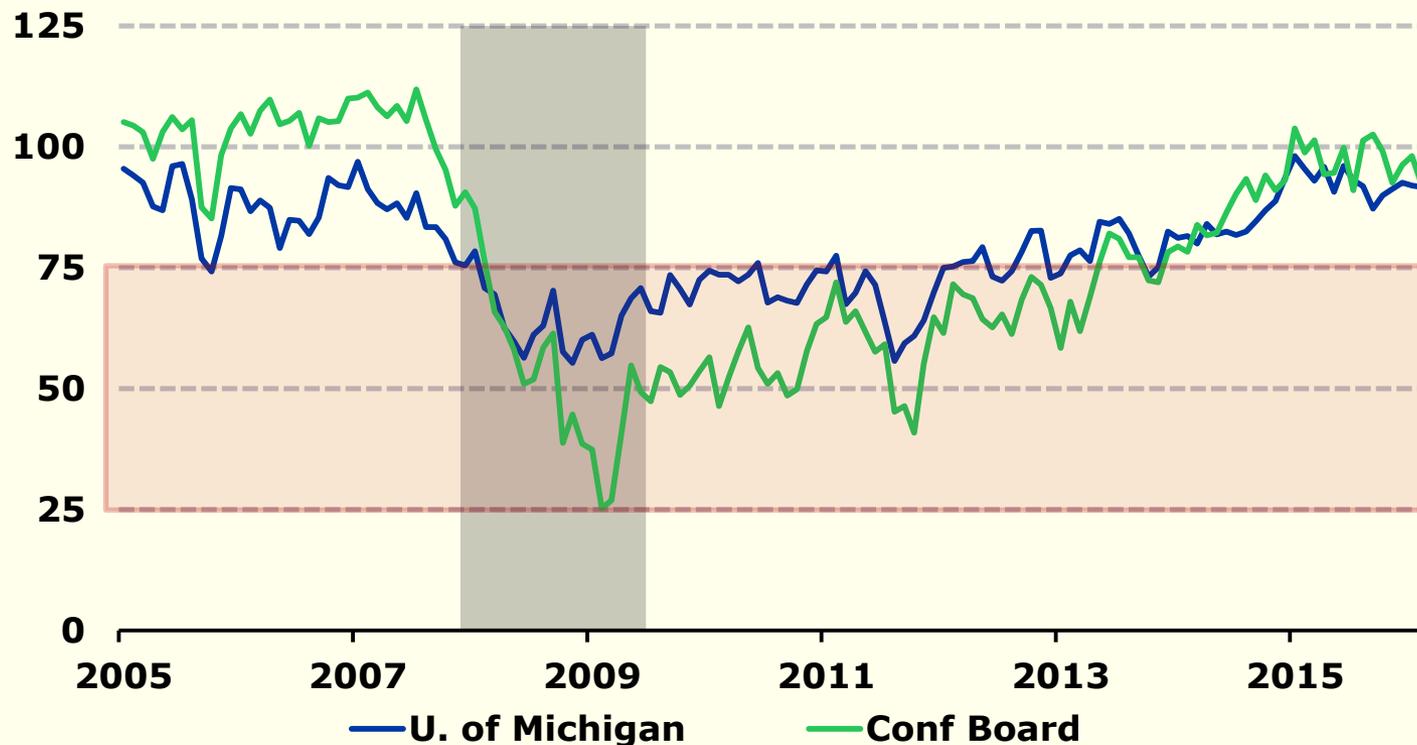


Conference Board, U. of Michigan indexes both down in February

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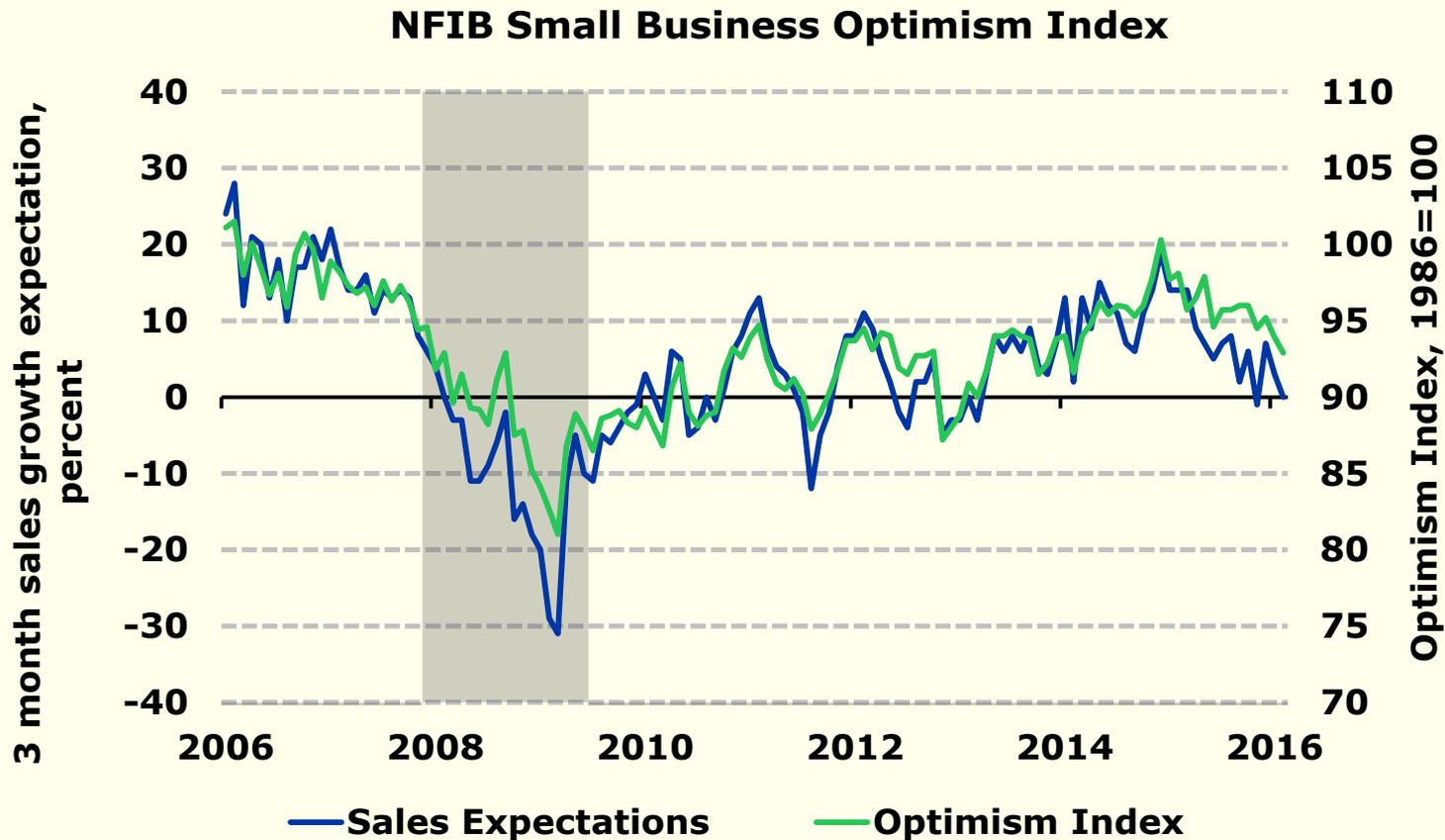
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





Small business optimism and sales expectations weakened in 2015



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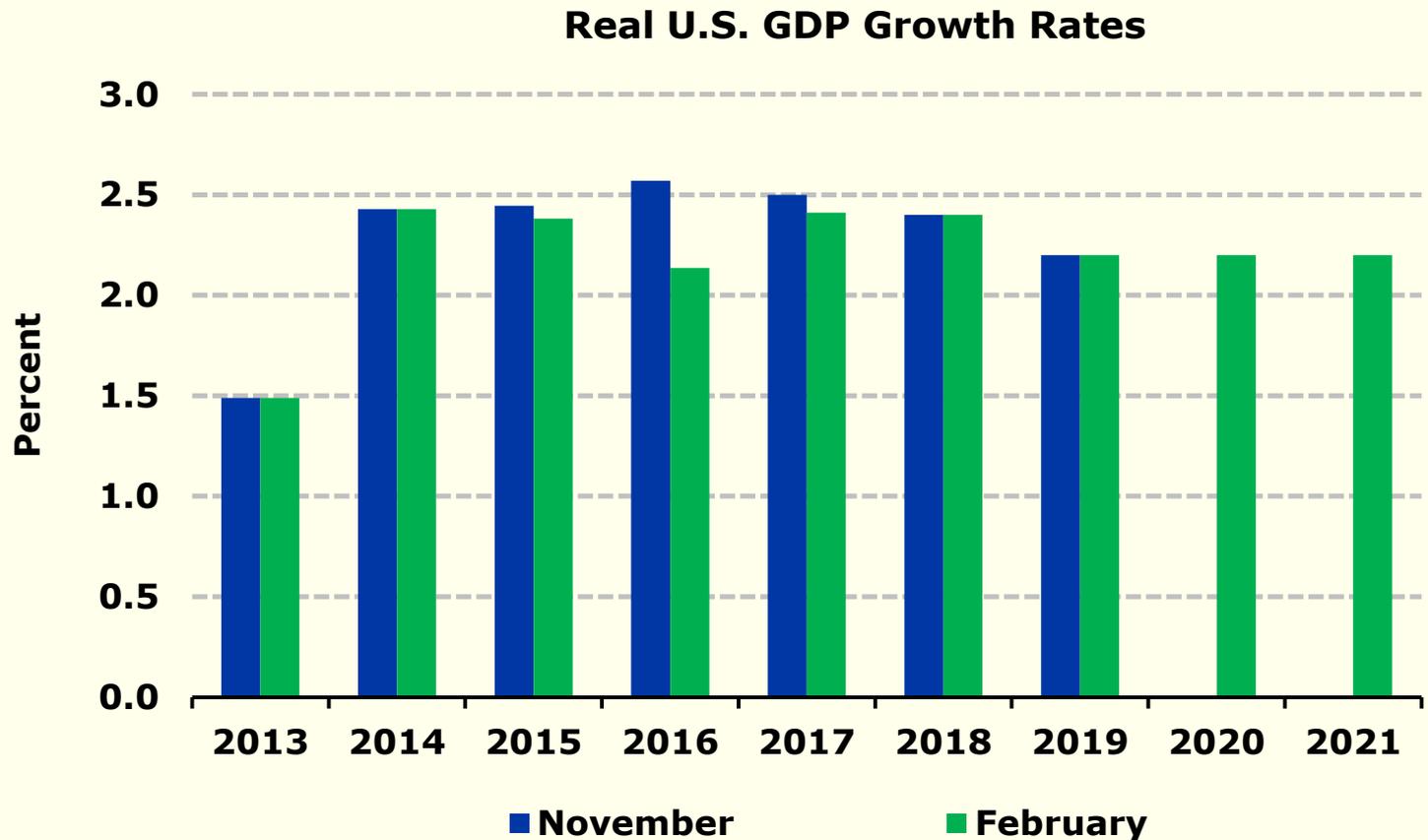
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Source: National Federation of Independent Business; data through February 2016

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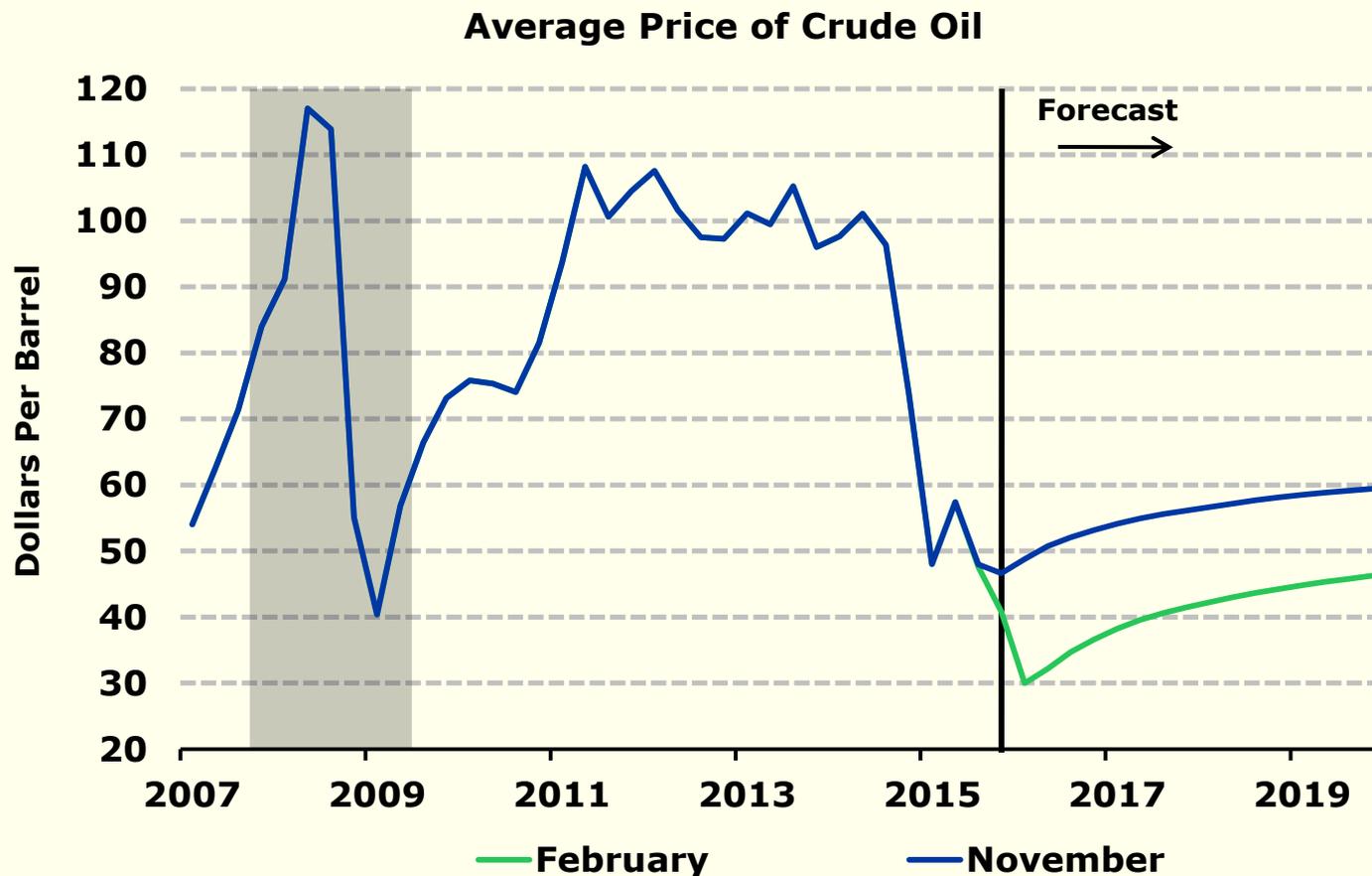


Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast





Oil prices have fallen since the November forecast



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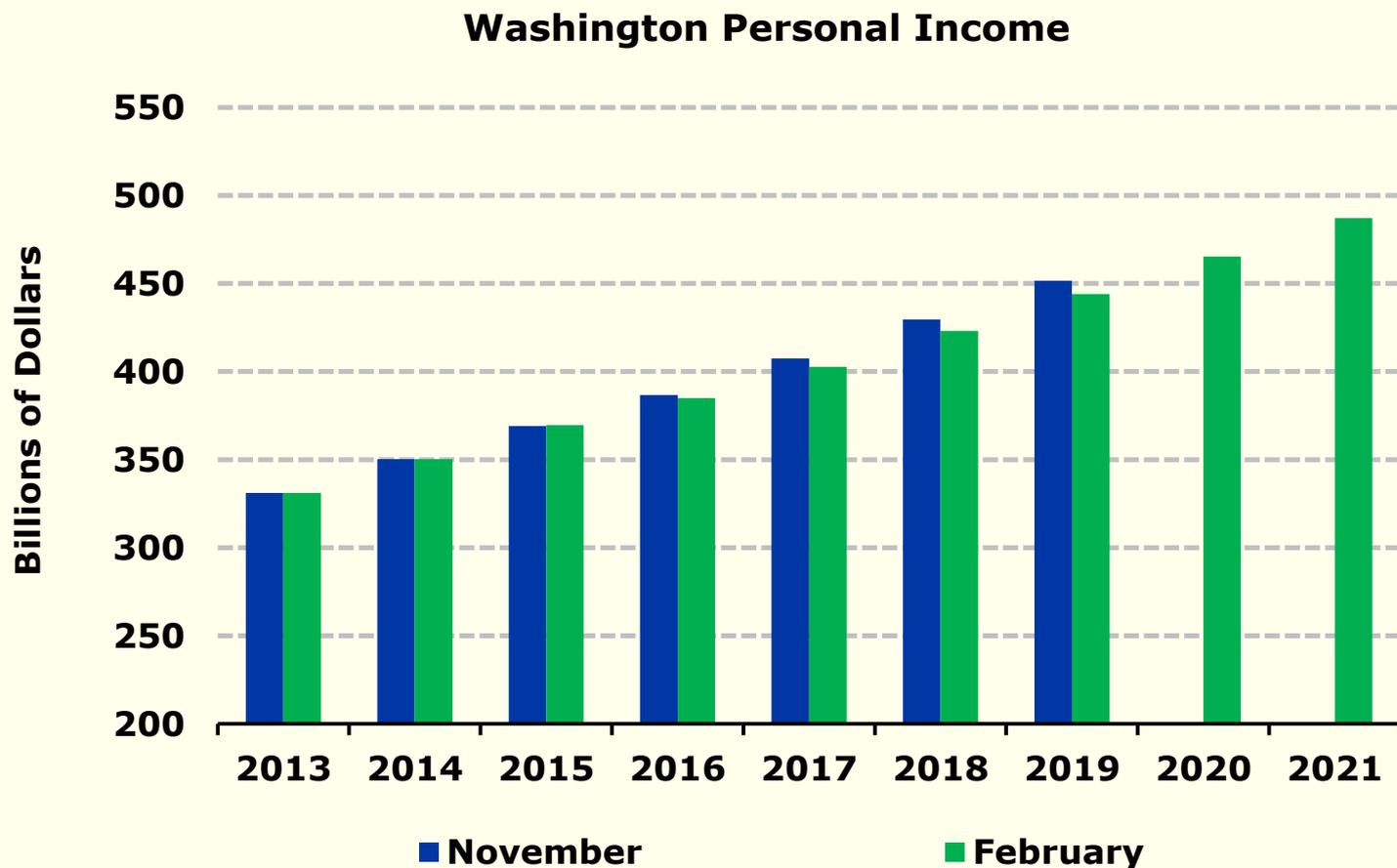
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Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

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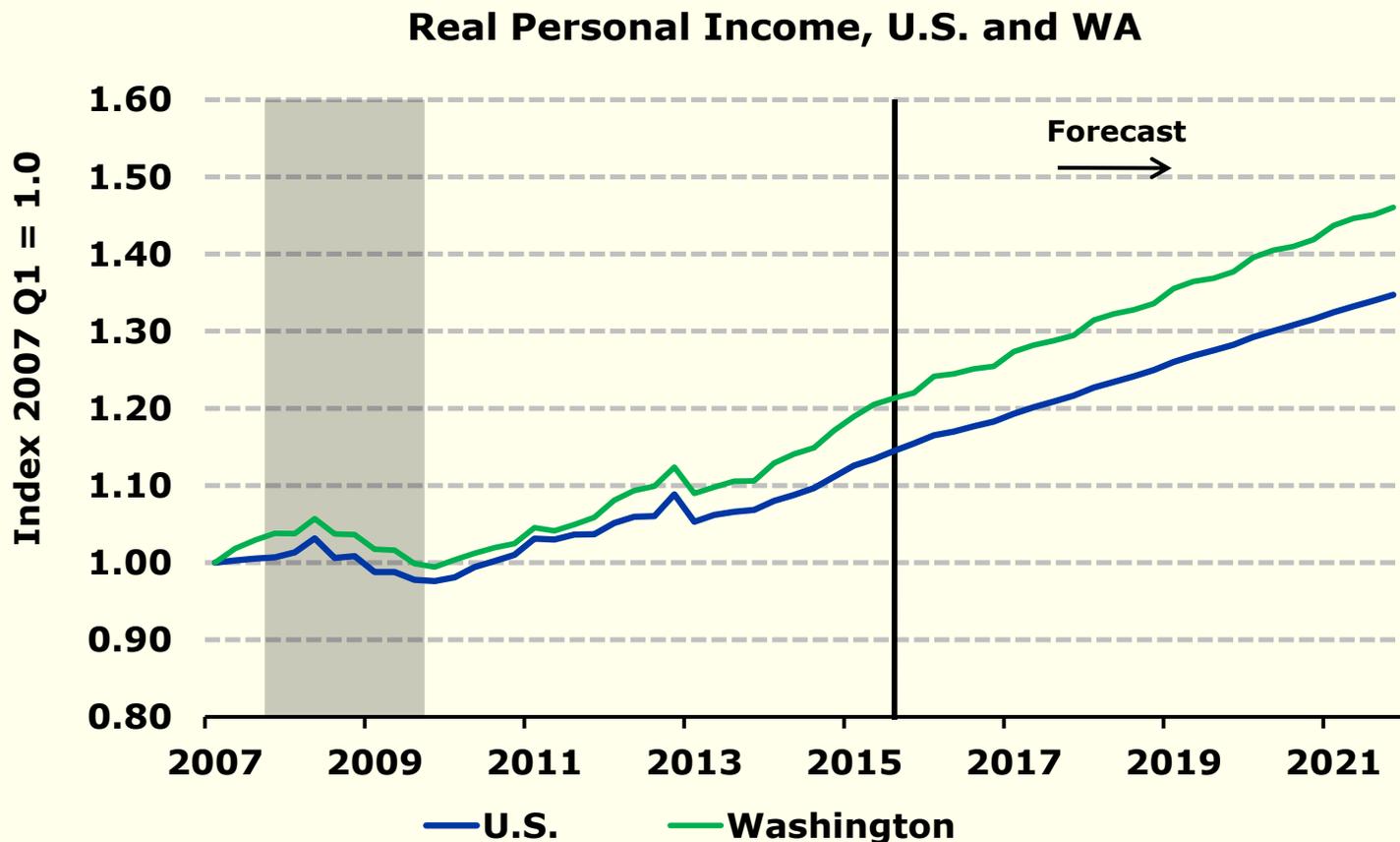


Washington personal income is lower in 2016 – 2019 compared to the November forecast





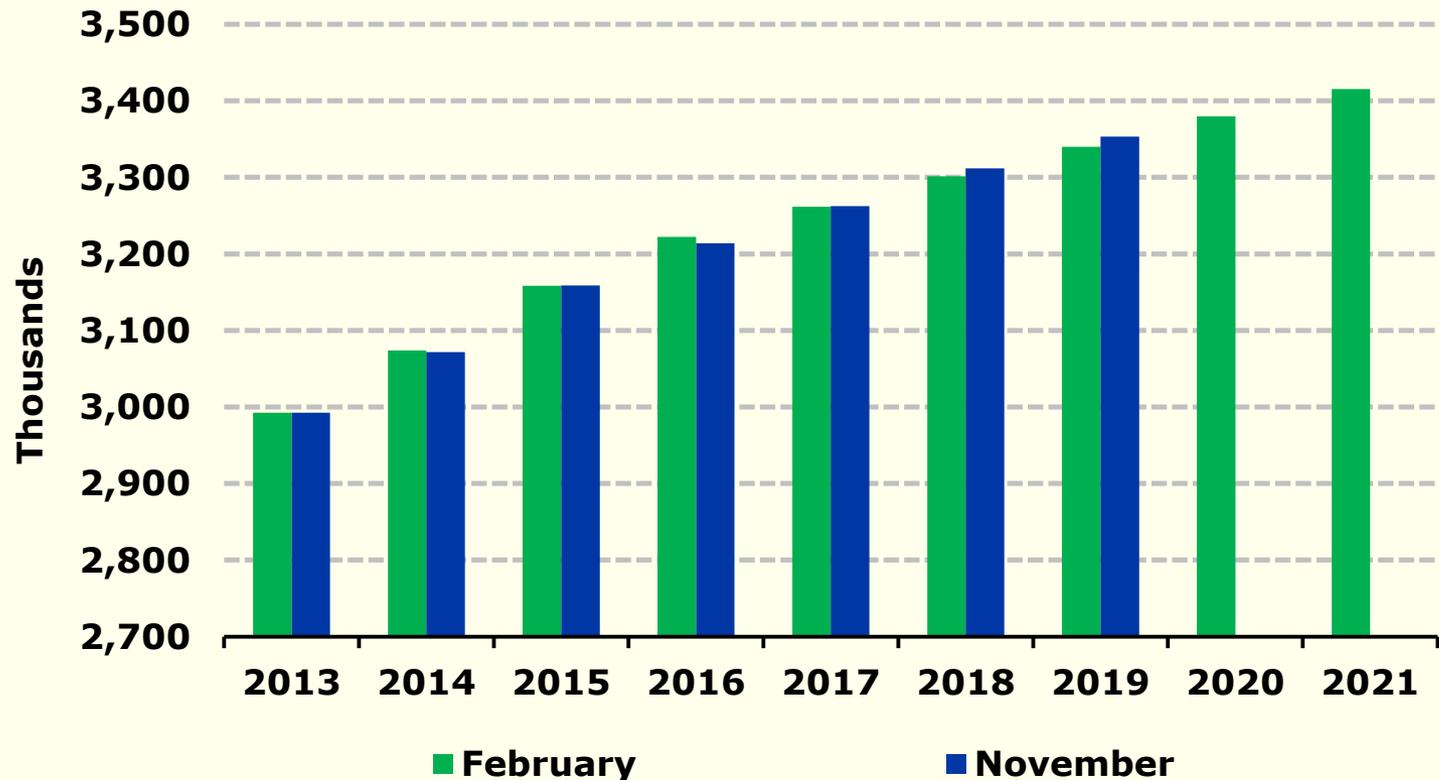
State personal income will continue to grow slightly faster than the U.S.





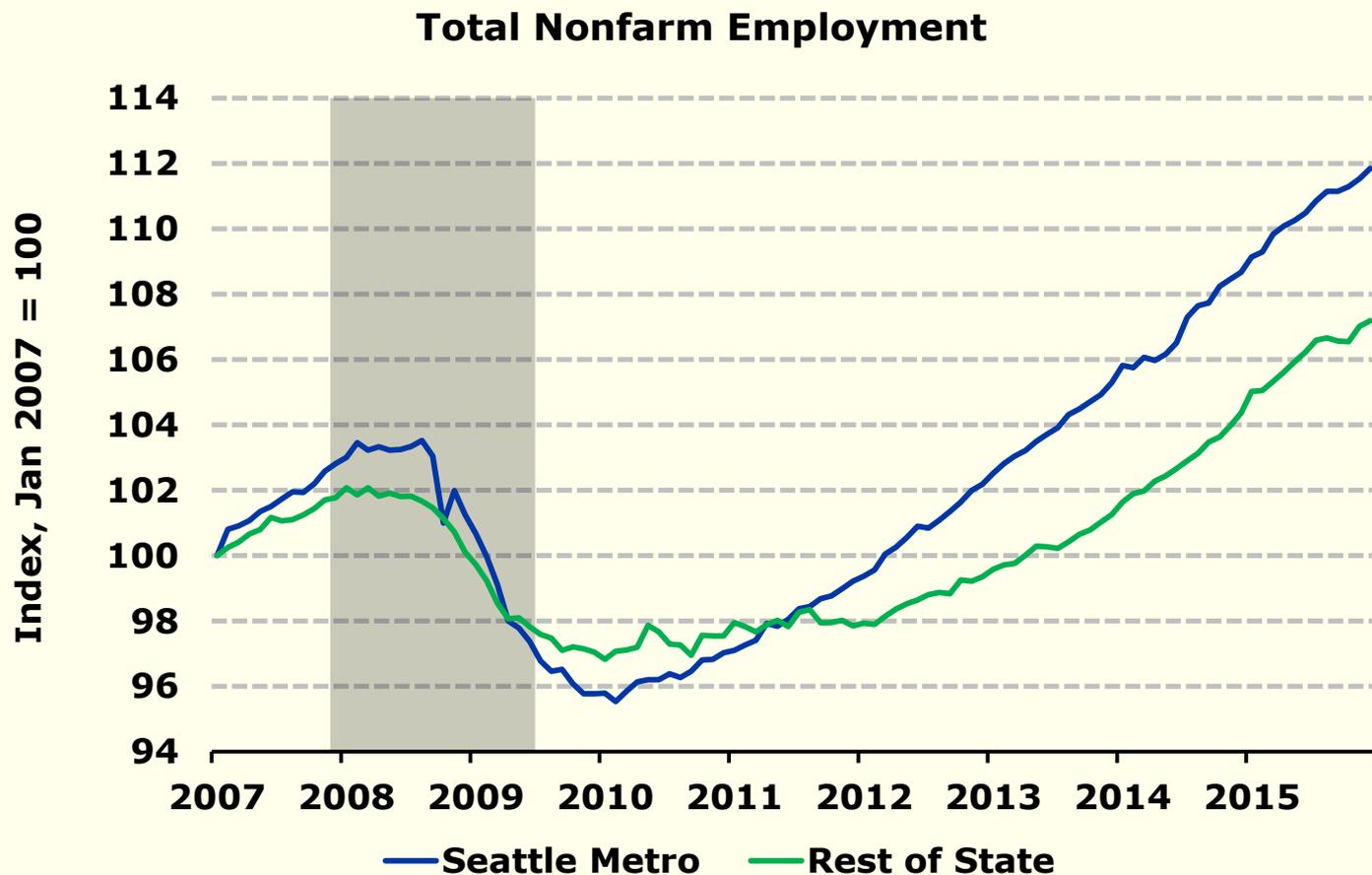
Washington employment forecast revised down slightly in 2017 - 2019

Washington Nonfarm Payroll Employment





Seattle area employment continues to outpace the rest of the state



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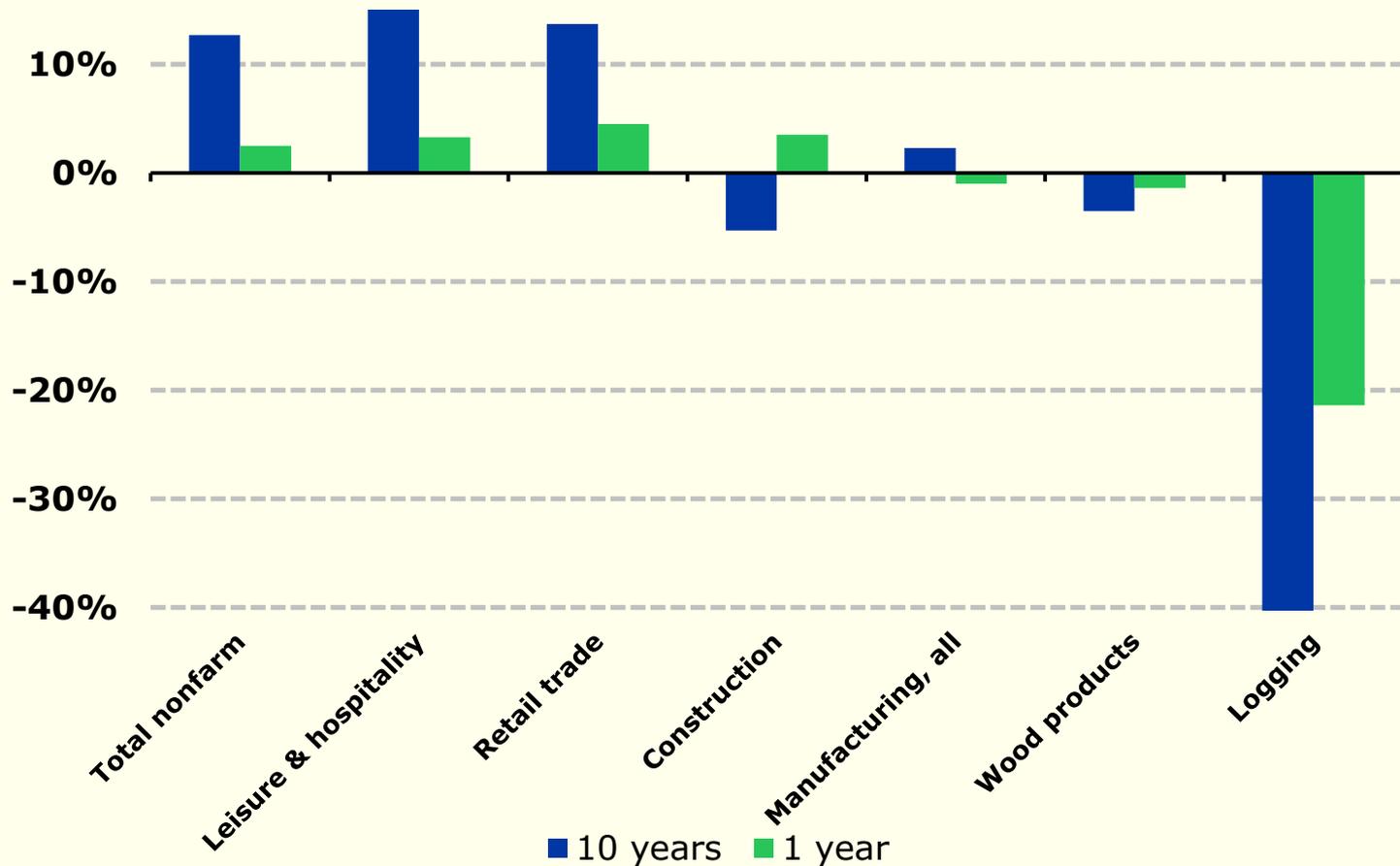
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Source: Employment Security Department, ERFC; data through December 2015

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Percentage change in WA employment, selected industries



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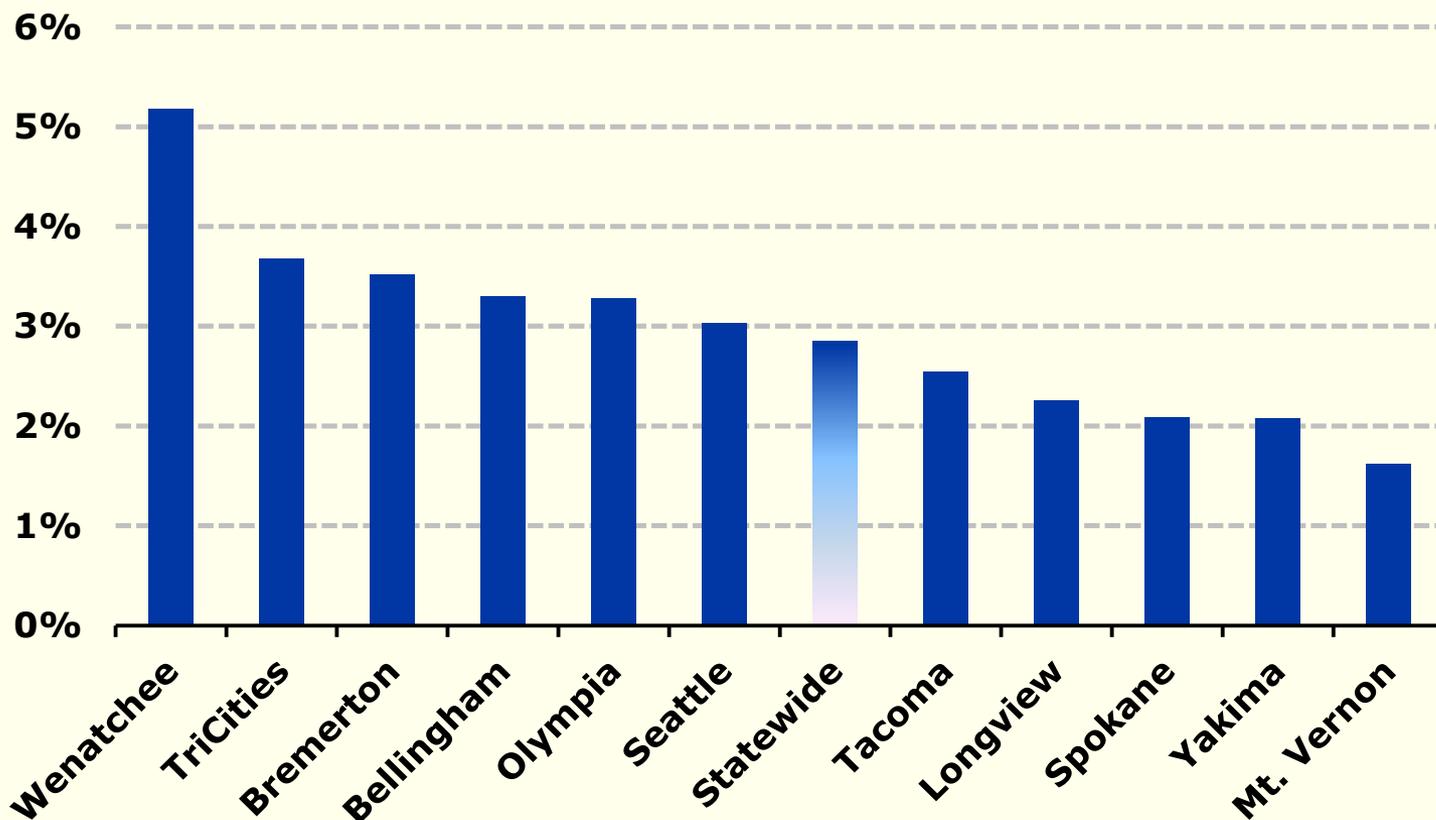
Source: Employment Security Dept., ERFC; data through Jan. 2016

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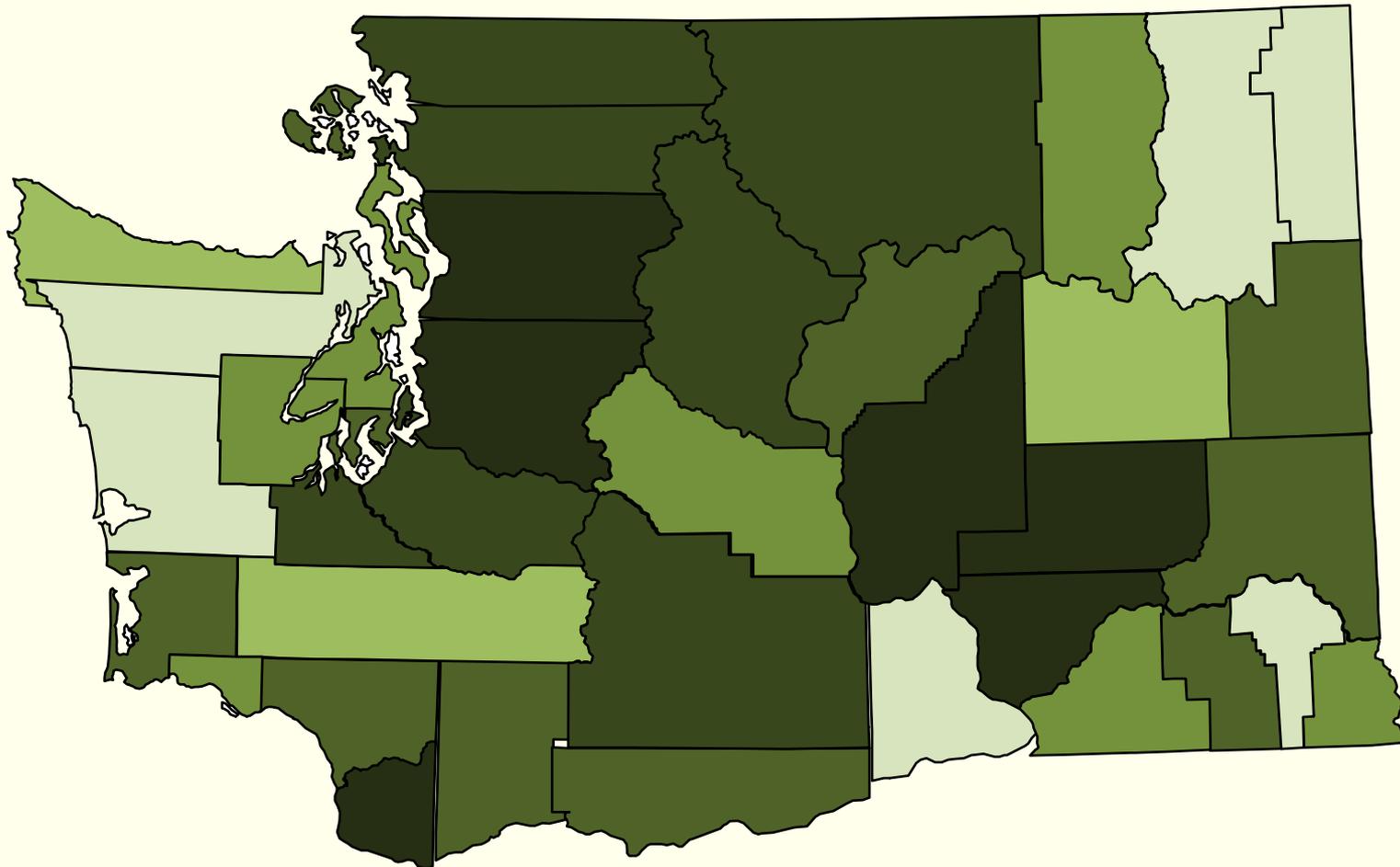
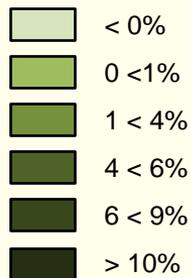
Employment growth varied widely across state metro areas

2015 employment growth by metro area





Employment growth by county, 2010 to 2014



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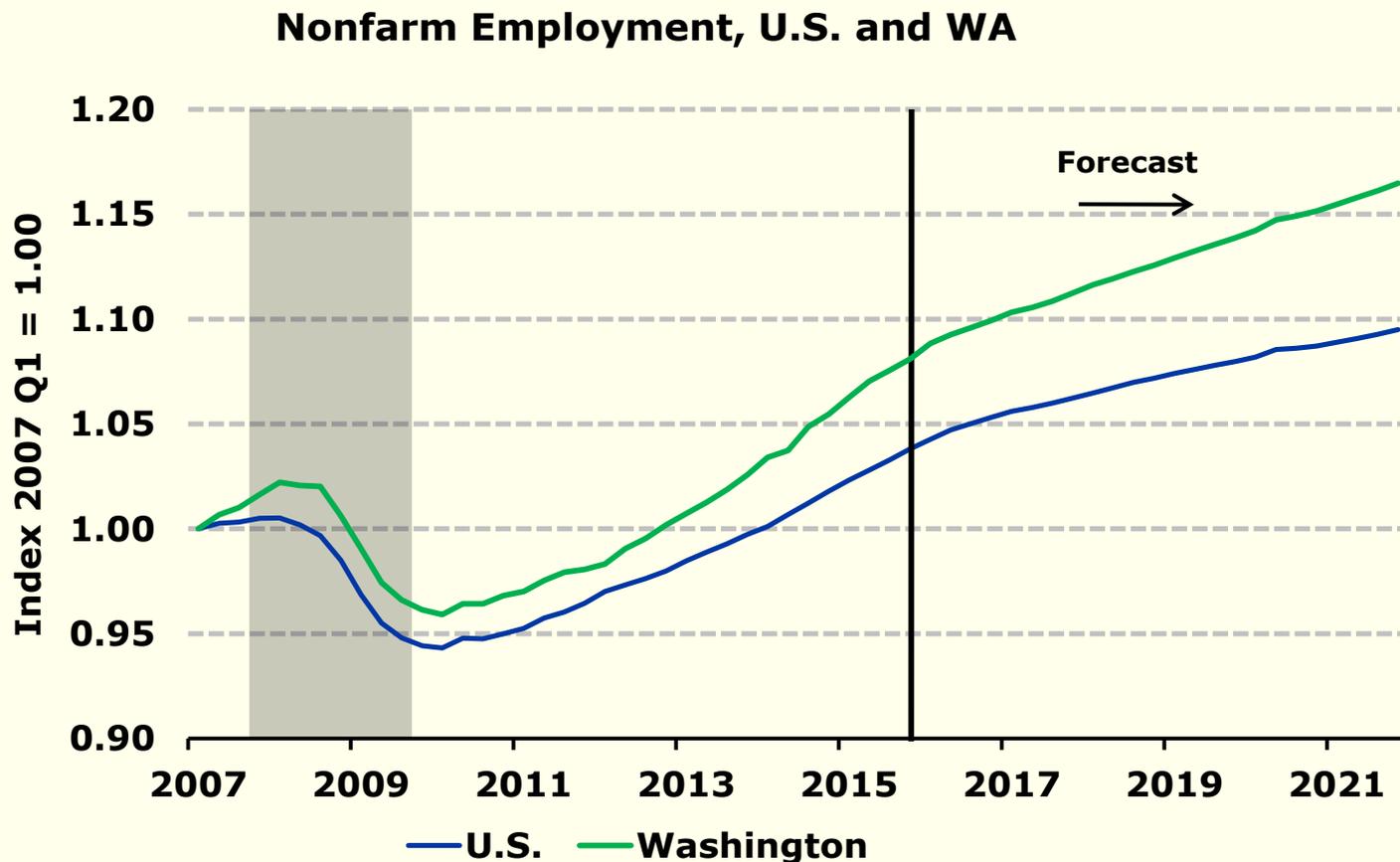
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Source: U.S. Bureau of Labor Statistics

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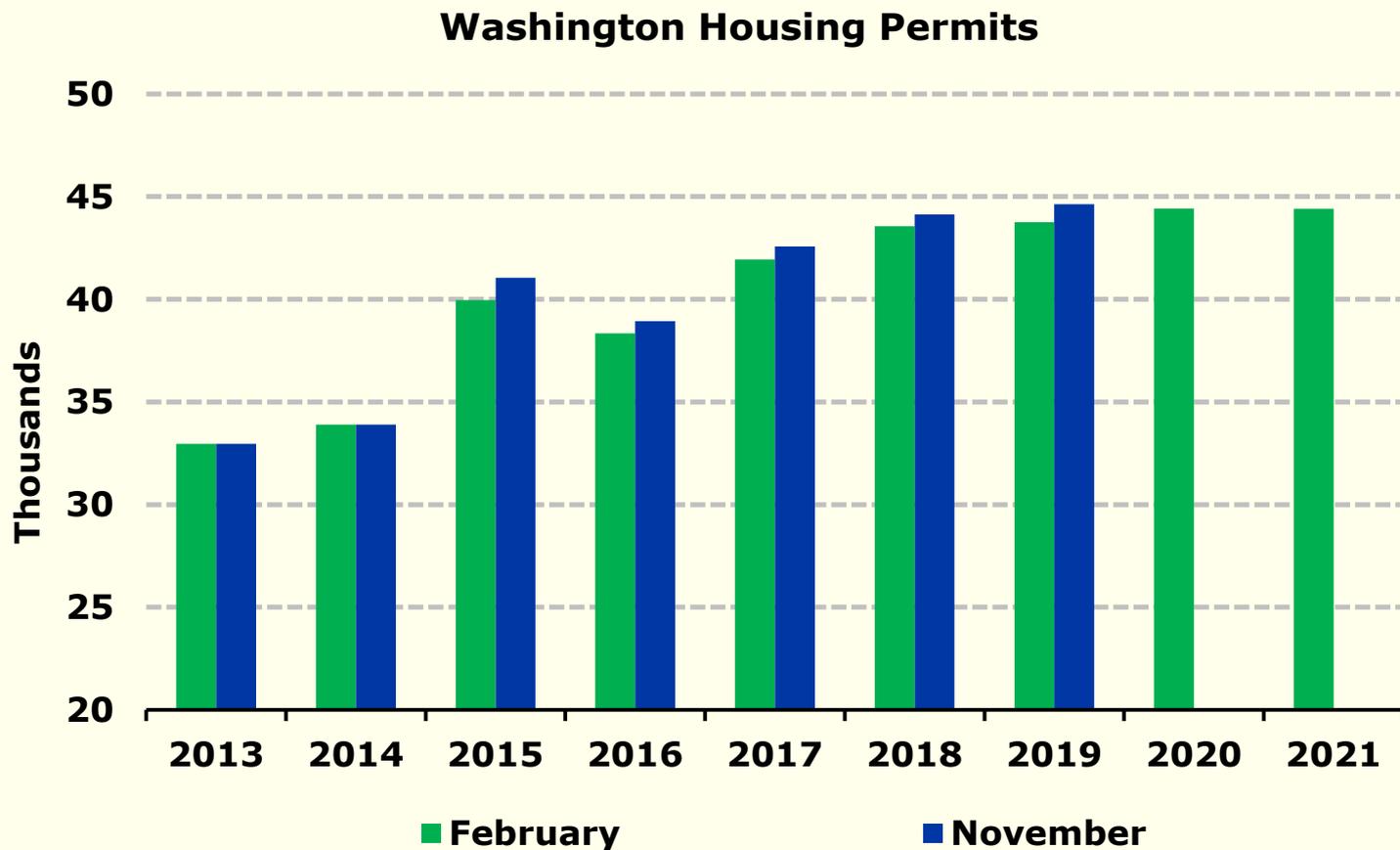


Washington employment will continue to grow slightly faster than the U.S.



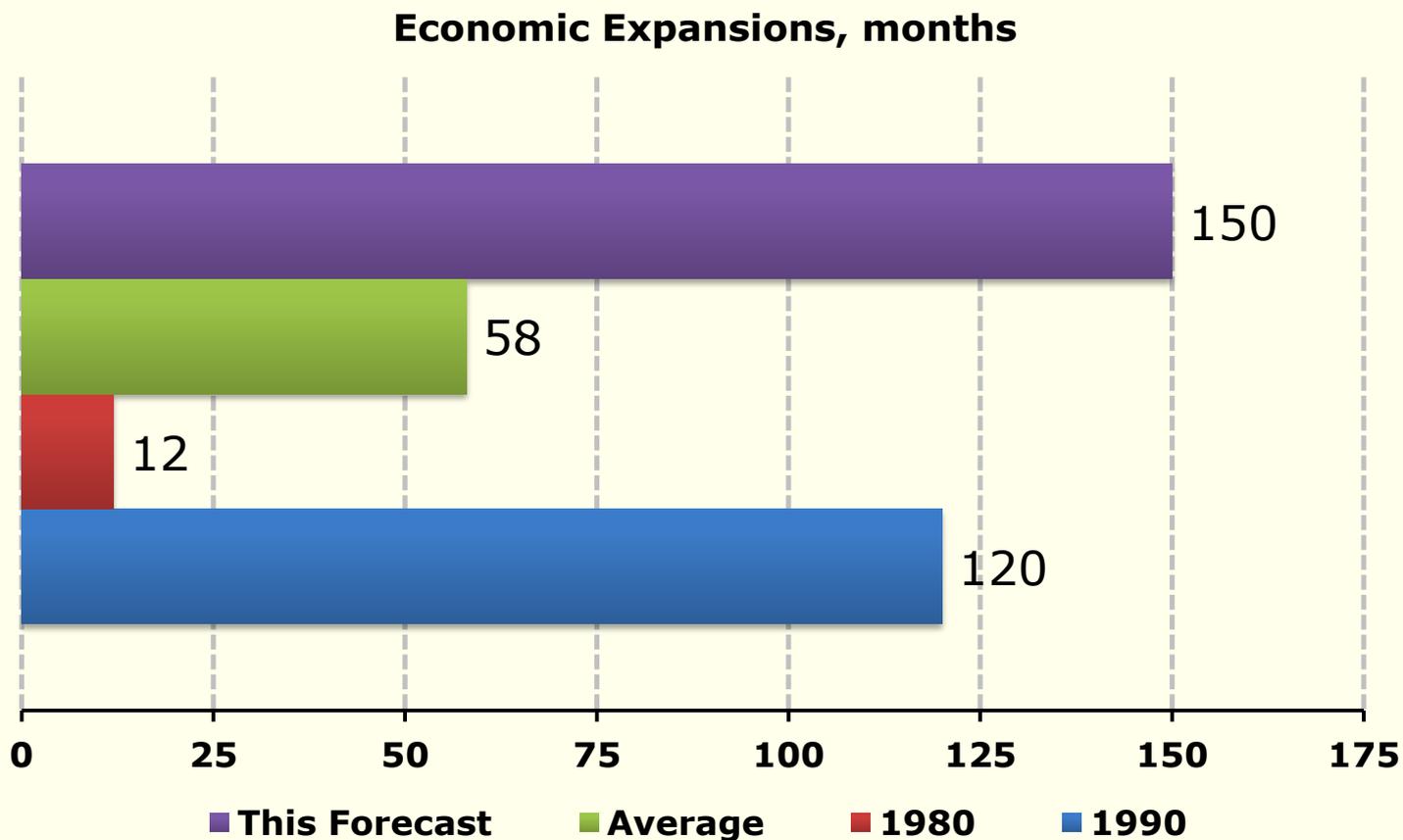


Washington housing permits forecast is slightly lower than in November





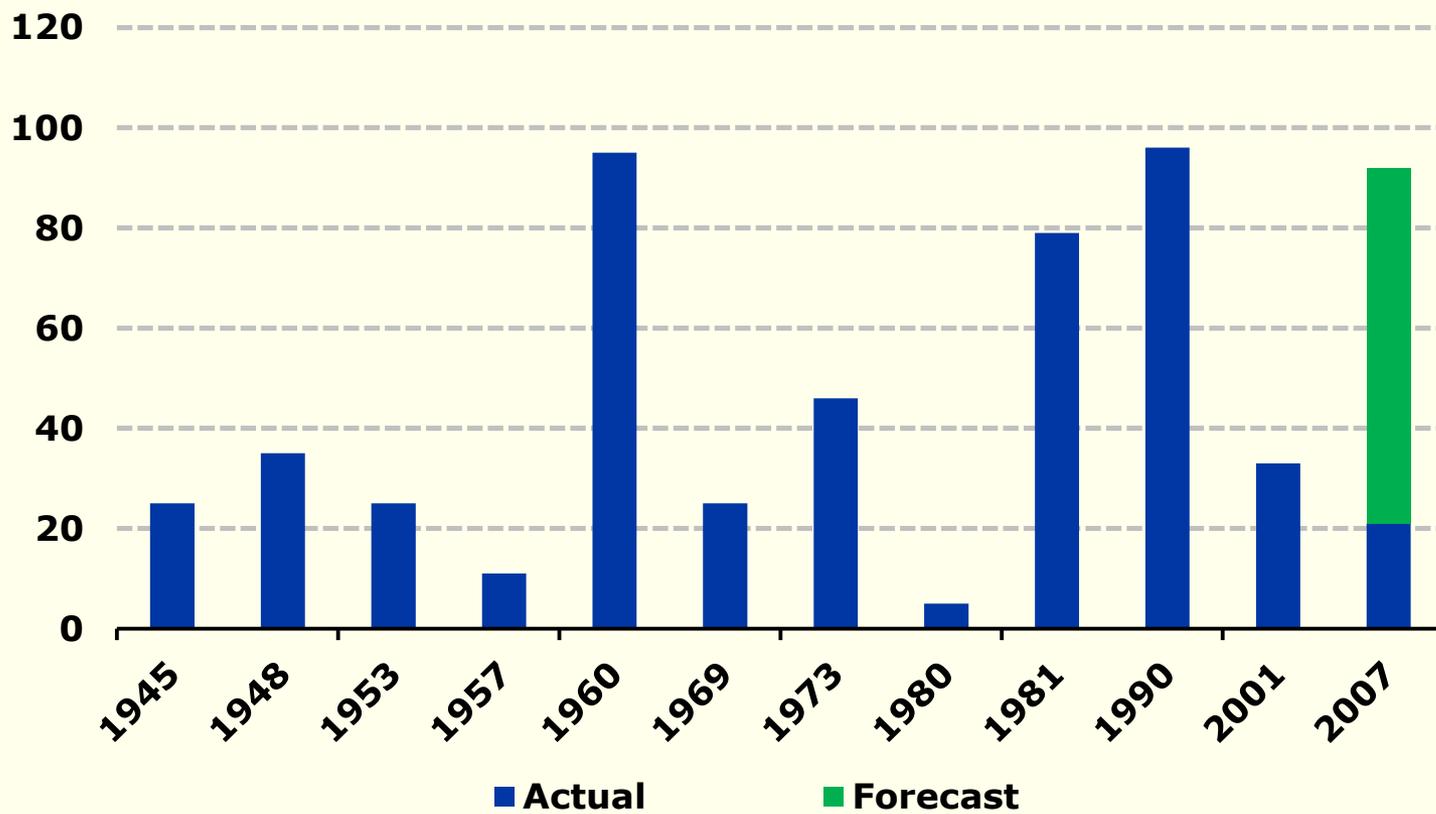
U.S. Economic Expansions since 1945





Initial slow recovery points to extended expansion

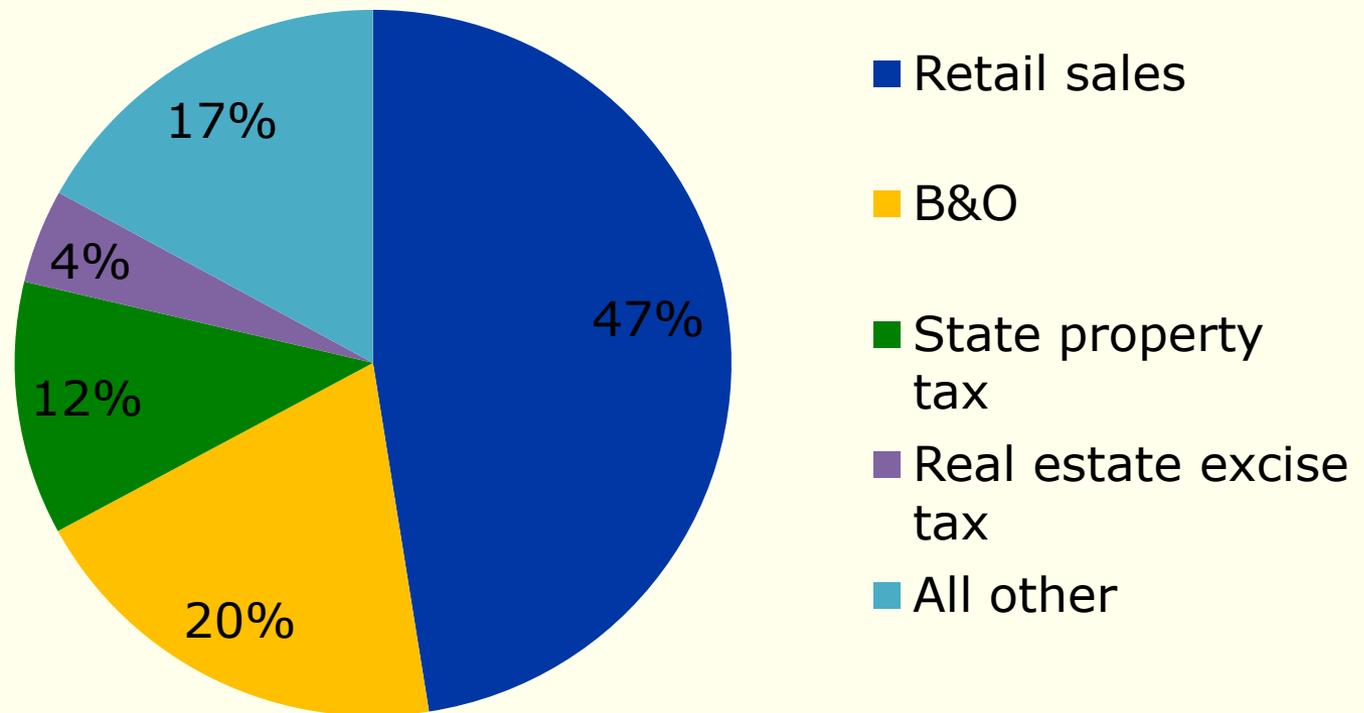
Months of Recovery After Reaching Previous Peak in Employment





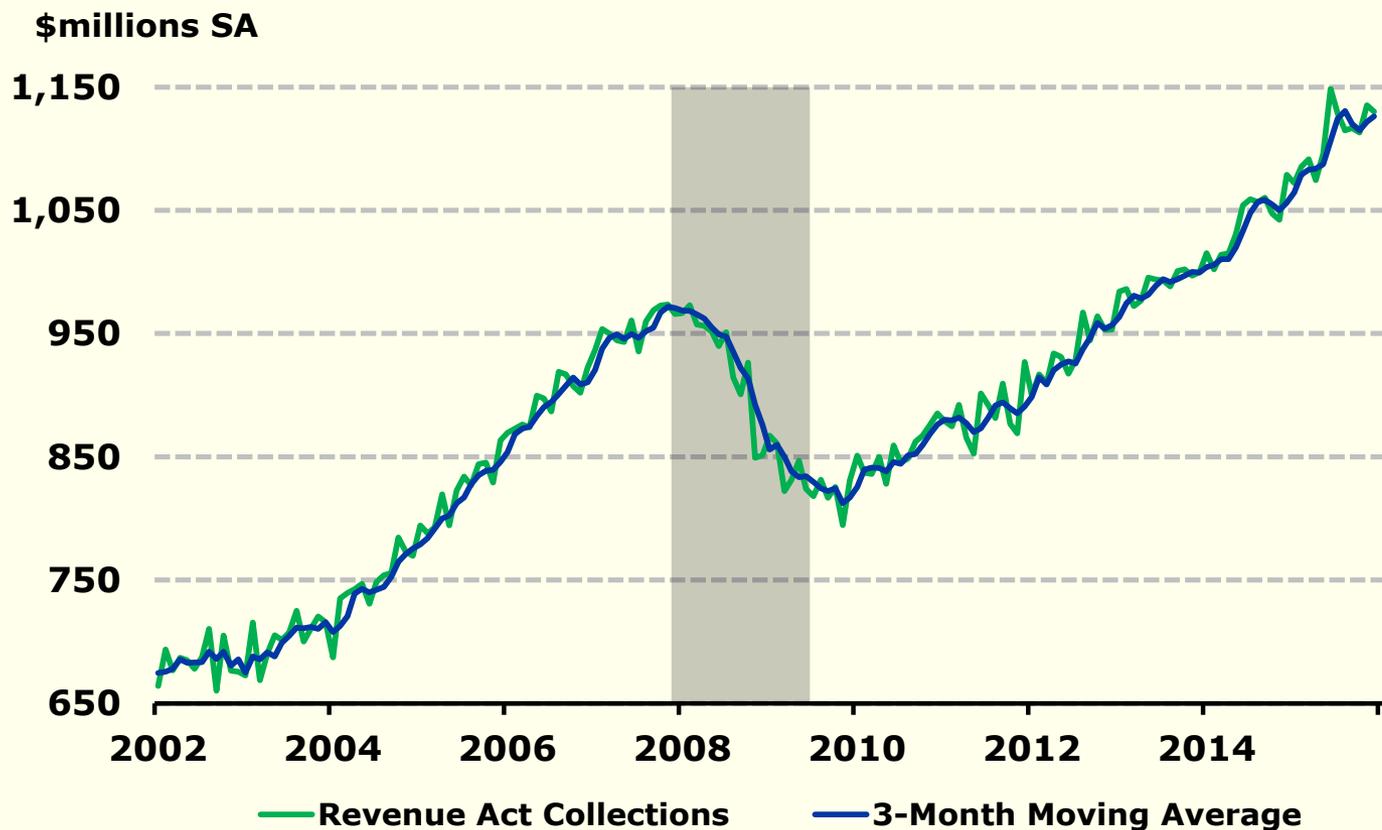
Retail sales taxes account for over 47% of collections

FY 2015 collections





Revenue Act collections close to previous trend after spike in August collections



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* 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

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Large commercial property sales have had major impact on REET collections

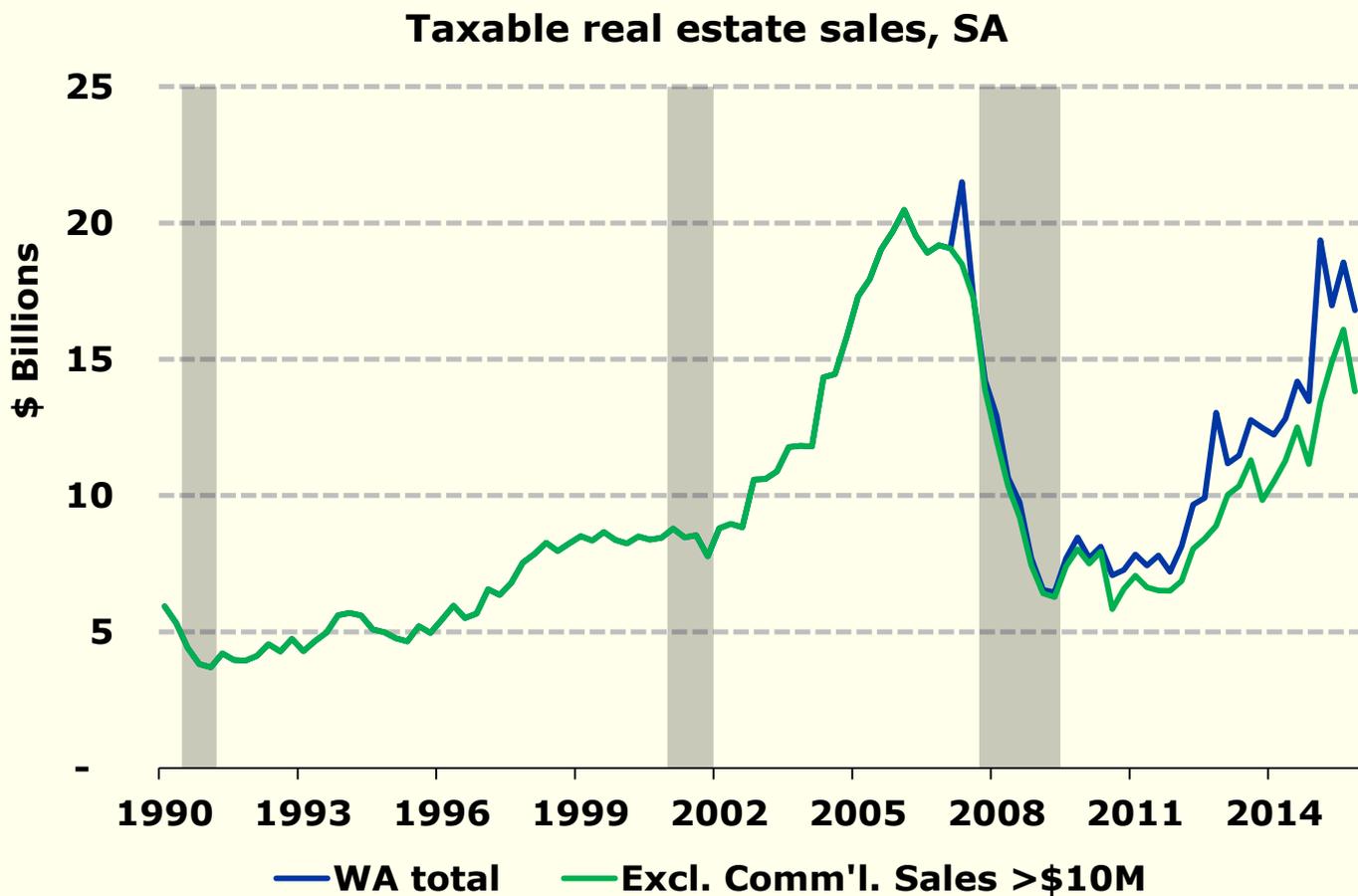
Residential taxable activity and smaller commercial sales grew rapidly for the first 3 quarters of 2015 but declined in the 4th quarter.

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

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Source: ERFC, data through 2015 Q4



Oregon legalization may have affected Clark County but statewide sales continued to grow

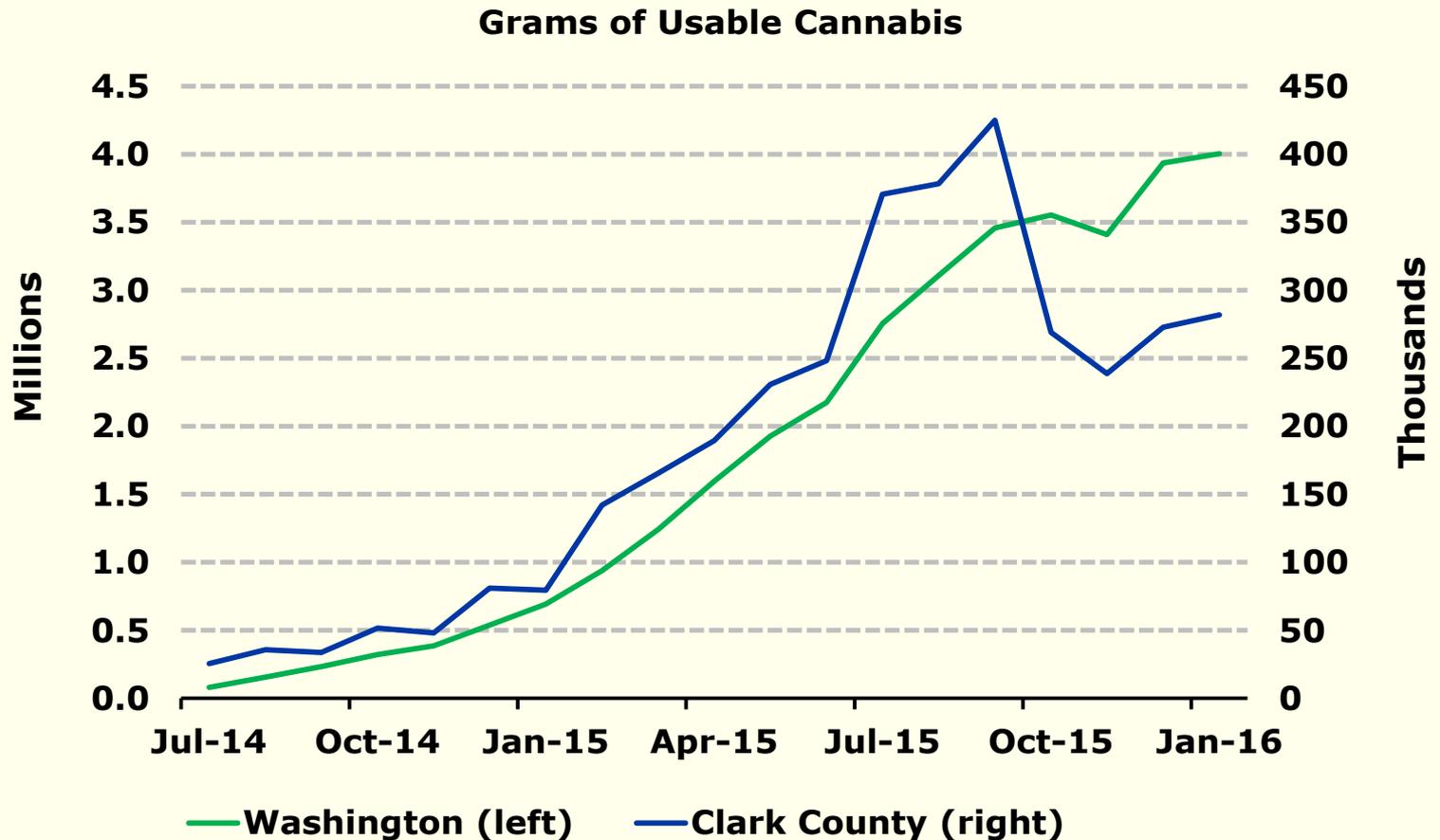
Prior to legal retail sales in Oregon, Clark County accounted for 12% of total sales by quantity.

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

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Source: WA LCB; data through January 2016



Medical & recreational cannabis sales merge as of July 2016

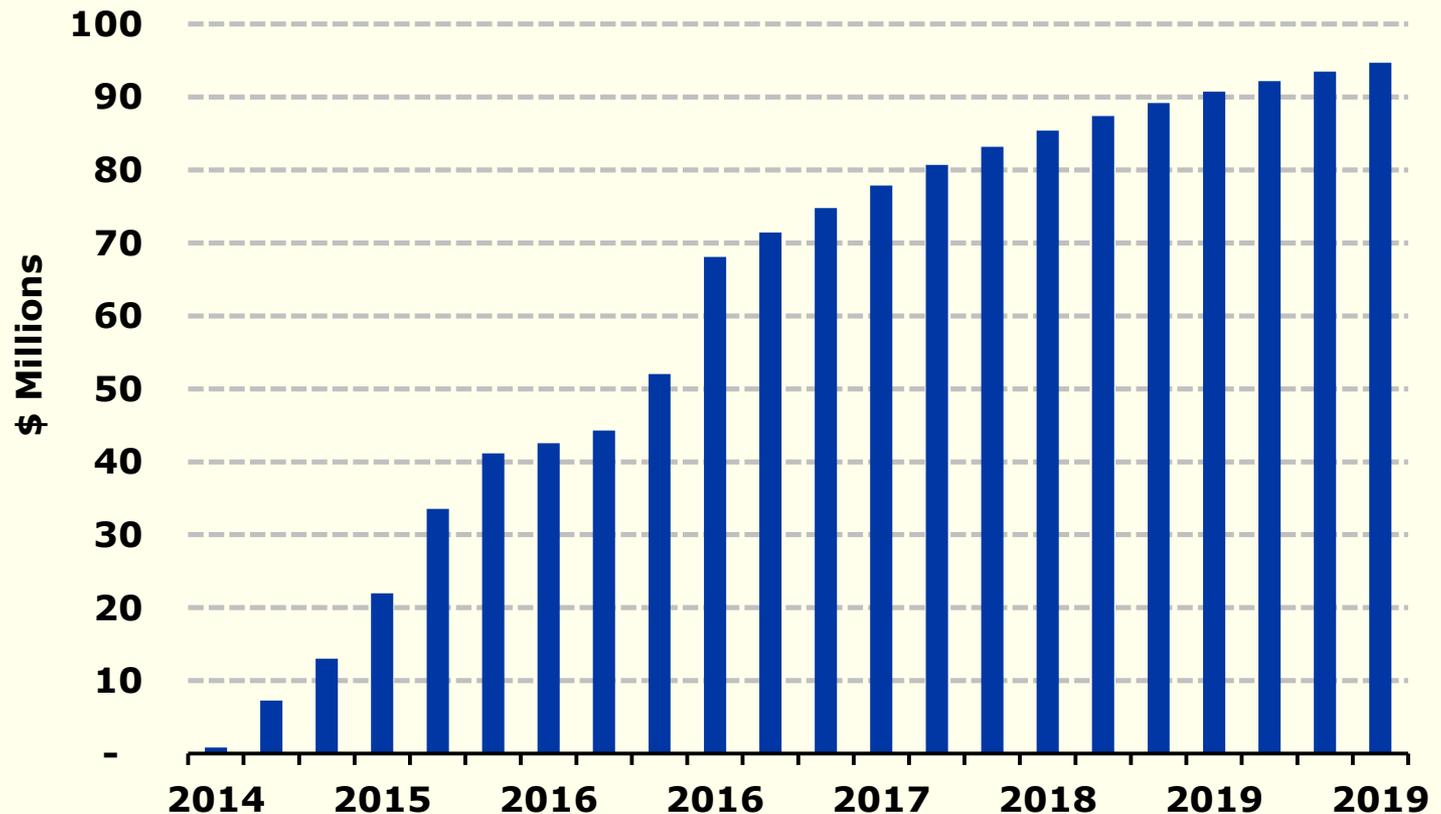
Currently, only recreational sales subject to 37% tax; starting in July, medical sales will also be taxed at 37%

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Cannabis excise tax collections



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



Conclusion

- The economic forecast is weaker than in November but we continue to expect moderate growth
- Oil prices and inflation are lower than expected in November
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic expansion include slower global and U.S. growth, the impact of a stronger dollar on exports, and a slowdown in manufacturing



Questions

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