

Economic Outlook

Presented to
International Association of Assessing Officers

Steve Lerch
Executive Director

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Bremerton, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The economic forecast is quite similar to November, with slightly stronger U.S. GDP and 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
- The GF-S revenue forecast has been increased by \$30 million for the 2013-15 biennium and by \$82 million for the 2015-17 biennium
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government

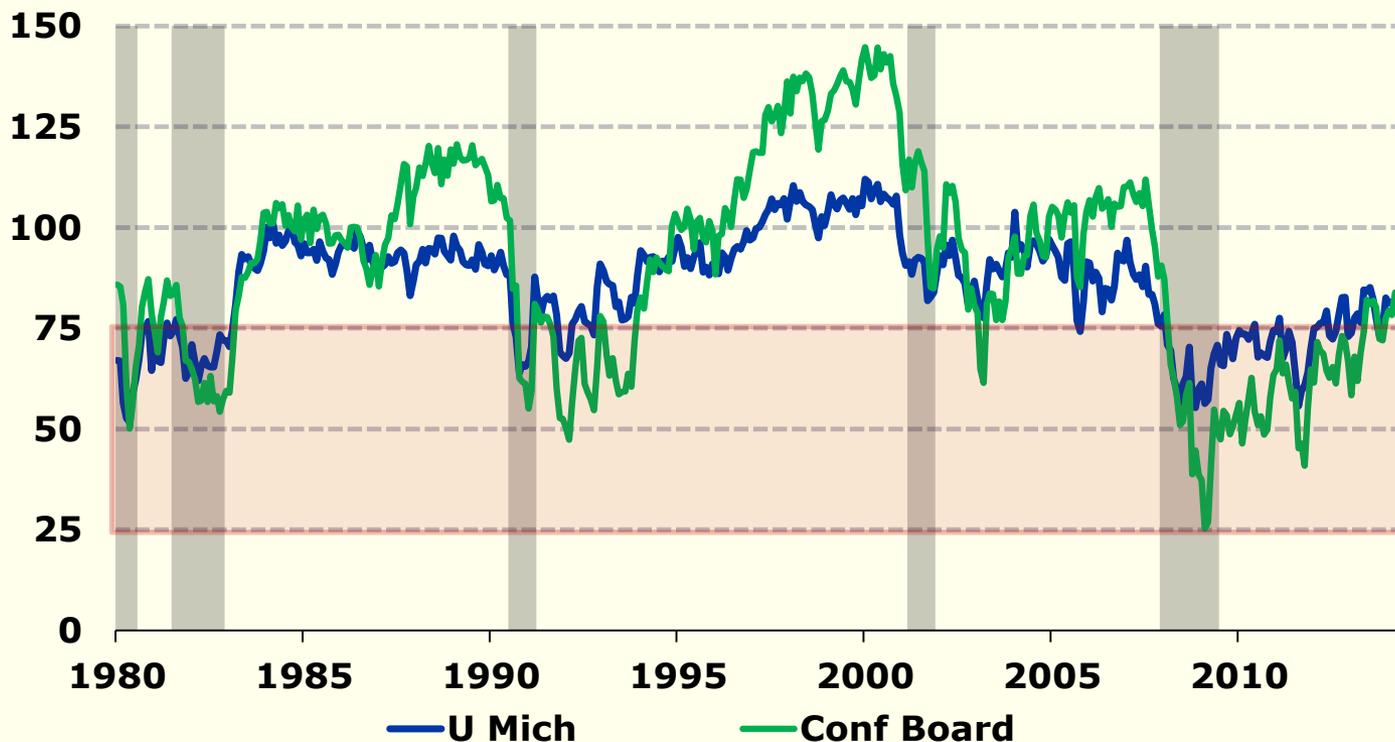


Consumer confidence has improved slightly over last three months

Index

Mich: 1966Q1 = 100, SA

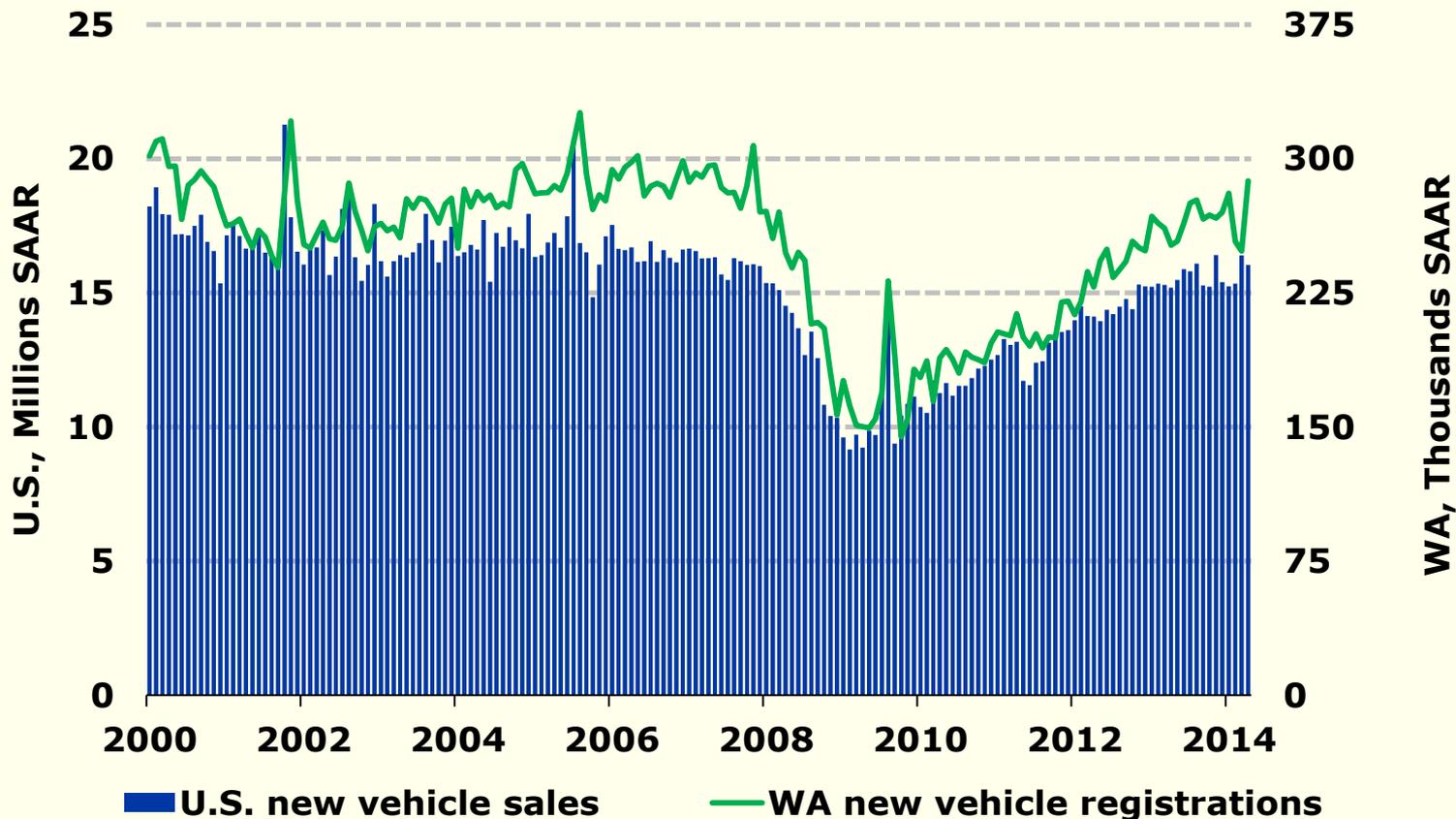
Conf Board: 1985 = 100, SA





Vehicle sales trend has been positive but may be slowing

WA new vehicle registrations in April reached a post recession high

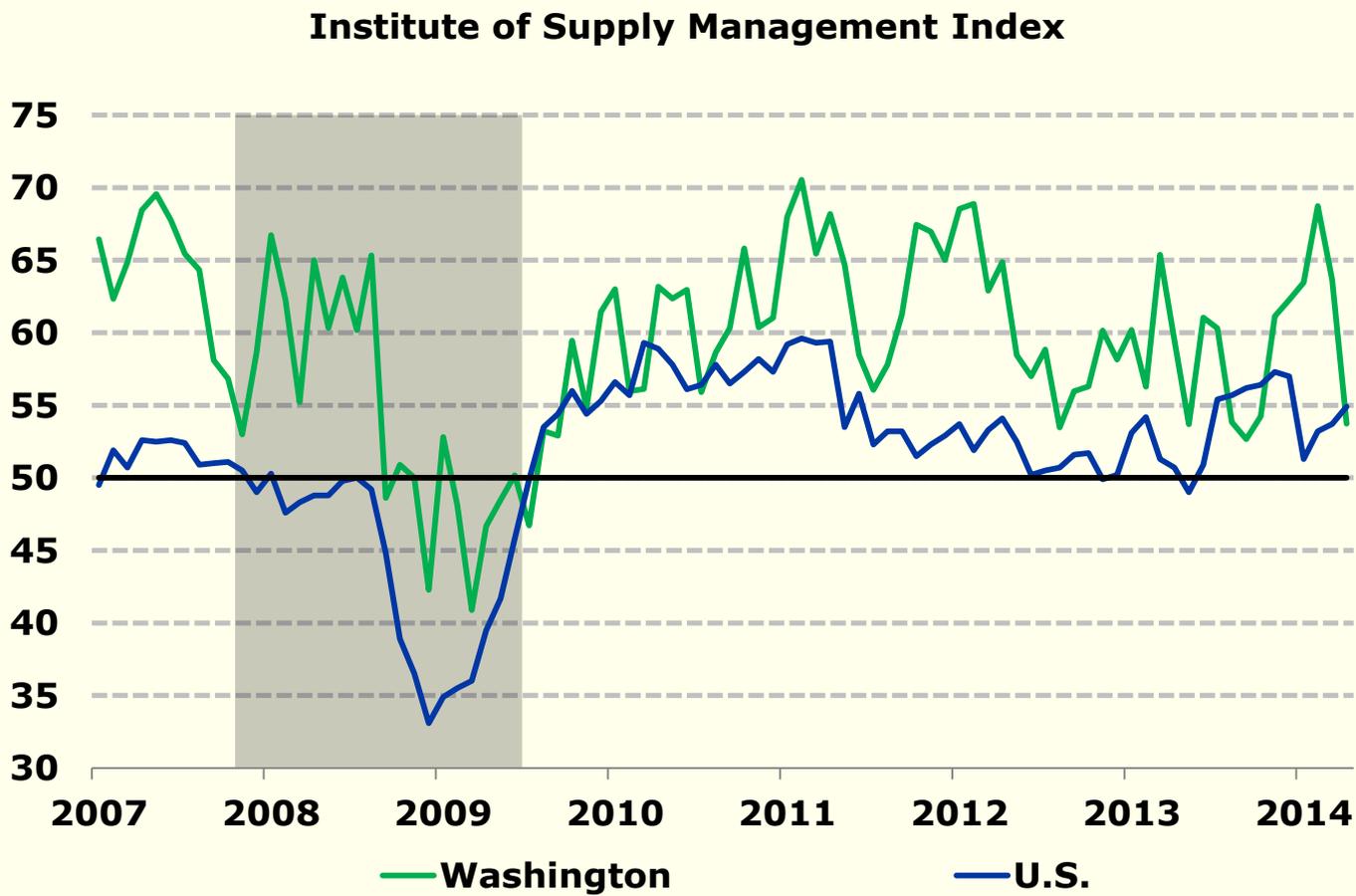


Sources: Autodata Corp., WA DOL; data through April 2014



The manufacturing sector continues to grow

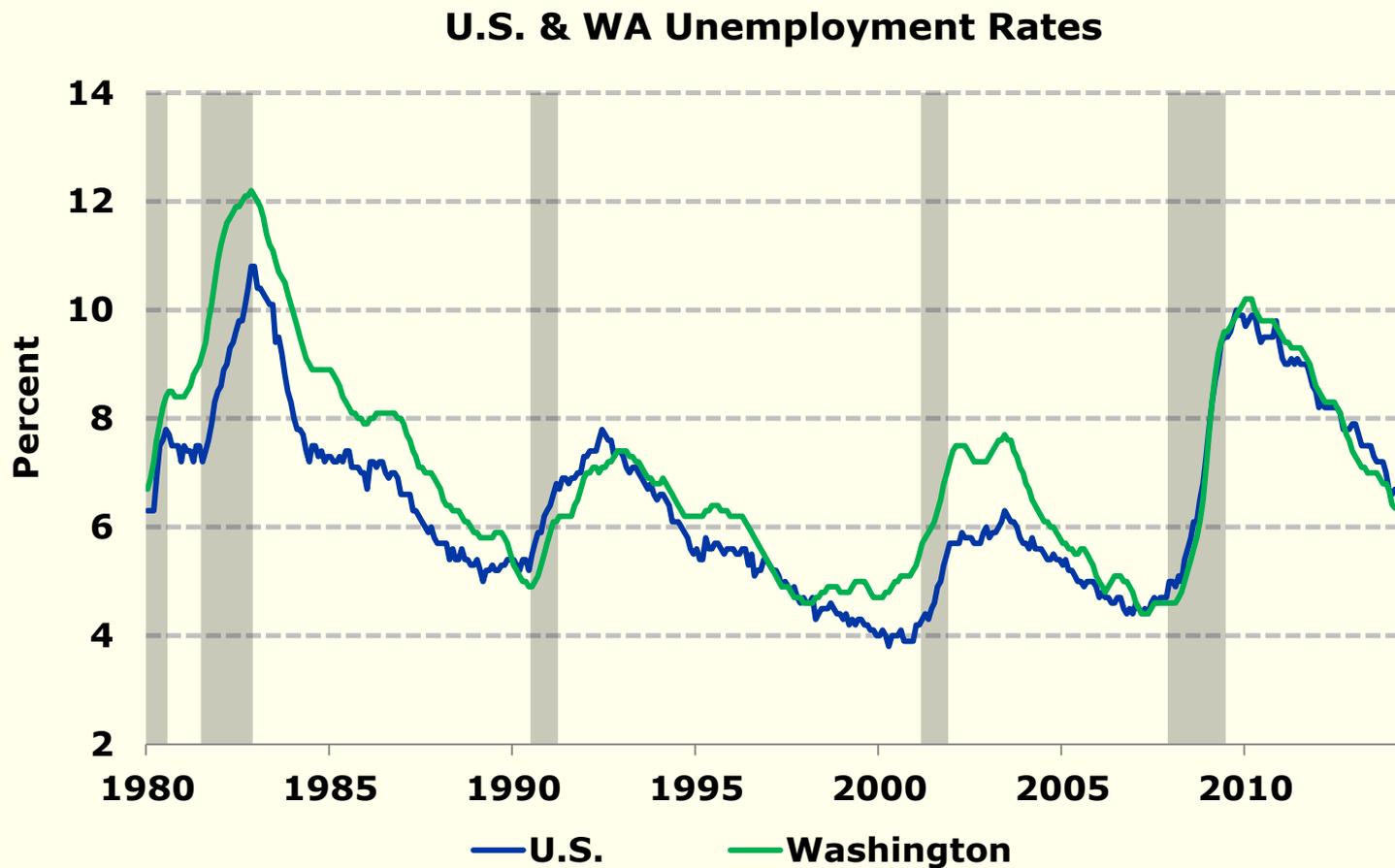
An index greater than 50, implies growth



Source: Institute of Supply Management; data through April 2014



The unemployment rate continues to fall

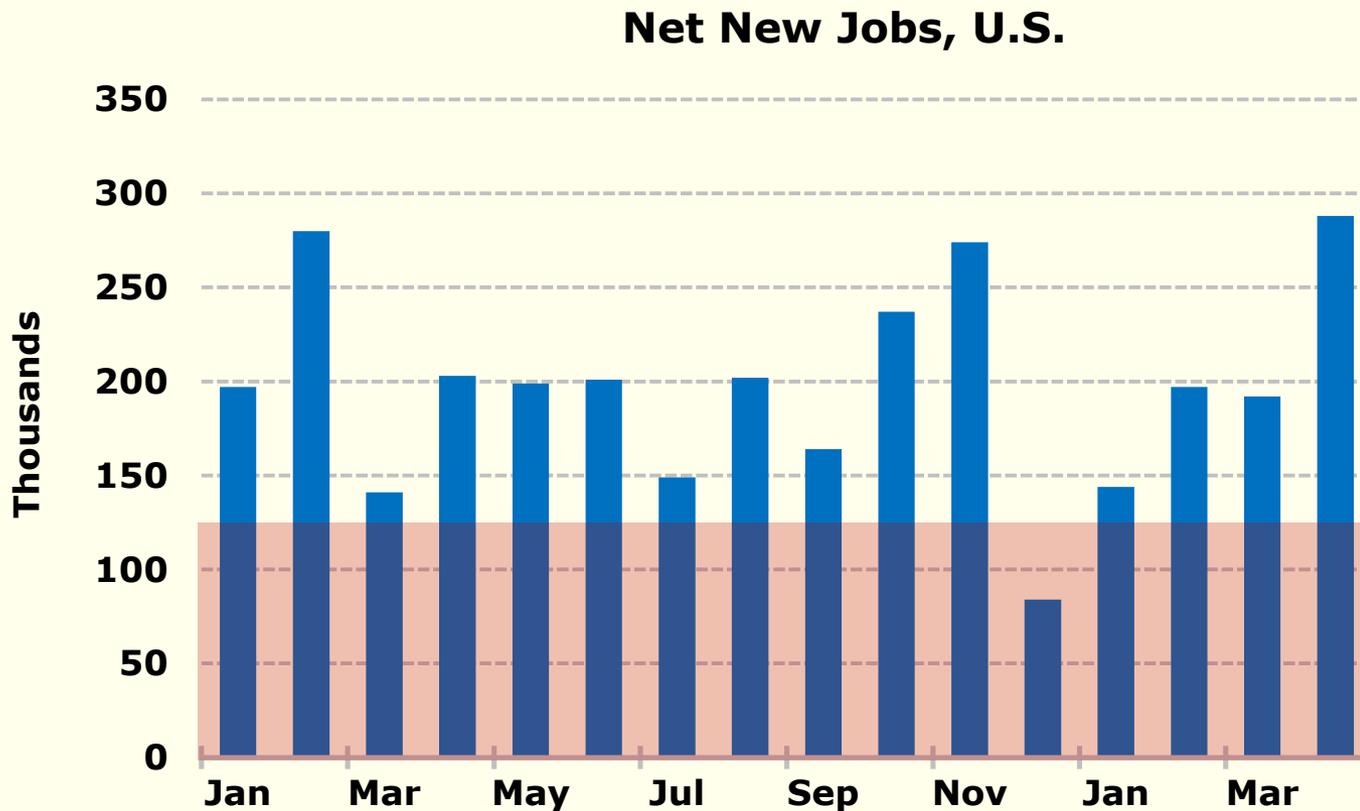


Source: Bureau of Labor Statistics, data through April 2014



Job growth remains modest

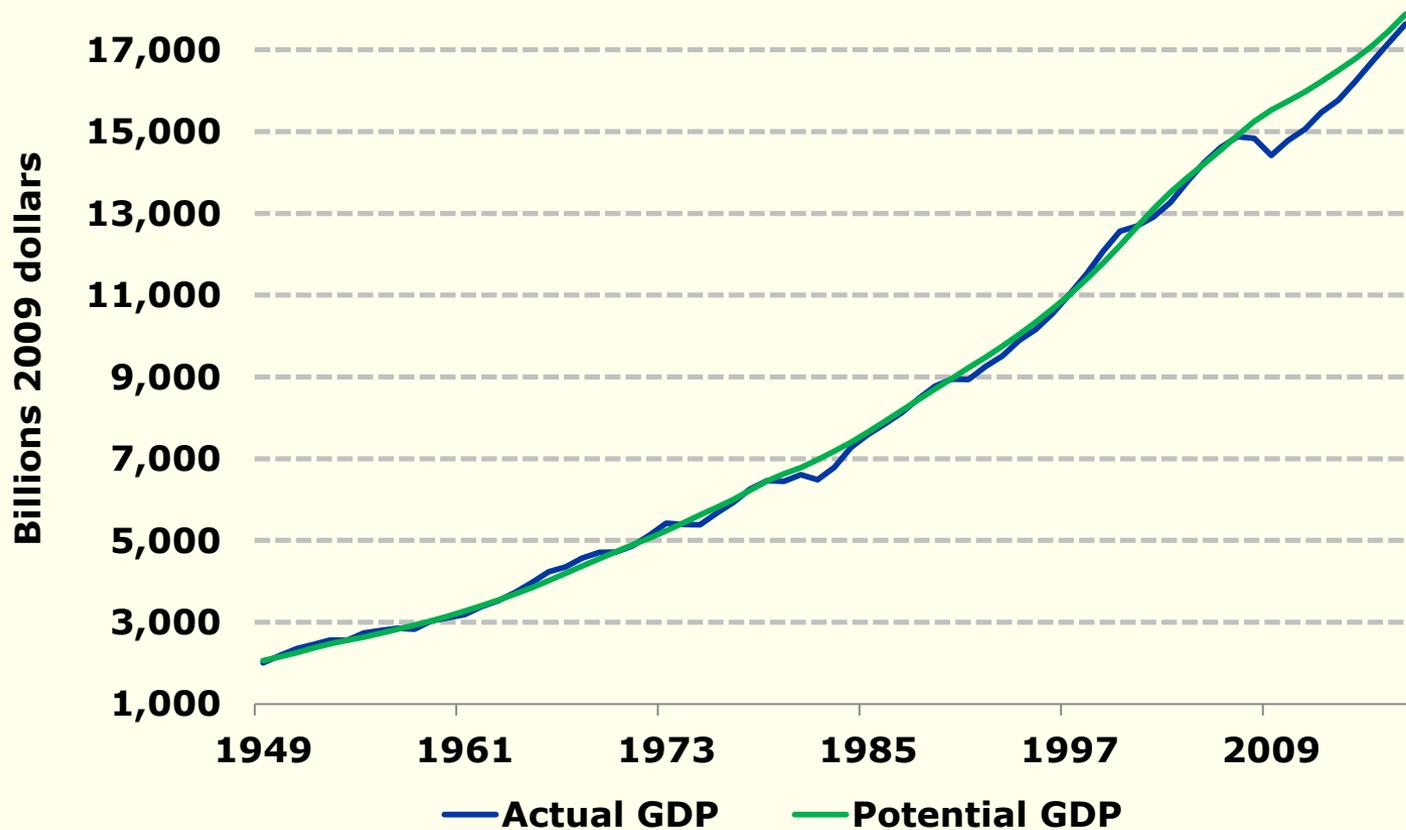
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through April 2014



Great Recession was a notable deviation from potential economic activity



Sources: CBO, ERFC; forecast data 2014 - 2017



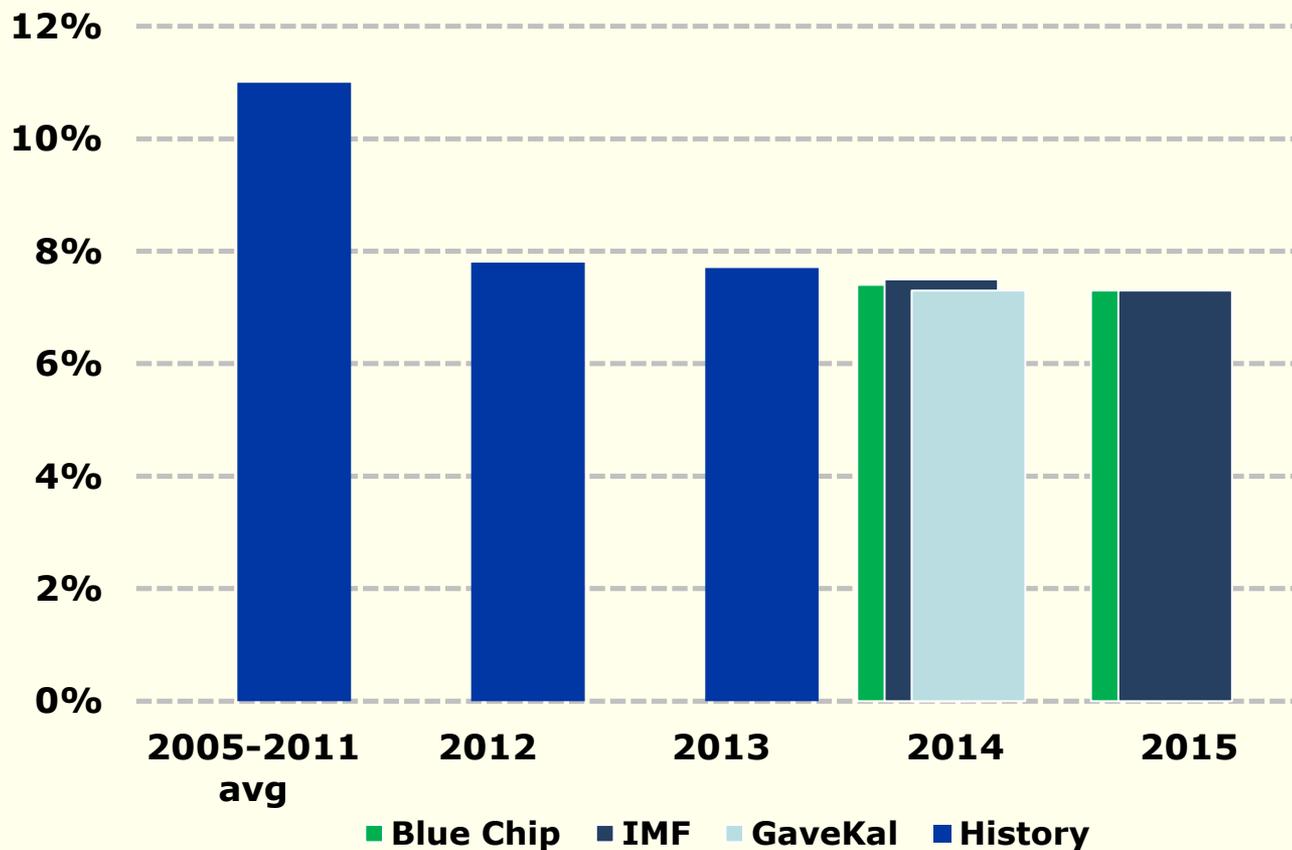
Three major risks to the forecast



Source: ERFC



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



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



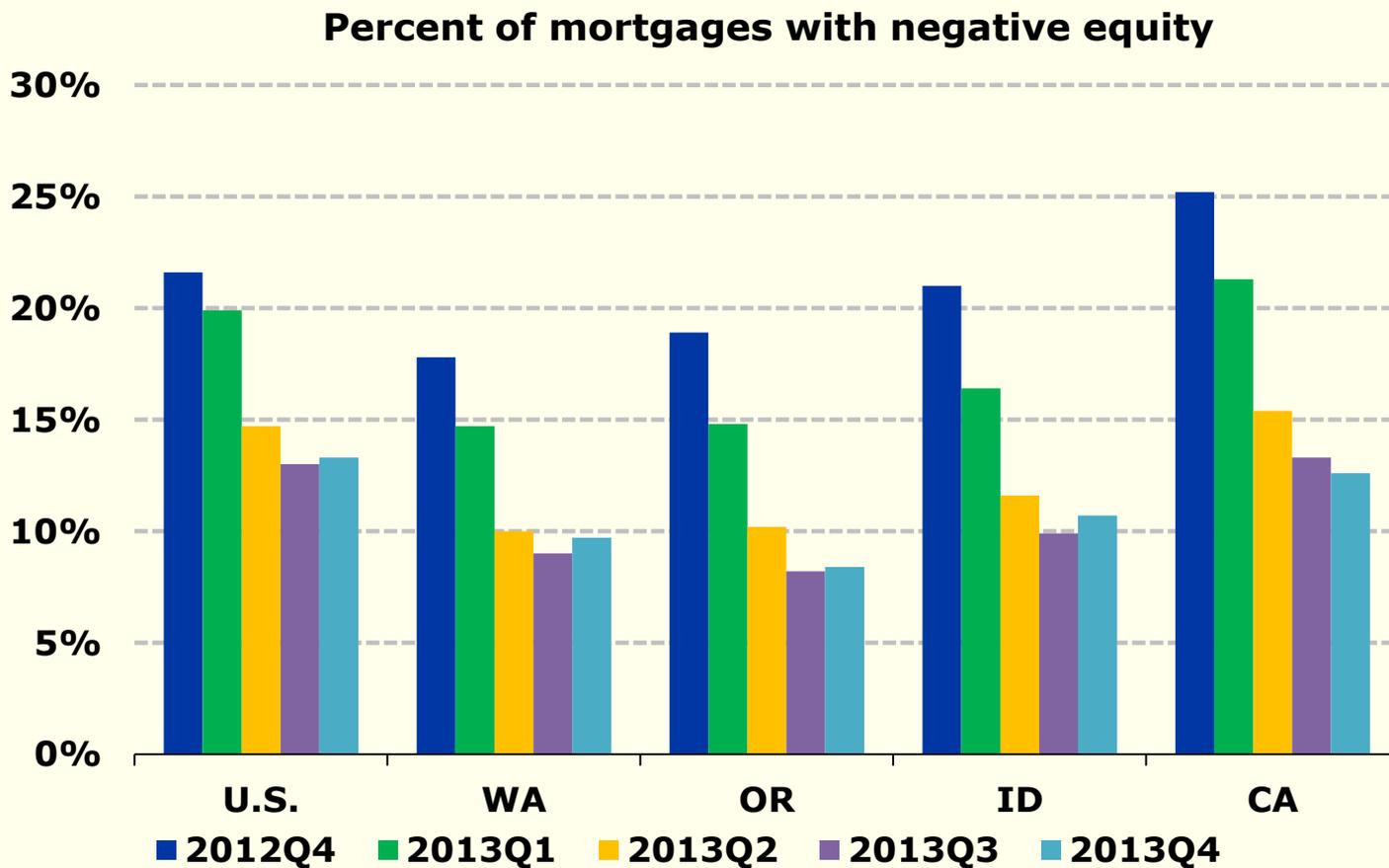
China is the largest market for Washington exports

Percent of Washington exports by destination

2011		2012		2013	
China	17.3%	China	18.7%	China	20.4%
Canada	13.2%	Japan	11.9%	Canada	10.9%
Japan	10.0%	Canada	11.1%	Japan	8.5%
South Korea	5.0%	United Arab Emirates	6.7%	United Arab Emirates	4.9%
United Arab Emirates	4.3%	South Korea	4.5%	Mexico	3.9%



Rising home prices have reduced the number of underwater mortgages

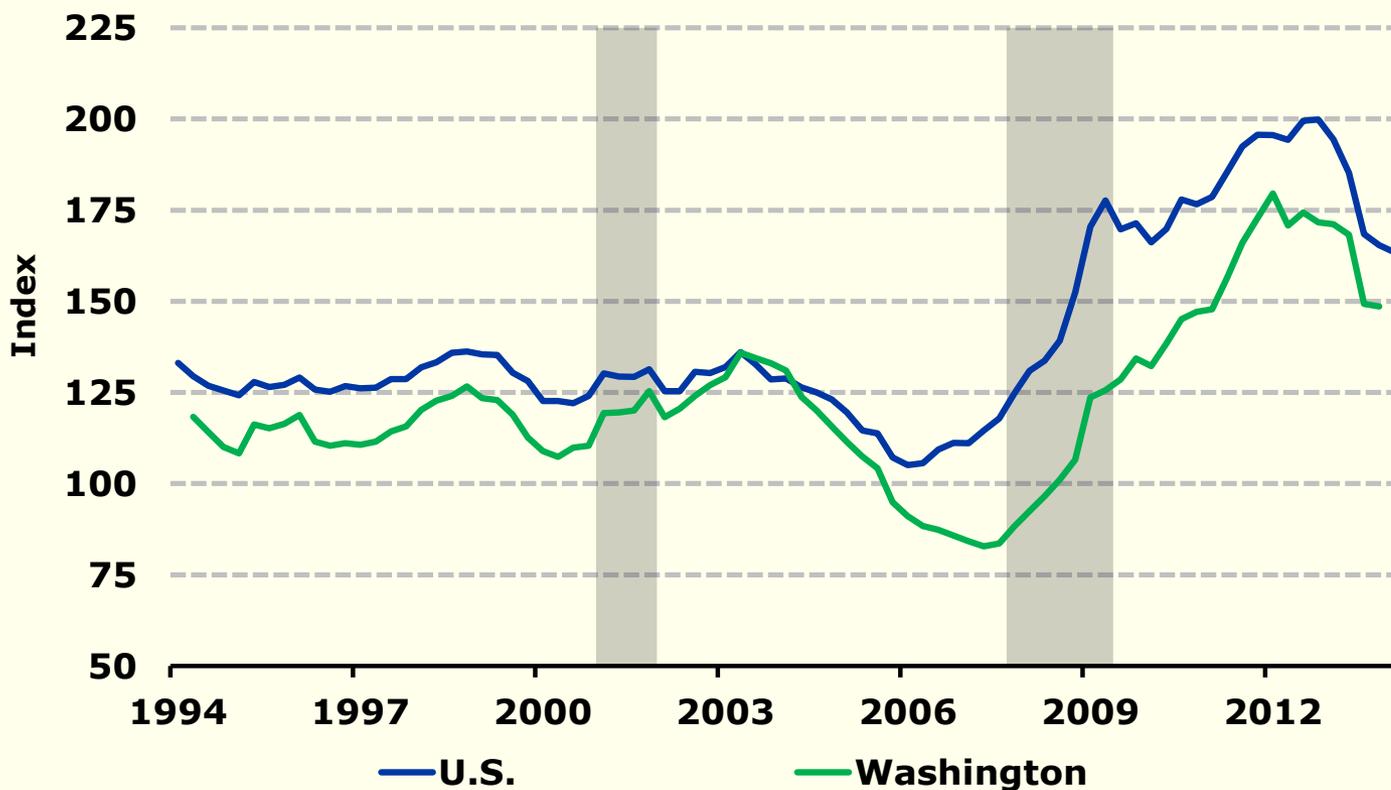


Source: CoreLogic, ERFC, data through 2013Q4



Rising mortgage rates and home prices have reduced affordability

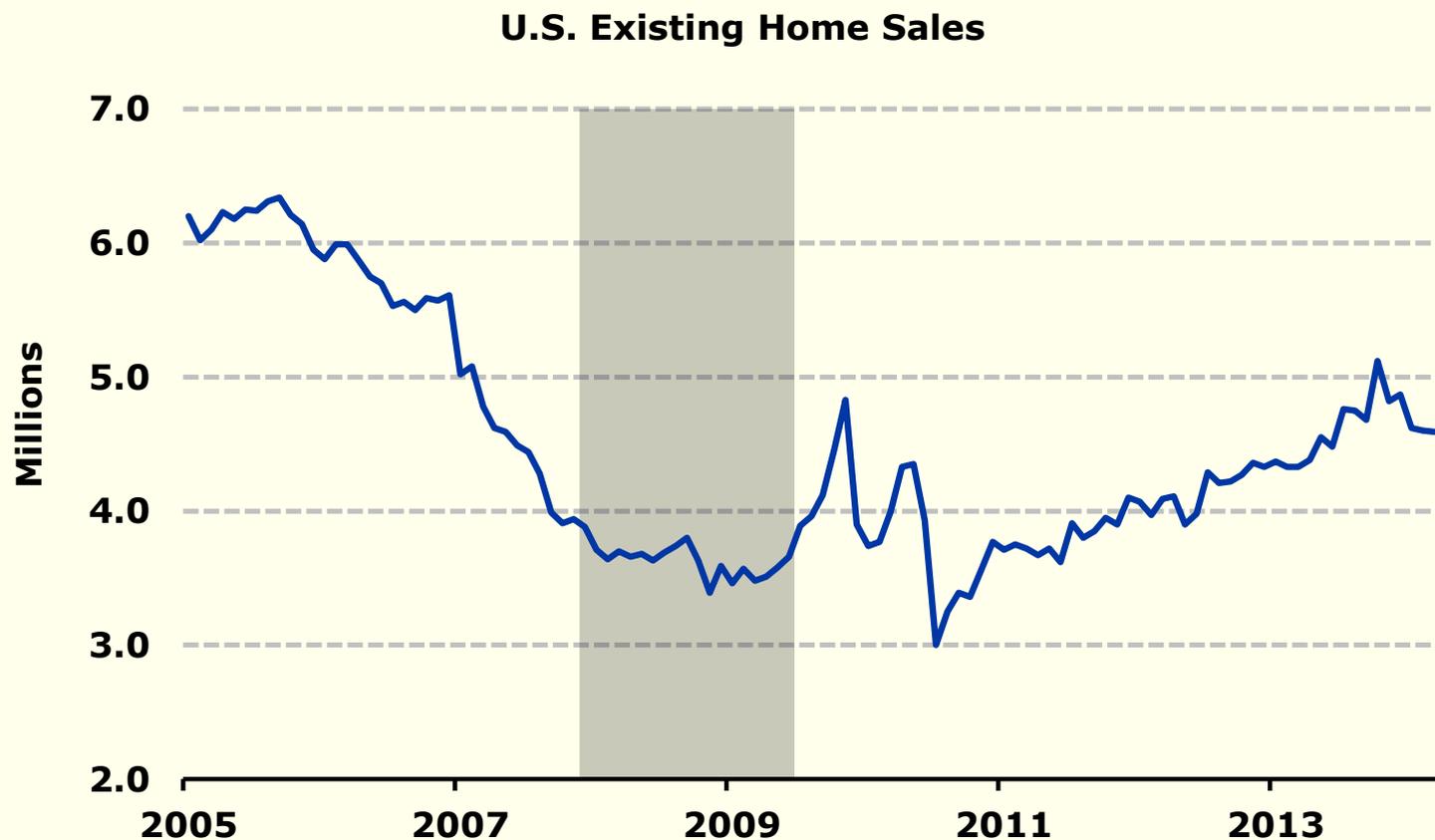
Housing Affordability Index, SA



Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2014Q1



Home sales: an upward trend, but weaker in the last three months



Source: National Association of Realtors; data through March 2014



European unemployment remains elevated

Unemployment Rate:

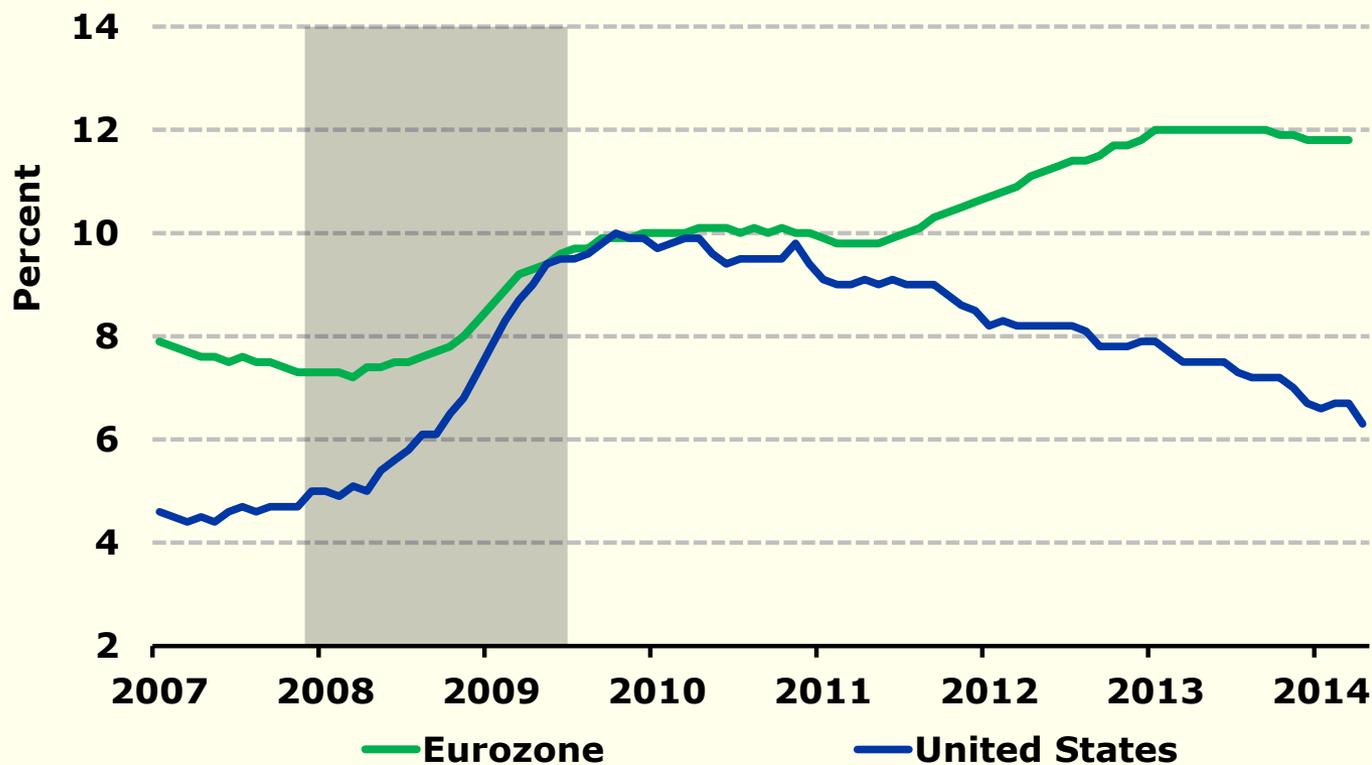
Spain: 25.3
Greece: 26.7

Germany: 5.1

Youth Unemployment Rate:

Eurozone: 23.9
U.S.: 12.8

Eurozone and U.S. Unemployment Rate

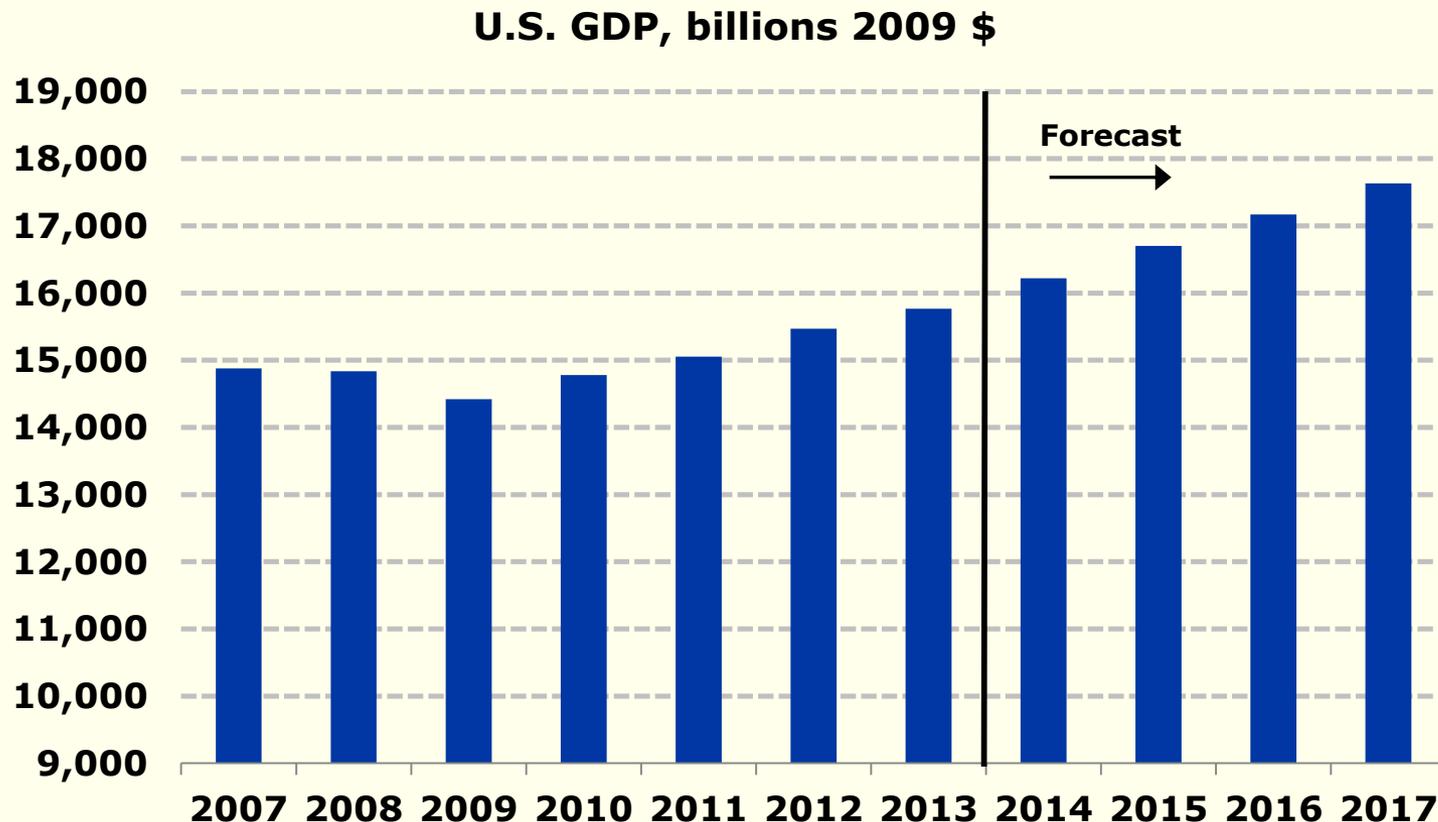


Source: Eurostat, U.S. Bureau of Labor Statistics; data through April 2014



After 1.9% growth in 2013, GDP is expected to grow 2.9% this year

GDP is expected to average 2.8% growth over 2014 - 2017

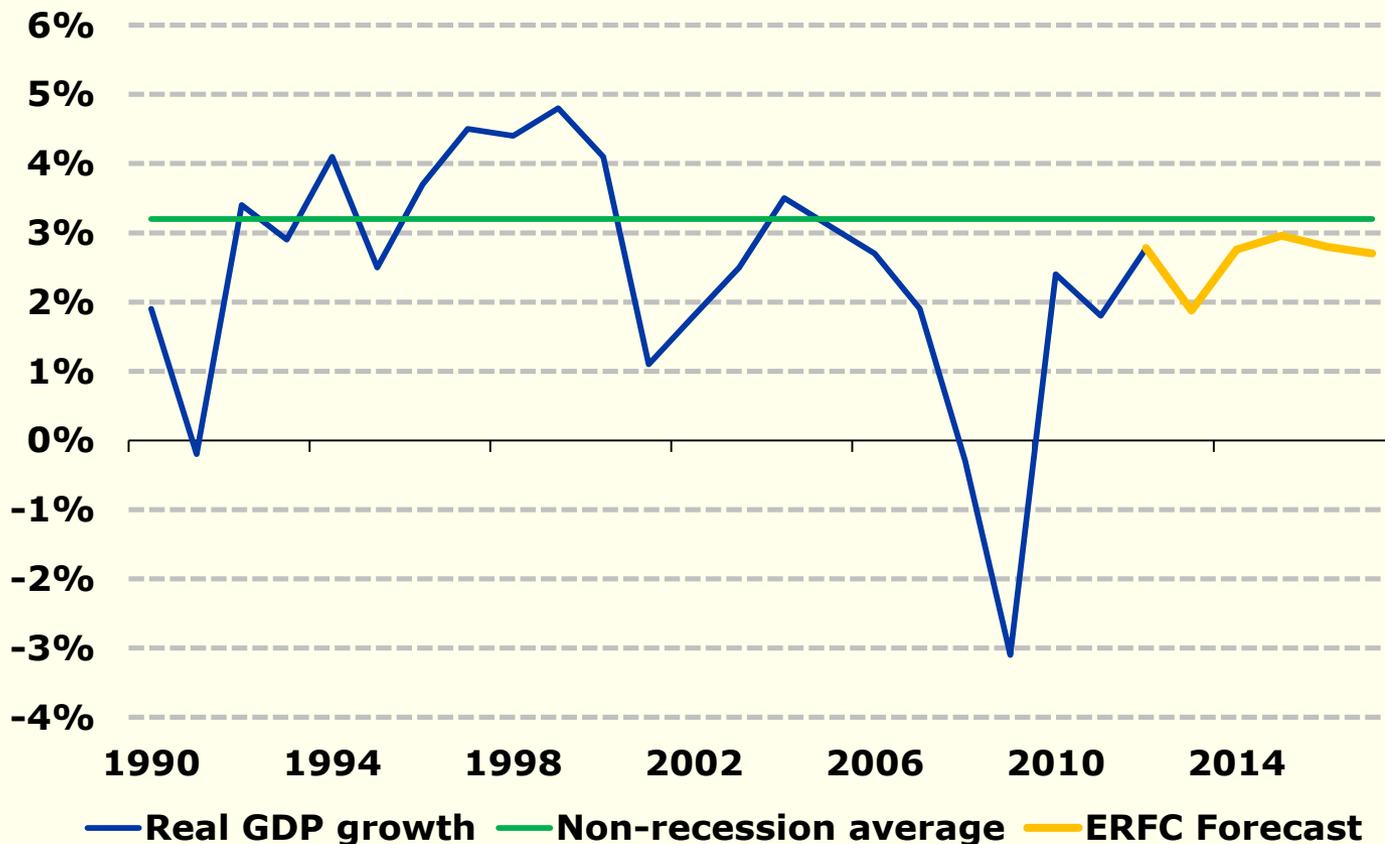


Source: Global Insight, ERFC February 2014 forecast; historical data through 2013



GDP growth forecasted to be near non-recessionary average in 2015

Non-recessionary average growth of 3.2% excludes 1990, 1991, 2001, 2007-2009



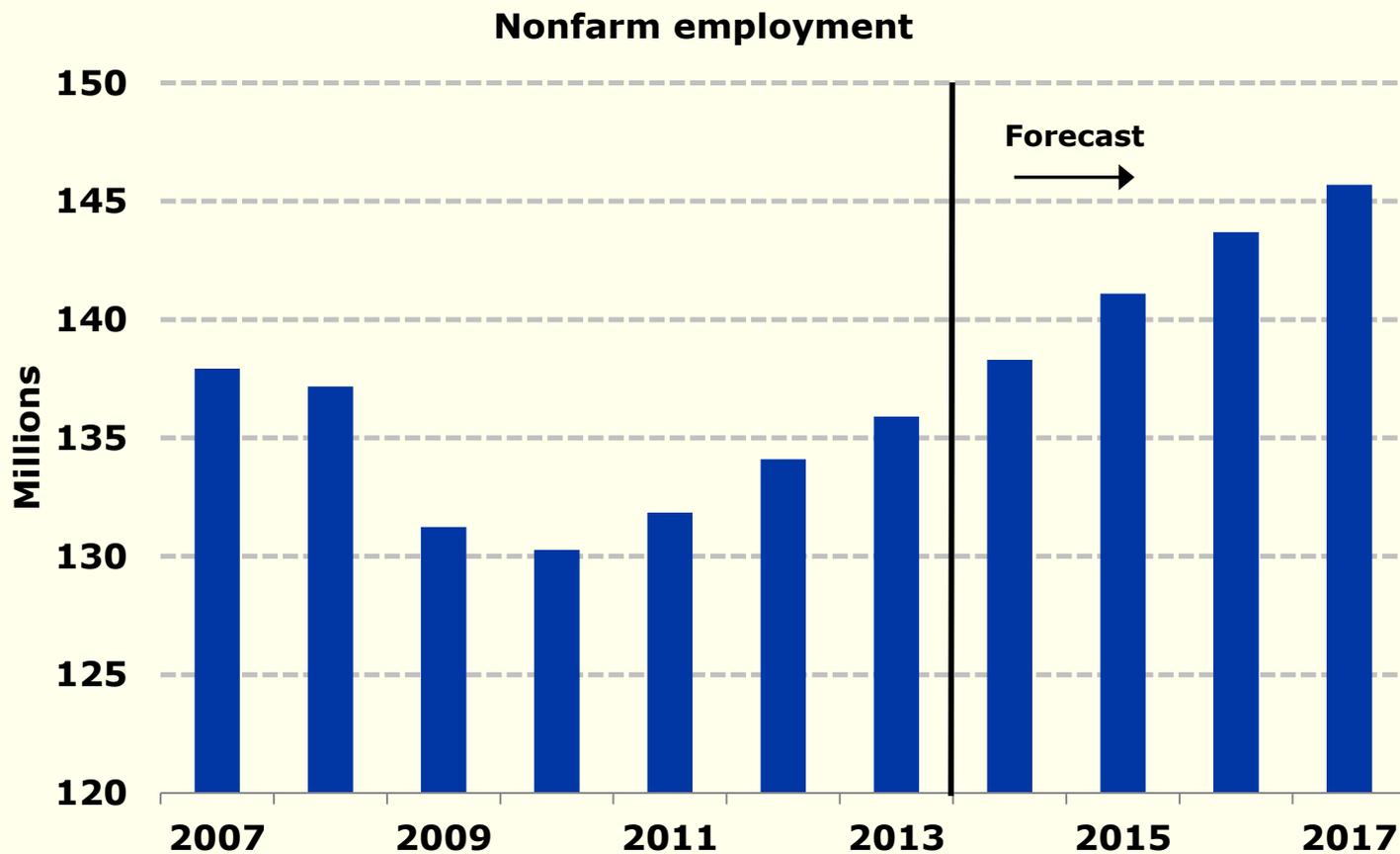
Source: U.S. Dept of Commerce, BEA, ERFC February 2014 Forecast

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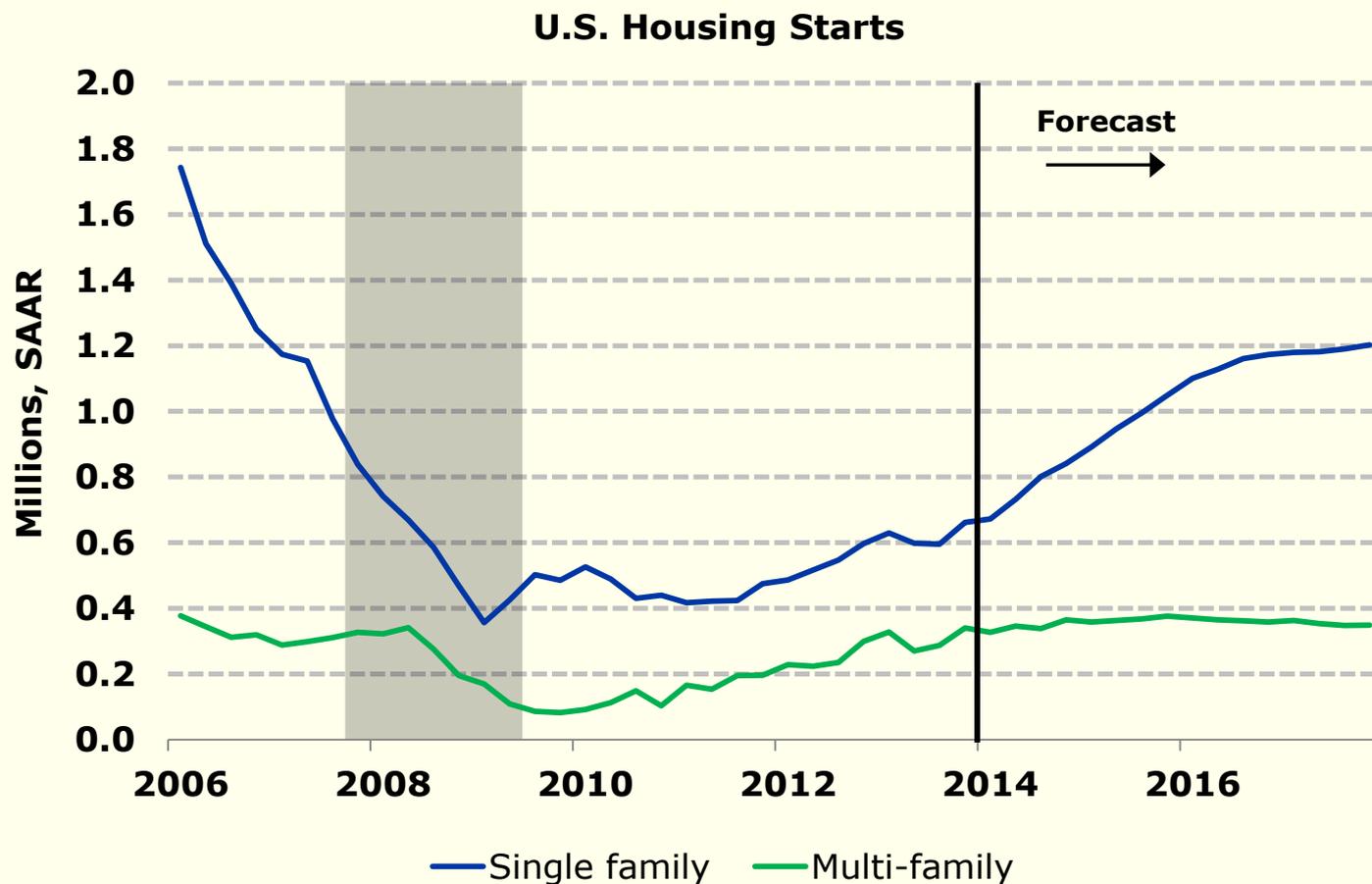
U.S. nonfarm employment is expected to grow 1.7% this year after 1.6% growth in 2013



Sources: BLS; ERFC February 2014 forecast



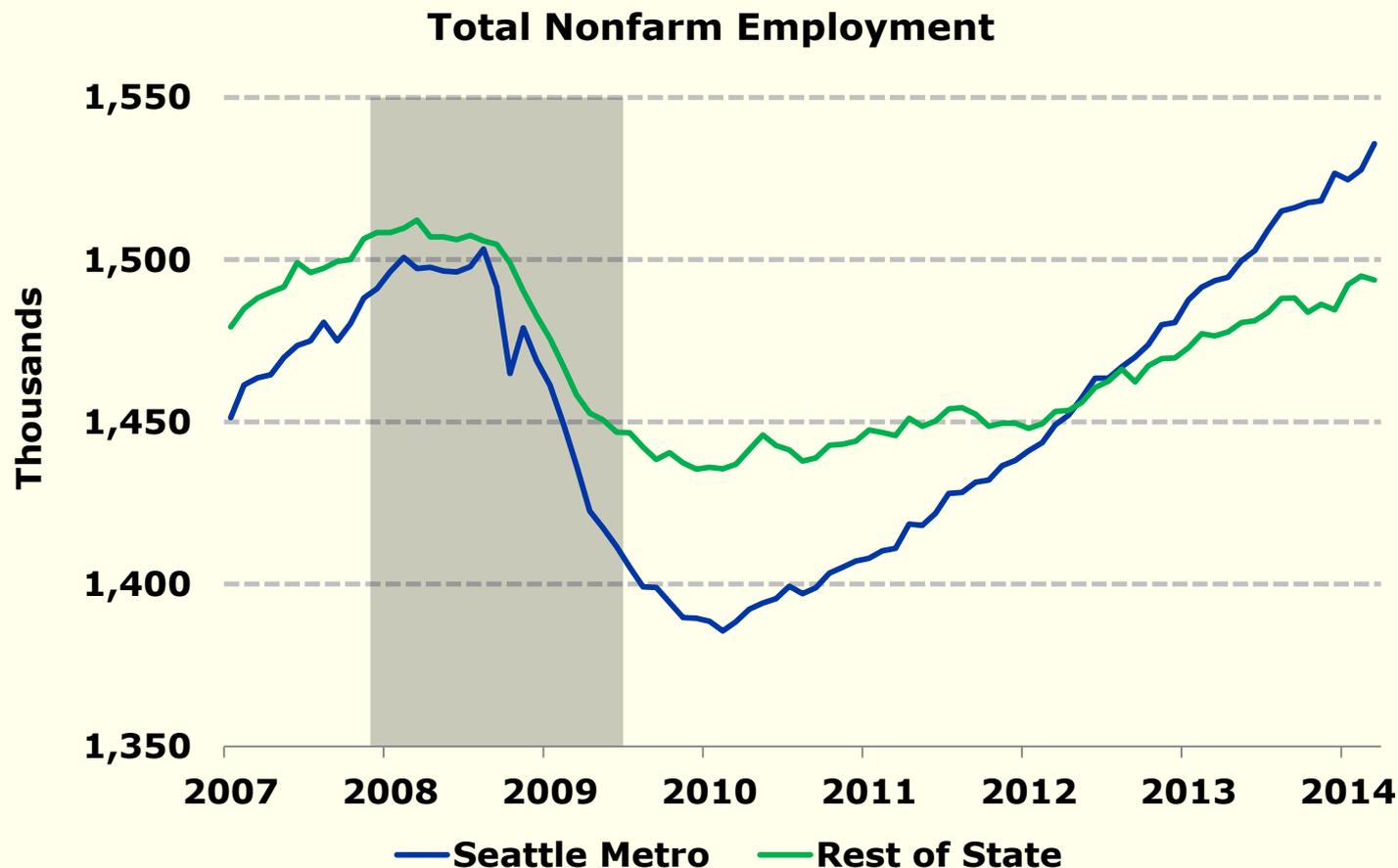
Single family housing starts are expected to grow through 2017





Seattle area employment is growing much faster than the rest of the state

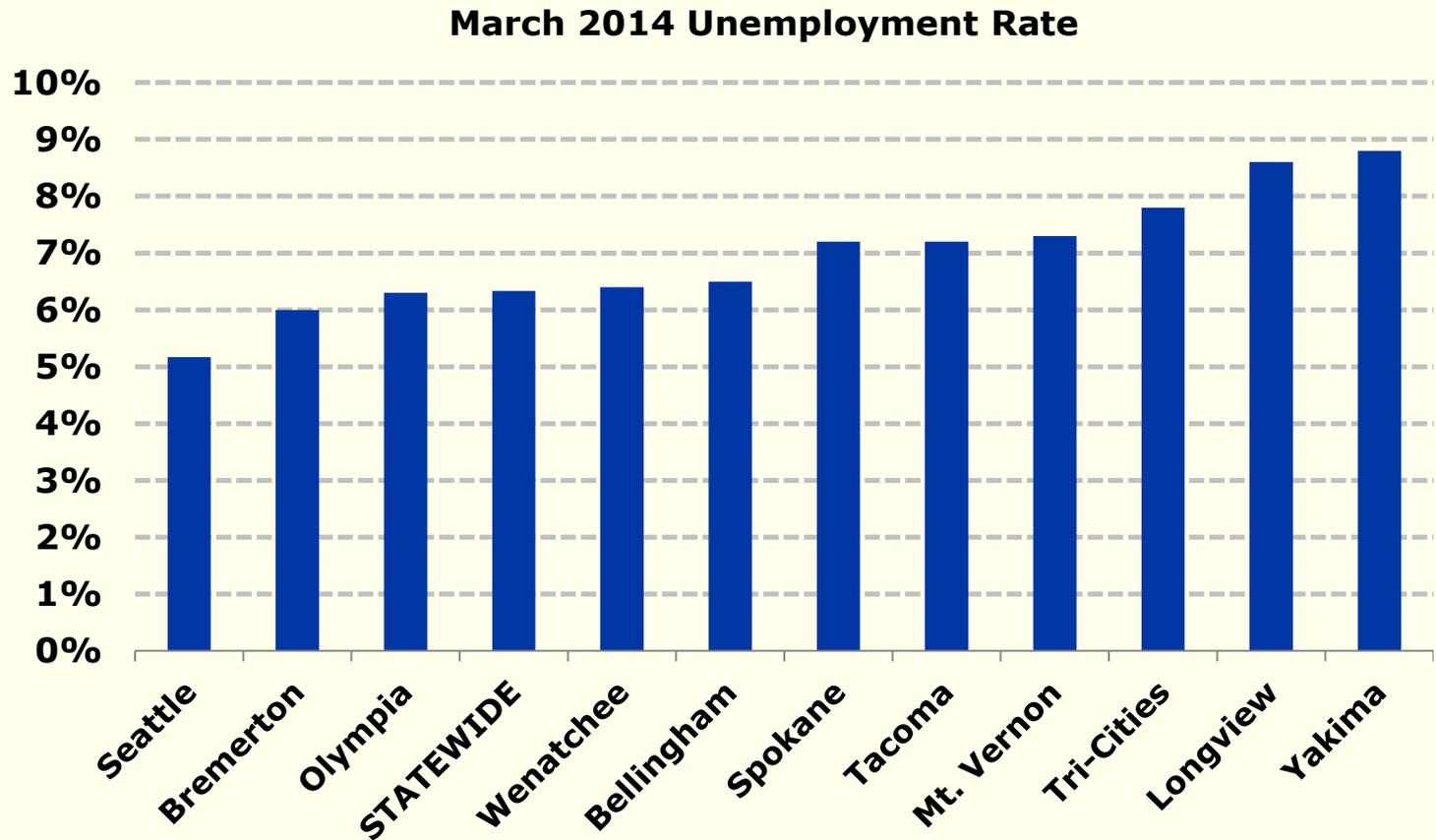
Outside of Seattle metro area, employment is below its pre-recession peak



Source: Employment Security Department, ERFC; data through March 2014

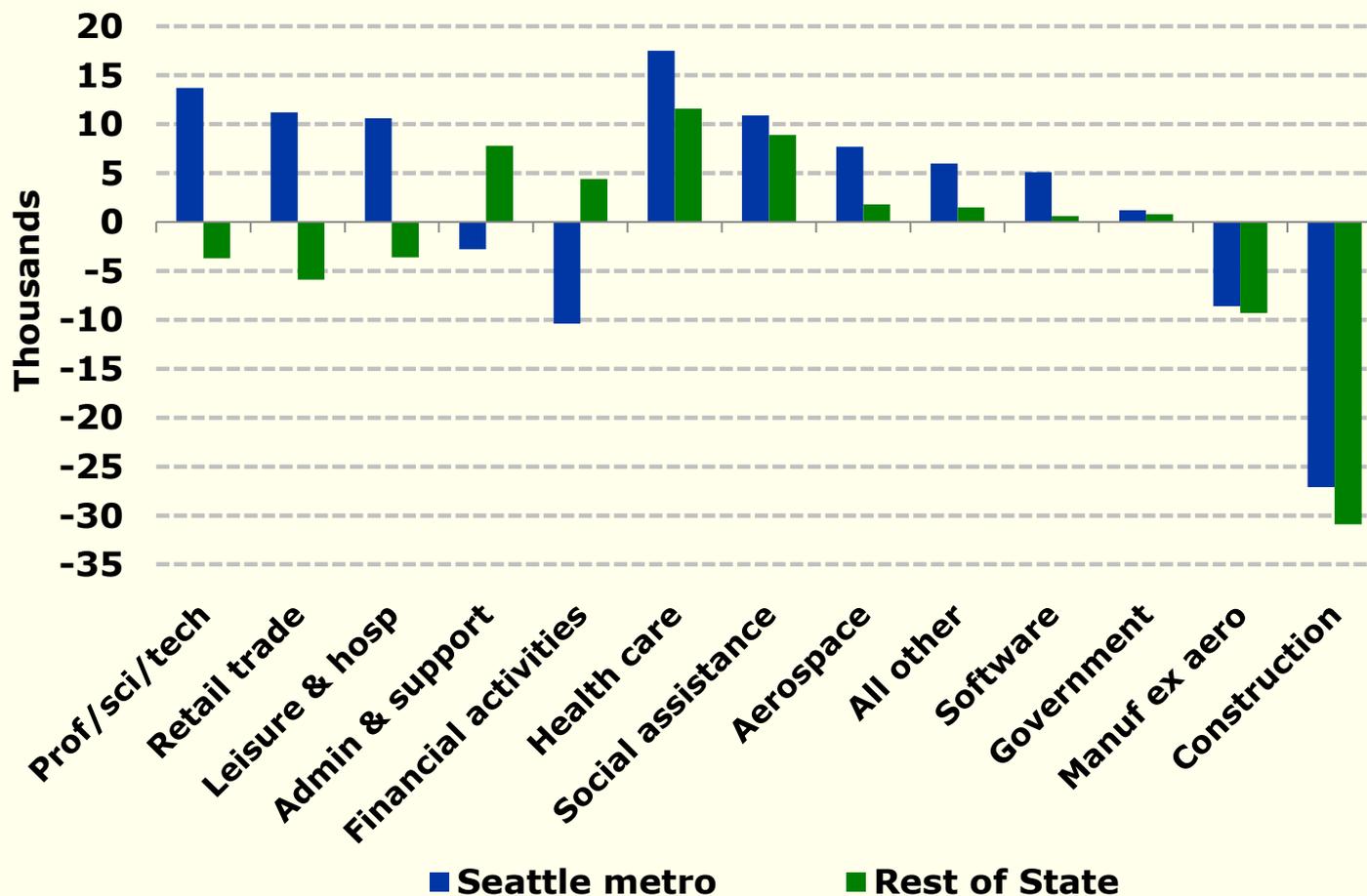


Seattle: lowest unemployment rate of state metro areas



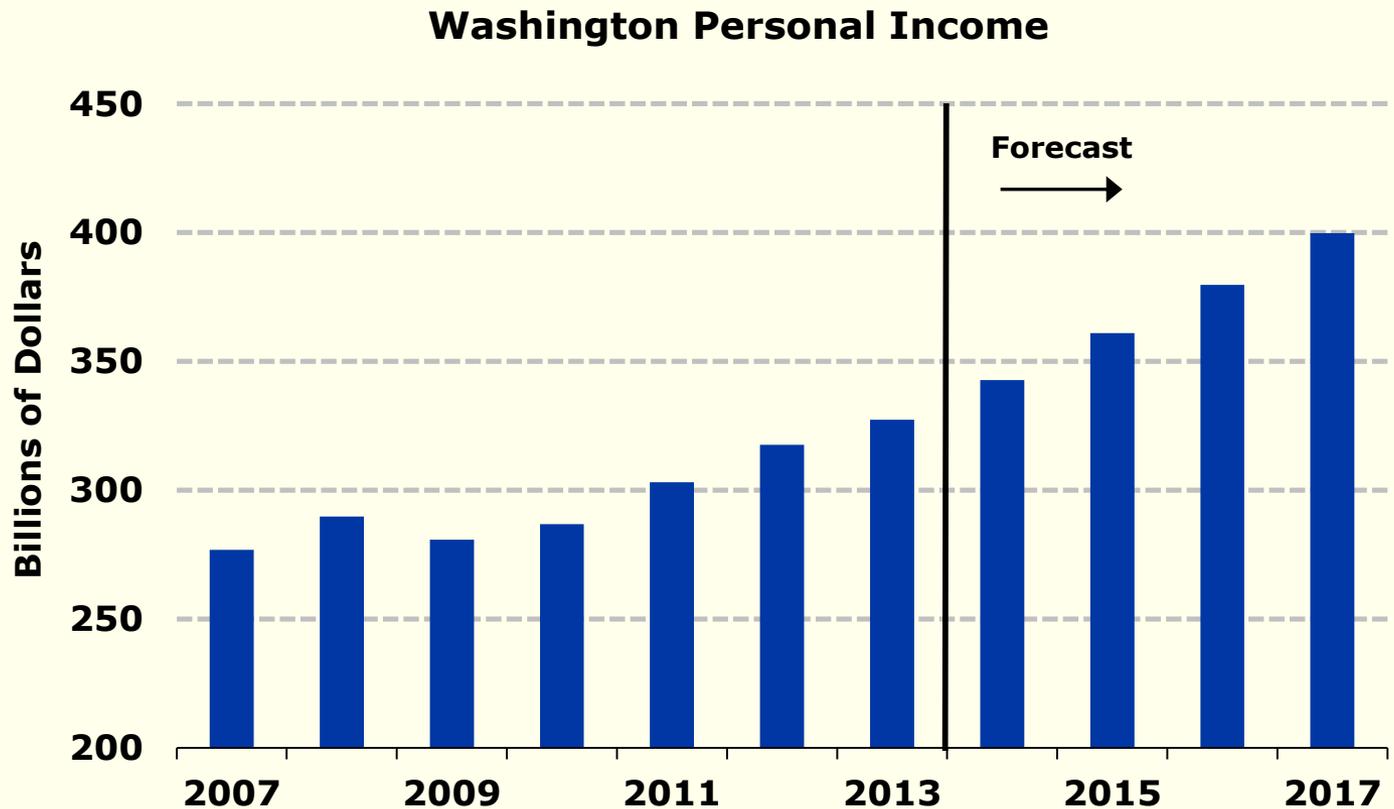


Employment change by industry, Feb. 2008 – Mar. 2014





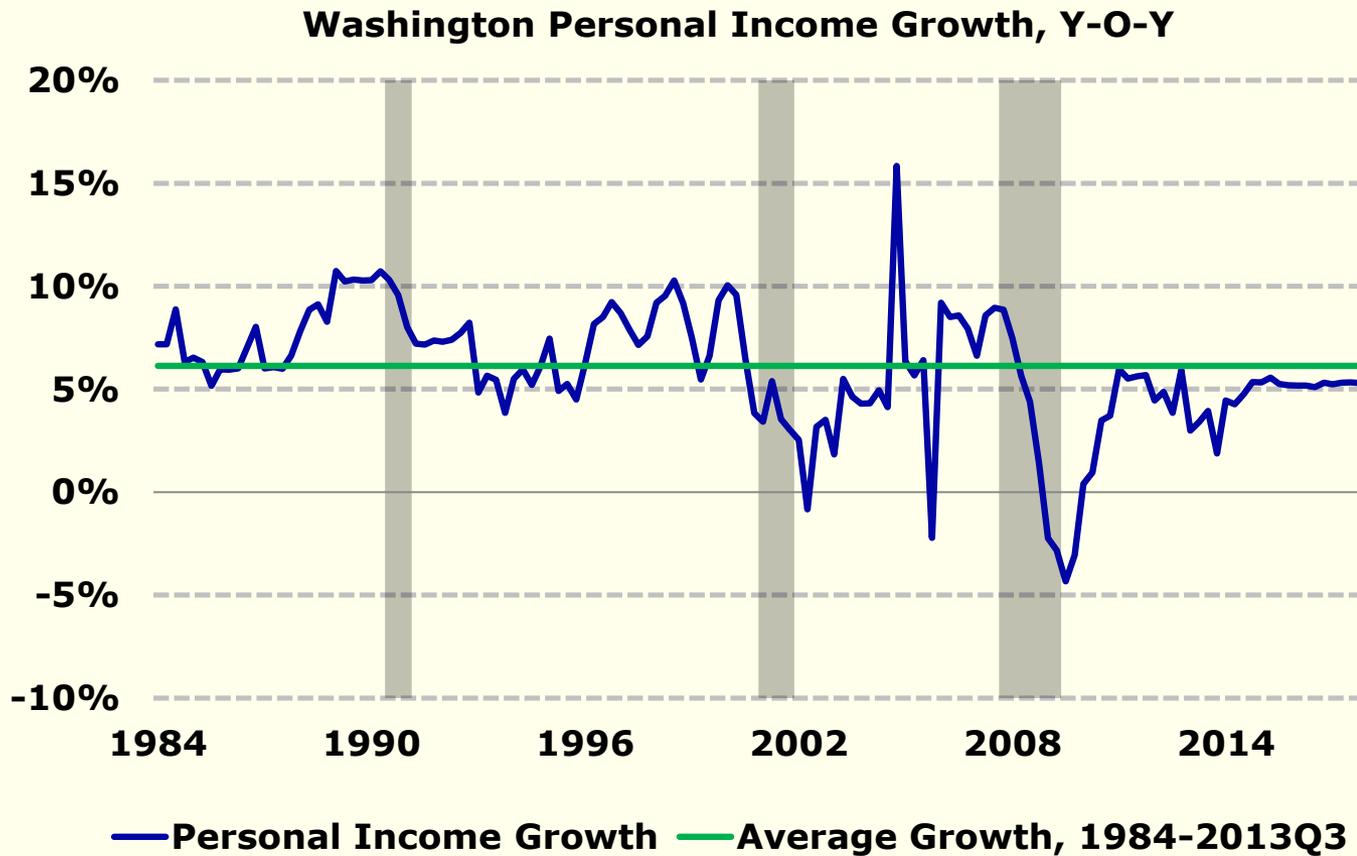
Washington personal income is forecast to average 5.1% annual growth over 2014 – 2017...



Source: ERFC February 2014 forecast; historical data through 2012

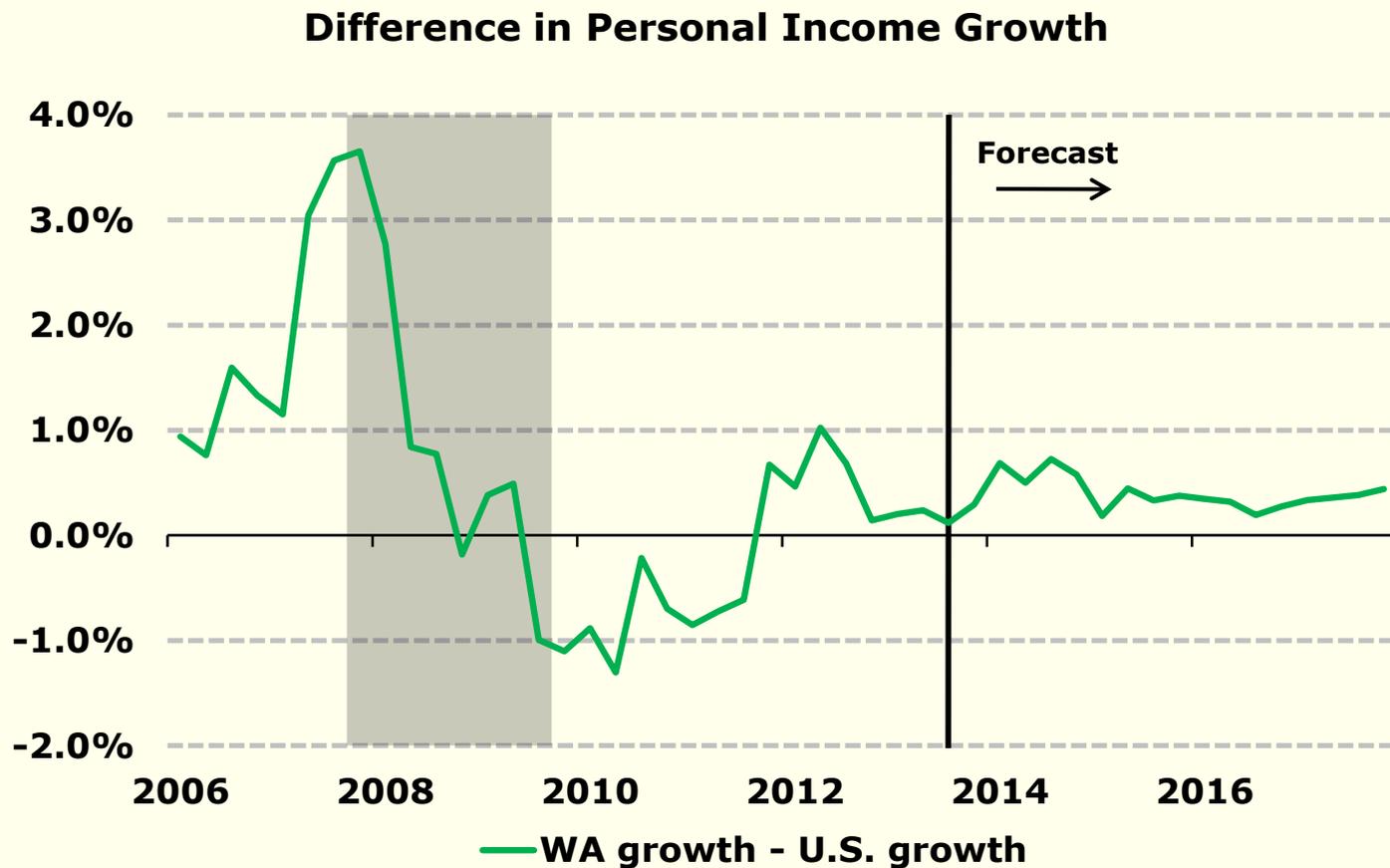


...but personal income is growing at below-average rates





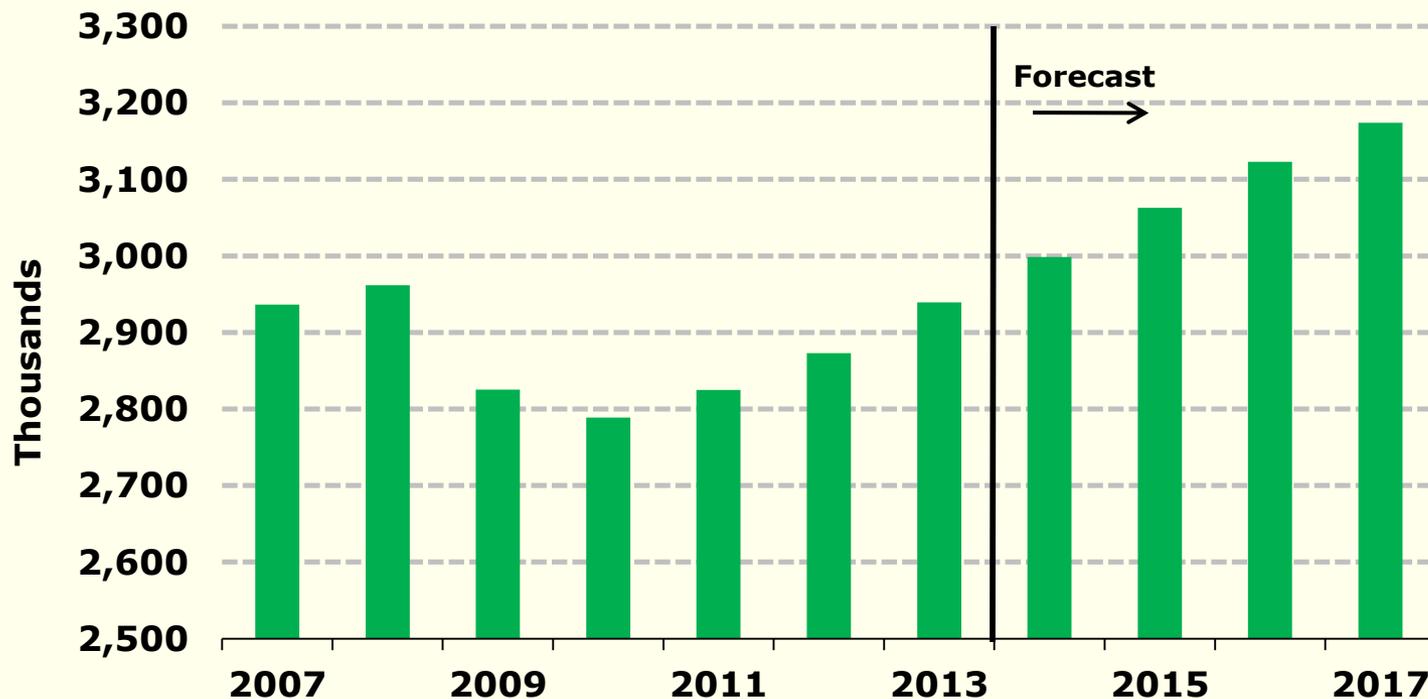
State personal income will grow slightly faster than the U.S.





Washington payroll employment growth is expected to average 1.9% over 2014 - 2017

Washington Nonfarm Payroll Employment

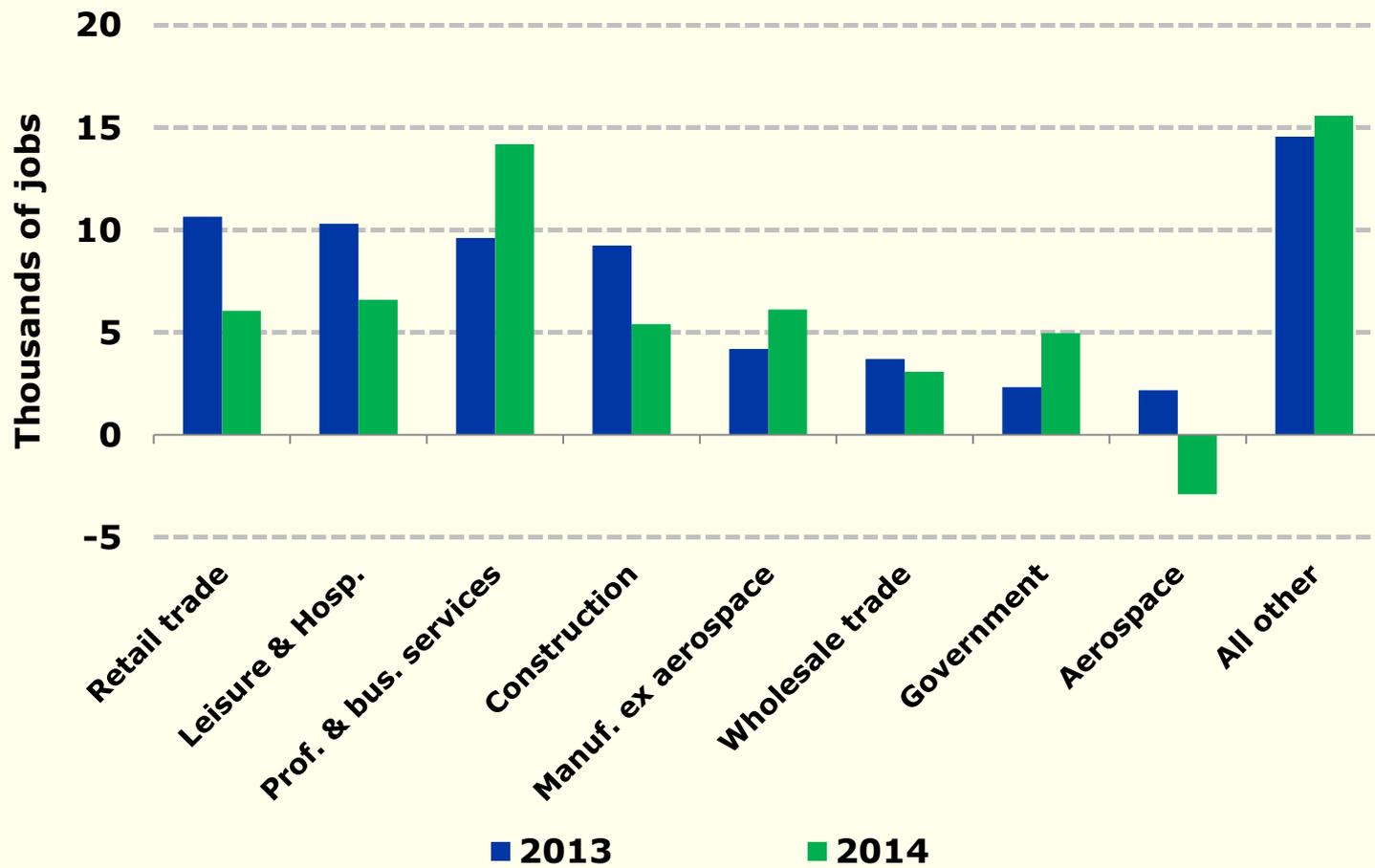


Source: ERFC February 2014 forecast; historical data through 2013



Changes in Washington employment by industry

Nonfarm
employment
change:
•2013 = 67,000
•2014 = 59,000

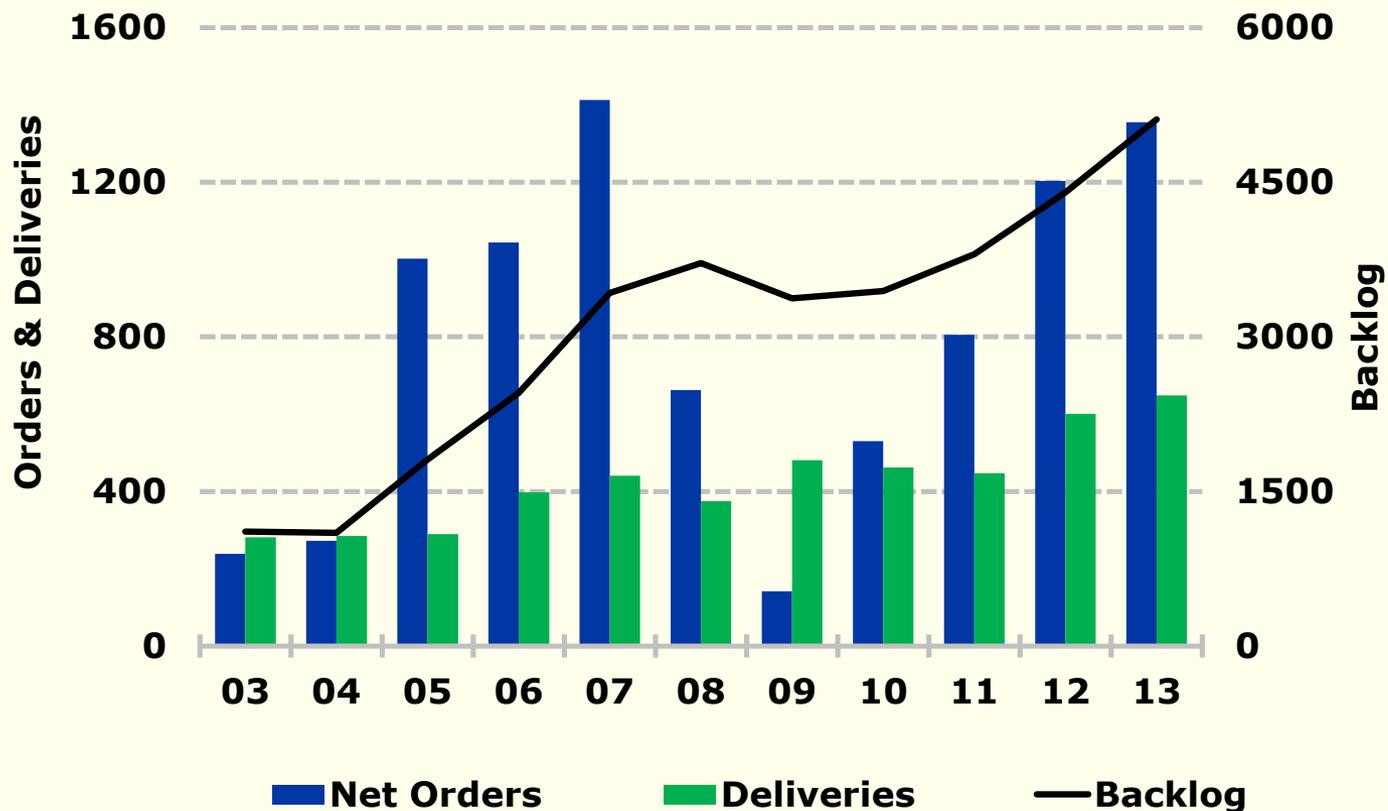


Sources: ERFC, February 2014 forecast



Boeing has over 7 years of commercial orders on its books

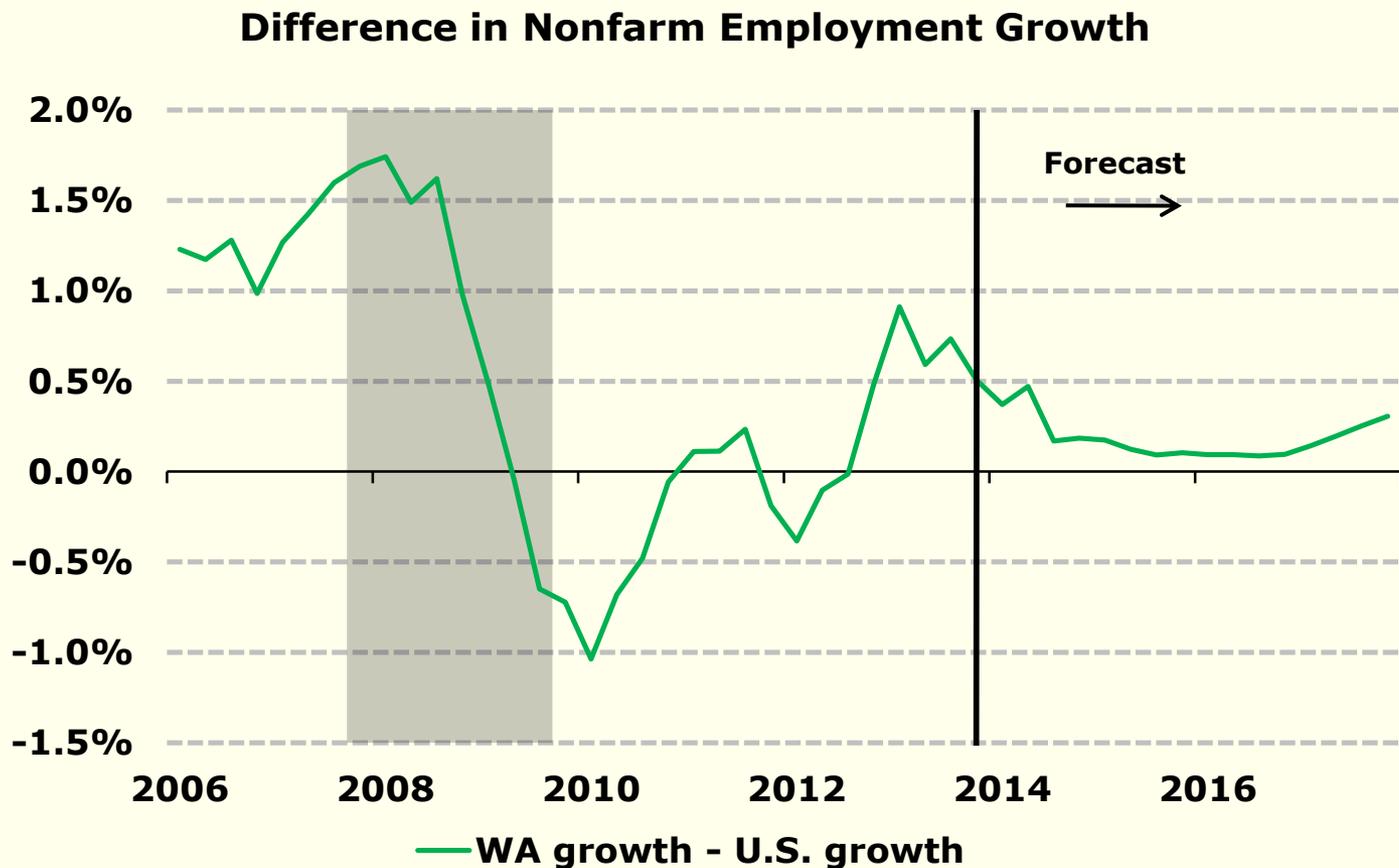
Excludes the military's new refueling tanker



Source: Boeing, data through December 2013



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

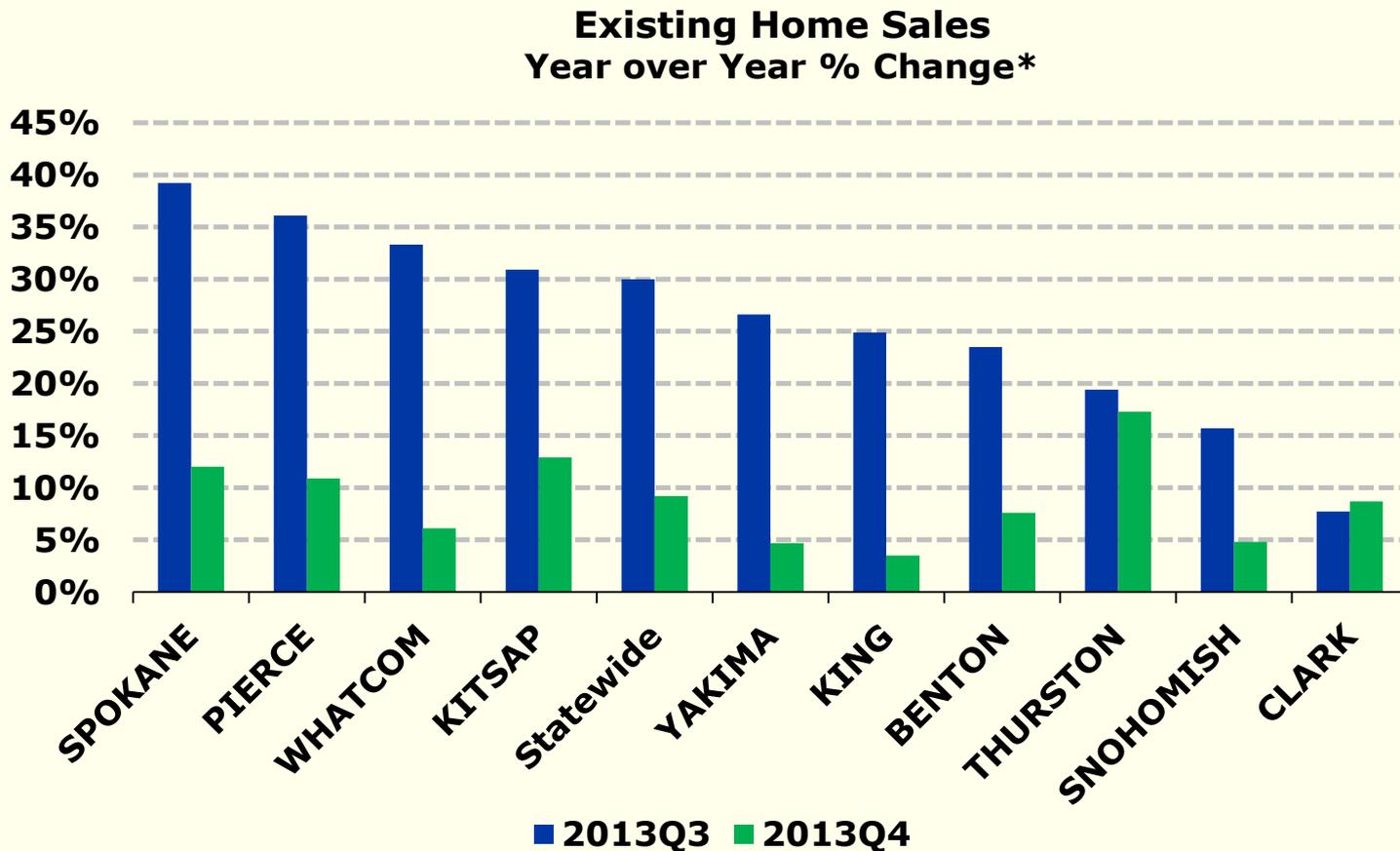


Source: ERFC February 2014 forecast; historical data through 2013Q4



Growth in existing home sales slowed in fourth quarter 2013

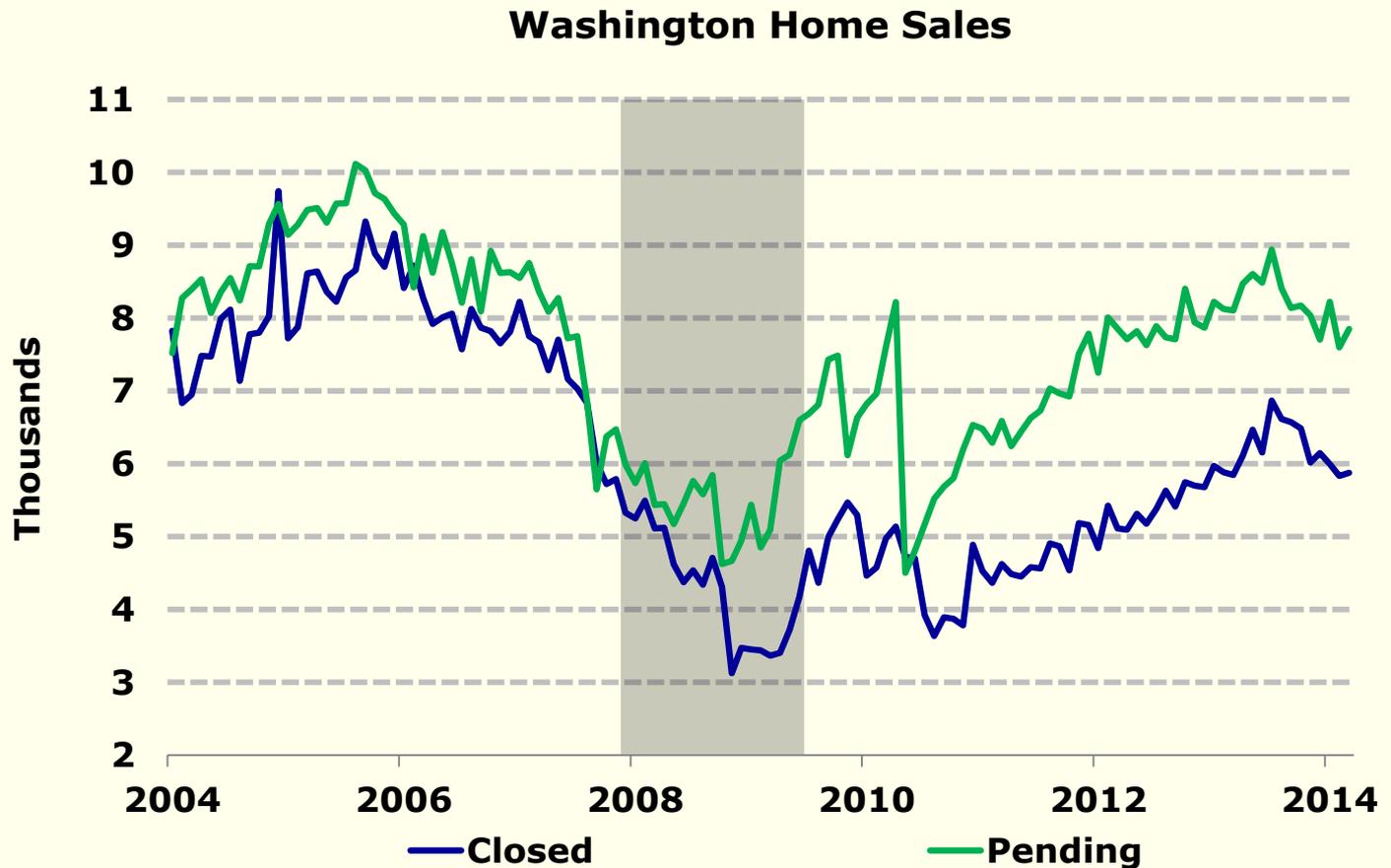
*Ten counties with highest existing home sales, 2013Q3



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



Washington home sales have been trending downward recently

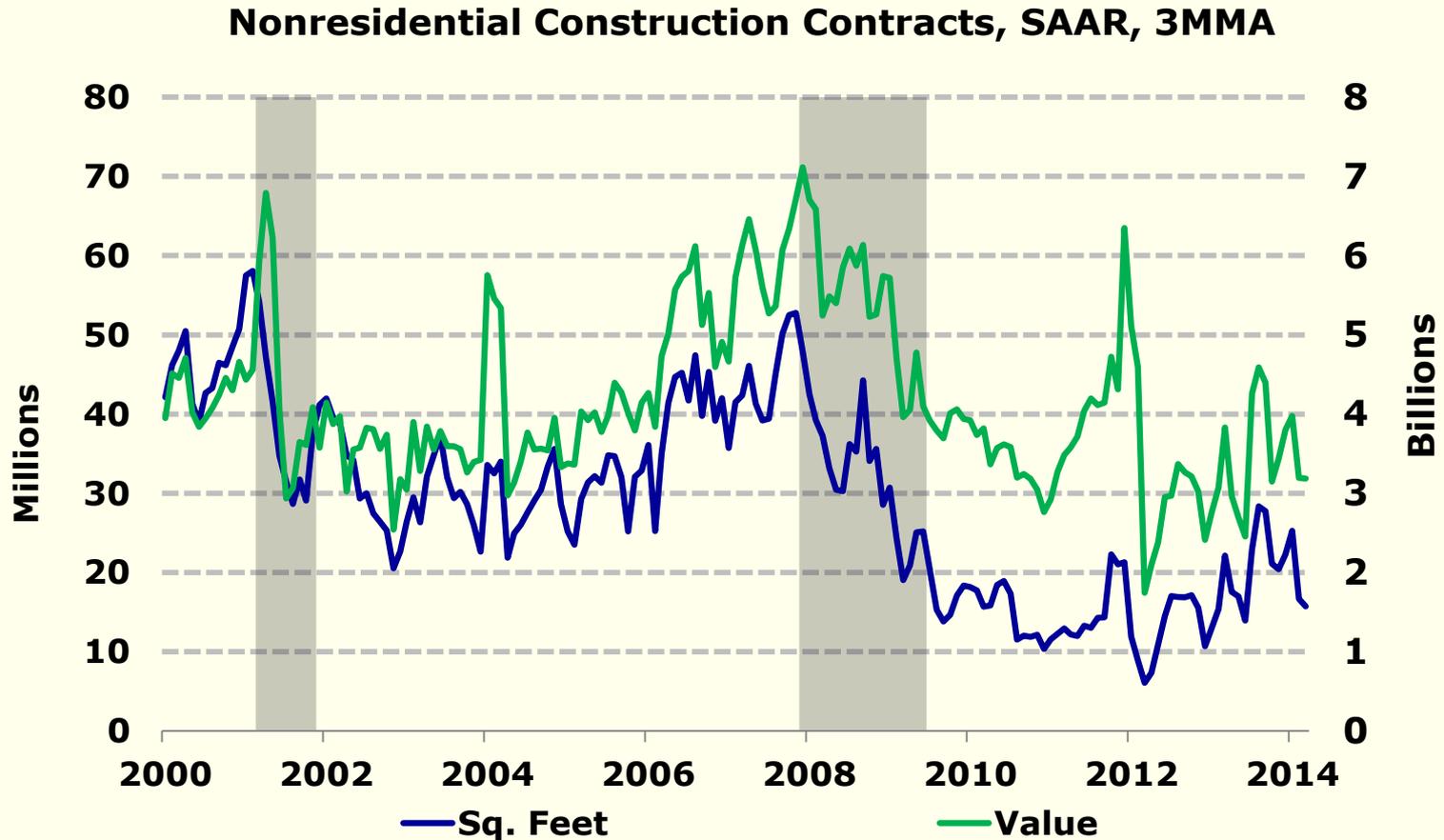


Source: NWMLS, ERFC; data through March 2014



Contract data: non-residential activity volatile but trending up

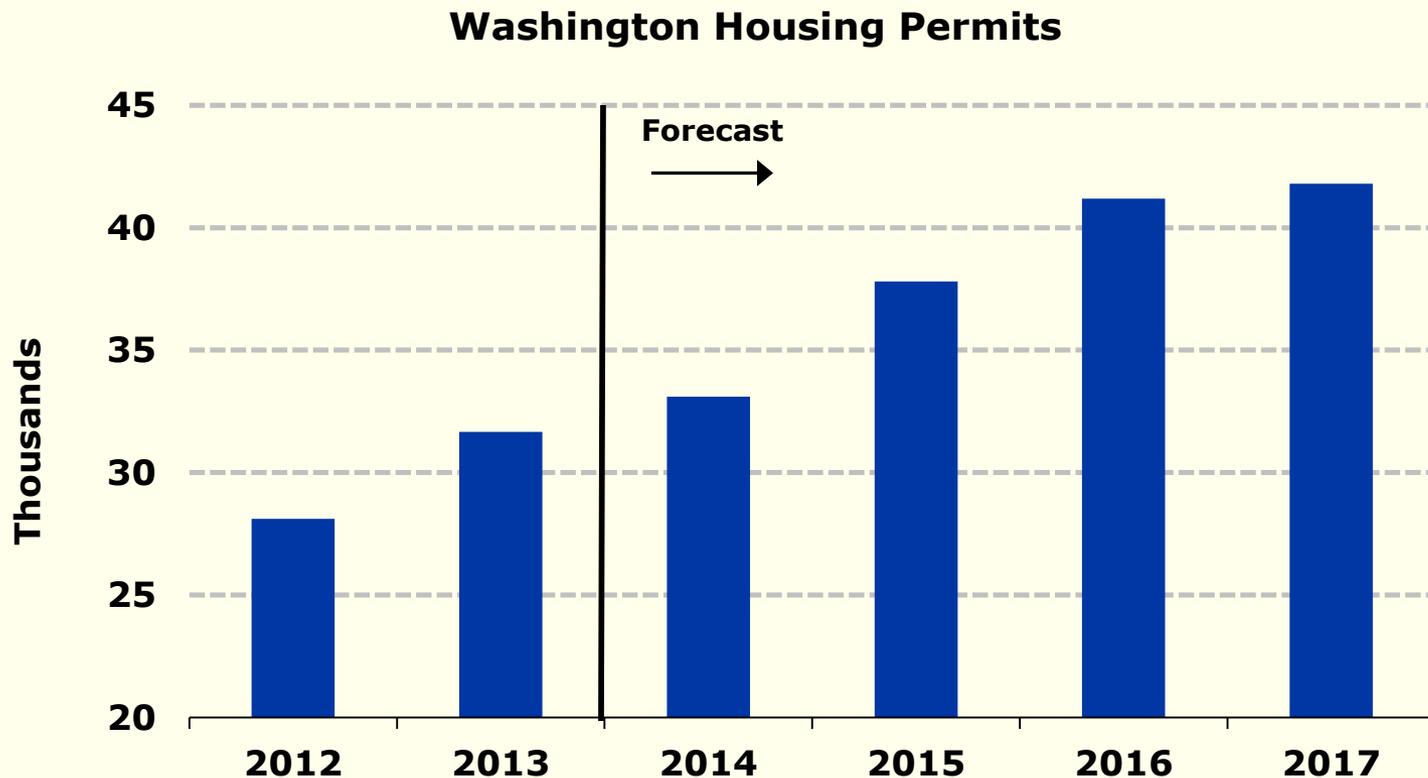
Non-Residential square footage is down 29%, and value is down 17% year over year (3mma).



Source: Dodge, ERFC; data through March 2014



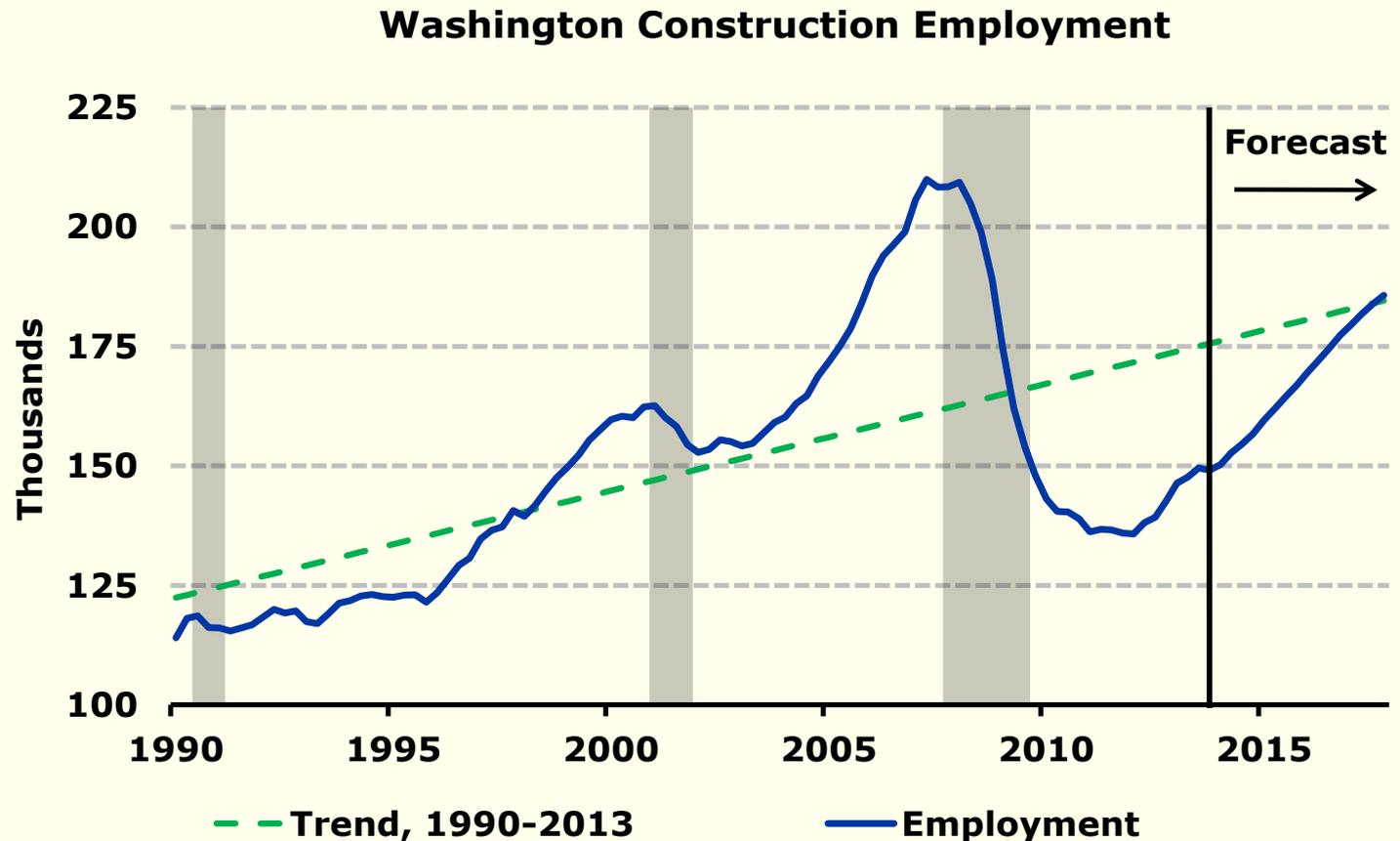
Washington housing permits are expected to increase through 2017



Source: ERFC February 2014 forecast; historical data through 2013



Washington construction employment is recovering



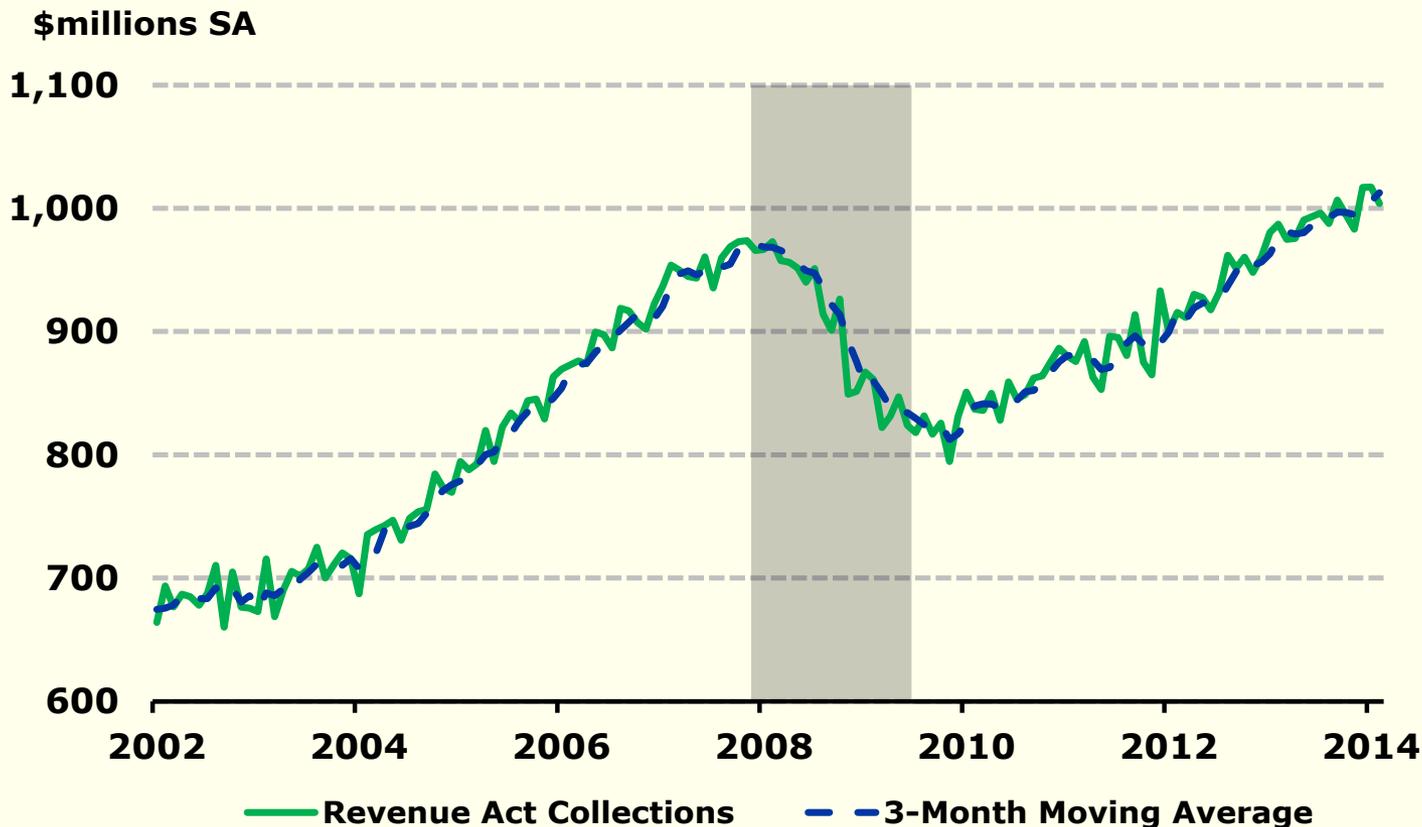


Revenue Act collections still above their pre-recession peak

Adjusted for large one-time payments, April 10th collections were up 1.4% year-over-year

Year-over-year growth has slowed due to the expiration of the B&O services surtax on July 1st

The surtax brought in \$20-\$26 million per month



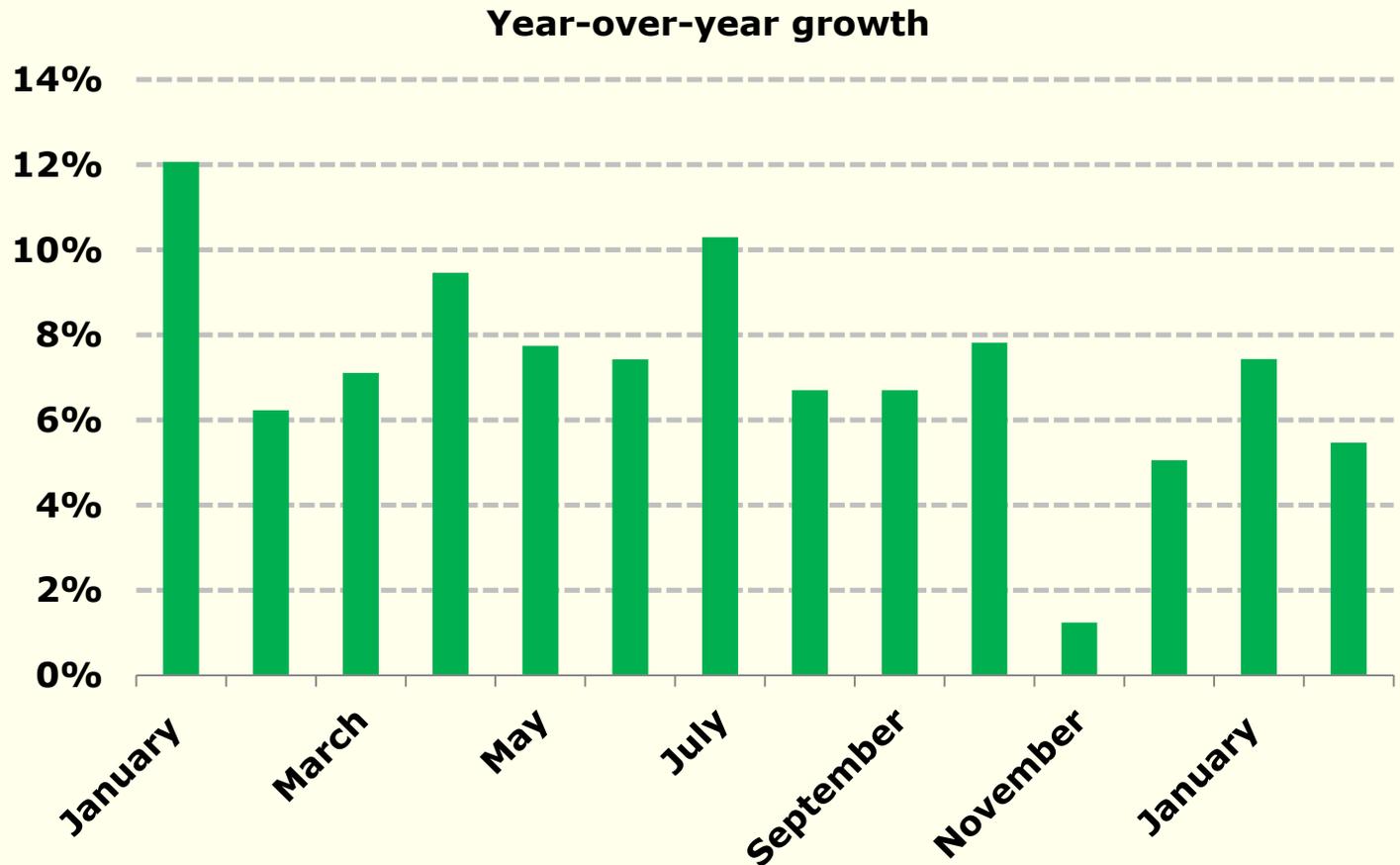
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated February 2014 activity

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Sales tax growth slowed in November but has picked up



Source: ERFC; Monthly data through February 2014 preliminary activity



Forecast changes: General Fund State, 2013-2015 Biennium

November Forecast:

\$32,982 million

\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$0	\$20	\$31,424	\$21
All other agencies	\$2	\$0	\$8	\$1,589	\$10
Total GF-S	\$2	\$0	\$29	\$33,013	\$30

* Detail may not add to total due to rounding

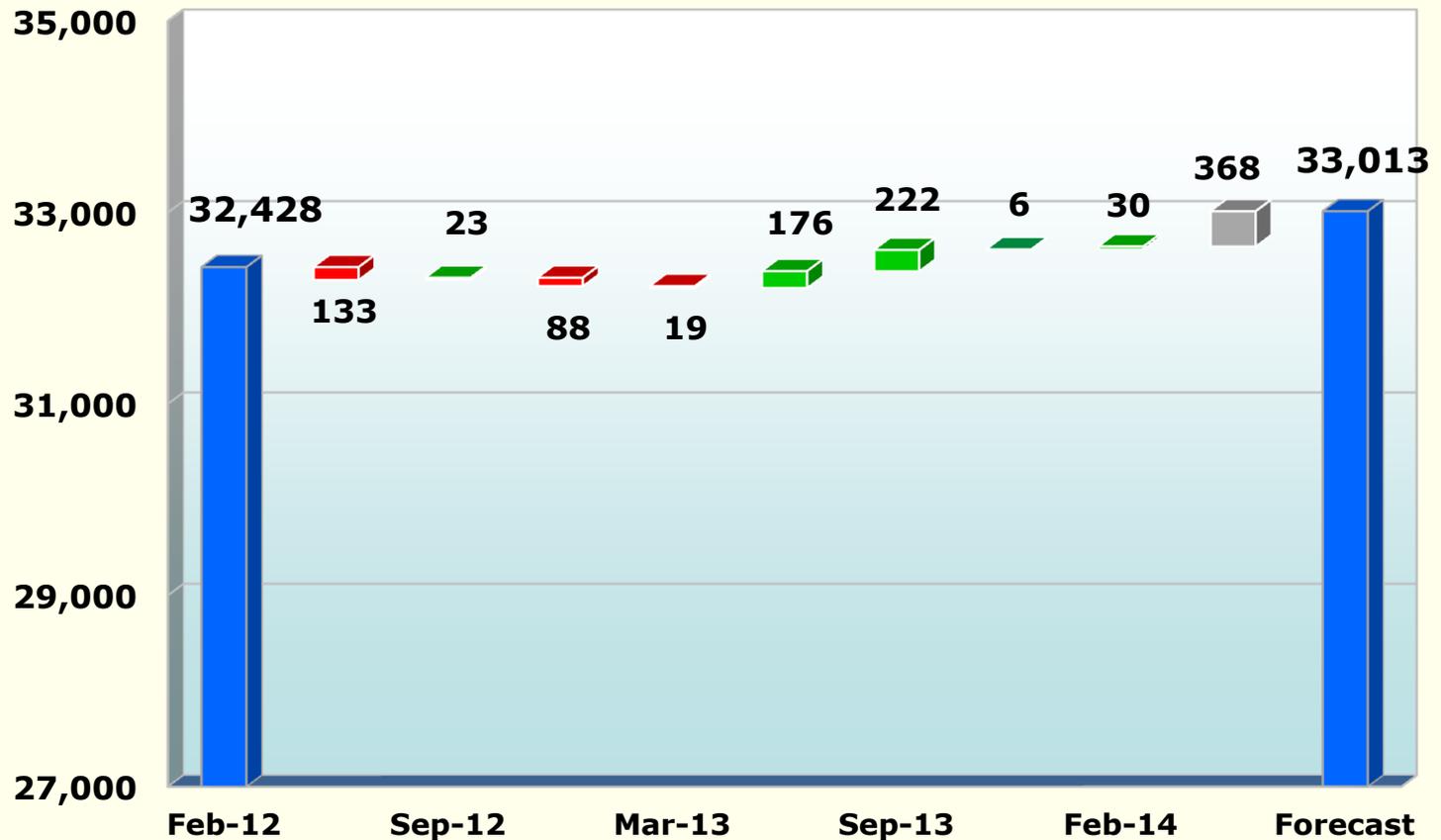


GF-S forecast revisions to the 2013-15 biennium

GF-S New Definition

Gray area
indicates total
noneconomic
change

\$Millions



Source: ERFC February 2012 – February 2014 forecasts



Forecast changes: General Fund State, 2015-2017 Biennium

November Forecast:

\$35,615 million

\$Millions	February Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$28	\$5	\$34,067	\$33
All other agencies	\$23	\$26	\$1,629	\$49
Total GF-S	\$51	\$31	\$35,697	\$82

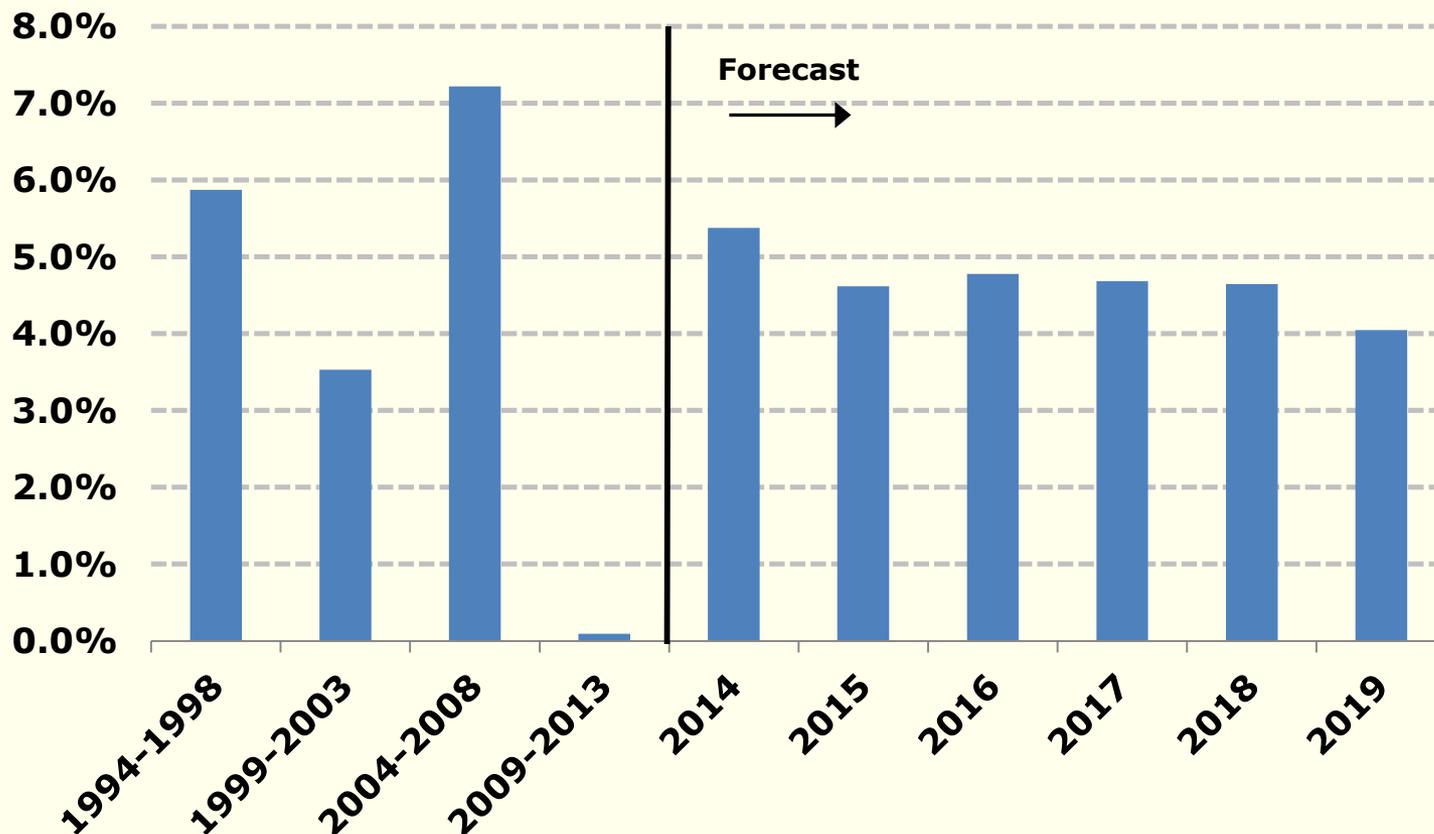
* Detail may not add to total due to rounding



Major revenue source growth assuming constant tax bases & rates

Hypothetical
growth for
sales, B&O,
use, and public
utility taxes
with current
tax rates and
tax bases

Annual average growth rates



Source: ERFC; Constant rate & base tax data, February 2014 forecast



Cannabis revenue estimates

Revenue estimates use assumptions based on research conducted by LCB contractor BOTEC Analysis

\$Millions

February Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$0	\$22.9	\$63.0
Retail sales tax and B&O	\$0	\$28.3	\$75.4
Total GF-S	\$0	\$51.2	\$138.5
Dedicated Non GF-S excise tax and licenses fees	\$0	\$110.8	\$285.5

* Detail may not add to total due to rounding
 Source: ERFC, BOTEC Analysis



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
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- GF-S revenues are expected to grow 7.7% between the 2011-13 and 2013-15 biennium and are expected to grow 8.1% between the 2013-15 and 2015-17 biennium
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



Questions



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

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