

# Economic & Revenue Outlook

Presented to  
Key Private Bank Northwest Nonprofit Forum

Steve Lerch  
Chief Economist & Executive Director

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Seattle, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL

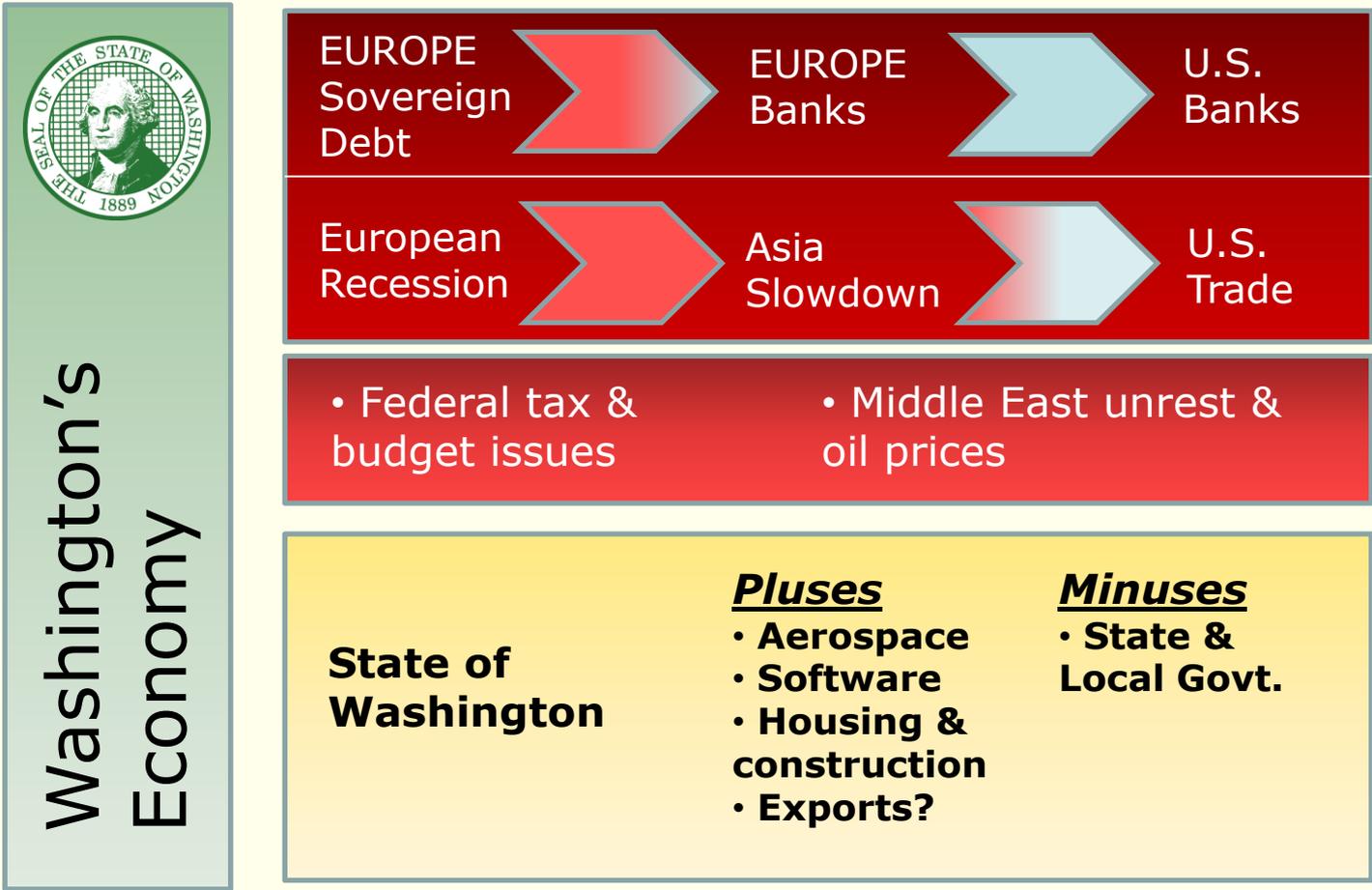


# Summary

- The updated economic forecast is slightly weaker than the November forecast, with lower U.S. GDP and Washington personal income but higher Washington housing permits
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about Europe, China, and Federal fiscal policy
- Given the uncertainty around implementation, no new revenue is associated with I-502 at this time
- This forecast increases expected GF-S revenue by \$59 million in the current biennium but decreases it by \$19 million in the 2013-15 biennium



# The state's risk matrix shows most risks from outside state

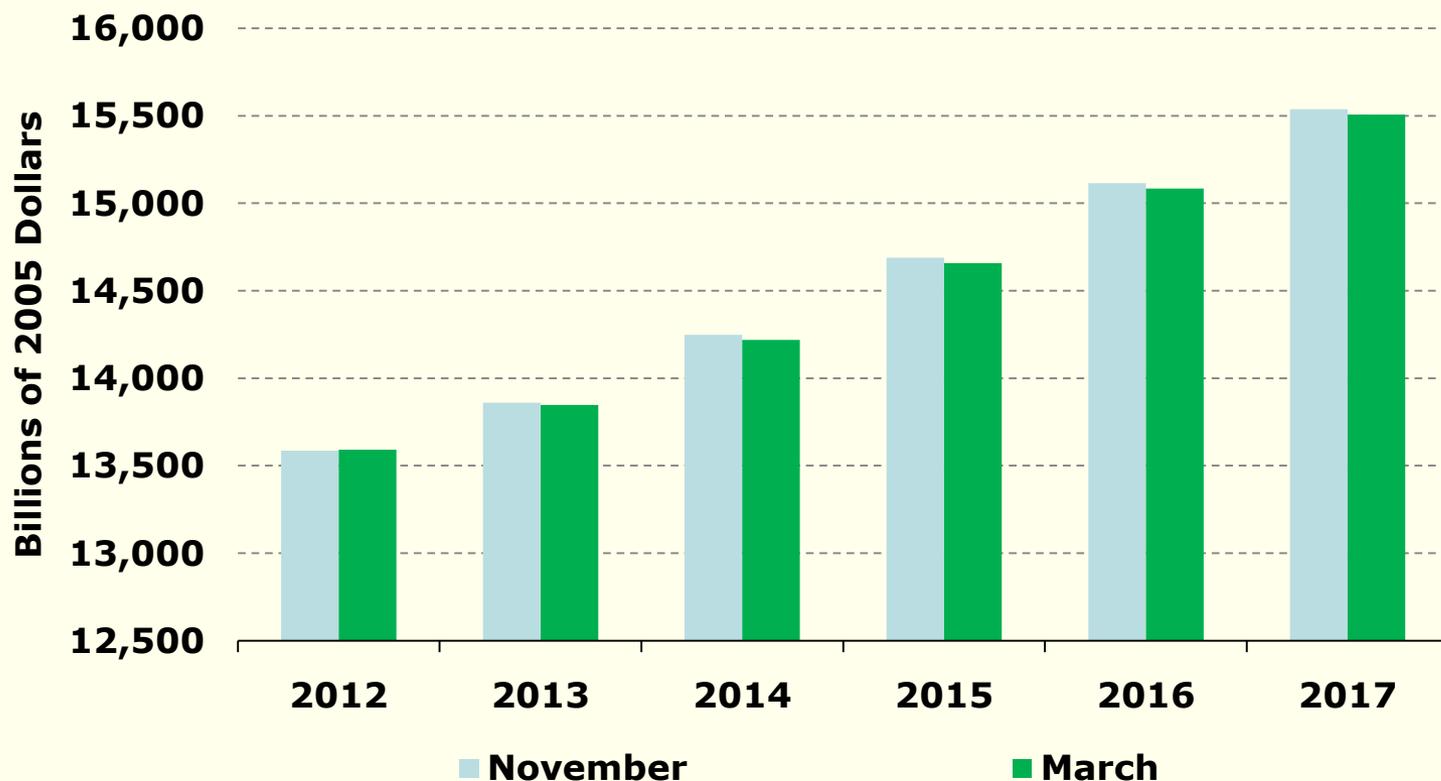


Source: ERFC



# U.S. GDP Forecast Slightly Lower

**Blue Chip Consensus Real GDP forecast**



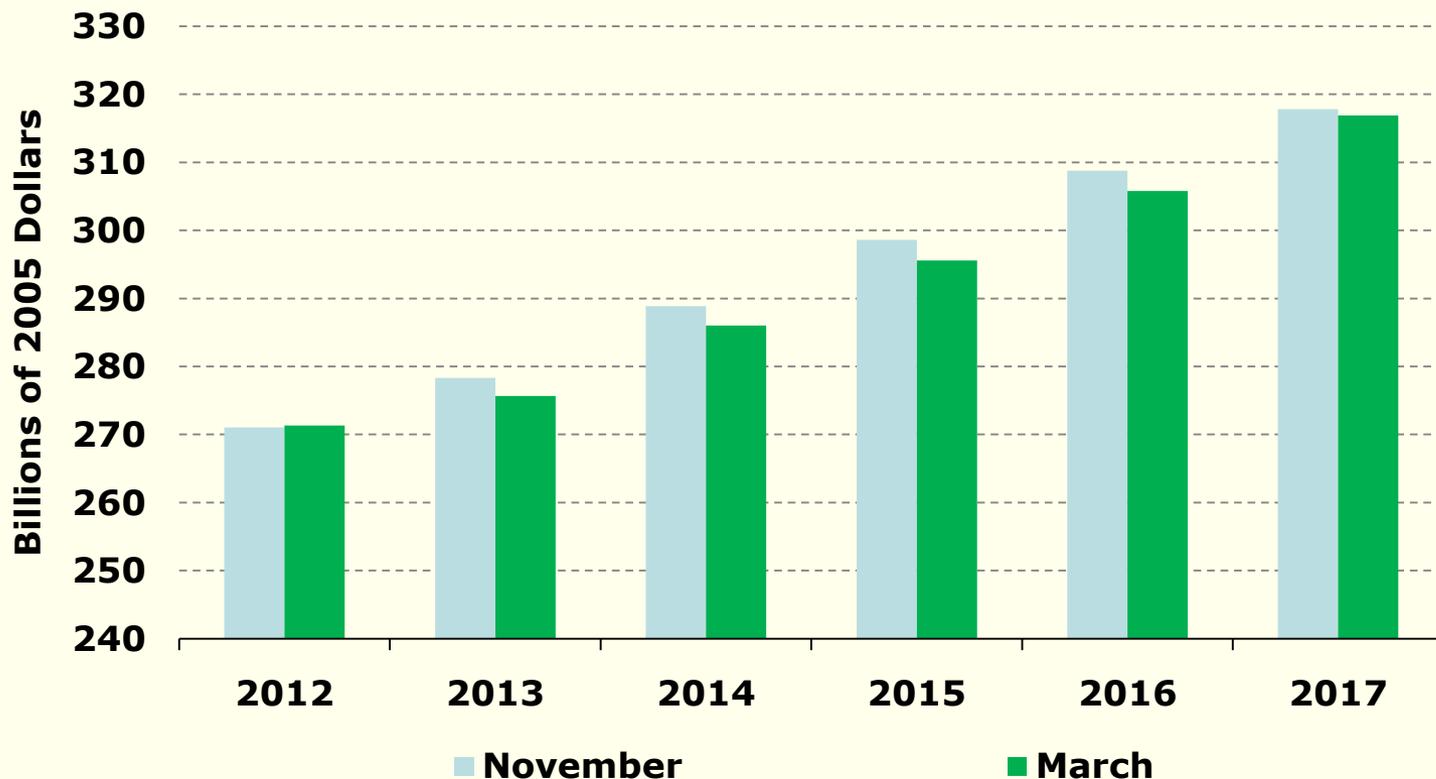
Source: BEA, Blue Chip Economic Indicators March 2013; historical data through 2012

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# WA Personal Income Forecast Slightly Lower

## Washington Real Personal Income

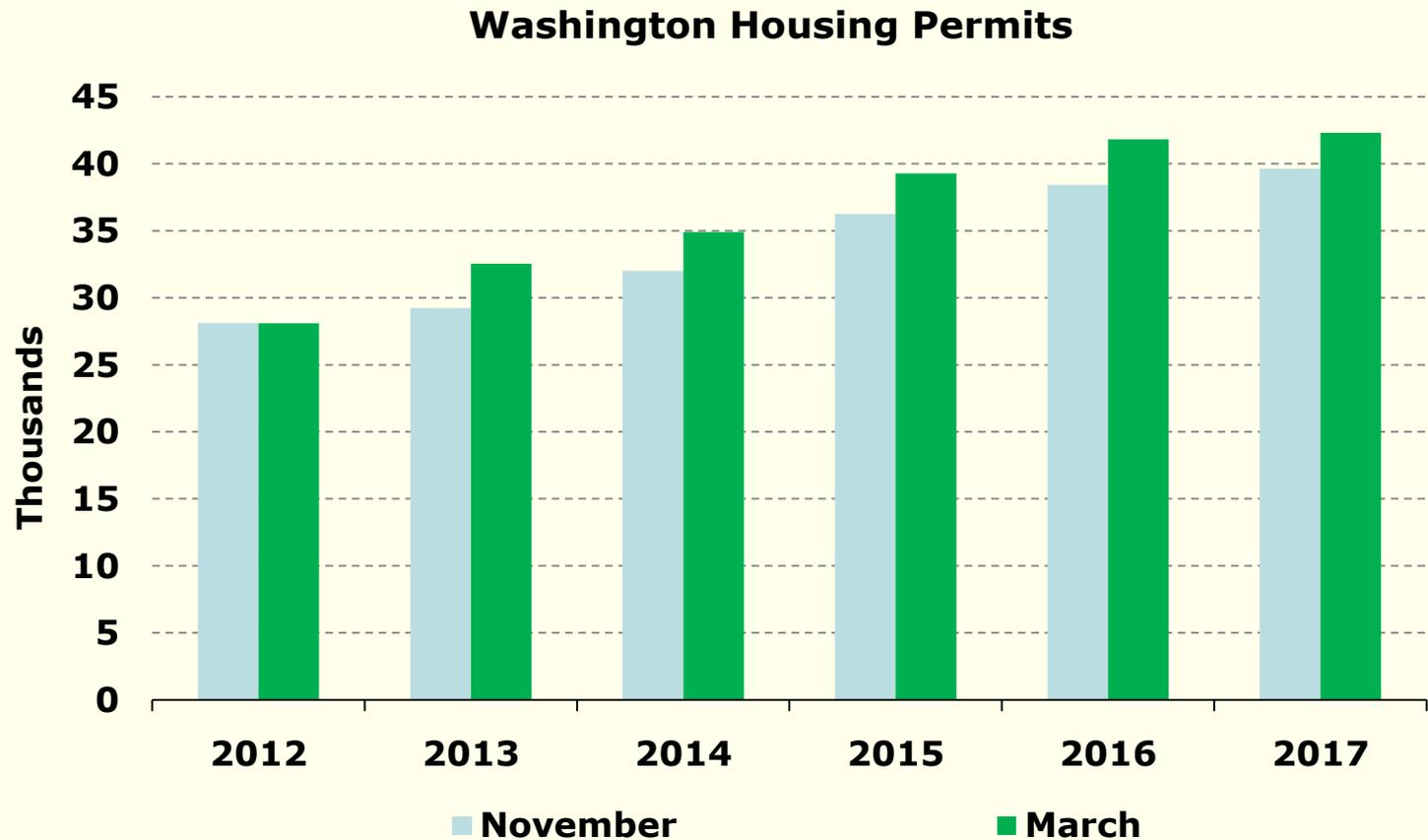


Source: BEA, ERFC March 2013 Forecast; historical data through 2012

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# Washington Housing Permits Forecast is Slightly Higher



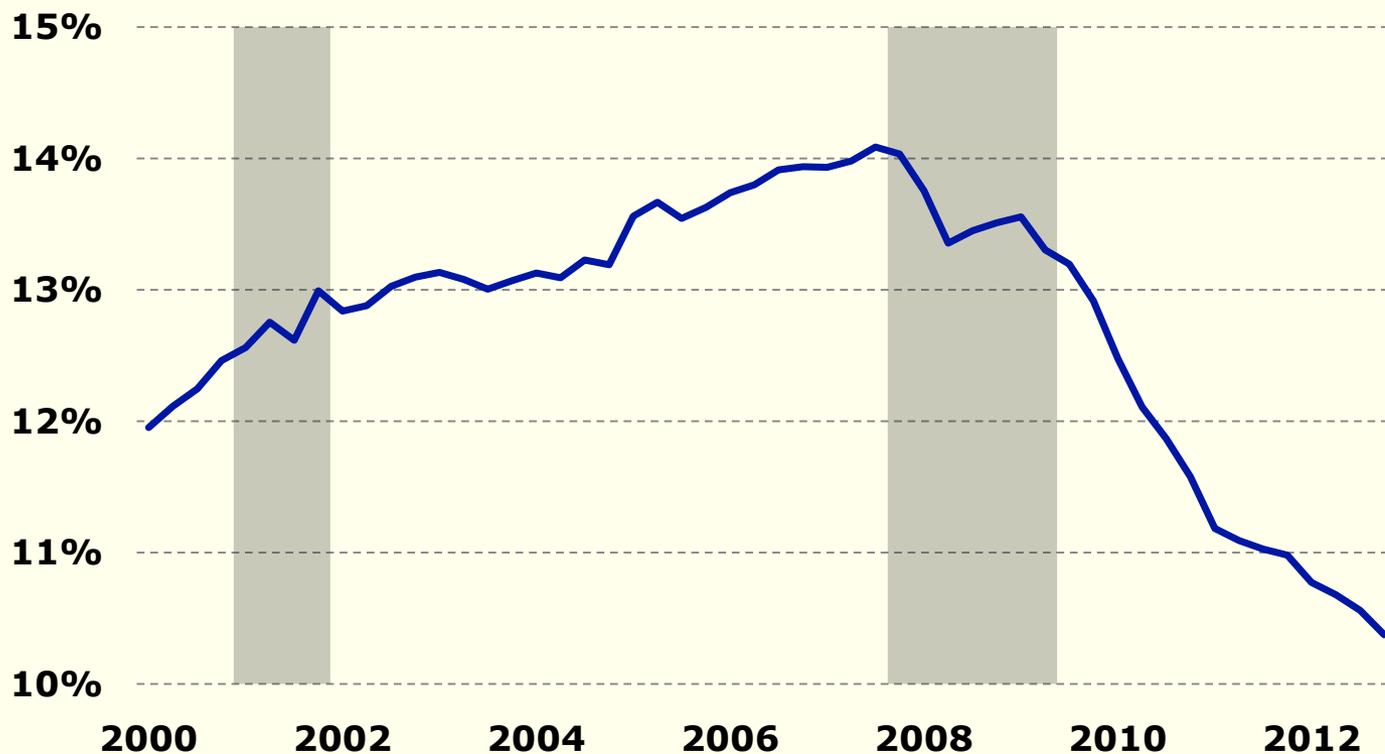
Source: ERFC March 2013 forecast; historical data through 2012

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# Household debt relative to income has declined

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



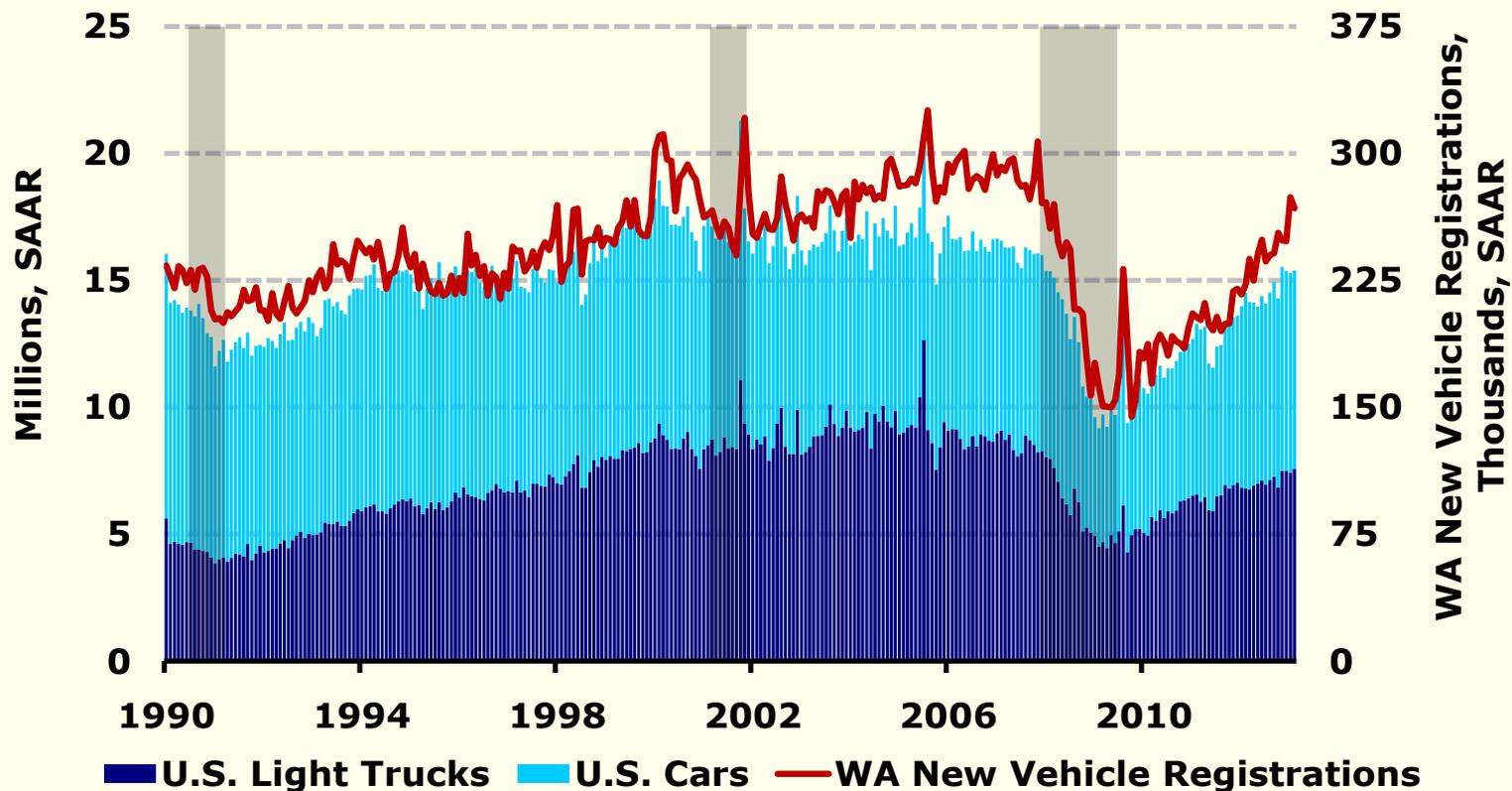
Source: Federal Reserve Board, data through 2012Q4

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# Vehicle sales continue their upward trend

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



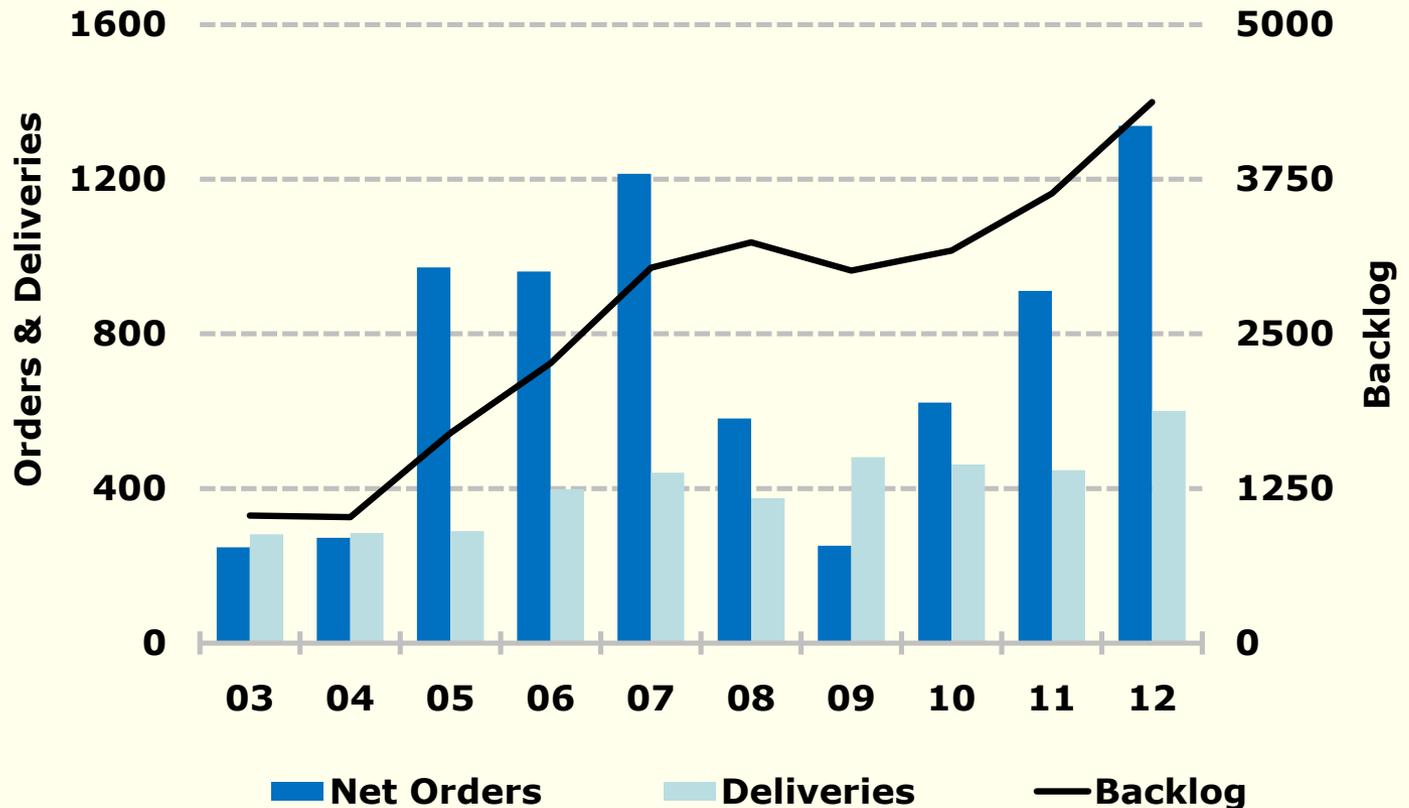
Source: Autodata Corporation, WA DOL; data through February 2013



# Boeing has 7 years of commercial orders on its books

The 787 accounts for 18% of the backlog

Excludes the military's new refueling tanker

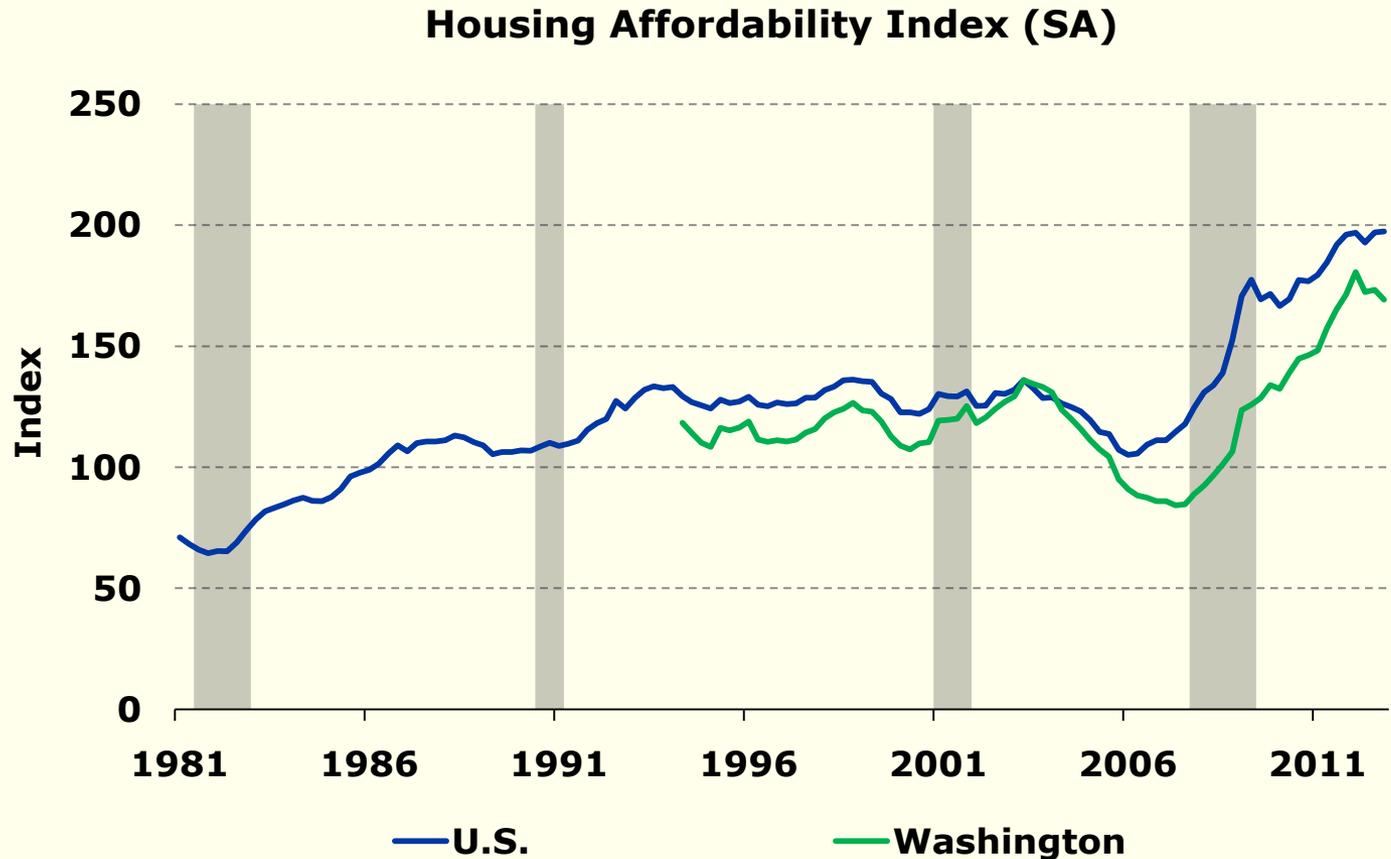


Source: Boeing, data through December 2012



# 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



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

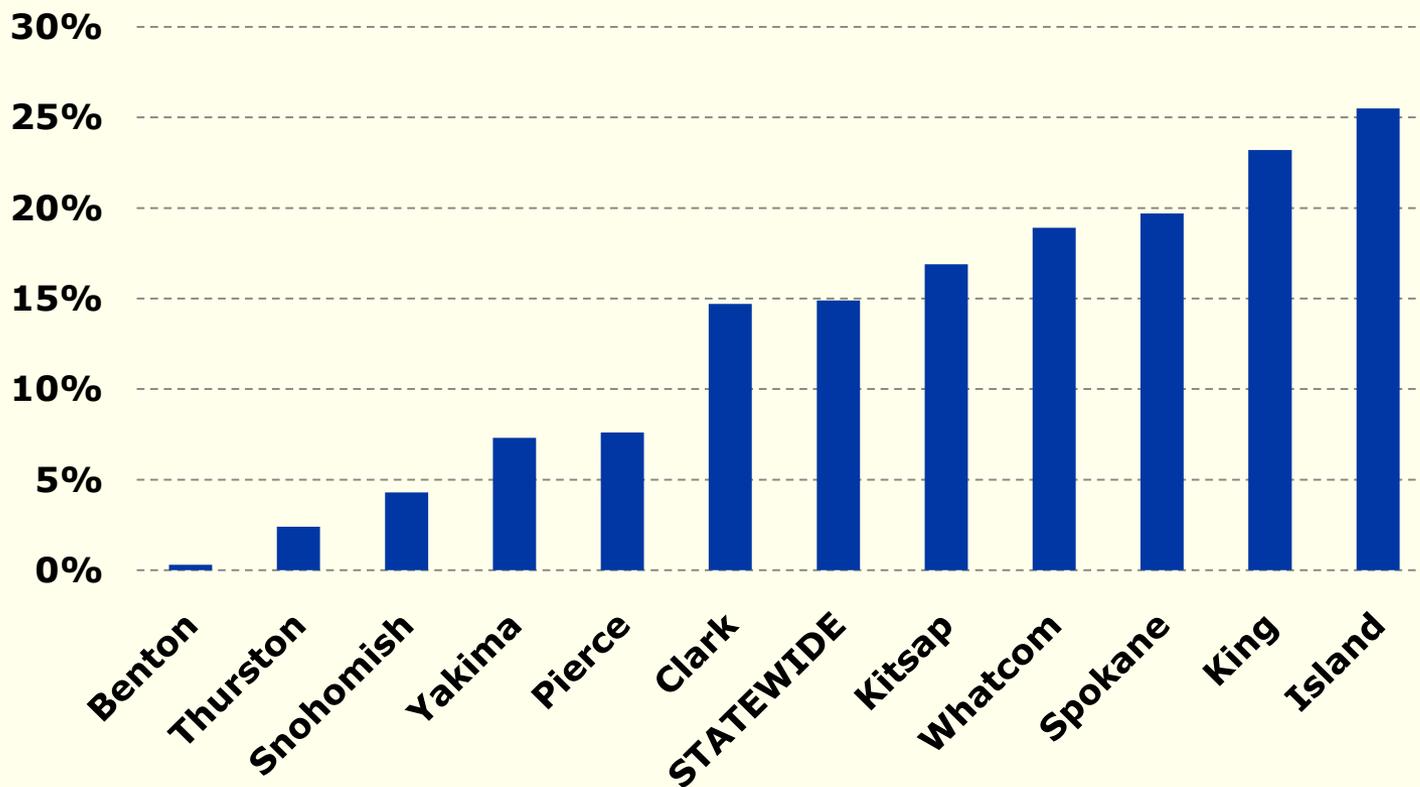
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# Strong growth in existing home sales statewide

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

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



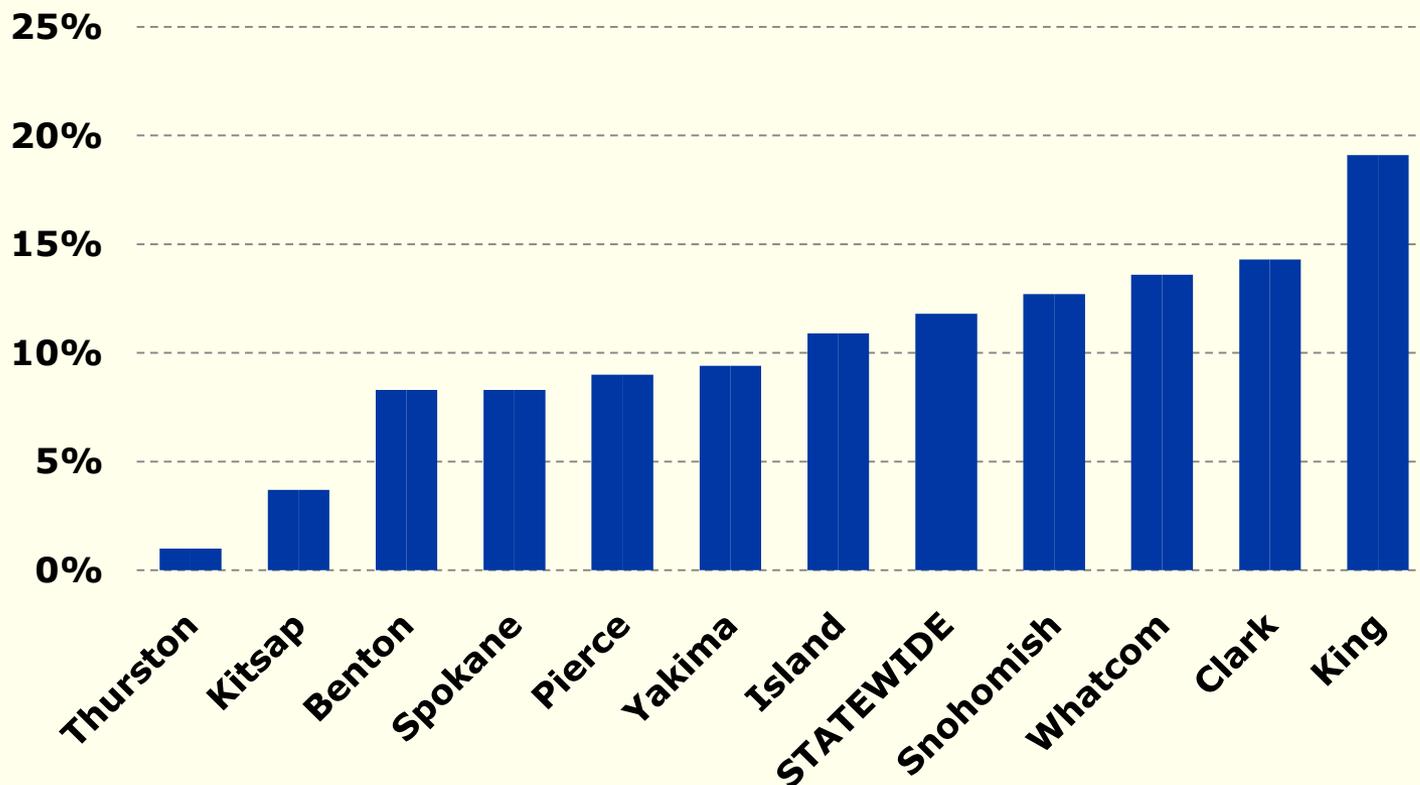
Source: WA Center for Real Estate Research, ERFC; 2012Q4 data



# Considerable variation in home price changes across state

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

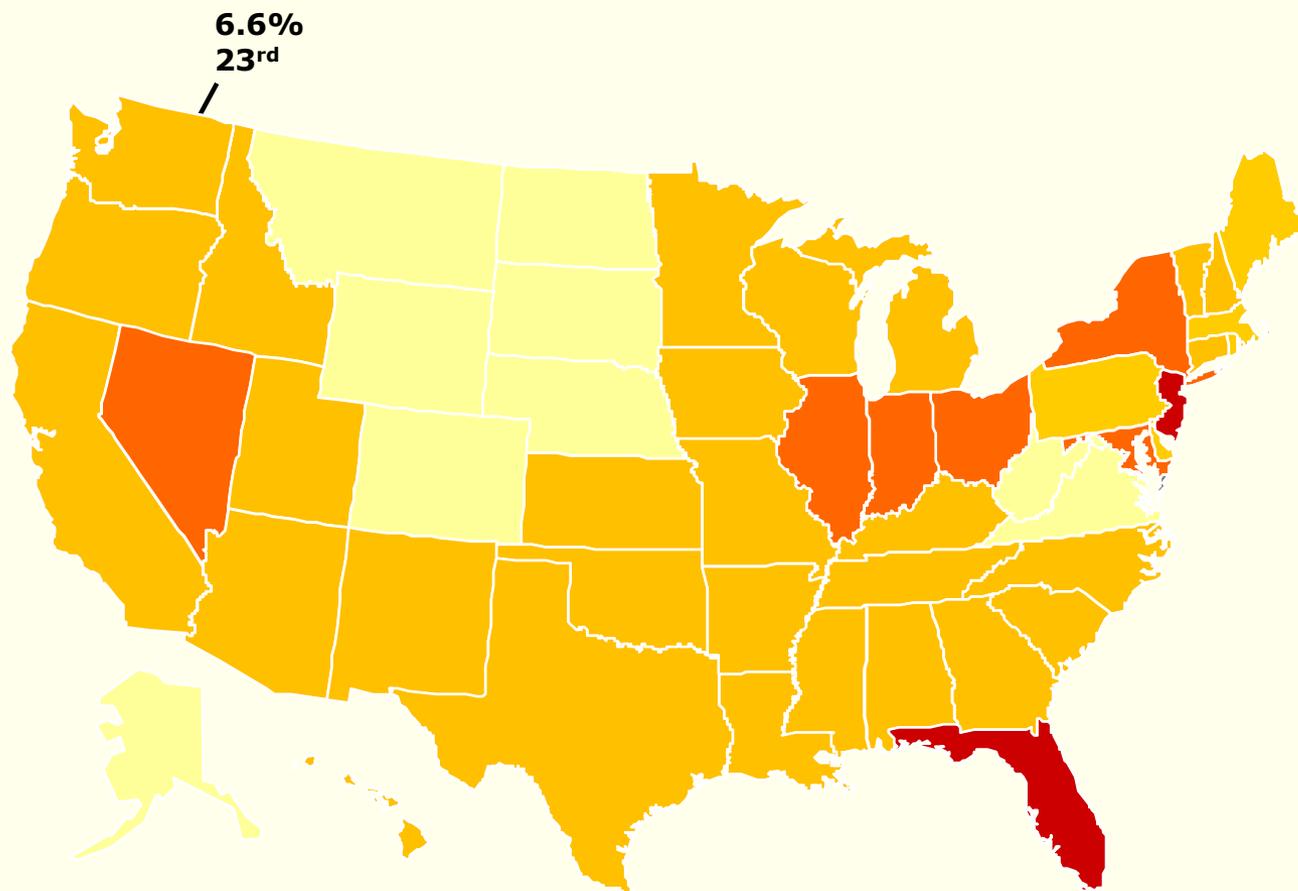
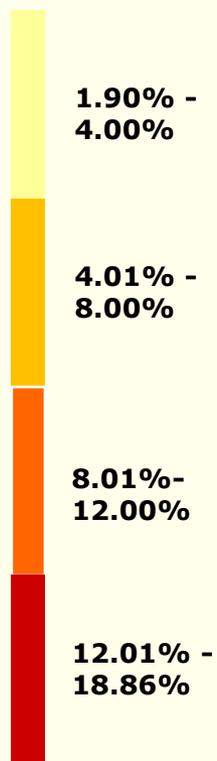
**Median Home Price  
Year over Year % Change\***



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



# Percentage of loans that are 90 days past due or in foreclosure....



Source: Mortgage Bankers Association, data through fourth quarter 2011

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# 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

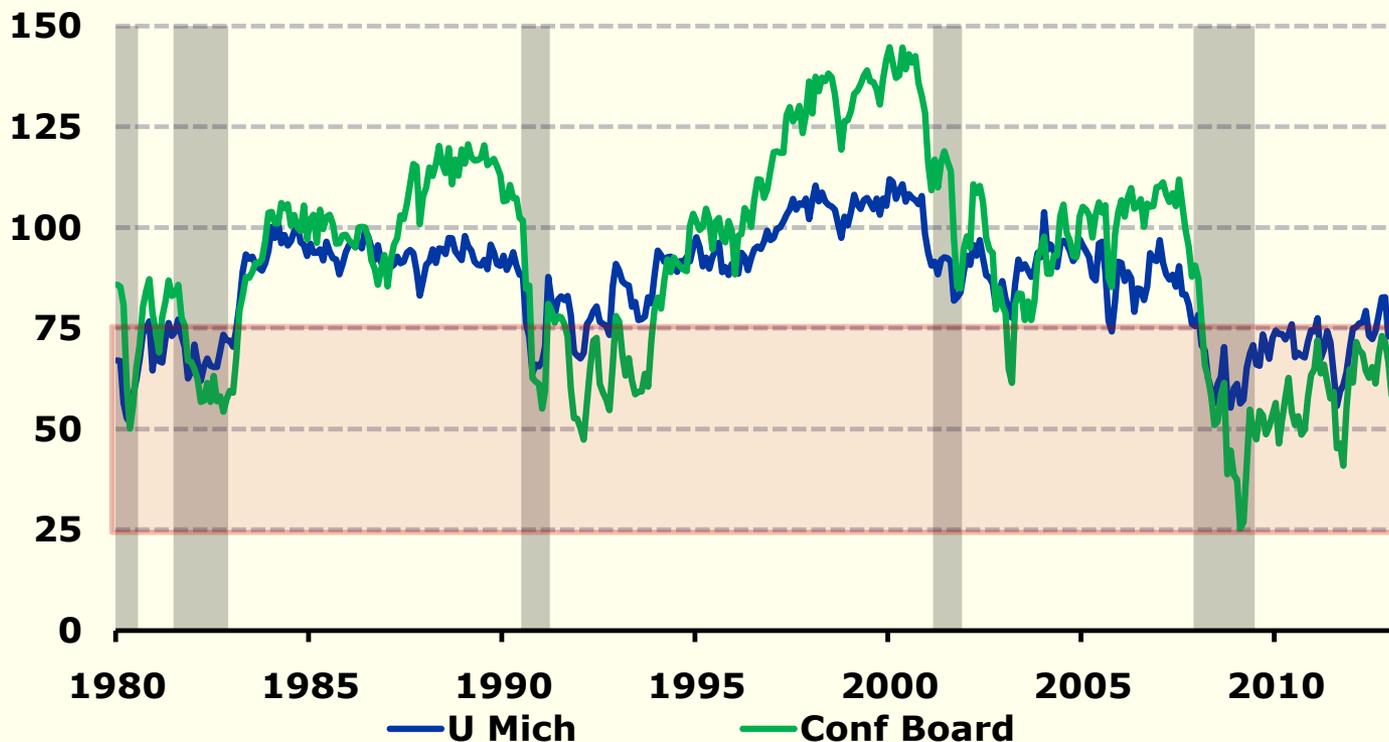


# Consumer confidence remains fragile

## Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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

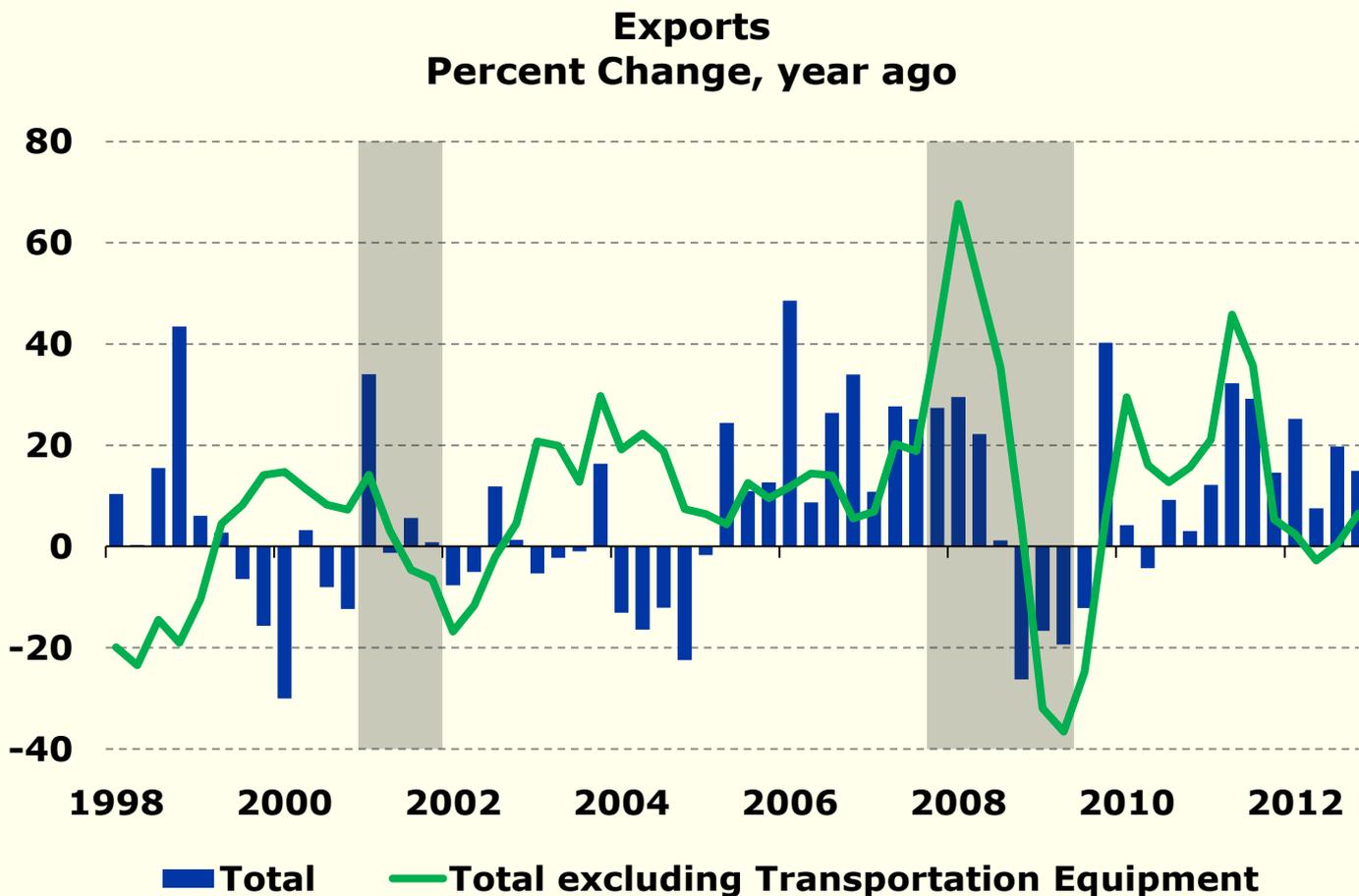
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# WA export growth has slowed

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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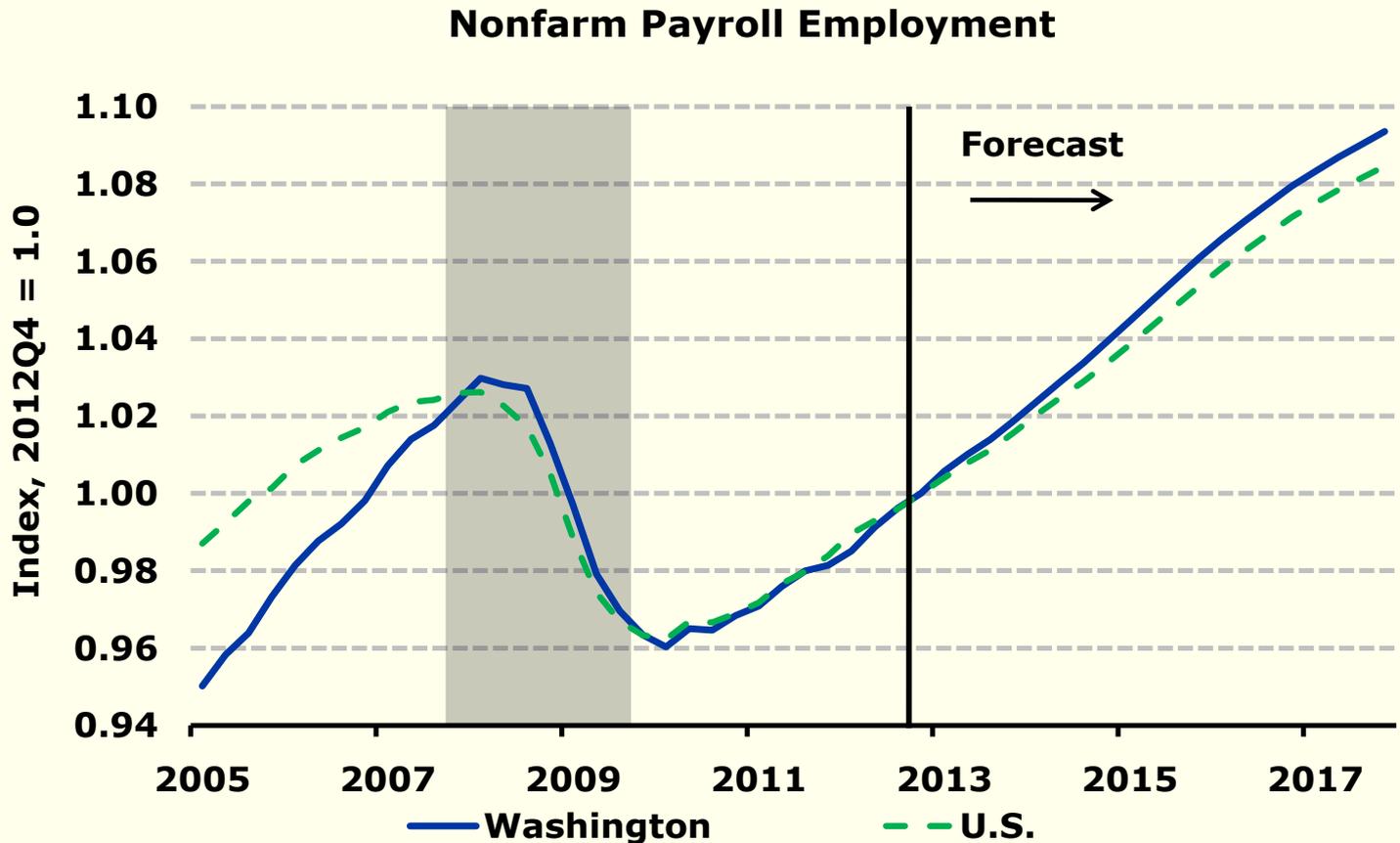


# WA employment will recover slightly faster than the U.S.

Date of regaining peak:

**WA:**  
2014Q3

**U.S.:**  
2014Q3



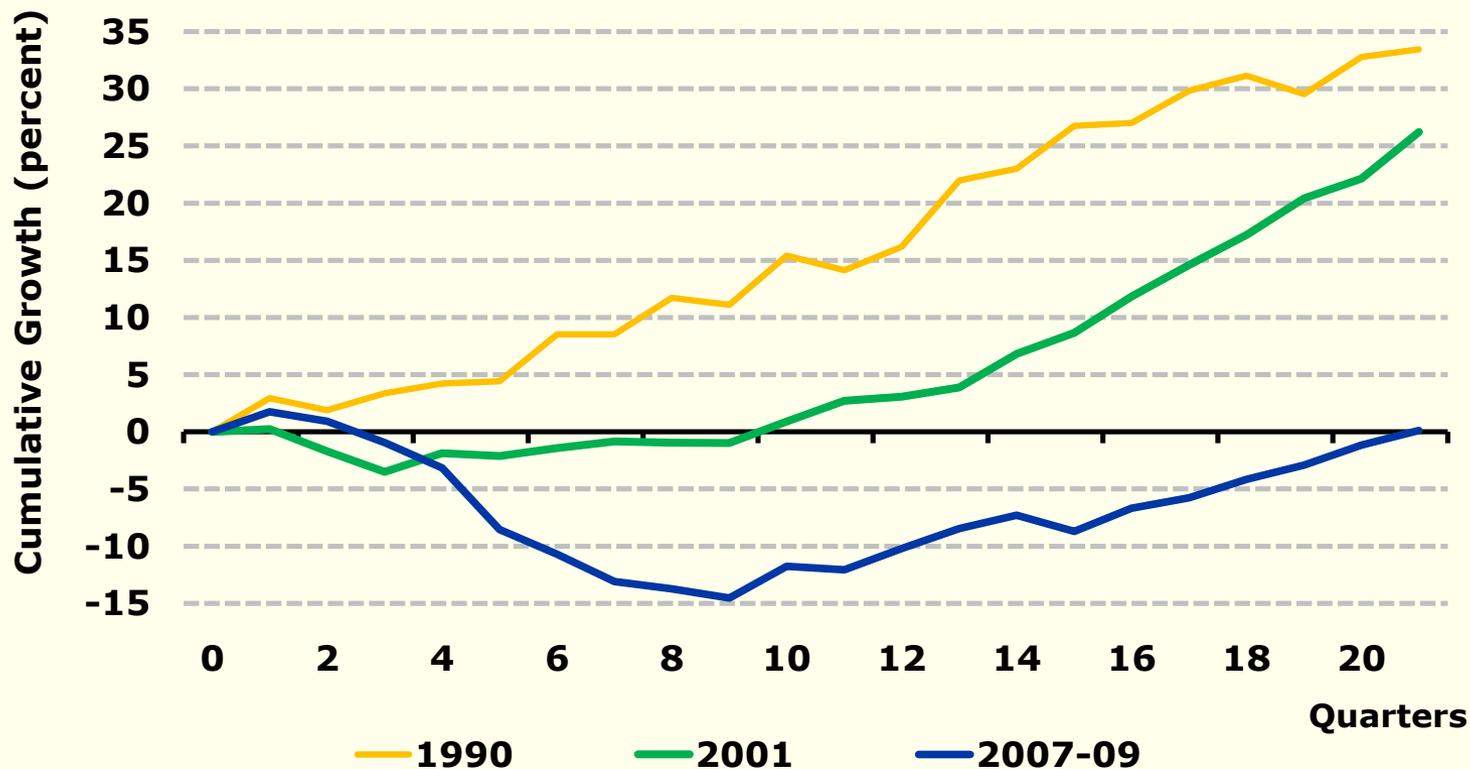
Source: ERFC March 2013 Preliminary forecast; historical data through 2012Q4

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# Revenue collections have been weak compared to past recoveries

## Revenue Act Collections after Business Cycle Peak



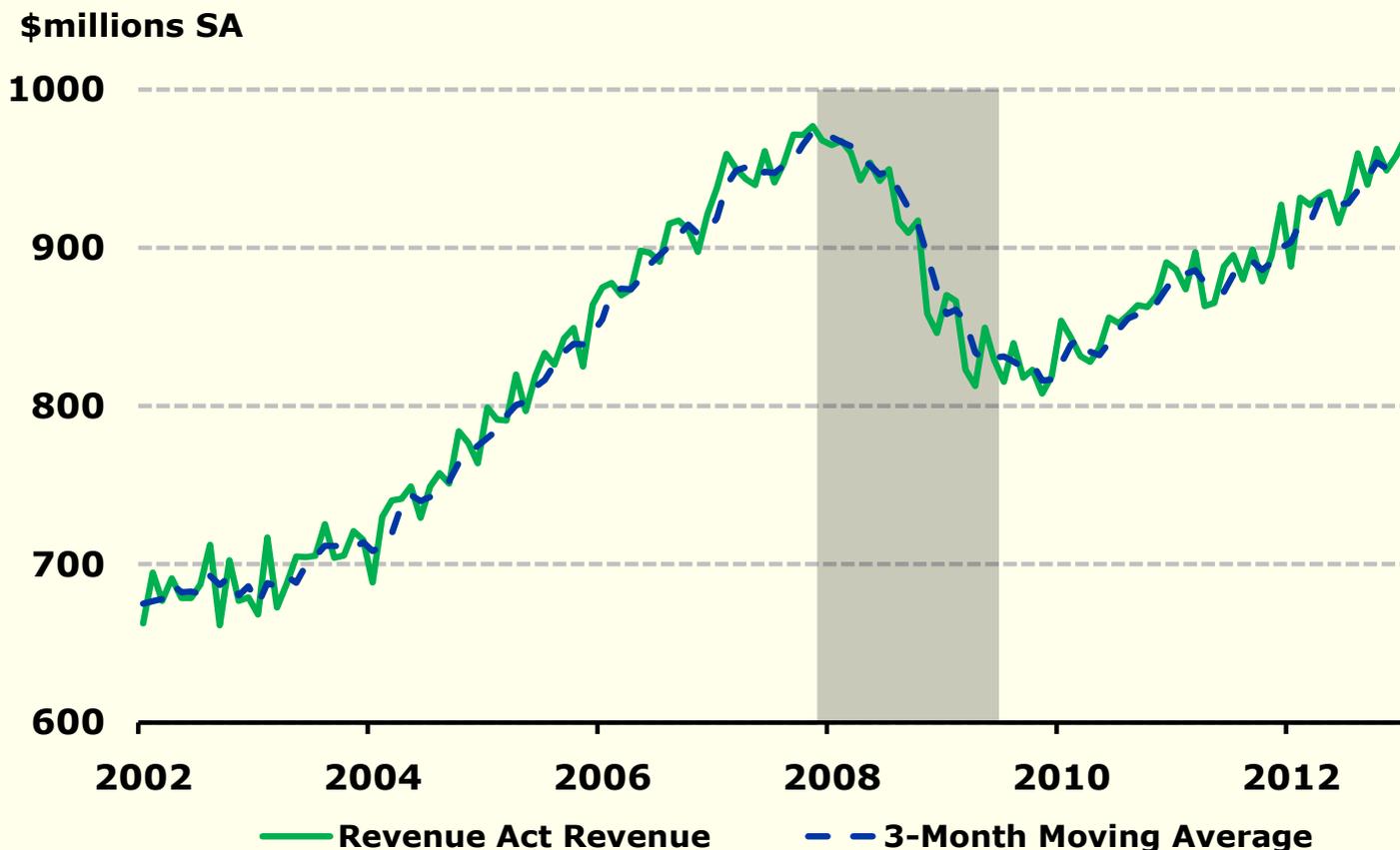
Source: ERFC; data through 2012 Q4

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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

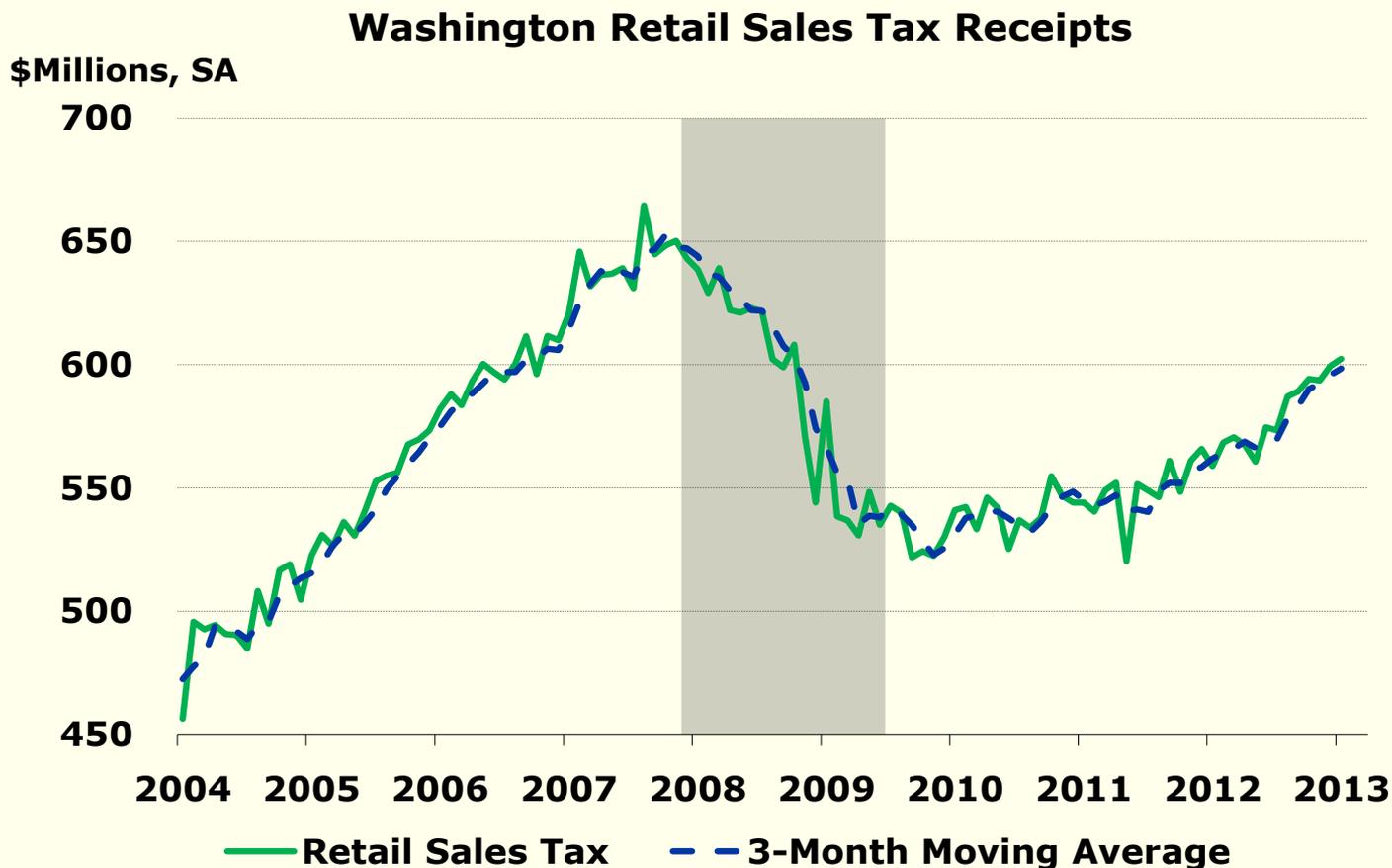
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# WA sales tax growth improved in the fourth quarter of 2012

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



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

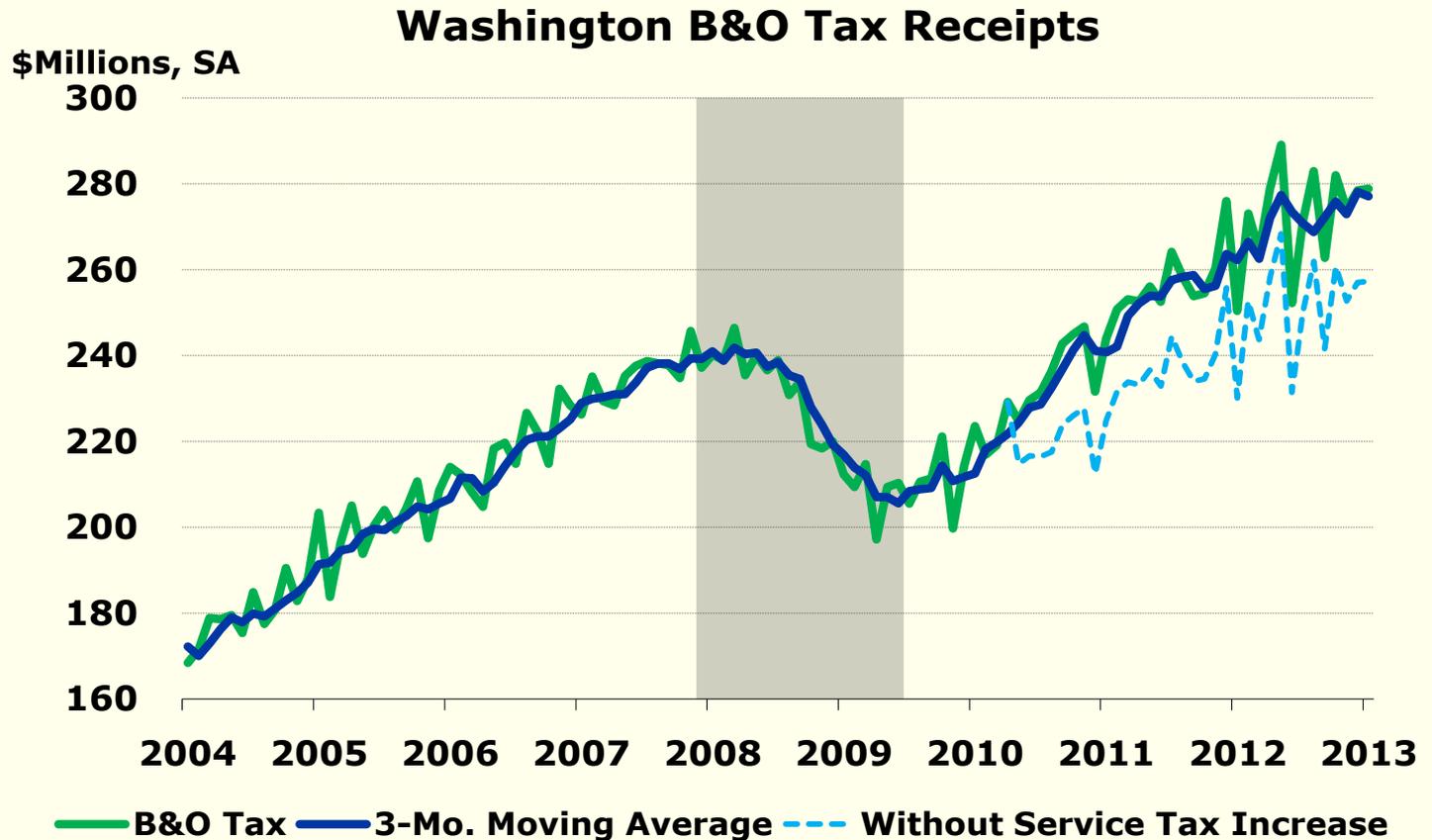
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# B&O tax growth also improved in the fourth quarter of 2012

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



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

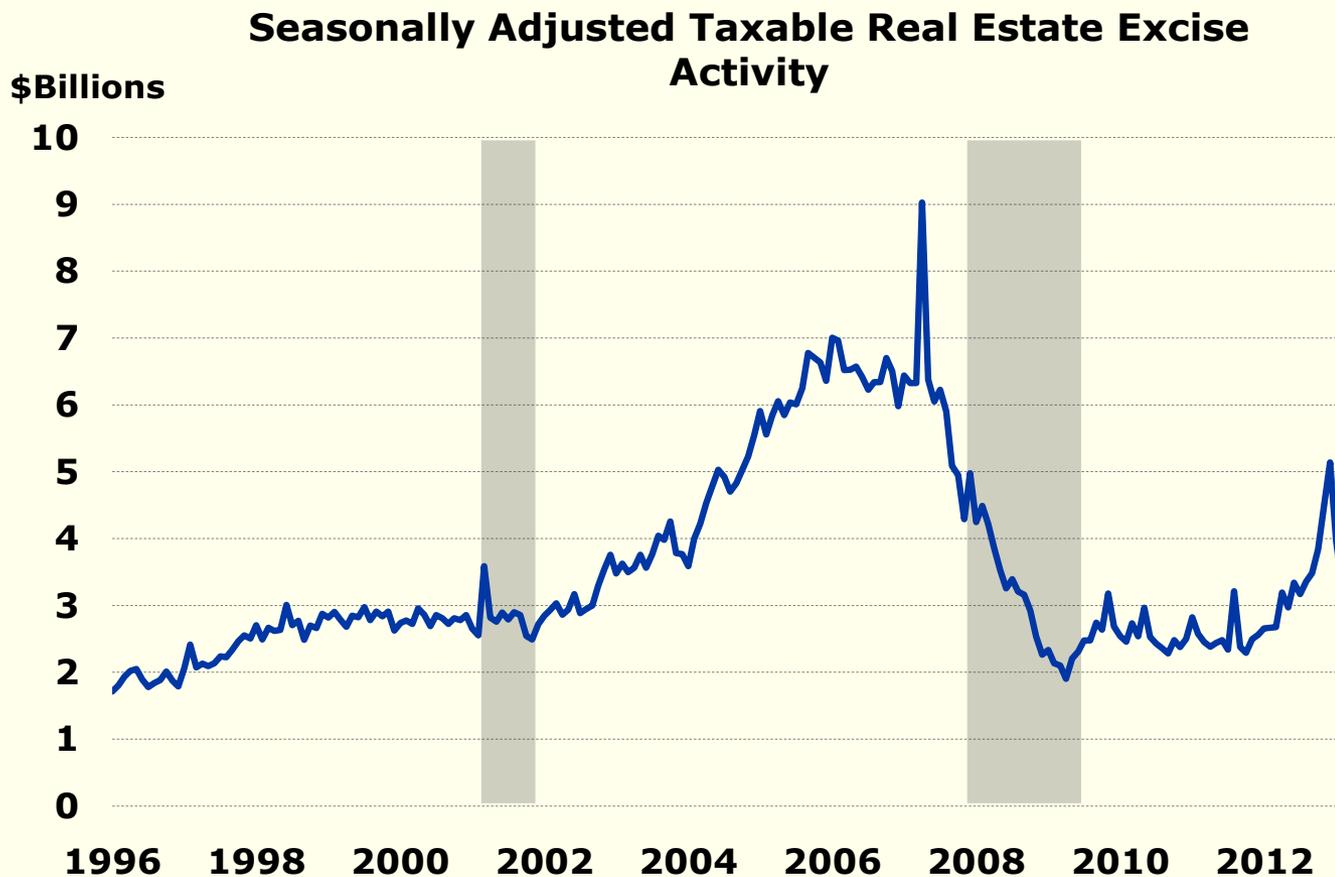
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# REET activity returning to prior trend after end-of-year rush

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.

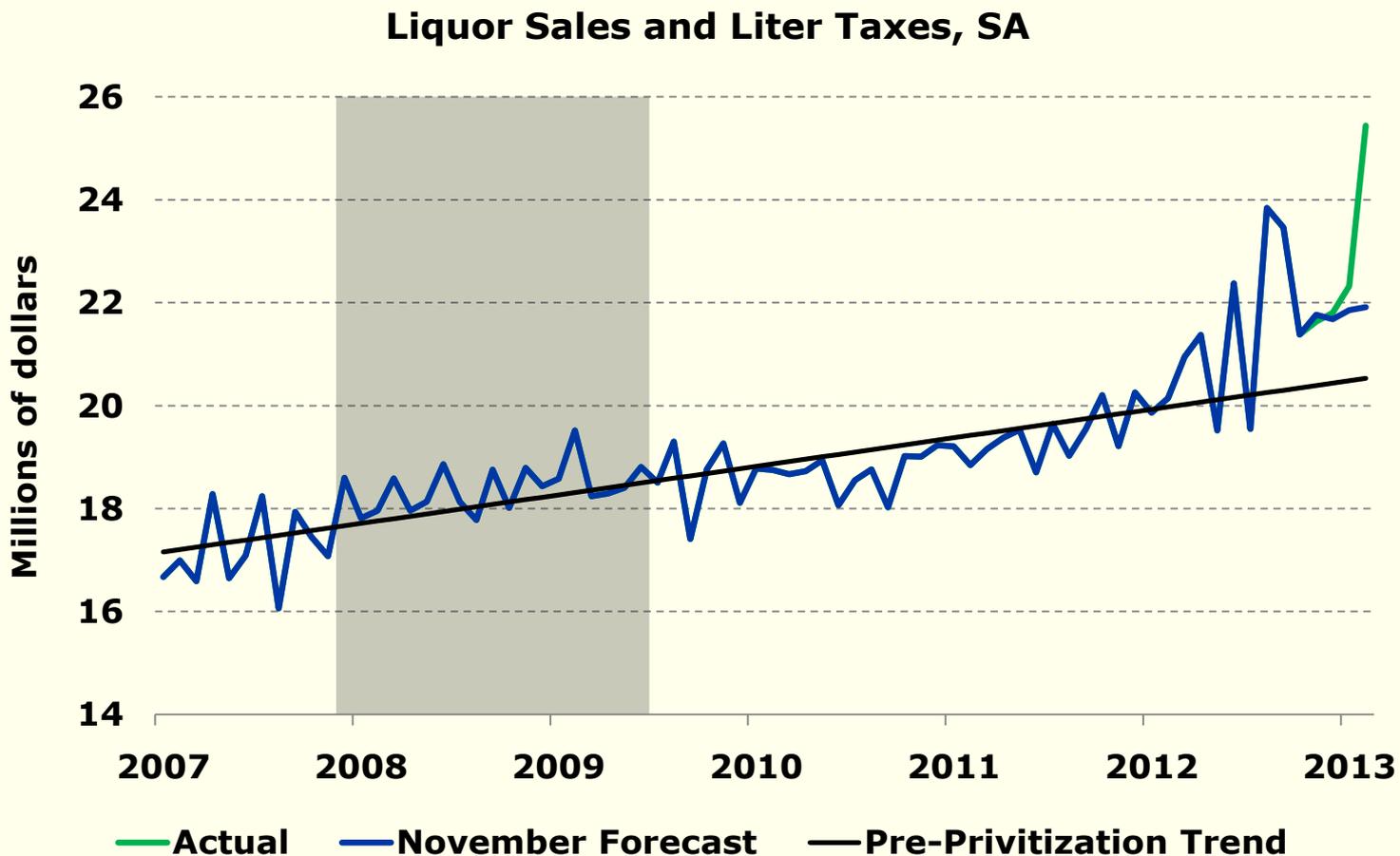


Source: ERFC; Monthly data through February 2013 preliminary



# 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>

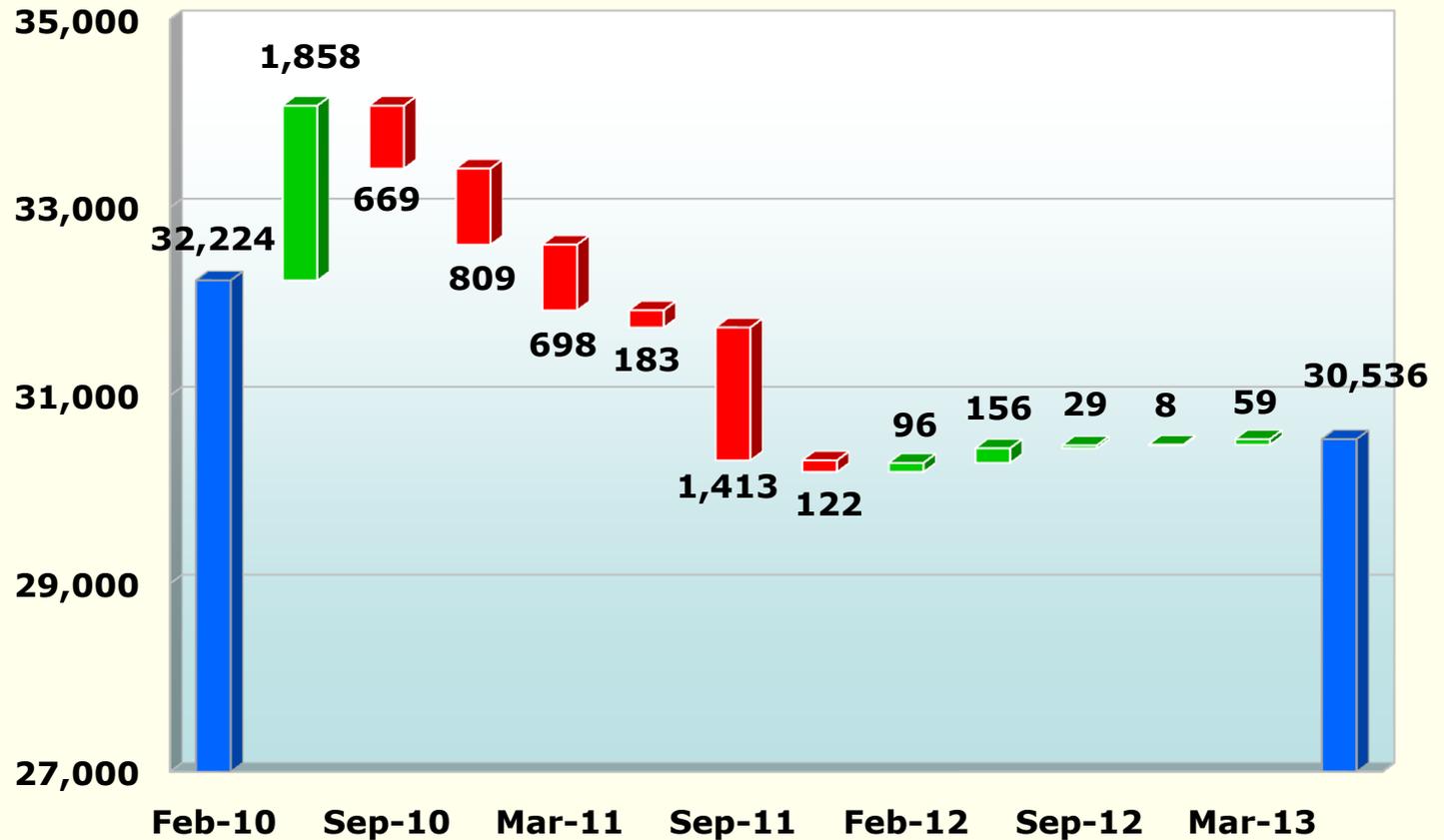
\* Detail may not add to total due to rounding



# 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**

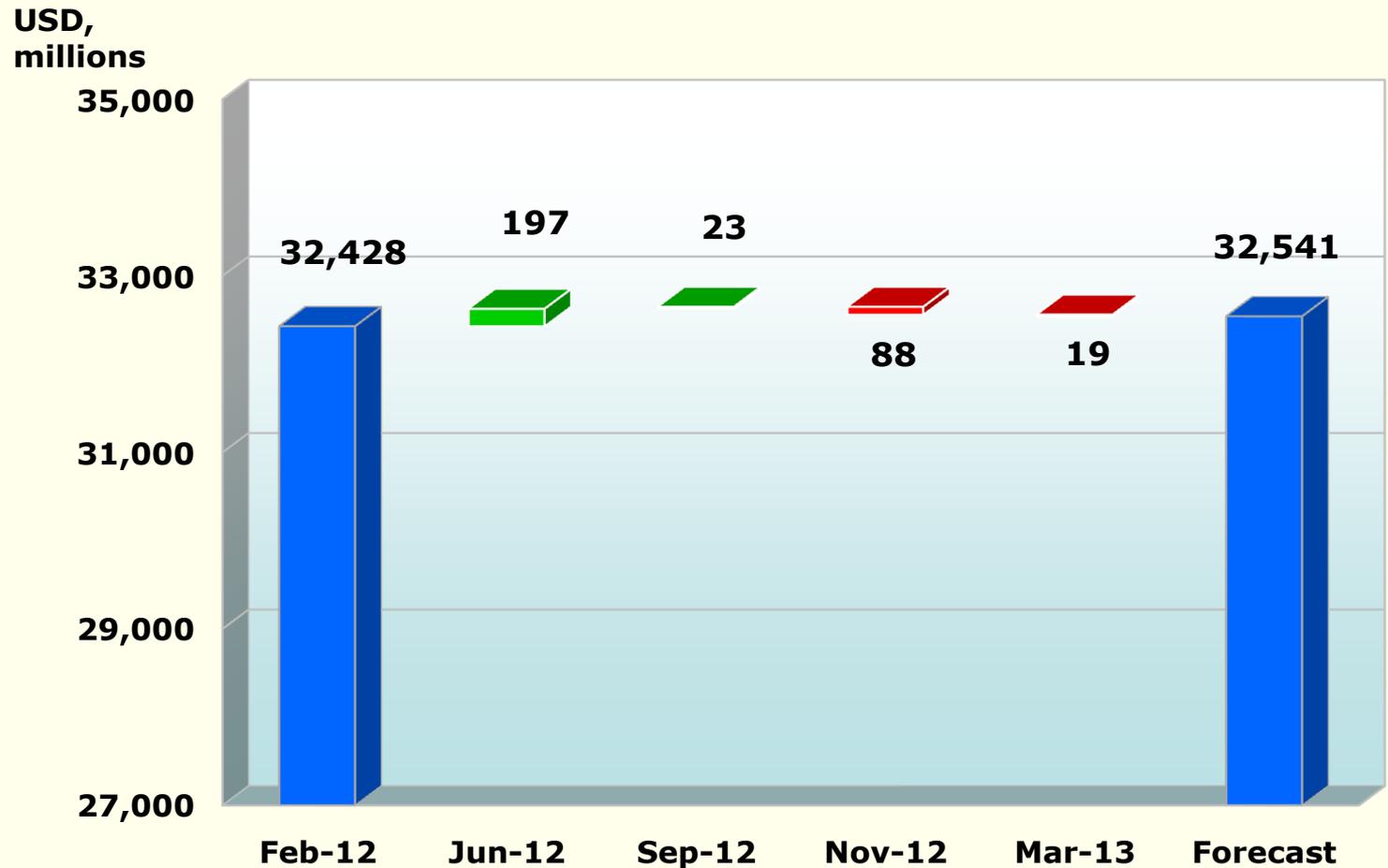
USD millions	March Forecast			Total Change*
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$0	(\$38)	\$30,963	(\$38)
All other agencies	\$0	\$18	\$1,578	\$18
<b>Total GF-S</b>	<b>\$0</b>	<b>(\$19)</b>	<b>\$32,541</b>	<b>(\$19)</b>

\* Detail may not add to total due to rounding



# Forecast revisions to the 2013-15 biennium

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



Source: ERFC March 2013 forecast

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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>



# 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



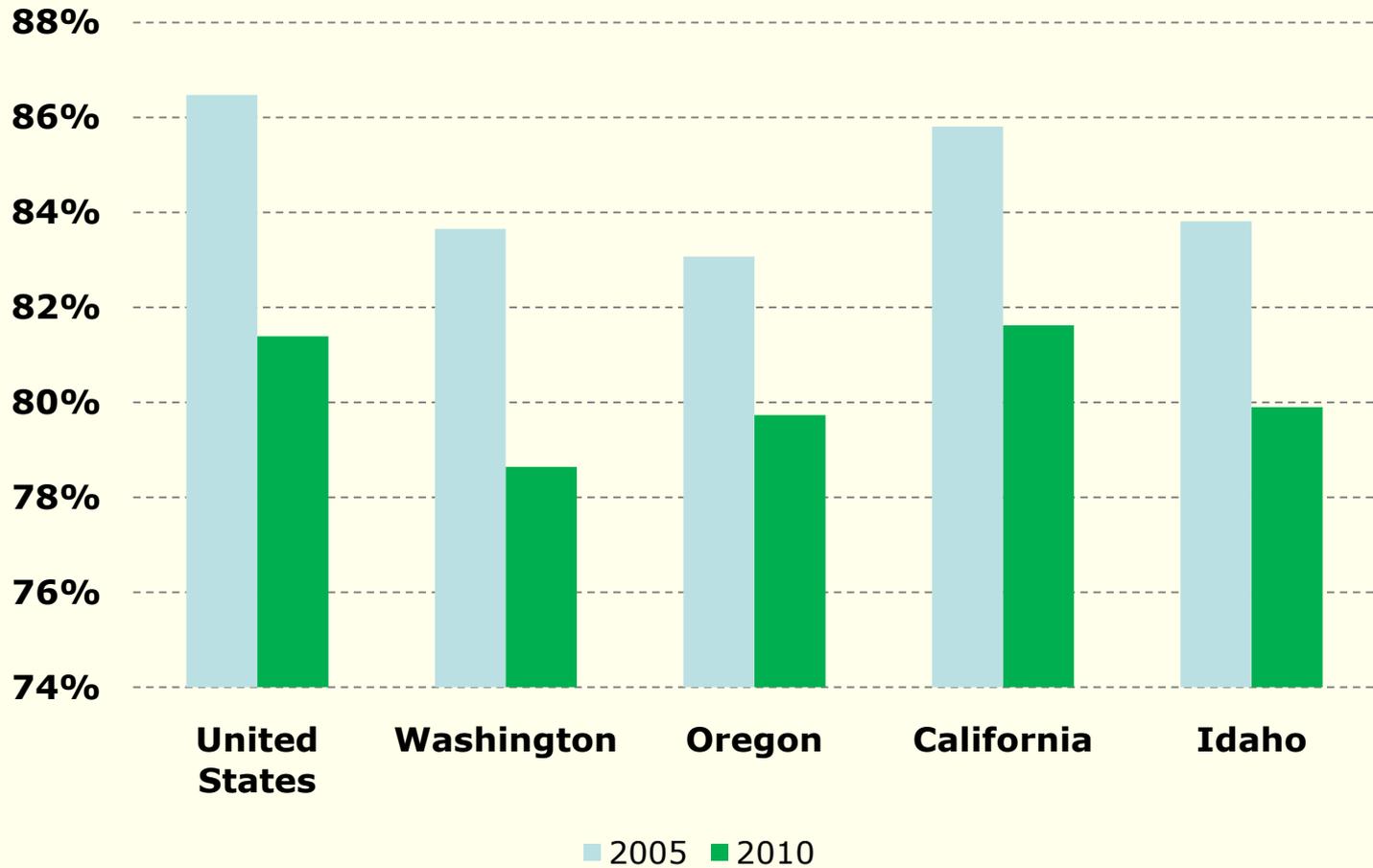
# Fundraising Effectiveness Project, 2011

- For every \$5.35 that respondent organizations raised in gift dollars in 2010, \$5.54 was lost through attrition
- Gains of 58.6 percent in number of donors from 2009-2010 were offset by losses of 56.9 percent
- Growth-in-giving performance varies according to organization size
  - Organizations raising \$500,000 or more had a median 8 percent net gain.
  - Organizations raising \$100,000 to \$500,000 had a median 2.3 percent net gain.
  - Organizations in the under \$100,000 groups had a median net loss of -12.2 percent.

Source: National Center for Charitable Statistics, 2009-2010 fundraising data



# Percent of itemized returns with charitable contributions

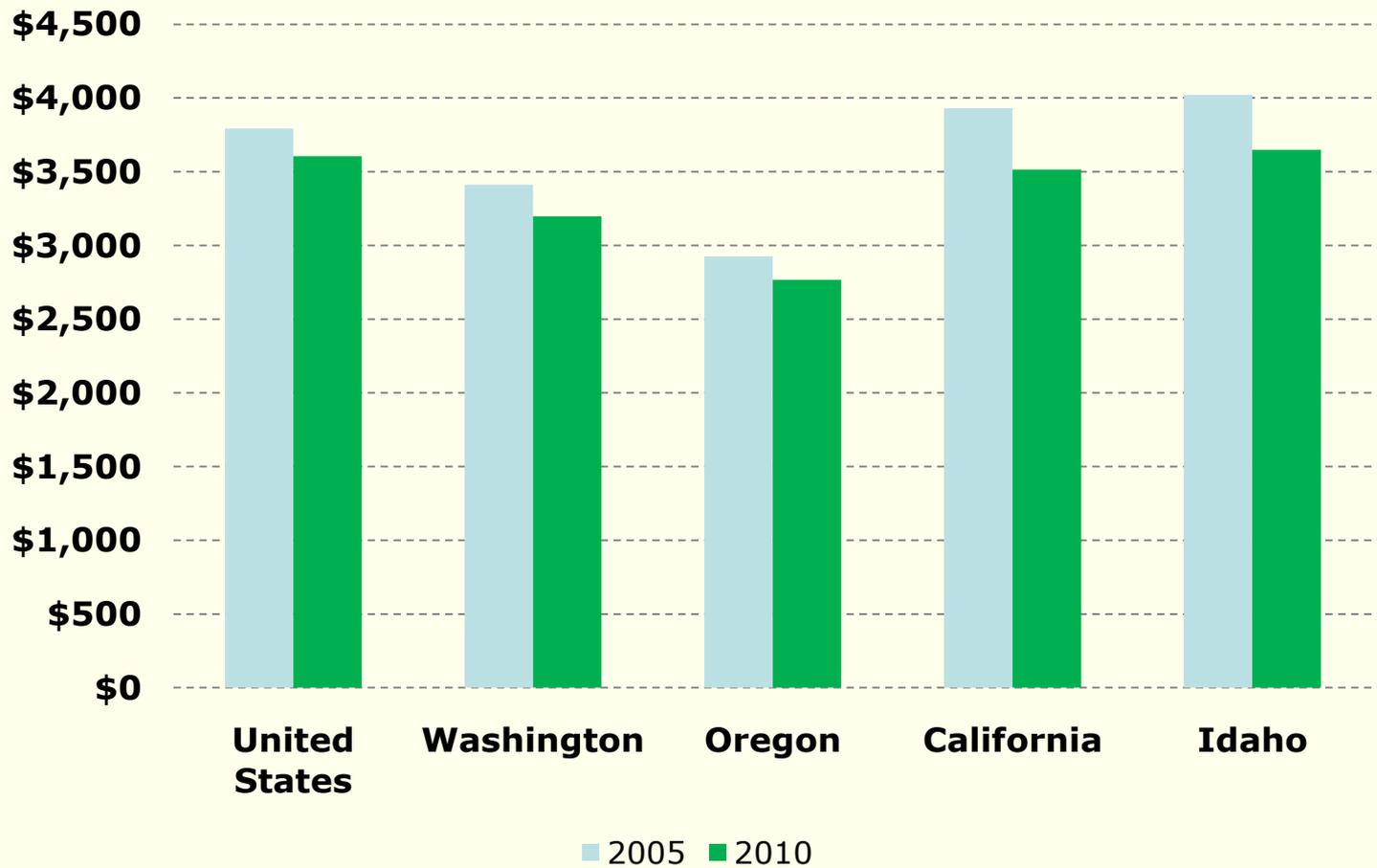


Source: National Center for Charitable Statistics, Internal Revenue Service, ERFC

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# Average charitable contributions, itemized returns



Source: National Center for Charitable Statistics, Internal Revenue Service, ERFC

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# Questions



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

**[www.erfc.wa.gov](http://www.erfc.wa.gov)  
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