

Economic & Revenue Outlook

Presented to
Key Private Bank Northwest Nonprofit Forum

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

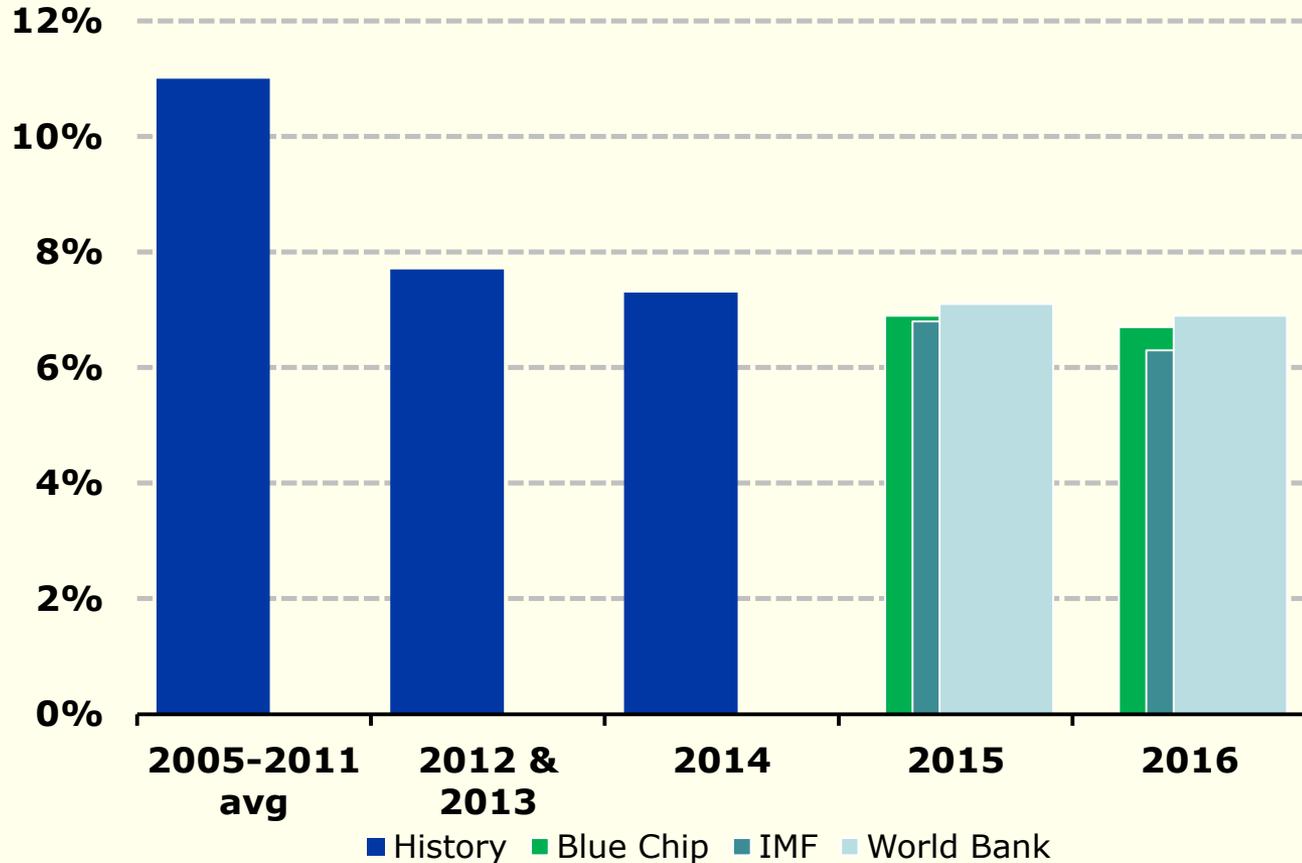


Summary

- The U.S. and Washington economies continue to improve
- Employment gains indicate a strengthening labor market, but the number of long-term unemployed remains elevated
- Washington employment in 2014 grew at 2.7%; 5th best year since 1991
- King & Snohomish County employment grew 2.9% in 2014; 7th best year since 1991
- Risks to the forecast include the potential for slower Chinese economic growth, a Greek exit from the Eurozone, disruptions to the housing recovery and geopolitical unrest



China's 2015 & 2016 GDP growth expected to be below the 2014 rate



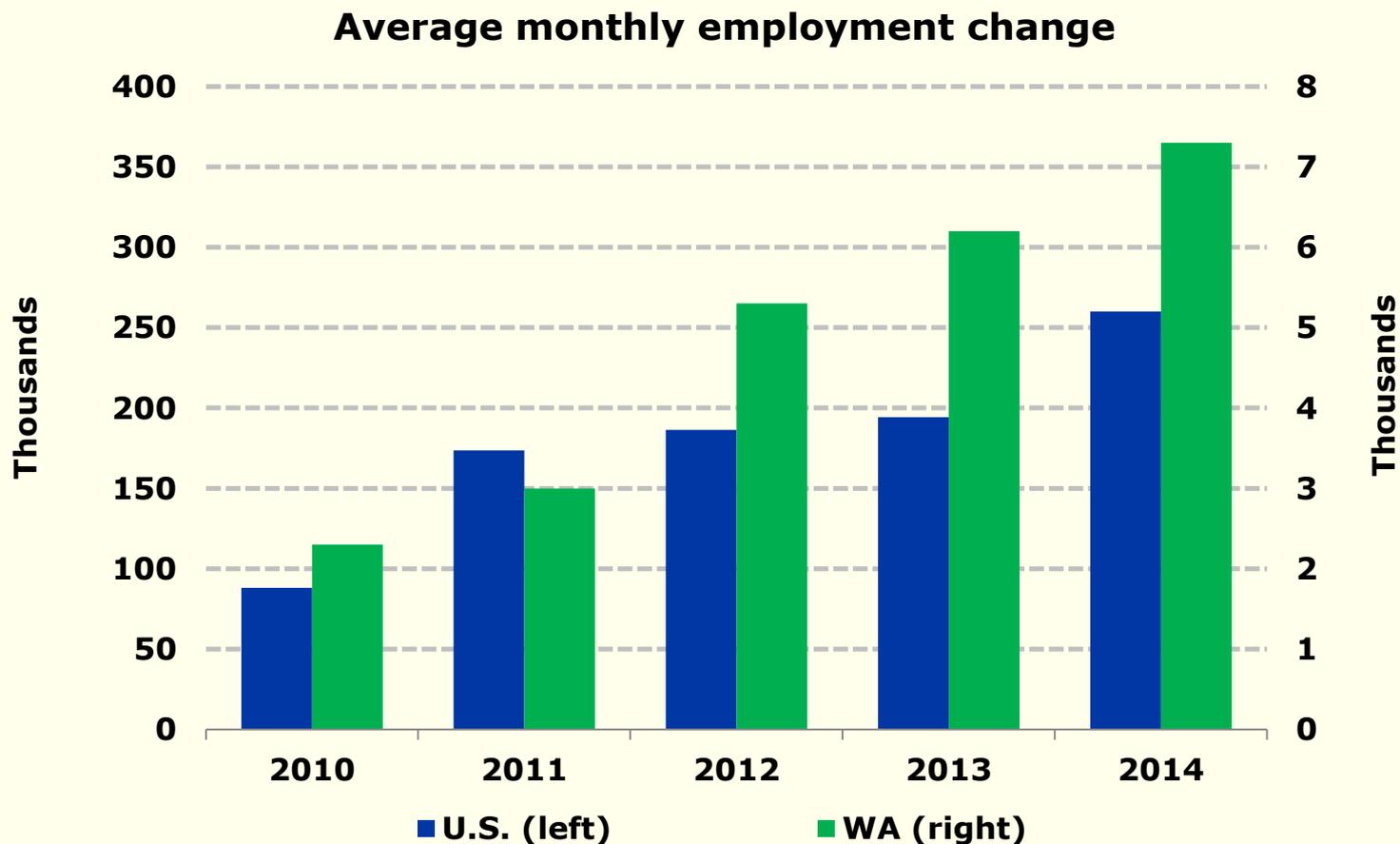


Housing starts are trending up but remain below historic average





Job creation continues to strengthen



Source: Bureau of Labor Statistics, ERFC; data through December 2014

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Number of long-term unemployed workers remains high

Long-term unemployed as share of all unemployed:

Jun. 2010: 46%

Feb. 2015: 31%

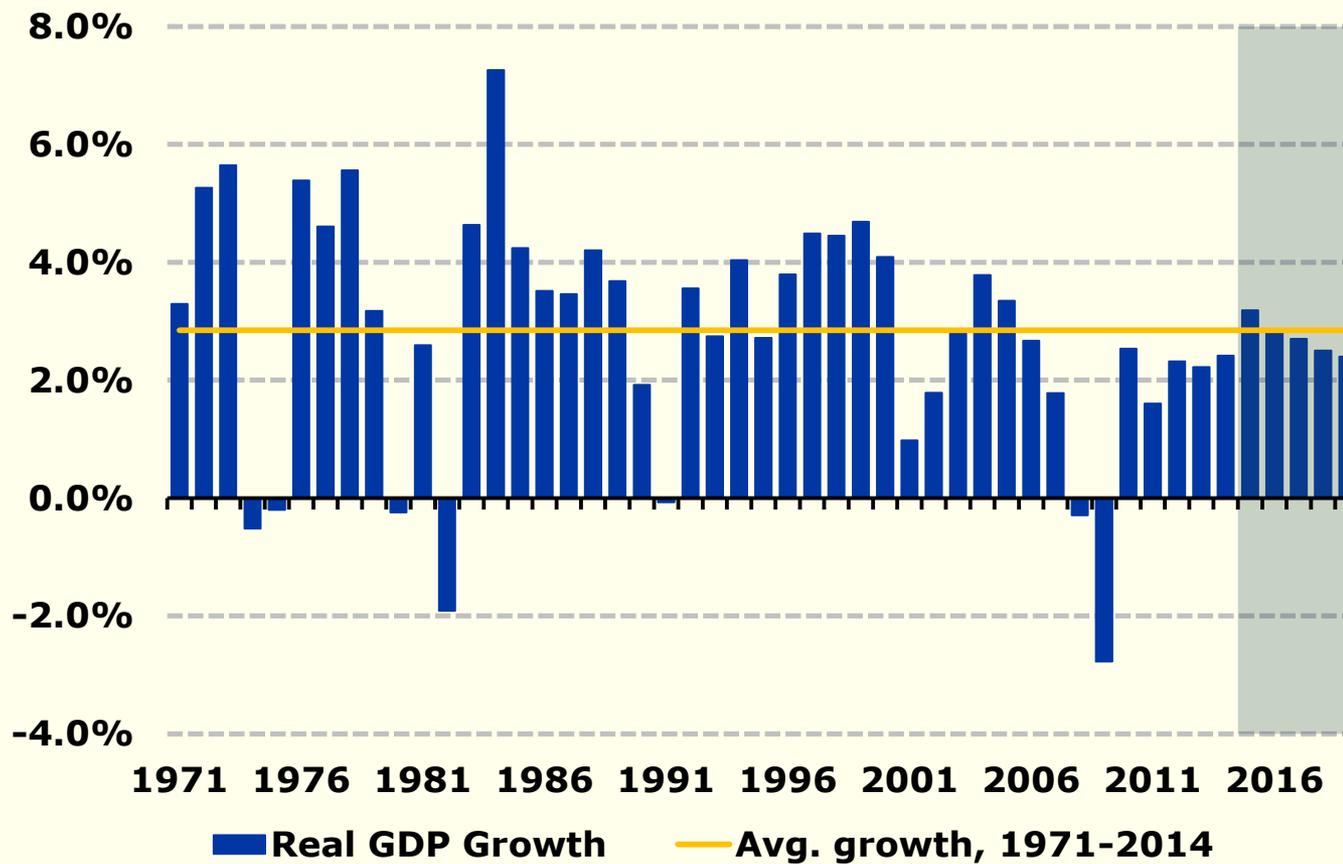


Source: Bureau of Labor Statistics; data through February 2015

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U.S. economic growth has been slower than in past recoveries

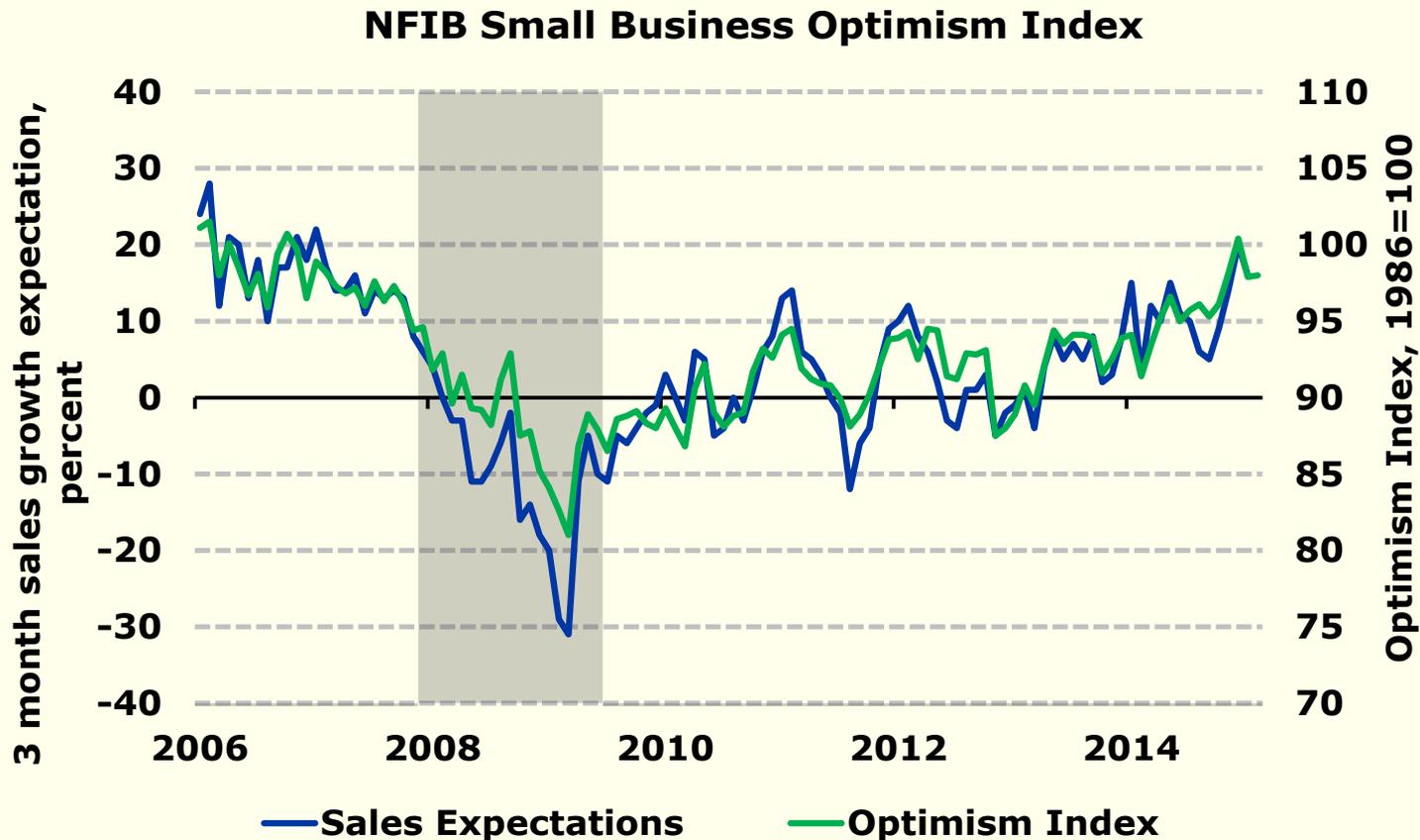


Source: BEA, historical data through 2014; ERFC February 2015 forecast 2015-19

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Small business optimism and sales expectations are getting back to pre-recession levels



Source: National Federation of Independent Business; data through February 2015

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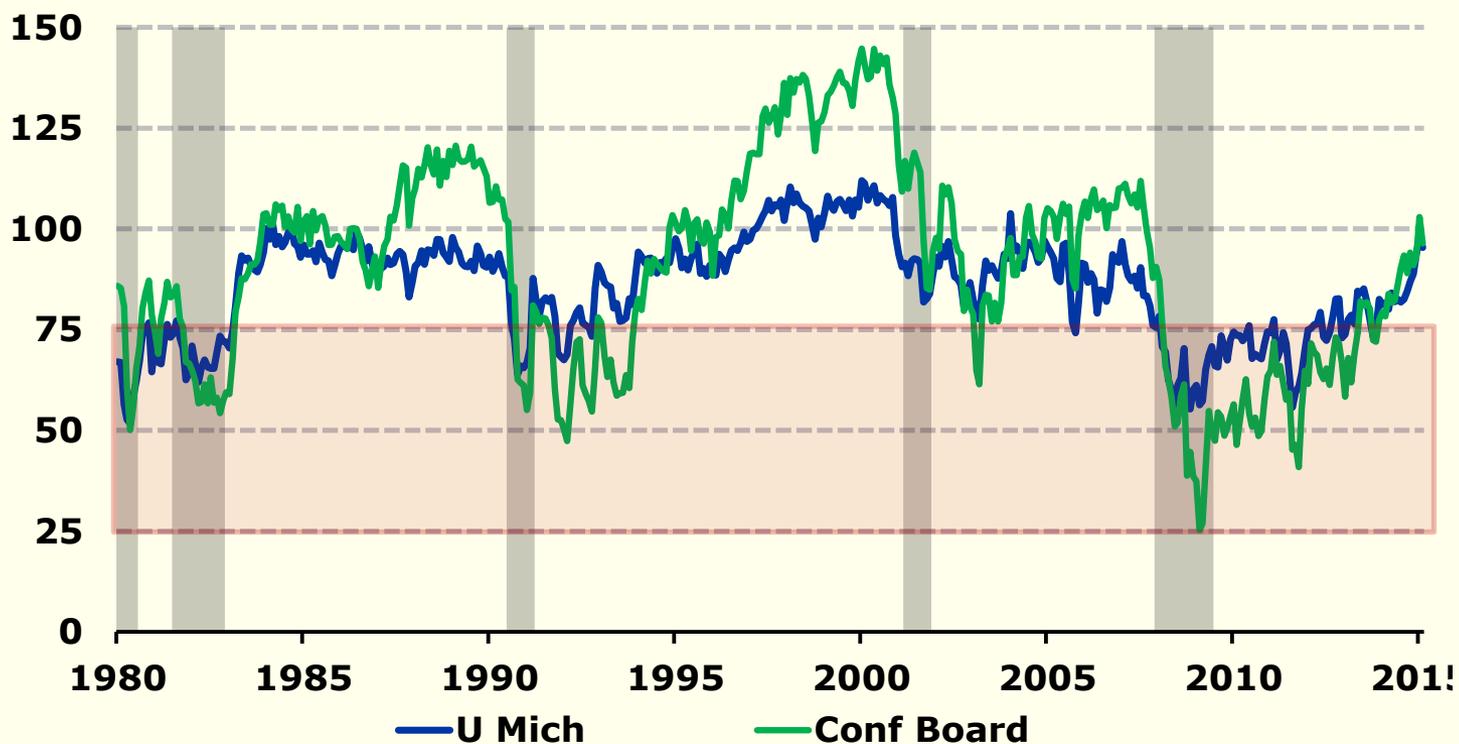


Consumer confidence is improving, but dipped in February

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Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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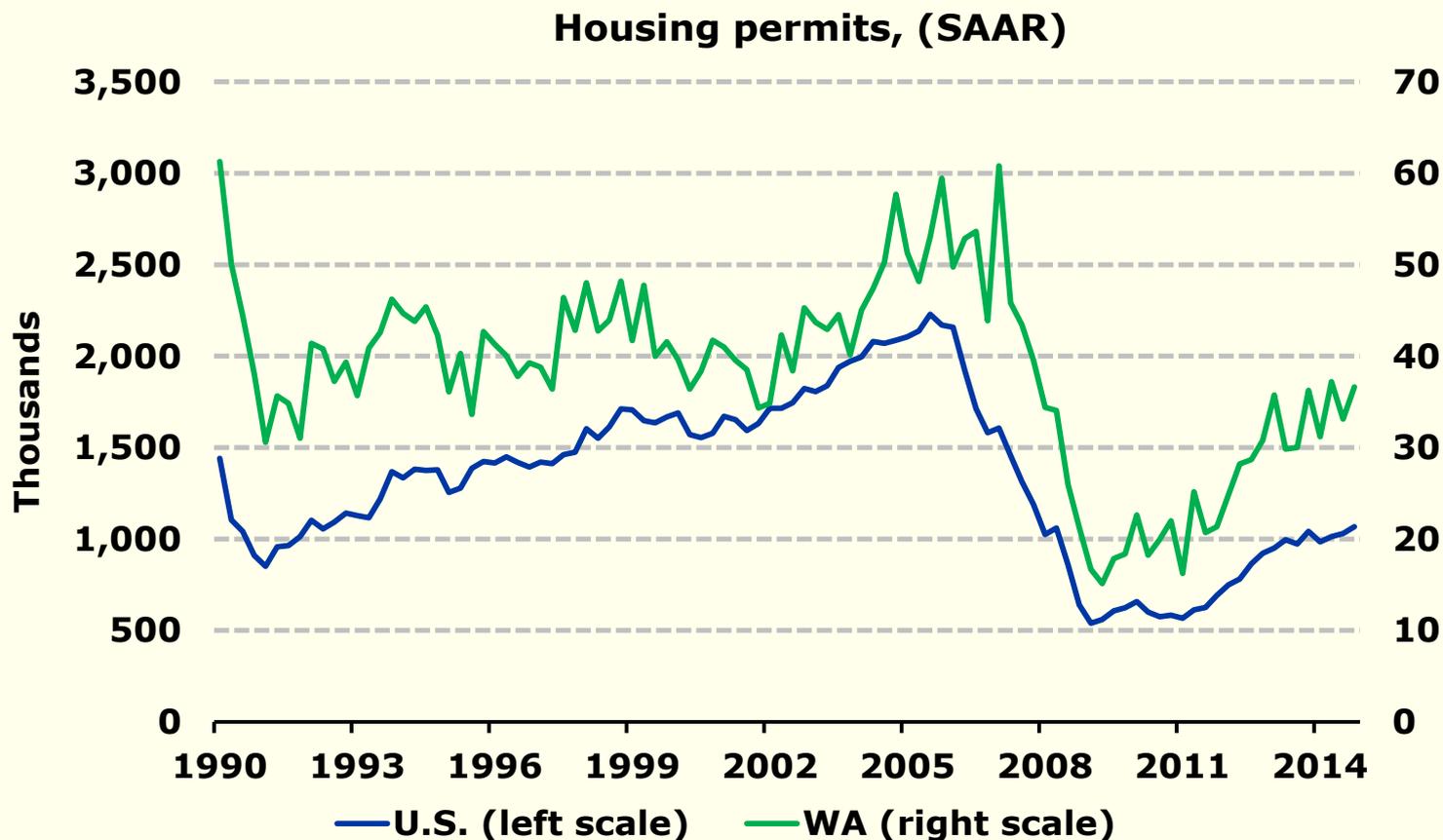
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Source: University of Michigan, Conference Board; data through Feb. 2015

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Housing permits – trending up but still below pre-recession levels



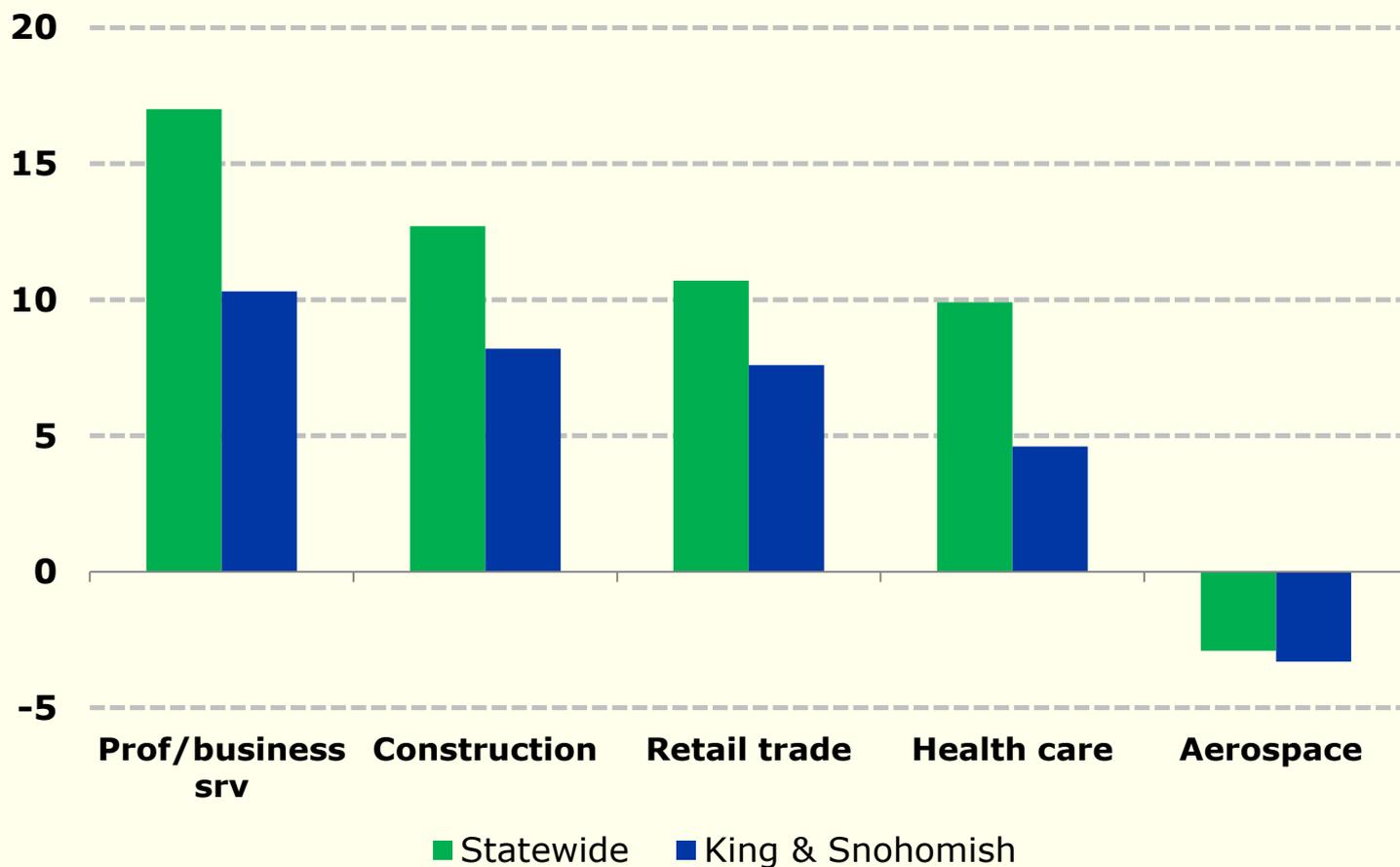
Source: U.S. Census Bureau, data through 2014 Q4

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Employment change, selected sectors: Dec. 2013 – Dec. 2014

King & Snohomish Counties accounted for 57% of state employment growth between Dec. 2013 and Dec. 2014

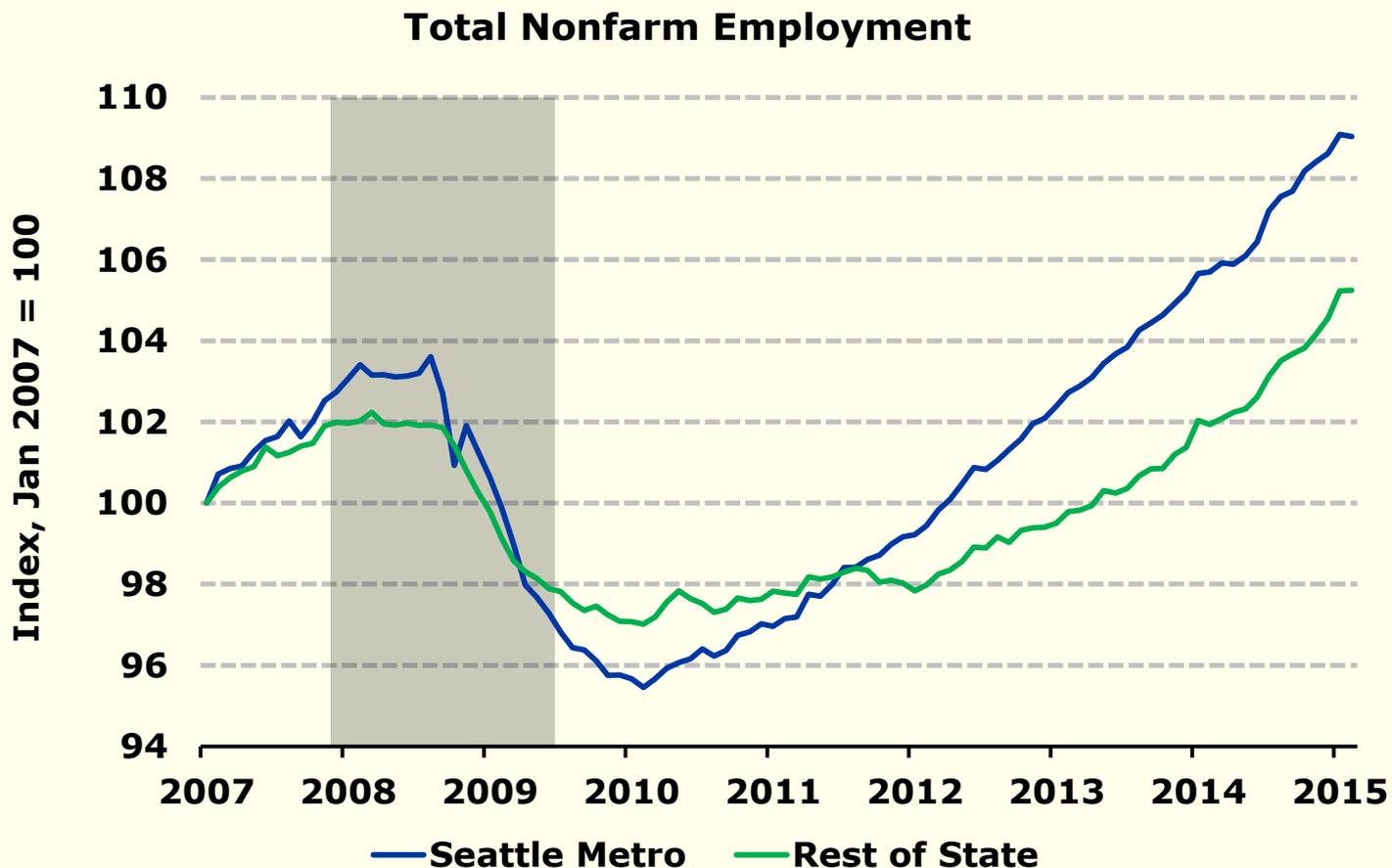


Source: Bureau of Labor Statistics

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



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

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Non-transportation equipment exports are declining

2014Q4
export
growth:

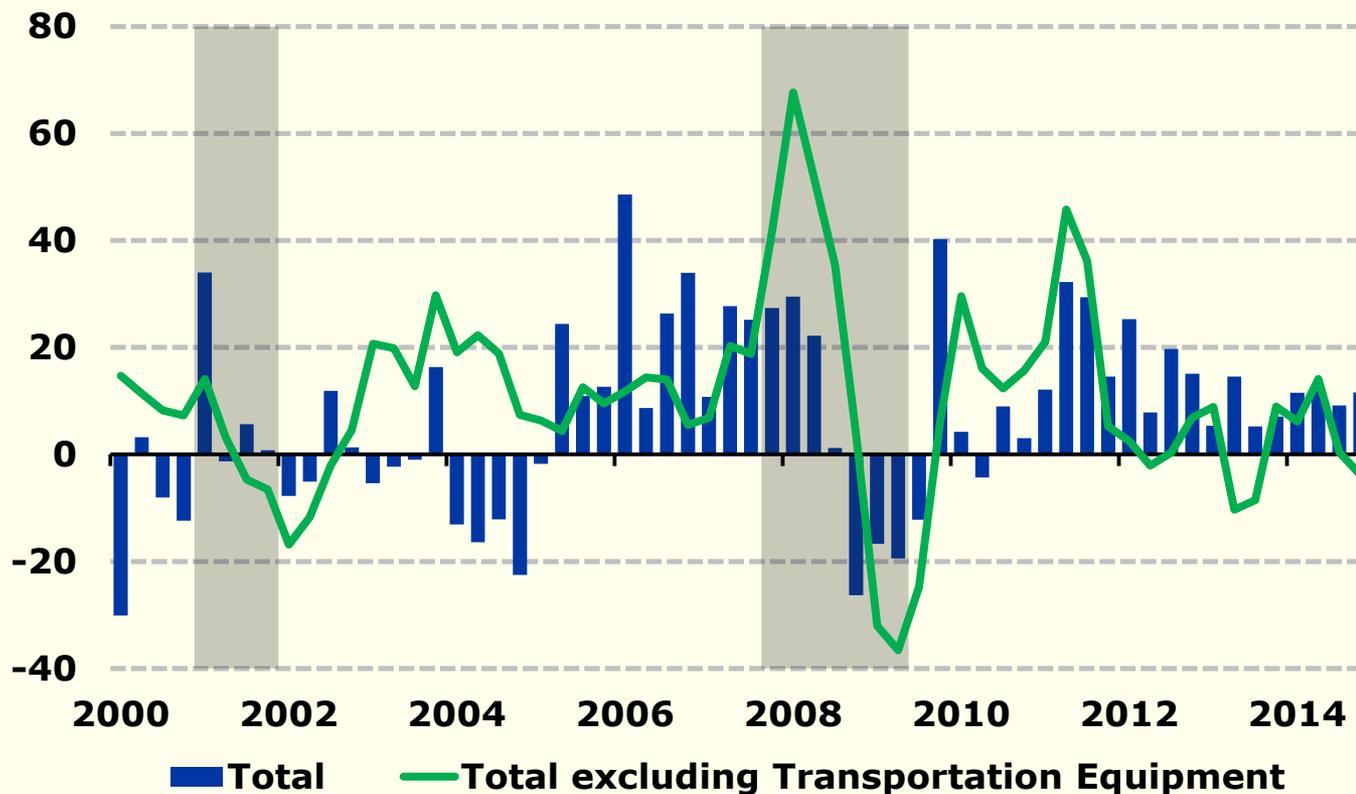
Agricultural
products:
+1.7%

Petrol/coal
products:
-12.4%

Computer &
electronics:
+7.2%

Food
products:
-11.5%

Washington Exports Percent Change, year ago

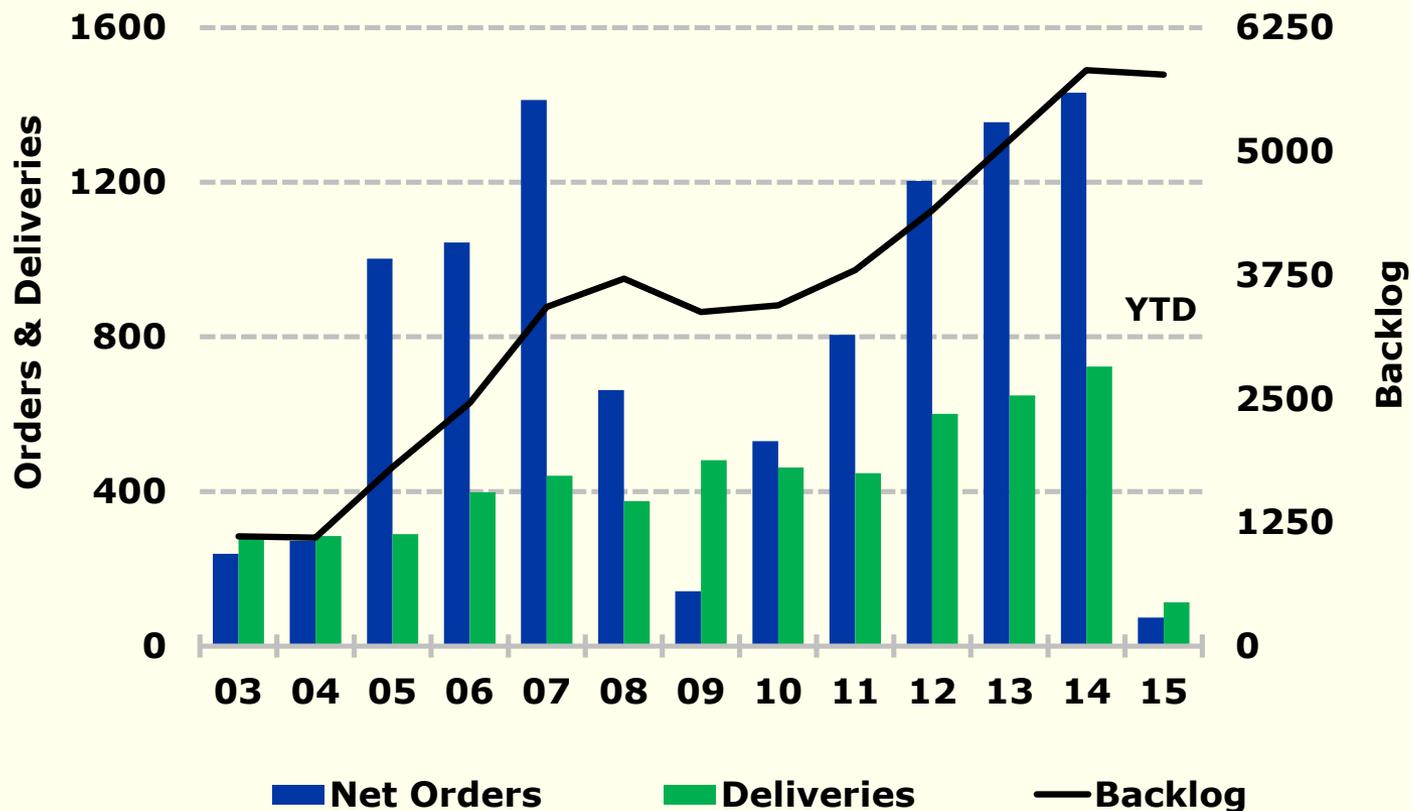


Source: Wisser Trade Data; through 2014Q4

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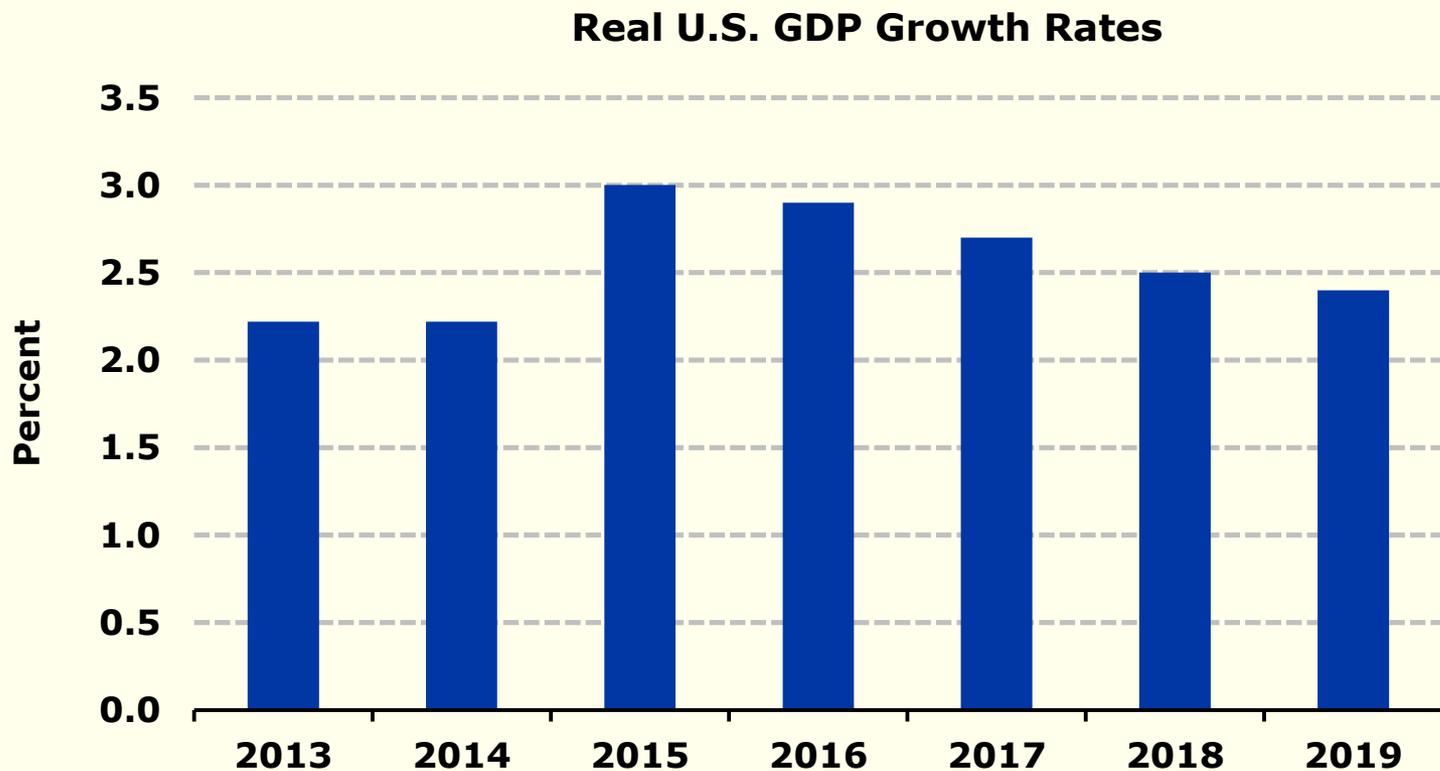
Boeing has over 7 years of commercial orders on its books



Source: Boeing, data through February 2015

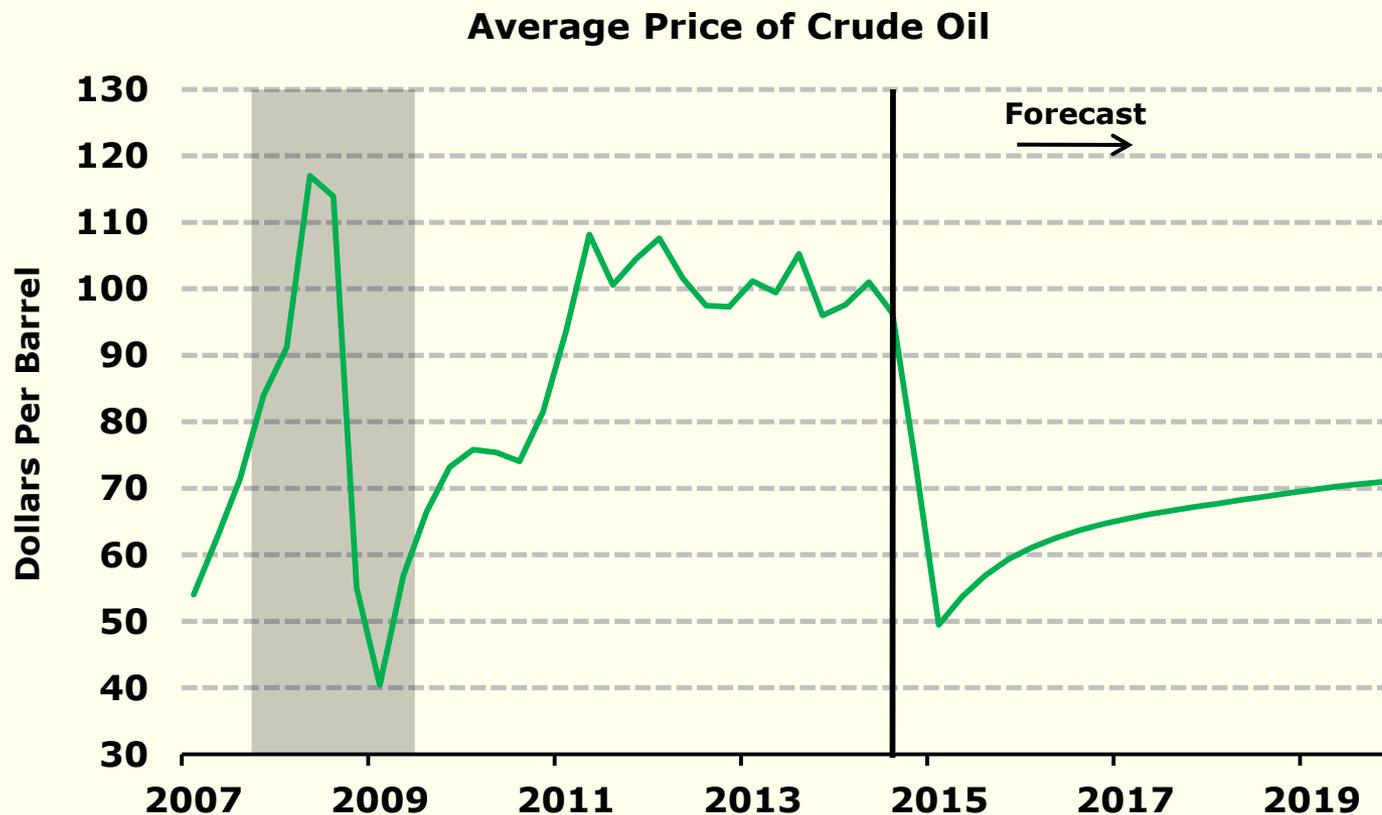


Stronger GDP growth is expected



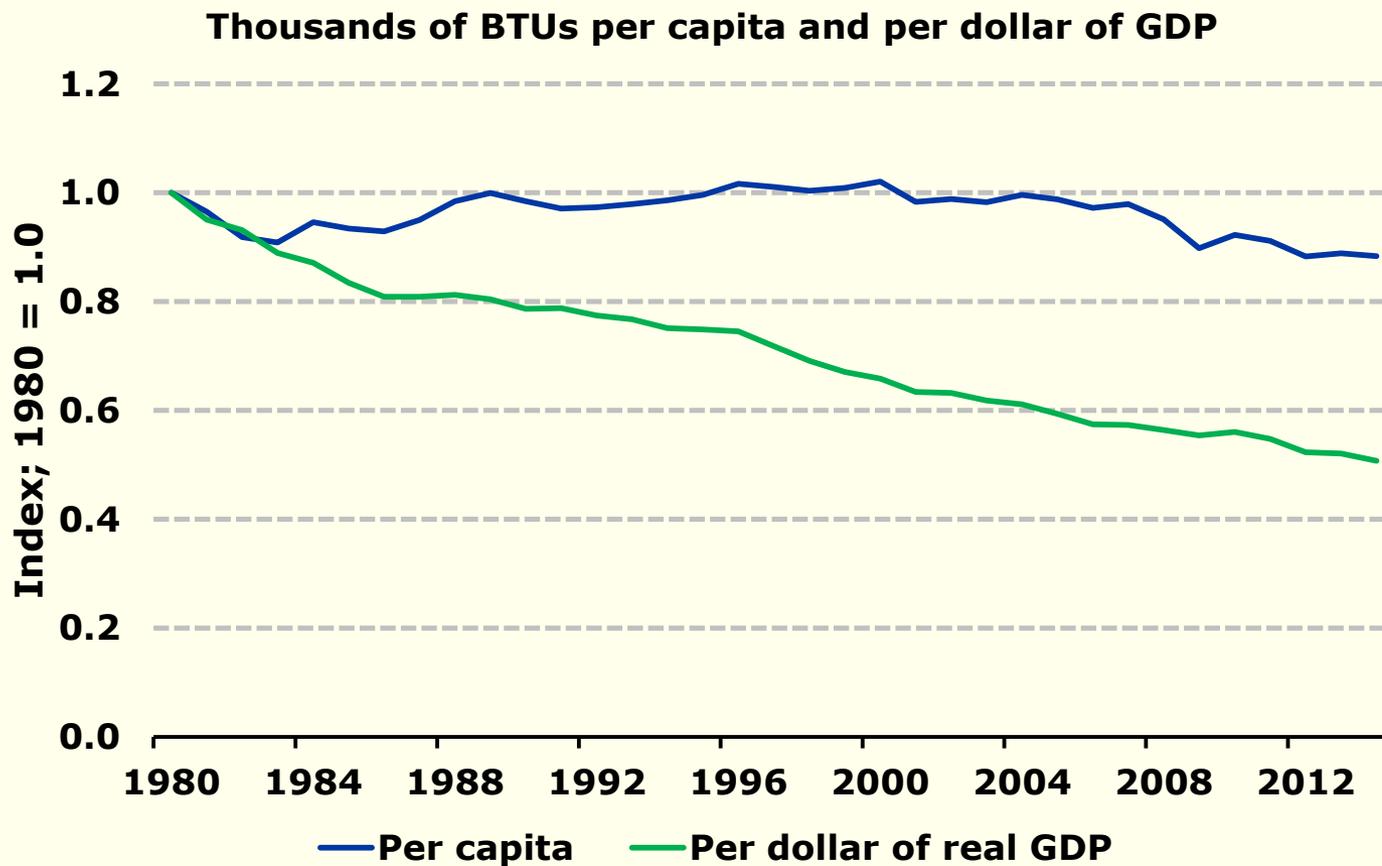


Oil prices are expected to slowly increase throughout the forecast





U.S. economy has become less energy-intensive over time



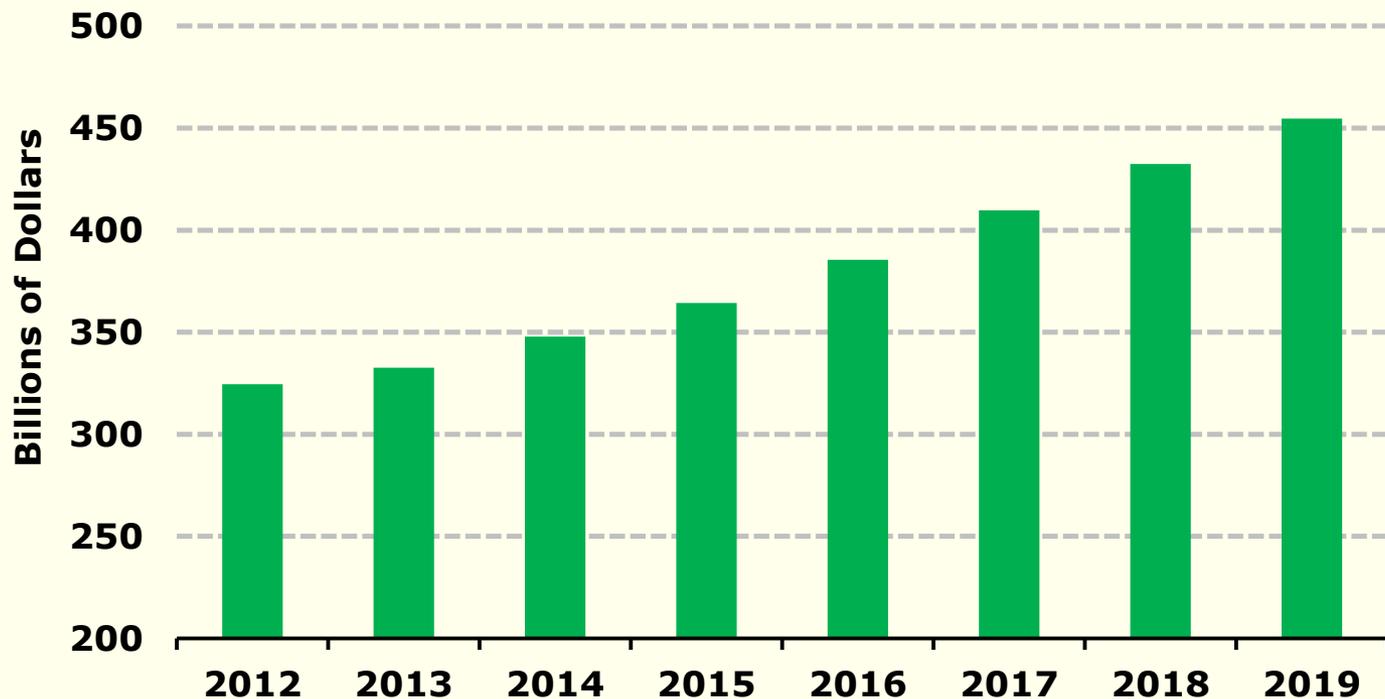
Source: U.S. Dept. of Energy; projections from 2012 - 2014

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Washington personal income is expected to increase 4.8% this year and 5.8% in 2016

Washington Personal Income

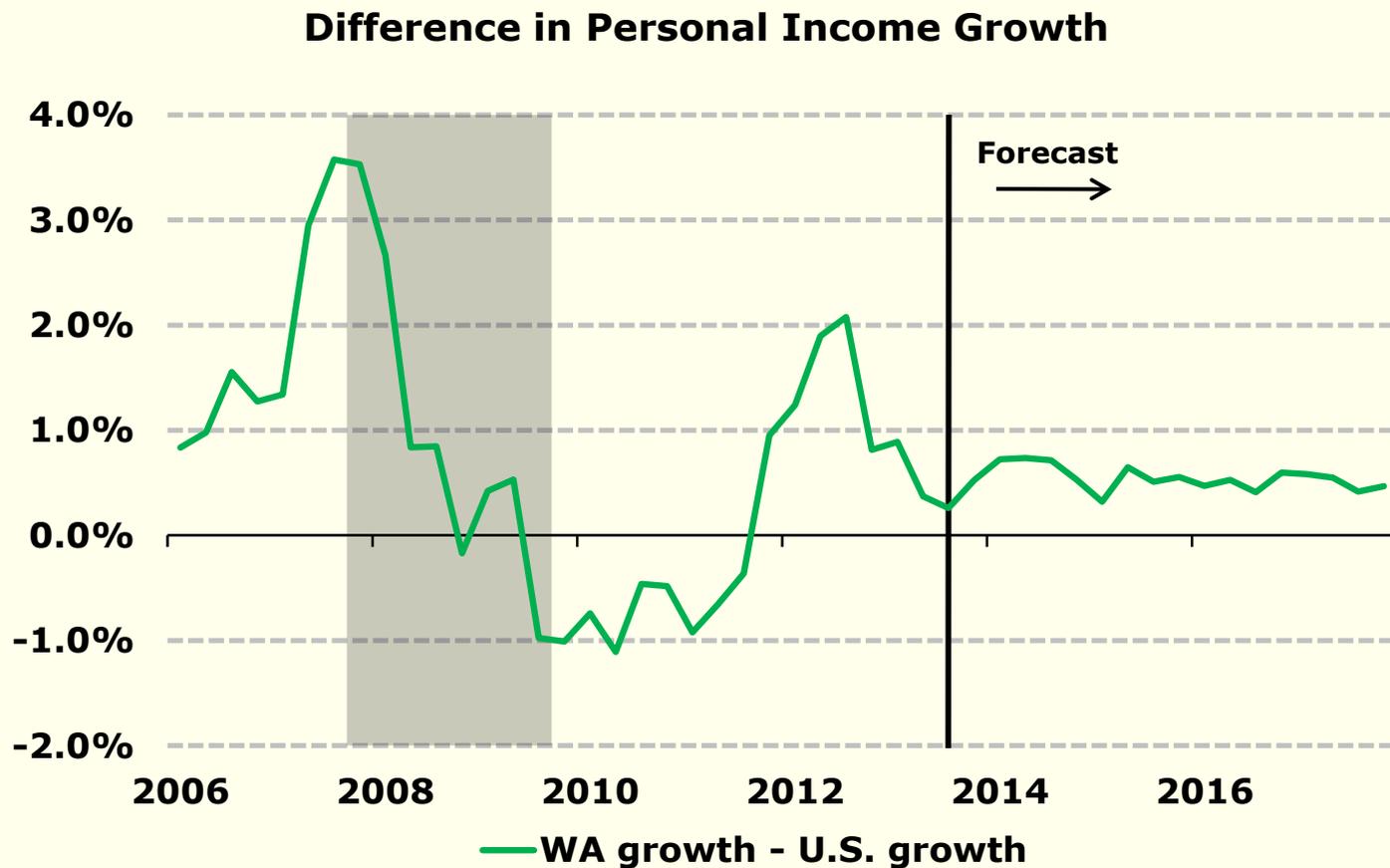


Source: ERFC February 2015 forecast; historical data through 2013

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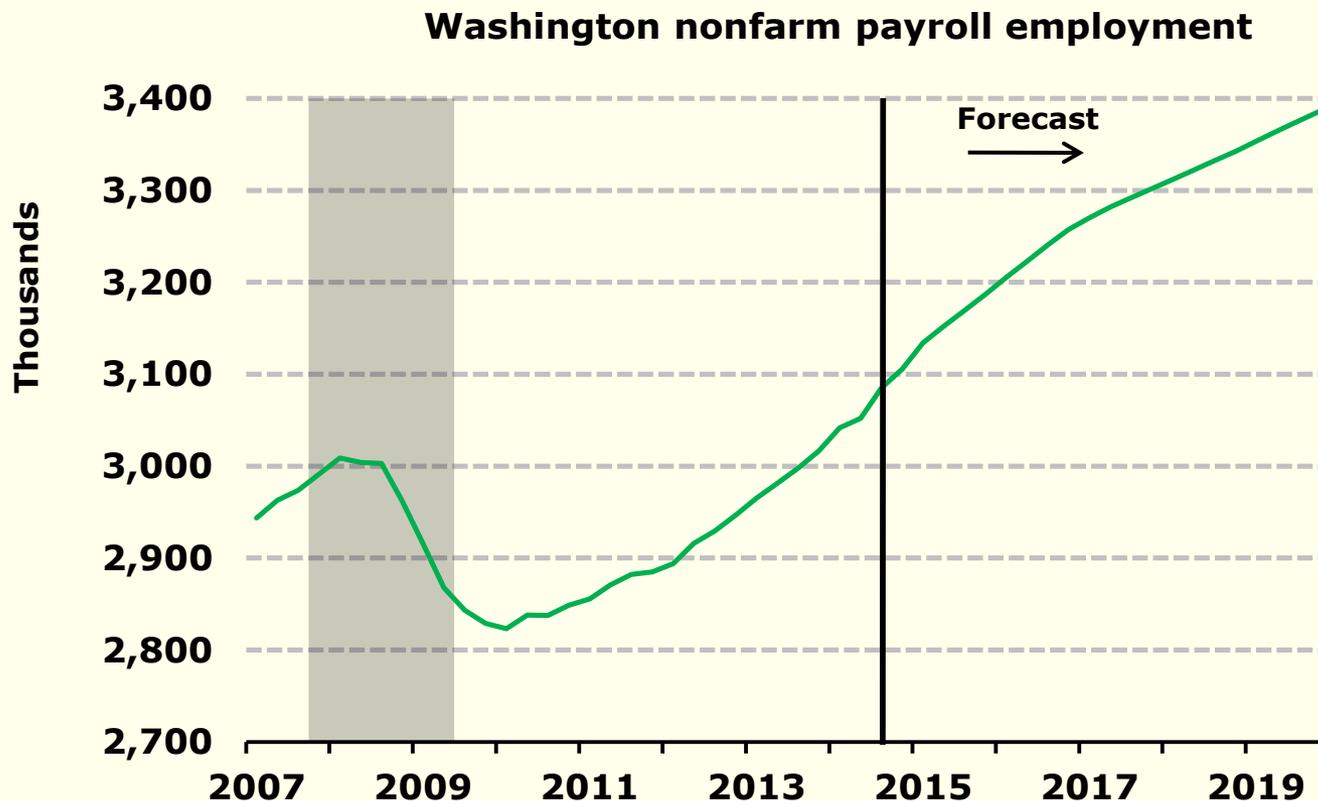
State personal income will grow slightly faster than the U.S.





Washington employment is expected to grow 2.9% this year but slow to 2.2% in 2016

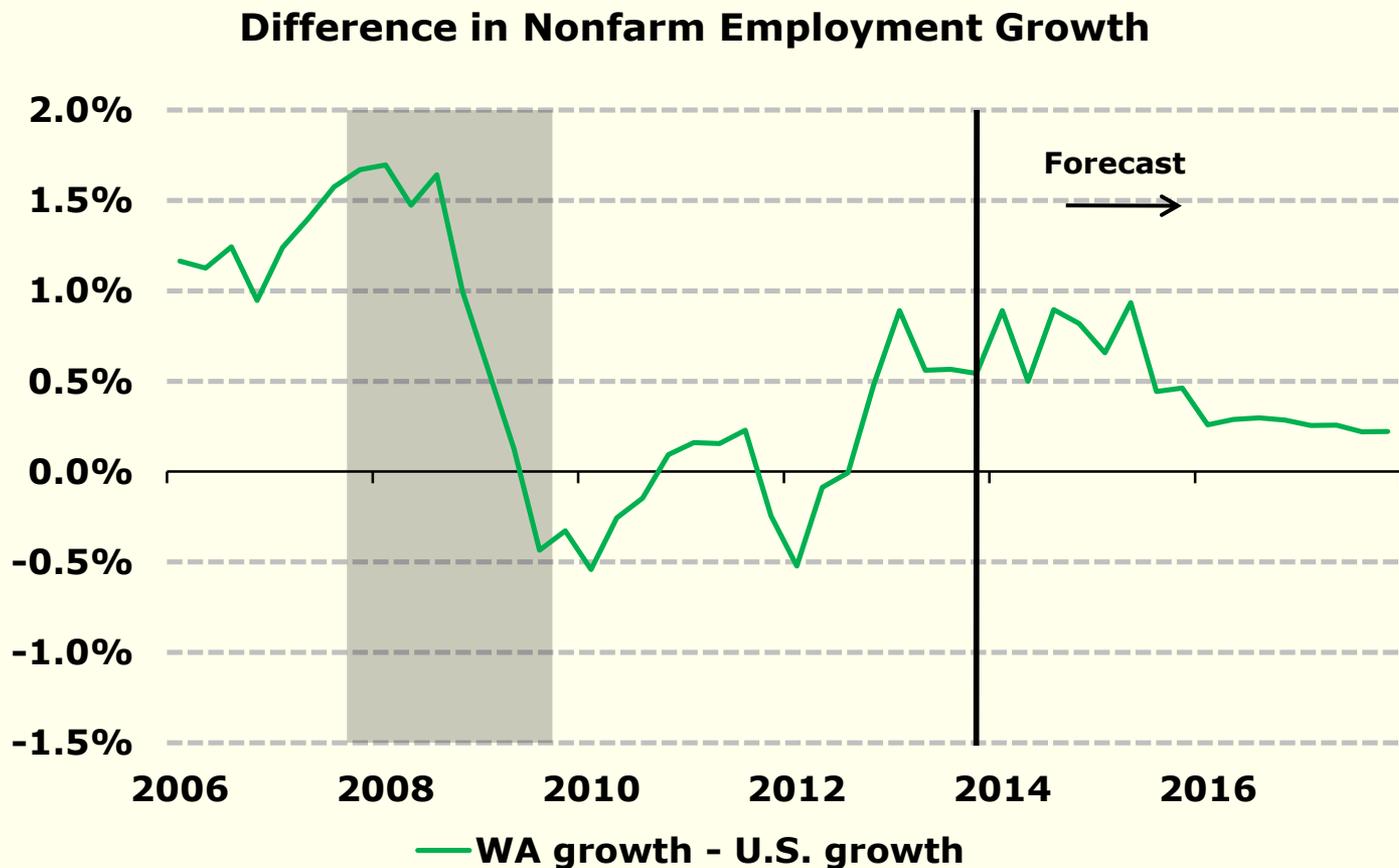
Average employment growth of 1.6% is expected for 2016 to 2019



Source: Global Insight, ERFC February 2015 forecast; historical data through 2014Q4



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

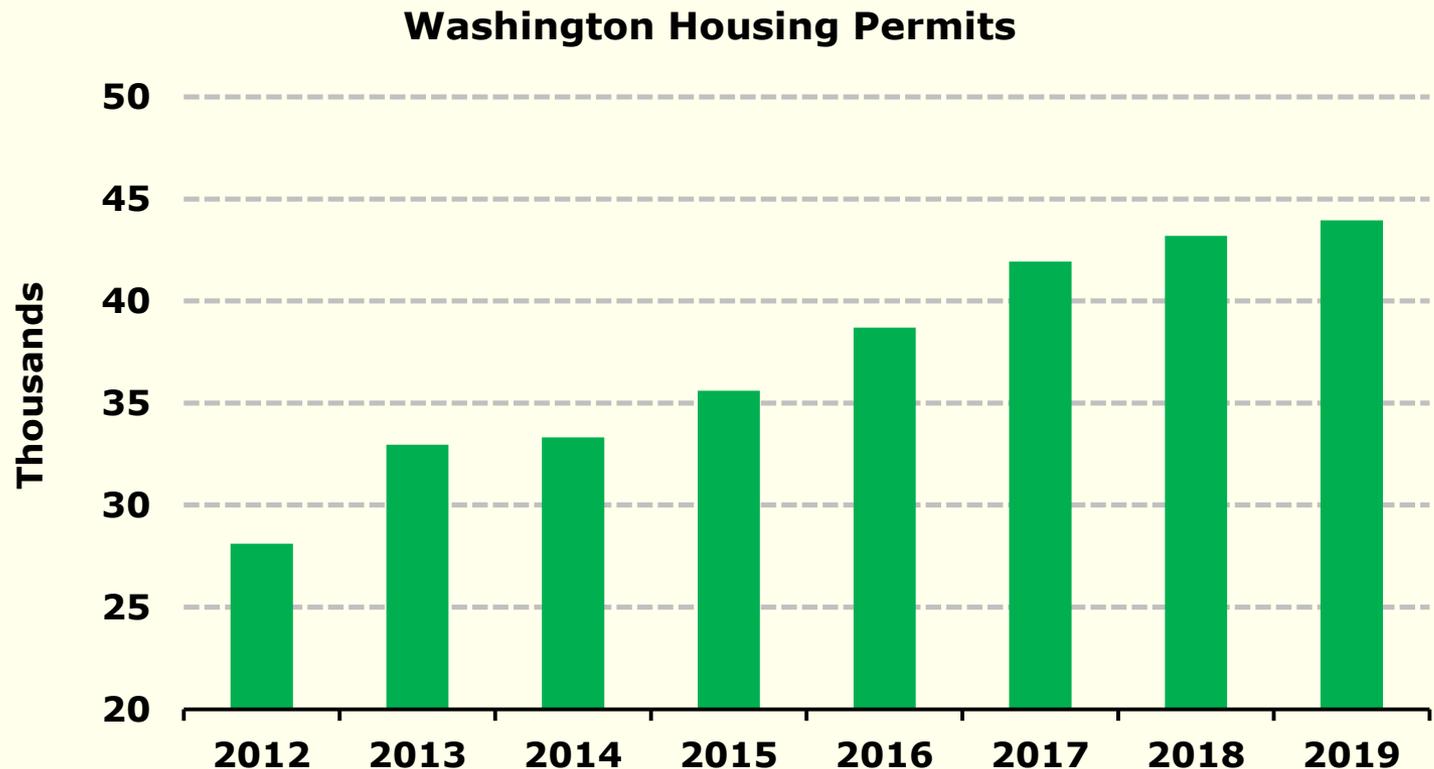


Source: ERFC February 2015 forecast; historical data through 2013Q4

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Washington residential housing activity is expected to grow moderately



Source: ERFC February 2015 forecast; historical data through 2014

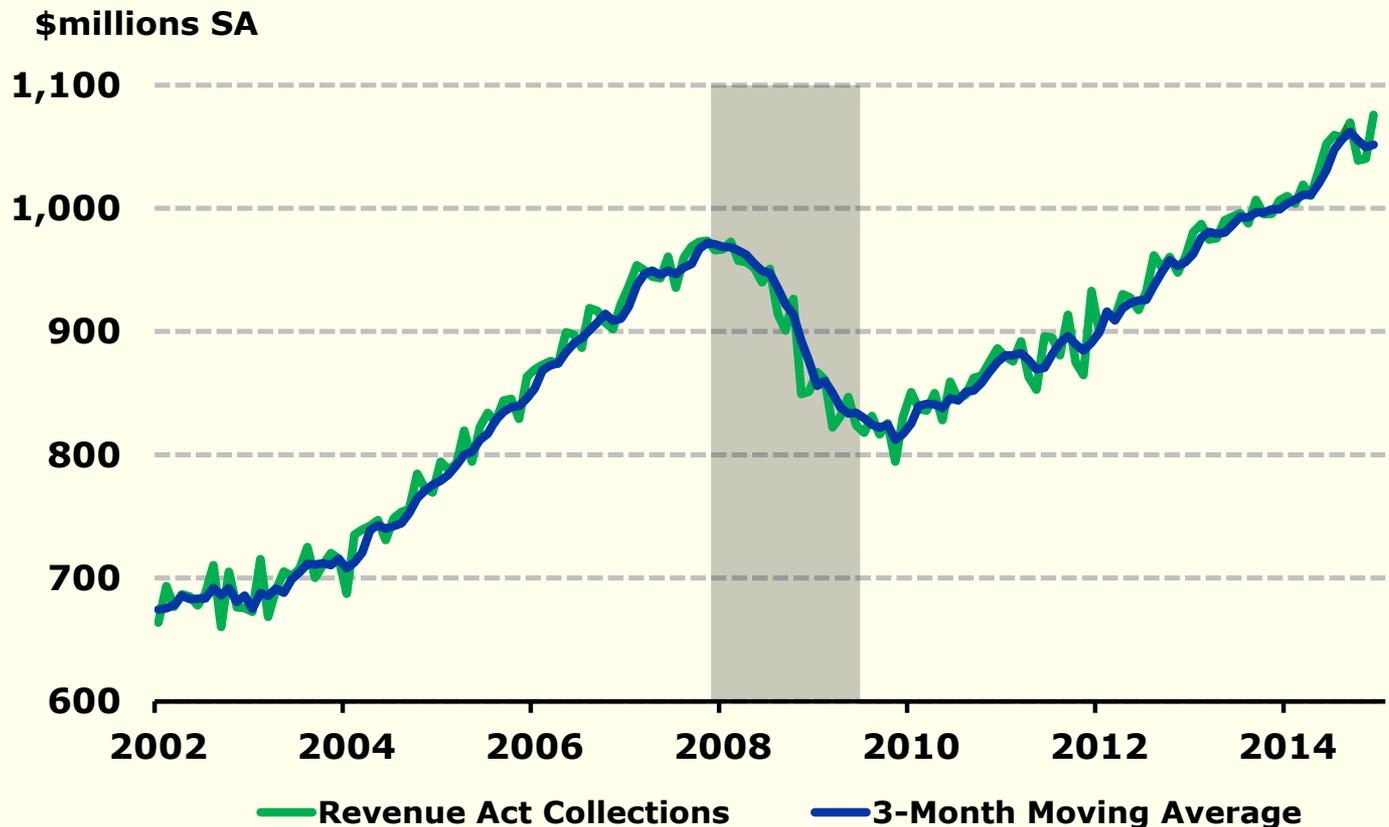
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Major tax collections slowed after strong third quarter activity

Revenue Act:
sales, B&O, use,
public utility, &
tobacco products
taxes

Adjusted Y-O-Y
growth for 4th
quarter activity
was 5.8%. Third
quarter growth
was 7.2%.



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

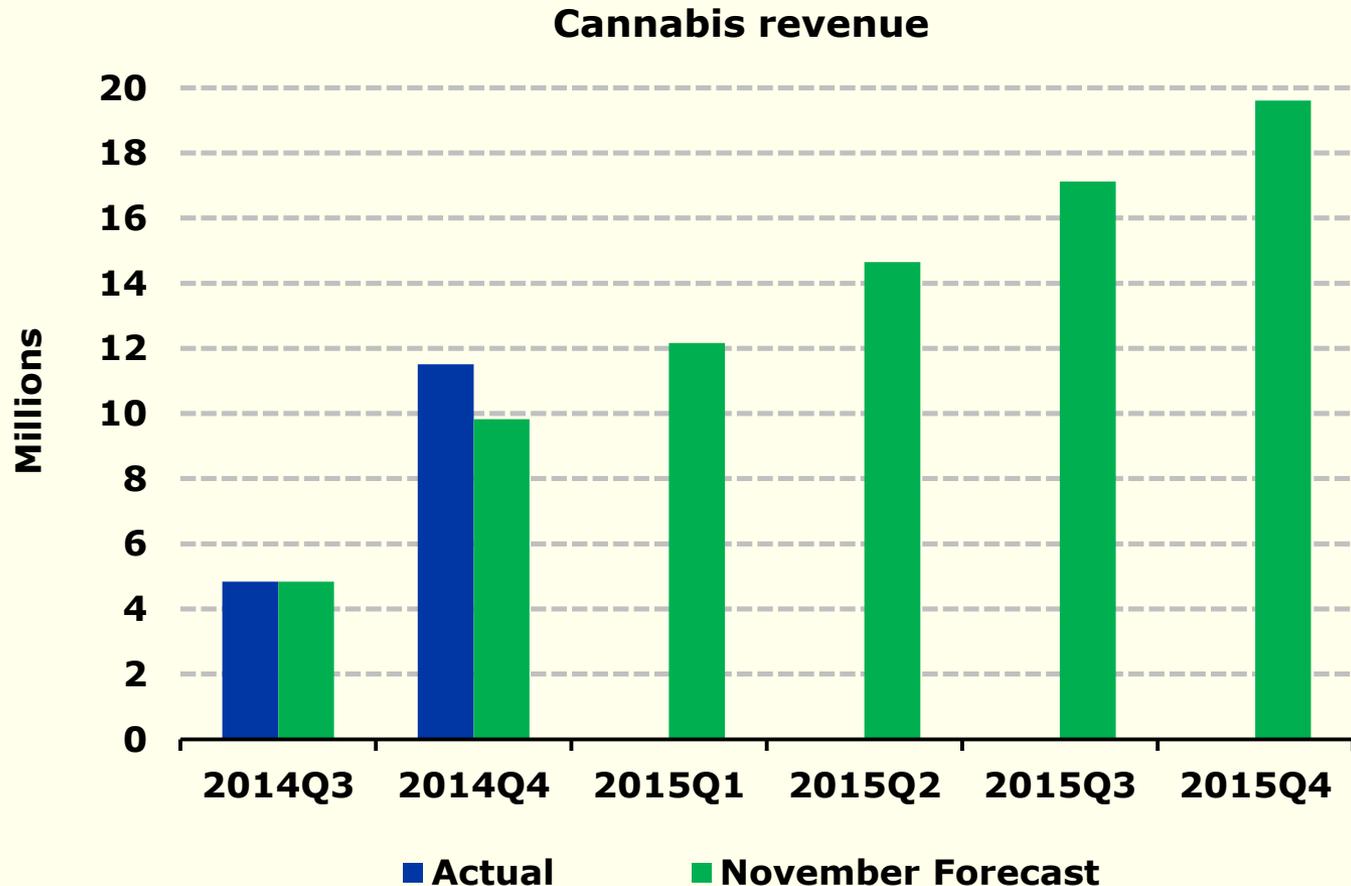
Source: DOR and ERFC; monthly data through estimated December 2014 activity

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Cannabis revenue is above forecast, but still needs to pick up

Total cannabis revenue, 2015-17 biennium: \$221.6 million

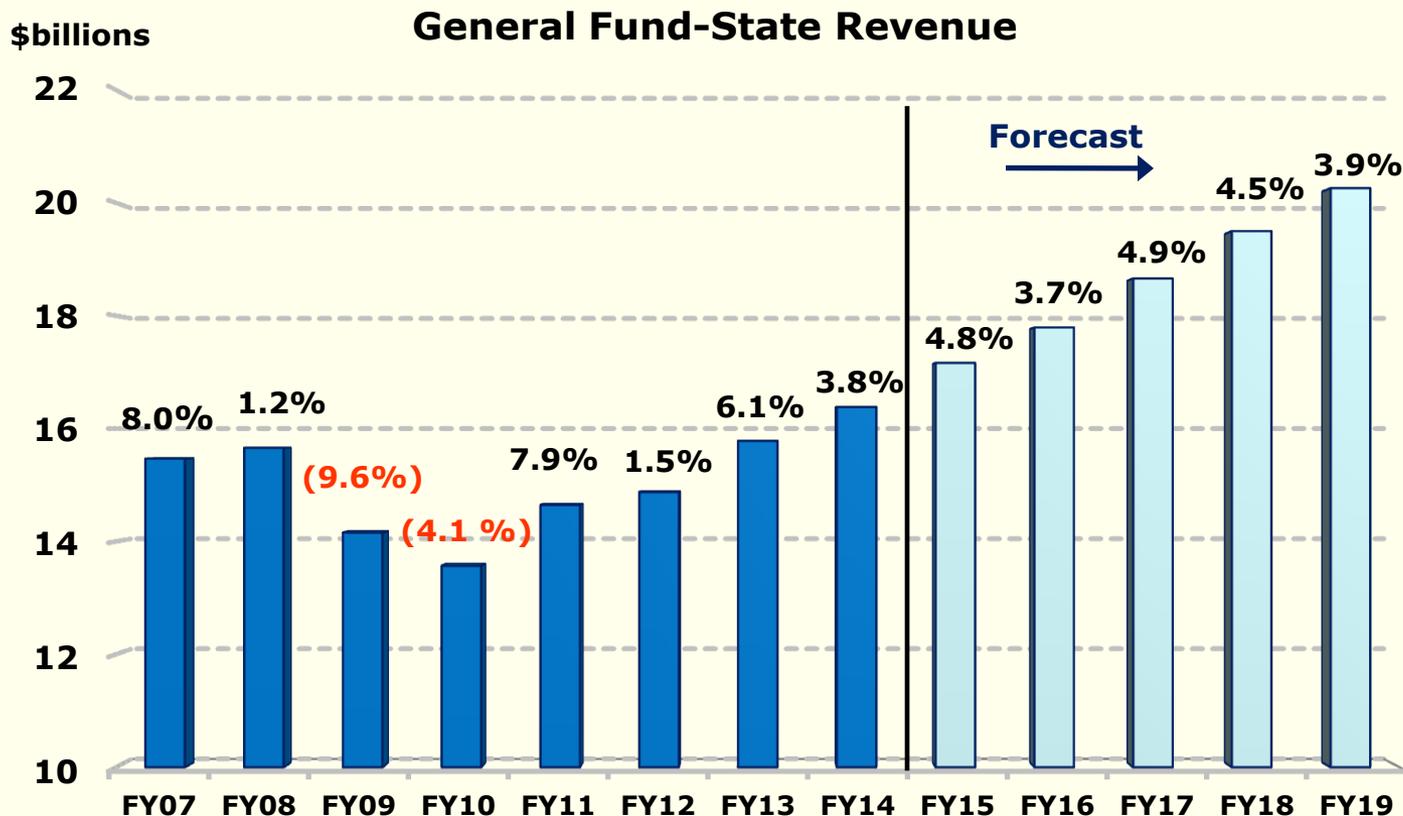


Source: LCB, ERFC November 2014 forecast; historical data through 2014 Q4

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General Fund-State* forecast by fiscal year





Conclusion

- Our economic forecasts have been fairly consistent; the biggest change is lower oil prices
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- 2014 employment growth was strong nationally, in Washington and locally
- The level of uncertainty in the baseline remains elevated, with risks on both the upside and the downside



Some recent research on charitable giving and nonprofits

Defaults & Donations: Evidence from a Field Experiment

- A default contribution amount has a strong impact: most givers contribute the default amount
- Defaults had little impact on total contributions: in the absence of a default, some donors would have given less than the default, but others would have given more

Empowering Employees to Prevent Fraud in Nonprofit Organizations

- Organizations must integrate employees into the design and enforcement of anti-fraud strategy and procedures
- Engaged, empowered employees will be less likely to commit fraud and more likely to dissuade their peers from fraudulent behavior



References

- Steffen Altmann, Armin Falk, Paul Heidhues, Rajshri Jayaraman, *Defaults and Donations: Evidence from a Field Experiment*, Center for Economic Studies & IFO Institute Working Paper No. 5118
- John M. Bradley, *Empowering Employees to Prevent Fraud in Nonprofit Organizations*, Public Law and Legal Theory Research Paper Series Research Paper No. #14-32, University of Pennsylvania
- Papers available at Social Science Research Network <http://papers.ssrn.com/>



Questions



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