

# Economic Outlook Risks and State Revenue Update

Presented to  
Senate Trade & Economic Development Committee

Steve Lerch  
Chief Economist & Executive Director

January 22, 2013  
Olympia, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL

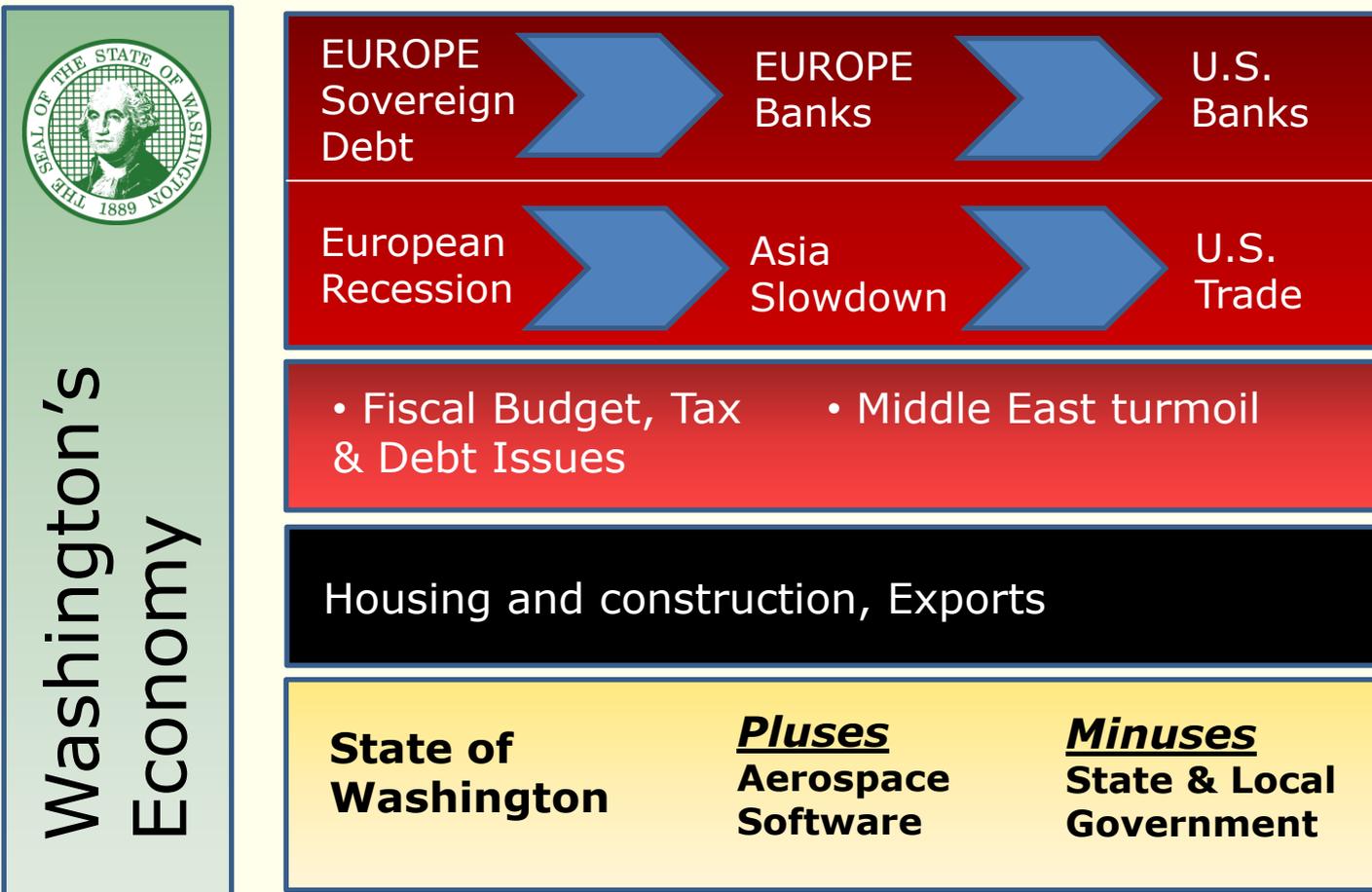


# Summary

- The November economic forecast is marginally weaker than the September forecast, with slightly lower U.S. GDP and Washington personal income
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about federal government gridlock, Europe, and China
- Given the uncertainty around implementation, no new revenue is associated with I-502 at this time
- This forecast increases expected GF-S revenue by \$8 million in the current biennium but decreases it by \$88 million in the 2013-15 biennium



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



Source: ERFC



# Fiscal Cliff and Sequestration

- Fiscal cliff resolution increased payroll tax on all workers
  - The November forecast assumed the 2% payroll tax increase would not occur until 2014
- Fiscal cliff resolution did not eliminate uncertainty over tax and budget changes
  - Sequestration (across-the-board budget cuts) delayed for two months
  - Additional tax increases and/or budget cuts still possible
  - Uncertainty tends to negatively impact hiring, investment, and purchasing decisions



# Debt Ceiling

- The Federal debt ceiling will be reached in February or March
  - Debt ceiling sets cap on amount federal government can borrow
  - Failing to raise debt ceiling could result in inability to meet some Federal obligations
  - Inability to reach debt ceiling deal in timely fashion likely to undermine consumer confidence, could lead to higher interest rates

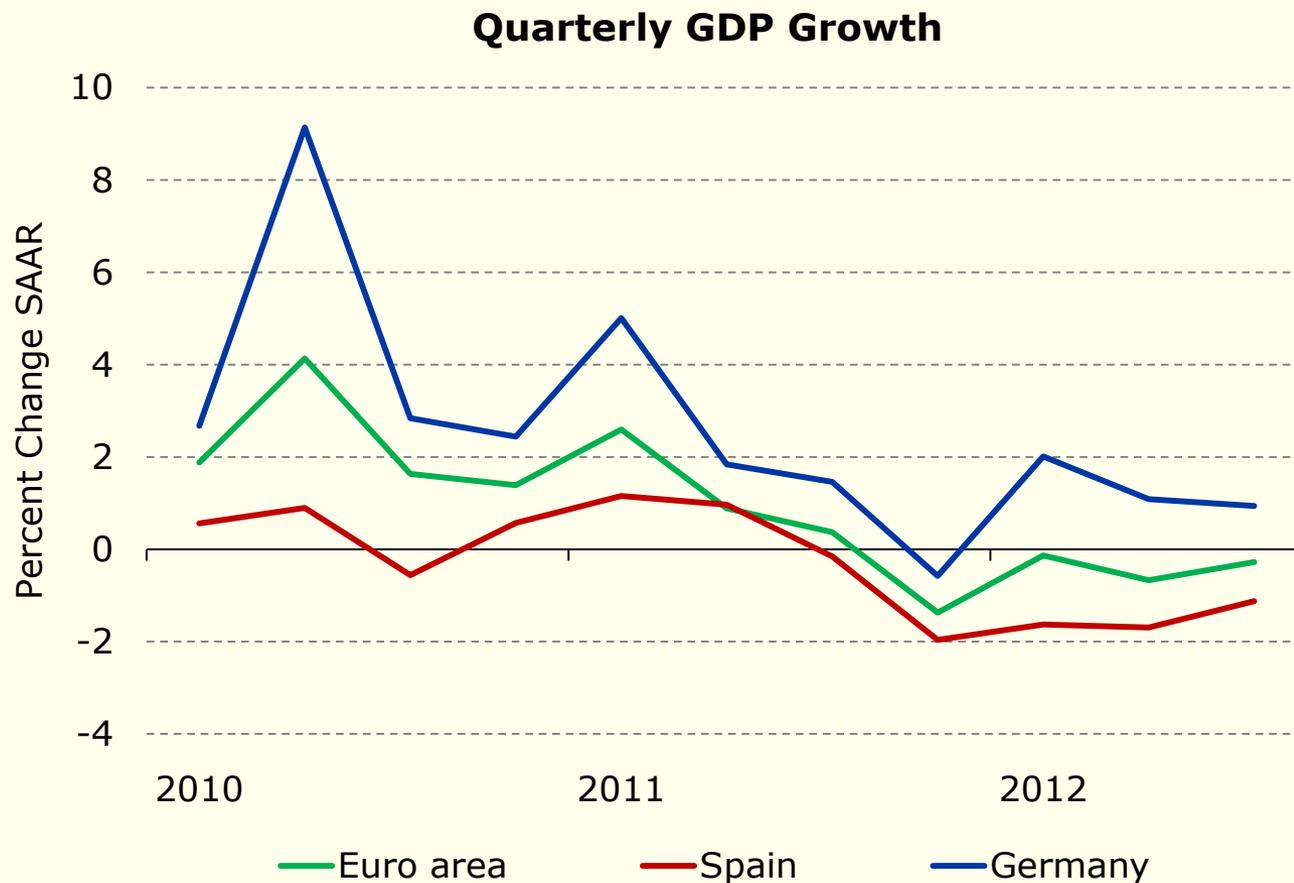


# Euro area GDP growth is negative

Eurozone  
Forecast:

2013: 0.0%

2014: 0.9%



Source: Eurostat; data through 2012Q3

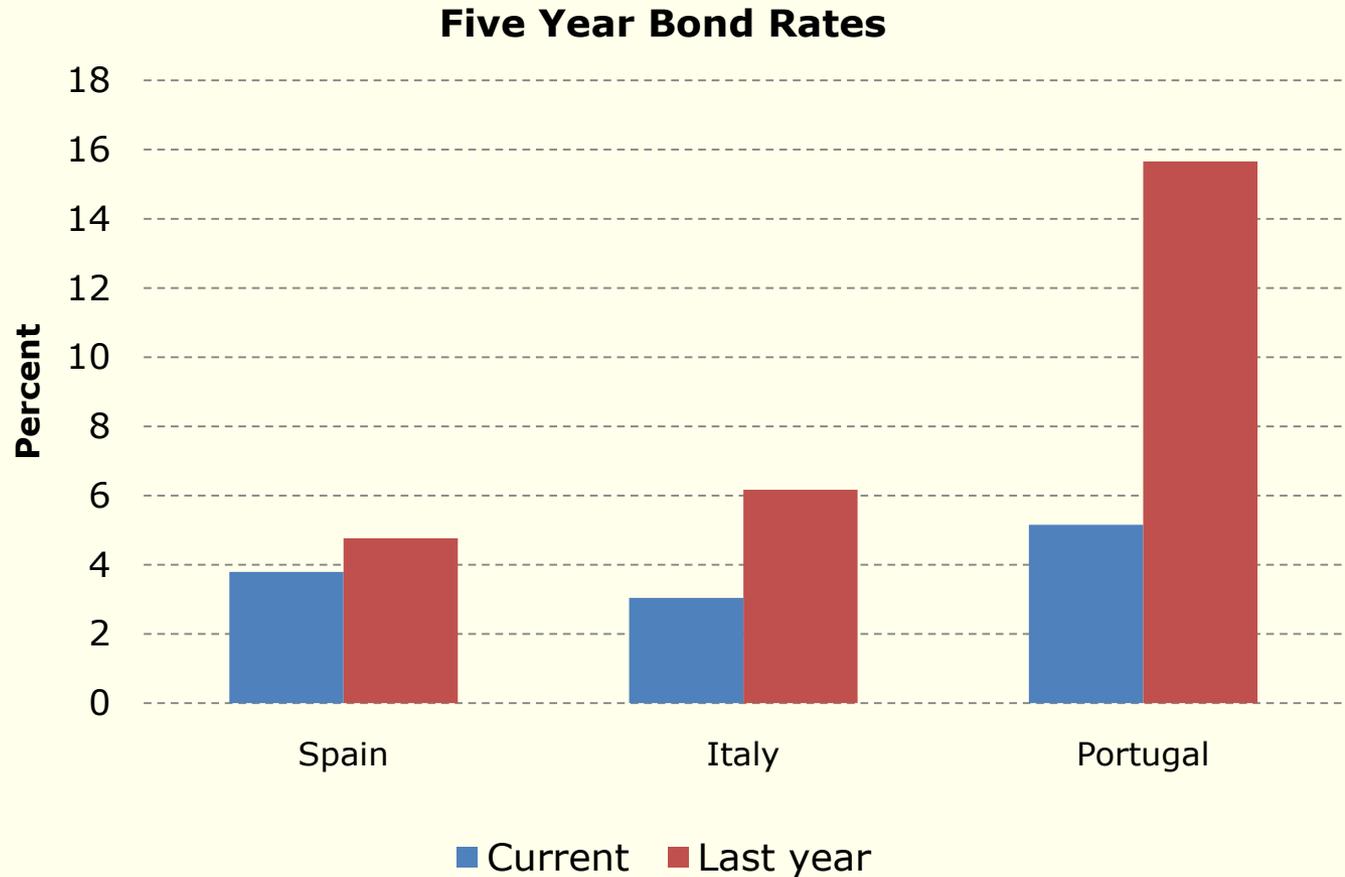
**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**

Economic Outlook  
Risks and State  
Revenue Update

January 22, 2013

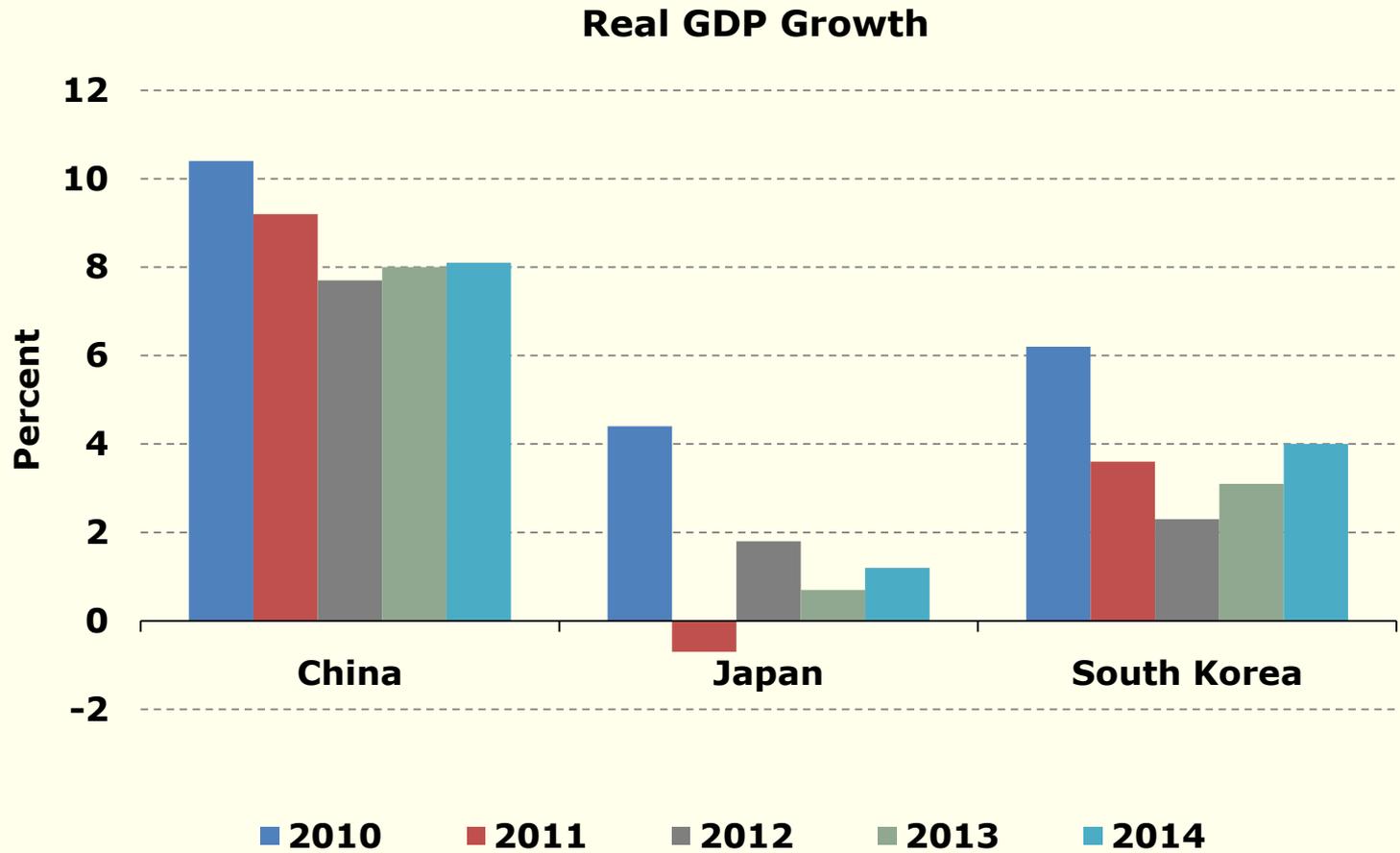


# Bond Markets Signal Improved Confidence in Eurozone





# Asian economic growth has slowed but appears to be improving



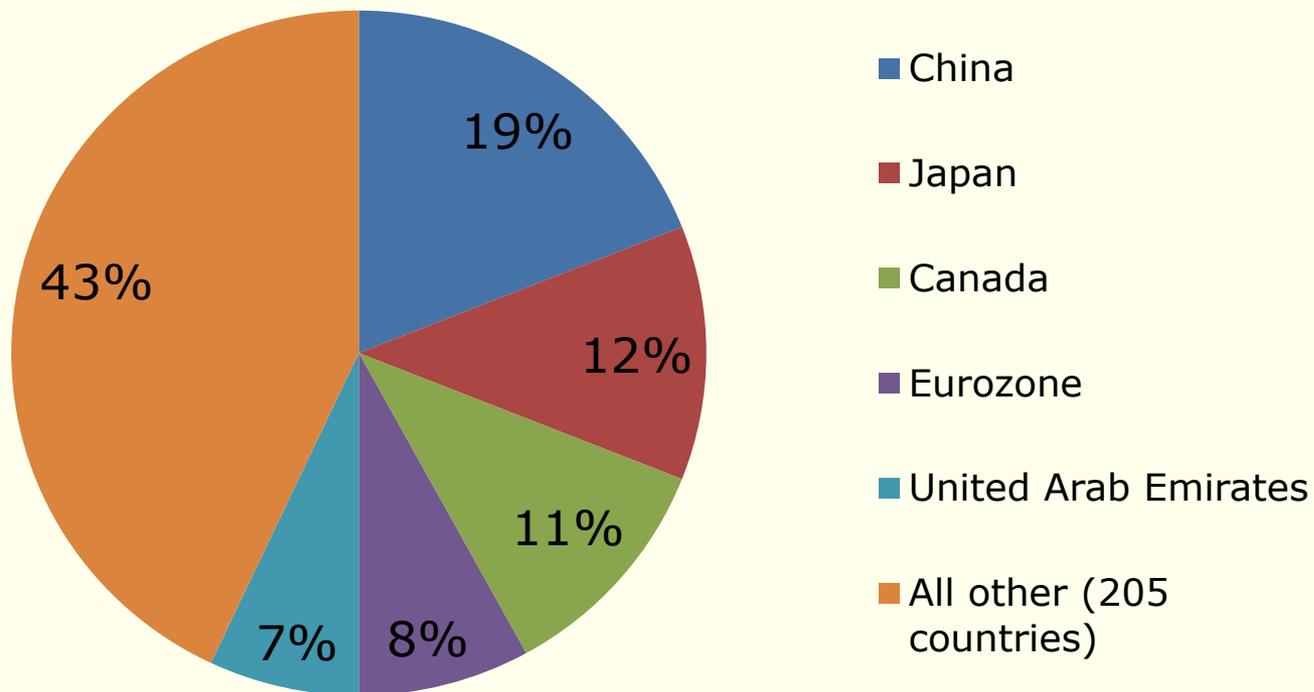
Source: Blue Chip Economic Indicators January 2013, historical data through 2011

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# China is Washington's Top Export Destination

## Exports by destination



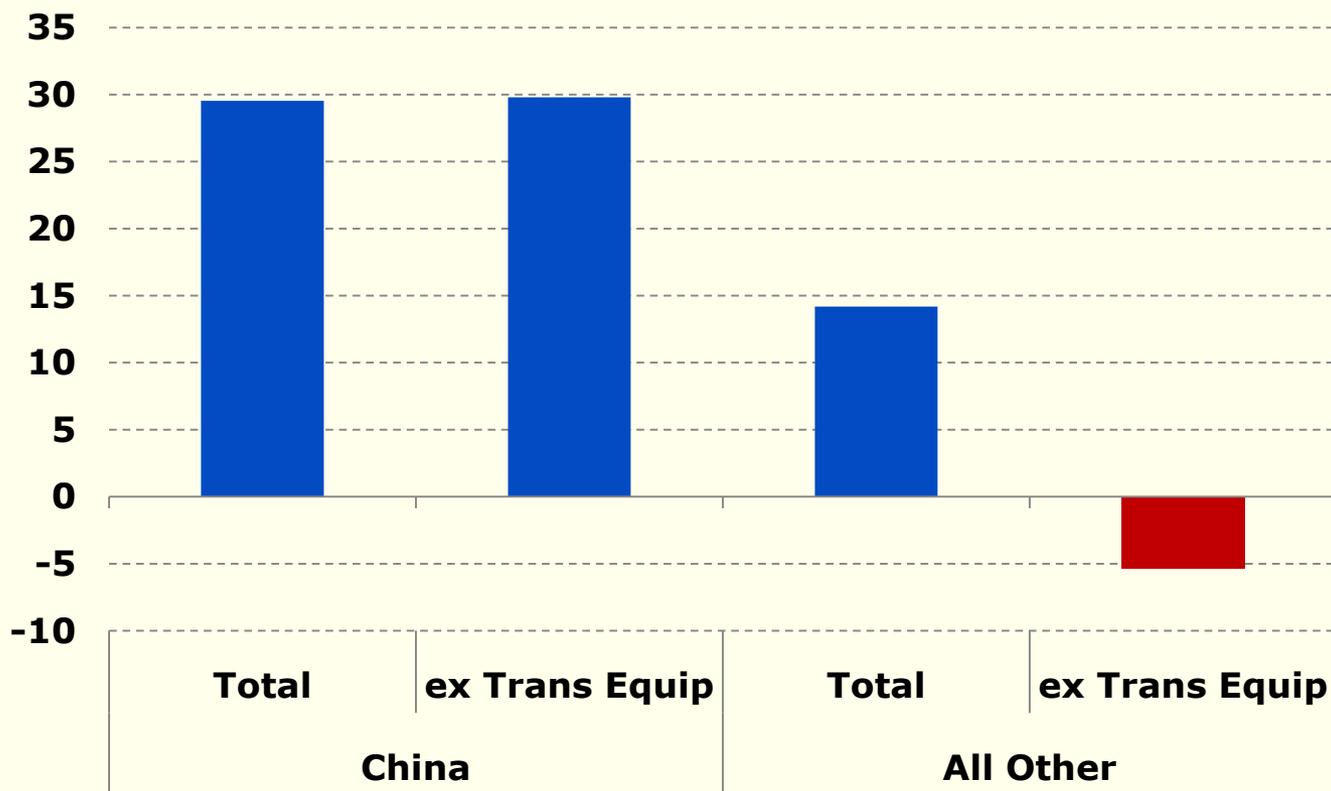
Source: WISER Trade Data; data through October 2012

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# Non Transportation Equipment exports outside of China are declining

## Washington Exports YTD % Change



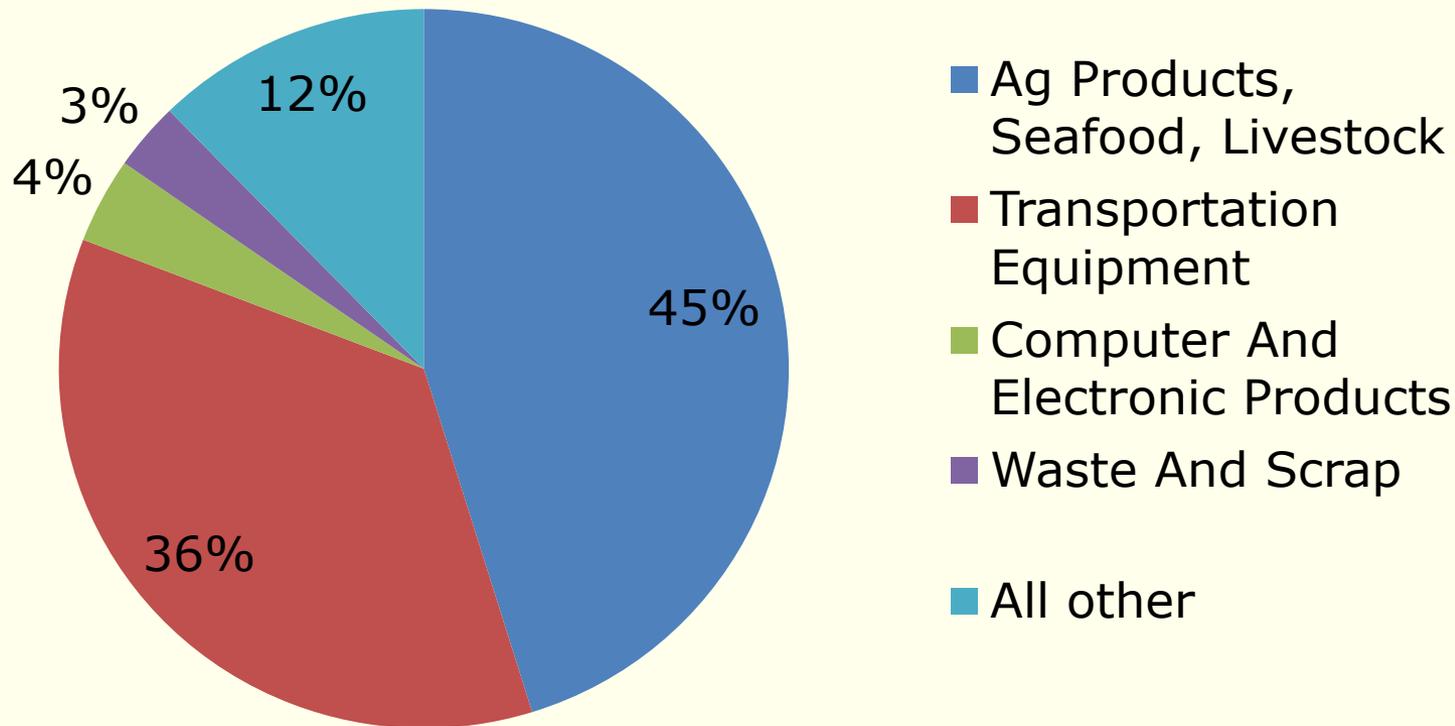
Source: Wiser Trade Data; through October 2012

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# Agricultural products and transportation equipment are top WA exports to China

YTD Agricultural exports to China are up 73%

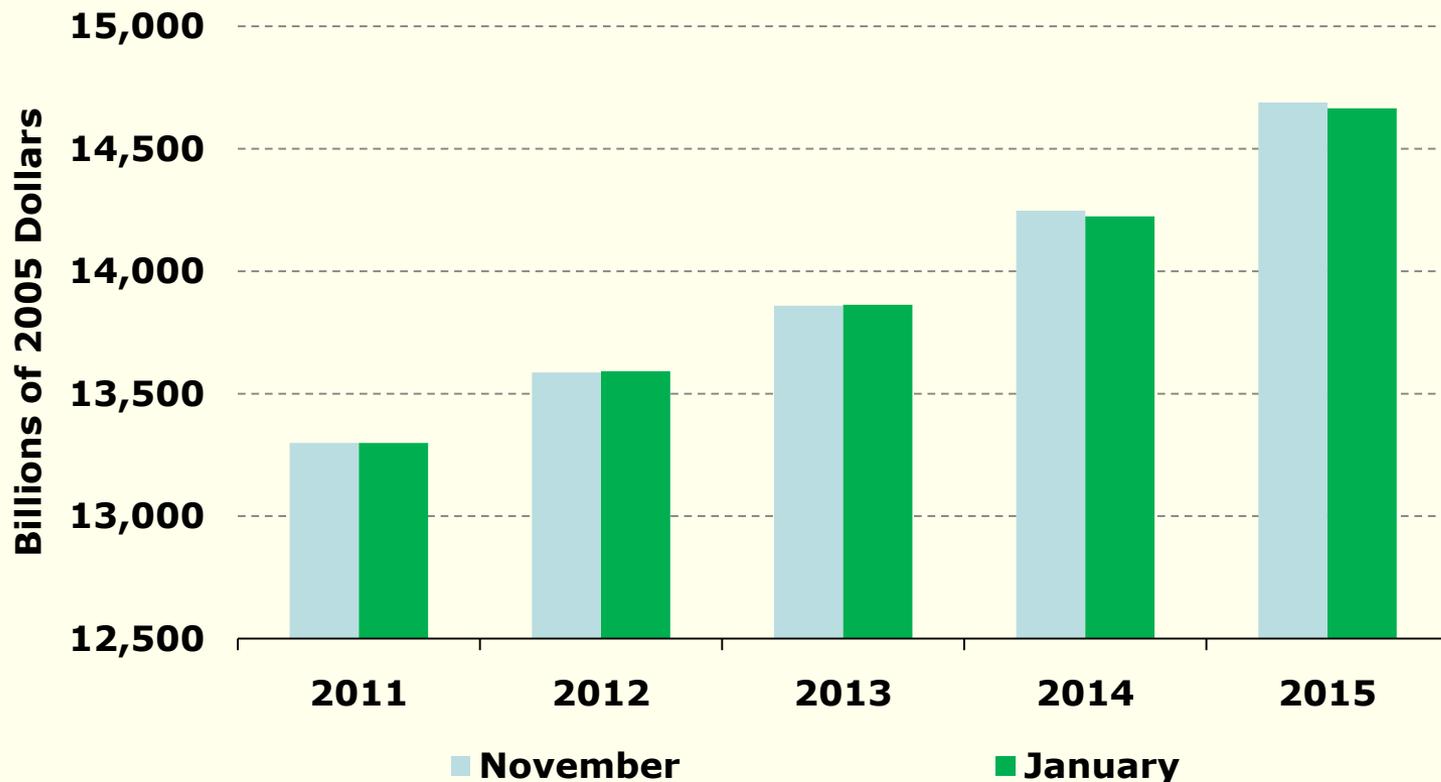


Source: WISER Trade Data; data through October 2012



# U.S. GDP Forecast Slightly Lower

**Blue Chip Consensus Real GDP forecast**

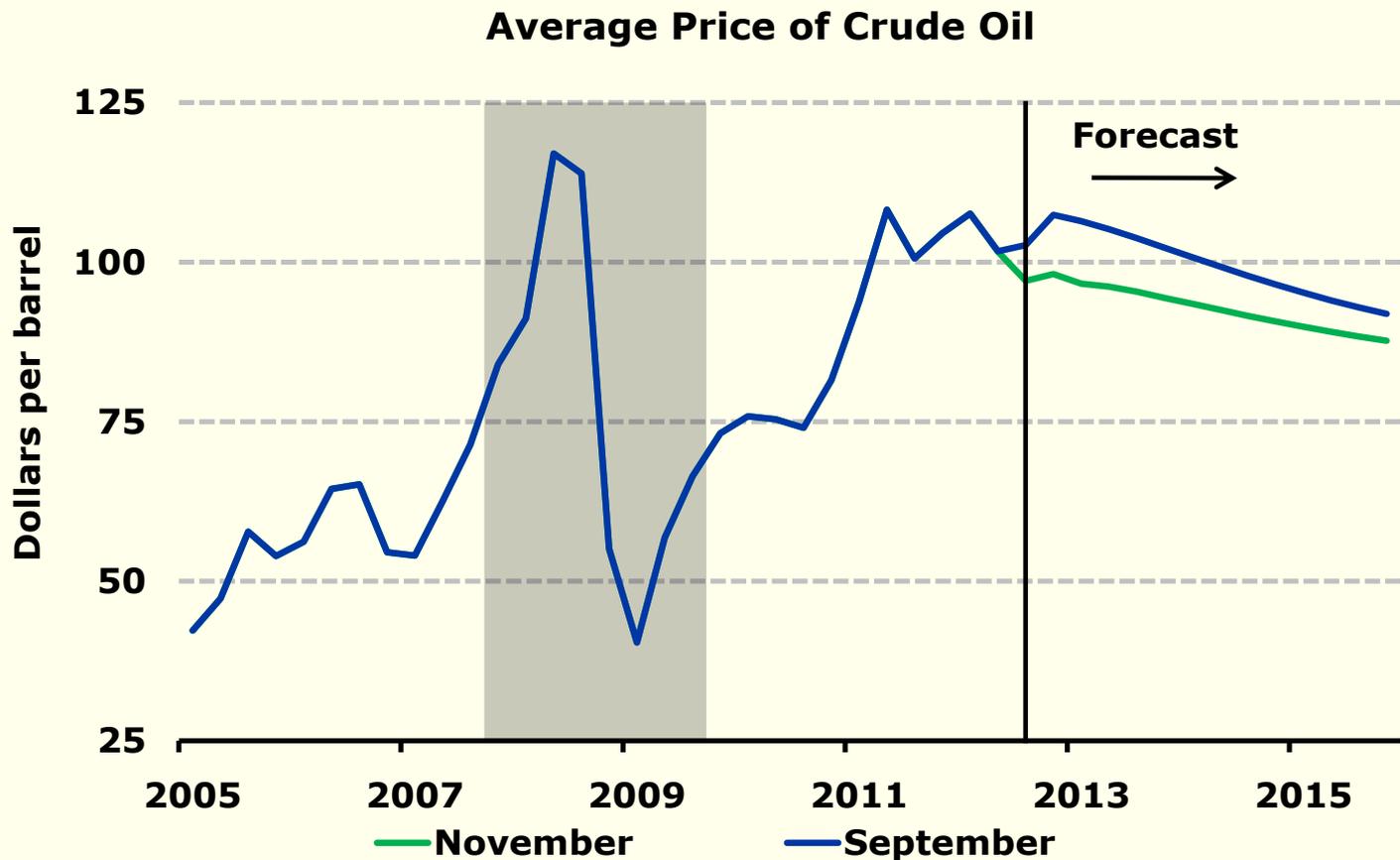


Source: BEA, Blue Chip Economic Indicators January 2013; historical data through 2011

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



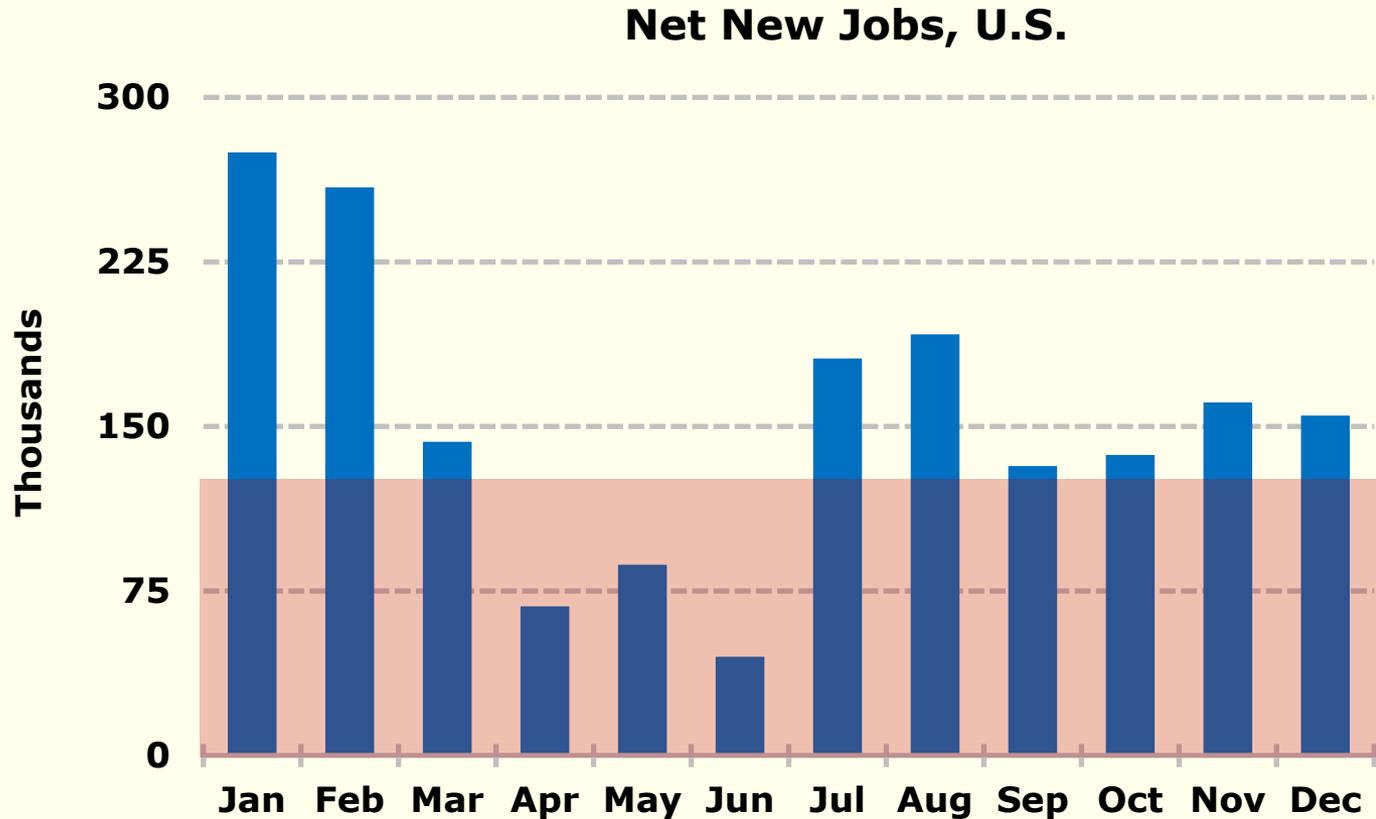
# Oil prices are expected to decline





# Job growth remains weak

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 December 2012

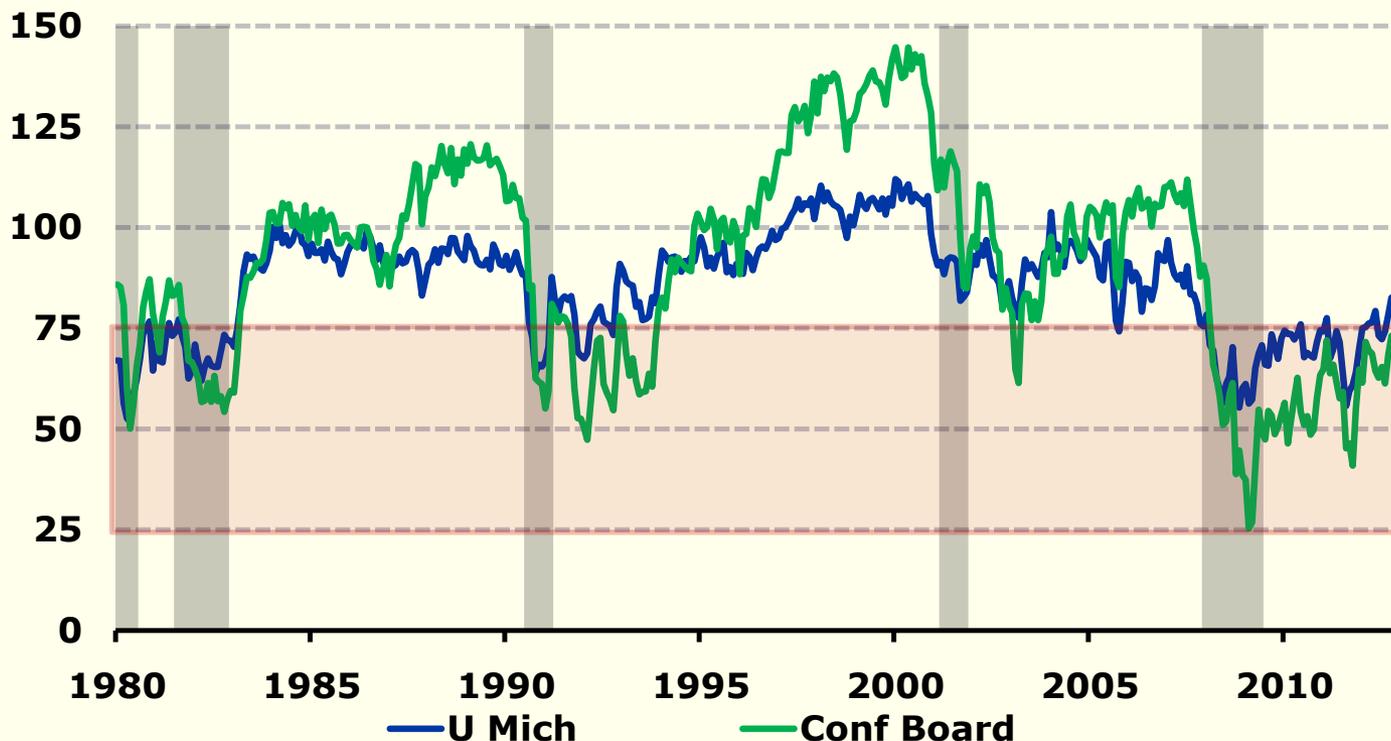


# Consumer confidence dipped at the end of the year

## Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



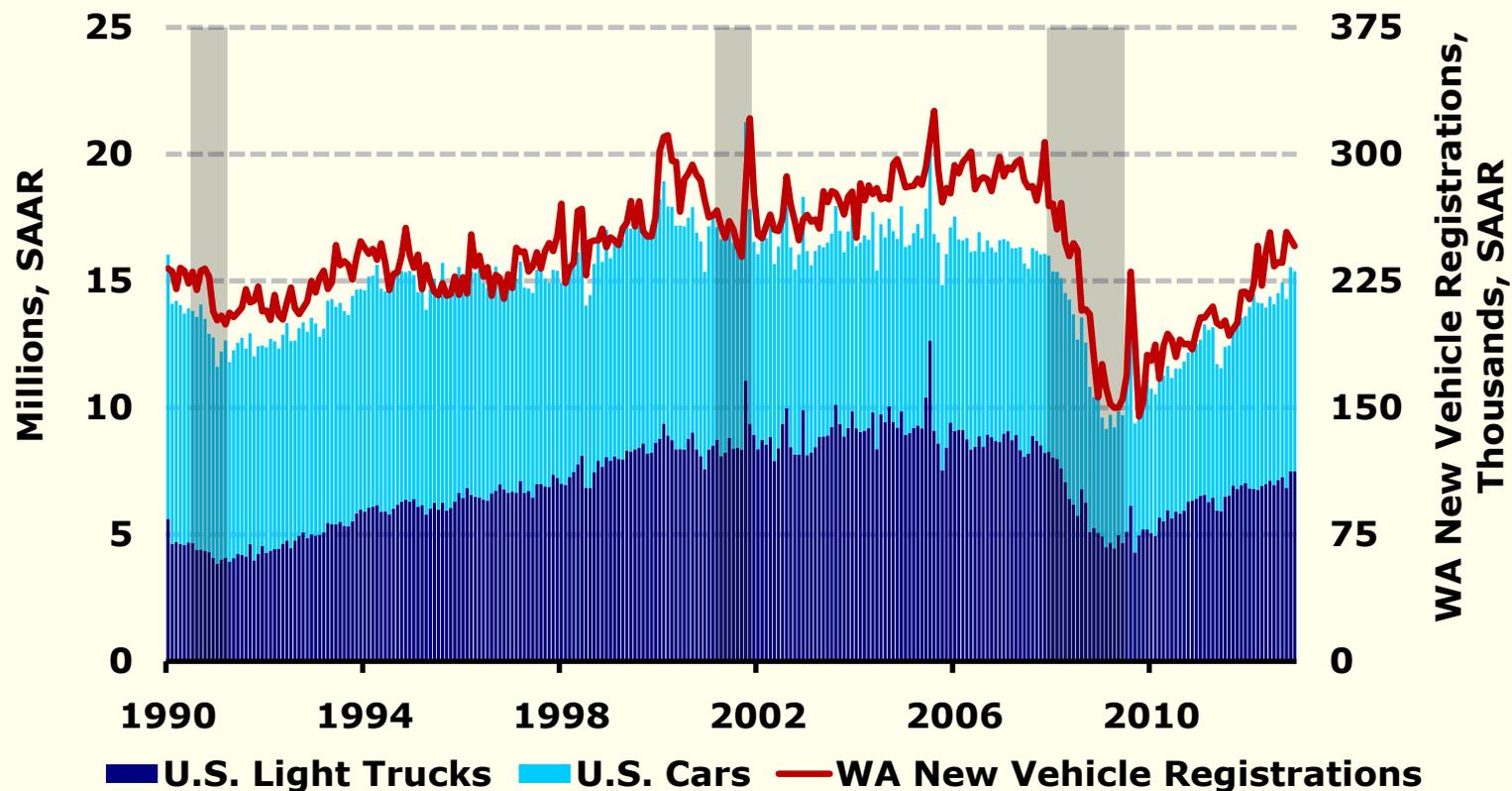
Source: University of Michigan; Conference Board, data through December 2012

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



# Vehicle sales continue their upward trend

U.S. LMV sales in December were up 13% year-over-year.



Source: Autodata Corporation, WA DOL; data through December 2012

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**

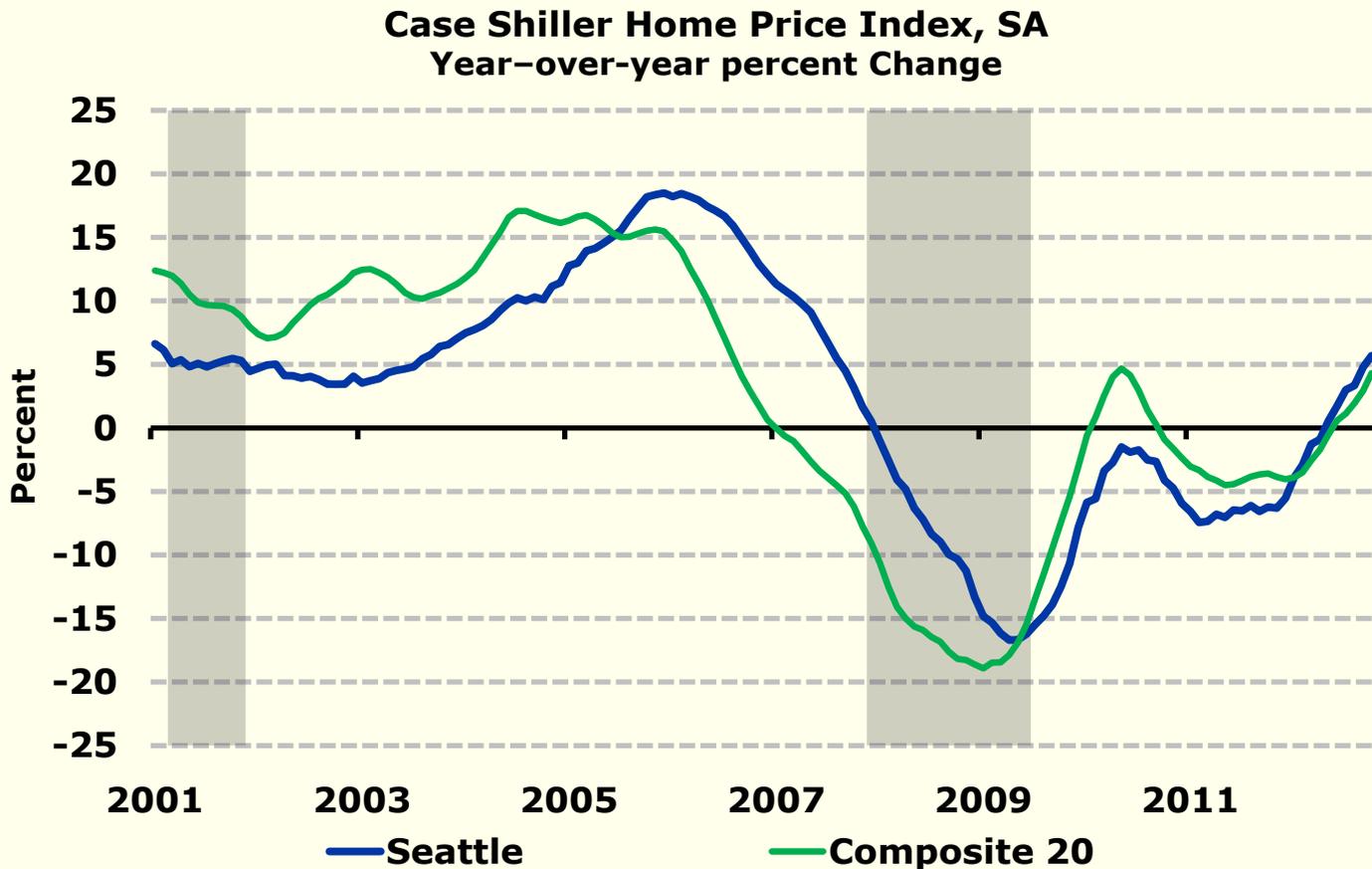


# Single-family home prices are beginning to increase

Oct 2012

U.S. is up 4.3%

Seattle is up 5.7%



Source: S&P/Case-Shiller; data through October 2012

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**

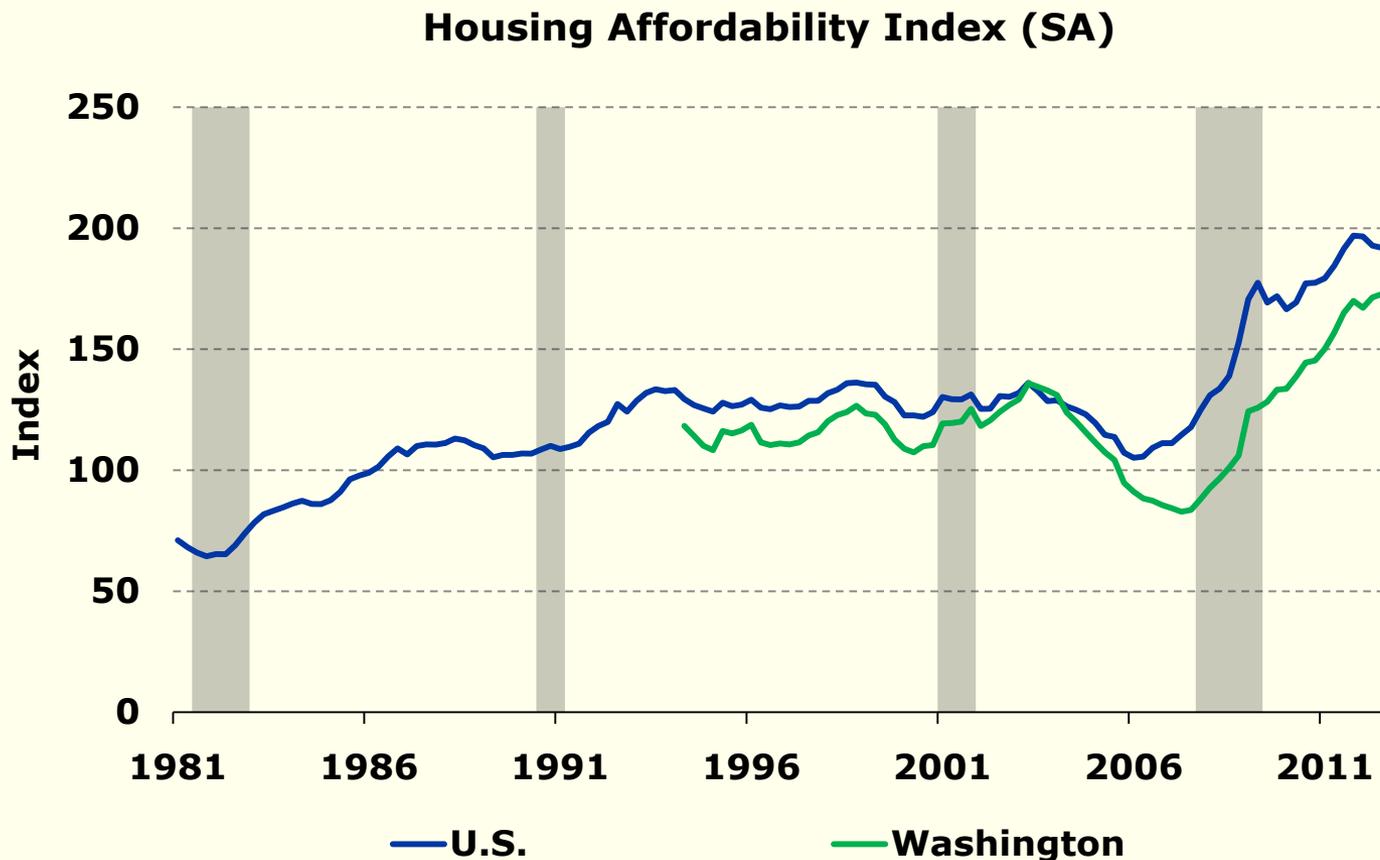
Economic Outlook  
Risks and State  
Revenue Update

January 22, 2013



# 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



Economic Outlook  
Risks and State  
Revenue Update  
January 22, 2013

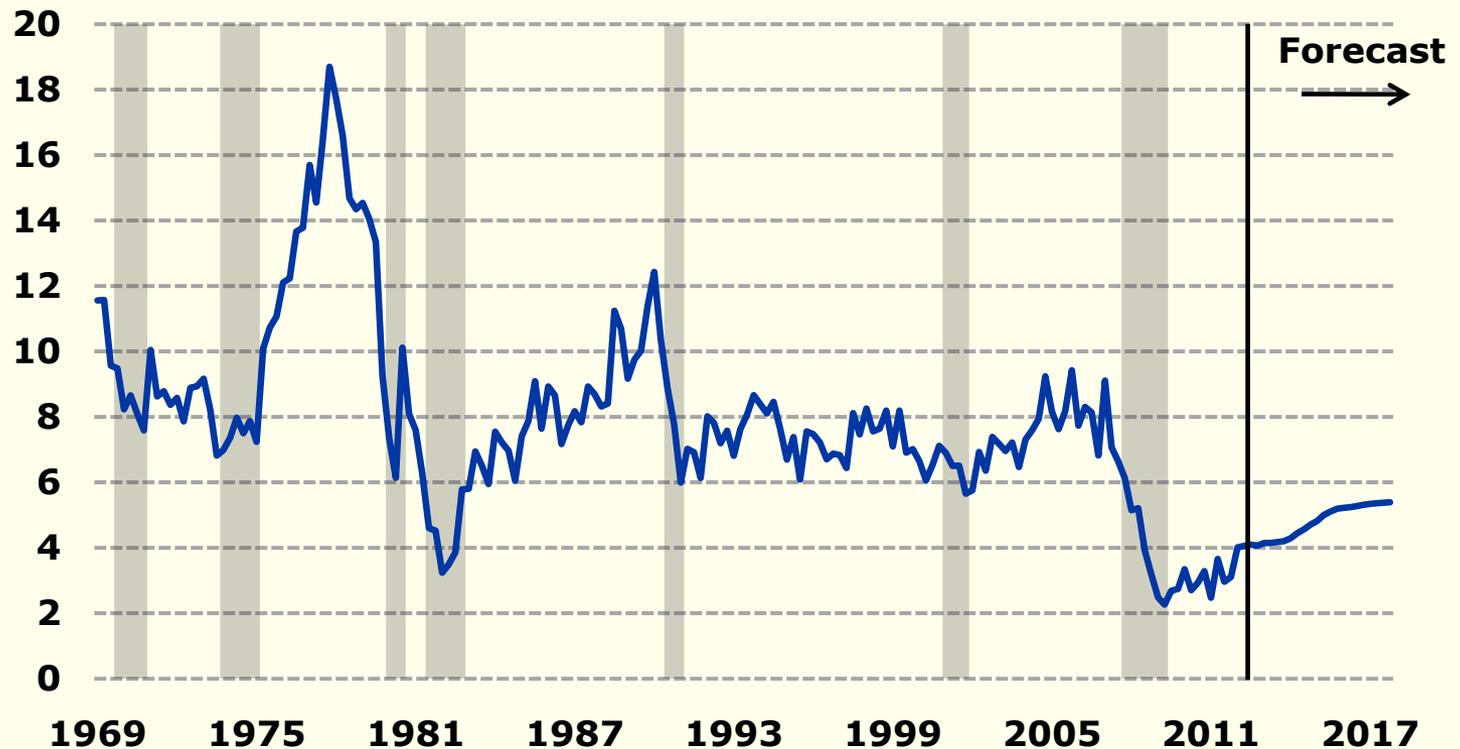
Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research; data through 2012 Q3

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# Housing permits relative to population will still be below historic levels in 2017

**Washington Housing Permits per 1,000 People**

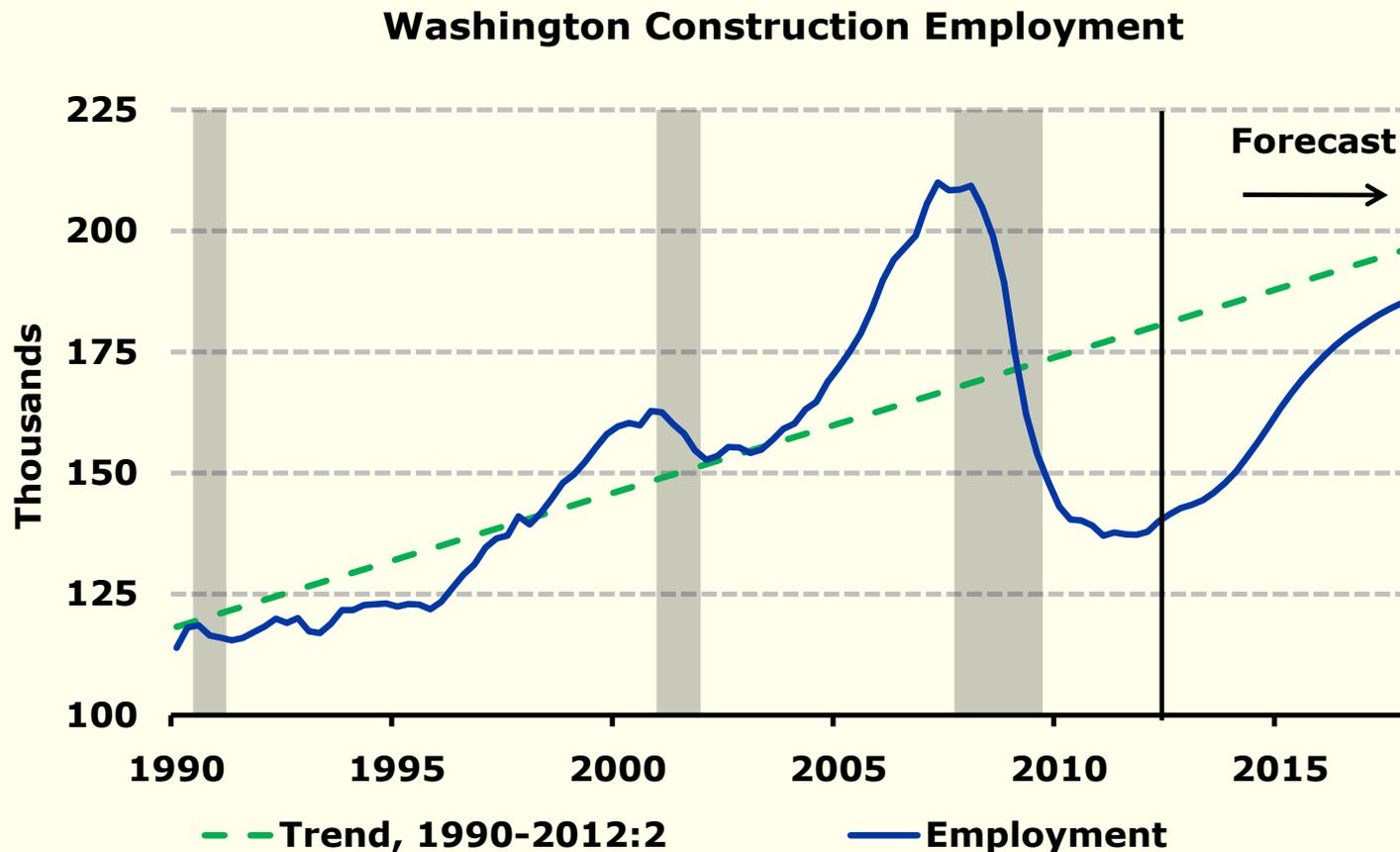


Source: U.S. Census Bureau, ERFC November 2012 Forecast; historical data through 2012 Q3

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# Washington construction employment will remain below trend throughout the forecast



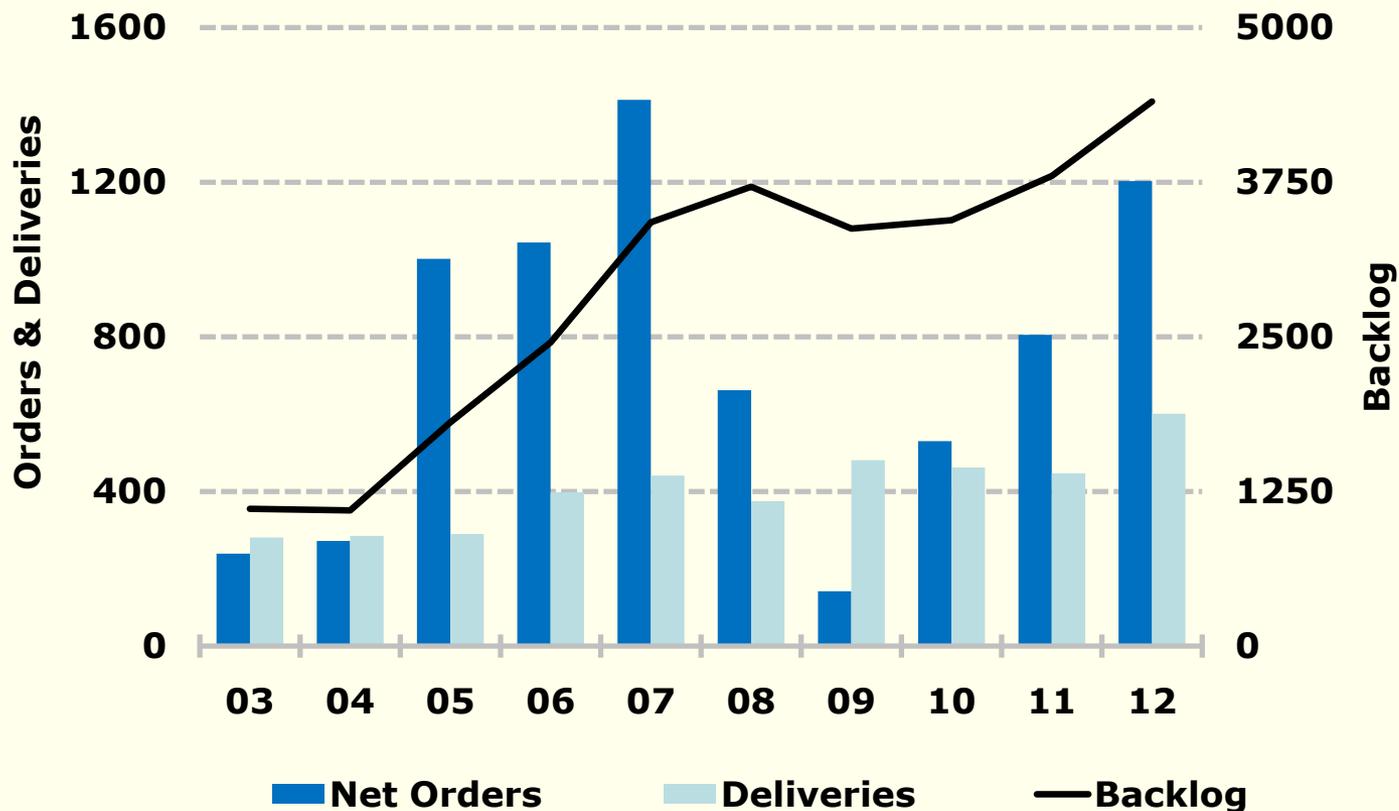
Source: ERFC November 2012 Preliminary forecast; historical data through 2012Q3

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



# Boeing has 7 years of commercial orders on its books

Excludes the military's new refueling tanker

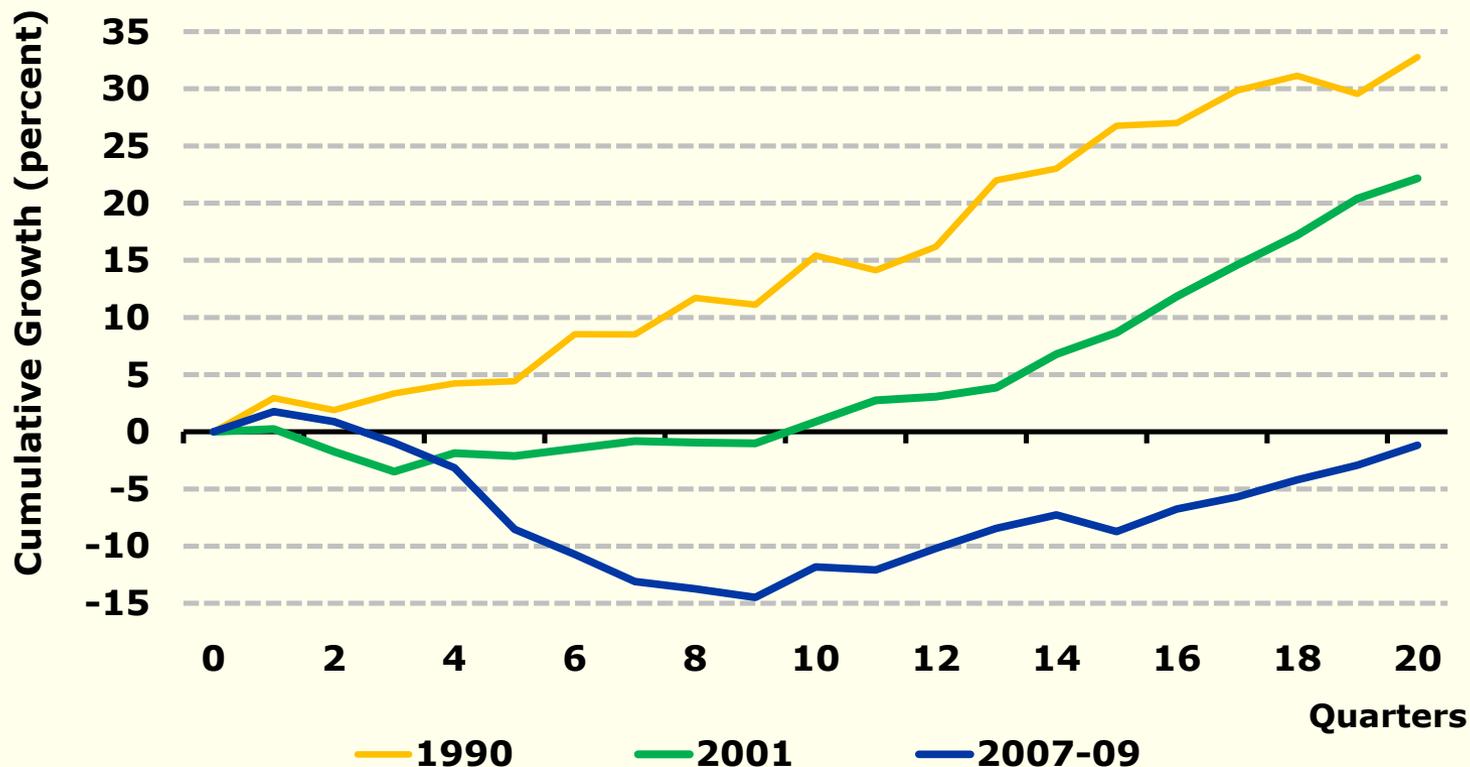


Source: Boeing, data through December 2012



# Revenue collections have been weak compared to past recoveries

## Revenue Act Collections after Business Cycle Peak



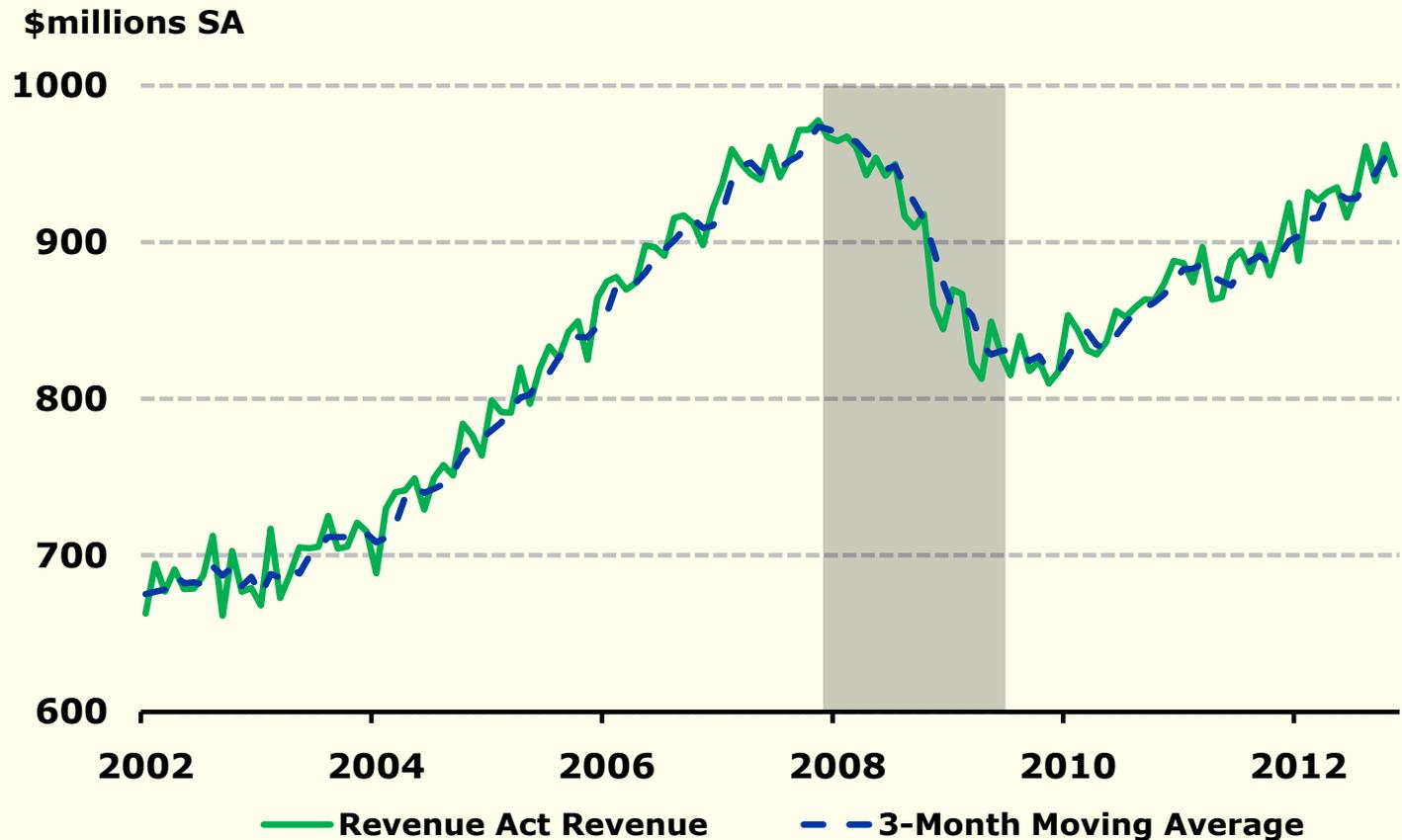
Source: ERFC; data through 2012 Q3

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# Revenue Act collections are still on an upward trend

Collections were up 5.4% year-over-year in the December 11, 2012 – January 10, 2013 collection period



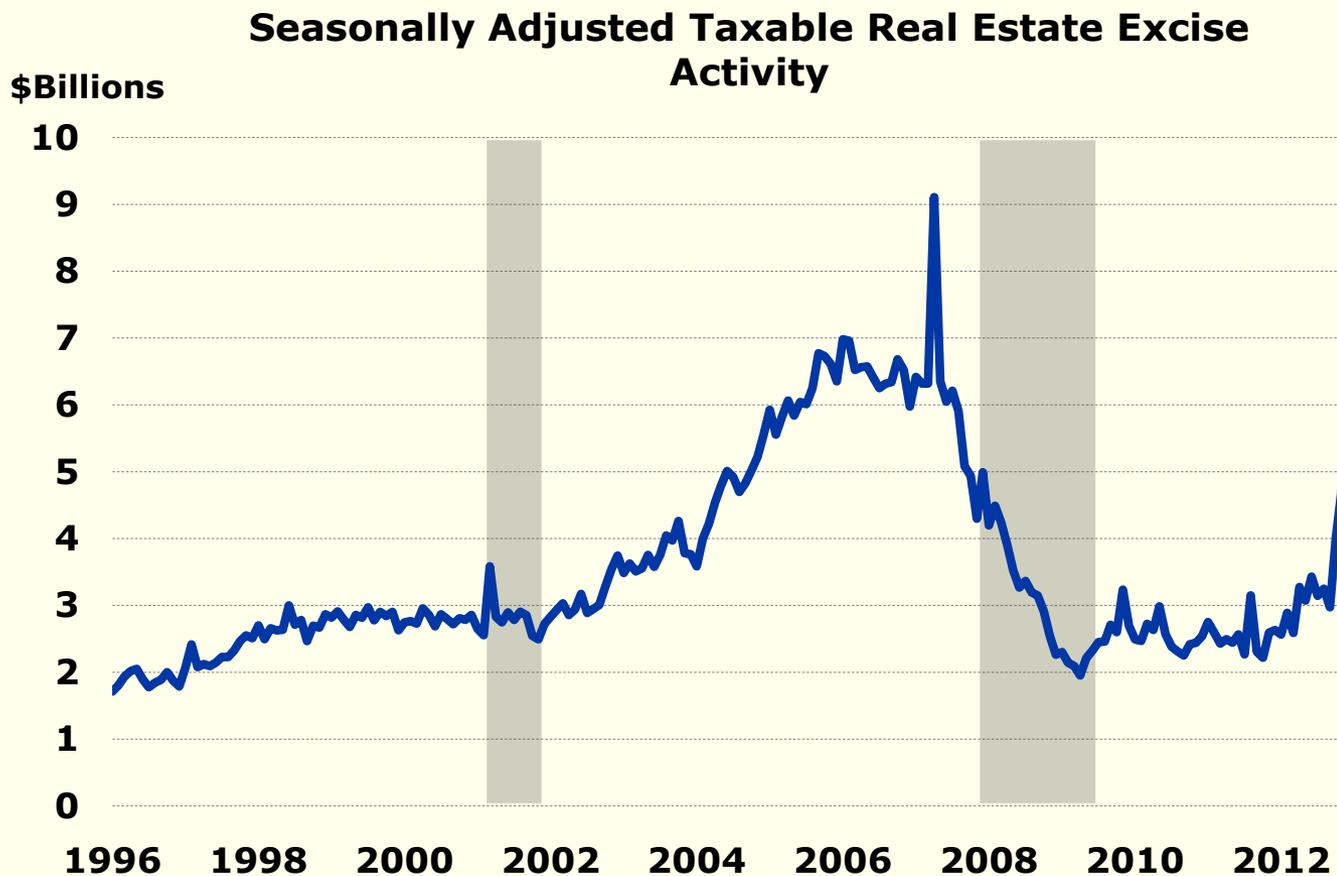
\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated November 2012 activity

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# December saw another spike in large commercial real estate sales



Source: ERFC; Monthly data through December 2012 preliminary

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



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

**September Forecast:**

**\$30,469 million**

USD millions	November Forecast			
	<u>Collection Experience</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$32	(\$3)	\$28,852	\$29
All other agencies	(\$1)	(\$20)	\$1,625	(\$21)
<b>Total GF-S</b>	<b>\$31</b>	<b>(\$23)</b>	<b>\$30,477</b>	<b>\$8</b>

\* Detail may not add to total due to rounding

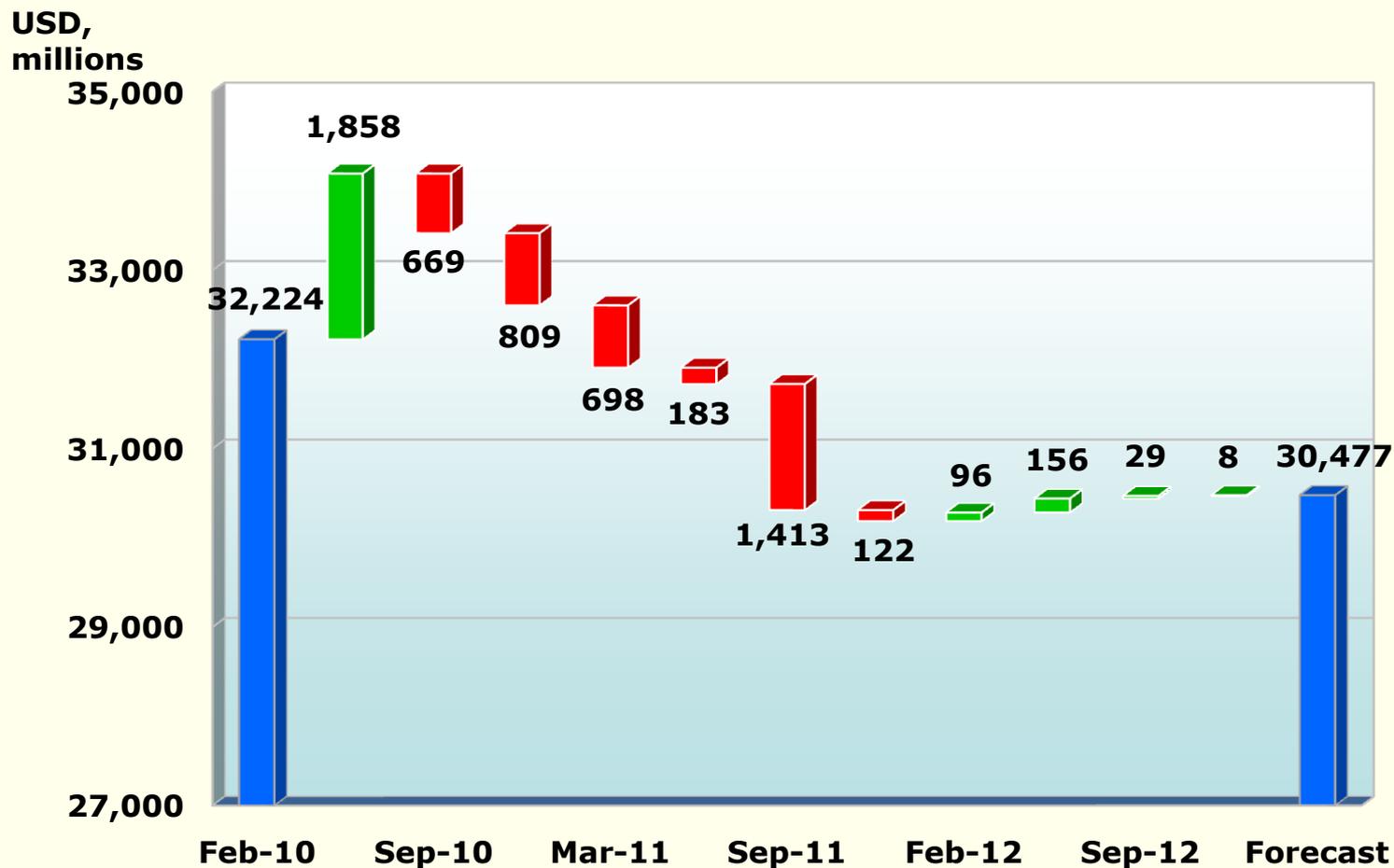
Economic Outlook  
Risks and State  
Revenue Update

January 22, 2013



# Forecast revisions to the 2011-13 biennium

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



Source: ERFC November 2012 forecast

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



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

**September Forecast:**

**\$32,649 million**

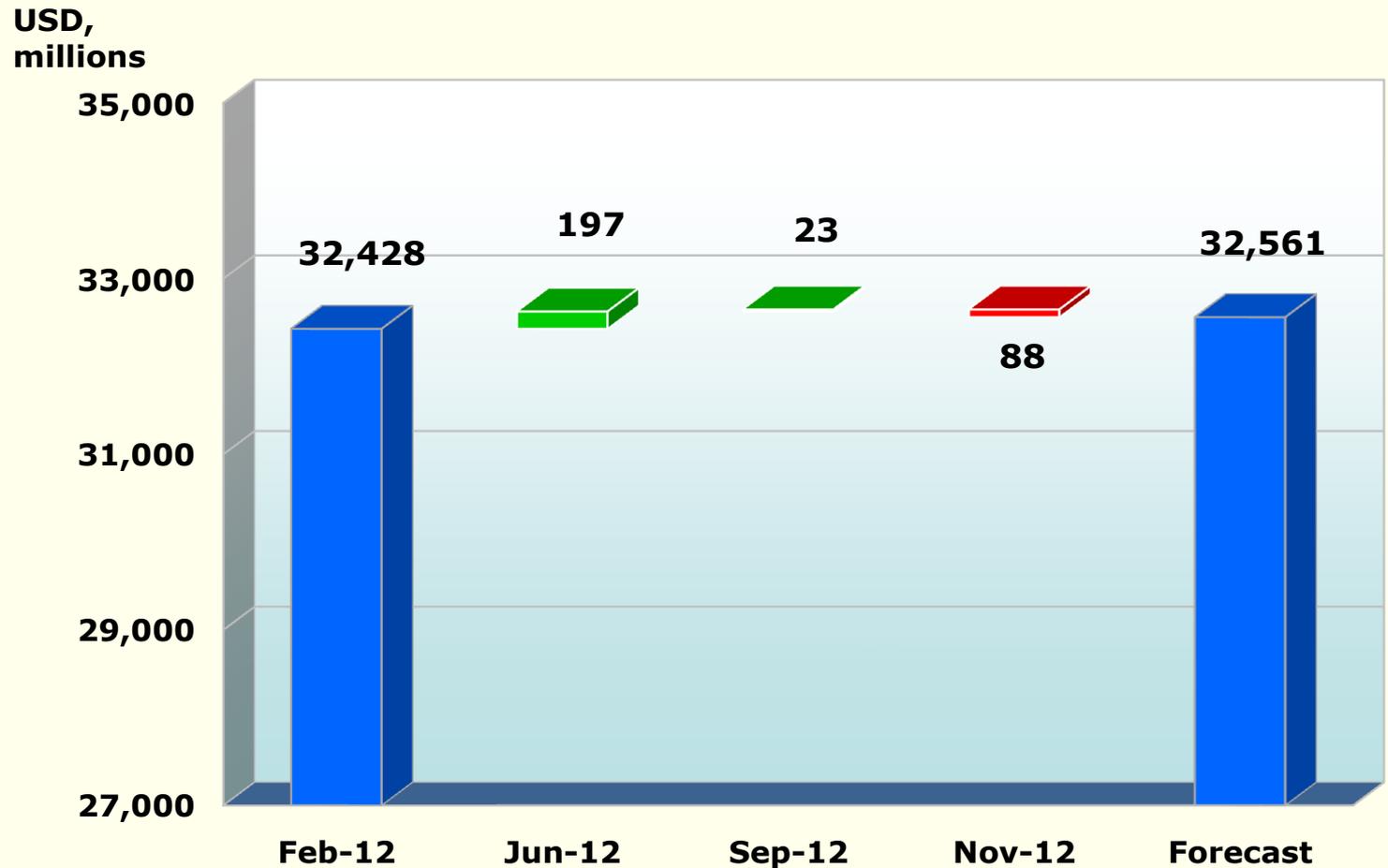
USD millions	November Forecast			Total Change*
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$0	(\$113)	\$31,001	(\$113)
All other agencies	\$0	\$25	\$1,560	\$25
<b>Total GF-S</b>	<b>\$0</b>	<b>(\$88)</b>	<b>\$32,561</b>	<b>(\$88)</b>

\* Detail may not add to total due to rounding



# Forecast revisions to the 2013-15 biennium

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



Source: ERFC November 2012 forecast

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**



# Forecast changes: General Fund State, 2015-2017 Biennium

**September Forecast:**

**\$35,518 million**

**USD millions**

## November Forecast

	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	(\$196)	\$33,906	(\$196)
All other agencies	\$0	\$33	\$1,449	\$33
<b>Total GF-S</b>	<b>\$0</b>	<b>(\$163)</b>	<b>\$35,355</b>	<b>(\$163)</b>

\* Detail may not add to total due to rounding



# Revenue collections to date

## Cumulative Variance Since November Forecast (Nov 11, 2012 – Jan 10, 2013) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$2,854,301	\$2,946,462	\$92,160	3.2%
All other agencies	\$16,124	\$16,026	(\$97)	-0.9%
Total GF-S	\$2,870,425	\$2,962,488	\$92,063	3.2%

Economic Outlook  
Risks and State  
Revenue Update

January 22, 2013



# Conclusion

- The forecast for the 2011-13 Biennium is \$8 million higher than in September
- The forecast for the 2013-15 Biennium is \$88 million lower than in September
- Revenue collections since the November forecast are \$92 million above the forecast
- The fiscal cliff deal increased payroll taxes, which will reduce personal income and spending this year
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



# Questions



Economic Outlook  
Risks and State  
Revenue Update

January 22, 2013

Slide 31

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

**[www.erfc.wa.gov](http://www.erfc.wa.gov)**  
**360-534-1560**