

Economic & Revenue Outlook

Presented to
Shelton-Mason Chamber of Commerce

Lance Carey
Senior Economist

March 20, 2014
Shelton, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Outline

- U.S. Economy
 - Synopsis of the Great Recession and subsequent recovery.
 - Analysis of the U.S. labor market.
 - Analysis of the housing and construction sector.
- Mason County
 - Analysis of the local economic recovery.
- Washington State Economic Forecast.
 - Select economic forecasts.
 - Risks to the forecast.
 - Brief look at the state revenue forecast.

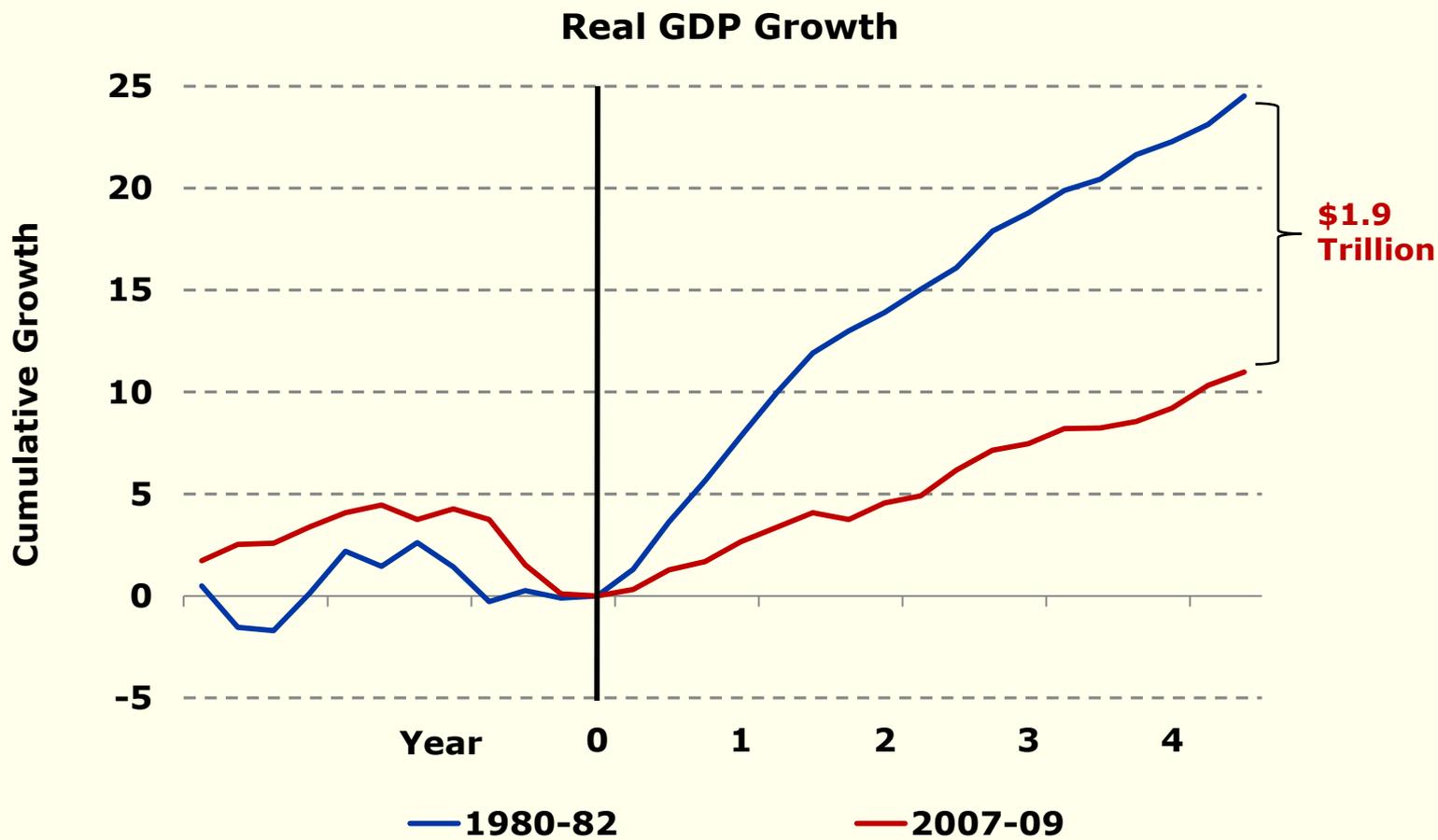


This is the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.3	6.3	18



This recovery has been weak

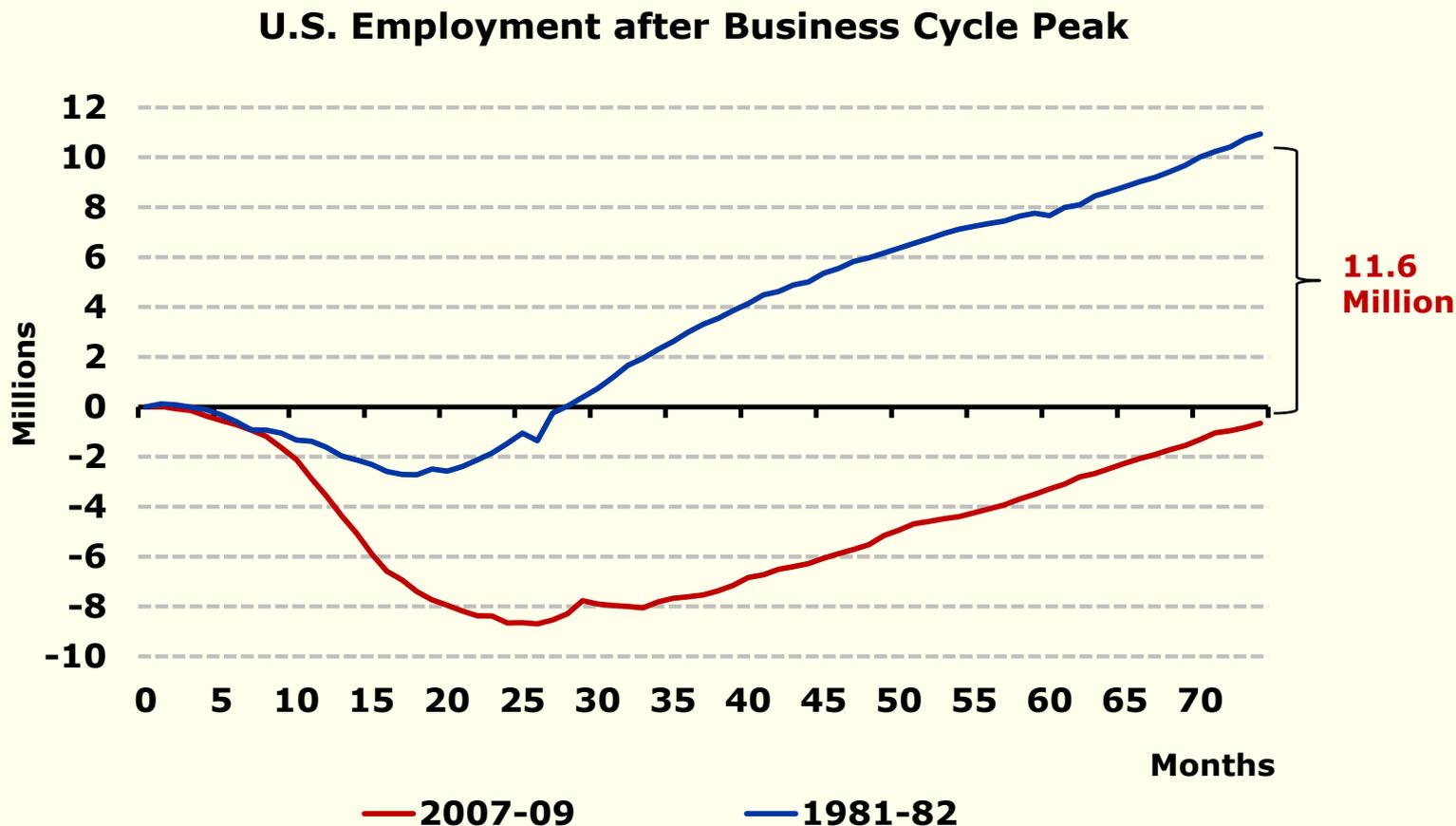


Source: Bureau of Economic Analysis, ERFC; data through 2013Q4



After nearly 6 years, U.S. employment has still not recovered

The U.S. remains 651,000 jobs below the start of the recession

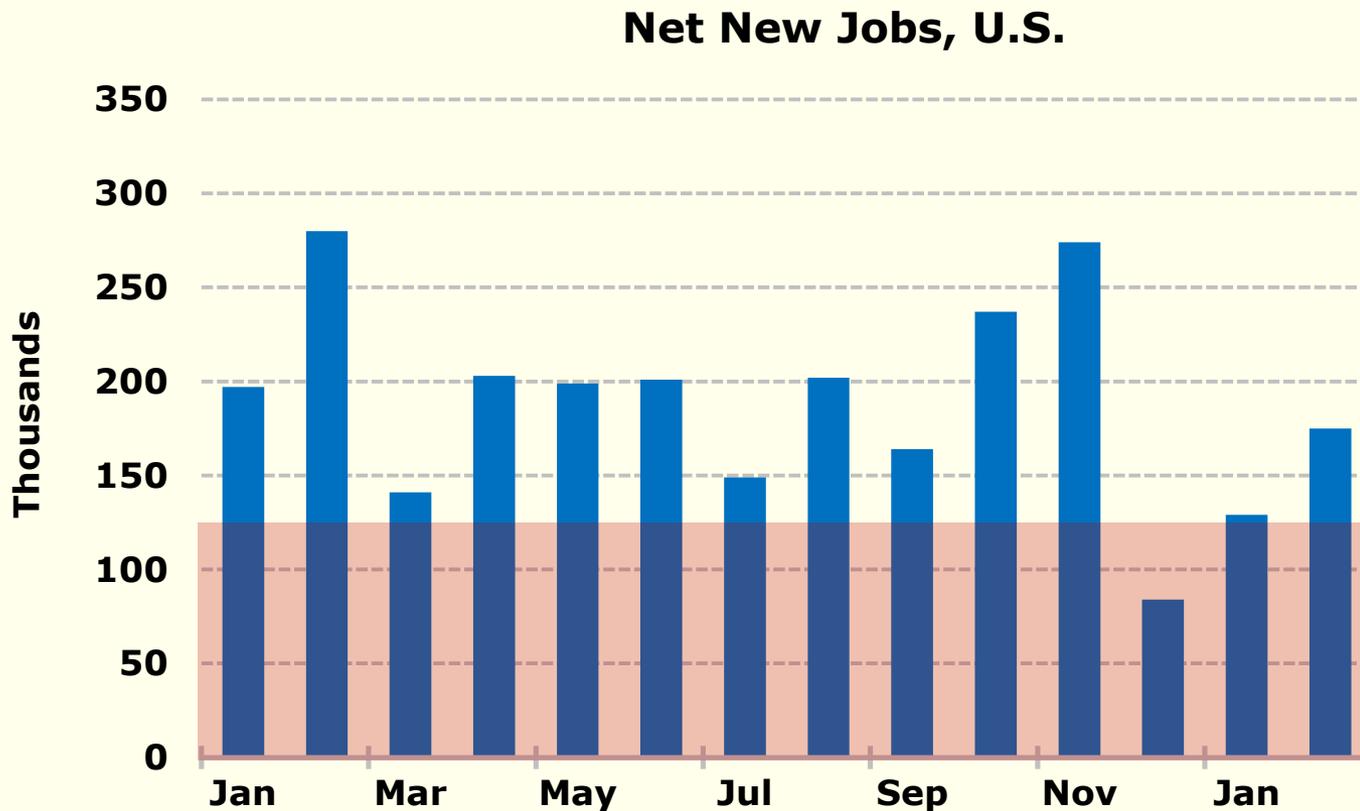


Source: Bureau of Labor Statistics, ERFC; data through February 2014



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 February 2014

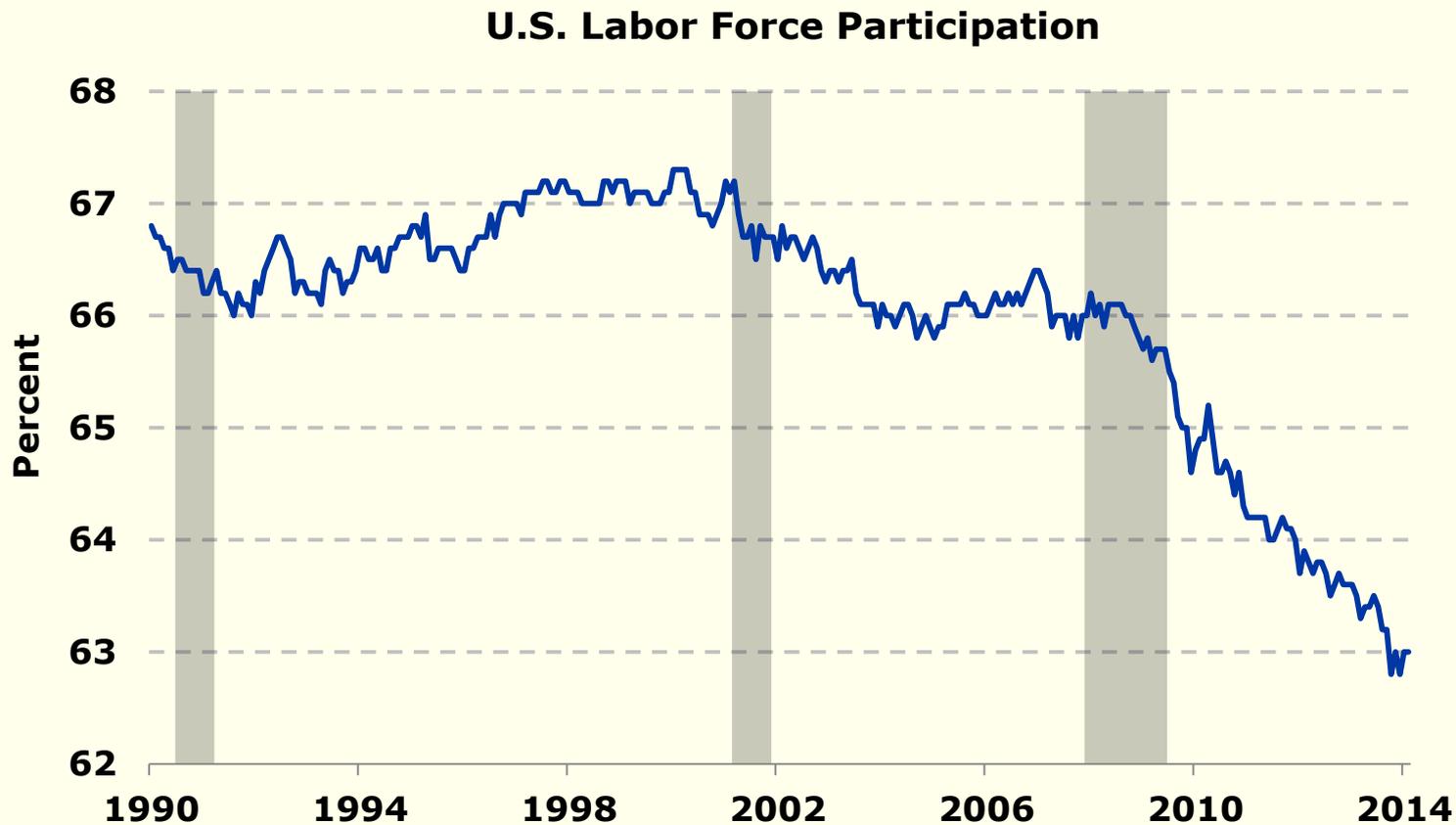


The unemployment rate continues to fall



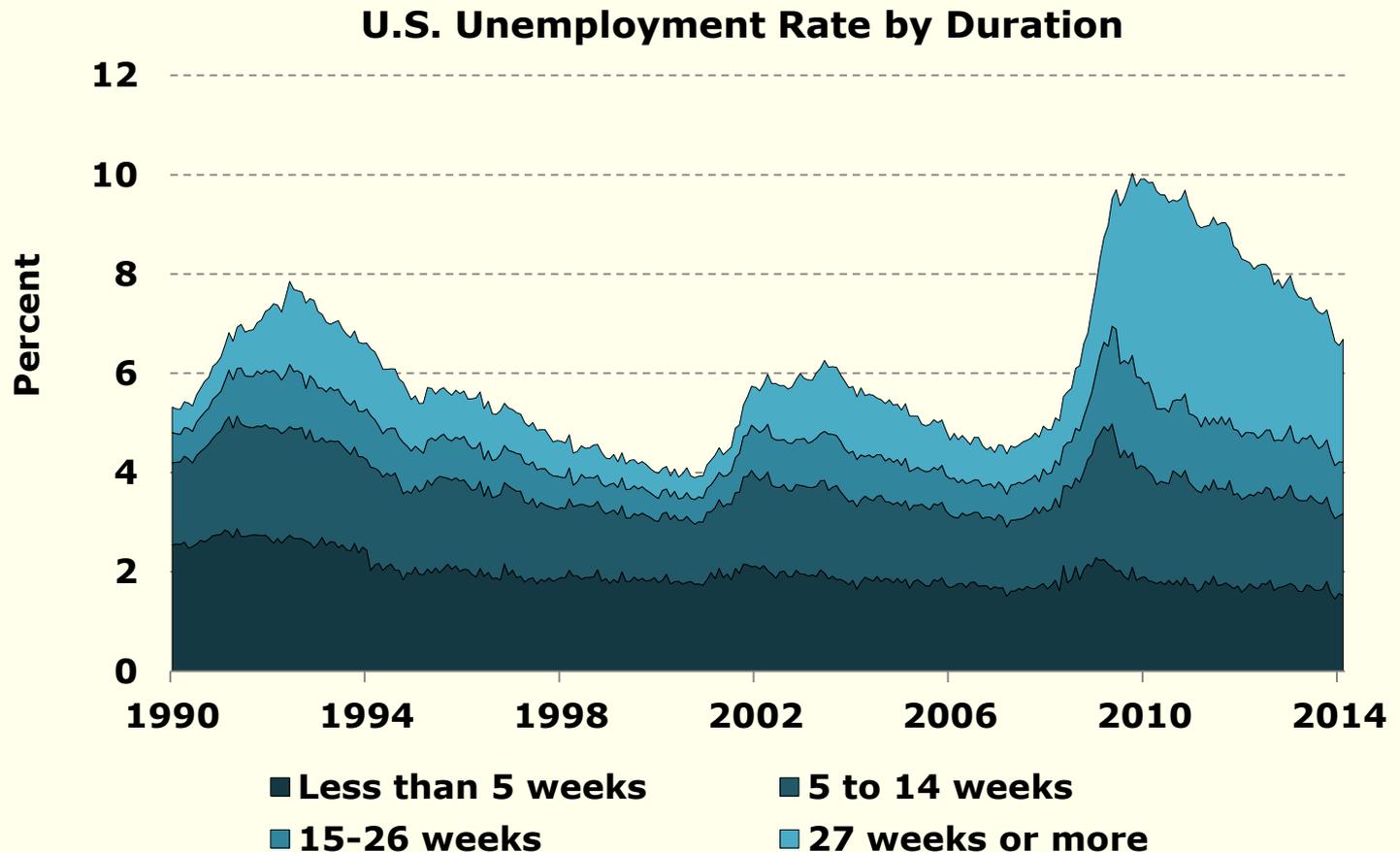


Labor Force Participation continues to decline



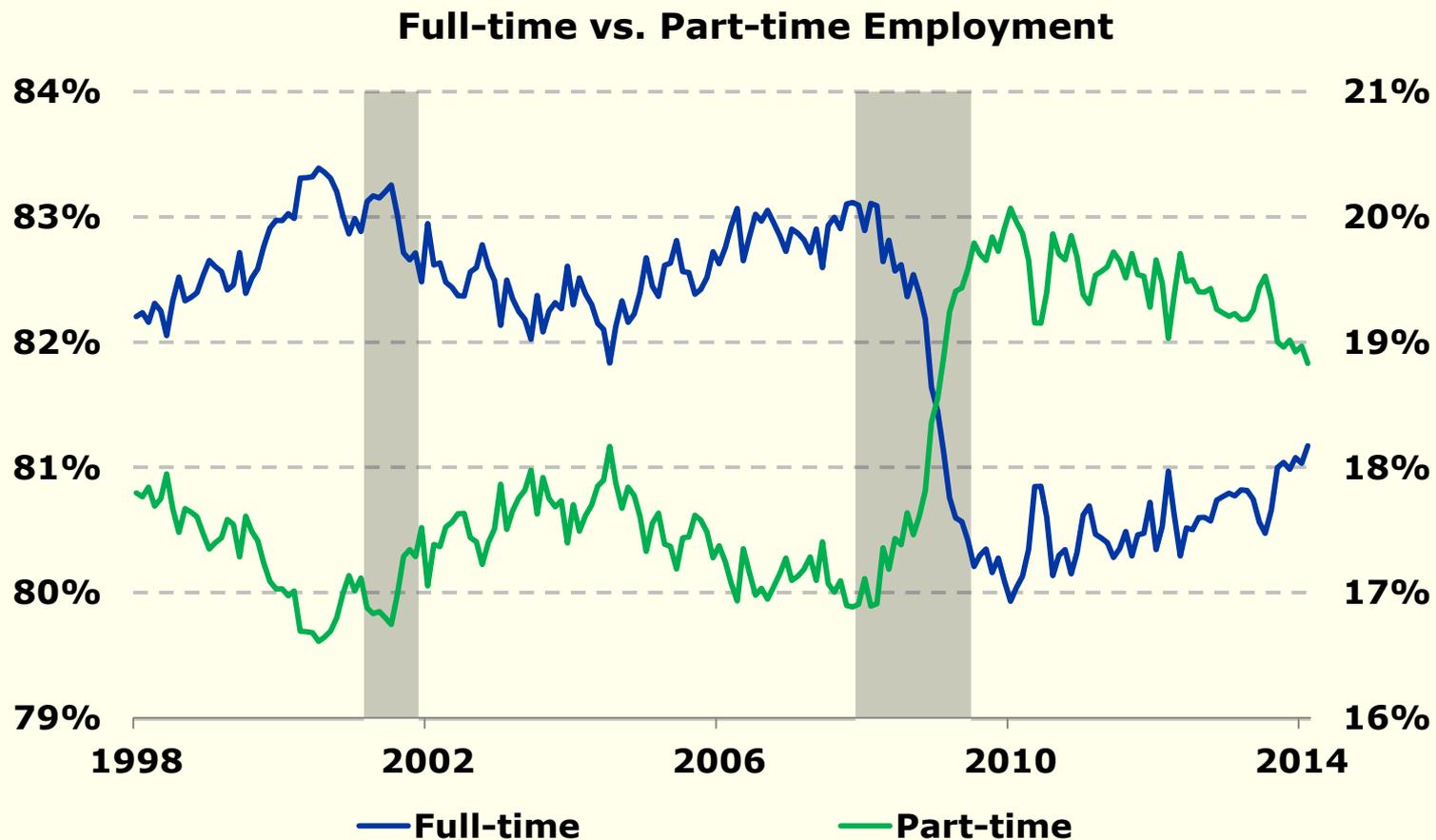


How long have the unemployed been without a job?





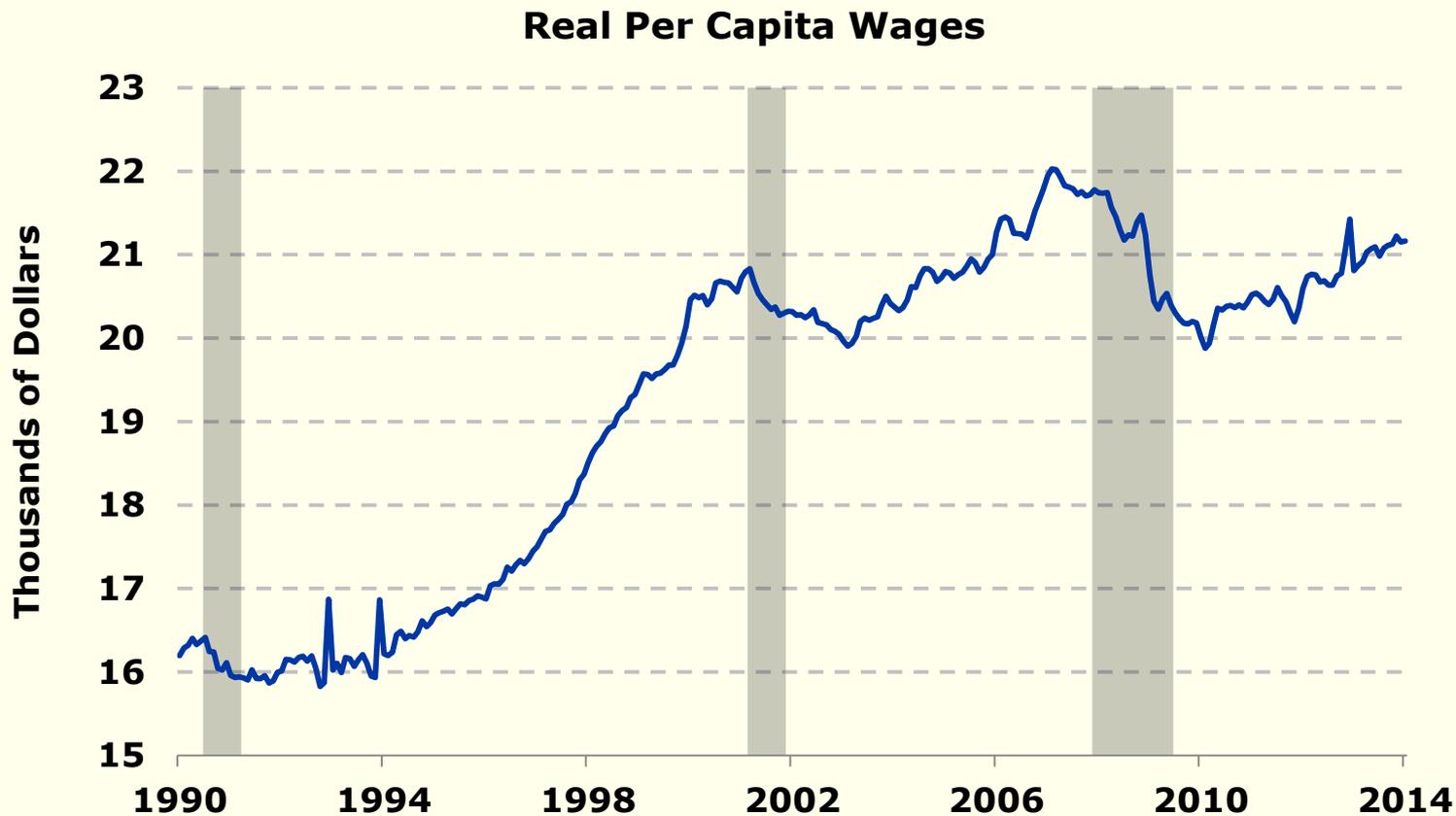
There was a shift to part-time work during the recession



Source: Bureau of Labor Statistics, data through February 2014



Real wages remain below their pre-recession peak



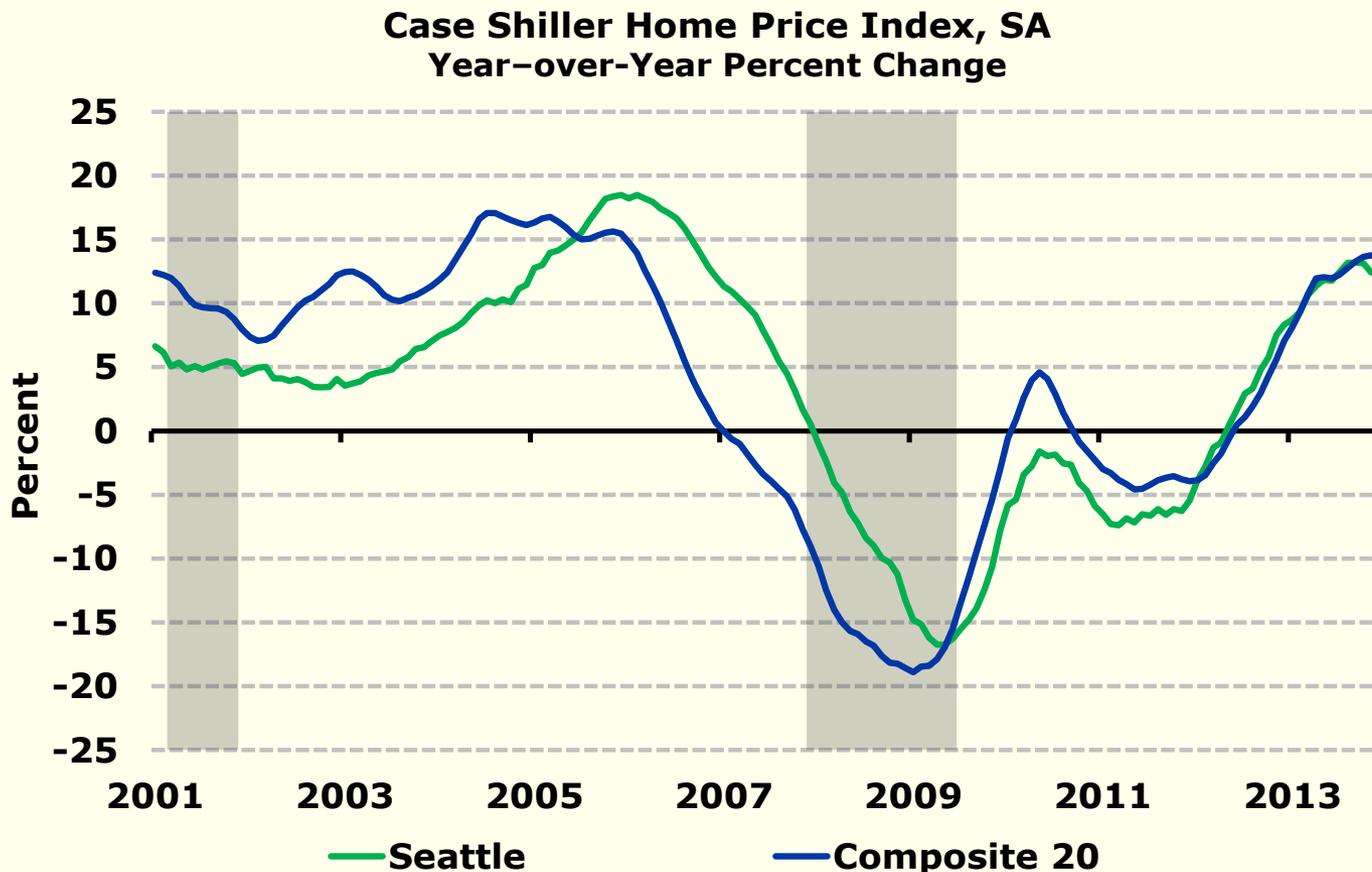


Single-family home prices continue to increase

Dec 2013

U.S. is up
13.5%

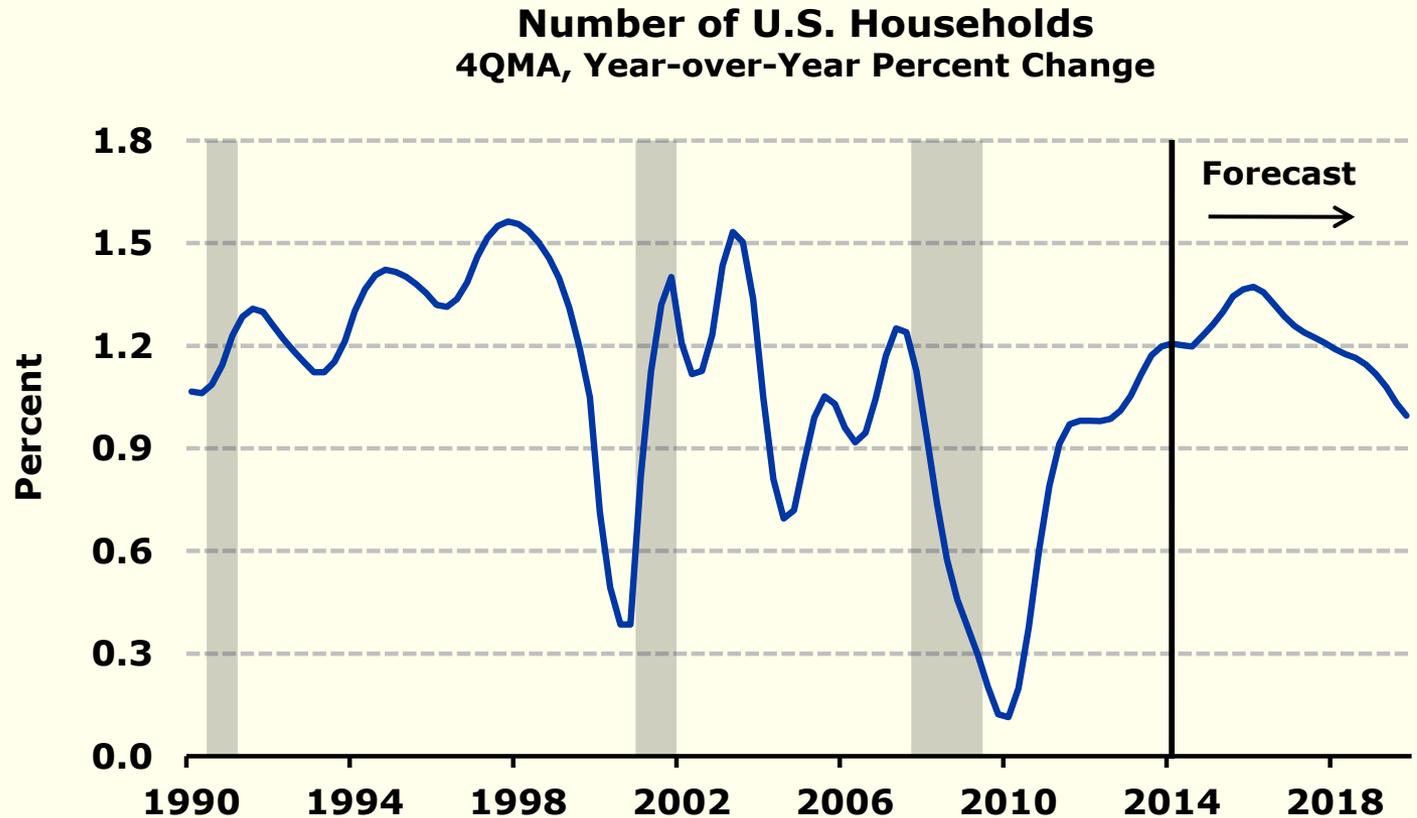
Seattle is
up 12.5%



Source: S&P/Case-Shiller; data through December 2013

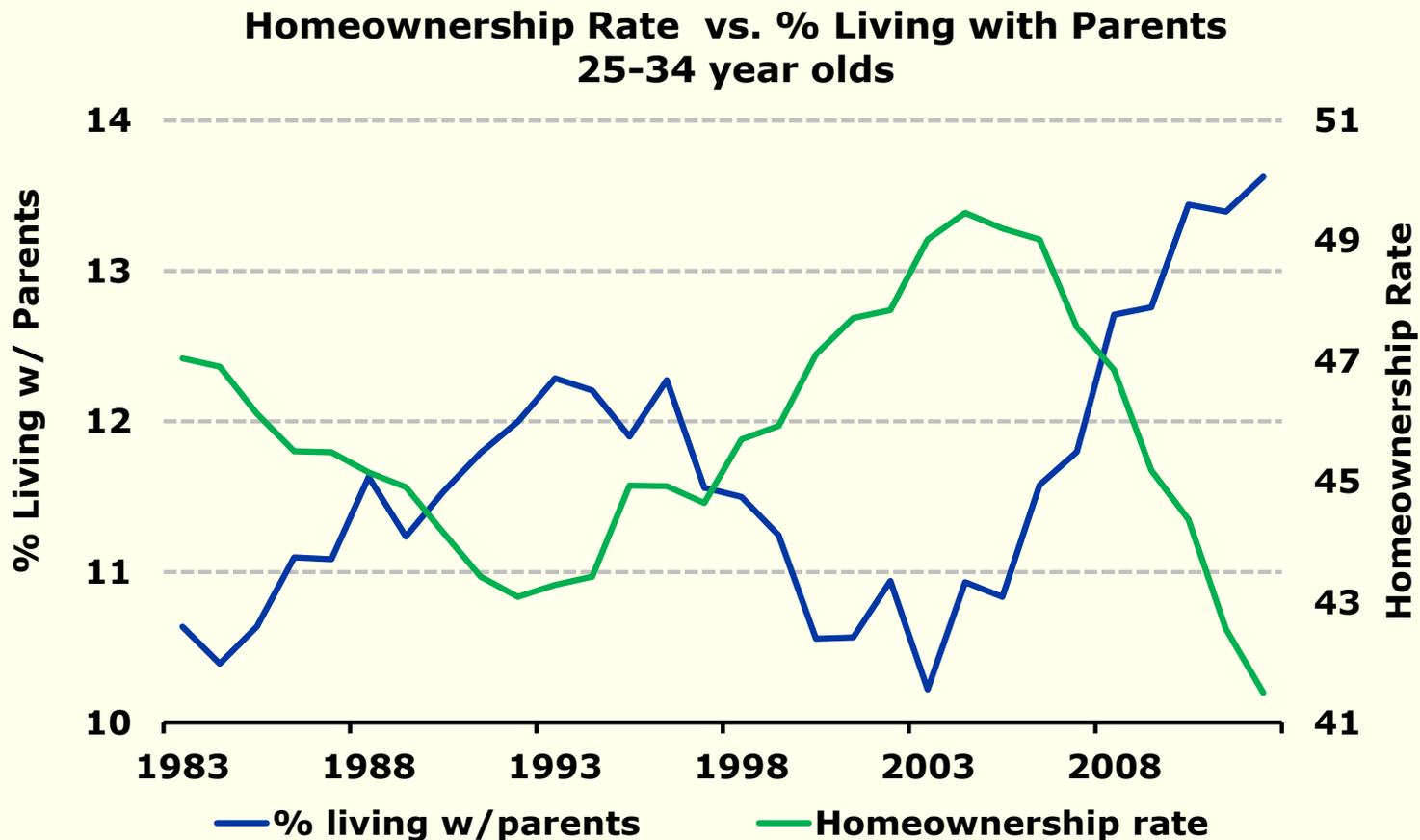


The Great Recession saw an unprecedented slowdown in household formation



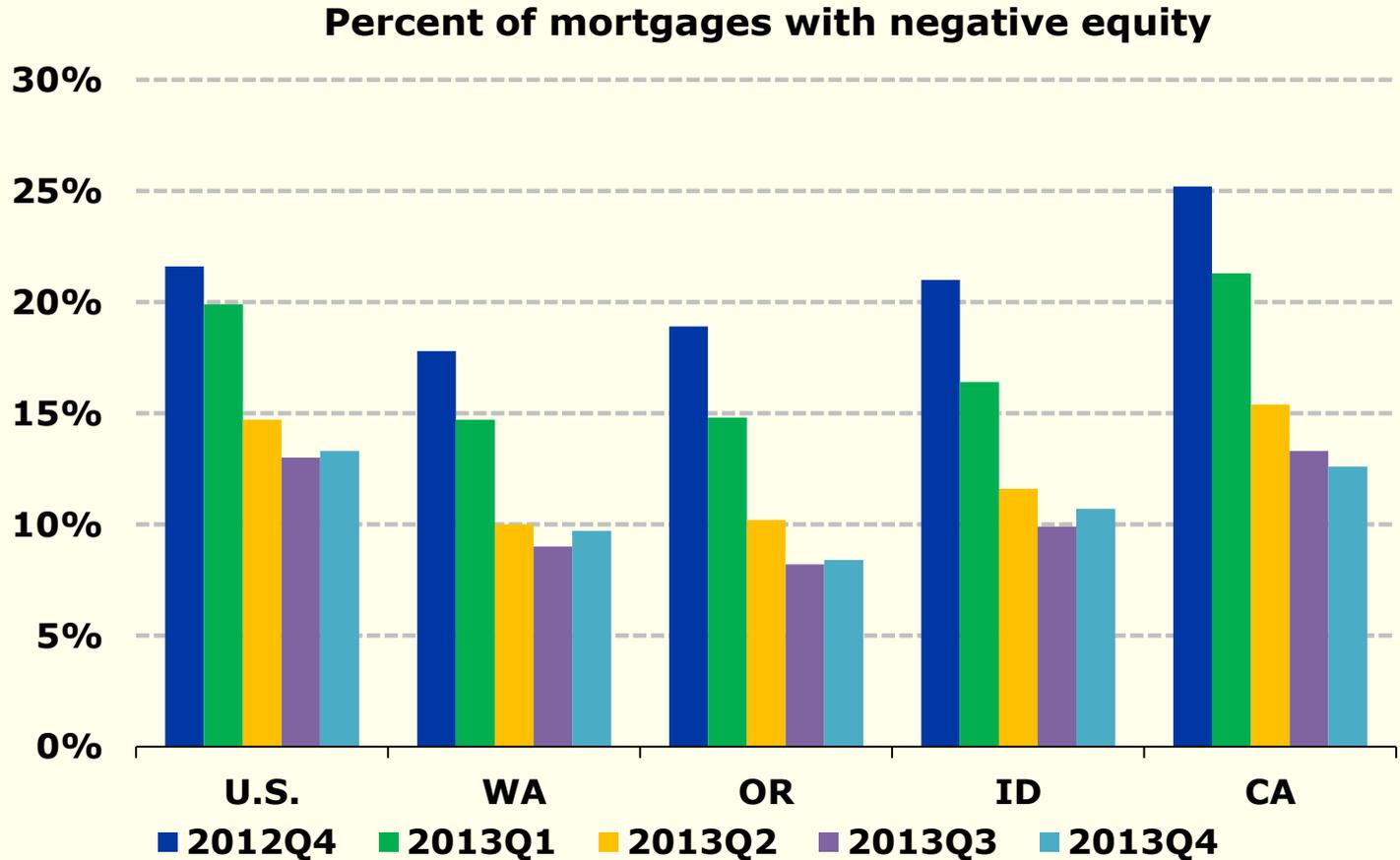


Many adults continue to live at home with their parents





Rising home prices have reduced the number of underwater mortgages

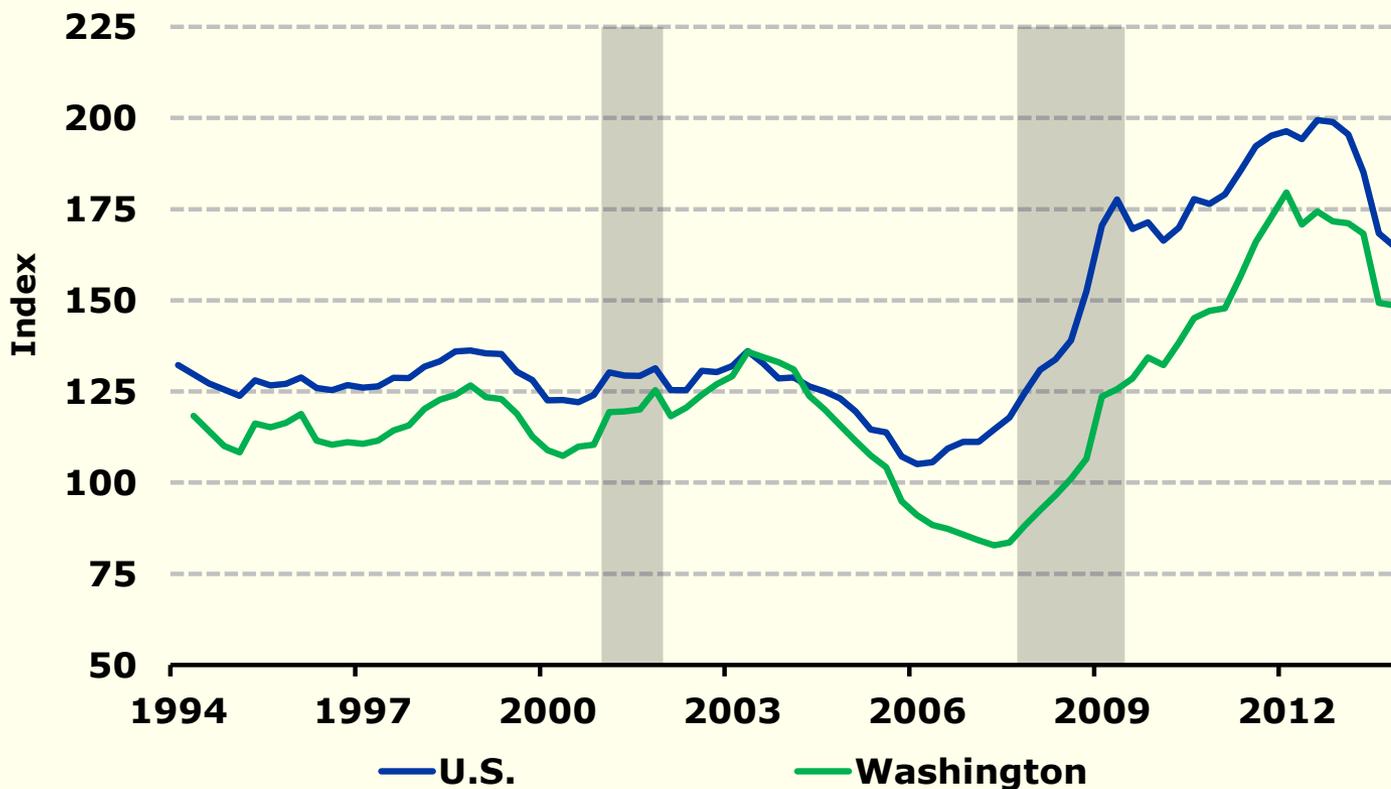


Source: CoreLogic, ERFC, data through 2013Q4



Rising mortgage rates and home prices have reduced affordability

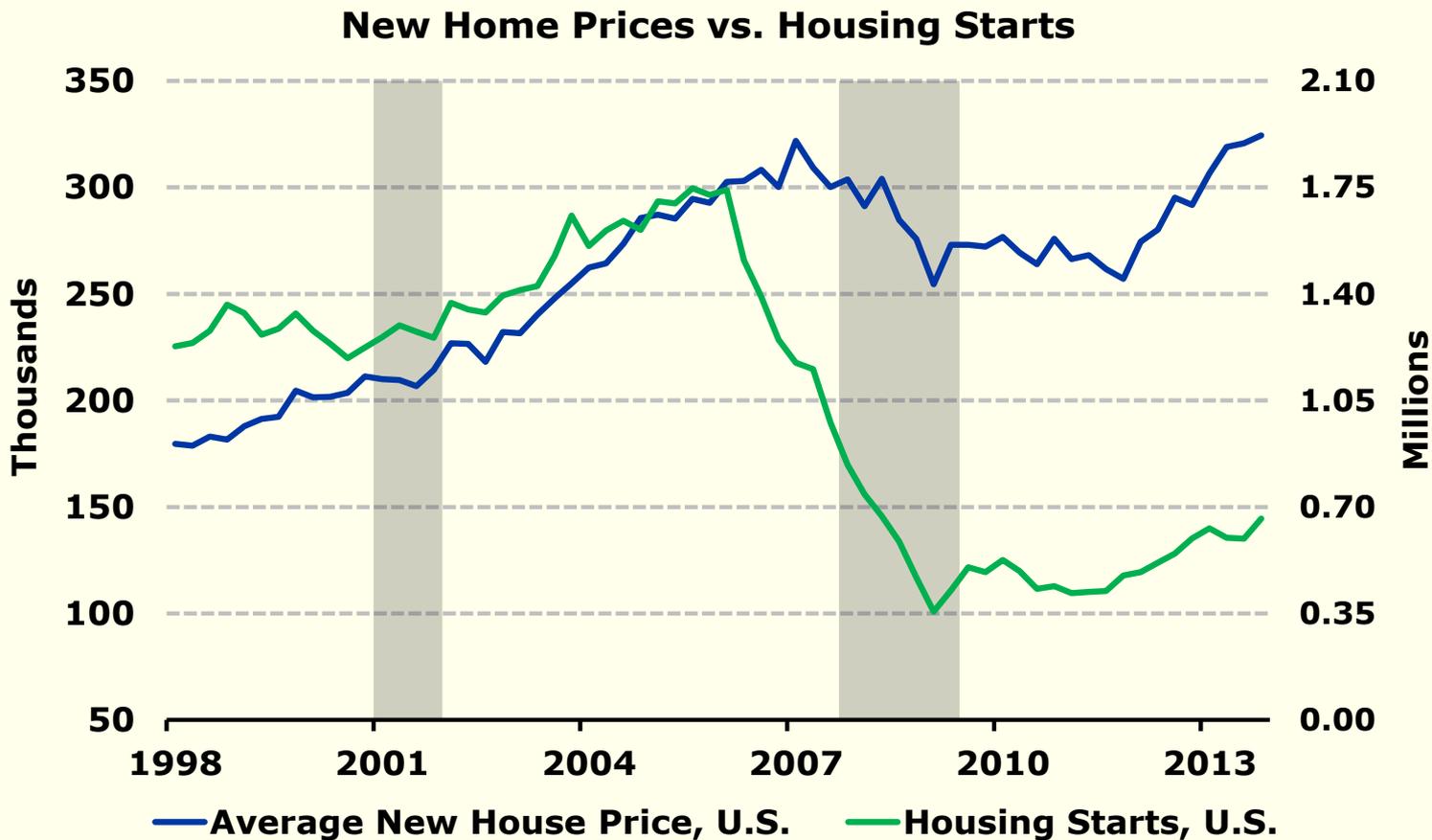
Housing Affordability Index, SA



Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q4



New home prices are at record highs but construction remains weak





Analysis of Mason County's economic recovery



Economic Outlook
March 20, 2014

Slide 17

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Unemployment has dropped

Peak rate:

Wash: 10.2%
Mason: 11.8%

Current rate:

Wash: 6.4%
Mason: 9.0%

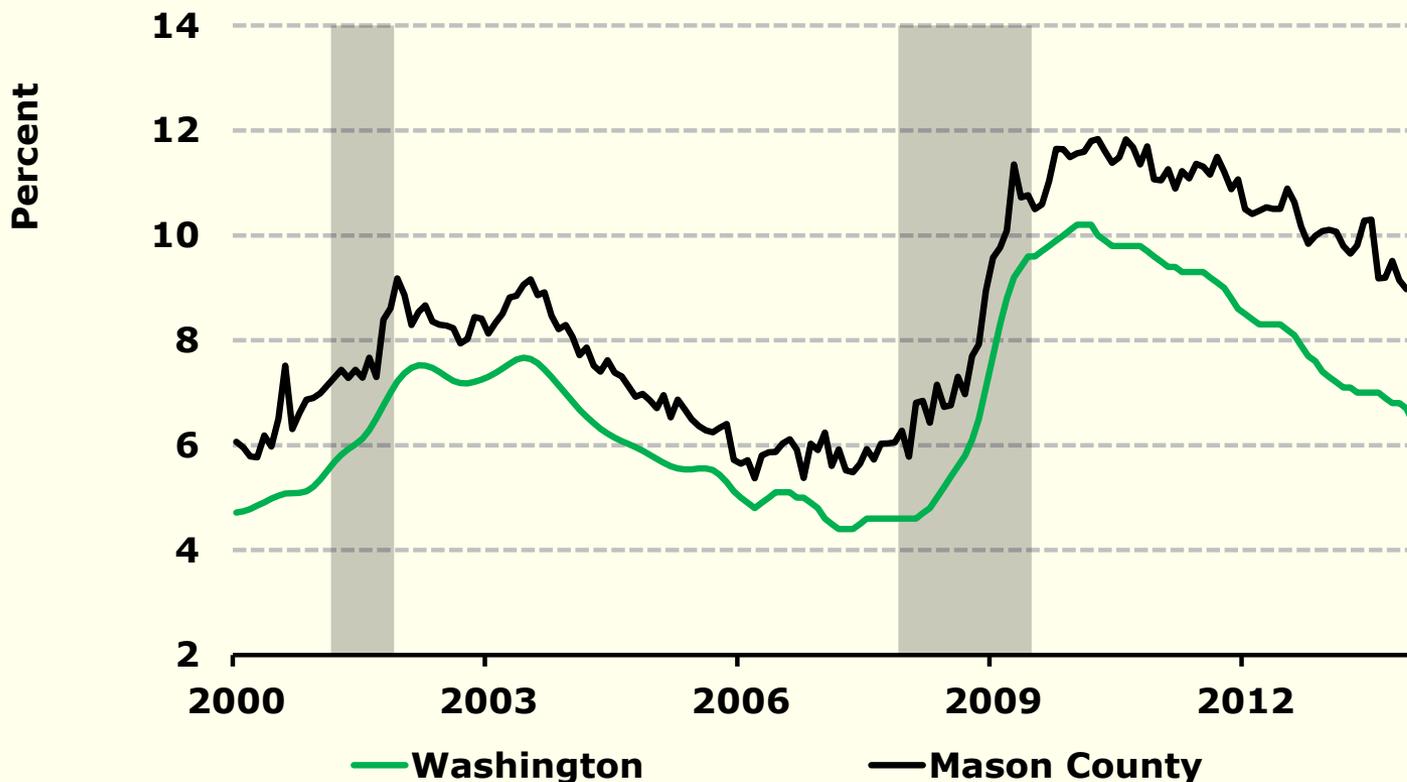
Labor Force Decline:

Wash: -2.5%
Mason: -10.4%

Economic Outlook
March 20, 2014

Slide 18

Unemployment Rate, SA



Source: WA State ESD, ERFC; data through January 2014



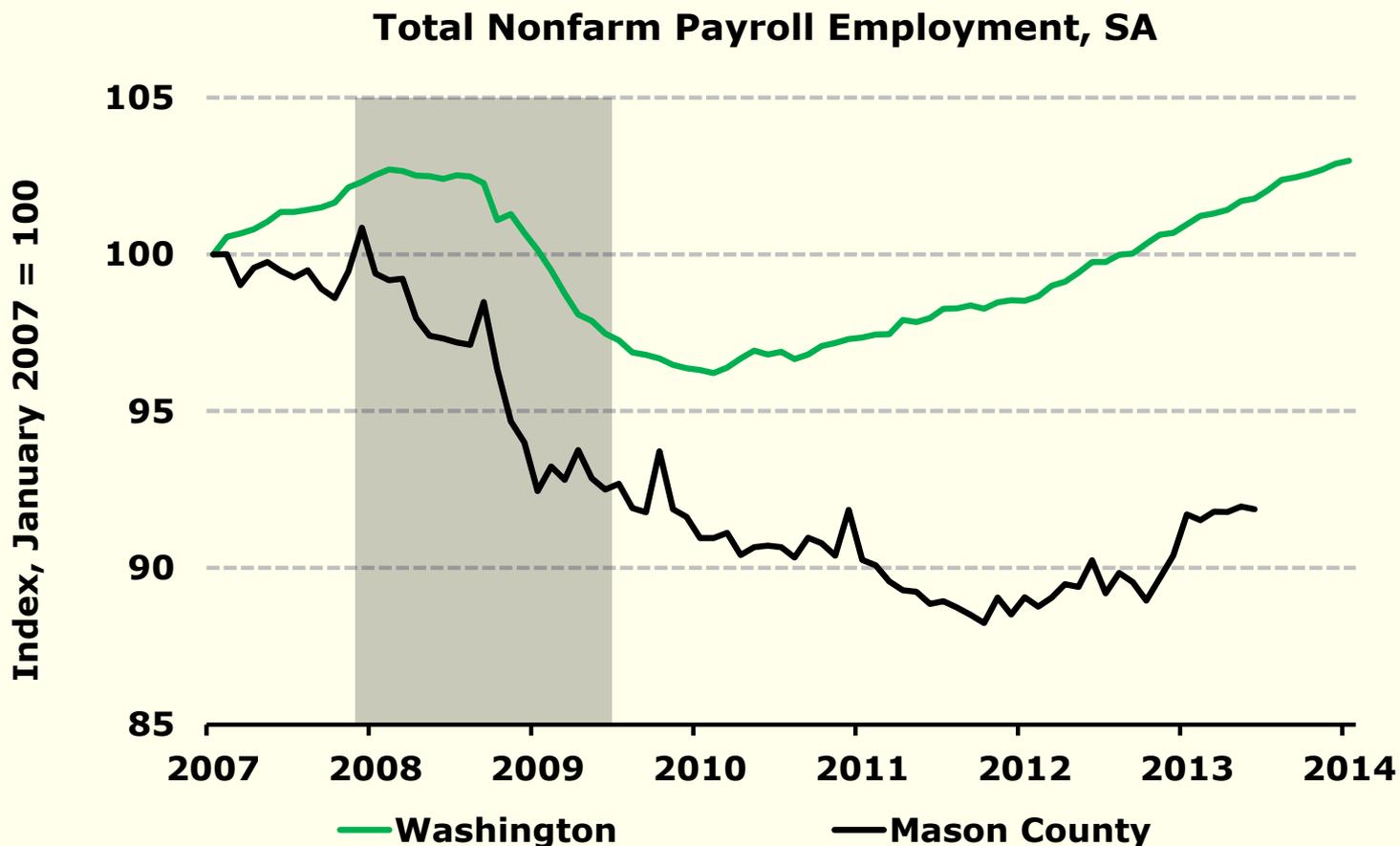
Employment in Mason County continued to decline long after the national recovery began

Peak to trough
job losses:

Wash: -6.3%
Mason: -12.5%

Duration of
Employment
Decline:

Wash: 2 Years
Mason: 5 Years



Source: WA State ESD, ERFC; data through January 2014

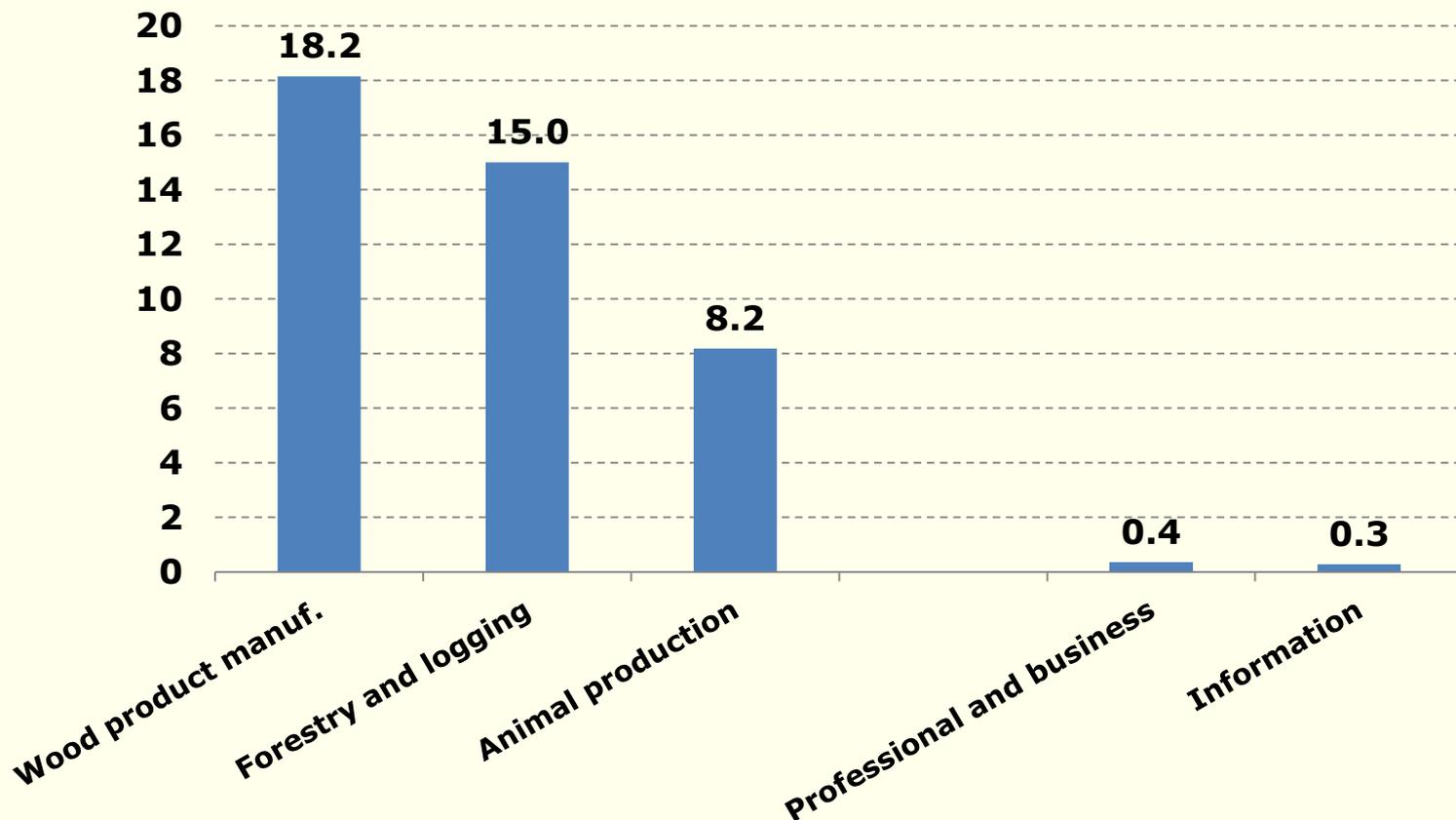


Mason County is overly reliant on natural resource based jobs

The Location Quotient is the industry share of total employment for Mason County compared to Washington State

A Location Quotient greater than 1.0 indicates an industry is overrepresented in the economy

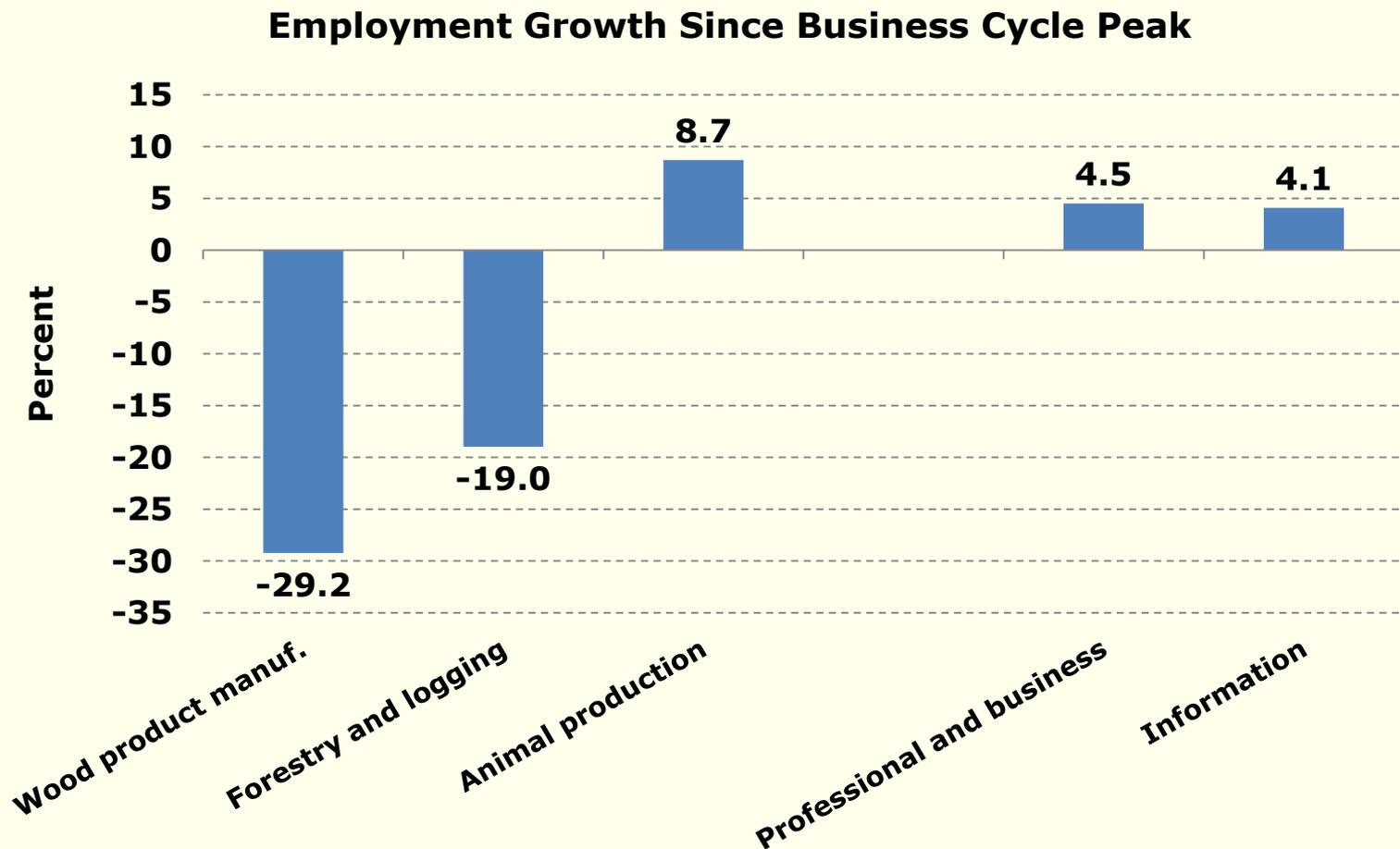
Mason County Location Quotients



Source: Bureau of Labor Statistics ; data through 2012

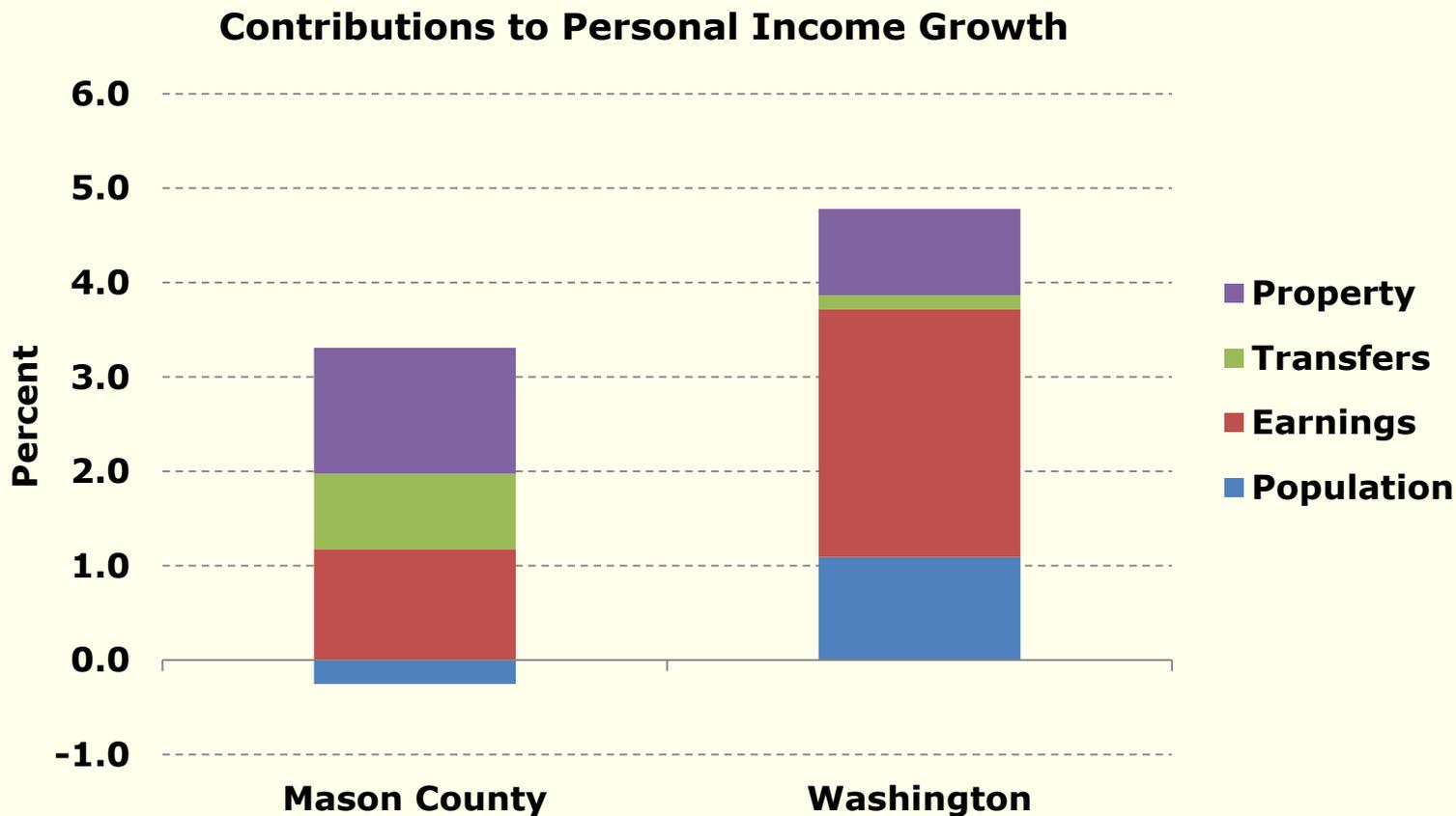


Mason County is overly reliant on natural resource based jobs





Personal income growth is lower in Mason County





Mason County Home prices have yet to rebound

Median Home Price Index 1998Q1 = 100

Median Home price as of 2013Q4:

Mason: \$155K

Wash: \$258K

Decline since peak:

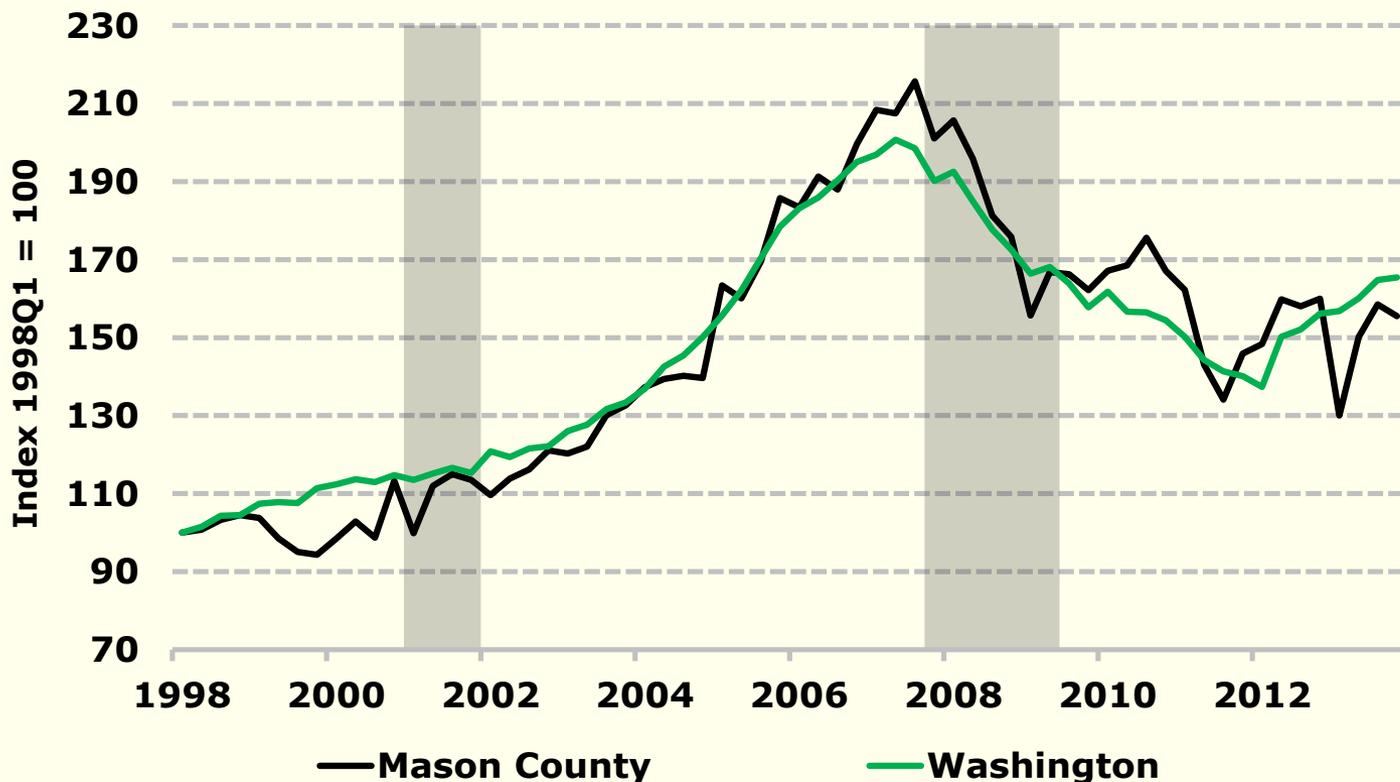
Mason: -28%

Wash: -18%

Economic Outlook
March 20, 2014

Slide 23

Median Home Price Index, SA



Source: Washington Center of Real Estate Research, ERFC; data through 2013 Q4

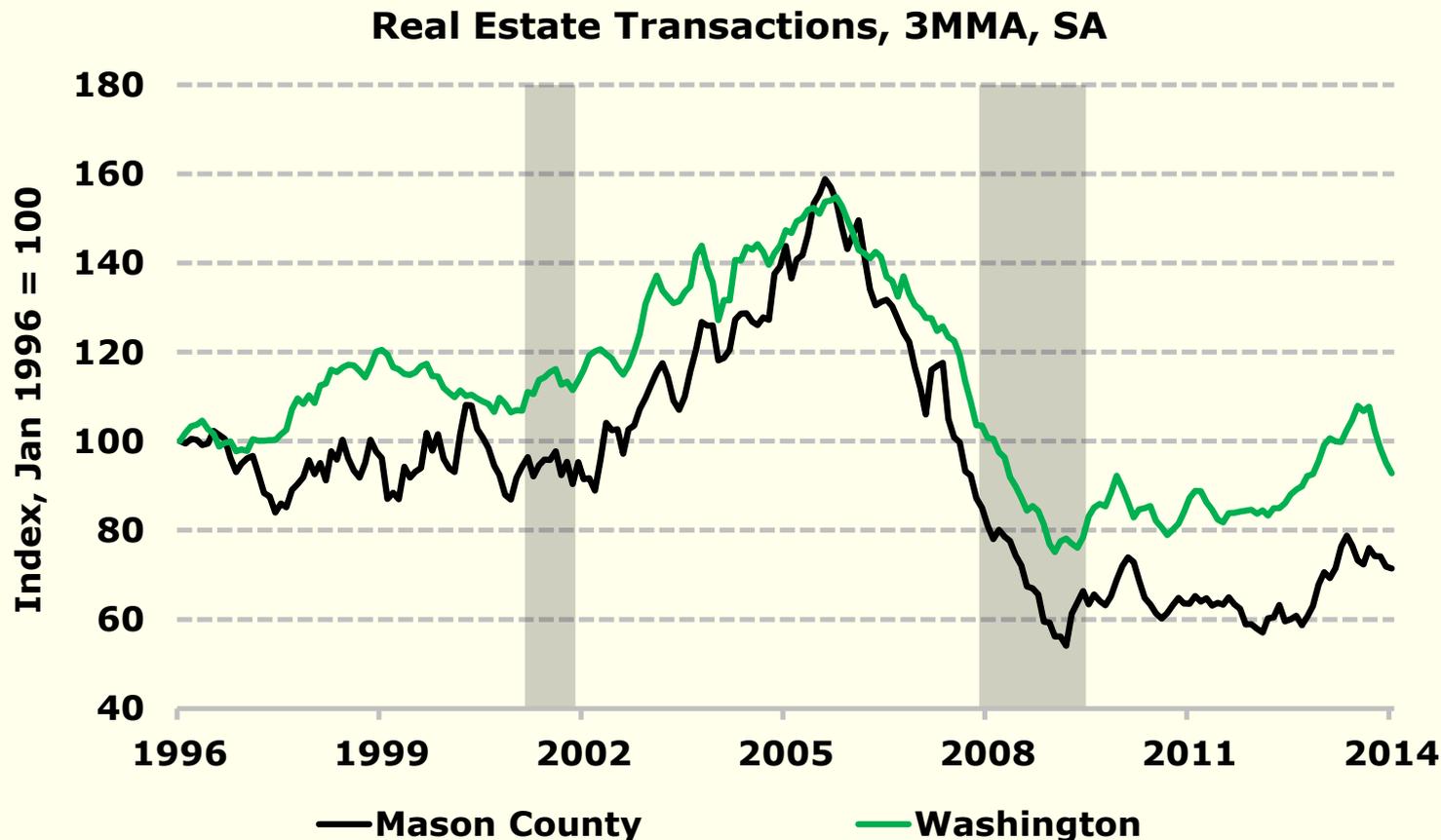


Real Estate transactions in the county have lagged the state since the boom years

Real Estate Transactions since 2005 peak:

Mason: -55%

Wash: -40%



Source: ERFC; data through February 2014



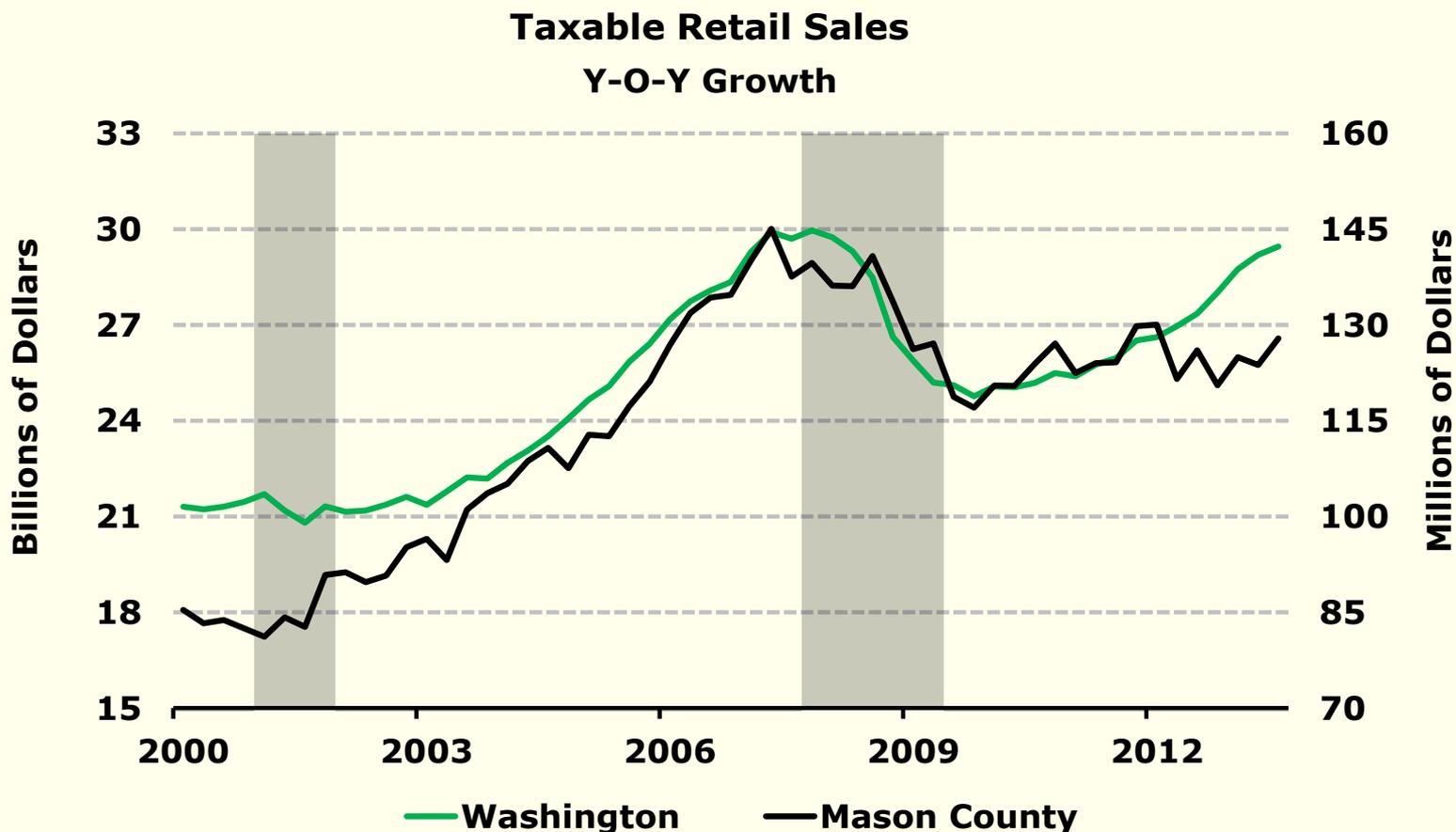
Retail sales have returned to growth

Change since peak:

Shelton: -13.1%

Mason: -11.8%

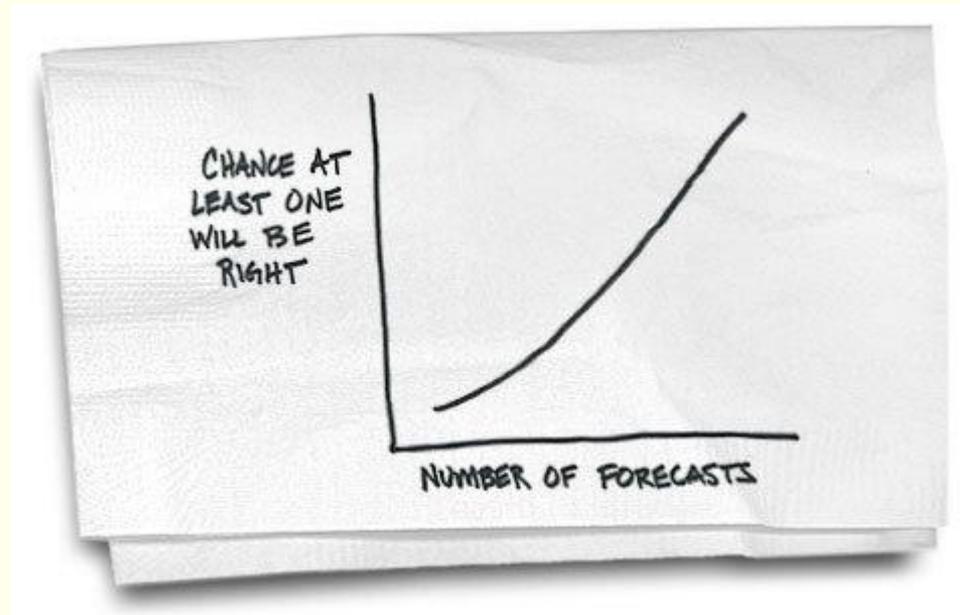
Wash: -1.7%



Source: Department of Revenue; Data through 2013Q3



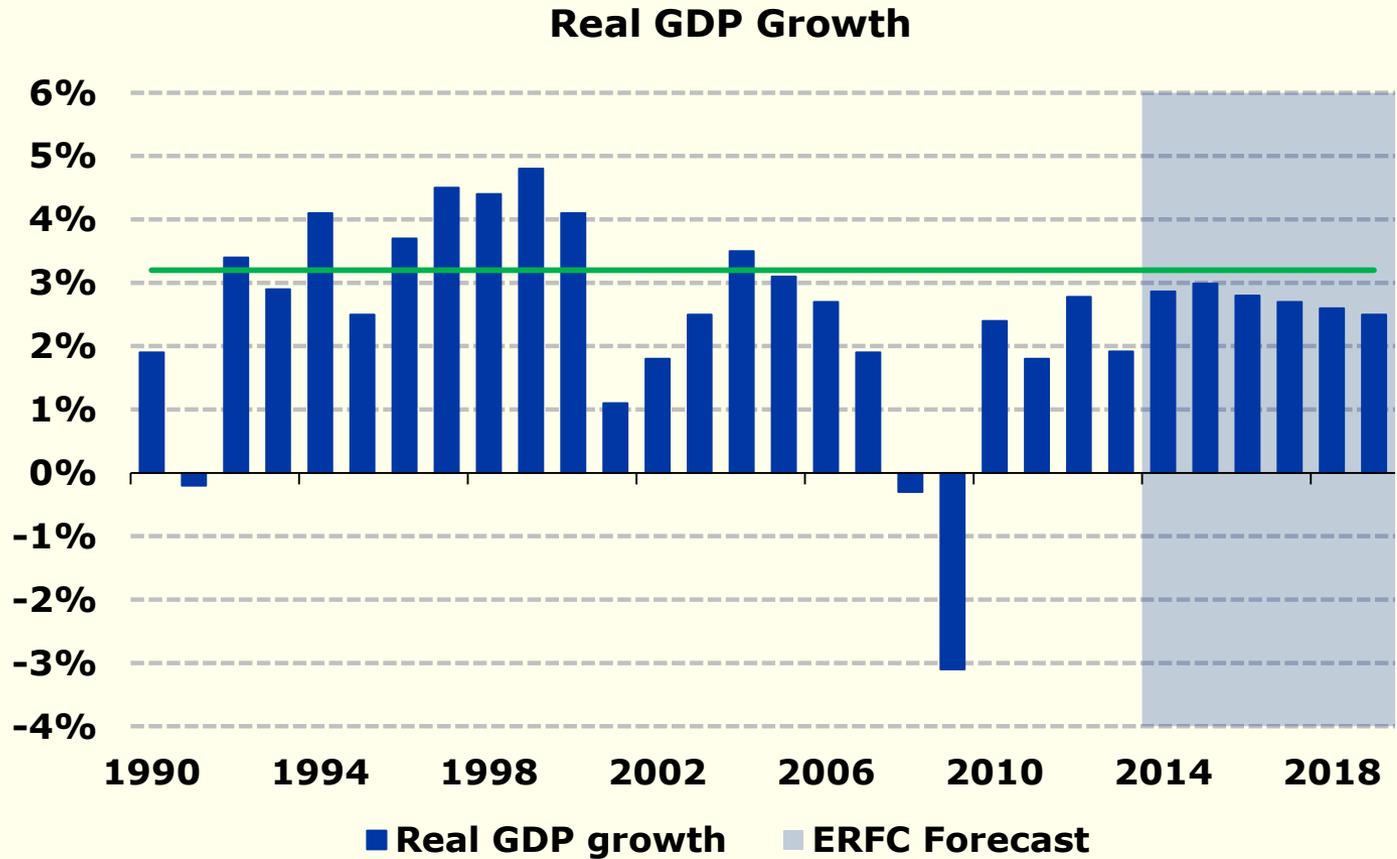
U.S. and Washington Economic forecasts





GDP growth forecasted to be near non-recessionary average throughout forecast

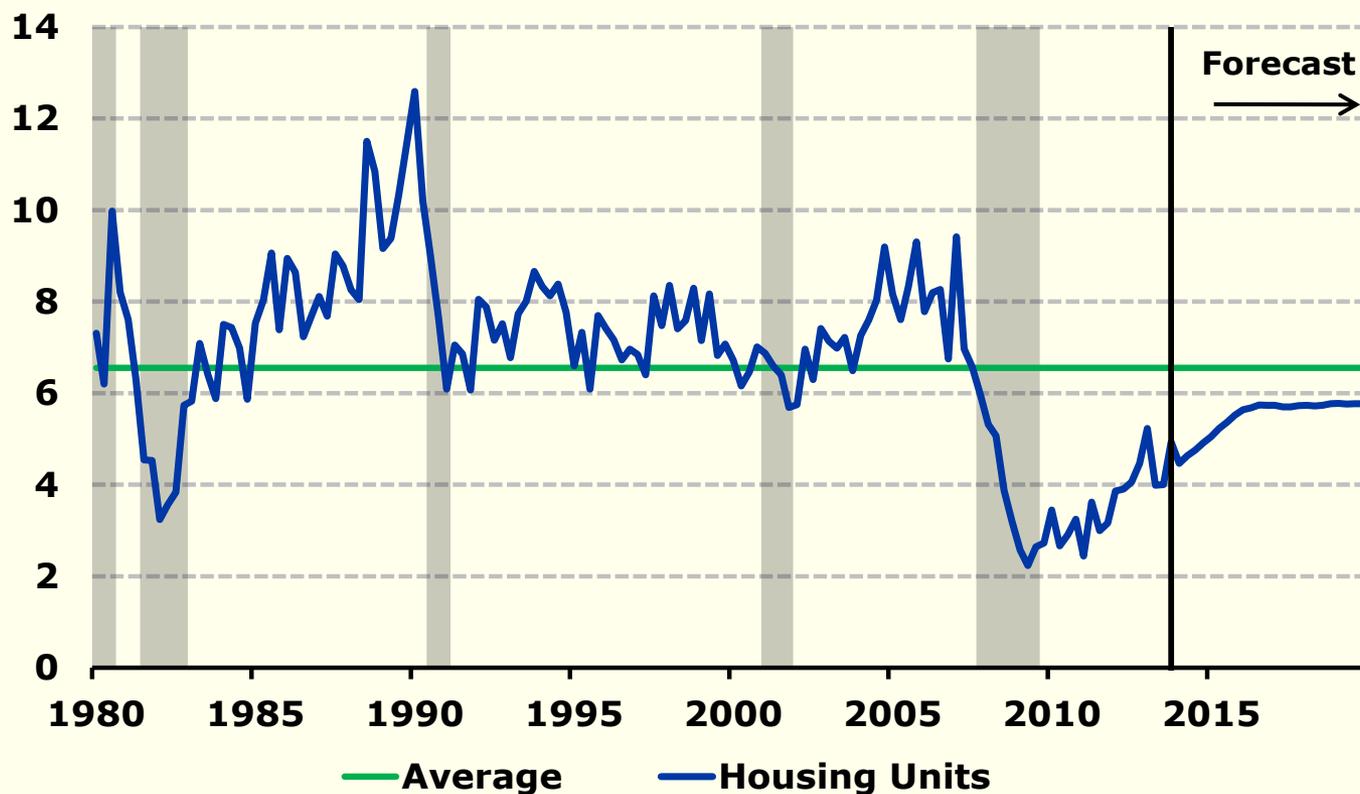
Non-recessionary average growth of 3.2% excludes 1990, 1991, 2001, 2007-2009





Slow growth and demographics will keep construction suppressed

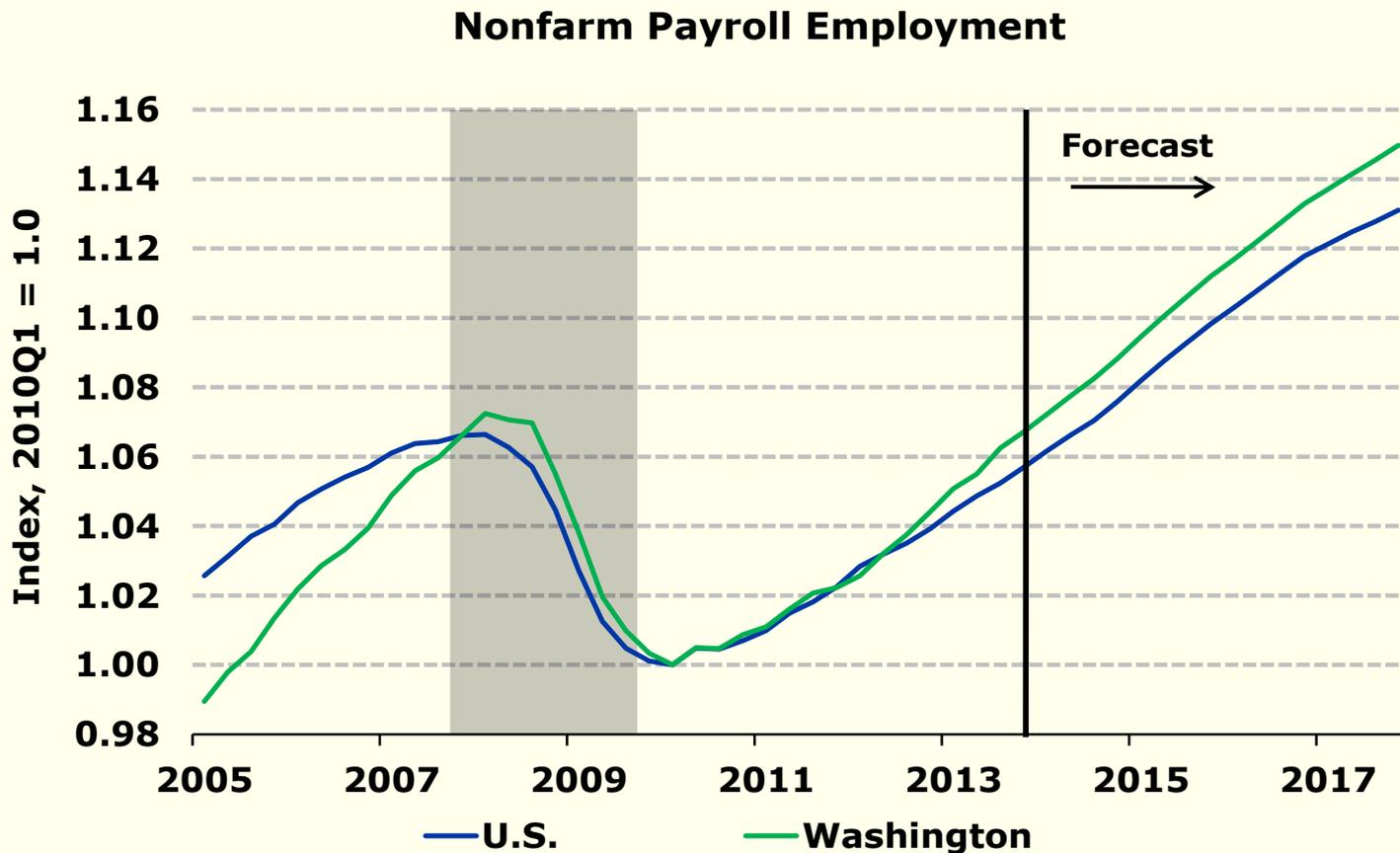
Washington Housing Units Per 1,000 Population



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



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



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

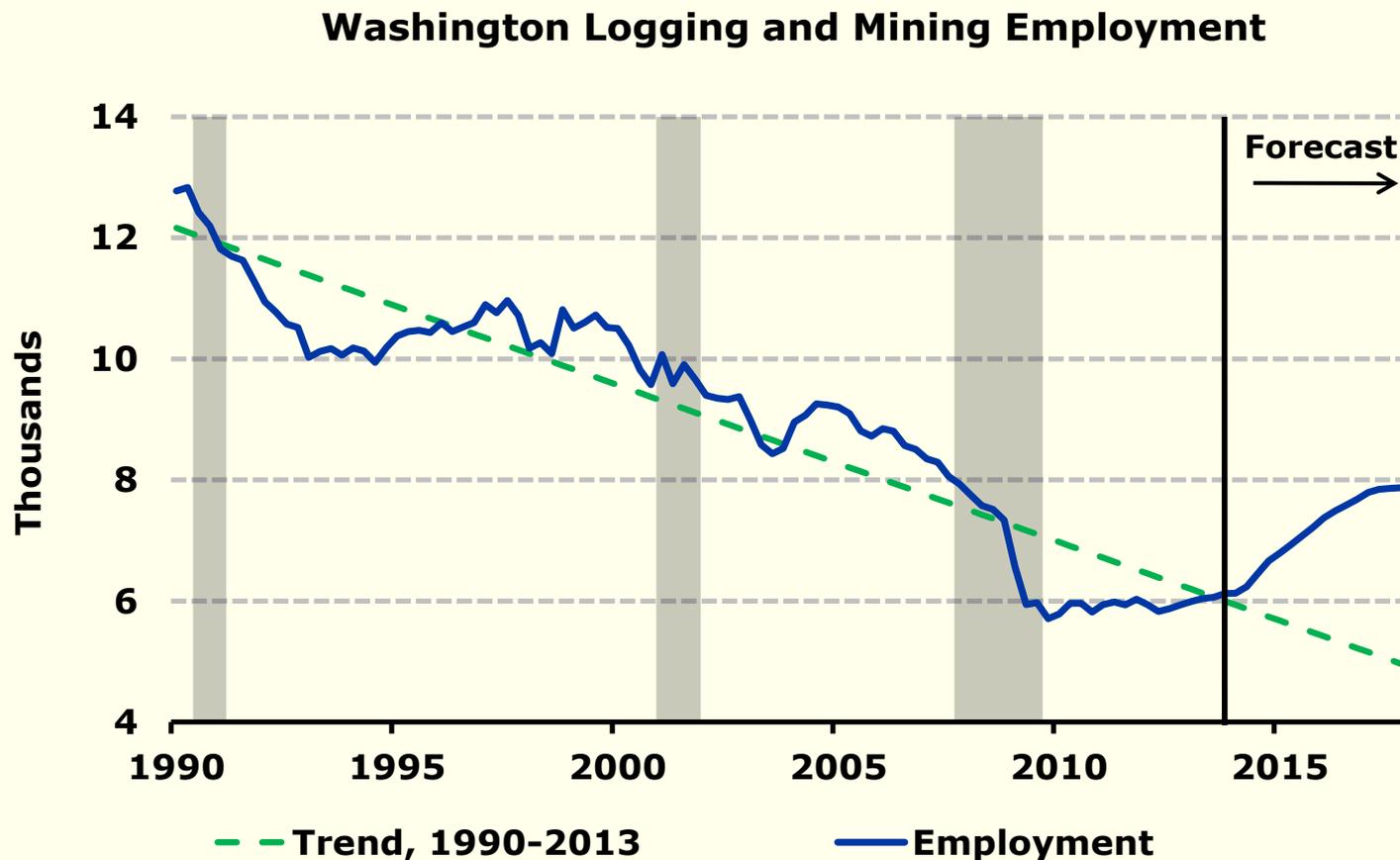


Washington wood product manufacturing employment is expected to recover



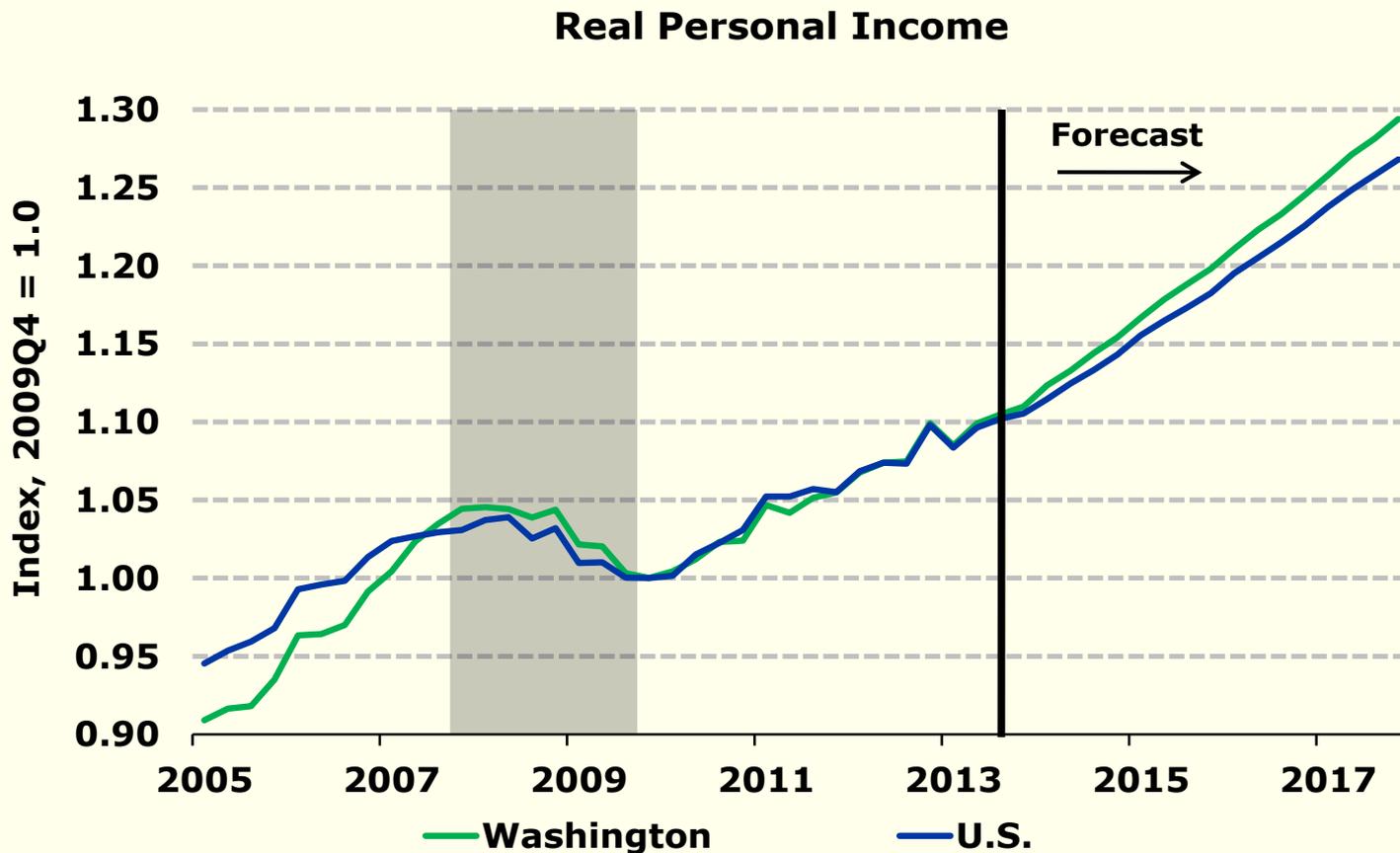


Washington logging and mining employment is expected to recover



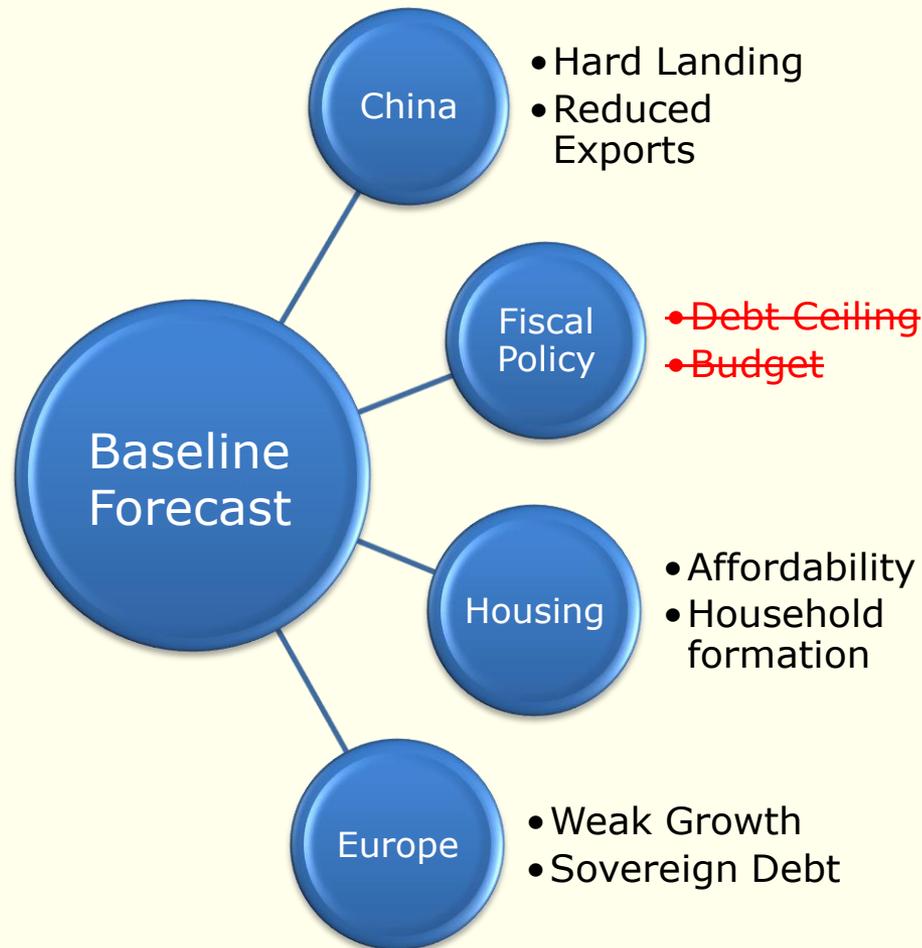


State personal income will recover slightly faster than the U.S.





Four major risks to the forecast





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



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



European unemployment is heading in the wrong direction

Unemployment Rate:

Spain: 25.8
Greece: 27.5

Germany: 5.0

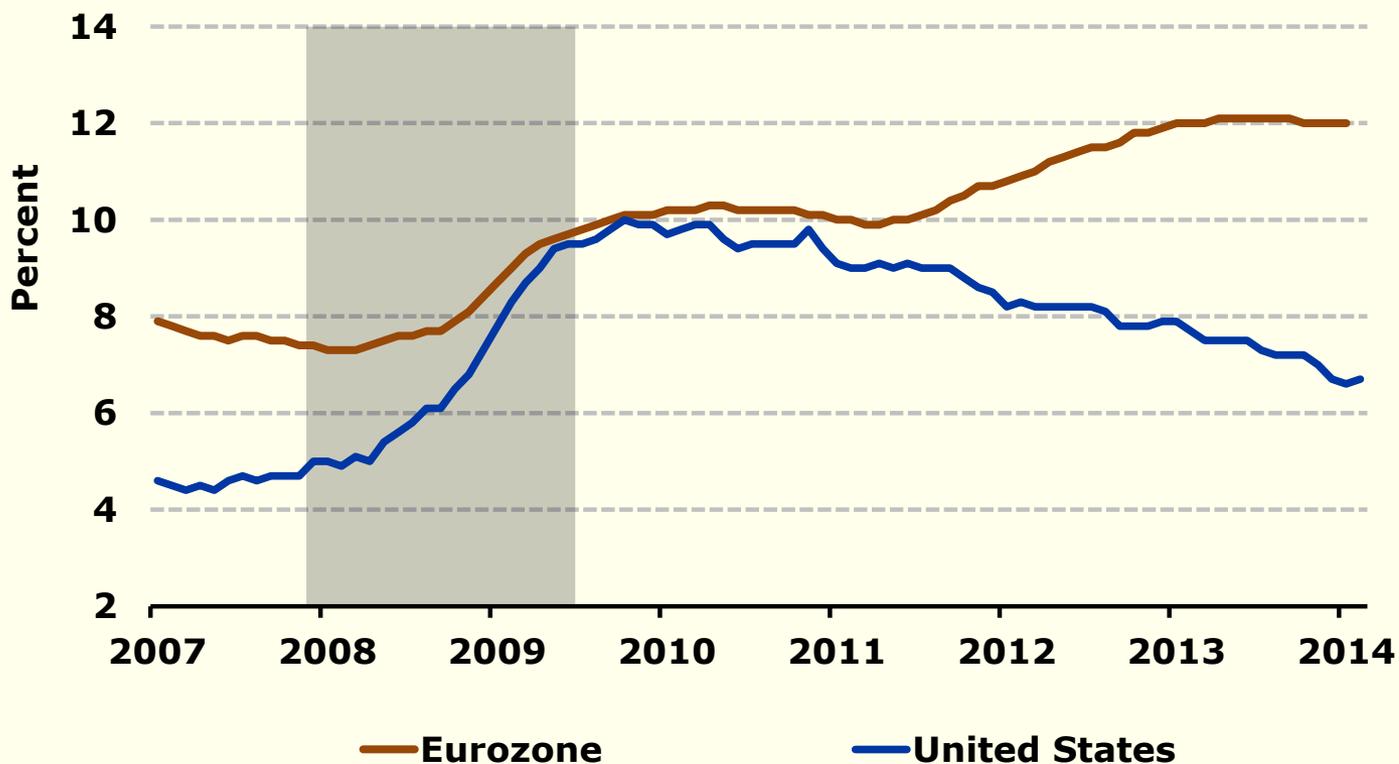
Youth Unemployment Rate:

Eurozone: 24.0
U.S.: 14.4

Economic Outlook
March 20, 2014

Slide 35

Eurozone and U.S. Unemployment

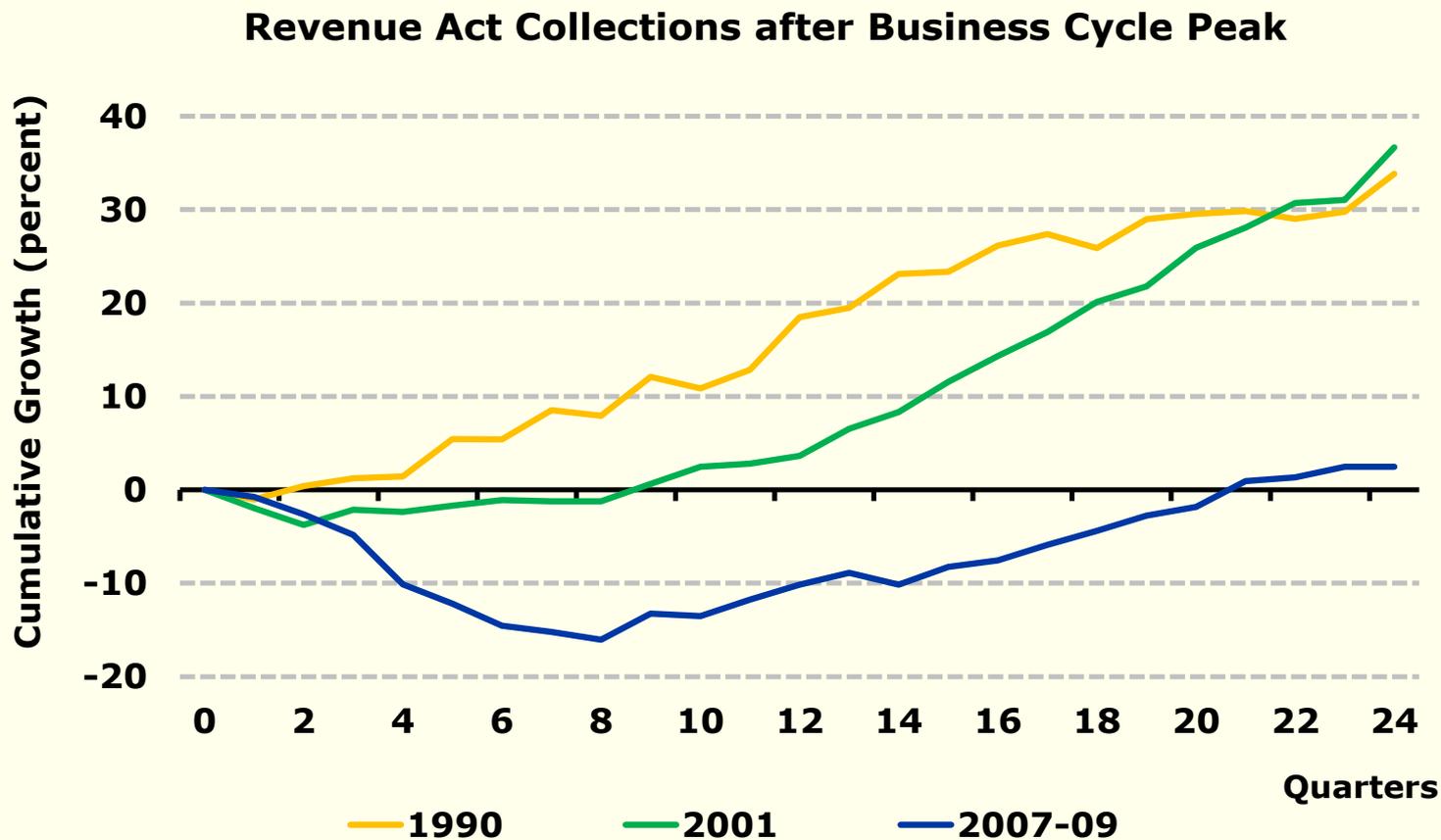


Source: Eurostat, U.S. Bureau of Labor Statistics; data through February 2014

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue collections have been weak compared to past recoveries



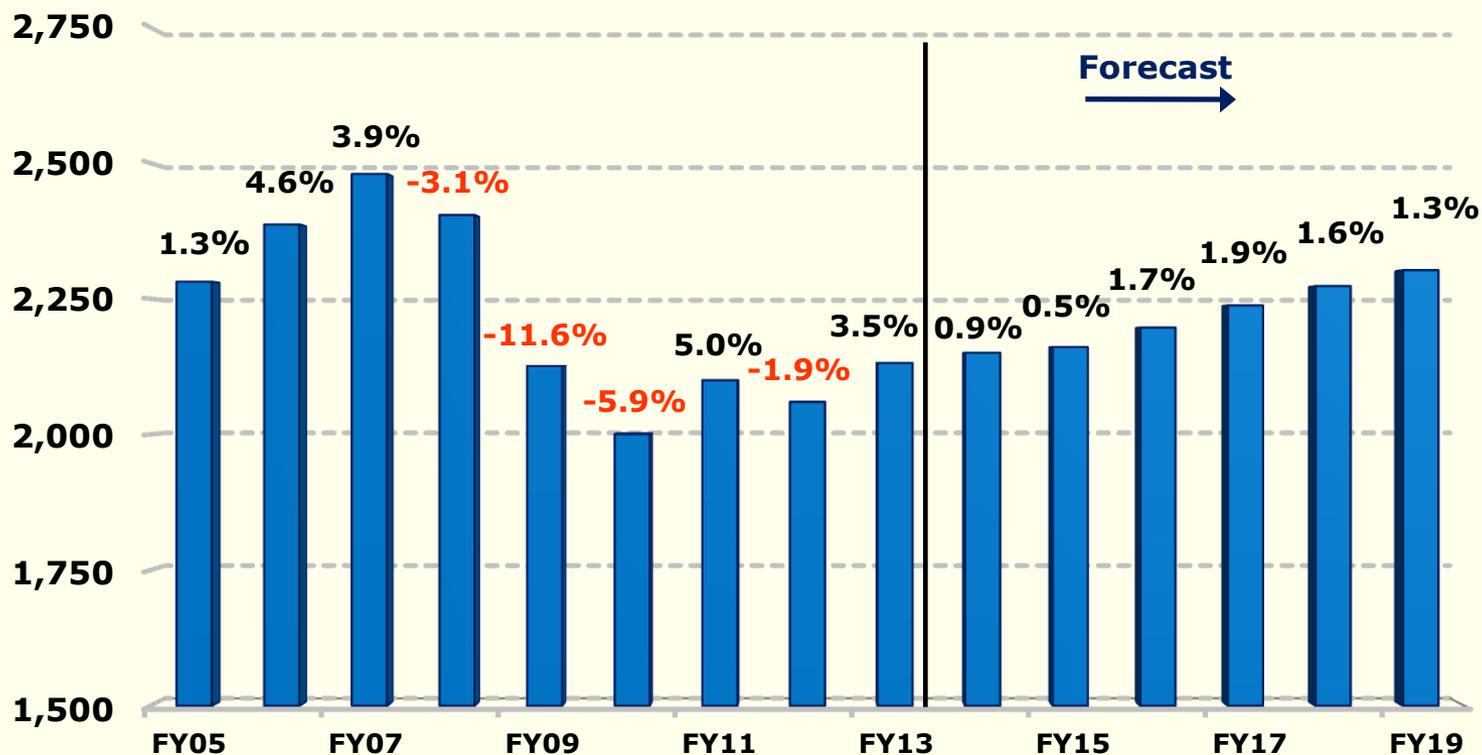
Source: ERFC; data through 2013 Q4 activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



General Fund-State forecast by fiscal year

Real Per-Capita General Fund-State Revenue





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



Summary and Conclusion

- The 2007-09 recession was the worst since WWII.
- The subsequent recovery has been weak
- There is still considerable slack in the U.S. labor market.
- Housing remains in positive territory.
- Washington will continue to outperform the nation in the recovery.
- The economic downturn in Mason County has been severe and the recovery almost nonexistent.
- Local growth prospects are limited given current economic structure.



Questions



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

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