

Washington State: Economic and Revenue Outlook

Presented to
Washington Construction Industry Council Summer Meeting

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



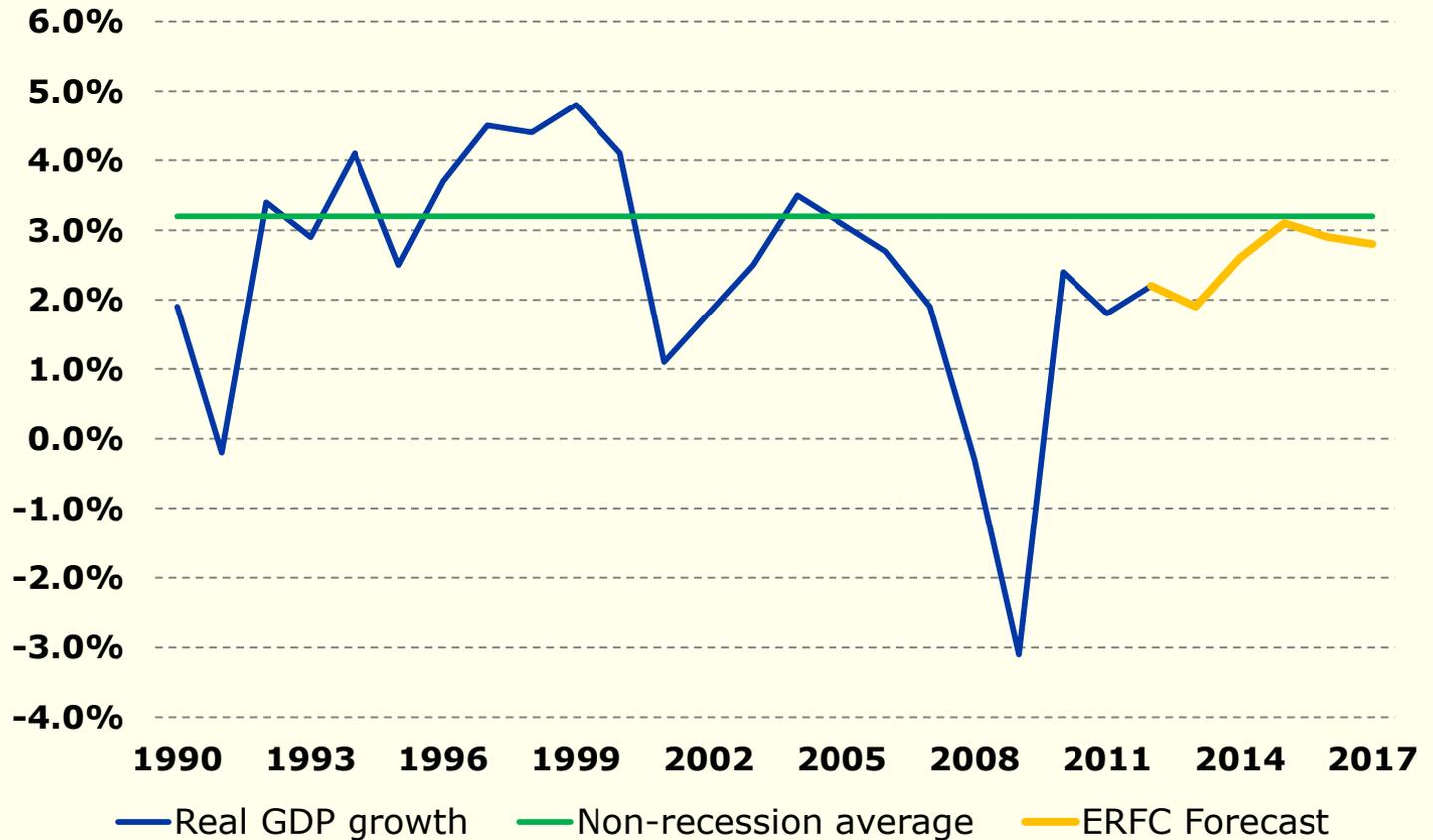
Summary

- The national economy is growing fairly steadily, but at a slower-than-average pace
- There are many external and internal risks with the potential to stall the recovery
- Over the next several years, Washington is expected to slightly outperform the U.S. economy
- The overall outlook for construction is positive for the next several years due to demographic demand for housing and a firming non-residential sector



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

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



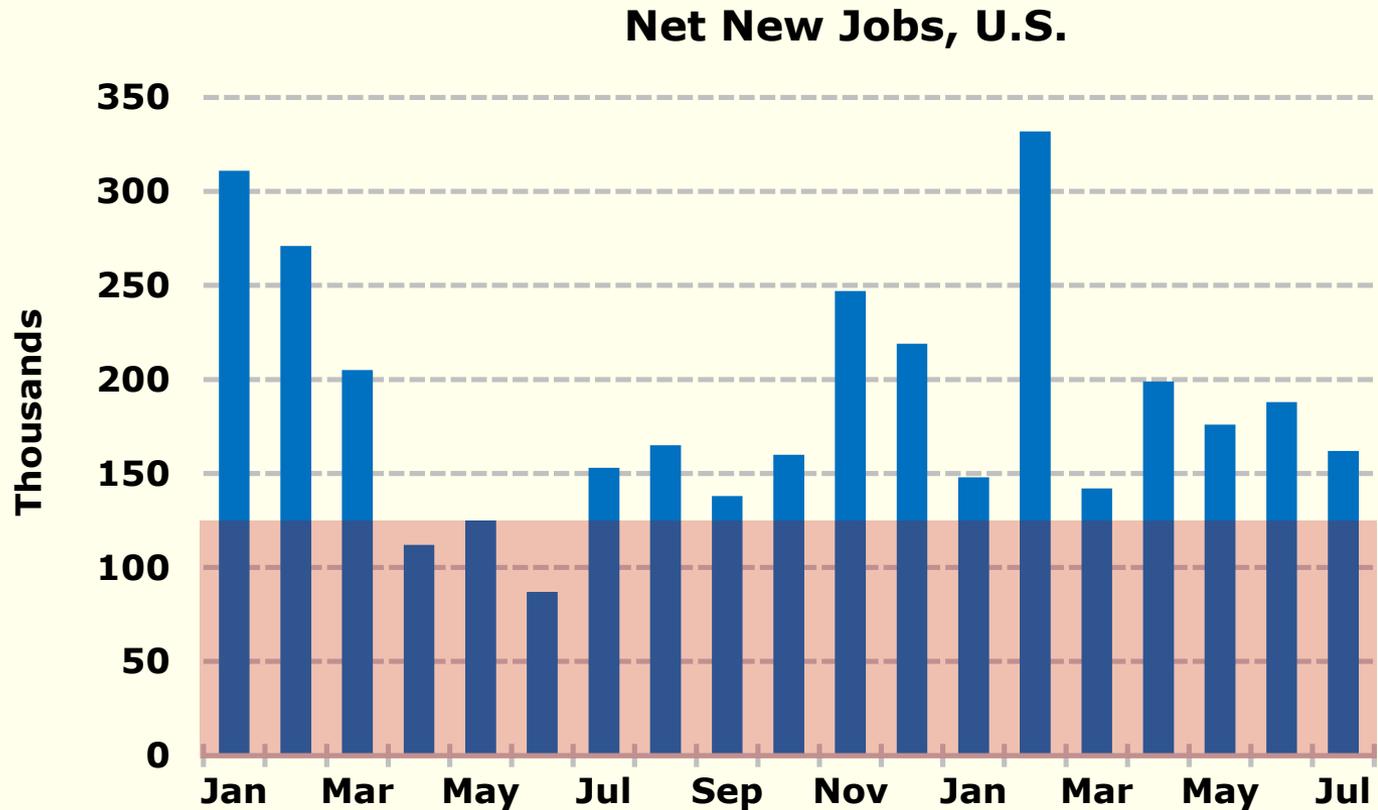
Source: U.S. Dept of Commerce, BEA; Blue Chip Economic Indicators; ERFC

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Job growth remains modest

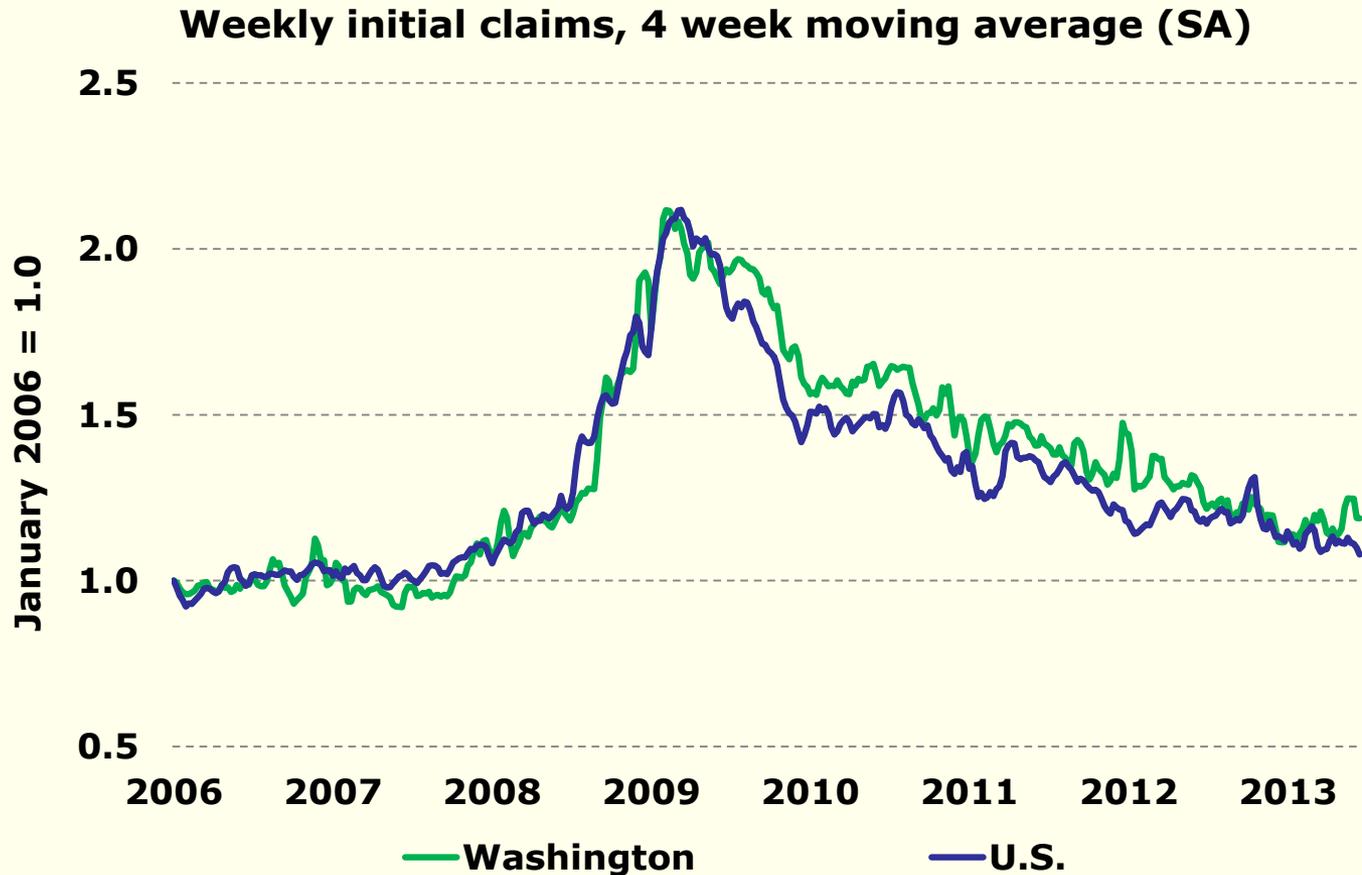
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through July 2013



Initial unemployment claims are declining



Source: US Dept of Labor/BLS; data through August 2013

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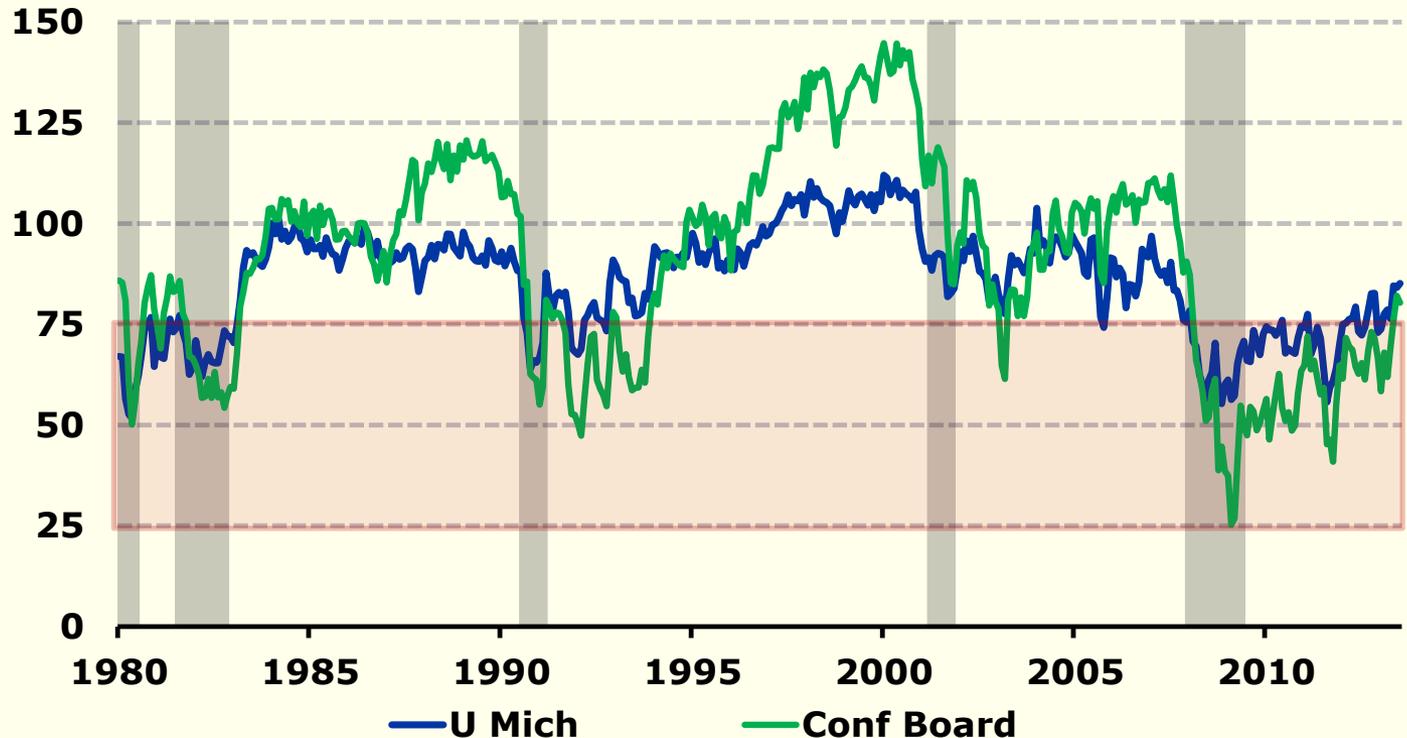


Consumer confidence is beginning to strengthen

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



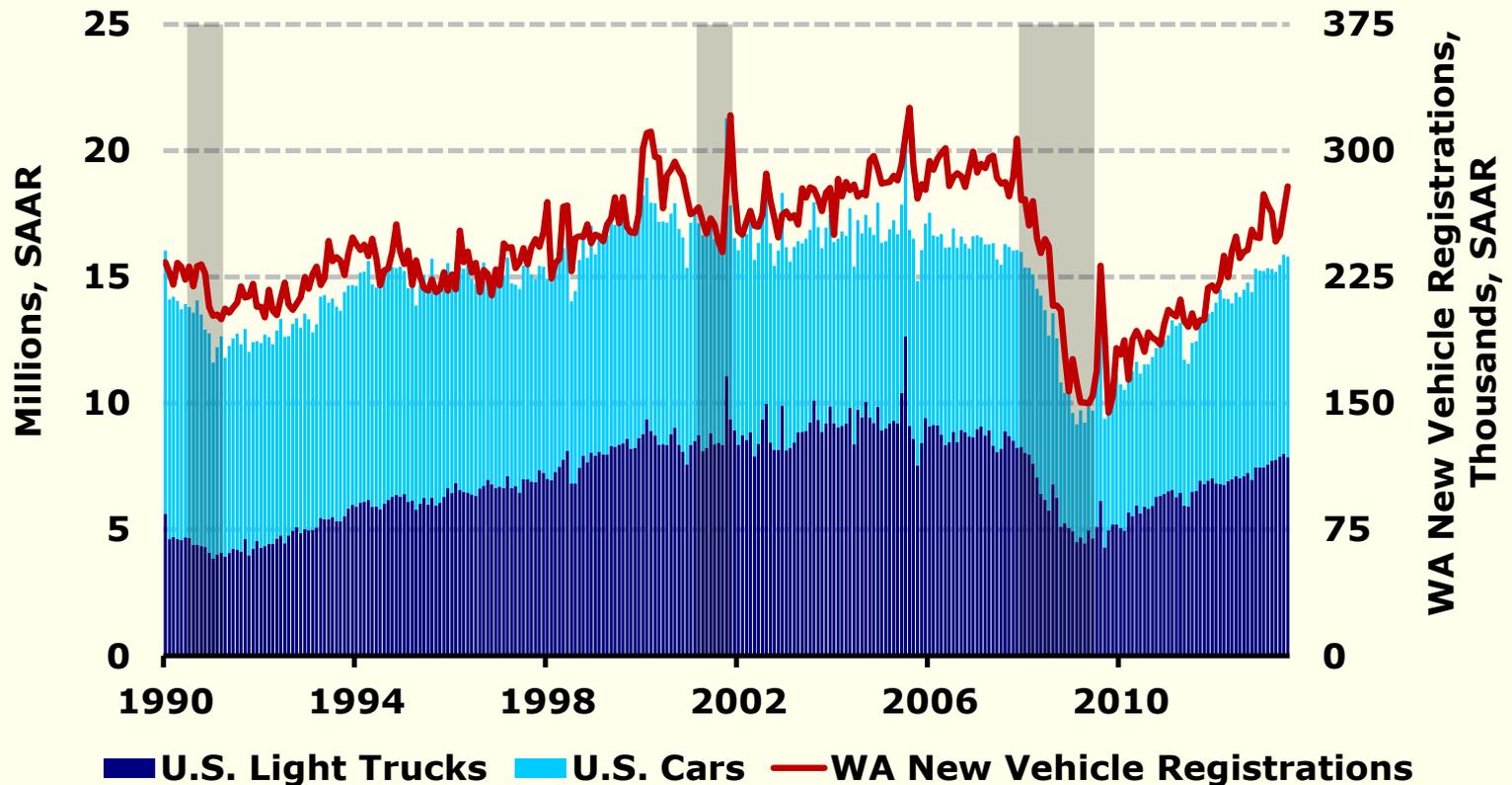
Source: University of Michigan; Conference Board, data through July 2013

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Vehicle sales continue their upward trend

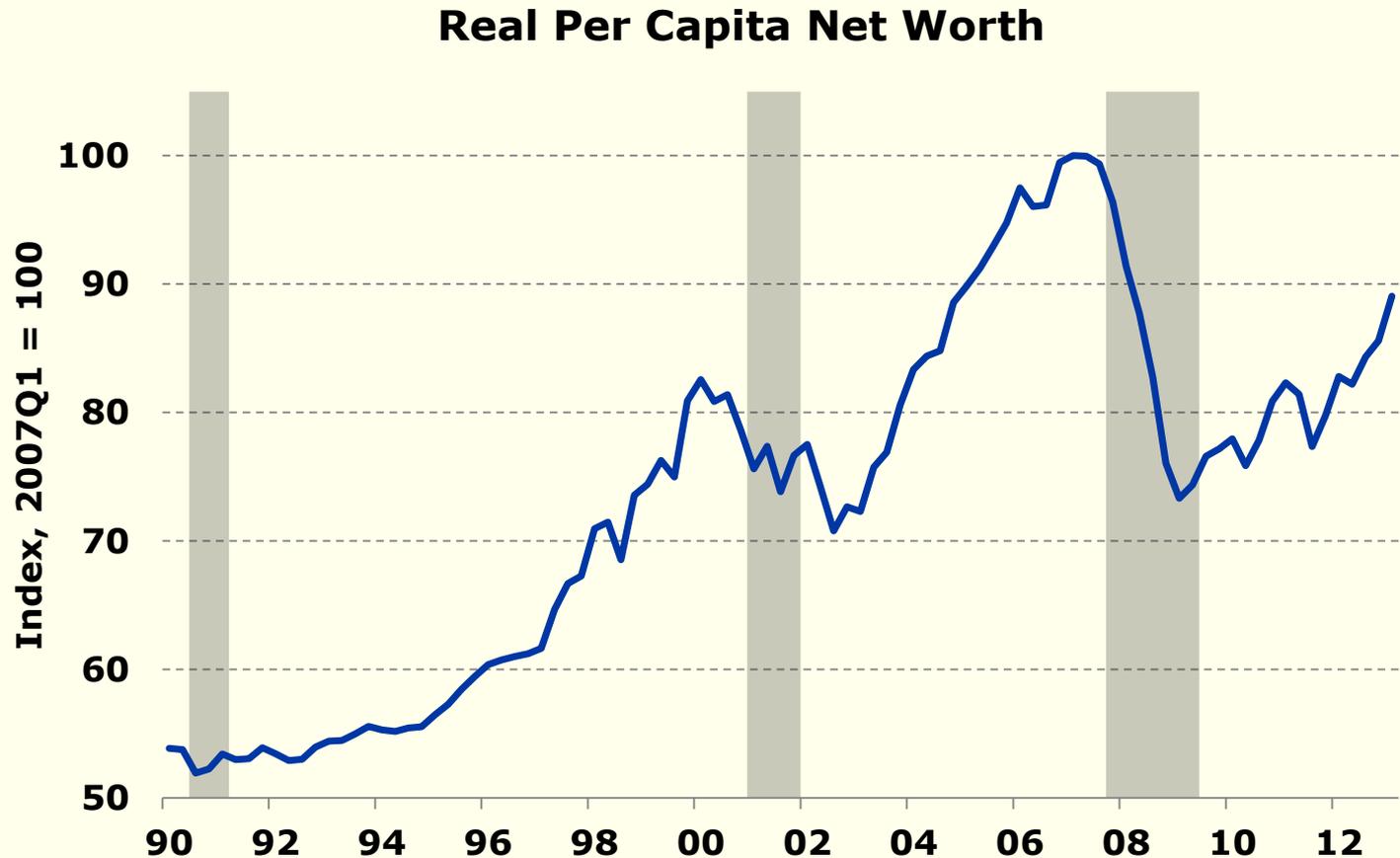
WA new vehicle registrations in July were up 18% year-over-year.



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



Net worth recovering but still below peak

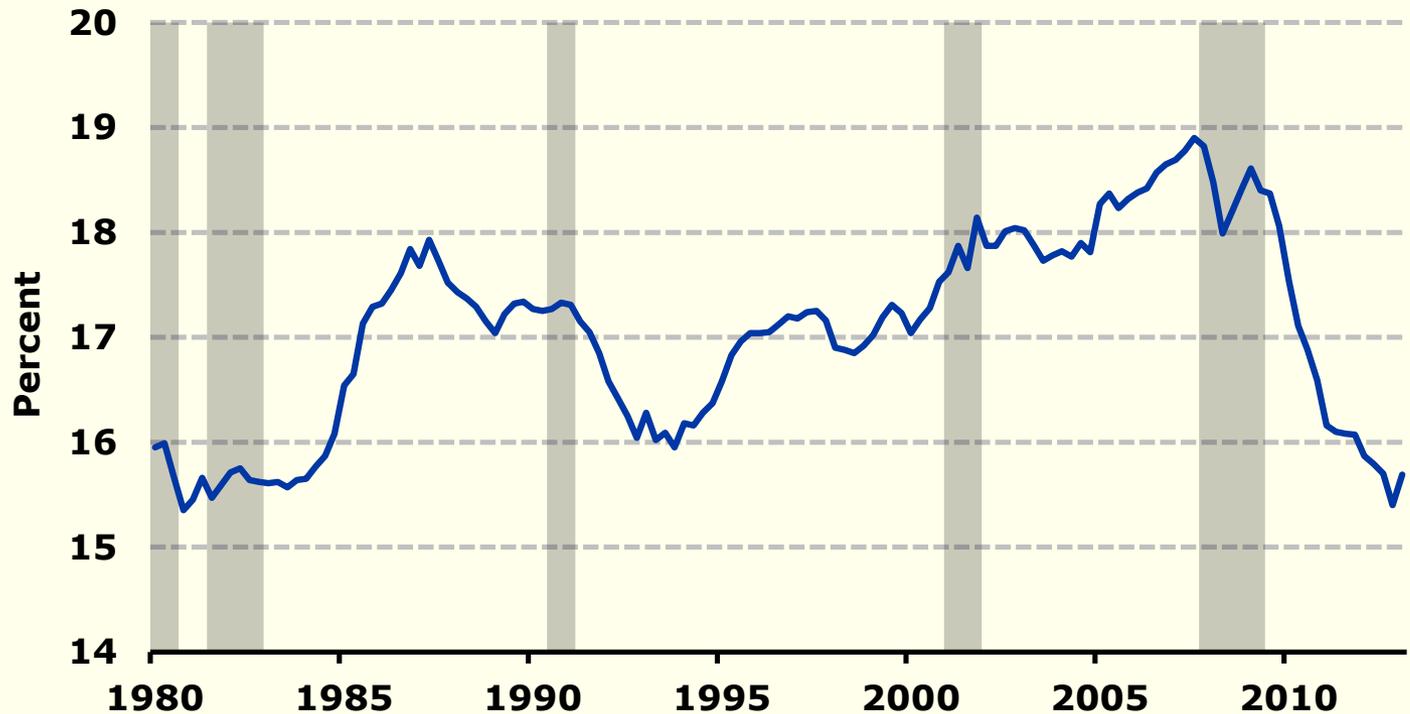


Sources: Federal Reserve, BEA, ERFC; data through 2013 Q1



Consumer deleveraging nearing its end?

Total U.S. Household Debt Service and Financial Obligations as % of Disposable Personal Income



Source: Board of Governors of the Federal Reserve System, data through 2013Q1



Downside risks

- European recession and possibility of re-ignited sovereign debt crisis
- Worsening slowdown in Asian economies (mainly China)
- Unrest in the Middle East
- Further cuts in Federal spending
- Budget showdown, threat of government shutdown

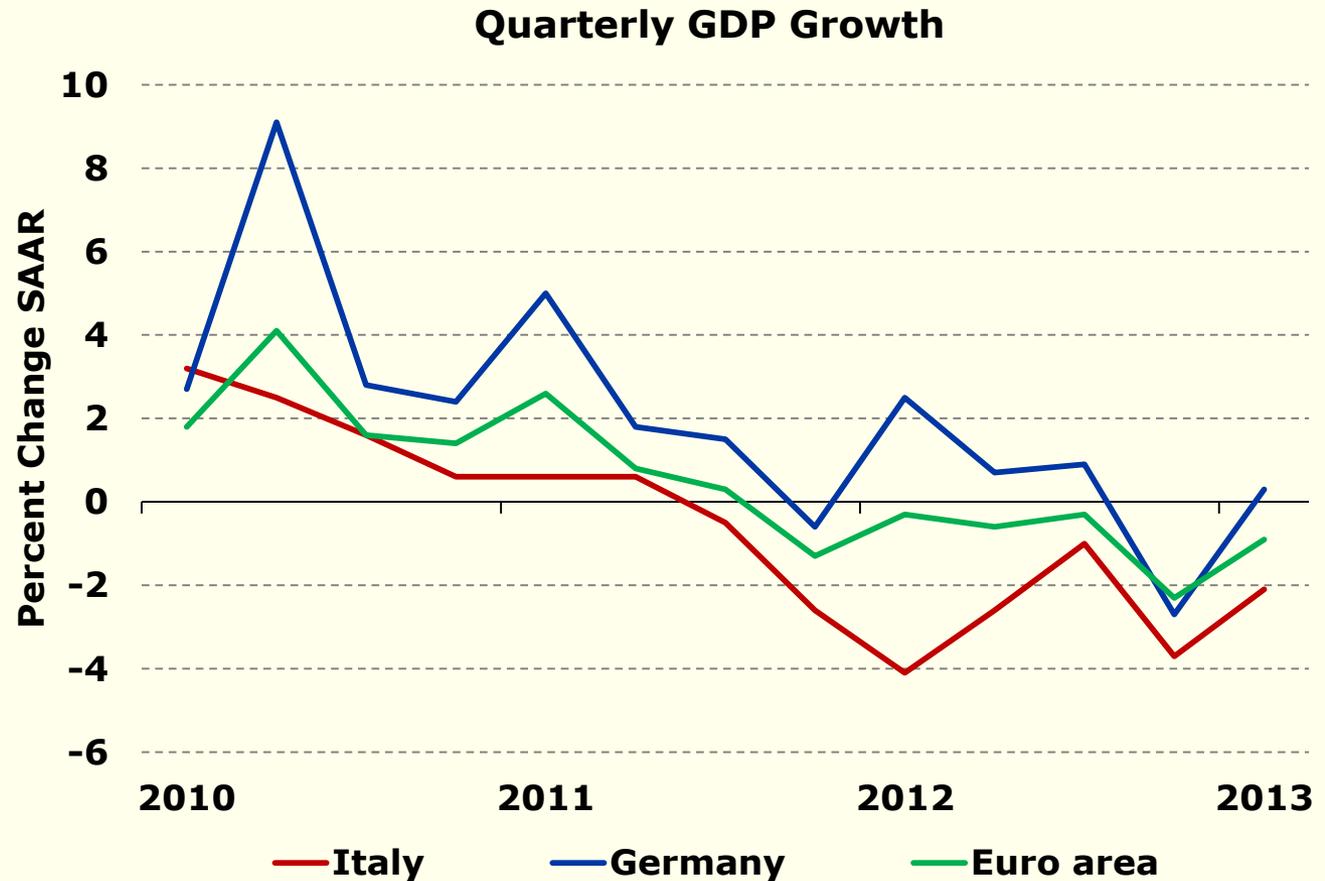


Euro area GDP growth is negative

Eurozone
Forecast:

2013: -0.5%

2014: 0.7%



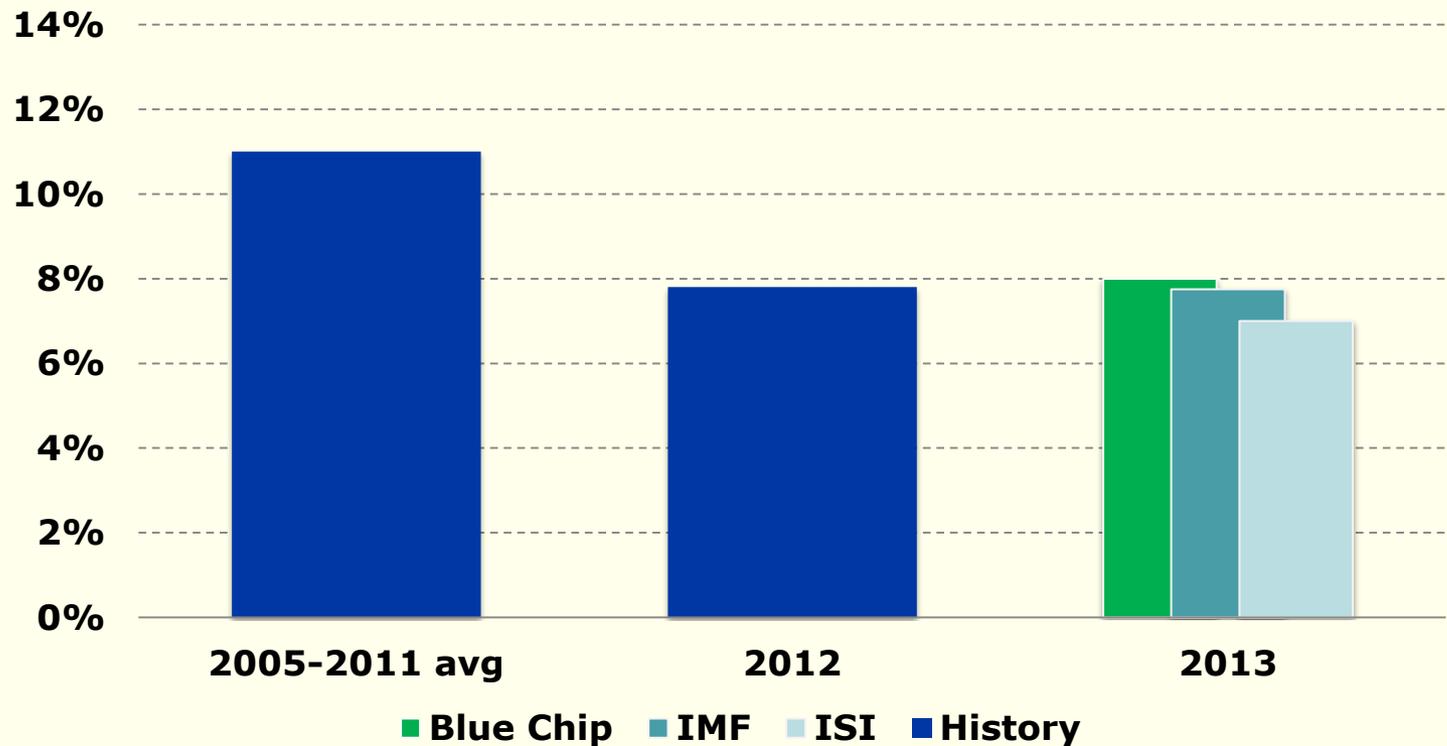
Source: Eurostat; data through 2013Q1

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China's Economic Growth has Slowed

China Real GDP Growth

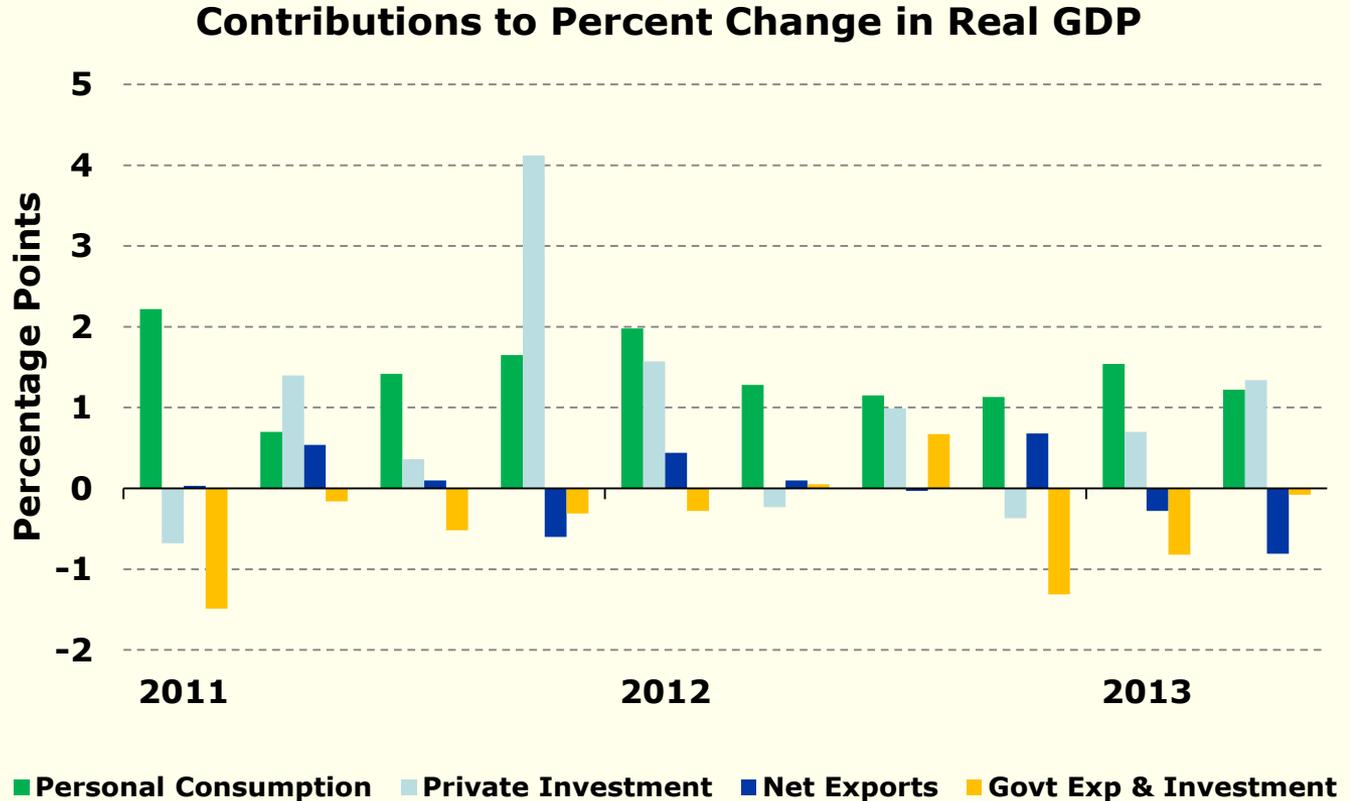


Source: Blue Chip, IMF, ISI; data through 2013

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Slowing government expenditures a drag on GDP growth



Source: BEA; data through 2013 Q2

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Washington Economic Forecast

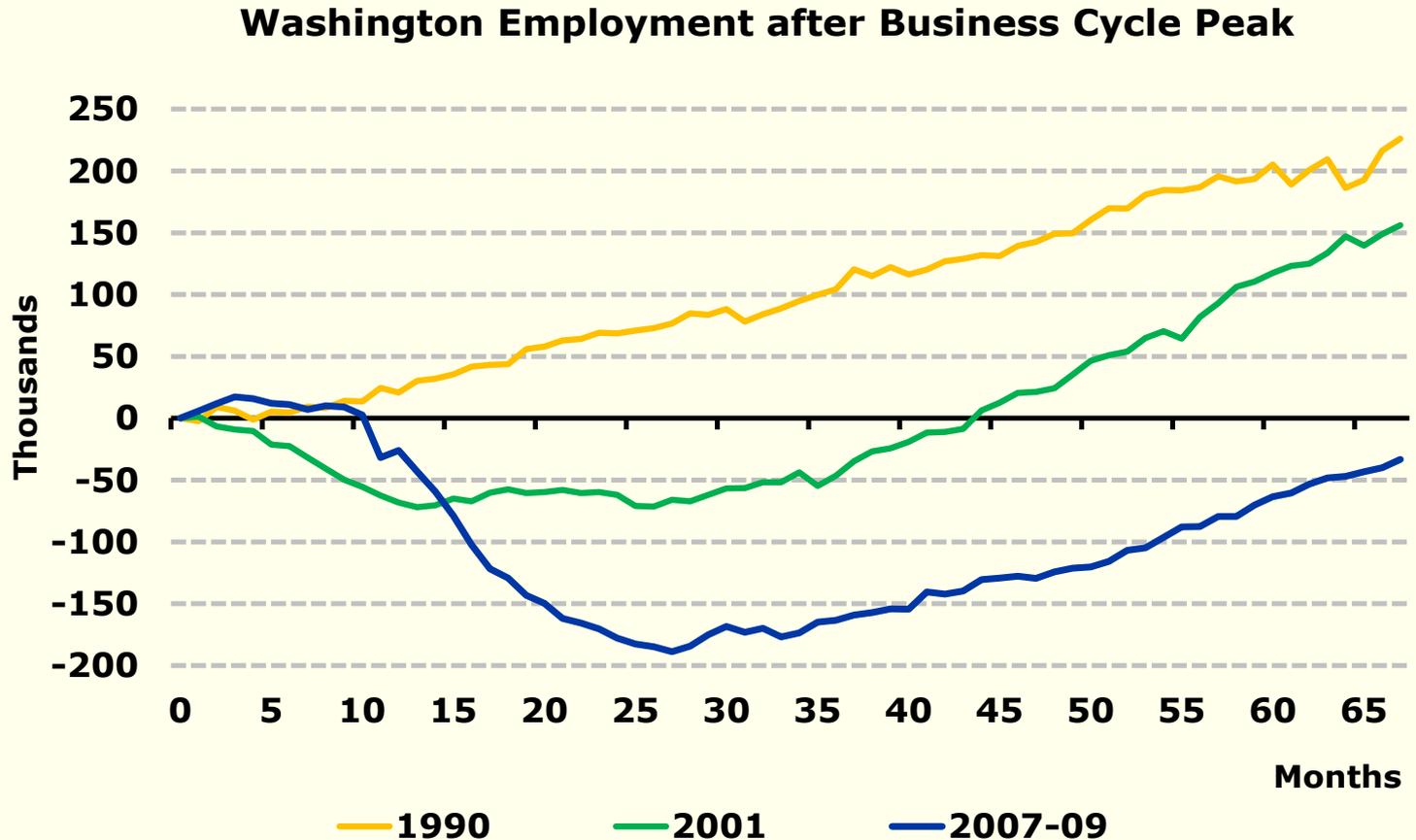
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After 5 years, Washington employment has still not recovered

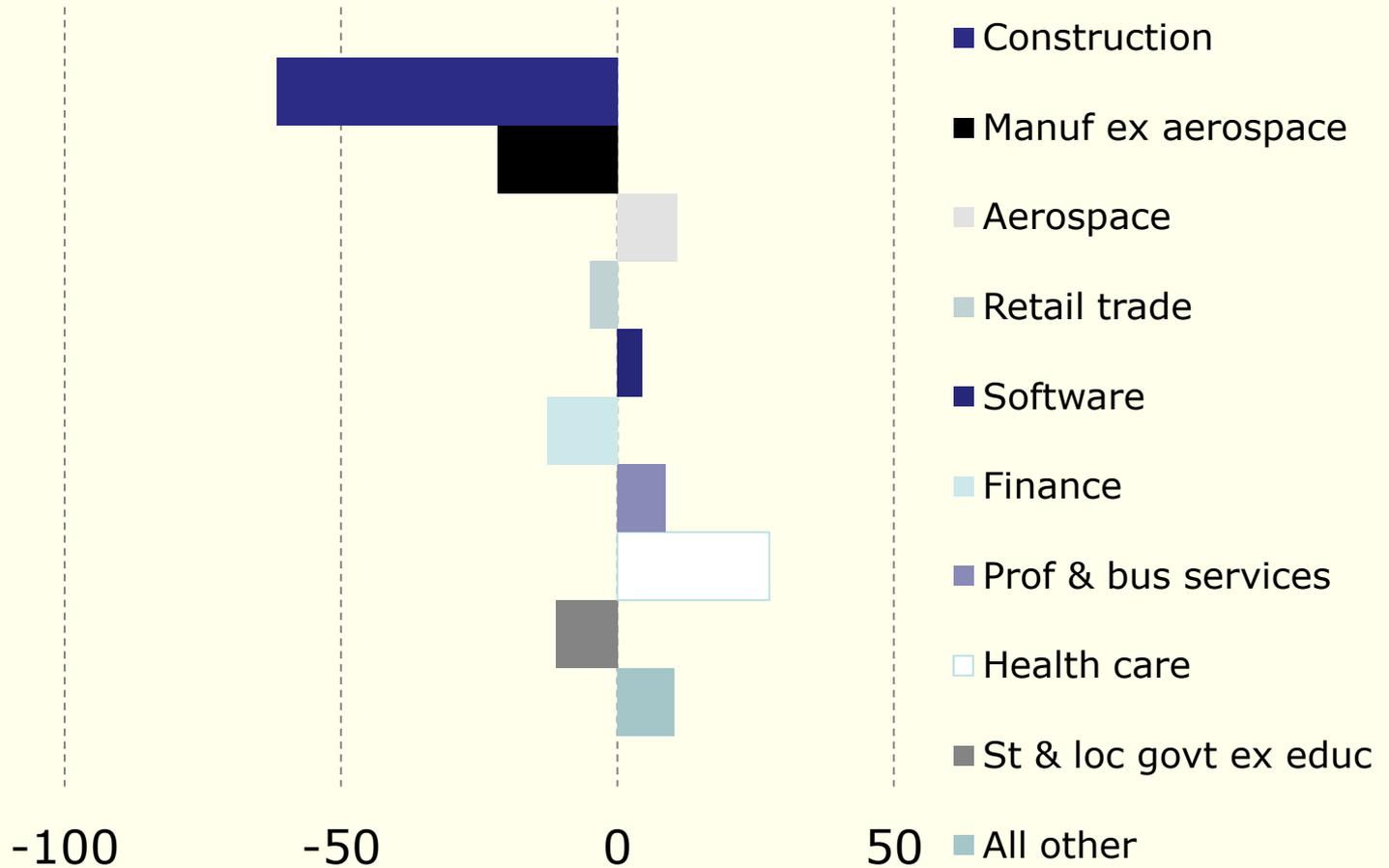
Washington remains 33,000 jobs below the start of the recession



Source: WA ESD, ERFC; data through June 2013



Employment change from pre-recession peak (thousands)

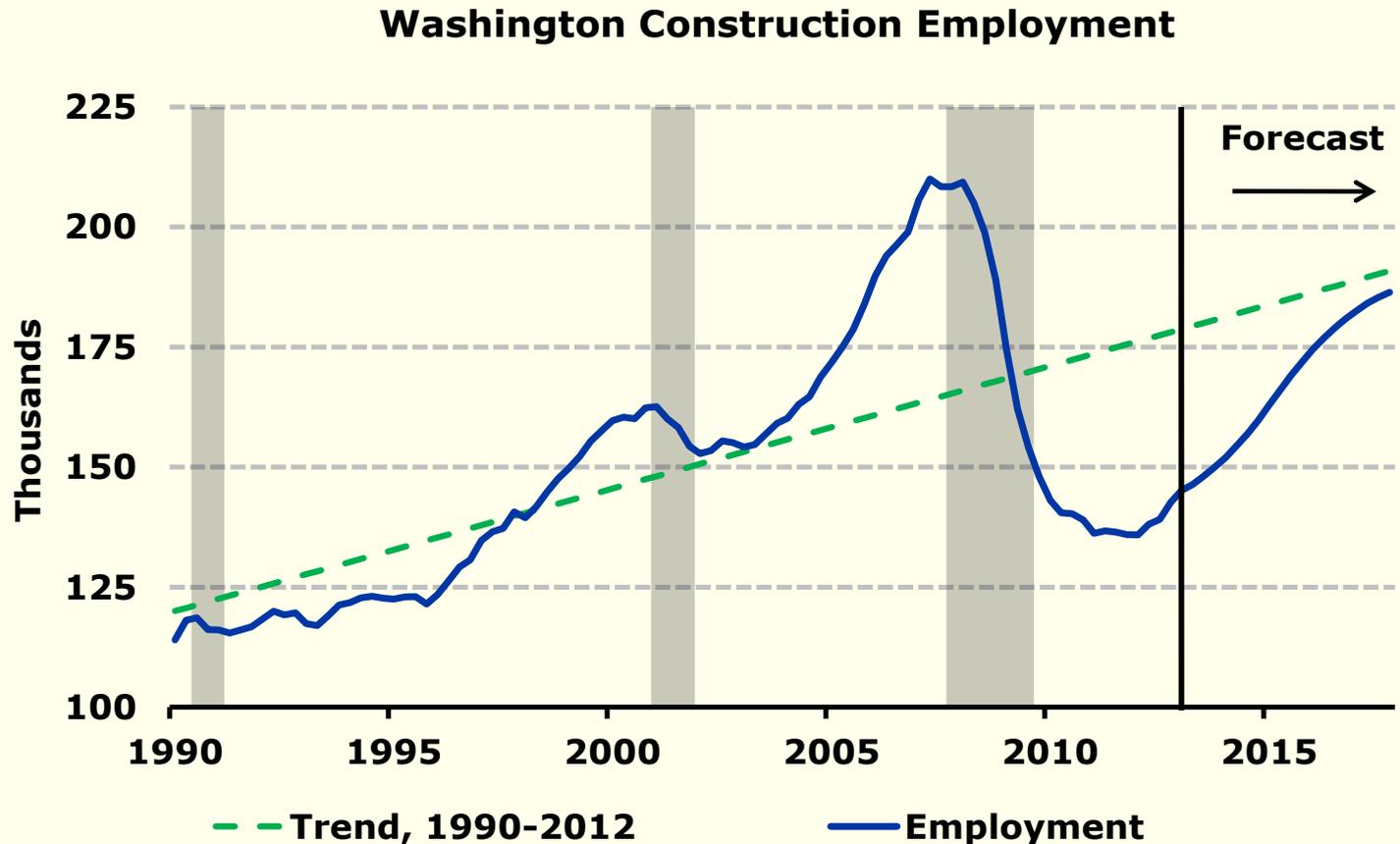


WA State Employment Security Dept, ERFC; data through June 2013

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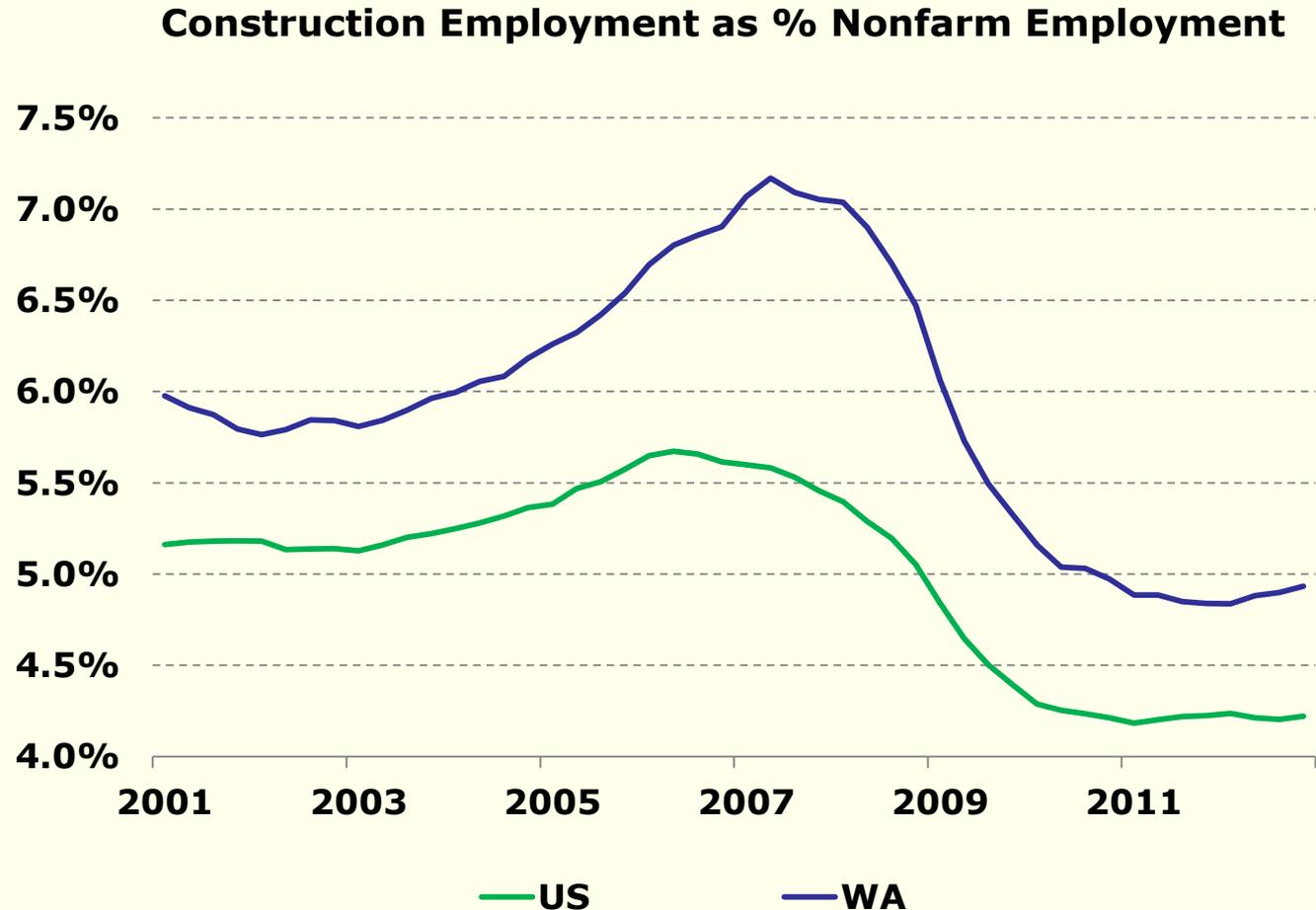
Washington construction employment is recovering



Source: ERFC June 2013 forecast; historical data through 2013Q1

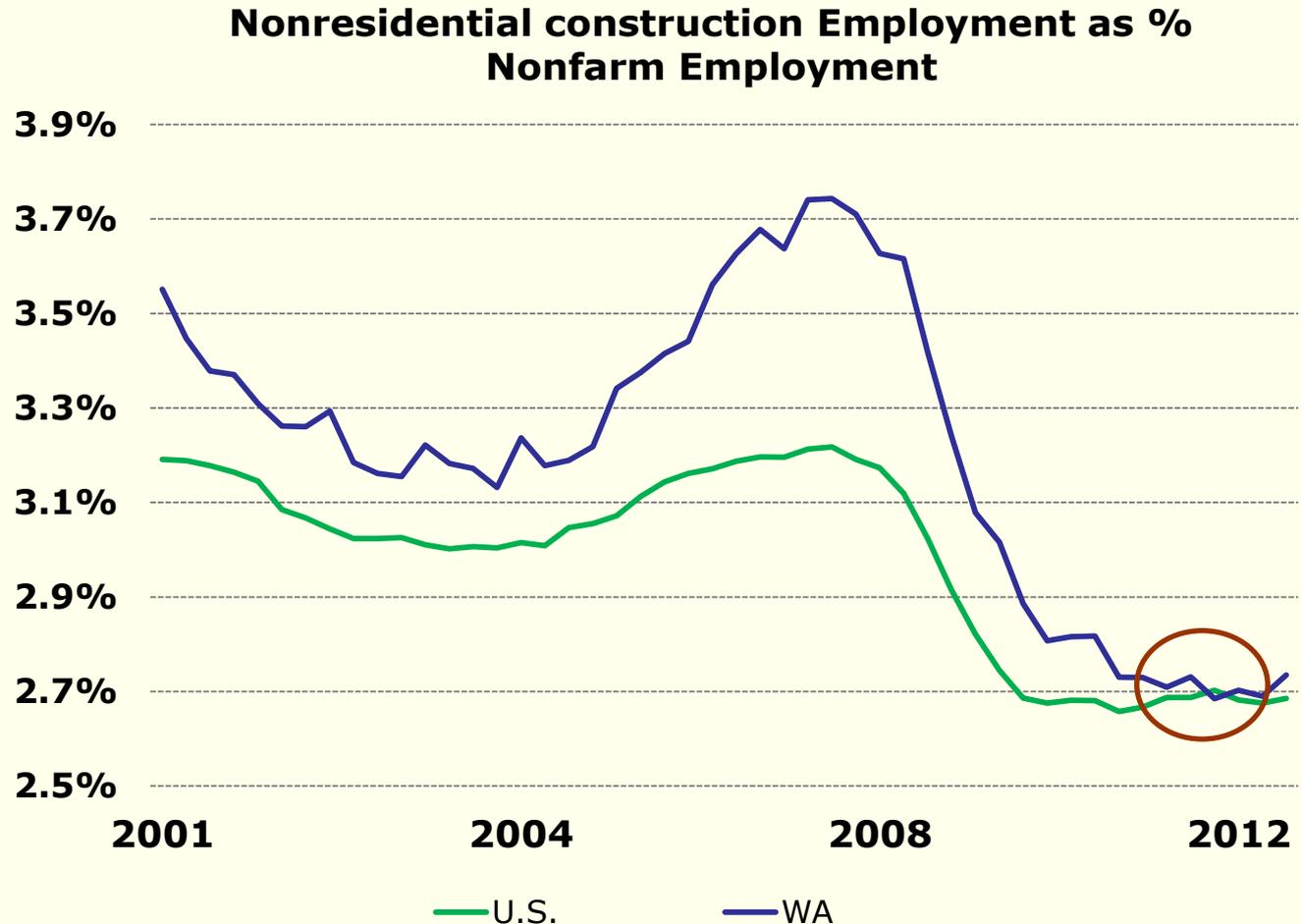


Construction employment share larger in WA than US



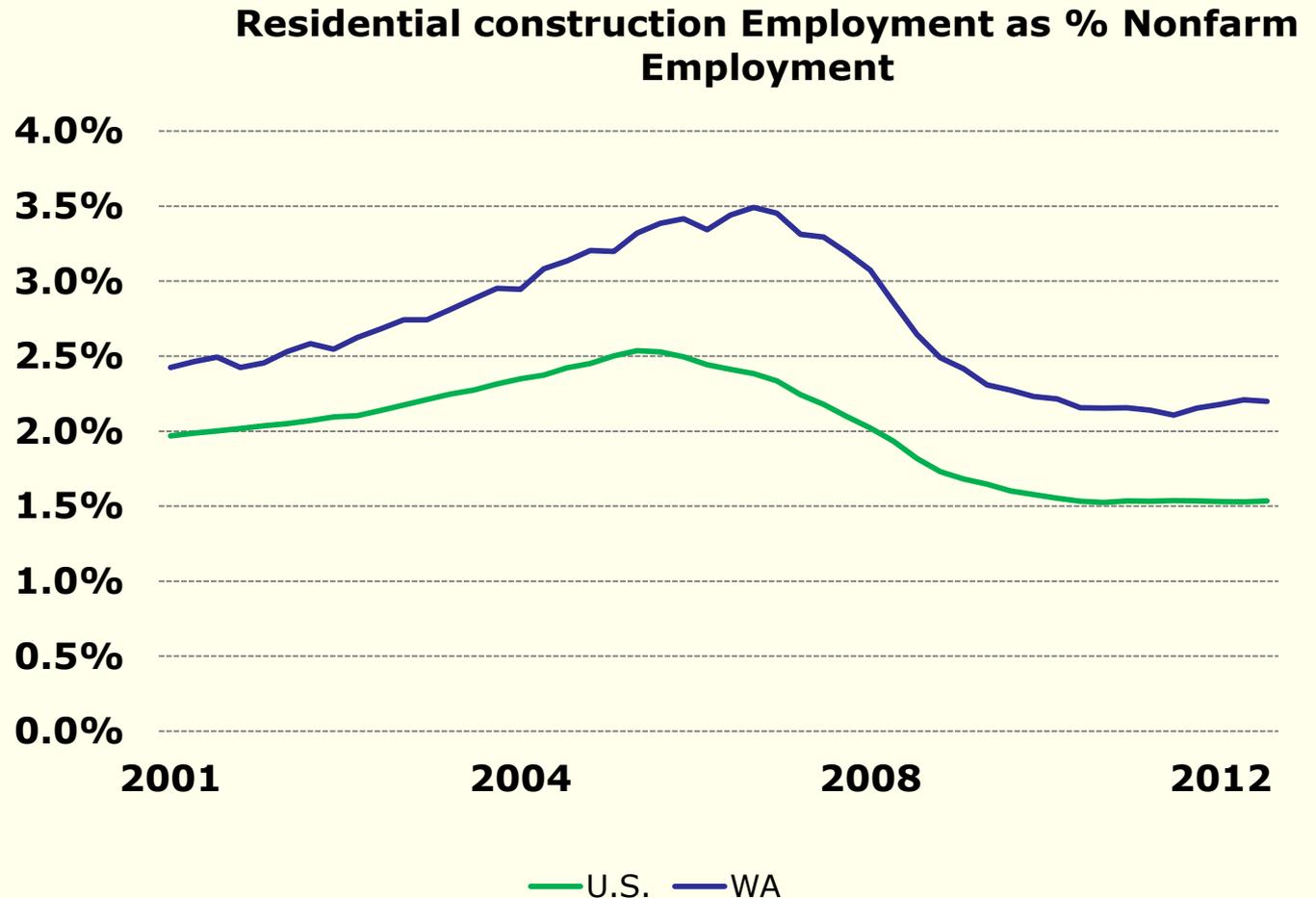


Nonresidential employment shares have converged





Residential employment shares consistently larger in WA



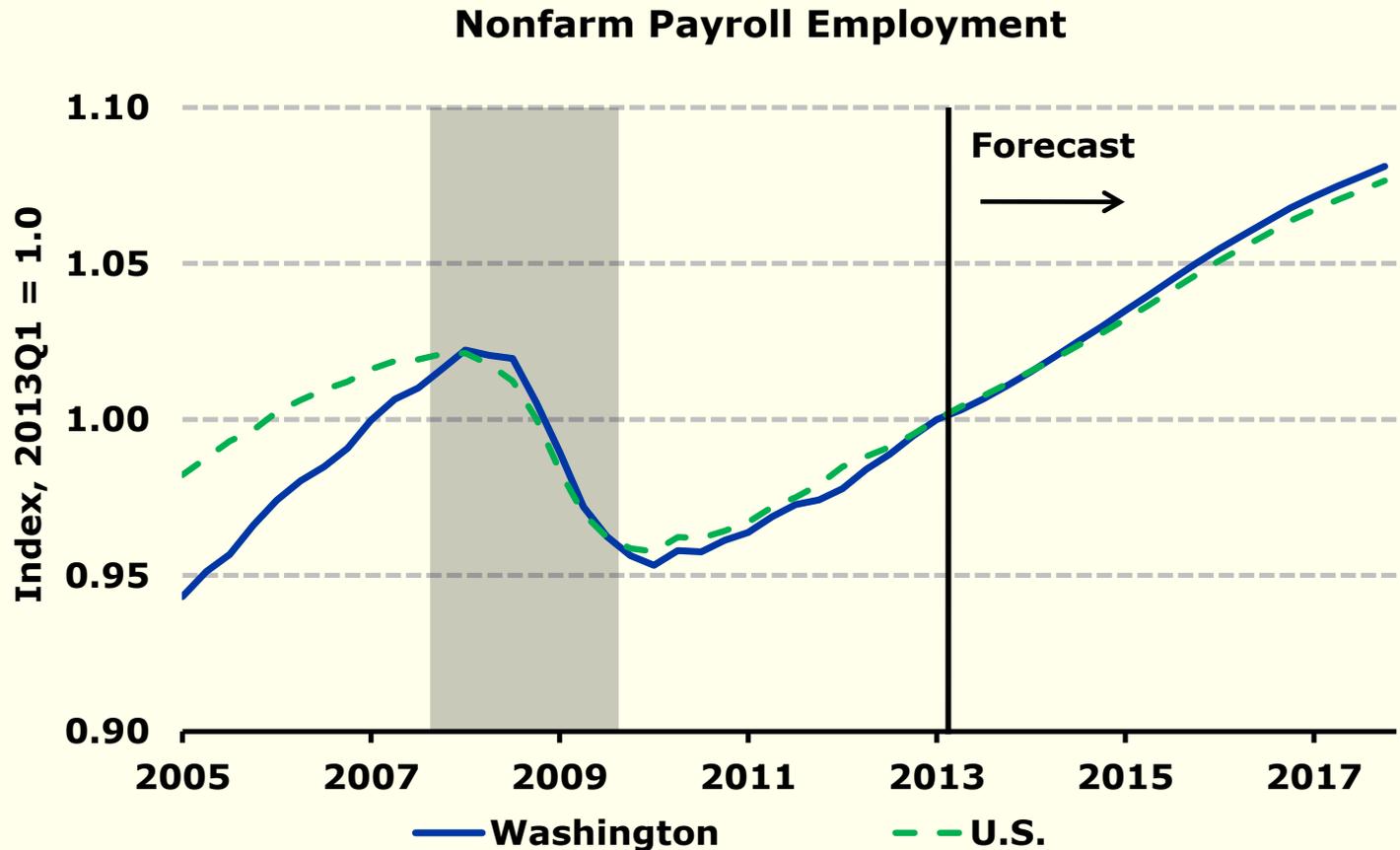


WA employment will recover slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q3

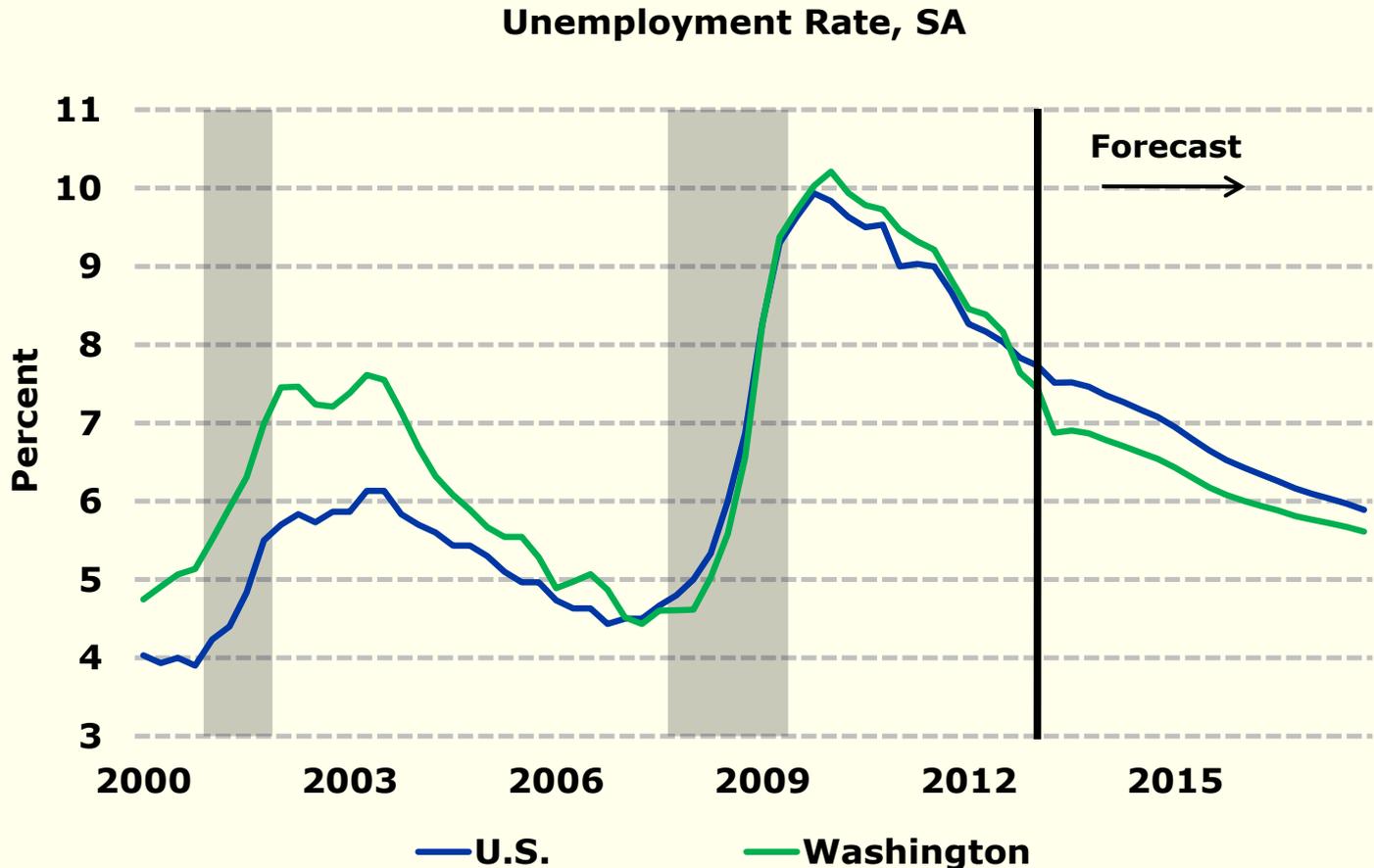
U.S.:
2014Q3



Source: ERFC June 2013 forecast; historical data through 2013Q1



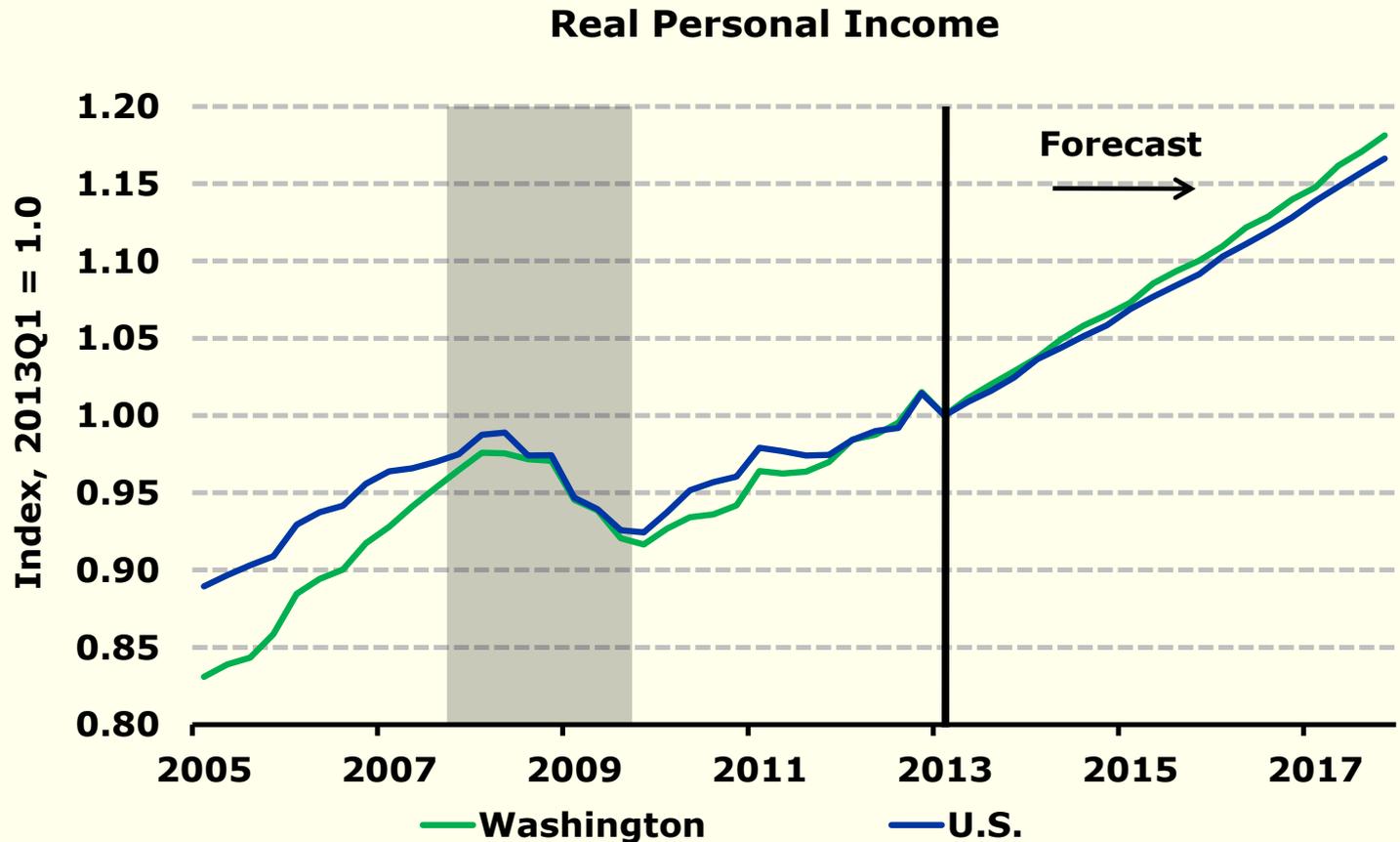
Washington unemployment expected to remain below U.S. rate



Source: ERFC June 2013 forecast; historical data through 2013 Q1



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

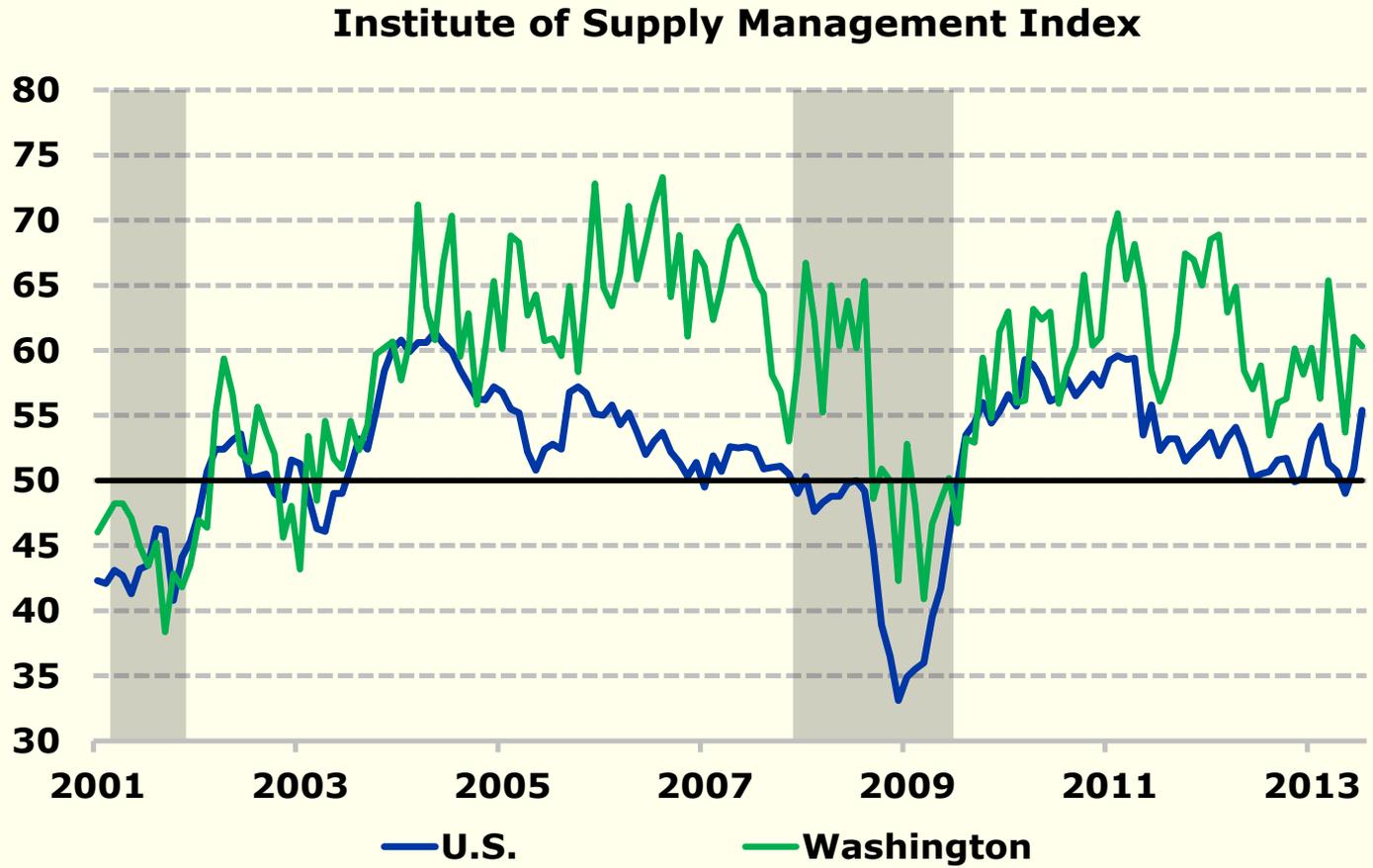


Source: ERFC June 2013 forecast; historical data through 2013Q1



Manufacturing stronger in WA than nationally

An index greater than 50, implies growth



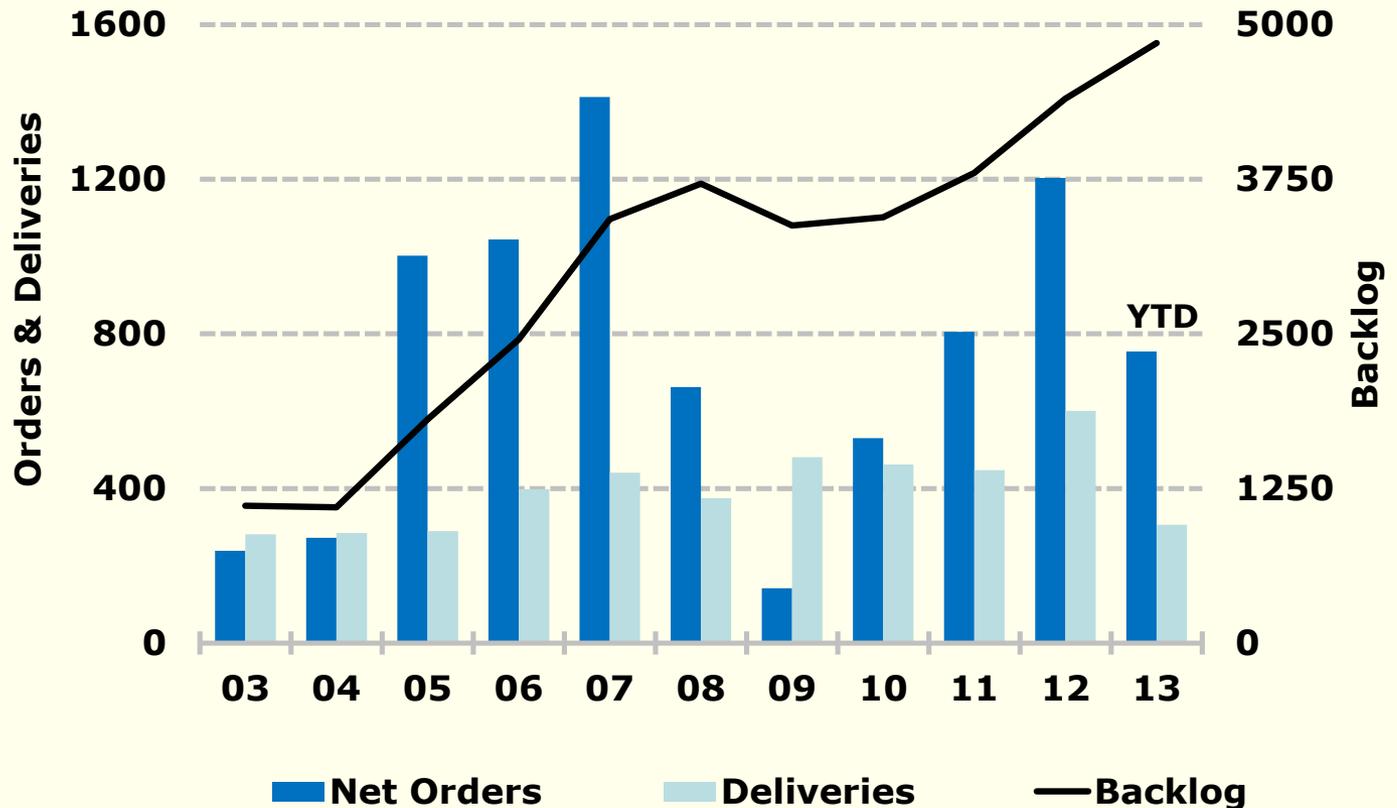
Source: Institute of Supply Management; data through July 2013

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Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

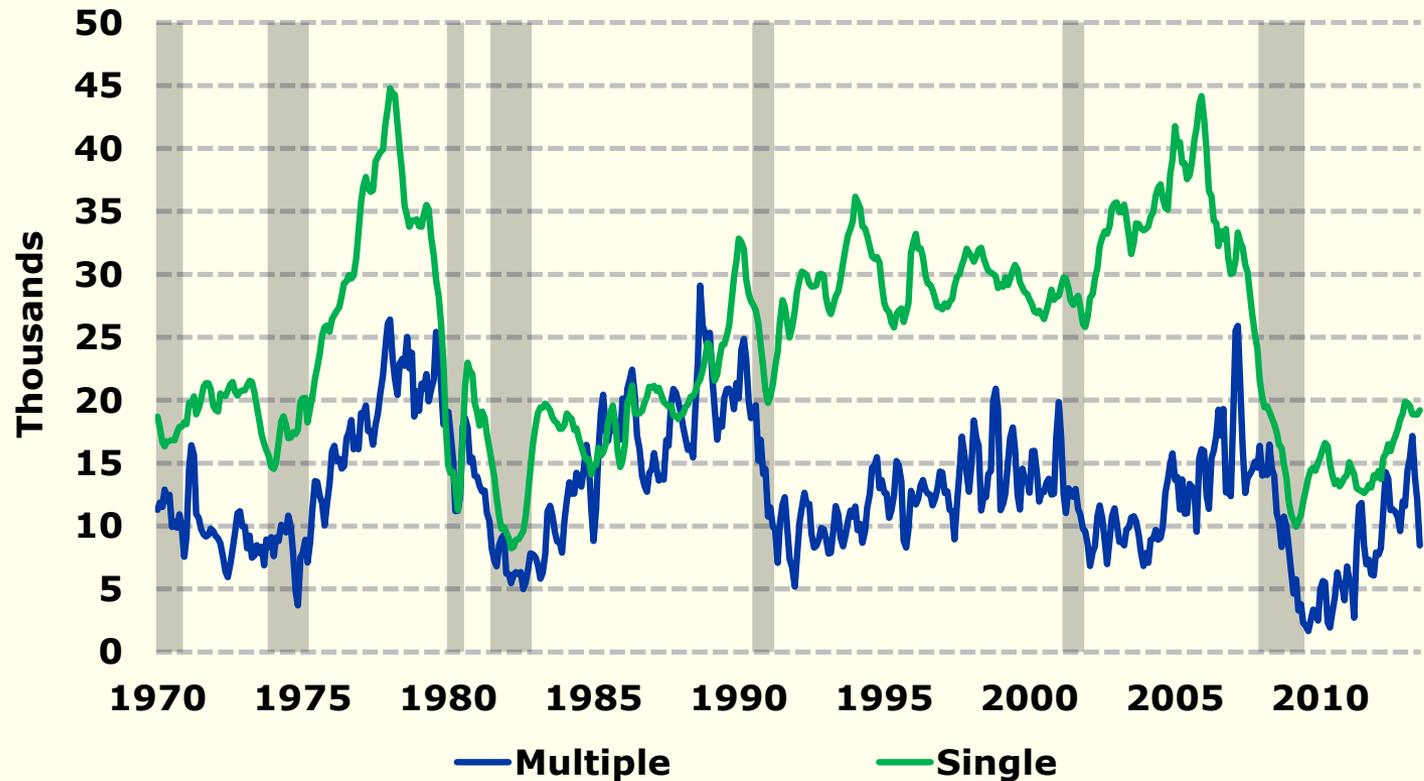


Source: Boeing, data through June 2013



WA building permits are improving

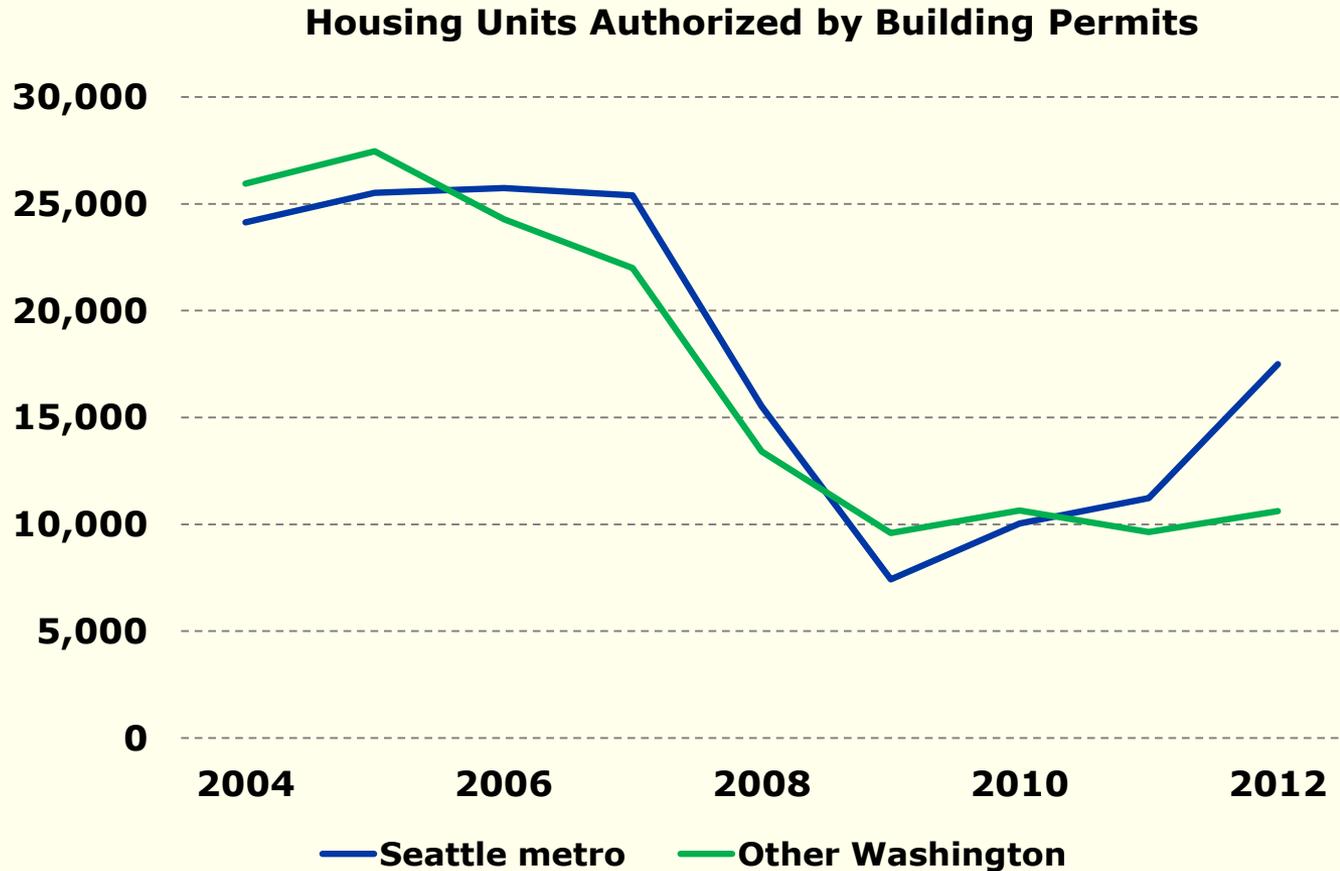
Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



Source: U.S. Census Bureau; data through June 2013



Seattle area has most of recent growth in building permits

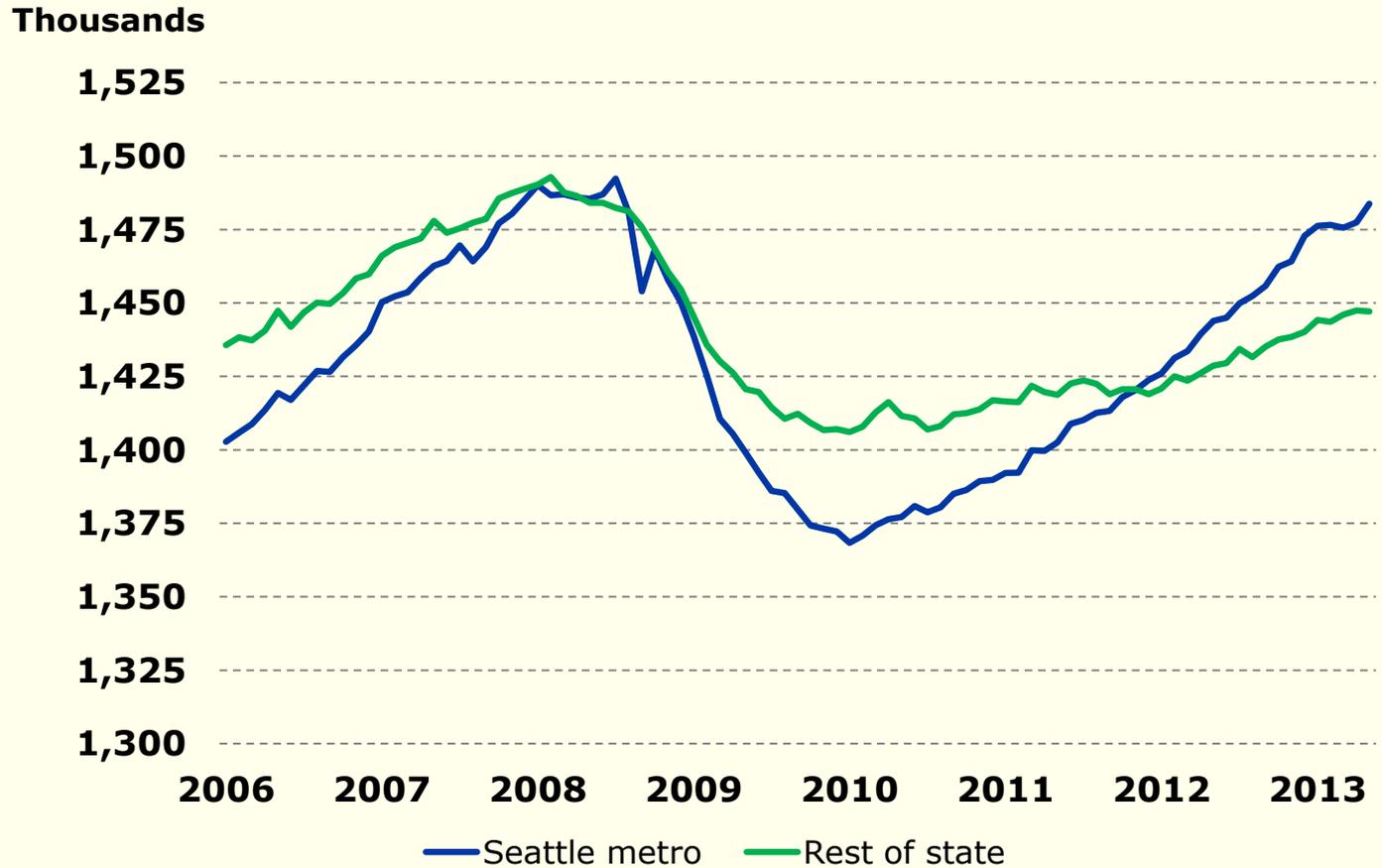


Source: U.S. Census Bureau, ERFC

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Seattle employment declined further but has recovered faster

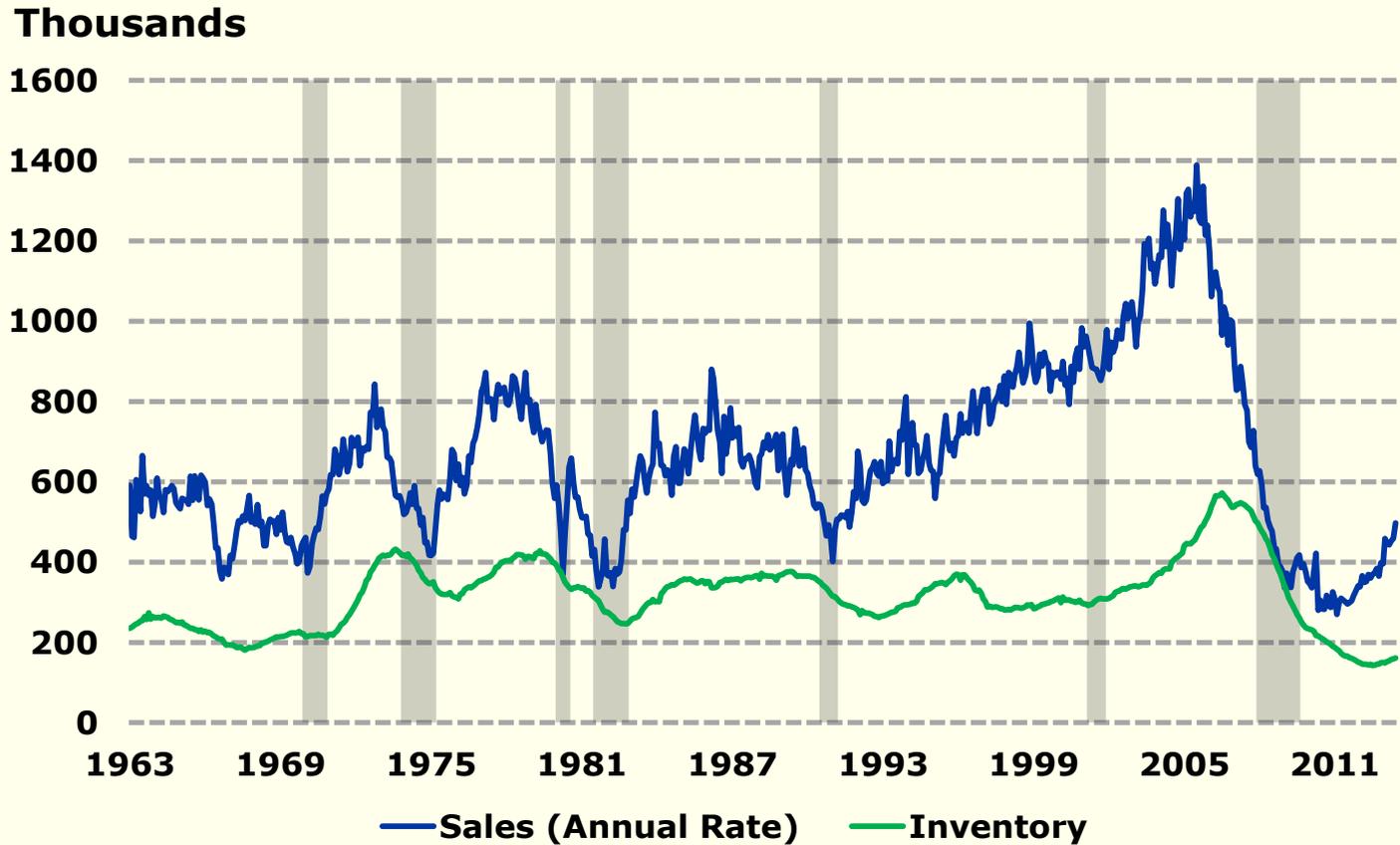


Source: Employment Security Dept., ERFC; data through June 2013

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Builders have drastically reduced the inventory of new homes for sale



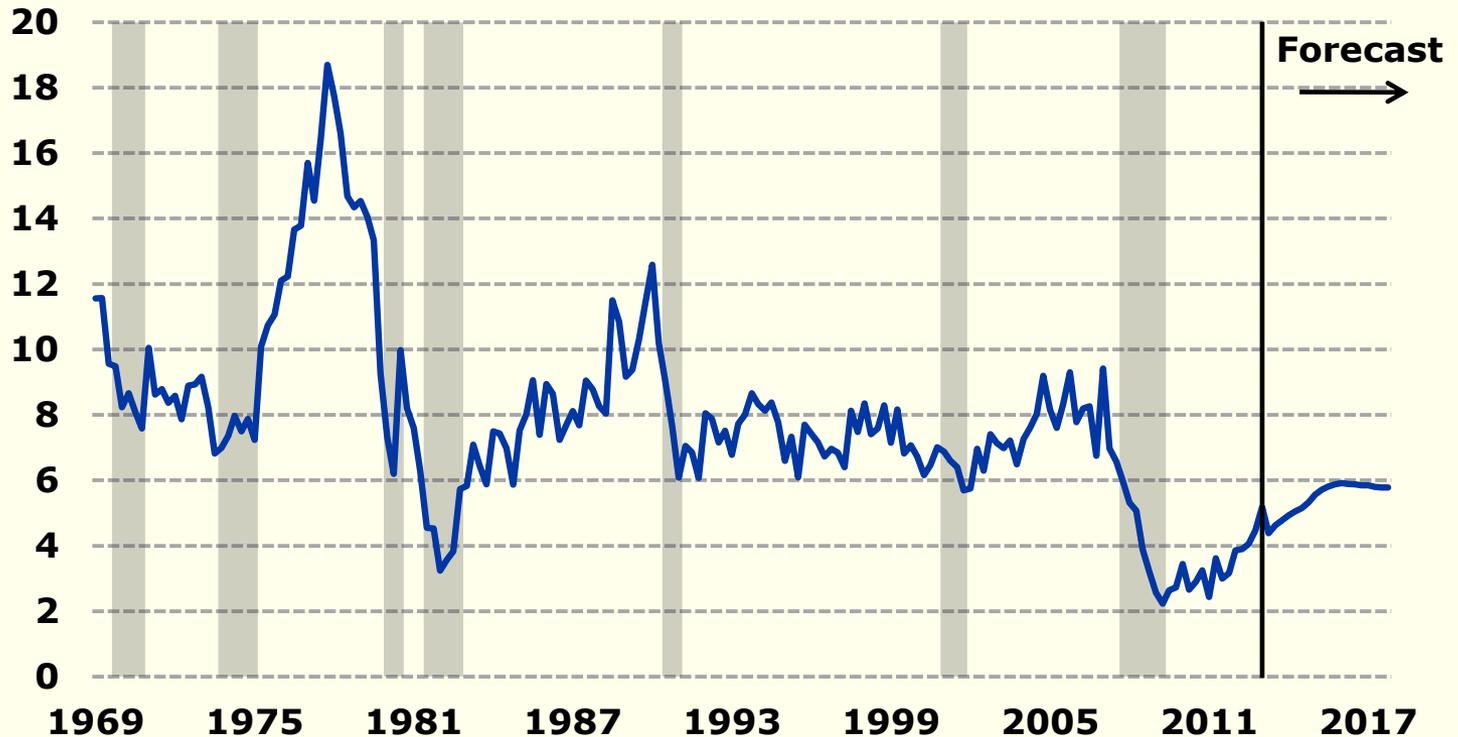
Source: Bureau of the Census; data through June 2013

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Housing permits relative to population are forecasted to still be below historical levels in 2017

Washington Housing Permits per 1,000 People

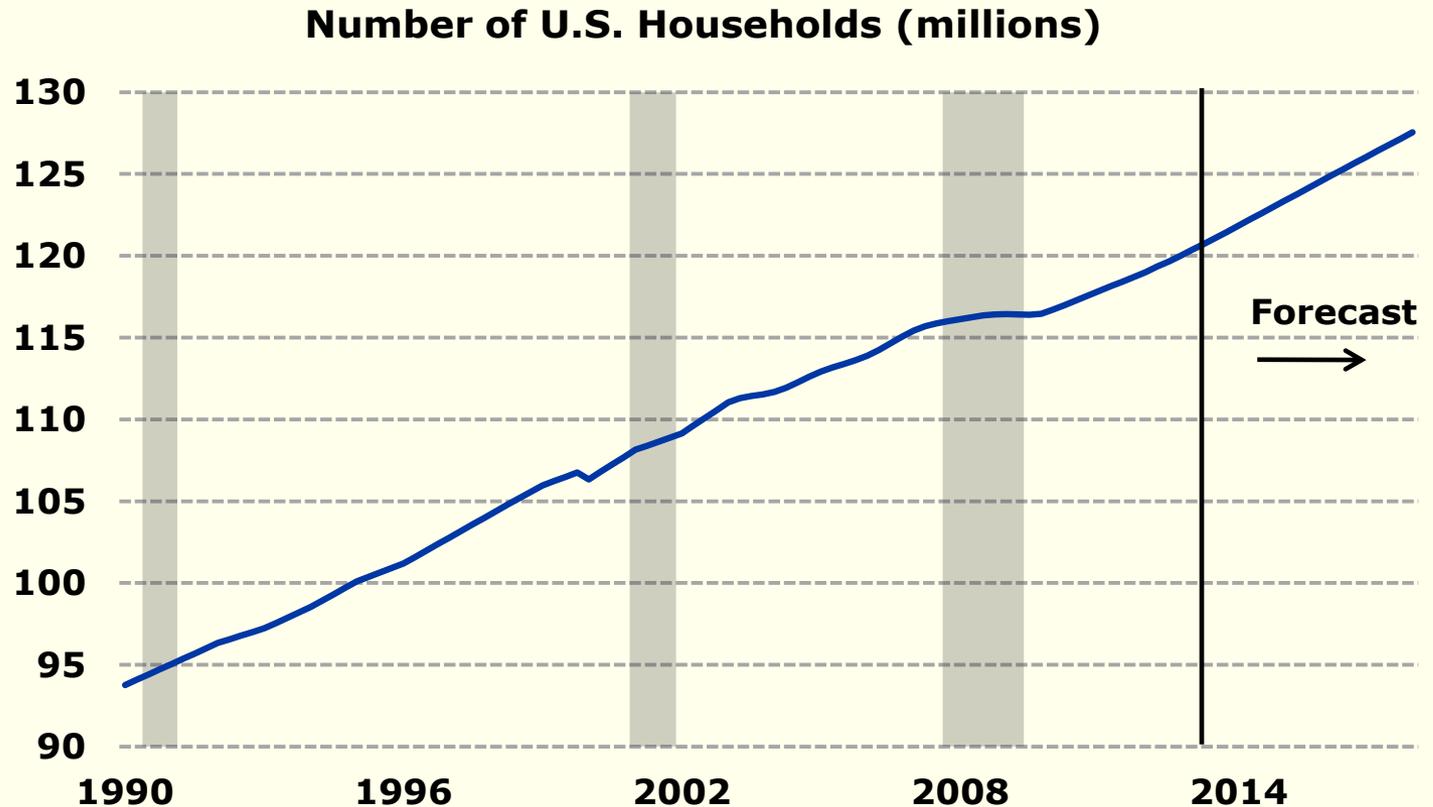


Source: U.S. Census Bureau, ERFC June 2013 Forecast; historical data through 2013 Q1

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The slowdown in household formation during the Great Recession was unprecedented in recent history



Source: U.S. Census Bureau, ERFC June 2013 Forecast; historical data through 2013 Q1

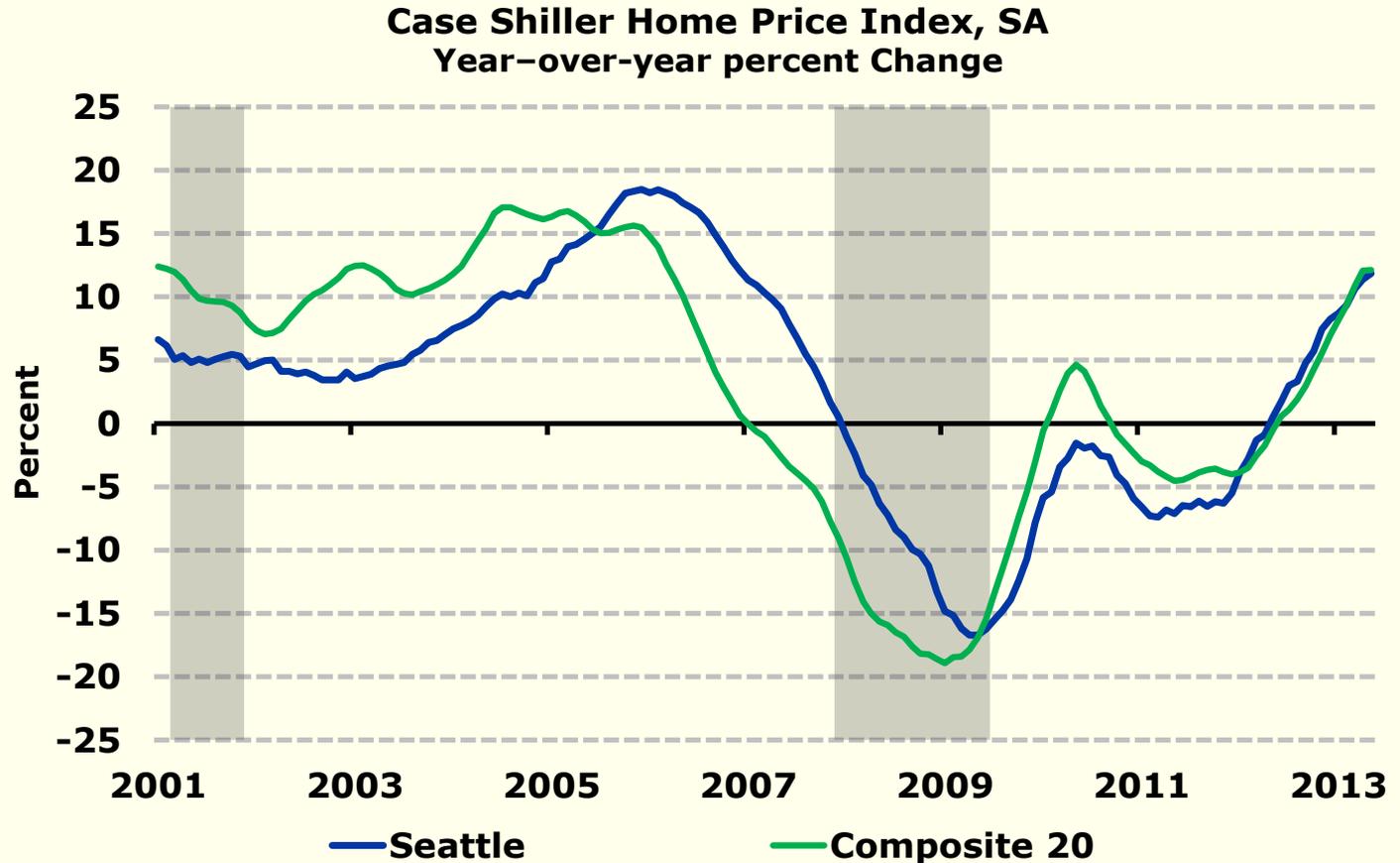


Single-family home prices continue to increase

May 2013

U.S. is up 12.1%

Seattle is up 11.9%

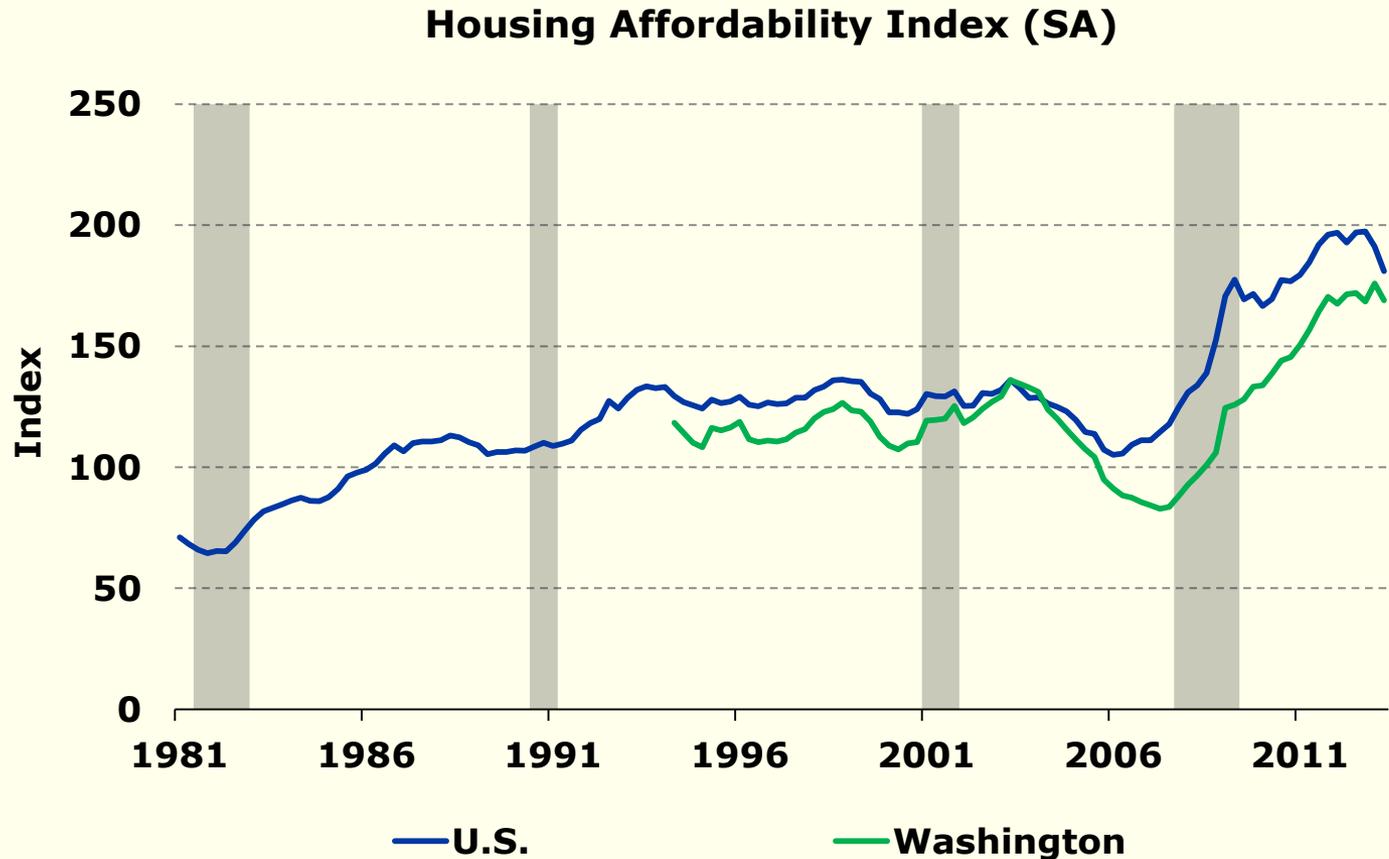


Source: S&P/Case-Shiller; data through May 2013



Home affordability remains near 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



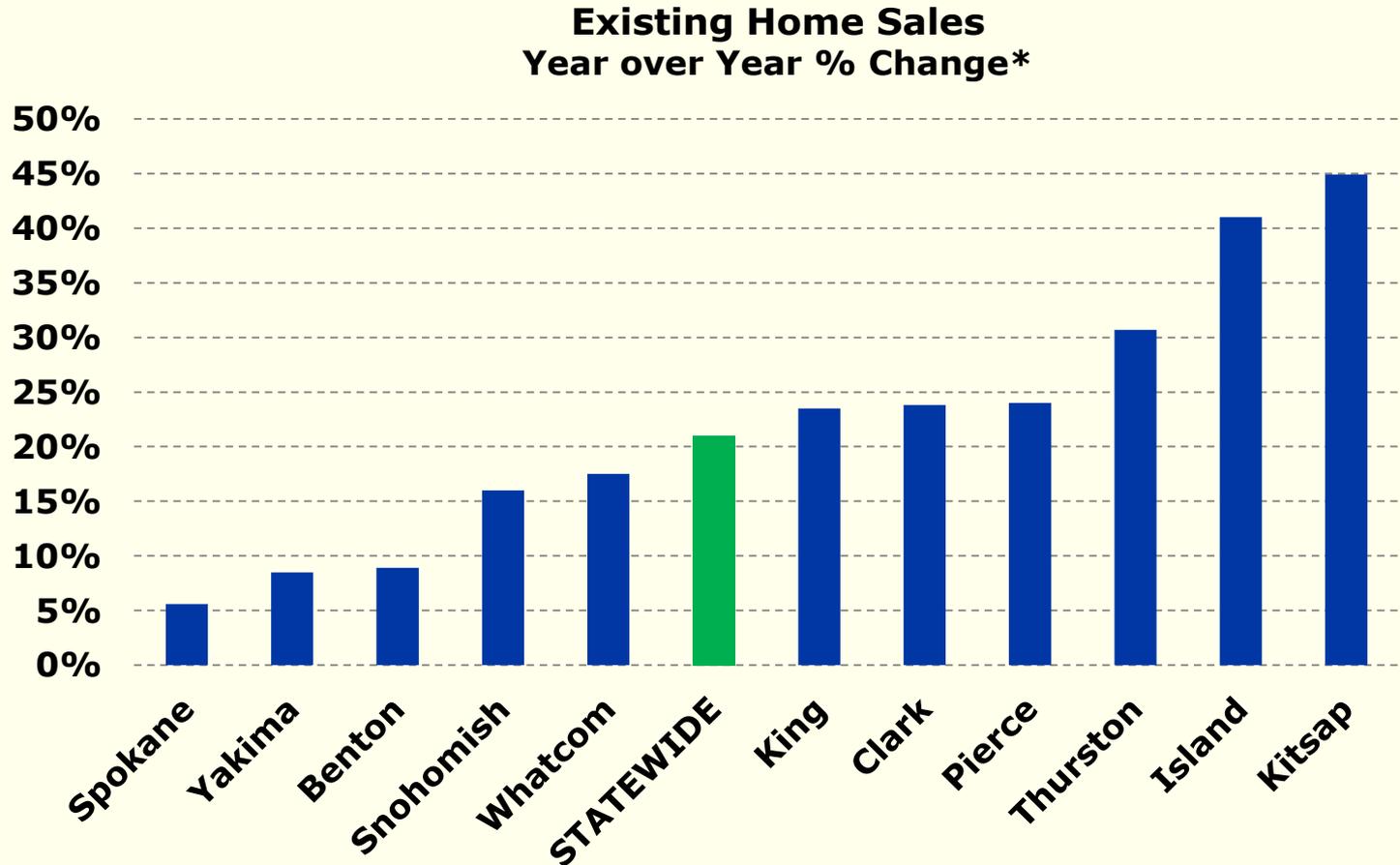
Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research, ERFC; data through 2013 Q2

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Strong growth in existing home sales statewide

*Counties with 2% or more of existing home sales, 2013Q2



Source: WA Center for Real Estate Research, ERFC; 2013Q2 data



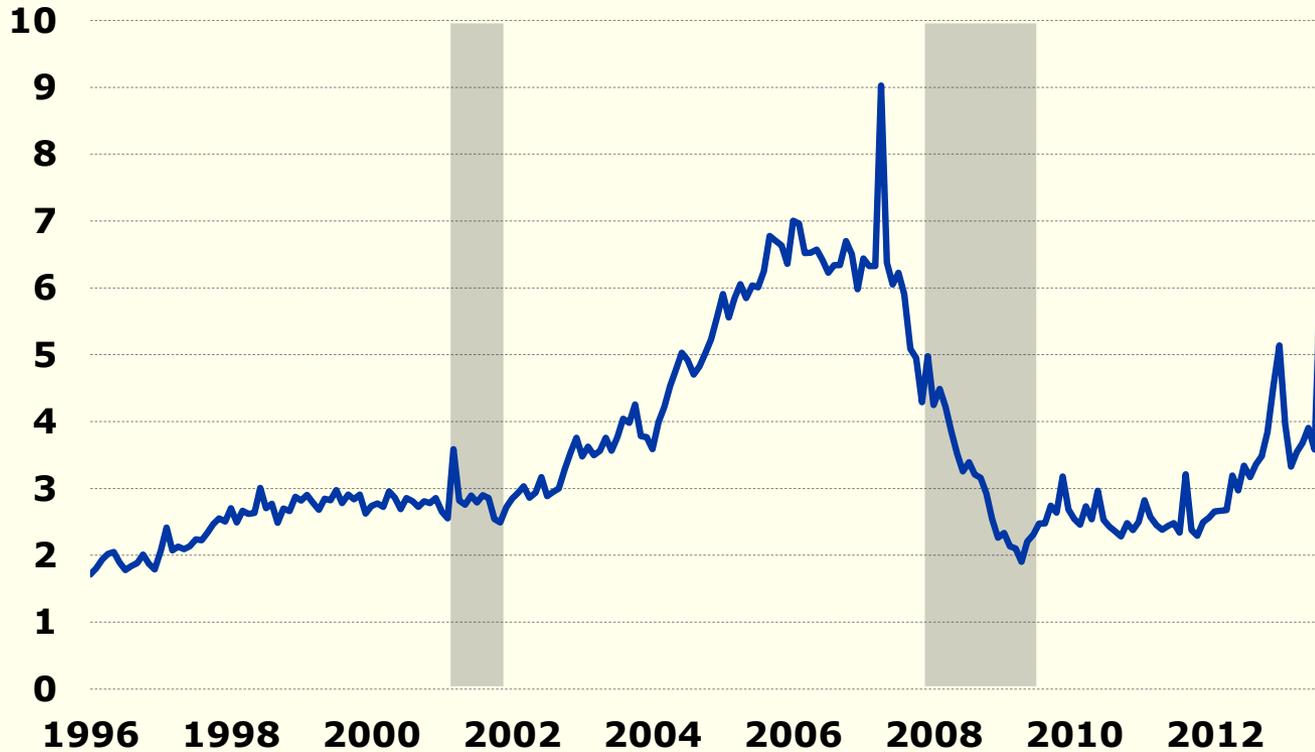
REET is spiking with large commercial property sales but still shows underlying strength

2012 real estate sales were elevated due to the incentive to claim capital gains before taxes increased in 2013, with a particularly large rush at the end of the year.

July saw another spike in commercial sales, with over \$2 billion of \$20 million-plus sales

Seasonally Adjusted Taxable Real Estate Excise Activity

\$Billions

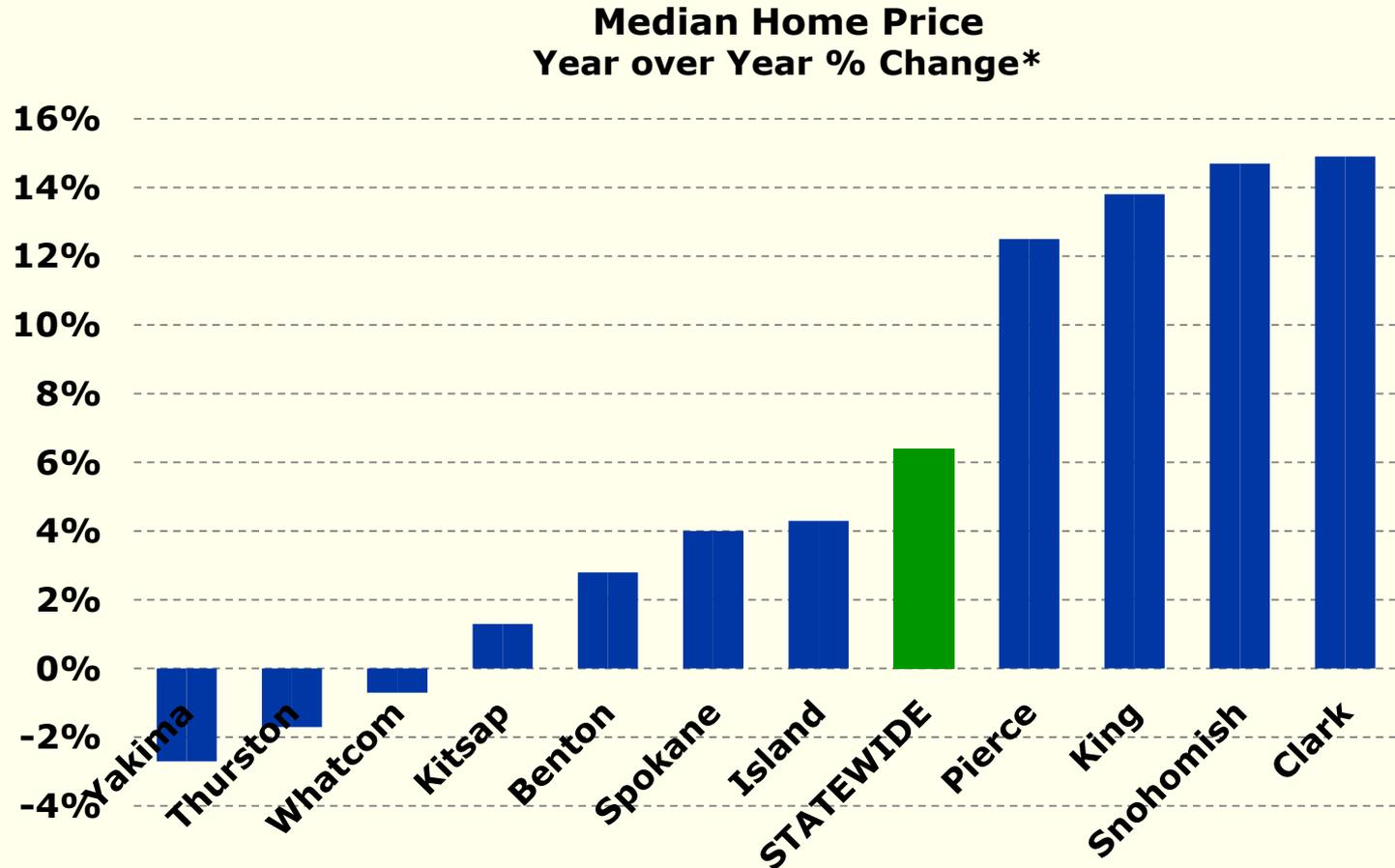


Source: ERFC; Monthly data through July 2013 preliminary



Considerable variation in home price changes across state

*Counties with 2% or more of existing home sales, 2013Q2



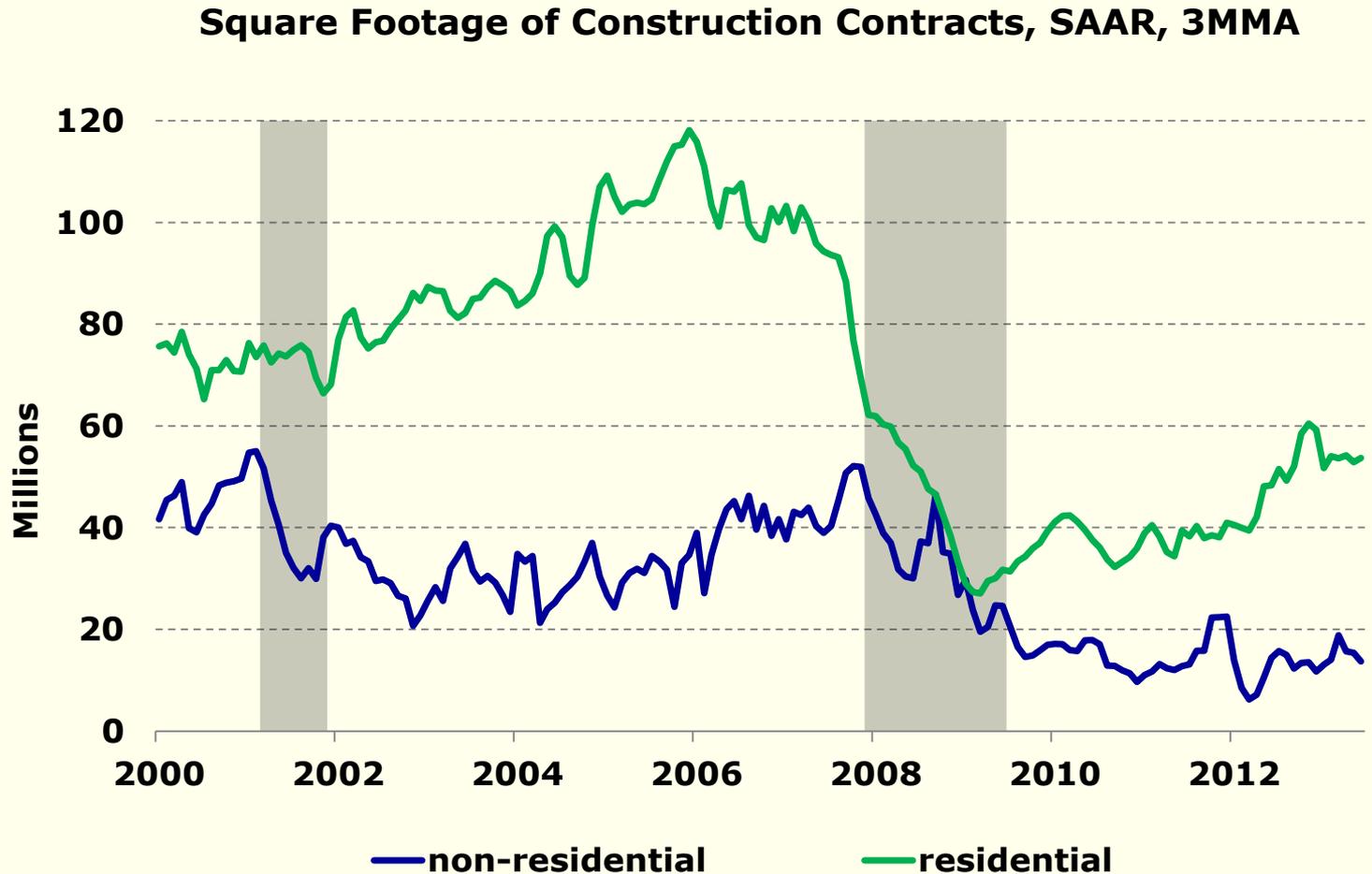
Source: WA Center for Real Estate Research, ERFC; 2013Q2 data



Contract data signal a turning point in non-residential construction

Residential square footage is up 11%, and value up 8% year over year (3mma).

Non-Residential square footage is down 5%, and value is down 19% year over year (3mma).



Source: Dodge, ERFC; data through June 2013

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State Revenue Trends

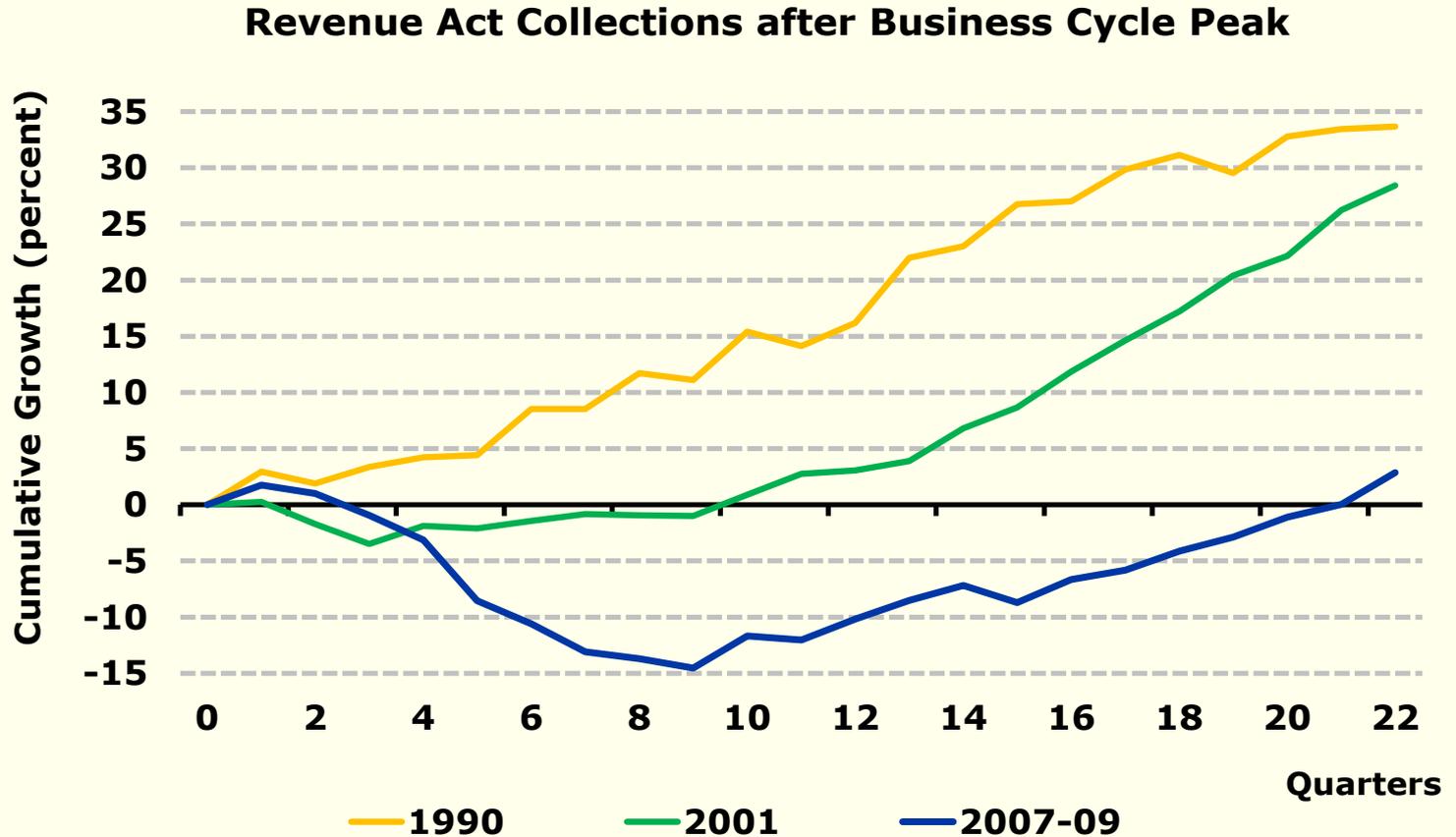
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Revenue collections have been weak compared to past recoveries

Revenue Act collections have now exceeded their previous peak reached in Q1 2008

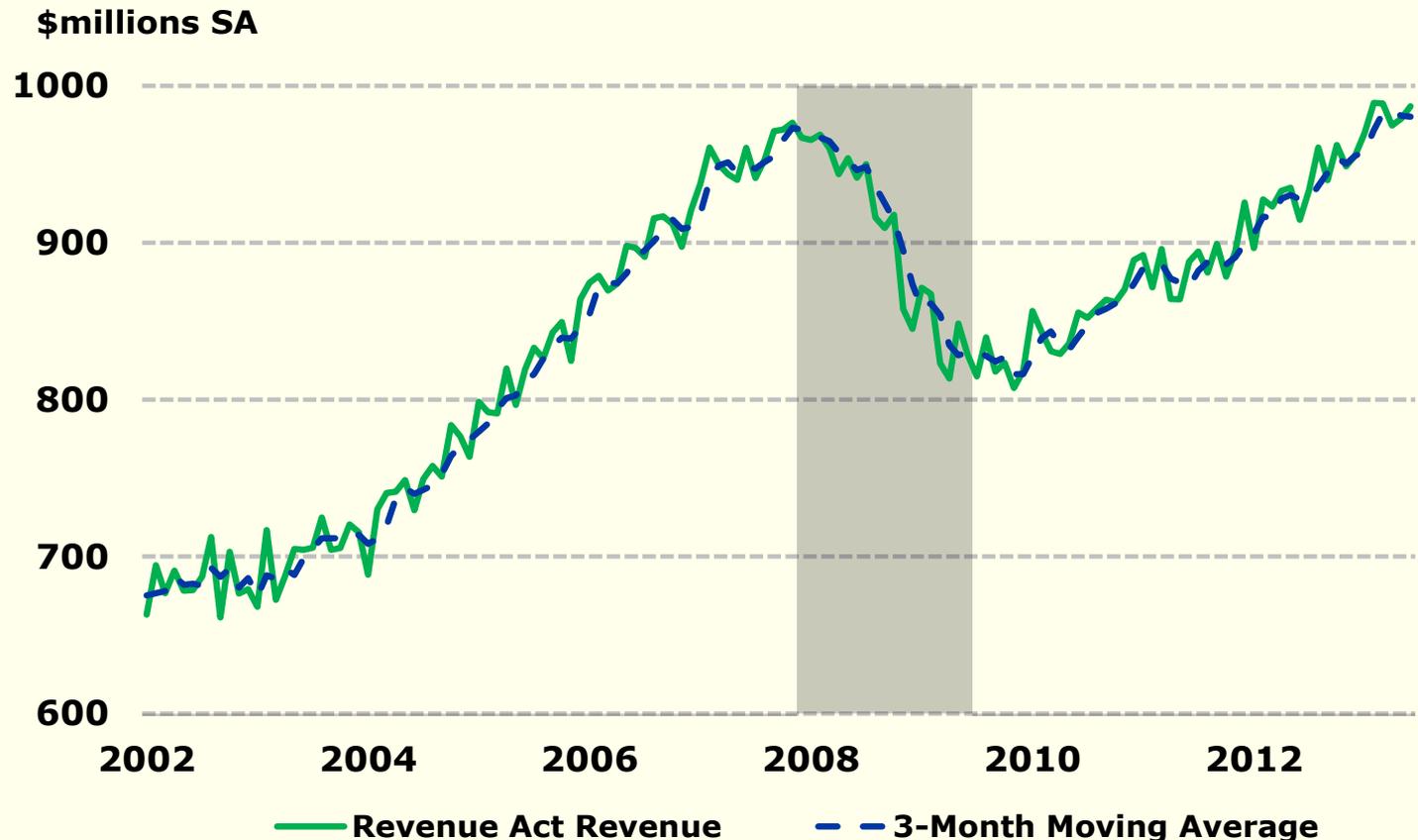


Source: ERFC; data through 2013 Q2



Revenue Act collections are growing slower than their pre-recession rate

Collections were up 6.1% year-over-year for second quarter 2013 activity (May 11 – August 10, 2013 collections)



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

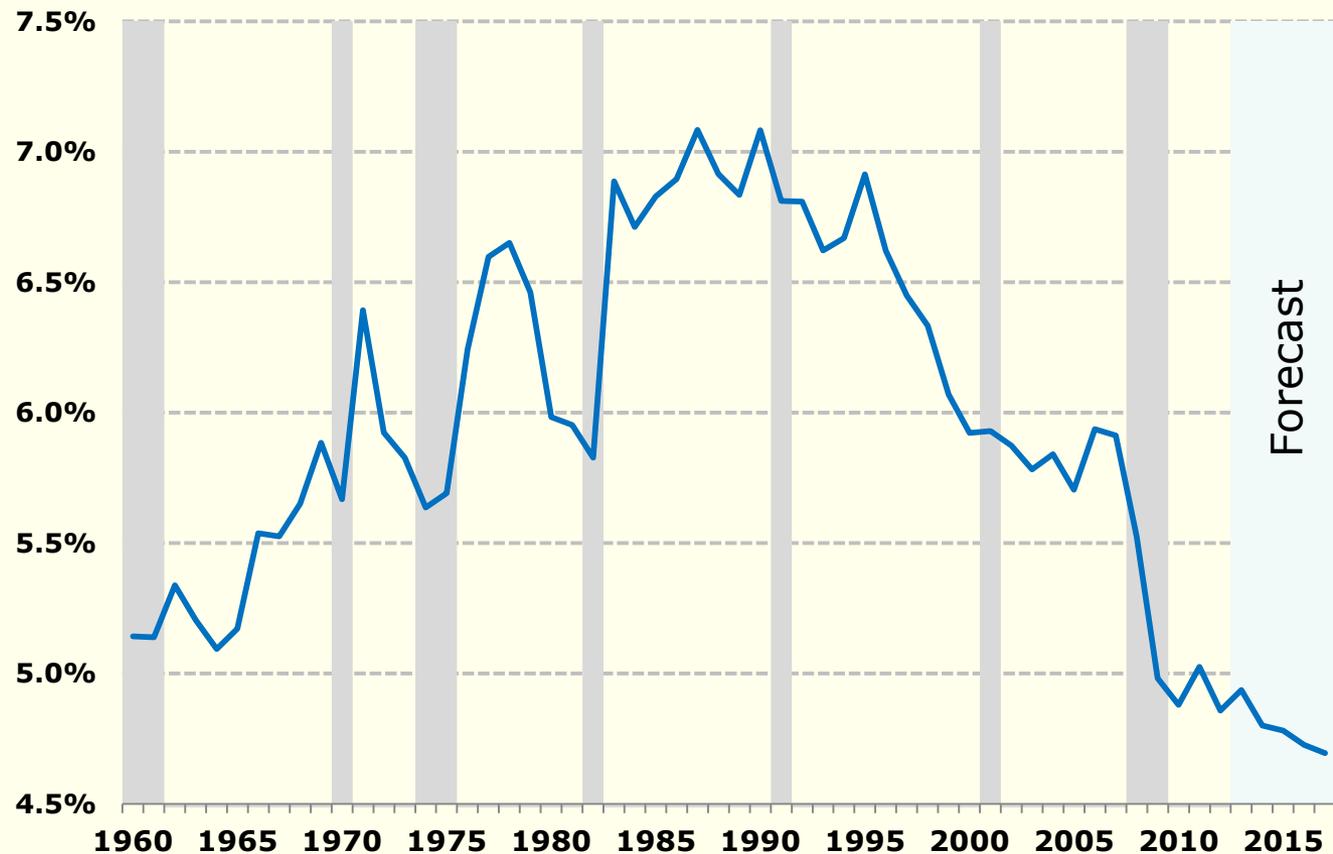
Source: DOR and ERFC; monthly data through estimated June 2013 activity

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Ratio of state revenue to income near its all-time low

General Fund-State Revenue as a Percentage of State Personal Income





Conclusion

- The economies of both the state and the U.S. are on a path to continued growth unless something comes along to mess it up
- Construction should be a positive contributor to growth for the next several years at least



Questions



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