

# Washington State Economic & Revenue Outlook

Presented to  
DOR Washington Roundtable

Arun Raha  
Chief Economist

December 2, 2009  
Olympia, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



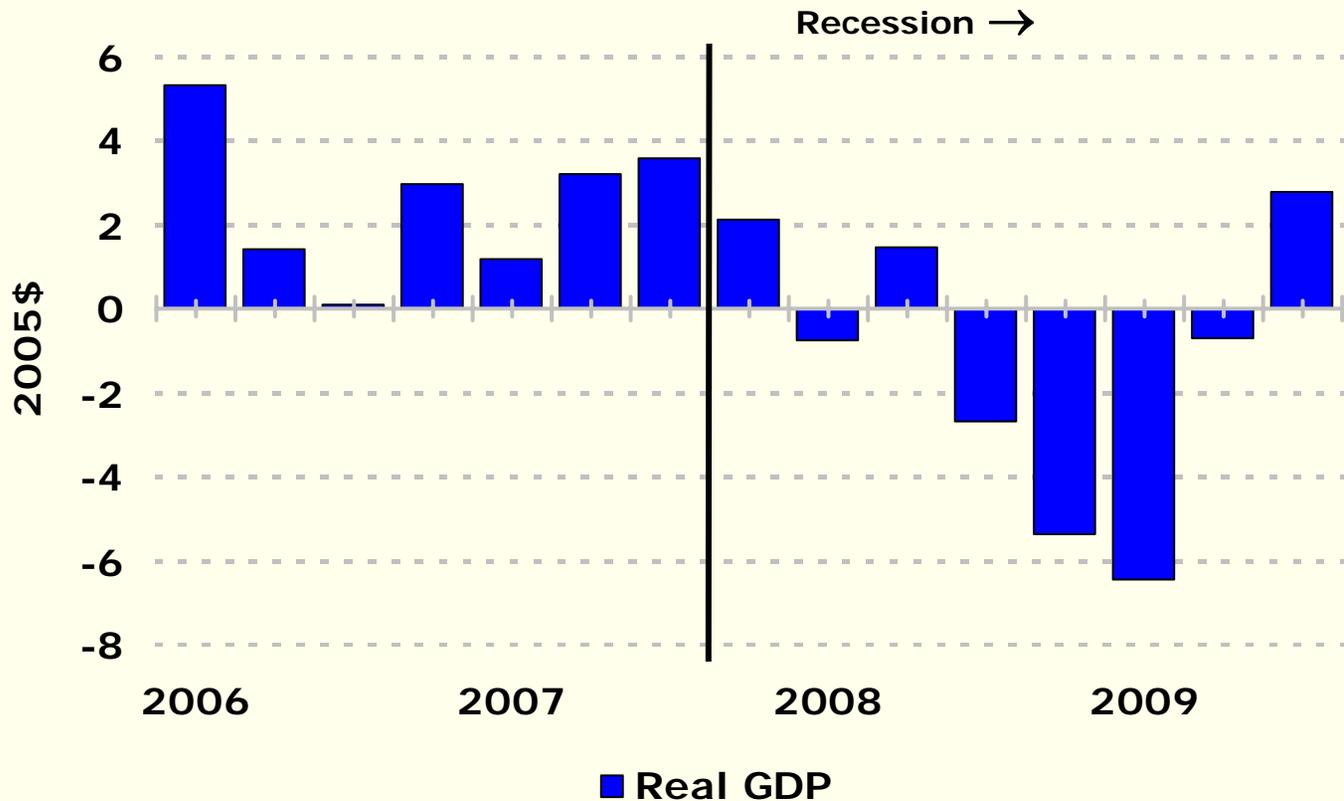
# Summary

- Economic growth has returned, but revenue growth has not – this is a revenue-less recovery
- The economic recovery faces headwinds and will be slow
  - Real estate, especially commercial
  - Banking, particularly local and regional banks
  - Consumer confidence and spending
- On the upside, a synchronized global recovery now unfolding, means exports will kick in earlier in the cycle
- Since revenues were first projected for the 2009-11 Biennium in February 2008, they have been cumulatively reduced by \$5.3 billion



# GDP returned to growth in Q3

Percent growth, SAAR

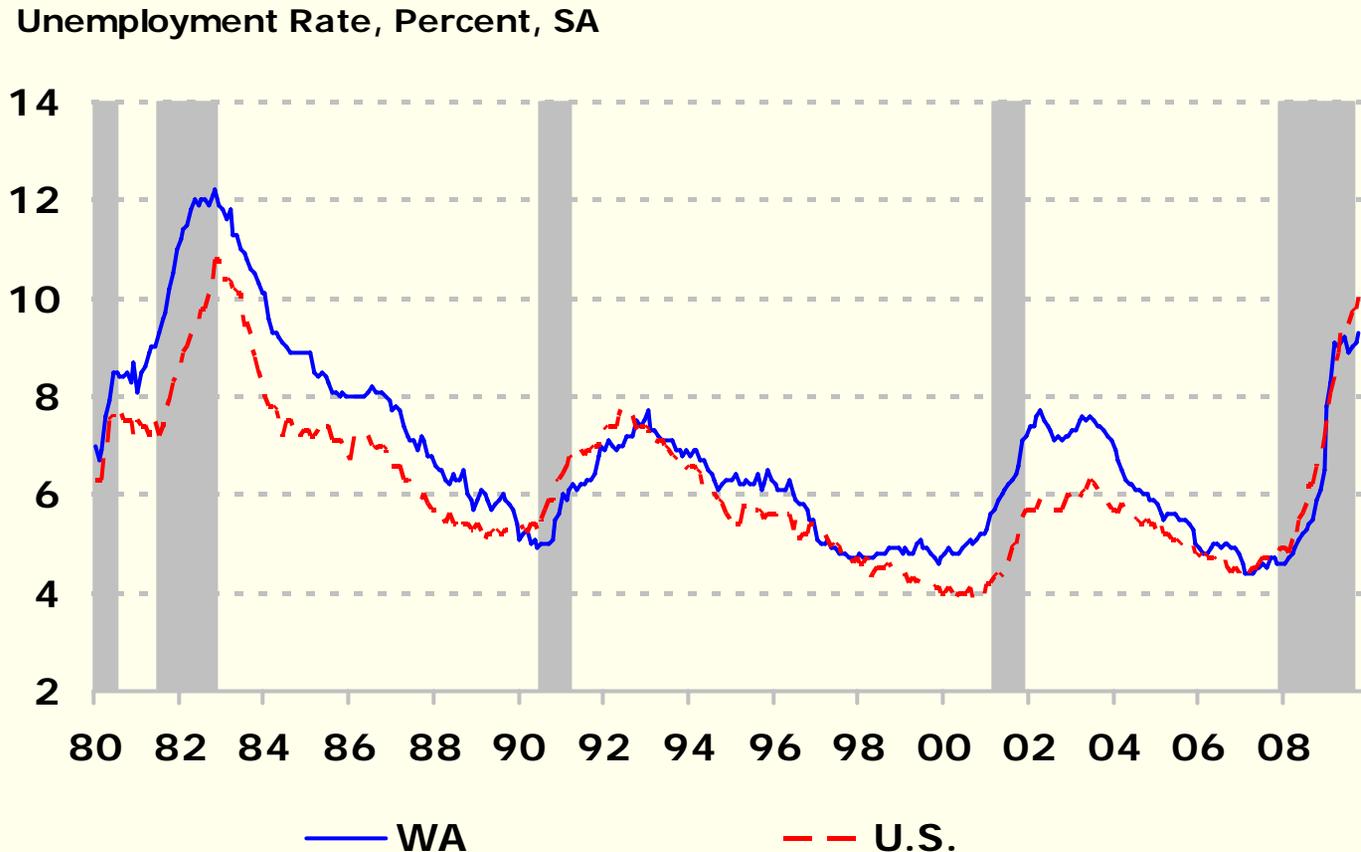


Source: BEA, data through 2009 Q3, prelim



# Unemployment is still high and rising

It is normal for this rate to continue to rise even after the economy is in recovery



Source: WA ESD, BLS; data through October 2009

Arun Raha  
WA Economic &  
Revenue Outlook  
02 Dec 2009

Slide 3

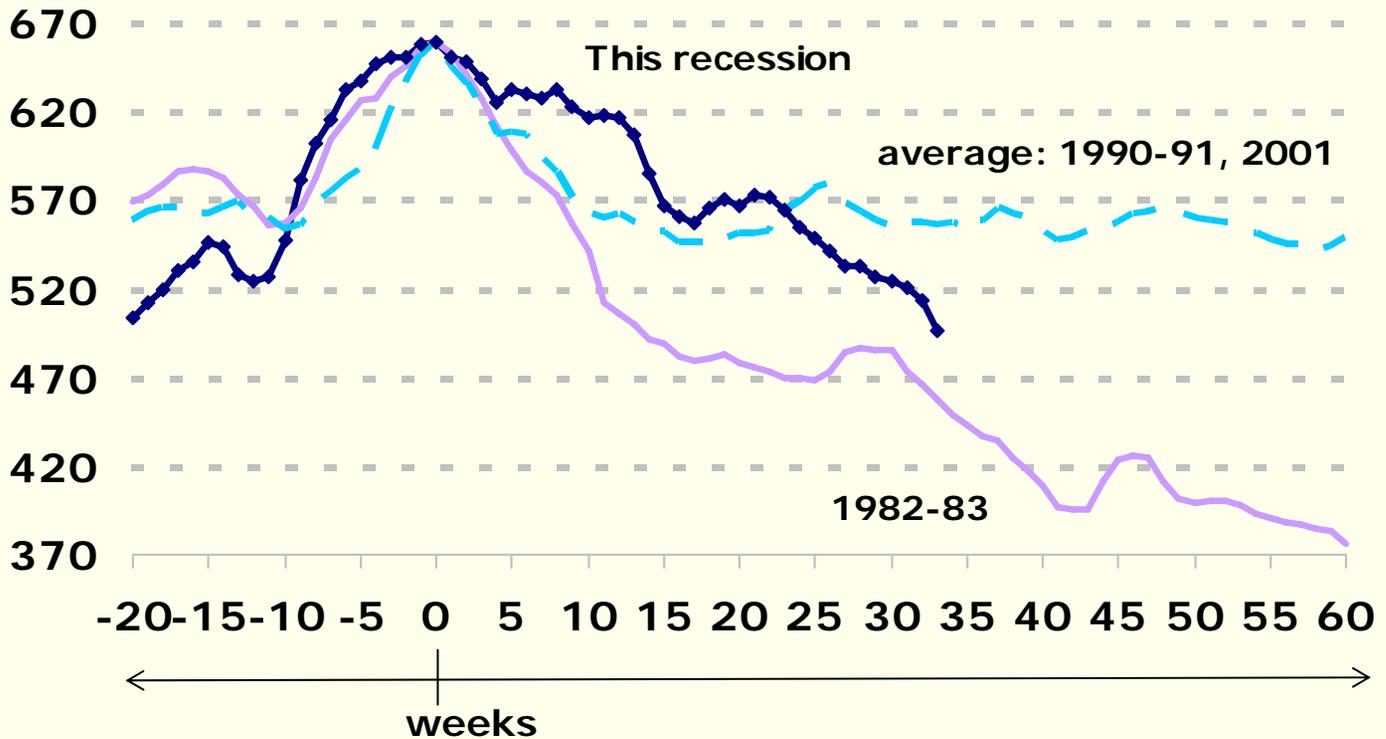


# The recovery in employment will be slow

We expect the state unemployment rate to peak in 2010 Q2 at 9.8%

## U.S. Initial Unemployment Claims

Thousands, 4-week MA



Source: U.S. Department of Labor, ERFC; data through November 21, 2009

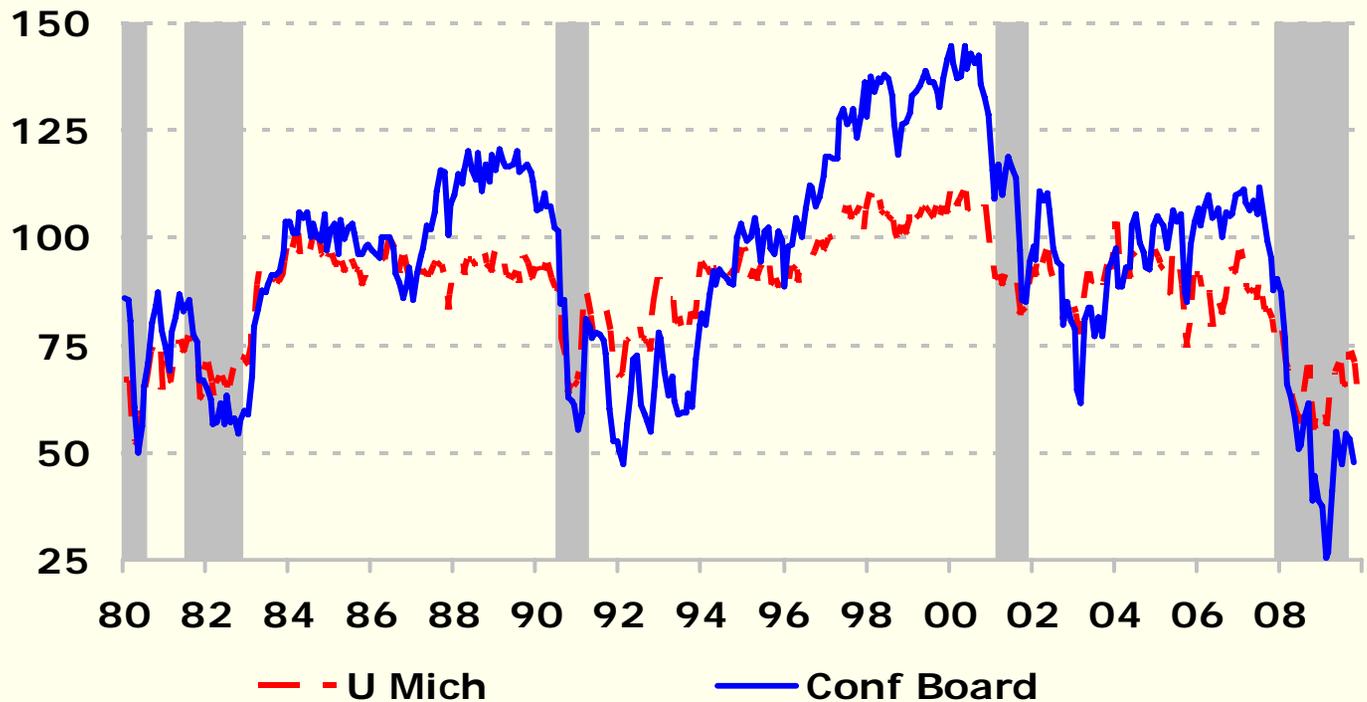


# Consumer confidence is looking for direction

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



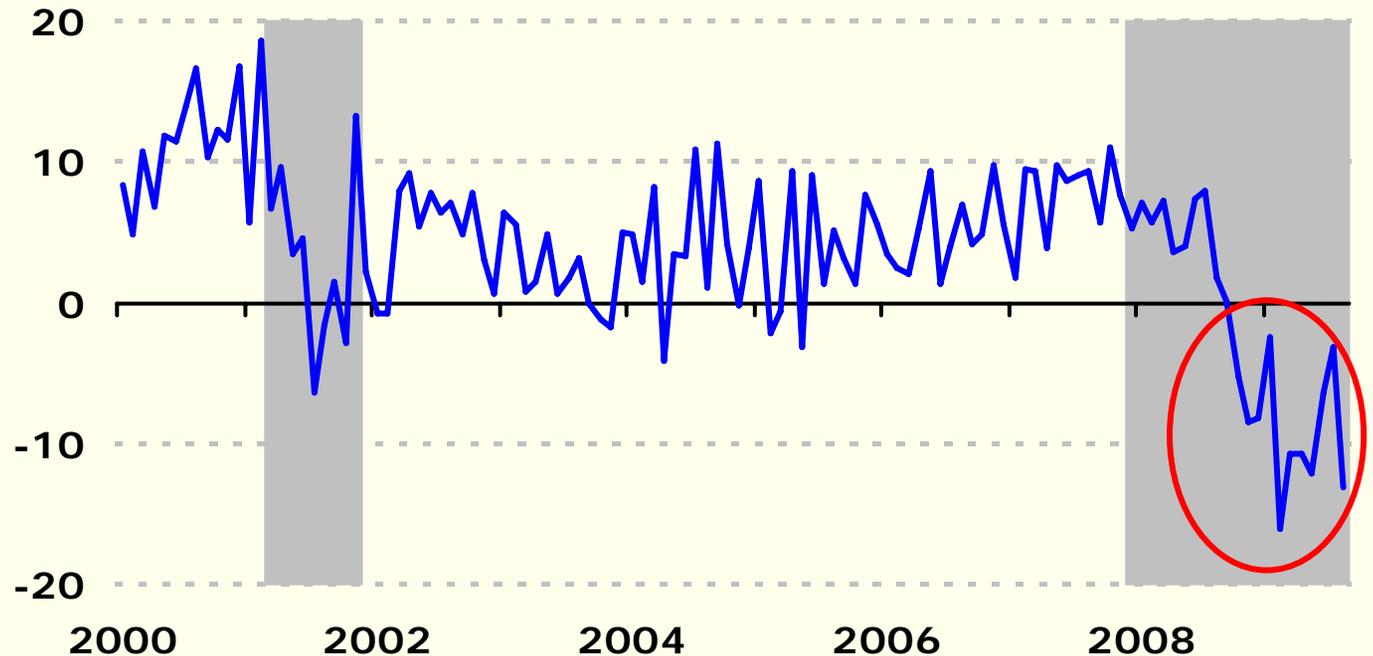
Source: University of Michigan; Conference Board, data through November 2009, prelim.



# Consumers are reducing debt

## Revolving Consumer Credit

SAAR, percent



Source: Federal Reserve Board; data through August 2009.

Arun Raha  
WA Economic &  
Revenue Outlook  
02 Dec 2009

Slide 6

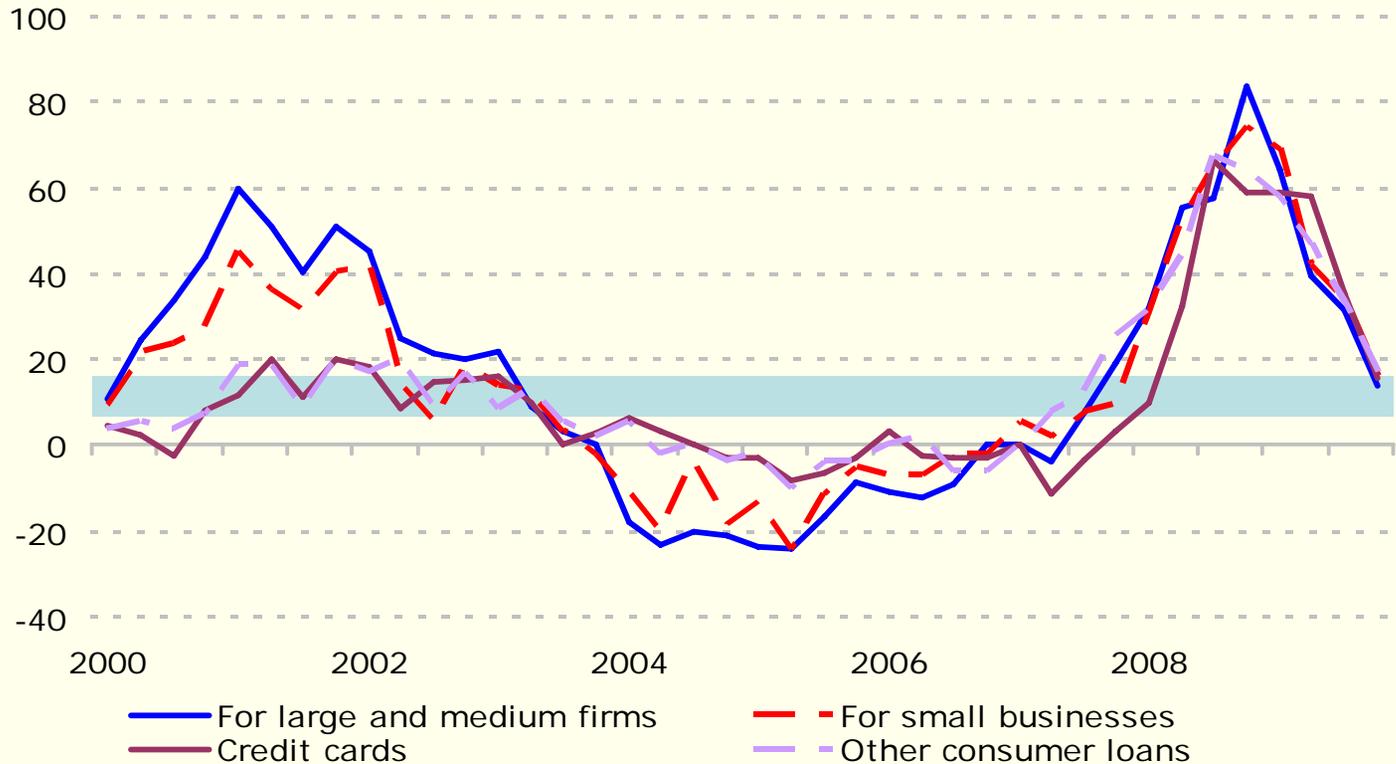


# Bank lending to businesses and consumers appears to be easing, but...

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

## Net Tightening minus Easing

Percent



Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through October 2009 survey

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

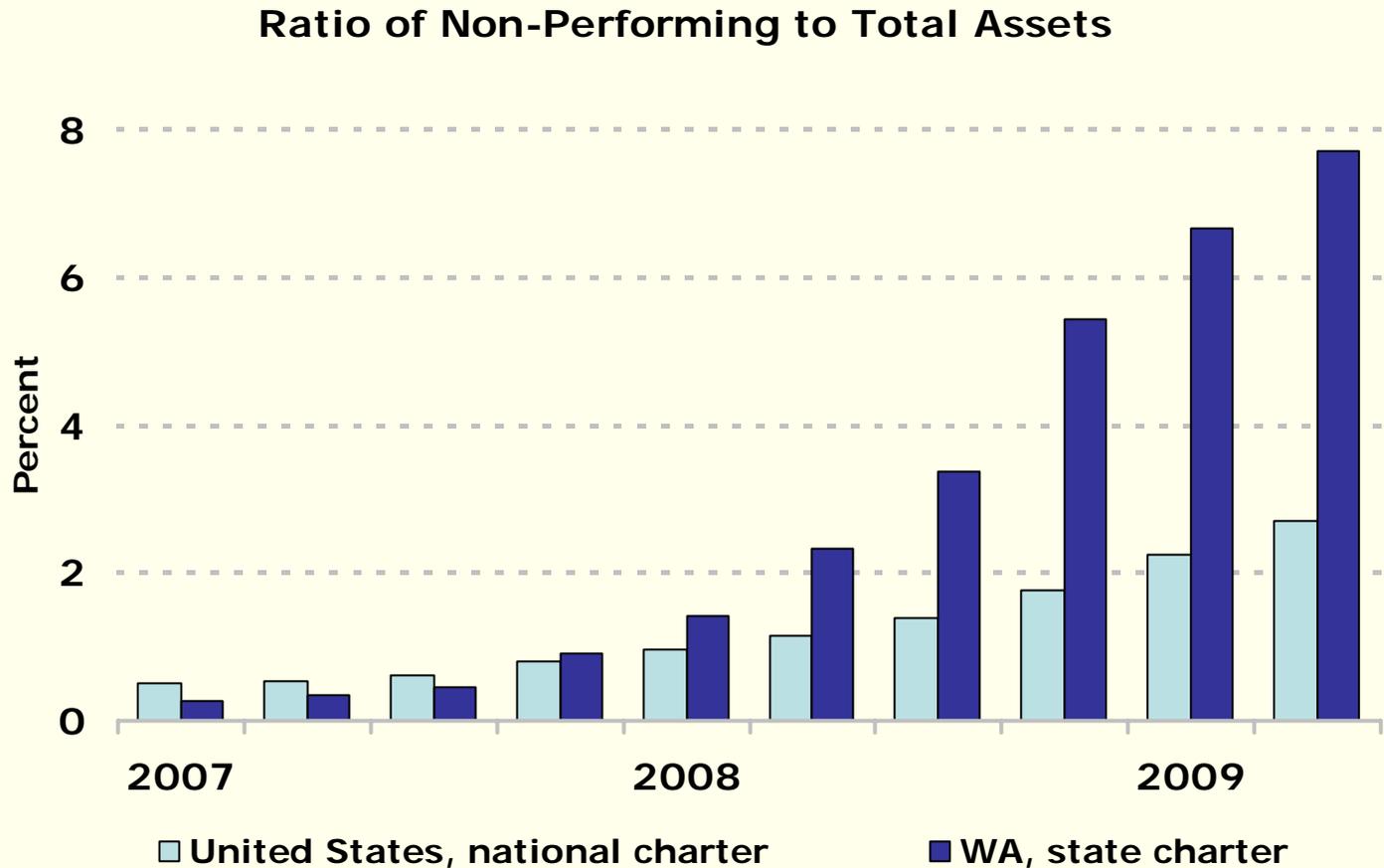
Arun Raha  
WA Economic &  
Revenue Outlook  
02 Dec 2009

Slide 7



... asset quality of regional banks is deteriorating because of over exposure to commercial real estate...

This is generally true for state chartered banks in other states as well



Source: FDIC, data through 2009 Q2.

Arun Raha  
WA Economic &  
Revenue Outlook  
02 Dec 2009

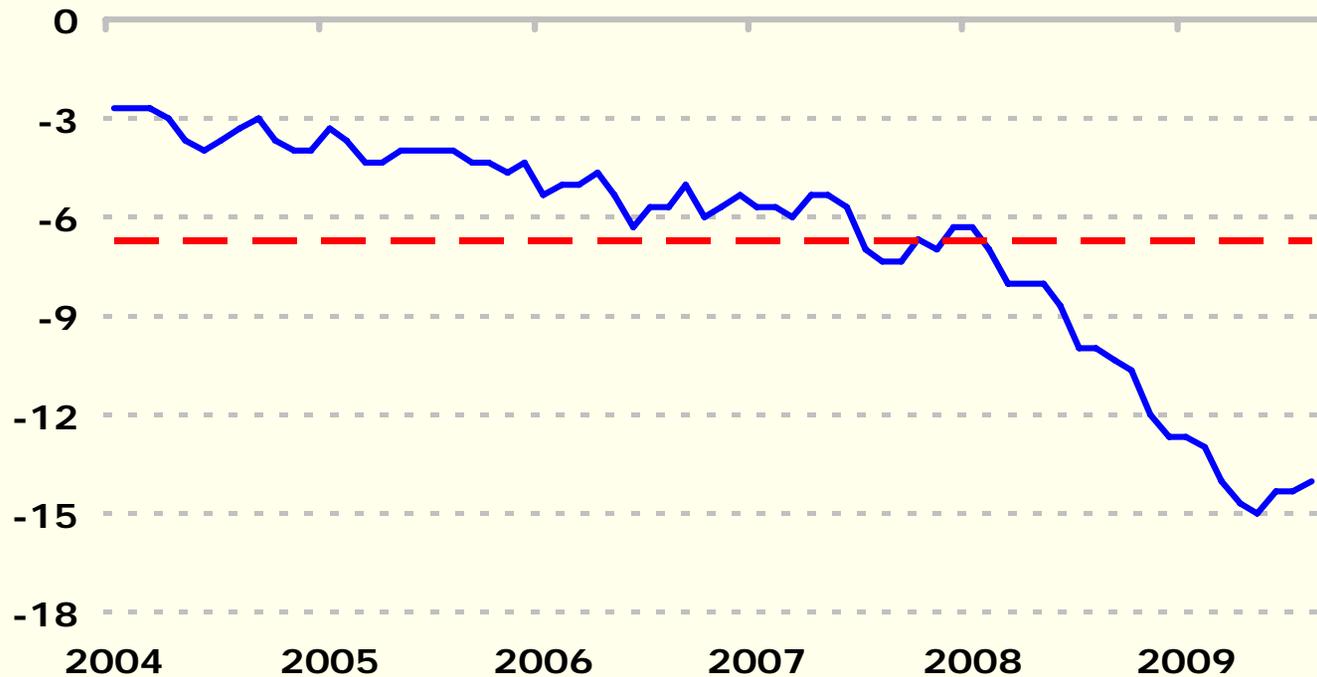
Slide 8



# ... and credit conditions remain tight for small business...

## Availability of Loans

Net Percent ("Easier" minus "Harder"), 3mma

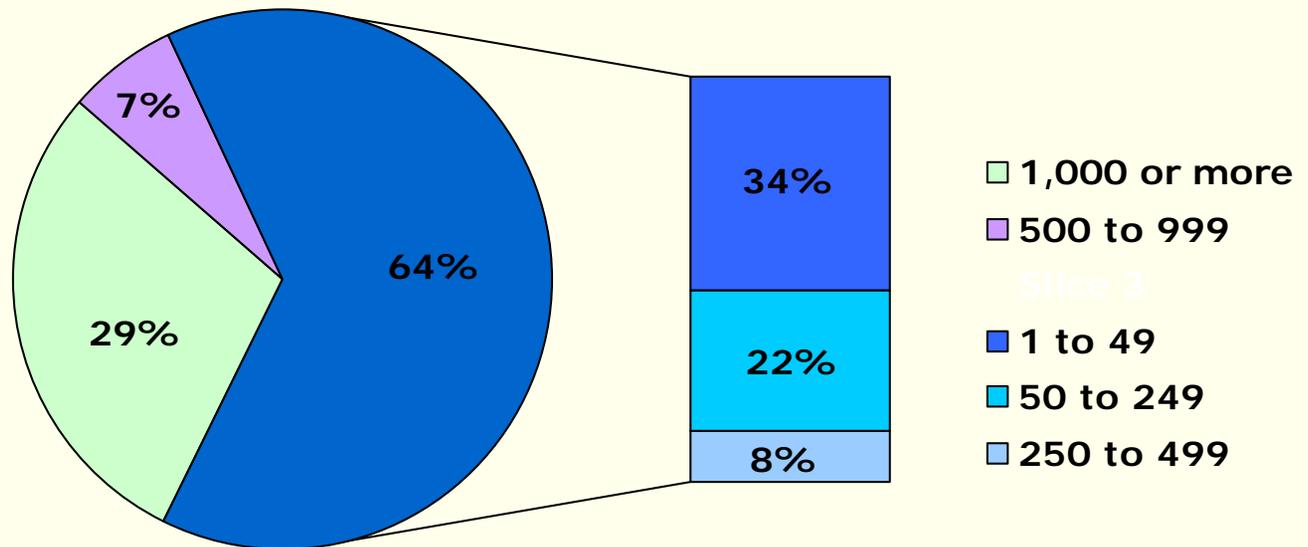


Source: National Federation of Independent Business; data through October 2009



# ... who create most of the jobs

Since 1992, 64% of the net change in employment has occurred in small businesses

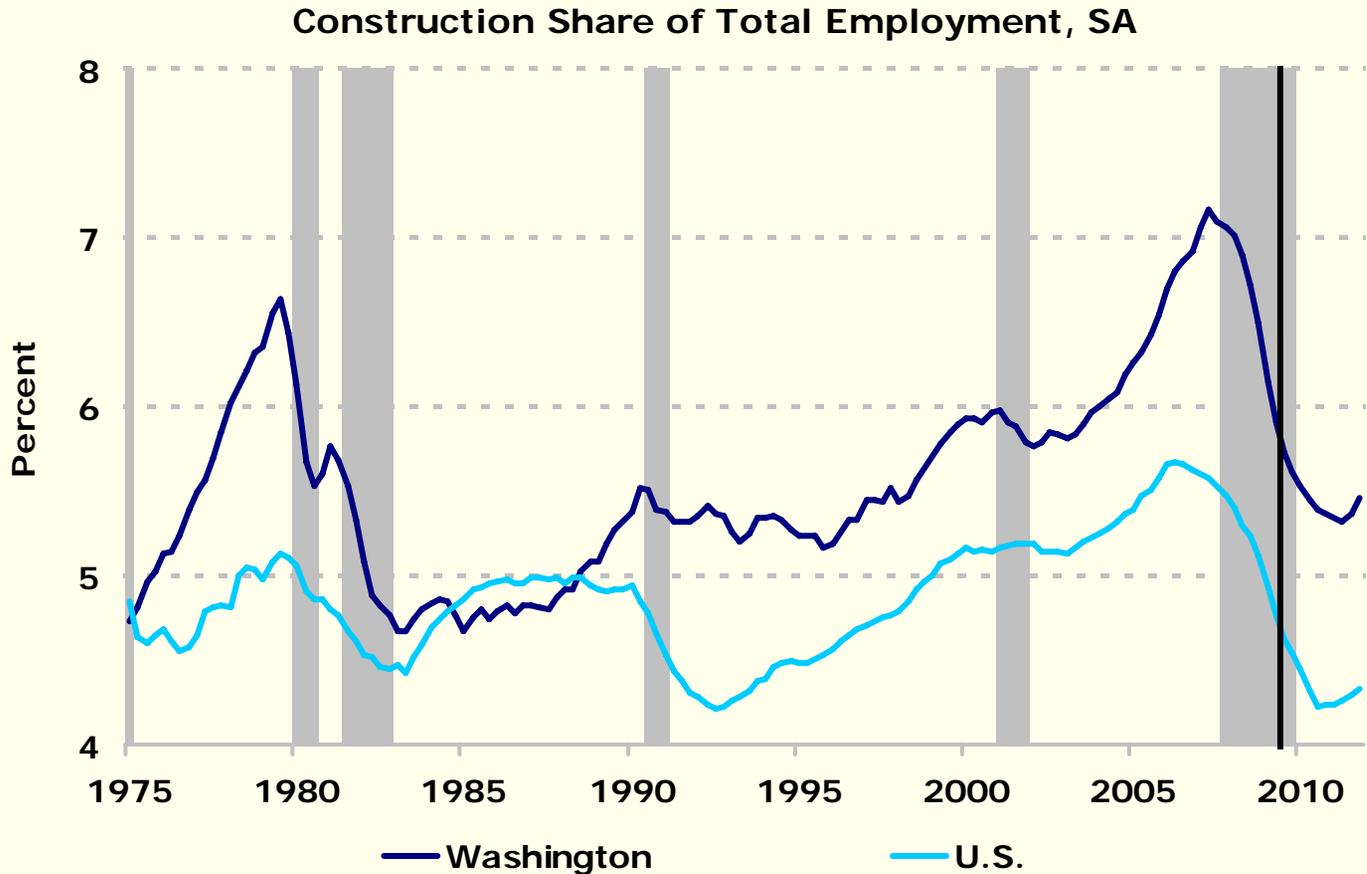


Source: BLS, data from 1992 Q3 to 2008 Q4



# The state economy is recovering from overexposure to construction

New homes;  
commercial  
real estate;  
and heavy &  
engineering  
projects

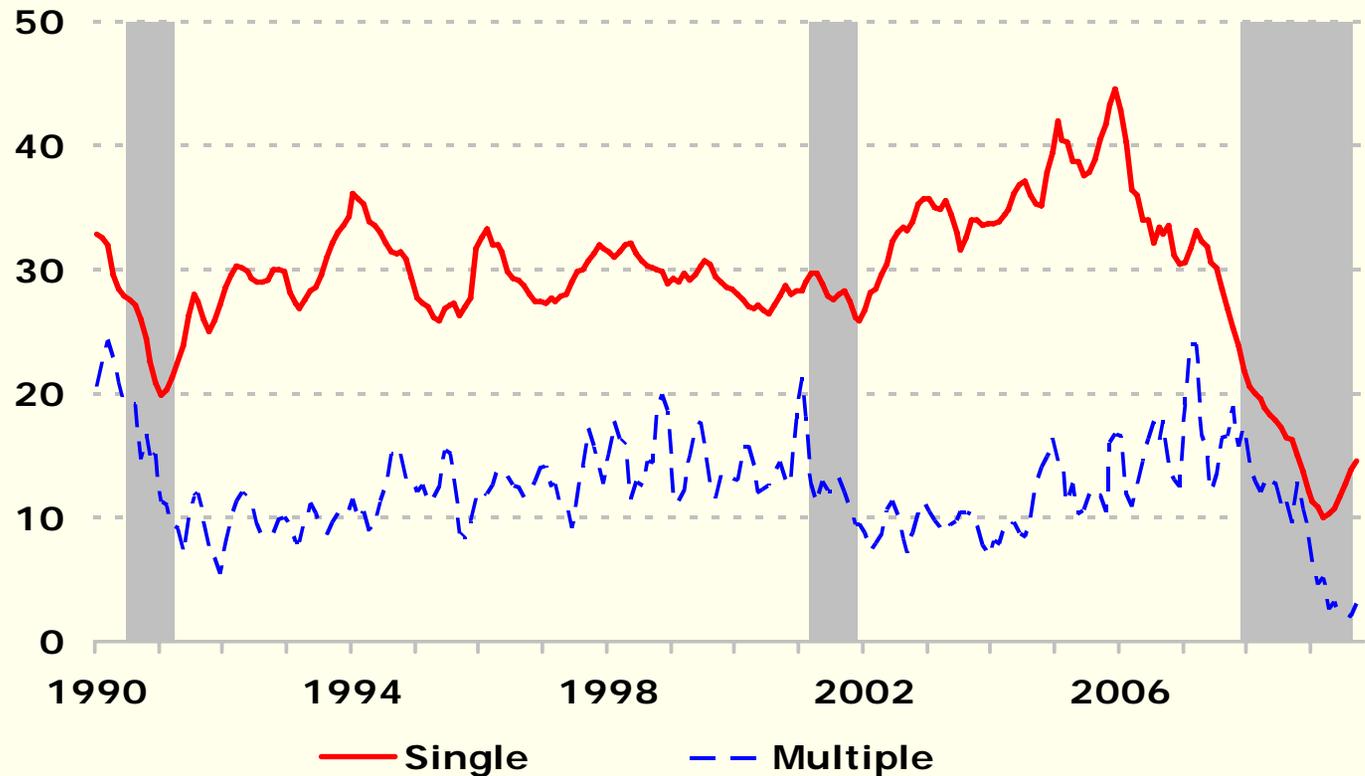


Source: WA State ESD; actual data through 2009 Q2, ERFC Forecast



# WA single family building permits are doing better than multi-family

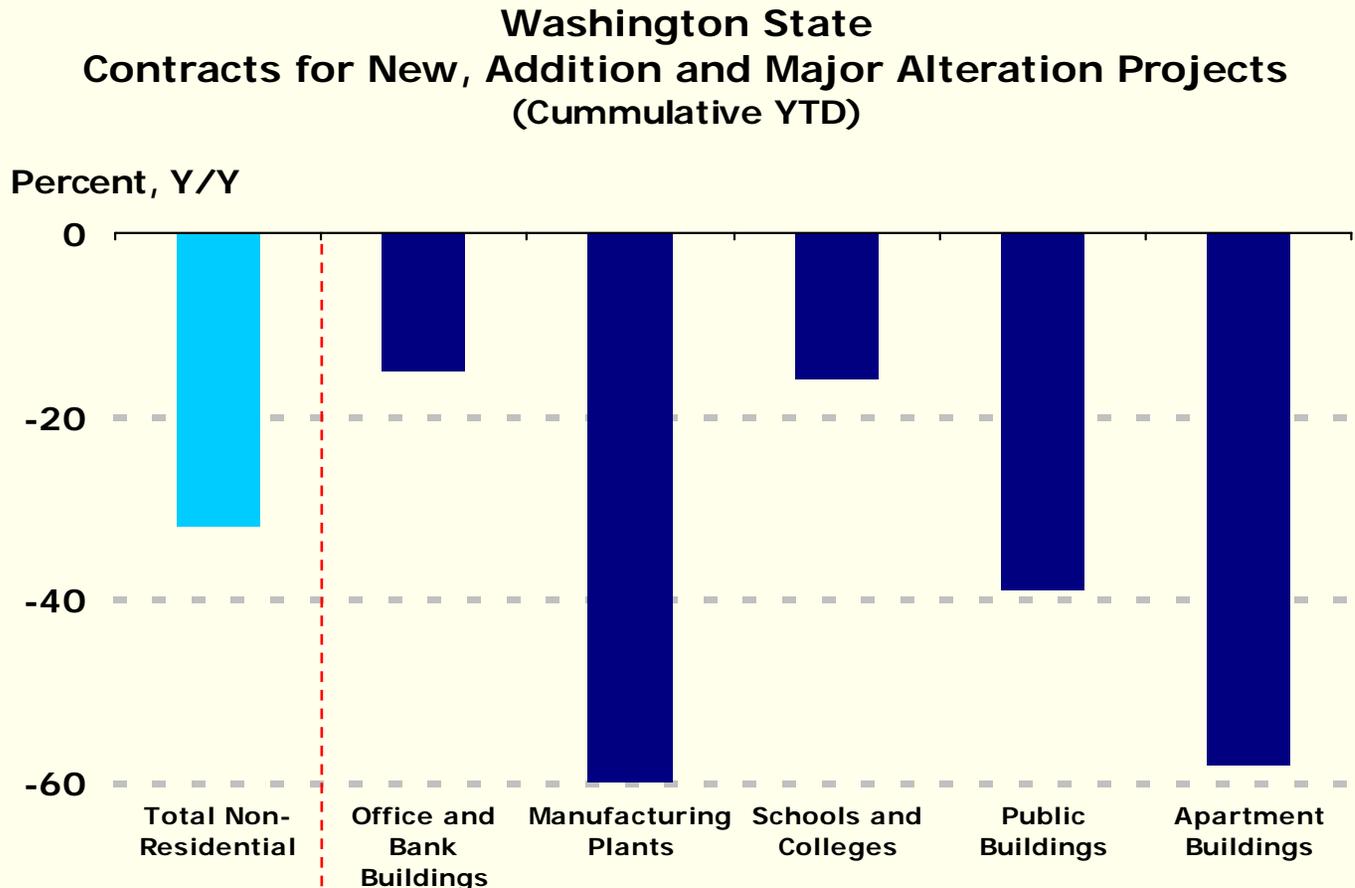
Thousands, SA, 3MMA



Source: U.S. Census Bureau; data through September 2009



# Contract data indicate WA non-res construction will remain weak



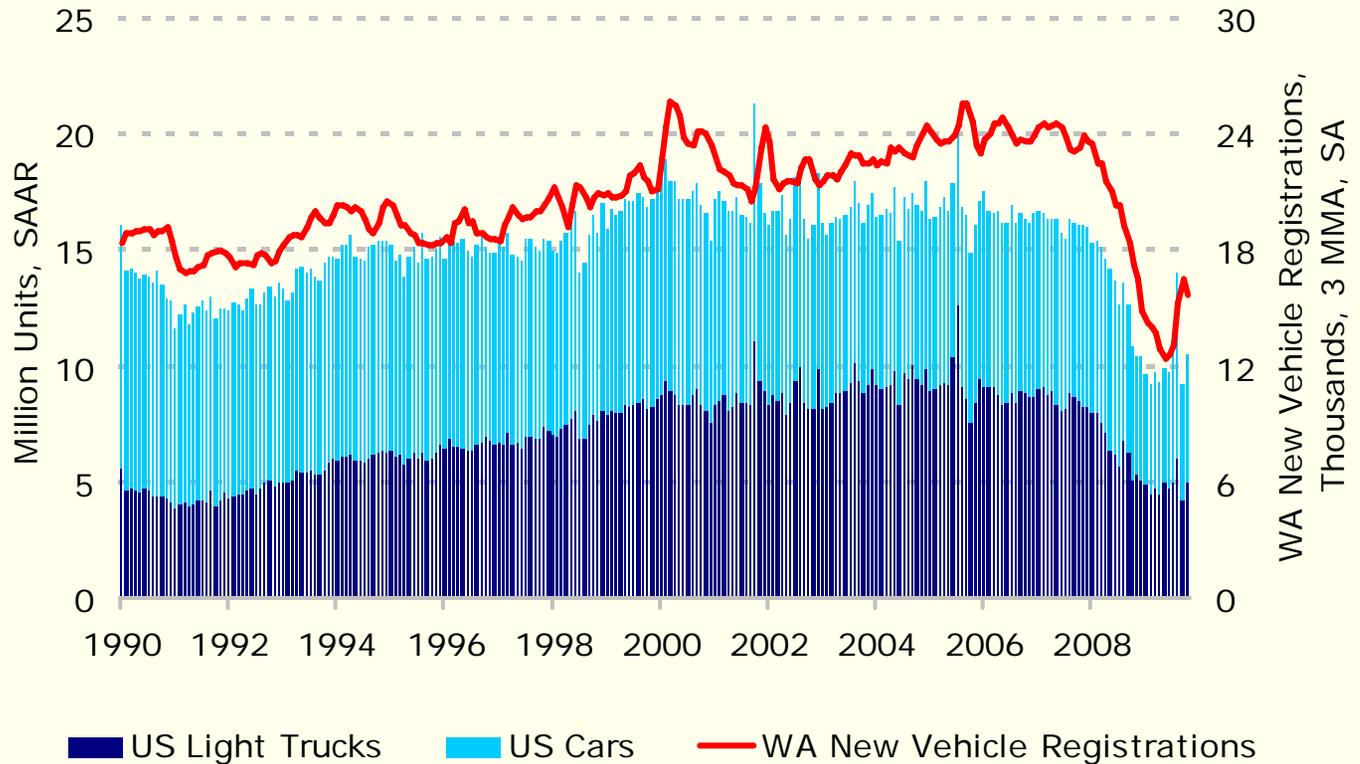
Source: McGraw-Hill Construction, data through October, 2009



# Automotive sales have stabilized nationally and in the state

June boost from closing dealerships;

July and August boost from "cash for clunkers"



Arun Raha

WA Economic & Revenue Outlook

02 Dec 2009

Source: Autodata Corporation, WA DOL; data through October 2009

Slide 14



# We are witnessing an unprecedented global recovery

These economies represent 32% of global GDP.

The US is 25% of global GDP

	GDP share	Q/Q, SAAR %		
		2009 Q1	2009 Q2	2009 Q3
<b>Japan</b>	<b>8.0%</b>	<b>-14.2</b>	<b>2.7</b>	<b>4.8</b>
<b>China</b>	<b>6.2%</b>	<b>5.6</b>	<b>16.0</b>	<b>11.5</b>
<b>Germany</b>	<b>6.0%</b>	<b>-13.4</b>	<b>1.8</b>	<b>2.9</b>
<b>France</b>	<b>4.7%</b>	<b>-5.7</b>	<b>1.0</b>	<b>1.3</b>
<b>India</b>	<b>2.0%</b>	<b>7.0</b>	<b>6.5</b>	<b>13.9</b>
<b>Korea</b>	<b>1.9%</b>	<b>0.5</b>	<b>9.7</b>	<b>12.3</b>
<b>Indonesia</b>	<b>0.8%</b>	<b>3.7</b>	<b>5.3</b>	<b>5.7</b>
<b>Taiwan</b>	<b>0.7%</b>	<b>-3.2</b>	<b>9.1</b>	<b>8.3</b>
<b>Thailand</b>	<b>0.4%</b>	<b>-7.2</b>	<b>9.6</b>	<b>9.5</b>
<b>Hong Kong SAR</b>	<b>0.4%</b>	<b>-14.7</b>	<b>13.8</b>	<b>1.3</b>
<b>Malaysia</b>	<b>0.3%</b>	<b>-17.7</b>	<b>13.2</b>	
<b>Singapore</b>	<b>0.3%</b>	<b>-12.2</b>	<b>20.7</b>	<b>14.9</b>
<b>Philippines</b>	<b>0.3%</b>	<b>-7.1</b>	<b>11.0</b>	

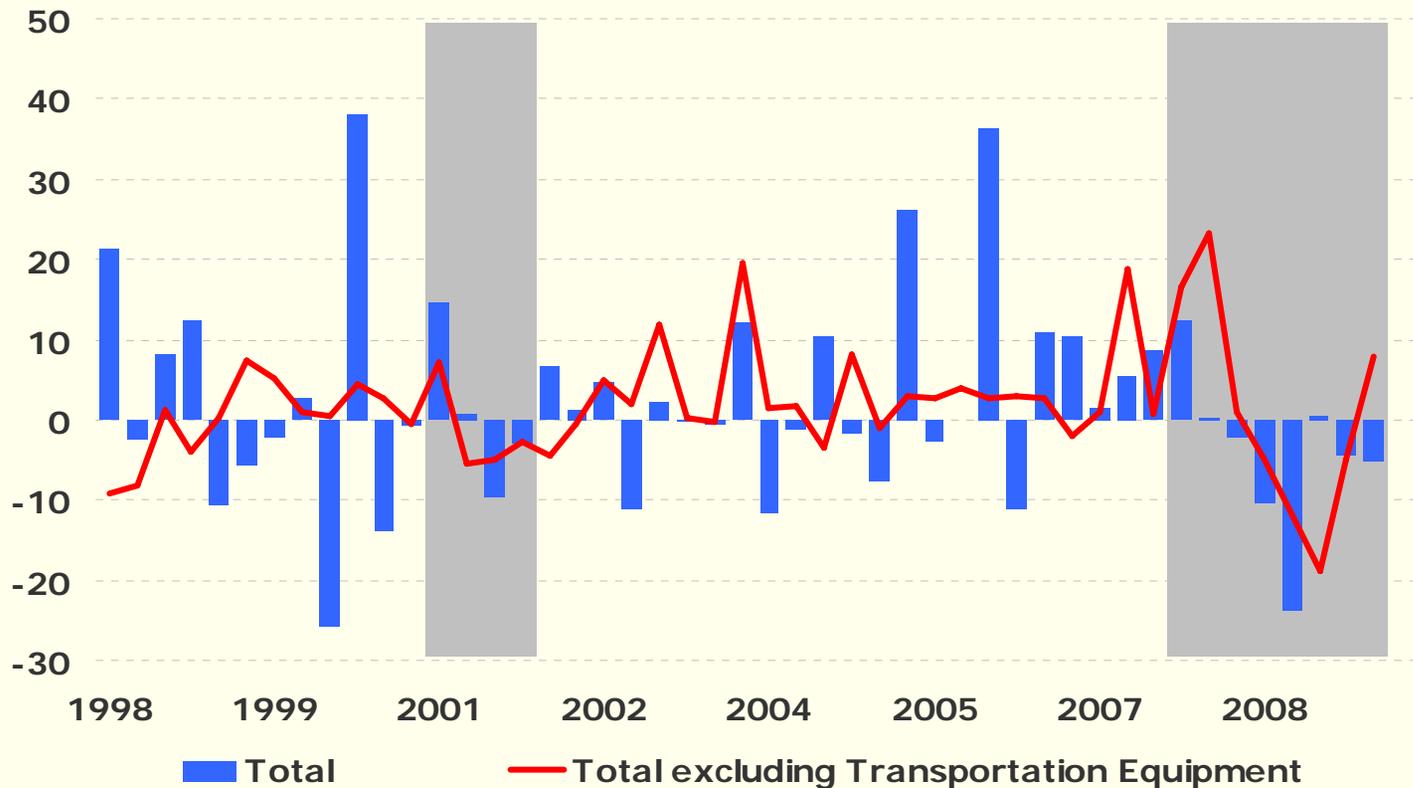
Source: IMF, ERFC

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



# Exports will help the state recover faster than the nation

Exports, SAAR  
Percent Change, quarter ago

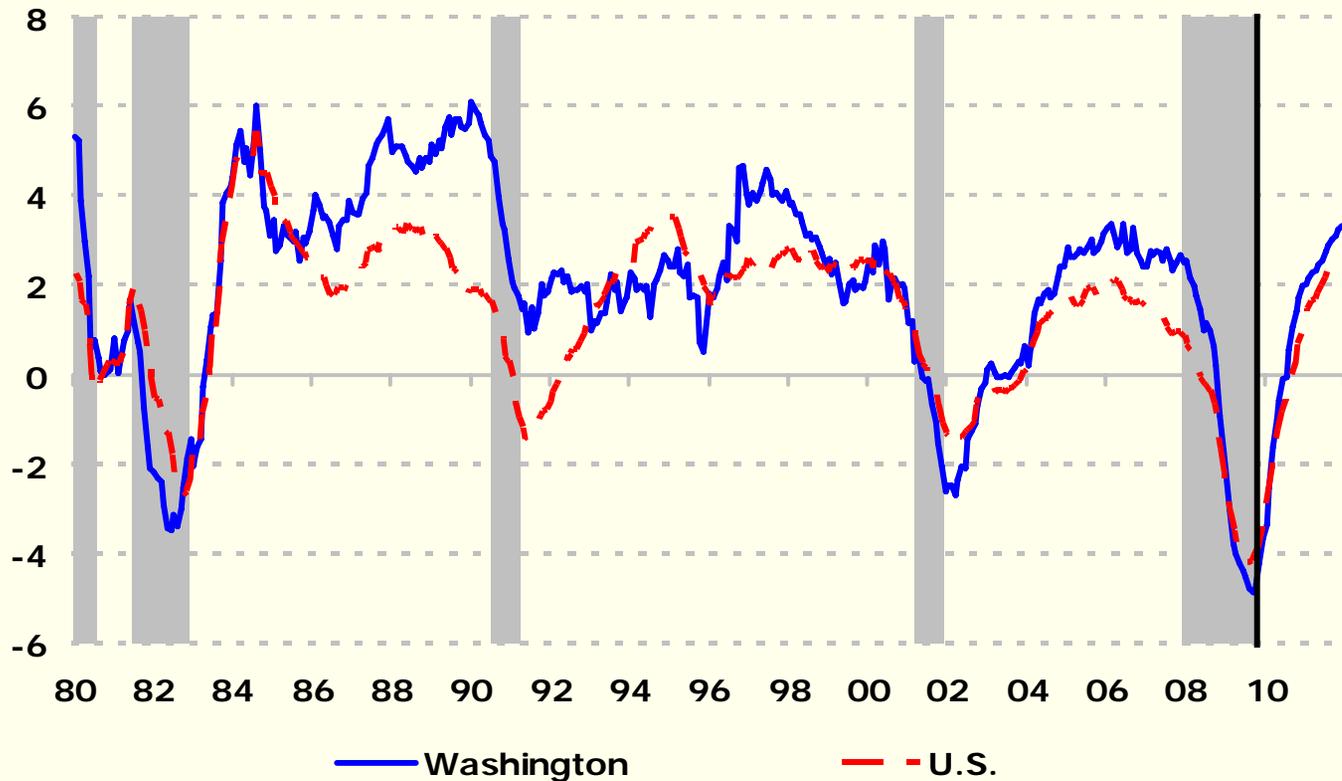


Source: Wisier Trade Data; through 2009 Q3



# WA employment lagged the nation in the downturn and will recover a little stronger than the nation

Percent change, year ago

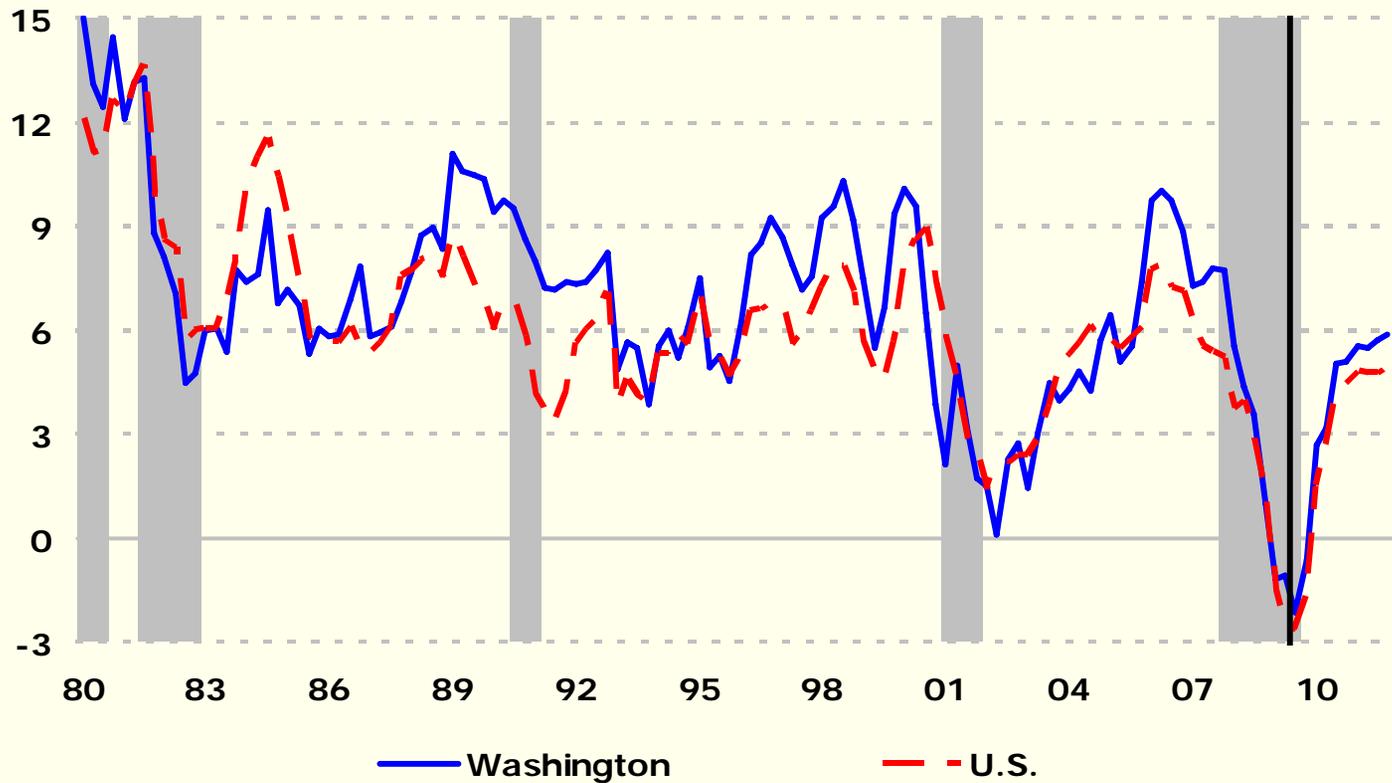


Source: ERFC November 2009 forecast; actual through October 2009



# The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago

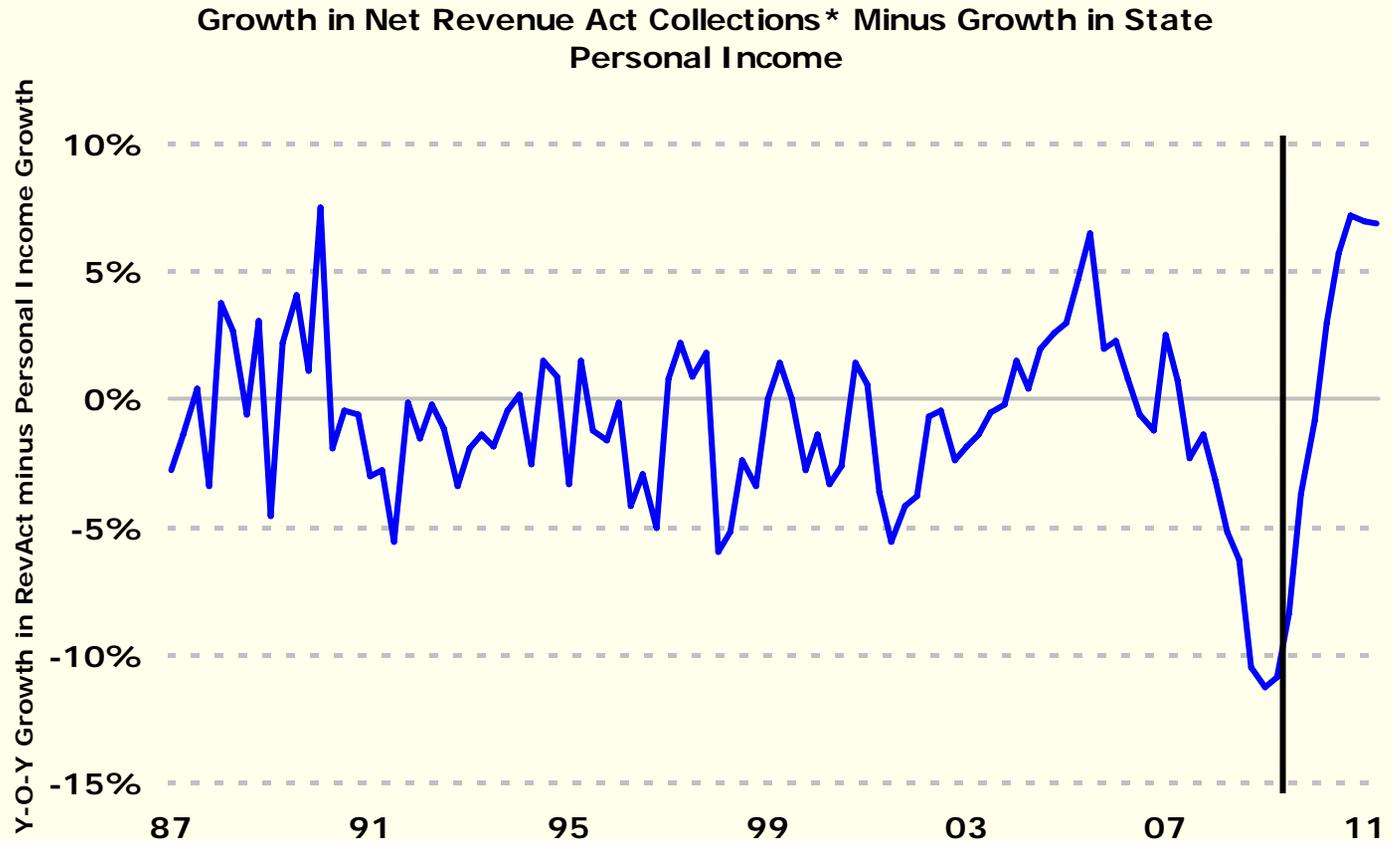


Source: ERFC November 2009 forecast; actual data through 2009Q2



# Revenue growth relative to income growth has turned around

\* Adjusted for new legislation and special factors



Source: ERFC forecast; actual collections through 2009Q3



# Forecast changes: General Fund State, 2009-2011 Biennium

Sept.  
Forecast:  
USD millions  
**\$29,603  
million**

USD millions	November '09 Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$97)	\$0	(\$655)	\$27,386	(\$752)
All other agencies	\$0	\$0	(\$8)	\$1,457	(\$8)
<b>Total GF-S</b>	<b>(\$97)</b>	<b>\$0</b>	<b>(\$663)</b>	<b>\$28,843</b>	<b>(\$760)</b>

\* Detail may not add to total due to rounding

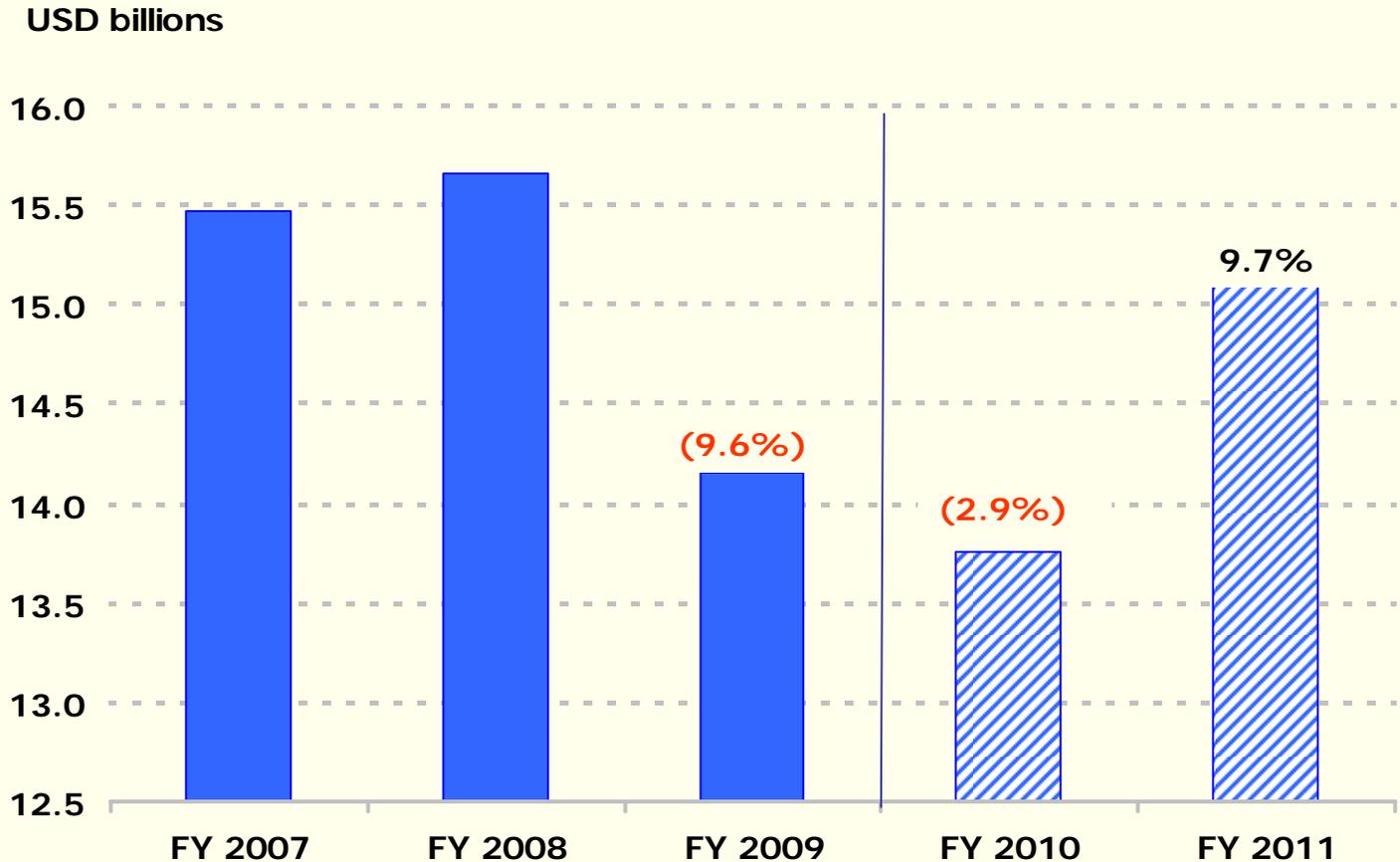
Arun Raha  
WA Economic &  
Revenue Outlook  
02 Dec 2009



# General Fund\* forecast by fiscal year

\* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10, and 11



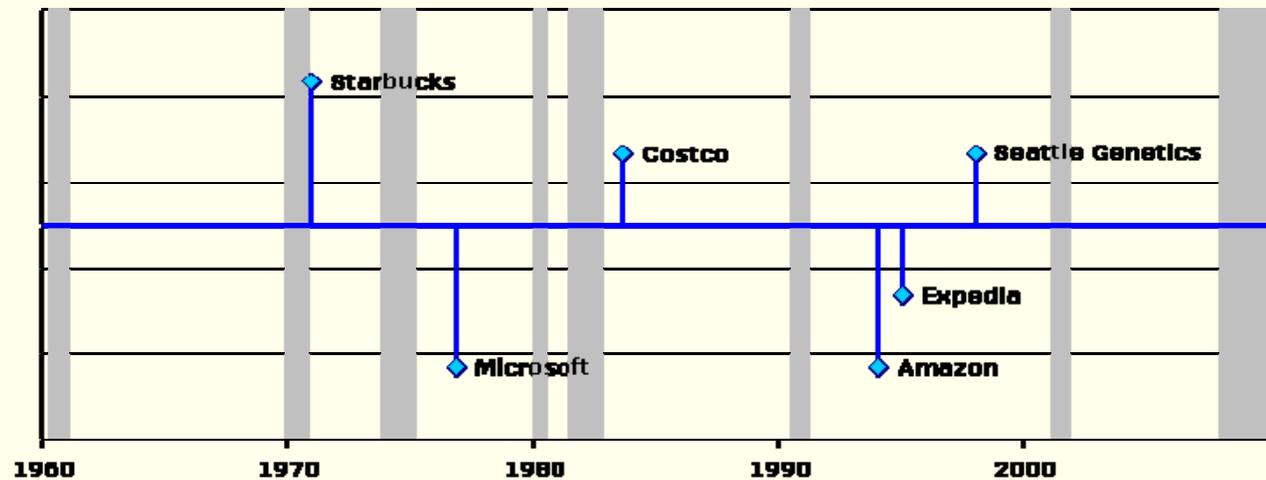
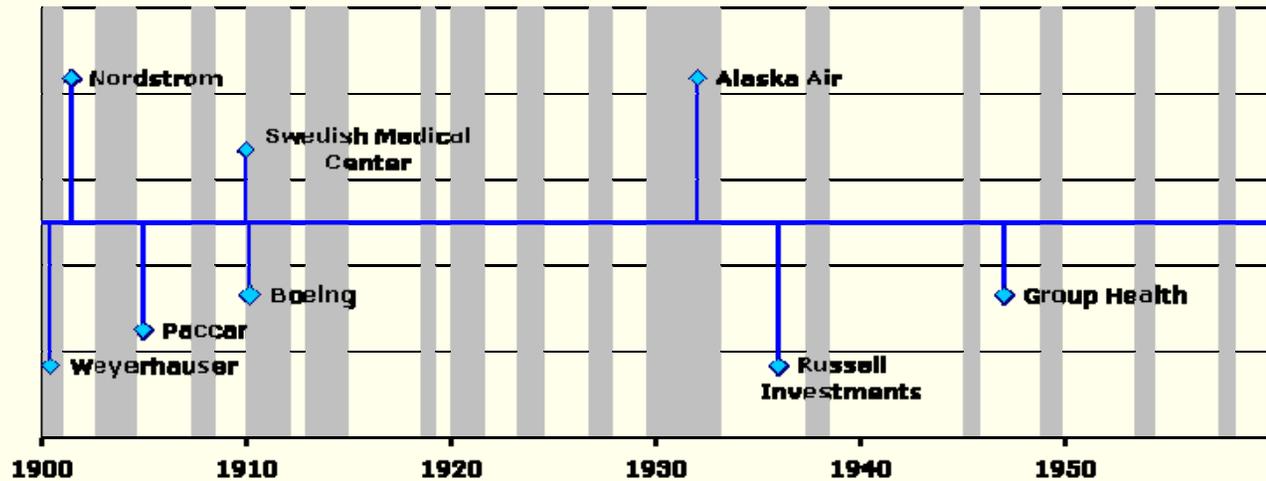
Source: ERFC forecast, November 2009

Arun Raha  
WA Economic & Revenue Outlook  
02 Dec 2009



# Innovation follows recessions

Gray bars correspond to national recessions





# Conclusion

- The economy is recovering, but the recovery in state revenues faces severe headwinds:
  - Rising unemployment
  - Weak consumer confidence
  - Persistent problems in the financial sector
- Consumer spending has to recover for this to become a self-sustaining recovery and for revenues to grow again
- Revenues in the 2009-11 Biennium are expected to be 3.3% below collections in the 2007-09 Biennium



# Questions



Arun Raha  
WA Economic &  
Revenue Outlook  
02 Dec 2009

Slide 24

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

[www.erfc.wa.gov](http://www.erfc.wa.gov)  
360-570-6101