

Washington State Economic & Revenue Outlook

Presented to
DOR Washington Roundtable

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



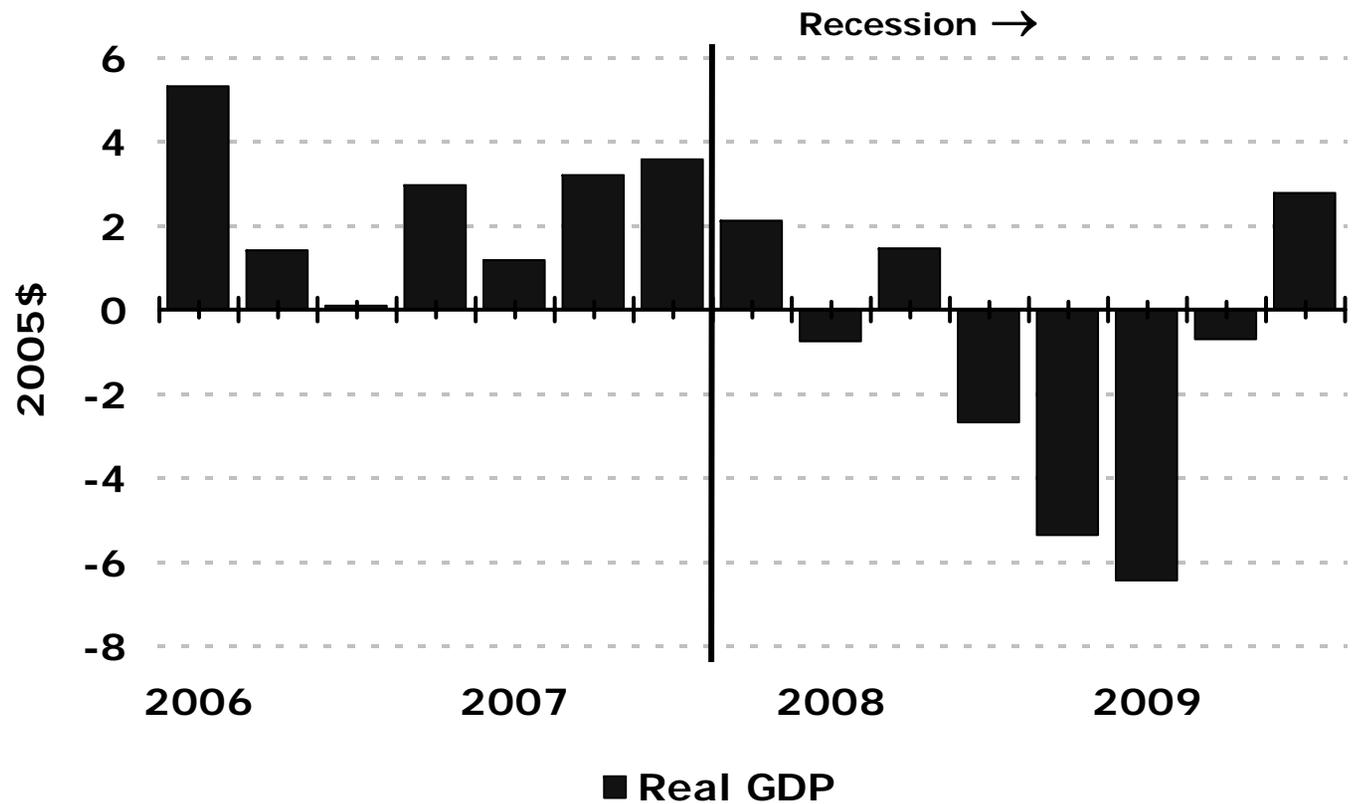
Summary

- 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



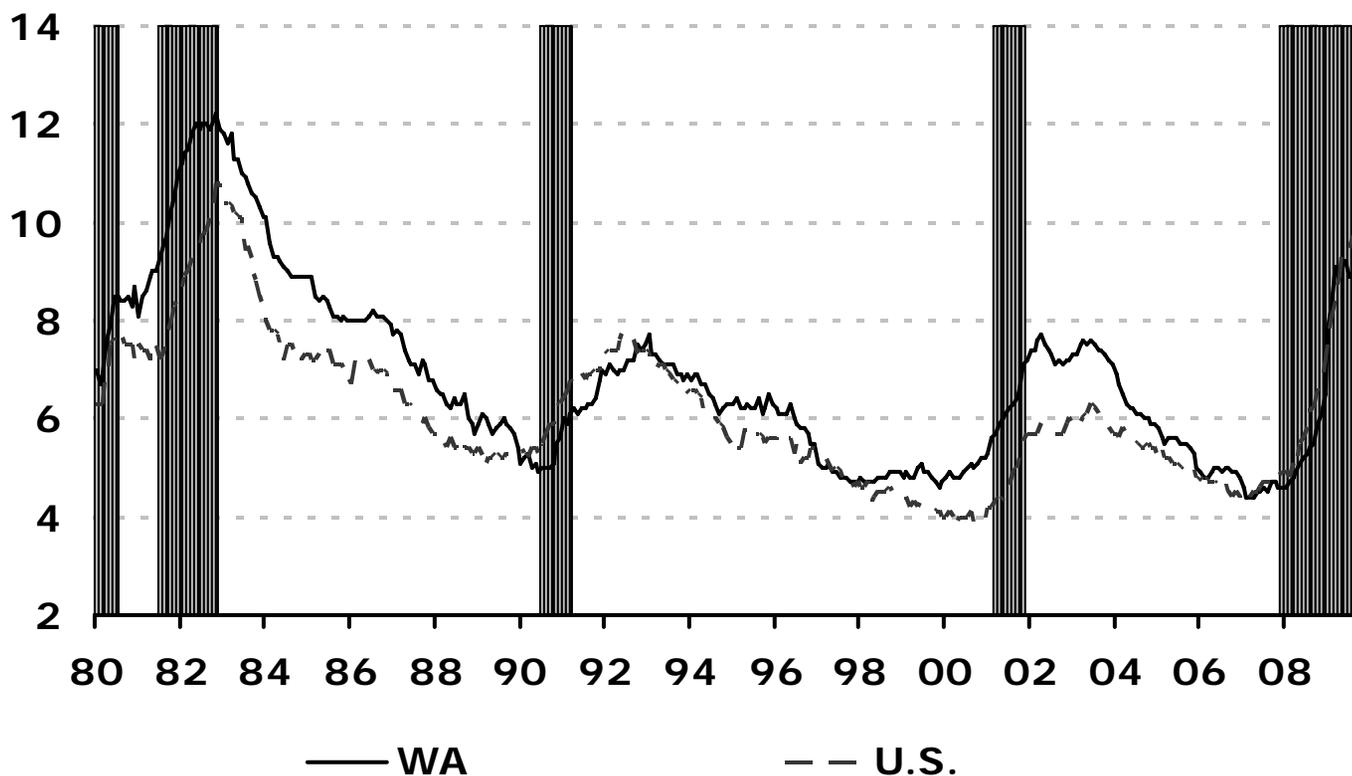
Source: BEA, data through 2009 Q3, prelim



Unemployment is still high and rising

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

Unemployment Rate, Percent, SA



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Source: WA ESD, BLS; data through October 2009

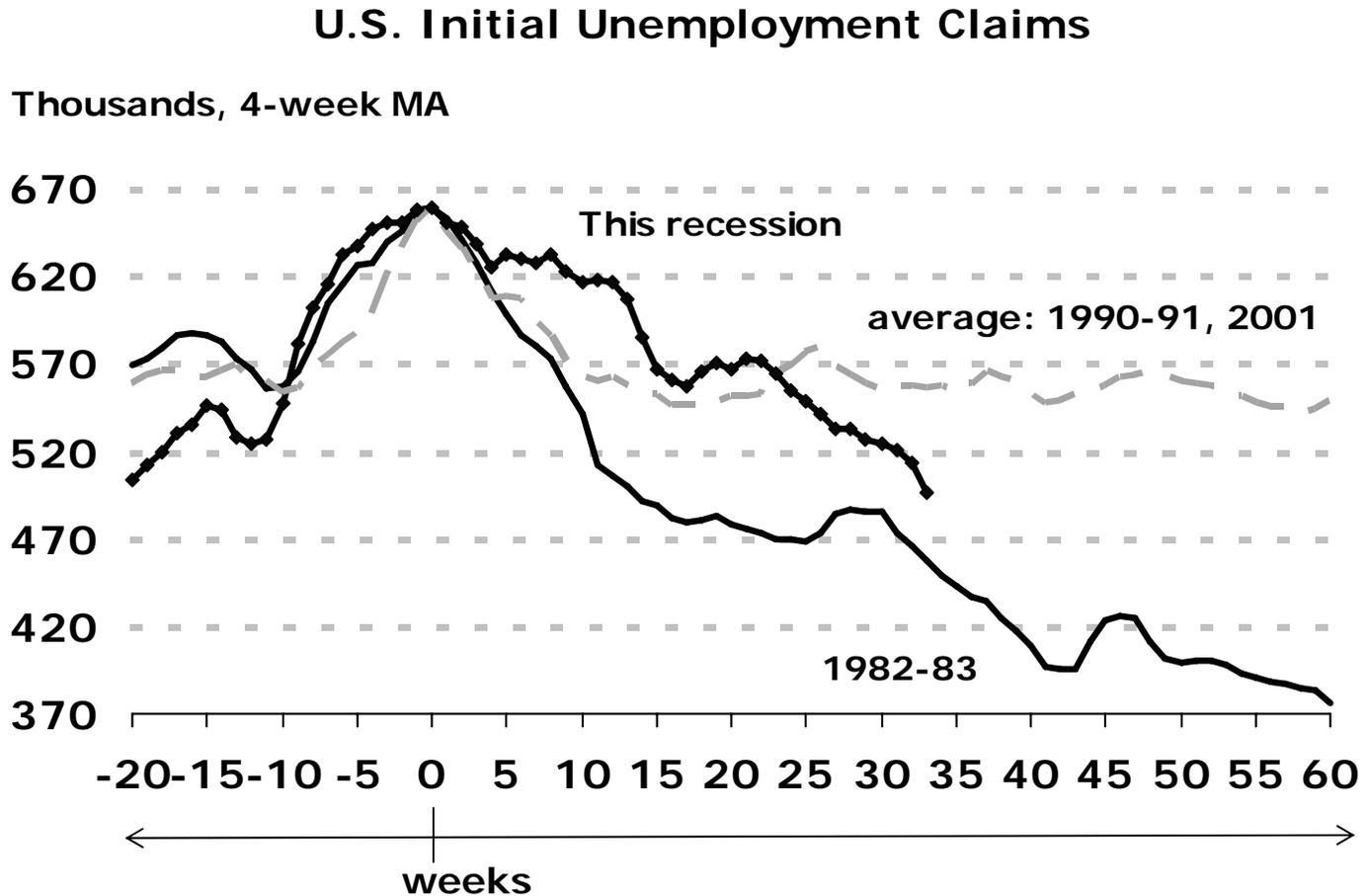
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The recovery in employment will be slow

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



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

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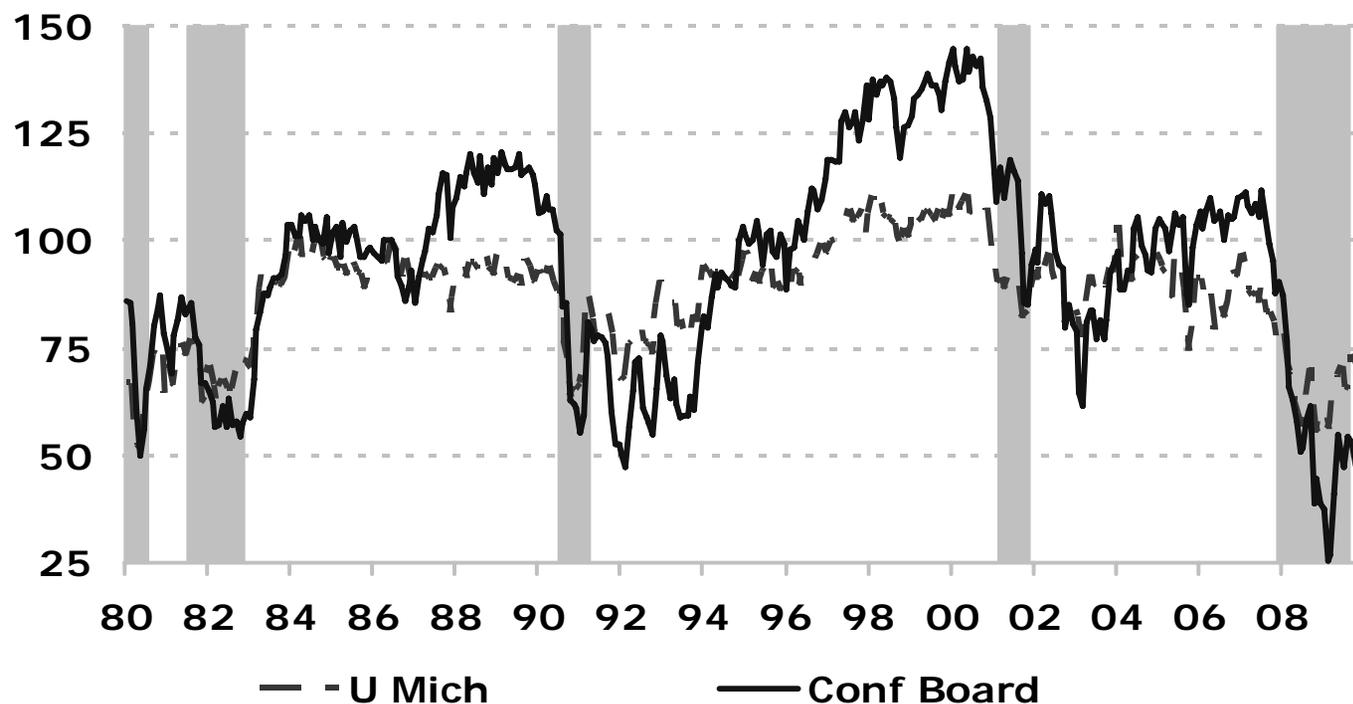
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Consumer confidence is looking for direction

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Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



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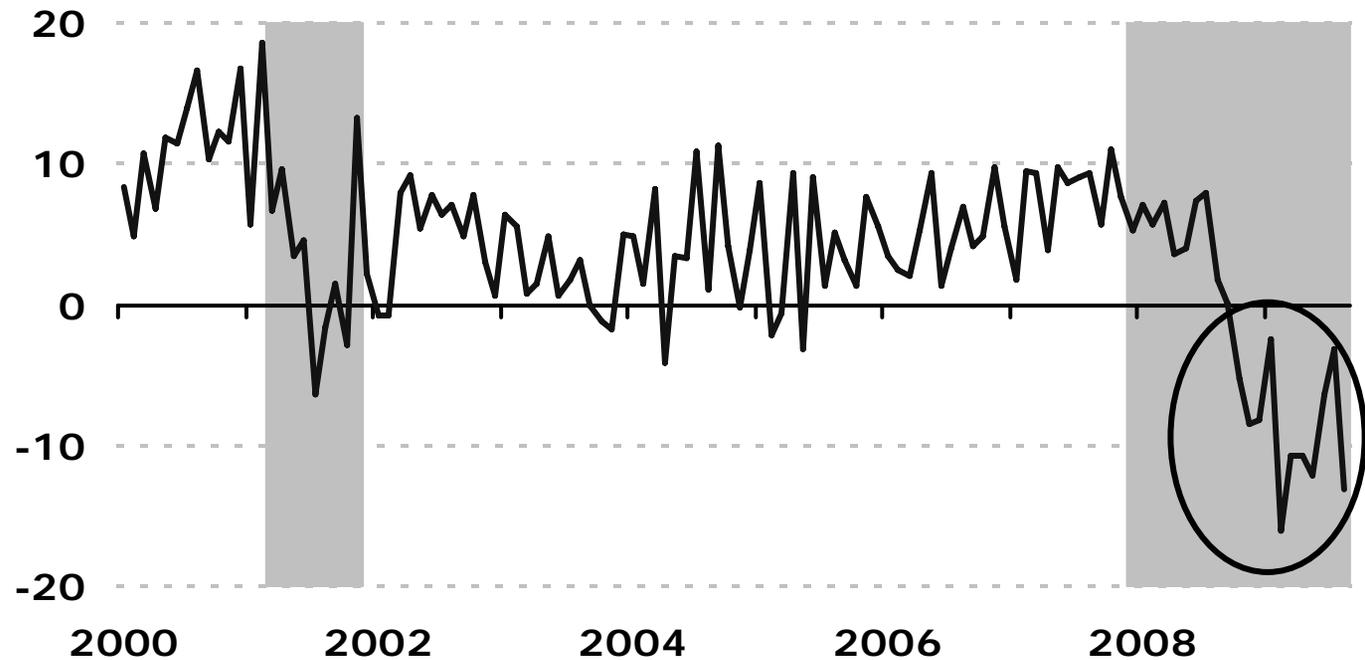
Source: University of Michigan; Conference Board, data through November 2009, prelim.



Consumers are reducing debt

Revolving Consumer Credit

SAAR, percent



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Source: Federal Reserve Board; data through August 2009.

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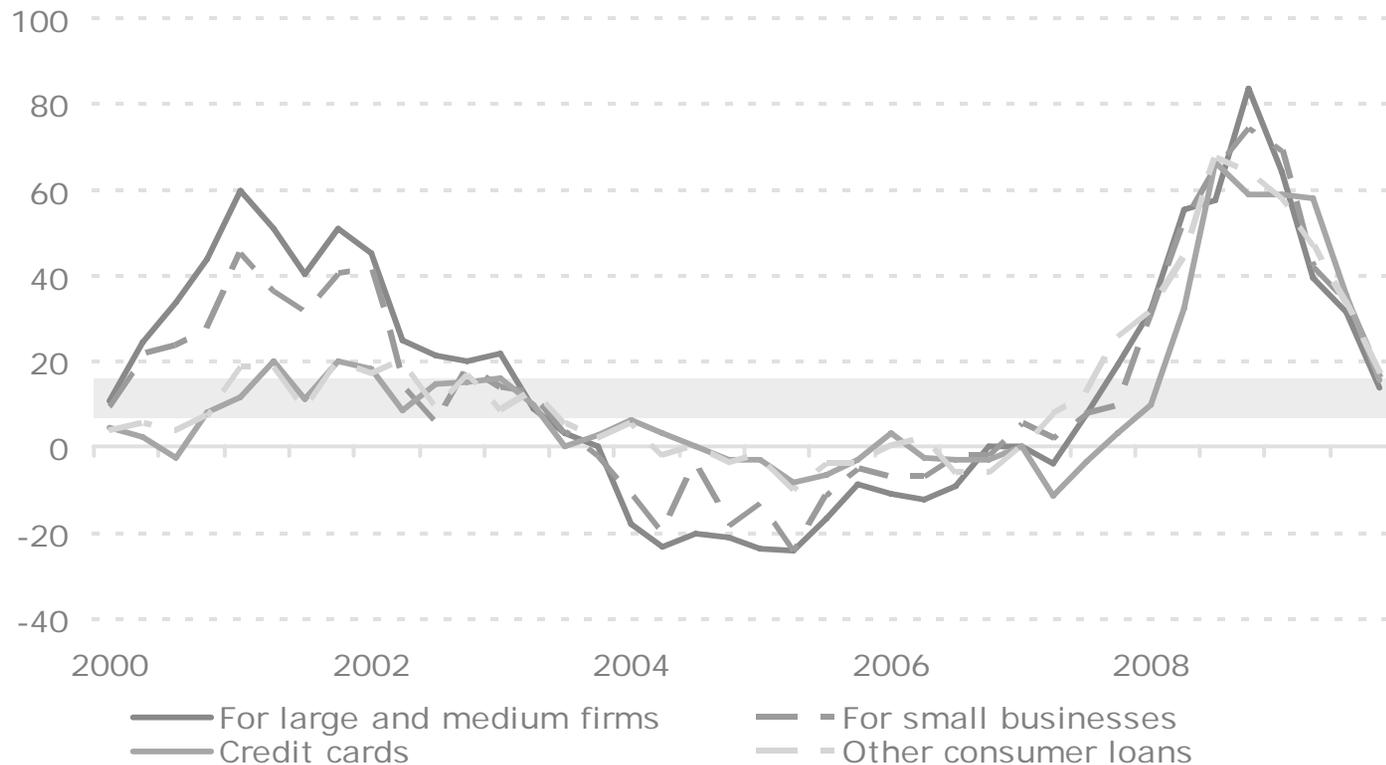
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Bank lending to businesses and consumers appears to be easing, but...

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

Net Tightening minus Easing
Percent



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

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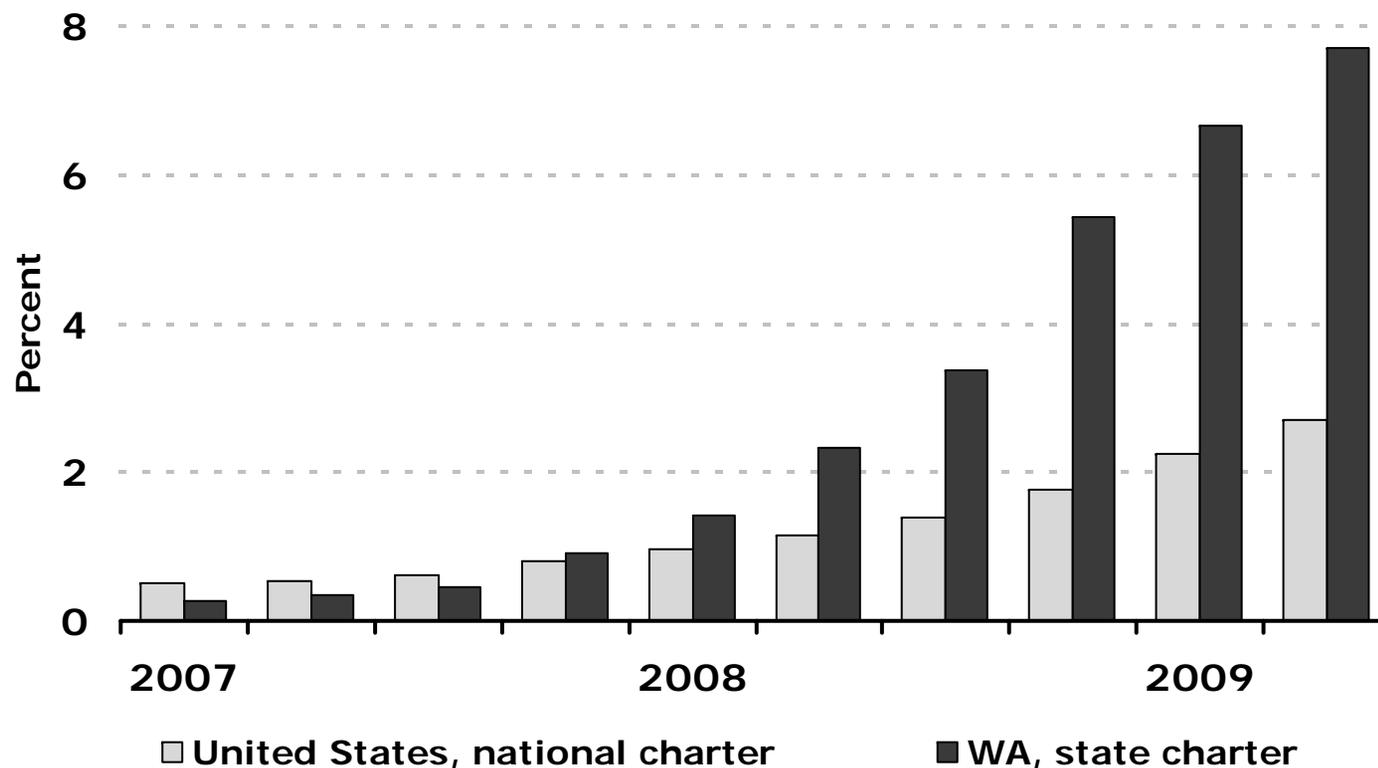
... asset quality of regional banks is deteriorating because of over exposure to commercial real estate...

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

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Ratio of Non-Performing to Total Assets



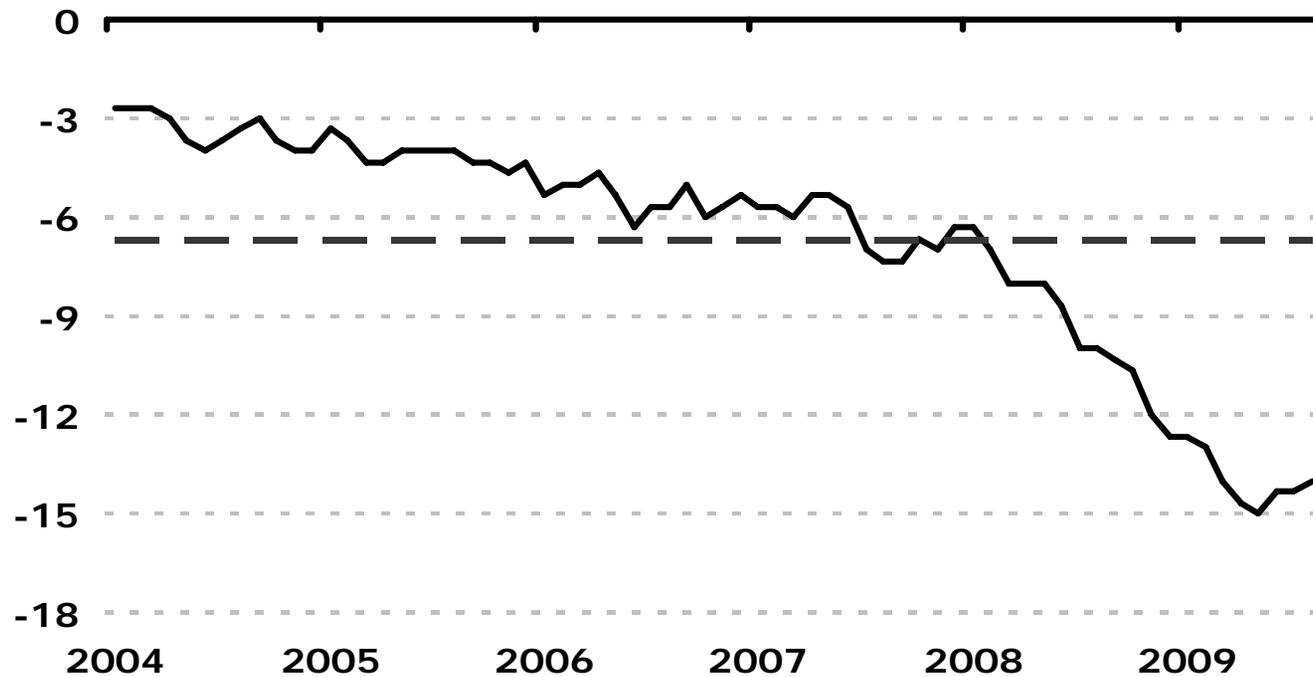
Source: FDIC, data through 2009 Q2.



... 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

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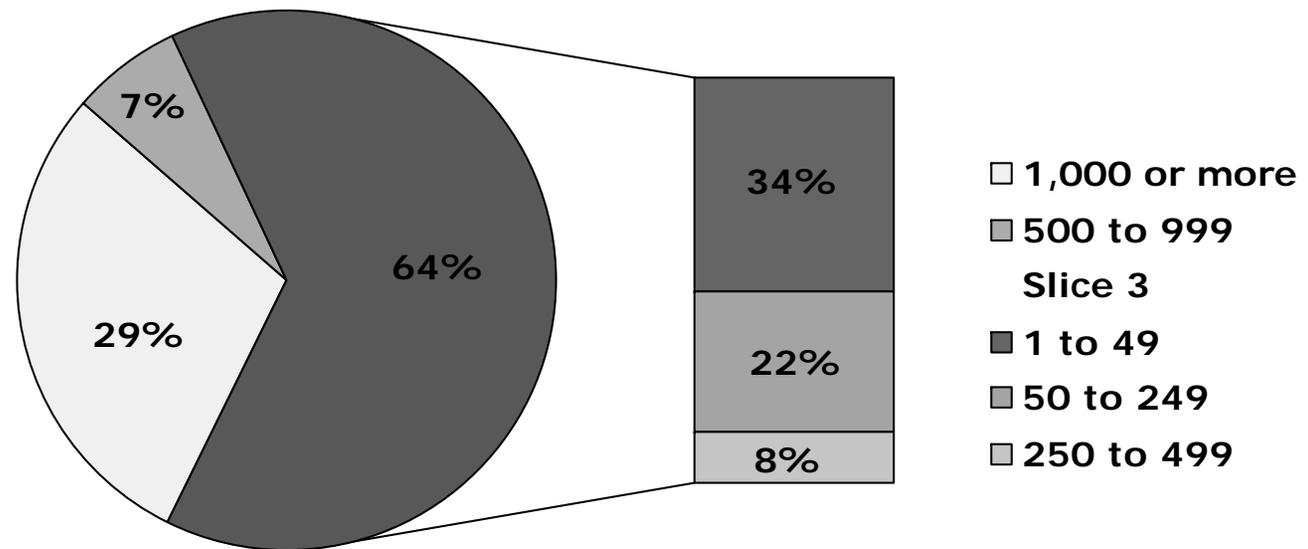
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... who create most of the jobs

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



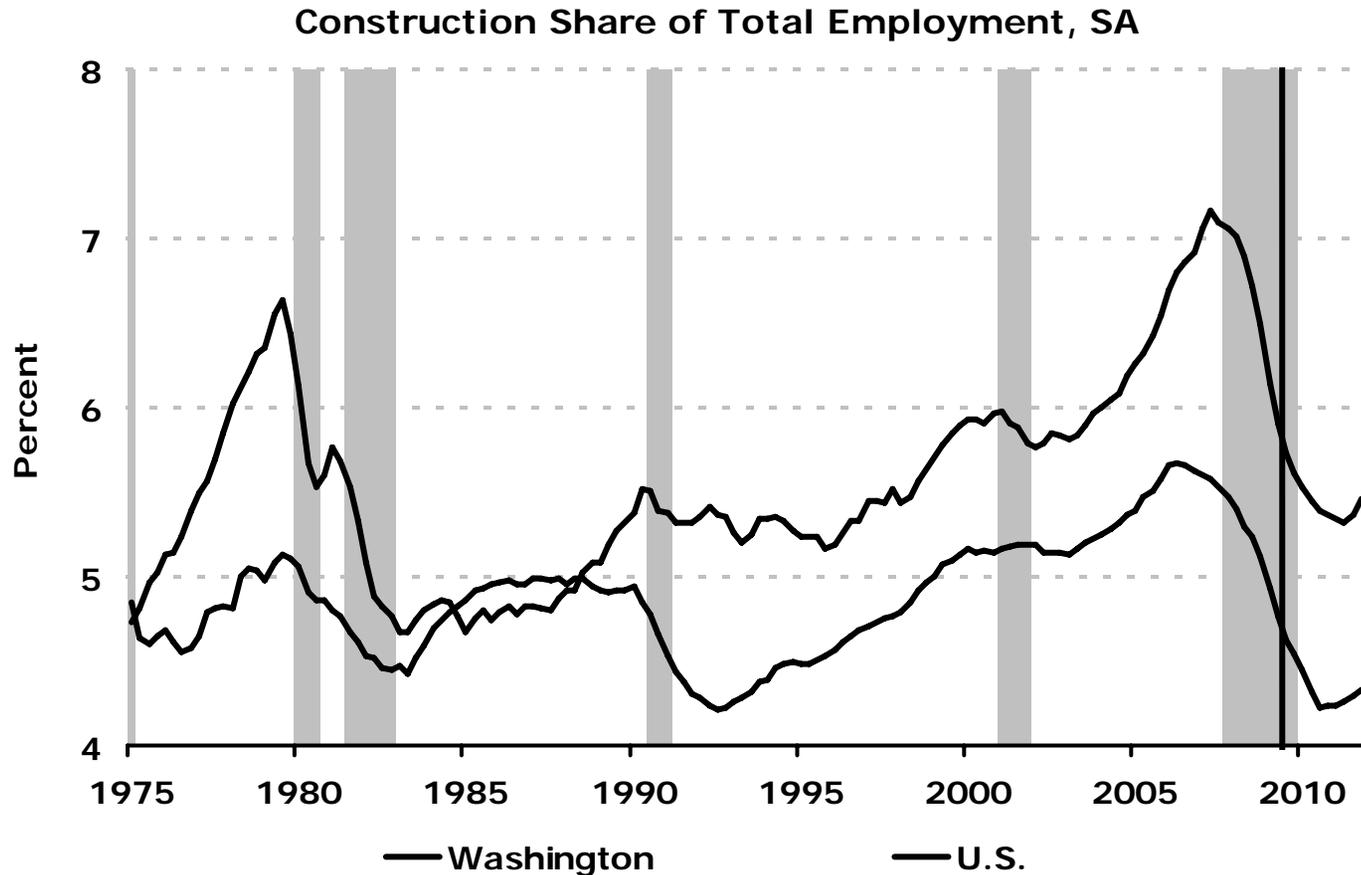
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Source: BLS, data from 1992 Q3 to 2008 Q4



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

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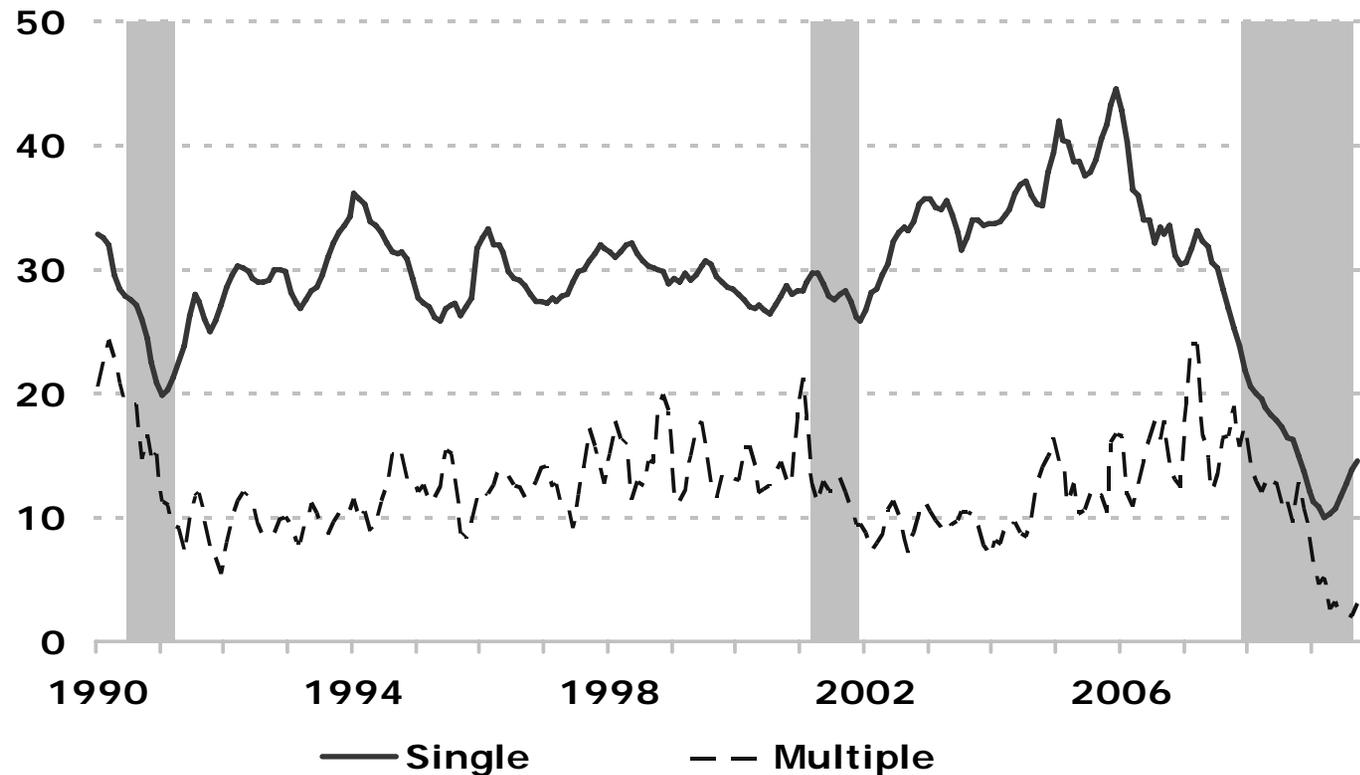
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WA single family building permits are doing better than multi-family

Thousands, SA, 3MMA



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

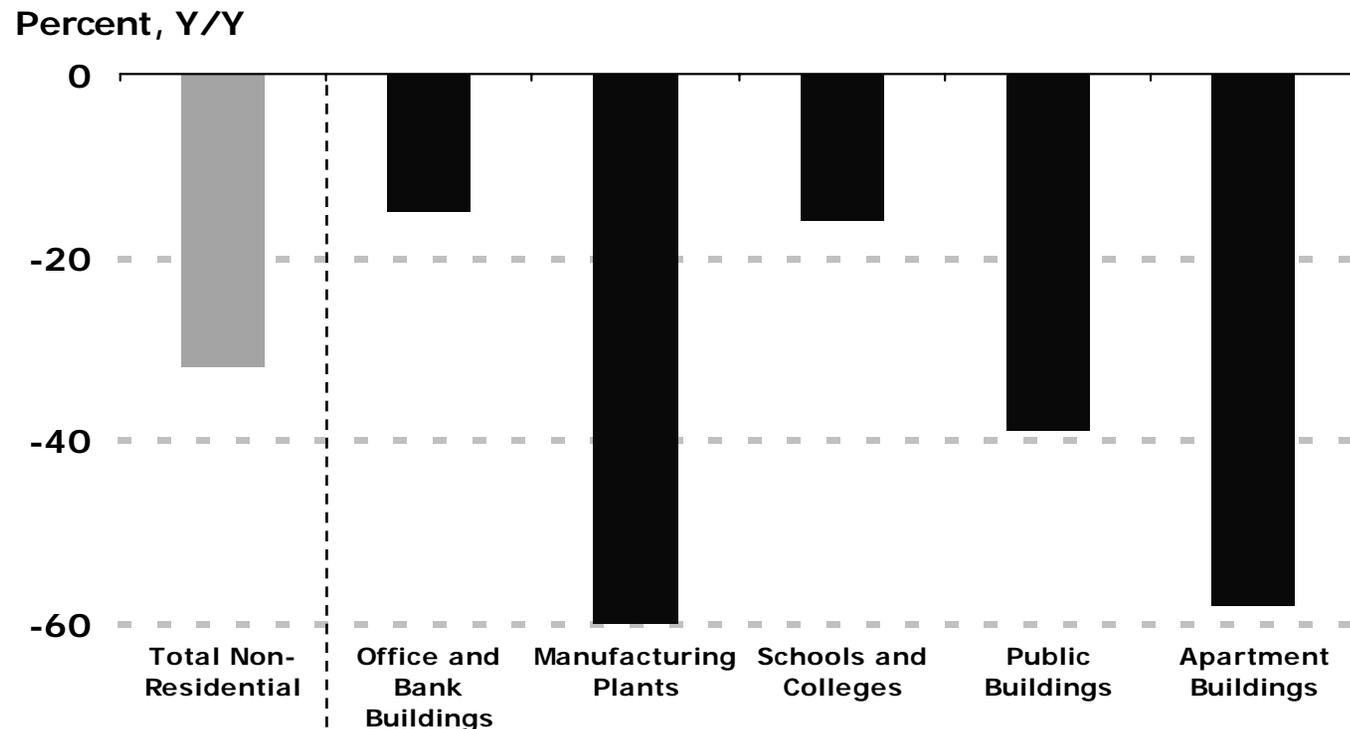
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Contract data indicate WA non-res construction will remain weak

Washington State Contracts for New, Addition and Major Alteration Projects (Cummulative YTD)

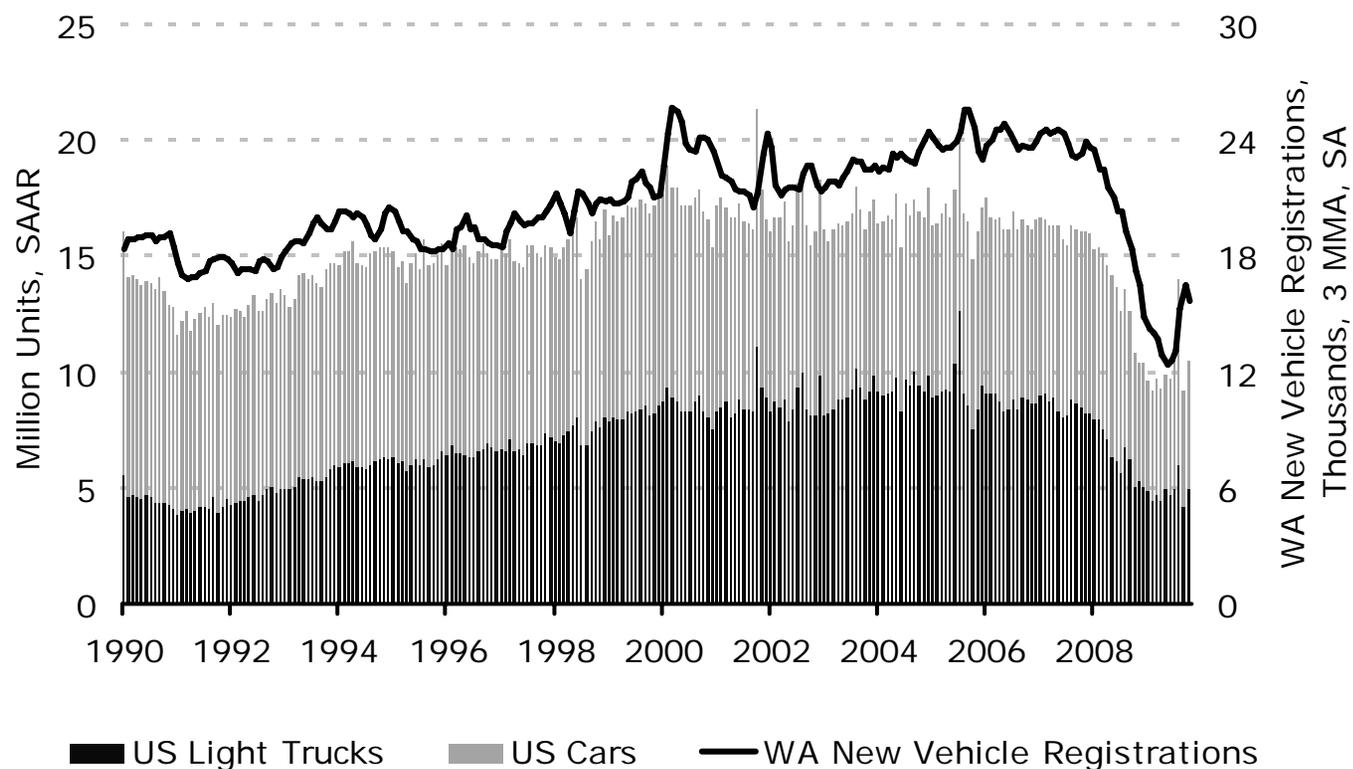


Source: McGraw-Hill Construction, data through October, 2009



Automotive sales have stabilized nationally and in the state

June boost from closing dealerships;
July and August boost from "cash for clunkers"



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

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We are witnessing an unprecedented global recovery

These economies represent 32% of global GDP.

The US is 25% of global GDP

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

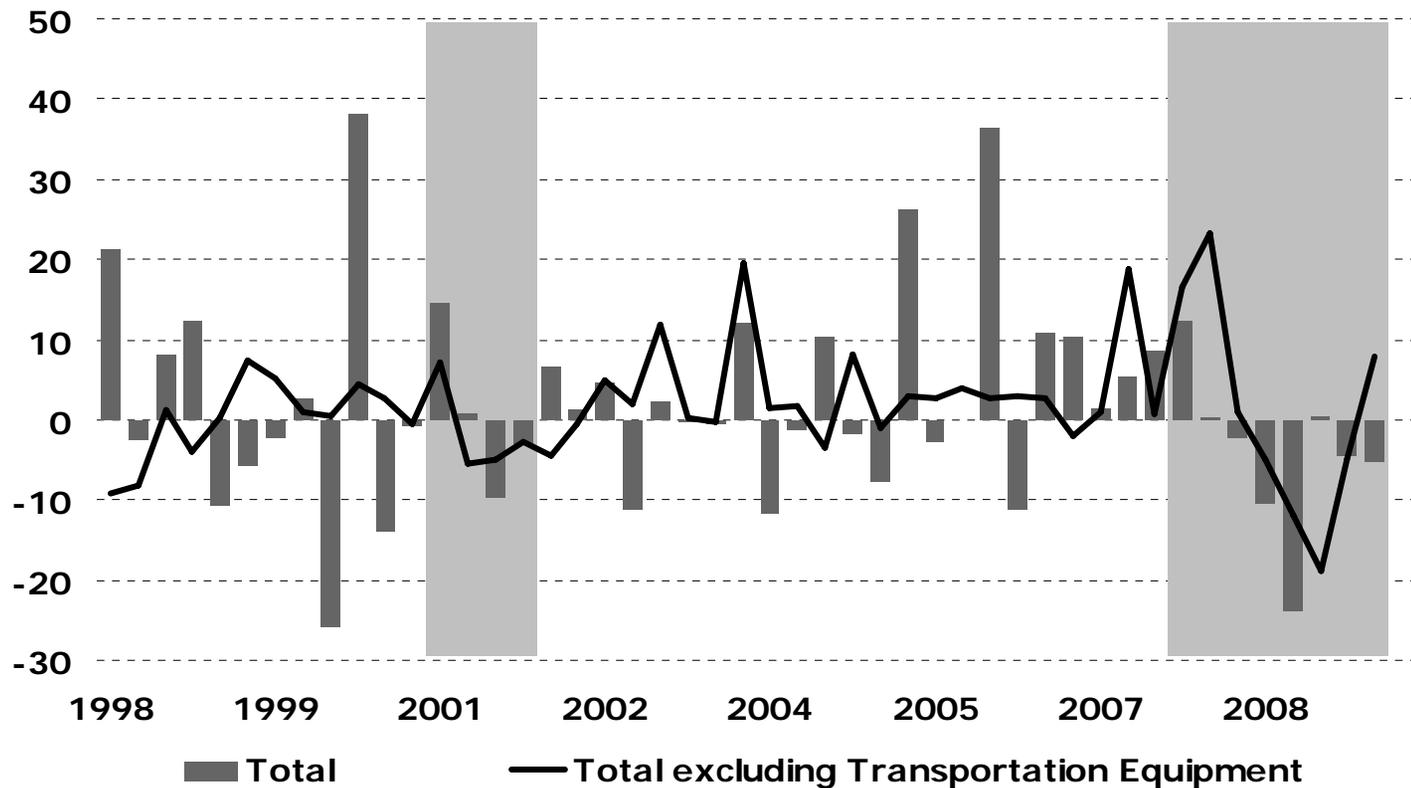
Source: IMF, ERFC

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Exports will help the state recover faster than the nation

Exports, SAAR
Percent Change, quarter ago



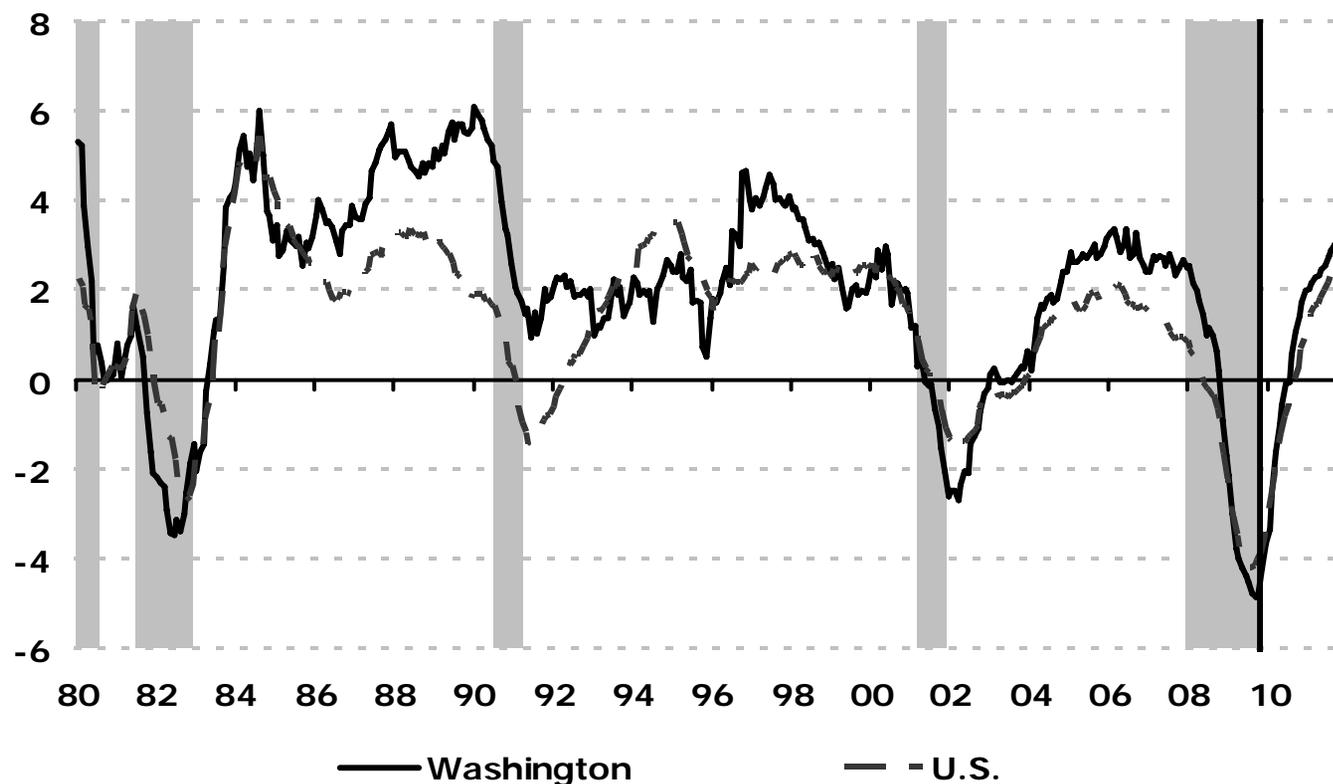
Source: Wiser Trade Data; through 2009 Q3

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

Percent change, year ago



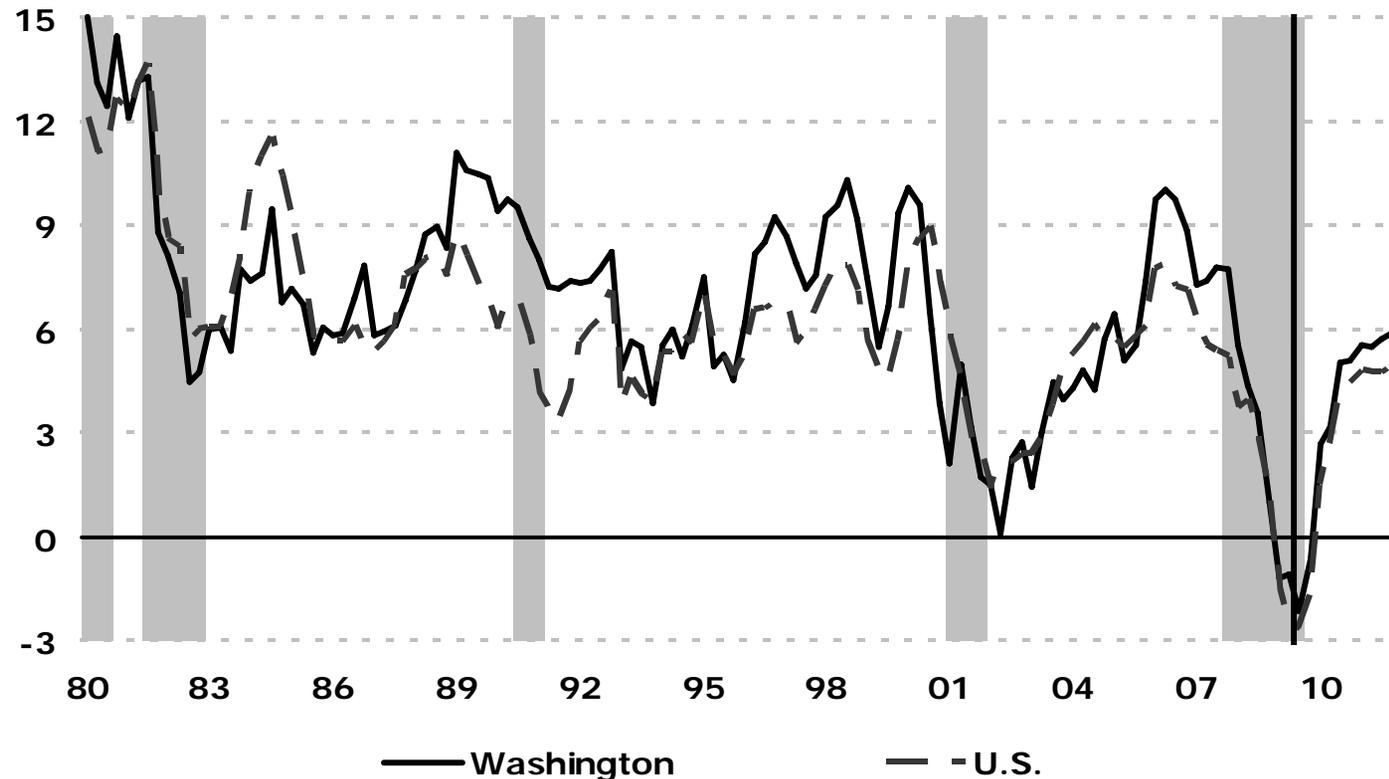
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Source: ERFC November 2009 forecast; actual through October 2009



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

Percent change, year ago



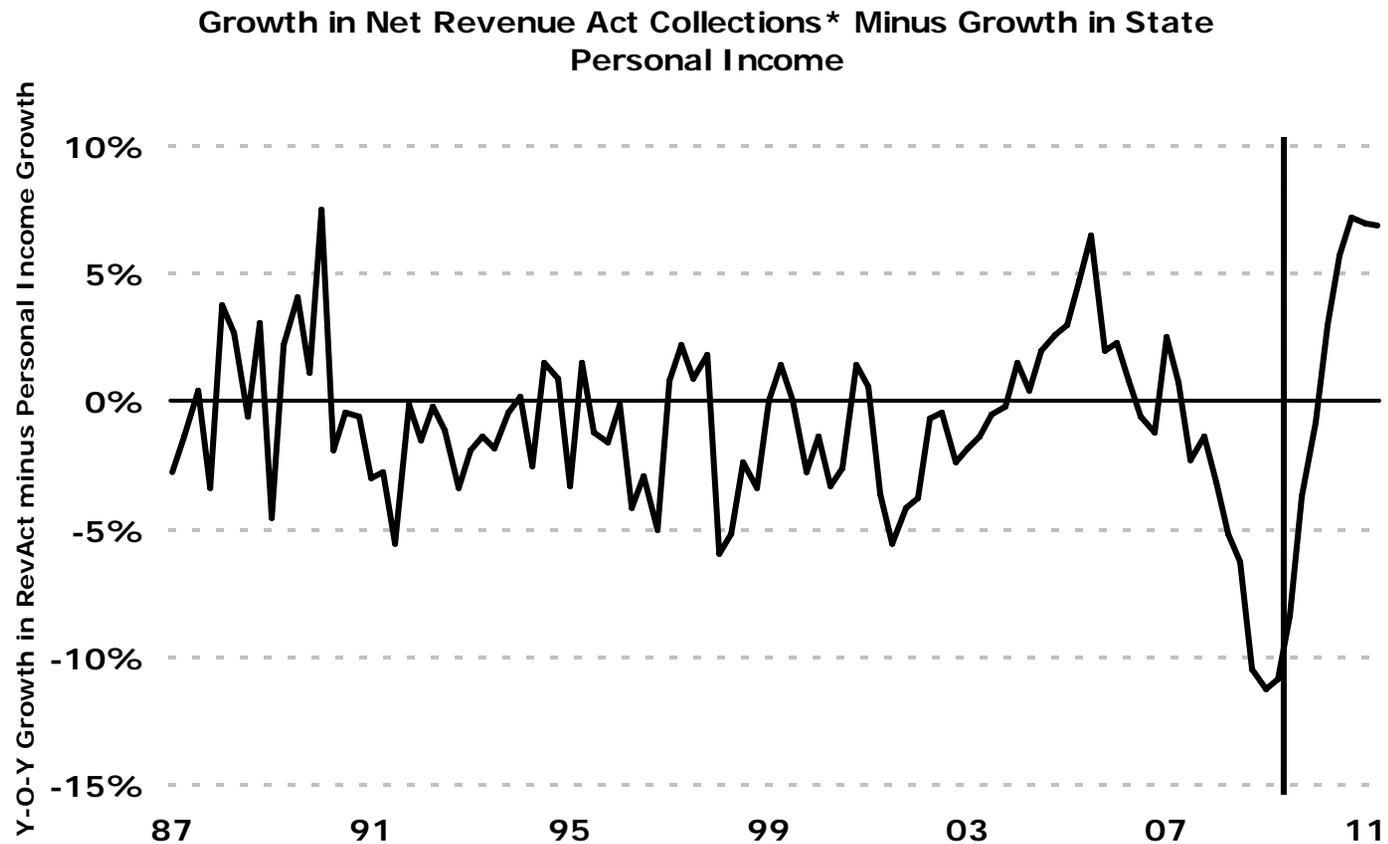
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Source: ERFC November 2009 forecast; actual data through 2009Q2



Revenue growth relative to income growth has turned around

* Adjusted for new legislation and special factors



Source: ERFC forecast; actual collections through 2009Q3

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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)
Total GF-S	(\$97)	\$0	(\$663)	\$28,843	(\$760)

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* Detail may not add to total due to rounding

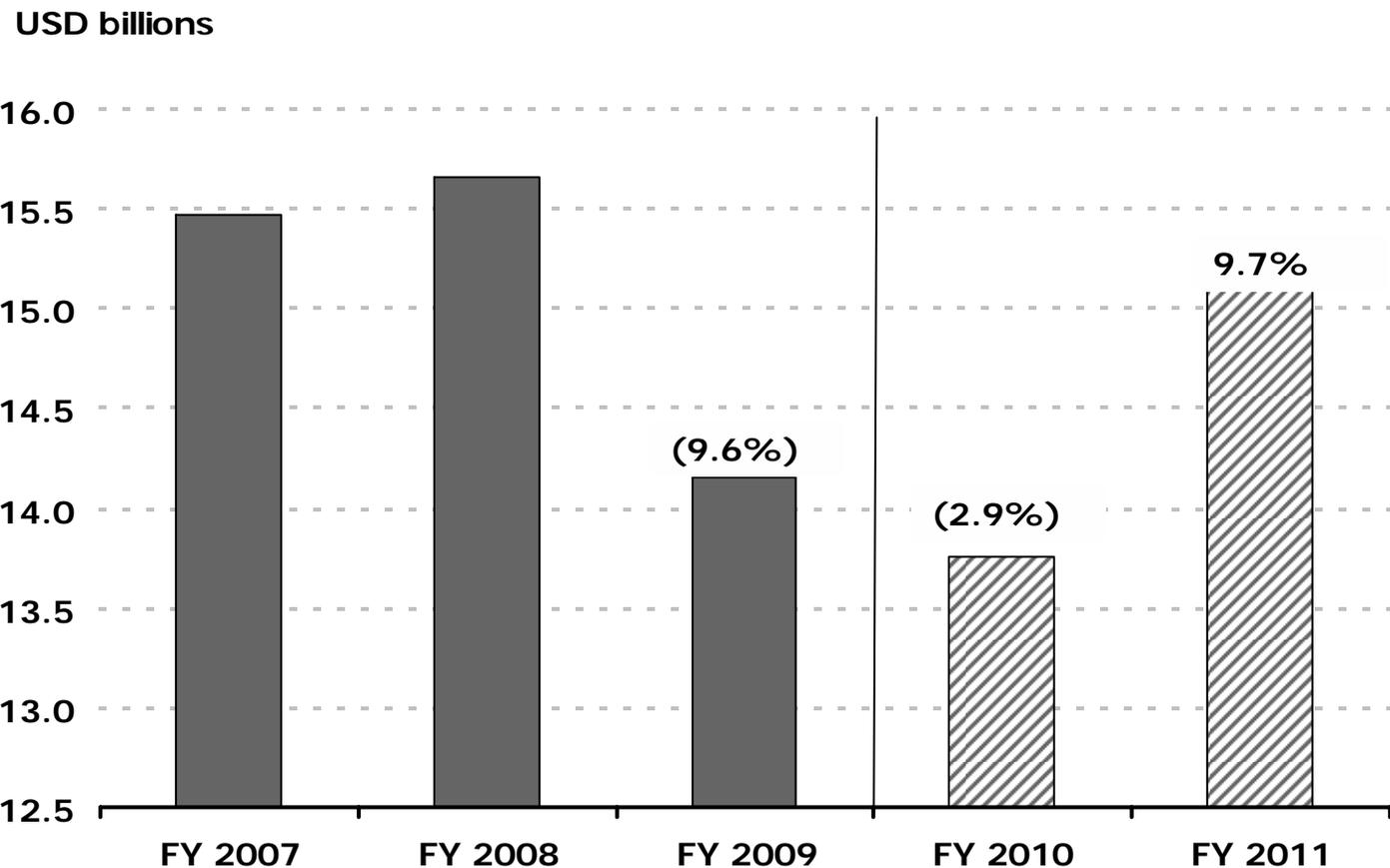


General Fund* forecast by fiscal year

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

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

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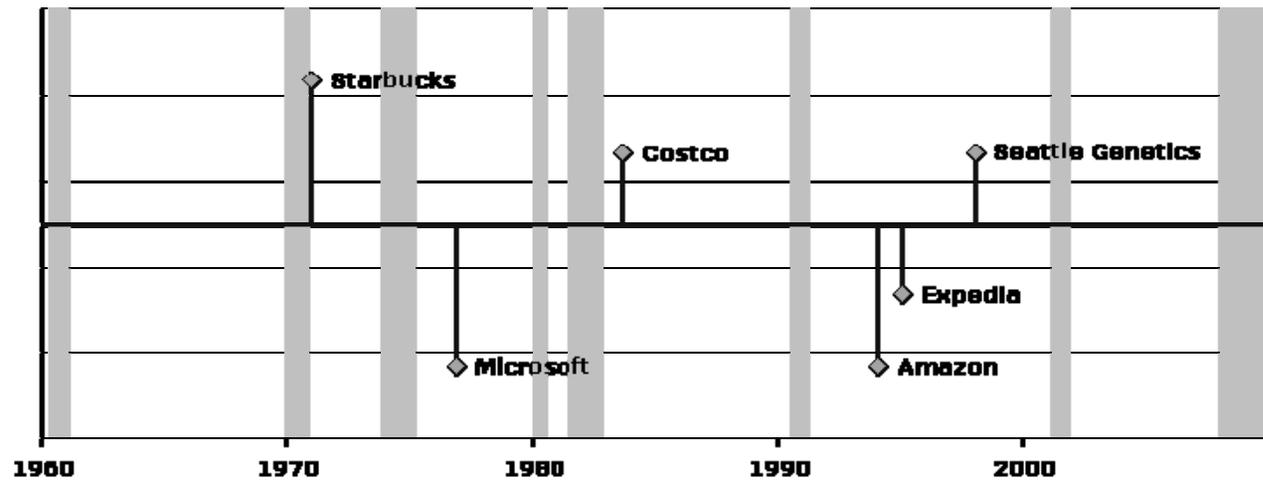
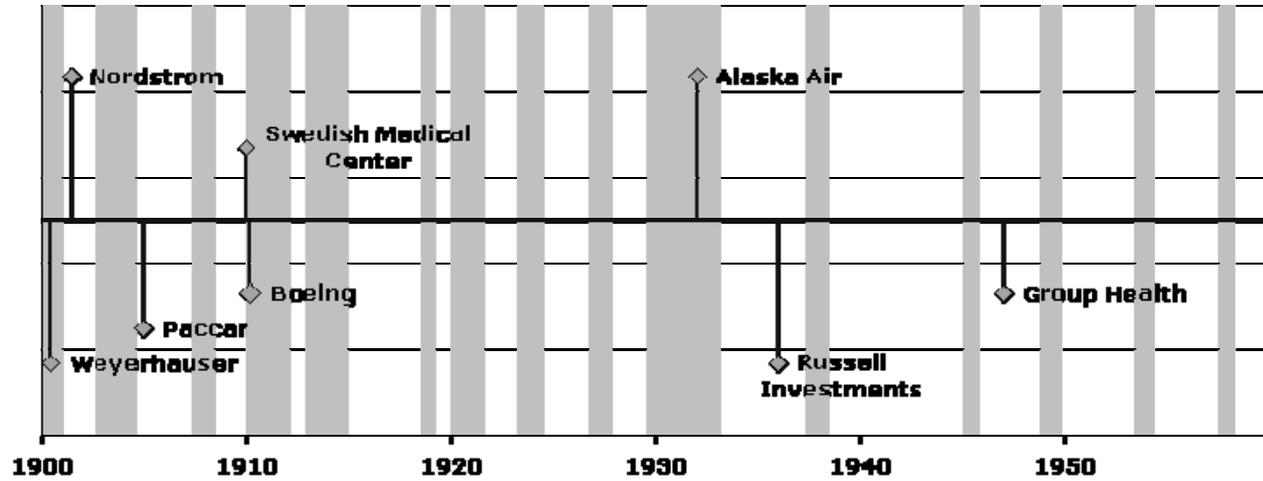


Source: ERFC forecast, November 2009



Innovation follows recessions

Gray bars correspond to national recessions



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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

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Questions

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