



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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August 26, 2009

**TO:** Governor's Council of Economic Advisors

**FROM:** Arun Raha, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT: PRELIMINARY SEPTEMBER ECONOMIC FORECAST**

This preliminary forecast is based on a modified version of Global Insight's August 2009 Control forecast for the U.S. economy. You should have received a summary of that Global Insight forecast by email. If not, please contact our office. The U.S. forecast was adjusted in two ways. First, we adjusted real GDP to match the Blue Chip "Consensus" GDP forecast for 2009 and 2010. While the Global Insight forecast has moved closer to the Blue Chip average, it is still among the most pessimistic respondents with respect to real GDP. Second, we adjusted the oil price forecast to match the New York Mercantile Exchange futures prices. Global Insight expects oil prices to decline in 2010 while we believe they will continue to rise.

The new national GDP forecast incorporates the comprehensive revision of the National Income and Product Accounts (NIPAs). The forecast continues to expect that real GDP will return to growth in the third quarter of 2009. Second quarter real GDP growth was not as weak (-1.0%) as we had expected in June (-1.8%), but the peak-to-trough decline during this recession is now expected to be greater (3.9%) due to the comprehensive revision to the NIPAs, than we had expected earlier (3.6%). Looking ahead, the revision to the GDP forecast is slightly positive compared to June, but the outlook for U.S. employment in the near term is somewhat weaker as job cuts have exceeded our previous forecast. The trough in U.S. employment has been moved out one quarter to the first quarter of 2010. The peak to trough employment decline in our new national forecast is 7.4 million (5.4%). We have lowered our personal income growth forecast for 2009 based on revised data from the Bureau of Economic Analysis for the first half of 2009. Personal income growth is mildly stronger in 2010 and 2011; however the forecasted levels are lower than before because of the magnitude of the downward revision.

A comparison of the preliminary U.S. forecast with the forecast adopted in June is shown in Table 2.

The most recent estimate of Washington employment is slightly higher than we expected in our June forecast. In fact, the Employment Security Department reported a gain of 4,000 (SA) jobs in July which was the first monthly increase in nearly a year (excluding the transitory impact of the Boeing machinists' strike). While this may turn out to be a turning point, we are not willing to

make that call based on just one month's data. We continue to expect a trough in Washington employment in the fourth quarter of 2009 with a peak-to-trough decline in employment of 136,000 (4.6%). At this time, the services producing industries appear to be bottoming out; but construction and manufacturing continue to lose jobs, though a reduced rate. The state's unemployment rate is expected to peak at 9.8% in the second quarter of 2010, much lower than the 10.5% in the June forecast. The number of housing units authorized by building permits in Washington fell in the second quarter to 13,900 from 15,100 in the first quarter. The second quarter results were slightly better than the forecast, however. Single-family permits edged up in the second quarter but multi-family permits fell to a new all-time low. We do not expect any improvement in housing permits until late this year. While housing is expected to begin to recover in the second half, the improvement will be slow.

The construction forecast is similar to the June projection. Construction employment is expected to decline by about 54,000 (26%) from its peak in the fourth quarter of 2007 through the third quarter of 2010. The aerospace employment forecast continues to reflect Boeing's announcement that production of the 777 will be cut from seven per month to five in mid-2010. However the overall decline in employment from the peak in the third quarter of 2008 through mid-2011 has been reduced to 4,100 (4.8%) from 7,200 in the June forecast as Boeing's reductions to date have been less than expected. The new software employment forecast is also higher than assumed in June due to an upward revision to the historical data. Software employment is expected to decline by 1,300 (2.5%) from the first quarter of 2009 to the fourth quarter of 2009, turning positive again in 2010 and 2011. We expect a decline of 9,400 state and local government jobs in the second half of this year following a reduction of 2,900 in the first half.

A comparison of the preliminary Washington forecast with the forecast adopted in June is shown in Table 3.

Review of the forecast by the Governor's Council of Economic Advisors is scheduled for Friday, September 4, 2009 at 10:00 a.m., in the Governor's Conference Room.

If you have any questions, please contact Bret Bertolin, Senior Economist, at (360) 570-6106.

**PLEASE NOTE:**

Enclosed is a worksheet summarizing the preliminary forecast. Council members are strongly encouraged to complete and return this worksheet via e-mail to [BretB@dor.wa.gov](mailto:BretB@dor.wa.gov) by September 2, 2009. This worksheet is relied on by the Forecast Council members and staff to gauge the reasonableness of the preliminary economic forecast and also serves as the basis of an alternative economic and revenue forecast. Even if you do not have a model that forecasts the variables in the worksheet, please give us your best estimates, using our forecast as a benchmark.

AR: bb  
Enclosures

Table 1

**U.S. Economic Forecast Comparison**

August 2009

	2009Q2	2009Q3	2009Q4	2010Q1	2008	2009	2010	2011
<b>Real GDP, Percent Change, Annual Rate</b>								
ERFC	-1.0	2.2	2.4	2.5	0.4	-2.7	2.3	3.2
Global Insight	-1.0	2.0	2.4	1.8	0.4	-2.7	1.8	3.1
Economy.com	-1.0	2.6	1.9	1.1	0.4	-2.7	1.7	
Blue Chip Average		2.2	2.3	2.5		-2.6	2.3	
Blue Chip Top 10		3.6	3.7	3.8		-2.5	3.1	
Blue Chip Bottom 10		0.7	0.9	1.2		-2.9	1.4	
<b>Federal Funds Rate</b>								
ERFC	0.2	0.2	0.2	0.2	1.9	0.2	0.3	1.8
Global Insight	0.2	0.1	0.1	0.1	1.9	0.2	0.2	1.7
Economy.com	0.2	0.2	0.2	0.2	1.9	0.2	0.5	
<b>Three Month T-Bill Rate</b>								
ERFC	0.2	0.2	0.3	0.5	1.4	0.2	0.7	2.3
Global Insight	0.2	0.2	0.3	0.4	1.4	0.2	0.6	2.1
Blue Chip Average		0.2	0.3	0.4		0.2	0.7	
Blue Chip Top 10		0.3	0.4	0.7		0.3	1.4	
Blue Chip Bottom 10		0.2	0.2	0.2		0.2	0.3	
<b>Consumer Price Index, Percent Change, Annual Rate</b>								
ERFC	1.3	4.3	1.5	1.7	3.8	-0.3	2.1	2.1
Global Insight	1.3	3.6	1.3	0.4	3.8	-0.4	1.5	2.2
Economy.com	1.3	1.8	1.3	1.5	3.8	-0.7	1.6	
Blue Chip Average		2.7	1.7	1.7		-0.5	1.9	
Blue Chip Top 10		4.2	3.3	3.0		-0.3	2.8	
Blue Chip Bottom 10		0.9	-0.1	0.5		-0.8	1.1	
<b>Payroll Employment, Millions</b>								
ERFC	132.1	131.3	130.8	130.6	137.0	132.0	131.4	134.1
Percent Change, Annual Rate	-4.5	-2.5	-1.6	-0.5	-0.4	-3.7	-0.4	2.0
Global Insight	132.1	131.3	130.8	130.6	137.0	132.0	131.2	133.6
Percent Change, Annual Rate	-4.5	-2.5	-1.4	-0.6	-0.4	-3.7	-0.6	1.8
Economy.com	132.1	131.4	131.0	130.6	137.0	132.0	130.8	
Percent Change, Annual Rate	-4.5	-2.2	-1.3	-1.0	-0.4	-3.7	-0.9	
<b>Unemployment Rate, Percent</b>								
ERFC	9.3	9.5	9.8	10.0	5.8	9.2	9.8	9.1
Global Insight	9.3	9.5	9.9	10.1	5.8	9.2	10.0	9.4
Economy.com	9.3	9.6	9.8	10.0	5.8	9.2	9.9	
Blue Chip Average		9.8	10.1	10.1		9.3	9.9	
Blue Chip Top 10		10.0	10.4	10.6		9.5	10.5	
Blue Chip Bottom 10		9.6	9.9	9.8		9.2	9.5	
<b>Real Disposable Personal Income, Percent Change, Annual Rate</b>								
ERFC	3.2	-2.8	0.6	-0.6	0.5	0.7	0.7	1.6
Global Insight	3.2	-3.2	0.7	-0.9	0.5	0.6	0.5	1.0
Blue Chip Average		-1.2	1.3	2.0		1.3	1.7	
Blue Chip Top 10		1.9	3.2	4.2		2.5	2.9	
Blue Chip Bottom 10		-4.7	-0.6	0.1		0.6	0.6	

Table 2

## U.S. Forecast Comparison

	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2007	2008	2009	2010	2011
<b>Real GDP (2005 USD billions)</b>											
September Forecast, Preliminary	12,892	12,963	13,038	13,119	13,209	13,300	13,254	13,312	12,955	13,256	13,680
Percent Change	-1.0%	2.2%	2.4%	2.5%	2.8%	2.8%	2.1%	0.4%	-2.7%	2.3%	3.2%
June Forecast	12,776	12,795	12,856	12,932	13,022	13,115	13,027	13,171	12,815	13,070	13,483
Percent Change	-1.8%	0.6%	1.9%	2.4%	2.8%	2.9%	2.0%	1.1%	-2.7%	2.0%	3.2%
<b>Implicit Price Deflator (2005=100)</b>											
September Forecast, Preliminary	1.088	1.097	1.100	1.104	1.109	1.114	1.055	1.090	1.093	1.112	1.131
Percent Change	1.3%	3.5%	1.1%	1.5%	1.6%	1.9%	2.7%	3.4%	0.2%	1.7%	1.8%
June Forecast	1.092	1.098	1.102	1.106	1.111	1.118	1.054	1.090	1.095	1.115	1.137
Percent Change	2.1%	2.4%	1.4%	1.5%	2.0%	2.3%	2.6%	3.3%	0.5%	1.8%	2.0%
<b>Real Personal Income (2005 USD billions)</b>											
September Forecast, Preliminary	11,020	10,942	10,966	11,019	11,086	11,163	11,273	11,225	10,994	11,126	11,424
Percent Change	-1.0%	-2.8%	0.9%	1.9%	2.5%	2.8%	2.8%	-0.4%	-2.1%	1.2%	2.7%
June Forecast	11,128	10,999	11,020	11,080	11,130	11,182	11,060	11,104	11,062	11,157	11,412
Percent Change	0.9%	-4.6%	0.8%	2.2%	1.8%	1.9%	3.4%	0.4%	-0.4%	0.9%	2.3%
<b>Nonfarm Payroll Employment (Millions)</b>											
September Forecast, Preliminary	132.1	131.3	130.8	130.6	131.1	131.7	137.6	137.0	132.0	131.4	134.1
Percent Change	-4.5%	-2.5%	-1.6%	-0.5%	1.6%	1.6%	1.1%	-0.4%	-3.7%	-0.4%	2.0%
June Forecast	132.3	131.5	131.3	131.3	131.7	132.0	137.6	137.0	132.2	131.9	134.1
Percent Change	-4.1%	-2.2%	-0.9%	0.3%	1.1%	1.0%	1.1%	-0.4%	-3.6%	-0.2%	1.7%
<b>Unemployment Rate (Percent of Labor Force)</b>											
September Forecast, Preliminary	9.3	9.5	9.8	10.0	9.9	9.8	4.6	5.8	9.2	9.8	9.1
June Forecast	9.2	9.7	9.9	10.0	10.0	9.9	4.6	5.8	9.2	9.9	9.4
<b>30 Year Fixed Mortgage Rate (Percent, average)</b>											
September Forecast, Preliminary	5.0	5.2	5.3	5.4	5.4	5.5	6.3	6.0	5.2	5.5	5.6
June Forecast	4.9	5.1	5.1	5.2	5.3	5.4	6.3	6.0	5.0	5.3	5.7
<b>3 Month T-Bill Rate (Percent, average)</b>											
September Forecast, Preliminary	0.2	0.2	0.3	0.5	0.6	0.8	4.4	1.4	0.2	0.7	2.3
June Forecast	0.2	0.3	0.3	0.4	0.5	0.6	4.4	1.4	0.2	0.6	2.3

Table 3

**Washington Forecast Comparison**

	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2007	2008	2009	2010	2011
<b>Real Personal Income (2005 USD billions)</b>											
September Forecast, Preliminary	250.1	250.4	250.3	252.7	254.4	257.7	251.9	253.2	250.4	255.7	264.4
<i>Percent Change</i>	-1.0%	0.5%	-0.3%	4.0%	2.6%	5.3%	5.3%	0.5%	-1.1%	2.1%	3.4%
June Forecast	253.2	251.3	251.3	253.8	255.2	258.0	252.0	253.5	252.5	256.4	264.7
<i>Percent Change</i>	-1.7%	-3.1%	0.1%	4.1%	2.2%	4.4%	5.4%	0.6%	-0.4%	1.5%	3.2%
<b>Personal Income (USD billions)</b>											
September Forecast, Preliminary	272.1	274.8	275.4	279.1	282.1	287.1	265.7	276.1	273.6	284.3	299.2
<i>Percent Change</i>	0.3%	4.0%	0.9%	5.5%	4.3%	7.3%	8.1%	3.9%	-0.9%	3.9%	5.2%
June Forecast	276.5	276.0	277.0	280.8	283.7	288.3	265.7	276.3	276.4	285.8	301.0
<i>Percent Change</i>	0.4%	-0.8%	1.4%	5.6%	4.2%	6.8%	8.1%	4.0%	0.1%	3.4%	5.3%
<b>Nonfarm Payroll Employment (Thousands)</b>											
September Forecast, Preliminary	2852	2844	2838	2845	2862	2875	2933	2959	2854	2867	2930
<i>Percent Change</i>	-4.3%	-1.1%	-0.9%	1.0%	2.4%	1.8%	2.6%	0.9%	-3.5%	0.4%	2.2%
June Forecast	2852	2836	2829	2833	2846	2858	2934	2959	2850	2852	2920
<i>Percent Change</i>	-4.6%	-2.2%	-1.0%	0.6%	1.9%	1.7%	2.6%	0.9%	-3.7%	0.1%	2.4%
<b>Unemployment Rate (Percent of Labor Force)</b>											
September Forecast, Preliminary	9.1	9.3	9.7	9.8	9.8	9.8	4.5	5.3	9.1	9.8	9.3
June Forecast	9.3	9.9	10.3	10.5	10.5	10.4	4.5	5.3	9.5	10.4	9.8
<b>Manufacturing Employment (Thousands)</b>											
September Forecast, Preliminary	267.8	264.8	264.1	264.3	264.5	264.7	293.3	291.2	268.4	264.6	267.6
<i>Percent Change</i>	-12.3%	-4.4%	-1.1%	0.3%	0.3%	0.4%	2.6%	-0.7%	-7.8%	-1.4%	1.1%
June Forecast	268.7	263.6	259.6	257.8	255.5	255.5	293.3	291.2	267.3	256.5	260.7
<i>Percent Change</i>	-12.0%	-7.5%	-5.9%	-2.7%	-3.5%	0.1%	2.6%	-0.7%	-8.2%	-4.1%	1.6%
<b>Construction Employment (Thousands)</b>											
September Forecast, Preliminary	168.5	160.8	158.2	156.8	155.5	155.4	208.2	200.7	166.2	155.9	158.3
<i>Percent Change</i>	-18.1%	-17.2%	-6.4%	-3.5%	-3.2%	-0.2%	6.8%	-3.6%	-17.2%	-6.2%	1.5%
June Forecast	168.5	163.4	160.0	156.8	155.6	155.8	208.2	200.7	167.7	156.1	160.9
<i>Percent Change</i>	-21.0%	-11.5%	-8.2%	-7.6%	-3.1%	0.5%	6.8%	-3.6%	-16.5%	-6.9%	3.1%
<b>Housing Permits (Thousands)</b>											
September Forecast, Preliminary	13.9	15.8	17.6	19.1	20.4	22.9	47.4	28.9	15.6	22.0	34.0
<i>Percent Change</i>	-28.8%	66.1%	54.2%	38.6%	31.3%	58.4%	-5.3%	-39.0%	-46.0%	41.1%	54.3%
June Forecast	12.8	13.8	16.0	19.4	22.2	25.0	47.4	28.9	14.4	23.6	35.5
<i>Percent Change</i>	-49.4%	36.0%	80.2%	115.9%	70.9%	62.8%	-5.3%	-39.0%	-50.1%	63.7%	50.3%