

Economic and Revenue Update

Presented to
Manufactured Housing Communities of Washington

Steve Lerch
Executive Director

May 9, 2017
Tulalip, Washington



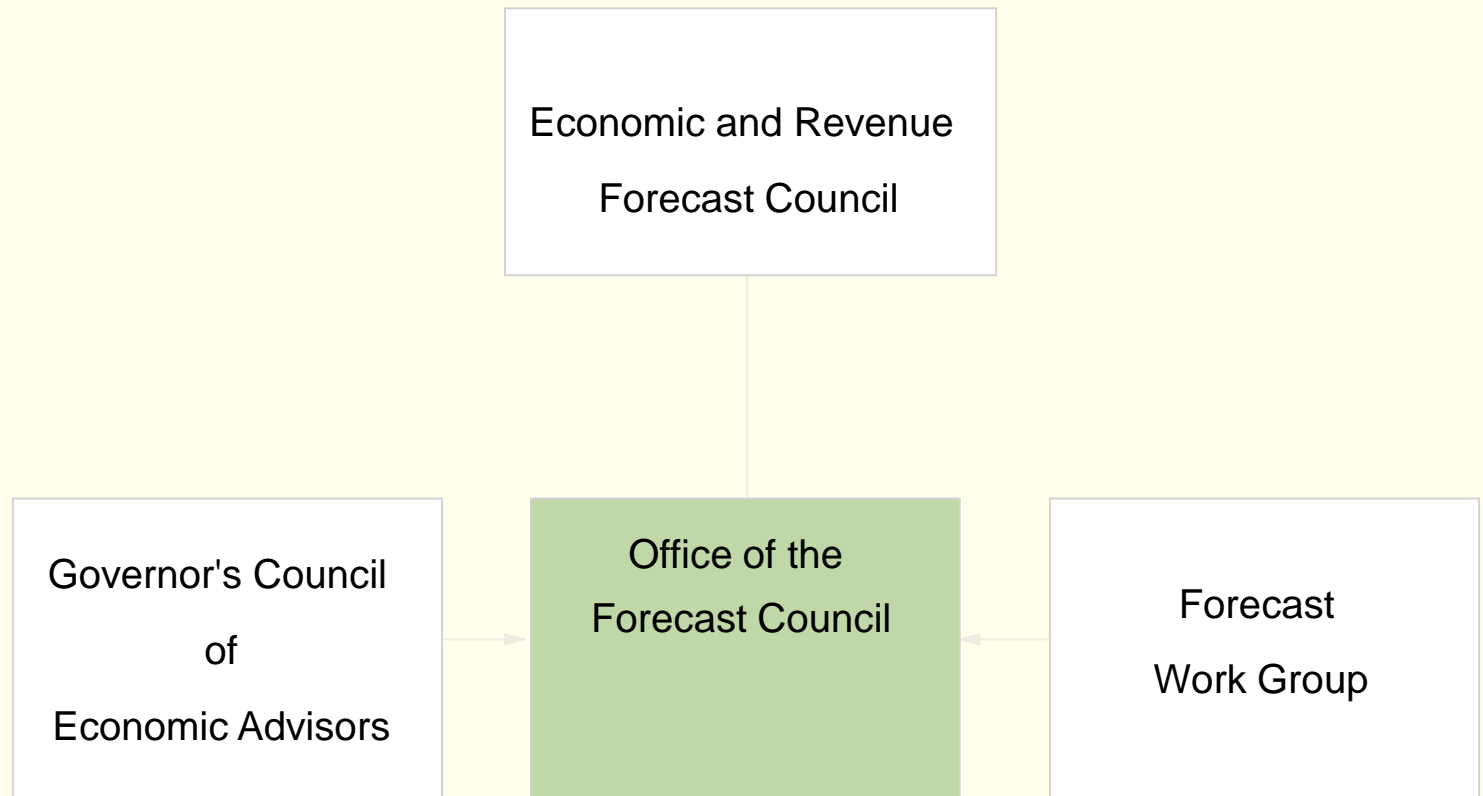
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Forecast Process in Washington State

ERFC

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five



Economic & Revenue Update

May 9, 2017

Slide 1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

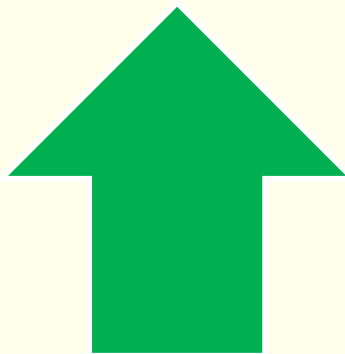


Summary

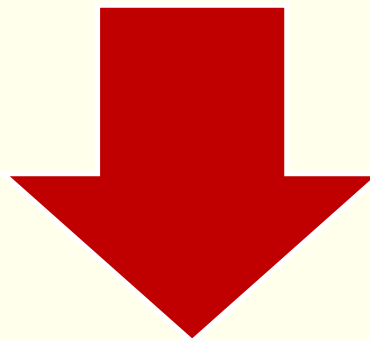
- Our forecast continues to call for moderate U.S. economic growth
- We anticipate two additional interest rate hikes by the Federal Reserve this year
- The WA economy continues to outperform the U.S. economy
- Seattle area inflation remains above the national average due to housing costs
- Risks to the baseline include slow global and U.S. economic growth, weak labor productivity growth and uncertainty regarding fiscal and trade policy



Economic news continues to suggest risks to forecast



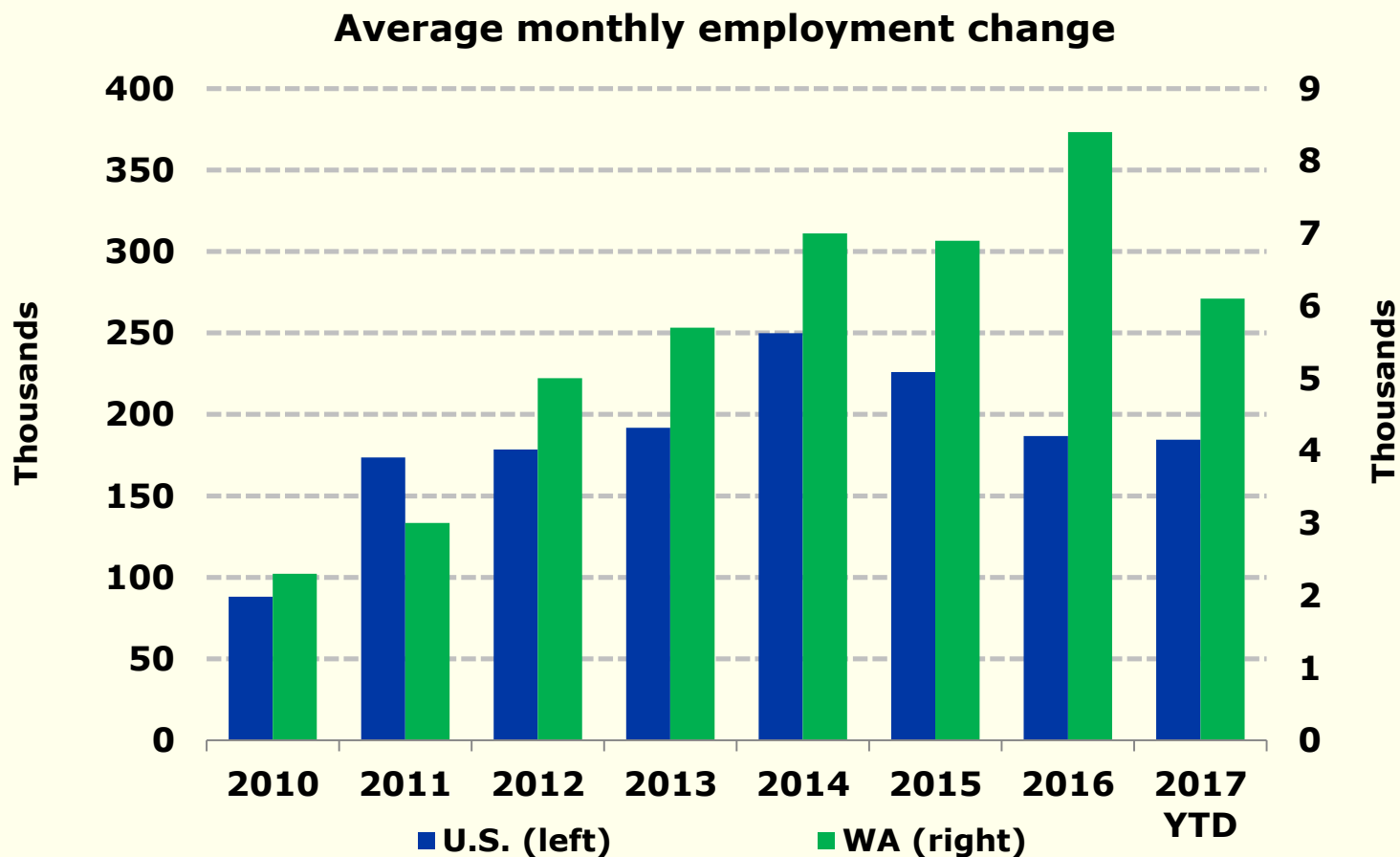
- Employment continues to expand
- Consumer spending growing at moderate pace
- Small business optimism improving
- Manufacturing, business investment showing improvement



- Slower 2016 economic growth in developed countries
- Negative impact of stronger dollar on exports
- Declining labor force participation
- Slow growth in labor productivity

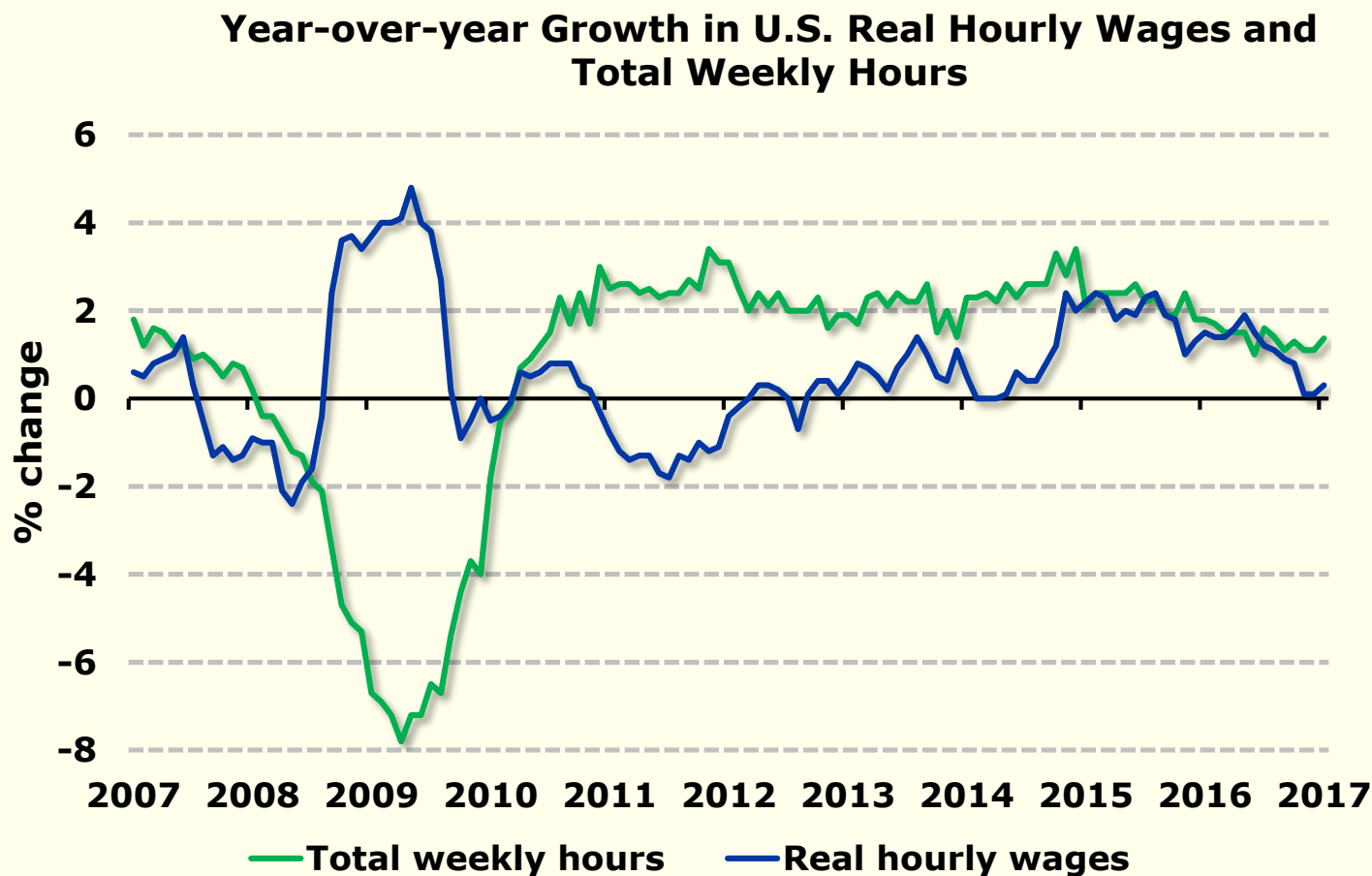


WA job creation very strong in 2016; for U.S., slightly weaker than 2015





Inflation-adjusted U.S. wage growth remains slow

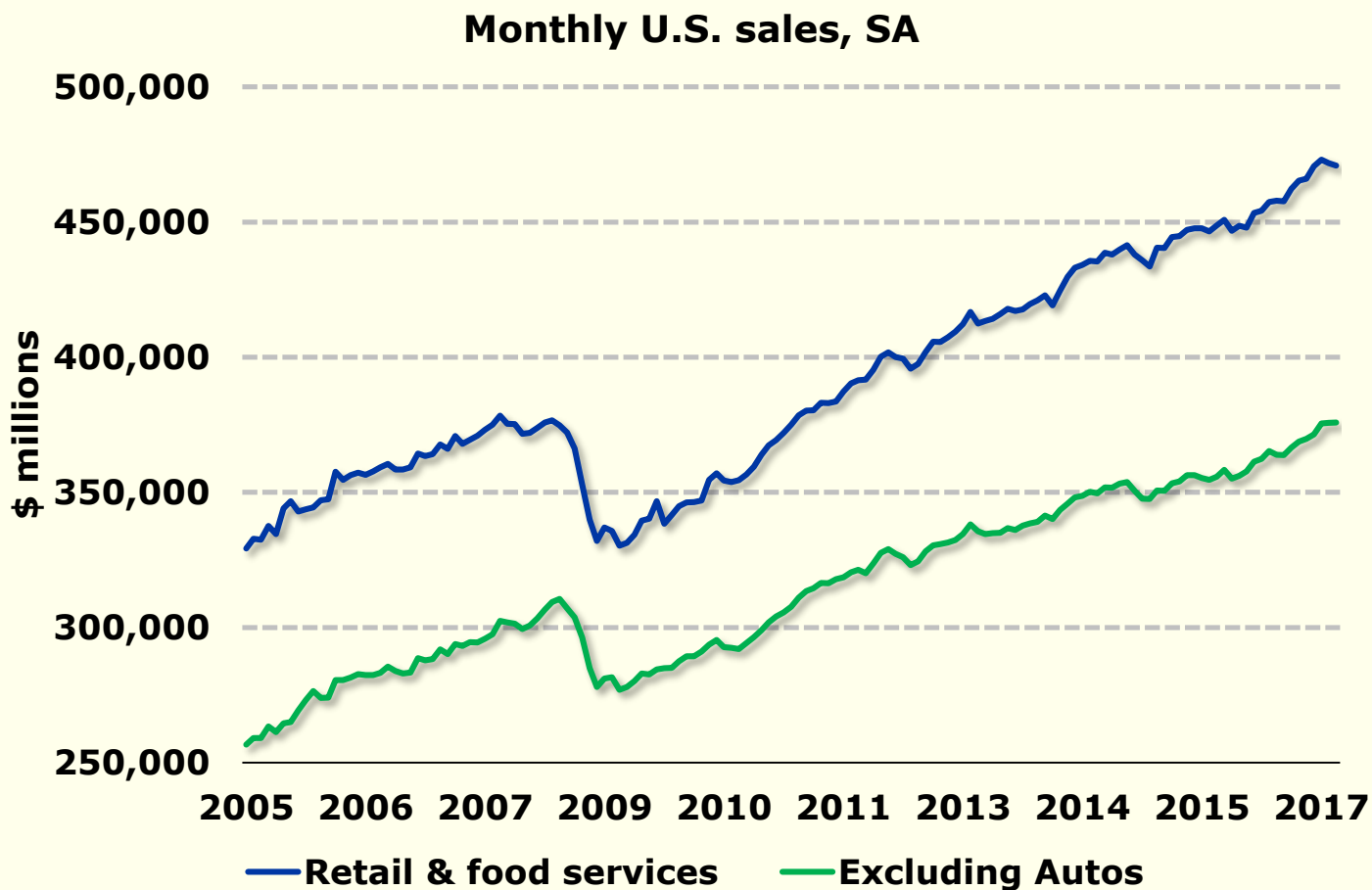


Source: U.S. Bureau of Labor Statistics; data through Mar. 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



U.S. retail and food service sales slowed in March but were 5.1% above March 2016

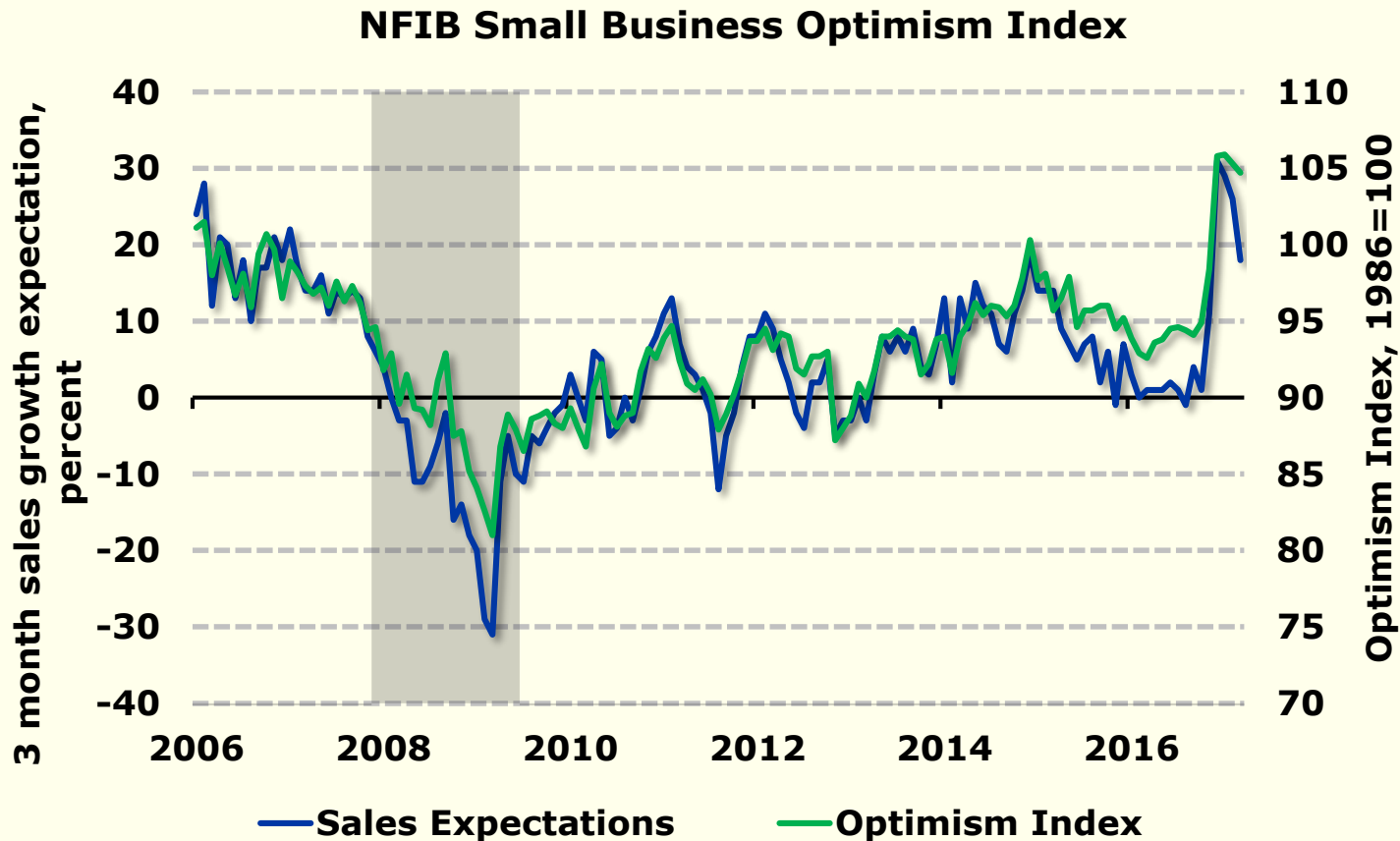


Source: U.S. Census Bureau, data through preliminary March 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Small business optimism and sales expectations jumped in December, remains elevated



Source: National Federation of Independent Business; data through March 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

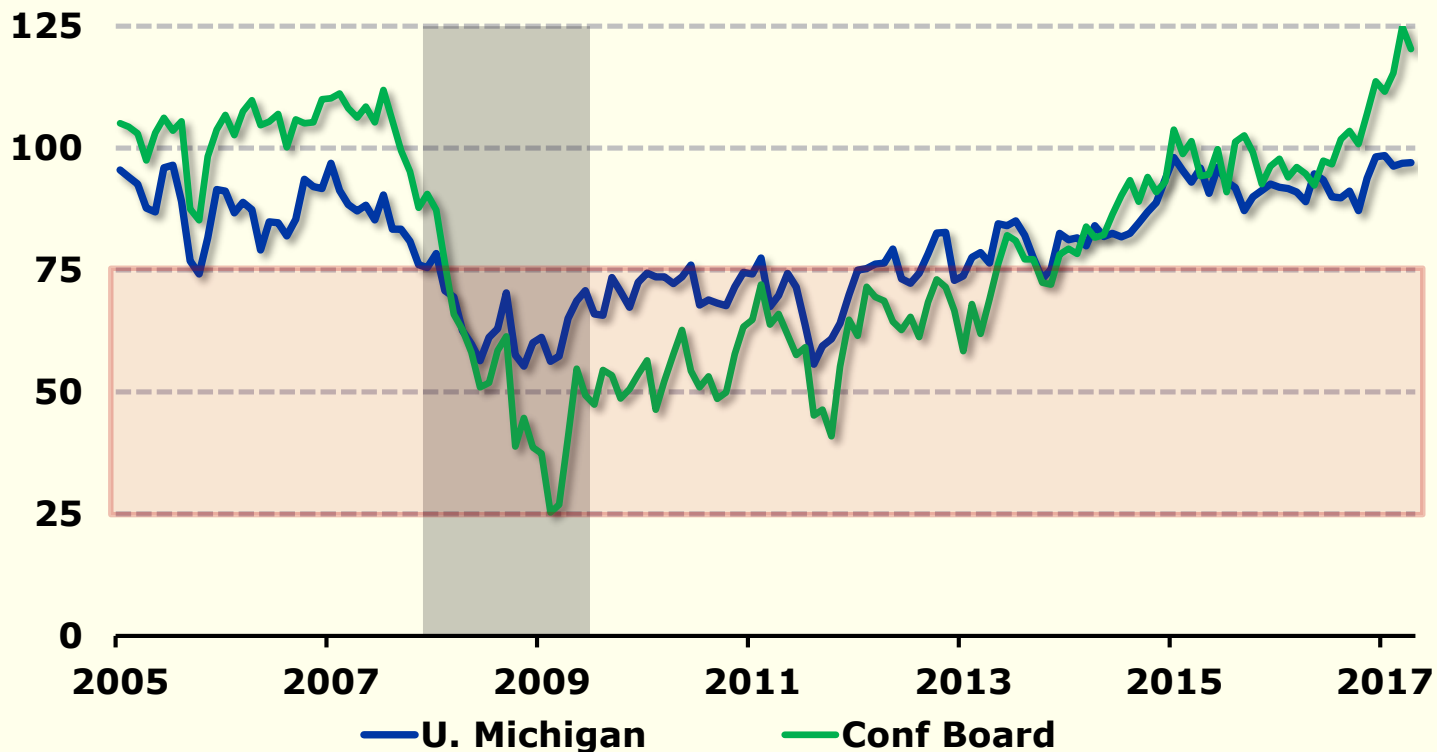


Consumer confidence is at or above pre-recession levels

Index

Mich: 1966Q1 = 100, SA

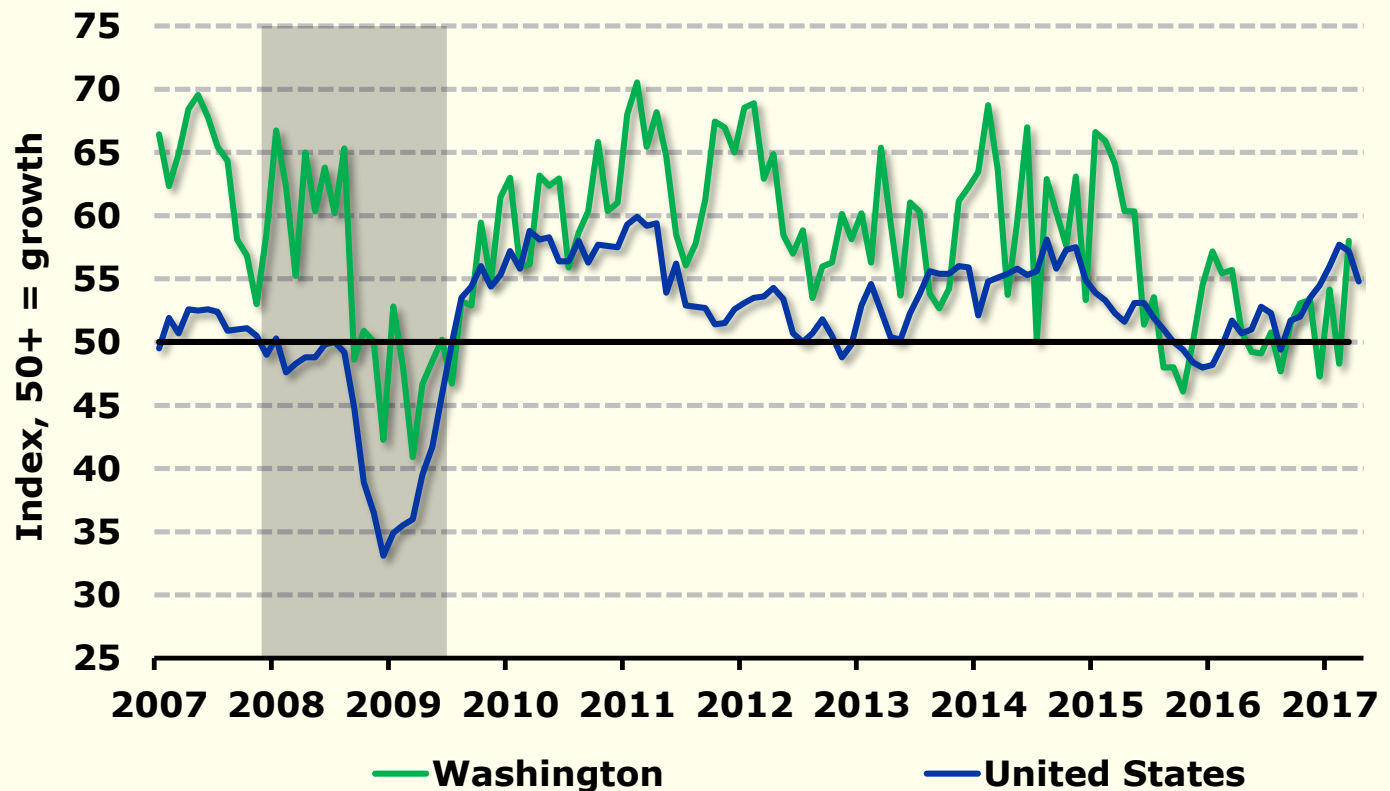
Conf Board: 1985 = 100, SA





Manufacturing: expanding in Washington and nationally in March

Institute of Supply Management Index



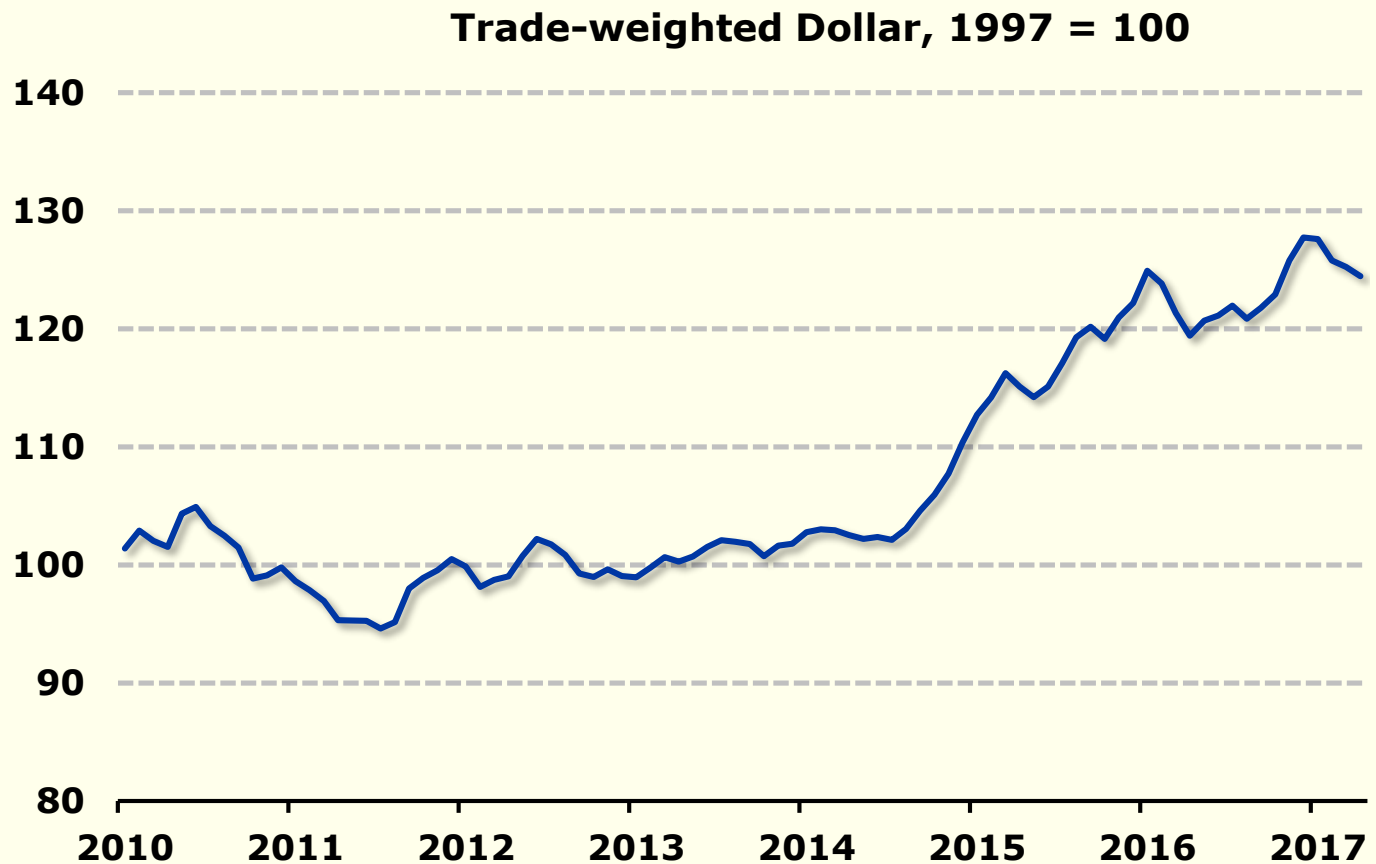


Developed country economies slowed in 2016





The dollar has increased in value relative to currencies of U.S. trading partners



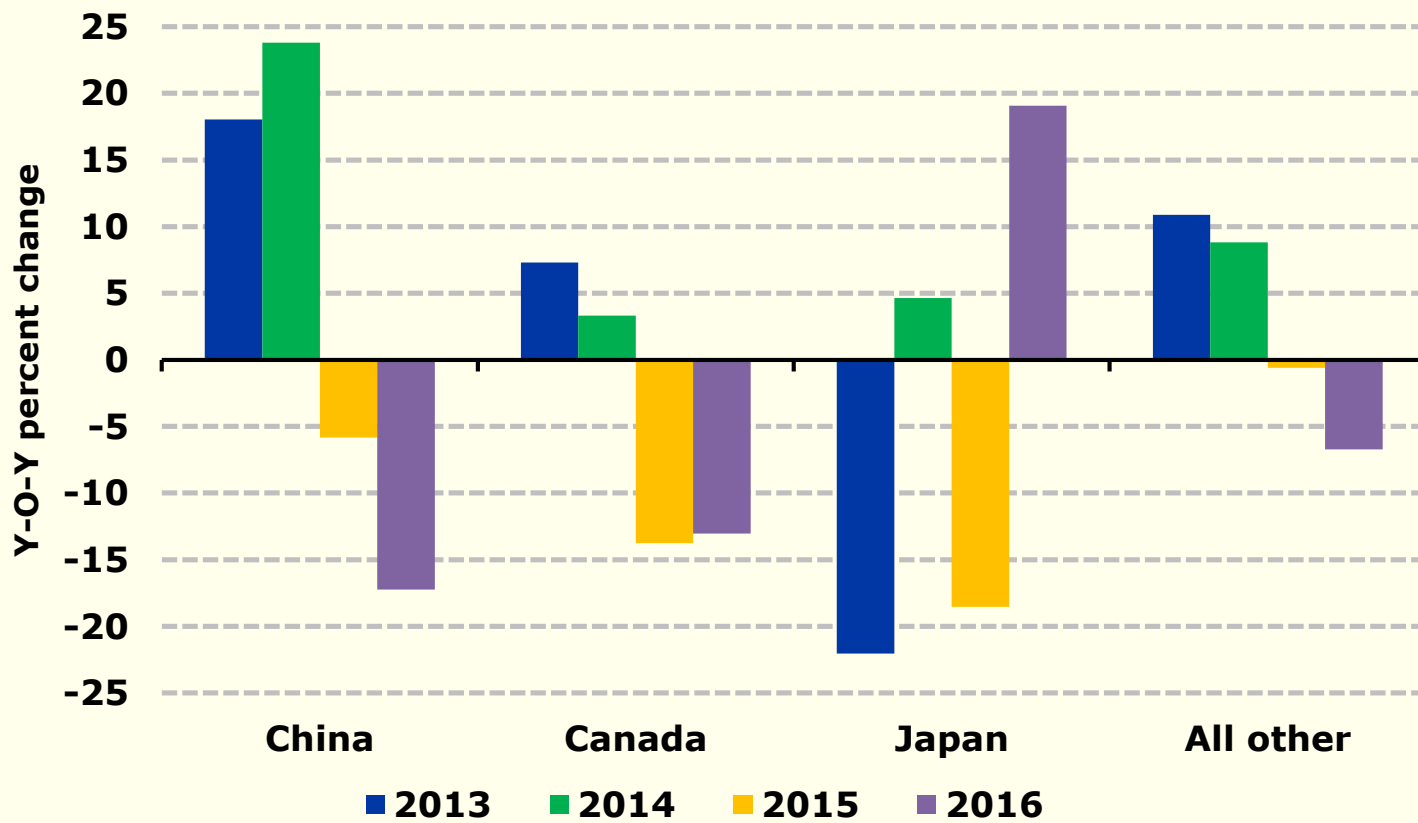
Source: Federal Reserve; data through preliminary April 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA exports have declined for two consecutive years

Year-over-year growth in export value



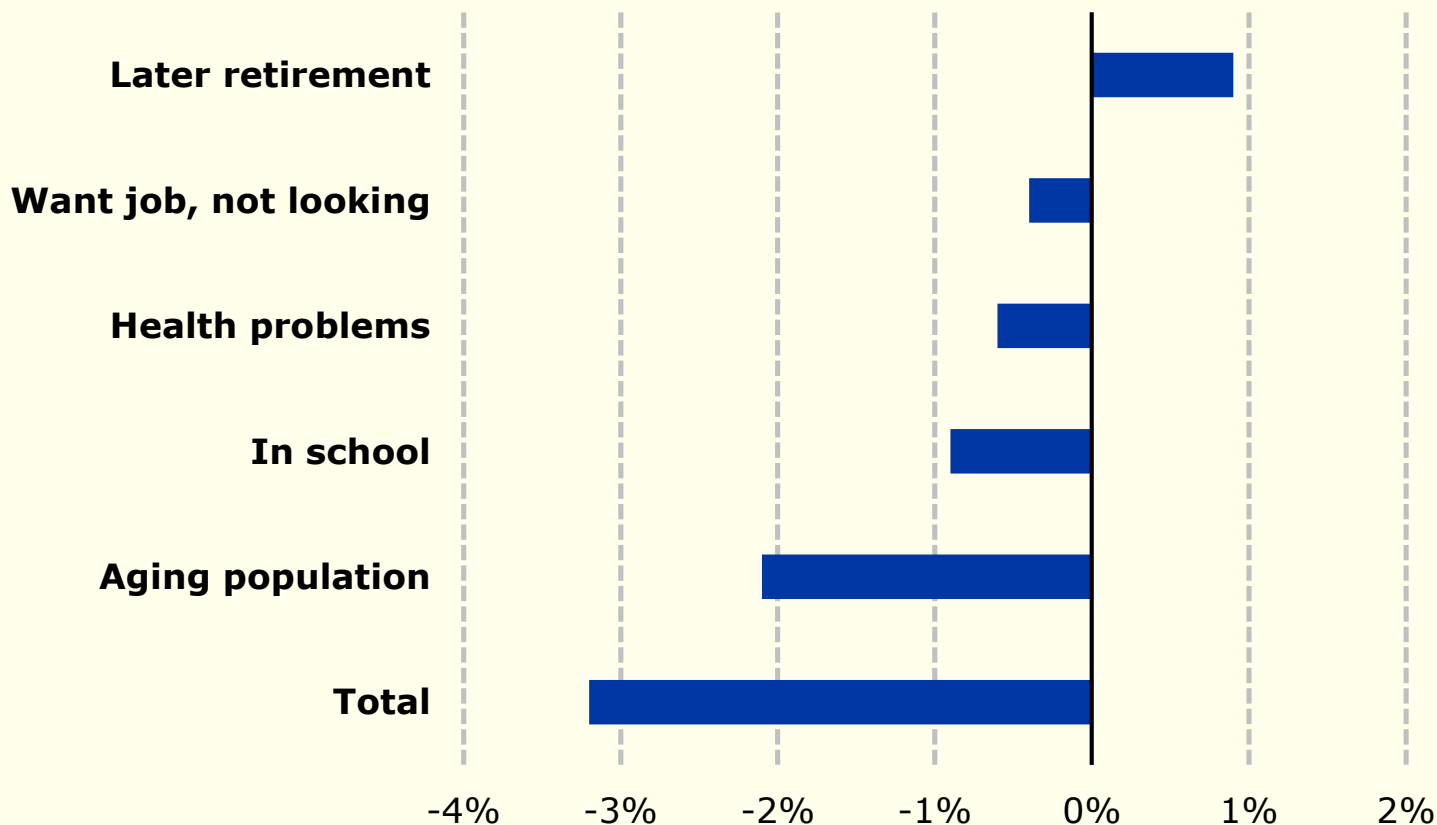
Source: WISERTrade; data through December 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Components of change in labor force participation rate, 2007Q4 to 2016Q4

Labor force participation rate = % of population age 16+ working or looking for a job



Economic & Revenue Update

May 9, 2017

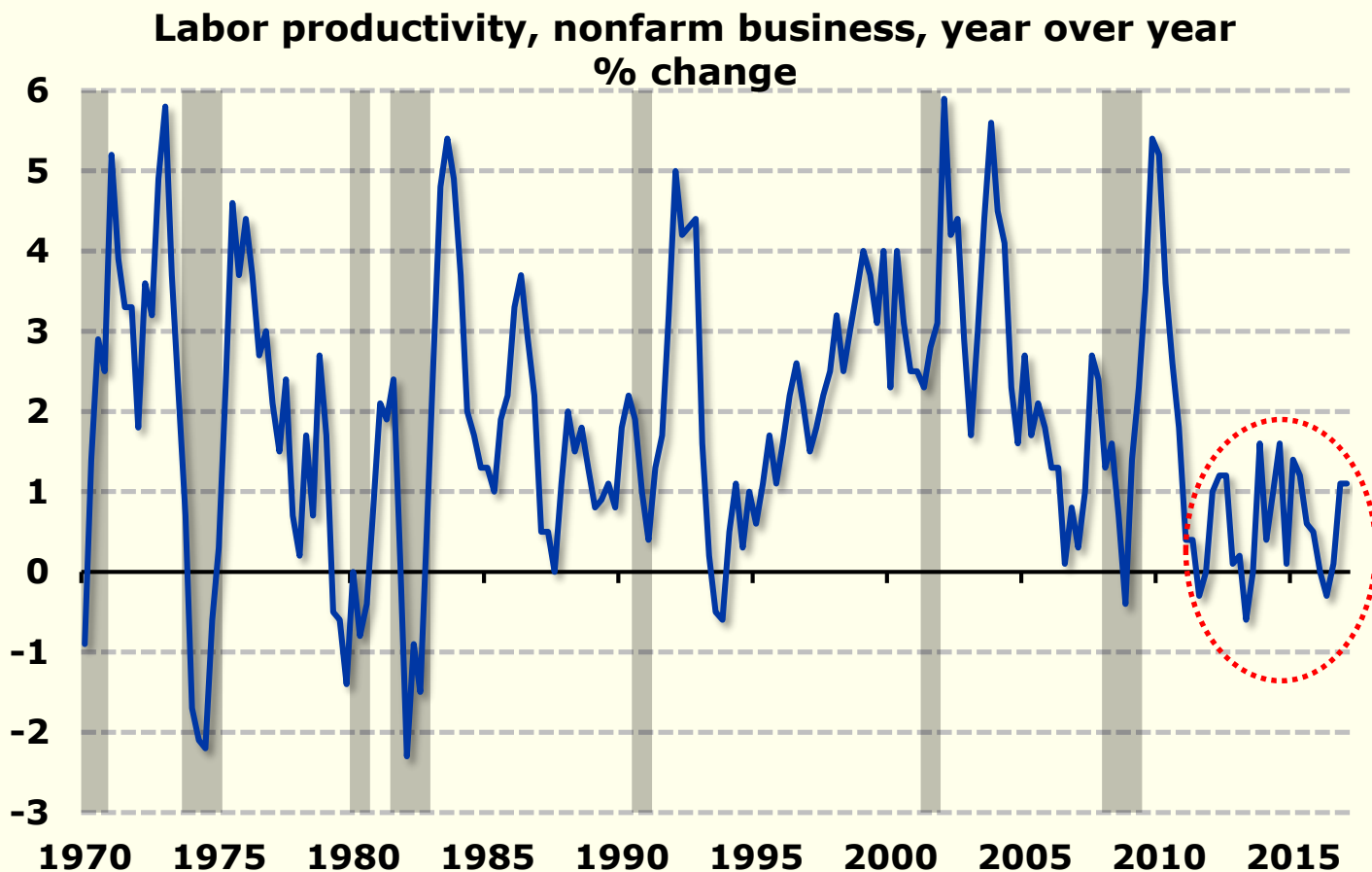
Slide 13

Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Labor productivity growth has remained low since 2011

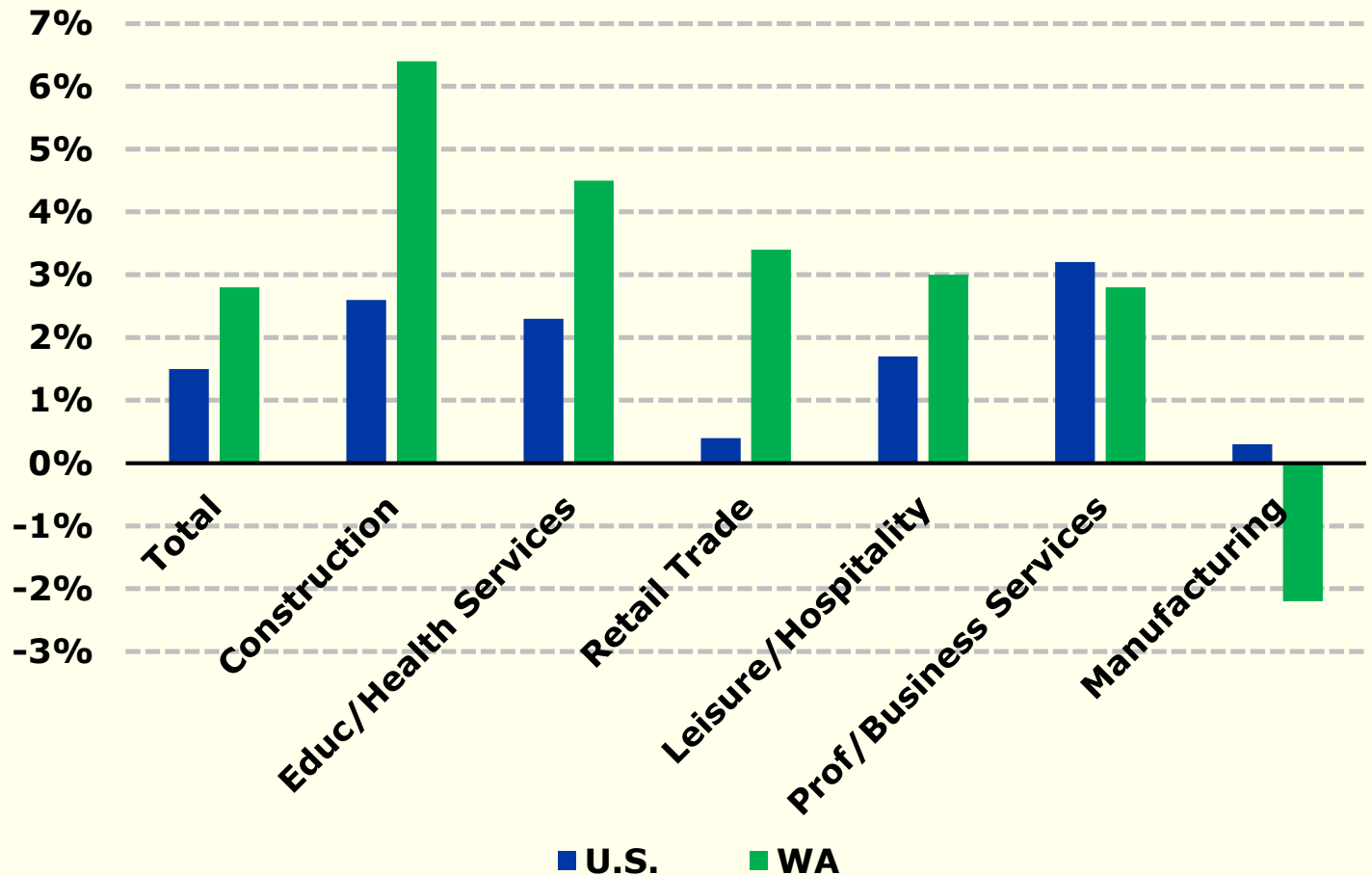


Source: U.S. Bureau of Labor Statistics, data through 2017 Q1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



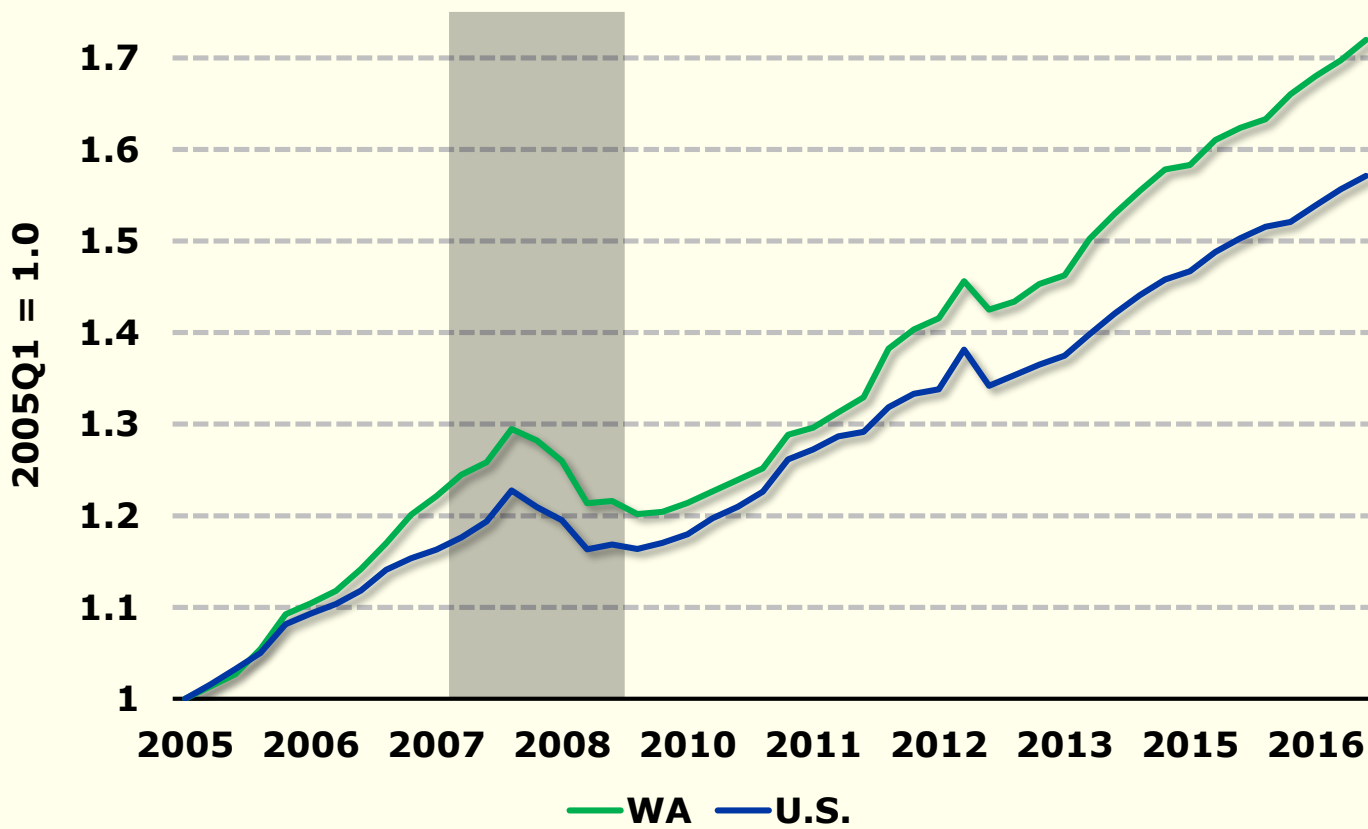
Washington vs U.S. employment growth: March 2016 to March 2017





Personal income has been growing faster in WA than for U.S. as a whole

Growth in WA, U.S. personal income since 2005Q1



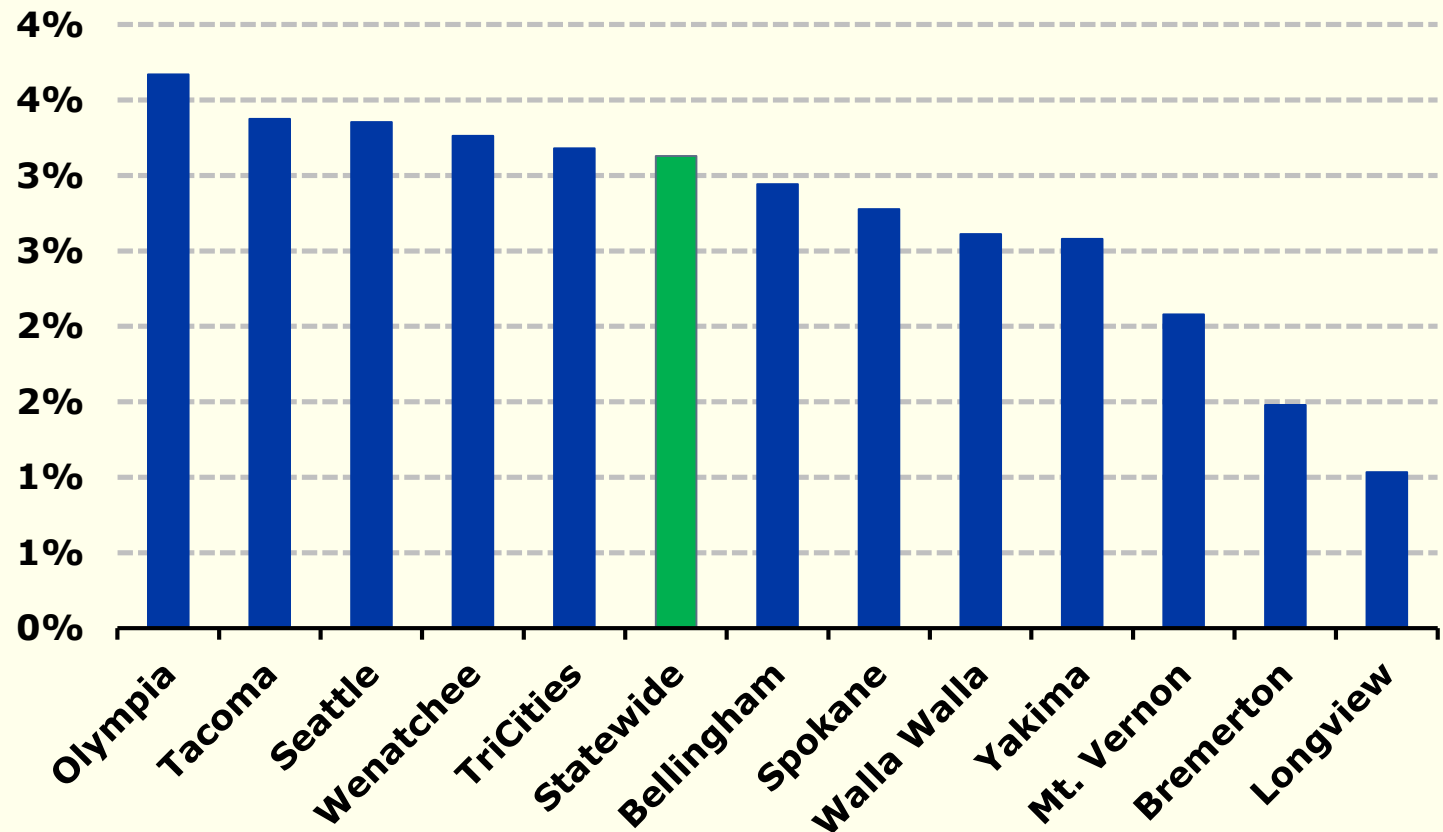
Source: U.S. Bureau of Economic Analysis, data through 2016 Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



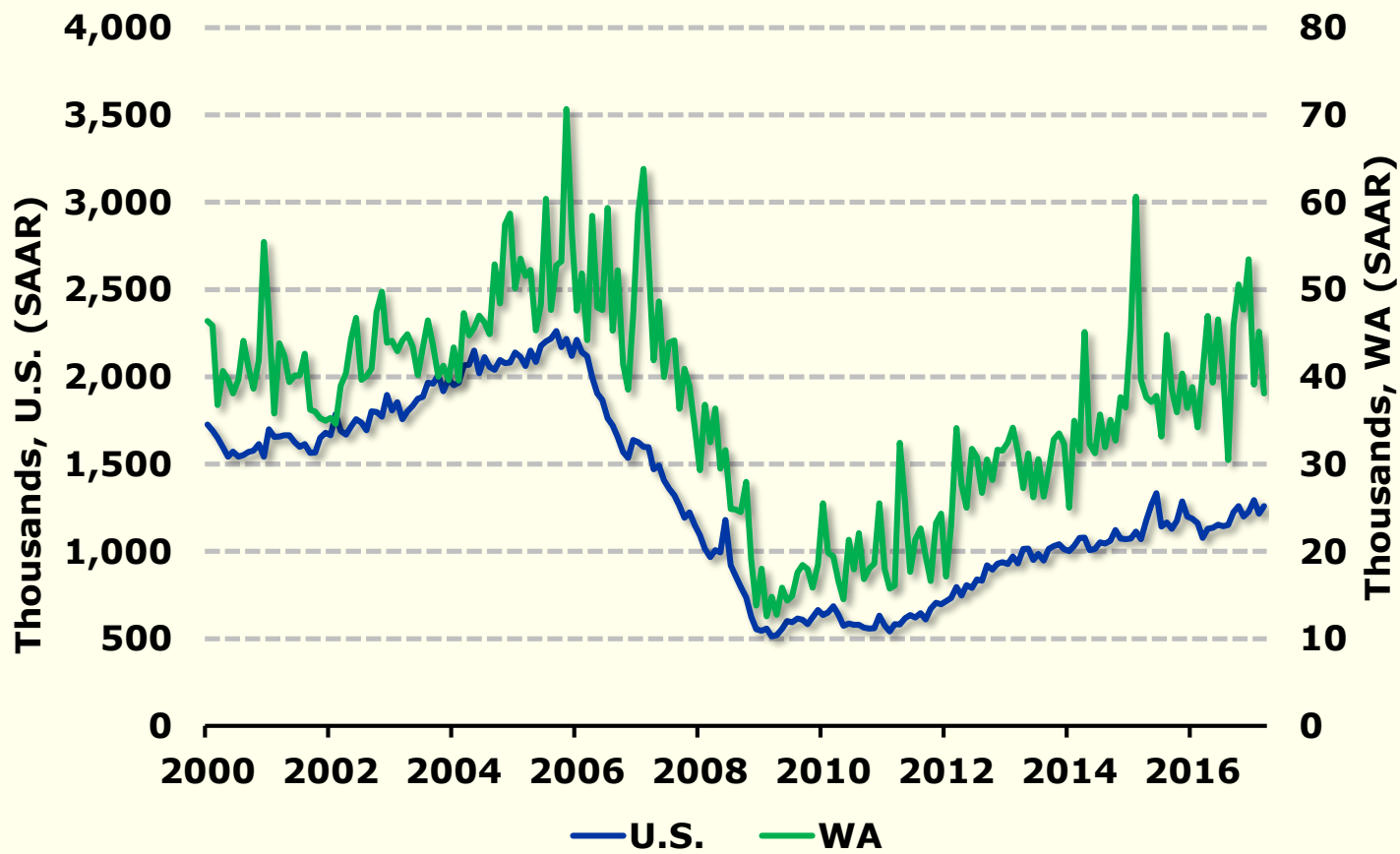
Employment growth varied widely across state metro areas

2016 employment growth by metro area





U.S., WA housing permits trending up; U.S. remains below historical averages

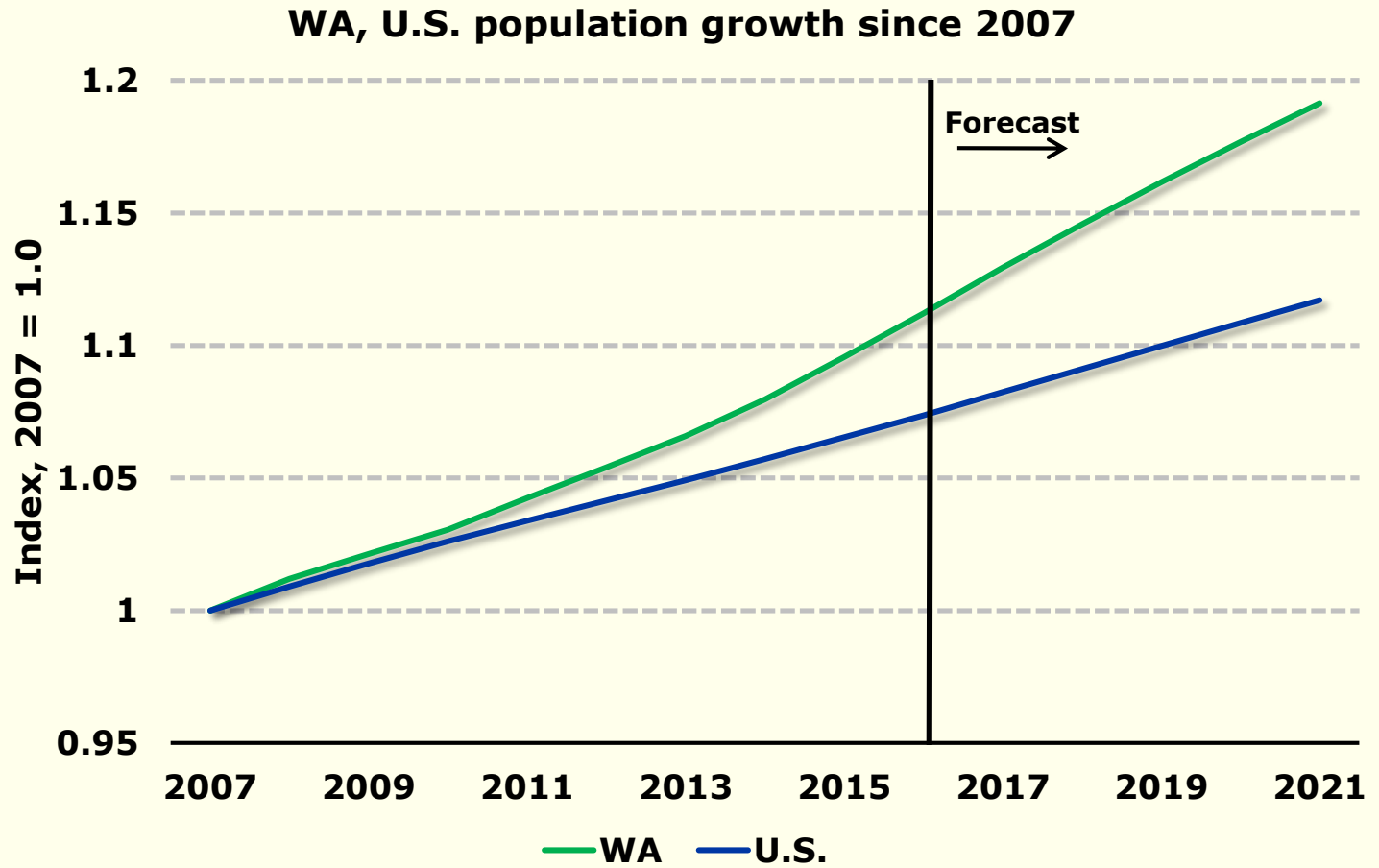


Source: U.S. Census Bureau, data through March 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

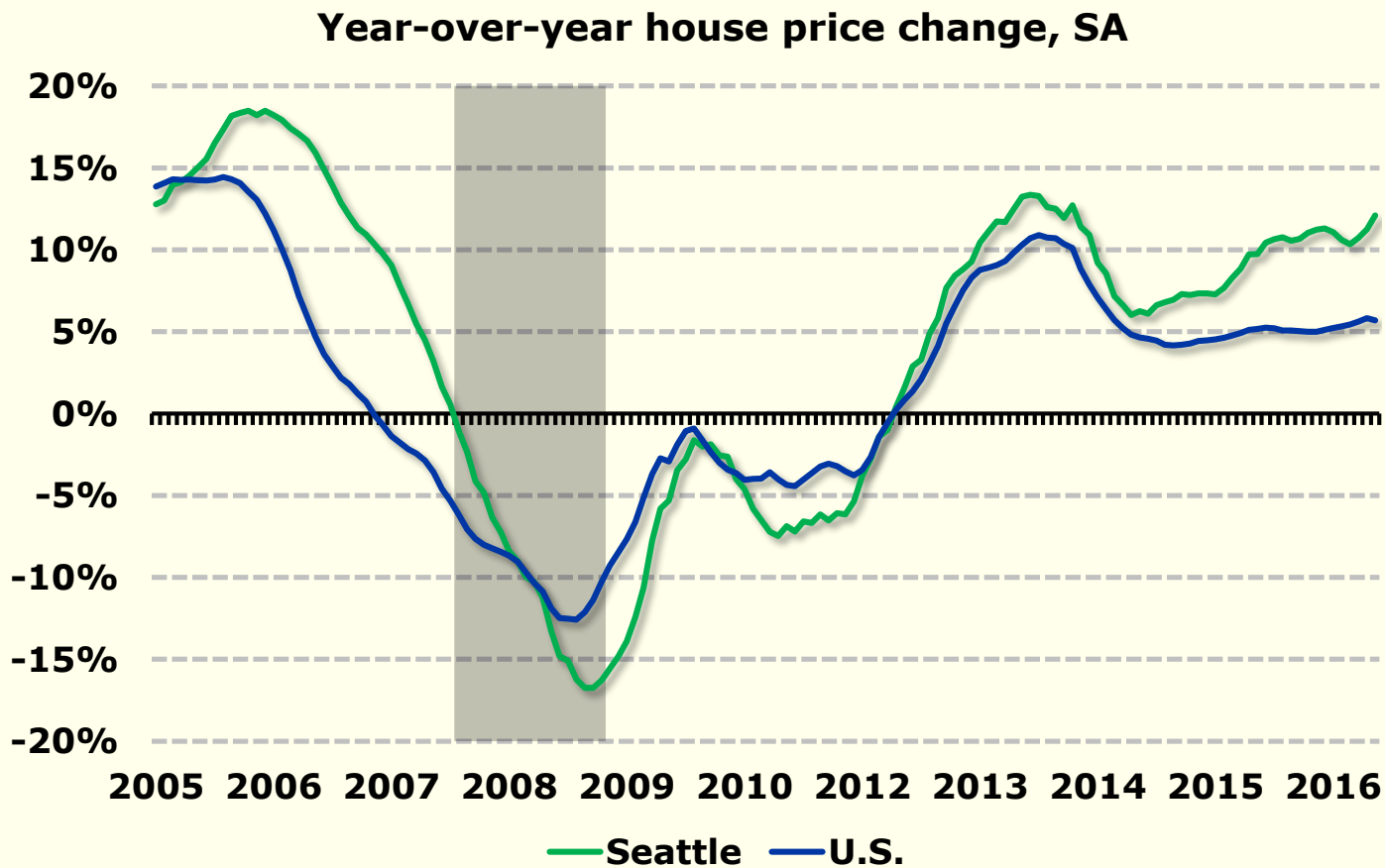


WA population growing faster than U.S. due to in-migration



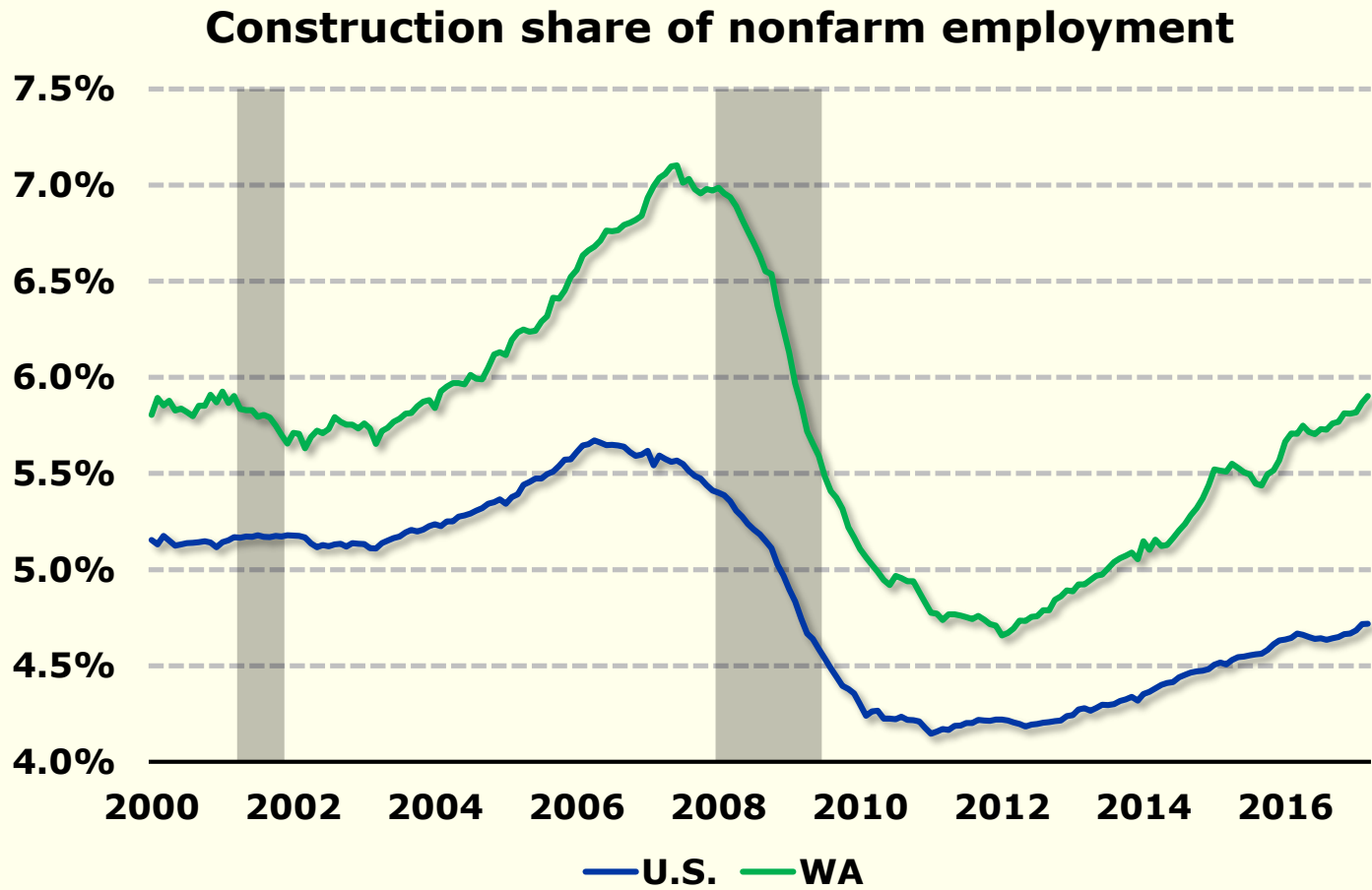


Seattle home prices have been rising much faster than prices nationally



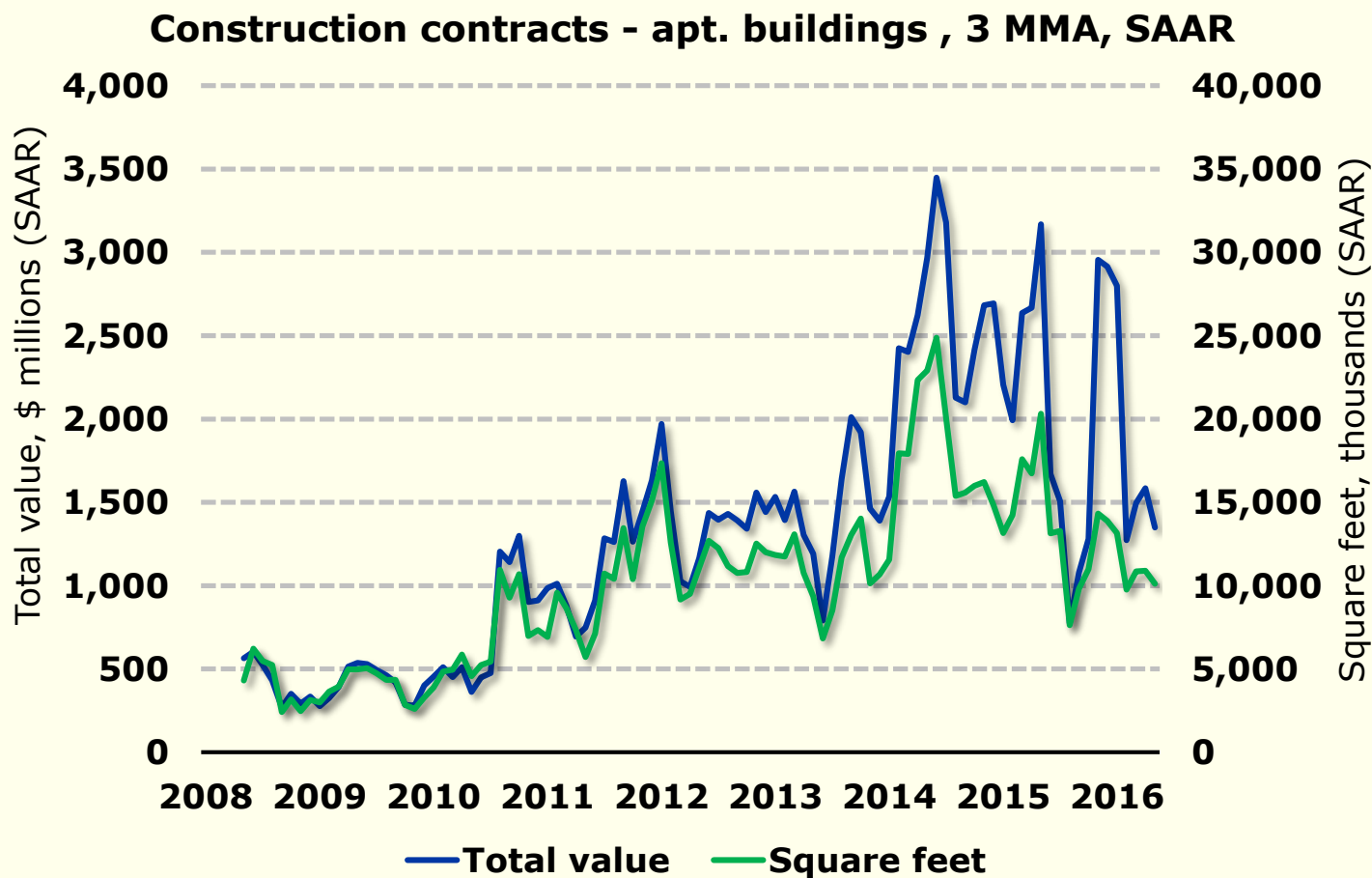


Construction accounts for a larger share of employment in WA than the U.S.





WA apartment construction activity has moderated after an unusually strong 2016 Q4



Source: Dodge, ERFC; data through Mar. 2017

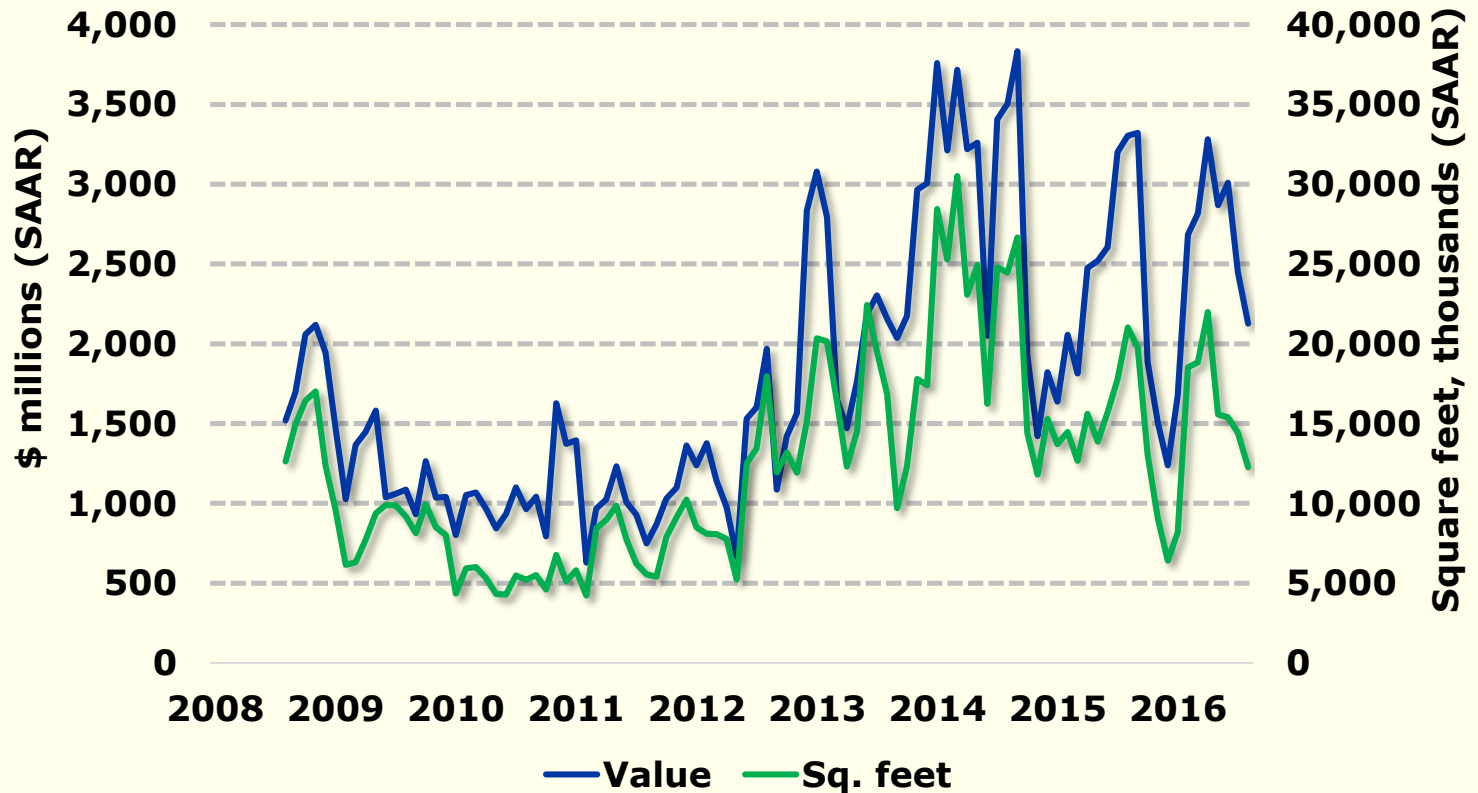
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA commercial construction activity headed up during last half of 2016, slowed in first quarter 2017

Includes office, retail, hotels, restaurants, warehouses

Construction contracts – nonresidential commercial, 3 MMA, SAAR

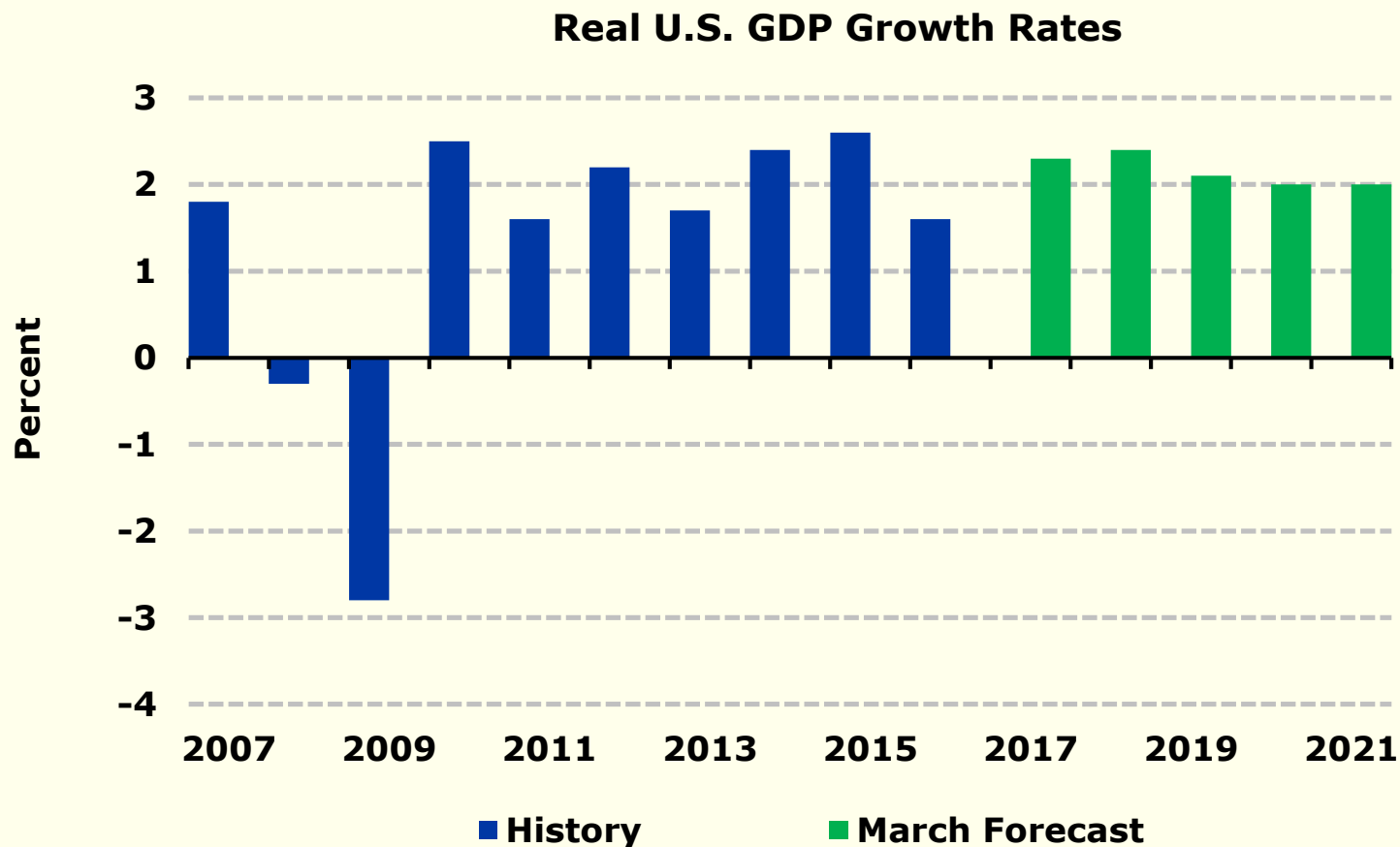


Source: Dodge, ERFC; data through Mar. 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

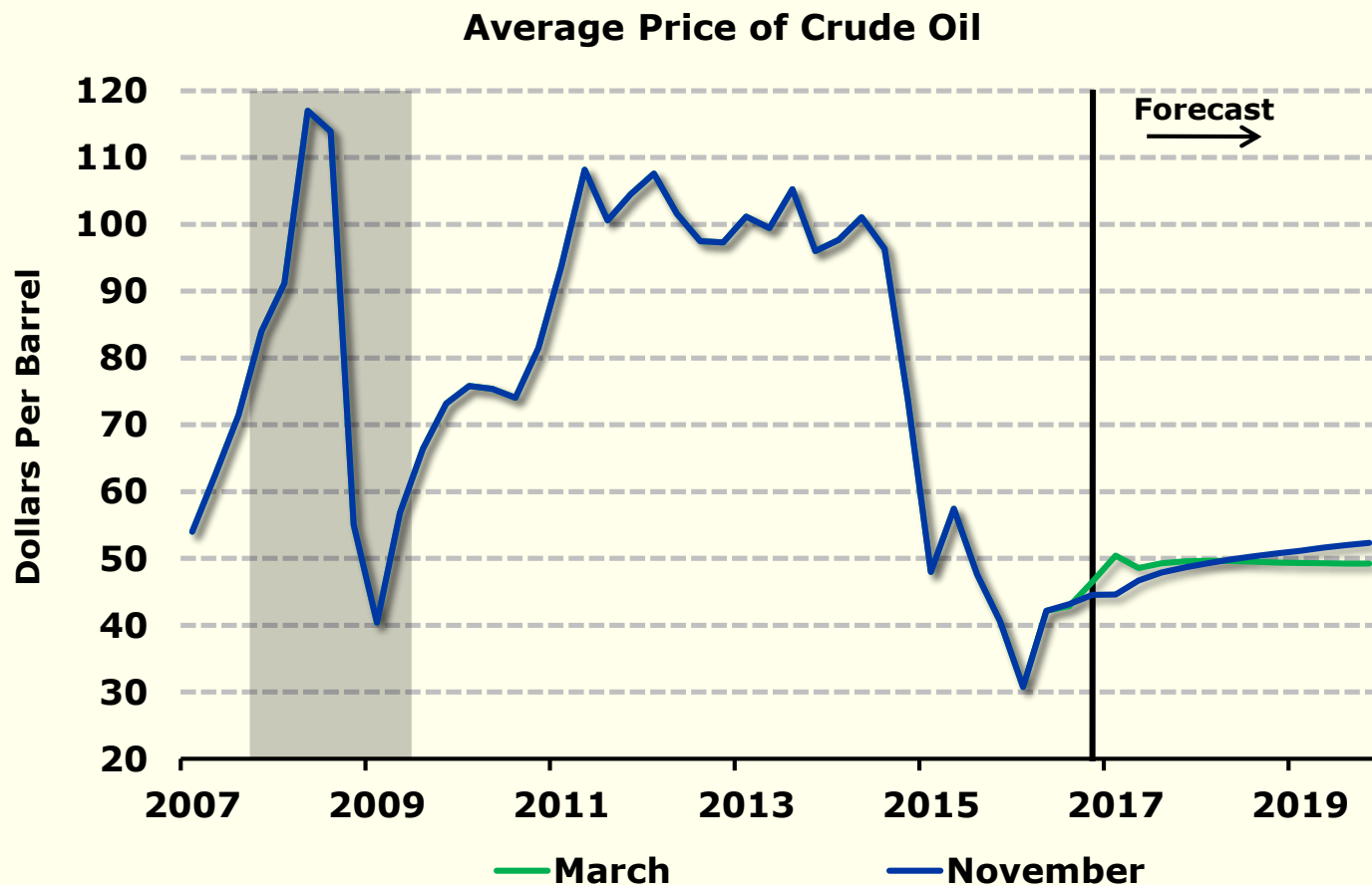


GDP growth is expected to improve from last year's 1.6% growth rate





Oil prices are slightly lower in 2018-2021 compared to November

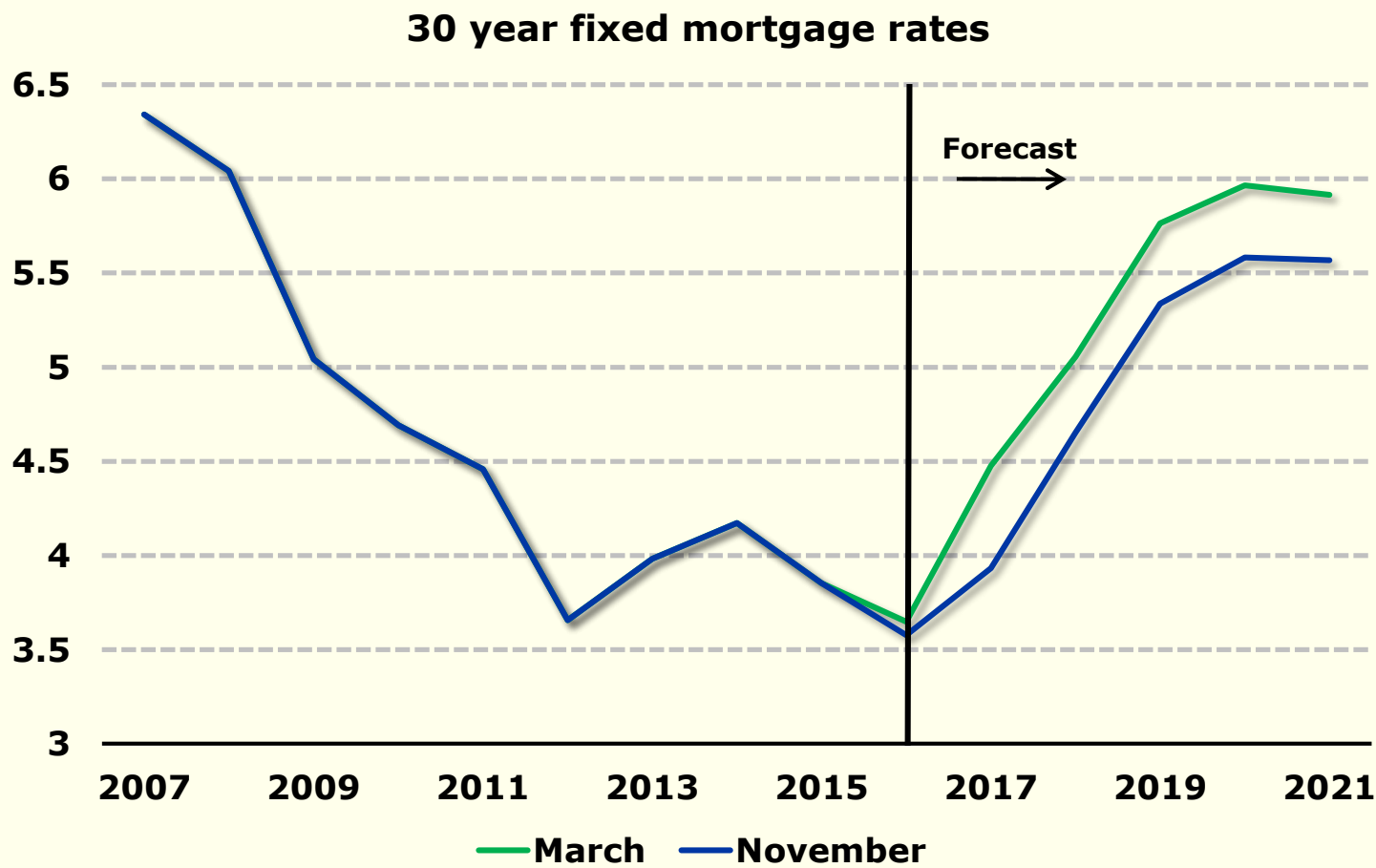


Source: DOE, ERFC March 2017 forecast; historical data through 2016Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

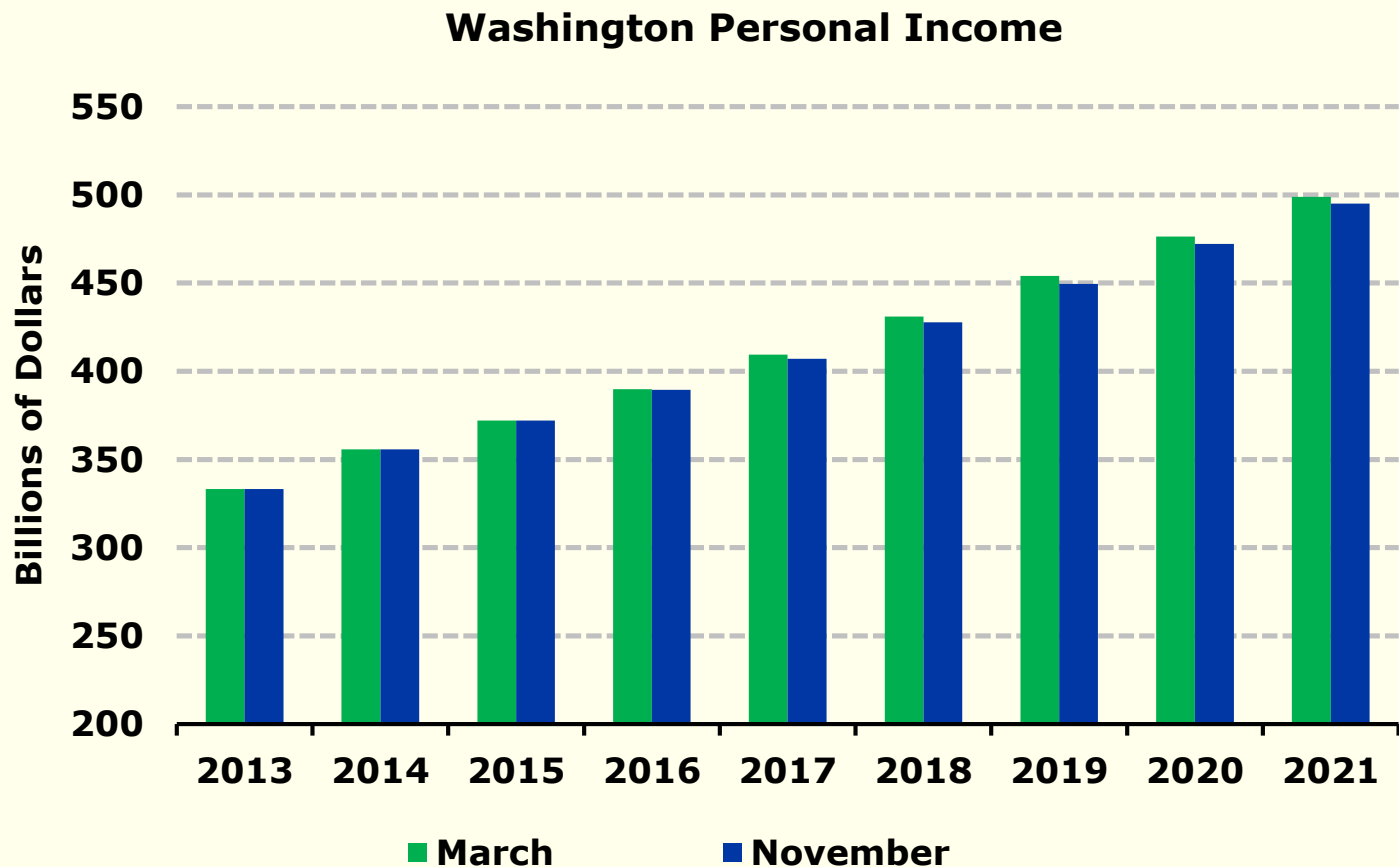


Two more Federal Reserve interest rate increases assumed for this year





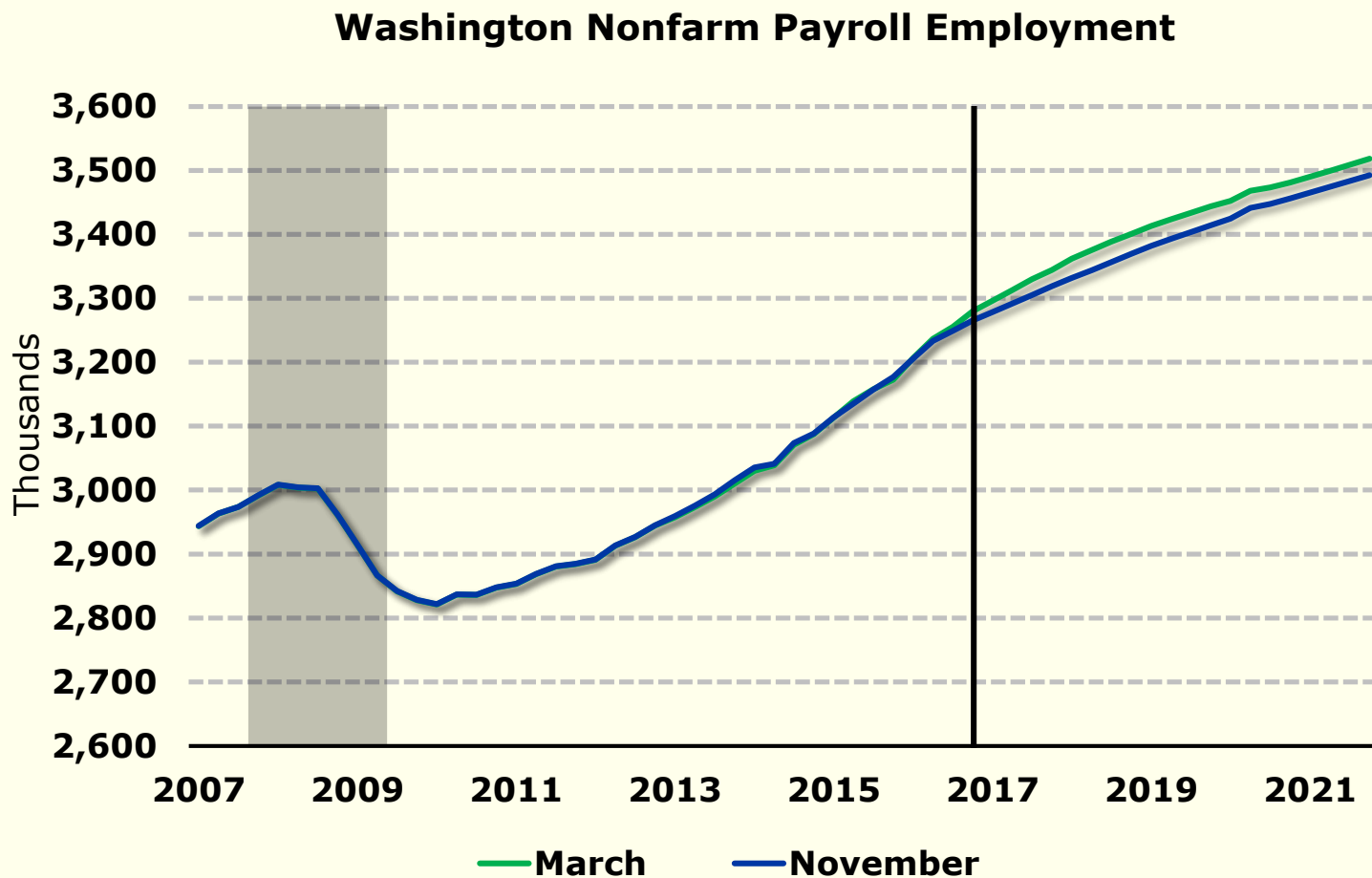
Washington personal income is slightly higher compared to the November forecast





Washington employment forecast is slightly higher than in November

The WA nonfarm employment forecast is 26,000 jobs higher by 2021 compared to November



Source: ERFC March 2017 forecast; historical data through 2016

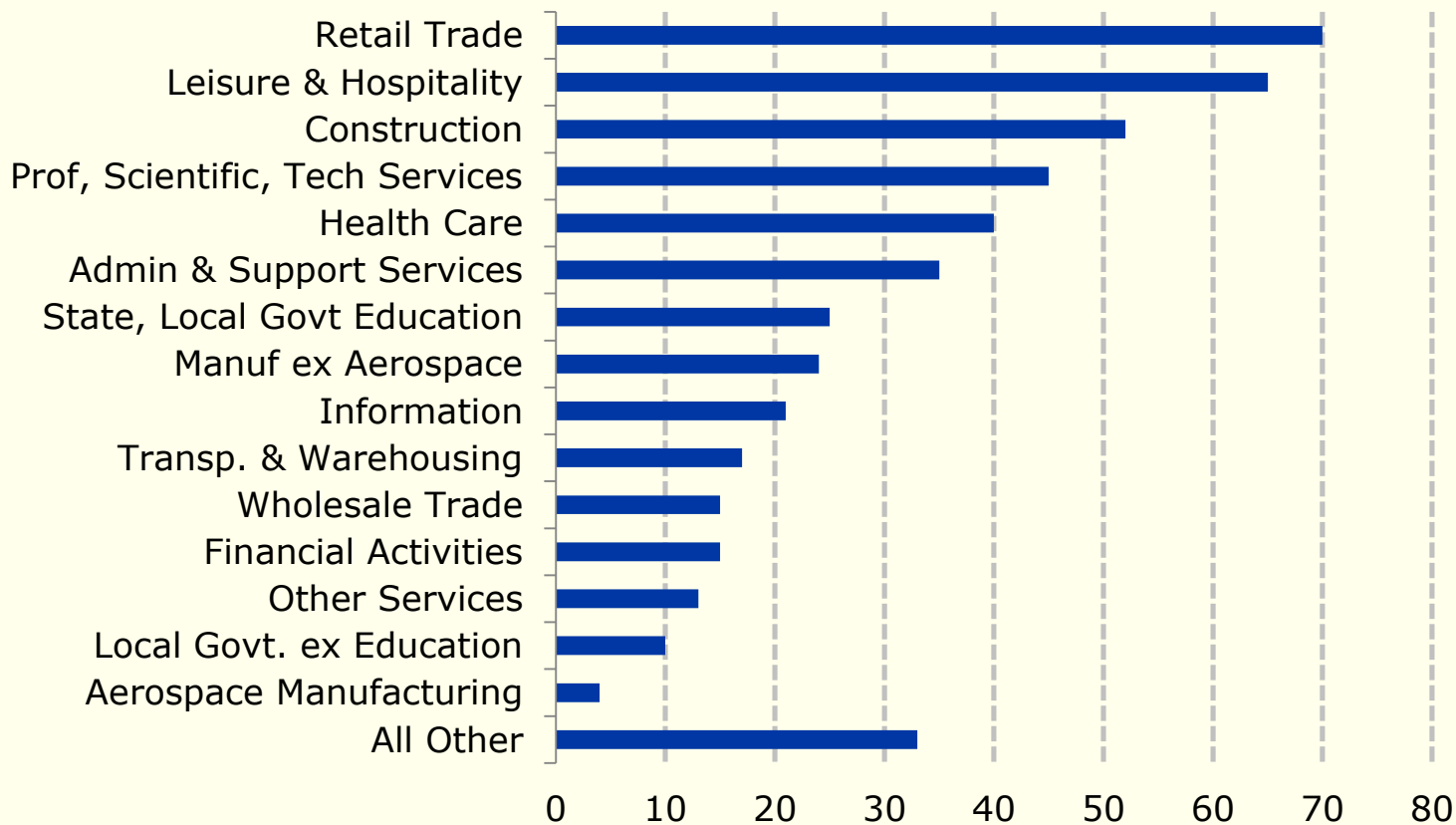
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington Employment Trends

Washington has gained 484,000 nonfarm jobs since February 2010

Employment Change since Trough (thousands)



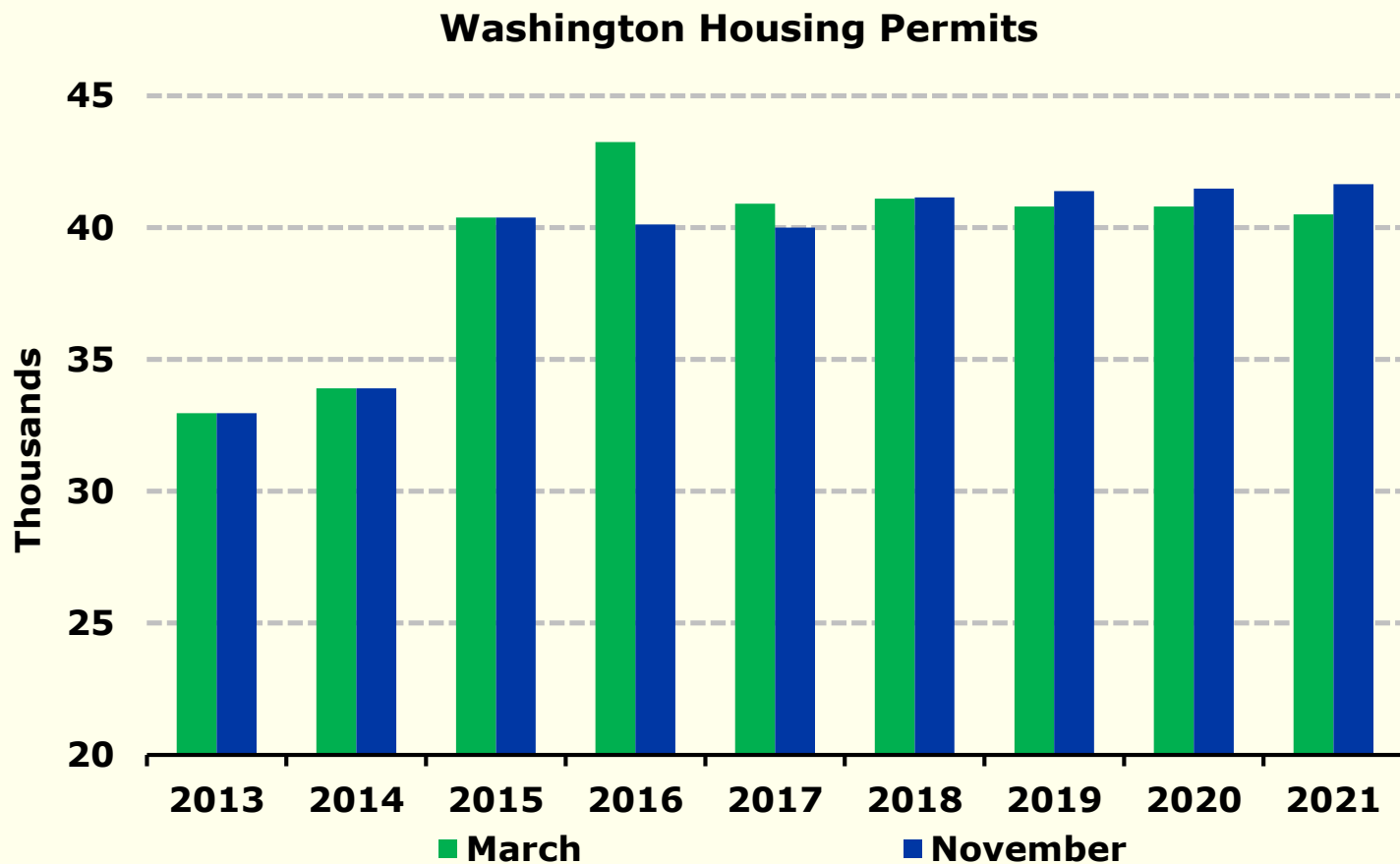
Source: U.S. Dept. of Labor, BLS, ESD, ERFC; data through March 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington housing permits forecast is higher in the near term compared to November

Fourth quarter 2016 saw a spike in multi-family building permits which is expected to moderate

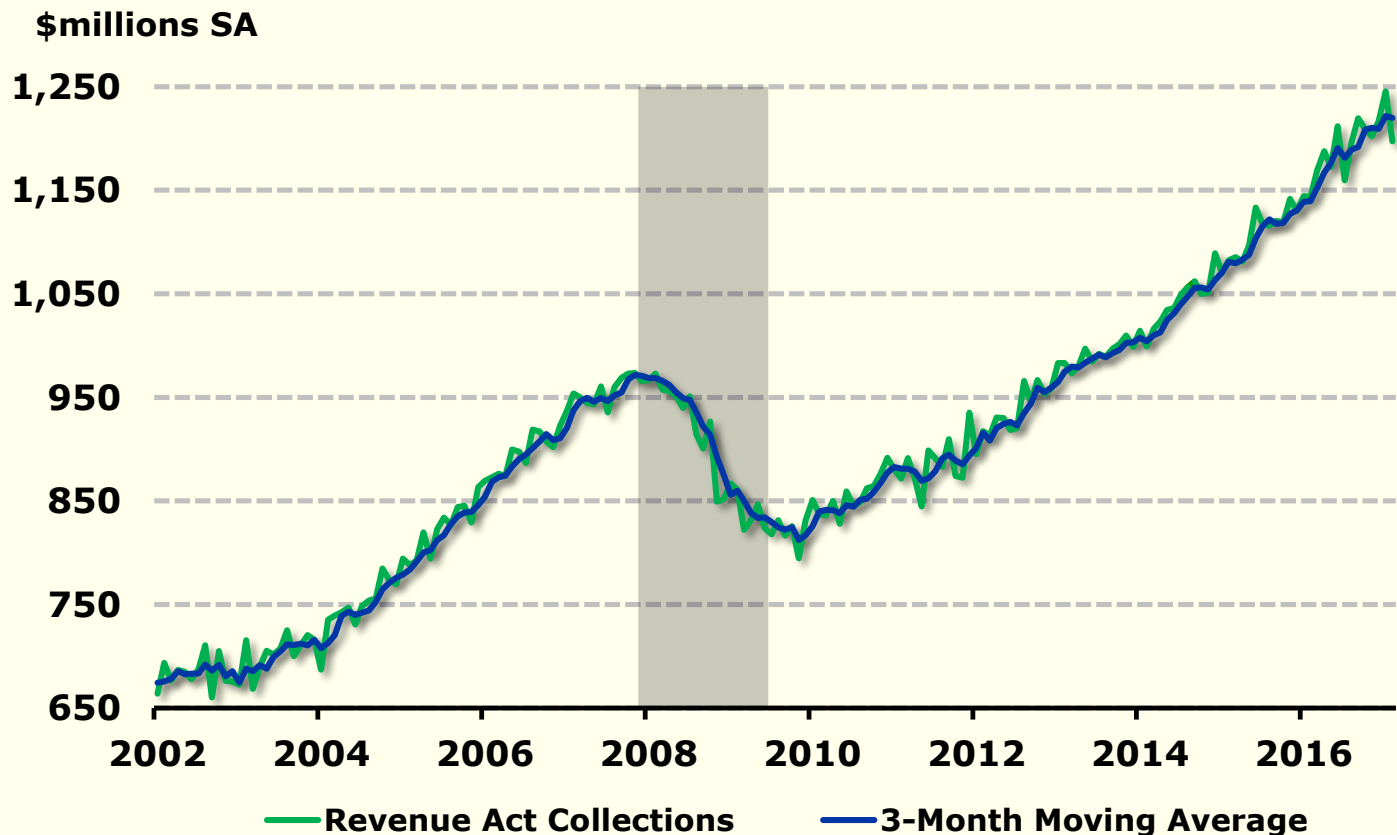


Source: ERFC March 2017 forecast; historical data through 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue Act collections for January activity were strong, slowed in February



Economic & Revenue Update

May 9, 2017

Slide 31

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

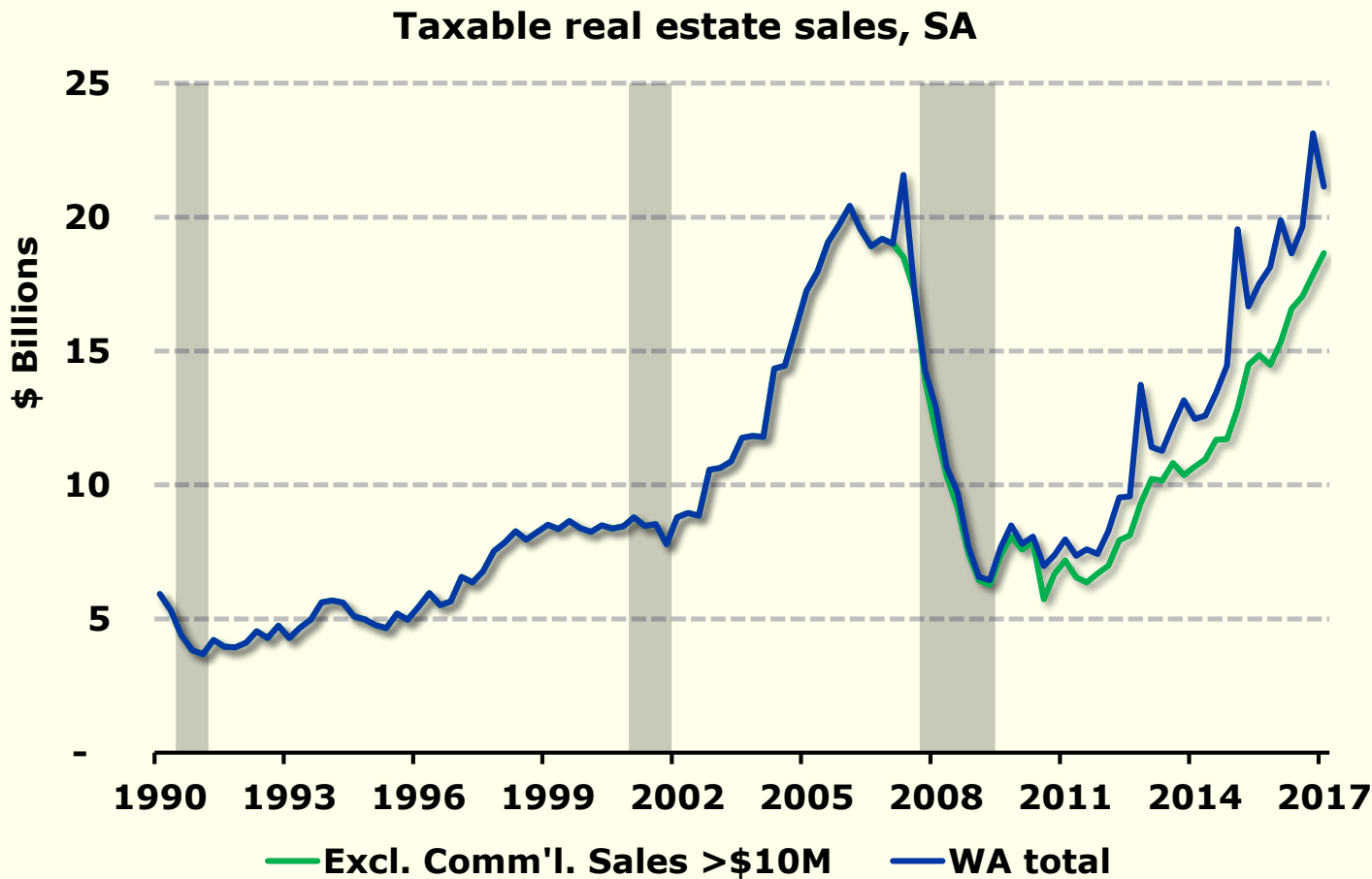
Source: DOR and ERFC; monthly data through estimated February 2017 activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Large commercial property sales continue to have major impact on REET collections

Large commercial property sales over \$10 million totaled \$601 billion in February and \$655 million in March.

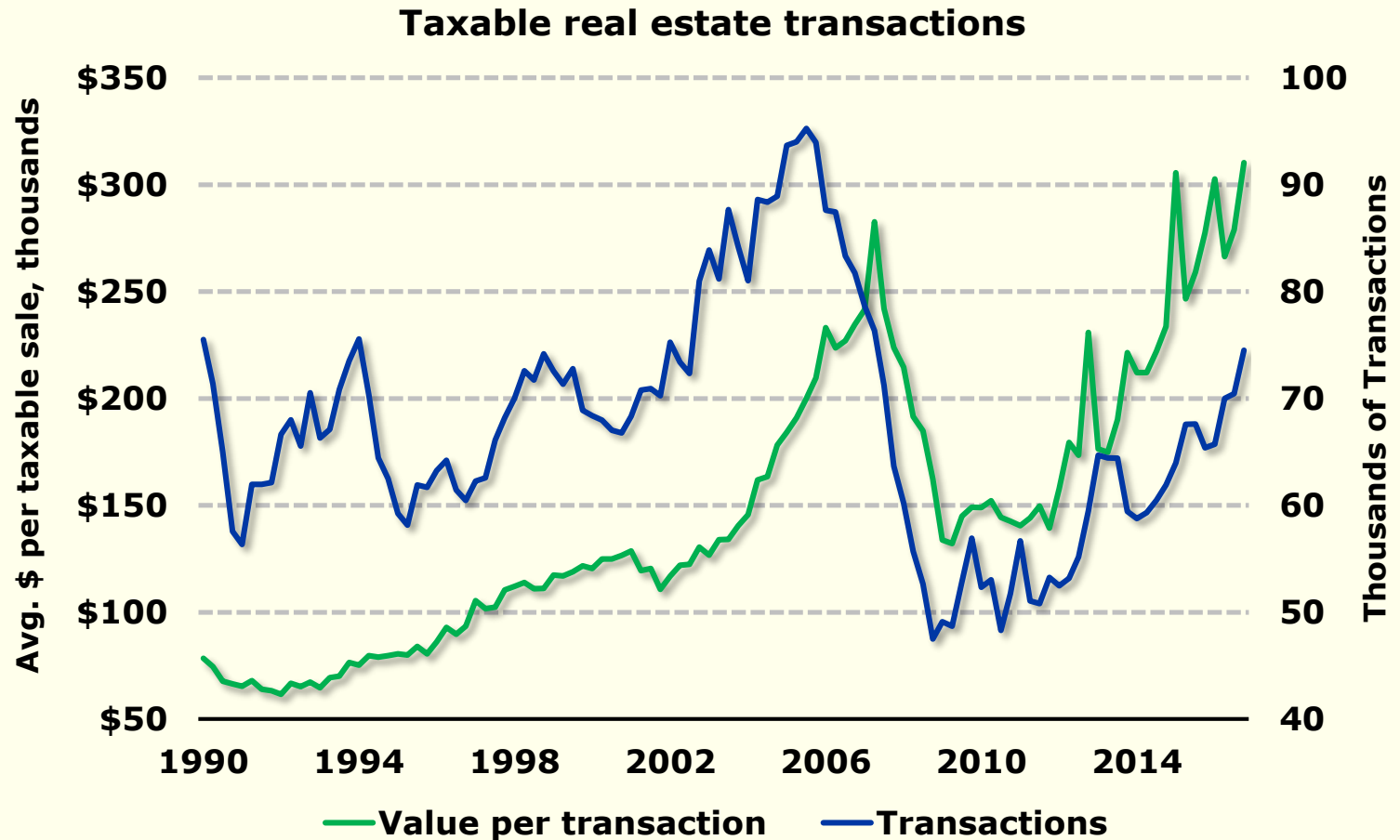


Source: ERFC, data through 2017 Q1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Both the number of real estate transactions and the average value per transaction are trending up



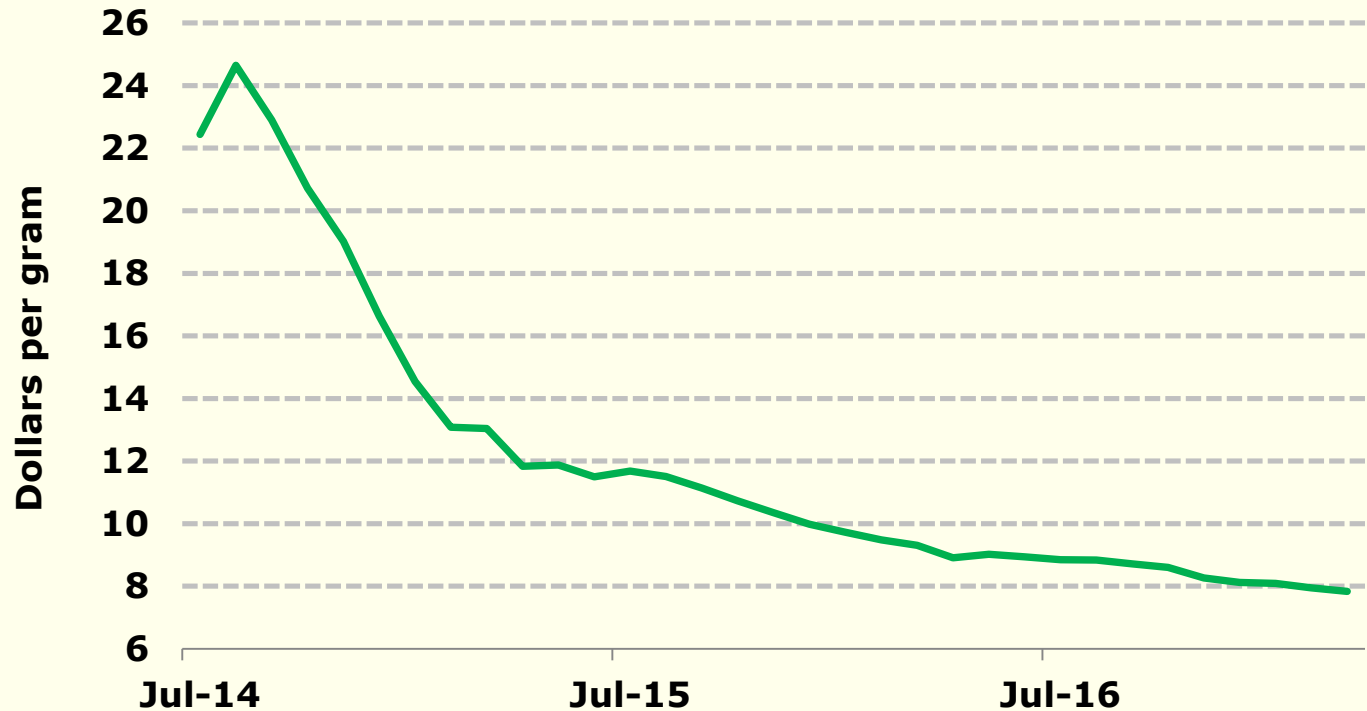
Source: ERFC, data through 2016 Q4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The price of cannabis has continued to fall

Retail Price (includes 37% excise tax)

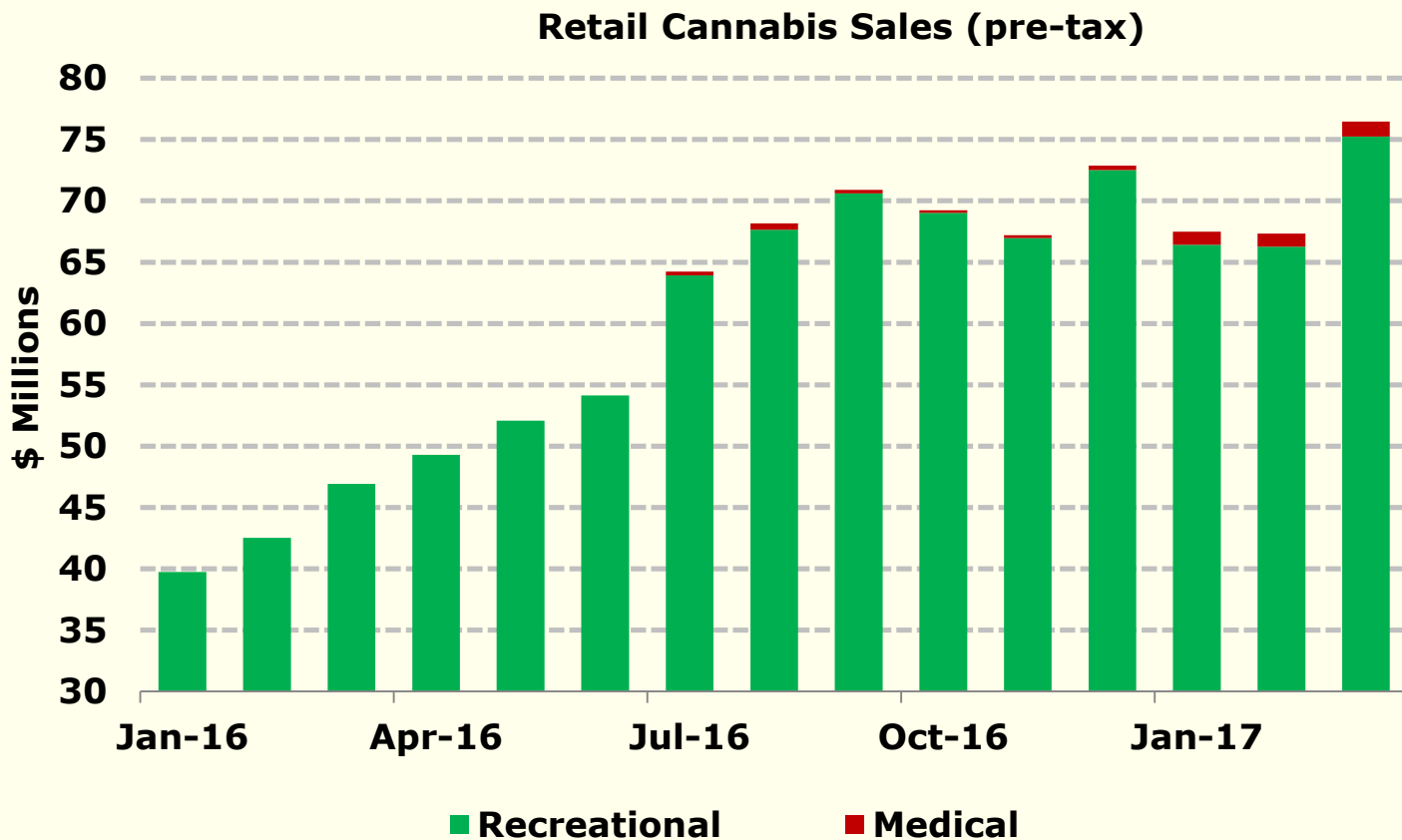


Source: LCB, ERFC; data through March 2017

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Cannabis sales jumped in March





Conclusion

- WA personal income and employment forecasts are slightly higher than in November; WA and U.S. housing are lower
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Operating budget revenues are expected to grow 13.5% between the 2013-15 and 2015-17 biennia and 6.8% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



**Economic & Revenue Forecast Council
PO BOX 40912
Olympia WA 98504-0912**

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

Economic & Revenue
Update

May 9, 2017

Slide 37