

Economic and Revenue Outlook

Presented to
Washington Citizens' Commission on Salaries
for Elected Officials

Steve Lerch
Executive Director

May 17, 2017
Seatac, Washington



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

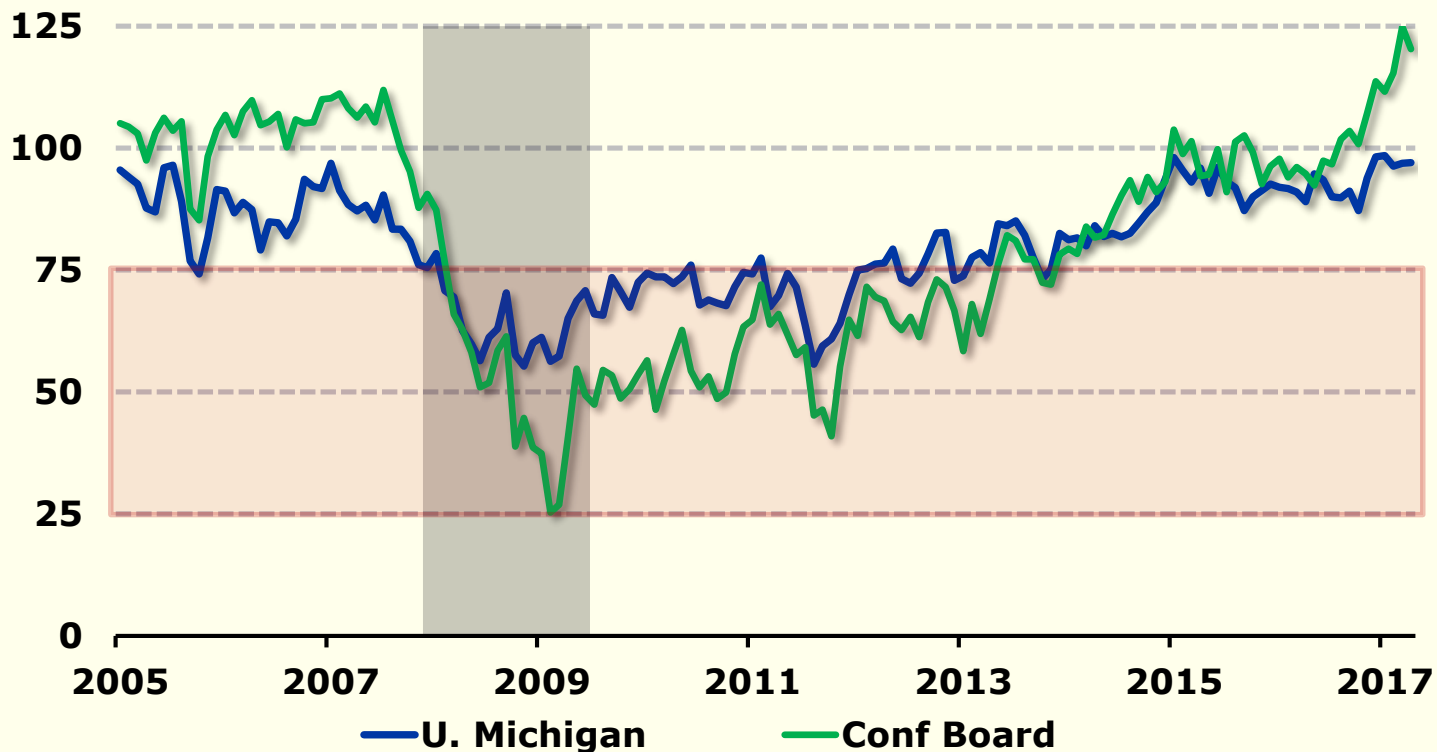


Consumer confidence is at or above pre-recession levels

Index

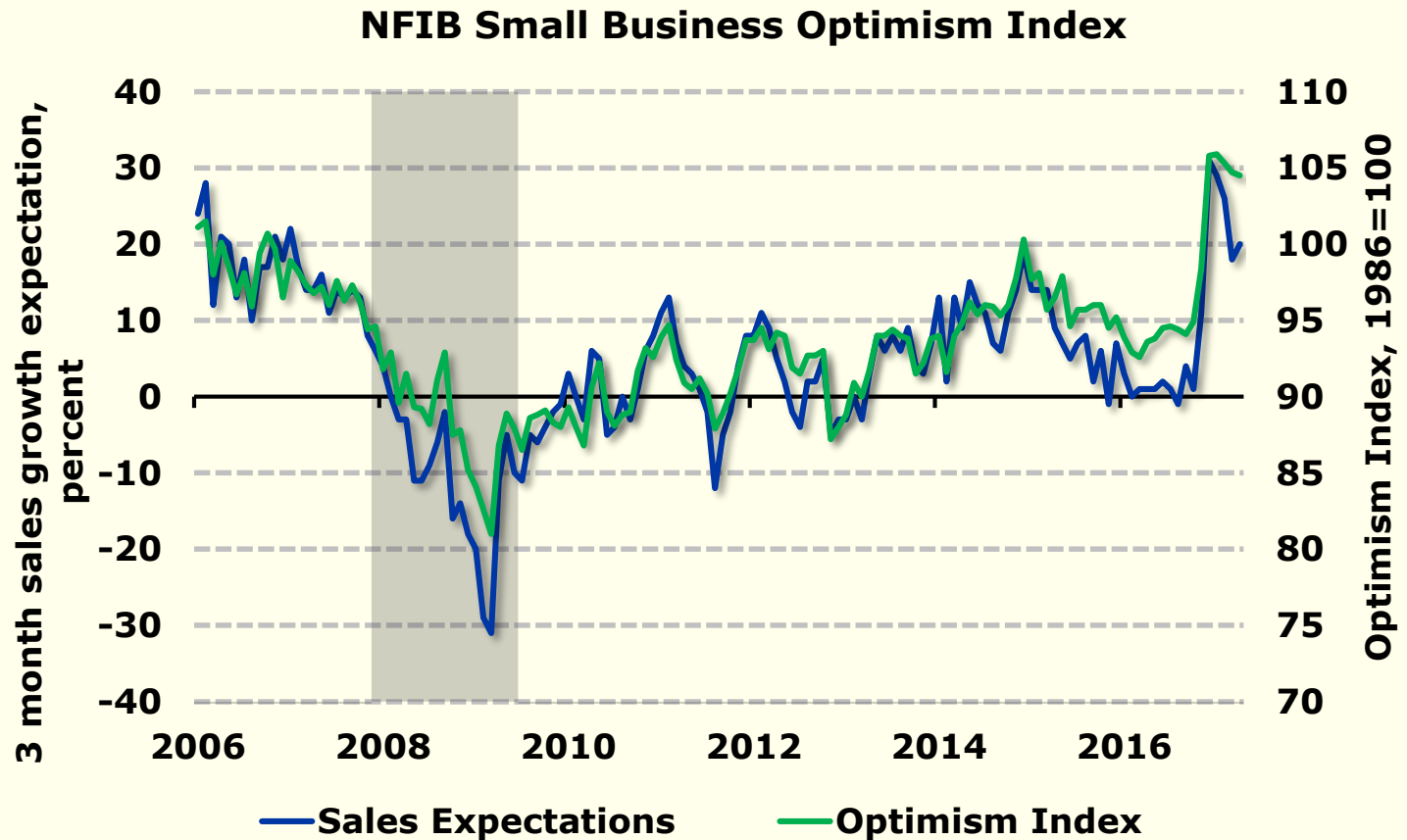
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



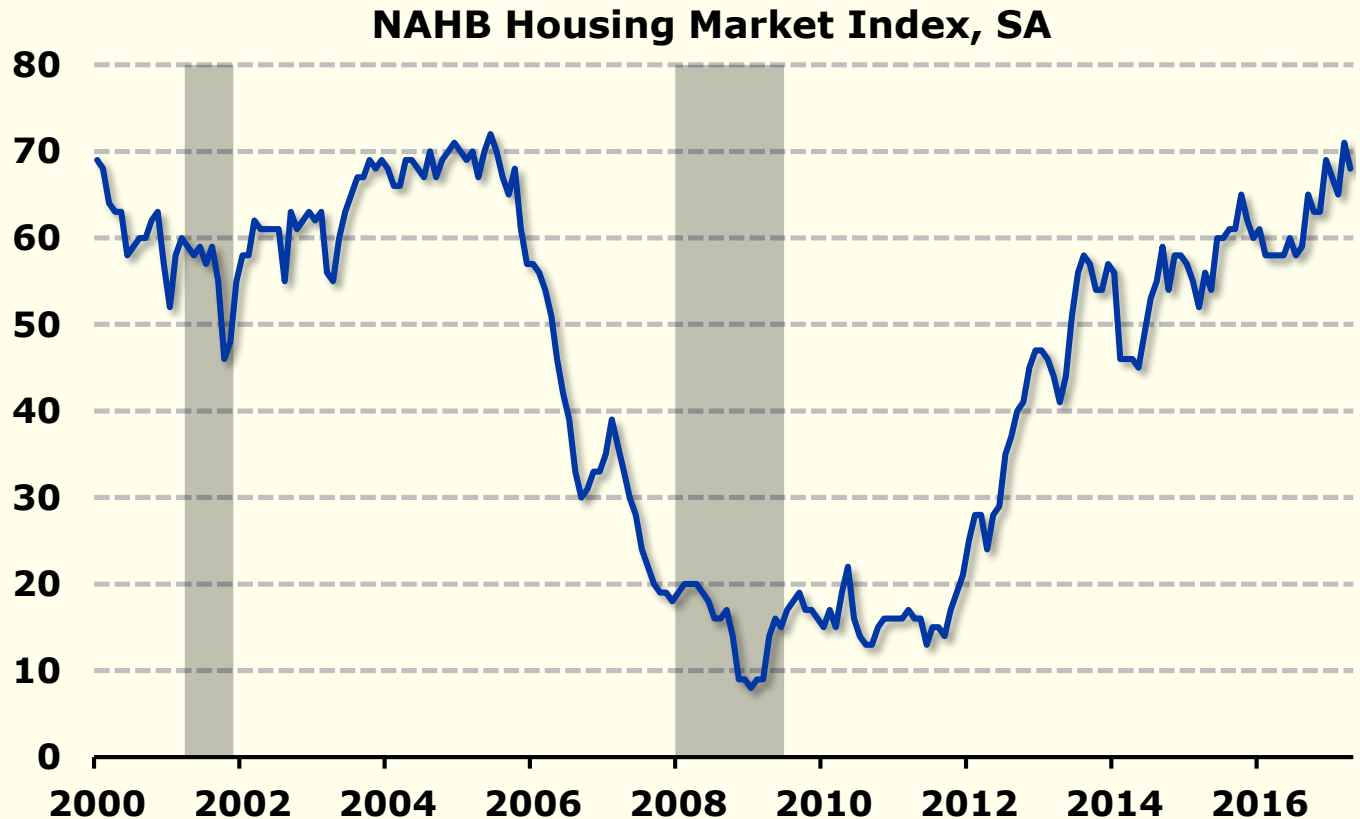


Small business optimism and sales expectations jumped in December, remains elevated





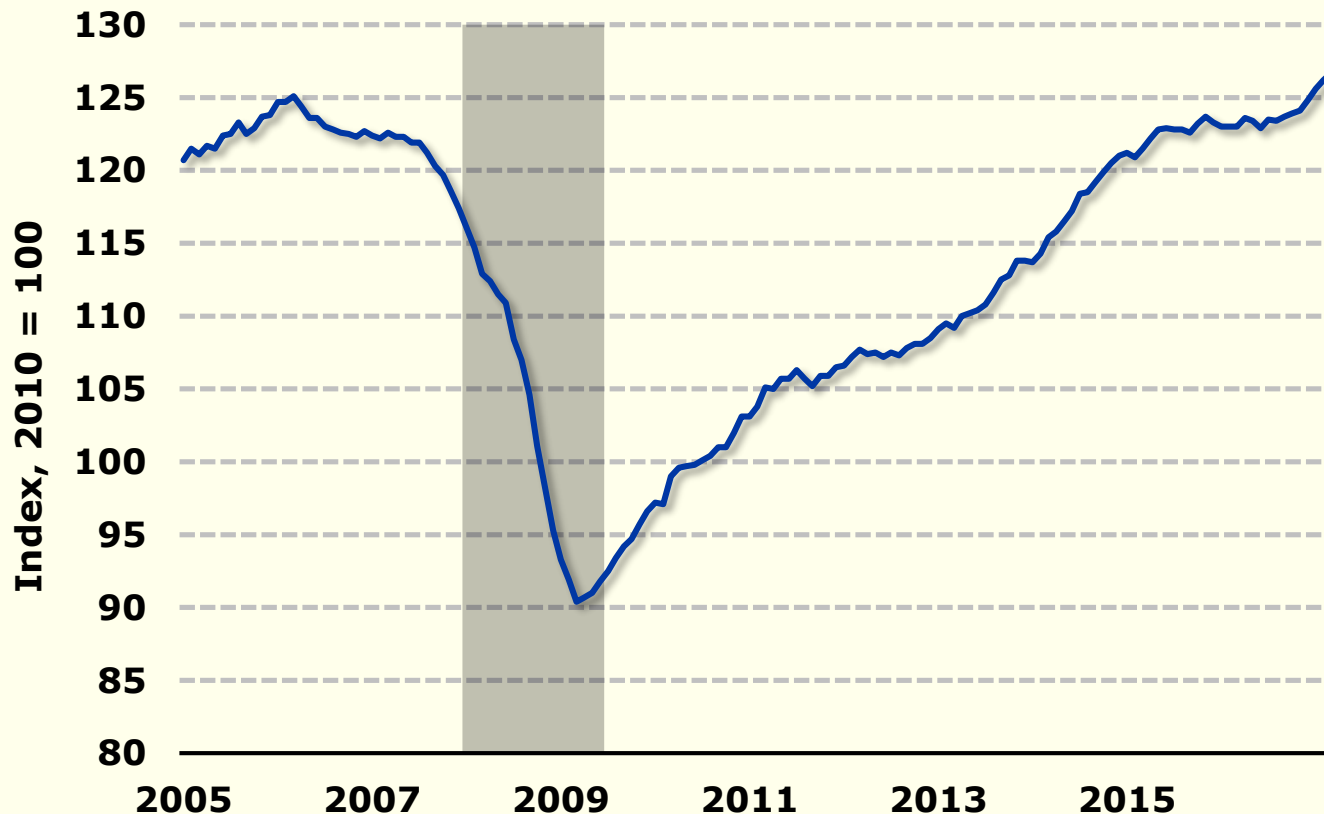
Homebuilder confidence has largely recovered since the recession





U.S. Leading Economic Index continues to trend up

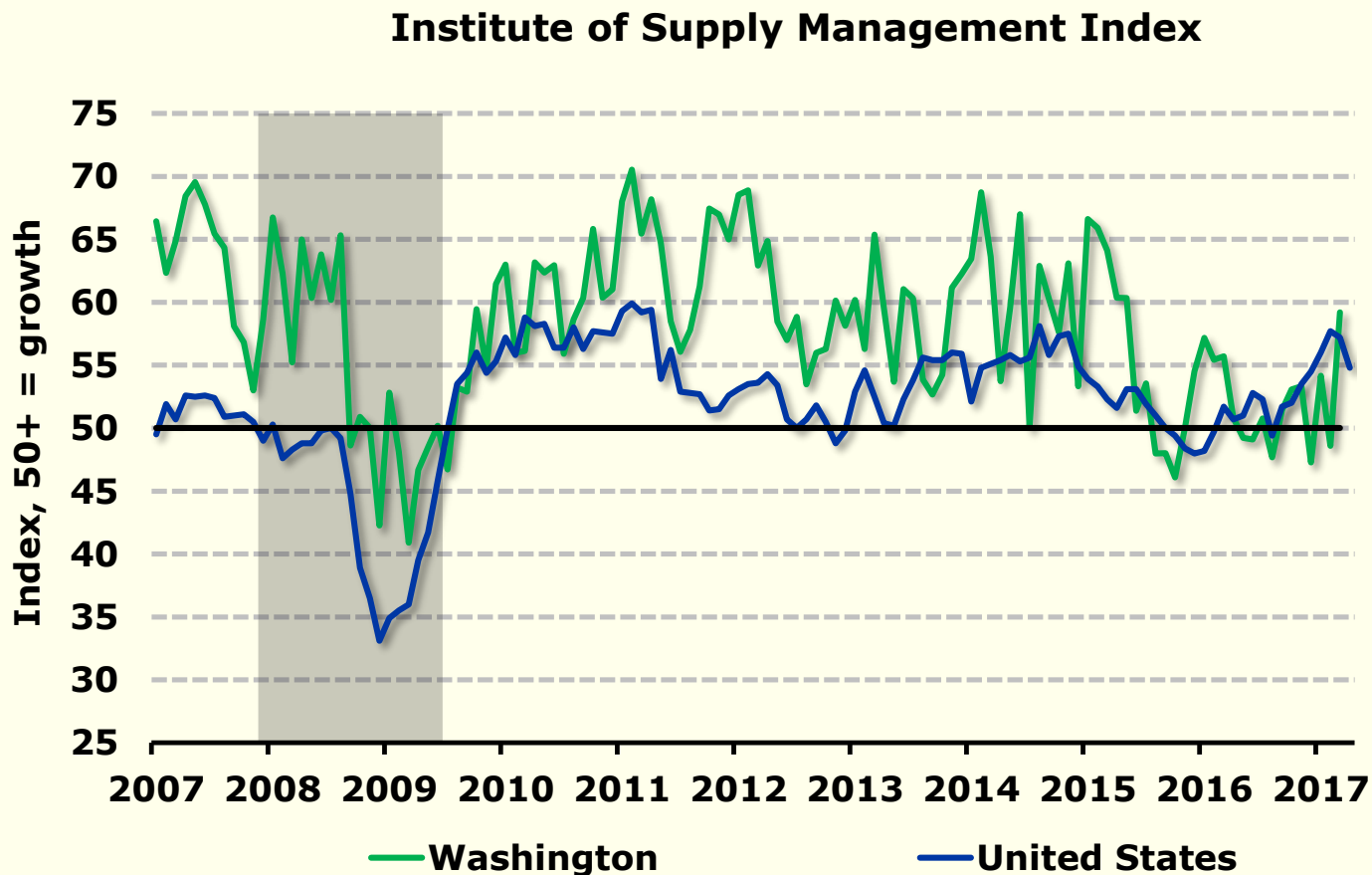
The LEI is an index of economic indicators that tend to indicate the direction of economic growth



Source: Conference Board, data through March 2017

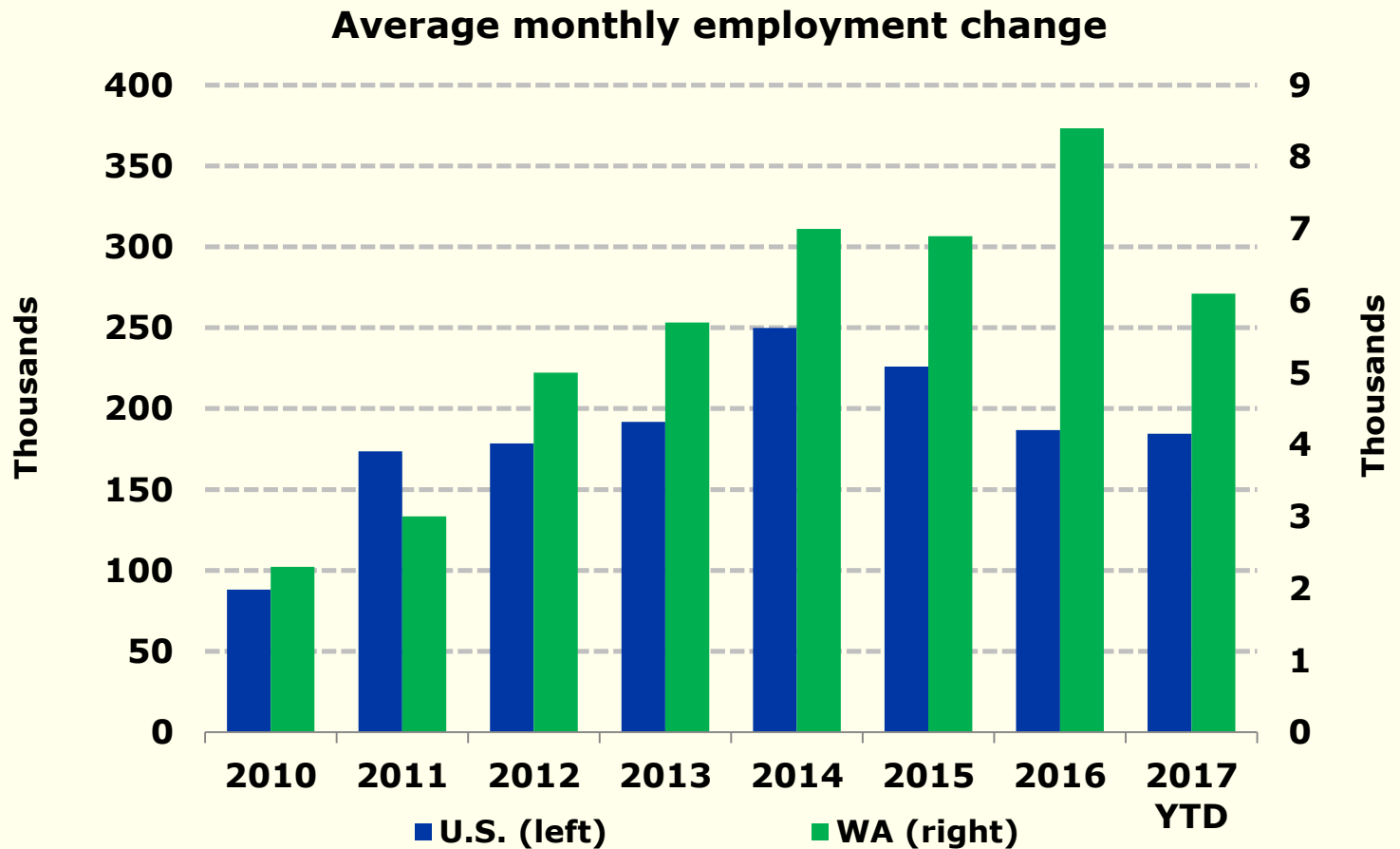


Manufacturing: expanding in Washington and nationally in March and April





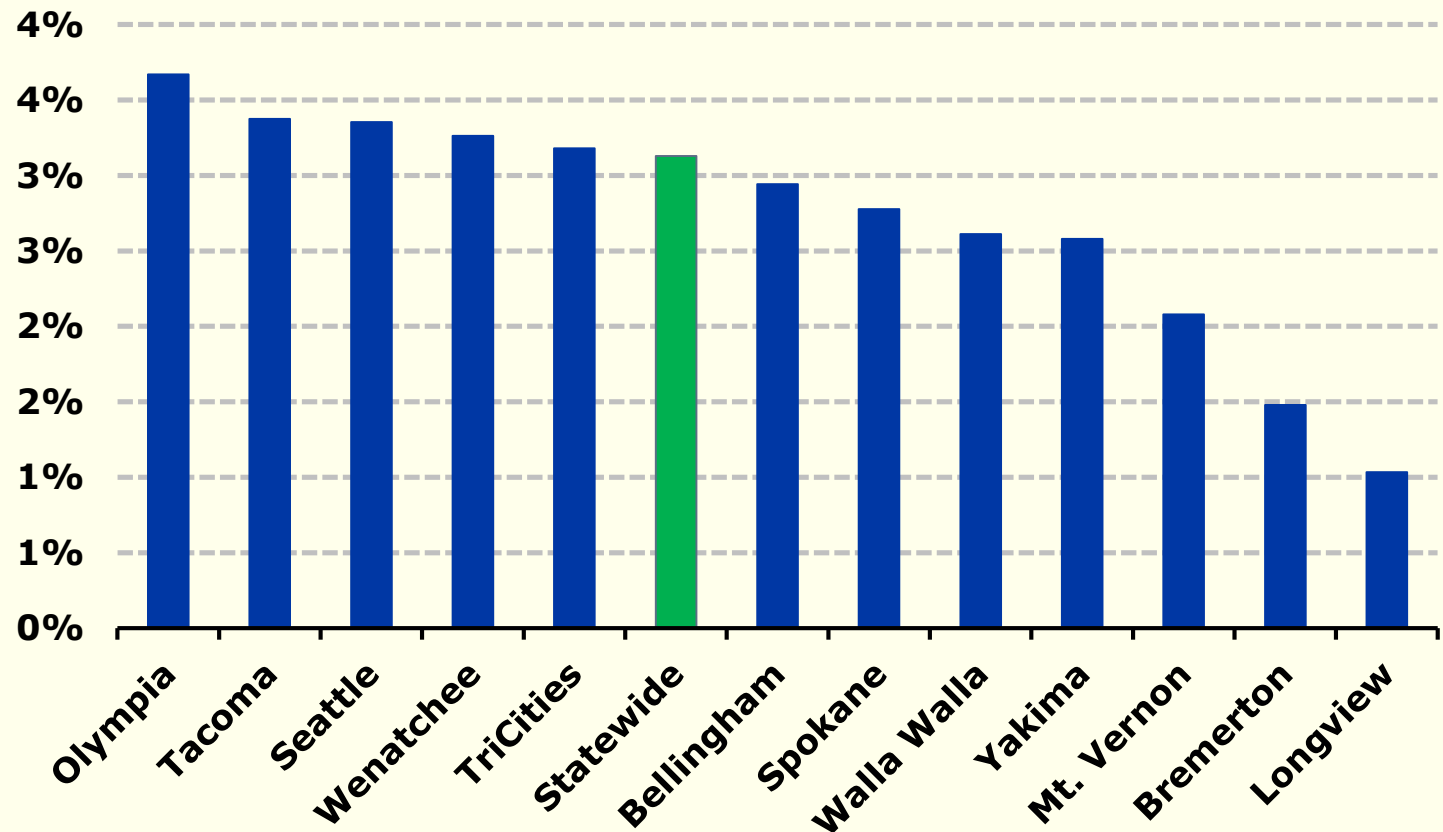
WA job creation very strong in 2016; for U.S., slightly weaker than 2015





Employment growth varied widely across state metro areas

2016 employment growth by metro area





Since 2011, WA weekly wages have generally grown at or above the national growth rate



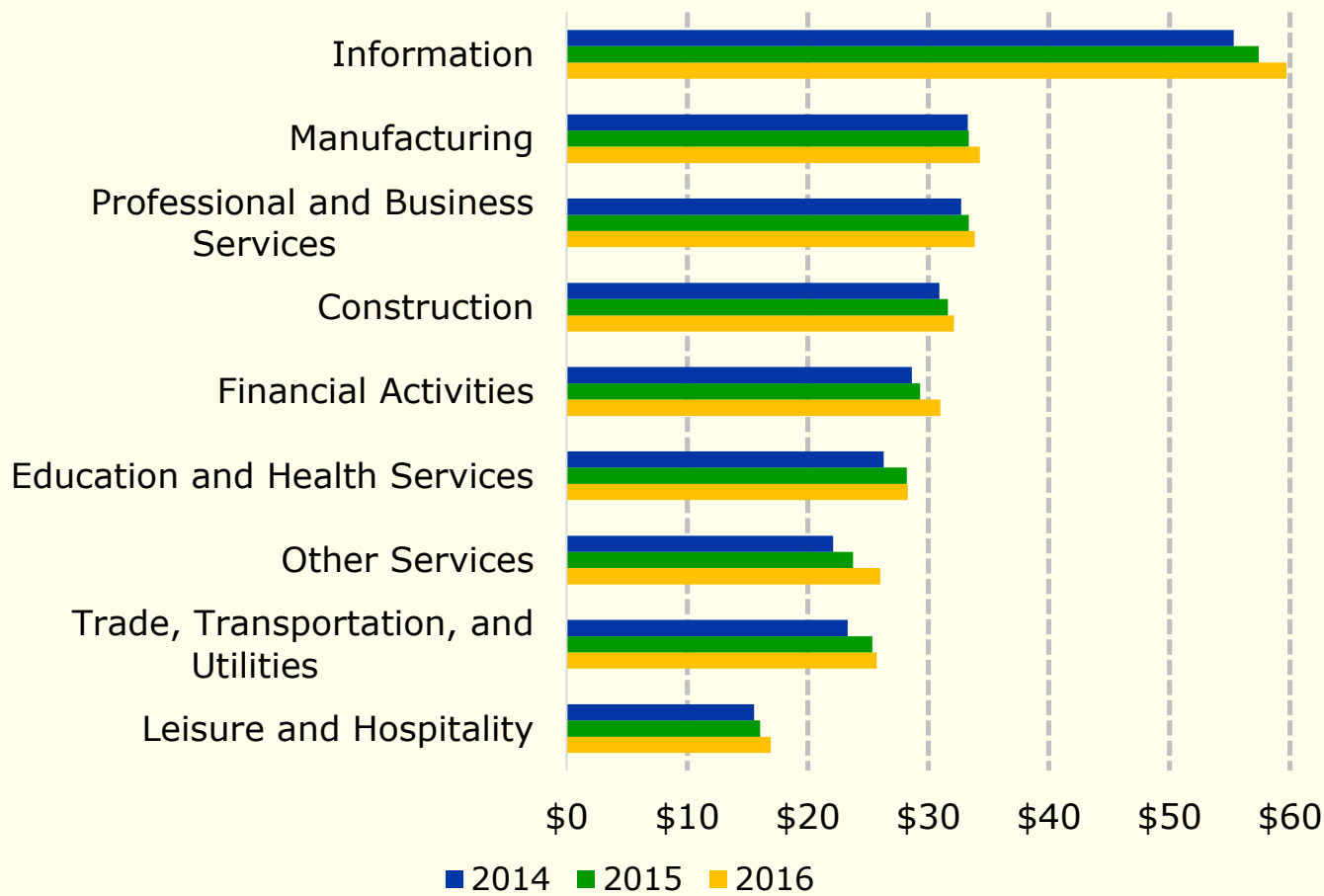


WA average hourly wages by sector, 2014 - 2016

2016 average full-time annual wages:

Leisure & hospitality: \$35,221

Information: \$124,190

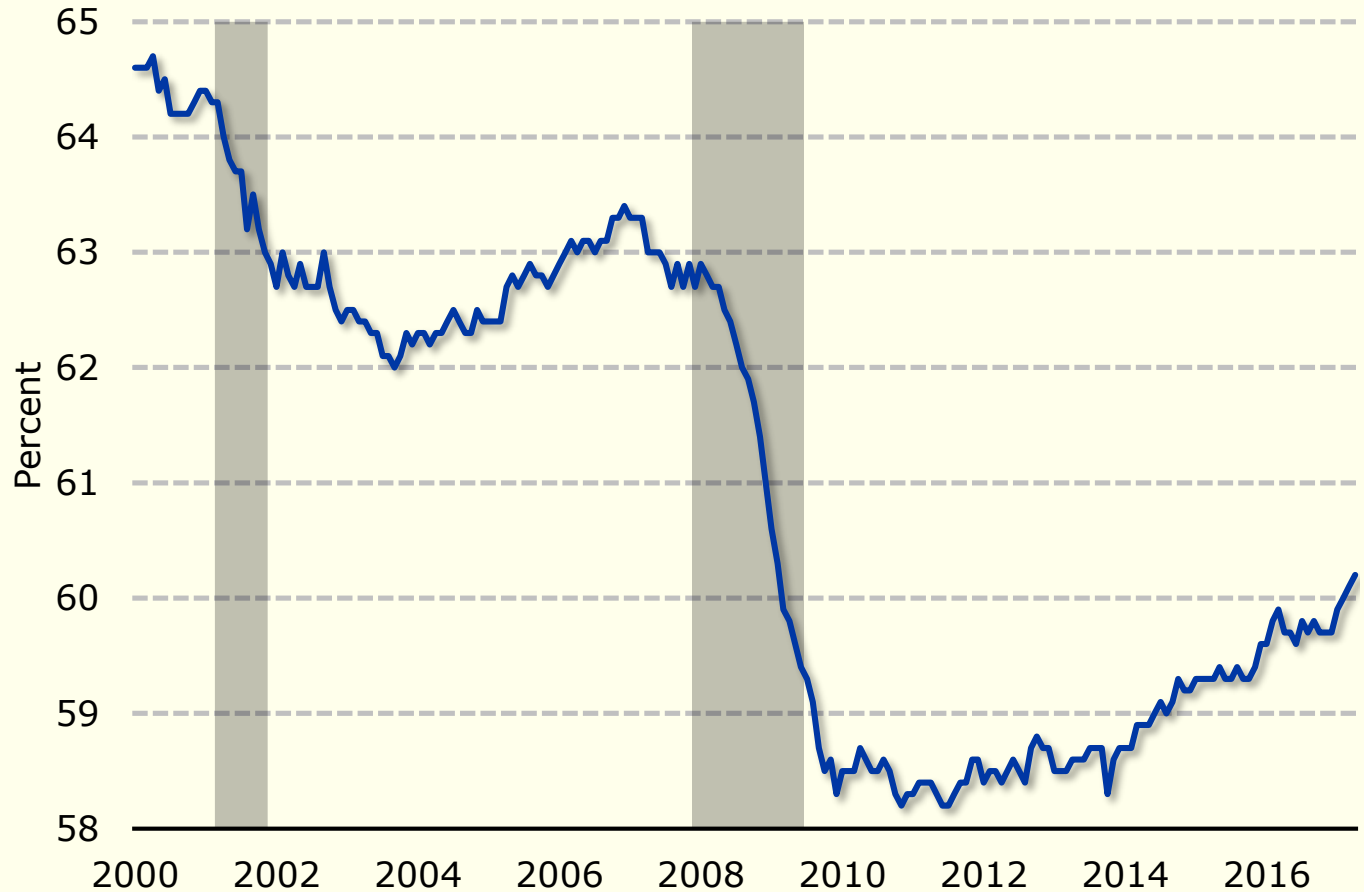


Source: WA Employment Security Dept.



Although well below pre-recession levels, the employment-population ratio is gradually rising

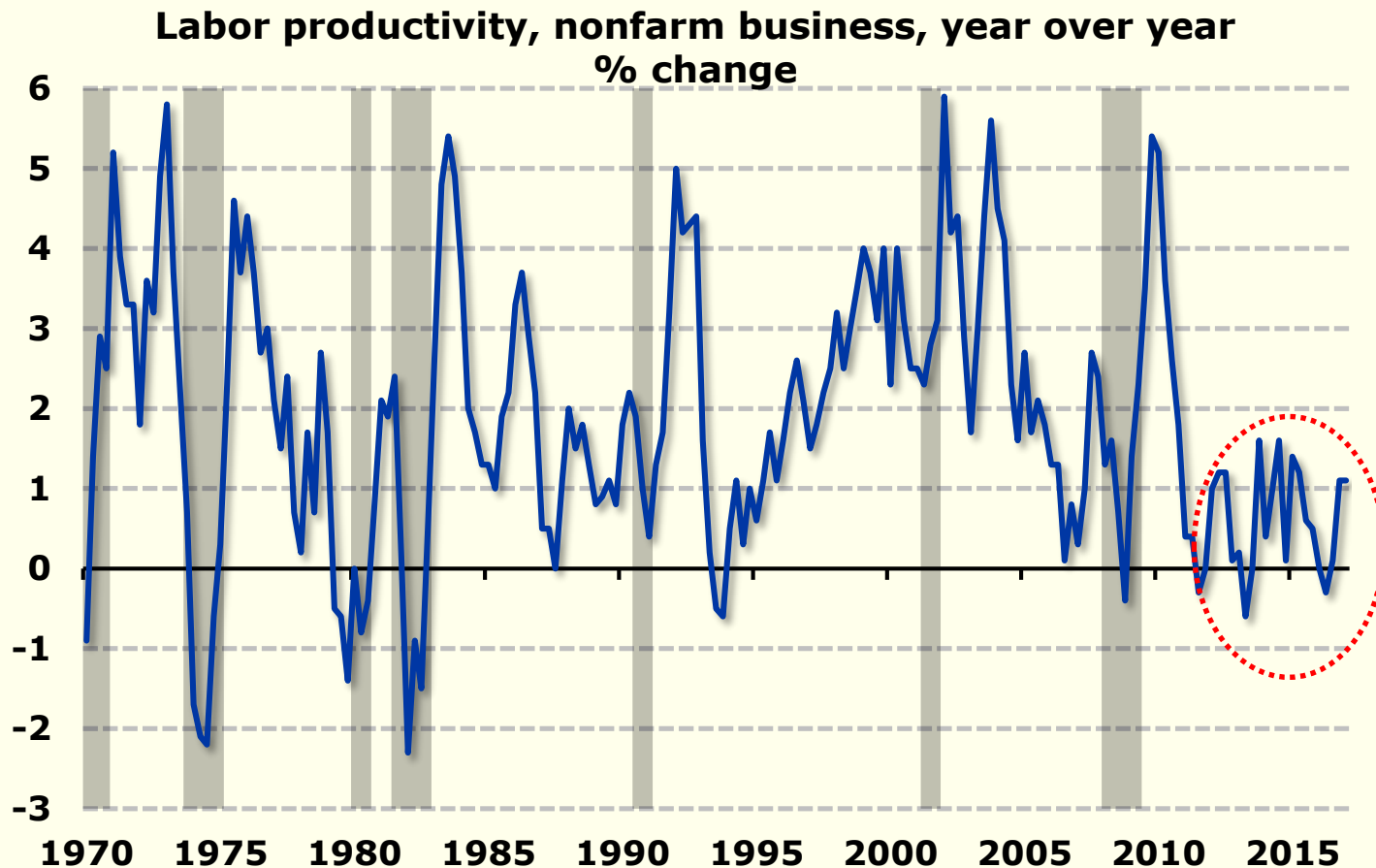
The employment-population ratio is the fraction of the age 16+ population with a job



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

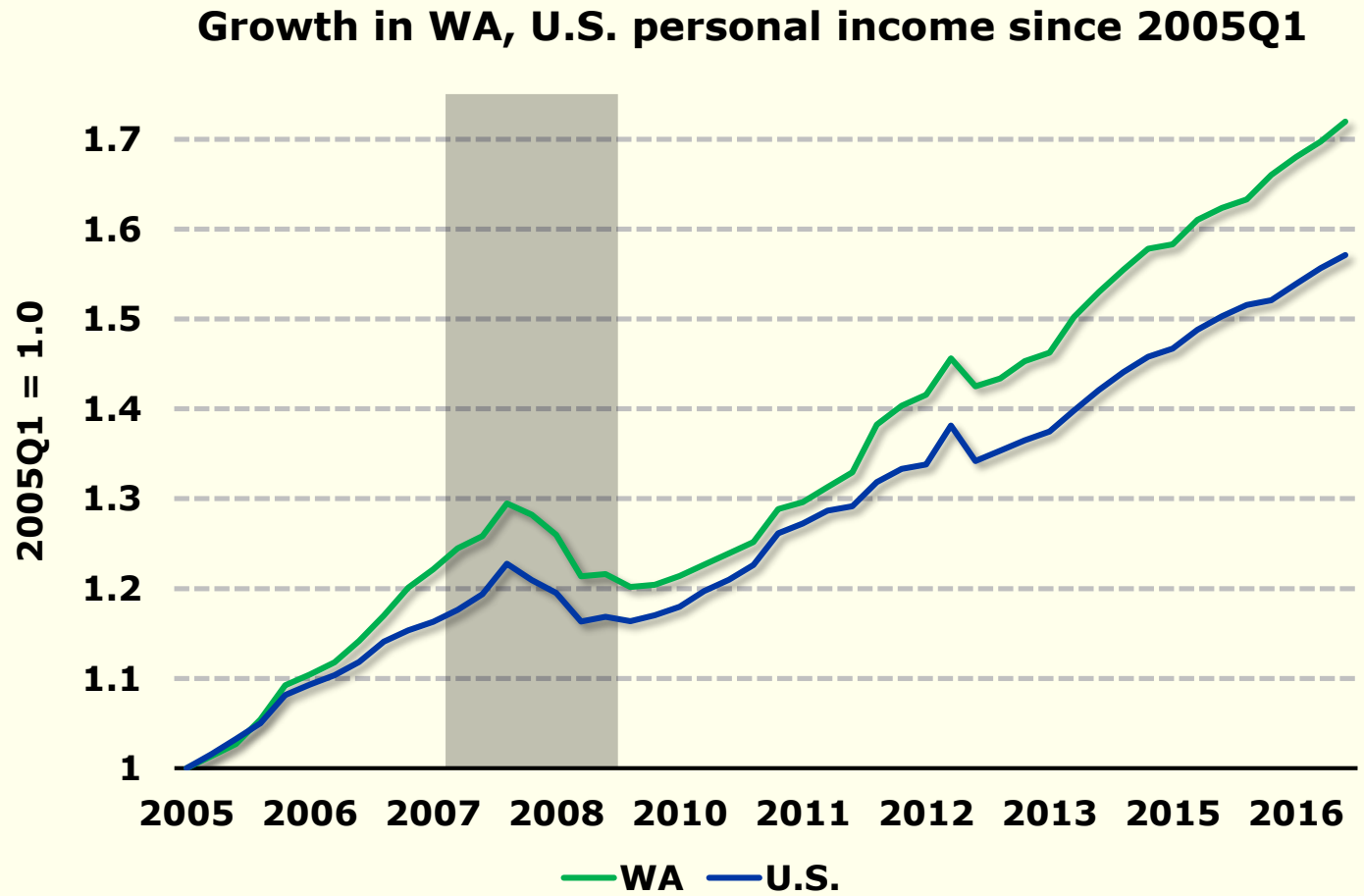


Labor productivity growth has remained low since 2011





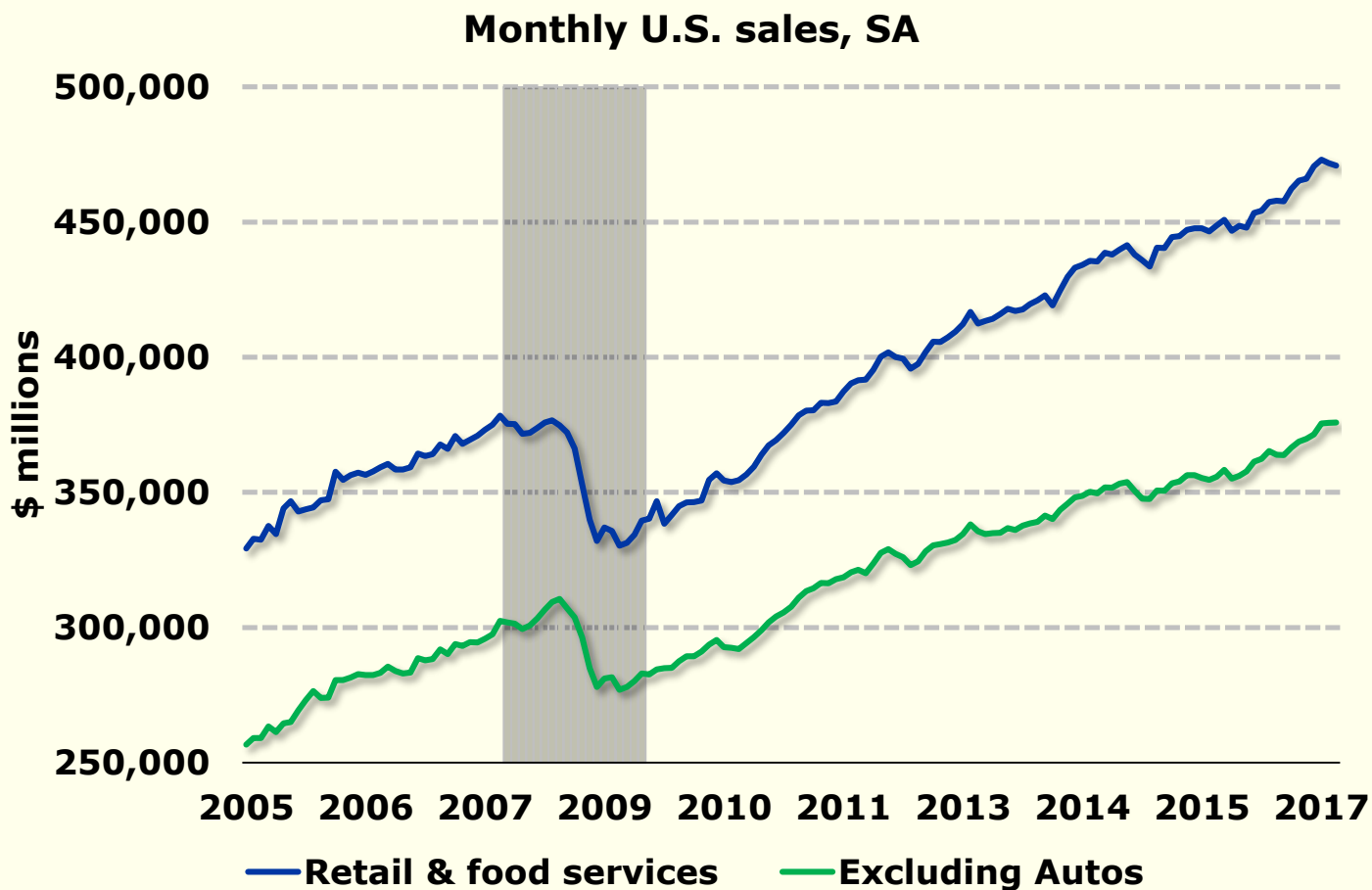
Personal income has been growing faster in WA than for U.S. as a whole



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



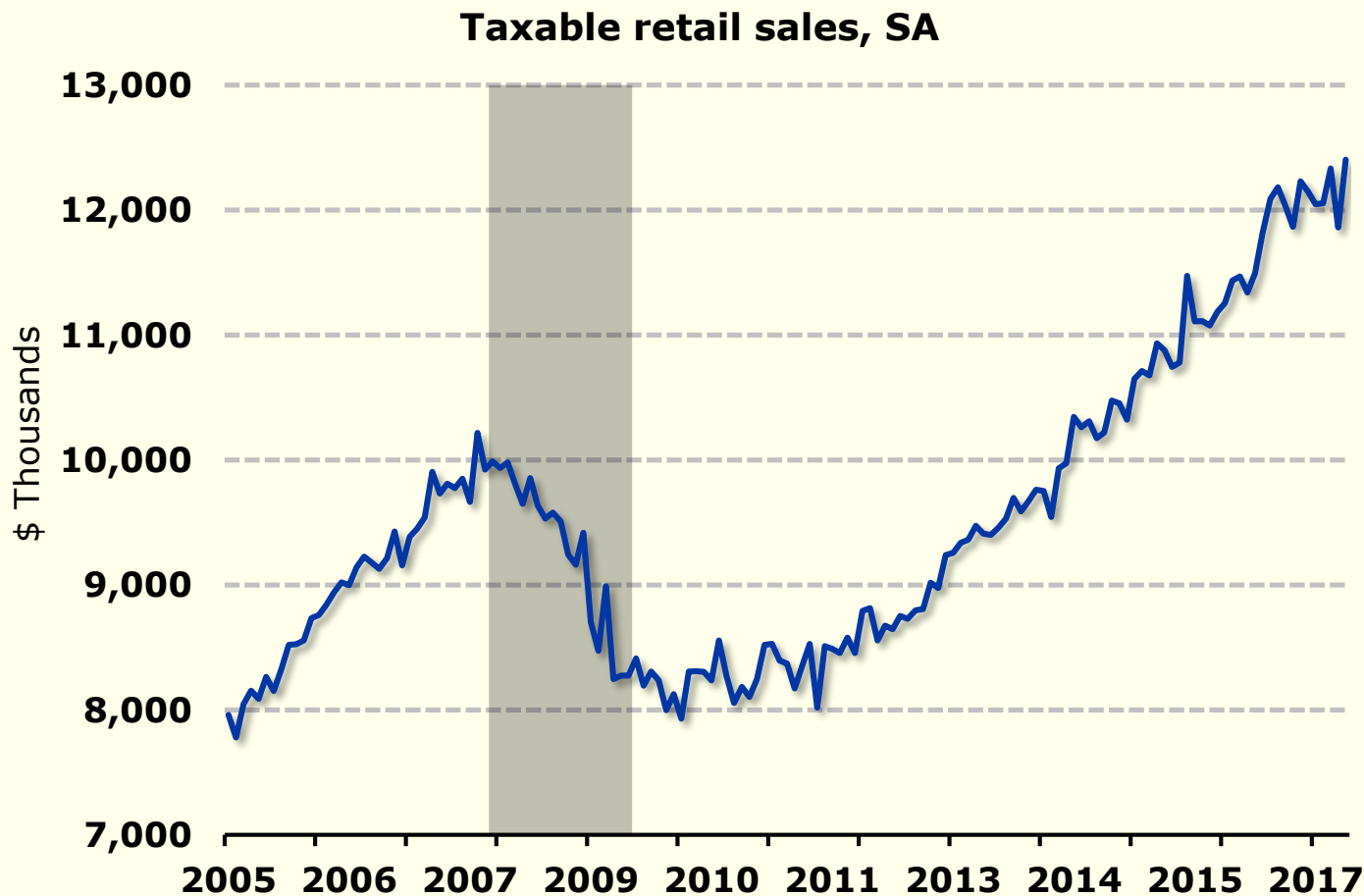
U.S. retail and food service sales slowed in March but were 5.1% above March 2016



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



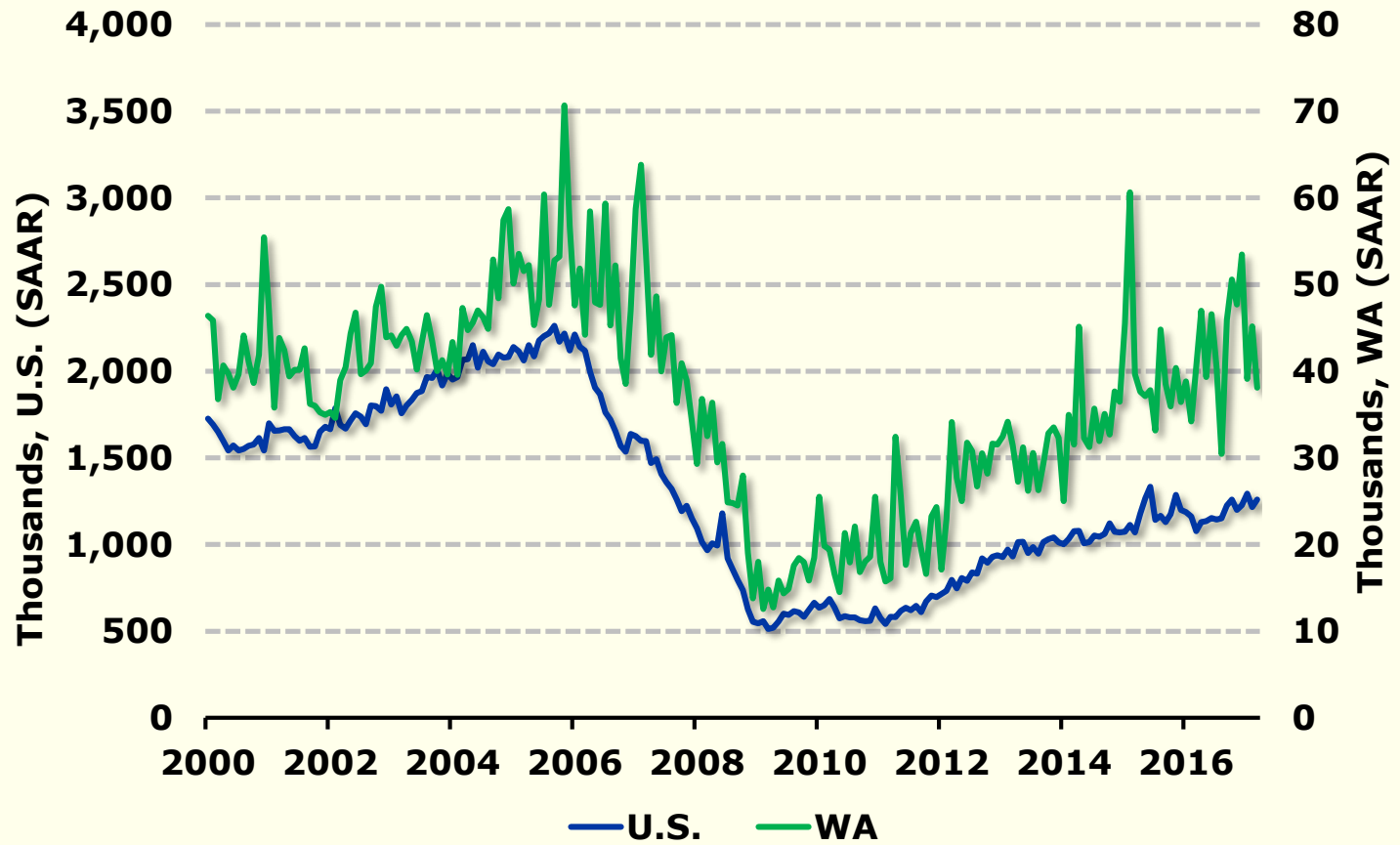
WA seasonally adjusted taxable retail sales grew by 7.9% in March



Source: ERFC, Dept. of Revenue; data through preliminary March 2017 activity

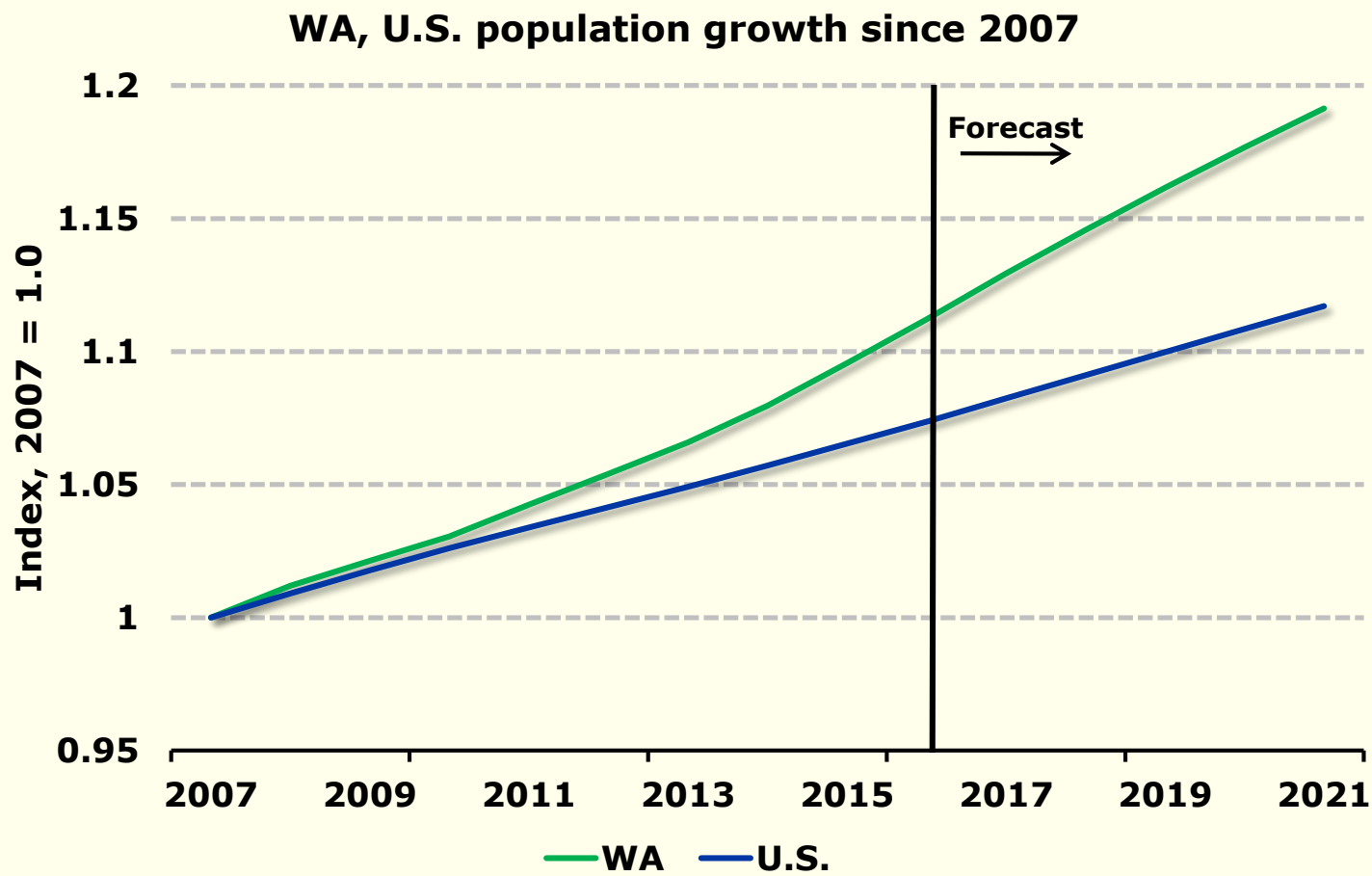


U.S., WA housing permits trending up; U.S. remains below historical averages



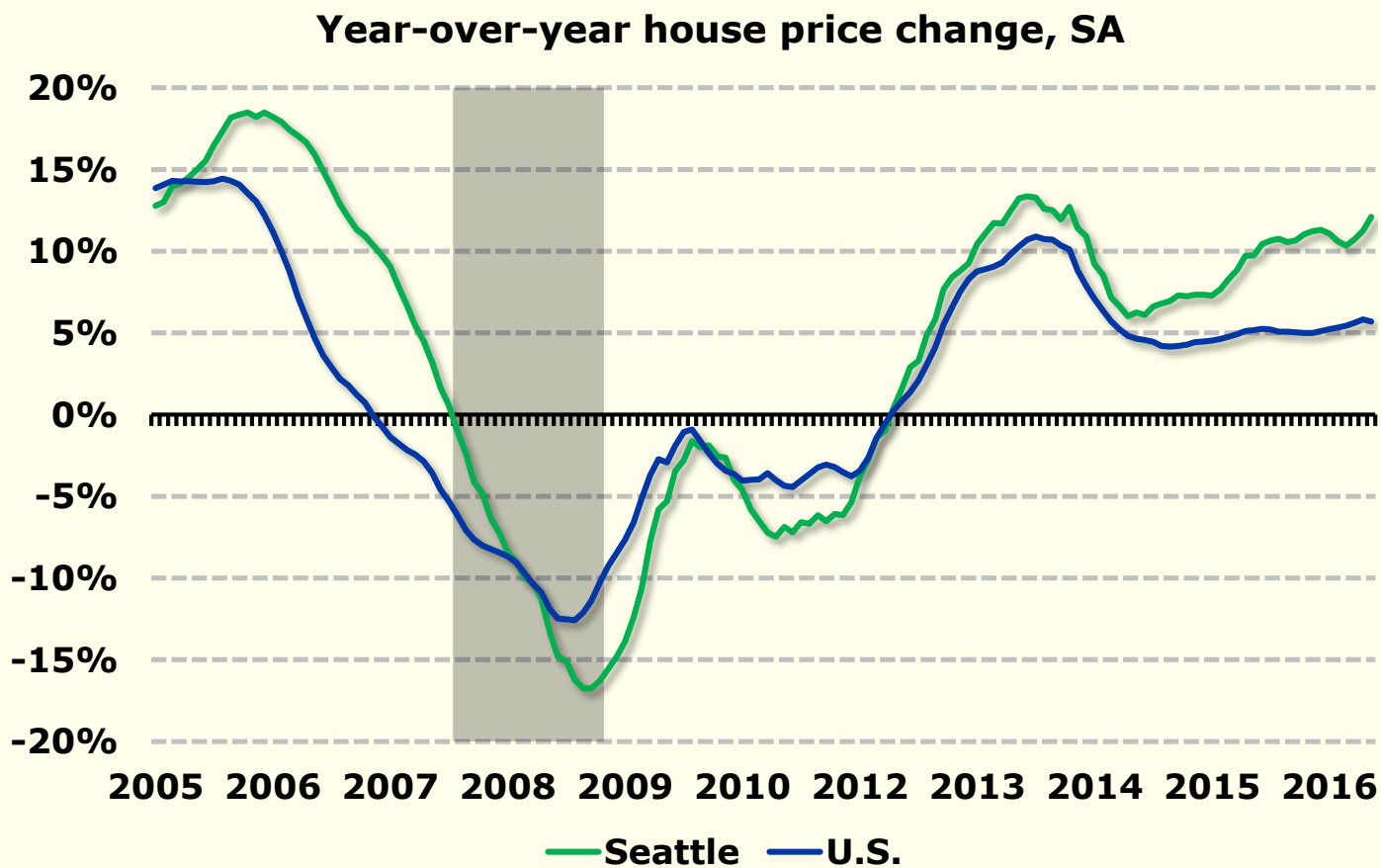


WA population growing faster than U.S. due to in-migration



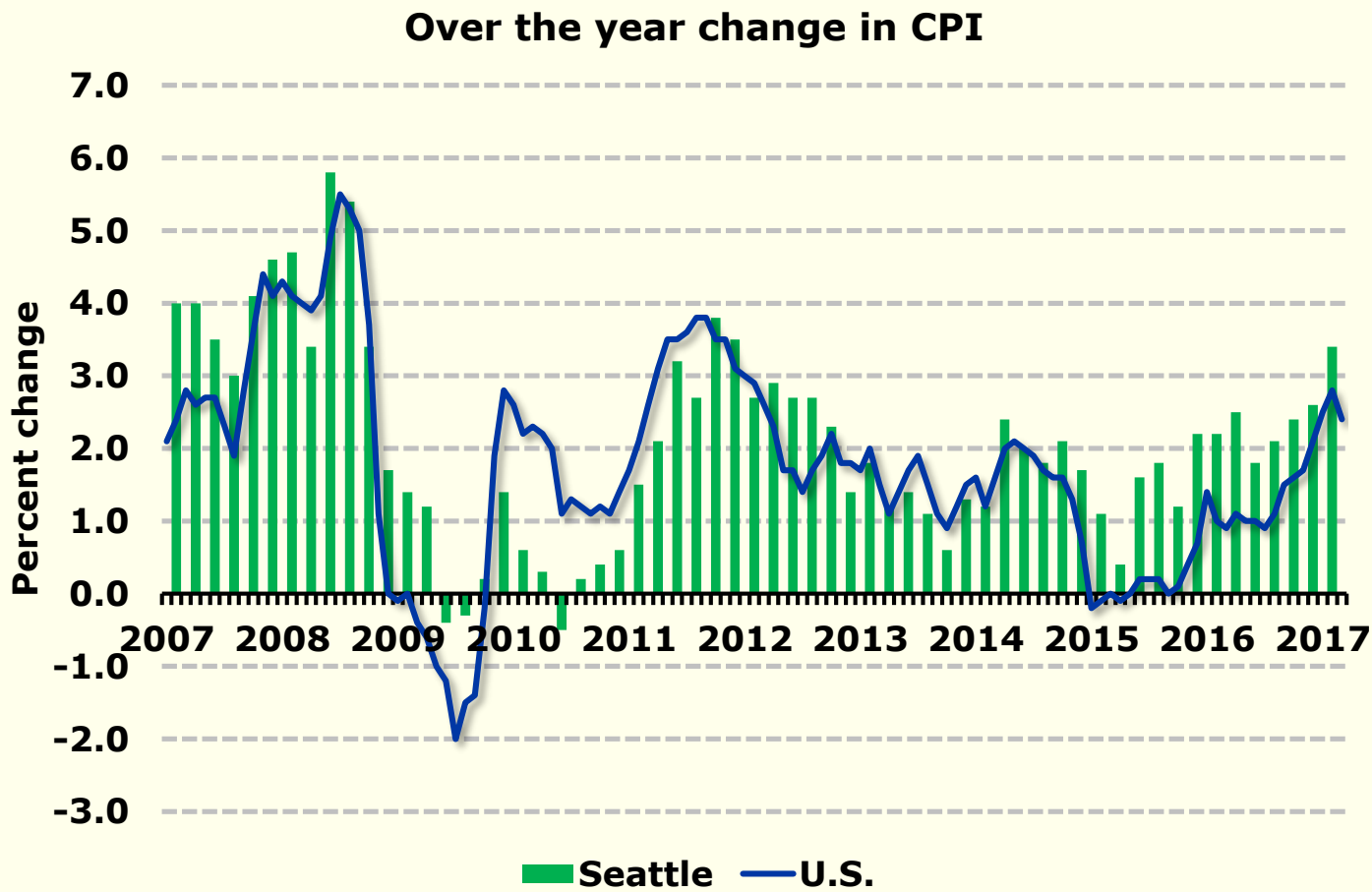


Seattle home prices have been rising much faster than prices nationally



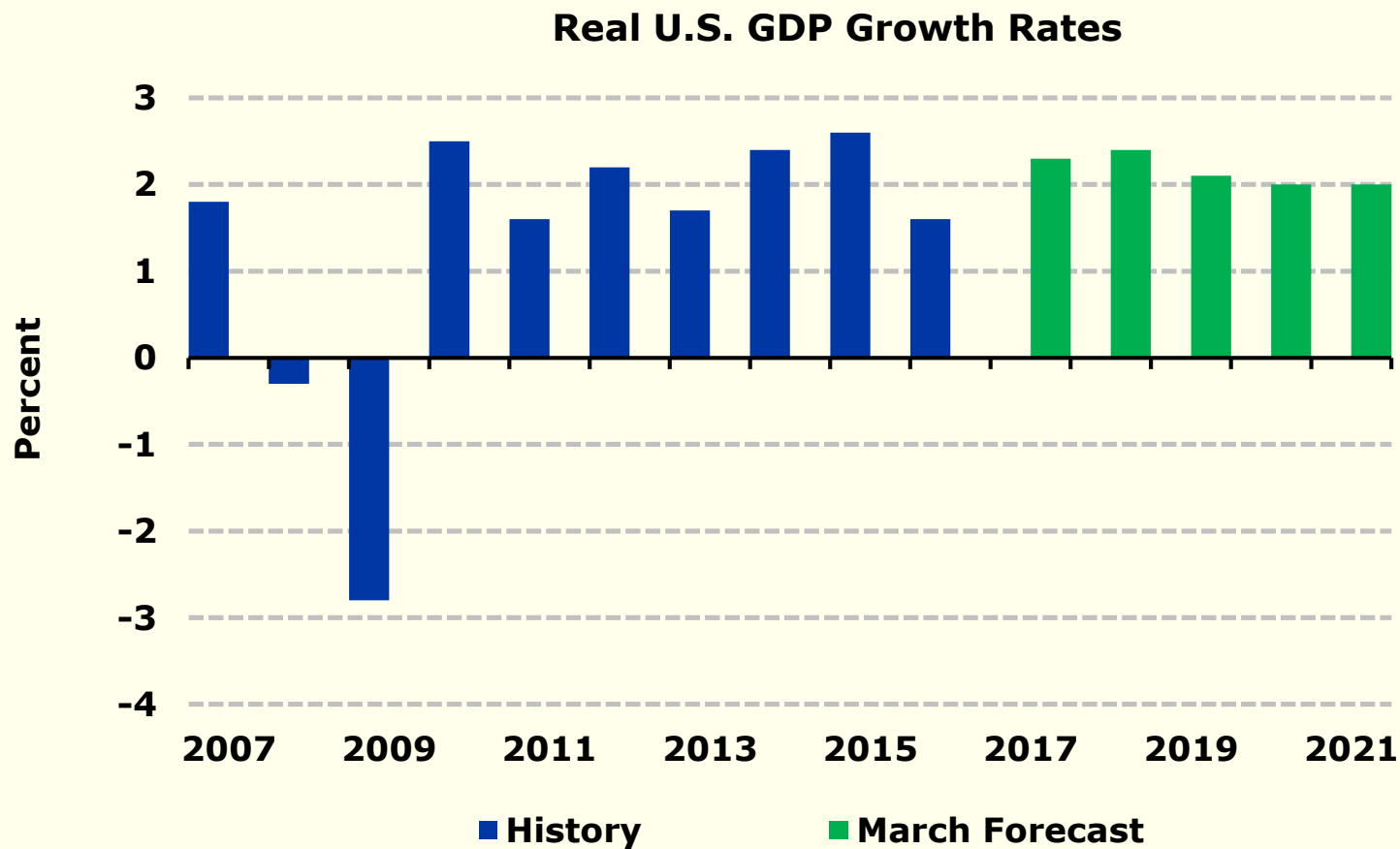


Seattle inflation has been above national average since 2014, largely due to shelter costs



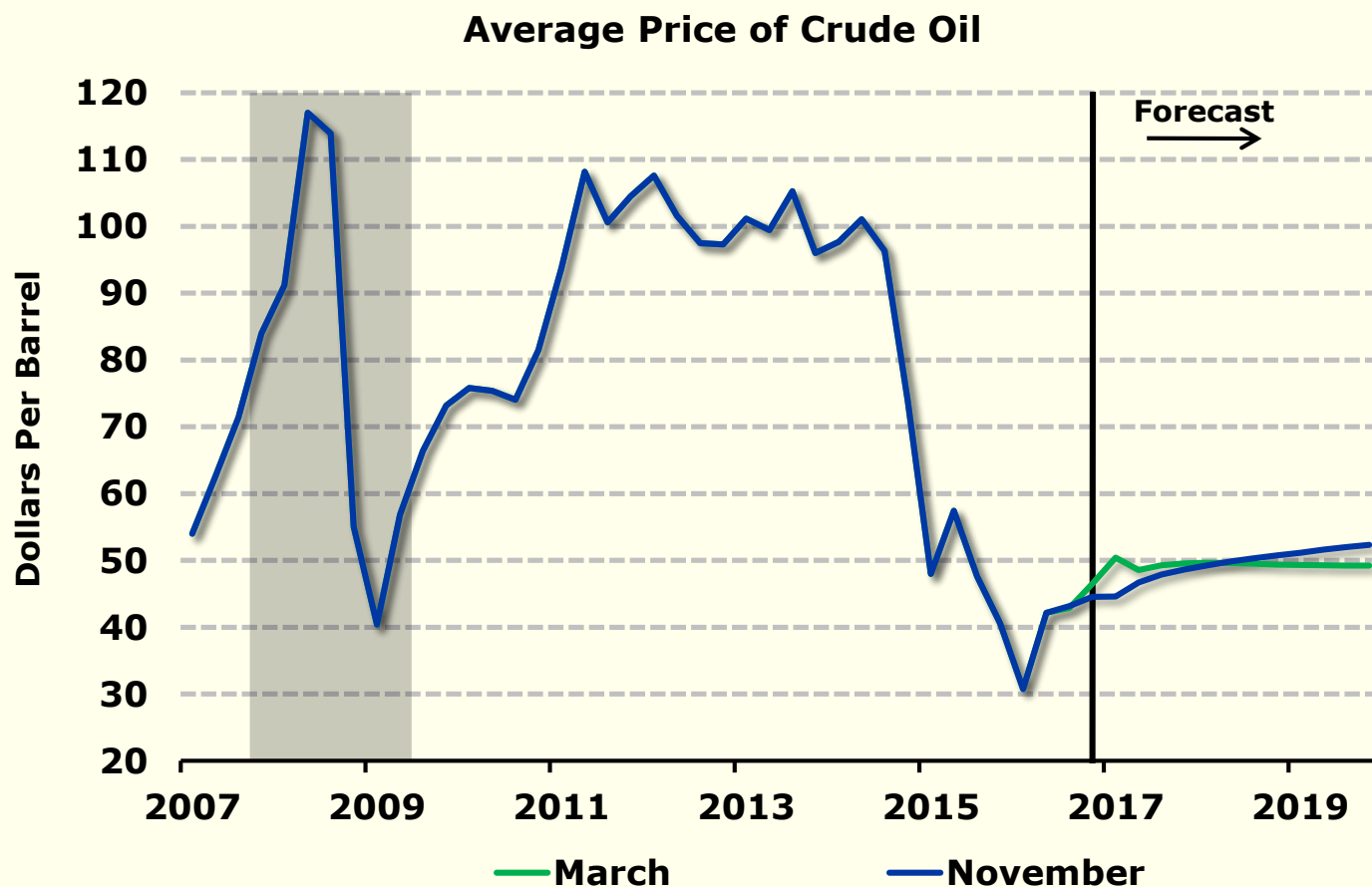


GDP growth is expected to improve from last year's 1.6% growth rate



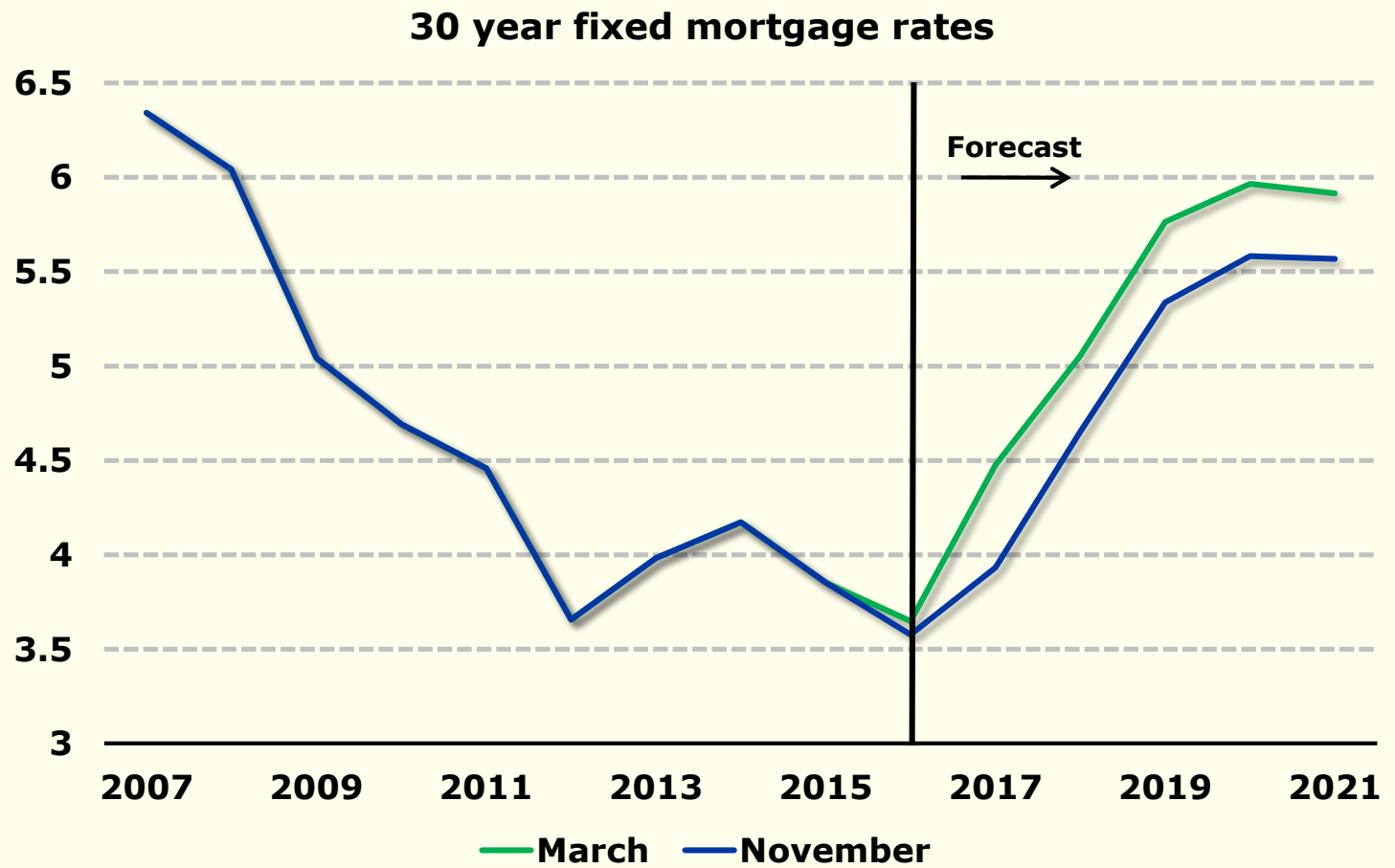


Oil prices are slightly lower in 2018-2021 compared to November



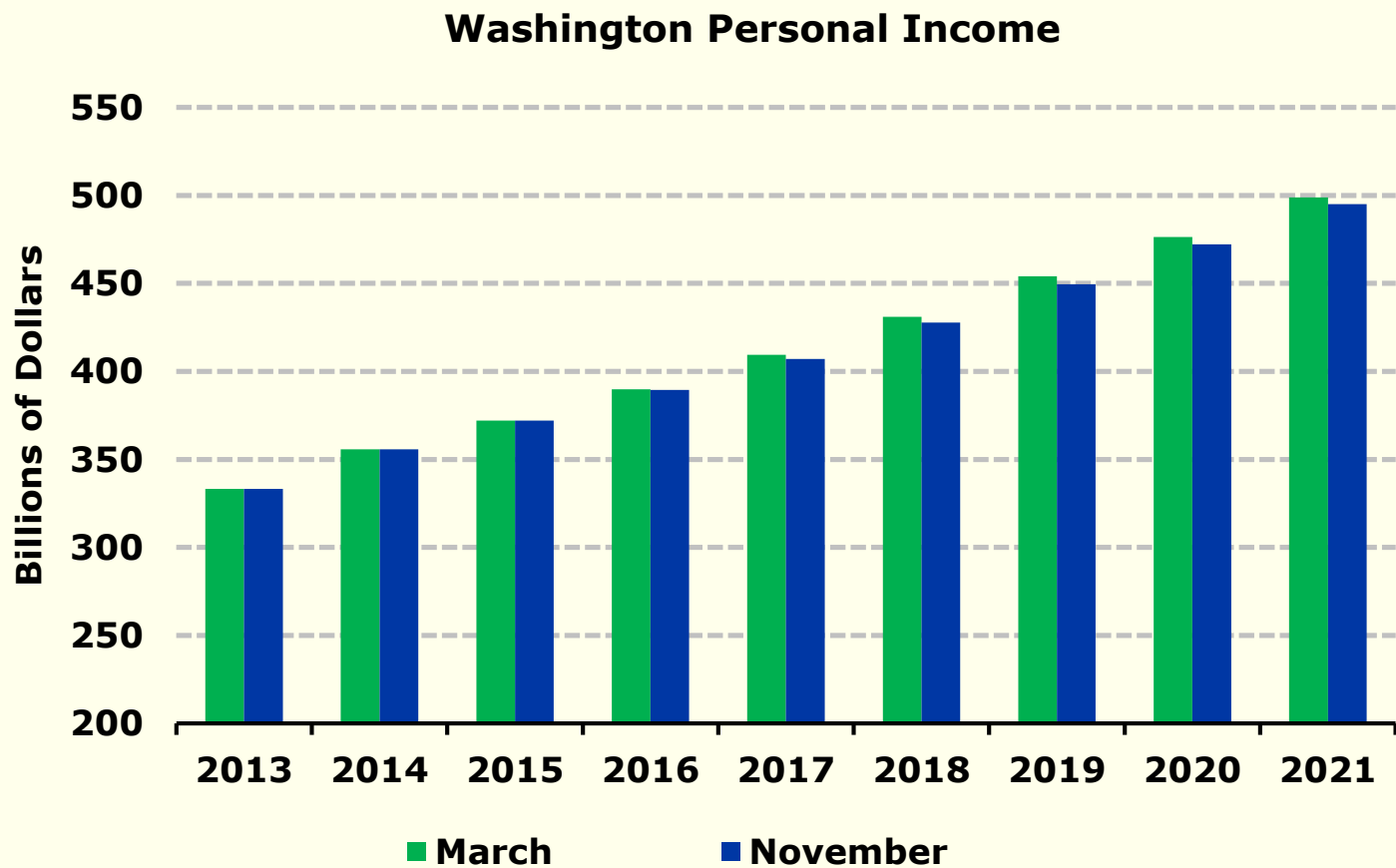


Two more Federal Reserve interest rate increases assumed for this year





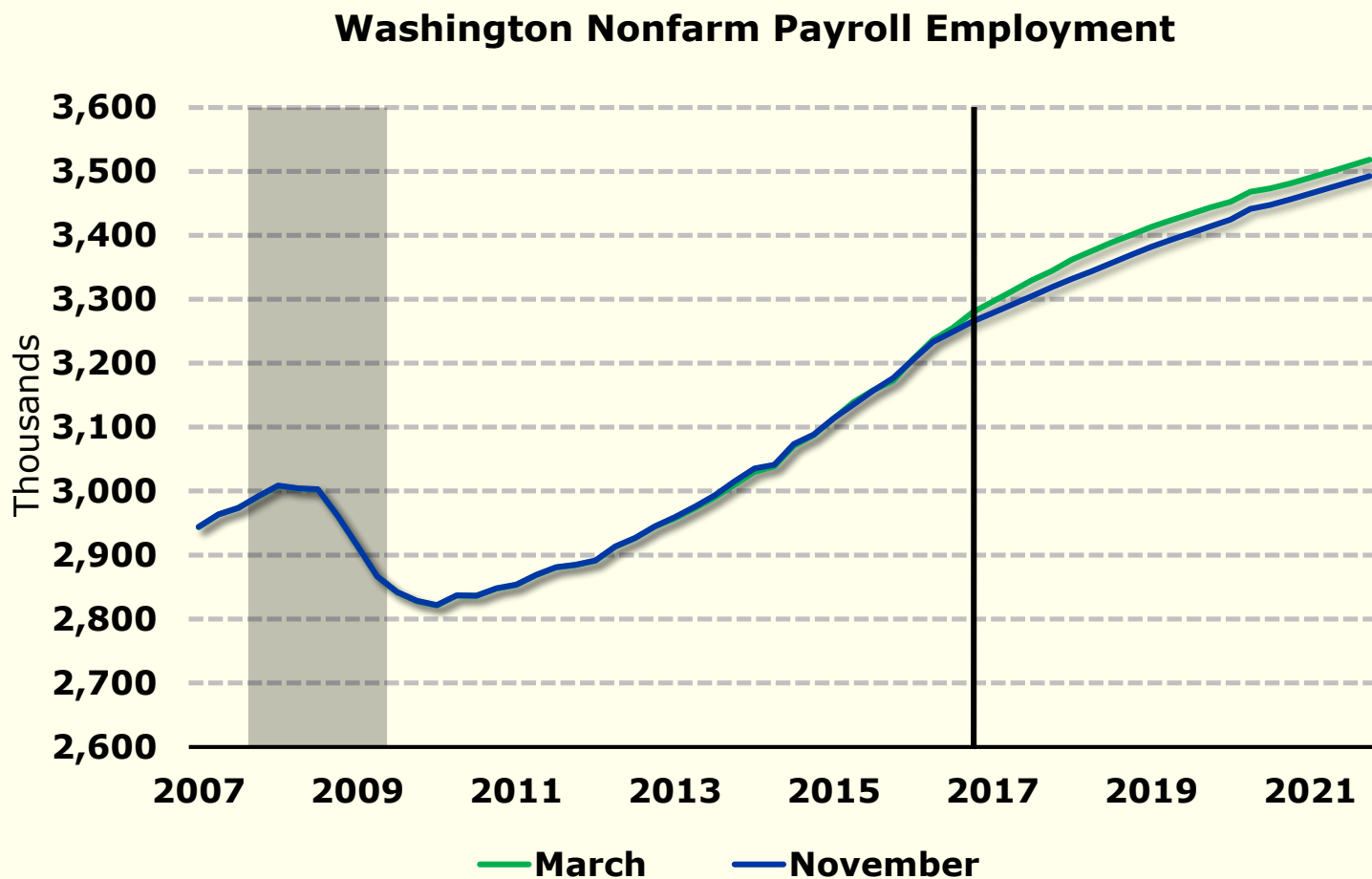
Washington personal income is slightly higher compared to the November forecast





Washington employment forecast is slightly higher than in November

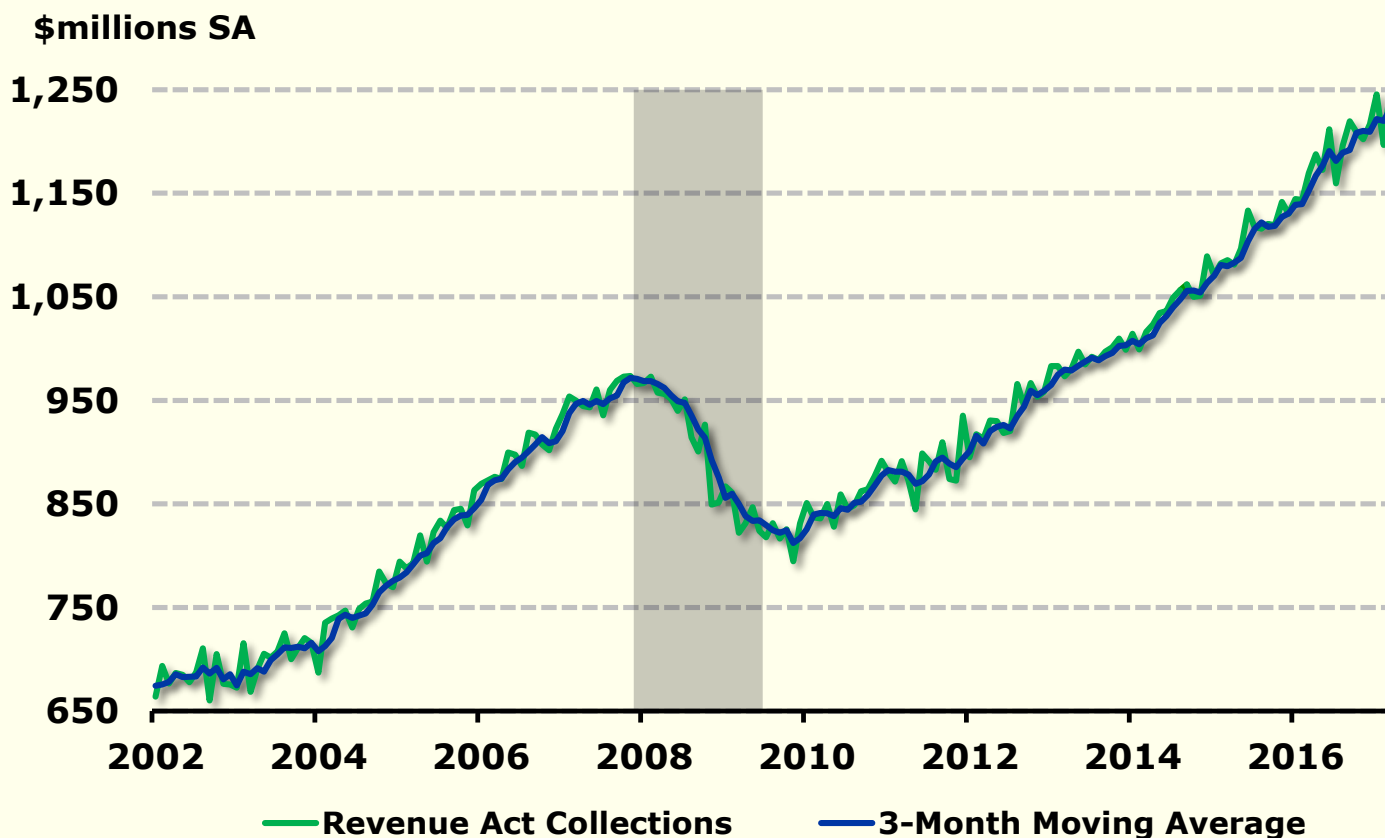
The WA nonfarm employment forecast is 26,000 jobs higher by 2021 compared to November



Source: ERFC March 2017 forecast; historical data through 2016



Revenue Act collections strengthened in March after a slow in February



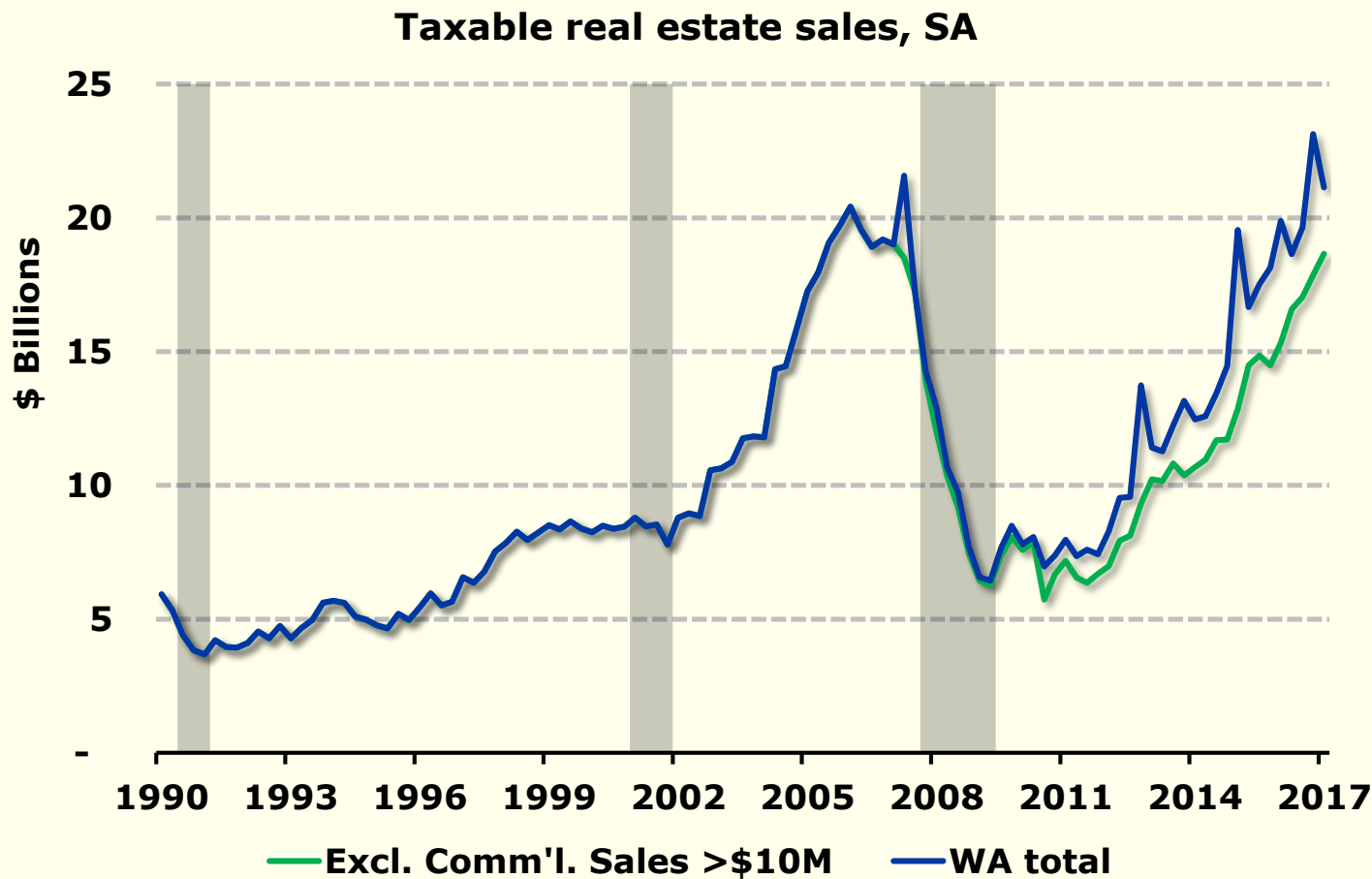
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

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



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

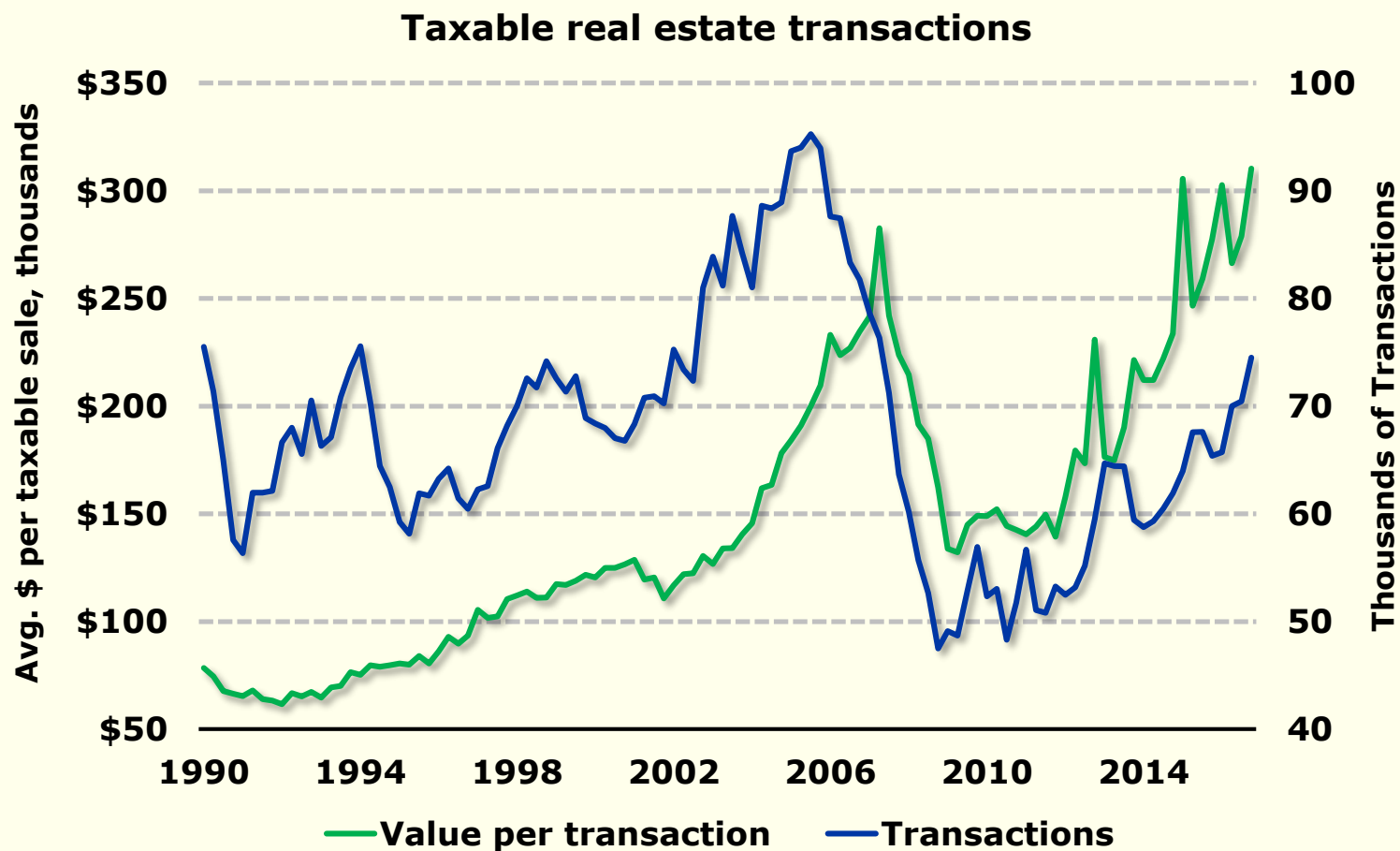
Large commercial property sales over \$10 million totaled \$601 billion in February and \$655 million in March.



Source: ERFC, data through 2017 Q1



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

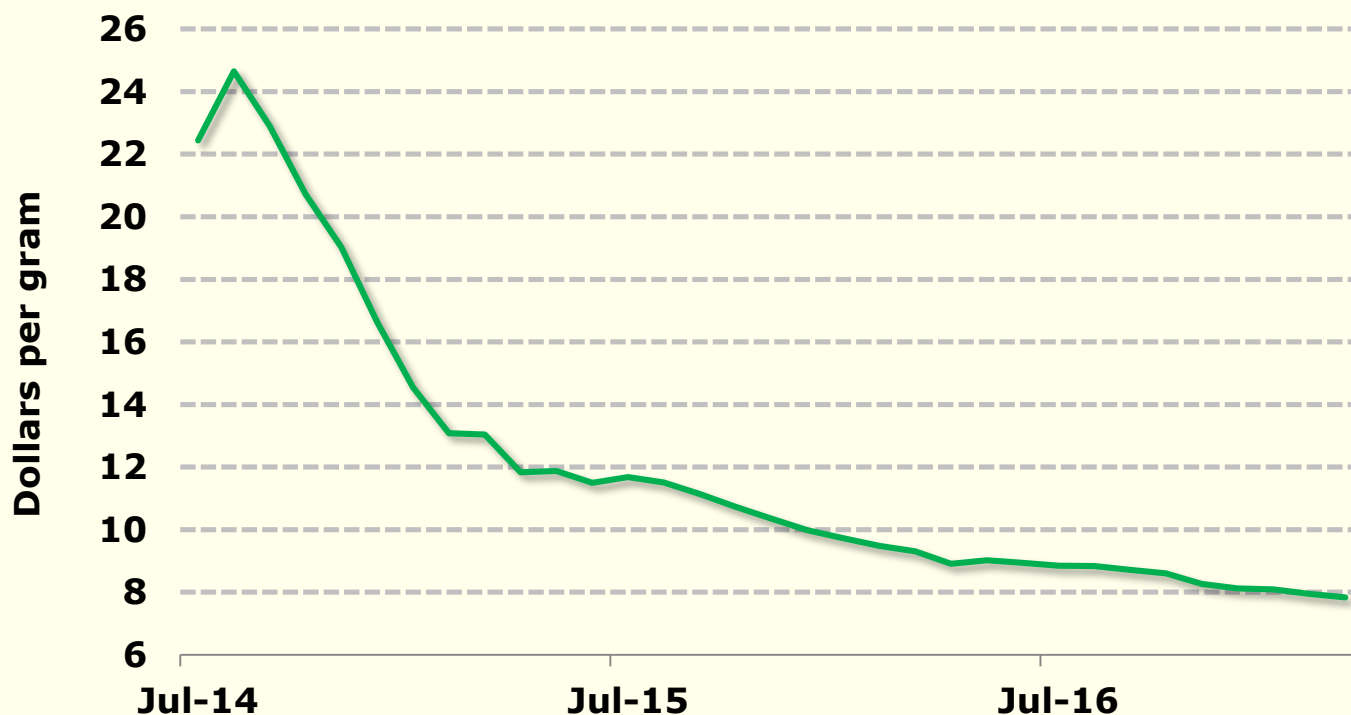


Source: ERFC, data through 2016 Q4



The price of cannabis has continued to fall

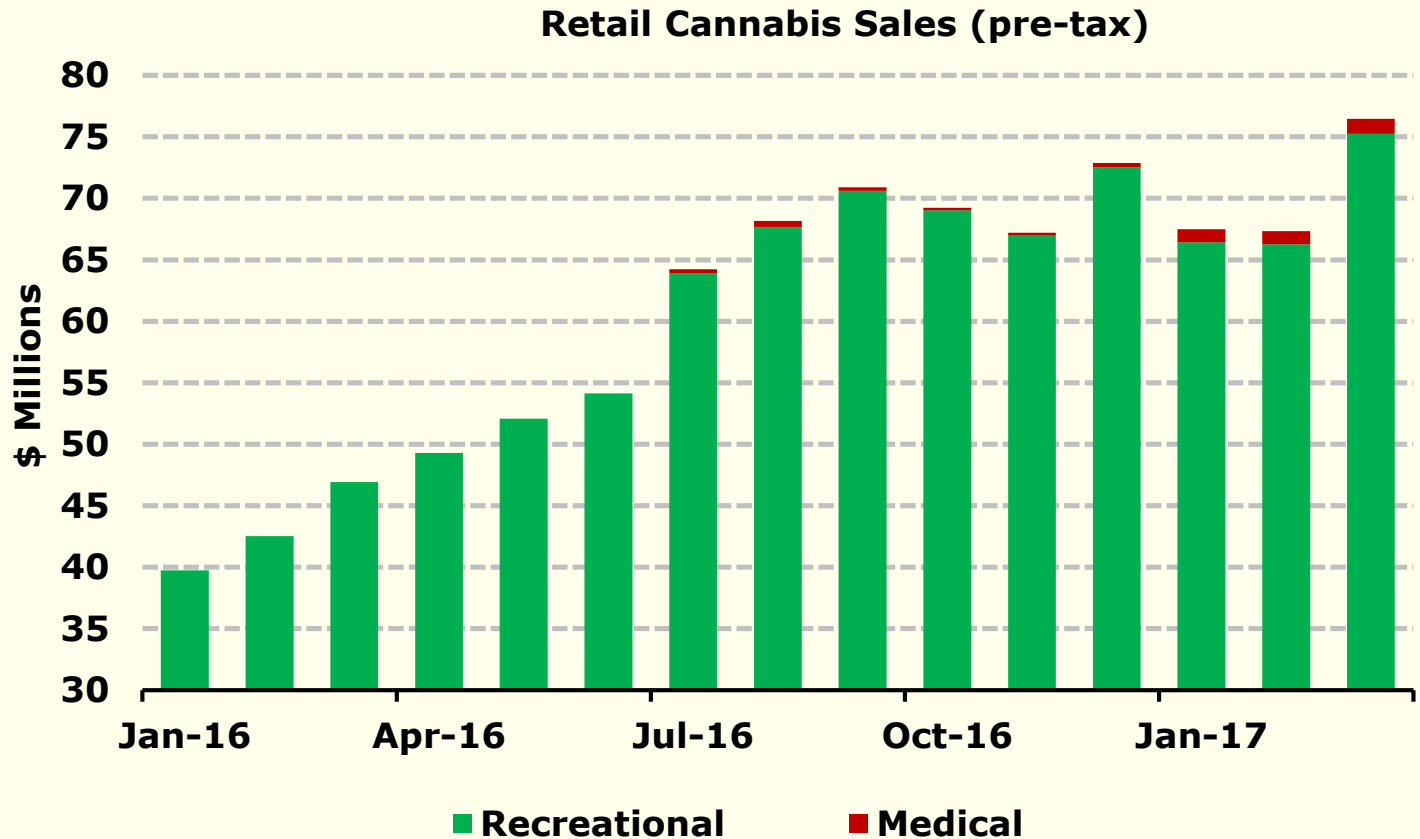
Retail Price (includes 37% excise tax)



Source: LCB, ERFC; data through March 2017



Cannabis sales jumped in March





Major General Fund revenue sources

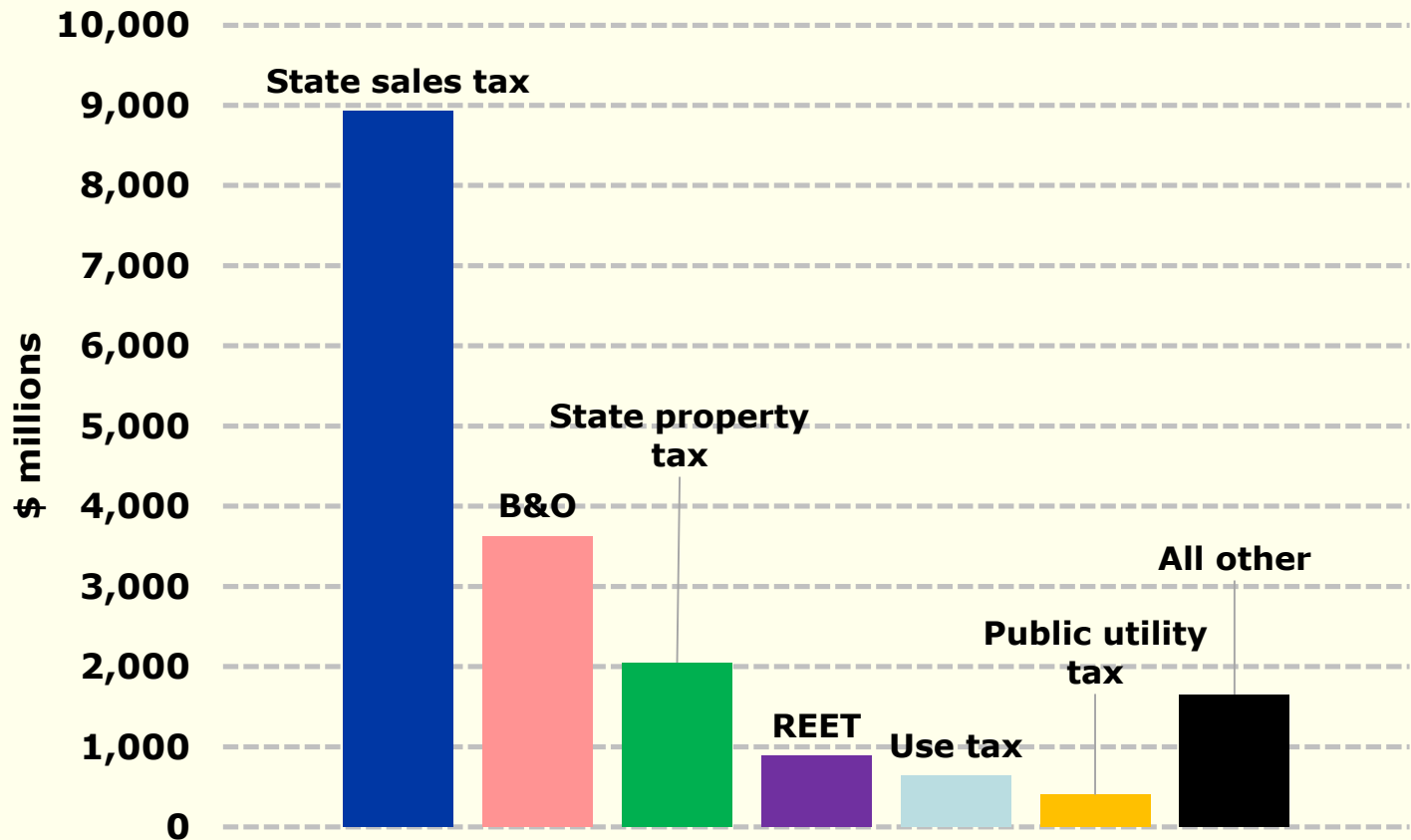
State retail sales taxes accounted for 48.1% of General Fund revenue in FY 2016.

Total cannabis revenue in FY 2016 was \$168 M

Economic Outlook
May 17, 2017

Slide 30

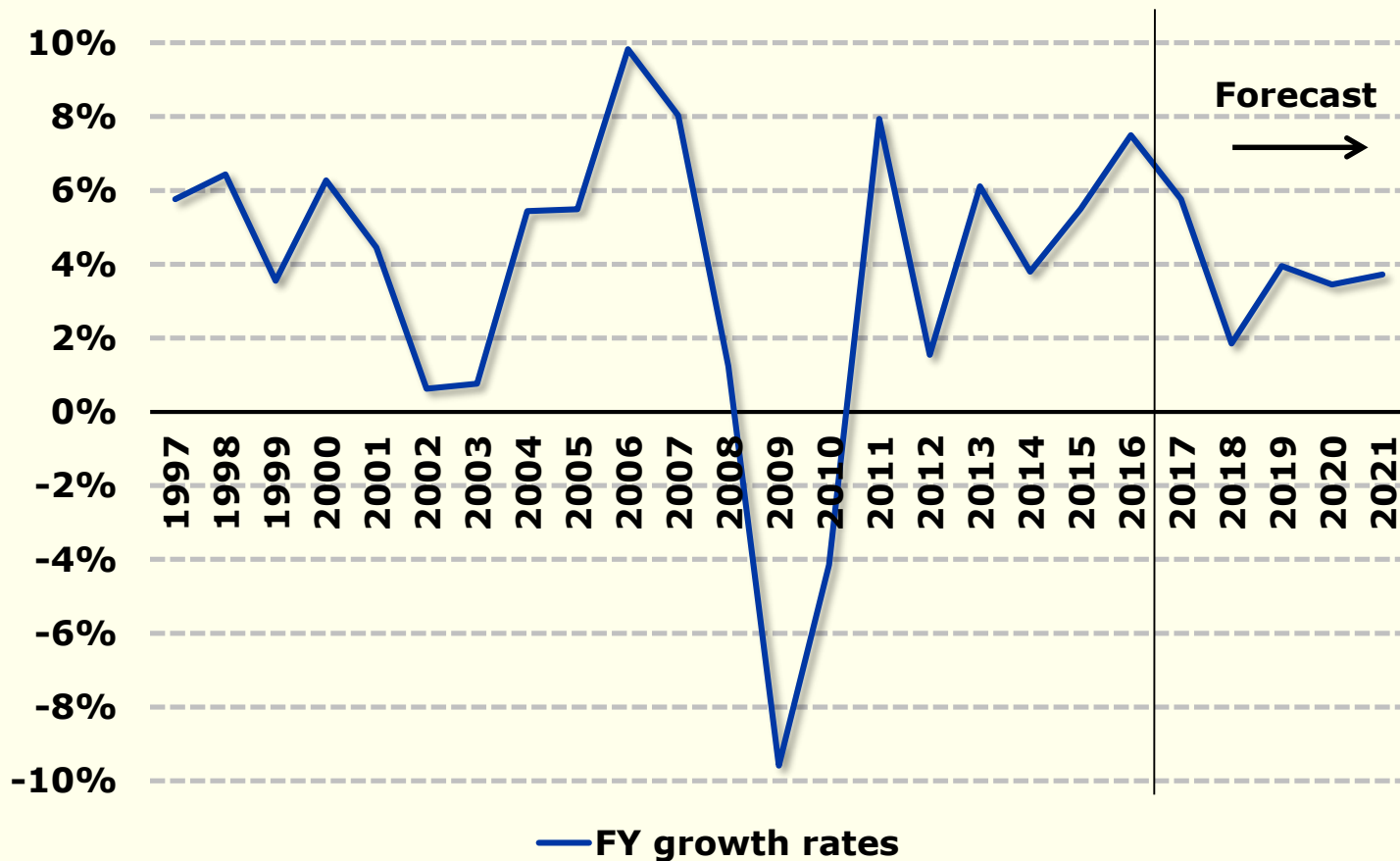
FY 2016 General Fund revenue



Source: WA Dept. of Revenue, ERFC



General Fund-State annual growth, fiscal years





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
6400 Linderson Way SW, Suite 238
Tumwater, WA 98504-0912**

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