

Economic and Revenue Update

Presented to
Washington State CCIM Chapter

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Executive Director

April 12, 2017
Bellevue, Washington



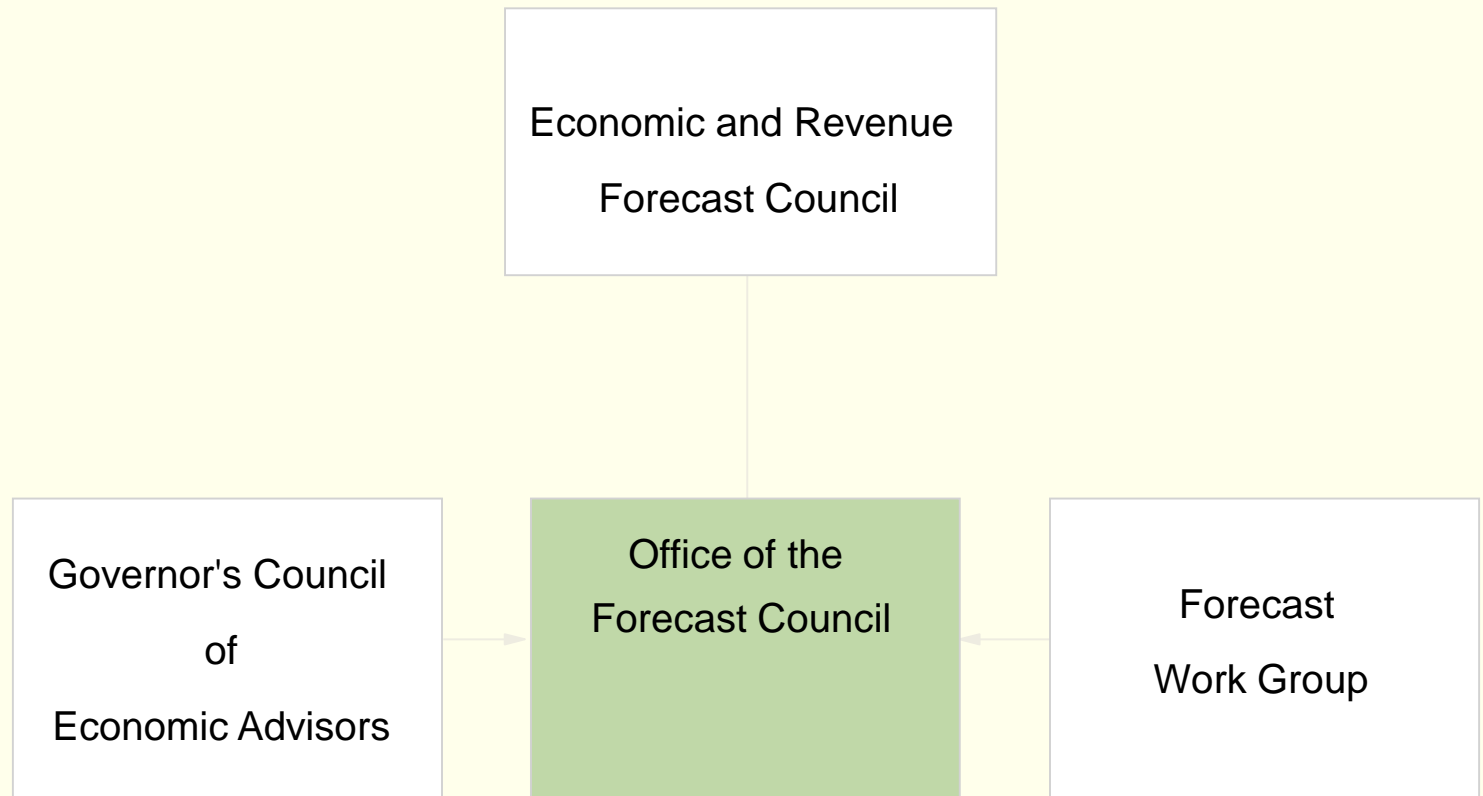
WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Forecast Process in Washington State

ERFC

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



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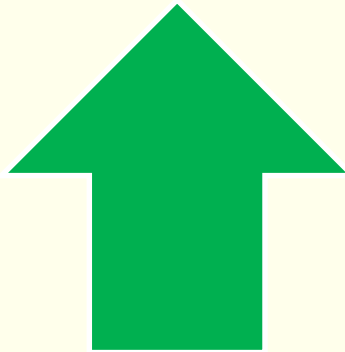


Summary

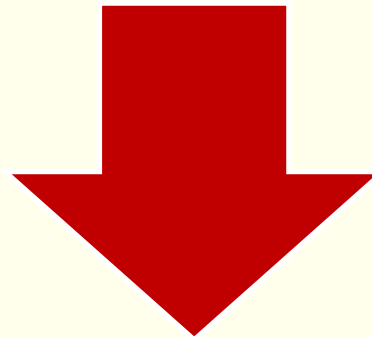
- Our forecast continues to call for moderate U.S. economic growth
- We anticipate two additional interest rate hikes by the Federal Reserve this year
- The WA economy continues to outperform the U.S. economy
- Seattle area inflation remains above the national average due to housing costs
- Risks to 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



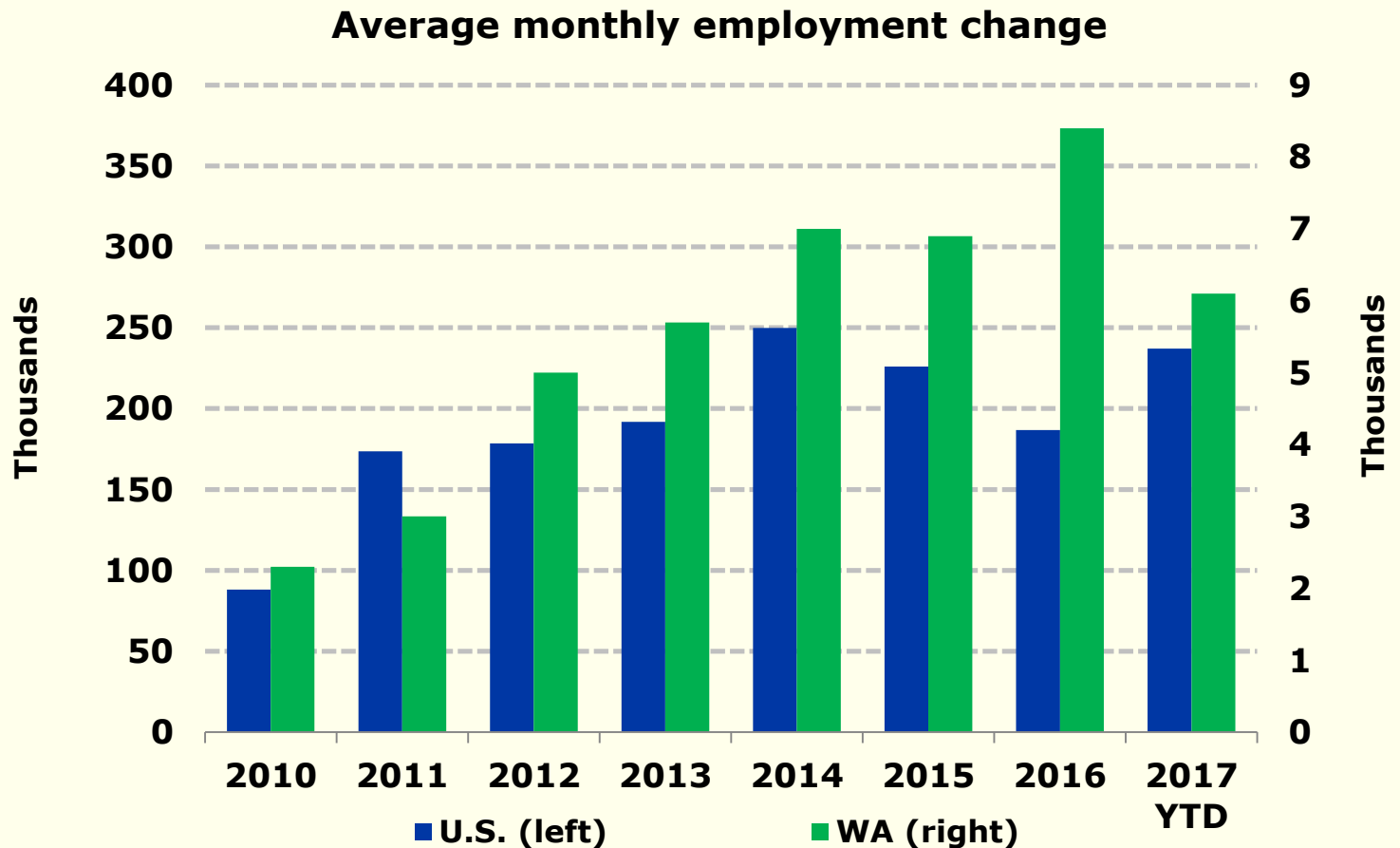
- Employment continues to expand
- Consumer spending growing at moderate pace
- Small business optimism improving
- Manufacturing, business investment showing improvement



- 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



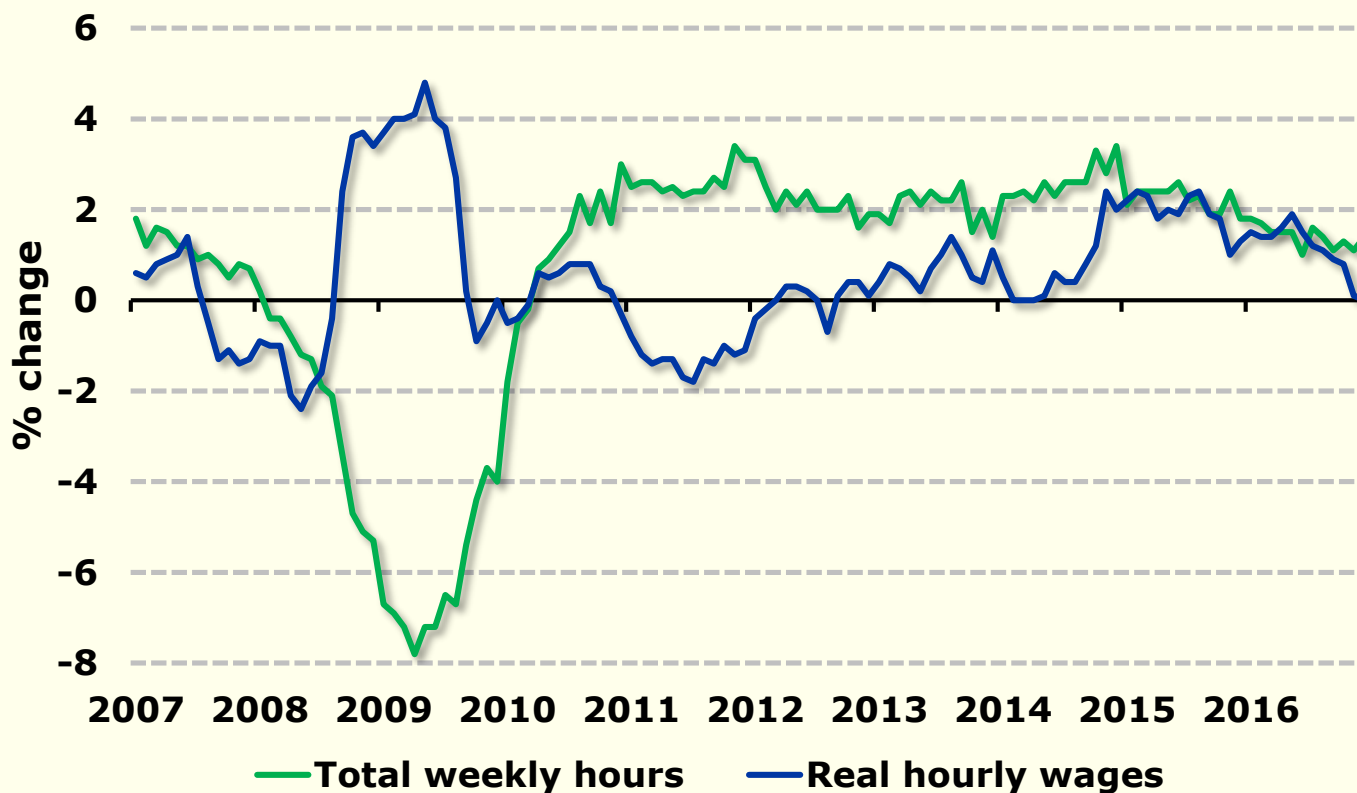
Source: Bureau of Labor Statistics, ERFC; data through Feb. 2017

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Inflation-adjusted U.S. wage growth remains slow

Year-over-year Growth in U.S. Real Hourly Wages and Total Weekly Hours

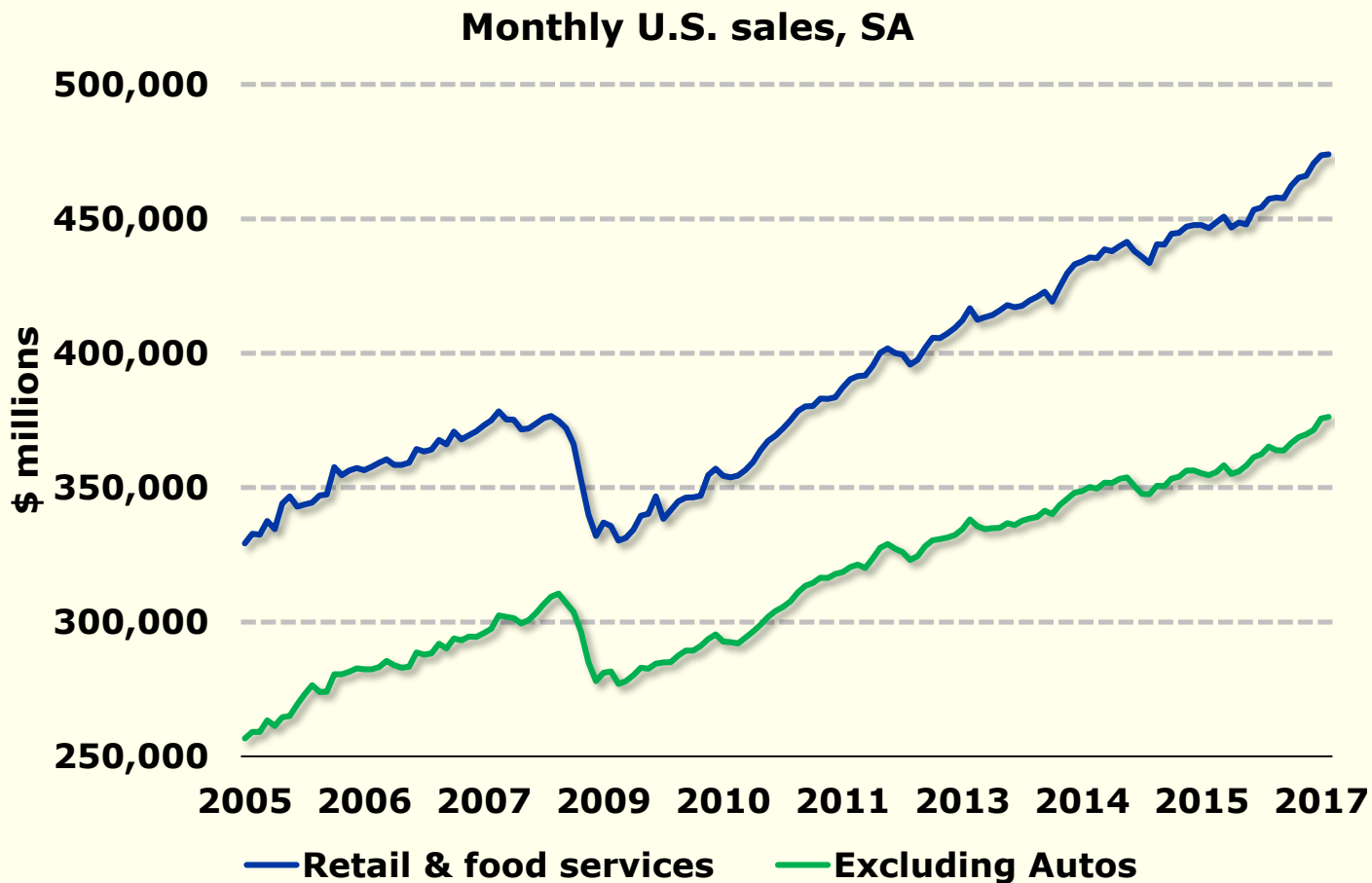


Source: U.S. Bureau of Labor Statistics; data through Feb. 2017

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February U.S. retail and food service sales were 5.7% above February 2016

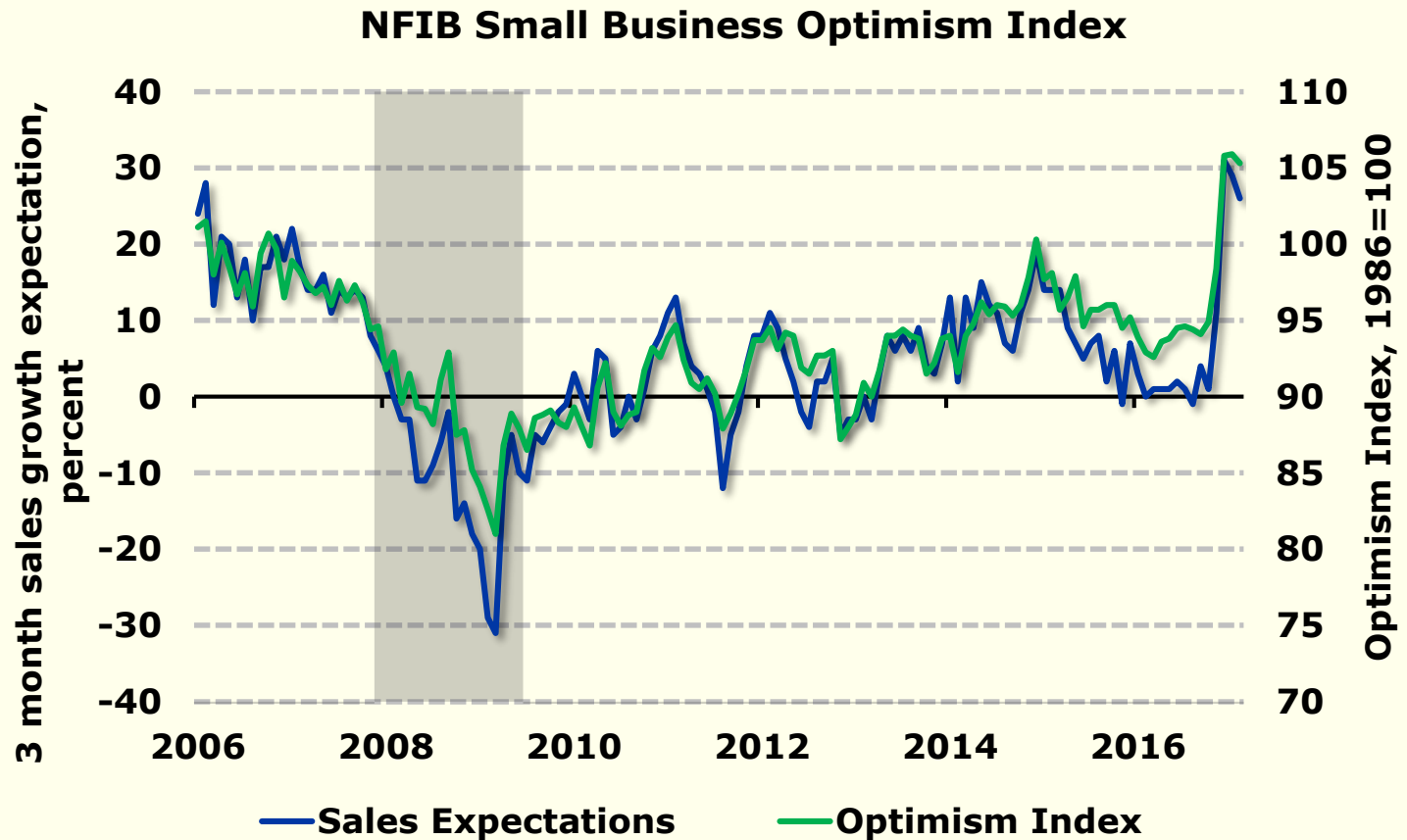


Source: U.S. Census Bureau, data through February 2017

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



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

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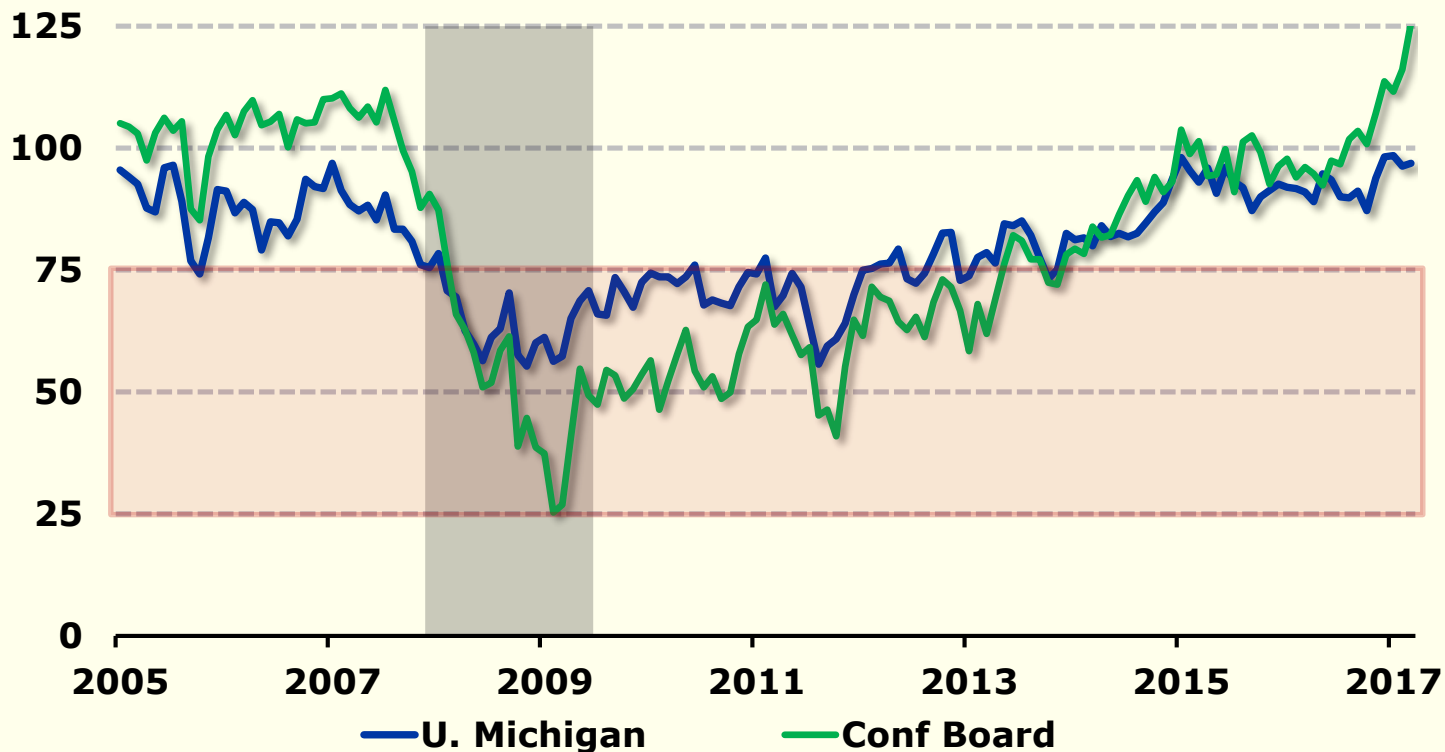


Consumer confidence is at or above pre-recession levels

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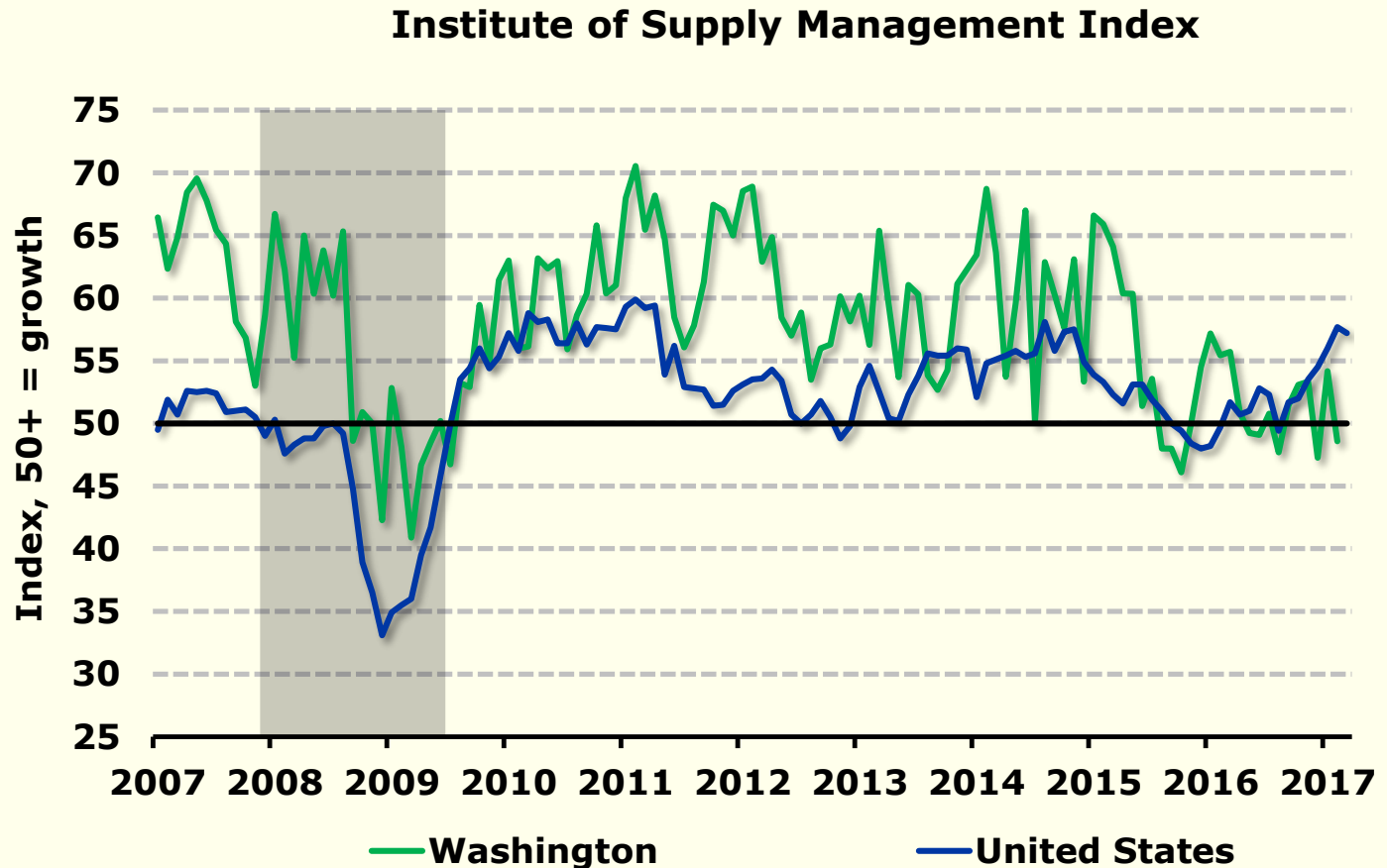
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





Manufacturing: slowing in Washington, improving nationally



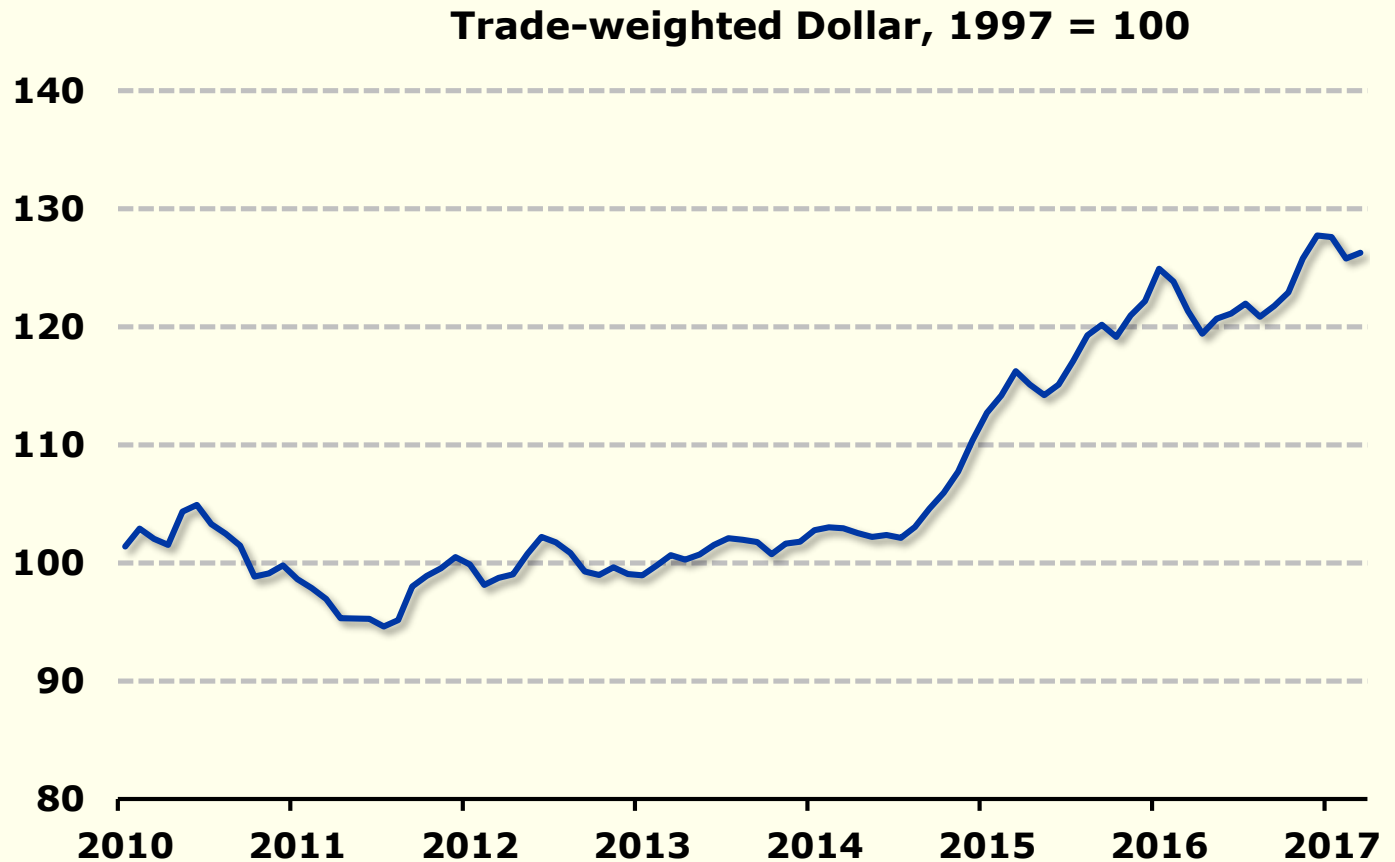


Developed country economies slowed in 2016





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



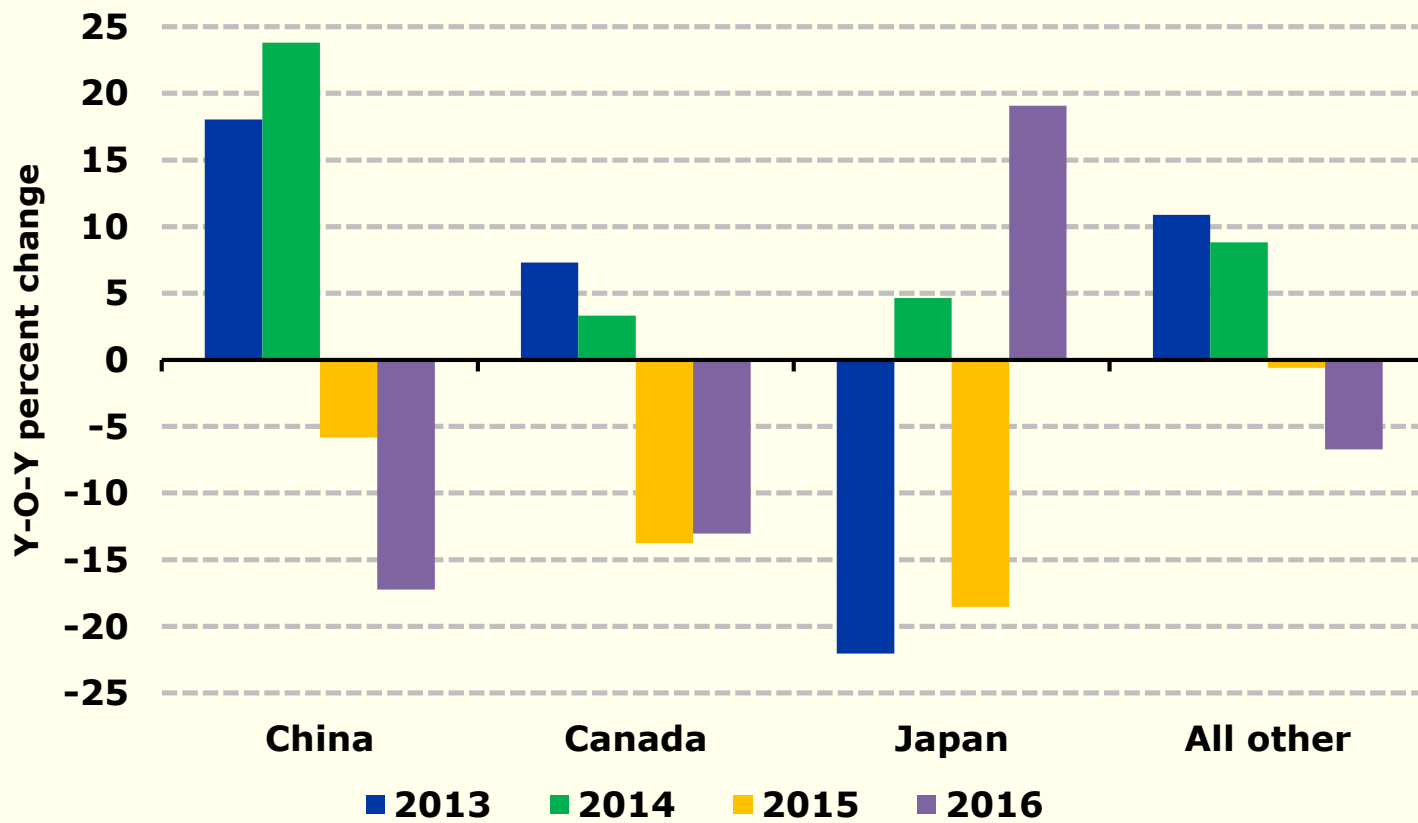
Source: Federal Reserve; data through March 2017

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WA exports have declined for two consecutive years

Year-over-year growth in export value



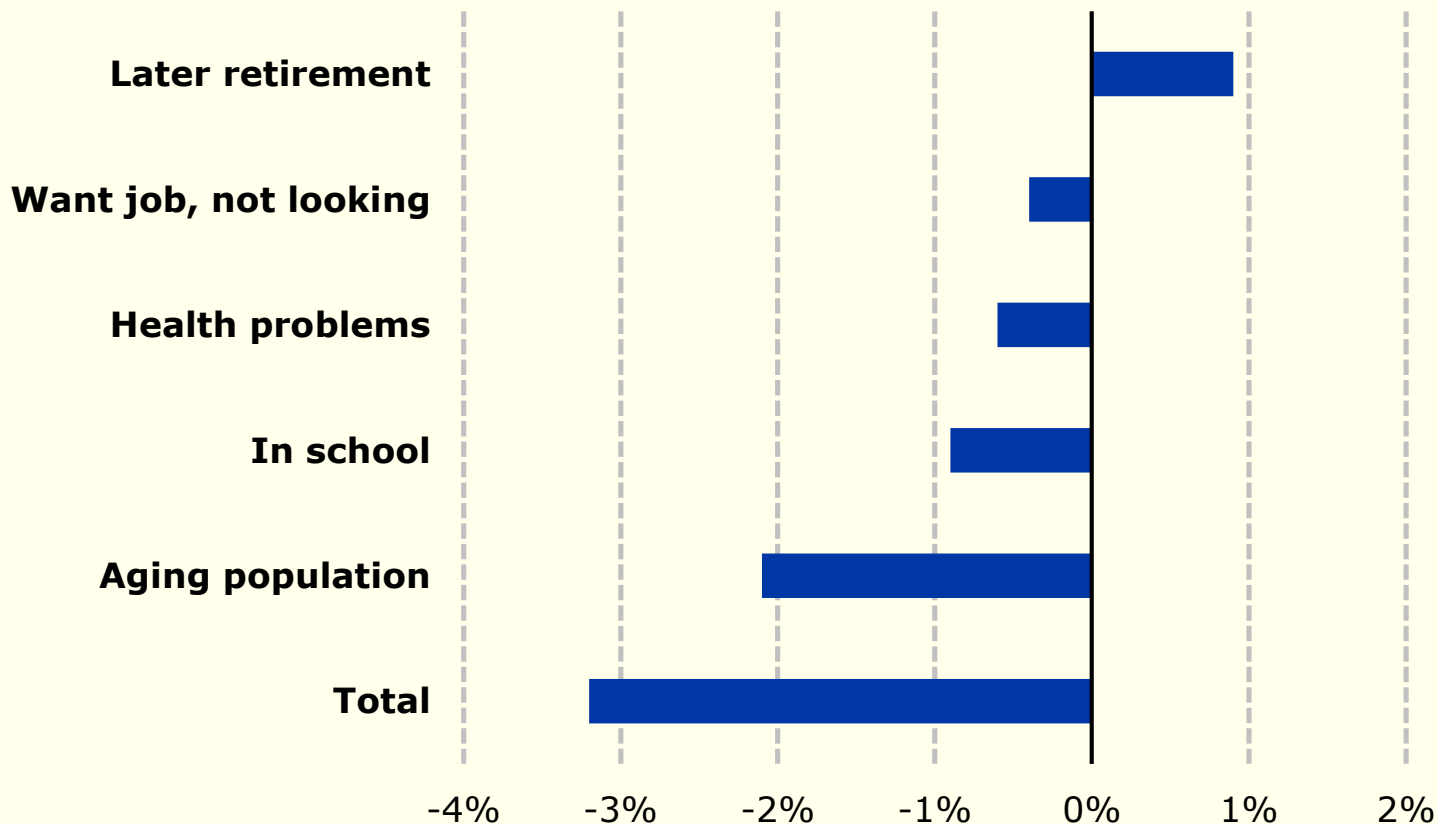
Source: WISERTrade; data through December 2016

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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



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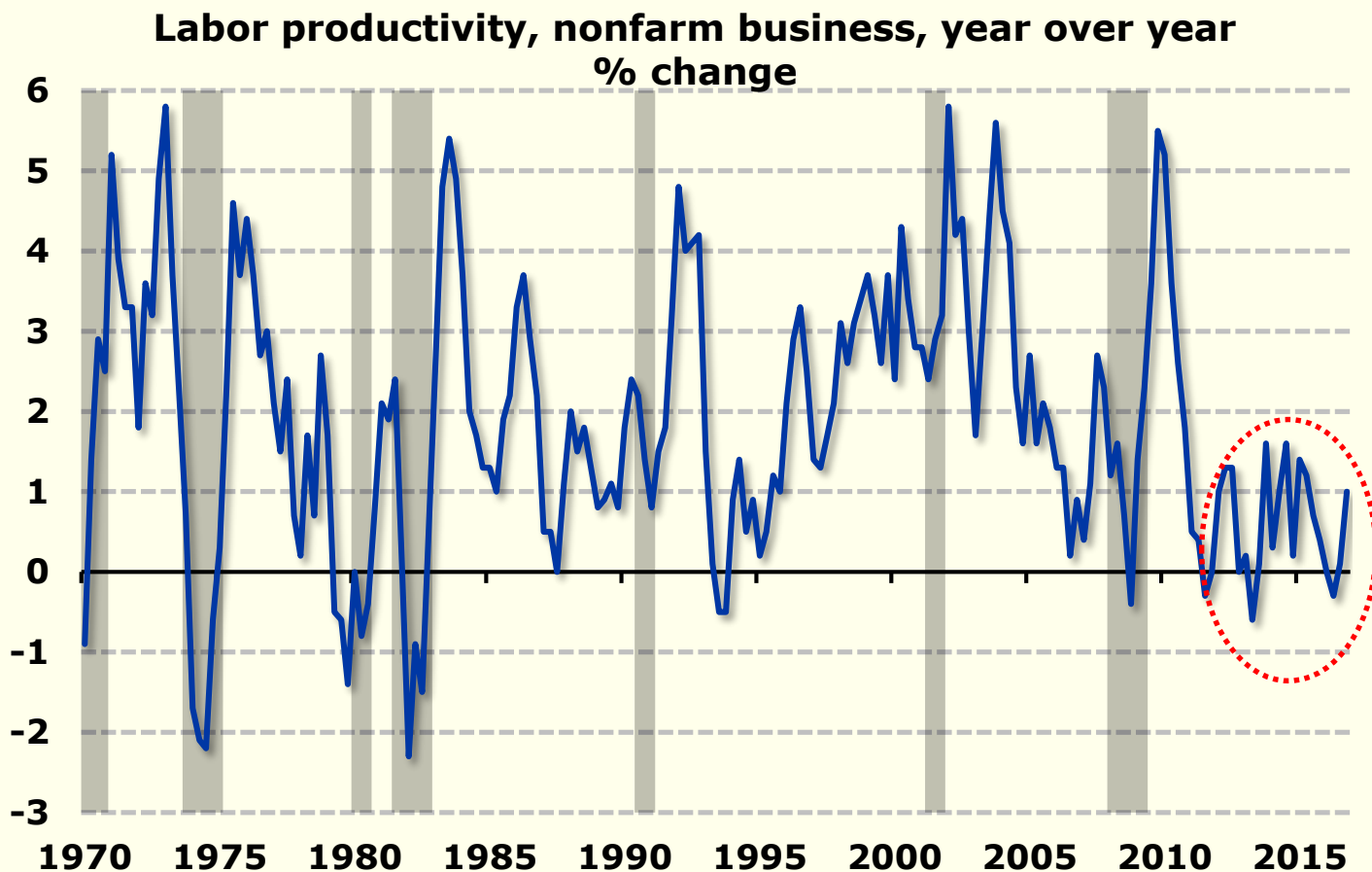
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Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

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Labor productivity growth has remained low since 2011

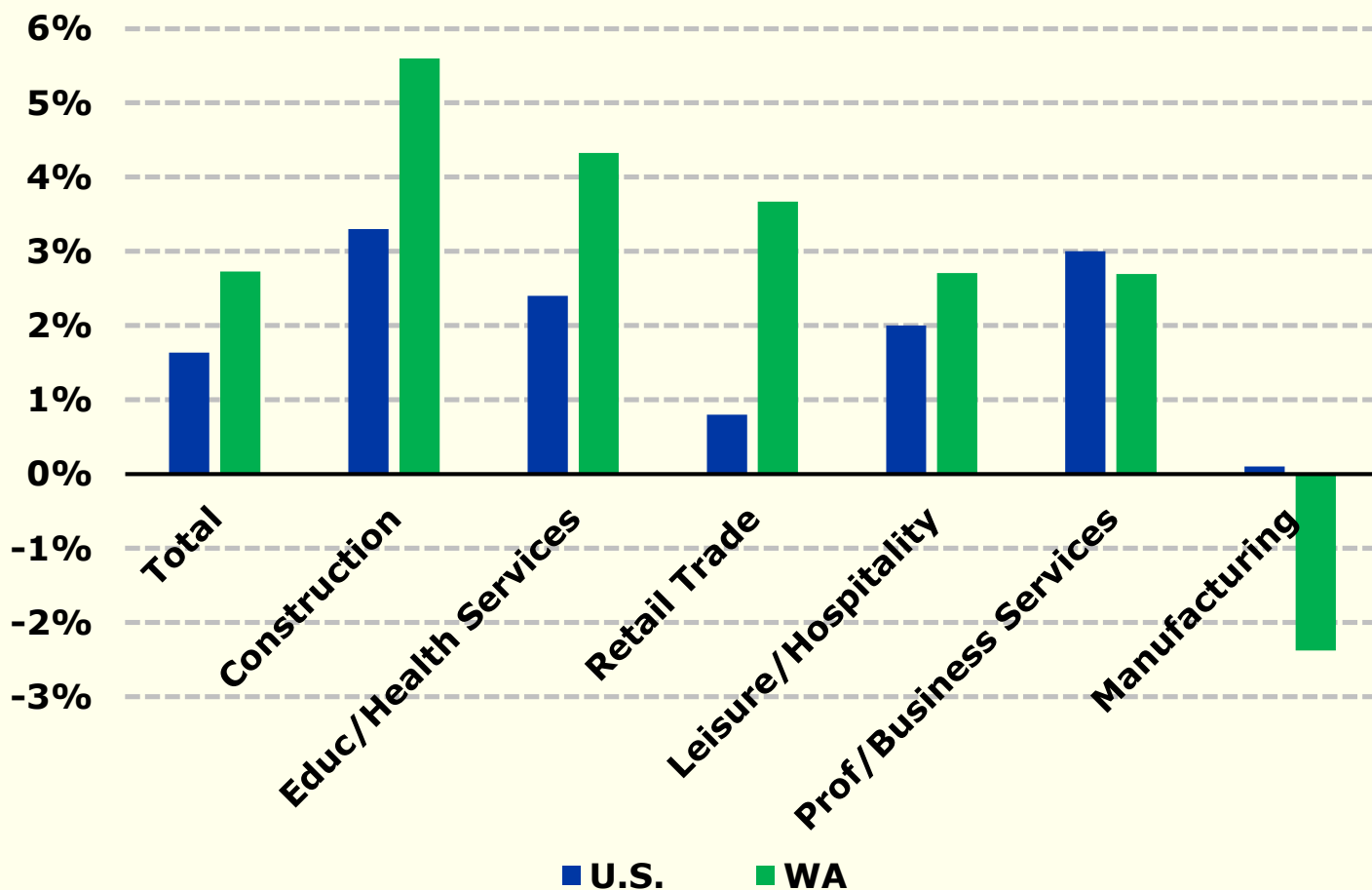


Source: U.S. Bureau of Labor Statistics, data through 2016 Q4

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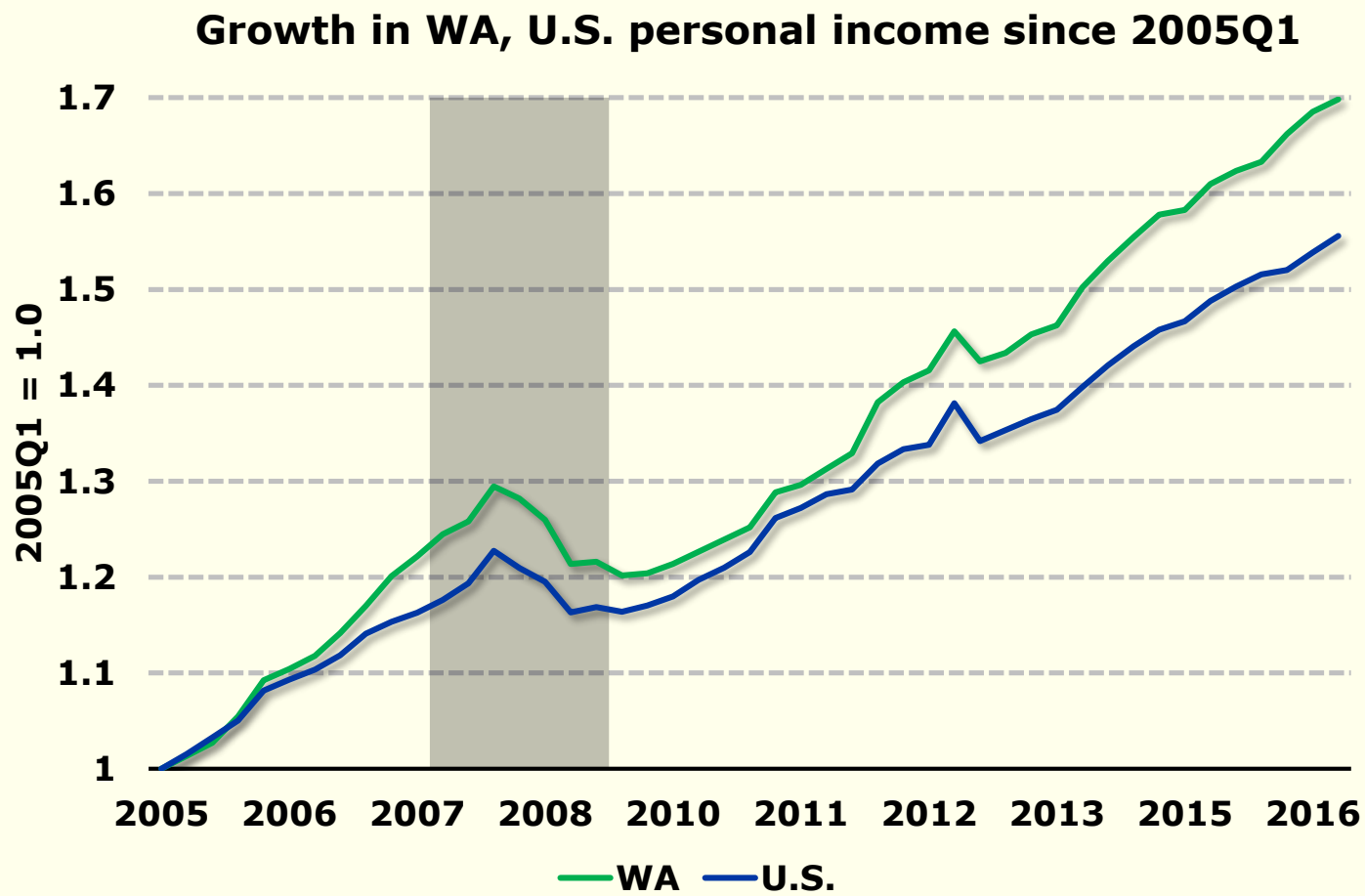


Washington vs U.S. employment growth: Feb. 2016 to Feb. 2017





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



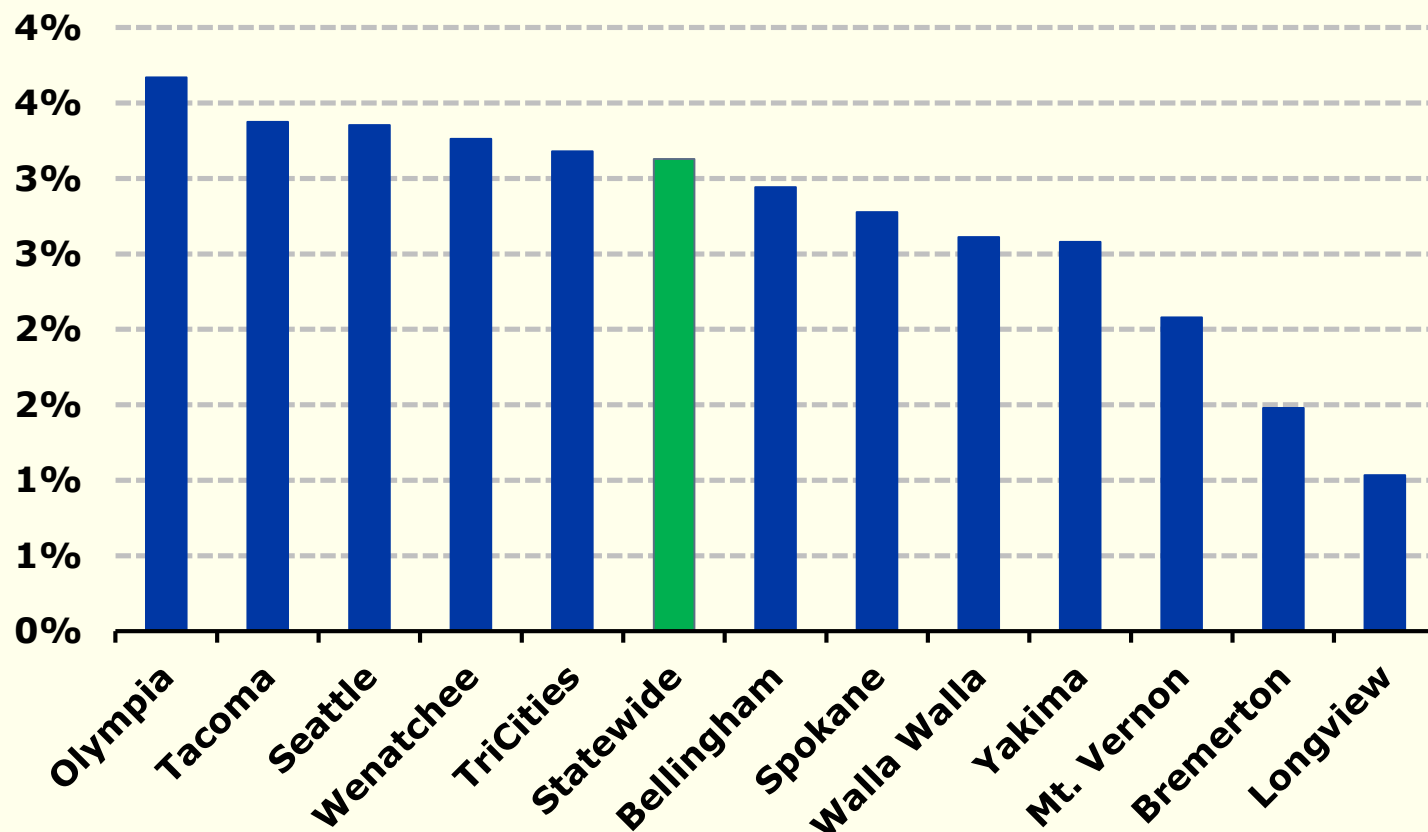
Source: U.S. Bureau of Economic Analysis, data through 2016 Q3

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Employment growth varied widely across state metro areas

2016 employment growth by metro area

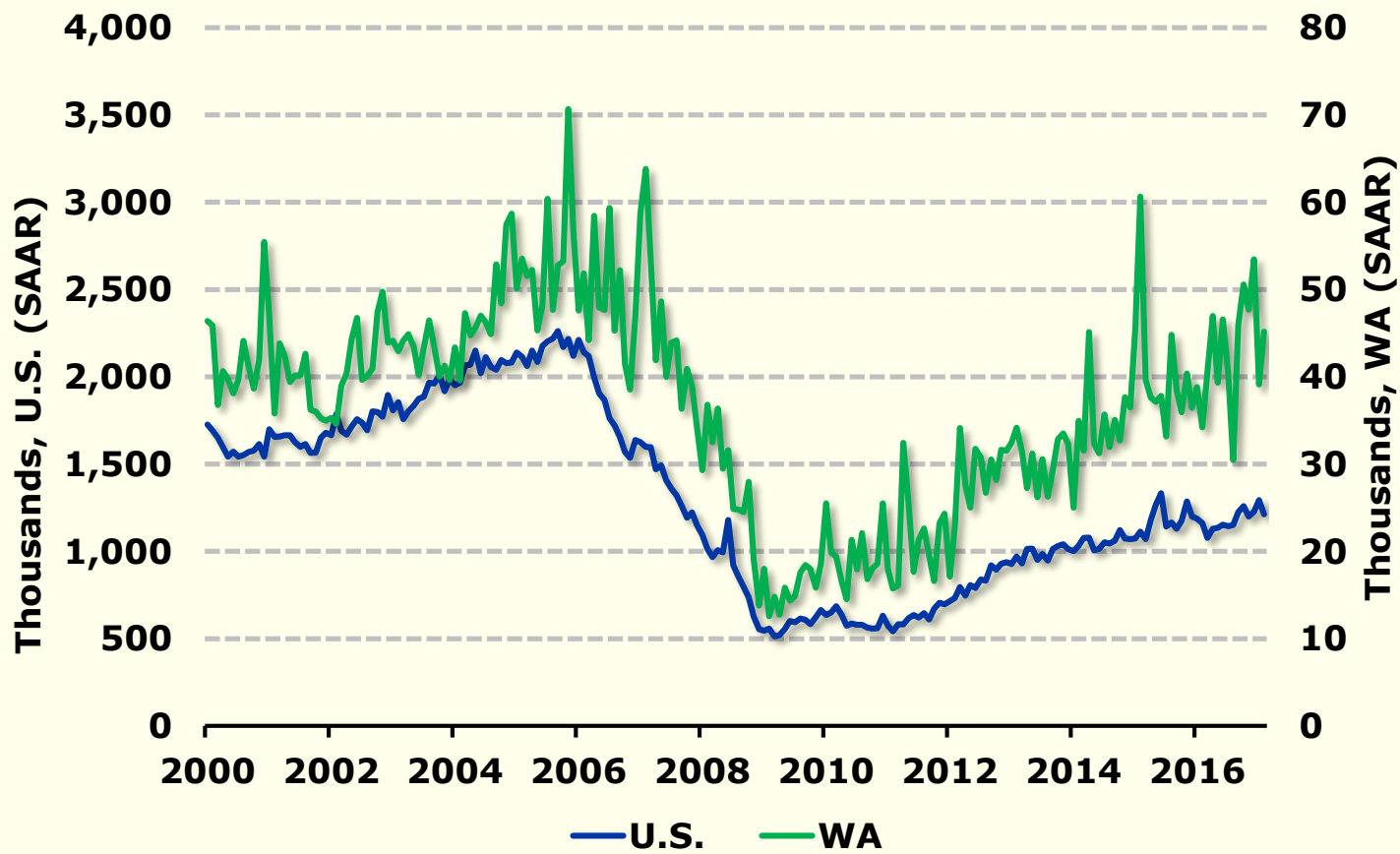


Source: WA State Employment Security Department

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

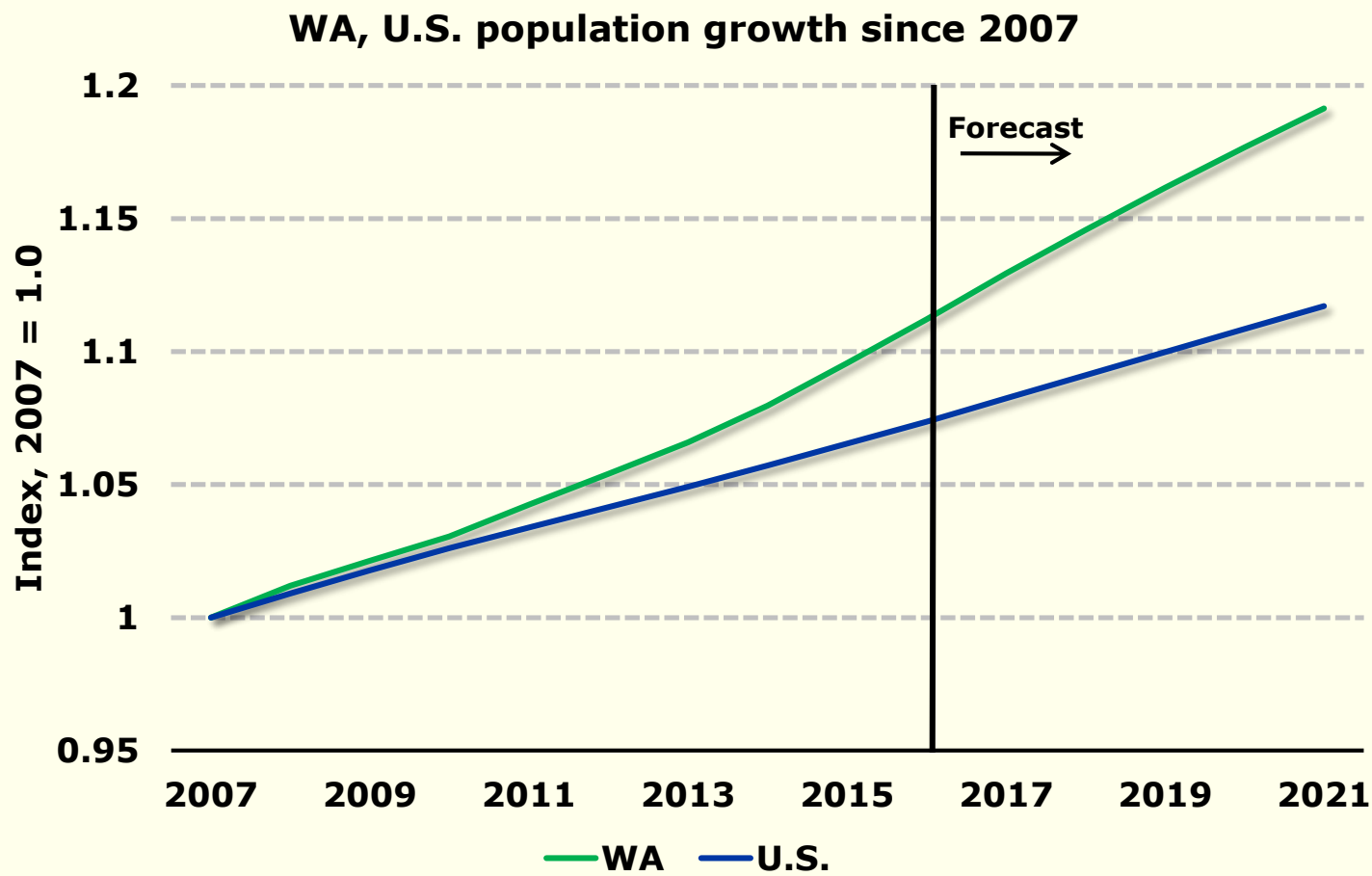


Source: U.S. Census Bureau, data through February 2017

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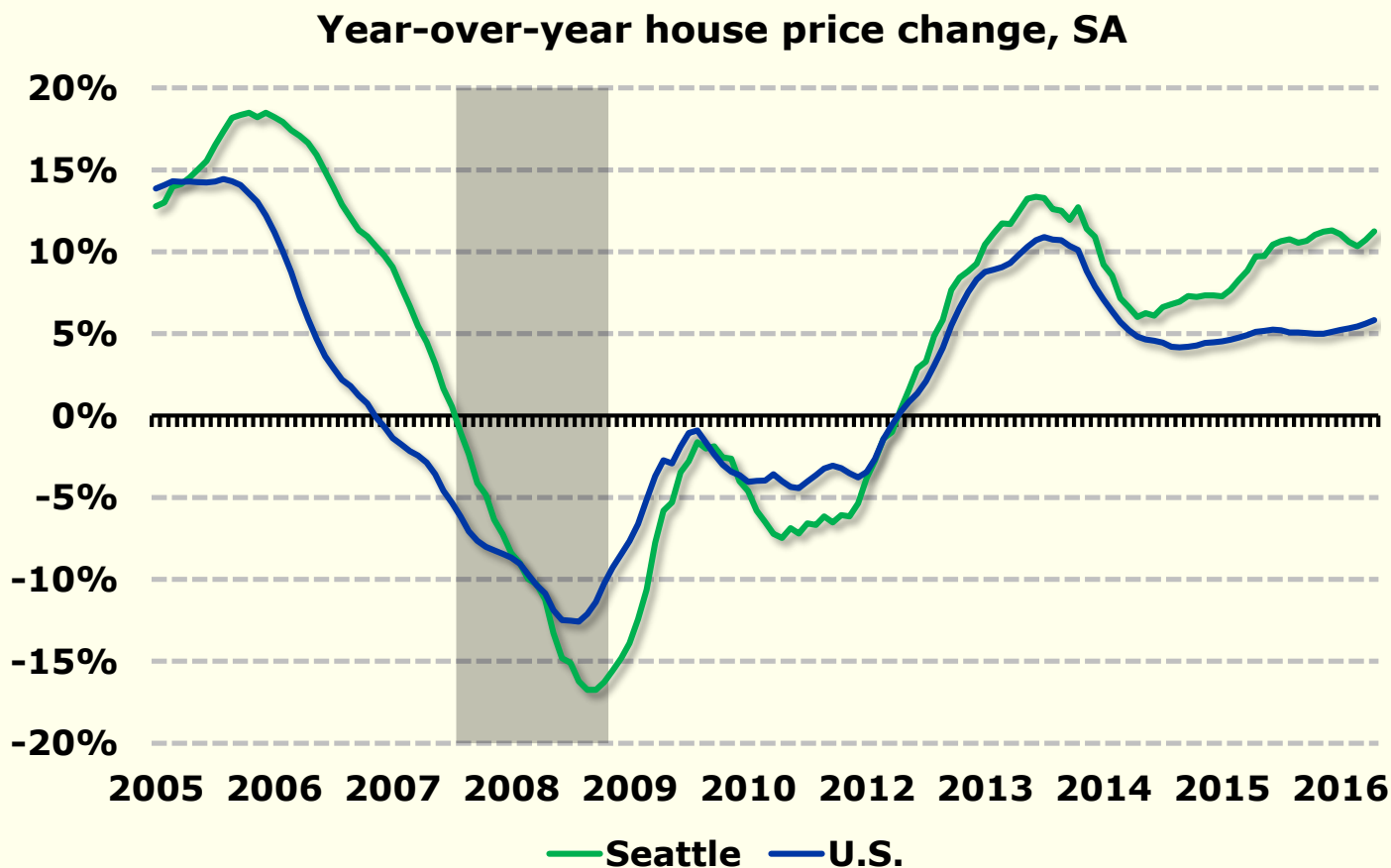


WA population growing faster than U.S. due to in-migration



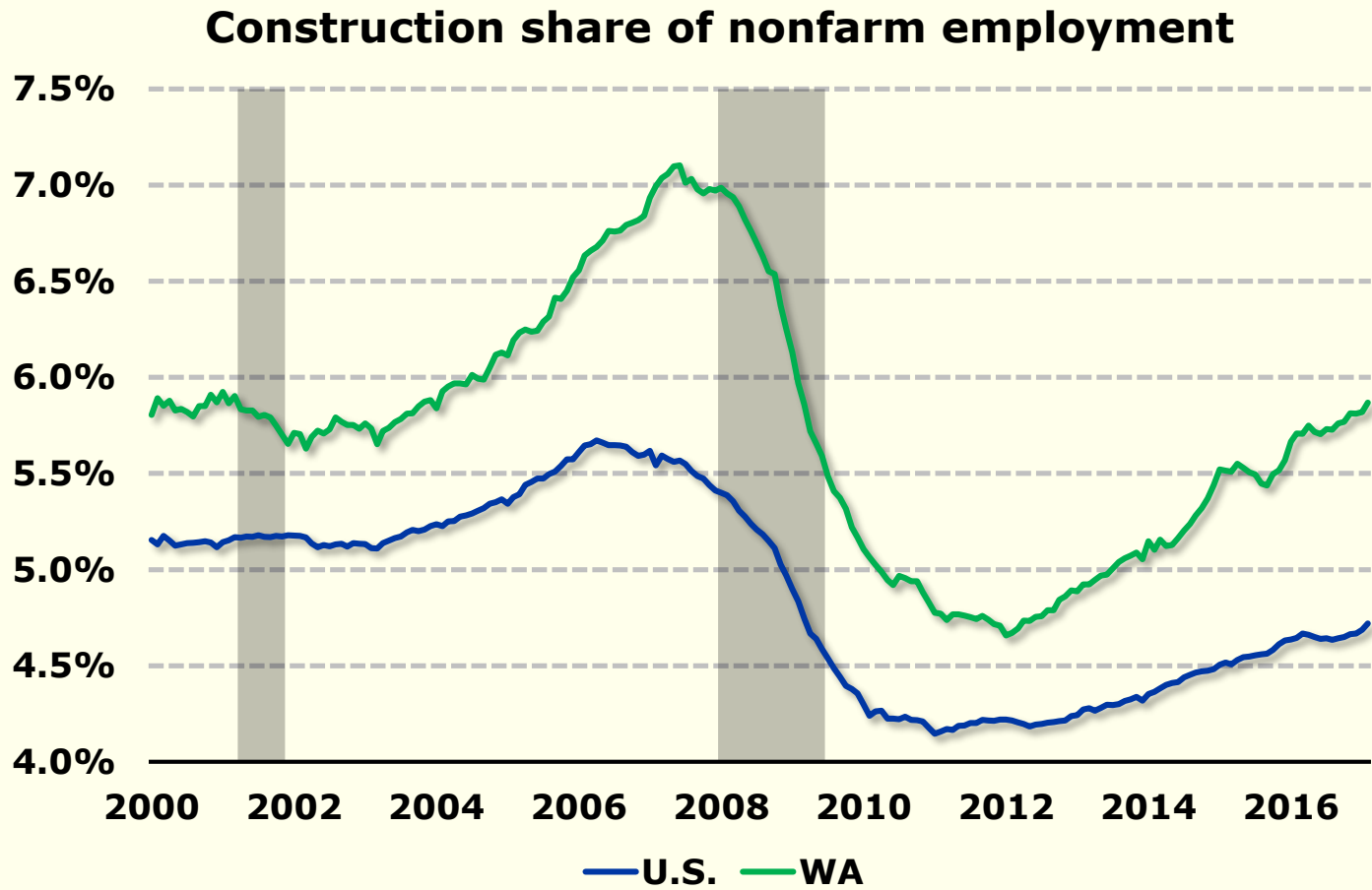


Seattle home prices have been rising much faster than prices nationally



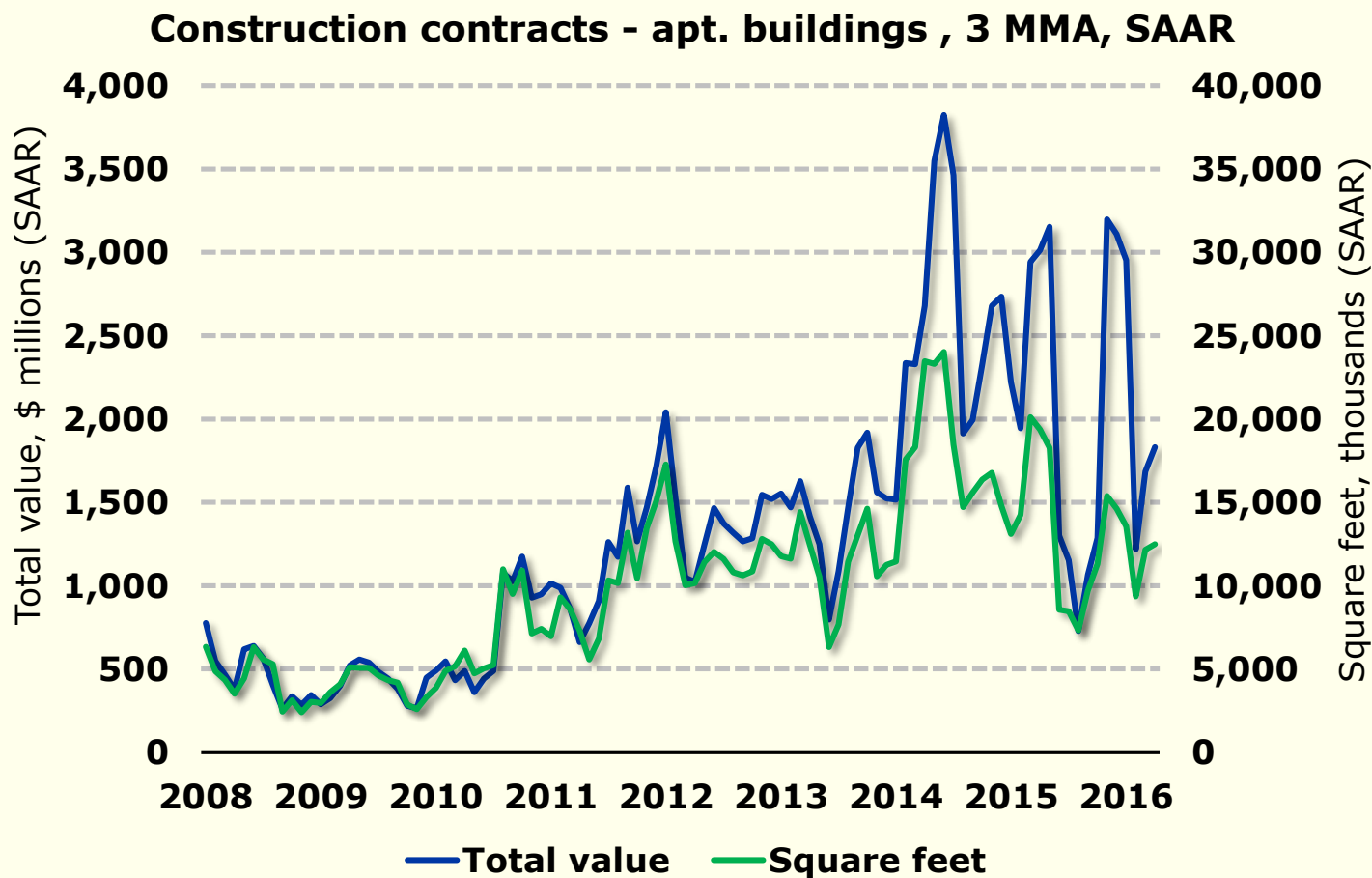


Construction accounts for a larger share of employment in WA than the U.S.





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



Source: Dodge, ERFC; data through Feb. 2017

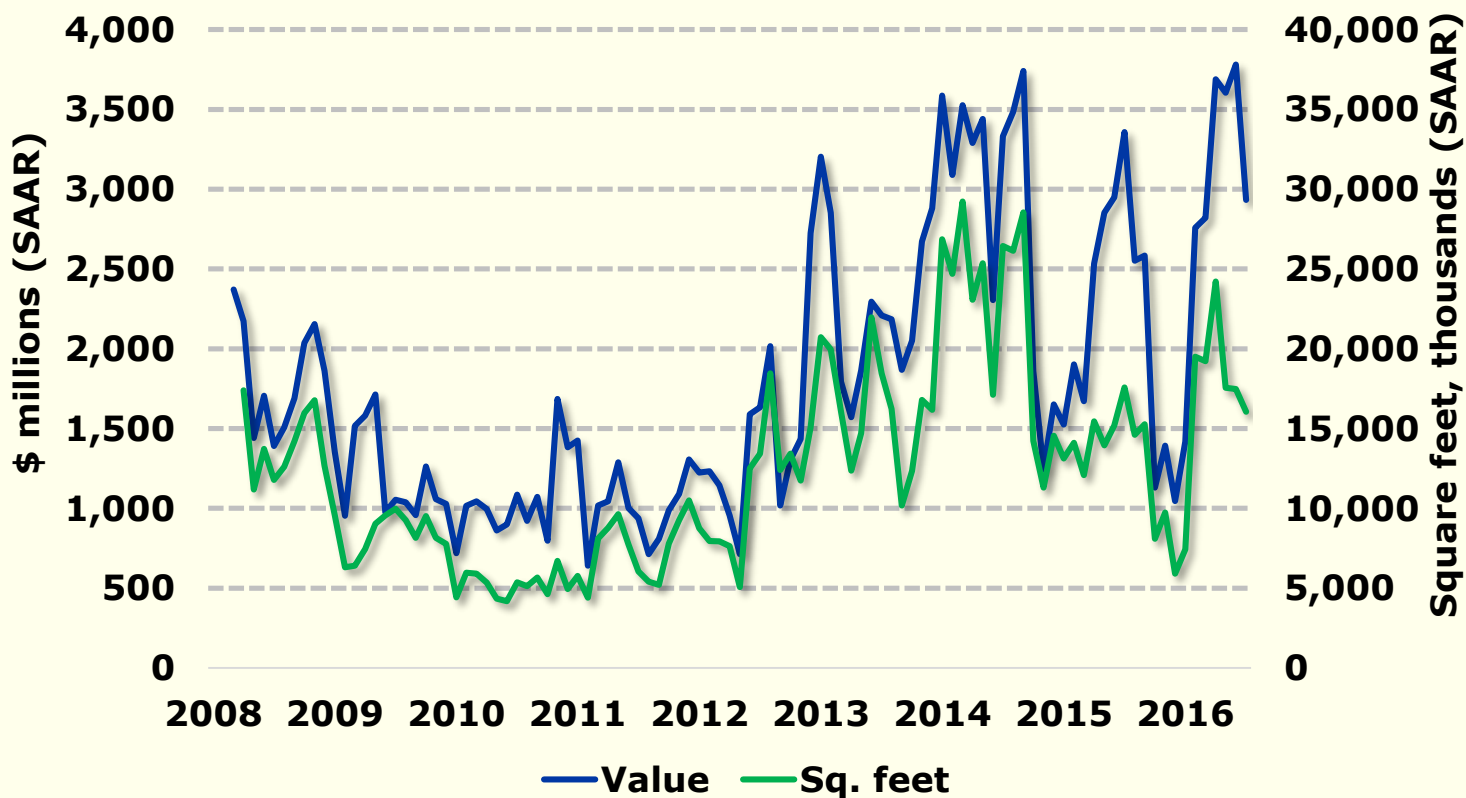
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WA commercial construction activity heading up during last half of 2016, slowed in February

Includes office, retail, hotels, restaurants, warehouses

Construction contracts – nonresidential commercial, 3 MMA, SAAR

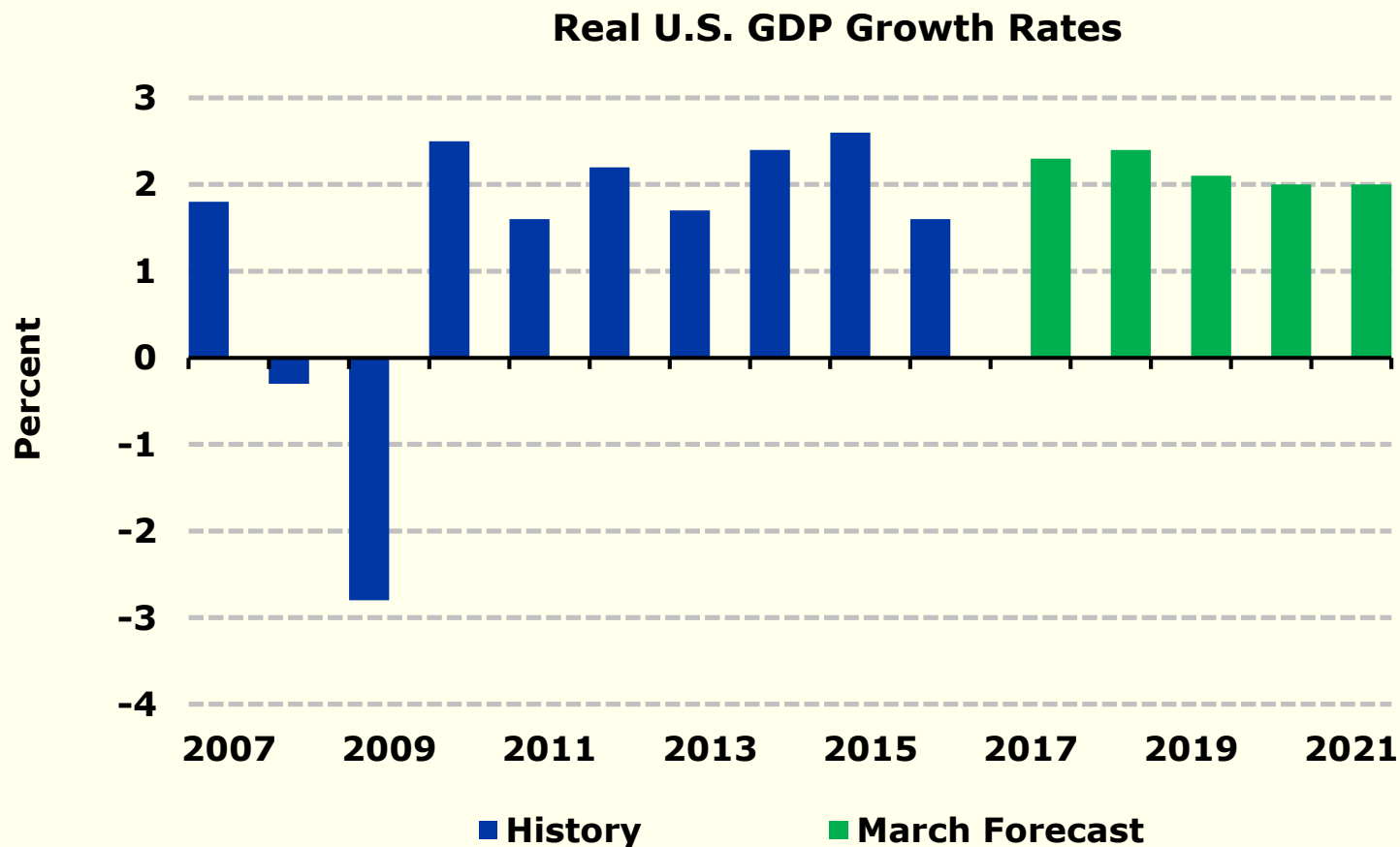


Source: Dodge, ERFC; data through Feb. 2017

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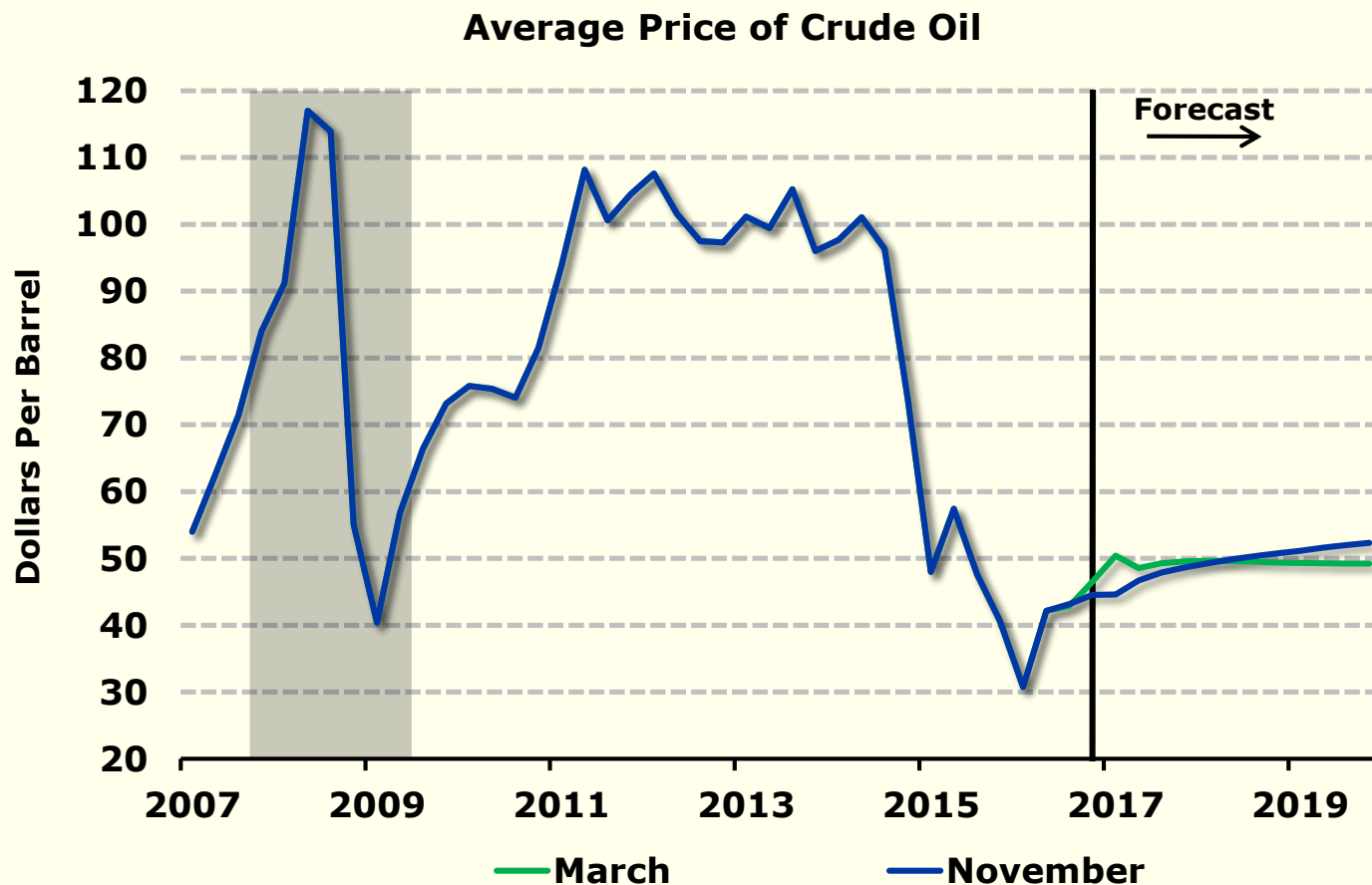


GDP growth is expected to improve from last year's 1.6% growth rate





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

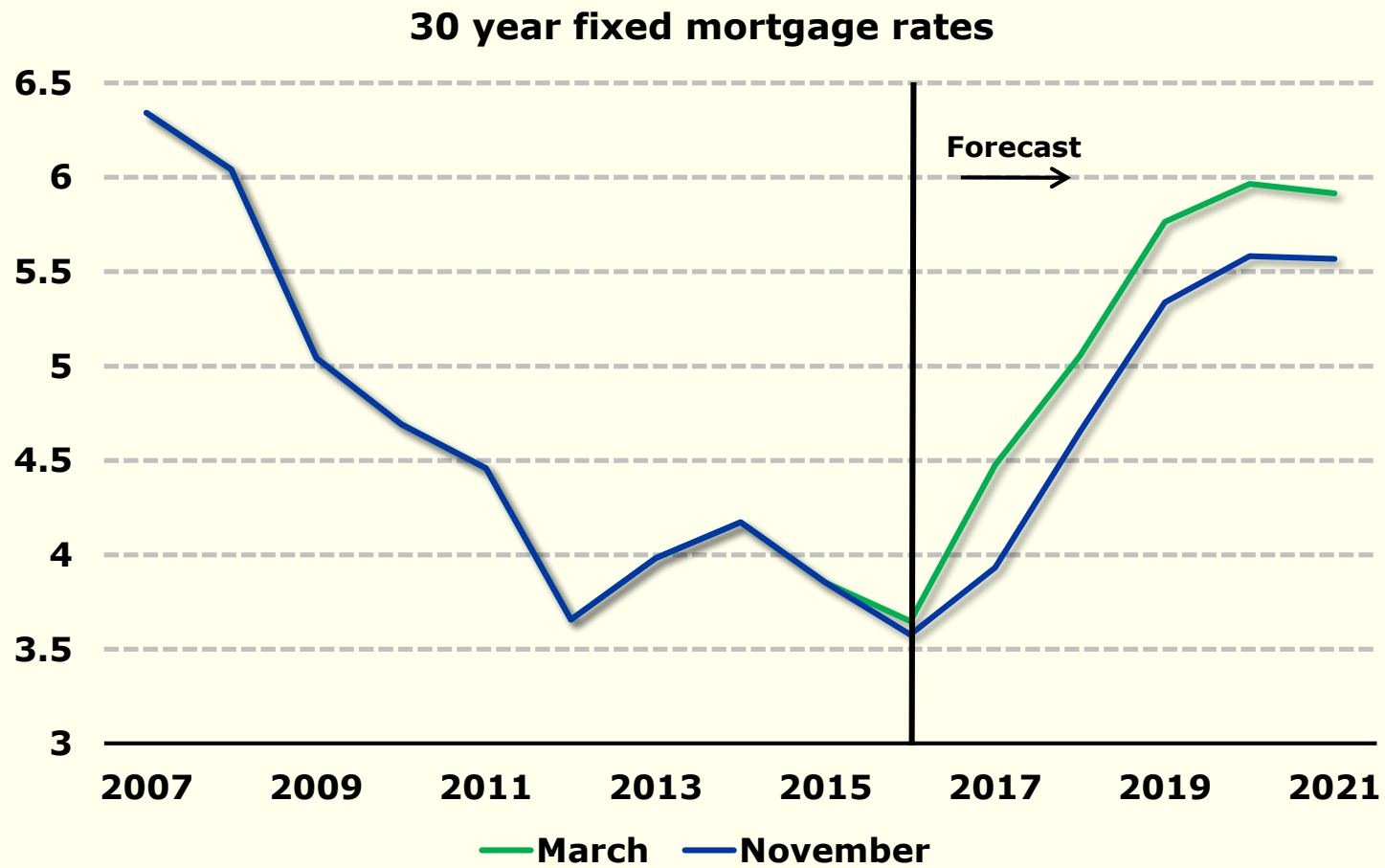


Source: DOE, ERFC March 2017 forecast; historical data through 2016Q4

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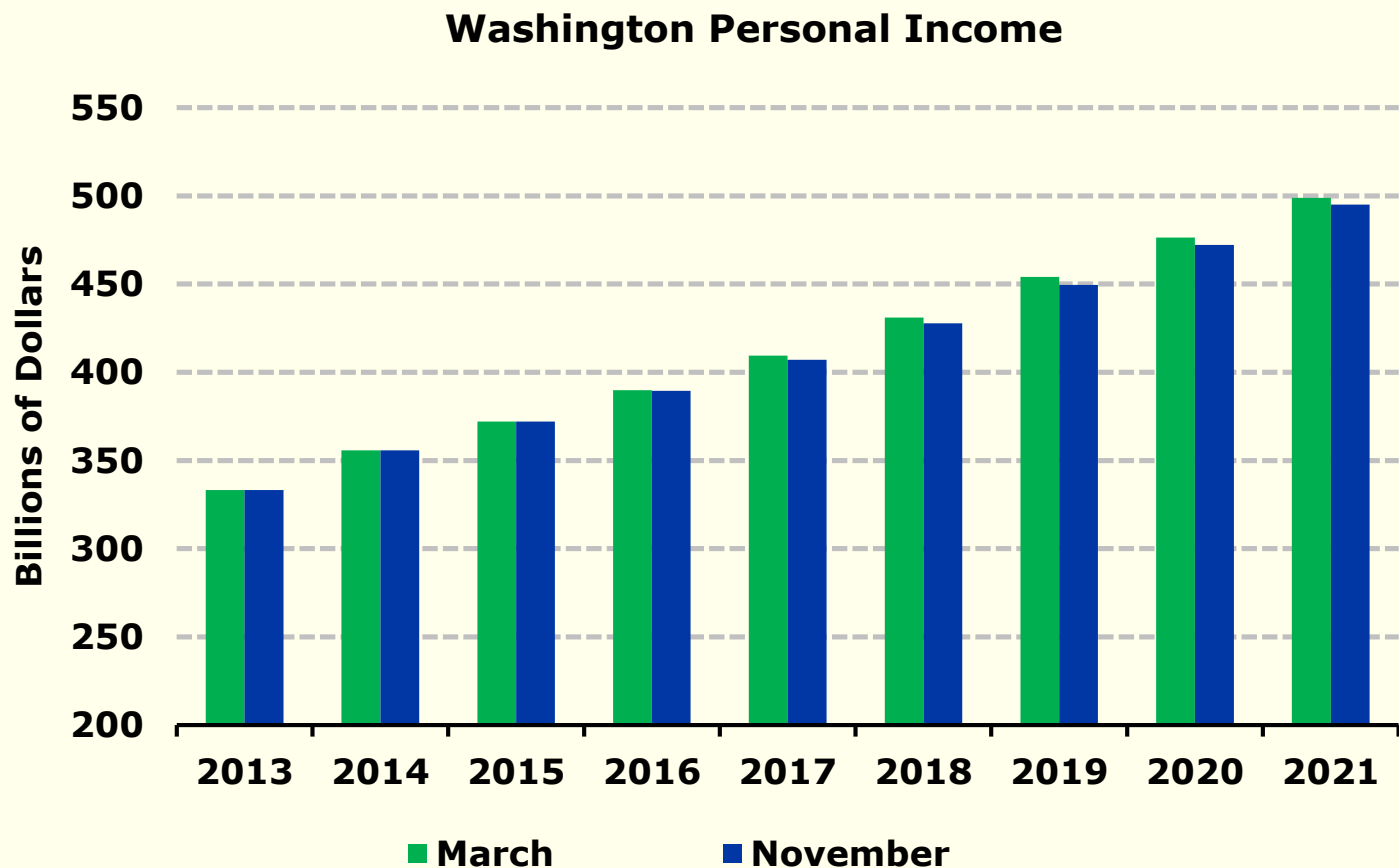


Two more Federal Reserve interest rate increases assumed for this year





Washington personal income is slightly higher compared to the November forecast



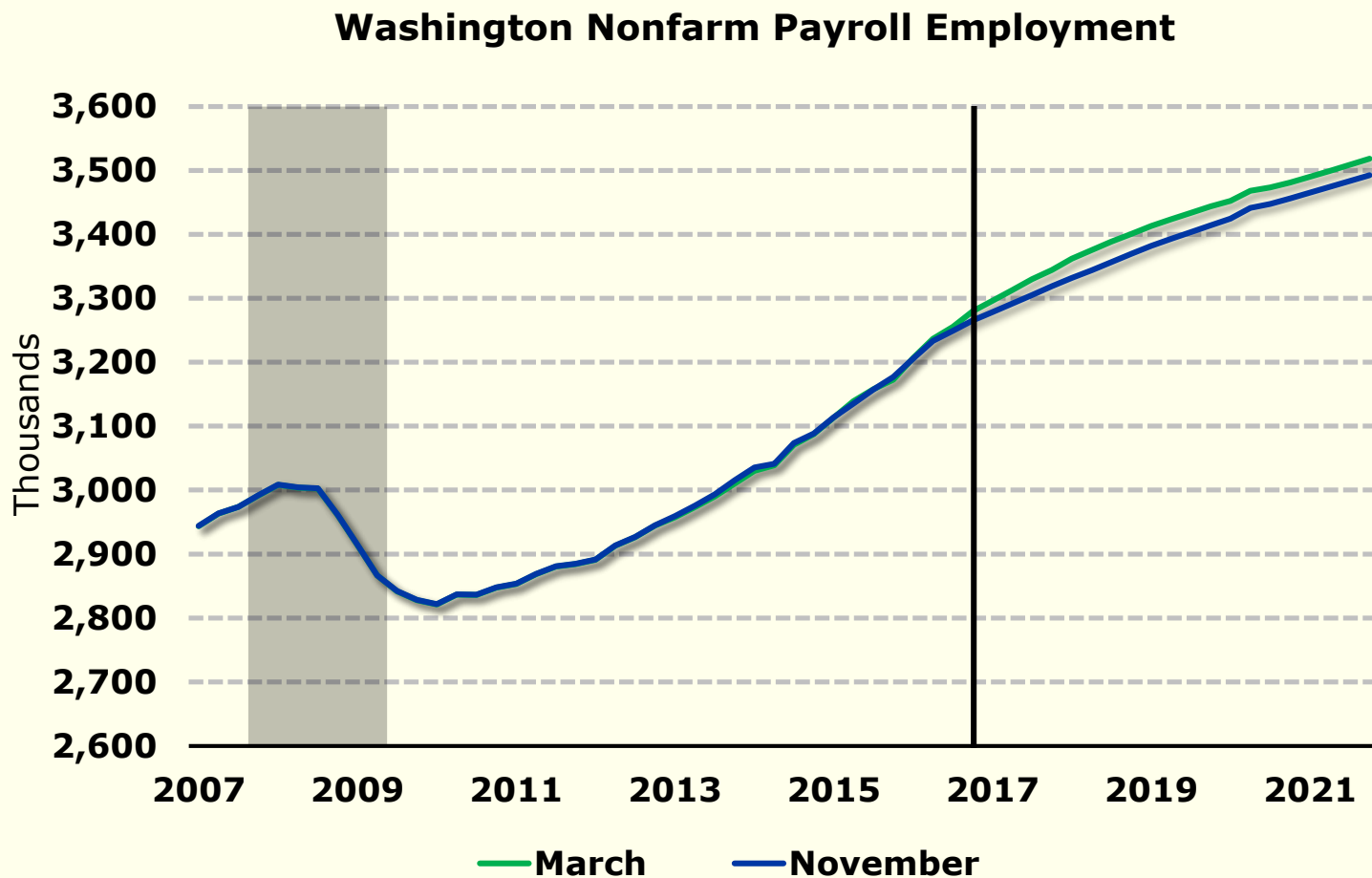
Source: ERFC March 2017 forecast; historical data through 2015

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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

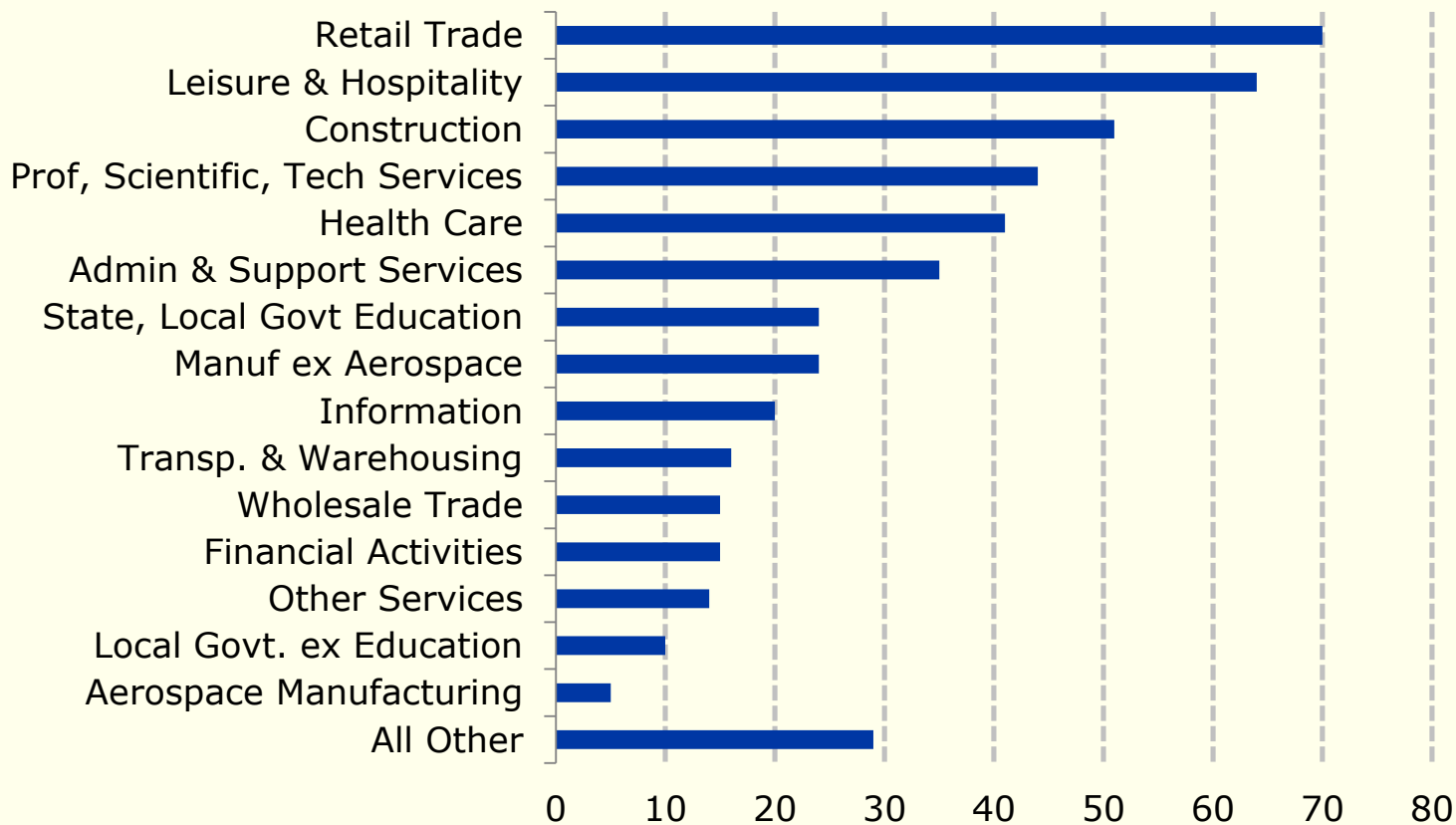
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Washington Employment Trends

Washington has gained 477,000 nonfarm jobs since February 2010

Employment Change since Trough (thousands)



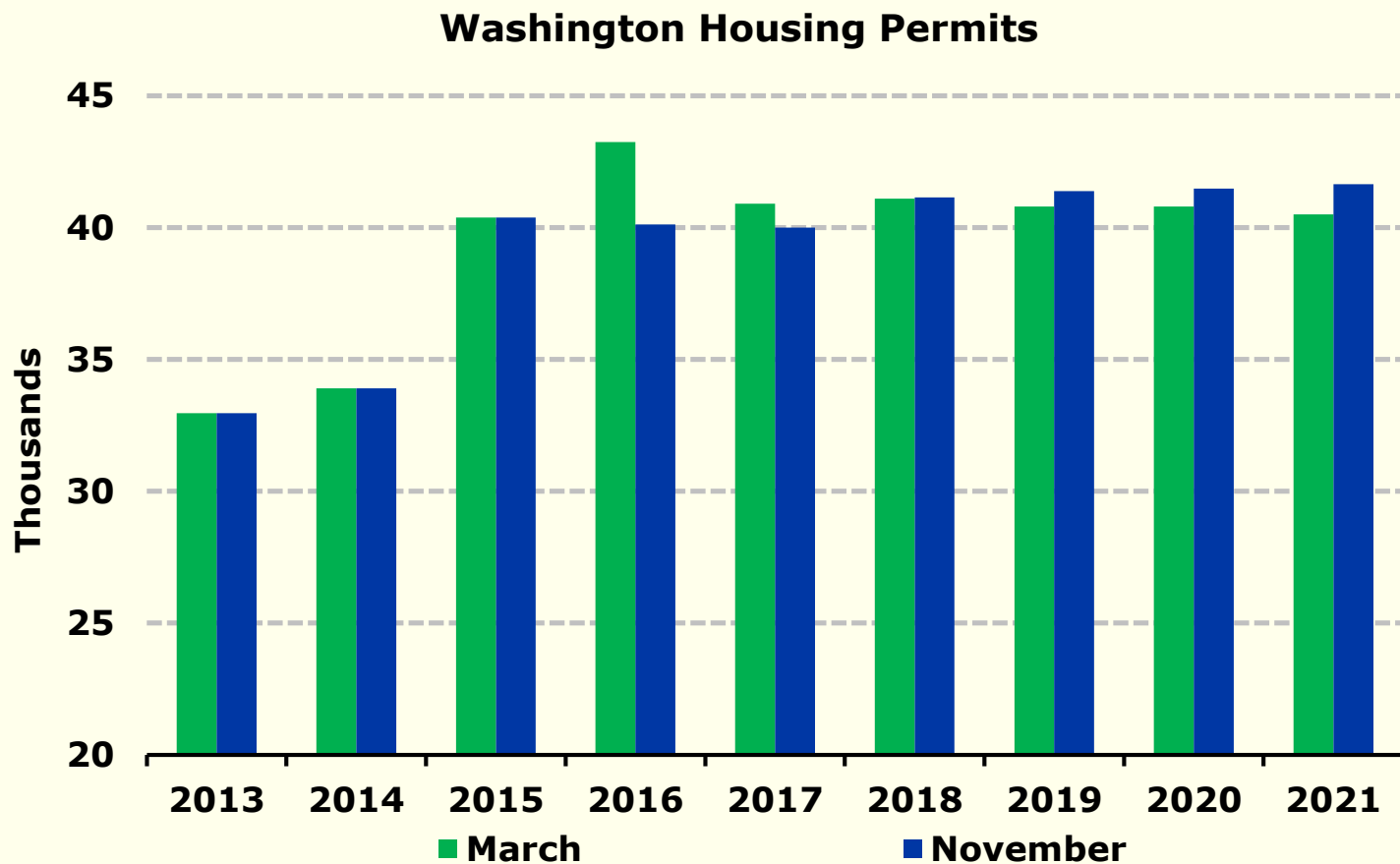
Source: U.S. Dept. of Labor, BLS, ESD, ERFC; data through Feb. 2017

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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



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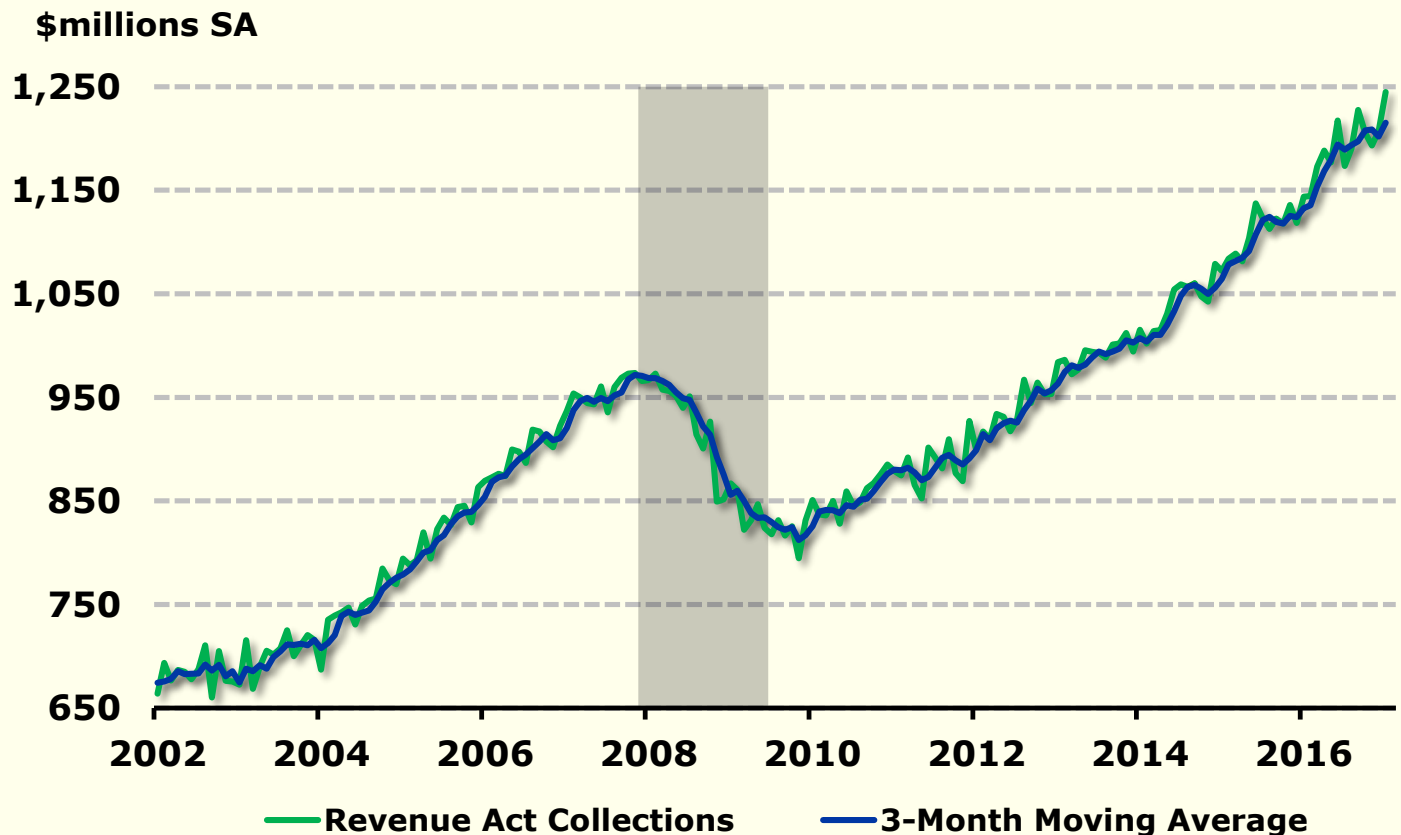
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Source: ERFC March 2017 forecast; historical data through 2016

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After slowing slightly in the last half of 2016, Revenue Act collections for January activity were strong



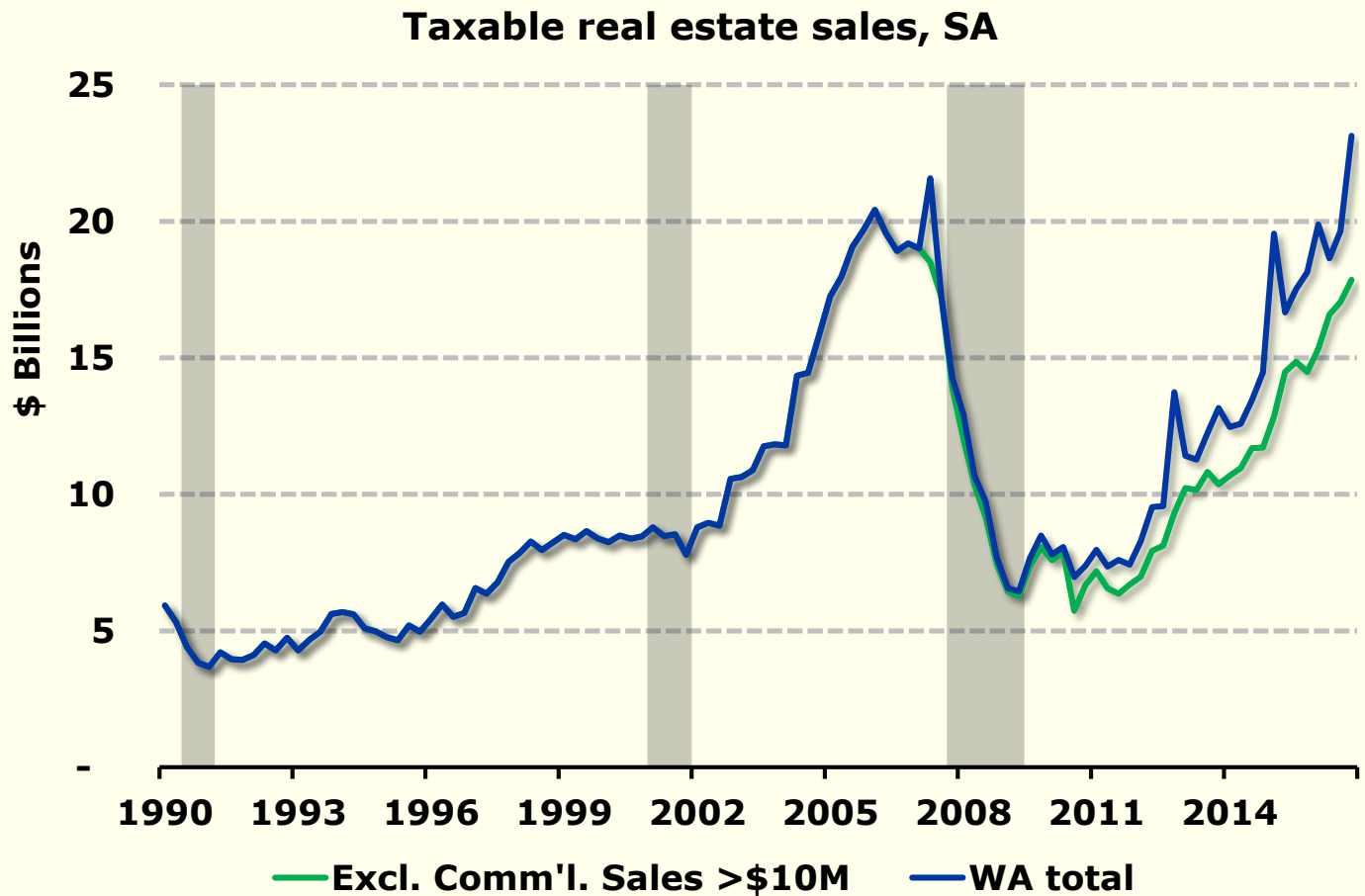
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

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



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

Large commercial property sales over \$10 million totaled \$563 billion in January and \$573 million in February.

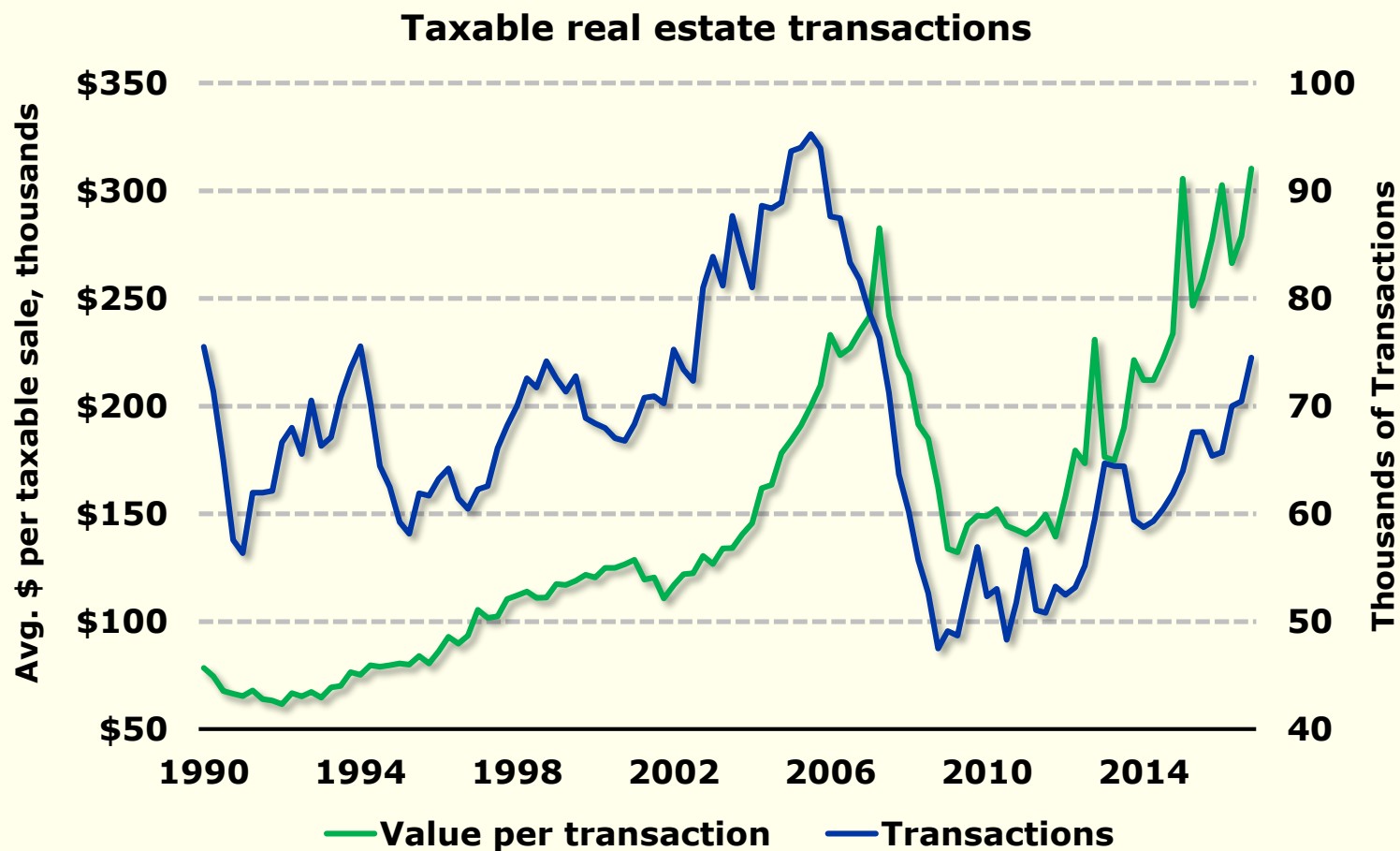


Source: ERFC, data through 2016 Q4

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



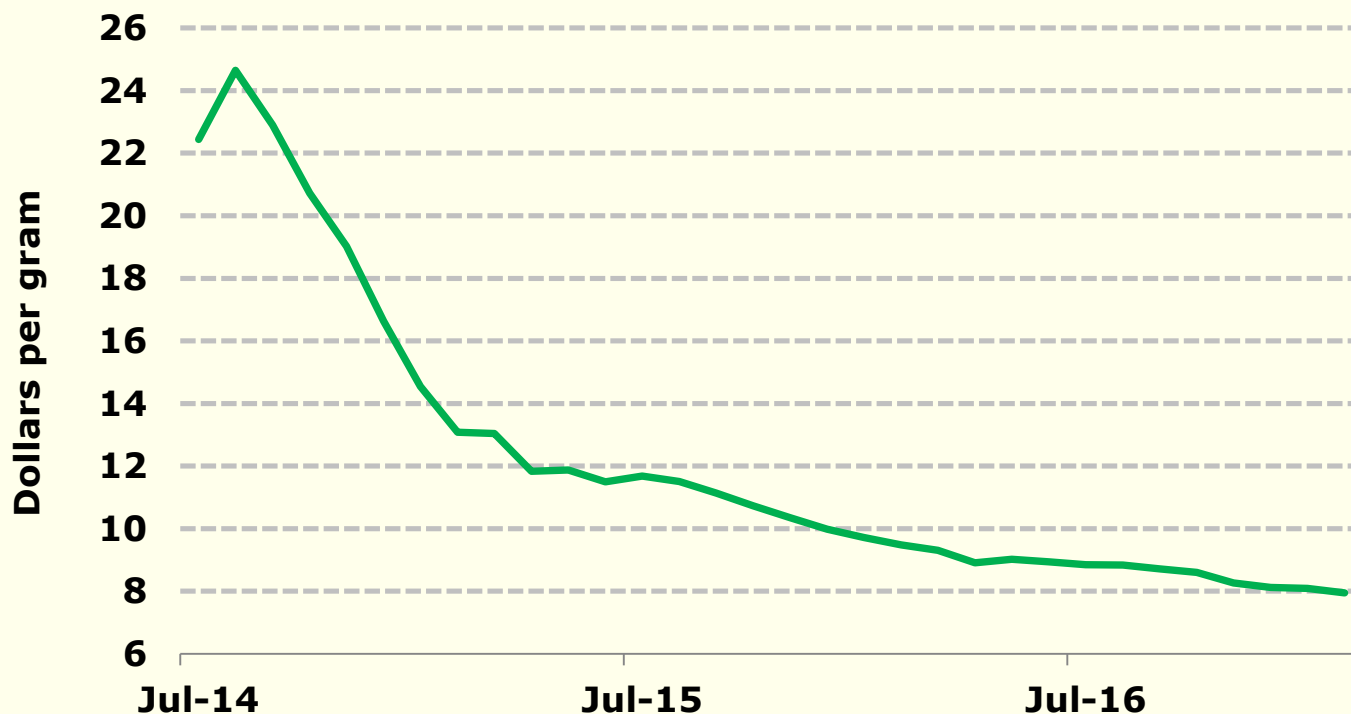
Source: ERFC, data through 2016 Q4

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The price of cannabis has continued to fall

Retail Price (includes 37% excise tax)

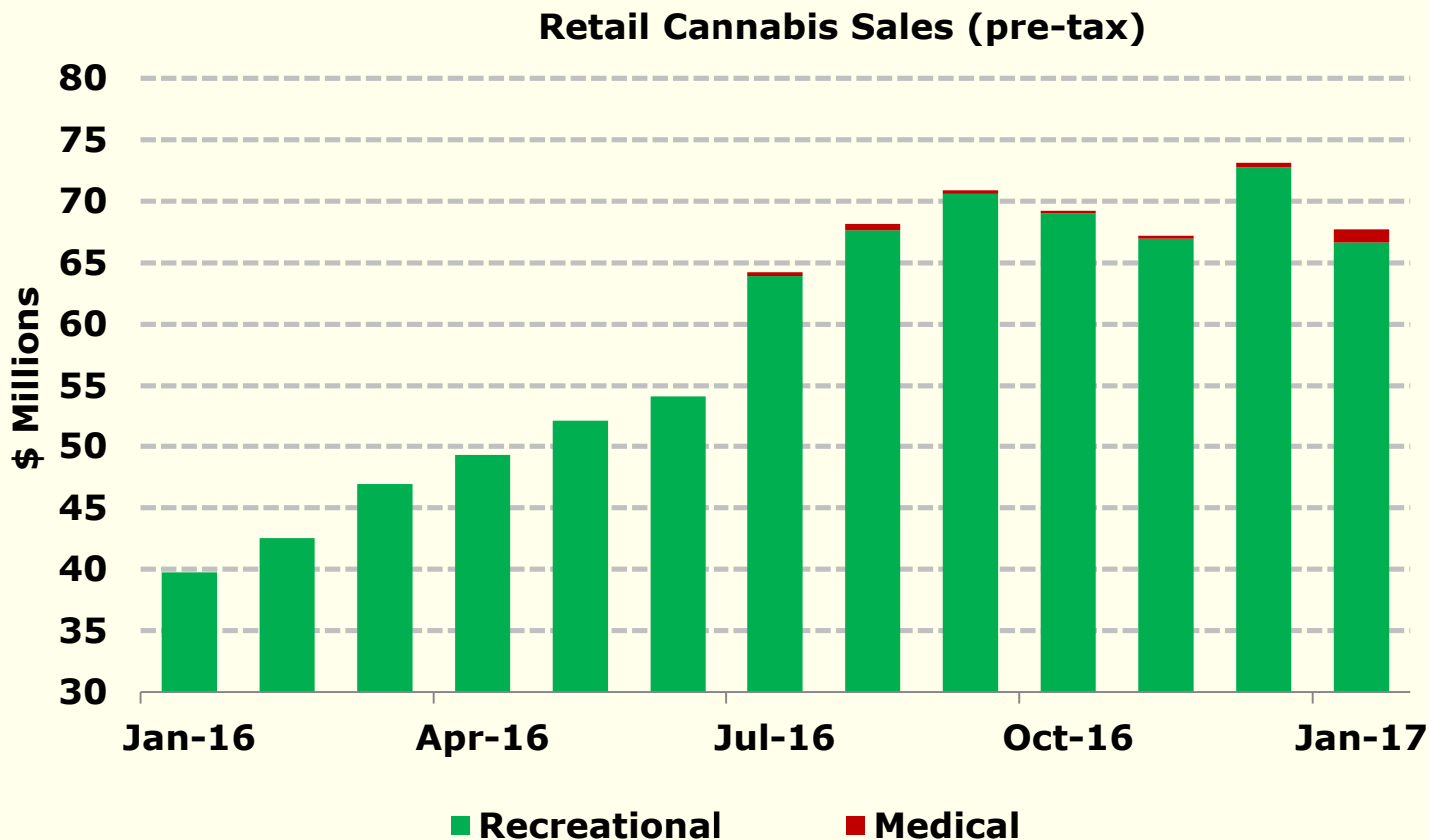


Source: LCB, ERFC; data through February 2017

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Cannabis sales growth has stalled



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Source: LCB, ERFC; data through January 2017

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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



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