

Economic and Revenue Update

Presented to
Mount Rainier Chapter,
Construction Specifications Institute

Steve Lerch
Executive Director

January 20, 2017
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The U.S. economy will continue to grow at a moderate pace
- The WA economy will continue to outperform the national economy
- The forecast assumes the Federal Reserve will increase interest rates twice during 2017
- Downside risks to the baseline include slow global and U.S. economic growth, the impact of a stronger dollar on exports, weak labor productivity growth, uncertainty regarding federal fiscal and trade policy
- Upside risks include stronger residential construction activity and stronger growth in wages

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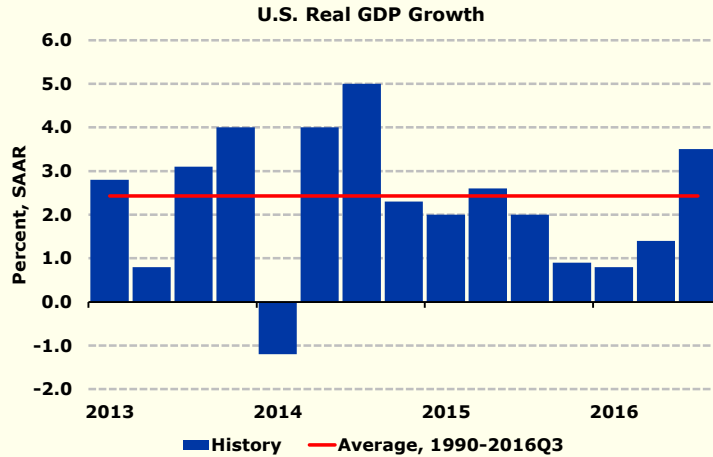
Third quarter GDP growth was highest in two years

Q3 growth helped by likely one-time increases in export growth, additions to business inventories

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Source: U.S. Dept. of Commerce, BEA, data through 2016 Q3

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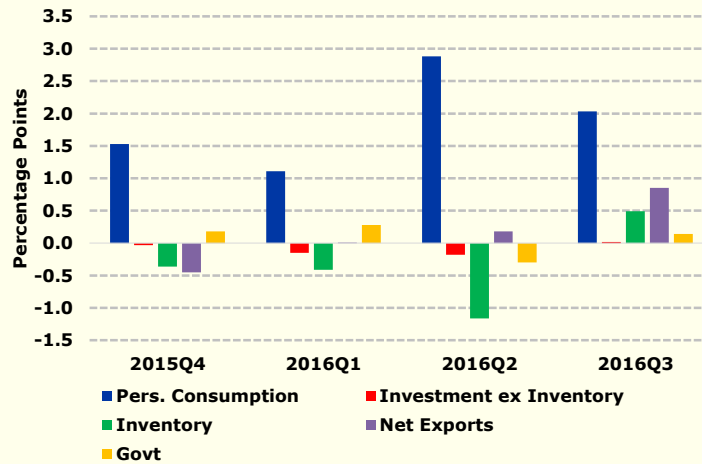
Contributions to percent change in real U.S. GDP

Net exports in Q3 were driven by record soybean exports due to a poor crop in South America

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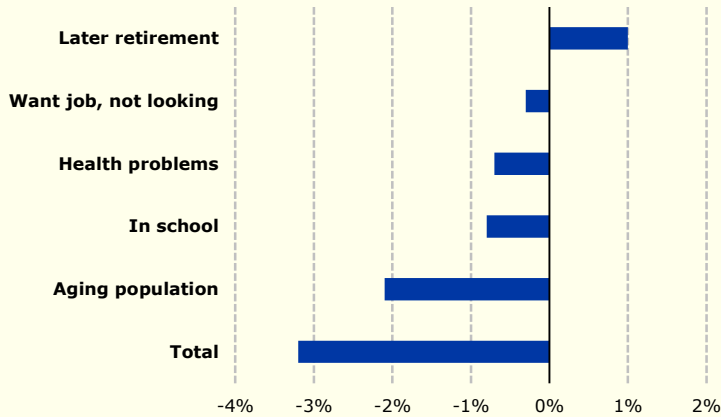
Source: U.S. Bureau of Economic Analysis, data through 2016 Q3

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Components of change in labor force participation rate, 2007Q3 to 2016Q3

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



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

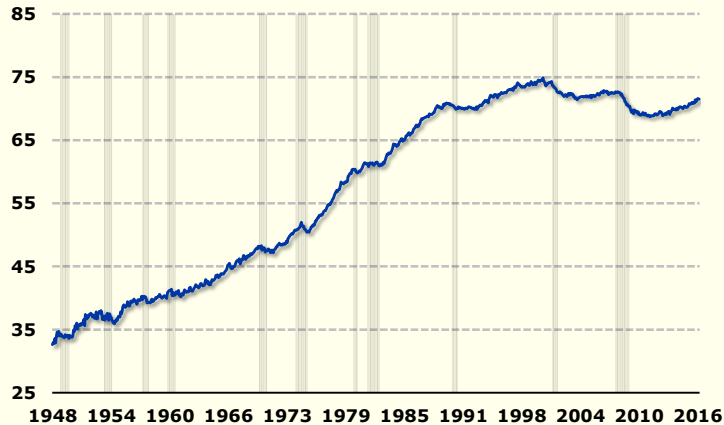
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Fraction of employed women aged 25-54 is up since recession, still slightly below historic peak

Peak: 74.9%, April 2000

% of women aged 25-54 with paid employment



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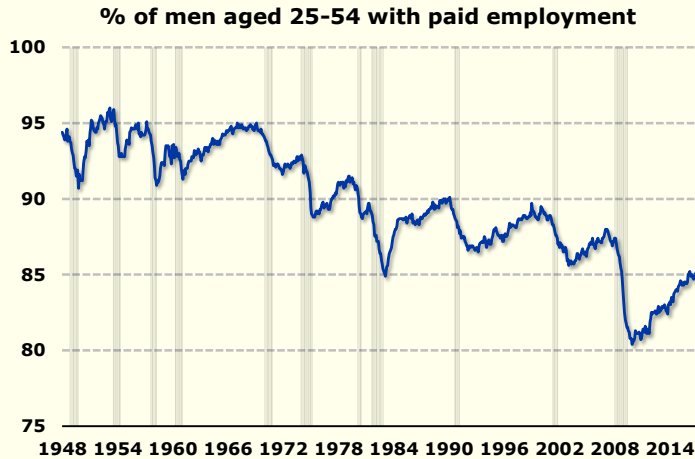
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Source: U.S. Bureau of Labor Statistics, NBER; data through Dec. 2016

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Fraction of employed men aged 25-54 is up since recession, well below historic peak



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Source: U.S. Bureau of Labor Statistics, NBER; data through Dec. 2016

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Global GDP growth has slowed, expected to gradually increase starting this year

Growth in previously fast-growing economies like China, Brazil, South Africa has slowed



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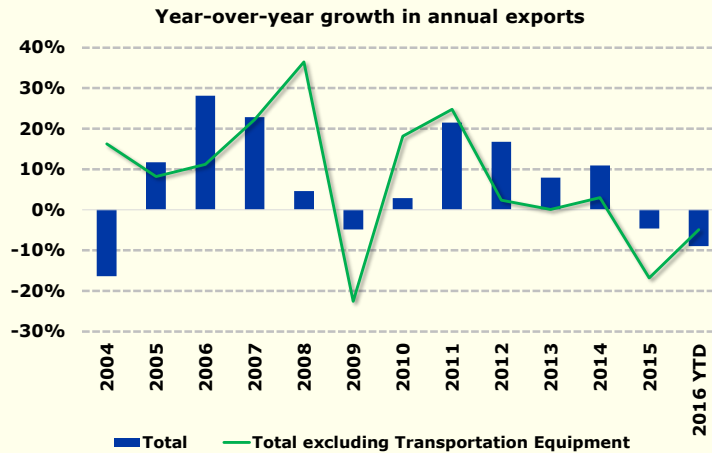
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Source: International Monetary Fund, October 2016; historical data through 2015

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Washington exports have weakened



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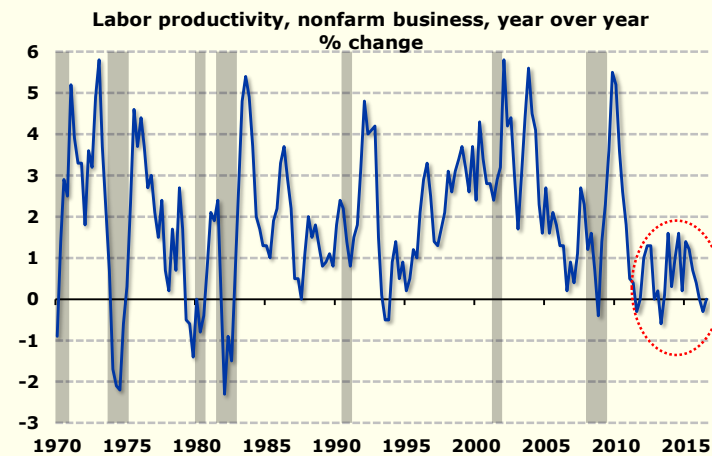
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Source: WiserTrade; data through 2016 Q3

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Labor productivity growth has remained low since 2011



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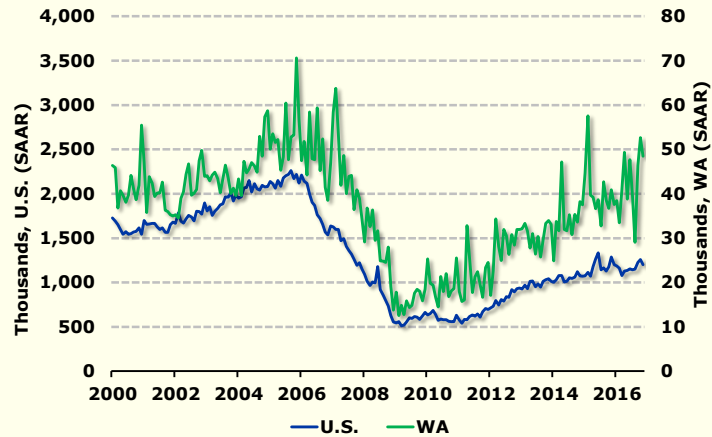
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Source: U.S. Bureau of Labor Statistics, data through 2016 Q3

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



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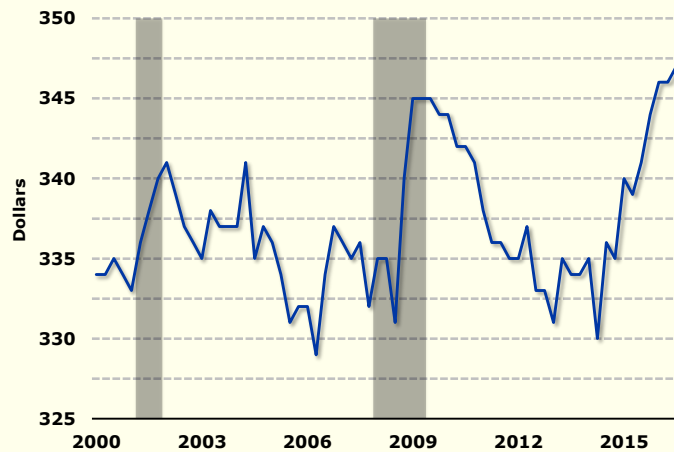
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Source: U.S. Census Bureau, data through November 2016

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U.S. real median weekly wages, full time workers (1982-84 dollars)



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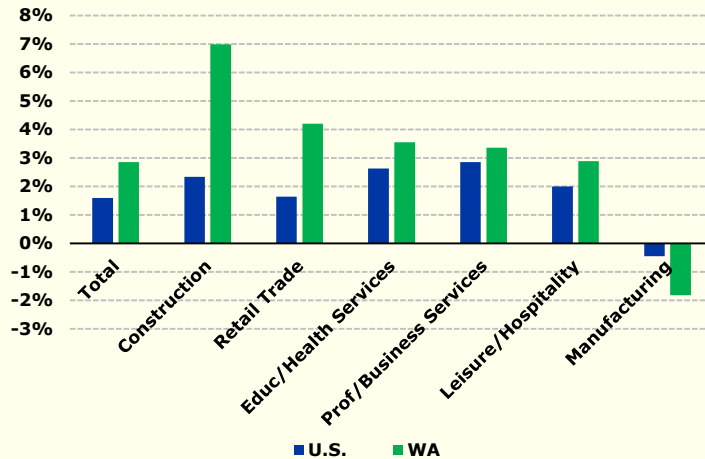
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Source: U.S. Bureau of Labor Statistics, data through 2016 Q3

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Washington vs U.S. employment growth: Nov. 2015 to Nov. 2016



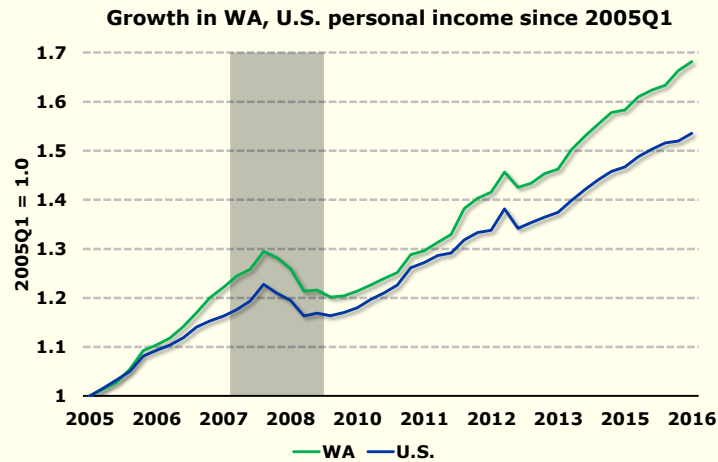
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Source: Employment Security Dept., ERFC; data through Nov. 2016

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



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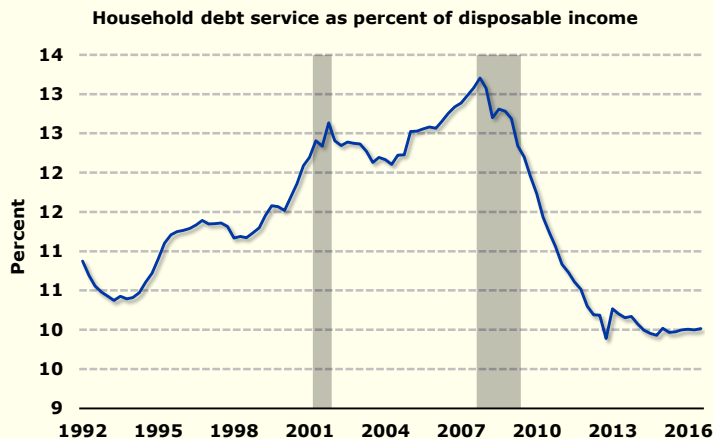
Source: U.S. Bureau of Economic Analysis, data through 2016 Q2

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Household debt payments as a fraction of income have declined

Debt service includes mortgage, auto, student loan and other consumer debt payments



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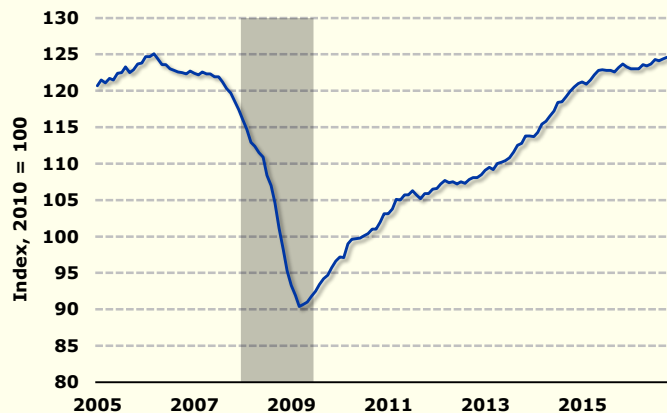
Source: Federal Reserve Board, data through 2016 Q3

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U.S. Leading Economic Index trending up but at slower rate

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



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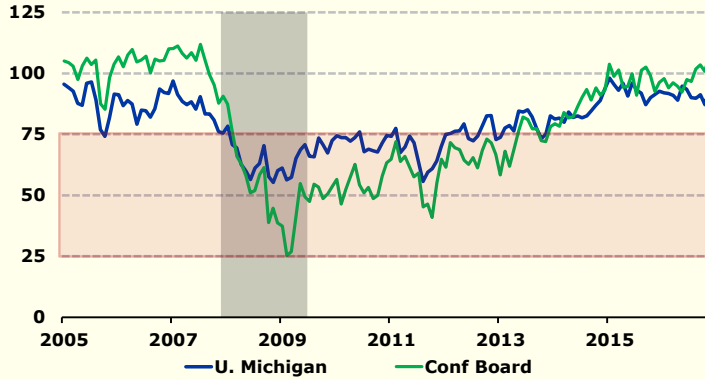
Source: Conference Board, data through November 2016

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Consumer confidence turned up in November and December

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



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Sources: University of Michigan, Conference Board; data through Dec. 2016

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Homebuilder confidence has largely recovered since the recession

NAHB Housing Market Index, SA



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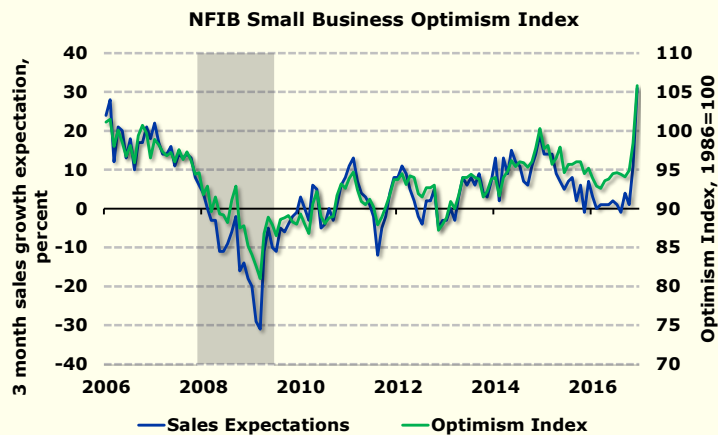
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Source: National Association of Home Builders, data through Dec. 2016

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Small business optimism and sales expectations jumped in December



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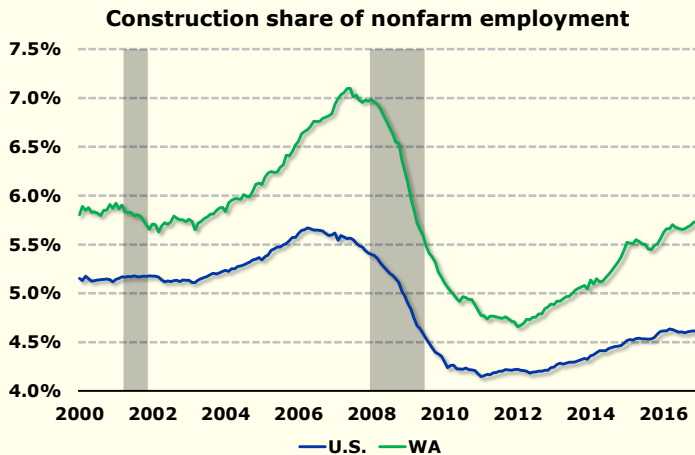
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Source: National Federation of Independent Business; data through December 2016

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



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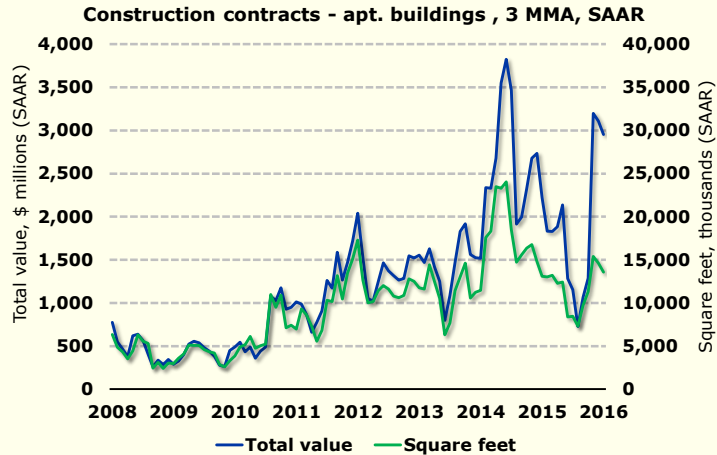
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Source: U.S. Bureau of Labor Statistics, Employment Security Dept., ERFC; data through Nov. 2016

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WA apartment construction activity has trended up recently



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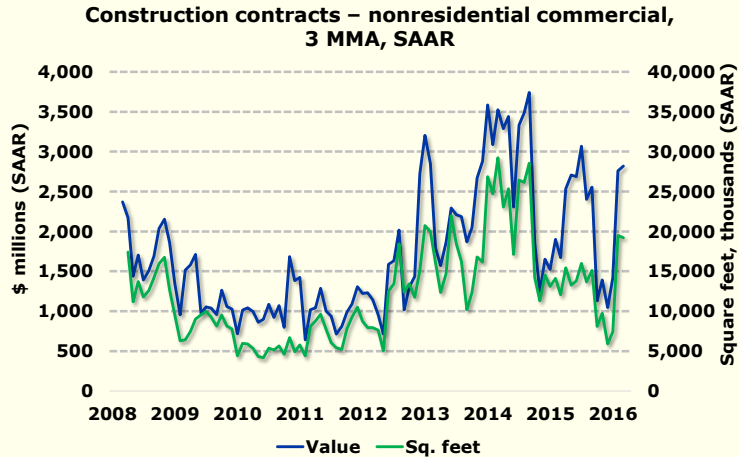
Source: Dodge, ERFC; data through Nov. 2016

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WA commercial construction activity heading up during last half of 2016

Includes office, retail, hotels, restaurants, warehouses



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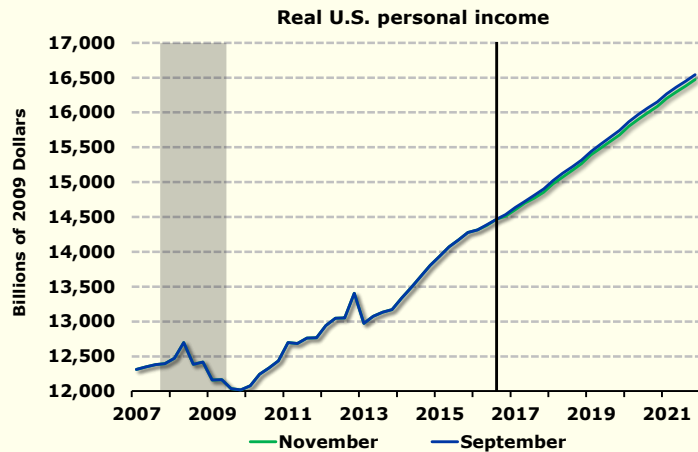
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Source: Dodge, ERFC; data through Nov. 2016

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Real U.S. personal income is nearly identical to the September forecast



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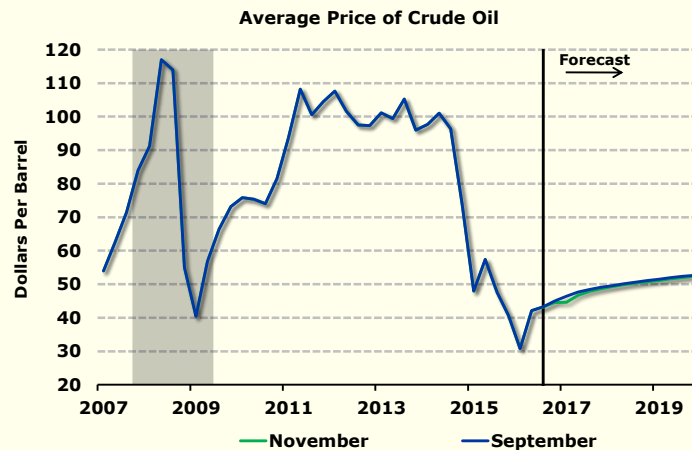
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Source: Global Insight, ERFC November 2016 forecast; historical data through 2016Q3

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Oil prices are expected to gradually rise as in September



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Source: DOE, ERFC November 2016 forecast; historical data through 2016Q3

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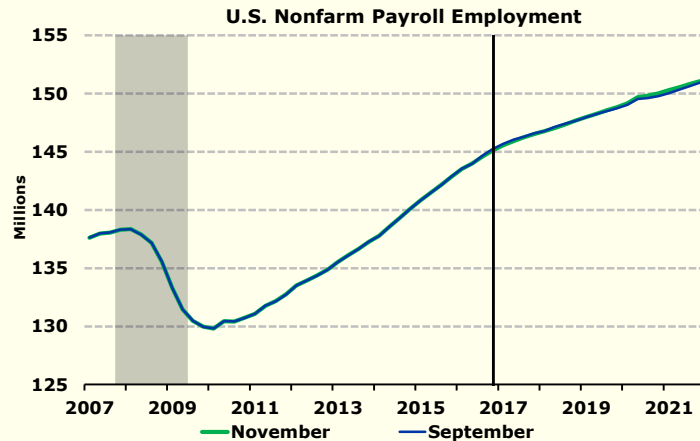
The U.S. nonfarm payroll employment forecast is nearly identical to September

Monthly employment growth averaged 180,000 in 2016 compared to 229,000 in 2015.

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Source: ERFC November 2016 forecast; data through Q4 2016

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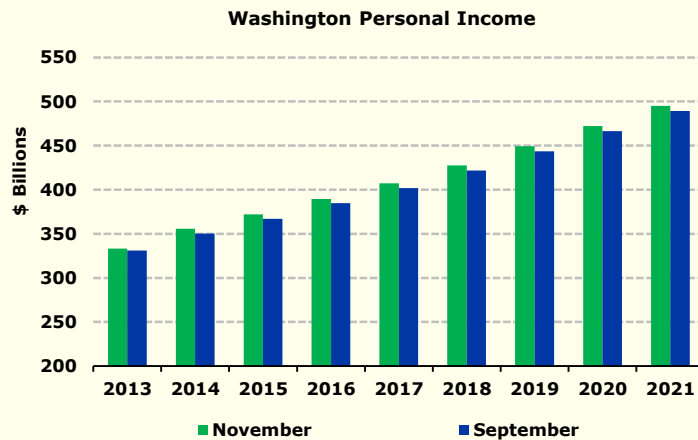
Washington personal income is slightly higher compared to the September forecast

Historic personal income data has been revised since the September forecast

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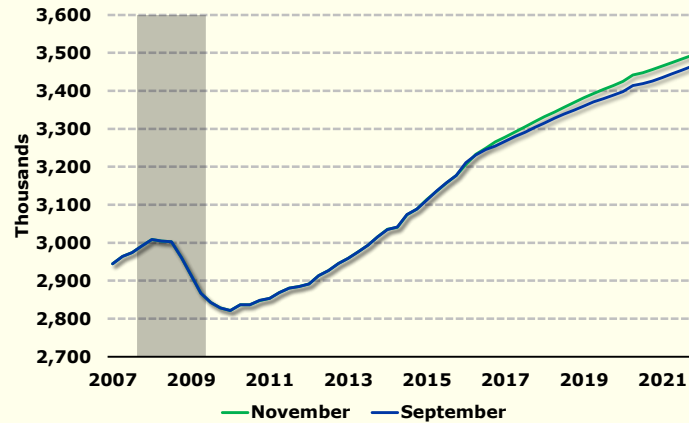
Source: ERFC November 2016 forecast; historical data through 2015

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WA employment was revised up slightly in the November forecast

WA nonfarm employment



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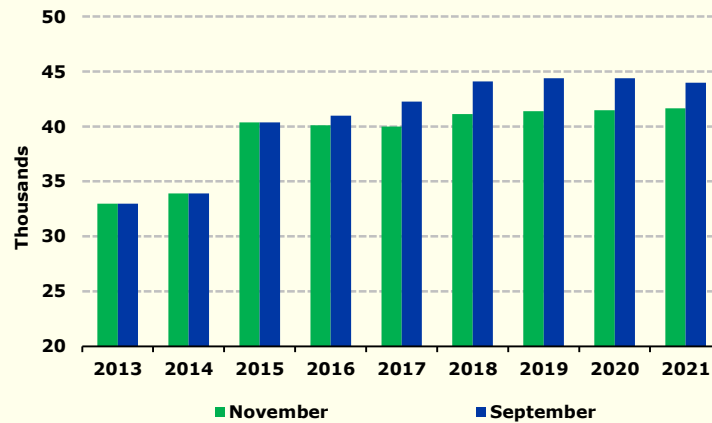
Source: ERFC November 2016 forecast; historical data through 2016Q3

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Washington housing permits forecast is weaker than in September

Washington Housing Permits



2017-21 average:

September: 43,800

November: 41,100

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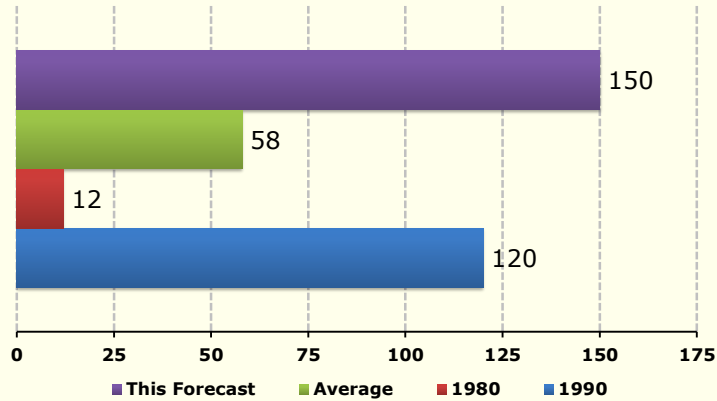
Source: ERFC November 2016 forecast; historical data through 2015

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U.S. Economic Expansions since 1945

Economic Expansions, months



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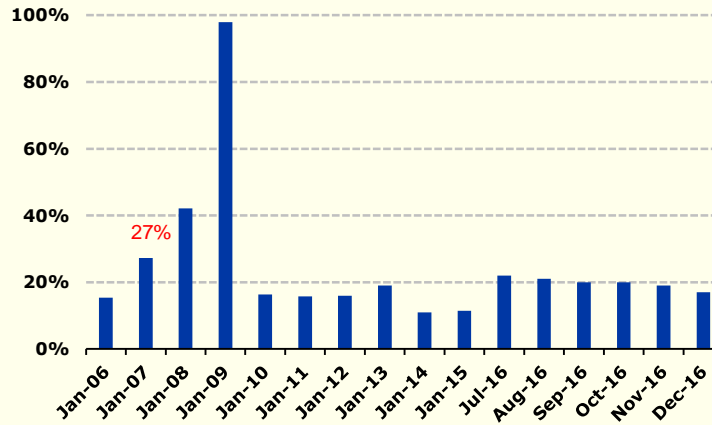
Sources: NBER, ERFC September 2016 forecast

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Wall Street Journal survey shows low probability of recession

Probability of recession in next 12 months



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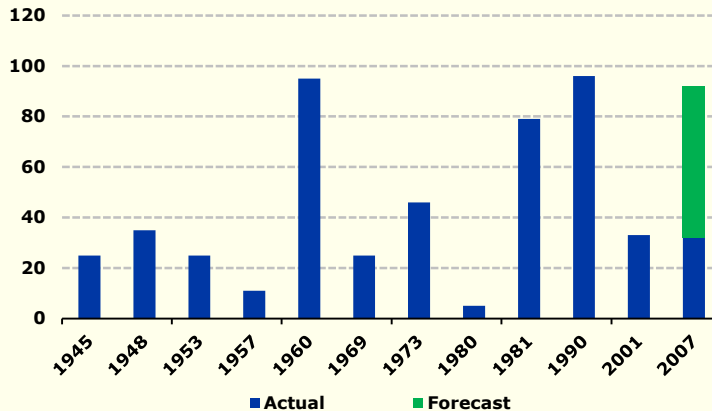
Source: Wall Street Journal Economic Forecasting Survey, data through Dec. 2016

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Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment



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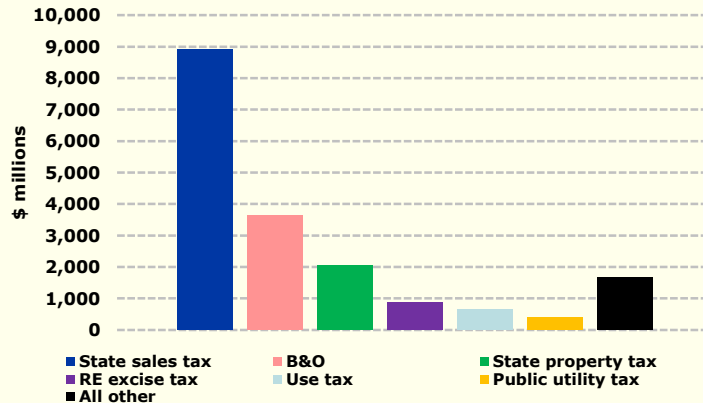
Sources: NBER, BLS, ERFC September 2016 forecast; historic data through Dec. 2016

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Major General Fund revenue sources

FY 2016 General Fund revenue



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

Total cannabis revenue in FY 2016 was \$168 M

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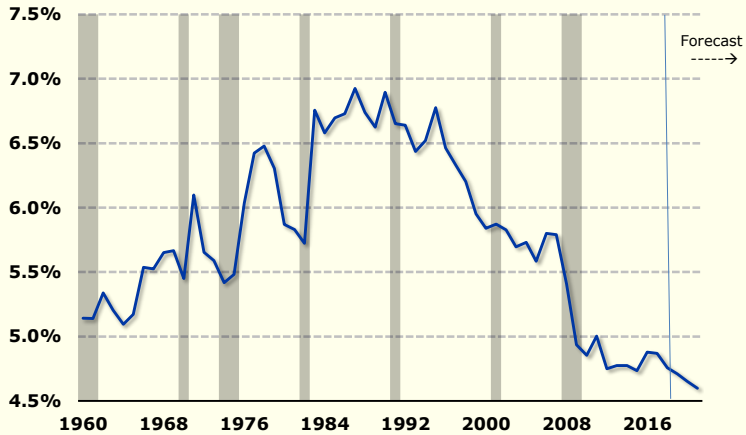
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Source: WA Dept. of Revenue, ERFC

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GF-S Revenue as a Percentage of State Personal Income (fiscal years)



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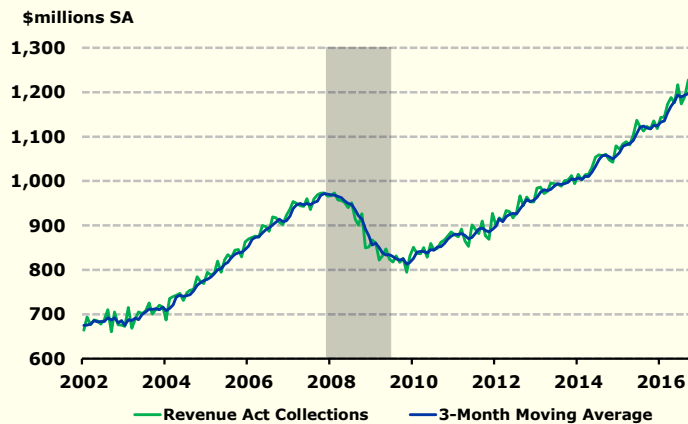
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Source: U.S. Bureau of Economic Analysis, ERFC; historic data through FY 2016

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Revenue Act collections growth still positive but trend has moderated



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* 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 Oct. 2016 activity (Dec. 2016 collections)

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Large commercial property sales show continued strength as other activity grows

Large commercial sales (>\$10 million) were \$1.4 billion in October and \$1.5 billion in November.

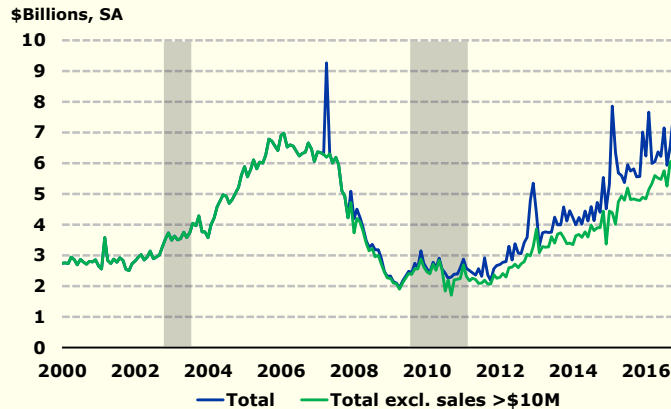
Residential prices are still growing faster than sales volume.

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Seasonally Adjusted Taxable Real Estate Excise Activity



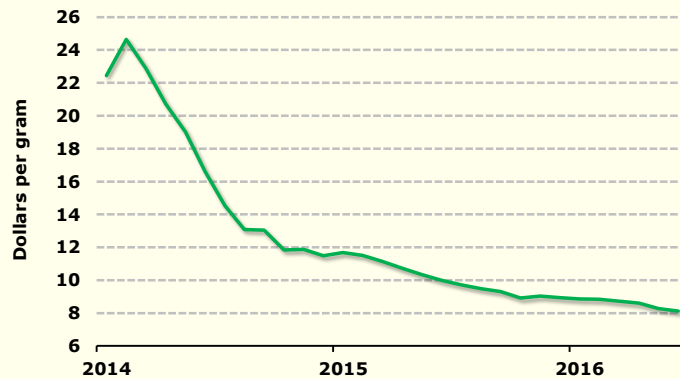
Source: ERFC; Monthly data through November 2016 preliminary

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Cannabis prices continue to slowly fall

Price of Recreational Cannabis Sold at Retail Stores



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Source: LCB, ERFC; data through December 2016

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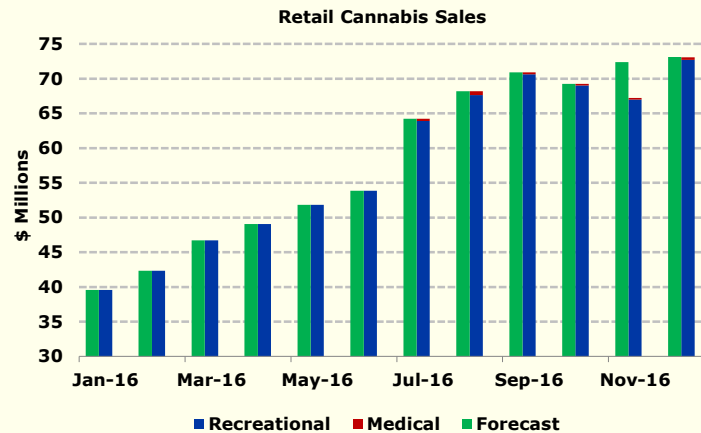
Cannabis revenue growth resumed in December

Medical marijuana became subject to the 37% excise tax on July 1, 2016

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Source: LCB, ERFC; data through December 2016

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Conclusion

- The Washington economic forecast is slightly stronger than we expected in September; we continue to forecast moderate growth
- As has been the case for some time, Washington is continuing to outperform the nation by a small margin
- Threats to economic expansion include slower domestic and international economic growth, the impact of a stronger dollar on exports, and a slowdown in labor productivity

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

www.erc.wa.gov
360-534-1560