

Washington State Economic and Revenue Outlook

Presented to
Financial Management Advisory Council

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Executive Director

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Olympia, Washington



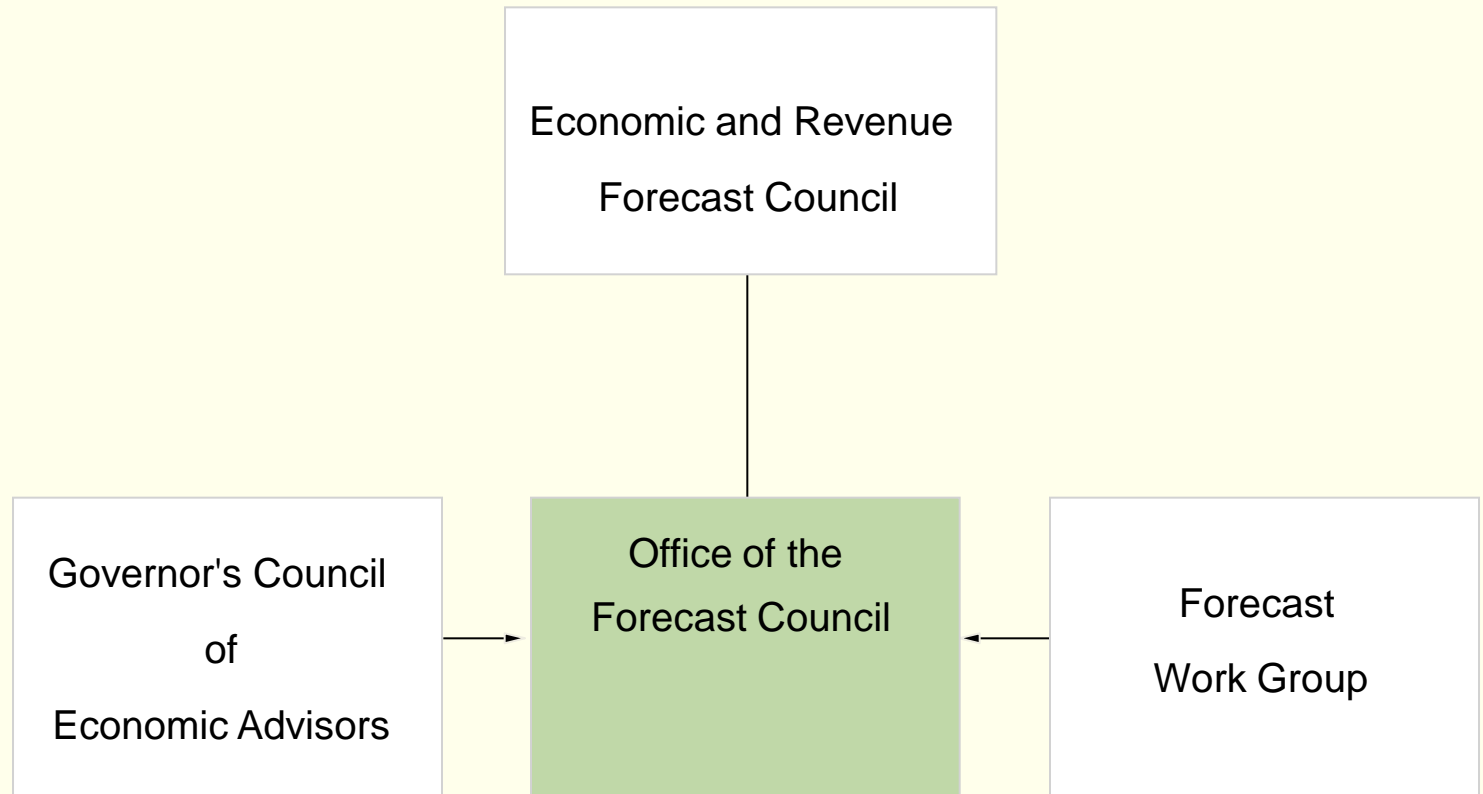
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Forecast Oversight

ERFC

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





Summary

- The economic forecast has remained stable, with moderate economic growth in the U.S. and Washington
- We continue to expect slightly stronger employment and income growth in Washington compared to the national economy
- Risks to the baseline include slowing economic growth in the U.S. and globally, the impact of a stronger dollar on exports, weaker manufacturing activity, and a volatile stock market



Economic news continues to suggest risks to forecast

Upside:

- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

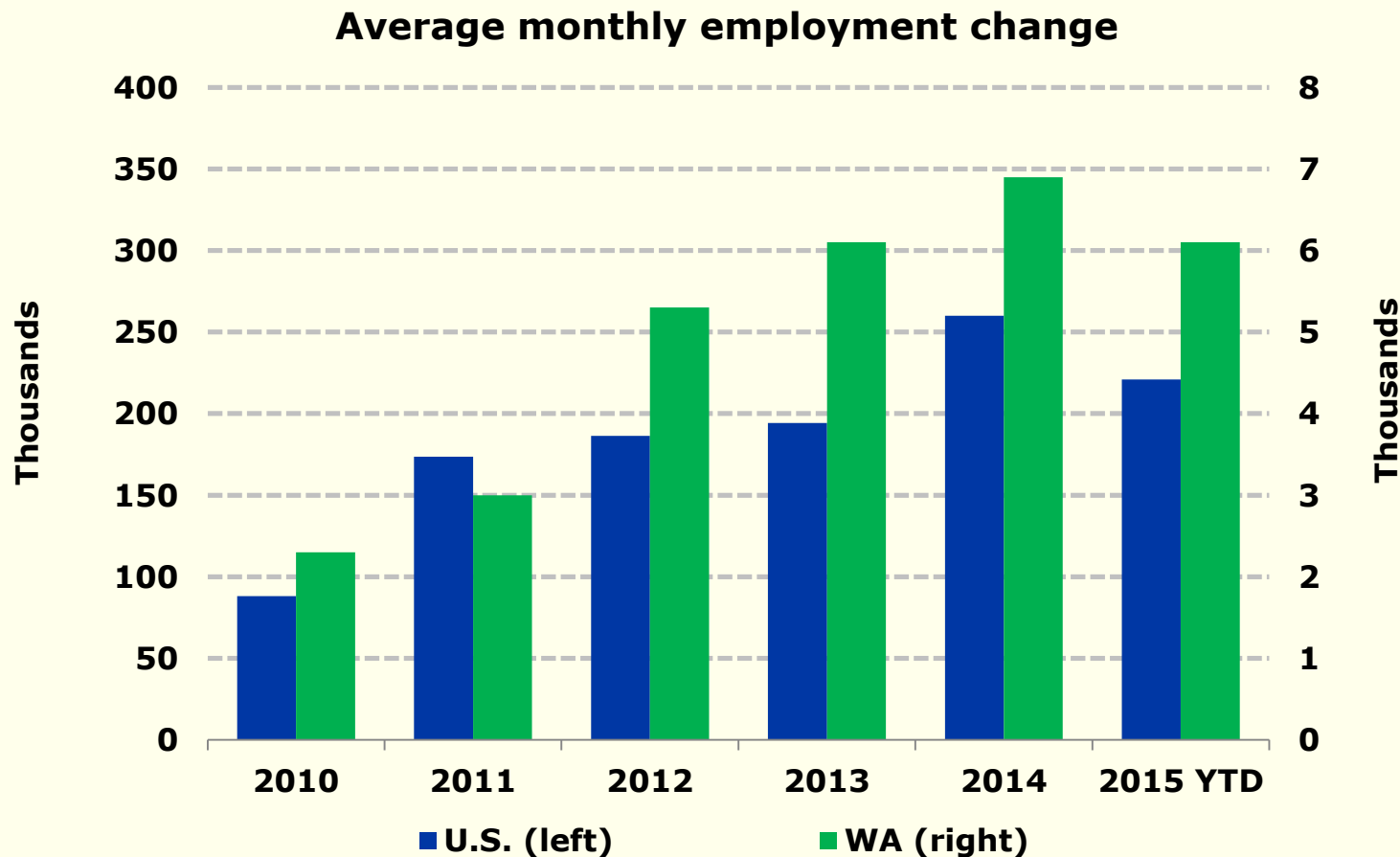
- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weaker manufacturing activity



Job creation is slightly weaker in both the U.S. and WA so far this year

November job gains:
U.S.: 252,000
WA: 7,000

December job gains:
U.S.: 292,000
WA: NA

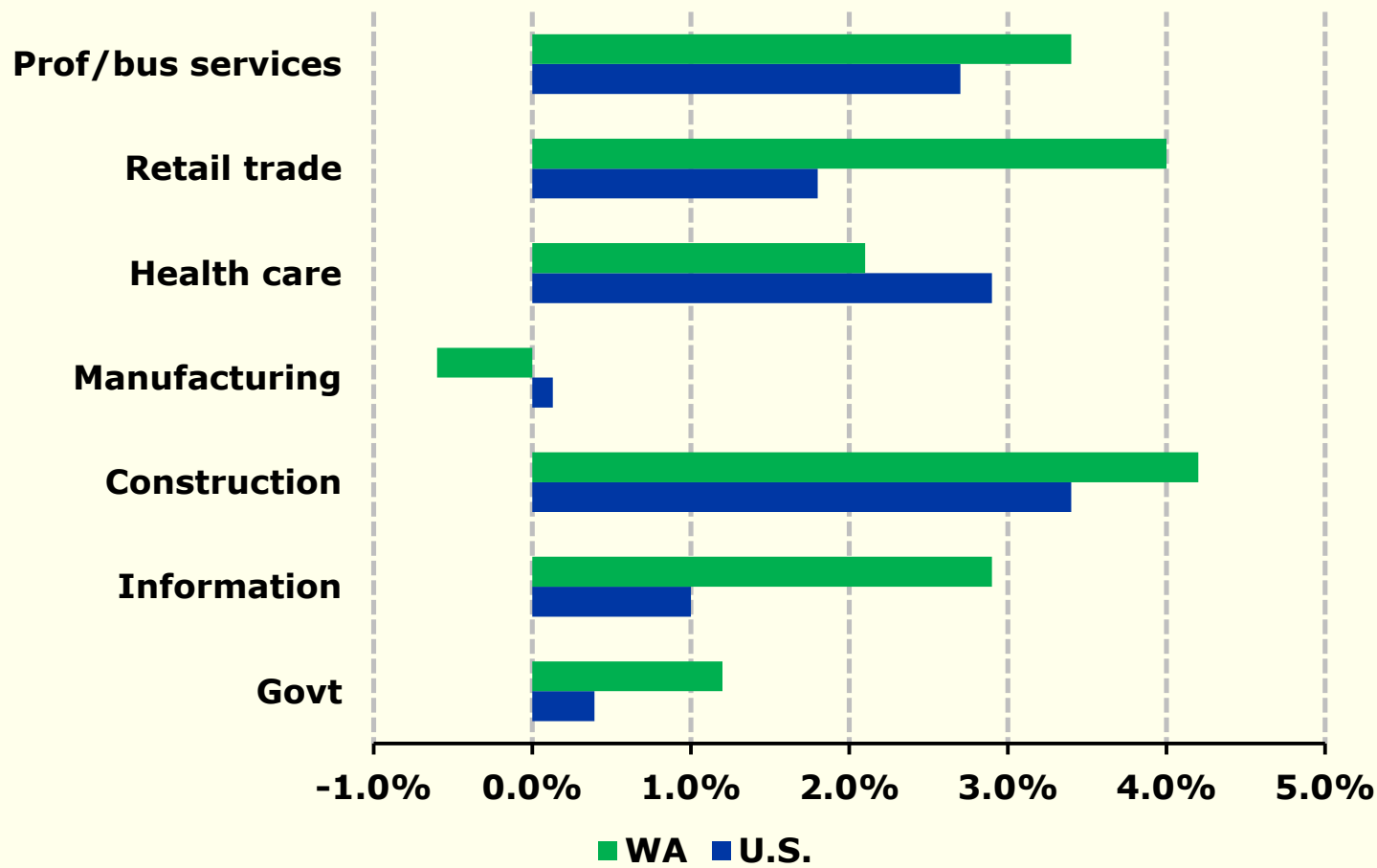


Source: Bureau of Labor Statistics, ERFC; data through Dec. 2015

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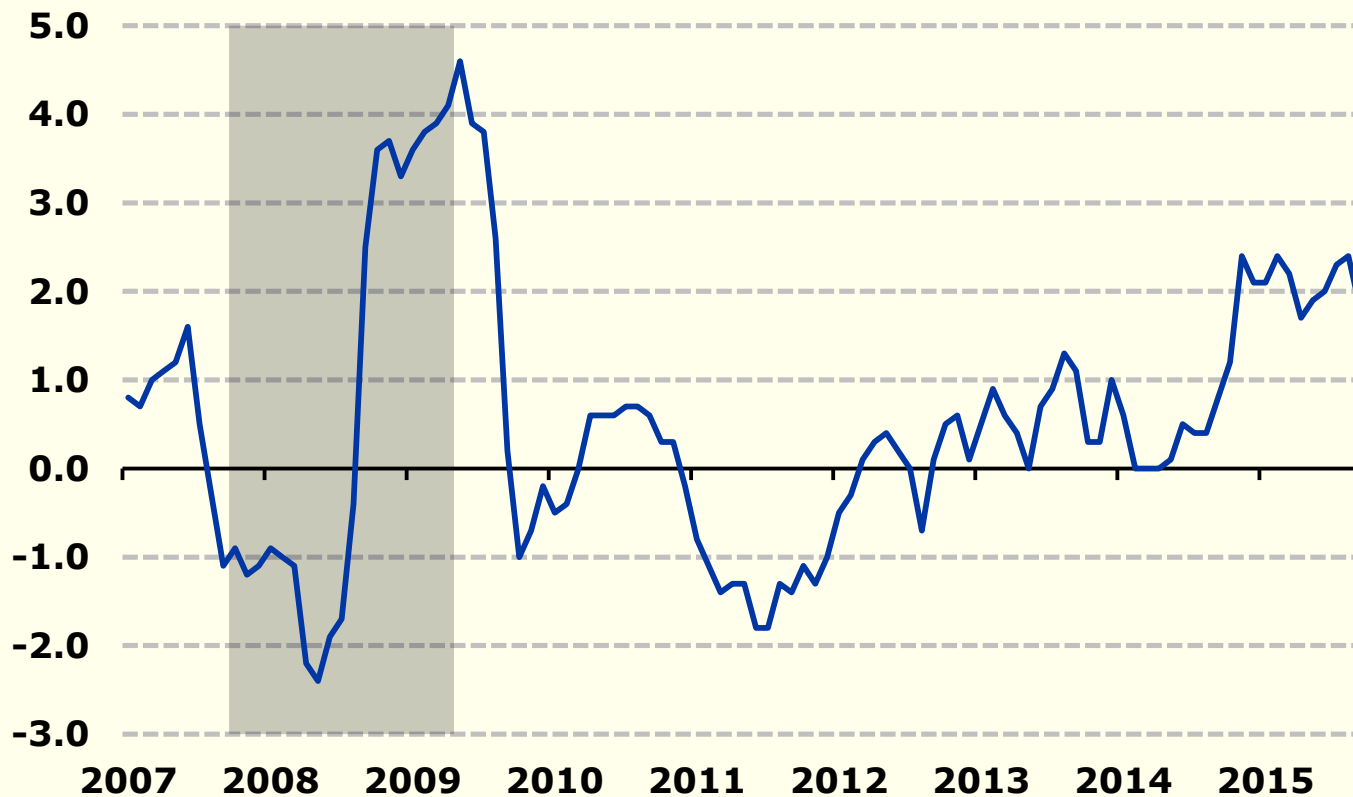
Year to date employment growth, selected industries





Average U.S. wage growth has turned positive

Year-over-year Growth in U.S. Real Hourly Wages

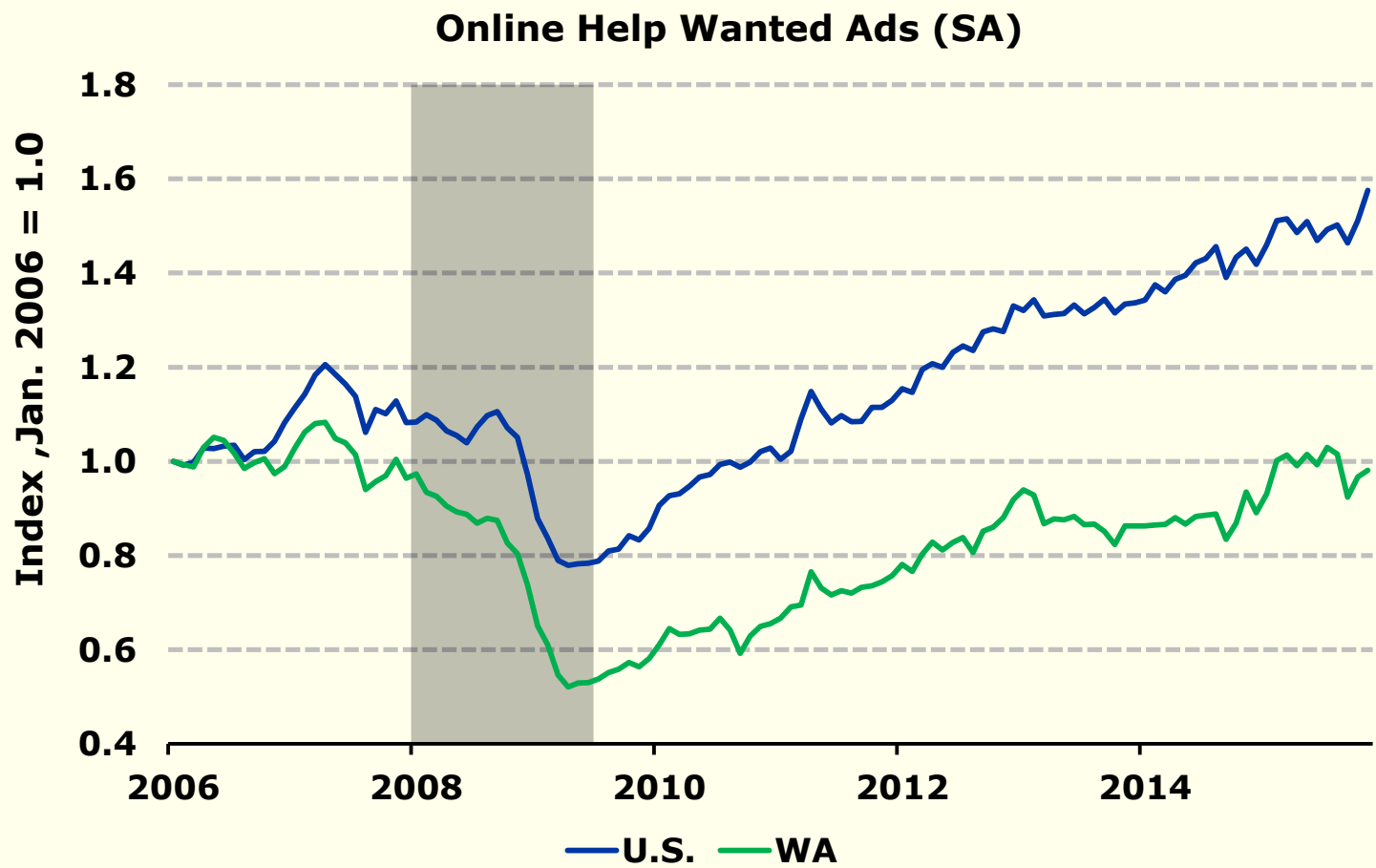


Source: U.S. Bureau of Labor Statistics, data through Nov. 2015

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Job openings trending up nationally, slowing in Washington



Source: Conference Board; data through November 2015



Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Dec. 2015: 26%

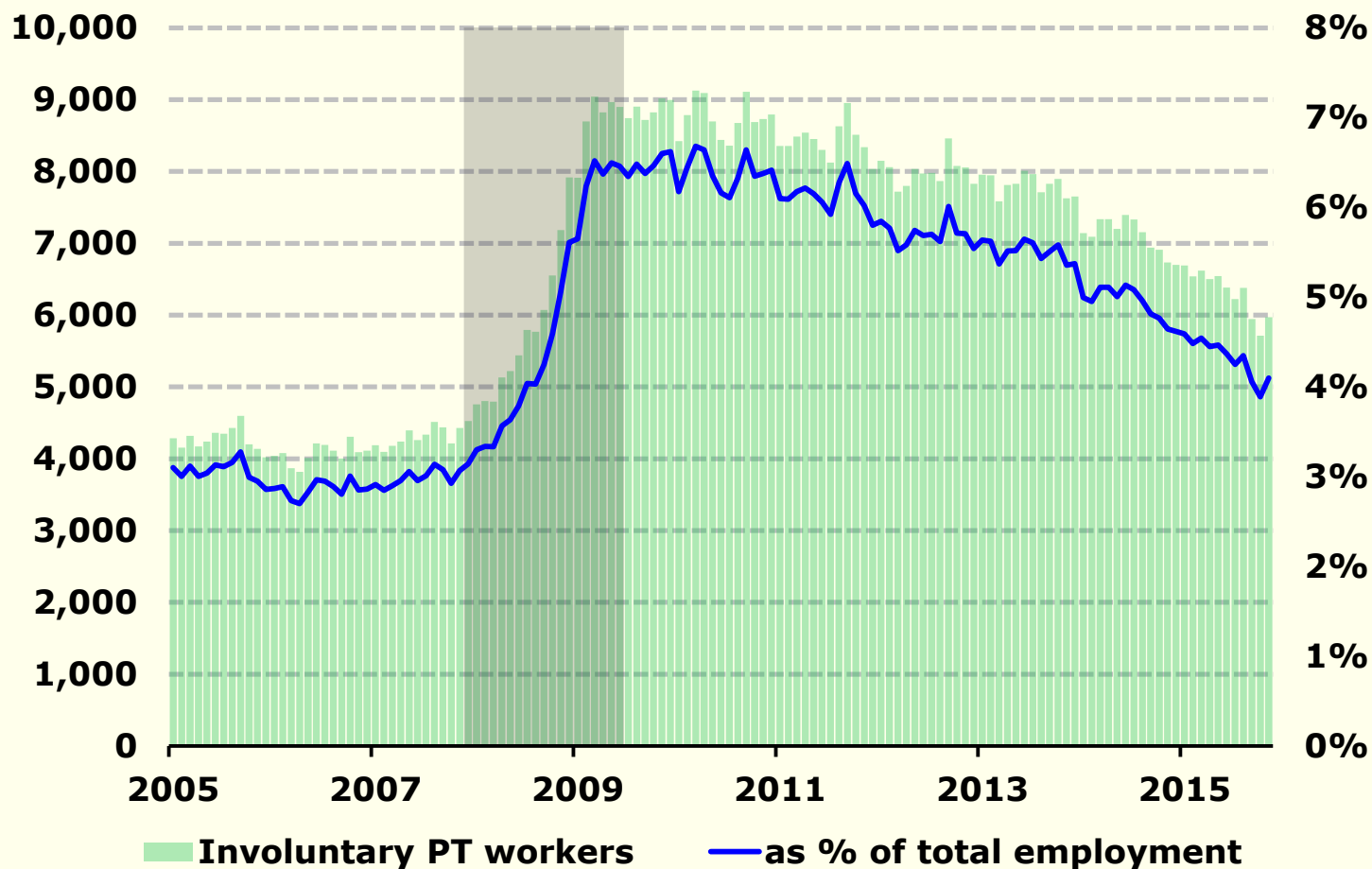


Source: Bureau of Labor Statistics; data through December 2015

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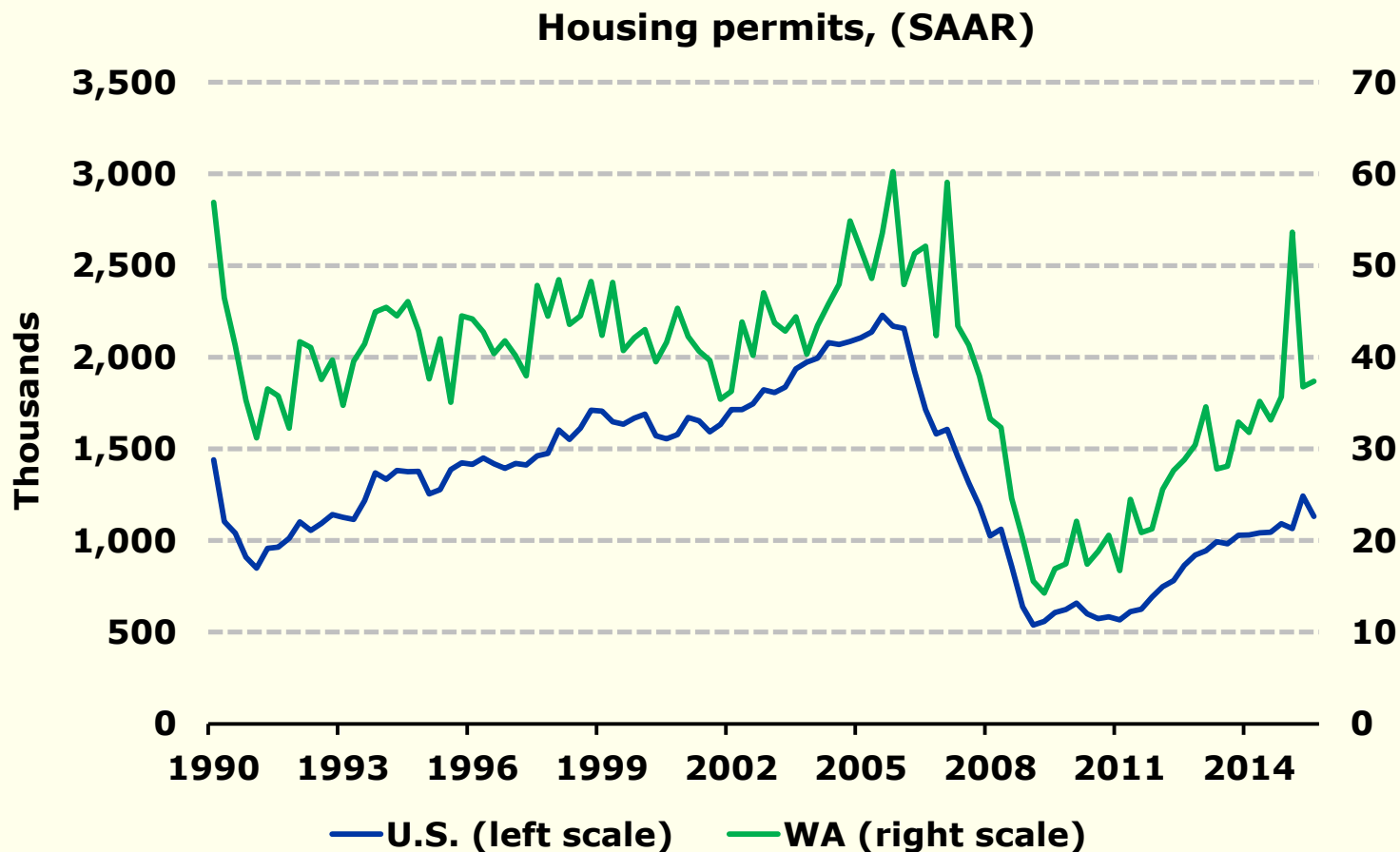
Involuntary part-time employment remains above pre-recession levels



Source: U.S. Bureau of Labor Statistics; data through Nov. 2015



Both U.S. and WA housing permits trending up since 2011



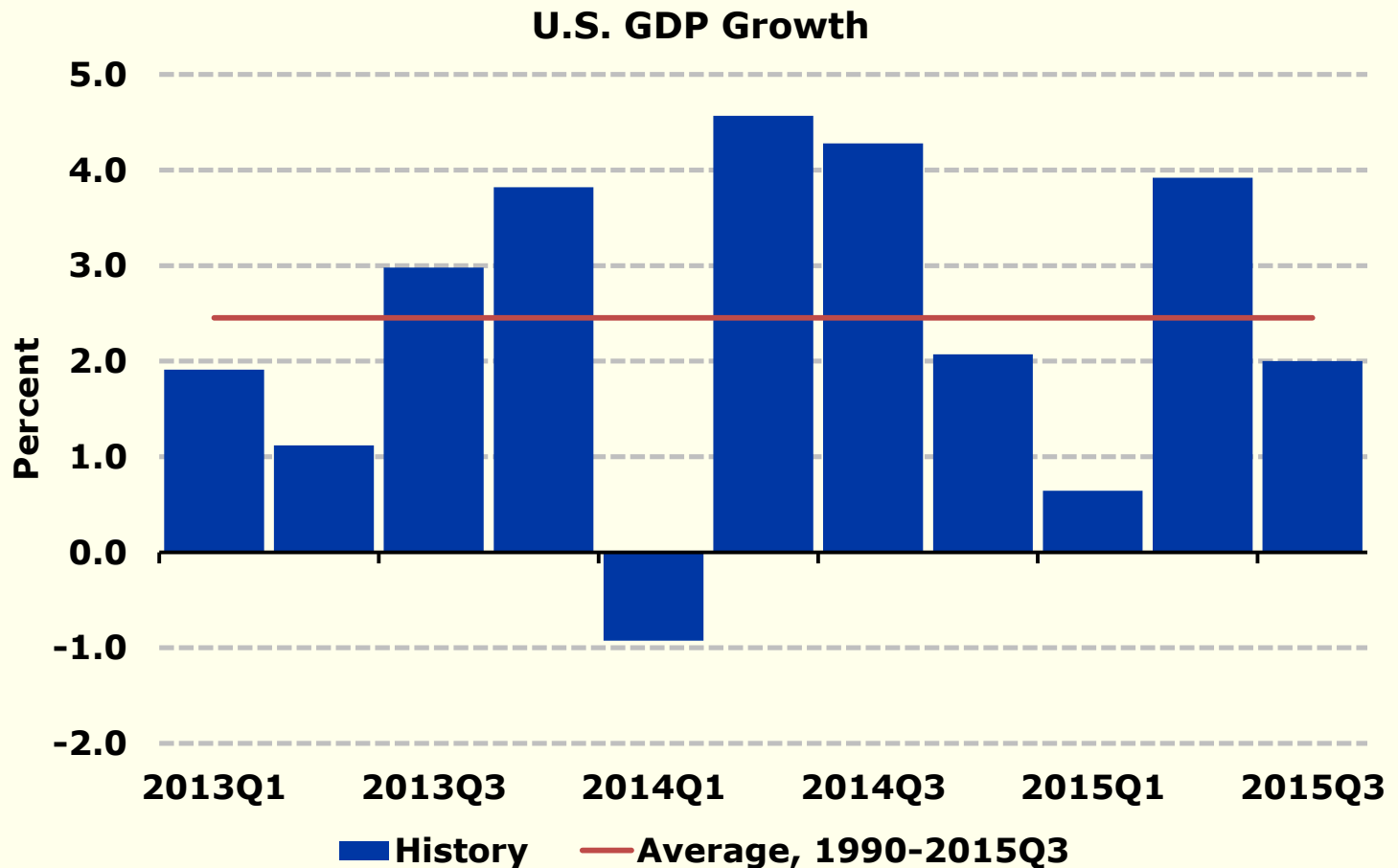
Source: U.S. Census Bureau, data through 2015 Q3

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U.S. economic growth weakened in the third quarter

Forecast GDP growth:
2.7% in 4th Q,
2.6% in 2016

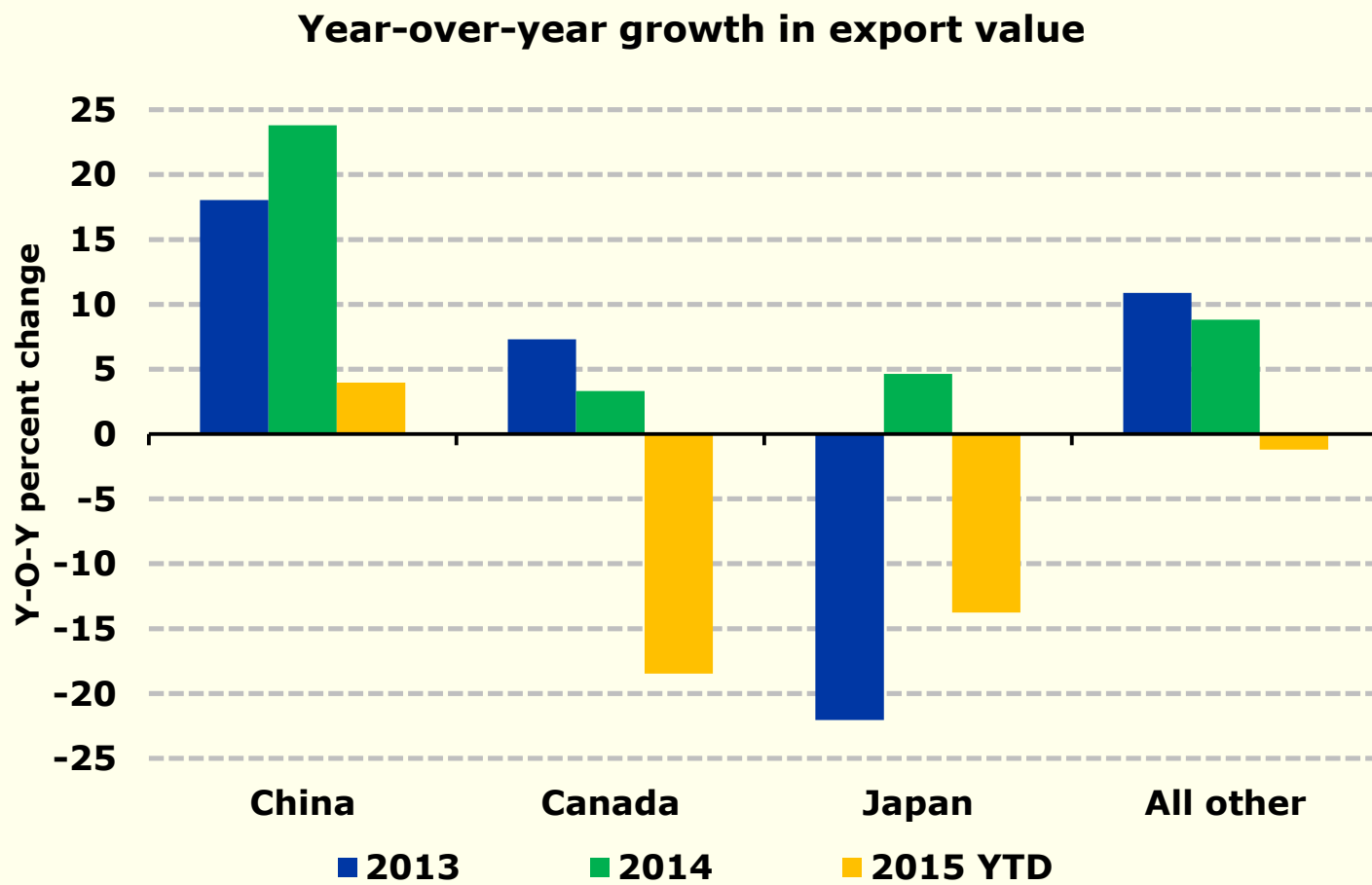


Source: U.S. Dept. of Commerce, BEA, data through 2015Q3

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WA exports to major trading partners have slowed

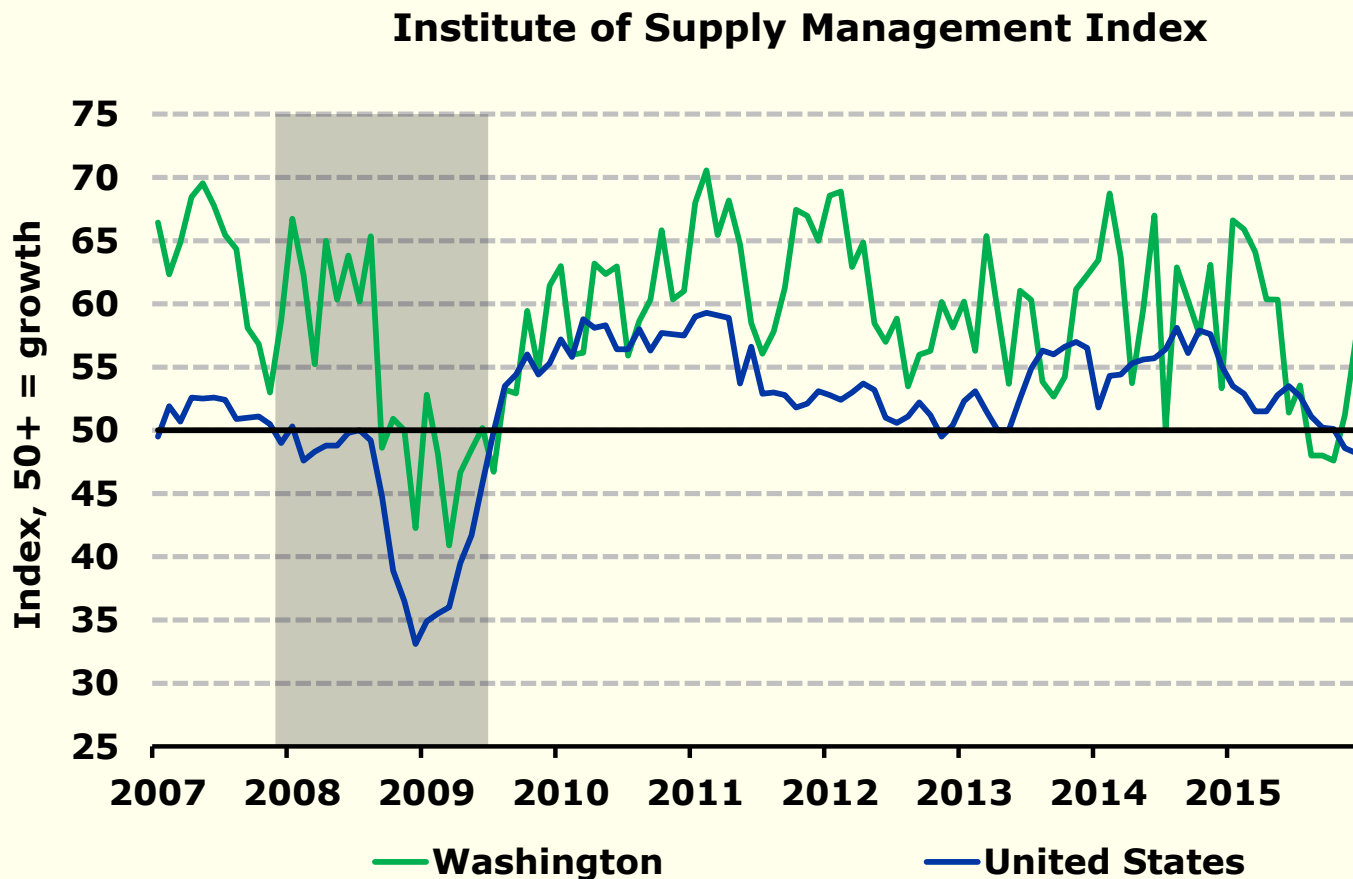


Source: WISERTrade; data through October 2015

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Manufacturing: slowing nationally, improving in Washington

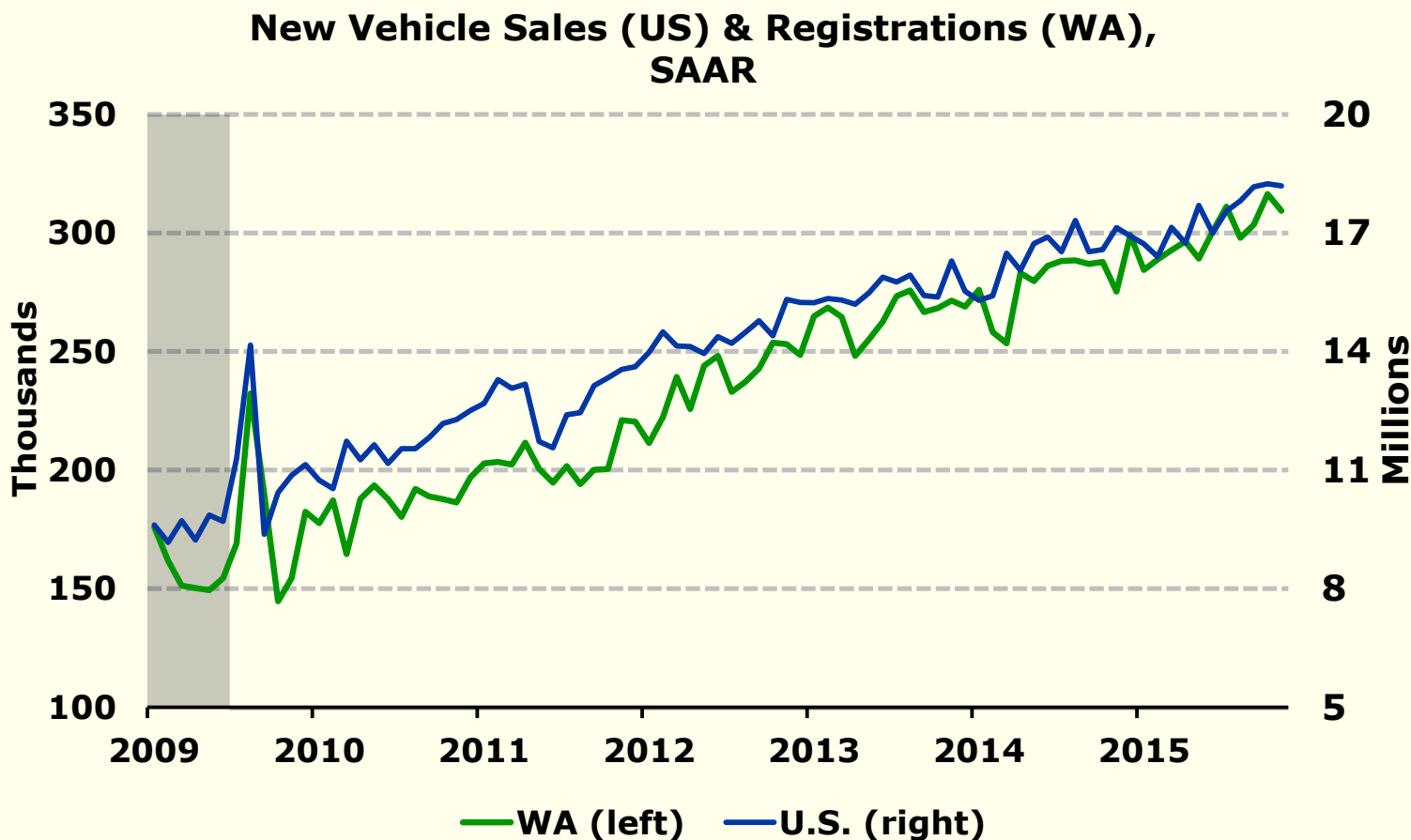


Source: ISM; data through December 2015

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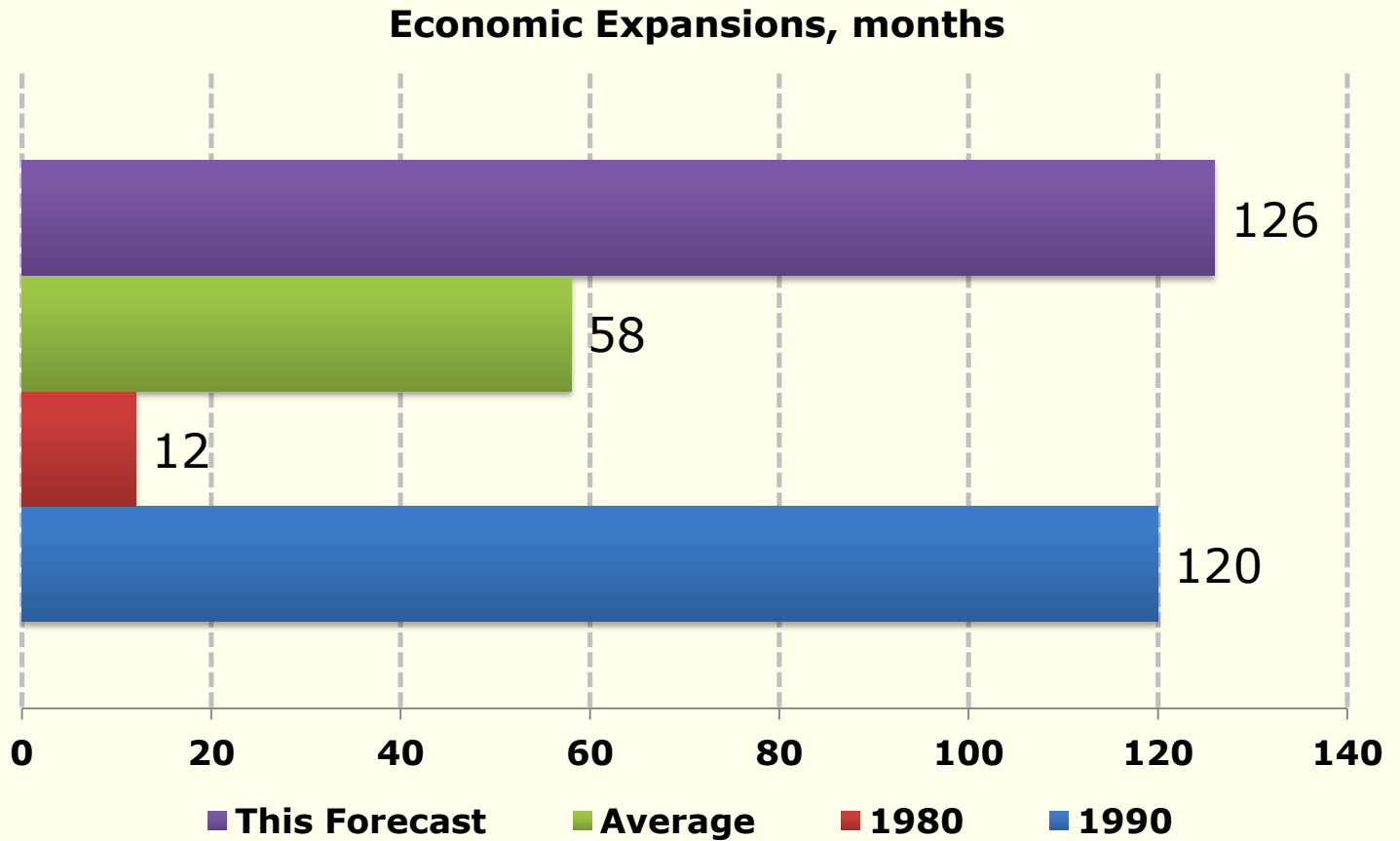


New vehicle sales continue to grow





U.S. Economic Expansions since 1945



Sources: NBER, ERFC November 2015 forecast

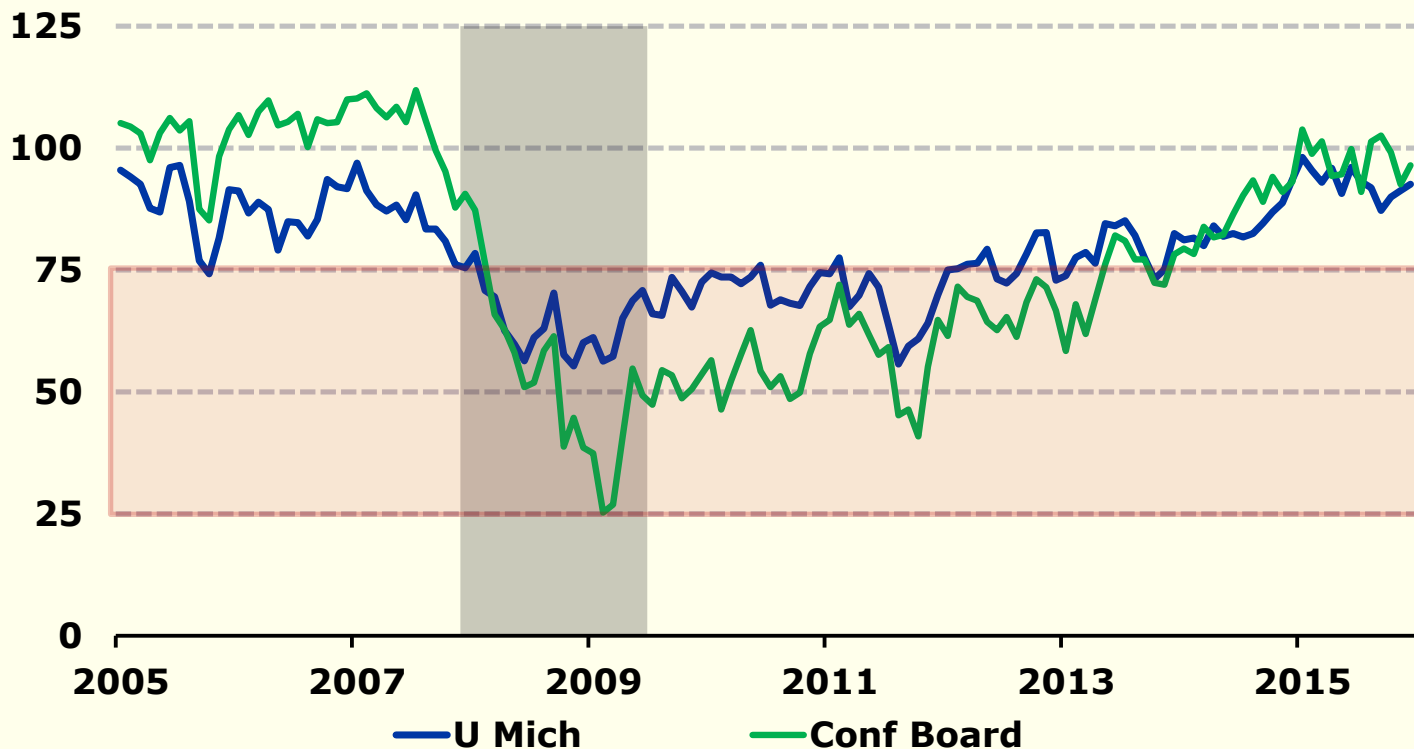


After moving in different directions recently, Conference Board & UMich indexes both rise in December

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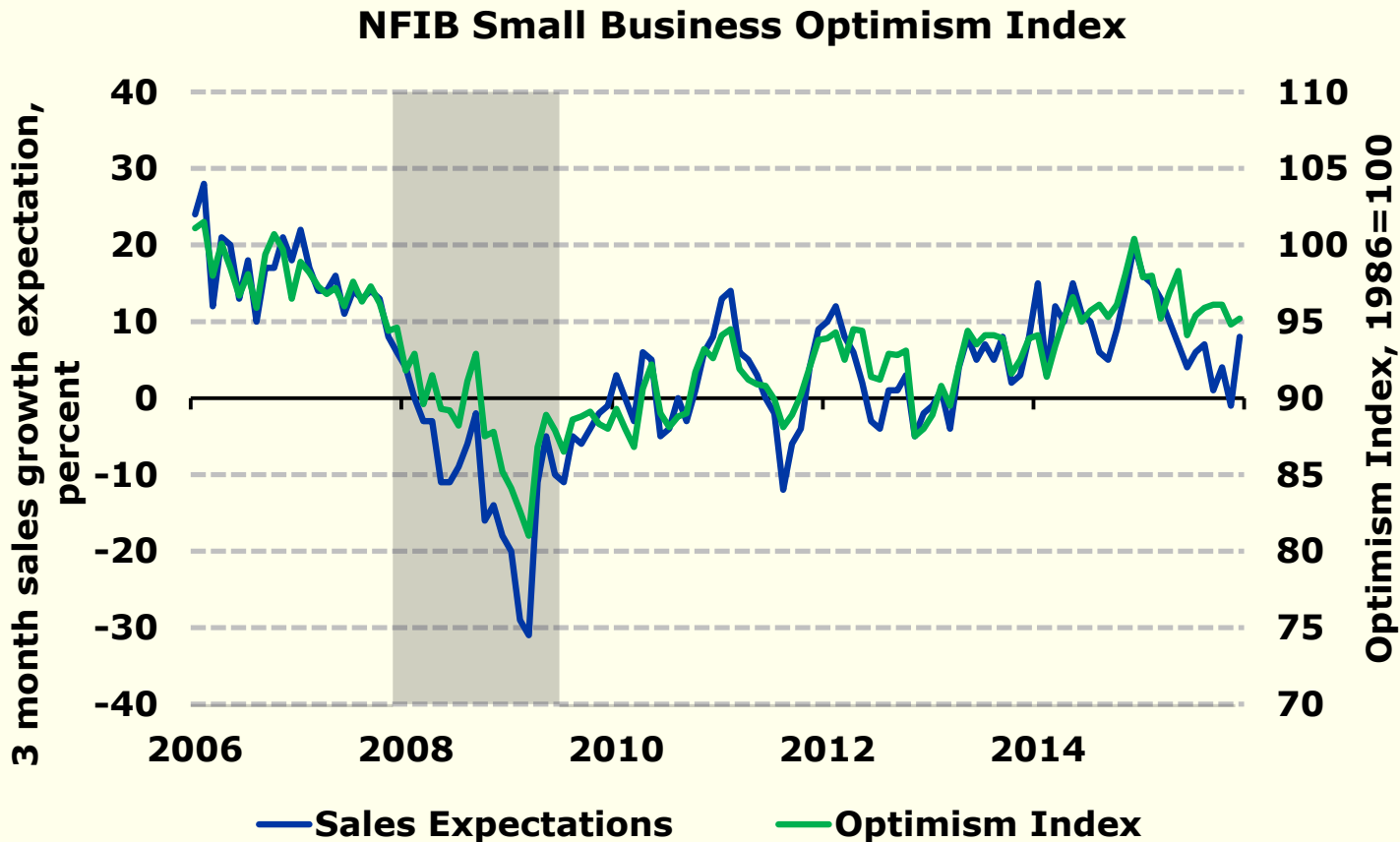
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





Small business optimism and sales expectations weakened in 2015

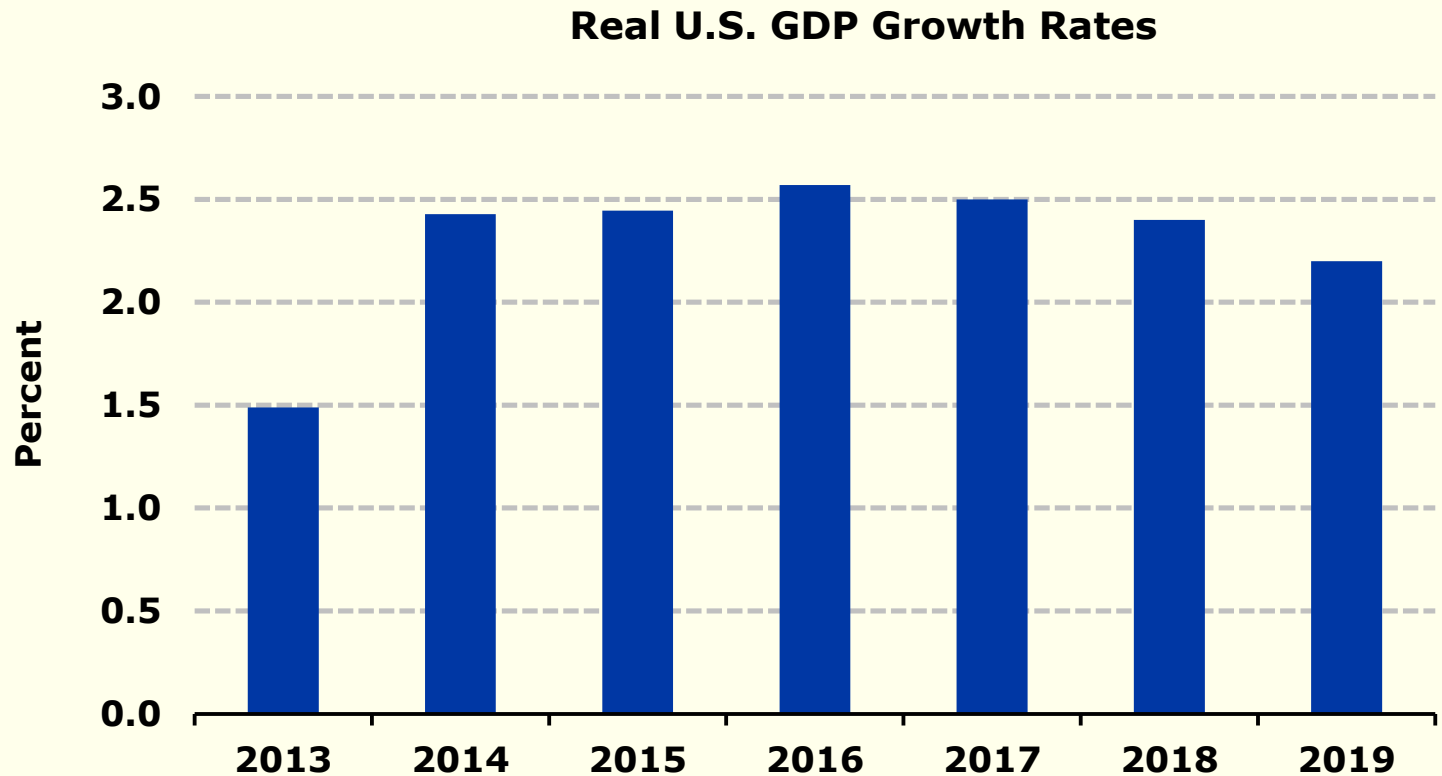


Source: National Federation of Independent Business; data through December 2015

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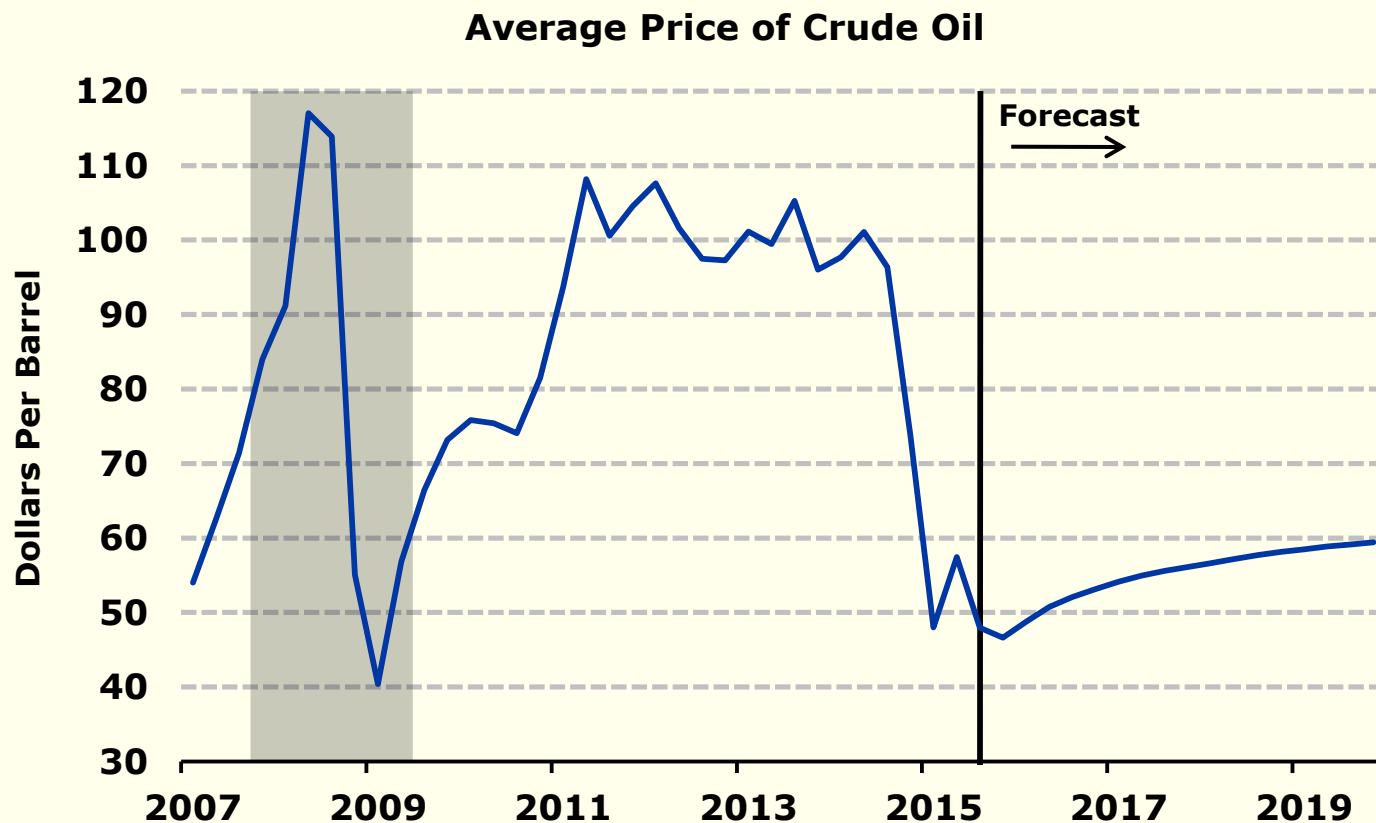
Forecasted real GDP growth is expected to decline slightly after this year



Source: ERFC November 2015 forecast; historical data through 2014



Oil prices are expected to rise gradually starting next year

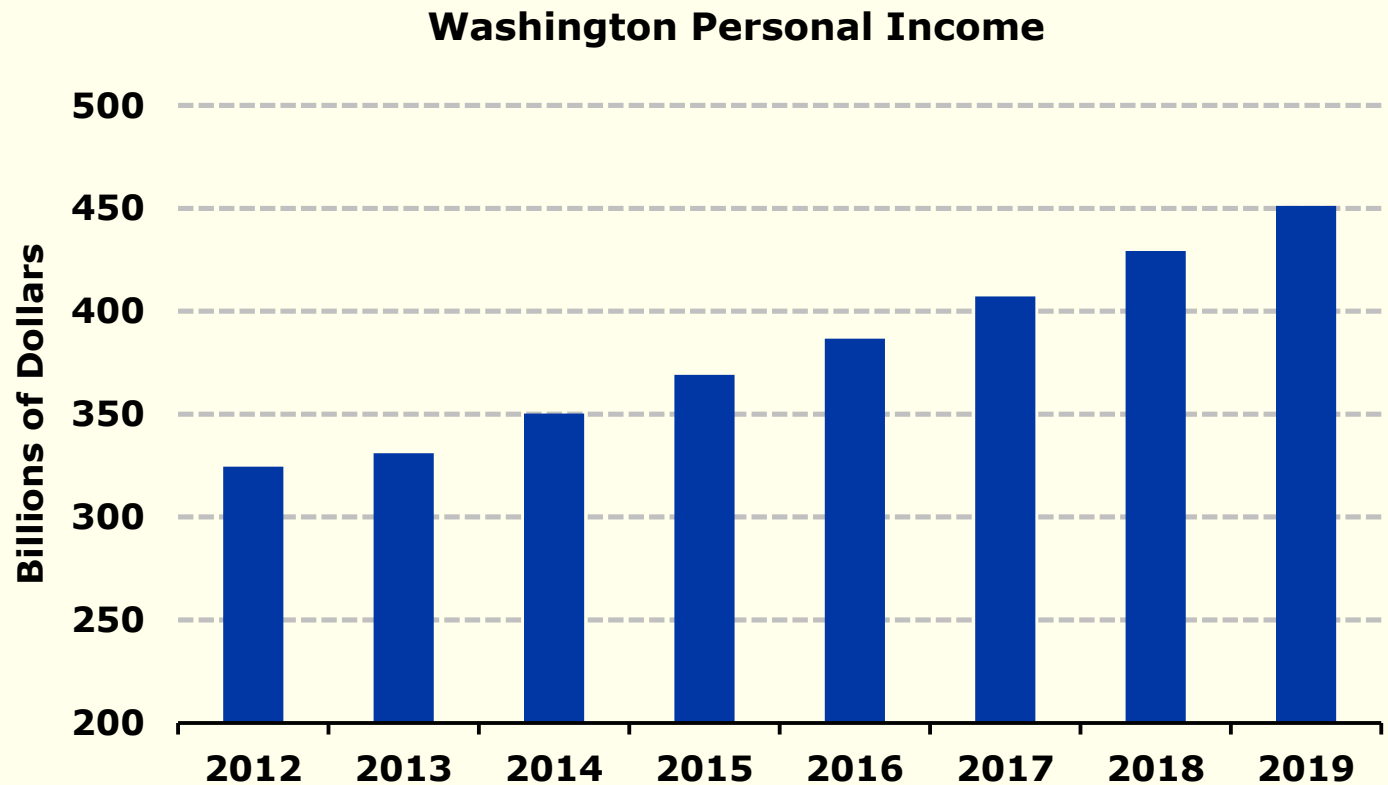


Source: DOE, ERFC November 2015 forecast; historical data through 2015Q3

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Washington annual personal income growth is expected to average 5.2% for 2016-19

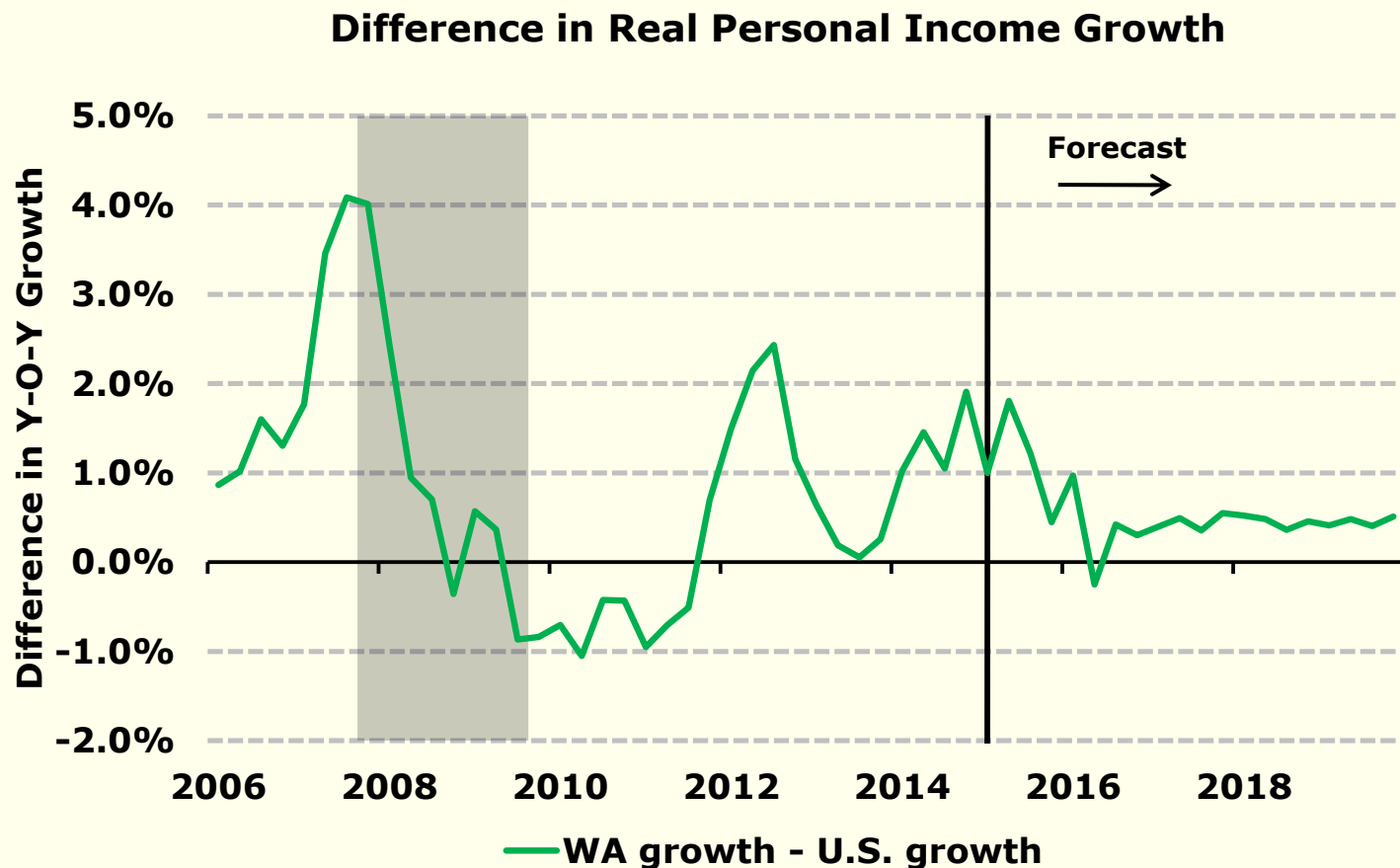


Source: ERFC November 2015 forecast; historical data through 2014

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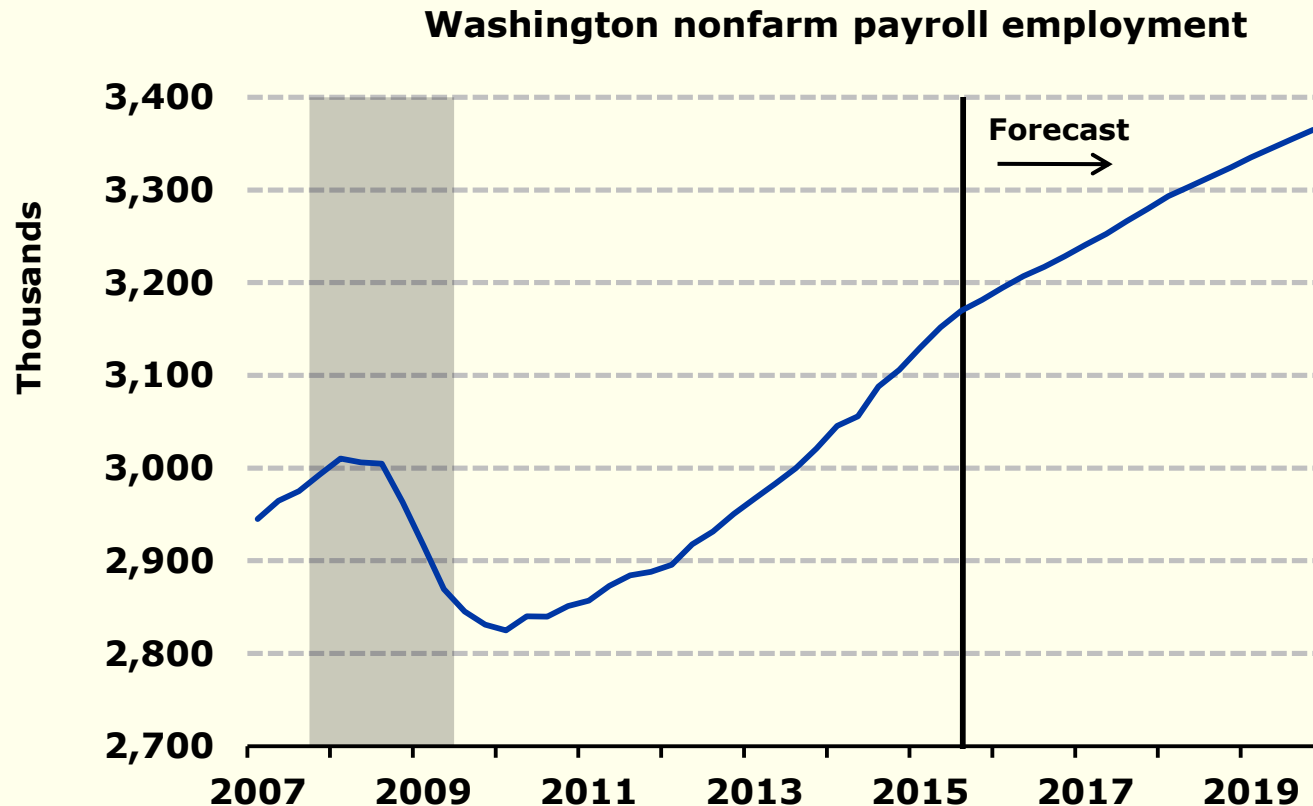


State personal income will grow slightly faster than the U.S.





Washington employment forecast is for average annual growth of 1.5%

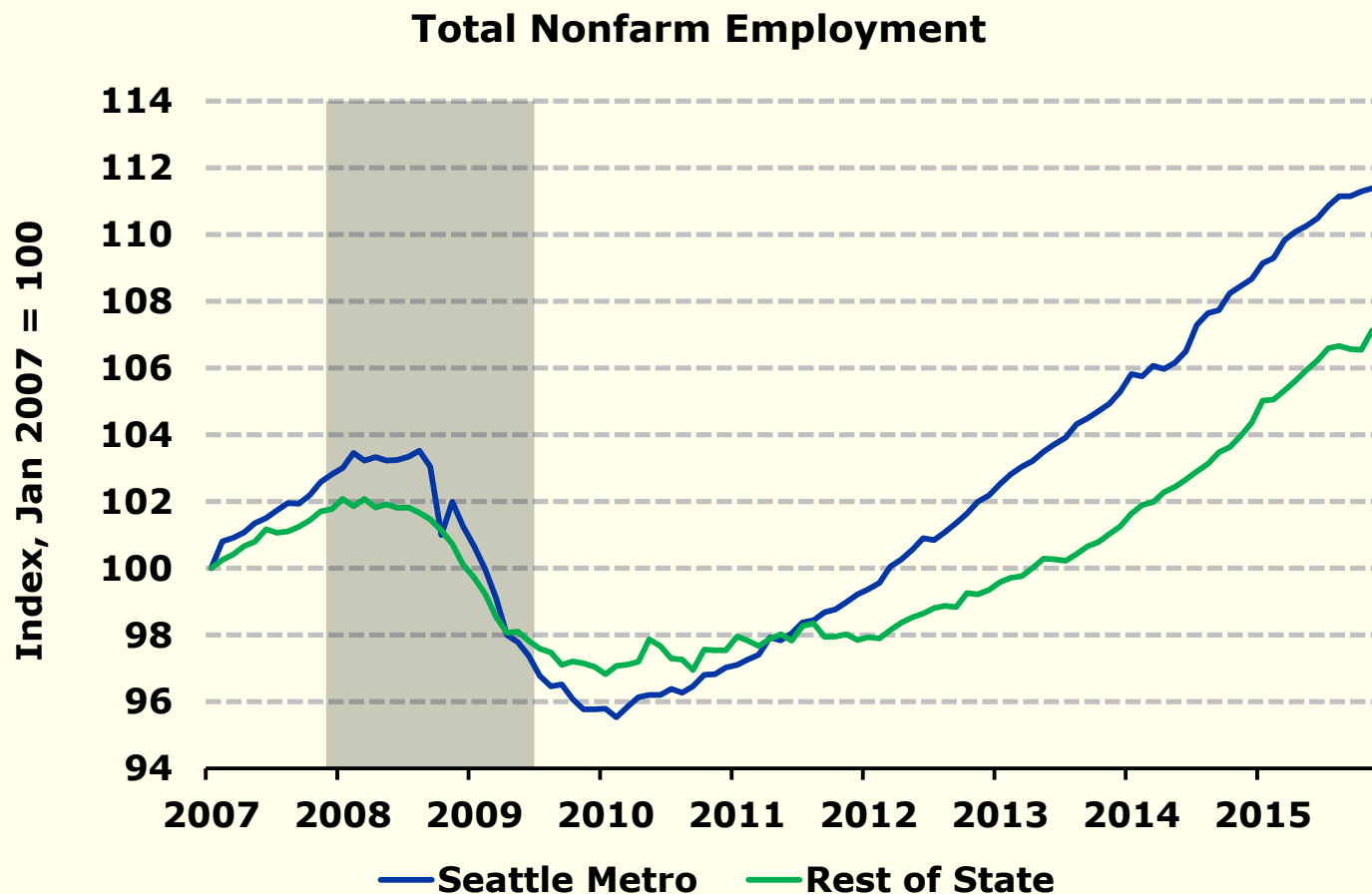


Source: Global Insight, ERFC November 2015 forecast; historical data through 2015Q3

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Seattle area employment continues to grow faster than the rest of the state

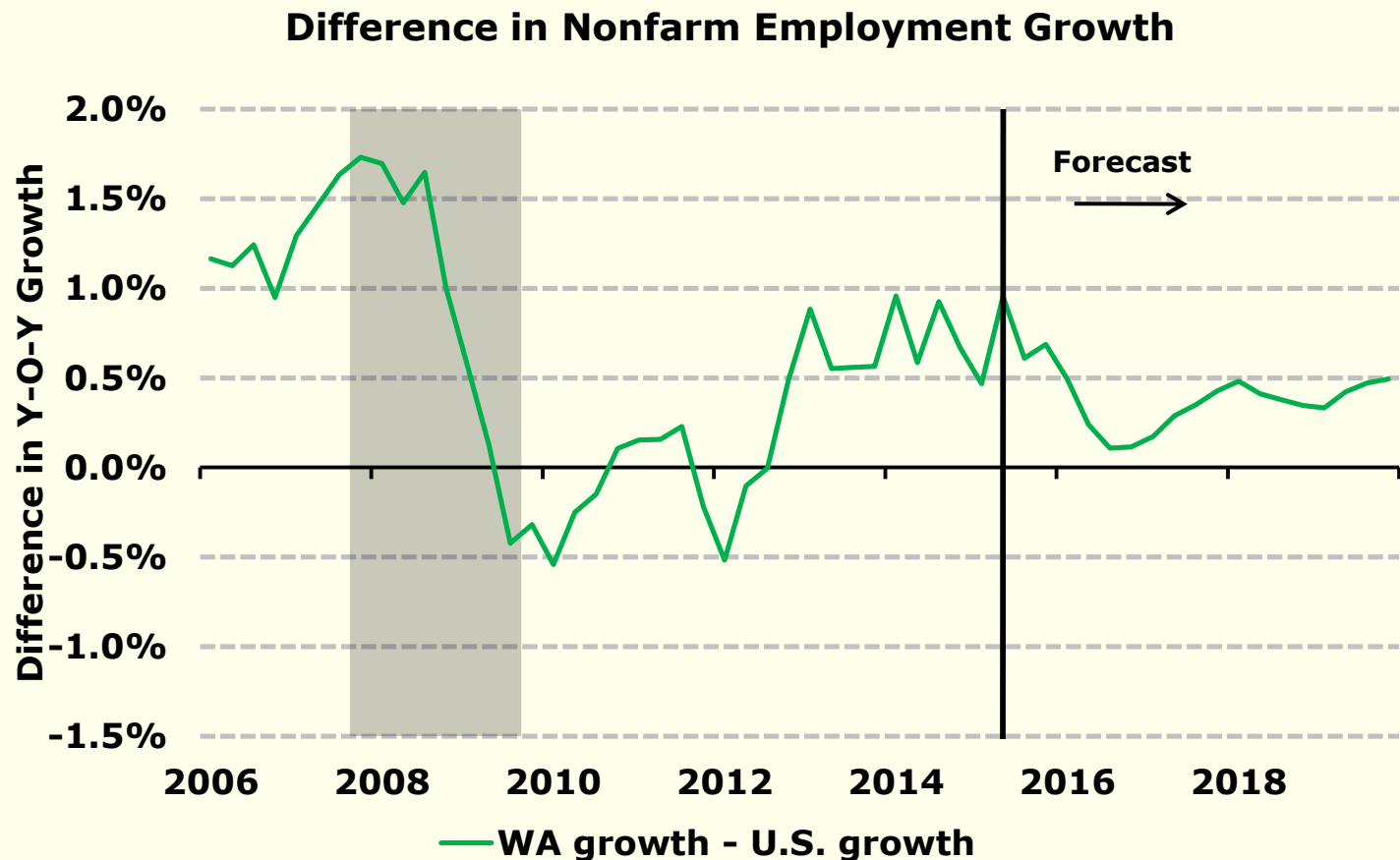


Source: Employment Security Department, ERFC; data through November 2015

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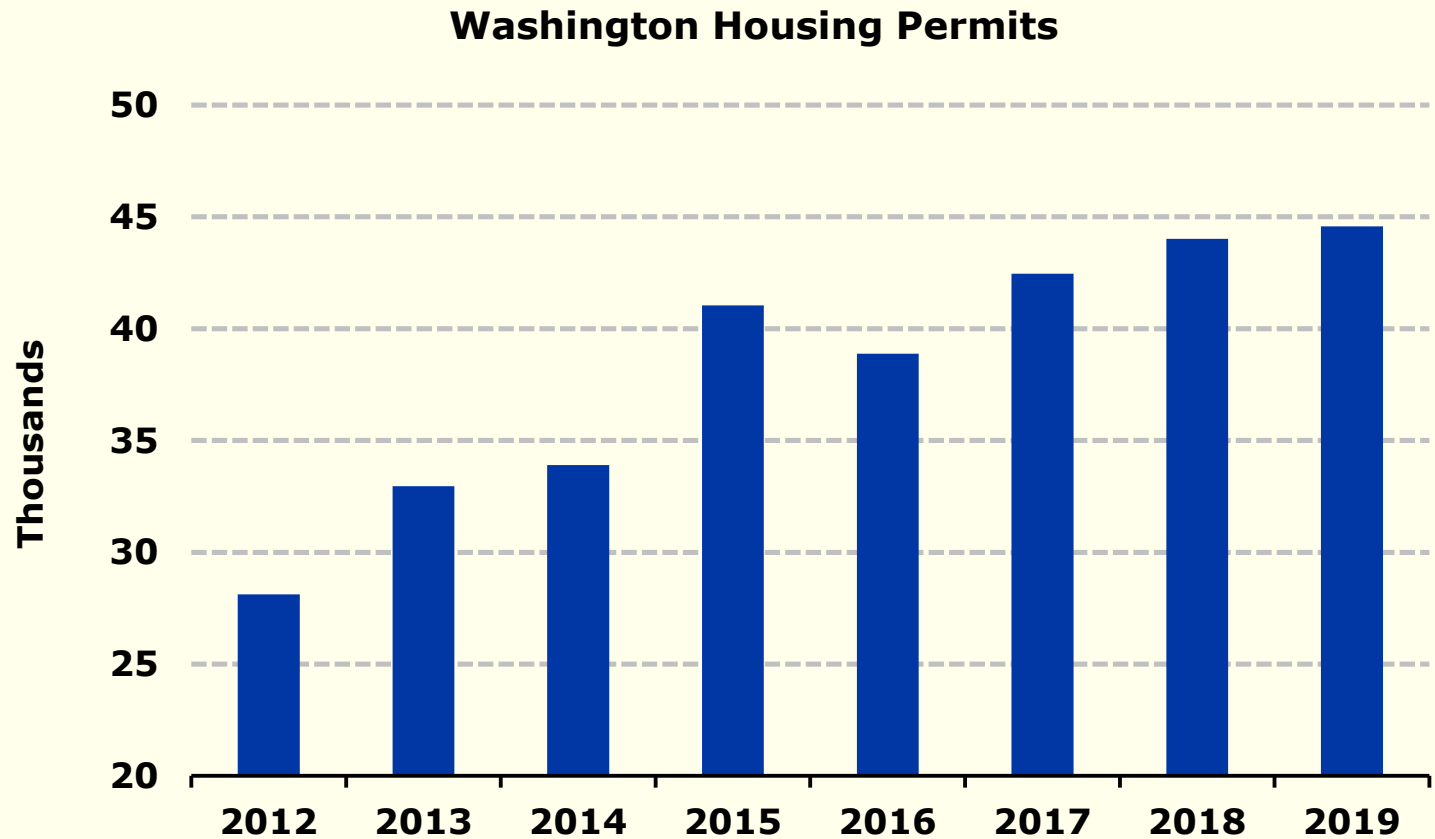


Washington employment will grow slightly faster than the U.S.





Washington housing permits forecast is for moderate growth after 2016



Source: ERFC November 2015 forecast; historical data through 2015Q3

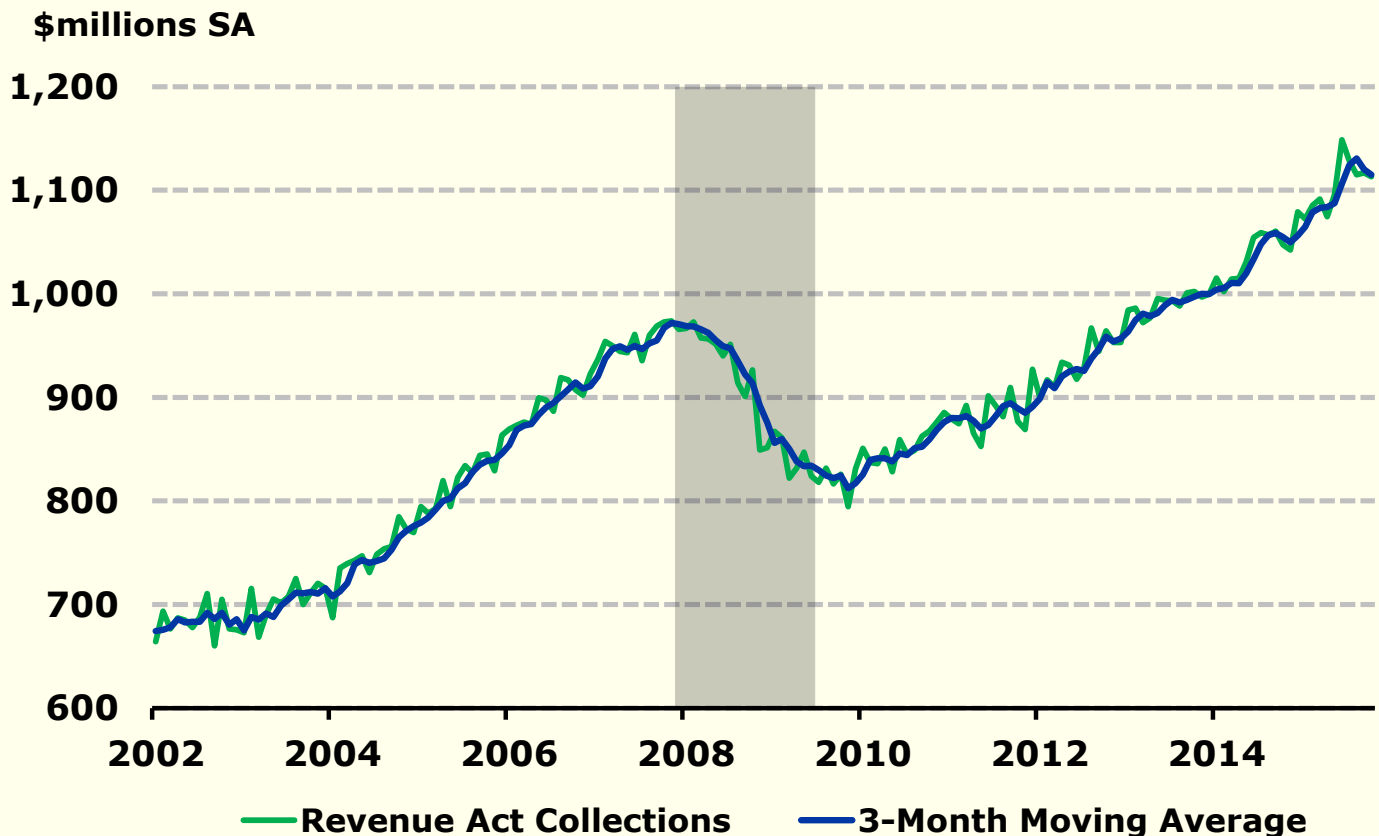
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Q3 Revenue Act collections growth slowed after a strong Q2

Adjusted Y-O-Y revenue growth for third quarter activity slowed to 5.8% after 7.1% growth in the second quarter.

Adjusted Y-O-Y growth was 5.3% for September activity and 6.3% for October activity.



* 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 October 2015 activity

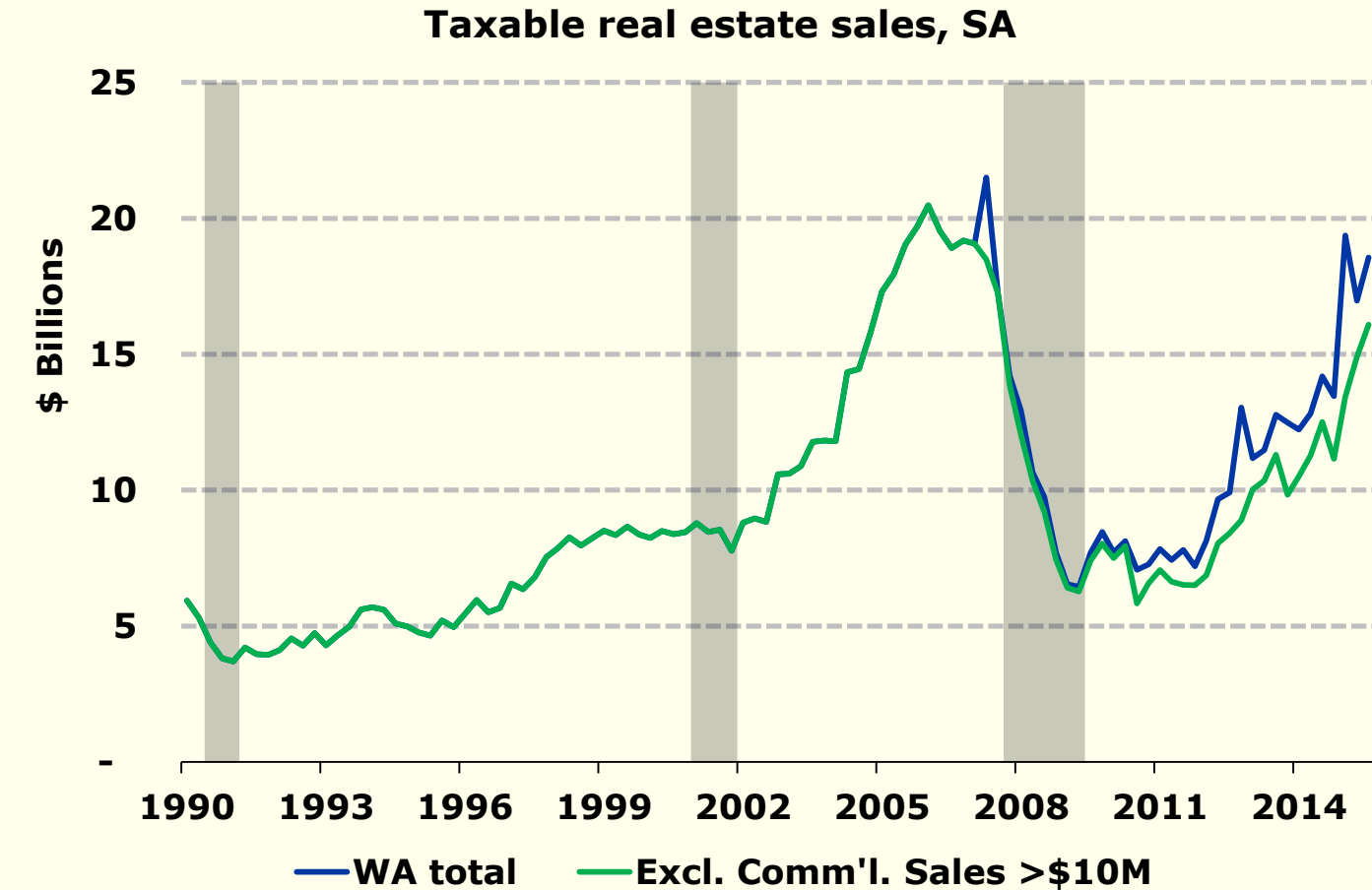
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Large commercial property sales have had major impact on REET collections

Residential taxable activity has been growing rapidly for the last three quarters but future growth is expected to slow due to a lack of inventory.

Large commercial property sales are also expected to slow.



Source: ERFC, data through 2015 Q3

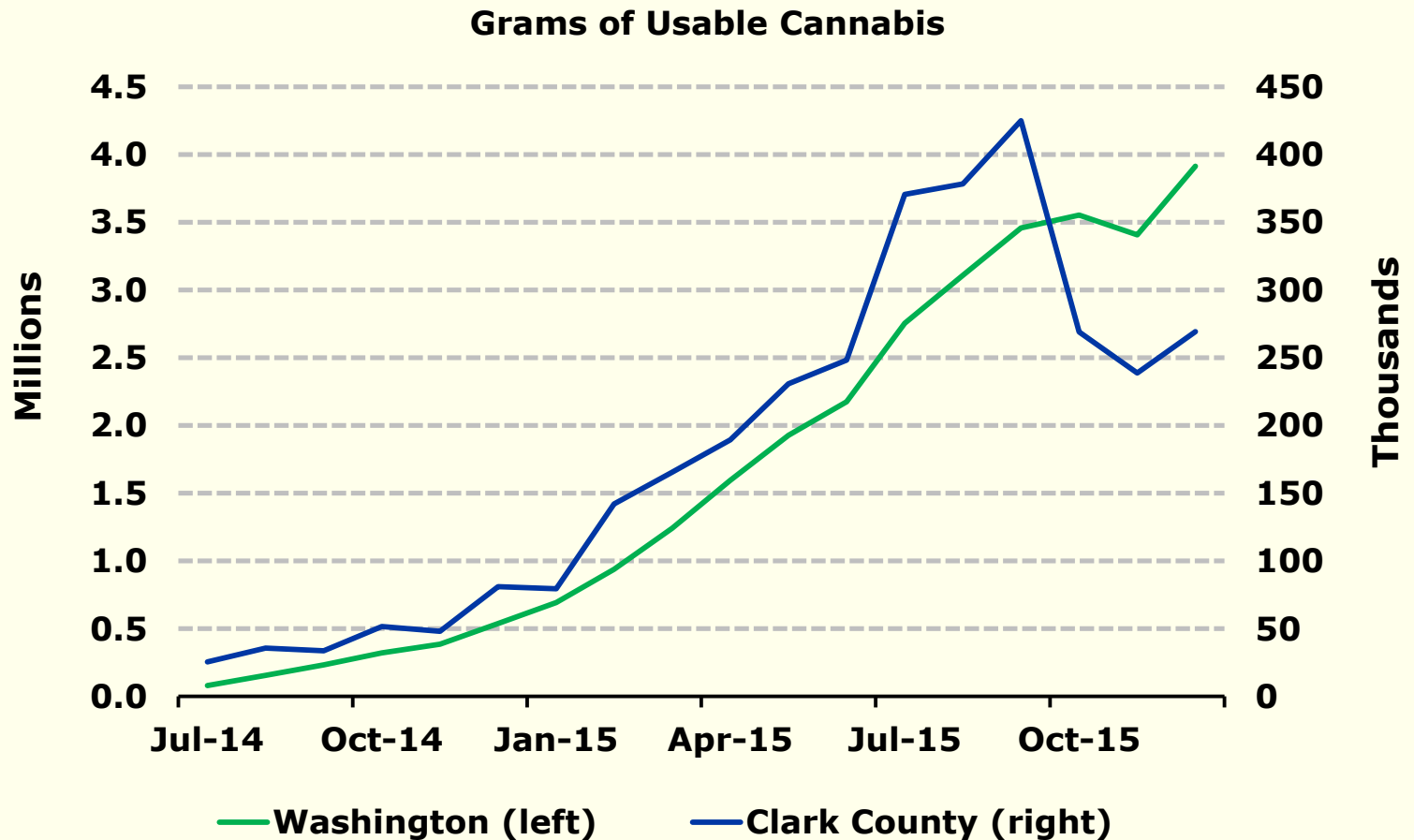
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Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12.8% of total sales by quantity.

In December, Clark County accounted for 7.8% of total sales by quantity.



Source: WA LCB; data through December 2015



Cannabis excise tax and license fee estimates

Total change from September forecast:

•2015-17
+\$11 M

•2017-19
+\$2 M

\$Millions

November Forecast

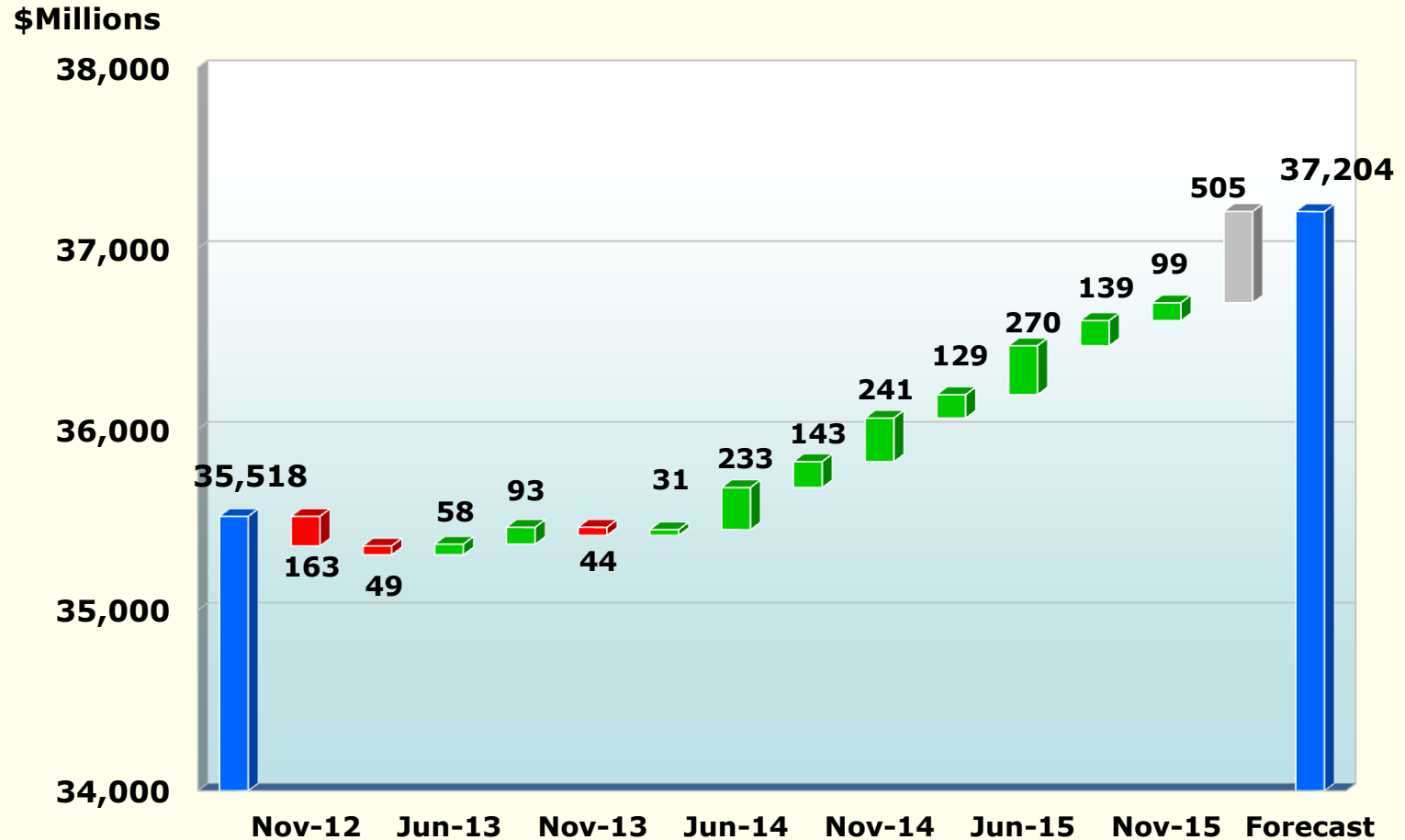
| | <u>2013-15</u> | <u>2015-17</u> | <u>2017-19</u> |
|---|-----------------------|-----------------------|-----------------------|
| GF-S share of excise tax and license fees | \$15 | \$133 | \$230 |
| Non-GF | \$52 | \$300 | \$475 |
| Total | \$67 | \$433 | \$705 |

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis



GF-S forecast revisions to the 2015-17 biennium

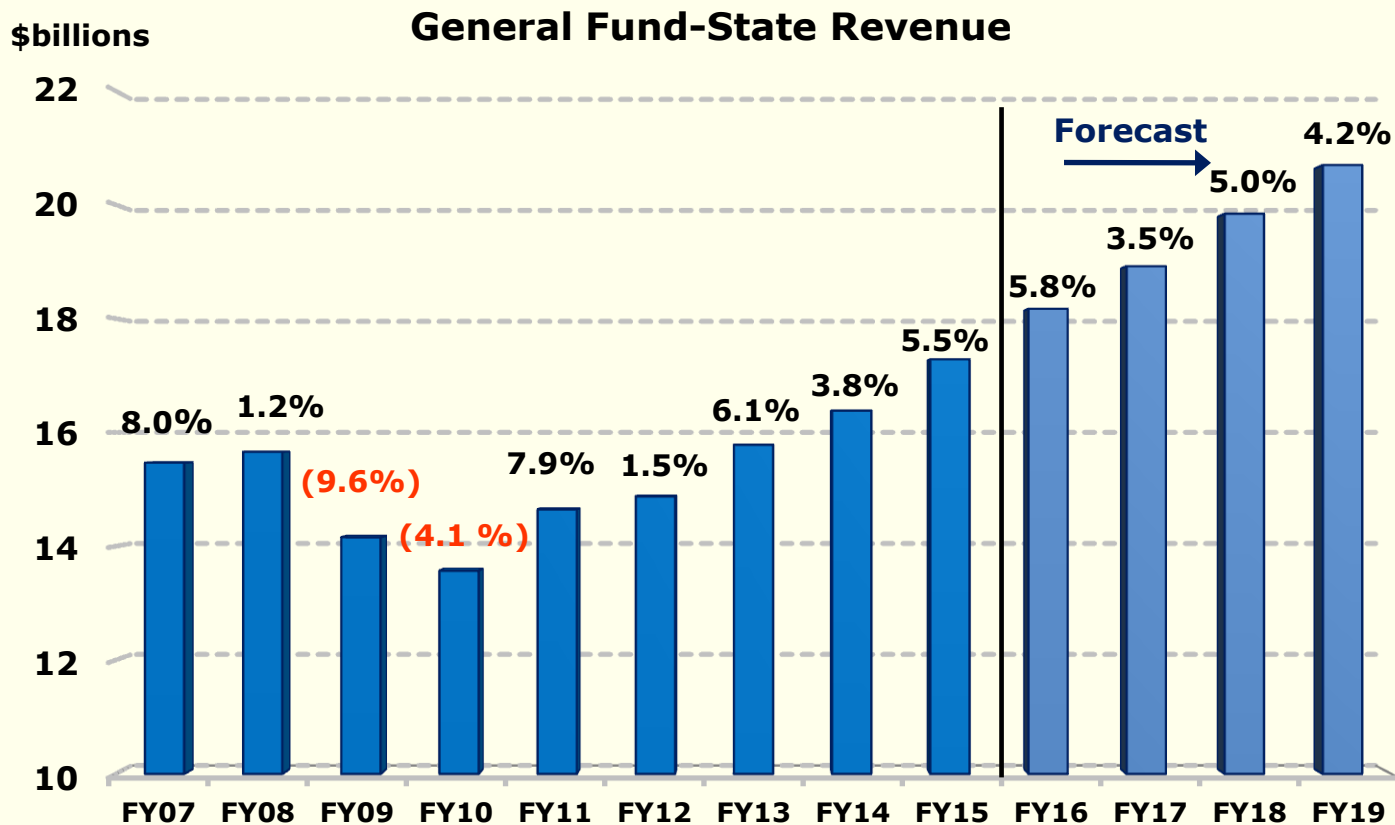


Source: ERFC September 2012 – November 2015 forecasts
Gray area indicates total noneconomic change

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General Fund-State* forecast by fiscal year





Conclusion

- The economic forecast expects slightly weaker growth in personal income and employment than in September
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- GF-S revenues are expected to grow 10.5% between the 2013-15 and 2015-17 biennia and 9.0% 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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