

# Washington and U.S. Economic Outlook

Presented to  
Puget Sound Chapter – Financial Planning Association

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Bellevue, Washington



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

- Our economic forecast expects continued moderate growth in the U.S. and Washington economies
- We expect moderate growth in oil prices over the forecast period
- The forecast assumes the Federal Reserve will increase interest rates twice this year
- Risks to the baseline include slowing global and U.S. economic growth, impact of a stronger dollar on exports, and weaker manufacturing activity



# Economic news continues to suggest risks to forecast

## **Upside:**

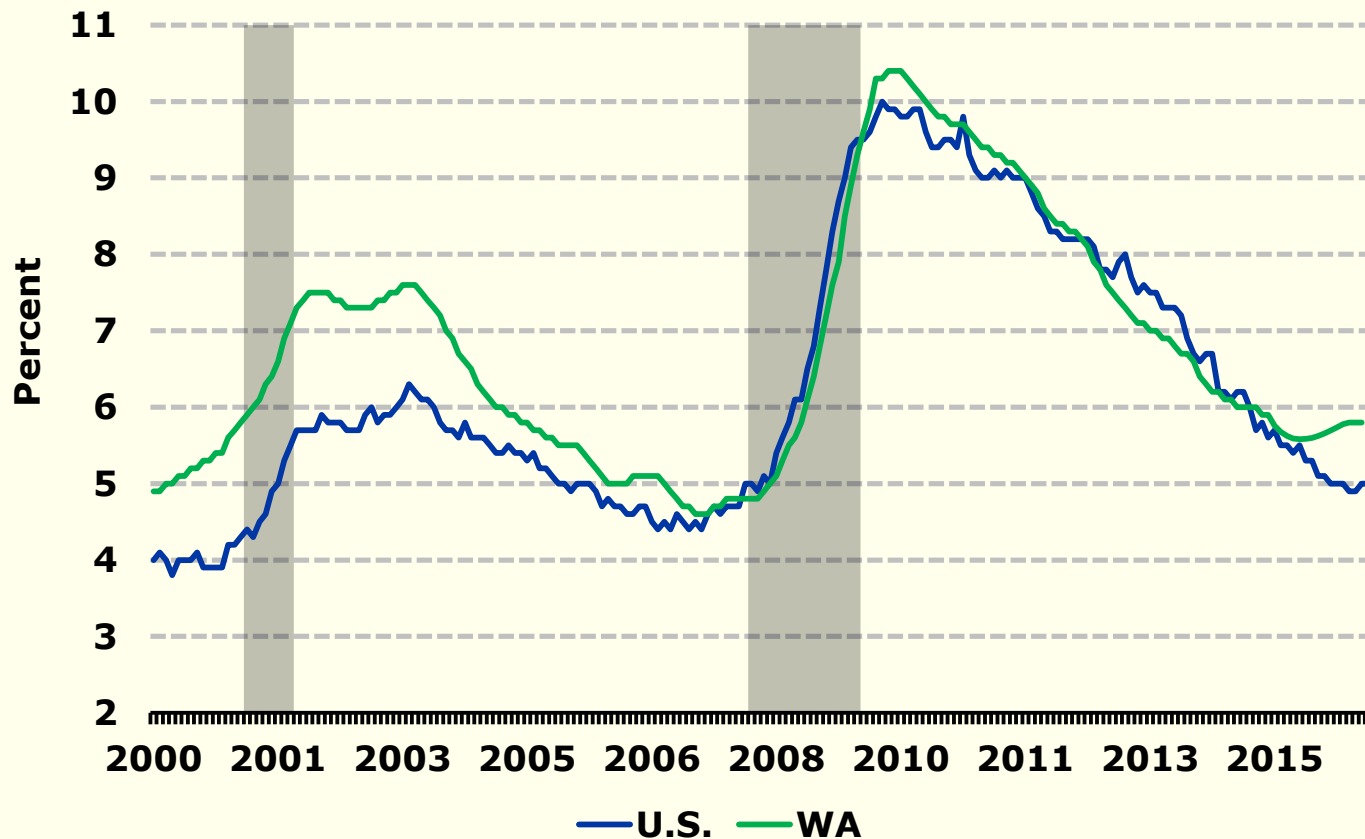
- Declining unemployment rates and initial unemployment claims
- Growth in housing starts and home sales (new and existing)
- Moderate wage growth

## **Downside:**

- Slower U.S. GDP growth
- Slowing global economy
- Negative impact of stronger dollar on exports
- Stock market volatility



# U.S., WA unemployment rates trending down



Source: Bureau of Labor Statistics; U.S. data through Apr. 2016; WA data through Mar. 2016

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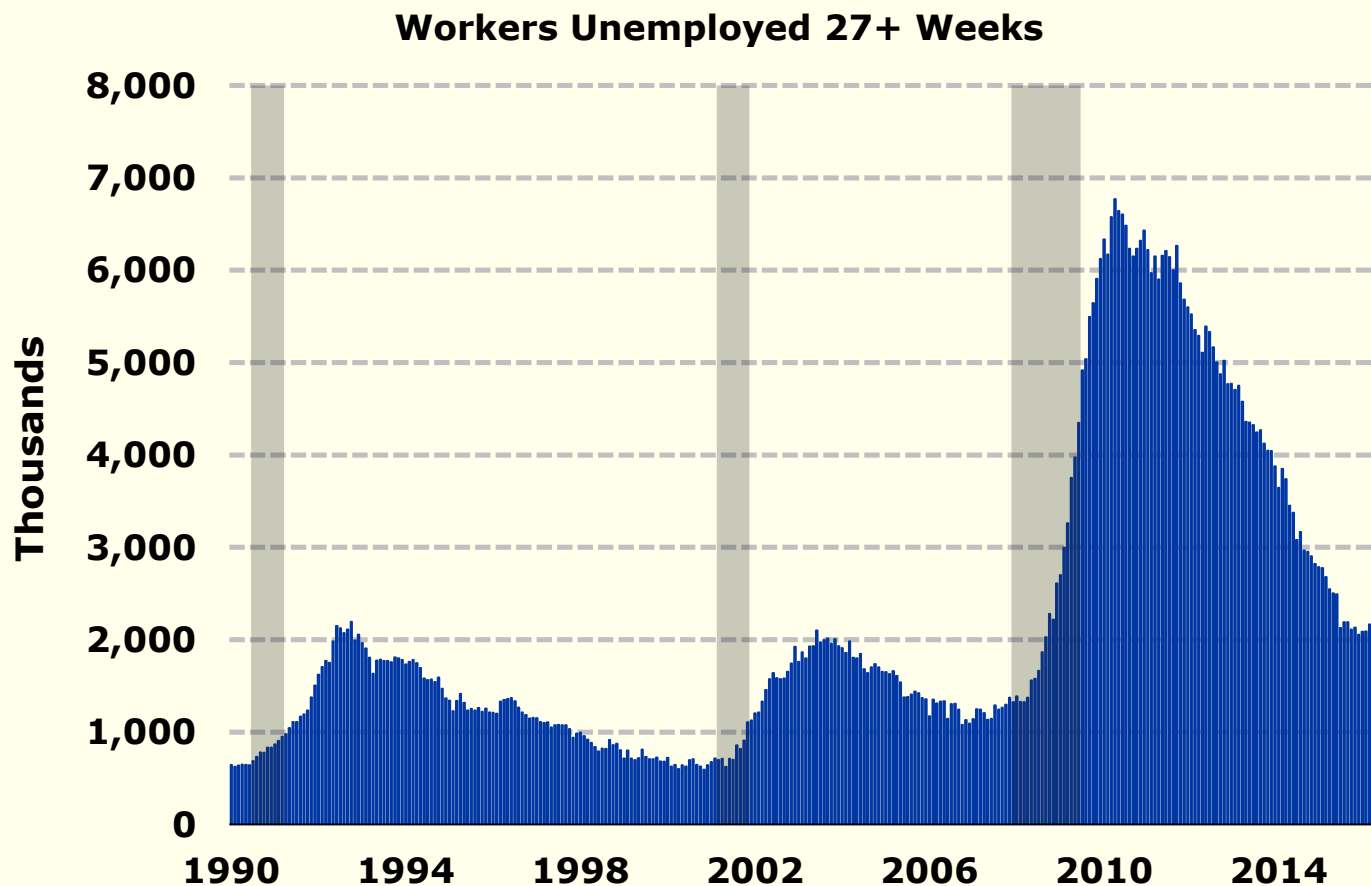


# Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Apr. 2016: 26%

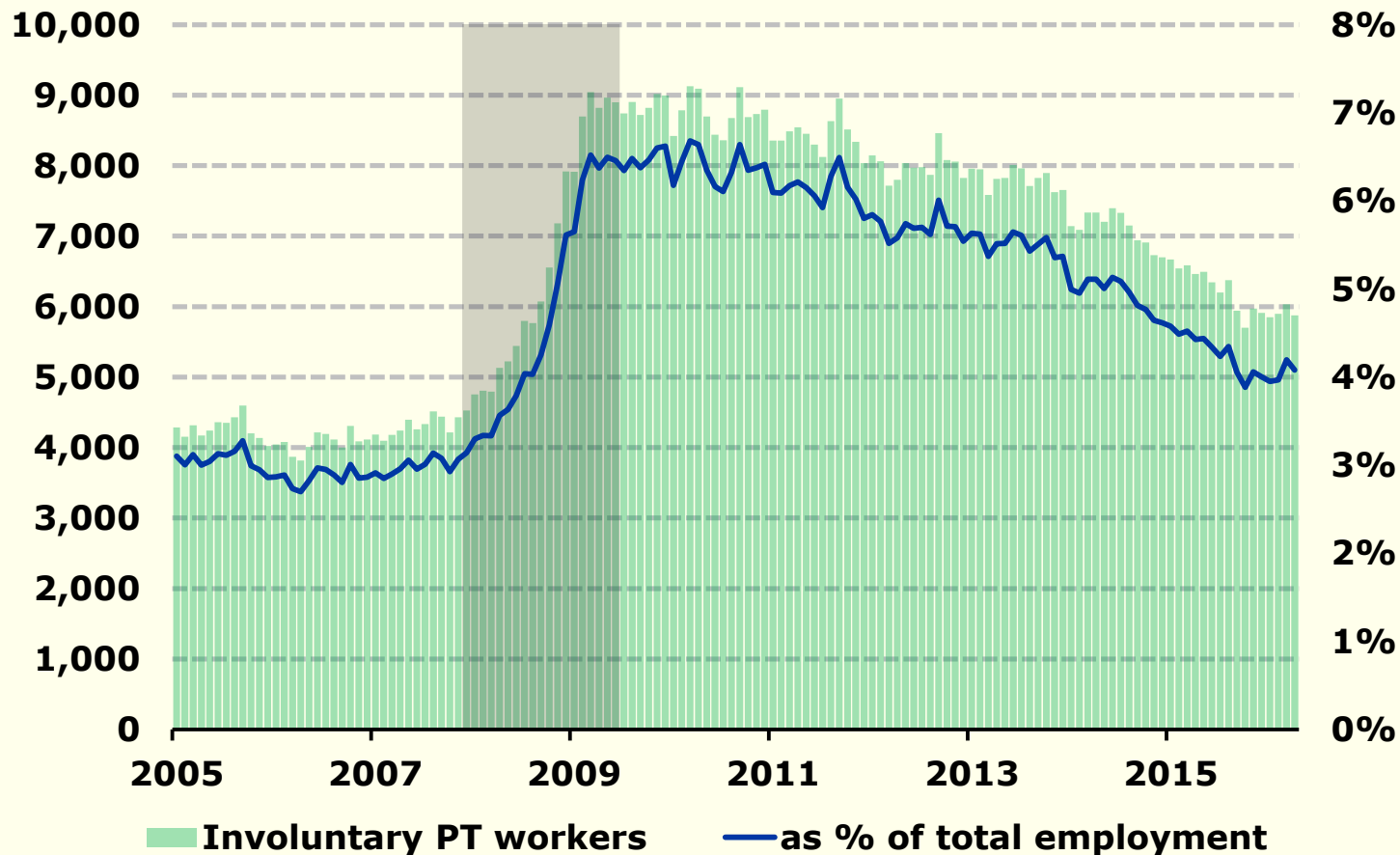


Source: Bureau of Labor Statistics; U.S. data through April 2016

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# Involuntary part-time employment remains above pre-recession levels

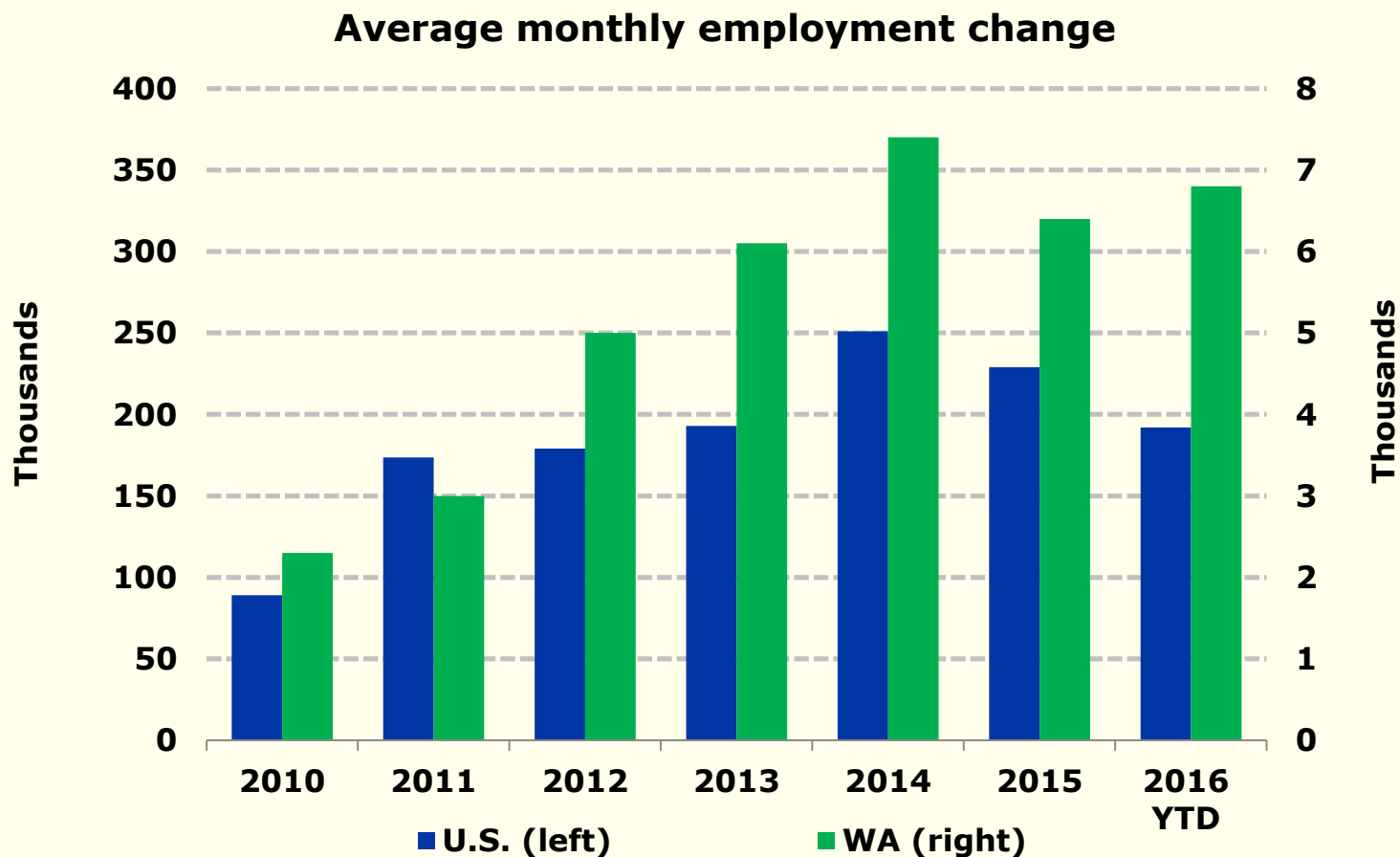


Source: U.S. Bureau of Labor Statistics; U.S. data through Mar. 2016

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# So far in 2016, U.S. & WA adding jobs at similar pace to last year

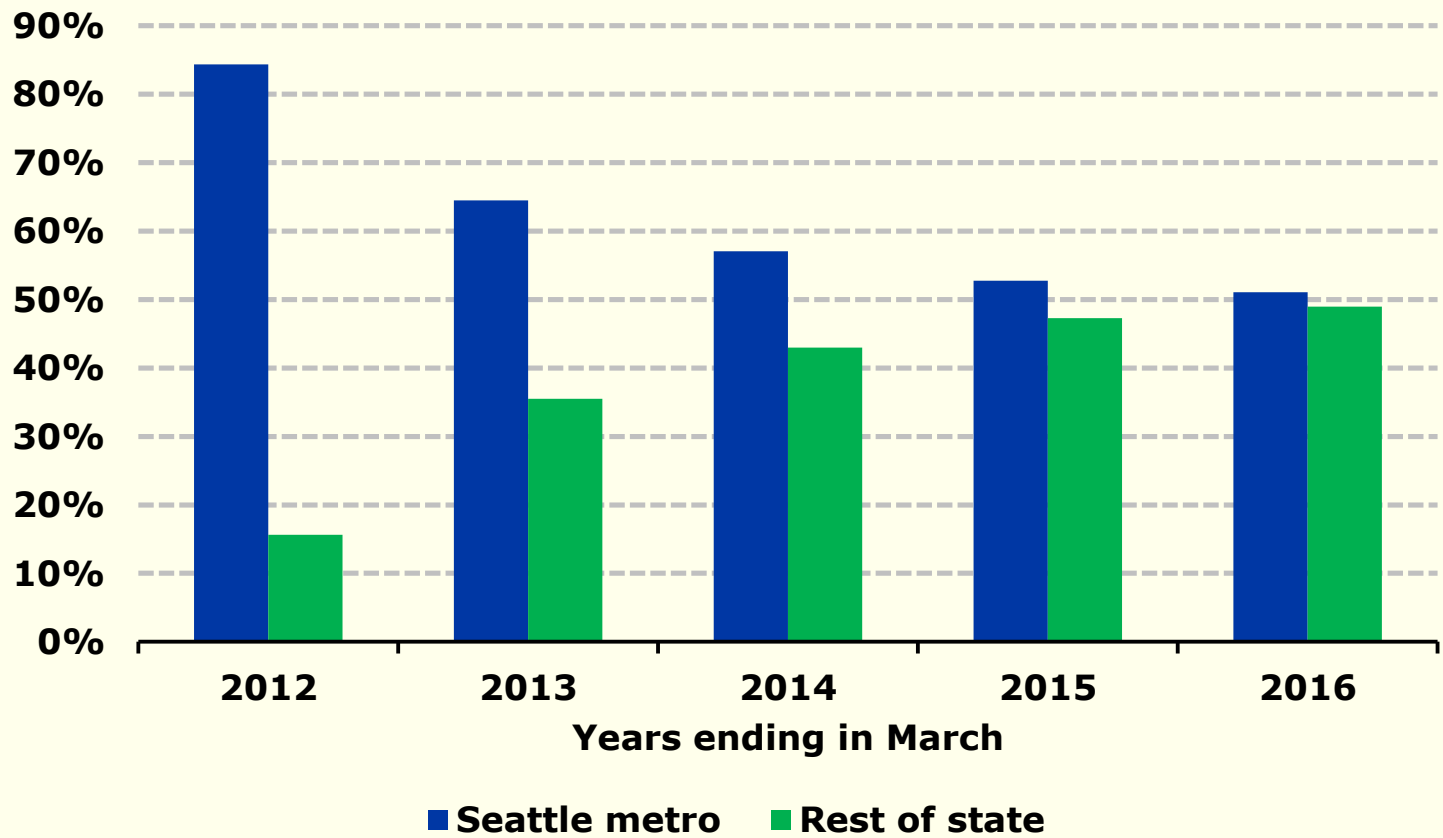


Source: Bureau of Labor Statistics, ERFC; U.S. data through Apr. 2016, WA data through Mar. 2016

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# Fraction of statewide employment change, Seattle vs. rest of state



Source: Bureau of Labor Statistics

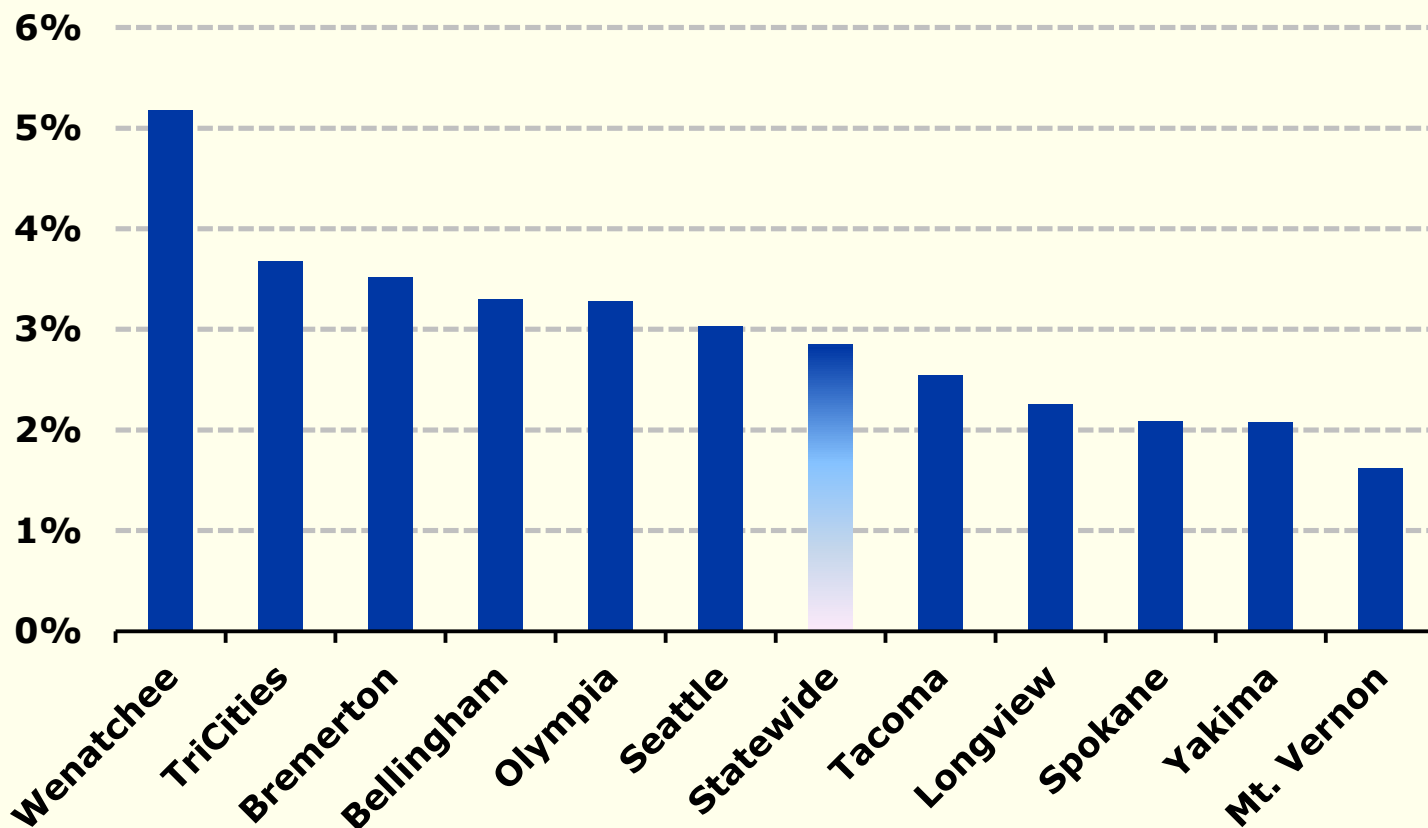
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# Employment growth varied widely across state metro areas

2015 employment growth by metro area



Source: WA State Employment Security Department

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# Washington Employment Trends

Washington has gained 388,000 nonfarm jobs since February 2010

## Employment Change since Trough (thousands)

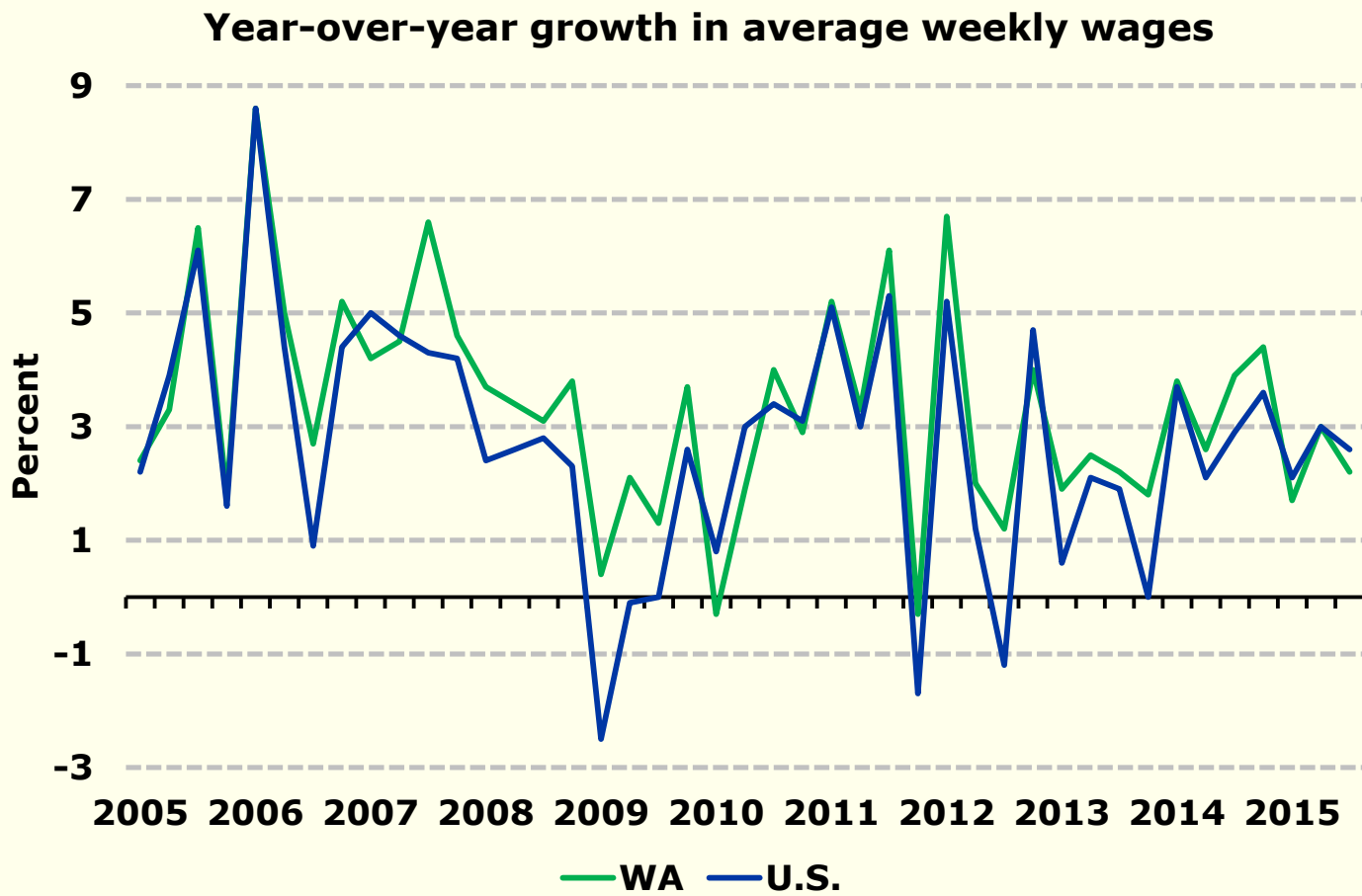


Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through Mar. 2016

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# Weekly wages are growing but at a fairly moderate pace

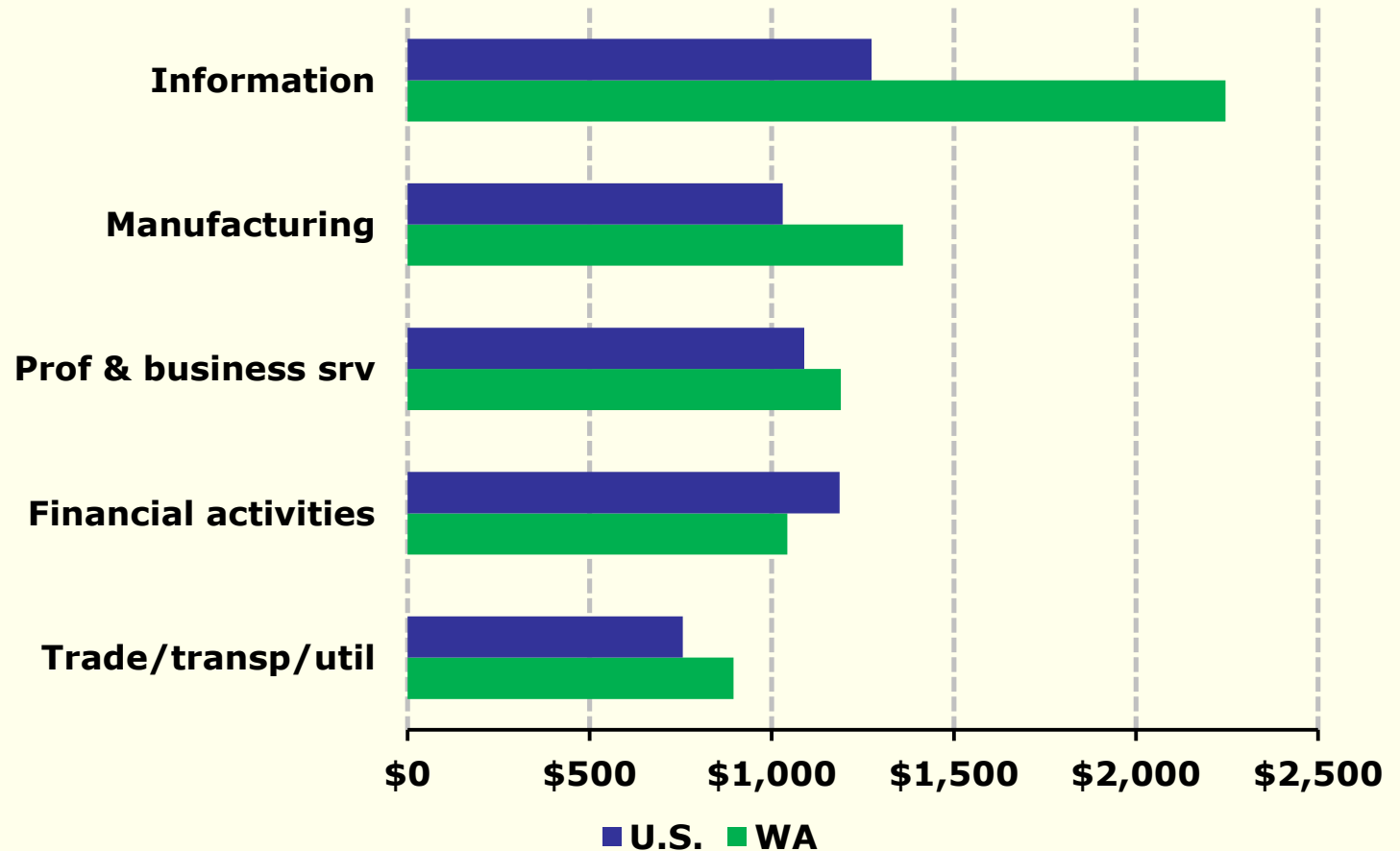


Source: U.S. Bureau of Labor Statistics, quarterly data through 2015 Q3

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# Average weekly wage in 2015 by industry

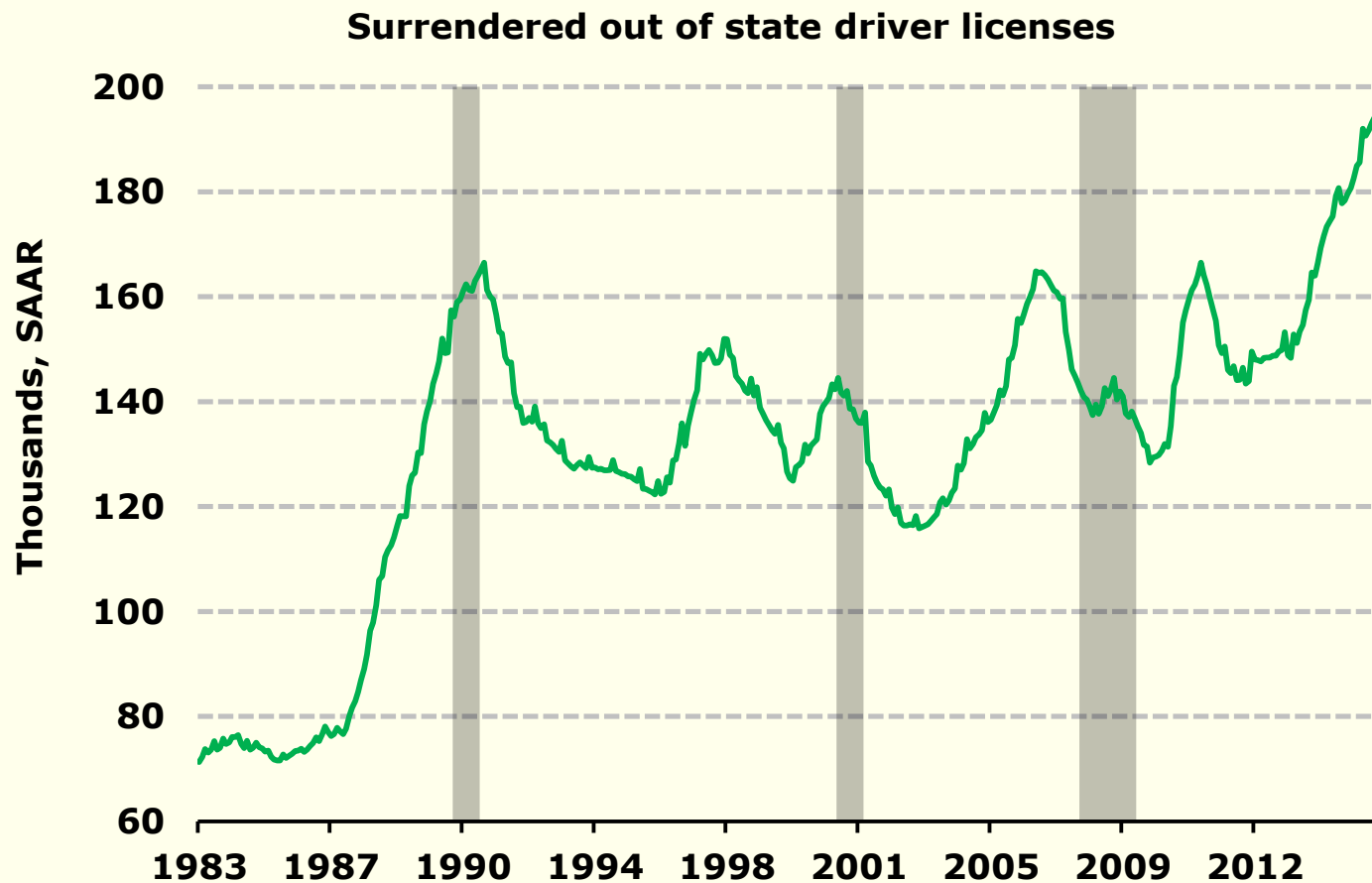


Source: U.S. Bureau of Labor Statistics, 2015 data

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# WA in-migration continues to climb

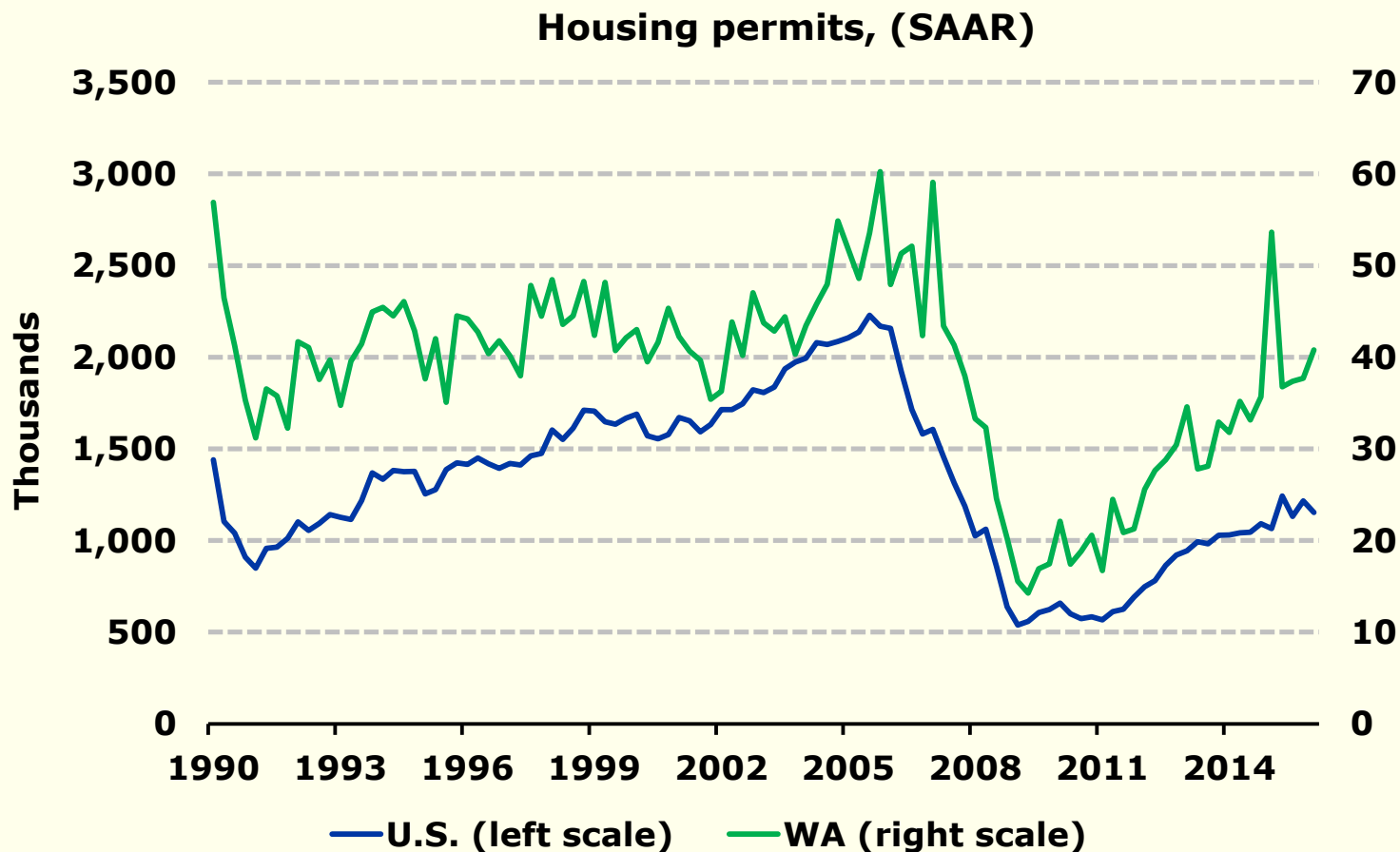


Source: WA Dept. of Licensing, ERFC; data through Mar. 2016

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

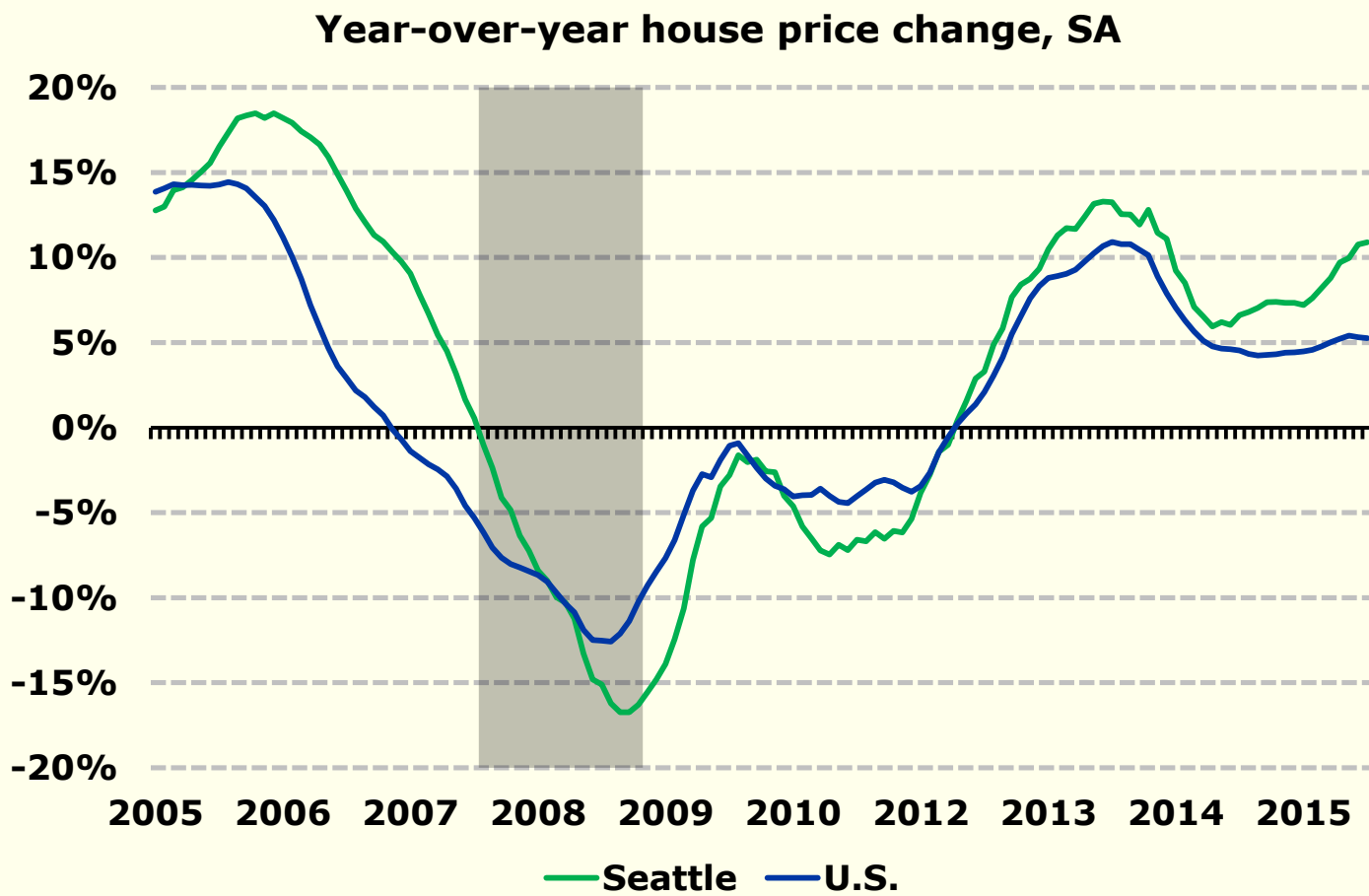


Source: U.S. Census Bureau, data through 2016 Q1

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# Seattle home prices have been rising faster than prices nationally

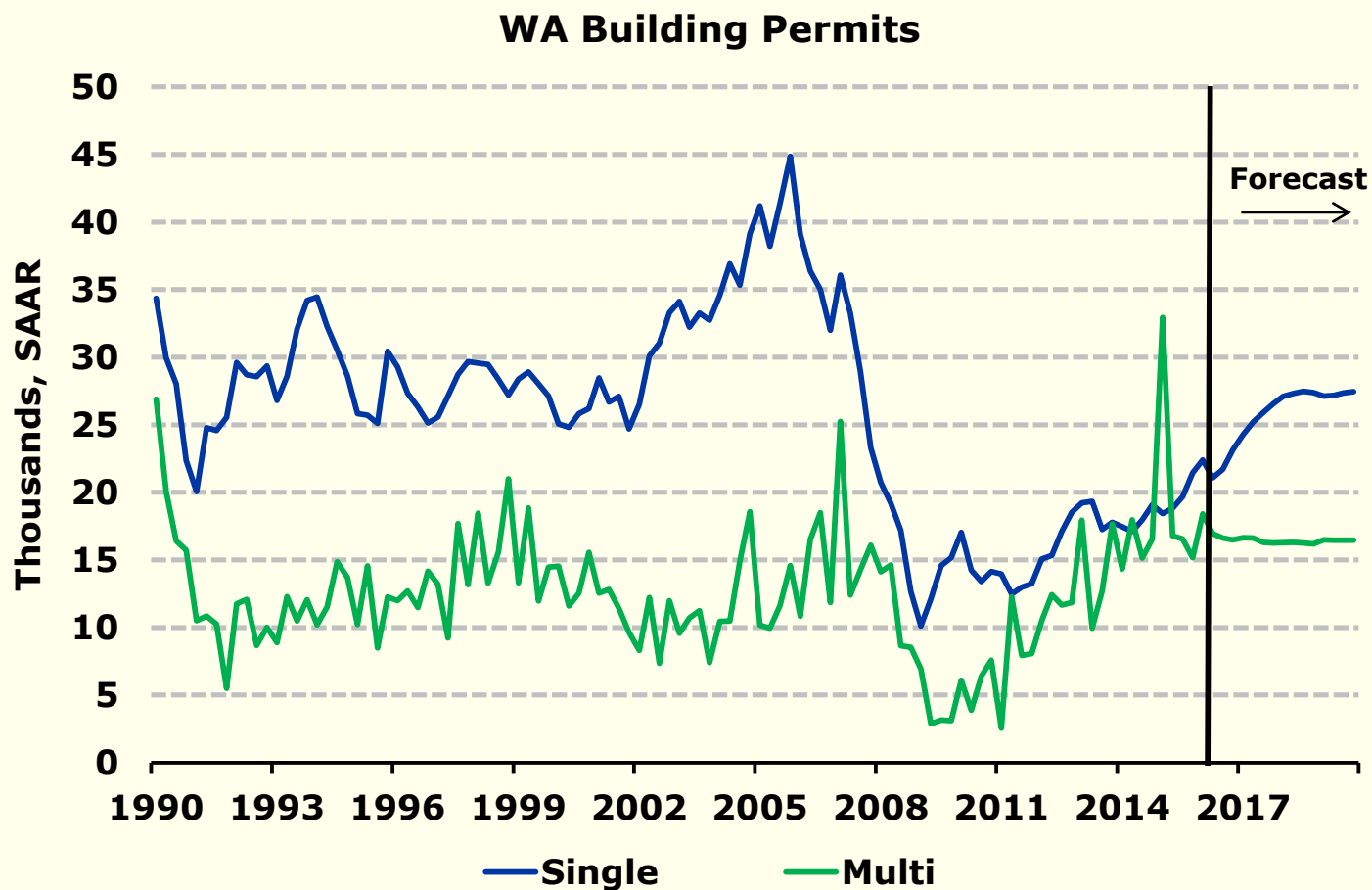


Source: S&P/Case-Shiller; data through Feb. 2016

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# Multi-family housing activity is returning to more typical levels

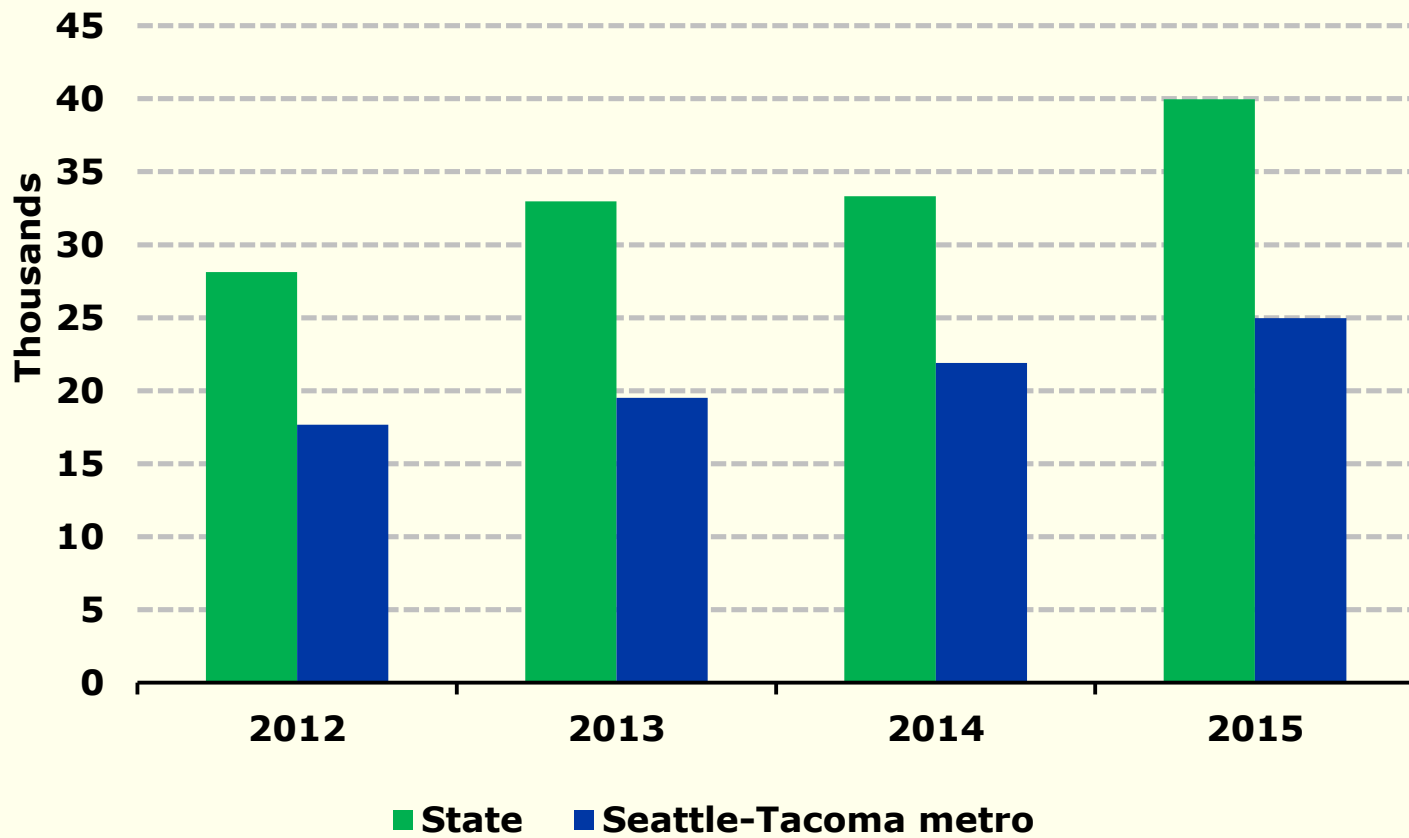






# Seattle-Tacoma metro area has accounted for over 62% of state of residential building permits 2012-15

Seattle-Tacoma metro area is 52% of the state's population



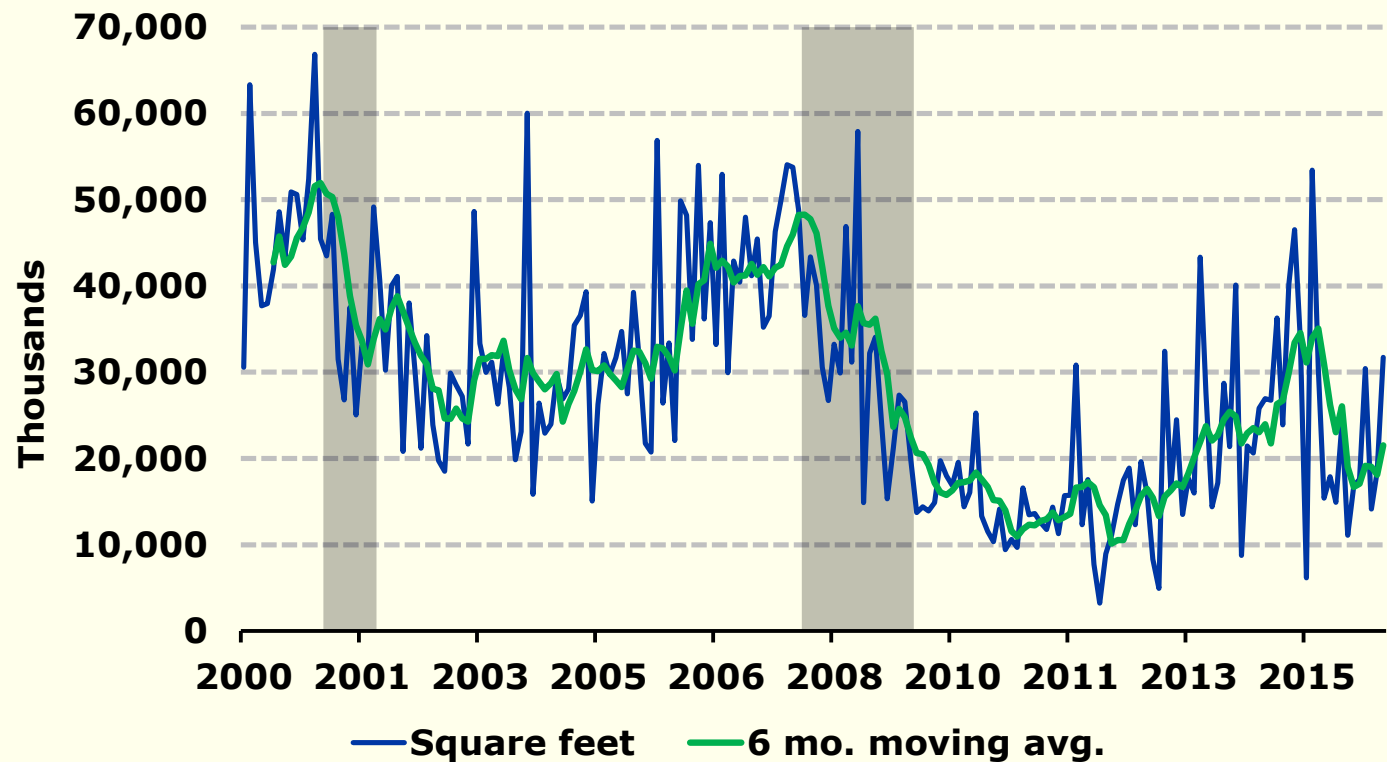
Source: U.S. Census Bureau, data through 2015

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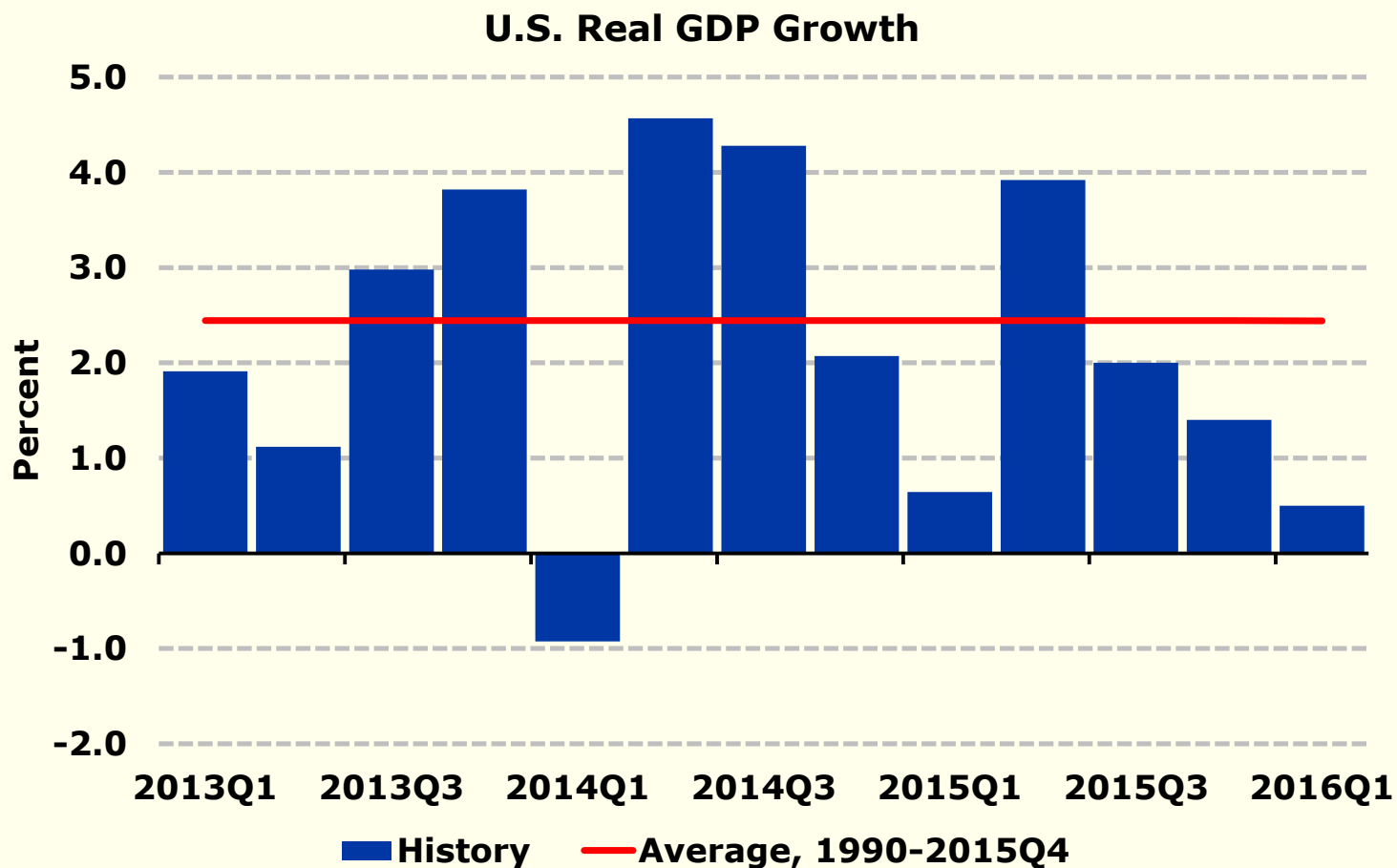
# Nonresidential construction activity appears to be slowing

Square feet under contract, WA nonresidential projects (SAAR)





# U.S. economic growth weakened in the last three quarters

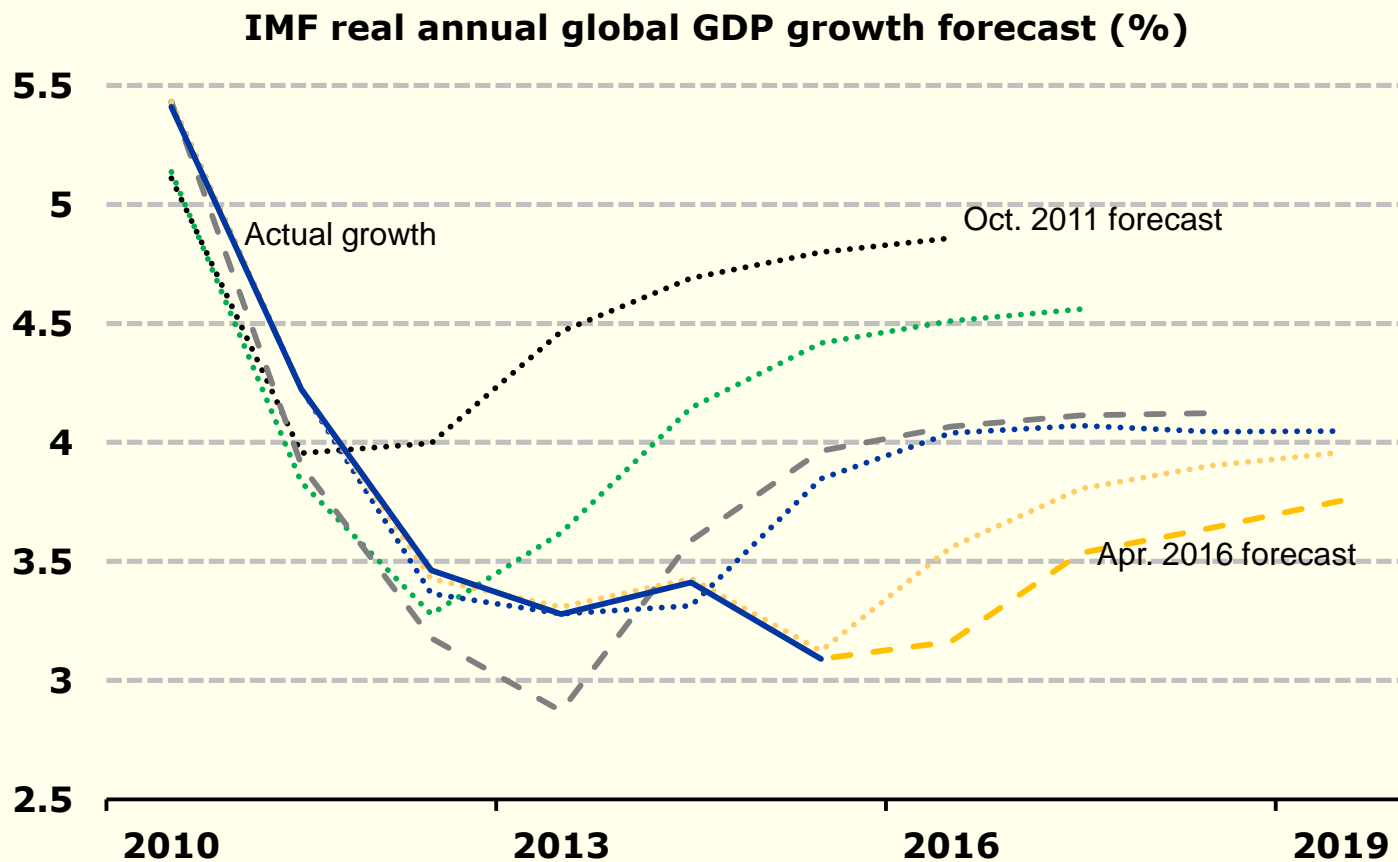


Source: U.S. Dept. of Commerce, BEA, data through 2016 Q1

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# Global GDP forecasts have been consistently revised down

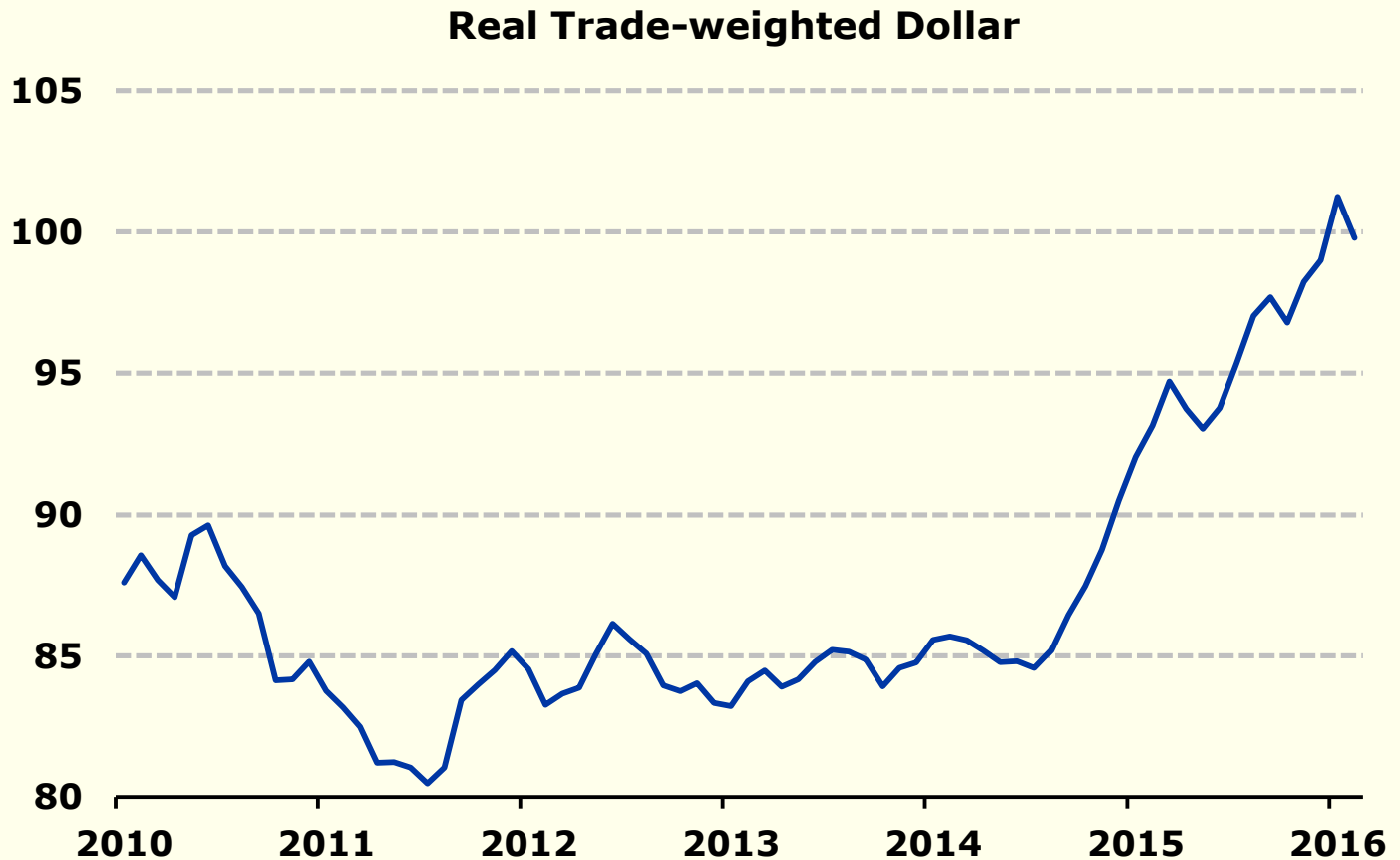


Source: International Monetary Fund, World Economic Outlook; historic data through 2015

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



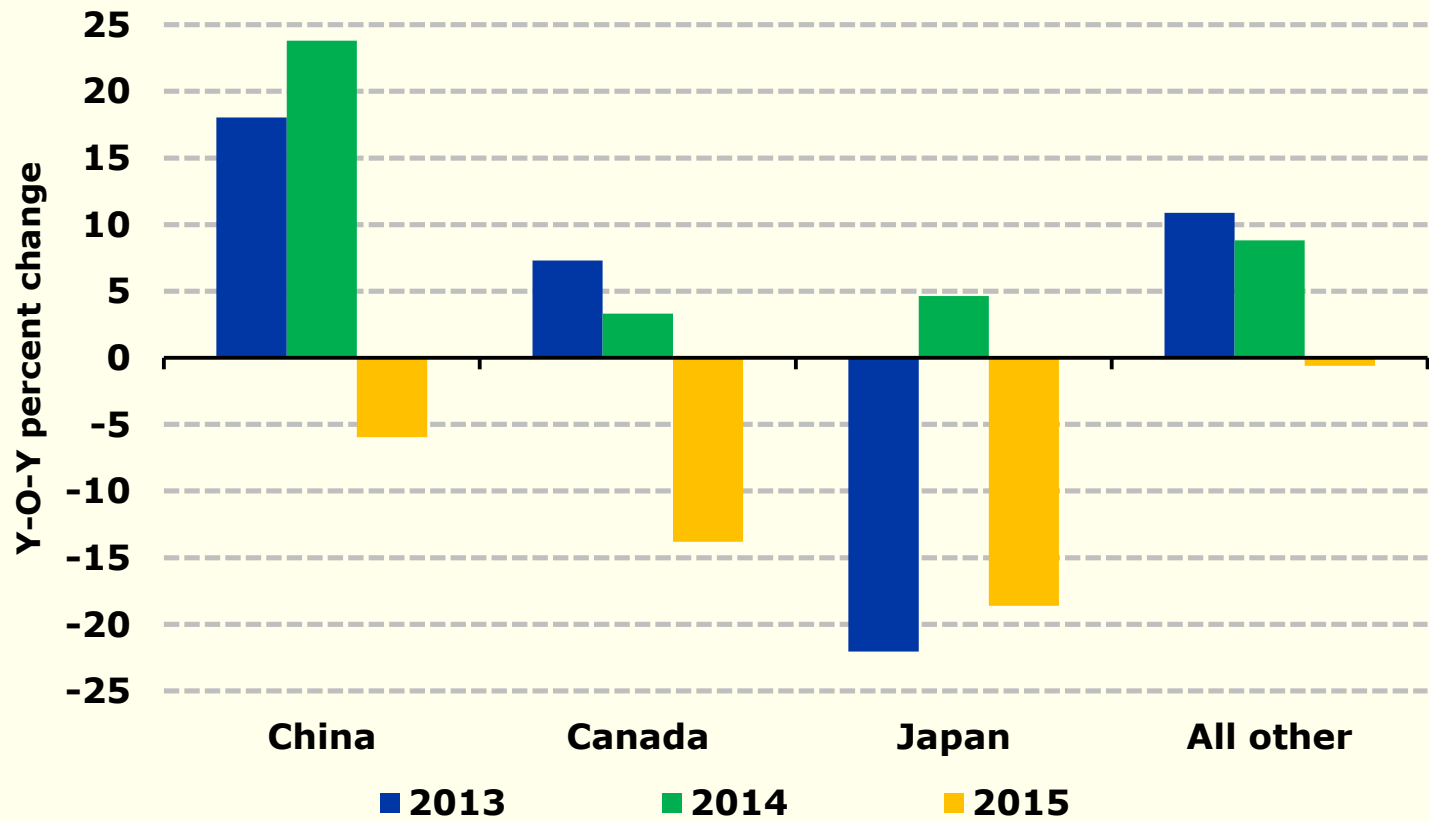
Source: Federal Reserve Bank of St. Louis; data through April 2016

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# WA exports in 2015 declined for the first time since 2009

Year-over-year growth in export value

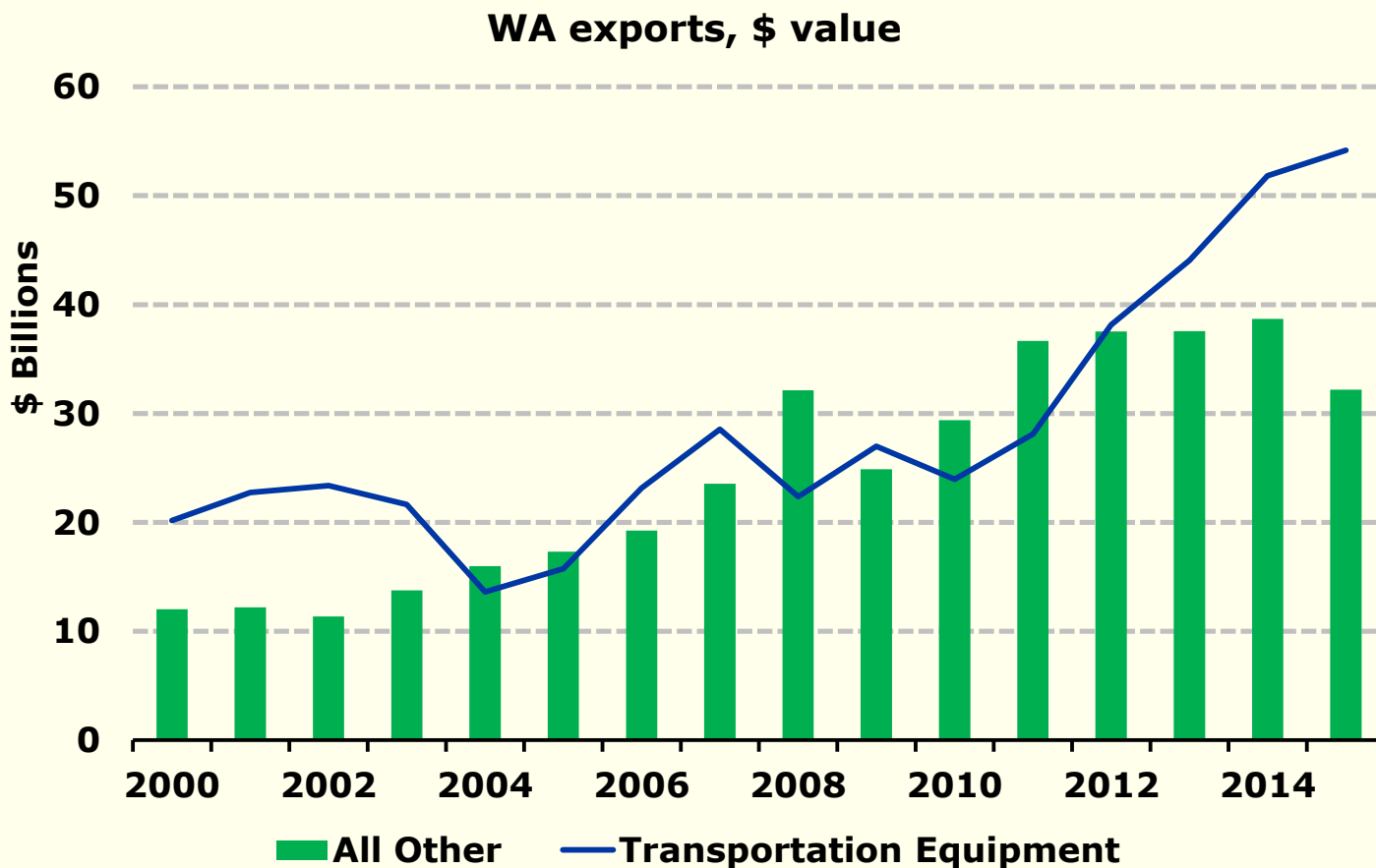


Source: WISERTrade; data through December 2015

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# Growth in 2015 aerospace exports was offset by declines for most other industries

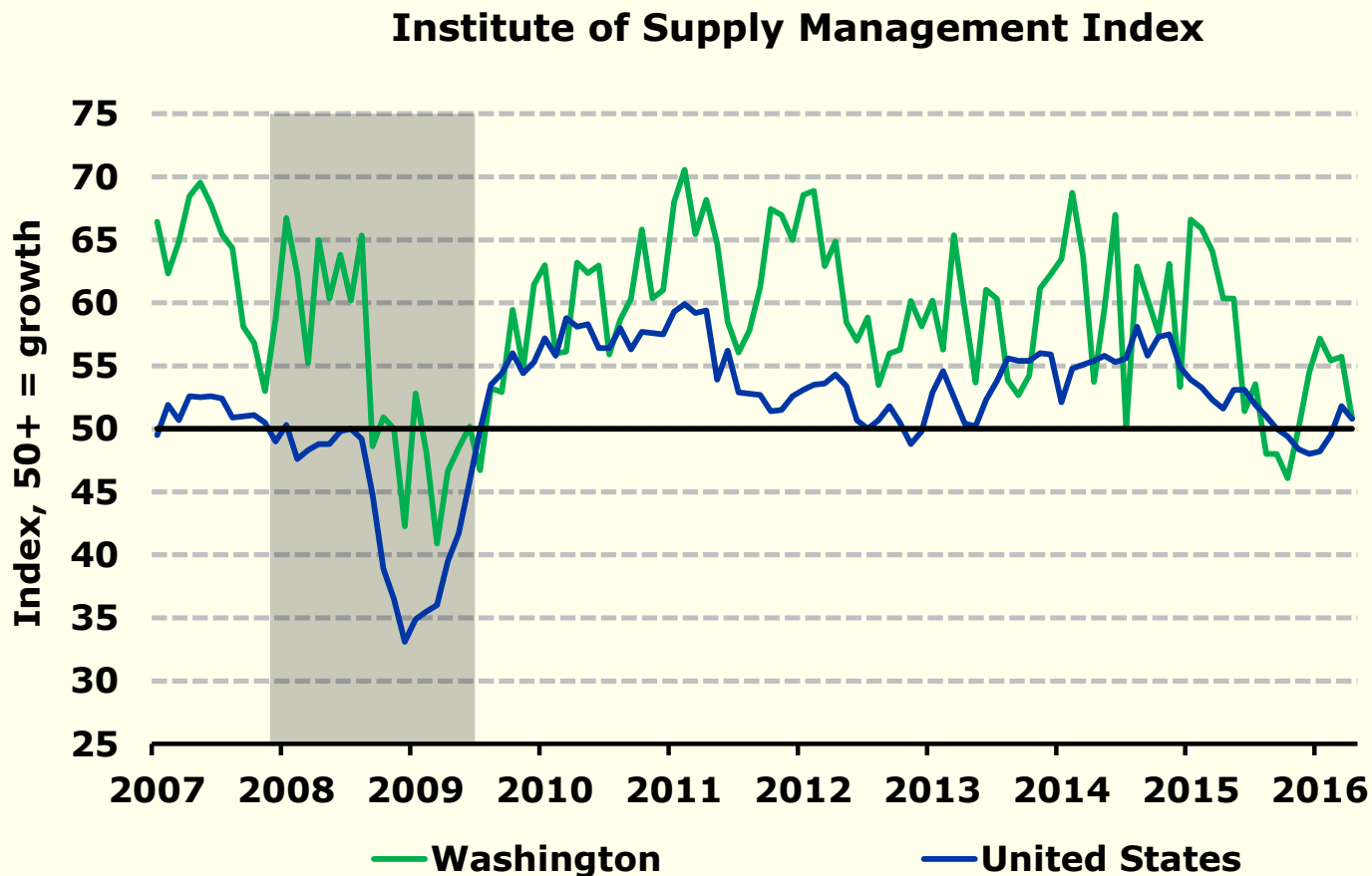


Source: WISERTrade, data through 2015

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# Manufacturing: slower nationally and in Washington





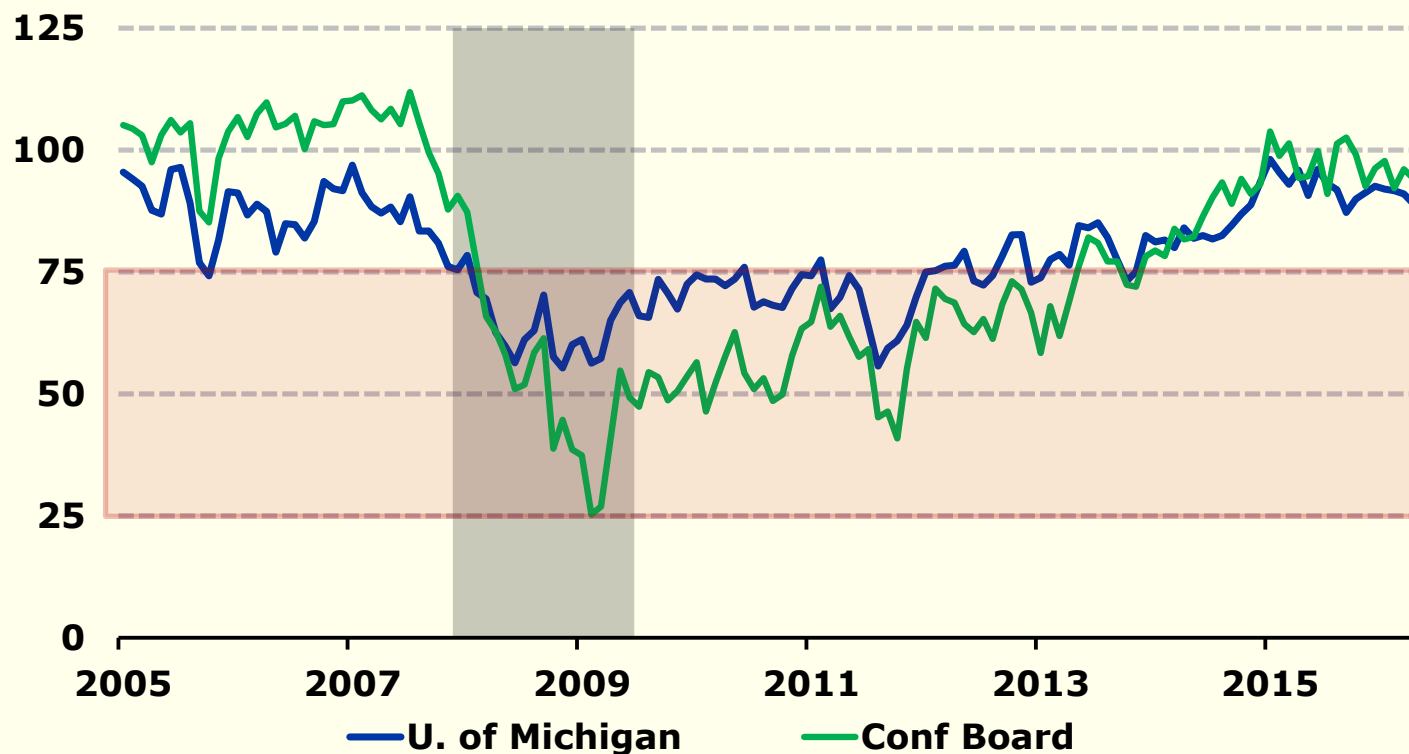


# Conference Board, U. of Michigan indexes both down in April

## Index

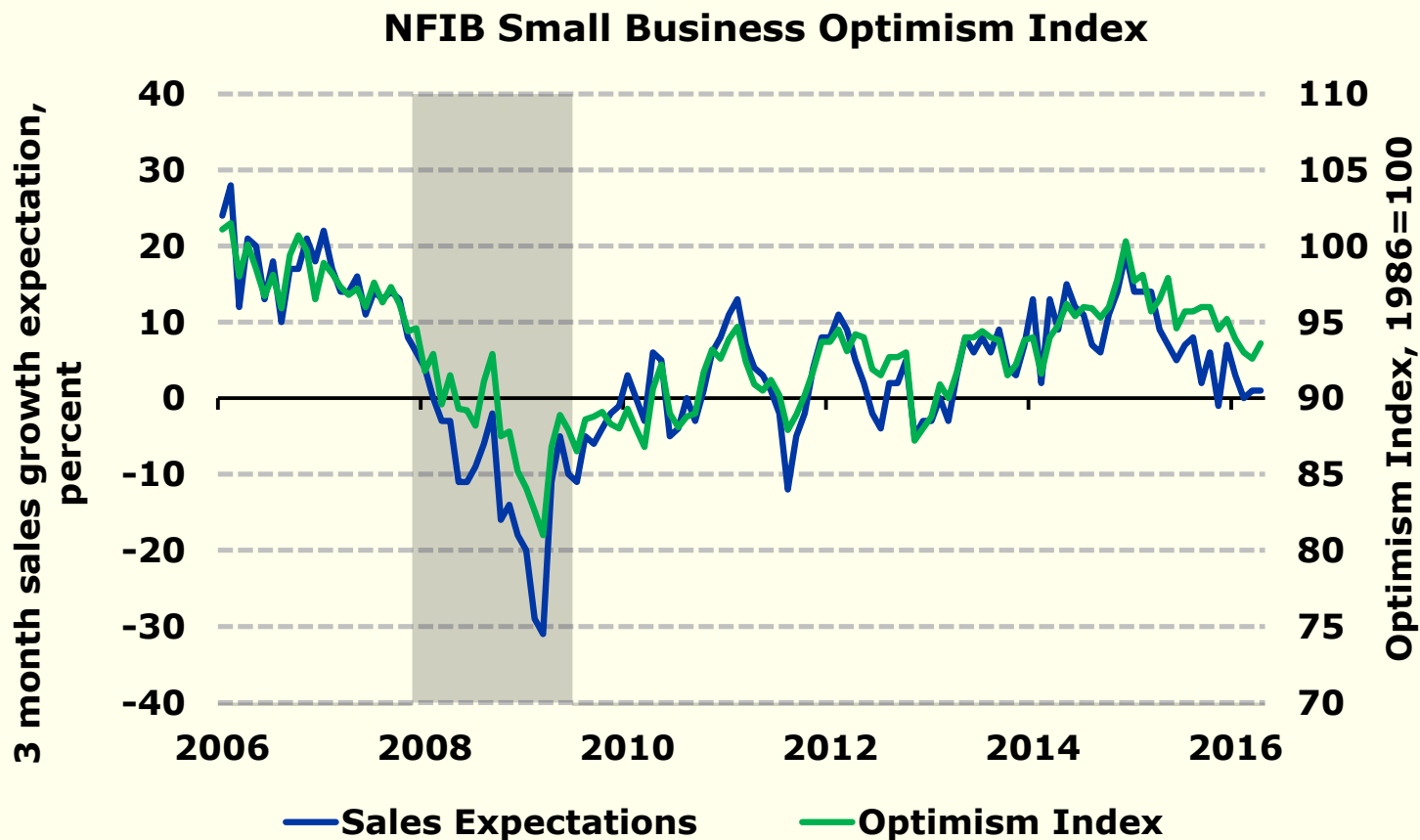
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



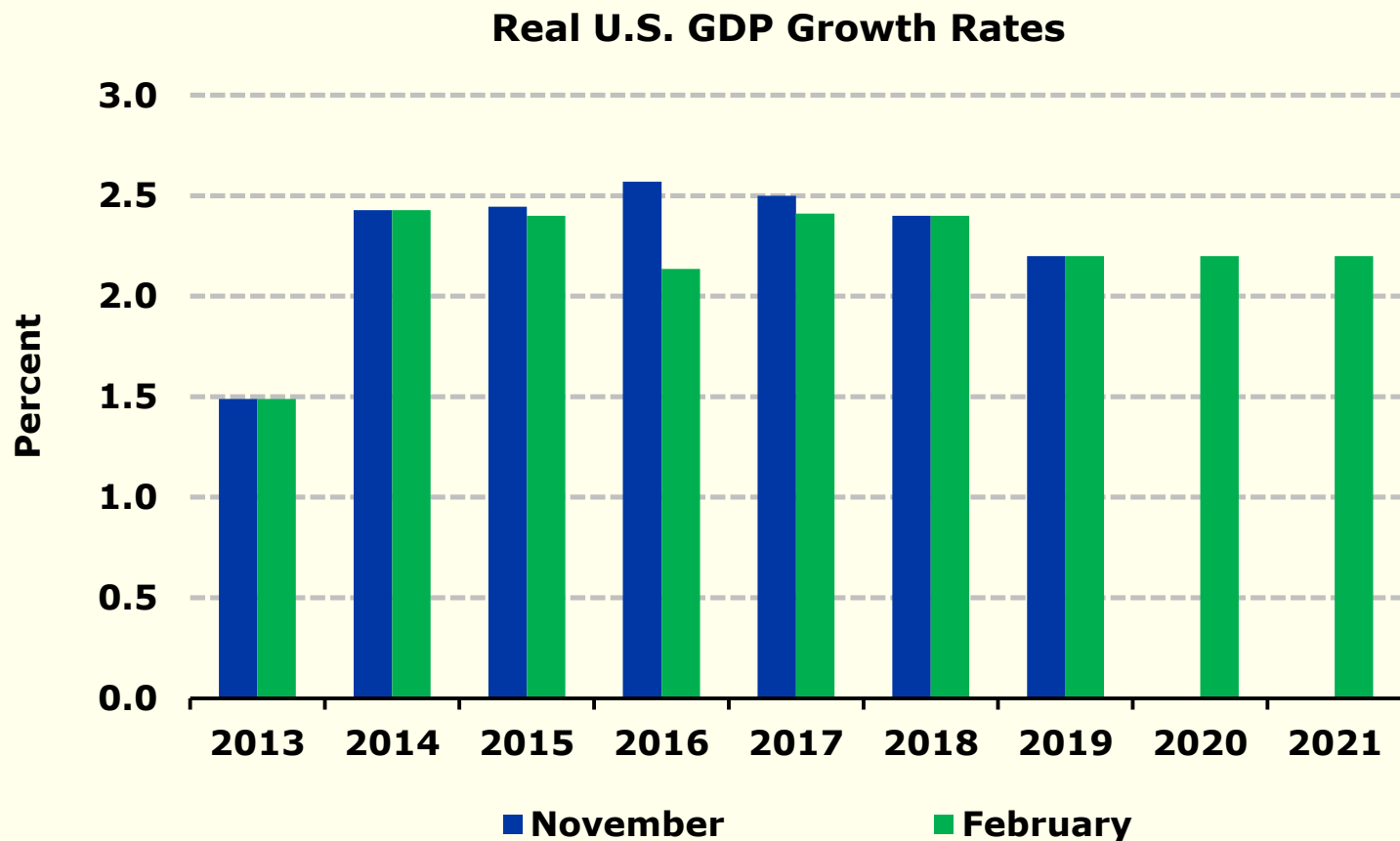


# Small business optimism and sales expectations weakened in 2015





# Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast

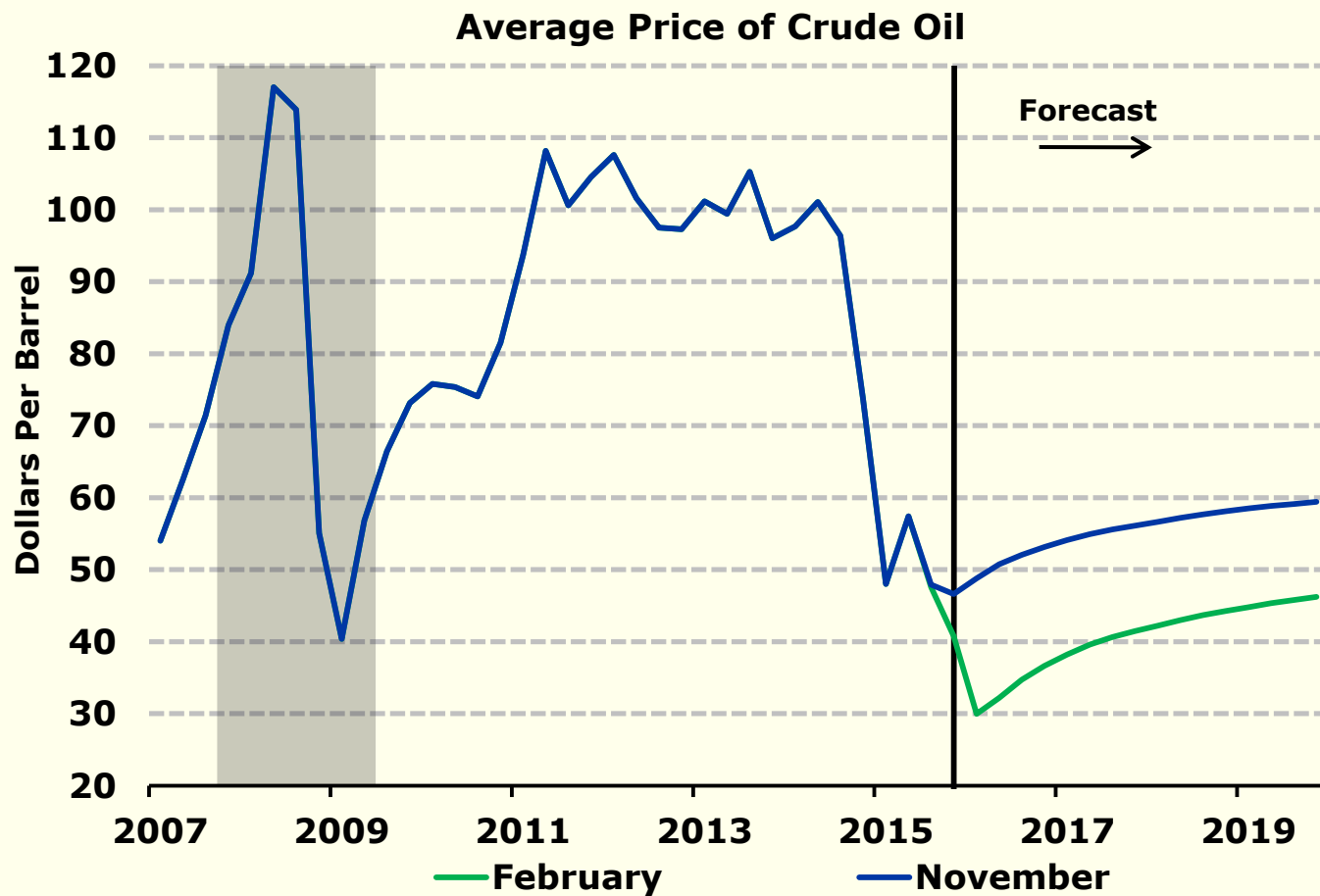


Source: ERFC February 2016 forecast; historical data through 2015

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# Oil prices have fallen since the November forecast

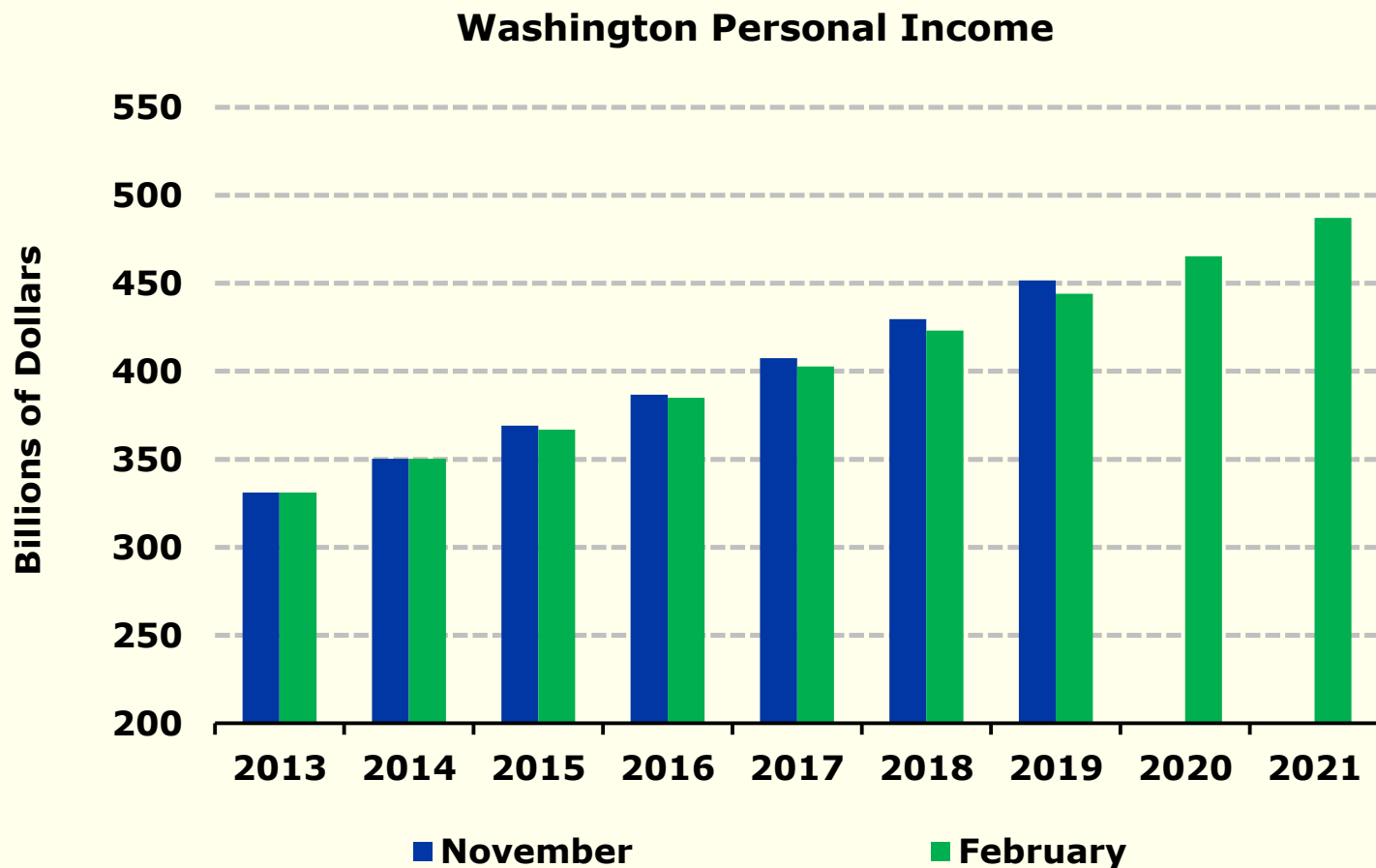


Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

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# Washington personal income is lower in 2016 – 2019 compared to the November forecast

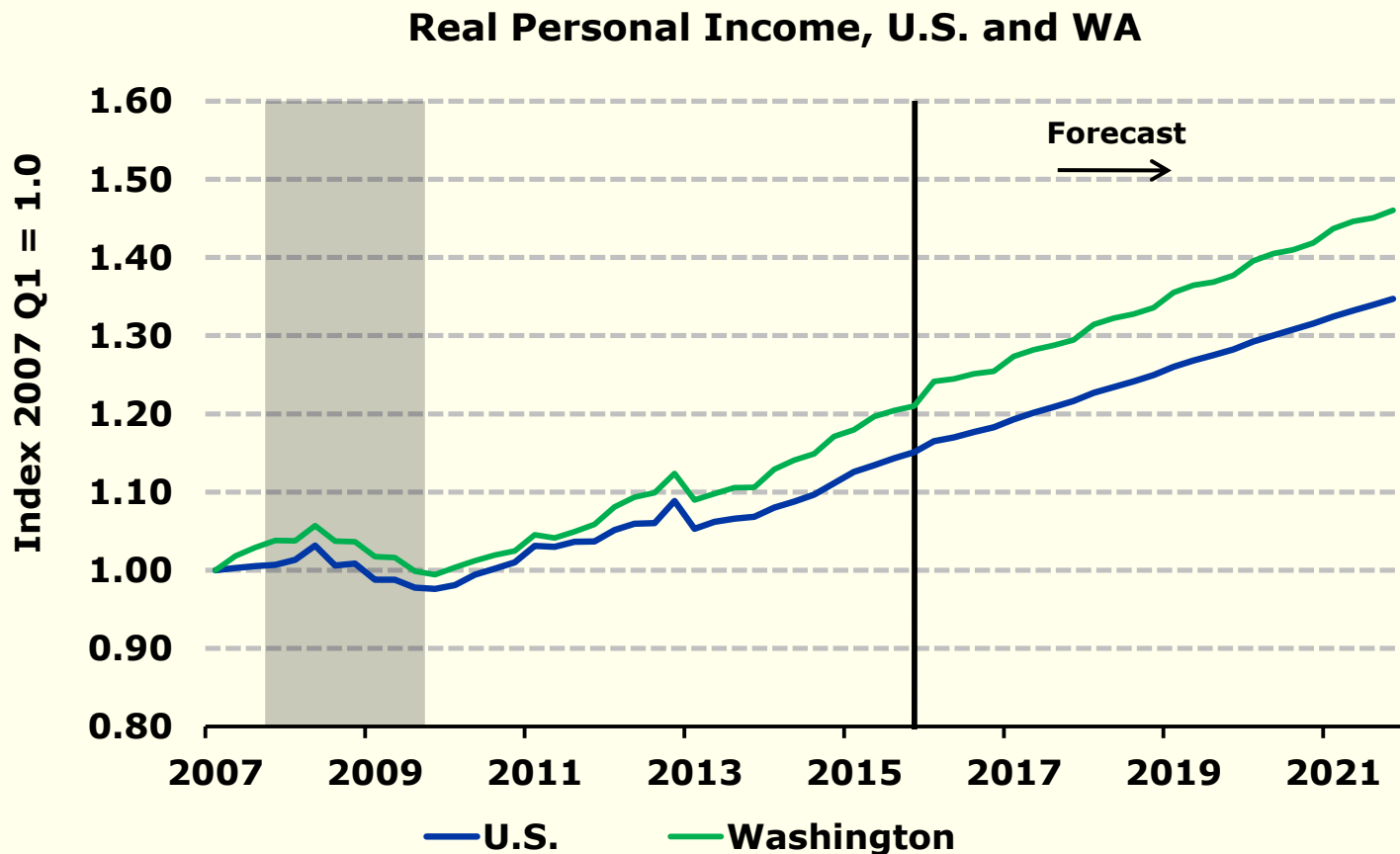


Source: ERFC February 2016 forecast; historical data through 2015

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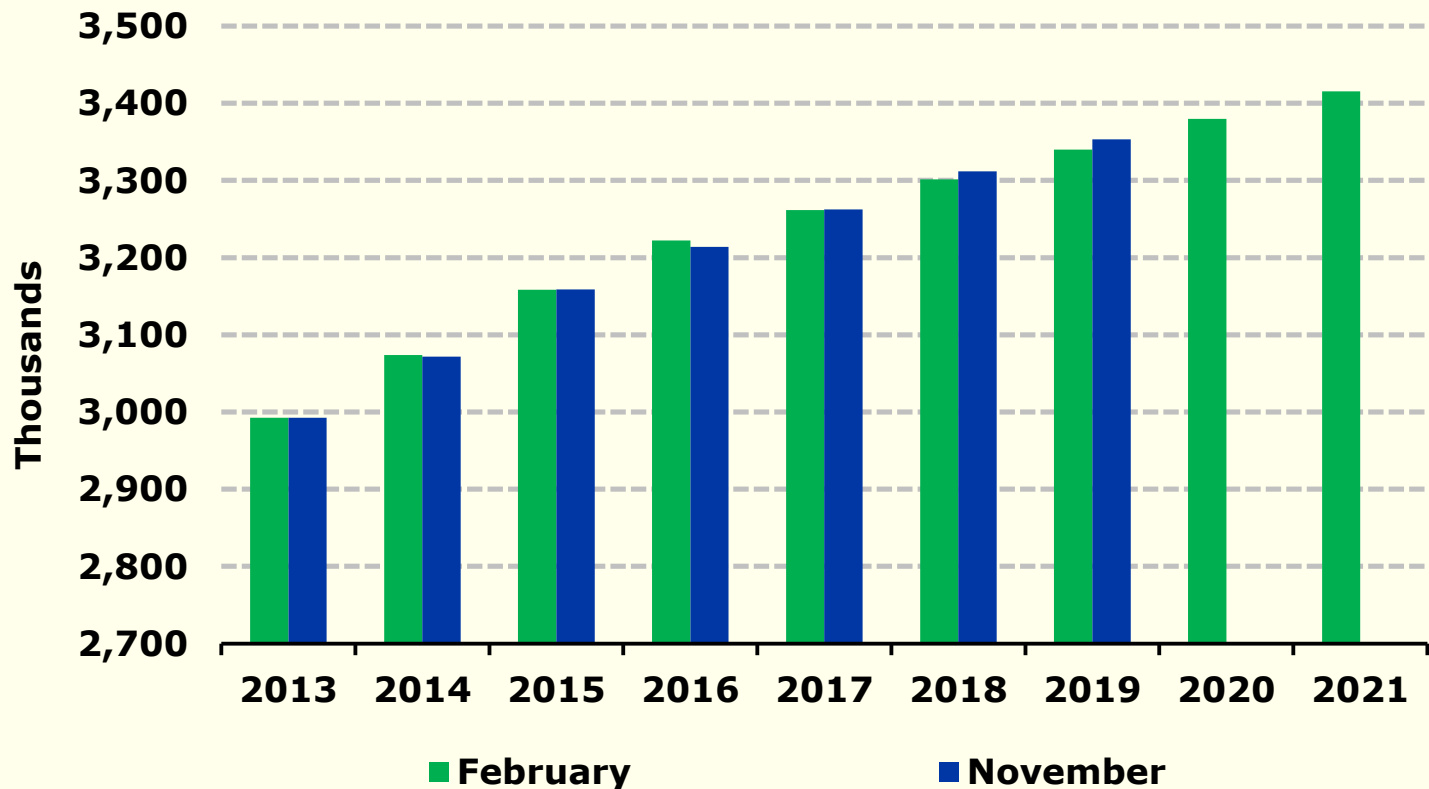
# State personal income will continue to grow slightly faster than the U.S.





# Washington employment forecast revised down slightly in 2017 - 2019

## Washington Nonfarm Payroll Employment

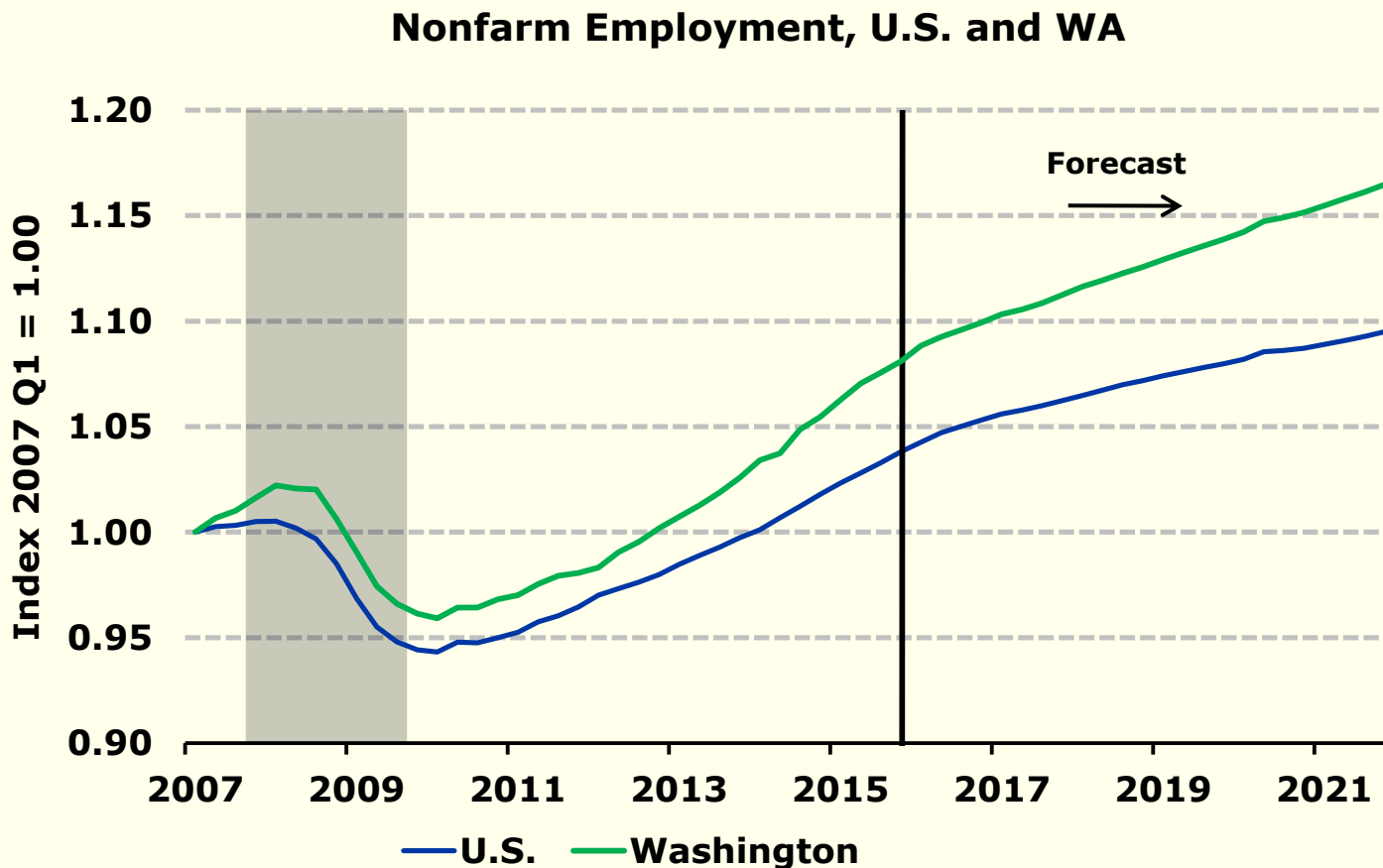


Source: ERFC February 2016 forecast; historical data through 2015

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# Washington employment will continue to grow slightly faster than the U.S.



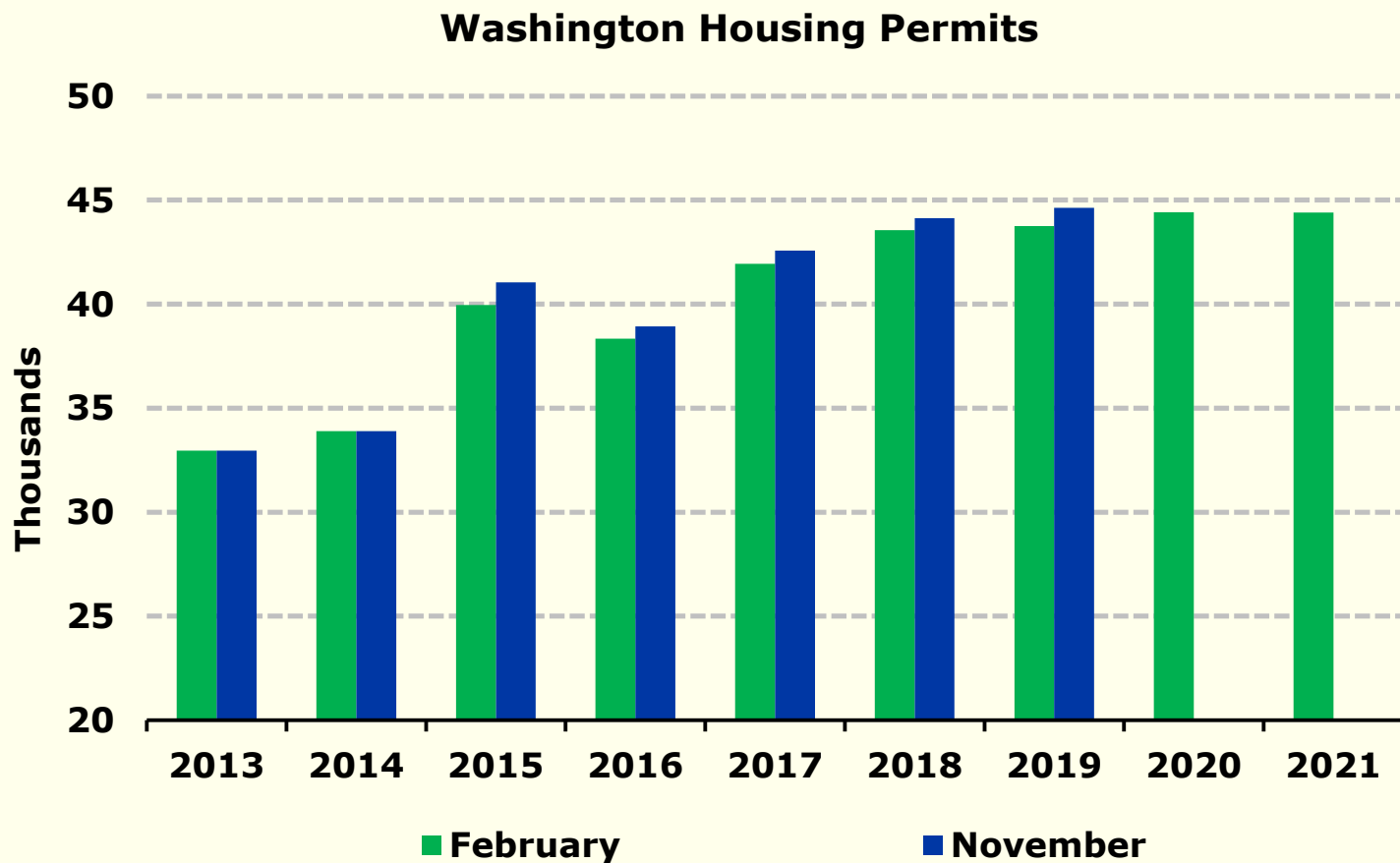
Source: ERFC February 2016 forecast; historical data through 2015Q4

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# Washington housing permits forecast is slightly lower than in November

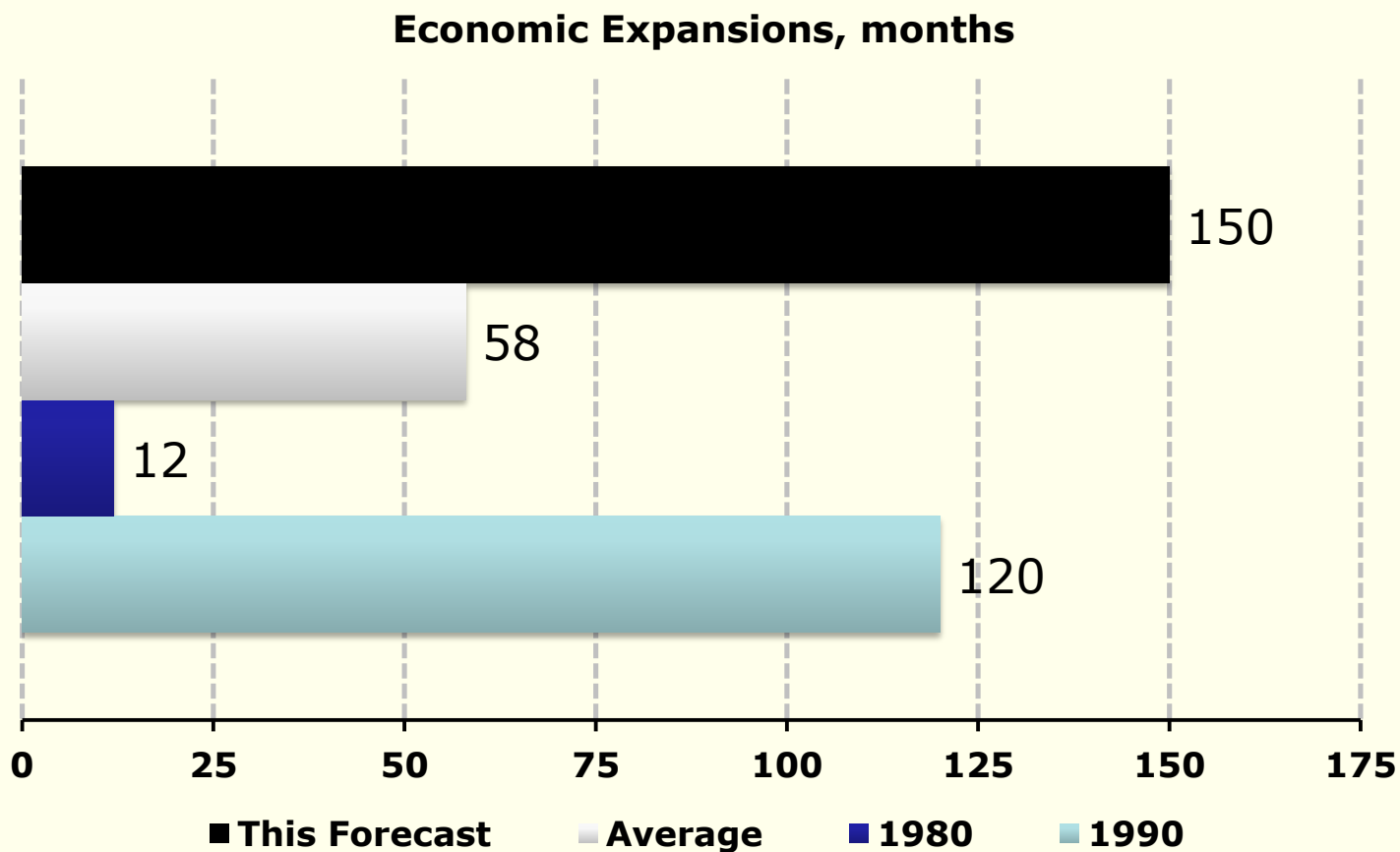


Source: ERFC February 2016 forecast; historical data through 2015

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# U.S. Economic Expansions since 1945



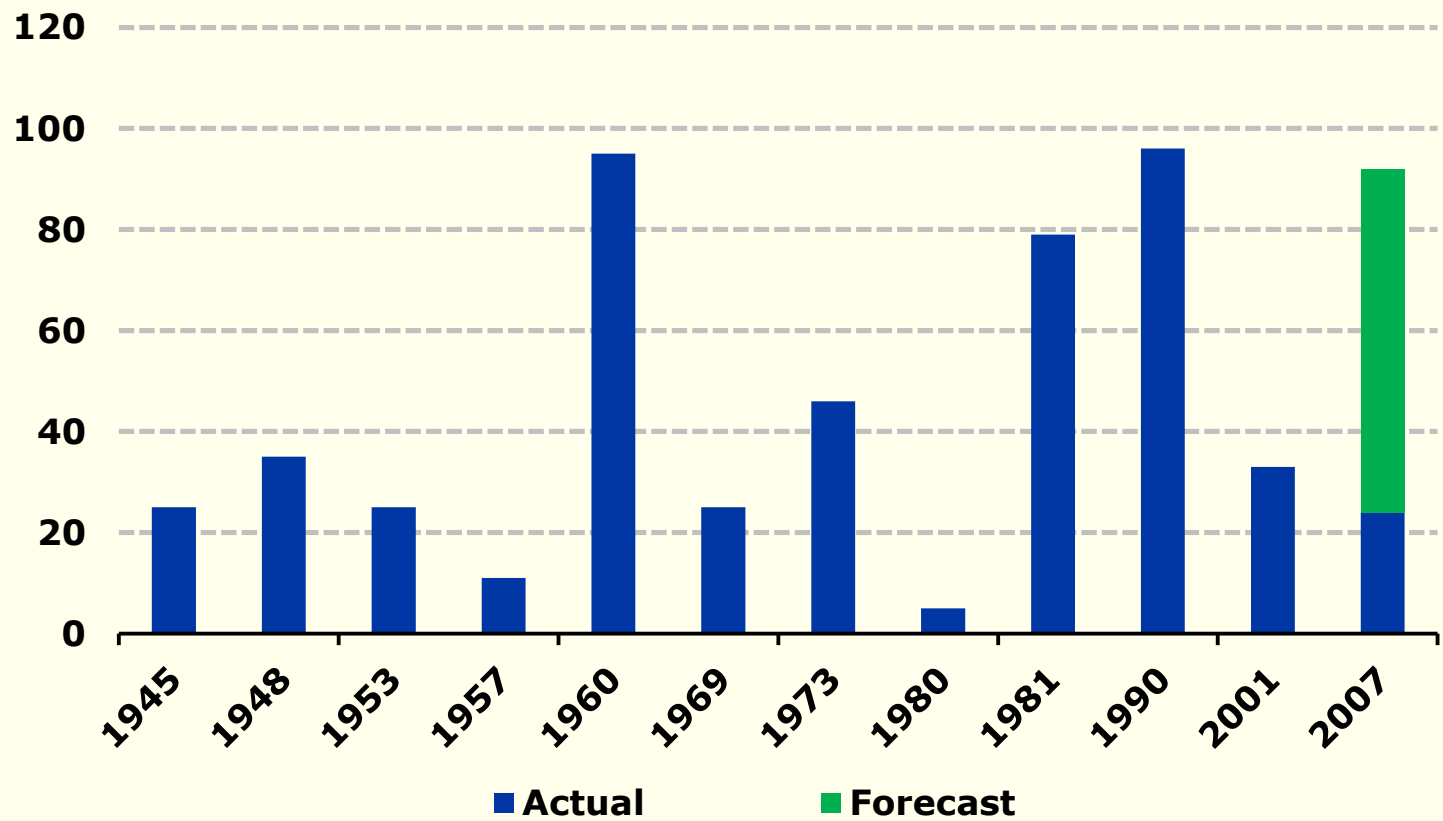
Sources: NBER, ERFC February 2016 forecast

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# Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment

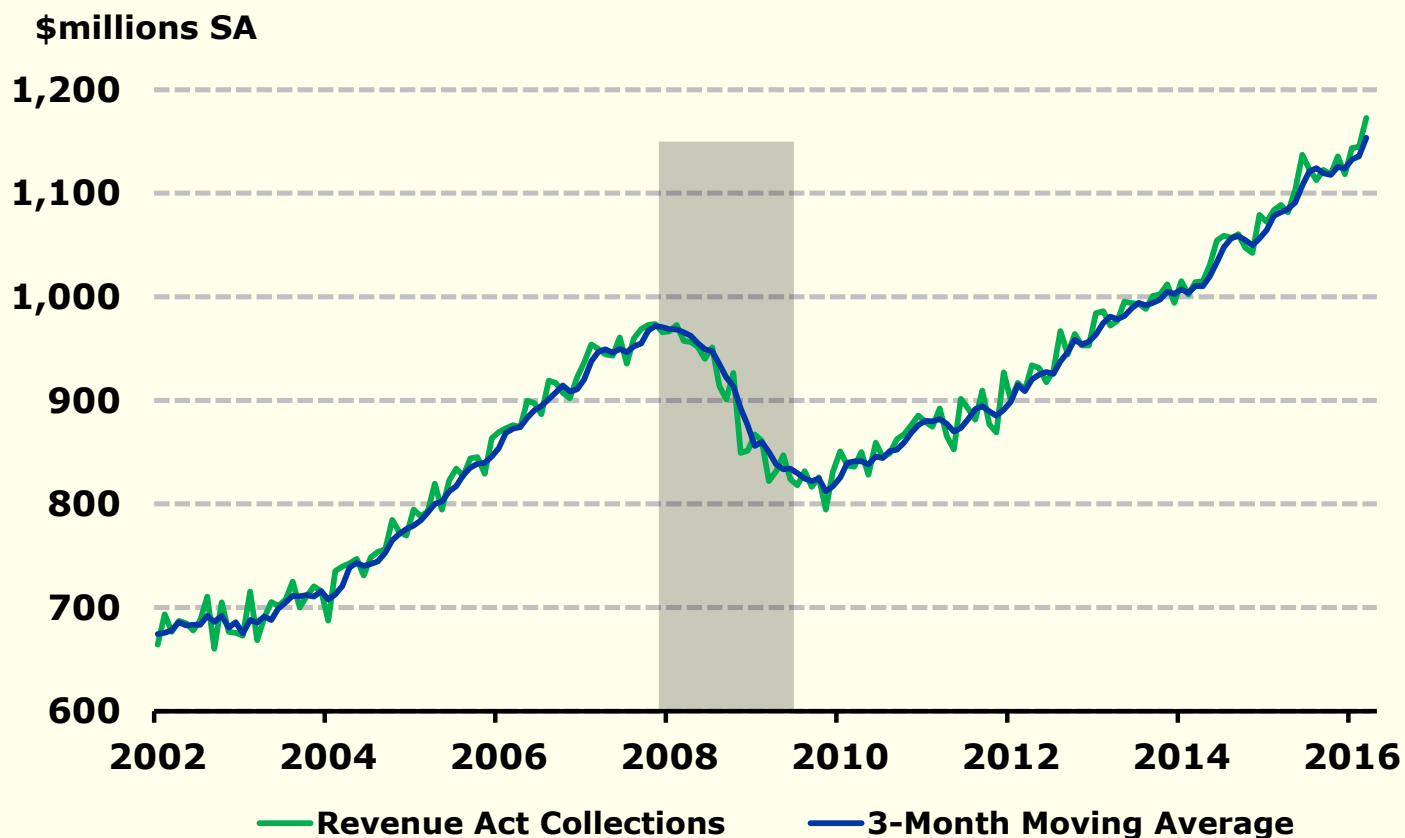


Sources: NBER, BLS, ERFC February 2016 forecast; historic data through April 2016

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# Revenue Act collections for March economic activity were quite strong



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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 March 2016 activity

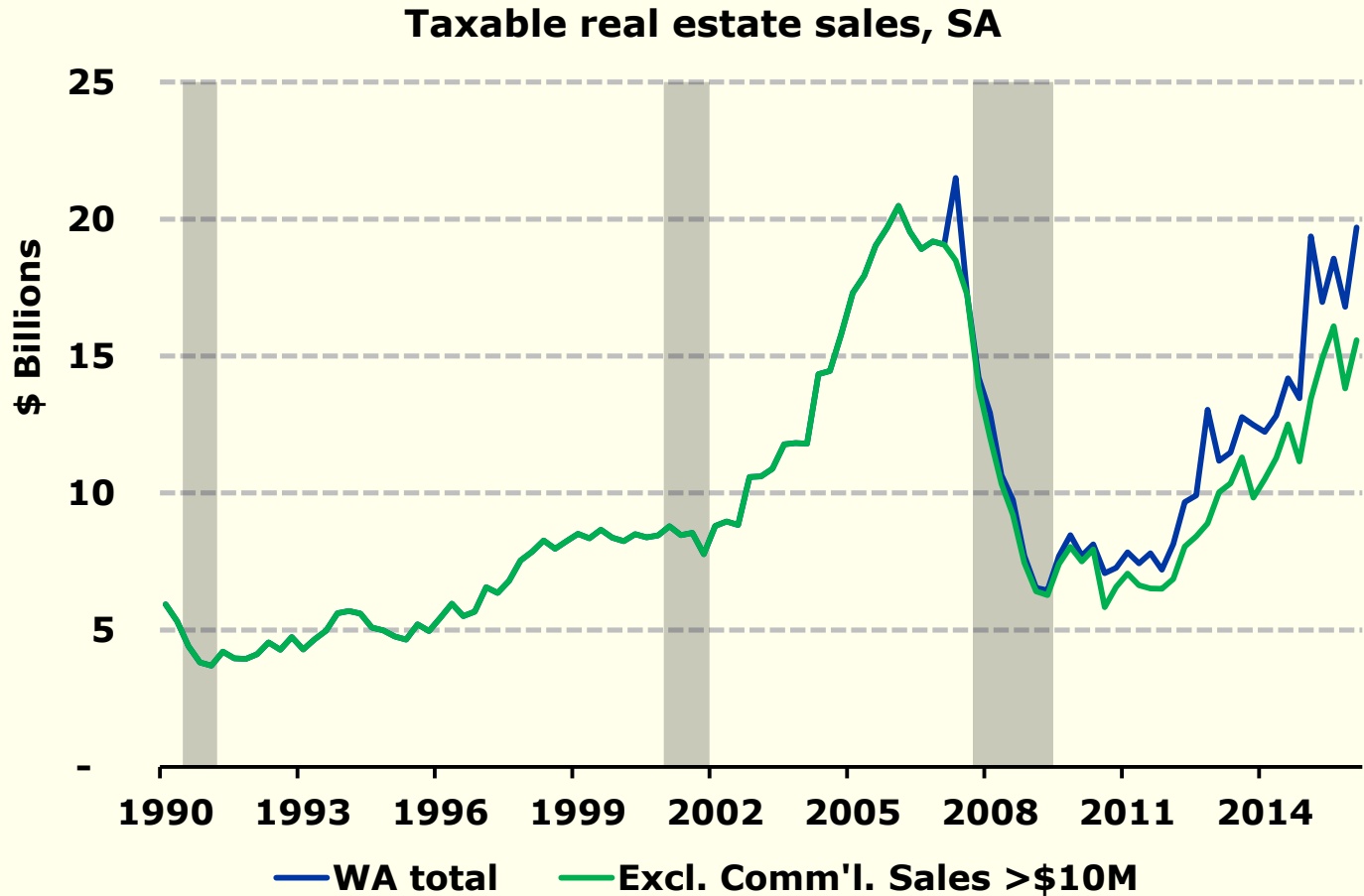
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# Large commercial property sales have had major impact on REET collections

Large commercial property sales are expected to decrease from the elevated levels of the past few years.

Recent strong growth in residential activity is due more to price than volume.



Source: ERFC, data through 2016 Q1

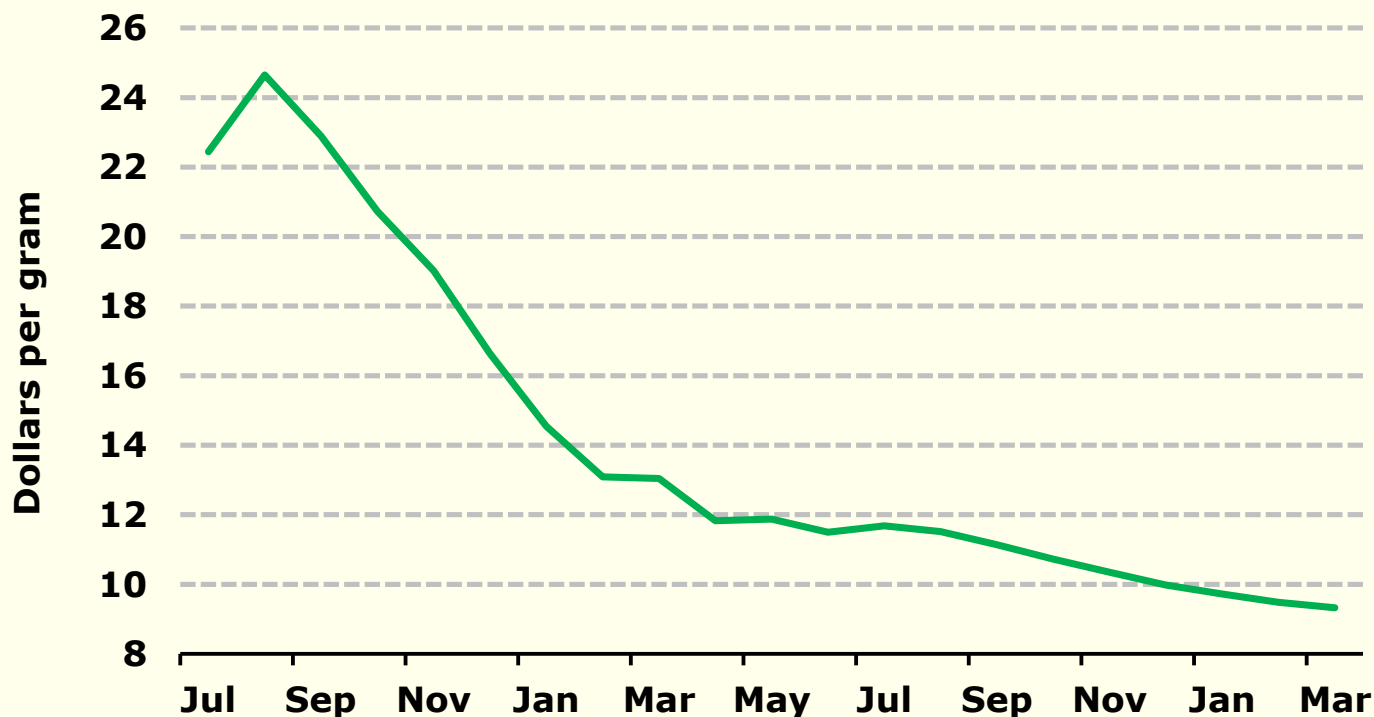
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# The price of cannabis has plummeted

Black market prices average \$6.65 to \$8.21 per gram

### Price of Recreational Cannabis Sold at Retail Stores



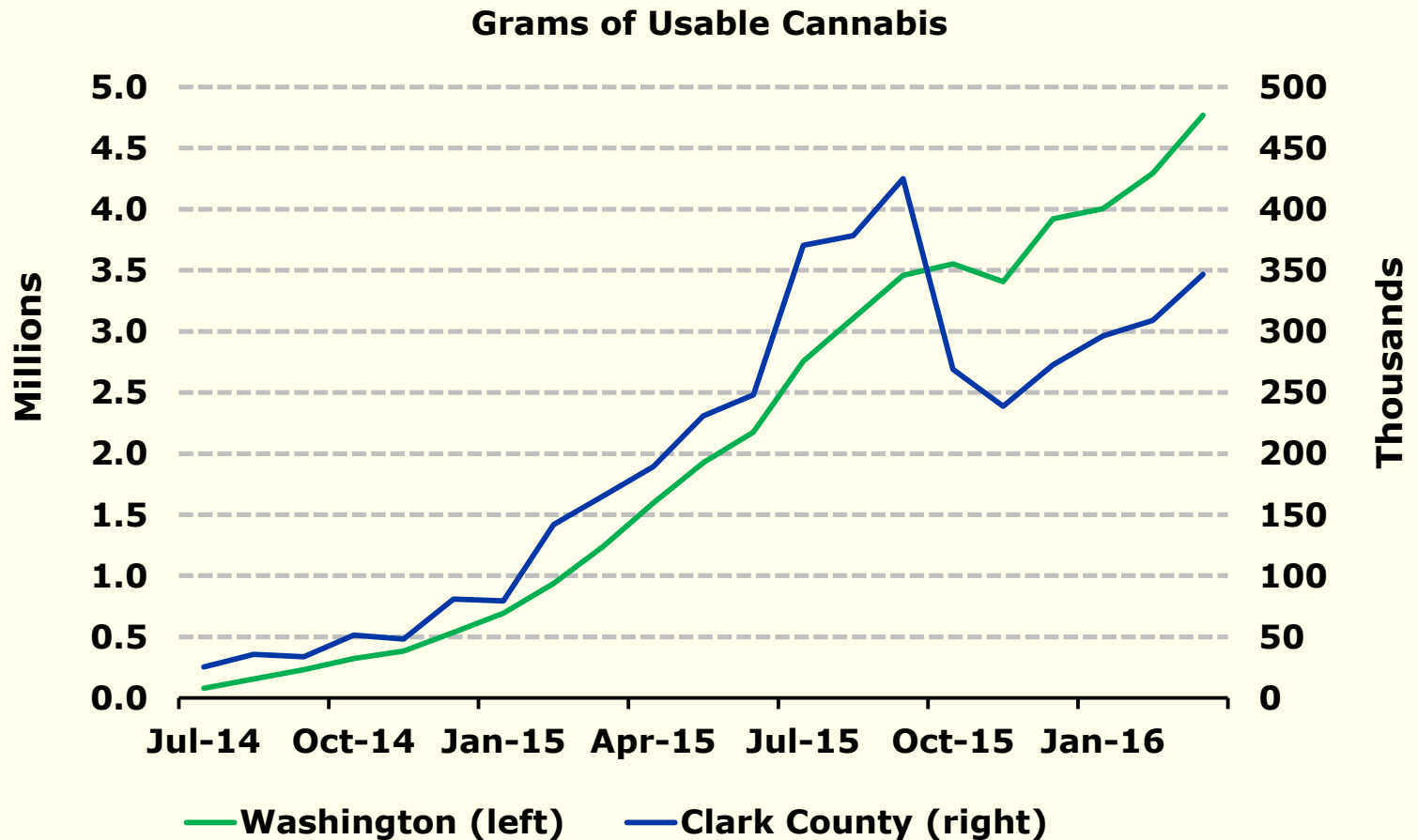
Source: LCB, ERFC; data through March 2016



# 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% of total sales by quantity.

In March, Clark County accounted for 7% of total sales by quantity.



Source: WA LCB; data through March 2016

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# Conclusion

- The economic forecast expects slower growth in U.S. GDP, WA personal income and WA employment than in November
- We continue to expect the WA economy to outperform the U.S. by a small margin
- GF-S revenues are expected to grow 10.3% between the 2013-15 and 2015-17 biennia and 8.0% 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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360-534-1560**

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