

Economic and Revenue Forecast Update

Presented to
the House Finance Committee

Steve Lerch
Executive Director

December 2, 2016
Olympia, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



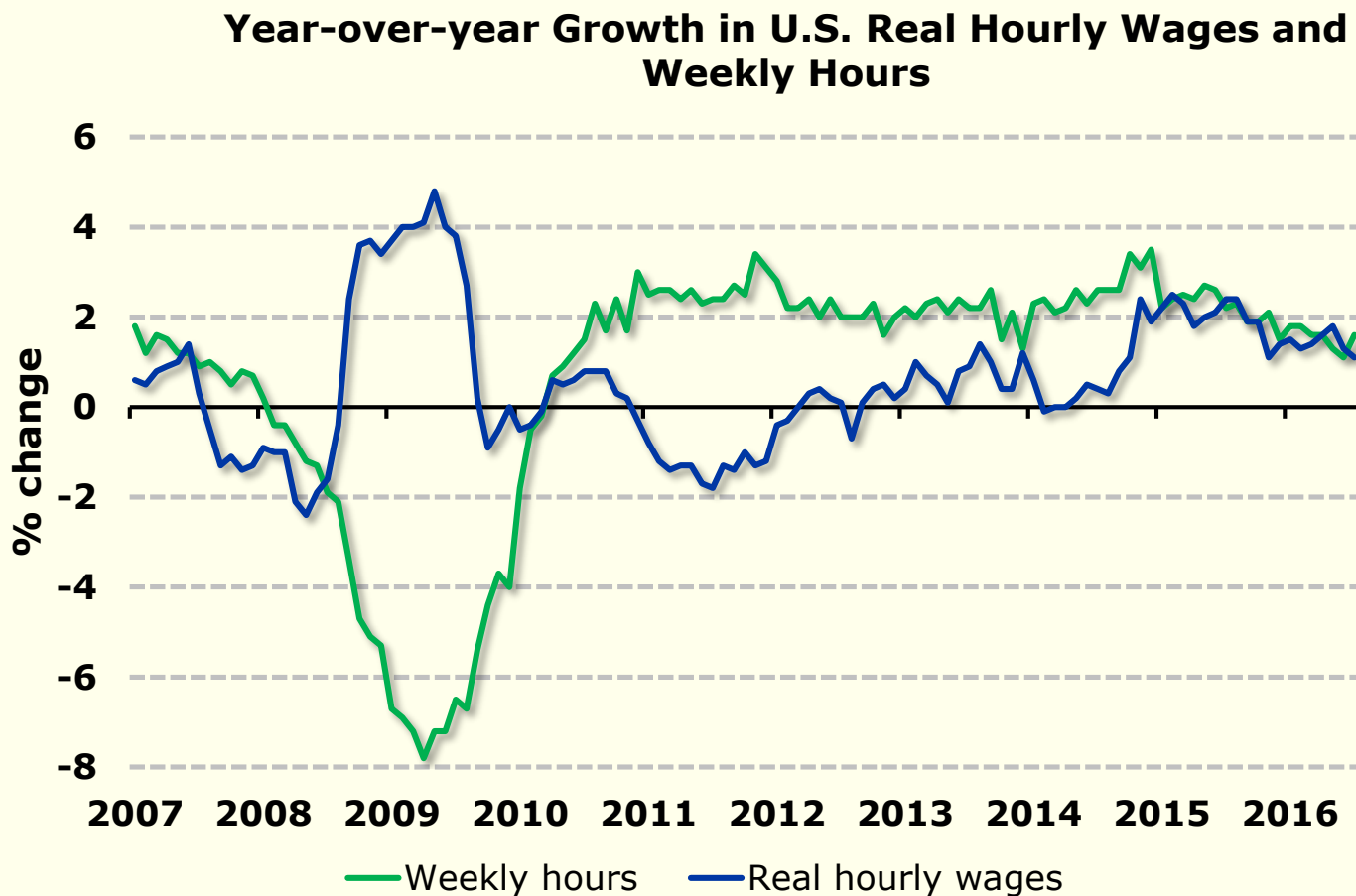
Summary

- The U.S. economic forecast is nearly identical to the September forecast
- The WA economic forecast is similar to September but with slightly higher personal income and lower housing permits
- Risks to the baseline include slow global and U.S. economic growth, weak labor productivity growth and uncertainty regarding fiscal and trade policy
- The GF-S revenue forecast has been increased by \$215 million for the 2015-17 biennium and increased by \$137 million for the 2017-19 biennium



Average U.S. wage growth is positive but remains slow

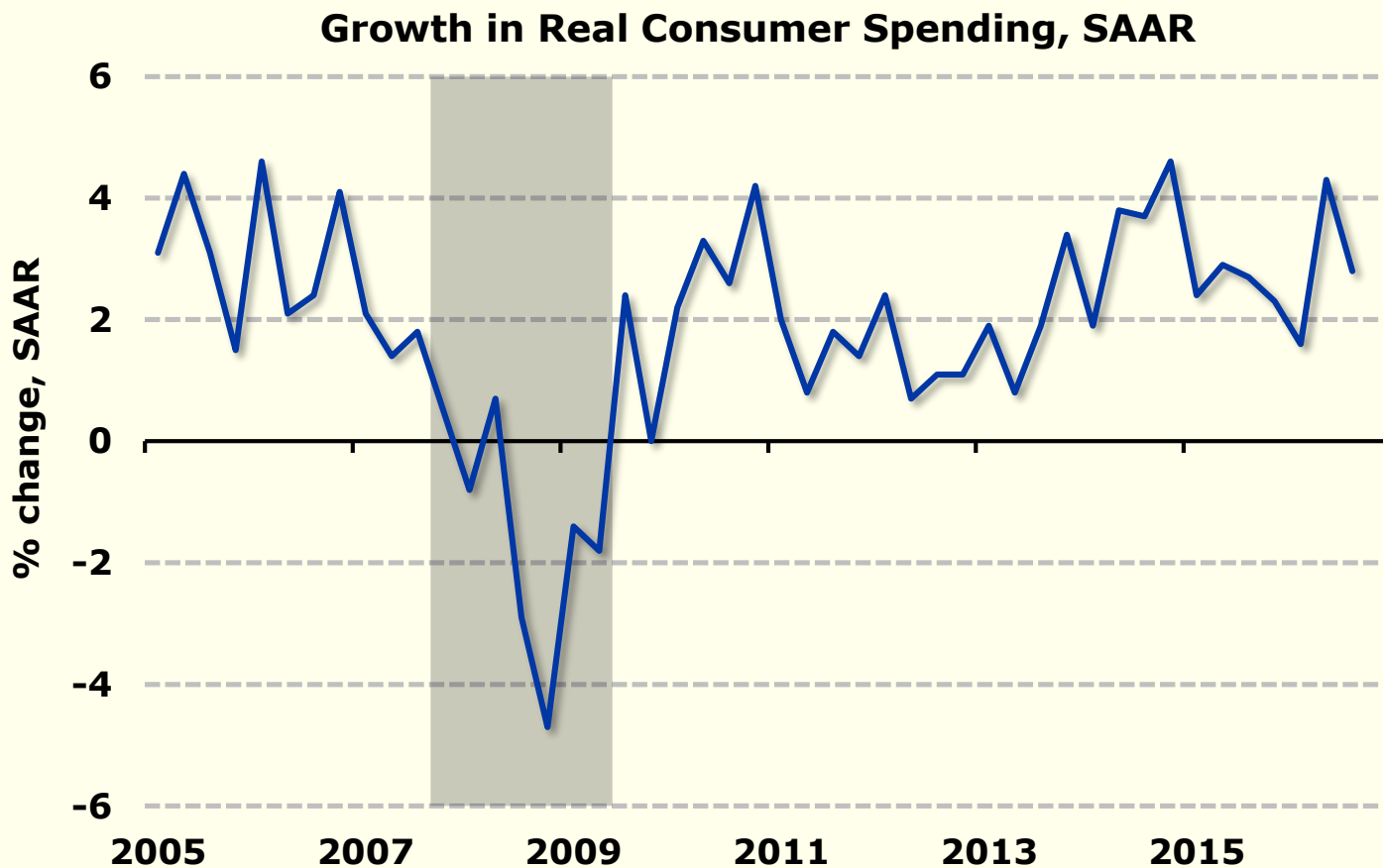
Growth in both hourly wages and hours worked means weekly pay is also rising





Real consumer expenditure growth slowed in the third quarter of this year

However, September and October were the strongest two-month period for retail sales since 2014



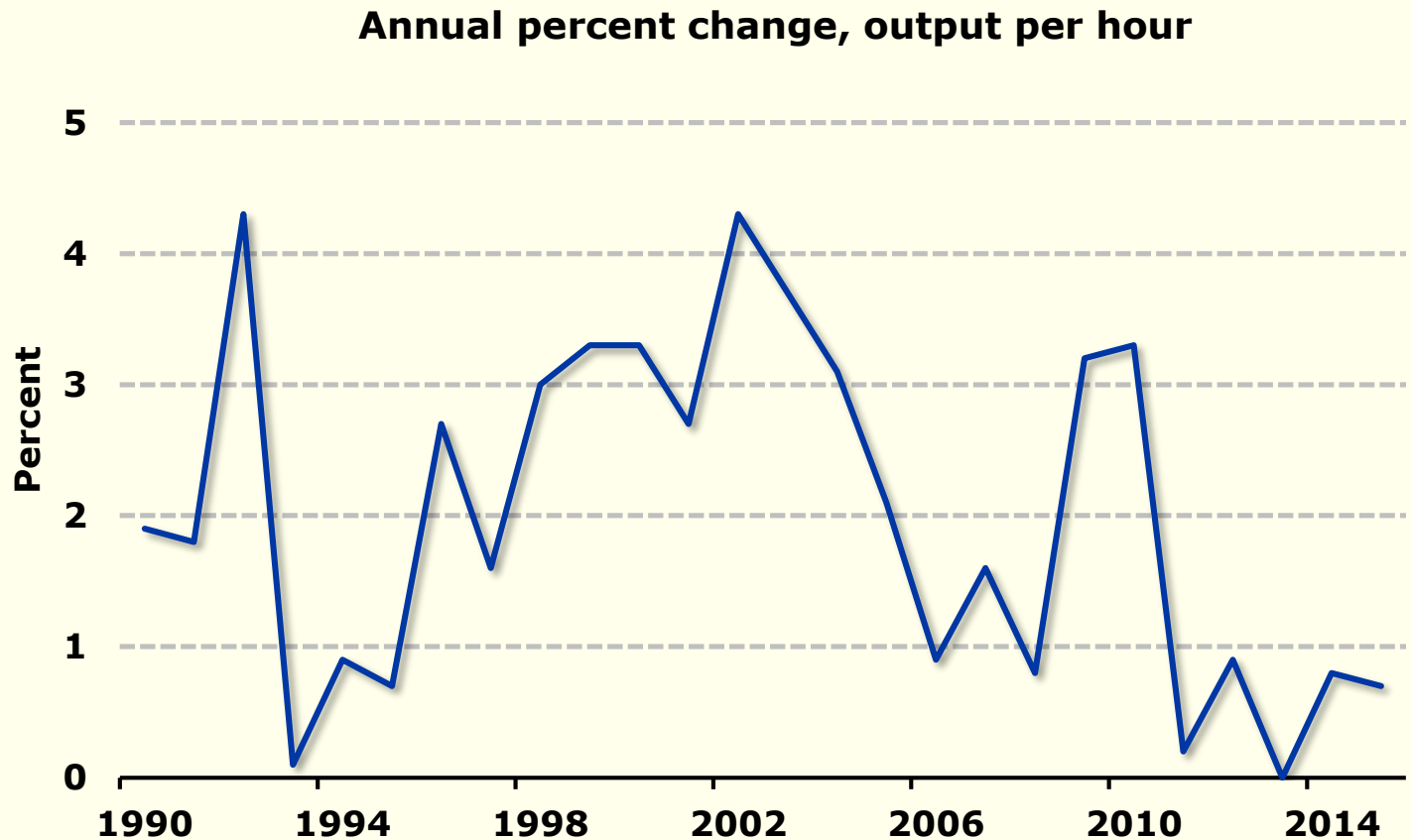


Global GDP growth has slowed, expected to gradually increase starting in 2017





Labor productivity growth has slowed



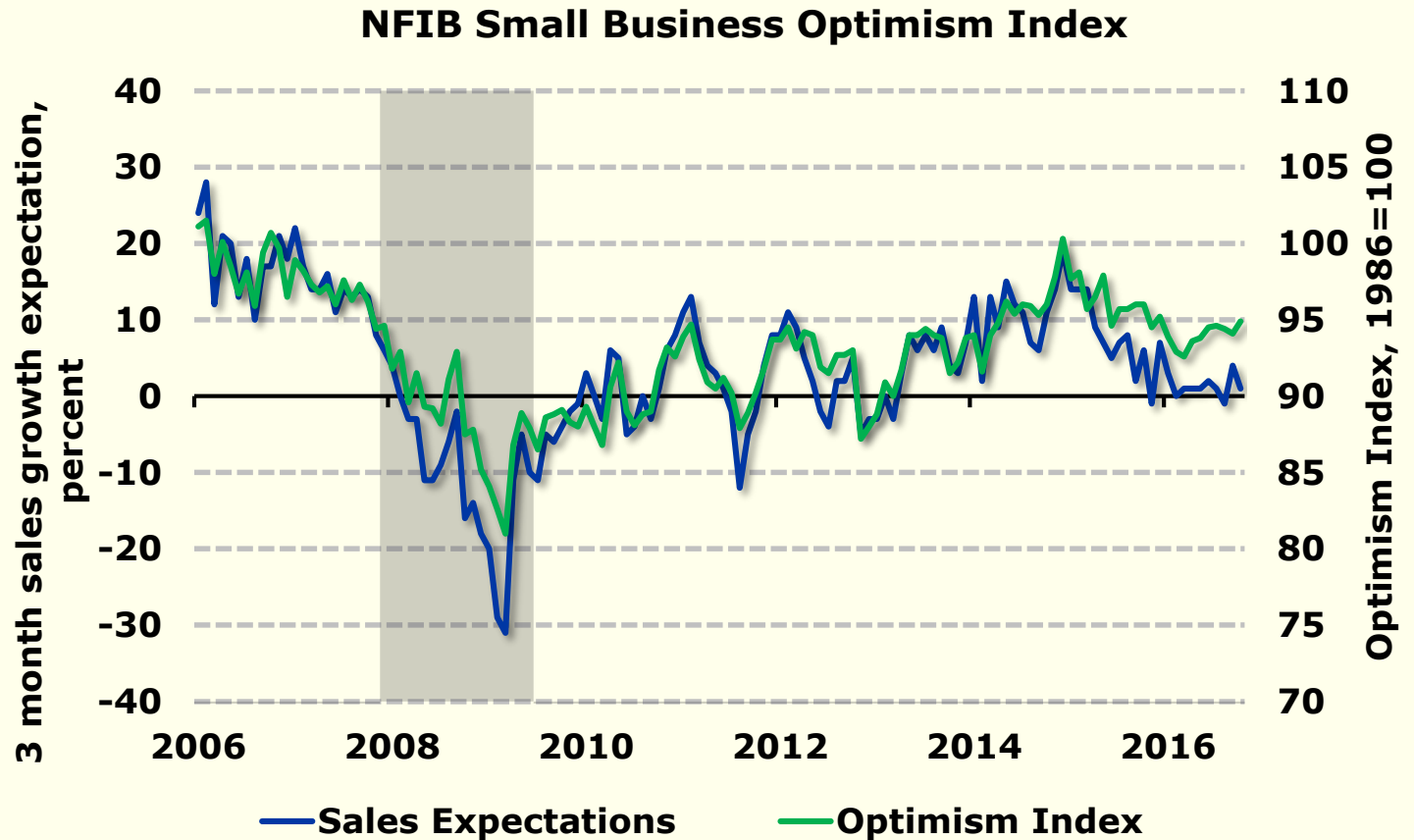


Homebuilder confidence has largely recovered since the recession



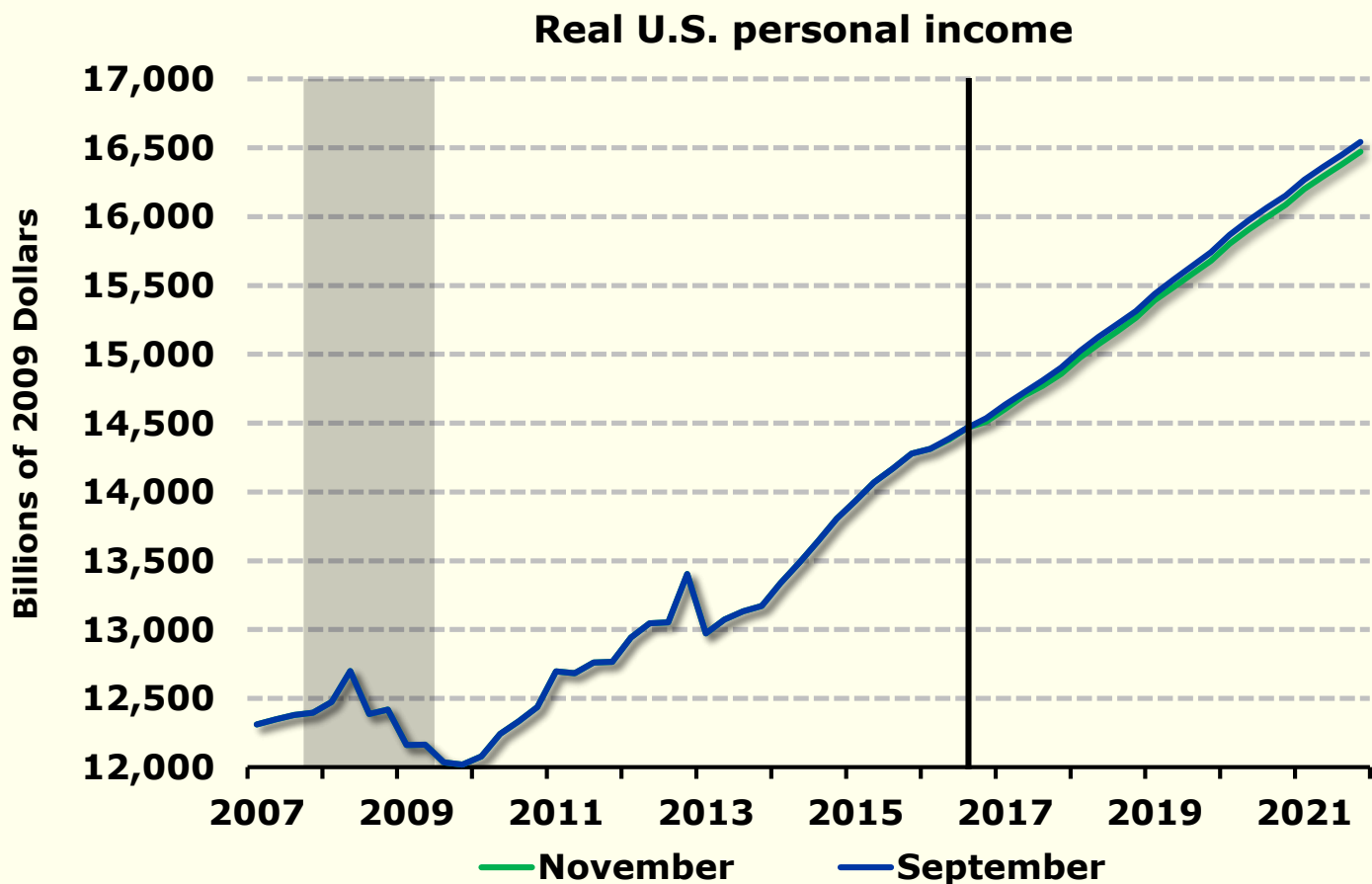


Small business optimism and sales expectations remain below pre-recession levels



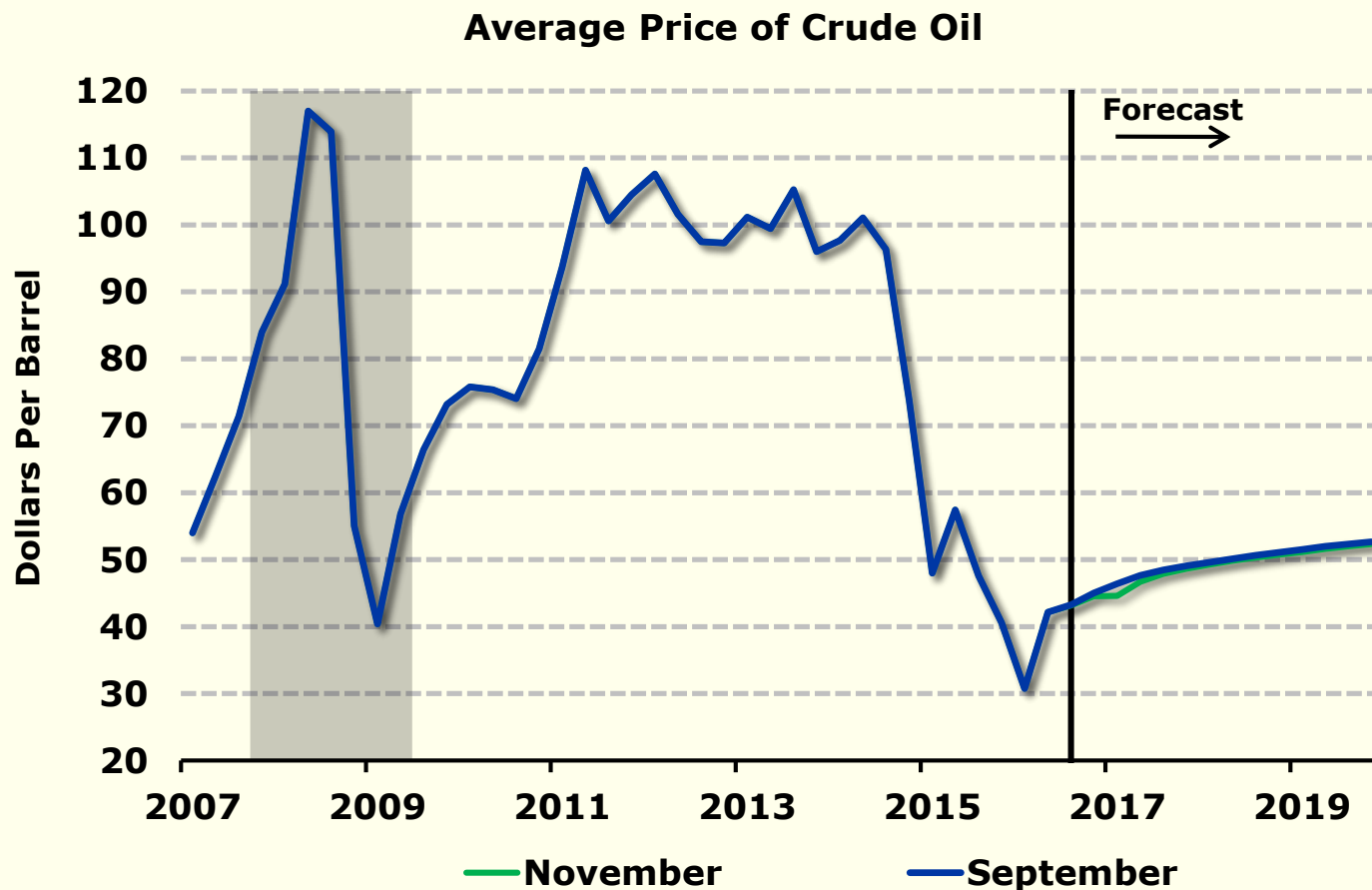


Real U.S. personal income is nearly identical to the September forecast





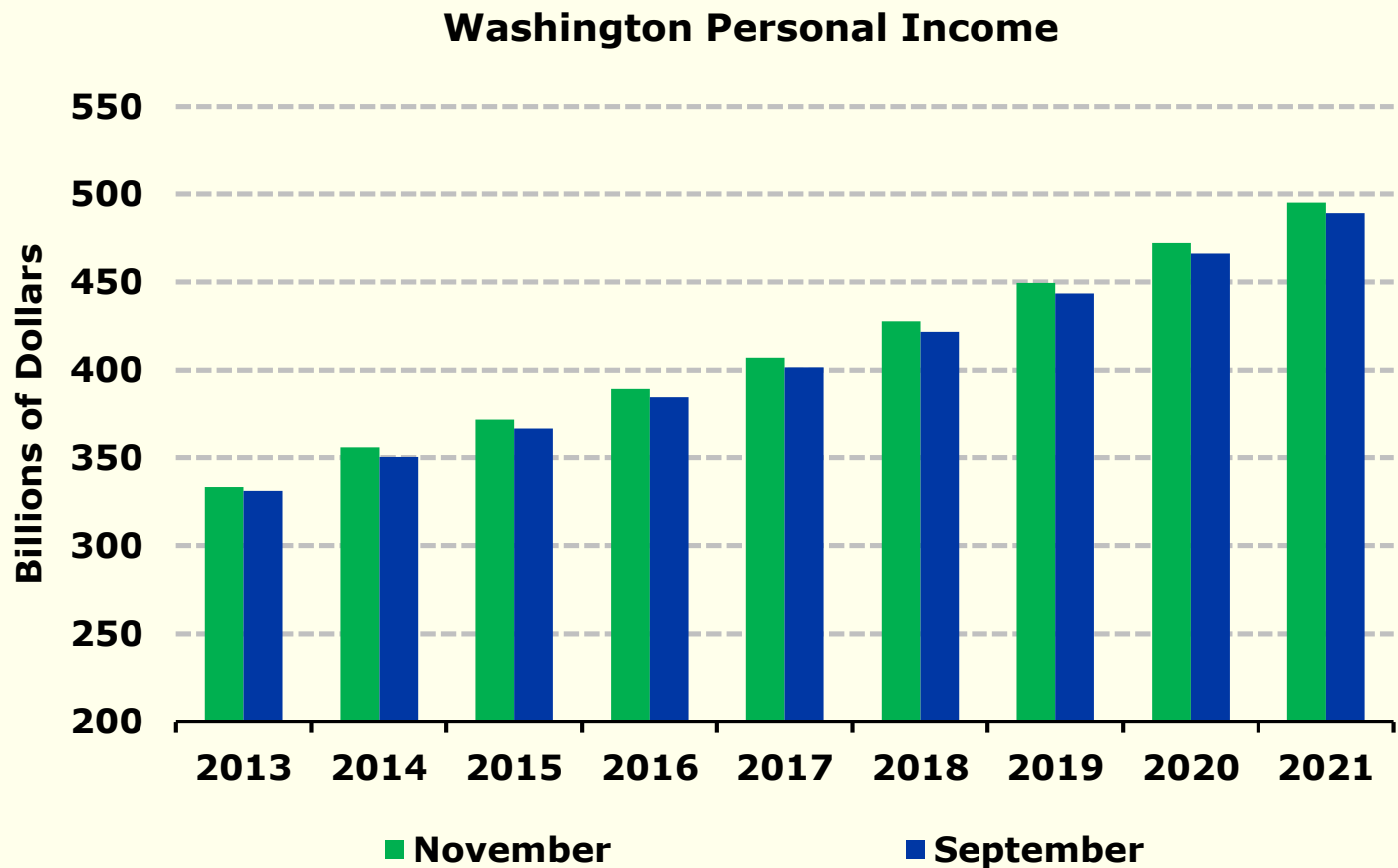
Oil prices are expected to gradually rise as in September





Washington personal income is slightly higher compared to the September forecast

Historic personal income data has been revised since the September forecast



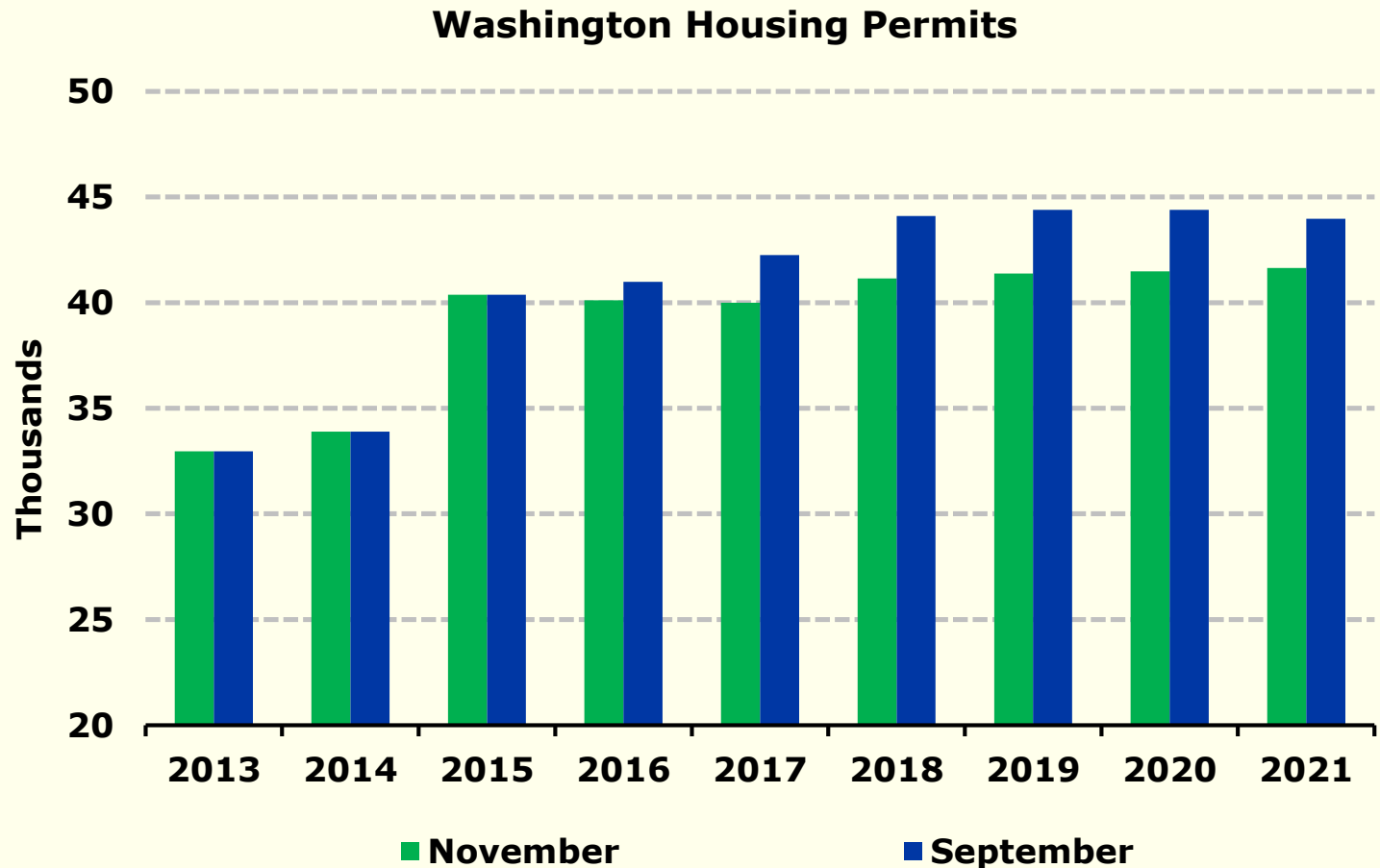


Washington housing permits forecast is weaker than in September

2017-21
average:

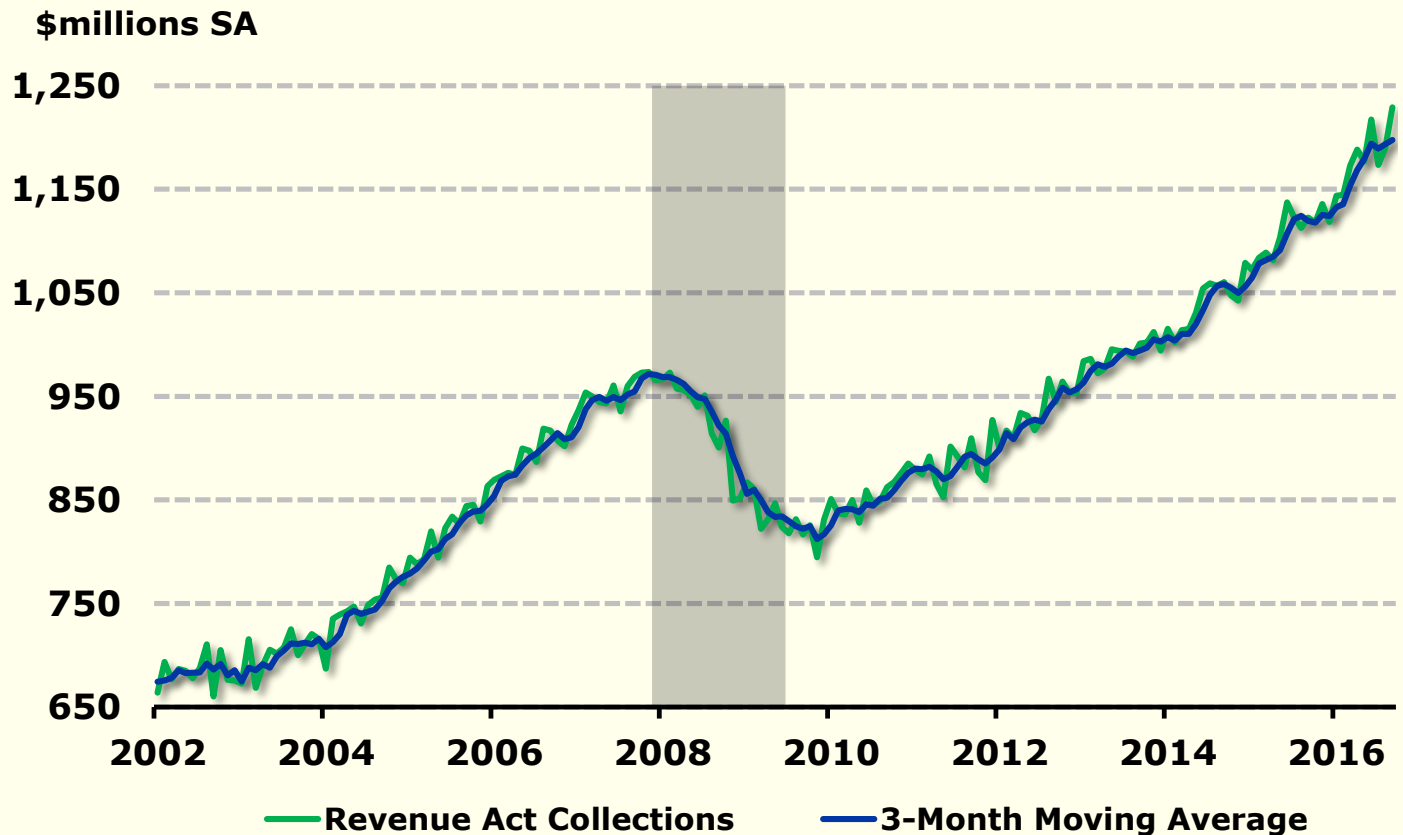
September:
43,800

November:
41,100





Revenue Act collections for September 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 September 2016 activity

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

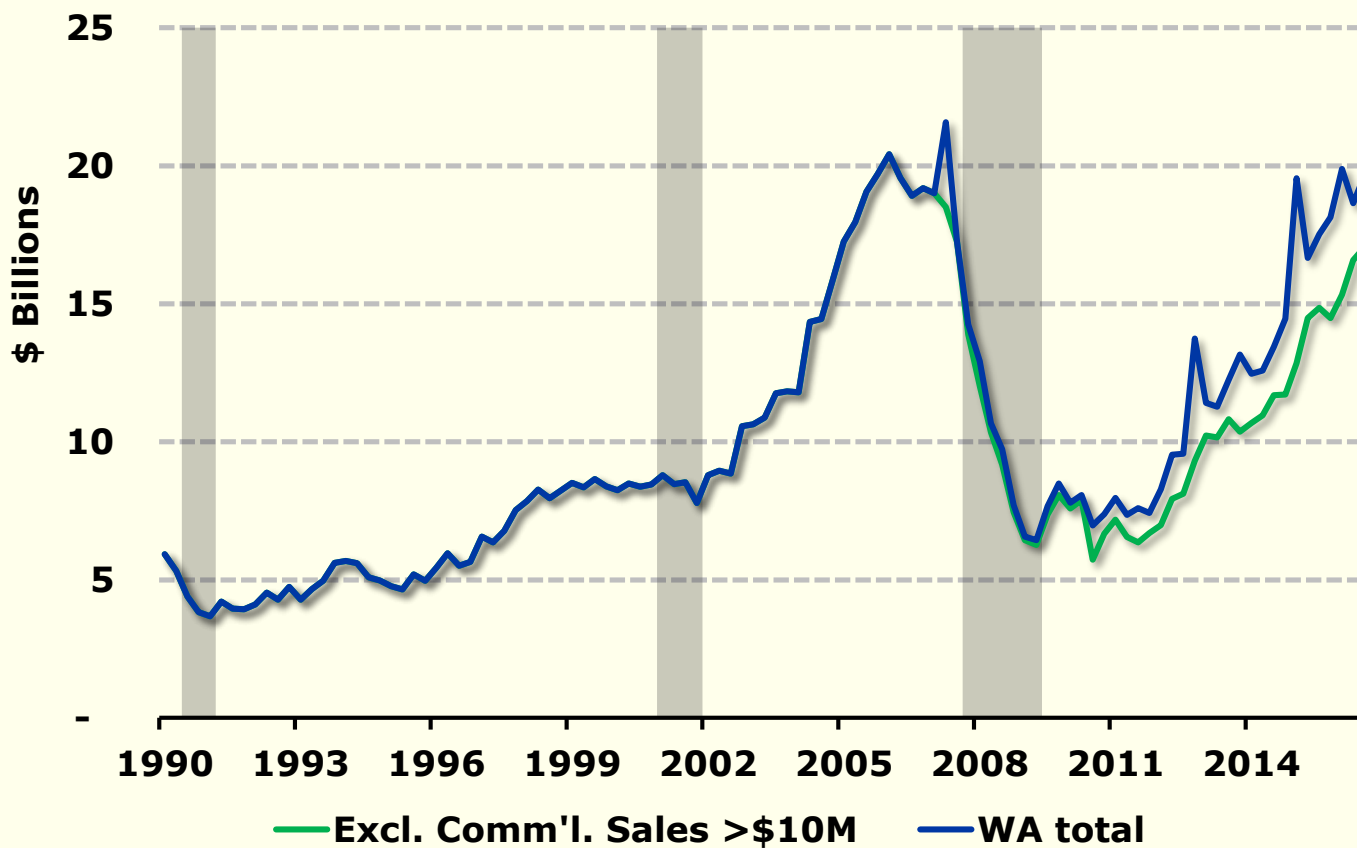
Large commercial property sales over \$10 million totaled \$1.4 billion in October, up from \$564 million in September.

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

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Taxable real estate sales, SA



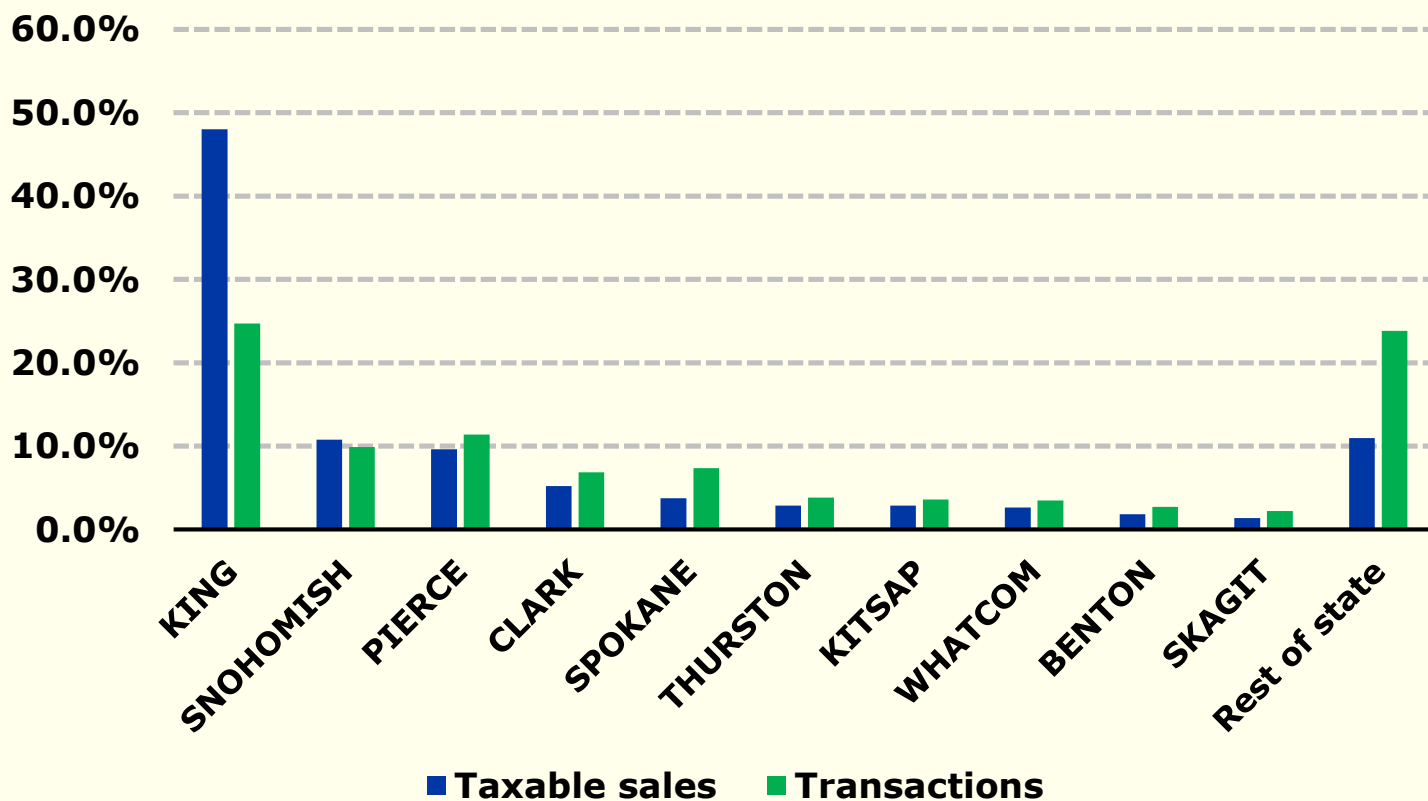
Source: ERFC, data through 2016 Q3

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Nearly half of REET taxable sales, one quarter of transactions are in King County

Percent of 2016 Q3 statewide REET taxable sales and transactions





Cannabis excise tax and license fee estimates

General Fund
change since
September
forecast:

- 2015-17
+\$2.8 M
- 2017-19
+\$3.2M

\$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	\$149	\$241
Non-GF	\$52	\$323	\$490
Total	\$67	\$472	\$730

* Detail may not add to total due to rounding

Source: ERFC November 2016 forecast, LCB, BOTEC Analysis



Forecast changes: General Fund State, 2015-2017 Biennium

September Forecast:

\$37,765 million

\$Millions	November Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$132	\$0	\$73	\$36,097	\$205
All other agencies	(\$0)	\$0	\$9	\$1,883	\$9
Total GF-S	\$132	\$0	\$82	\$37,980	\$215

* Detail may not add to total due to rounding



Forecast changes: General Fund State, 2017-2019 Biennium

September Forecast:

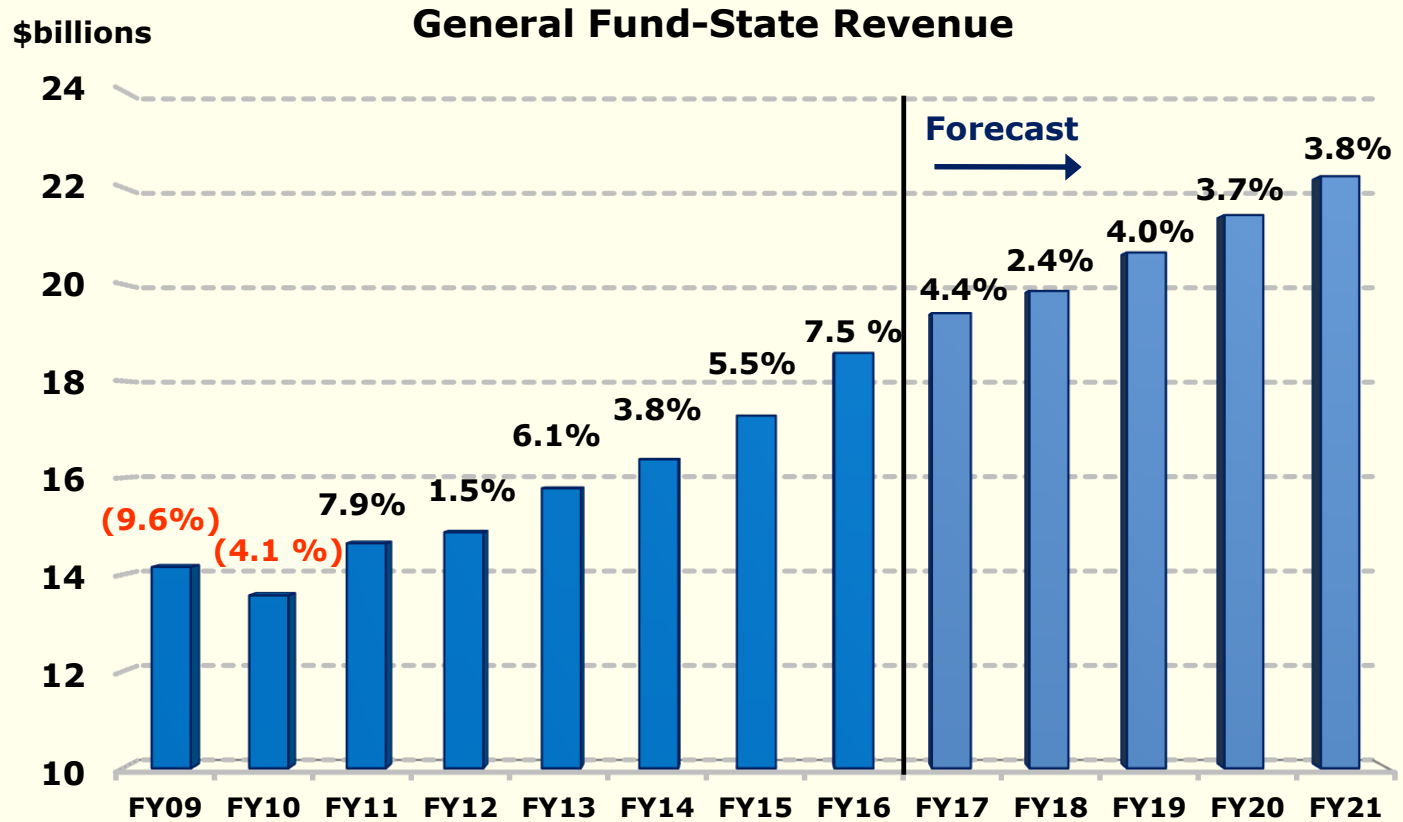
\$40,377 million

\$Millions	November Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$131	\$38,428	\$131
All other agencies	\$0	\$6	\$2,086	\$6
Total GF-S	\$0	\$137	\$40,514	\$137

* Detail may not add to total due to rounding



General Fund-State* forecast by fiscal year



*General Fund-State & Related Funds for FY 09, General Fund-State current definition for FY 10-21
Source: ERFC forecast, November 2016



Conclusion

- WA personal income and employment forecasts are slightly higher than in September; WA and U.S. housing are lower
- We continue to expect the Washington economy to outperform the U.S. economy
- GF-S revenues are expected to grow 12.8% between the 2013-15 and 2015-17 biennia and 6.7% 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
PO BOX 40912
Olympia WA 98504-0912**

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