

U.S. and Washington State Economic Outlook

Presented to
The Institute for Real Estate Management

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Forecast summary

- The preliminary economic forecast for the U.S. is very similar to the June forecast; the impacts of Hurricane Harvey will be incorporated in the final September forecast
- The preliminary economic forecast for WA has slightly higher employment, personal income, and housing permits than in June
- Downside risks to the baseline include weak labor productivity growth, uncertainty regarding international trade policy and geopolitical concerns



Forecast risks

Upside

- Elevated consumer, business confidence could translate into stronger growth
- Stock market gains could translate into faster household consumption growth
- Stronger global economic growth

Downside

- Stagnant labor productivity inhibits wage growth
- Geopolitical risks: North Korea, Russia
- International trade policy uncertainty

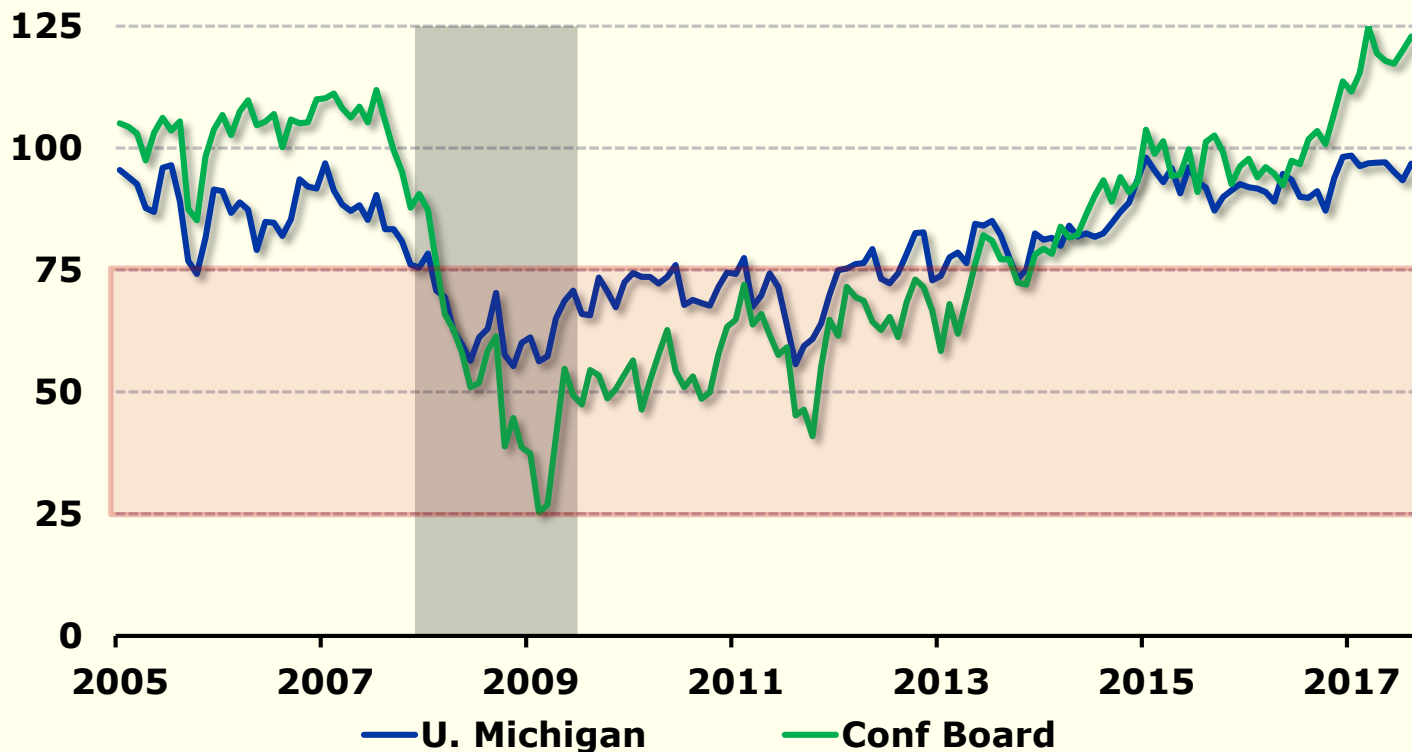


Consumer confidence is at or above pre-recession levels

Index

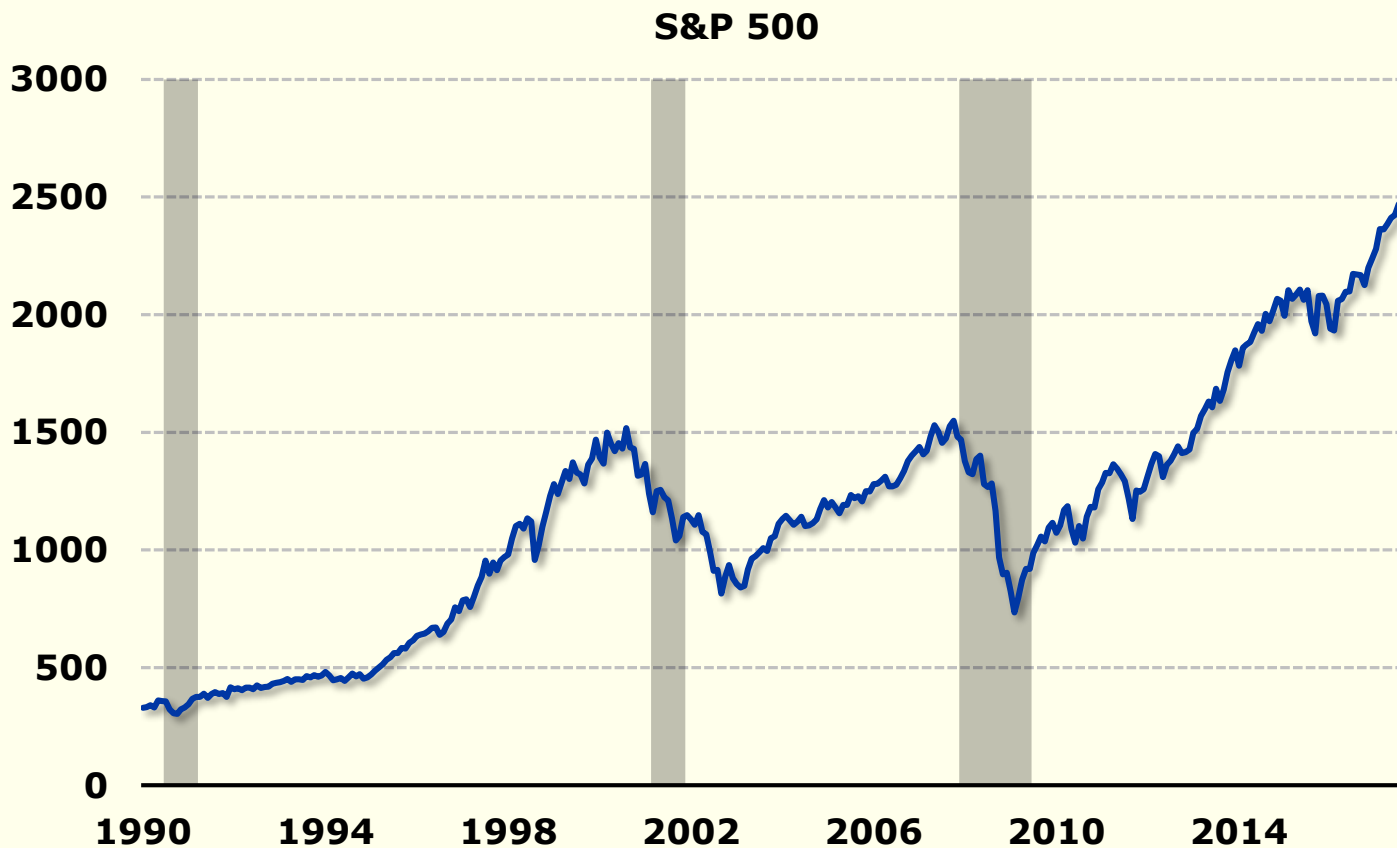
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





The stock market continues to grow





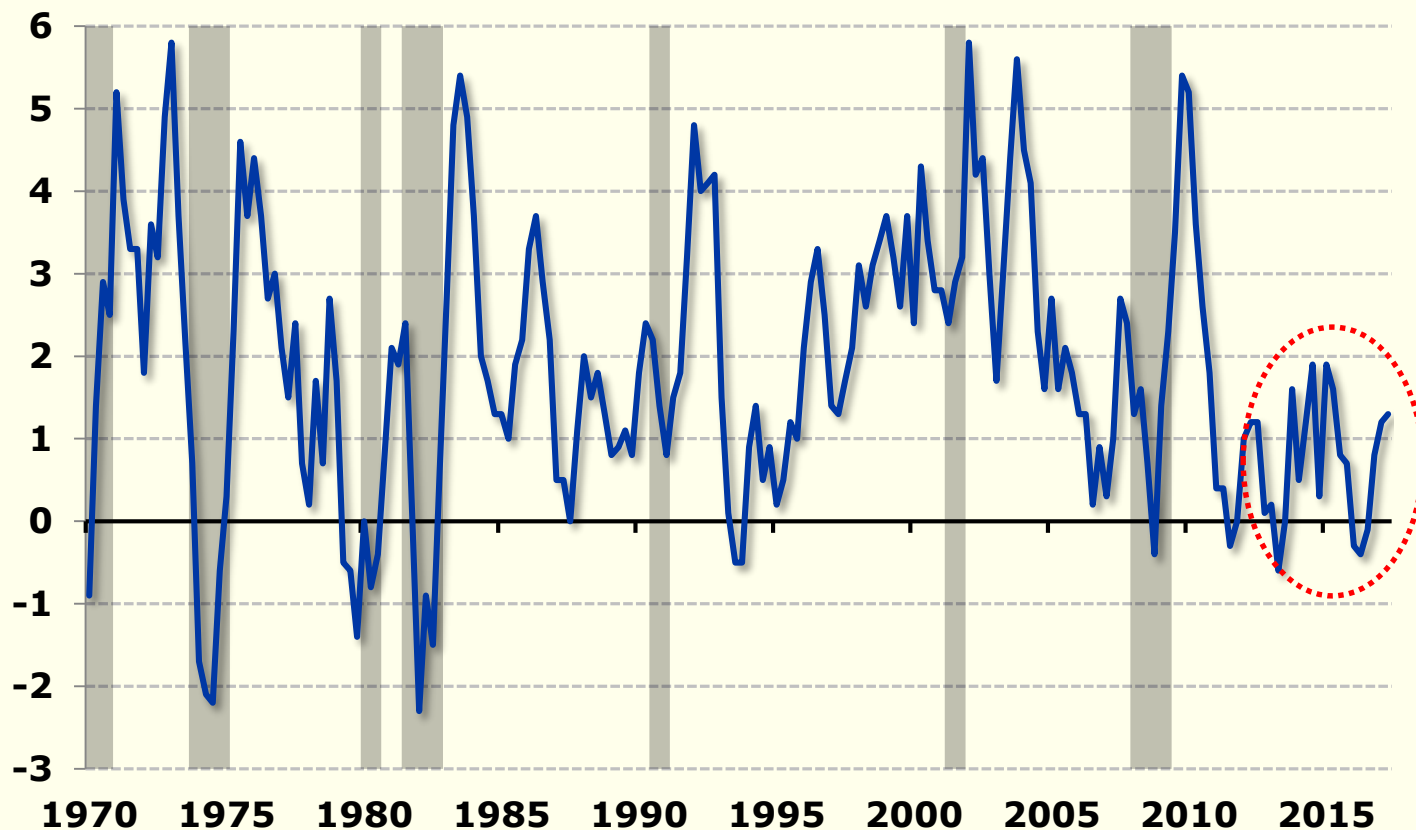
Global GDP growth is expected to improve gradually





Labor productivity has remained low since 2011

Labor productivity, year over year % change



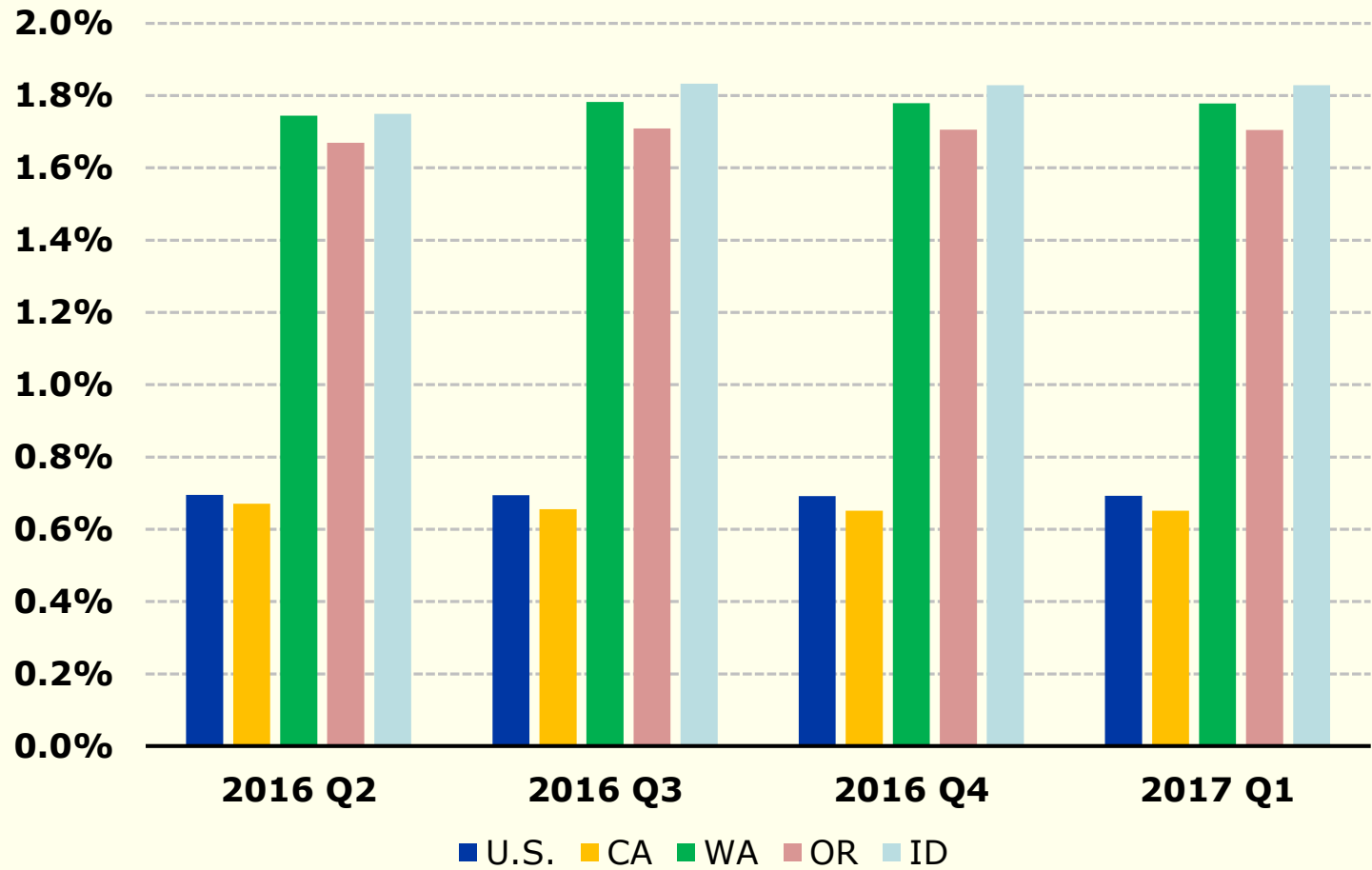


WA portion of U.S. personal income and population



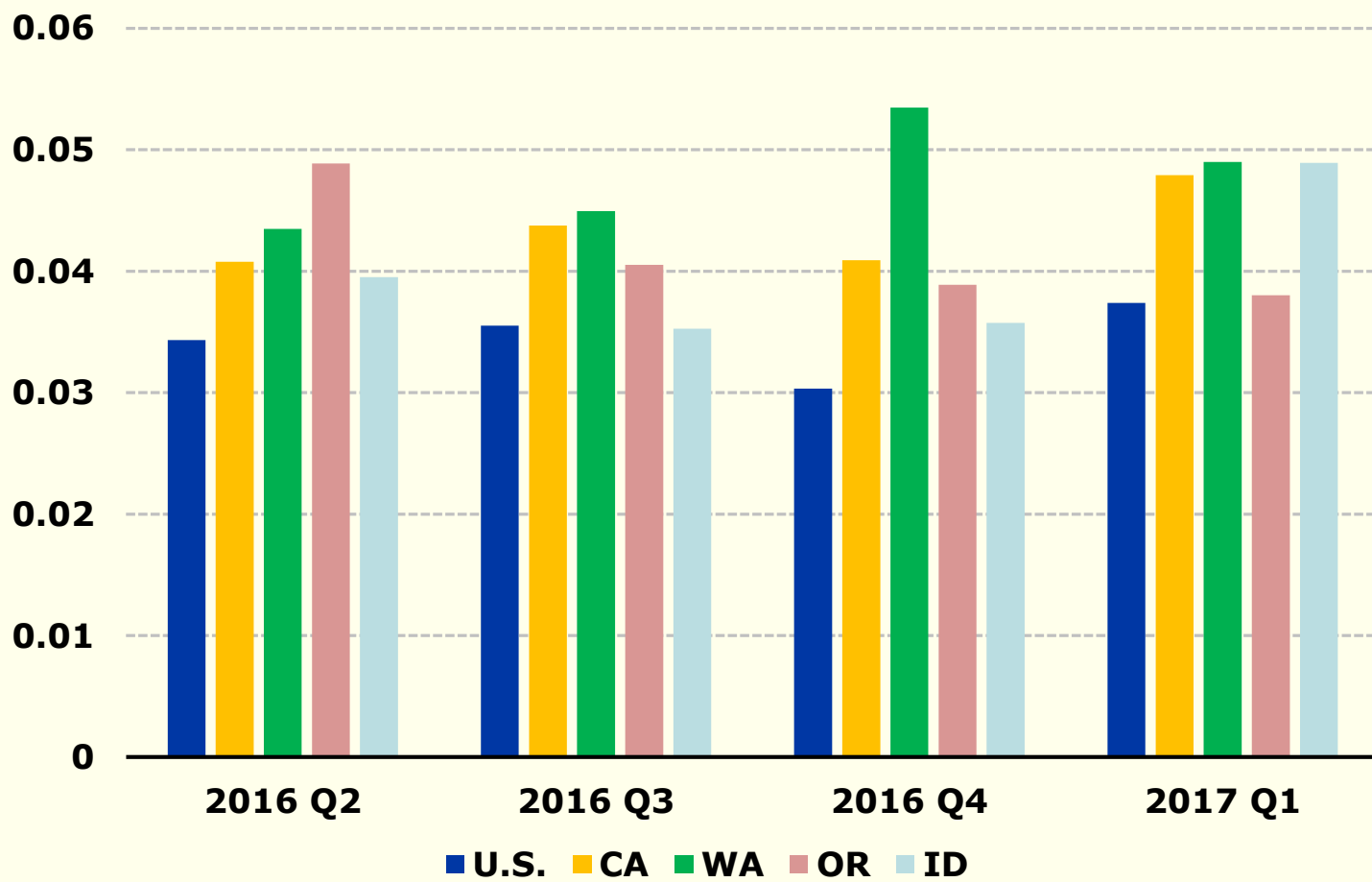


Year over year population growth: U.S., CA, WA, OR, ID



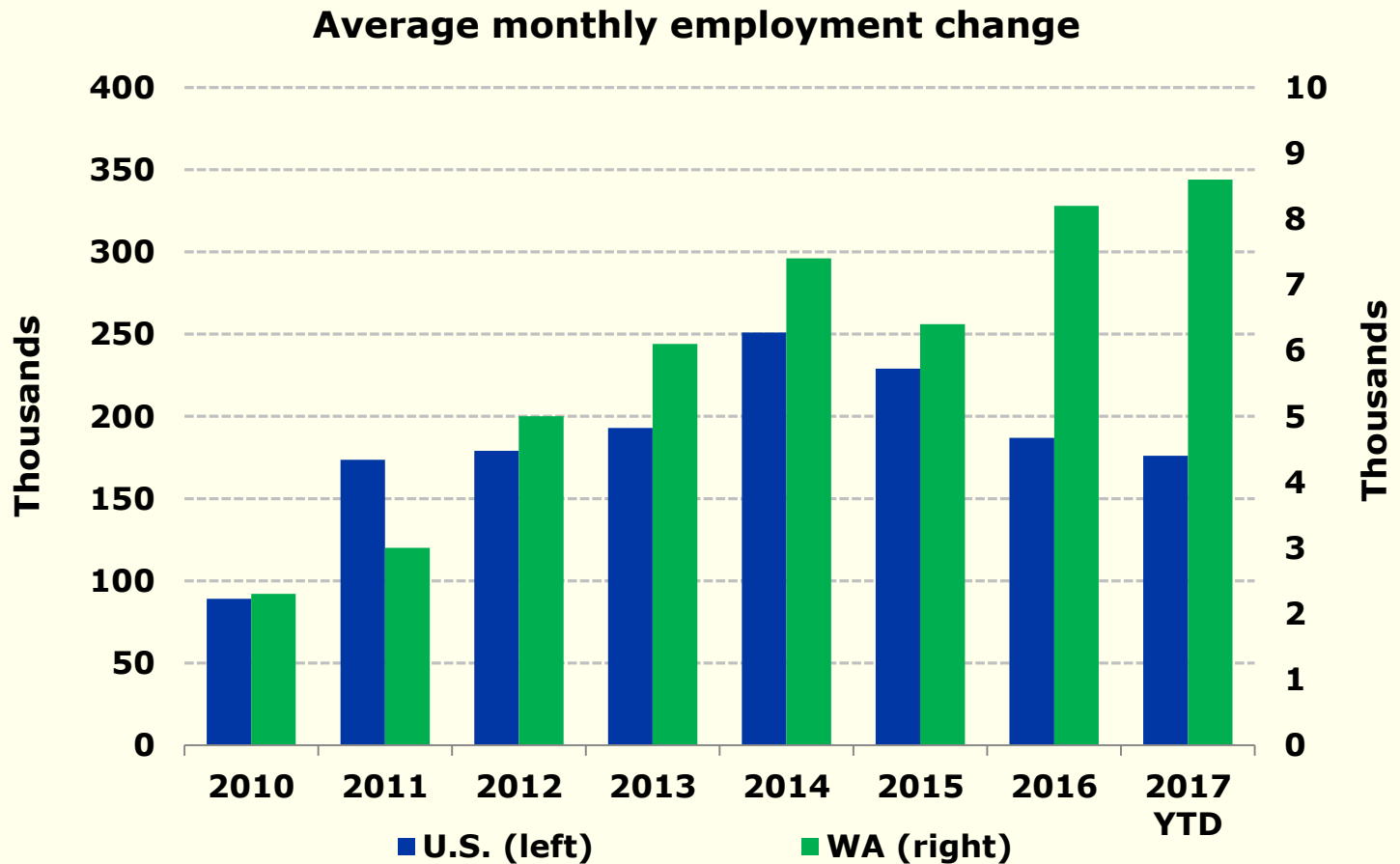


Year over year personal income growth: U.S., CA, WA, OR, ID



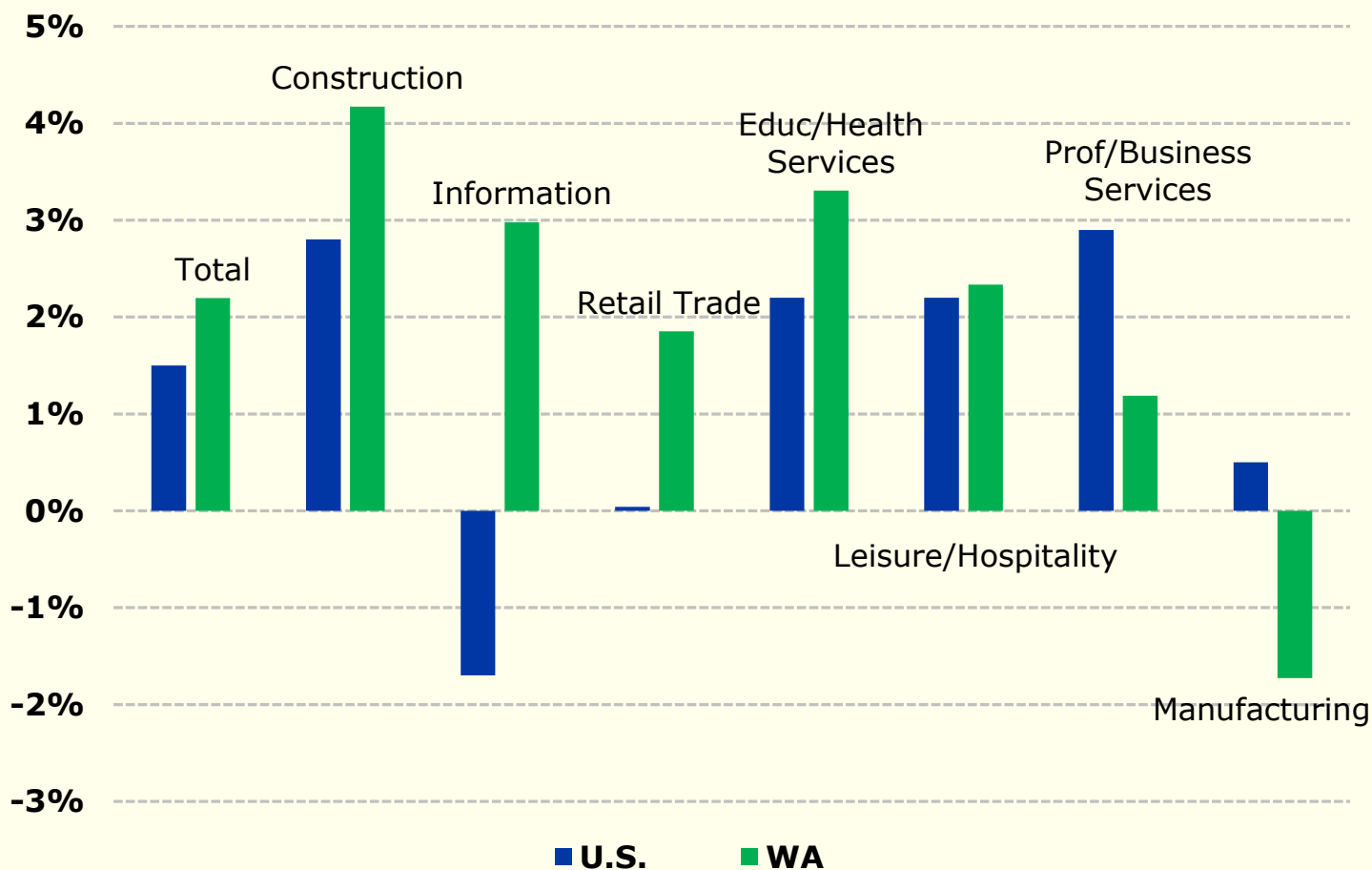


So far in 2017, WA employment change slightly stronger than 2016



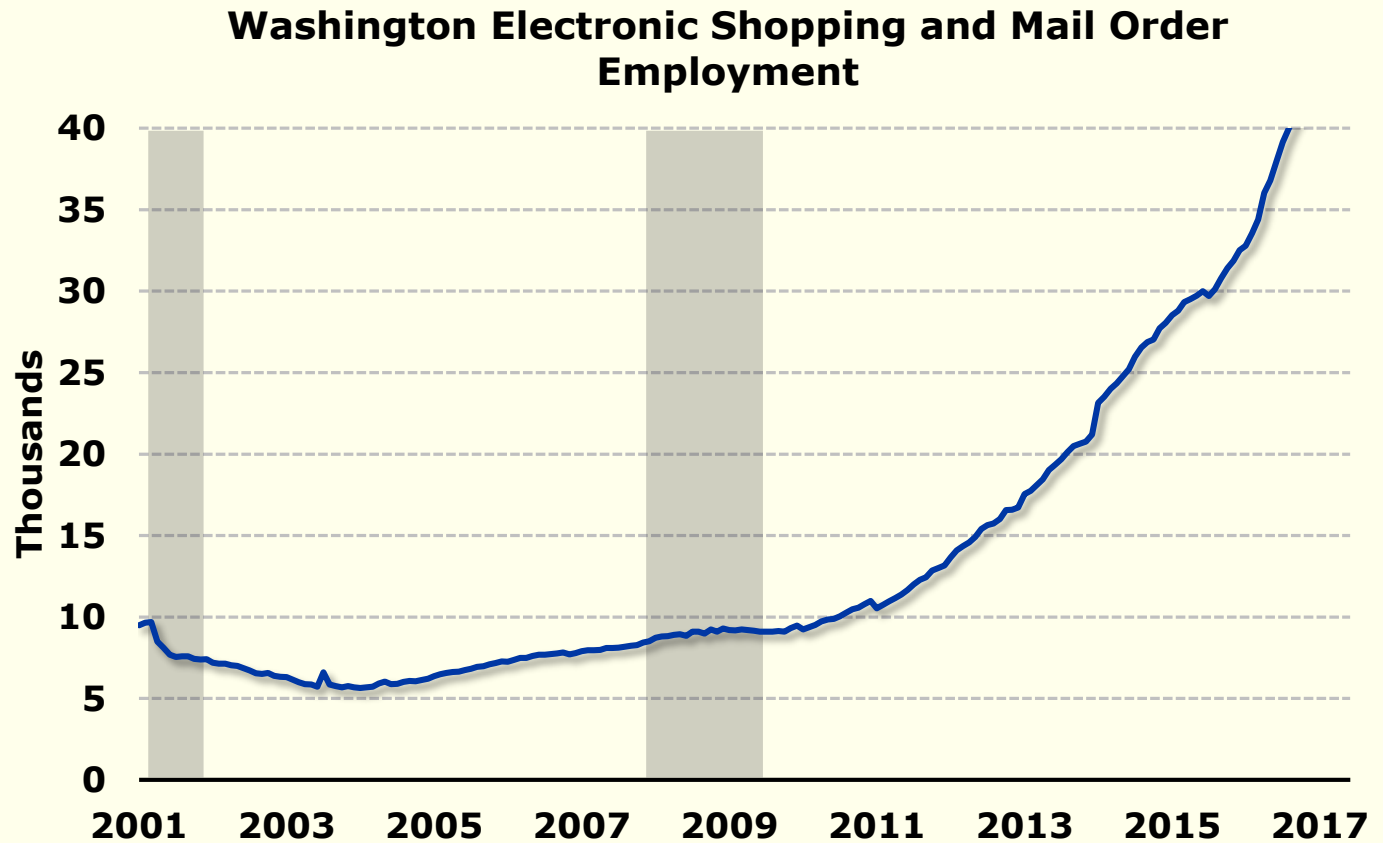


Washington vs U.S. employment growth: July 2016 to July 2017





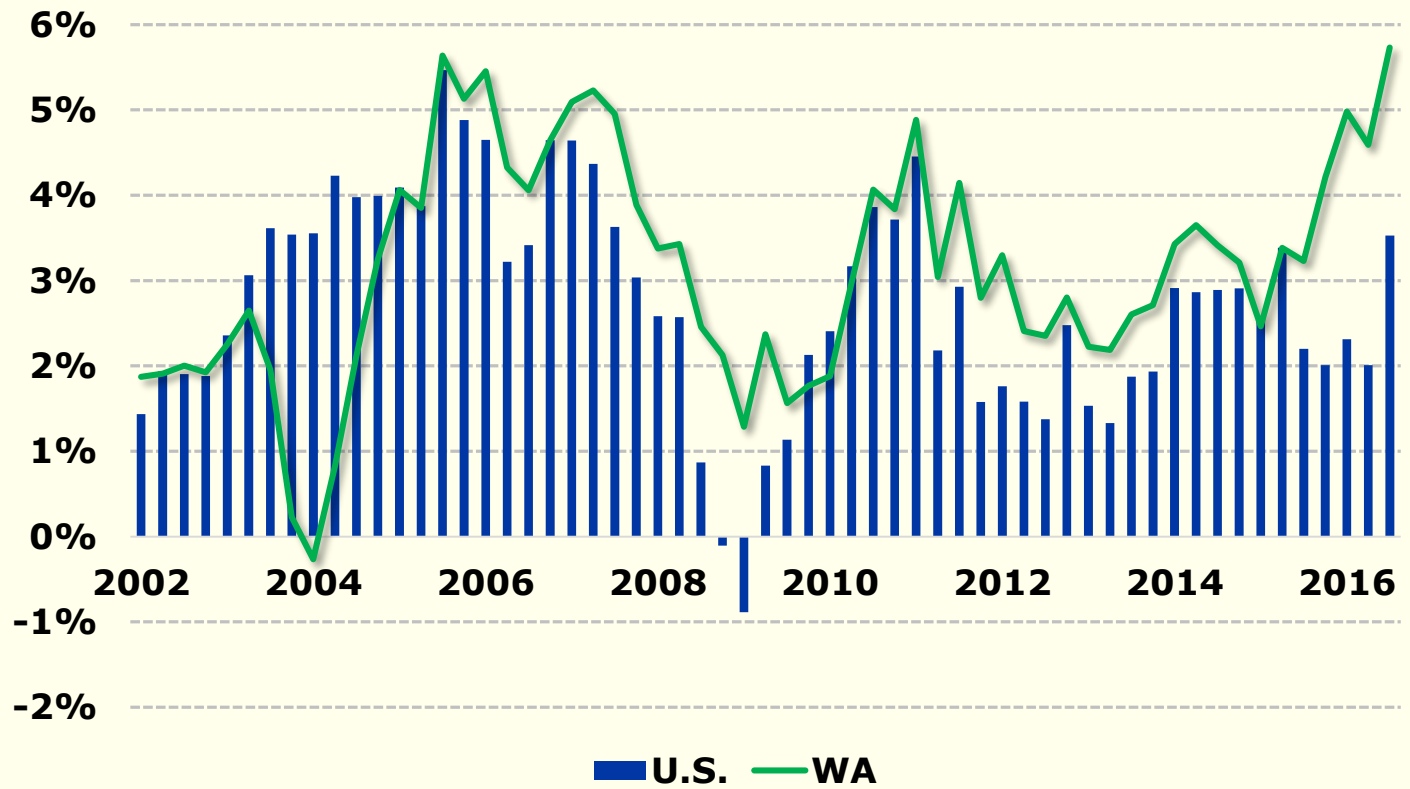
Washington electronic shopping employment is exploding





Wage growth in WA has been at or above national rates since 2011

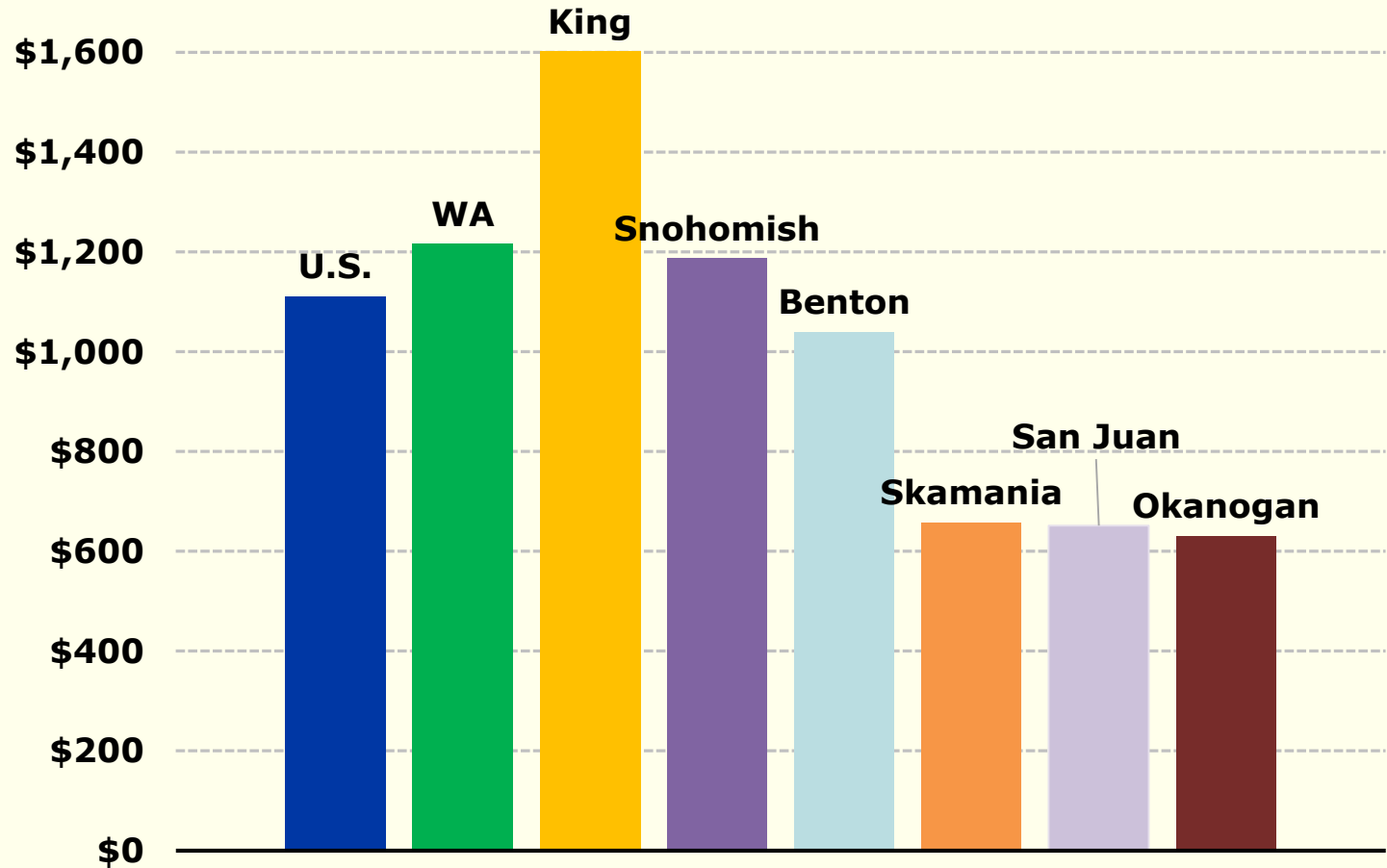
Year-over-year average weekly wage growth, 3 month average



Source: U.S. Bureau of Labor Statistics, data through 2017 Q1



Average weekly wages, 2017 Q1: US, WA, selected WA counties

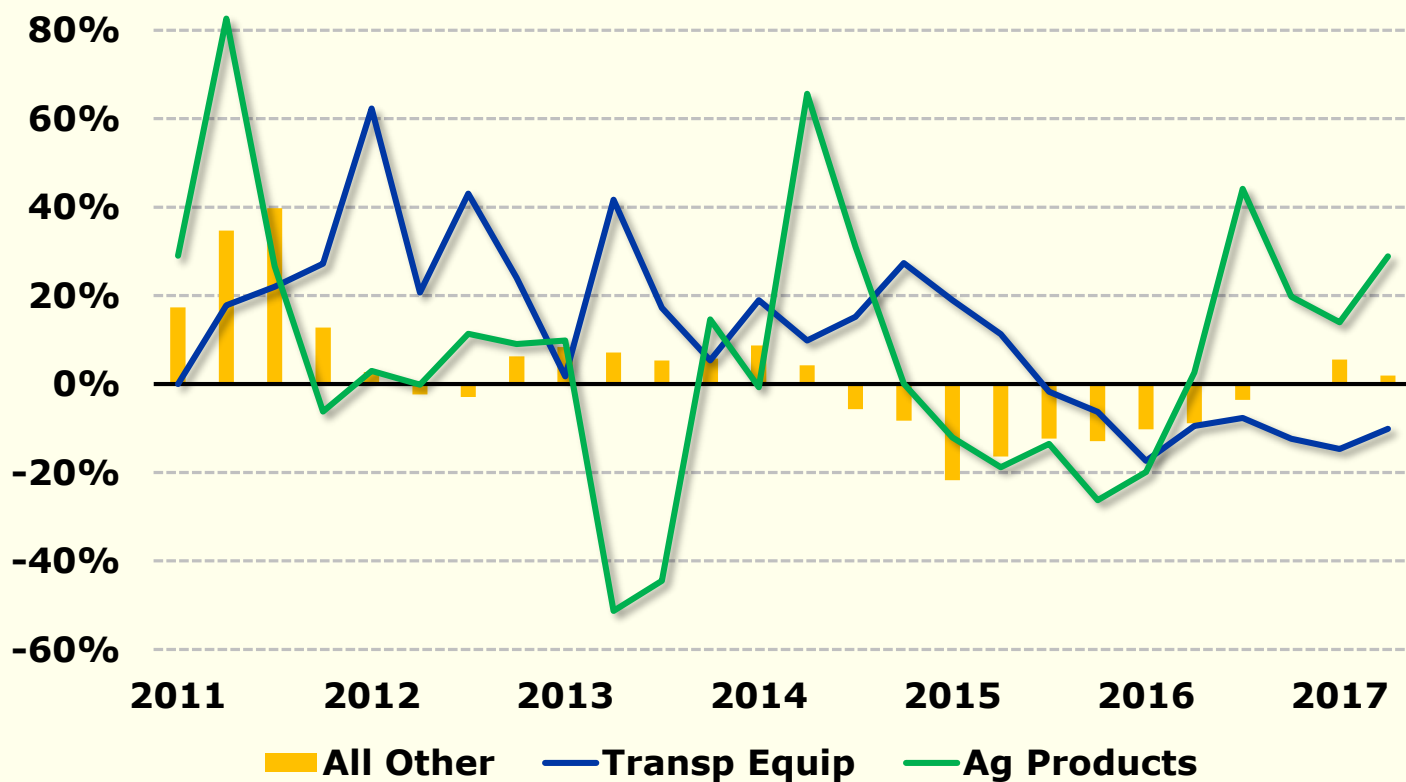


Source: U.S. Bureau of Labor Statistics



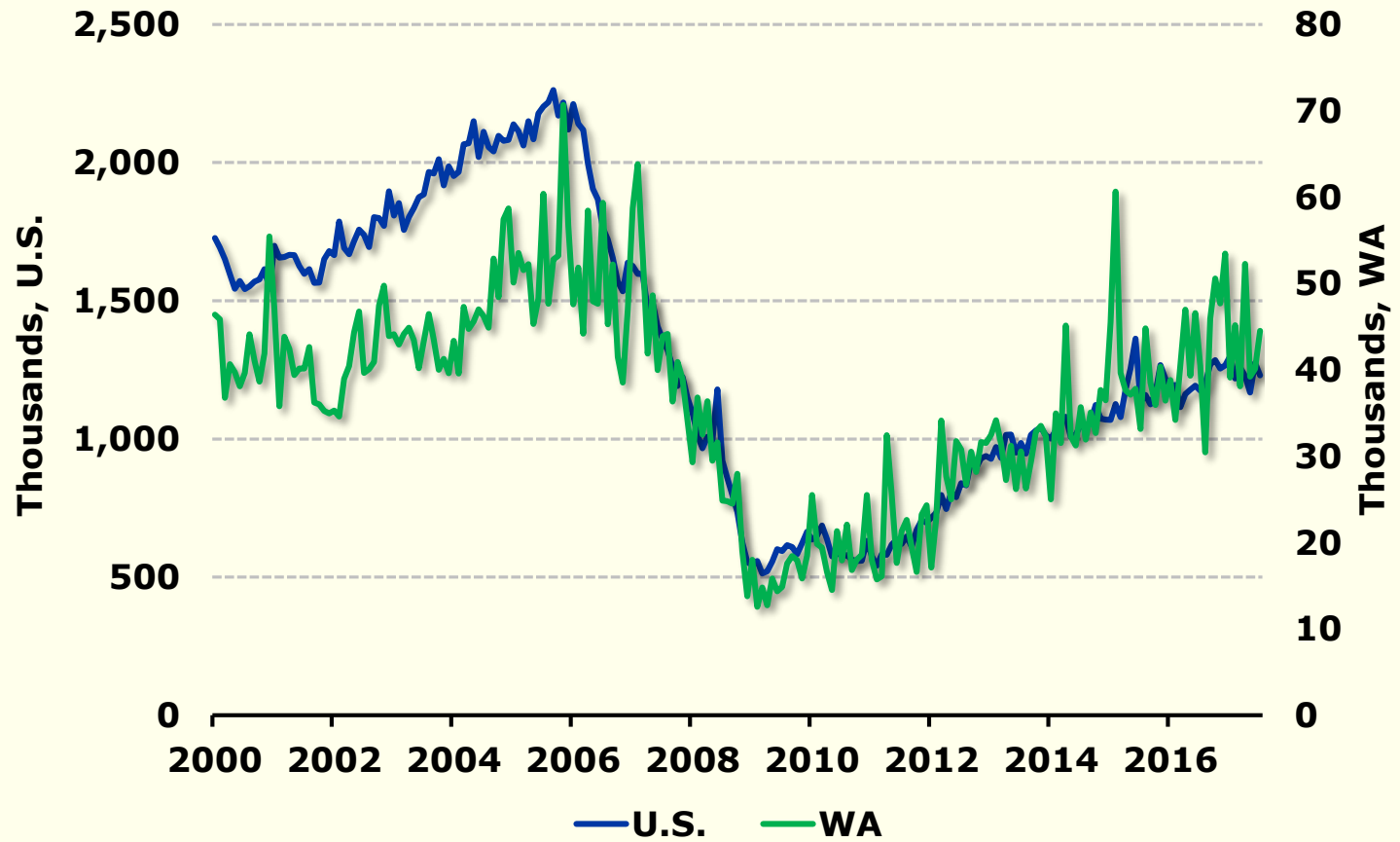
Agricultural exports are showing some improvement, transportation equipment is declining

Year over year growth, quarterly WA exports





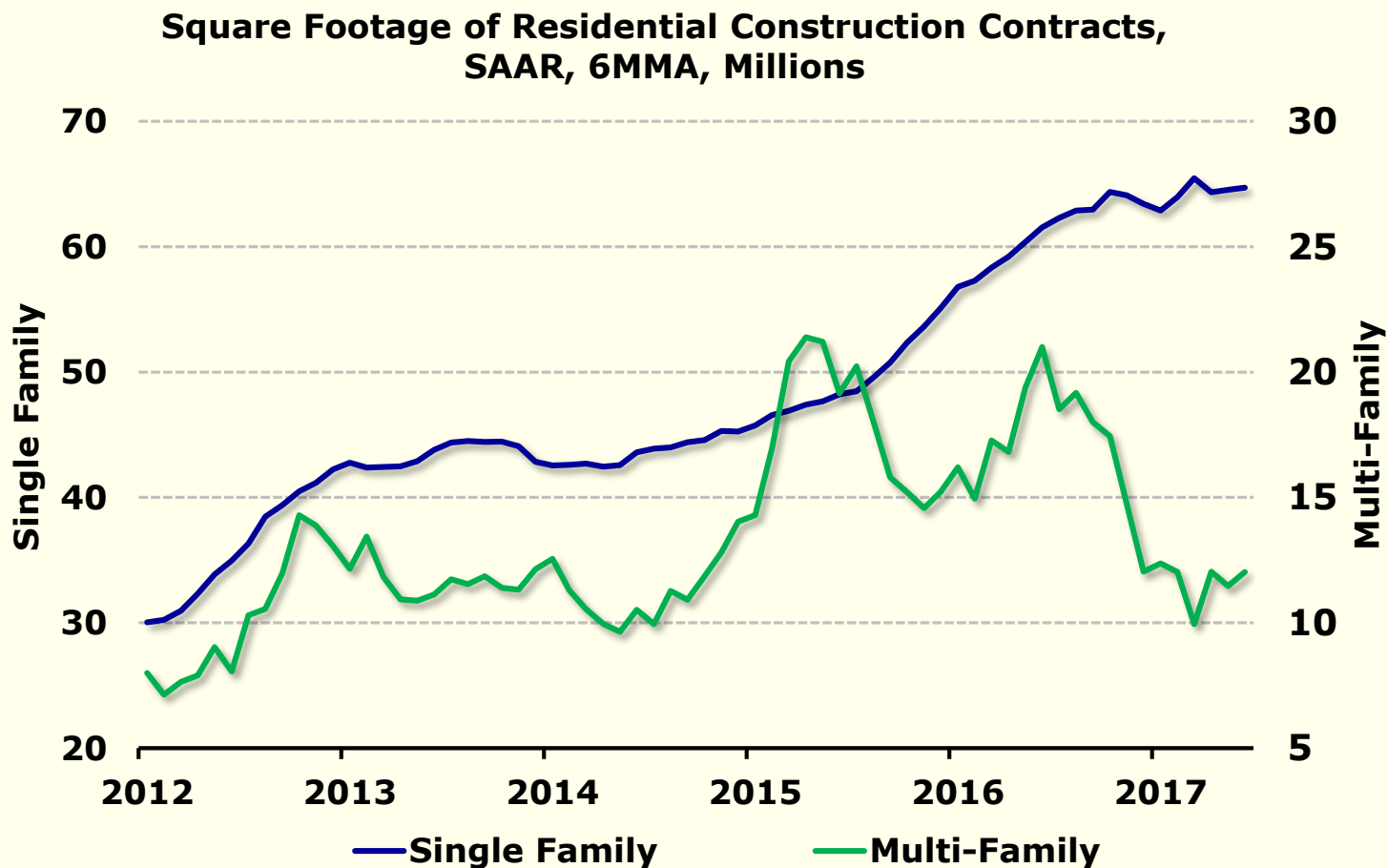
U.S., WA housing permits trending up; U.S. remains below historical averages





WA residential contract data shows continuing shift towards single family

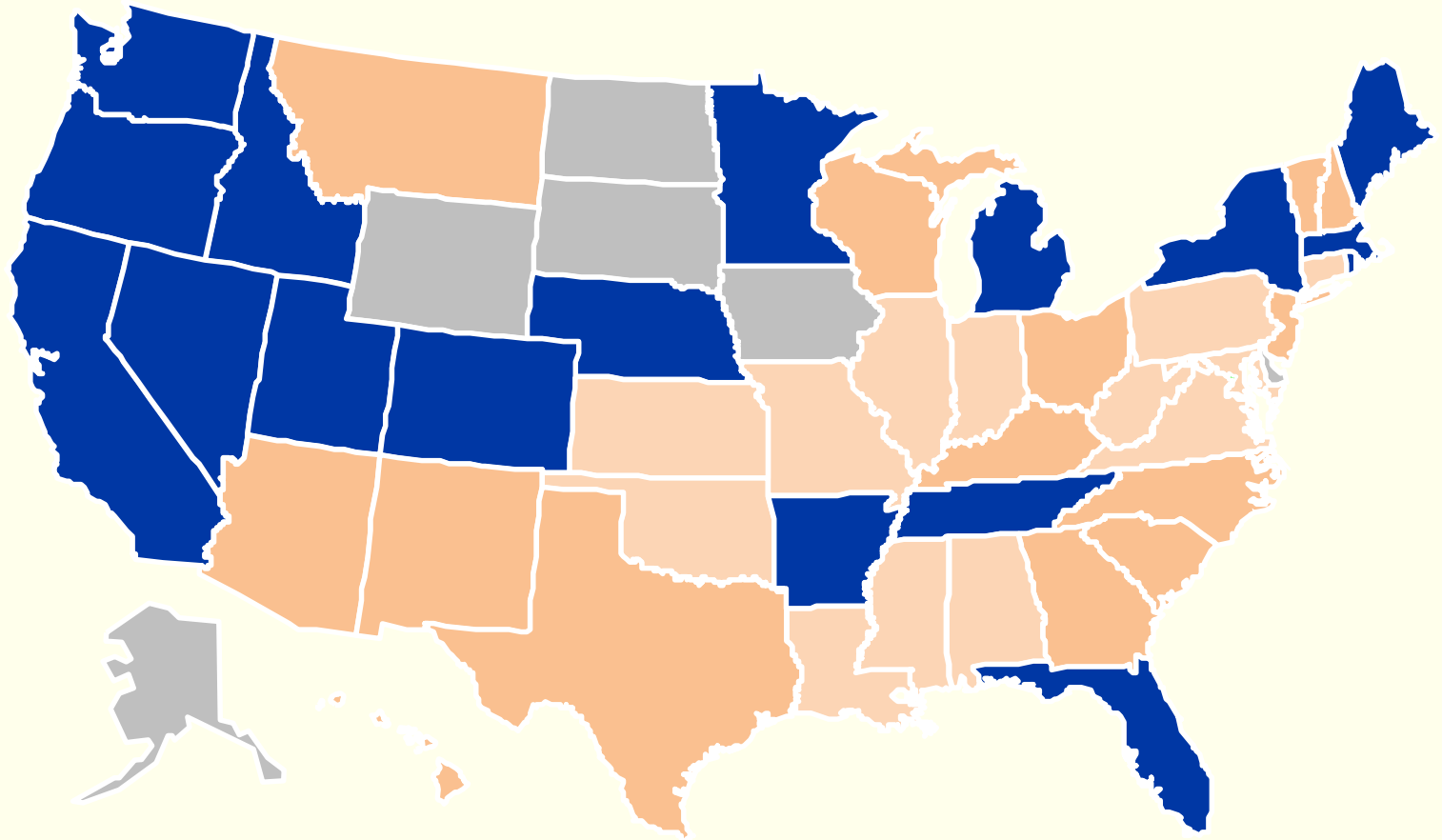
Single Family square footage is up 5% and Multi-Family is down 43% year over year (6mma).





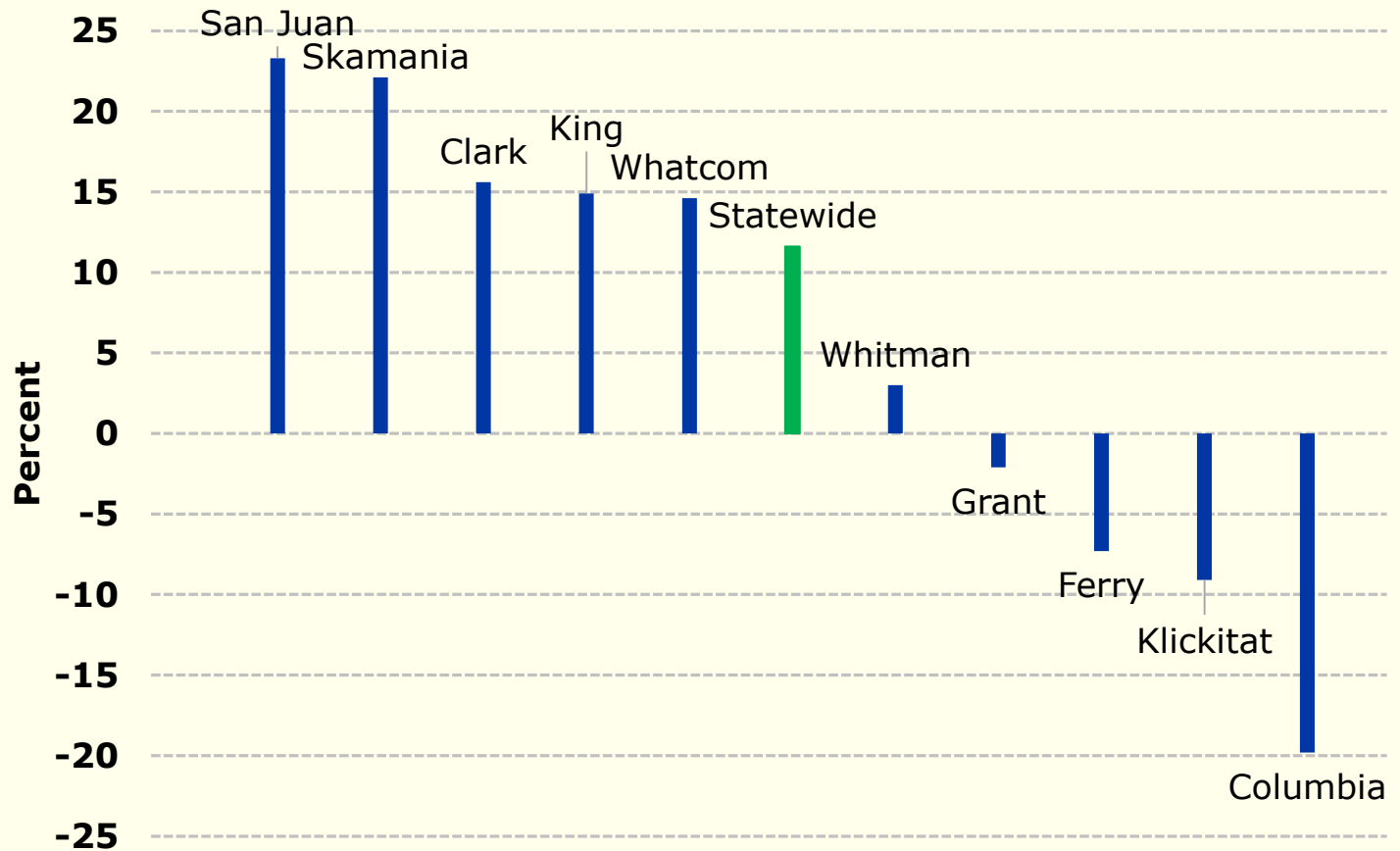
Washington ranks 3rd in year-over-year home price growth

- 1.1 to 1.9%
- 2.0 to 4.7%
- 5.0 to 7.0%
- 7.1 to 12.8%





Median home sale price growth for selected counties (2016 Q2 – 2017 Q2)

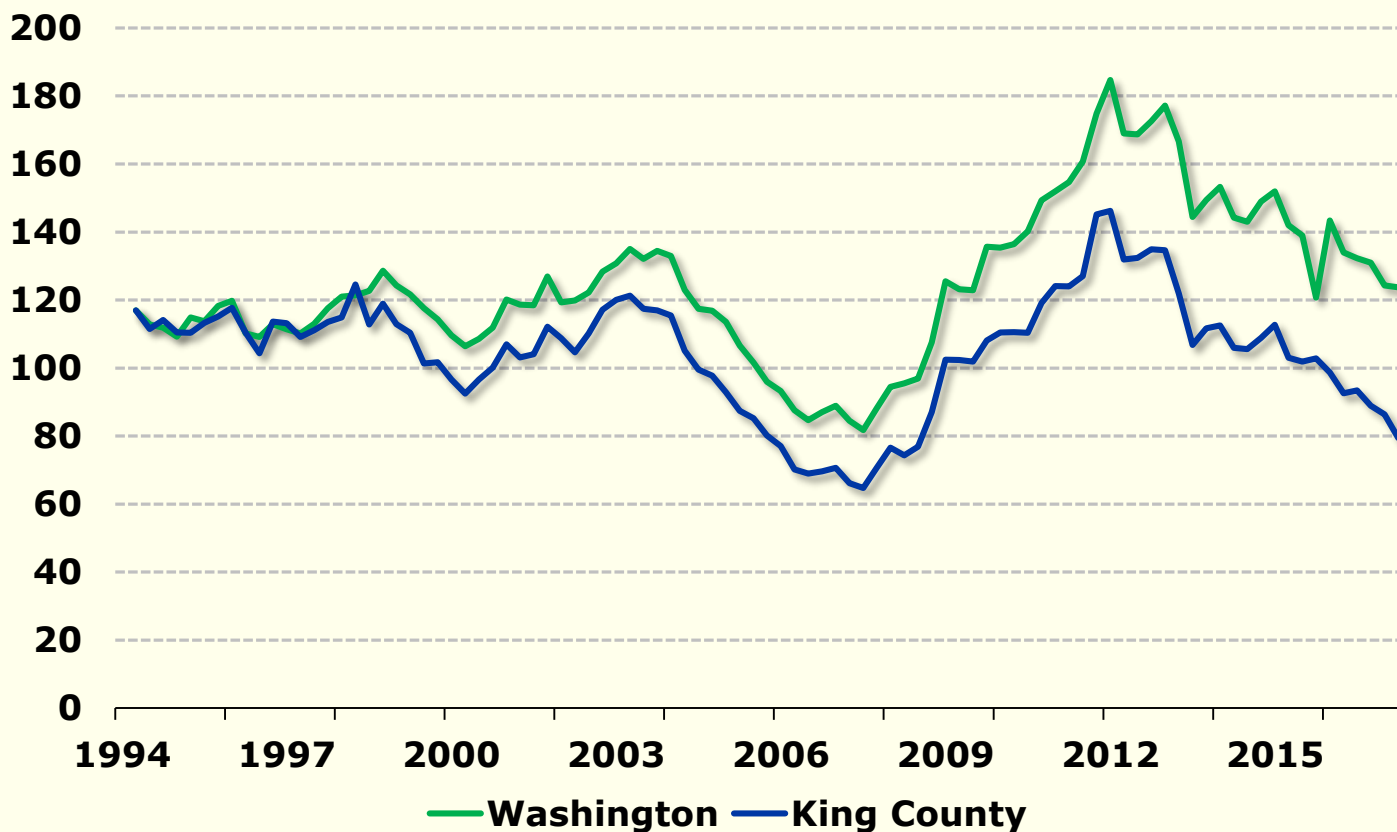




Affordability has been decreasing in recent years, especially in King County

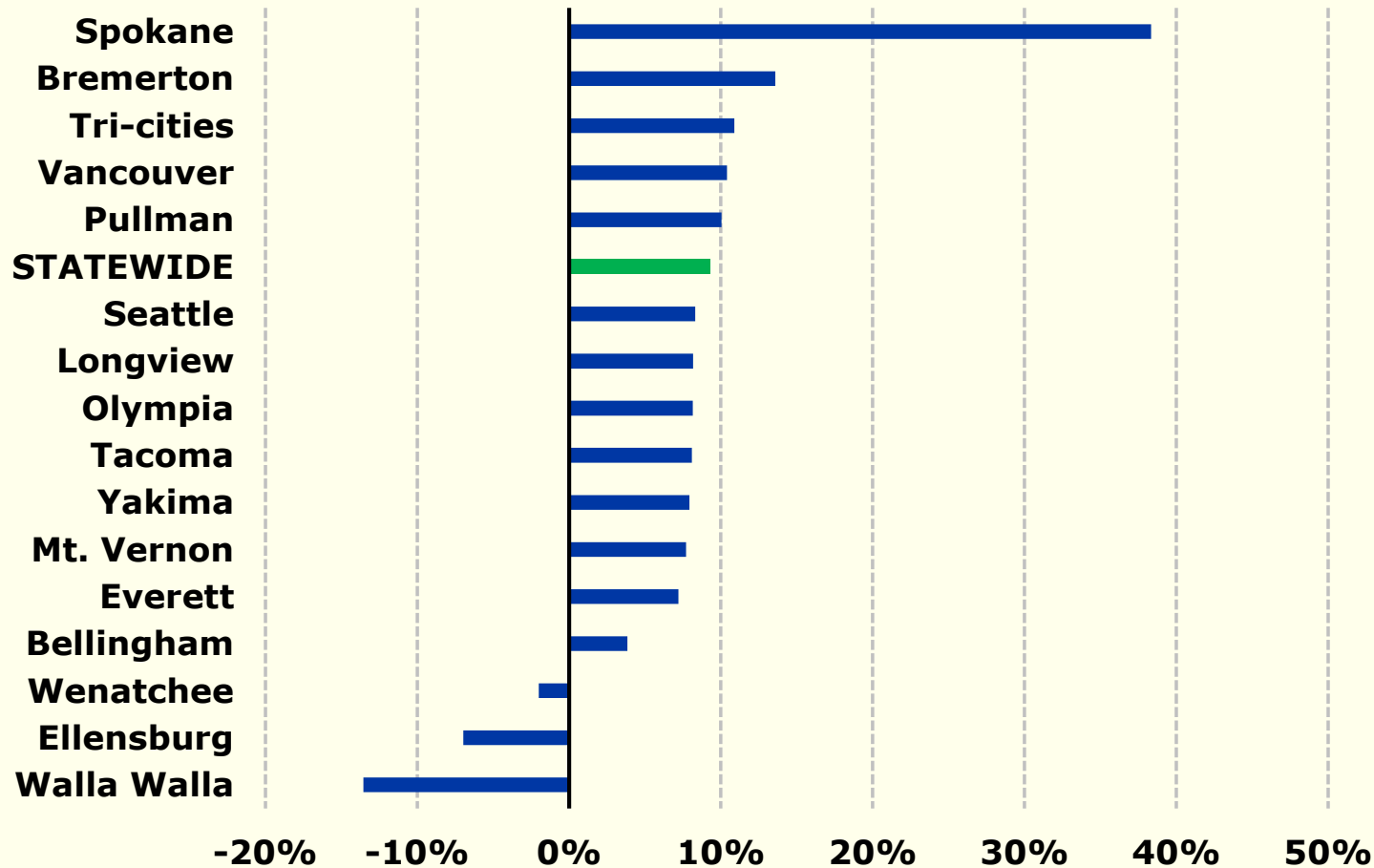
An index score of 100 means a median-income family can afford a median-priced home.

Affordability Index for Washington and King County





Rental increases by metro area, March 2016 to March 2017

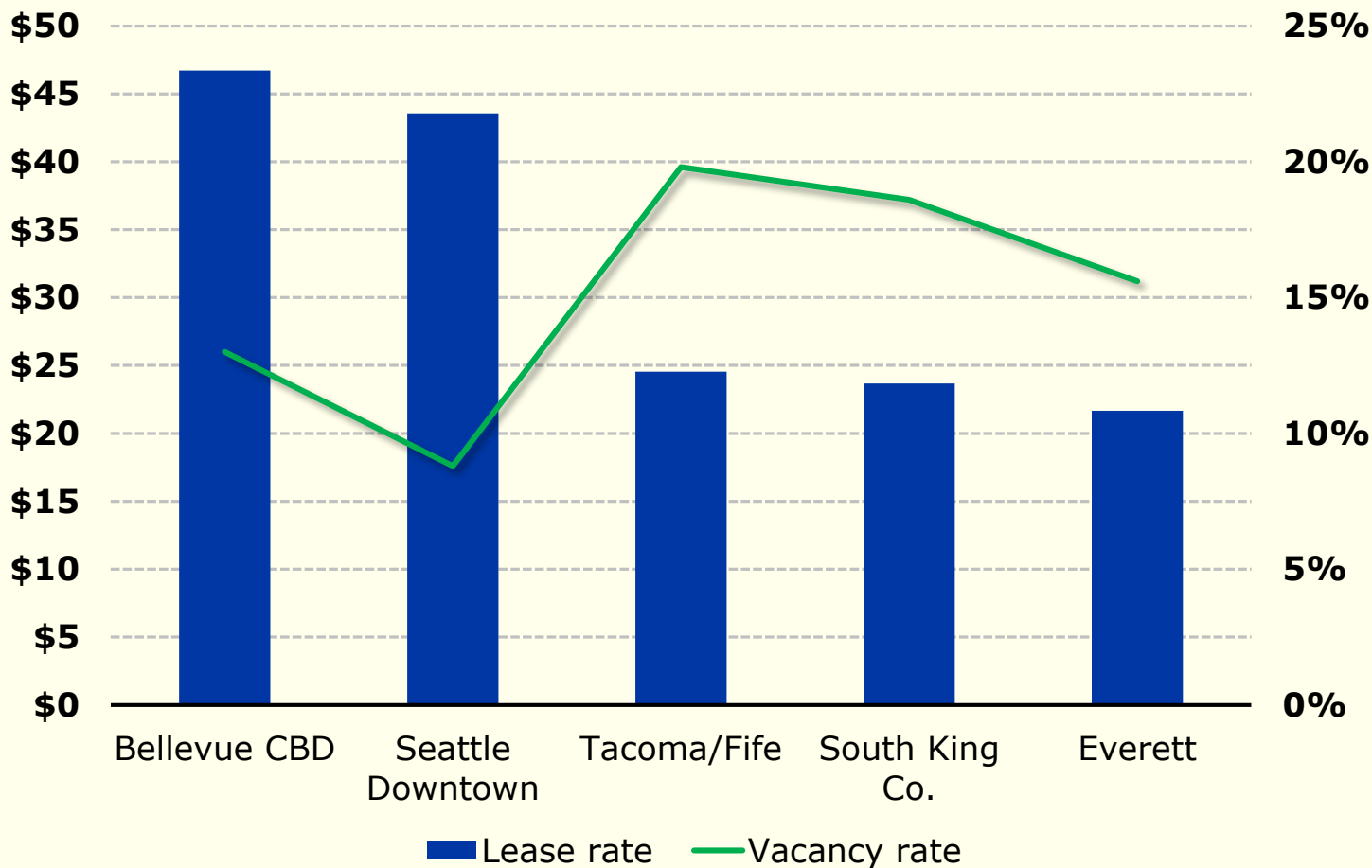




Seattle area Class A office lease and vacancy rates, 2017 Q2

Lease rate:

Annual, full service per square foot

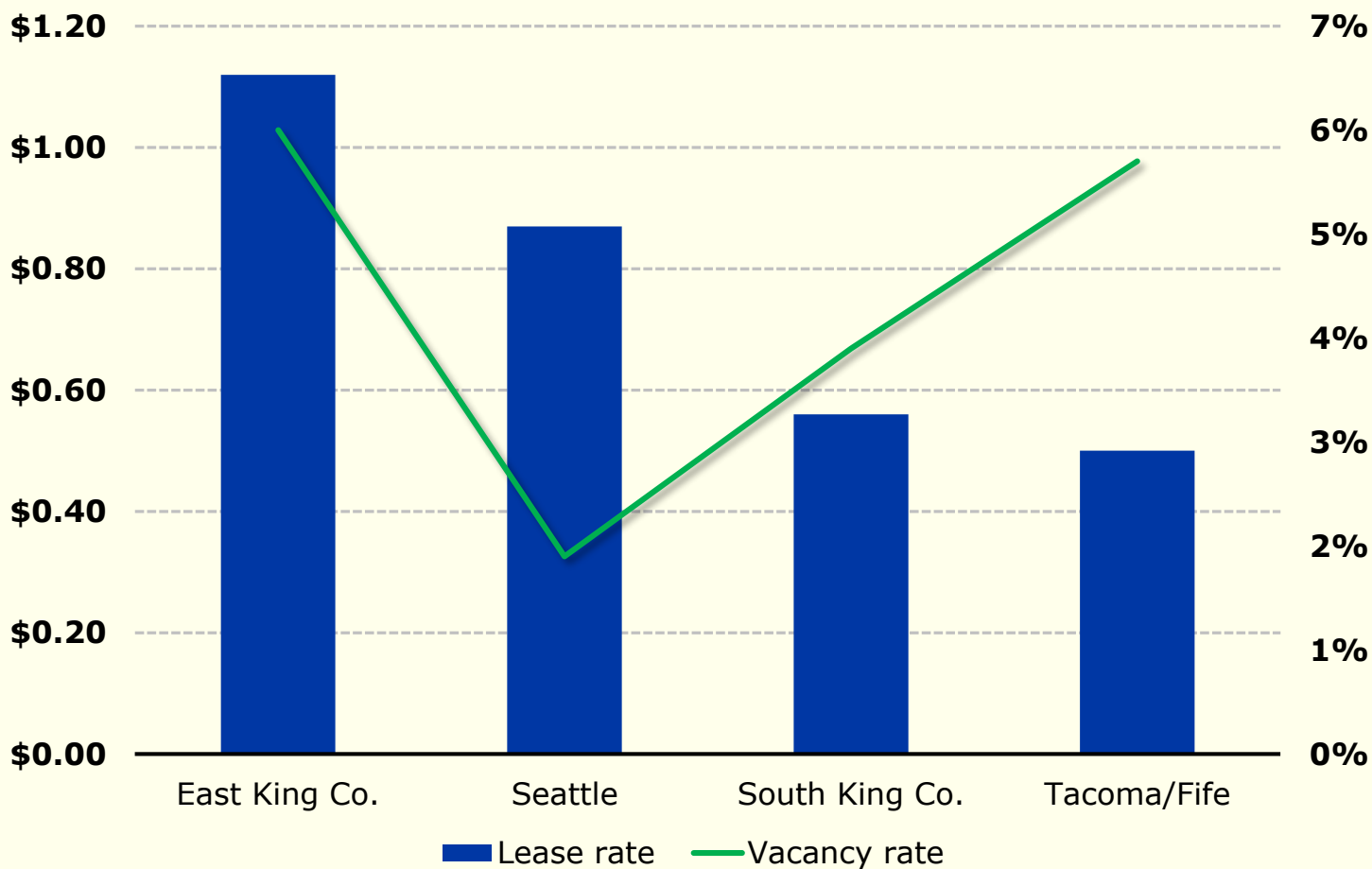




Seattle area industrial lease and vacancy rates, 2017 Q2

Lease rate:

Monthly, per square foot, NNN



Source: CBRE, Puget Sound Industrial Marketview, 2017 Q2

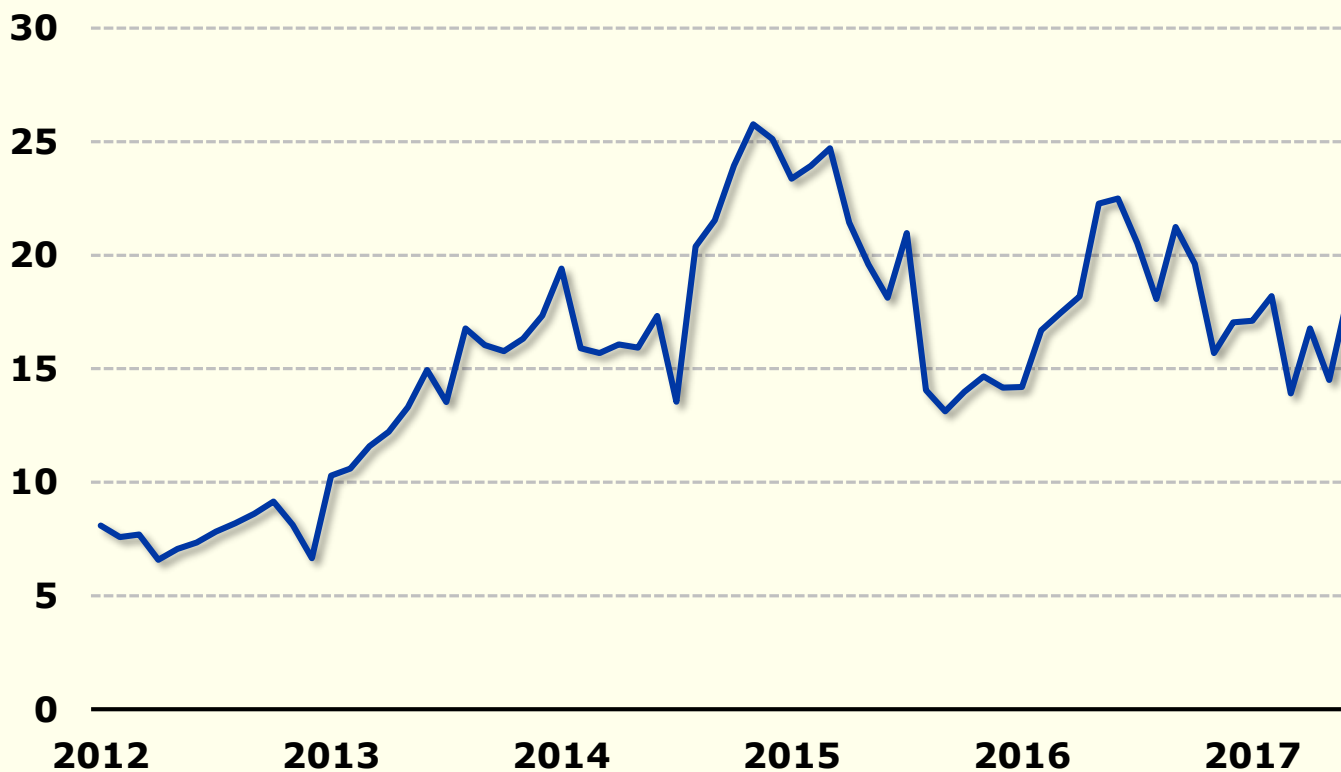


WA commercial contract data has been trending down since mid-2016

Commercial includes office, retail, food service, and motels/hotel.

Commercial square footage is down 19% year over year (6mma).

Square Footage of Commercial Construction Contracts, SAAR, 6MMA, Millions



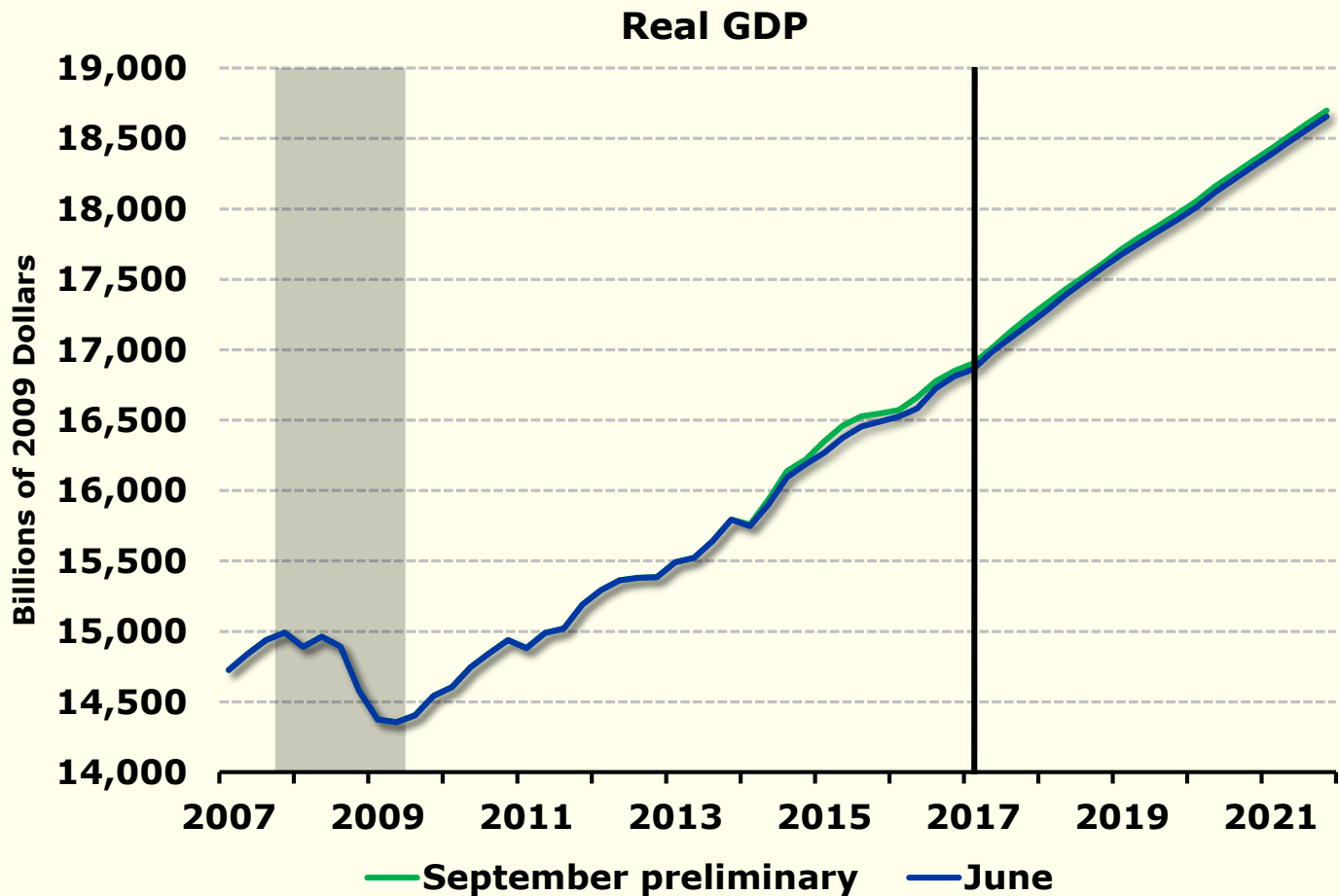
Source: Dodge, ERFC; data through June 2017

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Real GDP is slightly higher than in the June forecast

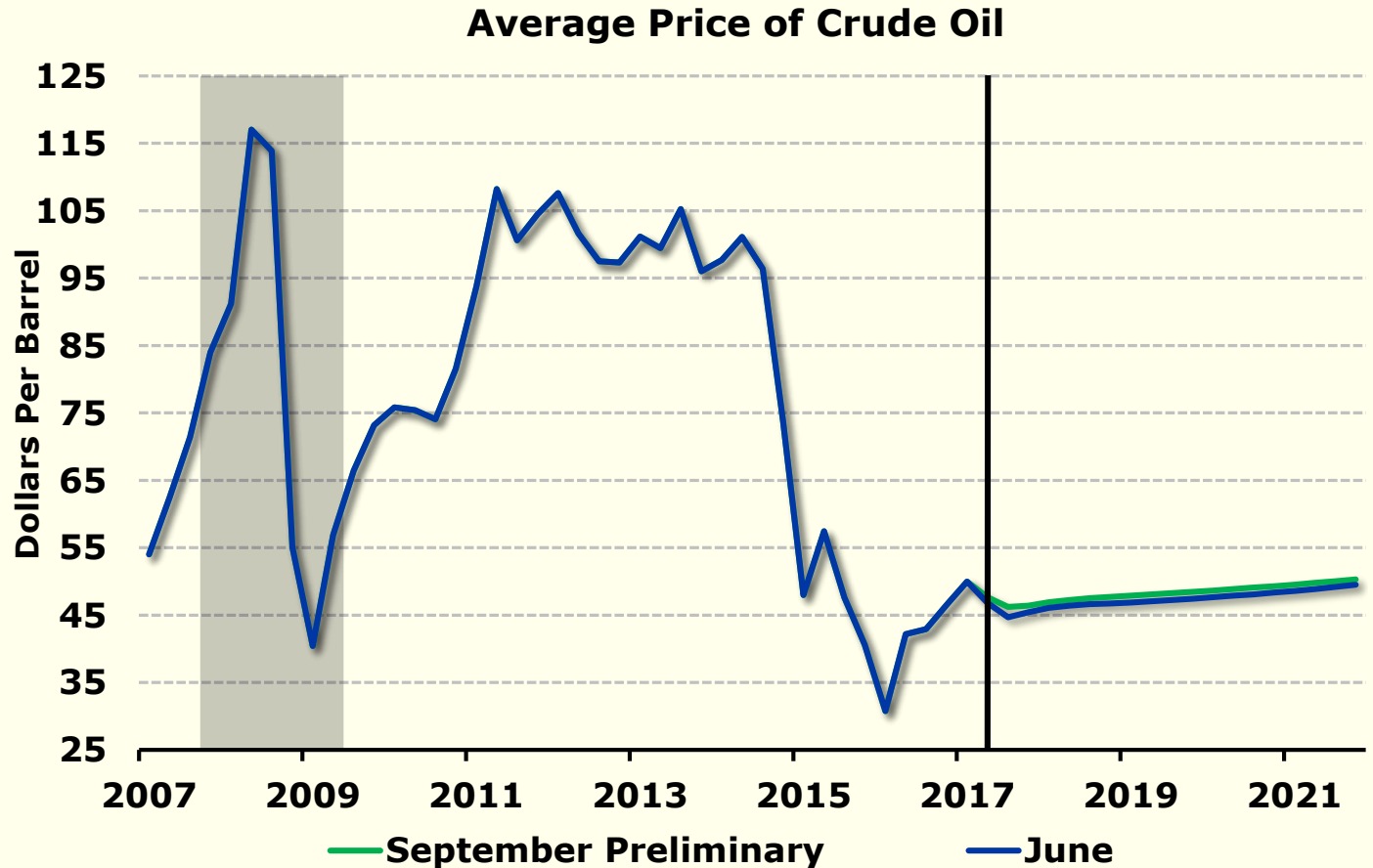
Real GDP at the end of 2021 is 0.2% higher than in the June forecast.



Source: ERFC September 2017 Preliminary forecast; data through Q2 2017



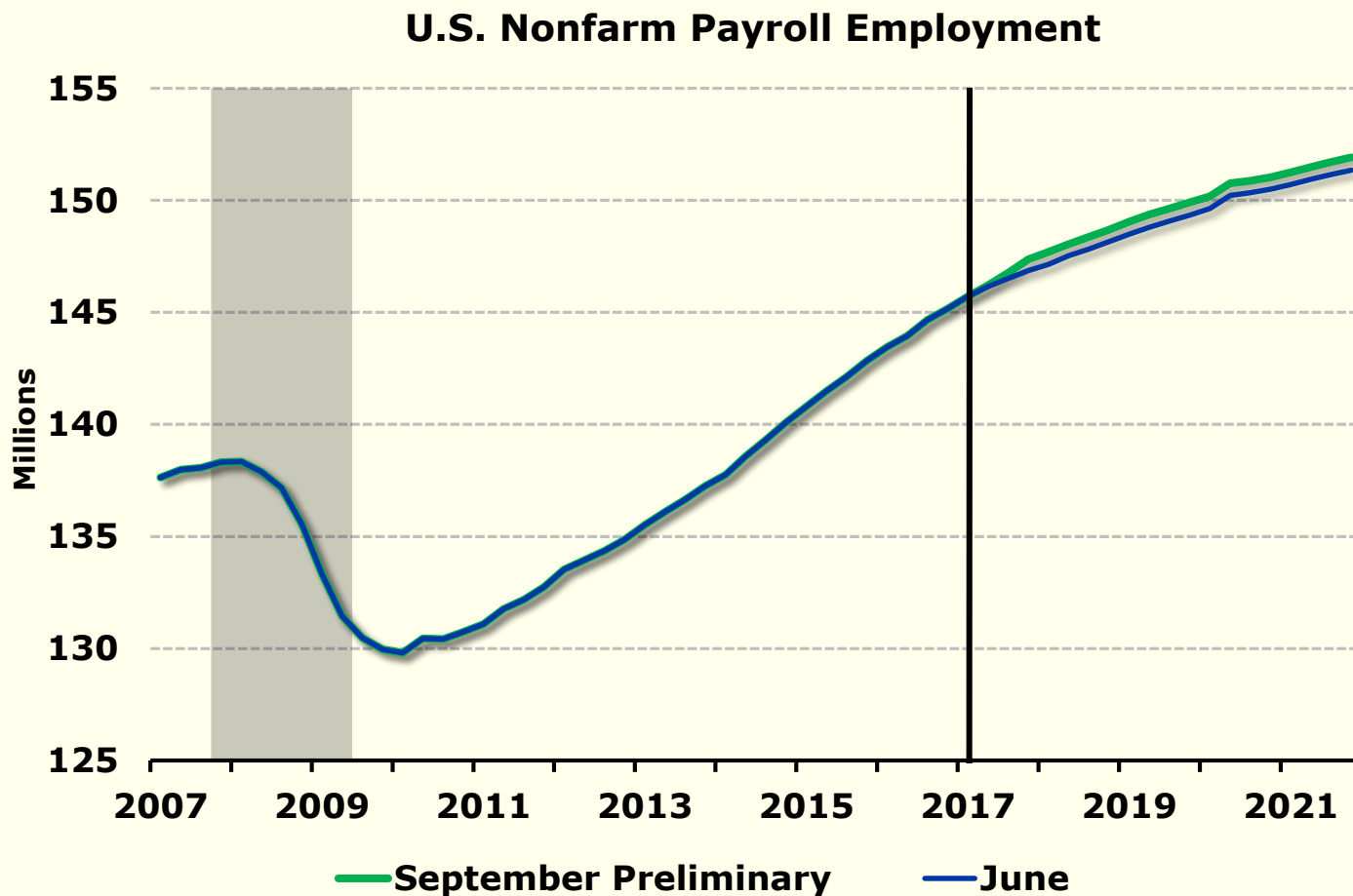
Oil prices are slightly higher compared to the June forecast





The U.S. nonfarm payroll employment forecast is slightly higher than in June

By the end of 2021, U.S. employment is 0.4% higher than in the June forecast.

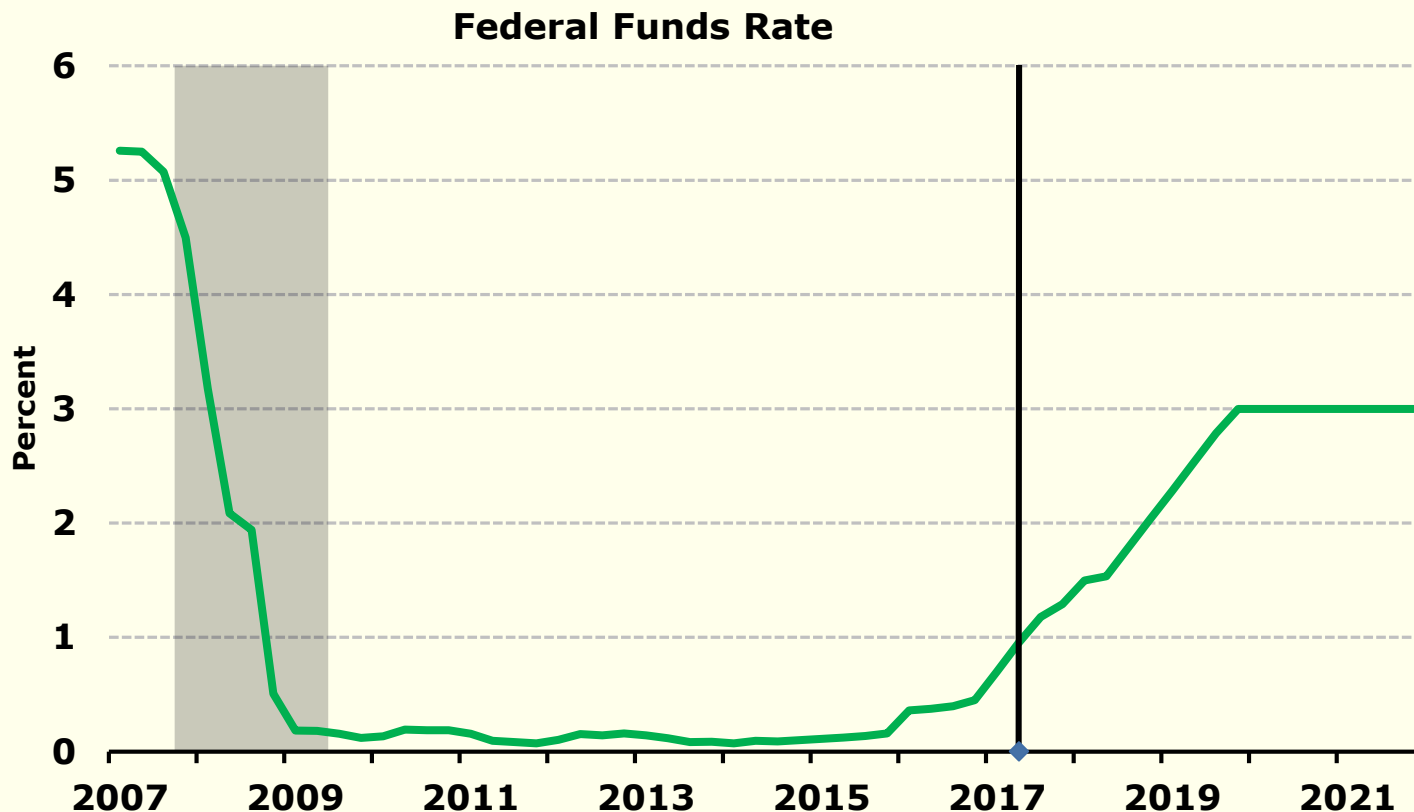


Source: ERFC September 2017 Preliminary forecast; data through Q2 2017



The Fed is expected to raise rates in December

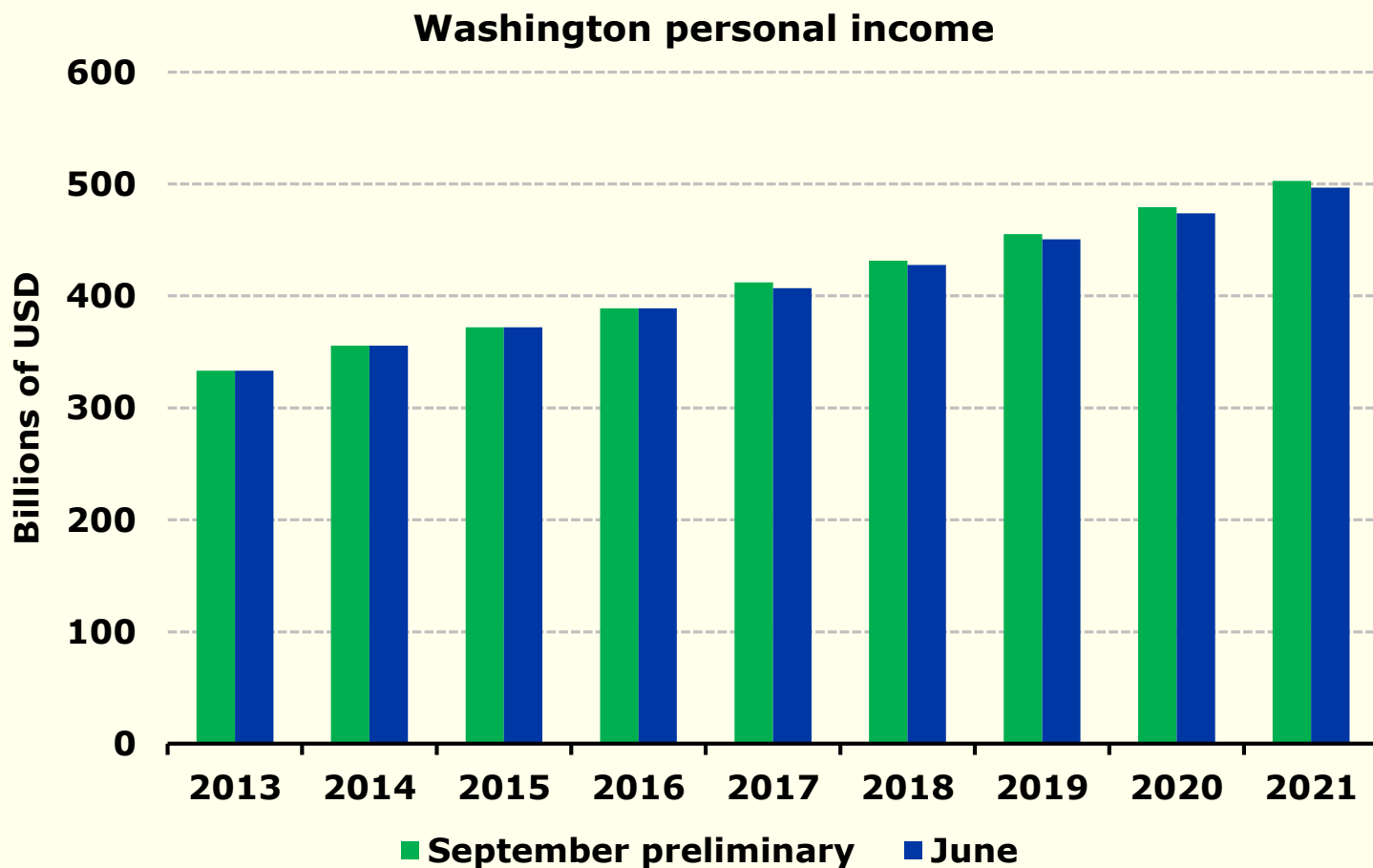
The forecast assumes the rate will rise gradually, eventually reaching 3.00%.





Washington personal income is slightly higher than in June

2017 YTD data were revised slightly higher. WA personal income is 1.2% higher in 2021 compared to the June forecast.

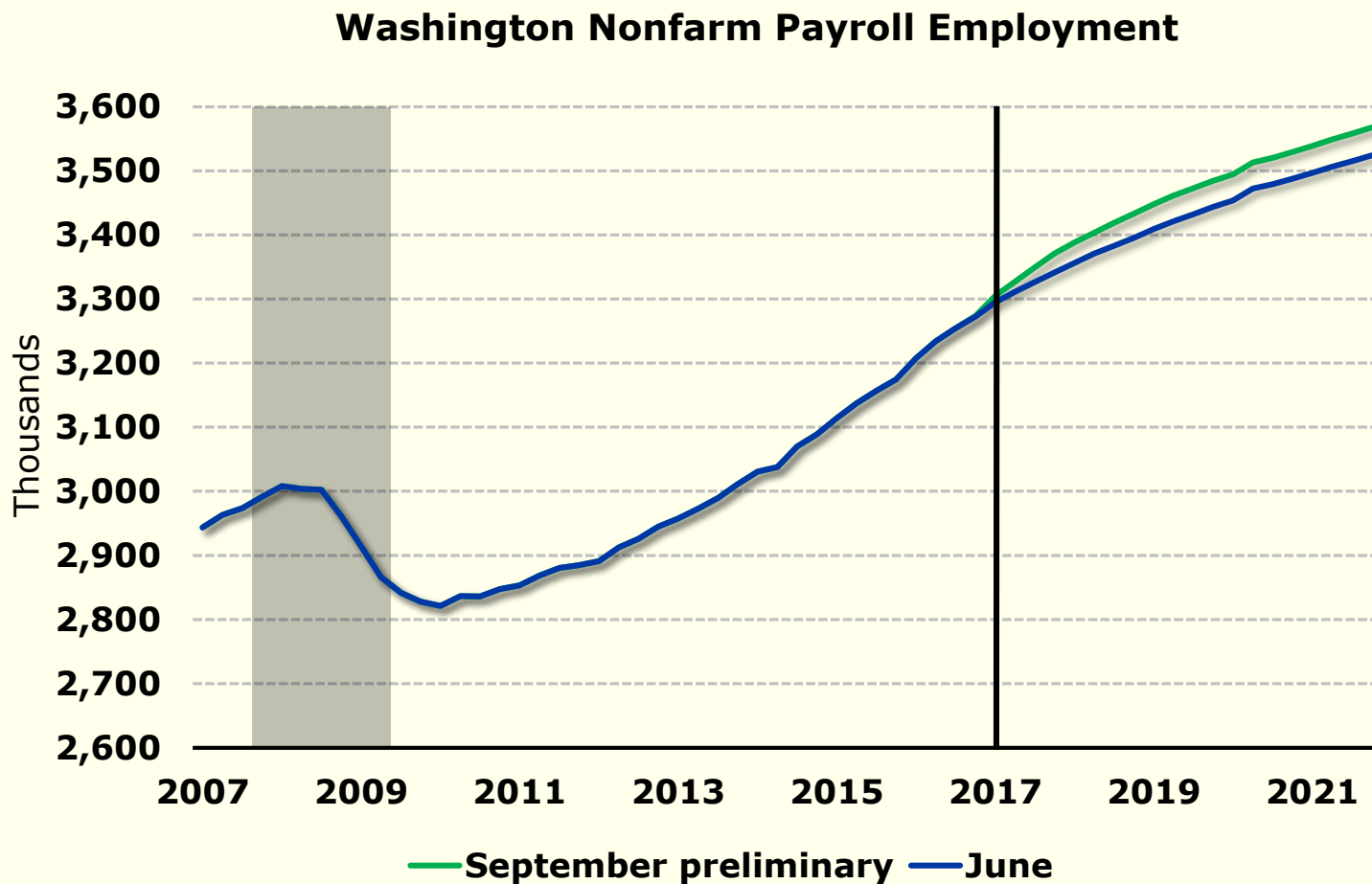


Source: ERFC September 2017 Preliminary forecast; historical data through 2016



Washington employment forecast is slightly higher than in June

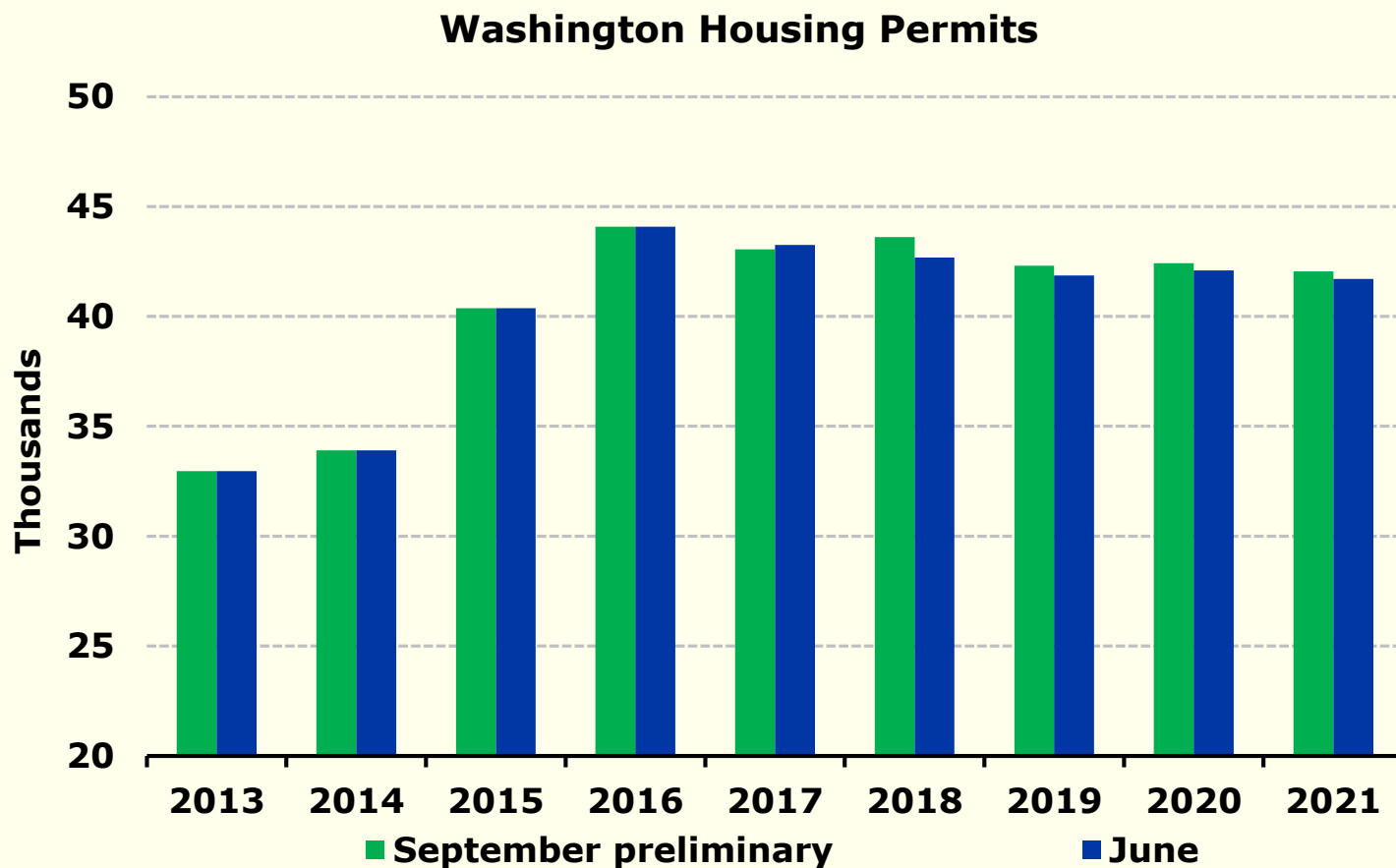
The WA nonfarm employment forecast is 43,000 jobs higher (1.2%) by 2021 compared to June.



Source: ERFC September 2017 Preliminary forecast; historical data through Q1 2017



Washington housing permits forecast is slightly higher compared to June





Large commercial property sales made a comeback in the 2nd quarter

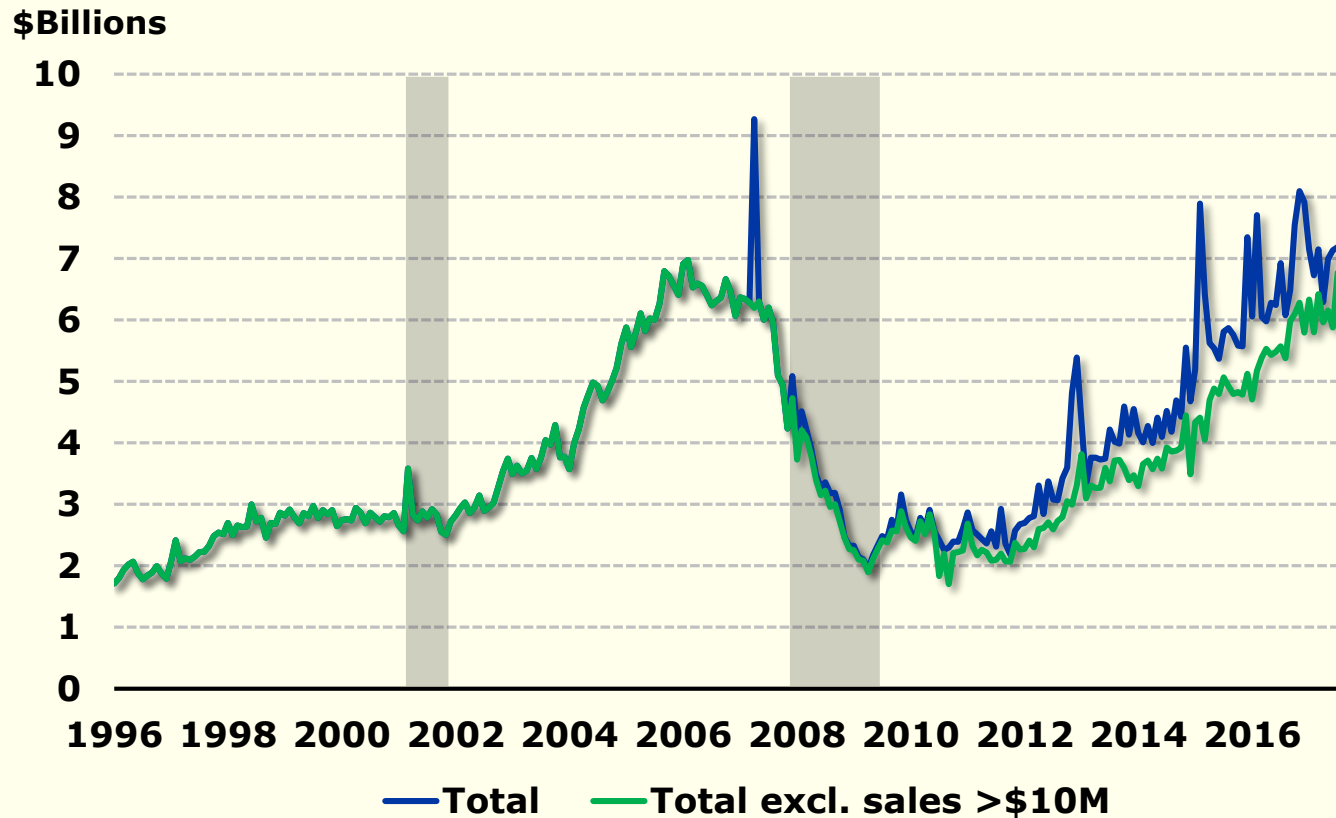
Large commercial sales (>\$10 million) totaled \$5.2 billion in the 4th quarter of 2016, \$1.8 billion in the 1st quarter of 2017 and \$2.9 billion in the 2nd quarter.

Large commercial sales totaled \$478 million (preliminary) in July while sales less than \$10 million spiked.

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Seasonally Adjusted Taxable Real Estate Excise Activity



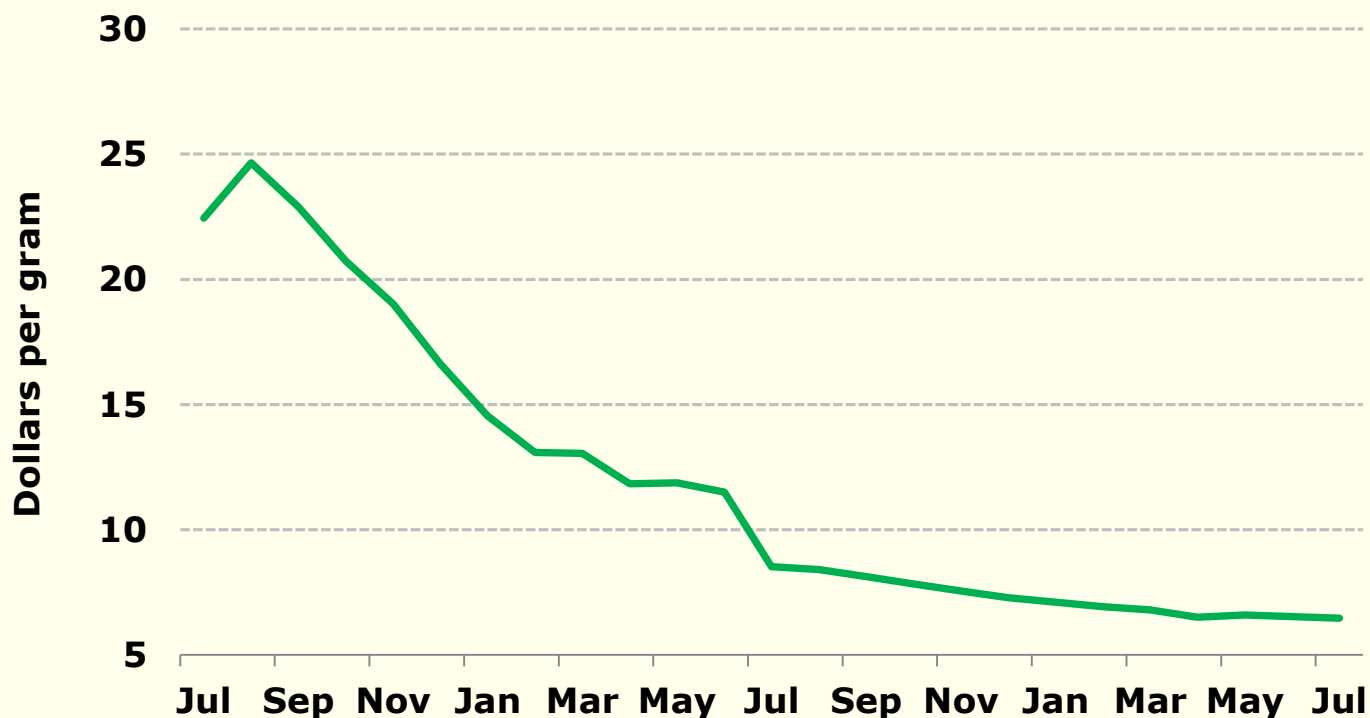
Source: ERFC; Monthly data through July 2017 preliminary

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The price of cannabis may be nearing a floor

Price of Recreational Cannabis Sold at Retail Stores





Cannabis revenue continues to be volatile

2017-19
revenue
forecasts:

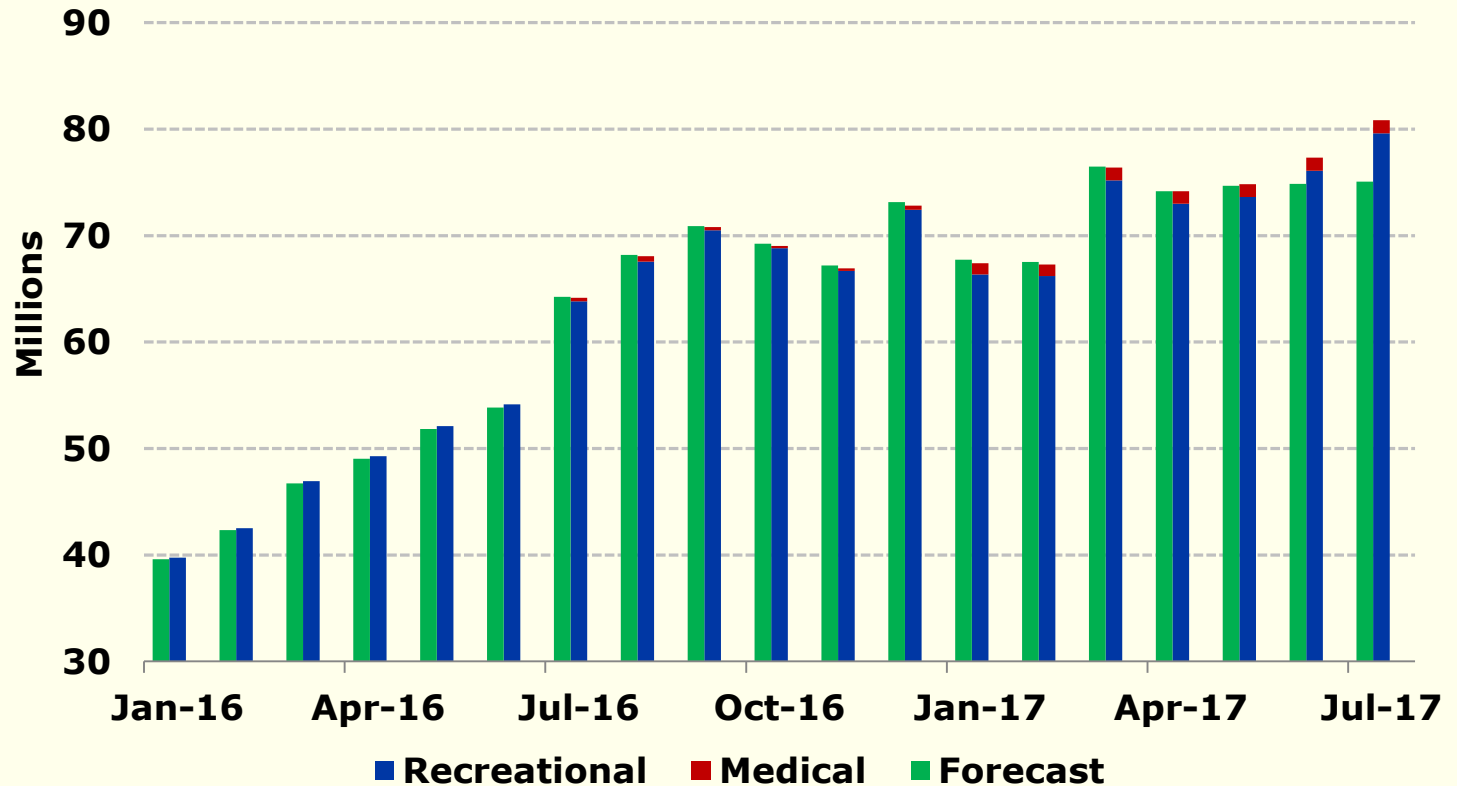
Cannabis
revenue =
\$685 million

Total state
general fund =
\$40.9 billion

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Retail Cannabis Sales



Source: LCB, ERFC; data through July 2017

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Conclusion

- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Threats to economic expansion include slow labor productivity, geopolitical risks and uncertainty regarding international trade policy
- Home prices and residential rents continue to increase in many but not all parts of Washington
- Vacancy rates for central Puget Sound Class A office space have dropped from nearly 16% in 2012 to 11.3% in 2017 Q2
- Vacancy rates remain low for central Puget Sound area industrial property



Questions



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