Washington and U.S. Economic Outlook

Presented to
Key Private Bank Northwest Nonprofit Forum

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Summary

- Our economic forecast expects continued growth in the U.S. and Washington economies but at a slightly slower pace than in November and with lower inflation
- Oil prices are lower than in November; moderate growth is expected 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

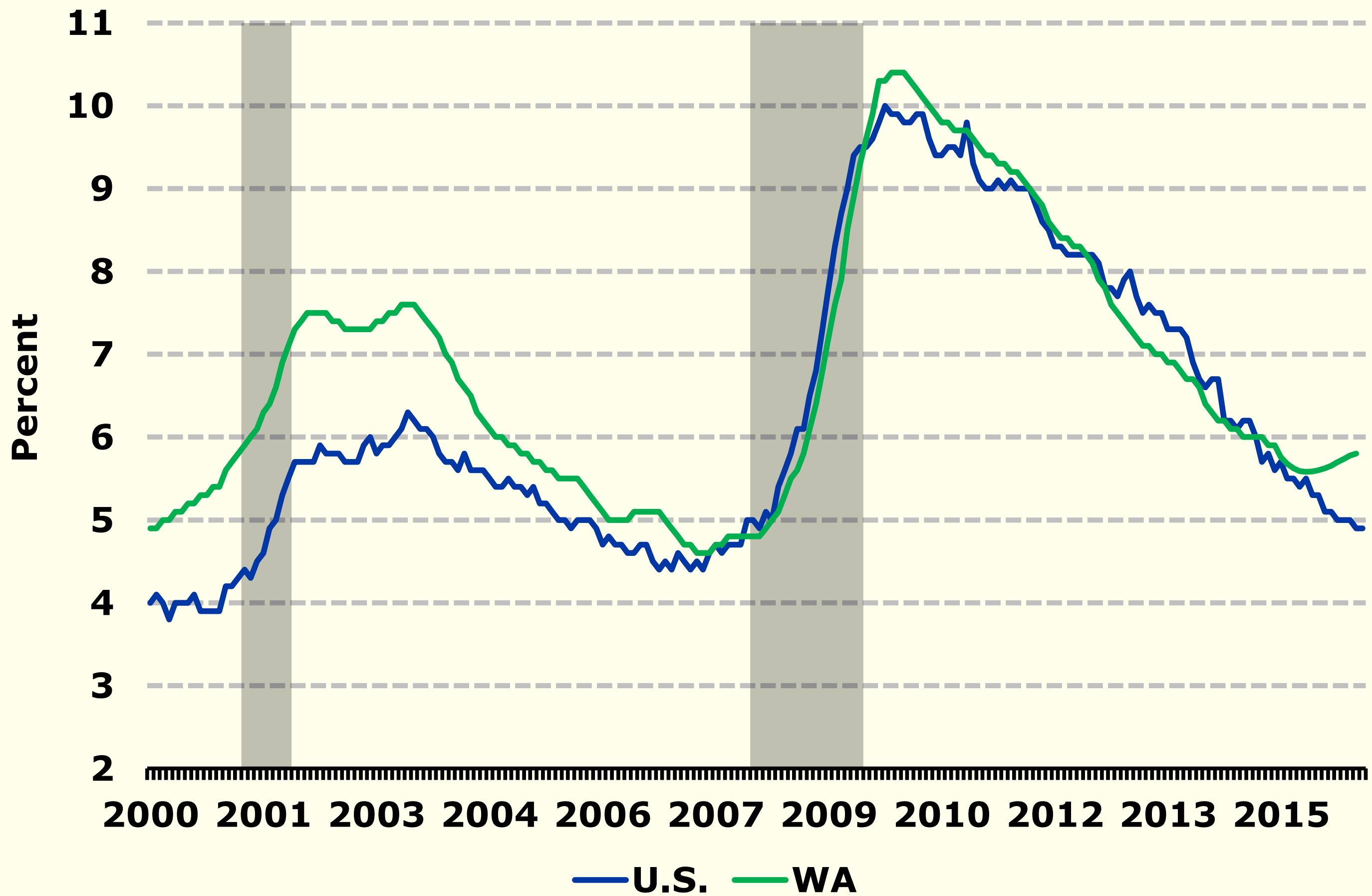
Upside:

- Declining unemployment rates
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

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 Feb. 2016; WA data through Jan. 2016

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

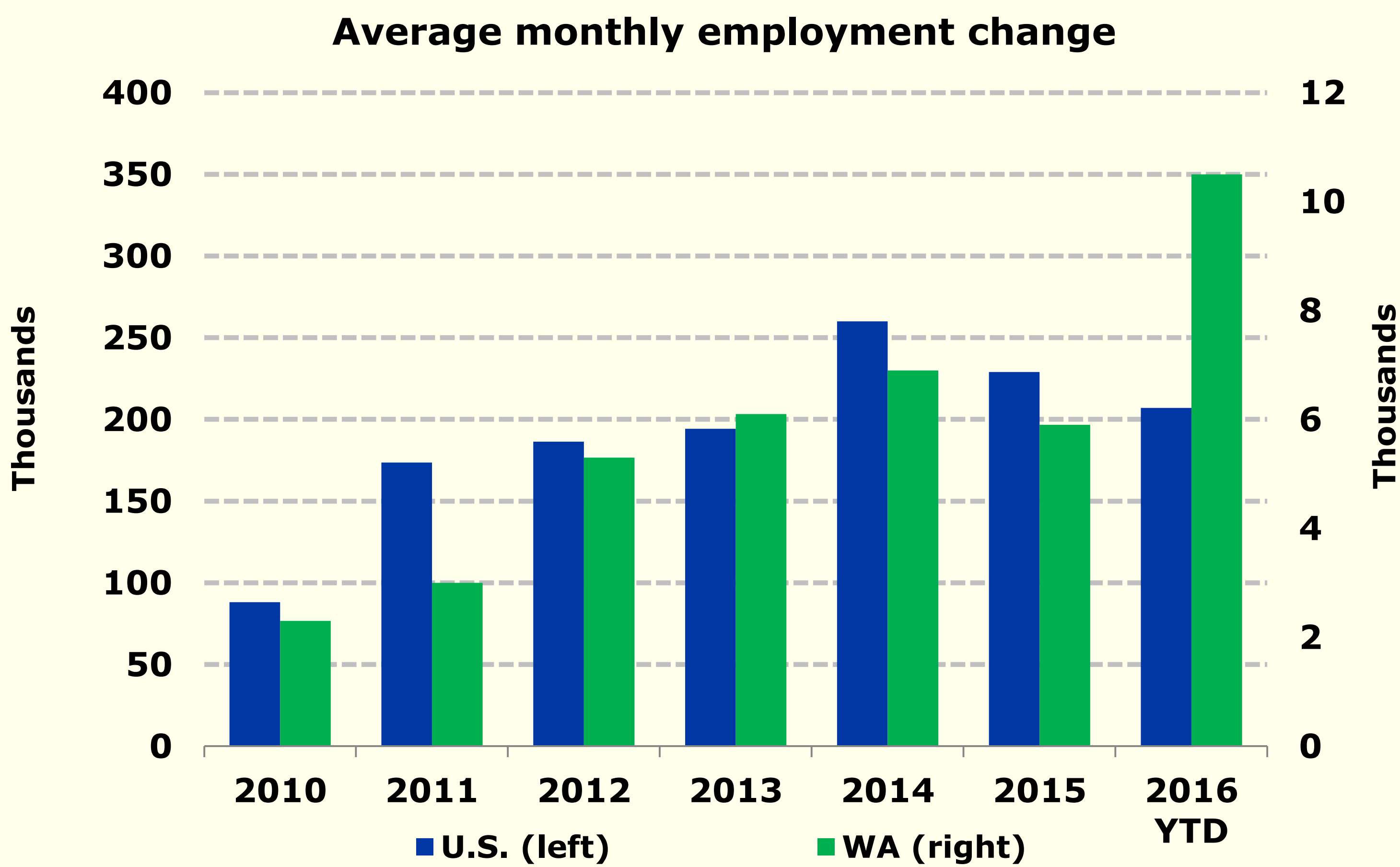
Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Feb. 2016: 28%

Source: Bureau of Labor Statistics; data through February 2016

Job creation slightly weaker in 2015 than 2014; WA strong in January 2016

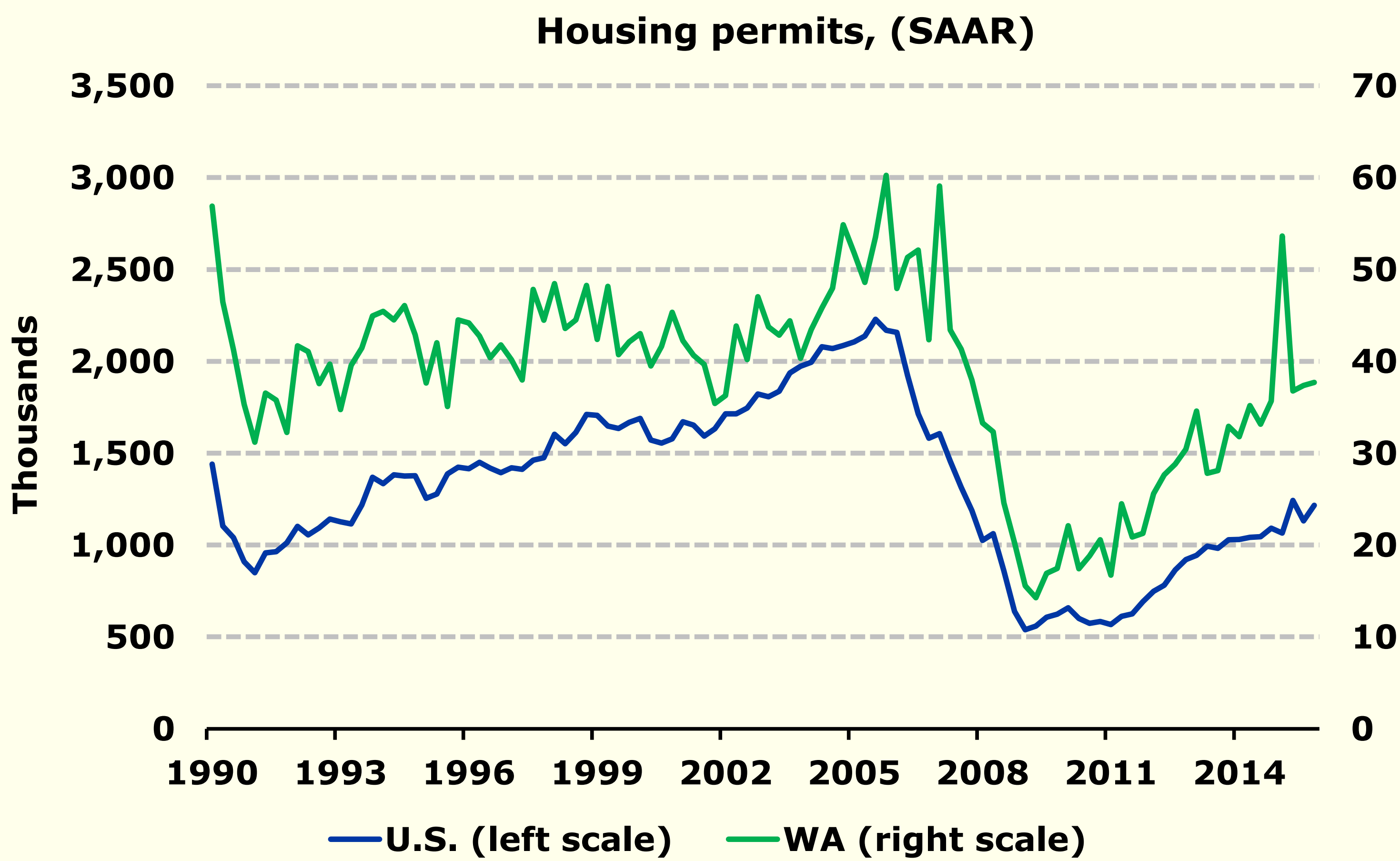


Source: Bureau of Labor Statistics, ERFC; U.S. data through Feb. 2016; WA data through Jan. 2016

Average U.S. wage growth has turned positive but slowed in January

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

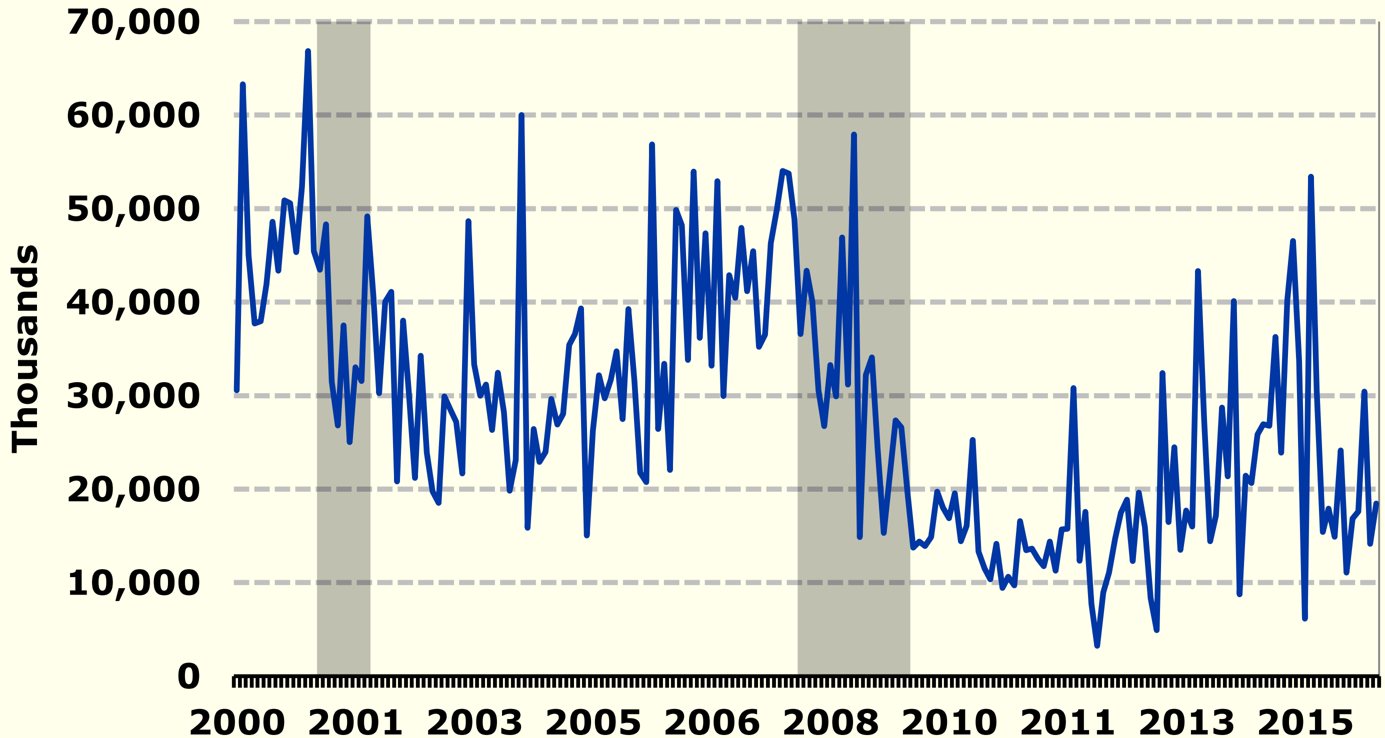
Both U.S. and WA housing permits trending up since 2011



Source: U.S. Census Bureau, data through 2015 Q4

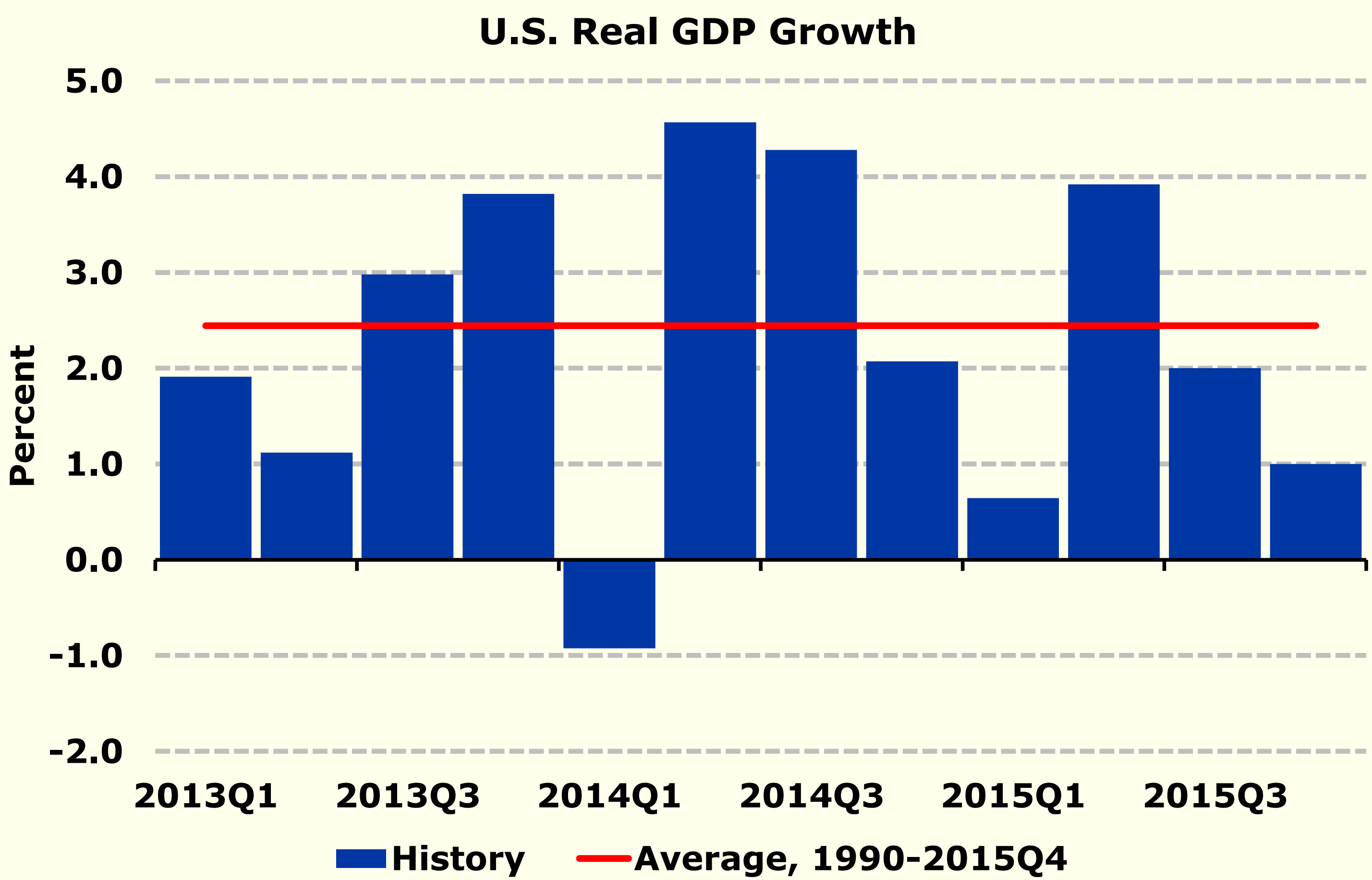
Nonresidential construction activity appears to be slowing

Square feet under contract, WA nonresidential projects (SAAR)



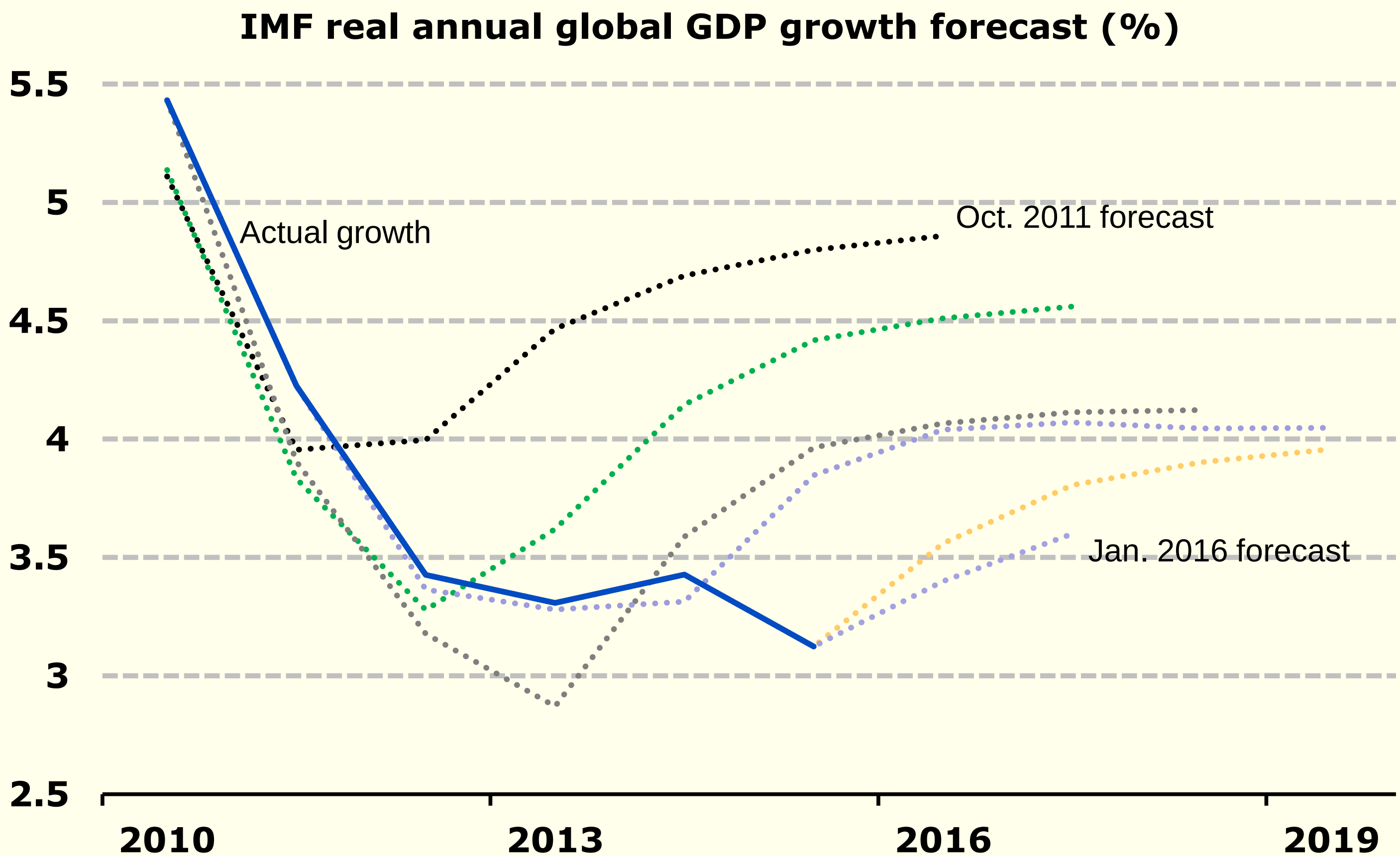
Source: Dodge Data & Analytics; data through Jan. 2016

U.S. economic growth weakened in the third and fourth quarters



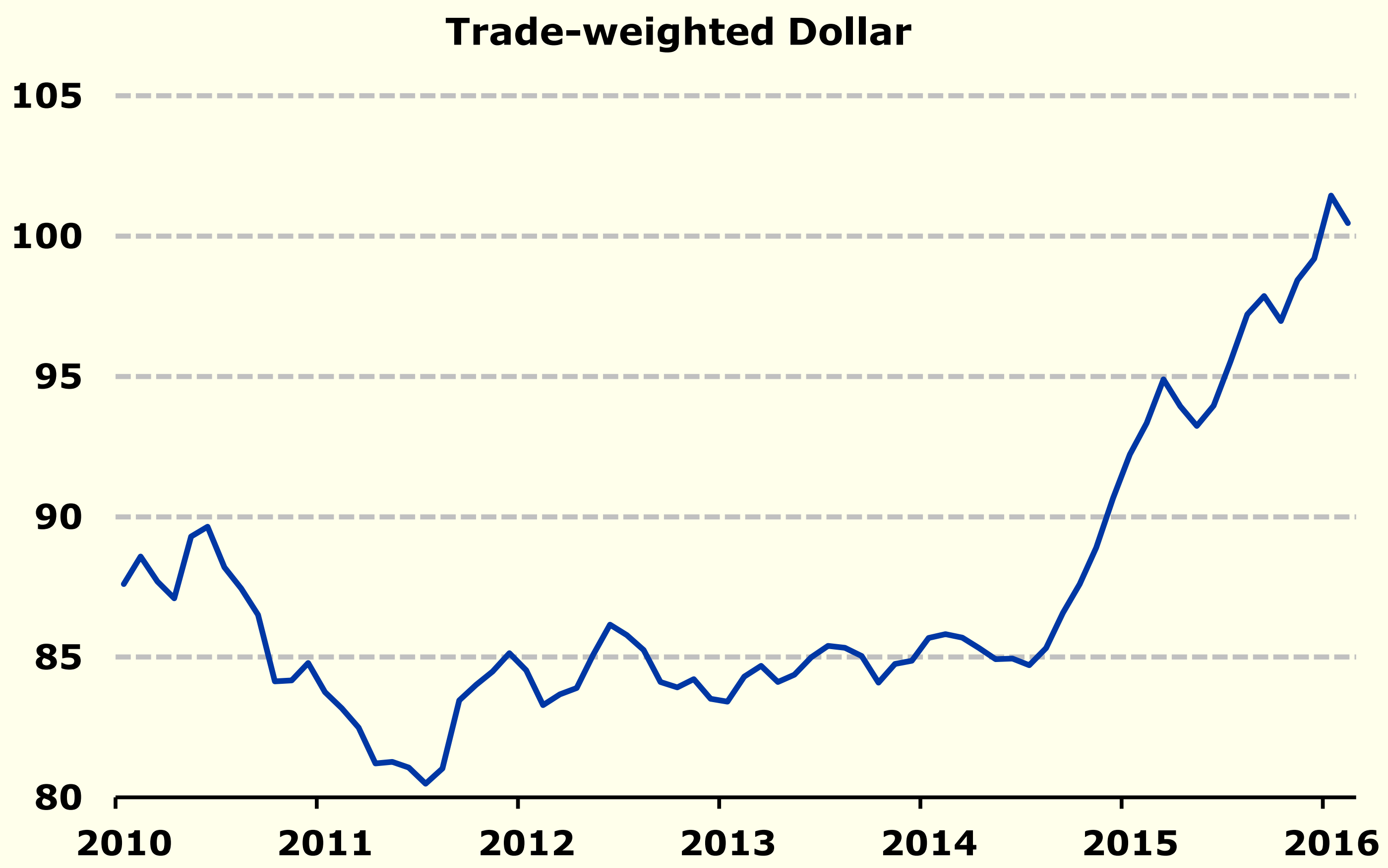
Source: U.S. Dept. of Commerce, BEA, data through 2015Q4

Global GDP forecasts have been consistently revised down



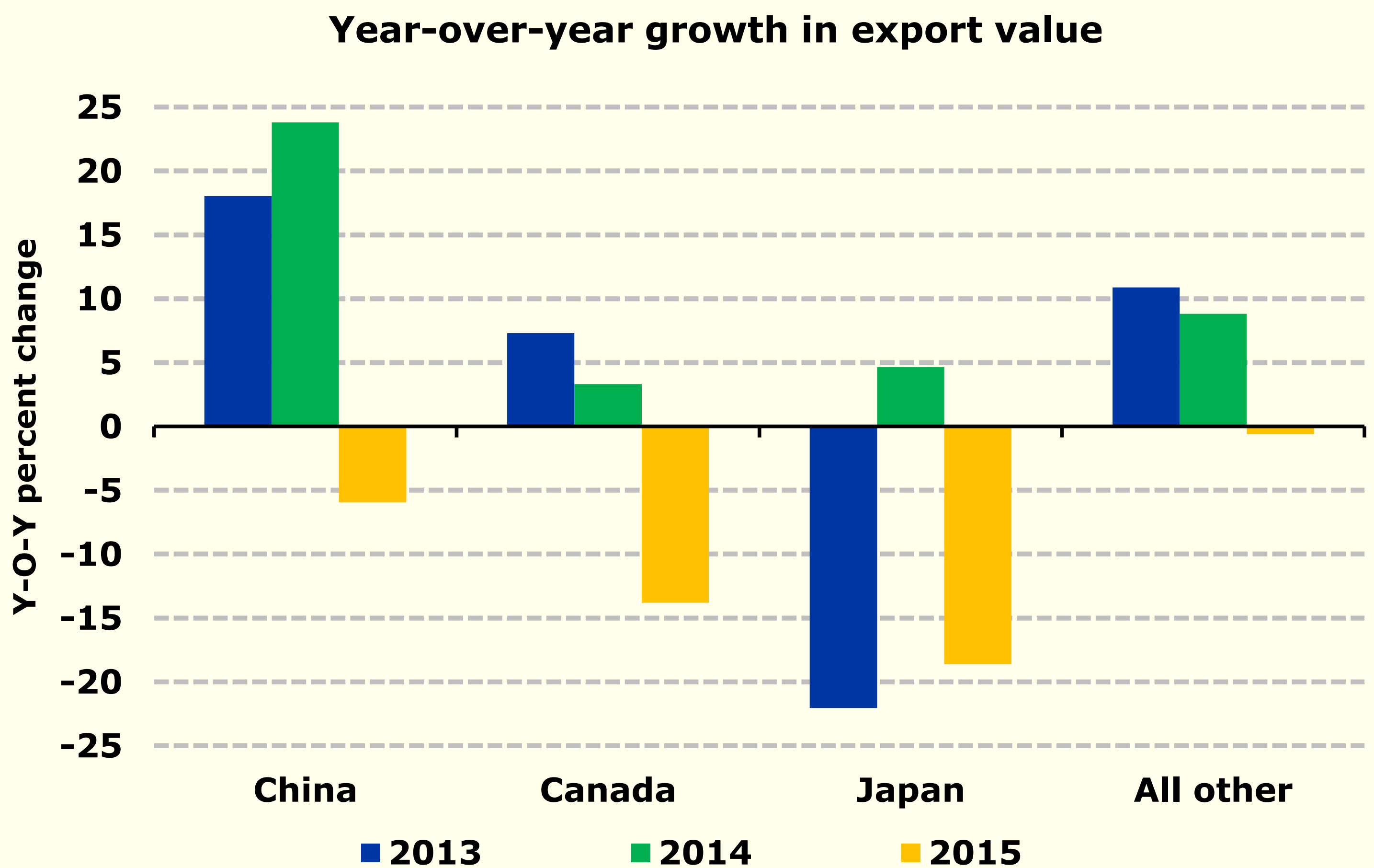
Source: International Monetary Fund, World Economic Outlook; historic data through 2015

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



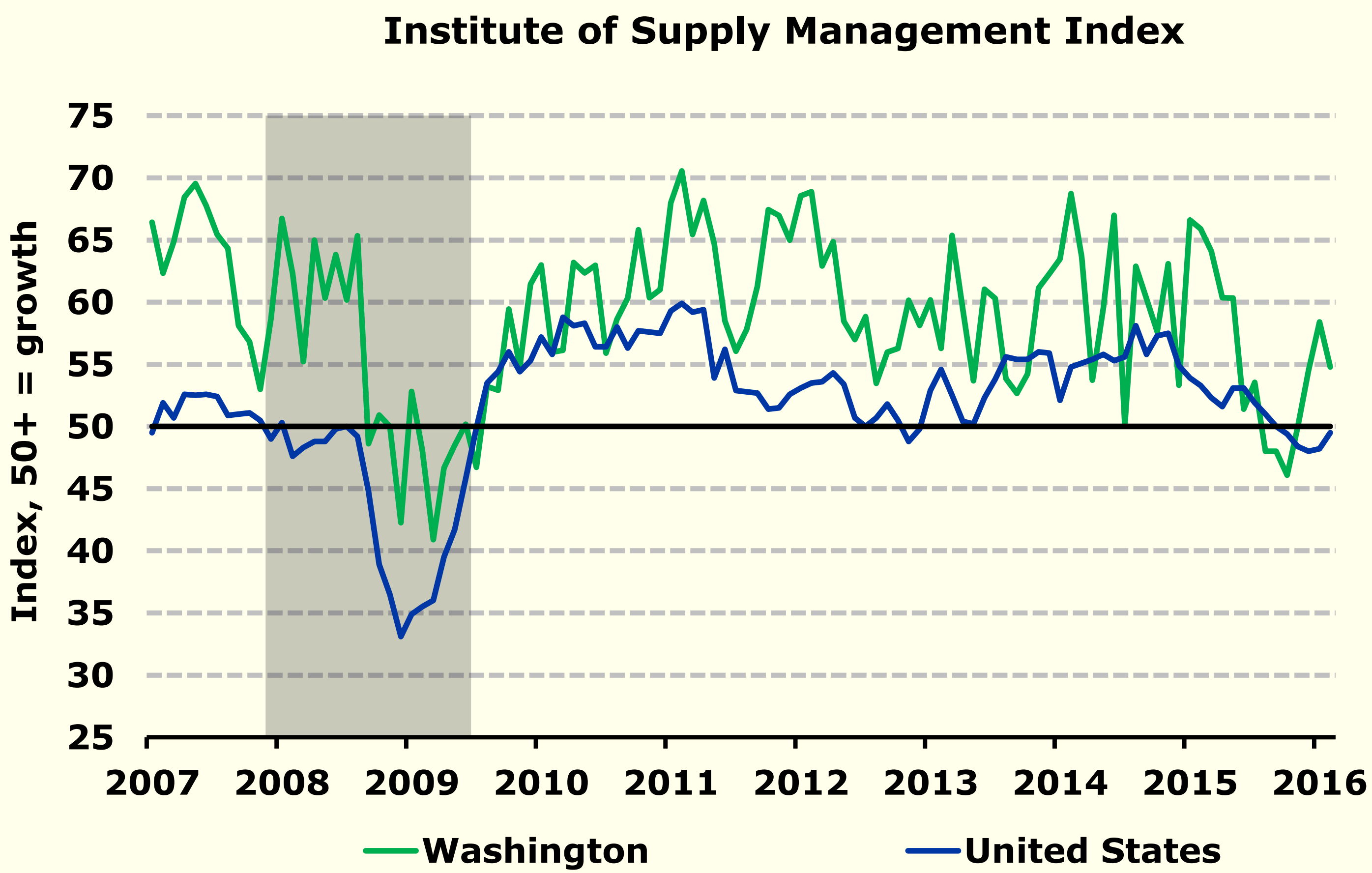
Source: Federal Reserve; data through February 2016

WA exports in 2015 declined for the first time since 2009



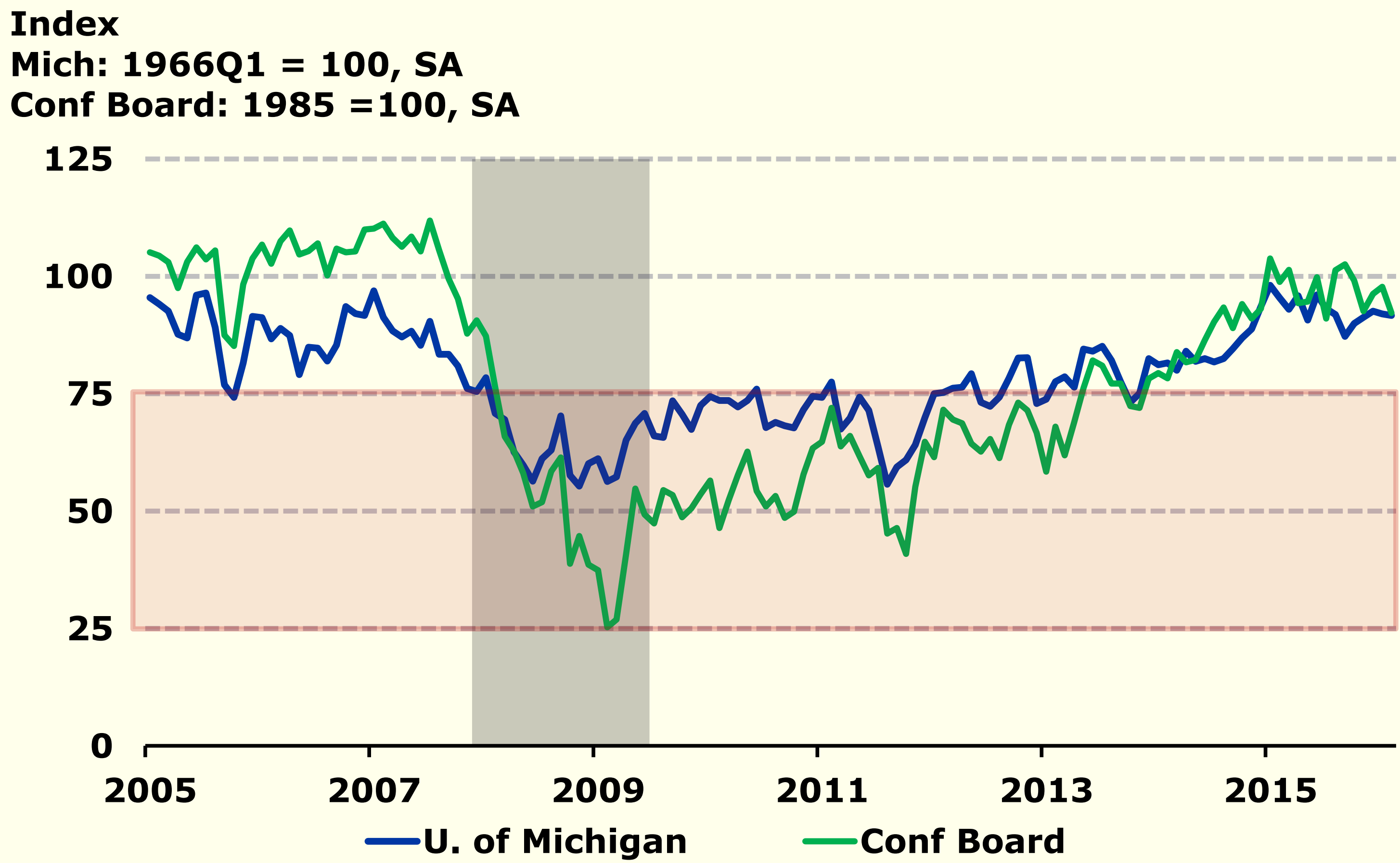
Source: WISERTrade; data through December 2015

Manufacturing: slowing nationally, improving in Washington



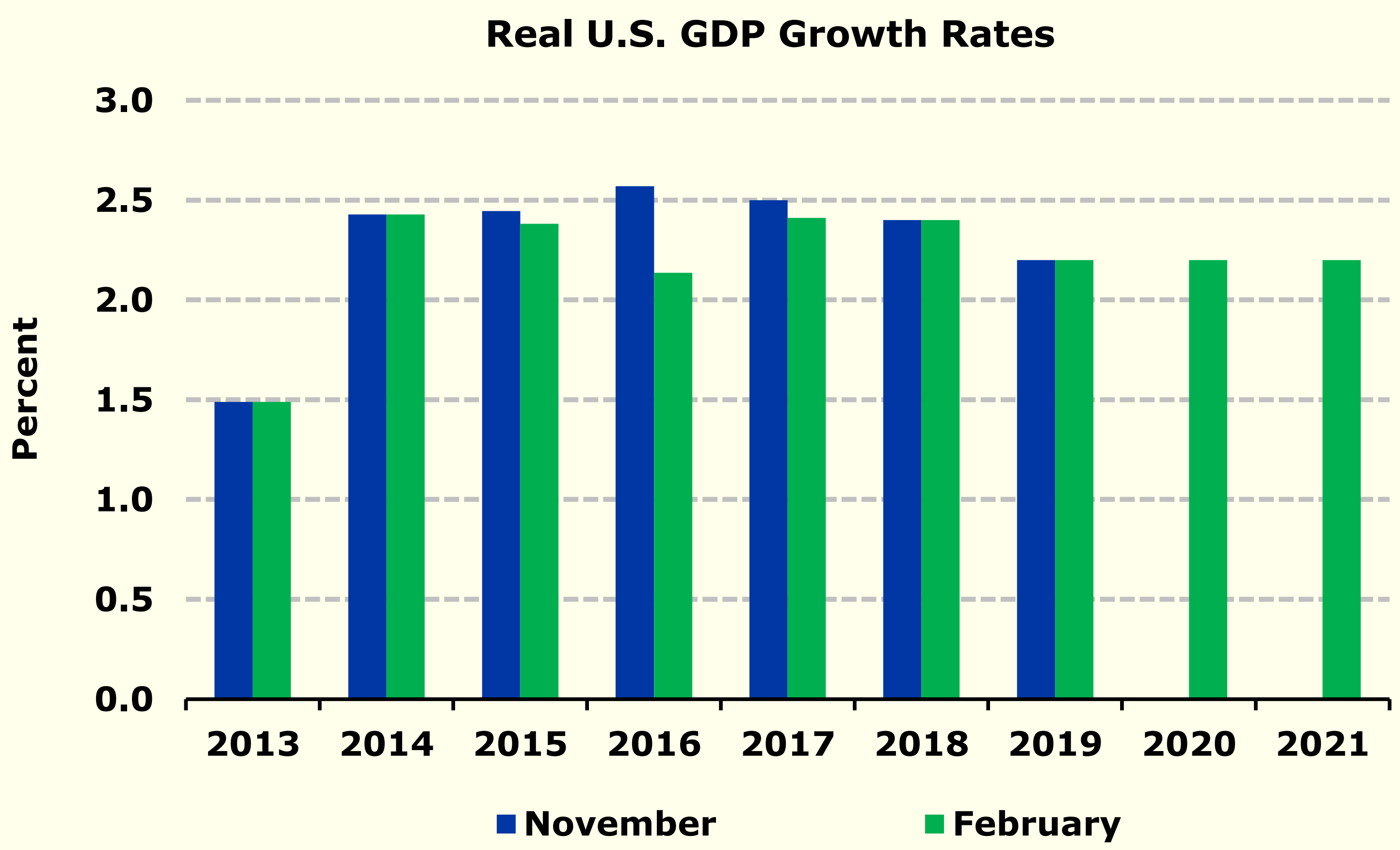
Source: ISM; data through Feb. 2016

Conference Board, U. of Michigan indexes both down in February



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

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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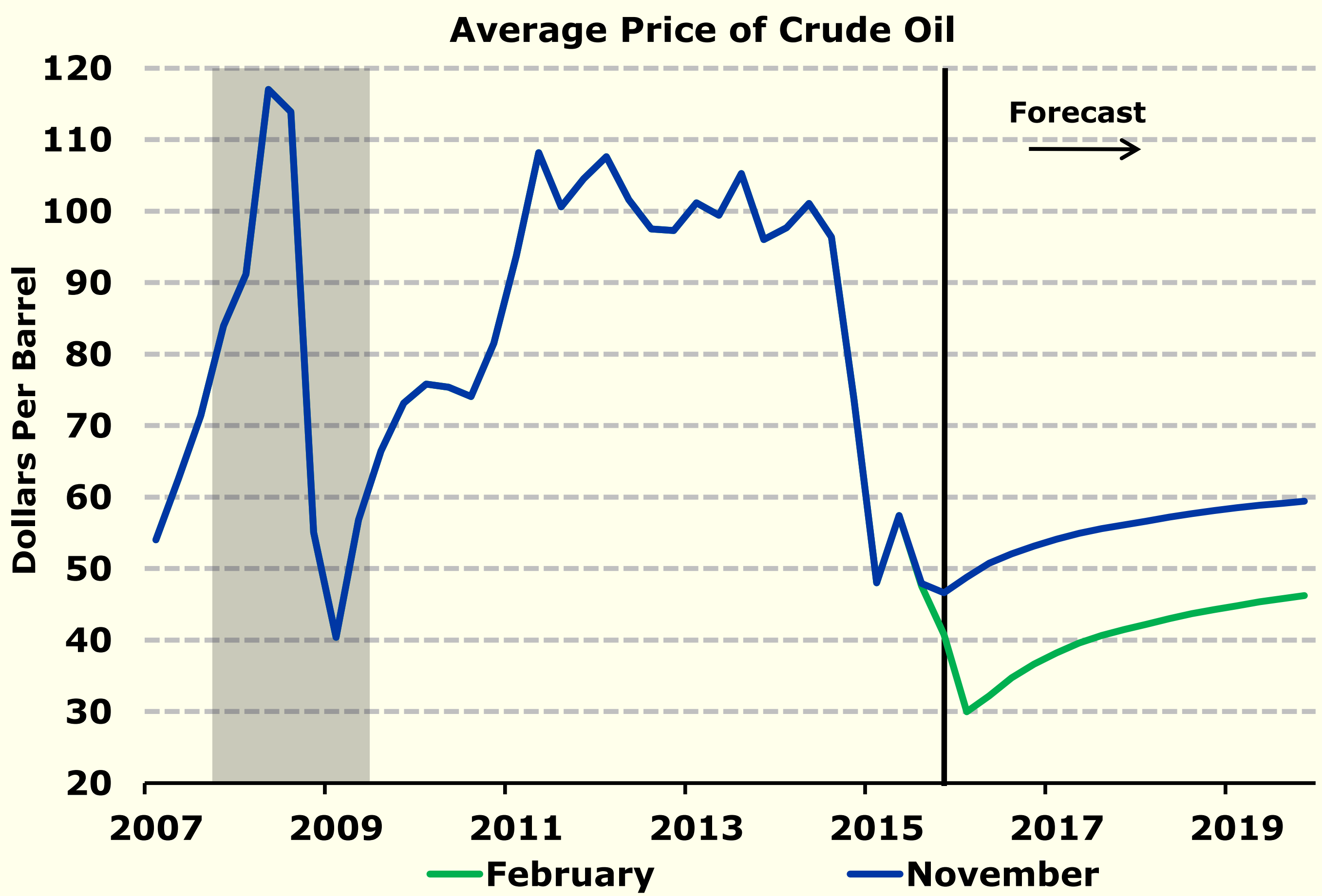
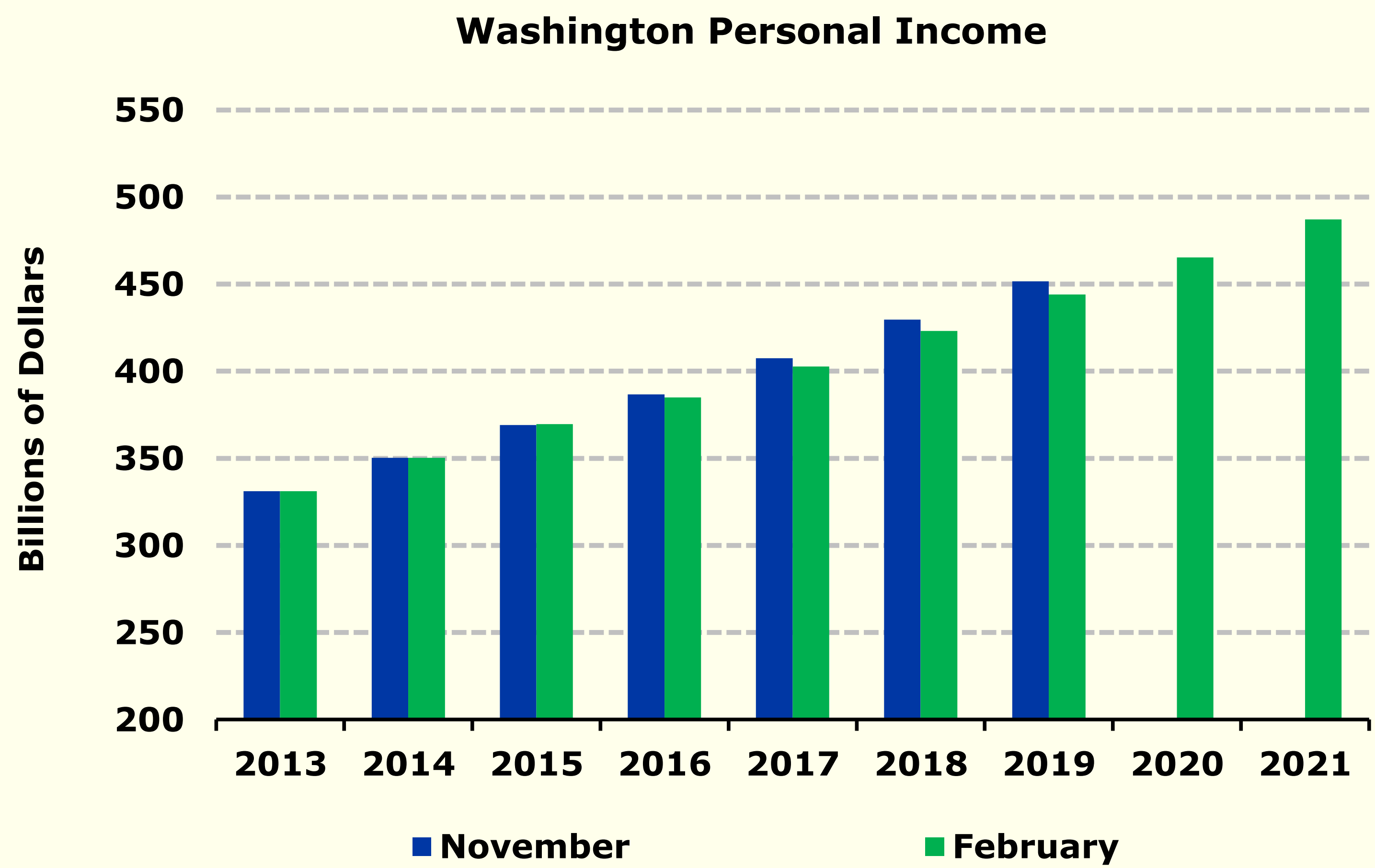
Oil prices have fallen since the November forecast



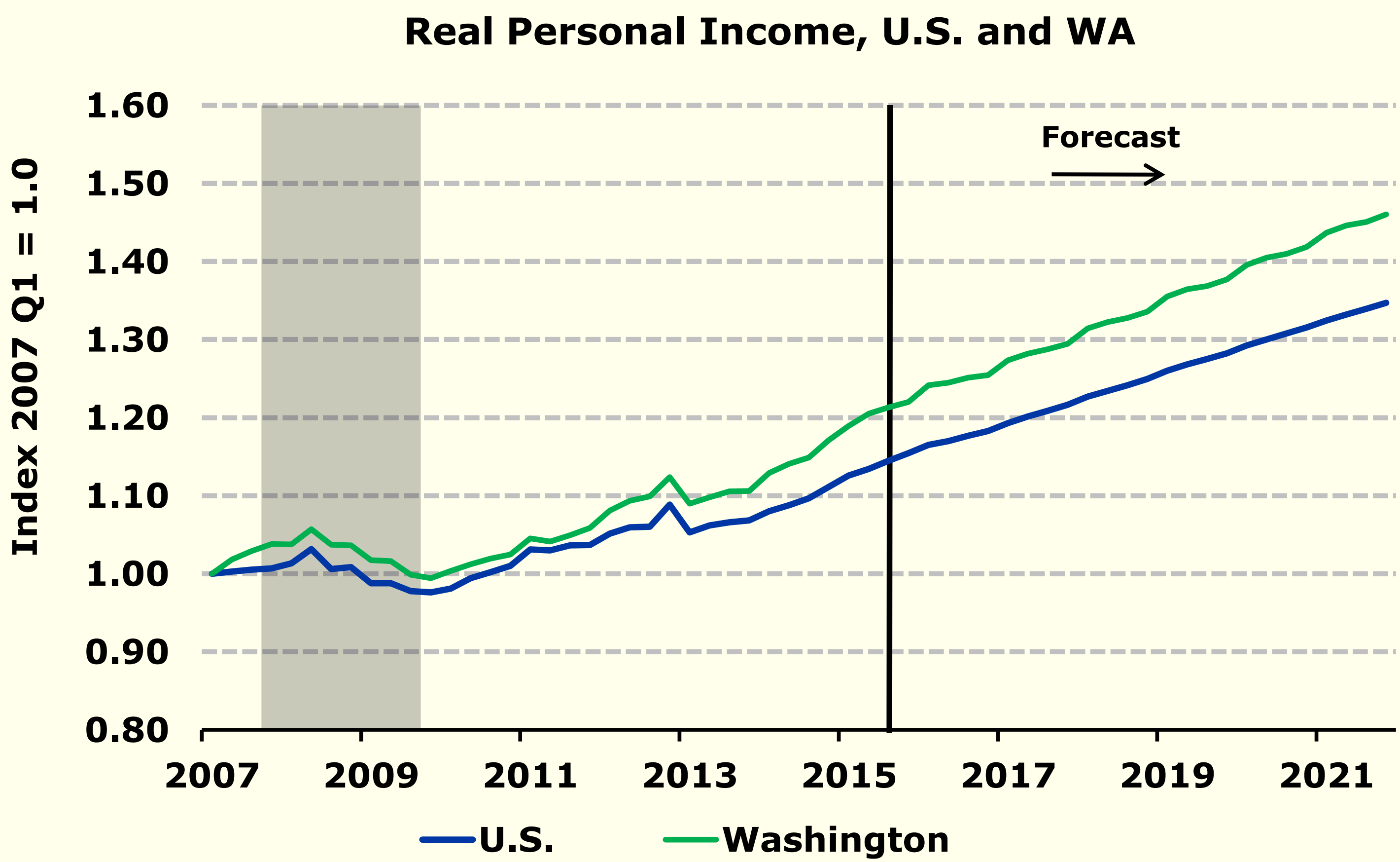
Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

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



Source: ERFC February 2016 forecast; historical data through 2015

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



Source: ERFC February 2016 forecast; historical data through 2015Q3

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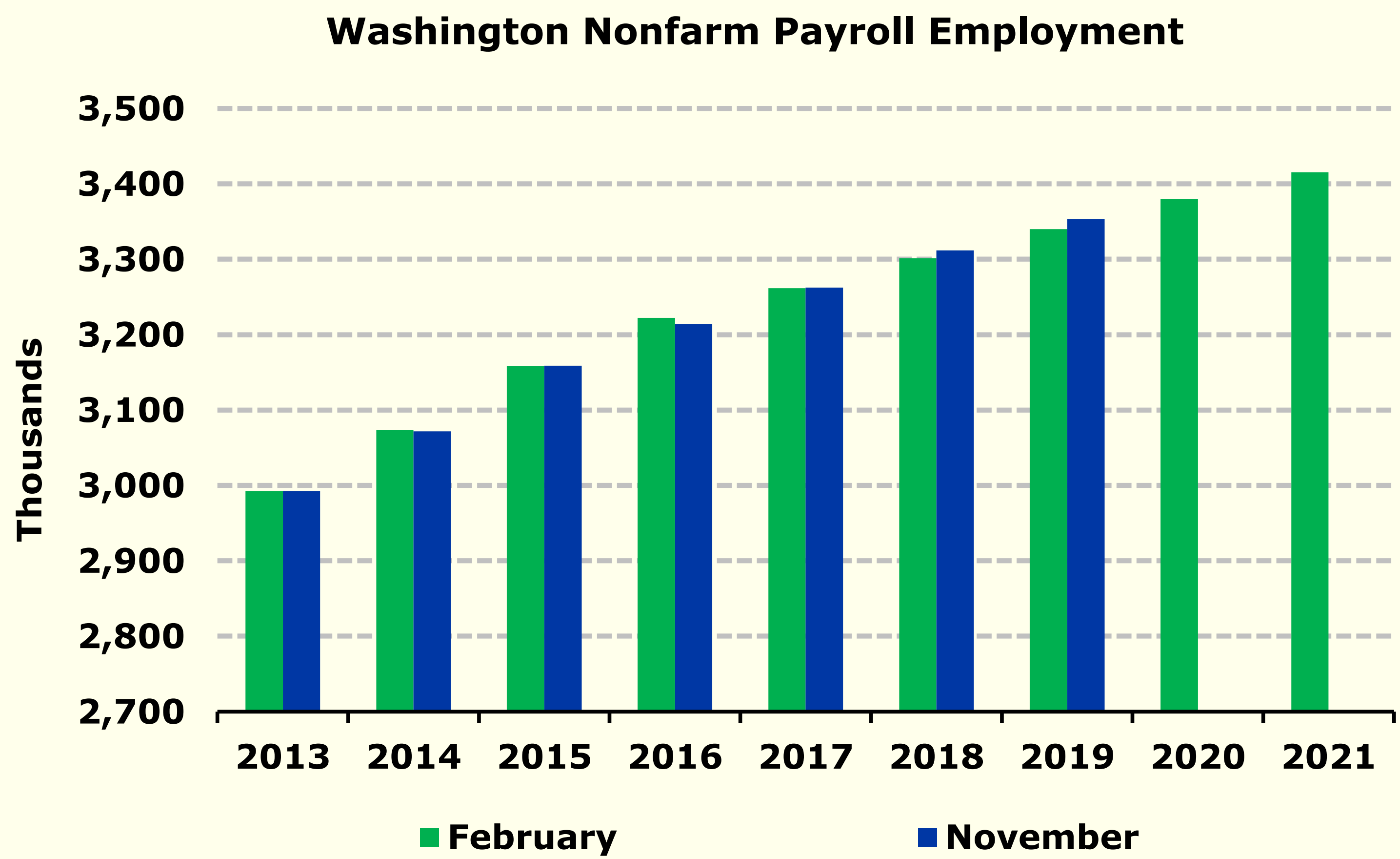
Washington employment forecast revised down slightly in 2017 - 2019



Source: ERFC February 2016 forecast; historical data through 2015

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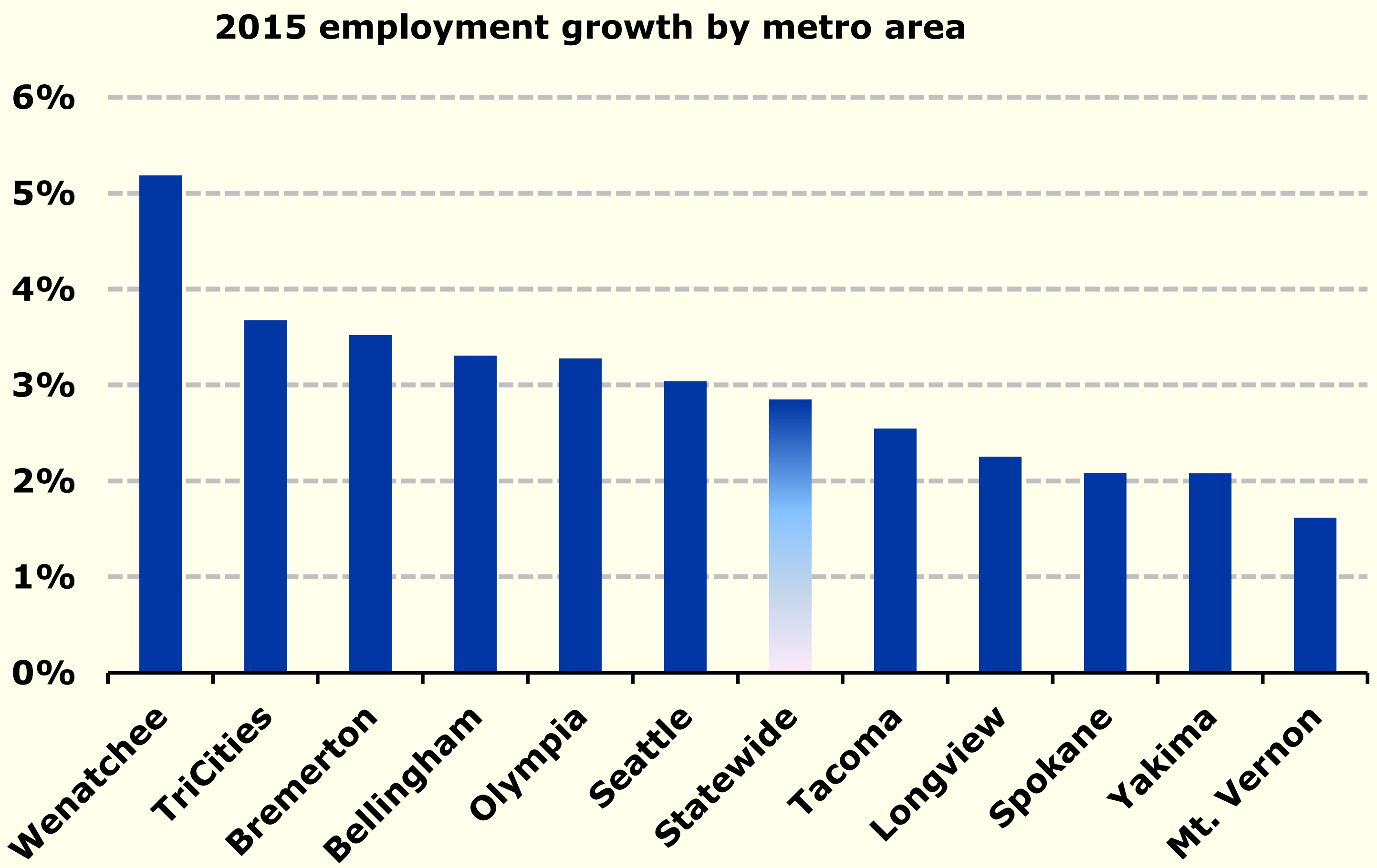
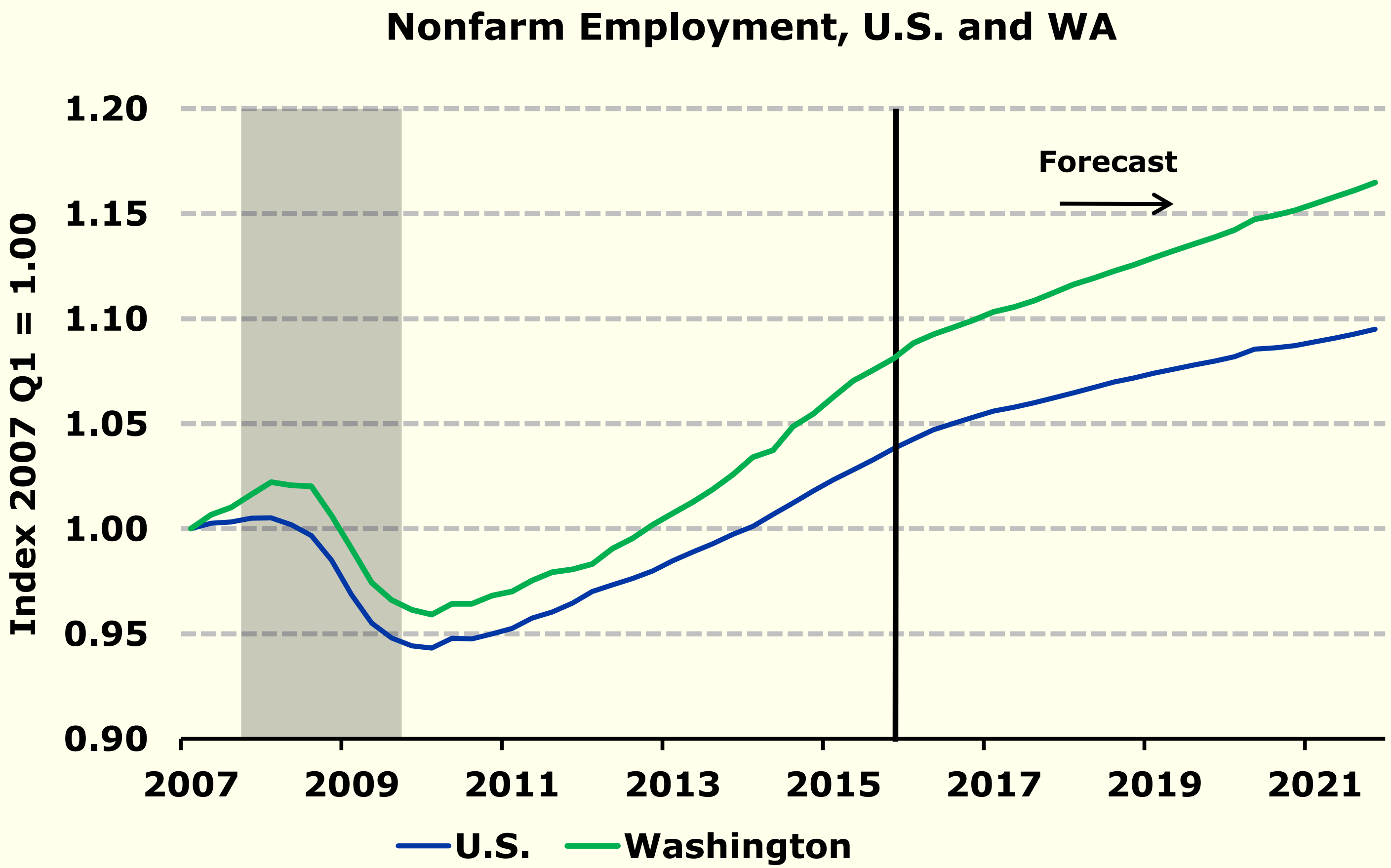
Employment growth varied widely across state metro areas



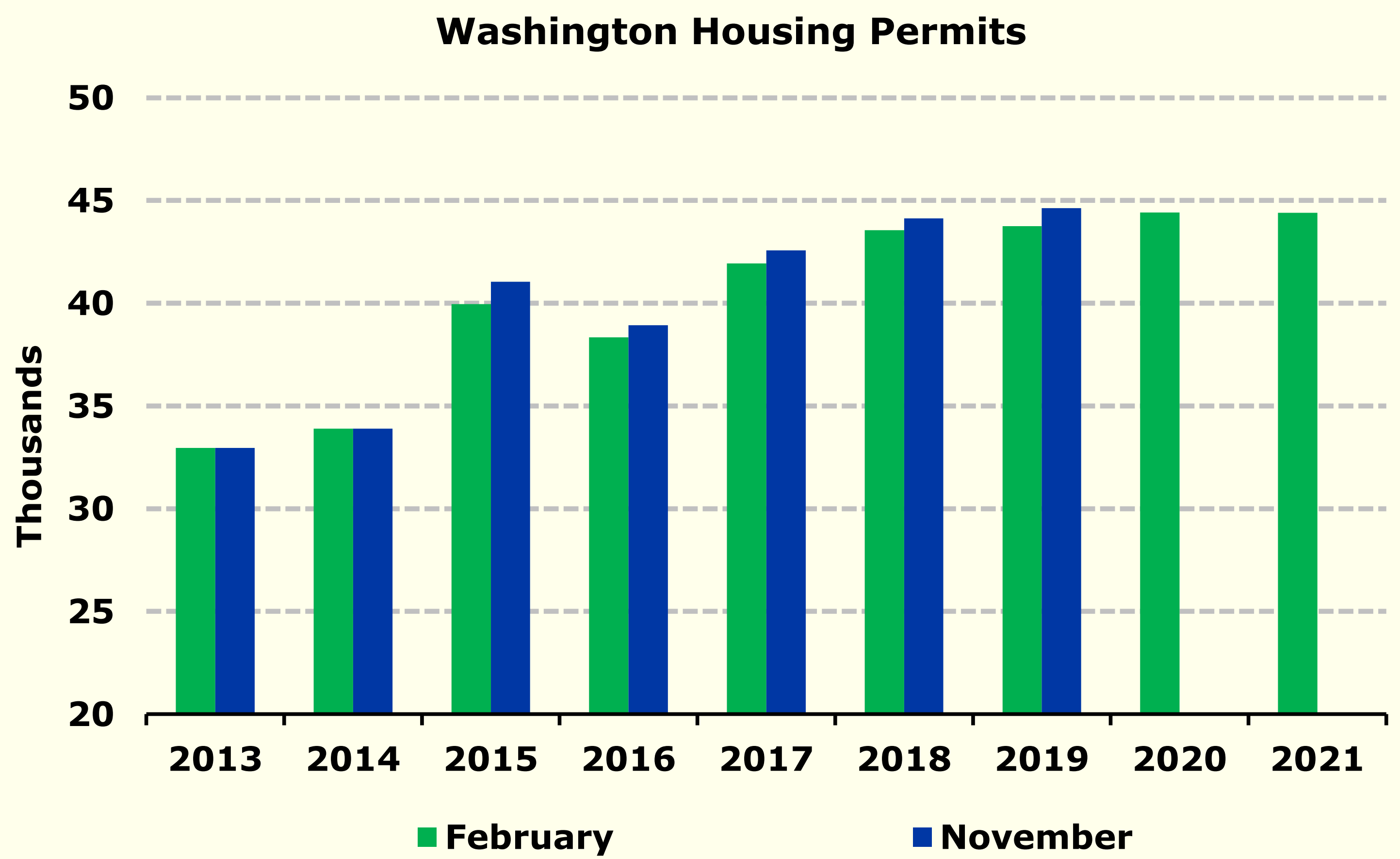
Source: WA State Employment Security Department

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



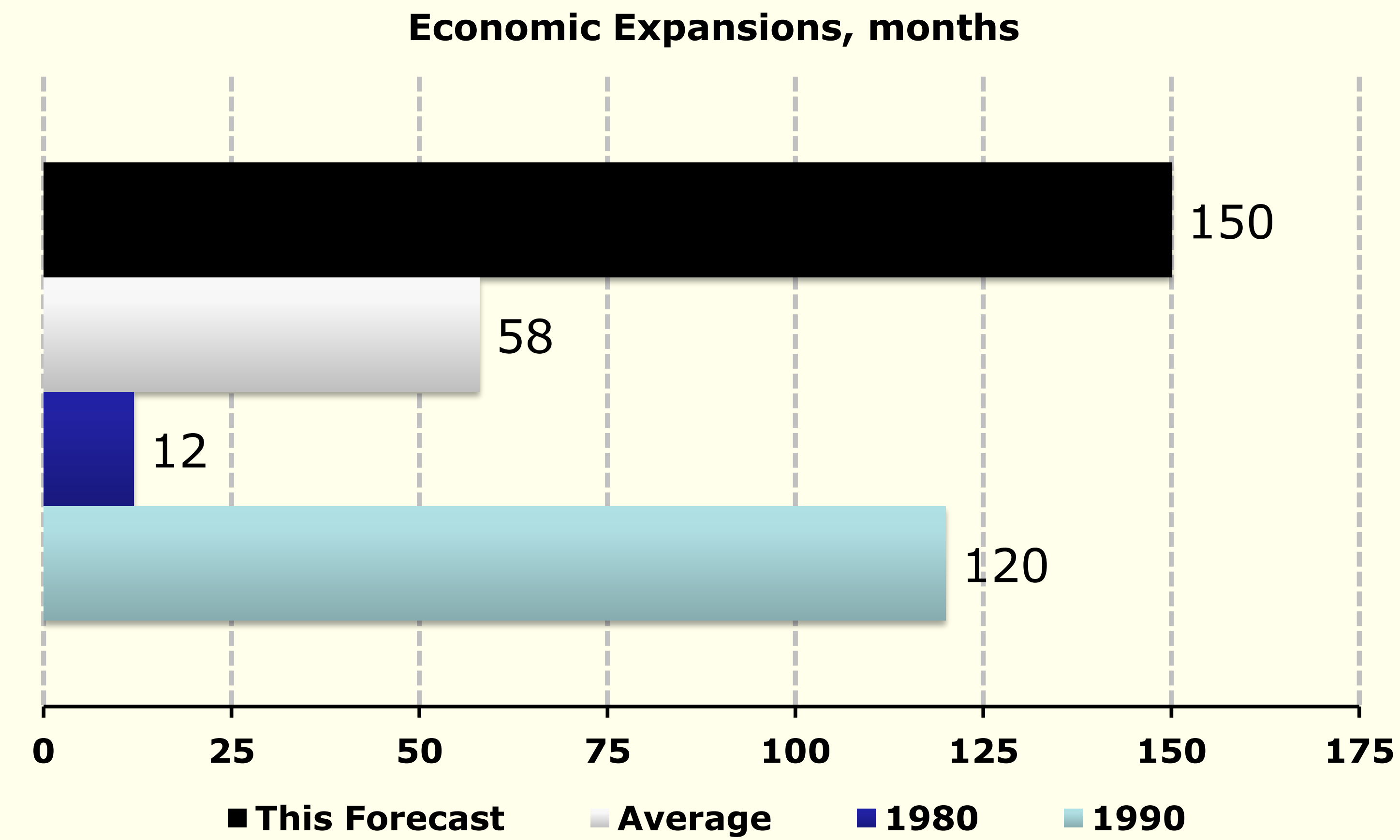
Source: ERFC February 2016 forecast; historical data through 2015Q4

Washington housing permits forecast is slightly lower than in November



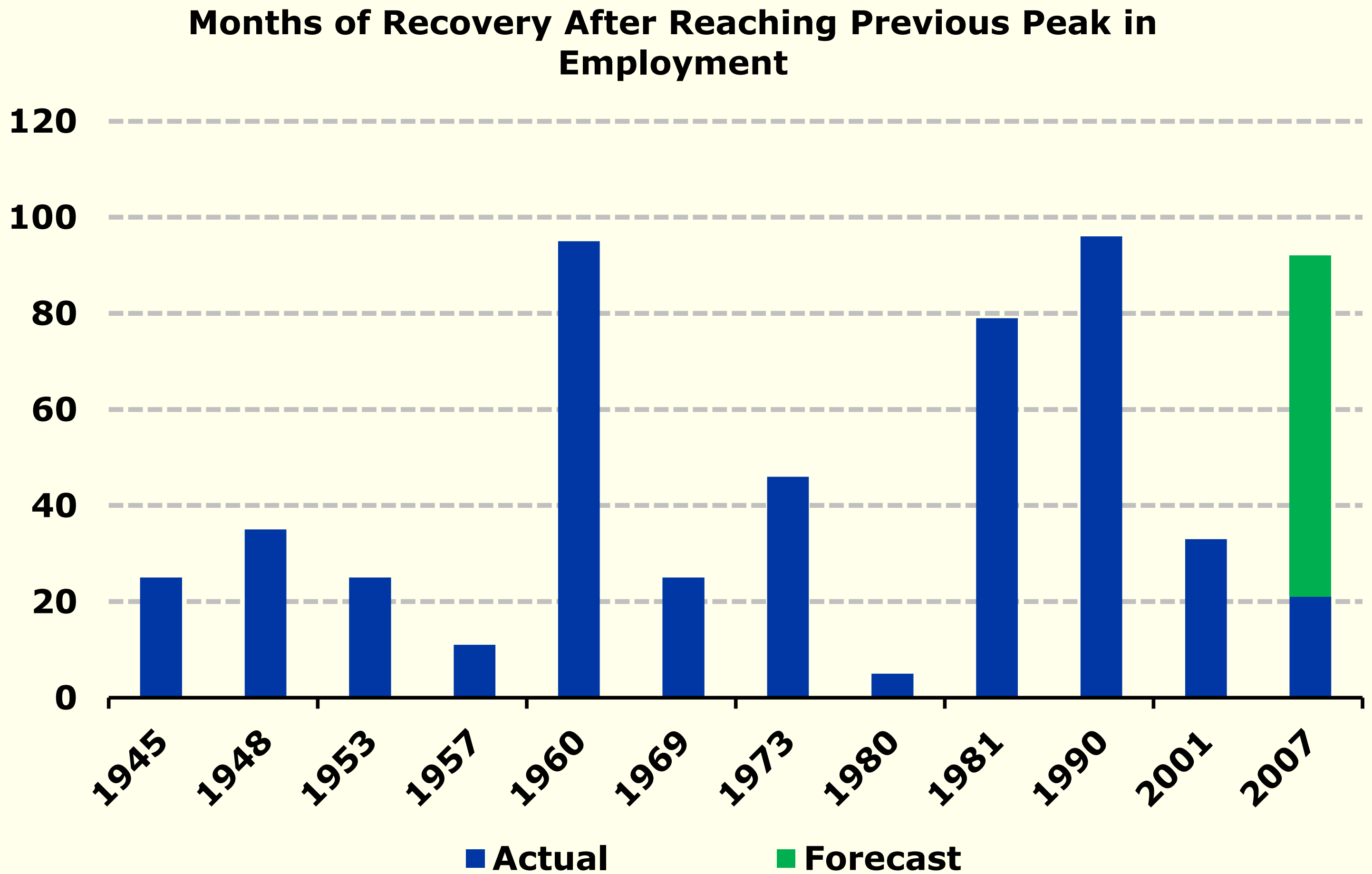
Source: ERFC February 2016 forecast; historical data through 2014

U.S. Economic Expansions since 1945



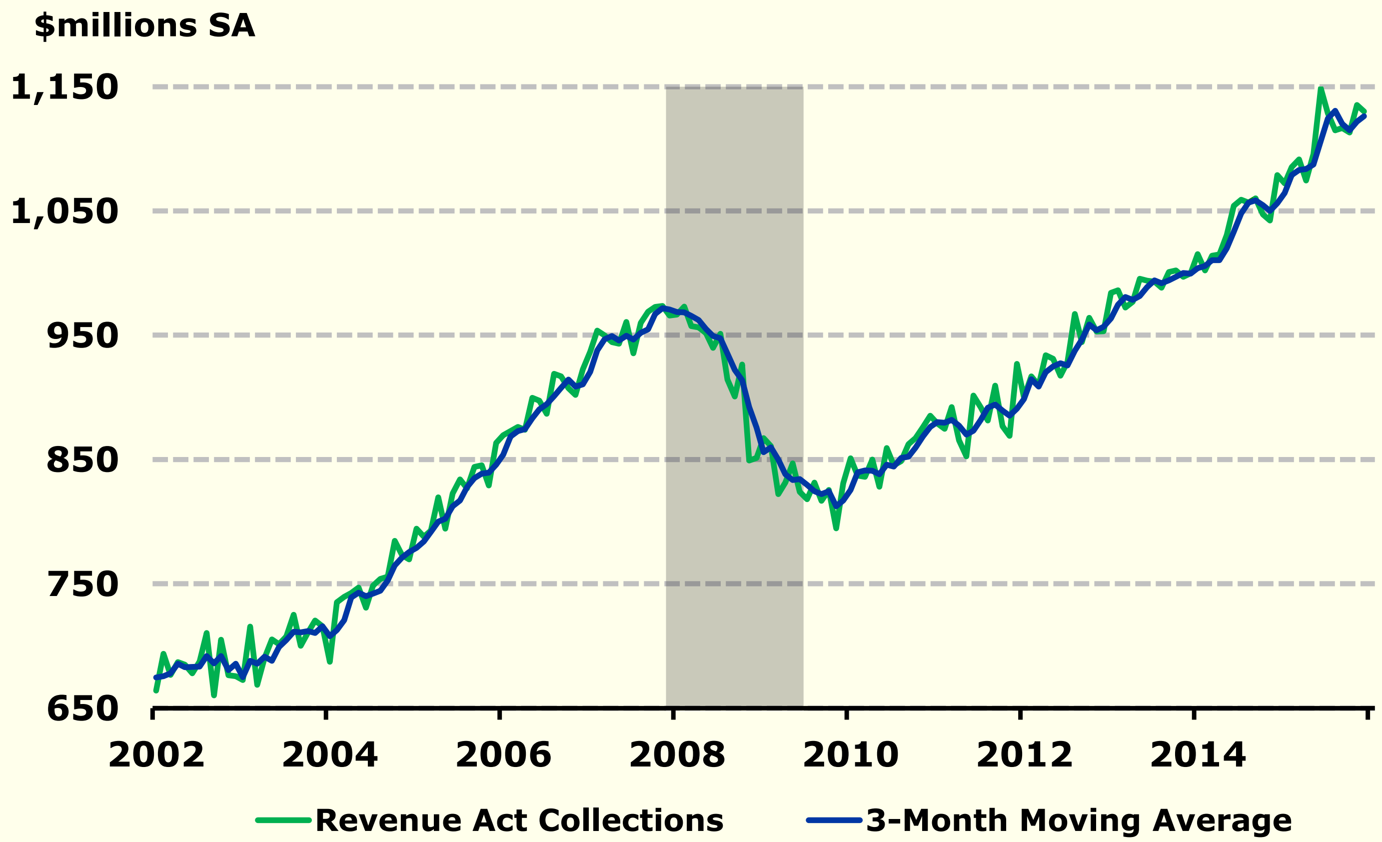
Sources: NBER, ERFC February 2016 Preliminary forecast

Initial slow recovery points to extended expansion



Sources: NBER, ERFC February 2016 forecast

Revenue Act collections close to previous trend after spike in August collections



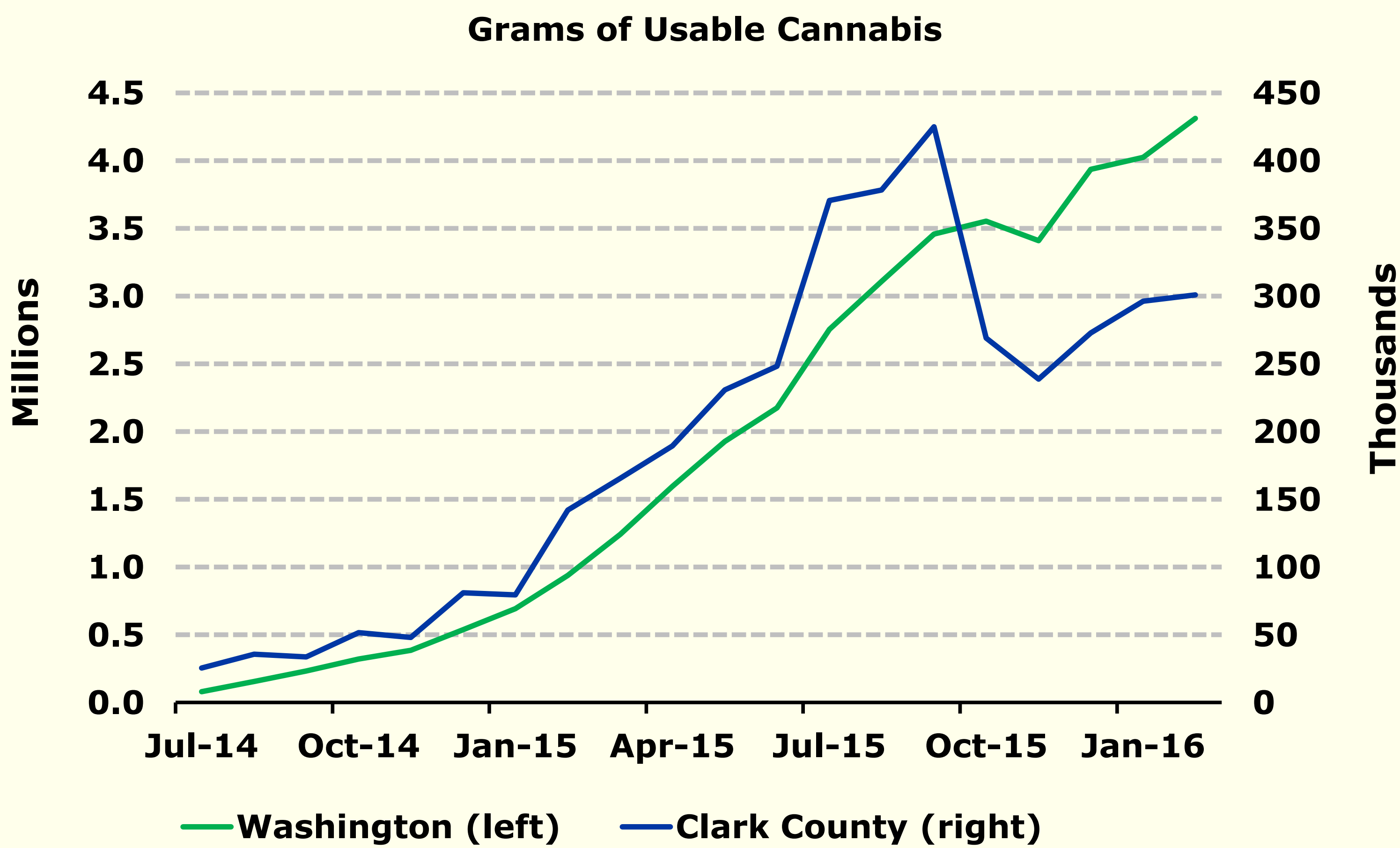
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated December 2015 activity

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

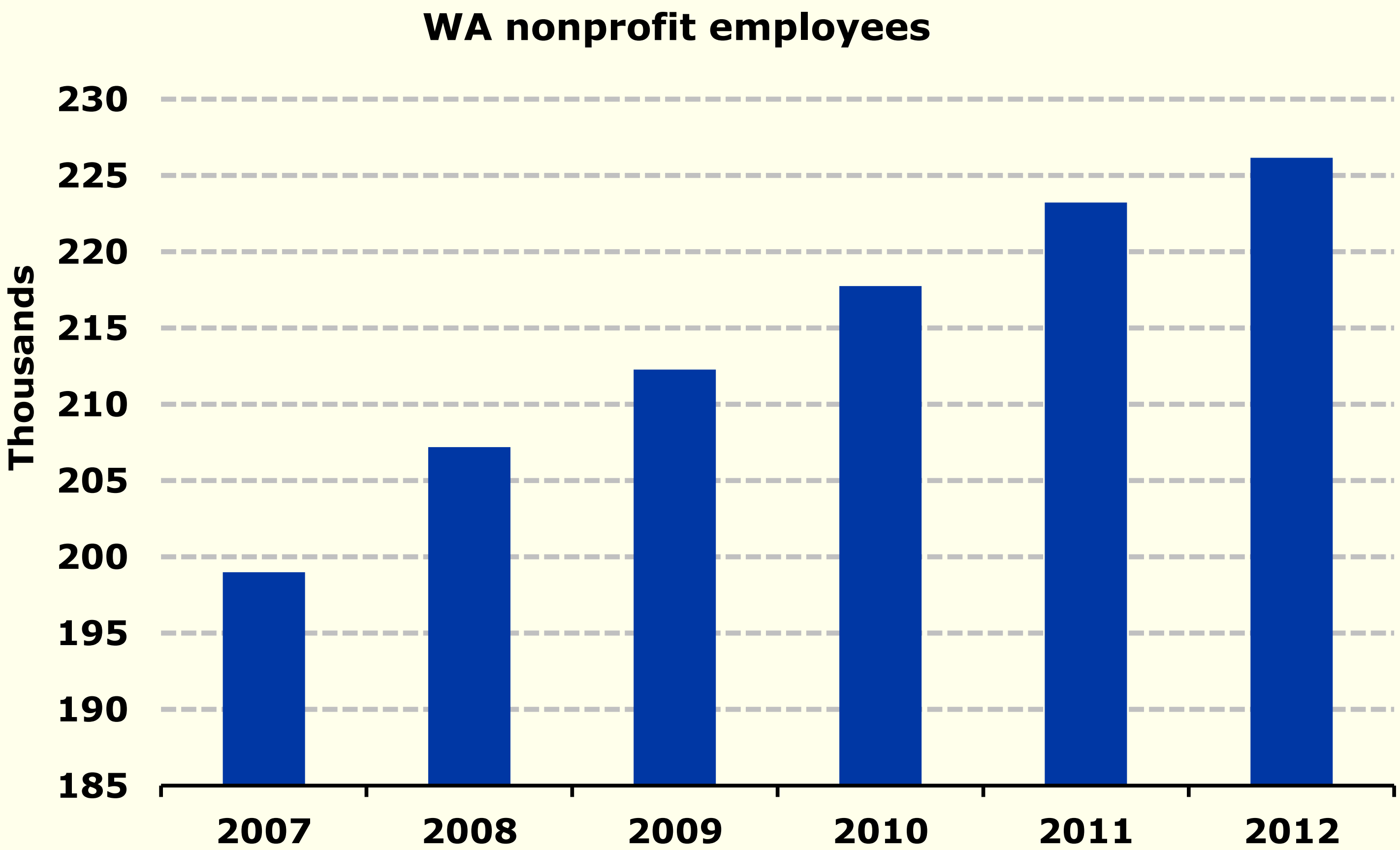


Source: WA LCB; data through February 2016

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

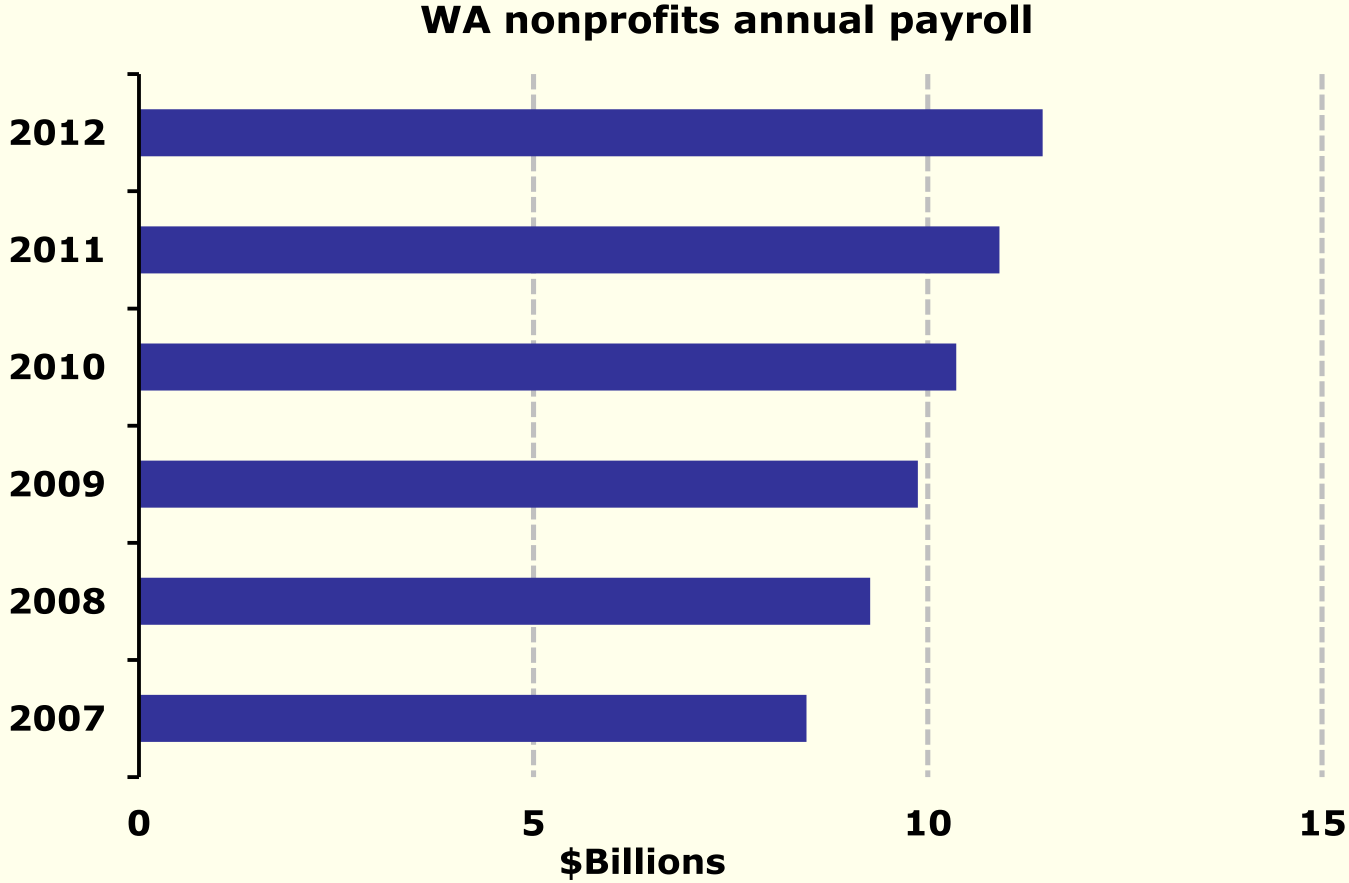
Nonprofit employment increased from 6.7% of WA nonfarm jobs in 2007 to 7.7% in 2012



Source: U.S. Bureau of Labor Statistics, Research Data on Nonprofit Sector; ERFC

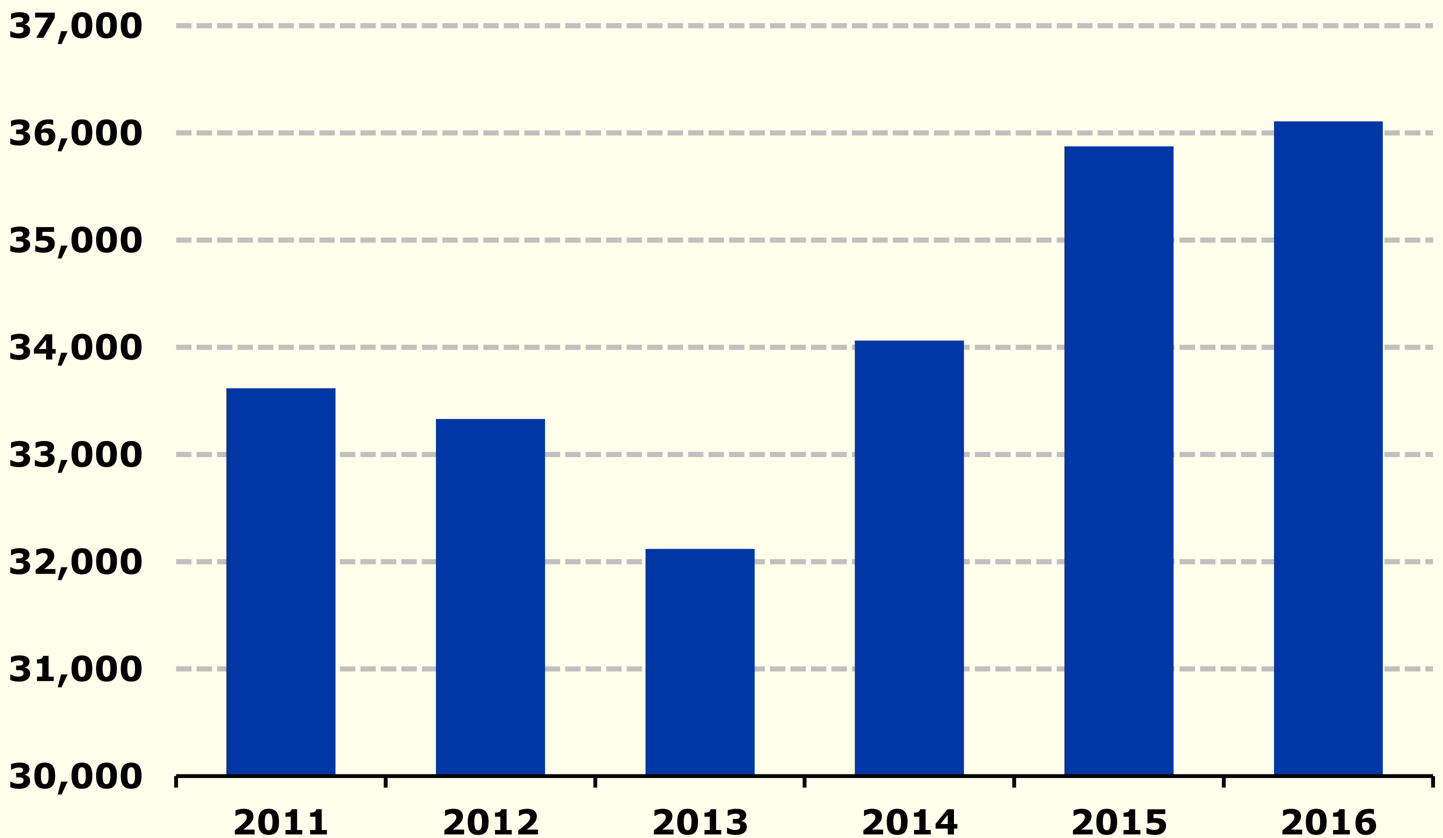
Nonprofit payrolls increased from 7.3% of WA private nonfarm wages in 2007 to 8.8% in 2012

In 2012, the average WA nonprofit employee received $50,661 in wages



Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis

WA has over 36,000 nonprofit organizations registered with the Internal Revenue Service



Source: IRS; Urban Institute National Center for Charitable Statistics; data through Feb. 2016

Questions

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