

U.S. and Washington Economic Forecast Update

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Bellevue, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



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 have declined dramatically; 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:

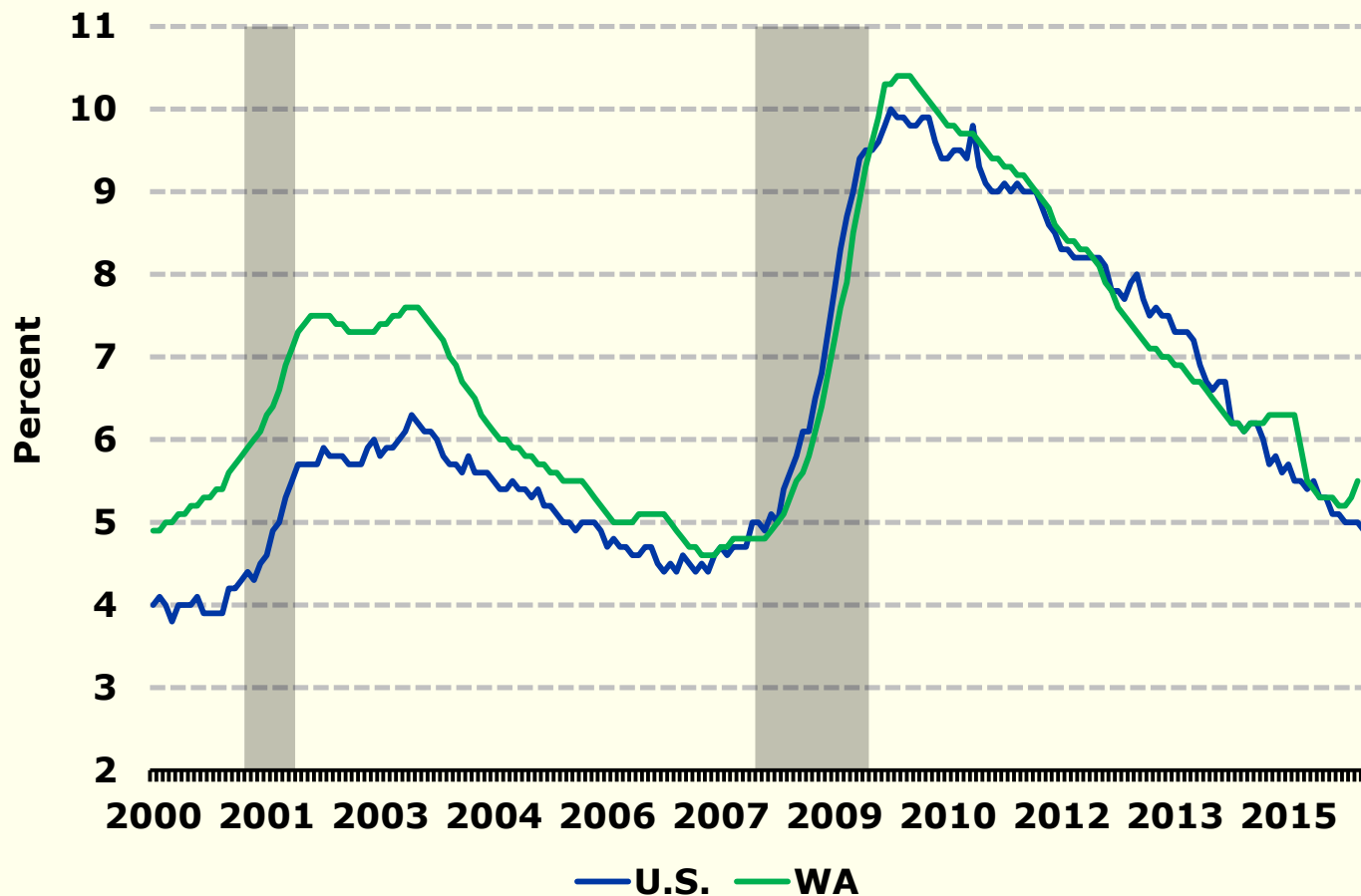
- Declining unemployment rates
- Rising wage growth
- Stronger housing starts and home sales (new and existing)
- Lower oil prices

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



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Source: Bureau of Labor Statistics; U.S. data through Jan. 2016; WA data through Dec. 2015

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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%

Jan. 2016: 27%



Source: Bureau of Labor Statistics; data through January 2016

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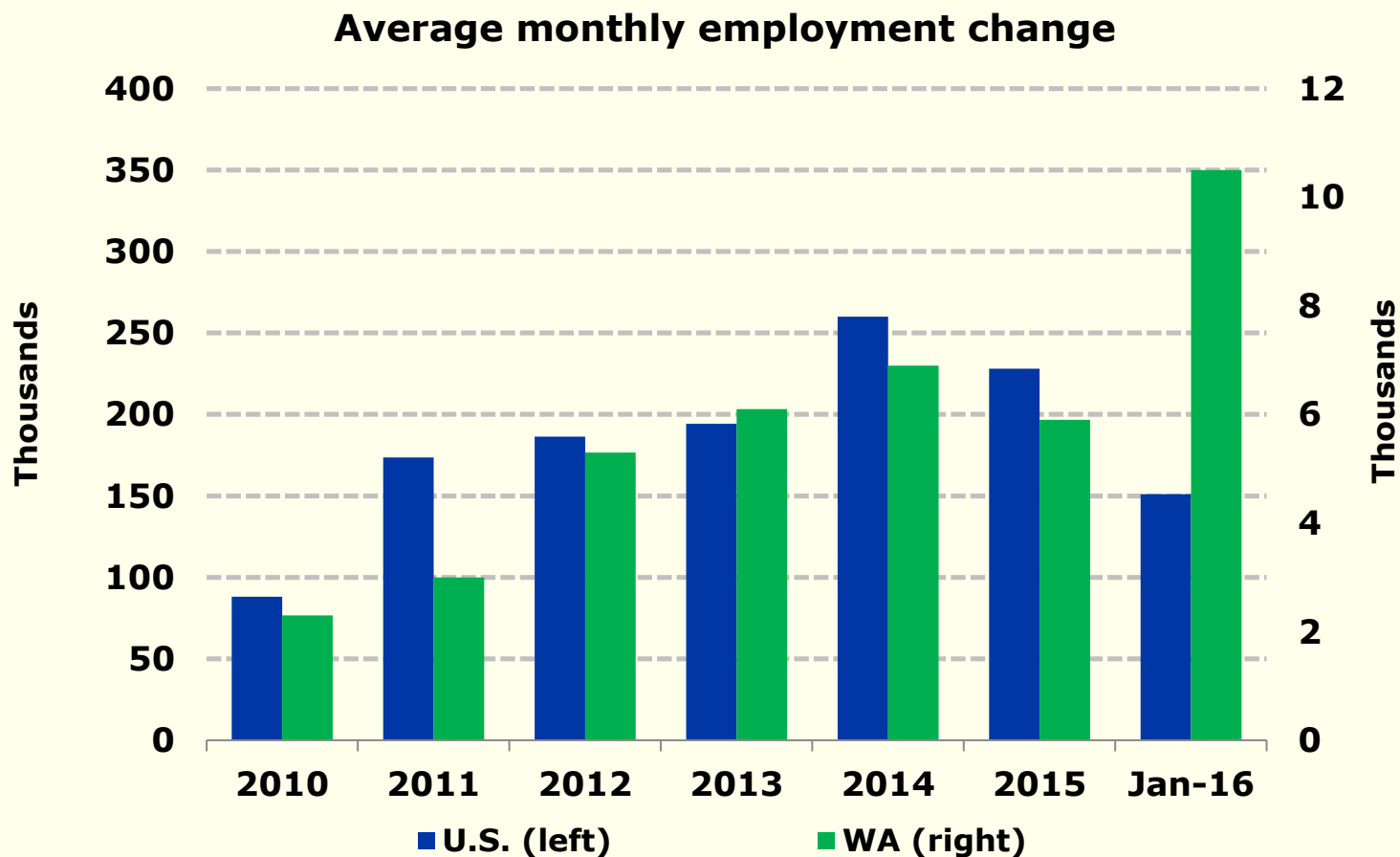
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Job creation slightly weaker in 2015 than 2014; U.S. weak, WA strong in January 2016



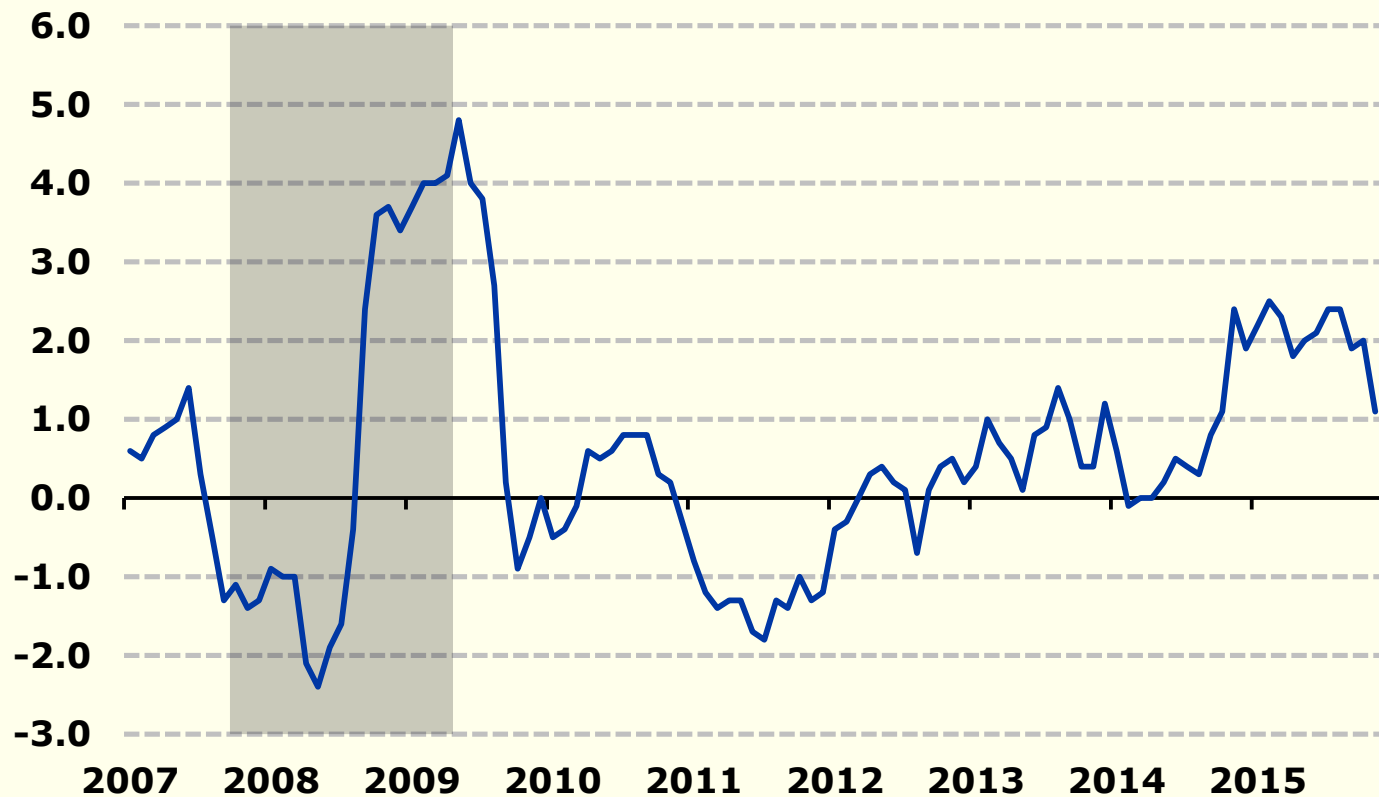
Source: Bureau of Labor Statistics, ERFC; data through Jan. 2016

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

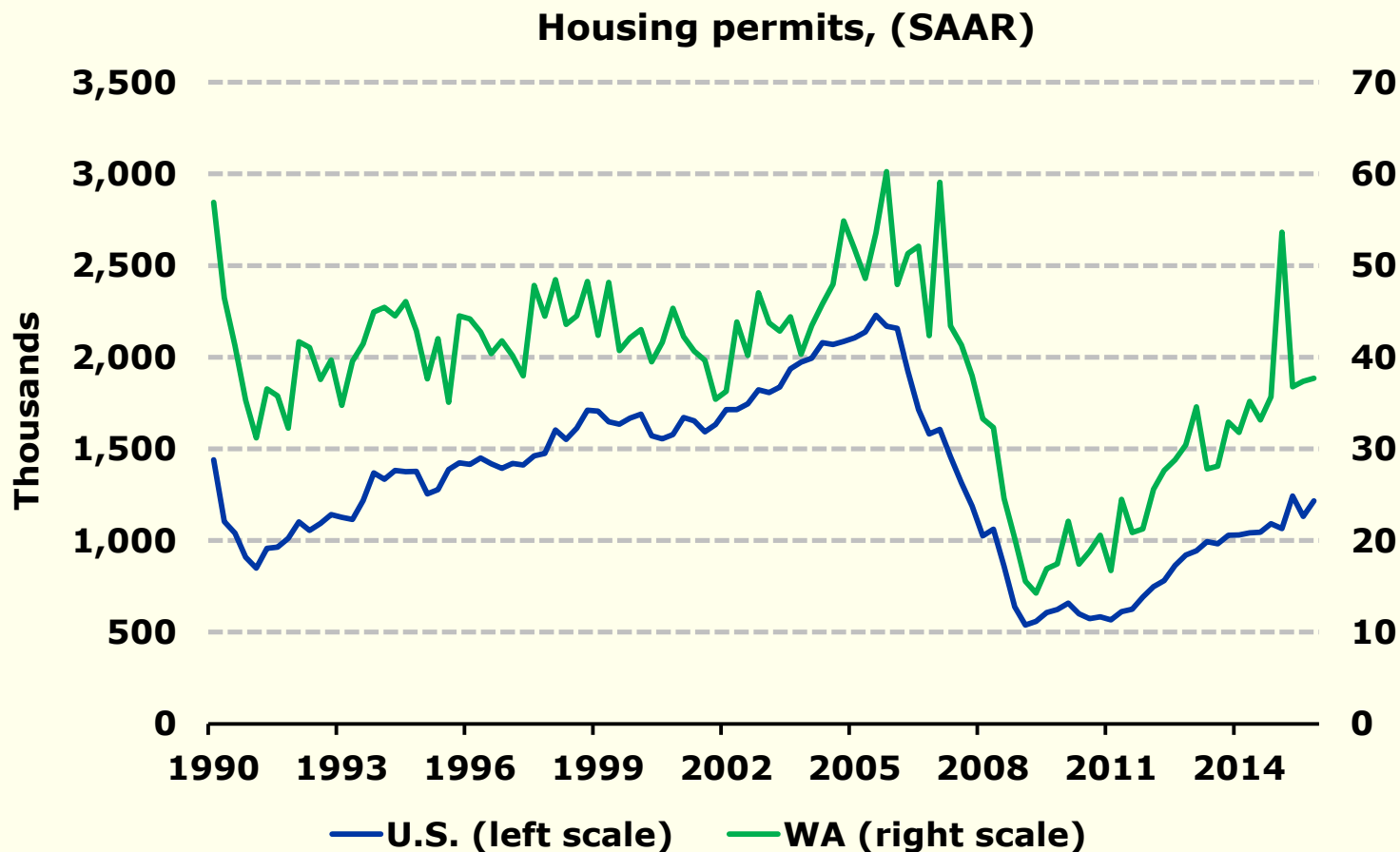
Year-over-year Growth in U.S. Real Hourly Wages



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



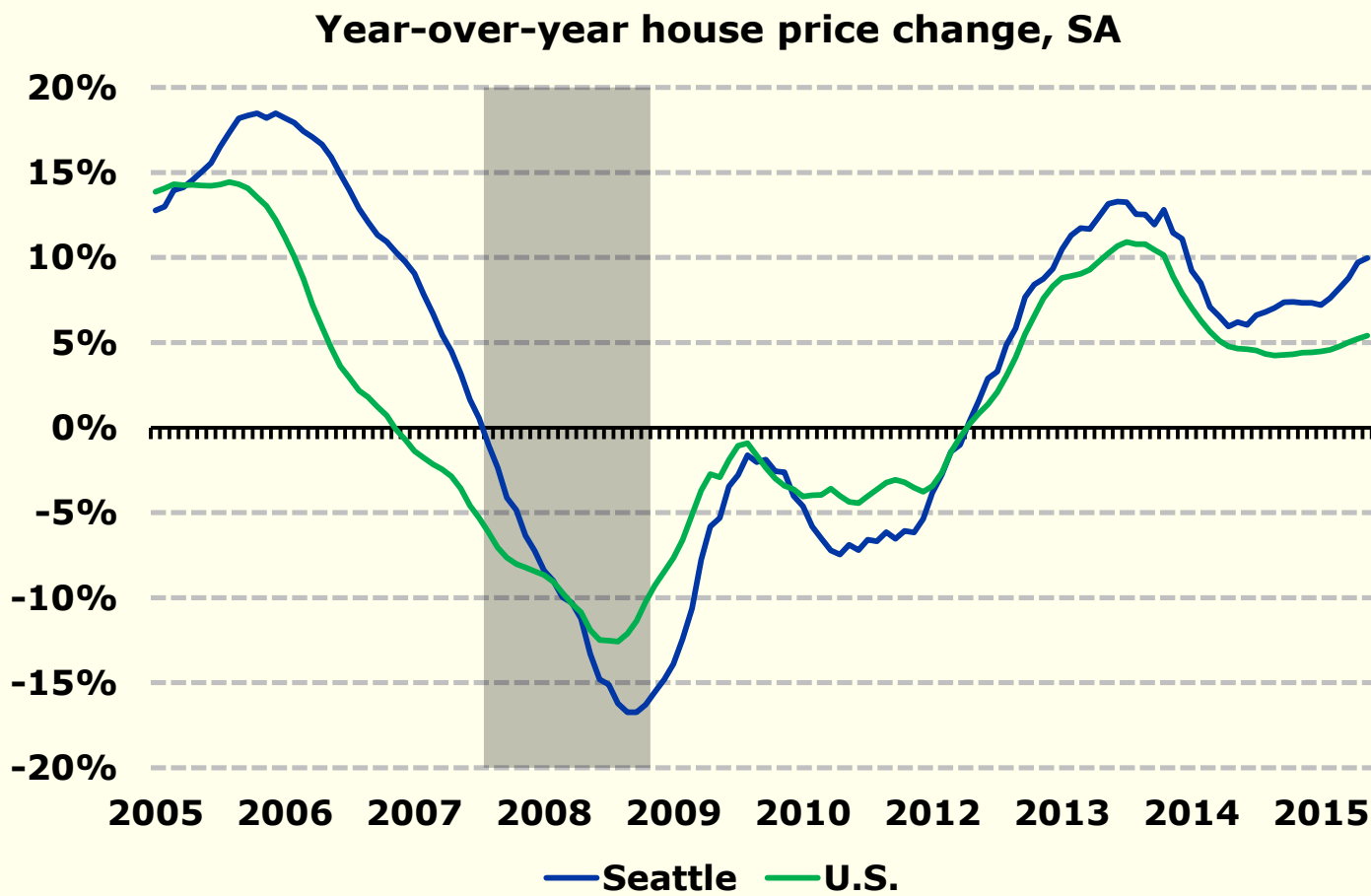
Both U.S. and WA housing permits trending up since 2011



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



Seattle home prices have been rising faster than prices nationally

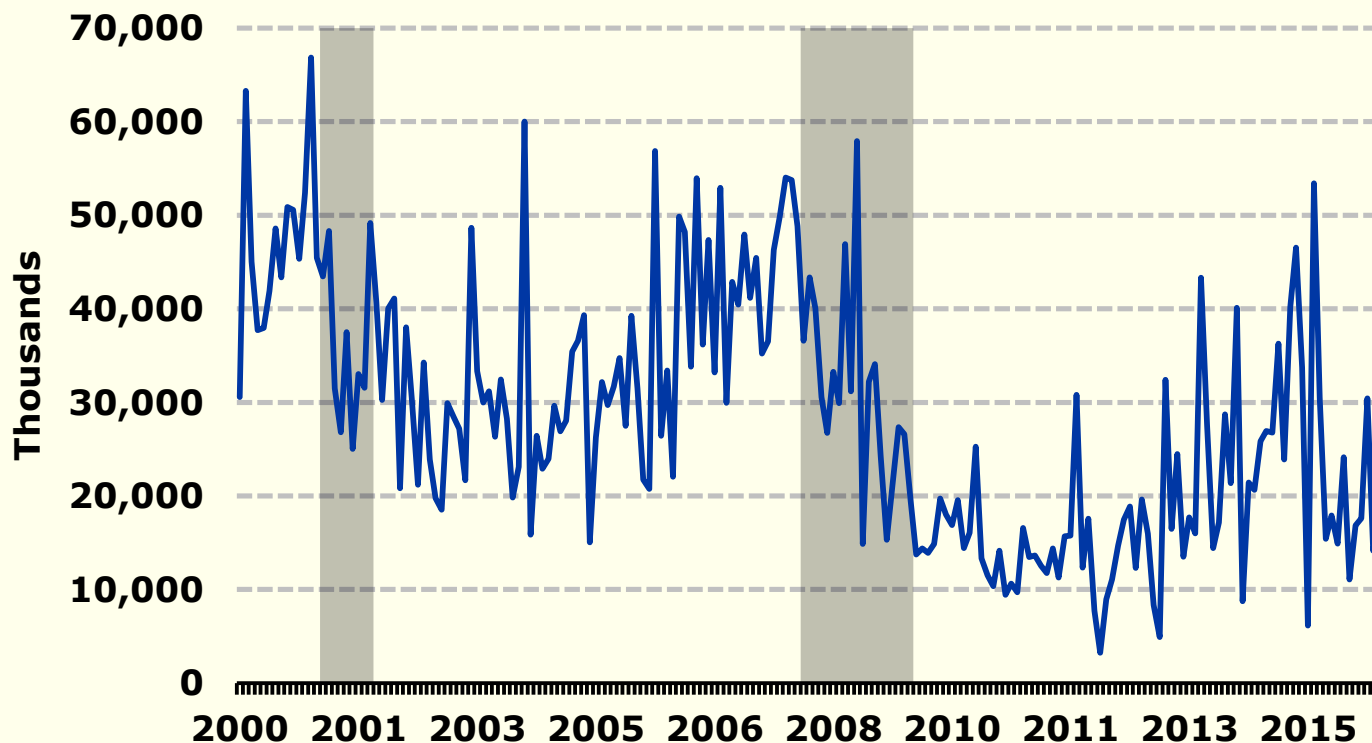


Source: S&P/Case-Shiller; data through Dec. 2015



Nonresidential construction activity appears to be slowing

Square feet under contract, WA nonresidential projects
(SAAR)



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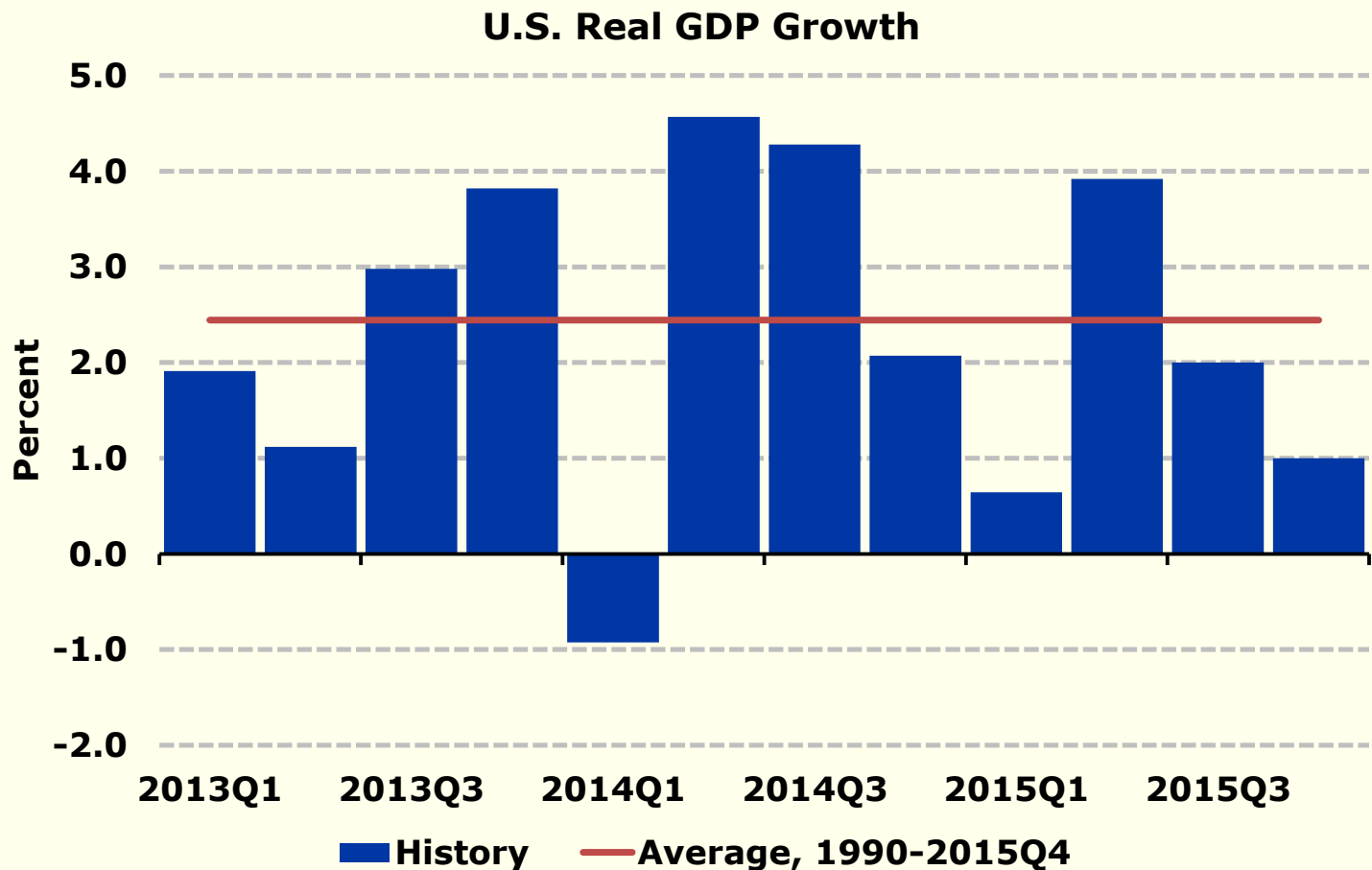
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Source: Dodge Data & Analytics; data through Jan. 2016

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



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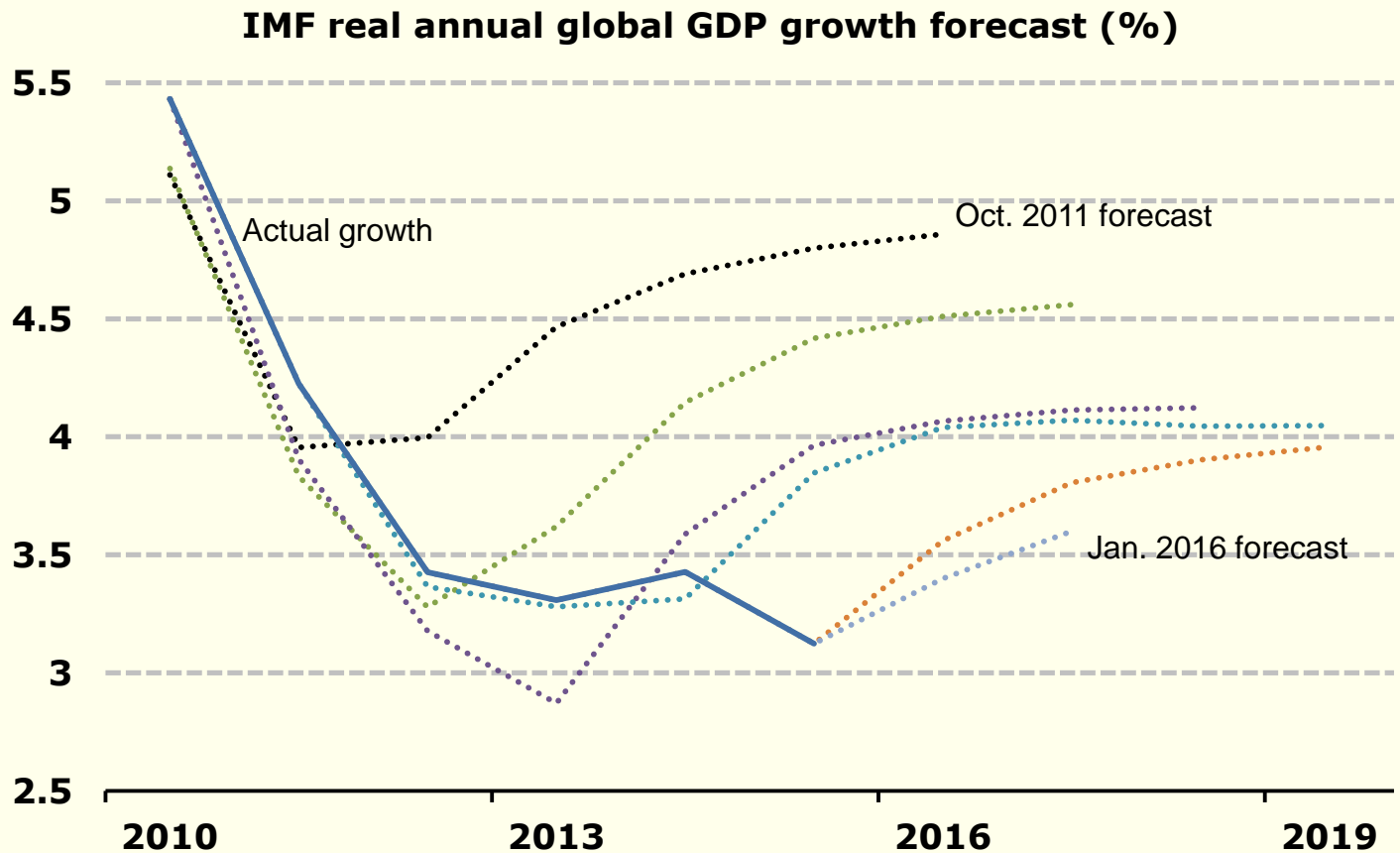
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Source: U.S. Dept. of Commerce, BEA, data through 2015Q4

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Global GDP forecasts have been consistently revised down



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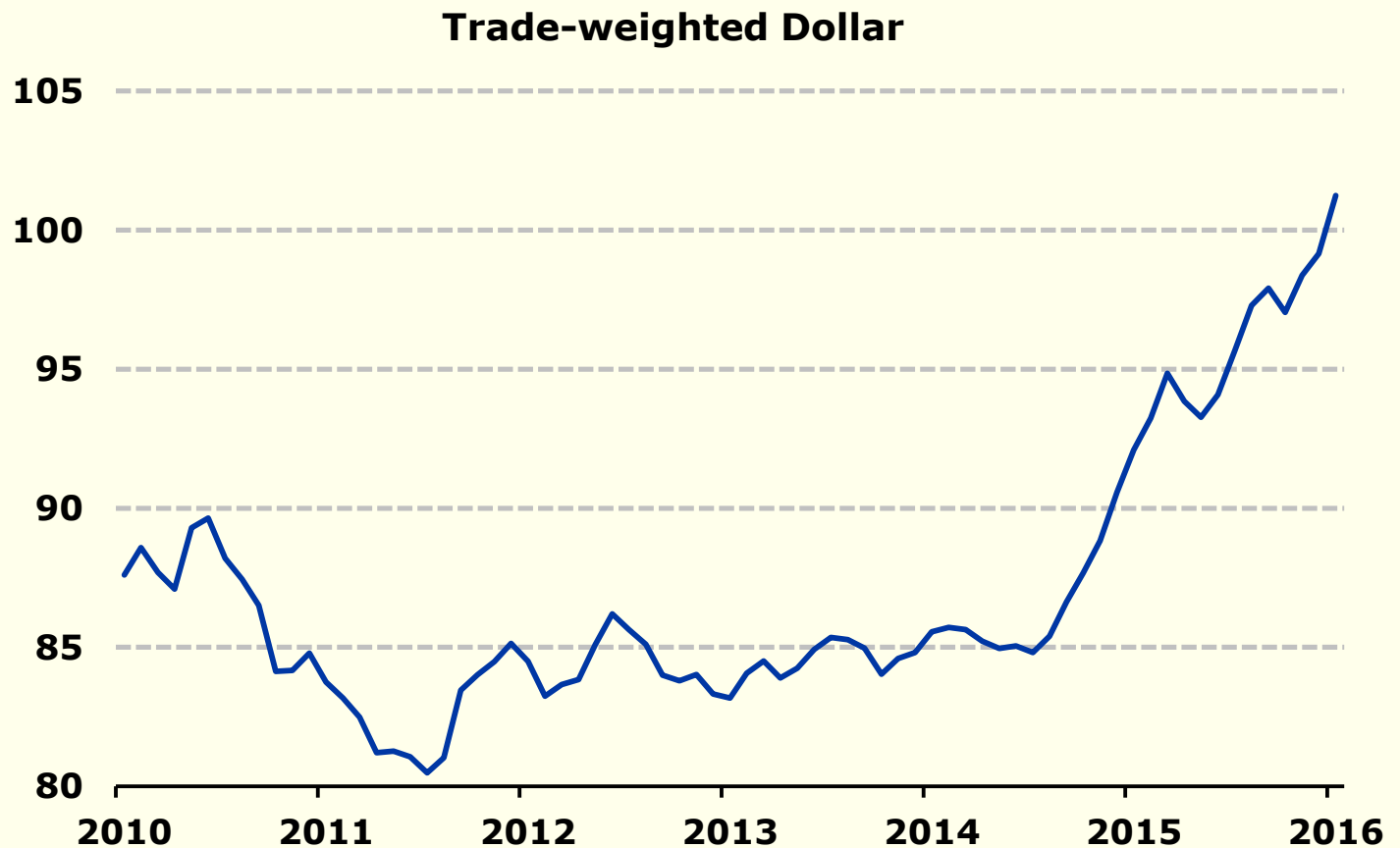
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Source: International Monetary Fund, World Economic Outlook; historic data through 2015

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

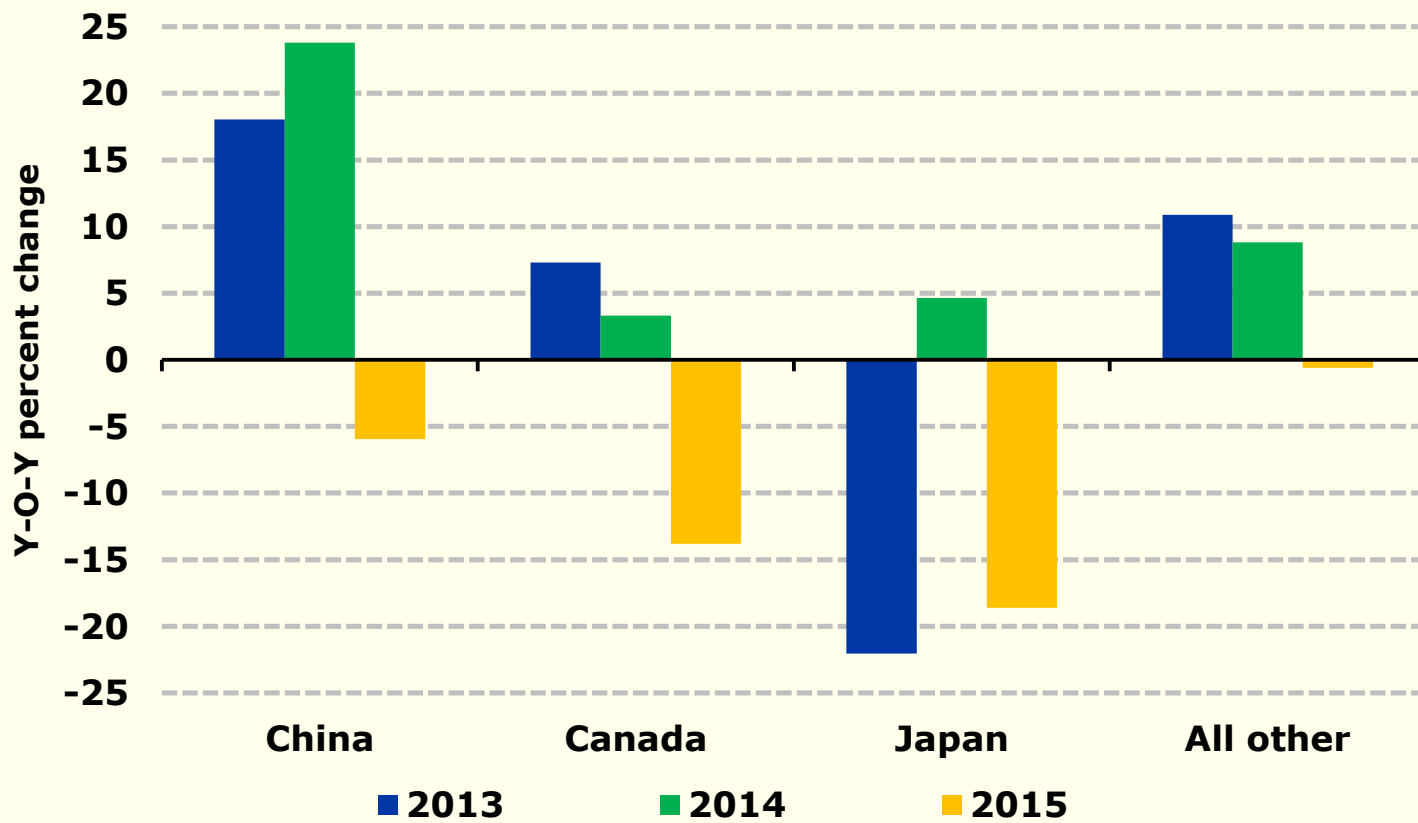


Source: Federal Reserve; data through January 2016



WA exports in 2015 declined for the first time since 2009

Year-over-year growth in export value

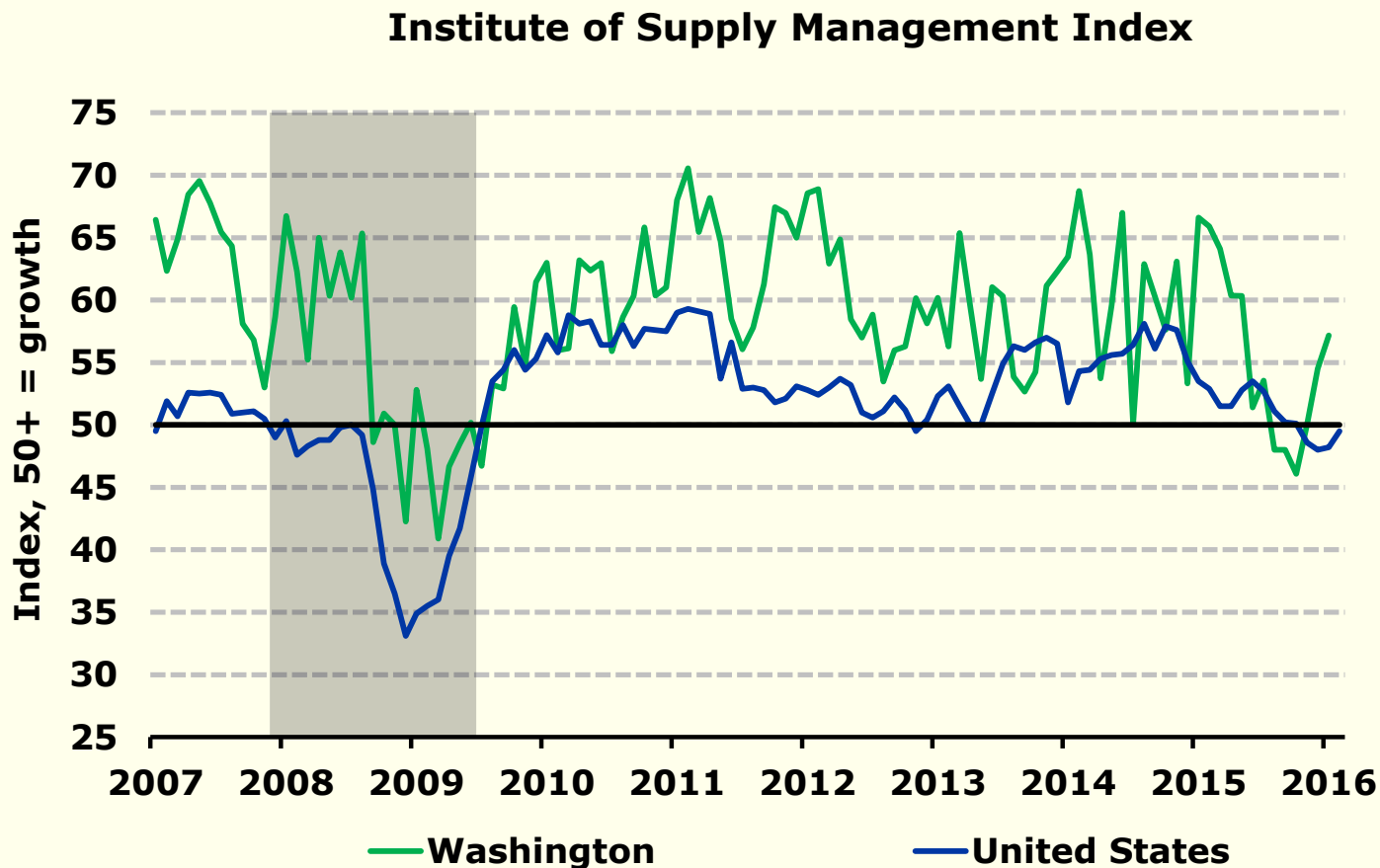


Source: WISERTrade; data through December 2015

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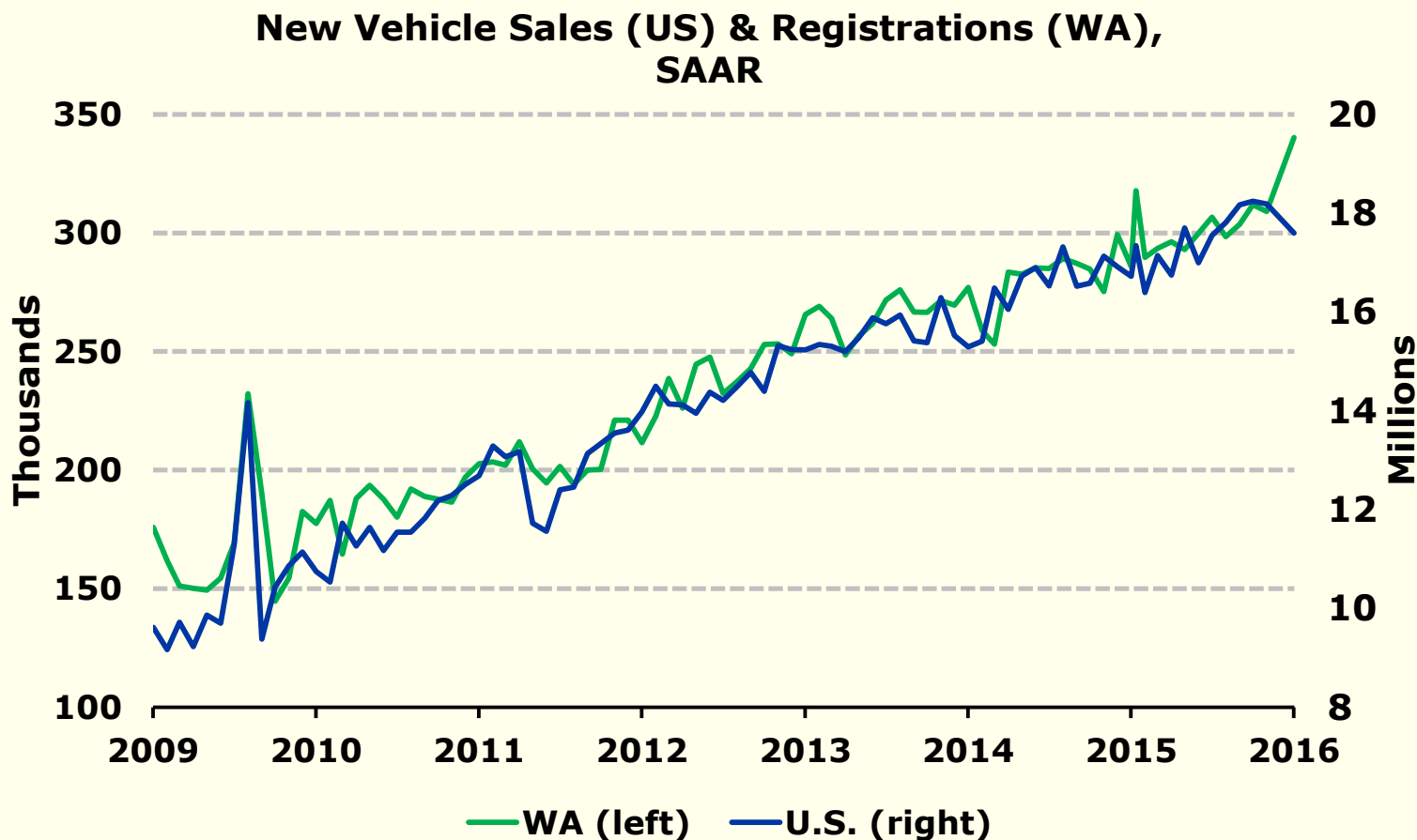
Manufacturing: slowing nationally, improving in Washington



Source: ISM; WA data through Jan. 2016; U.S. data through Feb. 2016



New vehicle sales continue to trend up; WA had record new car registrations in January



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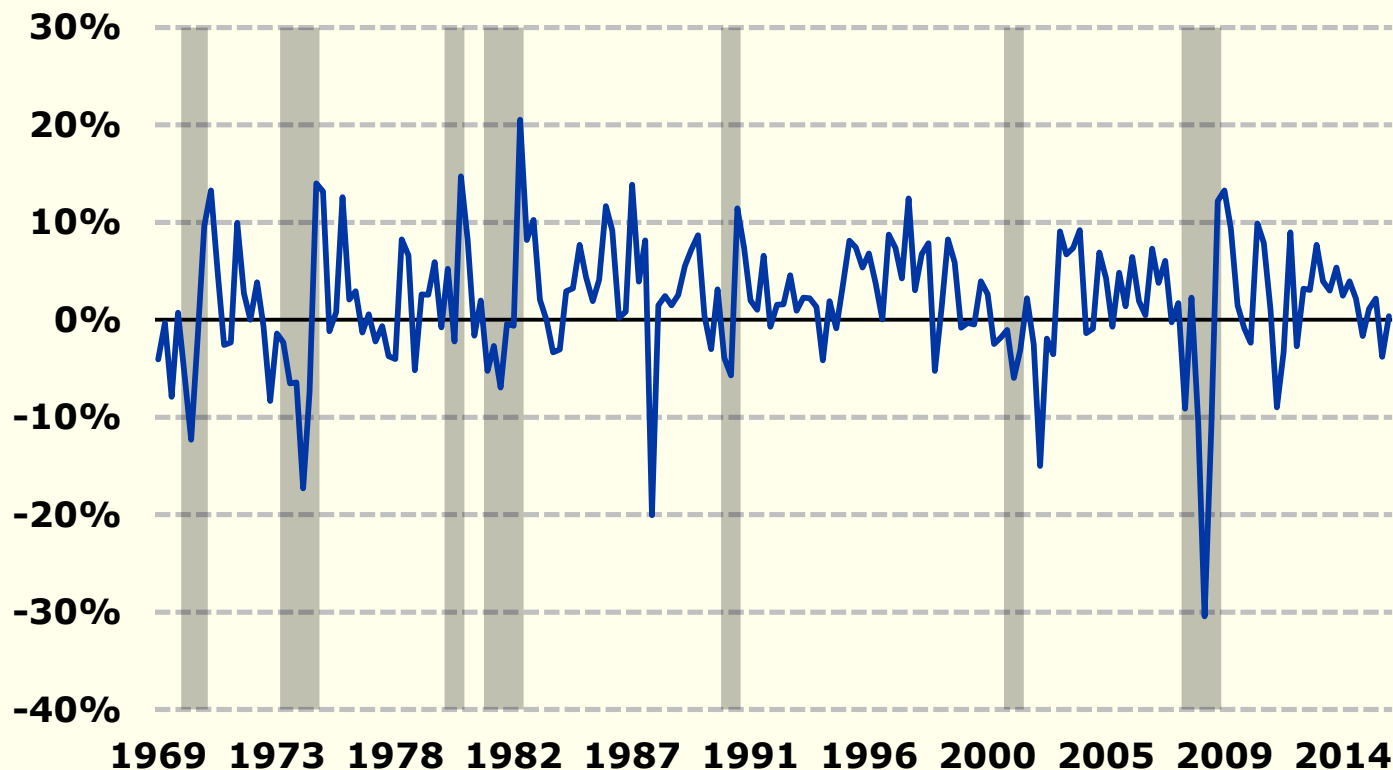
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Source: Dept. of Licensing, ERFC, MotorIntelligence.com; data through January 2016

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The stock market is generally more volatile than the U.S. economy



— Change in U.S. stock market value, quarterly

Source: OECD Main Economic Indicators, through 2015Q1; DJ Total US Market 2015Q2 – Q4

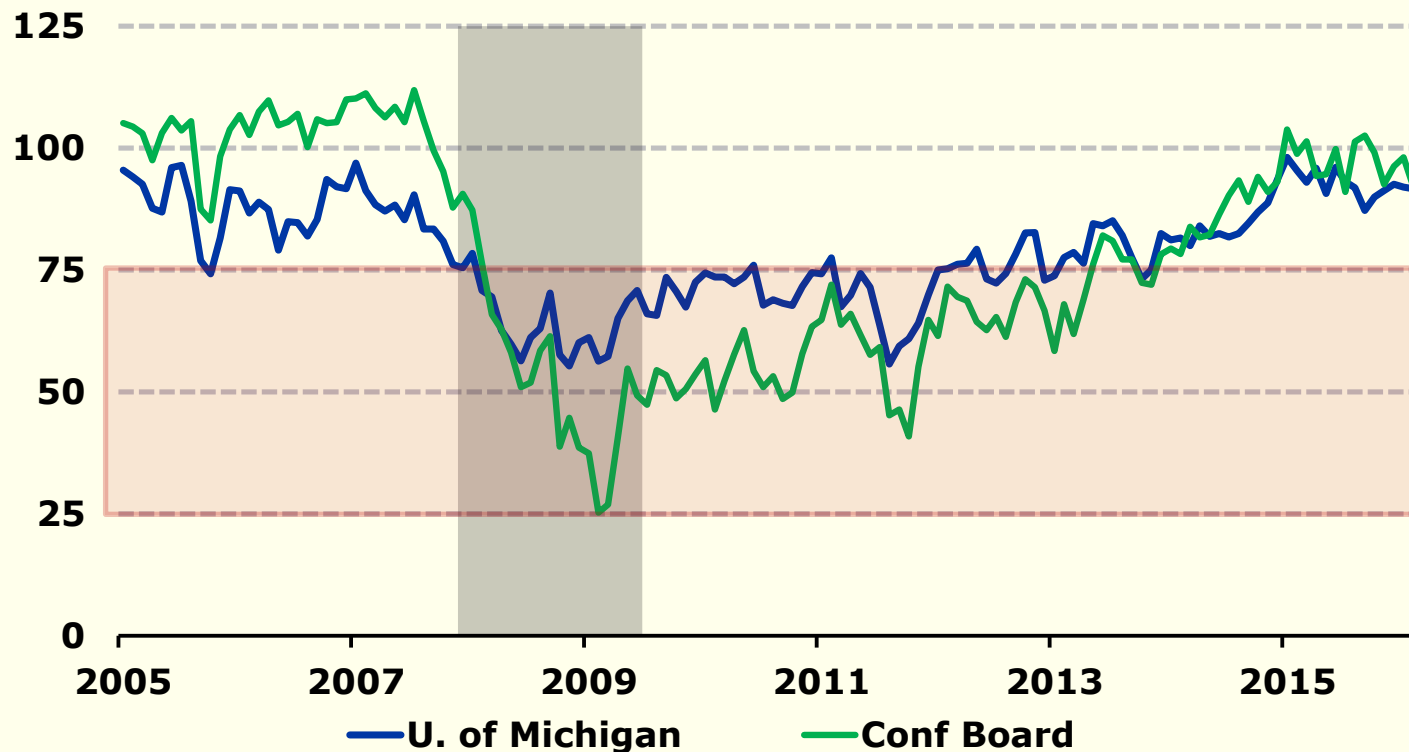


Conference Board, U. of Michigan indexes both down in February

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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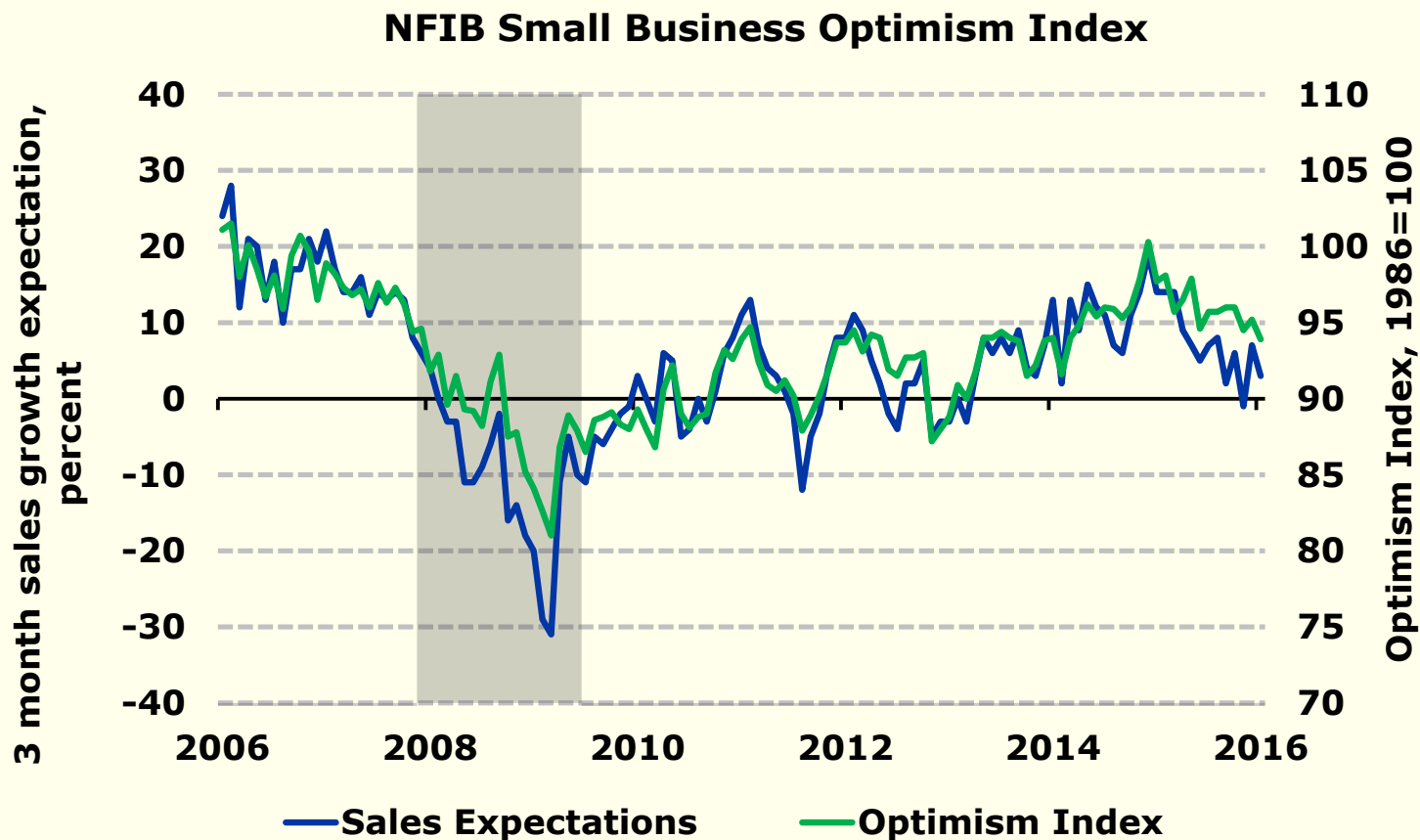
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Sources: University of Michigan, Conference Board; data through February 2016

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Small business optimism and sales expectations weakened in 2015

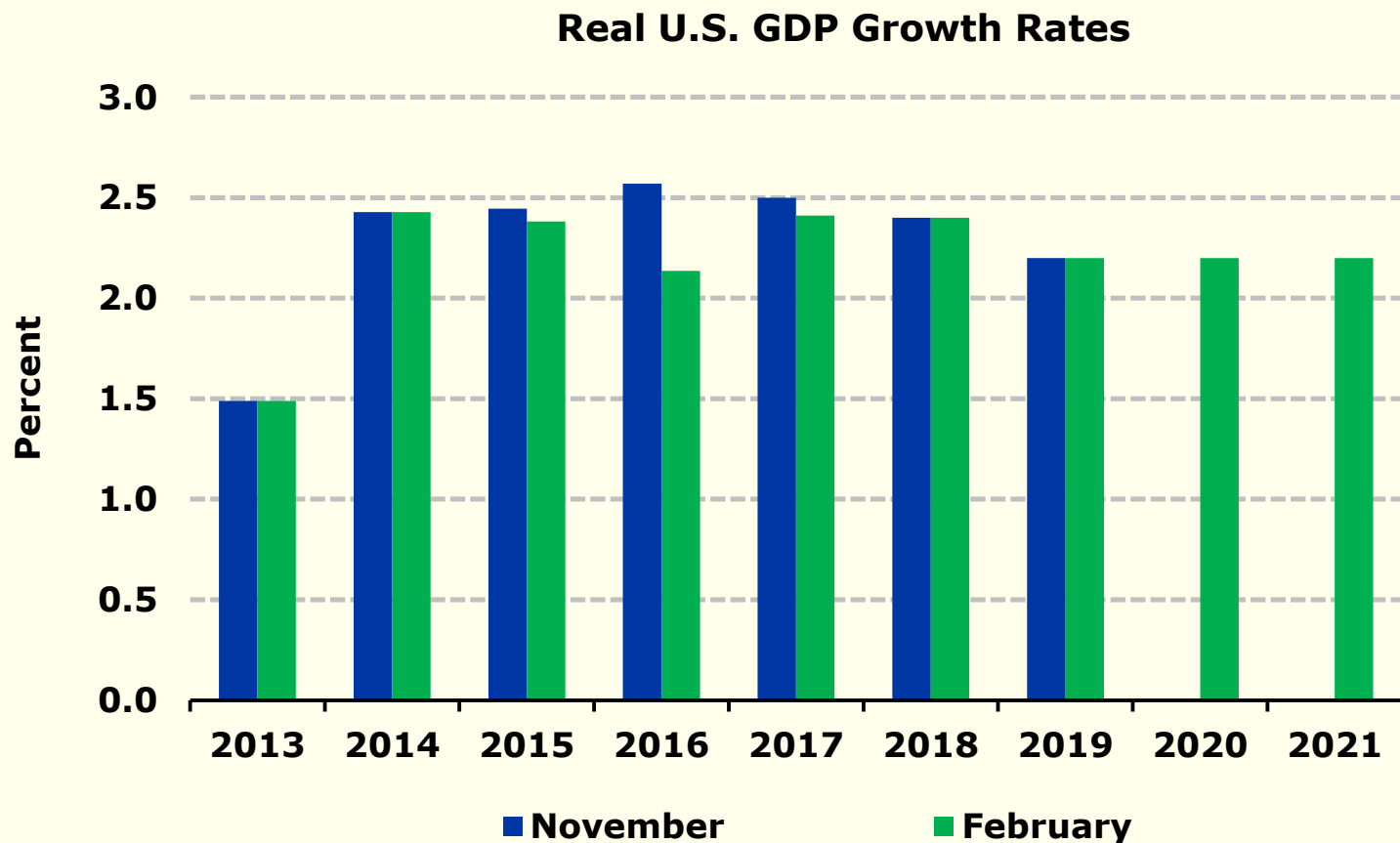


Source: National Federation of Independent Business; data through January 2016

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

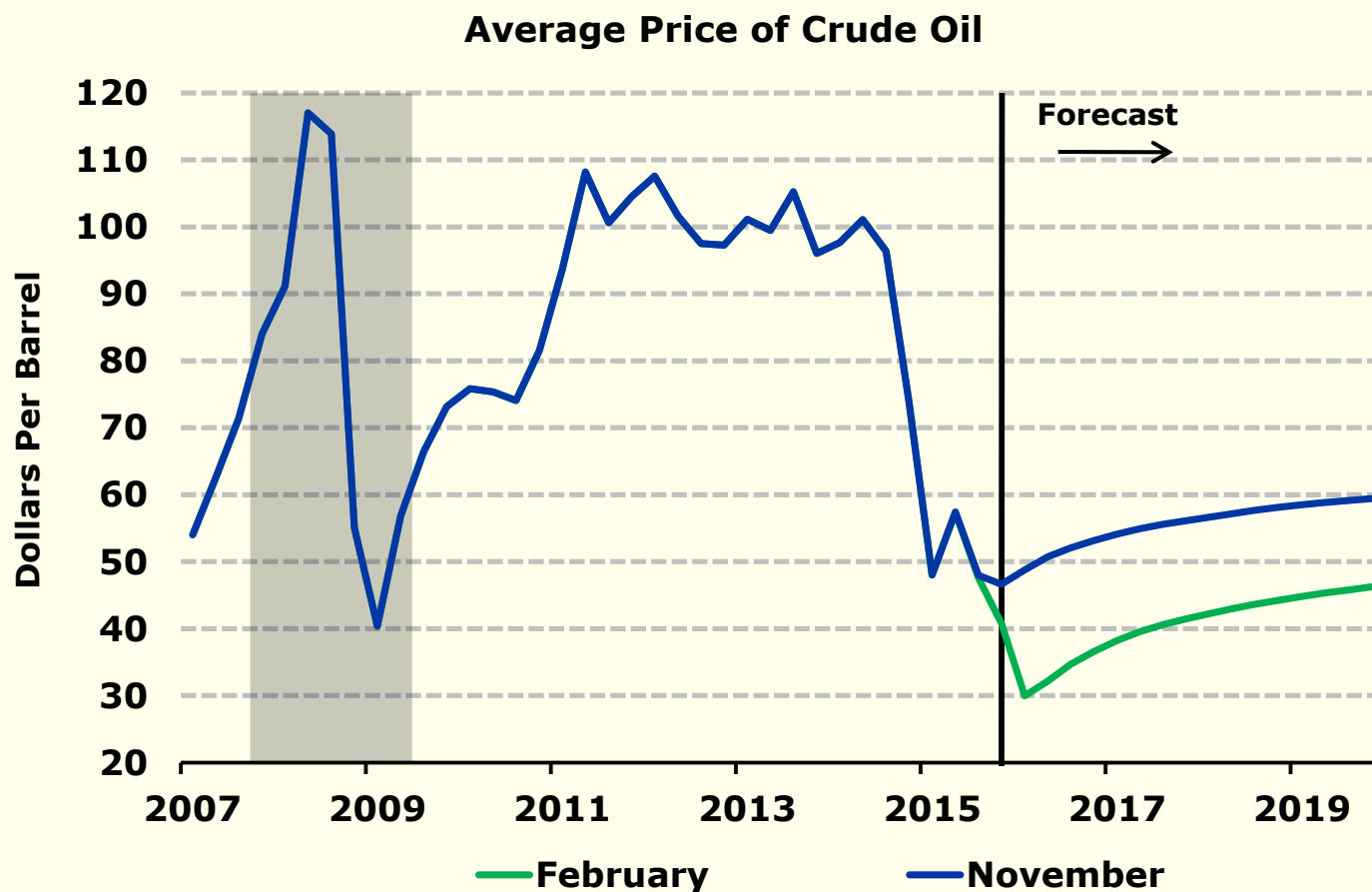


Source: ERFC February 2016 forecast; historical data through 2015

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Oil prices have fallen since the November forecast



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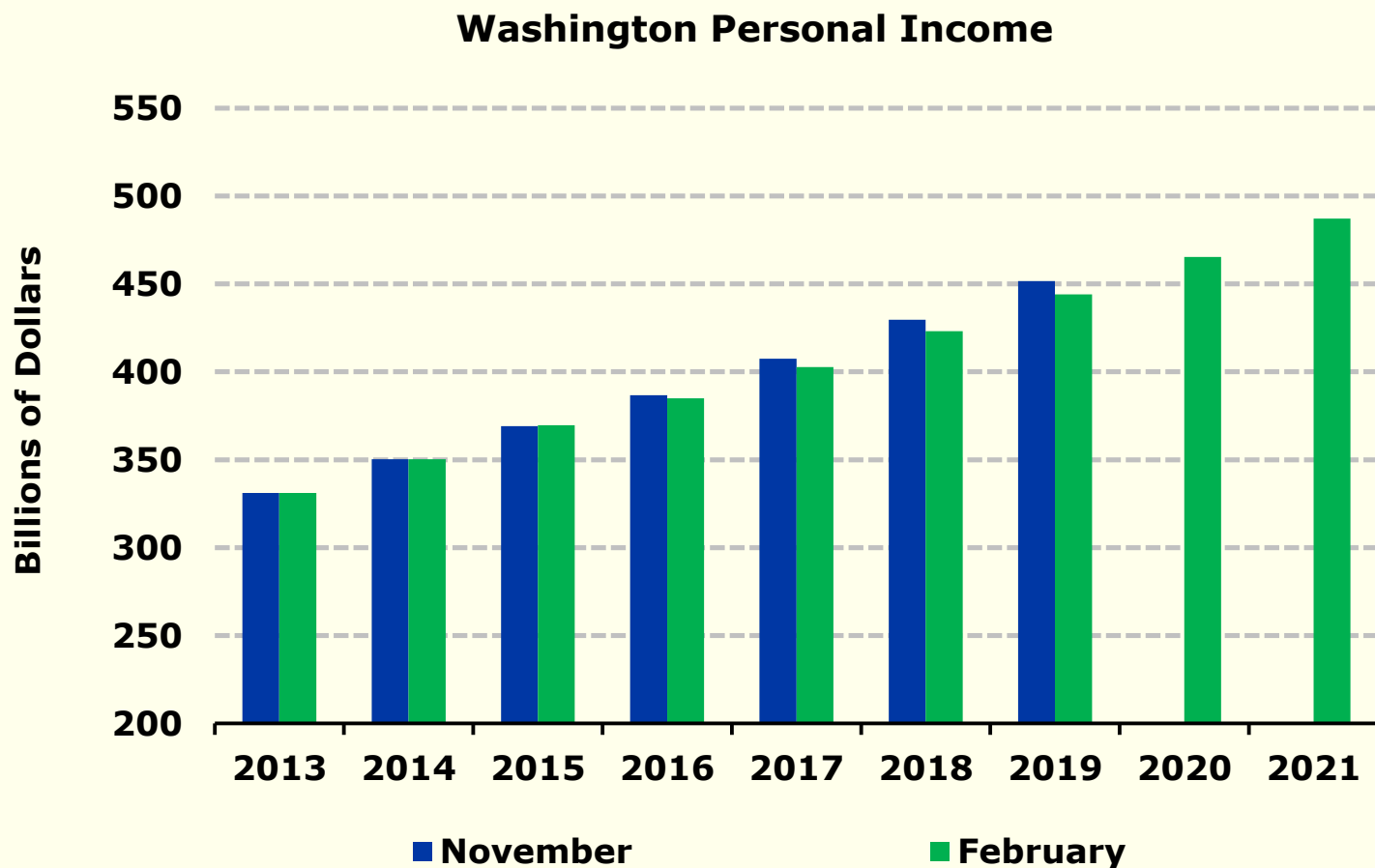
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Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

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

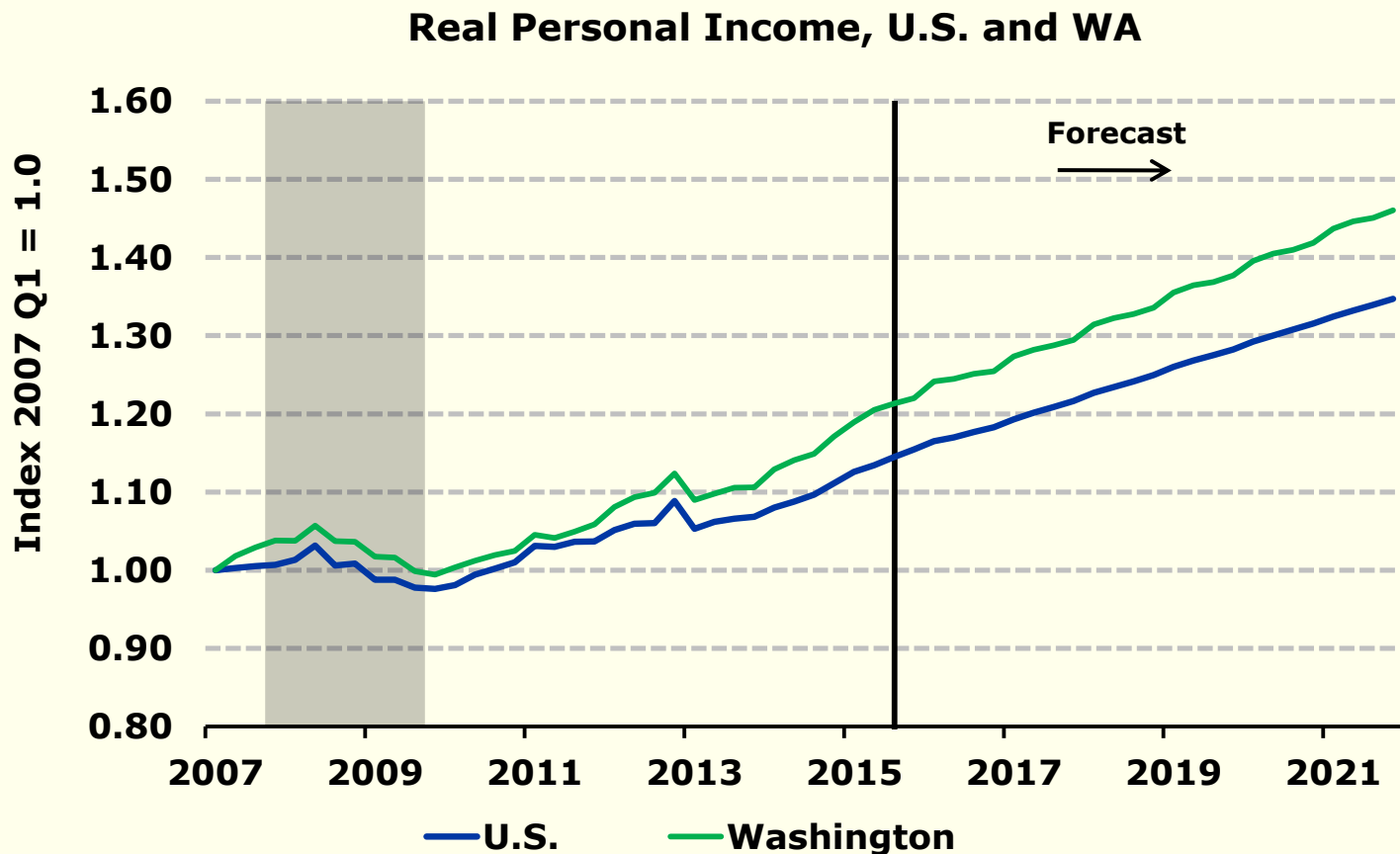


Source: ERFC February 2016 forecast; historical data through 2015

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



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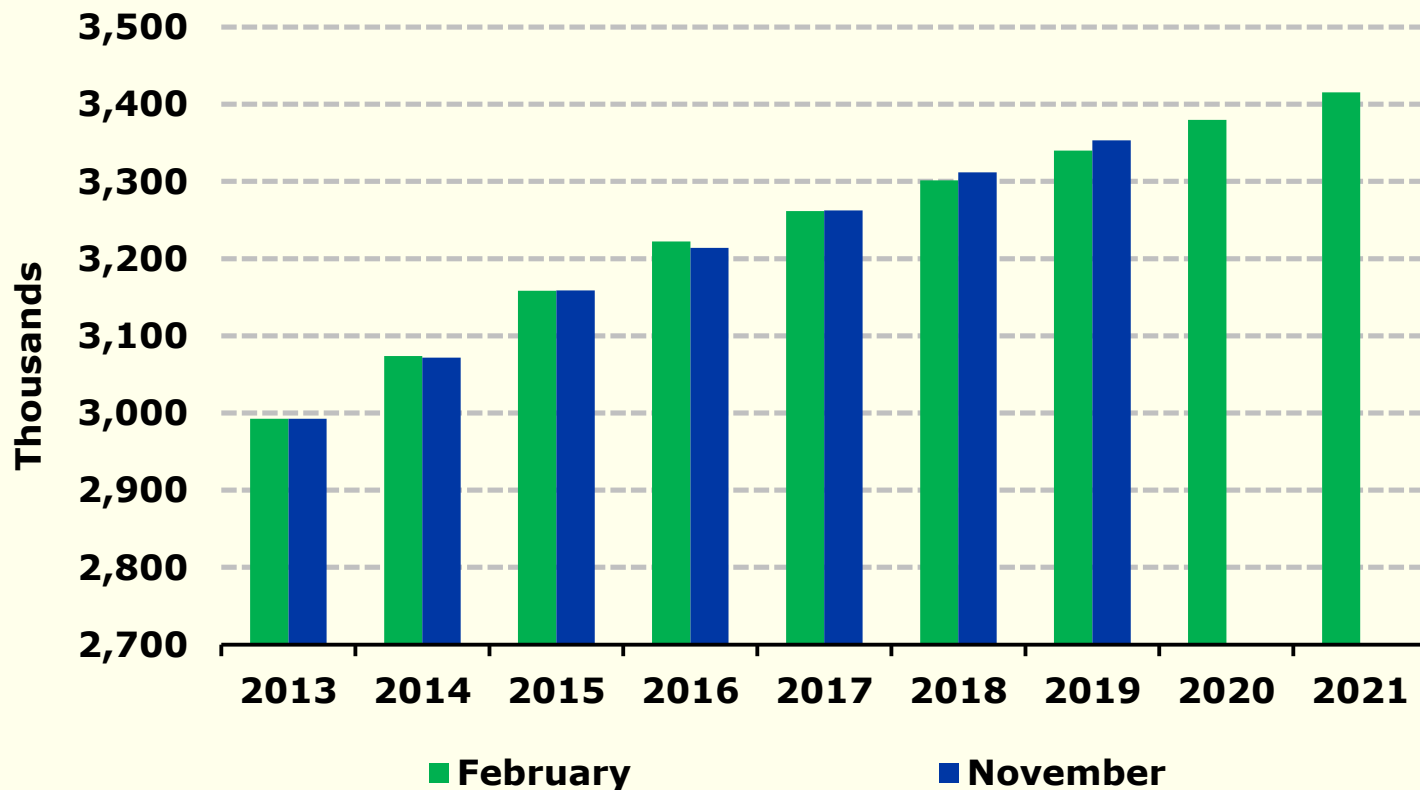
Source: ERFC February 2016 forecast; historical data through 2015Q3

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Washington employment forecast revised down slightly in 2017 - 2019

Washington Nonfarm Payroll Employment

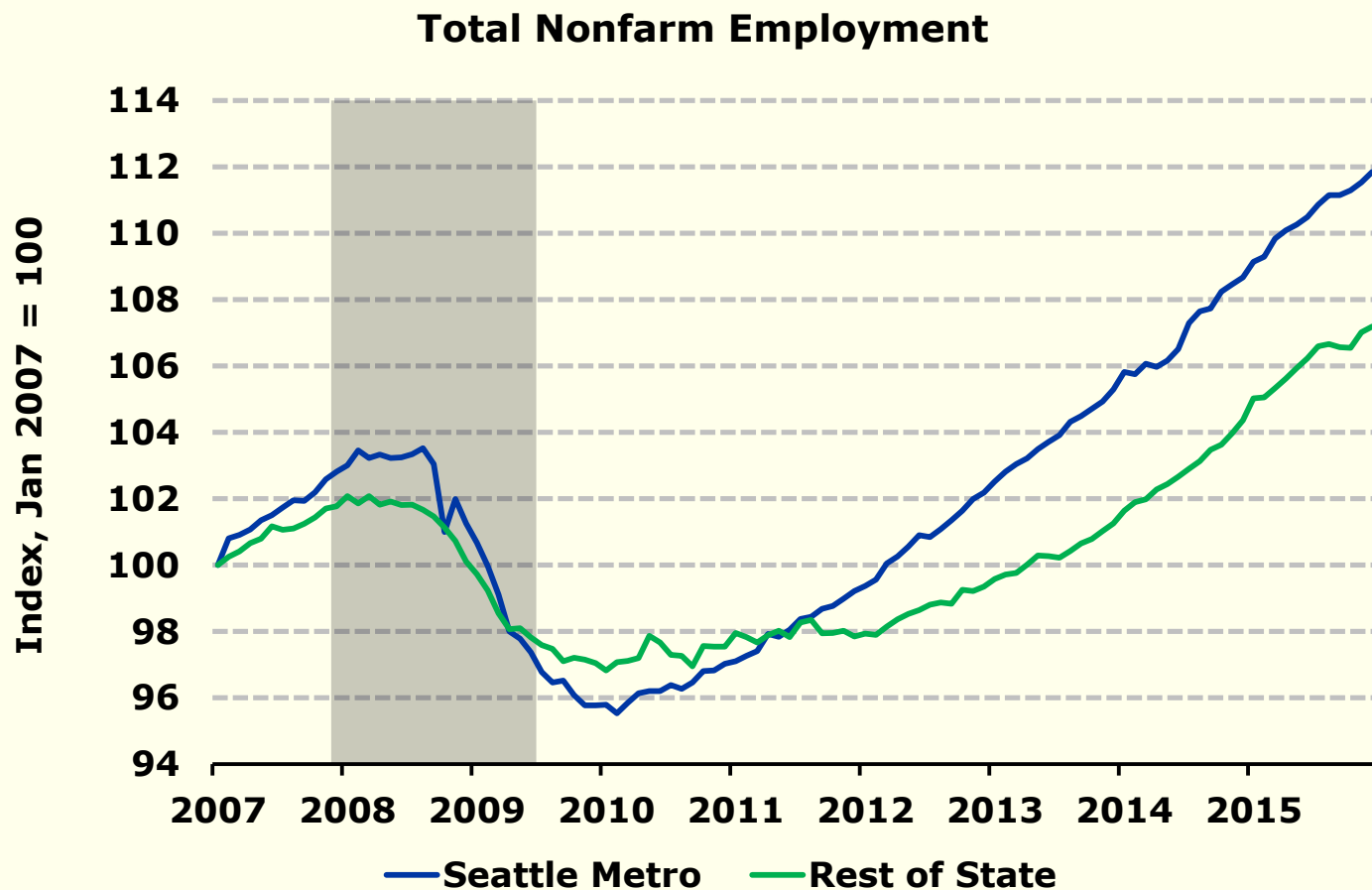


Source: ERFC February 2016 forecast; historical data through 2015

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Seattle area employment continues to outpace the rest of the state



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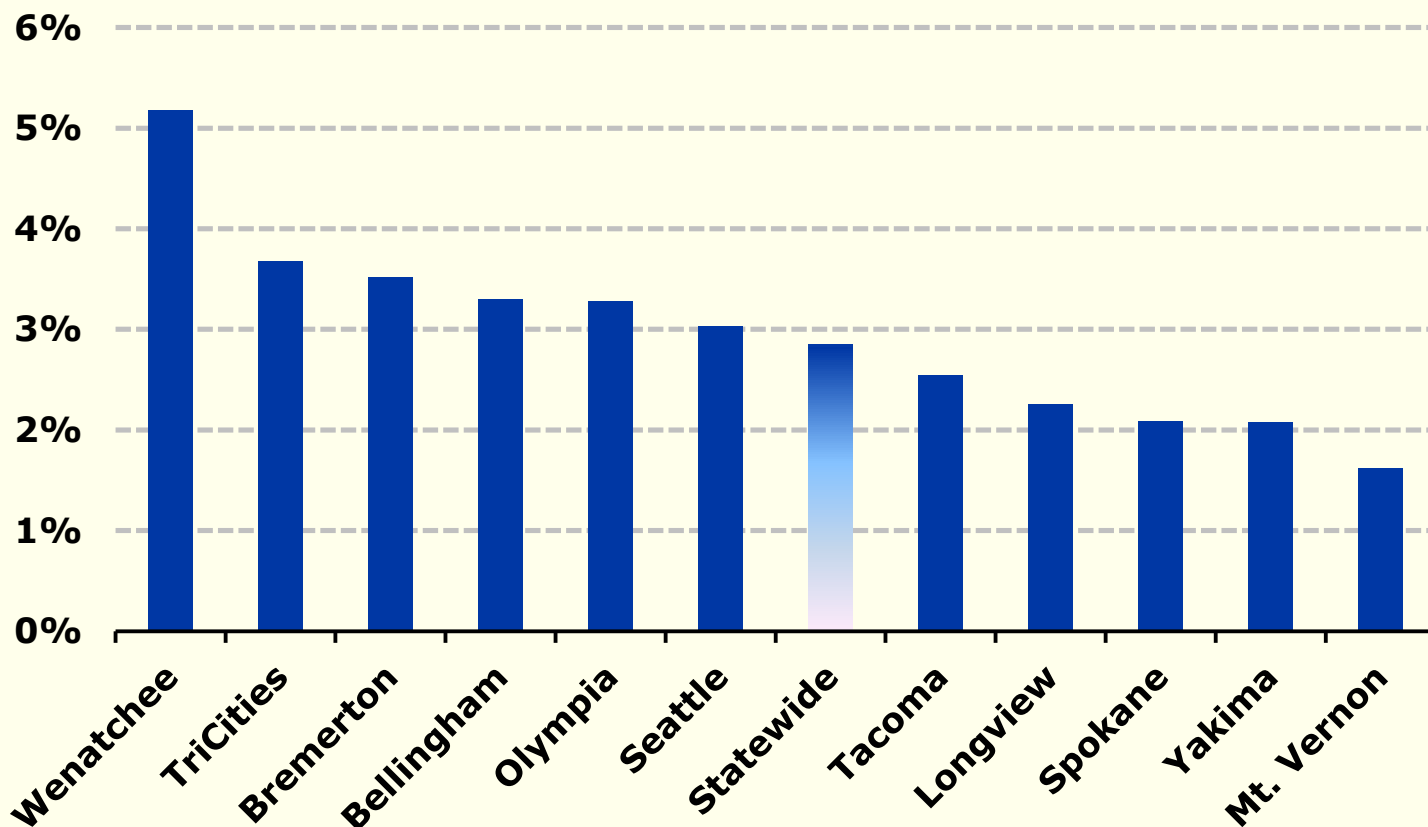
Source: Employment Security Department, ERFC; data through December 2015

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Employment growth varied widely across state metro areas

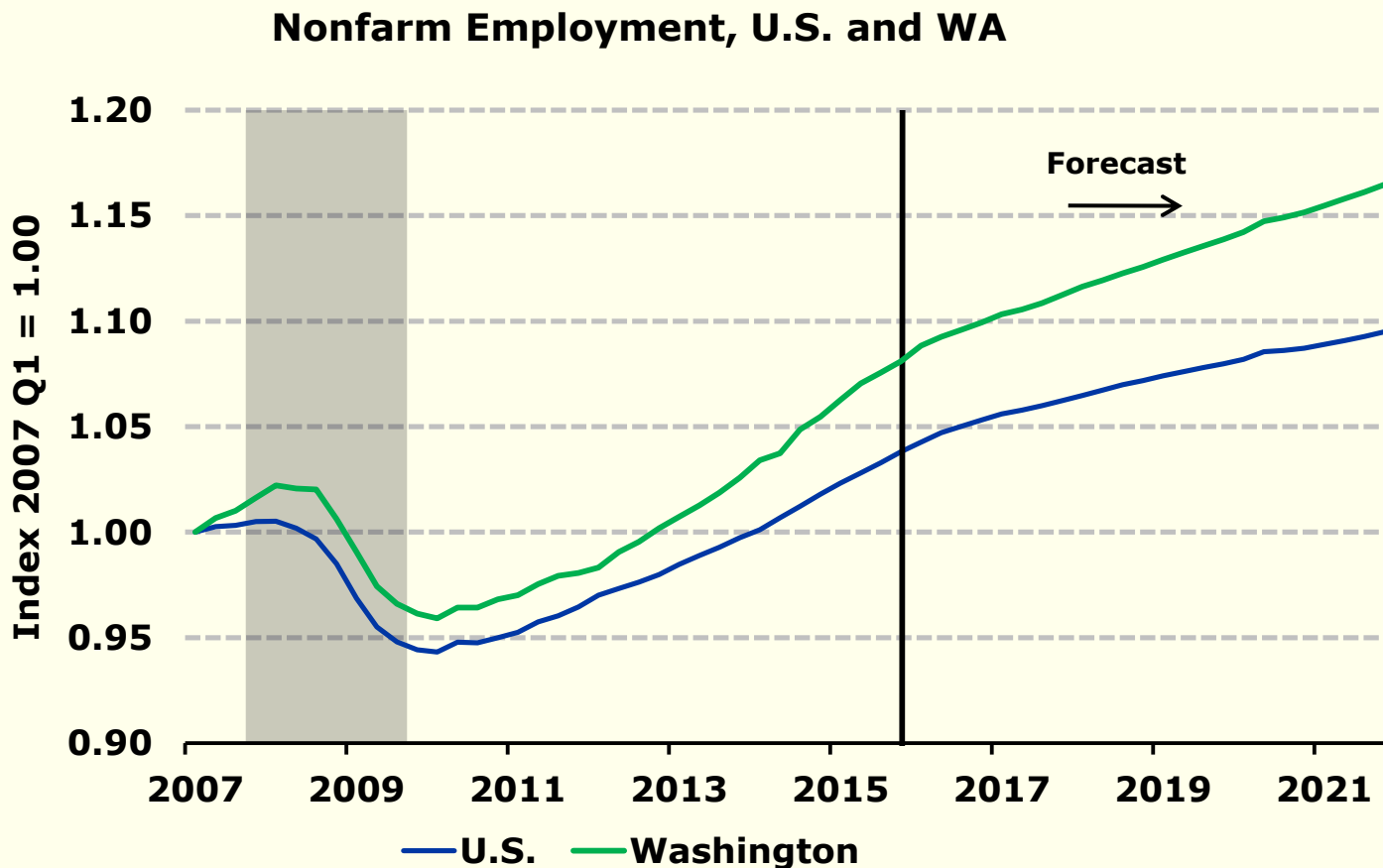
2015 employment growth by metro area



Source: WA State Employment Security Department



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

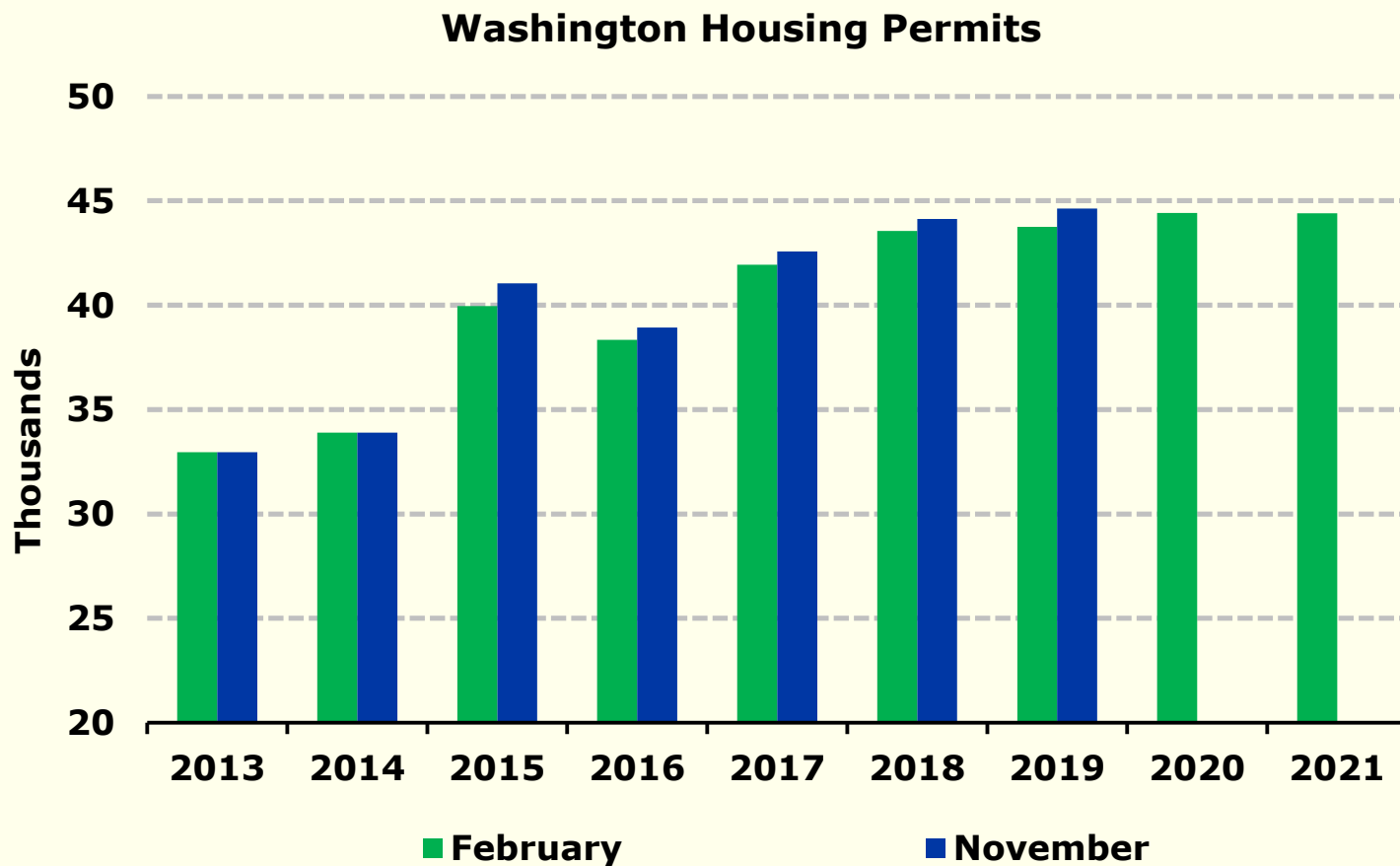


Source: ERFC February 2016 forecast; historical data through 2015Q4

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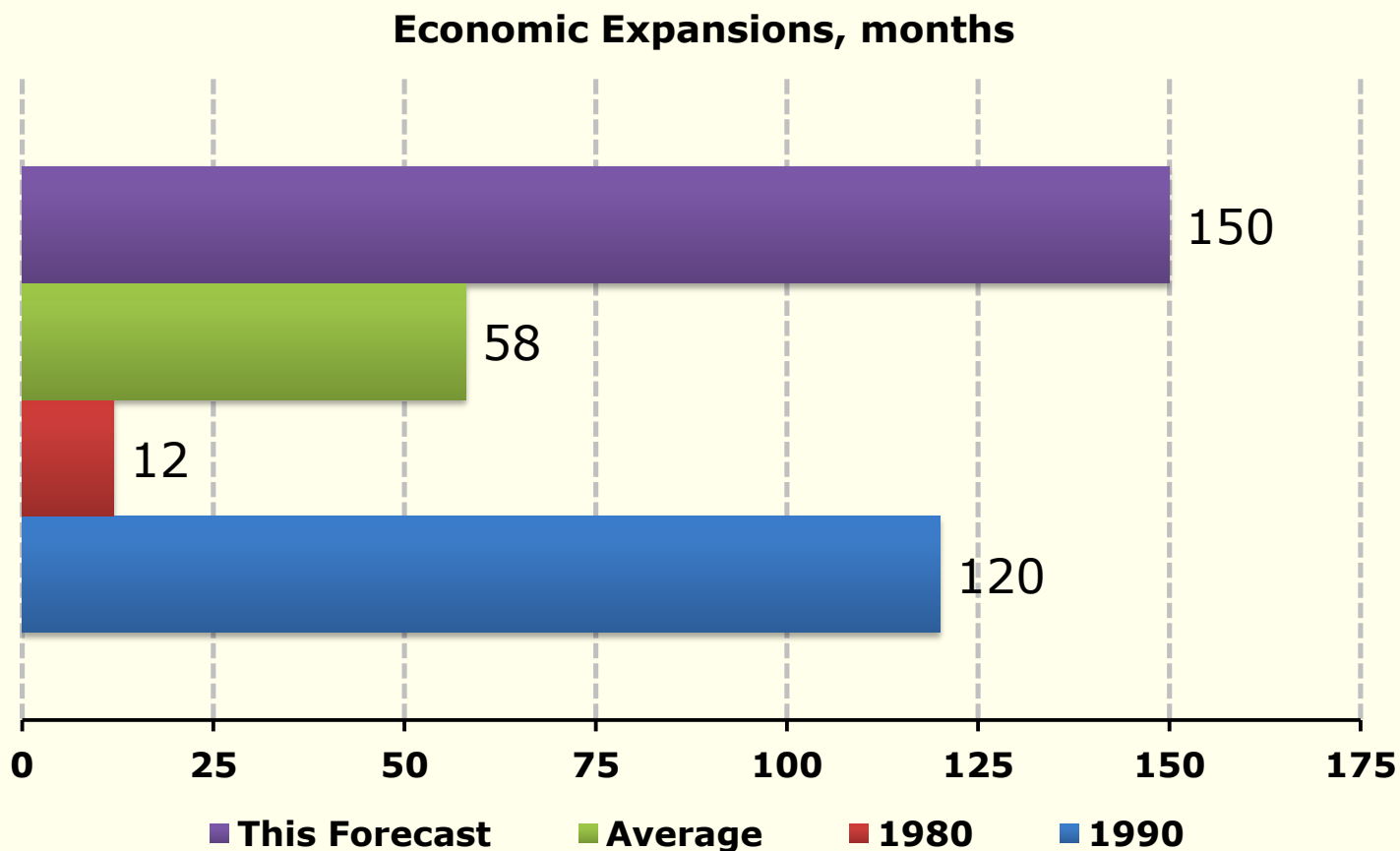
Washington housing permits forecast is slightly lower than in November



Source: ERFC February 2016 forecast; historical data through 2014



U.S. Economic Expansions since 1945

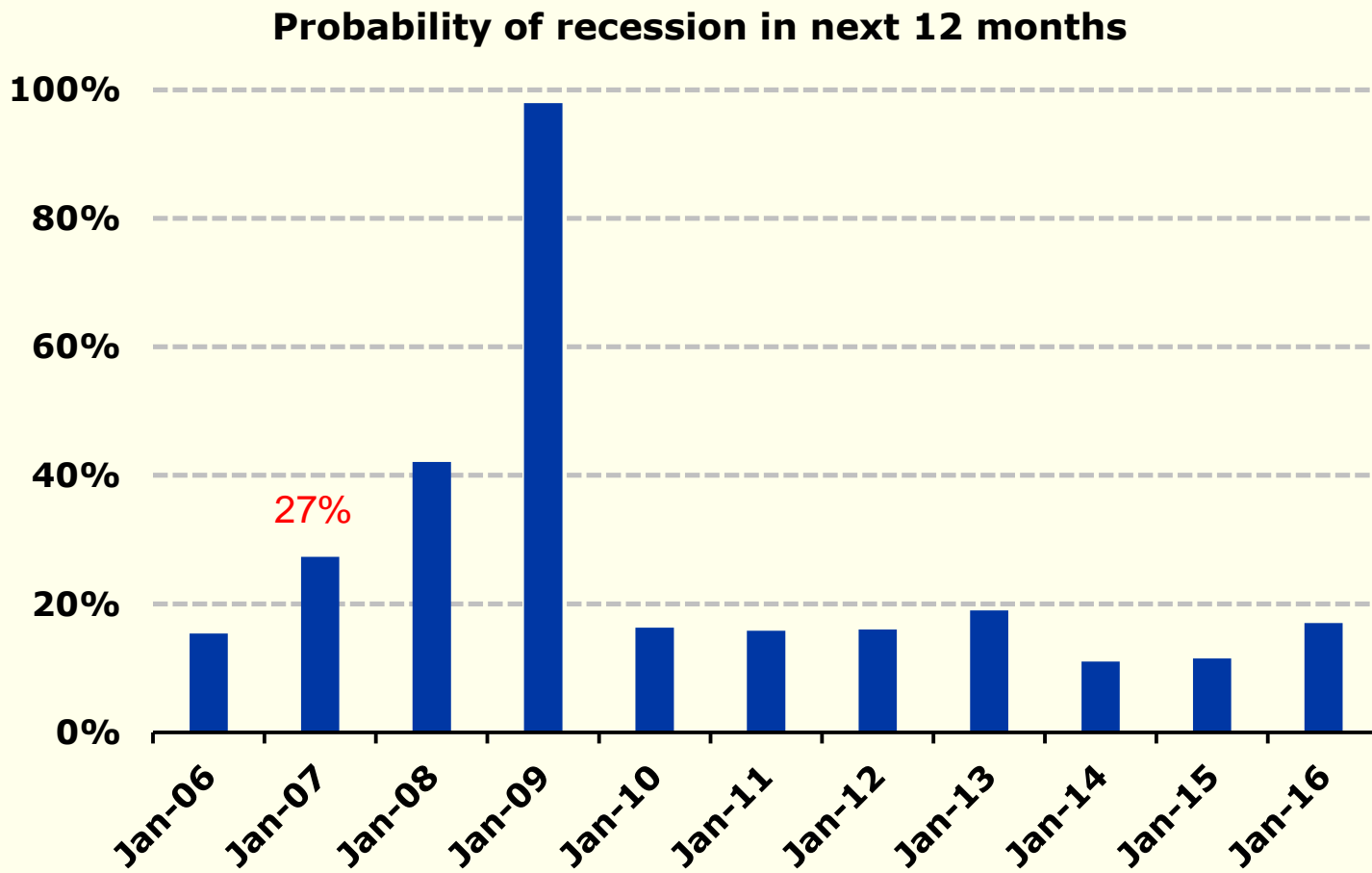


Sources: NBER, ERFC February 2016 Preliminary forecast



Wall Street Journal survey shows low but rising probability of recession

Feb. 2012
WSJ survey
places
probability at
21%



Source: Wall Street Journal Economic Forecasting Survey

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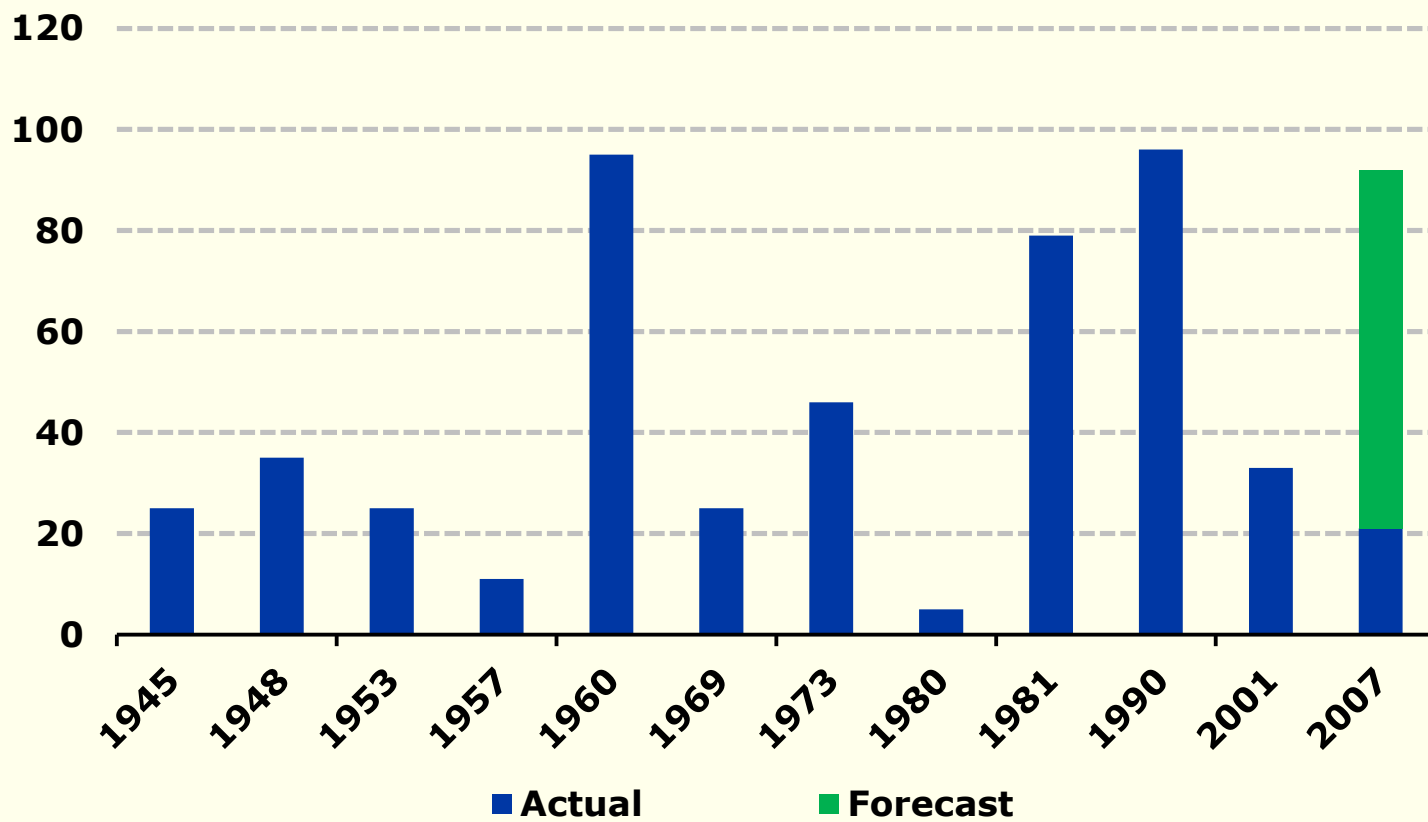
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Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment

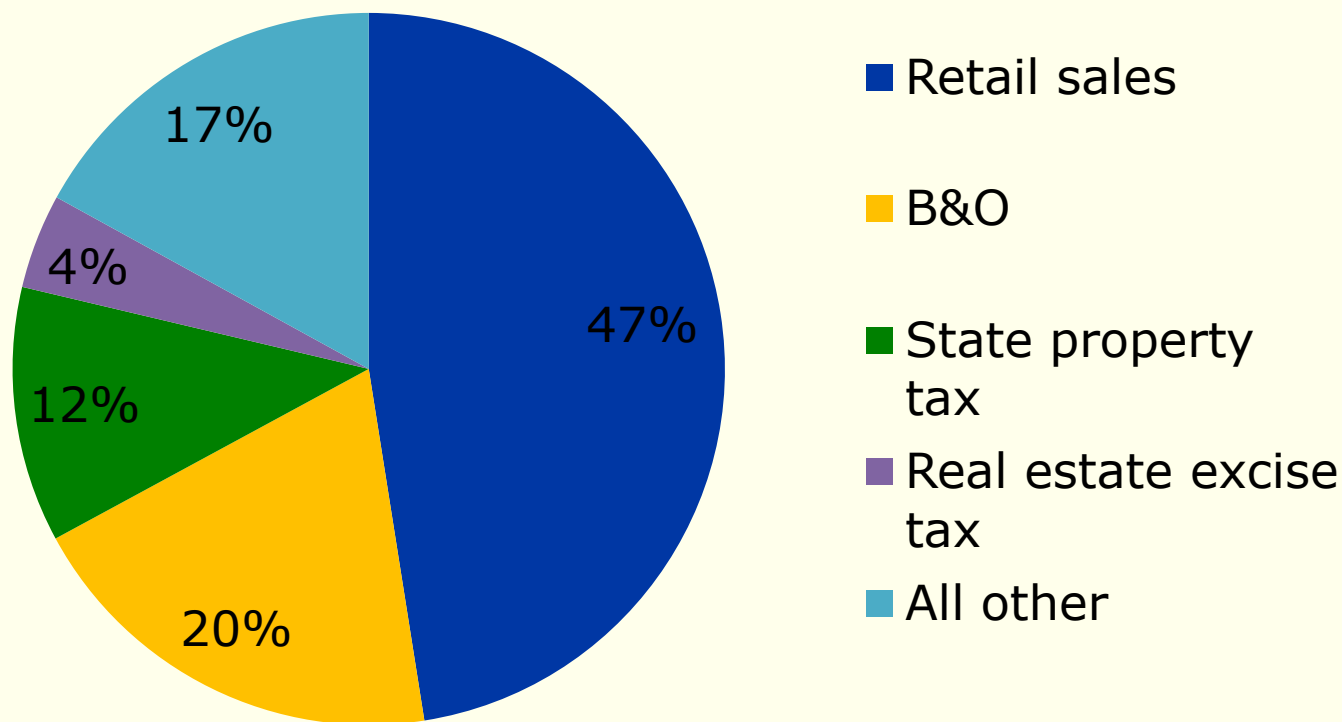


Sources: NBER, ERFC February 2016 forecast



Retail sales taxes account for over 47% of collections

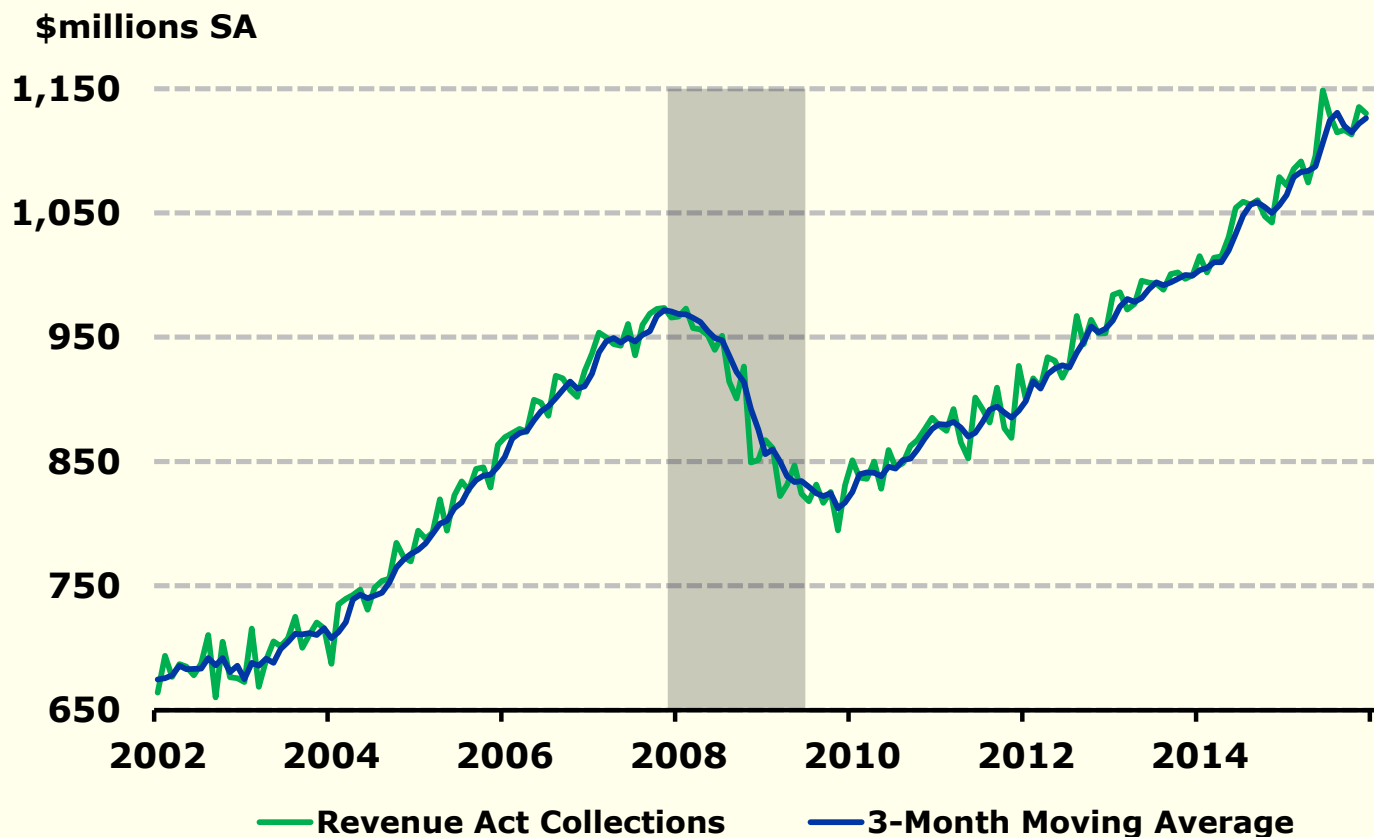
FY 2015 collections



Source: Dept. of Revenue, ERFC



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



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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 December 2015 activity

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Large commercial property sales have had major impact on REET collections

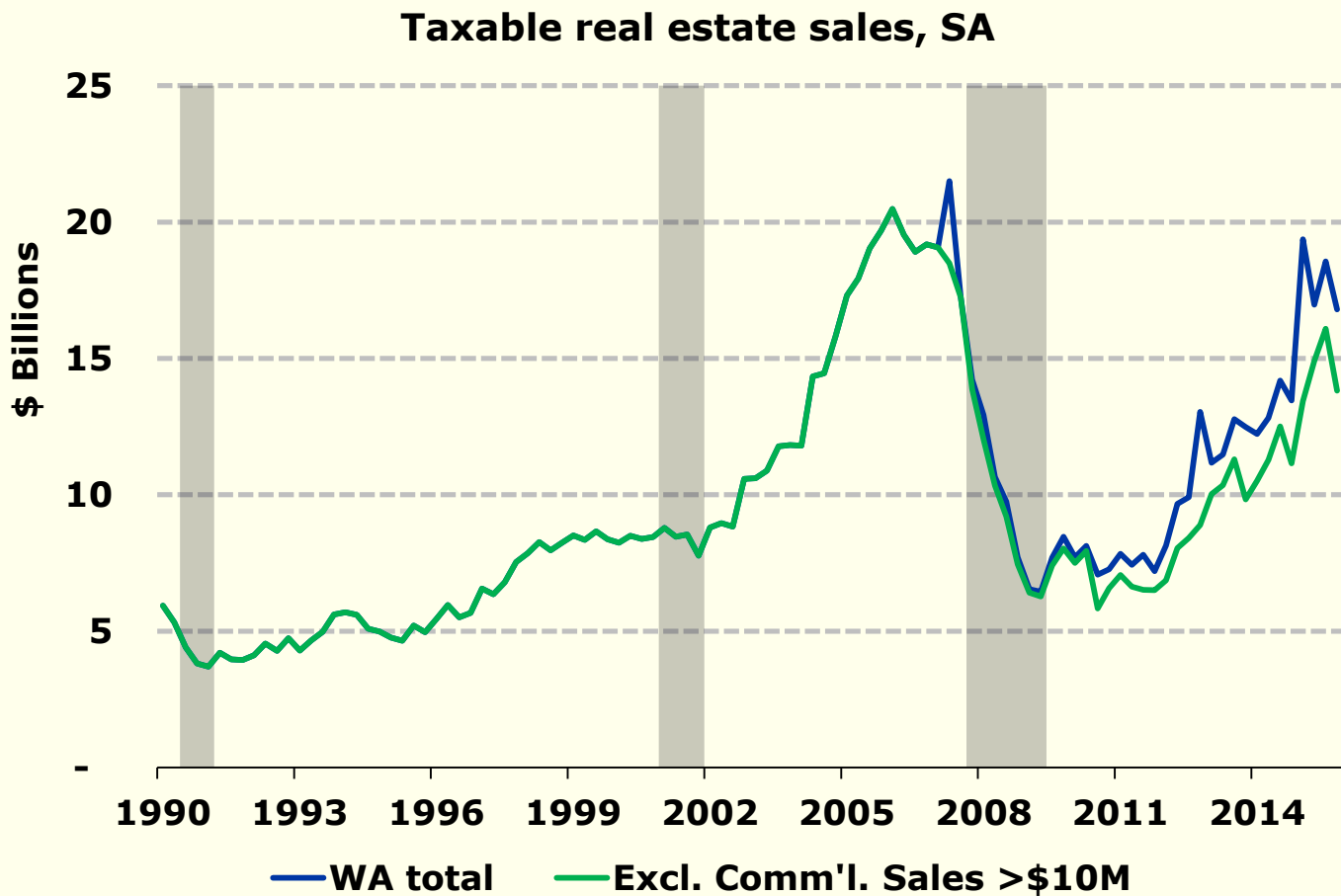
Residential taxable activity and smaller commercial sales grew rapidly for the first 3 quarters of 2015 but declined in the 4th quarter.

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

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Source: ERFC, data through 2015 Q4

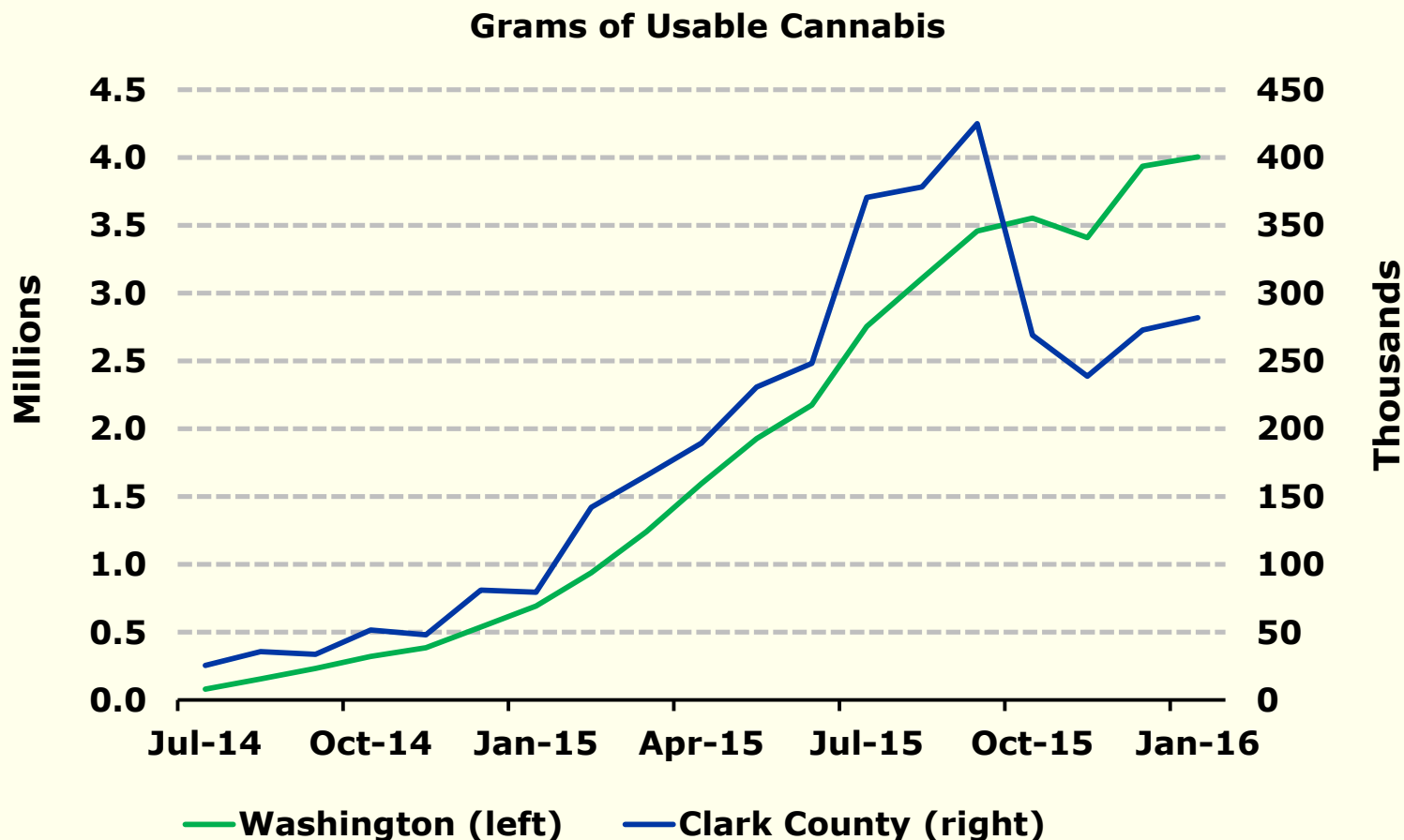
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Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12% of total sales by quantity.

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



Source: WA LCB; data through January 2016

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Medical & recreational cannabis sales merge as of July 2016

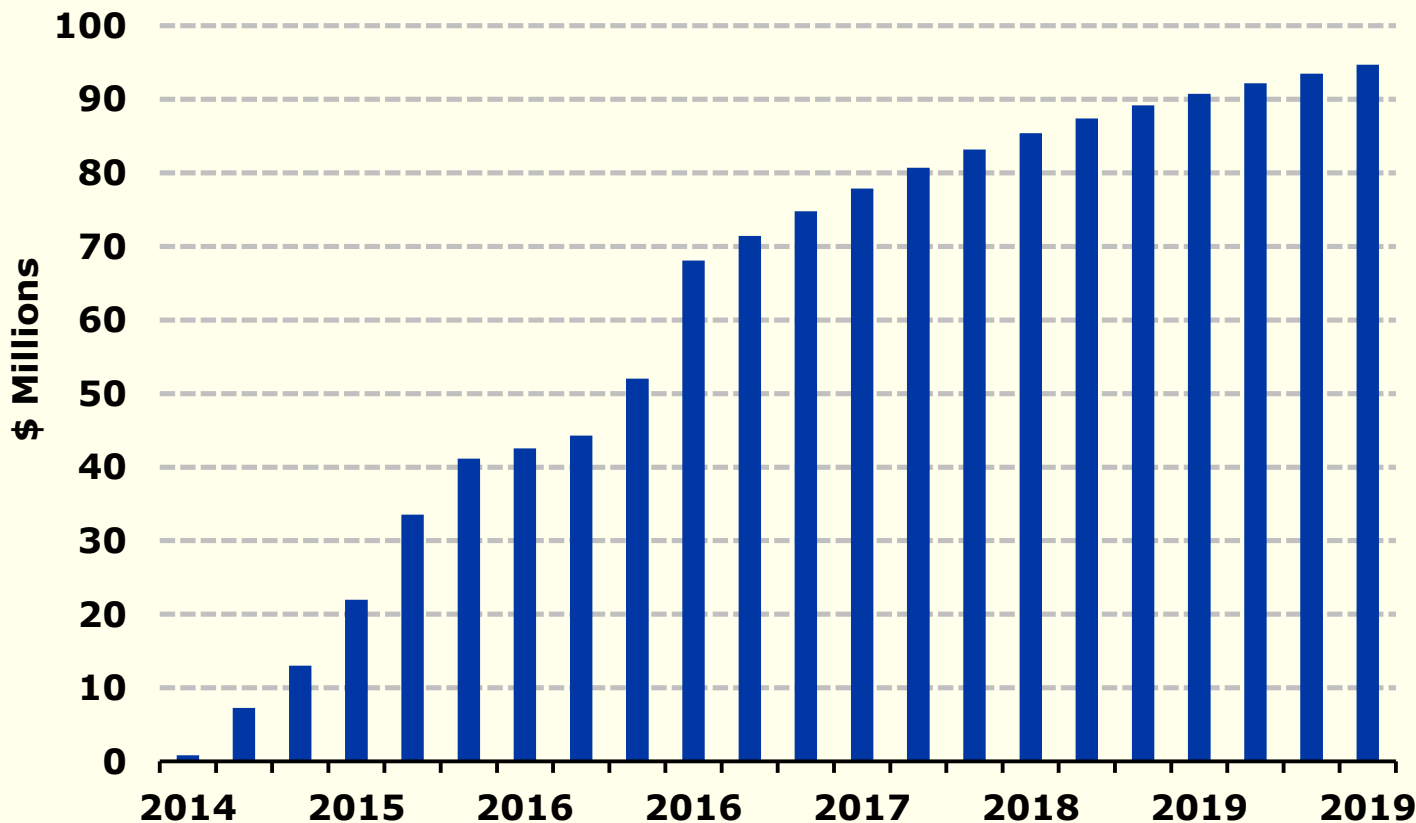
Currently, only recreational sales subject to 37% tax; starting in July, medical sales will also be taxed at 37%

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Cannabis excise tax collections



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

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Conclusion

- The economic forecast is weaker than in November but we continue to expect moderate growth
- Oil prices and inflation are lower than expected in November
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic expansion include slower global and U.S. growth, the impact of a stronger dollar on exports, and a slowdown in manufacturing



Questions

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