

U.S. and Washington State Economic Outlook

Presented to
the Pierce County Council

Steve Lerch
Executive Director

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Tacoma, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Economic news continues to suggest risks to economic forecasts

Upside:

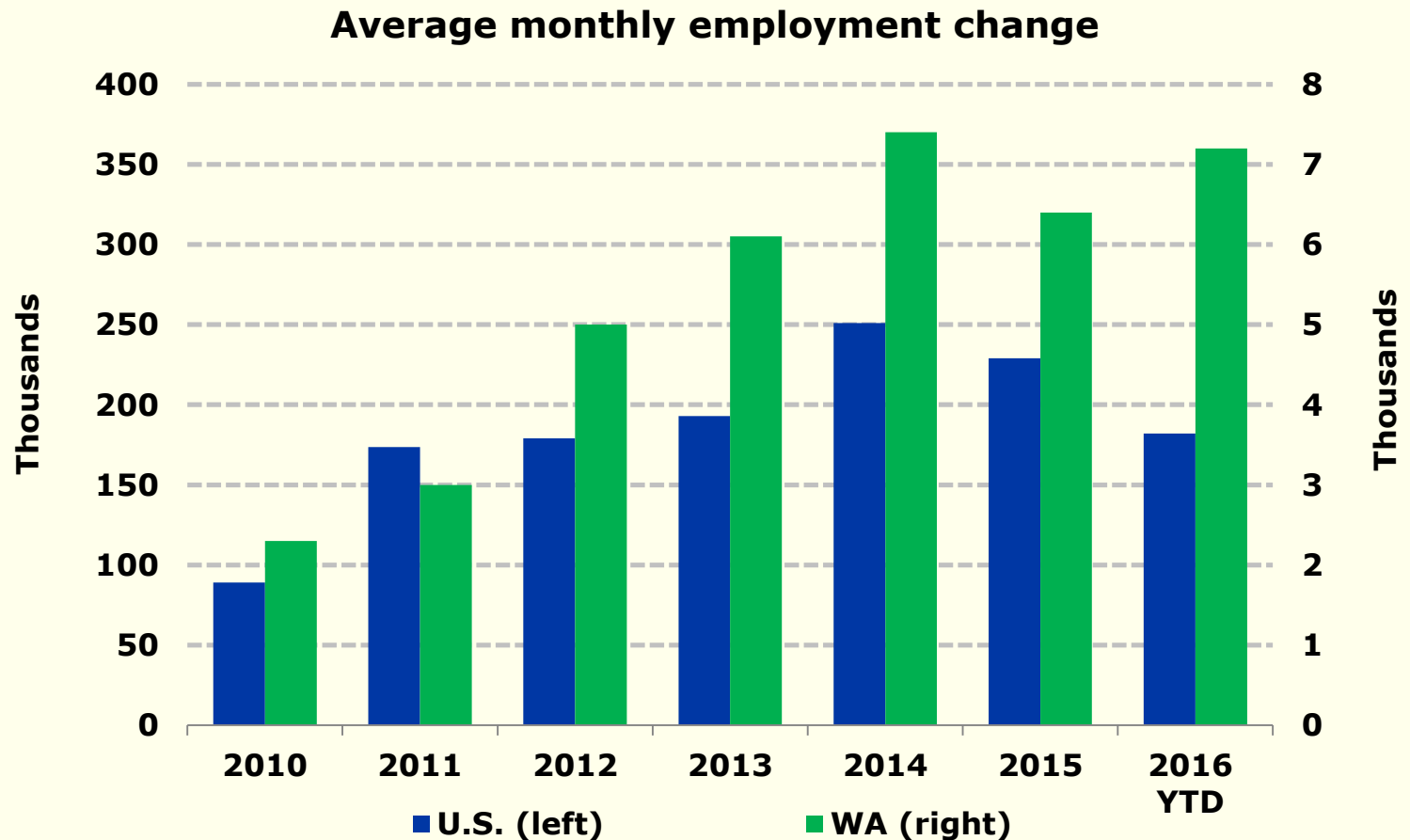
- Stronger than expected Washington job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weak labor productivity growth



U.S. employment growth weaker, WA stronger than last year



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

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Metro area employment has recovered unevenly



Source: Employment Security Dept; data through August 2016



Pierce County employment by industry, 2014 and 2015

In 2015, employment grew by 2.7% and annual average wages by 3.4%

	2014		2015	
	Employment	Avg. annual wage	Employment	Avg. annual wage
Total	277,860	\$45,299	285,349	\$46,820
Government	55,465	\$54,920	55,726	\$57,392
Retail trade	33,747	\$31,119	35,646	\$32,004
Health care	31,439	\$56,683	32,015	\$60,181
Accommodation and food service	24,693	\$17,405	26,201	\$18,287
Construction	17,554	\$53,267	18,731	\$55,400
Administrative & support services	15,142	\$41,162	17,013	\$41,920
Manufacturing	17,141	\$63,498	16,912	\$61,573
Wholesale trade	12,324	\$57,414	12,920	\$60,619
Social assistance	13,725	\$18,137	12,725	\$23,541
Transportation & warehousing	12,124	\$49,678	11,916	\$51,647
Professional & technical services	8,562	\$58,302	8,820	\$58,067
All other	35,944	\$43,788	36,724	\$43,913

Source: Employment Security Dept.

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Average weekly wages are trending up in Washington and, until recently, in U.S.

The 1st quarter decline in weekly U.S. wage growth is inconsistent with other data and is likely to be revised up



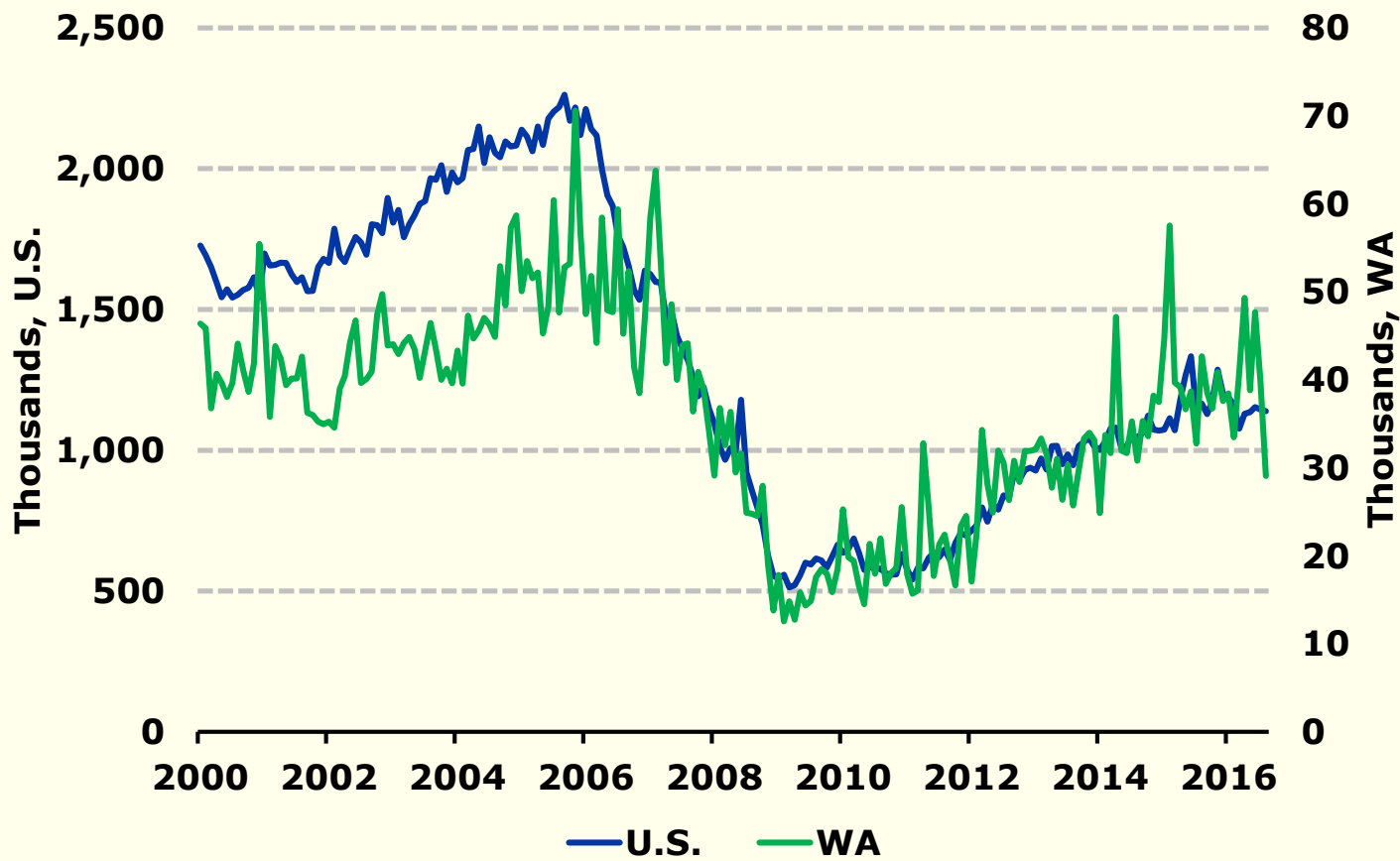
Source: U.S Bureau of Labor Statistics, Quarterly Census of Employees and Wages; data through 2016 Q1

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Housing permits generally trending up; U.S. remains below historical averages

Weak August data for WA due to drop in multi-family permits

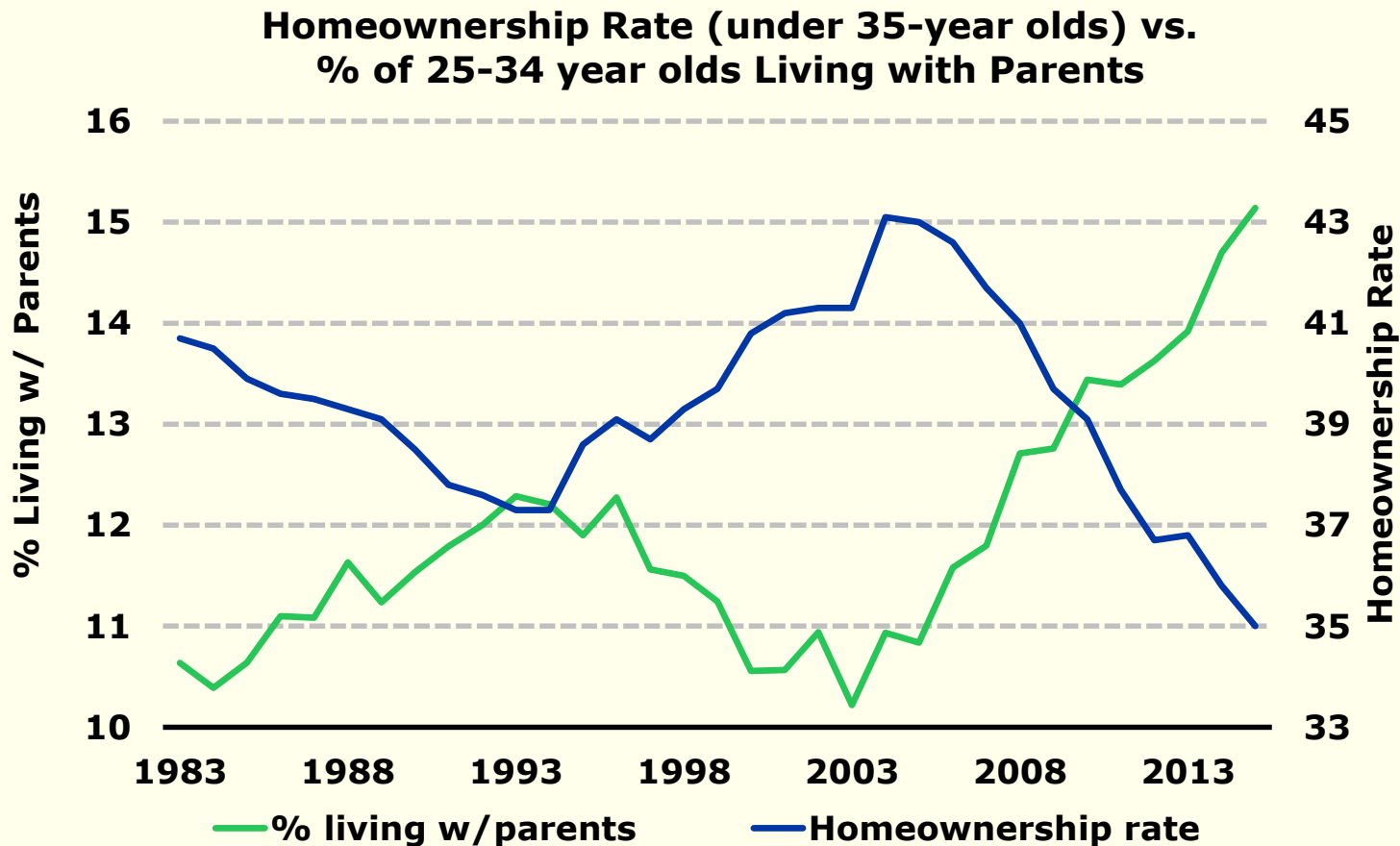


Source: U.S. Census Bureau, data through August 2016



Young adults are increasingly living with parents and foregoing home ownership

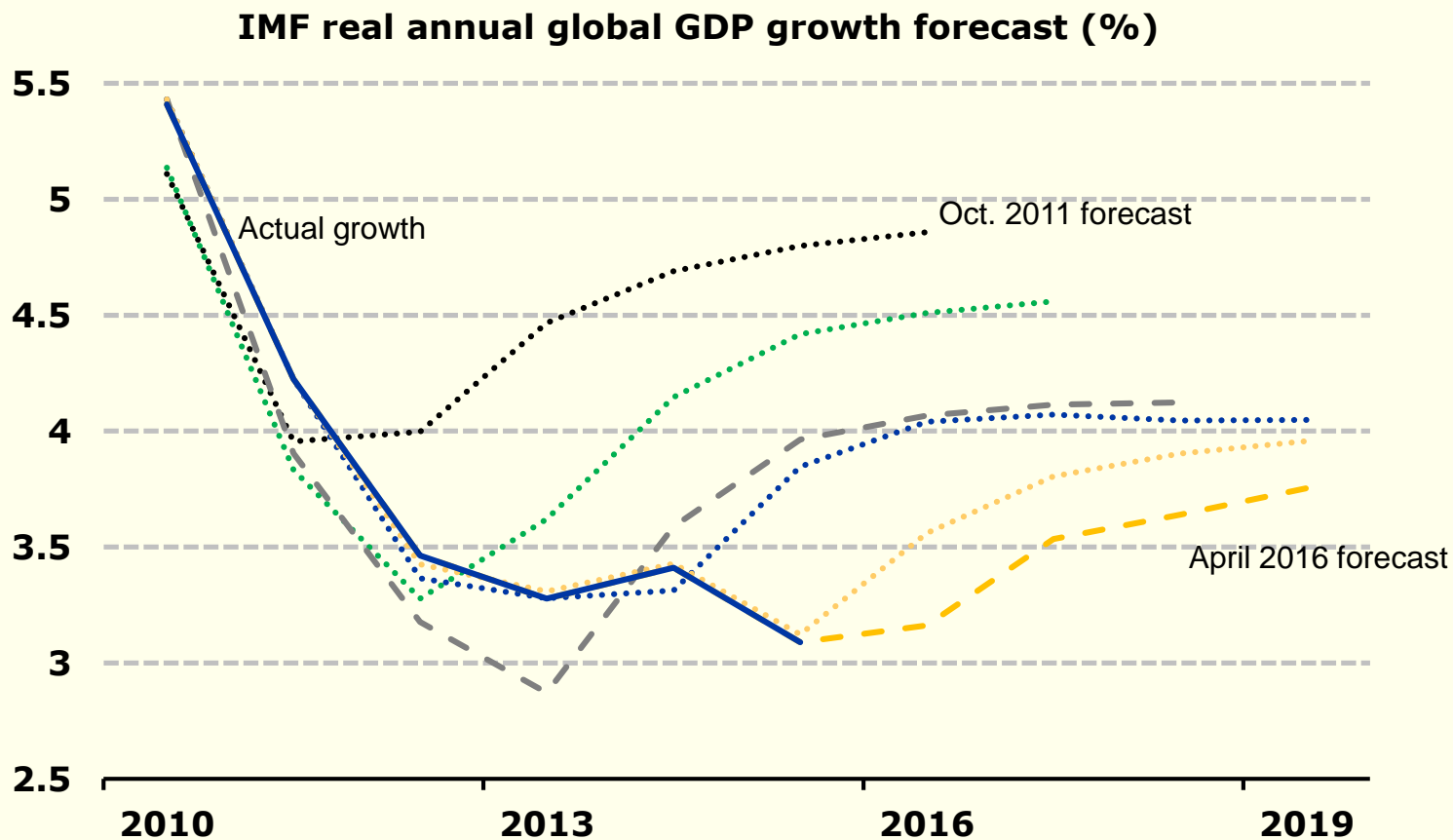
As the job market continues to improve, young adults are likely to move out and increase demand for housing



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

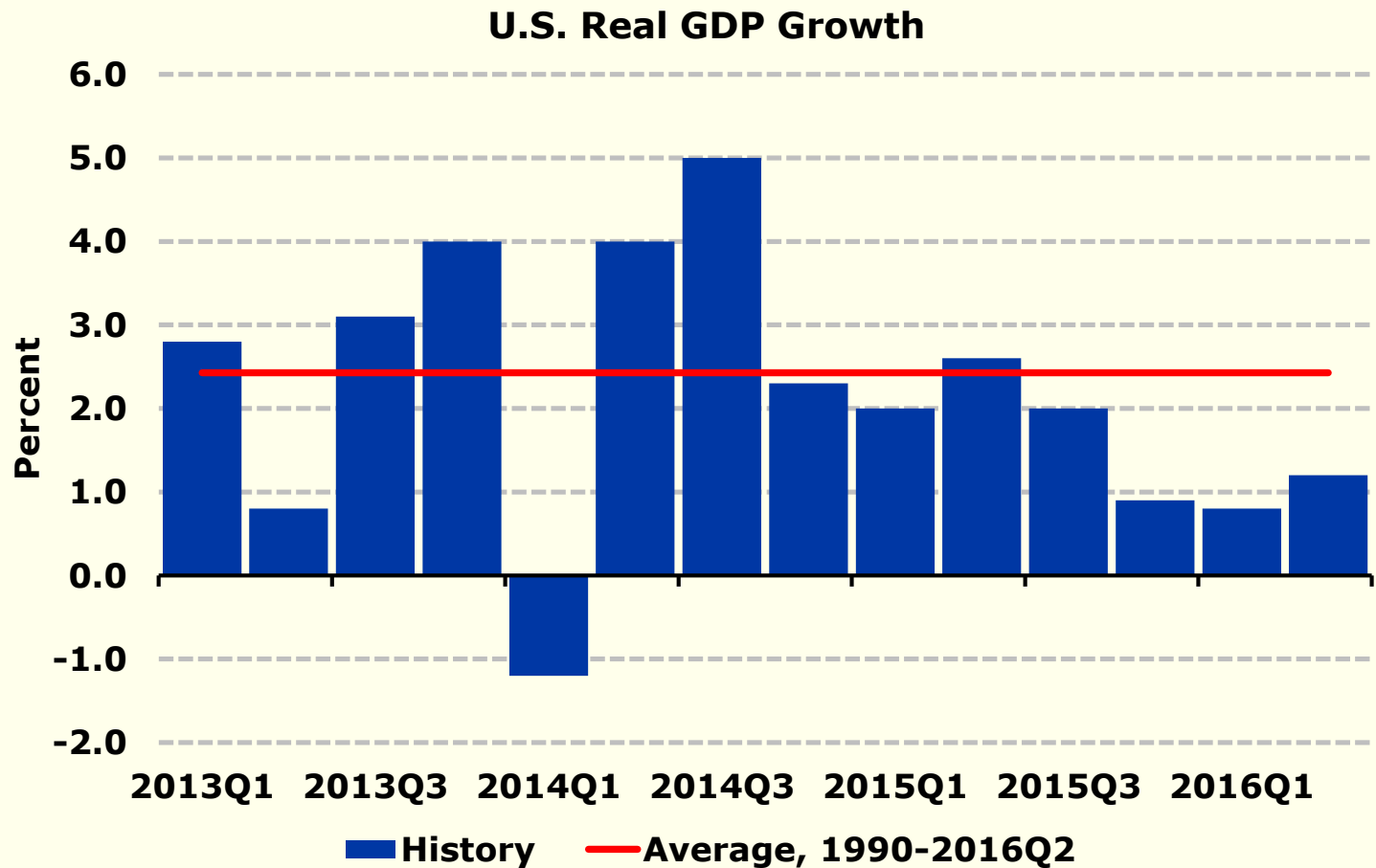


Global GDP forecasts have been consistently revised down





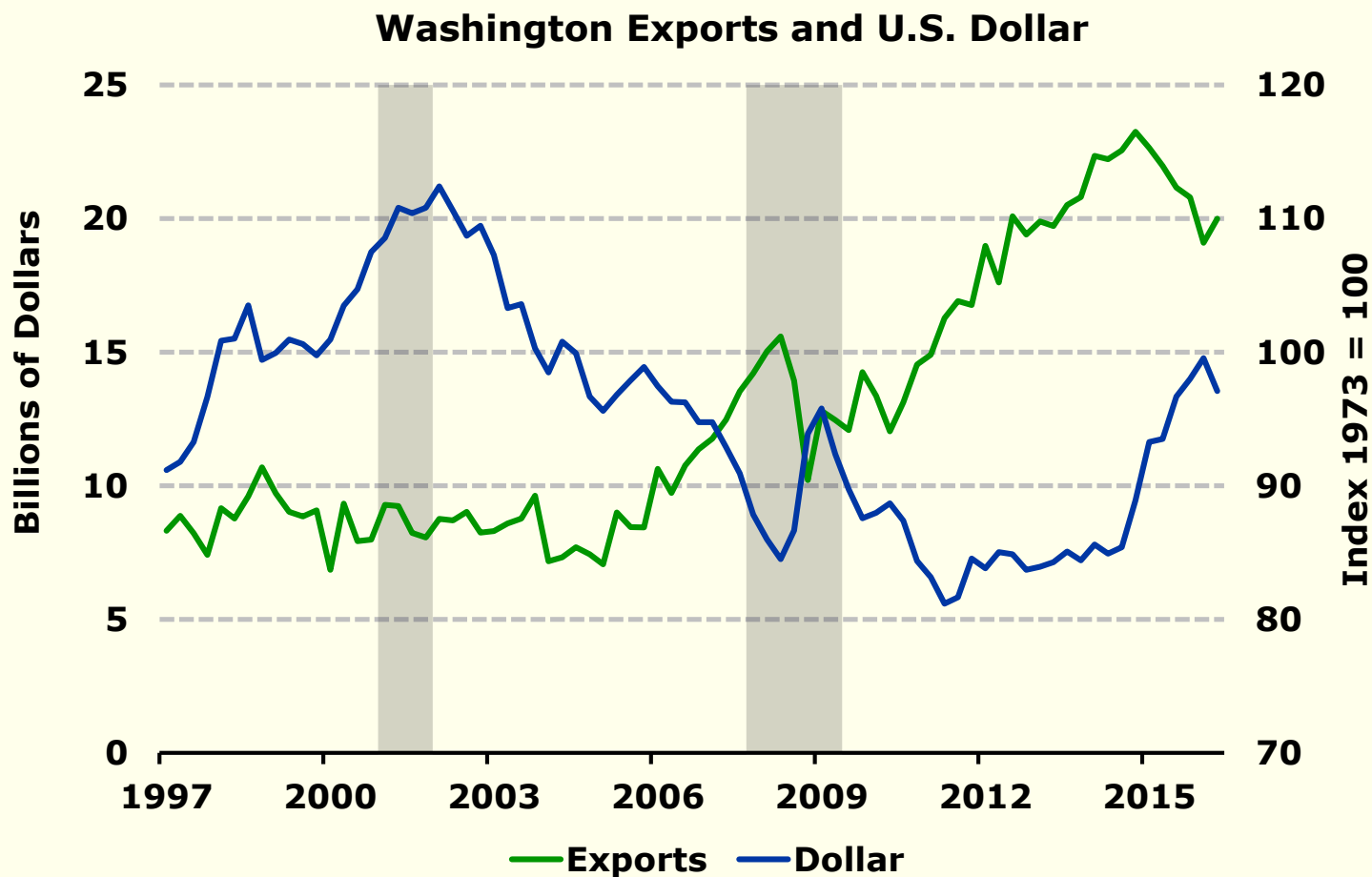
U.S. economic growth weakened in the last three quarters



Source: U.S. Dept. of Commerce, BEA, data through 2016 Q2



Strong dollar is contributing to a decline in exports



Source: Wiser Trade, Federal Reserve Bank of St. Louis; data through 2016Q2

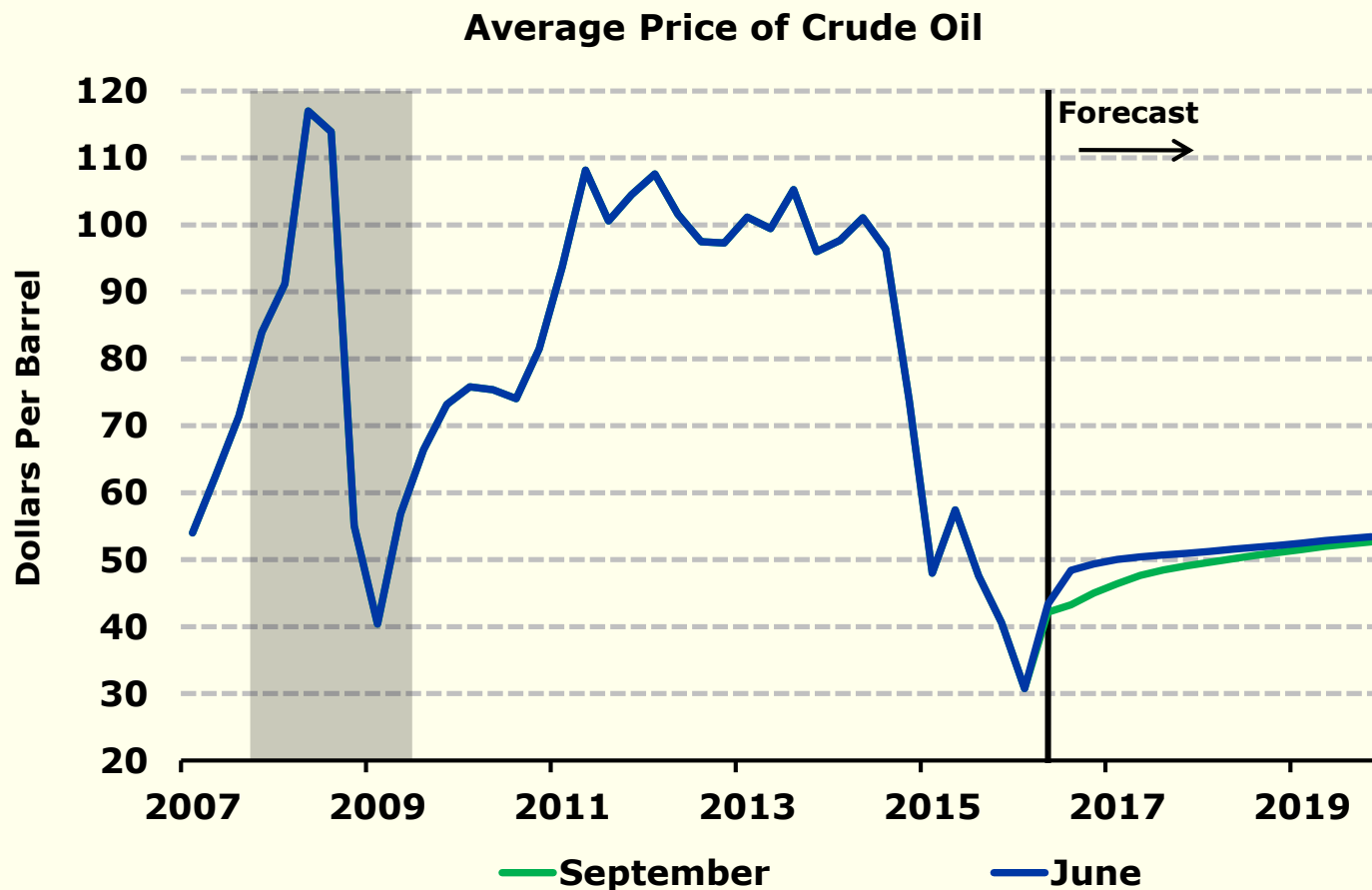


Labor productivity has remained low since 2011





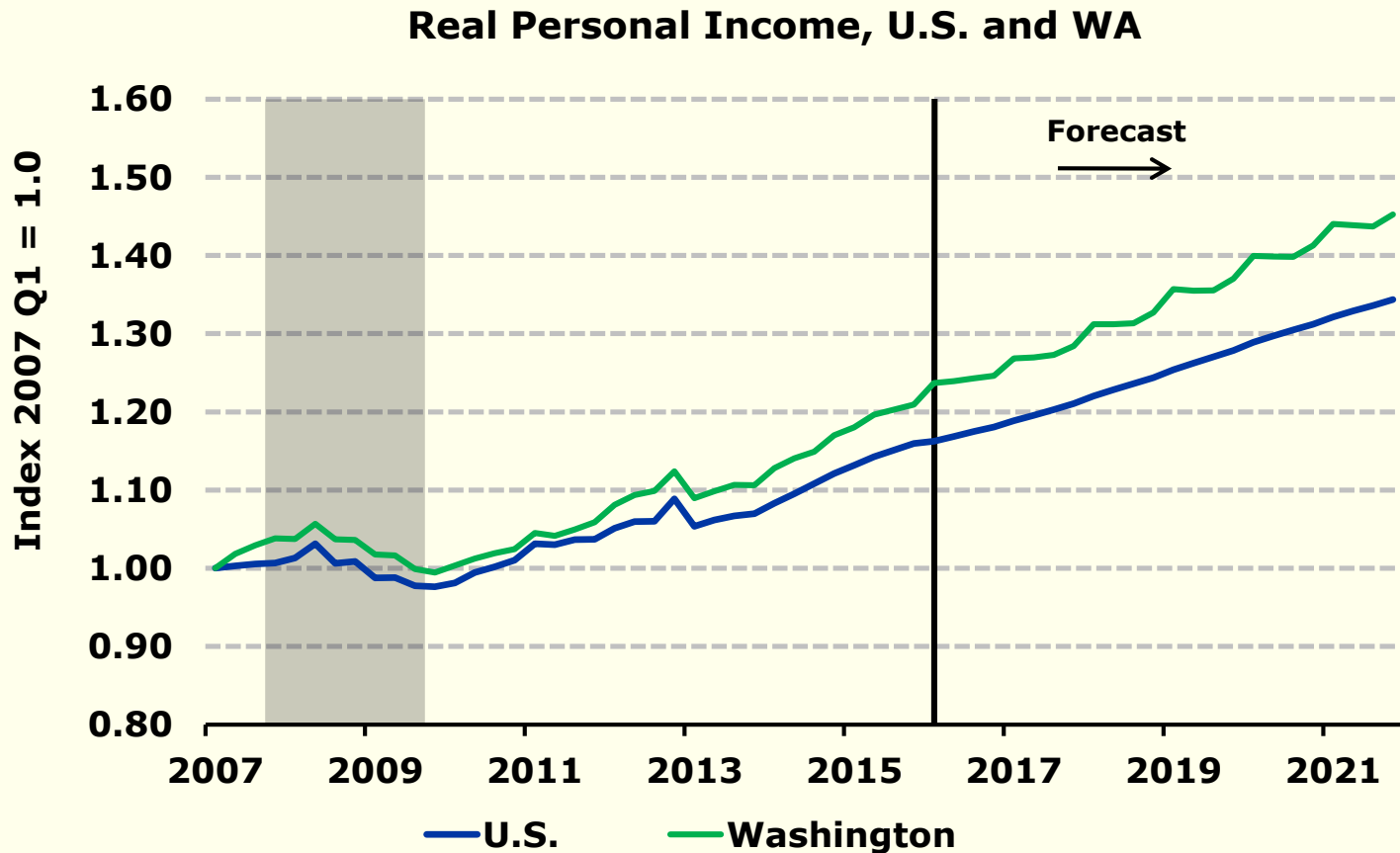
Oil prices are lower in the near term, then gradually rise as in our previous forecast



Source: DOE, ERFC September 2016 forecast; historical data through 2016Q2



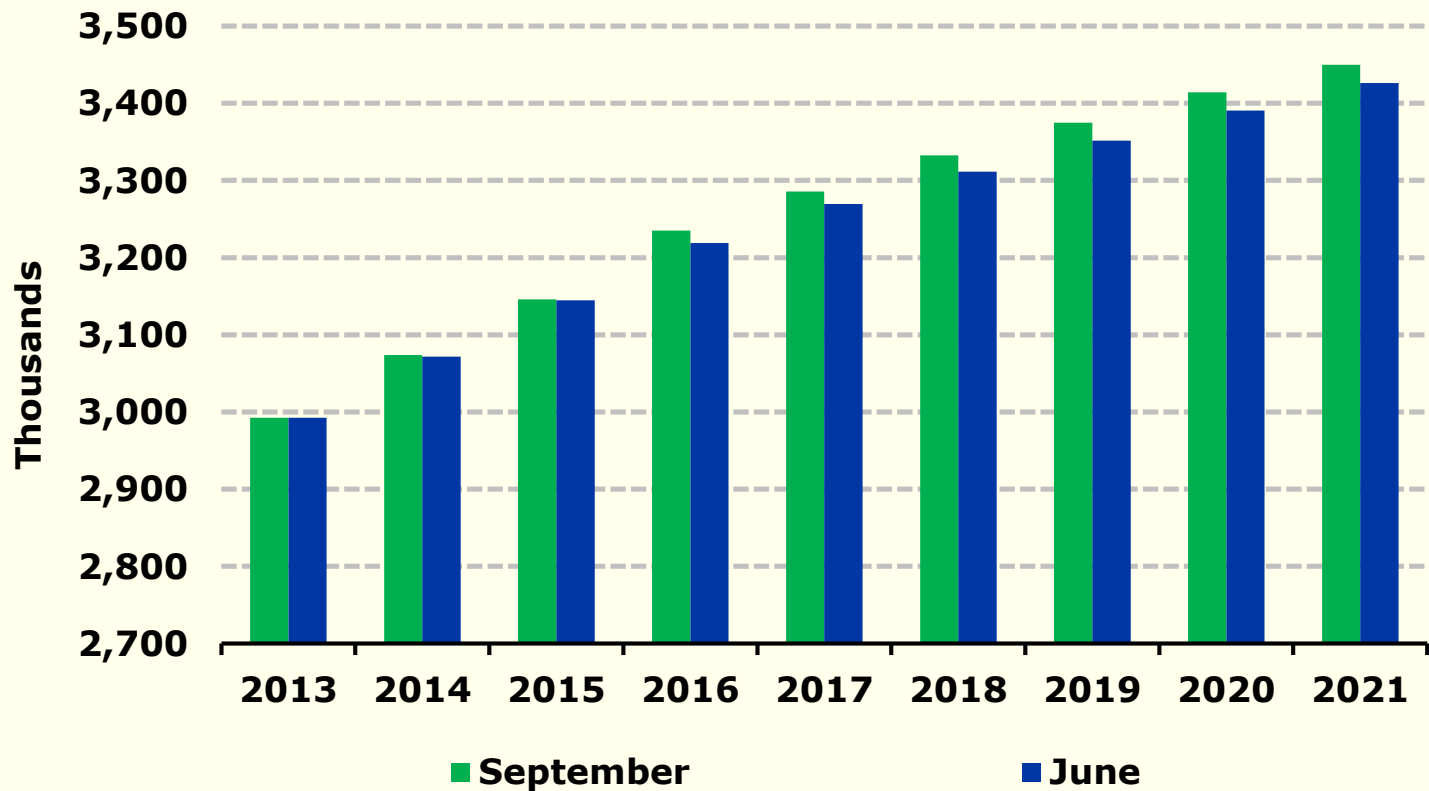
State personal income will continue to grow slightly faster than the U.S.





Washington employment forecast revised up very slightly in 2017 - 2021

Washington Nonfarm Payroll Employment

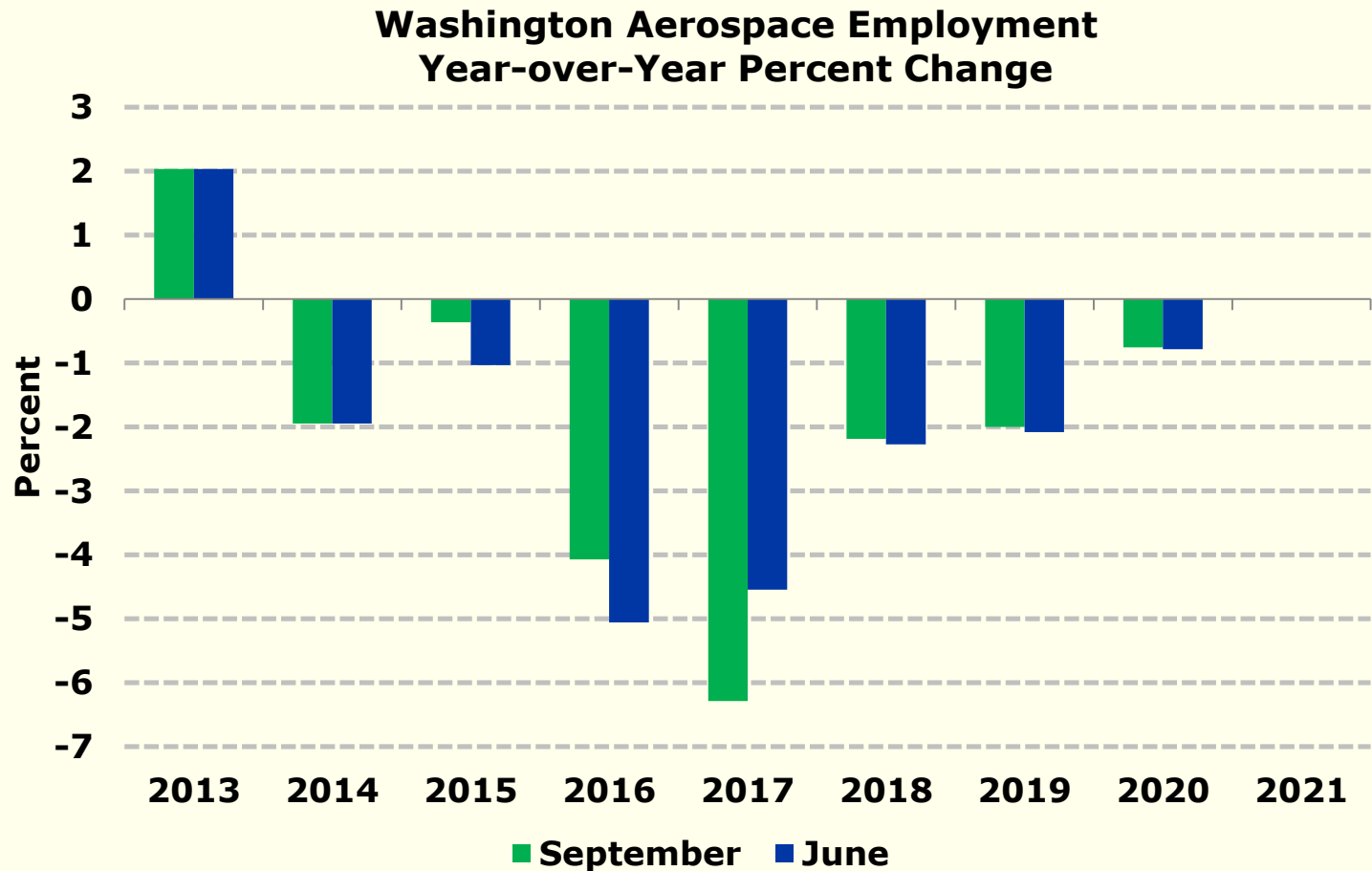


Source: ERFC September 2016 forecast; historical data through 2015



WA aerospace employment expected to decline less in 2016, more in 2017 compared to June forecast

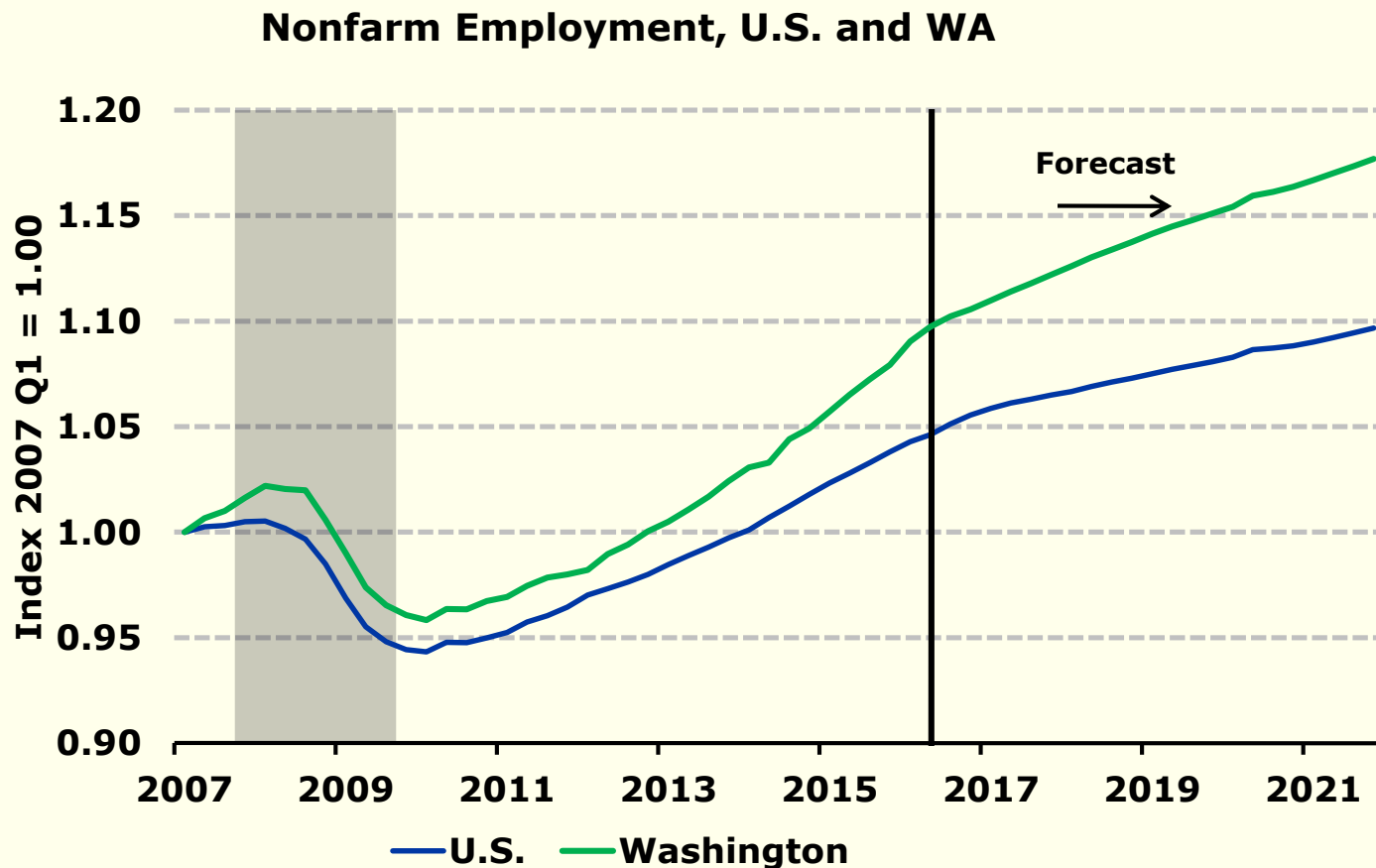
Boeing announced it would eliminate 4,000 jobs by mid-2016; aerospace employment has dropped by about 3,000 jobs so far this year



Source: ERFC September 2016 forecast; historical data through 2016Q2

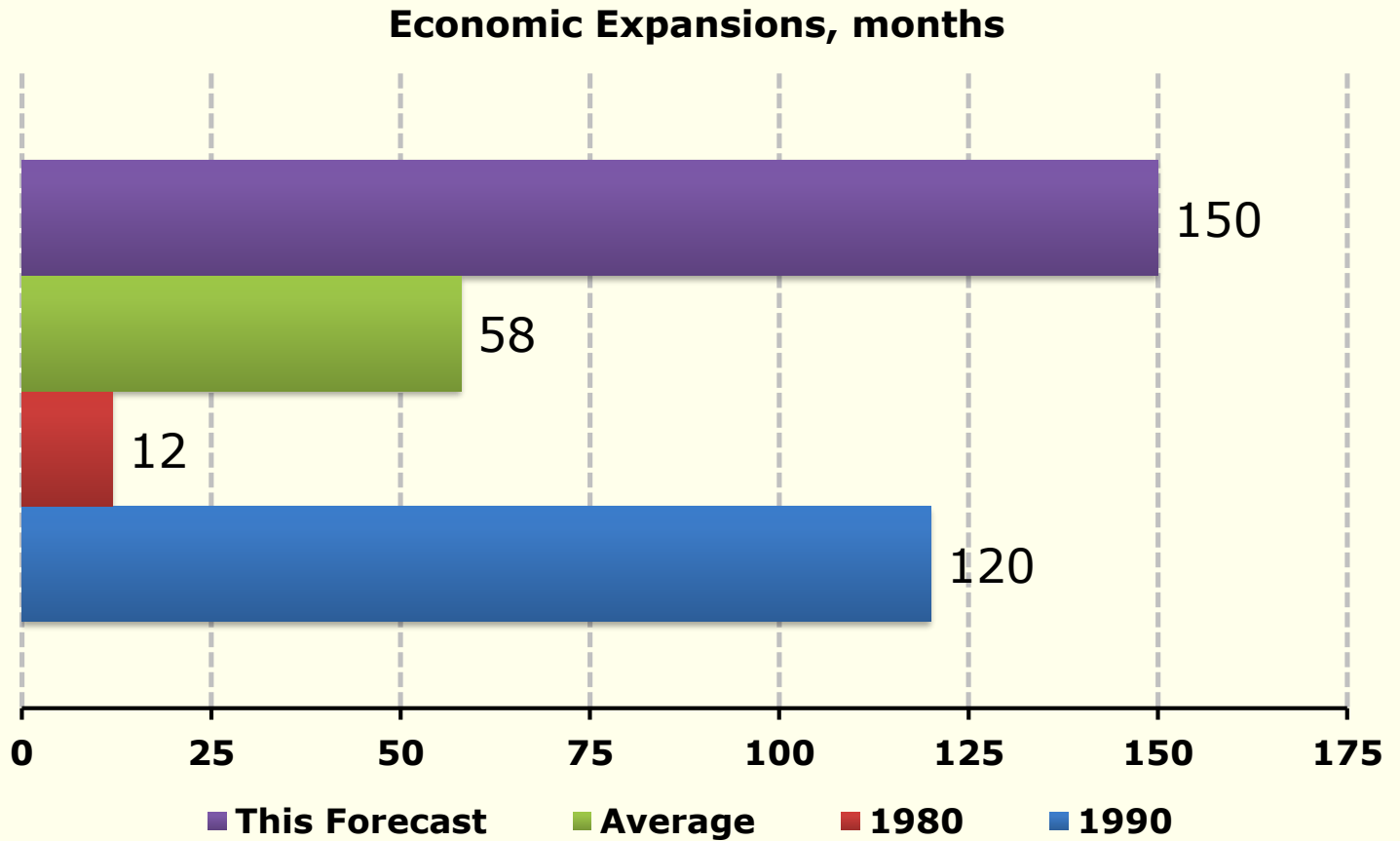


Washington employment will continue to grow slightly faster than the U.S.





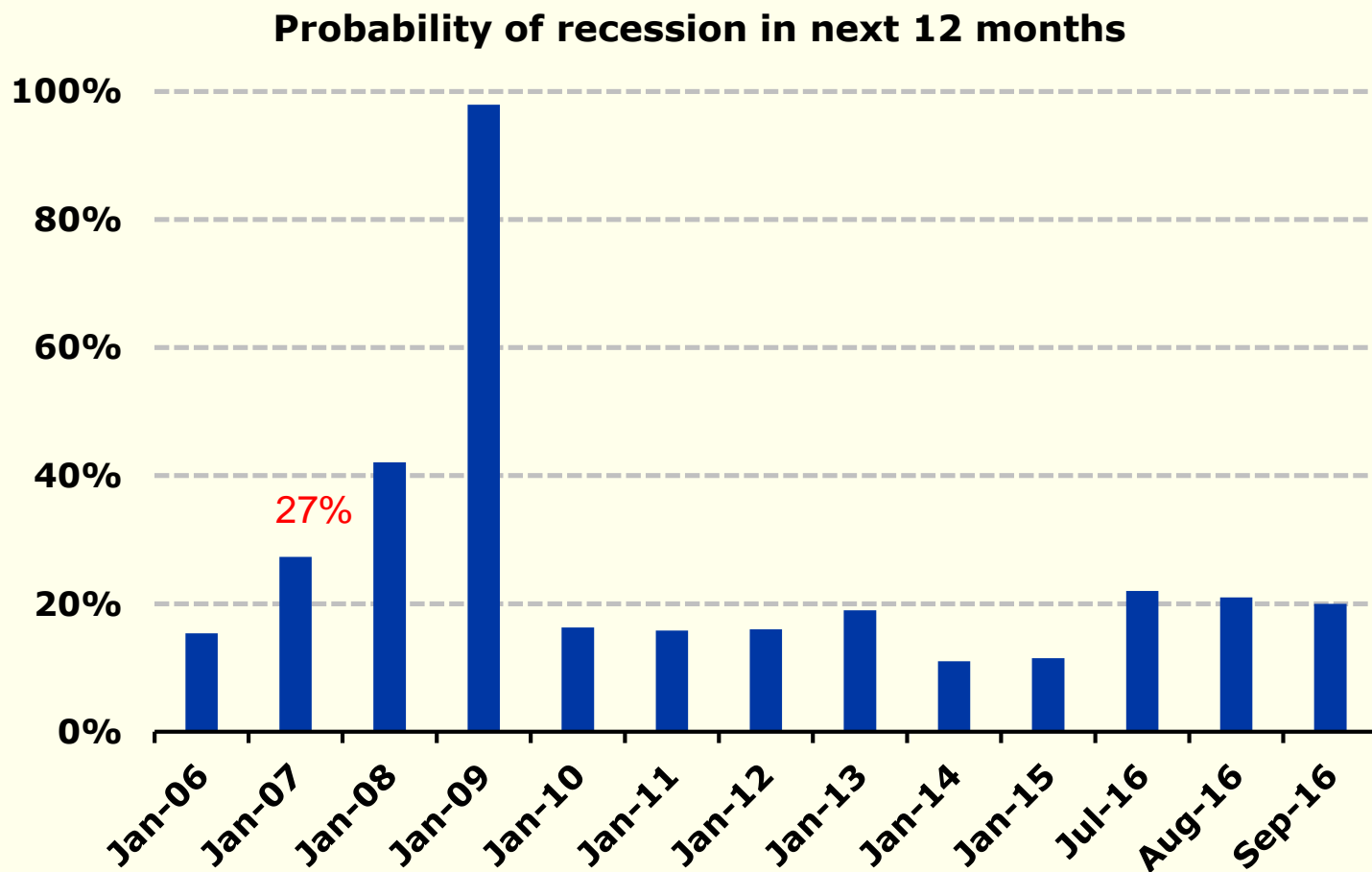
U.S. Economic Expansions since 1945



Sources: NBER, ERFC September 2016 forecast



Wall Street Journal survey shows low but rising probability of recession

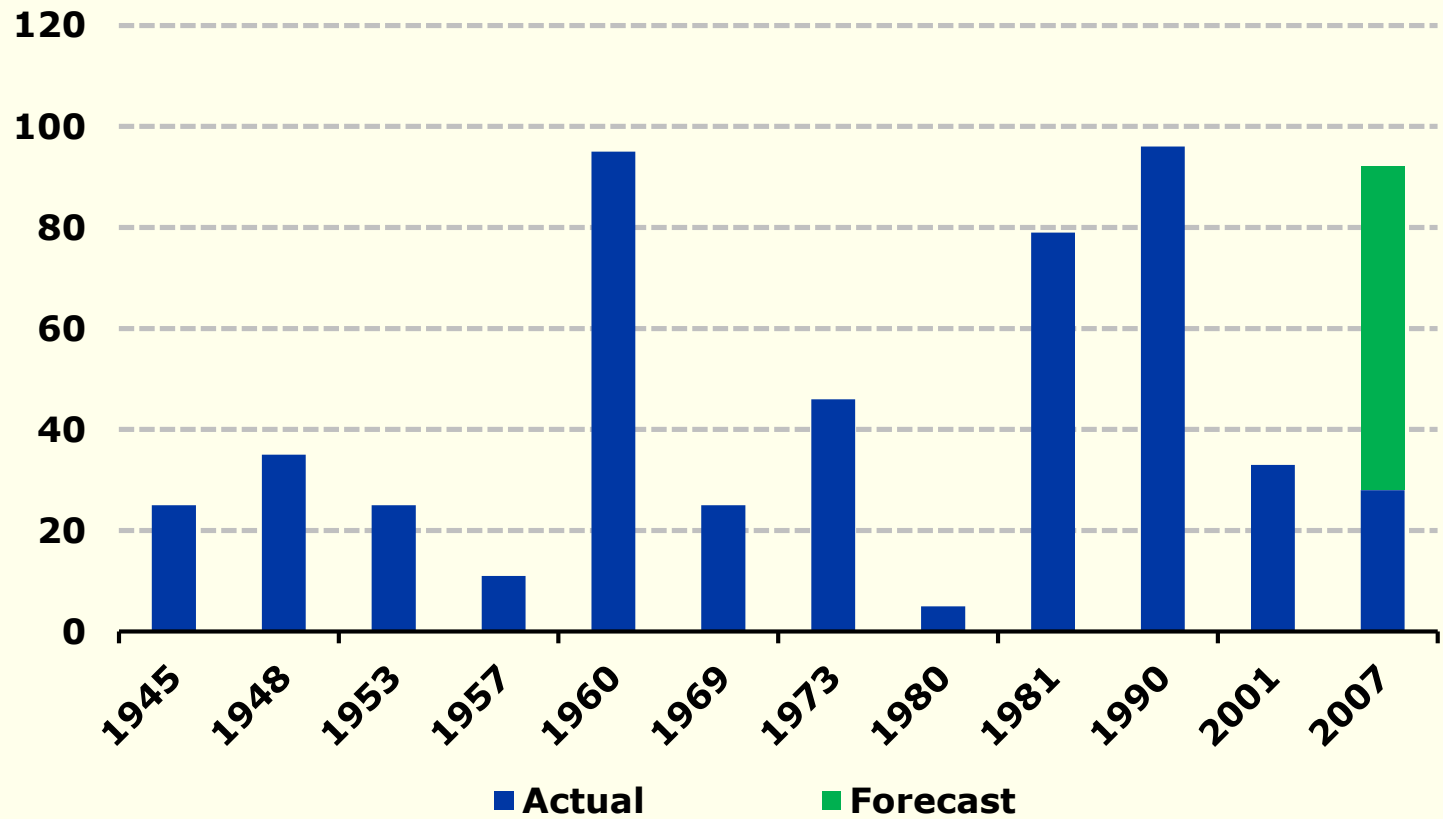


Source: Wall Street Journal Economic Forecasting Survey, data through Sept. 2016



Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment

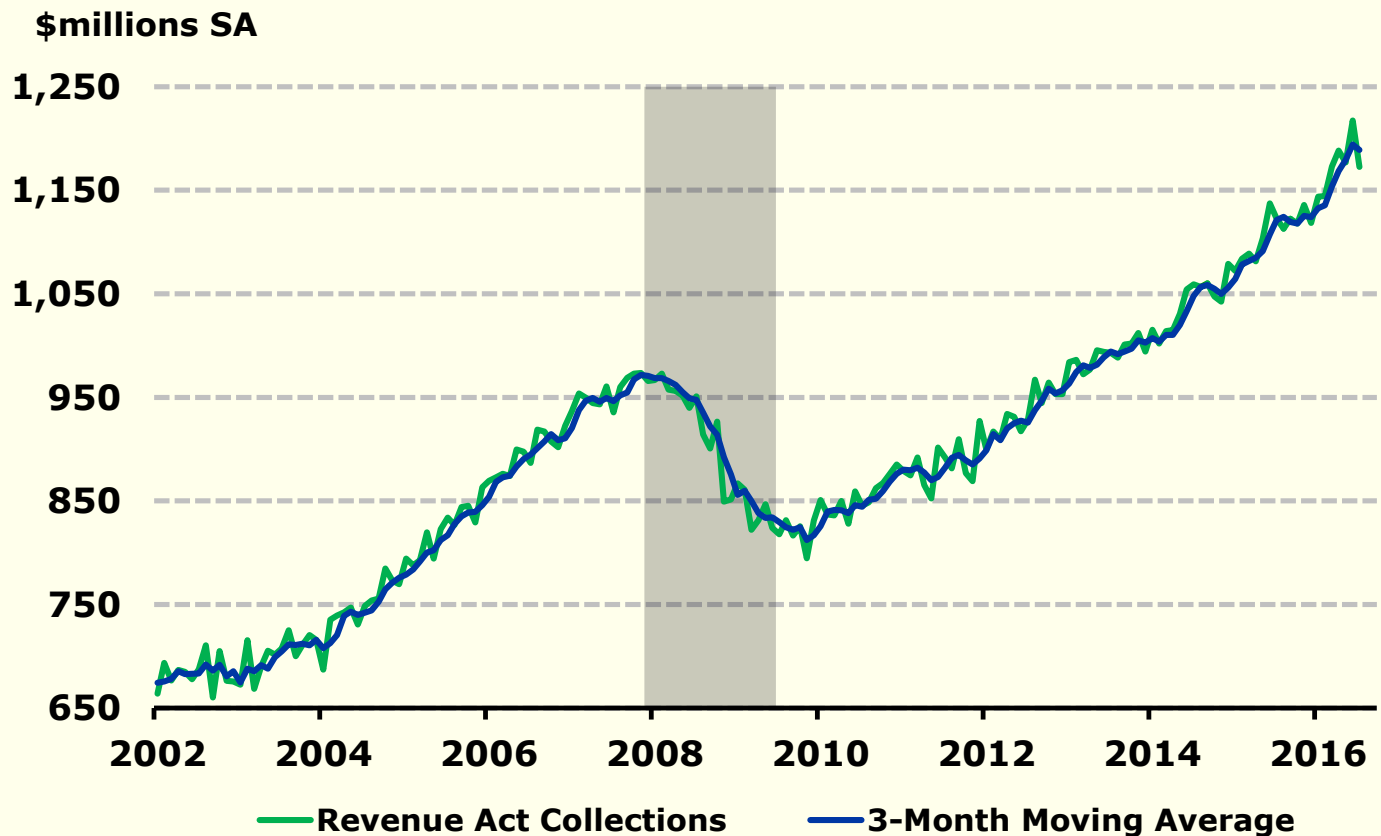


Sources: NBER, BLS, ERFC September 2016 forecast; historic data through August 2016

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Revenue Act collections were strong in the first part of the year but slowed last month



* 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 July 2016 activity



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

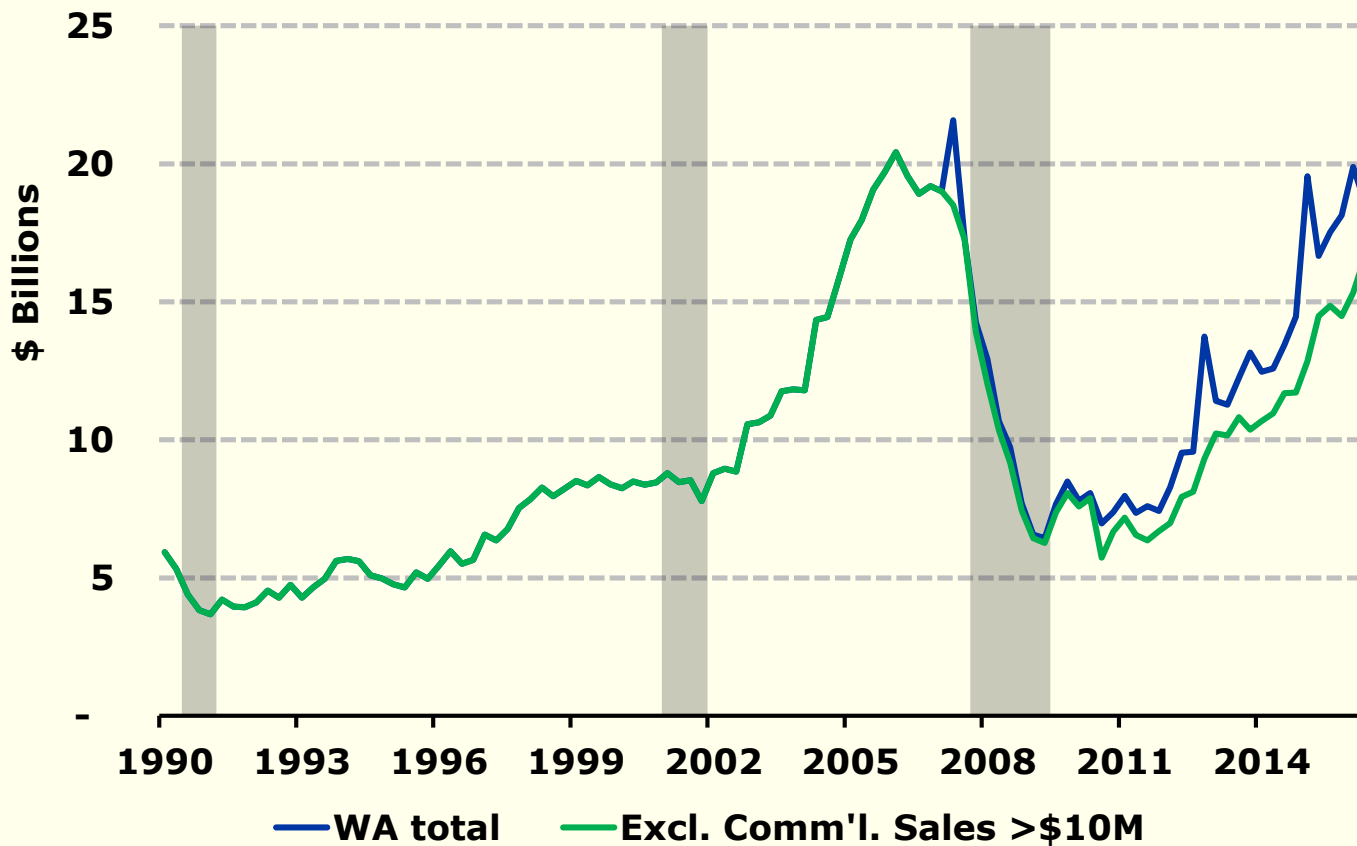
Large commercial property sales over \$10 million totaled \$1.6 billion in July and \$740 million in August.

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

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Taxable real estate sales, SA

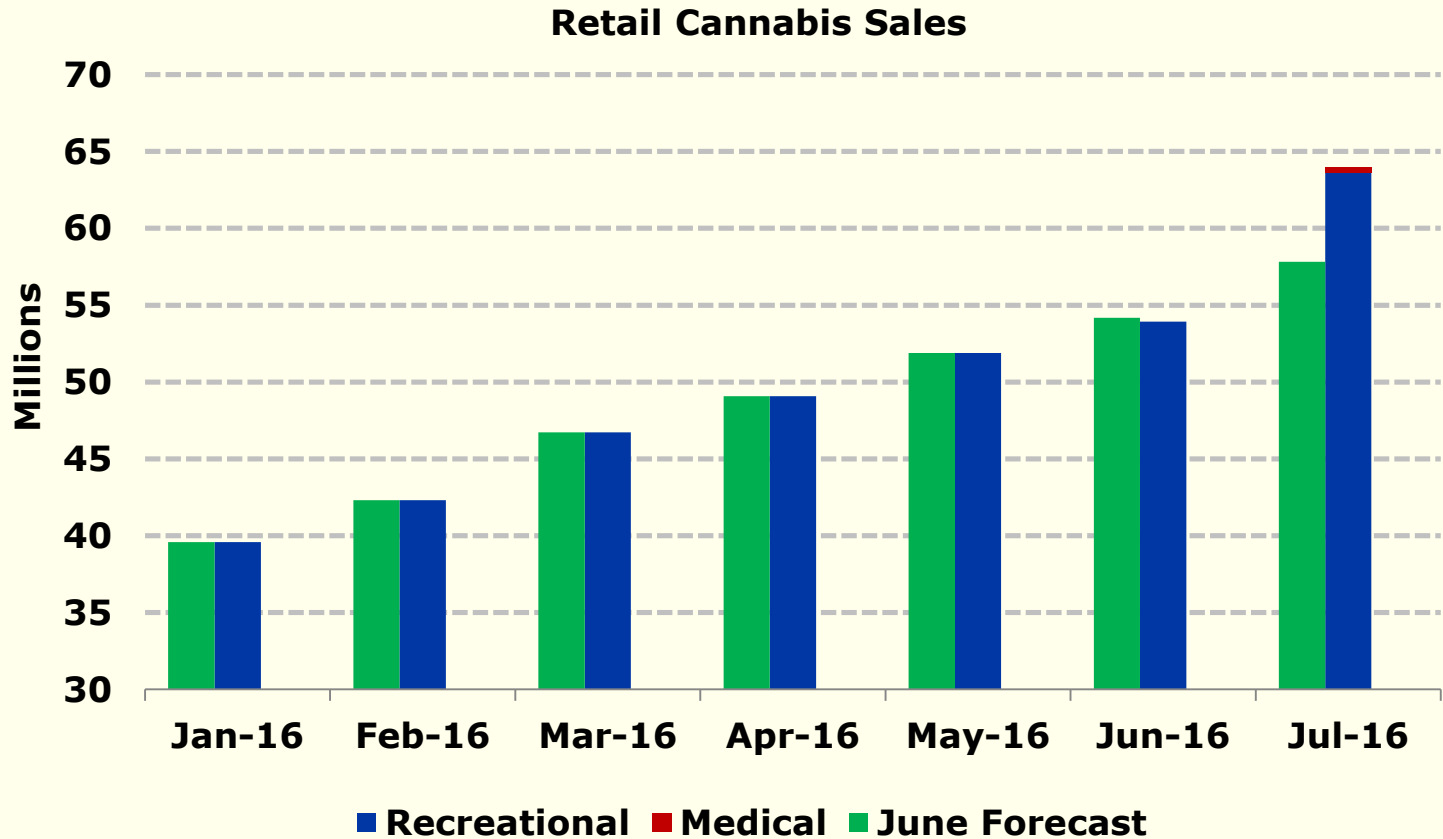


Source: ERFC, data through 2016 Q2



Cannabis revenue continues to increase

Retail medical sales became subject to the 37% excise tax on July 1, 2016



Source: LCB, ERFC; data through July 2016



Conclusion

- The U.S. economic forecast is almost identical to June; the WA forecast is very slightly stronger
- Washington is continuing to outperform the nation by a small margin; we expect this be the case through the forecast period
- Threats to economic expansion include slower international economic growth, the impact of a stronger dollar on exports, and slow growth in labor productivity
- Check erfc.wa.gov for monthly economic updates; our next economic forecast is Nov. 2nd



Questions



**Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912**

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