

Washington State Economic and Revenue Forecast

Presented to
PUBM 5700 Economic Analysis
Seattle University

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Seattle, Washington



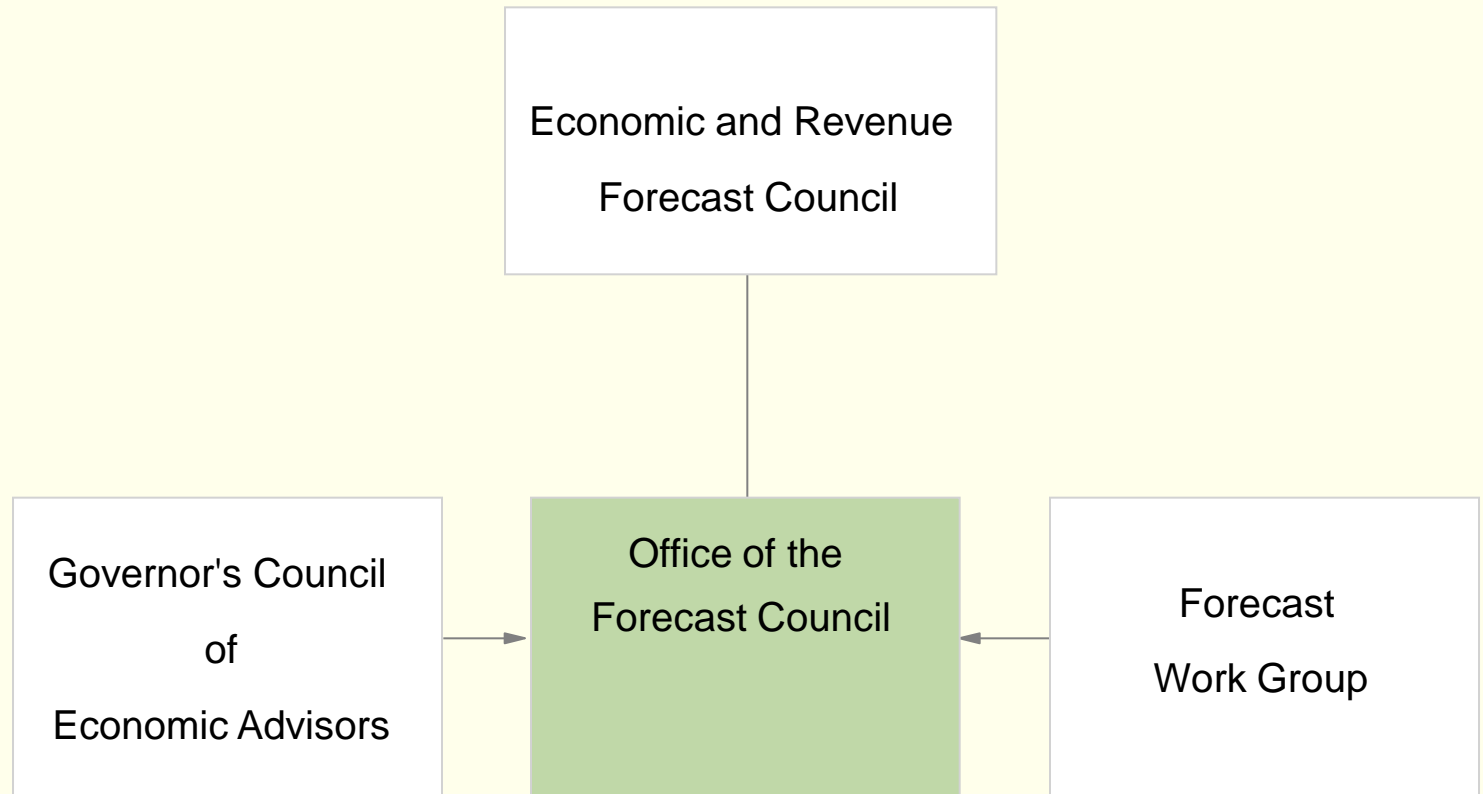
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Forecast Oversight

ERFC

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





ERFC Forecast Process

The national economic forecast is provided by Global Insight

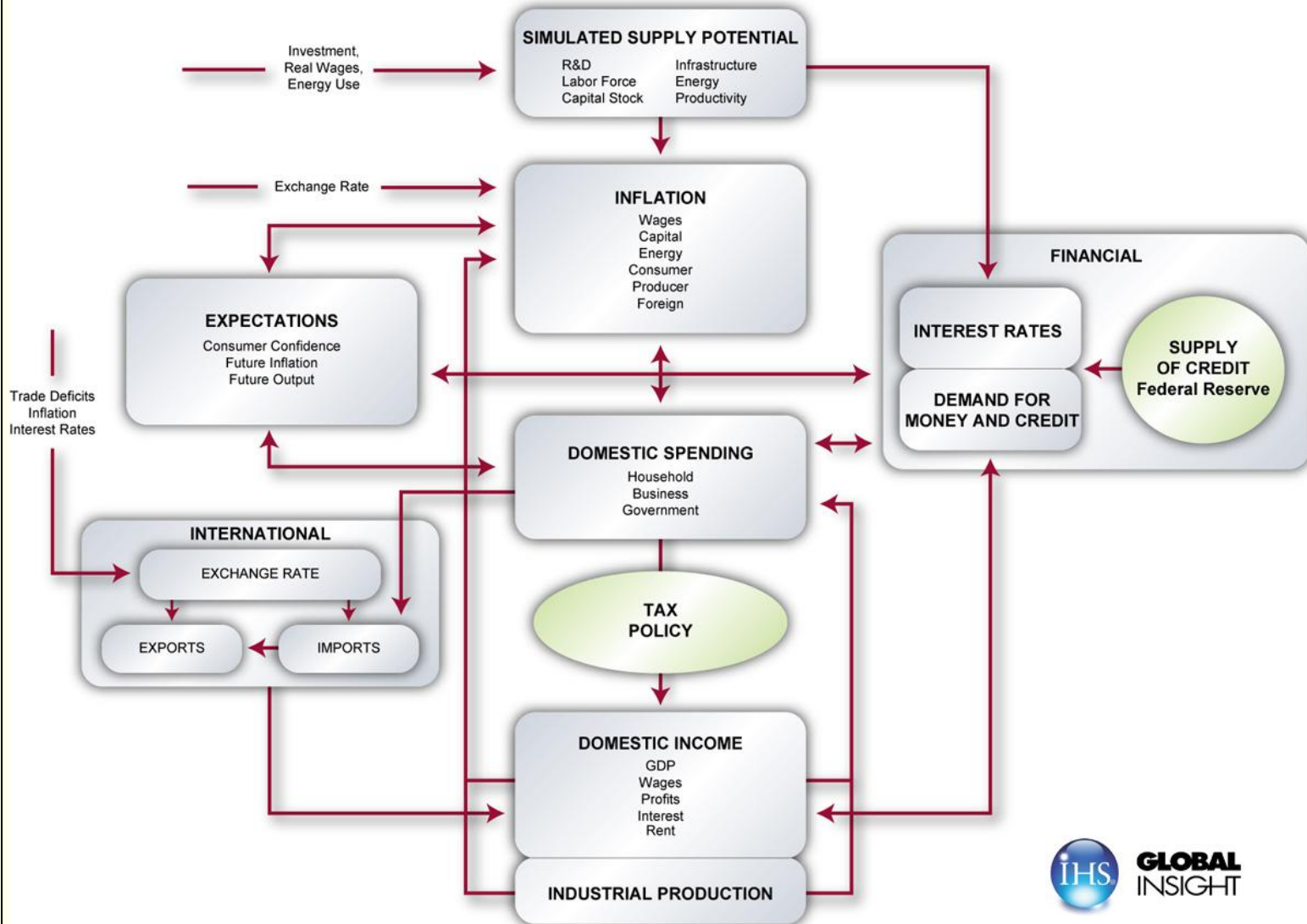




U.S. Macro Model Overview

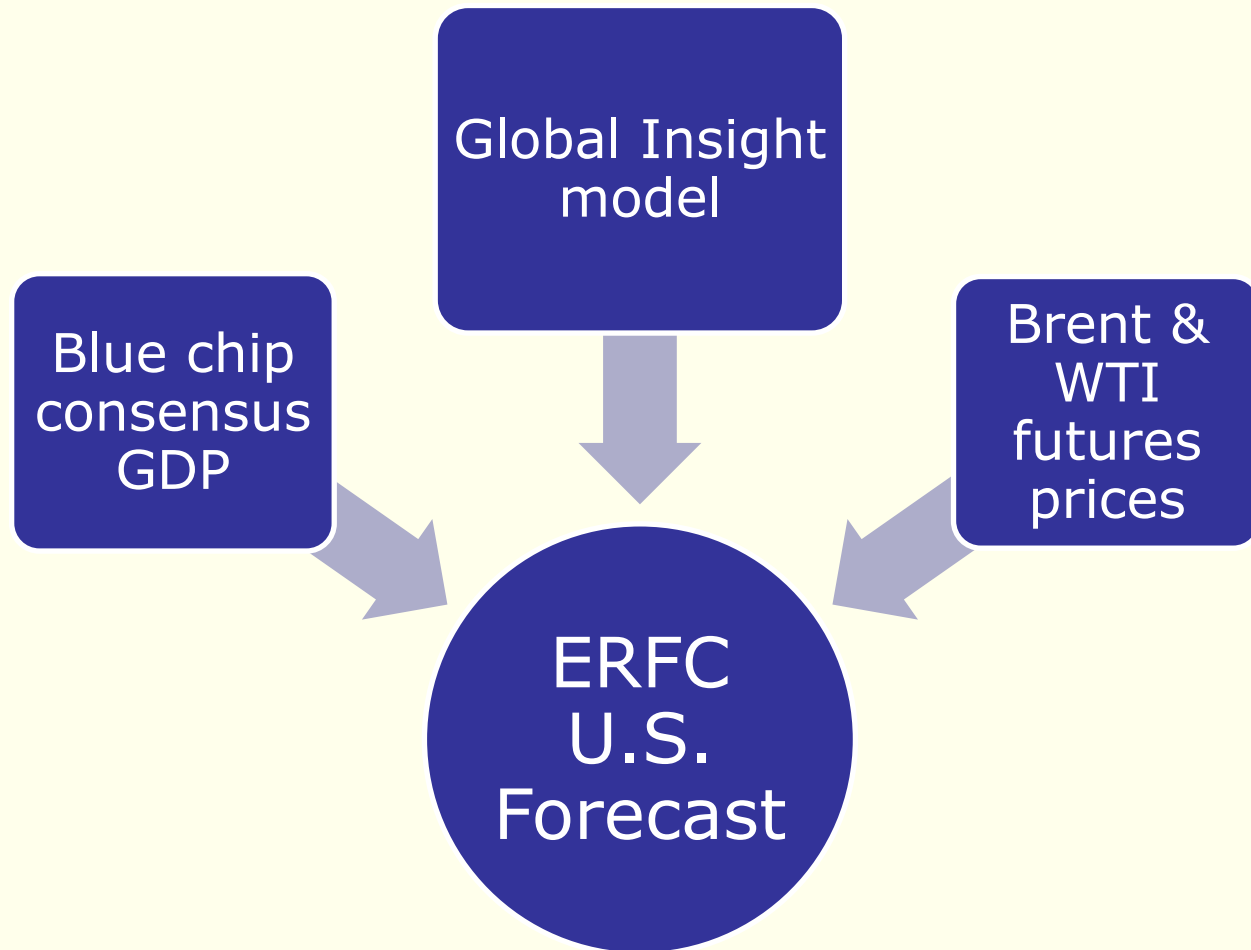
Model captures full simultaneity of U.S. economy

Output, employment, incomes, prices, interest rates, international trade, industrial detail, etc.



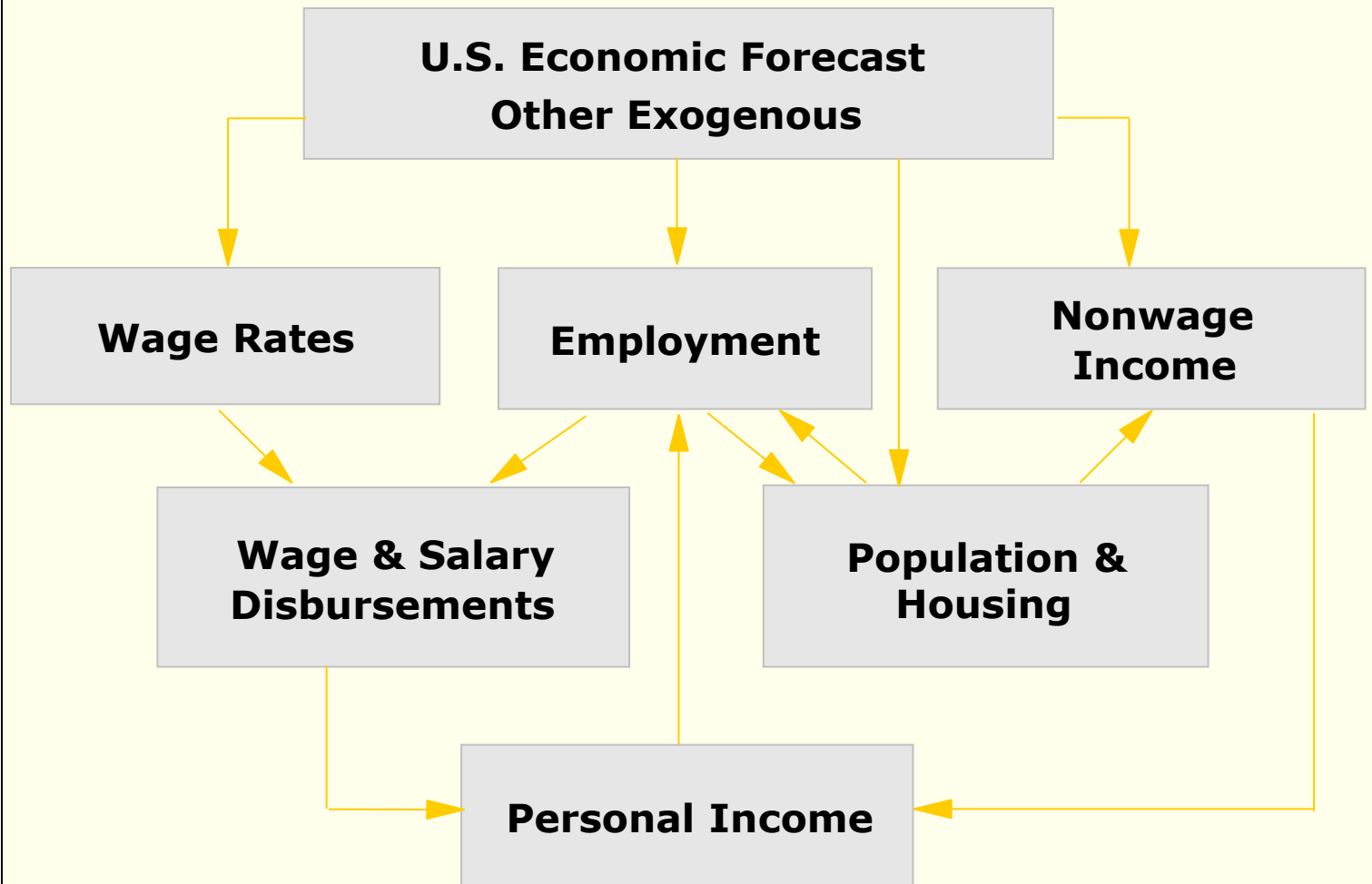


ERFC's US economic model





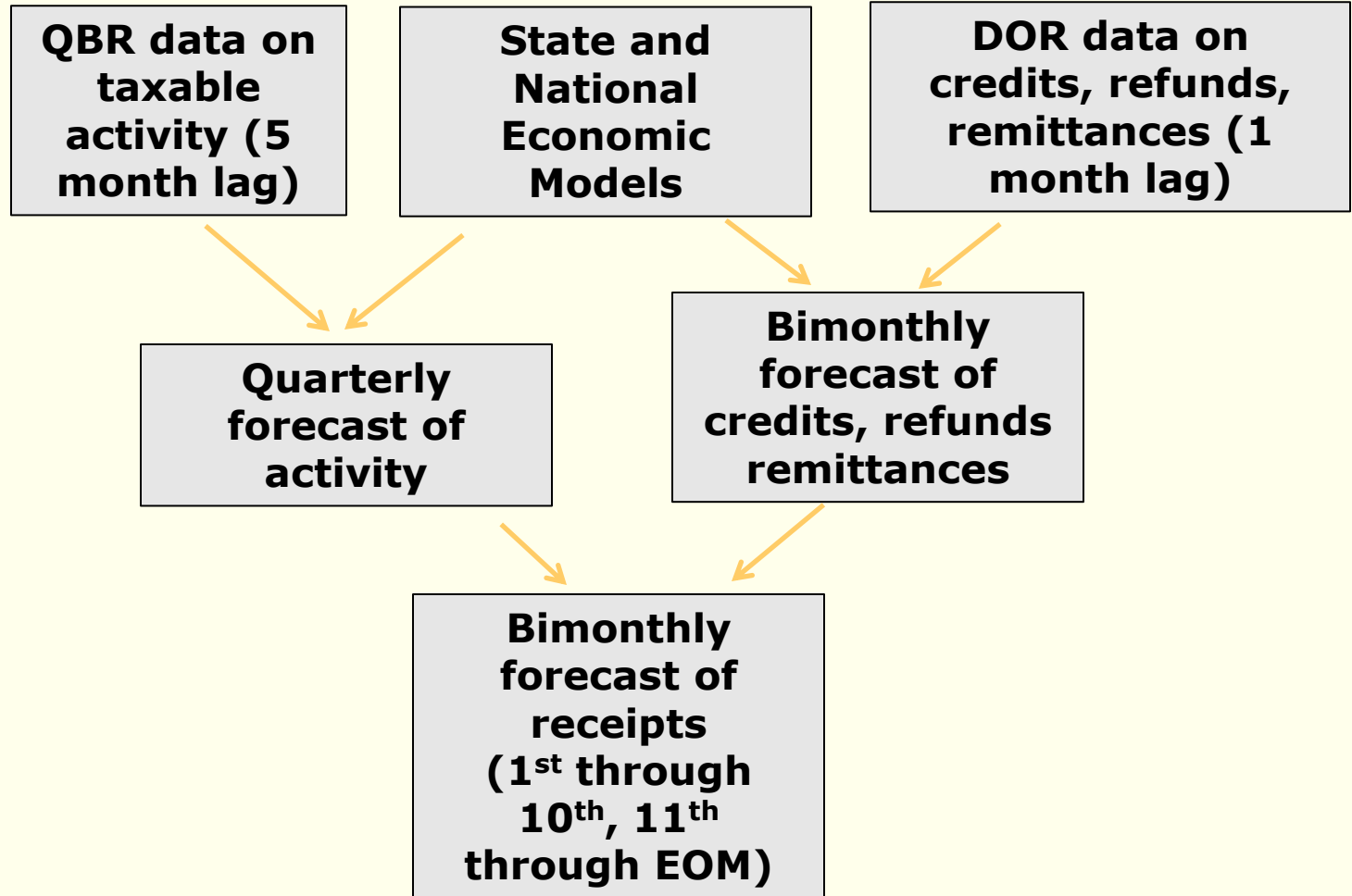
ERFC's Washington economic model





Revenue Act model overview

B&O, RST, Use and Public Utility are broken into 40 components (some small sources like semiconductorors and nuclear waste disposal are forecasted exogenously)





Washington Economic Overview

2014 State GDP (current dollars): \$422.9 billion

- 5.1% growth over 2013; 10th fastest in U.S.
- 2.5% of 2014 U.S. GDP

Dec. 2015 State Nonfarm Employment: 3.2 million

- 2.8% growth over Dec. 2014; 6th fastest in U.S.
- 2.2% of U.S. nonfarm employment

2015 State population: 7.2 million; 13th largest state

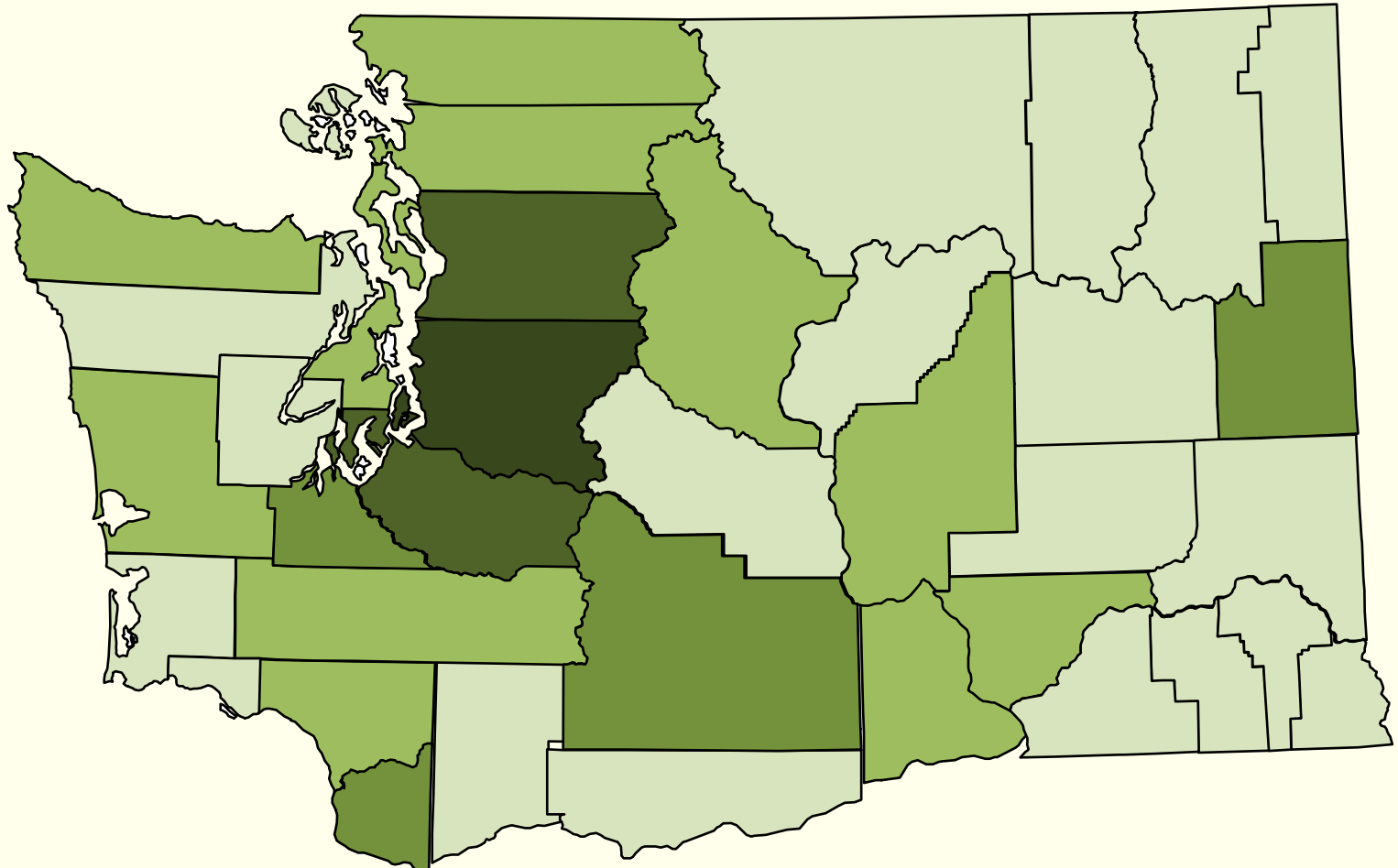
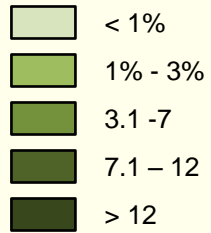
- 1.5% growth over 2014 (U.S. = 0.8%)
- 2.2% of U.S. population

Sources: U.S. Bureau of Labor Statistics, U.S. Census Bureau

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Distribution of state population by county, 2015



Source: Office of Financial Management, April 1, 2015

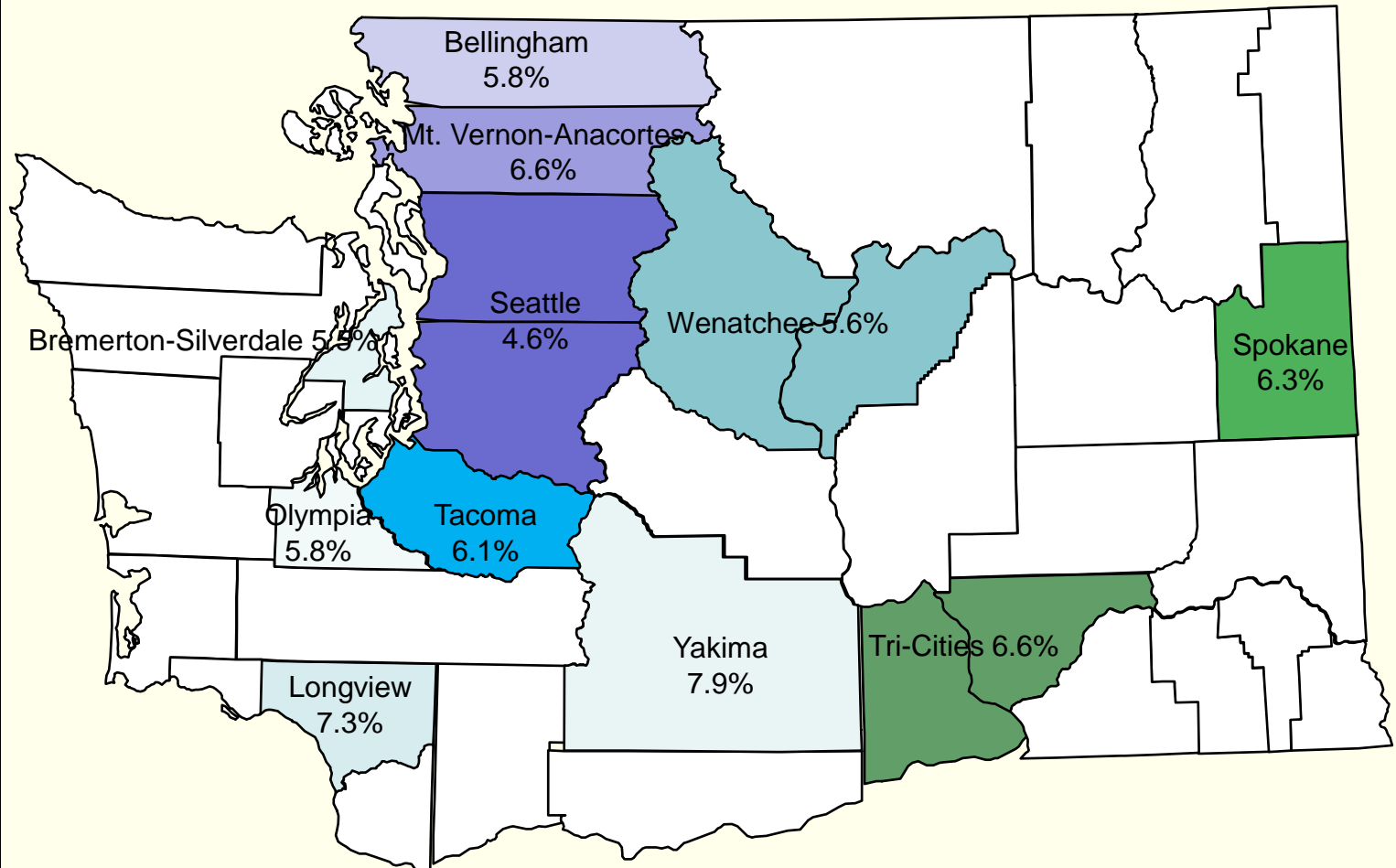
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Seasonally adjusted unemployment rates by metro area, December 2015

Statewide rate: 5.5%



Source: WA State Employment Security Dept.

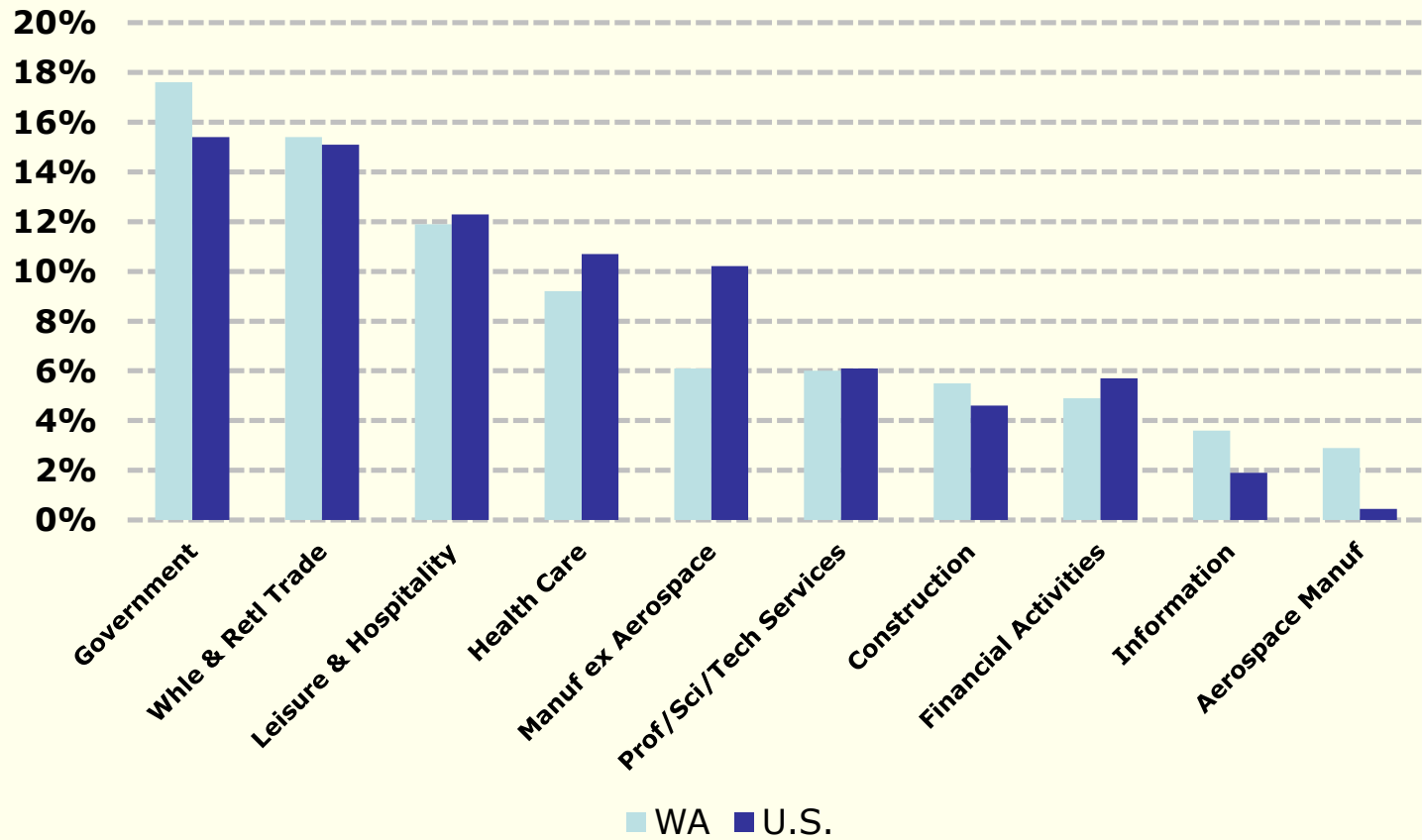
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Major Industries by Employment

Dec. 2015 Employment Shares by Industry

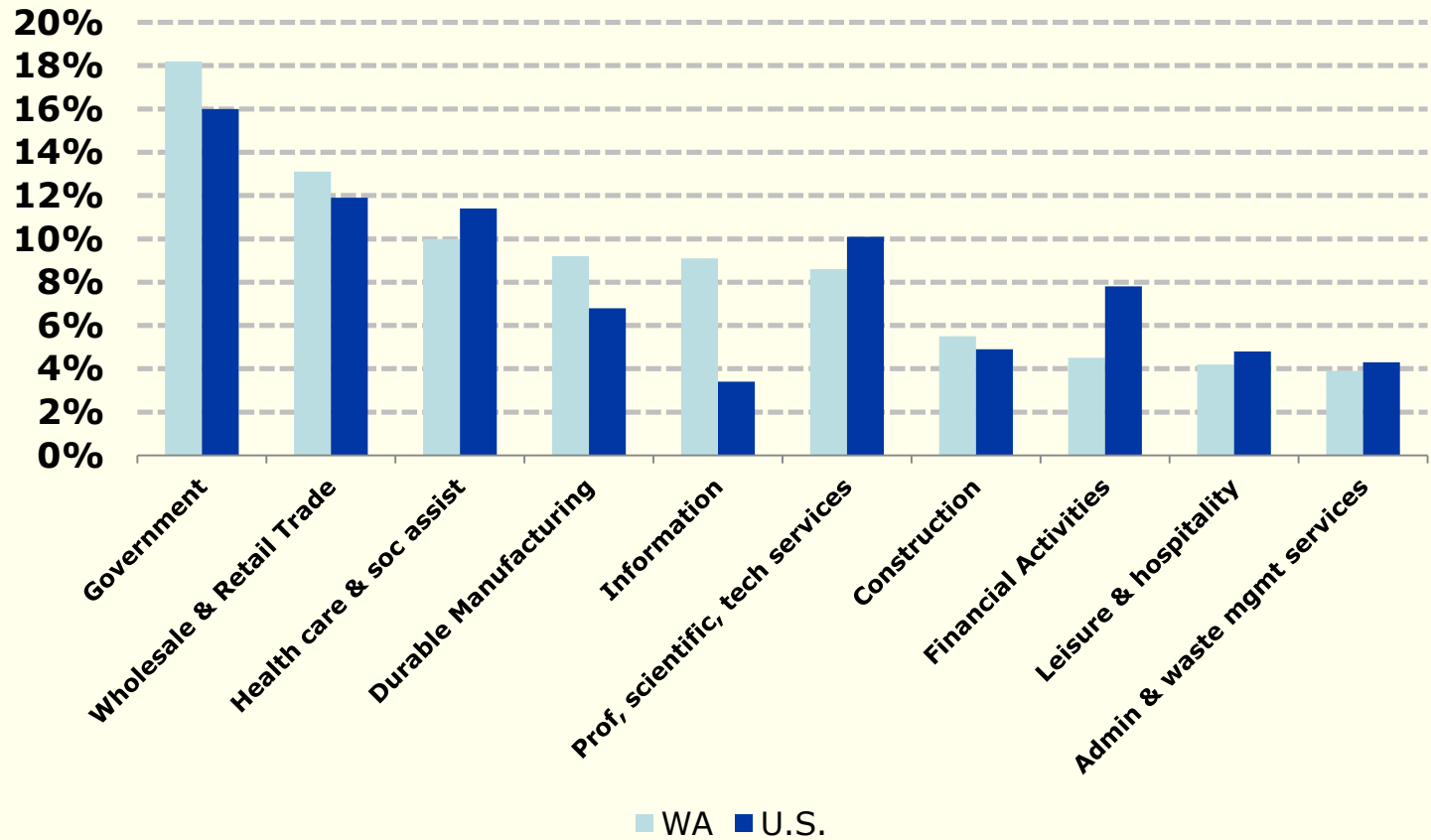


Source: U.S. Dept. of Labor, BLS



Major Industries by Earnings

2015 Q3 Nonfarm Earnings Shares by Industry



Source: U.S. Dept of Commerce, BEA; ERFC



Washington Employment Trends

Washington has gained 378,000 nonfarm jobs since February 2010

Employment Change since Trough (thousands)



Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through Jan. 2016



Economic news continues to suggest risks to forecast

Upside:

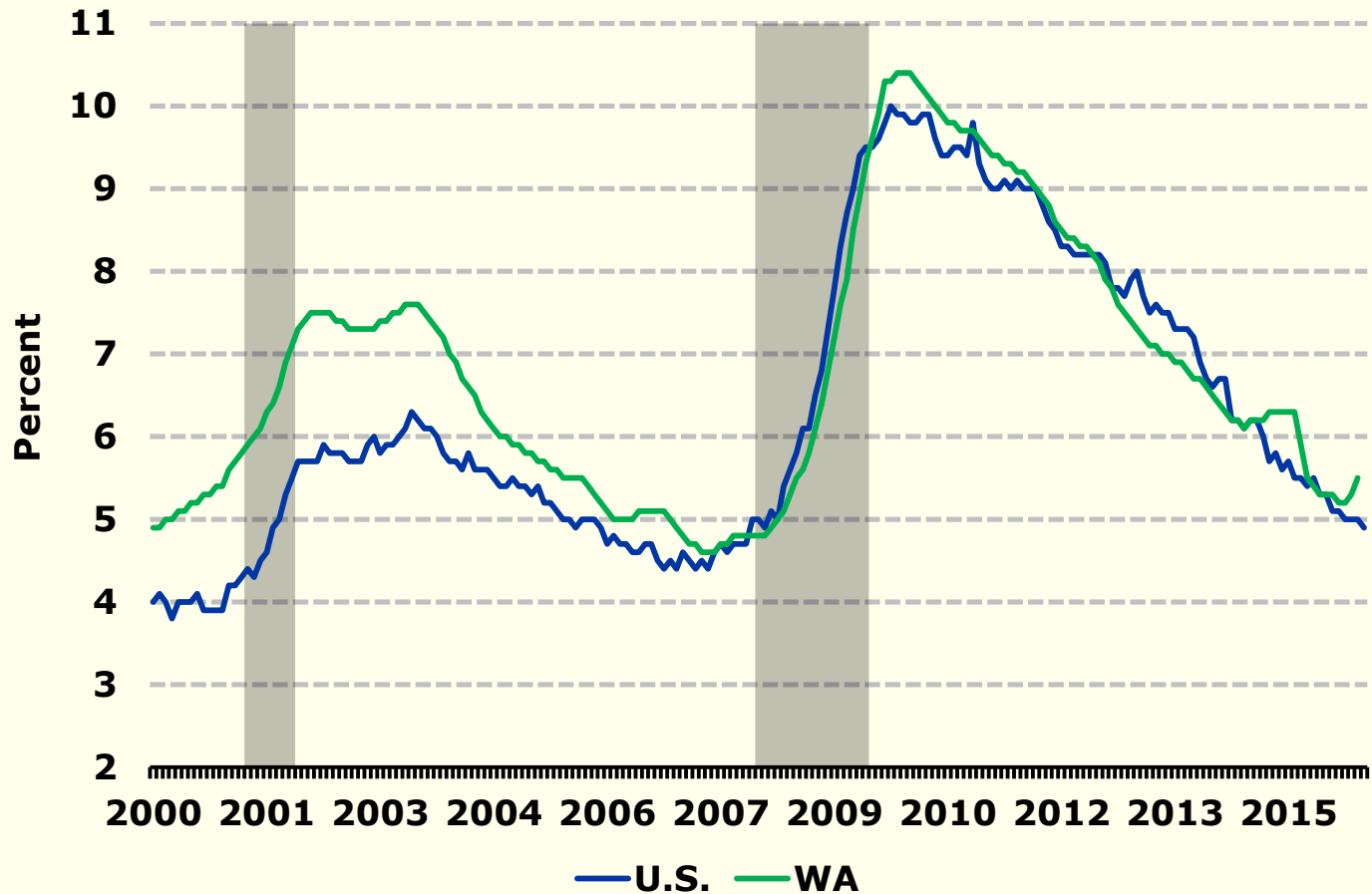
- Declining unemployment rates
- Rising wage growth
- Stronger housing starts and home sales (new and existing)
- Lower oil prices

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



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



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

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

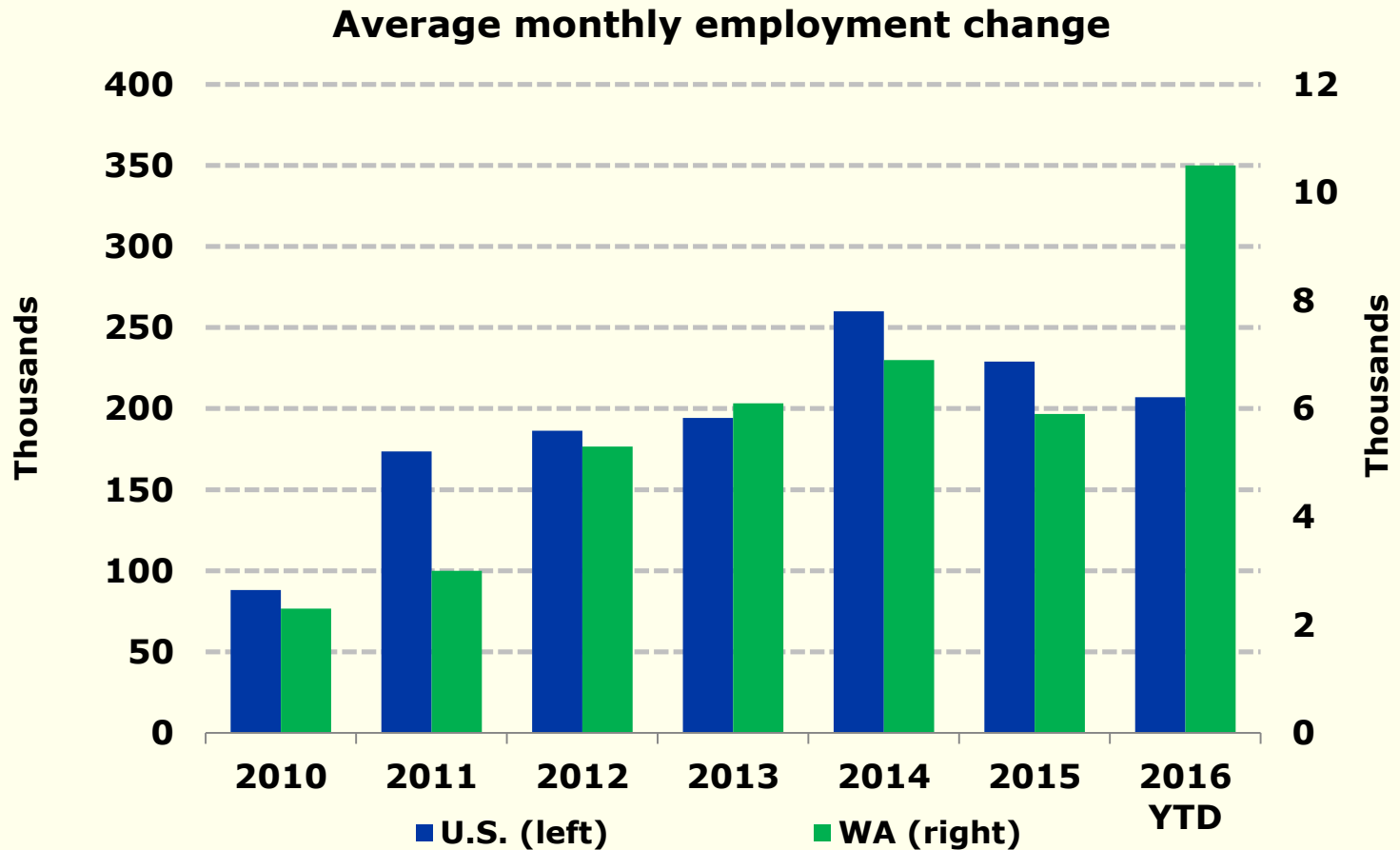
Feb. 2016: 28%



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



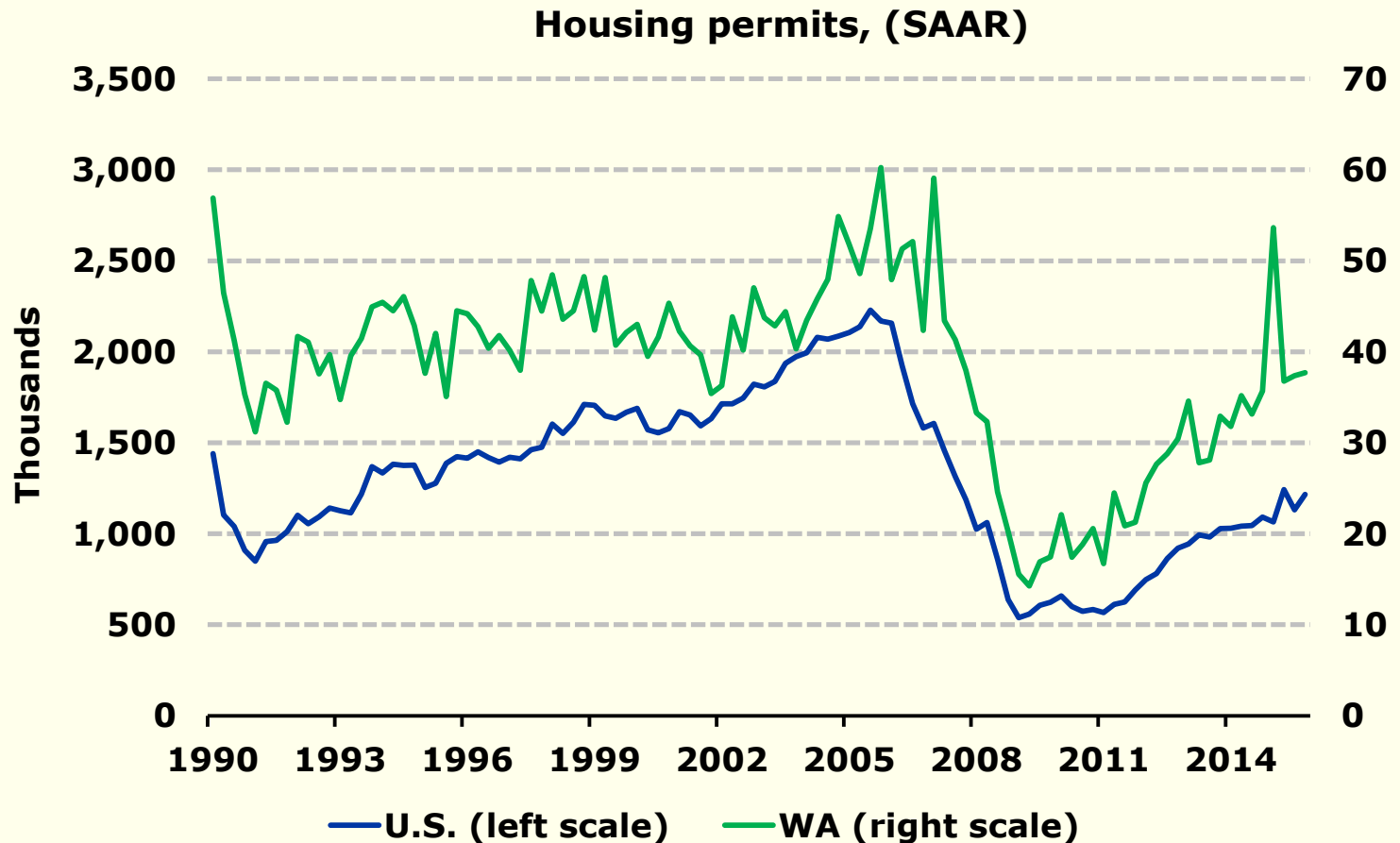
Average U.S. wage growth has turned positive but slowed in January



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



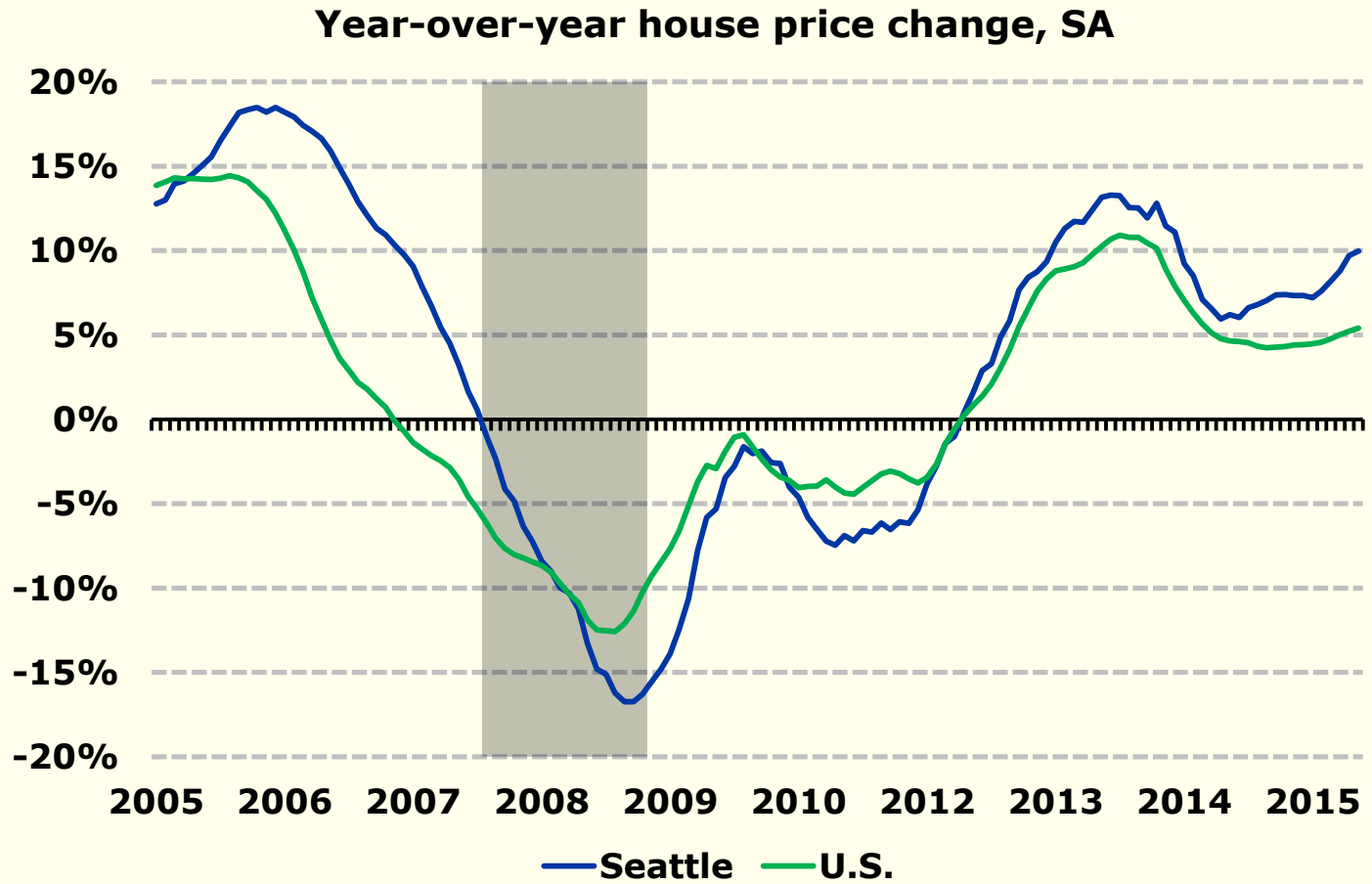
Both U.S. and WA housing permits trending up since 2011



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



Seattle home prices have been rising faster than prices nationally

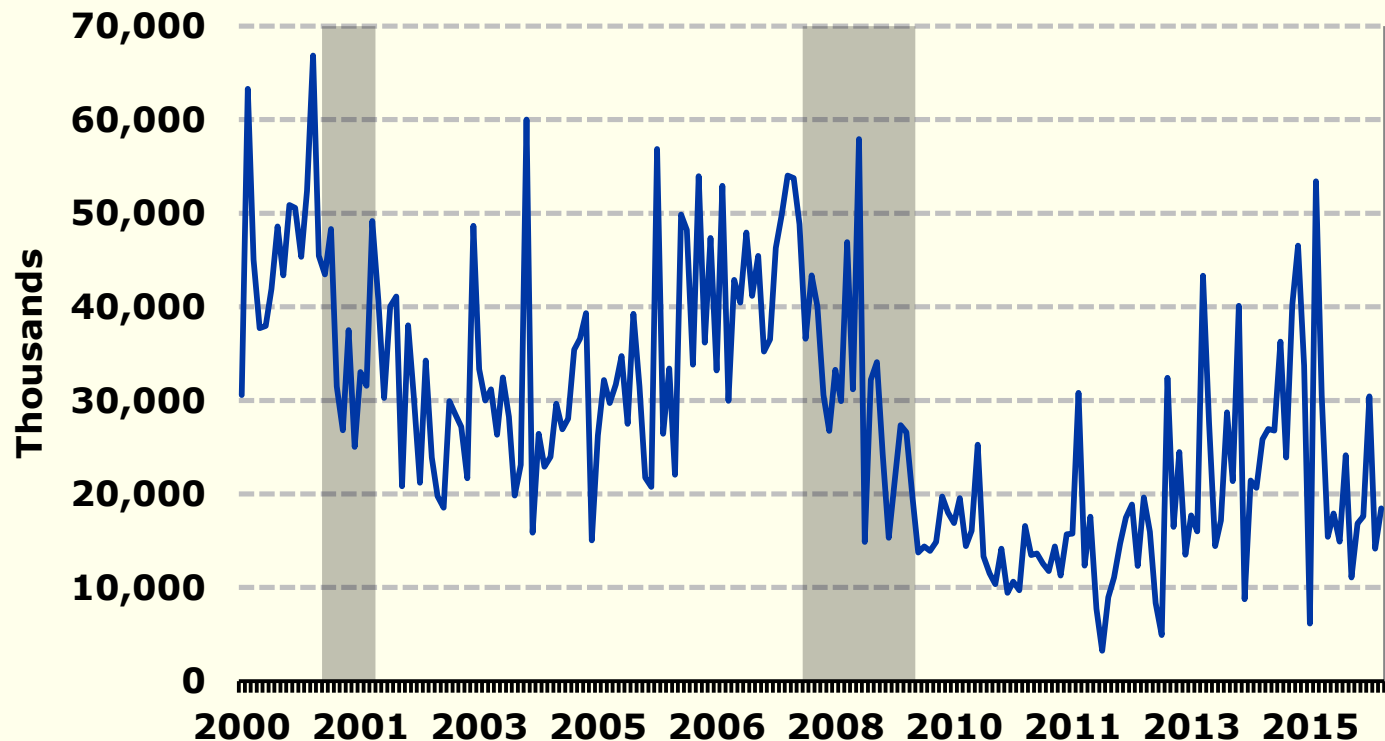


Source: S&P/Case-Shiller; data through Dec. 2015



Nonresidential construction activity appears to be slowing

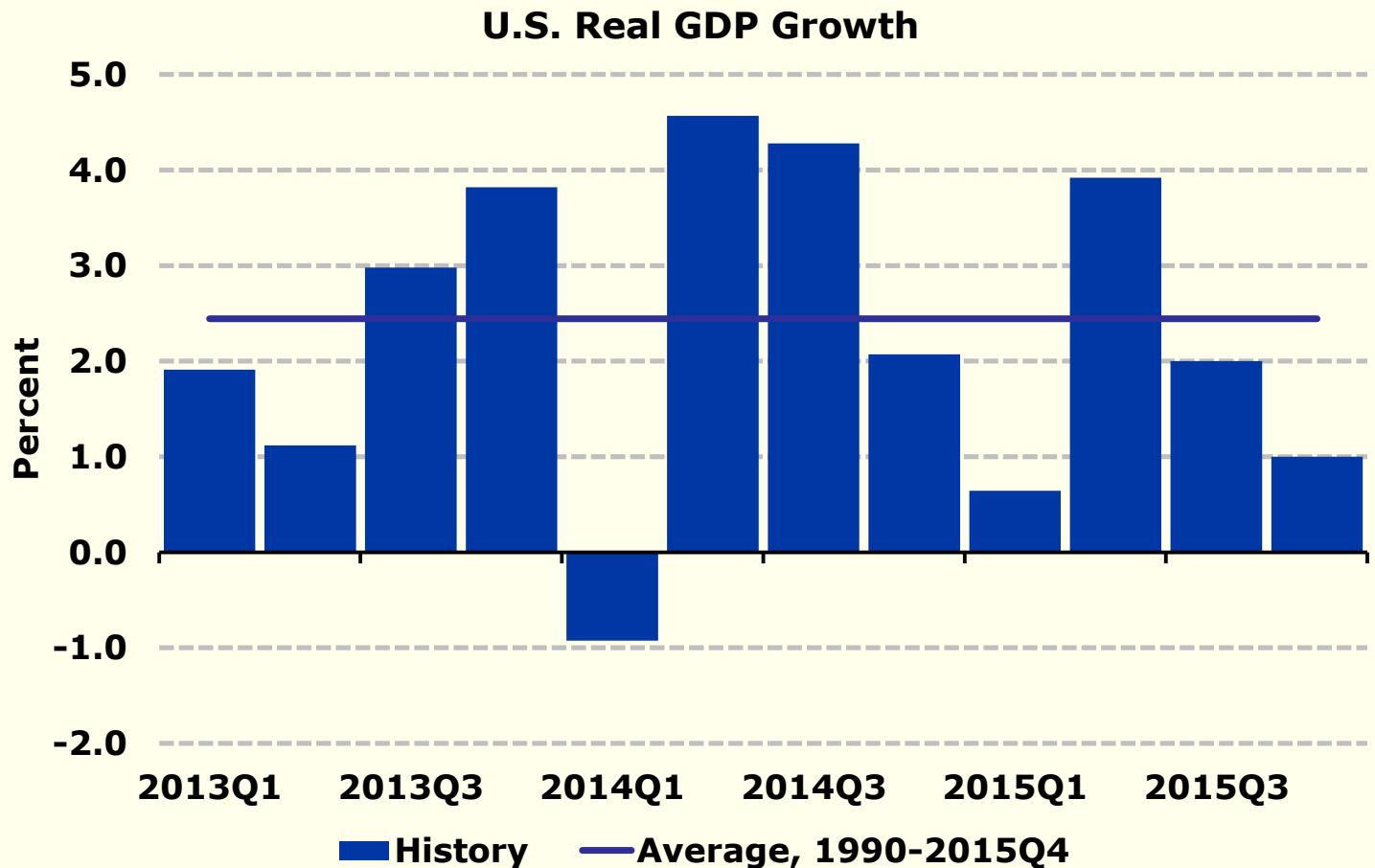
Square feet under contract, WA nonresidential projects
(SAAR)



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



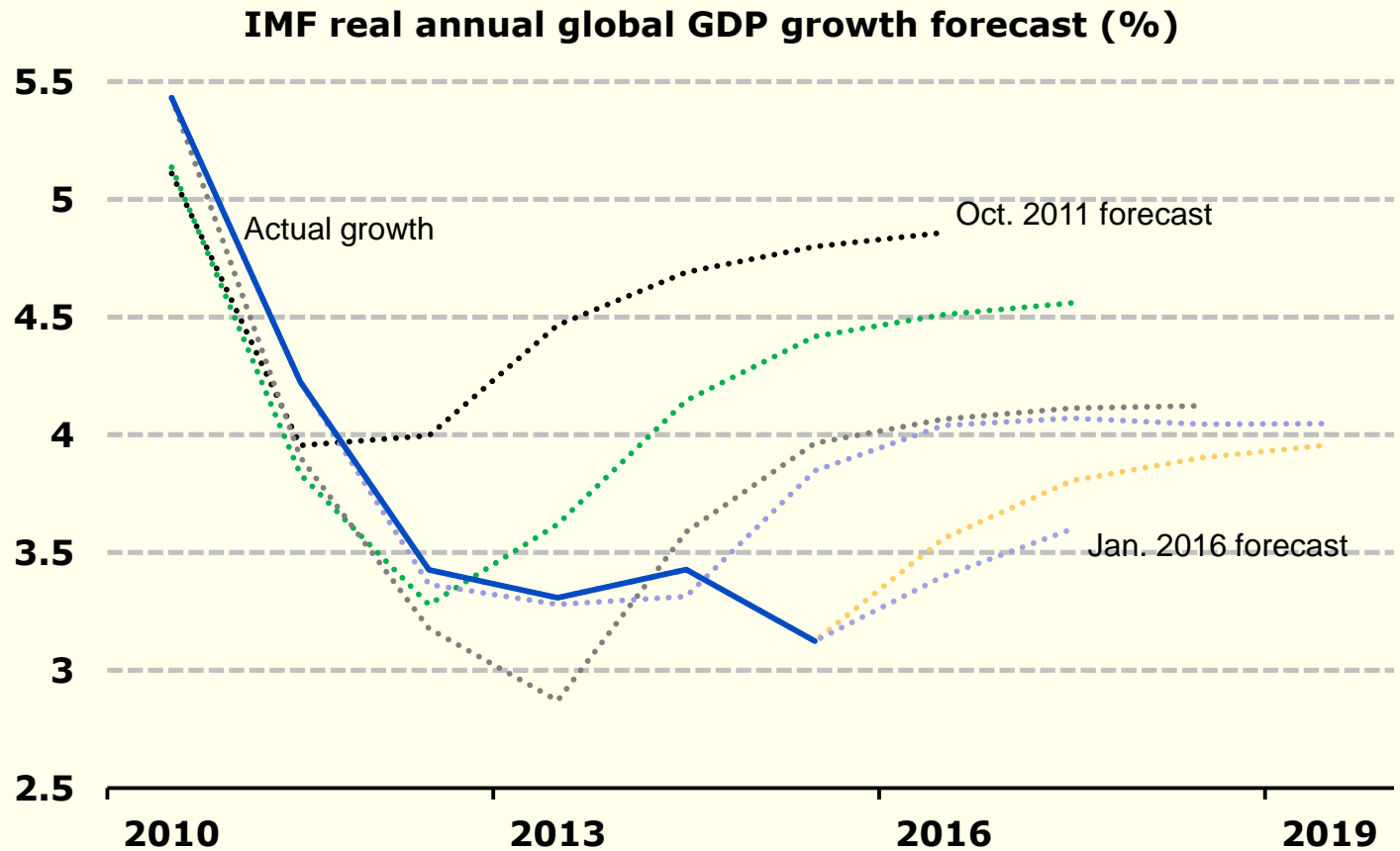
U.S. economic growth weakened in the third and fourth quarters



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



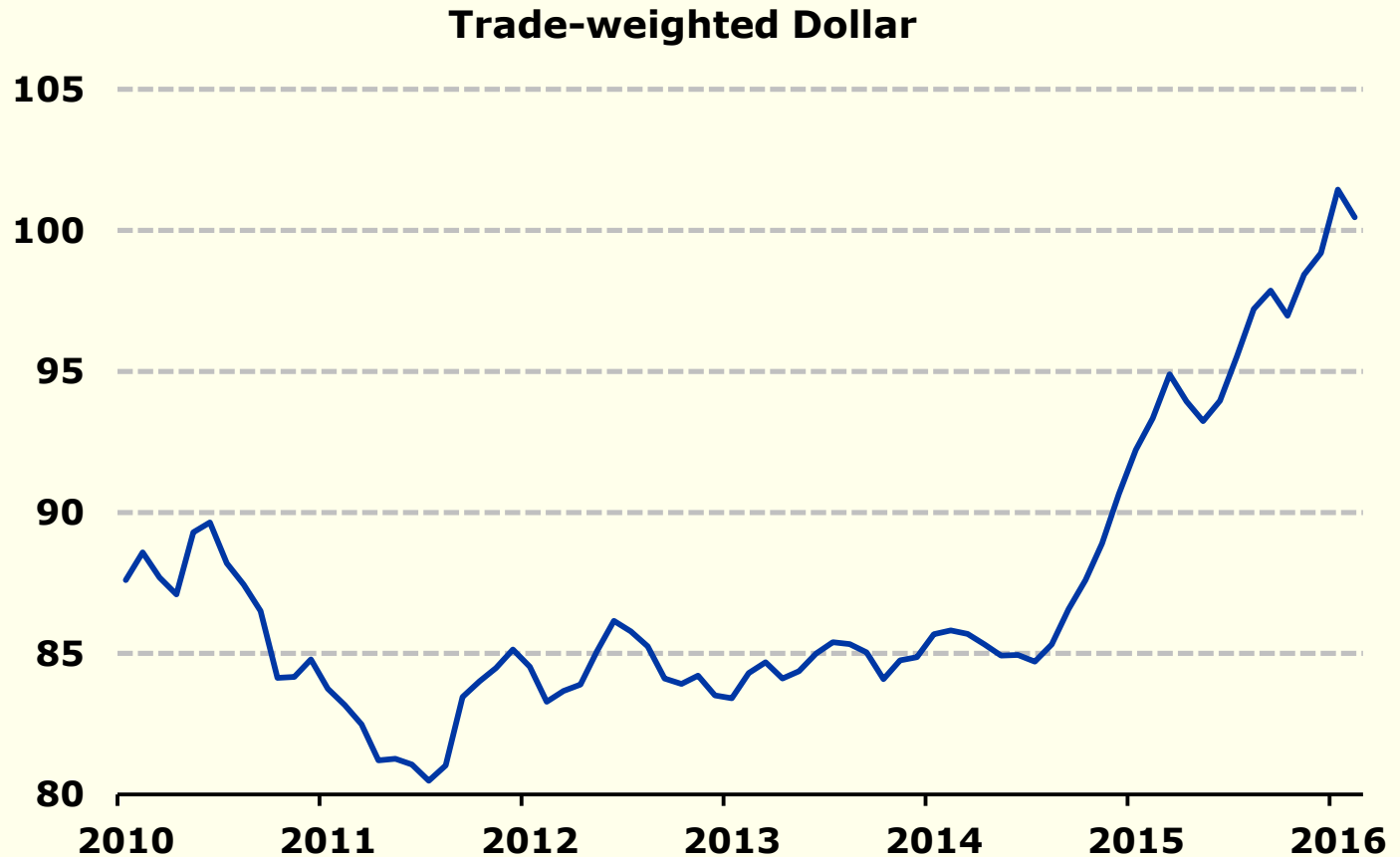
Global GDP forecasts have been consistently revised down



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

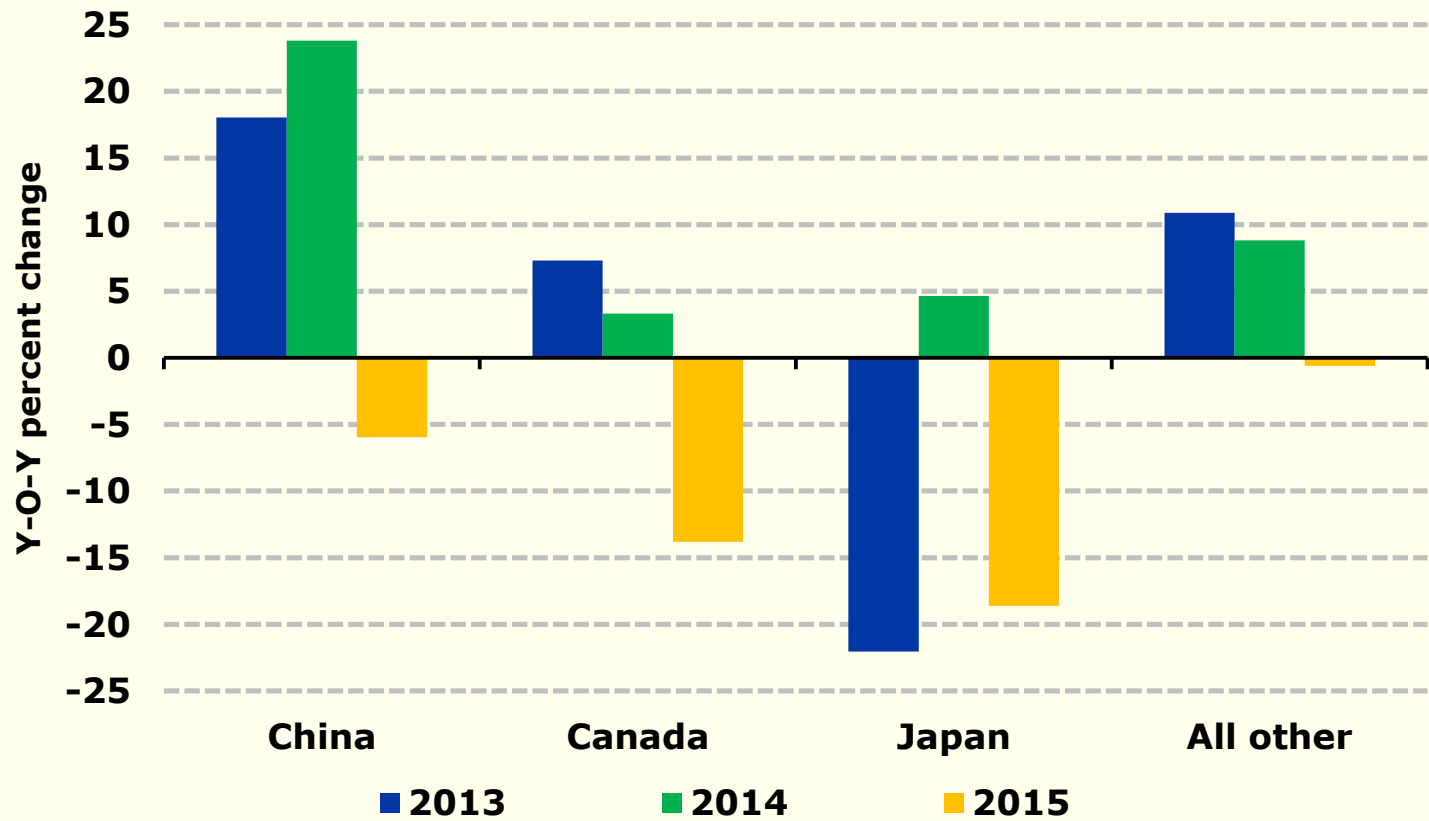


Source: Federal Reserve; data through February 2016



WA exports in 2015 declined for the first time since 2009

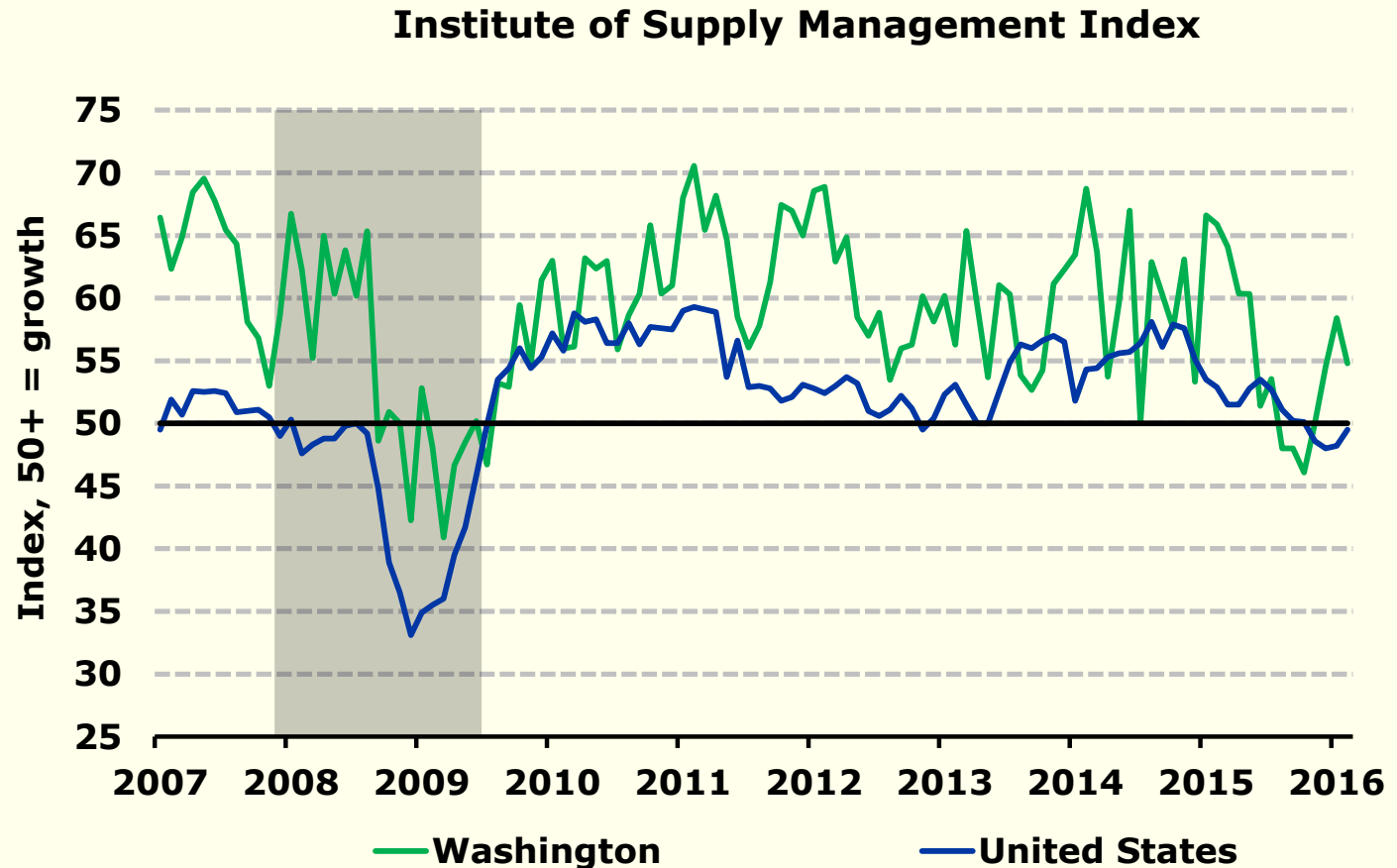
Year-over-year growth in export value



Source: WISERTrade; data through December 2015



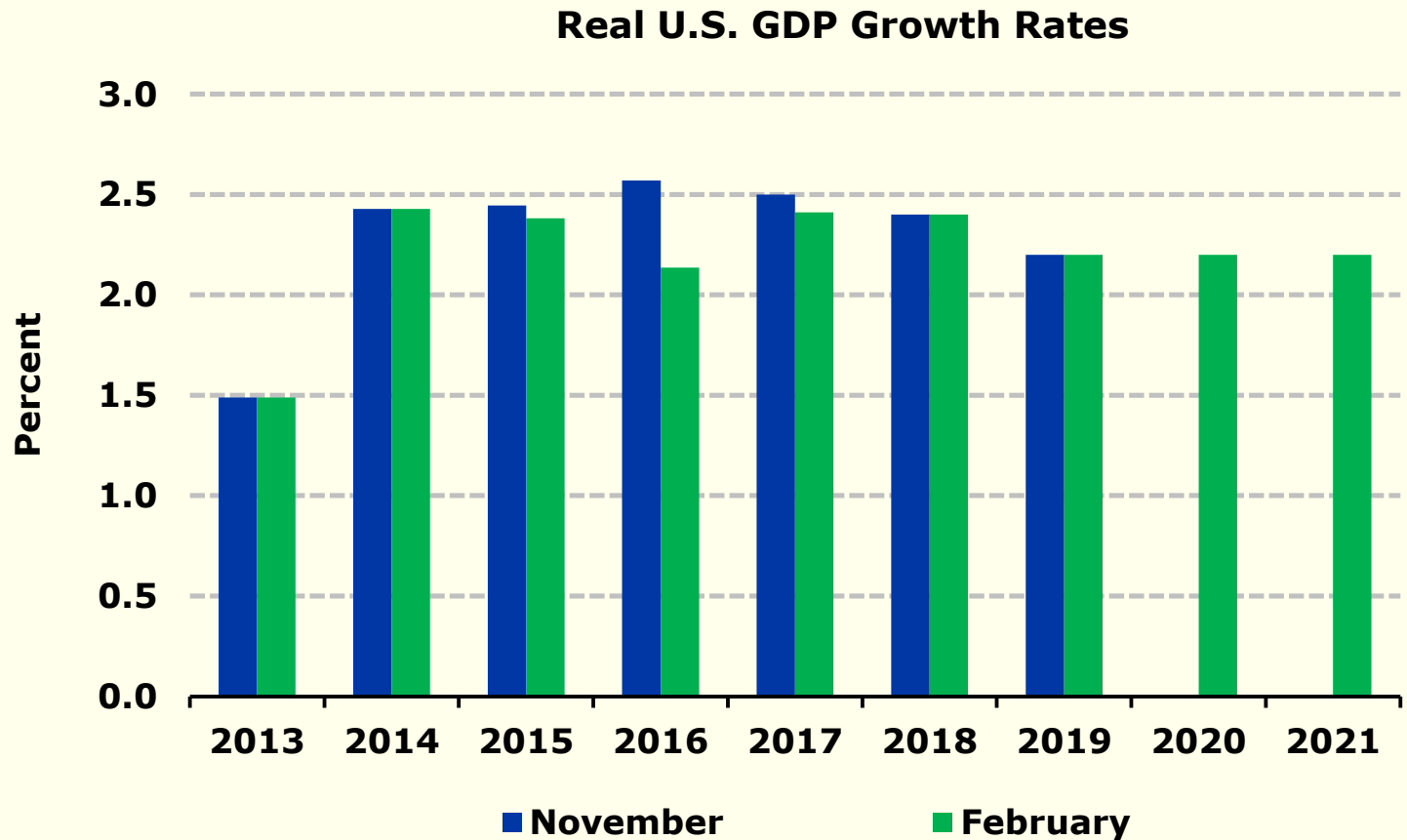
Manufacturing: slowing nationally, improving in Washington



Source: ISM; data through Feb. 2016



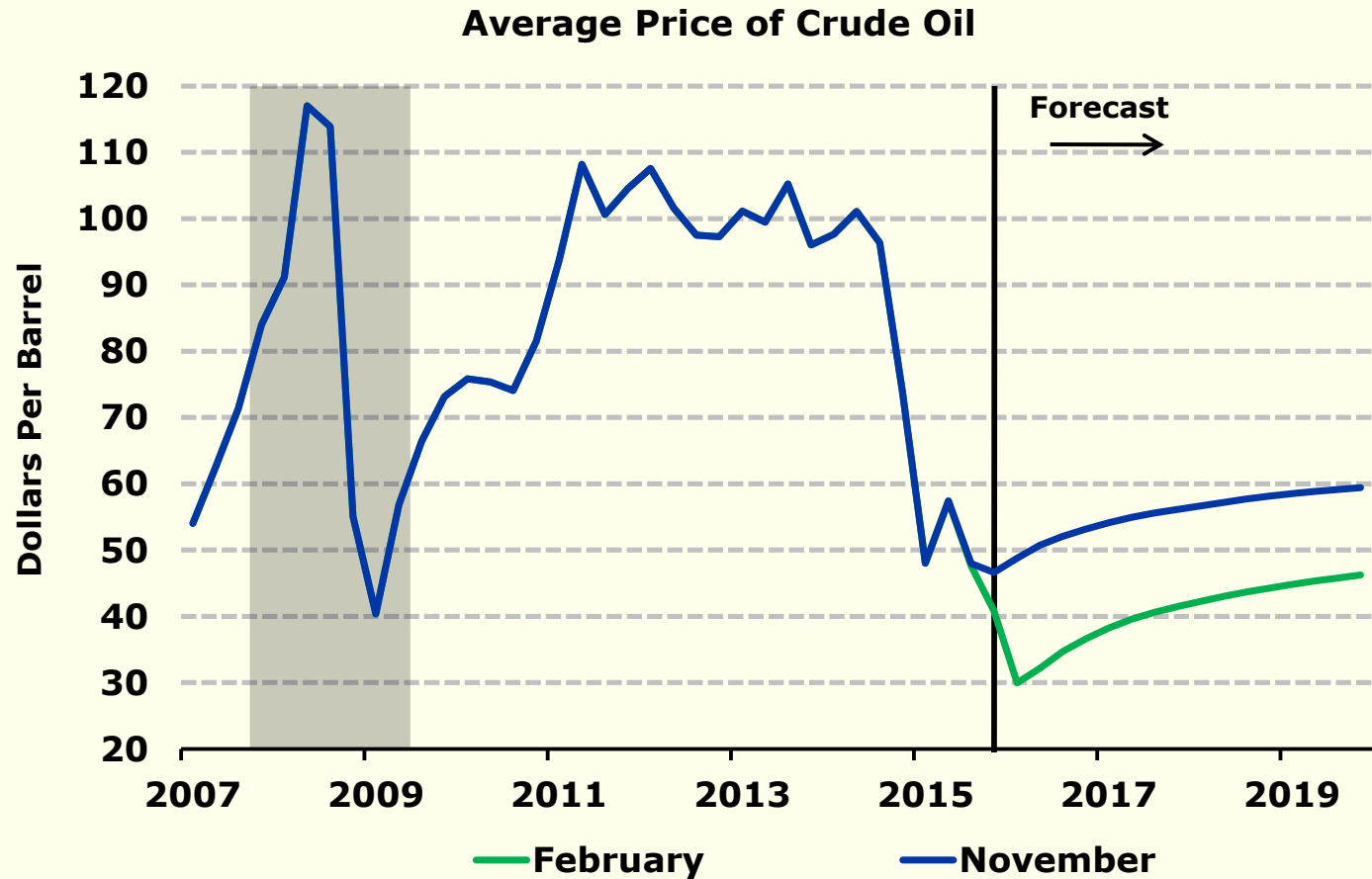
Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast



Source: ERFC February 2016 forecast; historical data through 2015



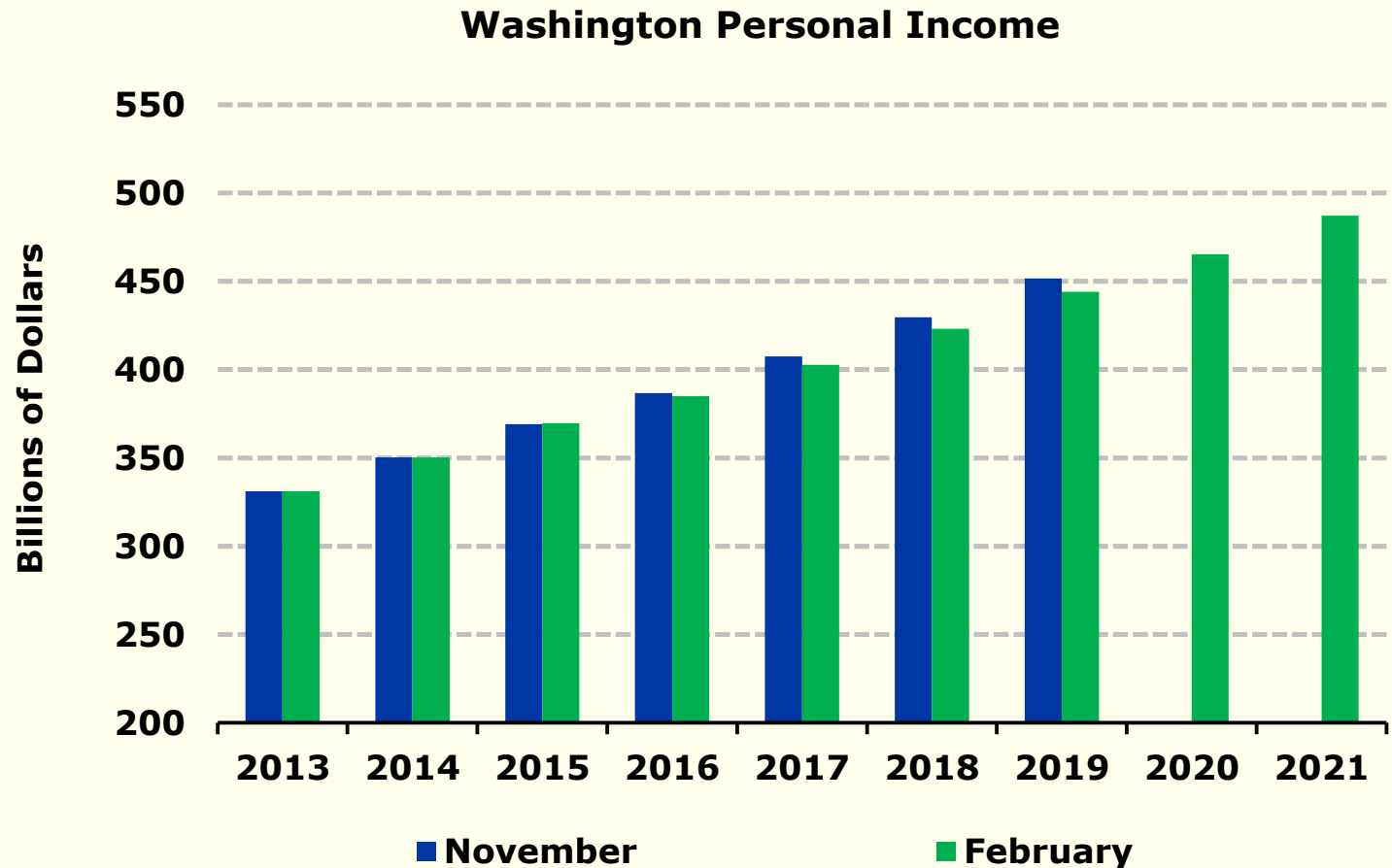
Oil prices have fallen since the November forecast



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



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

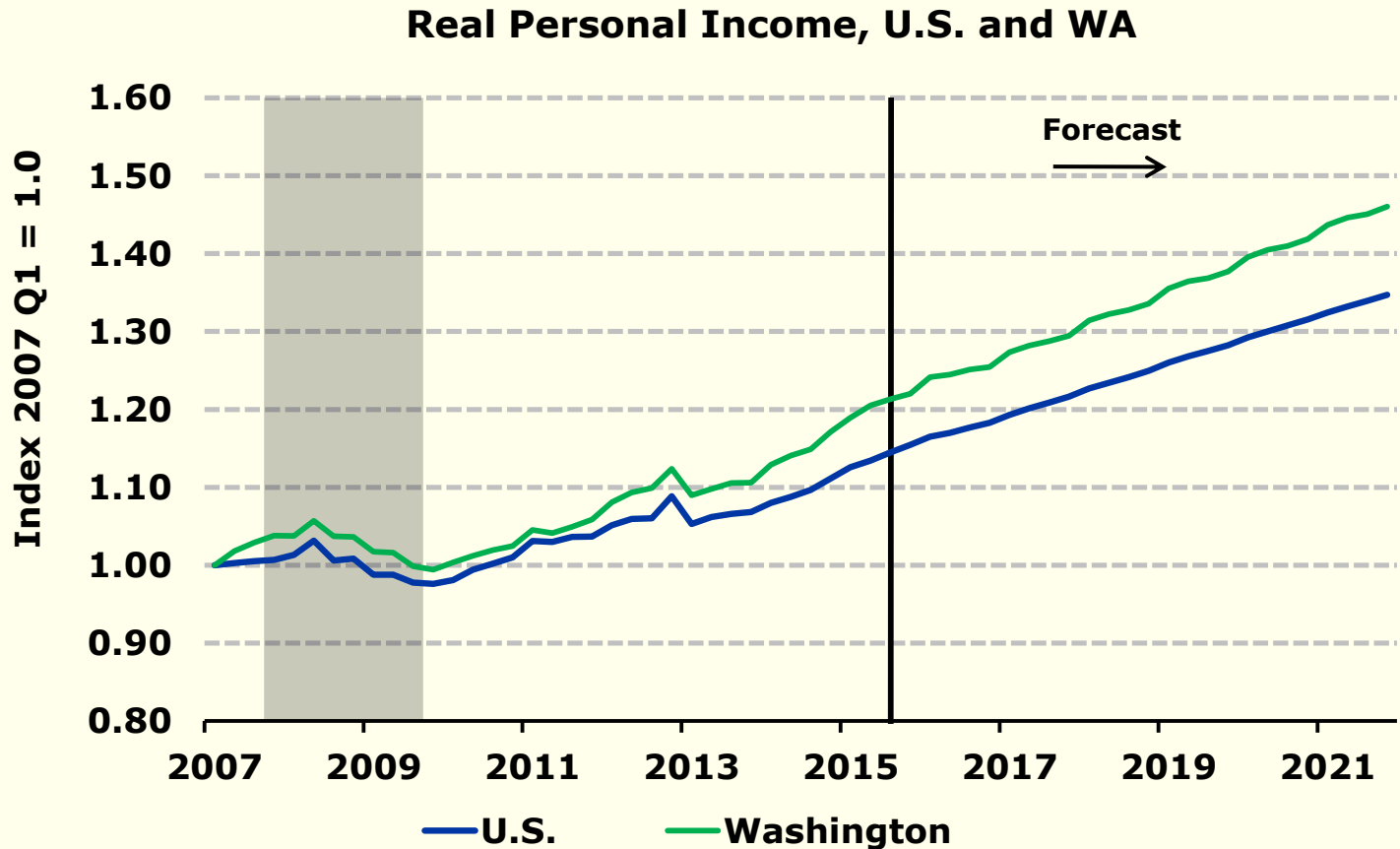


Source: ERFC February 2016 forecast; historical data through 2015

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

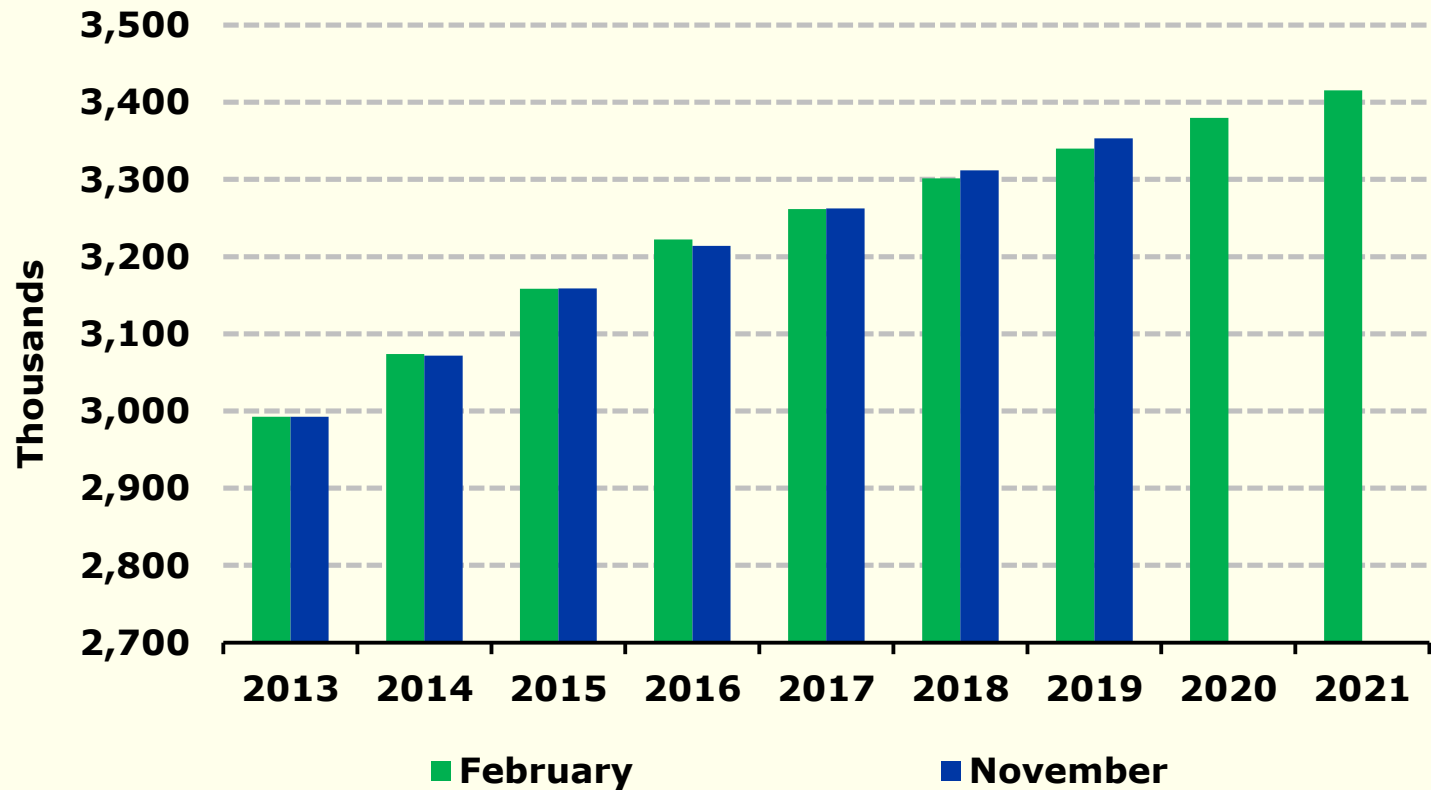


Source: ERFC February 2016 forecast; historical data through 2015Q3



Washington employment forecast revised down slightly in 2017 - 2019

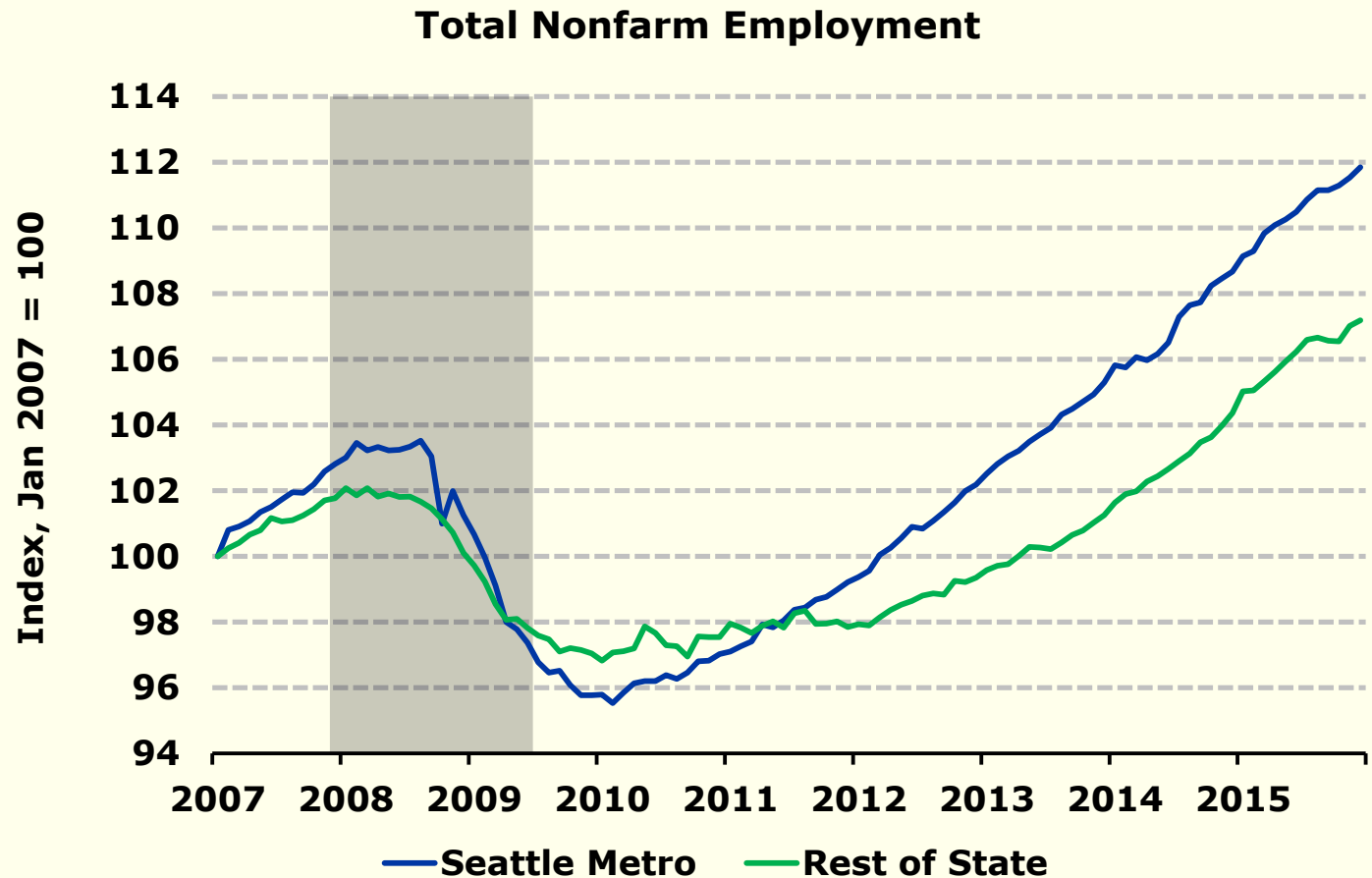
Washington Nonfarm Payroll Employment



Source: ERFC February 2016 forecast; historical data through 2015



Seattle area employment continues to outpace the rest of the state

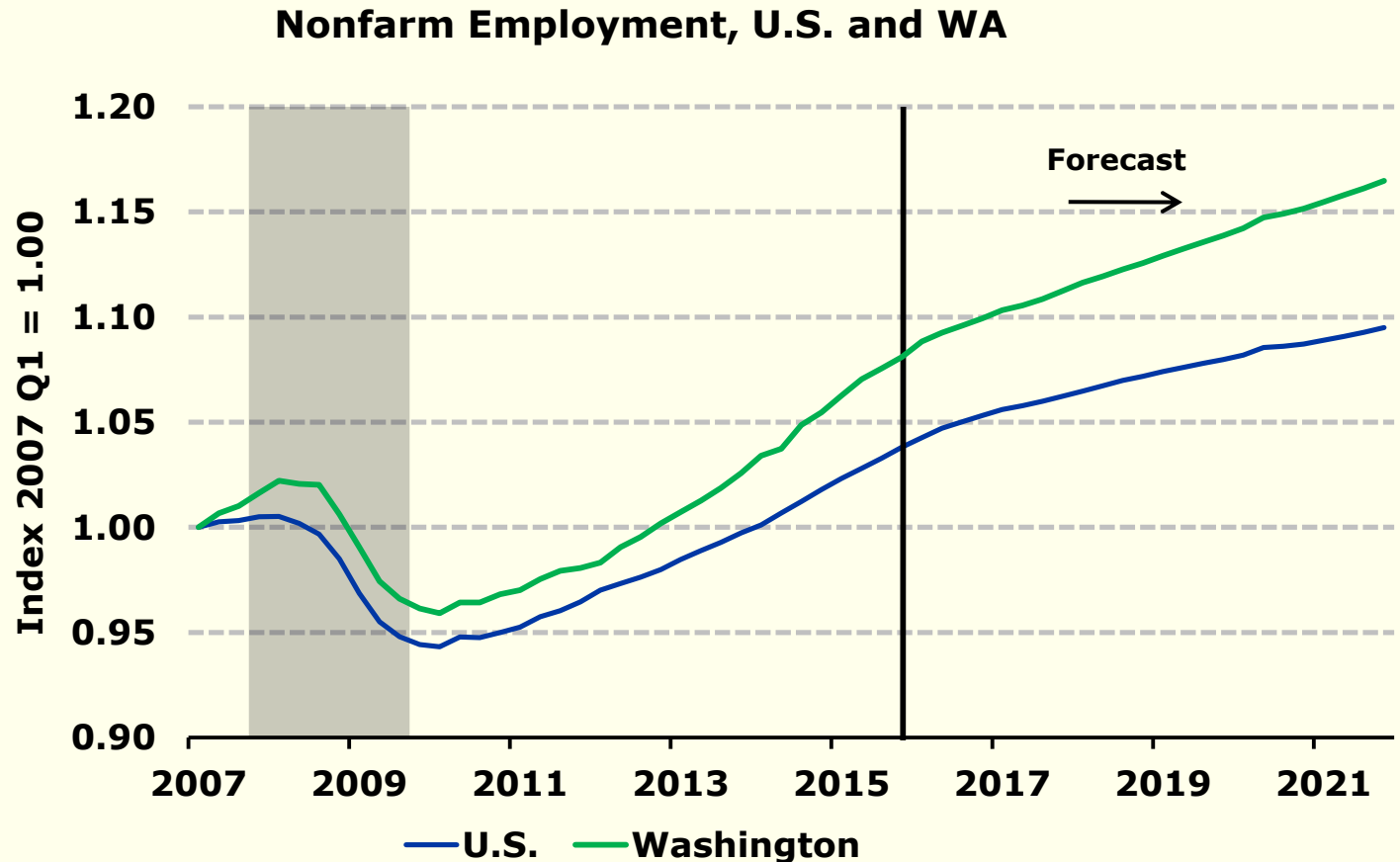


Source: Employment Security Department, ERFC; data through December 2015

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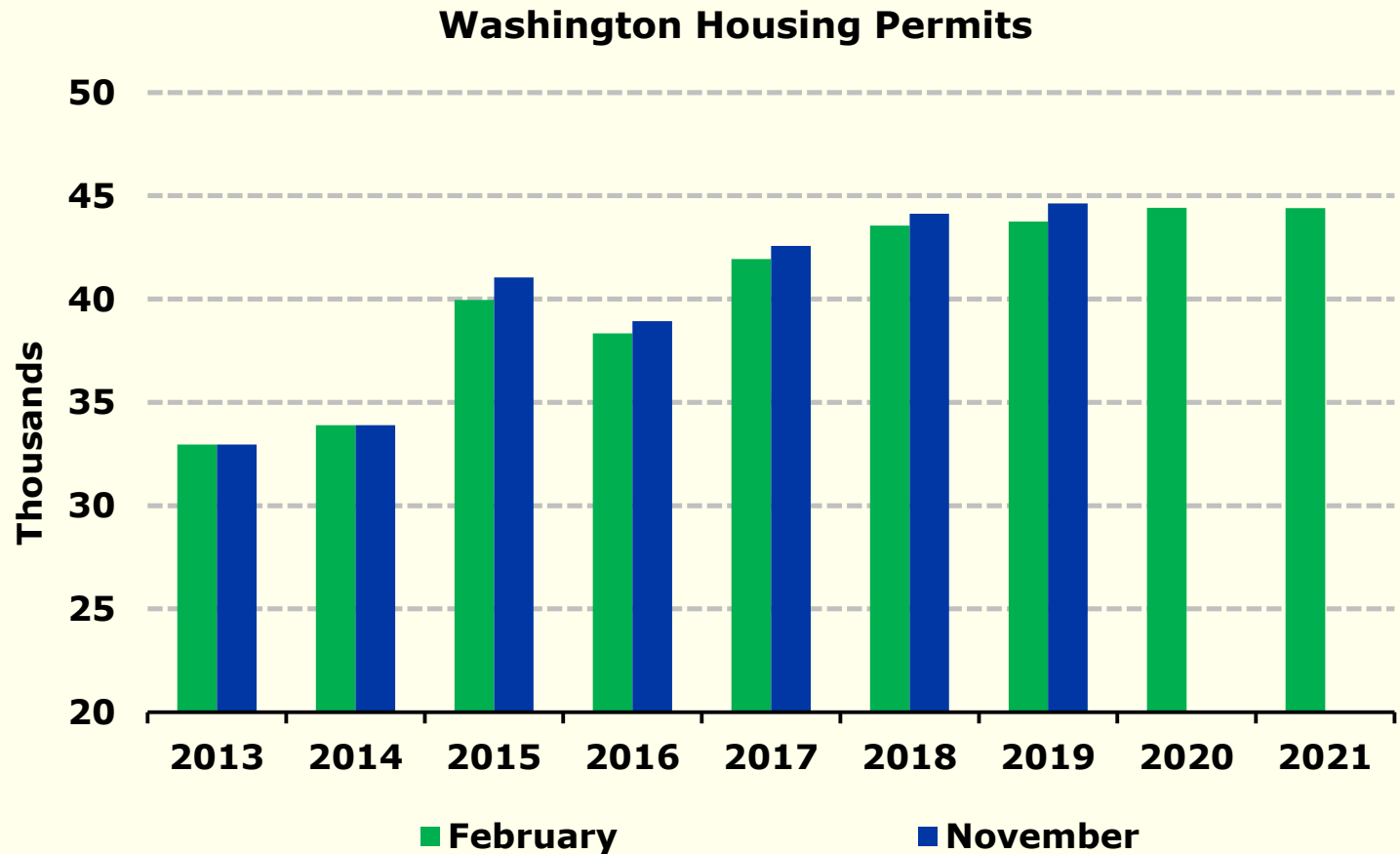
Washington employment will continue to grow slightly faster than the U.S.



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



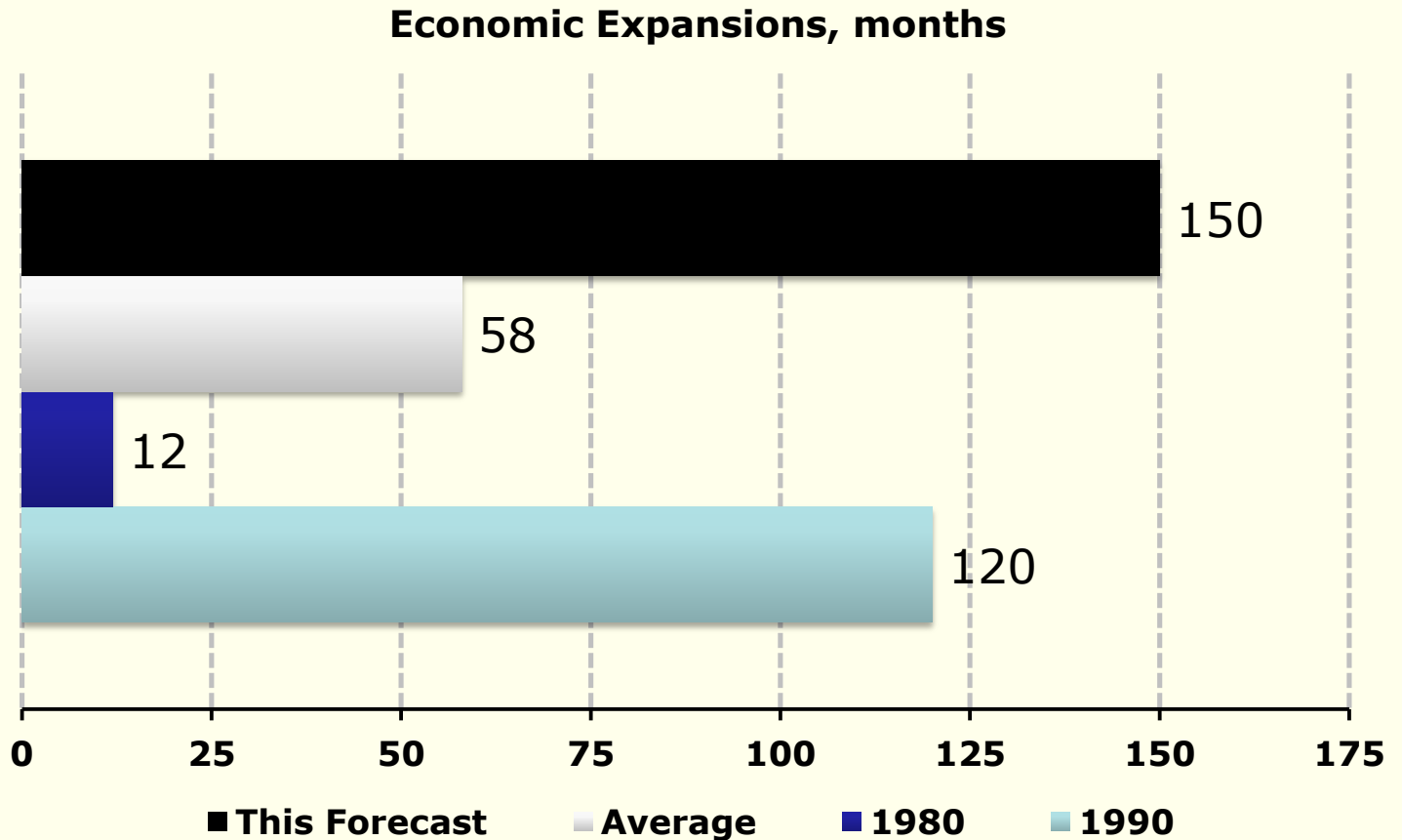
Washington housing permits forecast is slightly lower than in November



Source: ERFC February 2016 forecast; historical data through 2014



U.S. Economic Expansions since 1945

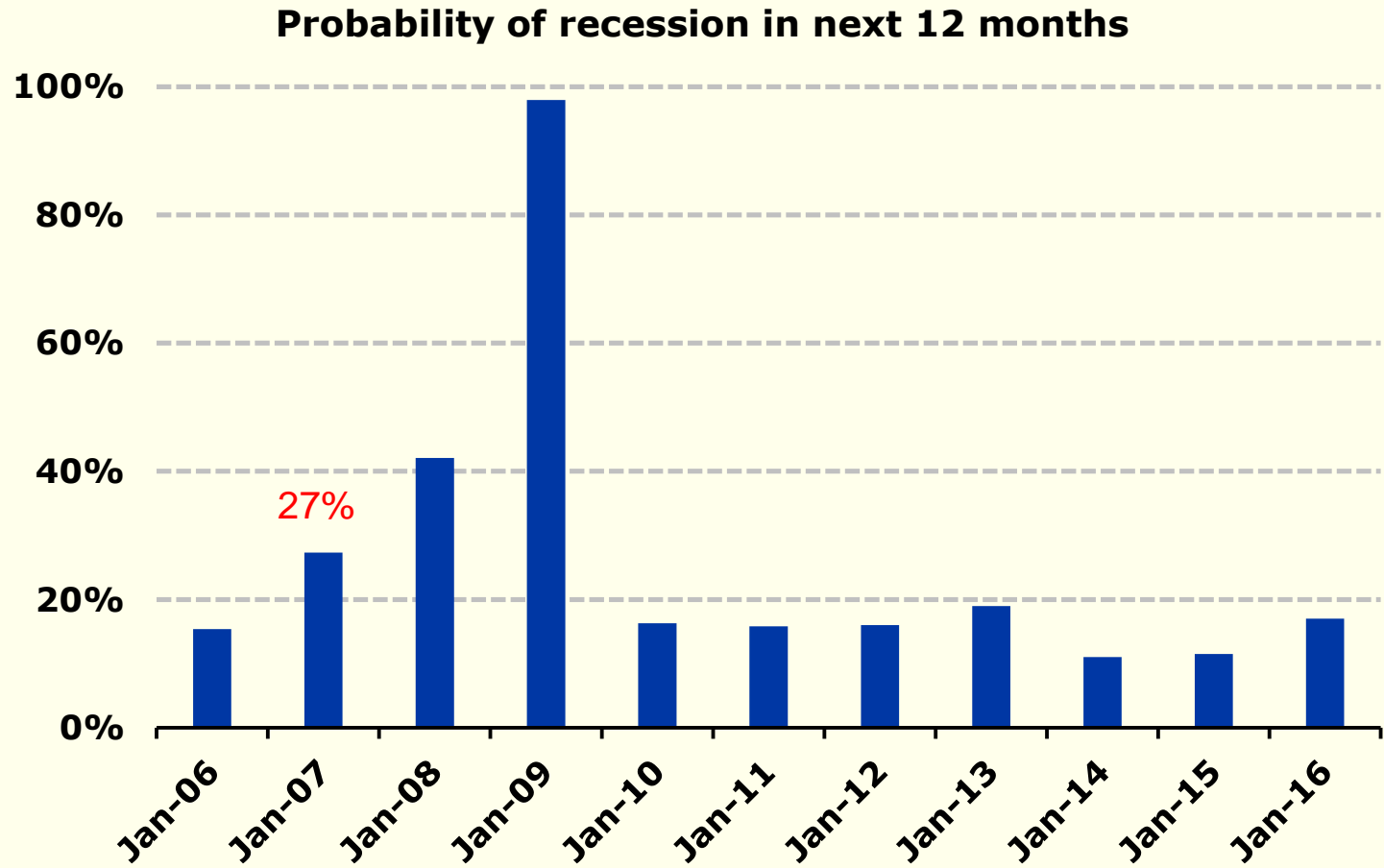


Sources: NBER, ERFC February 2016 Preliminary forecast



Wall Street Journal survey shows low but rising probability of recession

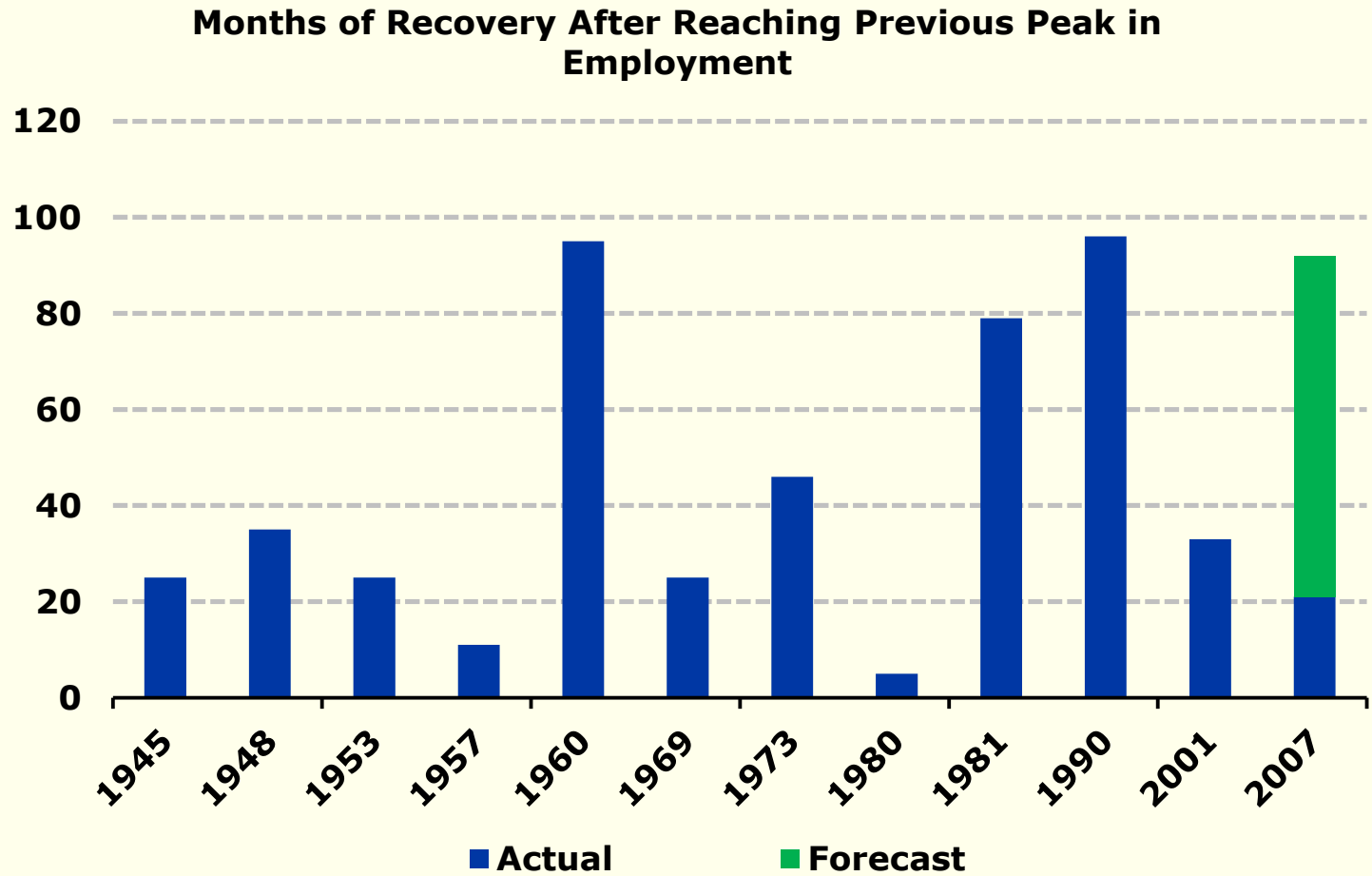
Feb. 2012
WSJ survey
places
probability at
21%



Source: Wall Street Journal Economic Forecasting Survey



Initial slow recovery points to extended expansion

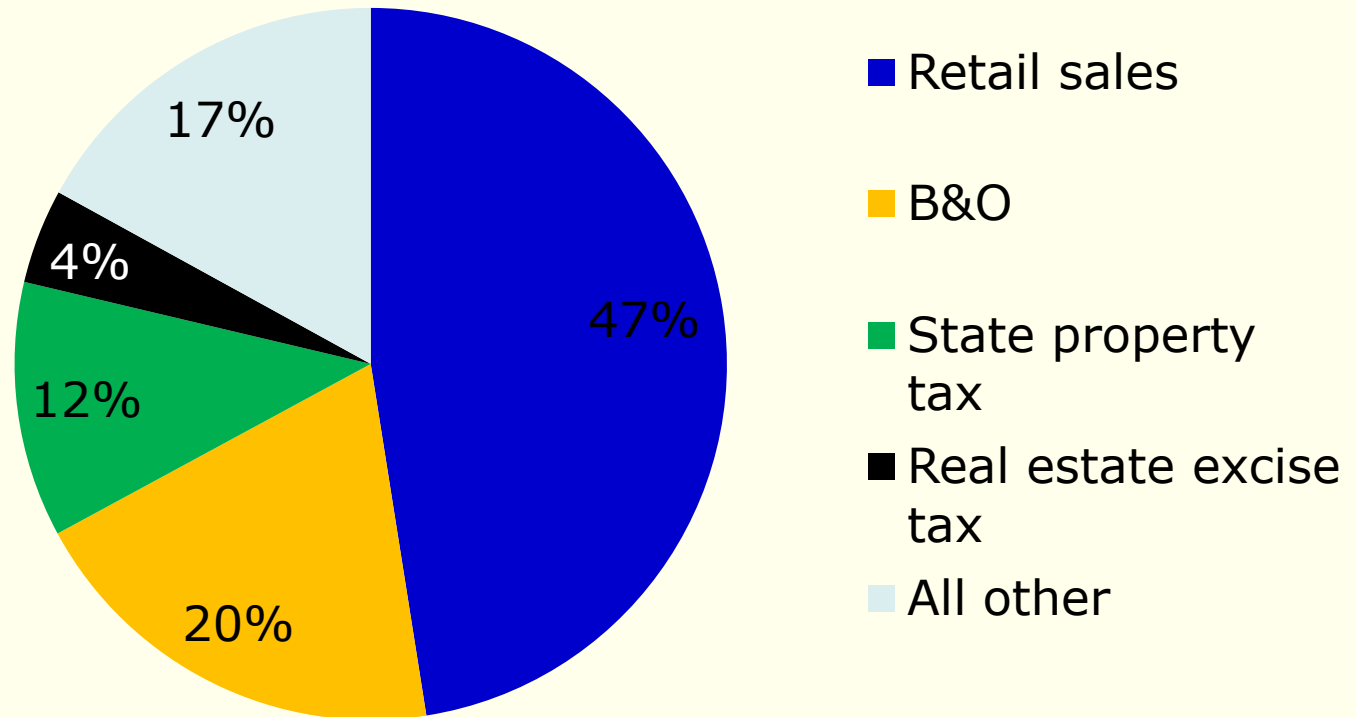


Sources: NBER, ERFC February 2016 forecast



Retail sales taxes account for over 47% of collections

FY 2015 collections



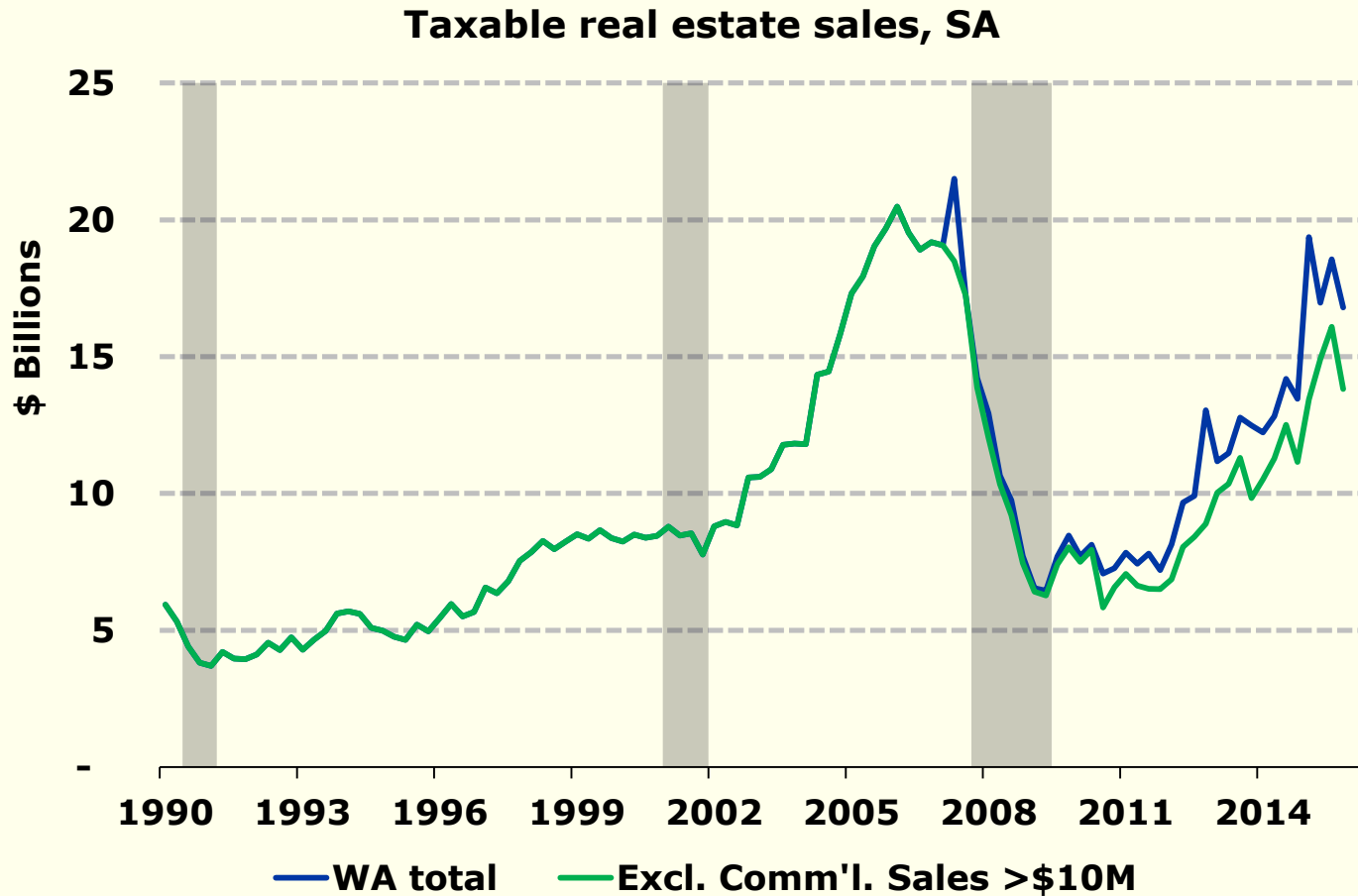
Source: Dept. of Revenue, ERFC



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.



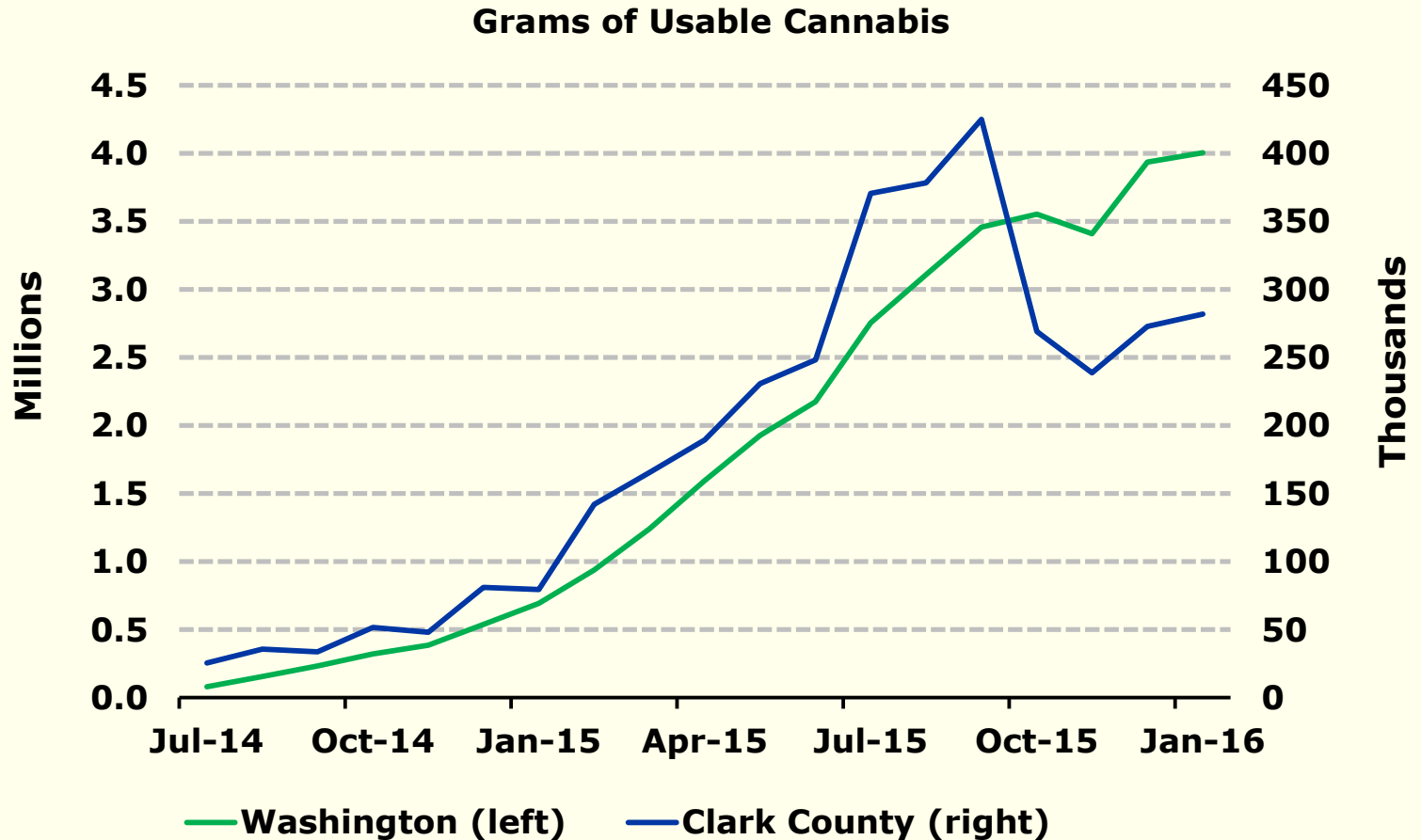
Source: ERFC, data through 2015 Q4



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