

Economic and Revenue Outlook

Presented to
Washington Citizens' Commission on Salaries
for Elected Officials

Steve Lerch
Executive Director

January 25, 2017
Olympia, Washington



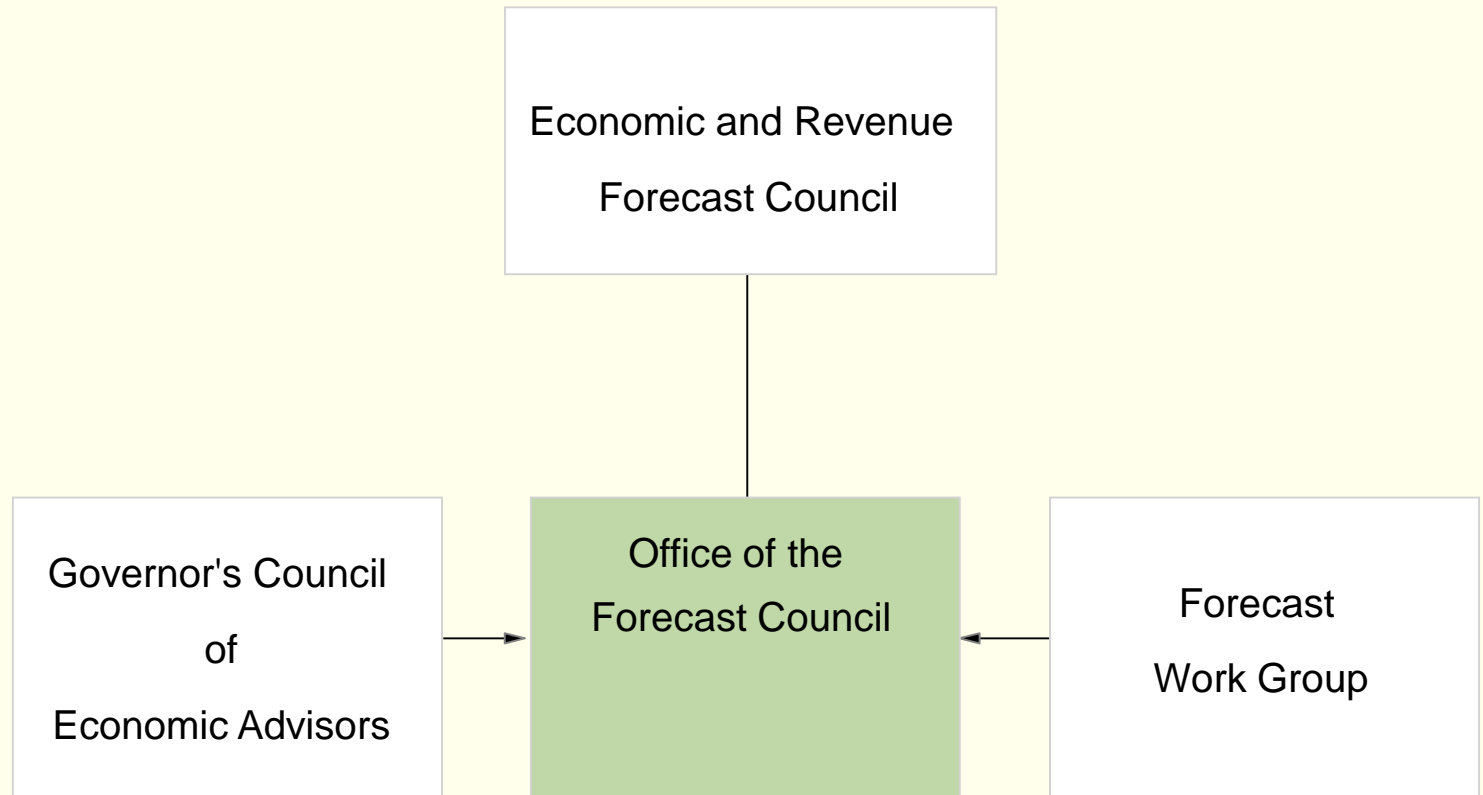
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Forecast Oversight

ERFC

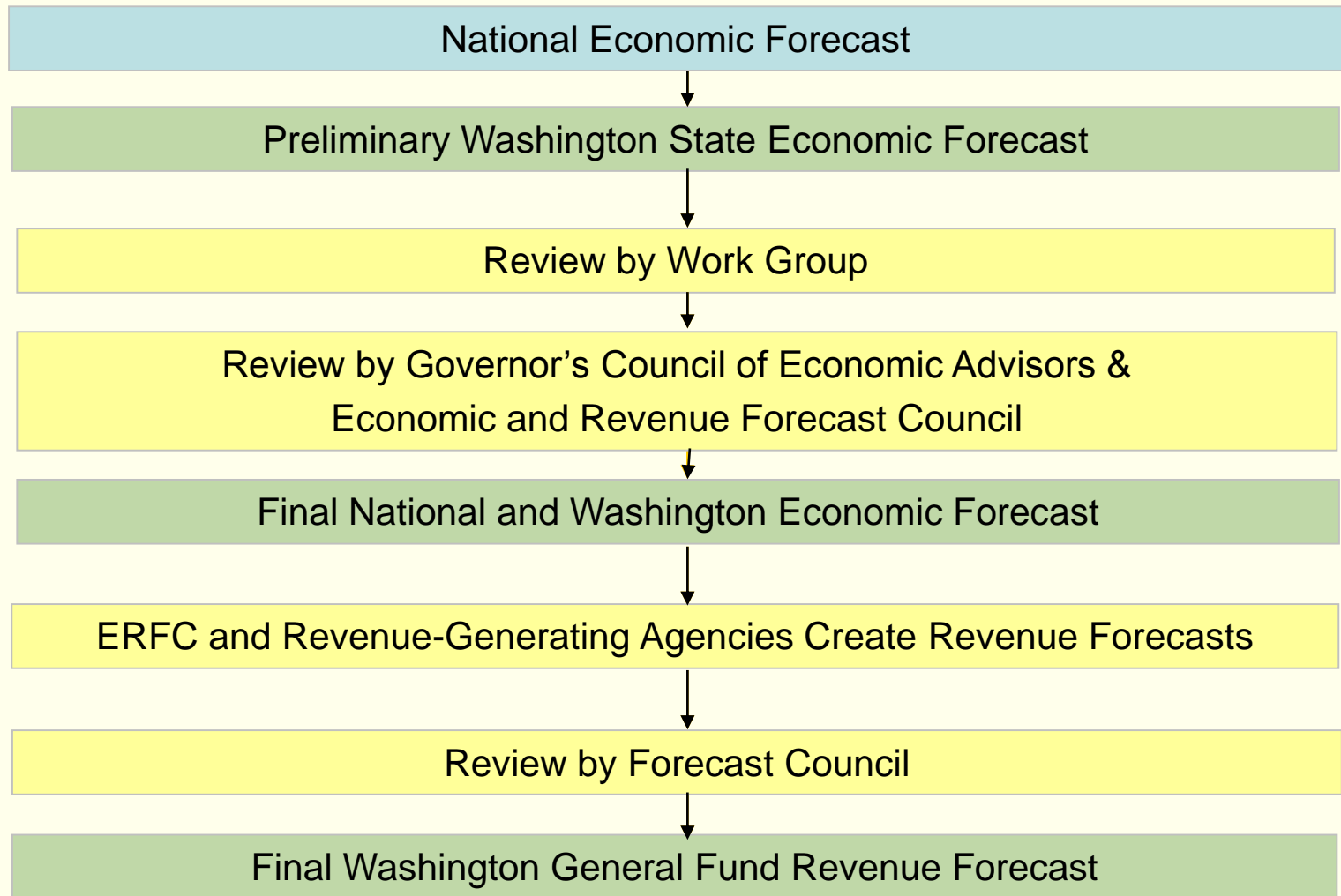
- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





ERFC Forecast Process

The national economic forecast is based on a modified version of the Global Insight model



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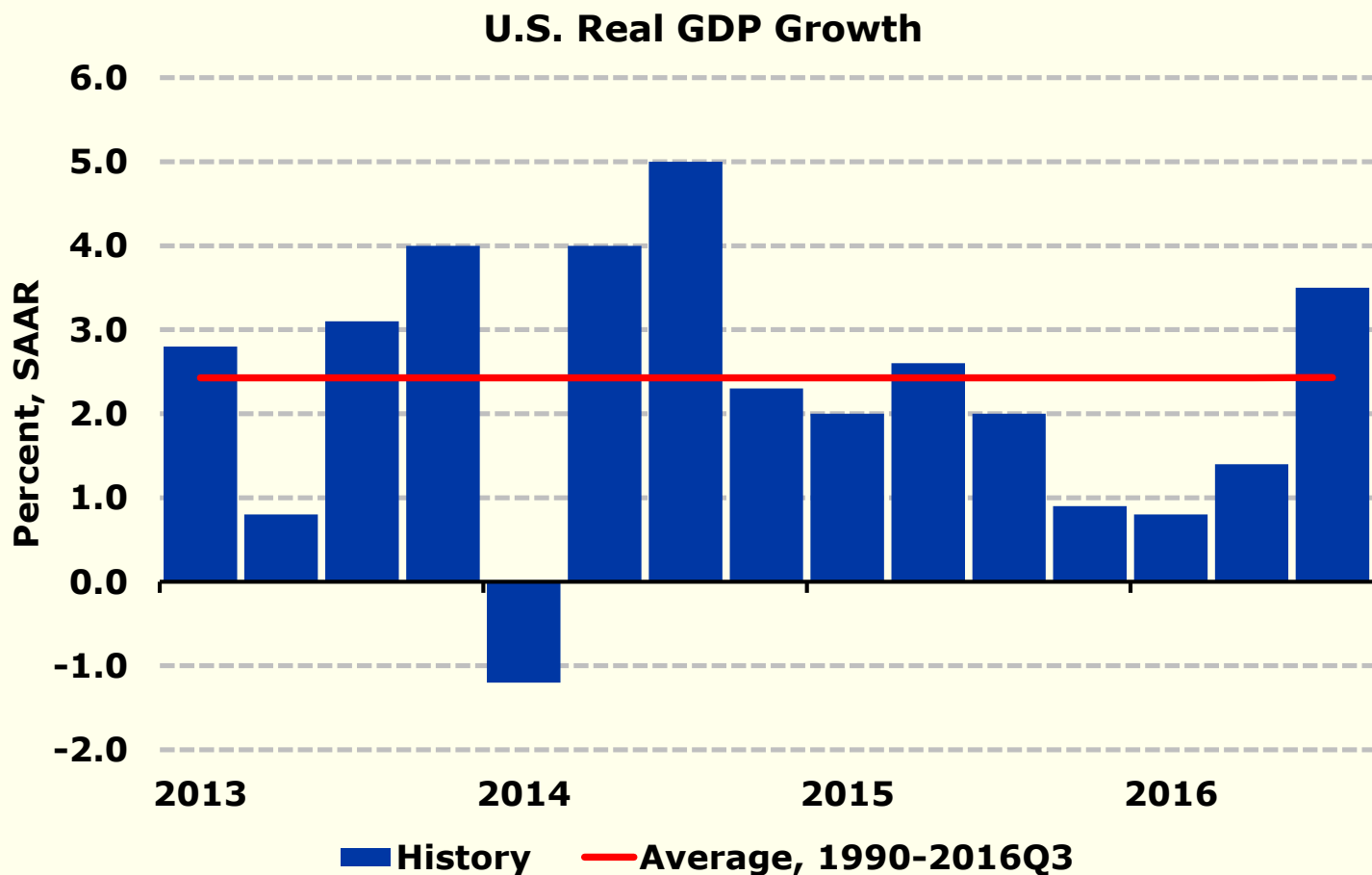
Forecast Summary

- The U.S. economy will continue to grow at a moderate pace
- The WA economy will continue to outperform the national economy
- The forecast assumes the Federal Reserve will increase interest rates twice during 2017
- Downside risks to the baseline include slow global and U.S. economic growth, the impact of a stronger dollar on exports, weak labor productivity growth, uncertainty regarding federal fiscal and trade policy
- Upside risks include stronger residential construction activity and stronger growth in wages



Third quarter GDP growth was highest in two years

Q3 growth helped by likely one-time increases in export growth, additions to business inventories

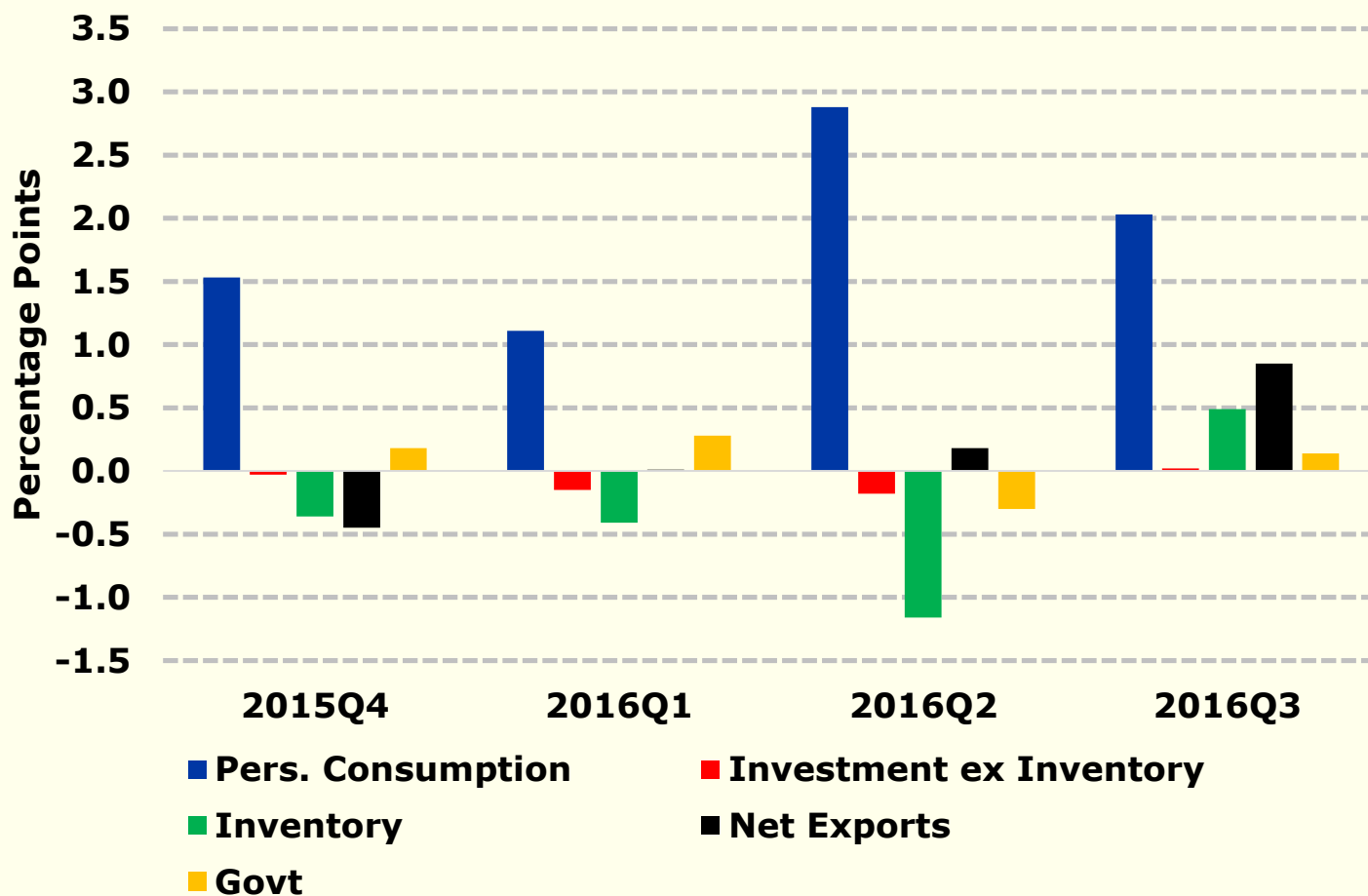


Source: U.S. Dept. of Commerce, BEA, data through 2016 Q3



Contributions to percent change in real U.S. GDP

Net exports in Q3 were driven by record soybean exports due to a poor crop in South America



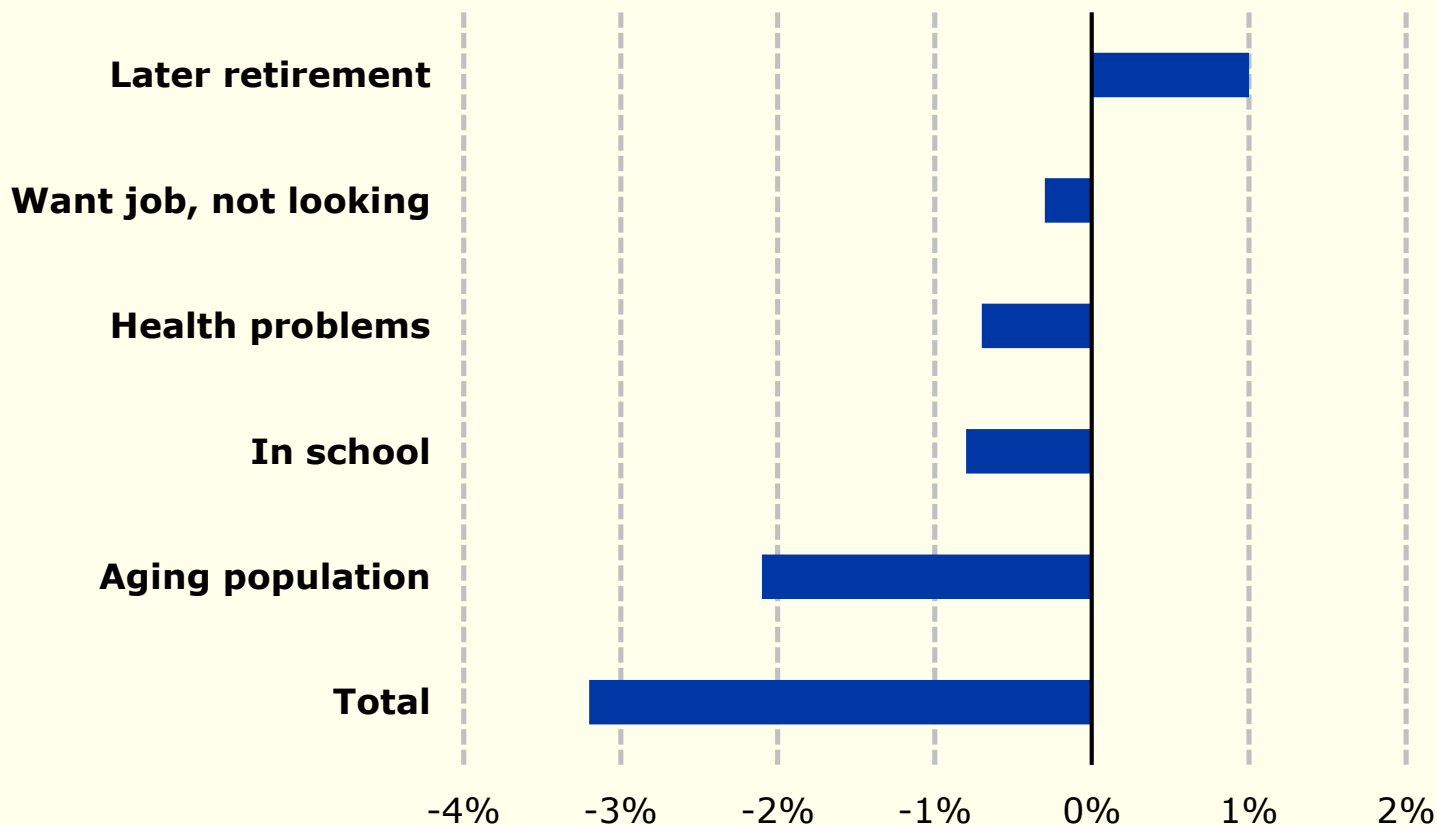
Source: U.S. Bureau of Economic Analysis, data through 2016 Q3

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Components of change in labor force participation rate, 2007Q3 to 2016Q3

Labor force participation rate = % of population age 16+ working or looking for a job

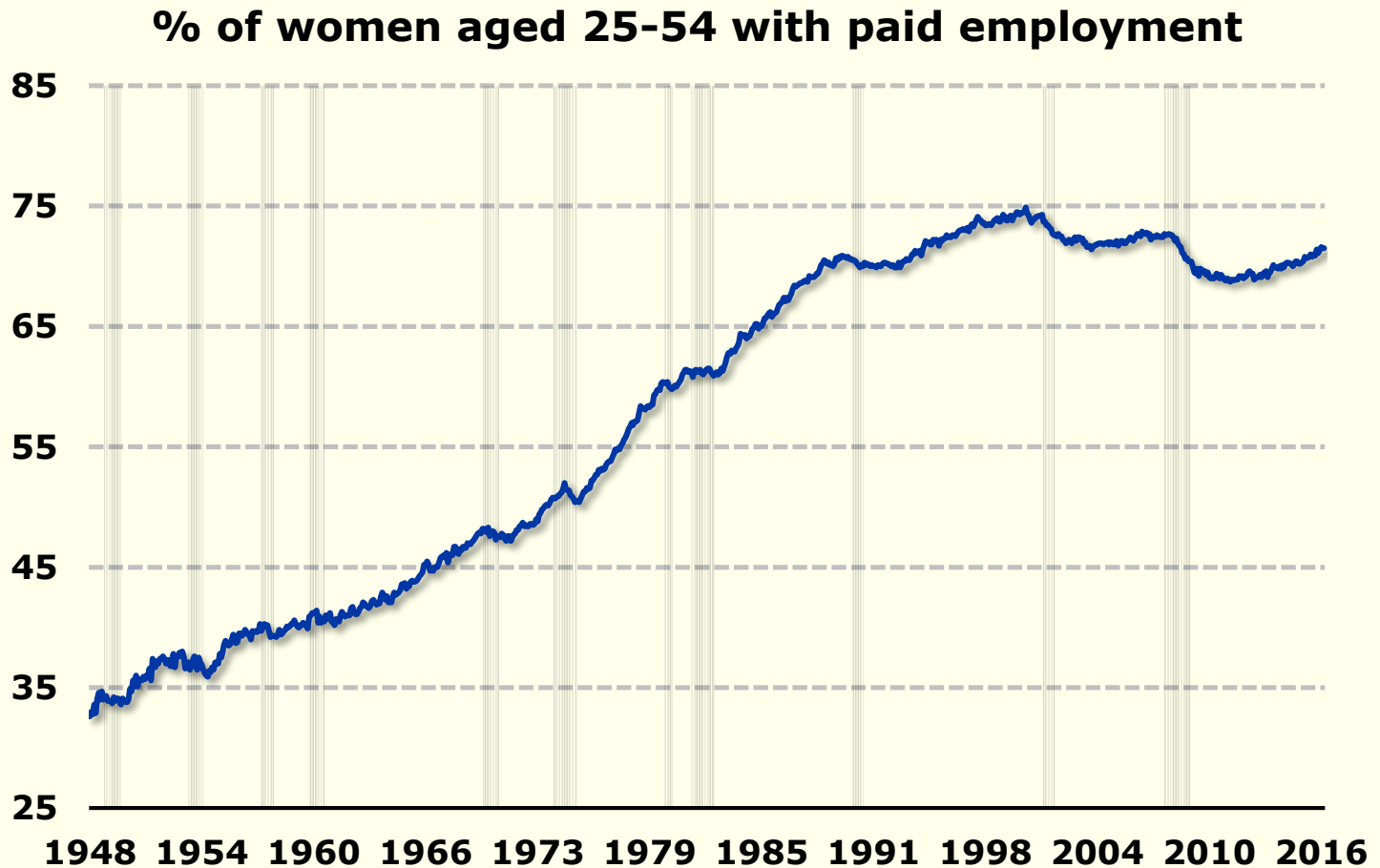


Source: U.S. Bureau of Labor Statistics, Atlanta Federal Reserve



Fraction of employed women aged 25-54 is up since recession, still slightly below historic peak

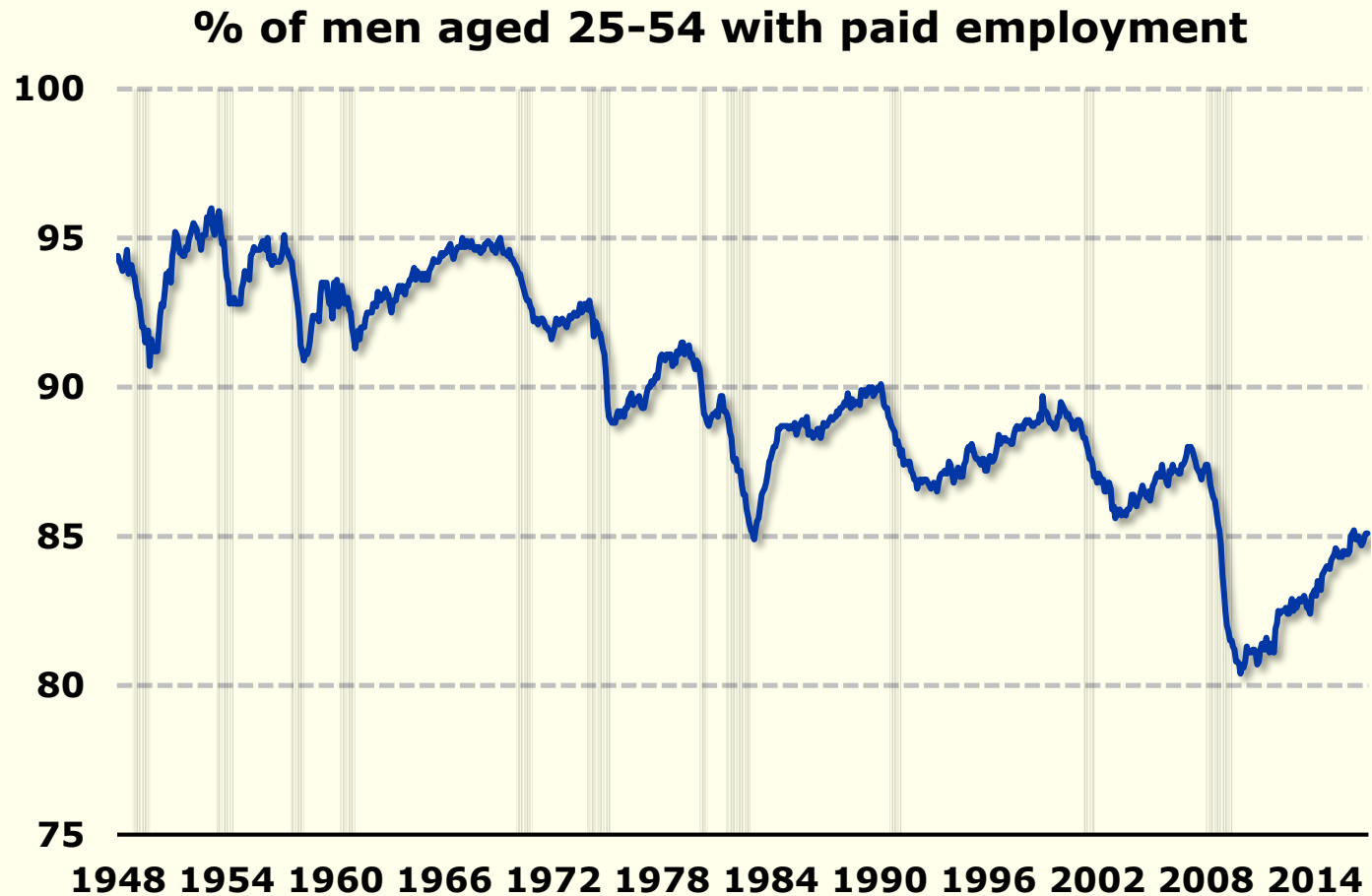
Peak:
74.9%,
April
2000



Source: U.S. Bureau of Labor Statistics, NBER; data through Dec. 2016



Fraction of employed men aged 25-54 is up since recession, well below historic peak



Source: U.S. Bureau of Labor Statistics, NBER; data through Dec. 2016



Global GDP growth has slowed, expected to gradually increase starting this year

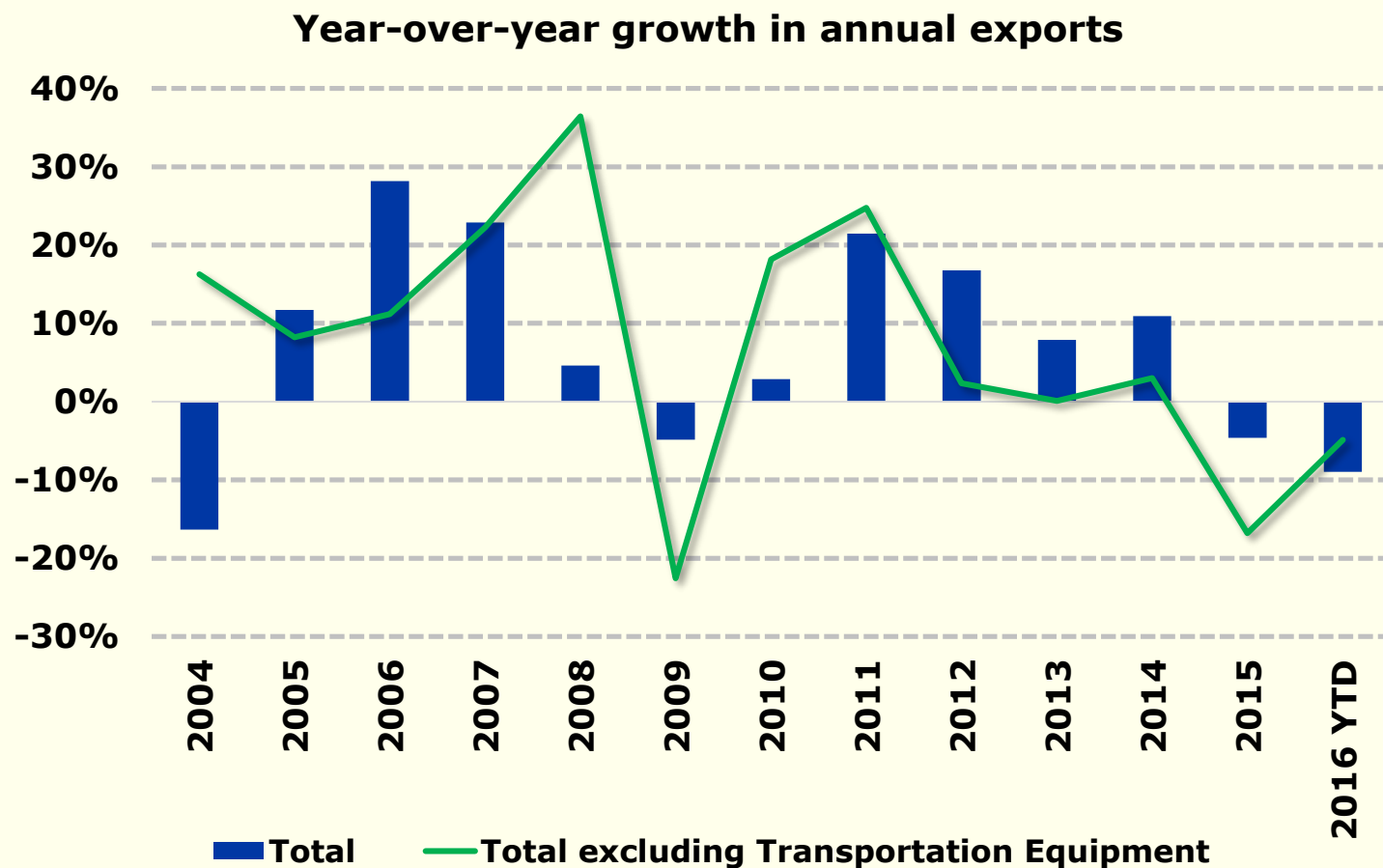
Growth in previously fast-growing economies like China, Brazil, South Africa has slowed



Source: International Monetary Fund, October 2016; historical data through 2015

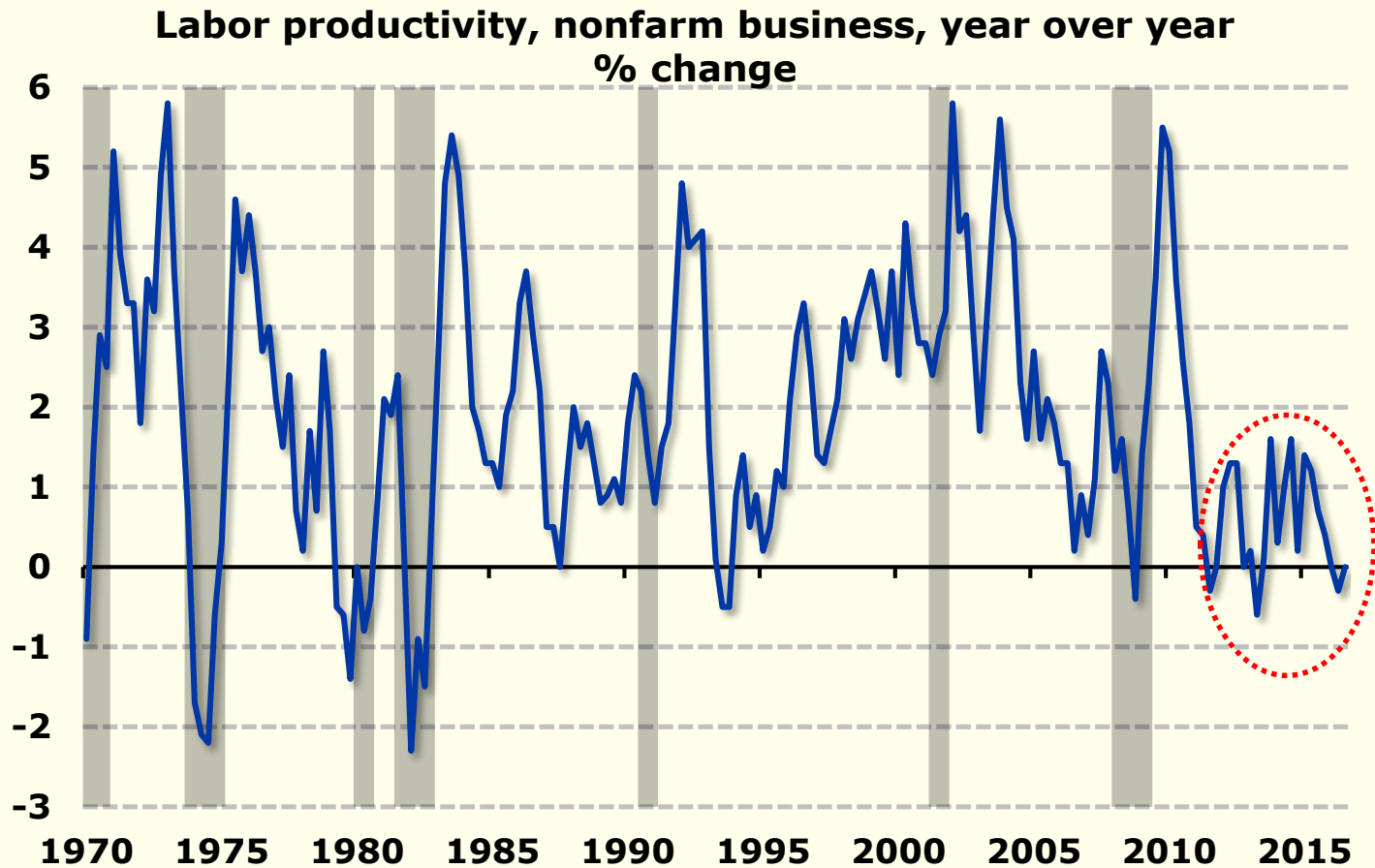


Washington exports have weakened





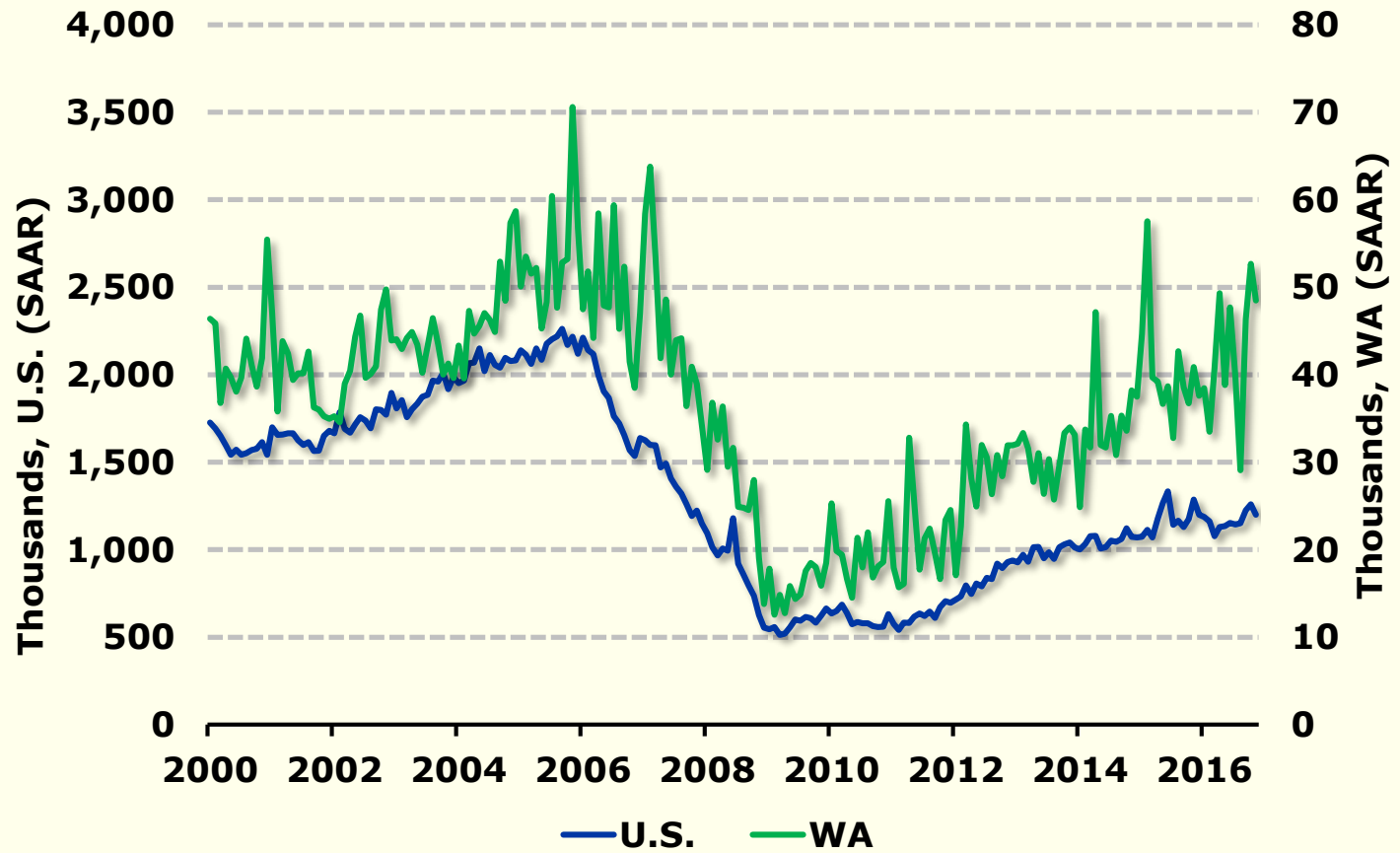
Labor productivity growth has remained low since 2011



Source: U.S. Bureau of Labor Statistics, data through 2016 Q3



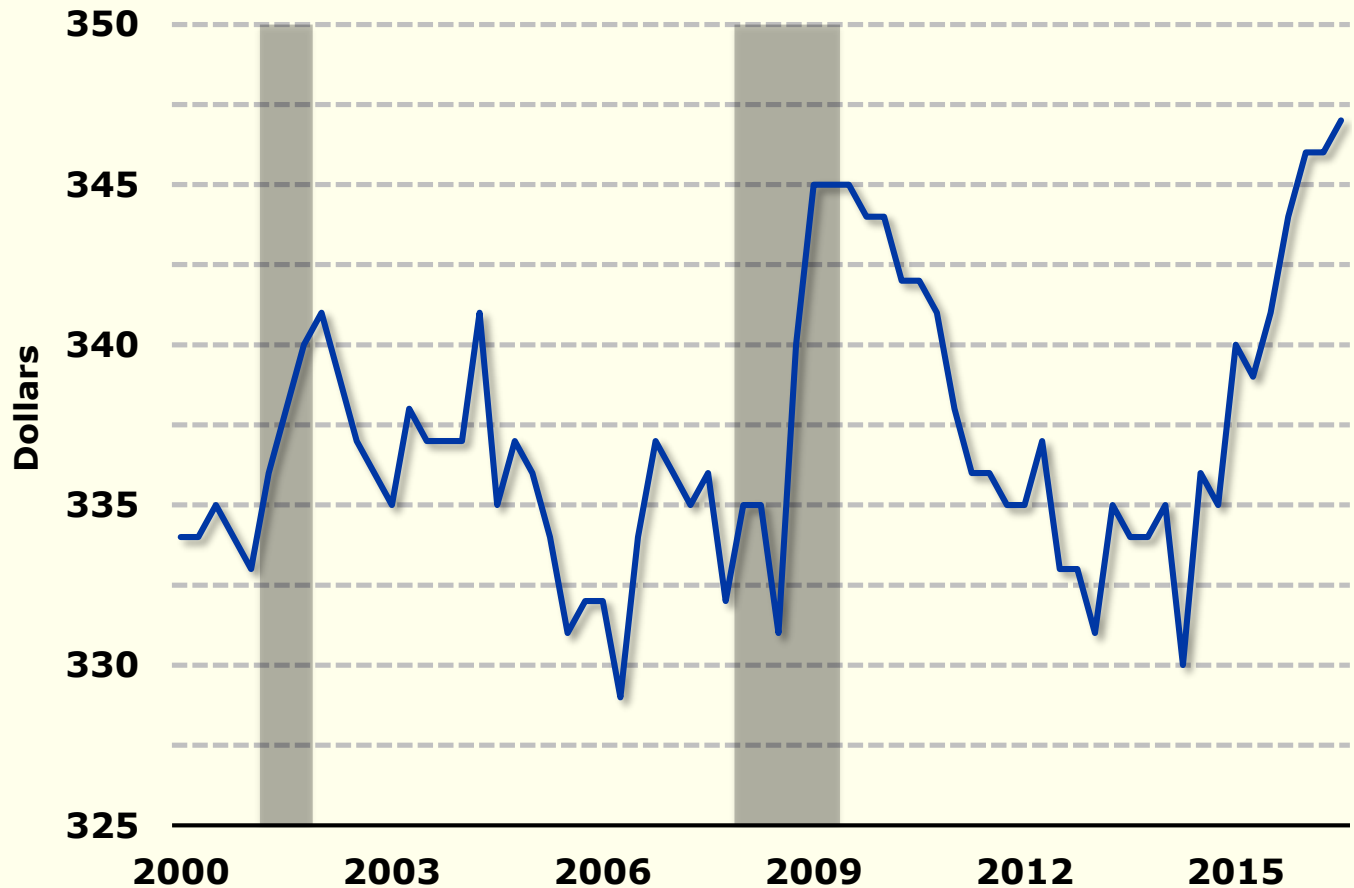
U.S., WA housing permits trending up; U.S. remains below historical averages



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

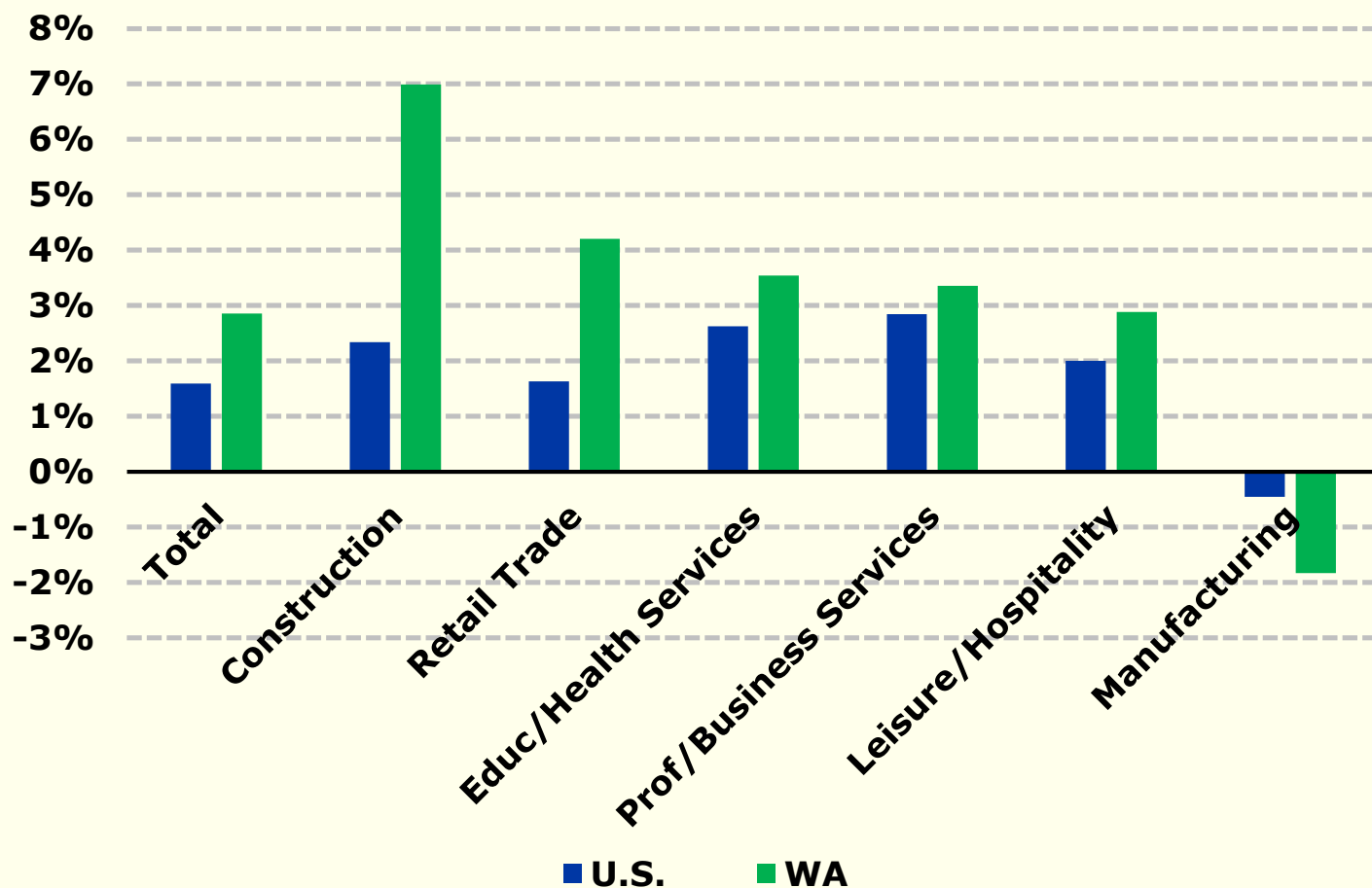


U.S. real median weekly wages, full time workers (1982-84 dollars)





Washington vs U.S. employment growth: Nov. 2015 to Nov. 2016

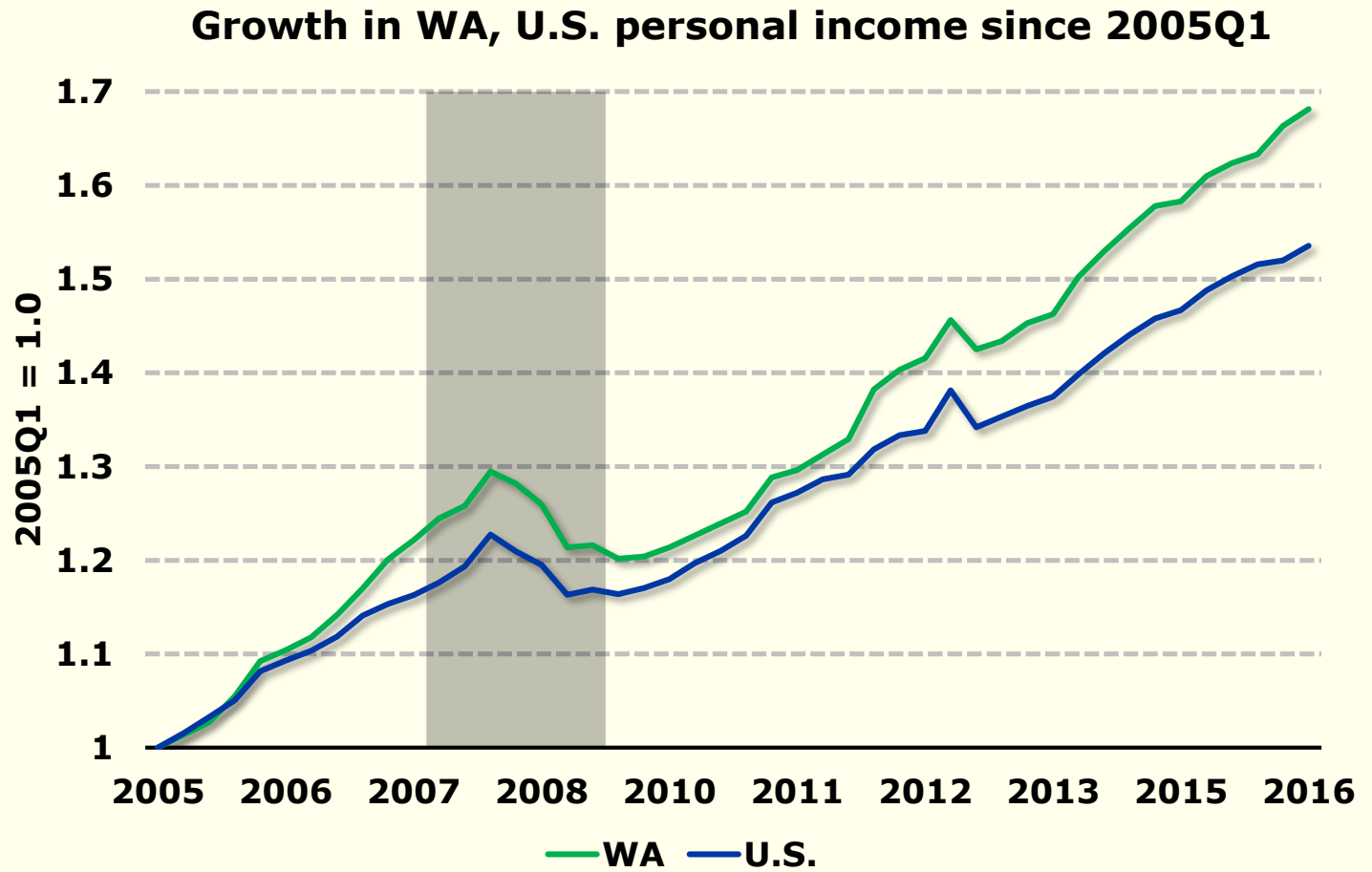


Source: Employment Security Dept., ERFC; data through Nov. 2016

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Personal income has been growing faster in WA than for U.S. as a whole



Source: U.S. Bureau of Economic Analysis, data through 2016 Q2

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The pace of recovery from the recession has been uneven

Tri-Cities employment never fell below its Feb. 2008 level

Metro area	First returned to Feb. 2008 employment	% change in employment, Nov. 2016 - Feb. 2008
Tri-Cities	**	17.2%
Seattle	June 2013	10.8%
Wenatchee	June 2014	10.4%
Olympia	January 2014	7.4%
Tacoma	July 2014	7.2%
Yakima	November 2014	4.8%
Spokane	December 2015	3.6%
Bellingham	January 2015	3.6%
Bremerton	June 2015	2.4%
Longview	June 2014	1.8%
Mt. Vernon	January 2016	-0.4%

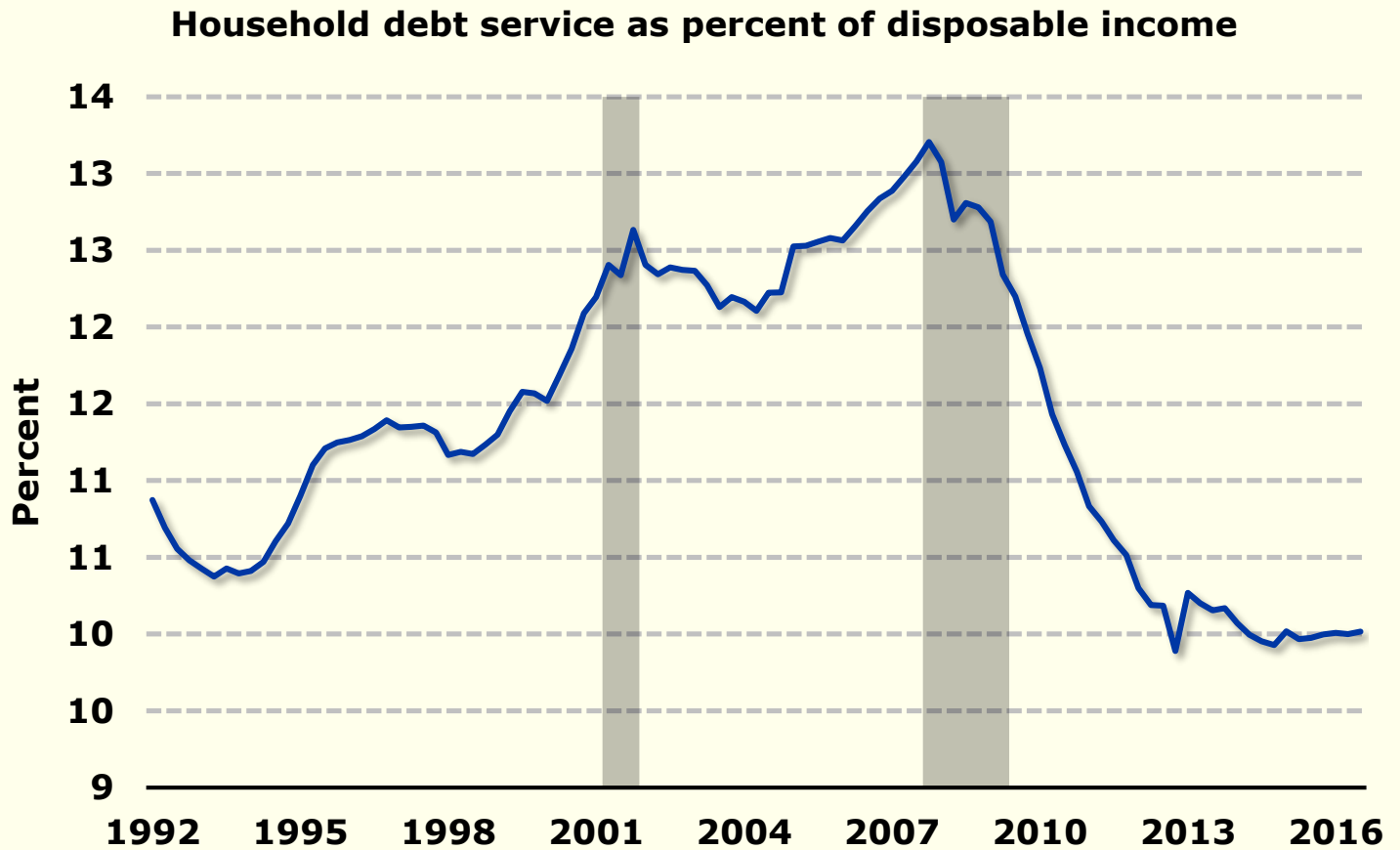
Source: U.S. Bureau of Labor Statistics

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Household debt payments as a fraction of income have declined

Debt service includes mortgage, auto, student loan and other consumer debt payments

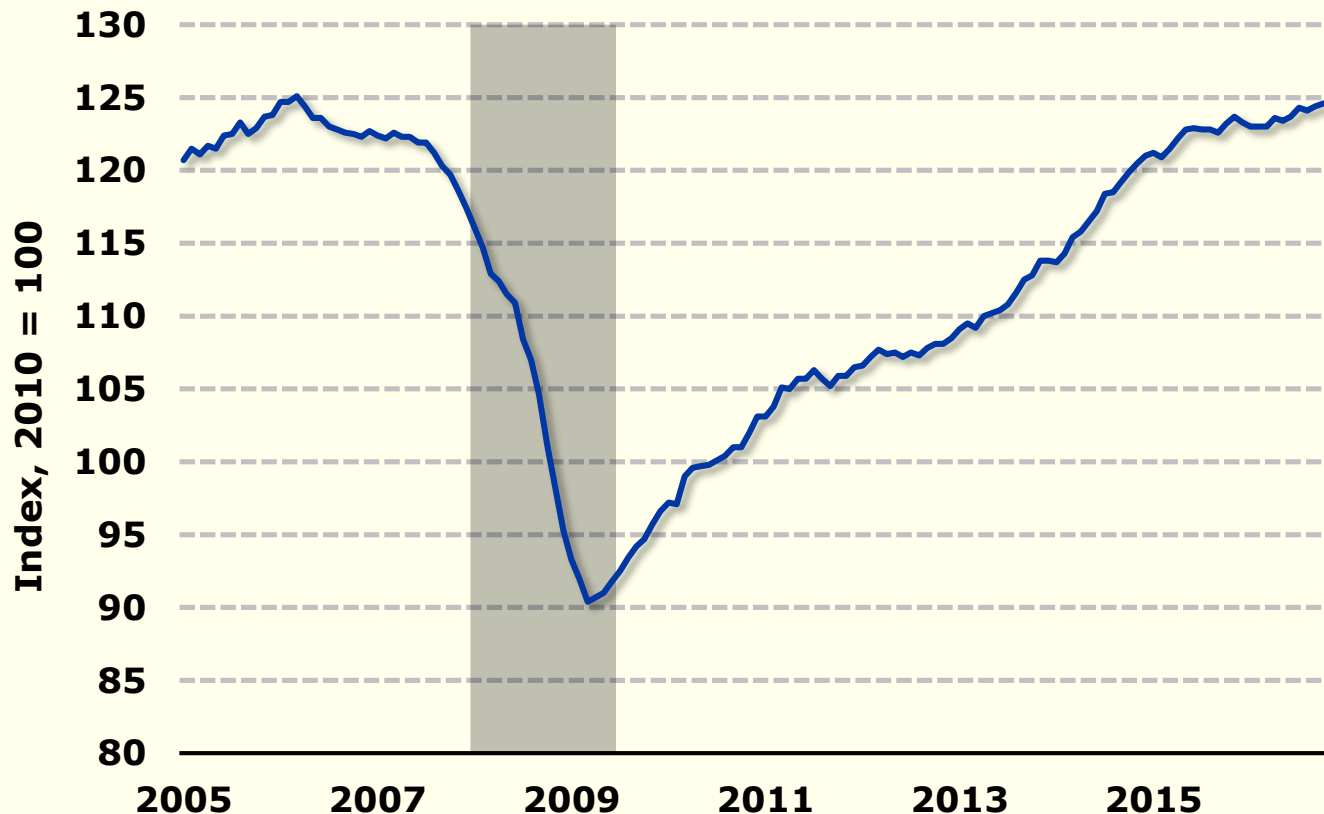


Source: Federal Reserve Board, data through 2016 Q3



U.S. Leading Economic Index trending up but at slower rate

The LEI is an index of economic indicators that tend to indicate the direction of economic growth



Source: Conference Board, data through November 2016

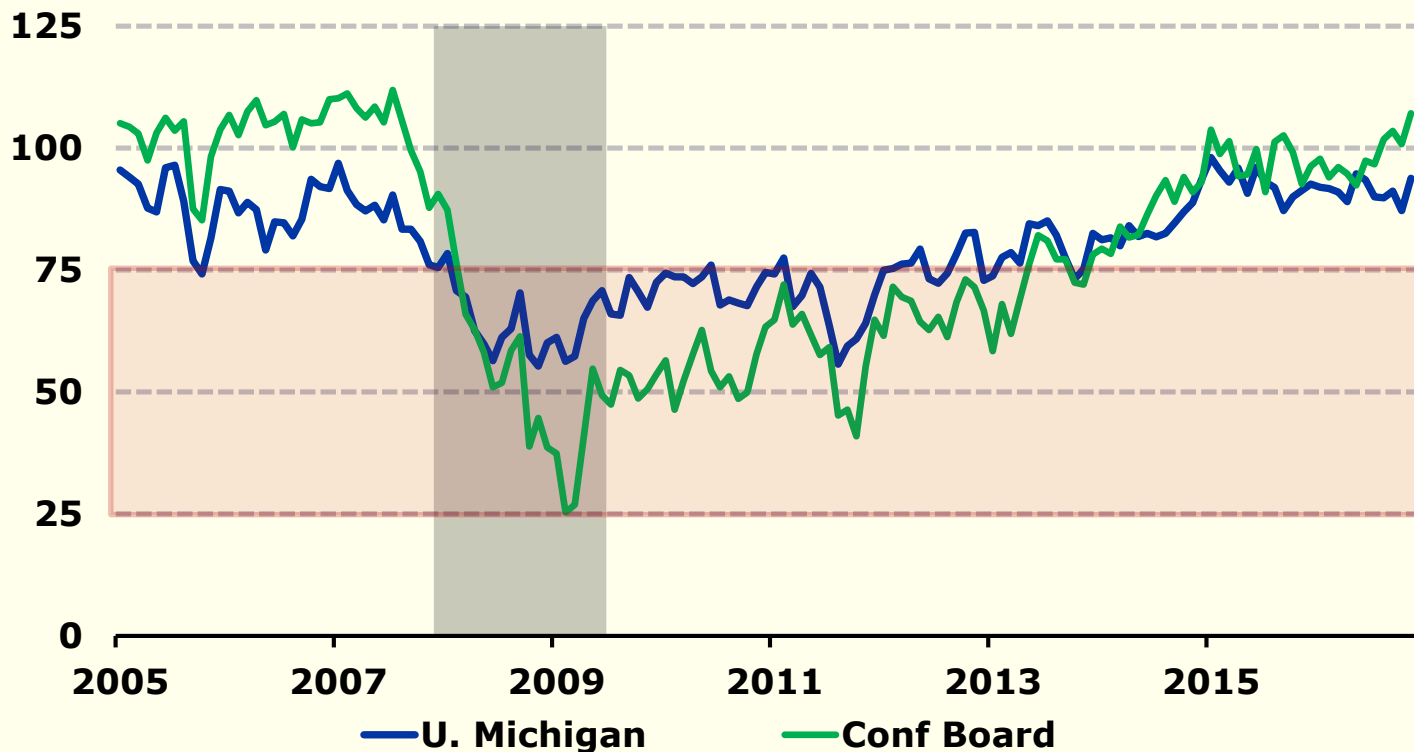


Consumer confidence turned up in November and December

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





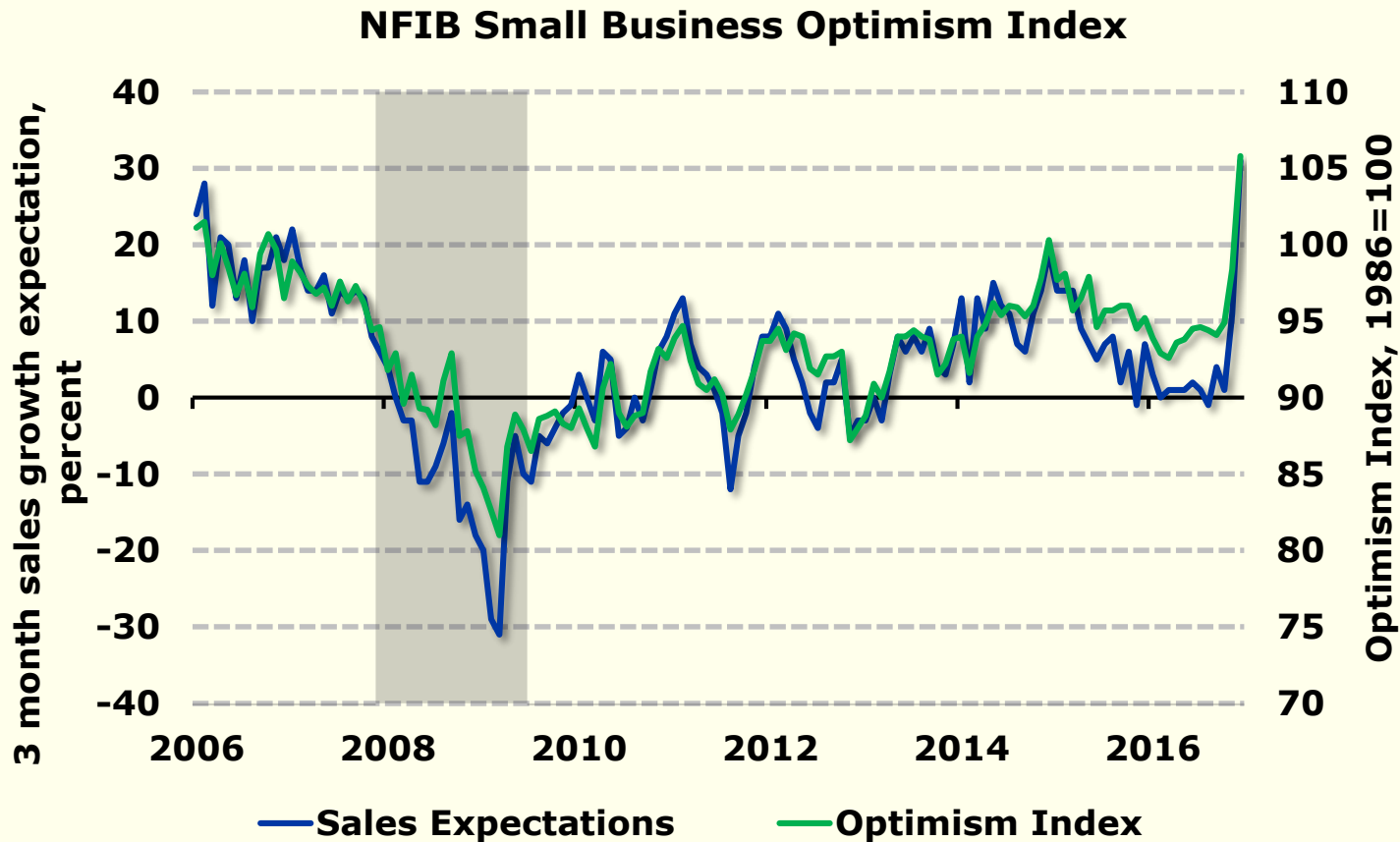
Homebuilder confidence has largely recovered since the recession



Source: National Association of Home Builders, data through Jan. 2017

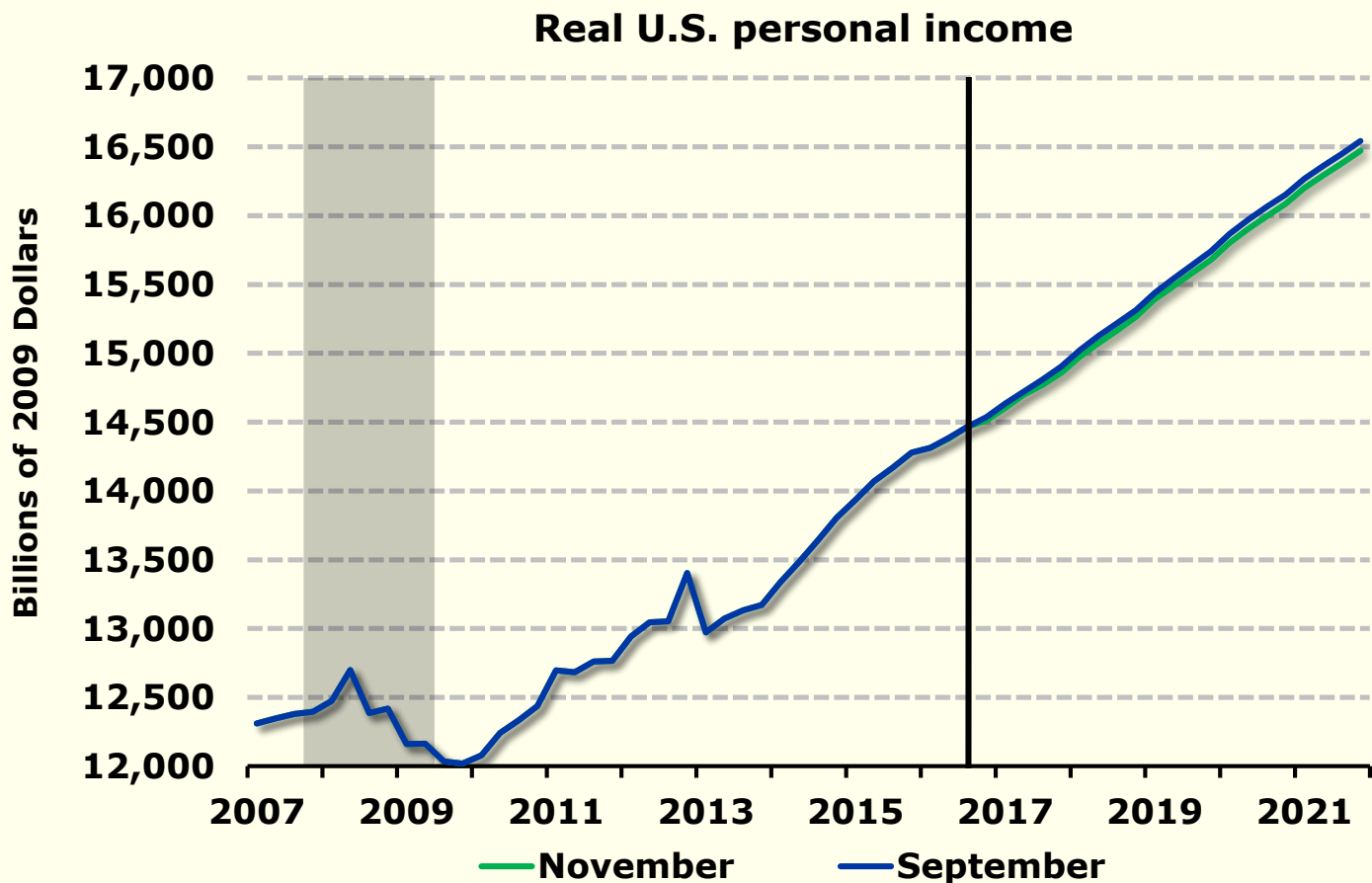


Small business optimism and sales expectations jumped in December



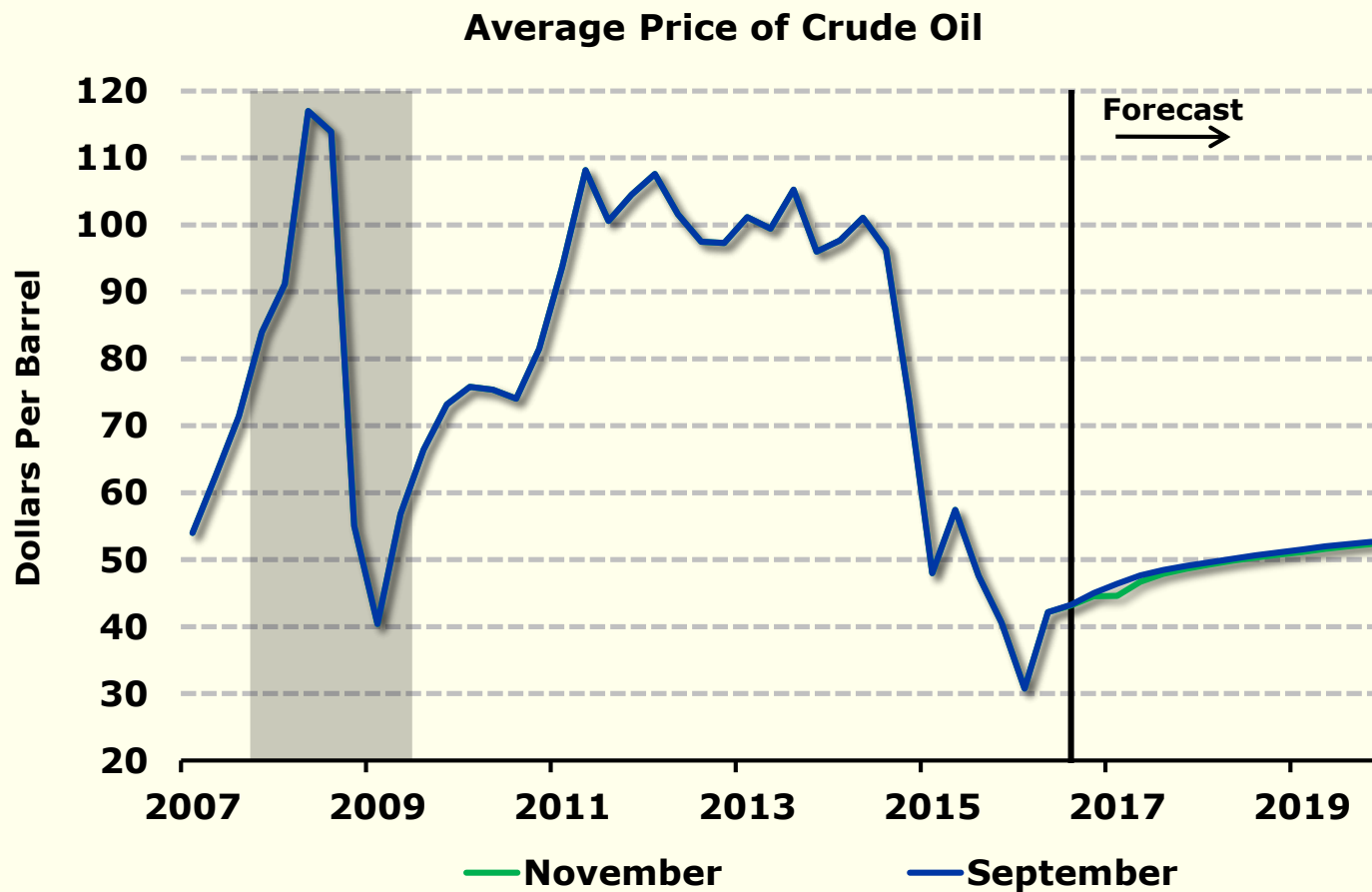


Real U.S. personal income is nearly identical to the September forecast





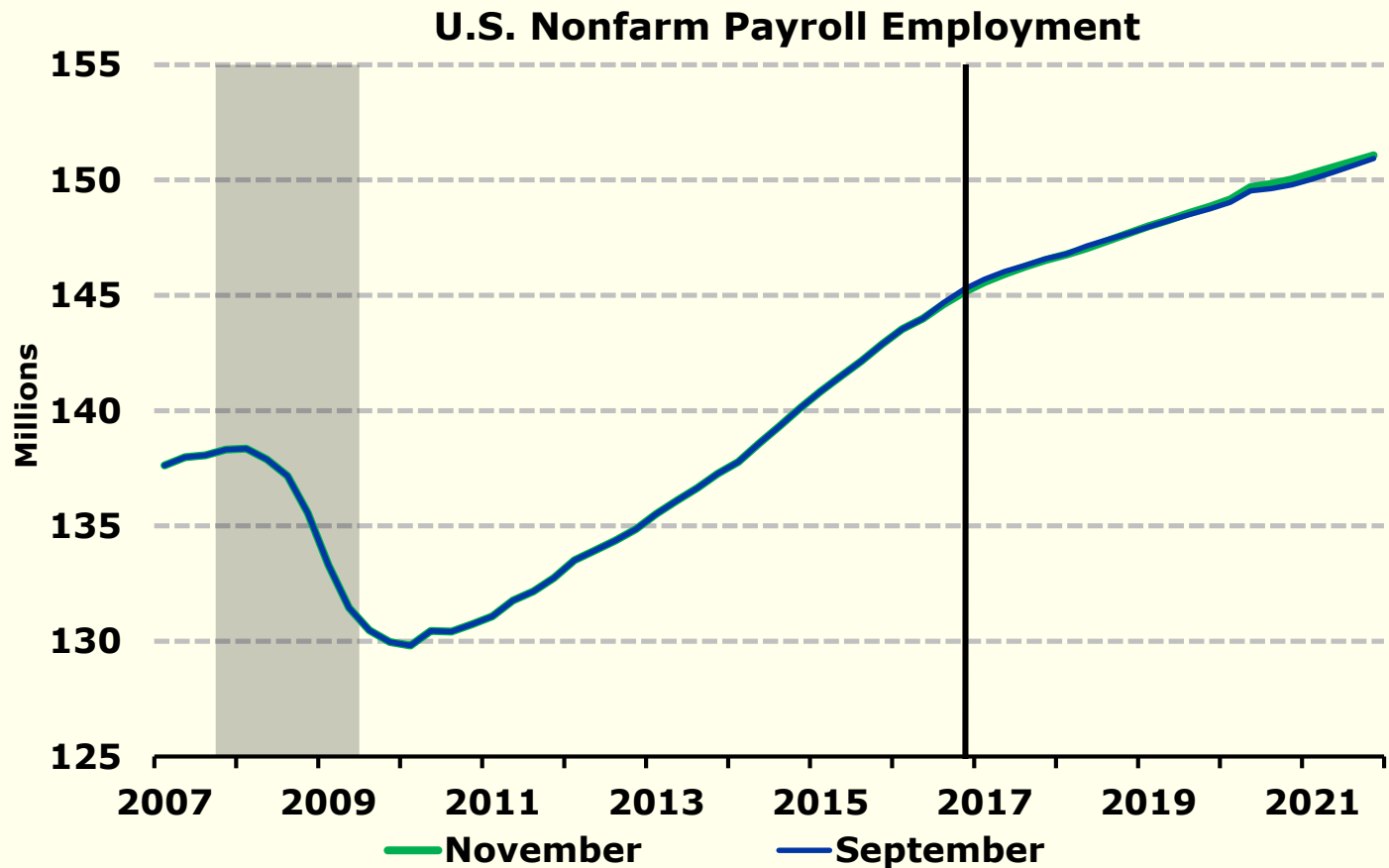
Oil prices are expected to gradually rise as in September





The U.S. nonfarm payroll employment forecast is nearly identical to September

Monthly employment growth averaged 180,000 in 2016 compared to 229,000 in 2015.



Source: ERFC November 2016 forecast; data through Q4 2016

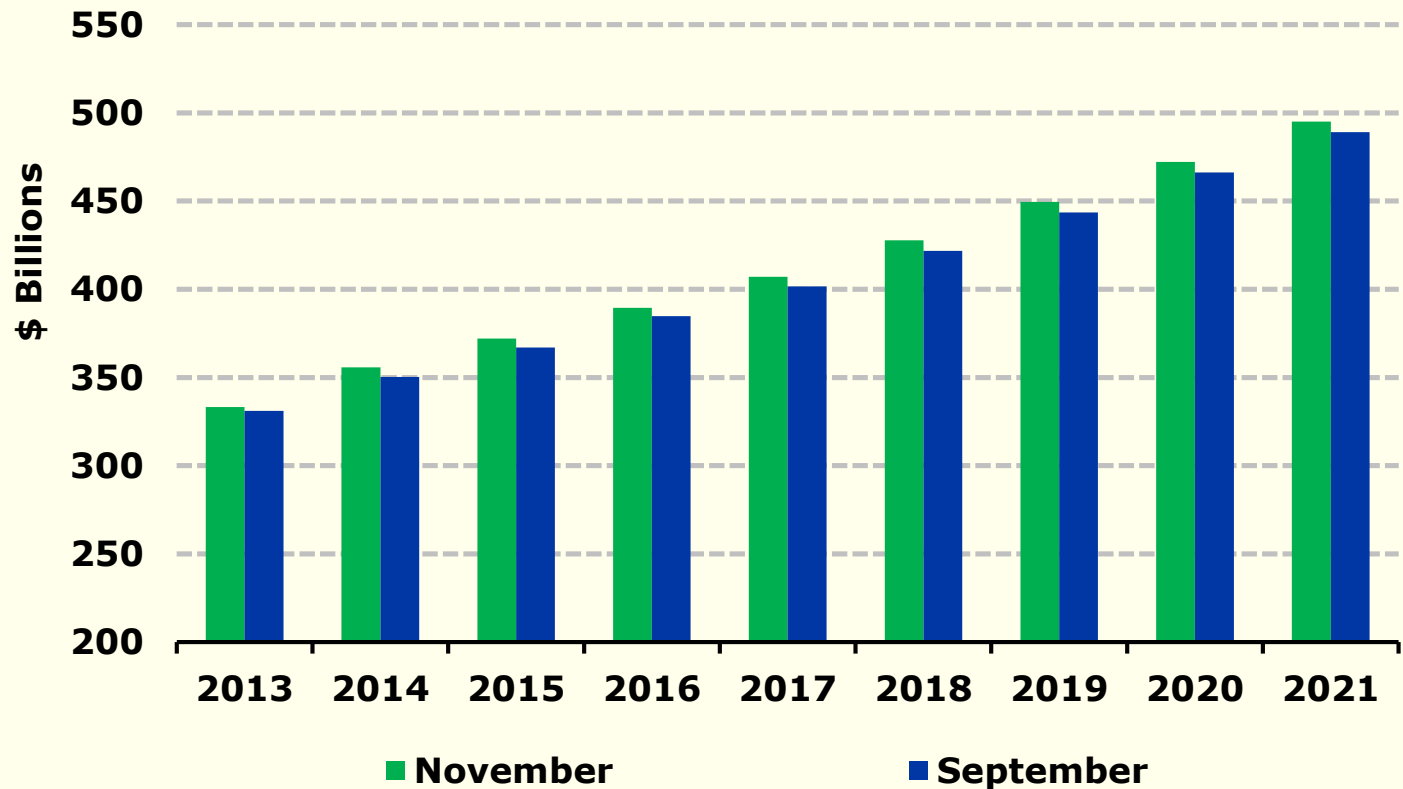
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Washington personal income is slightly higher compared to the September forecast

Historic personal income data has been revised since the September forecast

Washington Personal Income

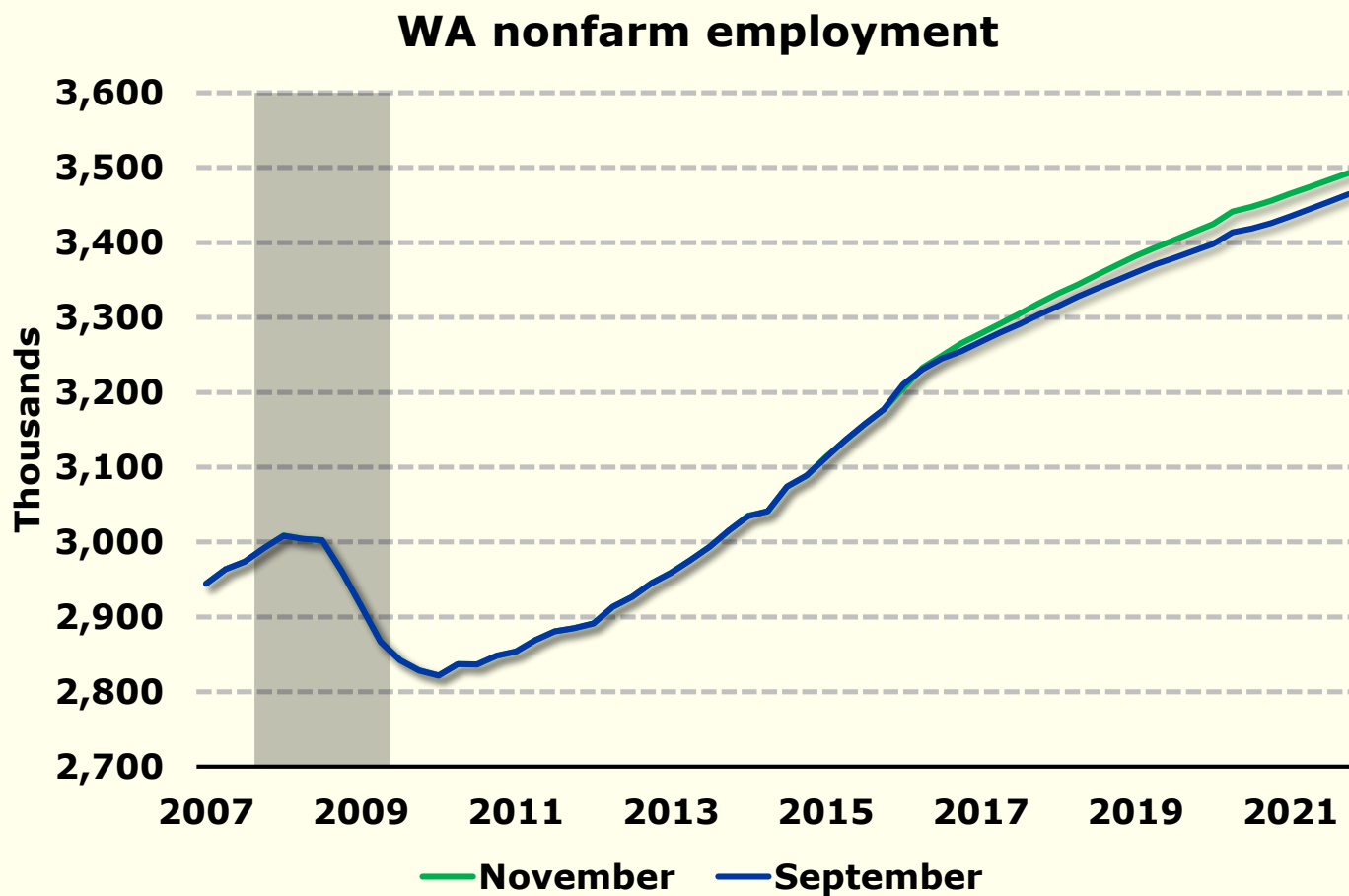


Source: ERFC November 2016 forecast; historical data through 2015

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WA employment was revised up slightly in the November forecast



Source: ERFC November 2016 forecast; historical data through 2016Q3

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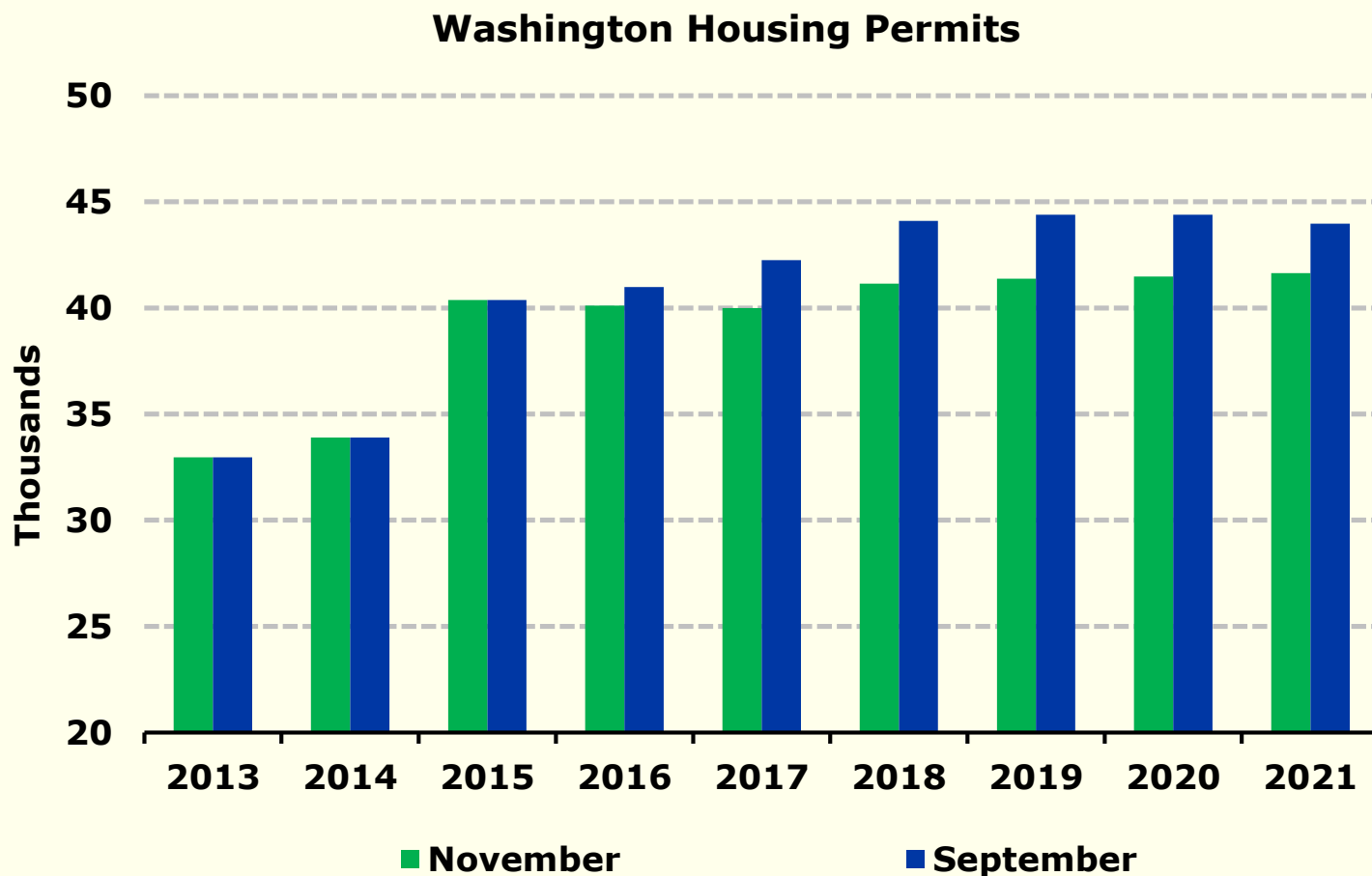


Washington housing permits forecast is weaker than in September

2017-21
average:

September:
43,800

November:
41,100

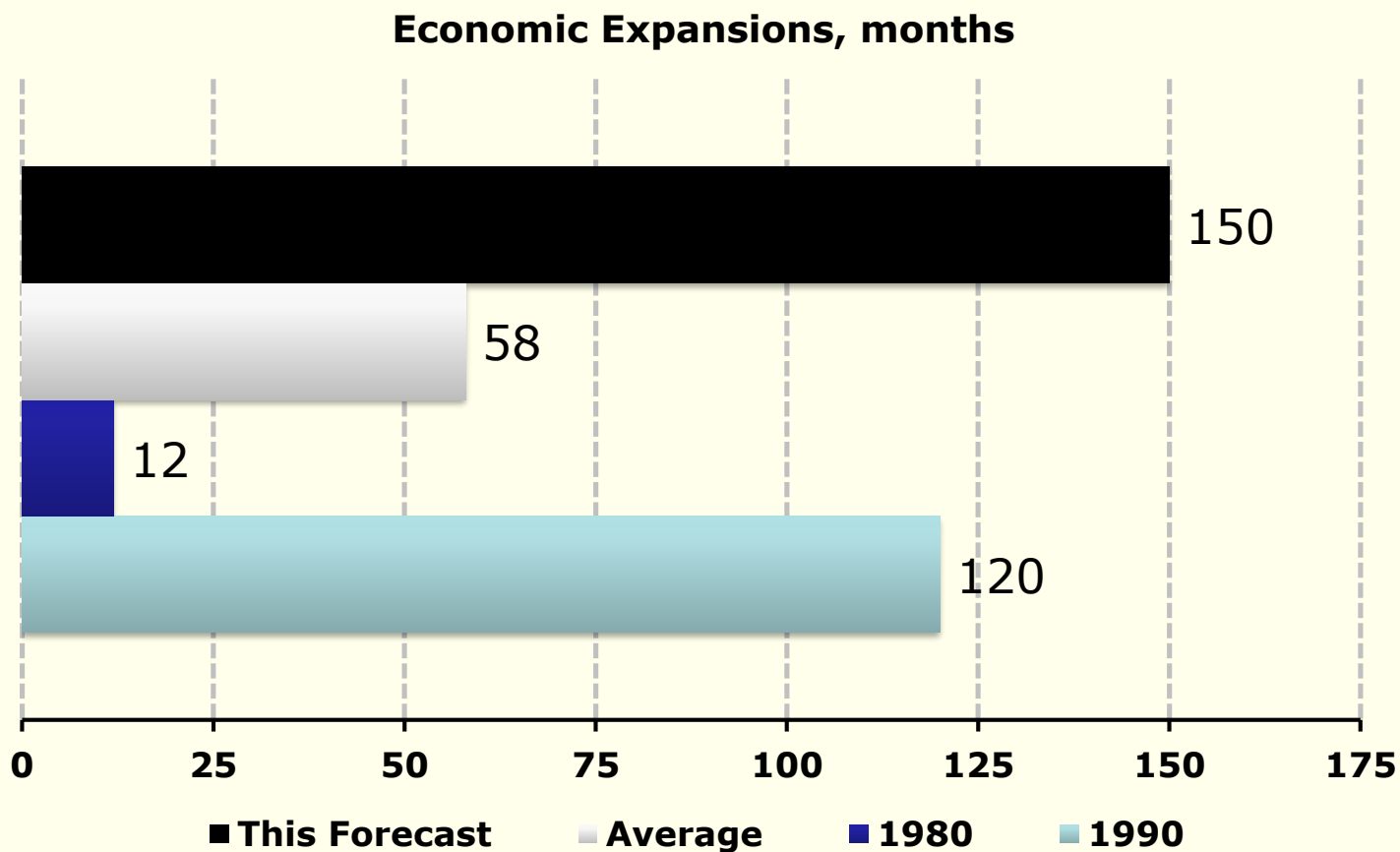


Source: ERFC November 2016 forecast; historical data through 2015

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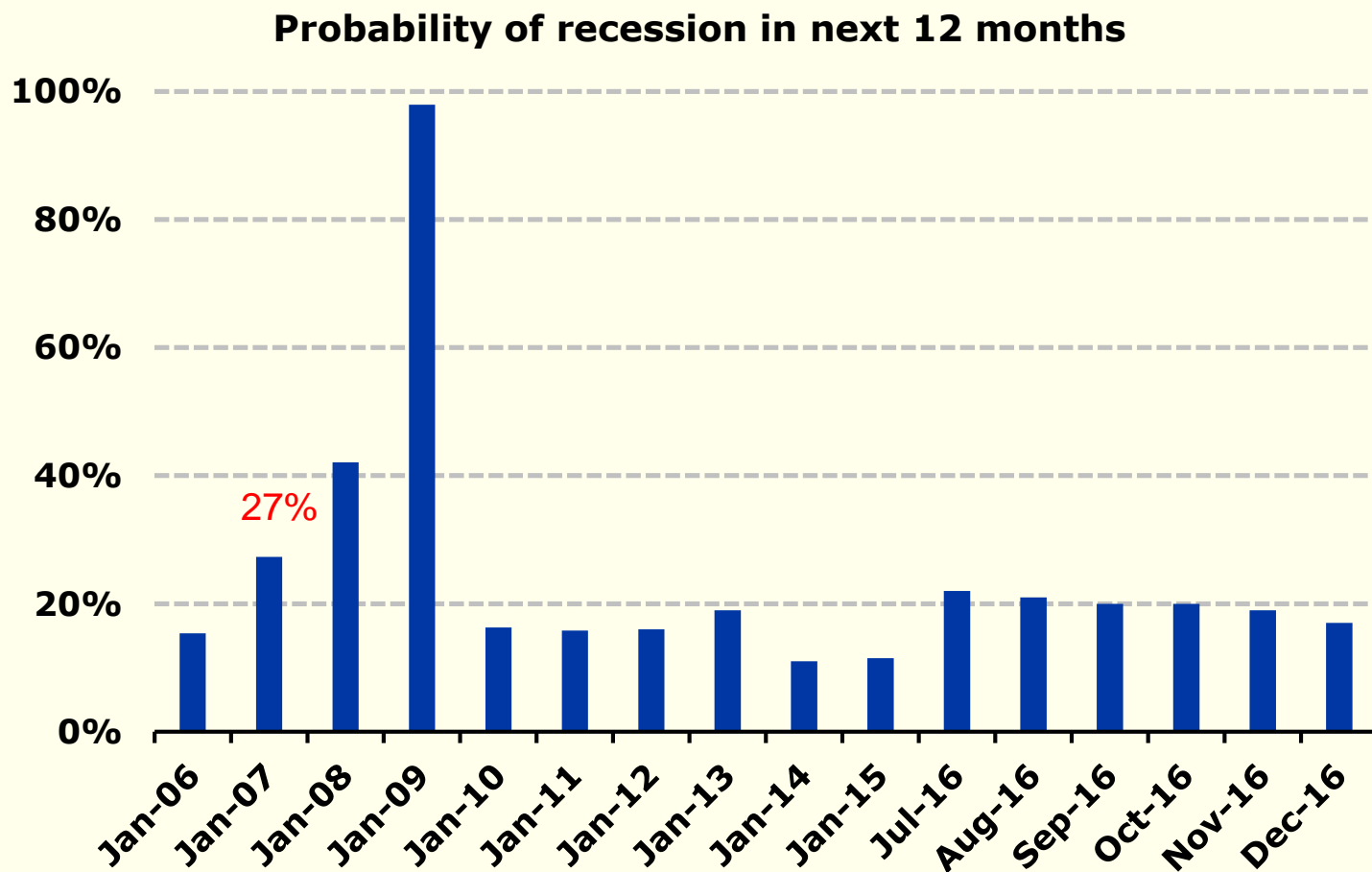
U.S. Economic Expansions since 1945



Sources: NBER, ERFC September 2016 forecast



Wall Street Journal survey shows low probability of recession



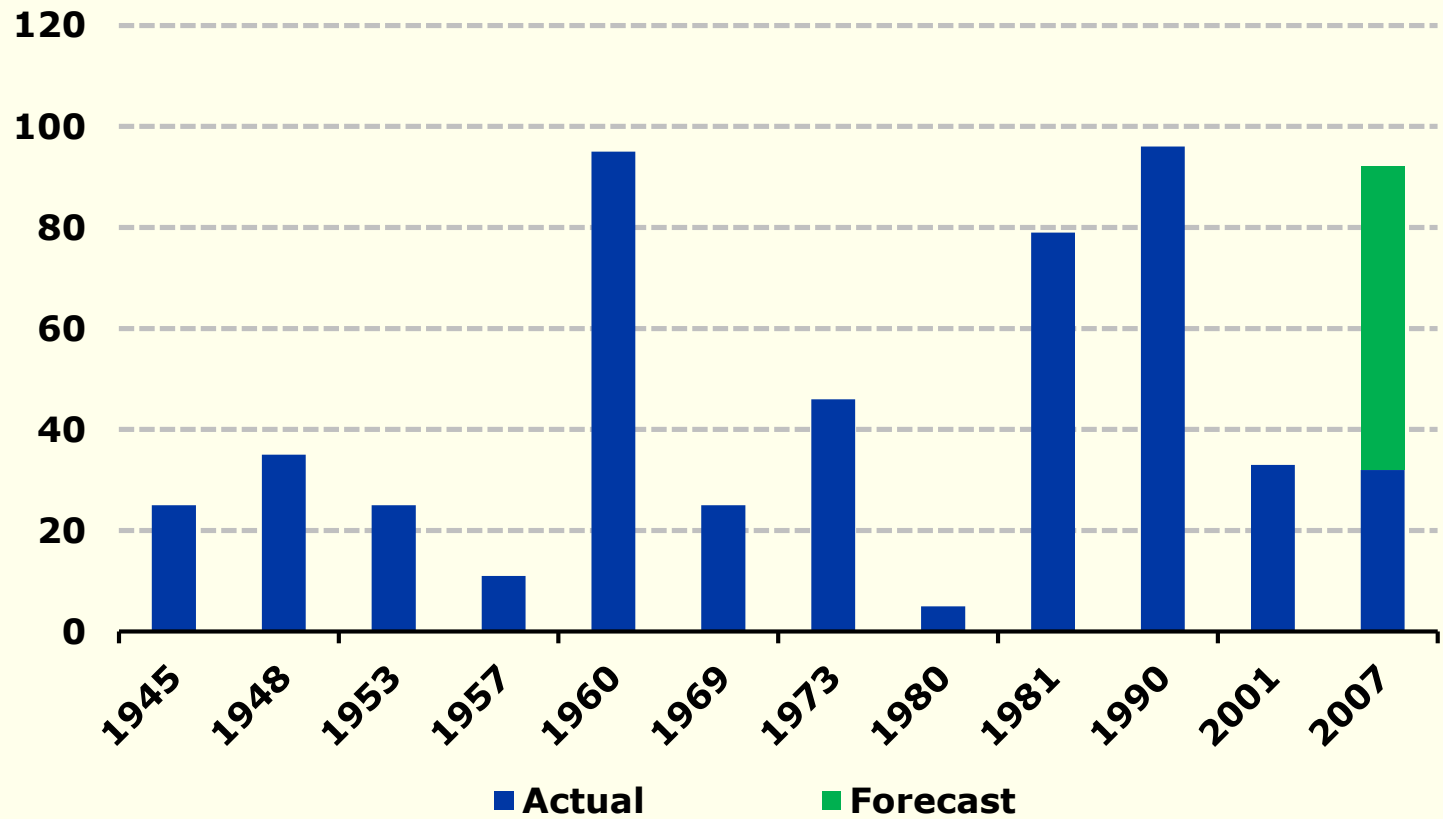
Source: Wall Street Journal Economic Forecasting Survey, data through Dec. 2016

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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 Dec. 2016

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Major General Fund revenue sources

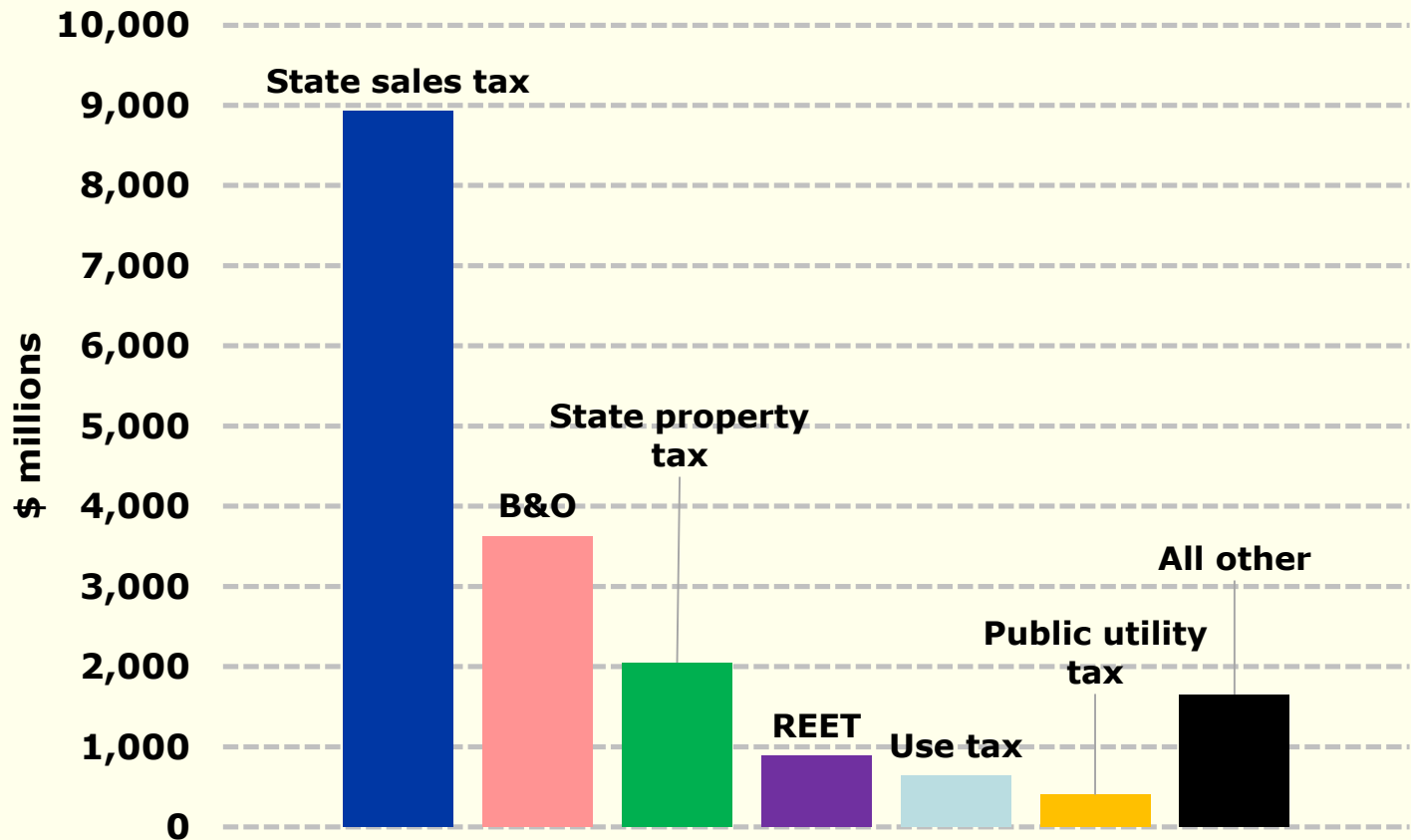
State retail sales taxes accounted for 48.1% of General Fund revenue in FY 2016.

Total cannabis revenue in FY 2016 was \$168 M

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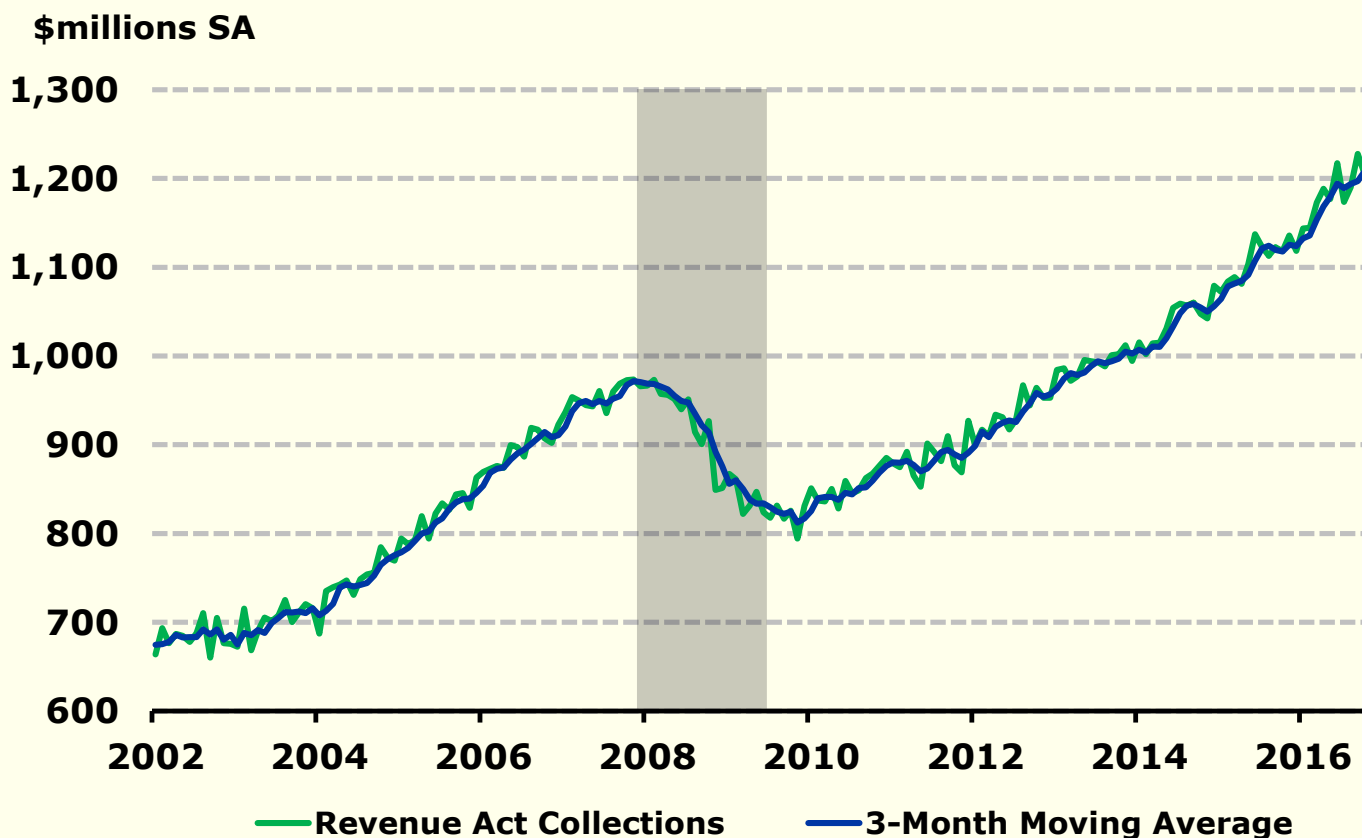
FY 2016 General Fund revenue



Source: WA Dept. of Revenue, ERFC



Revenue Act collections growth still positive but trend has moderated



* 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 Nov. 2016 activity (Jan. 2017 collections)

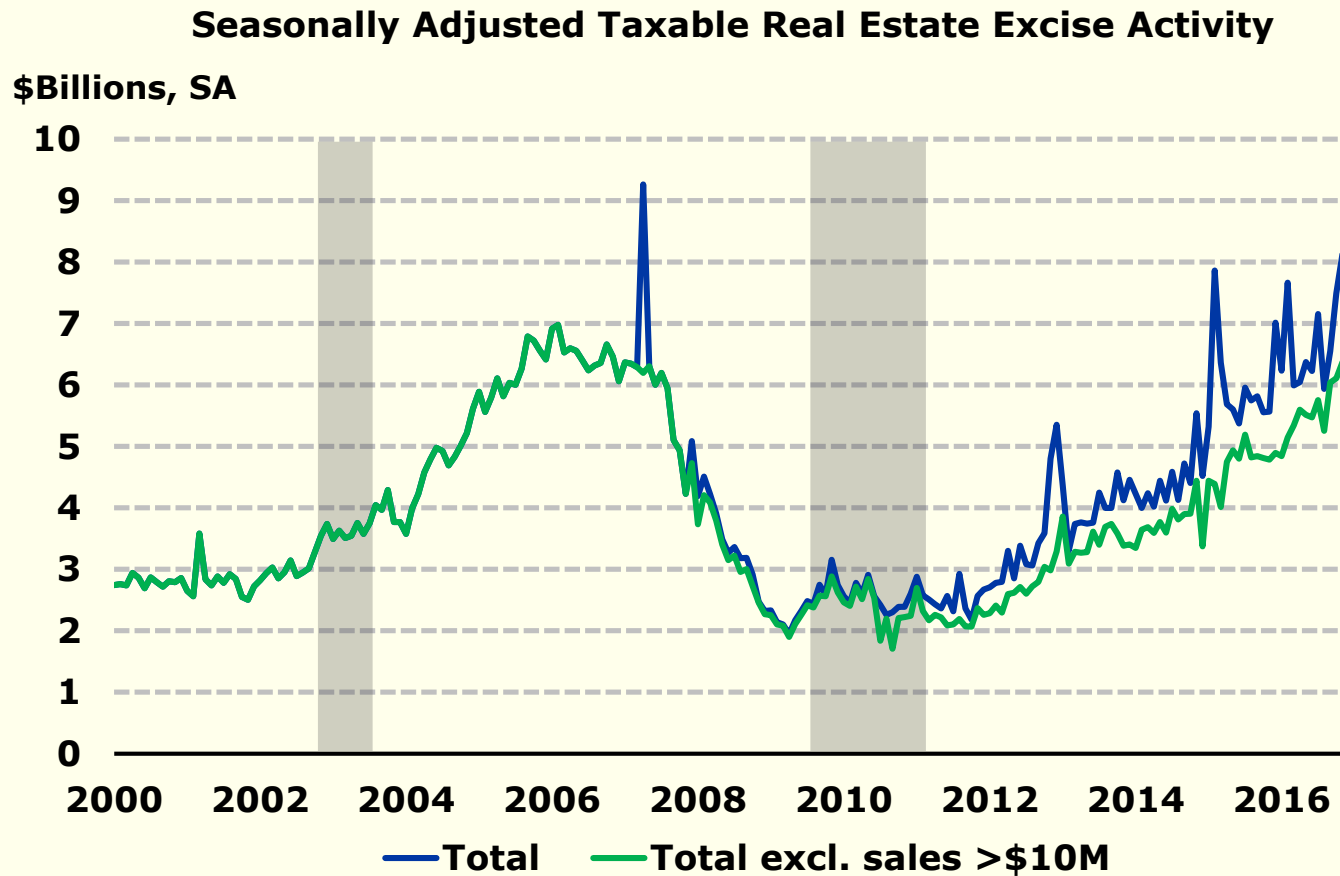
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Large commercial property sales show continued strength as other activity grows

Large commercial sales (>\$10 million) were \$1.4 billion in October and \$1.5 billion in November.

Residential prices are still growing faster than sales volume.

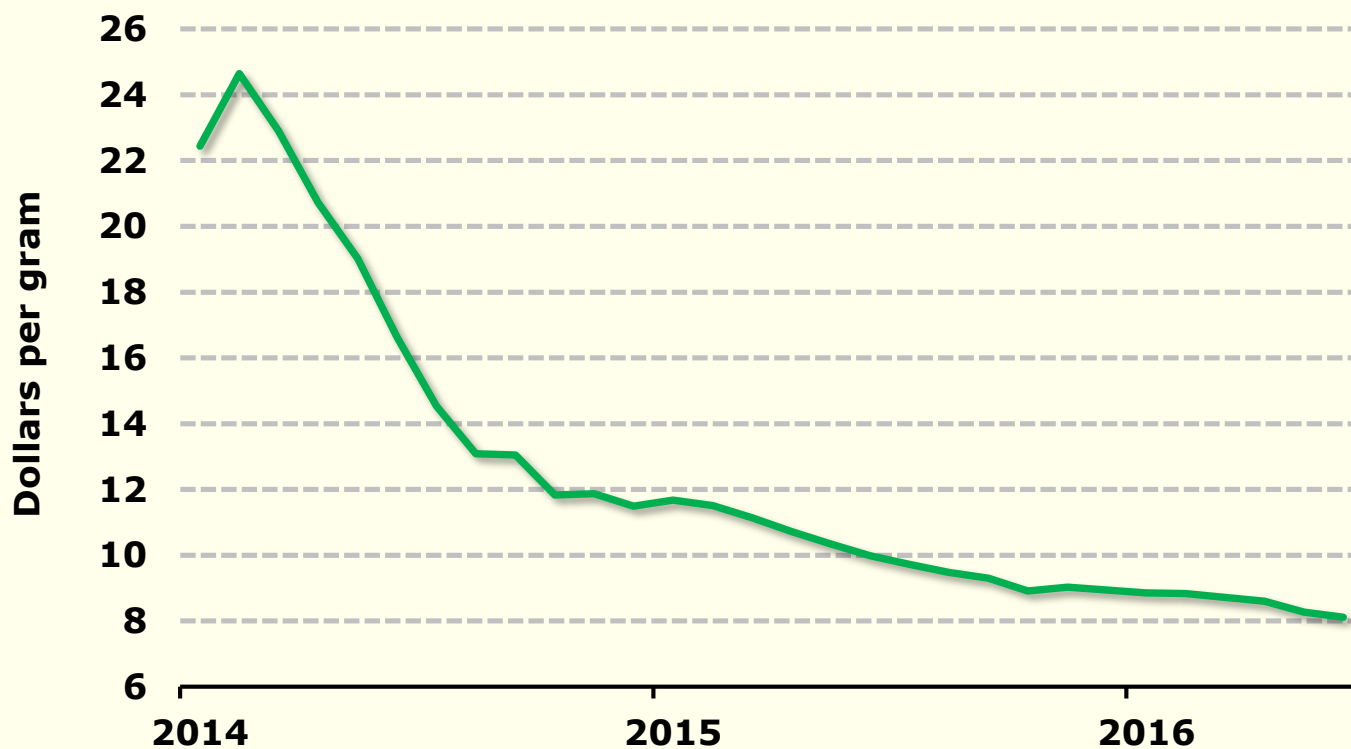


Source: ERFC; Monthly data through November 2016 preliminary



Cannabis prices continue to slowly fall

Price of Recreational Cannabis Sold at Retail Stores

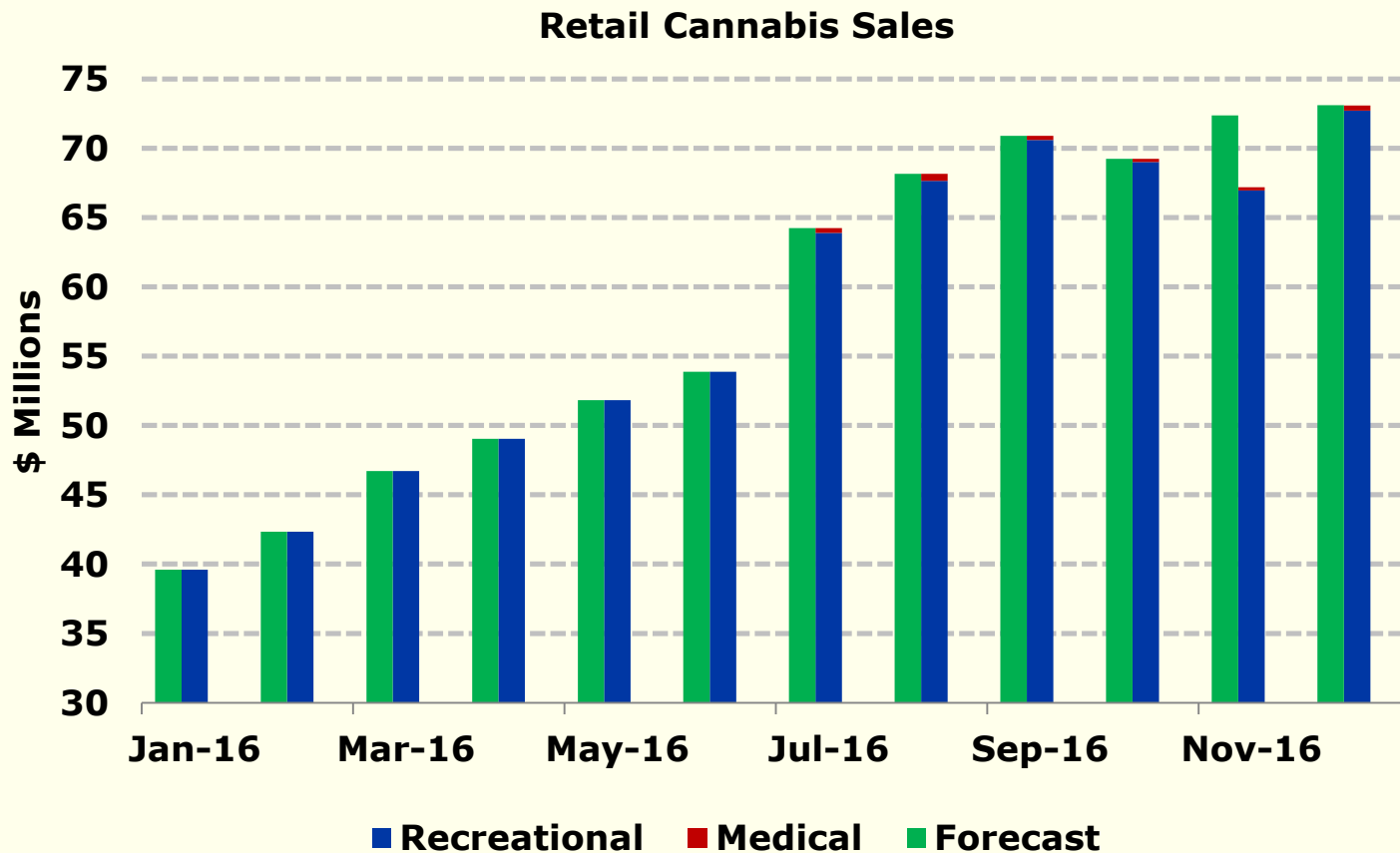


Source: LCB, ERFC; data through December 2016



Cannabis revenue growth resumed in December

Medical marijuana became subject to the 37% excise tax on July 1, 2016



Source: LCB, ERFC; data through December 2016

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Forecast changes: General Fund State, 2017-2019 Biennium

September Forecast:

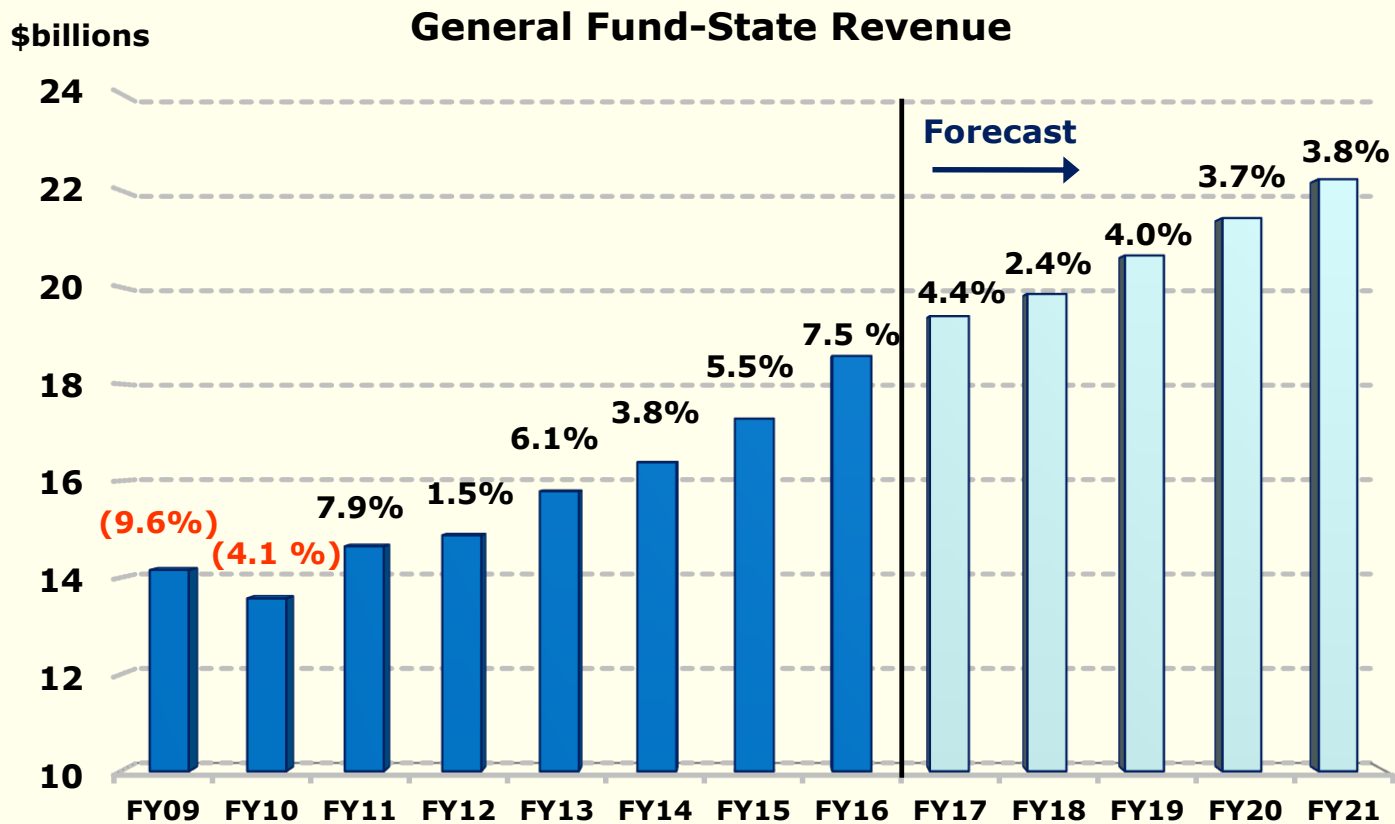
\$40,377 million

\$Millions	November Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$131	\$38,428	\$131
All other agencies	\$0	\$6	\$2,086	\$6
Total GF-S	\$0	\$137	\$40,514	\$137

* Detail may not add to total due to rounding



General Fund-State forecast by fiscal year





Conclusion

- WA personal income and employment forecasts are slightly higher than in September; WA and U.S. housing are lower
- We continue to expect the WA economy to outperform the U.S. economy
- GF-S revenues are expected to grow 12.8% between the 2013-15 and 2015-17 biennia and 6.7% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



**Economic & Revenue Forecast Council
6400 Linderson Way SW, Suite 238
Tumwater, WA 98504-0912**

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