

Economic Outlook

Presented to
The Washington State Housing Finance Commission

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June 10, 2016
Seattle, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The preliminary economic forecast expects slightly lower U.S. GDP and WA personal income but slightly higher WA employment than in February
- Oil prices are higher than in February
- The forecast assumes the Federal Reserve will increase interest rates this month and in September
- Risks to the baseline remain slow global and U.S. economic growth, the impact of a stronger dollar on exports, weaker manufacturing activity and stock market volatility



Economic news continues to suggest risks to forecast

Upside:

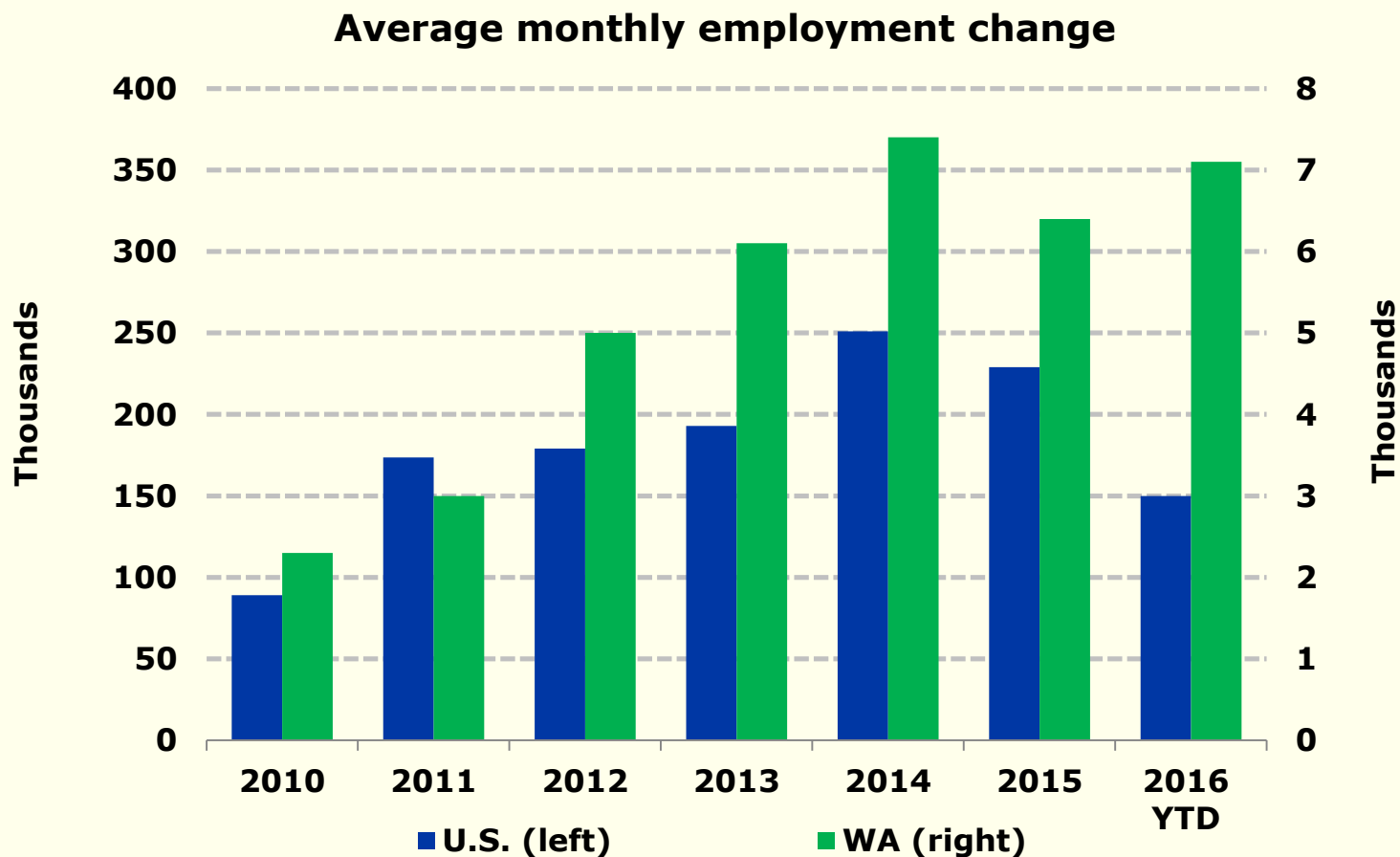
- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Impact of stock market volatility on spending
- Weaker nonresidential construction



So far in 2016, employment change in WA a bit stronger than last year

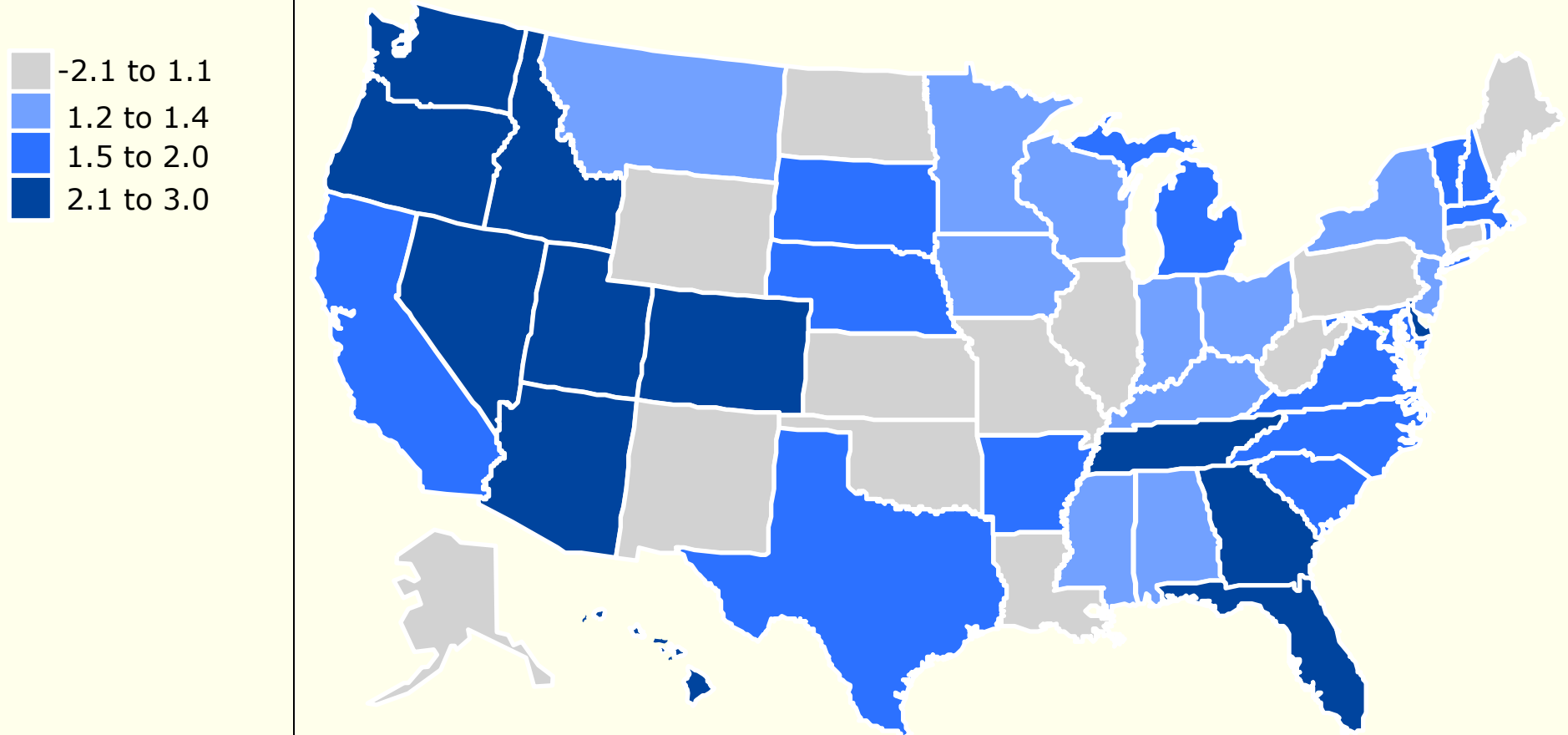


Source: Bureau of Labor Statistics, ERFC; WA data through Apr. 2016, U.S. data through May 2016

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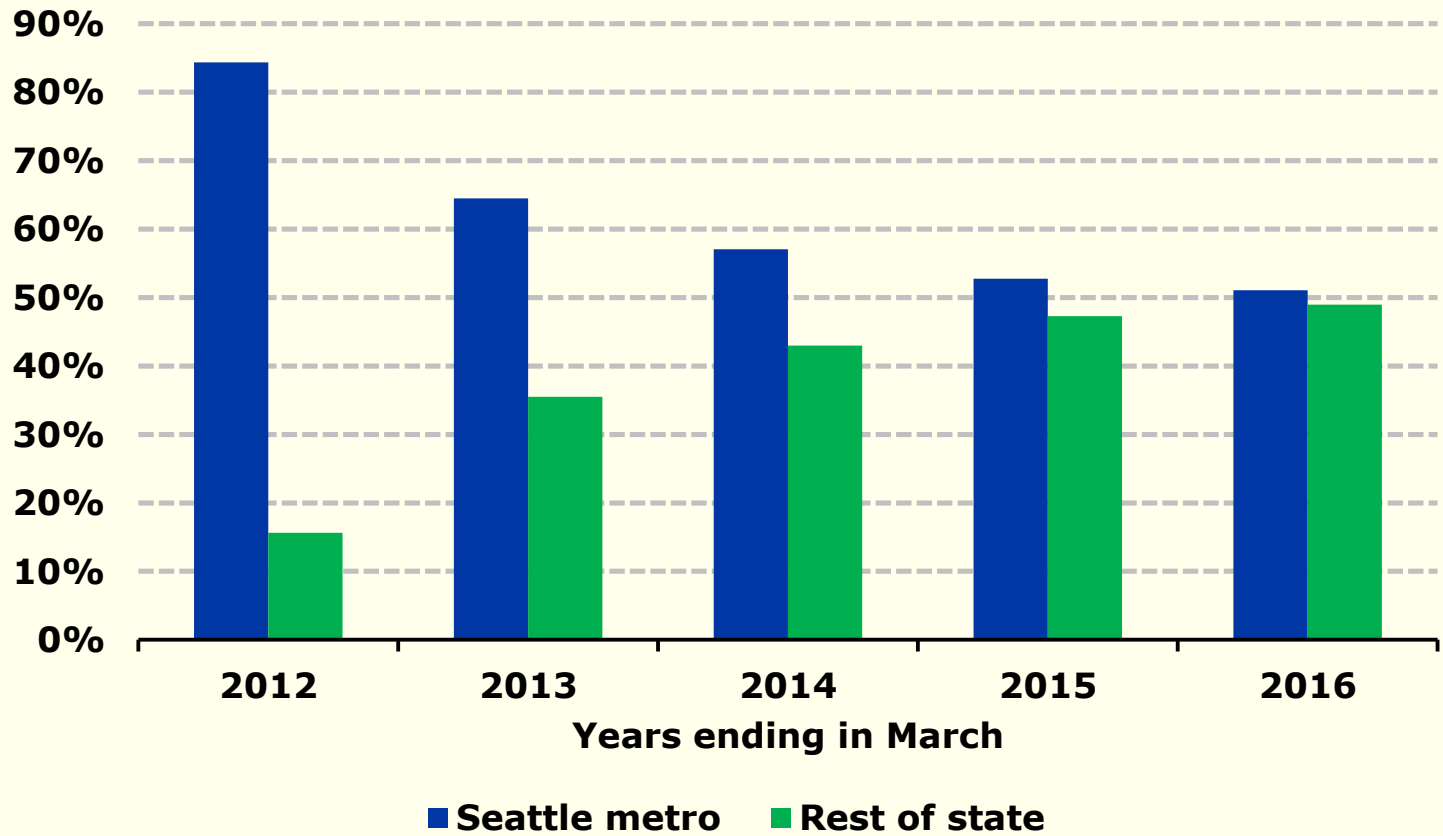


Variations in state employment growth in 2016 reflect the two-tiered economy





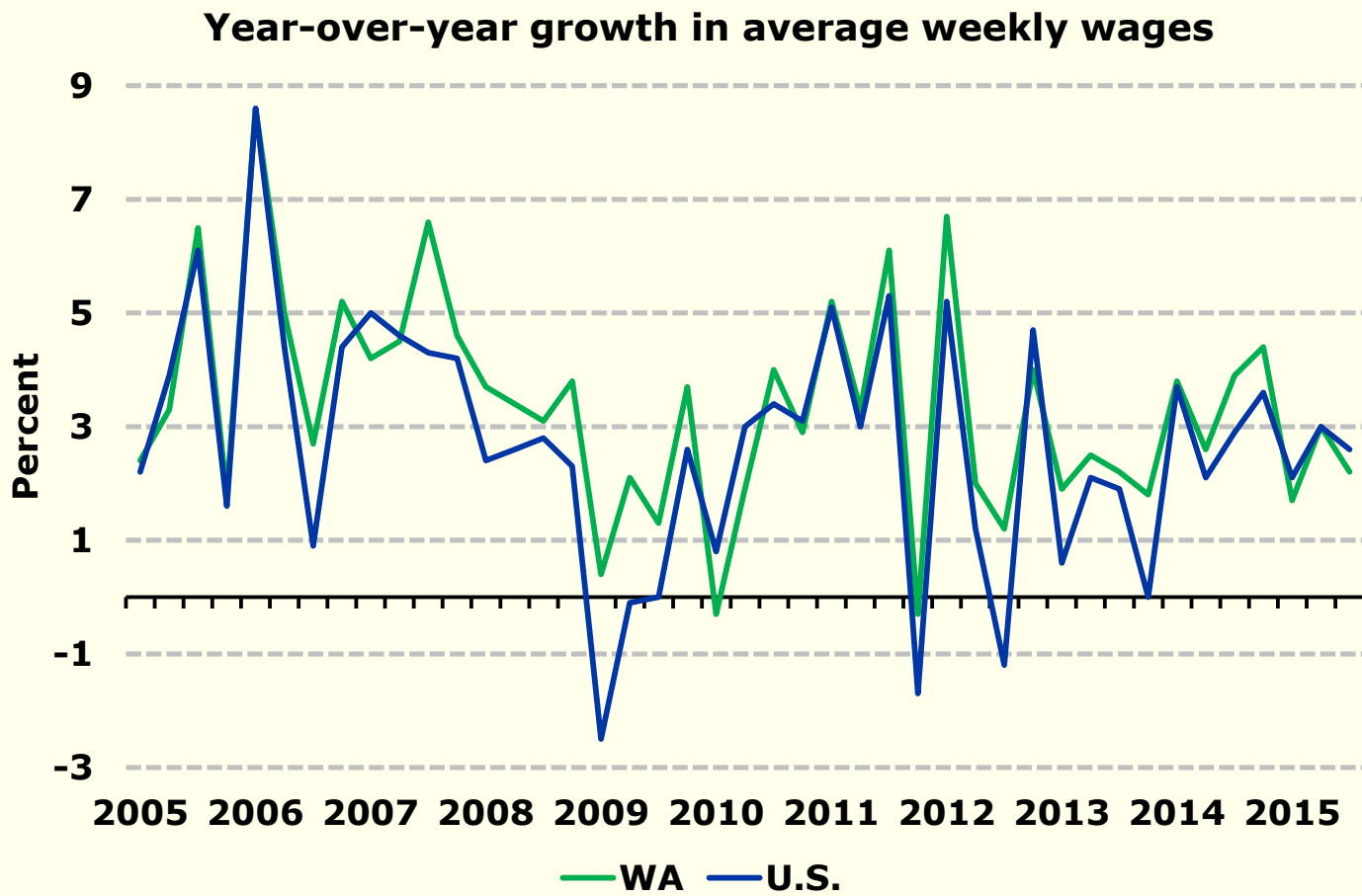
Fraction of statewide employment change, Seattle vs. rest of state



Source: Bureau of Labor Statistics



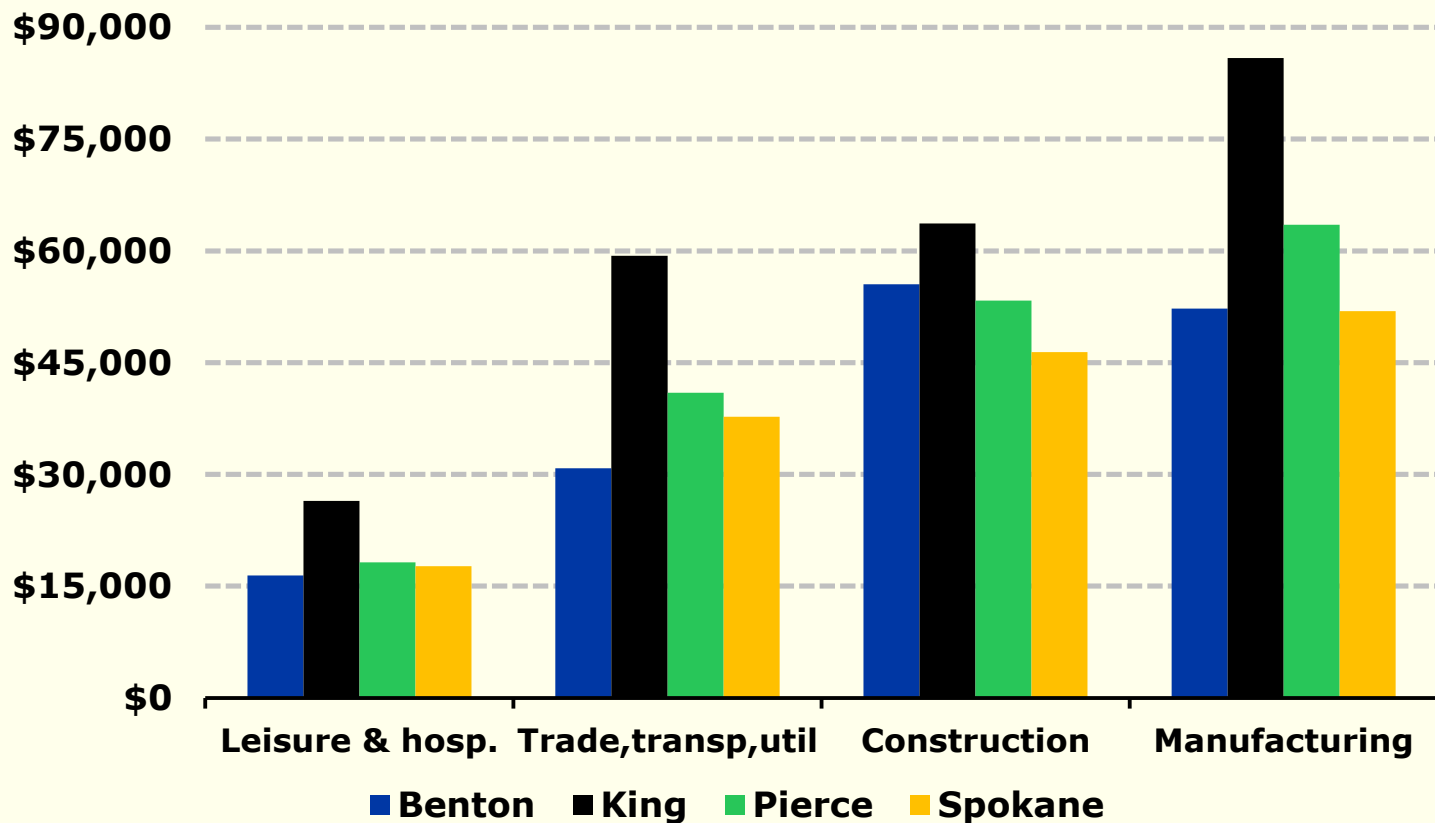
Weekly wages are growing but at a fairly moderate pace



Source: U.S. Bureau of Labor Statistics, quarterly data through 2015 Q3



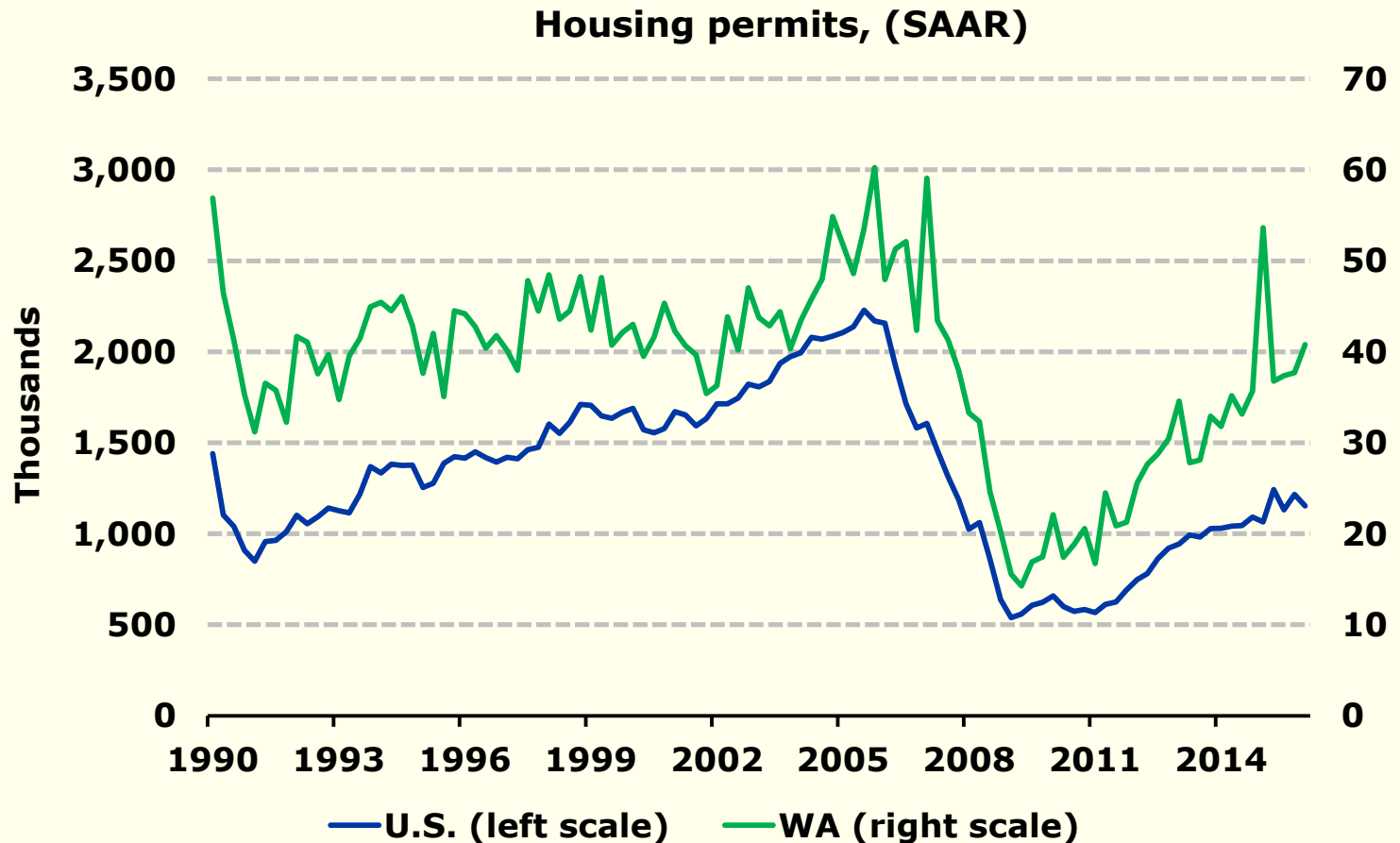
Average annual wages by industry and county, 2014



Source: U.S. Bureau of Labor Statistics



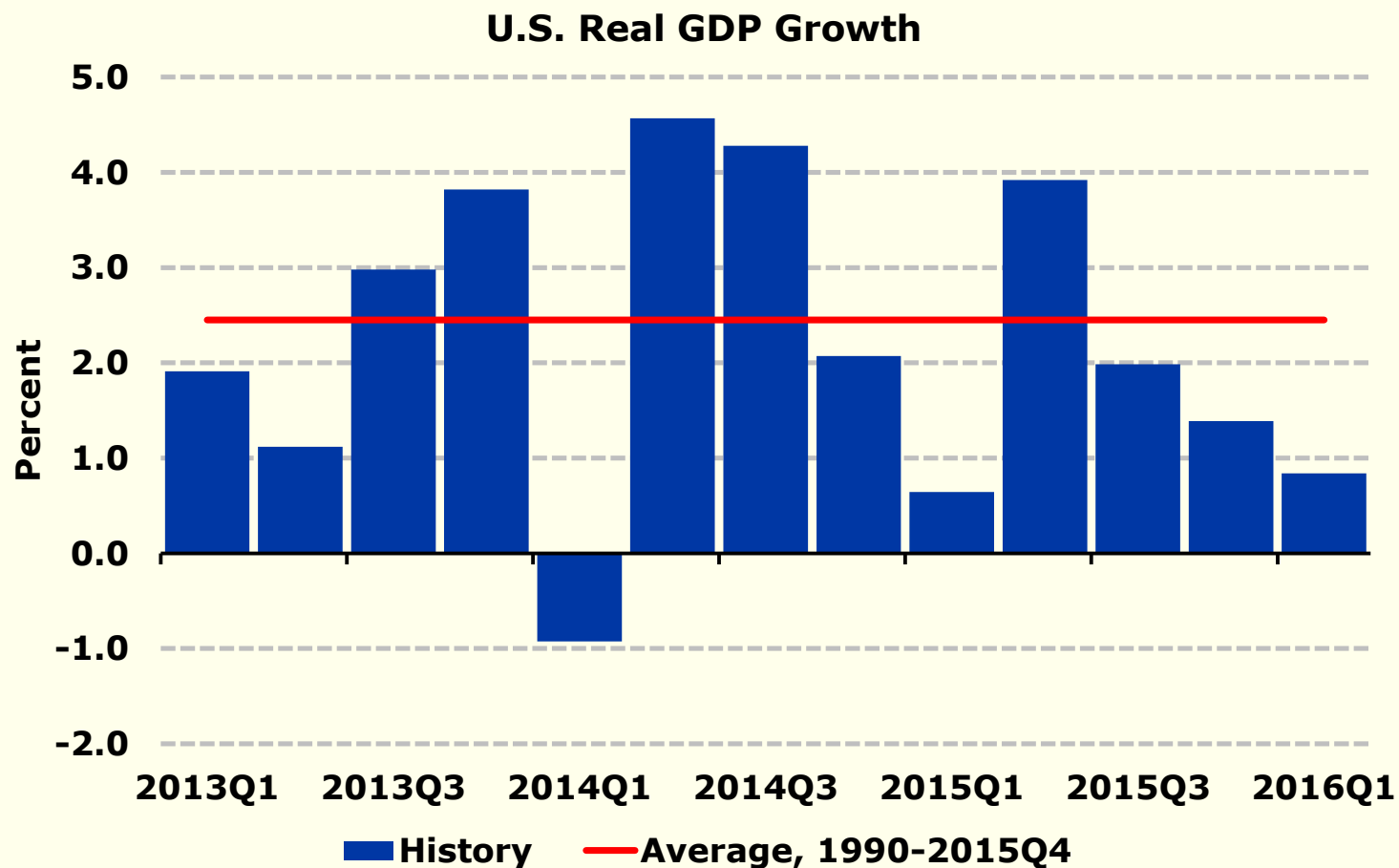
Both U.S. and WA housing permits trending up since 2011



Source: U.S. Census Bureau, data through 2016 Q1



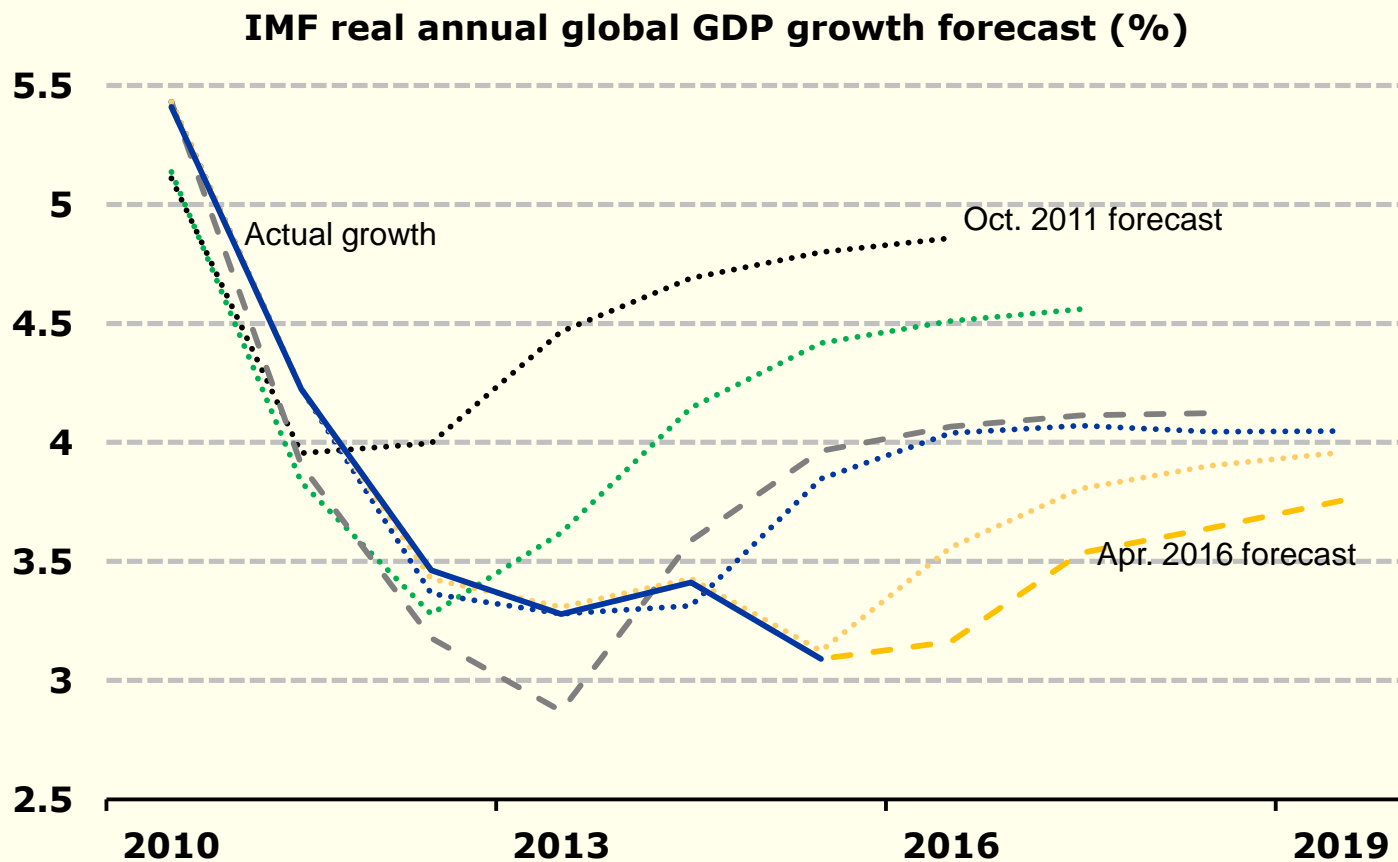
U.S. economic growth weakened in the last three quarters



Source: U.S. Dept. of Commerce, BEA, data through 2016 Q1

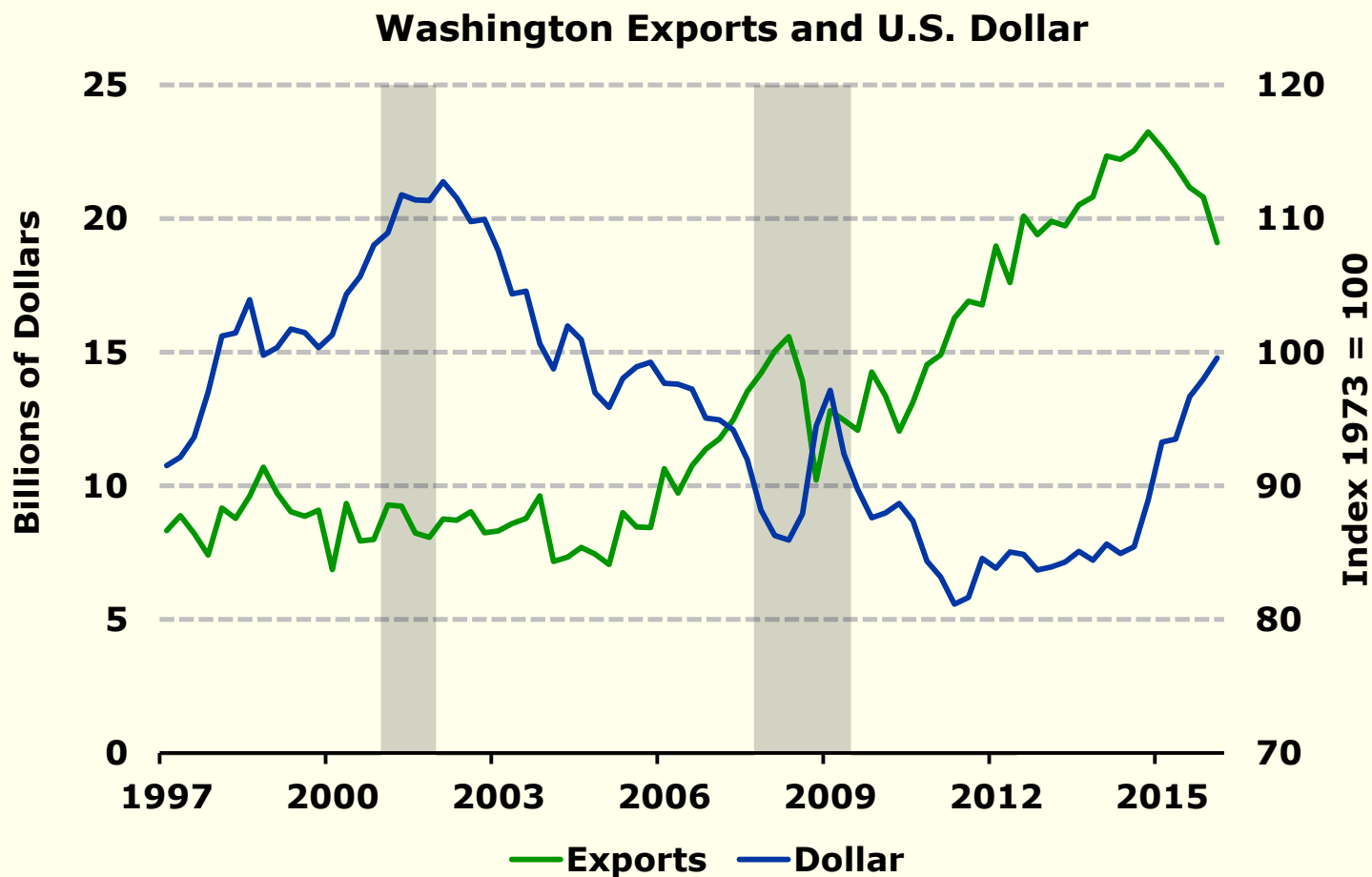


Global GDP forecasts have been consistently revised down





Strong dollar is contributing to a decline in exports

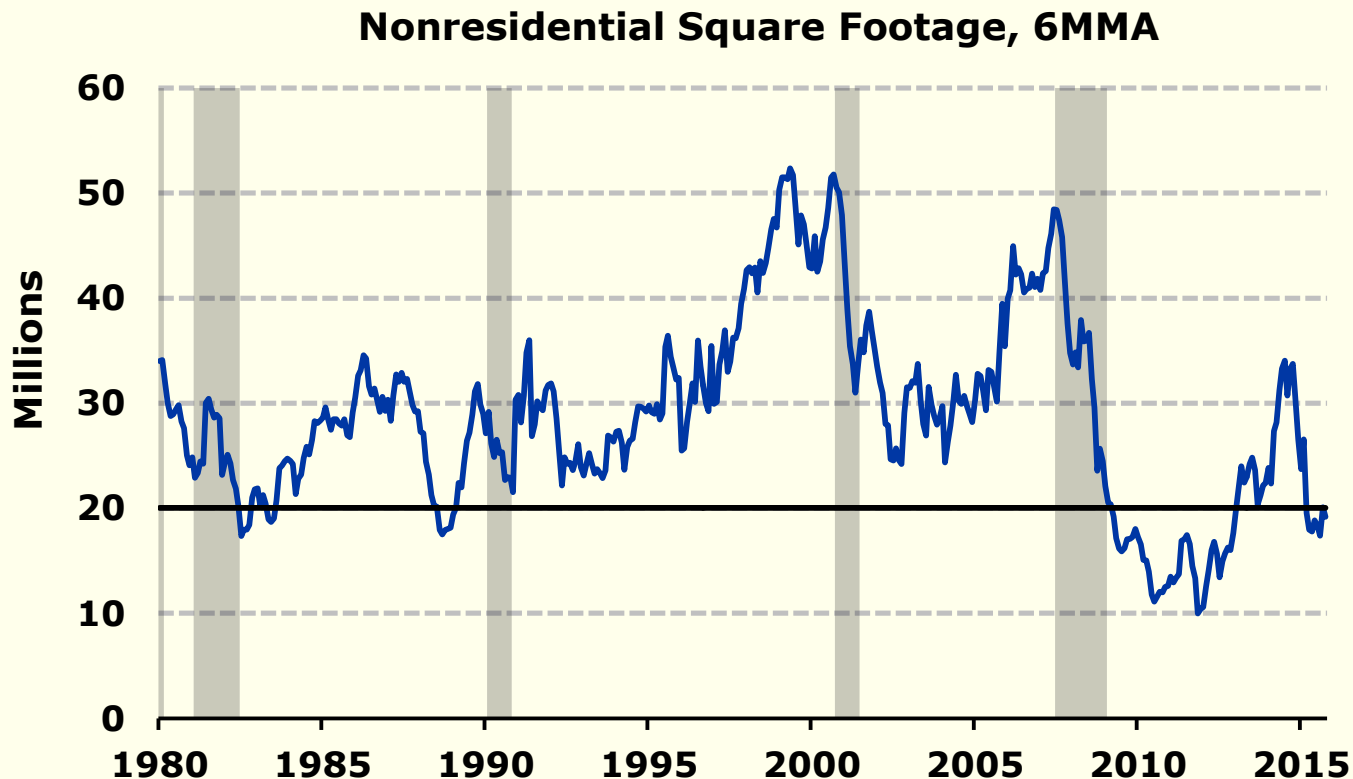


Source: Wiser Trade, ERFC; data through 2016Q1



Washington nonresidential square footage is at an historic low

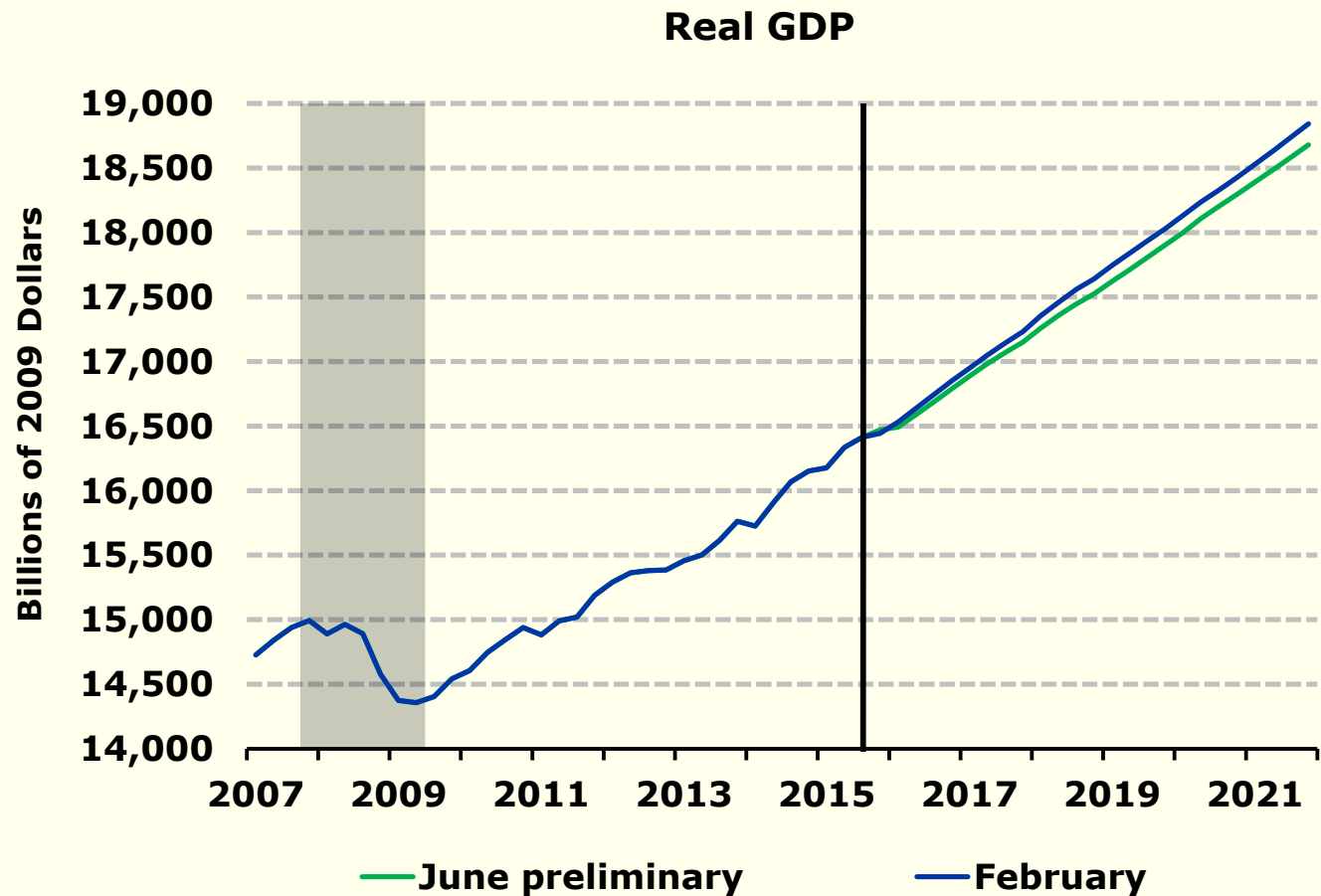
Nonresidential square footage is down 33% Y-O-Y



Source: Dodge, ERFC; data through April 2016



GDP is slightly lower than in the February forecast

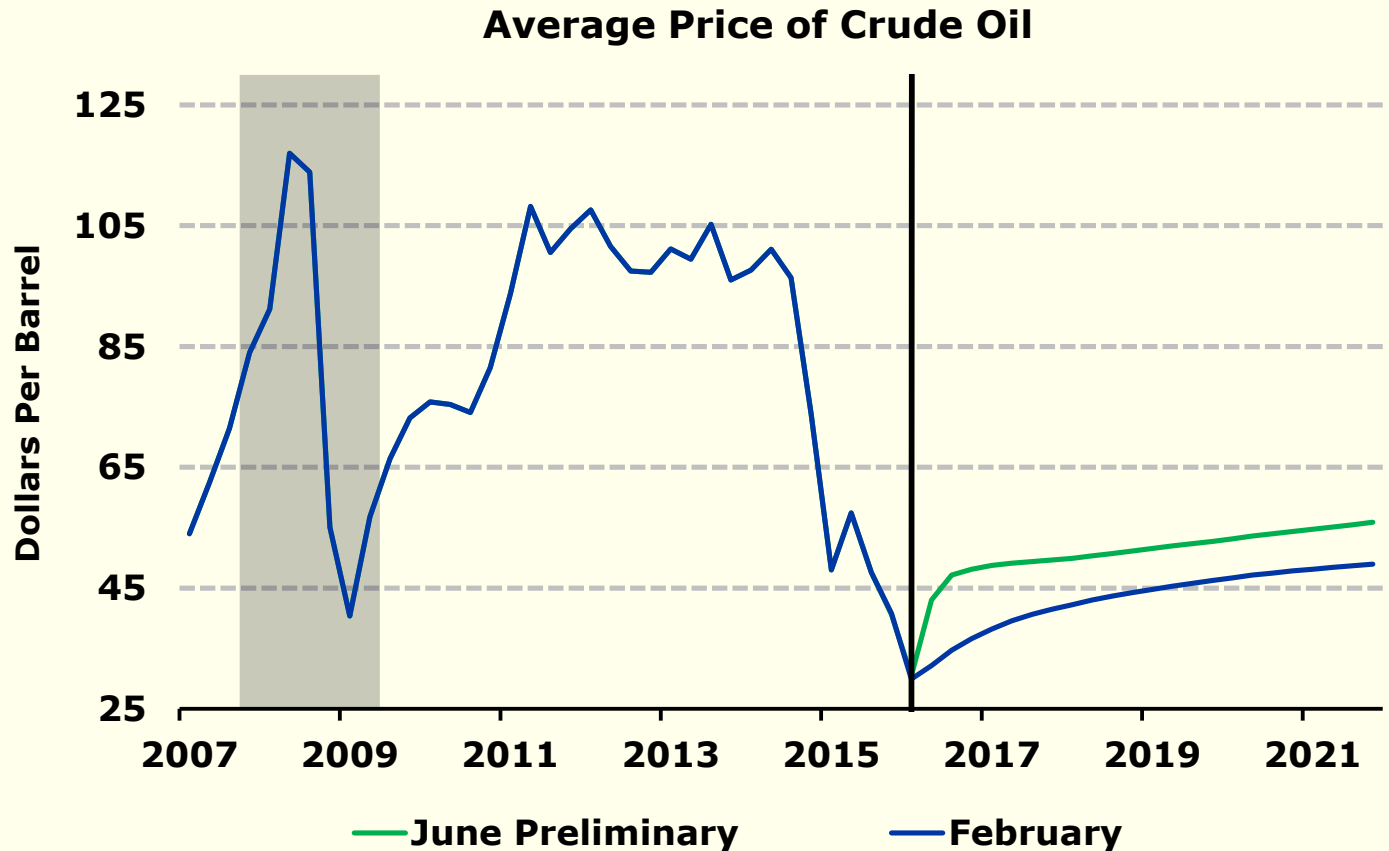


Source: Global Insight, ERFC June 2016 Preliminary forecast; historical data through 2016Q1

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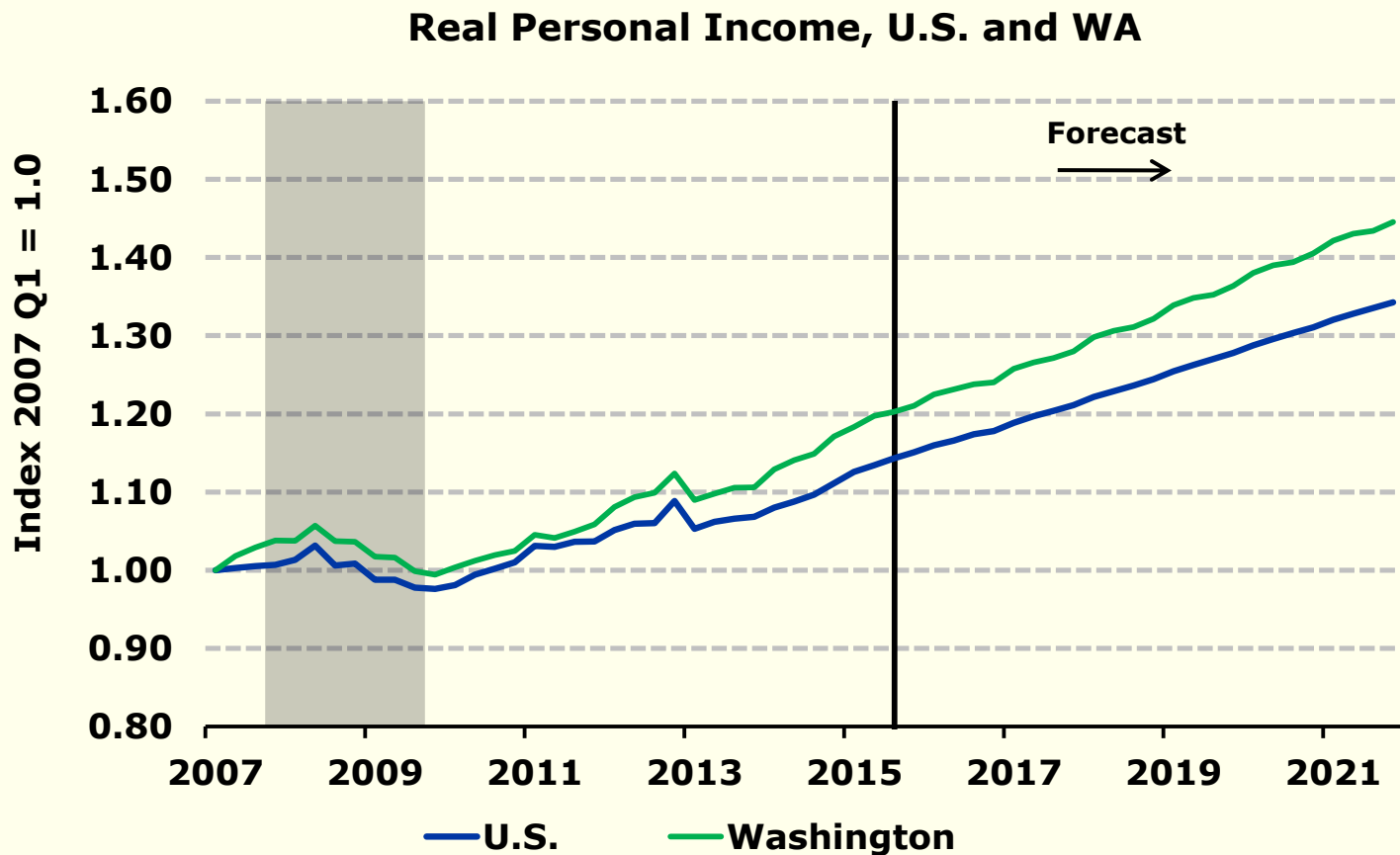


Oil prices are higher than in the February forecast





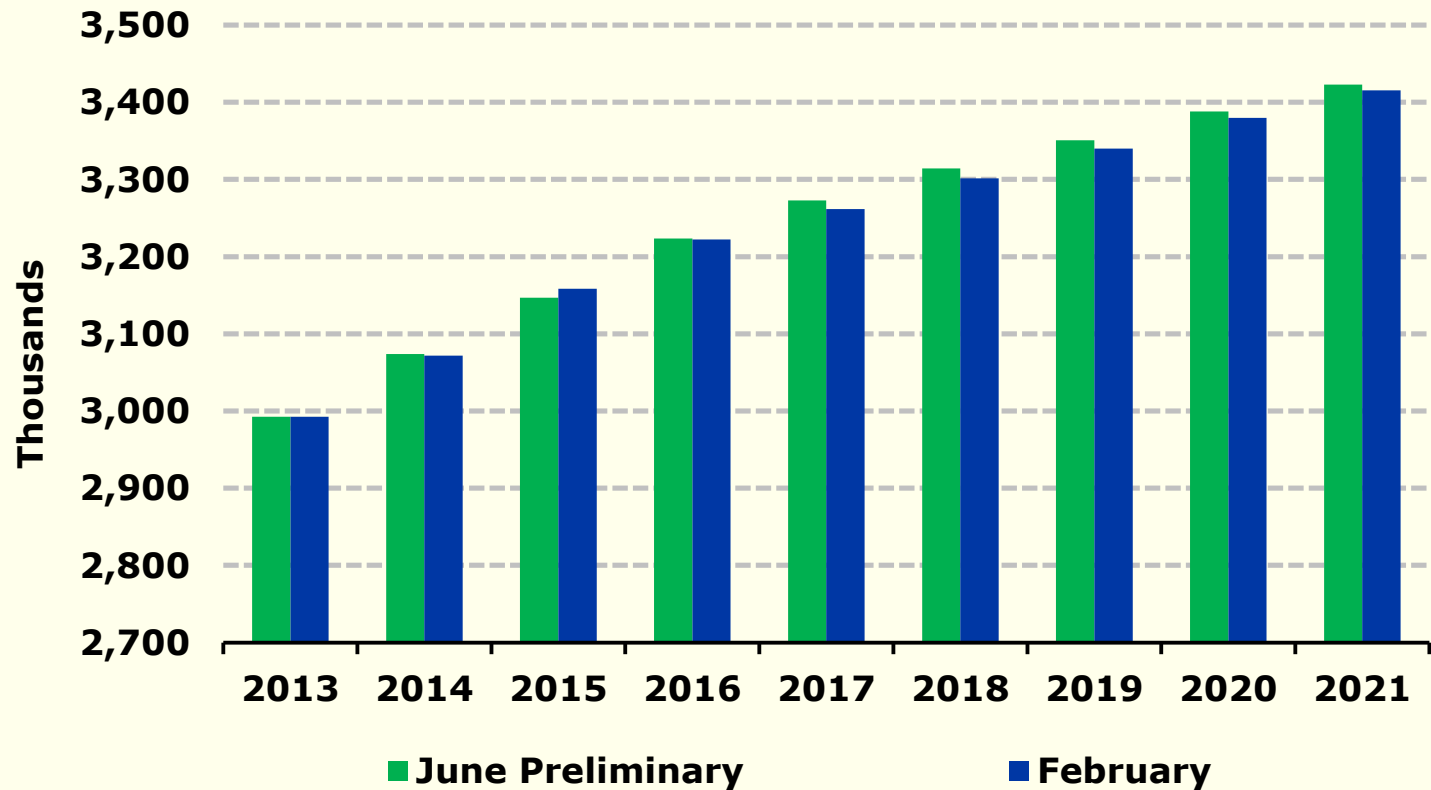
State personal income will continue to grow slightly faster than the U.S.





Washington employment forecast revised up very slightly in 2017 - 2021

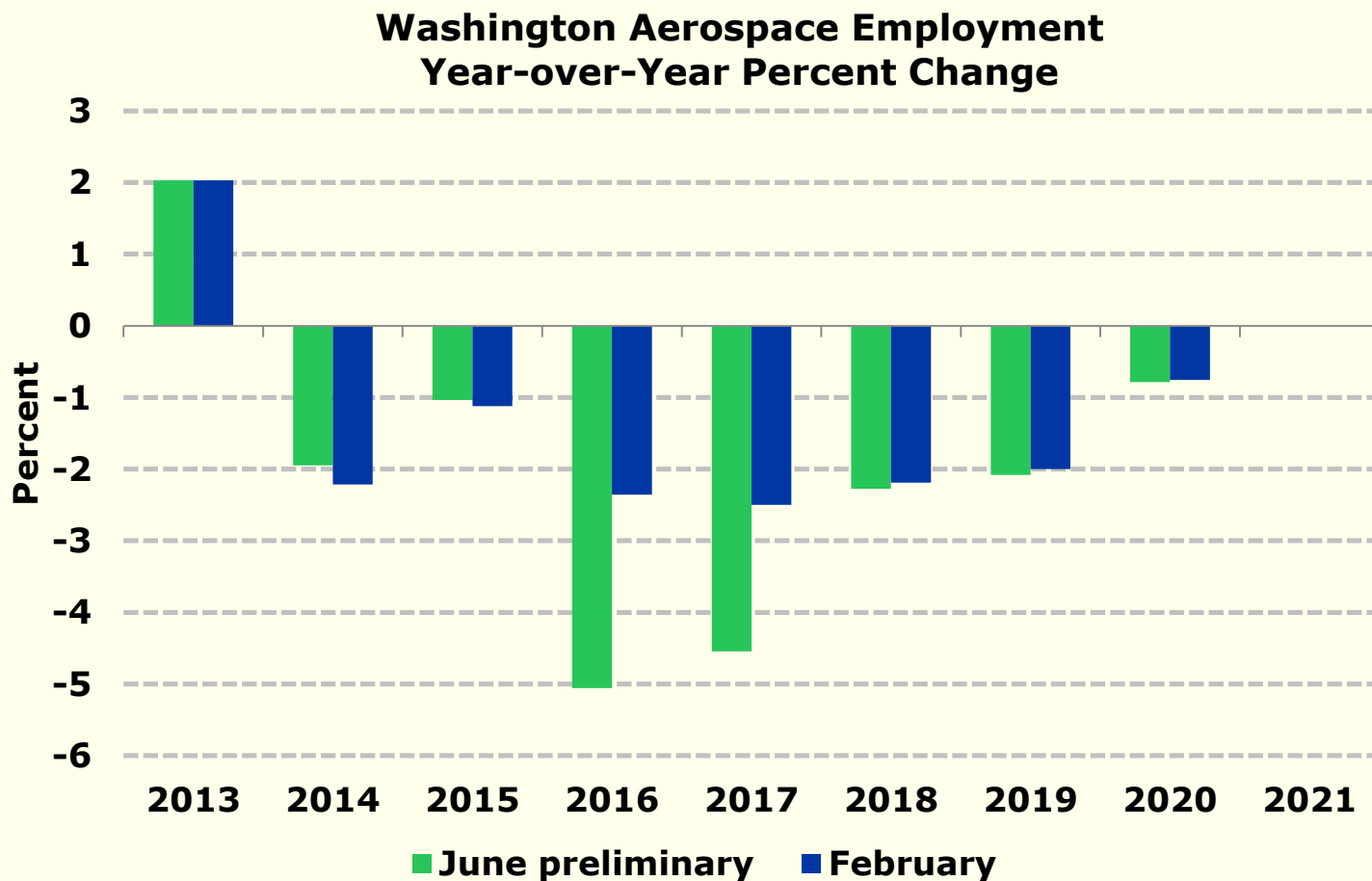
Washington Nonfarm Payroll Employment





WA aerospace employment is expected to decline faster than in February

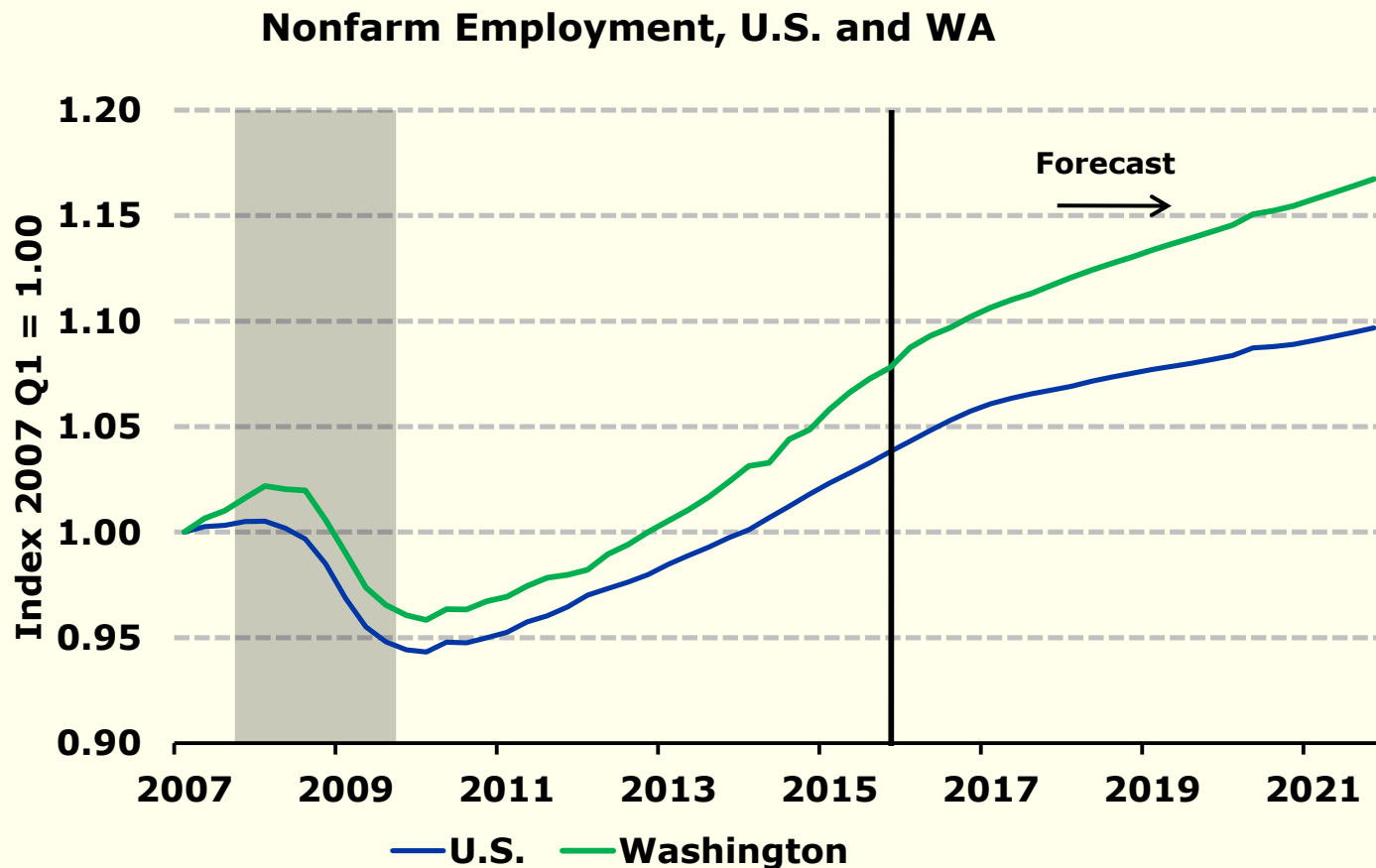
Boeing has announced it will eliminate 4,000 jobs this year



Source: ERFC June 2016 Preliminary forecast; historical data through 2016Q1



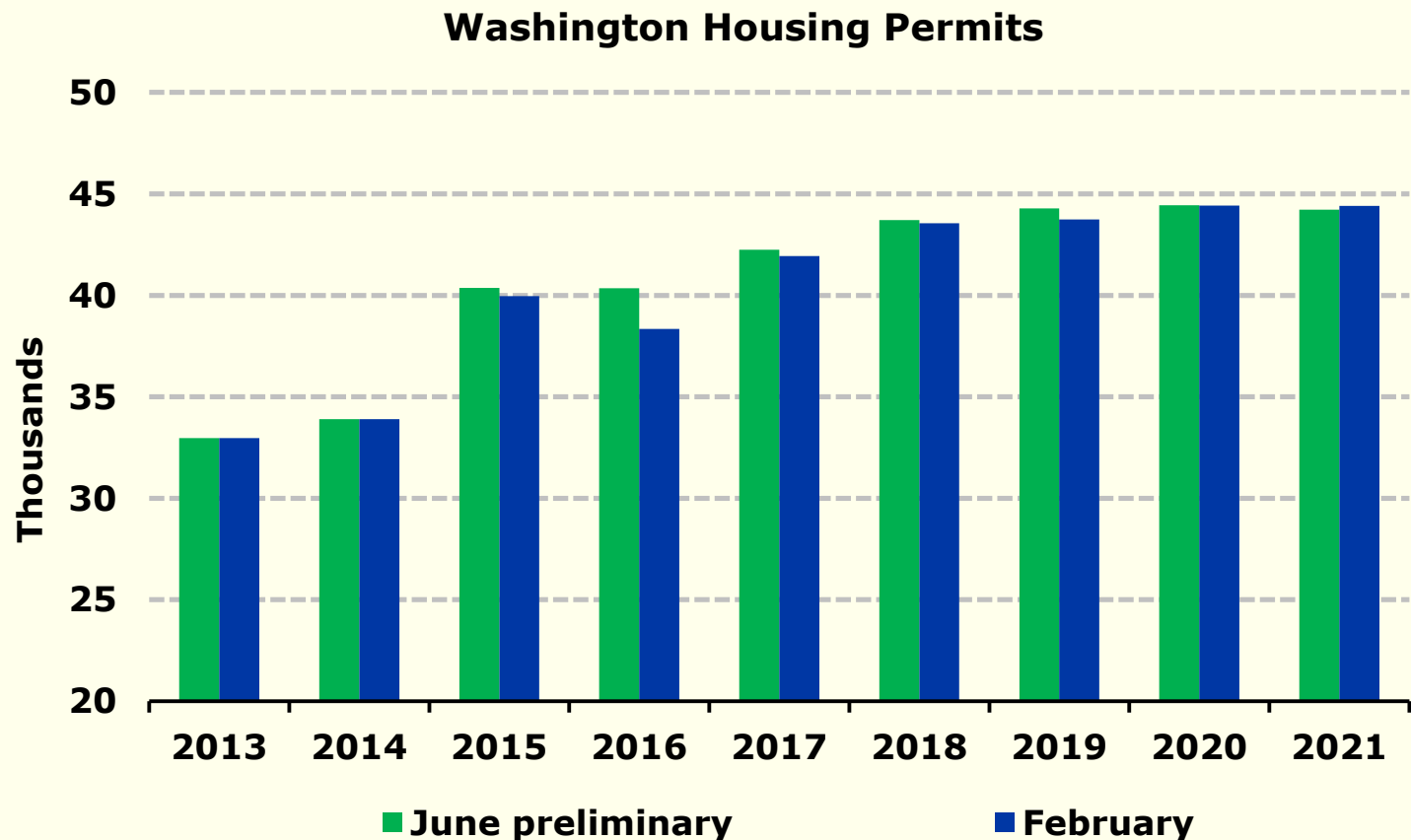
Washington employment will continue to grow slightly faster than the U.S.



Source: ERFC June 2016 Preliminary forecast; historical data through 2016Q1



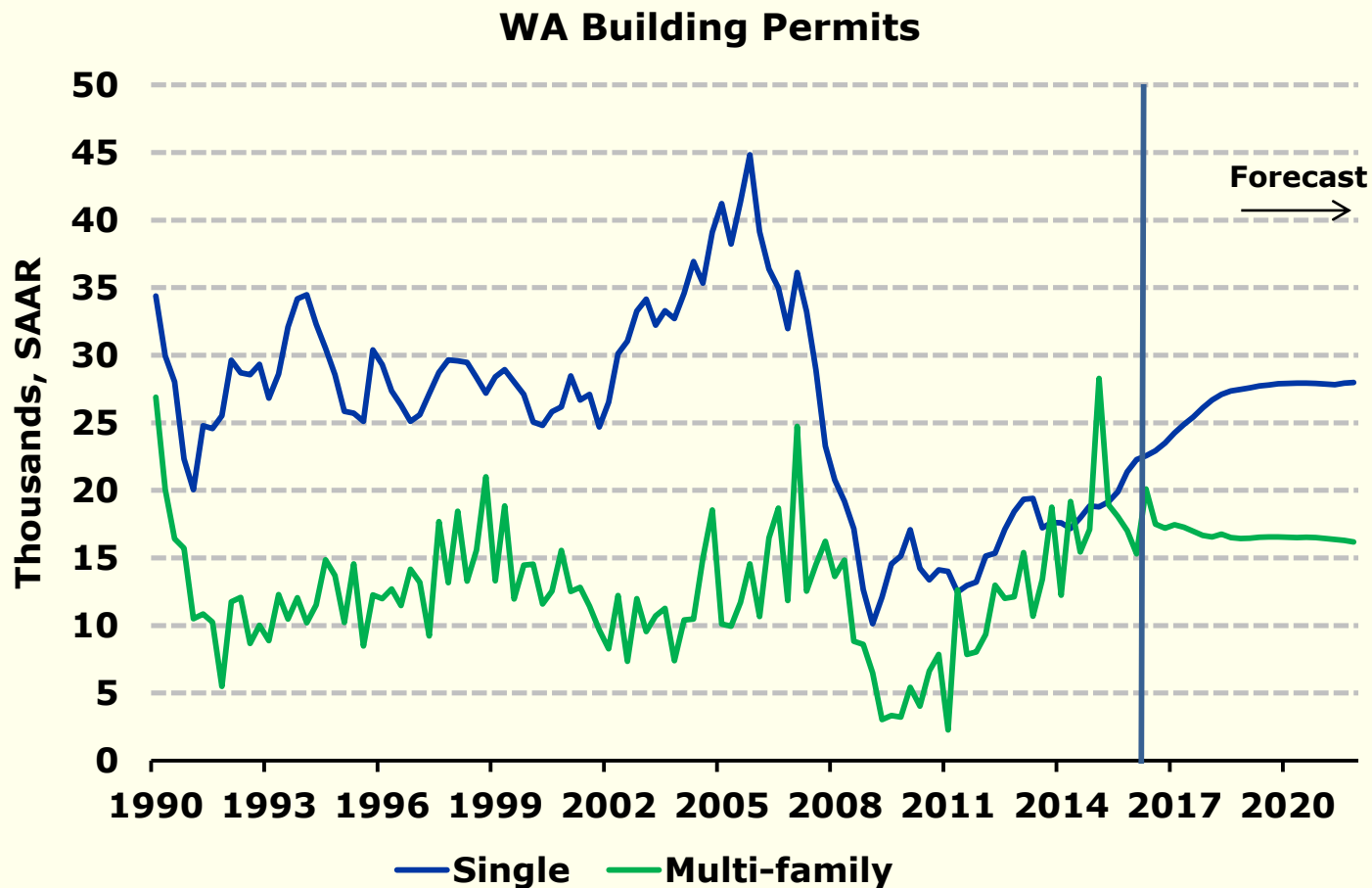
Washington housing permits forecast is higher for 2016–2019 compared to February



Source: ERFC June 2016 Preliminary forecast; historical data through 2015



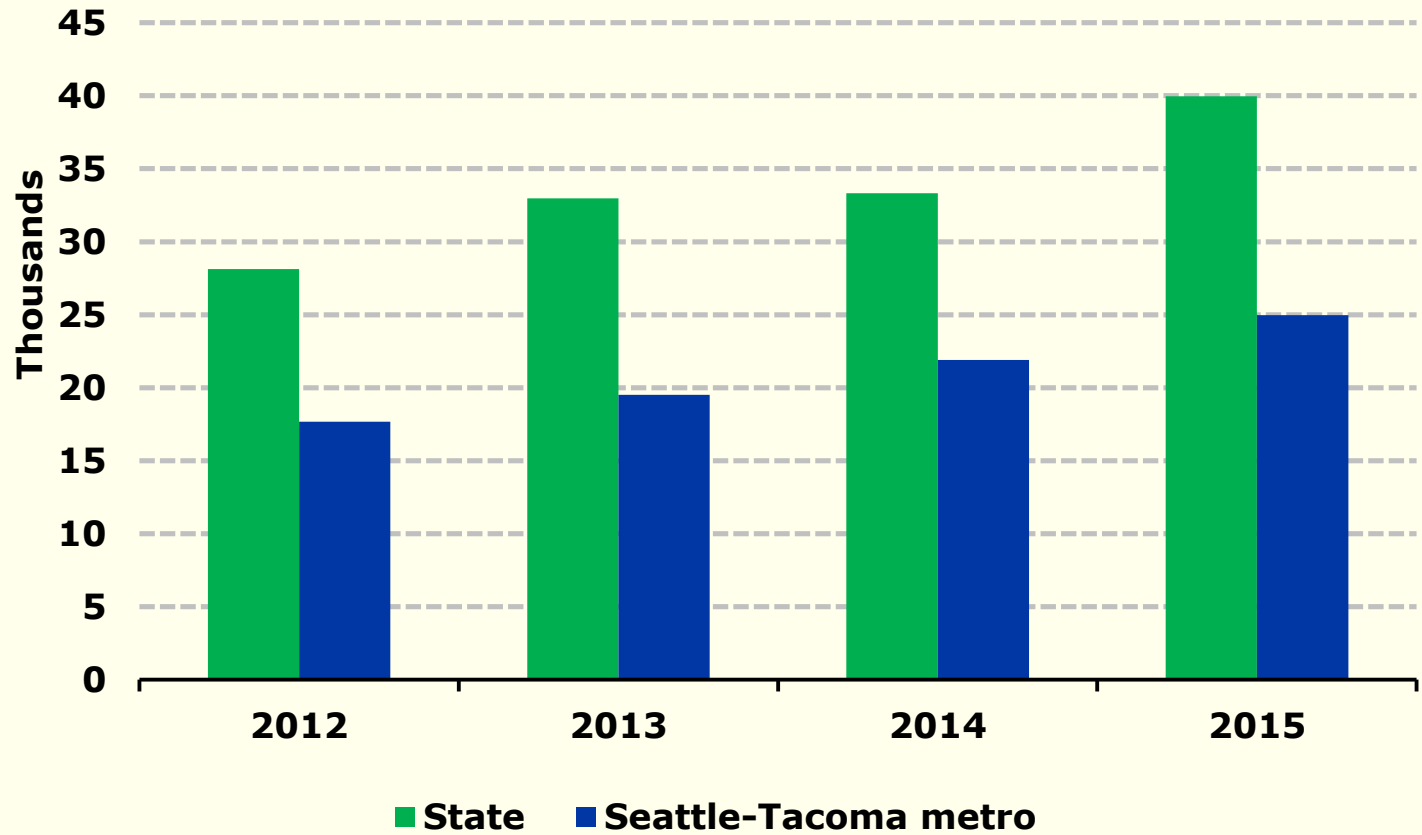
Multi-family housing activity is returning to more typical levels





Seattle-Tacoma metro area has accounted for over 62% of state of residential building permits 2012-15

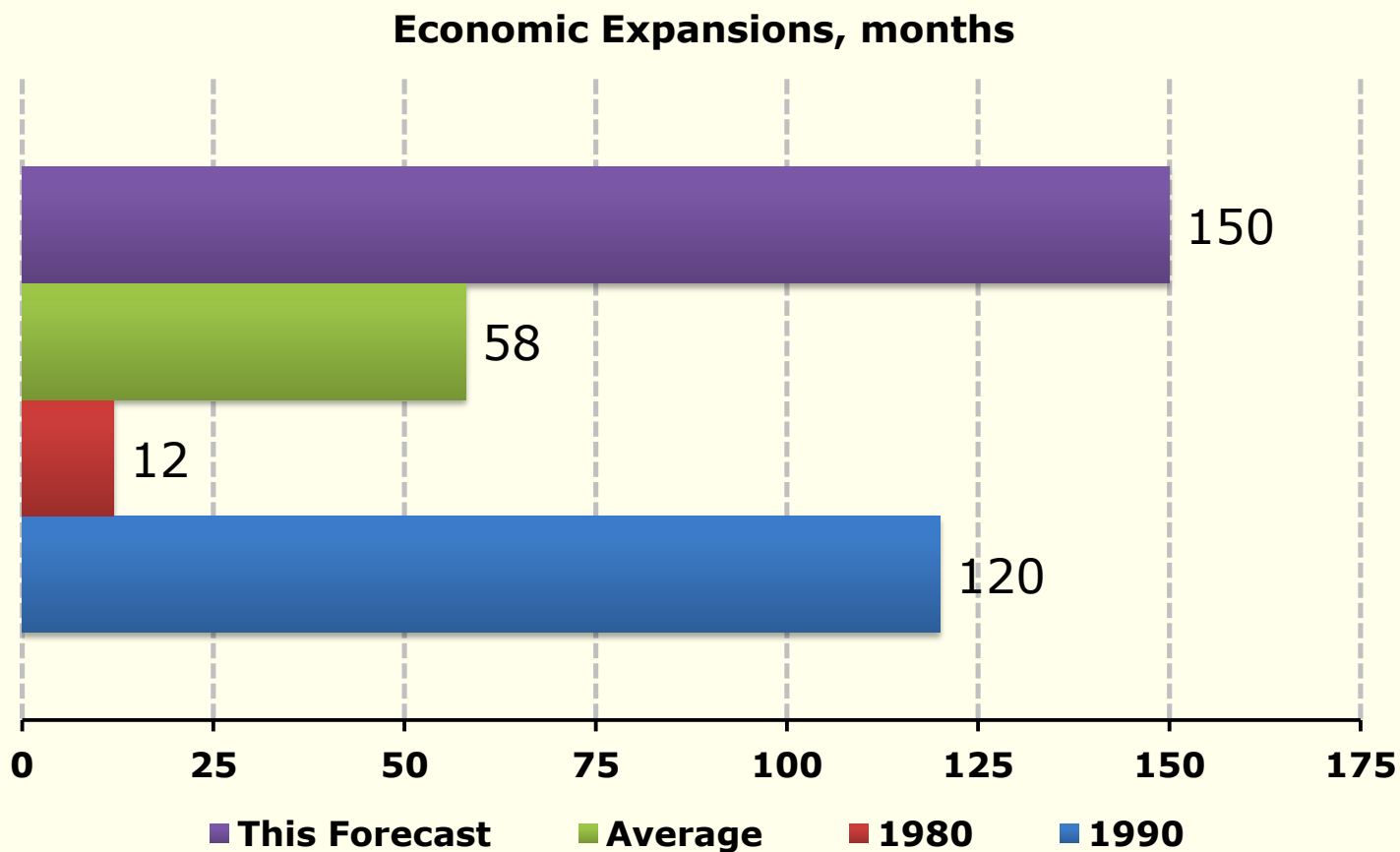
Seattle-Tacoma metro area is 52% of the state's population



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



U.S. Economic Expansions since 1945

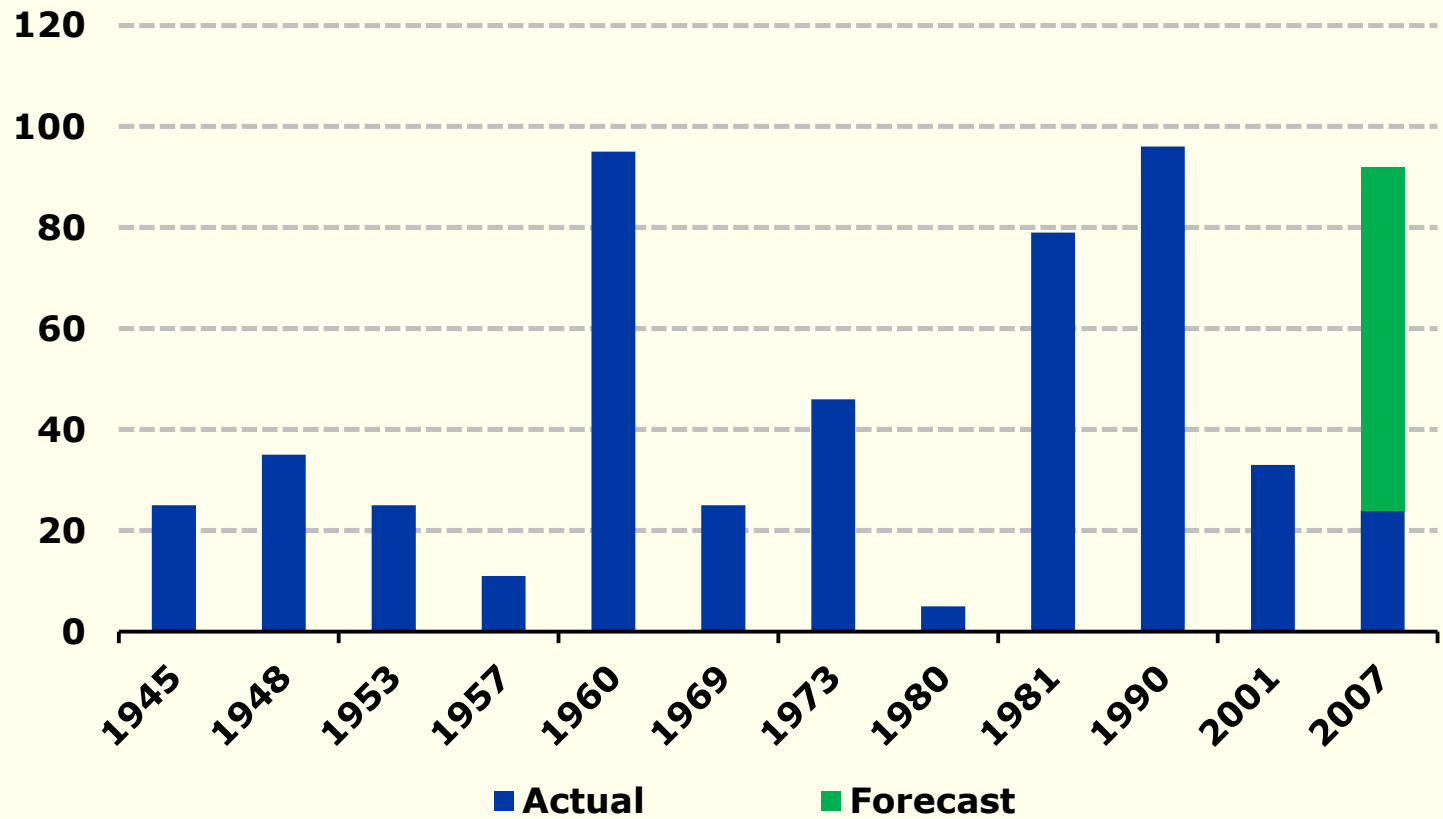


Sources: NBER, ERFC June 2016 preliminary forecast



Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment



Sources: NBER, BLS, ERFC June 2016 preliminary forecast; historic data through April 2016

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Large commercial property sales have had major impact on REET collections

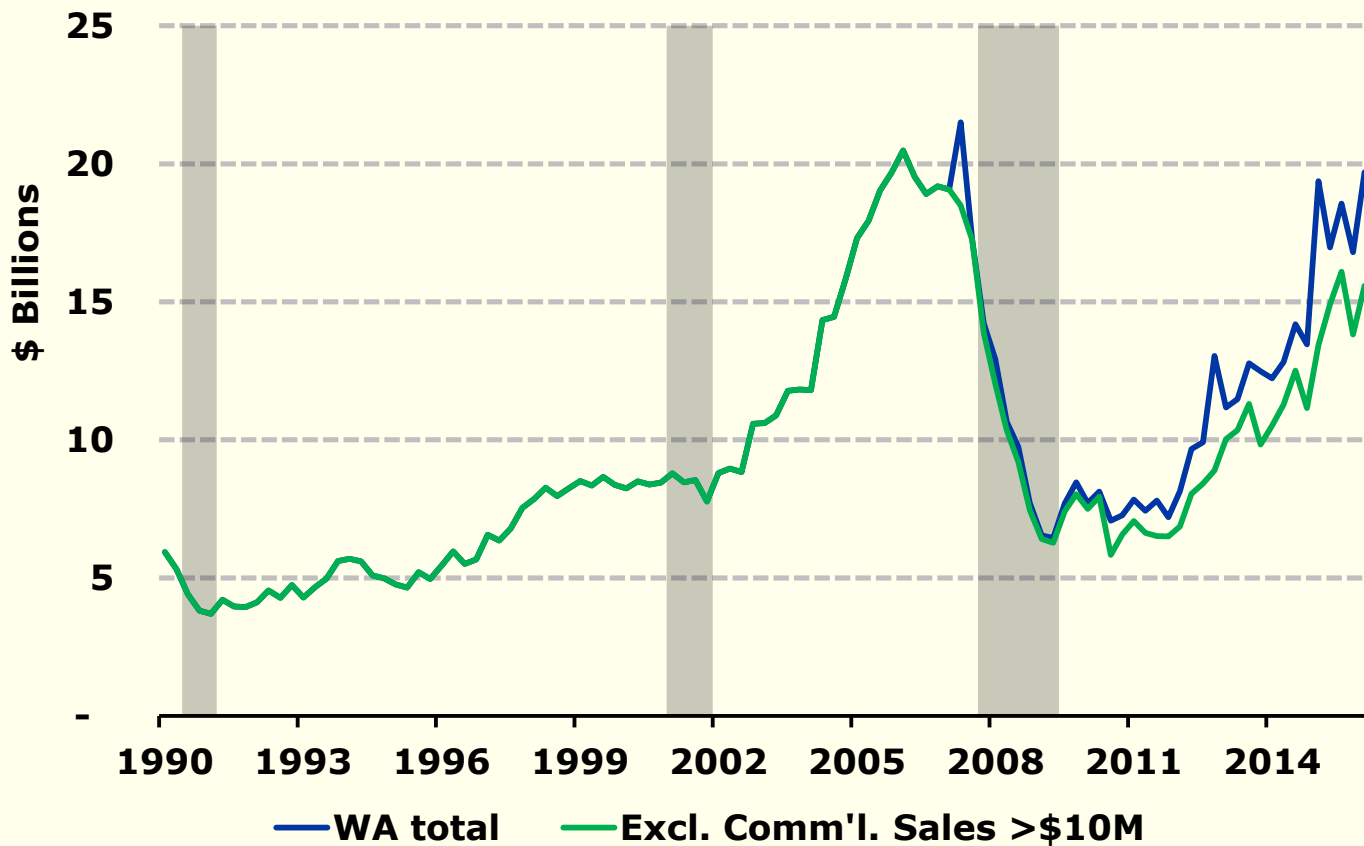
Large commercial property sales are expected to decrease from the elevated levels of the past few years.

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

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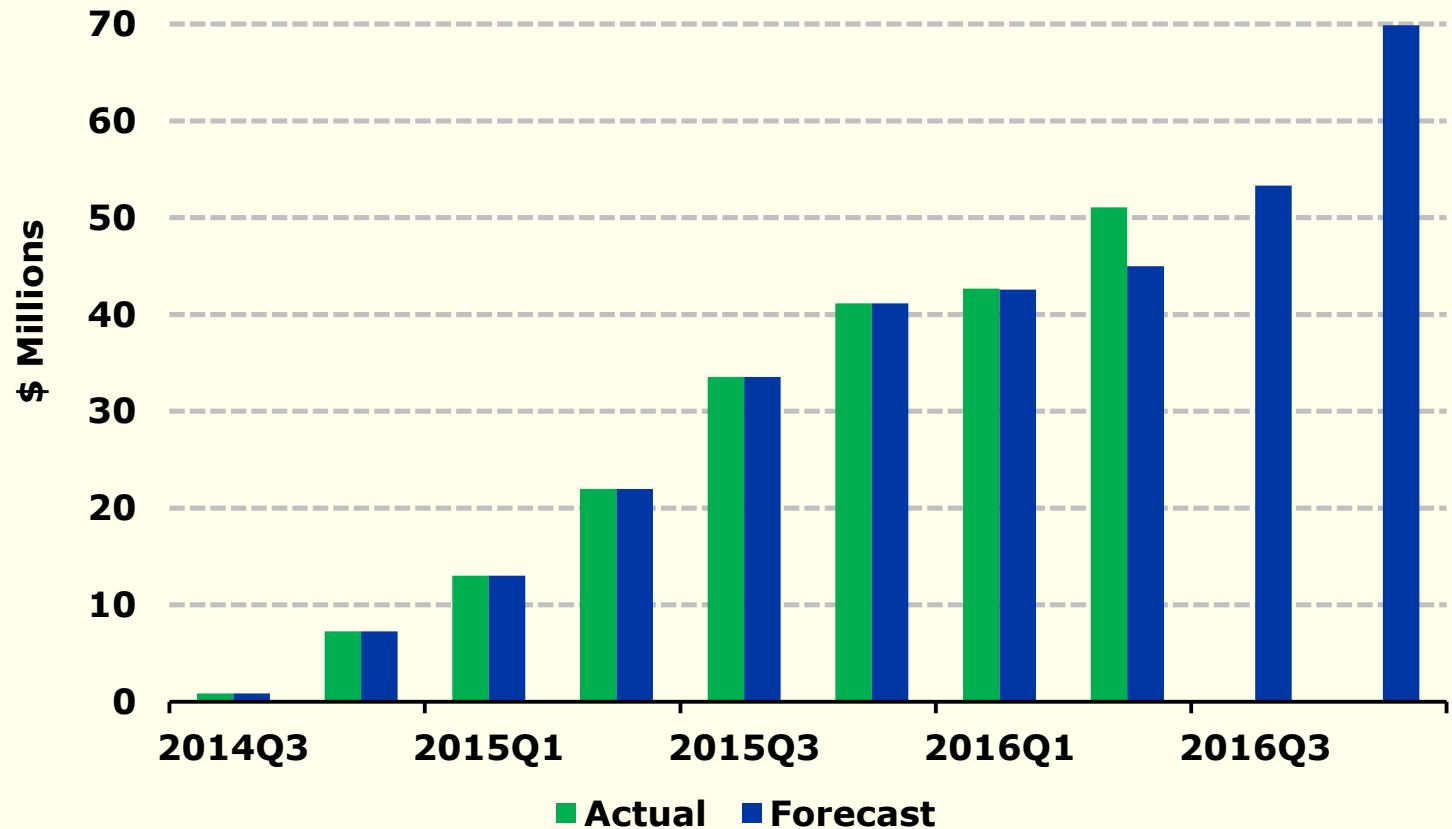
Taxable real estate sales, SA



Source: ERFC, data through 2016 Q1



Cannabis revenue continues to rise





Revenue collections to date

Special factors:

\$7.1 million
audit payment
that was not
anticipated in
the February
forecast

Collections Variance Since February Forecast (February 11, 2016 – May 10, 2016) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$3,623,619	\$3,762,110	\$138,491	3.8%
All other agencies	\$22,356	\$23,977	\$1,621	7.2%
Total GF-S	\$3,645,975	\$3,786,087	\$140,112	3.8%
Total excluding special factors	\$3,645,975	\$3,779,015	\$133,040	3.6%



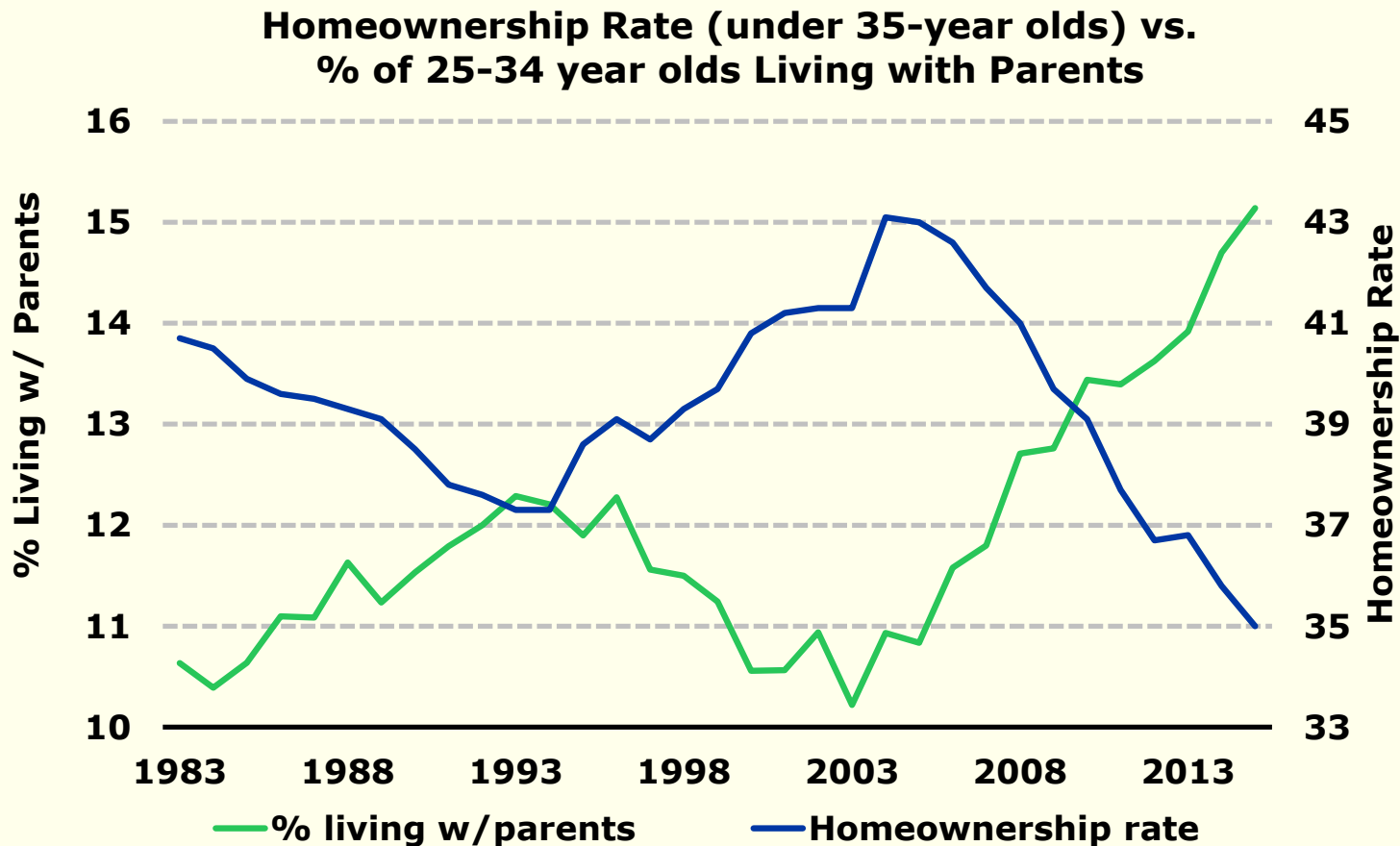
Forecast conclusion

- The U.S. economic forecast is slightly weaker than in February but we continue to expect moderate growth
- Washington is continuing to outperform the nation by a small margin; we expect this to 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 a slowdown in manufacturing
- The next monthly revenue collection report will be available on June 13th and the revenue forecast will be presented on June 15th



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

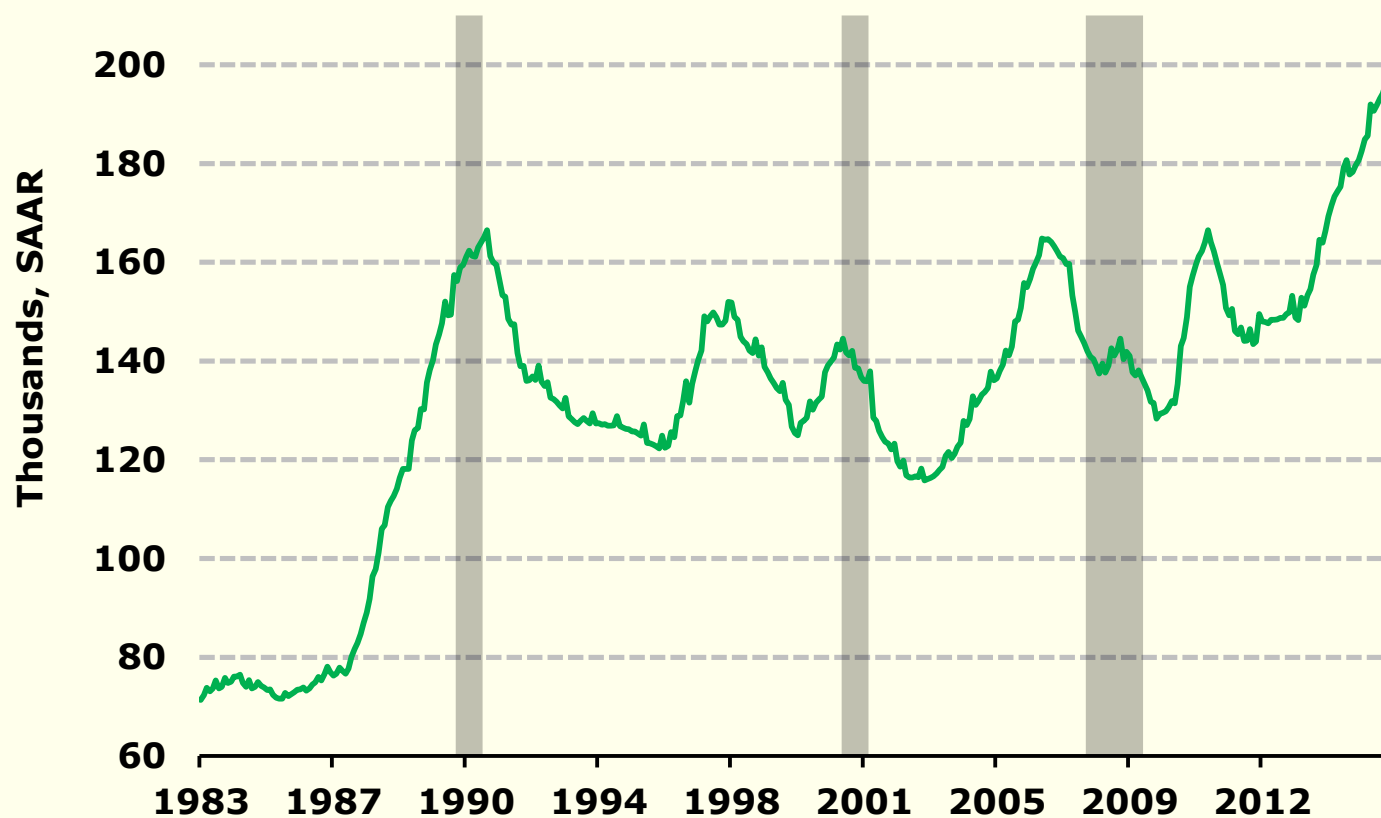


Source: U.S. Census, ERFC, data through 2015



WA in-migration continues to climb

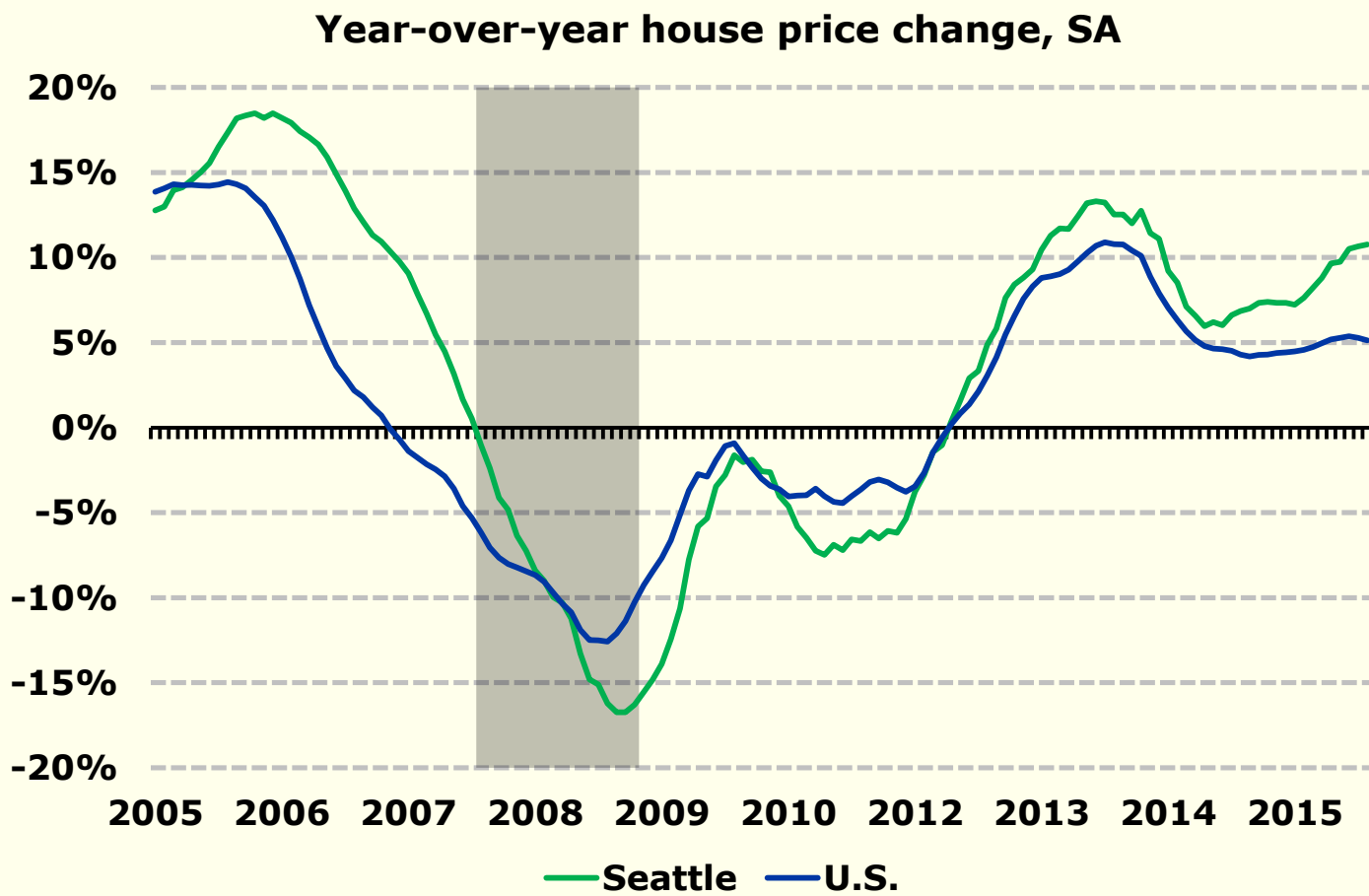
Surrendered out of state driver licenses



Source: WA Dept. of Licensing, ERFC; data through Apr. 2016



Seattle home prices have been rising faster than prices nationally

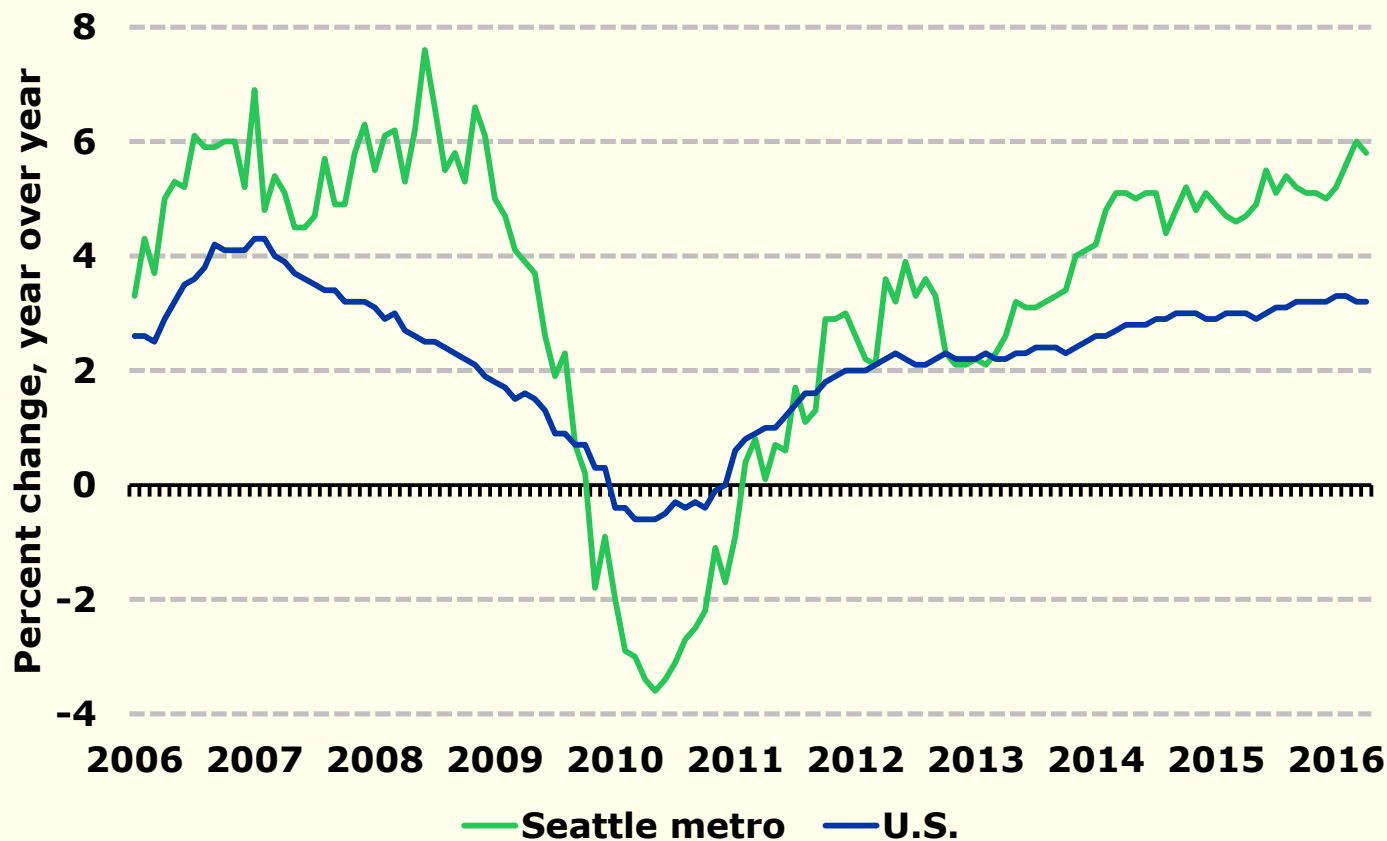


Source: S&P/Case-Shiller; data through March 2016



Year over year growth in shelter costs, U.S. and Seattle metro area

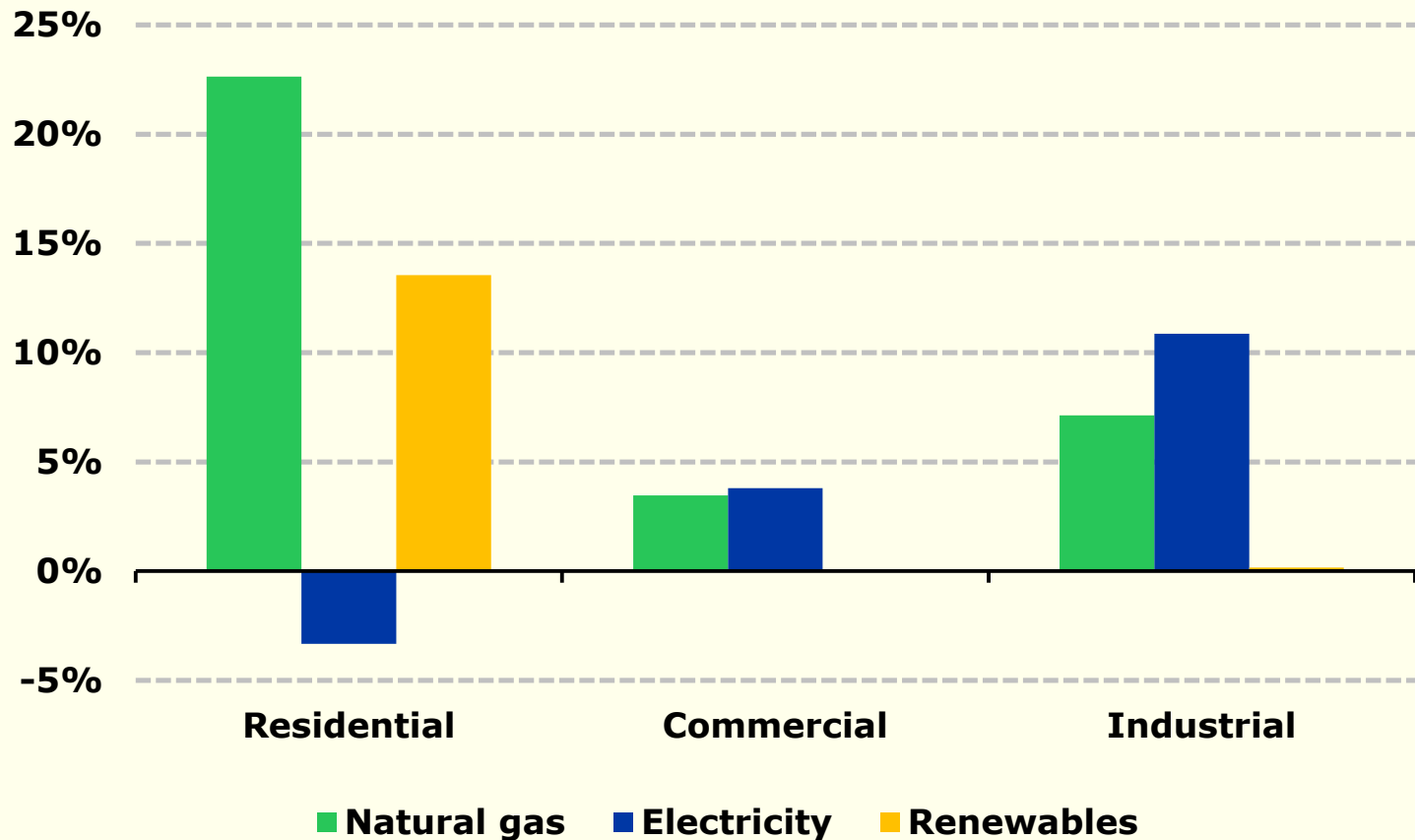
The shelter component of the CPI includes rent (or equivalent for home owners), utilities, maintenance costs, repairs



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



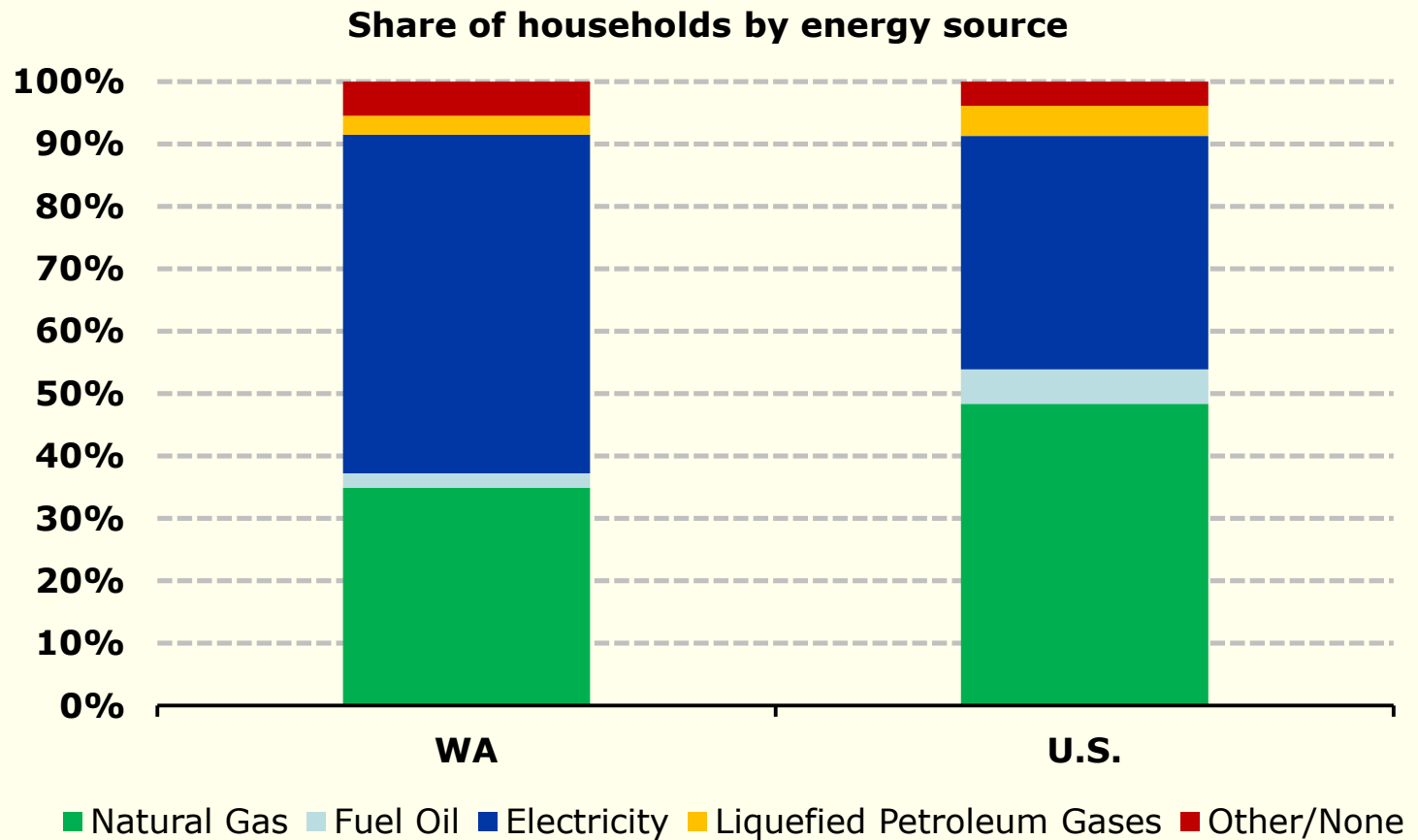
Projected growth in energy use by sector, 2015-2020



Source: U.S. Dept. of Energy, Annual Energy Outlook, 2016

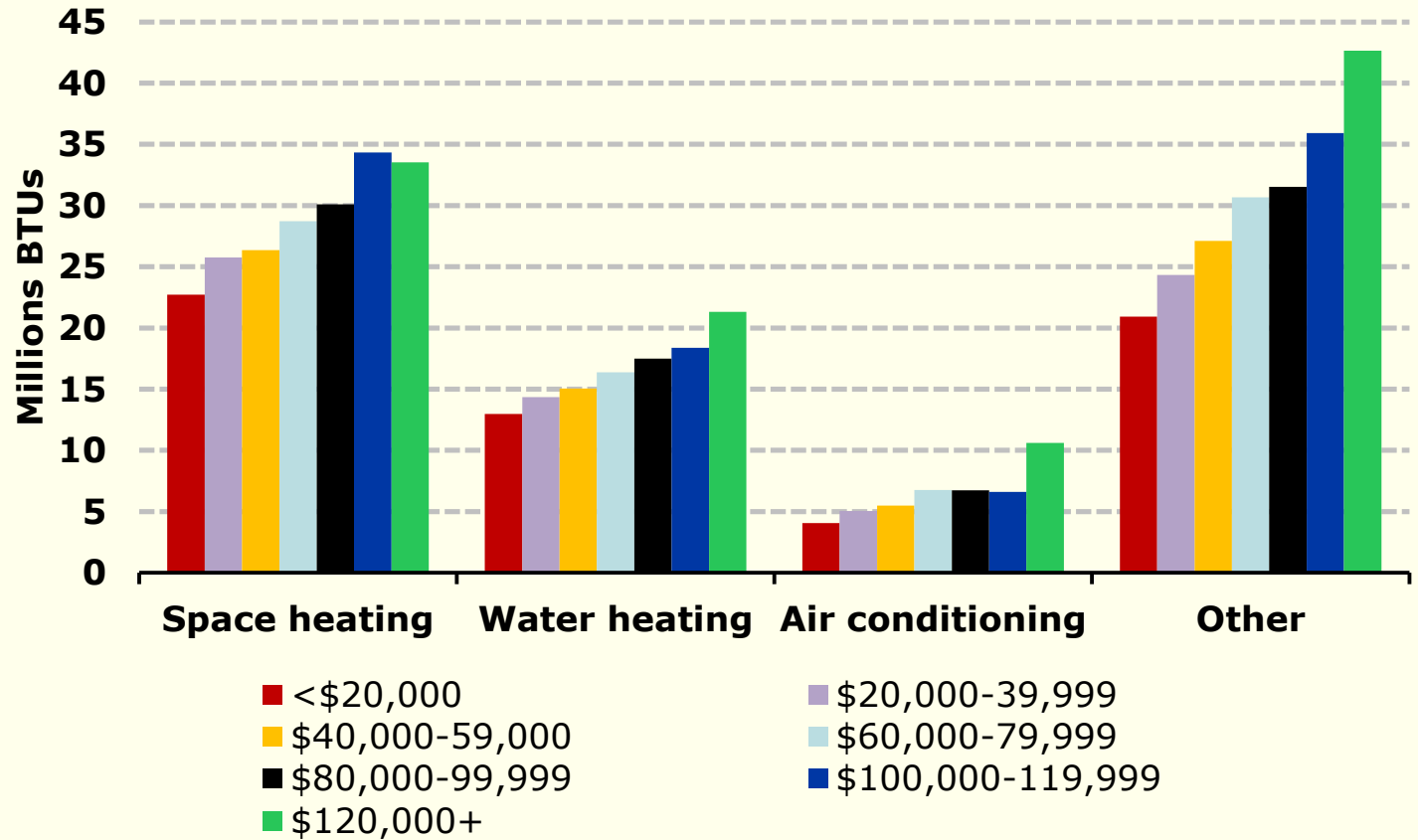


Energy Sources Used for Home Heating, 2013





Household energy consumption by end use and income, 2009





Questions



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