

Washington State Economic Outlook & Revenue Collection Experience

Presented to
Washington Roundtable

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**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, and weaker manufacturing activity
- Revenue collections since the February forecast are \$140 million (3.8%) above expectations



Economic news continues to suggest risks to forecast

Upside:

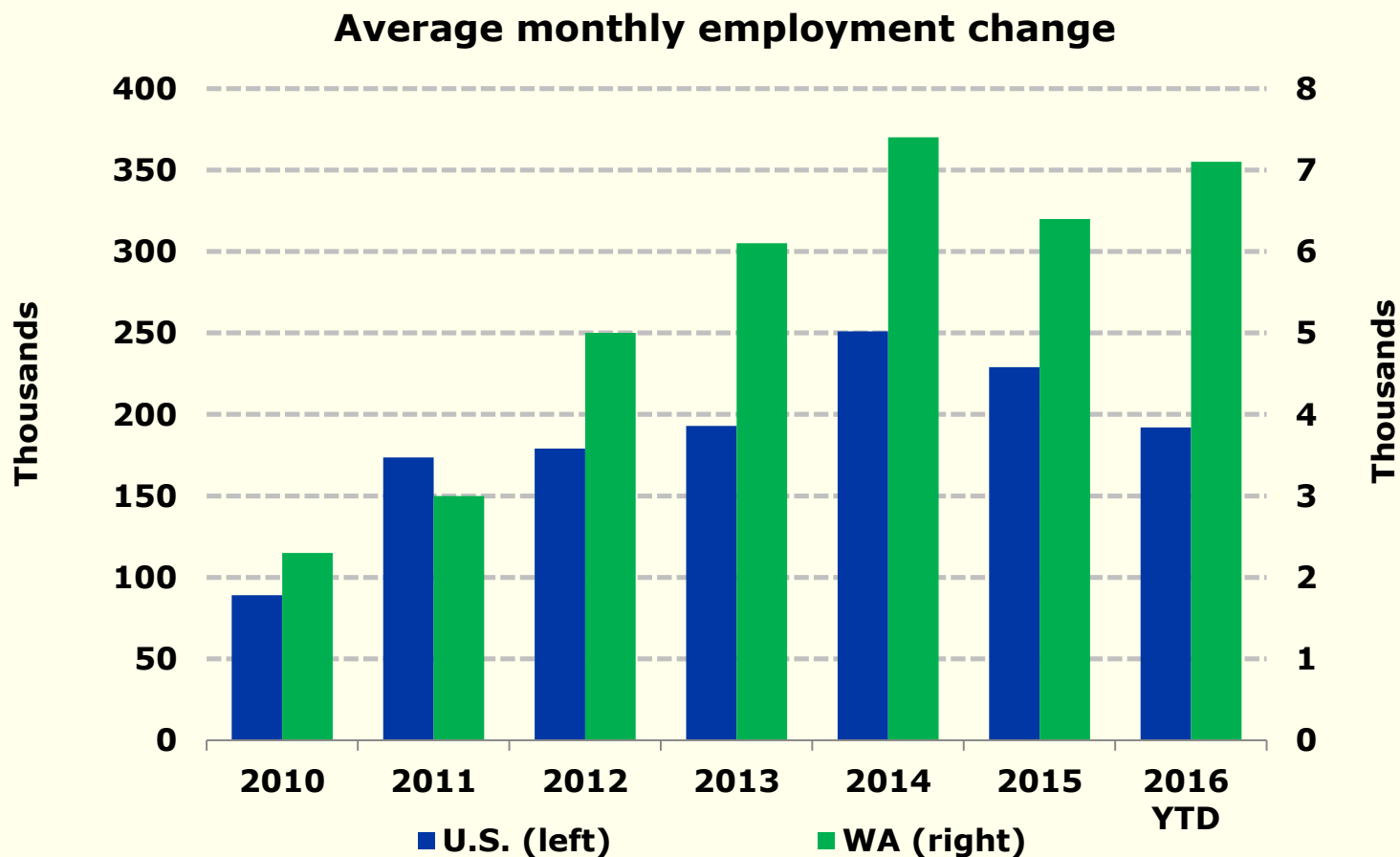
- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

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



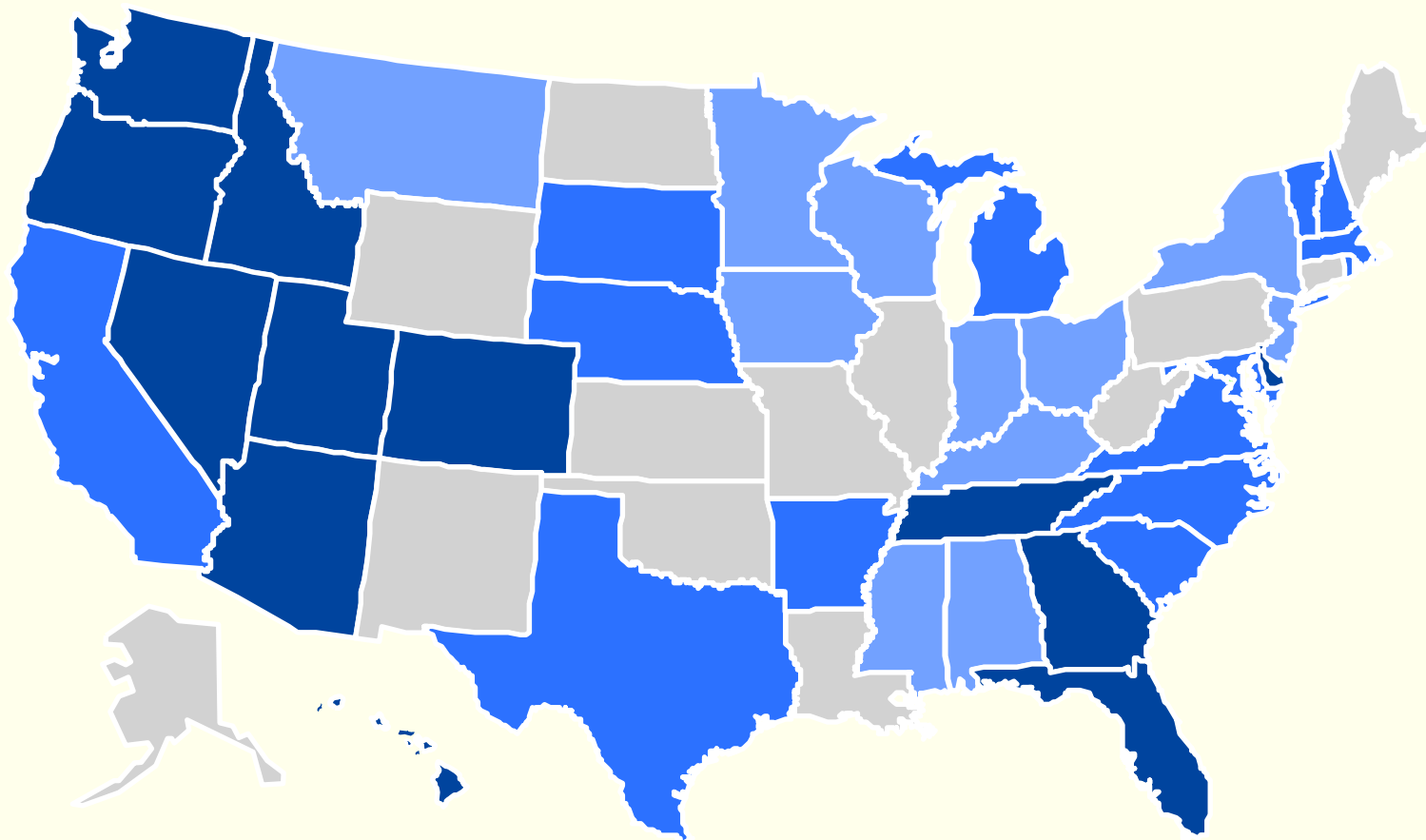
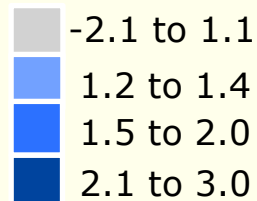
So far in 2016, employment change in WA a bit stronger than last year



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



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

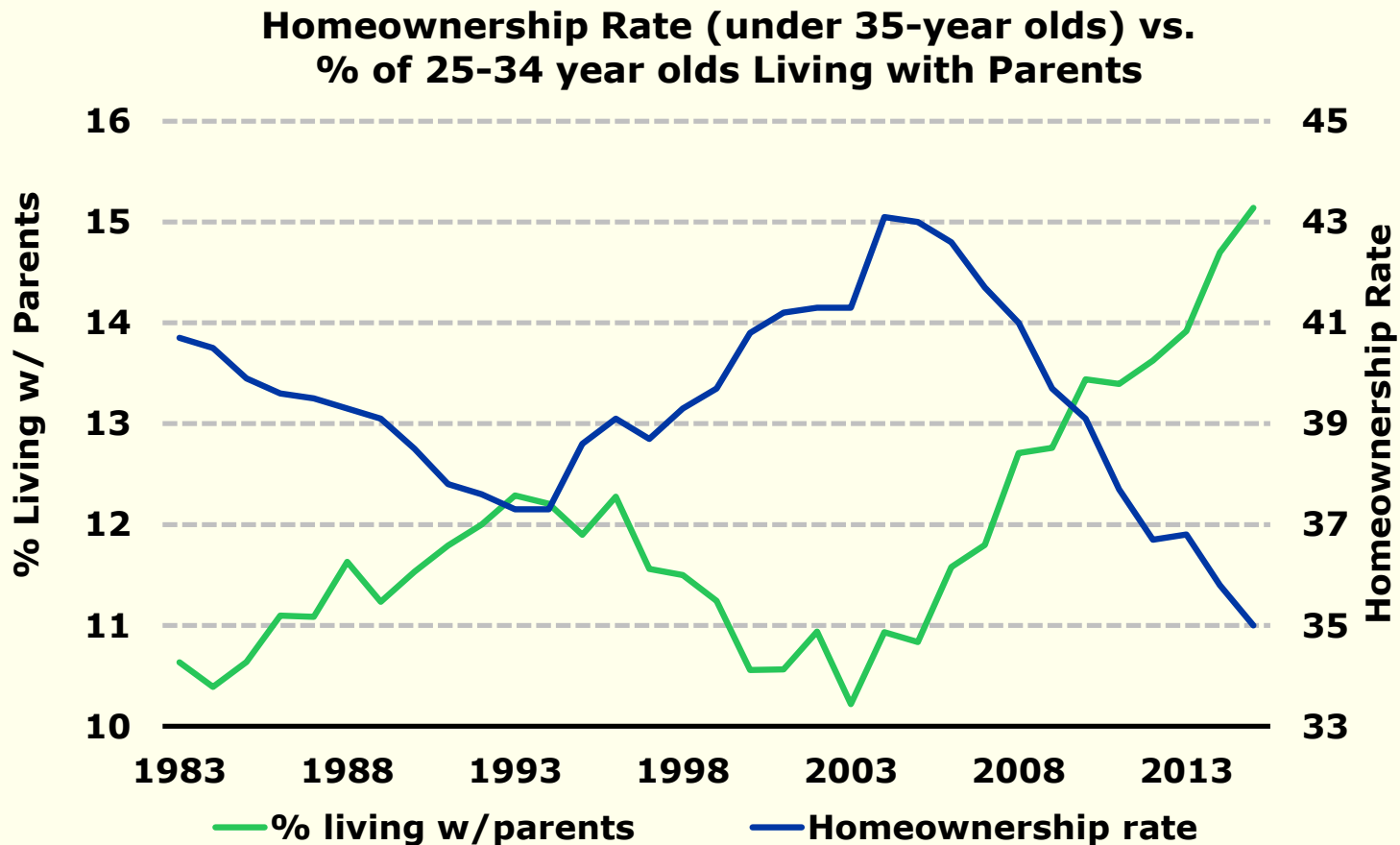


Source: IHS US Regional Service forecast, 2016



Young adults are increasingly living with parents and foregoing home ownership

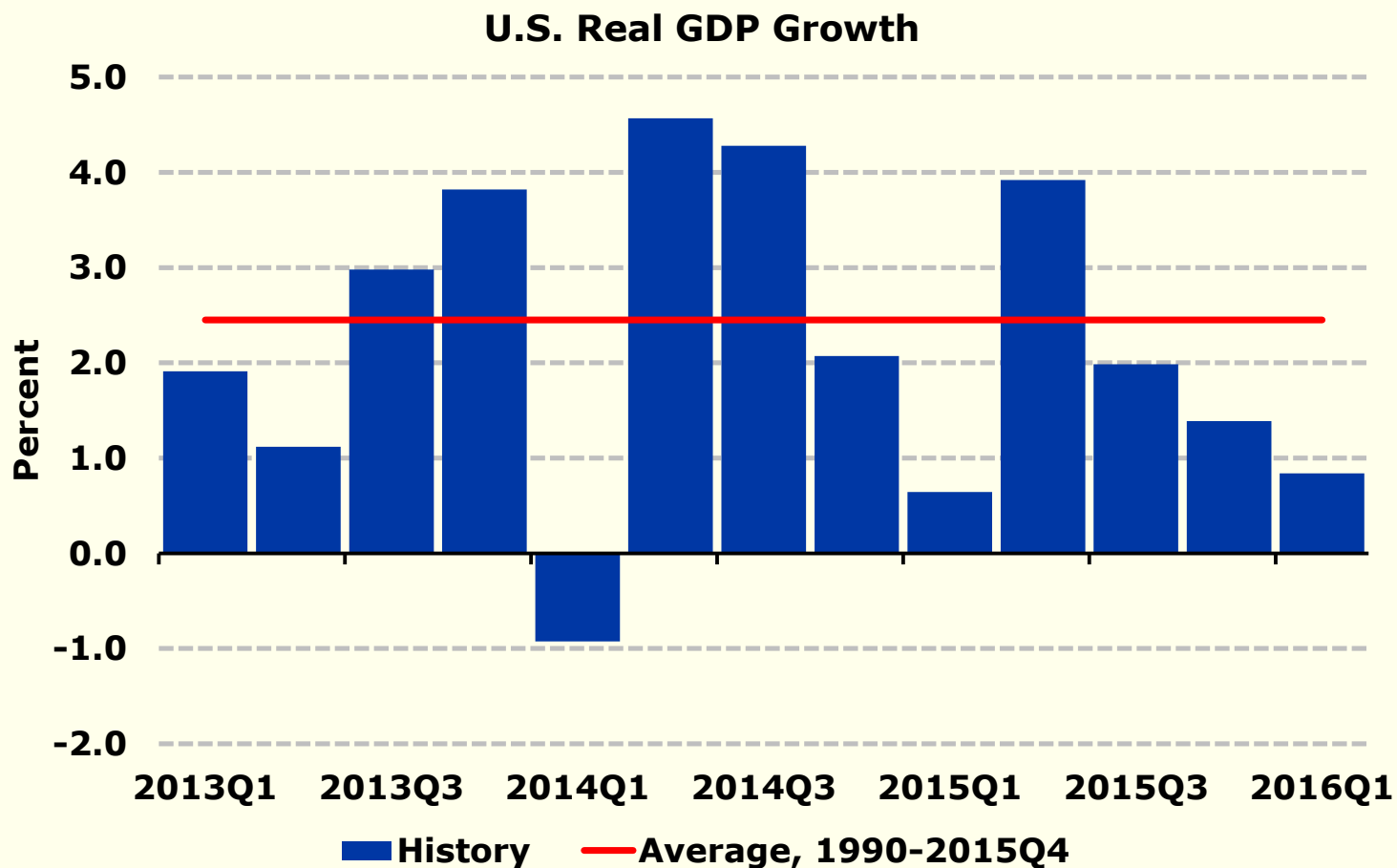
As the job market continues to improve, young adults are likely to move out and increase demand for housing



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



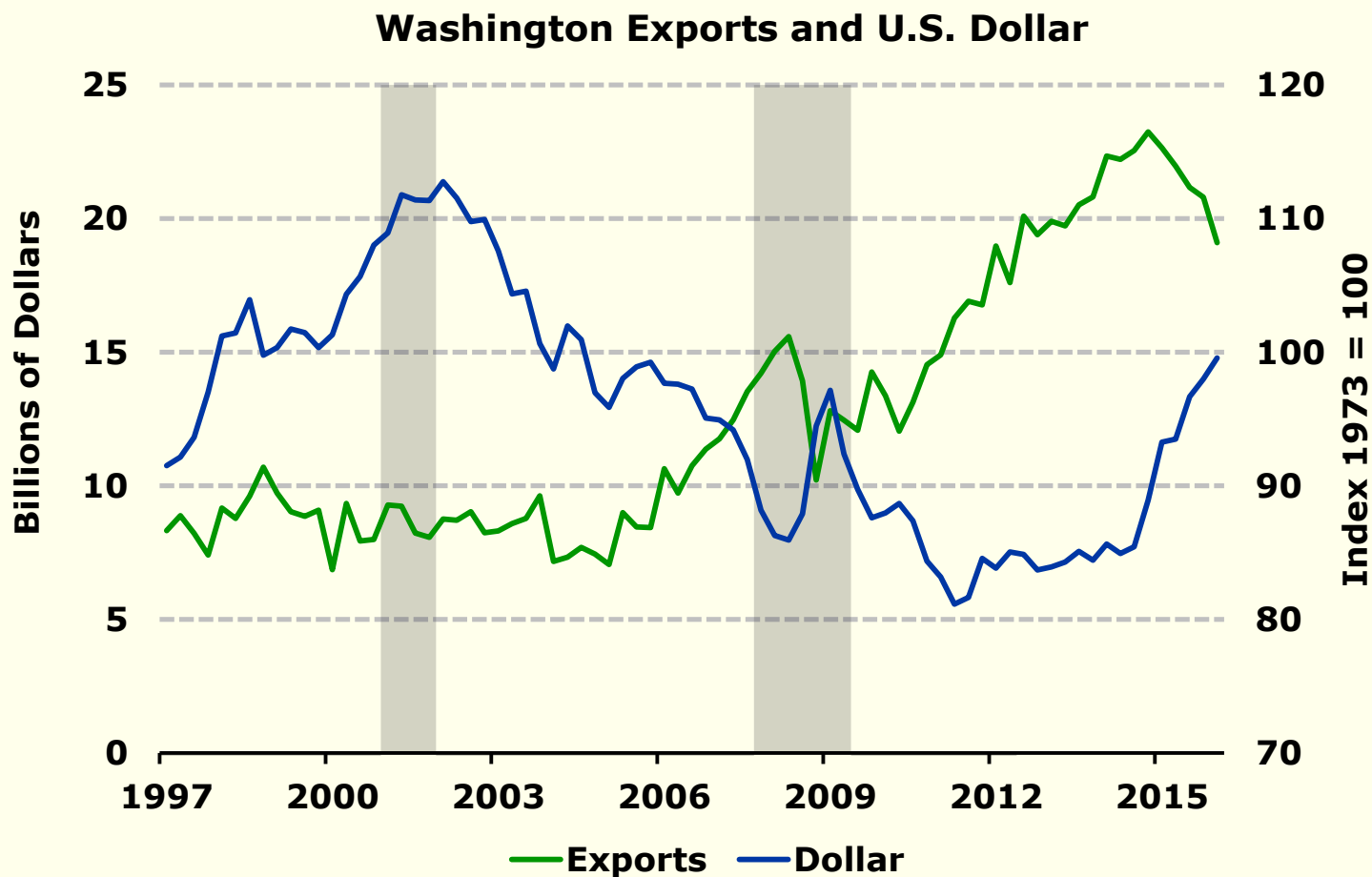
U.S. economic growth weakened in the last three quarters



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



Strong dollar is contributing to a decline in exports

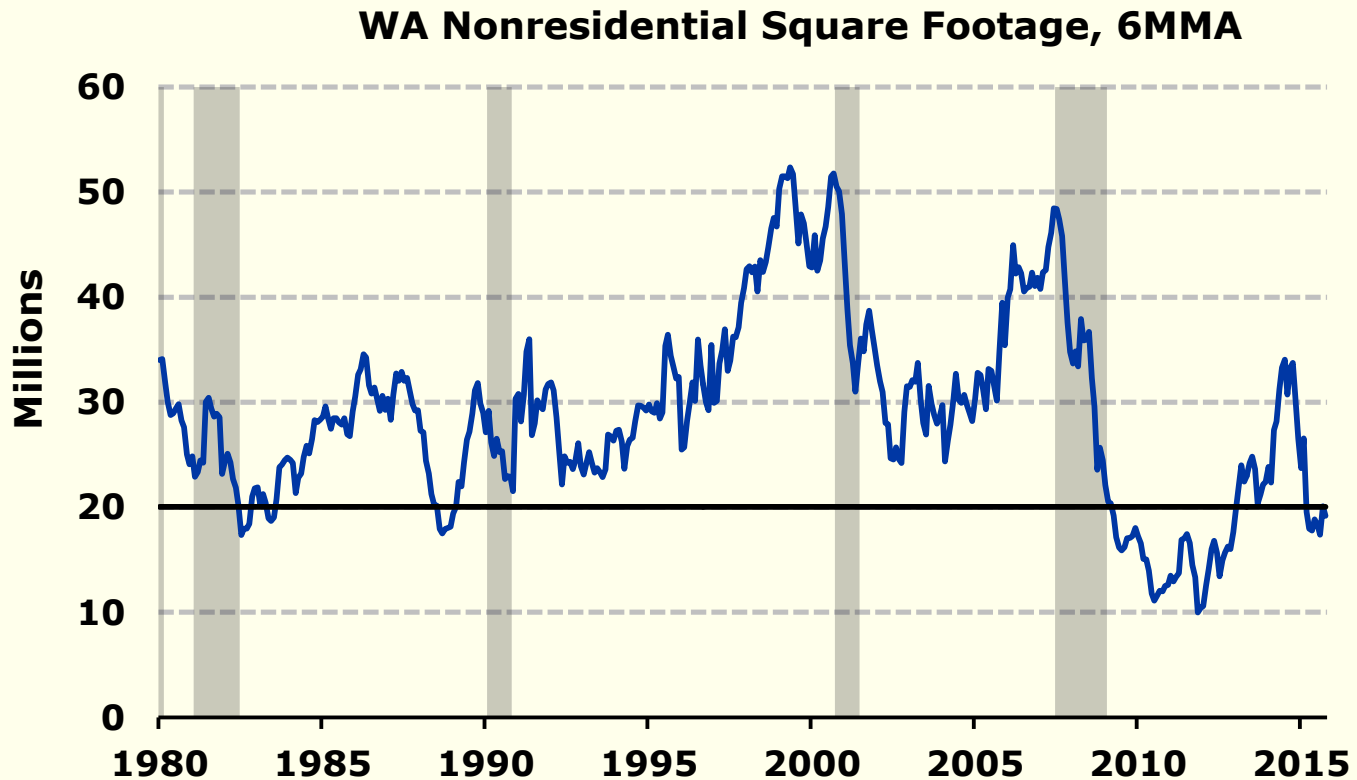


Source: Wiser Trade, ERFC; data through 2016Q1



WA nonresidential square footage remains at historic lows

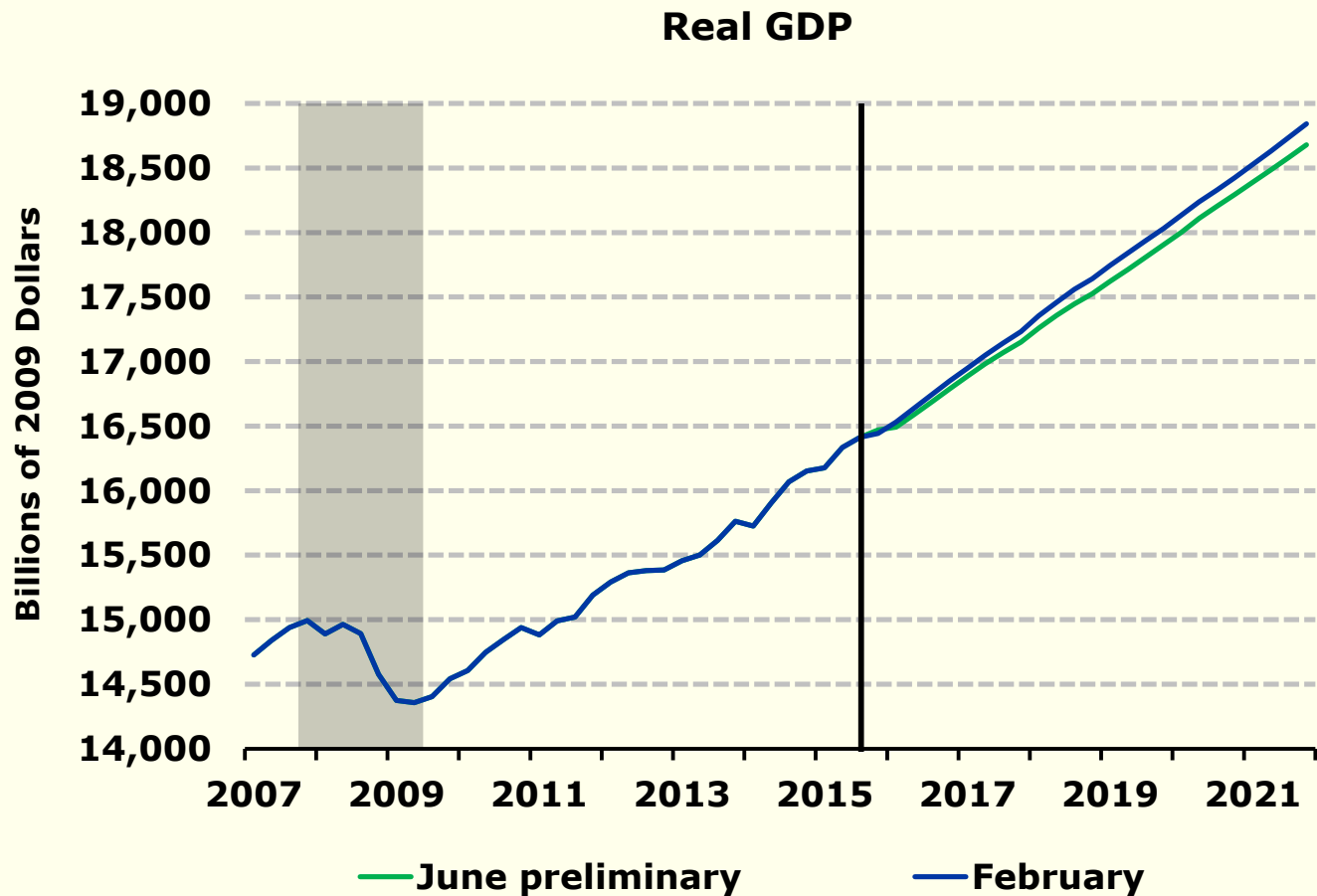
Nonresidential Square footage is down 33% Y-O-Y



Source: Dodge, ERFC; data through April 2016

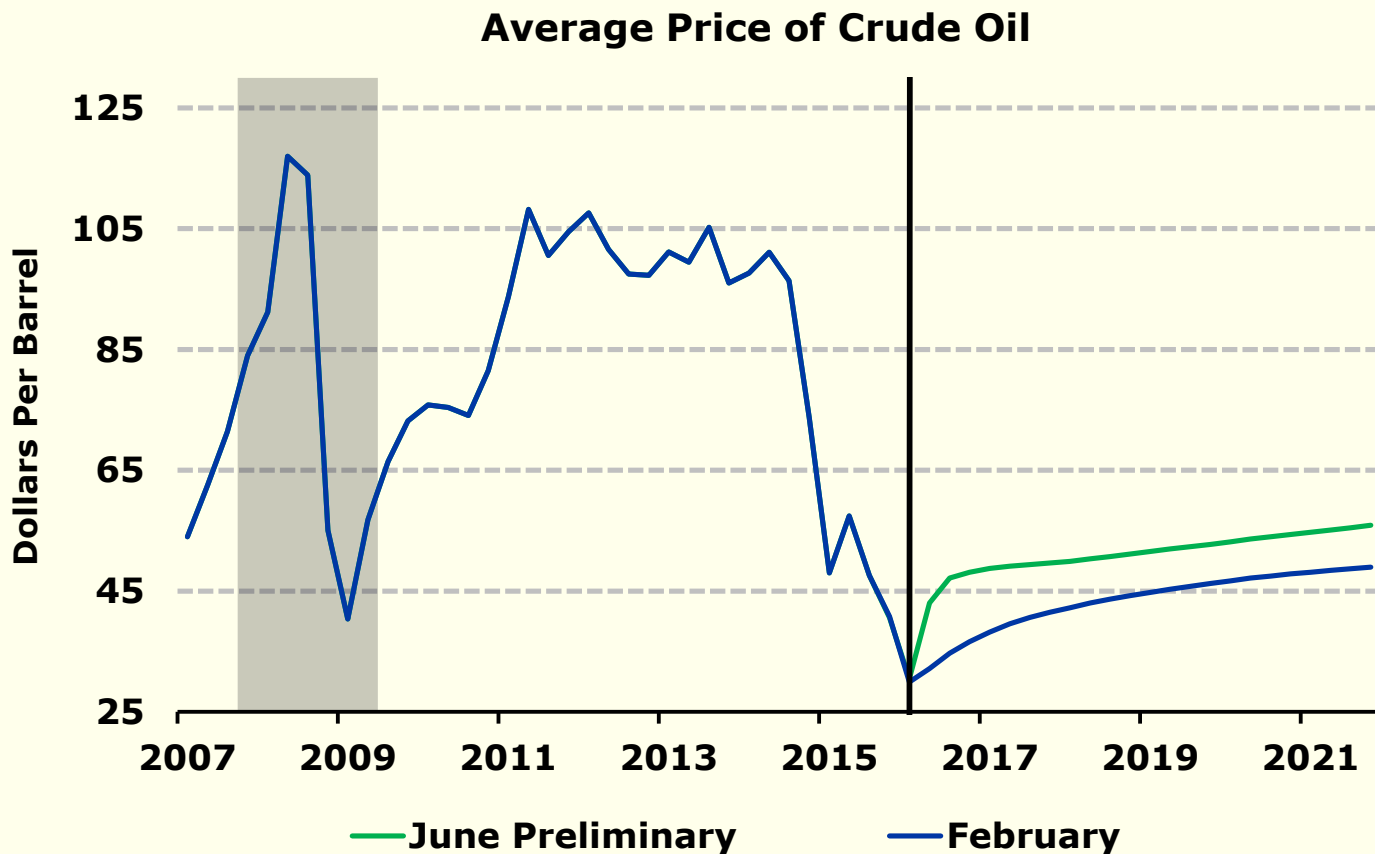


GDP is slightly lower than in the February forecast



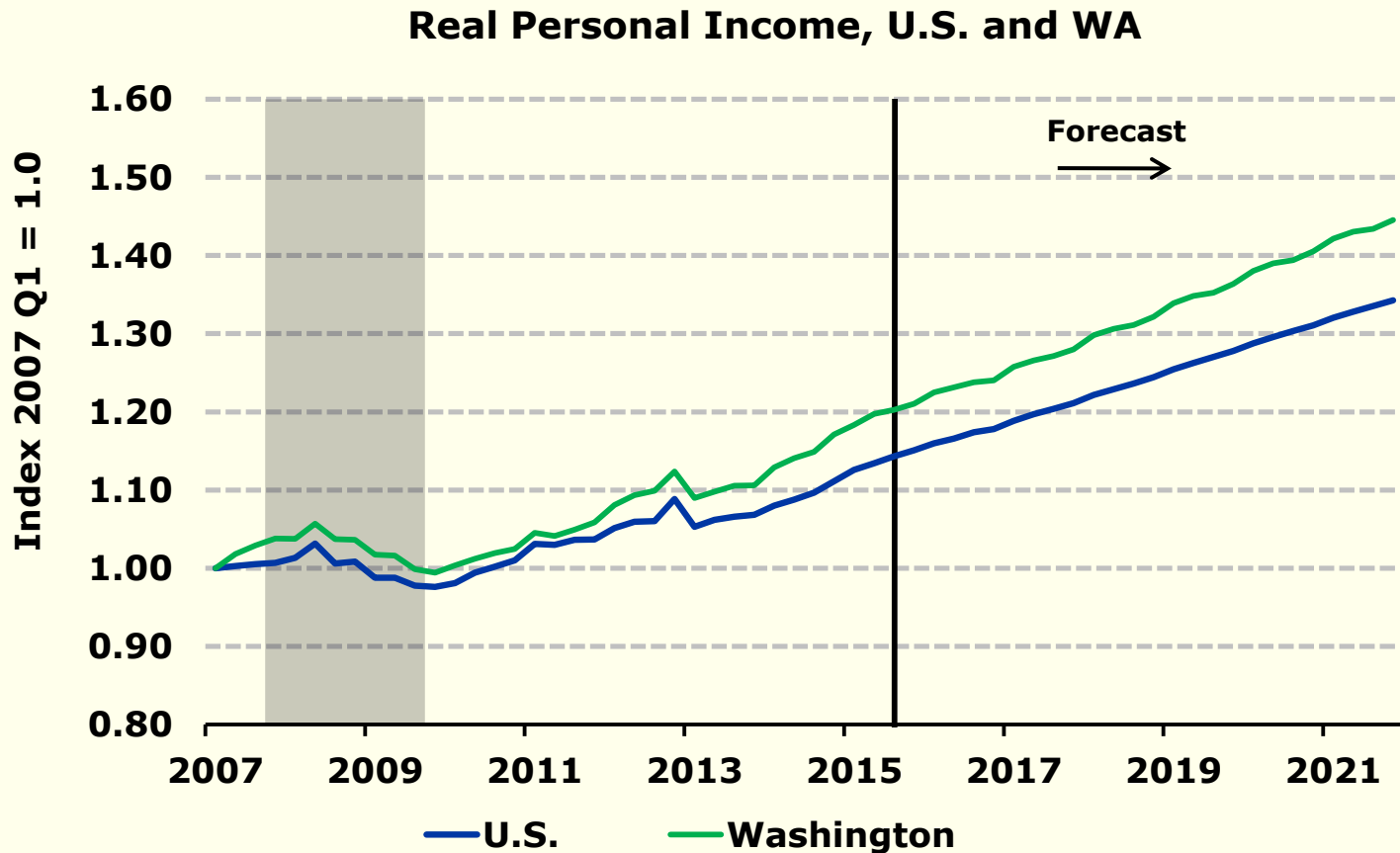


Oil prices are higher than in the February forecast





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

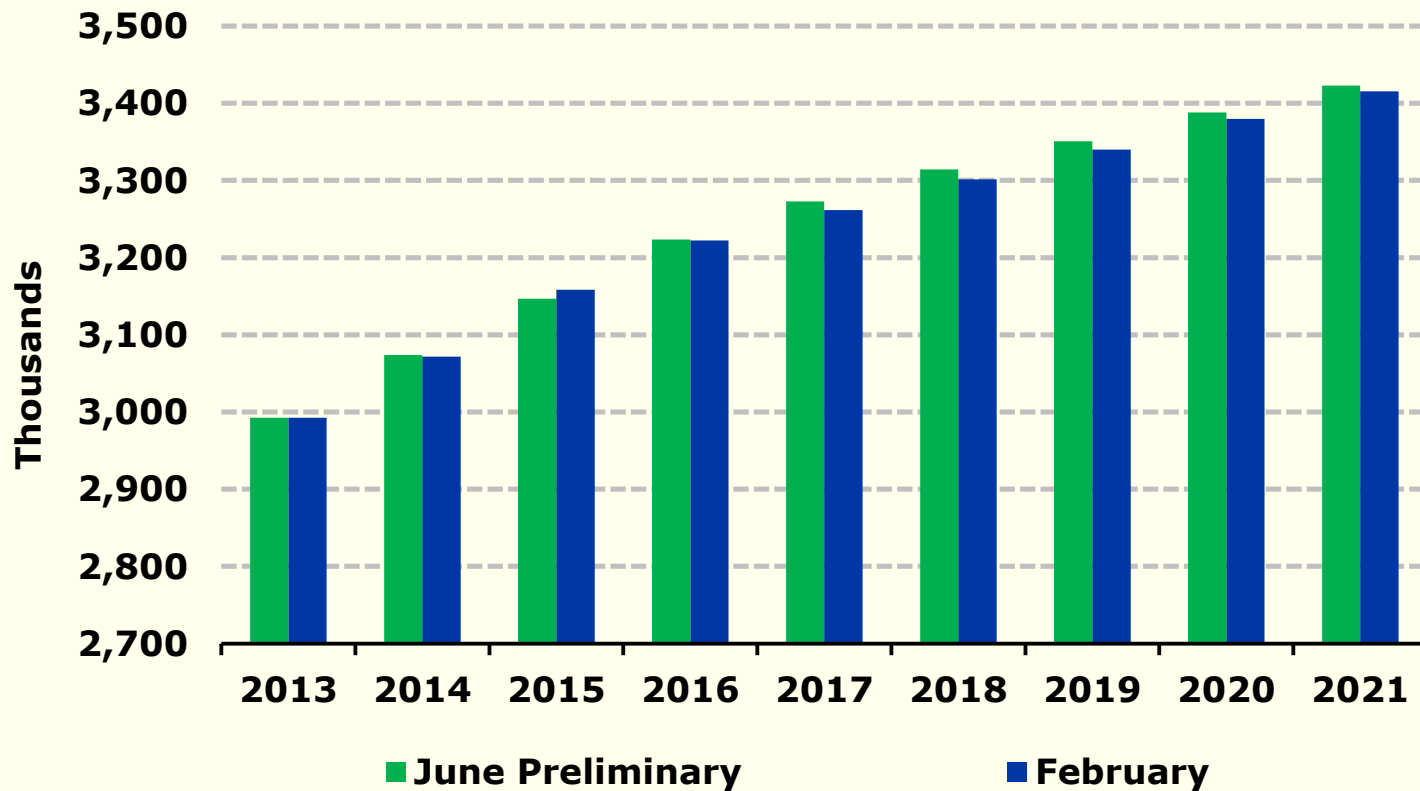


Source: ERFC June 2016 Preliminary forecast; historical data through 2015Q4



Washington employment forecast revised up very slightly in 2017 - 2021

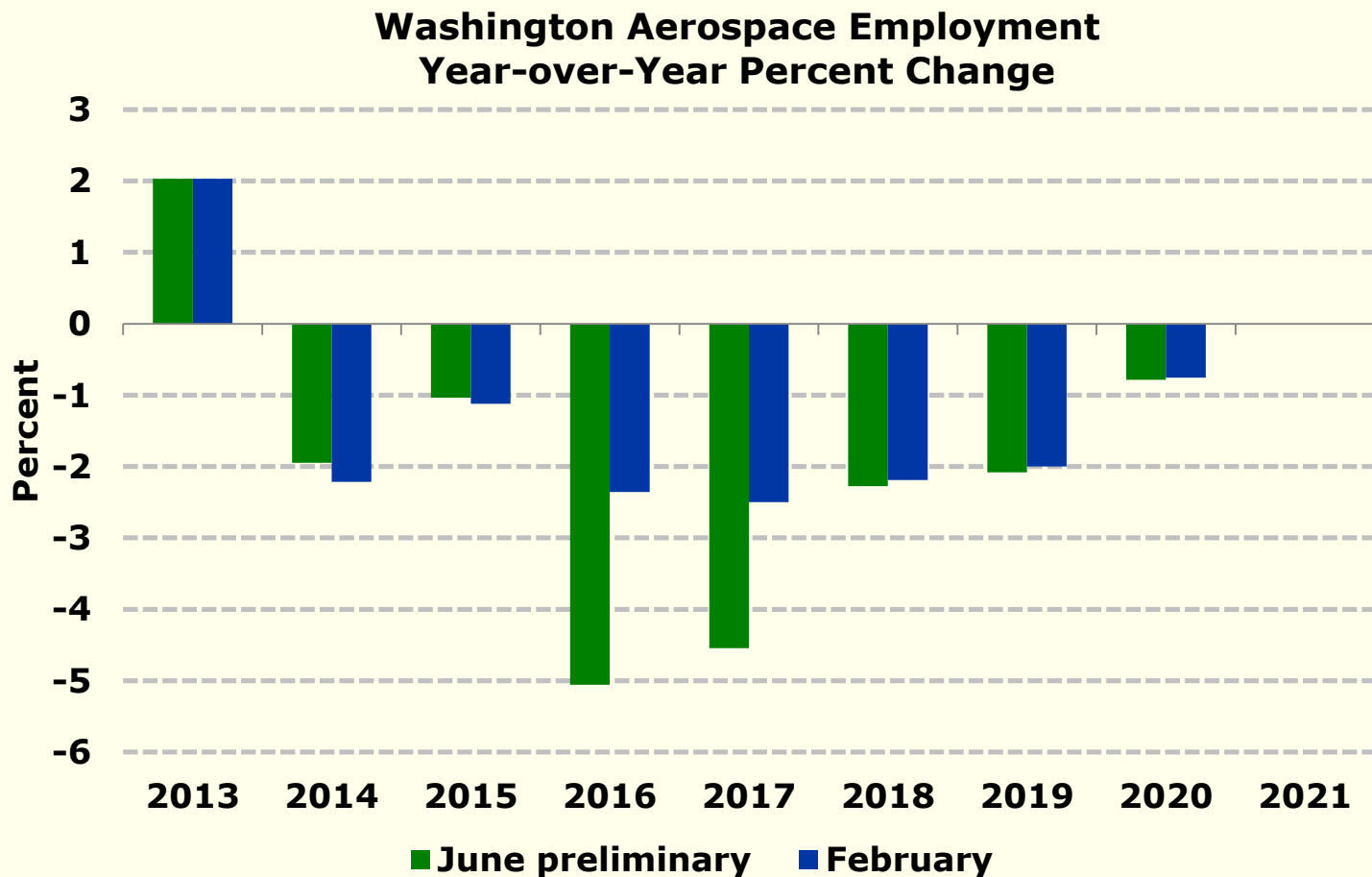
Washington Nonfarm Payroll Employment





WA aerospace employment is expected to decline faster than in February

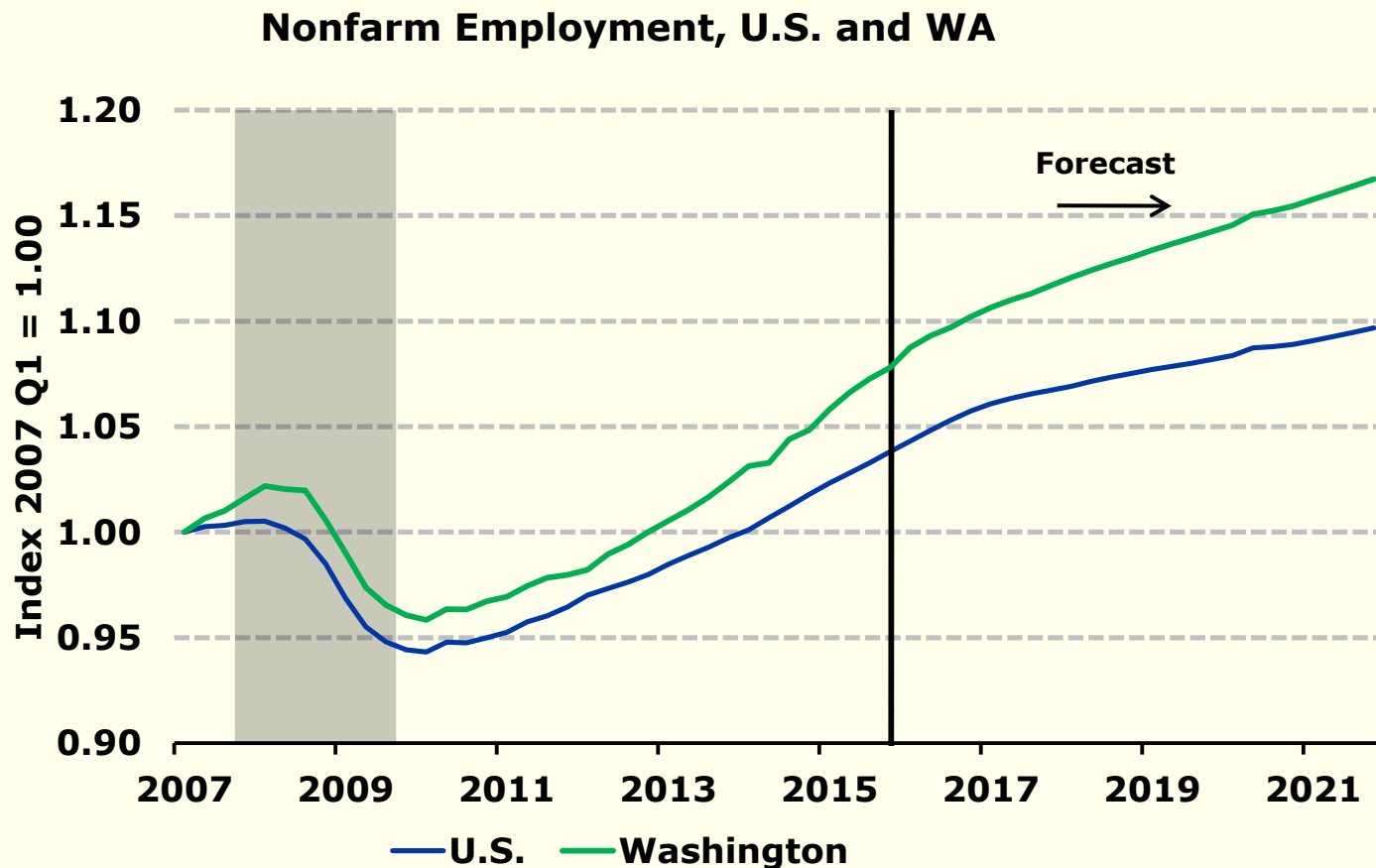
Boeing has announced it will eliminate 4,000 jobs by June but no WARN notices have been issued to date



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



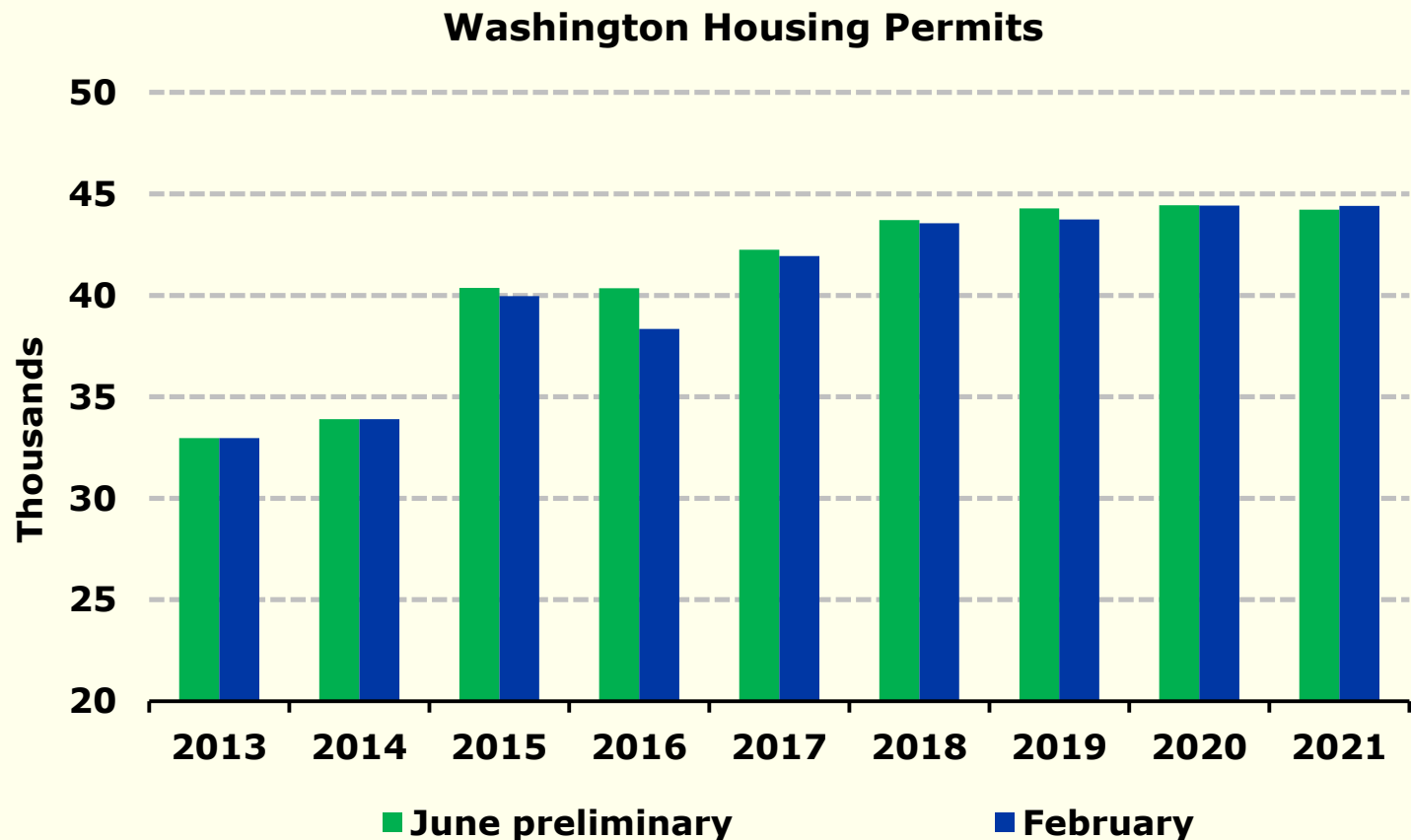
Washington employment will continue to grow slightly faster than the U.S.



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



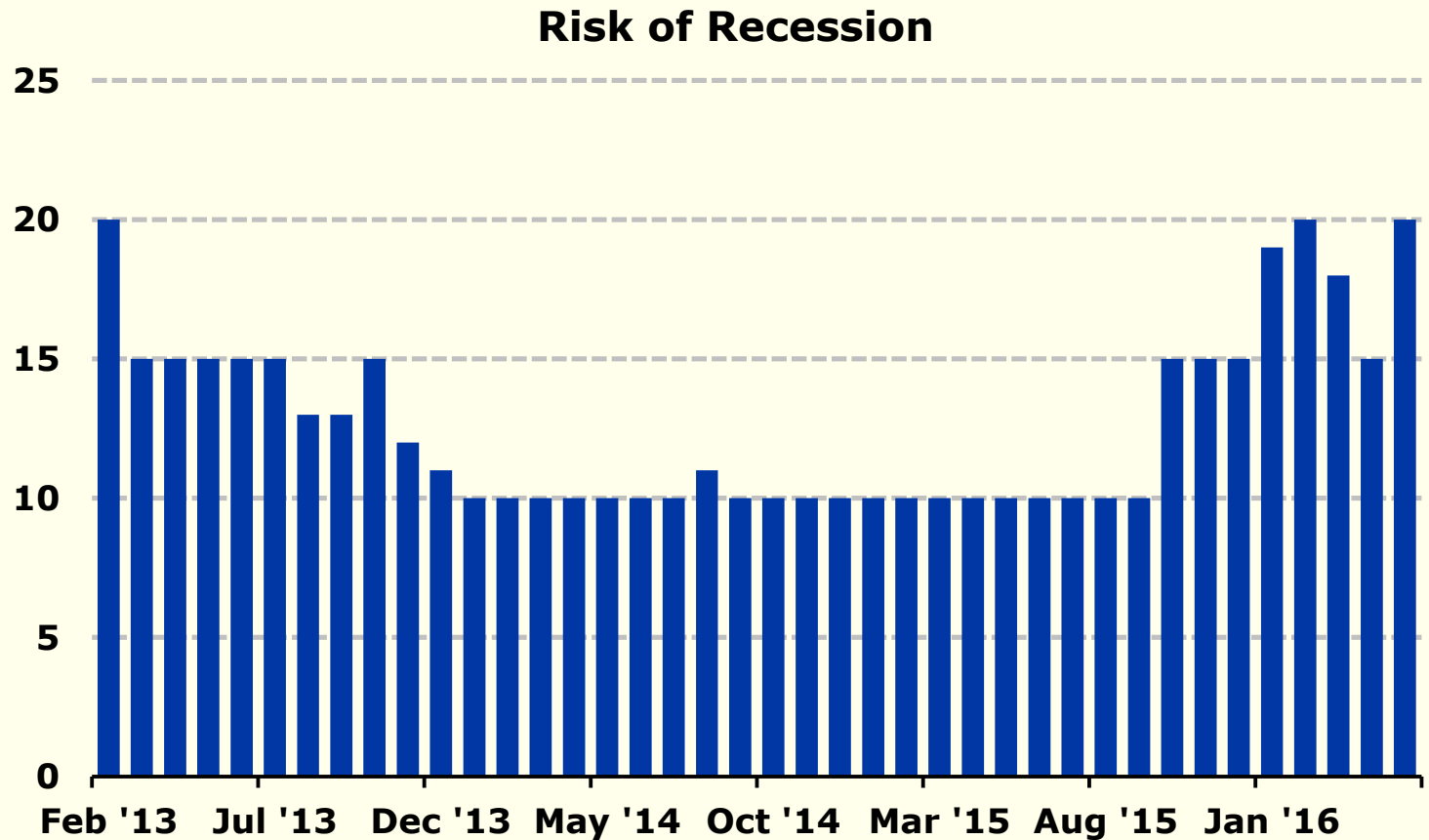
Washington housing permits forecast is higher for 2016–2019 compared to February





Bloomberg economist survey indicates risk of recession has increased but remains low

May 2016
Wall Street Journal
economist
survey places
recession
probability at
20%

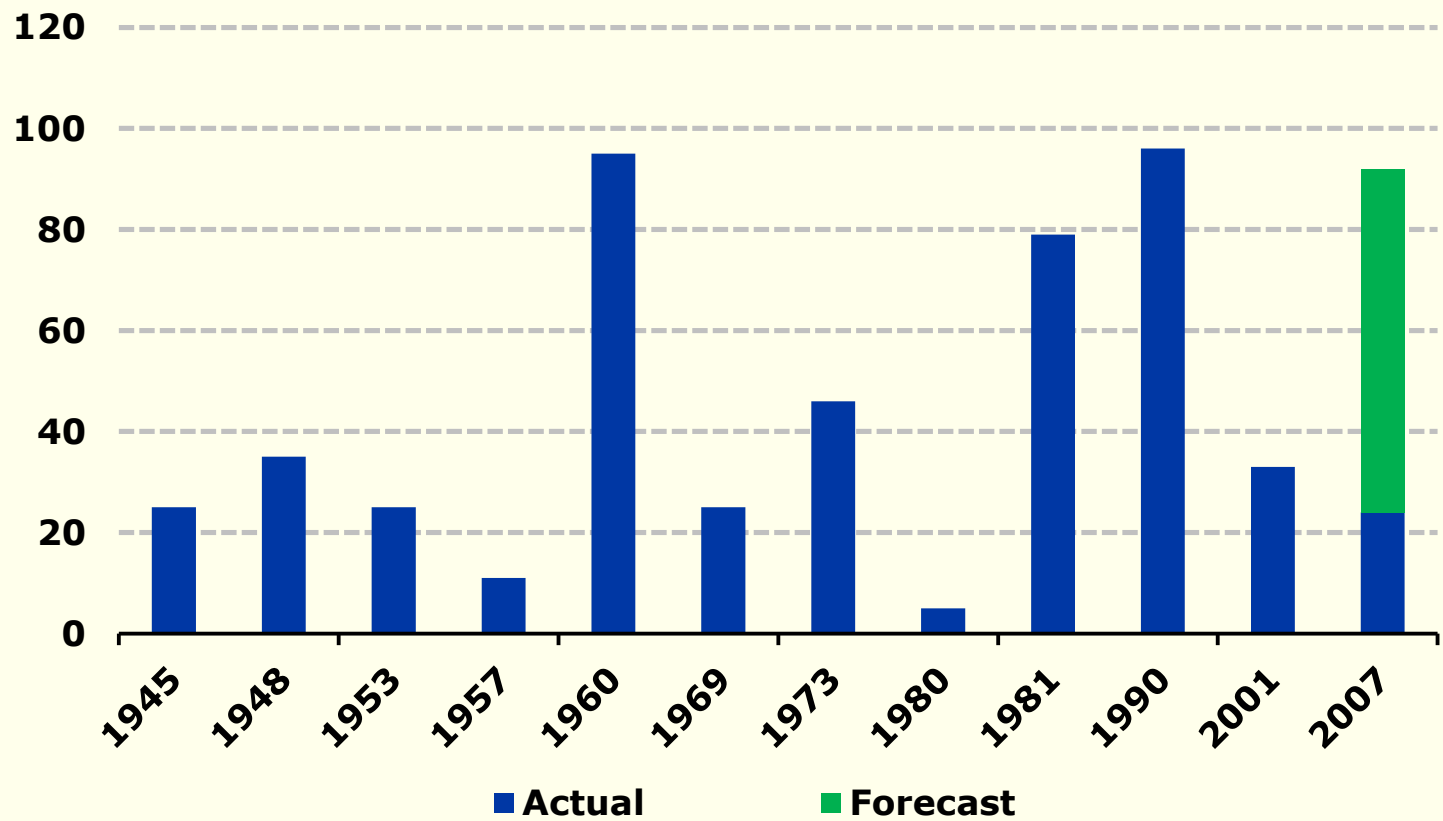


Source: Bloomberg surveys; forecasts through May 2016



Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment

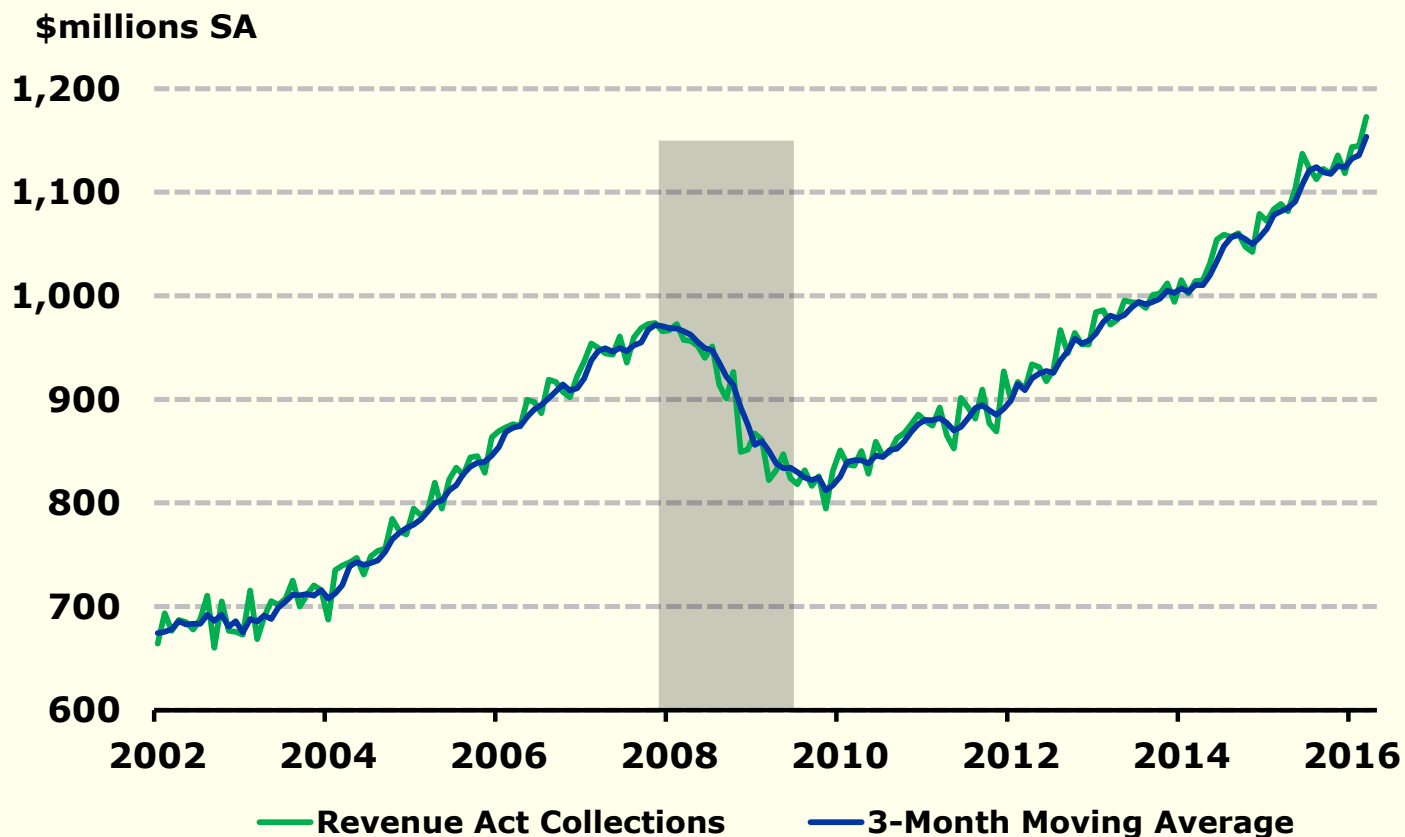


Sources: NBER, BLS, ERFC Preliminary June 2016 forecast; historic data through April 2016

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Revenue Act collections for March economic activity were quite strong



* 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 March 2016 activity



Large commercial property sales have had major impact on REET collections

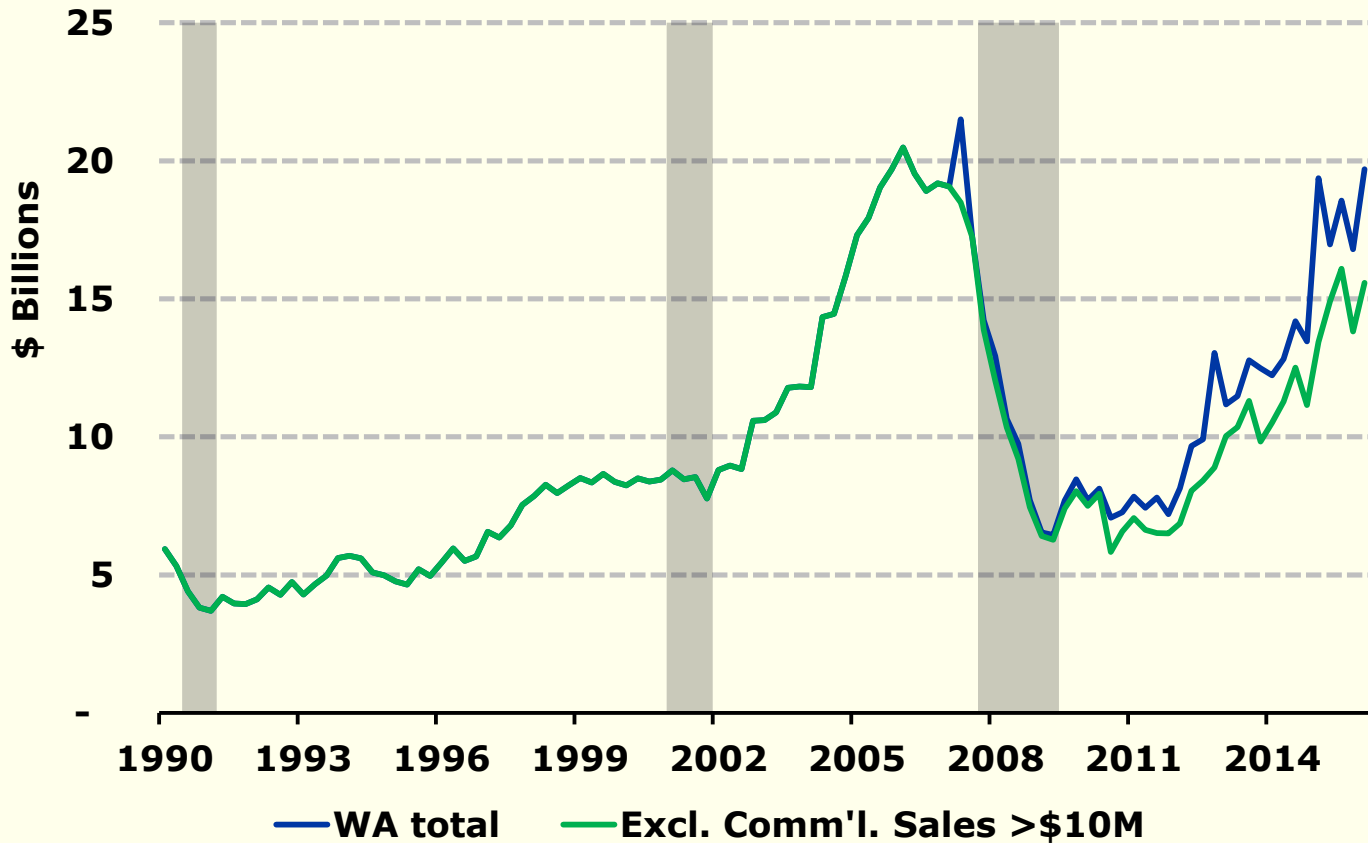
Large commercial property sales are expected to decrease from the elevated levels of the past few years.

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

Economic Review
June 9, 2016

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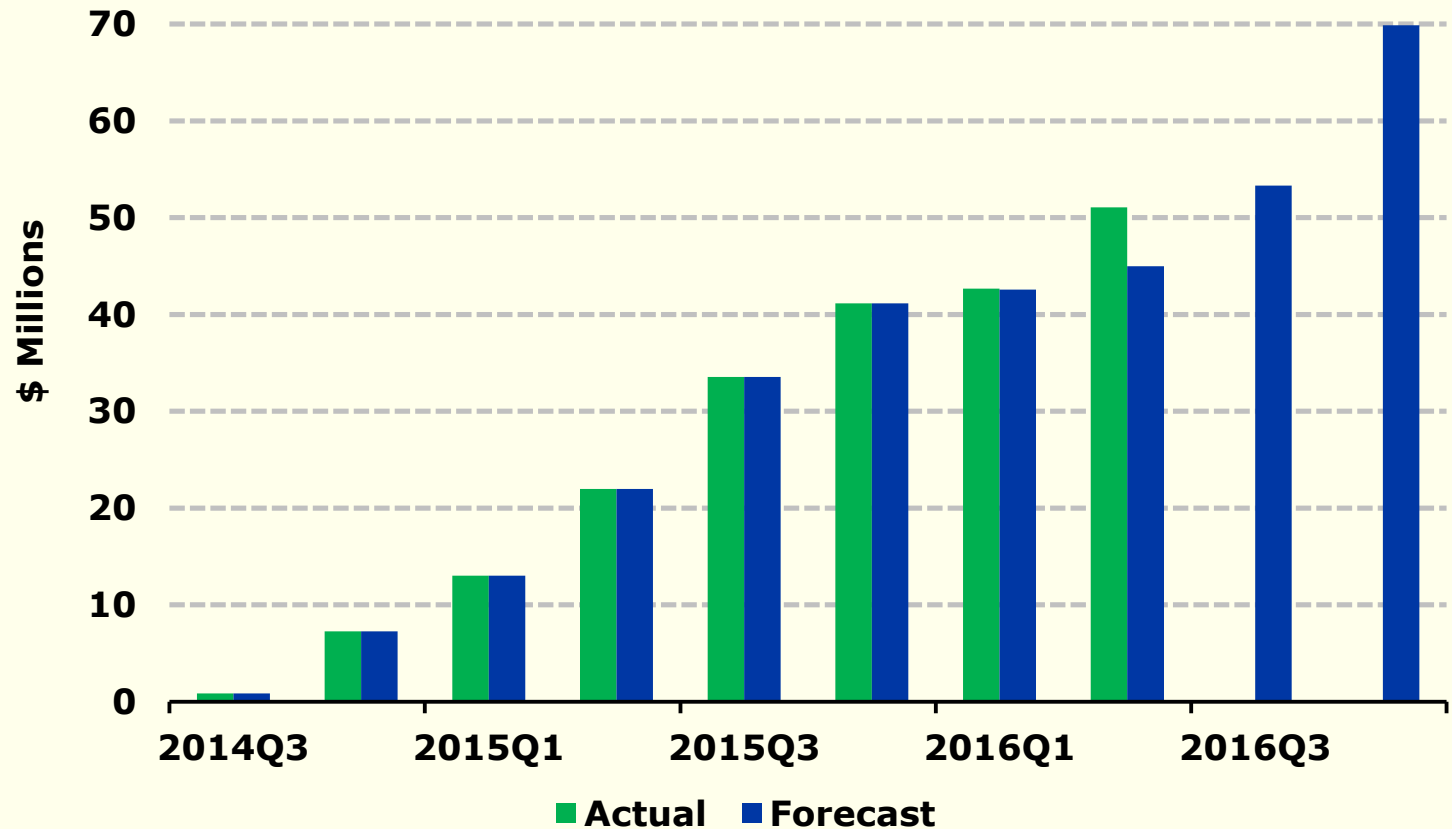
Taxable real estate sales, SA



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%



Potential transitory components of revenue collections variance

- May collections report (+\$42.2 M)
 - Revenue Act collections grew much faster than payments from electronic filers
 - June collections report will give better sense if this was a one-time jump
- Unclaimed property (+\$5.7 M)
 - Most unclaimed property collections occur in October and November
 - Potential for this variance to be offset by lower collections in those months



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



Questions



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