Revenue Review

Presented to
Economic and Revenue Forecast Council

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Executive Director

June 19, 2018
Olympia, Washington
Summary

- The economic forecast for the U.S. is slightly stronger than in February.
- The economic forecast for WA has slightly higher personal income than in February.
- Risks to the baseline include concerns about international trade, geopolitical risks and a maturing economic expansion.
- The revenue collection variance since the February forecast is $189 million.
- Near General Fund revenue for the 2017-19 biennium has been increased by $298 million, and revenue for the 2019-21 biennium has been increased by $287 million.
Forecast risks

Upside

- Strong labor market
- Elevated consumer and business confidence

Downside

- International trade policy uncertainty
- Higher oil and gasoline prices
- Maturing economic expansion
- Federal Reserve raises rates too much or too quickly
- Geopolitical risks: North Korea, Russia, Middle East, Europe
Small business optimism and sales expectations are above pre-recession levels

Source: National Federation of Independent Business; data through May 2018
Freight carried by trucks has steadily increased since the end of the recession.
U.S., WA labor markets look strong

Average monthly employment change

Source: Bureau of Labor Statistics, ERFC; data through May 2018

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Adjusted for inflation, hourly wage growth remains muted

Source: U.S. Bureau of Labor Statistics, monthly data through May 2018
Through May, layoff announcements are 6% above the same time period last year.

Source: Challenger, Gray & Christmas; Job Cut Report, May 2018
Both labor force growth and labor productivity growth have been below average for last seven years.

Labor force growth will remain below its 1948-2017 average in our forecast; productivity growth is very difficult to forecast.

When long-term interest rates are below short-term rates, it is often a signal of coming recession.

When long-term rates are below short-term rates, this is referred to as an inverted yield curve.

Treasury bond yield difference: 10 year minus 2 year

Source: Federal Reserve Bank of St. Louis, monthly data through May 2018.
WA exports have slowed, but exports to China, Canada improved in 2017

Total exports declined 3.9% in 2017 but increased 0.6% in fourth quarter 2017 and 3.9% in first quarter 2018.

Year-over-year growth in export value, major trading partners

Source: WISERTrade; data through March 2018
Oil prices are slightly higher compared to the February forecast.

Source: U.S. DOE, ERFC June 2018 forecast; historical data through Q1 2018
Washington personal income is slightly higher than in February

Source: ERFC June 2018 forecast; historical data through 2017
Washington employment forecast is slightly lower compared to February.

A downward revision in the population forecast has resulted in a nonfarm employment forecast 53,000 jobs lower (1.5%) by 2023 Q4 compared to February.

Source: ERFC June 2018 forecast; historical data through Q1 2018
Washington housing permits forecast is higher in 2018 compared to February.

Source: ERFC June 2018 forecast; historical data through 2017.
Revenue Act collections growth has been strong for two quarters.

Adjusted year-over-year collections growth (by quarter of activity):
- 2017Q2: 5.6%
- 2017Q3: 6.4%
- 2017Q4: 8.3%
- 2018Q1: 8.2%

June 10, 2018 collections: 10.8%

* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through April 2018 activity
Large commercial property sales decreased but still strong in Q1 2018

Large commercial sales (> $10 million) totaled $2.6 billion in the 1st quarter of 2018, down from $3.6 billion in the 4th quarter of 2017.

Residential and smaller commercial sales continue to grow.

Source: ERFC; Monthly data through May 2018 preliminary
Cannabis revenue continues to be volatile

Collections were 0.9% above forecast in May

Collections are 5.0% below forecast since February

Source: LCB, ERFC; data through May 2018
### Forecast changes: Near General Fund-State, 2017-2019 biennium

<table>
<thead>
<tr>
<th>$Millions</th>
<th>February 2018 Forecast*</th>
<th>Non-economic Change**</th>
<th>Forecast Change</th>
<th>Forecast</th>
<th>Total Change#</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund-State</td>
<td>$44,213</td>
<td>($1,173)</td>
<td>$493</td>
<td>$43,532</td>
<td>($680)</td>
</tr>
<tr>
<td>Education Legacy Trust Account</td>
<td>$520</td>
<td>$935</td>
<td>$43</td>
<td>$1,498</td>
<td>$978</td>
</tr>
<tr>
<td>WA Opportunity Pathways Account</td>
<td>$257</td>
<td>$0</td>
<td>$1</td>
<td>$258</td>
<td>$1</td>
</tr>
<tr>
<td><strong>Total Near GF-S</strong></td>
<td><strong>$44,990</strong></td>
<td><strong>($238)</strong></td>
<td><strong>$536</strong></td>
<td><strong>$45,288</strong></td>
<td><strong>$298</strong></td>
</tr>
</tbody>
</table>

* Forecast for the 2017-19 biennium adopted February 20, 2018
** Sum of legislative and budget driven revenue changes from the 2018 legislative session
# Detail may not add to total due to rounding

As of June 10, General Fund-State collections were $189 million higher than the February forecast.
## Forecast changes: Near General Fund-State, 2019-2021 biennium

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<th>$Millions</th>
<th>February 2018 Forecast*</th>
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</tr>
</thead>
<tbody>
<tr>
<td>General Fund-State</td>
<td>$48,253</td>
<td>($181)</td>
<td>$448</td>
<td>$48,520</td>
<td>$267</td>
</tr>
<tr>
<td>Education Legacy Trust Account</td>
<td>$565</td>
<td>$0</td>
<td>$17</td>
<td>$582</td>
<td>$17</td>
</tr>
<tr>
<td>WA Opportunity Pathways Account</td>
<td>$258</td>
<td>$0</td>
<td>$3</td>
<td>$261</td>
<td>$3</td>
</tr>
<tr>
<td><strong>Total Near GF-S</strong></td>
<td><strong>$49,076</strong></td>
<td><strong>($181)</strong></td>
<td><strong>$468</strong></td>
<td><strong>$49,363</strong></td>
<td><strong>$287</strong></td>
</tr>
</tbody>
</table>

* Forecast for the 2019-21 biennium adopted February 20, 2018
** Sum of legislative and budget driven revenue changes from the 2018 legislative session
# Detail may not add to total due to rounding
## Cannabis excise tax and license fee estimates

<table>
<thead>
<tr>
<th></th>
<th>2017-19</th>
<th>2019-21</th>
<th>2021-23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GF-S share of excise tax and license fees</strong></td>
<td>$247</td>
<td>$268</td>
<td>$321</td>
</tr>
<tr>
<td><strong>Non-GF</strong></td>
<td>$501</td>
<td>$530</td>
<td>$530</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$749</td>
<td>$798</td>
<td>$851</td>
</tr>
</tbody>
</table>

Total change since February forecast:

- **2017-19**
  - $0.2 M
- **2019-21**
  - $10.8 M
- **2021-23**
  - $2.6M

*Detail may not add to total due to rounding*
## 2017-19 Biennium alternative General Fund-State forecasts

<table>
<thead>
<tr>
<th></th>
<th>2017-19 Biennium</th>
<th>Difference From the baseline*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$Millions (cash basis)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 2018 Baseline (70%)</td>
<td>$43,532</td>
<td></td>
</tr>
<tr>
<td>June 2018 Alternative Forecasts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Optimistic (15%)</td>
<td>$44,383</td>
<td>$851</td>
</tr>
<tr>
<td>Pessimistic (15%)</td>
<td>$42,595</td>
<td>($937)</td>
</tr>
<tr>
<td>Probability Weighted Average</td>
<td>$43,519</td>
<td>($13)</td>
</tr>
<tr>
<td>GCEA*</td>
<td>$43,304</td>
<td>($228)</td>
</tr>
</tbody>
</table>

*Based on the Governor’s Council of Economic Advisors’ economic assumptions
#May not add to total due to rounding
Near General Fund-State* forecast by fiscal year

*Near General Fund-State equals General Fund-State plus Education Legacy Trust and Washington Opportunities Pathway Accounts
Source: ERFC forecast, June 2018
Conclusion

- WA personal income is slightly higher than in February
- As has been the case for some time, Washington’s economy is continuing to outperform the nation
- Near GF-S revenues are expected to grow 16.0% between the 2015-17 and 2017-19 biennia and 9.0% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks
Questions

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