

Economic Review
September 3, 2020



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW

September 3, 2020
10:00 a.m.

- Approval meeting minutes: June 17, 2020
- Interim budget outlooks and other ERFC documents: to post or not to post
- Presentation of economic outlook and revenue collection experience

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STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
PO Box 40912 • Olympia, Washington 98504-0912 • (360) 534-1560

Meeting Minutes
Revenue Review
June 17, 2020
Zoom

Economic and Revenue Forecast Council

Ed Orcutt, House of Representatives, Chair
Christine Rolfes, Senate
John Braun, Senate
Timm Ormsby, House
Duane Davidson, Treasurer
Vikki Smith, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Steve Lerch, Executive Director

Call to Order

Representative Orcutt called the meeting to order at 10:00 a.m.

Approval of the Minutes

Representative Ormsby moved, seconded by Representative Orcutt to adopt the meeting minutes from June 2, 2020. Motion passed unanimously at 10:05 a.m.

Budget Outlook

The Budget Outlook Workgroup presented options available related to including a calculation of the percentage of the reserves as a percentage of revenue and resources. Treasurer Davidson moved, seconded by Representative Orcutt, to approve adoption of modification to our outlook summary using option one. Motion passed unanimously at 10:15 a.m.

Forecast Presentation

Dr. Lerch presented information on the economic and revenue forecast. Dr. Lerch summarized the forecast changes.

Motion

Representative Ormsby moved, seconded by Representative Orcutt, to adopt the official state economic and revenue forecasts, and the unofficial optimistic, pessimistic and alternative forecasts. Council approved the motion unanimously at 10:44 a.m.

Adjournment

With no further business, the meeting adjourned at 10:45 a.m.

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**Economic & Revenue Forecast Council
State of Washington**



Economic Review: September 3, 2020

Executive Summary

United States

- This forecast is based on a modified version of IHS Markit's August 2020 Control forecast for the U.S. economy. We have adjusted real gross domestic product (GDP) to match the Blue Chip "Consensus" GDP forecast for 2020 and 2021. We now expect real GDP to decline 5.2% in 2020 followed by a 3.8% increase in 2021. In June we expected a 6.1% decline in 2020 followed by a 4.0% increase in 2021. In the past, we have been guided by the most recent Blue Chip long-range forecast for growth in 2022 through 2025 however this forecast has not been updated since early March and is clearly out of date. Instead, we extended the short-term Blue Chip 2021 forecast to approach the IHS GDP level by 2025, producing growth rates of 3.9%, 3.1%, 2.5%, and 2.2% in 2022 through 2025. In June we expected growth rates of 3.9%, 3.2%, 2.3%, and 2.3% in those years.
- Our oil price forecast reflects the futures markets, primarily the Brent (North Sea) oil price but also the West Texas Intermediate (WTI) benchmark. This forecast was based on the Wednesday, August 26, 2020 closing prices for Brent and WTI futures. Oil prices are slightly higher than expected in the June forecast but also decline slightly more rapidly. The latest futures prices indicate that the refiner acquisition price of crude will average \$43 per barrel in the fourth quarter of 2020 compared to \$39 in the June forecast. By the fourth quarter of 2025 the refiner acquisition price of crude is expected to average \$50 per barrel compared to \$49 per barrel in the June forecast.
- The fiscal policy assumptions in this forecast were developed in early August. The forecast assumes that emergency unemployment benefits of \$600 per week are extended through December and that a second round of stimulus checks is disbursed starting in September. As of this preliminary forecast, there has been no such legislation. We will get a new Blue Chip and IHS forecast in early September and update the fiscal policy assumptions in the final September economic forecast.
- National employment increased by 1.8 million net jobs in July, reflecting the continued resumption of economic activity that had been curtailed due to the COVID-19 pandemic. Employment data for May and June were revised up by 17,000 jobs. Sectors with the largest job gains in July included food services and drinking places (+502,000), retail trade (+258,000), local government education (+215,000), administrative and support services (+168,000), health care (+126,000), personal and laundry services (+118,000), amusement, gambling and recreation (+100,000), social assistance (+66,000) and transportation and warehousing (+38,000). Sectors with declining employment in July included information (-15,000), nondurable goods wholesale trade (-14,000), performing arts and spectator sports (-13,000) and management of companies and enterprises (-12,000).

- Two key measures of consumer confidence moved in opposite directions this month but both remained well below their pre-pandemic levels. The University of Michigan (UM) consumer sentiment survey increased by 1.6 points to 74.1 in August. Over 60% of survey respondents judged overall economic conditions to be unfavorable. The Conference Board index of consumer confidence decreased by 6.9 points in August to 84.8. Consumers indicated that both business and employment conditions had deteriorated over the last month.
- Initial claims for unemployment insurance remained at very high levels but decreased by 98,000 to 1,006,000 (SA) in the week ending August 22nd. The four-week moving average of initial claims decreased by 107,250 to 1,068,000.
- Industrial production in July increased by 3.0% (SA) following a revised 5.7% increase in June. However, industrial production is down by 8.2% (SA) compared to July 2019. New orders for core capital goods (i.e., durables excluding aircraft and military), which is a proxy for business investment, increased by 1.9% (SA) in July following a revised 4.3% increase in June according to U.S. Census Bureau data. New orders for core capital goods remain 1.9% below their year-ago level.
- Residential construction activity improved again this month and is now above year-ago levels. Housing units authorized by building permits in July were 17.9% (SA) above their June level and 8.6% above their year-ago level. July housing starts increased by 22.6% (SA) compared to June and were 23.4% above their July 2019 level. New home sales in July increased by 13.9% (SA) compared to June and were 36.3% above their year-ago level. Existing home sales in July increased by 24.7% (SA) compared to June and were up 8.7% compared to July 2019. The seasonally adjusted Case-Shiller national home price index for June was 0.2% above its May level and 4.3% above its year-ago level.
- The major threat to the U.S. and Washington economies is the uncertain impact of COVID-19. Concerns about international trade policy and geopolitical risks remain.

Washington

- We have two months of new Washington employment data since the June forecast was released. Employment continued to rise in June and July following the historic decline in April. Total nonfarm payroll employment rose 137,500 (seasonally adjusted) in June and July which was 63,000 more than expected in the June forecast. Private services-providing sectors added 118,400 jobs in the two-month period. Construction employment increased by 10,700 jobs and manufacturing added 1,600 jobs despite the loss of 1,900 aerospace jobs. Government payrolls increased by 6,900 jobs in June and July.
- We have also incorporated another quarter of benchmark employment data from the Quarterly Census of Employment and Wages (QCEW). The new QCEW data and other revisions subtracted 2,900 (0.1%) from the estimated level of total employment in May 2020. July employment is 60,100 (1.9%) higher than expected in the June forecast because of the faster-than-expected employment growth in June and July.

- Washington's unemployment rate inched up to 10.3% in July from 10.0% in June. The July rate is still down significantly from the 16.3% rate reached in April which was an all-time high in the series that dates back to 1976.
- The disruption of airline travel is expected to reduce demand for new aircraft for some time. Boeing has indicated that there will be significant reductions in employment, particularly in the commercial airplane division. As of July, Washington aerospace employment had already declined by 6,300 since April when Boeing first announced major job cuts. We assume a decline of another 9,300 aerospace employees by the end of the year. The forecast makes no assumption concerning a possible consolidation of 787 production in South Carolina.
- In June, after the forecast was complete, the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) released state personal income estimates for the first quarter of 2020. According to these estimates, Washington personal income rose from \$503.1 billion (SAAR) in the fourth quarter of 2019 to \$506.3 billion in the first quarter of 2020. The reported 2.6% growth rate (SAAR) in Washington personal income was the 19th largest among the states and District of Columbia and slightly exceeded the 2.3% growth rate for the U.S. as a whole. As has been the case for several years, Washington income growth was boosted by information (which includes software publishing and other IT services such as internet publishing and web search portals) and retail trade (which includes electronic shopping). On the other hand, there was a sharp drop in durable manufacturing wages as most Boeing employees did not receive an annual bonus this year. Construction wages also declined in the first quarter.
- Washington housing construction declined in the second quarter but exceeded the June forecast. Washington housing units authorized by building permits averaged 40,300 (SAAR) in the second quarter of 2020, down from 49,800 in the first quarter. Second quarter permits consisted of 17,800 single-family units and 22,600 multi-family units. The June forecast predicted 12,300 single-family units and 16,700 multi-family units for a total of 28,900 units in the second quarter. Housing construction remained moderate at the beginning of the third quarter. In July, single-family permits improved to 23,600 units (SAAR) and multi-family units slowed to 17,400 for a total of 41,000 units.
- Seattle-area home prices declined for a third consecutive month in June following eleven consecutive increases. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle home prices decreased 0.2% in June following declines of 0.2% and 0.3% in April and May. The composite-20 index was unchanged in June. Seattle home prices were still up 6.5% over the year. In comparison, the composite-20 index was up 3.5% over the year. In June, Seattle home prices were up 100% since the December 2011 trough and exceeded the May 2007 peak by 39%. The reported June figure is for the three months ending in June.
- Seattle-area consumer price inflation was very close to the national average in June despite higher shelter cost inflation. From June 2019 to June 2020, the Seattle CPI rose 0.9% compared to a 0.7% increase in the U.S. City Average index. Core prices, which exclude food and energy, increased 1.1% over the year in Seattle compared to 1.2% for the U.S. City Average. Over-the-year shelter-cost inflation in Seattle was 3.6% compared to the national

rate of 2.4%. Seattle inflation excluding shelter trailed the national average at -0.7% compared to -0.1%.

- Washington exports declined over the year for a seventh consecutive quarter. Year-over-year exports decreased 42.9% in the second quarter of 2020. The large decline was mostly because of transportation equipment exports (mostly Boeing planes) which fell 83.7% over the year. The second quarter of 2019 had already been severely depressed by Boeing's suspension of 737 Max deliveries in March 2019. Second quarter exports of agricultural products decreased 2.8% over the year and exports of all other commodities (mostly manufacturing) declined 16.4% over the year.
- The Institute of Supply Management - Western Washington Index (ISM-WW) indicated declining manufacturing activity again after briefly indicating growth. The index, which measures conditions in the manufacturing sector, declined to 48.9 in August from 56.4 in July and 50.9 in June (index values above 50 indicate growth while values below 50 indicate contraction). The index was below 50 in March, April, and May. The inventory and deliveries components indicated expansion in August while the employment component indicated contraction. The production and orders components were neutral at 50.
- Washington car and truck sales increased in May, June, and July but remained below rates seen prior to the Covid-19 outbreak in Washington. The seasonally adjusted number of new vehicle registrations increased 20.4% in May, 75.9% in June, and 27.2% in July following declines of 11.8% and 63.5% in March and April. April's sales were the lowest level in the history of the series which dates back to July 1970. The strong growth rates in the last three months were from a very low base. The level in July was still lower than in any month other than the previous three since March 2014. The seasonally adjusted number of new vehicle registrations fell 10.1% over the year in July.
- We expect a 4.9% decline in Washington employment this year compared to the 5.5% decrease in the June forecast. We expect above-average growth through the remainder of the forecast as the economy recovers from this deep recession. We expect employment growth to average 2.4% per year in 2021 through 2025 compared to the 2.1% average rate expected in June. Our forecast for nominal personal income growth this year is 8.0%, up from 3.8% in the June forecast. The adverse effects of the recession on personal income this year are more than offset by substantial income support from the federal government. Our new forecast for nominal personal income growth in 2021 through 2025 averages 3.0% per year, which is down from the 3.5% rate expected in the June forecast. The effect of the recovery on growth in 2021-25 is offset by the loss of income support from the federal government.



Under the SEC's Microscope

Public Statements By Municipal Bond Issuers

*Presented to the State of Washington
Economic and Revenue Forecast Council
September 3, 2020*

CALIFORNIA

LOS ANGELES
NEWPORT
BEACH
SACRAMENTO
SAN DIEGO
SAN FRANCISCO
SANTA BARBARA

COLORADO

DENVER

NEVADA

LAS VEGAS

RENO

WASHINGTON

SEATTLE

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Seattle (Main): 206.829.3000

Newport Beach (HQ): 949.725.4000



SEC Regulations and the State of Washington

As an “issuer” of
municipal securities,
the State is subject to the
SEC’s anti-fraud regulations

- ▶ The State borrows money in public capital markets
 - ▶ SEC regulates disclosures to prevent fraud
 - ▶ ERFC provides important information used by the public capital markets
 - ▶ “Public capital markets” includes any potential investor in a municipal bond
- ▶ Anti-fraud provisions apply to both:
 - ▶ Formal Communications with Market
 - ▶ Managed by OST
 - ▶ Initial Disclosure (Official Statement)
 - ▶ Ongoing Disclosure (Annual & Listed Events)
 - ▶ Informal Communications with Market
 - ▶ All other releases of material information
 - ▶ ERFC Forecasts, Toll Revenue Forecasts, other (material) reports

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SEC Anti-Fraud Regulations

- ▶ Rule 10b-5 (1933 Act) / Section 17(a)(2) (1934 Act)
 - ▶ [It is] unlawful for any person, in connection with the purchase or sale of any security...
 - ▶ ...To make any untrue statement of a material fact or
 - ▶ ...to omit to state a material fact necessary in order to make the statements made, *in the light of the circumstances under which they were made*, not misleading...

▶ Key Concepts:

- ▶ Speaking To the Market - *Information reasonably expected to reach investors is subject to the anti-fraud provisions*
- ▶ Selective Disclosure - *Information made available to one market participant must be made available to all*

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Significant Recent SEC Guidance

► February 2020:

SEC Office of Municipal Securities (OMS) Legal Bulletin No. 21

- The antifraud provisions of Rule 10b-5 do apply to public statements made by issuers of municipal securities
- Antifraud provisions apply to both formal and informal communications
- “The fact that [informal communications] are not published for purposes of informing the securities markets does not alter the mandate that they not violate the antifraud provisions.”

► Key Concepts:

- Can the information reasonably be “expected to reach investors”?
- Does the information alter the “total mix” of information available?
- Is the information being selectively disclosed?

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Significant Recent SEC Guidance

► May 2020:

SEC Chair Jay Clayton and Director of OMS release COVID-related public statement on “Importance of Disclosure for Municipal Markets”

- Rapidly and depth of crisis has created unprecedented situation, but same basic disclosure rules apply
 - Mandatory disclosures - (for new bond issue, Official Statement); to comply w/ Continuing Disclosure Agreements; to remedy selective disclosure or supplement to avoid omissions or supply context, dates, disclaimers, etc.)
 - Voluntary disclosures - Encouraged to avoid information vacuum and selective disclosure
- Encourage use of context and disclaimers (“bespeaks caution”) when supplying forecast information or preliminary data

► Key Concepts:

- How does the information alter the “total mix” of information?
- Is “material nonpublic information” being provided selectively?

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Why is the ERFC Important?

"...statements by [government] officials 'who may be viewed as having knowledge regarding the financial condition and operation of [an] issuer' ...[including]

- verbal statements...,
- public announcements and interviews with media representatives, as well as
- statements disseminated through other avenues such as, in staff's view, social media."

- Feb 2020 SEC Legal Bulletin

- ▶ **Who is making the statement?**
 - ▶ Does the person or body making the statement have apparent authority or subject-matter expertise to speak on behalf of the Issuer?
 - ▶ Governor, Treasurer, Director of OFM, Committee Chair, Member of a key body (e.g., ERFC)
- ▶ **Would a reasonable investor give it weight?**
- ▶ **Is it "material"?**

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Should it be Disclosed?



Questions

Does it alter the "total mix of information" available?

Is there an information vacuum?

Is a communication accurate and complete? Does it tell the whole story?



Considerations

Does the information change the overall picture?

Is this the only or most timely information available on the topic?

What is omitted that is necessary to understand the information and place it in context?

Assume any public information may be reasonably expected to "reach the market"

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Selective Disclosure

What is Selective Disclosure?

- Occurs when selected members of the public are given access to information that is material and nonpublic before it is made available to general public
- Also arises when information is inconsistently communicated to different audiences

Examples:

- Material information provided to media but not made broadly available directly from the source
- Verbal one-on-one conversation with investor or media; mitigate with written disclosure
- Risk present if dissemination to broader public is in hands of media (both timing and interpretation); mitigate with dissemination through State channels
- Communication is inconsistently conveyed to different audiences

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Source: 2000 - "Regulation FD" adopted in corporate context
2017 - MSRB Municipal Market Advisory re: Selective Disclosure
2020 - Chair Clayton's Statements re: Importance of Disclosure for Municipal Markets

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Avoiding Selective Disclosure

What are the remedies for selective disclosure?

- If material information is to be released, it should be broadly disclosed and made easily accessible to general public
- Unintentional selective disclosure MUST be remedied with broad disclosure promptly after initial disclosure occurs

What is sufficiently "broad" disclosure?

- Broad disclosure means making information accessible, in a consistent form/content, to any potential market participant
- Agency website posting (appropriate for muni context)
- May require link to EMMA or State's investor website (or other relevant/significant website)

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Common Risk Areas



Forecasts or other preliminary information

If a forecast directly bears on “total mix” of information, it should be disclosed



Official public statements by persons or groups with **apparent authority** to speak on the topic on behalf of the Issuer

The SEC has sanctioned issuers for fraudulent statements or omissions by key officials



Information shared publicly through **unofficial channels** heightens risk of selective disclosure and inaccuracy

Make broadly available in medium where the Issuer controls timing and content/context

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Recommendations

- ▶ SEC is taking more interest on public statements by issuers
- ▶ Take control of the “**total mix**” of information
 - ▶ Tell the “whole” story with appropriate context
 - ▶ Who is speaking? What hat are they wearing?
 - ▶ Control interpretation (Just the Facts!) and timing, when possible
- ▶ Ensure communication is **accurate** and **complete**
 - ▶ Supplement or provide context around incomplete information, when necessary to avoid material omissions (including labels, such as “preliminary,” and dates)
- ▶ Ensure any information that has the potential to materially alter the “**total mix of information**” is **broadly available** to all
 - ▶ Avoid selective disclosure of **material nonpublic** information
 - ▶ Make it public - Publish on State agency/ERFC website
 - ▶ Treasurer’s Office can post on EMMA website (MSRB filing), if necessary

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Questions?



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Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

September 3, 2020
Olympia, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The preliminary economic forecast assumes emergency unemployment benefits of \$600/week are extended through December and a second round of stimulus checks will be issued in September
- Congress has not enacted additional stimulus legislation to date; the final economic forecast will incorporate Congressional actions as of early September
- The forecast assumes a decline of 9,300 aerospace jobs over the remainder of 2020; we do not assume a consolidation of 787 production in South Carolina
- Revenue collections since the June forecast are \$643 million (19.6%) above expectations

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Forecast risks

Upside

- COVID infection rates decline as social distancing guidelines are generally observed, leading to faster reopening of businesses, greater consumer confidence and spending, increased employment

Downside

- COVID infection rates increase, leading to slower pace of economic reopening, reduced consumer spending and employment
- Congress does not pass additional fiscal stimulus legislation

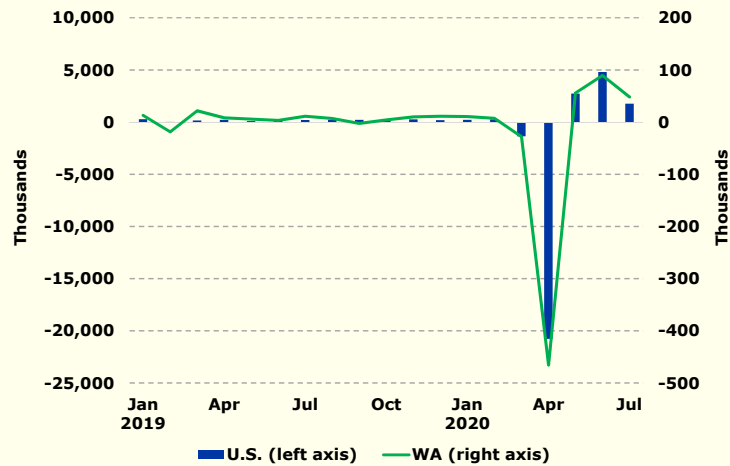
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Employment has increased in last three months but remains well below pre-pandemic levels



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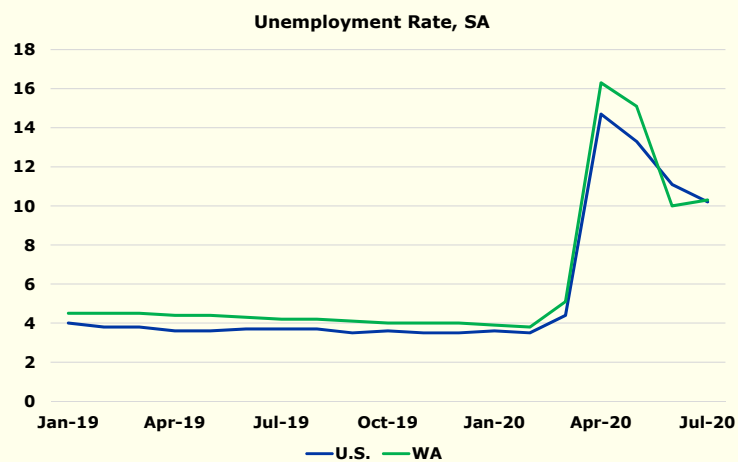
Slide 2

Source: Bureau of Labor Statistics, Employment Security Dept.; data January 2019 through July 2020

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Unemployment rates have dropped but remain elevated



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Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept.; data through July 2020

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WA unemployment rate in July is 16th highest among 50 states and D.C.

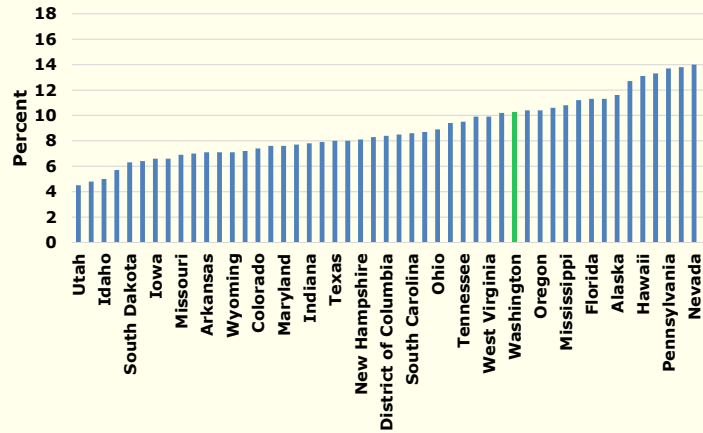
July unemployment rate:

U.S. = 10.2%
WA = 10.3%

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July 2020 unemployment rate, SA

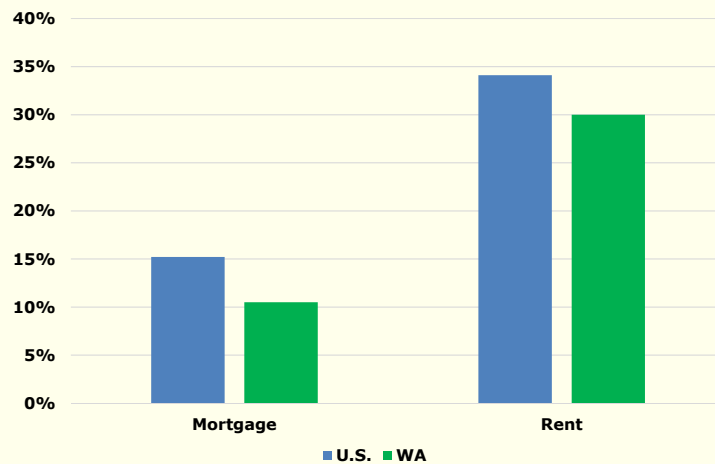


Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept.

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Share of households with no or slight confidence in ability to make August housing payment



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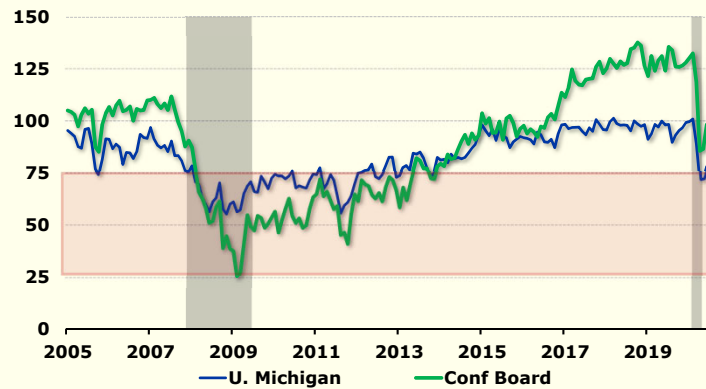
Source: U.S. Census Bureau, Household Pulse Survey, data collected July 16 – 21, 2020

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Consumer confidence remains well below pre-pandemic levels

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



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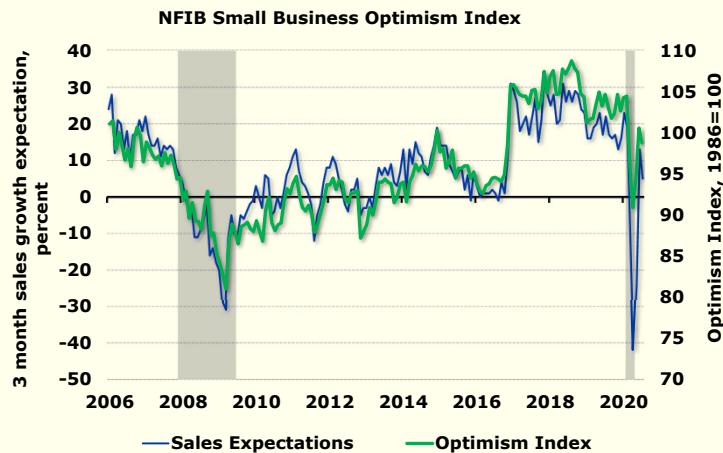
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Sources: University of Michigan, Conference Board; data through August 2020

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After improving in May and June, small business optimism dipped in July



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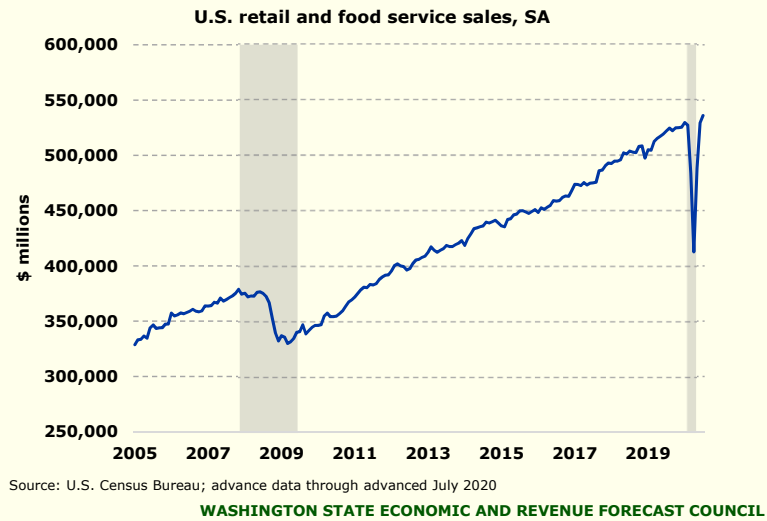
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Source: National Federation of Independent Business; data through July 2020

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U.S. retail sales in July were above pre-pandemic levels



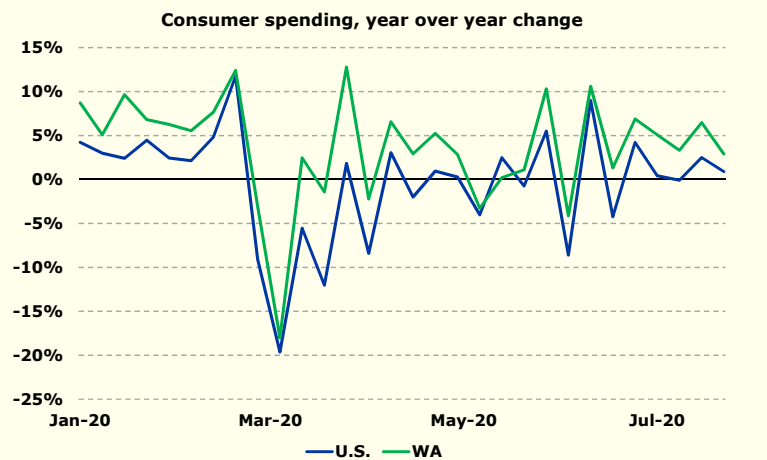
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On a year over year basis, WA consumer spending has grown since the week of July 8

Earnest Research tracks a subset of credit and debit card transactions for large national chain stores and businesses; does not include construction or auto sales.



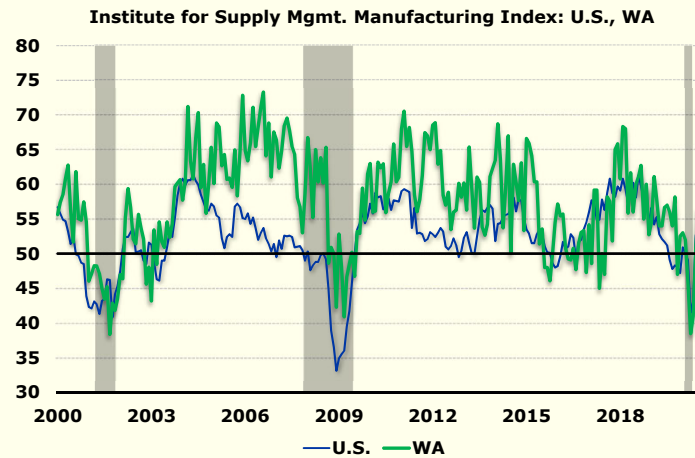
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ISM manufacturing index for U.S. indicates expanding activity the past three months; WA dipped in August

Values above 50 indicate expansion, below 50 indicate contraction.



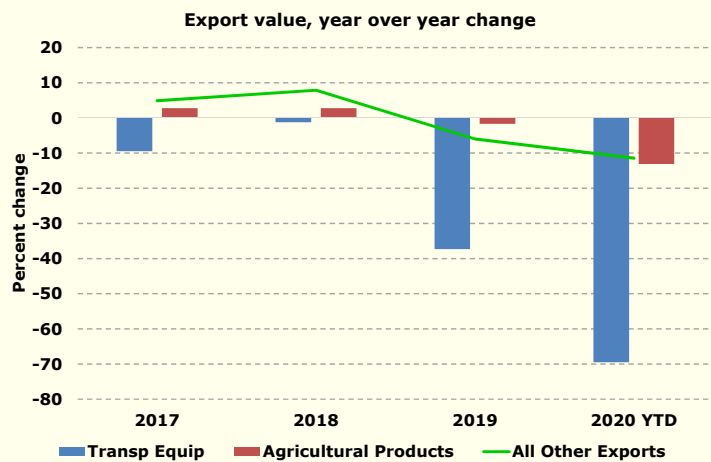
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WA exports have now decreased for seven consecutive quarters



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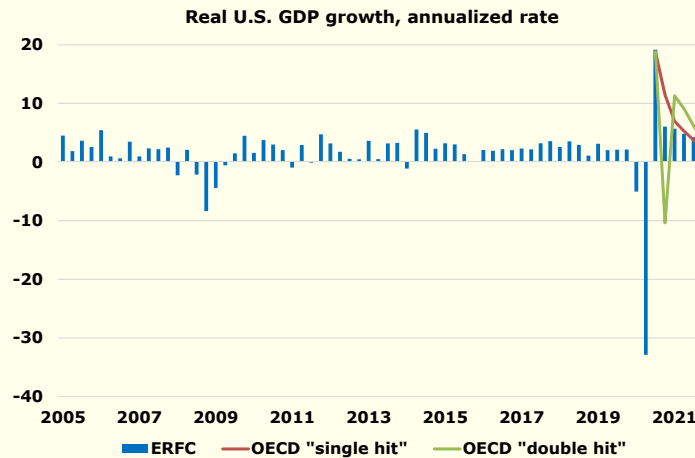


OECD has two forecast scenarios, one assuming a renewed shutdown in 2020 Q4

The OECD "double hit" scenario incorporates a second shutdown in 2020 Q4 in response to a renewed outbreak of COVID-19.

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Source: ERFC September 2020 preliminary forecast, OECD Economic Outlook June 2020; data through 2020 Q2

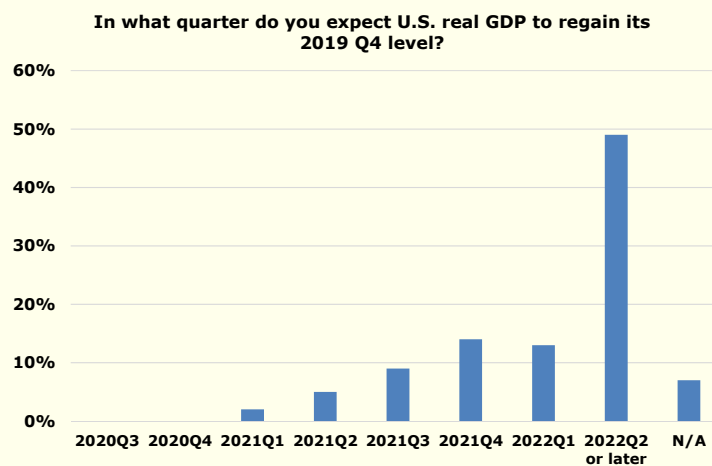
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Many economists do not expect GDP to return to pre-pandemic levels until mid-2022 or later

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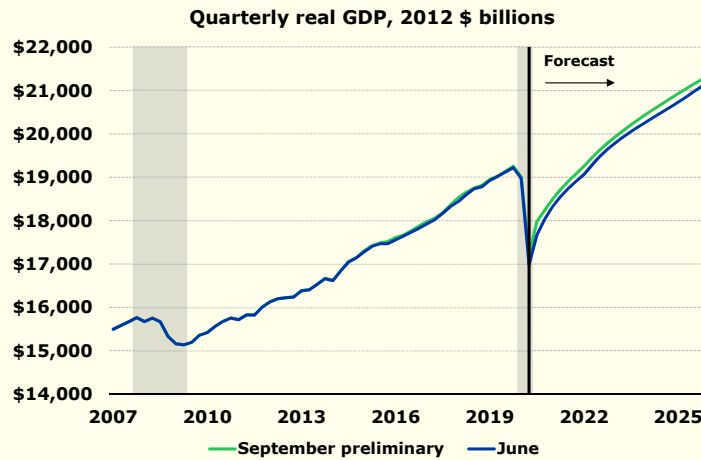


Source: National Association of Business Economists, August 2020 Economic Policy Survey

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GDP growth in 2020 is now assumed to be -5.2%, up from -6.1% in June



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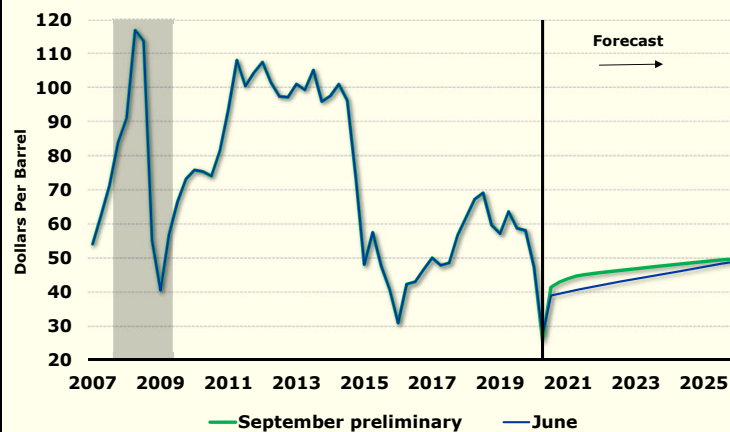
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Source: IHS Markit, ERFC September 2020 preliminary forecast; data through 2020 Q2

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Oil prices are expected to be slightly higher than in the June forecast



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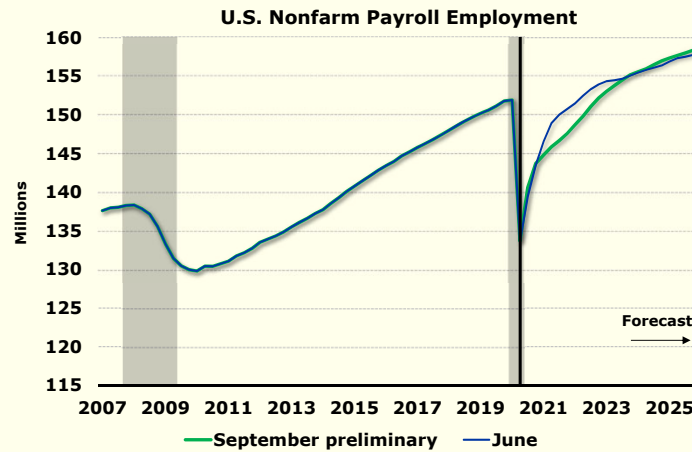
Source: Energy Information Administration, IHS Markit, ERFC; data through Q2 2020
Note: Vertical black line indicates last actual

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U.S. nonfarm employment is expected to grow more slowly in 2021 and 2022 compared to June

After reaching 13.0% in 2020 Q2, the U.S. unemployment rate is expected to decline to 8.4% by 2020 Q4.



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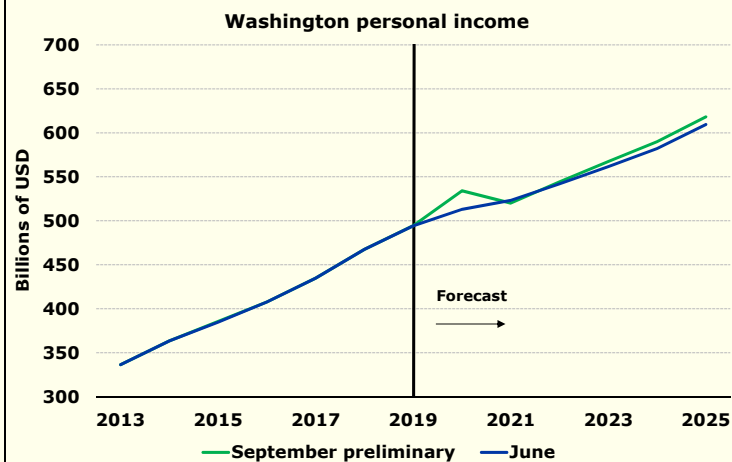
Source: IHS Markit, ERFC September 2020 preliminary forecast; data through 2020 Q2

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Higher WA personal income in 2020 reflects higher transfer payments than in the June forecast

The increased transfer payments include both higher than expected actual stimulus payments and the assumed passage of an additional Federal stimulus bill which has not passed to date. The final economic forecast will reflect Congressional action as of early September.



Economic Review
September 3, 2020

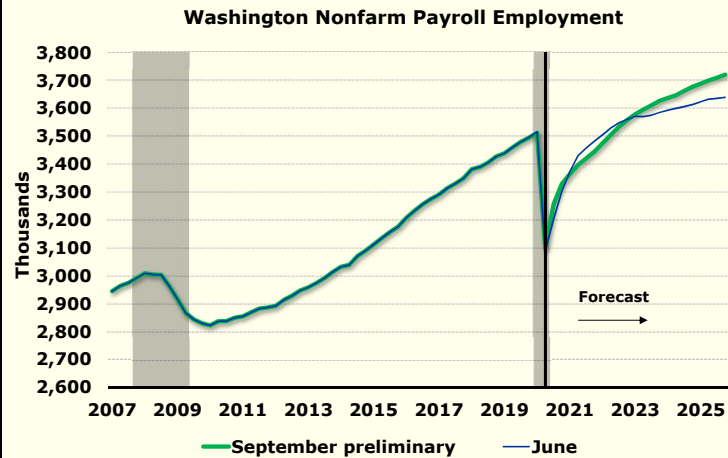
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Source: ERFC September 2020 Preliminary forecast; historical data through 2019

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA employment growth for 2020-25 is expected to average 2.4% compared to 2.1% in the June forecast



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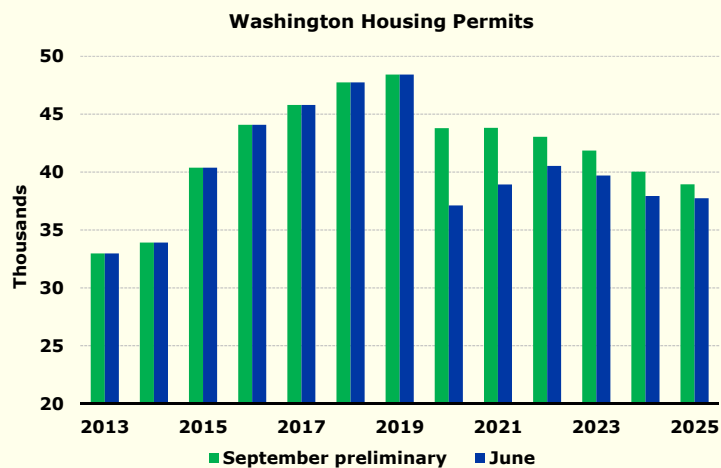
Source: ERFC September 2020 Preliminary forecast; historical data through Q2 2020

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Washington housing permits forecast has been revised up compared to June

Housing permits for 2020Q2 averaged 40,300 at an annualized rate, up from the 28,900 expected in the June forecast.



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Source: ERFC September 2020 Preliminary forecast; historical data through 2019

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Quarterly Rev Act collections fell while income was supported by federal spending

Adjusted Rev Act growth YOY:

19Q3: 6.6%
19Q4: 5.5%
20Q1: 1.6%
20Q2: -8.1%

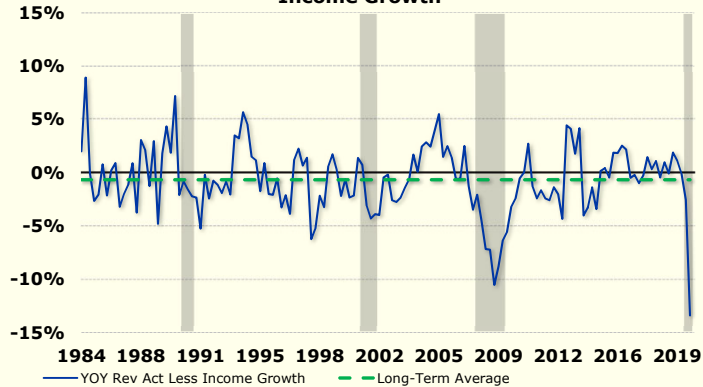
June personal income YOY growth estimates:

19Q3: 5.4%
19Q4: 5.6%
20Q1: 4.1%
20Q2: 5.3%

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Year-Over-Year Rev Act* Growth Less State Personal Income Growth



*Adjusted for large one-time payments and refunds, payments under the amnesty program and deferred April 2020 payments

Source: ERFC; Quarterly revenue data through Q2 2020, June 2020 income estimates

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REET activity rebounded in June and July but is still below pre-COVID levels

Seasonally adjusted taxable activity in July was \$6.9 billion, up from \$5.9 billion in June and \$4.8 billion in May.

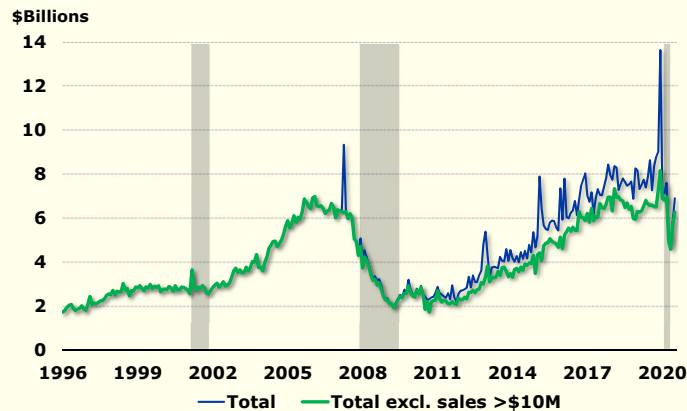
Large commercial sales (>\$10 million) totaled \$638 million in July after June sales of \$195 million.

Current activity is similar to the levels of the first half of 2017.

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Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through July 2020 preliminary

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue collections to date

Revenue Act collections since the June forecast reflect taxable activity in May and June, months when a majority of counties reached phase 2 or 3 reopening after a long shutdown. It remains to be seen whether this level of activity will continue or if it was a short term release of pent-up demand.

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Collections Variance Since February Forecast (June 11 – August 10, 2020) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$3,267,762	\$3,910,942	\$643,180	19.7%
All other agencies	\$7,685	\$7,455	(\$229)	-3.0%
Total GF-S	\$3,275,447	\$3,918,397	\$642,950	19.6%

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- The preliminary economic forecast reflects stronger growth in 2020 but slower growth in 2021 compared to the June forecast.
- Uncertainty regarding COVID-19 impacts to the economy remains high.
- International trade and geopolitical issues are also risks to the forecast.
- The next monthly revenue collection report will be available on September 16th and the revenue forecast will be presented on September 23rd.

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Questions

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September 3, 2020
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U.S. Economic Forecast Comparison
August 2020

	2020Q2	2020Q3	2020Q4	2021Q1	2020	2021	2022	2023	2024	2025
Real GDP, Percent Change, Annual Rate										
ERFC (September Preliminary)	-32.9	19.1	6.0	5.7	-5.2	3.8	3.9	3.1	2.5	2.2
IHS	-32.9	23.4	4.5	1.9	-4.8	3.1	4.1	3.3	2.5	2.2
Economy.com	-32.9	23.2	2.8	2.1	-4.9	2.6	5.2			
Blue Chip Average*		18.7	5.9	5.8	-5.2	3.8	1.9	1.9	2.0	2.0
Blue Chip Top 10*		28.0	9.5	8.6	-4.1	5.5	2.3	2.3	2.3	2.3
Blue Chip Bottom 10*		10.5	1.7	3.5	-6.2	2.2	1.4	1.6	1.7	1.7
Real Consumption, Percent Change, Annual Rate										
ERFC (September Preliminary)	-34.6	23.3	7.1	4.8	-5.6	4.1	3.5	2.8	2.4	2.3
IHS	-34.6	30.3	3.4	-0.5	-5.2	2.7	3.9	3.2	2.5	2.3
Economy.com	-34.6	22.4	3.6	2.6	-5.9	2.6	4.3			
Blue Chip Average*		21.8	6.6	5.2	-5.6	4.1	2.0	2.1	2.1	2.2
Blue Chip Top 10*		31.6	11.7	9.0	-4.5	6.1	2.4	2.4	2.5	2.5
Blue Chip Bottom 10*		10.5	1.7	2.2	-6.8	2.3	1.7	1.8	1.8	1.9
Federal Funds Rate										
ERFC (September Preliminary)	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.1
IHS	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.1
Economy.com	0.1	0.1	0.1	0.1	0.4	0.1	0.1			
Three Month T-Bill Rate										
ERFC (September Preliminary)	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.1
IHS	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.1
Blue Chip Average*		0.1	0.1	0.2	0.3	0.2	1.6	1.9	2.0	2.1
Blue Chip Top 10*		0.2	0.2	0.3	0.4	0.3	2.2	2.4	2.4	2.6
Blue Chip Bottom 10*		0.1	0.1	0.1	0.2	0.1	1.1	1.3	1.5	1.6
10-Yr. T-Note Yield										
ERFC (September Preliminary)	0.7	0.6	0.6	0.7	0.8	0.9	1.1	1.3	1.5	1.8
IHS	0.7	0.6	0.6	0.6	0.8	0.8	1.1	1.3	1.5	1.8
Economy.com	0.7	0.6	0.7	0.8	0.8	1.1	2.1			
Blue Chip Average*		0.7	0.8	0.9	0.9	1.0	2.3	2.5	2.7	2.9
Blue Chip Top 10*		0.9	1.0	1.2	1.0	1.4	2.8	3.1	3.3	3.5
Blue Chip Bottom 10*		0.6	0.6	0.6	0.7	0.7	1.8	2.0	2.1	2.2
Consumer Price Index, Percent Change, Annual Rate										
ERFC (September Preliminary)	-3.5	4.4	1.8	3.5	1.1	2.4	1.7	1.4	1.8	2.1
IHS	-3.5	3.4	1.6	3.5	1.0	2.3	1.9	1.6	1.8	2.1
Economy.com	-3.5	4.6	1.5	1.5	1.1	1.9	2.8			
Blue Chip Average*		2.8	1.9	2.1	0.9	1.7	2.2	2.2	2.2	2.2
Blue Chip Top 10*		4.0	2.9	2.9	1.1	2.2	2.5	2.5	2.5	2.4
Blue Chip Bottom 10*		1.3	1.1	1.4	0.5	1.2	1.9	1.9	1.9	1.9
Payroll Employment, Millions										
ERFC (September Preliminary)	133.7	140.6	143.7	144.8	142.5	146.2	150.4	154.1	156.3	157.9
Percent Change, Annual Rate	-40.0	22.4	9.0	3.1	-5.6	2.6	2.9	2.5	1.4	1.0
IHS	133.7	140.8	143.9	144.8	142.6	146.1	150.2	154.0	156.5	158.0
Percent Change, Annual Rate	-40.0	23.0	9.3	2.5	-5.5	2.5	2.8	2.5	1.6	0.9
Economy.com	133.7	139.8	139.7	140.0	141.3	141.4	146.1			
Percent Change, Annual Rate	-40.0	19.6	-0.5	1.0	-6.4	0.0	3.4			
Unemployment Rate, Percent										
ERFC (September Preliminary)	13.0	9.7	8.4	8.1	8.7	7.5	5.6	4.3	3.8	3.6
IHS	13.0	9.5	8.2	8.1	8.6	7.6	5.8	4.5	3.8	3.6
Economy.com	13.0	9.8	9.5	9.3	9.0	8.8	6.6			
Blue Chip Average*		10.4	9.3	8.5	9.2	7.6	4.0	4.1	4.2	4.1
Blue Chip Top 10*		11.7	10.9	10.1	10.0	9.1	4.5	4.7	4.7	4.6
Blue Chip Bottom 10*		9.3	8.1	7.2	8.6	6.3	3.4	3.4	3.6	3.6
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC (September Preliminary)	44.9	-9.2	0.9	-29.9	7.3	-6.1	3.1	2.9	2.1	2.5
IHS	44.9	-8.2	1.2	-30.6	7.5	-6.3	2.9	2.8	2.3	2.5
Blue Chip Average*		-15.9	-6.3	0.7	4.5	-0.8	1.9	2.0	2.1	2.1
Blue Chip Top 10*		0.3	1.1	4.4	6.6	2.2	2.3	2.3	2.4	2.4
Blue Chip Bottom 10*		-29.1	-14.9	-4.3	2.4	-4.1	1.5	1.7	1.8	1.9
West Texas Intermediate										
ERFC (September Preliminary)	27.8	42.2	43.7	44.6	39.9	45.3	46.2	47.1	48.0	48.9
IHS	27.8	39.7	40.8	43.4	38.5	47.5	56.0	58.3	59.7	62.6
Economy.com	28.1	39.0	40.7	42.0	38.5	46.5	56.4			

* Forecasts beyond 2021 are from the March 2020 Blue Chip Economic Indicators

U.S. Forecast Comparison

	2020Q2	2020Q3	2020Q4	2021Q1
Real GDP (Billions of 2012 Dollars)				
September Forecast, Preliminary	17,206	17,976	18,241	18,494
Percent Change	-32.9%	19.1%	6.0%	5.7%
June Forecast	16,983	17,665	18,032	18,319
Percent Change	-35.8%	17.1%	8.6%	6.5%
Real Consumption (Billions of 2012 Dollars)				
September Forecast, Preliminary	11,797	12,432	12,646	12,796
Percent Change	-34.6%	23.3%	7.1%	4.8%
June Forecast	11,639	12,206	12,495	12,682
Percent Change	-39.2%	21.0%	9.8%	6.1%
PCE Price Index (2012=100)				
September Forecast, Preliminary	110.4	111.2	111.5	112.2
Percent Change	-1.9%	2.9%	1.3%	2.5%
June Forecast	110.2	110.7	111.0	111.4
Percent Change	-1.6%	1.6%	1.2%	1.4%
Real Personal Income (Billions of 2012 Dollars)				
September Forecast, Preliminary	18,432	18,083	18,113	16,746
Percent Change	35.2%	-7.3%	0.7%	-26.9%
June Forecast	17,633	17,588	17,223	17,344
Percent Change	12.4%	-1.0%	-8.0%	2.8%
Nonfarm Payroll Employment (Millions)				
September Forecast, Preliminary	133.7	140.6	143.7	144.8
Percent Change	-40.0%	22.4%	9.0%	3.1%
June Forecast	133.6	139.5	143.5	146.6
Percent Change	-40.2%	18.7%	12.0%	9.0%
Unemployment Rate (Percent of Labor Force)				
September Forecast, Preliminary	13.0	9.7	8.4	8.1
June Forecast	12.9	10.2	8.6	7.1
Oil Price, Refiner's Acquisition				
September Forecast, Preliminary	25.7	41.3	42.8	43.8
June Forecast	27.1	38.9	39.4	39.9
30 Year Fixed Mortgage Rate (Percent, average)				
September Forecast, Preliminary	3.2	3.0	3.0	3.0
June Forecast	3.3	3.5	3.4	3.1
3 Month T-Bill Rate (Percent, average)				
September Forecast, Preliminary	0.1	0.1	0.1	0.1
June Forecast	0.2	0.3	0.2	0.1

2019	2020	2021	2022	2023	2024	2025
19,092	18,108	18,798	19,529	20,138	20,638	21,092
2.2%	-5.2%	3.8%	3.9%	3.1%	2.5%	2.2%
19,073	17,914	18,630	19,364	19,986	20,449	20,913
2.3%	-6.1%	4.0%	3.9%	3.2%	2.3%	2.3%
13,240	12,498	13,015	13,472	13,855	14,188	14,512
2.4%	-5.6%	4.1%	3.5%	2.8%	2.4%	2.3%
13,280	12,380	12,922	13,357	13,742	14,102	14,471
2.6%	-6.8%	4.4%	3.4%	2.9%	2.6%	2.6%
109.9	111.0	113.0	114.6	116.1	118.0	120.1
1.5%	1.0%	1.8%	1.4%	1.3%	1.6%	1.9%
109.7	110.6	112.0	113.6	115.4	117.3	119.4
1.4%	0.9%	1.3%	1.4%	1.5%	1.6%	1.8%
16,888	17,931	16,988	17,538	18,058	18,456	18,930
2.4%	6.2%	-5.3%	3.2%	3.0%	2.2%	2.6%
16,969	17,393	17,514	17,899	18,276	18,619	19,134
3.0%	2.5%	0.7%	2.2%	2.1%	1.9%	2.8%
150.9	142.5	146.2	150.4	154.1	156.3	157.9
1.4%	-5.6%	2.6%	2.9%	2.5%	1.4%	1.0%
150.9	142.1	149.1	152.8	154.7	156.0	157.4
1.4%	-5.8%	4.9%	2.5%	1.2%	0.8%	0.9%
3.7	8.7	7.5	5.6	4.3	3.8	3.6
3.7	8.9	6.2	5.0	4.4	4.3	4.1
59.4	39.3	44.7	46.1	47.2	48.2	49.2
59.3	38.2	40.7	42.6	44.5	46.2	47.9
3.9	3.2	3.0	3.1	3.1	3.3	3.5
3.9	3.4	3.1	3.0	3.0	3.2	3.4
2.1	0.4	0.1	0.1	0.1	0.1	0.1
2.1	0.5	0.1	0.1	0.1	0.1	0.2

Washington Forecast Comparison

	2020Q2	2020Q3	2020Q4	2021Q1
Real Personal Income (Billions of 2012 Dollars)				
September Forecast, Preliminary	494.2	485.1	485.9	453.6
Percent Change	33.6%	-7.2%	0.7%	-24.0%
June Forecast	470.9	468.1	460.0	463.1
Percent Change	13.6%	-2.3%	-6.8%	2.7%
Personal Income (Billions of Dollars)				
September Forecast, Preliminary	545.3	539.2	541.9	509.0
Percent Change	31.1%	-4.4%	2.0%	-22.1%
June Forecast	519.0	518.0	510.5	515.7
Percent Change	11.8%	-0.7%	-5.7%	4.1%
Disposable Personal Income (Billions of Dollars)				
September Forecast, Preliminary	496.0	487.1	489.5	455.1
Percent Change	44.1%	-7.1%	2.0%	-25.3%
June Forecast	478.3	475.9	463.7	465.6
Percent Change	28.0%	-2.0%	-9.9%	1.6%
Nonfarm Payroll Employment (Thousands)				
September Forecast, Preliminary	3097	3255	3328	3364
Percent Change	-39.5%	22.1%	9.2%	4.5%
June Forecast	3090	3202	3300	3373
Percent Change	-40.4%	15.3%	12.8%	9.2%
Unemployment Rate (Percent of Labor Force)				
September Forecast, Preliminary	13.8	9.5	8.4	8.0
June Forecast	14.1	11.1	9.3	7.8
Manufacturing Employment (Thousands)				
September Forecast, Preliminary	261.5	261.1	262.9	260.8
Percent Change	-36.1%	-0.6%	2.9%	-3.3%
June Forecast	260.9	254.5	255.5	258.0
Percent Change	-36.1%	-9.5%	1.6%	3.9%
Construction Employment (Thousands)				
September Forecast, Preliminary	180.0	197.4	202.1	201.4
Percent Change	-58.2%	44.6%	9.9%	-1.3%
June Forecast	175.7	178.2	184.2	187.5
Percent Change	-62.6%	5.8%	14.0%	7.4%
Housing Permits (Thousands)				
September Forecast, Preliminary	40.3	41.0	44.0	43.9
Percent Change	-57.0%	6.5%	32.9%	-1.3%
June Forecast	28.9	33.5	36.2	37.9
Percent Change	-88.6%	78.5%	37.7%	19.0%

2019	2020	2021	2022	2023	2024	2025
450.0	481.2	460.3	475.1	488.8	500.2	514.5
4.2%	6.9%	-4.3%	3.2%	2.9%	2.3%	2.9%
450.7	463.8	467.1	476.9	486.7	496.3	510.5
4.3%	2.9%	0.7%	2.1%	2.1%	2.0%	2.9%
494.4	534.0	520.0	544.3	567.4	590.0	618.1
5.8%	8.0%	-2.6%	4.7%	4.2%	4.0%	4.8%
494.2	513.0	523.2	541.9	561.6	582.1	609.5
5.7%	3.8%	2.0%	3.6%	3.6%	3.6%	4.7%
439.7	481.3	464.6	485.3	505.6	525.4	550.3
5.2%	9.5%	-3.5%	4.5%	4.2%	3.9%	4.7%
440.0	466.9	470.9	488.1	505.5	522.0	545.0
5.3%	6.1%	0.9%	3.7%	3.6%	3.3%	4.4%
3468	3298	3407	3517	3603	3656	3705
2.0%	-4.9%	3.3%	3.3%	2.4%	1.5%	1.3%
3469	3277	3436	3535	3575	3603	3633
2.0%	-5.5%	4.9%	2.9%	1.1%	0.8%	0.8%
4.3	9.0	7.5	5.9	4.8	4.4	4.3
4.3	9.7	6.8	5.7	5.2	5.2	5.1
293.6	269.5	262.6	266.2	269.1	269.1	270.1
2.0%	-8.2%	-2.6%	1.4%	1.1%	0.0%	0.4%
293.6	265.7	261.2	267.1	269.7	273.2	275.8
2.0%	-9.5%	-1.7%	2.3%	1.0%	1.3%	1.0%
219.3	200.9	198.2	198.3	197.6	197.3	199.6
2.9%	-8.4%	-1.3%	0.1%	-0.4%	-0.2%	1.2%
219.4	190.7	190.0	198.3	200.2	200.2	199.1
3.0%	-13.1%	-0.4%	4.4%	0.9%	0.0%	-0.5%
48.4	43.8	43.8	43.0	41.9	40.0	38.9
1.4%	-9.6%	0.1%	-1.8%	-2.8%	-4.4%	-2.7%
48.4	37.1	38.9	40.5	39.7	37.9	37.7
1.4%	-23.4%	4.9%	4.1%	-2.1%	-4.4%	-0.5%

U.S. Forecast Comparison				Fiscal Years		
	2020	2021	2022	2023	2024	2025
Real GDP						
Billions of 2012 dollars						
September Preliminary Forecast	18,653	18,356	19,171	19,855	20,397	20,868
<i>Growth</i>	-1.2%	-1.6%	4.4%	3.6%	2.7%	2.3%
June Forecast	18,575	18,141	18,996	19,712	20,224	20,676
<i>Growth</i>	-1.5%	-2.3%	4.7%	3.8%	2.6%	2.2%
Difference in level	78	214	175	143	173	192
<i>Difference in growth forecast</i>	0.3%	0.7%	-0.3%	-0.2%	0.1%	0.1%
Real Consumption						
Billions of 2012 dollars						
September Preliminary Forecast	12,893	12,705	13,264	13,670	14,027	14,348
<i>Growth</i>	-1.4%	-1.5%	4.4%	3.1%	2.6%	2.3%
June Forecast	12,897	12,558	13,172	13,547	13,927	14,282
<i>Growth</i>	-1.6%	-2.6%	4.9%	2.8%	2.8%	2.5%
Difference in level	-4	147	92	123	100	66
<i>Difference in growth forecast</i>	0.2%	1.2%	-0.5%	0.2%	-0.2%	-0.3%
PCE Price Index						
2012 = 100						
September Preliminary Forecast	110.5	111.9	113.8	115.3	117.0	119.0
<i>Growth</i>	1.3%	1.3%	1.7%	1.3%	1.4%	1.8%
June Forecast	110.3	111.2	112.8	114.5	116.3	118.3
<i>Growth</i>	1.3%	0.8%	1.5%	1.5%	1.6%	1.7%
Difference in level	0.2	0.7	1.0	0.8	0.6	0.7
<i>Difference in growth forecast</i>	0.0%	0.5%	0.3%	-0.2%	-0.2%	0.0%
Unemployment Rate						
Percent of Labor Force						
September Preliminary Forecast	6.0%	8.4%	6.6%	4.9%	4.0%	3.7%
June Forecast	6.0%	8.0%	5.5%	4.5%	4.3%	4.3%
<i>Difference in forecast</i>	0.0%	0.4%	1.1%	0.3%	-0.4%	-0.6%
30 Year Fixed Mortgage Rate						
Annual Average						
September Preliminary Forecast	3.5%	3.0%	3.0%	3.1%	3.2%	3.4%
June Forecast	3.5%	3.3%	3.0%	3.0%	3.1%	3.3%
<i>Difference in forecast</i>	0.0%	-0.3%	0.0%	0.1%	0.1%	0.1%
3 Month T-Bill Rate						
Annual Average						
September Preliminary Forecast	1.2%	0.1%	0.1%	0.1%	0.1%	0.1%
June Forecast	1.2%	0.2%	0.1%	0.1%	0.1%	0.2%
<i>Difference in forecast</i>	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%

Washington Forecast Comparison					Fiscal Years	
	2020	2021	2022	2023	2024	2025
Real Personal Income						
Billions of 2012 dollars						
September Preliminary Forecast	465.4	471.0	467.8	482.4	494.4	507.2
Growth	5.5%	1.2%	-0.7%	3.1%	2.5%	2.6%
June Forecast	458.6	464.6	471.6	482.4	490.9	503.2
Growth	3.8%	1.3%	1.5%	2.3%	1.7%	2.5%
Difference in level	6.7	6.4	-3.8	0.0	3.5	4.0
Difference in growth forecast	1.7%	-0.1%	-2.2%	0.8%	0.7%	0.1%
Nominal Personal Income						
Billions of dollars						
September Preliminary Forecast	514.1	527.0	532.5	556.2	578.2	603.7
Growth	6.9%	2.5%	1.0%	4.5%	4.0%	4.4%
June Forecast	505.8	516.6	532.1	552.3	571.0	595.4
Growth	5.1%	2.1%	3.0%	3.8%	3.4%	4.3%
Difference in level	8.3	10.4	0.4	3.9	7.3	8.3
Difference in growth forecast	1.8%	0.4%	-2.0%	0.6%	0.6%	0.1%
Nonfarm Payroll Employment						
Thousands						
September Preliminary Forecast	3,395.7	3,336.2	3,460.9	3,566.4	3,630.5	3,681.8
Growth	-1.1%	-1.8%	3.7%	3.0%	1.8%	1.4%
June Forecast	3,395.1	3,326.3	3,493.4	3,562.3	3,588.3	3,619.1
Growth	-1.1%	-2.0%	5.0%	2.0%	0.7%	0.9%
Difference in level	0.6	9.9	-32.5	4.0	42.2	62.7
Difference in growth forecast	0.0%	0.3%	-1.3%	1.1%	1.1%	0.6%
Housing Permits						
Units Authorized, Thousands						
September Preliminary Forecast	48.1	43.2	43.6	42.4	41.0	39.3
Growth	4.7%	-10.2%	0.8%	-2.8%	-3.1%	-4.2%
June Forecast	45.3	36.5	40.1	40.4	38.7	37.6
Growth	-1.5%	-19.4%	9.9%	0.6%	-4.1%	-2.9%
Difference in level	2.8	6.7	3.4	2.0	2.3	1.7
Difference in growth forecast	6.2%	9.2%	-9.2%	-3.4%	1.0%	-1.3%

Year-Over-Year Employment Growth by Industry (June 2019 to June 2020) Washington vs. U.S.

	<u>Washington</u>		<u>U.S.</u>
	(000)	% Chg.	% Chg.
Total	-289.2	-8.3%	-8.6%
Electronic Shopping and Mail-Order Houses	12.8	20.6%	-4.6%
State and Local Gov Non-Education	4.8	2.2%	-5.2%
Software Publishers	0.0	0.0%	3.8%
Financial Activities	-6.7	-4.2%	-1.4%
Transportation, Warehousing and Utilities	-4.9	-4.2%	-7.5%
Professional and Business Services	-21.4	-4.9%	-7.3%
Wholesale Trade	-7.2	-5.3%	-4.7%
Information Excluding Software	-4.7	-6.3%	-12.6%
Education and Health Services	-41.6	-8.3%	-5.7%
State and Local Gov Education	-23.0	-8.9%	-7.8%
Aerospace Product and Parts Manufacturing	-9.7	-10.9%	-5.2%
Manufacturing Excluding Aerospace	-22.3	-10.9%	-5.9%
Construction	-25.0	-11.4%	-4.3%
Mining and Logging	-0.8	-13.0%	-15.2%
Other Services	-25.9	-20.2%	-12.4%
Leisure and Hospitality	-95.4	-27.5%	-27.8%
Information	-4.7	-3.2%	-10.0%
Retail Trade	-5.8	-1.5%	-7.1%
Manufacturing	-32.0	-10.9%	-5.9%

Source: WA State ERFC Kalman filtered data, U.S. Bureau of Labor Statistics