

Budget Outlook and Economic Review

September 13, 2024



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW

September 13, 2024
2:00 p.m.

- Approval of meeting minutes from June 26, 2024
 - *Possible motion*
- Budget Outlook presentation
 - ✓ Outlook Accuracy report
 - ✓ Outlook Growth Factor – guidance
 - *Possible motion*
 - ✓ Reversion options
- Presentation of economic outlook and revenue collection experience
- Adjournment

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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 26, 2024

John A. Cherberg Bldg., Room A/B/C and Zoom

Economic and Revenue Forecast Council

Lynda Wilson, Senate, Chair
Chris Corry, House of Representatives
Chris Gildon, Senate
Timm Ormsby, House of Representatives
June Robinson, Senate
Ed Orcutt, House of Representatives
Yasmin Trudeau, Senate
Mike Pellicciotti, Treasurer
Drew Shirk, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Dave Reich, Executive Director

Call to Order

Senator Wilson called the meeting to order at 2:02 p.m.

Approval of the Minutes

Representative Orcutt moved, seconded by Representative Ormsby, to adopt the meeting minutes from June 11, 2024. Motion passed at 2:03 p.m.

Revenue Forecast Presentation

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

Motion

Representative Ormsby moved, seconded by Representative Orcutt, to adopt the forecast as presented. Motion passed at 2:34 p.m.

Administrative

Representative Orcutt informed the meeting that Director Schumacher would be stepping down from the council to pursue other endeavors. The council thanked Director Schumacher for his service to the ERFC.

Adjournment

With no further business, the meeting adjourned at 2:46 p.m.

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To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Date: September 13, 2024

Subject: Accuracy of projections for ensuing biennium expenditures.

Chapter 82.33.060 RCW requires the state budget outlook work group to analyze the reliability of the methodology for projecting ensuing fiscal biennia and to make recommendations to change the outlook process to increase reliability and accuracy. The language from the statute is as follows:

"The state budget outlook work group, in consultation with the economic and revenue forecast work group and outside experts if necessary, must analyze the extent to which the proposed methodology for projecting expenditures for the ensuing fiscal biennia may be reliably used to determine the future impact of appropriations and make recommendations to change the outlook process to increase reliability and accuracy. The recommendations are due by December 1, 2013, and every five years thereafter."

The following memo provides an update from the state budget outlook workgroup. This analysis was last completed in 2019.

Background:

Chapter 8, Laws of 2012 (SSB 6636) requires that beginning with the 2013-2015 fiscal biennium, the Legislature must enact a budget bill that leaves a positive ending fund balance in the state General Fund and related funds and that the projected maintenance level (ML) for the budget in the ensuing biennium may not exceed available fiscal resources. Related funds for purposes of this requirement are defined as the Washington Opportunity Pathways Account, the Education Legacy Trust Account, the Workforce Education Investment Account, and the Fair Start for Kids Account¹. The act directed that the estimate of ensuing biennium expenditures must include ML items including, but not limited to:

- Continuation of current programs.
- Forecasted growth of current entitlement programs.
- Actions required by law, including legislation with a future implementation date.

¹ There are currently no revenues to or appropriations from the Fair Start for Kids Account.

The act also directed that estimates of ensuing biennium expenditures must exclude policy items including, but not limited to:

- Legislation not yet enacted by the Legislature.
- Collective bargaining agreements (CBAs) not yet approved by the Legislature.
- Changes to levels of funding for employee salaries and benefits unless those changes are required by statute.
- Costs of court rulings issued during or within fewer than ninety days before the beginning of the current legislative session.

Summary of the Methodology Used to Project Ensuig Biennium Expenditures

The current methodology for estimating expenditures for the ensuing biennium has been developed by the technical work group and approved by the Economic and Revenue Forecast Council (ERFC). The general approach to estimating ensuing biennia costs for current programs and growth in entitlement programs is by applying a historical growth factor to the second fiscal year (FY) for agency base budgets and for the cost or savings associated with each budget item to derive the ensuing biennia by FY. The historical growth factors used to estimate increased costs in the subsequent fiscal biennium are updated each biennium by the technical work group and adopted by the ERFC. For the 2022 growth factor update cycle, the ERFC moved to not update the prior growth factors due to variations in growth factor data caused by the COVID-19 pandemic.

There are some cases where an approach other than simply applying the growth factor to the cost or savings of a budget item is used. These include the following situations:

- **Custom adjustments.** Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the second FY of the current biennium. This occurs primarily when a policy is being phased in during the second FY of a biennium or may be delayed until the subsequent fiscal biennium. In most cases, the growth factor is applied after a custom adjustment is made to reflect the phase in for the policy item. In a small number of cases, the custom adjustment already accounts for the types of growth captured by the growth factor and so the growth factor is not applied.
- **One-Time costs.** Certain items in the budget are one-time for the current biennium and therefore the related costs or savings are not carried forward into the subsequent biennium.
- **Compensation items.** Because the Outlook statute specifically excludes any additional future costs related to collective bargaining agreements not yet approved by the Legislature, or salaries and benefits, no growth factor is applied to most compensation related items. However, a custom adjustment is applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium. In addition, adjustments for compensation increases that are

required under current law such as cost of living adjustments for community & technical colleges (in accordance with Initiative 732) and K-12 education are included. Also included is the impact of estimated pension rate changes (assuming no change to pension funding methodologies or benefits).

- **K-12.** Beginning with the 2017 legislative session, K-12 calculations for the ensuing biennium shifted from a growth factor approach to utilization of a K-12 model. The K-12 model updates caseload and inflationary factors with each forecast and is continually updated for other factors such as levy equalization, enrollment, student transportation, and staff mix. The K-12 model is also used for fiscal notes and legislative policy proposals.
- **Debt Service.** Beginning with the 2018 legislative session, debt service calculations for the ensuing biennium shifted from a growth factor approach to utilization of the debt service model.

Challenges in Assessing the Reliability of Outlook Projections

There are a variety of challenges in assessing the reliability of the methodology that is used to estimate ensuing biennium expenditures. These include:

- **Supplemental budget policy changes.** The original biennial budget provides an estimate of the projected ML of the ensuing biennium including the policy changes made during that legislative session. However, policy changes made in the supplemental budget continue to revise the budget and ensuing biennium projections. Data available to staff do not provide sufficient detail to know what portion of actual ML costs in the following biennium are specifically related to policy changes made in the supplemental budget. As there is no way to identify what the ML in the following biennium would be without policy level changes in the supplemental budget, the most accurate comparison for the accuracy of the Outlook projections is the comparison of the estimated expenditures in the supplemental budget sessions with the following biennium's enacted ML biennial operating budget. Because of this, recommendations for the Outlook accuracy utilize supplemental budgets only.
- **Initiatives, court rulings, and changes in federal law.** Initiatives, court rulings, and changes in federal law which come after a budget is enacted and an Outlook is adopted can drive significant changes in ML expenditures. An example of this is Initiative 1351 (K-12 class size funding), approved by voters in November 2014 (after the 2014 supplemental budget and related outlook was adopted). The ML adjustment for I-1351 was an increase of \$2 billion dollars NGF-O in the 2015-17 biennium. Ultimately, the 2015-17 budget suspended the initiative in policy level but the maintenance level shows these increased costs. These costs were not (and could not) have been included in the outlook adopted in May 2014 for the enacted 2014 supplemental operating budget as the initiative had yet to be considered by the voters.

- **Health benefits and compensation.** As noted above, the outlook statute requires that, changes to levels of funding for employee salaries and benefits be excluded from ensuing biennium estimates unless those changes are required by statute. Budgeted funds for health benefit employer contribution rates in some sessions are adjusted for surplus balances that may not be available the following year when the biennial budget for the ensuing biennium is being written.

Analysis of Outlook Reliability for the 2015-2023 Time Period

Since the Outlook requirements were adopted, there are five budgets that provide an opportunity to compare an enacted ML to the estimates that were projected in prior supplemental budget Outlooks. The following table provides the estimated and actual ML expenditures for these budgets.

Session	Outlook Estimated ML	Ensuing Biennium Actual ML	Difference	Difference Percent
2014 ²	\$ 36,576	\$ 37,111	\$ 535	1.5%
2016	\$ 41,728	\$ 41,636	\$ (92)	-0.2%
2018	\$ 50,485	\$ 50,485	\$ -	0.0%
2020 ³	\$ 57,126	\$ 55,980	\$ (1,146)	-2.0%
2022	\$ 64,834	\$ 65,060	\$ 226	0.3%

As noted in the prior section, the most accurate comparison for the purposes of assessing outlook accuracy are the supplemental budget (even year) sessions, as there is no way to identify what the ML for ensuing biennia would have been without the policy changes adopted in those supplemental sessions. Outlook projections for biennial budget (odd year) sessions are included in Appendix A for informational purposes only.

There have been two comparison periods (2020 and 2022) since this report was last updated in 2019. The 2020 supplemental budget over-estimated 2021 ML expenditures by 2%. This is a significant margin compared to historical figures. However, this can be largely attributed to impacts from the COVID-19 pandemic. The pandemic reduced the 2021 session ML relative to prior projections due to caseload decreases in areas like K-12

² To improve comparability, an adjustment was made for the 2015-17 biennium to remove the \$2 billion in ML expenditures that were associated with Initiative 1351, which was adopted after the 2014 budget and Outlook were adopted.

³ The WEIA was added as an Outlook fund in the 2021-23 biennium. WEIA expenditures are included in the 2020 session Outlook projections to provide an accurate comparison.

Education, Corrections, and Social and Health Services. Post-pandemic, the 2022 supplemental budget projection underestimated the enacted 2023 session ML by 0.3%.

Recommendations

As noted above, the original methodology has evolved to utilize the K-12 model and debt service model for more accurate projections in these areas. Fiscal growth factors have been reviewed and updated each biennium.

The workgroup believes that the fiscal growth factors should continue to be updated in the fall of even numbered years, and the approach of using the K-12 model and debt service model should be continued. The workgroup is recommending updated growth factors for the 2025-27 budget cycle. Based on the above analysis, the workgroup has no further recommendations for changes to the methodology for projecting ensuing biennium expenditures.

Appendix A

(dollars in millions)

2013-15 Biennial and 2014 Supplemental Projections of Enacted 2015-17 ML

Session	Outlook Estimated	Enacted 2015 Session Adj. For I-1351	Difference	Difference Percent
2013	\$ 36,052	\$ 37,111	\$ 1,059	2.9%
2014	\$ 36,576	\$ 37,111	\$ 535	1.5%

2015-17 Biennial and 2016 Supplemental Projections of Enacted 2017-19 ML

Session	Outlook Estimated	Enacted 2017 Session	Difference	Difference Percent
2015	\$ 41,575	\$ 41,636	\$ 61	0.1%
2016	\$ 41,728	\$ 41,636	\$ (92)	-0.2%

2017-19 Biennial and 2018 Supplemental Projections of Enacted 2019-21 ML

Session	Outlook Estimated	Enacted 2019 Session	Difference	Difference Percent
2017	\$ 49,890	\$ 50,485	\$ 595	1.2%
2018	\$ 50,485	\$ 50,485	\$ -	0.0%

2019-21 Biennial and 2020 Supplemental Projections of Enacted 2021-23 ML

Session	Outlook Estimated Adj. for WEIA*	Enacted 2021 Session	Difference	Difference Percent
2019	\$ 56,834	\$ 55,980	\$ (854)	-1.5%
2020	\$ 57,126	\$ 55,980	\$ (1,146)	-2.0%

2021-23 Biennial and 2022 Supplemental Projections of Enacted 2023-25 ML

Session	Outlook Estimated	Enacted 2023 Session	Difference	Difference Percent
2021	\$ 61,181	\$ 65,060	\$ 3,880	6.0%
2022	\$ 64,834	\$ 65,060	\$ 226	0.3%

2024 Growth Factor Update

09/13/2024

State Budget Outlook Work Group

Presentation to the Economic Revenue and Forecast Council

Outlook statute background

- Estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law
- The cost to continue current programs and reflect growth in entitlement programs in some areas is estimated in the Outlook by using growth factors
- Other changes that are required by law (including items with future implementation dates) are generally reflected separately or accounted for by custom adjustments in the Outlook
- The Outlook statute specifically excludes any future costs related to policy items (including collective bargaining agreements that have not been approved by the Legislature) unless required by statute

How are the Outlook growth factors used?

- Growth rates applied to budget items for purposes of meeting Outlook balanced budget requirements
- Used to create an estimate of ensuing biennium Maintenance Level (ML) expenditures
 - When calculating the Outlook for operating budgets written for the 2025-27 biennium, the growth factors will be applied to estimate growth in the 2027-29 biennium (e.g. fiscal year 2028 and fiscal year 2029)
 - Reflected in the ensuing biennium amounts in the Outlook document

How are the current growth factors calculated?

- Typically, in most cases, percent change in NGF-O expenditures through ML from first to second year of a biennium, averaged over five most recent biennia
- Grouped by category
 - Corrections
 - DSHS
 - Higher Education
 - Low Income Health Care & Community BH
 - All Other (Including DCYF)
- Exceptions:
 - K-12 (growth calculated K-12 Model)
 - Debt Service (growth calculated by the bond model)
 - Low Income Health Care & Community BH- customized approach for portion of LIHC budget to adjust for atypical Affordable Care Act (ACA) implementation impacts in the 2013-15 biennium
 - Higher education- custom approach used for financial aid portion of the budget utilizing projected tuition and population factors
- Adjustments- Custom adjustments are made to remove future growth on collective bargaining steps that have not been approved by the Legislature and control for atypical anomalies in first year to second year spending (e.g. \$100m Trueblood Contempt Fine in FY 2024.)

COVID-19 Fiscal Considerations

- Significant swings between first and second fiscal years in the 2021 supplemental and 2021-23 biennial budgets
- Caseload impacts from pandemic and public health emergency created atypical changes from year 1 to year 2 spending in both the 2019-21 and 2021-23 biennia
- In 2022, as recommended by the work group, the ERFC opted to continue using the growth factors calculated in 2020 for budgets prepared in the 2023-25 biennium because of the Covid-19 fiscal impacts noted above

Changes Proposed for 2025-27 Growth Factor Methodology

- Use the average changes for the 2015-17; 2017-19, and 2023-25 biennia to avoid atypical impacts resulting from the pandemic and public health emergency
- Customized approach for portion of Low Income Health Care budget no longer needed as calculations no longer include the 2013-15 biennium impacted by the Affordable Care Act implementation

2024 Growth Factor Update Results

Default Growth Rate Category	Current Growth Factor	Proposed 2024 Growth Factor
All Other (Including CYF)	0.00%	1.02%
Corrections	1.53%	1.49%
Debt Service	Use Bond Model	Use Bond Model
DSHS	3.31%	3.09%
Higher Education	0.69%	1.17%
K-12	Use K12 Model	Use K12 Model
Low Income Health Care & Community Behavioral Health	2.86%	2.83%

Note: Proposed growth factor is based on 3 biennia (2015-17; 2017-19, and 2023-25 biennia) average of the change in spending through maintenance level from fiscal year 1 to fiscal year 2.

Fiscal Impact of Options on Four-Year CFL

(NGF-O, Dollars in Millions)

FY 2027-29 Estimated CFL Expenditures With GFs Applied			
Category	Proposed GFs	Current GFs	Difference
All Other	9,258	9,118	140
Corrections	3,139	3,141	-2
Debt Service- Debt Model	2,946	2,946	0
Higher Education	6,065	6,021	43
K-12 Education- K12 Model	32,241	32,241	0
Low Income Health Care & Comm Behavioral Health	8,557	8,561	-4
Social & Health Services	11,356	11,392	-37
Total	73,561	73,420	141

Note: The impact of applying the proposed updated growth factors to the Carry-Forward Level (CFL) budget is a \$141m increase in estimated spending when compared to applying the current growth factors for an overall difference of 0.2%.

Question for the ERFC?

Does the ERFC want the State Budget Outlook Work Group to use the new proposed growth factor methodology for preparing Outlooks during the 2025-27 biennia or should any changes be made to the proposed methodology?

Appendix: Proposed Growth Factors for the 2025 and 2026 Legislative Sessions

K-12 Public Education

The growth for K12 public education will be based on the K12 model, as previously approved by the Council.

The Department of Social and Health Services

The growth for the Department of Social and Health Services is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Some of the major cost components include caseload, utilization, and severity of client needs. The average projected growth for Social and Health Services is estimated at 3.09 percent per Fiscal Year.

Low Income Health Care and Community Behavioral Health

The growth for low income health care and community behavioral health is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Some of the major cost components include caseload, utilization, and mandatory actuarially driven managed care rate adjustments. The average projected growth for low income health care and community behavioral health is estimated at 2.83 percent per Fiscal Year.

Higher Education

The growth for higher education is calculated through a weighted hybrid approach. Growth for non-financial aid, which accounts for roughly 80% of expenditures, is calculated based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Growth for financial aid, which accounts for roughly 20% of expenditures, is calculated based on historical average tuition changes over the past seven years and forecasted population changes for persons between the ages of 18 and 24. The average projected growth for Higher Education using this hybrid approach is estimated at 1.17% percent per Fiscal Year.

Appendix: Proposed Growth Factors for the 2025 and 2026 Legislative Sessions (cont'd)

Debt Service

Growth for debt service will continue to be calculated using the bond model as previously directed by the Council. Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2027-29 biennium bond bill and capital budget.

Department of Corrections

The growth for the Department of Corrections is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. A major cost component is the relative proportions of community and institutional populations. The average projected growth for Corrections is estimated at 1.49 percent per Fiscal Year.

All Other

This includes general government agencies, judicial agencies, legislative agencies, the Department of Children, Youth, and Families, and other human service agencies. The growth for all other is based on budget appropriations from the 2015-17, 2017-19 and 2023-25 biennium. Major cost components in this area are related to childcare, early learning, juvenile rehabilitation, fire suppression costs, central service charges, lease rate adjustments, and equipment replacement costs. The average projected growth for all other programs is estimated at 1.02 percent per Fiscal Year.

Historical Reversion Analysis

09/13/2024

State Budget Outlook Work Group

Presentation to the Economic Revenue and Forecast Council

Reversion Background

- Reversions are the estimated appropriations that will be unspent and revert, making those amounts available for future appropriation.
 - For fiscal years that are closed, official Outlooks use actual reversion amounts.
 - For fiscal years that are not closed, official Outlooks use assumptions adopted by the ERFC.
 - Prior to the Outlook prepared for the enacted 2023-25 biennial budget, the ERFC has directed that reversions be estimated at 0.5% of general fund-state appropriations.
- For the 2024 ERFC Adopted Budget Outlook, the Council directed that reversions be estimated at 0.8% in FY 2024, before returning to 0.5% in FY 2025, FY 2026, and FY 2027.
 - These are the same percentage reversion estimates as those adopted in 2023.
 - These amounts were in addition to ERFC adopted reversion assumptions specifically for K-3 enrollment allocations that are tied to class sizes.

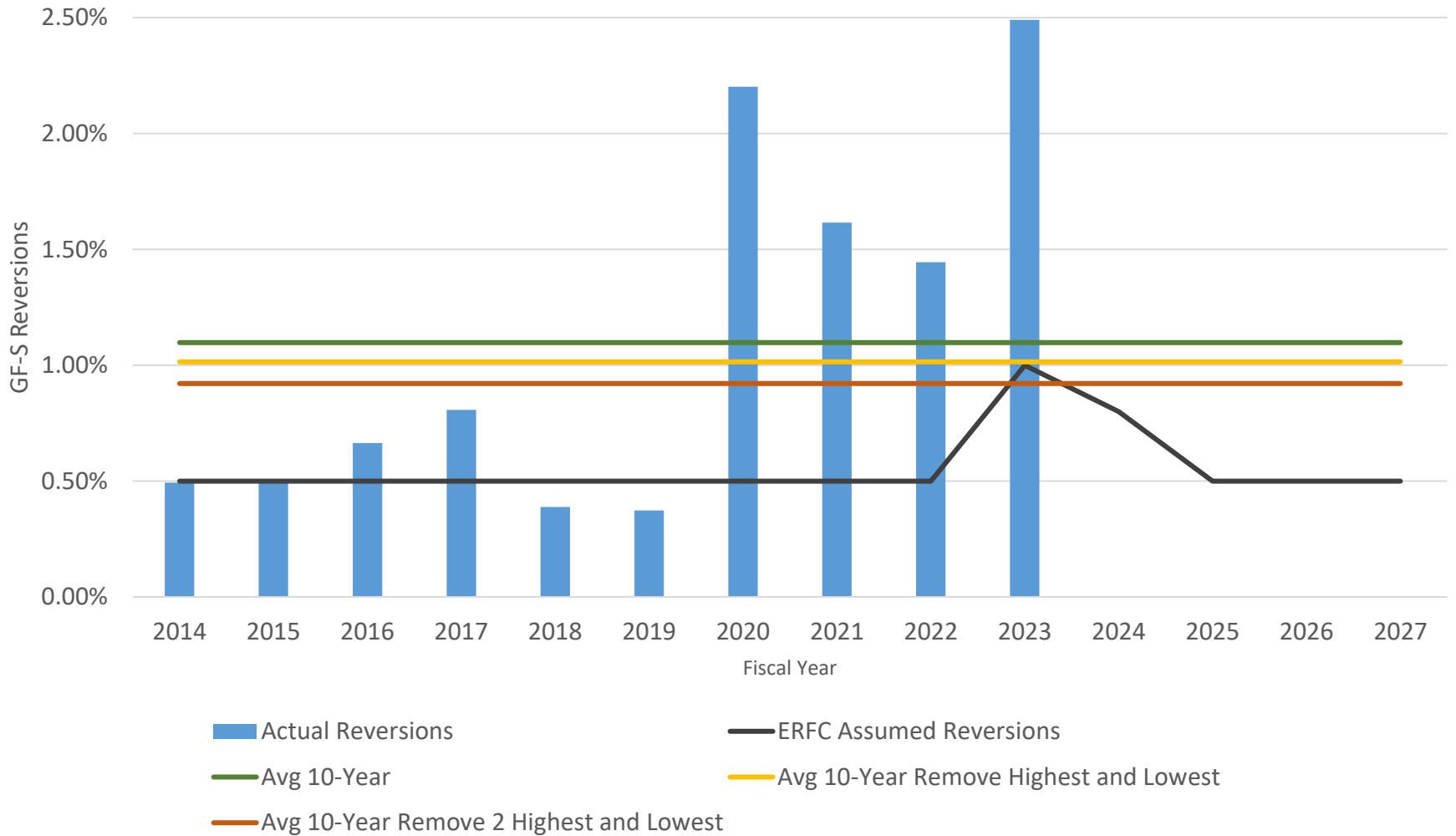
Reversion History

(dollars in millions)

Fiscal Year	Appropriations	Reversions	Percent Reversions
2014	\$ 16,159	\$ 80	0.49%
2015	\$ 16,846	\$ 85	0.50%
2016	\$ 18,293	\$ 121	0.66%
2017	\$ 19,496	\$ 157	0.81%
2018	\$ 20,528	\$ 80	0.39%
2019	\$ 23,023	\$ 86	0.37%
2020	\$ 24,506	\$ 540	2.20%
2021	\$ 24,988	\$ 404	1.62%
2022	\$ 28,379	\$ 410	1.44%
2023	\$ 31,808	\$ 792	2.49%
10-Year Average			1.10%
Remove 1 Highest and 1 Lowest Year			1.01%
Remove 2 Highest and 2 Lowest Years			0.92%

[14](#) Actual reversions in 2015 were \$175.3 million. However, \$90.4 million of that reversion amount was attributable to a Governor veto in the Health Care Authority budget that was put in to unallotted status. Consistent with past practice, this amount is removed from the reversion calculations presented as it is not representative of typical assumed reversions. Page 22

Reversion Scenarios



Budget Impact of Reversion Scenarios

Reversion Scenarios Applied to 2025 CFL (dollars in millions)	FY 24¹	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Current ERFC Adopted Assumptions		\$ 164	\$ 176	\$ 172	\$ 173	\$ 175	\$ 859
10-Year Average		\$ 360	\$ 387	\$ 377	\$ 380	\$ 383	\$ 1,887
Remove Highest and Lowest		\$ 333	\$ 358	\$ 348	\$ 351	\$ 354	\$ 1,744
Remove 2 Highest and Lowest		\$ 302	\$ 325	\$ 316	\$ 318	\$ 322	\$ 1,583

Impact of Scenarios on 2025 CFL Budget	FY 25-29 Total Impact (dollars in millions)
Current ERFC Adopted	\$ -
10-Year Average	\$ 1,028
Remove Highest and Lowest	\$ 884
Remove 2 Highest and Lowest	\$ 724

¹ FY 2024 reversions will not be known until late fall. The 2025-27 budget will use actuals when available.

Questions?

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Date: September 13, 2024

Subject: Historical Analysis of General Fund-State Reversions

Background

At the January 11, 2024 meeting of the Economic and Revenue Forecast Council, the ERFC directed the State Budget Outlook Work Group to conduct an analysis of historical reversions, including scenarios adjusted for outliers, for consideration by the ERFC for the purposes of setting reversion assumptions.

Reversion History

For the purposes of the Budget Outlook, reversions are the estimated appropriations that will be unspent and revert, making those amounts available for future appropriation. For fiscal years that are closed, official Outlooks use actual reversion amounts. For fiscal years that are not closed, official Outlooks use assumptions adopted by the ERFC. Prior to the Outlook prepared for the enacted 2023-25 biennial budget, the ERFC has directed that reversions be estimated at 0.5% of general fund-state appropriations. Other accounts included in Outlook calculations (the Workforce Education Investment Account, the Education Legacy Trust Account, the Opportunity Pathways account, and the Fair Start for Kids Account) revert on a biennial (rather than annual) basis and no reversion assumption for fiscal years that are not closed has been made these accounts.

The 2023 ERFC Adopted Budget Outlook adopted a reversion assumption of 1% in FY 2023 and 0.8% in FY 2024, before returning to the historical assumption of 0.5% ongoing. For the 2024 ERFC Adopted Budget Outlook, the Council directed that the same assumptions be used (0.8% in FY 2024, before returning to 0.5% in FY 2025, FY 2026, and FY 2027). As in past years, these amounts were in addition to ERFC adopted reversion assumptions specifically for K-3 enrollment allocations that are tied to class sizes.

Reversion Scenario Analysis

Budget Outlook Technical Workgroup staff compiled data on the last 10 years of general fund-state reversions. Those amounts are as follows:

Fiscal Year	Appropriations	Reversions	Percent Reversions
2014	\$ 16,159	\$ 80	0.49%
2015¹	\$ 16,846	\$ 85	0.50%
2016	\$ 18,293	\$ 121	0.66%
2017	\$ 19,496	\$ 157	0.81%
2018	\$ 20,528	\$ 80	0.39%
2019	\$ 23,023	\$ 86	0.37%
2020	\$ 24,506	\$ 540	2.20%
2021	\$ 24,988	\$ 404	1.62%
2022	\$ 28,379	\$ 410	1.44%
2023	\$ 31,808	\$ 792	2.49%

Prior to 2020, reversions averaged 0.54% of general fund-state appropriations with a range between 0.37% and 0.81%. During and after the COVID-19 pandemic era reversions have been consistently higher. From 2020 to 2023, reversions averaged 1.94% of general fund-state appropriations with a range between 1.44% and 2.49%.

There are a variety of factors that may have contributed to reversions being higher during and after the COVID-19 pandemic. The pandemic may have presented challenges expending appropriated funds due to capacity issues in state agencies. Additionally, spending restrictions were enacted early in FY 2020 given the uncertain fiscal implications of the pandemic. After FY 2020, policy level budget increases coupled with state agency and contractor workforce shortages may have created delays and other challenges implementing new programs contained in those budgets, leading to increased reversions.

FY 2024 reversions, which will be available in November or December 2024, will be a key indicator on whether these trends are continuing or if they have subsided. If actual FY 2024 reversions are closer to historical averages, it could be a sign that the post-

¹ Actual reversions in 2015 were \$175.3 million. However, \$90.4 million of that reversion amount was attributable to a Governor veto in the Health Care Authority budget that was put in to unallotted status. Consistent with past practice, this amount is removed from the reversion calculations presented as it is not representative of typical assumed reversions.

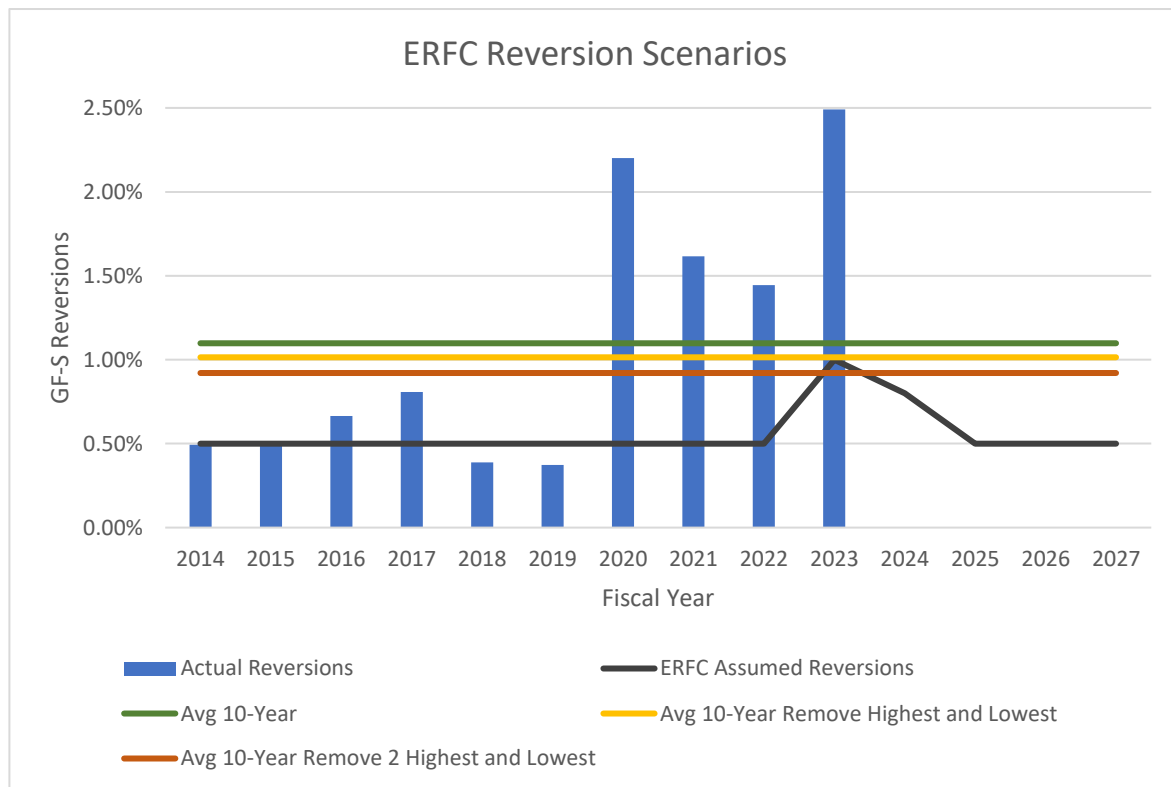
pandemic reversion trend has subsided. However, it is not known at this time whether that will be the case.

Staff prepared three scenarios consistent with ERFC direction requesting scenarios removing outlier years.

Reversion Scenarios

10-Year Average	1.10%
Remove 1 Highest and 1 Lowest Year	1.01%
Remove 2 Highest and 2 Lowest Years	0.92%

The chart below depicts historical reversion amounts compared to the ERFC adopted reversion assumptions and the three scenarios outlined above:



Budget Impacts of Reversion Scenarios

Budget outlook workgroup staff also applied the three reversion scenarios to the 2024 Supplemental Budget Outlook to demonstrate the impact that those assumptions would have on the Outlook. It is important to note that FY 2024 is now a closed period, and any future assumptions will not impact actual reversions for FY 2024. Actual reversions for FY 2024 will be known in late fall or early winter 2024.

Reversion Scenarios Applied to 2025 CFL (Dollars in Millions)	FY 24²	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Current ERFC Adopted Assumptions		\$ 164	\$ 176	\$ 172	\$ 173	\$ 175	\$ 859
10-Year Average		\$ 360	\$ 387	\$ 377	\$ 380	\$ 383	\$ 1,887
Remove Highest and Lowest		\$ 333	\$ 358	\$ 348	\$ 351	\$ 354	\$ 1,744
Remove 2 Highest and Lowest		\$ 302	\$ 325	\$ 316	\$ 318	\$ 322	\$ 1,583

The following table shows the difference from the three reversion scenarios presented to the total reversion amounts adopted and included in the 2024 Supplemental Budget Outlook:

Impact of Scenarios on 2025 CFL Budget	FY 25-29 Total Impact (dollars in millions)
Current ERFC Adopted	\$ -
10-Year Average	\$ 1,028
Remove Highest and Lowest	\$ 884
Remove 2 Highest and Lowest	\$ 724

² FY 2024 reversions will not be known until late fall. The 2025-27 budget will use actuals when available.

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



Economic Review: September 13, 2024

Executive Summary

United States

- This forecast is based on a modified version of S&P Global Market Intelligence’s August 2024 control forecast for the U.S. economy. We have adjusted real gross domestic product (GDP) to be consistent with the Blue Chip “Consensus” GDP forecast for 2024 and 2025. We expect real GDP to increase 2.5% in 2024 and 1.8% in 2025, up from the 2.3% and 1.8% growth rates assumed in the June forecast. Our forecast for real GDP growth in 2026-29 is based on the most recent long term forecast from Blue Chip which was released in March 2024. We expect growth rates of 2.0%, 2.0%, 1.9%, and 1.9% in 2026 through 2029 unchanged from the June forecast.
- Our oil price forecast reflects the futures markets for the Brent (North Sea) oil price and West Texas Intermediate (WTI) benchmarks. This forecast was based on the Monday, August 19, 2024 closing prices for Brent and WTI futures. Oil prices are slightly lower than in the June forecast. As in June, oil prices are expected to decline throughout the forecast. The latest futures prices indicate that the refiner acquisition price of crude oil will average \$77 per barrel in the third quarter of 2024, unchanged from the June forecast. By the fourth quarter of 2029 the refiner acquisition price of crude is expected to average \$64 per barrel, down from \$65 per barrel in the June forecast.
- National employment in August increased by 142,000 net jobs. Employment levels for June and July were revised down due to additional data and updated seasonal factors by a combined 86,000 jobs. Job growth has slowed in the last few months with the 3-month moving average of monthly job adds now at 116,000. Sectors with the largest job gains in August included healthcare (+31,000), leisure and hospitality (+46,000), construction (+34,000) and government (+24,000). Sectors with declining employment in August included manufacturing (-24,000), retail trade (-11,000) and information (-7,000).
- Two key measures of consumer confidence increased in August. The University of Michigan (UM) consumer sentiment survey increased by 1.5 points to 67.9 in August after decreasing by 1.8 points in July. The Conference Board index of consumer confidence increased by 1.4 points in August to 103.3. Survey results indicated concerns about high prices, interest rates and future labor markets.
- Initial claims for unemployment insurance increased by 2,000 to 230,000 (SA) in the week ending September 7th. The four-week moving average of initial claims increased by 500 to 230,750.
- Consumer prices increased 0.2% (SA) in August following a 0.2% increase in July. Compared to August 2023, prices are up 2.6% (SA). Core prices, which exclude food and energy, rose by 3.3% (SA) compared to August 2023.

- Industrial production decreased by 0.6% in July following a 0.3% increase in June. Industrial production was down 0.2% compared to its July 2023 level. New orders for core capital goods (i.e., durables excluding aircraft and military), which is a proxy for business investment, decreased by 0.1% (SA) in July following a 0.5% increase in June according to U.S. Census Bureau data. New orders for core capital goods were 0.5% above their July 2023 level.
- Residential construction activity was down in July compared with June, but both new and existing home sales improved. July housing starts decreased by 6.8% (SA) compared to June and were 16.0% below their July 2023 level. Housing units authorized by building permits in July were 4.0% (SA) below their June level and 7.0% below their year-ago level. New home sales in July increased by 10.6% (SA) compared to June and were 5.6% above their year-ago level. Existing home sales in July increased by 1.3% (SA) compared to June but were down 2.5% compared to July 2023. The seasonally adjusted Case-Shiller national home price index for June was 0.2% above its May level and 5.4% above its year-ago level.
- The major risks to the U.S. and Washington economies continue to be the impacts of elevated prices, high interest rates and geopolitical and labor conflict.

Washington

- Washington job growth has been stronger than expected in the two months since the June forecast, although historical revisions have lowered prior estimates of employment. Total seasonally adjusted nonfarm payroll employment increased 13,900 in June and 1,700 in July. The forecast expected a 2,600 job gain in June and a 1,000 job gain in July. The construction sector increased by 3,800 jobs while manufacturing employment increased by 2,100 in the two-month period. Health services and social assistance had the largest increase in the private service sector, gaining 4,600 jobs since May. The largest decline was in administrative and support services with a loss of 3,900 jobs. Government employment increased by 1,600. The combination of downward revisions to history and stronger than expected job growth have resulted in the level of employment being 6,900 higher than expected in the June forecast.
- After the grounding of the 737 Max and then the pandemic, Washington's aerospace employment declined from 89,900 in February 2020 to a low of 66,700 in August 2021, a loss of 23,200 jobs. Since August 2021, the industry added back 15,800 jobs, bringing the level to 82,500 in July 2024. We expect aerospace employment to continue to expand into 2028, reaching a peak of 90,600 jobs. The forecast then calls for aerospace employment to level off and then slowly decline through the end of the forecast horizon in 2029.
- We expect a 1.4% increase in Washington employment this year, up from the 1.3% growth rate expected in the June forecast. We expect slower growth during the remainder of the forecast as the U.S economy slows. We expect

Washington employment growth to average 0.9% per year in 2025 through 2029, down slightly from 1.0% in the previous forecast.

- Washington's unemployment rate has been trending upward. The unemployment rate increased to 4.9% in July from 4.8% the month before, and up from 3.9% a year ago. Labor force participation declined to 63.6% in July from 63.7% the month before and is down from the recent peak of 64.4% in July 2023.
- The preliminary September forecast has 2023 as the trough in the Washington unemployment rate at 4.1%. We expect the unemployment rate to peak at 5.0% in 2025 through 2027, up from 4.9% in the June forecast. We expect the unemployment rate to trend down and reach 4.7% in 2029, up from 4.5% in the previous forecast.
- 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 2024. We have incorporated the new BEA estimates as well as additional Washington Quarterly Census of Employment and Wages (QCEW) data. Our current estimate of Washington personal income in the first quarter of 2024 is \$1.18 billion (0.2%) higher than in the June forecast. Wages and salaries are \$1.29 billion (0.4%) higher than expected and nonwage income was \$0.11 billion (0.0%) lower than expected.
- Our forecast for nominal personal income growth this year is 5.4%, up from 5.3% in the June forecast. The preliminary September forecast for nominal personal income growth in 2025 through 2029 averages 5.6% per year, unchanged from the June forecast.
- Seattle-area home prices are increasing. Home prices grew 0.9% in June, the third consecutive increase. This was the strongest growth in home prices since August 2023. In comparison, the composite-20 index has increased in each of the past sixteen months, growing 0.4% in June. Seattle home prices in June were up 6.6% over the year while the composite-20 index was up 6.4% over the year.
- Seattle-area consumer price inflation continues to outpace the national average. From June 2023 to June 2024, the Seattle CPI rose 3.8% compared to the 3.0% increase in the U.S. City average index. Shelter costs in both Washington and the U.S. continue to outpace topline inflation, increasing 5.2%. Core inflation (excluding food and energy) remains elevated. Seattle core CPI rose 4.4% in June compared to 3.3% for the U.S. City average.
- Washington exports grew 1.6% from the second quarter of 2023 to the second quarter of 2024. The increase was led by growth in agricultural products (+17.2%) and petroleum and coal products (+71.8%). Transportation equipment exports fell for the second consecutive quarter, declining 4.6% year over year. Exports to China, Washington's largest trade partner, increased 17.5% year over year in the second quarter after declining in each of the previous four quarters.
- Washington car and truck sales increased for the second consecutive month in August. The seasonally adjusted number of new vehicle registrations grew

- 2.8% in August from the month before to 269,600 (SAAR). Passenger car registrations fell 1.0% while light truck registrations rebounded 37.7%. The number of total registrations were down 5.3% over the year in August.
- Washington housing construction slowed in the second quarter of 2024. The number of housing units authorized by building permits declined to 33,300 (SAAR) in the second quarter from 38,000 in the first quarter. Single-family permits declined 3,000 to 17,500 (SAAR) units and multi-family permits declined 1,700 to 15,700 (SAAR) units.
 - The preliminary September forecast calls for housing permits to reach a trough of 35,500 units this year, down from 37,100 units in 2023. We expect housing permits to grow through 2029 reaching 43,600 units. The previous forecast called for total housing permits of 37,000 units this year, reaching 45,100 units in 2029.

Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Dave Reich
Executive Director

September 13, 2024



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Overview

- The preliminary economic forecast for both the U.S. and WA are very similar to the June forecast
- Generally, the U.S. and Washington economies are transitioning to slower growth (GDP, employment)
- The Federal Reserve is likely to begin interest rate cuts this month (September 2024)
- WA residential permit forecast lower in 2024-2029 than in the June forecast
- GF-S revenue collections since the June forecast are \$26 million (0.4%) above expectations

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Economic forecast risks

Upside

- Stronger consumer spending, faster interest rate cuts
- Quicker resolution of Russia – Ukraine, Middle East conflicts leads to lower commodity prices

Downside

- High interest rates push economy into recession
- Russia – Ukraine, Middle East conflicts intensify, leading to higher prices for energy
- Boeing labor dispute

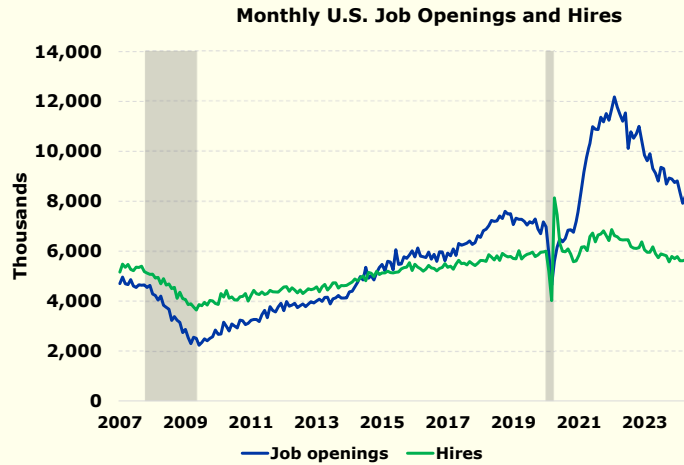
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Job openings continue to fall leading to better labor market balance



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Source: U.S. Bureau of Labor Statistics, data through July 2024

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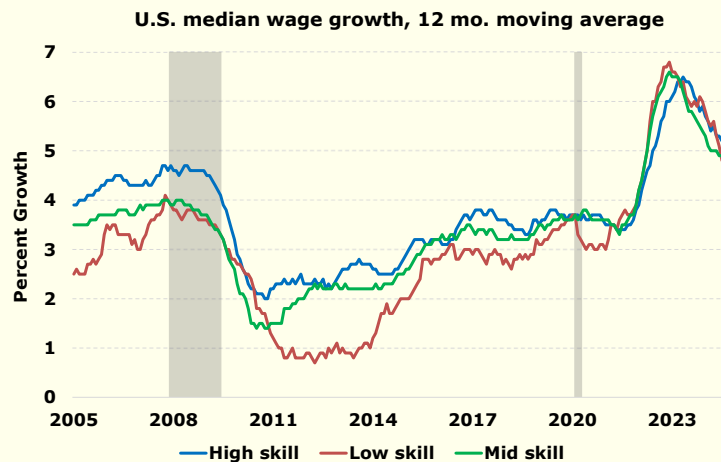


Wage growth has been slowing as the job market becomes more balanced

High-skill:
Managers,
Professionals,
Technicians

Middle-skill:
Office &
Administration,
Operators,
Production, Sales

Low-skill: Food
Preparation &
Serving,
Cleaning,
individual Care
Services,
Protective
Services



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Source: Federal Reserve Bank of Atlanta, data through July 2024

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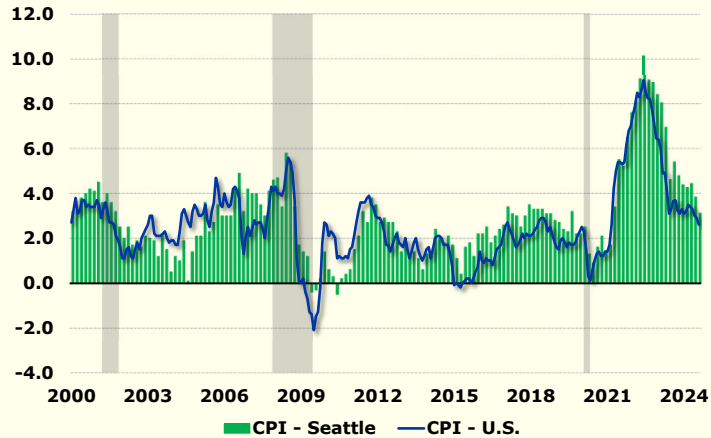


This better balance means inflation has slowed significantly

Other factors like an improving supply chain have also helped lower inflation

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Inflation, % change over the year



Source: U.S. Bureau of Labor Statistics, data through August 2024

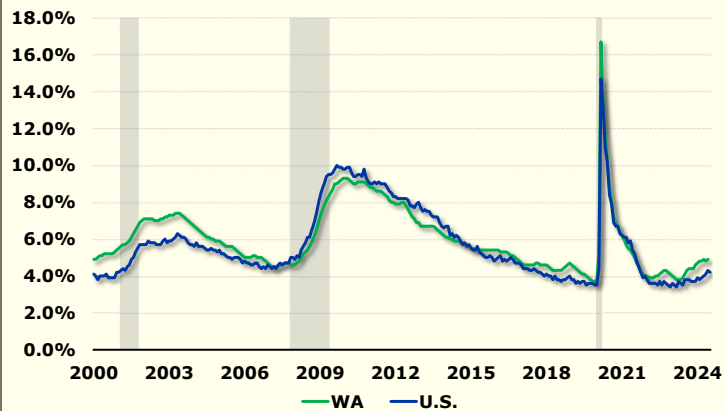
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Better balance has come with modest impacts-unemployment rates remain near historically low levels

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Monthly Unemployment Rate, SA

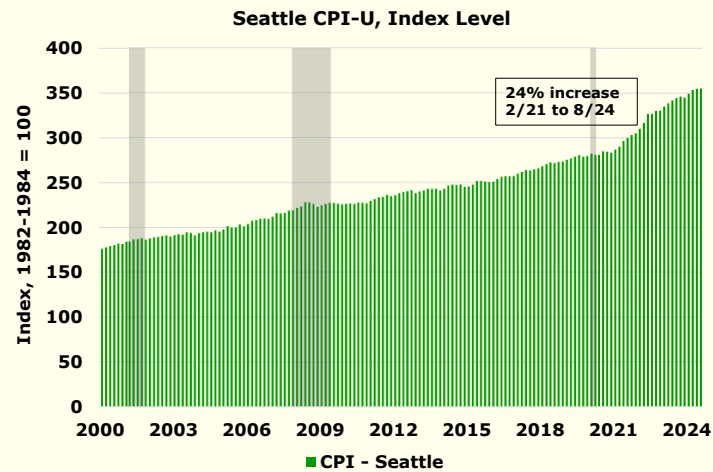


Source: U.S. Bureau of Labor Statistics, data through August 2024 (U.S.), July 2024 (WA)

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Slowing inflation is good news, but the level of prices rose quickly



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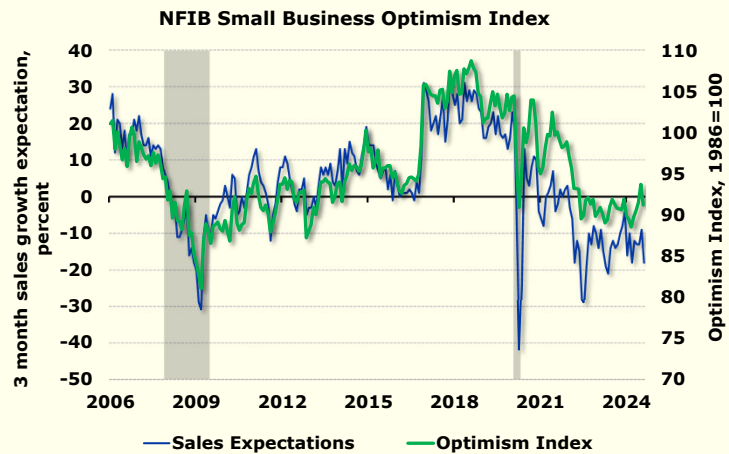
Source: U.S. Bureau of Labor Statistics, data through August 2024

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Inflation and labor quality/quantity remain top concerns for small businesses



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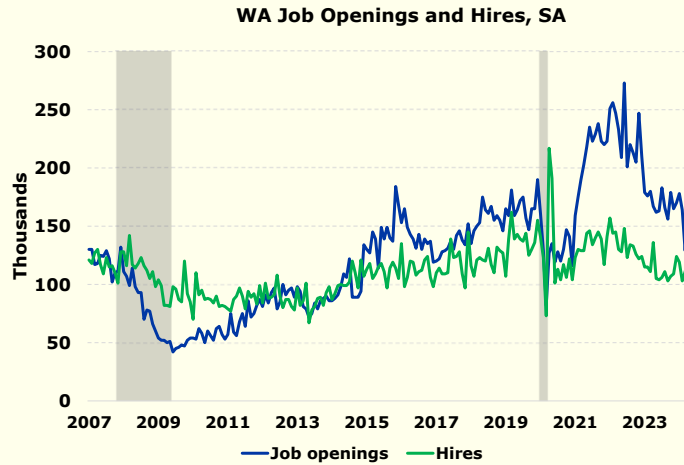
Source: National Federation of Independent Business; data through August 2024

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Washington job openings down from 2022 peak, consistent with national picture



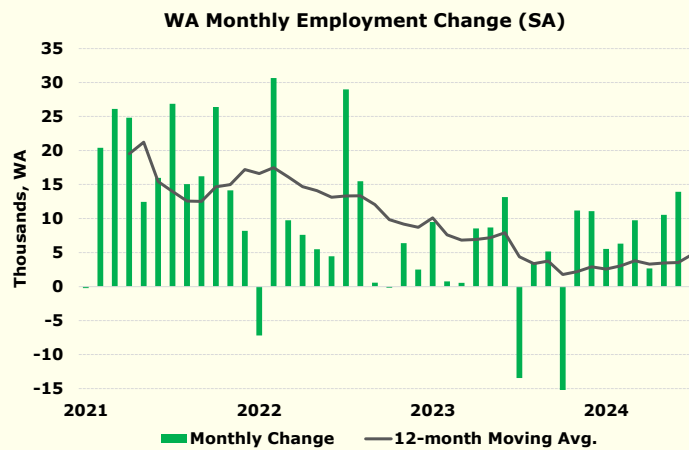
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Source: U.S. Bureau of Labor Statistics, data through June 2024

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WA employment growth has slowed overall, but has trended up in 2024



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Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept., ERFC; data through July 2024

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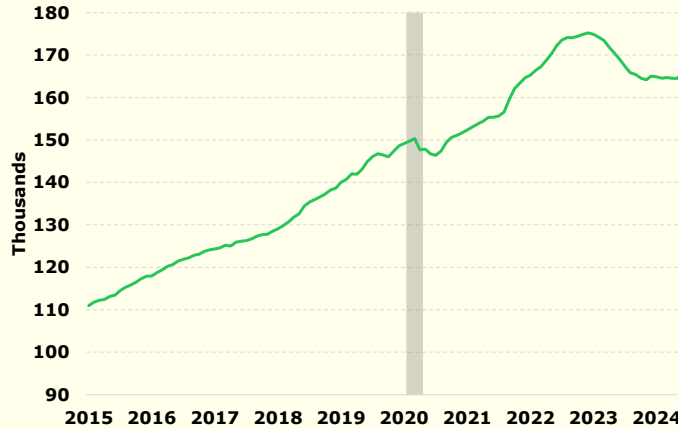


WA information employment is down 9,700 since December 2022

Microsoft announced layoffs in 2023; other tech firms have also slowed or reduced hiring.

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WA Information Employment



Source: ERFC, U.S. Bureau of Labor Statistics, Employment Security Dept., data through July 2024

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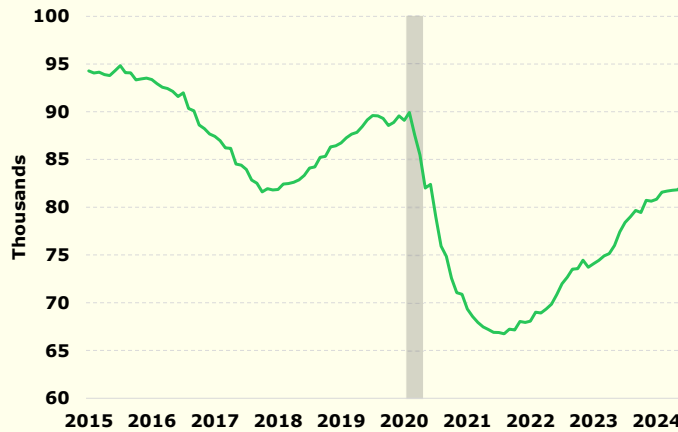


WA aerospace employment is up 15,800 since low point in August 2021

Aerospace employment has increased by 1,900 since December 2023.

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WA aerospace employment



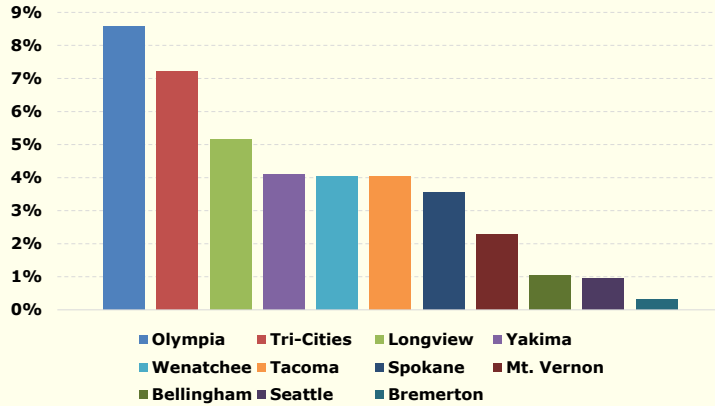
Source: ERFC, U.S. Bureau of Labor Statistics, Employment Security Dept., data through July 2024

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Post-pandemic employment changes vary widely across metro areas

Employment Change: July 2024 compared to January 2020 (SA)



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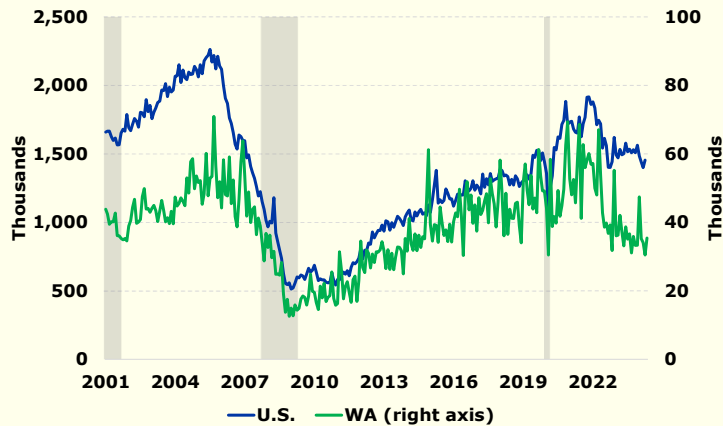
Source: WA Employment Security Dept.

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Washington residential construction has been slowing for several years

Building Permits (thousands of units, SAAR)



Washington building permits are down 8.3% YTD.

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Source: U.S. Census Bureau; monthly, data through July 2024

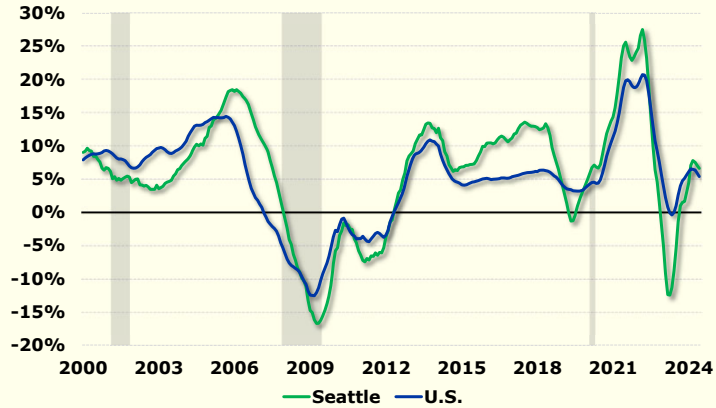
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Home price growth turned positive in September 2023, but is slowing

Seattle home prices bottomed in March 2023 but have been growing year over year since September 2023

Case-Shiller Home Price Index, Year over Year % Change, SA



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Source: Case-Shiller, data through June 2024

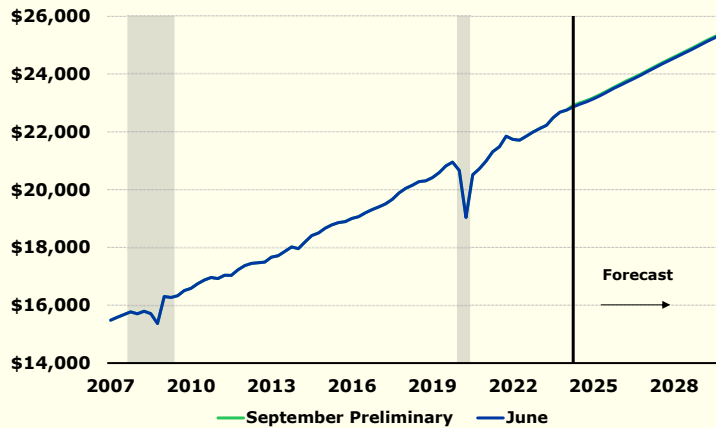
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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



U.S. GDP forecast is slightly higher than in June

Quarterly Real GDP, 2017 \$ Billions



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Source: IHS Markit, ERFC September preliminary 2024 forecast; historical data through 2024 Q2

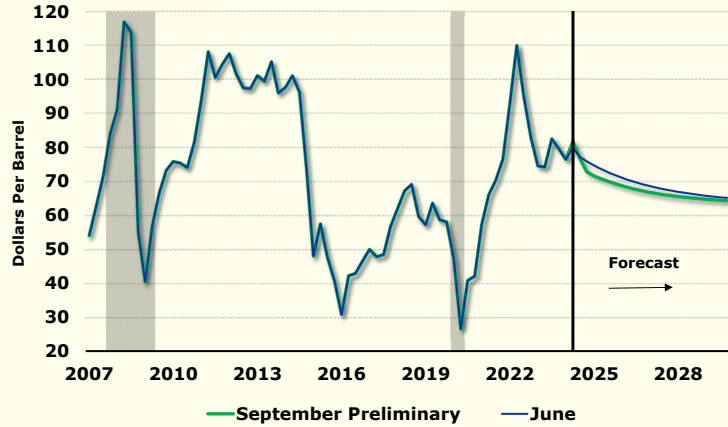
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Oil prices are lower than in the June forecast

Oil prices in the second quarter of 2024 were higher than expected in the June forecast



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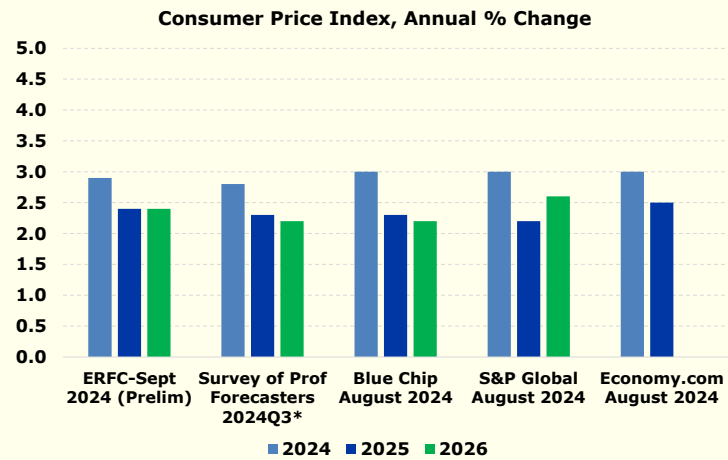
Source: Energy Information Administration, IHS Markit, ERF; data through 2024 Q2
Note: Vertical black line indicates last actual

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Inflation should continue to moderate

The Consumer Price Index increased by 4.1% in 2023



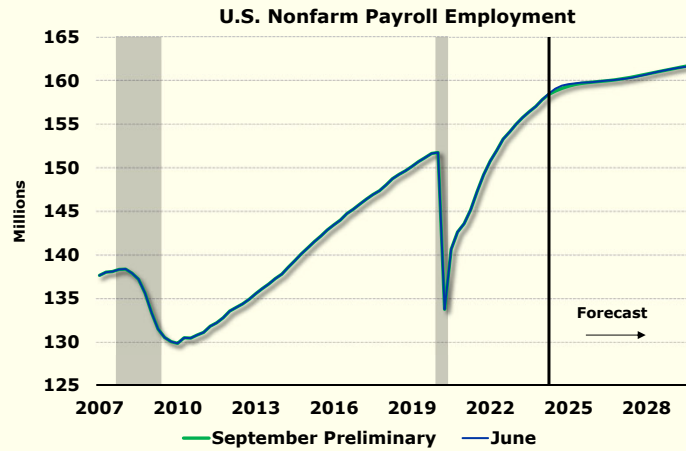
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Survey of Professional Forecasters reflects change in price level in 4th quarter compared to 4th quarter of prior year; all others reflect average change over the year compared to prior year.

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U.S. nonfarm employment grows slowly over the next few years



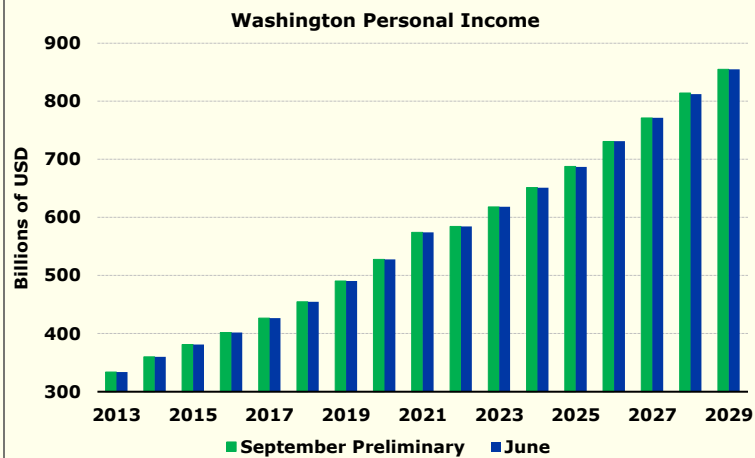
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Source: IHS Markit, ERFC September preliminary 2024 forecast; data through 2024 Q2

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WA personal income forecast averages 5.6% annual growth from 2024-2029, unchanged from June



In June, BEA released 2024:1Q personal income and WA was up 6.1% (SAAR)

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Source: ERFC September preliminary 2024 forecast; historical data through 2024 1Q

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WA employment forecast is slightly stronger over the forecast period

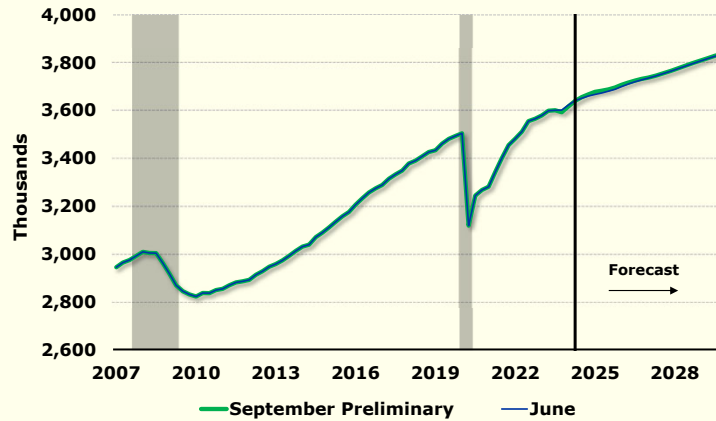
Average annual employment growth, 2024 to 2029:

U.S. = 0.4%

WA = 1.0%.

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Washington Nonfarm Payroll Employment



Source: ERFC September preliminary 2024 forecast; historical data through 2024 Q2

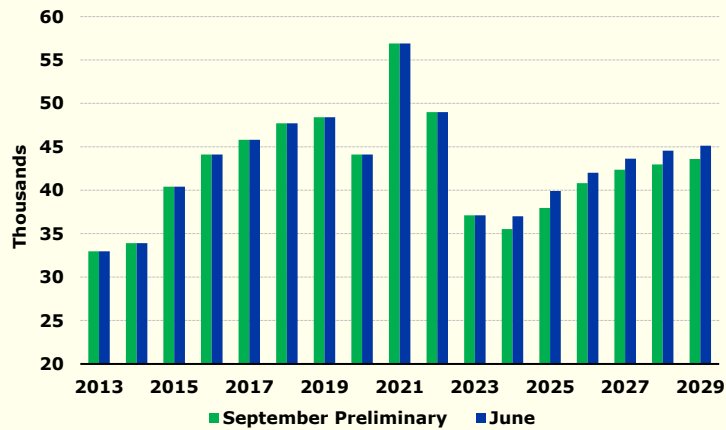
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WA housing permit forecast; lower over the 2024-2029 period

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Washington Housing Permits



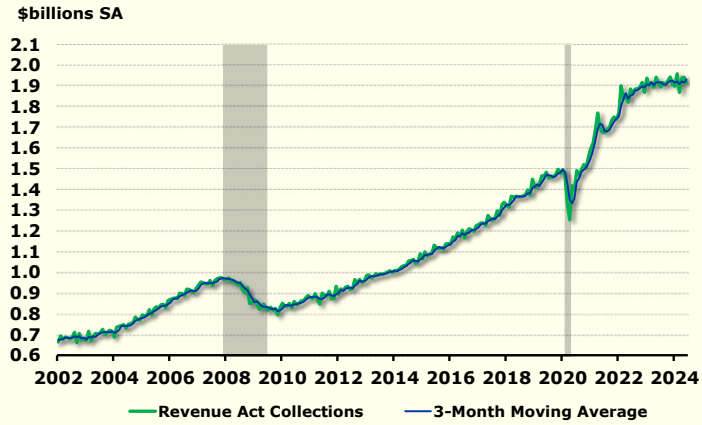
Source: ERFC September preliminary 2024 forecast; historical data through 2023

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue Act collections growth has slowed; June activity (SA) was unchanged compared with June 2023

Revenue Act includes:
Sales tax
B&O tax
Use tax
Pub util tax
Penalties
Tobacco



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* Adjusted for large one-time transactions, amnesty payments, reporting frequency change and deferred 2020 payments, current definition of Revenue Act
Source: DOR and ERFC; monthly data through June 2024 activity

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Taxable real estate activity increasing in 2024

Transactions of \$10 million or more were about \$1.3B in July 2024



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Source: ERFC; Monthly data through July 2024 estimate

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Preliminary GF-S revenue collections since the June forecast

Collections Variance Since June Forecast (June 11, 2024 – September 10, 2024) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$6,846,732	\$6,870,918	\$24,186	+0.4%
Other revenue	\$12,053	\$13,885	\$1,833	+15.2%
Total GF-S	\$6,858,785	\$6,884,804	\$26,019	+0.4%

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Source: ERFC; Revenue Act values are final, non-Revenue Act are preliminary

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The U.S. and Washington economic forecasts are very similar to June, with WA employment slightly higher and housing permits lower
- Employment growth is likely to slow both nationally and in WA
- Impacts of elevated interest rates, lower spending, geopolitical conflicts and labor disputes, pose 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 27th

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Questions

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Economic & Revenue Forecast Council
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Table 1
U.S. Economic Forecast Comparison
 August 2024

	2024Q3	2024Q4	2025Q1	2025Q2	2024	2025	2026	2027	2028	2029
Real GDP, Percent Change, Annual Rate										
ERFC (Preliminary September)	1.5	1.4	1.6	1.9	2.5	1.8	2.0	2.0	1.9	1.9
S&P Global	1.8	1.4	1.4	1.8	2.6	1.7	1.7	1.8	1.8	1.8
Economy.com	1.8	1.5	1.6	1.7	2.6	1.7				
Blue Chip Average*	1.7	1.5	1.7	1.9	2.5	1.8	2.0	2.0	1.9	1.9
Blue Chip Top 10*	2.4	2.2	2.3	2.5	2.7	2.3	2.2	2.2	2.1	2.1
Blue Chip Bottom 10*	0.9	0.8	0.9	1.2	2.4	1.3	1.8	1.7	1.7	1.7
Real Consumption, Percent Change, Annual Rate										
ERFC (Preliminary September)	2.1	1.7	1.6	1.8	2.2	1.9	2.1	2.0	2.0	2.0
S&P Global	2.7	1.9	1.7	1.8	2.3	1.9	1.9	2.3	2.4	2.2
Economy.com	2.3	2.2	2.1	2.0	2.3	2.1				
Blue Chip Average*	2.0	1.7	1.7	1.8	2.2	1.9	2.1	2.0	2.0	2.0
Blue Chip Top 10*	2.8	2.5	2.4	2.4	2.4	2.4	2.3	2.2	2.2	2.1
Blue Chip Bottom 10*	1.0	0.9	0.9	1.2	2.0	1.3	1.9	1.8	1.9	1.8
Federal Funds Rate										
ERFC (Preliminary September)	5.3	5.1	4.8	4.5	5.3	4.3	2.8	2.6	2.6	2.6
S&P Global	5.3	5.3	5.1	4.8	5.3	4.5	2.9	2.6	2.6	2.6
Economy.com	5.3	5.0	4.8	4.6	5.2	4.4				
Three Month T-Bill Rate										
ERFC (Preliminary September)	5.4	5.1	4.7	4.1	5.3	3.9	2.6	2.4	2.4	2.4
S&P Global	5.3	5.2	4.8	4.5	5.2	4.3	2.6	2.4	2.4	2.4
Blue Chip Average*	5.2	4.8	4.5	4.1	5.2	4.0	3.0	2.9	2.9	2.8
Blue Chip Top 10*	5.4	5.1	4.8	4.5	5.3	4.4	3.5	3.3	3.3	3.2
Blue Chip Bottom 10*	5.1	4.6	4.1	3.6	5.1	3.5	2.4	2.5	2.5	2.4
10-Yr. T-Note Yield										
ERFC (Preliminary September)	4.4	4.0	3.8	3.3	4.3	3.4	3.3	3.2	3.2	3.2
S&P Global	4.3	4.0	3.8	3.7	4.2	3.6	3.3	3.2	3.2	3.2
Economy.com	4.2	4.2	4.2	4.2	4.3	4.2				
Blue Chip Average*	4.2	4.0	3.9	3.9	4.2	3.9	3.5	3.6	3.6	3.6
Blue Chip Top 10*	4.4	4.3	4.3	4.3	4.3	4.3	3.9	3.9	4.0	4.0
Blue Chip Bottom 10*	3.9	3.7	3.6	3.5	4.0	3.4	3.2	3.2	3.2	3.2
Consumer Price Index, Percent Change, Year-over-Year										
ERFC (Preliminary September)	2.7	2.6	2.5	2.4	2.9	2.4	2.4	2.4	2.4	2.3
S&P Global	2.9	2.7	2.2	2.1	3.0	2.2	2.6	2.1	2.3	2.3
Economy.com	2.9	2.8	2.5	2.5	3.0	2.5				
Blue Chip Average*	2.9	2.8	2.4	2.3	3.0	2.3	2.2	2.2	2.2	2.2
Blue Chip Top 10*	3.1	3.1	2.8	2.8	3.2	2.6	2.4	2.4	2.4	2.3
Blue Chip Bottom 10*	2.7	2.4	1.9	1.6	2.9	2.0	2.1	2.1	2.0	2.0
Payroll Employment, Millions										
ERFC (Preliminary September)	158.8	159.1	159.4	159.6	158.5	159.6	160.0	160.4	161.0	161.6
Percent Change, Annual Rate	1.0	0.8	0.6	0.5	1.6	0.7	0.2	0.3	0.4	0.4
S&P Global	159.0	159.5	159.7	159.8	158.7	159.8	160.1	160.5	161.2	161.9
Percent Change, Annual Rate	1.4	1.2	0.5	0.3	1.7	0.7	0.2	0.3	0.4	0.5
Economy.com	158.9	159.2	159.5	159.7	158.6	159.8				
Percent Change, Annual Rate	1.1	0.9	0.7	0.6	1.6	0.7				
Unemployment Rate, Percent										
ERFC (Preliminary September)	4.3	4.3	4.3	4.3	4.1	4.3	4.4	4.5	4.5	4.3
S&P Global	4.0	4.1	4.2	4.2	4.0	4.3	4.5	4.6	4.5	4.4
Economy.com	4.2	4.1	4.1	4.1	4.0	4.1				
Blue Chip Average*	4.2	4.3	4.4	4.3	4.1	4.3	3.9	3.9	3.9	4.0
Blue Chip Top 10*	4.4	4.6	4.7	4.7	4.2	4.7	4.2	4.1	4.1	4.1
Blue Chip Bottom 10*	4.0	4.1	4.1	4.1	4.0	4.1	3.7	3.8	3.7	3.8
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC (Preliminary September)	2.9	3.2	3.7	1.8	1.5	2.9	3.1	2.9	2.6	2.4
S&P Global	2.4	2.5	4.0	3.1	1.4	3.0	3.1	2.9	2.6	2.4
Blue Chip Average*	2.1	2.0	2.4	2.2	1.4	2.2	2.3	2.2	2.1	2.1
Blue Chip Top 10*	3.1	2.9	3.7	2.8	1.8	2.9	2.6	2.5	2.3	2.3
Blue Chip Bottom 10*	1.1	0.8	1.3	1.4	1.1	1.3	1.9	2.0	2.0	1.9
West Texas Intermediate										
ERFC (Preliminary September)	77.5	73.0	71.7	70.8	77.4	70.4	67.7	65.8	64.7	63.9
S&P Global	81.3	77.7	73.9	72.3	79.5	72.8	75.0	77.9	81.0	83.2
Economy.com	81.5	78.6	78.0	76.5	79.8	76.1				

* Forecasts beyond 2025 are from the March 2024 Blue Chip Economic Indicators

U.S. Forecast Comparison**Fiscal Years**

	2024	2025	2026	2027	2028	2029
Real GDP						
Billions of 2017 dollars						
September Preliminary Forecast	22,712	23,139	23,593	24,055	24,529	24,996
<i>Growth</i>	3.0%	1.9%	2.0%	2.0%	2.0%	1.9%
June Forecast	22,695	23,096	23,552	24,015	24,489	24,952
<i>Growth</i>	3.0%	1.8%	2.0%	2.0%	2.0%	1.9%
Difference in level	17	44	41	40	40	43
<i>Difference in growth forecast</i>	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%

Real Consumption

Billions of 2017 dollars

September Preliminary Forecast	15,606	15,914	16,226	16,563	16,890	17,234
<i>Growth</i>	2.4%	2.0%	2.0%	2.1%	2.0%	2.0%
June Forecast	15,615	15,921	16,240	16,576	16,904	17,246
<i>Growth</i>	2.5%	2.0%	2.0%	2.1%	2.0%	2.0%
Difference in level	-9	-7	-14	-13	-14	-13
<i>Difference in growth forecast</i>	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%

PCE Price Index

2017 = 100

September Preliminary Forecast	121.9	124.7	127.7	130.6	133.4	136.3
<i>Growth</i>	2.8%	2.3%	2.5%	2.3%	2.1%	2.2%
June Forecast	121.9	125.0	128.1	131.0	133.9	136.9
<i>Growth</i>	2.8%	2.5%	2.5%	2.3%	2.2%	2.2%
Difference in level	0.0	-0.3	-0.4	-0.4	-0.6	-0.6
<i>Difference in growth forecast</i>	0.0%	-0.2%	-0.1%	0.0%	-0.1%	0.0%

Unemployment Rate

Percent of Labor Force

September Preliminary Forecast	3.8%	4.3%	4.4%	4.5%	4.5%	4.4%
June Forecast	3.8%	4.0%	4.1%	4.4%	4.4%	4.3%
<i>Difference in forecast</i>	0.0%	0.3%	0.2%	0.1%	0.1%	0.1%

30 Year Fixed Mortgage Rate

Annual Average

September Preliminary Forecast	7.0%	6.1%	5.4%	5.0%	5.0%	4.9%
June Forecast	7.0%	6.2%	5.5%	5.0%	5.1%	4.9%
<i>Difference in forecast</i>	0.0%	-0.1%	-0.1%	0.0%	-0.1%	0.0%

3 Month T-Bill Rate

Annual Average

September Preliminary Forecast	5.3%	4.8%	3.1%	2.4%	2.4%	2.4%
June Forecast	5.3%	4.9%	3.4%	2.4%	2.3%	2.4%
<i>Difference in forecast</i>	0.0%	0.0%	-0.3%	0.0%	0.1%	0.0%

Washington Forecast Comparison	Fiscal Years					
	2024	2025	2026	2027	2028	2029
Real Personal Income						
Billions of 2017 dollars						
September Preliminary Forecast	519.2	536.1	555.3	574.7	594.2	612.7
<i>Growth</i>	2.4%	3.3%	3.6%	3.5%	3.4%	3.1%
June Forecast	519.1	534.9	553.1	573.8	590.4	609.4
<i>Growth</i>	2.4%	3.0%	3.4%	3.7%	2.9%	3.2%
Difference in level	NA	NA	NA	NA	NA	NA
<i>Difference in growth forecast</i>	0.0%	0.2%	0.2%	-0.2%	0.5%	-0.1%
Nominal Personal Income						
Billions of dollars						
September Preliminary Forecast	633.1	668.5	709.3	750.7	792.7	835.0
<i>Growth</i>	5.3%	5.6%	6.1%	5.8%	5.6%	5.3%
June Forecast	633.1	668.5	708.7	751.8	790.9	834.0
<i>Growth</i>	5.3%	5.6%	6.0%	6.1%	5.2%	5.5%
Difference in level	0.0	0.0	0.6	-1.1	1.8	0.9
<i>Difference in growth forecast</i>	0.0%	0.0%	0.1%	-0.3%	0.4%	-0.1%
Nonfarm Payroll Employment						
Thousands						
September Preliminary Forecast	3,612.7	3,670.7	3,701.9	3,734.6	3,766.6	3,805.4
<i>Growth</i>	1.1%	1.6%	0.8%	0.9%	0.9%	1.0%
June Forecast	3,616.6	3,662.6	3,694.6	3,731.5	3,765.4	3,803.6
<i>Growth</i>	1.2%	1.3%	0.9%	1.0%	0.9%	1.0%
Difference in level	-3.9	8.1	7.3	3.1	1.2	1.7
<i>Difference in growth forecast</i>	-0.1%	0.3%	0.0%	-0.1%	0.0%	0.0%
Housing Permits						
Units Authorized, Thousands						
September Preliminary Forecast	35.2	36.3	39.5	41.7	42.7	43.3
<i>Growth</i>	-13.0%	3.0%	9.0%	5.6%	2.3%	1.3%
June Forecast	35.8	38.3	41.0	42.9	44.2	44.8
<i>Growth</i>	-11.7%	7.0%	7.0%	4.7%	2.9%	1.6%
Difference in level	-0.6	-2.0	-1.5	-1.2	-1.5	-1.6
<i>Difference in growth forecast</i>	-1.4%	-4.1%	2.0%	0.9%	-0.6%	-0.2%

Table 2

U.S. Forecast Comparison

	2024Q2	2024Q3	2024Q4	2025Q1	2023	2024	2025	2026	2027	2028	2029
Real GDP (Billions of 2017 Dollars)											
September Forecast, Preliminary	22,919	23,006	23,085	23,178	22,377	22,942	23,354	23,821	24,298	24,759	25,230
Percent Change	2.8%	1.5%	1.4%	1.6%	2.5%	2.5%	1.8%	2.0%	2.0%	1.9%	1.9%
June Forecast	22,860	22,954	23,041	23,139	22,377	22,901	23,315	23,781	24,257	24,718	25,187
Percent Change	2.0%	1.6%	1.5%	1.7%	2.5%	2.3%	1.8%	2.0%	2.0%	1.9%	1.9%
Real Consumption (Billions of 2017 Dollars)											
September Forecast, Preliminary	15,733	15,814	15,881	15,945	15,426	15,768	16,060	16,397	16,725	17,060	17,401
Percent Change	2.3%	2.1%	1.7%	1.6%	2.2%	2.2%	1.9%	2.1%	2.0%	2.0%	2.0%
June Forecast	15,750	15,819	15,883	15,954	15,426	15,779	16,073	16,410	16,739	17,073	17,415
Percent Change	2.2%	1.8%	1.6%	1.8%	2.2%	2.3%	1.9%	2.1%	2.0%	2.0%	2.0%
PCE Price Index (2017=100)											
September Forecast, Preliminary	123.2	123.7	124.3	125.0	120.4	123.4	126.1	129.2	132.0	134.9	137.7
Percent Change	2.6%	1.7%	2.0%	2.3%	3.7%	2.5%	2.2%	2.5%	2.1%	2.2%	2.1%
June Forecast	123.3	123.9	124.6	125.3	120.4	123.5	126.5	129.6	132.5	135.4	138.3
Percent Change	3.0%	1.9%	2.5%	2.4%	3.7%	2.6%	2.4%	2.4%	2.2%	2.2%	2.1%
Real Personal Income (Billions of 2017 Dollars)											
September Forecast, Preliminary	19,390	19,528	19,680	19,859	19,074	19,480	20,066	20,704	21,308	21,905	22,421
Percent Change	1.4%	2.9%	3.2%	3.7%	1.3%	2.1%	3.0%	3.2%	2.9%	2.8%	2.4%
June Forecast	19,447	19,599	19,723	19,890	19,074	19,525	20,049	20,719	21,268	21,794	22,373
Percent Change	2.4%	3.2%	2.5%	3.4%	1.3%	2.4%	2.7%	3.3%	2.6%	2.5%	2.7%
Nonfarm Payroll Employment (Millions)											
September Forecast, Preliminary	158.4	158.8	159.1	159.4	156.1	158.5	159.6	160.0	160.4	161.0	161.6
Percent Change	1.5%	1.0%	0.8%	0.6%	2.3%	1.6%	0.7%	0.2%	0.3%	0.4%	0.4%
June Forecast	158.5	159.1	159.4	159.6	156.1	158.7	159.7	160.0	160.3	161.0	161.6
Percent Change	1.8%	1.5%	0.9%	0.4%	2.3%	1.7%	0.6%	0.2%	0.2%	0.4%	0.4%
Unemployment Rate (Percent of Labor Force)											
September Forecast, Preliminary	4.0	4.3	4.3	4.3	3.6	4.1	4.3	4.4	4.5	4.5	4.3
June Forecast	4.0	4.0	4.0	4.0	3.6	3.9	4.0	4.3	4.4	4.4	4.3
Oil Price, Refiner's Acquisition											
September Forecast, Preliminary	81.8	76.6	72.8	71.6	77.7	76.9	70.4	67.9	66.2	65.2	64.5
June Forecast	79.9	77.2	75.9	74.6	77.7	77.3	73.2	70.0	67.9	66.4	65.4
30 Year Fixed Mortgage Rate (Percent, average)											
September Forecast, Preliminary	7.0	6.8	6.3	5.8	6.8	6.7	5.6	5.1	5.0	5.0	4.8
June Forecast	7.0	6.7	6.3	6.0	6.8	6.7	5.8	5.1	5.1	5.0	4.9
3 Month T-Bill Rate (Percent, average)											
September Forecast, Preliminary	5.2	5.4	5.1	4.7	5.1	5.3	3.9	2.6	2.4	2.4	2.4
June Forecast	5.4	5.3	5.1	4.8	5.1	5.3	4.2	2.7	2.3	2.4	2.4

Table 3

Washington Forecast Comparison

	2024Q2	2024Q3	2024Q4	2025Q1
Real Personal Income (Billions of 2017 Dollars)				
September Forecast, Preliminary	525.4	529.6	534.0	539.1
Percent Change	2.3%	3.2%	3.3%	3.9%
June Forecast	524.9	528.9	532.5	537.5
Percent Change	2.6%	3.1%	2.8%	3.8%
Personal Income (Billions of Dollars)				
September Forecast, Preliminary	647.2	655.1	663.9	673.9
Percent Change	5.0%	5.0%	5.4%	6.2%
June Forecast	647.1	655.1	663.6	673.7
Percent Change	5.7%	5.1%	5.3%	6.2%
Disposable Personal Income (Billions of Dollars)				
September Forecast, Preliminary	565.0	572.4	579.9	588.4
Percent Change	4.5%	5.3%	5.4%	6.1%
June Forecast	566.0	573.1	580.6	589.4
Percent Change	5.6%	5.1%	5.3%	6.2%
Nonfarm Payroll Employment (Thousands)				
September Forecast, Preliminary	3639.8	3655.7	3666.8	3677.7
Percent Change	2.5%	1.8%	1.2%	1.2%
June Forecast	3641.0	3650.7	3660.0	3666.9
Percent Change	2.0%	1.1%	1.0%	0.8%
Unemployment Rate (Percent of Labor Force)				
September Forecast, Preliminary	4.9	5.0	5.0	5.0
June Forecast	4.9	4.9	4.9	4.9
Manufacturing Employment (Thousands)				
September Forecast, Preliminary	277.1	278.2	278.7	277.8
Percent Change	0.6%	1.6%	0.7%	-1.2%
June Forecast	277.7	277.0	275.1	273.2
Percent Change	0.9%	-1.0%	-2.7%	-2.6%
Construction Employment (Thousands)				
September Forecast, Preliminary	231.4	234.3	236.1	237.9
Percent Change	5.0%	5.0%	3.2%	3.0%
June Forecast	232.6	235.5	237.9	239.6
Percent Change	3.8%	5.0%	4.1%	3.0%
Housing Permits (Thousands)				
September Forecast, Preliminary	33.3	35.0	35.9	36.7
Percent Change	-41.3%	22.2%	10.8%	9.9%
June Forecast	35.5	36.8	37.7	39.0
Percent Change	-24.1%	15.7%	10.7%	14.2%

	2023	2024	2025	2026	2027	2028	2029
Real Personal Income (Billions of 2017 Dollars)							
September Forecast, Preliminary	513.3	527.9	545.2	565.2	584.4	603.8	620.9
Percent Change	2.0%	2.8%	3.3%	3.7%	3.4%	3.3%	2.8%
June Forecast	513.6	527.0	542.9	564.3	582.4	599.6	618.4
Percent Change	2.1%	2.6%	3.0%	3.9%	3.2%	3.0%	3.1%
Personal Income (Billions of Dollars)							
September Forecast, Preliminary	617.9	651.4	687.7	730.6	771.2	814.3	855.0
Percent Change	5.8%	5.4%	5.6%	6.2%	5.6%	5.6%	5.0%
June Forecast	618.2	651.0	686.9	731.3	771.4	812.1	855.1
Percent Change	5.9%	5.3%	5.5%	6.5%	5.5%	5.3%	5.3%
Disposable Personal Income (Billions of Dollars)							
September Forecast, Preliminary	544.6	569.0	599.6	636.2	670.8	707.0	742.4
Percent Change	8.0%	4.5%	5.4%	6.1%	5.4%	5.4%	5.0%
June Forecast	544.9	569.5	600.6	638.8	671.6	705.7	742.7
Percent Change	8.1%	4.5%	5.5%	6.4%	5.1%	5.1%	5.2%
Nonfarm Payroll Employment (Thousands)							
September Forecast, Preliminary	3593	3645	3686	3720	3749	3786	3824
Percent Change	1.8%	1.4%	1.1%	0.9%	0.8%	1.0%	1.0%
June Forecast	3595	3644	3677	3715	3748	3784	3822
Percent Change	1.9%	1.3%	0.9%	1.0%	0.9%	1.0%	1.0%
Unemployment Rate (Percent of Labor Force)							
September Forecast, Preliminary	4.1	4.9	5.0	5.0	5.0	4.9	4.7
June Forecast	4.1	4.8	4.9	4.9	4.9	4.7	4.5
Manufacturing Employment (Thousands)							
September Forecast, Preliminary	273.9	277.6	276.0	278.8	279.3	279.0	278.8
Percent Change	1.9%	1.4%	-0.6%	1.0%	0.2%	-0.1%	-0.1%
June Forecast	273.9	276.7	272.0	275.2	275.5	275.3	275.9
Percent Change	1.9%	1.0%	-1.7%	1.2%	0.1%	-0.1%	0.2%
Construction Employment (Thousands)							
September Forecast, Preliminary	231.9	232.6	240.0	247.4	255.2	263.5	271.4
Percent Change	-0.2%	0.3%	3.2%	3.1%	3.1%	3.2%	3.0%
June Forecast	232.2	234.1	241.9	249.6	258.3	266.8	275.2
Percent Change	-0.1%	0.8%	3.3%	3.2%	3.5%	3.3%	3.2%
Housing Permits (Thousands)							
September Forecast, Preliminary	37.1	35.5	37.9	40.8	42.4	43.0	43.6
Percent Change	-24.3%	-4.2%	6.8%	7.6%	3.8%	1.4%	1.5%
June Forecast	37.1	37.0	39.9	42.0	43.6	44.5	45.1
Percent Change	-24.3%	-0.3%	7.9%	5.2%	3.9%	2.1%	1.3%

Year-Over-Year Employment Growth by Industry (July 2023 to July 2024) Washington vs. U.S.

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	57.4	1.6%	1.6%
Education and Health Services	19.3	3.6%	4.0%
Aerospace Product and Parts Manufacturing	4.1	5.2%	3.4%
Construction	2.4	1.0%	2.8%
State and Local Gov Non-Education	12.1	4.6%	2.1%
Leisure and Hospitality	4.0	1.2%	1.8%
State and Local Gov Education	11.3	4.6%	1.7%
Other Services	4.3	3.5%	1.4%
Wholesale Trade	-0.1	0.0%	0.9%
Transportation, Warehousing and Utilities	0.0	0.0%	0.8%
Financial Activities	1.0	0.6%	0.3%
Management of Companies and Enterprises	0.2	0.2%	0.1%
Manufacturing Excluding Aerospace	0.5	0.3%	-0.1%
Software Publishers	-0.9	-1.1%	-0.2%
Information Excluding Software	-0.9	-1.0%	-0.6%
Mining and Logging	-0.4	-6.3%	-1.4%
Information	-1.8	-1.1%	-0.5%
Professional and Business Services	-3.5	-0.6%	0.4%
Manufacturing	4.6	1.7%	0.1%

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