



February 2018 Economic Forecast

CONTACT: Bret Bertolin, Senior Economist
PHONE: 360-534-1566

This forecast is based on a modified version of IHS Markit's February 2018 Control forecast for the U.S. economy. We have adjusted real gross domestic product (GDP) to match the Blue Chip "Consensus" GDP forecast. The January Blue Chip forecast for real GDP growth in 2018 and 2019 was revised up since November to 2.7% and 2.4% from 2.5% and 2.1%. The long term forecast has not changed since October and calls for growth rates of 2.1%, 2.0%, 2.0%, and 2.1% in 2020 through 2023/

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 Friday, February 2, 2018 closing prices for Brent and WTI futures. The latest futures prices are higher than the prices used in the November forecast but decline more rapidly. The refiner acquisition price of crude oil in the second quarter of 2018 is now expected to average \$64 per barrel compared to \$58 in the November forecast. As in November, the price is expected to decline to \$52 per barrel by the end of 2021.

The November forecast assumed no new tax legislation. The recently passed Tax Cut and Jobs Act was probably a significant factor in the higher Blue Chip GDP forecast for 2018 and 2019. We do not have a new long term Blue Chip forecast. The average effective personal income tax rate will be about two percentage points lower from now until the provisions expire in 2026, raising disposable personal income.

A comparison of the February U.S. forecast with the November U.S. forecast is shown in Table 2.

We have two months of new Washington employment data since the November forecast was released. Total nonfarm payroll employment rose 11,700 (seasonally adjusted) in November and December, which was 2,500 less than the 14,200 expected in the November forecast. Private, service-providing sectors accounted for most of the job growth by adding 8,100 net new jobs. The manufacturing sector added 900 jobs and construction added 1,000 jobs. Government employment increased by 1,700 in November and December.

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 reduced the estimated level of total employment in October 2017 by 10,300 jobs (0.3%). As a result of the downward revision to history and slightly weaker-than-expected growth, the combined effect is 13,100 (0.4%) fewer jobs in January 2018 than expected in the November forecast.

In December, the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) released state personal income estimates for the third quarter of 2017. According to these estimates, Washington personal income rose to \$418.3 billion (SAAR) in the third quarter of 2017 from \$414.1.0 billion in the second quarter. The reported 4.1% growth rate (SAAR) in Washington personal income was the highest among the states and District of Columbia and exceeded the 2.7% growth rate for the U.S. by a large margin. Over the year, Washington personal income grew 4.6%, which was also highest among the states and DC and easily surpassed the 2.6% rate for the U.S. as a whole.

Washington housing construction in the fourth quarter was stronger than expected in the November forecast because of very strong multi-family activity. Of the 7,800 variance in total units (SAAR), 7,500 was due to stronger-than-expected multi-family construction and only 300 to stronger-than-expected single-family construction. In October, November, and December, 51,700 units (SAAR) were permitted of which 24,500 were single family and 27,200 were multi-family. The November forecast assumed an average rate of 43,900 units for the fourth quarter as a whole (SAAR) consisting of 24,200 single-family units and 19,700 multi-family units.

Washington employment is expected to grow 2.2% this year, which is slightly lower than the 2.4% expected in the November forecast. As in November, we expect growth to decelerate gradually as the recovery matures. We expect employment growth to average 1.6% per year in 2019 through 2021, which is slightly more than the 1.4% average rate in the November forecast. Our forecast for nominal personal income growth this year is 5.0%, up from 4.7% in the November forecast. Our new forecast for nominal personal income growth in 2019 through 2021 averages 5.3% per year which is the same rate as expected in the November forecast.

A comparison of the February Washington forecast with the November Washington forecast is shown in Table 3.

Table 1

U.S. Economic Forecast Comparison

February 2018

	2017Q4	2018Q1	2018Q2	2018Q3	2018	2019	2020	2021	2022	2023
Real GDP, Percent Change, Annual Rate										
ERFC	2.6	2.5	2.9	2.6	2.7	2.4	2.1	2.0	2.0	2.1
IHS	2.6	2.4	2.9	2.8	2.7	2.7	2.1	1.9	1.9	1.9
Economy.com	2.6	2.6	3.1	3.5	2.9	2.6	0.9			
Blue Chip Average* (January)	2.7	2.5	2.8	2.6	2.7	2.4	2.1	2.0	2.0	2.1
Blue Chip Top 10*	3.2	3.2	3.4	3.1	3.0	2.8	3.1	2.6	2.5	2.6
Blue Chip Bottom 10*	2.4	1.9	2.3	2.1	2.4	1.9	1.4	1.4	1.6	1.7
Real Consumption, Percent Change, Annual Rate										
ERFC	3.8	1.7	2.7	2.5	2.6	2.3	2.0	2.0	2.1	2.2
IHS	3.8	2.8	2.8	2.5	2.9	2.4	2.1	2.1	2.1	2.2
Economy.com	3.8	1.8	2.9	3.0	2.7	2.5	1.1			
Blue Chip Average*	3.0	2.5	2.7	2.5	2.6	2.3	2.0	2.0	2.1	2.2
Blue Chip Top 10*	3.4	3.3	3.2	3.0	3.0	2.7	2.5	2.6	2.6	2.5
Blue Chip Bottom 10*	2.6	1.7	2.3	2.1	2.4	1.9	1.4	1.4	1.6	1.8
Federal Funds Rate										
ERFC	1.2	1.4	1.7	1.9	1.8	2.8	3.3	3.4	3.5	3.3
IHS	1.2	1.4	1.7	1.9	1.8	2.8	3.3	3.4	3.5	3.3
Economy.com	1.2	1.4	1.7	2.0	1.9	3.4	3.7			
Three Month T-Bill Rate										
ERFC	1.2	1.6	1.7	1.9	1.8	2.6	3.1	3.2	3.2	3.0
IHS	1.2	1.5	1.7	1.9	1.8	2.6	3.1	3.2	3.2	3.0
Blue Chip Average*	1.3	1.4	1.7	1.9	1.8	2.4	2.7	2.8	2.8	2.8
Blue Chip Top 10*	1.3	1.6	1.8	2.1	1.9	2.9	3.3	3.3	3.3	3.4
Blue Chip Bottom 10*	1.3	1.3	1.5	1.6	1.6	2.0	2.2	2.2	2.2	2.2
10-Yr. T-Note Yield										
ERFC	2.4	2.7	2.9	3.1	3.0	3.5	3.7	3.6	3.6	3.6
IHS	2.4	2.7	2.9	3.1	3.0	3.5	3.7	3.7	3.7	3.7
Economy.com	2.4	2.7	3.0	3.3	3.1	4.0	4.0			
Blue Chip Average*	2.4	2.6	2.7	2.8	2.7	3.2	3.5	3.5	3.6	3.6
Blue Chip Top 10*	2.4	2.8	3.0	3.2	3.0	3.8	4.2	4.2	4.3	4.3
Blue Chip Bottom 10*	2.4	2.4	2.5	2.5	2.4	2.6	2.9	3.0	3.0	2.9
Consumer Price Index, Percent Change, Annual Rate										
ERFC	3.7	3.3	1.2	2.5	2.4	1.8	2.2	2.2	2.1	2.0
IHS	3.7	2.8	0.8	3.2	2.3	1.7	2.7	2.6	2.4	2.3
Economy.com	3.7	2.7	2.2	2.4	2.5	2.5	2.5			
Blue Chip Average*	3.3	2.1	1.9	2.1	2.1	2.2	2.3	2.3	2.3	2.3
Blue Chip Top 10*	3.9	2.8	2.6	2.7	2.5	2.7	2.8	2.9	2.8	2.7
Blue Chip Bottom 10*	2.1	1.5	0.9	1.4	1.7	1.8	1.9	1.8	1.9	2.0
Payroll Employment, Millions										
ERFC	147.4	148.0	148.6	149.2	148.9	151.0	152.7	153.5	154.4	155.1
Percent Change, Annual Rate	1.5	1.6	1.4	1.7	1.5	1.4	1.1	0.6	0.5	0.5
IHS	147.4	148.0	148.6	149.3	149.0	151.6	153.5	154.4	155.3	156.0
Percent Change, Annual Rate	1.5	1.6	1.6	1.8	1.6	1.8	1.3	0.6	0.5	0.5
Economy.com	147.4	148.0	148.5	149.2	148.8	150.5	150.8			
Percent Change, Annual Rate	1.5	1.5	1.5	1.8	1.5	1.1	0.2			
Unemployment Rate, Percent										
ERFC	4.1	4.1	4.0	3.9	4.0	3.7	3.8	3.9	3.9	4.0
IHS	4.1	4.1	4.0	3.9	4.0	3.6	3.6	3.7	3.8	4.0
Economy.com	4.1	4.0	3.8	3.7	3.8	3.6	4.2			
Blue Chip Average*	4.1	4.0	4.0	3.9	3.9	3.8	4.3	4.4	4.5	4.5
Blue Chip Top 10*	4.1	4.2	4.1	4.1	4.1	4.1	4.8	4.9	5.0	5.0
Blue Chip Bottom 10*	4.1	4.0	3.9	3.7	3.8	3.5	3.8	4.0	4.0	3.9
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC	1.1	5.9	2.5	2.7	2.9	3.3	2.7	2.2	2.0	2.1
IHS	1.1	6.5	3.0	2.5	3.1	3.7	2.6	2.3	2.2	2.1
Blue Chip Average*	1.9	4.0	2.9	2.9	2.7	2.6	2.3	2.2	2.3	2.4
Blue Chip Top 10*	3.2	6.9	3.9	4.0	3.6	3.5	2.9	2.9	2.9	2.9
Blue Chip Bottom 10*	0.8	2.1	2.2	2.2	1.9	1.8	1.7	1.7	1.8	1.9
West Texas Intermediate										
ERFC	55.4	64.9	64.6	63.0	63.4	58.0	54.4	52.3	51.3	51.2
IHS	55.4	63.8	62.3	66.0	63.3	56.4	67.0	73.1	77.6	82.1
Economy.com	55.3	62.9	63.6	62.5	62.5	59.6	59.1			

* Forecasts beyond 2018 are from the October 2017 Blue Chip Economic Indicators

Table 2

U.S. Forecast Comparison

	2017Q4	2018Q1	2018Q2	2018Q3	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP (Billions of 2009 Dollars)													
February Forecast	17,272	17,380	17,504	17,618	16,472	16,716	17,093	17,557	17,970	18,348	18,715	19,089	19,490
Percent Change	2.6%	2.5%	2.9%	2.6%	2.9%	1.5%	2.3%	2.7%	2.4%	2.1%	2.0%	2.0%	2.1%
November Forecast	17,265	17,369	17,474	17,571	16,472	16,716	17,089	17,518	17,886	18,262	18,627	#N/A	#N/A
Percent Change	2.5%	2.4%	2.4%	2.2%	2.9%	1.5%	2.2%	2.5%	2.1%	2.1%	2.0%	#N/A	#N/A
Real Consumption (Billions of 2009 Dollars)													
February Forecast	12,028	12,080	12,161	12,236	11,264	11,572	11,889	12,197	12,479	12,729	12,983	13,256	13,547
Percent Change	3.8%	1.7%	2.7%	2.5%	3.6%	2.7%	2.7%	2.6%	2.3%	2.0%	2.0%	2.1%	2.2%
November Forecast	12,002	12,073	12,148	12,219	11,264	11,572	11,884	12,182	12,450	12,699	12,953	#N/A	#N/A
Percent Change	2.7%	2.4%	2.5%	2.4%	3.6%	2.7%	2.7%	2.5%	2.2%	2.0%	2.0%	#N/A	#N/A
PCE Price Index (2009=100)													
February Forecast	113.5	114.1	114.5	115.1	109.5	110.8	112.7	114.8	116.9	119.2	121.7	124.2	126.7
Percent Change	2.8%	2.3%	1.3%	2.0%	0.3%	1.2%	1.7%	1.9%	1.8%	2.0%	2.0%	2.1%	2.0%
November Forecast	113.4	114.0	114.4	114.9	109.5	110.8	112.6	114.7	116.7	119.0	121.4	#N/A	#N/A
Percent Change	2.4%	2.1%	1.5%	1.7%	0.3%	1.2%	1.7%	1.8%	1.8%	2.0%	2.0%	#N/A	#N/A
Real Personal Income (Billions of 2009 Dollars)													
February Forecast	14,657	14,724	14,830	14,933	14,206	14,377	14,572	14,883	15,339	15,756	16,145	16,518	16,896
Percent Change	1.6%	1.9%	2.9%	2.8%	4.6%	1.2%	1.4%	2.1%	3.1%	2.7%	2.5%	2.3%	2.3%
November Forecast	14,646	14,721	14,806	14,898	14,206	14,377	14,581	14,856	15,273	15,666	16,069	#N/A	#N/A
Percent Change	0.7%	2.1%	2.3%	2.5%	4.6%	1.2%	1.4%	1.9%	2.8%	2.6%	2.6%	#N/A	#N/A
Nonfarm Payroll Employment (Millions)													
February Forecast	147.4	148.0	148.6	149.2	141.8	144.3	146.6	148.9	151.0	152.7	153.5	154.4	155.1
Percent Change	1.5%	1.6%	1.4%	1.7%	2.1%	1.8%	1.6%	1.5%	1.4%	1.1%	0.6%	0.5%	0.5%
November Forecast	147.2	147.6	148.0	148.4	141.8	144.3	146.4	148.2	149.5	150.6	151.3	#N/A	#N/A
Percent Change	1.4%	1.1%	1.2%	1.1%	2.1%	1.8%	1.5%	1.2%	0.9%	0.7%	0.5%	#N/A	#N/A
Unemployment Rate (Percent of Labor Force)													
February Forecast	4.1	4.1	4.0	3.9	5.3	4.9	4.4	4.0	3.7	3.8	3.9	3.9	4.0
November Forecast	4.2	4.0	4.0	4.0	5.3	4.9	4.4	4.0	4.1	4.2	4.2	#N/A	#N/A
Oil Price, Refiner's Acquisition													
February Forecast	56.2	64.1	63.7	62.4	48.4	40.6	50.6	62.8	58.1	54.6	52.6	51.7	51.5
November Forecast	56.0	58.0	57.7	57.2	48.4	40.6	50.5	57.3	54.7	53.1	52.5	#N/A	#N/A
30 Year Fixed Mortgage Rate (Percent, average)													
February Forecast	3.9	4.3	4.5	4.6	3.9	3.6	4.0	4.5	5.1	5.3	5.3	5.3	5.2
November Forecast	4.1	4.2	4.4	4.5	3.9	3.6	4.0	4.4	4.9	5.1	5.1	#N/A	#N/A
3 Month T-Bill Rate (Percent, average)													
February Forecast	1.2	1.6	1.7	1.9	0.1	0.3	0.9	1.8	2.6	3.1	3.2	3.2	3.0
November Forecast	1.1	1.3	1.3	1.5	0.1	0.3	0.9	1.5	2.1	2.6	2.9	#N/A	#N/A

Table 3

Washington Forecast Comparison

	2017Q4	2018Q1	2018Q2	2018Q3	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real Personal Income (Billions of 2009 Dollars)													
February Forecast	376.8	379.0	382.4	385.6	347.0	359.0	372.9	384.0	397.6	410.4	423.2	435.5	447.7
Percent Change	3.3%	2.3%	3.7%	3.4%	5.5%	3.5%	3.8%	3.0%	3.6%	3.2%	3.1%	2.9%	2.8%
November Forecast	375.6	378.4	381.3	384.4	347.0	359.0	372.4	382.9	396.5	409.2	422.1	#N/A	#N/A
Percent Change	1.8%	3.0%	3.1%	3.3%	5.5%	3.5%	3.7%	2.8%	3.6%	3.2%	3.1%	#N/A	#N/A
Personal Income (Billions of Dollars)													
February Forecast	427.5	432.5	437.8	443.7	380.0	397.8	420.0	440.9	464.9	489.4	514.9	540.8	567.3
Percent Change	6.2%	4.8%	5.0%	5.4%	5.8%	4.7%	5.6%	5.0%	5.4%	5.3%	5.2%	5.0%	4.9%
November Forecast	425.8	431.2	436.1	441.5	380.0	397.8	419.5	439.0	462.6	487.0	512.6	#N/A	#N/A
Percent Change	4.3%	5.2%	4.6%	5.0%	5.8%	4.7%	5.5%	4.7%	5.4%	5.3%	5.3%	#N/A	#N/A
Disposable Personal Income (Billions of Dollars)													
February Forecast	378.8	387.3	391.7	396.9	338.2	354.4	372.4	394.5	417.4	439.2	460.8	482.7	505.3
Percent Change	6.1%	9.2%	4.6%	5.5%	5.1%	4.8%	5.1%	5.9%	5.8%	5.2%	4.9%	4.7%	4.7%
November Forecast	377.0	381.8	386.1	390.8	338.2	354.4	371.9	388.5	408.7	429.0	449.6	#N/A	#N/A
Percent Change	4.0%	5.2%	4.6%	4.9%	5.1%	4.8%	4.9%	4.5%	5.2%	5.0%	4.8%	#N/A	#N/A
Nonfarm Payroll Employment (Thousands)													
February Forecast	3363	3381	3399	3419	3146	3242	3334	3409	3480	3538	3579	3616	3650
Percent Change	2.3%	2.2%	2.1%	2.3%	2.9%	3.1%	2.8%	2.2%	2.1%	1.7%	1.1%	1.0%	0.9%
November Forecast	3376	3394	3411	3427	3146	3242	3340	3419	3477	3525	3561	#N/A	#N/A
Percent Change	2.9%	2.2%	2.0%	1.9%	2.9%	3.1%	3.0%	2.4%	1.7%	1.4%	1.0%	#N/A	#N/A
Unemployment Rate (Percent of Labor Force)													
February Forecast	4.5	4.5	4.4	4.3	5.6	5.4	4.6	4.3	4.1	4.1	4.1	4.1	4.2
November Forecast	4.5	4.3	4.3	4.2	5.6	5.4	4.6	4.2	4.2	4.2	4.2	#N/A	#N/A
Manufacturing Employment (Thousands)													
February Forecast	280.6	282.2	283.7	285.0	291.8	289.9	283.2	284.0	286.1	287.1	289.6	292.7	295.7
Percent Change	-1.7%	2.3%	2.0%	2.0%	1.1%	-0.7%	-2.3%	0.3%	0.7%	0.3%	0.9%	1.1%	1.0%
November Forecast	285.0	286.0	289.3	291.2	291.8	289.9	285.1	289.5	293.5	296.7	301.1	#N/A	#N/A
Percent Change	0.0%	1.5%	4.6%	2.6%	1.1%	-0.7%	-1.6%	1.5%	1.4%	1.1%	1.5%	#N/A	#N/A
Construction Employment (Thousands)													
February Forecast	205.7	208.3	208.2	208.1	173.3	186.5	201.4	208.1	208.8	211.1	212.1	210.9	208.3
Percent Change	8.4%	5.3%	-0.3%	-0.2%	8.5%	7.6%	8.0%	3.3%	0.3%	1.1%	0.5%	-0.6%	-1.2%
November Forecast	204.8	206.4	206.1	206.1	173.3	186.5	201.5	206.1	207.2	208.7	209.3	#N/A	#N/A
Percent Change	6.3%	3.1%	-0.4%	-0.1%	8.5%	7.6%	8.0%	2.3%	0.5%	0.8%	0.3%	#N/A	#N/A
Housing Permits (Thousands)													
February Forecast	51.7	43.2	43.7	43.0	40.4	44.1	45.8	43.2	42.6	42.8	43.0	42.5	41.4
Percent Change	83.1%	-51.2%	4.5%	-5.9%	19.1%	9.2%	3.9%	-5.6%	-1.4%	0.5%	0.5%	-1.1%	-2.6%
November Forecast	43.9	42.2	41.9	41.6	40.4	44.1	43.1	41.8	42.2	42.7	42.3	#N/A	#N/A
Percent Change	0.1%	-14.4%	-2.8%	-2.9%	19.1%	9.2%	-2.2%	-3.1%	1.0%	1.2%	-1.0%	#N/A	#N/A