

Economic Review

June 9, 2021



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW & BUDGET OUTLOOK ADOPTION MEETING

June 9, 2021
10:00 a.m.

- Approval of meeting minutes:
 - ✓ March 17, 2021
 - ✓ June 3, 2021
- Budget Outlook presentation and adoption
- Economic Review:
 - ✓ 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
March 17, 2021
Conference Call

Economic and Revenue Forecast Council

Tim Ormsby, House of Representatives, Chair
Christine Rolfes, Senate
Lynda Wilson, Senate
Ed Orcutt, House
Mike Pellicciotti, Treasurer
Vikki Smith, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Steve Lerch, Executive Director

Call to Order

Representative Ormsby called the meeting to order at 8:06 a.m.

Approval of the Minutes

Representative Orcutt moved, seconded by Representative Ormsby to adopt the meeting minutes from March, 3, 2021. Motion passed unanimously at 8:06 a.m.

Forecast Presentation

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

Motion

Representative Orcutt moved, seconded by Representative Ormsby, to adopt budget outlook. Council approved the motion unanimously at 8:24 a.m.

Adjournment

With no further business, the meeting adjourned at 8:56 a.m.



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

Meeting Minutes
Budget Outlook Methodology
June 3, 2021
Conference Call

Economic and Revenue Forecast Council

Timm Ormsby, House of Representatives, Chair
Ed Orcutt, House of Representatives
Christine Rolfes, Senate
Mike Pellicciotti, Treasurer
David Schumacher, Office of Financial Management

Staff

Steve Lerch, Executive Director
Rachel Knutson, OFM
Sarian Scott, Senate Ways and Means
Andy Toulon, House Appropriations

Call to Order

Representative Ormsby called the meeting to order at 1:33 p.m.

Budget Outlook

The Budget Outlook Work Group members requested guidance in preparation of the June 9th Outlook on the following five issue areas: 4.5% growth rate assumption for the 2023-25 biennium, nursing home rebase ensuing biennium adjustment, state institution bed closures and community investments, disproportionate share hospital (DSH) reduction delay, and tenant representation outcome study veto.

Motion

Representative Orcutt moved, seconded by Representative Ormsby, to use the ERFC March 2021 revenue forecast for the 2023-25 biennium instead of assuming an additional 4.5% revenue growth. The motion was approved at 1:44 p.m.

Motion

Representative Orcutt moved, seconded by Representative Ormsby, to assume the nursing home rebase in fiscal year 2024. The motion was approved at 1:51 p.m.

Motion

Director Schumacher moved, seconded by Representative Ormsby, to accept the state institution bed closures and community investments as assumed in the Budget Outlook prepared to support the conference budget. The motion was approved at 1:56 p.m.

Motion

Representative Orcutt moved, seconded by Representative Ormsby, to not assume the reduction in DSH payments will be delayed by Congress. The motion was approved at 2:09 p.m.

Motion

Senator Rolfes moved, seconded by Representative Ormsby, moved to include this as updated reversions to conform to past practices. The motion was approved at 2:11 p.m.

Adjournment

With no further business, the meeting adjourned at 2:12 p.m.

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



Economic Review: June 9, 2021

Executive Summary

United States

- Note: due to the impact of the COVID pandemic on business activity, employment and retail sales through stay at home orders, closure of non-essential businesses and declining consumer confidence, especially in March, April and May 2020, over-the-year growth rates for March, April and May 2021 data are abnormally large in many cases.
- This forecast is based on a modified version of IHS Markit's May 2021 Control forecast for the U.S. economy. We have adjusted real gross domestic product (GDP) to match the May 2021 Blue Chip "Consensus" GDP forecast for 2021 and 2022. We expect real GDP to increase 6.6% in 2021 and 4.4% in 2022 which is much stronger than the 5.7% and 4.1% growth rates assumed in the March forecast. We do not have a new long term forecast from Blue Chip since the March forecast. For 2023-25, we assume that some of the higher near term growth is offset by weaker long term growth. We expect growth rates of 2.3%, 2.0%, and 1.9% in 2023 through 2025 compared to the March forecast of 2.4%, 2.2%, and 2.1%.
- 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, May 26, 2021 closing prices for Brent and WTI futures. Oil prices are slightly higher than expected in the March forecast and, as in March, are expected to decline gradually over the forecast. The latest futures prices indicate that the refiner acquisition price of crude will average \$65 per barrel in the third quarter of 2021 compared to \$64 in the March forecast. By the fourth quarter of 2025 the refiner acquisition price of crude is expected to average \$54 per barrel compared to \$51 per barrel in the March forecast.
- The forecast reflects all pandemic relief measures of 2020 and the \$1.9 trillion American Recovery Plan (ARP) enacted in March. The forecast does not include any of the approximately \$4 trillion in spending and taxes in President Biden's proposed American Jobs Plan (AJB) and American Families Plan (AFP).
- National employment in May increased by 559,000 net jobs. Employment data for March and April were revised up by 27,000 jobs. Sectors with the largest job gains in May included food services and drinking places (+186,000), arts, entertainment and recreation (+72,000), local government education (+53,000), state government education (+50,000), educational services (+41,000), accommodations (+35,000), information (+29,000) and professional and technical services (+29,000). Sectors with declining employment in May included food and beverage stores (-26,000), construction (-20,000), local government excluding education (-20,000), U.S. Postal Service (-15,000), commercial banking (-11,000), investigation and

- security services (-11,000) and management of companies and enterprises (-9,000).
- Two key measures of consumer confidence declined this month; both remained well below their pre-pandemic levels. The University of Michigan (UM) consumer sentiment survey decreased by 5.4 points to 82.9 in May. Consumers were less optimistic about both current and future economic prospects, with inflation a concern of survey respondents. The Conference Board index of consumer confidence decreased by 0.3 points in May to 117.2. Survey results suggest that consumers were more optimistic about current economic conditions than in April but remain concerned about the outlook over the next six months.
 - Initial claims for unemployment insurance decreased by 20,000 to 385,000 (SA) in the week ending May 29th. The four-week moving average of initial claims decreased by 30,500 to 428,000.
 - Industrial production in April increased by 0.5% (SA) following a revised 2.2% increase in March. Industrial production is 17.6% (SA) above its April 2020 level. New orders for core capital goods (i.e., durables excluding aircraft and military), which is a proxy for business investment, increased by 2.2% (SA) in April following a revised 1.6% increase in March according to U.S. Census Bureau data.
 - Residential construction activity slowed in April but remains on an upward trend. April housing starts decreased by 9.5% (SA) compared to March but were 67.3% above their April 2020 level. Housing units authorized by building permits in April were 0.3% (SA) above their March level and 60.9% above their year-ago level. New home sales in April decreased by 5.9% (SA) compared to March but were 48.3% above their year-ago level. Existing home sales in April decreased by 2.7% (SA) compared to March. This was the third straight month with a drop in existing home sales, reflecting near-record lows of for-sale home inventories. Existing home sales were up 33.9% compared to April 2020. The seasonally adjusted Case-Shiller national home price index for March was 1.5% above its February level and 13.2% above its year-ago level.
 - The major threat to the U.S. and Washington economies continues to be the potential for negative impacts related to COVID-19. Concerns about rising inflation and geopolitical tensions are also forecast risks.

Washington

- We have two months of new Washington employment data since the March forecast was released. Total nonfarm payroll employment increased 29,300 in March and April which was just 900 more than the increase of 28,400 expected in the forecast. Washington employment is now 200,400 (5.7%) lower than at its February 2020 peak. Private services-providing sectors added 22,600 jobs in the two-month period. The manufacturing sector lost 2,800 jobs of which 800 were in aerospace manufacturing. Construction employment increased by 600 jobs in March and April. State and local government employment increased by 9,300 jobs but federal government employment declined by 500 jobs.
- 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 added 5,000 (0.2%) to the estimated level of total employment in February 2021. Because employment growth in March and April was very close to the forecast, employment is just 6,000 (0.2%) higher in April than expected in the March forecast.

- Washington's unemployment rate held steady at 5.5% in April. The unemployment rate is down significantly from the 16.3% rate reached in April 2020 which was an all-time high in the series that dates back to 1976.
- As in March, this forecast incorporates Boeing's announcement of deep cuts to company-wide employment continuing in 2021 as well as the consolidation of 787 production in South Carolina. Boeing indicated they plan to reduce employment from 161,000 at the beginning of 2020 to about 130,000 by the end of 2021, a reduction of 31,000 jobs. We assume that Boeing is currently about two-thirds of the way through this process. We also assume that the vast majority of cuts will continue to be made in Washington State and that non-Boeing aerospace employment will also decline as a result of lower production rates. Specifically, the forecast assumes that Washington aerospace employment will be 29,100 lower in December 2021 than in January 2020. We have already lost about 19,300 aerospace jobs as of April 2021 and expect a further decline of 9,800 by December 2021.
- In March, after the forecast was complete, the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) released state personal income estimates for the fourth quarter of 2020. According to these estimates, Washington personal income fell from \$530.6 billion in the third quarter of 2020 to \$522.1 billion (SAAR) in the fourth quarter. The 6.2% decline (SAAR) in Washington personal income was the 29th best result among the states and District of Columbia and was slightly better than the 6.8% rate of decline for the U.S. as a whole. A decrease in benefits from several CARES Act programs caused large reductions in transfer receipts across the U.S. On the other hand, farm earnings soared in several states due to increases in payments to farmers from the Coronavirus Food Assistance Program. In Washington, the decline in transfers subtracted 9.6 percentage points from annualized growth, more than offsetting the positive 2.0 percentage points from net earnings and the positive 1.3 percentage points from dividends, interest, and rent.
- Washington housing construction soared in the first quarter of 2021 to its highest level in nearly 43 years. In the first quarter, 63,700 units (SAAR) were permitted, up from 44,400 in the fourth quarter of 2020. The number of housing units permitted in a quarter has not been this high since the second quarter of 1978. First quarter permits consisted of 30,900 single-family units and 32,800 multi-family units. The March forecast assumed an average rate of 53,100 (SAAR) units in the first quarter consisting of 28,200 single-family units and 24,900 multi-family units. Permits dropped in April to 47,500 units (SAAR) consisting of 25,900 single-family units and 21,500 multi-family units. The March forecast expected 54,500 units (SAAR) in the second quarter as a whole, consisting of 33,400 single-family units and 21,200 multi-family units.
- Seattle-area home prices increased rapidly for a ninth consecutive month after three consecutive monthly declines. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle home prices increased 2.9% in March compared to a 1.6% increase in the composite-20 index. March

Seattle home prices were up 18.2% over the year. In comparison, the composite-20 index was up 13.3% over the year. March Seattle home prices were up 138% since the December 2011 trough and exceeded the May 2007 peak by 65%.

- Seattle-area consumer price inflation trailed the national average in the year ending in April 2021. From April 2020 to April 2021, the Seattle CPI rose 3.4% compared to the 4.2% increase in the U.S. City Average index. These relatively high rates were partially due to much higher energy prices this year compared to last year however the increase in the energy component of the Seattle CPI was less than the increase in the national energy component. Core prices, which exclude food and energy, increased 2.7% in Seattle compared to 3.0% for the U.S. City Average index. Seattle shelter cost inflation trailed the national average at 1.6% compared to 2.1%. Seattle inflation excluding shelter also trailed the national average at 4.5% compared to 5.2%.
- According to the World Institute for Strategic Economic Research (WISER), Washington exports increased over the year for the first time in two and a half years but this is misleading as it was due to soaring soybean and corn exports which receive only minimal processing in Washington. According to WISER, first quarter exports of agricultural products increased 79.4% but excluding likely transshipments of soybeans and corn, agricultural exports and total exports probably declined over the year. Transportation equipment exports (mostly Boeing planes) continue to decline, falling 33.6% since the first quarter of 2020. Year-over-year exports from all other sectors (mostly manufacturing) increased 3.8% over the year.
- Washington car and truck sales declined in May after surging in April to their highest level in more than five years. The seasonally adjusted number of new vehicle registrations declined 5.8% in May to 305.8 thousand (SAAR). May sales were up 161.0% over the year. May 2020 sales were severely depressed by Covid-19 restrictions.
- We expect a 2.3% increase in Washington employment this year which is up from the 1.7% increase the March forecast. We expect above-average growth through the remainder of the forecast as the economy continues to recover from the recession. We expect employment growth to average 2.2% per year in 2023 through 2025, the same average rate as expected in March. Our forecast for nominal personal income growth this year is 6.1%, up from 4.8% in the March forecast. Personal income growth will slow next year as the extraordinary stimulus of the last two years is withdrawn. We expect personal income growth of only 1.6% in 2022 compared to 1.1% in the March forecast. Our new forecast for nominal personal income growth in 2023 through 2025 averages 4.8% per year compared to the 5.1% rate in the March forecast.

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Overview of the Methodology for the State Budget Outlook (June 9, 2021)

Introduction

The purpose of this document is to provide an overview of the methodology used to develop the four-year budget projections pursuant to Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636). This document summarizes the major components of the projection, the overall approach, as well as the assumptions used in the State Budget Outlook (Outlook) document.

The amounts reflected in the Outlook are the sum of the state General Fund (GF-S), the Education Legacy Trust Account (ELTA), the Opportunity Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). These funds are sometimes referred to as the Near General Fund Outlook (NGF-O) funds. For more information about the July 1, 2020 addition of the WEIA to the NGF-O funds, see Chapter 218, Laws of 2020 (SSB 6660) located here:

<https://app.leg.wa.gov/billssummary?BillNumber=6660&Initiative=false&Year=2019>.

During the 2021 legislative session the Fair Start for Kids Account (FSKA), was added to the NGF-O definition (Chapter 199, Laws of 2021). This is effective July 25, 2021 and, as such, is not included in this Outlook.

Resources

Pursuant to Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636), the amounts depicted include the actual/projected revenue and other resources. Some of the largest components include:

Beginning Fund Balance

The Outlook uses the certified fund balance in accordance with generally accepted accounting principles for the most recently closed biennium as the starting point. The beginning fund balance for subsequent Fiscal Years (FY) is equal to the projected ending balance for the previous FY.

Revenue Forecast

The amounts for 2019-21, 2021-23, and the 2023-25 biennia reflect the adopted March 2021 quarterly revenue forecast by the Economic and Revenue Forecast Council (ERFC). The provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) call for the ensuing biennium revenue (in this instance, the 2023-25 biennium) to be based on the greater of:

- (1) the official revenue forecast for the ensuing biennium; or
- (2) an assumed revenue increase of 4.5 percent per year for that ensuing biennium.

The March 2021 forecast projected revenue growth of less than 4.5 percent per year in the 2023-25 biennium, however, at the direction of the ERFC this Outlook does not assume the 4.5 percent growth rate. As a result, this Outlook excludes an additional \$1.4 billion in assumed revenues in the 2023-25 biennium.

Transfers to Budget Stabilization Account (BSA)

Pursuant to a constitutional amendment approved by the voters in 2007 (Article VII, section 12(1), of the Constitution), this reflects the transfer of one percent of general state revenues (GSR) for each FY to the BSA. The estimated transfer amounts are based on the calculation of estimated GSR as defined in Article VIII, section 1, of the Constitution. The calculation of estimated GSR is based on the March 2021 revenue forecast adjusted for the estimated revenue impacts of legislation enacted during the 2021 legislative session (see enacted revenue legislation).

The enacted Outlook includes BSA 1% transfers each biennium to include \$261M in FY 2021, \$542M in the 2021-23 biennium, and \$574M in the 2023-25 biennium.

Overview of the Methodology for the State Budget Outlook (June 9, 2021)

BSA Transfers

The Outlook includes a transfer of \$1.820 billion from the BSA to the GFS in FY 2021.

Extraordinary Revenue Growth

Pursuant to a constitutional amendment approved by the voters in 2011 (Article VII, section 12 of the constitution), this reflects the transfer of three-quarters of extraordinary revenue growth (ERG) into the BSA. ERG is defined in the state Constitution as growth in general state revenues for the fiscal biennium that exceeds the average biennial percentage growth of the prior five fiscal biennia by one-third. The state Constitution also provides that the transfer only occurs to the extent that it exceeds the normal transfer amount into the BSA. The adopted March 2021 revenue forecast does not project ERG for the 2019-21, 2021-23, nor the 2023-25 biennia so no additional BSA transfer is assumed in this Outlook.

Enacted Fund Transfers

This category reflects all enacted NGF-O fund transfers made through the 2021 legislative session after accounting for vetoes. For more information, see the 2020 Legislative Budget Notes at: <http://leap.leg.wa.gov/leap/budget/lbns/2020LBN.pdf>.

Enacted Fund Transfers in the 2021 Legislative Session

The Outlook assumes NGF-O fund transfers that were enacted in the 2021 legislative session:

Fund Transfers Enacted in the 2021 Legislative Session (\$'s in 1,000's)			
	2019-21	2021-23	2023-25
From the GFS to the Washington Rescue Plan Transition Account	\$(1,000,000)		
From the GFS to the Disaster Recovery Account*	\$(73,266)		
From the GFS to the Home Security Account	\$0	\$(9,000)	\$0
From the GFS to the Fair Account	\$0	\$(1,500)	\$(3,000)
From the GFS to the Housing Trust Account	\$0	\$(10,000)	\$0
From the GFS to the Forest Resiliency Account	\$0	\$(6,000)	\$0
From the Financial Services Regulation Account to the GFS	\$0	\$7,000	\$0
From the Treasurer's Service Account to the GFS	\$0	\$10,000	\$10,000
From the School Employees Insurance Account to the GFS	\$24,060	\$16,587	\$0
From the Long-Term Services & Sup Trust Account to the GFS	\$0	\$37,092	\$0
From the Gambling Revolving Account to the GFS	\$(6,000)	\$6,000	\$0
Total Fund Transfers:	\$(1,055,206)	\$50,179	\$7,000

The above table excludes a fund transfer of \$45M from GFS to WEIA, which nets to zero across NGF-O accounts.

Overview of the Methodology for the State Budget Outlook (June 9, 2021)

Enacted Revenue Legislation in the 2021 Legislative Session

The Outlook assumes NGF-O revenue changes from the following bills that were enacted in the 2021 legislative session:

Revenue Legislation Enacted in the 2021 Session (\$'s in 1,000's)			
	2019-21	2021-23	2023-25
Chapter 116, Laws of 2021 (2SHB 1033)		\$(130)	\$(130)
Chapter 4, Laws of 2021 (SHB 1095)			
Chapter 150, Laws of 2021 (SHB 1107)		\$(50)	\$(54)
Chapter 112, Laws of 2021 (SHB 1279)		\$(1,000)	\$(3,000)
Chapter 124, Laws of 2021 (HB 1296)		\$(710)	\$(1,430)
Chapter 225, Laws of 2021 (ESHB 1512)		\$(1,113)	\$(1,198)
Chapter 83, Laws of 2021 (ESHB 1521)		\$(12,150)	\$(7,780)
Chapter 226, Laws of 2021 (SB 5008)		\$(1,230)	\$(1,280)
Chapter 304, Laws of 2021 (SSB 5151)		\$(3,360)	
Chapter 184, Laws of 2021 (SB 5159)		\$(4,040)	\$(4,040)
Chapter 143, Laws of 2021 (ESB 5220)			
Chapter 6, Laws of 2021 (ESSB 5272)	\$(2,563)	\$(7,689)	
Chapter 281, Laws of 2021 (2SSB 5315)		\$34,196	\$4,656
Chapter 250, Laws of 2021 (2SSB 5396)		\$(3,700)	\$(5,000)
Chapter 196, Laws of 2021 (ESSB 5096)		\$415,000	\$840,000
Total Revenue Legislation:	\$(2,563)	\$414,024	\$820,744

* The revenue impact of HB 1095 is indeterminate and not assumed in the March 2021 revenue forecast. The revenue impact from SB 5220 is also not assumed in the March 2021 revenue forecast.

The Governor vetoed House Bill No. 1495 (Auto dealers/cash incentives), which had a four-year NGF-O impact of \$(5,000,000).

There are additional revenue impacts that are not listed in the above table given their indeterminate fiscal impacts including: HB 1368, HB 1514, SB 5287, SB 5408, HB 1379, HB 1322, SB 5126, and HB 1189.

Enacted Budget Driven Revenue Adjustments

Adjustments are made to reflect the difference between assumed transfers of cannabis, liquor and lottery revenue to GFS in the March 2021 forecast and what is estimated to be available after adjusting for the 2021 legislative session spending levels.

Budget Driven Revenue Enacted in the 2021 Legislative Session (\$'s in 1,000's)			
	2019-21	2021-23	2023-25
Liquor & Cannabis Board (Marijuana)	\$(2,761)	\$(5,335)	\$(8,032)
Liquor & Cannabis Board (Liquor)	\$2,983	\$(134)	\$6,620
Lottery	\$0	\$269	\$216
Marijuana Distribution Changes to Locals	\$0	\$(10,000)	\$(10,000)
Total Budget Driven Revenue:	\$222	\$(15,200)	\$(11,196)

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the 2020 Supplemental budget). It is based on these 2019-21 budget appropriation levels. Adjustments are then made for 2021-23 biennial carry forward level (CFL), Maintenance Level (ML), and the Policy Level (PL) changes. For more information on the 2019-21 biennial budget, please see: http://leap.leg.wa.gov/leap/budget/index_lbns.asp.

Estimating Costs for the 2021-23 and 2023-25 Fiscal Biennia

Per statute, the estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium (i.e. the 2023-25 biennium). The general approach to estimating the cost to continue current programs and growth in entitlement programs is by applying a historical growth factor to the FY cost or savings associated with a budget item.

The historical growth factors used to estimate increased costs in the subsequent fiscal biennium are updated each biennium through a joint effort by legislative and executive branch staff and ultimately adopted by the ERFC. The growth factors were adopted by the ERFC on November 18, 2020. Additional information on the calculation of the historical growth factors adopted by the ERFC for the current outlook can be found in the following document available on the ERFC website: <https://erfc.wa.gov/sites/default/files/public/documents/forecasts/rev20201118.pdf>

The current adopted growth rates are shown below:

2020 Outlook Growth Rates Summary Table	
Default Growth Rate Category	Adopted 2020 Growth Factors
All Other	0.00%
Corrections	1.53%
Debt Service	Use Bond Model
Department of Social and Health Services	3.31%
Higher Education	0.69%
K-12 Education	Use K-12 Model
Low Income Health Care & Community Behavioral Health	2.86%

There are some cases whereby simply applying the growth factor to the cost or savings of a budget item is not used to estimate costs in the subsequent fiscal biennium. These include the following situations:

- **K-12 Education.** K-12 Outlook calculations are derived from the K-12 model, which is updated quarterly based on the caseload forecast for growth and inflationary factors. The K-12 model is periodically updated for other factors such as levy equalization and student transportation.
- **Debt Service.** Debt service calculations are derived from the debt service model. The Outlook statute specifies that "estimates of ensuing biennium expenditures must exclude policy items including, but not limited to, legislation not yet enacted by the legislature." Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2021-23 biennium bond bill and capital budget.
- **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

Overview of the Methodology for the State Budget Outlook (June 9, 2021)

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 (CBAs) not approved by the Legislature, or salaries and benefits, no growth factor is applied to 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.

Carry Forward Level Revisions

The 2021-23 budget adjusts the most recently enacted spending level (2019-21) including the FY 2020 Supplemental to the CFL. The CFL is a relatively mechanical calculation based on the removal of any one-time items and adjusting for the bow wave impact of items assumed in existing appropriations (costs or savings). In many instances, this means simply biennializing to the second year enacted funding levels. The CFL adjustments total \$1.603 billion in the 2021-23 biennium and savings of \$115 million in the 2023-25 biennium. The 2023-25 adjustments include application of the growth factor methodology adopted by the ERFC on November 18, 2020.

Maintenance Level Items

In this section, additional adjustments are made to reflect the NGF-O costs of continuing to comply with current law provisions. This is often referred to as ML. Pursuant to the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636), this excludes the costs of policy enhancements, including new CBAs not approved by the Legislature, other proposed compensation increases, and costs of any adverse court rulings within 90 days of each respective legislative session.

The total statewide ML impacts, by biennial period:

- ❖ 2019-21 biennial estimate: \$927 million savings,
- ❖ 2021-23 biennial estimate: \$677 million, and
- ❖ 2023-25 biennial estimate: \$2.480 billion.

Kindergarten – Grade 12 (K-12) Education

The amounts depicted reflect the March 2021 caseload and K-12 entitlement changes. The K-12 funding is adjusted each year of the ensuing biennium using the K-12 model, which updates the growth and inflationary factors with each forecast. The K-12 model is also periodically updated for other factors such as levy equalization and student transportation.

- ❖ ML adjustments total \$56 million in the 2021-23 biennium and \$1.242 billion in the 2023-25 biennium.

The larger increases are related primarily to salary inflation, enrollment, and workload. The largest savings in this category are related primarily to the most recent actuarial projections of employer pension contribution rates.

Low-Income Health Care and Community Behavioral Health

The amounts depicted reflect the March 2021 caseload and per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include utilization, caseload, and medical inflation. The average growth factor for this grouping is 2.86 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$165 million in the 2021-23 biennium and \$253 million in the 2023-25 biennium.

The larger state costs are related primarily to mandatory caseload adjustments and the Hospital Safety Net Assessment program. Larger state savings are related to reductions in medical utilization across some populations.

Social and Health Services

The amounts depicted reflect caseload and per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include caseload, utilization, and severity of client needs. The average growth factor for this grouping is 3.31 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$297 million in the 2021-23 biennium and \$562 million in the 2023-25 biennium.

The larger increases are related to mandatory caseload adjustments and forecast cost and utilization adjustments. The larger savings are due to forecasted workload adjustments and the most recent actuarial projections of employer pension contribution rates.

Overview of the Methodology for the State Budget Outlook (June 9, 2021)

Higher Education

Higher Education adjustments are generally related to the Initiative 732 cost of living adjustments, the College Bound Scholarship program, and maintenance, operations, and lease adjustments. The average growth factor for this grouping is 0.69 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$36 million in the 2021-23 biennium and \$110 million in the 2023-25 biennium.

The larger adjustments are related to caseload adjustments and I732 Cost of Living Adjustment increases. The larger savings item is based on the most recent actuarial projections of employer pension contribution rates.

Corrections

The amounts depicted reflect caseload, as well as other mandatory maintenance level changes. The average growth factor for this grouping is 1.53 percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$7 million in the 2021-23 biennium and \$16 million in the 2023-25 biennium.

The larger adjustments are related to changes in the community supervision violator caseload forecasts and facility maintenance. The larger savings item is based on the most recent actuarial projections of employer pension contribution rates.

All Other

This area includes all other agencies not reflected in the preceding Outlook groups. Many are general government agencies, smaller human service agencies, the department of child youth and families (DCYF), natural resource agencies, legislative agencies, and judicial agencies. The average growth factor for this grouping is zero percent per FY from FY 2023 levels.

- ❖ ML adjustments total \$22 million in savings in the 2021-23 biennium and \$87 million in the 2023-25 biennium.

The larger increases are related to forecasted cost increases for the Early Childhood Education and Assistance Program and changes in the actuarially projected costs of self-insurance liability premiums. The larger savings are related to changes in the forecast for the Working Connections Child Care program and Early Support for Infant & Toddlers (ESIT).

Debt Service

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2020 session using the bond model to calculate estimated costs for the 2023-25 biennium.

- ❖ ML adjustments total \$138 million in the 2021-23 biennium and \$209 million in the 2023-25 biennium.

Policy Level Items

In this section, referred to as PL, adjustments are made to reflect the policy level expenditures included in the enacted budget as well as appropriations made in other legislation.

The total statewide PL impacts, by biennial period:

- ❖ 2019-21 biennial estimate: \$210 million savings;
- ❖ 2021-23 biennial estimate: \$3.087 billion; and
- ❖ 2023-25 biennial estimate: \$2.717 billion.

K-12 Education

The enacted budget includes:

\$1.102 billion in the 2021-23 biennium; and
\$381 million in the 2023-25 biennium.

The major components of this increase are:

- ❖ Teacher Retirement System (TRS) Plan funds to reduce the unfunded actuarial accrued liability of the fund;
- ❖ Increasing the number of guidance counselors in high-poverty schools beginning in the 2022-23 school year; and
- ❖ School Employee Benefits Board (SEBB) health benefit rates are adjusted based on updated rates to incorporate new data from SEBB open enrollment regarding plan choice and demographic information.

Low-Income Health Care and Community Behavioral Health

The enacted budget includes:

\$577 million in the 2021-23 biennium; and
\$243 million in the 2023-25 biennium.

The major components for Low Income Health Care and Community Behavioral Health are:

- ❖ Program Integrity Savings Restoration;
- ❖ Healthier Washington Savings Restoration; and
- ❖ Hospital Safety Net (savings).

Per direction by the ERFC on June 3, 2021, this Outlook assumes:

1. There would be additional investments in alternative community placements and reductions at Western State Hospital in the 2023-25 biennium. The impact of assuming these increased placements is a cost to the Outlook of \$46 million NGF-O.
2. That the federal Affordable Care Act reductions to the Disproportionate Share Hospital (DSH) will not be delayed beyond 09/30/2023. The impact of this is a cost to the Outlook of \$57 million NGF-O.

Overview of the Methodology for the State Budget Outlook (June 9, 2021)

Social and Health Services

The enacted budget includes:

\$413 million in the 2021-23 biennium; and
\$436 million in the 2023-25 biennium.

The major components for DSHS are:

- ❖ Shared Benefit Adjustments;
- ❖ Temporary Assistance for Needy Families Grant Increases; and
- ❖ Civil Ward Reductions (savings).

Per direction by the ERFC on June 3, 2021, this Outlook assumes:

1. There will be a Nursing Home Rebase in FY 2024. The impact of this to the Outlook is \$12.8 million NGF-O in FY 2024.
2. There would be reductions at Western State Hospital and additional investments in alternative community placements in the 2023-25 biennium. The impact of assuming these bed closures is a savings to the Outlook of \$35 million NGF-O.
3. That the federal Affordable Care Act reductions to DSH will not be delayed beyond 09/30/2023. The impact of this is a cost to the Outlook of \$79 million NGF-O.

Higher Education

The enacted budget includes:

- ❖ \$183 million in the 2021-23 biennium; and
- ❖ \$177 million in the 2023-25 biennium.

The major components for Higher Education are:

- ❖ Support for the operations and the teaching mission of the Harborview Medical Center and the University of Washington Medical Center; and
- ❖ Advancing Equity, innovative efforts to advance equitable outcomes for community and technical college students.

Corrections

The enacted budget includes:

- ❖ \$28 million reduction in the 2021-23 biennium; and
- ❖ \$51 million reduction in the 2023-25 biennium.

The major components for DOC are:

- ❖ Reentry Investments to reduce recidivism;
- ❖ Custody staffing; and
- ❖ Violator Sanctions and Sentencing & Policy Changes (savings).

Overview of the Methodology for the State Budget Outlook (June 9, 2021)

All Other

The enacted budget includes:

- ❖ \$1.186 billion in the 2021-23 biennium; and
- ❖ \$323 million in the 2023-25 biennium.

The major components are:

- ❖ Department of Natural Resources: Fire preparedness (such as ground and aerial firefighting resources), fire prevention (such as forest health improvements), and fire protection (such as grants and outreach to communities);
- ❖ Savings from the \$800 million payment toward the TRS plan 1 unfunded liability, which results in the plan being fully funded two years ahead of schedule during the 2023-25 biennium; and
- ❖ A variety of costs in child care and early learning related to implementation of the Fair Start Act (E2SSB 5237) as well as savings resulting from provisions of the bill which delay the Early Childhood Education and Assistance Program Entitlement Date to FY 2027.

Debt Service

PL changes reflect the additional debt service required for bonds. The enacted budget includes:

- ❖ \$37 million in the 2021-23 biennium; and
- ❖ \$386 million in the 2023-25 biennium.

Consistent with prior ERFC direction, the calculation of debt service in the ensuing biennium assume enactment of a 2023-25 bond bill and capital budget.

Foundational Public Health

PL changes reflect additional Foundational Public Health Services funding that is distributed by the Office of Financial Management pursuant to RCW 43.70.515 to local public health jurisdictions. The enacted budget includes:

- ❖ \$147 million in the 2021-23 biennium; and
- ❖ \$296 million in the 2023-25 biennium.

Working Families Tax Exemption

The enacted budget includes:

- ❖ \$261 million in the 2021-23 biennium; and
- ❖ \$545 million in the 2023-25 biennium.

Fund Source Changes

PL changes reflect state savings from increased federal Medicaid match and use of increased cannabis revenues for low income health care costs. The enacted budget includes:

- ❖ \$700 million savings in the 2021-23 biennium; and
- ❖ \$121 million savings in the 2023-25 biennium.

Overview of the Methodology for the State Budget Outlook (June 9, 2021)

Assumed Reversions

Reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation. Consistent with prior outlooks, reversions are estimated at approximately 0.5% of GF-S appropriations, except for FY 2020 which is based on actuals. Additional adjustments for reversions are made in accordance with prior direction from the ERFC.

The total reversions assumed are savings of \$700 million in the 2019-21 biennium, savings of \$296 million in the 2021-23 biennium, and savings of \$286 million in the 2023-25 biennium, for savings totaling \$1.282 billion over the Outlook period.

These totals include:

- 0.5% of GF-S appropriation reversions of \$125 million in savings in FY 2021, \$281 million in savings in the 2021-23 biennium, and \$286 million in savings in the 2023-25 biennium, totaling \$692 million in savings over the Outlook period;
- K-3 reversions of \$35 million in savings in FY 2021, \$15 million in savings in the 2021-23 biennium; totaling \$50 million over the Outlook period; and
- Office of Civil Legal Aid Tenant Representation Outcome Study reversions of \$318K in FY 2021, as directed by the ERFC on June 3, 2021.

Governor Vetoes & Lapses

This Outlook does not include NGF-O funded items vetoed by the Governor or lapsed funding from legislation that was not enacted into law.

The vetoes include:

- ❖ Office of Financial Management, Home and Community Based Services: \$143 million
- ❖ Office of the Attorney General, Missing & Murdered Indigenous Women: \$500K
- ❖ Department of Fish & Wildlife, Columbia River Gillnet License Buyback: \$2 million

The lapsed items include:

- ❖ Second Substitute Senate Bill 5062 (data)
- ❖ Second Substitute House Bill 1127 (COVID-19 health data privacy), which was vetoed in its entirety by the Governor

In addition, a \$318k savings at the Office of Civil Legal Aid in the FY 2021 supplemental budget was vetoed by the Governor due to a technical drafting error. The Governor directed the agency to place the amount in unallotted status and reversions have been updated accordingly, per direction by ERFC.

Draft 2021-23 Omnibus Operating Budget Outlook (ESSB 5092)

Funds Subject to Outlook
(Dollars in Millions)

	2019-21			2021-23			2023-25		
	FY 2020	FY 2021	2019-21	FY 2022	FY 2023	2021-23	FY 2024	FY 2025	2023-25
Beginning Balance	1,981	1,379	1,981	2,996	2,450	2,996	789	286	789
Forecasted Revenues	24,915	27,419	52,334	27,908	28,707	56,615	29,451	30,455	59,906
March 2021 Revenue Forecast (NGF-O)	24,915	27,419	52,334	27,908	28,707	56,615	29,451	30,455	59,906
Addtl Revenue Based on 4.5% Growth Rate Assumption	0	0	0	0	0	0	548	895	1,443
2023-25 Use Forecast/Not 4.5% Additional	0	0	0	0	0	0	-548	-895	-1,443
Other Resource Changes	-84	628	544	-203	152	-52	394	-111	283
GF-S Transfer to BSA (1%)	-237	-261	-498	-267	-274	-542	-282	-292	-574
Prior Period Adjustments	39	20	60	20	20	41	20	20	41
CAFR Adjustments	24	0	24	0	0	0	0	0	0
Enacted Fund Transfers	89	106	195	0	0	0	0	0	0
Budget Driven Revenue	0	0	0	-8	-7	-15	-6	-5	-11
Proposed Fund Transfers	0	-1,055	-1,055	41	9	50	254	-247	7
Use BSA Fund Balance	0	1,820	1,820	0	0	0	0	0	0
Capital Gains Tax (SB 5096)	0	0	0	0	415	415	418	422	840
Other Legislation Impacting NGF-O Revenue	0	-3	-3	11	-13	-2	-12	-12	-23
Governor's Vetoes	0	0	0	0	1	1	2	2	4
Total Revenues and Resources	26,813	29,426	54,859	30,701	31,309	59,560	30,634	30,630	60,977
Enacted Appropriations	26,005	27,695	53,700	26,005	27,695	53,700	27,929	28,170	56,099
Carryforward Level Adjustments				1,663	-61	1,603	-59	-57	-115
Maintenance Level Total	0	-927	-927	63	614	677	1,089	1,391	2,480
K-12 Education	0	-748	-748	-183	238	56	492	750	1,242
Low Income Health Care & Comm Behavioral Health	0	29	29	210	-45	165	113	140	253
Social & Health Services	0	-48	-48	72	225	297	280	282	562
Higher Education	0	-23	-23	5	32	36	47	63	110
Corrections	0	-42	-42	-4	10	7	8	9	16
All Other	0	-77	-77	-67	46	-22	28	58	87
Debt Service	0	-19	-19	31	107	138	121	88	209
Policy Level Total	0	-210	-210	668	2,419	3,087	1,531	1,186	2,717
K-12 Education	0	217	217	124	979	1,102	189	192	381
Low Income Health Care & Comm Behavioral Health	0	96	96	250	327	577	121	123	243
Social & Health Services	0	-20	-20	188	225	413	235	201	436
Higher Education	0	-11	-11	72	111	183	91	85	177
Corrections	0	16	16	6	23	28	26	25	51
All Other	0	104	104	771	415	1,186	374	-51	323
Debt Service	0	0	0	-5	42	37	133	253	386
Foundational Public Health	0	0	0	49	98	147	148	148	296
Fund Source Changes (FMAP and I-502)	0	-612	-612	-645	-55	-700	-56	-65	-121
Working Families Tax Exemption	0	0	0	5	256	261	270	275	545
Governor Vetoes and Lapsed Items	0	0	0	-145	-1	-147	0	0	0
Reversions	-572	-128	-700	-149	-147	-296	-143	-144	-286
Revised Appropriations	25,433	26,429	51,863	28,250	30,520	58,771	30,348	30,547	60,894
Projected Ending Balance	1,379	2,996	2,996	2,450	789	789	286	83	83
Budget Stabilization Account									
Beginning Balance	1,618	1,683	1,618	0	267	0	543	827	543
GF-S Transfer to BSA (1%)	237	261	498	267	274	542	282	292	574
BSA Transfers	0	25	25	0	0	0	0	0	0
Use BSA Fund Balance	0	-1,820	-1,820	0	0	0	0	0	0
Appropriations from BSA	-200	-164	-364	0	0	0	0	0	0
Prior Period Adjustments	1	0	1	0	0	0	0	0	0
Interest Earnings	27	15	42	0	1	1	2	2	4
Budget Stabilization Account Ending Balance	1,683	0	0	267	543	543	827	1,121	1,121
Total Reserves	3,062	2,996	2,996	2,718	1,332	1,332	1,113	1,205	1,205
Percentage of Reserves to Revenues and Other Resources	12.3%	10.7%		9.8%	4.6%		3.7%	4.0%	
NGF-O	5.6%	10.7%		8.8%	2.7%		1.0%	0.3%	
Budget Stabilization Account	6.8%	0.0%		1.0%	1.9%		2.8%	3.7%	

1. Ensuing Biennium Revenue. Per chapter 43.88.055 RCW, forecasted revenue for the ensuing biennium for purposes of an Outlook, prior to adjustment for enacted legislation, are the greater of: "(i) the official general fund and related funds revenue forecast for the ensuing biennium, or (ii) the official general fund and related funds forecast for the second fiscal year of the current fiscal biennium, increased by 4.5 percent for each fiscal year of the ensuing biennium". Despite the fact that forecasted revenue growth is less than 4.5% per year in the 2023-25 biennium, the ERFC has chosen not to assume the 4.5% annual increase for this Outlook. The removal of the adjustment has been displayed separately to clearly show the impact.
2. Disproportionate Share Hospital (DSH) - The federal Affordable Care Act directed reductions in DSH Medicaid grants to states, beginning in 2014. Subsequent federal legislation has delayed the reductions several times and under current law they are scheduled to take effect during fiscal year 2025. Pursuant to direction by the ERFC, this Outlook does not assume federal legislation will be enacted to further delay the reduction in federal DSH grants.

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Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

June 9, 2021
Olympia, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The preliminary economic forecast reflects pandemic relief bills passed in 2020 and the \$1.9 trillion stimulus bill passed in March but does not assume passage of proposed infrastructure or other stimulus legislation.
- U.S. GDP growth in the first quarter of 2021 was stronger than expected and growth forecasts for 2021 and 2022 have increased
- WA housing construction in the first quarter was at its highest level in almost 43 years
- Revenue collections since the March forecast are \$345 million (9.9%) above expectations

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June 9, 2021

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Forecast risks

Upside

- Rising COVID vaccination rates lead to greater consumer confidence, a return to more typical spending patterns and increased employment

Downside

- COVID vaccination rates slow and infection rates increase, leading to slower pace of economic reopening, reduced consumer spending and employment
- Recent commodity price increases are not transitory but lead to higher expected inflation

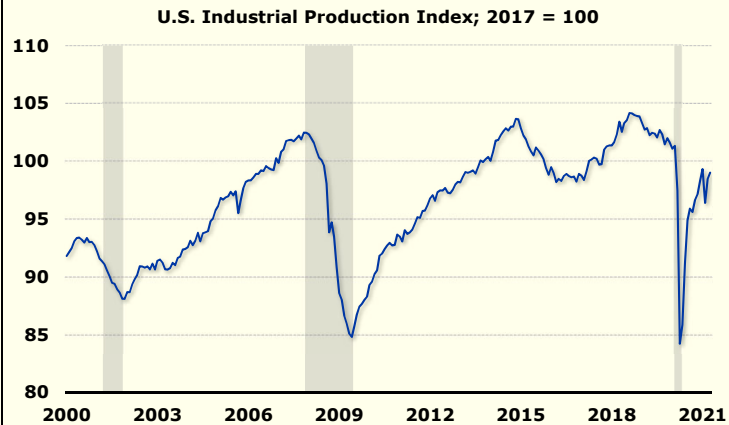
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U.S. industrial production is 2.3% below its pre-pandemic level



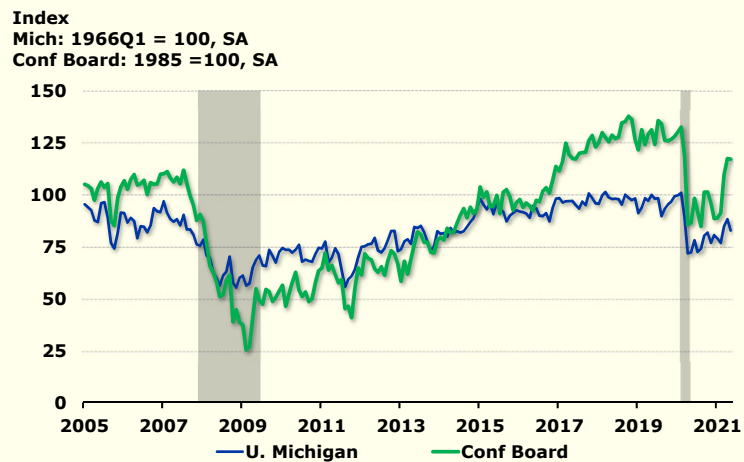
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Source: Federal Reserve; data through April 2021

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Consumer confidence has improved, remains well below pre-pandemic levels



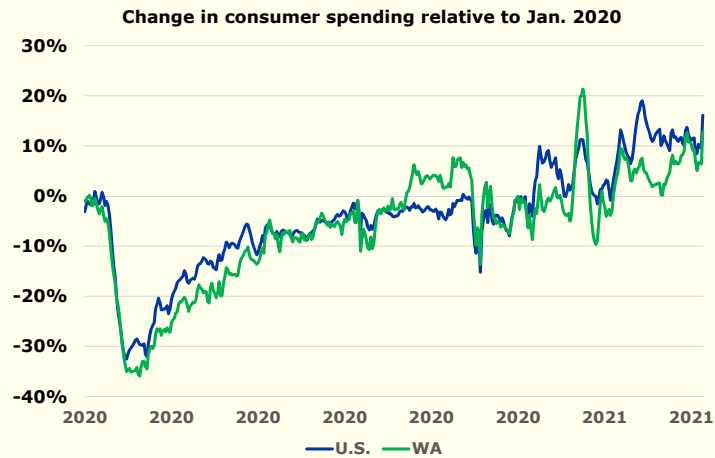
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Sources: University of Michigan, Conference Board; data through May 2021

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



U.S., WA consumer spending have remained above Jan. 2020 level since March 2021



Source: Opportunity Insights, Affinity; daily data (7 day moving average) Mar. 1 2020 - May 9 2021

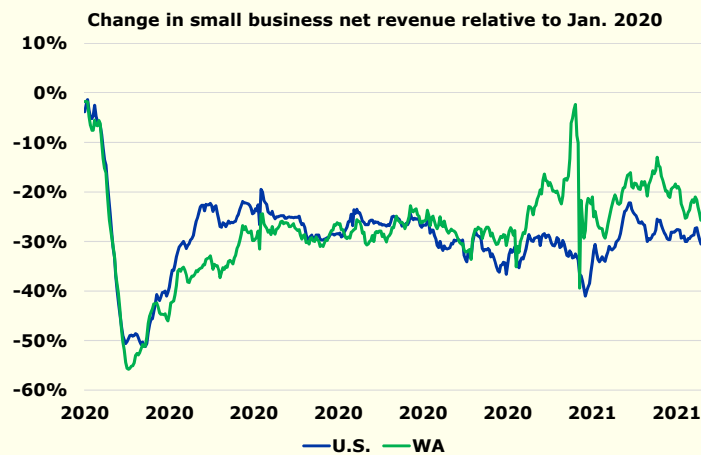
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Nationally and in WA, small business revenue remains below Jan. 2020 levels



Source: Opportunity Insights, Womply; daily data (7 day moving average) Mar. 1 2020 - May 12 2021

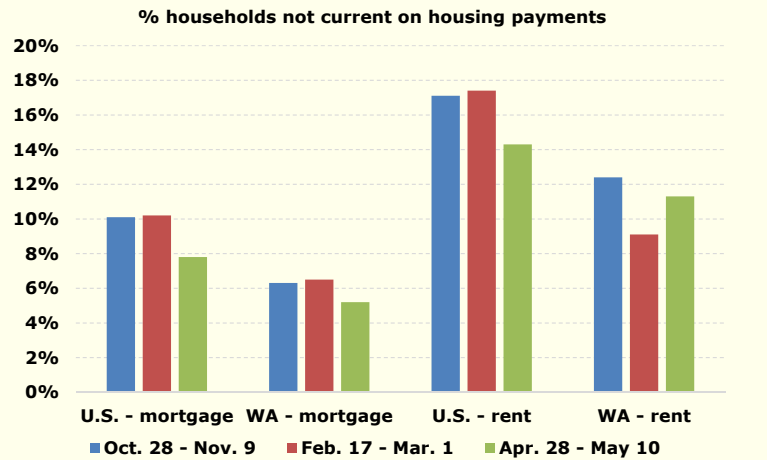
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During Apr. 28 – May 10, 5% of WA mortgage holders and 11% of renters were behind on housing payments



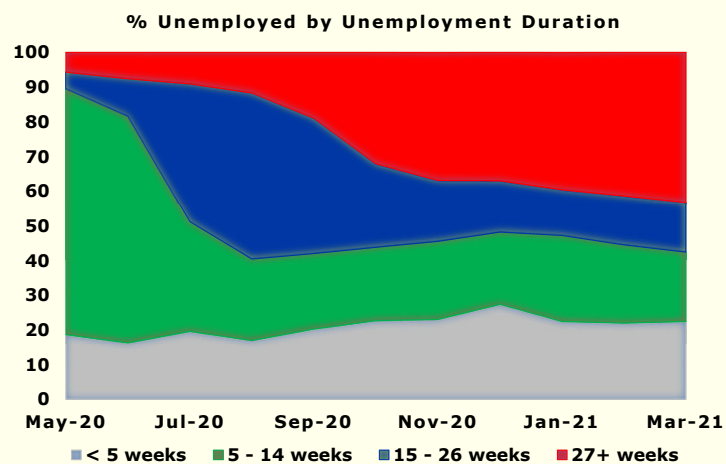
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The fraction of workers who have been unemployed for 27+ weeks has grown



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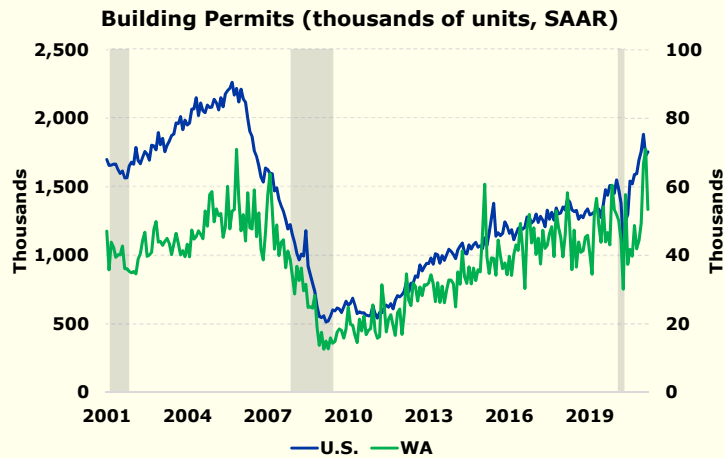


WA and U.S. residential construction has been trending up since July 2020

In the 1st quarter of 2021, 63,700 building permits were issued in WA, up from 44,400 in the 4th quarter of 2020.

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Source: U.S. Census Bureau; monthly data through March 2021

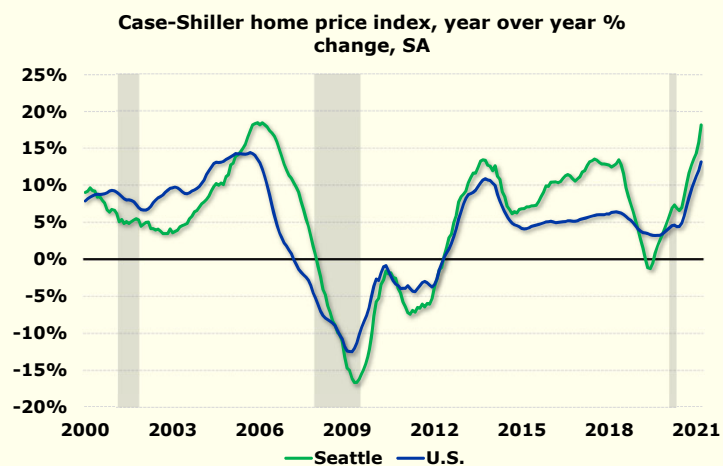
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Seattle and U.S. home price growth has been accelerating

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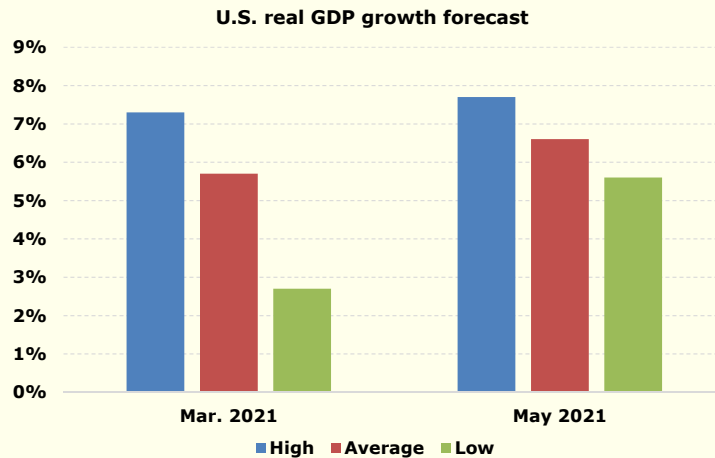


Source: Case-Shiller, data through March 2021

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Blue Chip GDP forecasts for 2021: March 2021 vs May 2021



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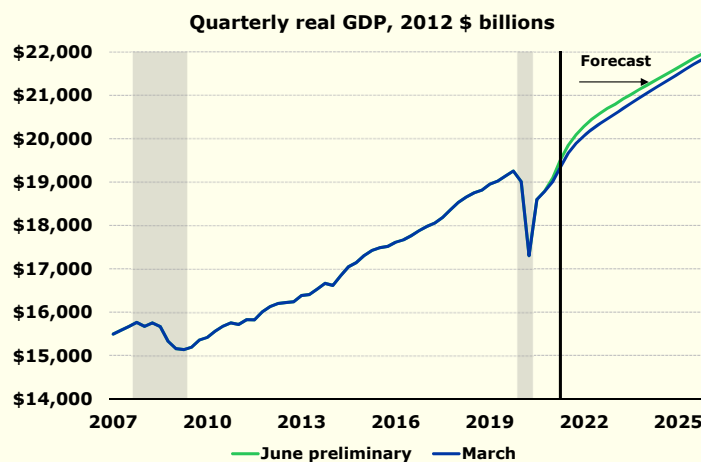
Source: Blue Chip Economic Indicators, Mar. 2021 and May 2021

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



GDP growth is expected to be stronger this year and in 2022 but slightly weaker in 2023 - 2025

GDP is now expected to return to pre-pandemic levels in the 2nd quarter of 2021.



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Source: IHS Markit, ERFC June 2021 preliminary forecast; data through 2021 Q1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Oil prices are slightly higher than in the March forecast but are expected to gradually decline after mid-2021



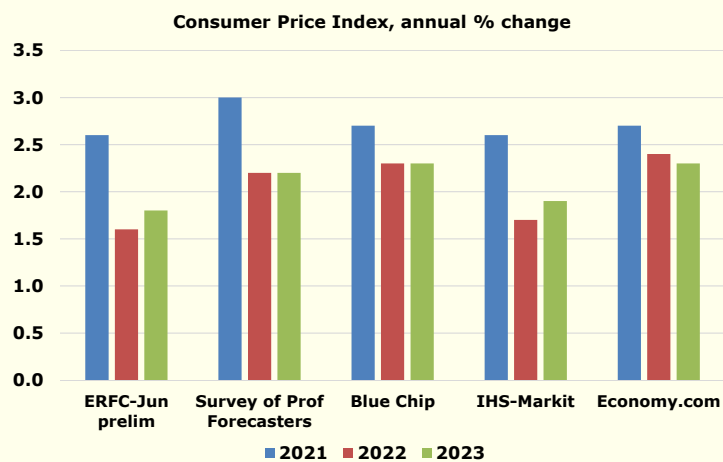
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Forecasters generally expect inflation to be lower after 2021



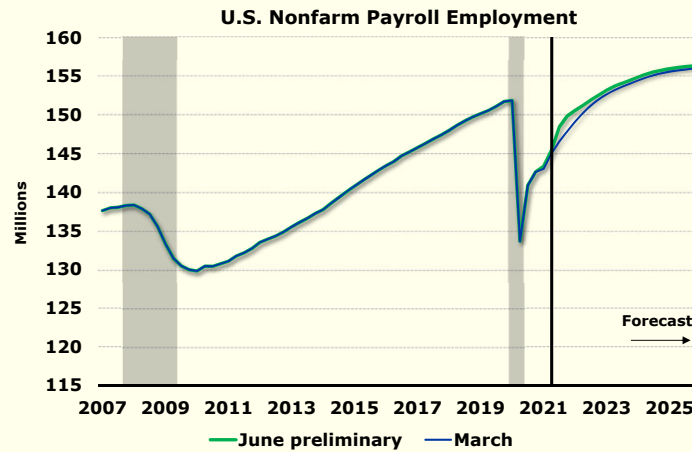
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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Compared to March, U.S. nonfarm employment growth is stronger this year, slightly weaker in 2022 - 2025



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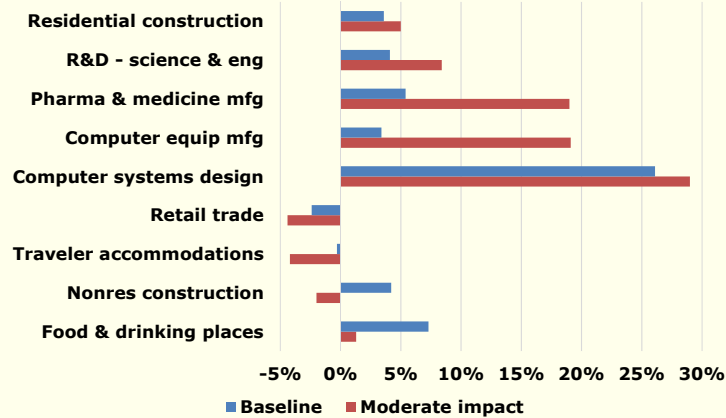
Source: IHS Markit, ERFC March 2021 preliminary forecast; data through 2021 Q1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Moderate impact scenario assumes that telework remains above pre-pandemic levels

% U.S. employment change, 2019 - 2029; BLS forecast



The baseline forecast reflects data prior to the pandemic

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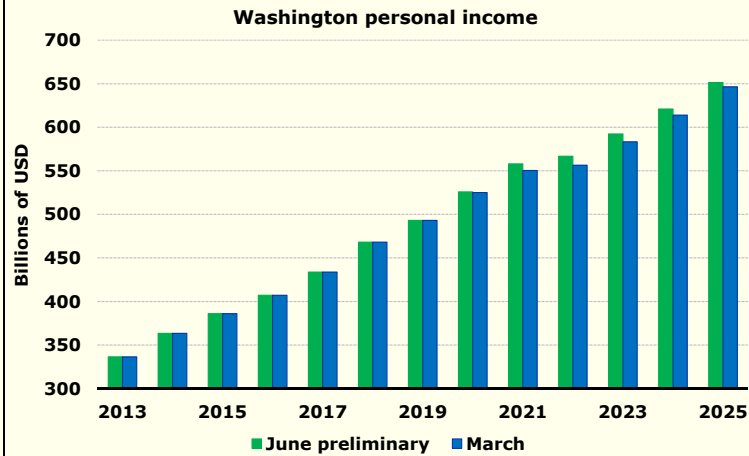
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Source: U.S. Bureau of Labor Statistics, forecast employment changes 2019 - 2029

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Stronger growth in 2021 and 2022 raises the level of WA personal income through 2025



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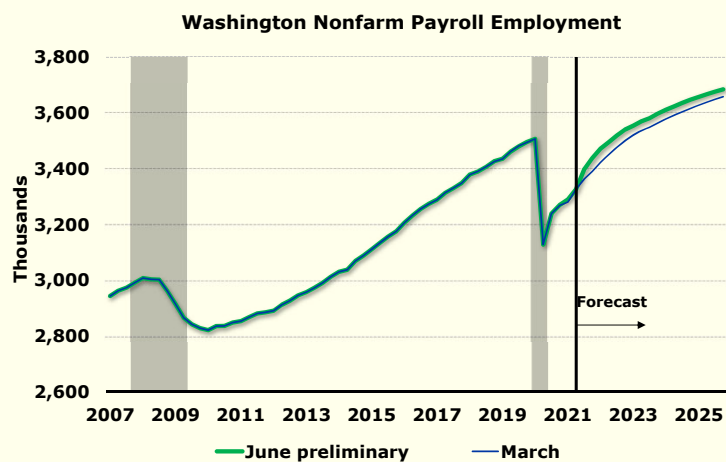
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Source: ERFC June 2021 Preliminary forecast; historical data through 2020

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA employment is slightly stronger than in March



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Source: ERFC June 2021 Preliminary forecast; historical data through 2020 Q1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



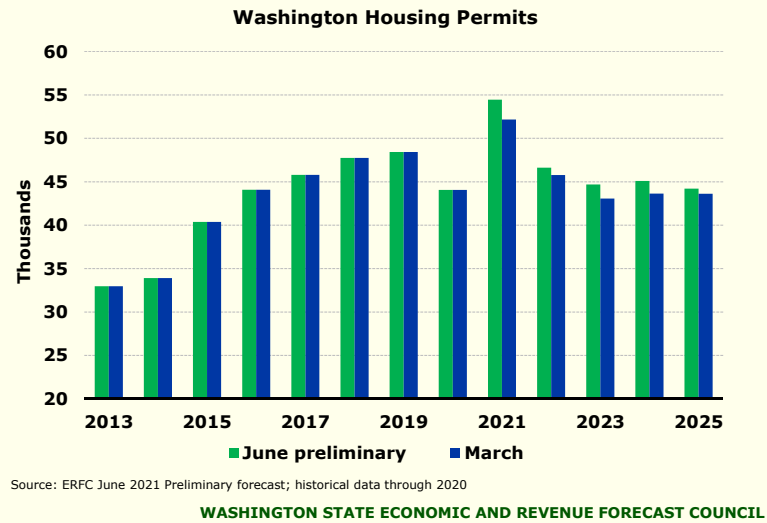
Washington housing permits forecast revised up compared to March

WA housing construction in 1st quarter 2021 was at its highest level in nearly 43 years.

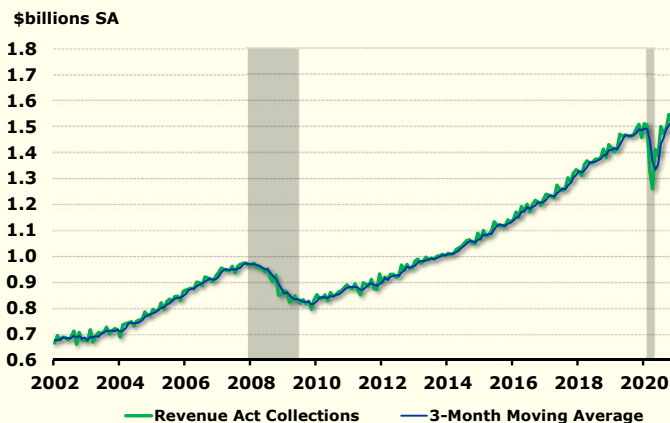
In the 1st quarter, 63,700 units (SAAR) were permitted, up from 44,400 in the 4th quarter of 2020.

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Revenue Act collections have increased for three consecutive months



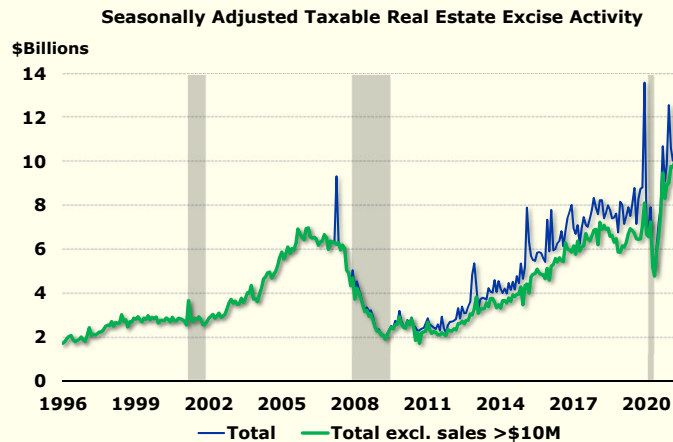
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While down from near-record high in December 2020, taxable REET activity has been very strong so far in 2021

Large commercial transactions in April increased to \$1.5 B, up from \$570 M in March; residential sales remained high.



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Source: ERFC; Monthly data through January 2021 estimate

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue collections to date

The main contributors to the positive forecast variance were Revenue Act collections (\$249 million) and property tax collections (\$40 million).

Collections Variance Since March Forecast (March 11, 2021 – May 10, 2021) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$3,472,169	\$3,815,582	\$343,413	9.9%
All other agencies	\$7,412	\$9,260	\$1,848	24.9%
Total GF-S	\$3,479,581	\$3,824,843	\$345,261	9.9%

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- U.S. GDP growth is stronger this year and in 2022 compared to the March forecast.
- WA personal income growth is also stronger in 2021 and 2022 compared to the March forecast.
- Despite rising vaccination rates and declining new cases, COVID-19 remains a risk to economic activity.
- The next monthly revenue collection report will be available on June 15th and the revenue forecast will be presented on June 23rd.

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Questions



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Economic & Revenue Forecast Council
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www.erc.wa.gov
360-534-1560

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U.S. Economic Forecast Comparison

May 2021

	2021Q1	2021Q2	2021Q3	2021Q4	2020	2021	2022	2023	2024	2025
Real GDP, Percent Change, Annual Rate										
ERFC (June Preliminary)	6.4	9.2	7.1	5.0	-3.5	6.6	4.4	2.3	2.0	1.9
IHS	6.4	9.0	7.2	7.7	-3.5	6.7	4.7	1.9	2.2	2.2
Economy.com	6.4	10.6	6.1	6.5	-3.5	6.8	4.8	2.4		
Blue Chip Average*		9.2	7.2	5.1		6.6	4.4	2.4	2.2	2.1
Blue Chip Top 10*		11.7	10.0	7.4		7.3	5.5	2.8	2.5	2.4
Blue Chip Bottom 10*		6.9	4.9	2.9		6.0	3.3	1.9	1.8	1.8
Real Consumption, Percent Change, Annual Rate										
ERFC (June Preliminary)	10.7	9.1	6.3	4.9	-3.9	7.7	4.4	2.3	2.0	2.1
IHS	10.7	9.0	6.4	5.3	-3.9	7.7	4.4	2.4	2.5	2.6
Economy.com	10.7	7.6	5.9	6.1	-3.9	7.4	4.3	2.2		
Blue Chip Average*		9.9	6.8	5.0		7.7	4.4	2.4	2.3	2.3
Blue Chip Top 10*		14.5	10.1	7.5		8.9	5.6	2.9	2.7	2.6
Blue Chip Bottom 10*		6.5	3.8	2.8		6.5	3.3	2.0	2.0	2.0
Federal Funds Rate										
ERFC (June Preliminary)	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.3	0.5
IHS	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.3	0.5
Economy.com	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.5		
Three Month T-Bill Rate										
ERFC (June Preliminary)	0.1	0.0	0.0	0.0	0.4	0.0	0.0	0.1	0.2	0.4
IHS	0.1	0.0	0.0	0.0	0.4	0.0	0.1	0.1	0.2	0.5
Blue Chip Average*		0.1	0.1	0.1		0.1	0.2	0.5	0.8	1.2
Blue Chip Top 10*		0.1	0.1	0.2		0.1	0.3	0.9	1.4	1.9
Blue Chip Bottom 10*		0.0	0.0	0.0		0.0	0.1	0.1	0.3	0.6
10-Yr. T-Note Yield										
ERFC (June Preliminary)	1.3	1.6	1.7	1.7	0.9	1.6	1.9	2.0	2.2	2.4
IHS	1.3	1.6	1.7	1.8	0.9	1.6	1.9	2.0	2.2	2.5
Economy.com	1.3	1.7	1.9	2.1	0.9	1.7	2.3	2.8		
Blue Chip Average*		1.7	1.8	1.9		1.7	2.1	2.3	2.5	2.7
Blue Chip Top 10*		1.9	1.9	2.1		1.9	2.4	2.8	3.1	3.3
Blue Chip Bottom 10*		1.6	1.7	1.7		1.5	1.7	1.8	2.0	2.1
Consumer Price Index, Percent Change, Annual Rate										
ERFC (June Preliminary)	3.7	2.9	1.5	1.6	1.2	2.6	1.6	1.8	1.9	1.9
IHS	3.7	2.5	1.8	1.6	1.2	2.6	1.7	1.9	2.1	2.2
Economy.com	3.7	2.5	2.8	2.6	1.2	2.7	2.4	2.3		
Blue Chip Average*		3.0	2.5	2.2		2.7	2.3	2.3	2.3	2.3
Blue Chip Top 10*		4.4	3.6	3.0		3.1	2.9	2.7	2.7	2.8
Blue Chip Bottom 10*		1.8	1.5	1.3		2.4	1.9	1.9	2.0	1.9
Payroll Employment, Millions										
ERFC (June Preliminary)	143.4	145.4	148.4	149.8	142.3	146.8	151.6	153.9	155.4	156.2
Percent Change, Annual Rate	2.1	5.9	8.6	3.9	-5.7	3.2	3.3	1.5	1.0	0.5
IHS	143.4	145.4	148.4	150.2	142.3	146.8	152.1	154.0	155.5	156.5
Percent Change, Annual Rate	2.1	5.8	8.6	4.8	-5.7	3.2	3.6	1.3	1.0	0.7
Economy.com	143.4	144.9	146.9	148.7	142.3	145.9	151.4	153.9		
Percent Change, Annual Rate	2.1	4.3	5.6	5.0	-5.7	2.6	3.7	1.7		
Unemployment Rate, Percent										
ERFC (June Preliminary)	6.2	5.7	4.9	4.4	8.1	5.3	4.0	3.5	3.5	3.8
IHS	6.2	5.7	4.9	4.2	8.1	5.3	3.8	3.5	3.5	3.6
Economy.com	6.2	5.9	5.2	4.5	8.1	5.4	3.7	3.5		
Blue Chip Average*		5.6	5.1	4.7		5.4	4.2	4.2	4.0	4.0
Blue Chip Top 10*		5.9	5.7	5.4		5.7	4.9	4.8	4.5	4.4
Blue Chip Bottom 10*		5.3	4.7	4.2		5.1	3.7	3.7	3.6	3.6
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC (June Preliminary)	61.3	-25.8	-6.1	-5.2	5.8	3.4	-1.7	2.2	2.3	2.5
IHS	61.3	-25.6	-6.3	-4.7	5.8	3.4	-1.7	2.0	2.5	2.7
Blue Chip Average*		-14.6	-5.8	-2.0		4.7	-1.1	2.1	2.1	2.0
Blue Chip Top 10*		12.6	3.5	3.0		8.8	1.5	2.5	2.4	2.4
Blue Chip Bottom 10*		-30.7	-17.4	-6.9		2.2	-3.3	1.8	1.7	1.7
West Texas Intermediate										
ERFC (June Preliminary)	57.8	64.3	65.9	64.5	39.2	63.1	61.3	57.7	55.3	53.9
IHS	57.8	62.3	65.9	64.7	39.2	62.7	62.8	62.3	62.5	63.2
Economy.com	58.0	61.2	62.4	61.6	39.5	60.8	59.6	60.3		

* Forecasts beyond 2022 are from the March 2021 Blue Chip Economic Indicators

U.S. Forecast Comparison

	2021Q1	2021Q2	2021Q3	2021Q4
Real GDP (Billions of 2012 Dollars)				
June Forecast, Preliminary	19,088	19,511	19,851	20,094
Percent Change	6.4%	9.2%	7.1%	5.0%
March Forecast	19,005	19,343	19,667	19,894
Percent Change	4.8%	7.3%	6.9%	4.7%
Real Consumption (Billions of 2012 Dollars)				
June Forecast, Preliminary	13,334	13,626	13,837	14,002
Percent Change	10.7%	9.1%	6.3%	4.9%
March Forecast	13,178	13,437	13,672	13,839
Percent Change	5.6%	8.1%	7.2%	5.0%
PCE Price Index (2012=100)				
June Forecast, Preliminary	112.8	113.6	114.1	114.6
Percent Change	3.5%	2.9%	1.7%	1.7%
March Forecast	113.0	113.5	114.0	114.5
Percent Change	4.1%	2.0%	1.7%	1.7%
Real Personal Income (Billions of 2012 Dollars)				
June Forecast, Preliminary	19,414	18,221	17,998	17,802
Percent Change	53.6%	-22.4%	-4.8%	-4.3%
March Forecast	18,230	19,254	17,695	17,565
Percent Change	19.5%	24.4%	-28.7%	-2.9%
Nonfarm Payroll Employment (Millions)				
June Forecast, Preliminary	143.4	145.4	148.4	149.8
Percent Change	2.1%	5.9%	8.6%	3.9%
March Forecast	143.0	145.0	146.6	147.9
Percent Change	1.1%	5.7%	4.3%	3.6%
Unemployment Rate (Percent of Labor Force)				
June Forecast, Preliminary	6.2	5.7	4.9	4.4
March Forecast	6.2	5.6	5.2	4.9
Oil Price, Refiner's Acquisition				
June Forecast, Preliminary	57.0	63.6	65.0	63.7
March Forecast	58.0	65.2	63.5	61.6
30 Year Fixed Mortgage Rate (Percent, average)				
June Forecast, Preliminary	2.9	3.0	3.1	3.3
March Forecast	2.8	3.0	3.2	3.4
3 Month T-Bill Rate (Percent, average)				
June Forecast, Preliminary	0.1	0.0	0.0	0.0
March Forecast	0.1	0.0	0.0	0.0

2019	2020	2021	2022	2023	2024	2025
19,092	18,426	19,636	20,503	20,967	21,384	21,798
2.2%	-3.5%	6.6%	4.4%	2.3%	2.0%	1.9%
19,092	18,423	19,477	20,270	20,756	21,213	21,658
2.2%	-3.5%	5.7%	4.1%	2.4%	2.2%	2.1%
13,240	12,726	13,700	14,302	14,634	14,931	15,241
2.4%	-3.9%	7.7%	4.4%	2.3%	2.0%	2.1%
13,240	12,726	13,532	14,102	14,441	14,773	15,113
2.4%	-3.9%	6.3%	4.2%	2.4%	2.3%	2.3%
109.9	111.1	113.8	115.7	117.7	119.9	122.1
1.5%	1.2%	2.4%	1.7%	1.7%	1.8%	1.8%
109.9	111.2	113.8	115.6	117.5	119.6	122.0
1.5%	1.2%	2.4%	1.6%	1.6%	1.8%	2.0%
16,888	17,718	18,359	18,133	18,550	19,019	19,487
2.4%	4.9%	3.6%	-1.2%	2.3%	2.5%	2.5%
16,888	17,717	18,186	17,964	18,454	19,009	19,519
2.4%	4.9%	2.6%	-1.2%	2.7%	3.0%	2.7%
150.9	142.3	146.8	151.6	153.9	155.4	156.2
1.3%	-5.7%	3.2%	3.3%	1.5%	1.0%	0.5%
150.9	142.3	145.6	150.6	153.4	155.0	155.8
1.3%	-5.7%	2.4%	3.4%	1.8%	1.0%	0.5%
3.7	8.1	5.3	4.0	3.5	3.5	3.8
3.7	8.1	5.5	4.1	3.6	3.4	3.5
59.4	39.2	62.3	61.0	57.9	55.9	54.6
59.4	39.1	62.1	58.2	54.8	52.7	51.5
3.9	3.1	3.1	3.5	3.7	3.8	4.1
3.9	3.1	3.1	3.6	3.8	3.9	4.1
2.1	0.4	0.0	0.0	0.1	0.2	0.4
2.1	0.4	0.0	0.1	0.1	0.2	0.5

Washington Forecast Comparison

	2021Q1	2021Q2	2021Q3	2021Q4
Real Personal Income (Billions of 2012 Dollars)				
June Forecast, Preliminary	512.0	487.7	482.9	478.9
Percent Change	41.5%	-17.7%	-3.9%	-3.3%
March Forecast	484.1	509.1	472.6	469.7
Percent Change	16.8%	22.4%	-25.8%	-2.4%
Personal Income (Billions of Dollars)				
June Forecast, Preliminary	577.6	554.1	551.0	548.7
Percent Change	46.4%	-15.3%	-2.2%	-1.7%
March Forecast	546.9	578.1	538.9	537.9
Percent Change	21.5%	24.8%	-24.5%	-0.7%
Disposable Personal Income (Billions of Dollars)				
June Forecast, Preliminary	525.2	497.9	493.6	490.5
Percent Change	54.7%	-19.2%	-3.4%	-2.5%
March Forecast	494.5	525.1	484.6	483.0
Percent Change	24.8%	27.2%	-27.5%	-1.3%
Nonfarm Payroll Employment (Thousands)				
June Forecast, Preliminary	3290	3327	3398	3439
Percent Change	2.4%	4.5%	8.8%	4.9%
March Forecast	3281	3327	3364	3391
Percent Change	1.5%	5.7%	4.5%	3.4%
Unemployment Rate (Percent of Labor Force)				
June Forecast, Preliminary	5.7	5.5	4.9	4.6
March Forecast	5.9	5.6	5.4	5.2
Manufacturing Employment (Thousands)				
June Forecast, Preliminary	262.2	259.9	258.4	253.7
Percent Change	1.9%	-3.5%	-2.3%	-7.1%
March Forecast	262.2	260.8	258.9	256.5
Percent Change	1.6%	-2.1%	-2.8%	-3.6%
Construction Employment (Thousands)				
June Forecast, Preliminary	222.3	222.0	222.1	219.2
Percent Change	7.2%	-0.5%	0.1%	-5.0%
March Forecast	221.7	219.3	217.8	216.0
Percent Change	5.4%	-4.3%	-2.9%	-3.2%
Housing Permits (Thousands)				
June Forecast, Preliminary	63.7	52.1	51.7	50.3
Percent Change	321.3%	-55.1%	-2.9%	-11.0%
March Forecast	53.1	54.5	51.6	49.4
Percent Change	103.6%	11.4%	-19.9%	-15.9%

2019	2020	2021	2022	2023	2024	2025
448.9	473.1	490.4	489.7	503.1	518.0	533.5
3.8%	5.4%	3.6%	-0.1%	2.7%	3.0%	3.0%
448.9	472.4	483.9	481.3	496.4	513.5	530.1
3.8%	5.2%	2.4%	-0.5%	3.2%	3.4%	3.2%
493.1	525.8	557.9	566.7	592.2	621.0	651.3
5.4%	6.6%	6.1%	1.6%	4.5%	4.9%	4.9%
493.1	525.0	550.4	556.5	583.3	614.0	646.5
5.4%	6.5%	4.8%	1.1%	4.8%	5.3%	5.3%
442.2	474.1	501.8	506.9	529.2	554.2	581.6
5.1%	7.2%	5.8%	1.0%	4.4%	4.7%	4.9%
442.2	473.6	496.8	499.4	522.4	549.8	579.6
5.1%	7.1%	4.9%	0.5%	4.6%	5.2%	5.4%
3469	3287	3364	3507	3576	3630	3672
2.0%	-5.2%	2.3%	4.3%	2.0%	1.5%	1.1%
3469	3286	3341	3463	3543	3598	3644
2.0%	-5.3%	1.7%	3.7%	2.3%	1.6%	1.3%
4.2	8.4	5.2	4.4	4.1	4.2	4.4
4.2	8.4	5.5	4.7	4.3	4.3	4.4
293.7	271.9	258.6	254.2	256.7	258.9	259.3
2.1%	-7.4%	-4.9%	-1.7%	1.0%	0.9%	0.2%
294.0	271.9	259.6	259.7	261.3	262.2	262.1
2.2%	-7.5%	-4.5%	0.0%	0.6%	0.3%	0.0%
219.5	213.5	221.4	214.5	209.5	210.1	211.8
3.0%	-2.8%	3.7%	-3.1%	-2.4%	0.3%	0.8%
219.5	213.6	218.7	211.4	207.1	207.6	209.8
3.0%	-2.7%	2.4%	-3.3%	-2.0%	0.2%	1.1%
48.4	44.1	54.5	46.6	44.7	45.1	44.2
1.4%	-9.0%	23.6%	-14.4%	-4.1%	0.9%	-2.0%
48.4	44.1	52.2	45.8	43.1	43.6	43.6
1.4%	-9.0%	18.4%	-12.3%	-5.9%	1.3%	-0.1%

U.S. Forecast Comparison					Fiscal Years	
	2020	2021	2022	2023	2024	2025
Real GDP						
Billions of 2012 dollars						
June Preliminary Forecast	18,677	18,997	20,169	20,749	21,179	21,590
Growth	-1.1%	1.7%	6.2%	2.9%	2.1%	1.9%
March Forecast	18,677	18,932	19,959	20,520	20,989	21,436
Growth	-1.1%	1.4%	5.4%	2.8%	2.3%	2.1%
Difference in level	0	65	210	230	190	155
Difference in growth forecast	0.0%	0.4%	0.7%	0.1%	-0.2%	-0.2%
Real Consumption						
Billions of 2012 dollars						
June Preliminary Forecast	12,908	13,221	14,060	14,481	14,783	15,085
Growth	-1.3%	2.4%	6.3%	3.0%	2.1%	2.0%
March Forecast	12,908	13,135	13,885	14,272	14,608	14,942
Growth	-1.3%	1.8%	5.7%	2.8%	2.4%	2.3%
Difference in level	0	86	175	208	175	142
Difference in growth forecast	0.0%	0.7%	0.6%	0.2%	-0.3%	-0.2%
PCE Price Index						
2012 = 100						
June Preliminary Forecast	110.5	112.4	114.8	116.7	118.8	121.0
Growth	1.3%	1.8%	2.1%	1.6%	1.8%	1.8%
March Forecast	110.5	112.5	114.7	116.5	118.5	120.7
Growth	1.3%	1.8%	2.0%	1.6%	1.7%	1.9%
Difference in level	0.0	0.0	0.1	0.2	0.3	0.3
Difference in growth forecast	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%
Unemployment Rate						
Percent of Labor Force						
June Preliminary Forecast	6.0%	6.9%	4.4%	3.7%	3.5%	3.6%
March Forecast	6.0%	6.9%	4.7%	3.7%	3.5%	3.5%
Difference in forecast	0.0%	0.0%	-0.3%	0.0%	0.0%	0.2%
30 Year Fixed Mortgage Rate						
Annual Average						
June Preliminary Forecast	3.5%	2.9%	3.3%	3.6%	3.7%	3.9%
March Forecast	3.5%	2.9%	3.4%	3.7%	3.8%	4.0%
Difference in forecast	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
3 Month T-Bill Rate						
Annual Average						
June Preliminary Forecast	1.2%	0.1%	0.0%	0.1%	0.1%	0.3%
March Forecast	1.2%	0.1%	0.1%	0.1%	0.1%	0.3%
Difference in forecast	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Washington Forecast Comparison					Fiscal Years	
	2020	2021	2022	2023	2024	2025
Real Personal Income						
Billions of 2012 dollars						
June Preliminary Forecast	462.9	485.8	483.5	496.4	510.5	525.6
Growth	4.8%	4.9%	-0.5%	2.7%	2.8%	3.0%
March Forecast	462.9	483.4	474.0	488.9	505.1	521.8
Growth	4.8%	4.4%	-1.9%	3.1%	3.3%	3.3%
Difference in level	0.0	2.3	9.4	7.5	5.4	3.8
<i>Difference in growth forecast</i>	<i>0.0%</i>	<i>0.5%</i>	<i>1.5%</i>	<i>-0.5%</i>	<i>-0.5%</i>	<i>-0.3%</i>
Nominal Personal Income						
Billions of dollars						
June Preliminary Forecast	511.4	546.2	555.0	579.3	606.4	635.9
Growth	6.2%	6.8%	1.6%	4.4%	4.7%	4.9%
March Forecast	511.4	543.8	543.9	569.7	598.5	629.9
Growth	6.2%	6.3%	0.0%	4.7%	5.1%	5.2%
Difference in level	0.0	2.4	11.1	9.6	7.9	5.9
<i>Difference in growth forecast</i>	<i>0.0%</i>	<i>0.5%</i>	<i>1.6%</i>	<i>-0.4%</i>	<i>-0.4%</i>	<i>-0.4%</i>
Nonfarm Payroll Employment						
Thousands						
June Preliminary Forecast	3,403.3	3,282.1	3,451.2	3,546.4	3,603.9	3,652.6
Growth	-0.9%	-3.6%	5.2%	2.8%	1.6%	1.4%
March Forecast	3,403.5	3,279.3	3,407.5	3,509.1	3,571.3	3,622.2
Growth	-0.9%	-3.6%	3.9%	3.0%	1.8%	1.4%
Difference in level	-0.2	2.8	43.7	37.3	32.6	30.4
<i>Difference in growth forecast</i>	<i>0.0%</i>	<i>0.1%</i>	<i>1.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.1%</i>
Housing Permits						
Units Authorized, Thousands						
June Preliminary Forecast	47.5	50.7	49.3	45.2	44.8	44.8
Growth	3.3%	6.7%	-2.8%	-8.3%	-0.9%	-0.2%
March Forecast	47.5	48.7	48.7	43.8	43.3	43.7
Growth	3.3%	2.4%	0.1%	-10.1%	-1.2%	0.9%
Difference in level	0.0	2.0	0.6	1.4	1.5	1.1
<i>Difference in growth forecast</i>	<i>0.0%</i>	<i>4.3%</i>	<i>-2.9%</i>	<i>1.8%</i>	<i>0.3%</i>	<i>-1.0%</i>

Year-Over-Year Employment Growth by Industry
(April 2020 to April 2021)
Washington vs. U.S.

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	202.9	6.5%	10.9%
Electronic Shopping and Mail-Order Houses	20.6	28.4%	13.2%
Leisure and Hospitality	46.8	22.6%	62.1%
Construction	37.5	20.2%	13.9%
Other Services	9.5	8.7%	23.1%
Education and Health Services	38.9	8.4%	7.8%
Mining and Logging	0.4	7.5%	-1.3%
Professional and Business Services	24.3	5.9%	8.6%
Information Excluding Software	3.5	4.9%	1.7%
Wholesale Trade	5.8	4.5%	3.2%
Manufacturing Excluding Aerospace	4.1	2.2%	8.1%
Software Publishers	0.6	0.7%	4.7%
State and Local Gov Non-Education	-1.0	-0.5%	-0.2%
Financial Activities	-1.7	-1.1%	2.4%
Transportation, Warehousing and Utilities	-2.0	-1.8%	7.7%
State and Local Gov Education	-12.1	-5.0%	-2.3%
Aerospace Product and Parts Manufacturing	-15.4	-18.0%	-4.7%
Information	4.1	2.8%	2.2%
Retail Trade	59.3	16.8%	14.9%
Manufacturing	-11.3	-4.2%	7.5%

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