

Washington and U.S. Economic Outlook

Presented to
Association of Washington Cities

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January 23, 2019
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- U.S. economic growth will slow but the baseline forecast does not contain a recession
- The forecast expects oil prices to stabilize at \$60/barrel but prices have continued to decline
- The economic forecast for WA has higher personal income than in September but slower growth
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns and higher interest rates
- The near General Fund-State forecast for the 2017-19 biennium is increased by \$163 million



Forecast risks

Upside

- Elevated consumer, business confidence could translate into stronger growth
- Strong U.S., WA labor markets

Downside

- International trade and fiscal policy uncertainty
- Slowing global economic growth
- Impact of rising interest rates
- Maturing economic expansion

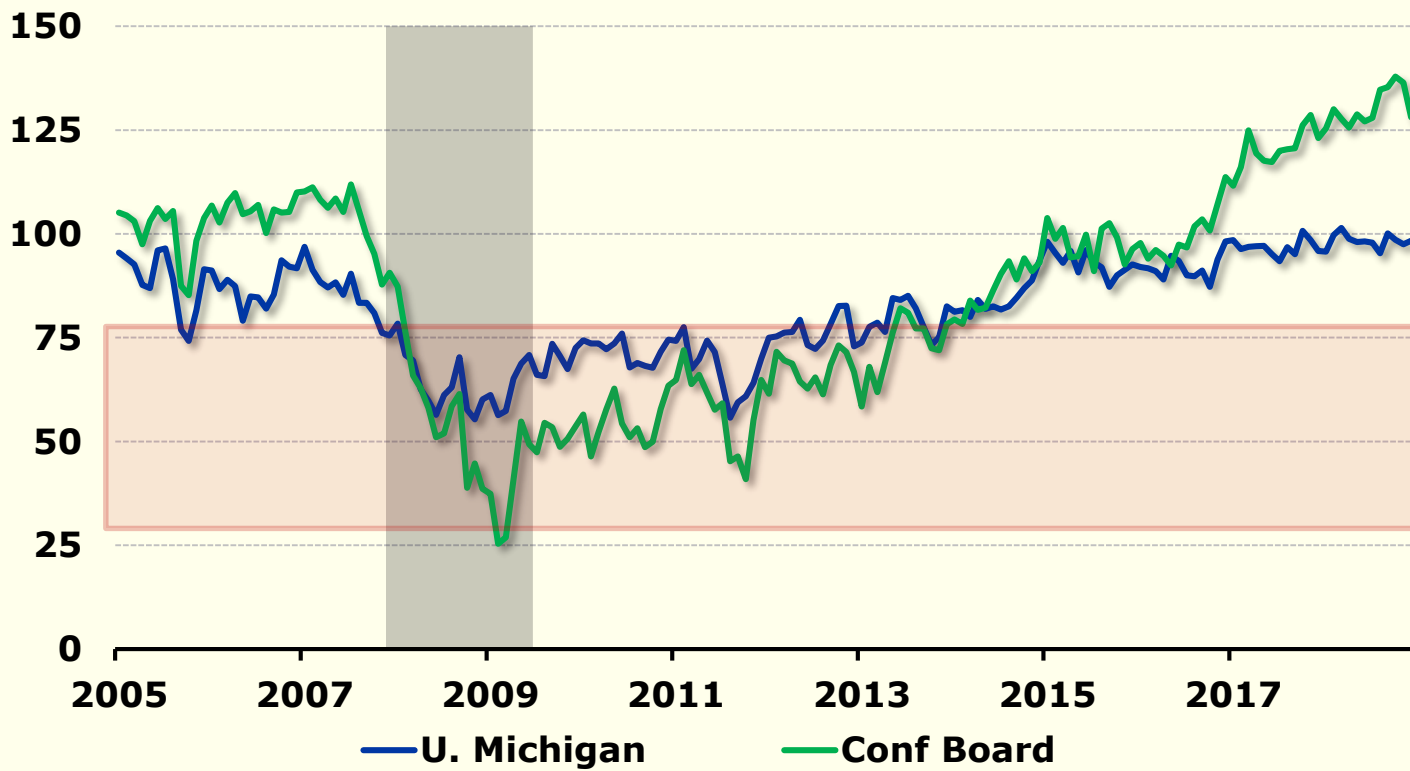


Consumer confidence has moderated recently but remains strong

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Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

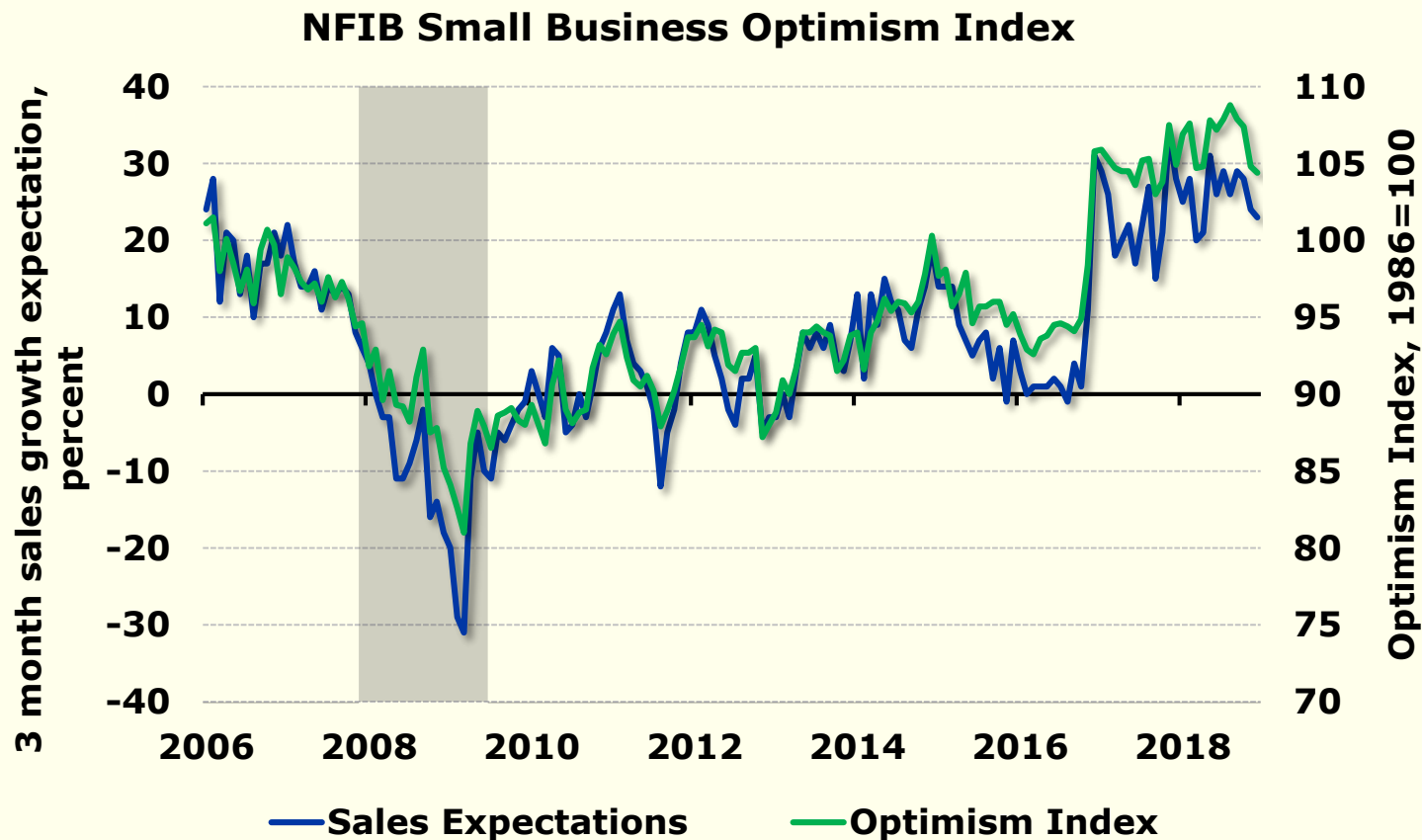


Sources: University of Michigan, Conference Board; data through December 2018

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Small business optimism has weakened recently but remains strong

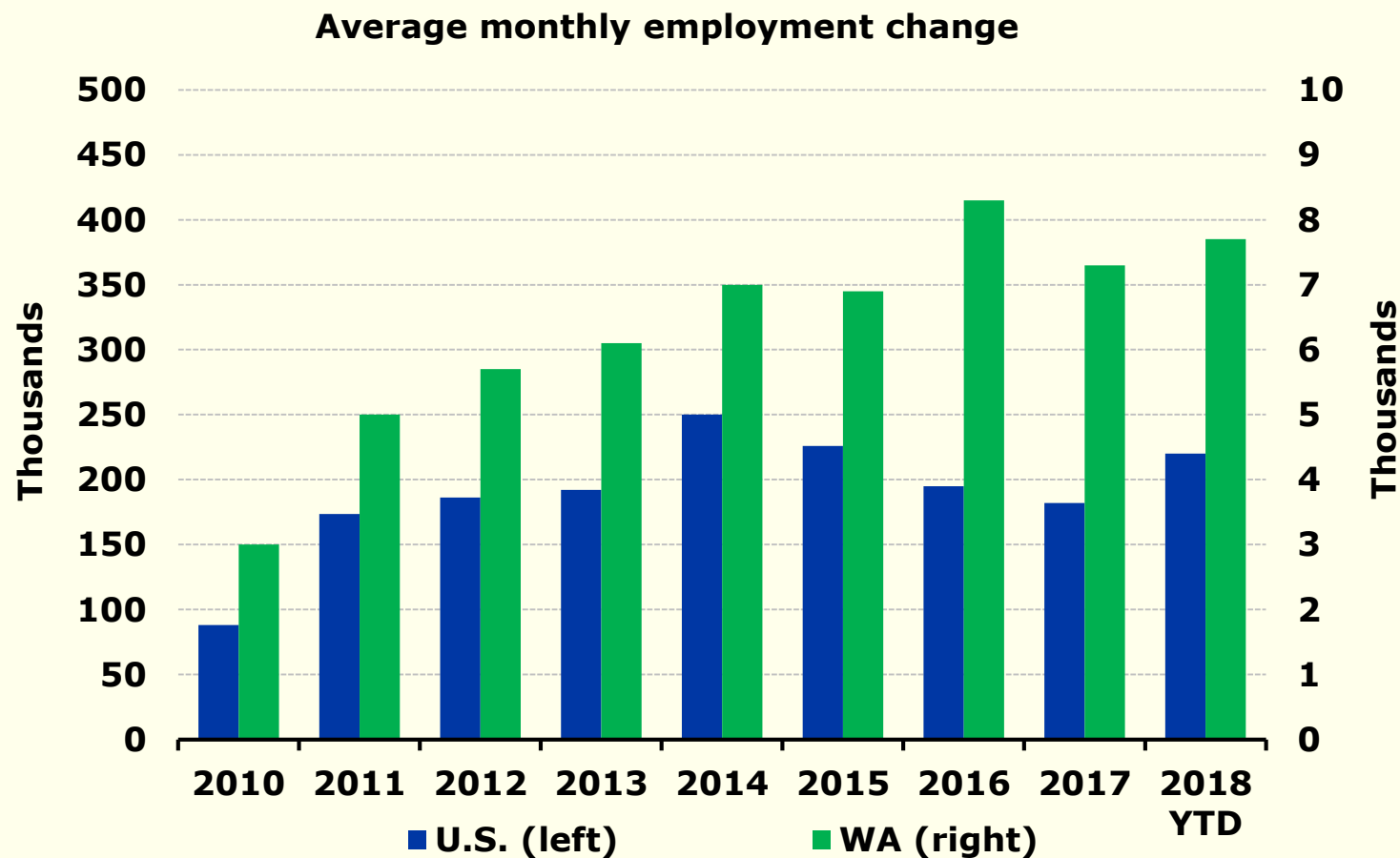


Source: National Federation of Independent Business; data through Dec. 2018

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WA, U.S. job growth remain strong



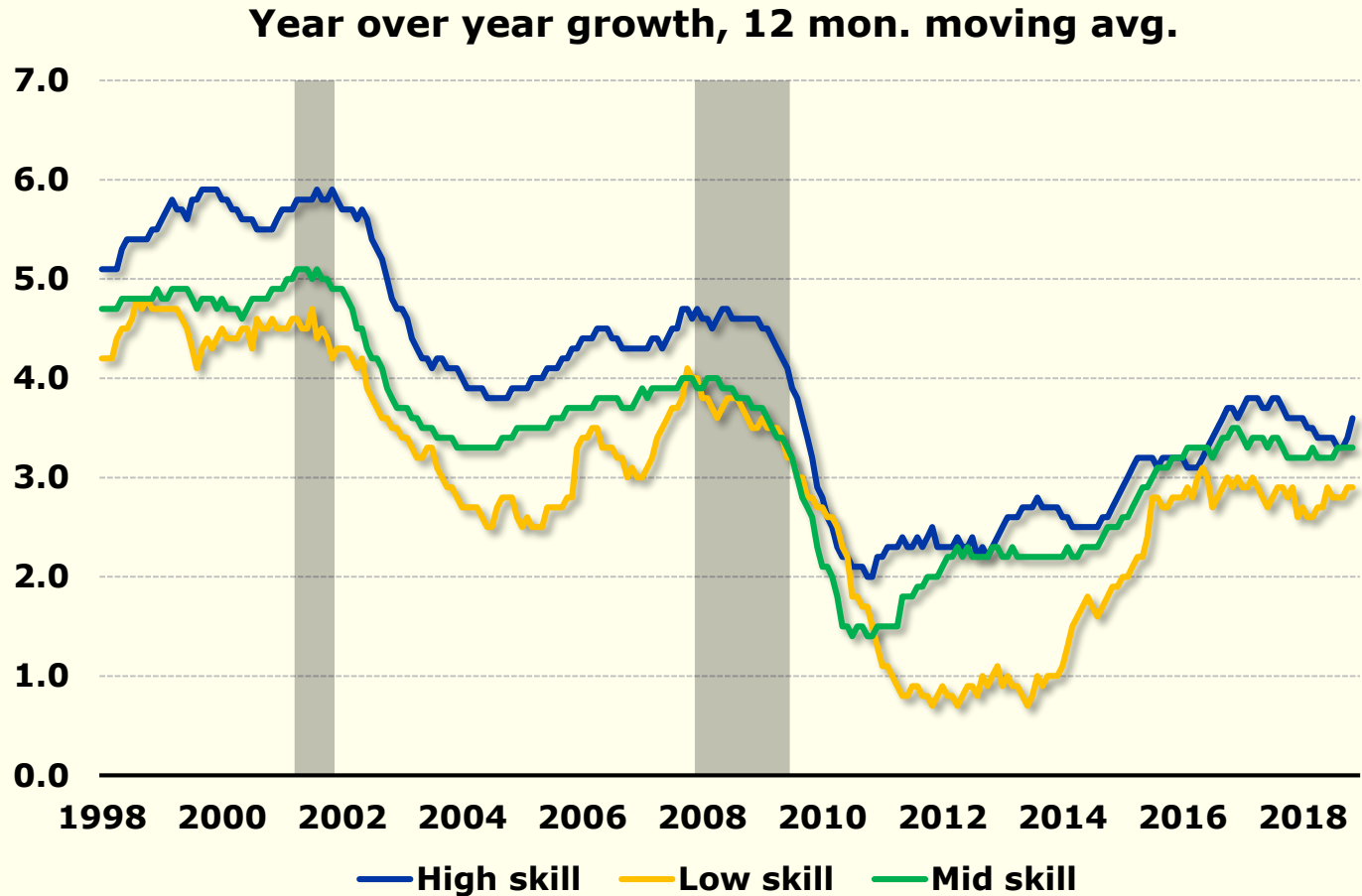


Nominal wage growth has plateaued regardless of occupational skill level

High:
managers,
professionals,
technicians

Mid:
office/admin,
production,
sales

Low: food prep
& serving,
cleaning,
personal care,
protective
services



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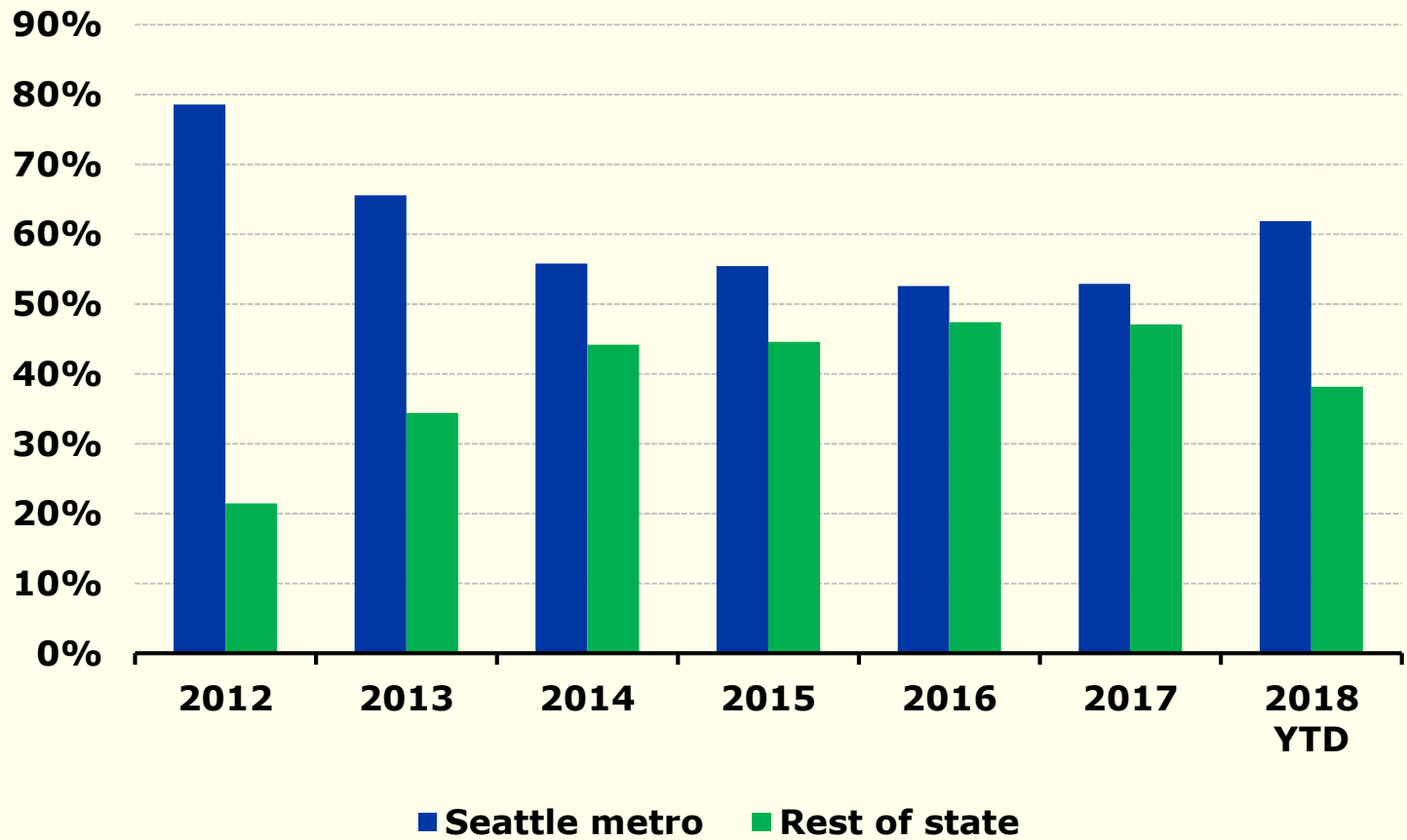
Source: Federal Reserve Bank of Atlanta, data through Nov. 2018

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Fraction of statewide employment change, Seattle vs. rest of state

The Seattle metro area is 40.3% of the state's population

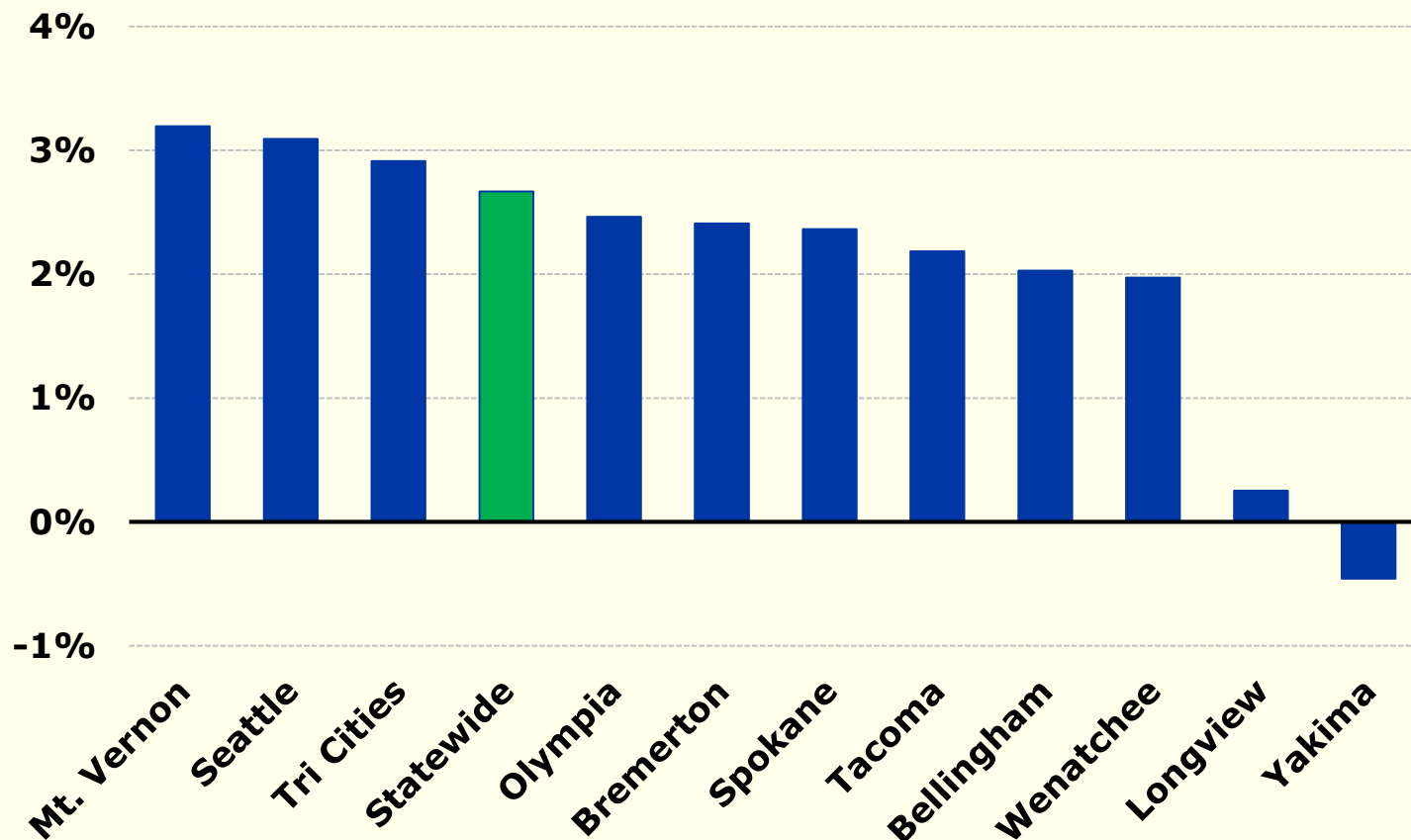


Source: Bureau of Labor Statistics, WA Employment Security Dept., WA Office of Financial Management

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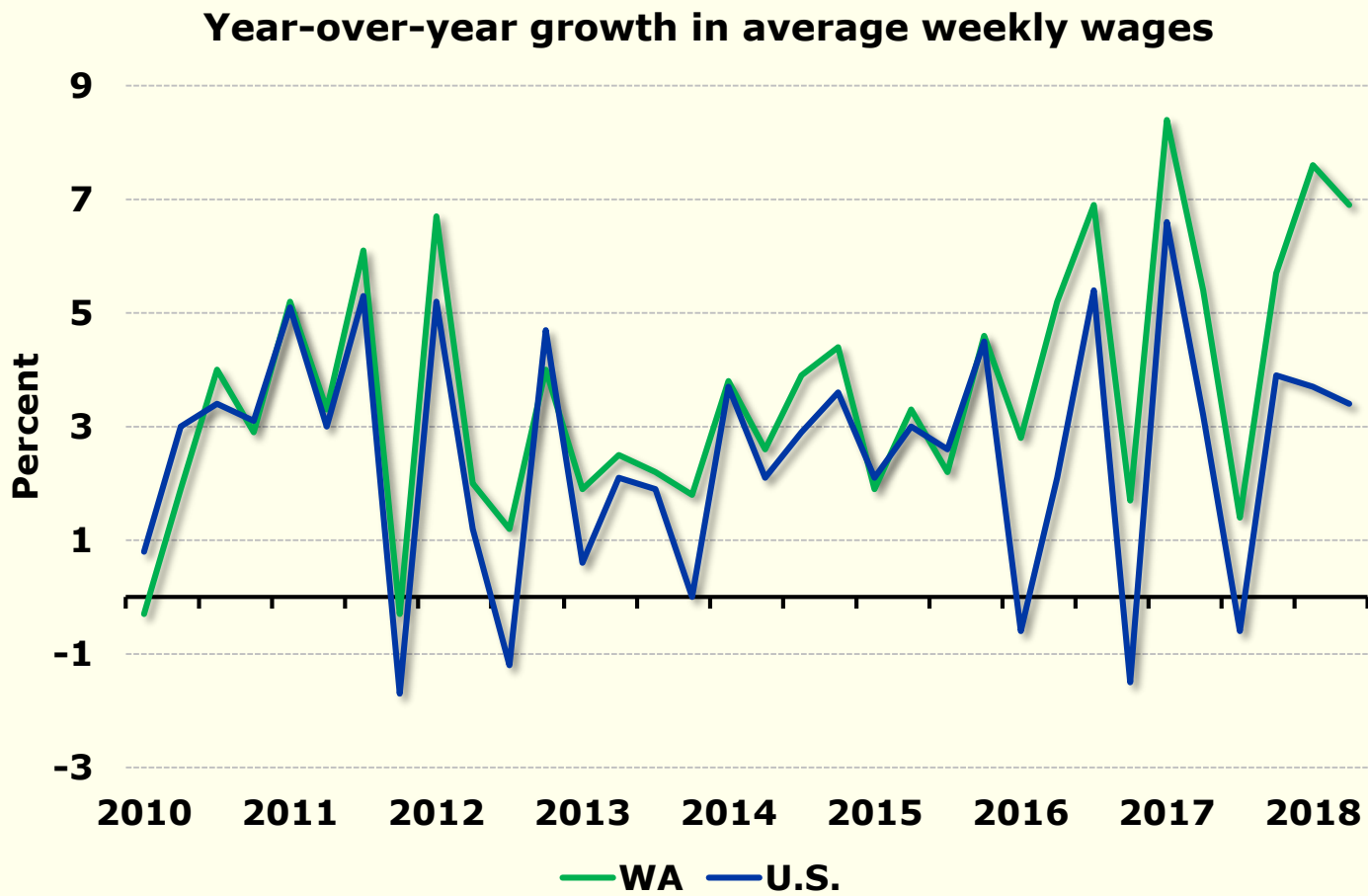


Metro area employment growth, Jan. through Nov. 2018





Weekly wage growth in WA is outpacing the nation recently



Source: U.S. Bureau of Labor Statistics, quarterly data through 2018 Q2

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WA exposure to retaliatory tariffs

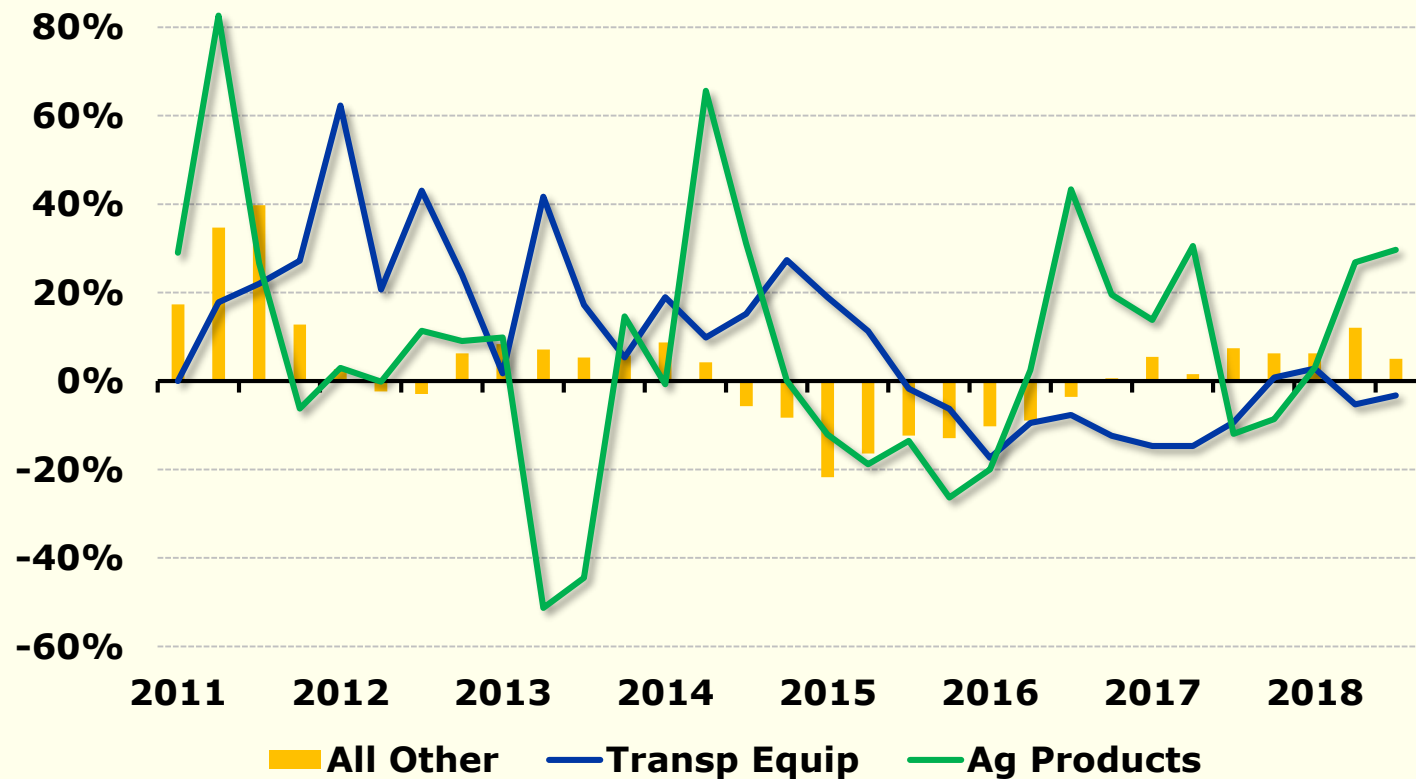
Based on 2017 export values:

- \$3.7 billion of exports subject to retaliatory tariffs (6.1% of total exports)
- 8,300 direct export-supported jobs subject to retaliation
- 20,600 total export-related jobs subject to retaliation



After 10 quarters of decline, exports have grown in the last four quarters

Year over year growth, quarterly WA exports

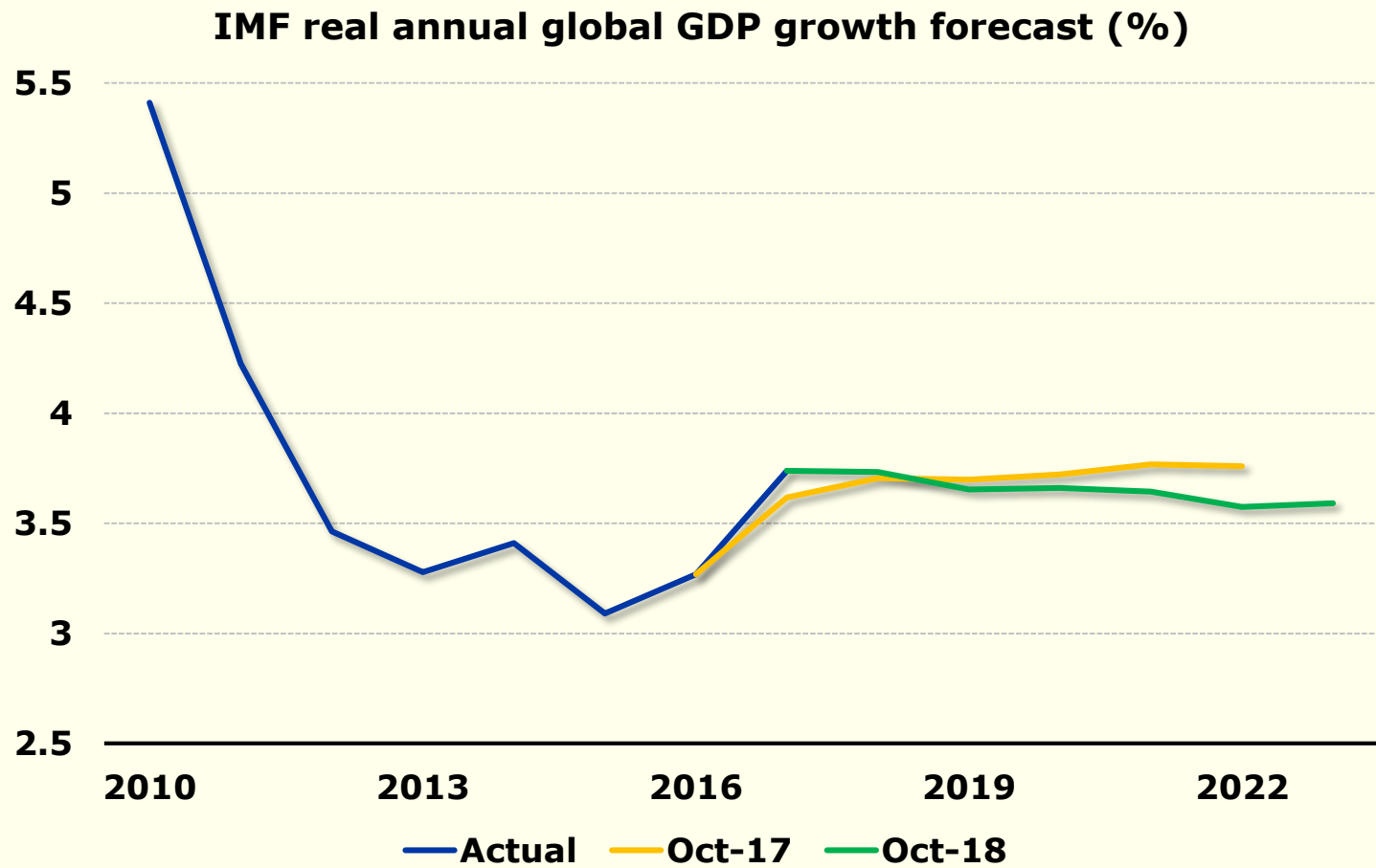


Source: WISERTrade, data through 2018 Q3

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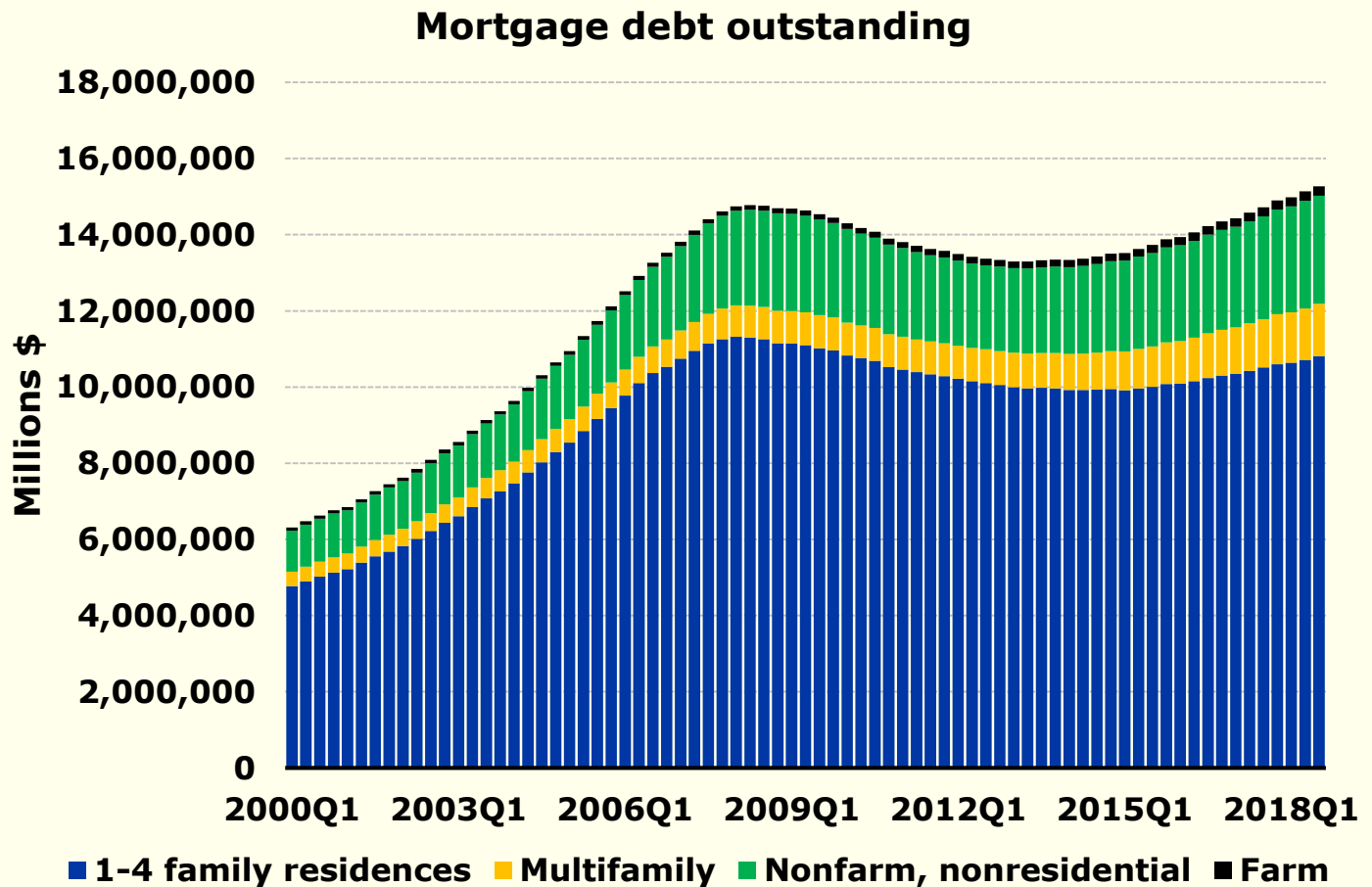


The IMF has revised its global GDP forecast down for 2019 and beyond





Mortgage debt is slightly above its previous 2008 peak



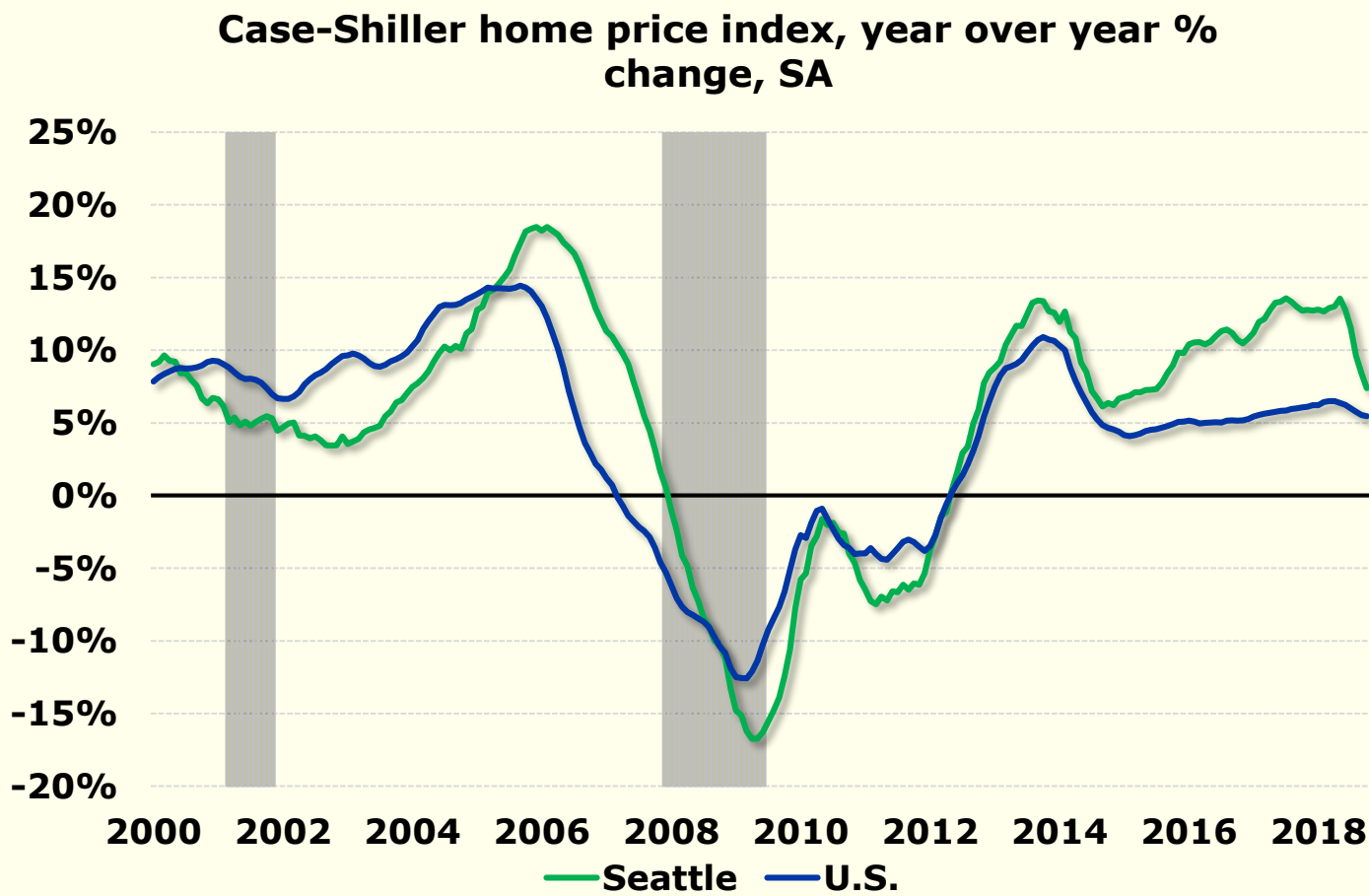
Source: Federal Reserve System Board of Governors, data through 2018Q3

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Home price growth appears to be slowing

The Case-Shiller index for Seattle has decreased for four consecutive months

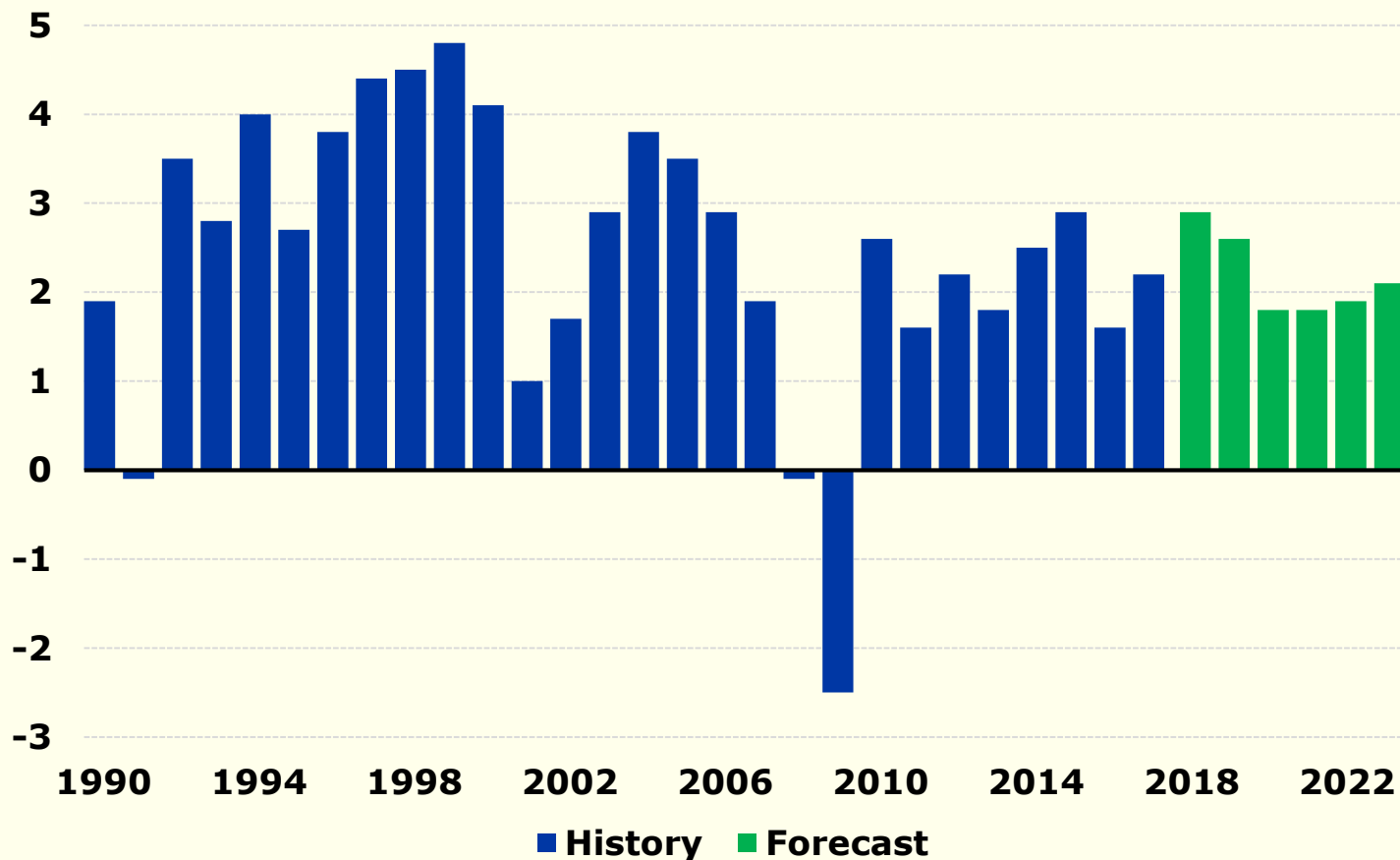


Source: Case-Shiller, data through Oct. 2018

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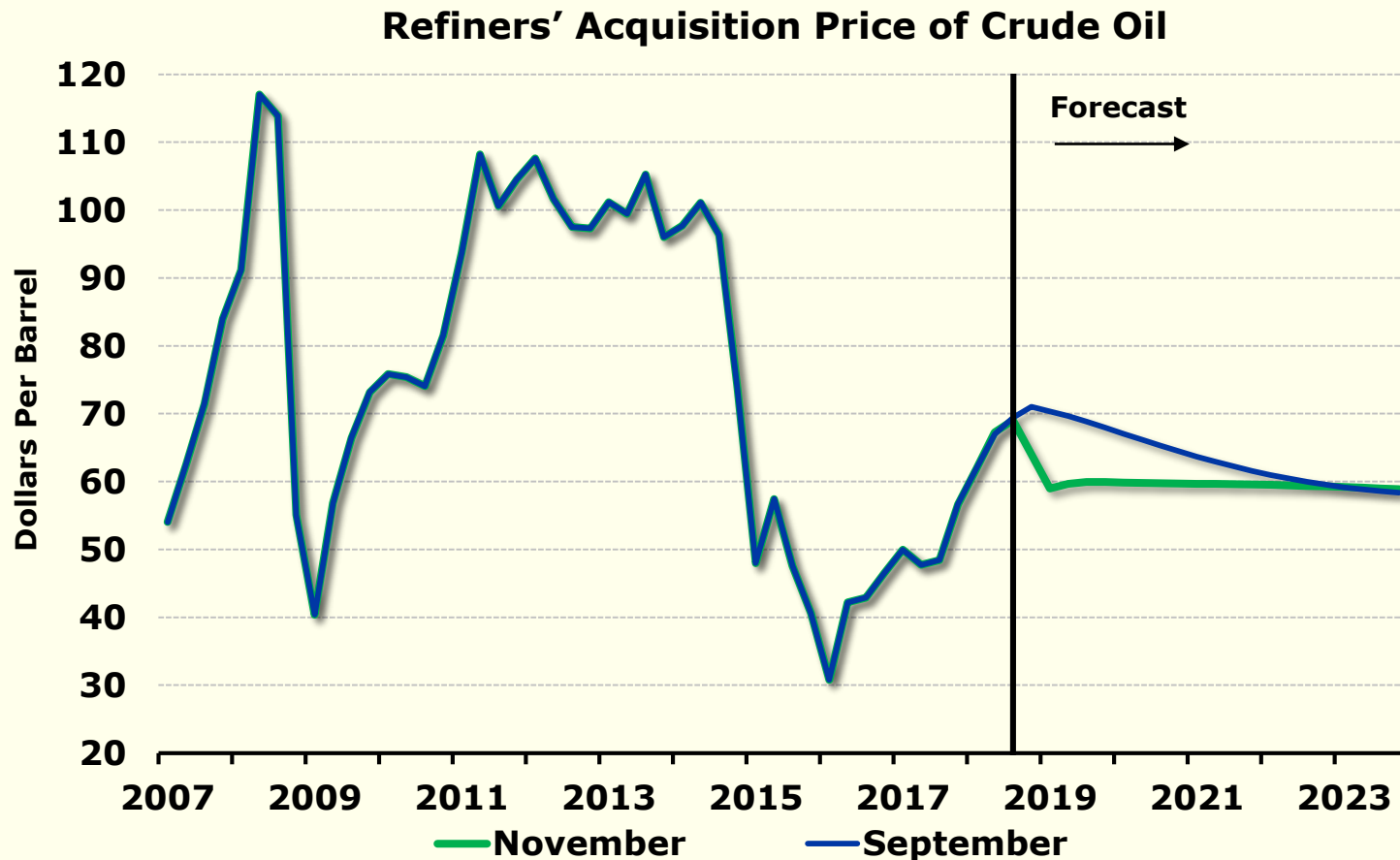
GDP growth is expected to average 1.9% in 2020 - 2023





Oil prices have declined recently

Since the preliminary forecast, oil prices have dropped \$8 per gallon for the 4th quarter of this year.



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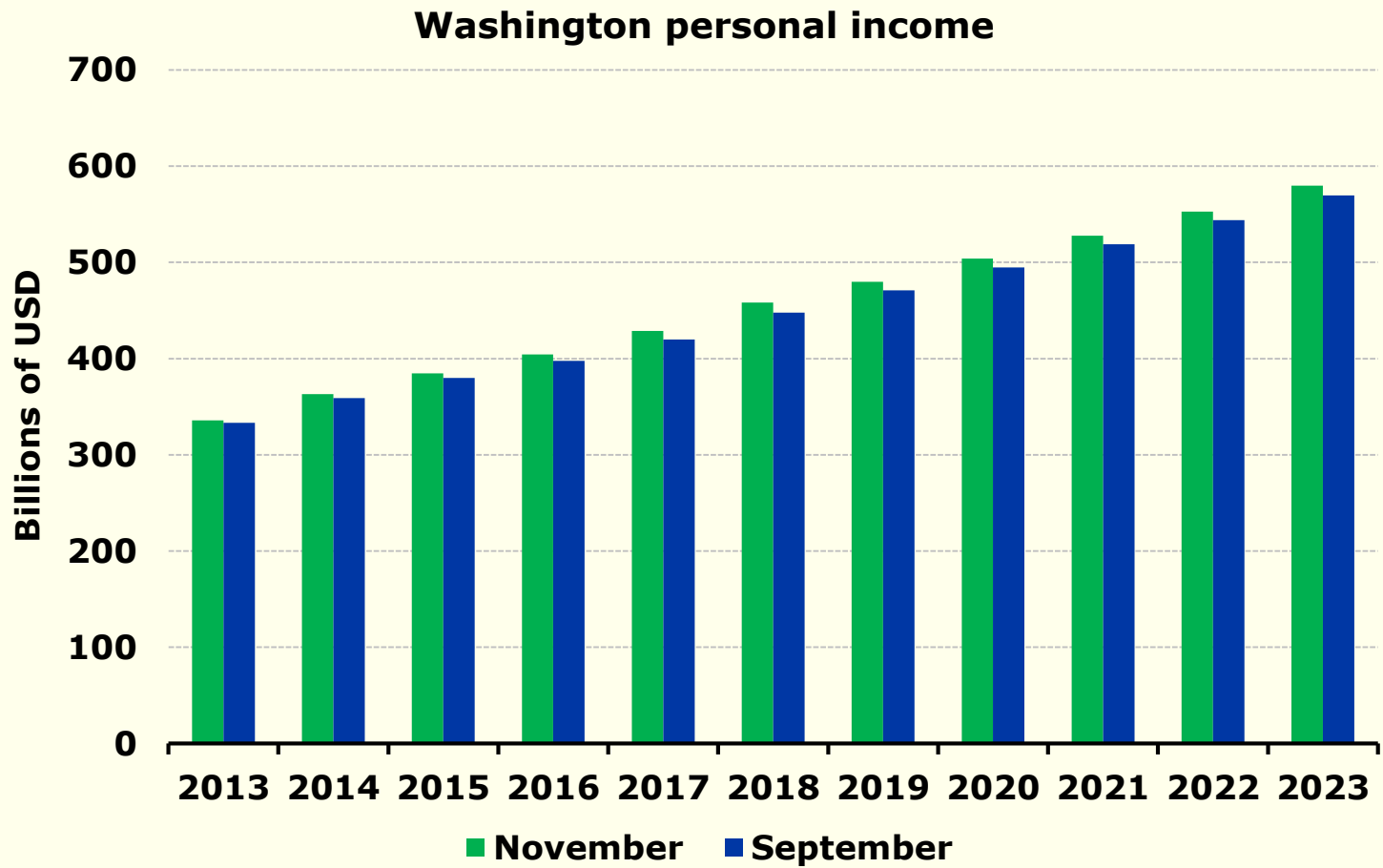
Source: Energy Information Administration, IHS Markit, ERFC November 2018 forecast; data through Q3 2018
Note: Vertical black line indicates last actual

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Washington personal income is slightly higher than in September but grows more slowly

Personal income data were revised back to 1998 after the September forecast

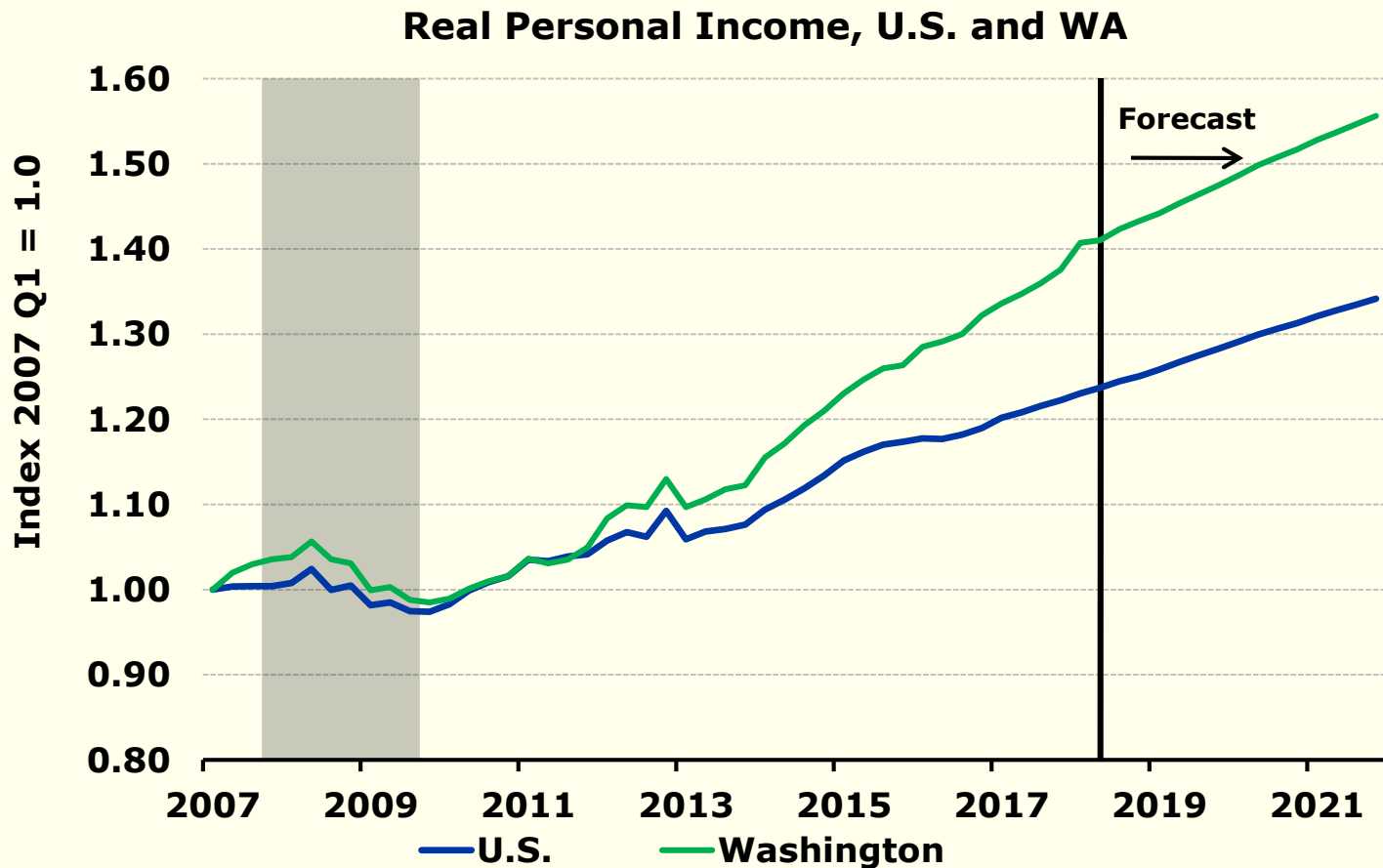


Source: ERFC November 2018 forecast; historical data through 2017

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State personal income will continue to grow faster than the U.S.

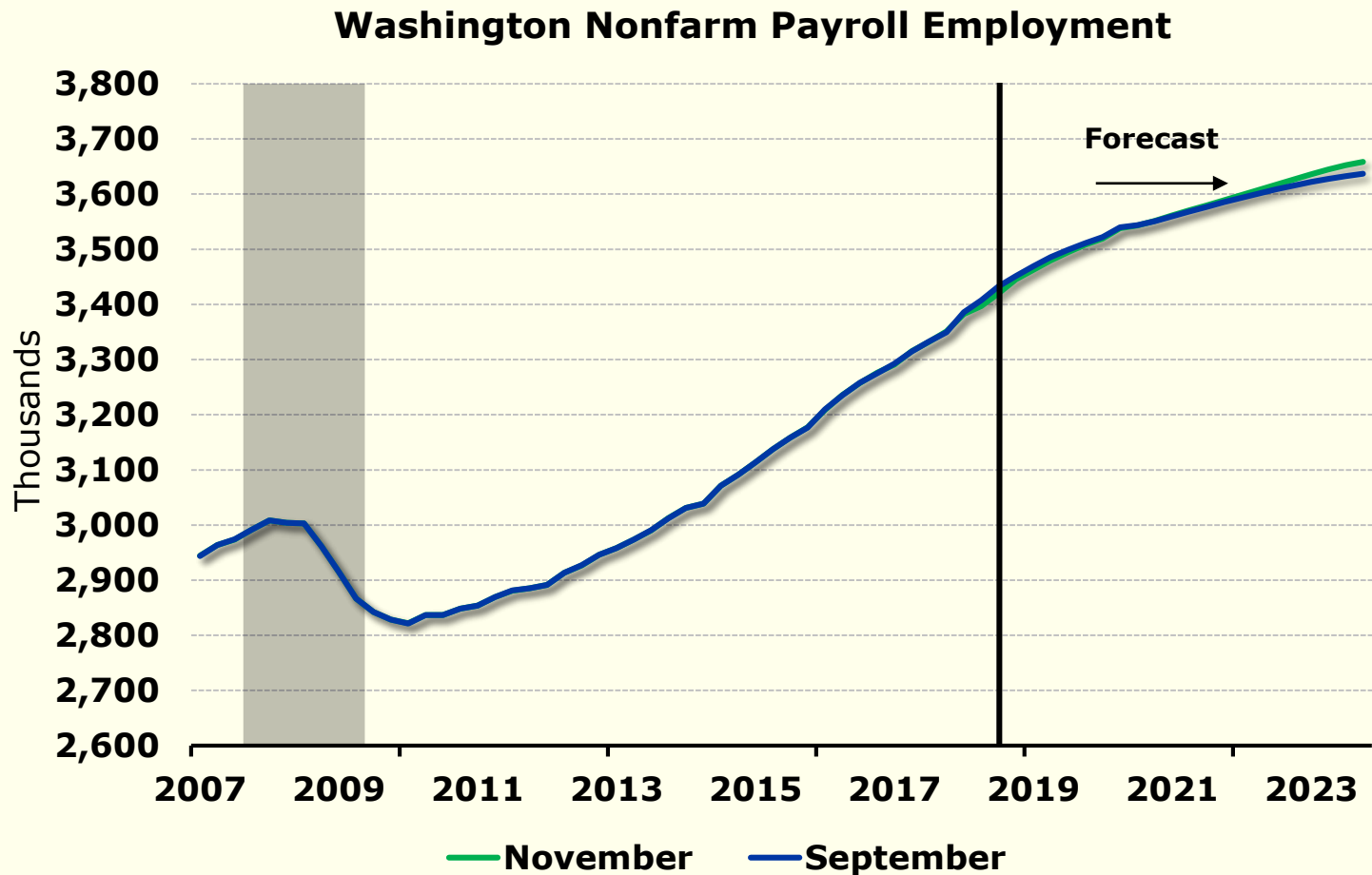


Source: ERFC November 2018 forecast; historical data through 2018Q2

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Washington employment forecast is very similar to September

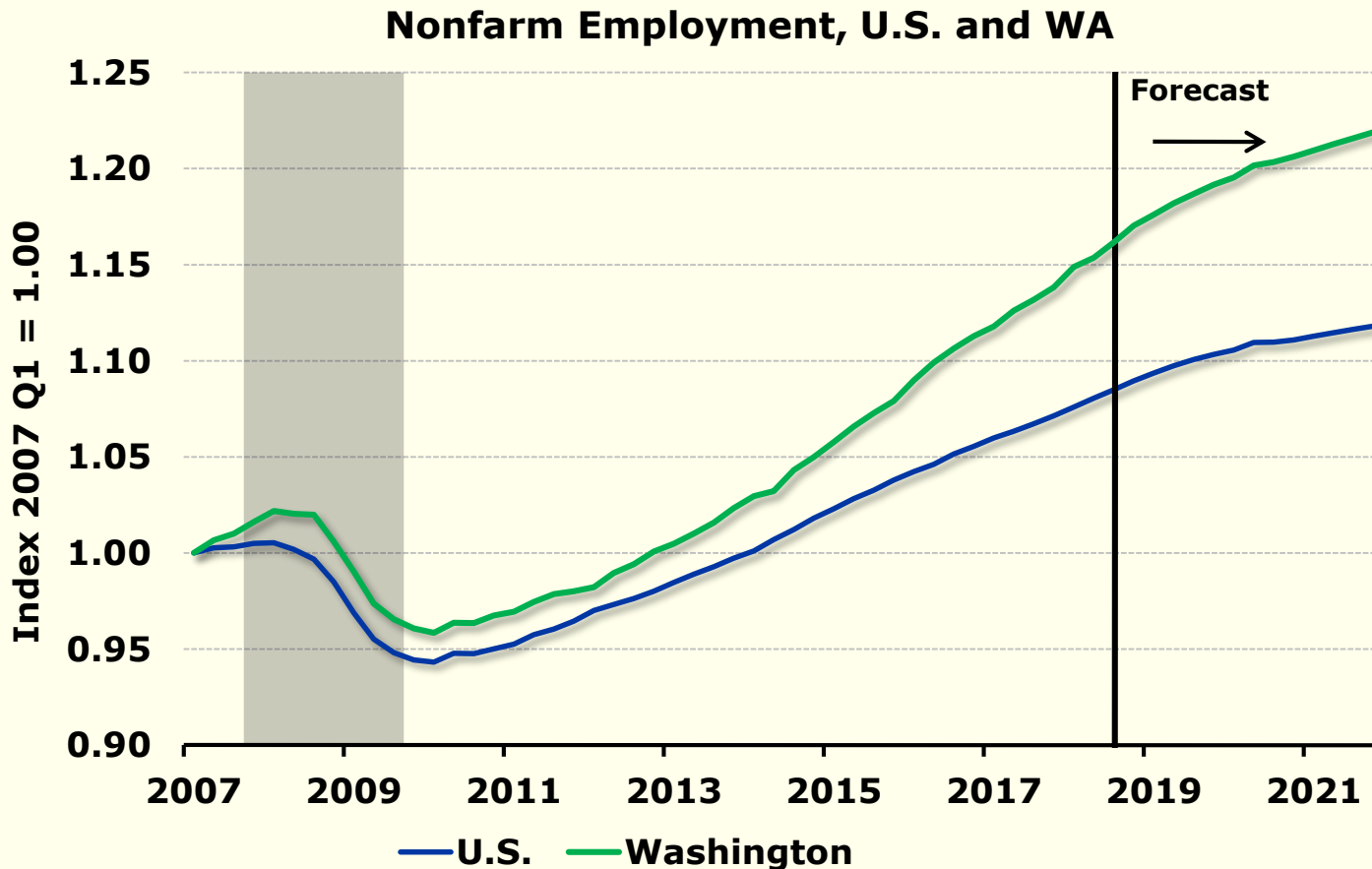


Source: ERFC November 2018 forecast; historical data through Q3 2018

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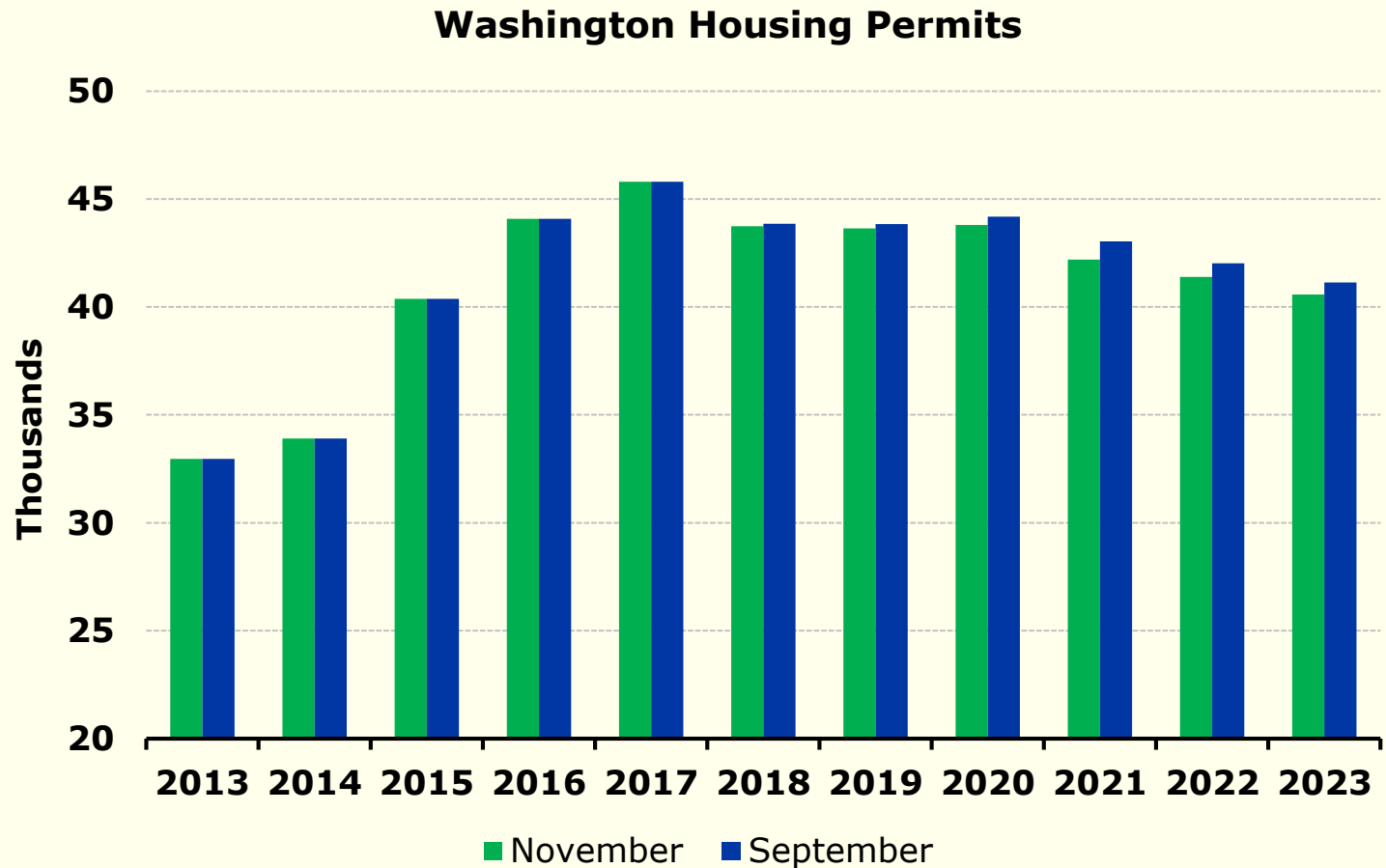


Washington employment will continue to grow faster than the U.S.





WA housing permits forecast averages about 500 units lower per year for 2019 – 2023 compared to September

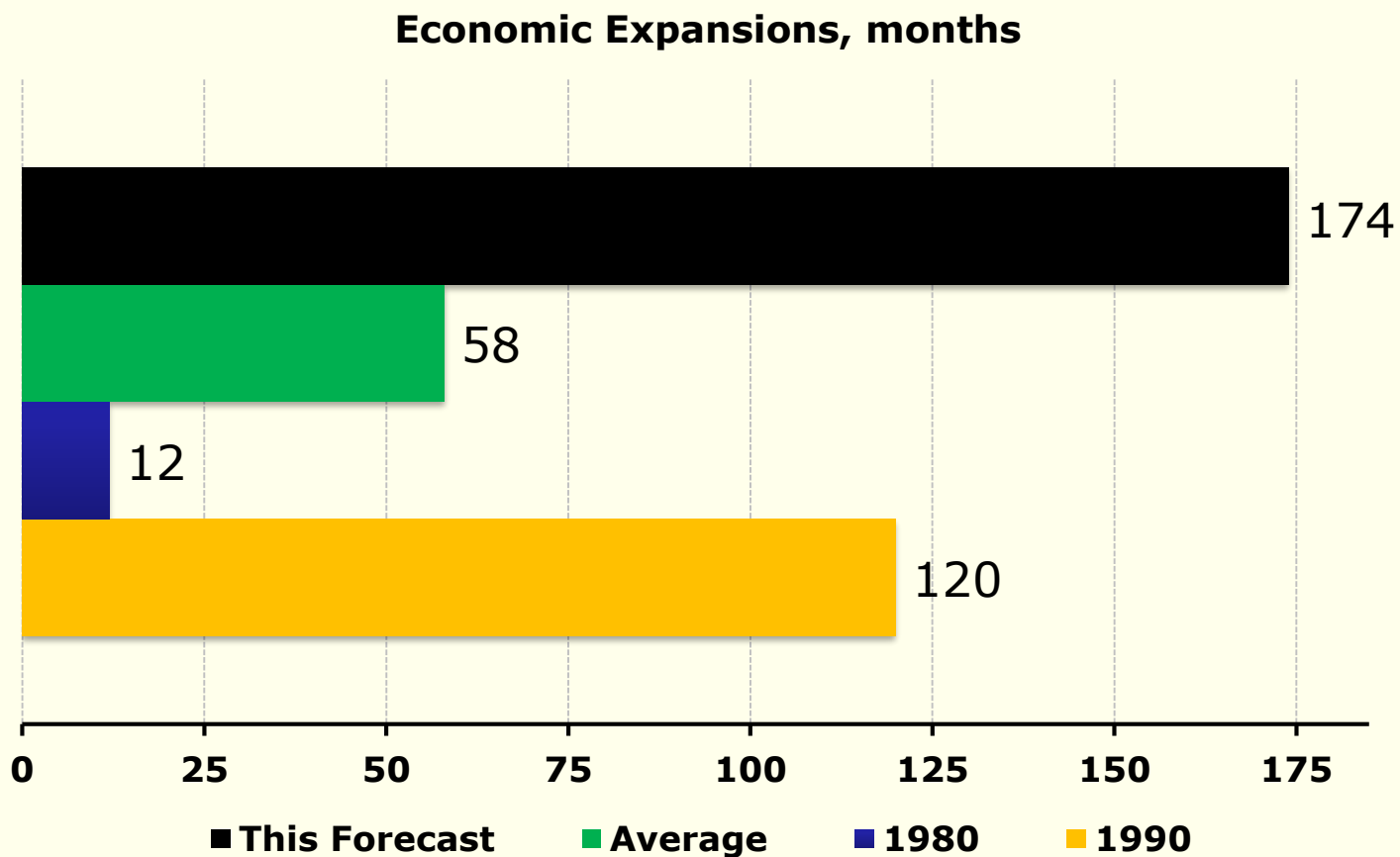


Source: ERFC November 2018 forecast; historical data through 2017

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U.S. Economic Expansions since 1945





Recession forecasts

Duke/U.S. CFO Magazine survey (Dec. 2018)

- 49% of CFOs expect recession by end of 2019
- 82% of CFOs expect recession by end of 2020

WSJ Economists Survey (Dec. 2018)

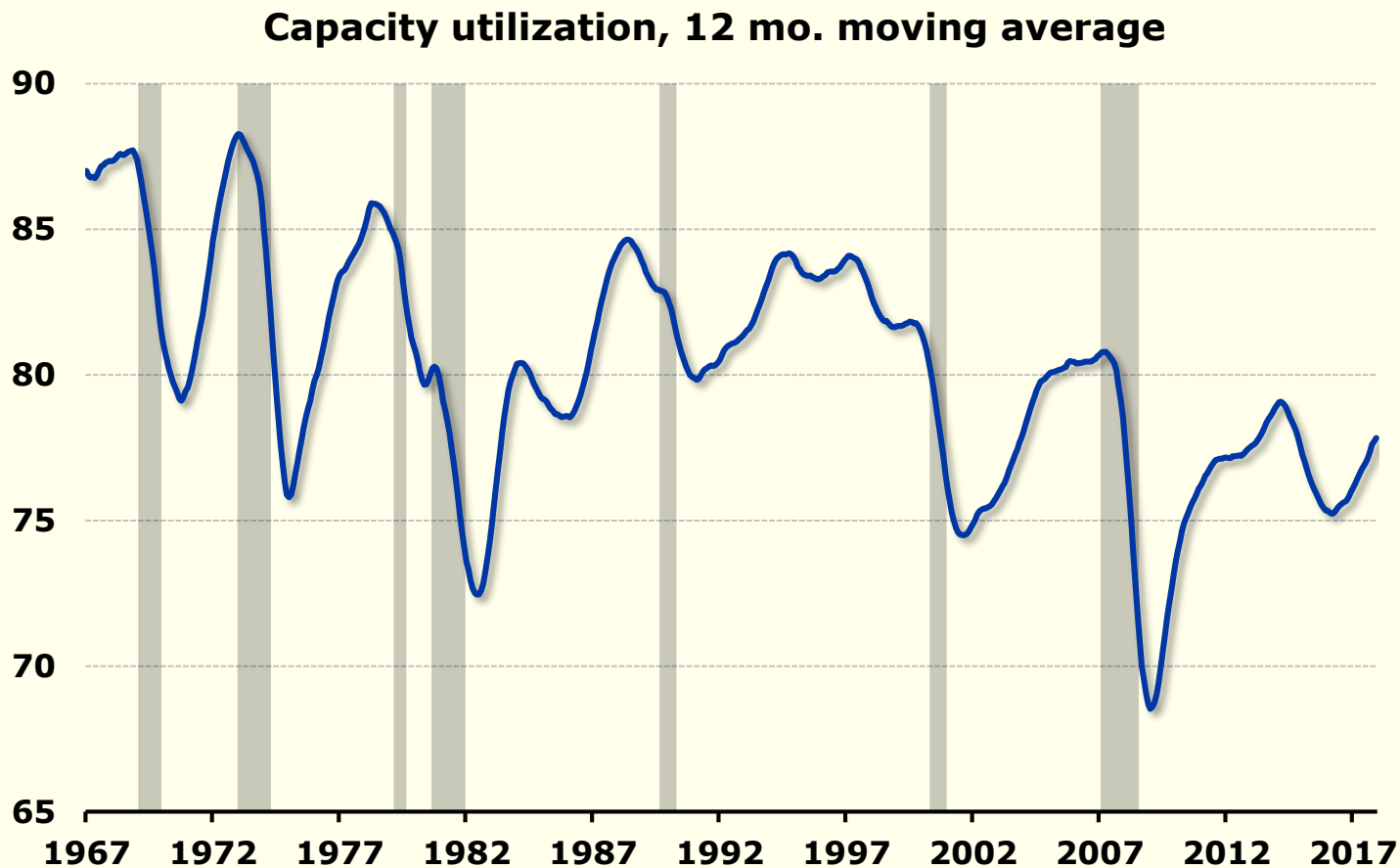
- 22% expect recession in next 12 months

IHS Markit (Dec. 2018)

- Recession risks low in 2019 but rise in 2020 and beyond



Capacity utilization is typically at or above 80% before the start of a recession

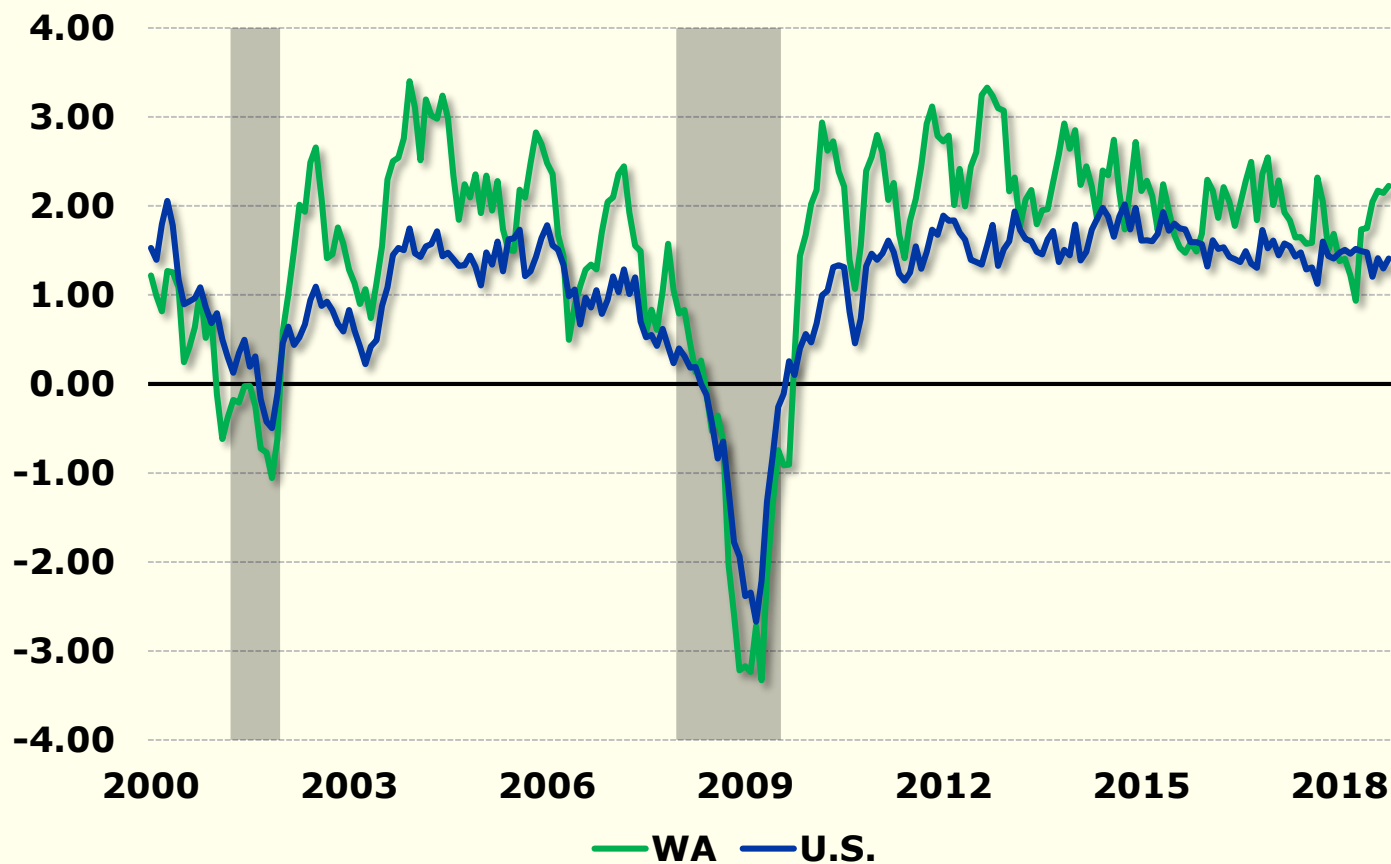


Source: Federal Reserve Bank of St. Louis, data through November 2018

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Leading economic indexes for WA, U.S. do not suggest a recession in near term



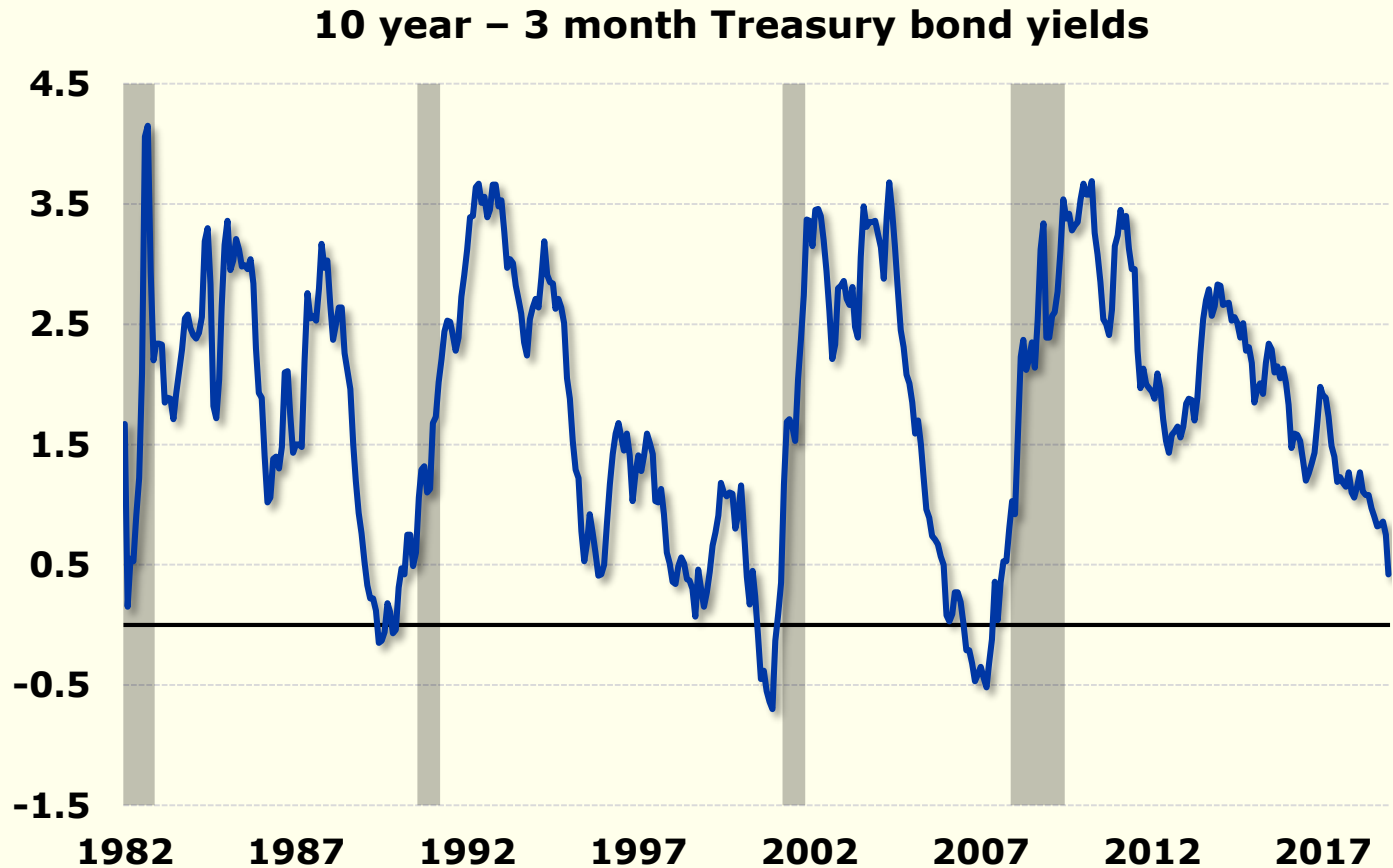
Source: Federal Reserve Bank of Philadelphia, data through Oct. 2018

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An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor

As of Dec. 2018, 10 year Treasury bond yields were 0.42% above three month Treasury bill yields



Source: Federal Reserve Bank of St. Louis, data through Dec. 2018

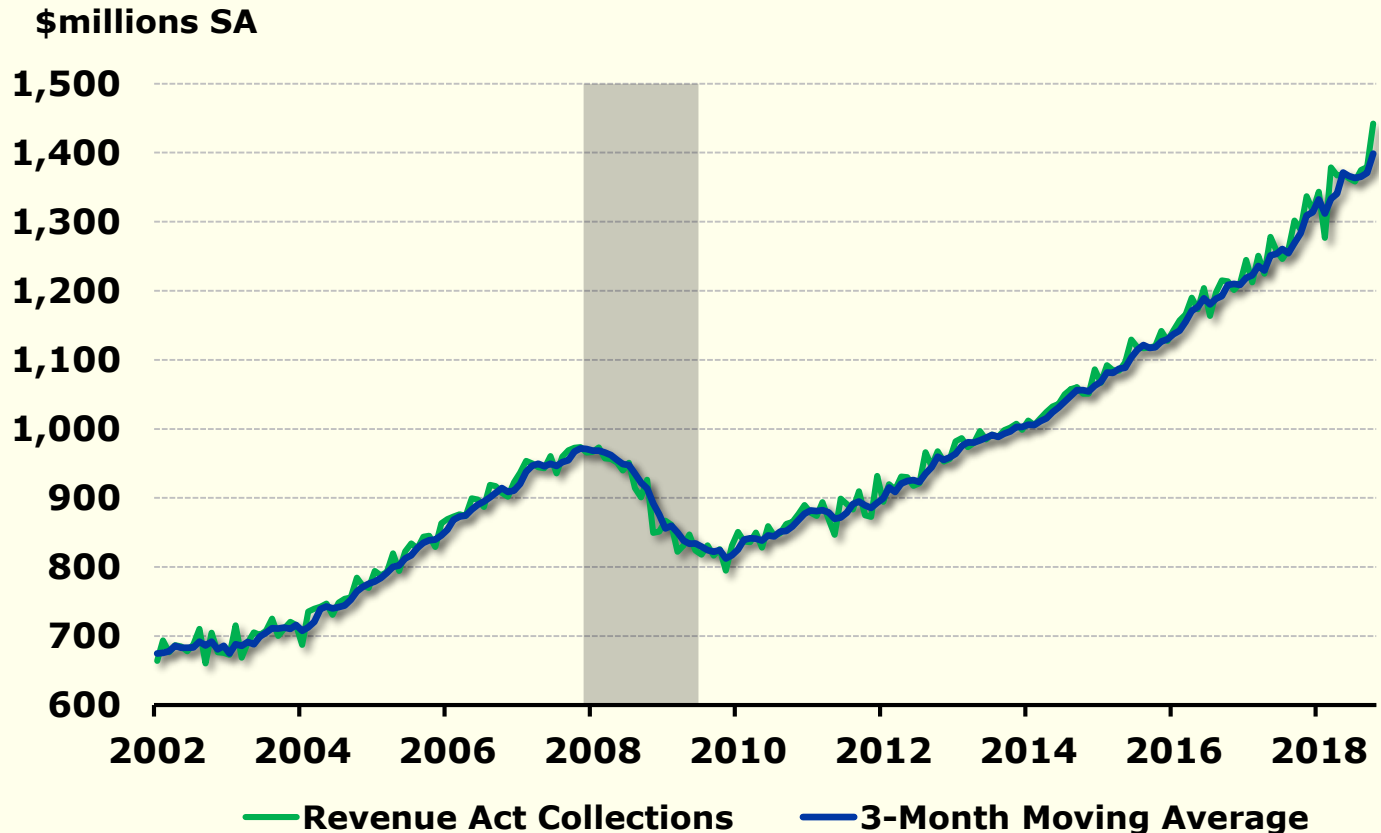
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Revenue Act collections growth has been strong

Adjusted year-over-year collections growth (by quarter of activity):

2017Q4: 8.3%
2018Q1: 8.2%
2018Q2: 8.8%
2018Q3: 7.6%



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

Source: DOR and ERFC; monthly data through October 2018 activity

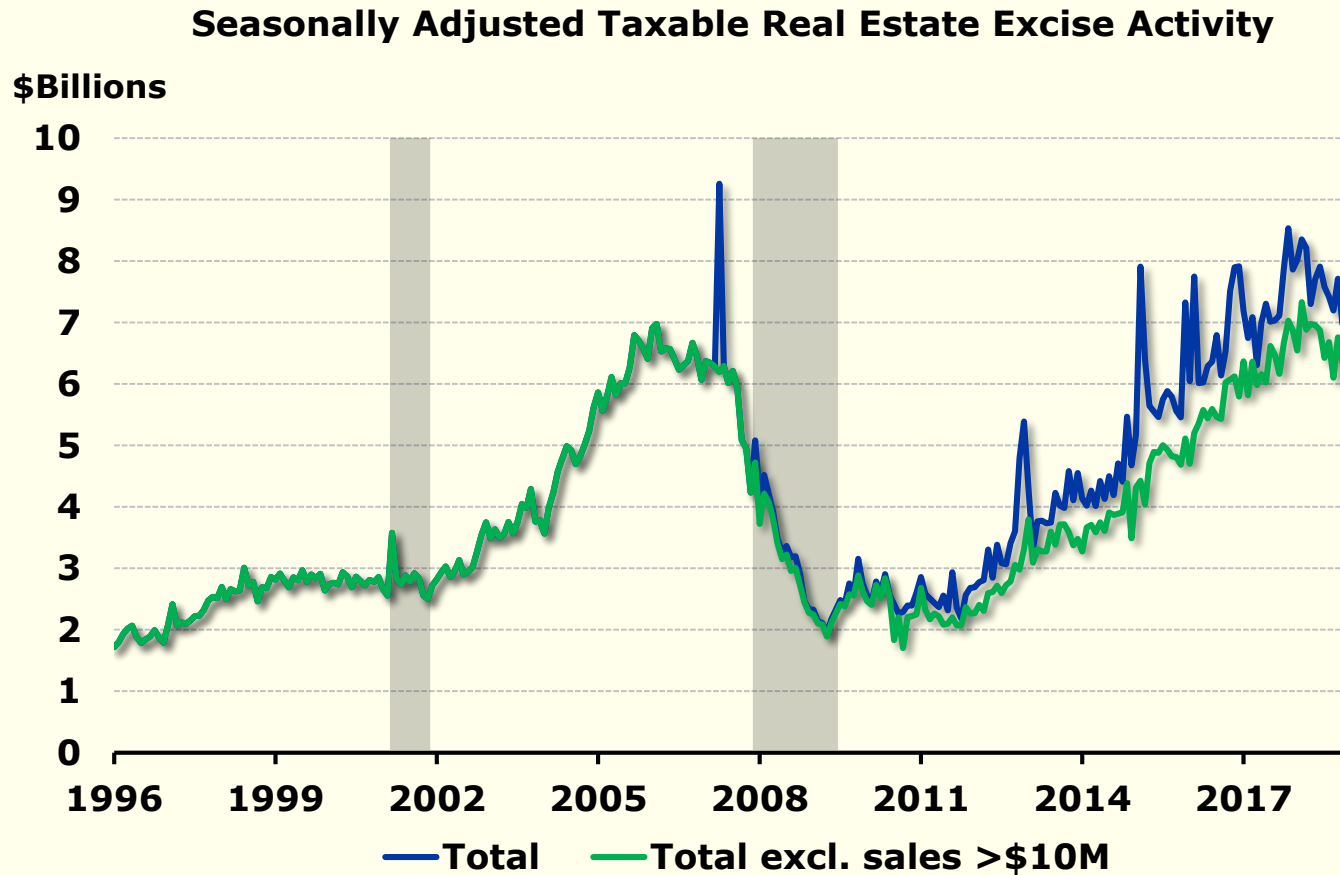
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Taxable REET activity may have peaked in Q1 2018

Taxable activity in residential sales has been on a downward trend since March.

Large commercial sales (>\$10 million) have not slowed as much as residential sales.

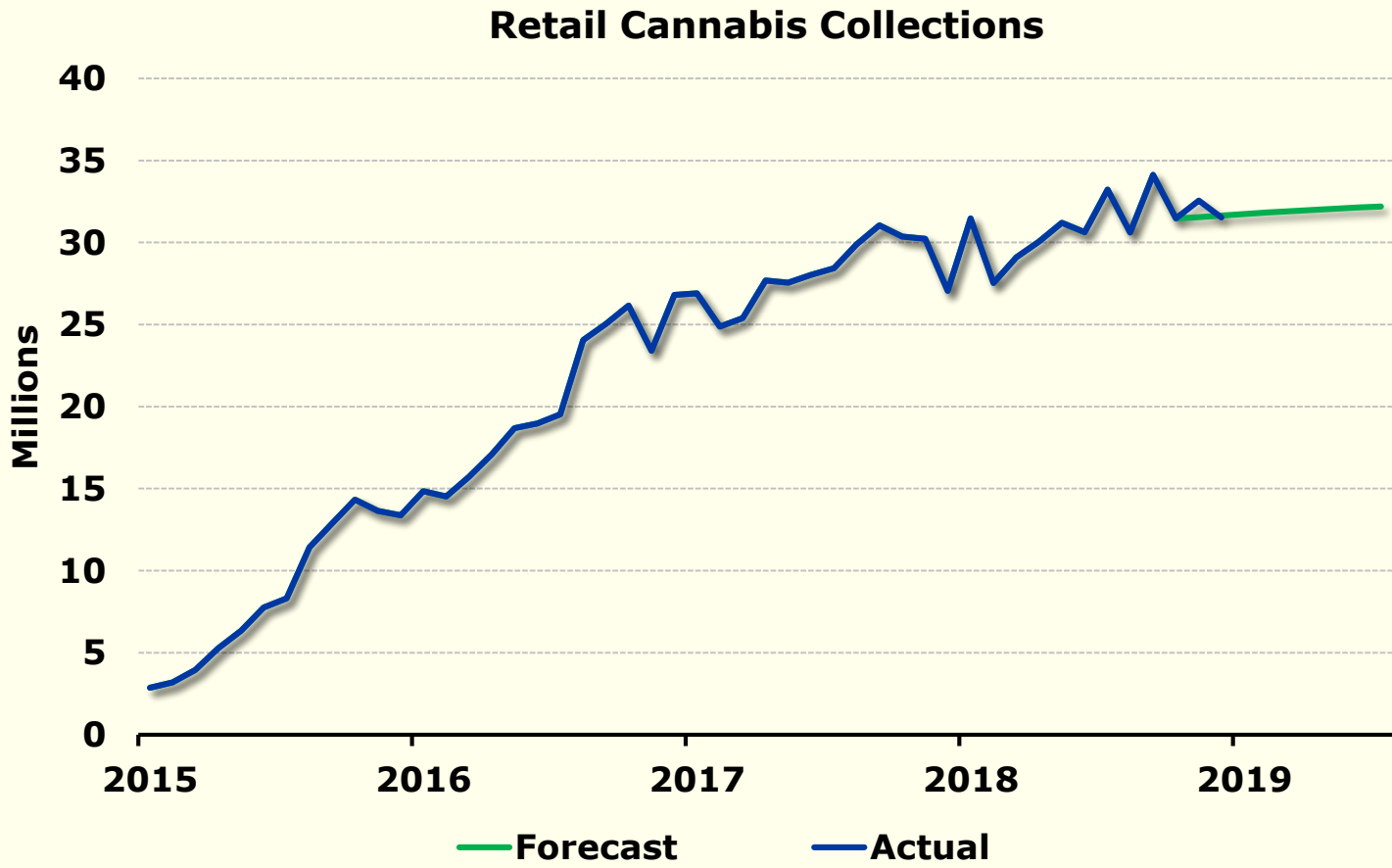


Source: ERFC; Monthly data through November 2018 preliminary

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The rapid growth in cannabis revenue is likely over



Source: ERFC November 2018 forecast; historical data through December 2018

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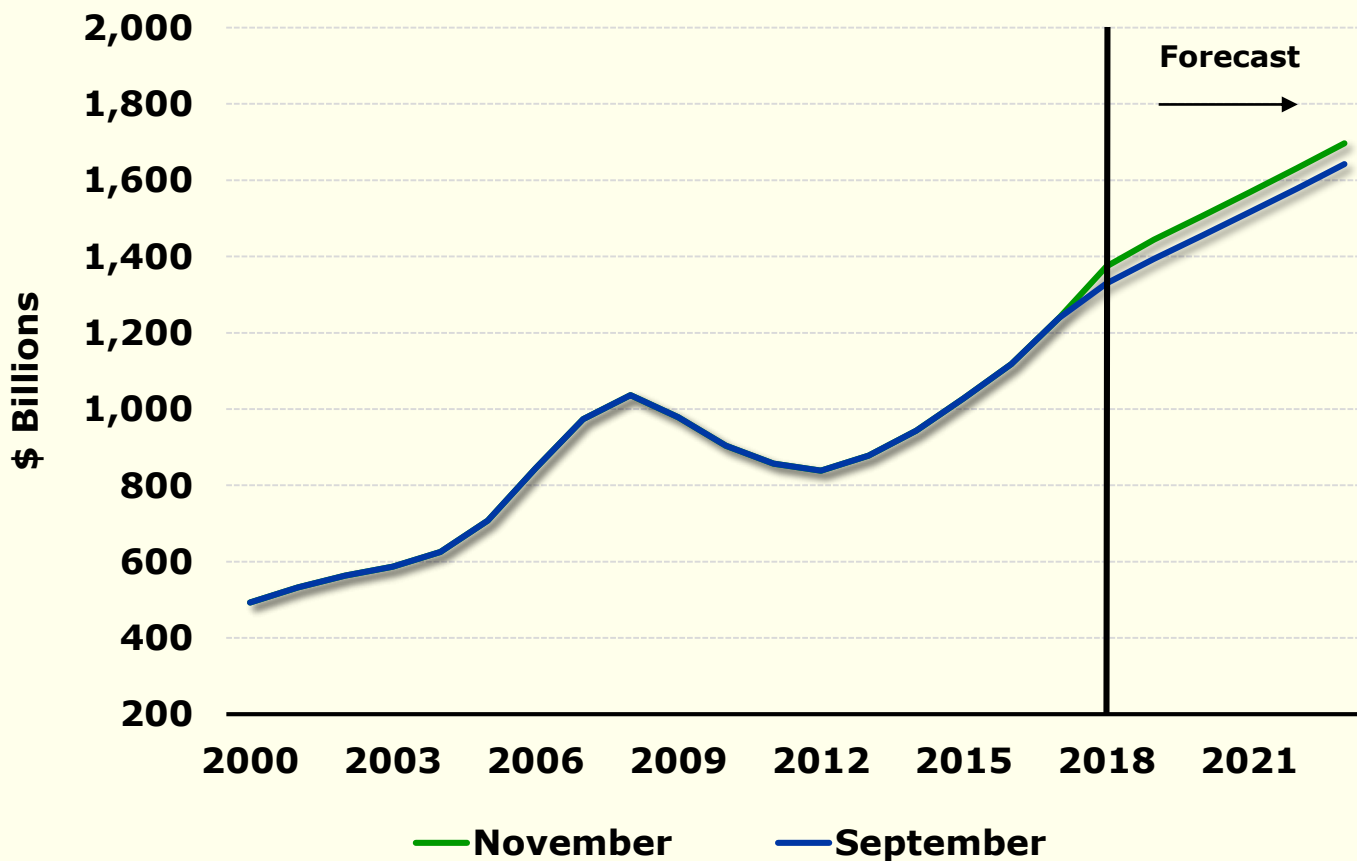


Assessed value on existing properties increased between September, November forecasts

September forecast for growth in Market Value: 7.3%

Actual growth: 10.9%

Every 1.0 percentage point increase in Market Value growth adds between \$30-\$40 million in revenue per year



Source: ERFC November 2018 forecast

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Conclusion

- WA personal income is higher than in September as a result of revisions to historic data
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Near GF-S revenues are expected to grow 17.3% between the 2015-17 and 2017-19 biennia and 9.2% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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

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