

# Economic and Revenue Outlook

Presented to  
South Sound Construction and Financial  
Managers Association

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Tacoma, Washington



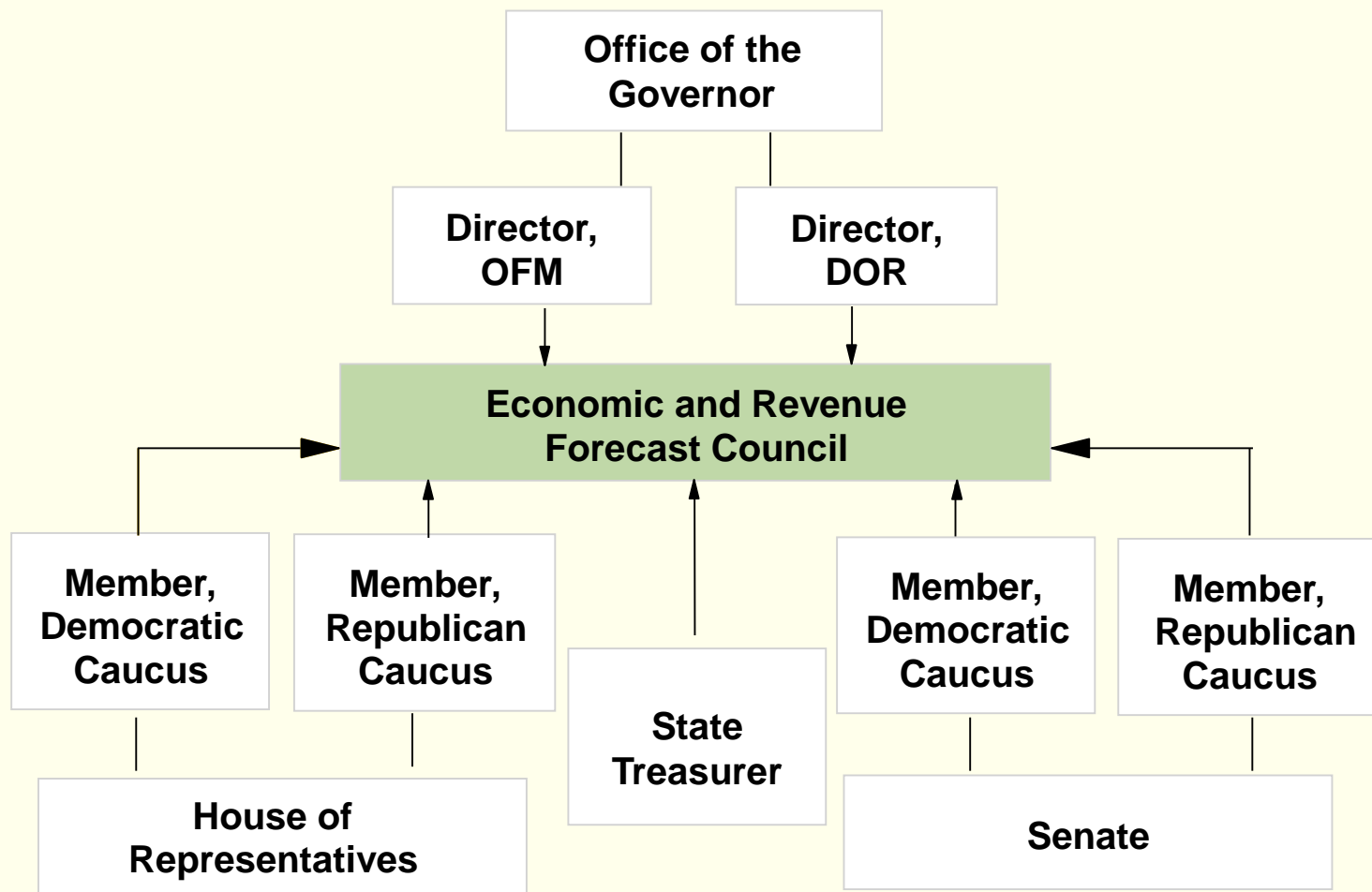
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# Economic and Revenue Forecast Council Organization Chart

## ERFC

- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990



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# Summary

- Both the U.S. and WA economies are performing well but are expected to slow
- Inflation remains tame
- U.S. manufacturing activity has slowed, although the resolution of the GM strike should be helpful
- The 737 MAX is assumed to return to service in early 2020 with an increase in both deliveries and production
- State revenue collections have been strong but are expected to slow to more sustainable levels



# Forecast risks

## Upside

- Consumer and business confidence have dipped but remain at high levels
- U.S., WA labor markets have slowed compared to 2018 but remain strong

## Downside

- International trade policy uncertainty
- Geopolitical risks: North Korea, China, Russia, Iran, Venezuela, Brexit
- Maturing economic expansion

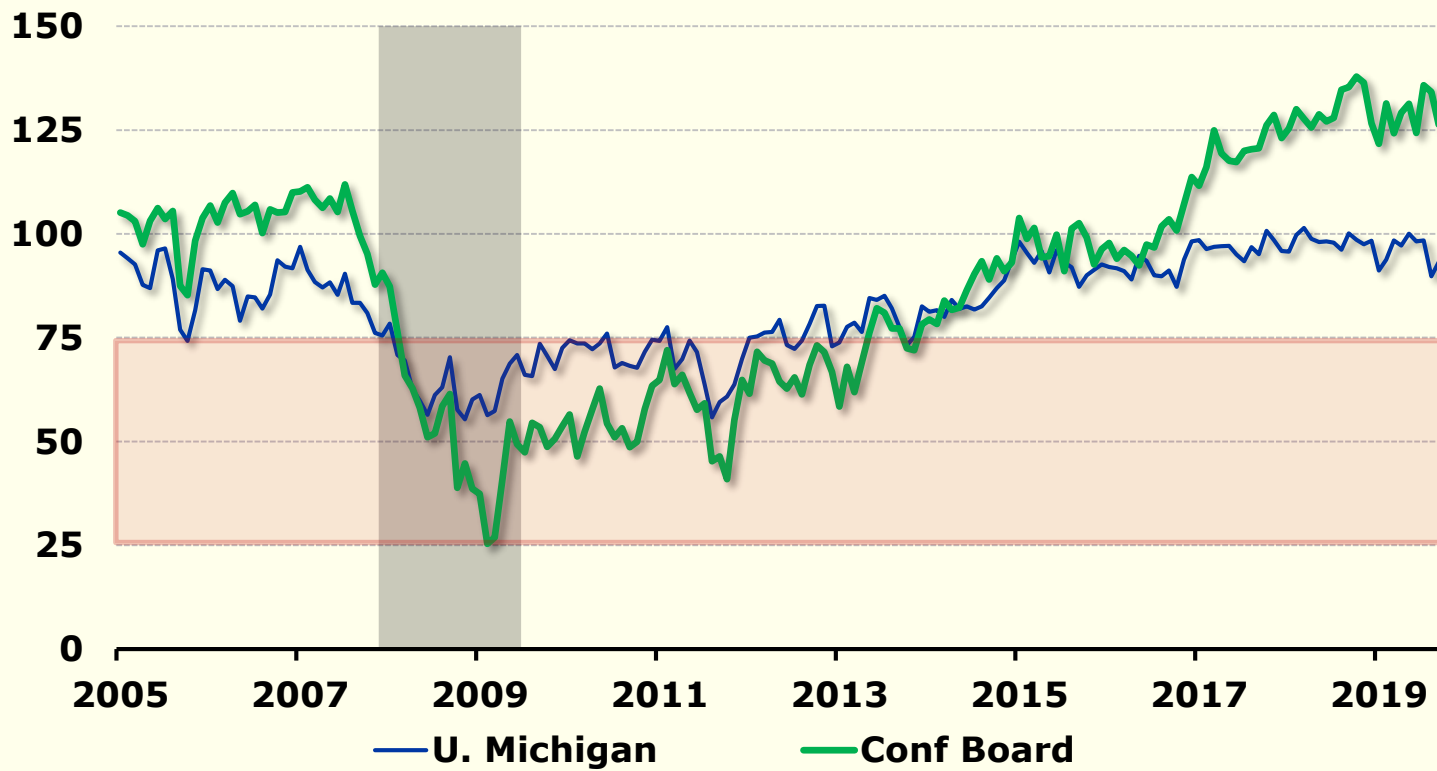


# Despite some volatility this year, consumer confidence remains at high levels

## Index

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**

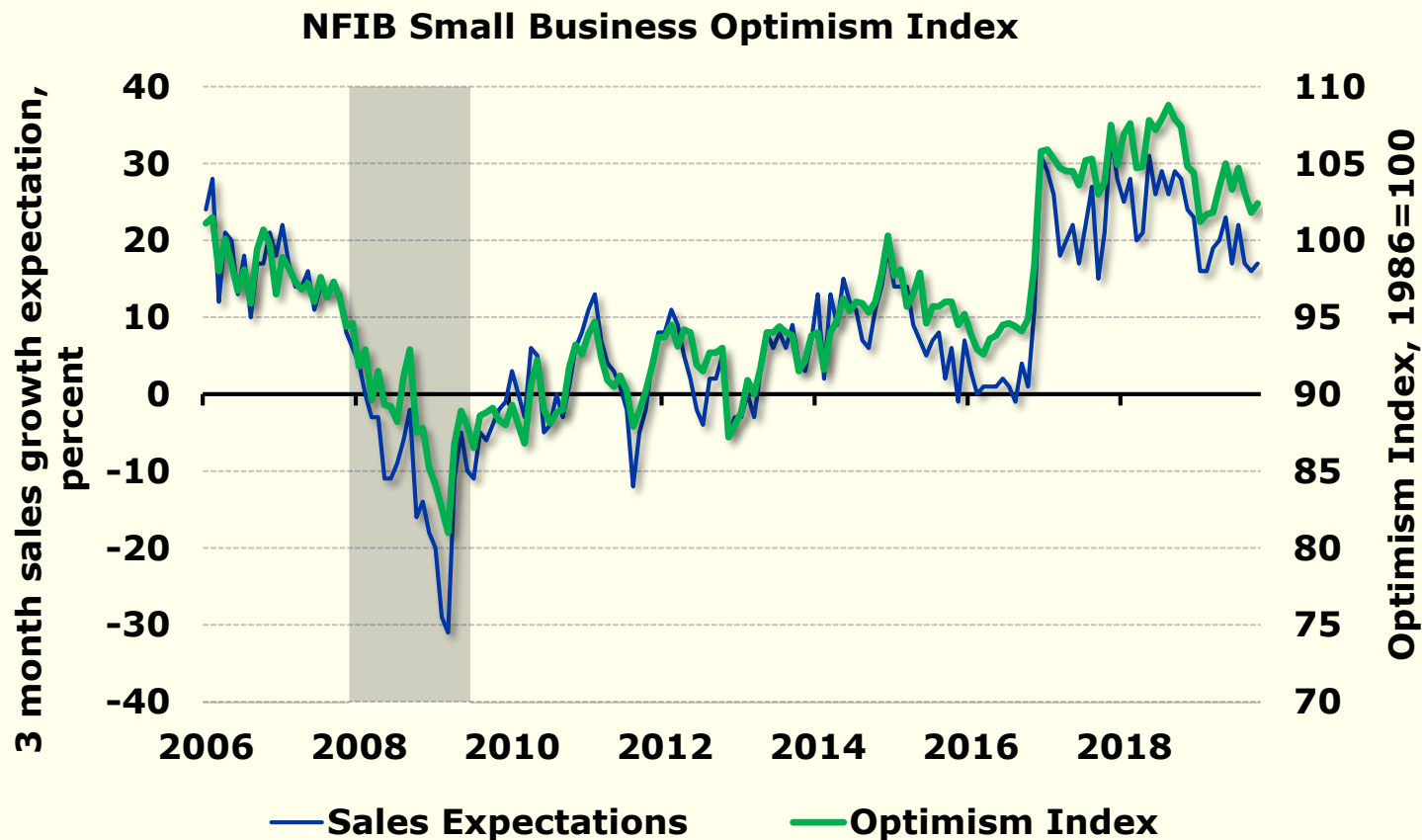


Sources: University of Michigan, Conference Board; data through November 2019

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# Small business optimism has declined but remains historically high



Source: National Federation of Independent Business; data through October 2019

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# A survey covering a broader mix of firms finds business expectations have been declining since late 2018

The index measures one year ahead expectations that firms have about their own employment, investment and sales.

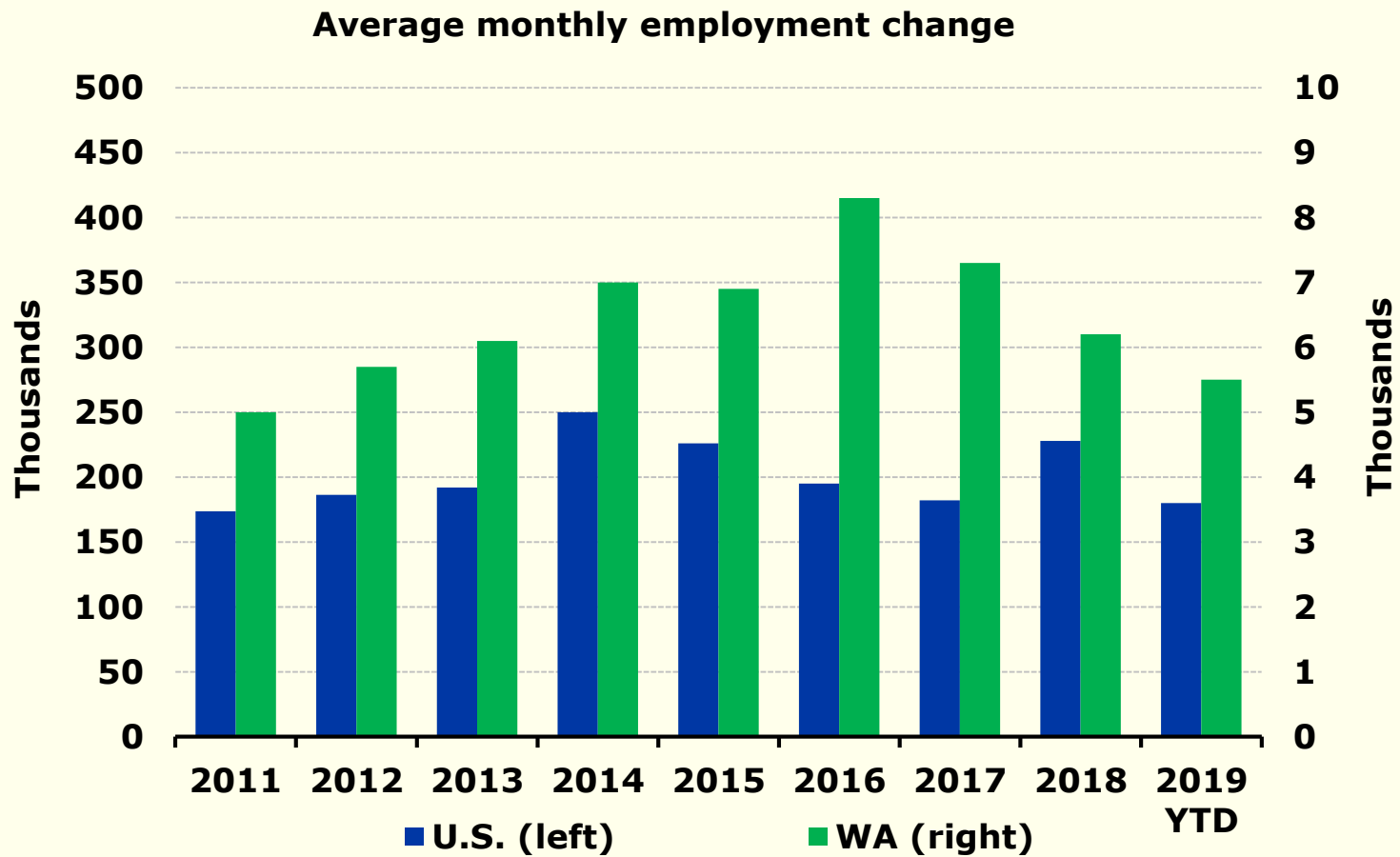
**Atlanta Federal Reserve Business Expectations Index**



Source: Atlanta Federal Reserve Bank, data through November 2019



# U.S., WA job growth below 2018 averages but remain healthy



Source: Bureau of Labor Statistics, Employment Security Dept.; WA data through Oct. 2019; U.S. data through Nov. 2019

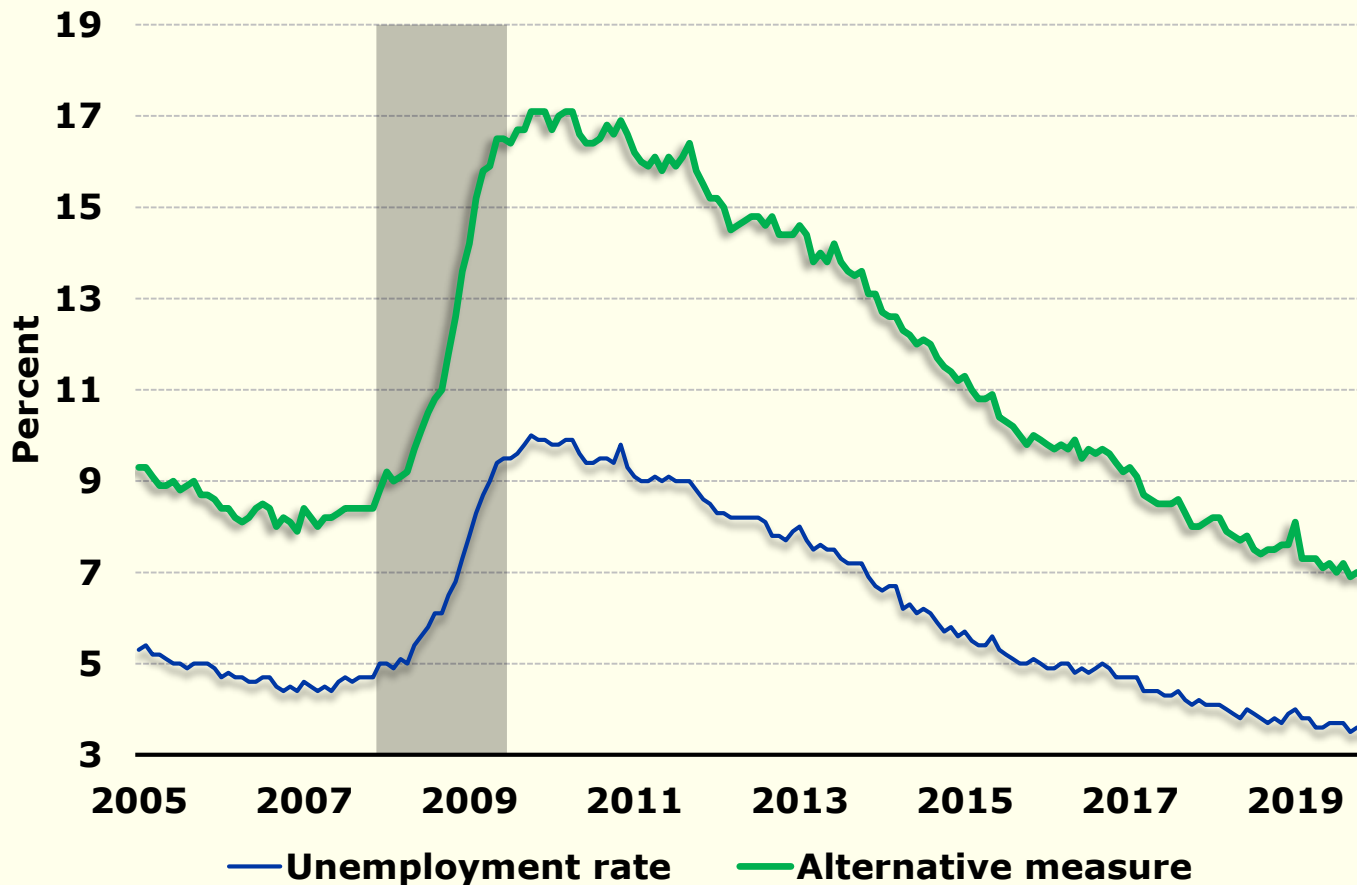
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# Unemployment rates remain low

The alternative unemployment measure includes discouraged workers and those working part time for economic reasons.

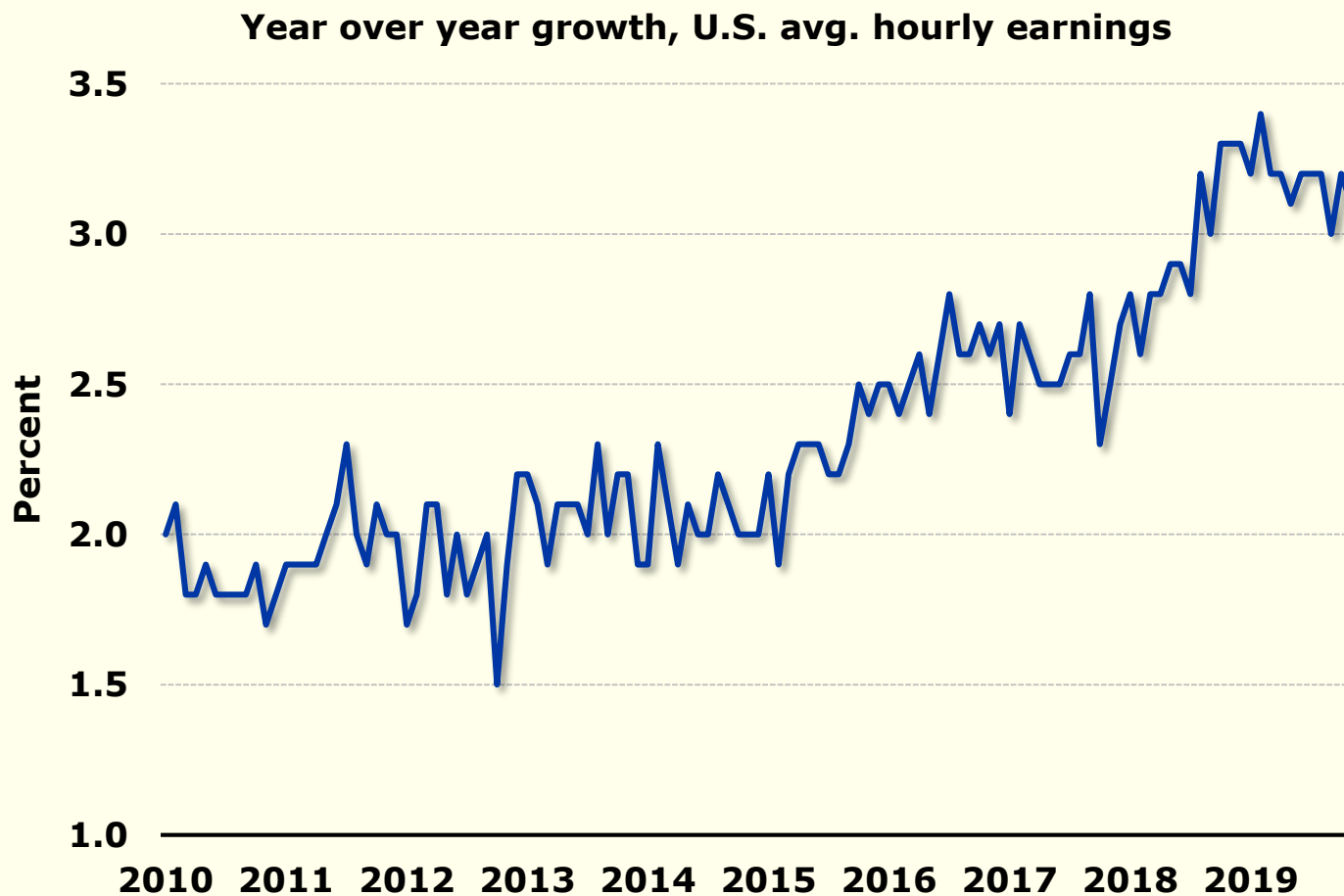


Sources: U.S. Bureau of Labor Statistics; data through November 2019

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# Hourly earnings are increasing but growth has slowed

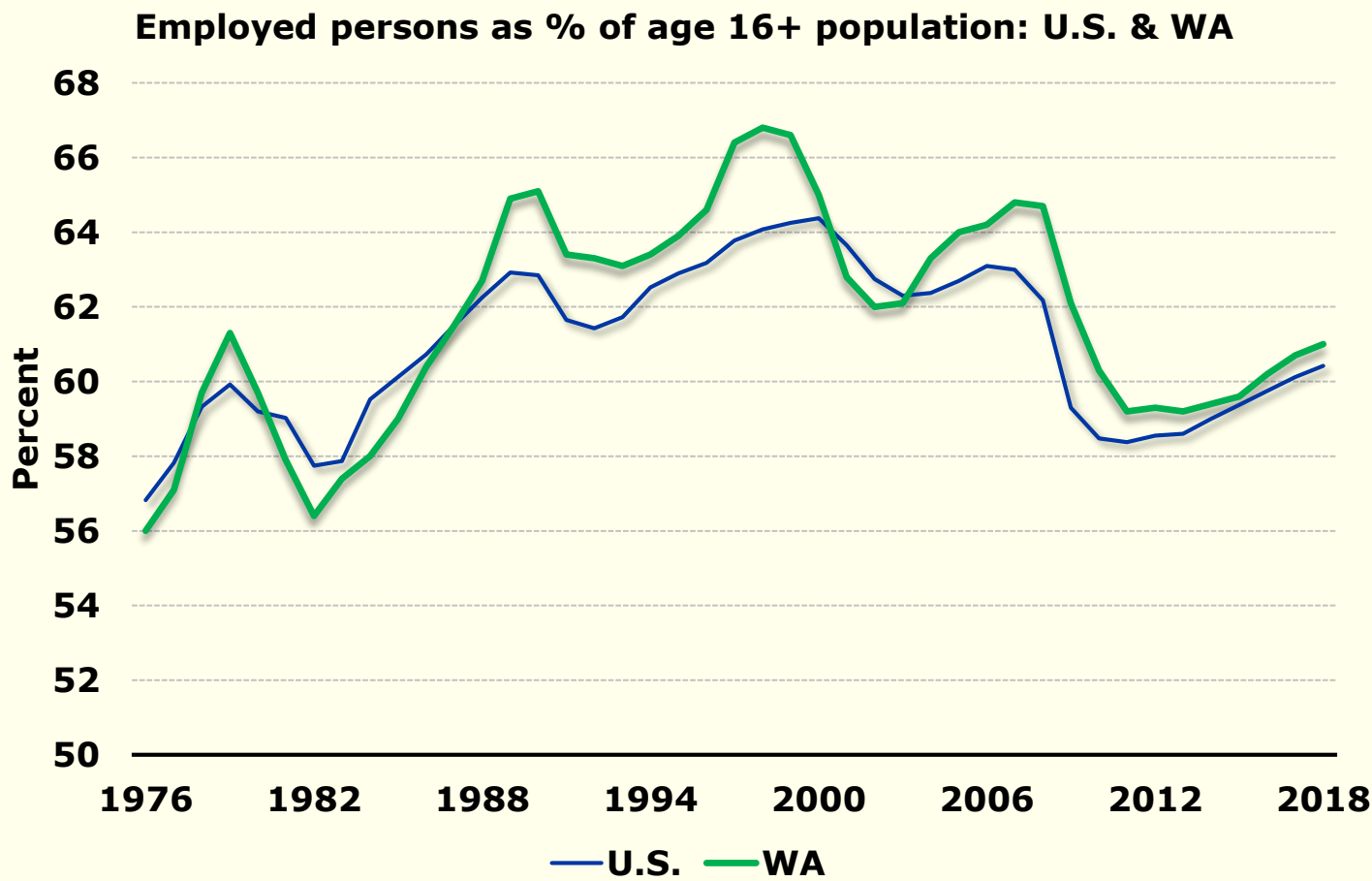


Source: Bureau of Labor Statistics, data through November 2019

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# Employment-population ratio is rising but remains below late 90s peak



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

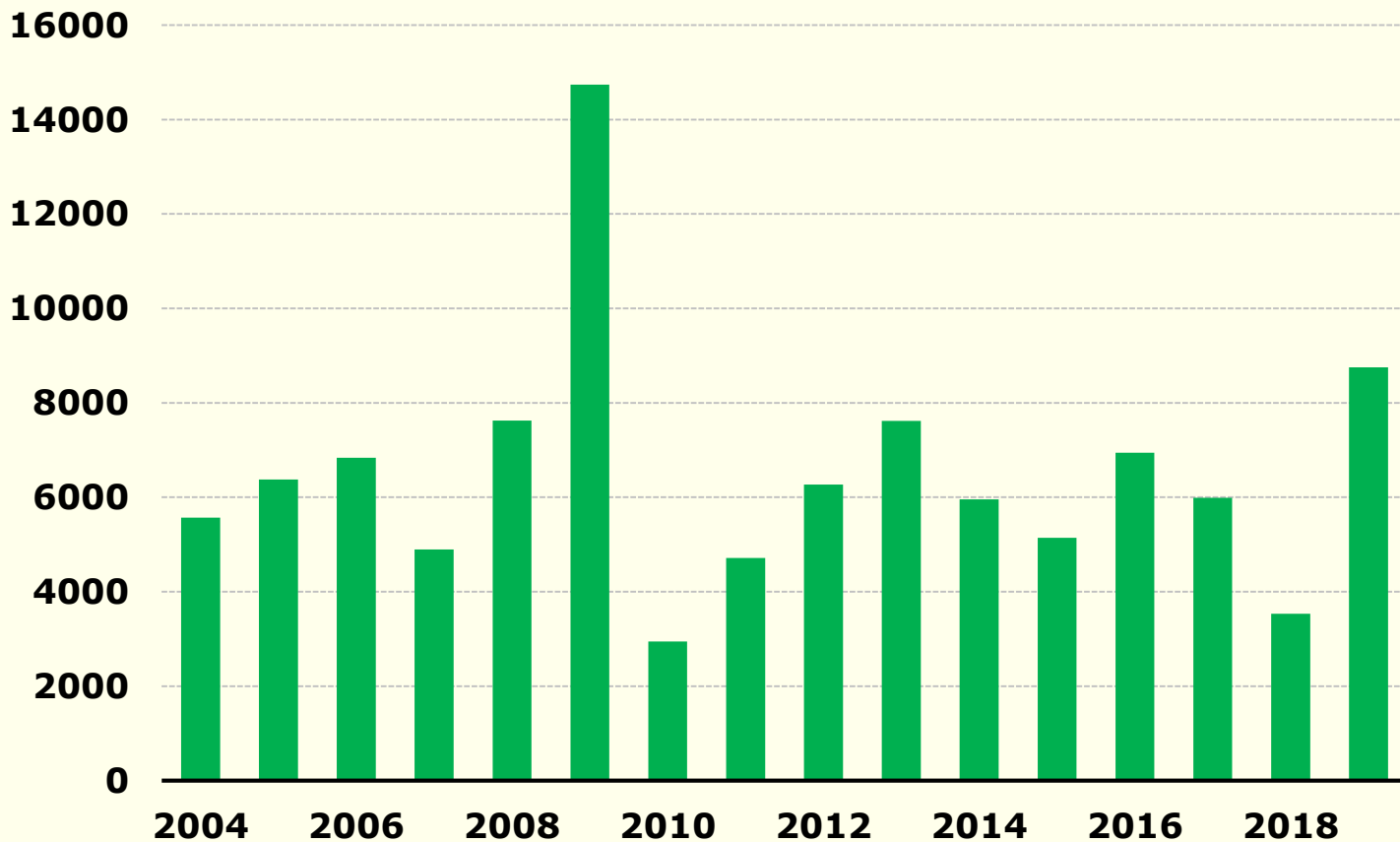
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# The number of workers in WA receiving layoff notices this year is the highest since 2009

Firms with 100+ employees planning layoffs of 50 or more workers are required to notify workers 60 days before closure.

**WA workers receiving mass layoff notices**

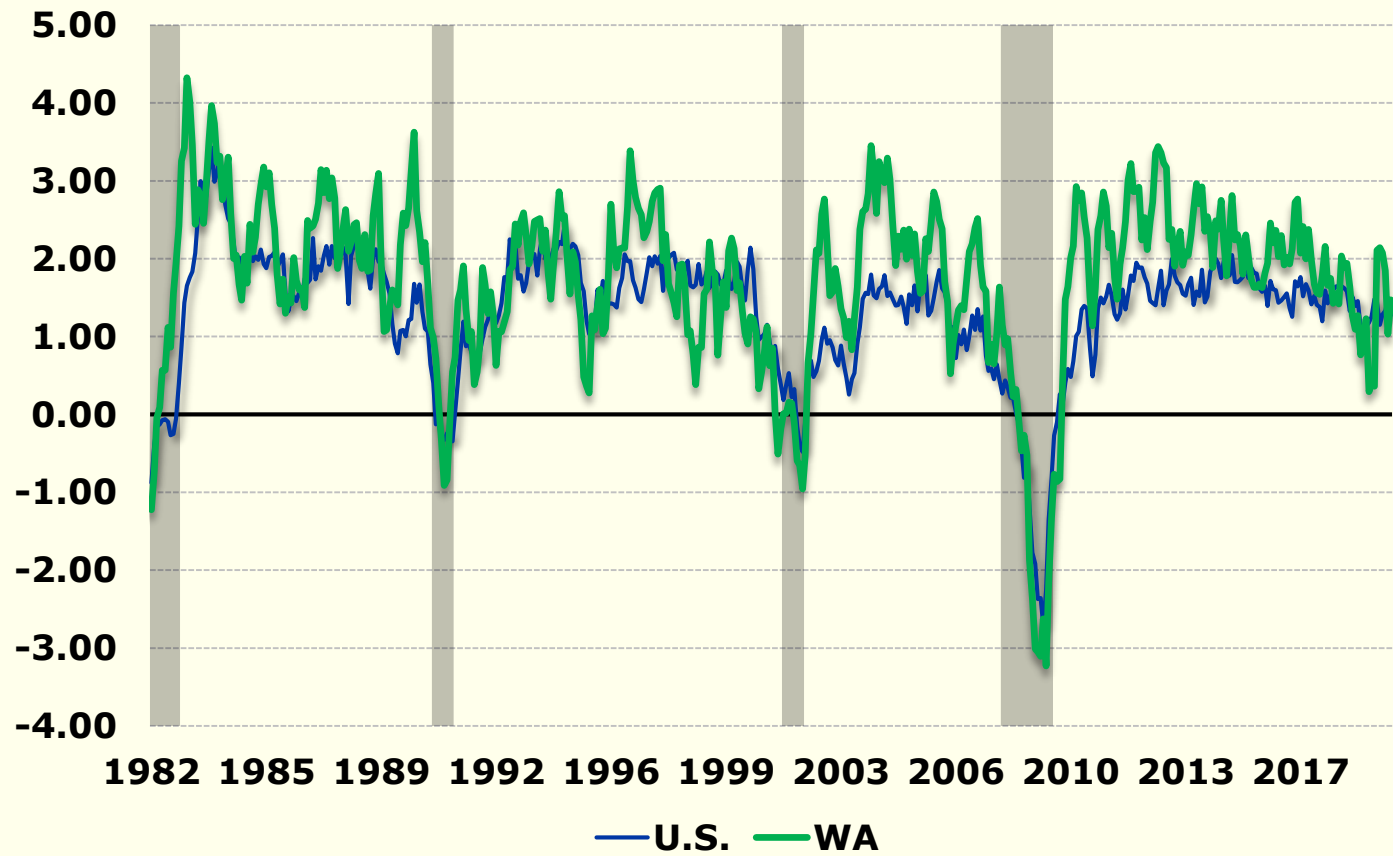


Source: Employment Security Dept., data through 2019

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# Philadelphia Fed leading economic indexes for WA, U.S. trending down but not in recession territory

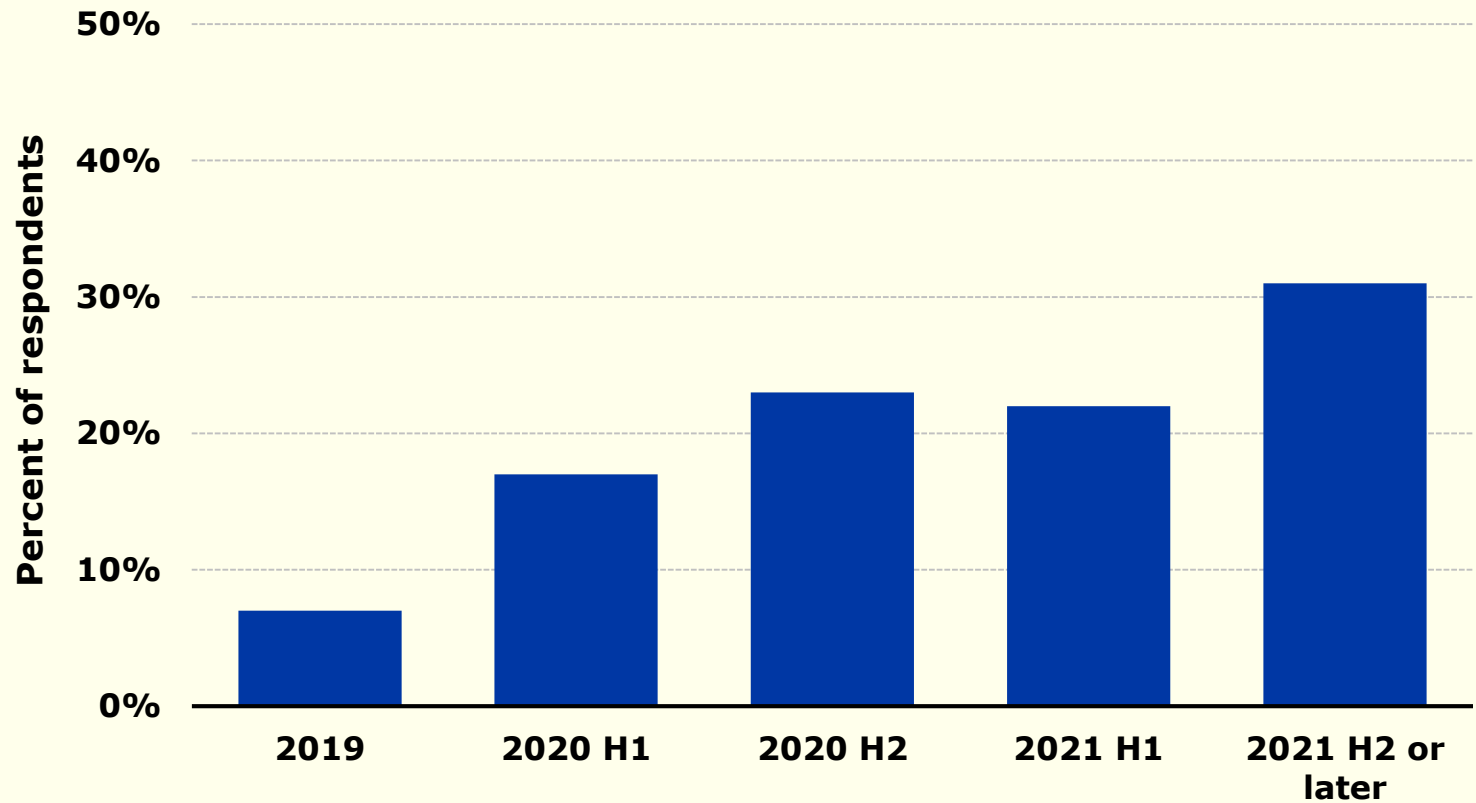


Source: Federal Reserve Bank of Philadelphia, data through October 2019

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# Timing of next recession: National Association of Business Economists survey



Source: National Association of Business Economists, Oct. 2019 Outlook Survey

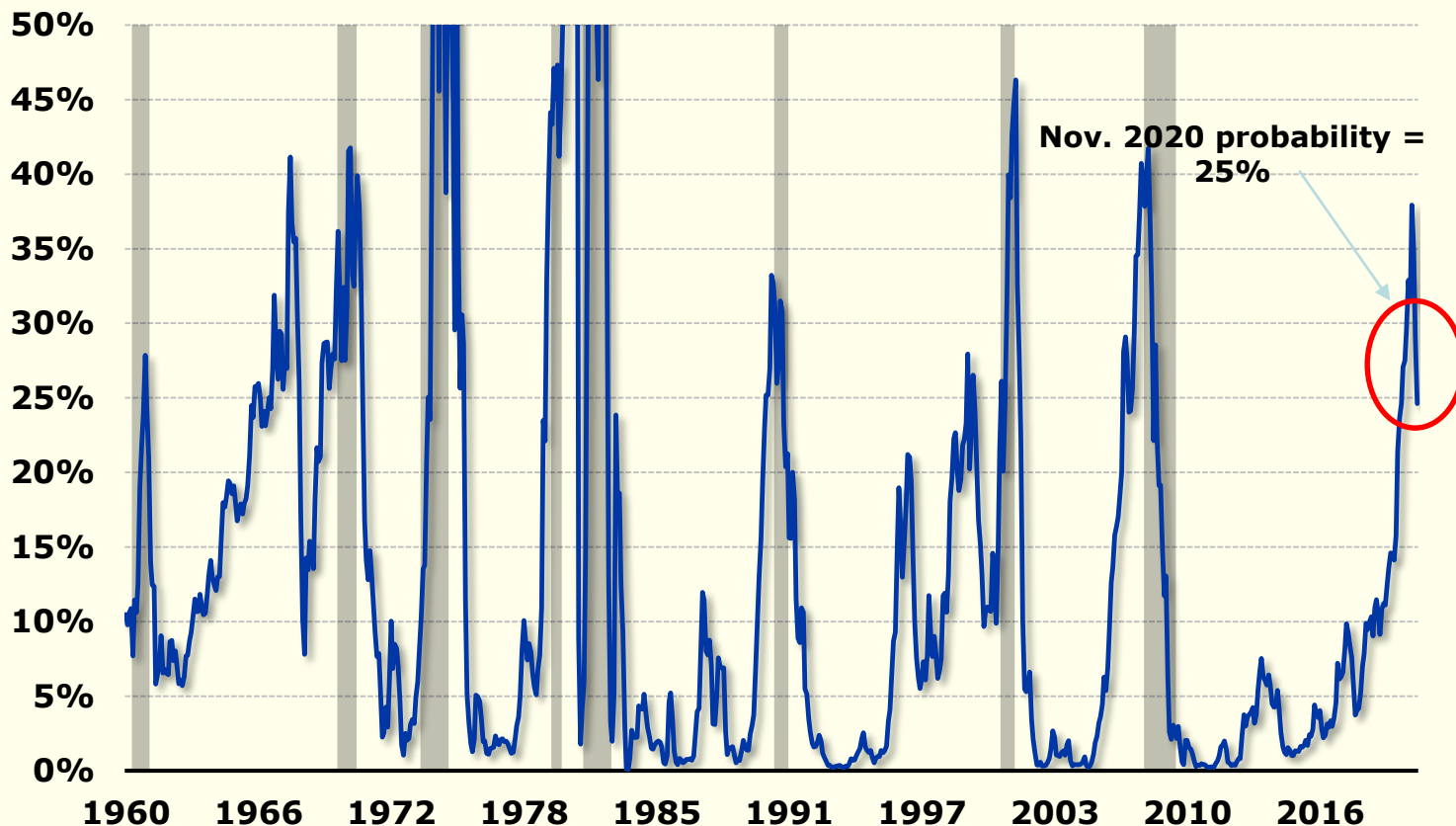
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# NY Federal Reserve model indicates recession probabilities have dropped in last two months

The model predicts recession probabilities 12 months in the future based on the difference in yields between 10 year and 3 month Treasury bonds.

### 12 month ahead recession probability

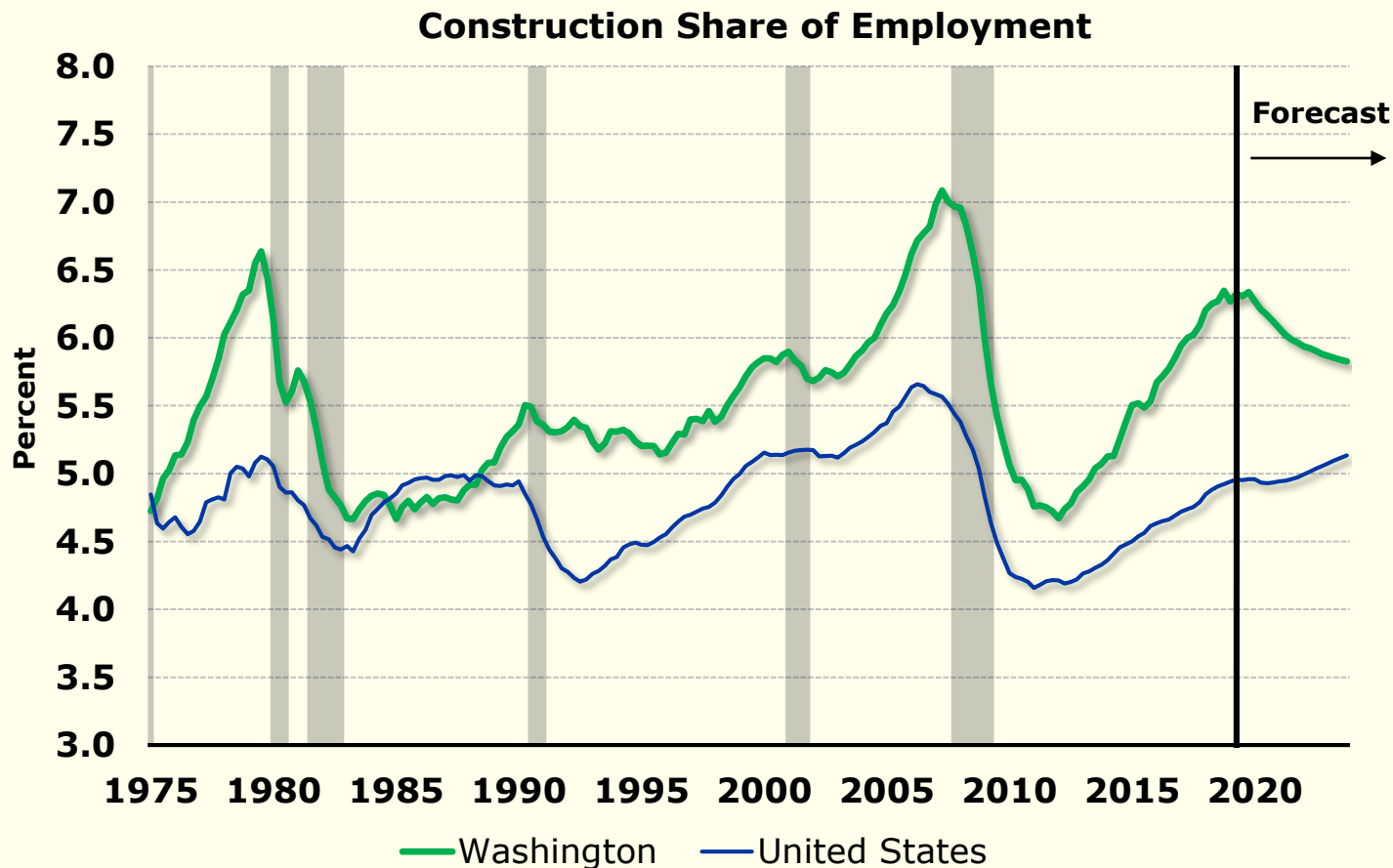


Source: Federal Reserve Bank of New York; monthly data through November 2019



# There is a heightened risk of a downturn in construction in WA

Since 1975, WA construction employment has exceeded 6% of total employment only three times.



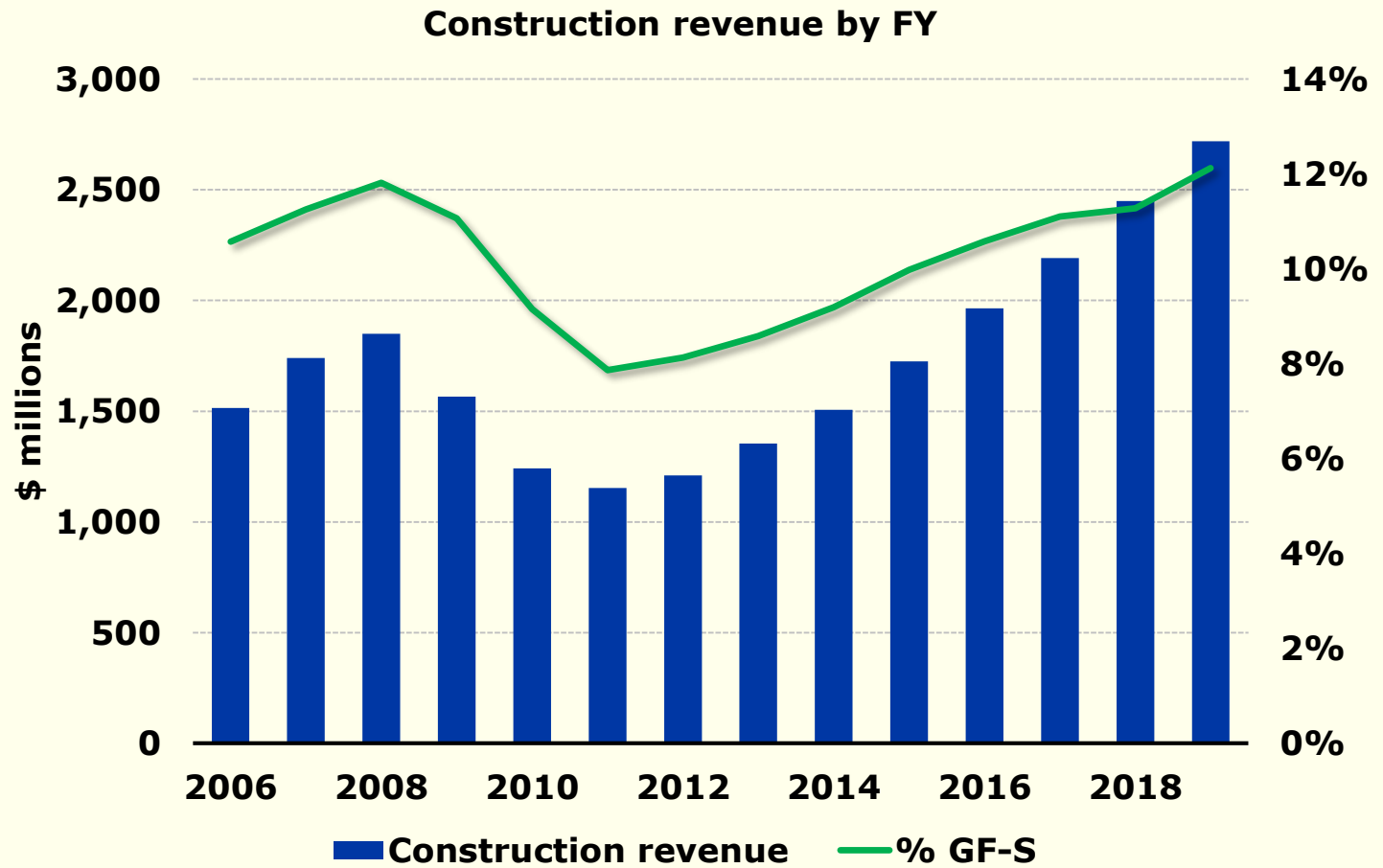
Source: ERFC November forecast; data through Q3 2019  
Note: Vertical black line indicates last actual in September

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# During the last construction downturn, construction revenue dropped from 12% to 8% of GF-S



Source: Dept. of Revenue, ERFC; data through FY 2019

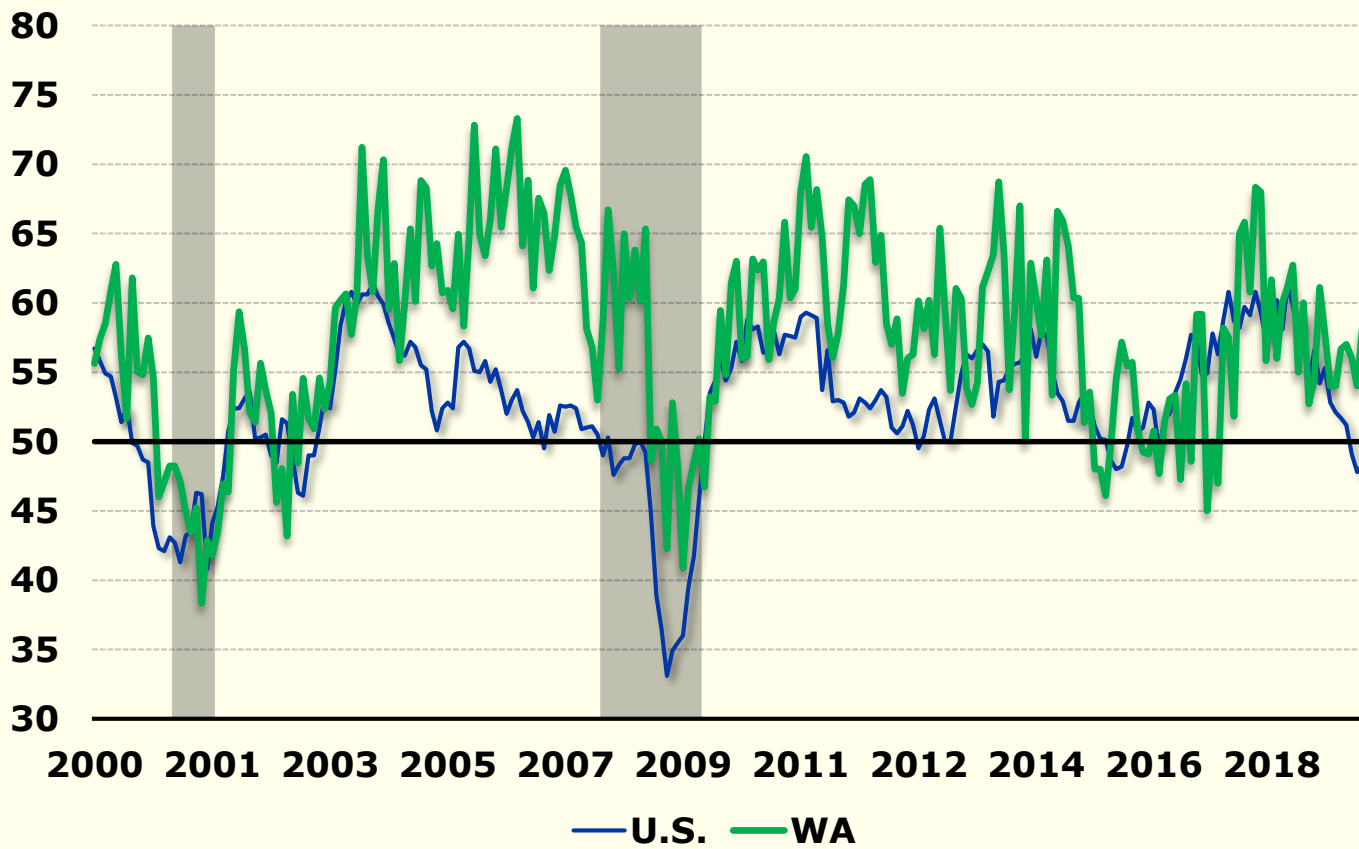
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# Manufacturing has slowed nationally but continues to expand in WA

Values above 50 indicate expansion, below 50 indicate contraction.

**Institute for Supply Mgmt. Manufacturing Index: U.S., WA**

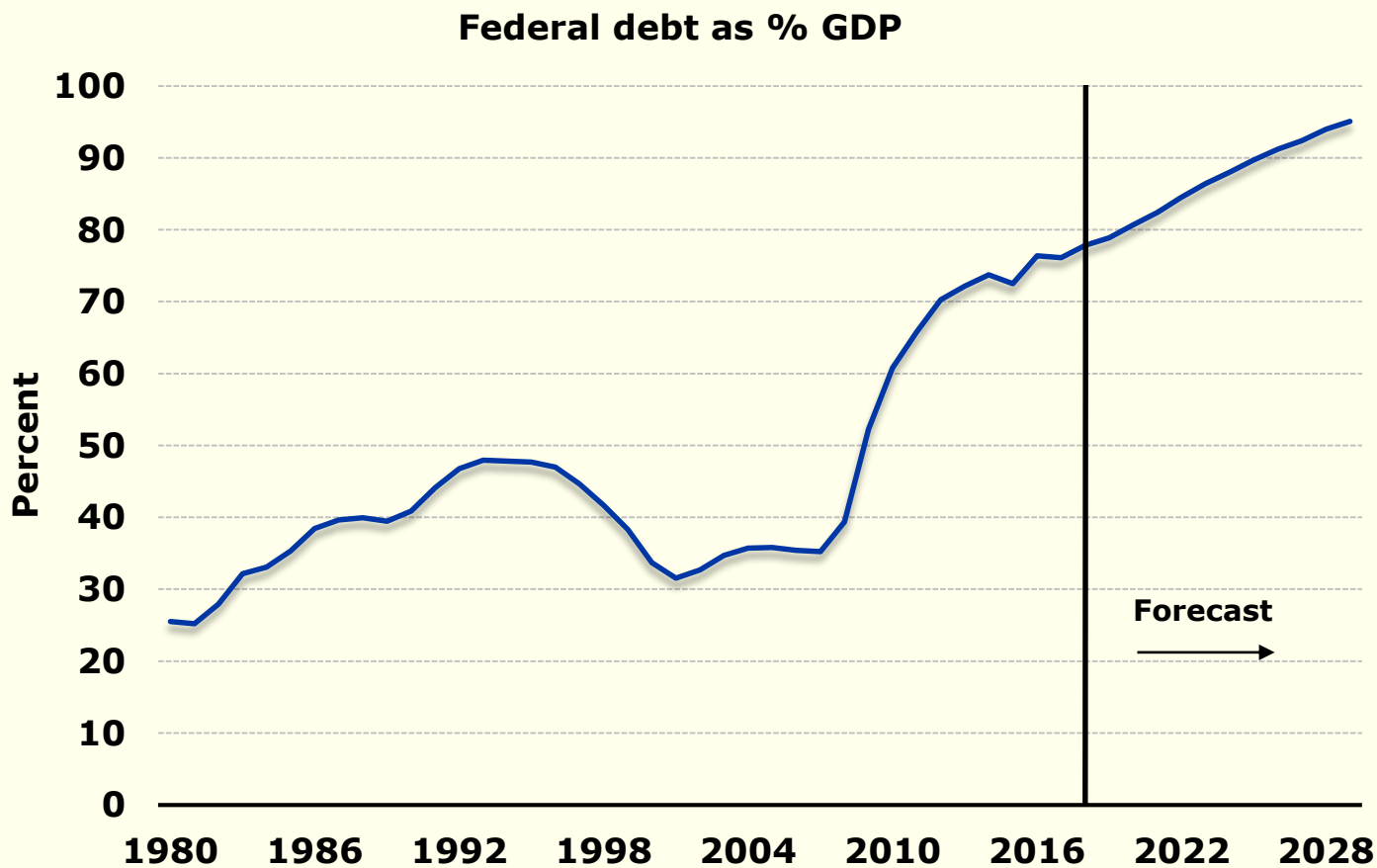


Source: ISM, WA data through Oct. 2019; U.S. data through Nov. 2019

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# Relative to GDP, Federal debt is expected to reach levels last seen just after WW II

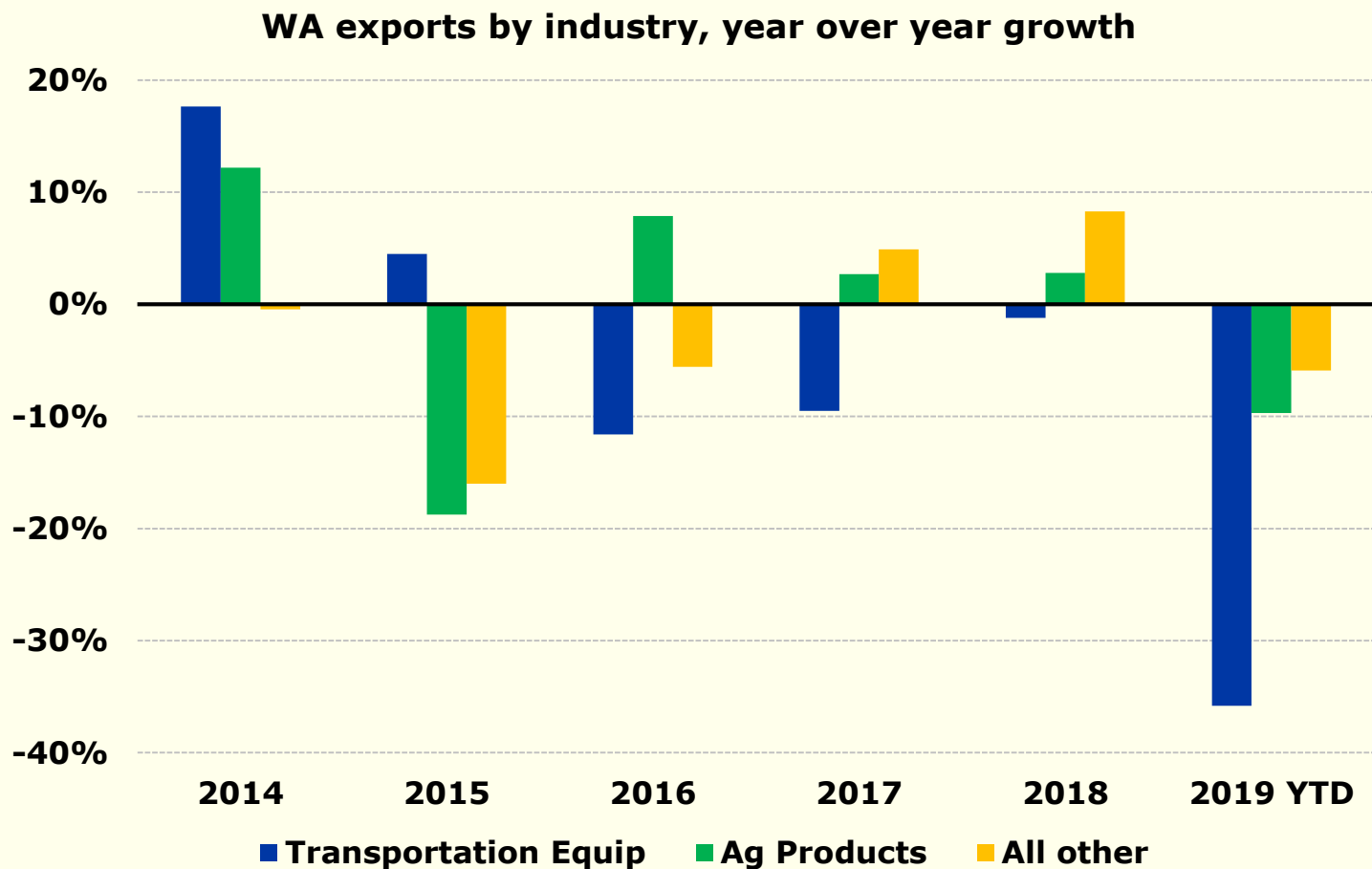


Source: Congressional Budget Office, Update to Budget and Economic Outlook Aug. 2019, historic data through 2018

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# So far this year, WA exports are down by 23% compared to last year

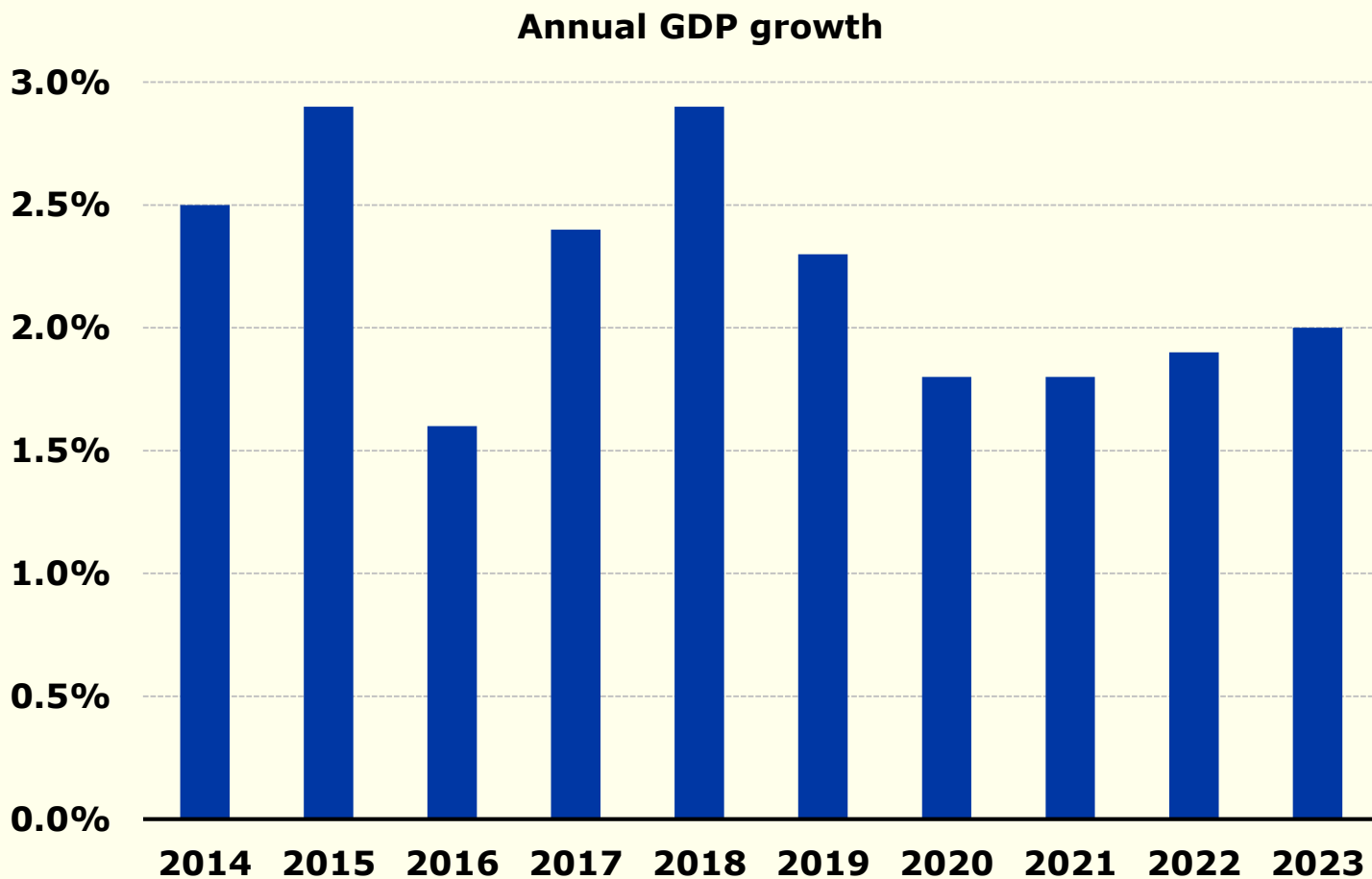


Source: WISERTrade, data through September 2019

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# GDP growth is expected to slow



Source: IHS Markit, ERFC November 2019 forecast; data through 2018

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# Oil prices are expected to gradually decline to \$52 per barrel

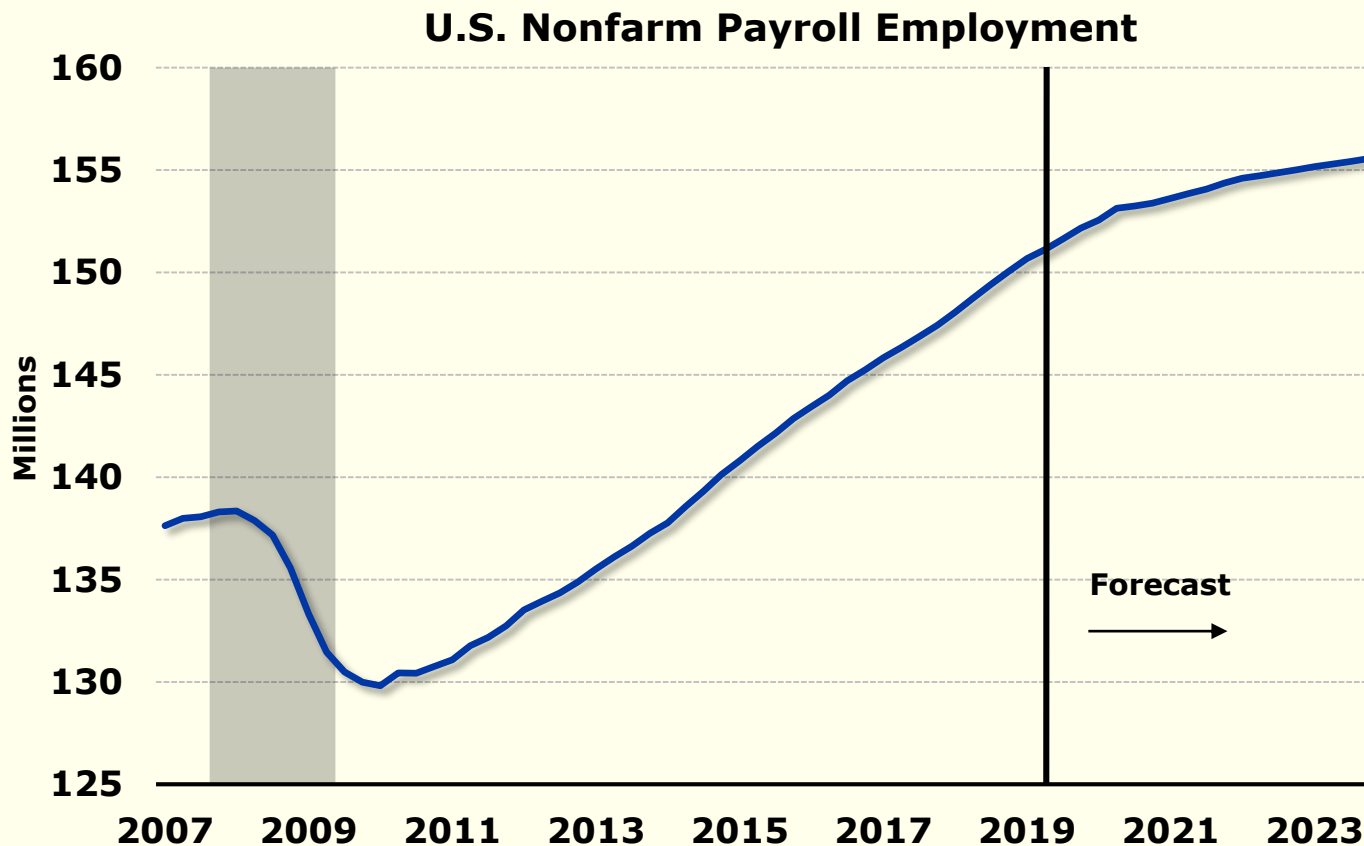


Source: Energy Information Administration, IHS Markit, ERFC November 2019 forecast; data through Q3 2019  
Note: Vertical black line indicates last actual

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U.S. employment is expected to grow 1.6% this year, 1.1% next year and average 0.5% growth in 2021 - 2023



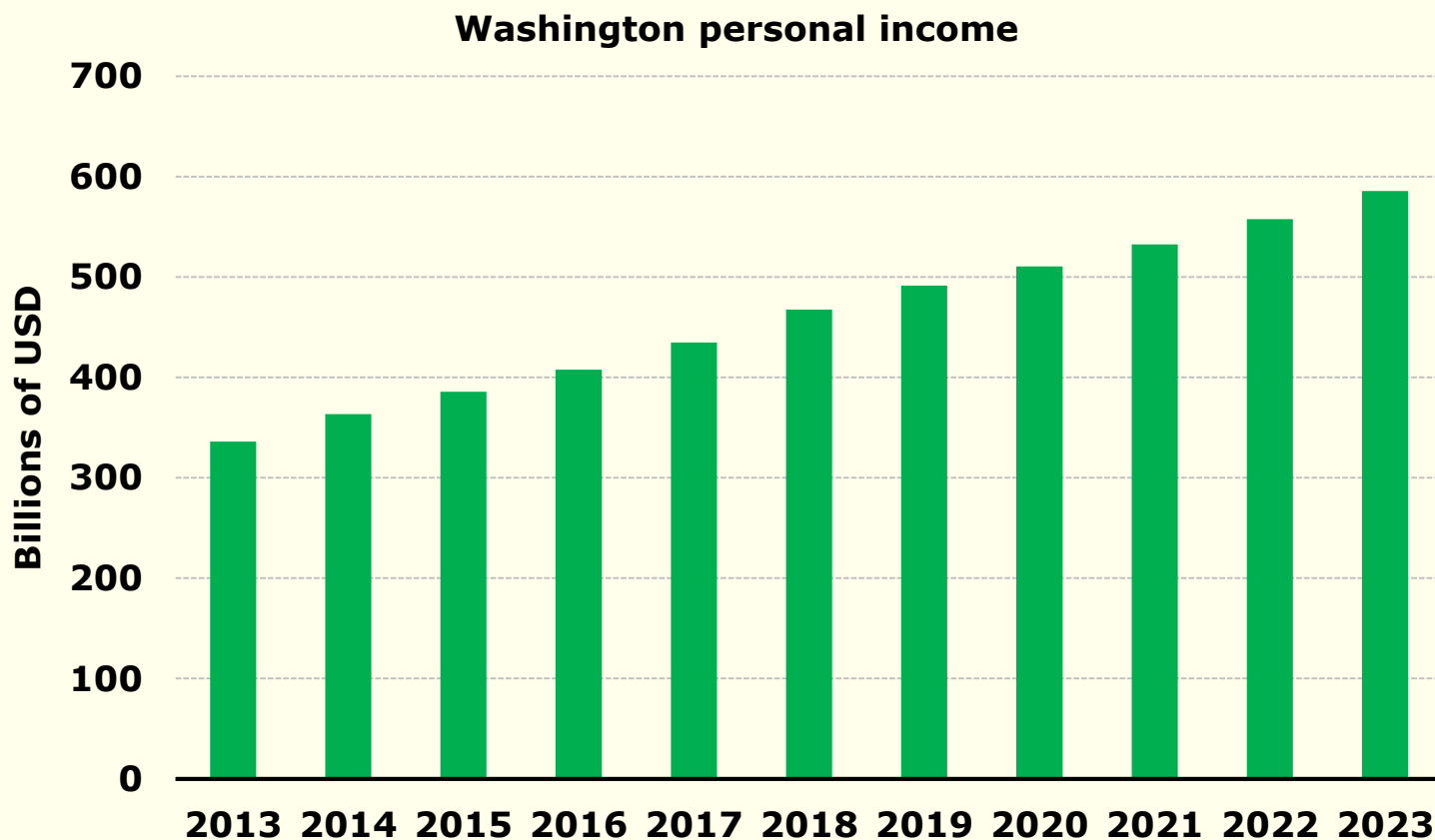
Source: IHS Markit, ERFC; data through Q3 2019  
Note: Vertical black line indicates last actual

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# Washington personal income is expected to average 4.5% growth for 2019 - 2023

Personal income is the sum of wages and salaries; income from interest, dividends and rent; transfer payments such as Social Security and unemployment insurance.



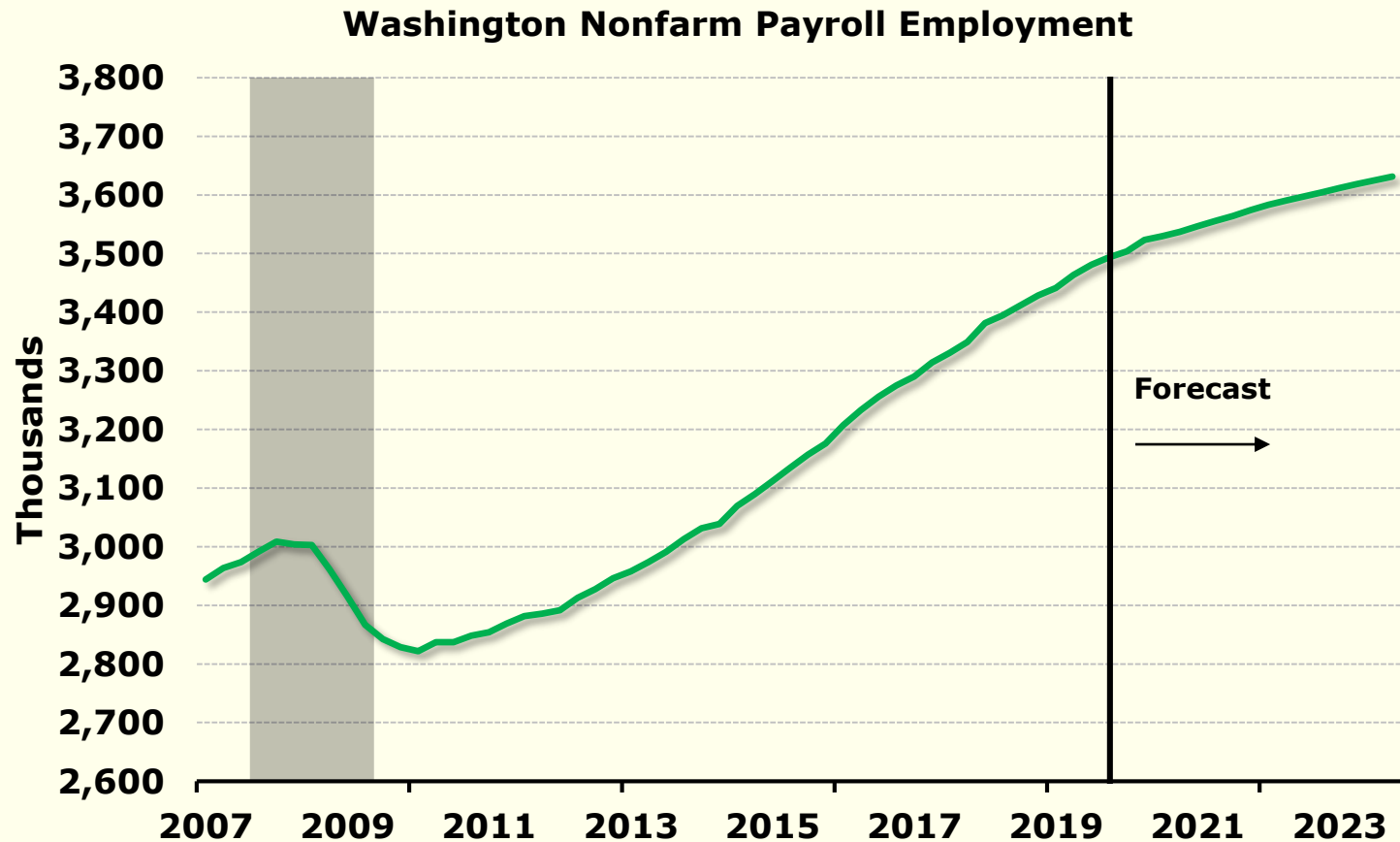
Source: ERFC November 2019 forecast; historical data through 2018

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WA employment is expected to grow 1.9% this year, 1.5% in 2020 then slow to under 1% for 2021 - 2023

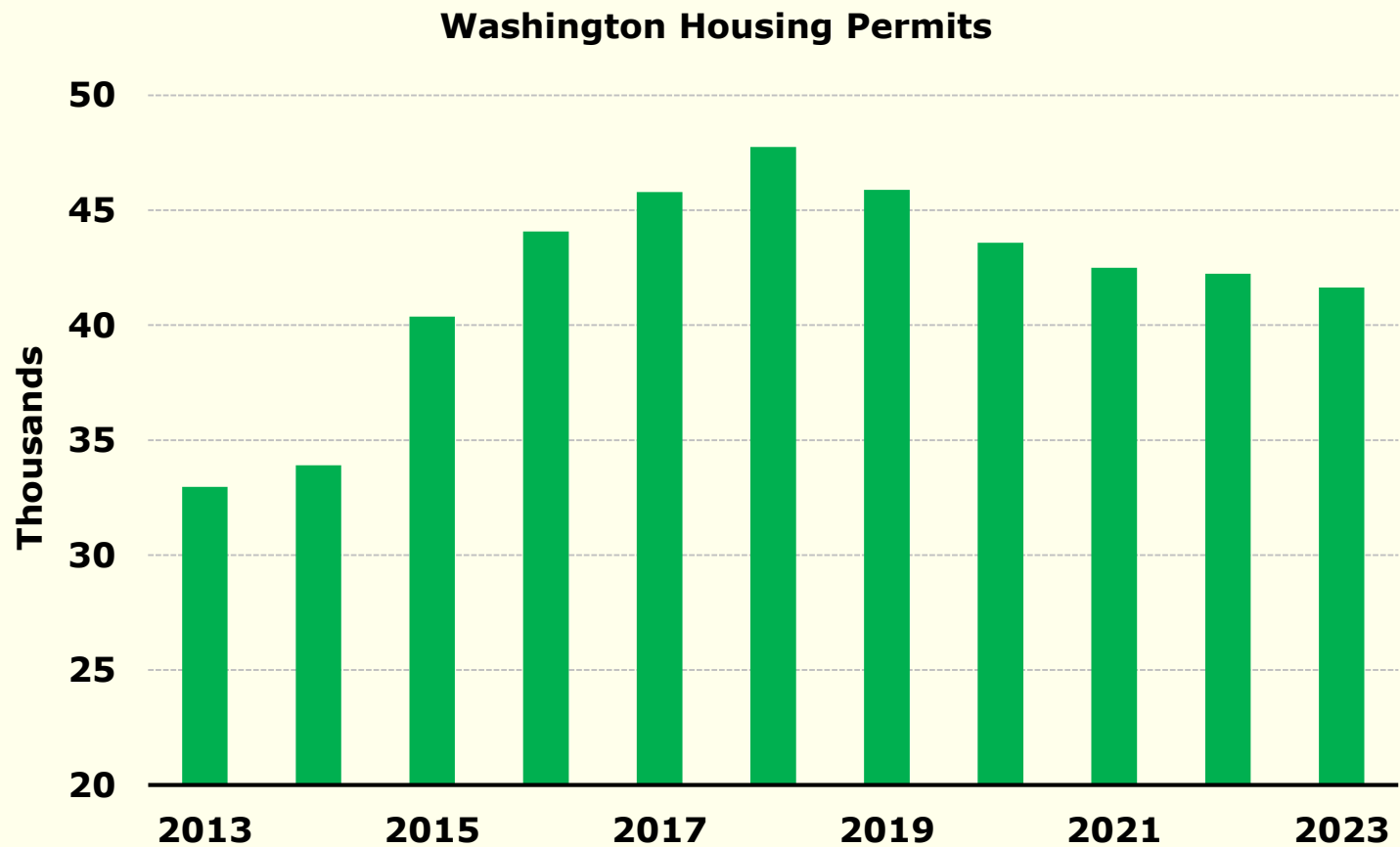


Source: ERFC November 2019 forecast; historical data through Q3 2019

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# Washington housing permits will average 42,500 units per year for 2020 - 2023

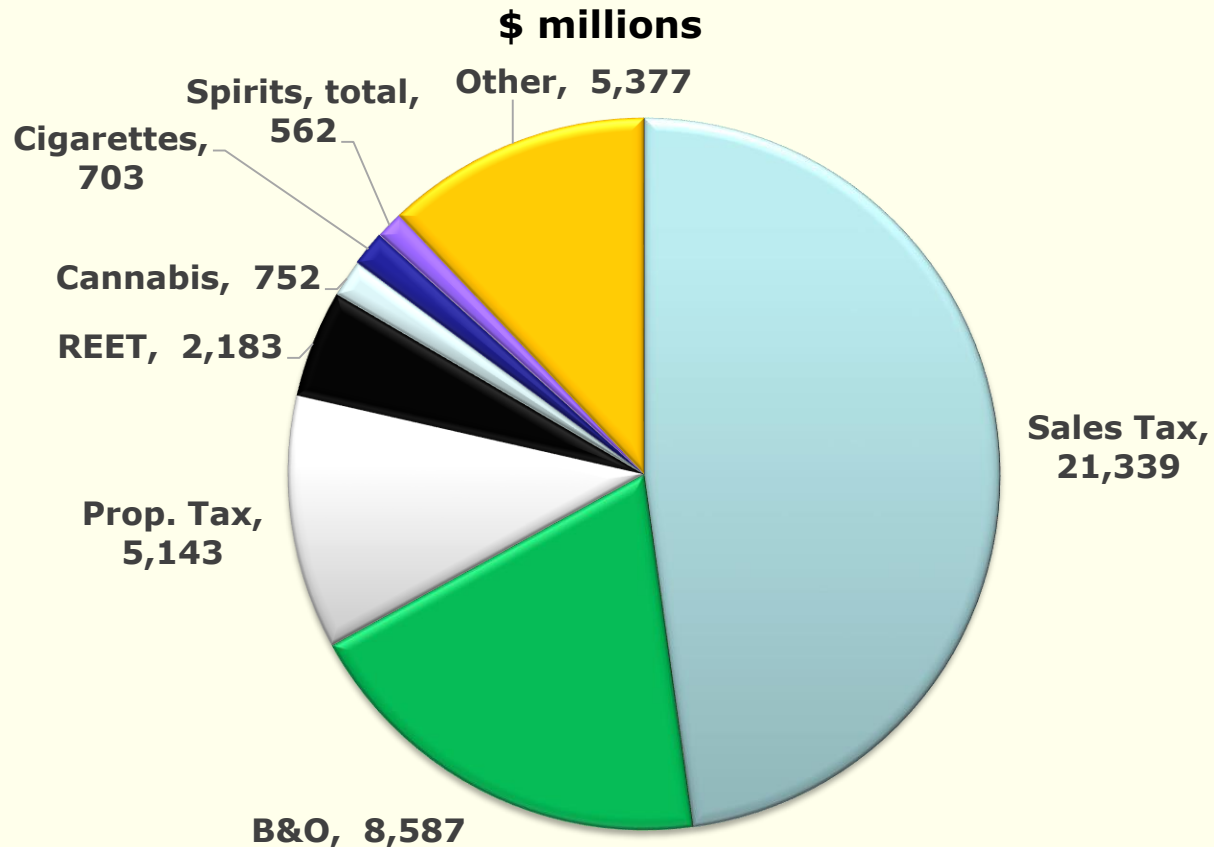


Source: ERFC November 2019 forecast; historical data through 2018

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# General Fund-State plus cannabis revenues for 2017-19 biennium



Source: ERFC November 2019 forecast

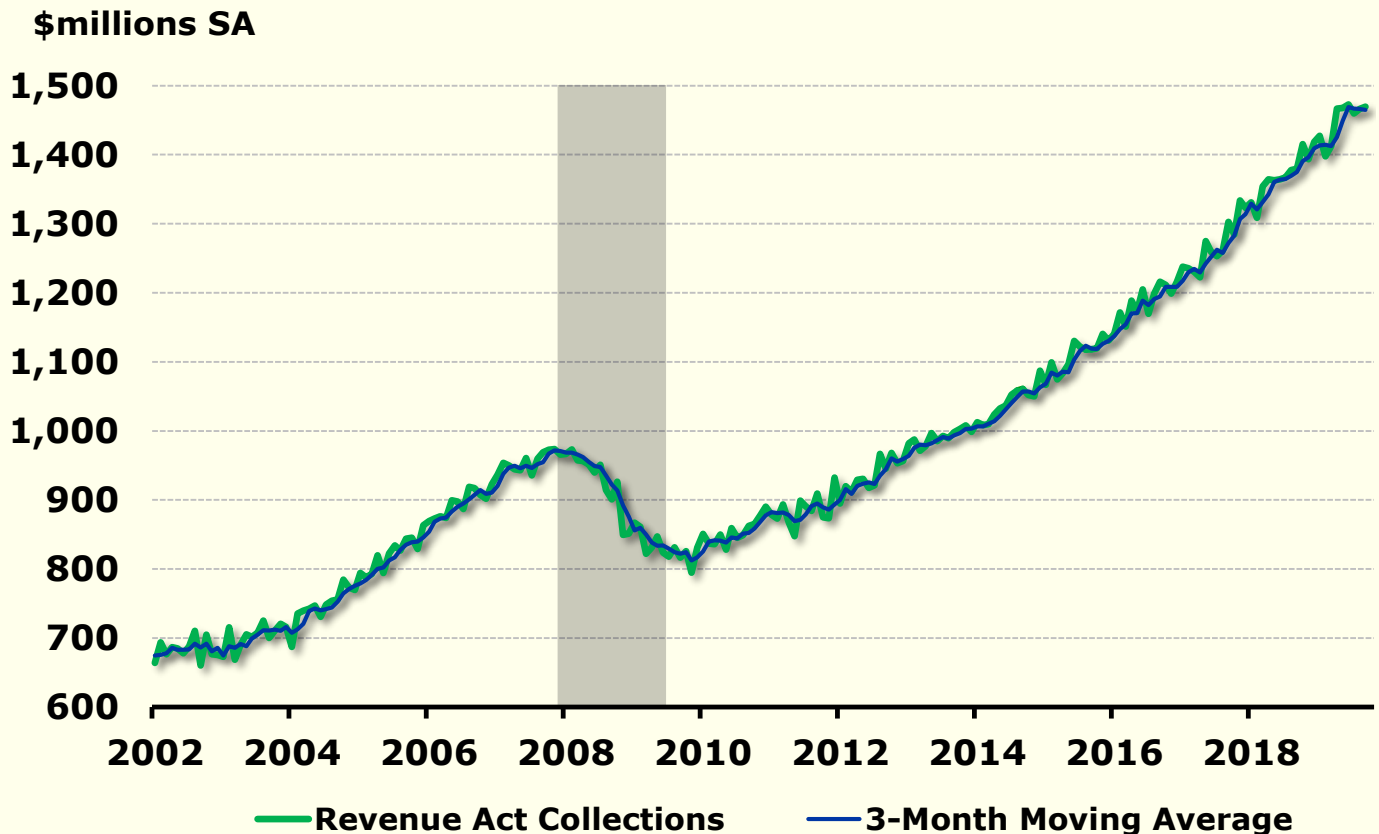
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# Revenue Act collections remain strong after second quarter jump

Adjusted collections for second quarter activity grew at 8.1% year over year (6.3% excluding extra-strong growth in remittances).

Adjusted collections for third quarter activity grew at 6.6% year over year.

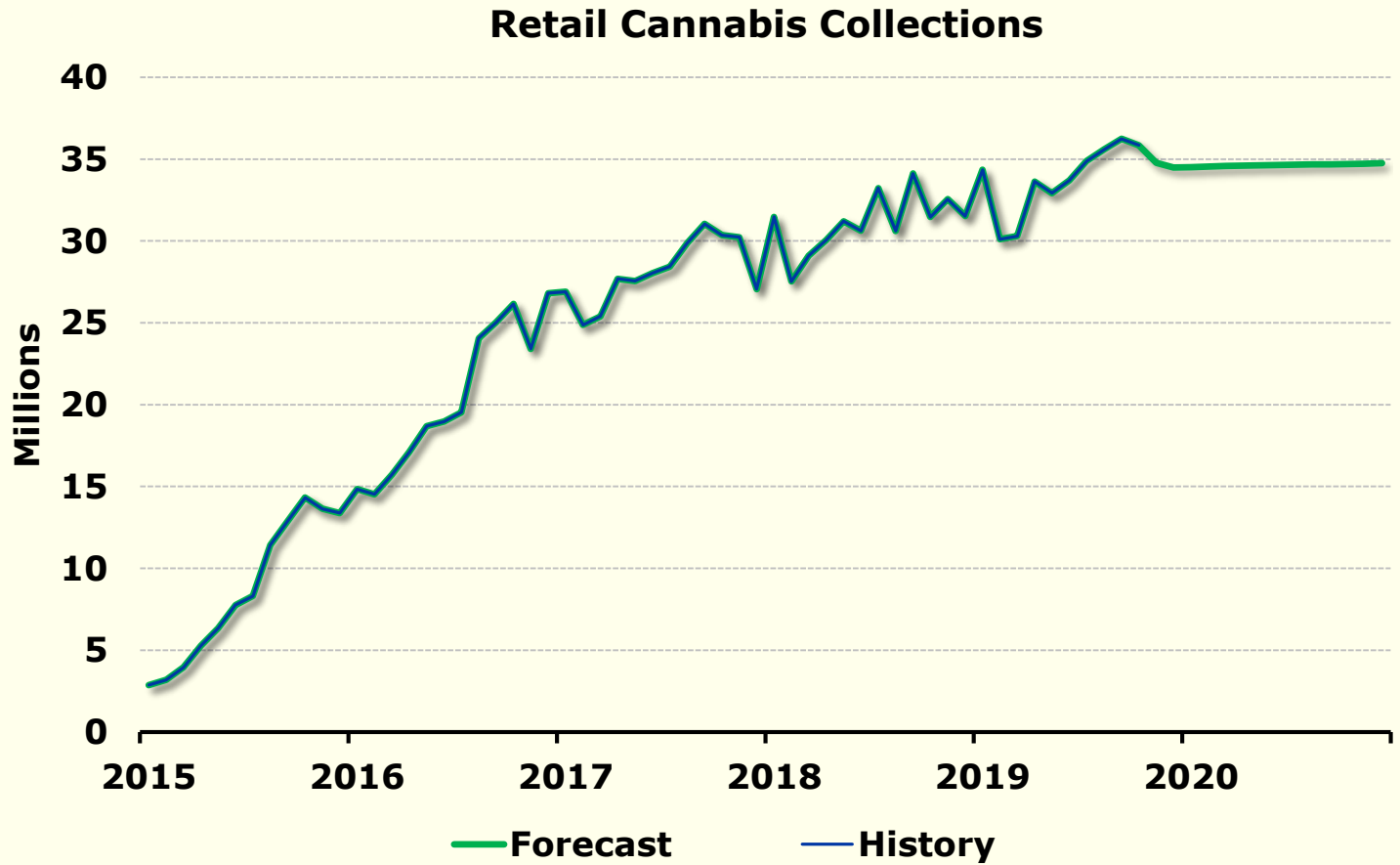


\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act  
Source: DOR and ERFC; monthly data through September 2019 activity

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# Cannabis revenue growth is expected to moderate



Source: ERFC November 2019 forecast; historical data through October 2019

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# Conclusion

- The U.S. and Washington economies are expected to continue growing but at a slower pace over the next several years
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- State revenue collections have been strong but are expected to slow as economic growth moderates
- Threats to economic expansion include concerns about international trade and fiscal policy, geopolitical risks and a maturing expansion



# Questions



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