

State Economic Overview

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CWU Economic Outlook Conference

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Ellensburg, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Forecast risks

Upside

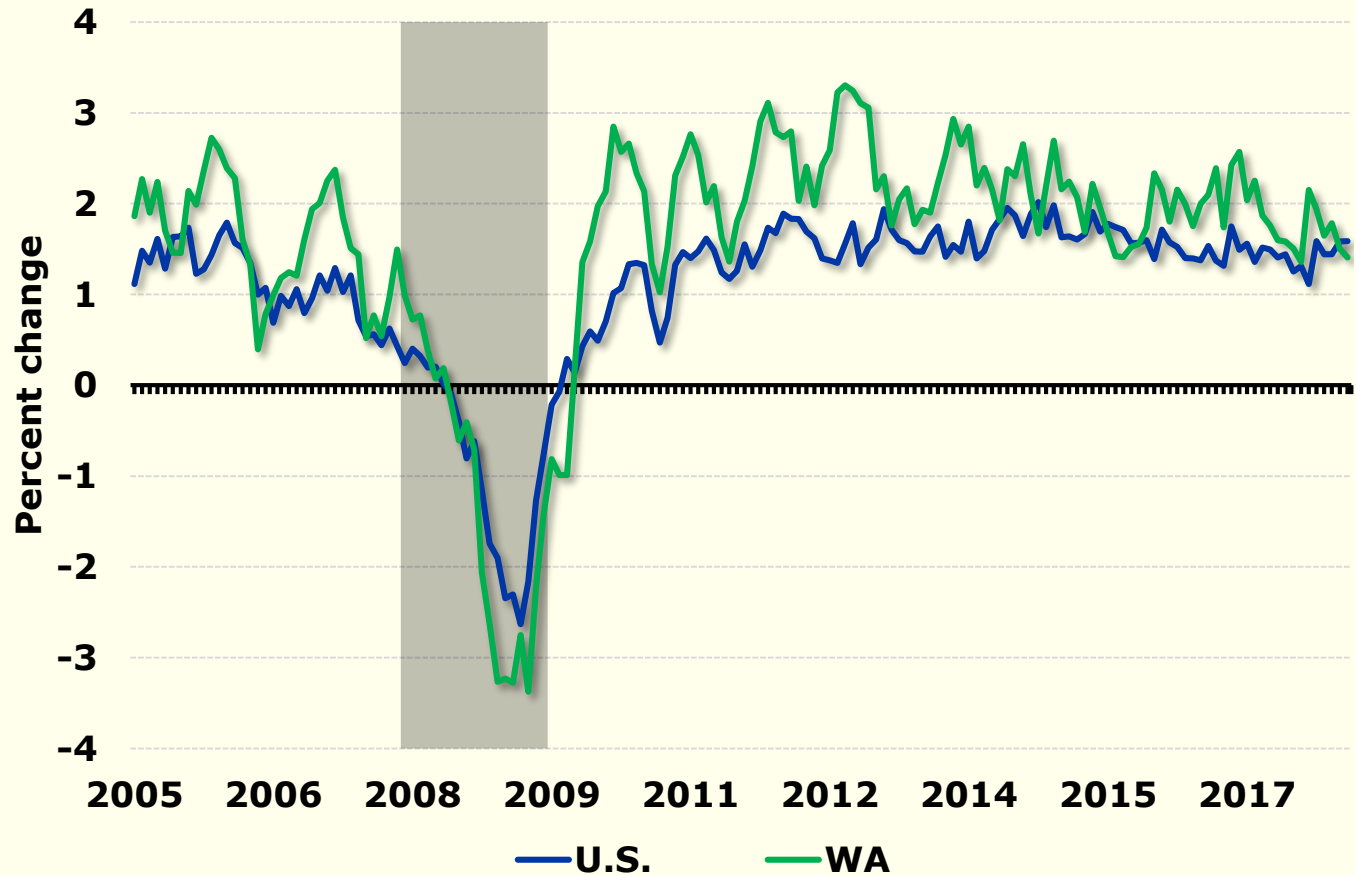
- Elevated consumer, business confidence could translate into stronger growth
- Stronger global economic growth

Downside

- International trade and fiscal policy uncertainty
- Stock market volatility could lead to slower household spending
- Federal Reserve raises rates too much or too quickly
- Geopolitical risks: North Korea, Russia, Middle East



Leading economic indexes for U.S., WA suggest continued growth over at least the next six months



Source: Federal Reserve Bank of Philadelphia, data through February 2018

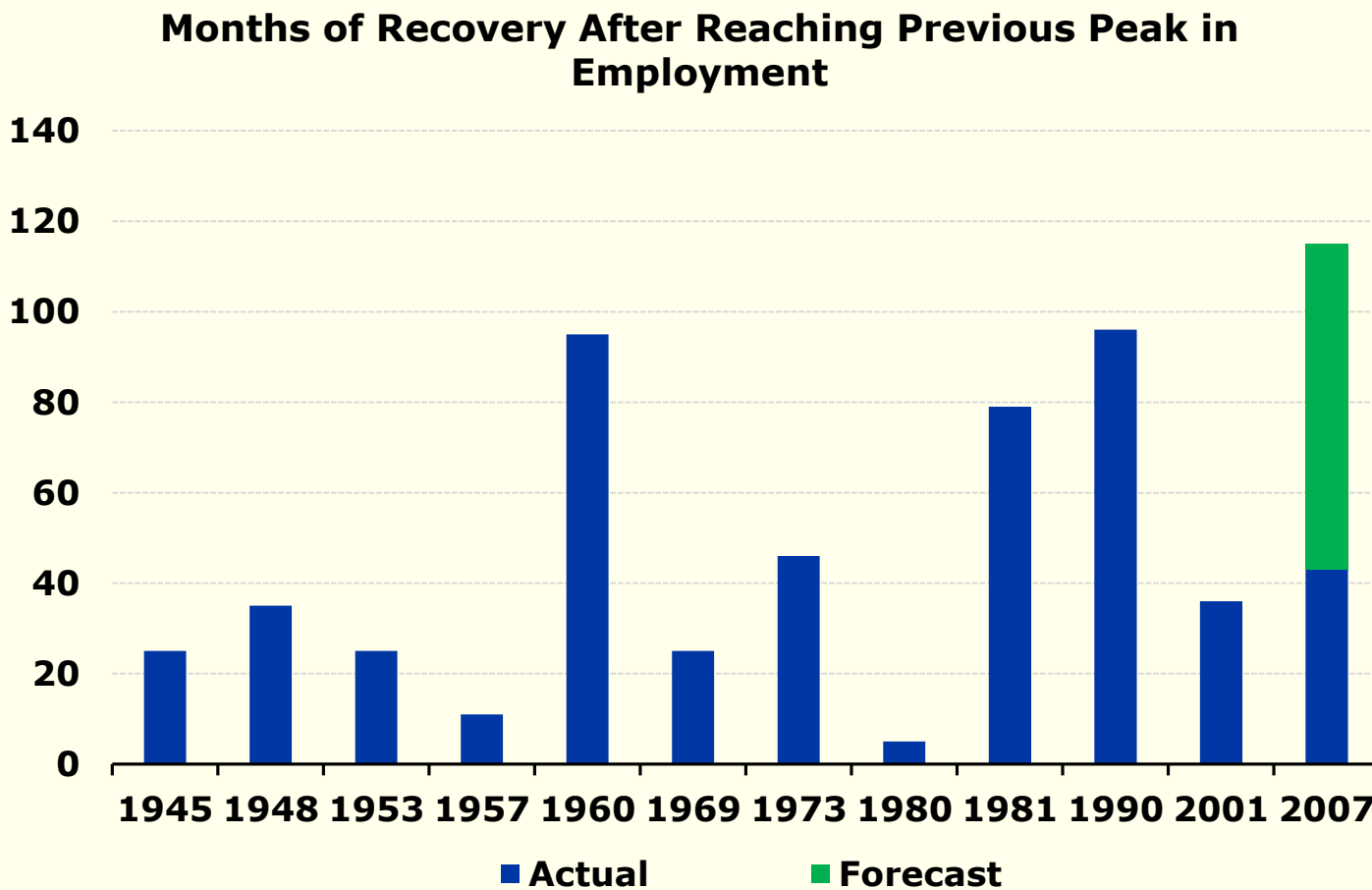
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This recovery is forecasted to be the longest on record

GCEA members were asked the probability of recession by 2023.

Average probability of those who responded = 88%



Source: BLS; ERFC February 2018 forecast

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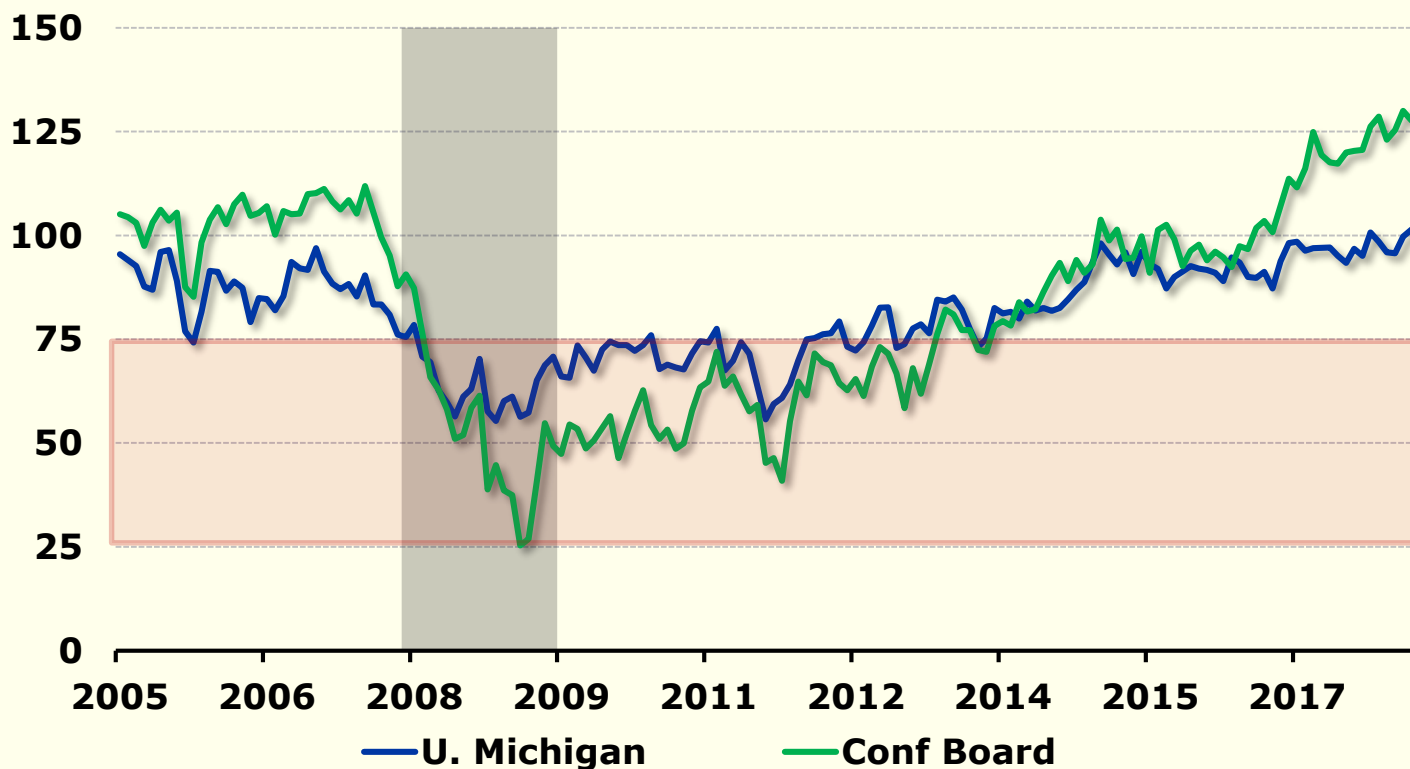


Consumer confidence is above pre-recession levels

Index

Mich: 1966Q1 = 100, SA

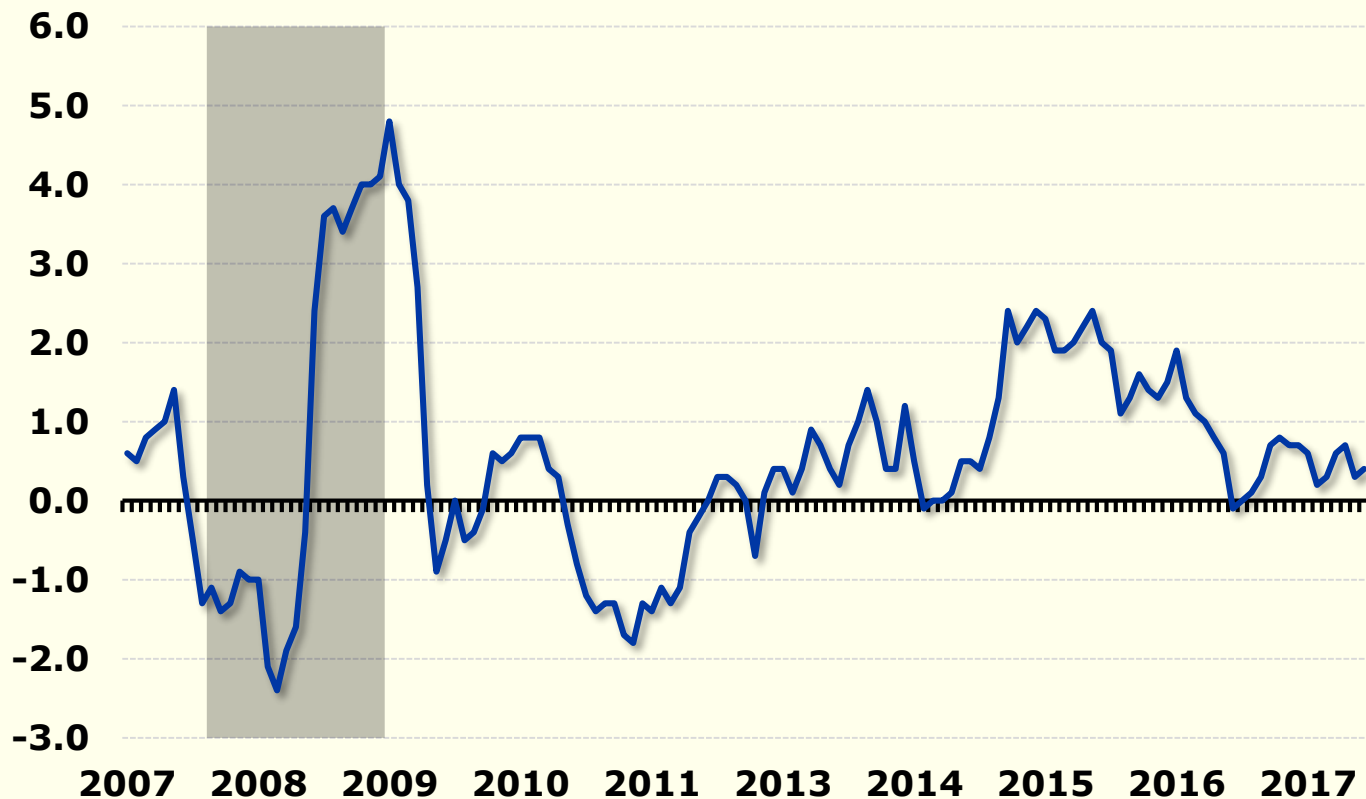
Conf Board: 1985 = 100, SA





Adjusted for inflation, hourly wage growth remains muted

Year-over-year growth in U.S. real average hourly wages

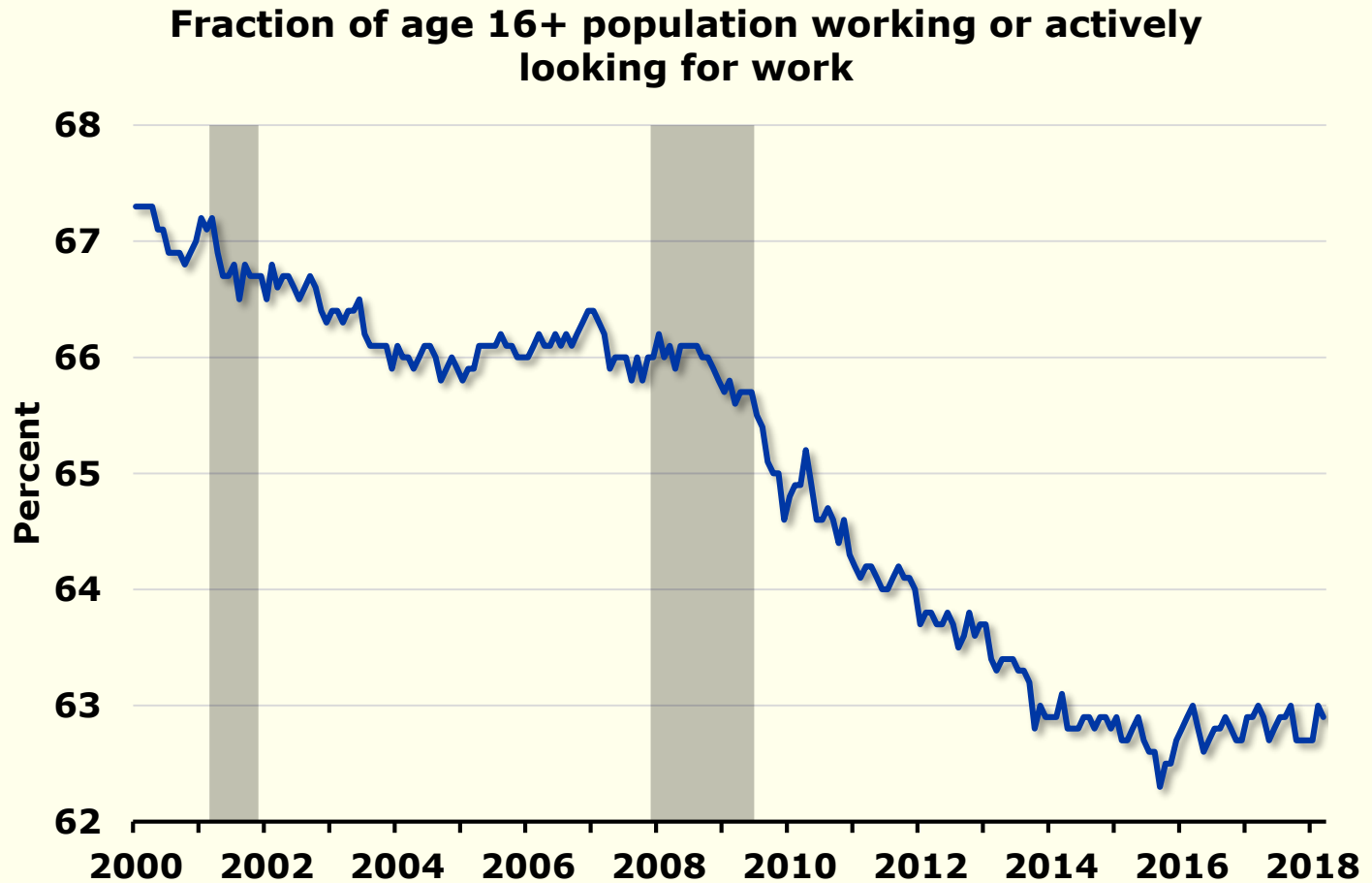


Source: U.S. Bureau of Labor Statistics, monthly data through March 2018

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The labor force participation rate has improved slightly since late 2015



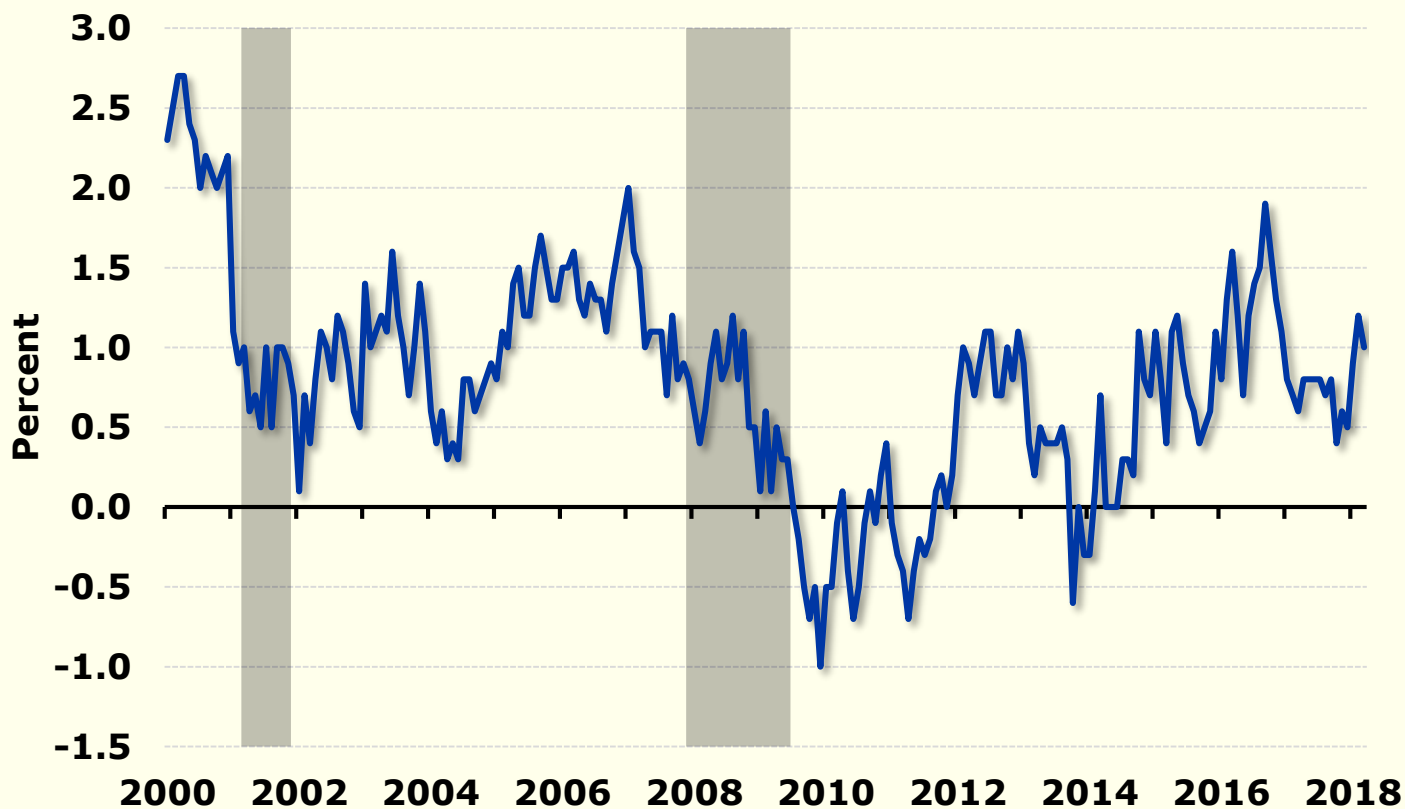
Source: U.S. Bureau of Labor Statistics, data through March 2018

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The labor force contracted after the recession but has started growing

Year over year percent change in persons working or actively looking for work

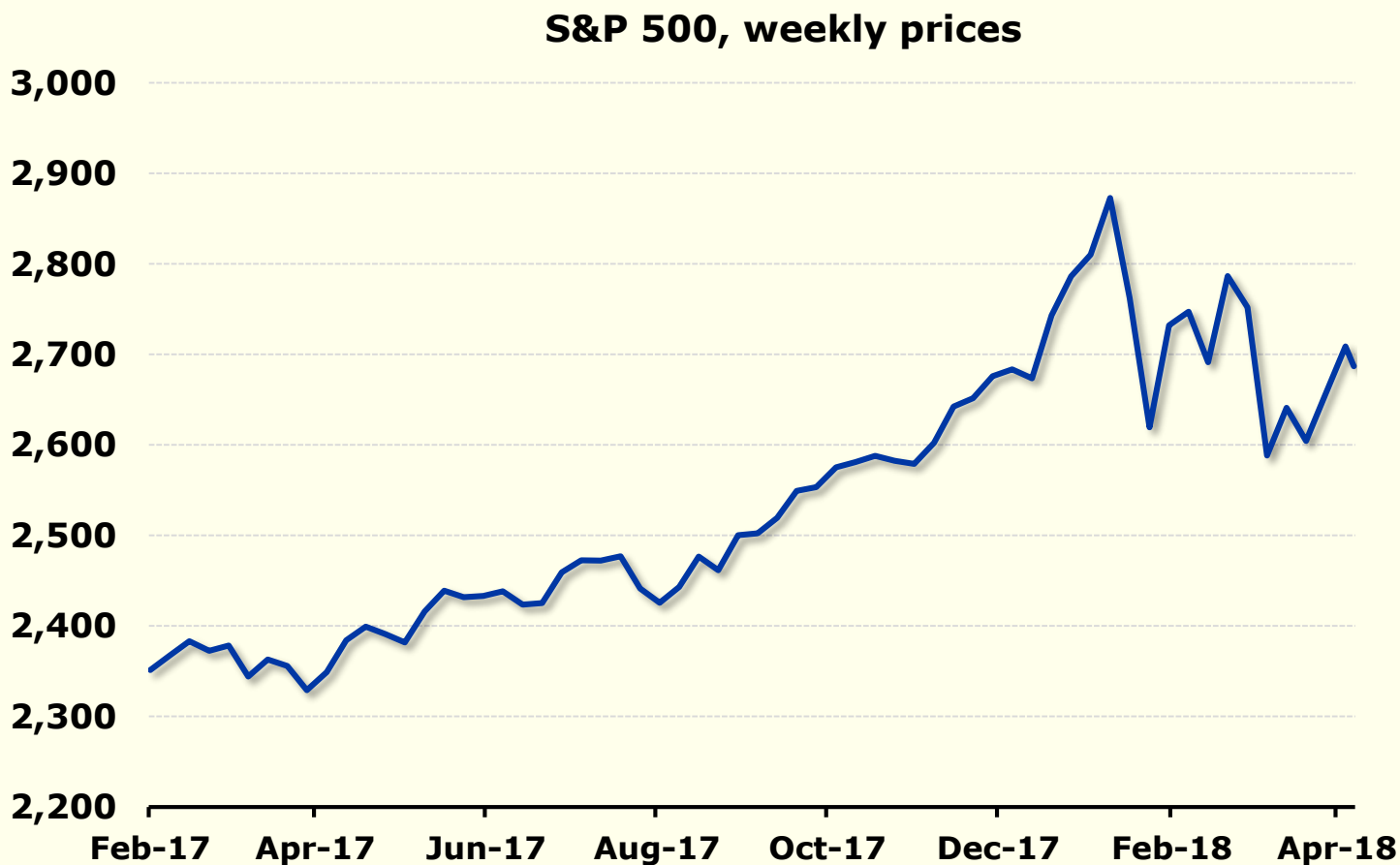


Source: U.S. Bureau of Labor Statistics, data through March 2018

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After an extended period of rising prices, the stock market has become volatile recently

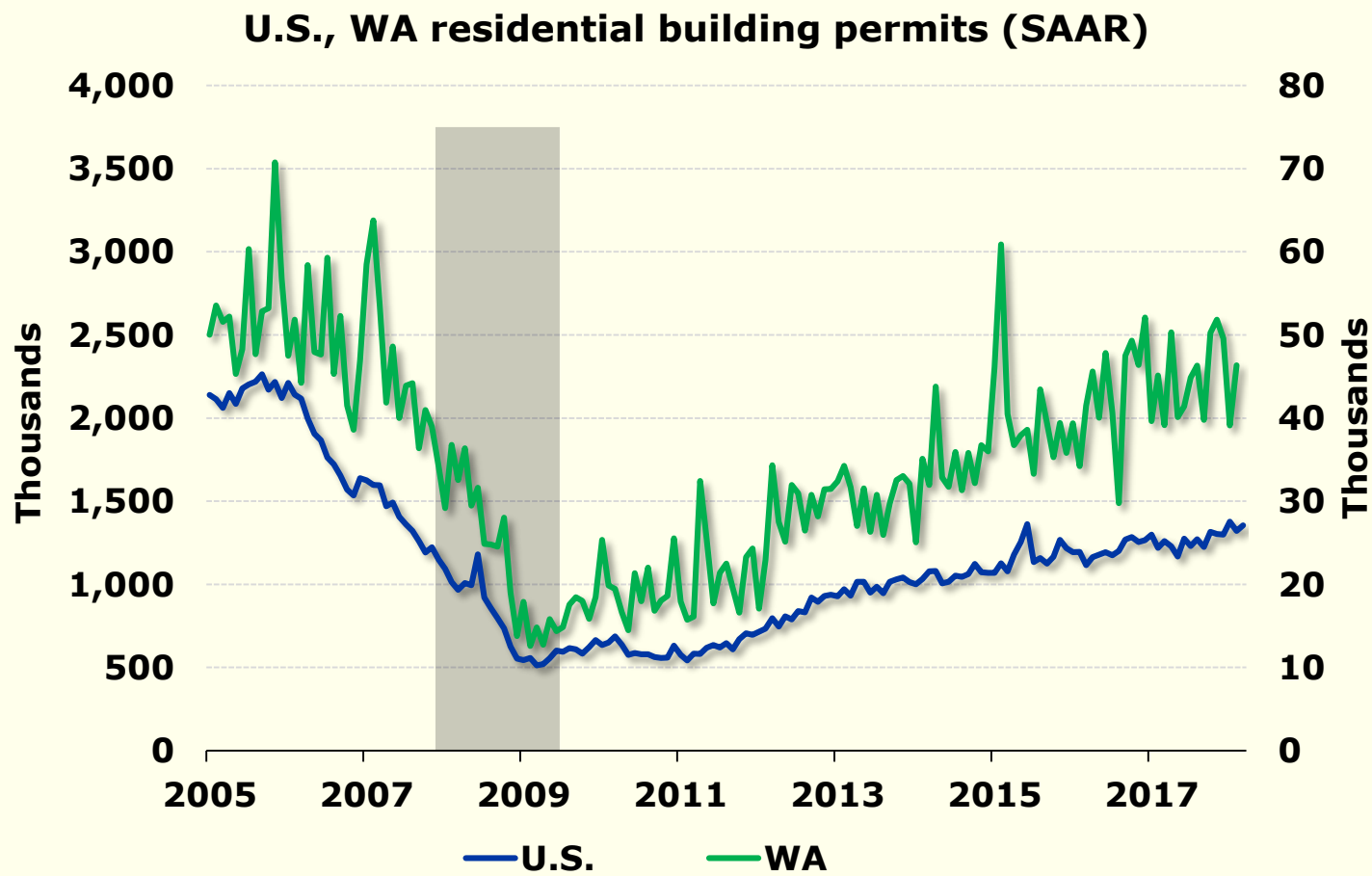


Source: Yahoo Finance, weekly data through April 19, 2018

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U.S. residential construction remains below pre-recession levels

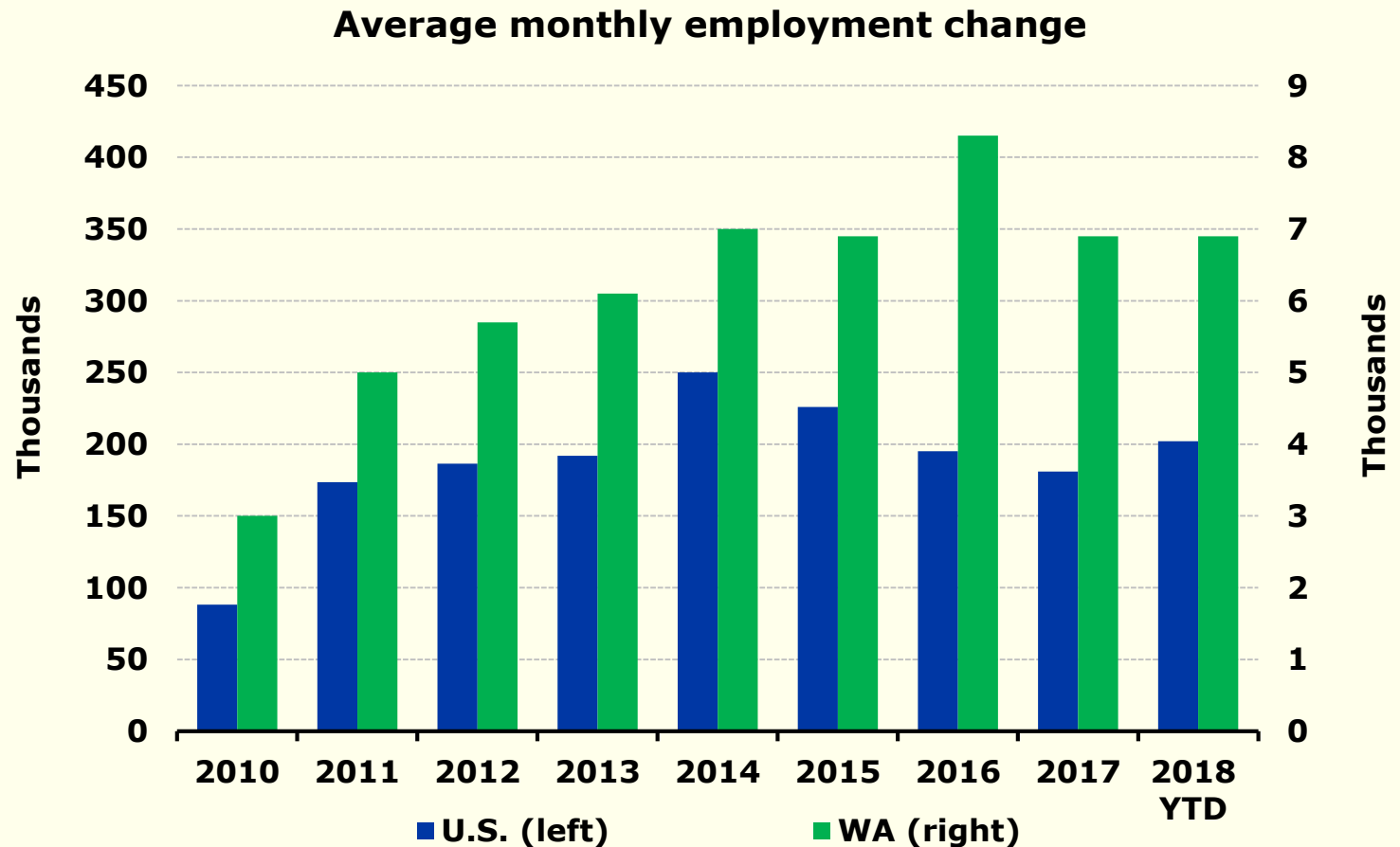


Source: U.S. Census Bureau, ERFC; U.S. data through Mar. 2018, WA data through Feb. 2018

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Pace of job creation has slowed somewhat nationally but remains strong in WA

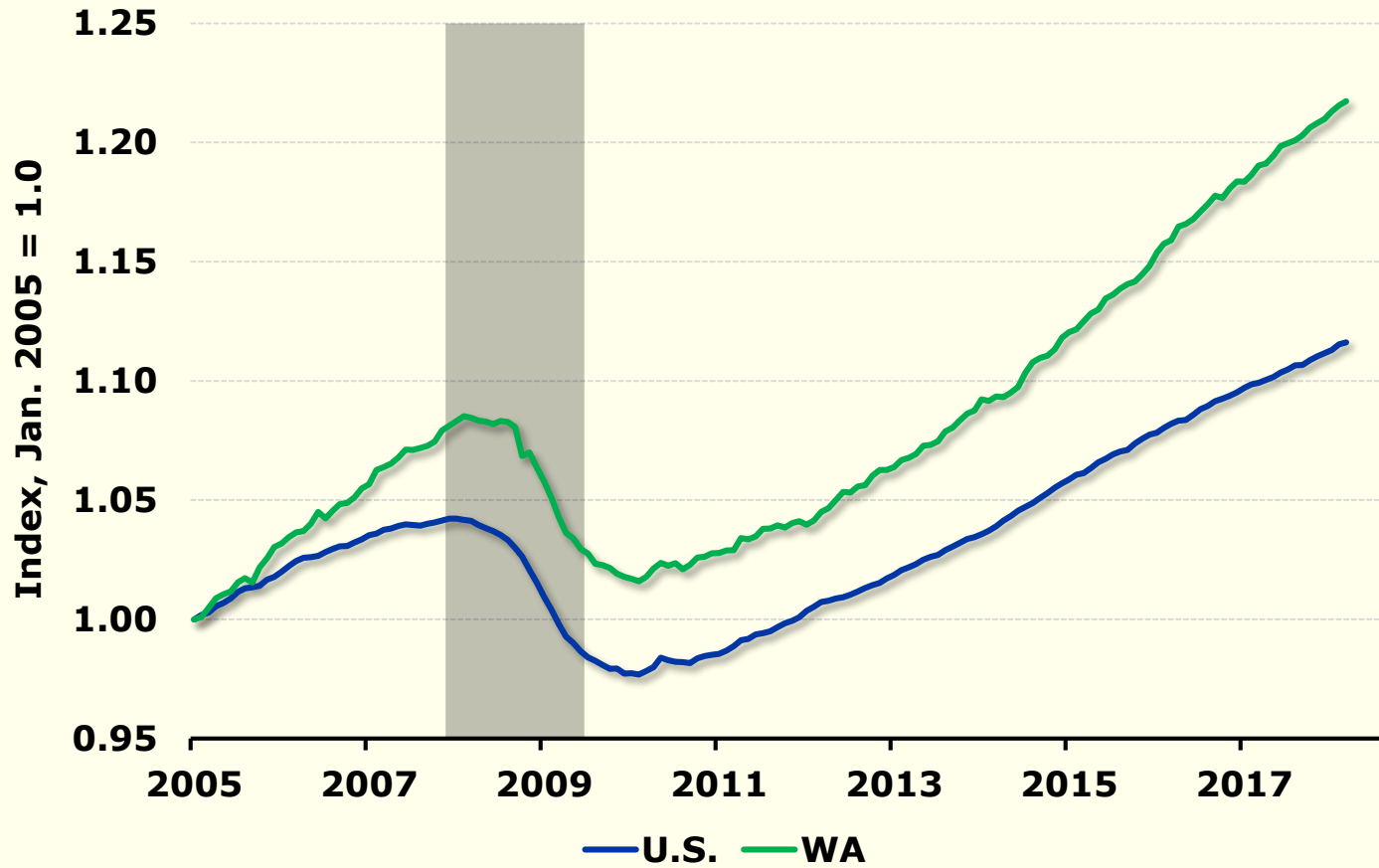


Source: Bureau of Labor Statistics, ERFC; data through March 2018

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WA employment has grown much faster than for the U.S. as a whole

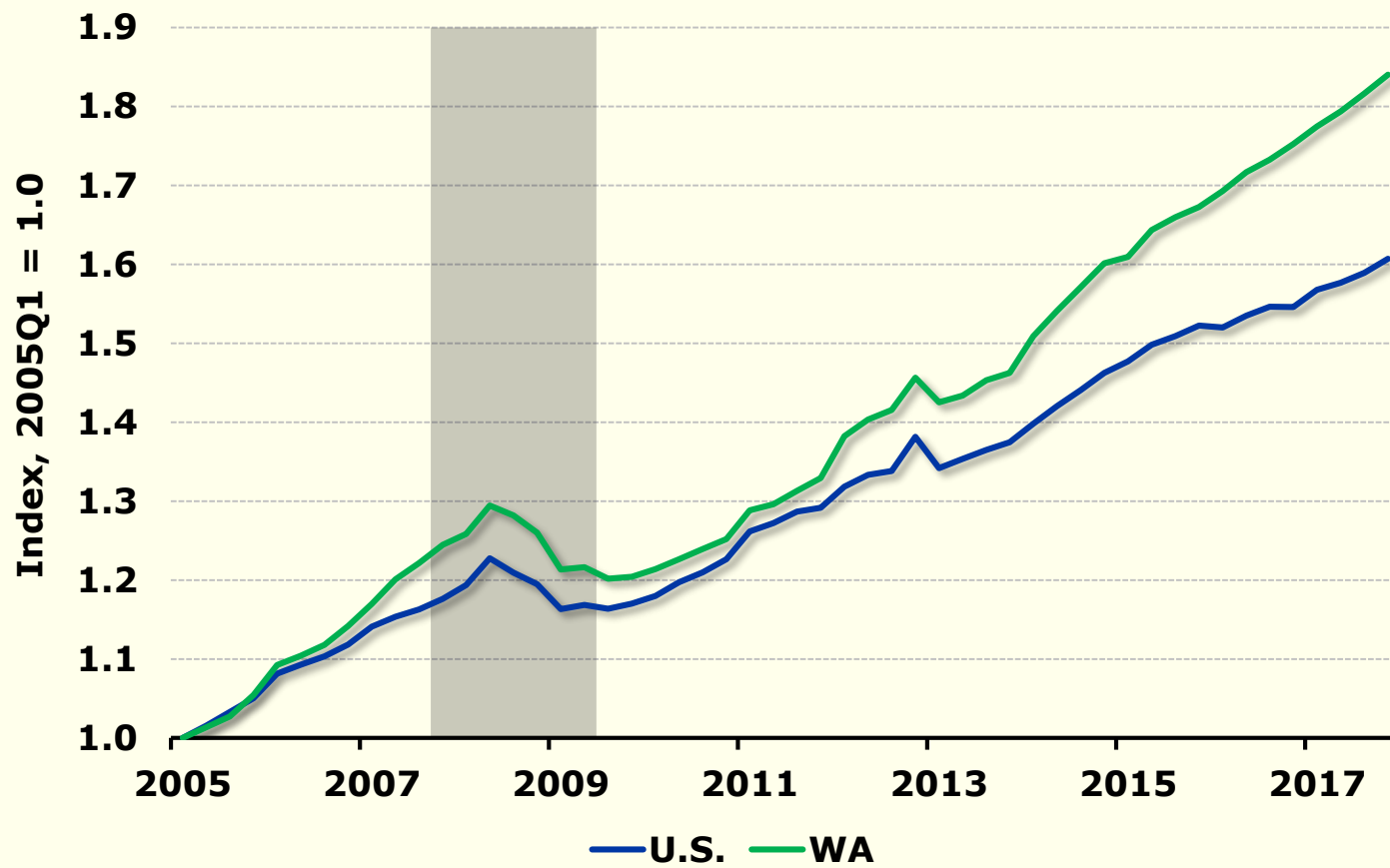


Source: U.S. Bureau of Labor Statistics, Employment Security Dept., ERFC; data through Mar. 2018

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WA personal income growth continues to outpace the U.S.



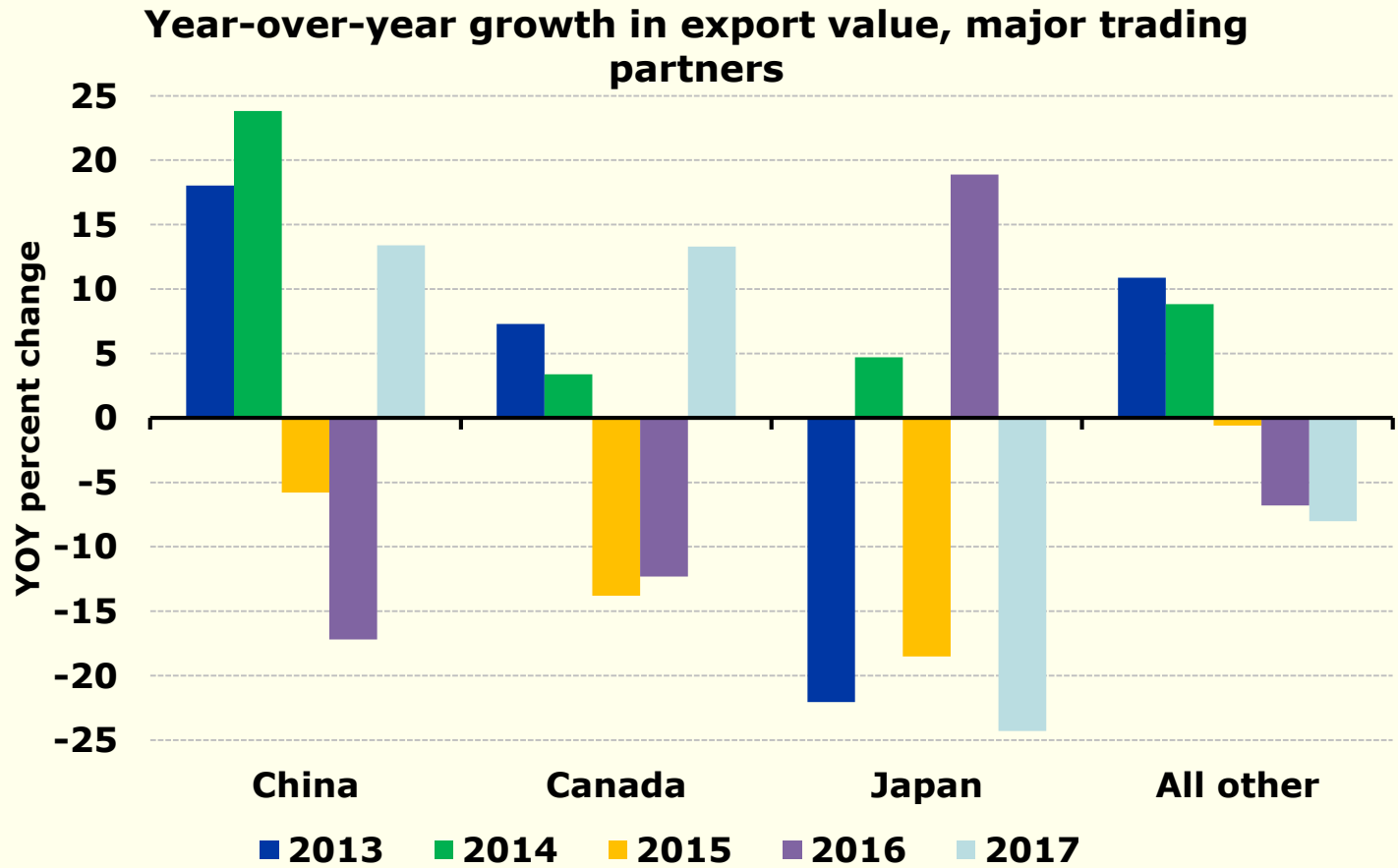
Source: U.S. Bureau of Economic Analysis; data through 2017 Q4

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WA exports have slowed, but exports to China, Canada have improved in 2017

Total exports declined 3.2% in 2017 and 7.9% in 2016

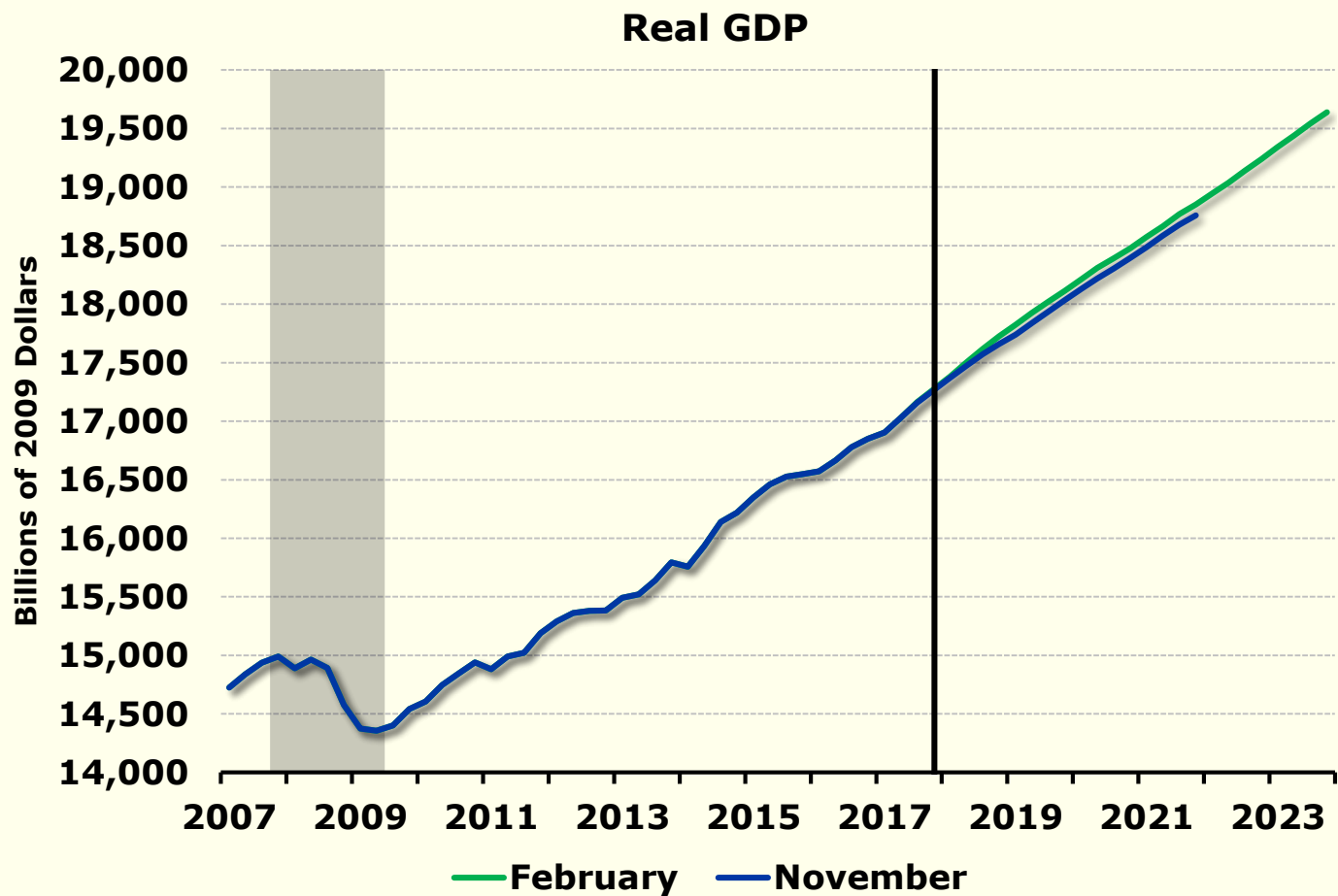


Source: WISER Trade; data through December 2017

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Real GDP is slightly higher than the November forecast

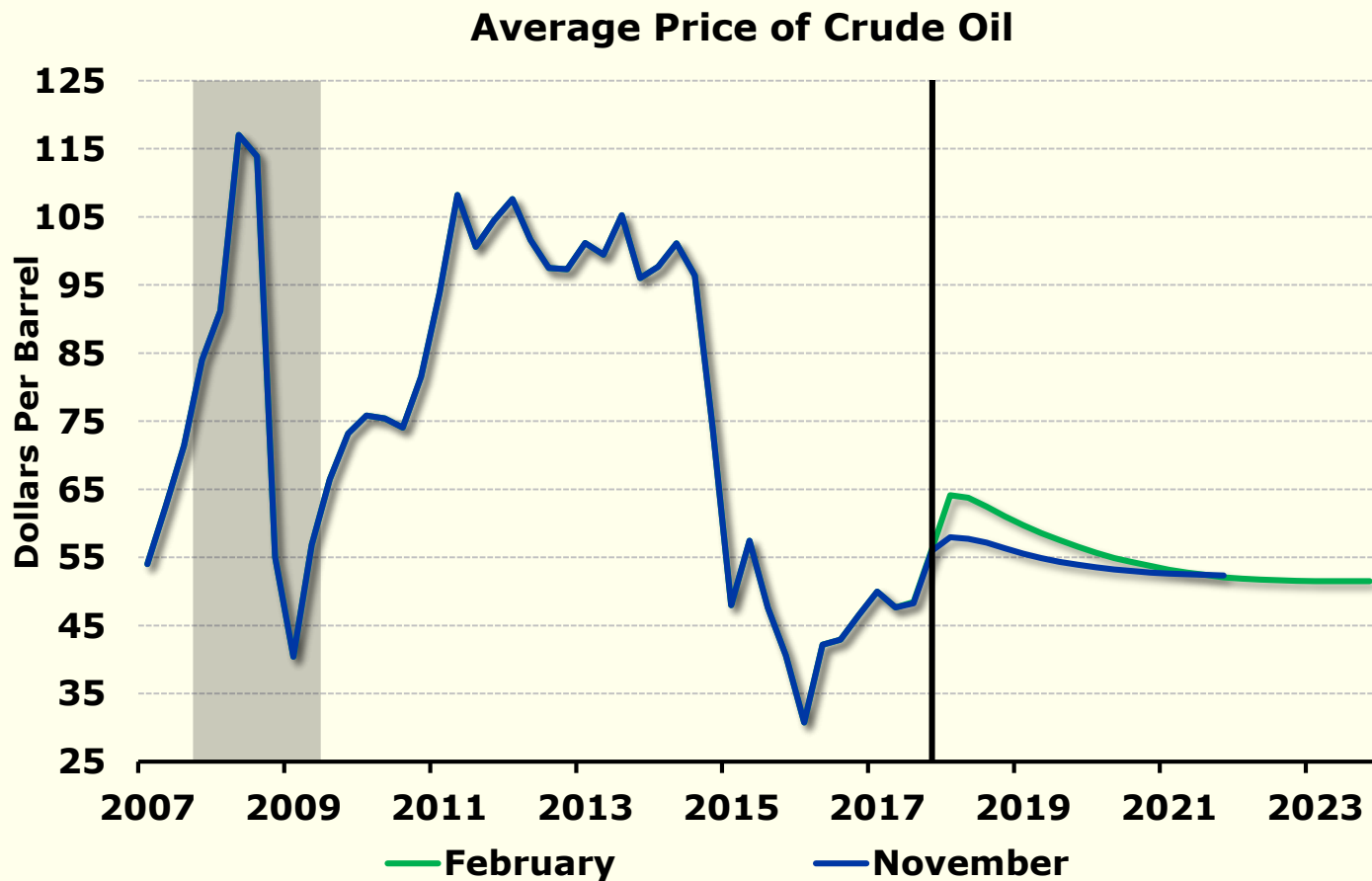


Source: ERFC February 2018 forecast; data through Q4 2017

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Oil prices are slightly higher in the near term compared to the November forecast

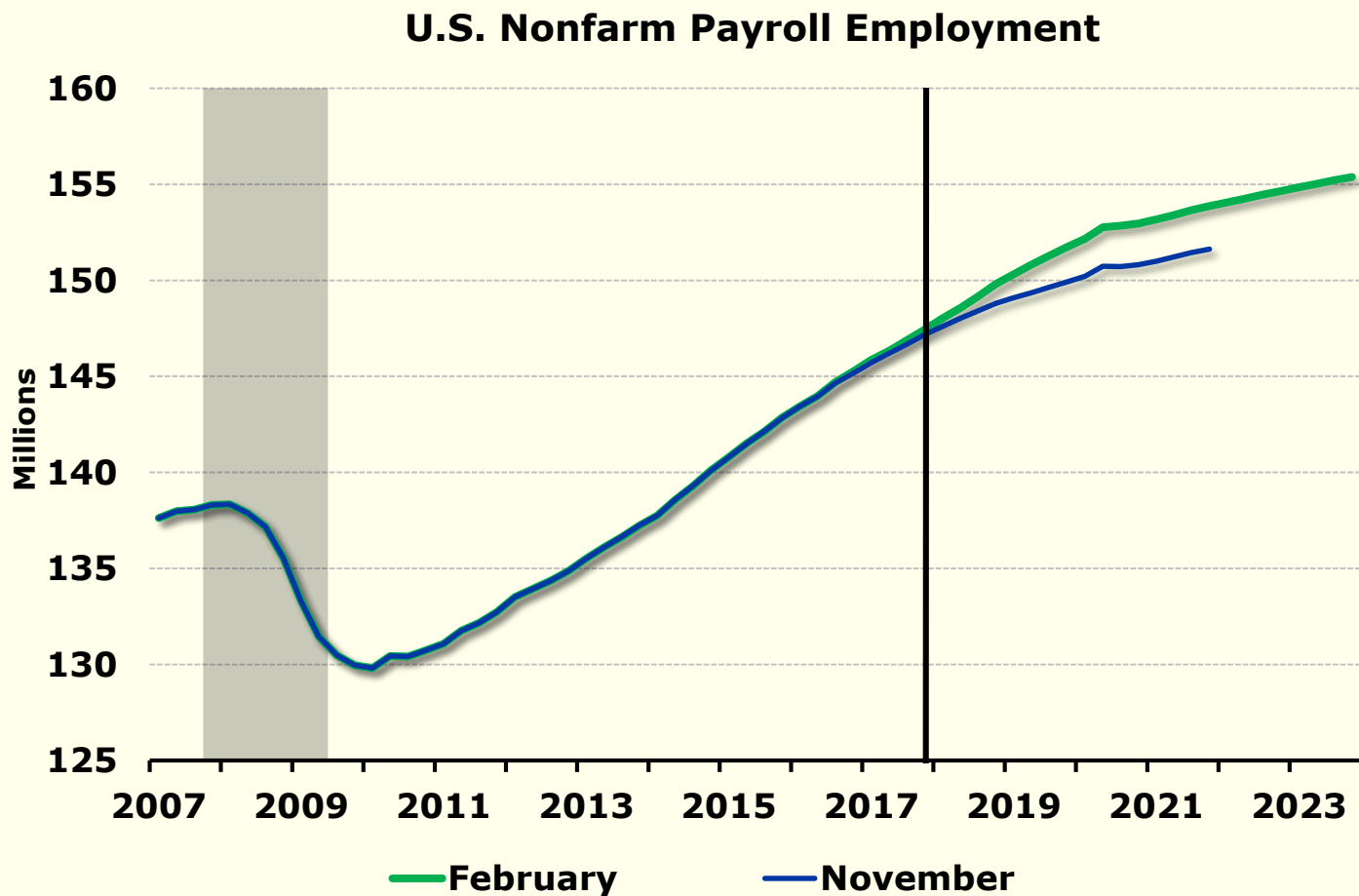


Source: U.S. DOE, ERFC February 2018 forecast; historical data through Q4 2017

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The U.S. nonfarm payroll employment forecast is stronger than November



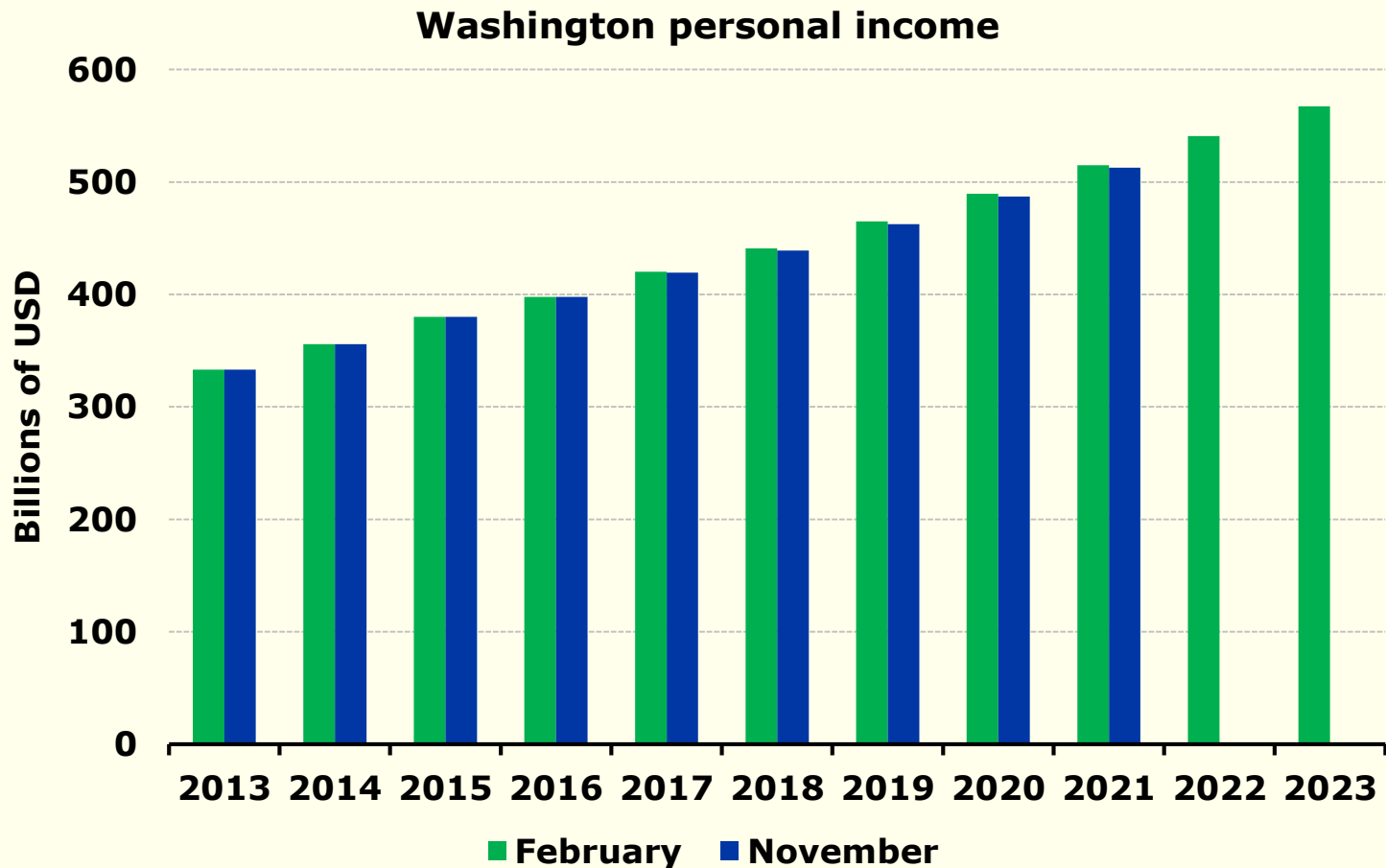
Source: ERFC February 2018 forecast; data through Q4 2017

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Washington personal income is slightly higher than in November...

Third quarter 2017 personal income data have become available since the November forecast



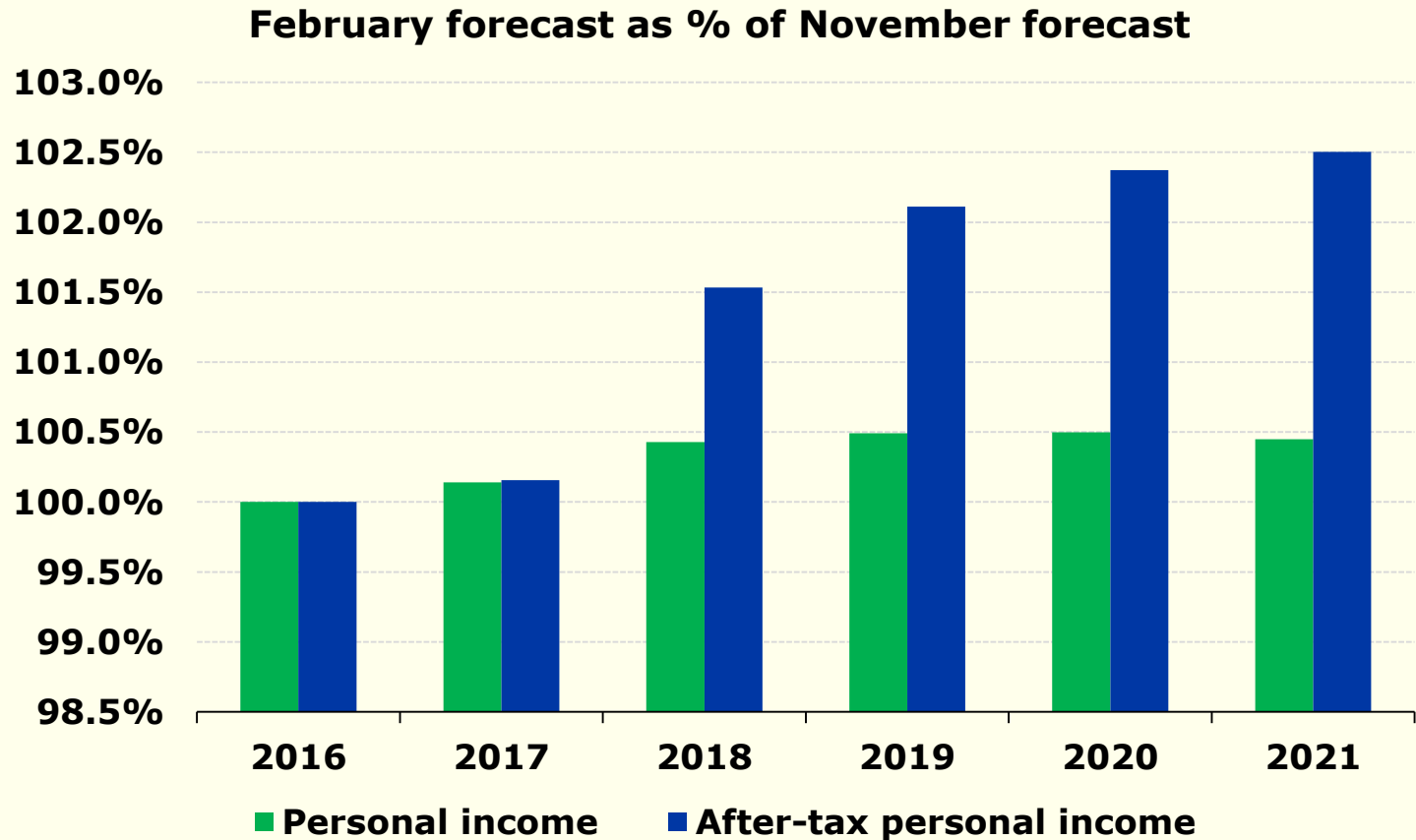
Source: ERFC February 2018 forecast; historical data through 2016

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But WA after-tax personal income increased even more due to federal tax cuts

Personal income is 0.4% to 0.5% higher compared to November but after-tax income is 1.5% to 2.5% higher



Source: ERFC February 2018 forecast; historical data through 2016

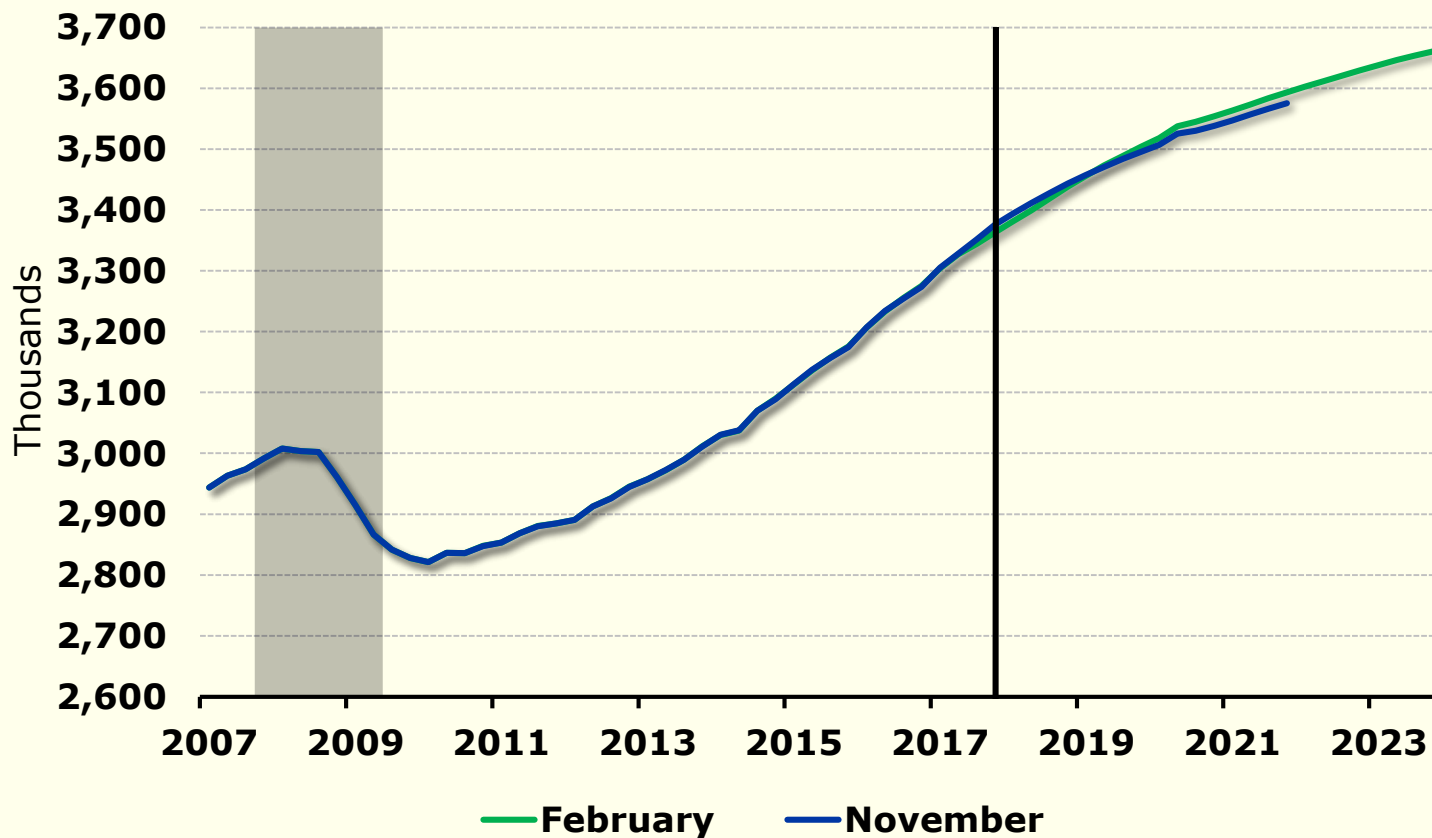
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Washington employment forecast is slightly higher compared to November

The WA nonfarm employment forecast is 18,000 jobs higher (0.5%) by 2021 compared to November.

Washington Nonfarm Payroll Employment



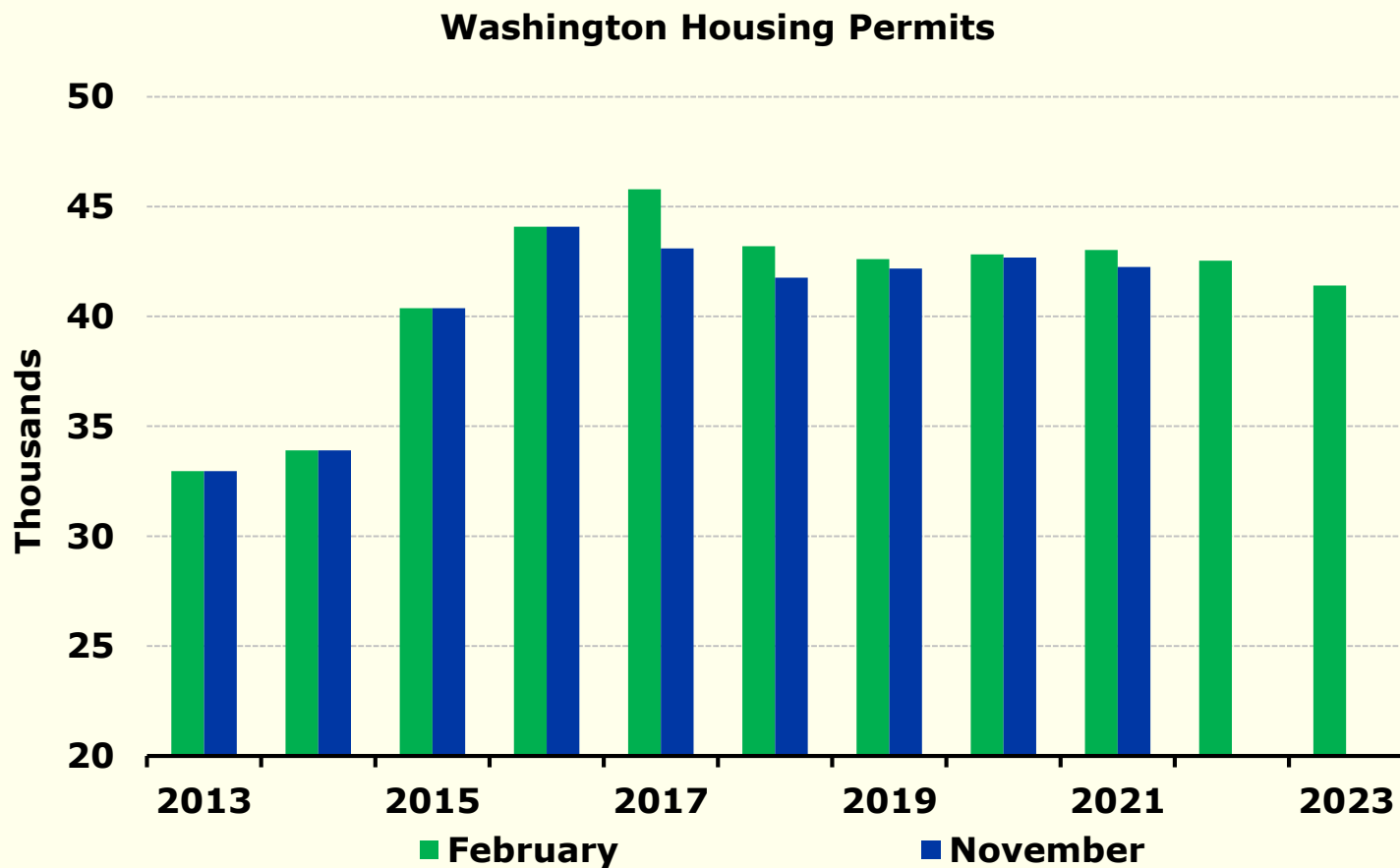
Source: ERFC February 2018 forecast; historical data through Q4 2017

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Washington housing permits forecast is slightly higher than in November

Fourth quarter 2017 permits were much higher than expected in November.



Source: ERFC February 2018 forecast; historical data through 2017

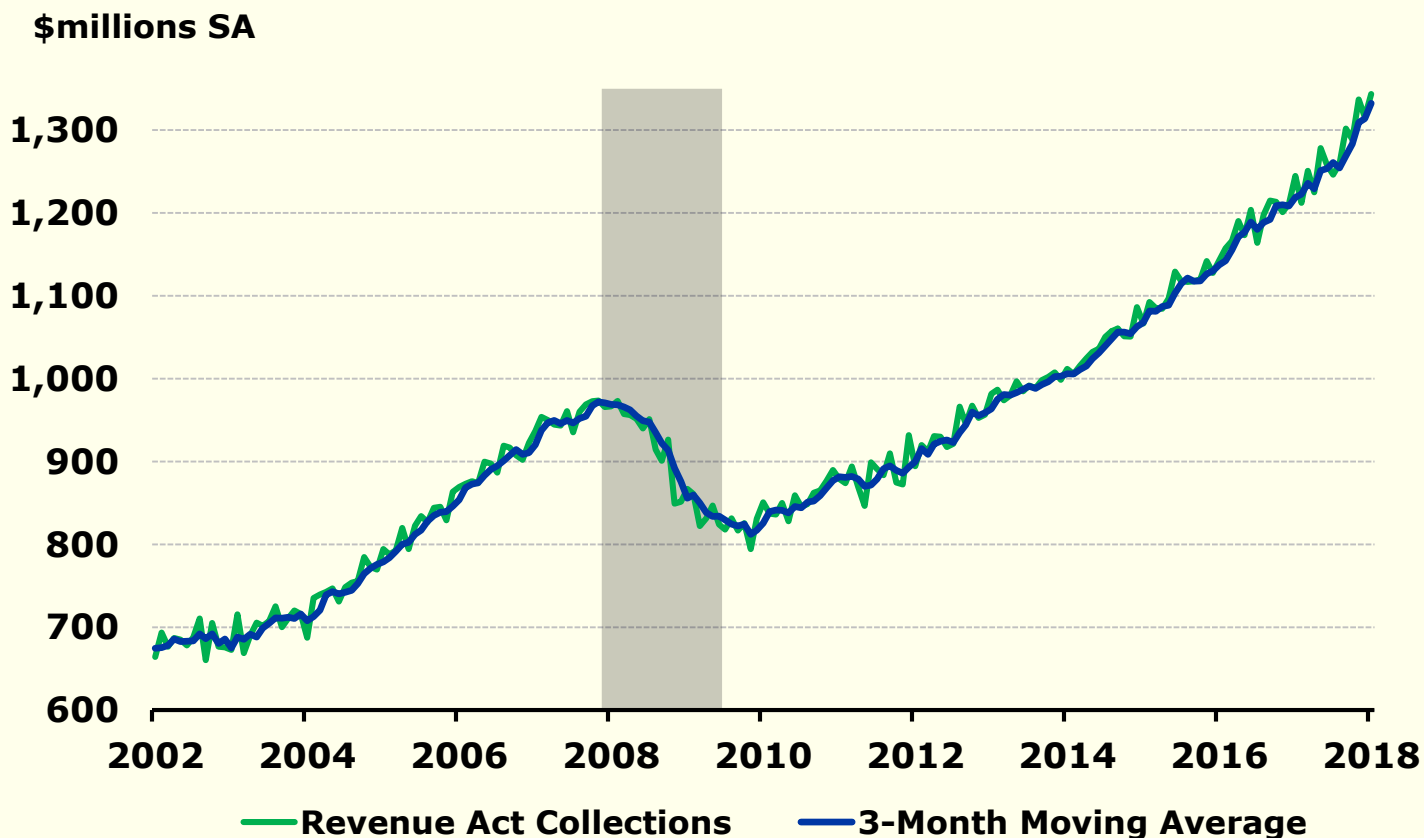
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Revenue Act collections growth accelerated in the 4th quarter

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

Q1: 6.3%
Q2: 5.6%
Q3: 6.4%
Q4: 8.3%



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

Source: DOR and ERFC; monthly data through estimated January 2018 activity

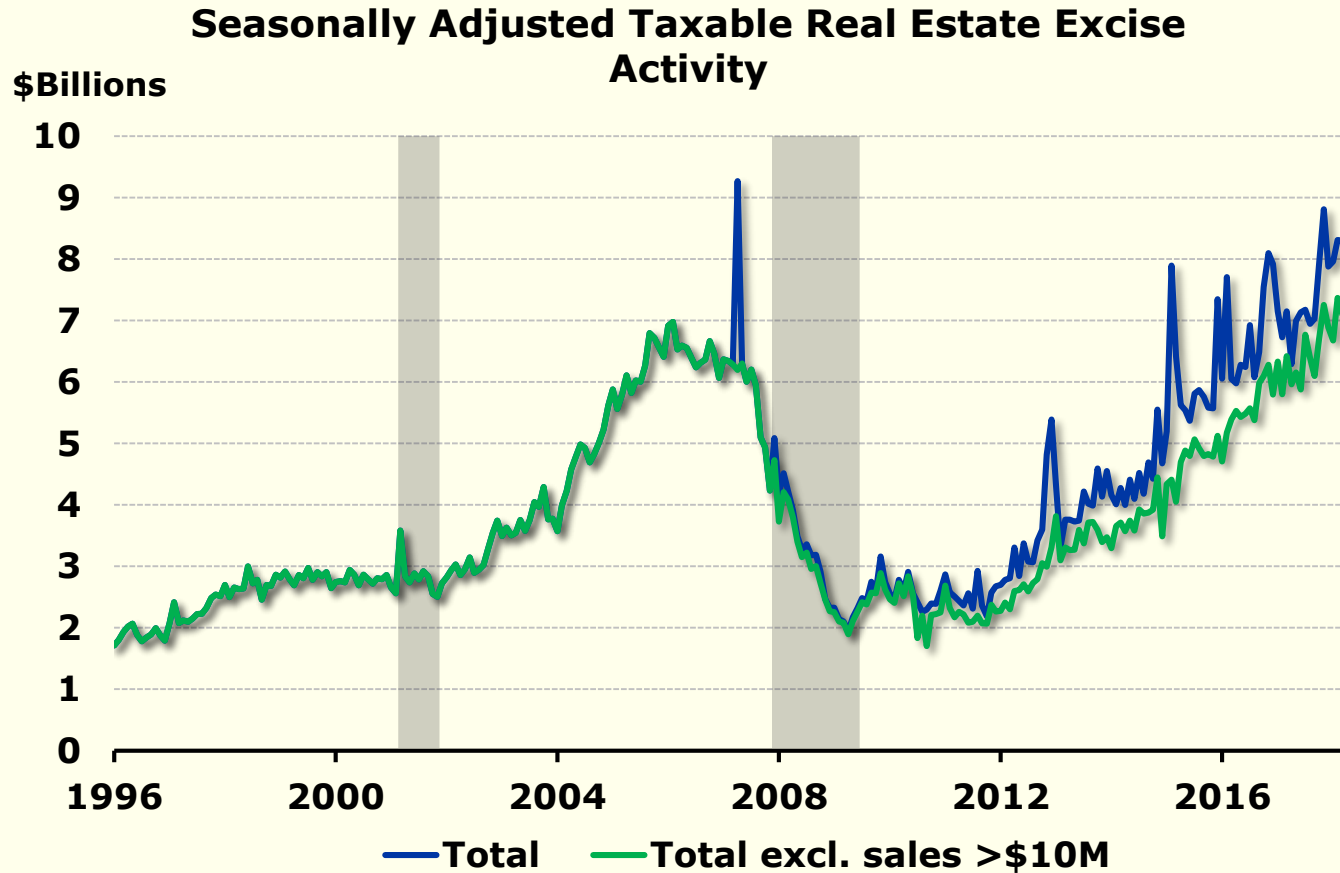
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Large commercial property sales slowed in the 1st quarter of 2018

Large commercial sales (>\$10 million) totaled \$3.6 billion in 4th quarter 2017 but dipped to \$2.6 billion in 1st quarter 2018.

Residential and smaller commercial sales continued to increase but at a slower rate.



Source: ERFC; Monthly data through March 2018 preliminary

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Cannabis revenue forecasting challenges

- No historic data
- Changing market conditions:
 - Growth in number of retail stores: from 18 (7/2014) to 396 (10/2017)
 - Decline in price: average gram price fell from \$22 (7/2014) to \$7 (9/2017)
 - Change in mix of cannabis products available:
 - “usable” cannabis accounted for 96% of total sales in 7/2014, 61% in 9/2017
 - Changing structure of taxes (7/2015)
 - Combining recreational, medical sales (7/2016)

Source: ERFC, LCB

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Cannabis forecast “model”

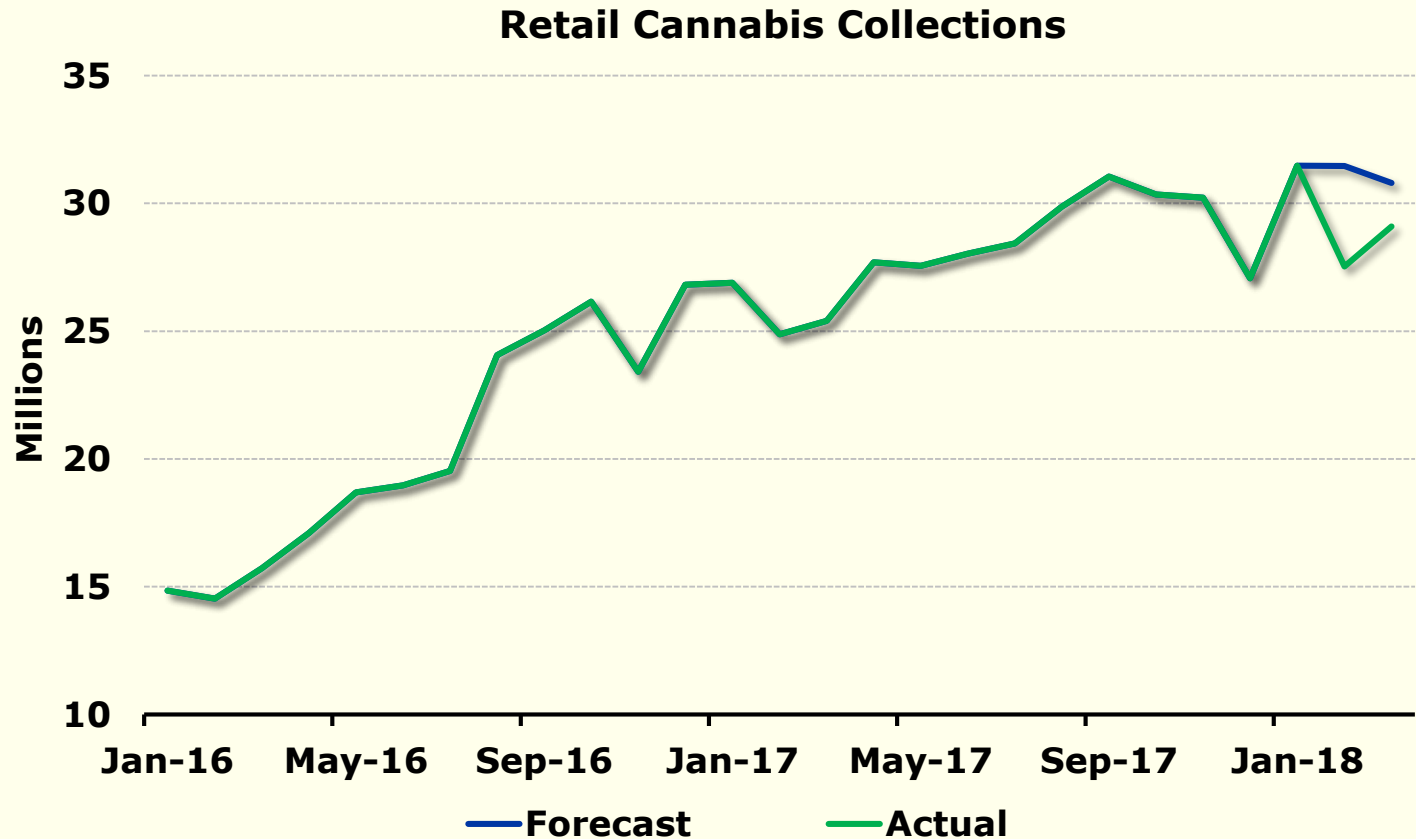
- Now: trend analysis
 - Assume growth in quantity sold will trend towards population growth rate
 - Requires black market share of sales reaches steady state
 - Assume growth in price will trend towards inflation rate
 - Requires price changes due to greater competition, productivity reach steady state
- Future: develop price and quantity models, estimate seasonal factors



Cannabis revenue continues to be volatile

Collections were 5.5% below forecast in March

Collections are 9.1% below forecast since February



Source: LCB, ERFC; data through March 2018

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Distribution of cannabis revenues

Total, cannabis revenues 2017 – 19 biennium	\$748,746,000
LCB – administration/Other	\$38,644,000
Substance abuse programs	\$55,572,000
Cannabis education	\$19,527,000
UW/WSU research	\$730,000
Basic Health Plan	\$350,000,000
Community health centers	\$33,244,000
Dropout prevention	\$1,029,000
General Fund	\$250,000,000



Cannabis excise tax and license fee estimates

General Fund change since November forecast:

- 2017-19
\$0 M
- 2019-21
+\$7.6 M

\$Millions

Cannabis Forecast

2015-17 2017-19 2019-21

GF-S share of excise tax and license fees

\$148 \$250 \$278

Non-GF

\$321 \$499 \$532

Total

\$469 \$749 \$809

* Detail may not add to total due to rounding

Source: ERFC February 2018 forecast

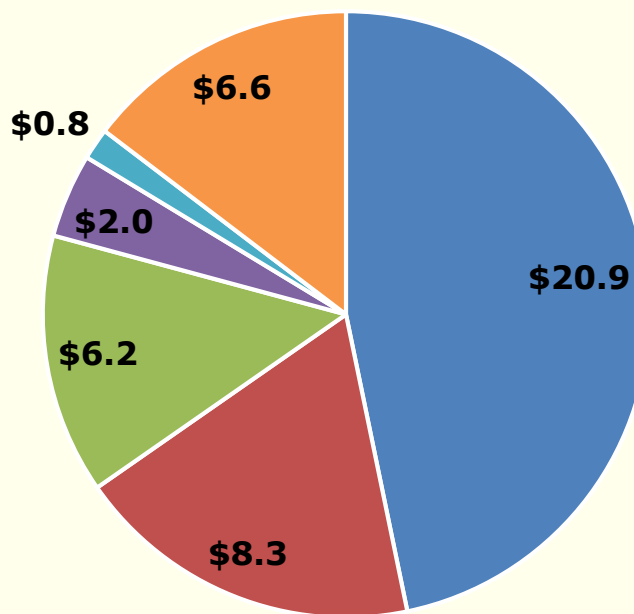
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2017-19 biennium General Fund-State Revenue (\$ billions)

“All other” includes revenue sources such as public utility, liquor, cigarette taxes

General Fund-State + Cannabis Revenue



- Retail Sales (state)
- Business & Occupations
- Property Tax (state)
- Real Estate Excise
- Cannabis
- All other

Source: ERFC Feb. 2018 forecast

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Conclusion

- WA personal income and employment are slightly higher than in November
- The forecast incorporates federal tax changes, raising after-tax income in the U.S. and in WA
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- GF-S revenues are expected to grow 15.4% between the 2015-17 and 2017-19 biennia and 9.1% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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