

Revenue Update

Presented to
Financial Management Advisory Council

Steve Lerch
Executive Director

March 28, 2019
Olympia, Washington



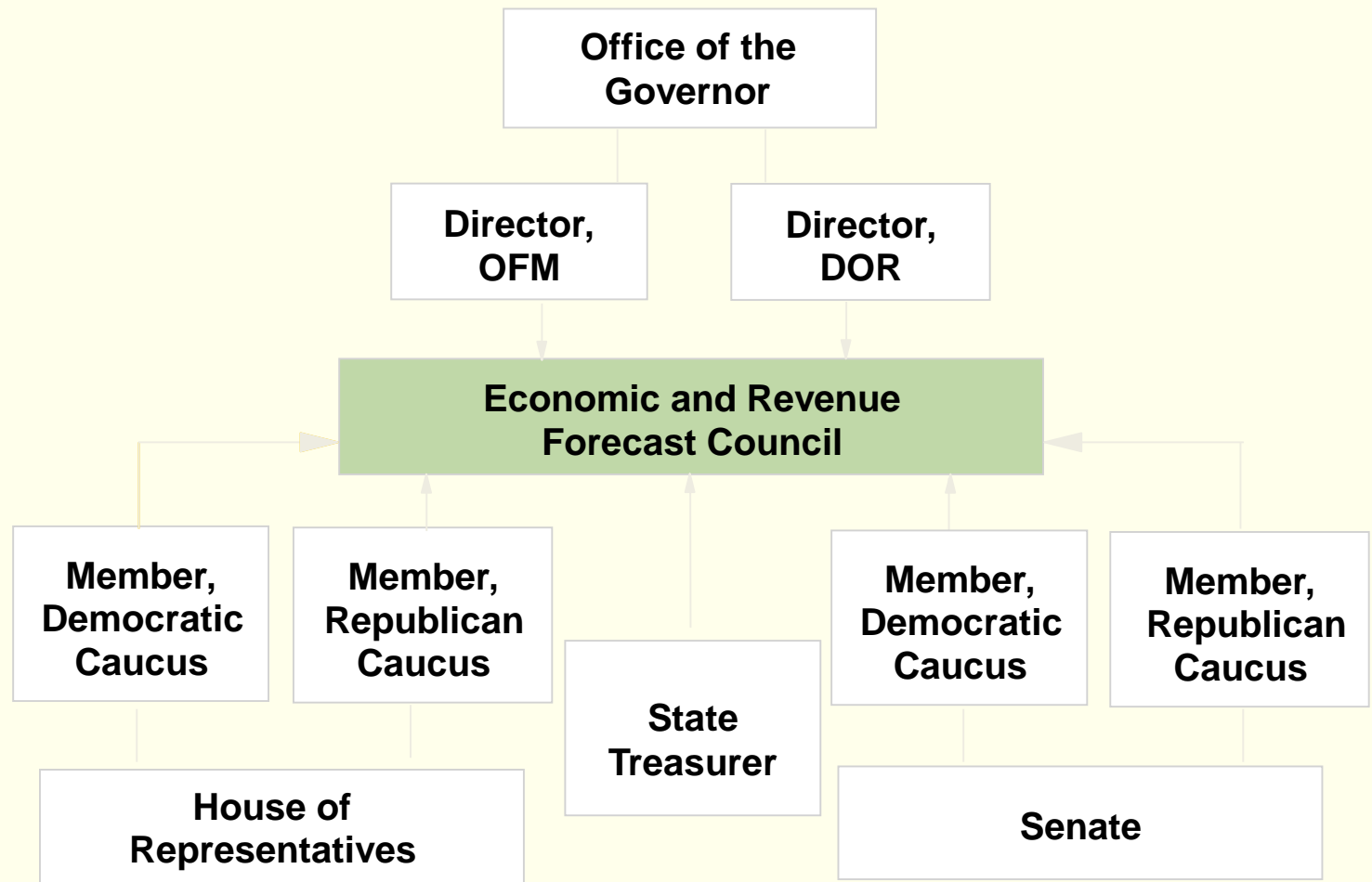
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Economic and Revenue Forecast Council Organization Chart

ERFC

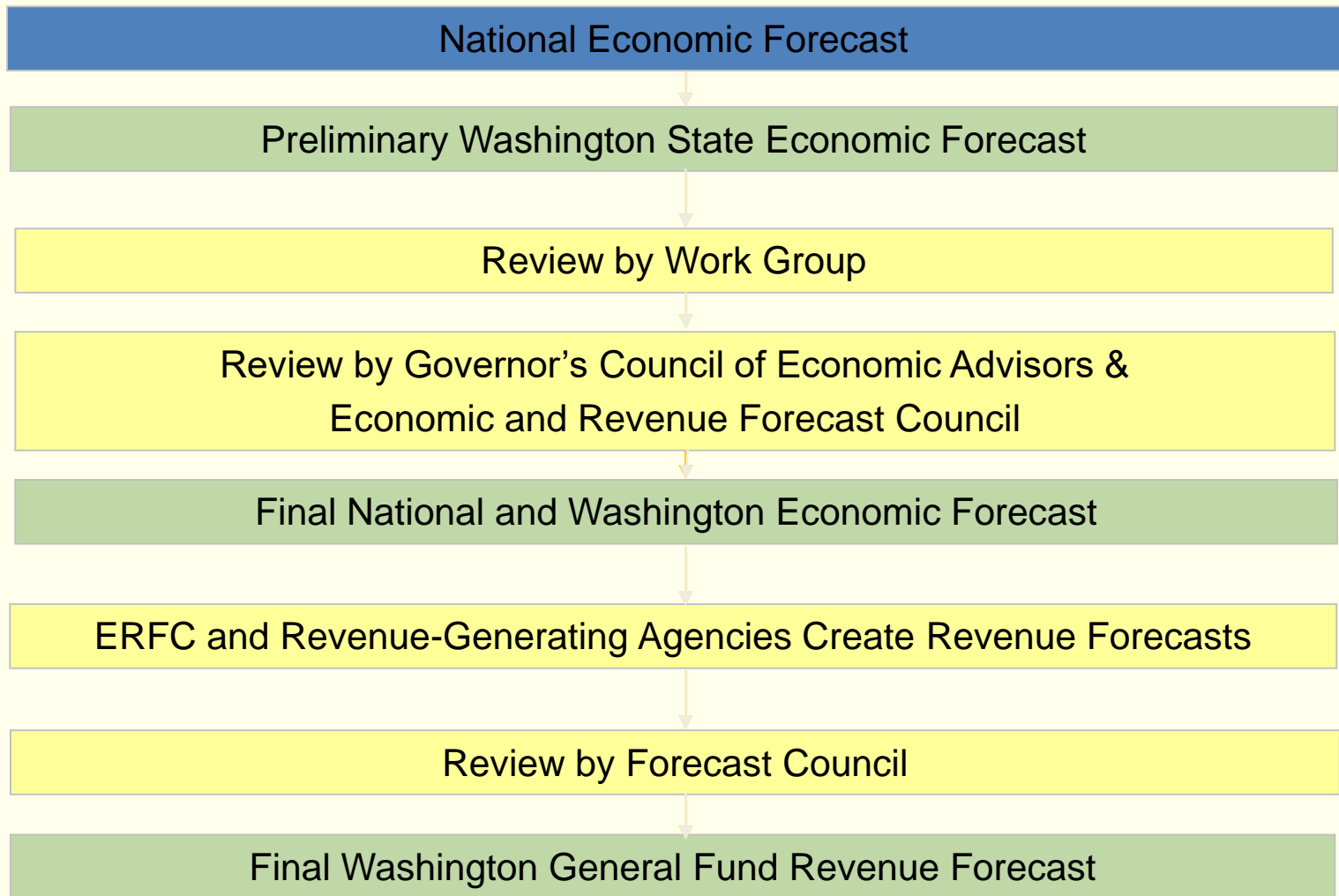
- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990





ERFC Forecast Process

The national economic forecast is based on a modified version of the IHS Markit model of the U.S. economy



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Summary

- U.S., WA forecasts similar to the November forecast
- Baseline forecast has slowing growth but no recession
- Potential impact of 737 MAX grounding adds a new downside risk
- The Near General Fund-State forecast is increased by \$307 million for the 2017-19 biennium and by \$554 million for 2019-21 biennium



Data updates since preliminary forecast

U.S.

- February employment: +20,000 jobs
- February unemployment rate: dropped from 4.0% to 3.8%
- 2018 Q4 GDP: 0.05% higher than preliminary
- March Blue Chip GDP forecast: slightly lower than preliminary

Washington

- February employment: -4,700 jobs



Selected forecast risks

Labor markets

- Unemployment rate, initial UI claims low
- Job growth has been strong until February

737 MAX

- Currently, impact on WA employment and personal income unclear

International trade policy

- Late March China – U.S. trade deal seems less likely



U.S. retail sales growth has slowed recently



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Source: U.S. Census Bureau data through January 2019

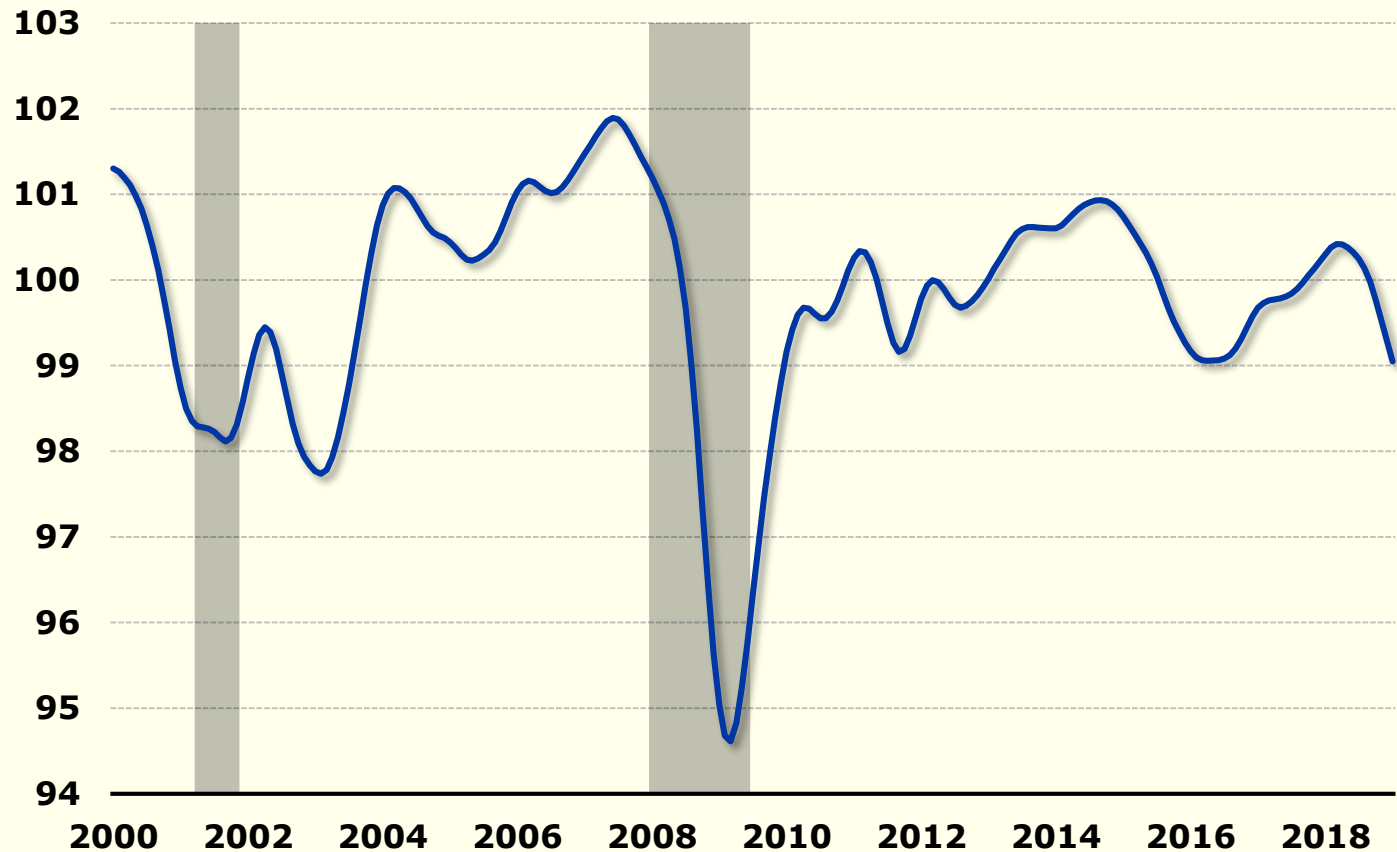
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OECD leading index suggests slowing growth in next 6 – 9 months

The index is designed so the long-term average is 100.

U.S. Composite Leading Indicator



Source: Organization for Economic Cooperation and Development, data through Jan. 2019

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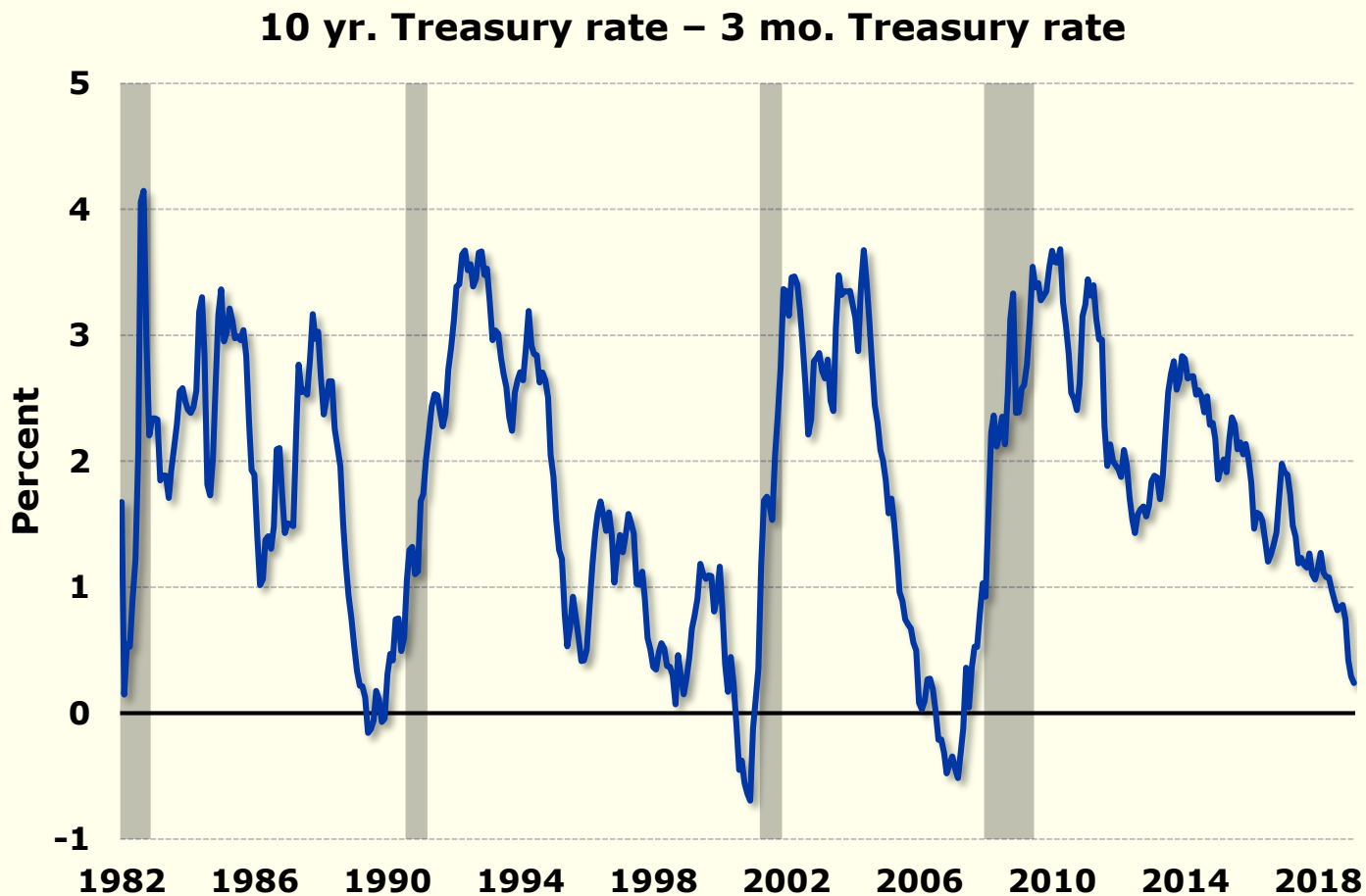
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An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor

As of February 2019, 10 year Treasury bond yields were 0.24% above three month Treasury bill yields



Source: Federal Reserve Bank of St. Louis, data through Feb. 2019

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Wall Street Journal economists' survey shows recession probability rising but below 25%

GCEA members:

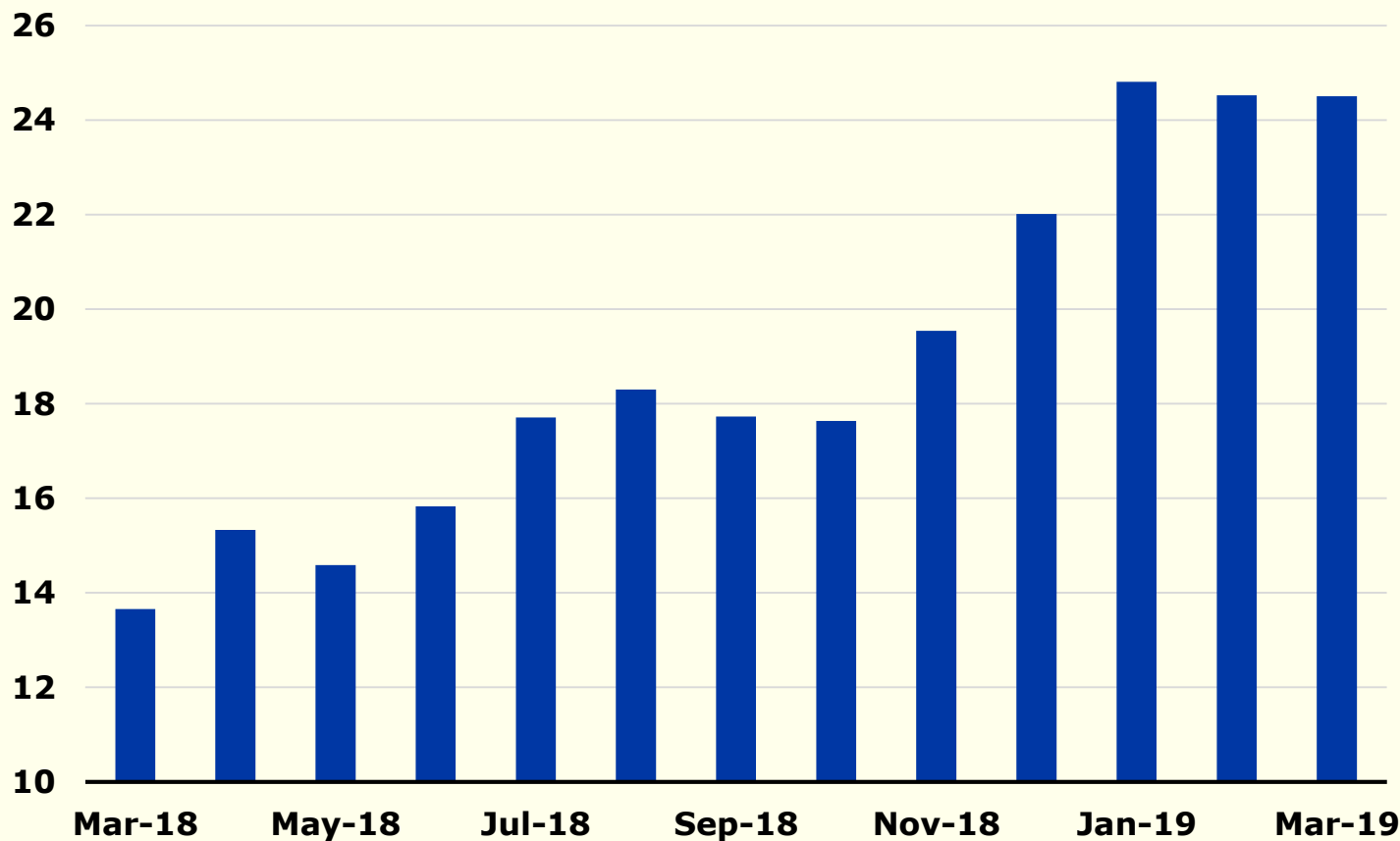
Average probability of recession in next 12 months = 36%

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Probability of recession in next 12 months

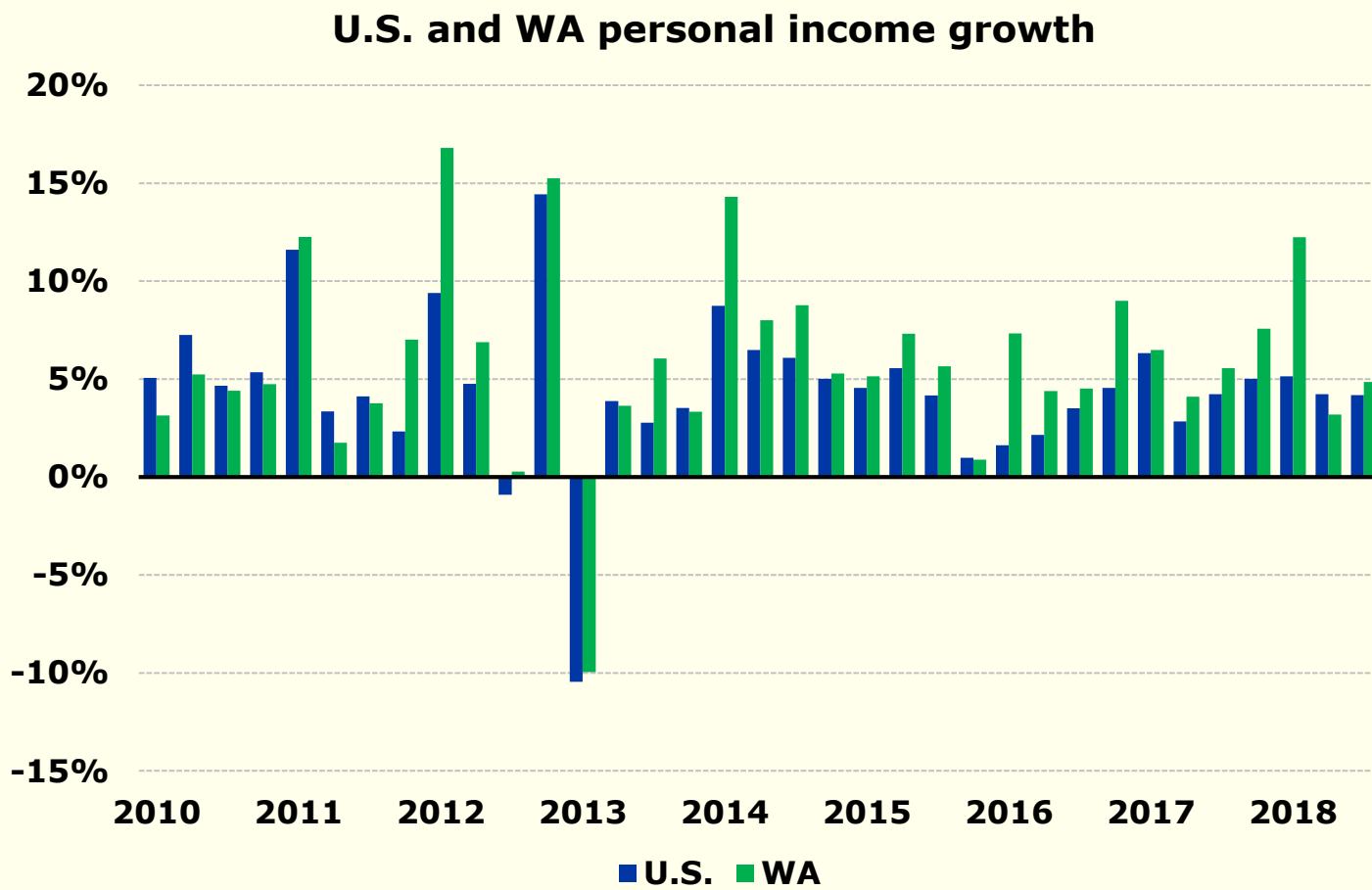


Source: Wall Street Journal economists' survey, data through Mar. 2019



WA personal income growth has outpaced the U.S. in 26 of last 35 quarters

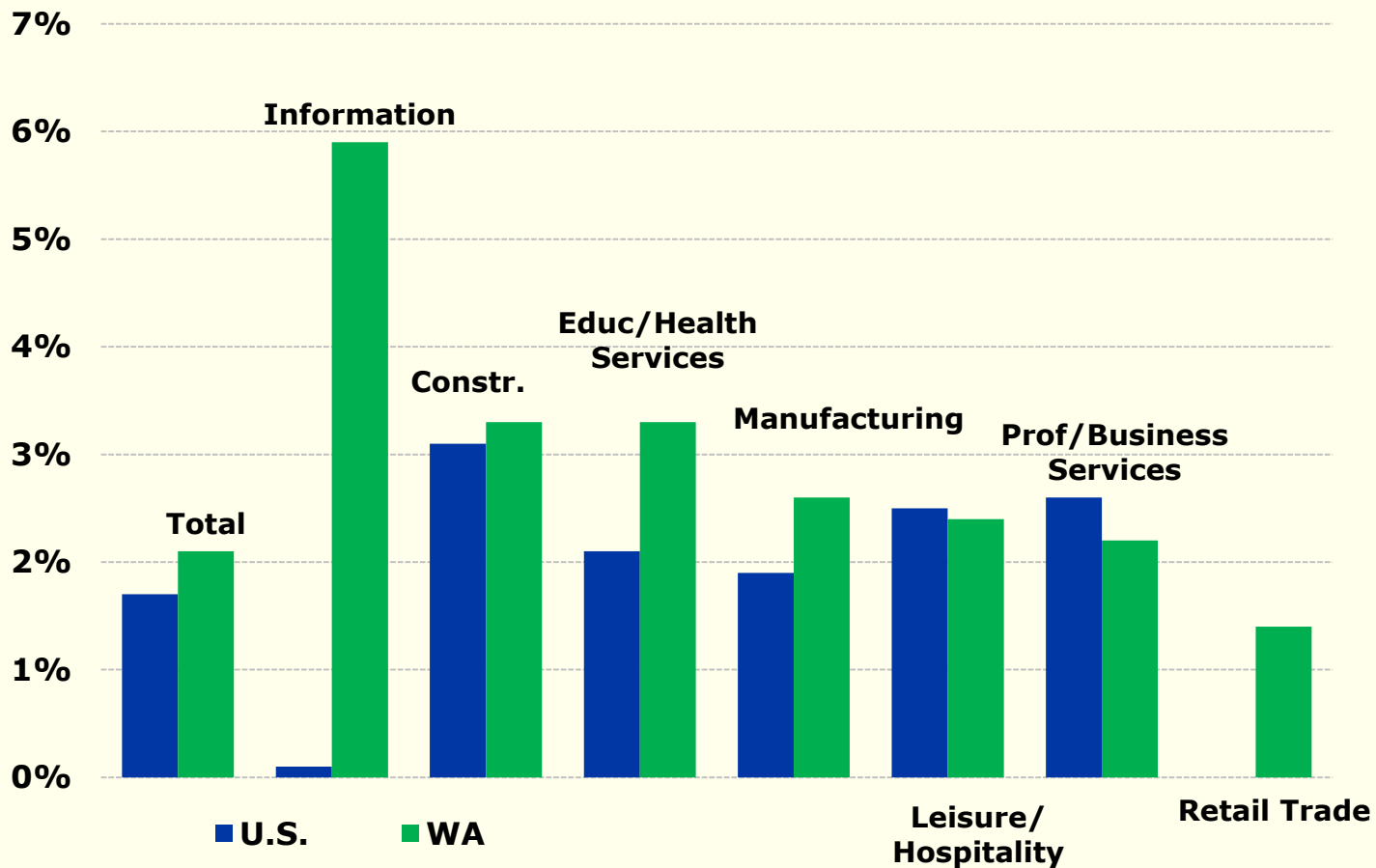
WA personal income growth is expected to average 4.8% per year for 2019 - 2023



Source: U.S. Bureau of Economic Analysis, data through 2018 Q3



Washington vs U.S. employment growth: Feb. 2018 to Feb. 2019



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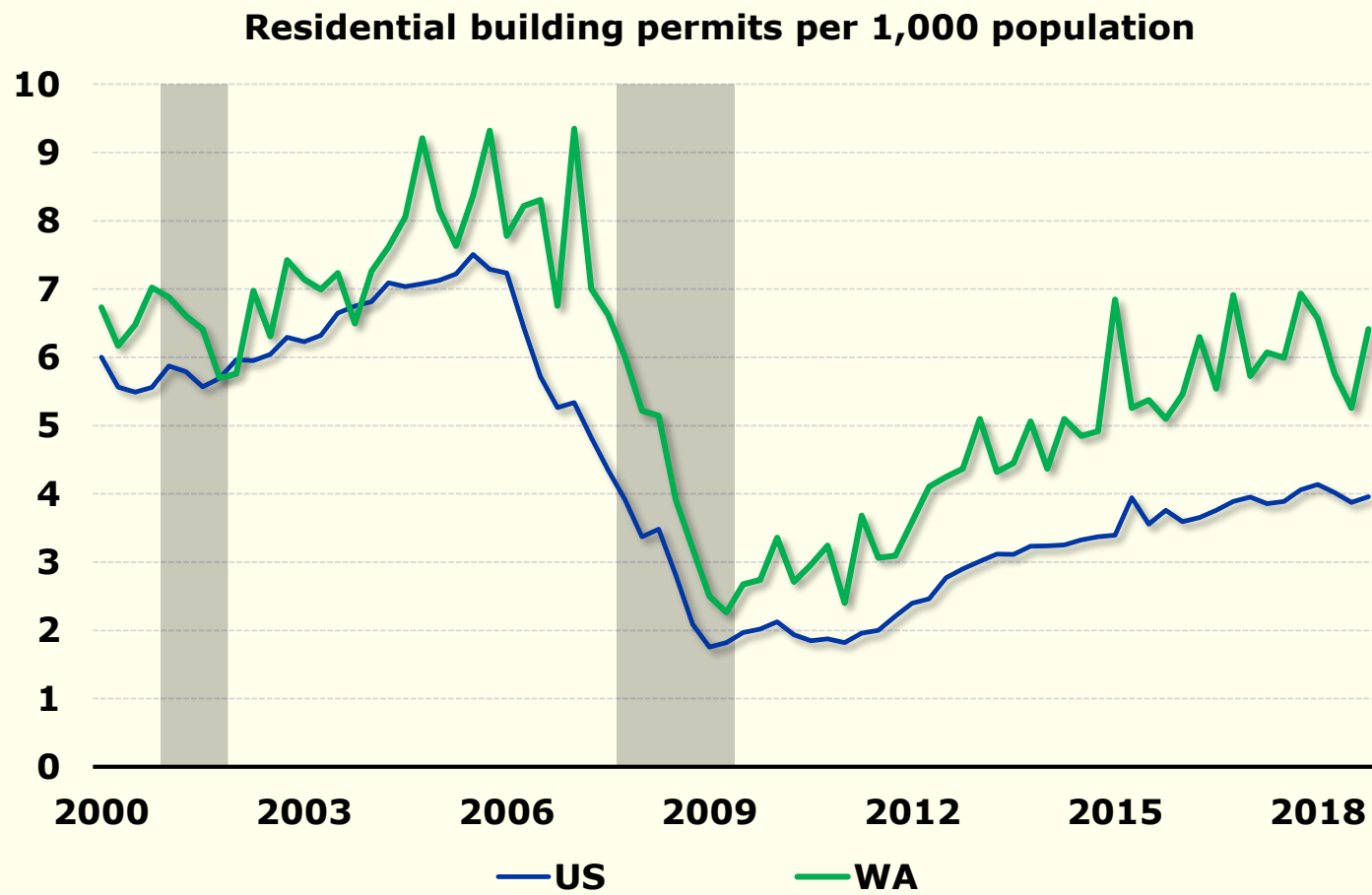
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Source: U.S. Bureau of Labor Statistics, Employment Security Dept., ERFC; data through Feb. 2019

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Relative to population, WA residential construction activity is stronger than the U.S.



Source: U.S. Census Bureau, ERFC; data through 2018 Q4

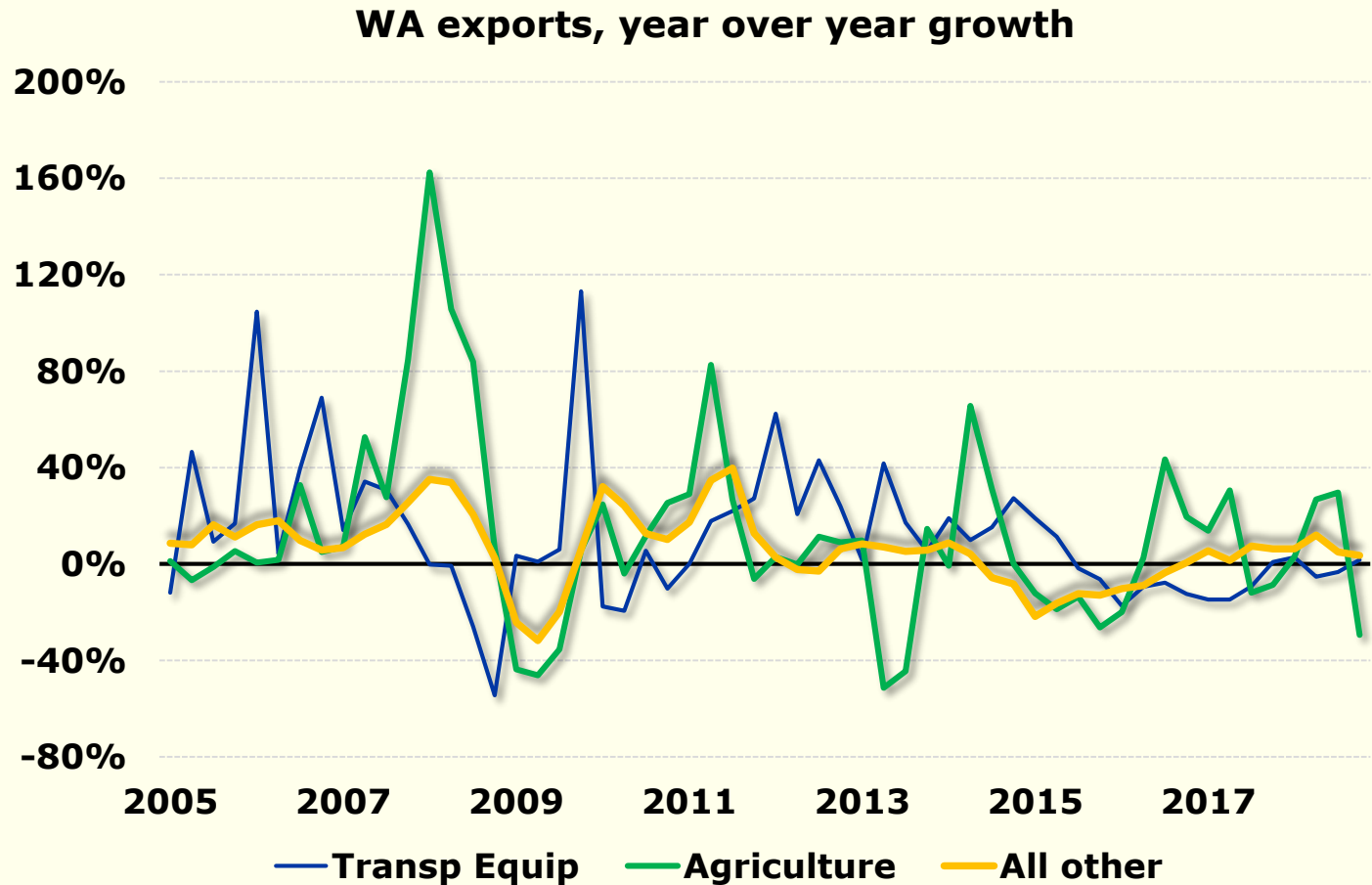


After four consecutive quarters of growth, WA exports declined in the fourth quarter of 2018

Total Export Growth

2017Q4: 0.6%
2018Q1: 3.9%
2018Q2: 3.7%
2018Q3: 2.6%

2018Q4:
-2.7%



Source: WISERTrade; data through 2018 Q4

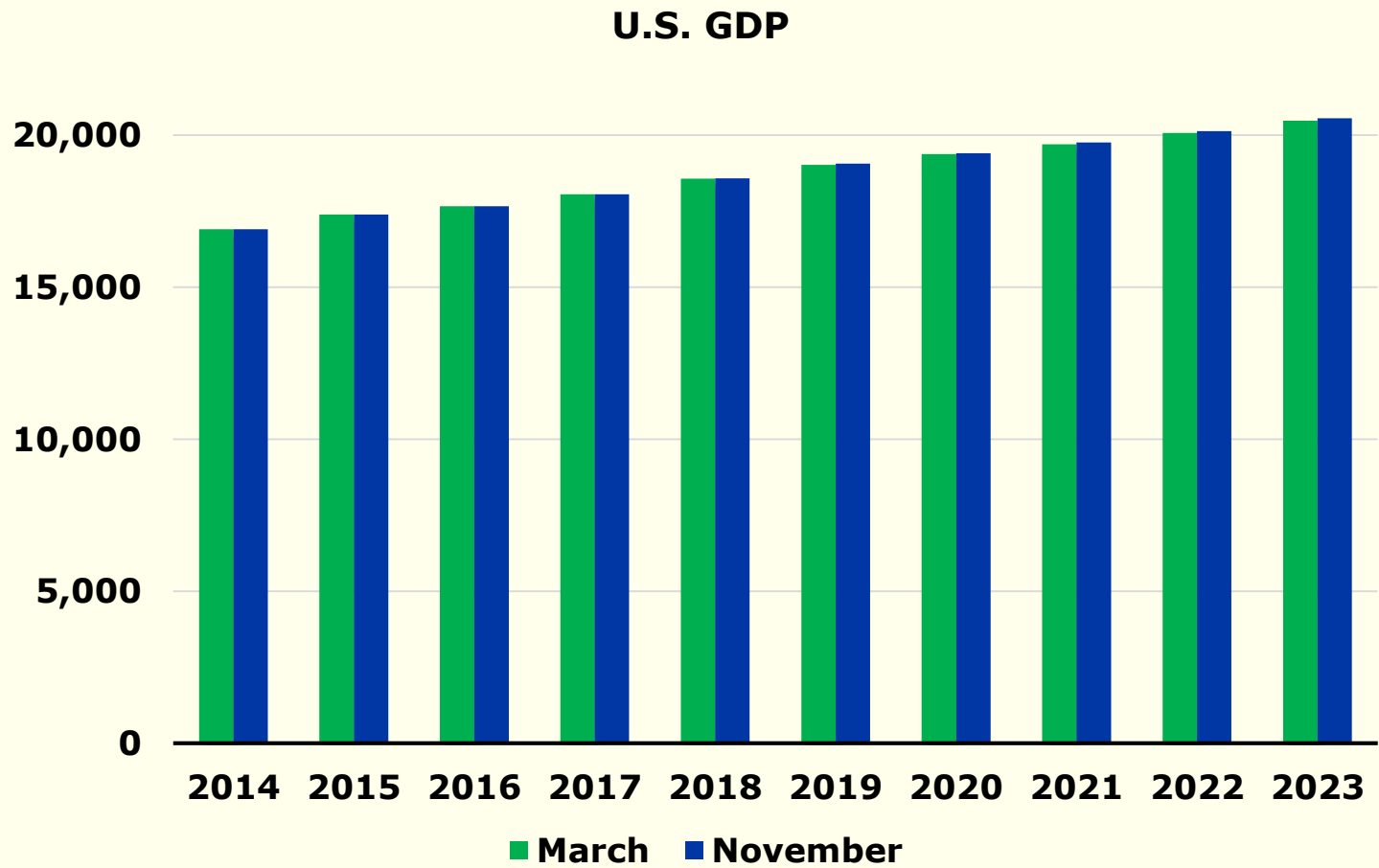
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GDP is slightly lower than in November

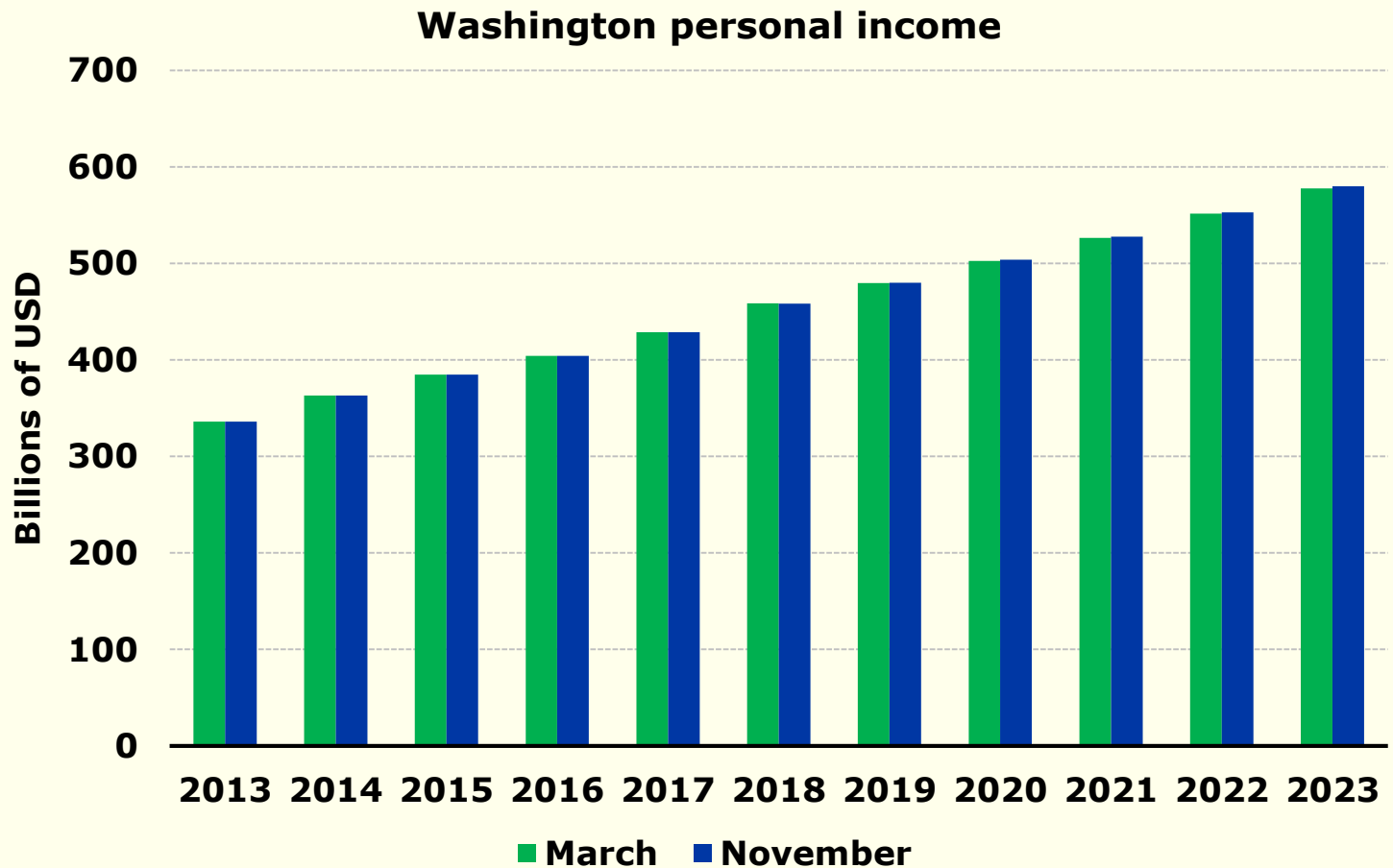


Source: ERFC March 2019 forecast; historical data through 2018

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Washington personal income is slightly lower than in November

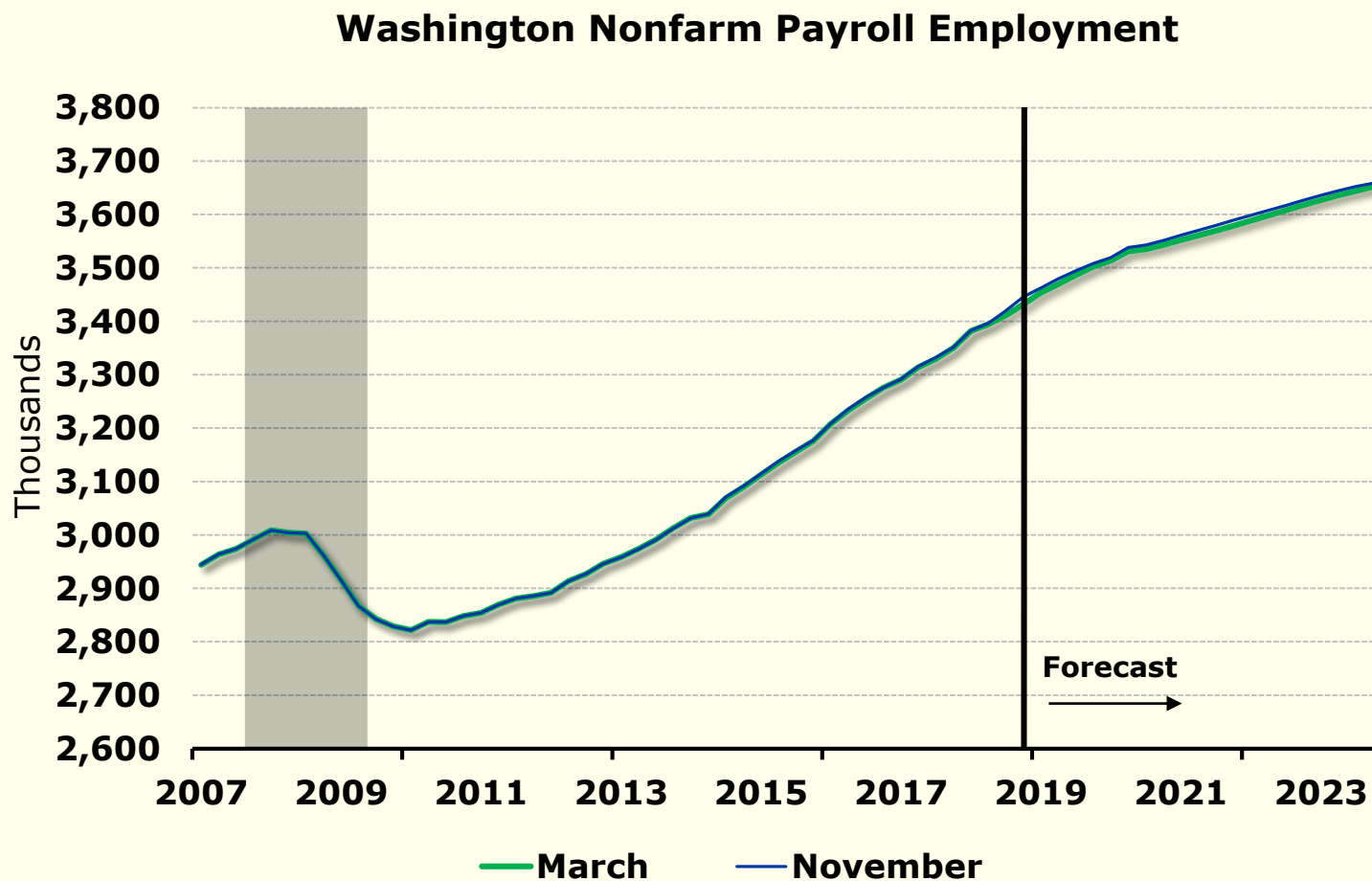


Source: ERFC March 2019 forecast; historical data through 2017

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Washington employment forecast is slightly lower than in November



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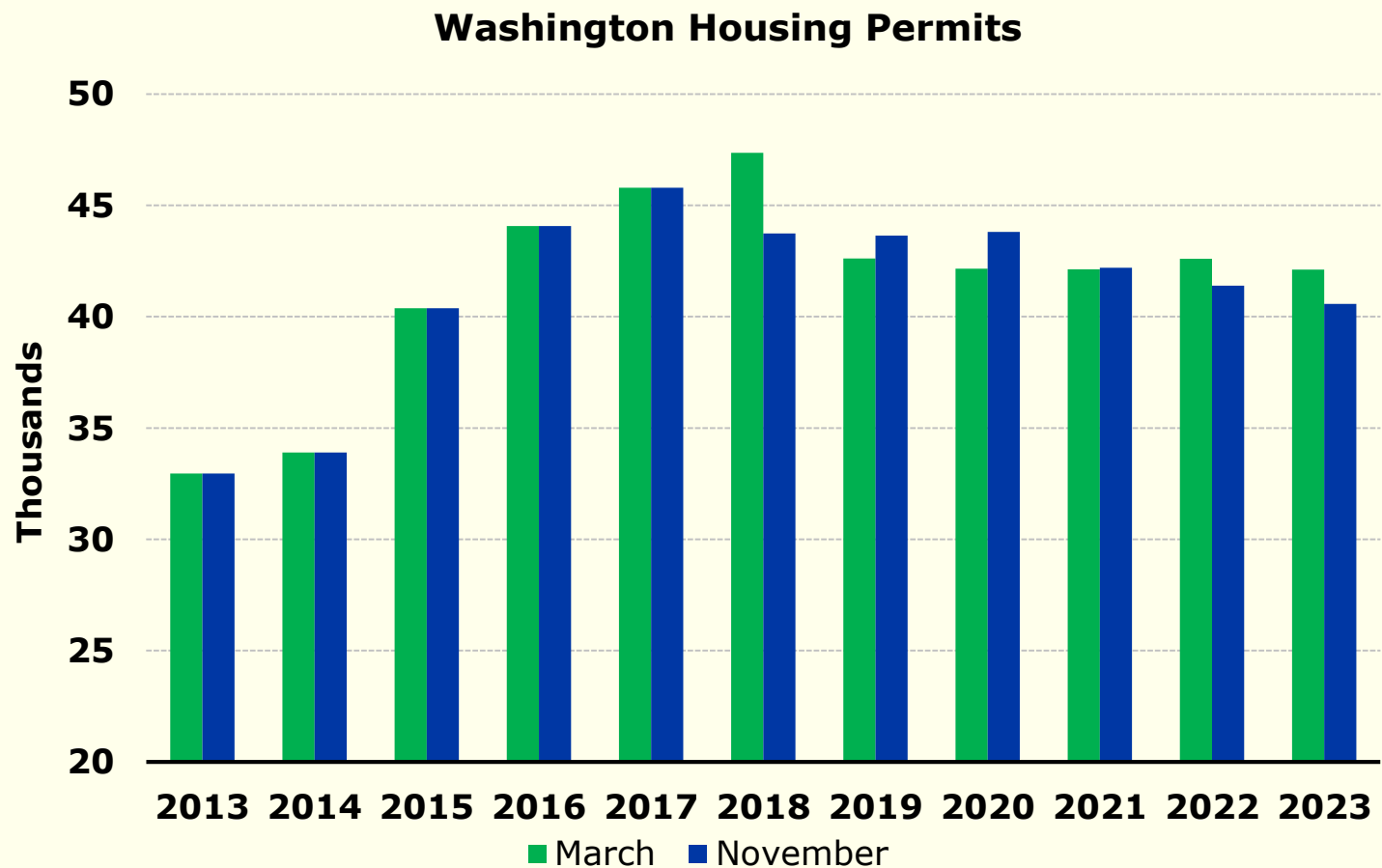
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Source: ERFC March 2019 forecast; historical data through Q4 2018



Permits forecast for 2019 – 2023: average unchanged, timing slightly different compared to November



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Source: ERFC March 2019 forecast; historical data through 2018

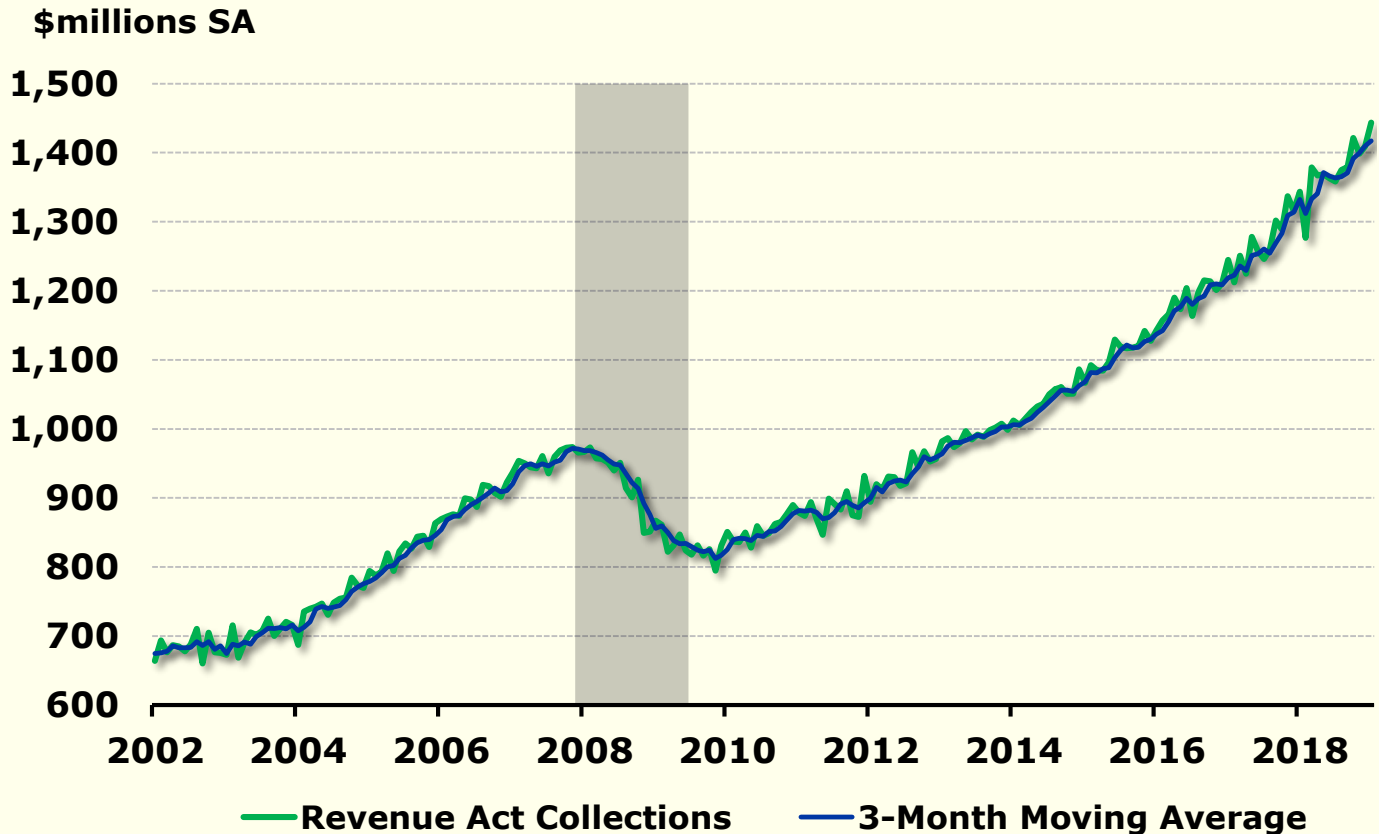
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Revenue Act collections growth has been strong

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

2017Q4: 8.3%
2018Q1: 8.2%
2018Q2: 8.8%
2018Q3: 7.6%
2018Q4: 7.4%



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

Source: DOR and ERFC; monthly data through January 2019 activity

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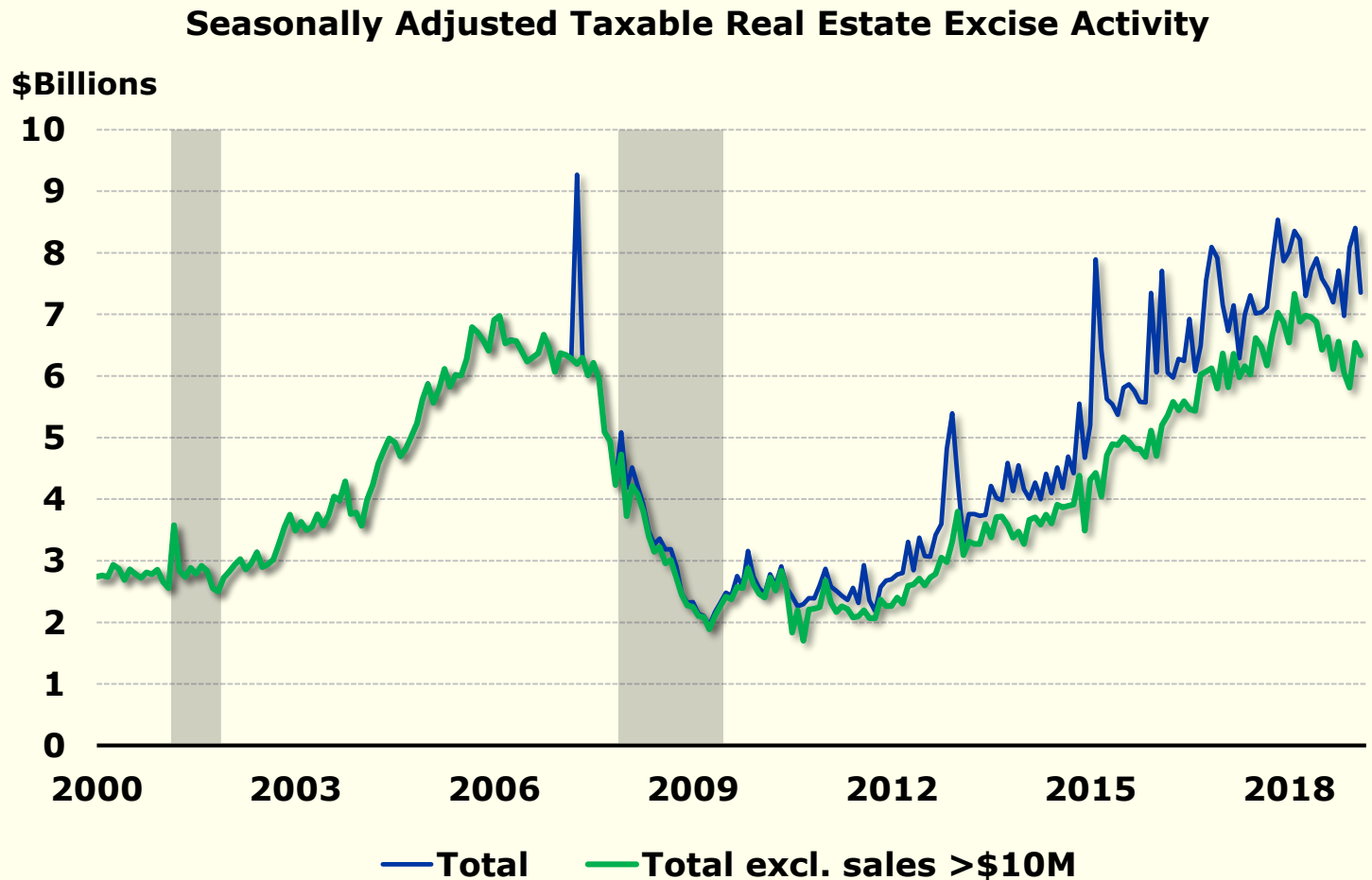
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Taxable REET activity declined in February but remained strong

There were \$1.0 billion in large commercial sales (>\$10 million) in February, down from \$1.87 billion in January.



Source: ERFC; Monthly data through February 2019 preliminary

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Assessed value on existing properties increased between November, March forecasts

November forecast for growth in Market Value: 10.9%

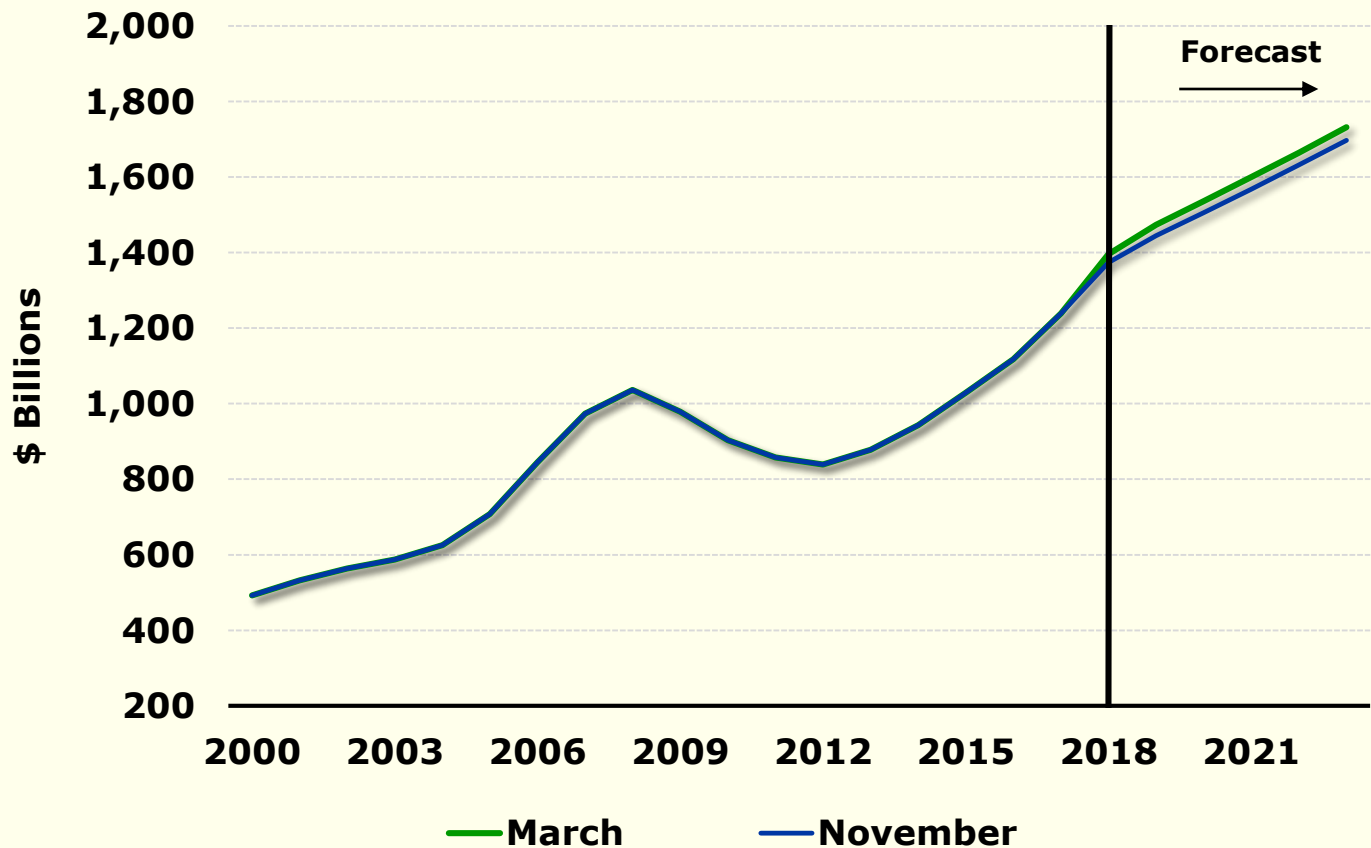
Actual growth: 12.6%

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

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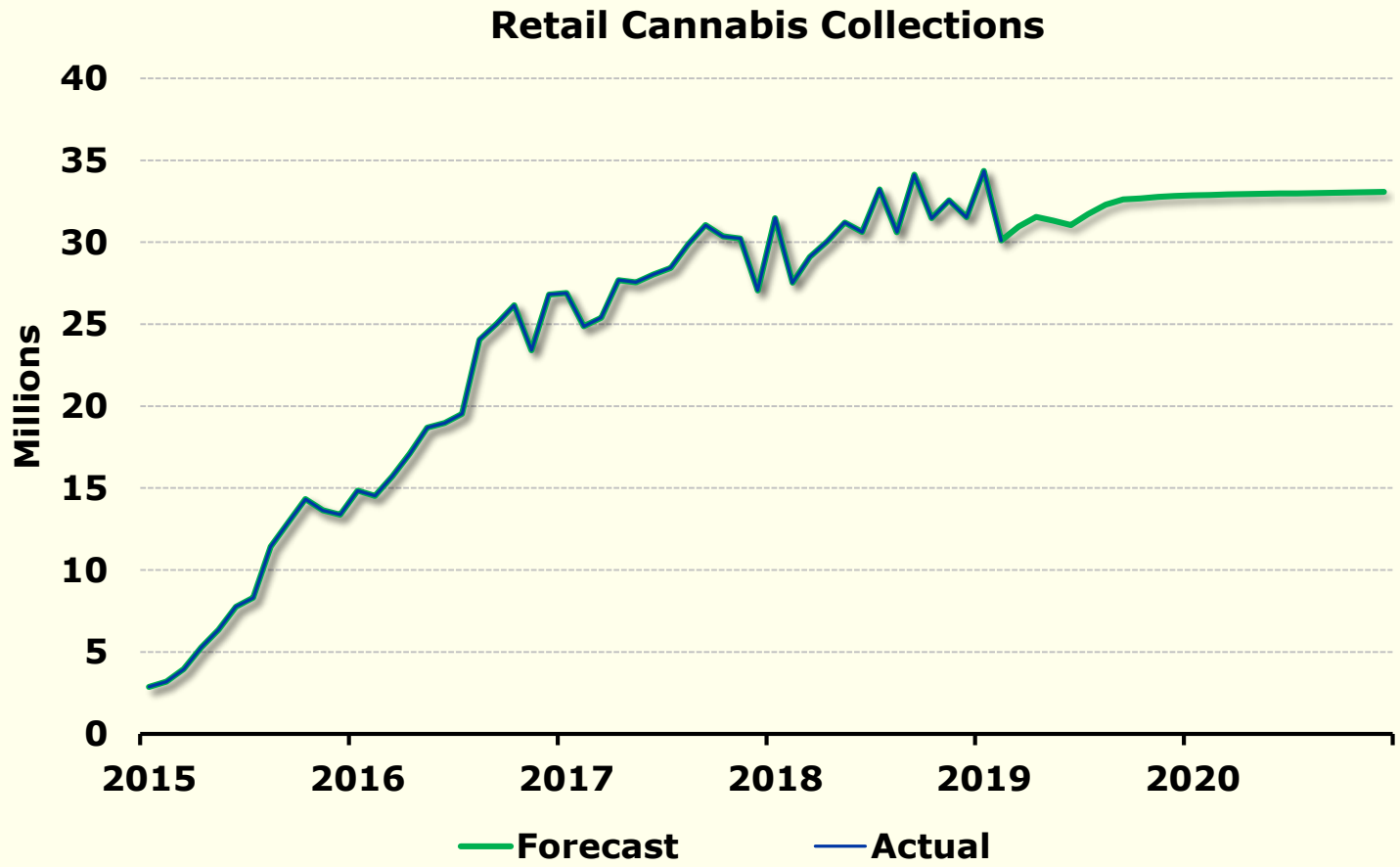
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Source: ERFC March 2019 forecast; historical data through 2018



Cannabis revenue growth is expected to moderate



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Source: ERFC March 2019 forecast; historical data through February 2019

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Cannabis excise tax and license fee estimates

Total change since November forecast:

- 2017-19
+\$0.02M
- 2019-21
+\$1.67M
- 2021-23
-\$2.85M

\$Millions

Cannabis Forecast

	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>
GF-S share of excise tax and license fees	\$247	\$272	\$291
Non-GF	\$501	\$527	\$545
Total	\$749	\$799	\$836

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* Detail may not add to total due to rounding



Forecast changes: Near General Fund-State, 2017-2019 biennium

As of March 11, General Fund-State collections were \$245.0 million higher than the November forecast.

\$Millions	<u>November 2018 Forecast*</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>March 2019 Forecast</u>	<u>Total Change#</u>
General Fund-State	\$43,926	\$0	\$256	\$44,182	\$256
Education Legacy Trust Account	\$1,591	\$0	\$51	\$1,642	\$51
WA Opportunity Pathways Account	\$282	\$0	\$0.2	\$282	\$0.2
Total Near GF-S	\$45,799	\$0	\$307	\$46,106	\$307

* Forecast for the 2017-19 biennium adopted November 20, 2018

Detail may not add to total due to rounding

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Forecast changes: Near General Fund-State, 2019-2021 biennium

\$Millions	<u>November 2018 Forecast*</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>March 2019 Forecast</u>	<u>Total Change#</u>
General Fund-State	\$49,064	\$115	\$430	\$49,609	\$545
Education Legacy Trust Account	\$672	\$0	\$1	\$673	\$1
WA Opportunity Pathways Account	\$266	\$0	\$8	\$274	\$8
Total Near GF-S	\$50,002	\$115	\$439	\$50,555	\$553

* Forecast for the 2019-21 biennium adopted November 20, 2018

Detail may not add to total due to rounding

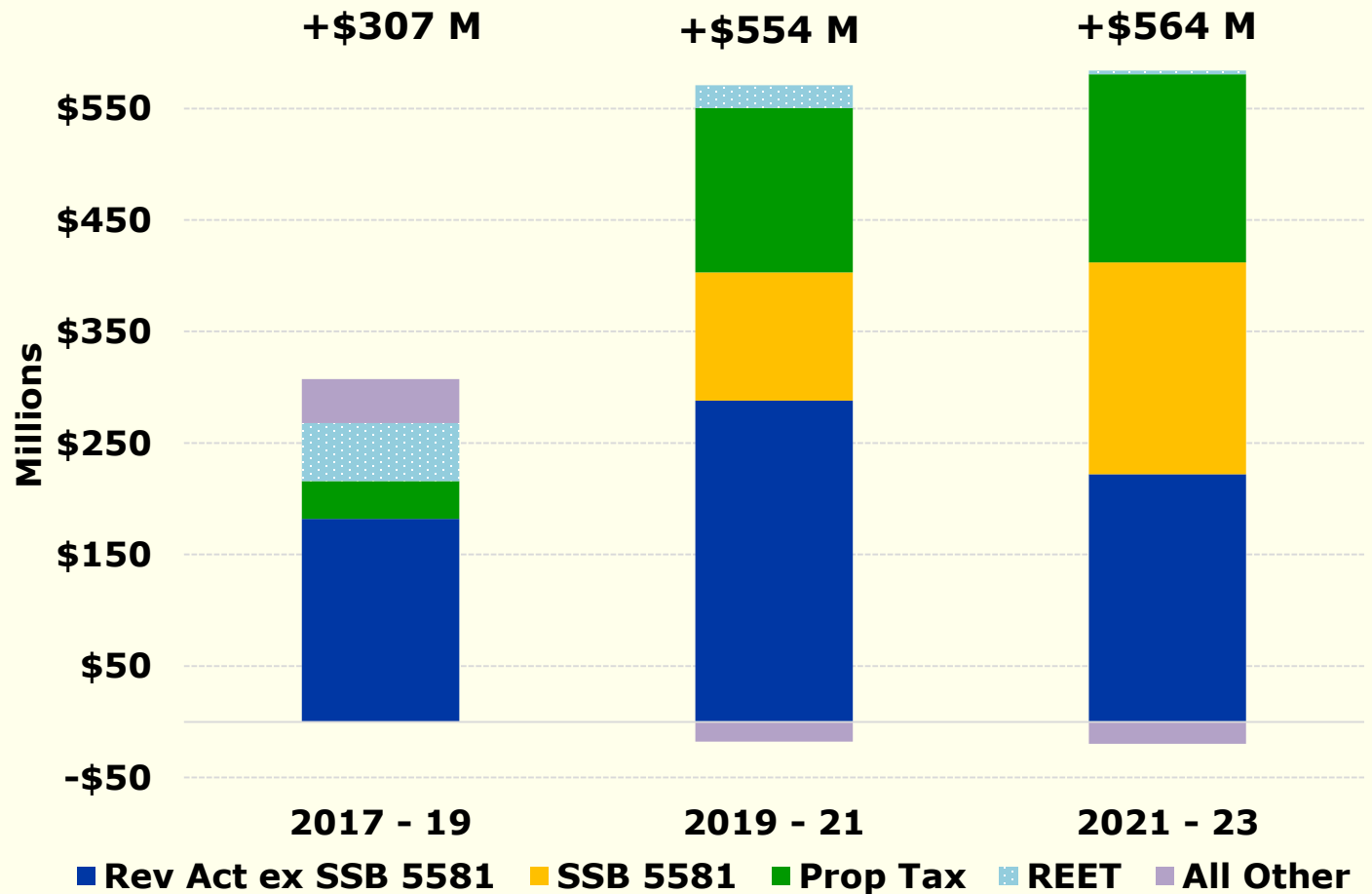
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Near GF-S forecast changes by source



Source: ERFC March 2019 forecast

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2017-19 Biennium alternative General Fund-State forecasts

\$Millions (cash basis)	2017-19 Biennium	Difference From the baseline[#]
March 2019 Baseline (70%)	\$44,182	
<u>March 2019 Alternative Forecasts</u>		
Optimistic (15%)	\$44,413	\$231
Pessimistic (15%)	\$43,938	(\$243)
Probability Weighted Average	\$44,180	(\$2)
GCEA*	\$44,198	\$17

*Based on the Governor's Council of Economic Advisors' economic assumptions

#May not add to total due to rounding

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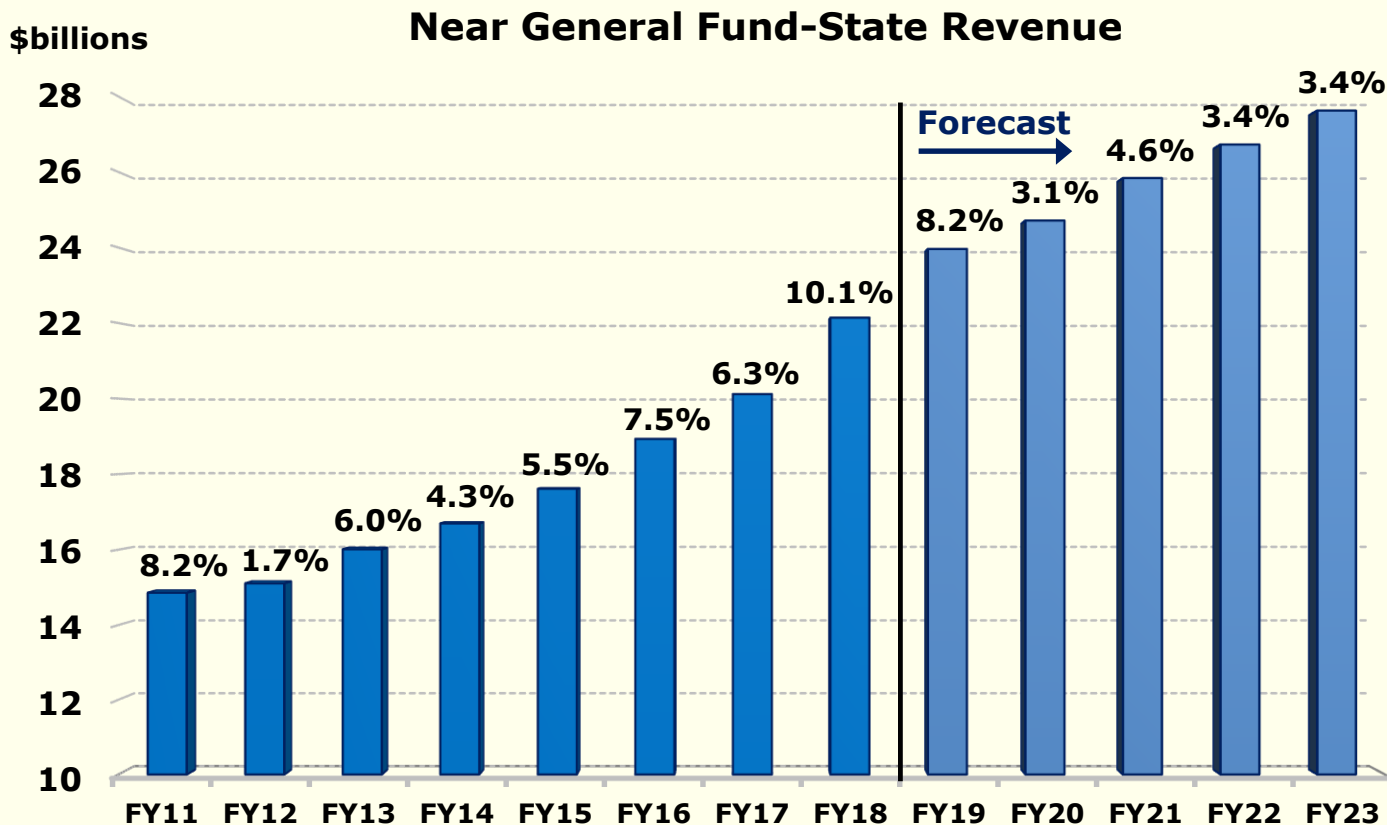
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Near General Fund-State* forecast by fiscal year



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*Near General Fund-State equals General Fund-State plus Education Legacy Trust and Washington Opportunities Pathway Accounts
Source: ERFC forecast, March 2019

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Conclusion

- Economic forecasts are only slightly changed from November
- Washington's economy is continuing to outperform the nation but not as dramatically as in past
- GF-S revenues are expected to grow 15.3% between the 2015-17 and 2017-19 biennia and 12.3% 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
PO BOX 40912
Olympia WA 98504-0912**

**www.erfc.wa.gov
360-534-1560**

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