

Economic & Revenue Update

Presented to
Fidelity National Title of Clark County

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Vancouver, Washington



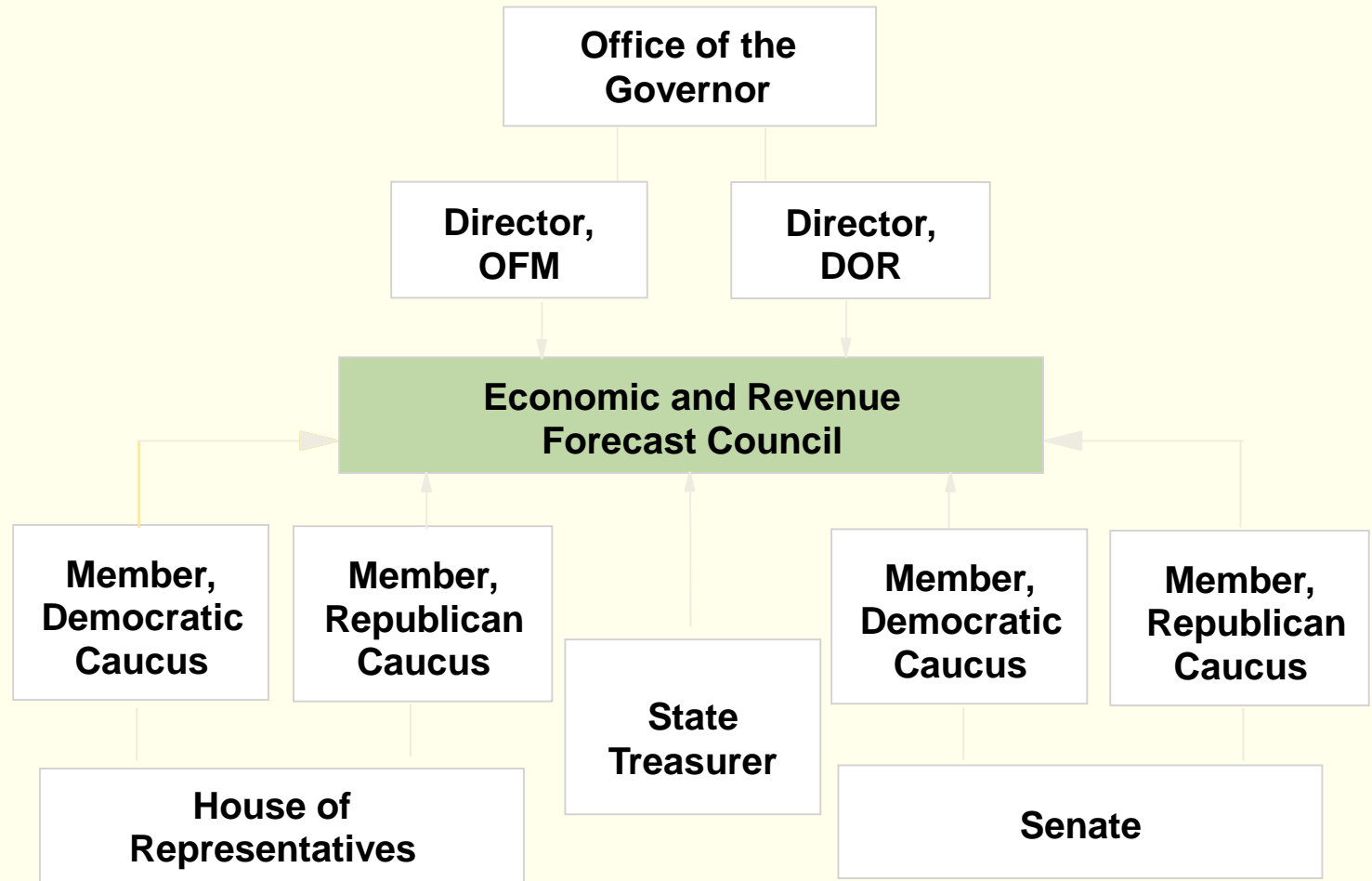
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Economic and Revenue Forecast Council Organization Chart

ERFC

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



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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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November Forecast Summary

- Our economic forecasts have been fairly stable for some time, with moderate economic growth nationally and stronger growth in Washington
- We expect the Washington economy to continue outperforming the national economy
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, weak labor productivity growth and geopolitical concerns
- The revenue forecast for the 2017-19 biennium has been increased by \$304 million



Forecast risks

Upside

- Elevated consumer, business confidence could translate into stronger growth
- Stock market gains could translate into faster household consumption growth
- Stronger global economic growth

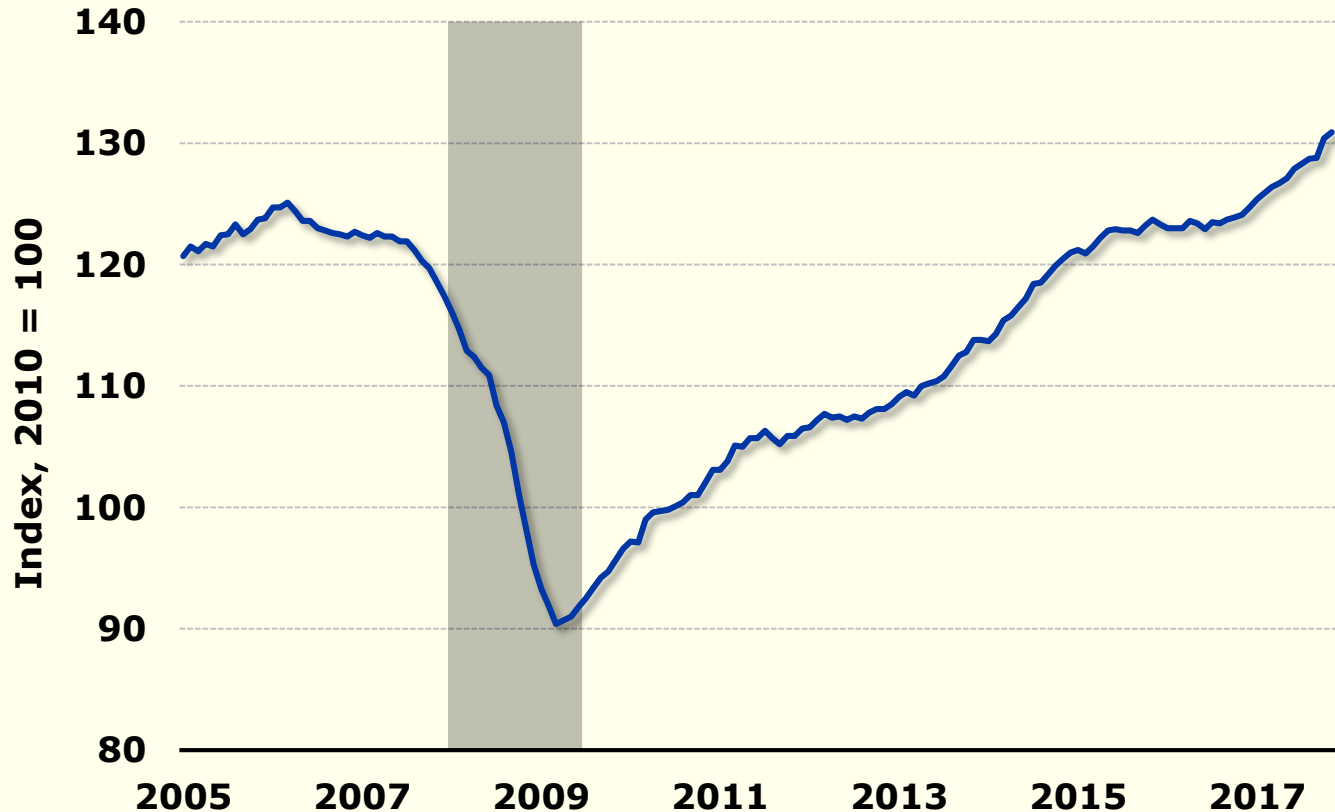
Downside

- Stagnant labor productivity inhibits wage growth
- Geopolitical risks: North Korea, Russia, Middle East
- International trade and fiscal policy uncertainty



U.S. Leading Economic Index (LEI) continues to trend up

The LEI is an index of economic indicators that tend to indicate the direction of economic growth

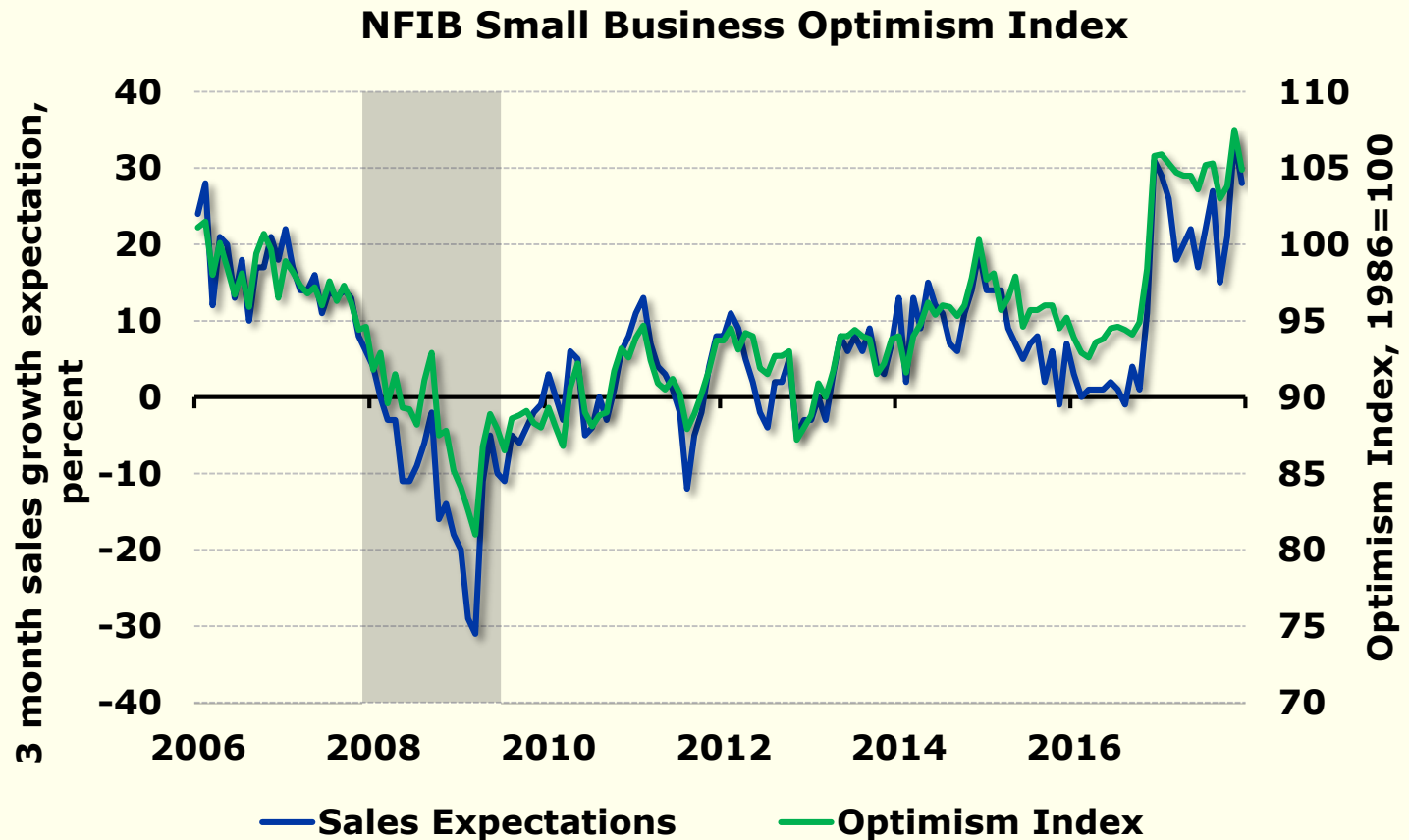


Source: Conference Board, data through November 2017

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Small business optimism and sales expectations jumped in December 2016, remain at high levels

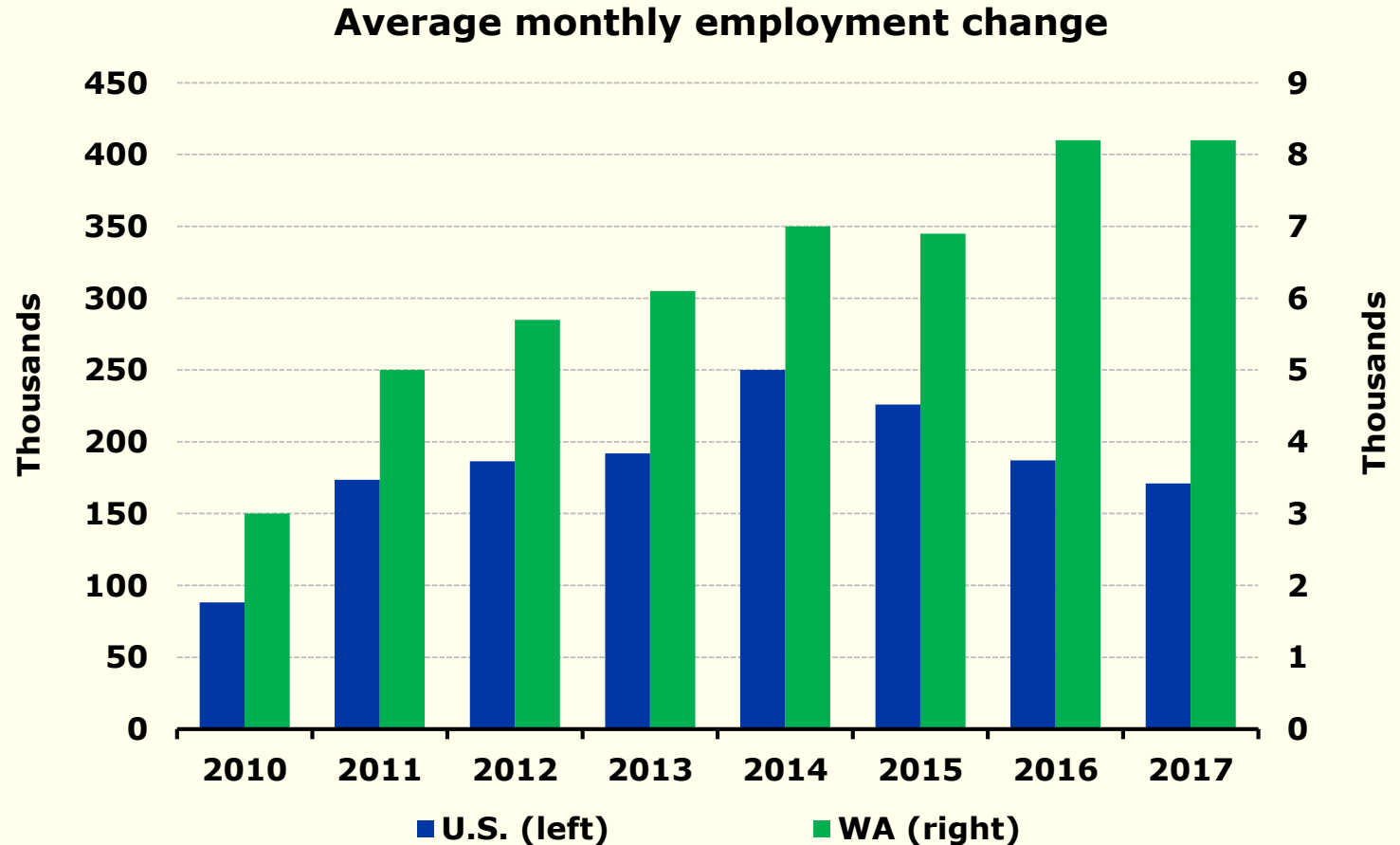


Source: National Federation of Independent Business; data through December 2017

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Job creation has slowed nationally but remains strong in WA

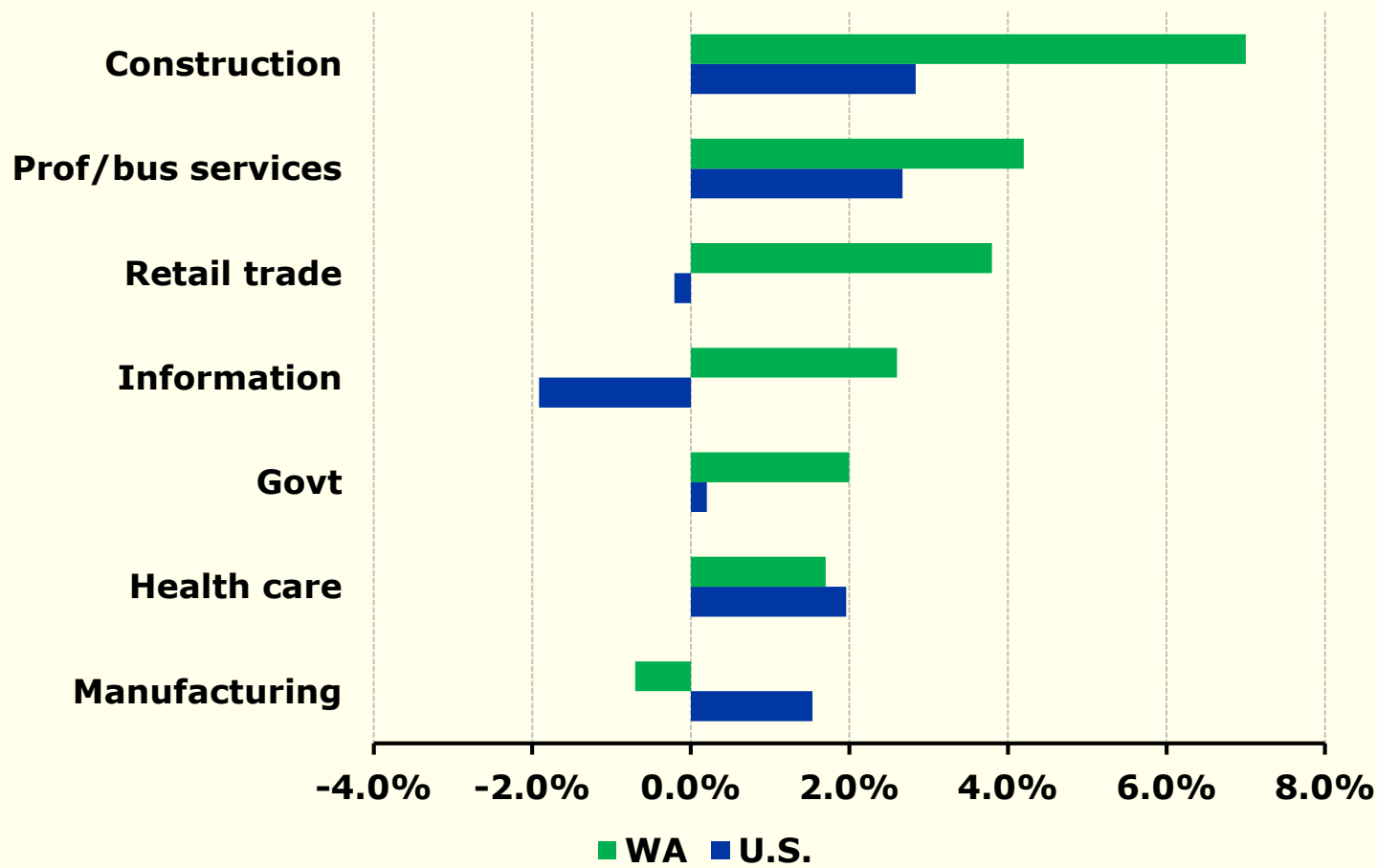


Source: Bureau of Labor Statistics, ERFC; U.S. data through Dec. 2017, WA data through Nov. 2017

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Employment growth Nov. 2016 to Nov. 2017, selected industries

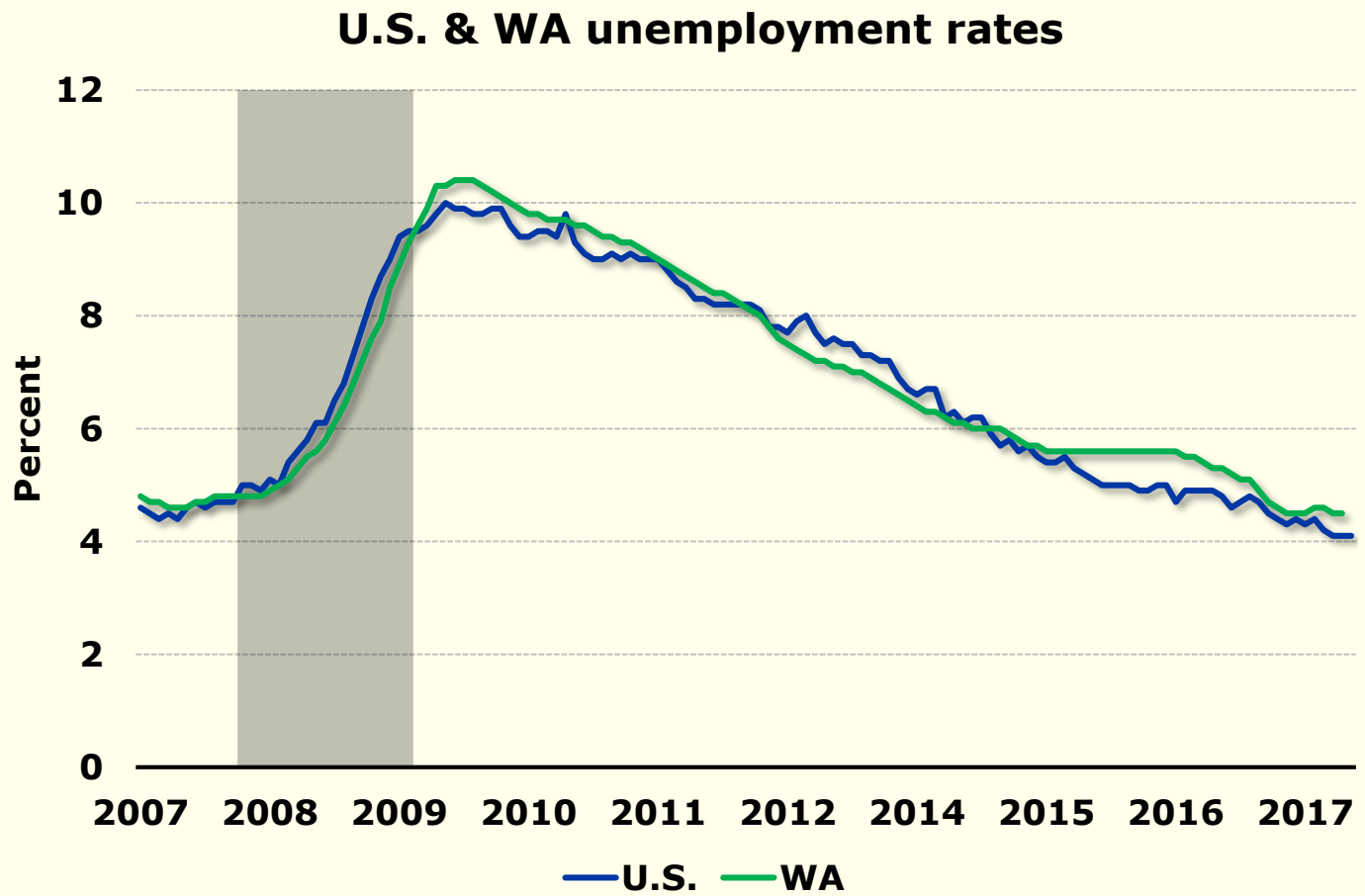


Source: BLS, ERFC

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U.S. and WA unemployment rates are below pre-recession levels



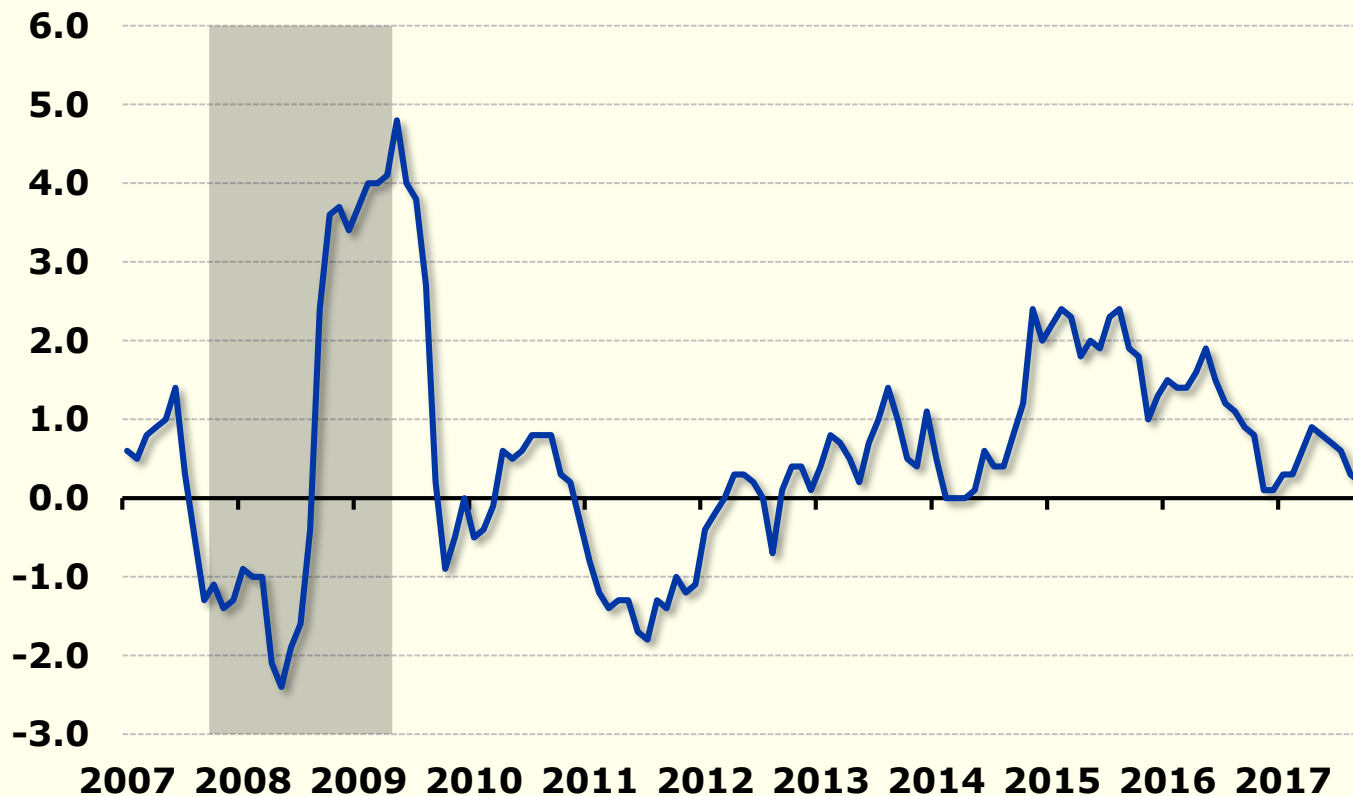
Source: U.S. Bureau of Labor Statistics, U.S. data through Dec. 2017, WA data through Nov. 2017

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Average real U.S. wage growth is positive but remains weak

Year-over-year Growth in U.S. Real Hourly Wages



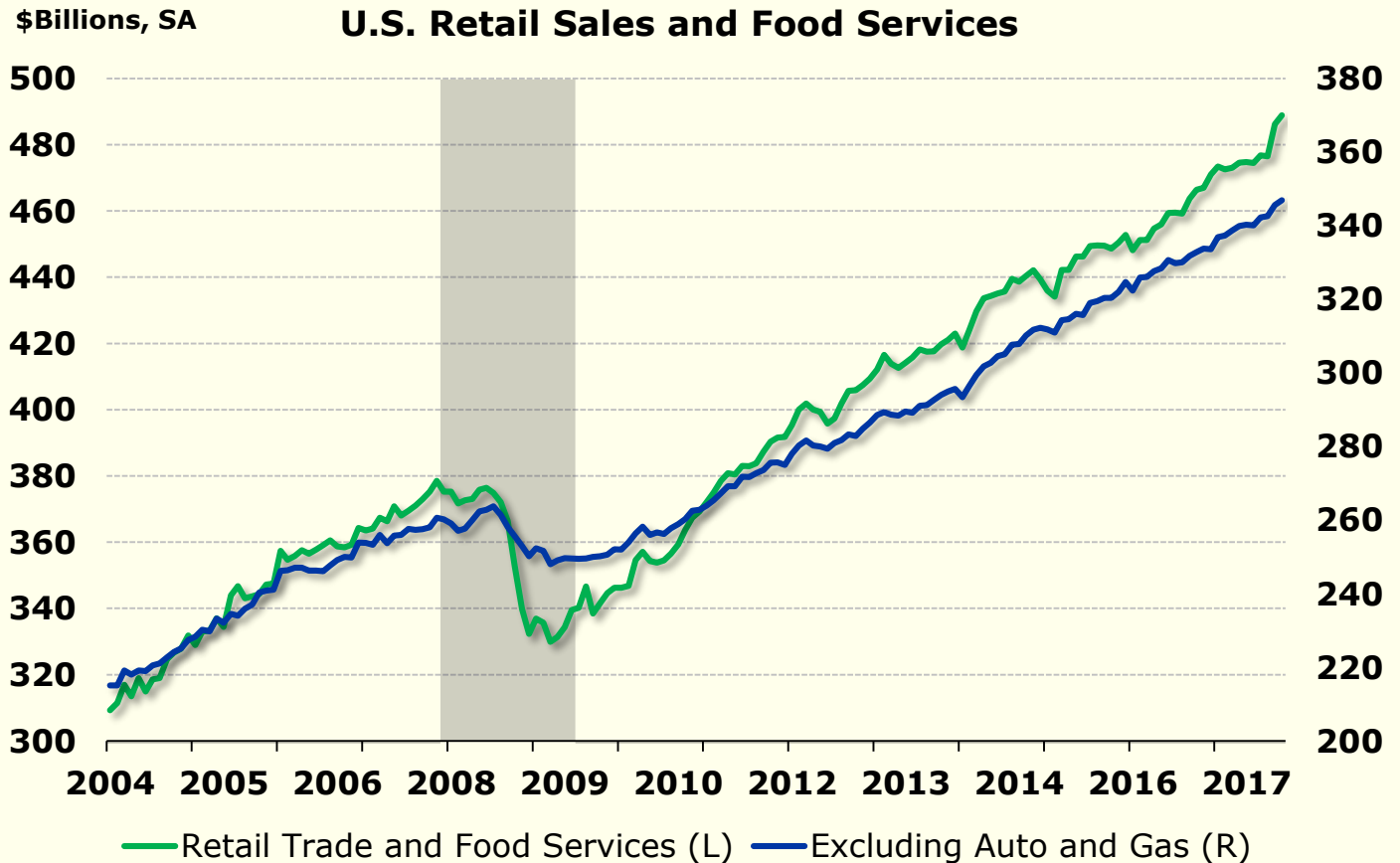
Source: U.S. Bureau of Labor Statistics, data through Nov. 2017

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U.S. retail sales excluding autos and gas showing steady climb

Preliminary U.S. retail trade and food services sales (SA) increased 0.5% in October and 0.8% in November.

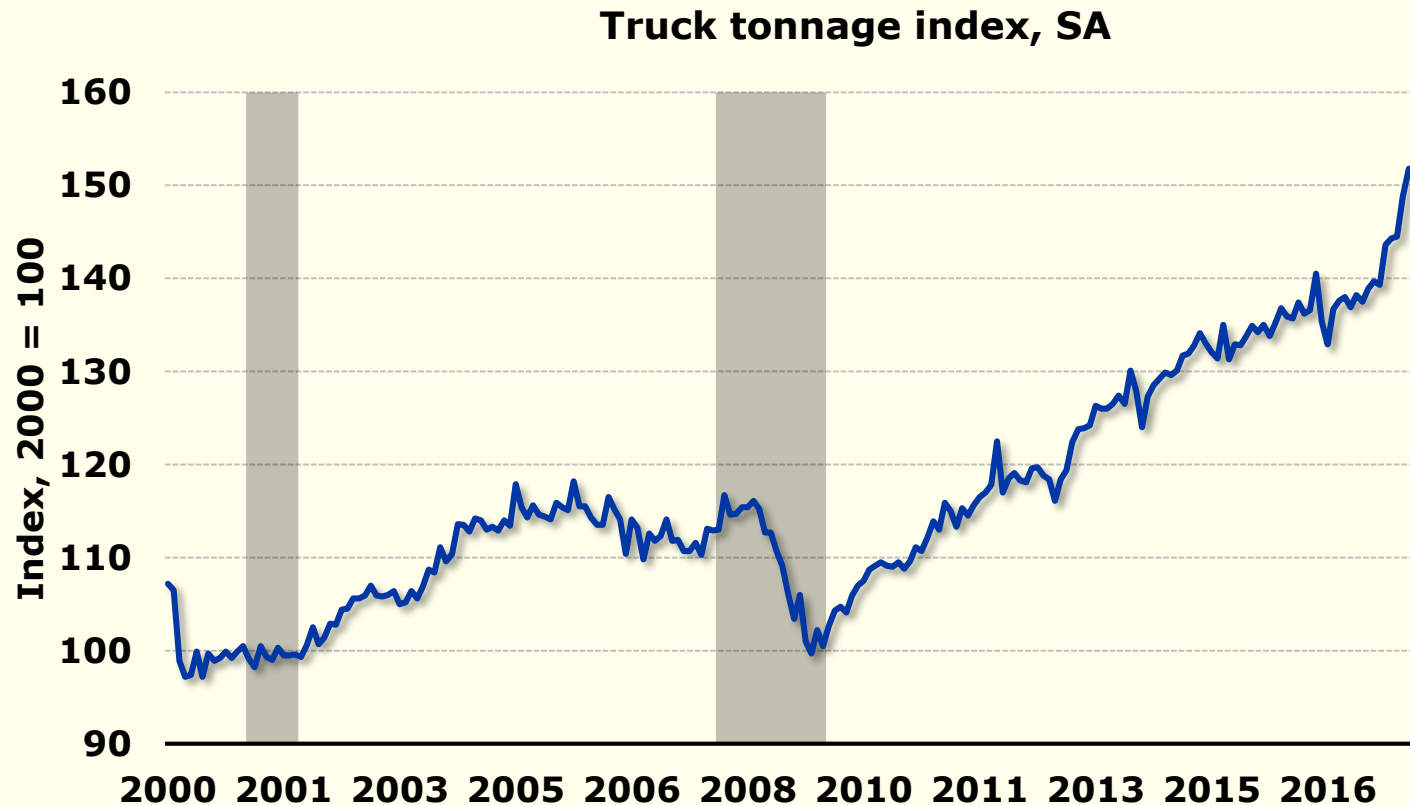


Source: U.S. Department of Commerce, Census Bureau; Data through November 2017 advance

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Freight carried by trucks has steadily increased since the end of the recession



Source: American Trucking Association, data through Nov. 2017

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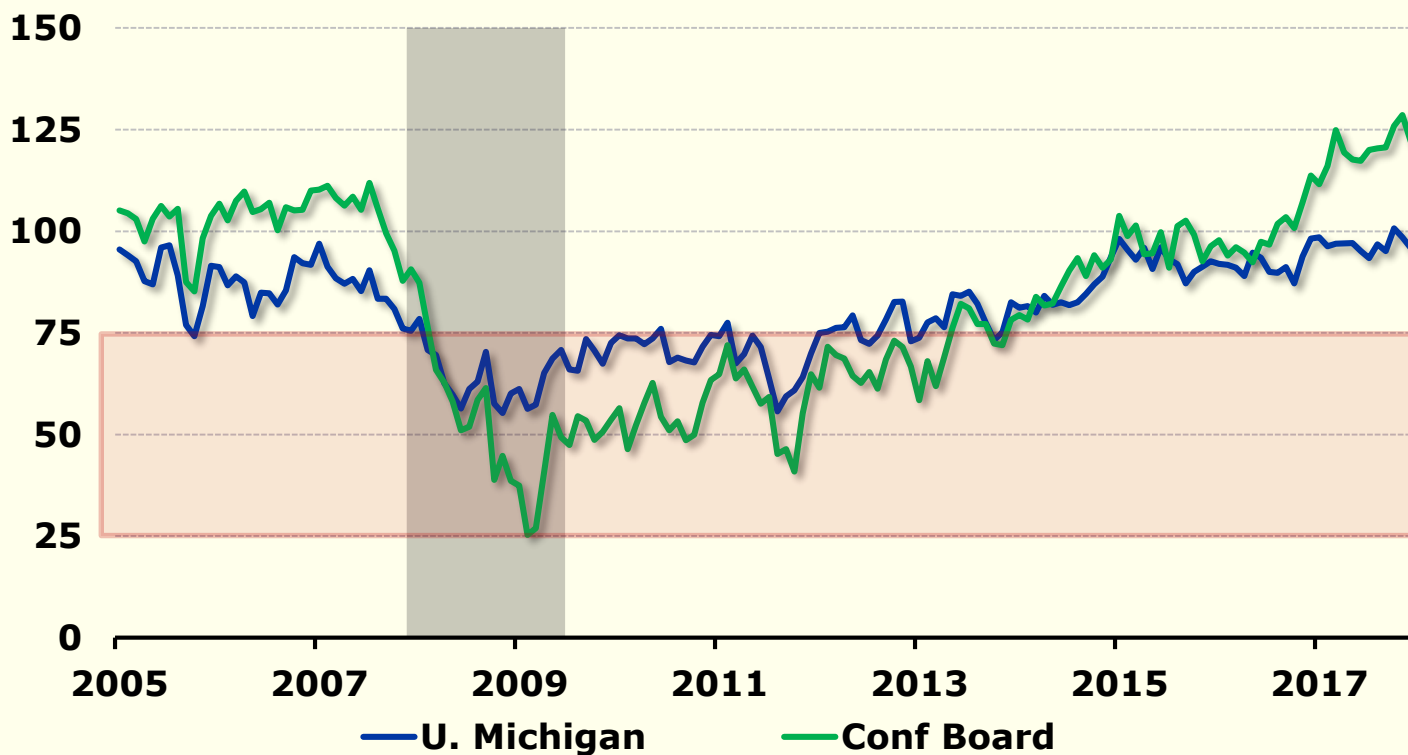


Consumer confidence is above pre-recession levels

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

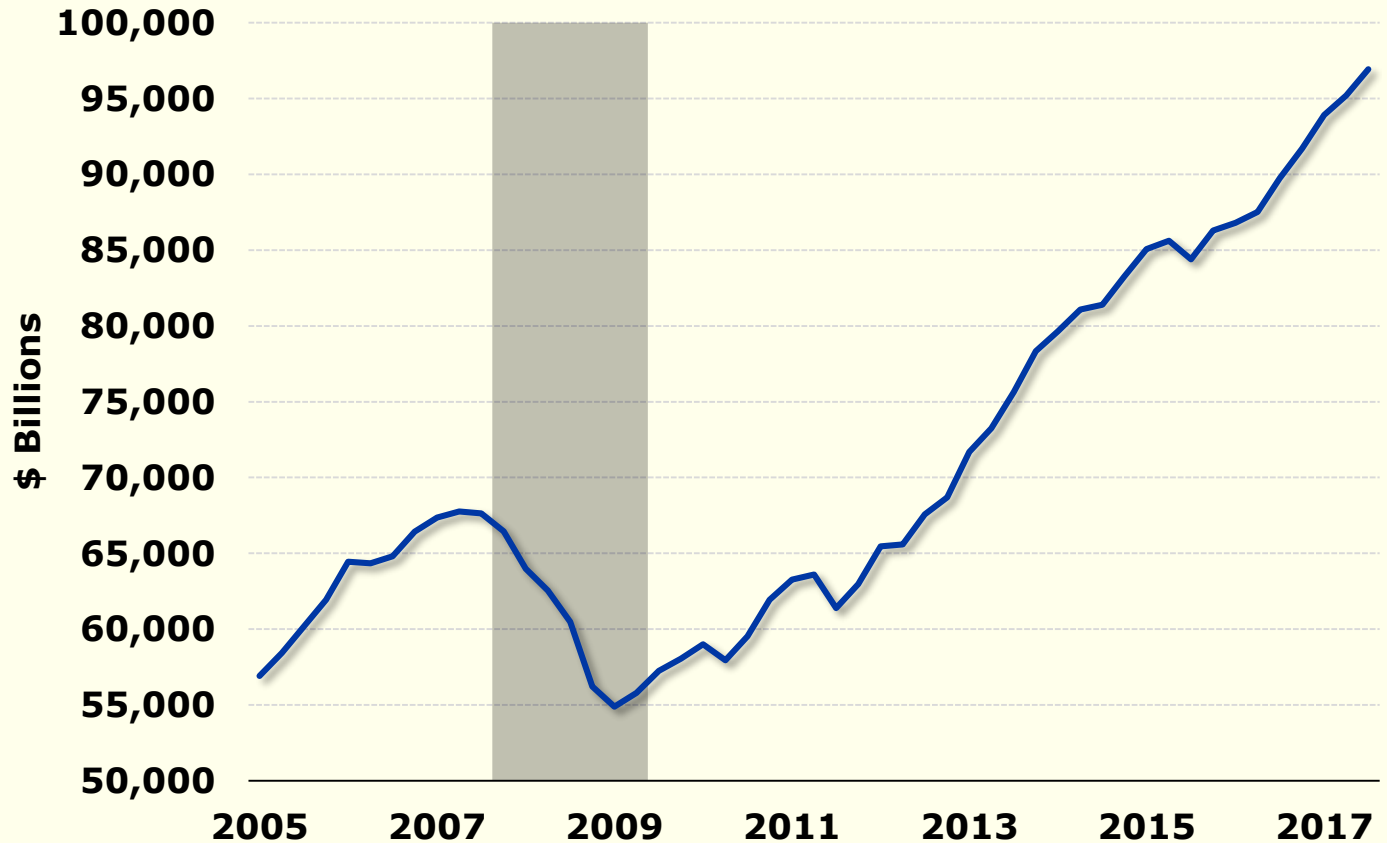


Sources: University of Michigan, Conference Board; data through December 2017

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U.S. household net worth has increased over 75% from its low point during the recession



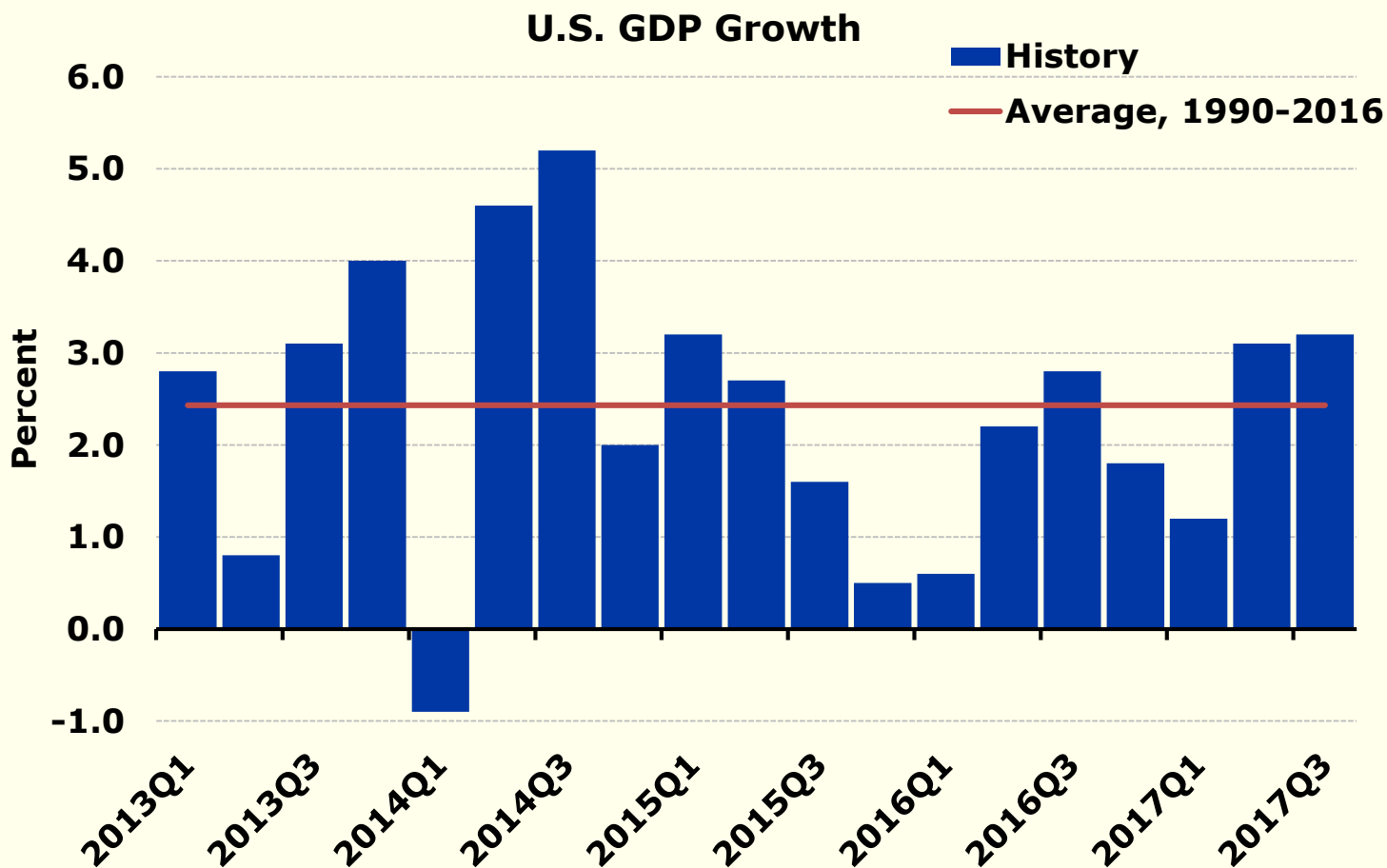
Source: Federal Reserve Bank of St. Louis, data through 2017 Q3

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U.S. economic growth improved in the second and third quarters

Forecast GDP growth:
2.5% in 2018



Source: U.S. Dept. of Commerce, BEA, data through 2017Q3

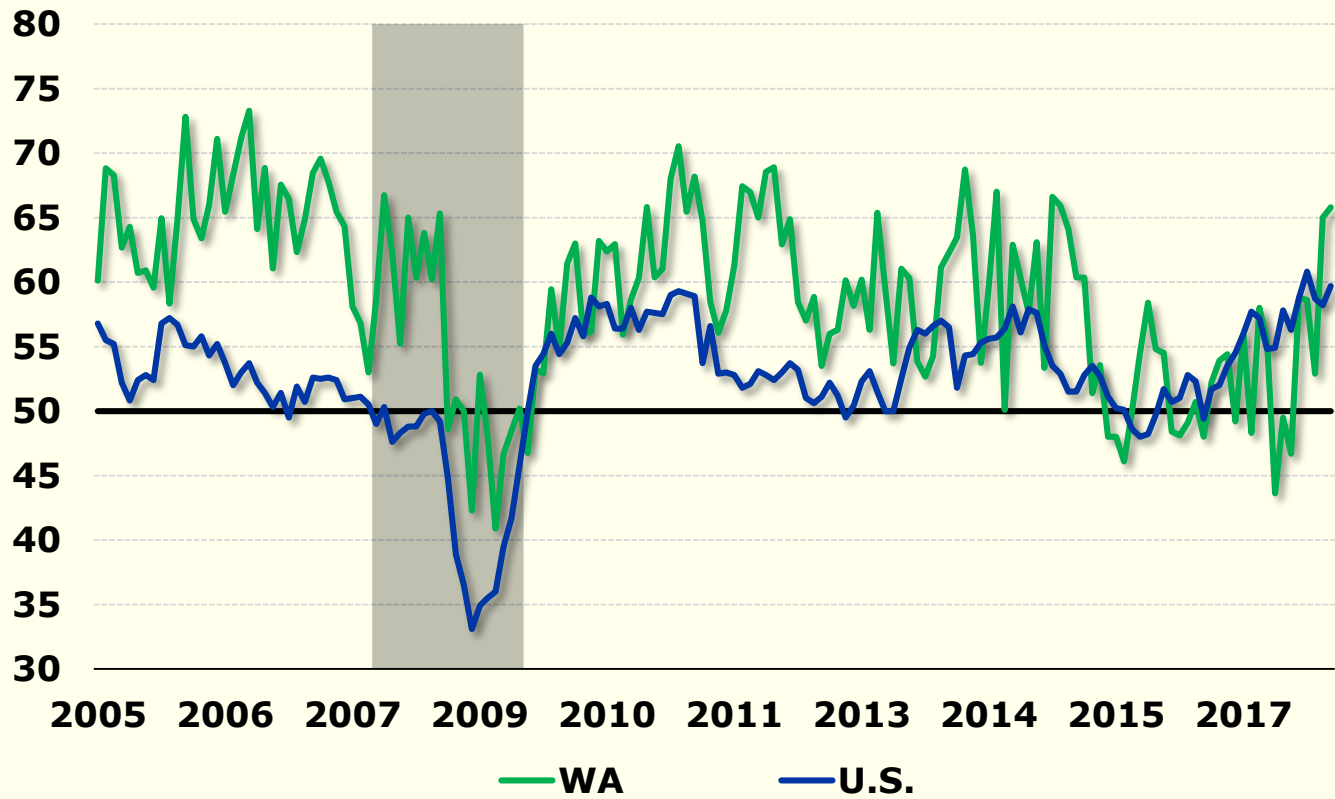
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Manufacturing activity is showing signs of improvement nationally and in WA

Index values below 50 indicate contraction in manufacturing activity, values above 50 indicate expansion

Manufacturing Purchasing Managers' Index, WA & US



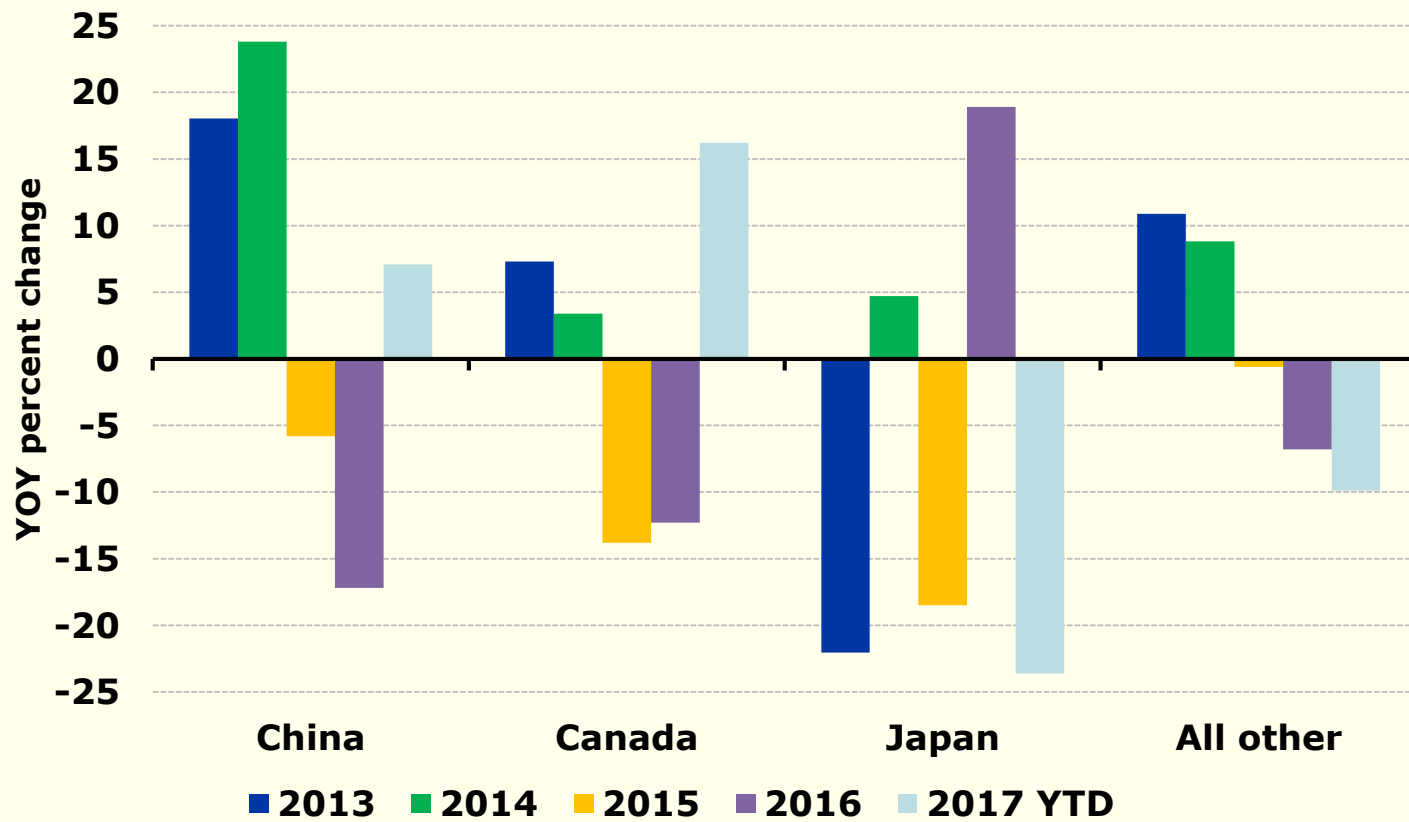
Source: Institute of Supply Management, data through December 2017

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

Year-over-year growth in export value, major trading partners

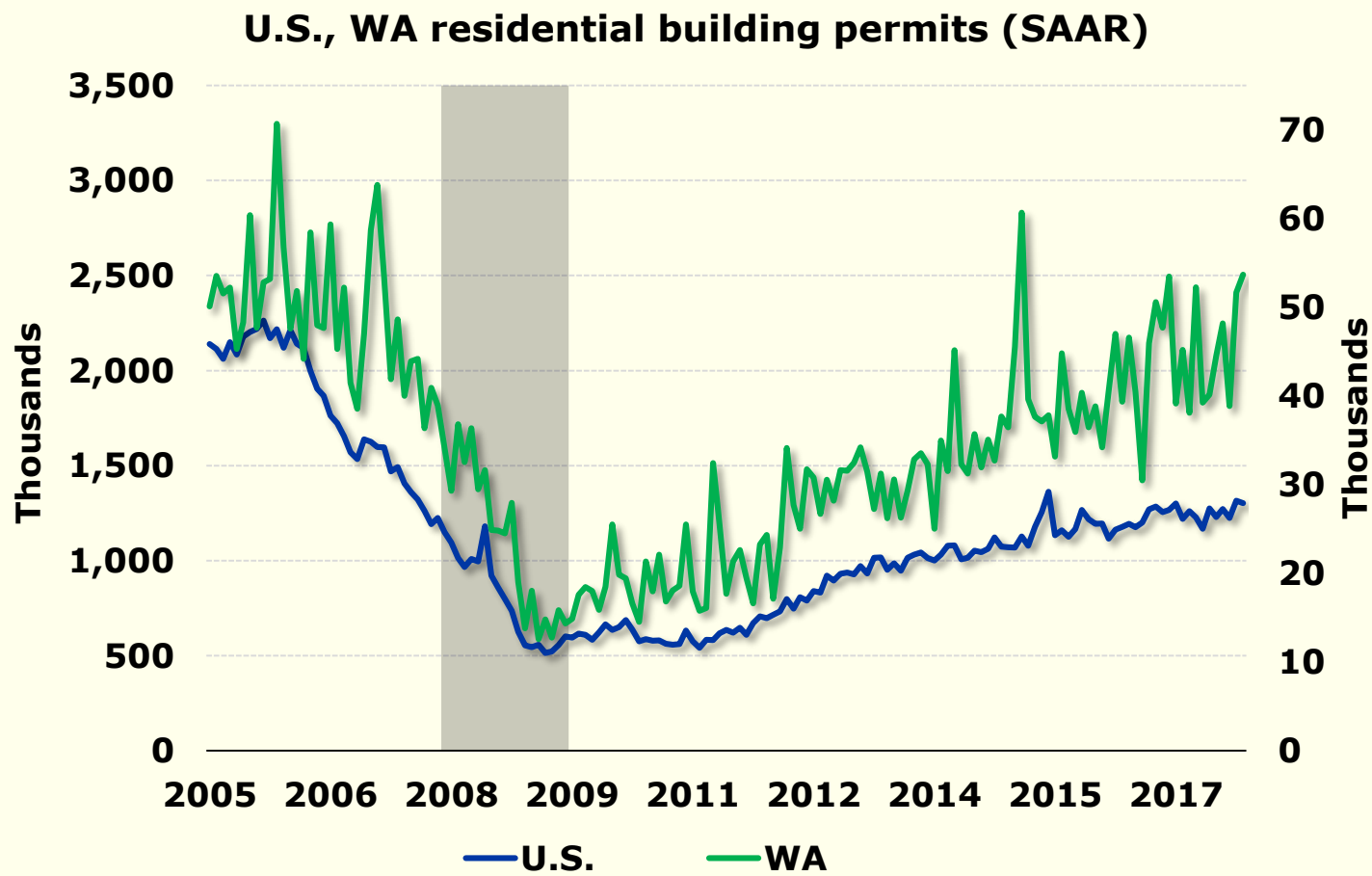


Source: WISERTrade; data through November 2017

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



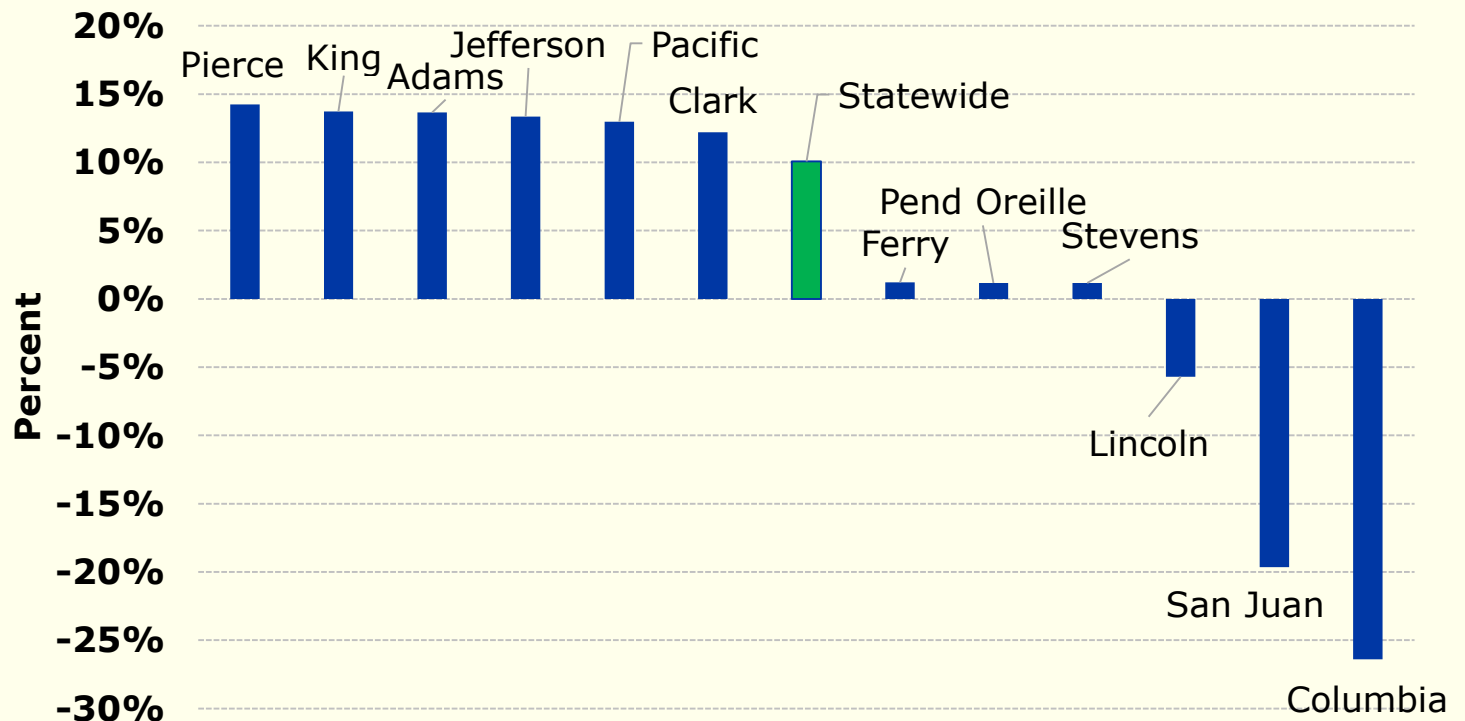
Source: U.S. Census Bureau, ERFC; data through November 2017

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Growth in median home sale price for selected counties, 2017

Data compare average resale prices for 2017 Q1 through Q3 to average resale prices for 2016 Q1 through Q3



Source: Runstad Center for Real Estate Research, University of Washington

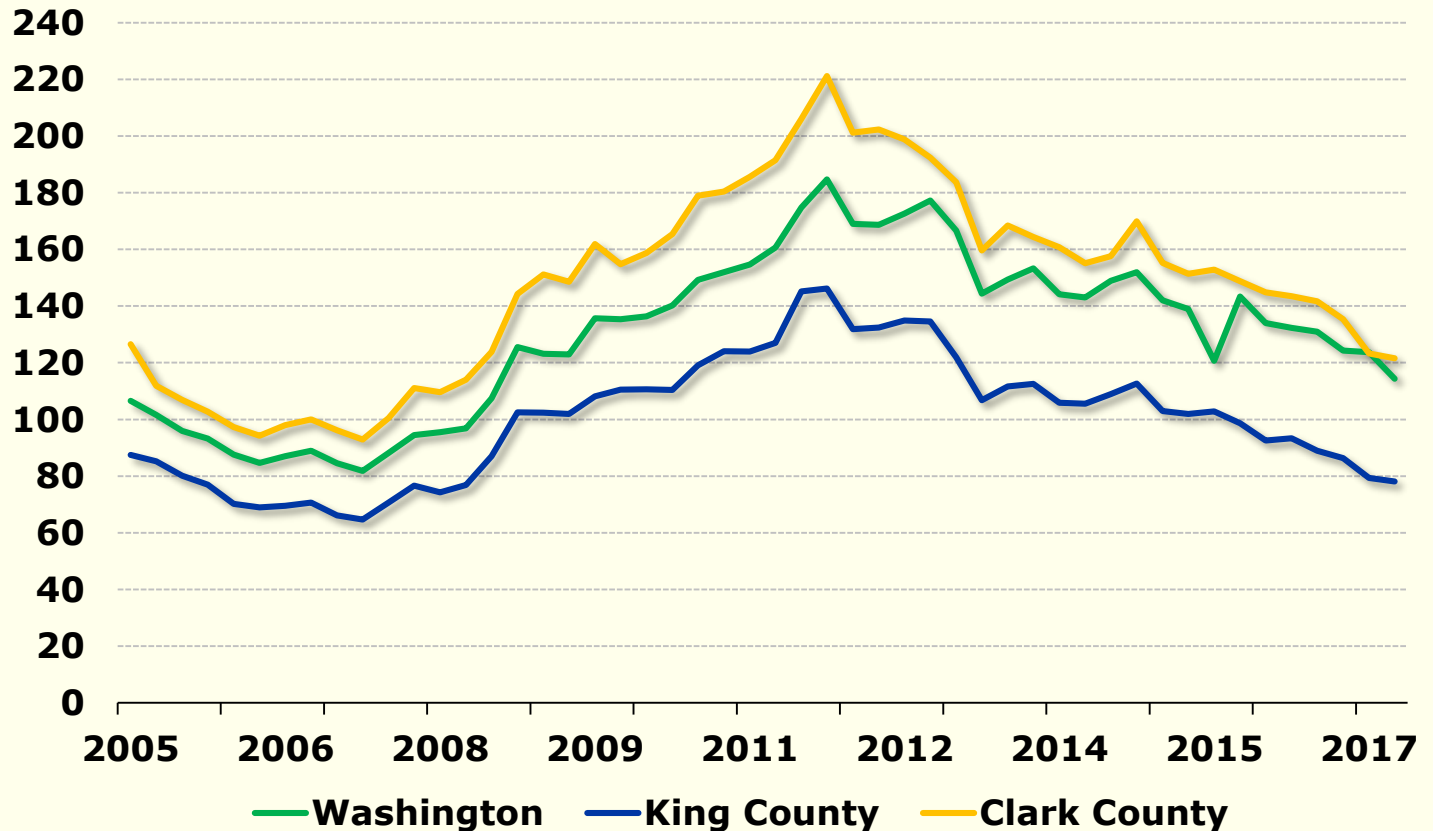
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Clark County housing affordability has decreased considerably since 2012

An index score of 100 means a median-income family can afford a median-priced home.

Affordability Index: Statewide, King County, Clark County

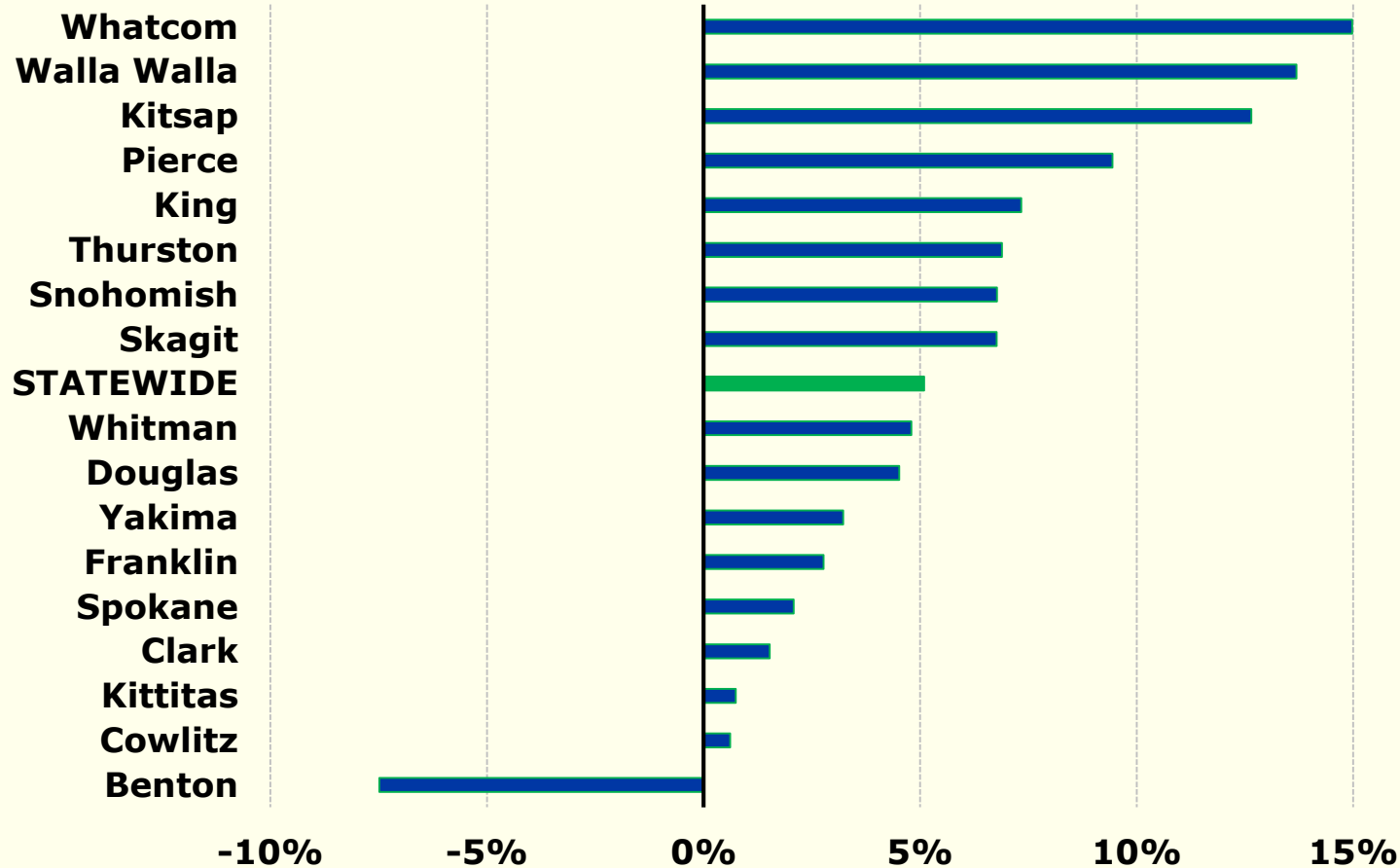


Source: Runstad Center for Real Estate Studies, University of Washington, data through 2017 Q3

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Rental increases, selected counties: Fall 2016 to Fall 2017

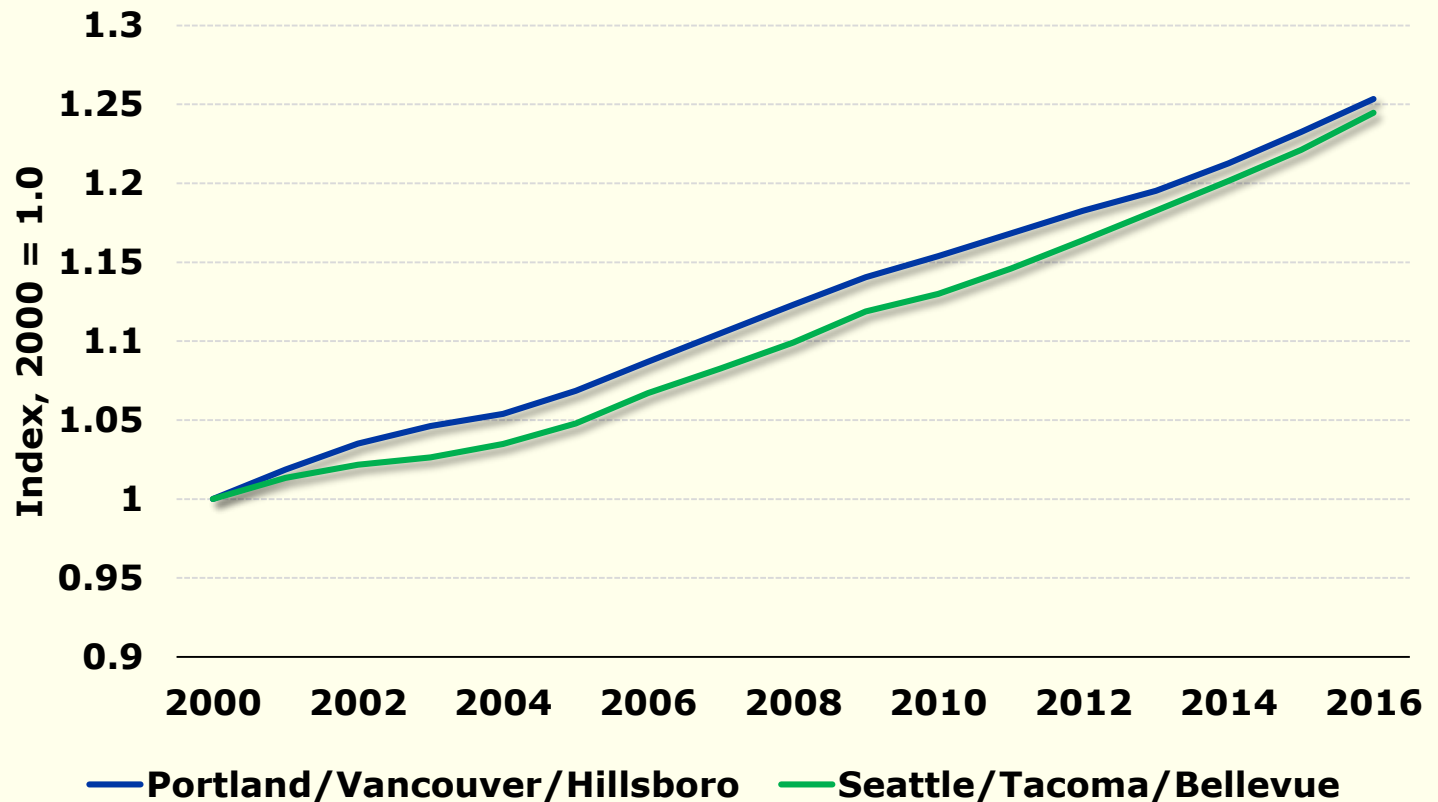


Source: Runstad Center for Real Estate Research, University of Washington

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Portland and Seattle metro area populations grew by 25% between 2000 and 2016



Source: U.S. Bureau of Economic Analysis, data through 2016

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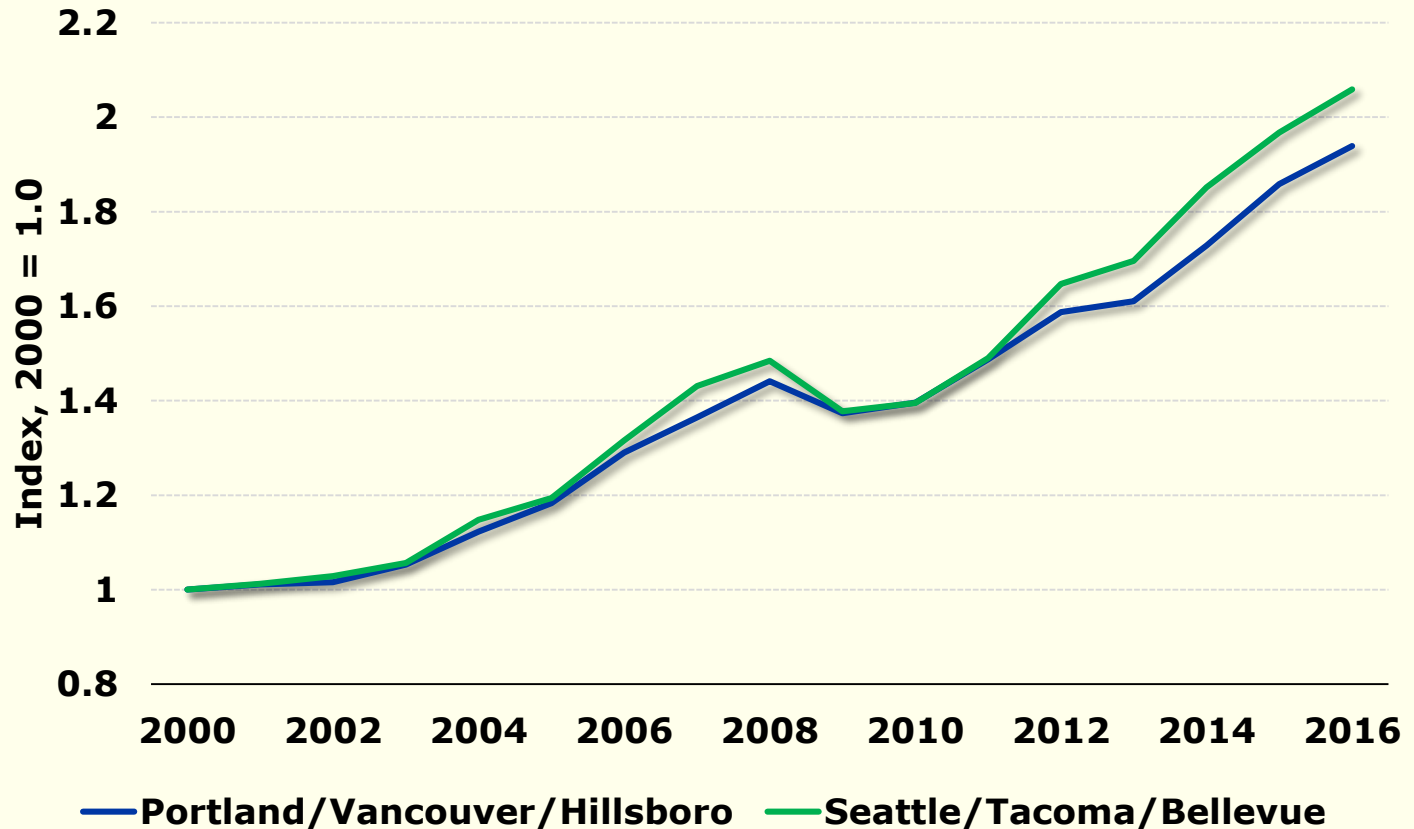
Both the Portland and Seattle metro areas have seen strong personal income growth

Per capita personal income, 2016:

U.S. = \$49,246

Portland = \$50,489

Seattle = \$64,553

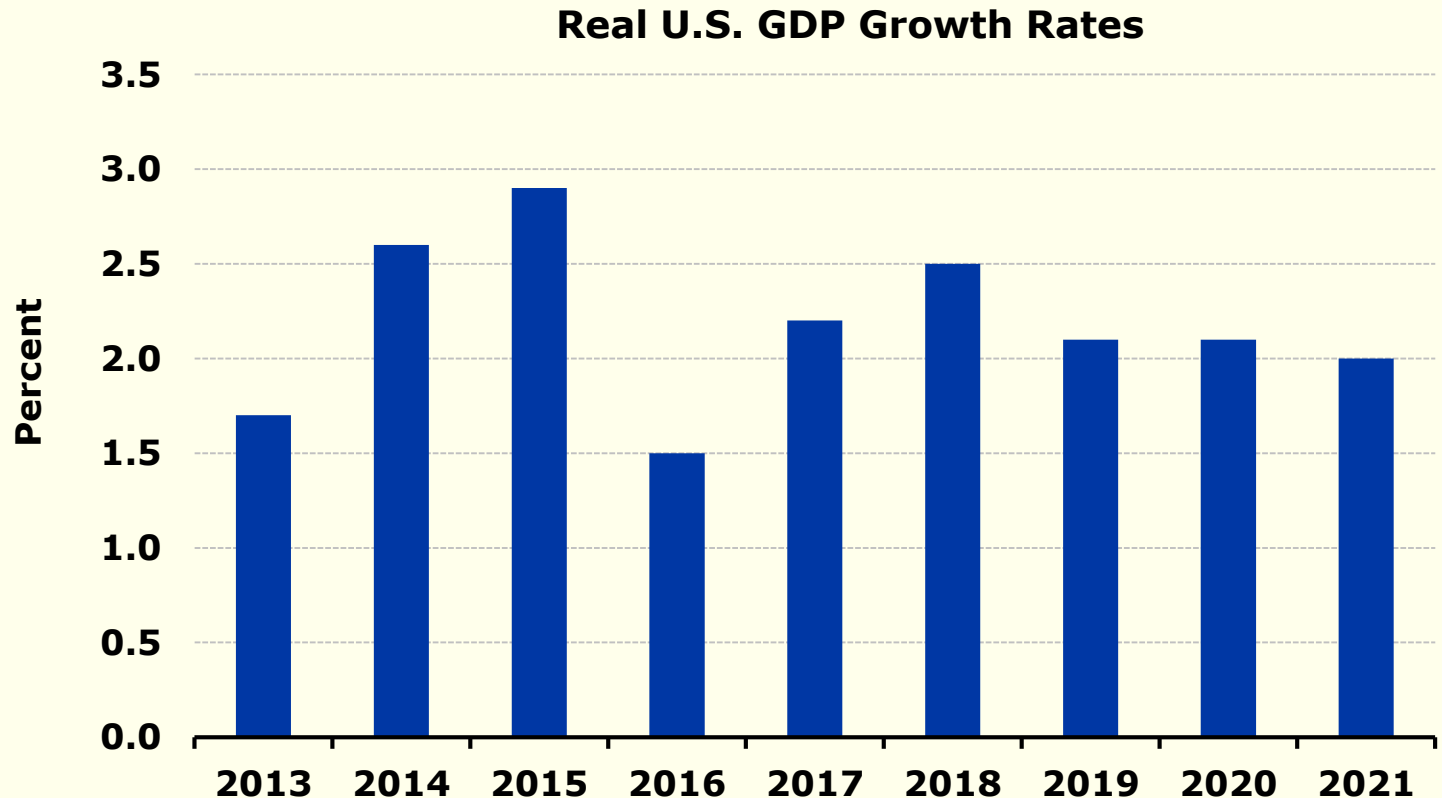


Source: U.S. Bureau of Economic Analysis, data through 2016

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Real GDP growth is expected to remain between 2.0 - 2.5%

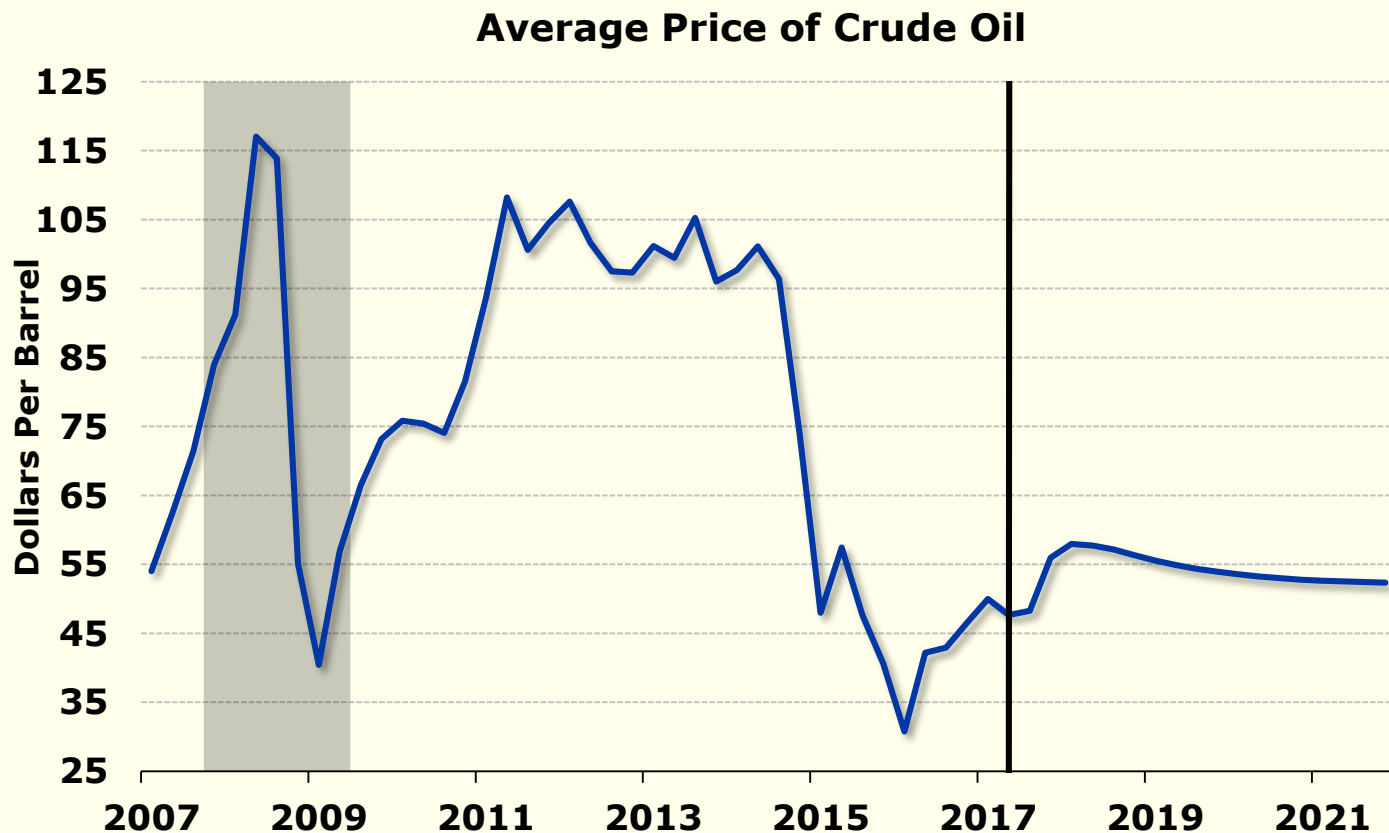


Source: ERFC November 2017 forecast; historical data through 2016

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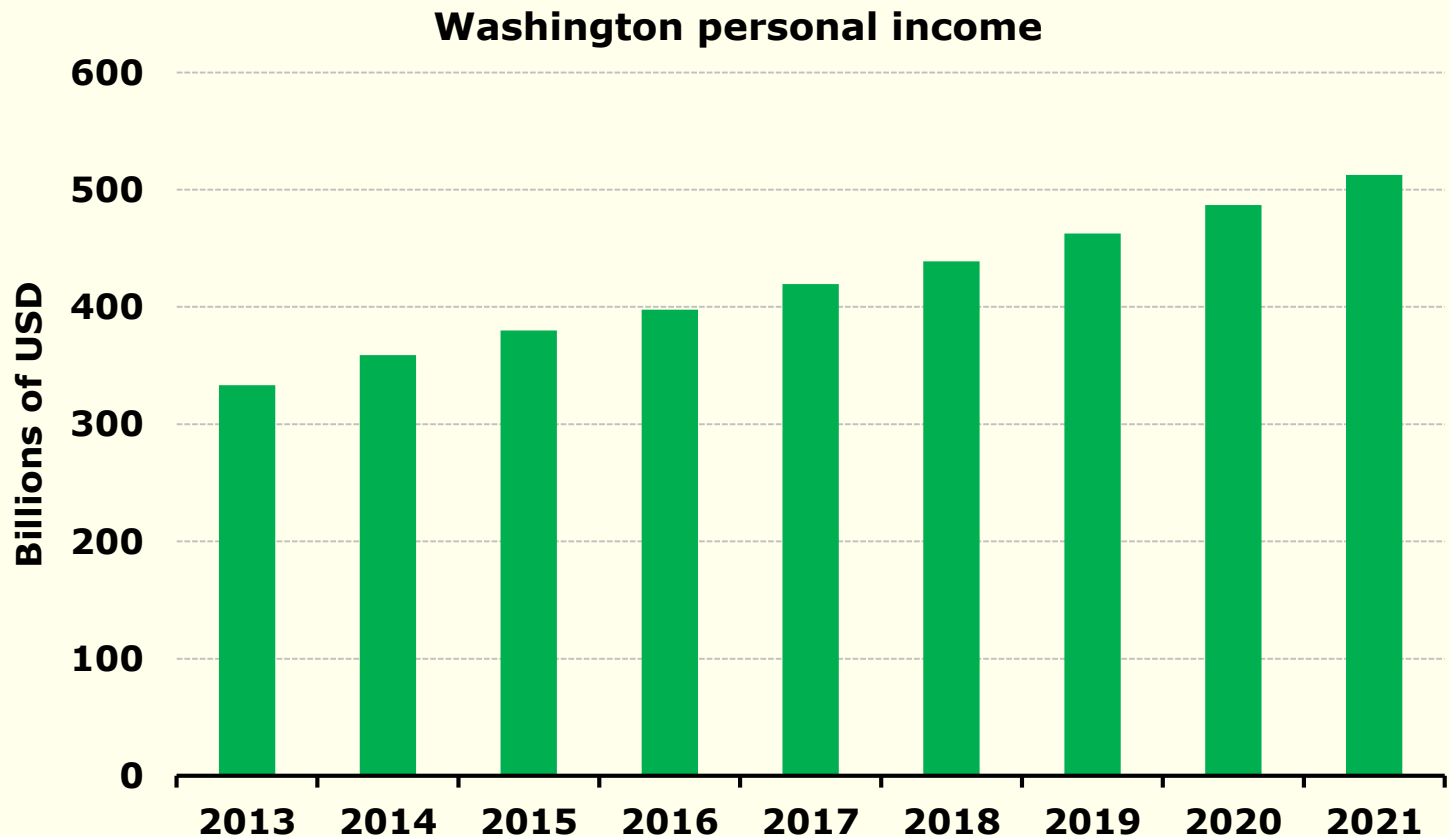


Oil prices are expected to be slightly higher in the near term





Washington personal income is expected to grow at an average rate of 5.1% in 2018 - 2021

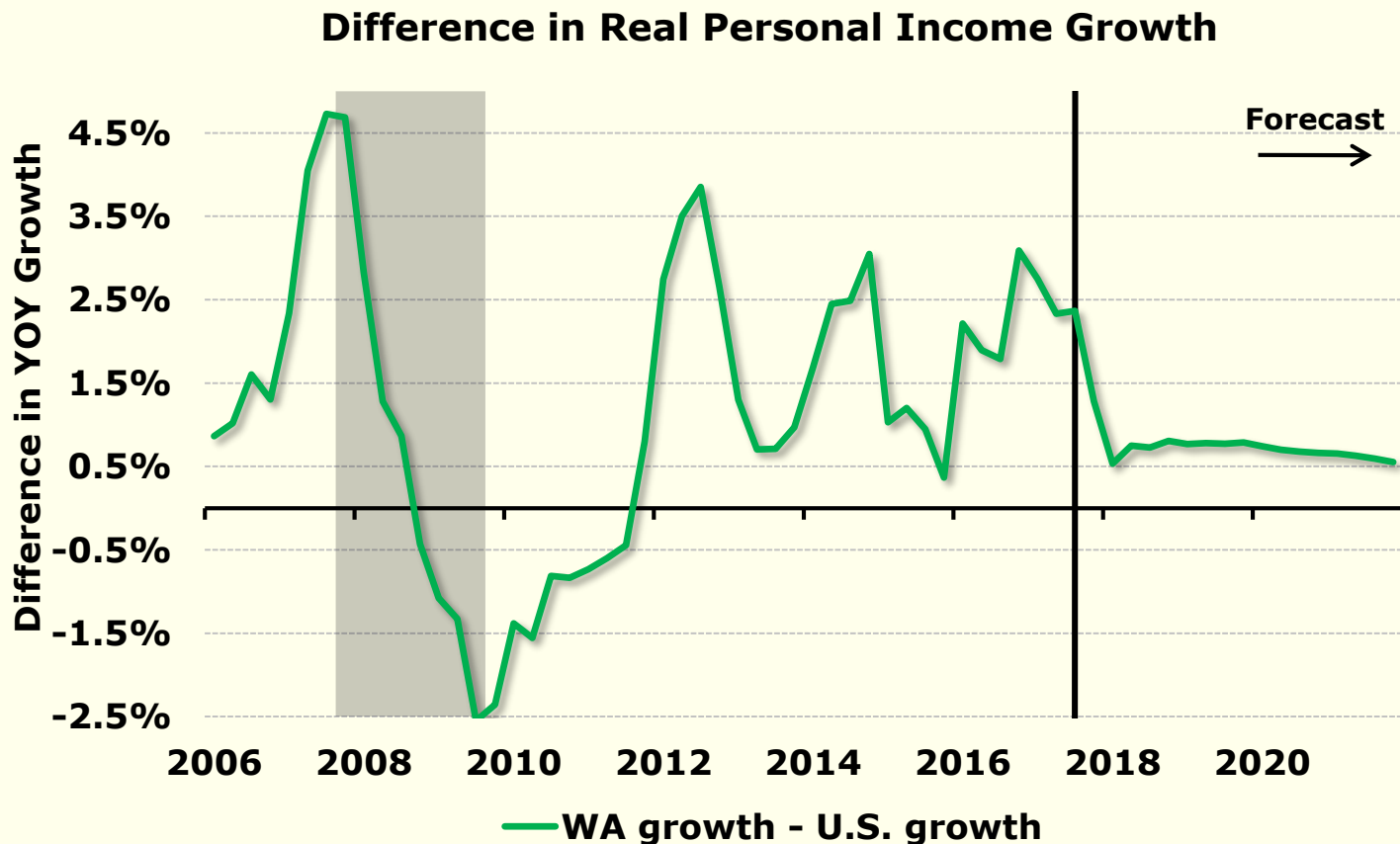


Source: ERFC November 2017 forecast; historical data through 2016

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State personal income will continue to grow faster than for the nation

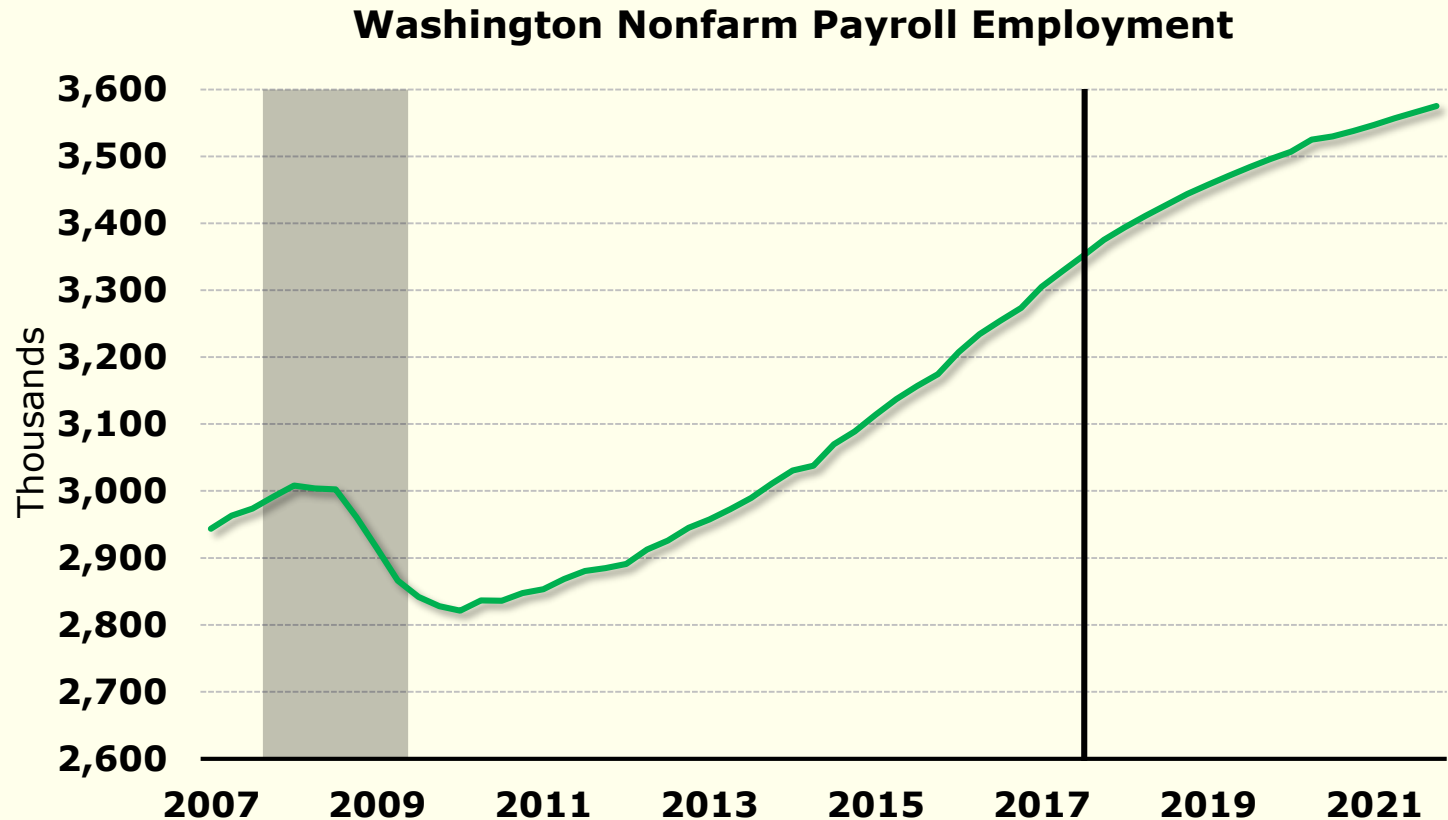


Source: ERFC November 2017 forecast; historical data through 2017 Q2

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Washington employment growth is expected to slow from 3.0% in 2017 to 2.4% in 2018

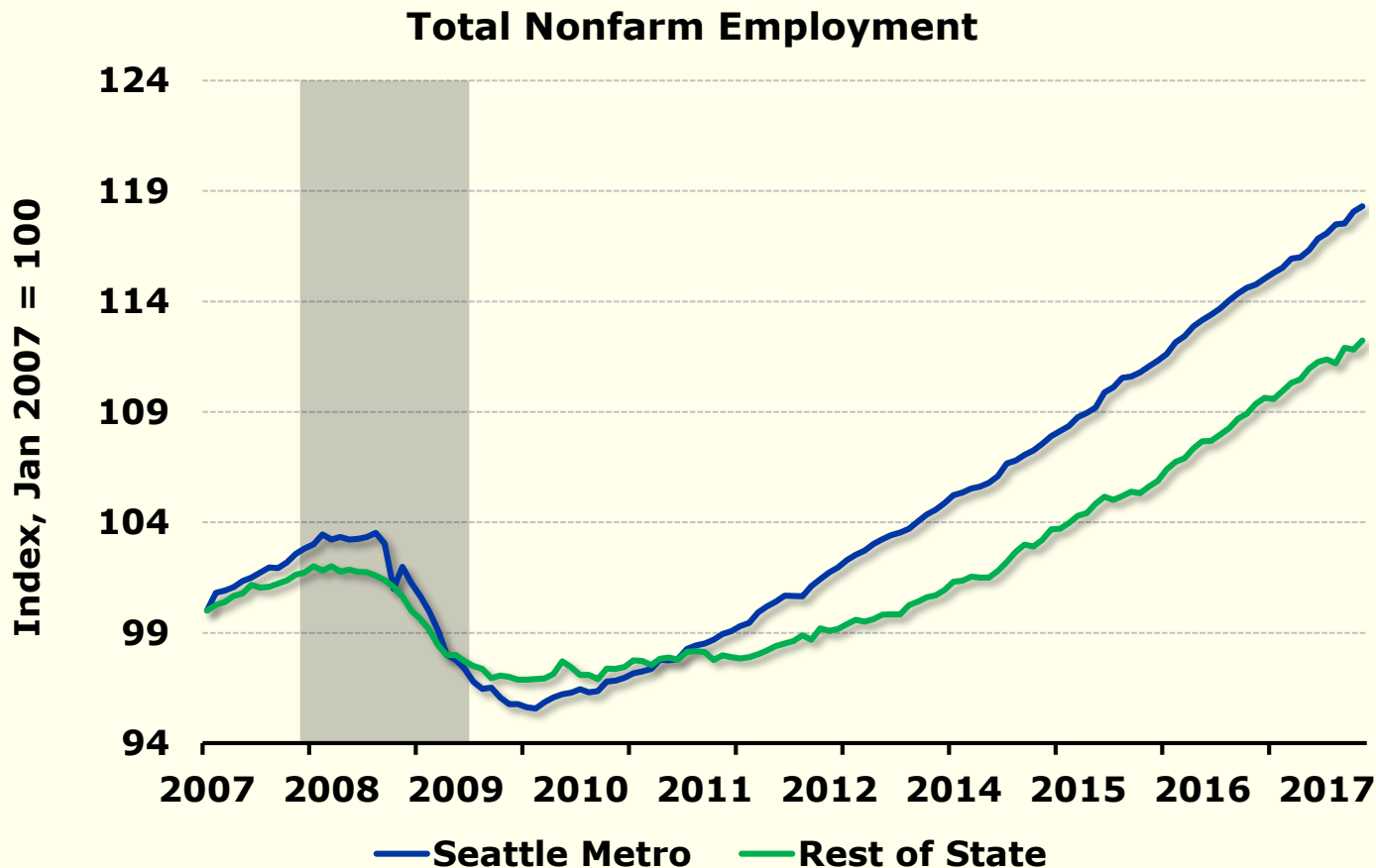


Source: ERFC November 2017 forecast; historical data through Q32017

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Seattle area employment continues to grow faster than the rest of the state

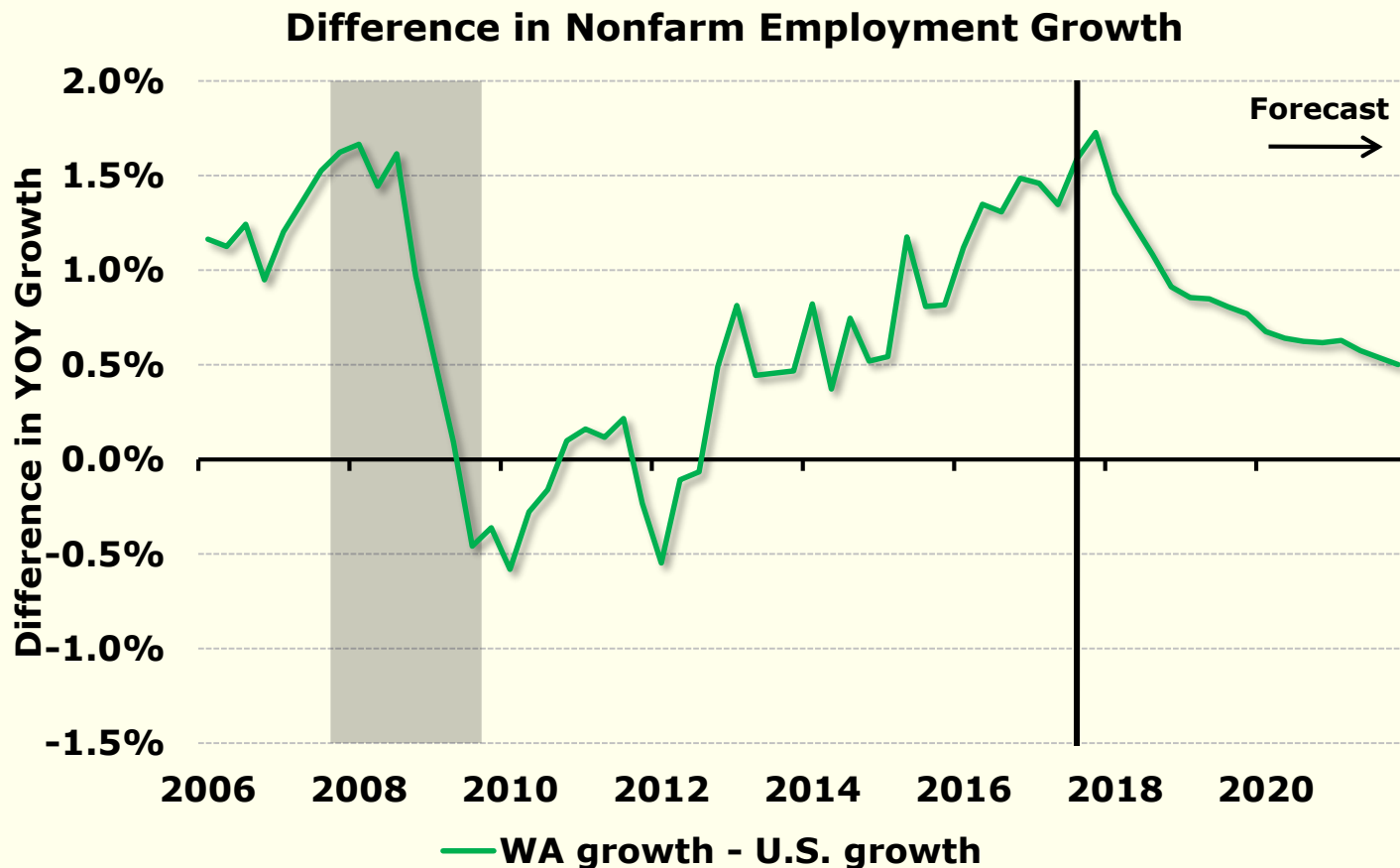


Source: Employment Security Department; data through November 2017

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

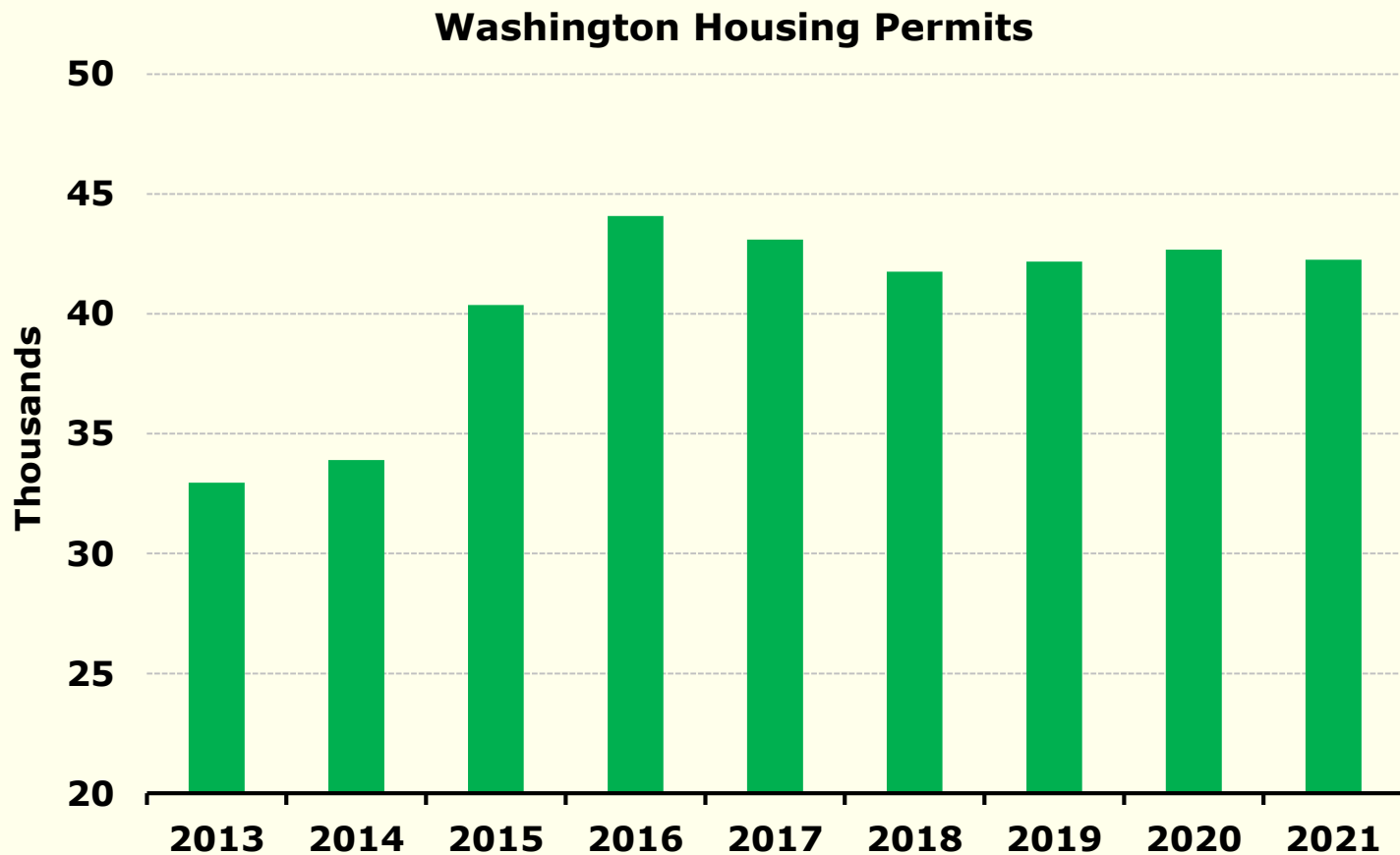


Source: ERFC November 2017 forecast; historical data through 2017Q3

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Washington housing permits forecast averages slightly over 42,000 units annually for 2018 - 2021

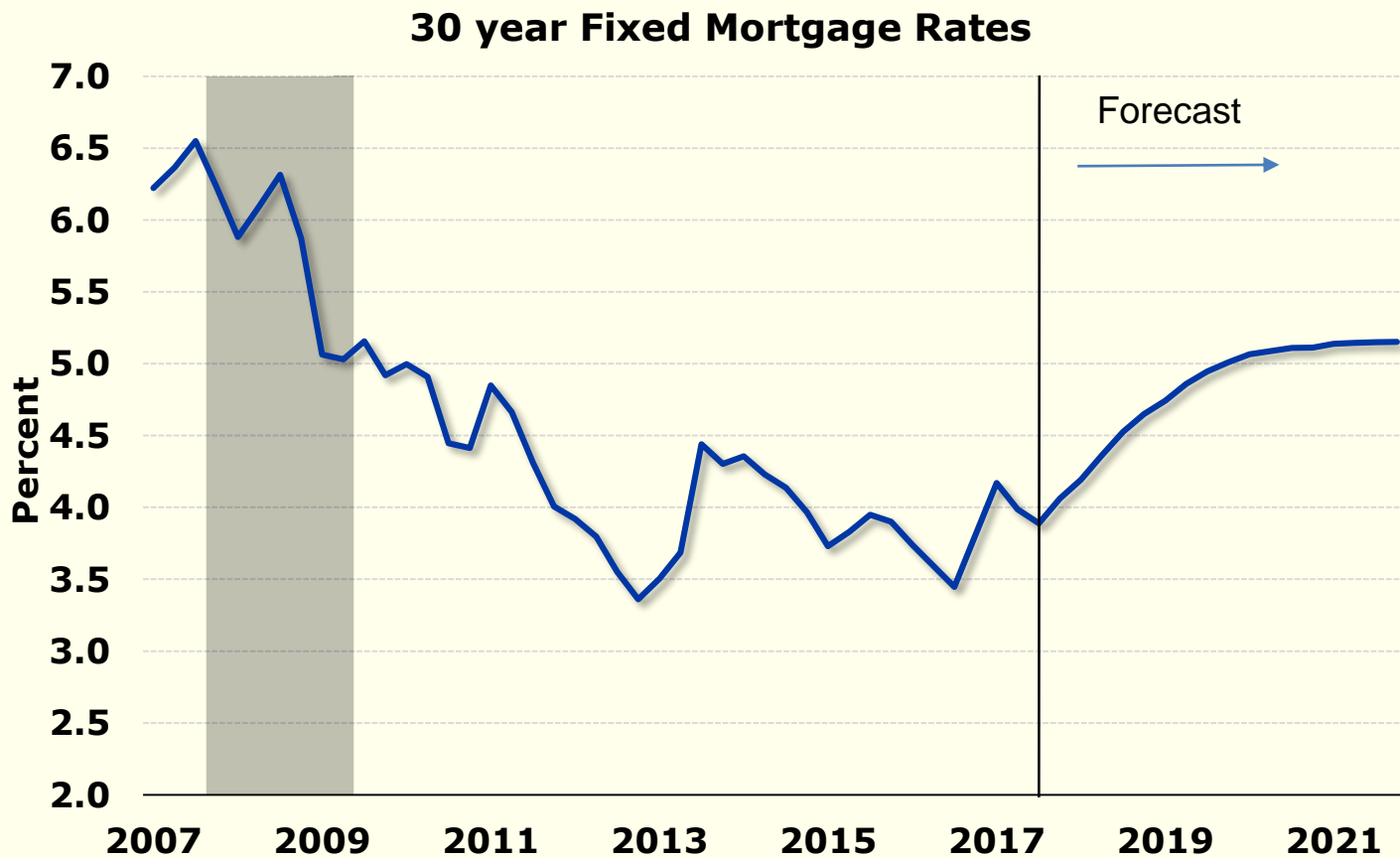


Source: ERFC November 2017 forecast; historical data through 2016

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Mortgage rates are expected to rise above 5% by 2019

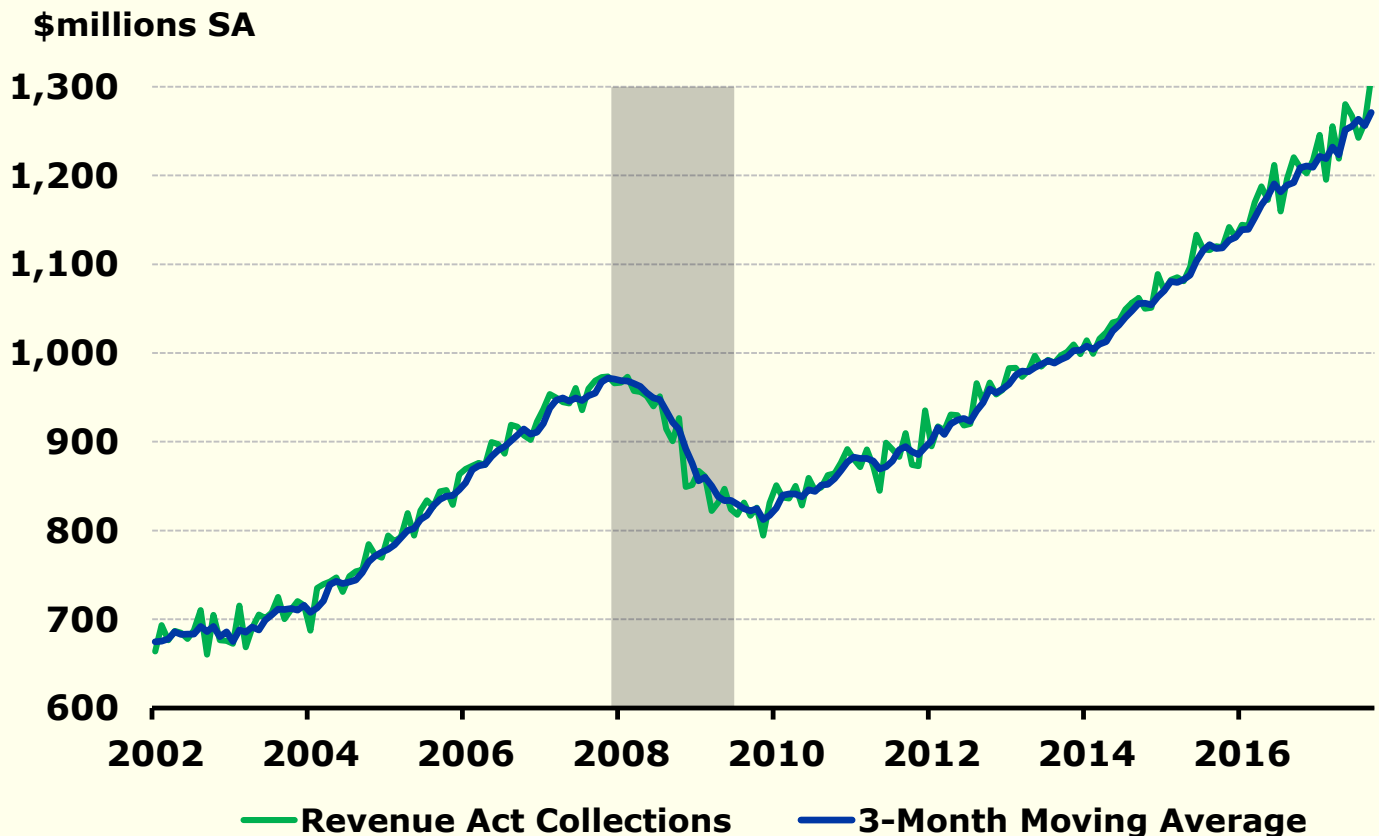


Source: ERFC November 2017 forecast; historical data through 2017 Q3

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Year-over-year Revenue Act collections growth: 6.3% in Q1, 5.5% in Q2, 6.4% in Q3



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

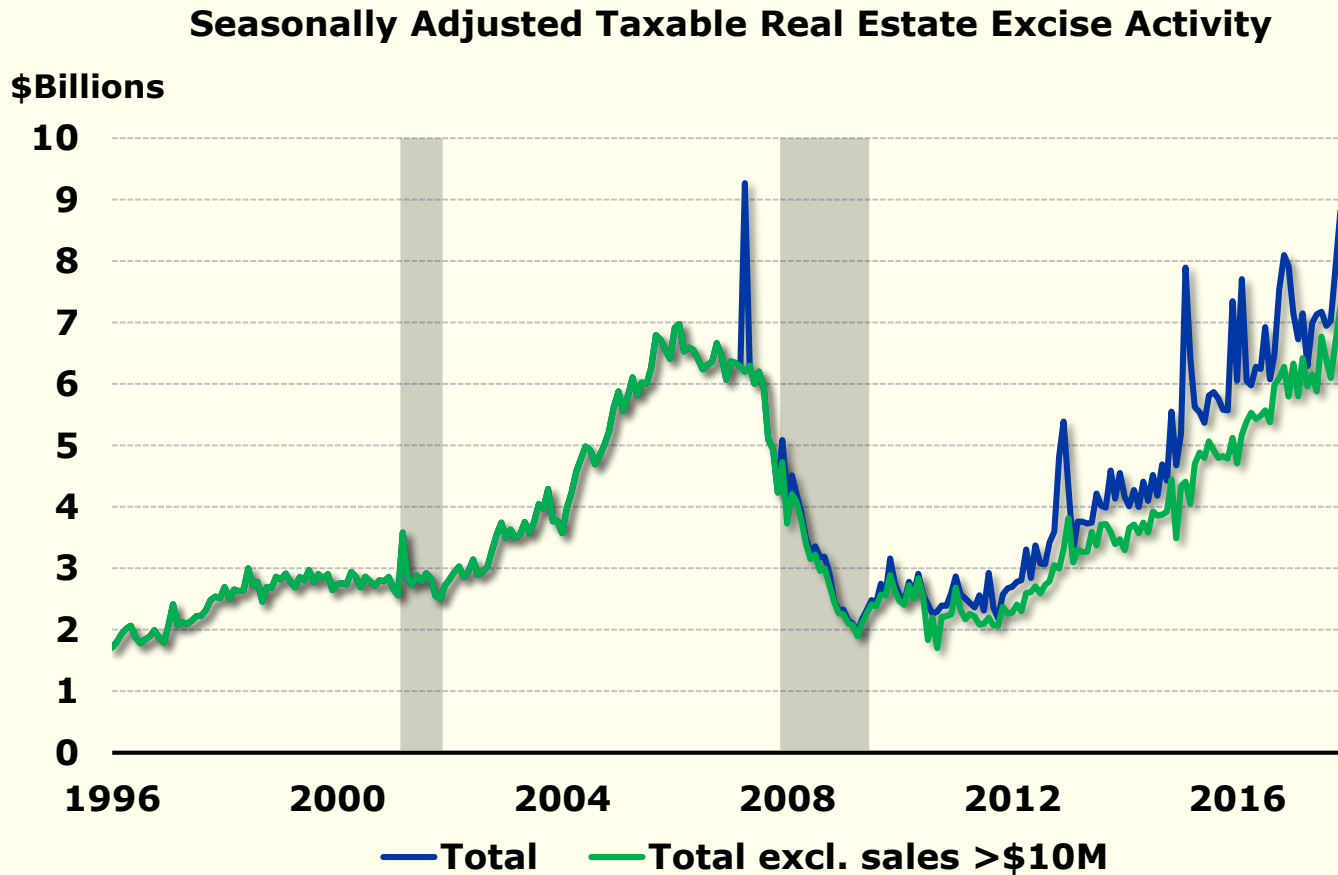
Source: DOR and ERFC; monthly data through estimated October 2017 activity

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Large commercial property sales still strong

Large commercial sales (>\$10 million) totaled \$2.2 billion in the 3rd quarter 2017 and \$3.5 billion in the 4th quarter.



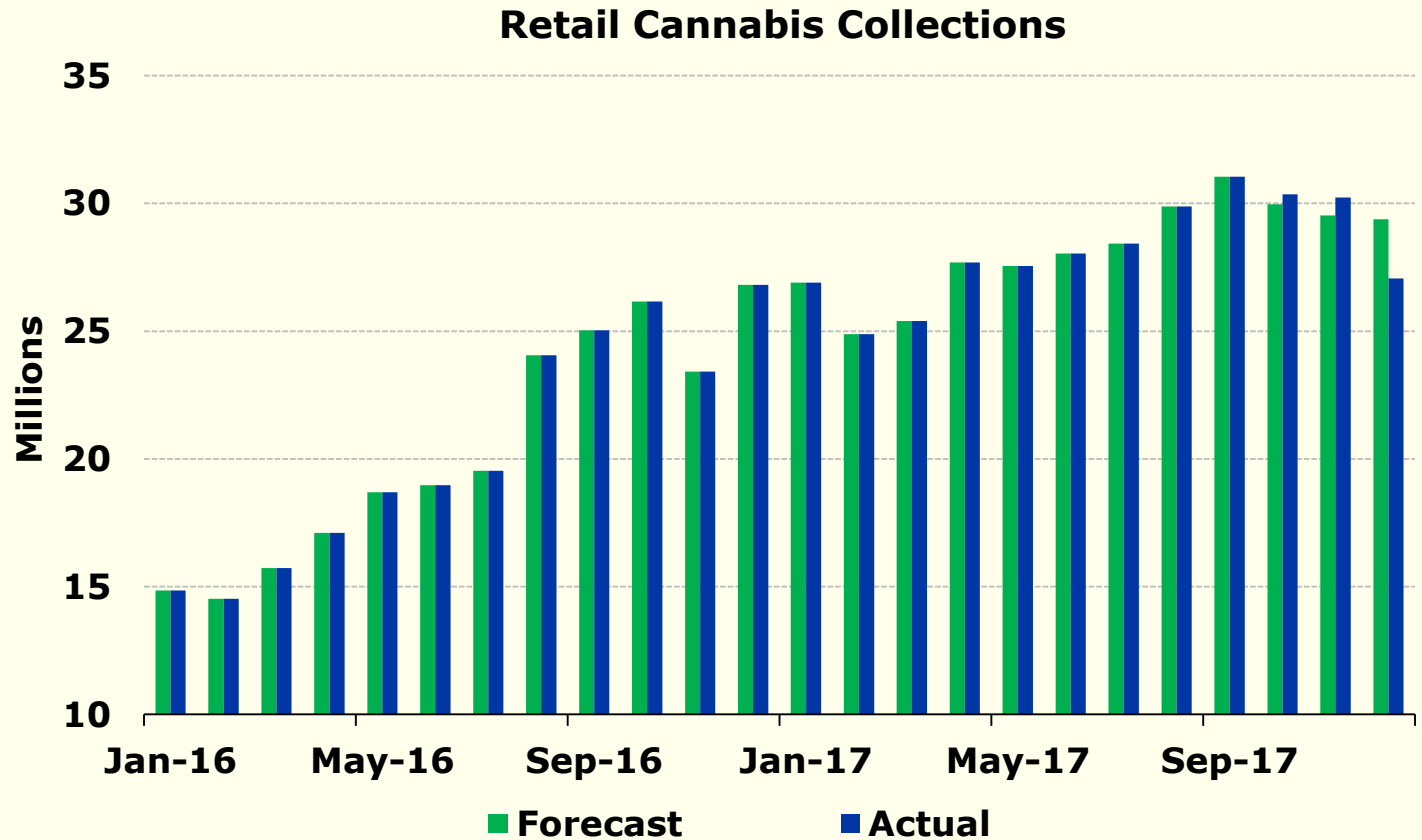
Source: ERFC; Monthly data through December 2017 preliminary

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Cannabis revenue continues to be volatile

Collections were 7.9% below forecast in December

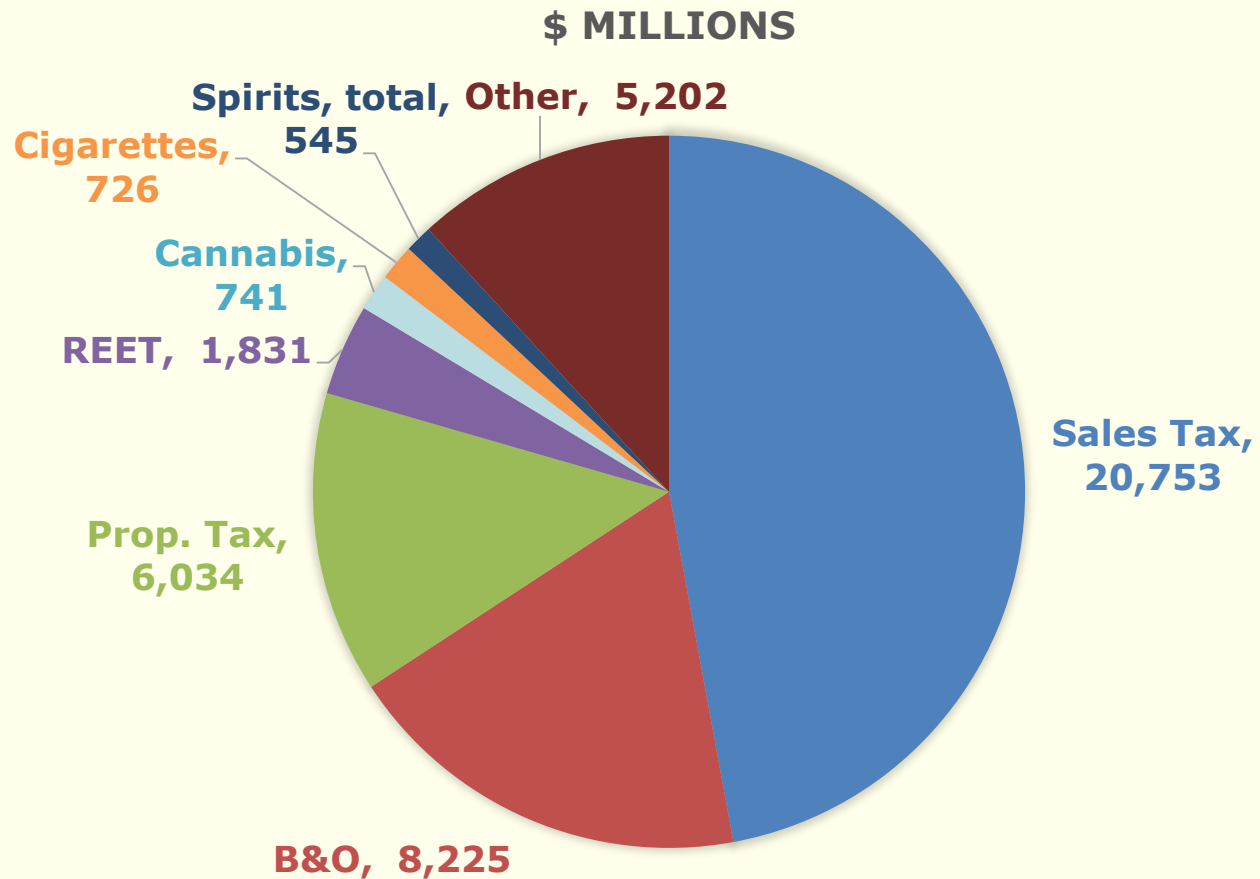


Source: LCB, ERFC; data through December 2017

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



Source: ERFC November 2017 forecast

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Conclusion

- U.S. economic forecast is similar to September; WA personal income is slightly higher
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Threats to economic expansion include slow labor productivity, geopolitical risks and concerns about international trade and fiscal policy
- GF-S revenues grew 13.8% between the 2013-15 and 2015-17 biennia and are now expected to grow 13.7% between the 2015-17 and 2017-19 biennia



Questions



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