

Washington Economic & Revenue Forecast

Presented to
Governmental Accounting and Auditing
Conference

Steve Lerch
Executive Director

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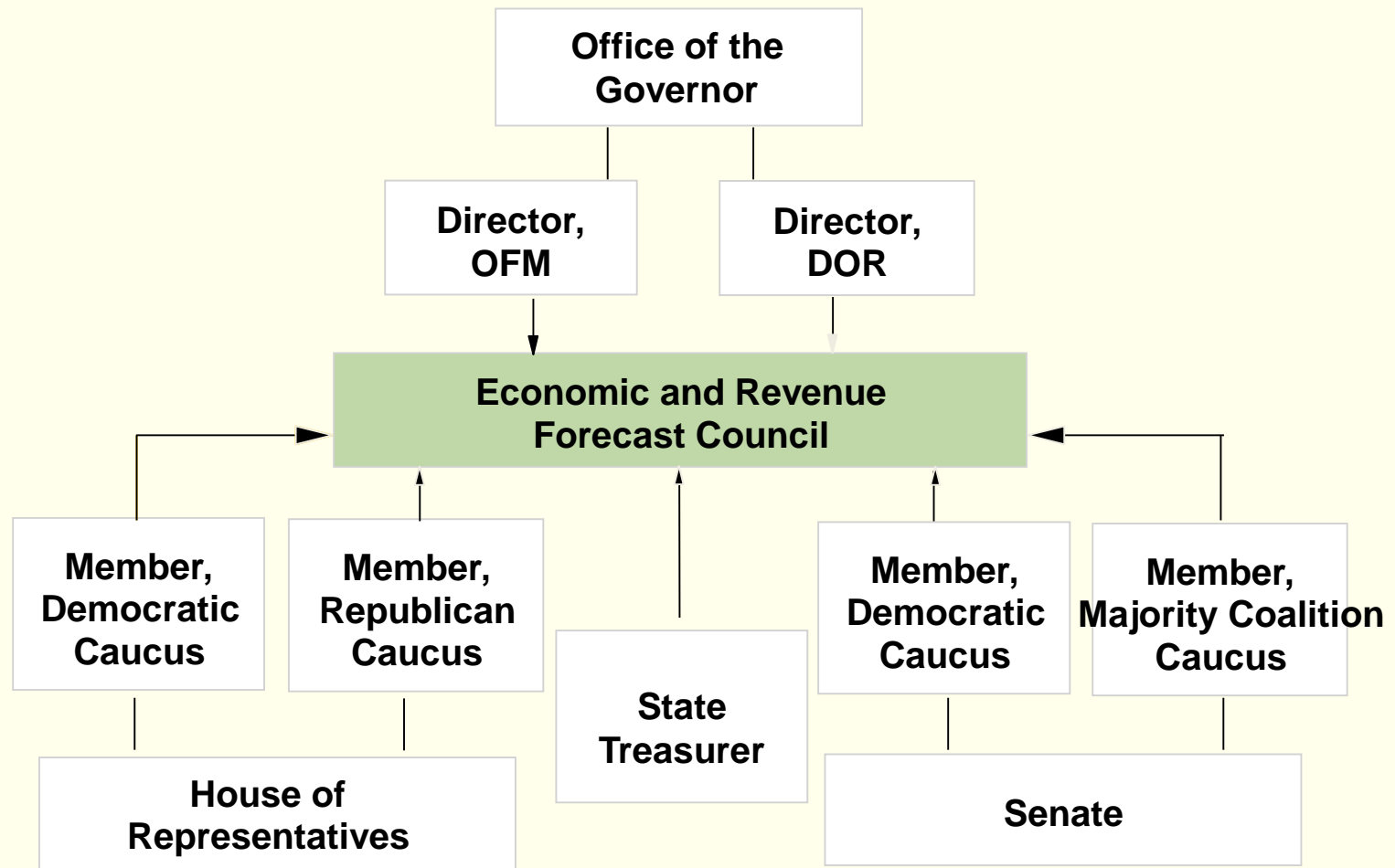
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Economic and Revenue Forecast Council Organization Chart

ERFC

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

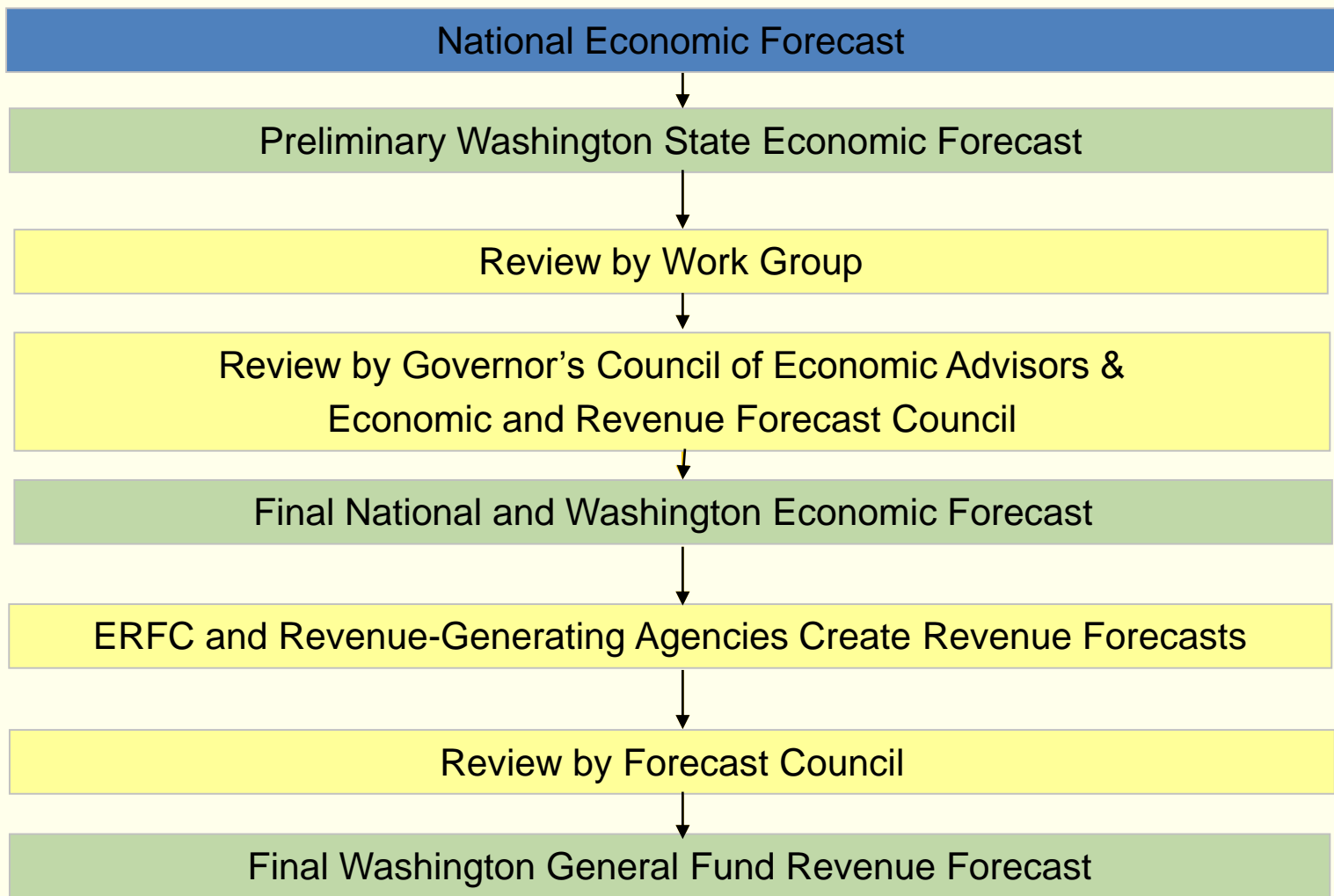


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ERFC Forecast Process

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

- The forecast now extends through 2023
- The economic forecast for the U.S. is slightly stronger than in November
- The economic forecast for WA has slightly higher personal income than in November
- Federal tax changes have increased after-tax income
- Risks to the baseline include stock market volatility and concerns about international trade and fiscal policy
- The revenue collection variance since the November forecast is \$185 million
- GF-S revenue for the 2017-19 biennium has been increased by \$647 million, and revenue for the 2019-21 biennium has been increased by \$671 million.



Forecast risks

Upside

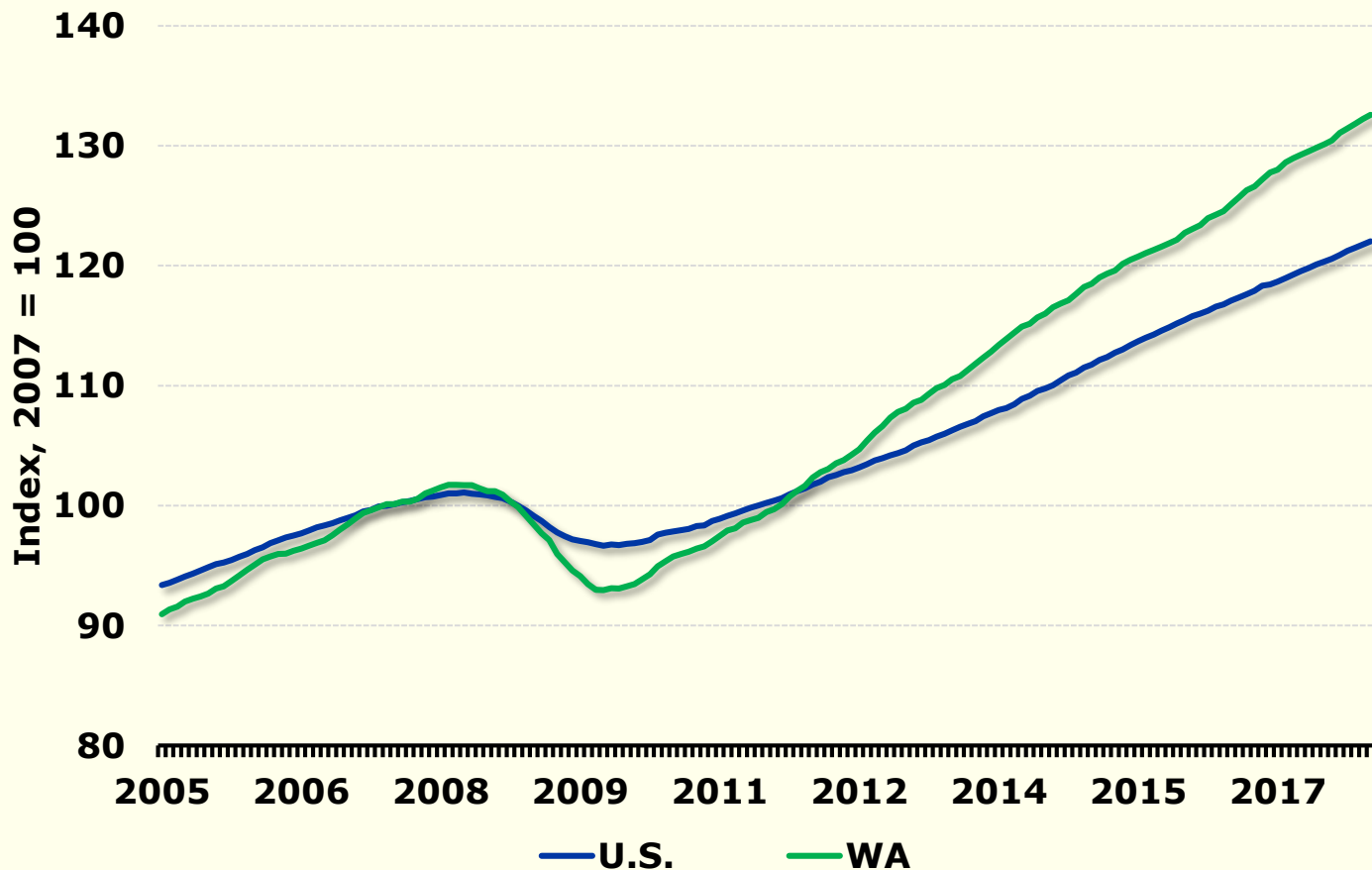
- Elevated consumer, business confidence could translate into stronger growth
- Stronger global economic growth

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 January 2018

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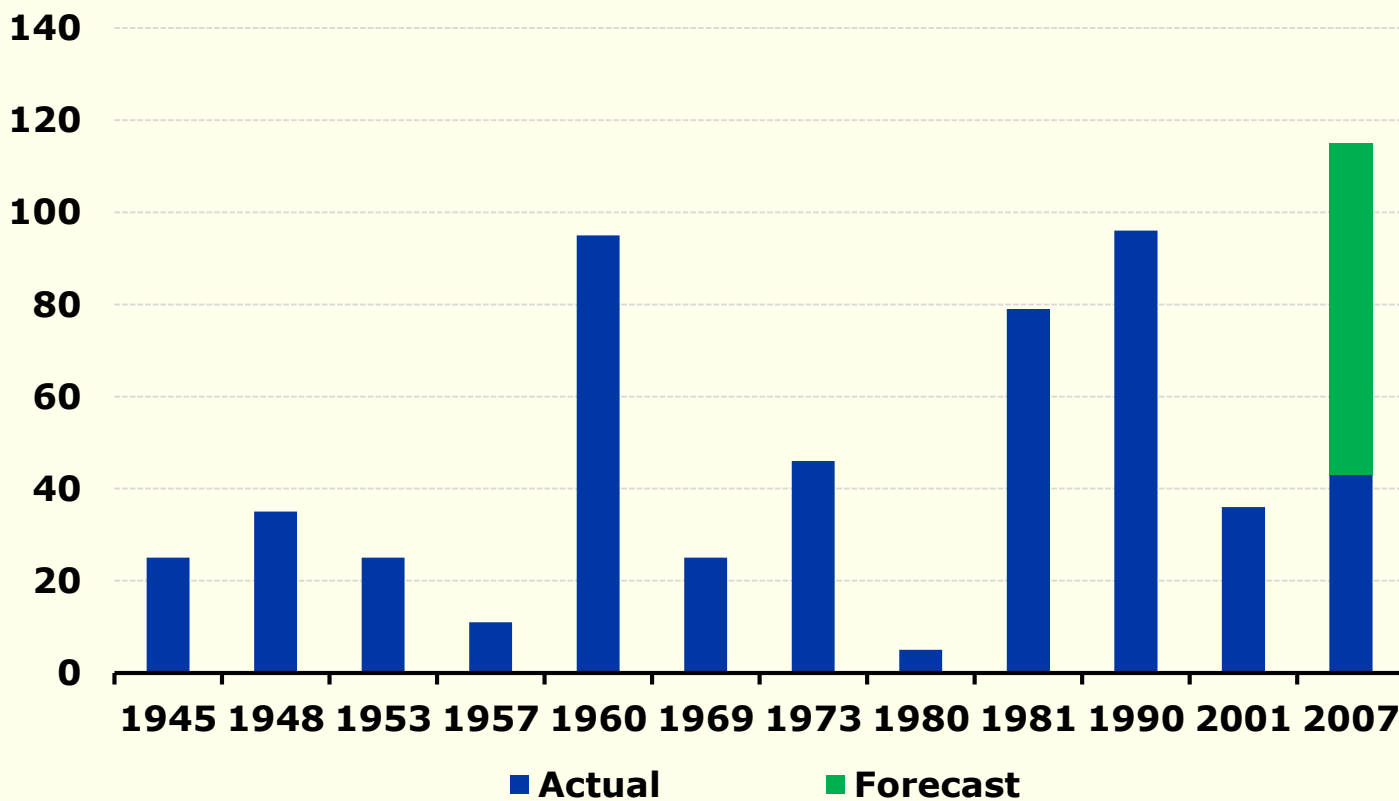


This recovery is forecasted to be the longest on record

GCEA members were asked the probability of recession by 2023.

Average probability of those who responded = 88%

Months of Recovery After Reaching Previous Peak in Employment



Source: BLS; ERFC February 2018 forecast

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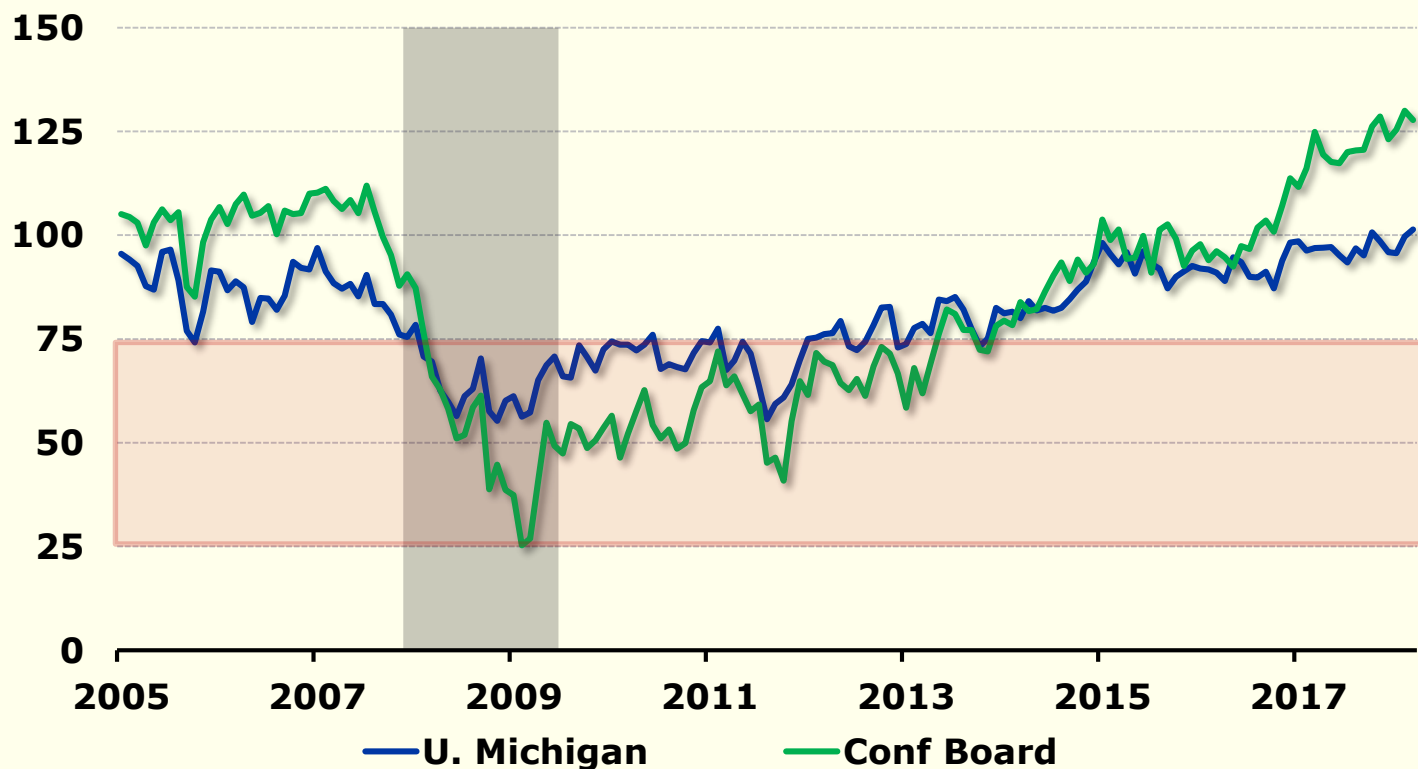


Consumer confidence is at or above pre-recession levels

Index

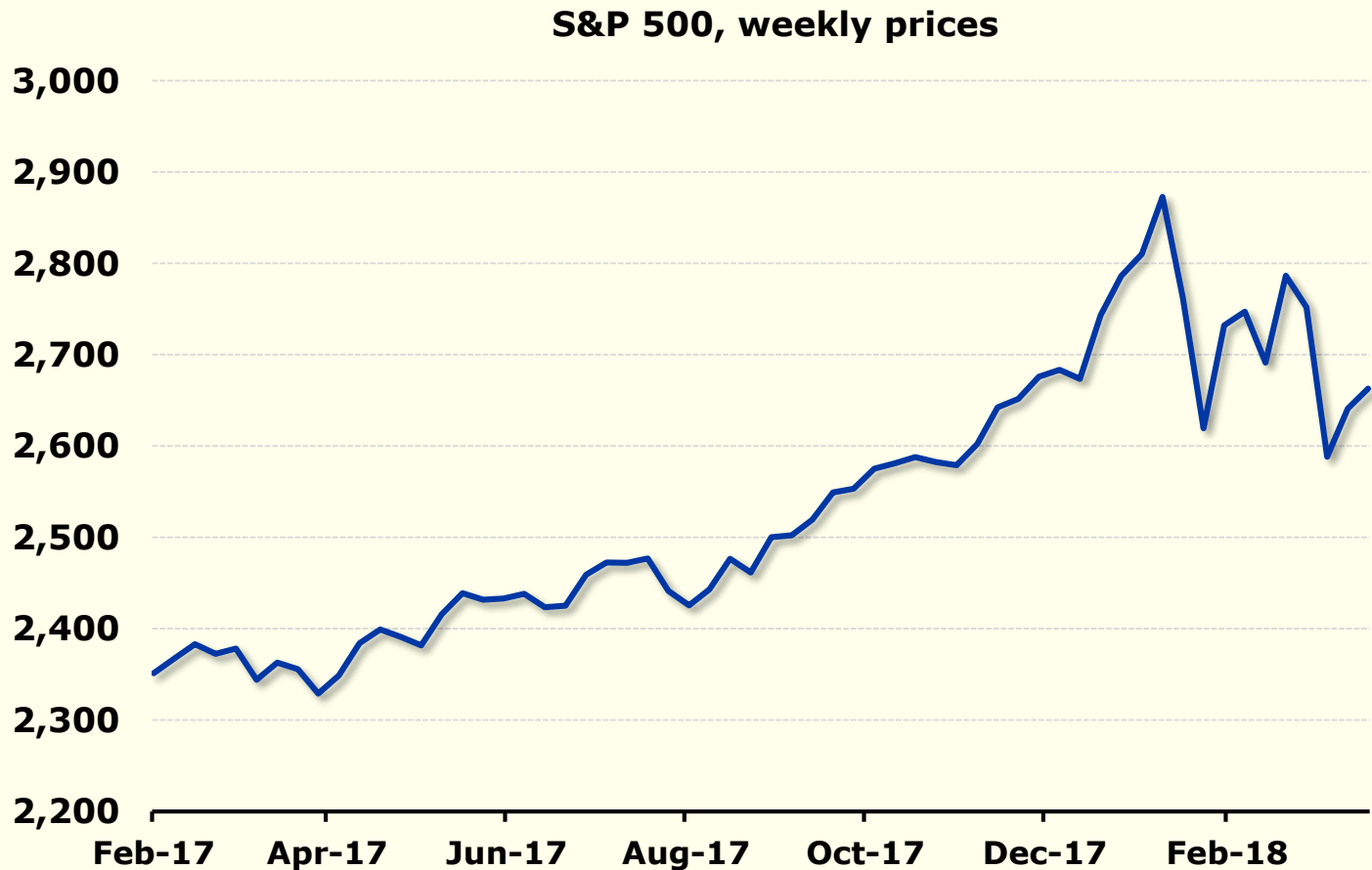
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





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

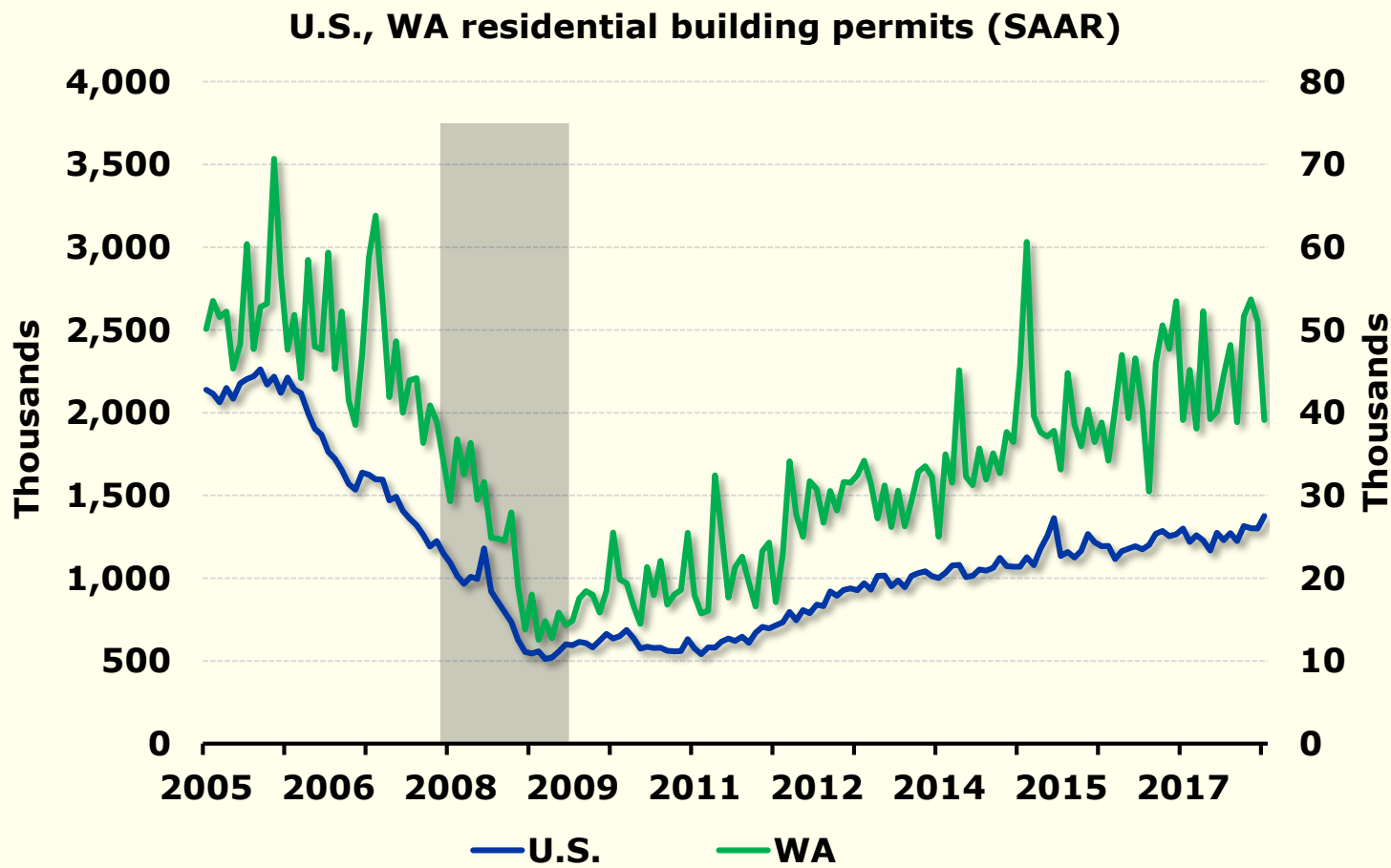


Source: Yahoo Finance, weekly data through April 2, 2018

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

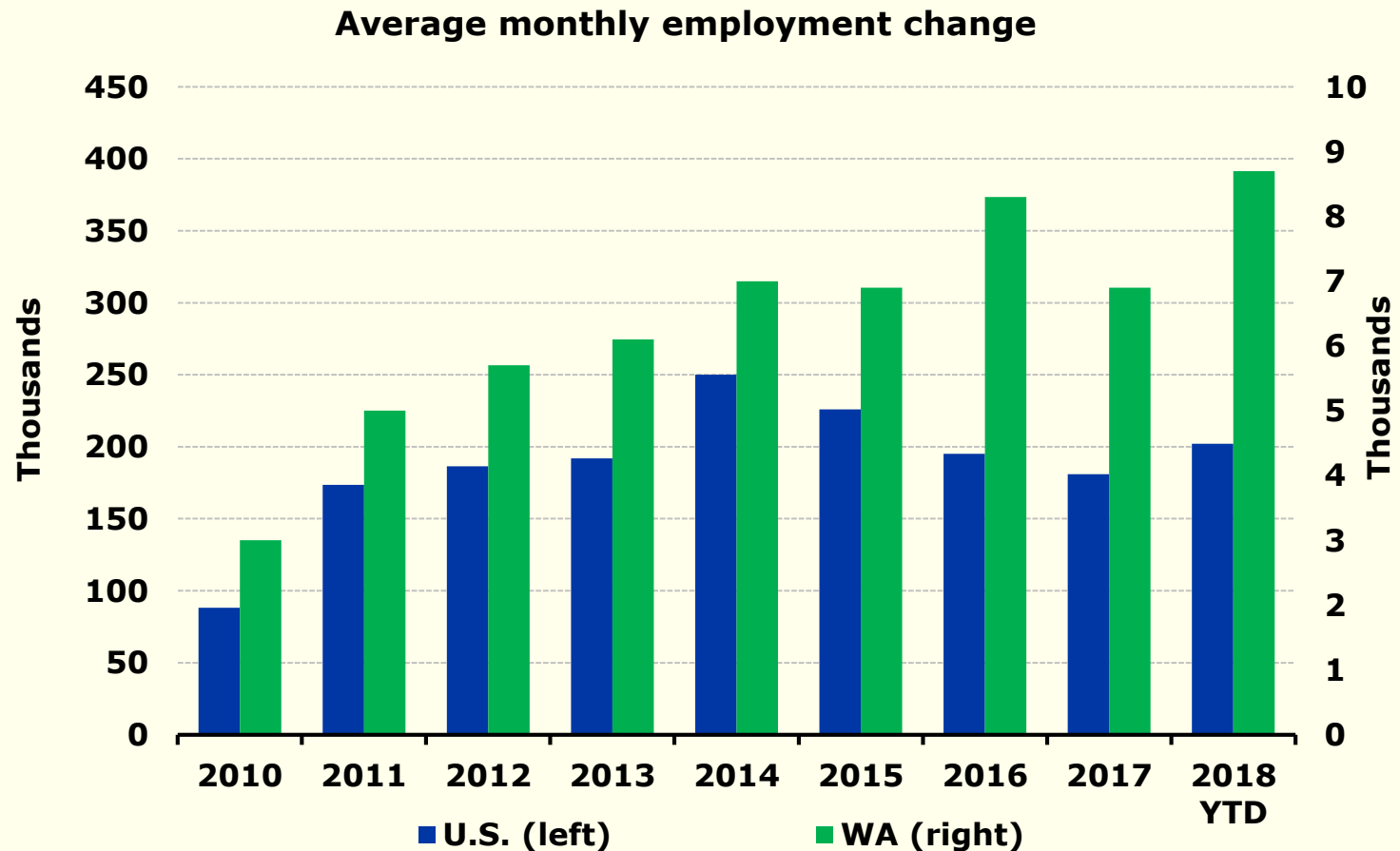


Source: U.S. Census Bureau, ERFC; data through January 2018

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Pace of U.S. job creation has strengthened so far this year, remains strong in WA



Source: Bureau of Labor Statistics, ERFC; U.S. data through Mar. 2018; WA data through Feb. 2018

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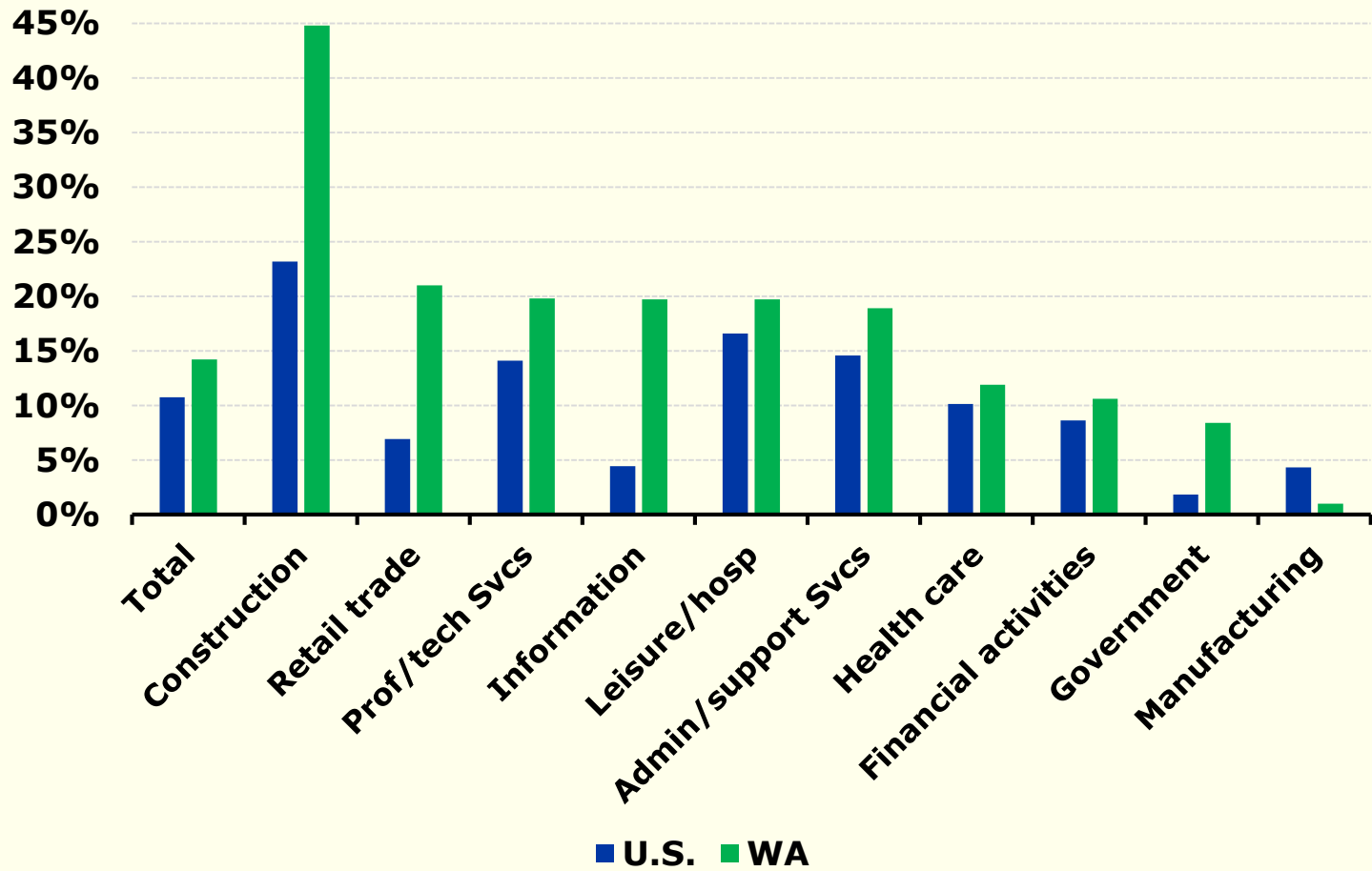


U.S. and WA: percentage change in employment by sector, 2012-2017

2012 - 2017
employment
change:

U.S.:
+12.1 M jobs

WA:
+416,000
jobs



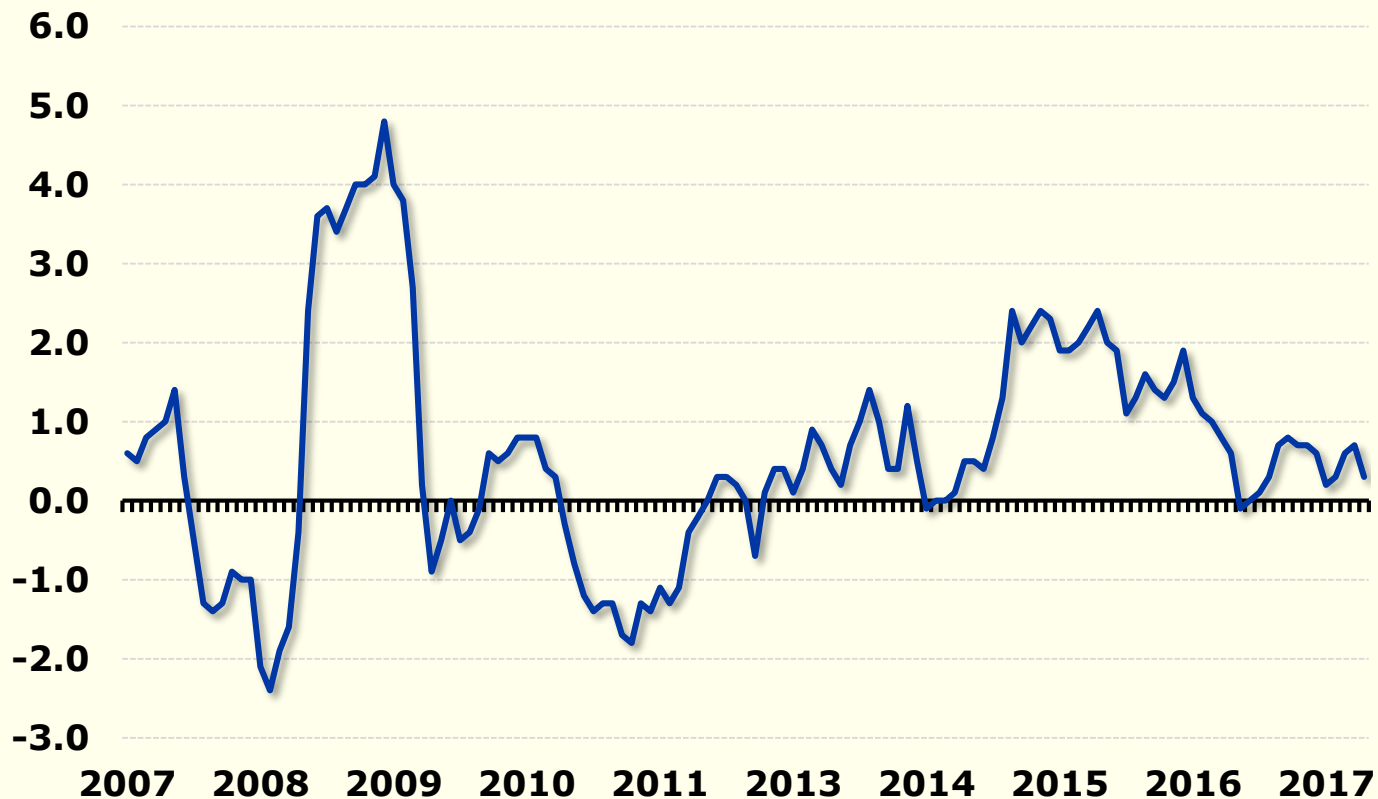
Source: BLS, WA Employment Security Dept., ERFC

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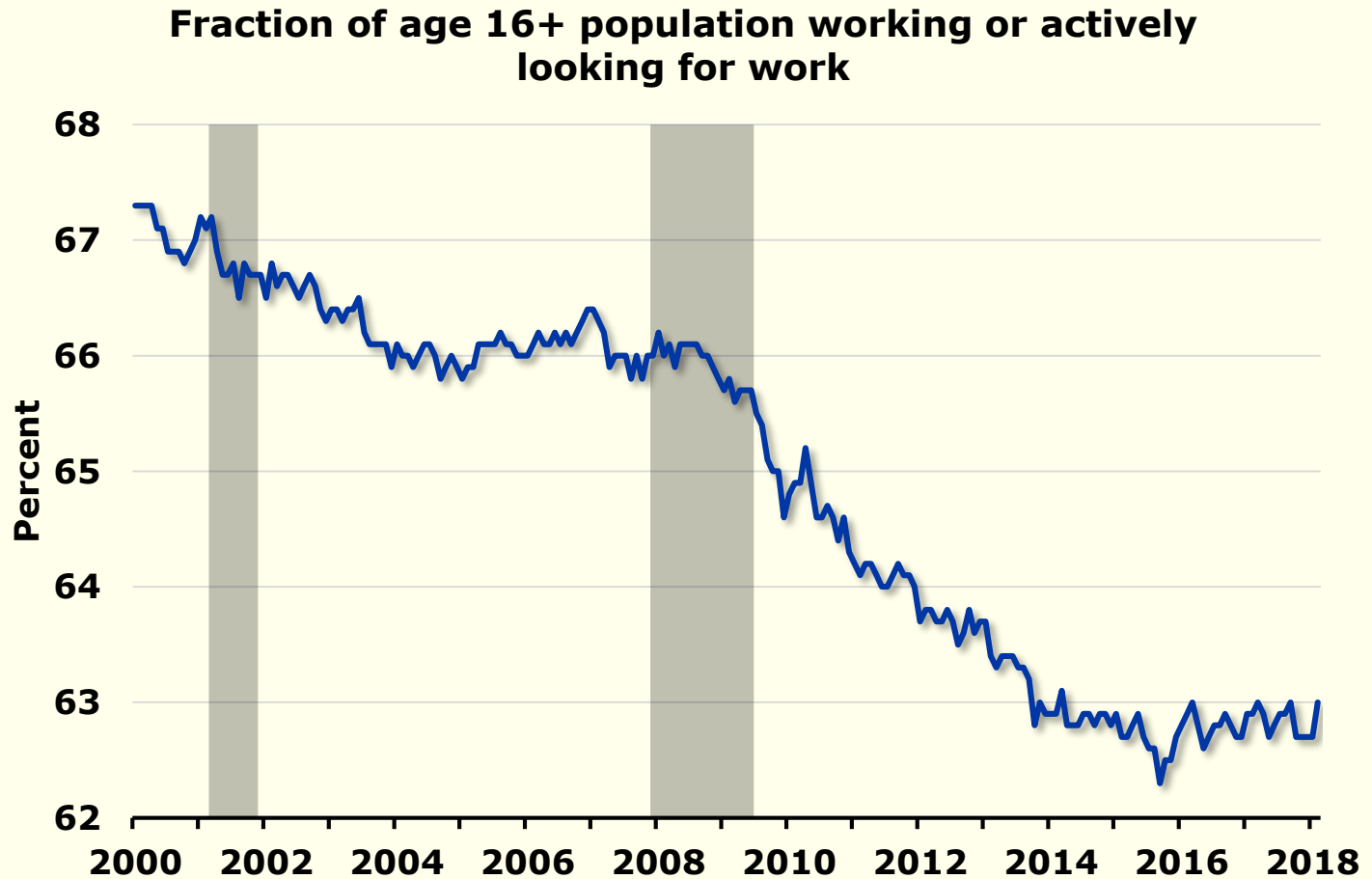
Adjusted for inflation, hourly wage growth remains muted

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





The labor force participation rate has improved slightly since late 2015



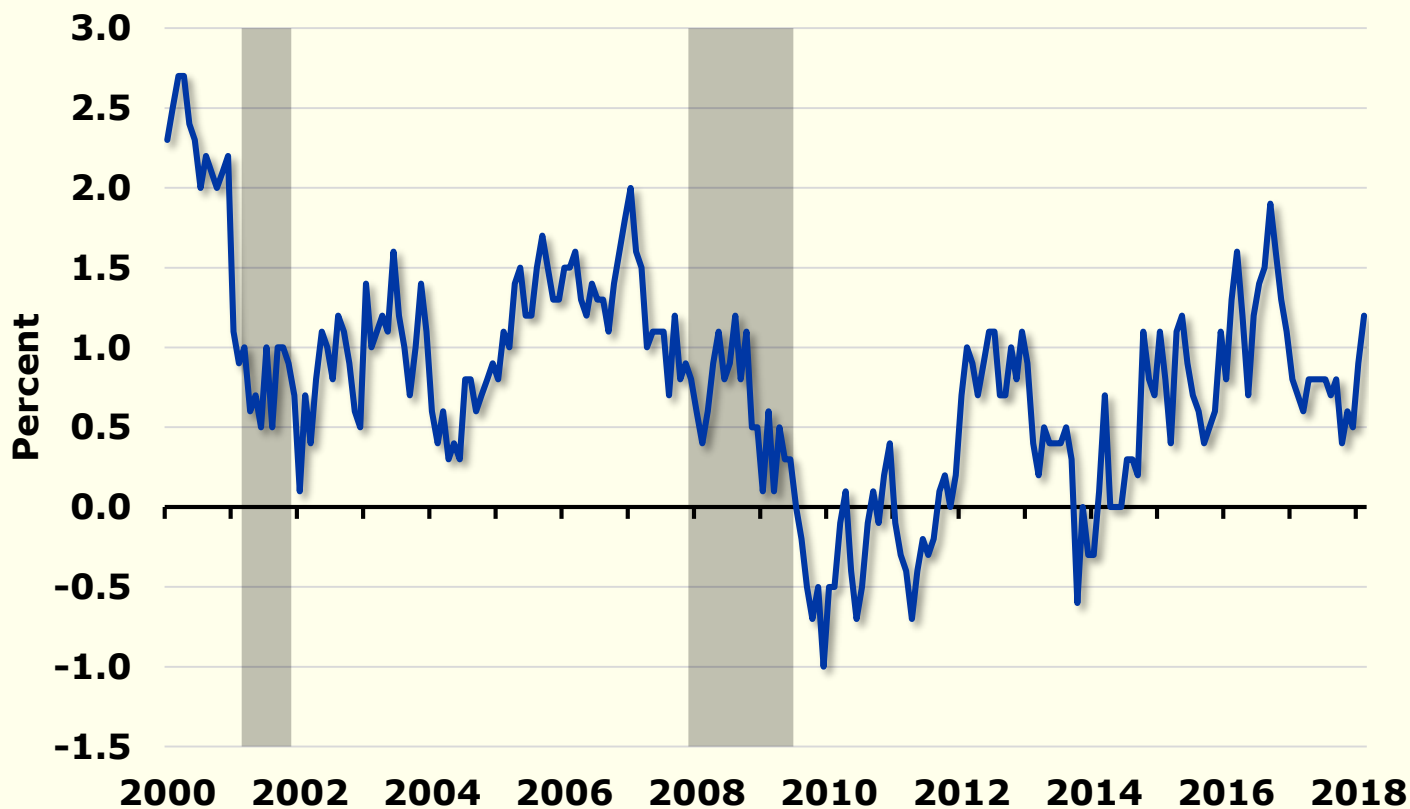
Source: U.S. Bureau of Labor Statistics, data through February 2018

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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 February 2018

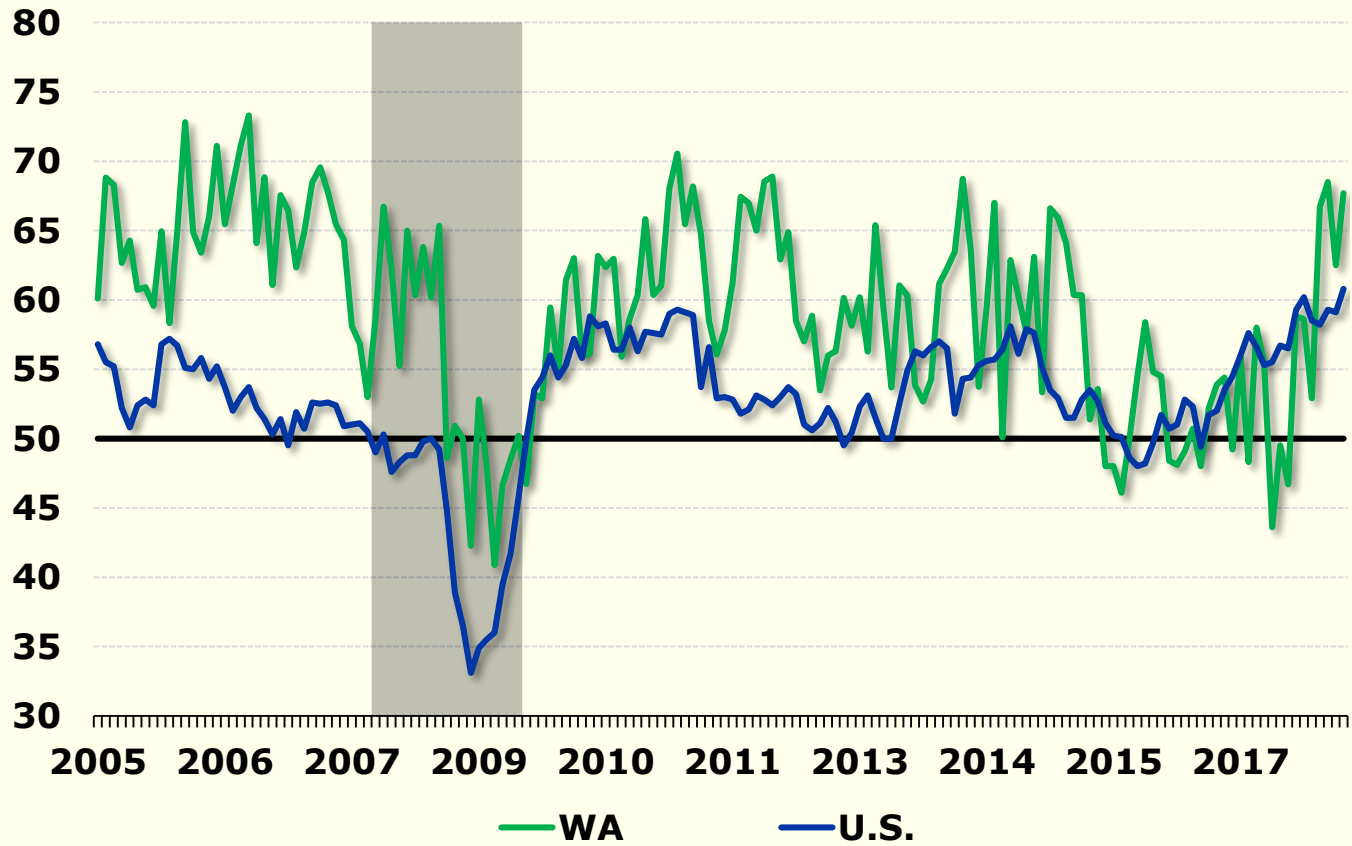
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Manufacturing activity continues to expand nationally and in WA

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

Manufacturing Purchasing Managers' Index, WA & U.S.



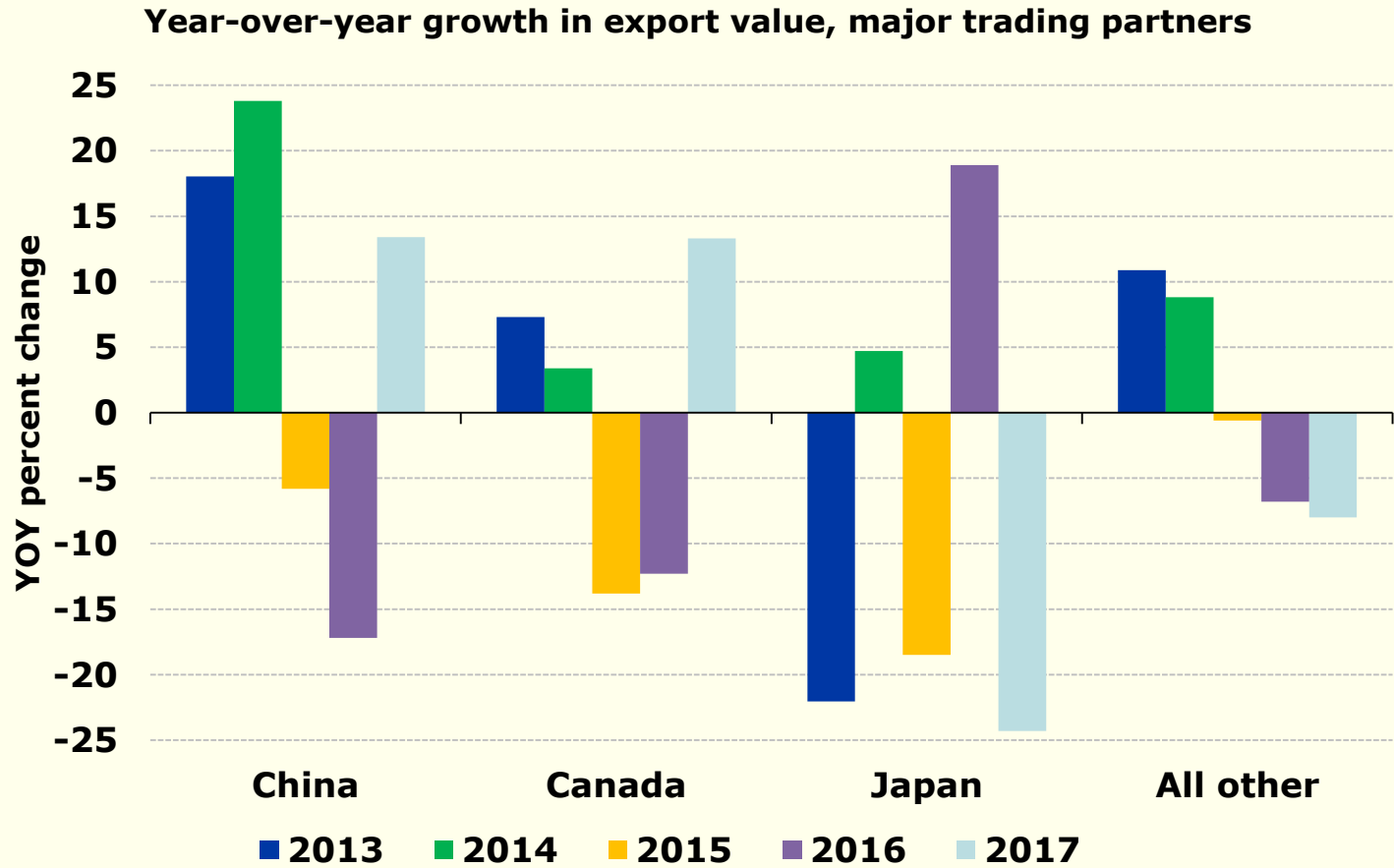
Source: Institute of Supply Management, data through February 2018

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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

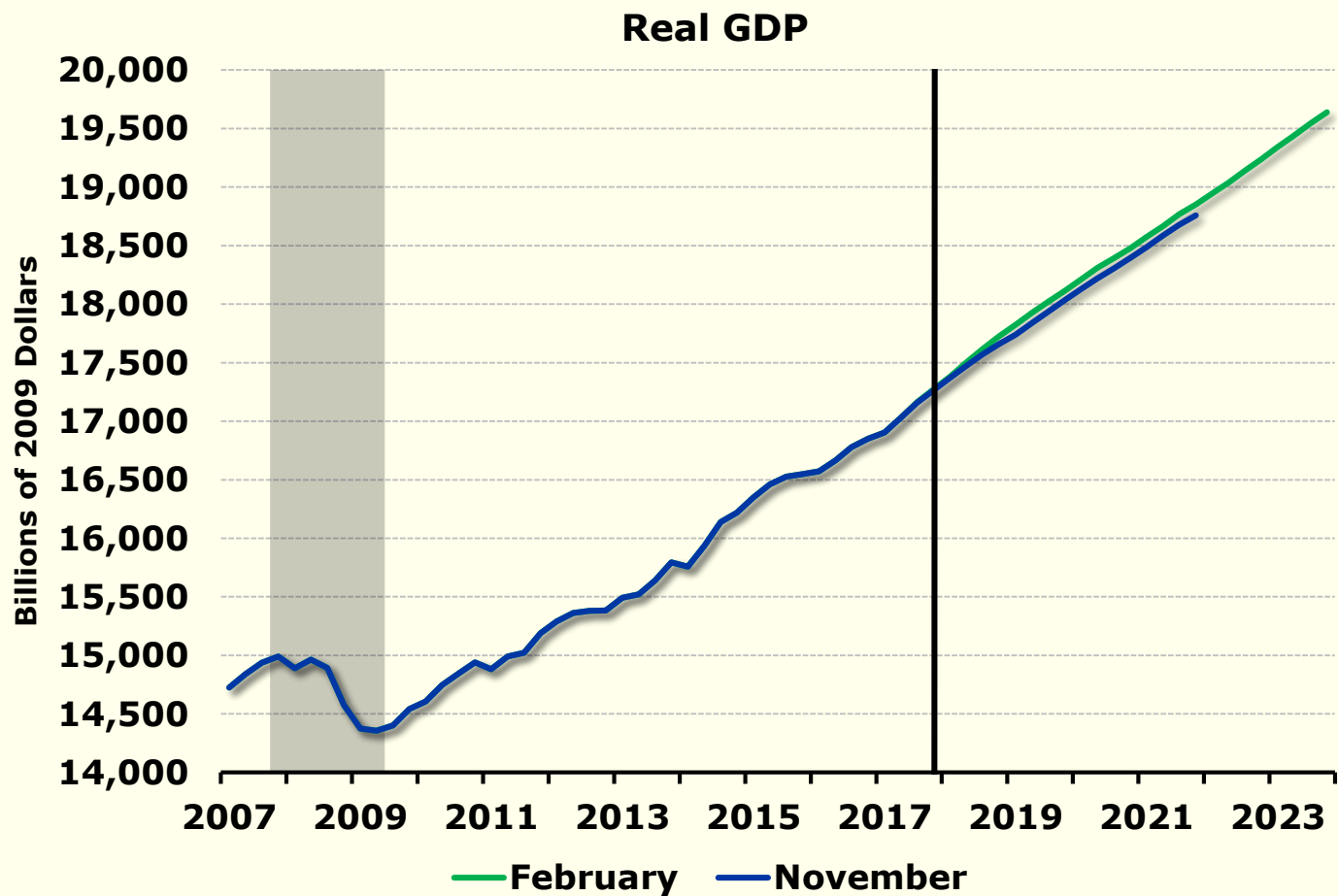


Source: WISERTrade; data through December 2017

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Real GDP is slightly higher than the November forecast

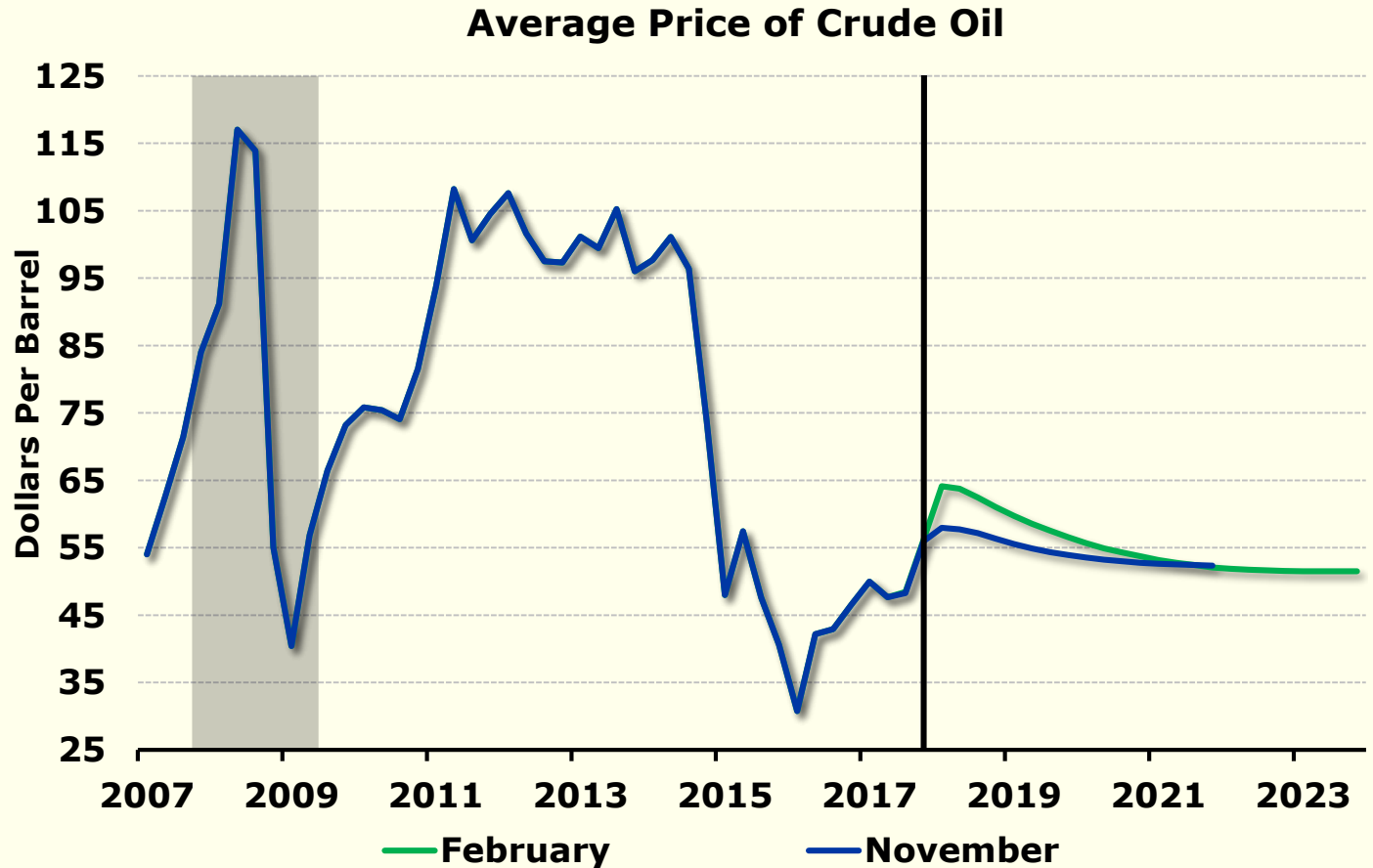


Source: ERFC February 2018 forecast; data through Q4 2017

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

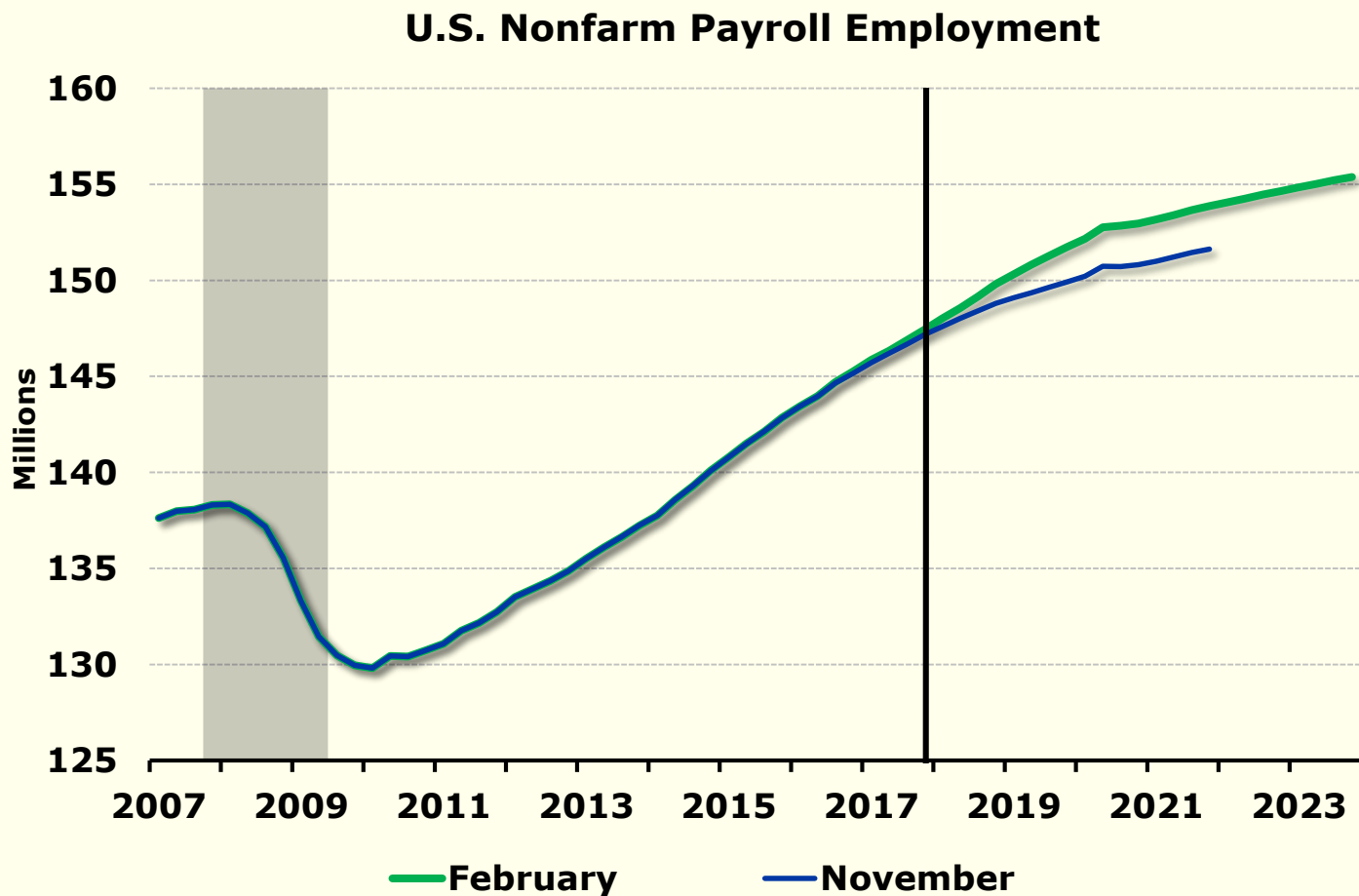


Source: U.S. DOE, ERFC February 2018 forecast; historical data through Q4 2017

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

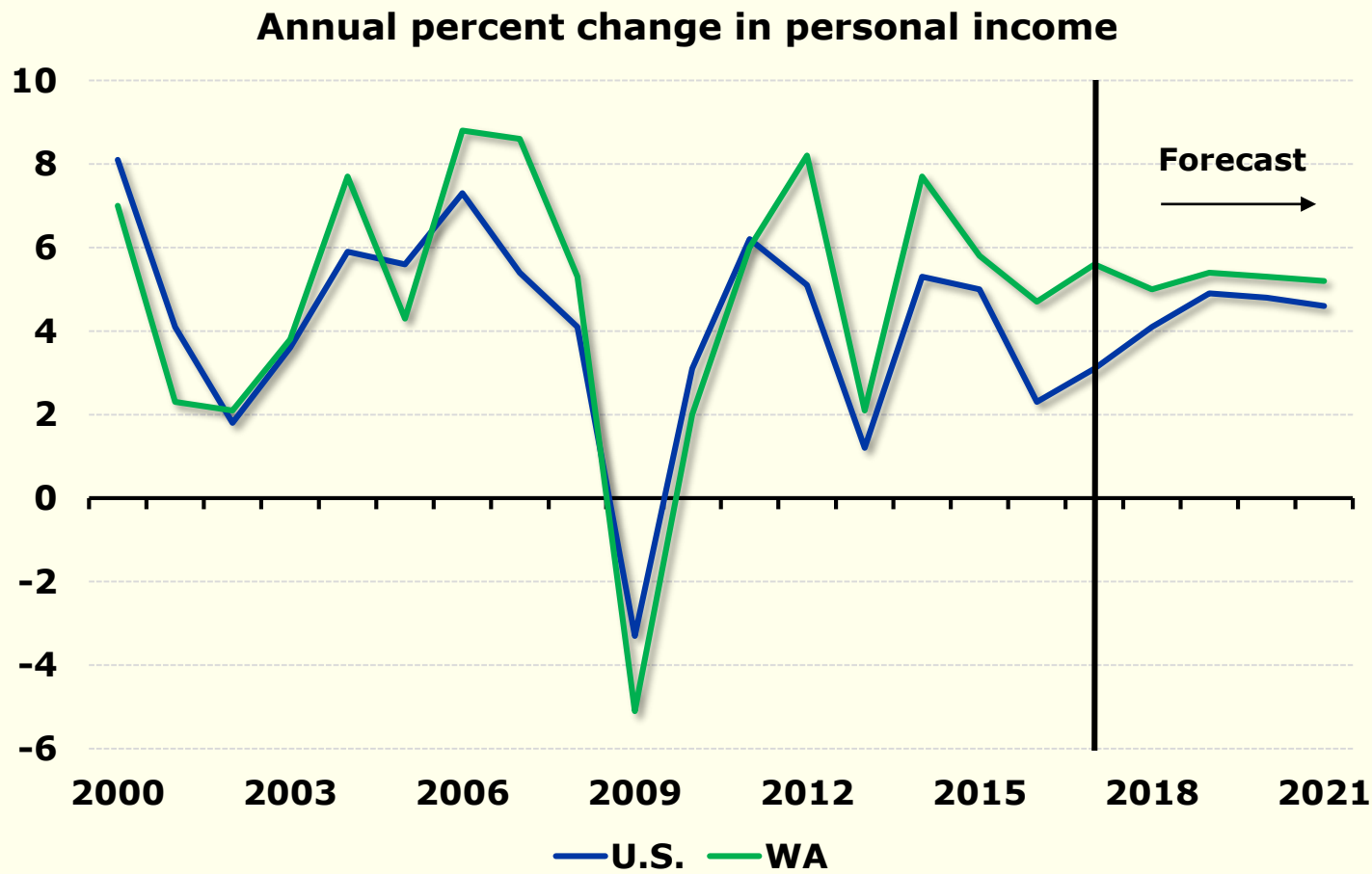


Source: ERFC February 2018 forecast; data through Q4 2017

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Since 2011, personal income has grown faster in WA than nationally



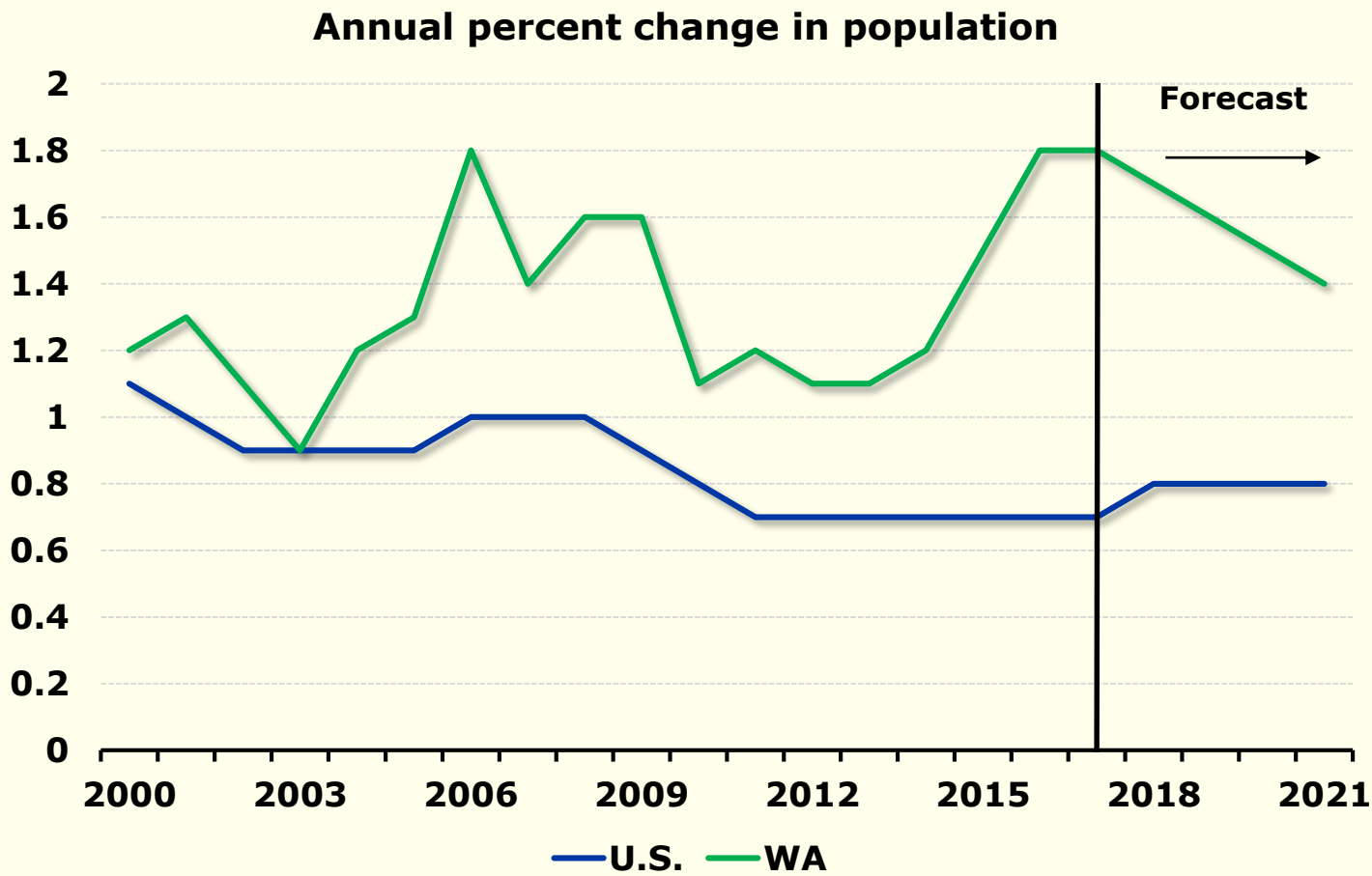
Source: U.S. Bureau of Economic Analysis, ERFC Feb. 2018 forecast

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WA population consistently grows faster than U.S. as a whole

Washington's population has grown from 5.9 million in 2000 to an expected 7.9 million in 2021



Source: U.S. Bureau of Economic Analysis, ERFC Feb. 2018 forecast

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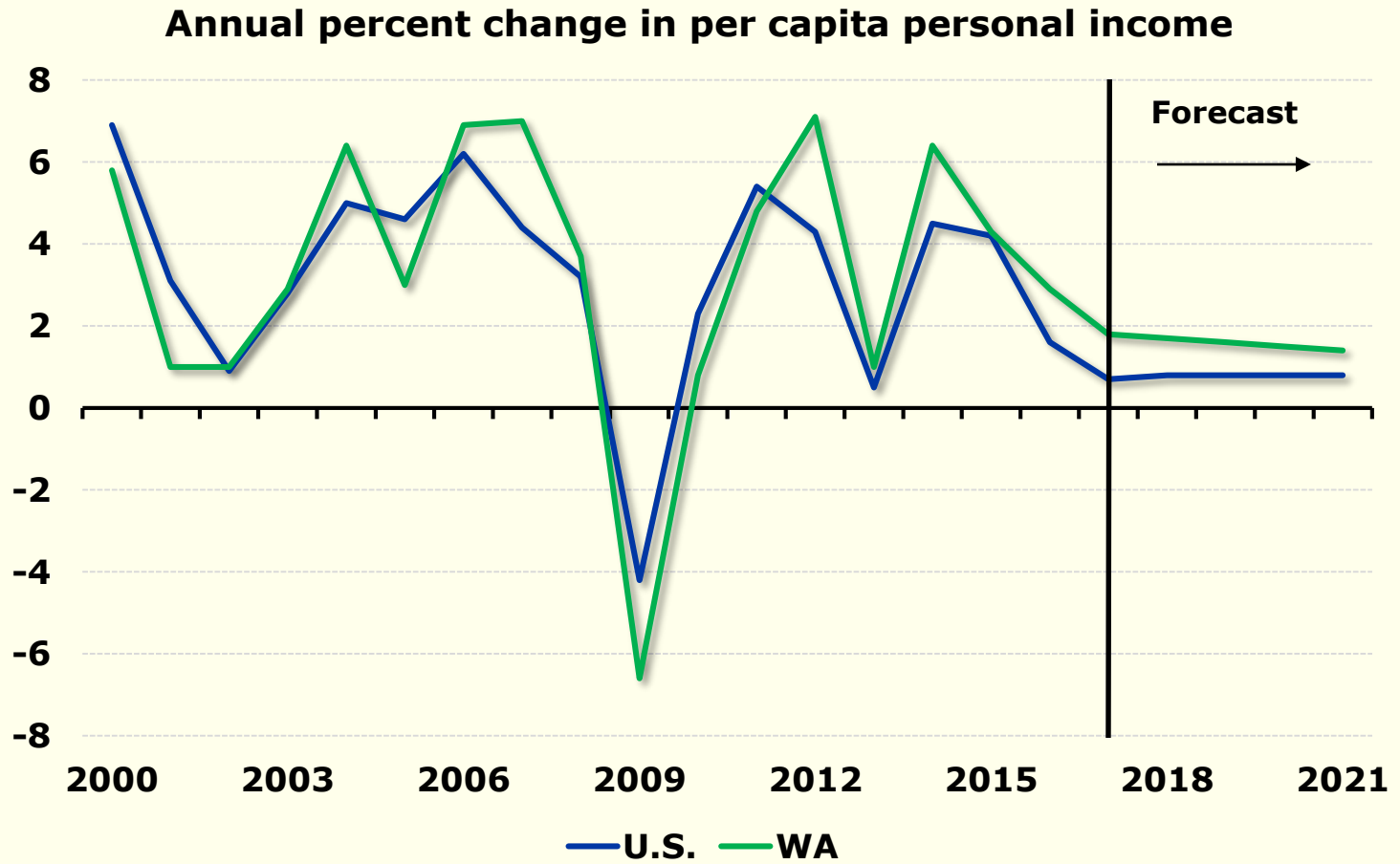


On a per capita basis, WA personal income has grown as fast or faster than U.S. as a whole

Per capita personal income, 2016

U.S.:
\$49,246

WA: \$54,579



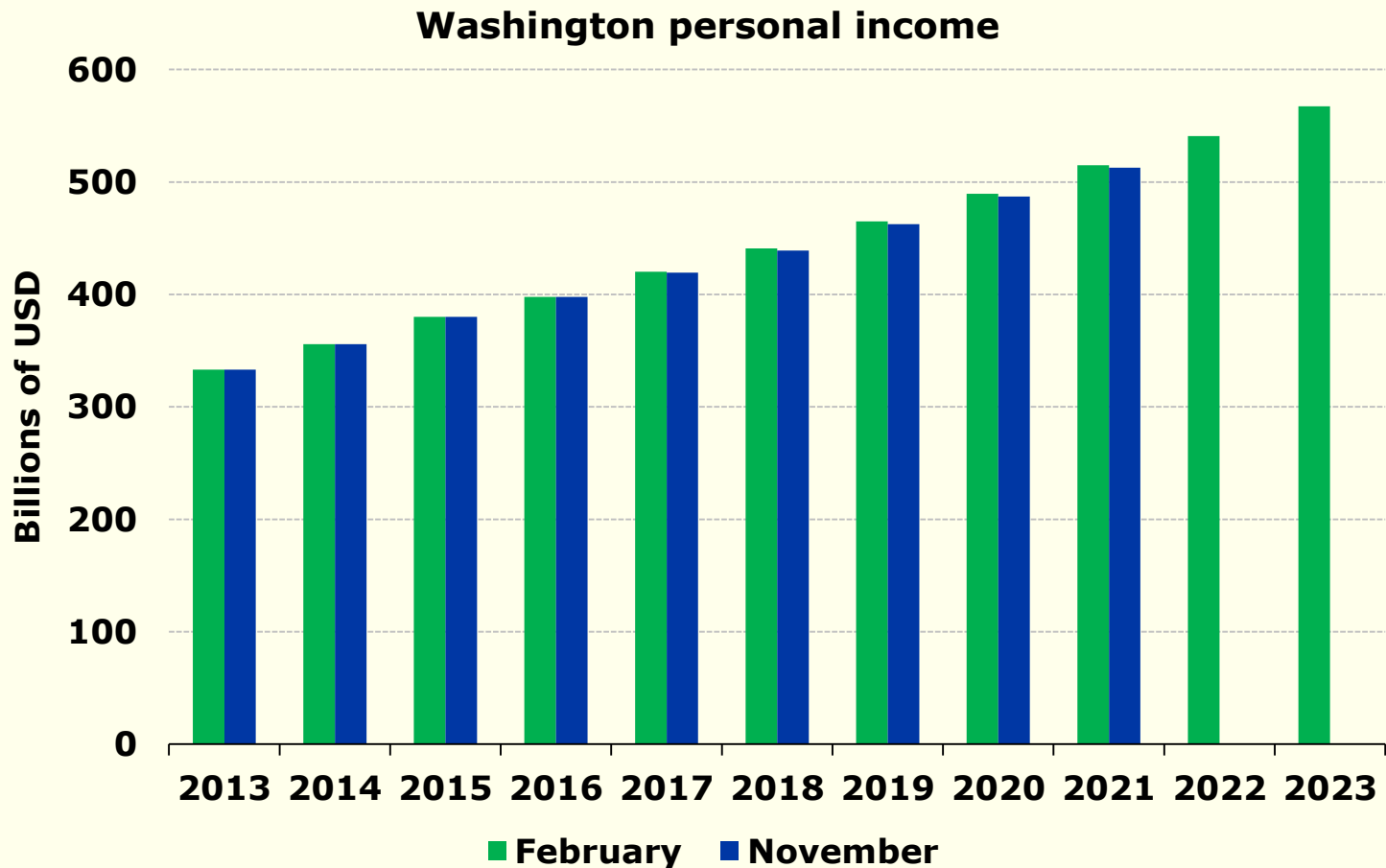
Source: U.S. Bureau of Economic Analysis, ERFC Feb. 2018 forecast

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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



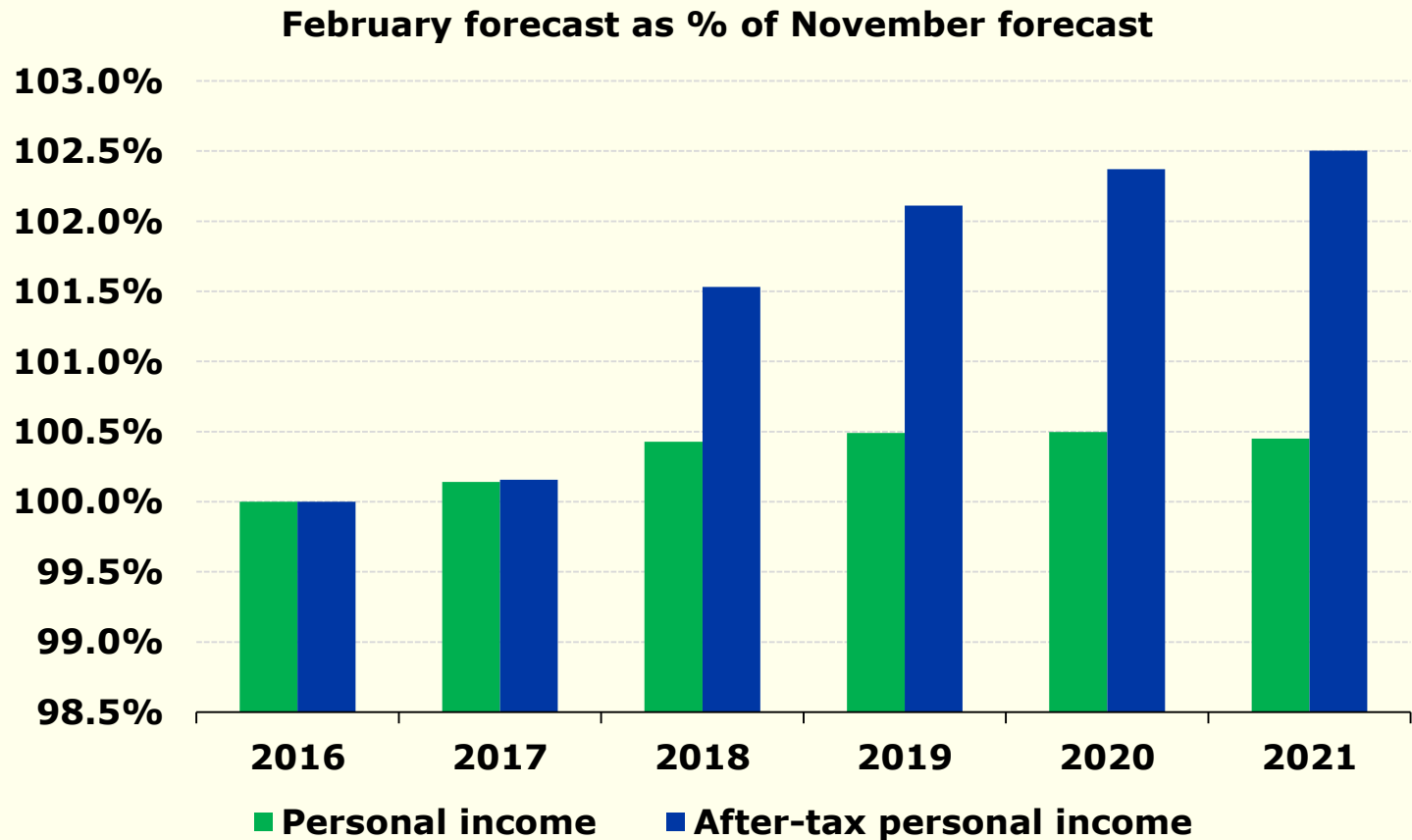
Source: ERFC February 2018 forecast; historical data through 2016

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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

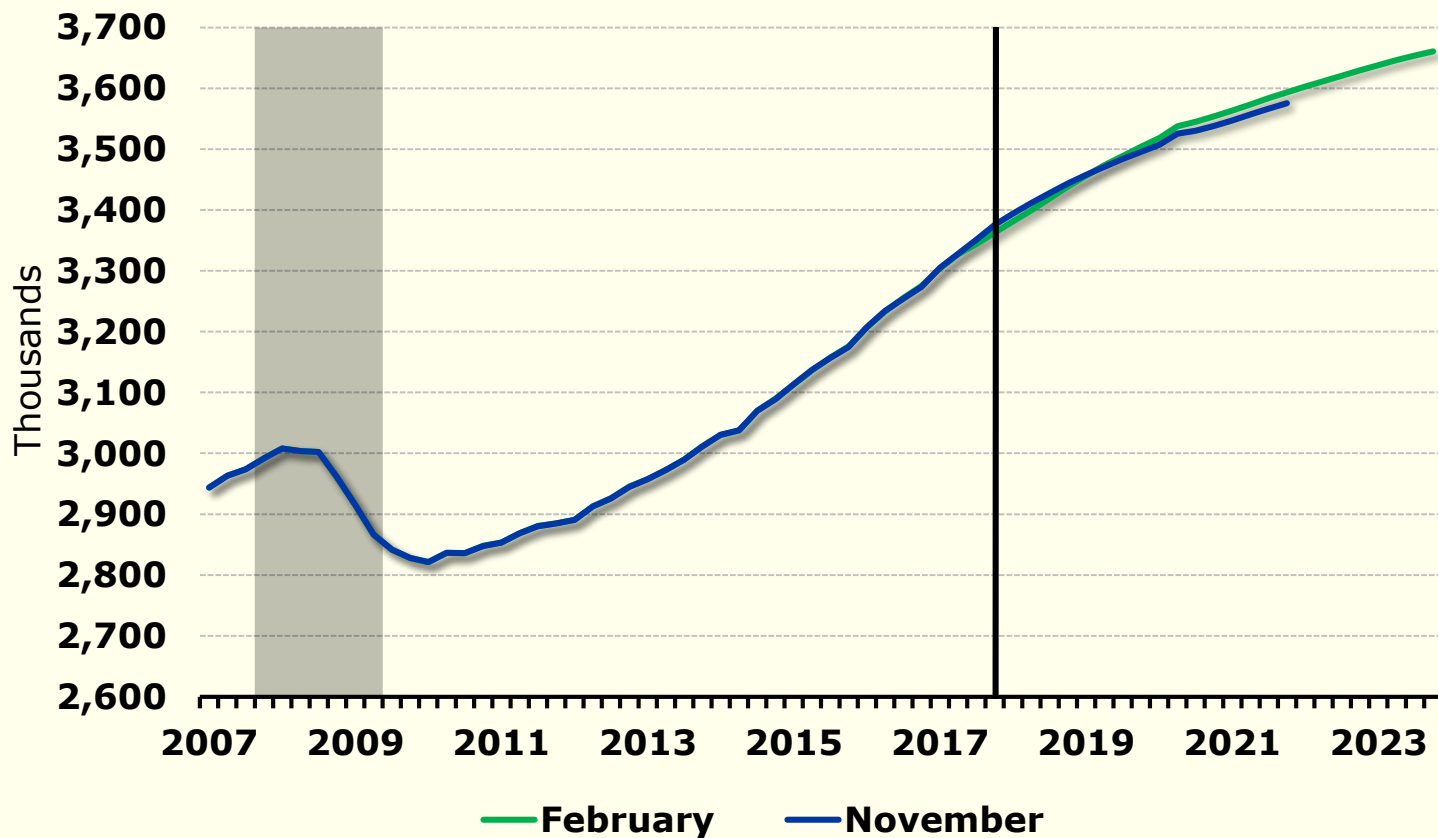
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Washington employment forecast is slightly higher compared to November

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

Washington Nonfarm Payroll Employment

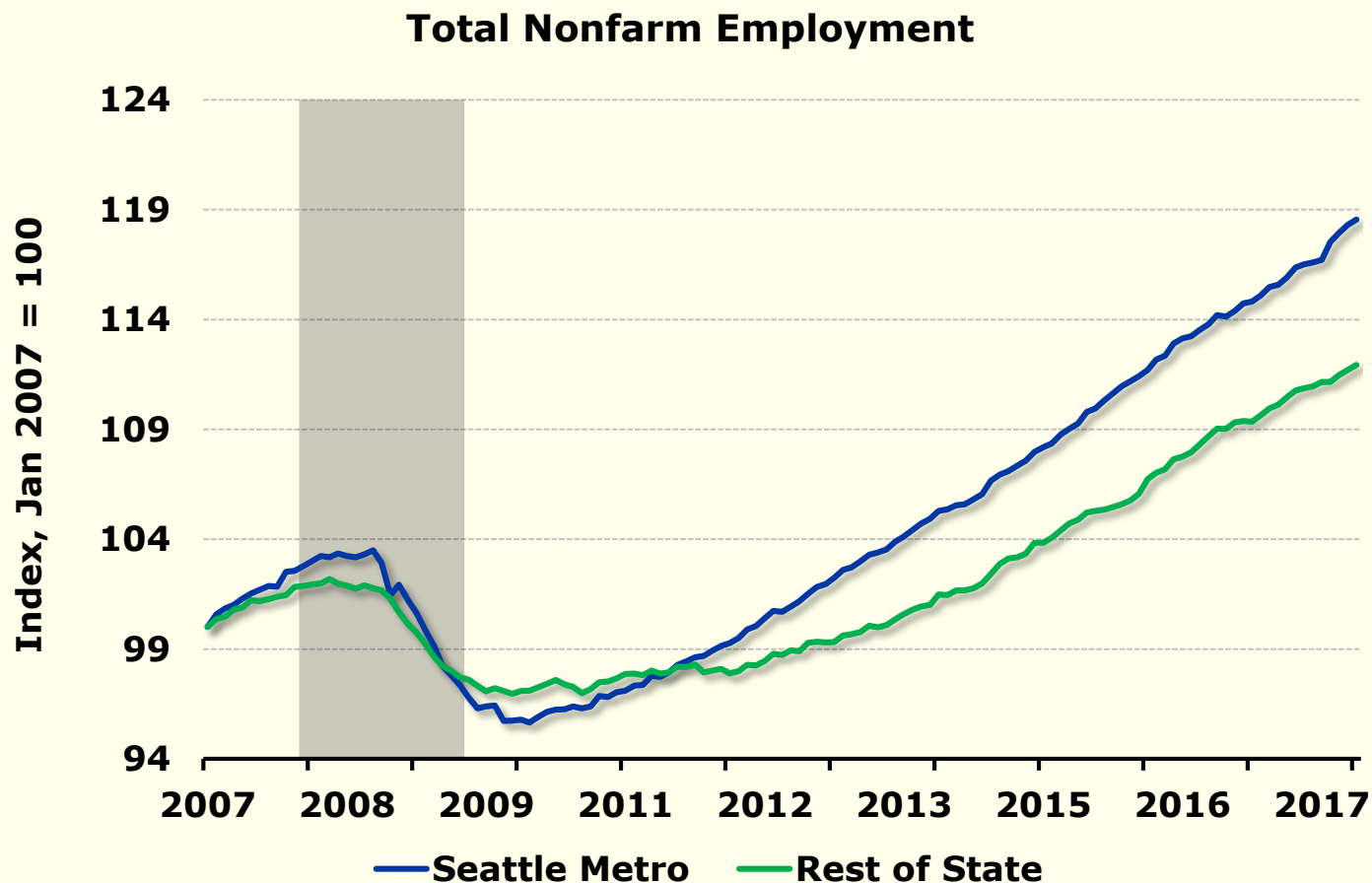


Source: ERFC February 2018 forecast; historical data through Q4 2017

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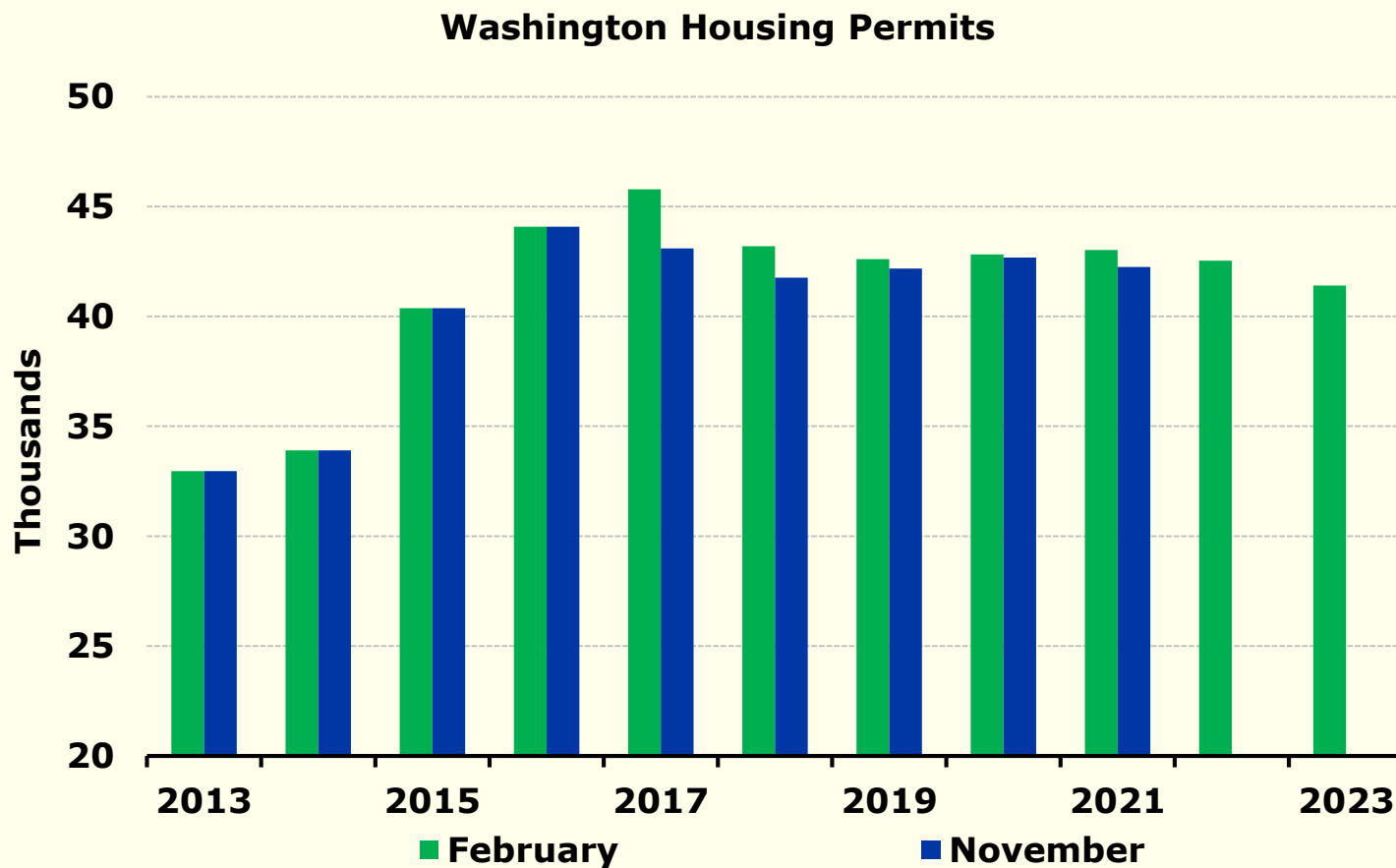
Seattle area employment continues to grow faster than the rest of the state





Washington housing permits forecast is slightly higher than in November

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



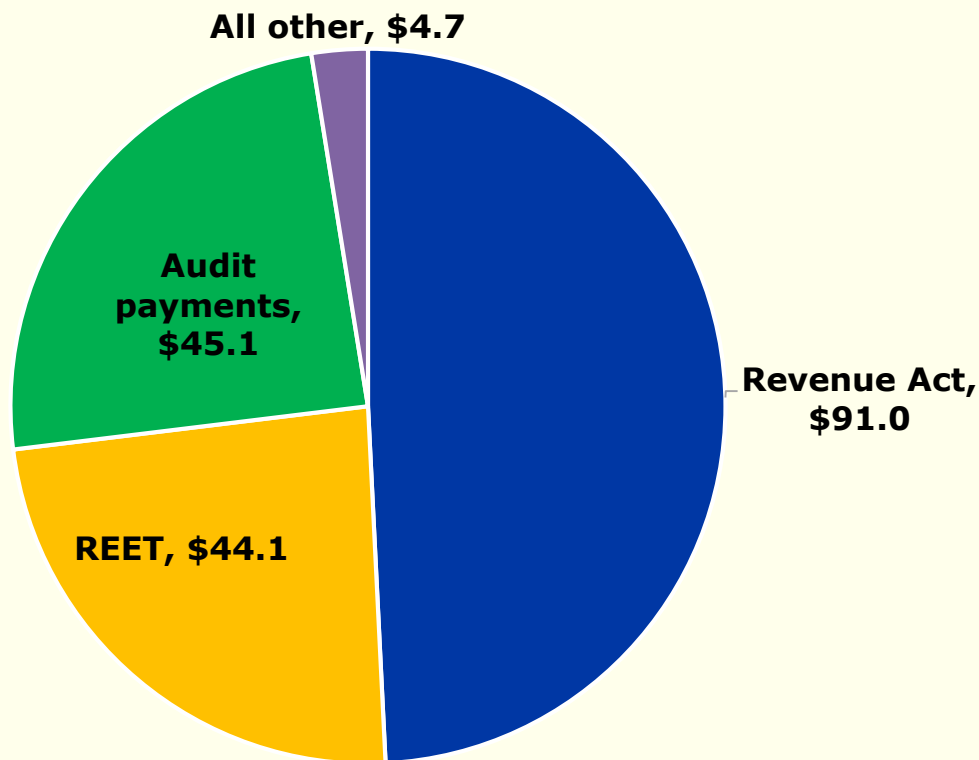
Source: ERFC February 2018 forecast; historical data through 2017

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Forecast variance from November forecast mainly Revenue Act sources; 24% due to one-time audit payments

Variance from November forecast (\$ millions)

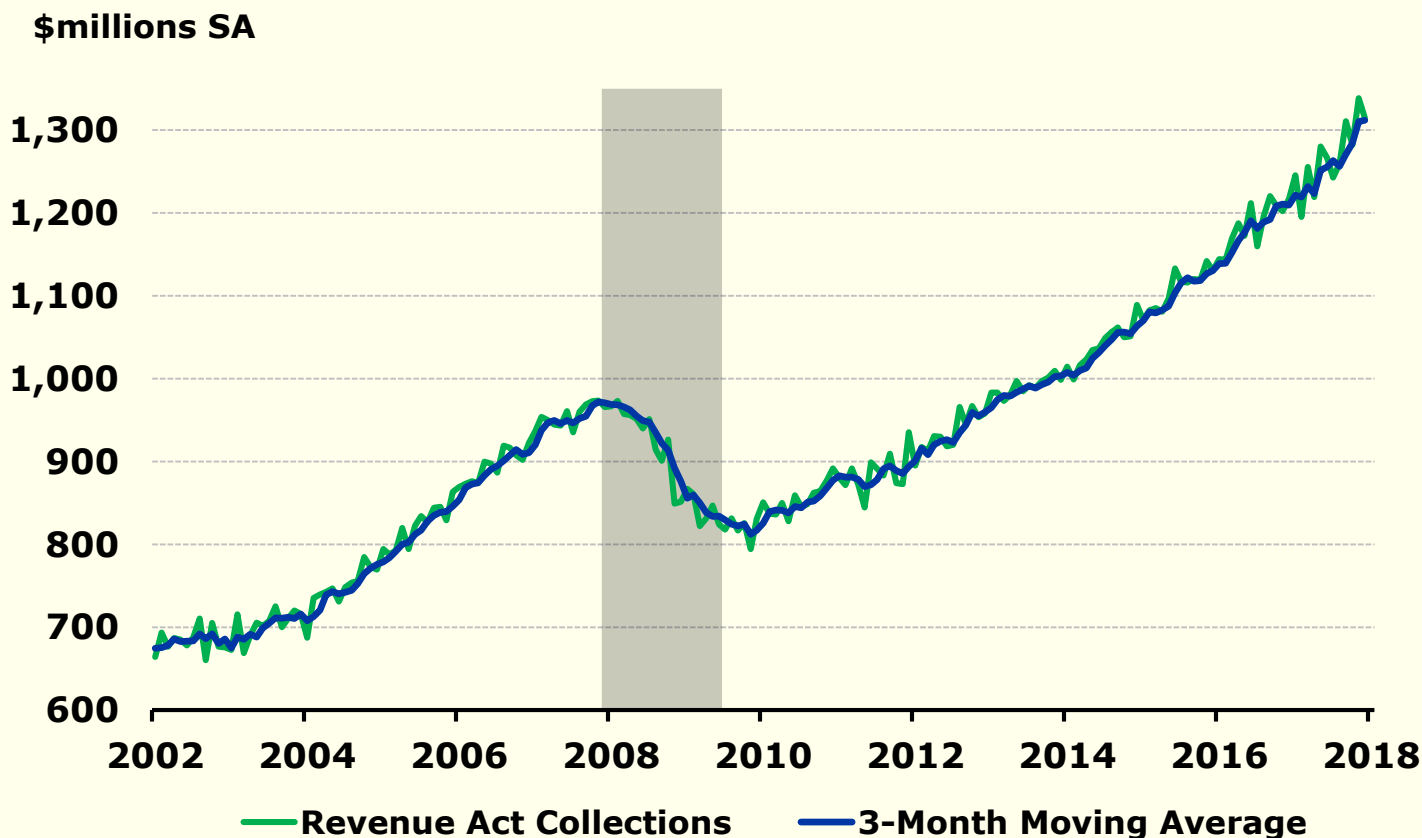




Revenue Act collections growth accelerated in the 4th quarter

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 December 2017 activity

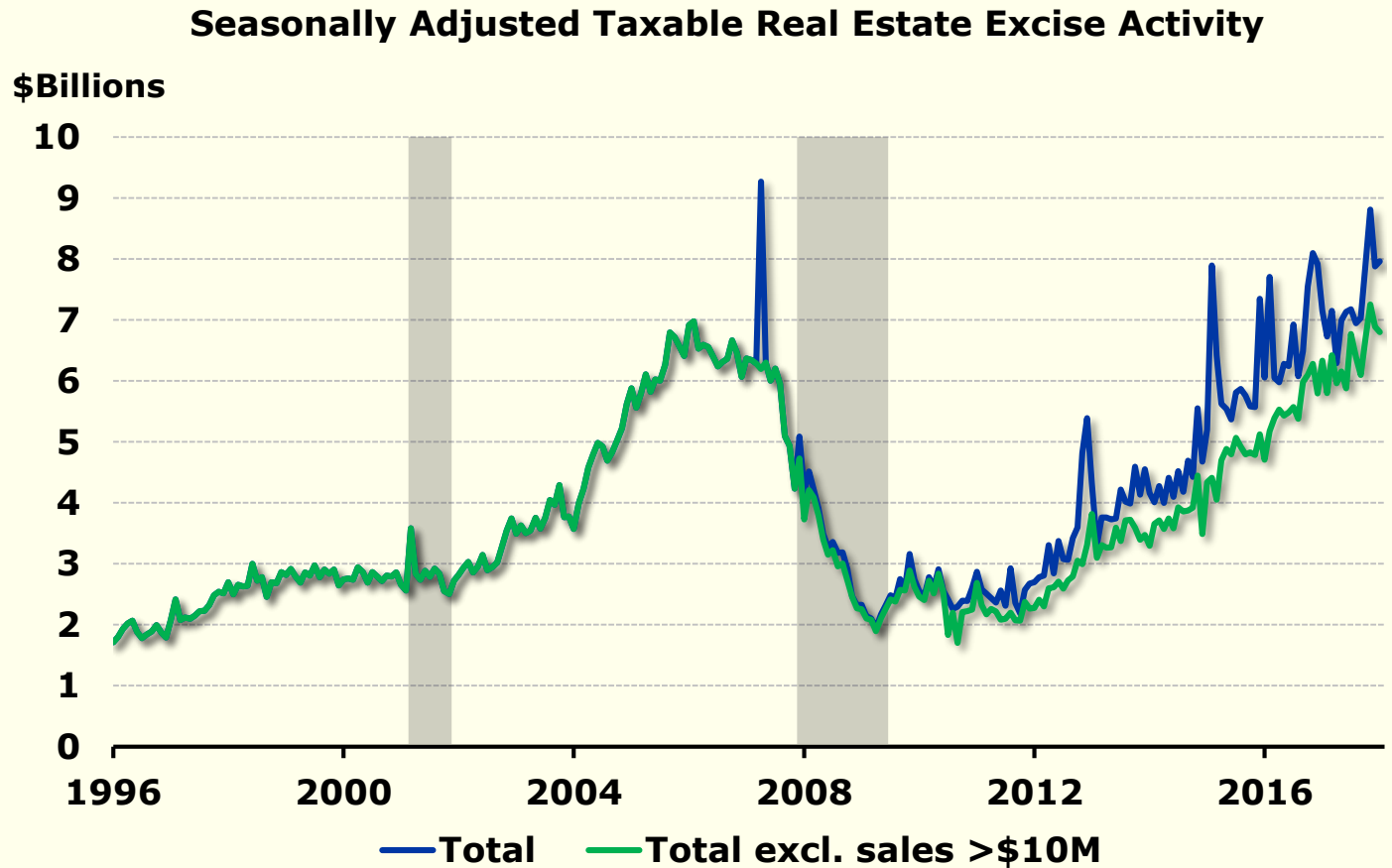
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Large commercial property sales increased in the 4th quarter of 2017

Large commercial sales (>\$10 million) totaled \$1.8 billion in the 1st quarter of 2017, \$2.9 billion in the 2nd quarter and \$2.0 billion in the 3rd quarter, then rebounded to \$3.6 billion in the 4th quarter.

Residential and smaller commercial sales also increased.



Source: ERFC; Monthly data through January 2018 preliminary

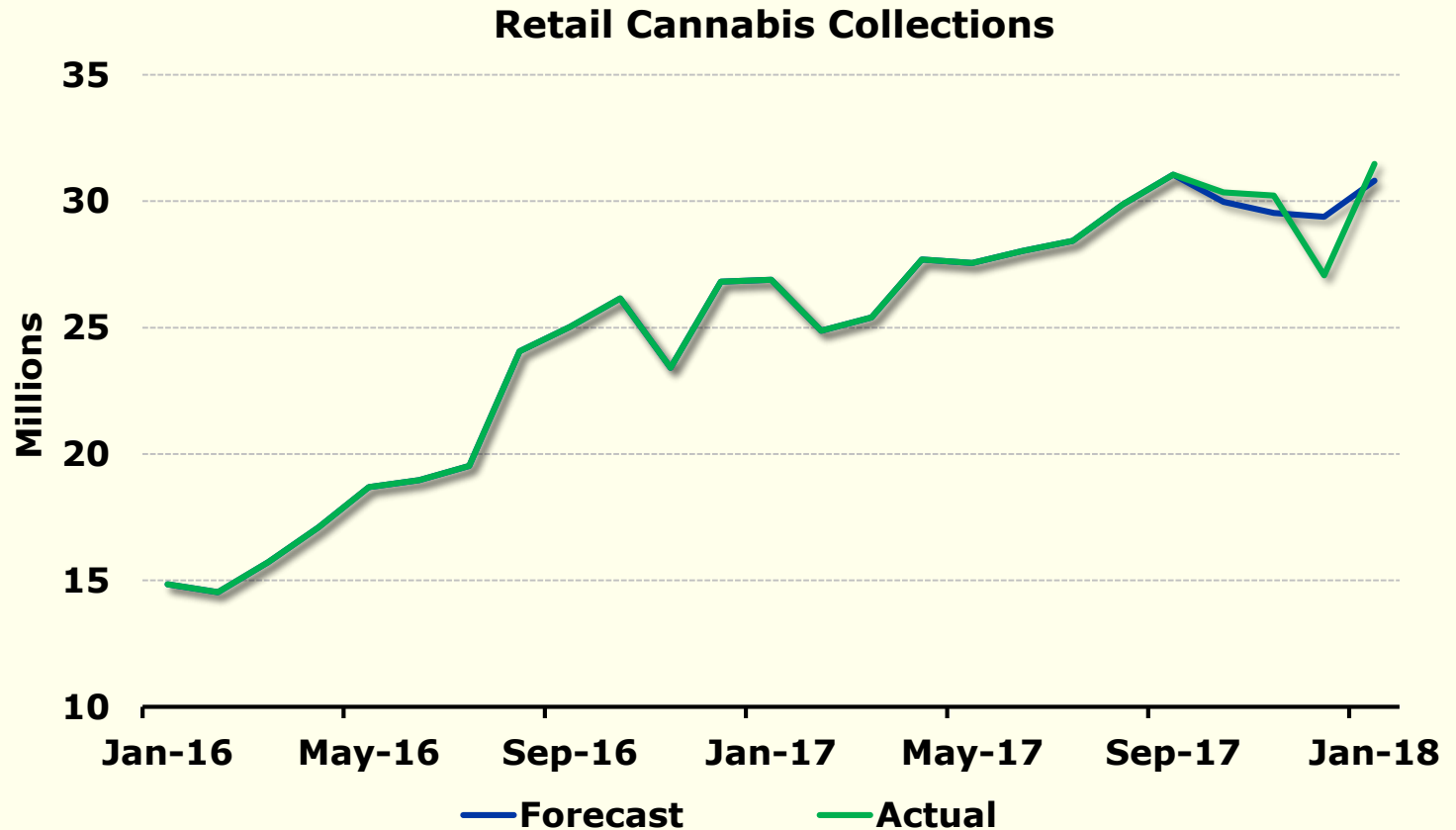
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Cannabis revenue continues to be volatile

Collections were 2.1% above forecast in January

Collections are 0.5% below forecast since October



Source: LCB, ERFC; data through January 2018

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Forecast changes: General Fund State, 2017-2019 Biennium

November Forecast:

\$43,566 million

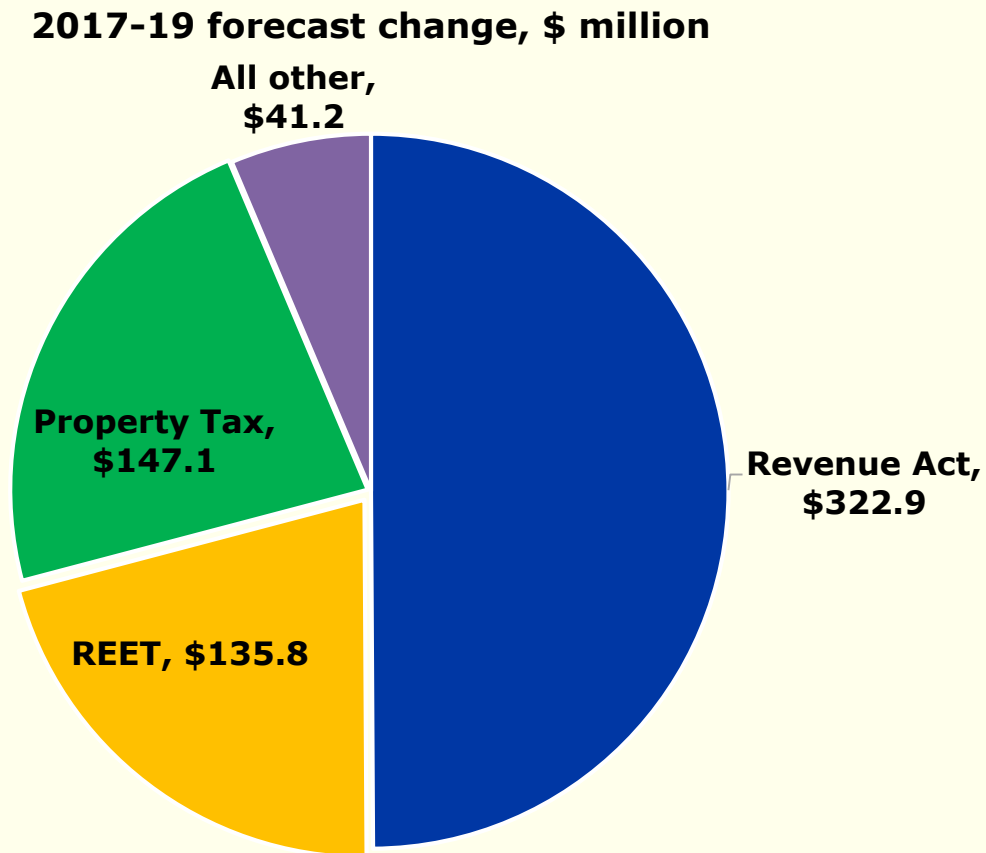
\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$184	\$0	\$447	\$41,999	\$631
All other agencies	\$1	\$0	\$15	\$2,213	\$16
Total GF-S	\$185	\$0	\$462	\$44,213	\$647

* Detail may not add to total due to rounding

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Components of 2017-19 GF-S forecast change



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Forecast changes: General Fund State, 2019-2021 Biennium

November Forecast:

\$47,582 million

\$Millions

	February Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$655	\$46,029	\$655
All other agencies	\$0	\$16	\$2,226	\$16
Total GF-S	\$0	\$671	\$48,255	\$671

* Detail may not add to total due to rounding

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State property tax estimates

\$Millions

Property Tax Forecast

	<u>2015-17</u>	<u>2017-19</u>	<u>2019-21</u>
November	\$4,133	\$6,034	\$7,188
February	\$4,133	\$6,181	\$7,416
Difference	\$0	\$147	\$228

* Detail may not add to total due to rounding

Source: ERFC February 2018 forecast

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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 alternative forecasts – cash basis

\$Millions	2017-19 Biennium	Difference From the baseline[#]
February 2018 Baseline (60%)	\$44,213	
<u>November 2017 Alternative Forecasts</u>		
Optimistic (15%)	\$45,311	\$1,098
Pessimistic (25%)	\$42,832	(\$1,381)
Probability Weighted Average	\$44,032	(\$181)
GCEA*	\$44,125	(\$88)

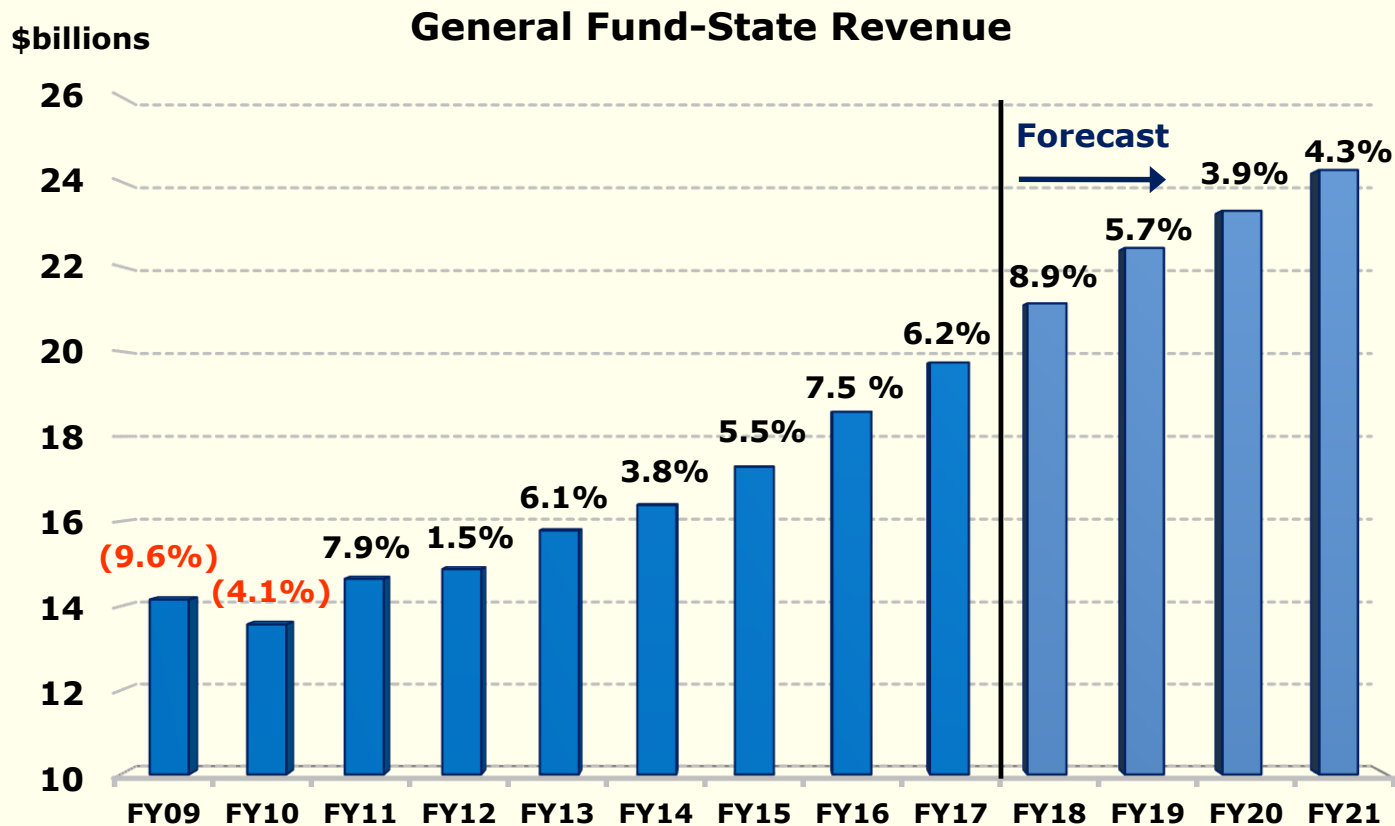
*Based on the Governor's Council of Economic Advisors' economic assumptions

#May not add to total due to rounding

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General Fund-State* forecast by fiscal year





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



**Economic & Revenue Forecast Council
PO BOX 40912
Olympia WA 98504-0912**

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