Washington State Economic and Revenue Outlook

Presented to
Good Eggs Breakfast

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Tukwila, Washington

Summary

- Our economic forecasts have been fairly stable for some time
- Our most recent forecast is similar to the September forecast with two exceptions:
  - Lower U.S. after-tax personal income
  - Slightly higher WA personal income
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, weak labor productivity growth and geopolitical concerns
- Revenue collections since the September forecast are $45.5 million (3.2%) above expectations

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

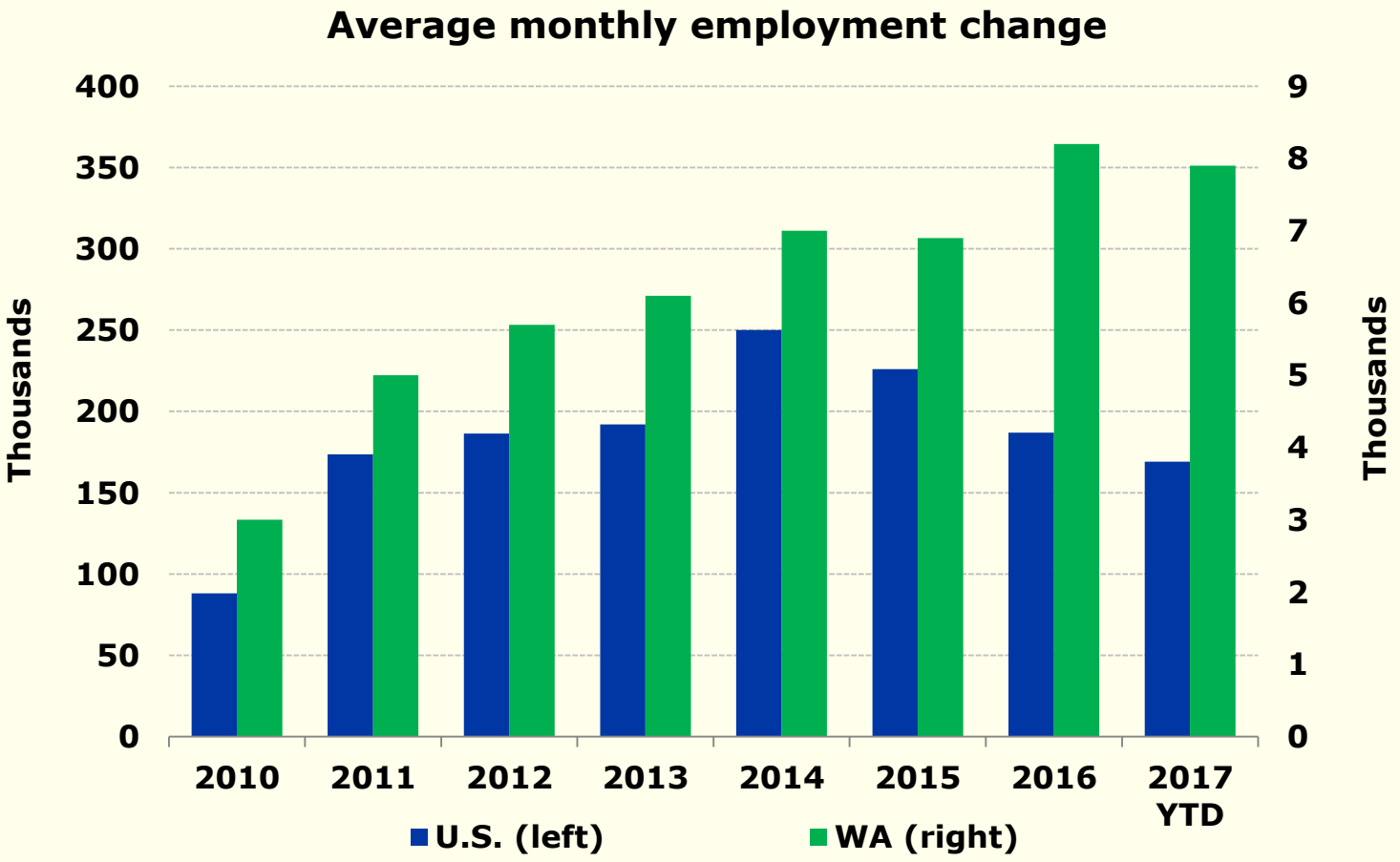
Downside

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

Job creation has slowed nationally but remains strong in WA

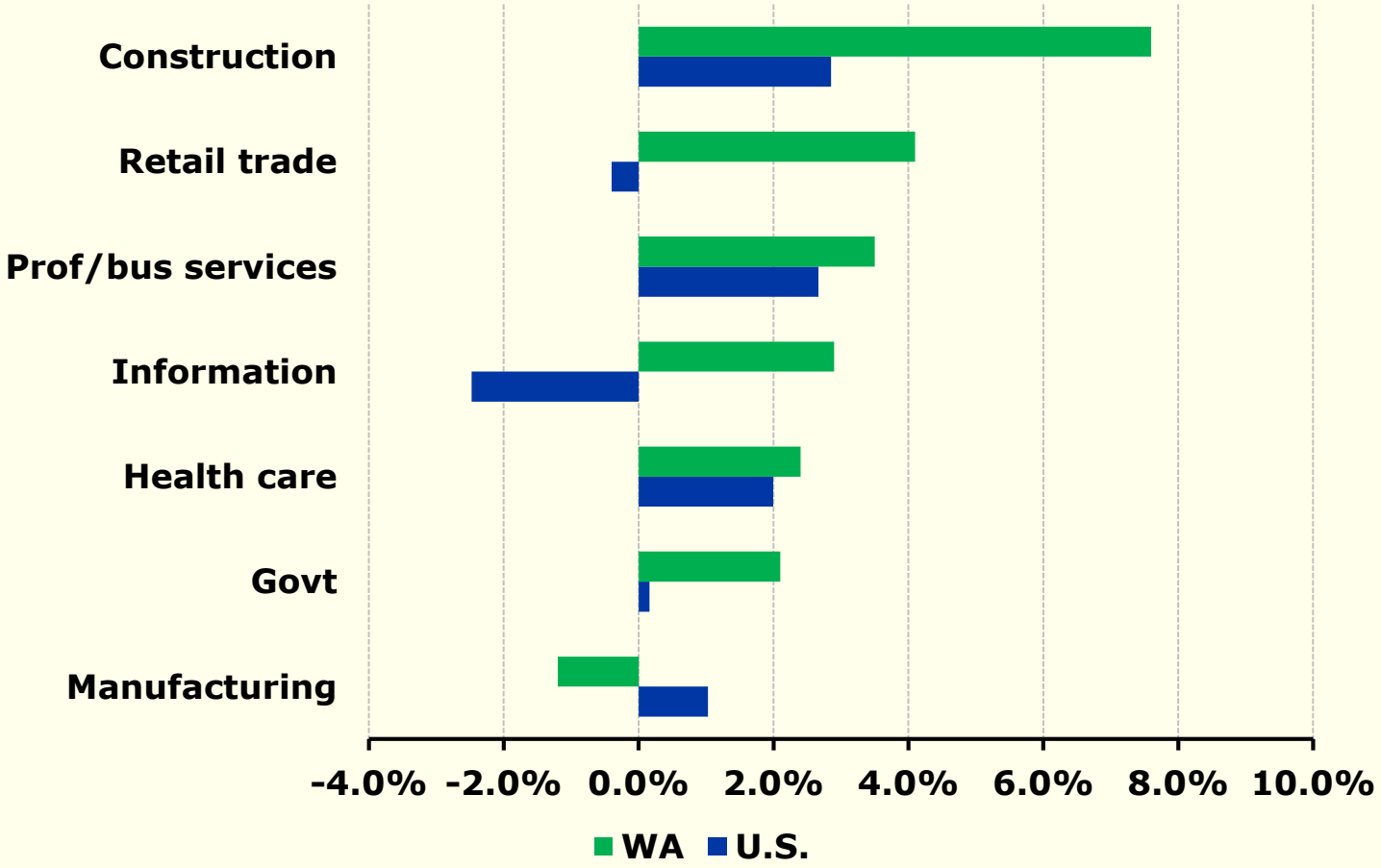
Oct. U.S. job gains: 261,000

Sept. WA job gains: 3,400



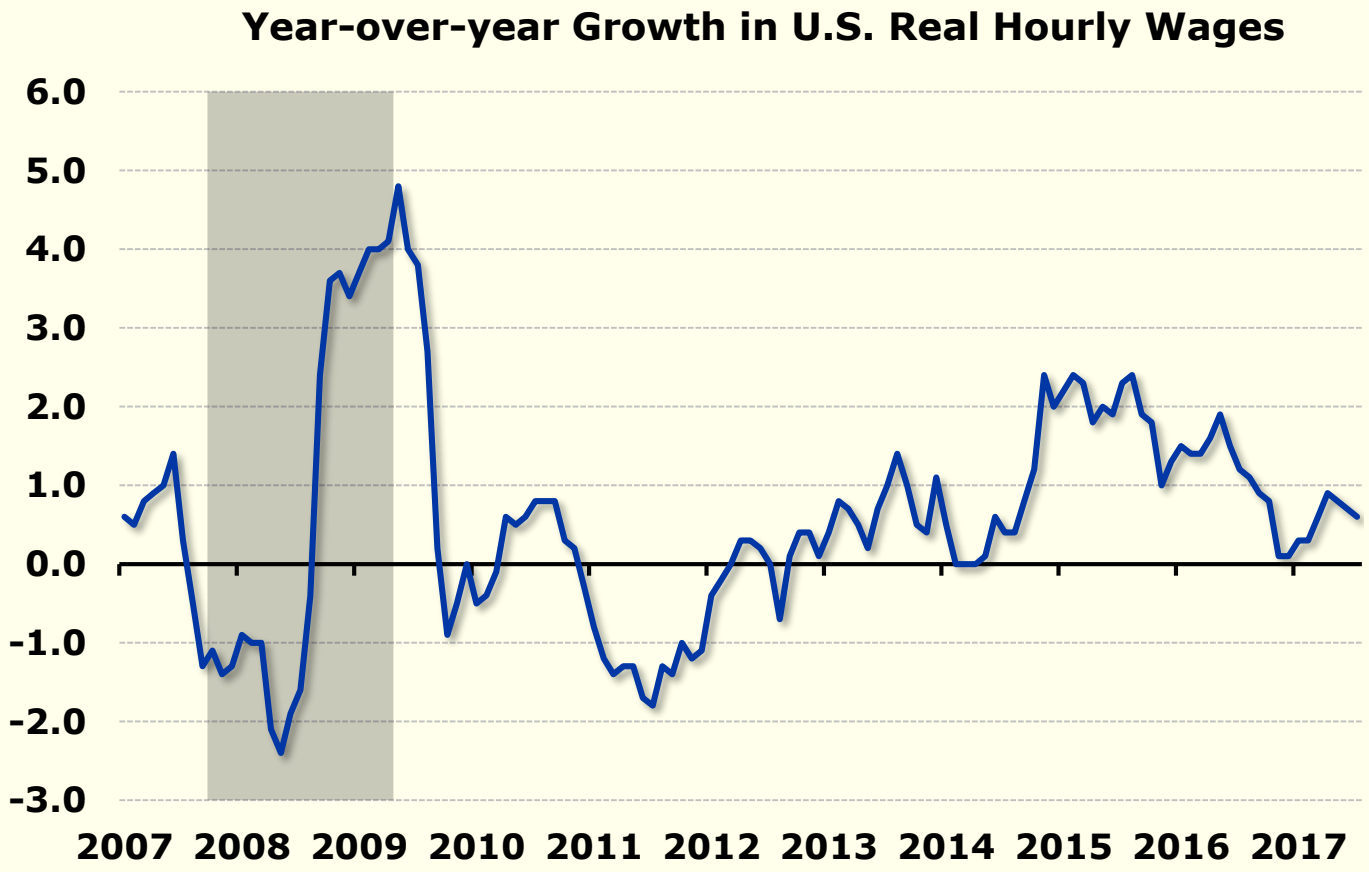
Source: Bureau of Labor Statistics, ERFC; U.S. data through Oct. 2017, WA data through Sept. 2017

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



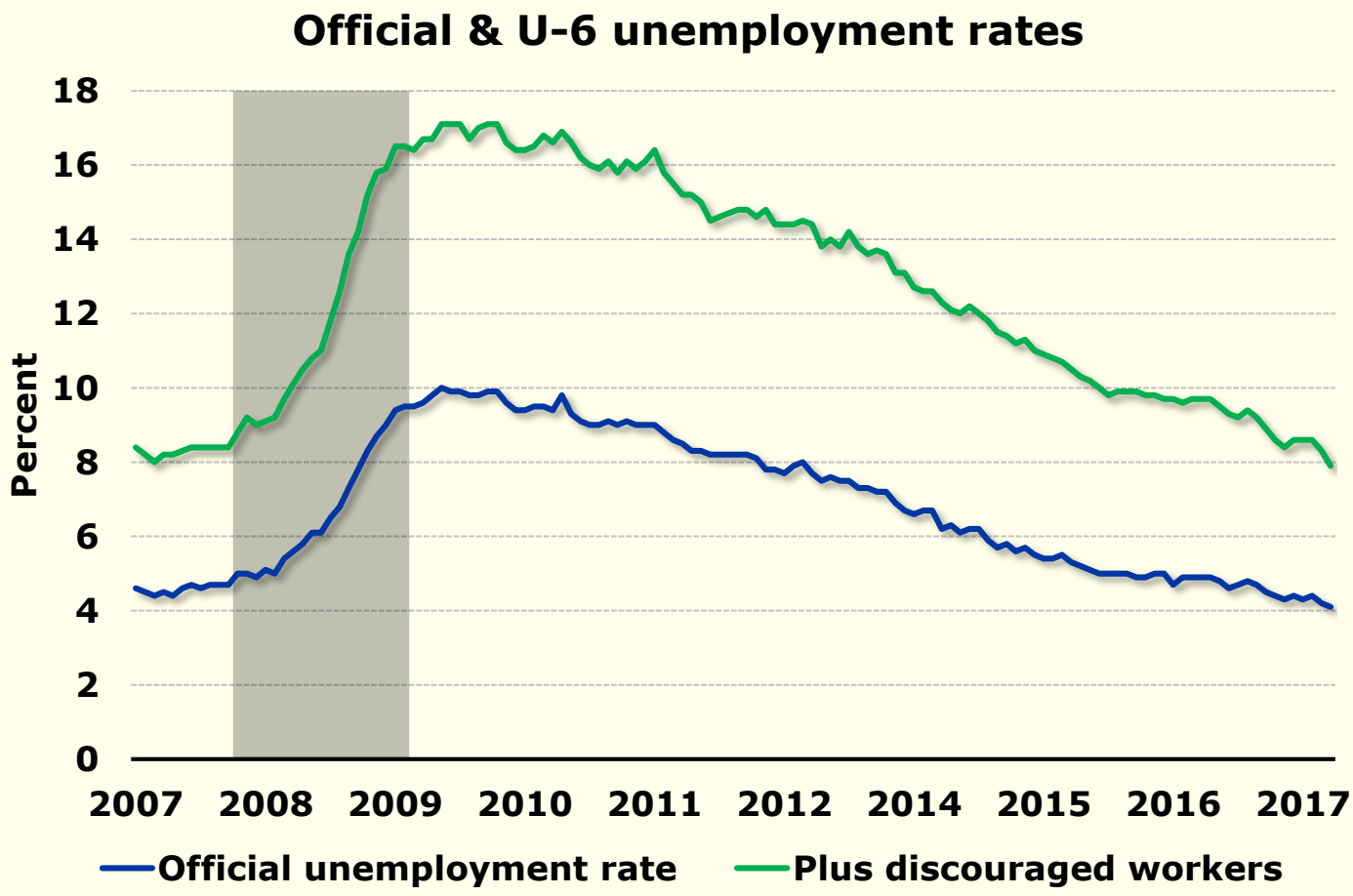
Source: BLS, ERFC; data through September 2017

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



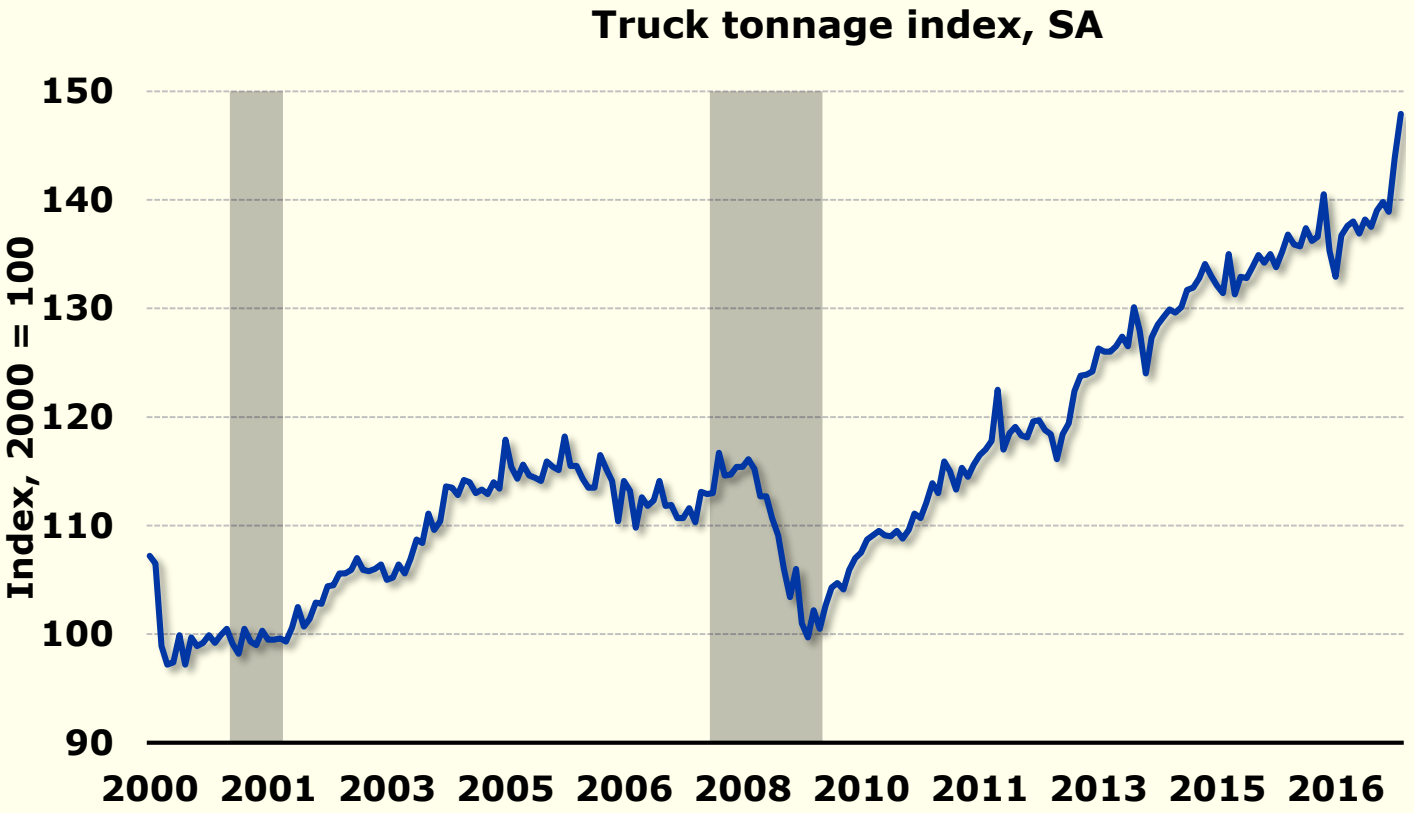
Source: U.S. Bureau of Labor Statistics, data through Sept. 2017

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



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

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

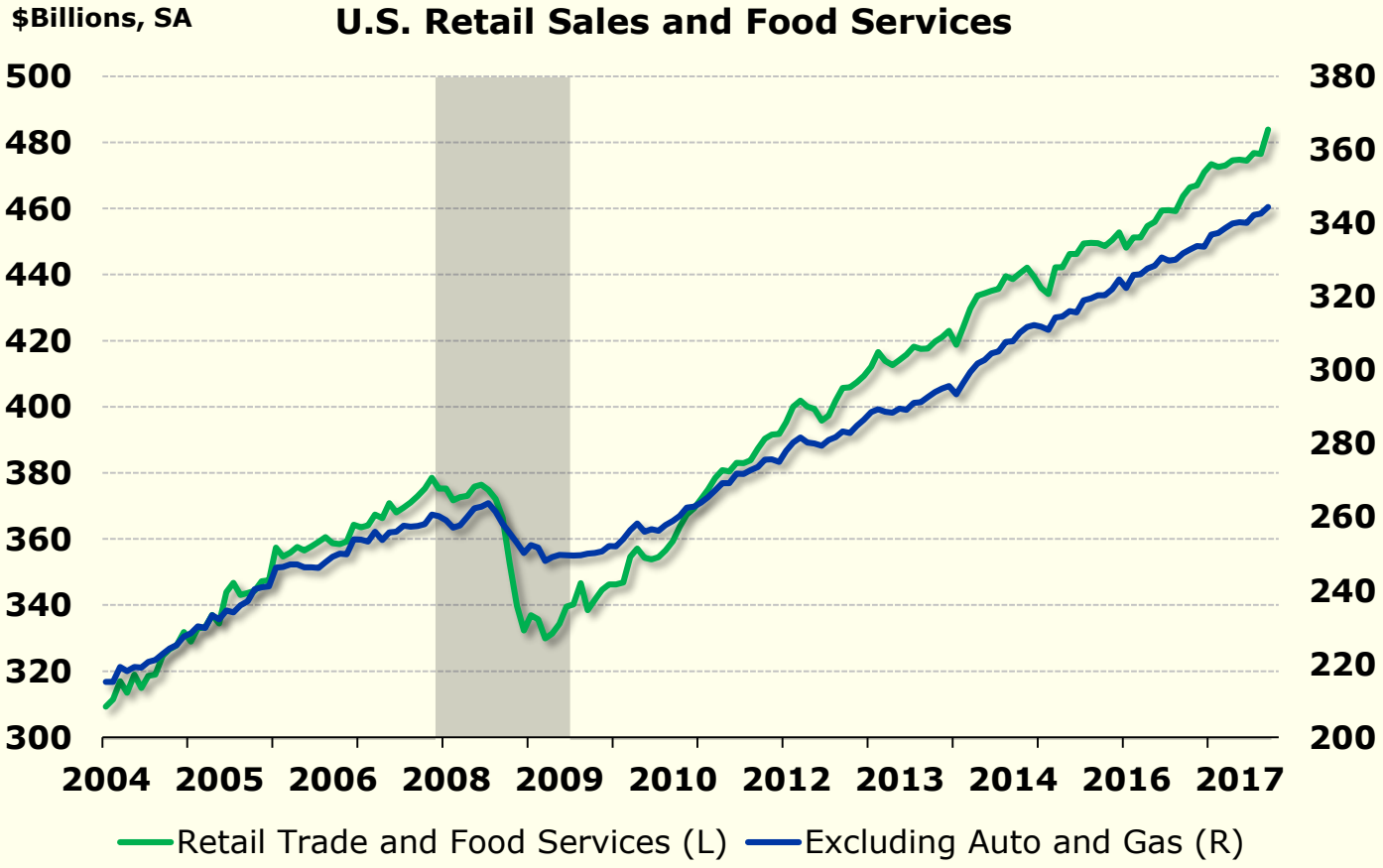


Source: American Trucking Association, data through Aug. 2017

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

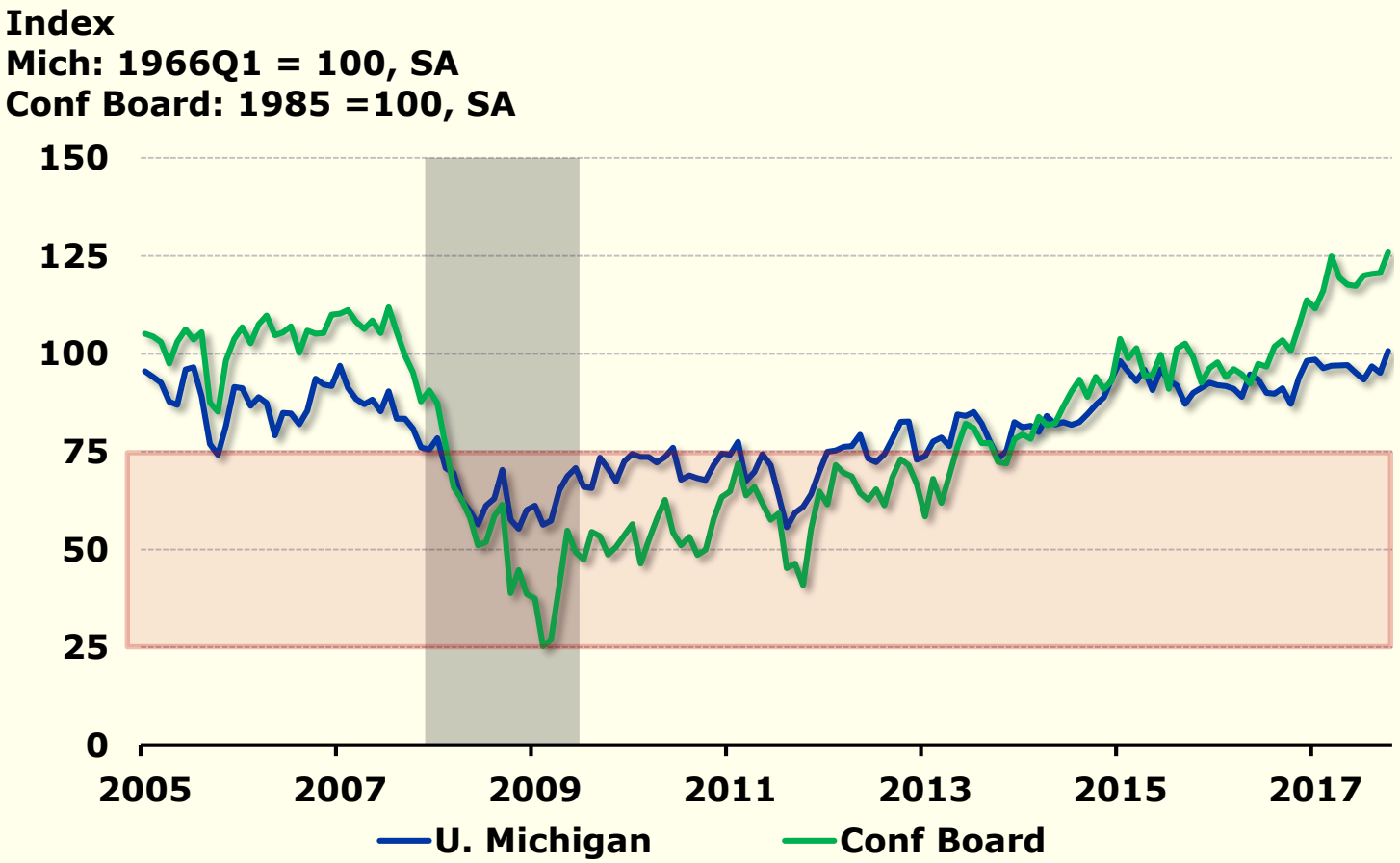
Preliminary U.S. retail trade and food services sales (SA) decreased 0.1% in August but jumped 1.6% in September.

Excluding autos and gas, sales were up 3.8% YOY in July, August and September.



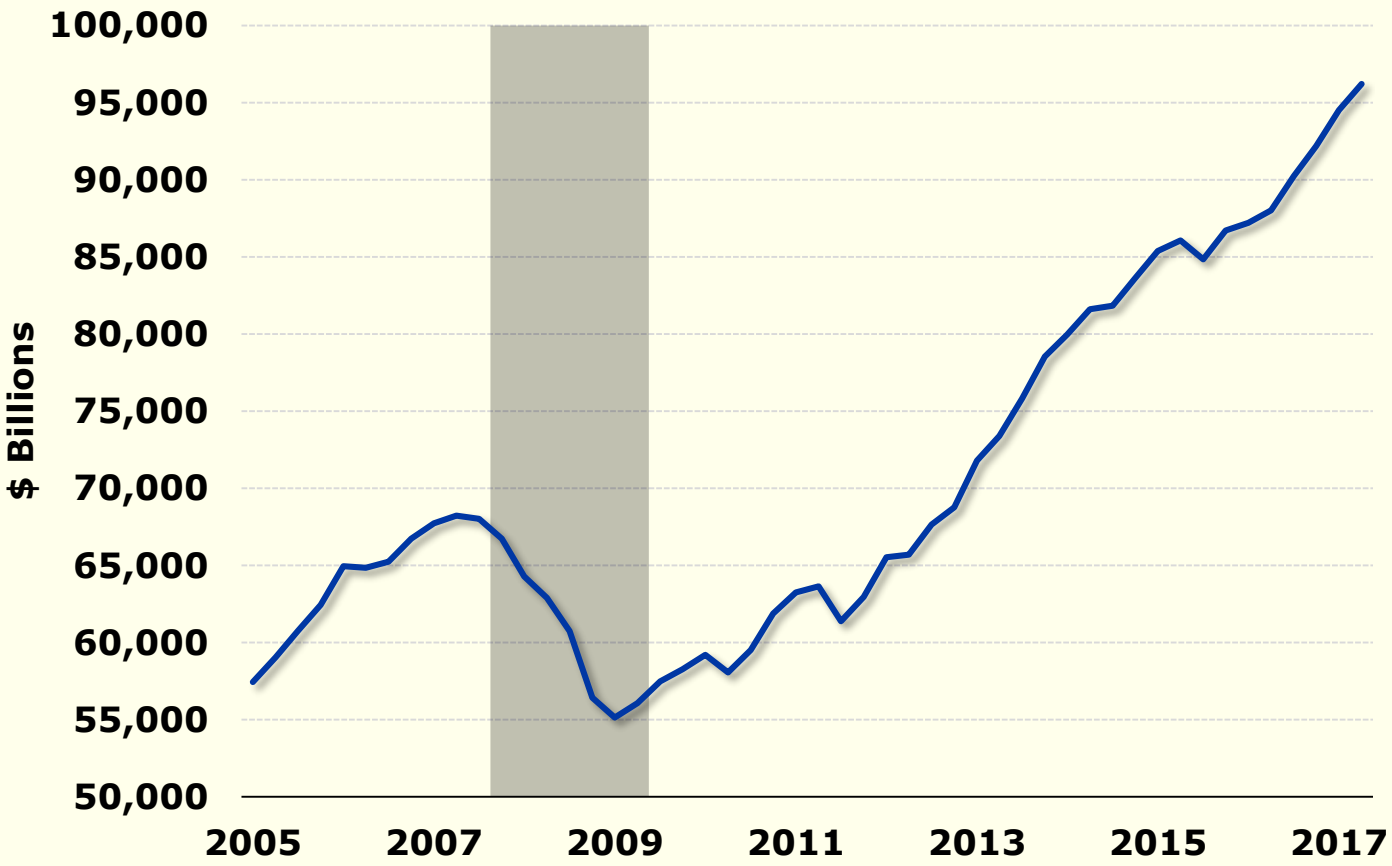
Source: U.S. Department of Commerce, Census Bureau; Data through September 2017 advance

Consumer confidence is above pre-recession levels



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

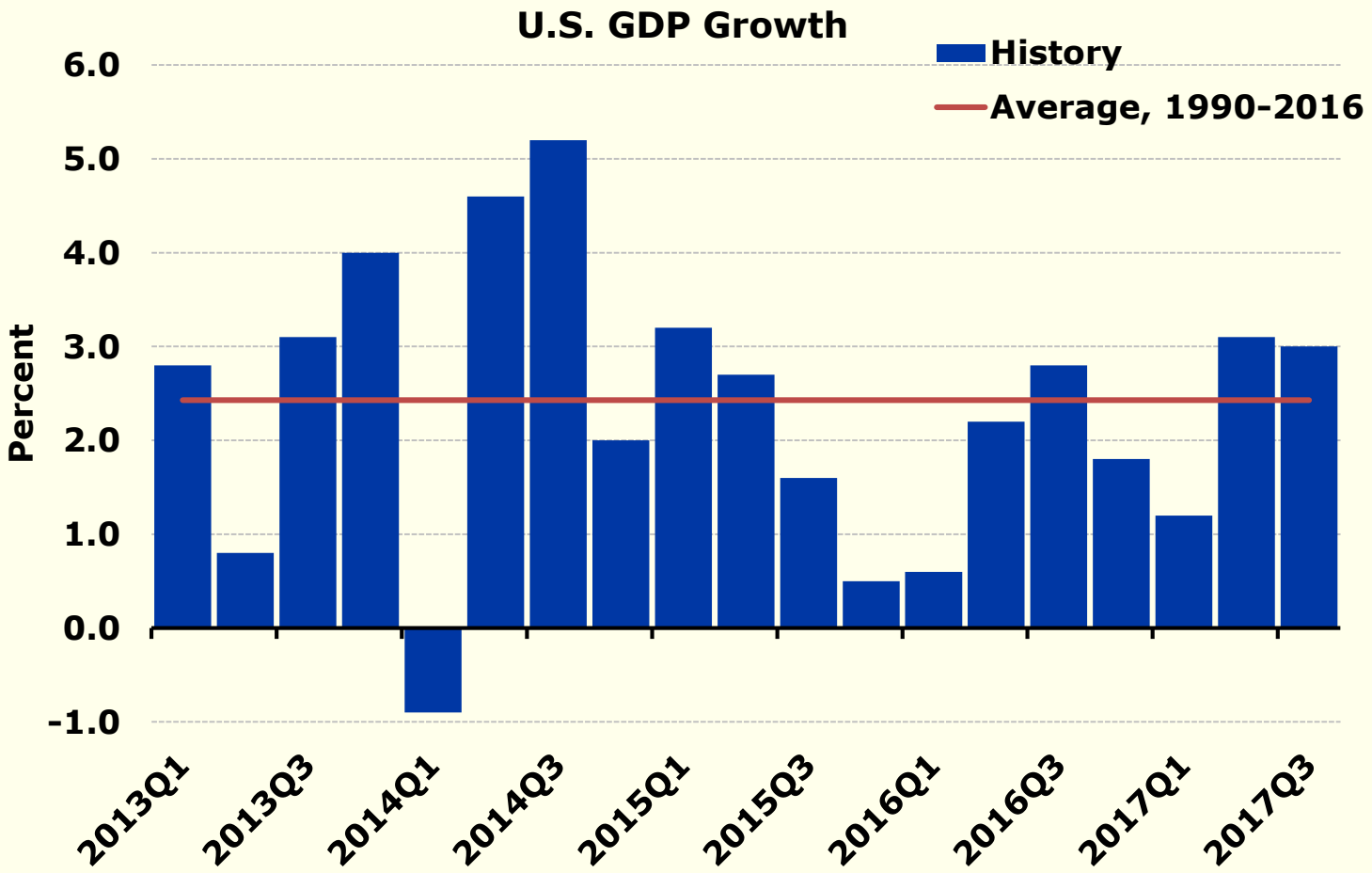
U.S. household net worth has increased almost 75% from its low point during the recession



Source: Federal Reserve Bank of St. Louis, data through 2017 Q2

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

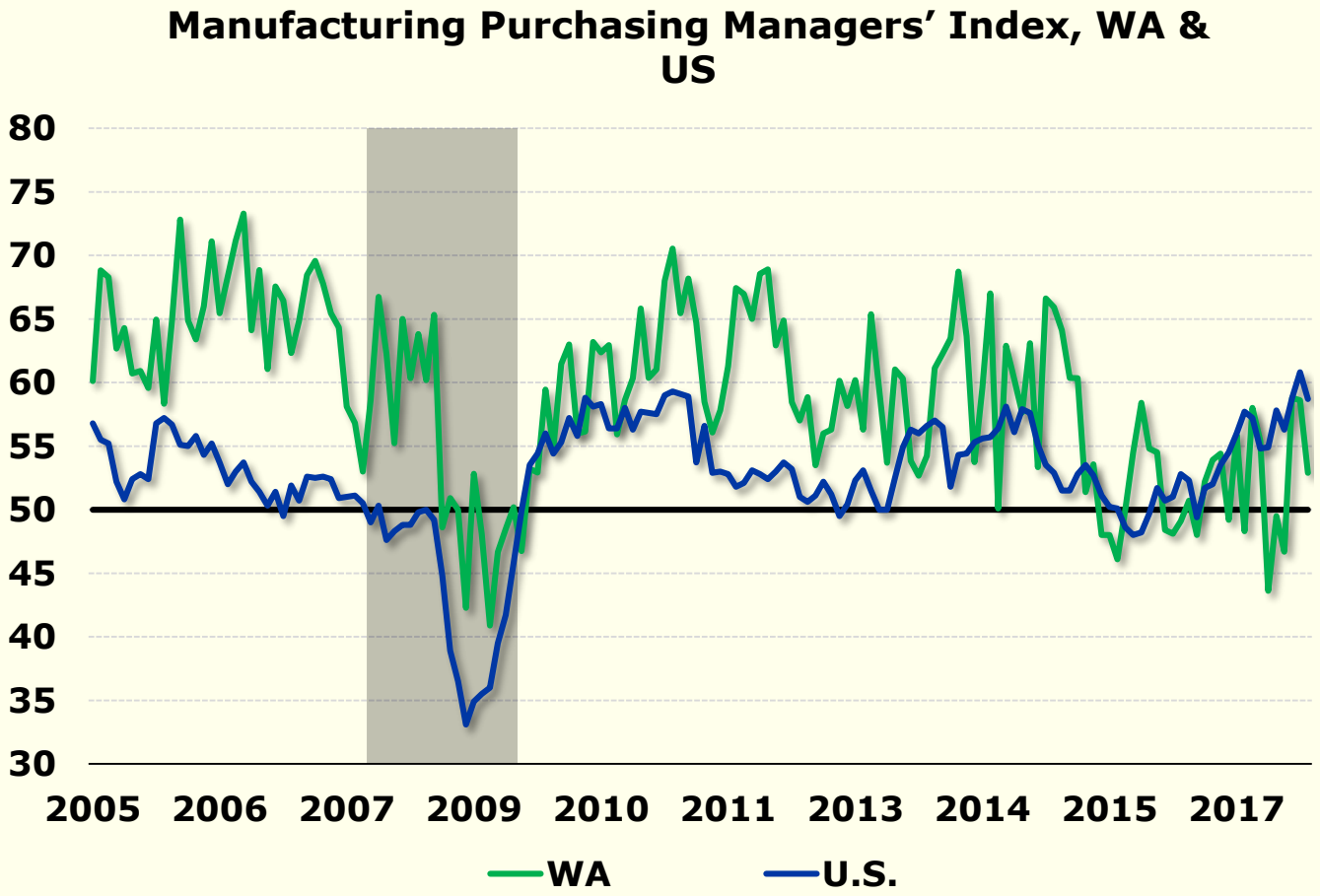
Forecast GDP growth:
2.6% in 4th Q,
2.4% in 2018



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

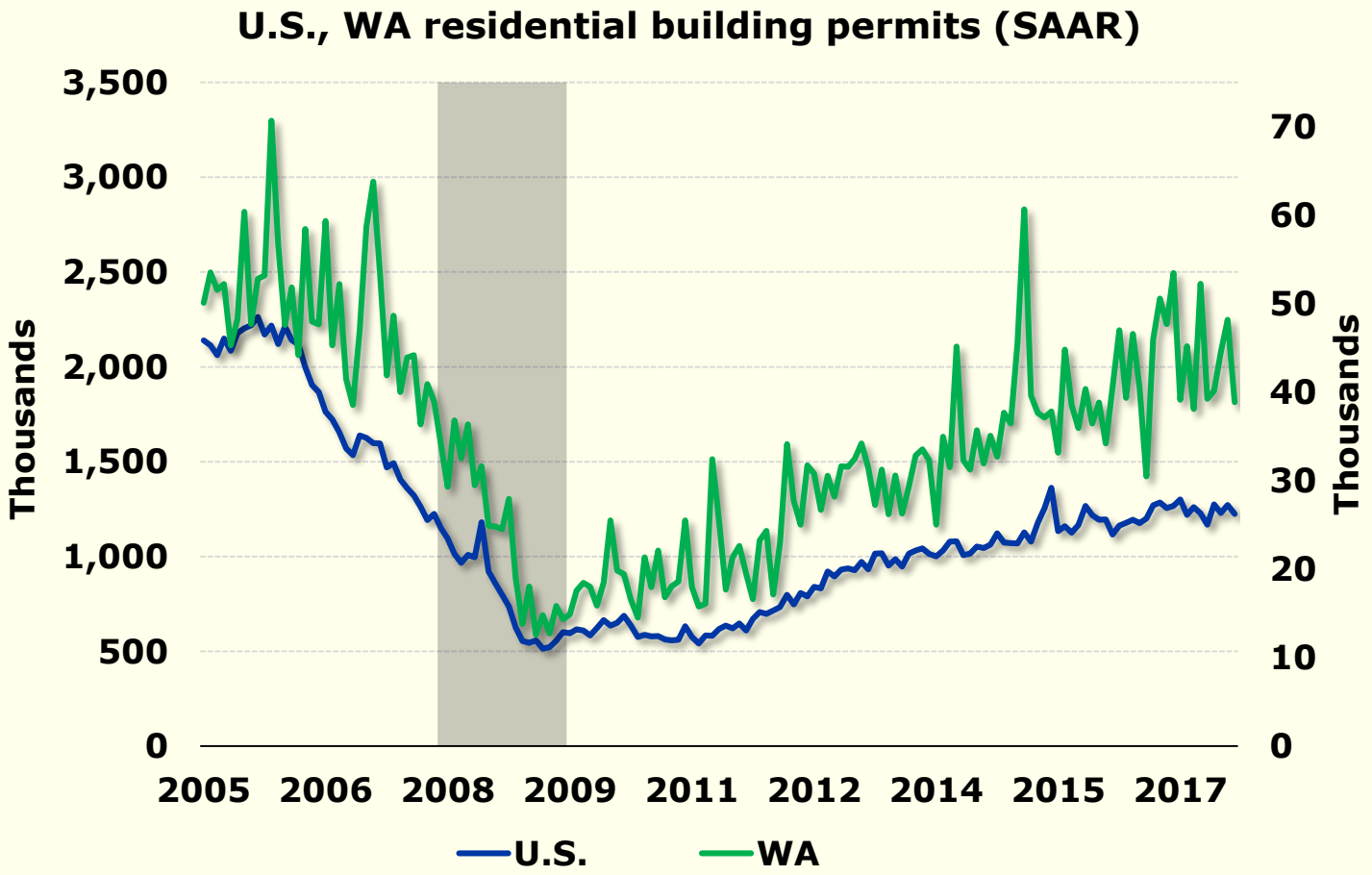
Manufacturing activity is showing some signs of improvement nationally and in WA

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



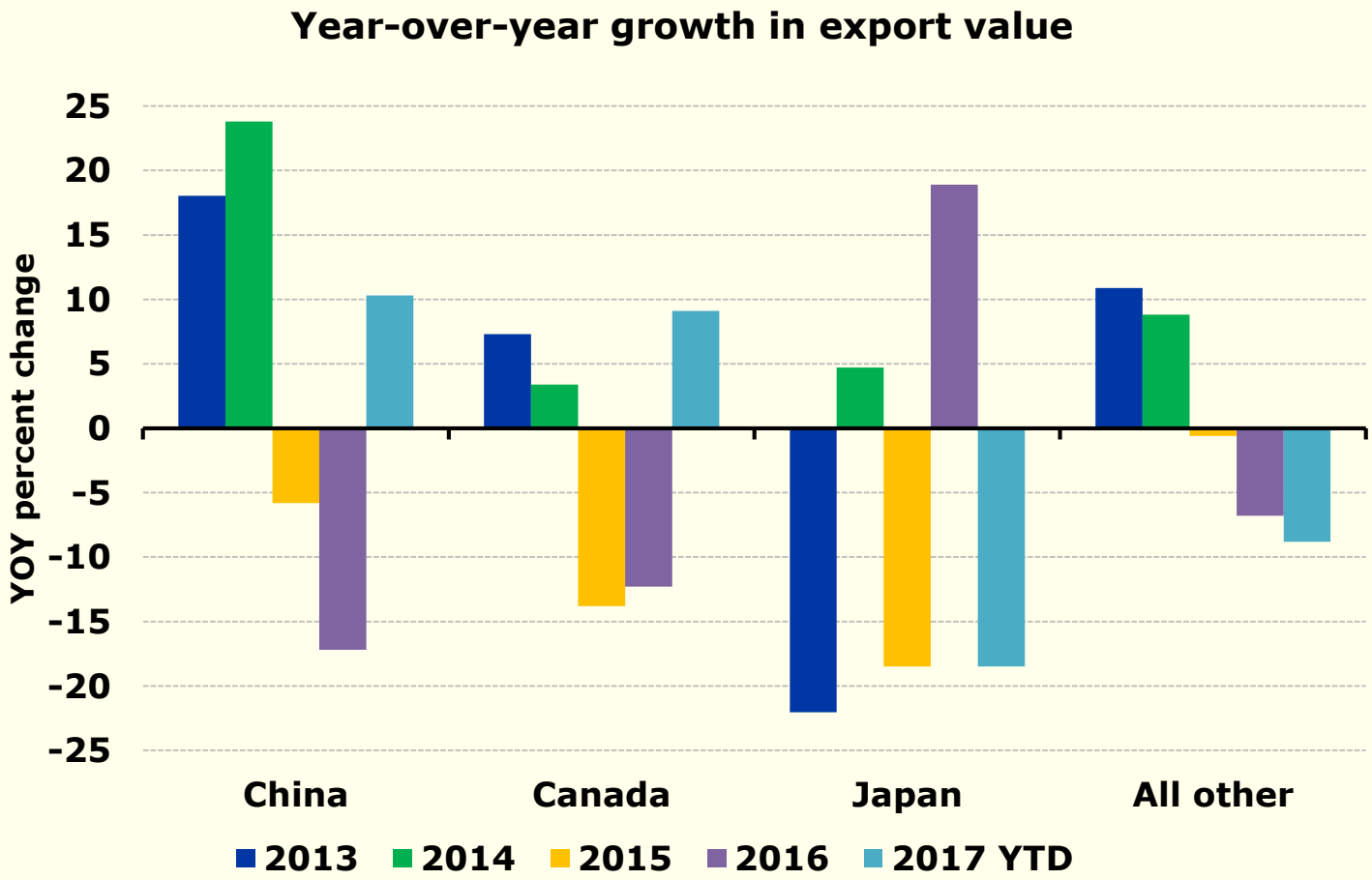
Source: Institute of Supply Management, data through October 2017

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



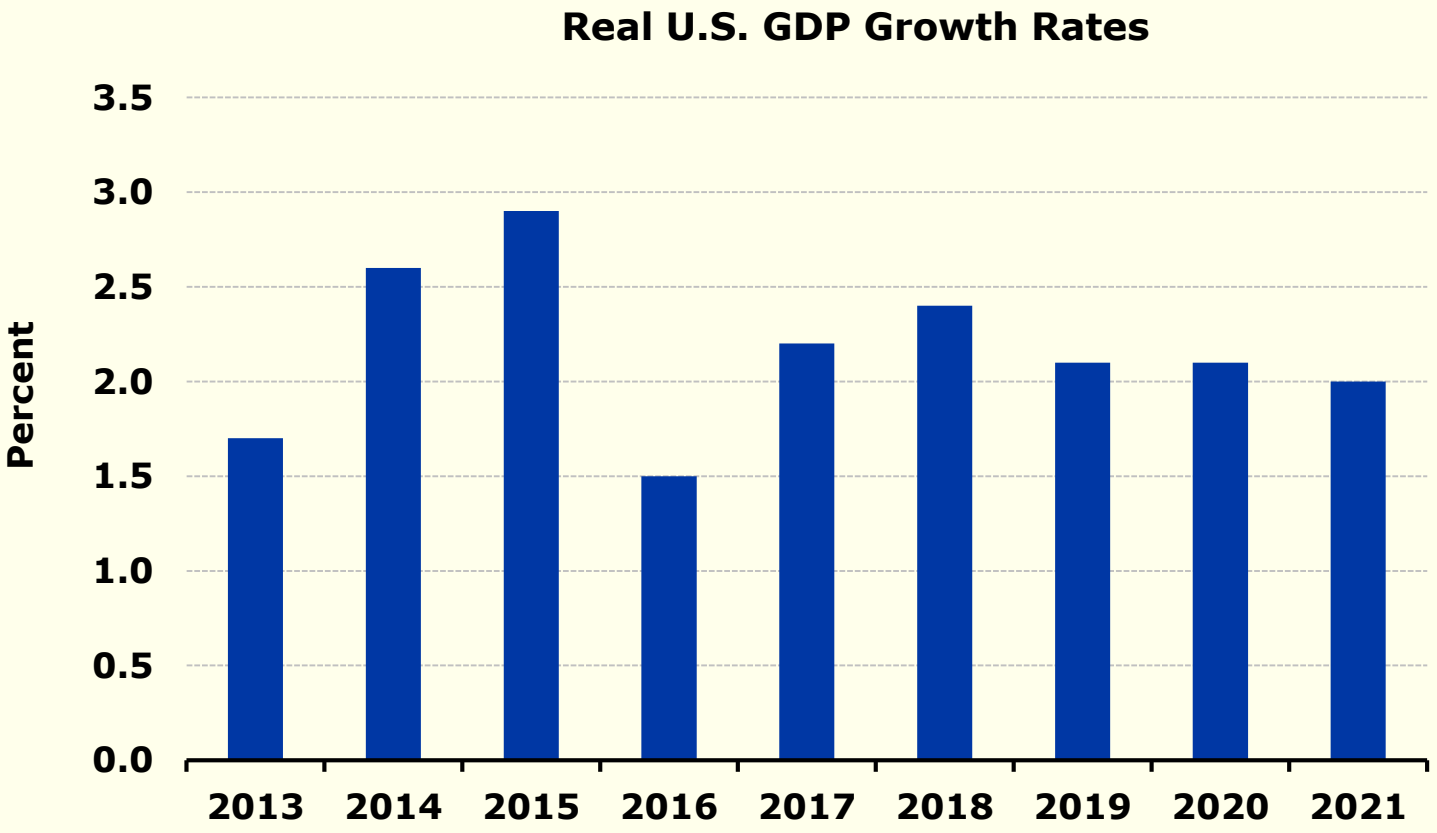
Source: U.S. Census Bureau, ERFC; data through September 2017

WA exports to major trading partners have slowed



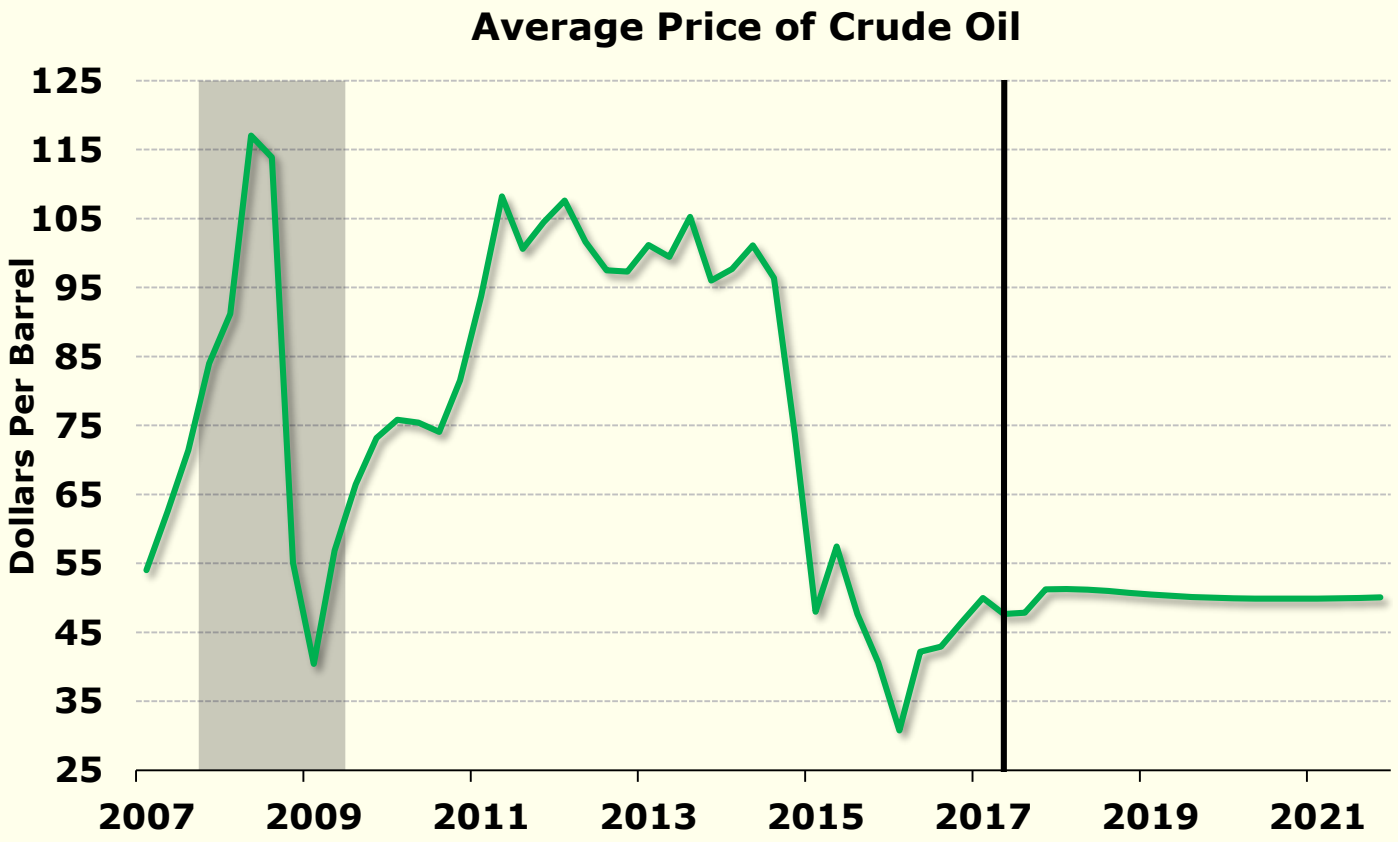
Source: WISERTrade; data through September 2017

Real GDP growth is expected to remain under 2.5%



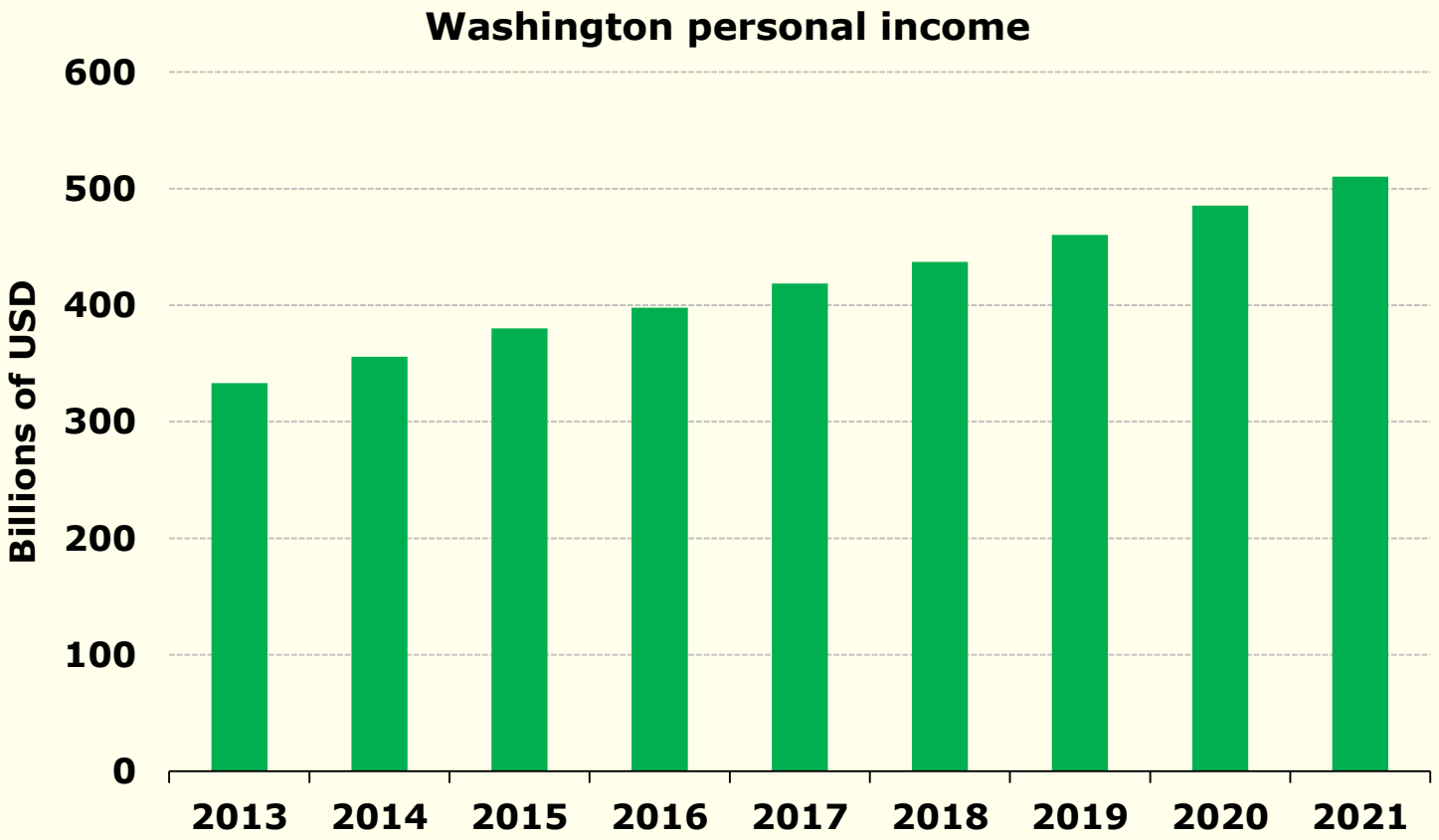
Source: ERFC preliminary November 2017 forecast; historical data through 2016

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



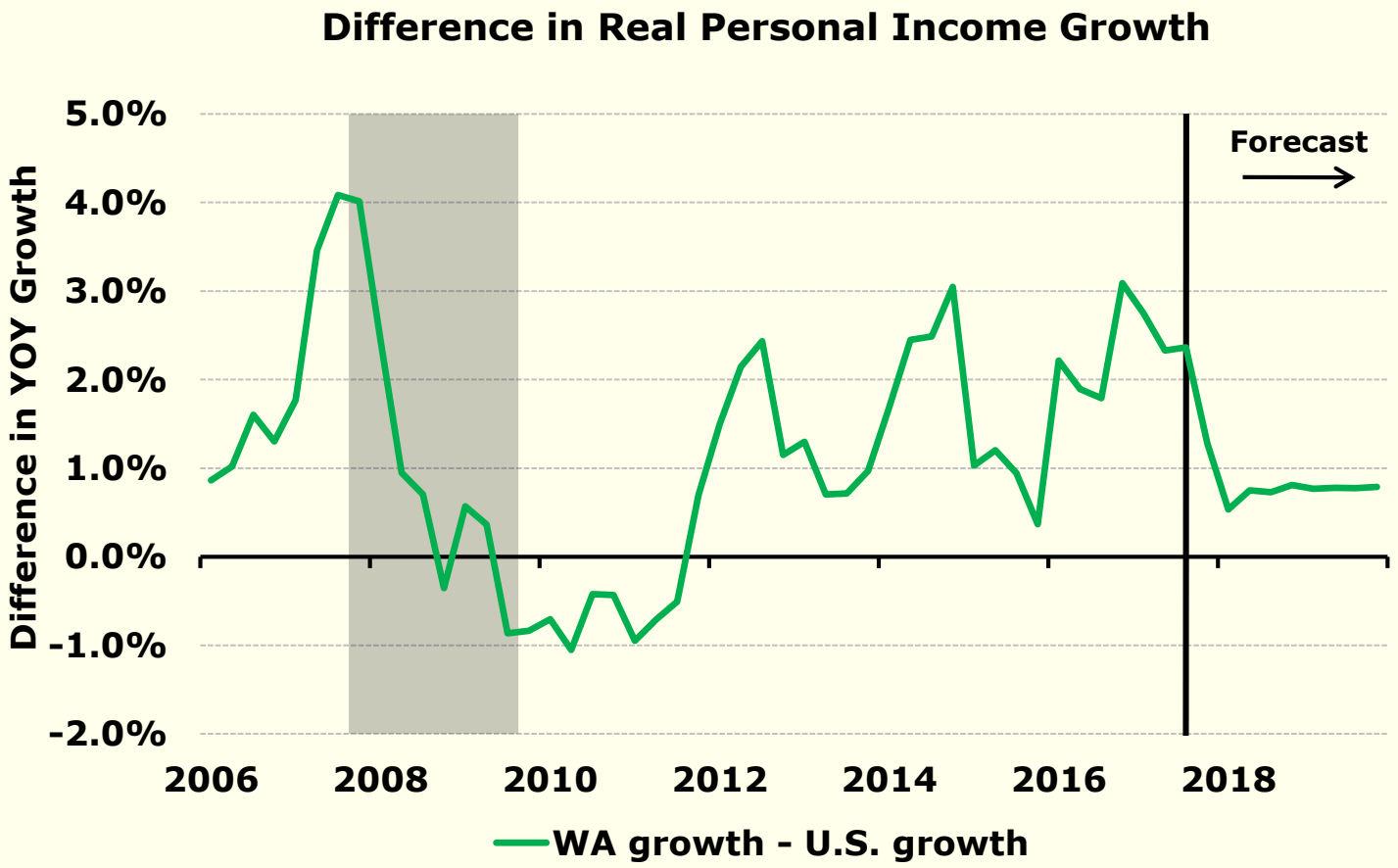
Source: DOE, ERFC November 2017 Preliminary forecast; historical data through Q3 2017

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



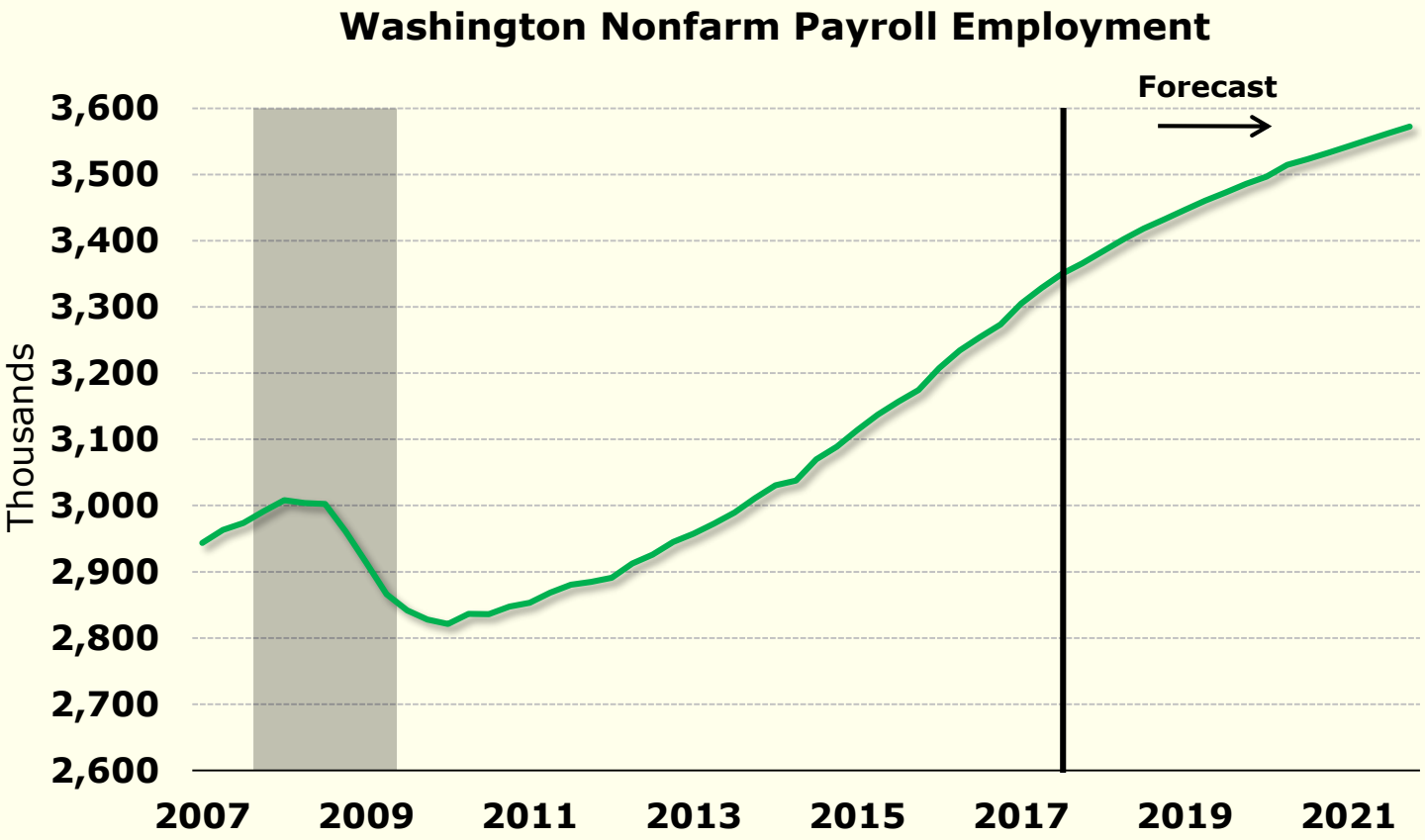
Source: ERFC November 2017 Preliminary forecast; historical data through 2016

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



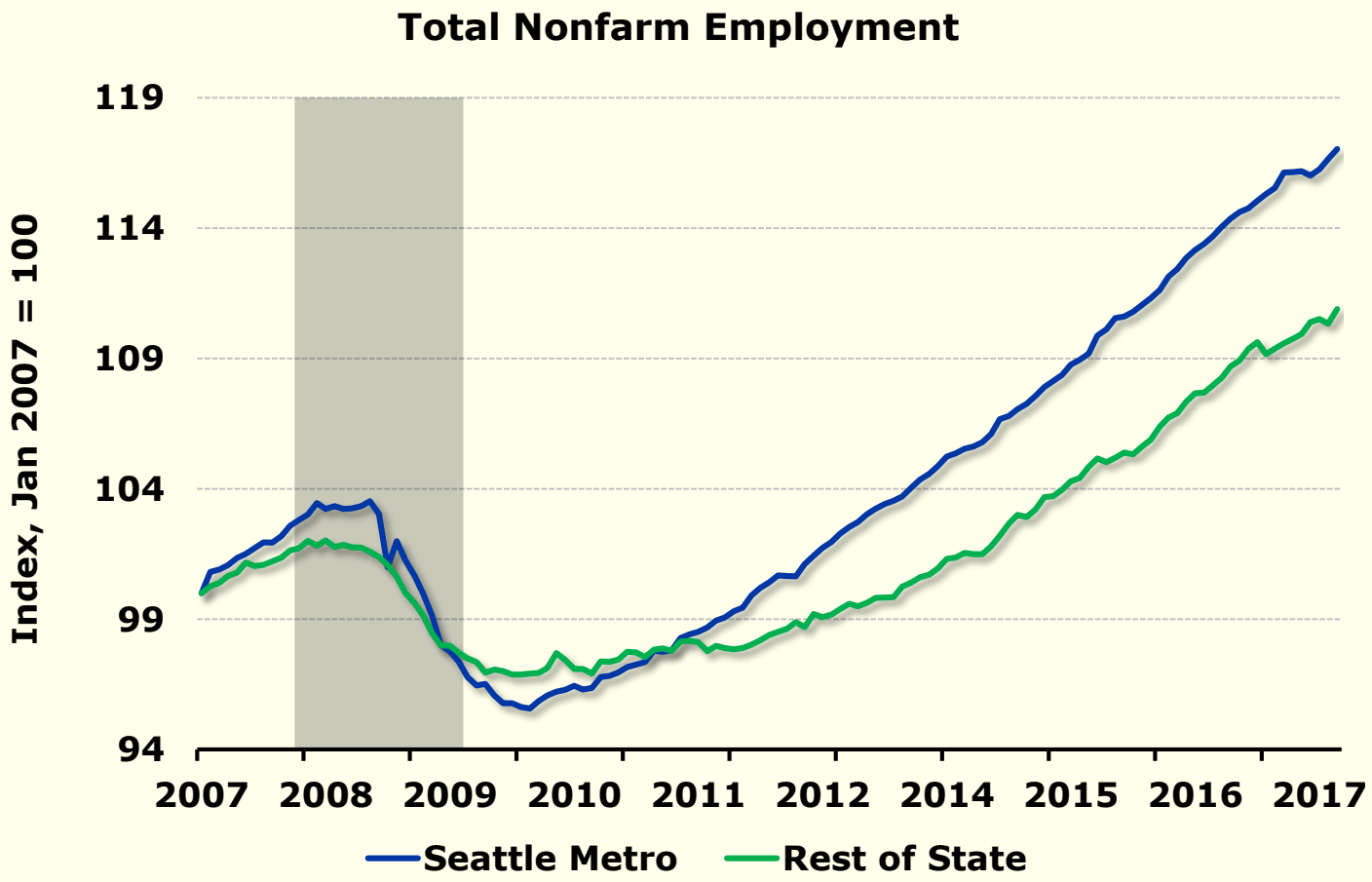
Source: ERFC November 2017 Preliminary forecast; historical data through 2017 Q2

Washington employment growth is expected to slow from 2.9% in 2017 to 2.2% in 2018



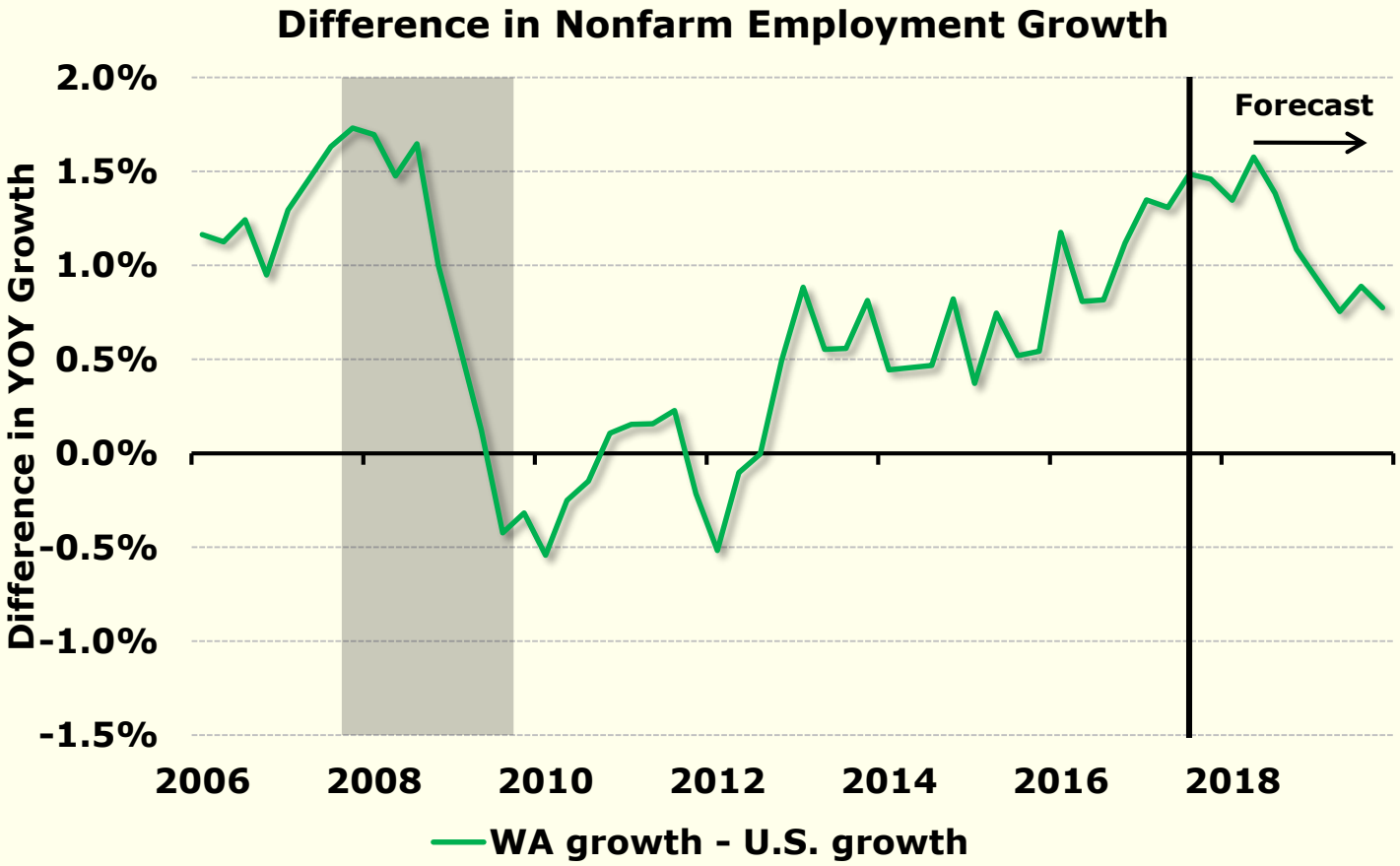
Source: ERFC November 2017 Preliminary forecast; historical data through Q1 2017

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



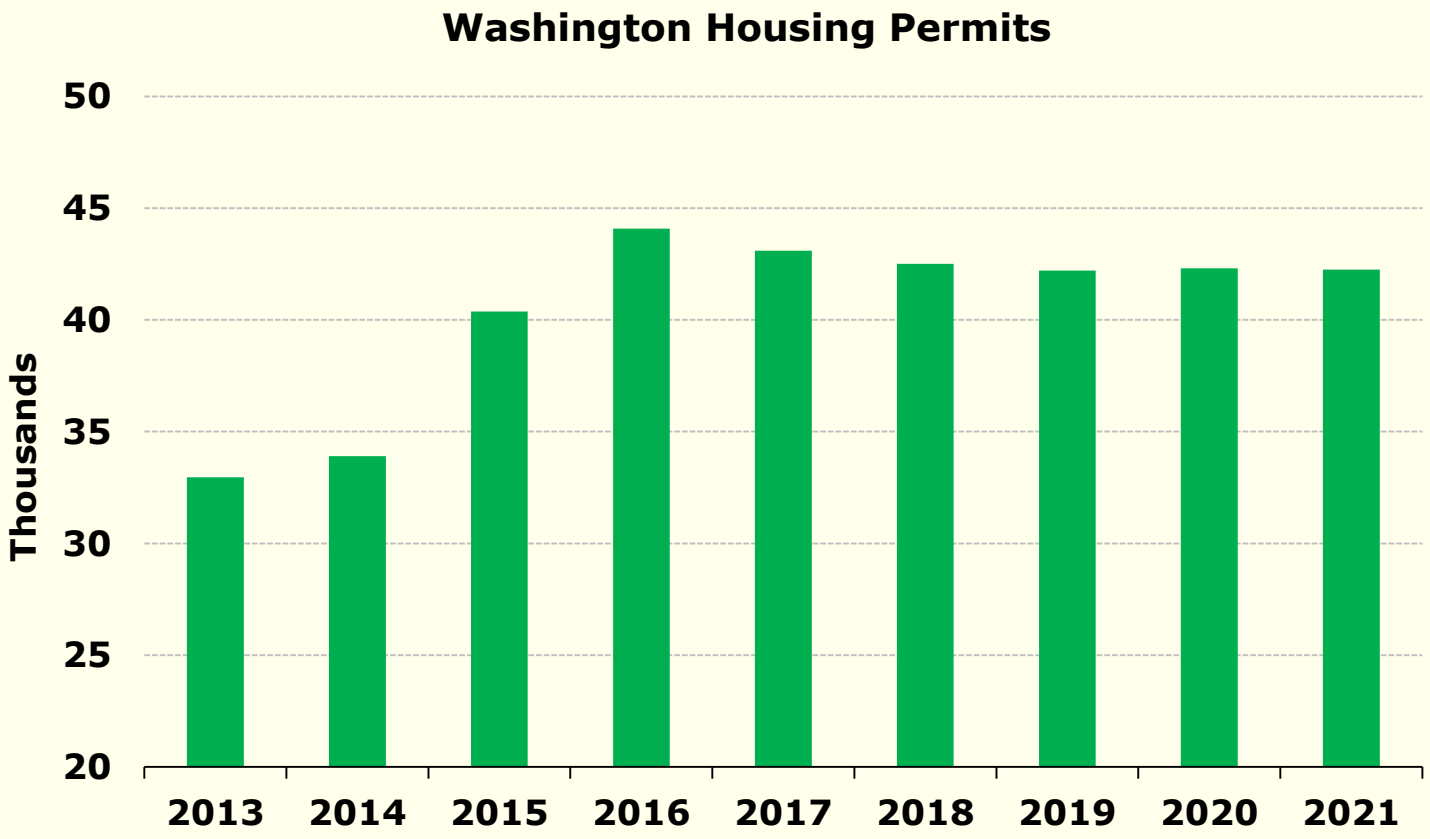
Source: Employment Security Department; data through September 2017

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



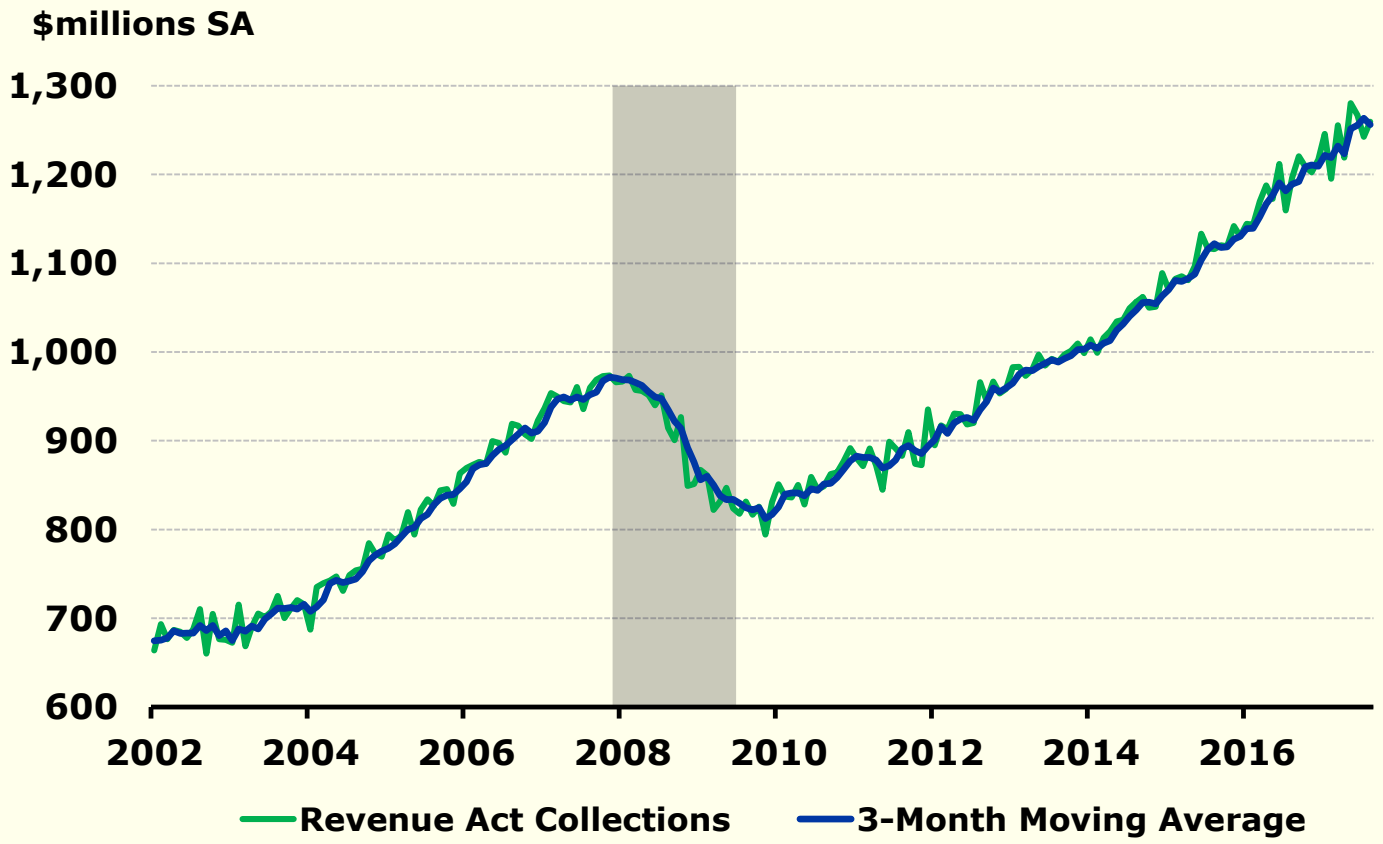
Source: ERFC November 2017 Preliminary forecast; historical data through 2017Q3

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



Source: ERFC November 2017 Preliminary forecast; historical data through 2016

Year-over-year Revenue Act collections growth slowed from 6.3% in Q1 to 5.6% in Q2

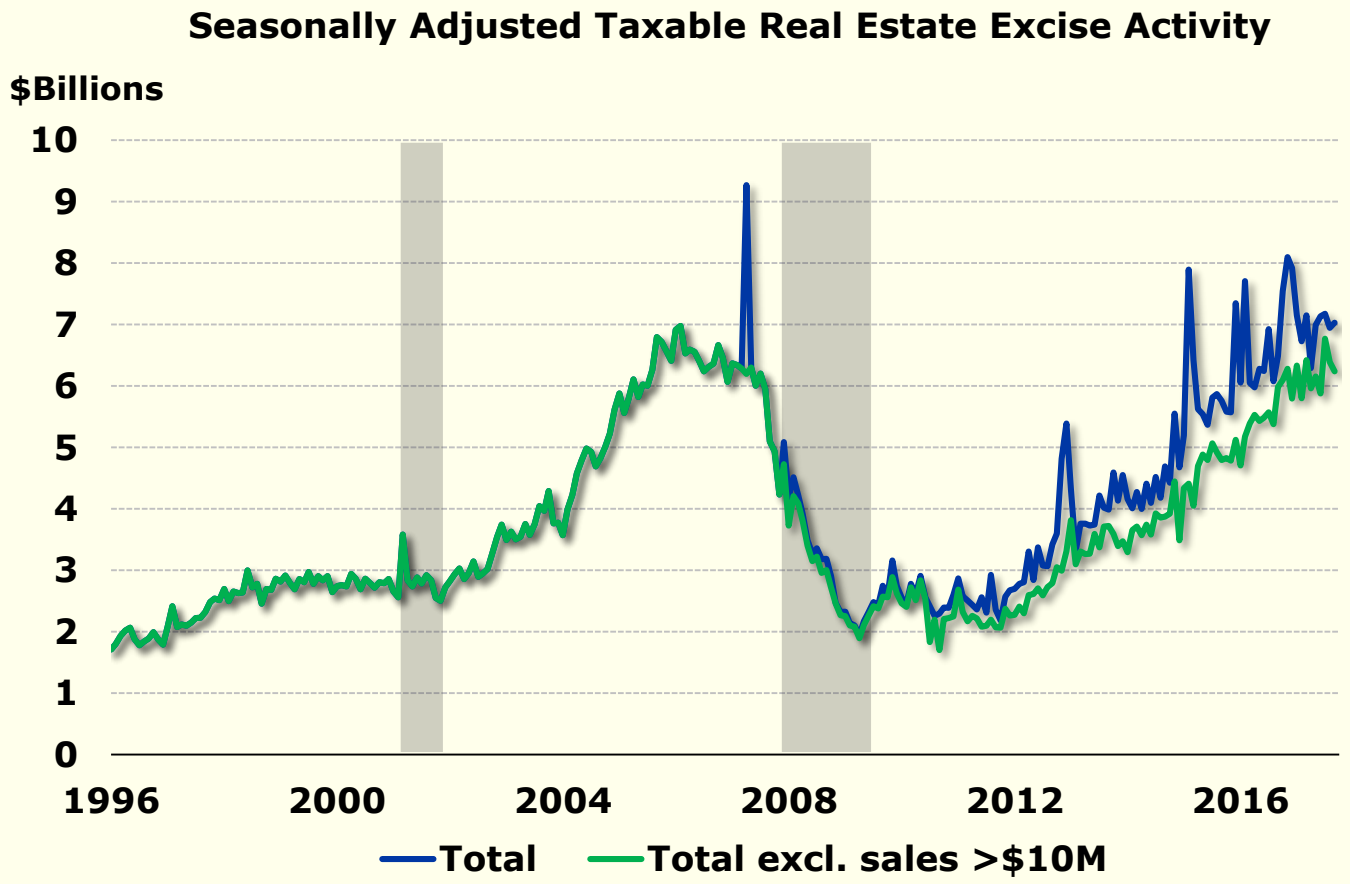


* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

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

Large commercial property sales still strong in the 3rd quarter

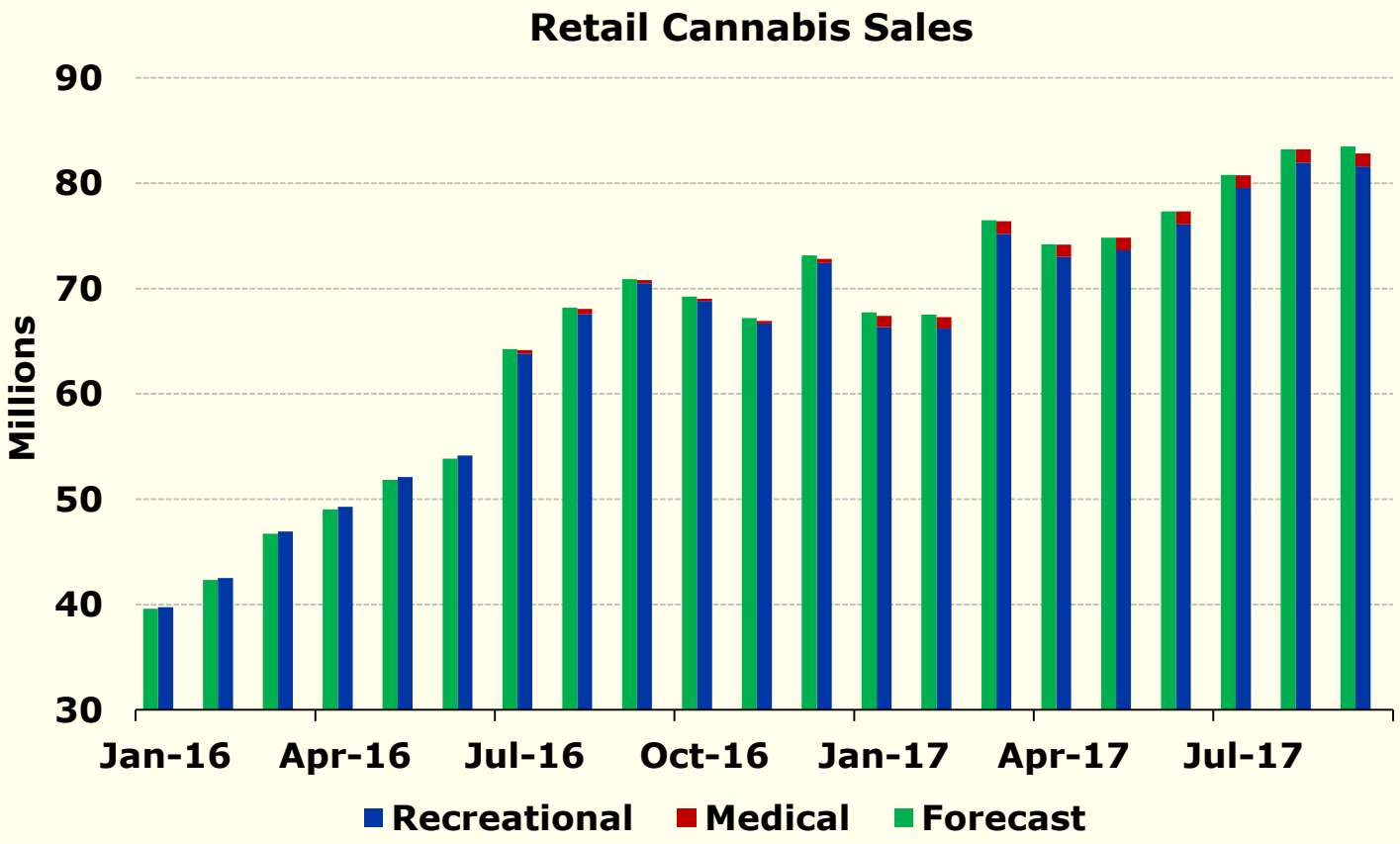
Large commercial sales (>$10 million) totaled $1.8 billion in the 1st quarter of 2017, $2.9 billion in the 2nd quarter and $2.0 billion in the 3rd quarter.



Source: ERFC; Monthly data through September 2017 preliminary

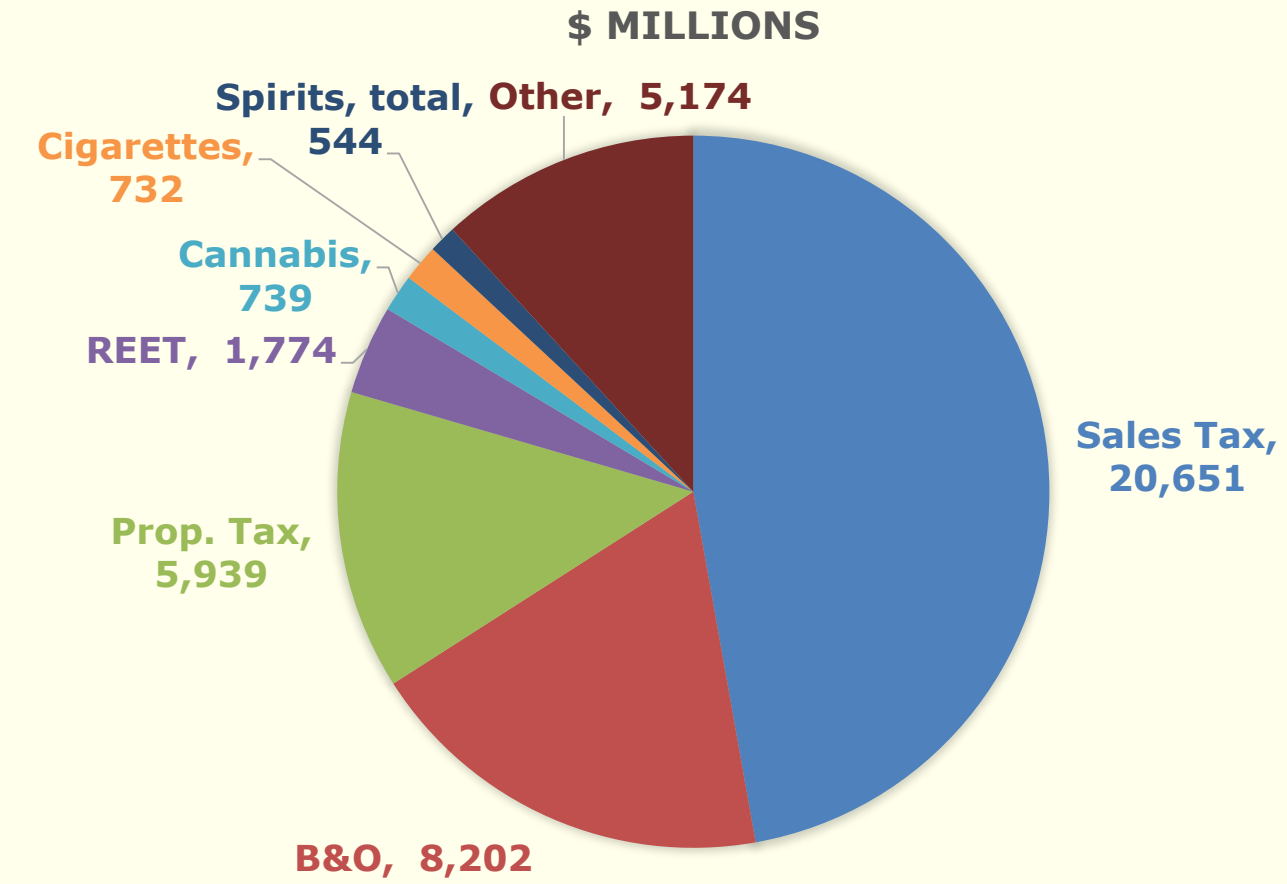
Cannabis revenue continues to be volatile

Sales were 2.3% below forecast in September



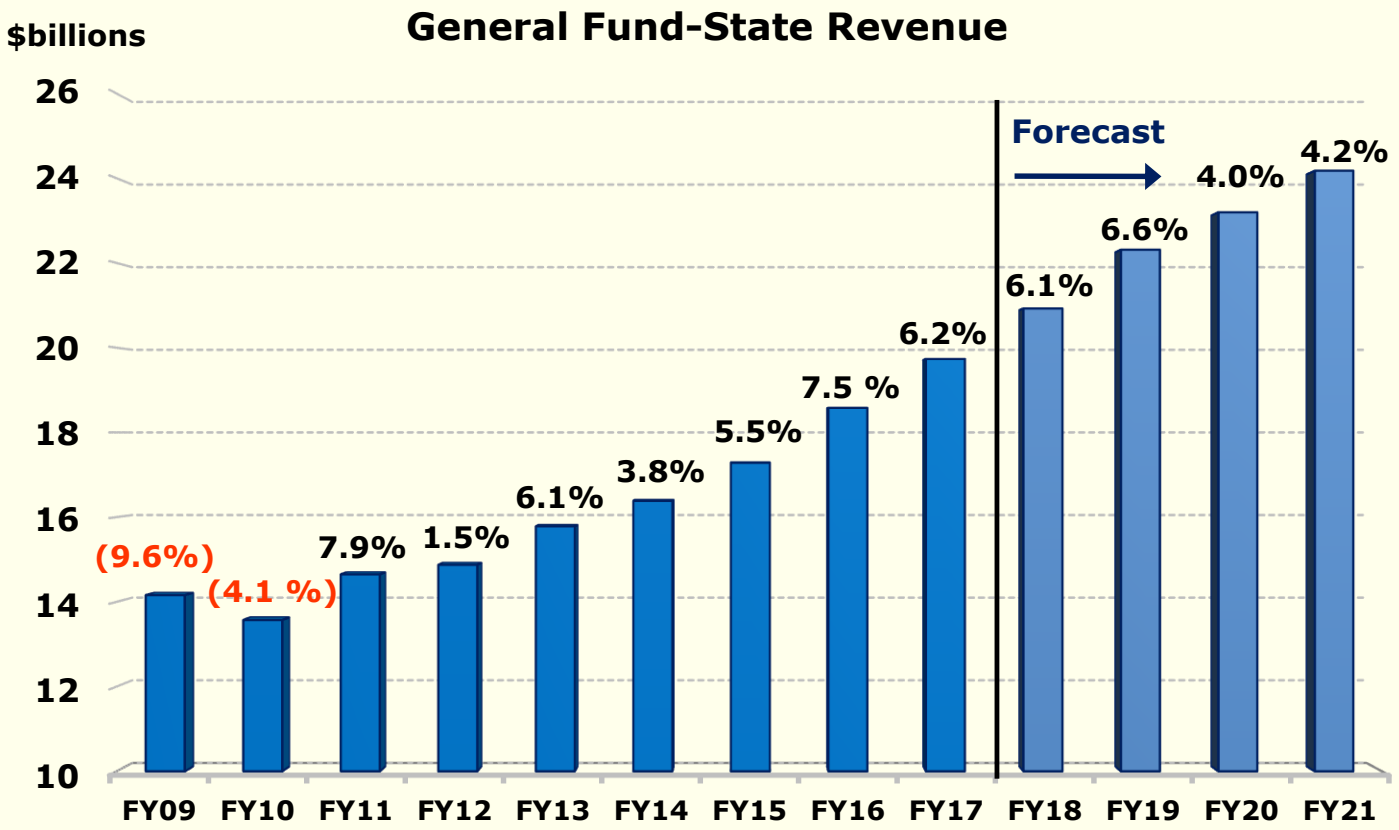
Source: LCB, ERFC; data through September 2017

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



Source: ERFC September 2017 forecast

General Fund-State* forecast by fiscal year



*General Fund-State & Related Funds for FY 09, General Fund-State current definition for FY 10-21
Source: ERFC forecast, September 2017

Conclusion

- The U.S. and Washington economic forecasts are similar to September; we continue to expect moderate growth
- 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
- The next monthly revenue collection report will be available on November 13th and the revenue forecast will be presented on November 20th

Questions

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