

# Revenue Review

Presented to  
House Finance Committee

Steve Lerch  
Executive Director

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Olympia, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



# Summary

- U.S., WA forecasts similar to the September forecast
- Baseline forecast has slowing growth but no recession; pessimistic forecast assumes a 3 quarter recession starting in 2020 Q4
- Forecast risks include the impact of trade disputes and a slowing global economy
- The Near General Fund-State forecast is decreased by \$5 million for the 2017-19 biennium and increased by \$299 million for 2019-21 biennium



# Selected forecast risks

## Labor markets

- Unemployment rate, initial UI claims remain low
- Job growth slower than in 2018

## 737 MAX

- Currently, no impact on WA employment; forecast assumes gradual production increase over 2020 Q1 and Q2

## International trade policy

- China – no agreement yet
- Europe – no agreement yet; potential for aircraft tariffs



# Potential recession indicators

These factors *could* precede a recession or indicate a recession has started:

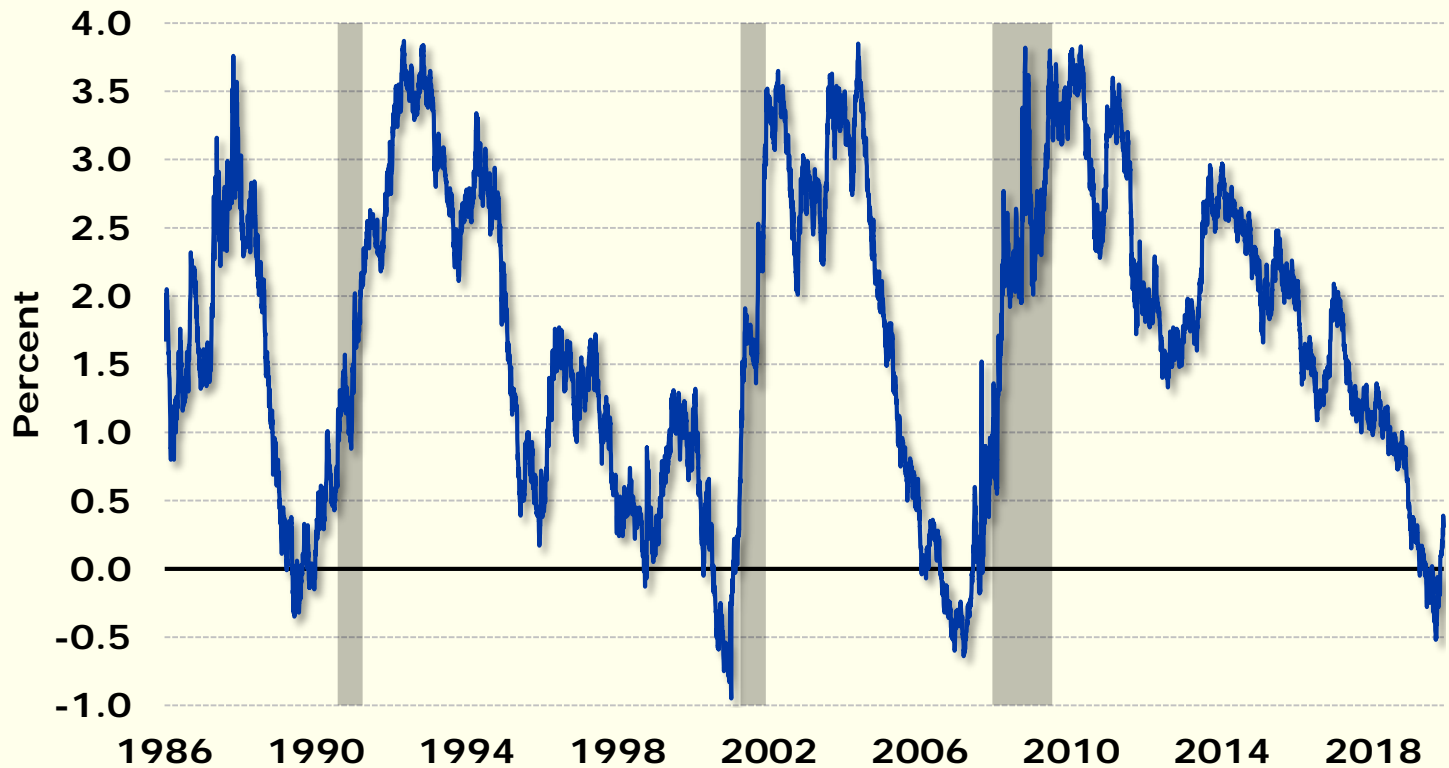
- Inverted yield curve
- Consistent declines in consumer, business sentiment
- Sharp increase in the unemployment rate
- Sharp increase in initial claims for unemployment insurance
- Consistent decline in ISM manufacturing index



# The 10 year – 3 month yield curve is no longer inverted

The yield curve has inverted before the last three recessions but is not always a recession signal

Difference in interest rates: 10 yr. and 3 mo. Treasury bonds



Source: Federal Reserve Bank of St. Louis, daily data through Nov. 13, 2019

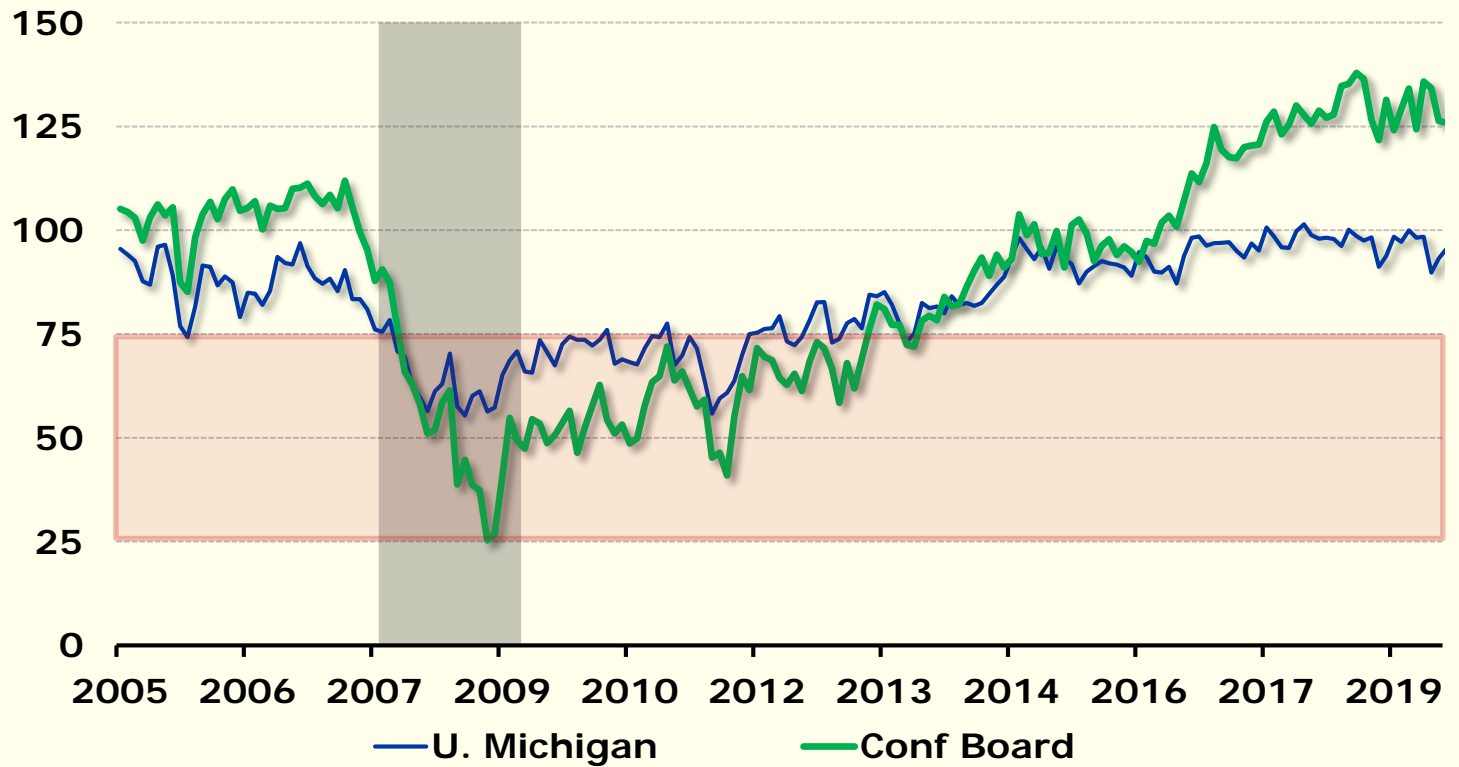


# Consumer confidence has dipped recently but remains at high levels

## Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

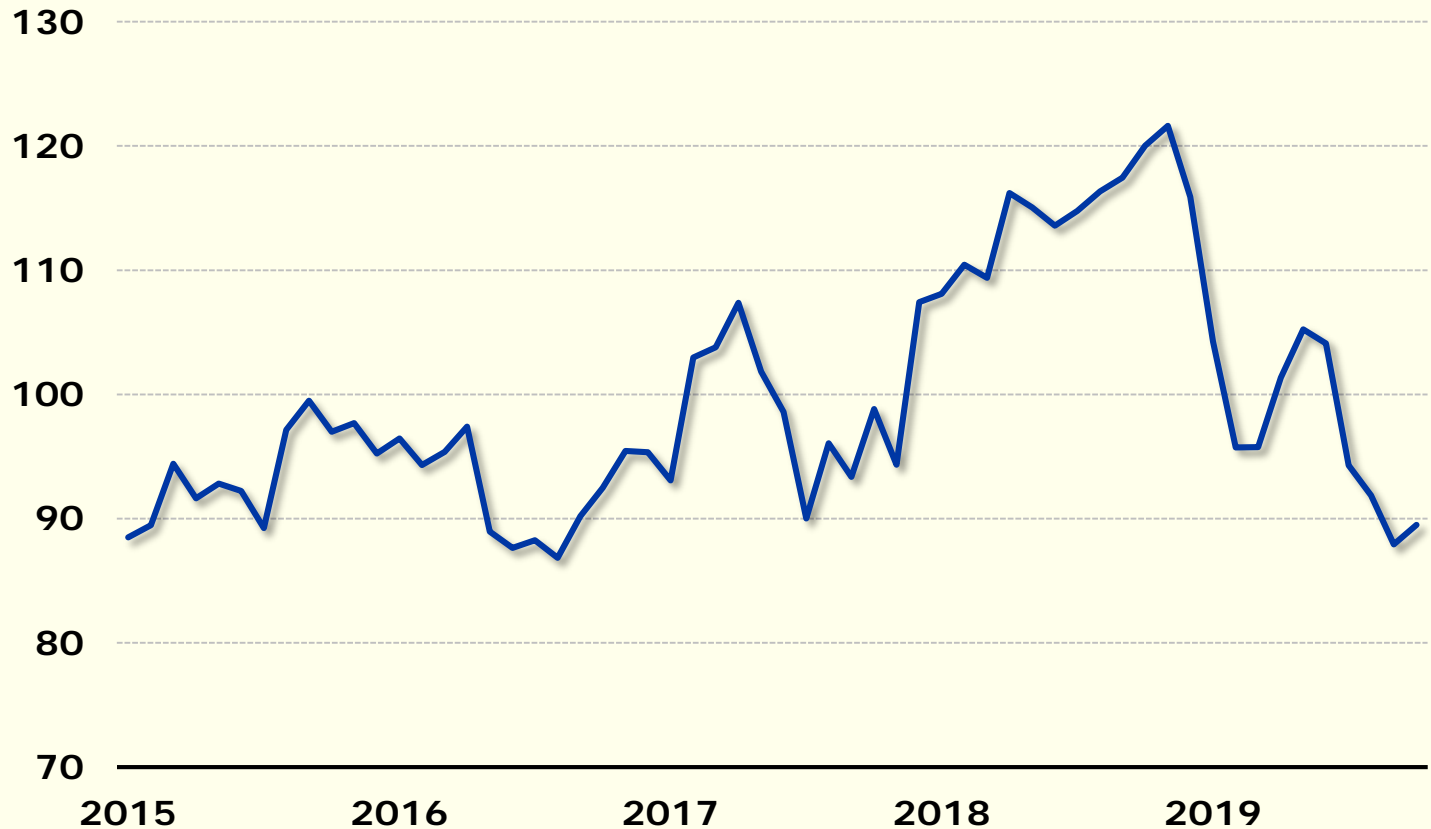


Sources: University of Michigan, Conference Board; data through Oct. 2019



# Business expectations about growth of sales, employment and investment are on a downward trend this year

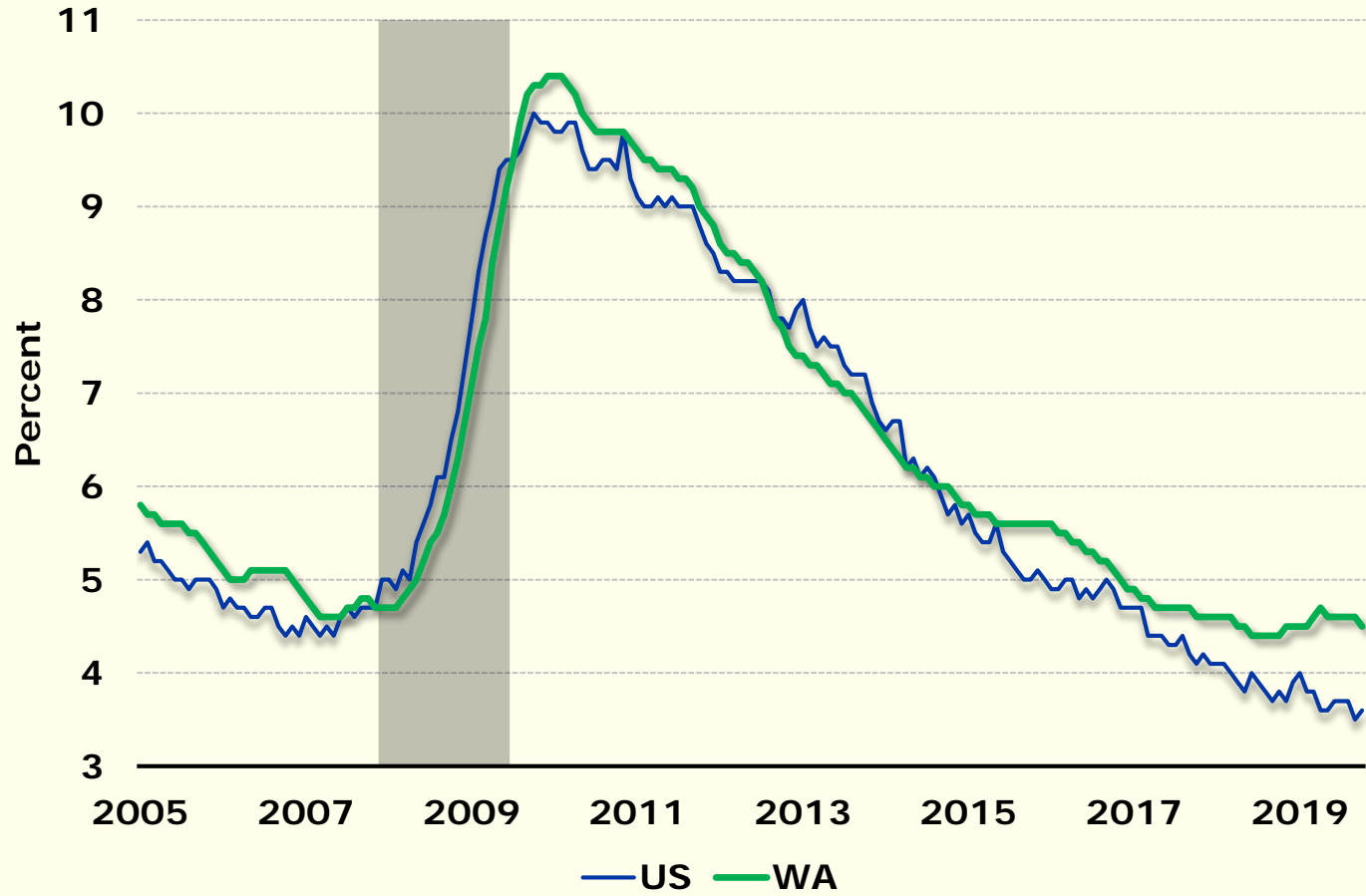
**Business Expectations Index – Atlanta Federal Reserve**



Source: Atlanta Federal Reserve Bank, data through Oct. 2019



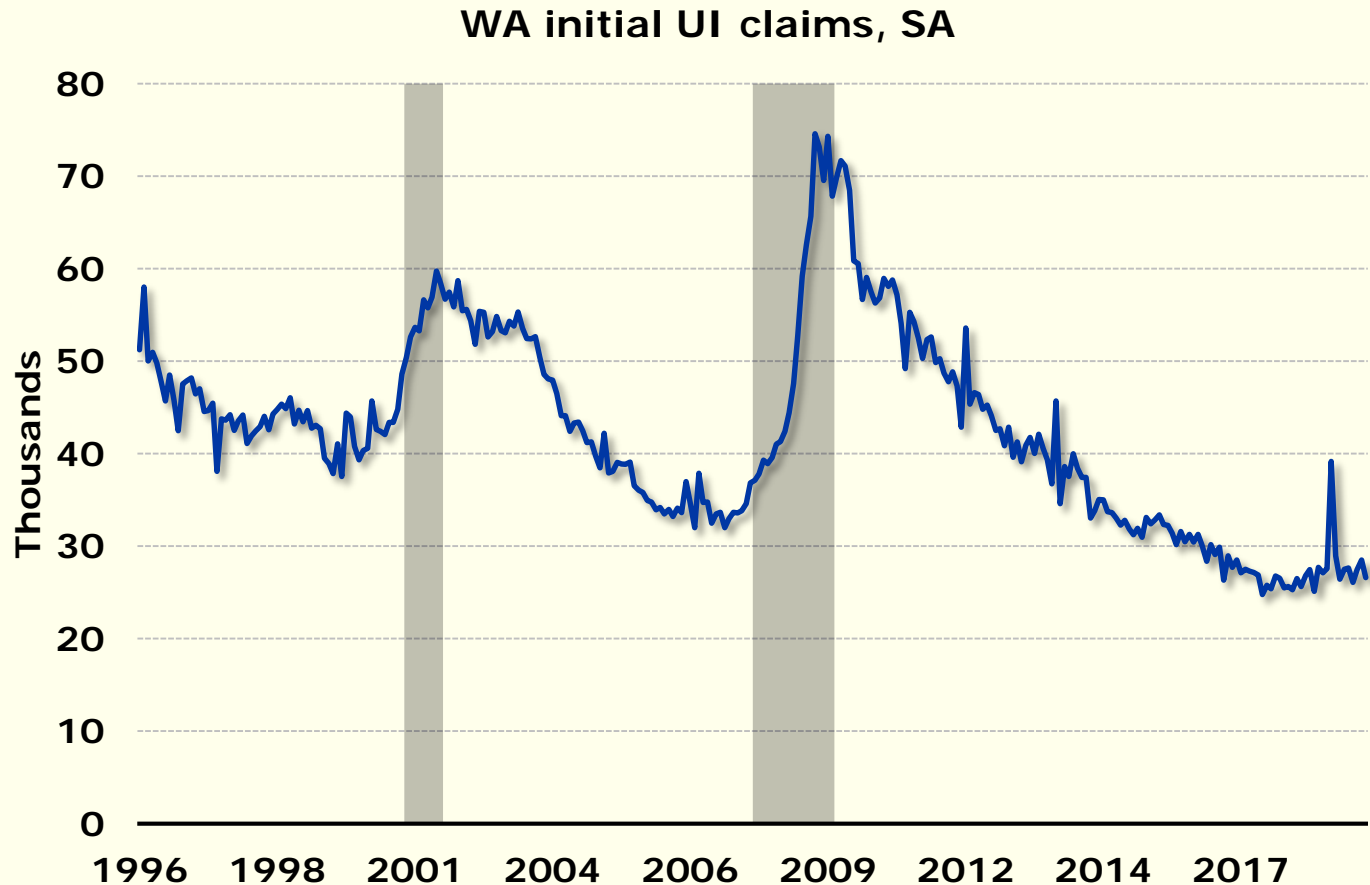
# Unemployment rates remain low







# WA initial claims for unemployment insurance are below pre-recession levels

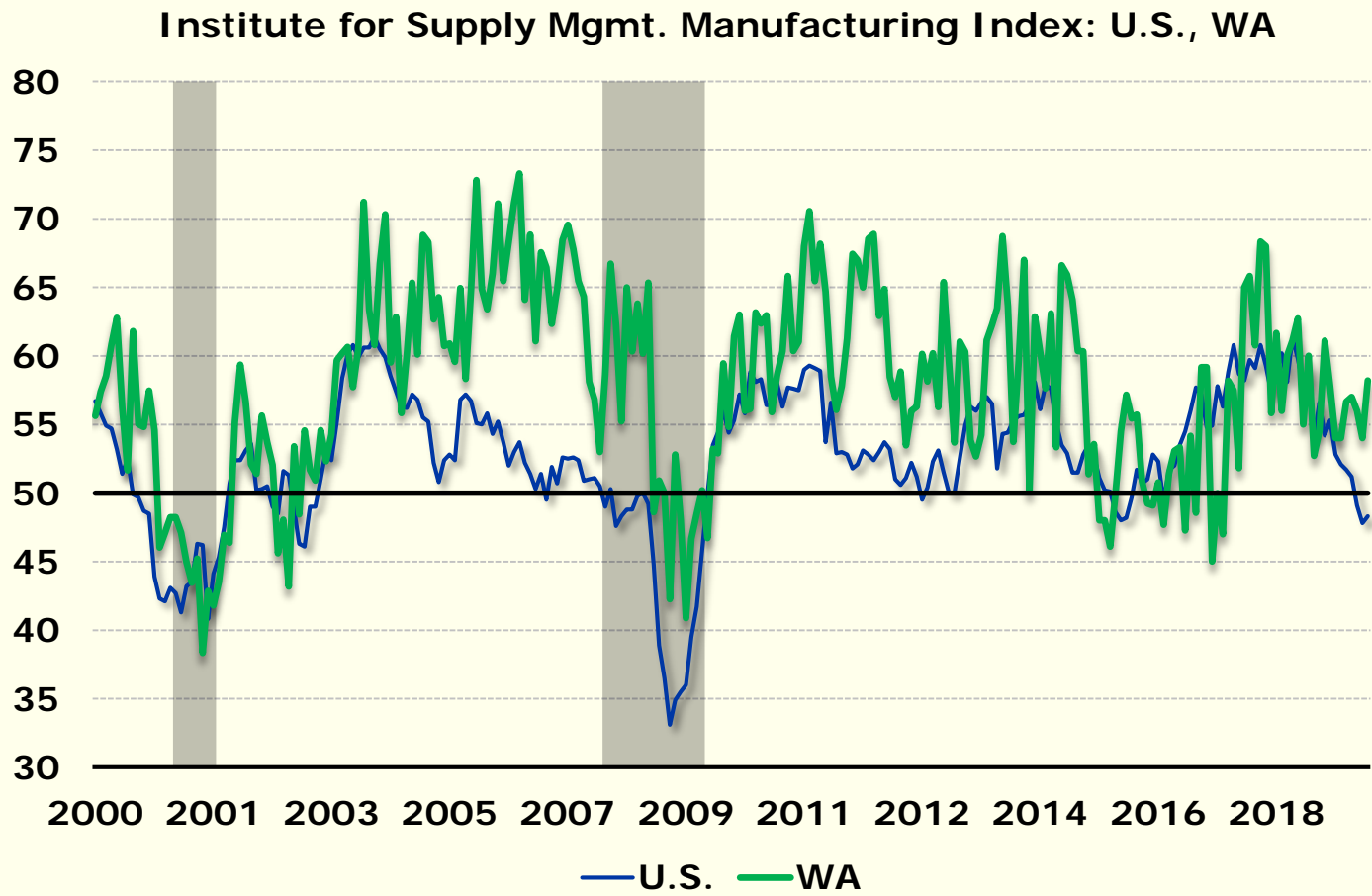


Sources: Employment Security Dept., data through October 2019



# Manufacturing has slowed nationally but continues to expand in WA

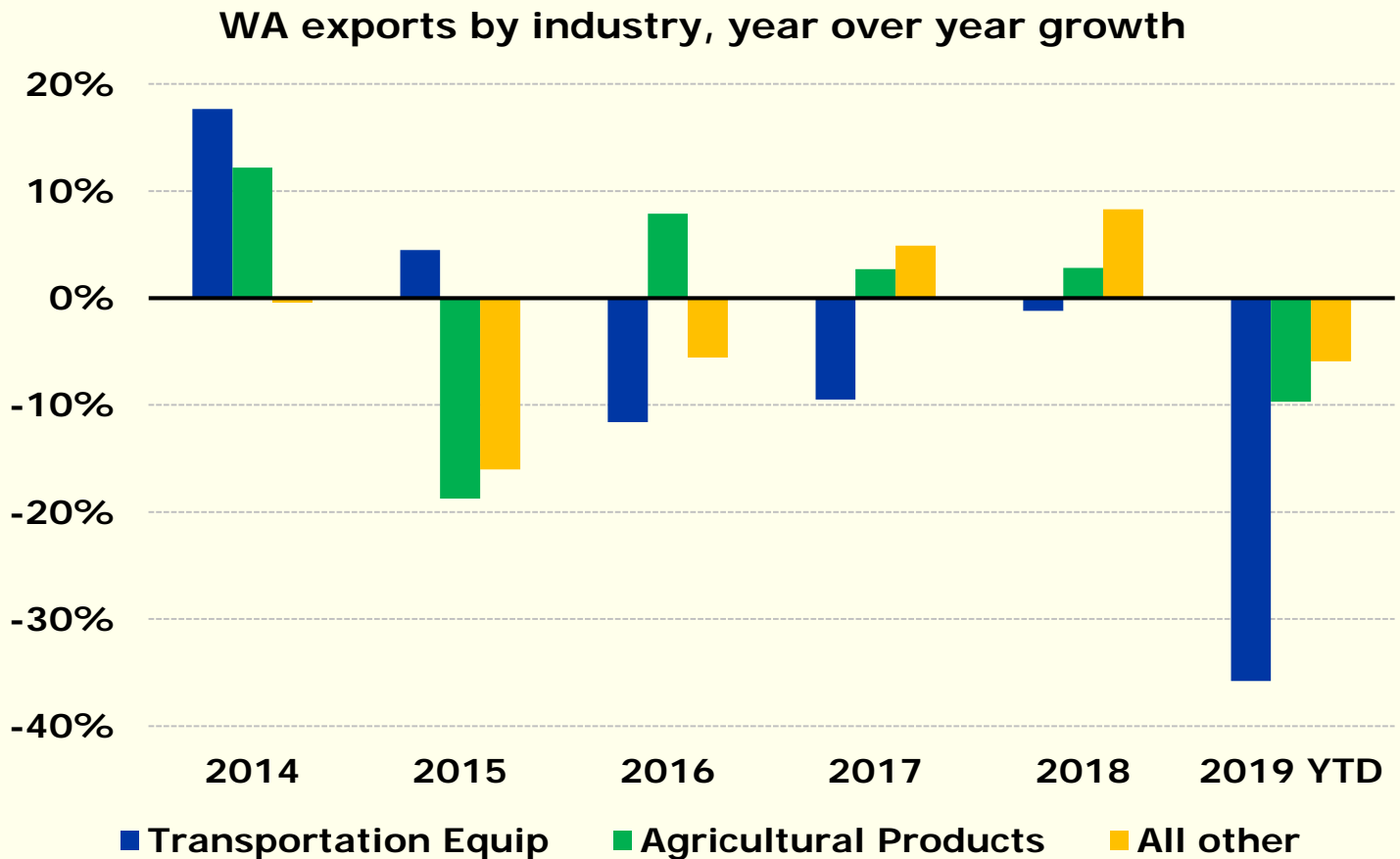
Values above 50 indicate expansion, below 50 indicate contraction.



Source: ISM, data through Oct. 2019



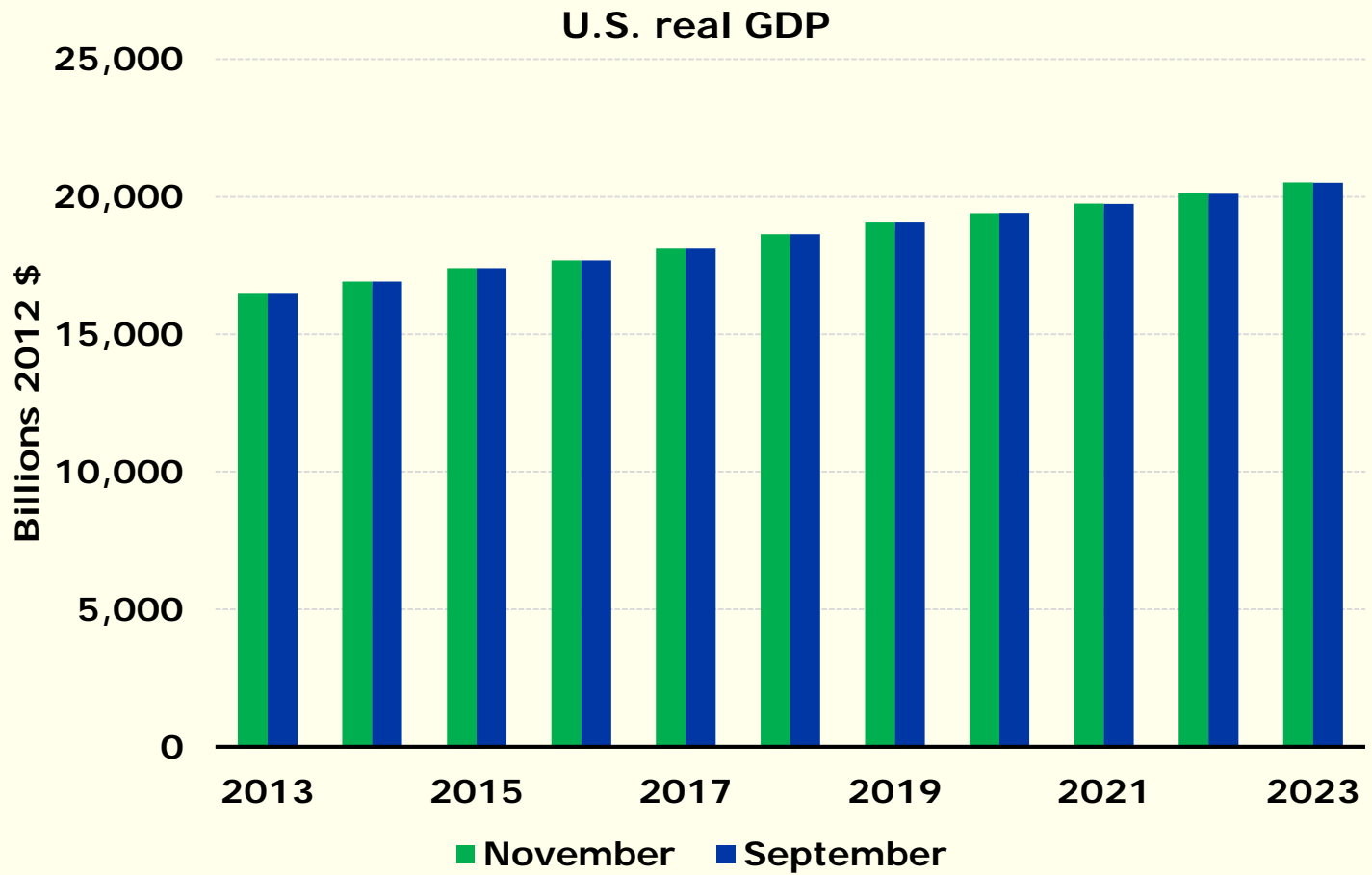
# So far this year, WA exports are down by 23% compared to last year



Source: WISERTrade, data through September 2019



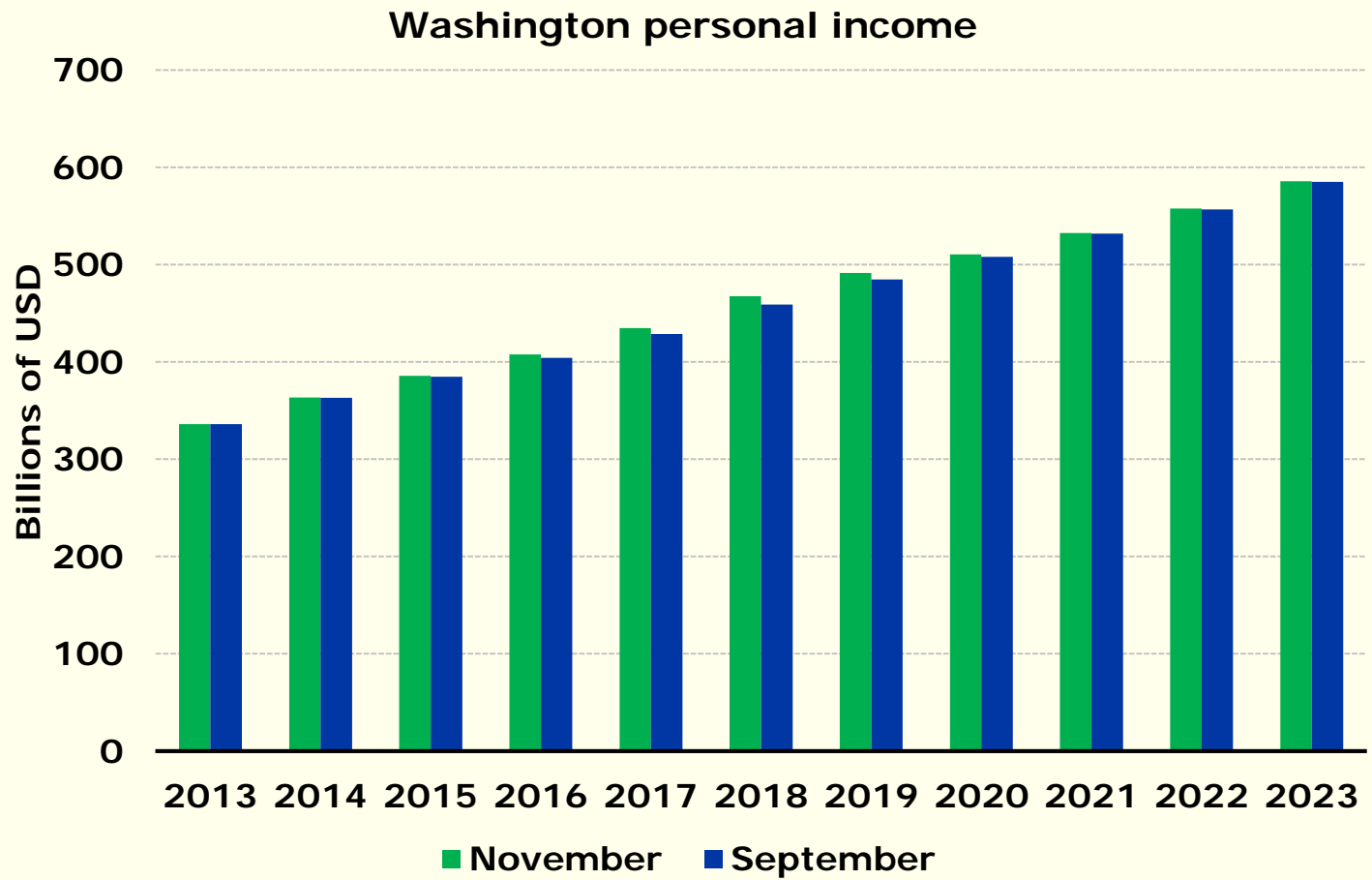
# GDP is very similar to the September forecast



Source: ERFC November 2019 forecast; historical data through 2018



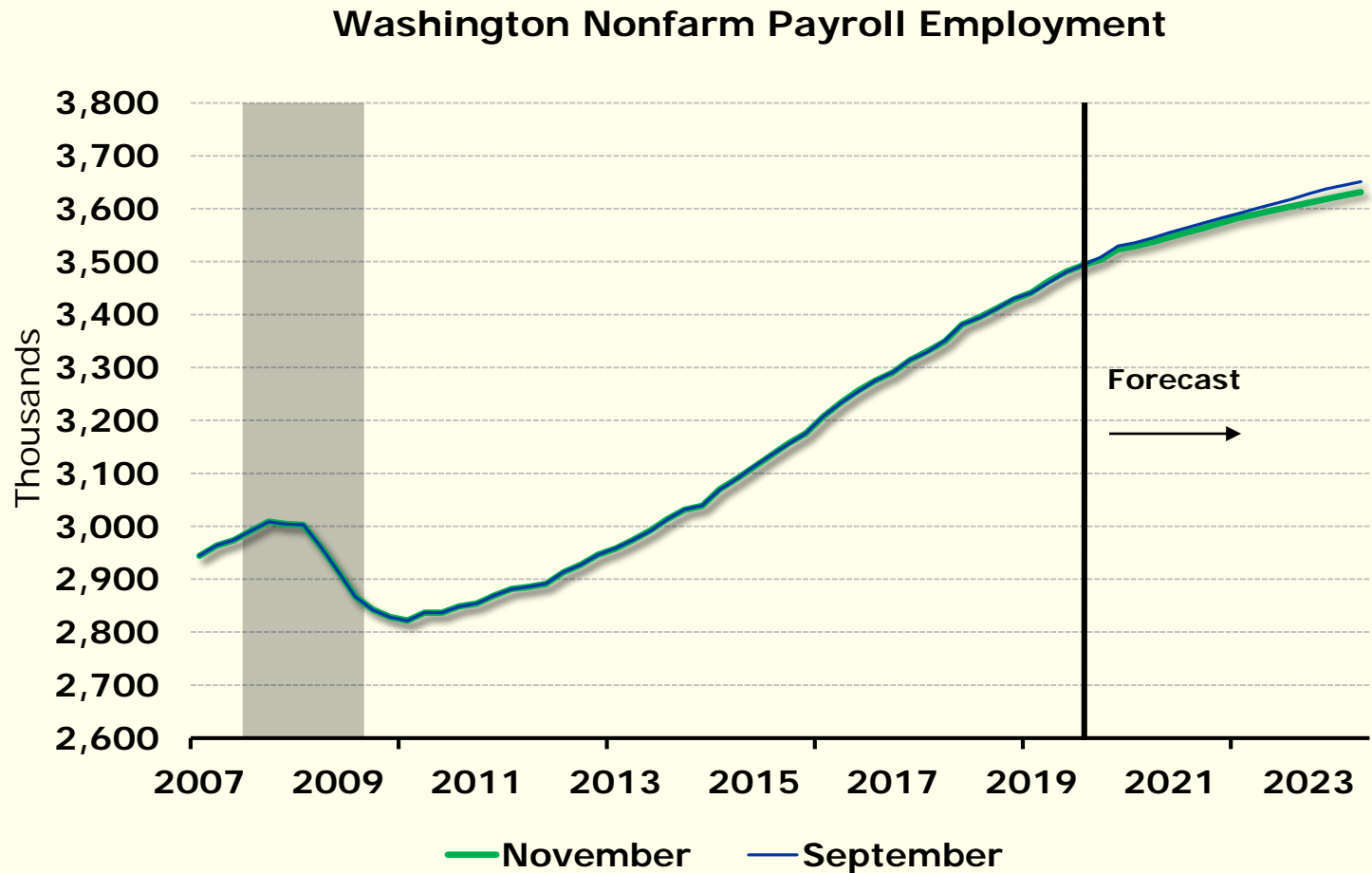
# Washington personal income was revised up in 2014-2018; forecast slightly higher than in September



Source: ERFC November 2019 forecast; historical data through 2018

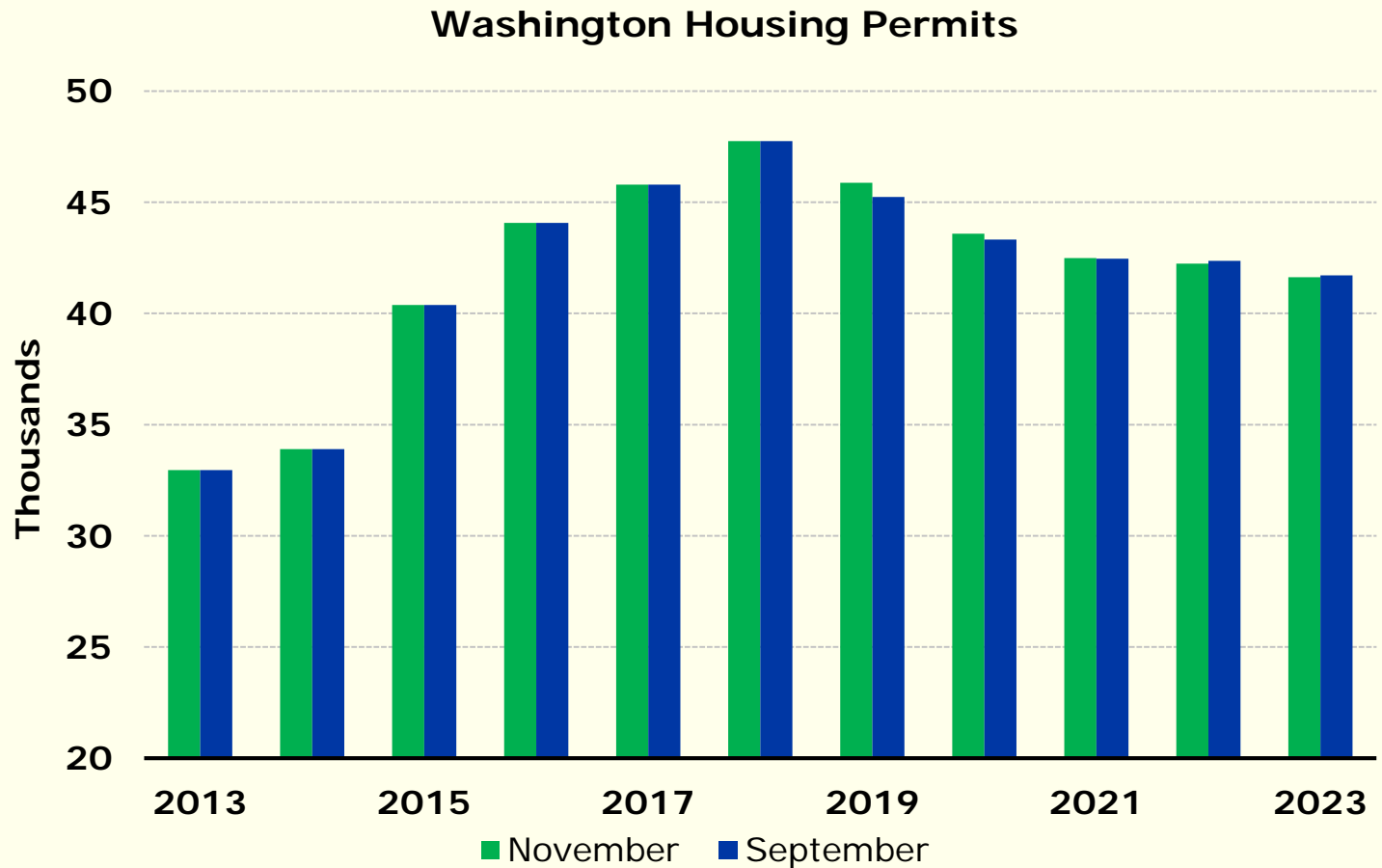


# Washington employment forecast is slightly lower than in September





# Washington housing permits forecast slightly higher in 2019 & 2020 compared to September



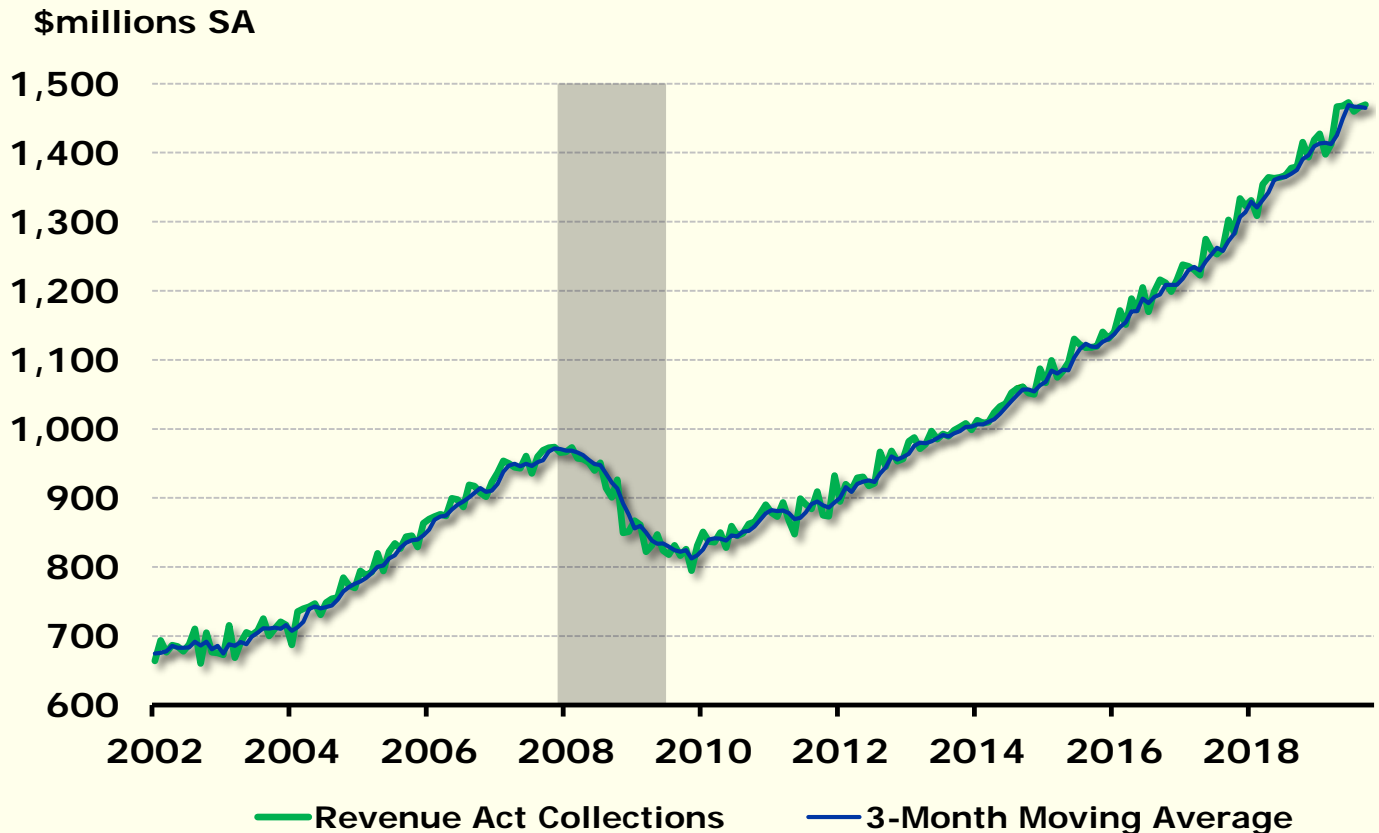
Source: ERFC November 2019 forecast; historical data through 2018



# Revenue Act collections remain strong after second quarter jump

Adjusted collections for second quarter activity grew at 8.1% year over year (6.3% excluding extra-strong growth in remittances).

Adjusted collections for third quarter activity grew at 6.6% year over year.



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

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





# Large commercial sales have increased ahead of January REET hike

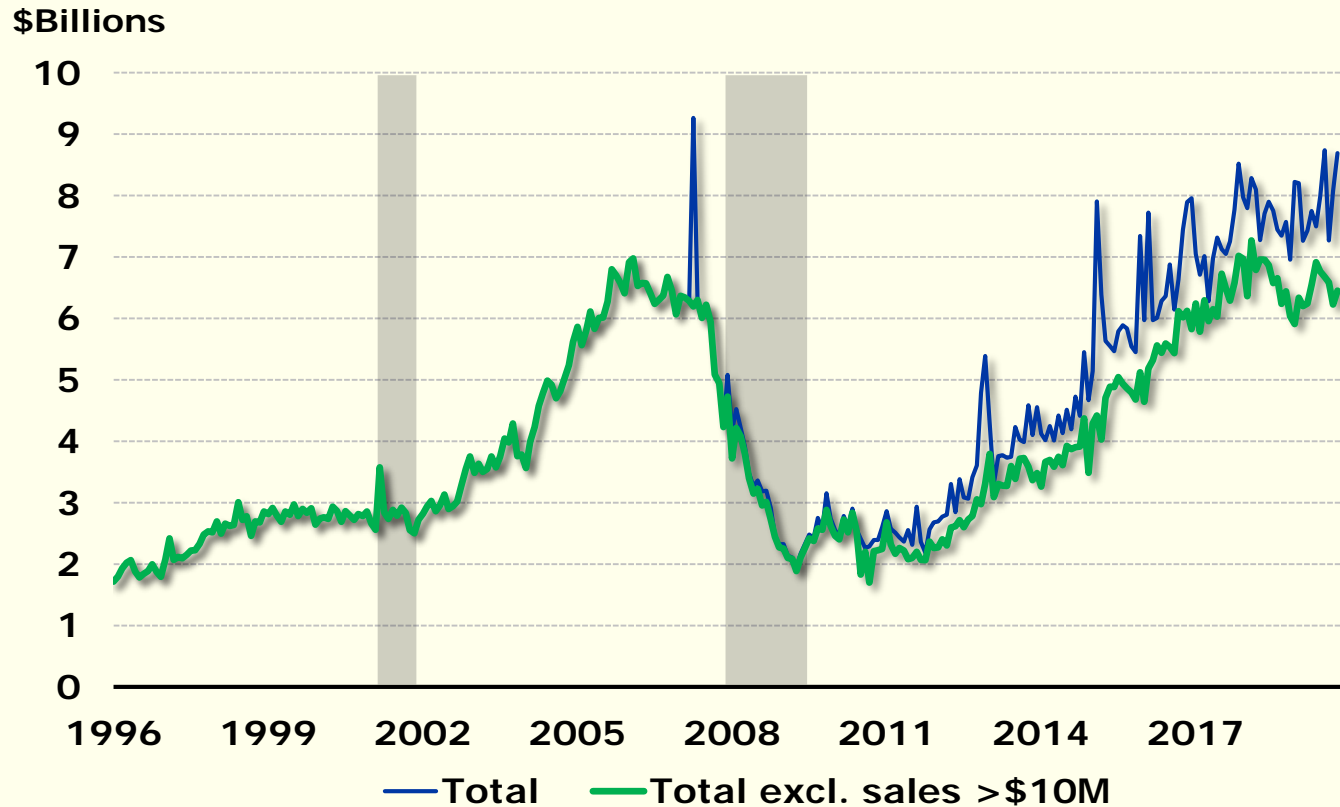
Large commercial sales (>\$10 million) jumped to \$1.8 billion in September and \$2.2 billion in October, possibly in response to the REET rate increase that takes effect January 1, 2020.

Residential sales are down from their May peak but still strong.

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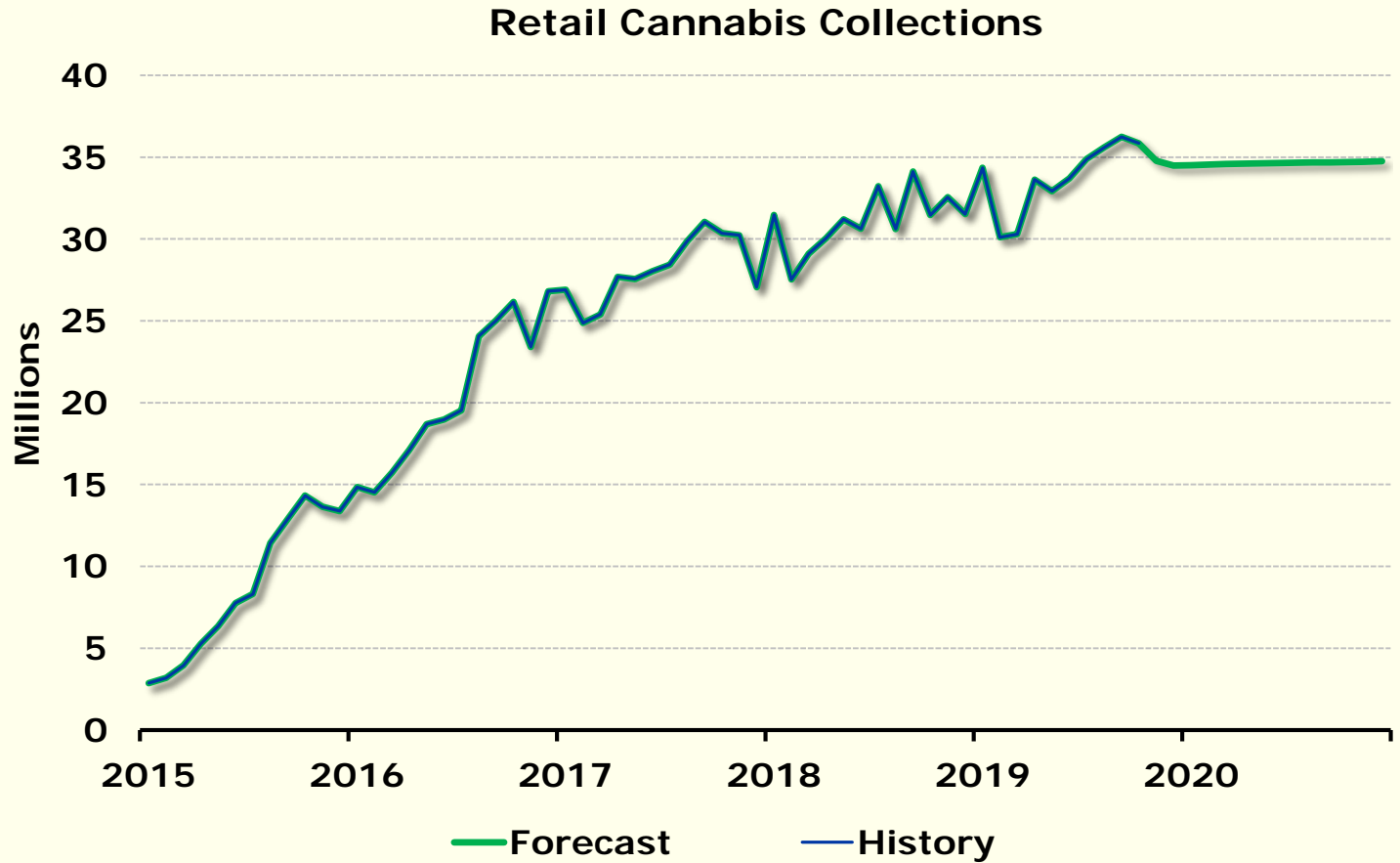
## Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through October 2019



# Cannabis revenue growth is expected to moderate



Source: ERFC November 2019 forecast; historical data through October 2019



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

Near GF-S revenue for the 2017-19 biennium is now final.

<b>\$Millions</b>	<u>September 2019 Forecast*</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>November 2019 Final</u>	<u>Total Change#</u>
General Fund-State	\$44,144	\$0	(\$1)	\$44,143	(\$1)
Education Legacy Trust Account	\$1,654	\$0	\$0	\$1,654	\$0
WA Opportunity Pathways Account	\$288	\$0	(\$4)	\$284	(\$4)
<b>Total Near GF-S</b>	<b>\$46,086</b>	<b>\$0</b>	<b>(\$5)</b>	<b>\$46,081</b>	<b>(\$5)</b>

\*Forecast for the 2017-19 biennium adopted September 25, 2019  
 # Detail may not add to total due to rounding



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

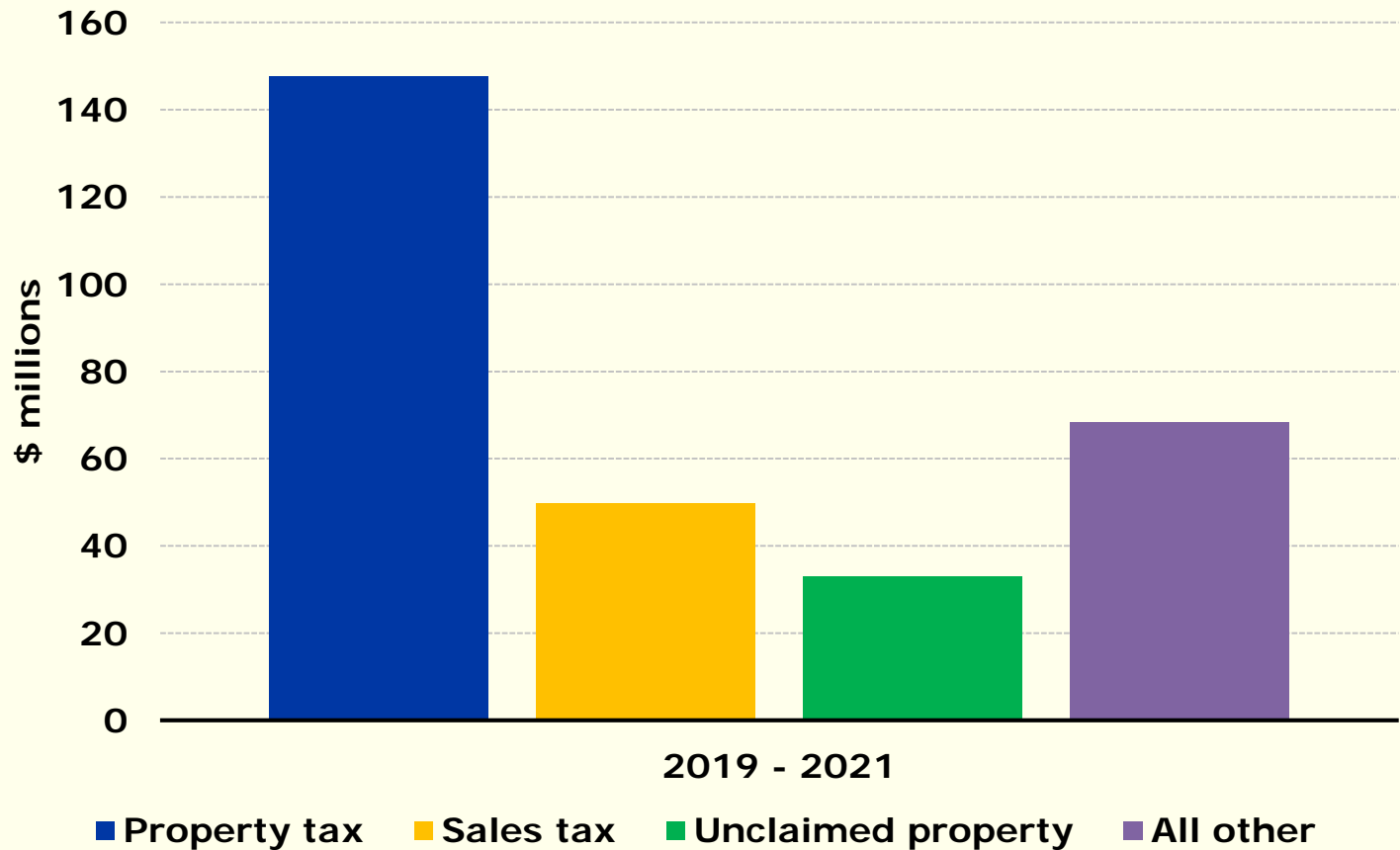
<b>\$Millions</b>	<u>September</u> <u>2019</u> <u>Forecast*</u>	<u>Non-</u> <u>economic</u> <u>Change**</u>	<u>Forecast</u> <u>Change</u>	<u>November</u> <u>2019</u> <u>Forecast</u>	<u>Total</u> <u>Change#</u>
General Fund-State	\$50,030	\$0	\$274	\$50,304	\$274
Education Legacy Trust Account	\$1,118	\$0	\$19	\$1,137	\$19
WA Opportunity Pathways Account	\$286	\$0	\$5	\$286	\$5
<b>Total Near GF-S</b>	<b>\$51,435</b>	<b>\$0</b>	<b>\$299</b>	<b>\$51,733</b>	<b>\$299</b>

\*Forecast for the 2019-21 biennium adopted September 25, 2019  
 # Detail may not add to total due to rounding



# Components of change in November NGF-S revenue forecast for 2019 – 2021 biennium

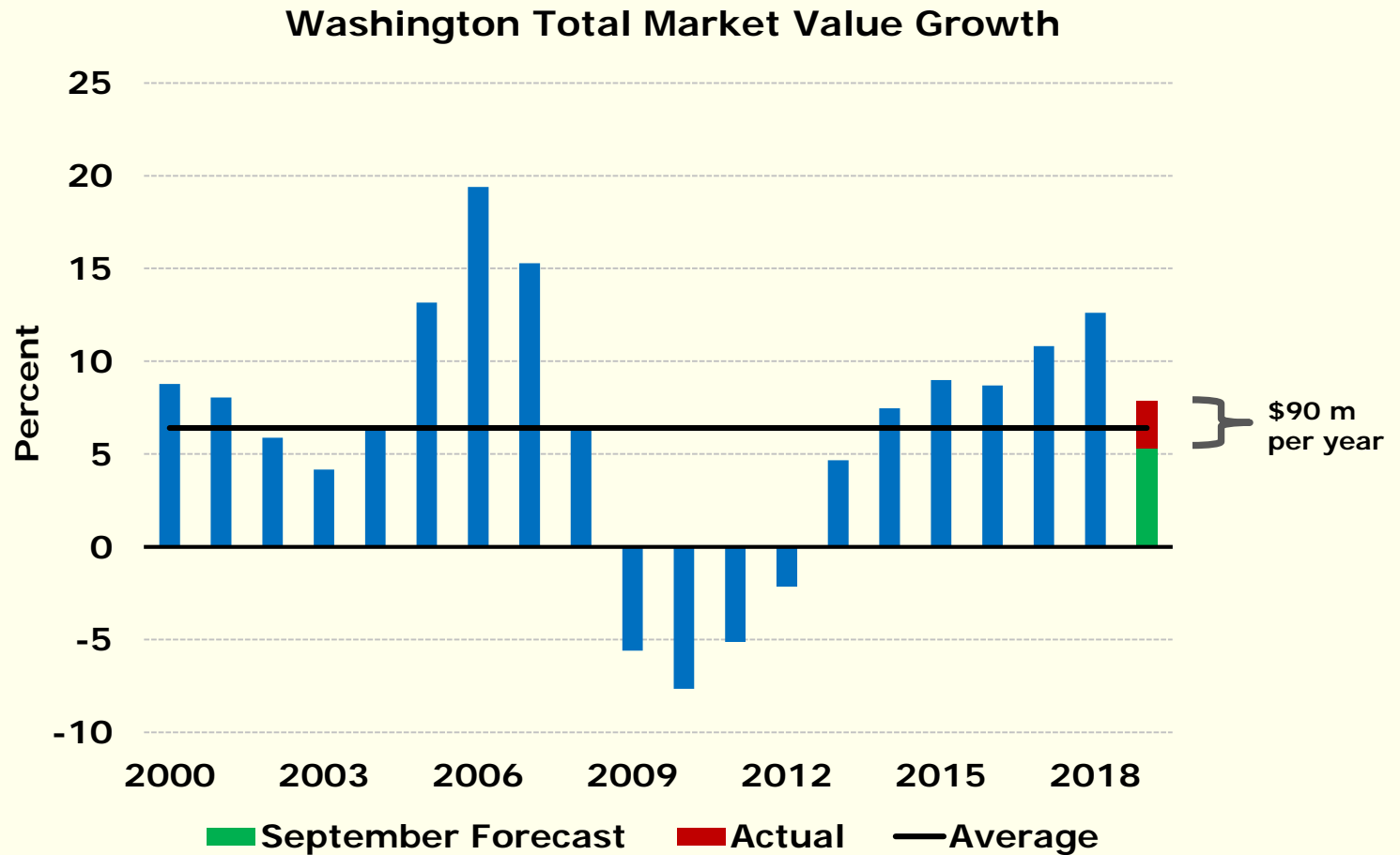
Sept. forecast assumed 5.3% growth in assessed value for CY 2020 property taxes. With most county assessors having reported, assessed value growth for 2020 property taxes now assumed to be 7.9%.



Source: ERFC November 2019 forecast



# Actual market value came in higher than anticipated in September



Source: ERFC November 2019 forecast; historical data through 2019



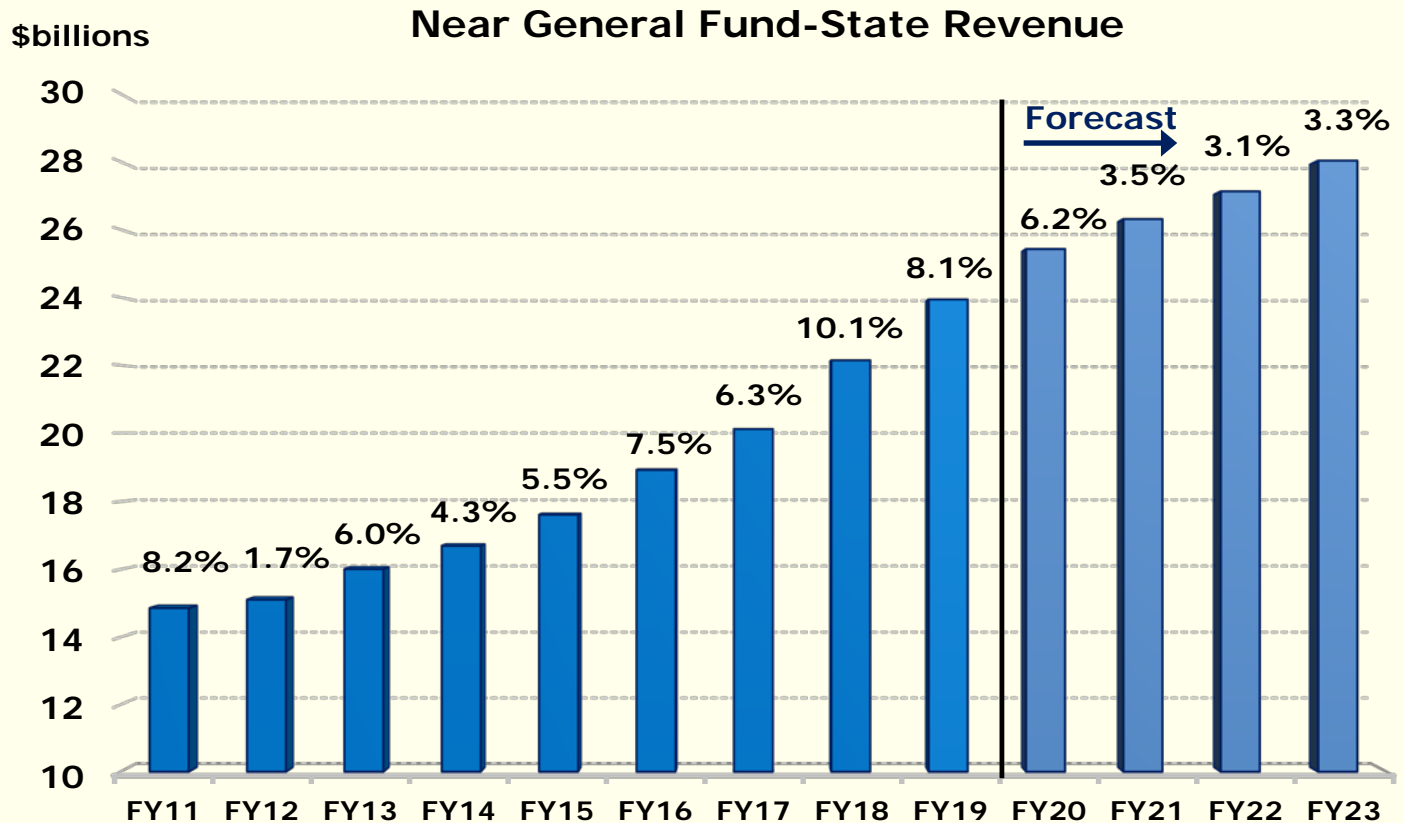
# 2019-21 Biennium alternative General Fund-State forecasts

<b>\$Millions (cash basis)</b>	<b>2019-21 Biennium</b>	<b>Difference From the baseline<sup>#</sup></b>
<b>November 2019 Baseline (50%)</b>	<b>\$50,304</b>	
<b><u>November 2019 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$51,865</b>	<b>\$1,560</b>
<b>Pessimistic (35%)</b>	<b>\$48,468</b>	<b>(\$1,836)</b>
<b>Probability Weighted Average</b>	<b>\$49,896</b>	<b>(\$409)</b>
<b>GCEA*</b>	<b>\$50,453</b>	<b>\$148</b>

\*Based on the Governor's Council of Economic Advisors' economic assumptions  
#May not add to total due to rounding



# Near General Fund-State\* forecast by fiscal year



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





# Conclusion

- Economic forecasts are only slightly changed from September
- Washington's economy is continuing to outperform the nation but not as dramatically as in past
- Near GF-S revenues grew 18.0% between the 2015-17 and 2017-19 biennia and are expected to grow 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](http://www.erfc.wa.gov)  
360-534-1560**