

Washington State Economic Outlook & Revenue Collection Experience

Presented to
House Finance Committee

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The preliminary economic forecast for the U.S. is similar to the September forecast, although after-tax personal income is lower
- The preliminary economic forecast for WA has slightly higher personal income but is generally similar to September
- 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 \$119.1 million (3.0%) 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

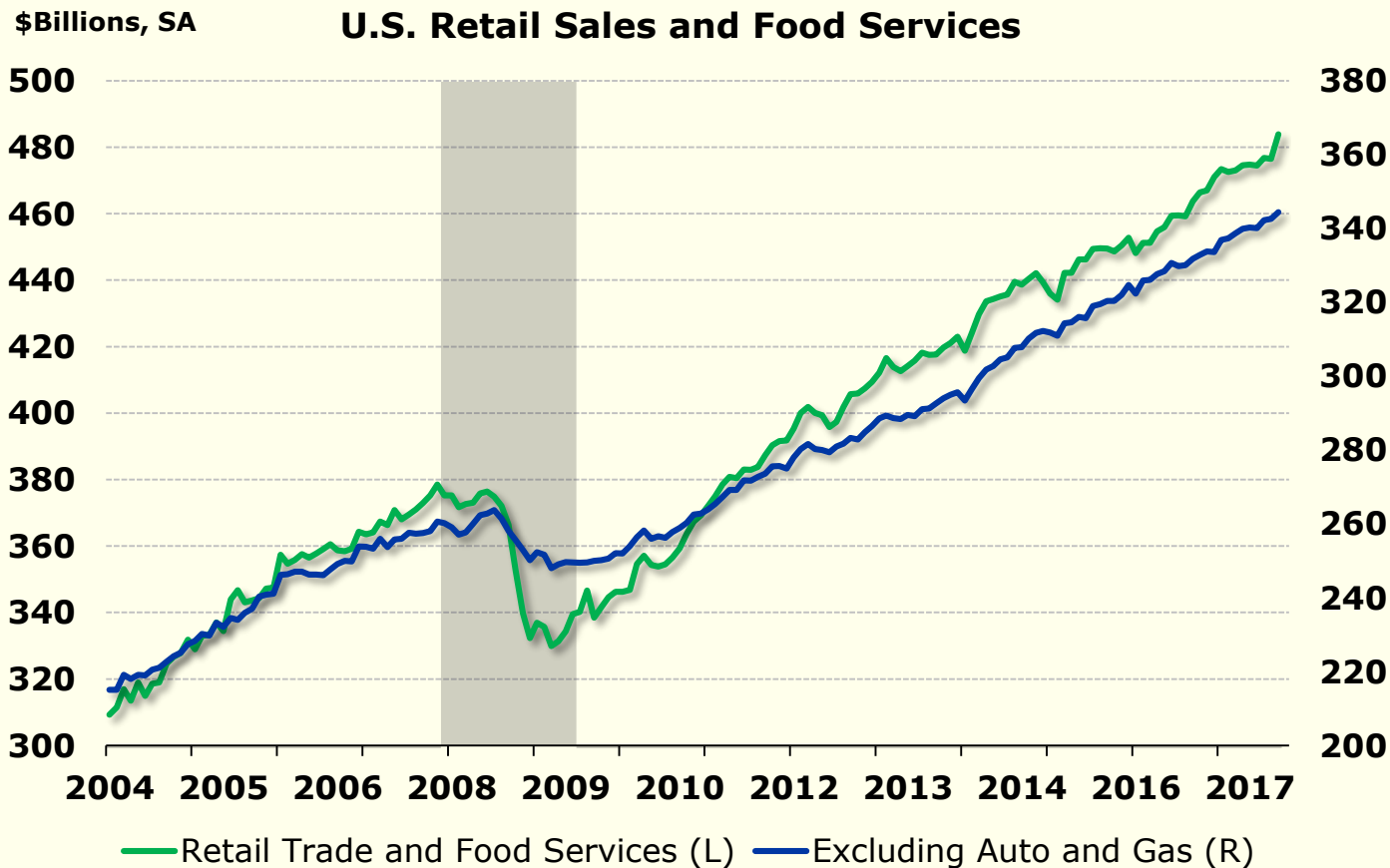
- Stagnant labor productivity inhibits wage growth
- Geopolitical risks: North Korea, Russia
- International trade and fiscal policy uncertainty



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.

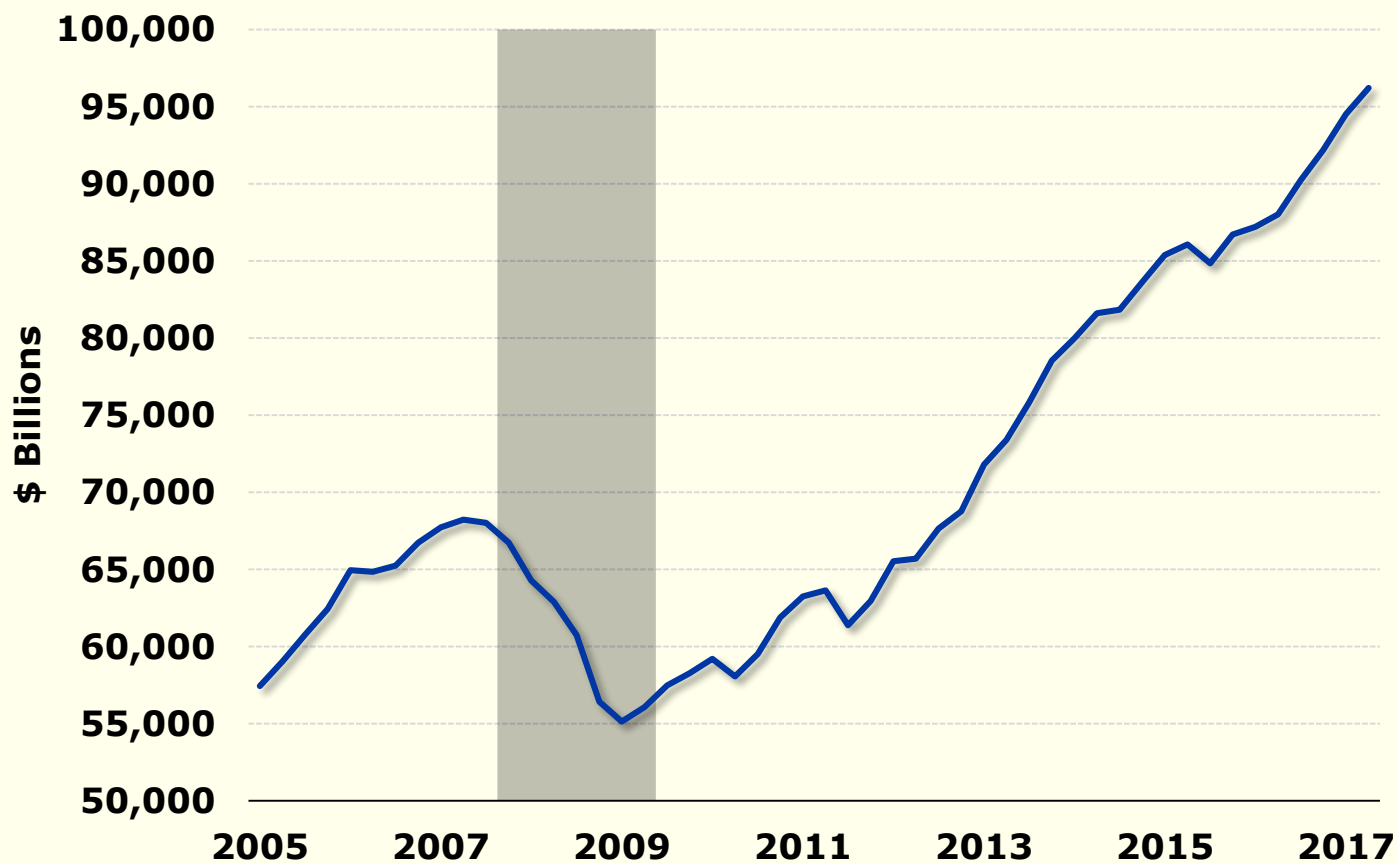
Excluding autos and gas, sales were up 3.8% YOY in July, August and September.



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



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

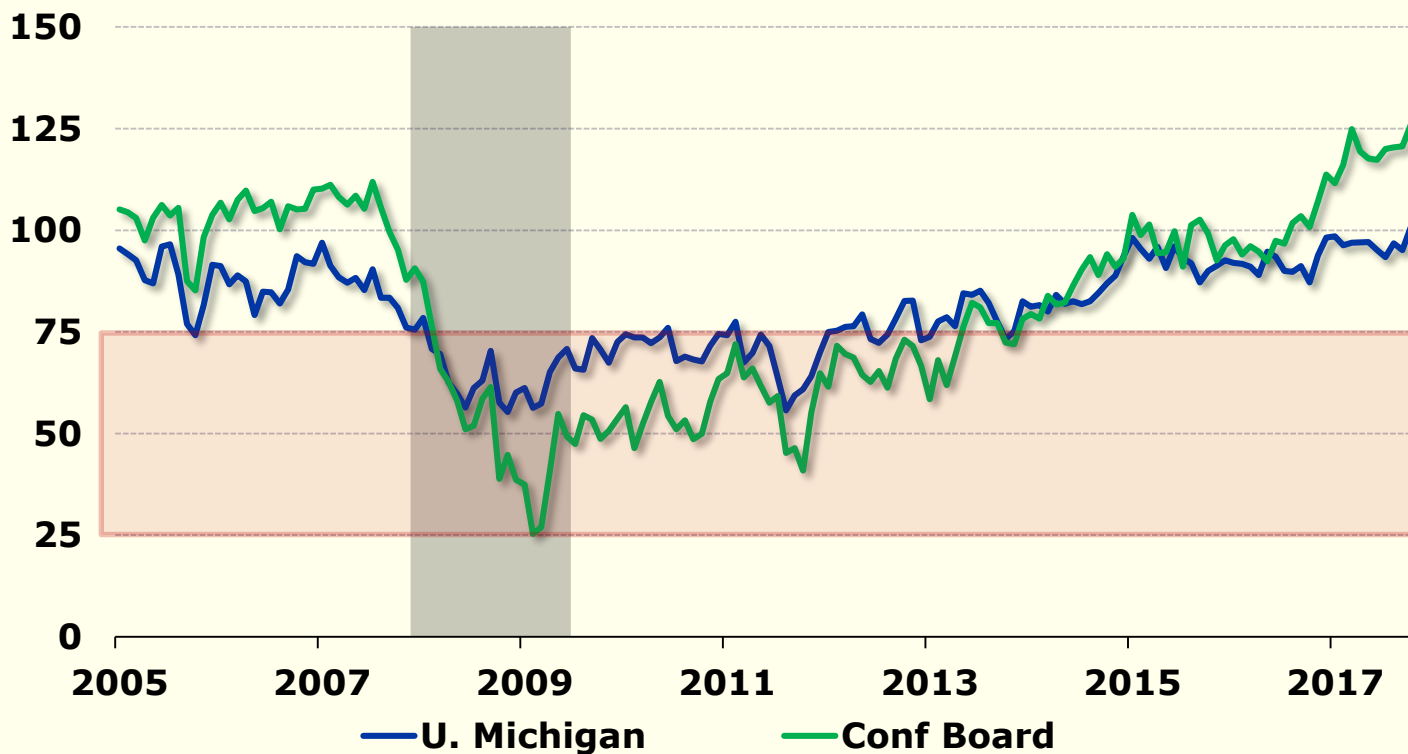


Consumer confidence is above pre-recession levels

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

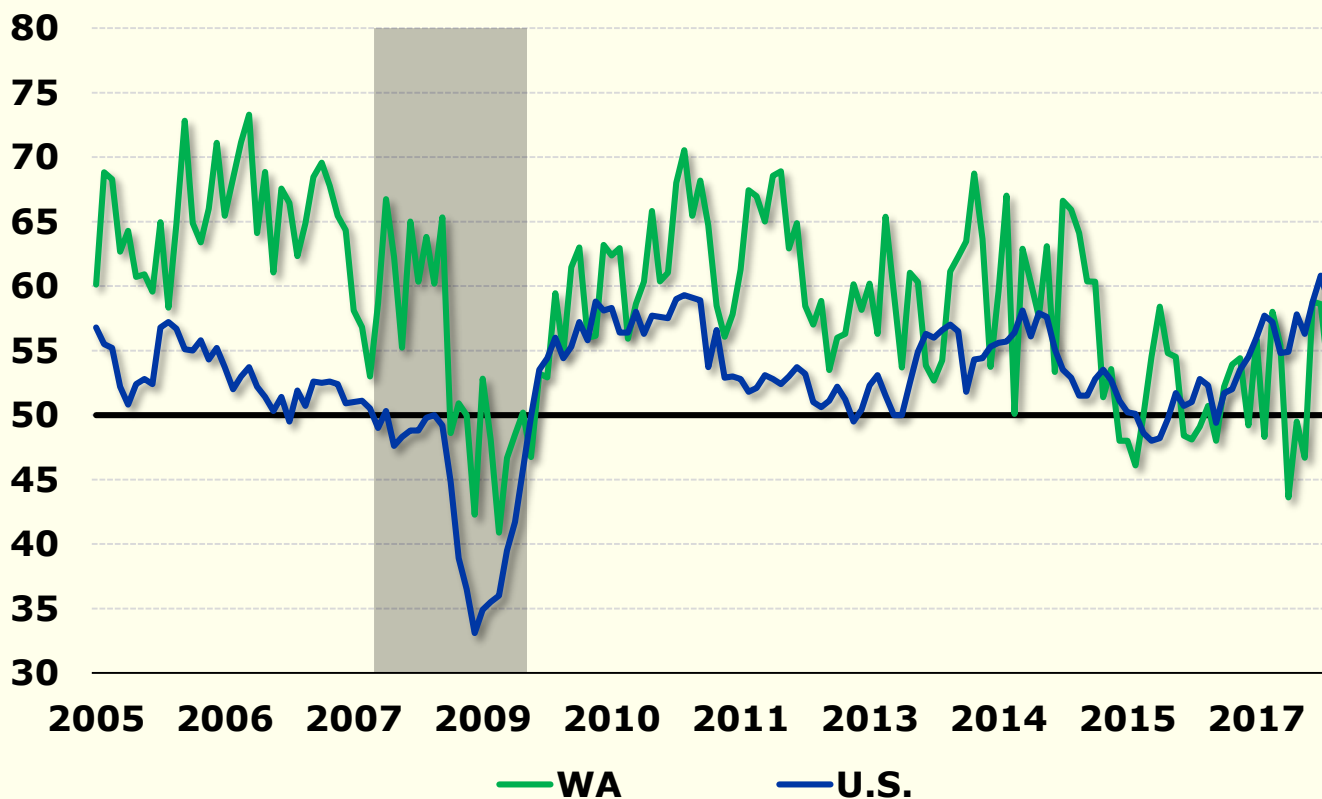




Manufacturing activity is showing some signs of improvement nationally and in WA

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

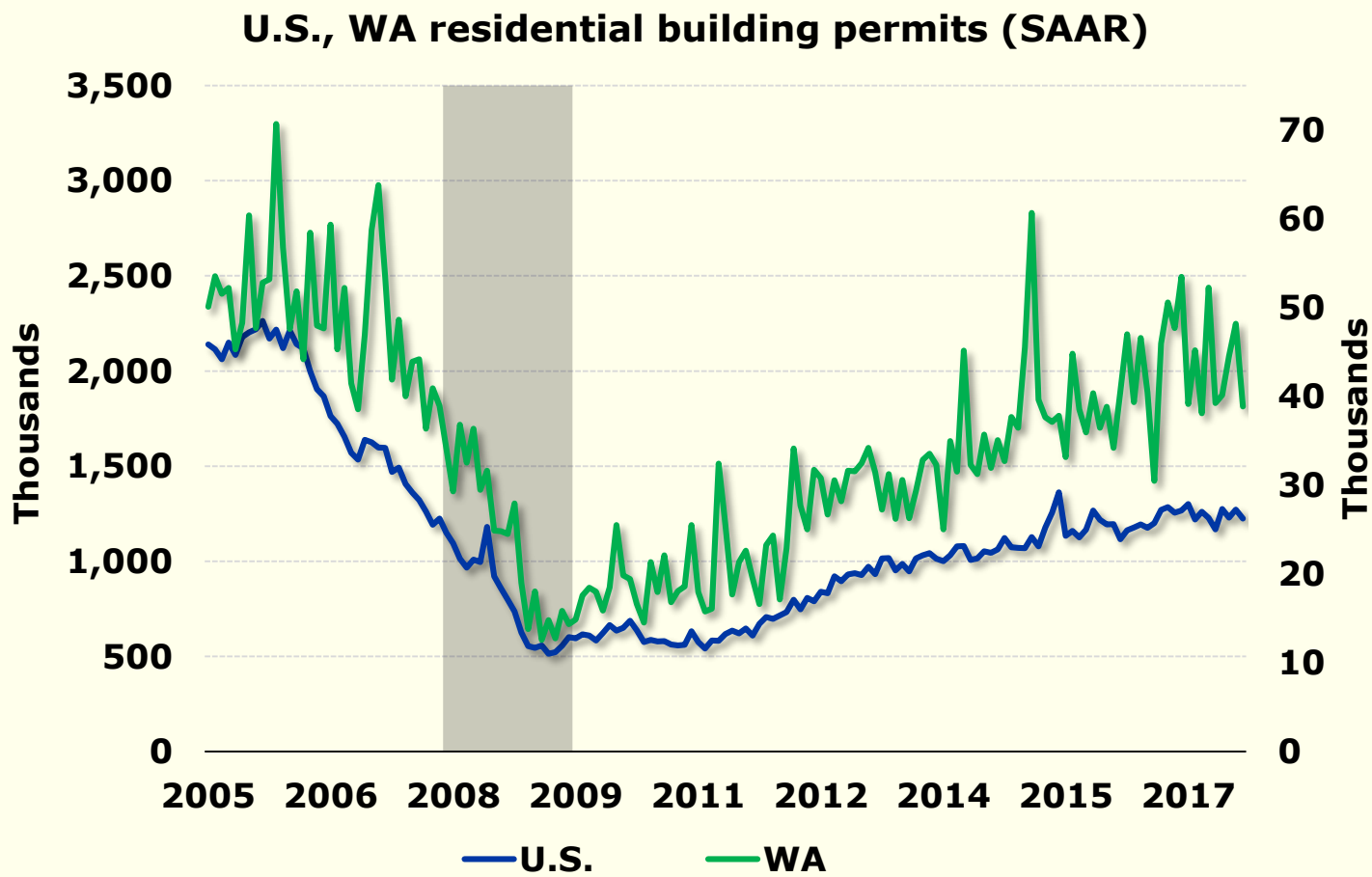
Manufacturing Purchasing Managers' Index, WA & US



Source: Institute of Supply Management, data through October 2017



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

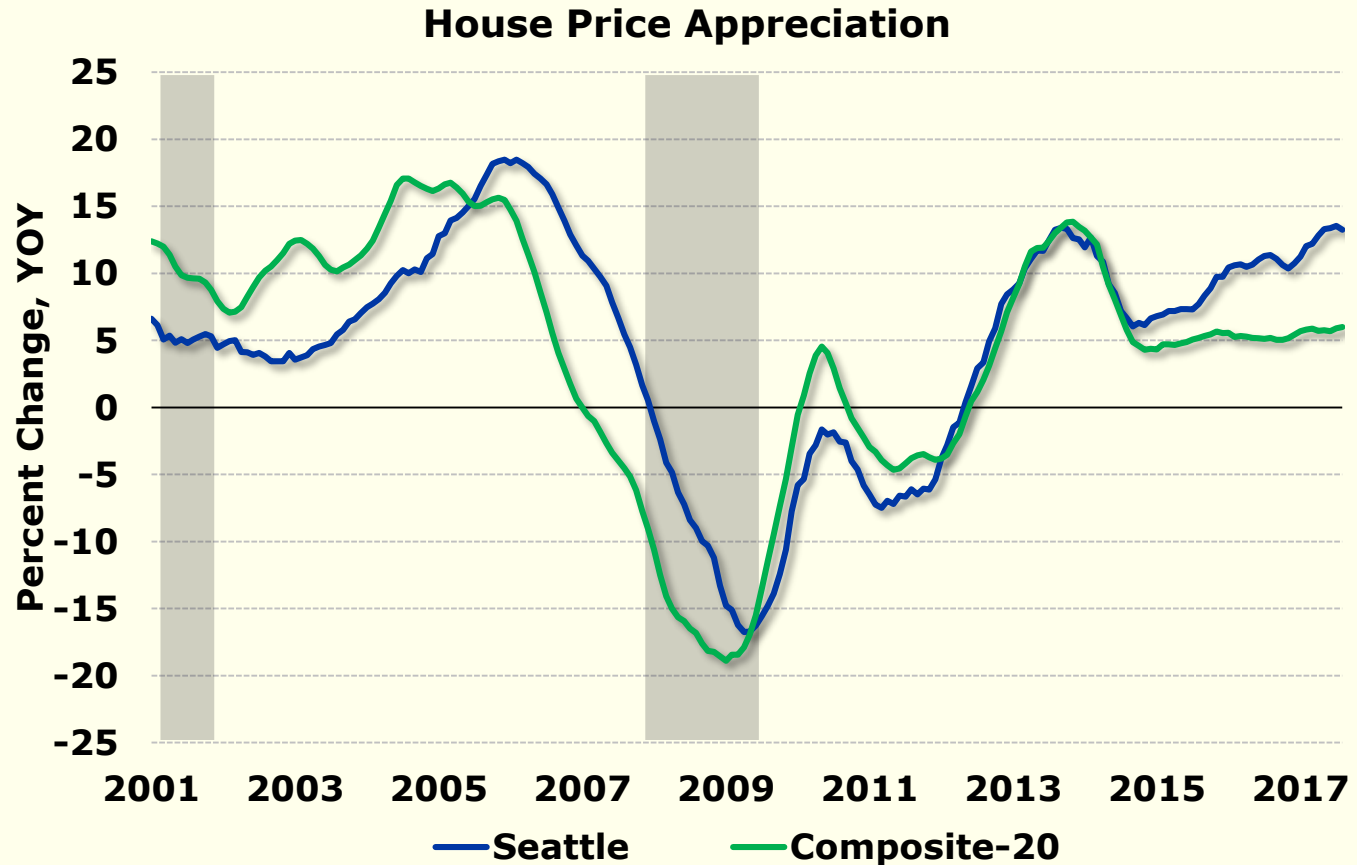


Source: U.S. Census Bureau, ERFC; data through September 2017

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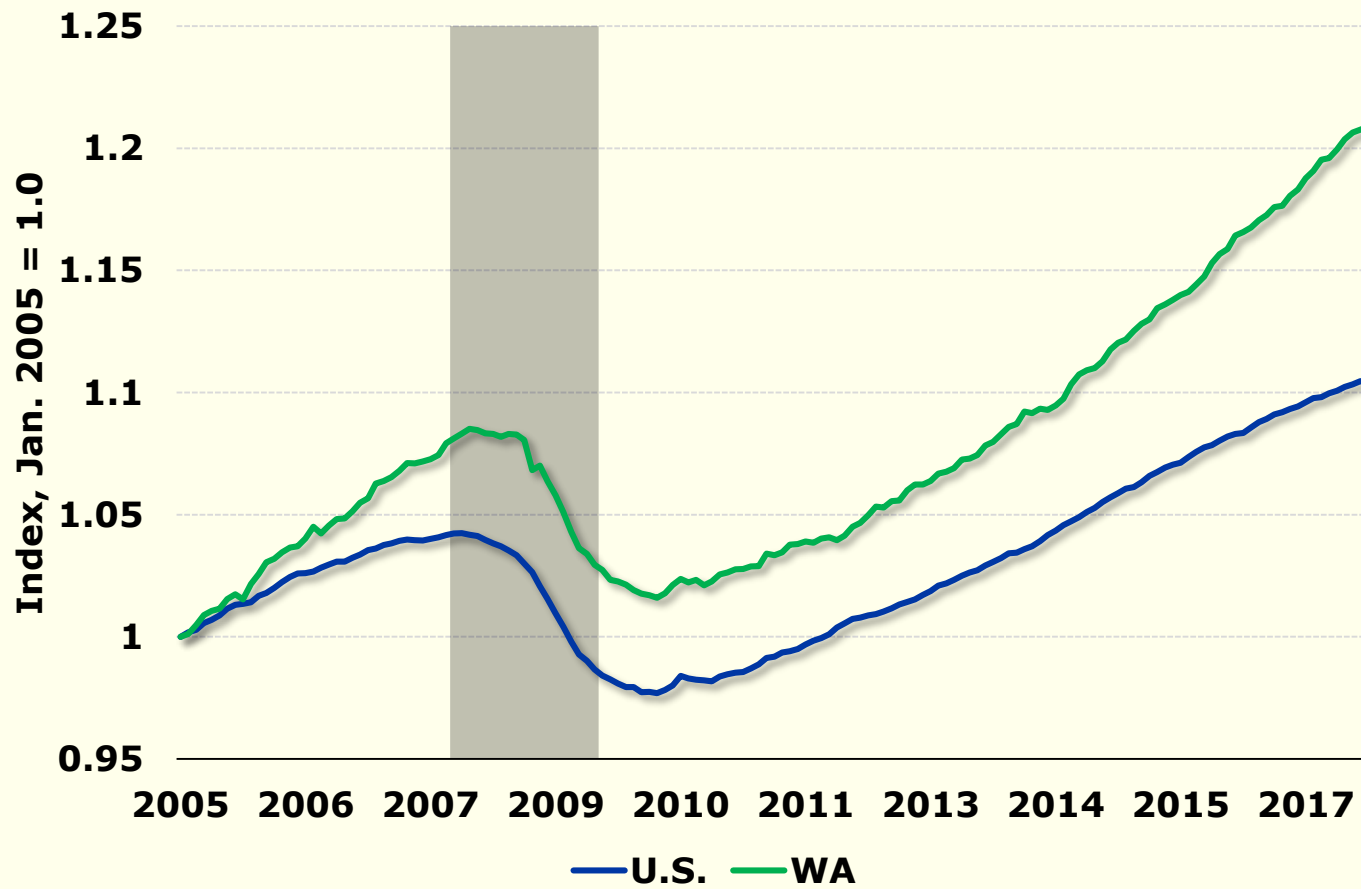


Seattle house price appreciation continues to be well above national levels



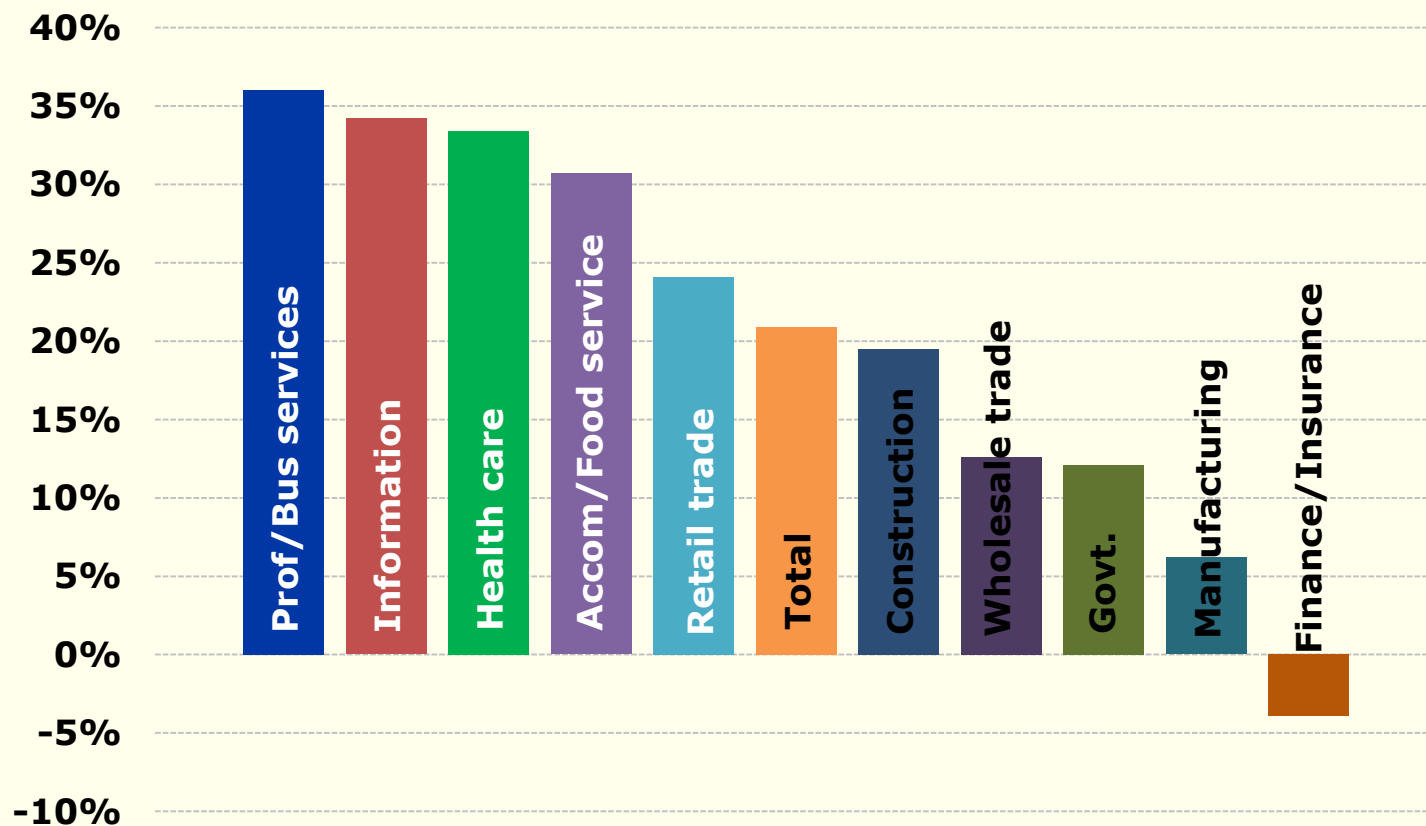


WA employment has grown much faster than for the U.S. as a whole



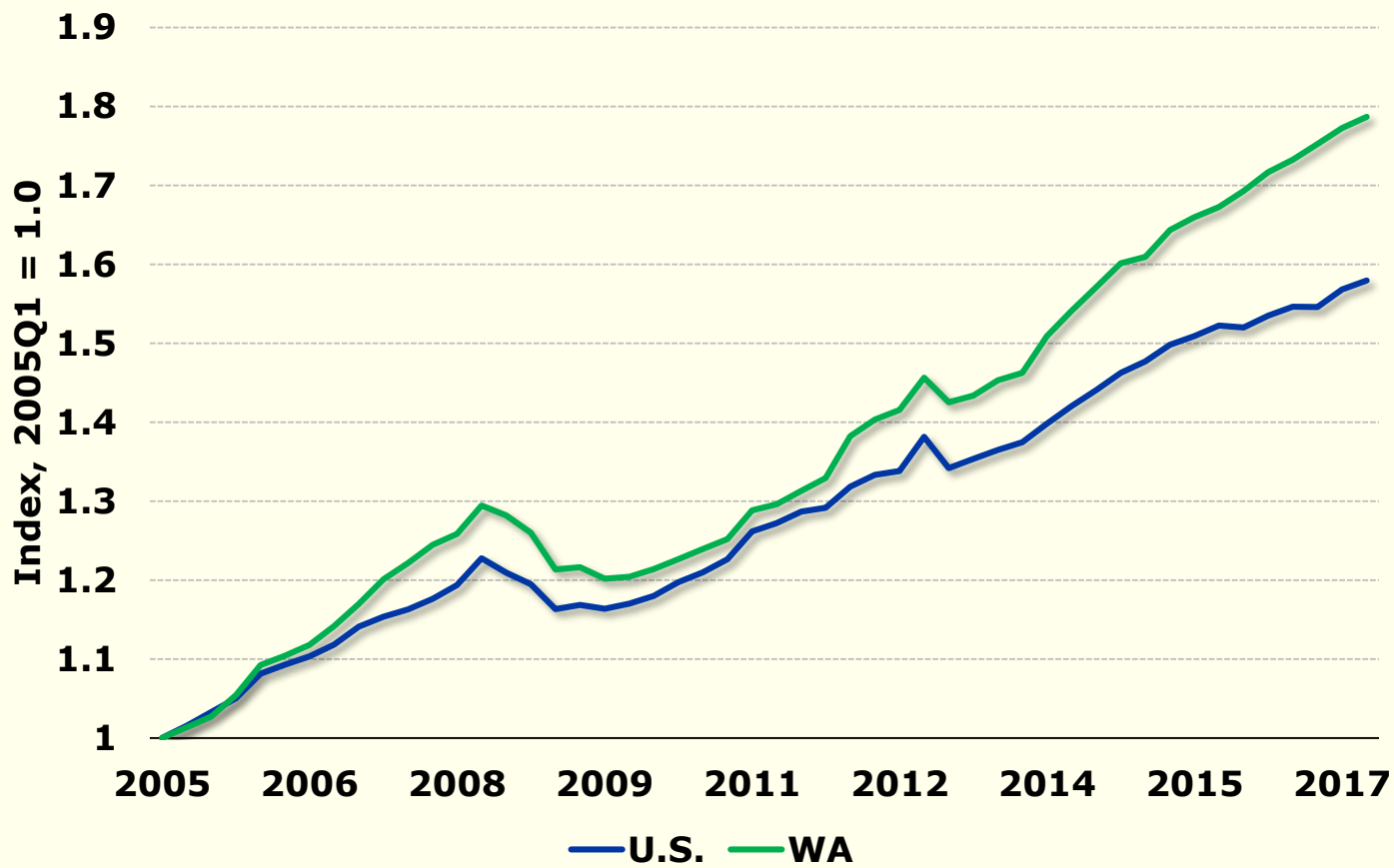


WA employment growth by major sector, Jan. 2005 to Sept. 2017





WA personal income growth continues to outpace the U.S.



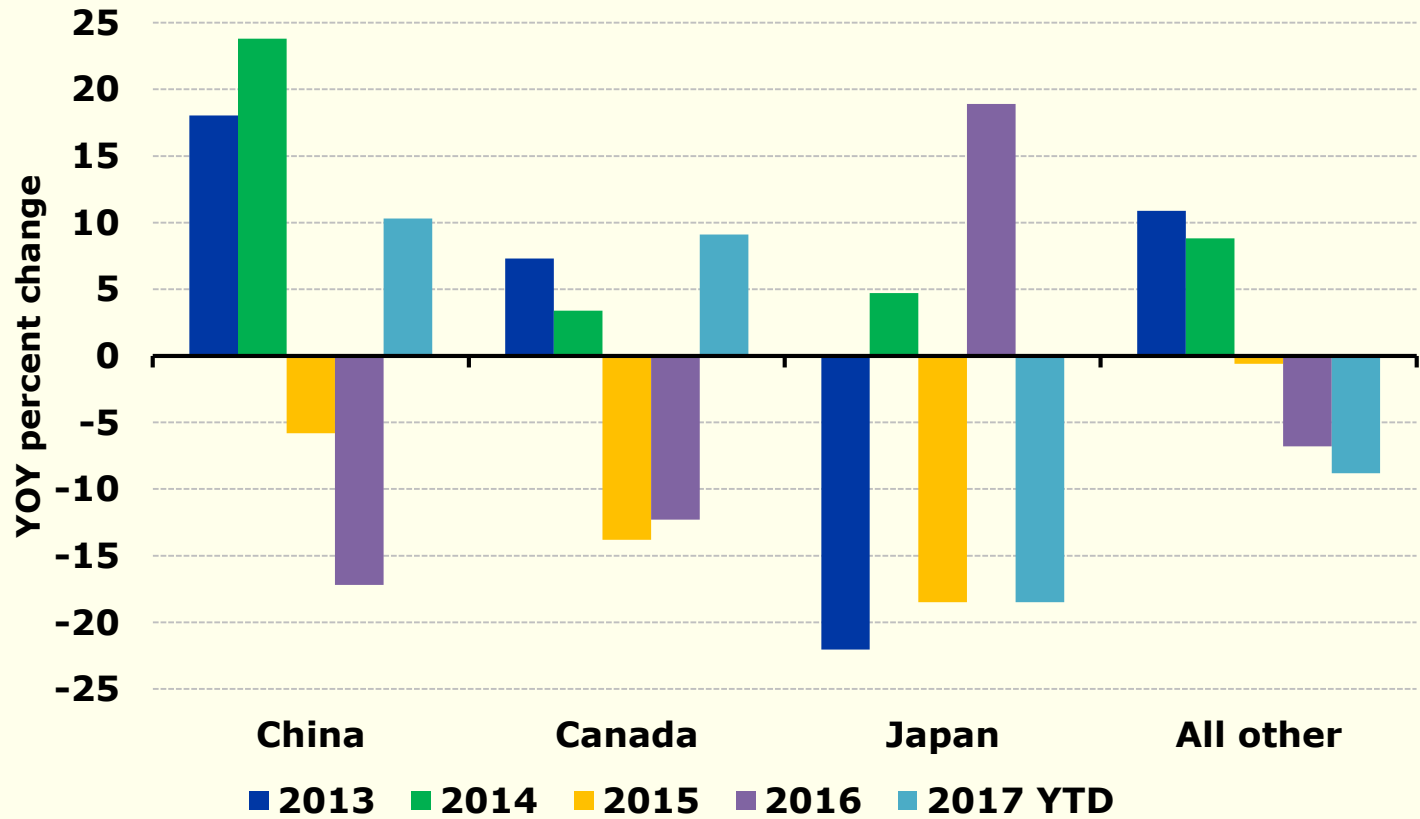
Source: U.S. Bureau of Economic Analysis; data through 2017 Q2

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WA exports to China, Canada have picked up so far this year but have slowed in total

Year-over-year growth in export value



Source: WISERTrade; data through September 2017

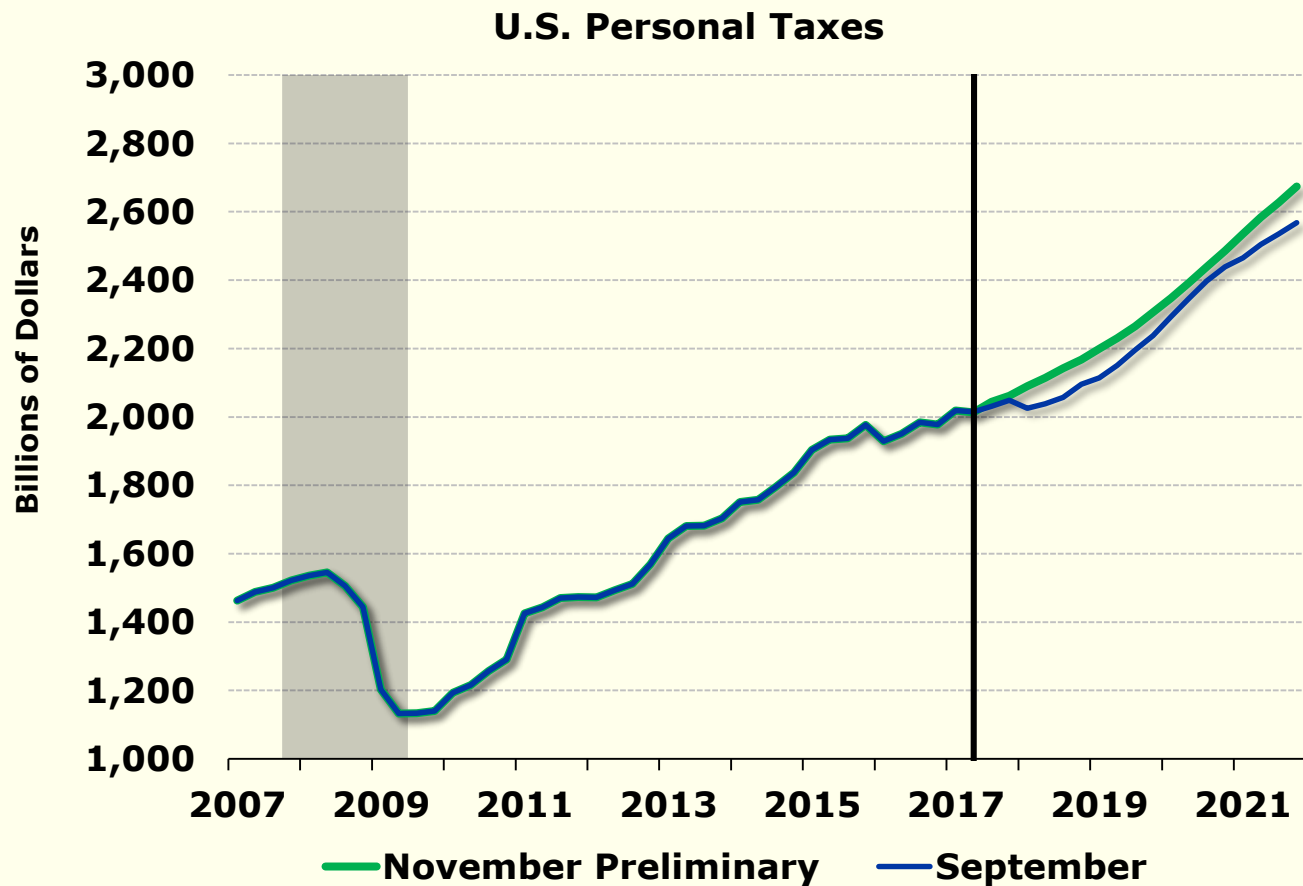
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The tax cut assumption has been dropped from the U.S. forecast

"Owing to recent political developments in Washington and numerous conversations with fiscal and legislative experts, we made the decision to remove the stimulus from our baseline forecast."

-IHS Markit



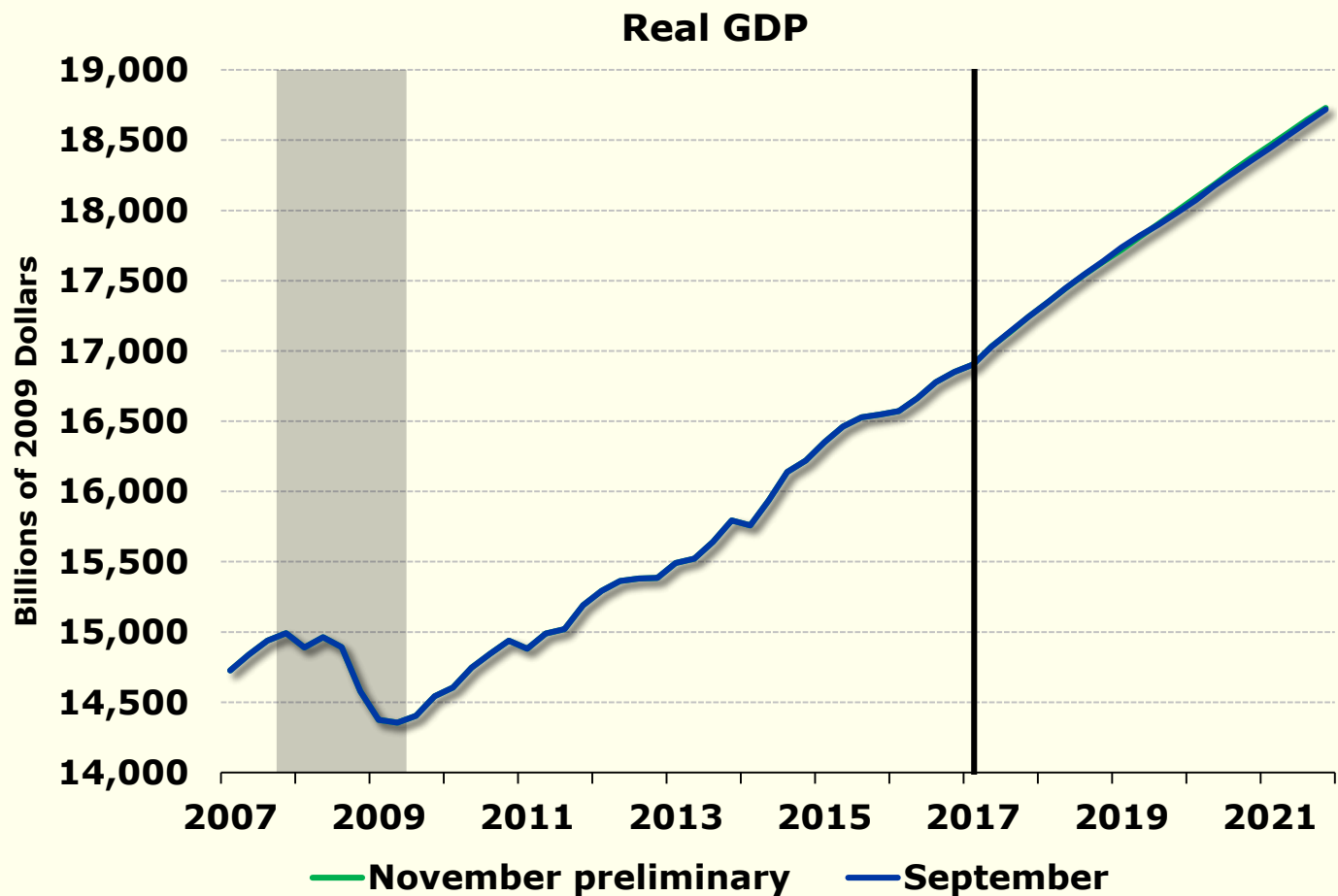
Source: IHS Markit, ERFC; data through Q2 2017

Note: Vertical black line indicates last actual

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Real GDP is essentially unchanged from the September forecast

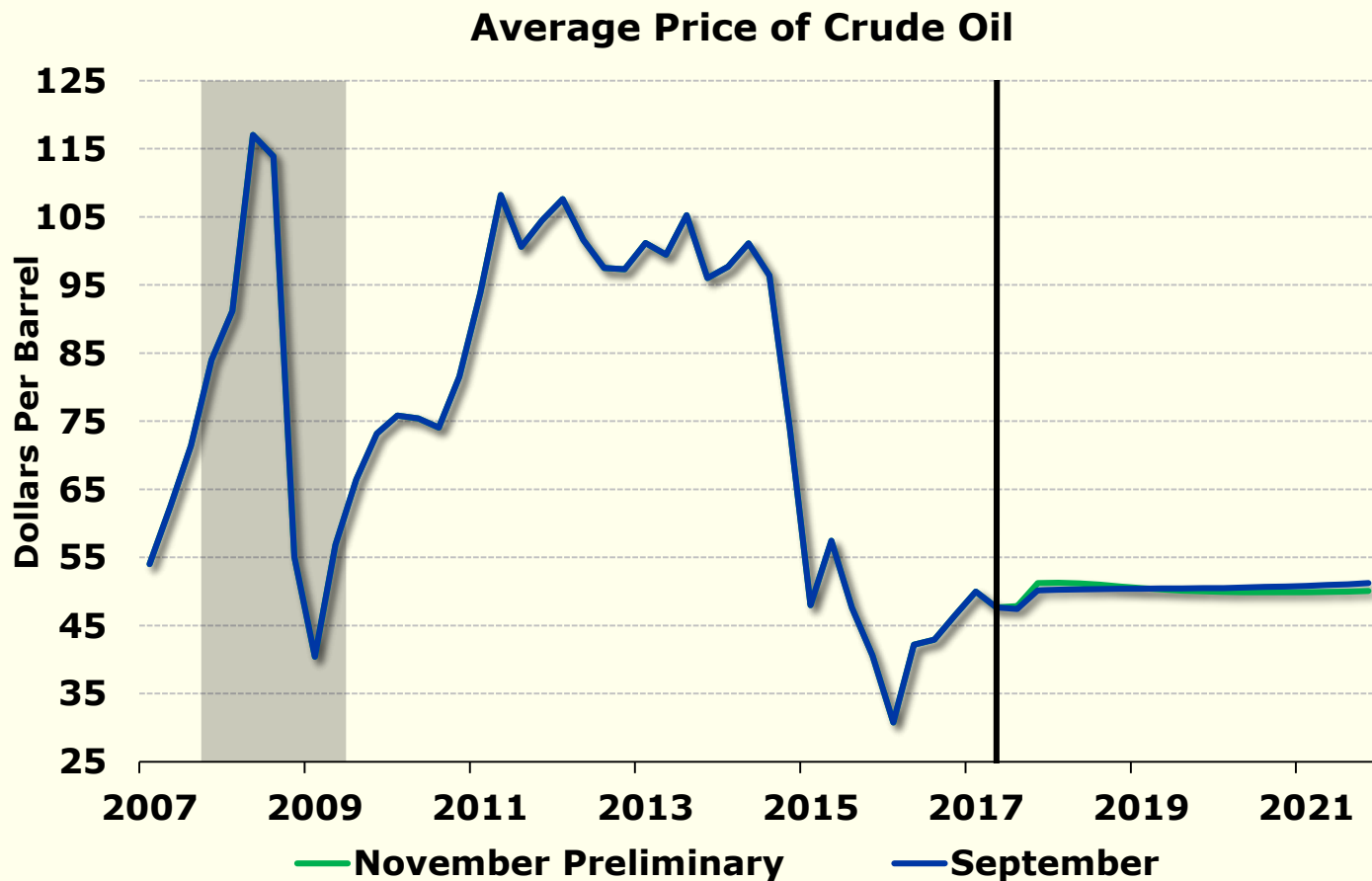


Source: ERFC November 2017 Preliminary forecast; data through Q2 2017

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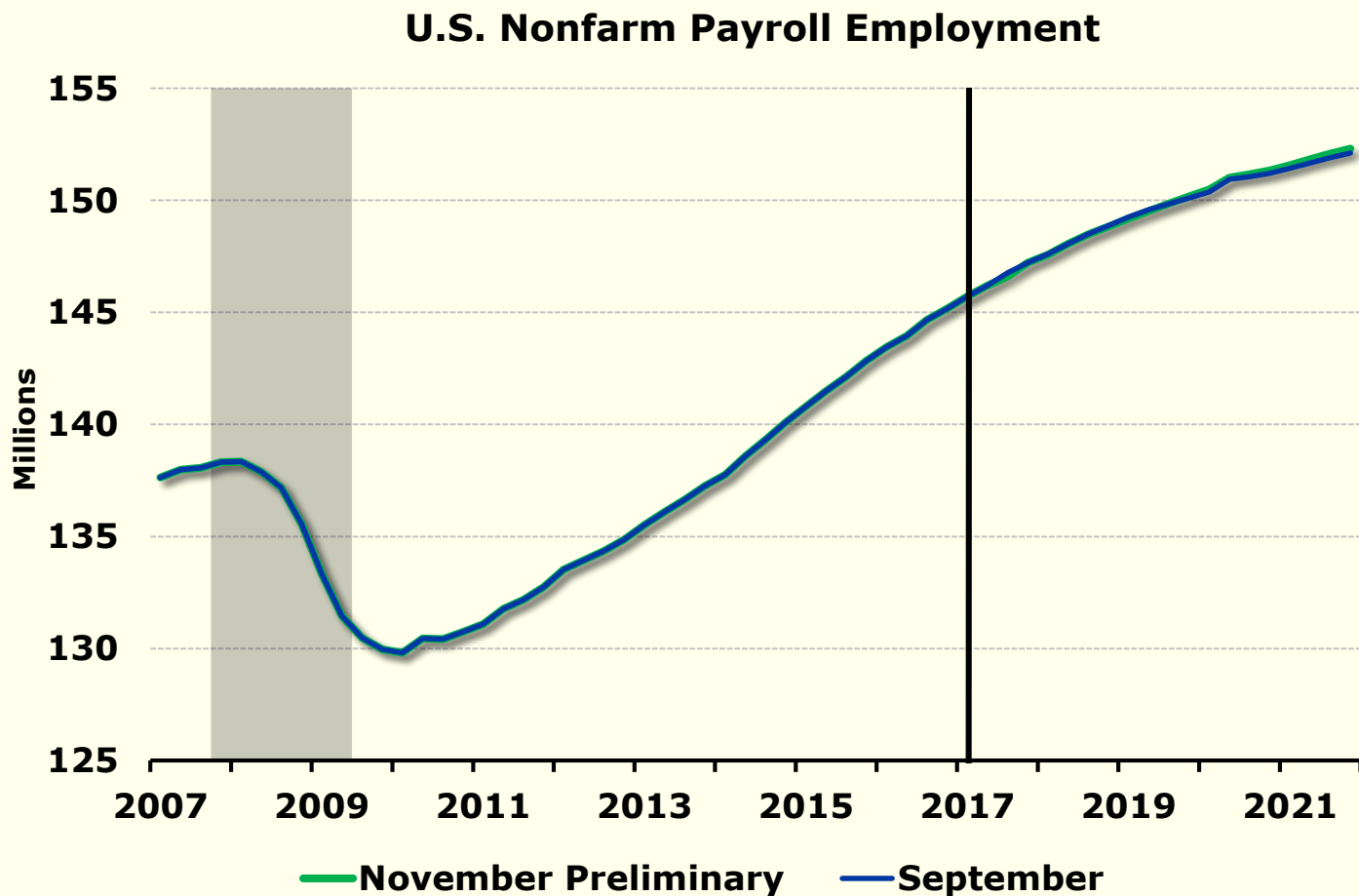


Oil prices are slightly higher in the near term compared to the September forecast





The U.S. nonfarm payroll employment forecast is very similar to the September forecast



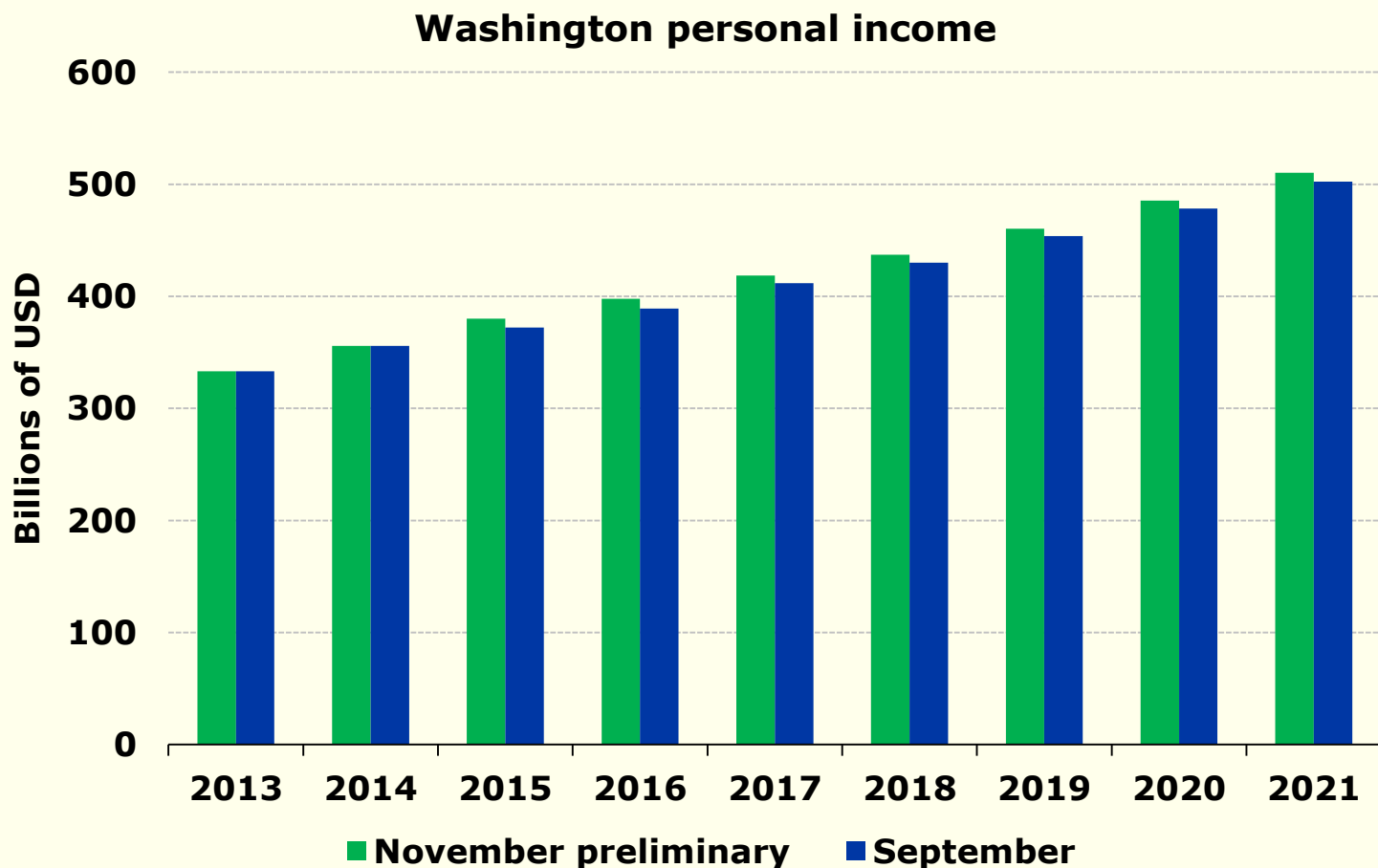
Source: ERFC November 2017 Preliminary forecast; data through Q3 2017

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Washington personal income is slightly higher than in September

2015 and 2016 data were revised slightly higher. WA personal income is 1.6% higher in 2021 compared to the September forecast.



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

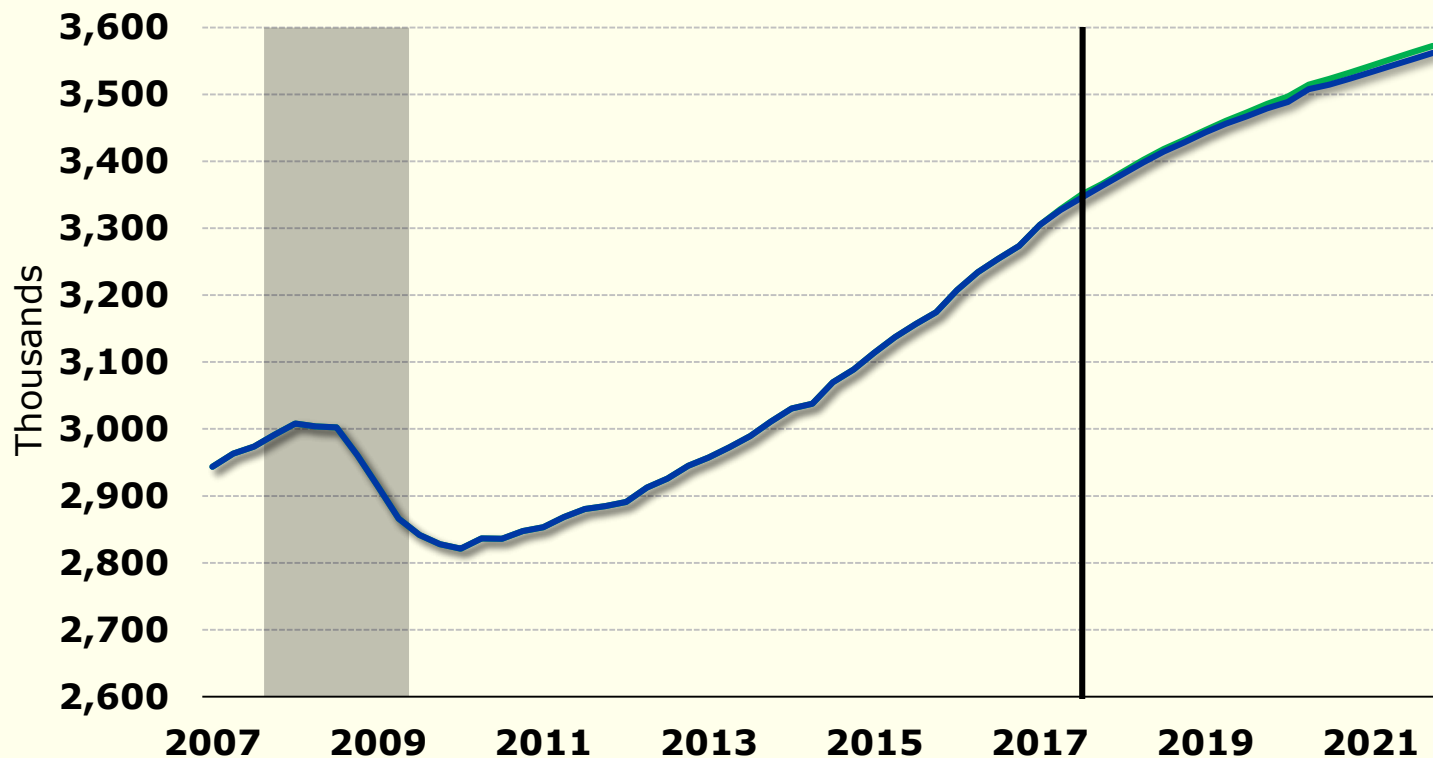
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Washington employment forecast is essentially unchanged compared to September

The WA nonfarm employment forecast is 11,000 jobs higher (0.3%) by 2021 compared to September.

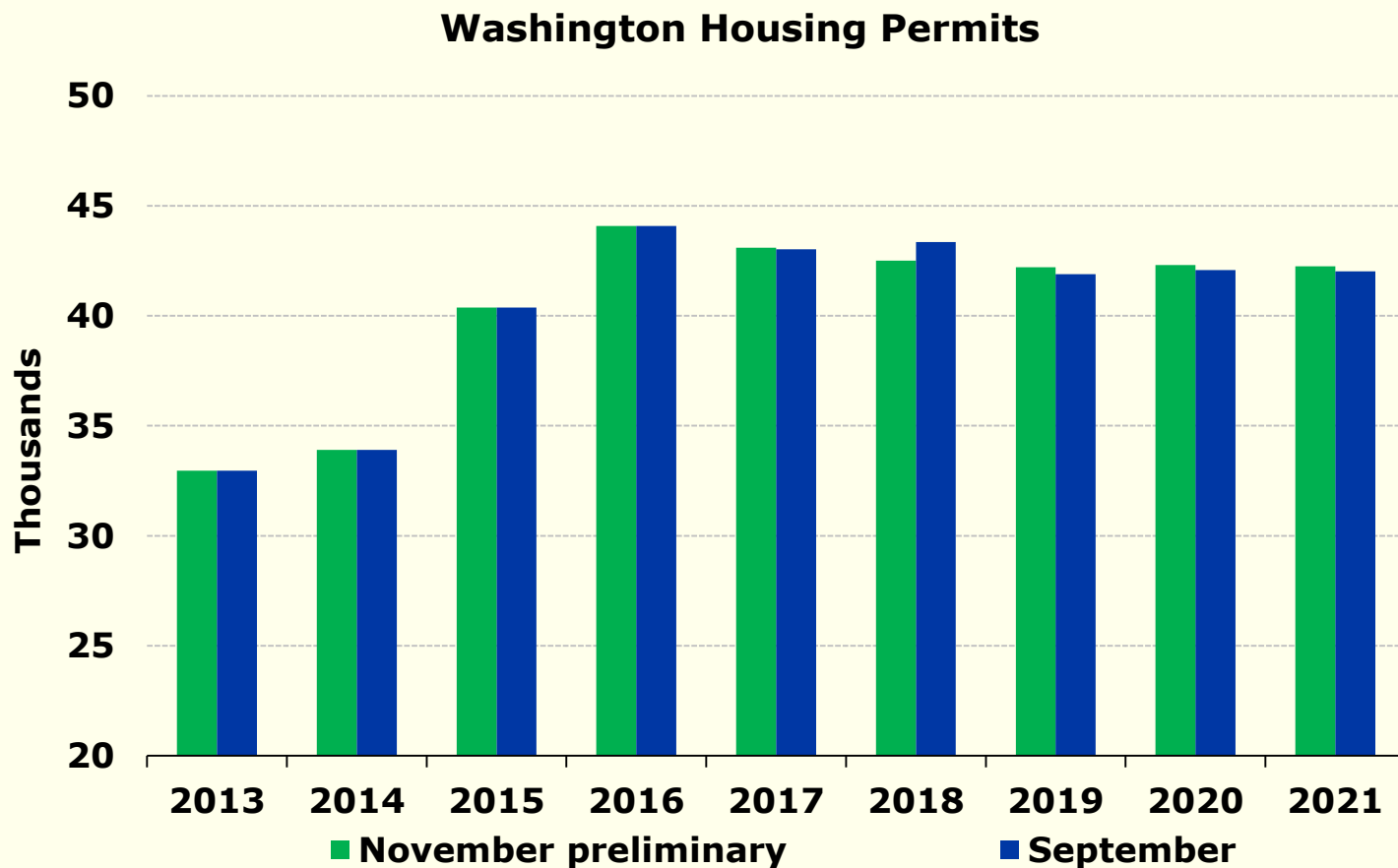
Washington Nonfarm Payroll Employment



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



Washington housing permits forecast is very similar to September





Revenue Act receipts have been growing faster than personal income for the last 7 quarters

Adjusted Rev Act growth YOY:

16Q3: 7.2%
 16Q4: 6.4%
 17Q1: 6.3%
 17Q2: 5.6%

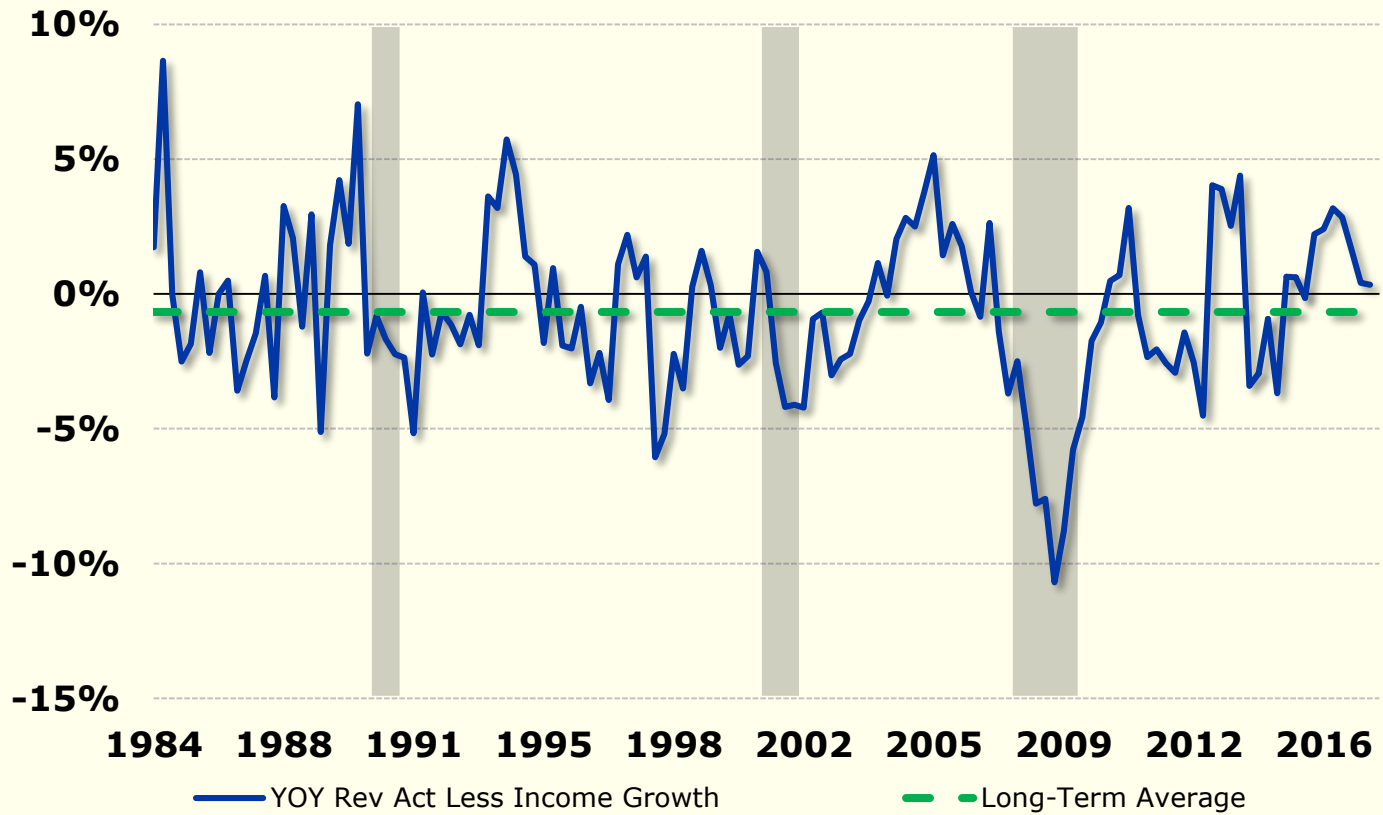
November preliminary personal income YOY growth estimates:

16Q3: 4.4%
 16Q4: 4.8%
 17Q1: 5.9%
 17Q2: 5.2%

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Year-Over-Year Rev Act* Growth Less State Personal Income Growth



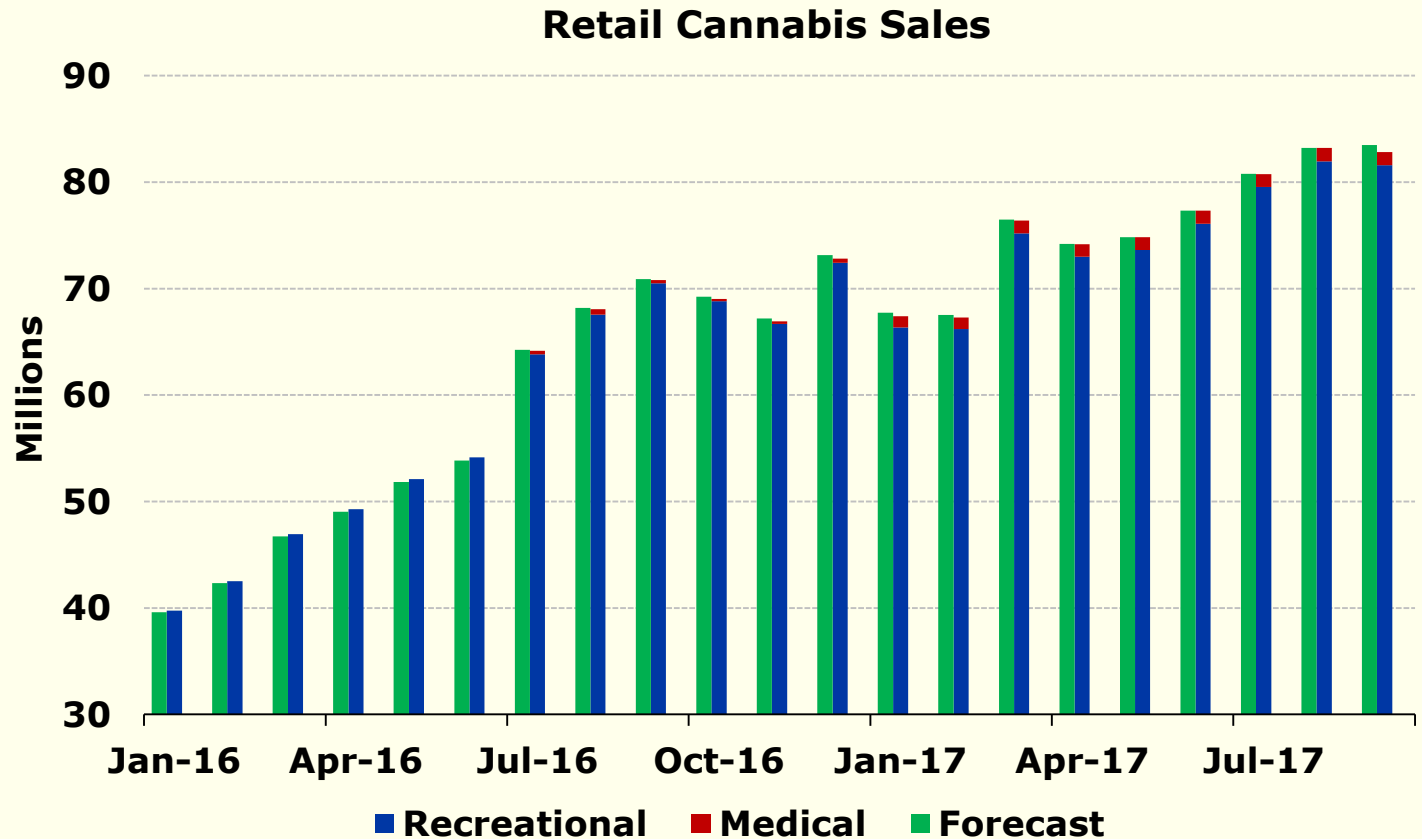
*Adjusted for large one-time payments and refunds and payments under the amnesty program
 Source: ERFC; Quarterly revenue data through Q2 2017, November 2017 preliminary income estimates

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Cannabis revenue continues to be volatile

Sales were 2.3% below forecast in September



Source: LCB, ERFC; data through September 2017

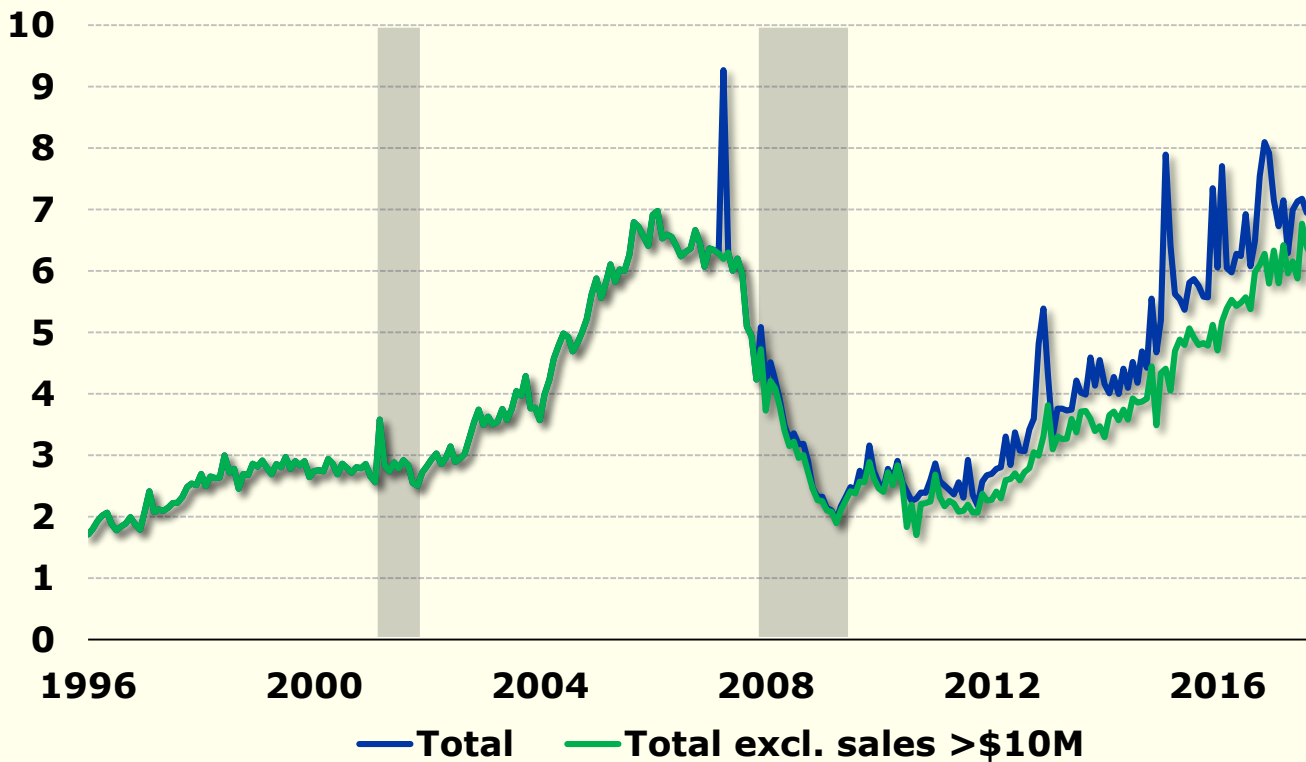


Large commercial property sales still strong in the 3rd quarter

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.

Seasonally Adjusted Taxable Real Estate Excise Activity

\$Billions



Source: ERFC; Monthly data through September 2017 preliminary

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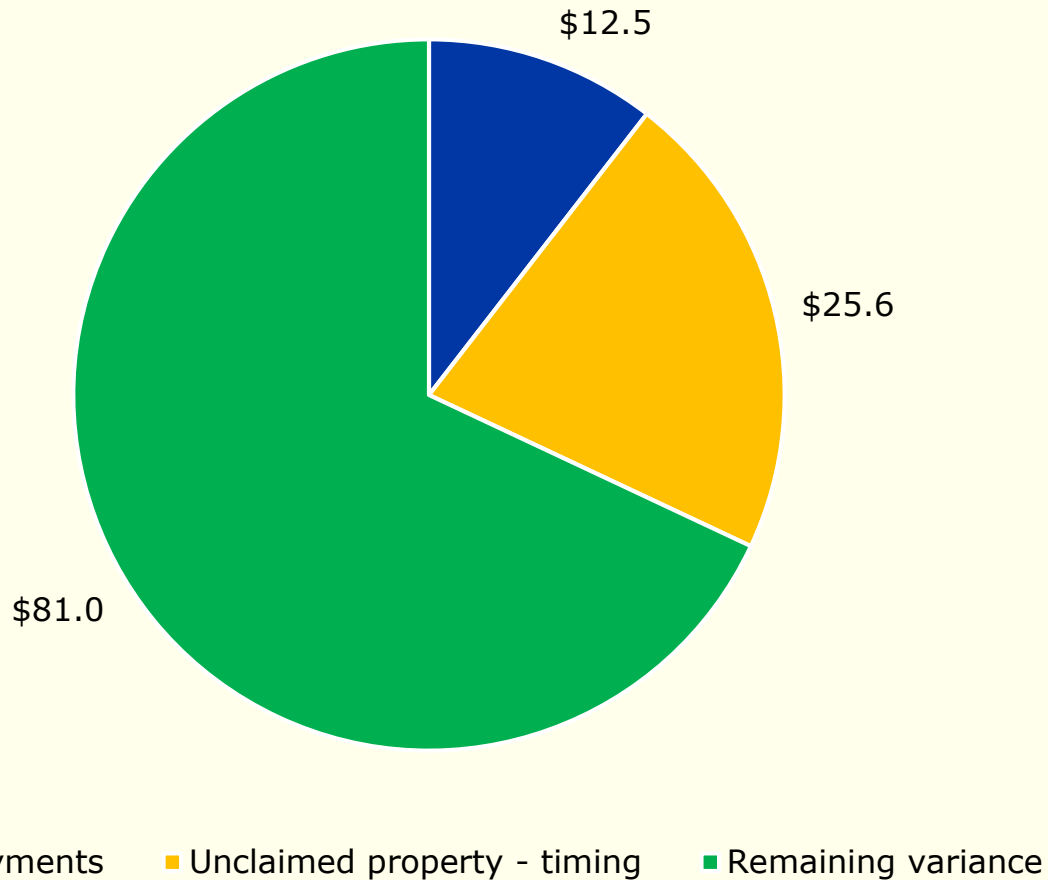
Revenue collections to date

Collections Variance Since September Forecast (September 11, 2017 – October 10, 2017) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$3,041,190	\$3,159,091	\$117,900	3.9%
All other agencies	11,026	12,182	1,156	10.5%
Total GF-S	\$3,052,216	\$3,171,273	\$119,057	3.9%



Components of revenue forecast variance





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 final economic and revenue forecast will be presented on November 20th



Questions



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