

Washington State Economic Outlook

Presented to the Information Processing Management
Association

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Tumwater, Washington



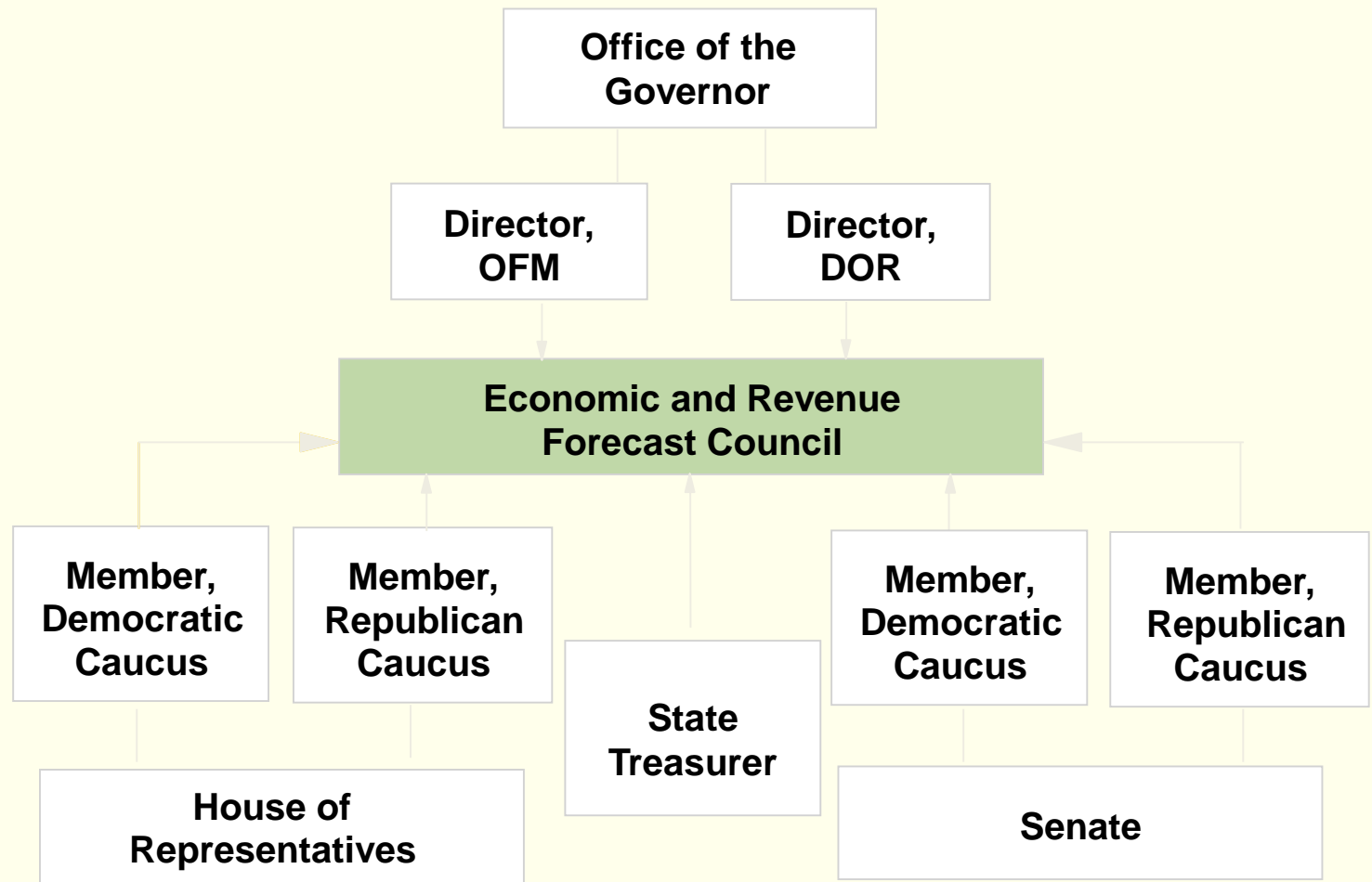
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Economic and Revenue Forecast Council Organization Chart

ERFC

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





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 economic forecast for the U.S. is slightly stronger than in February.
- The economic forecast for WA has slightly higher personal income than in February.
- Risks to the baseline include concerns about international trade, geopolitical risks and a maturing economic expansion.
- The revenue collection variance since the February forecast is \$189 million.
- Near General Fund revenue for the 2017-19 biennium has been increased by \$298 million, and revenue for the 2019-21 biennium has been increased by \$287 million.



Forecast risks

Upside

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

Downside

- International trade and fiscal policy uncertainty
- Geopolitical risks: North Korea, Russia, Iran, Venezuela, Europe
- Higher oil and gasoline prices
- Maturing economic expansion

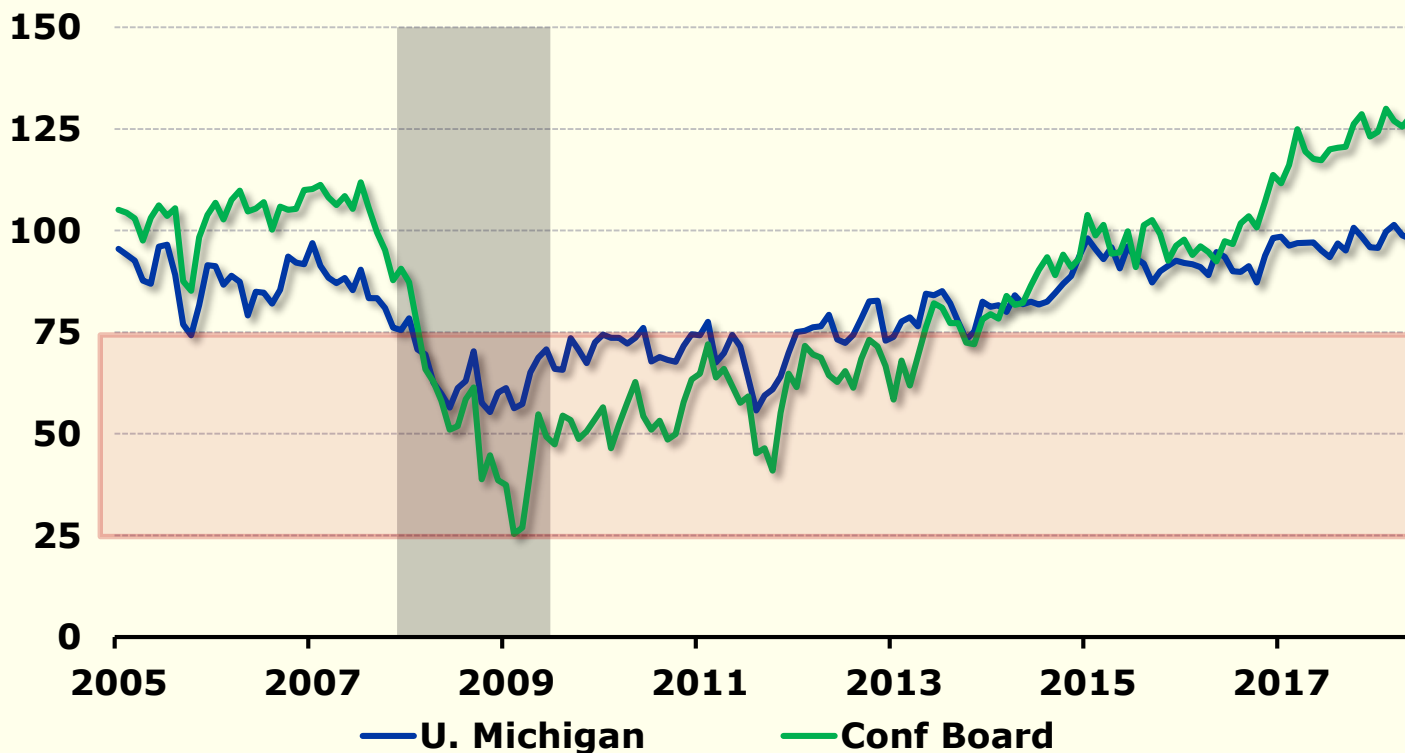


Consumers remain confident about economic prospects

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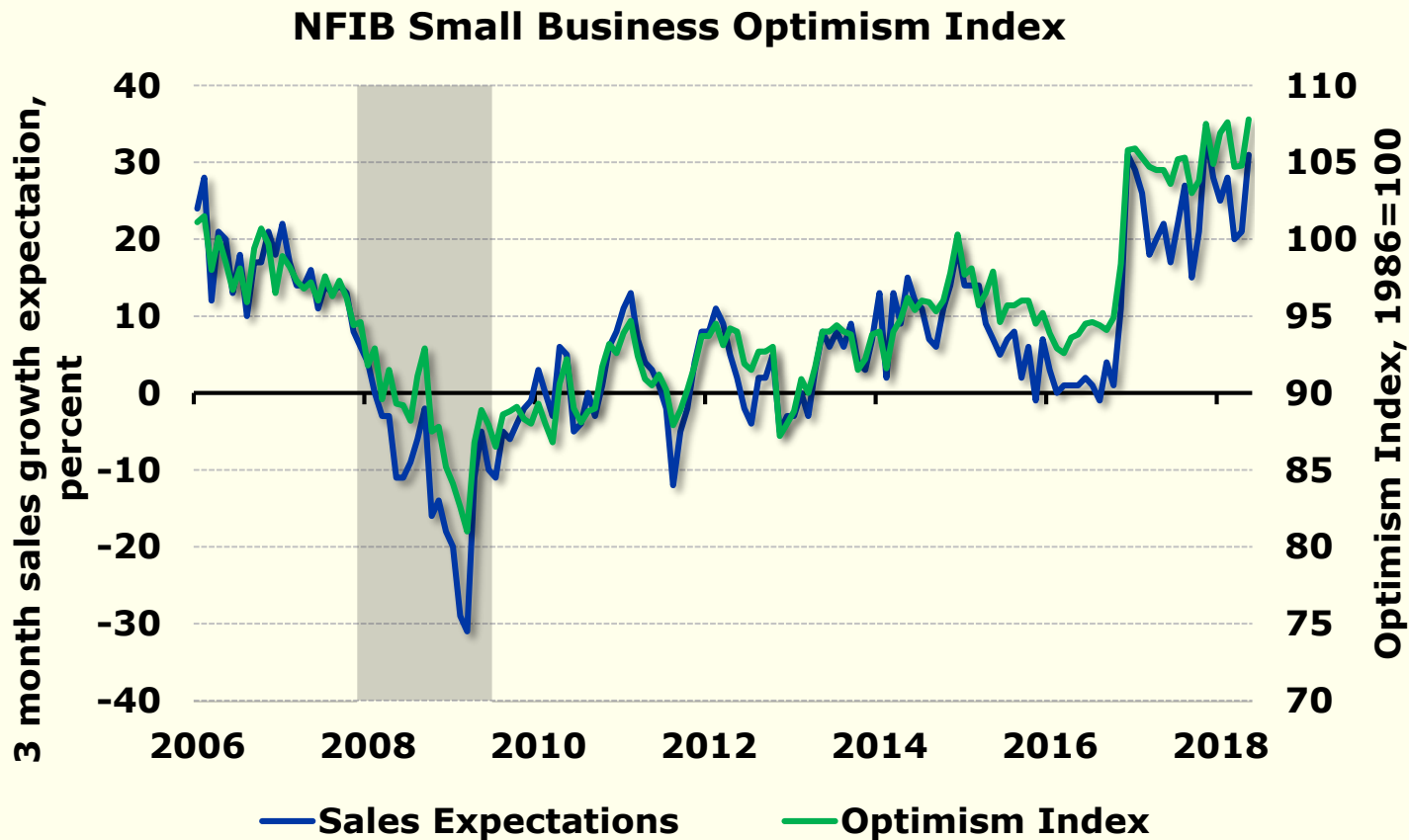
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





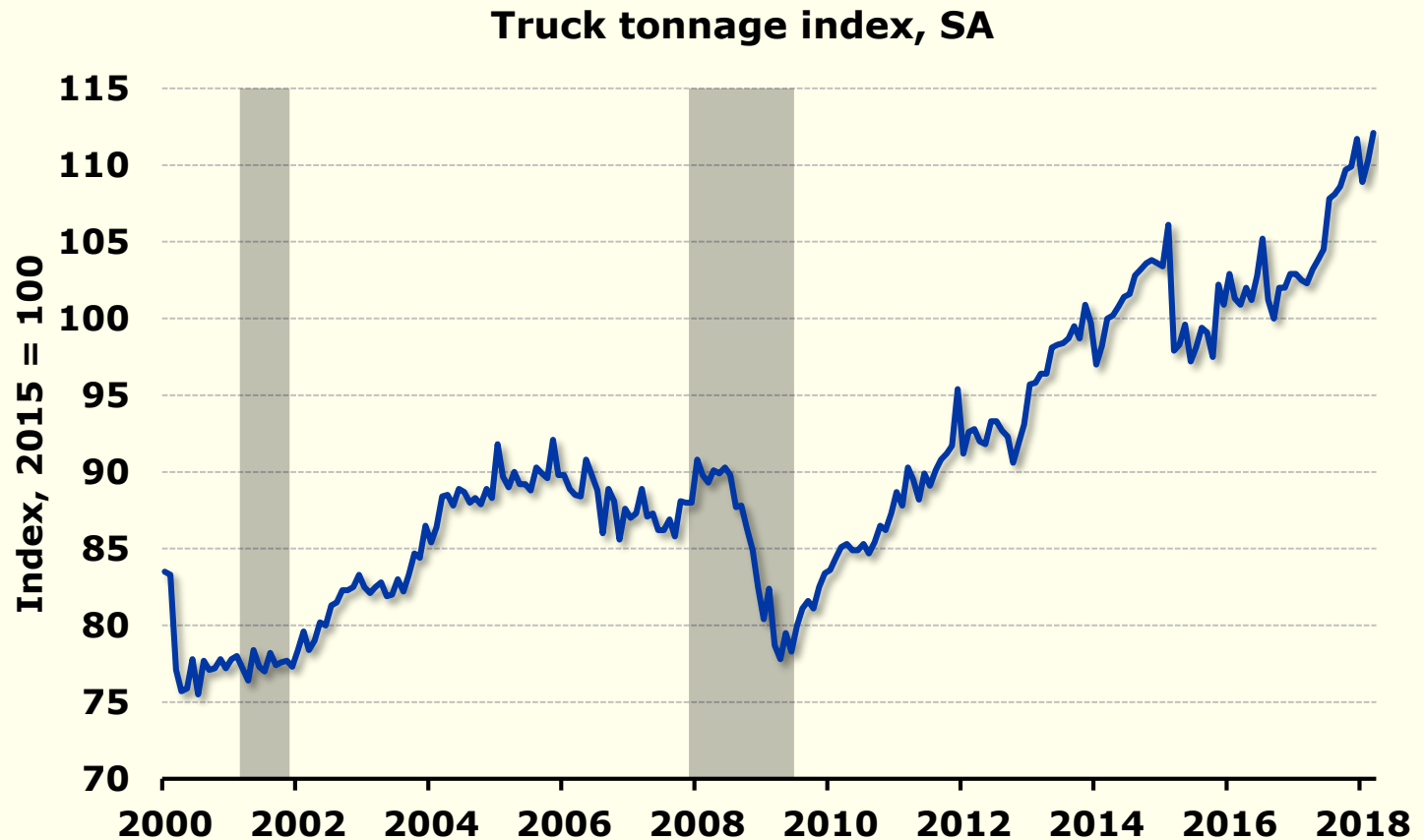
Small business optimism and sales expectations are above pre-recession levels



Source: National Federation of Independent Business; data through May 2018

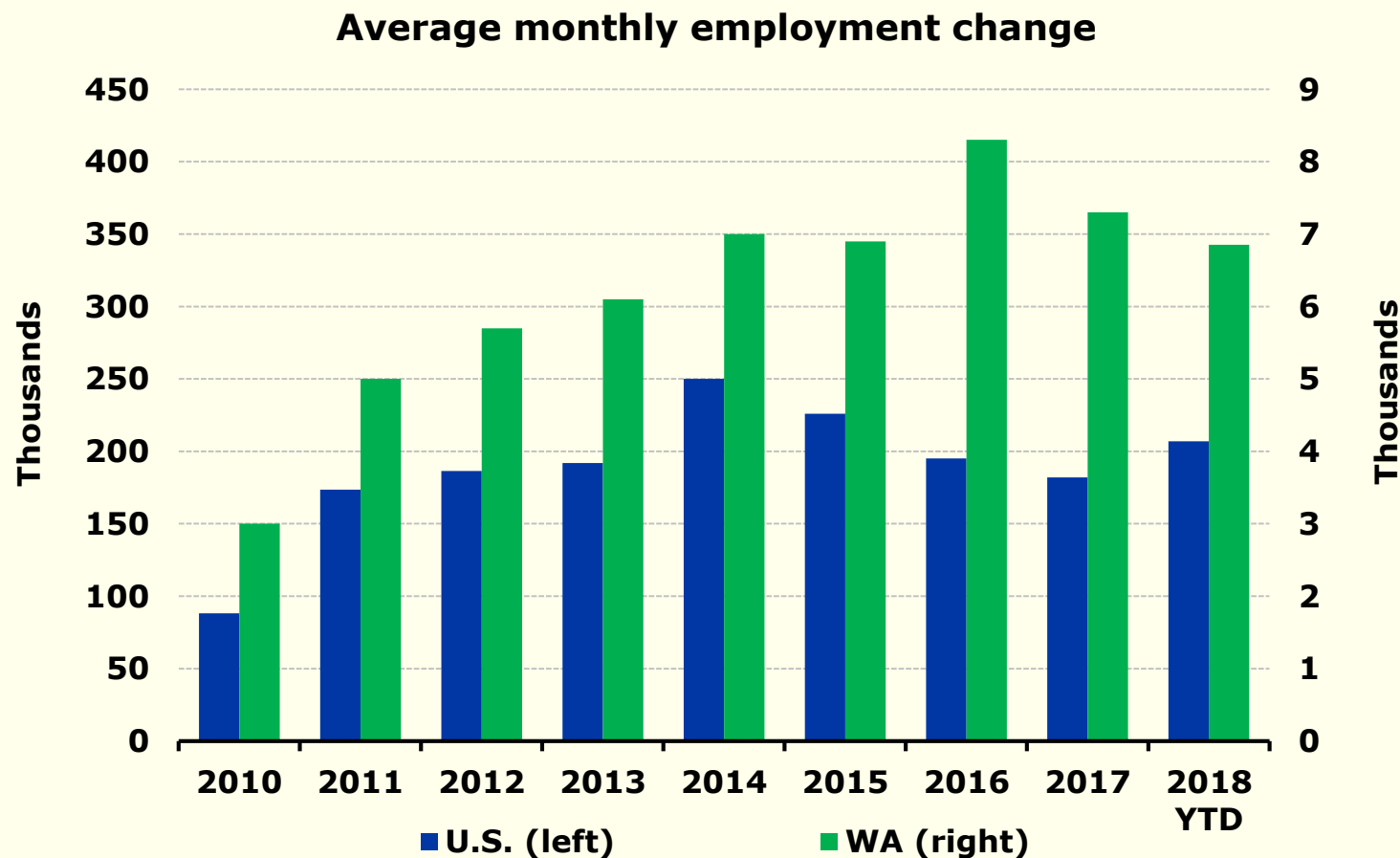


Freight carried by trucks has steadily increased since the end of the recession





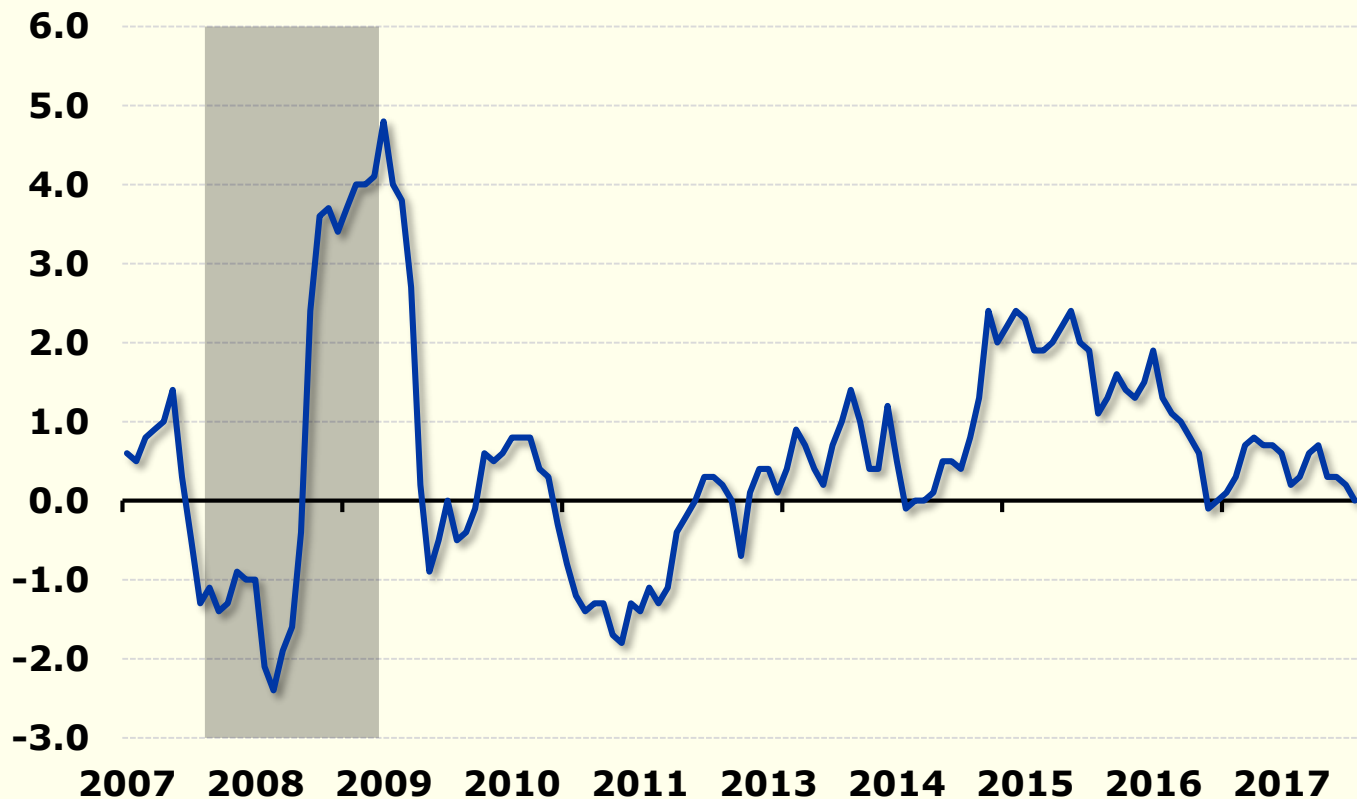
U.S., WA labor markets look strong





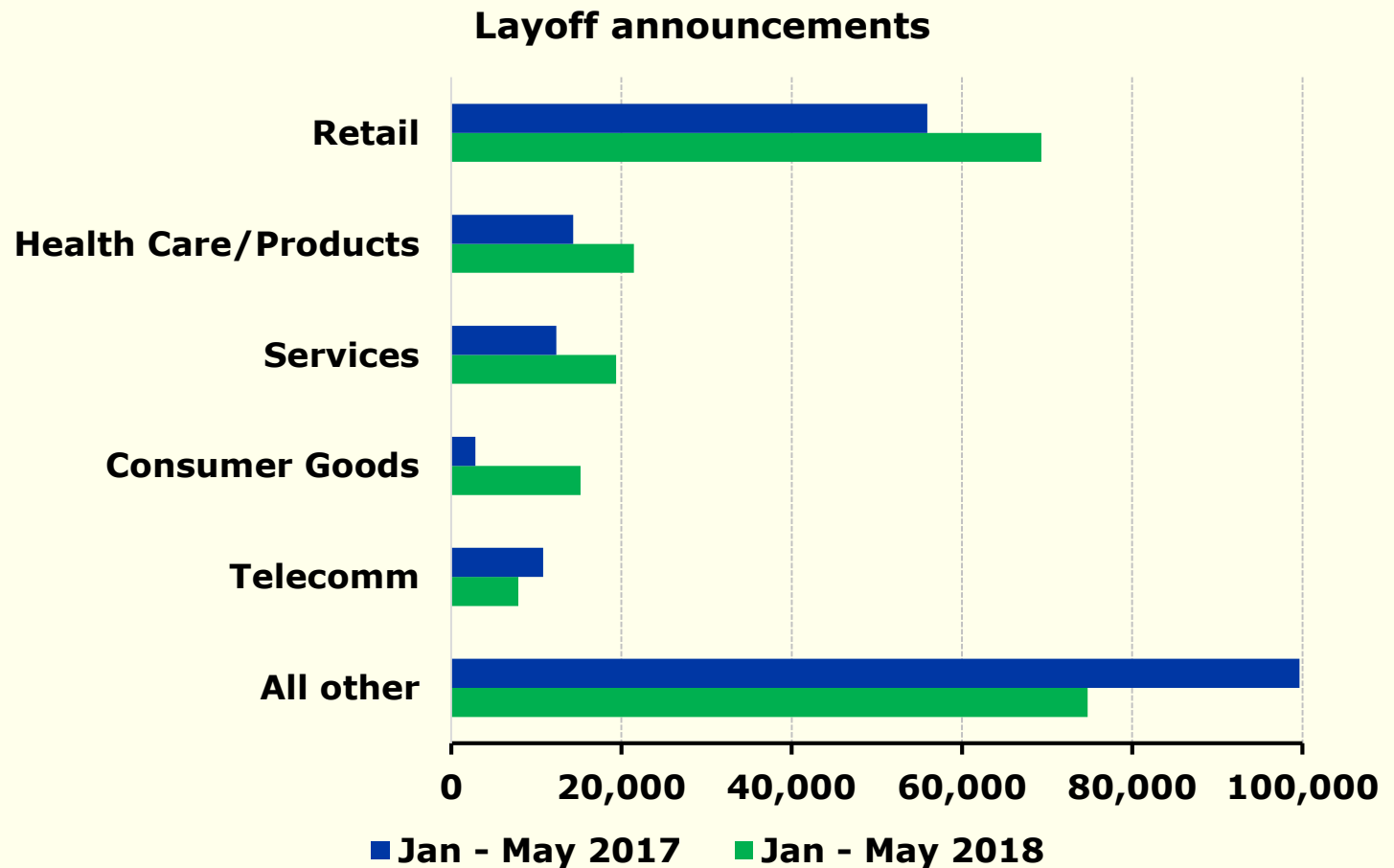
Adjusted for inflation, hourly wage growth remains muted

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





Through May, layoff announcements are 6% above the same time period last year

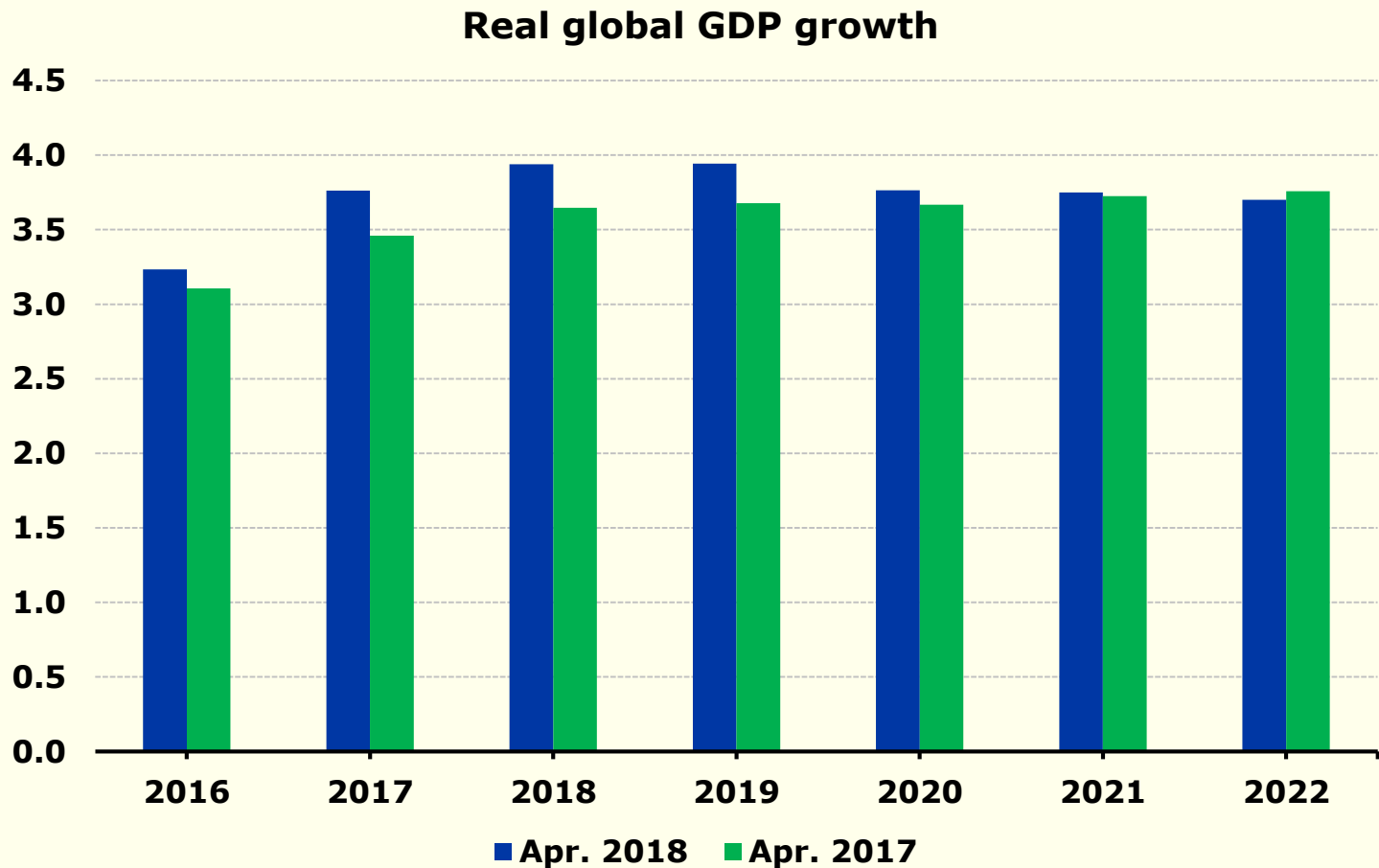


Source: Challenger, Gray & Christmas; Job Cut Report, May 2018

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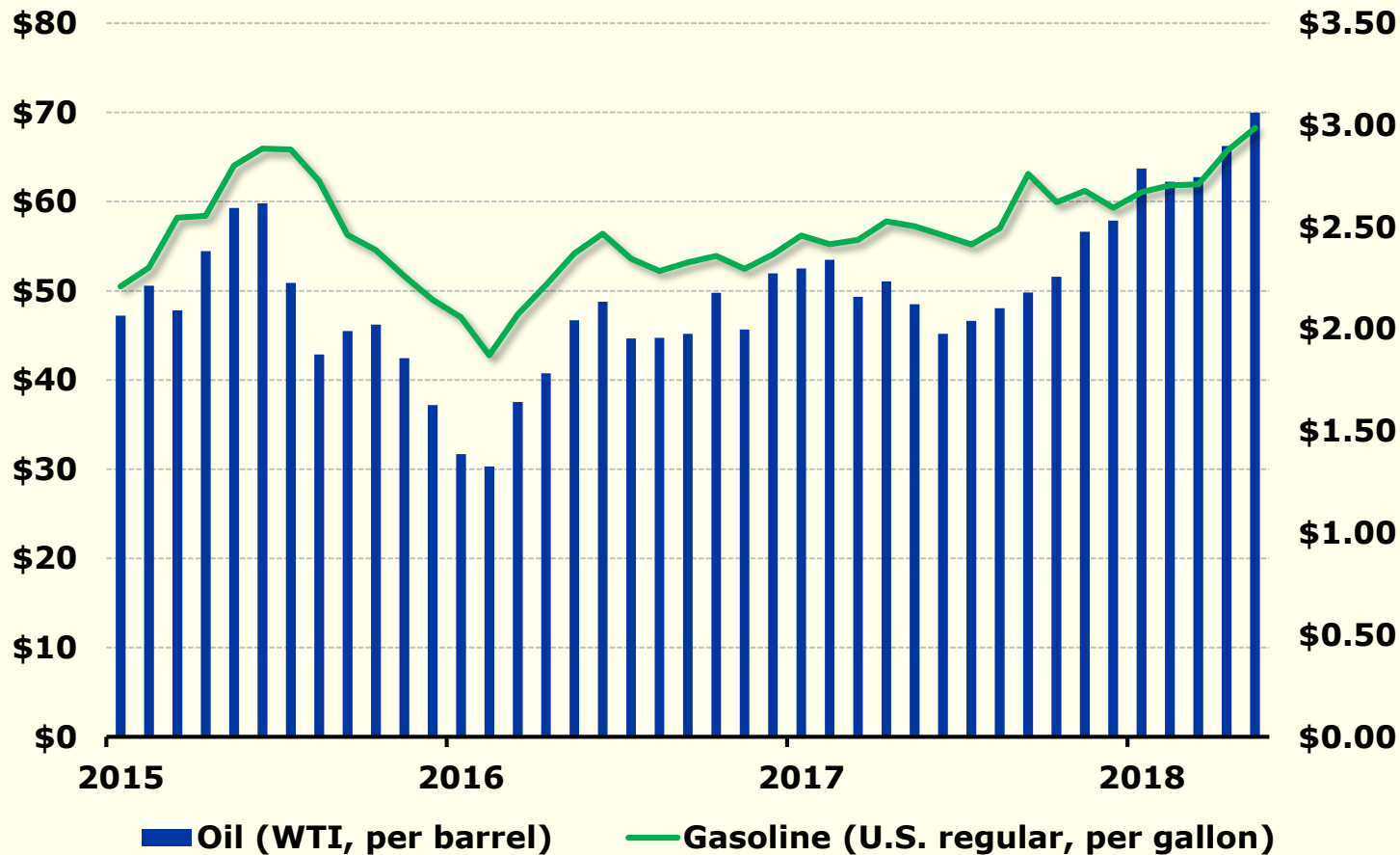


Global GDP forecasts have strengthened compared to last year





Oil and gasoline prices appear to be heading higher

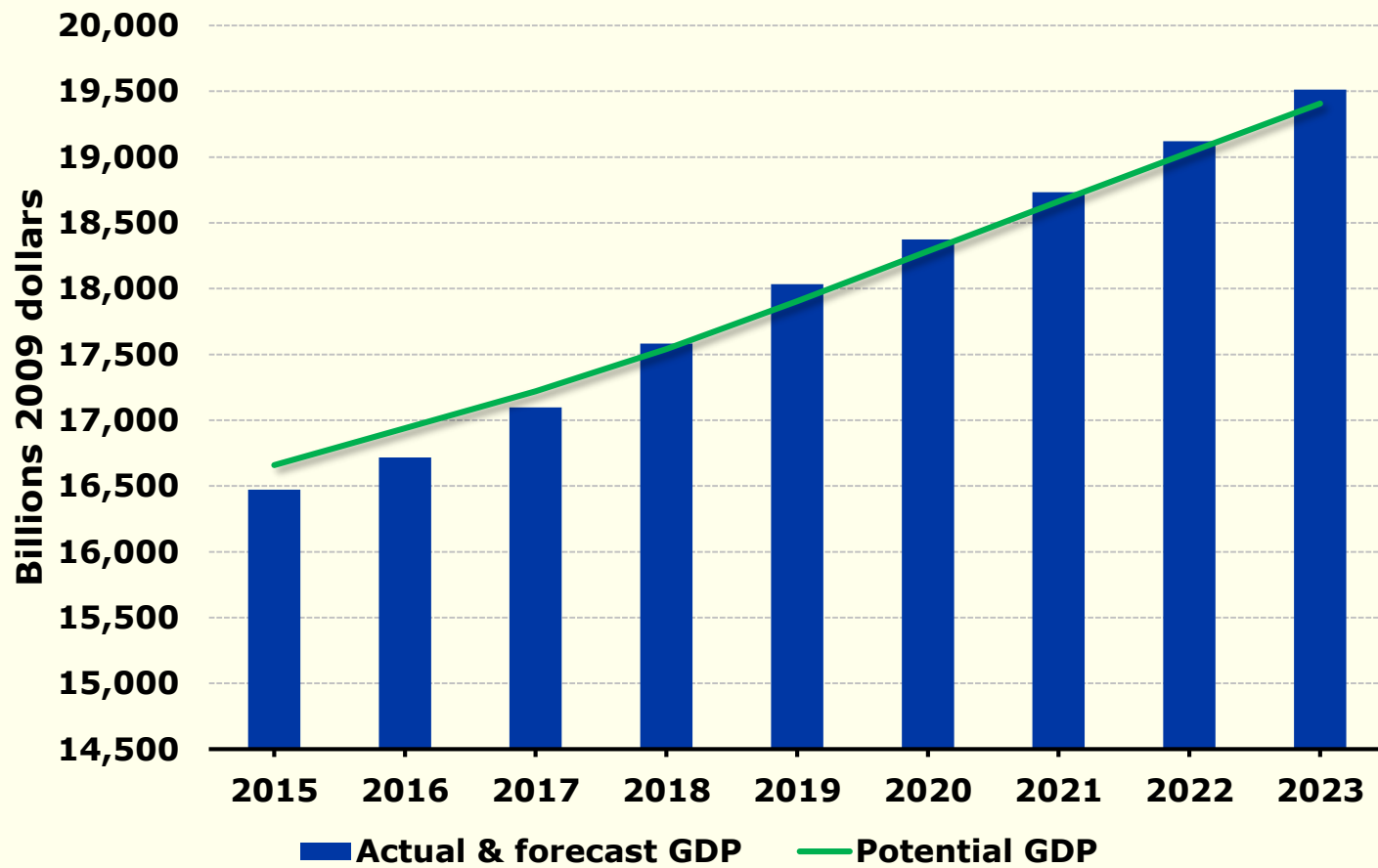


Source: U.S. Dept. of Energy, data through May 2018



As of 2018, our GDP forecast is essentially equal to “potential GDP”

Potential GDP is defined as the economy’s maximum sustainable output

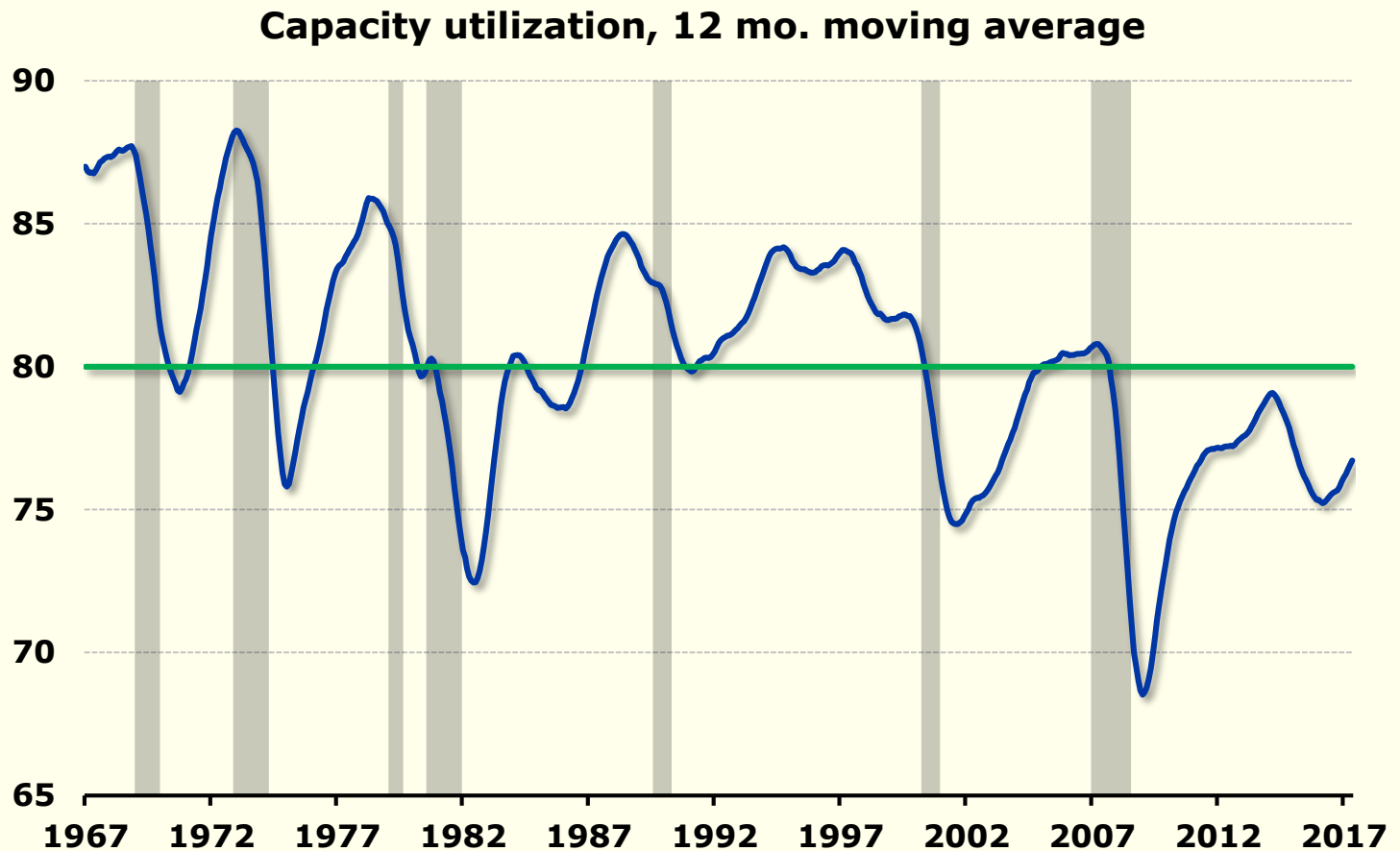


Source: CBO, BEA, ERFC June 2018 preliminary forecast

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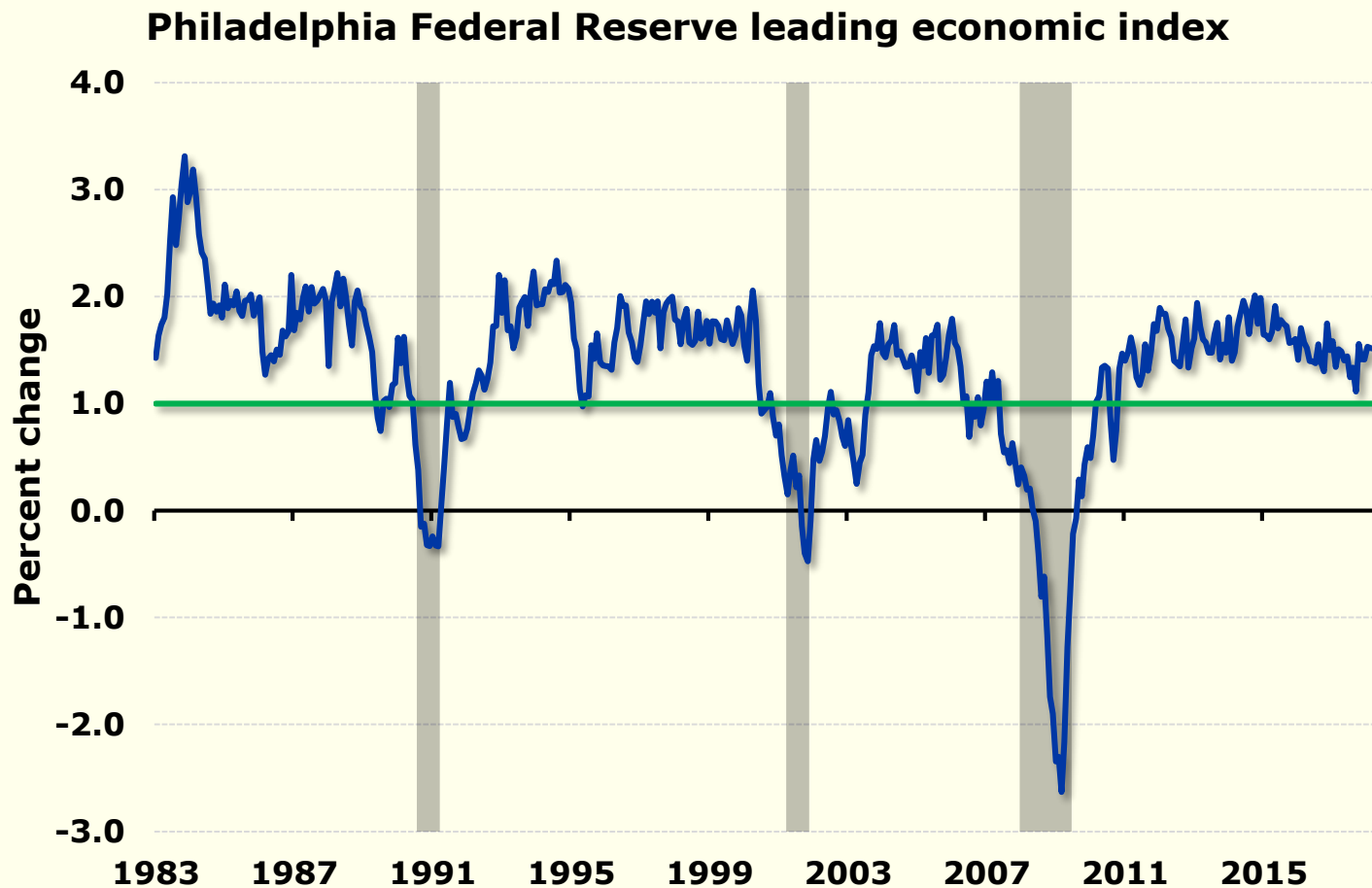


Capacity utilization is typically at or above 80% before the start of a recession





At the start of the last three recessions, Philadelphia Fed leading index was below 1.0% and declining



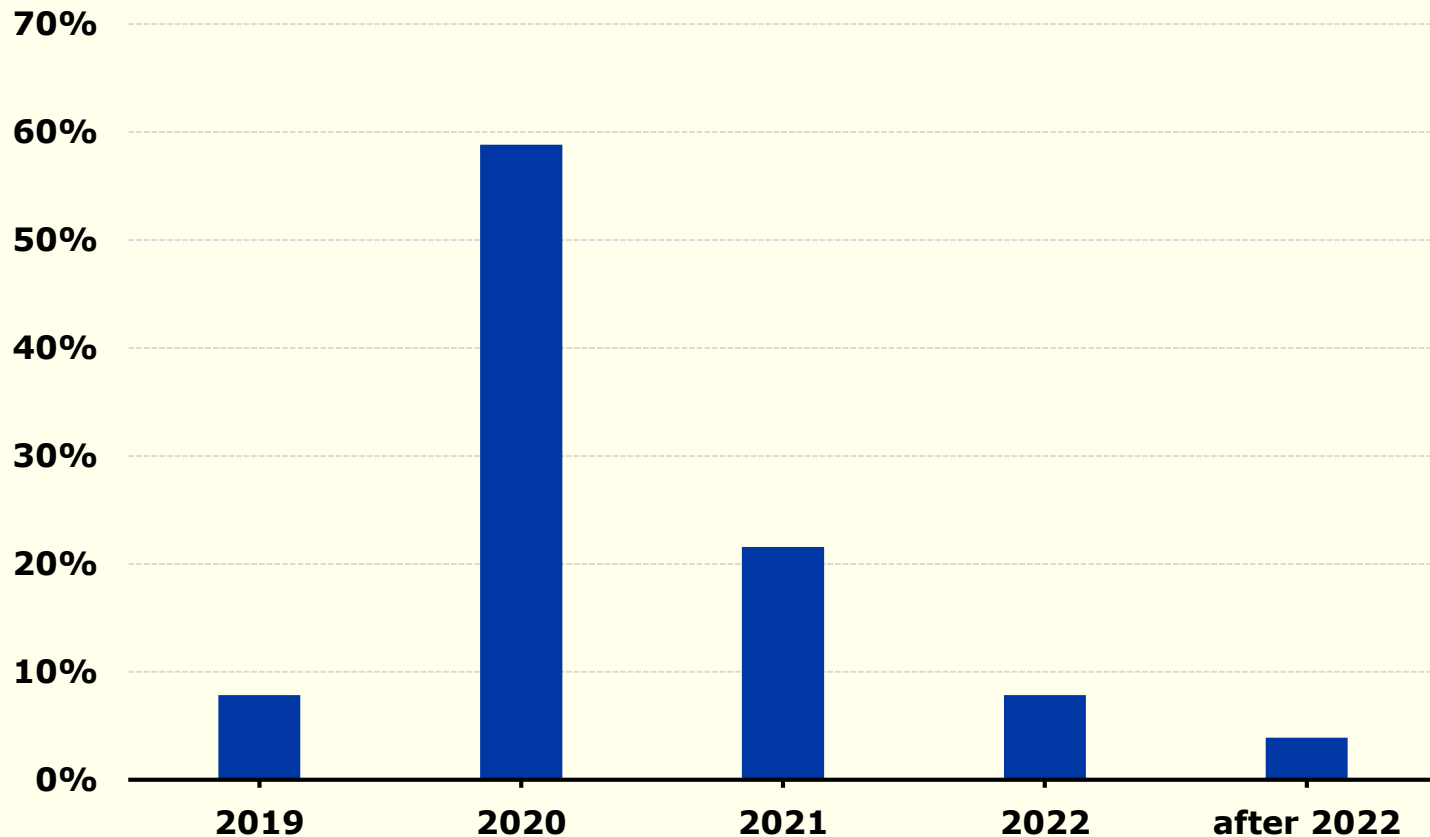
Source: Federal Reserve Bank of Philadelphia, data through March 2018



Probability of recession by year, May 2018 WSJ Survey of Economists

Macroeconomic
Advisors
recession
probabilities:

1 year = 20%
5 years = 80%

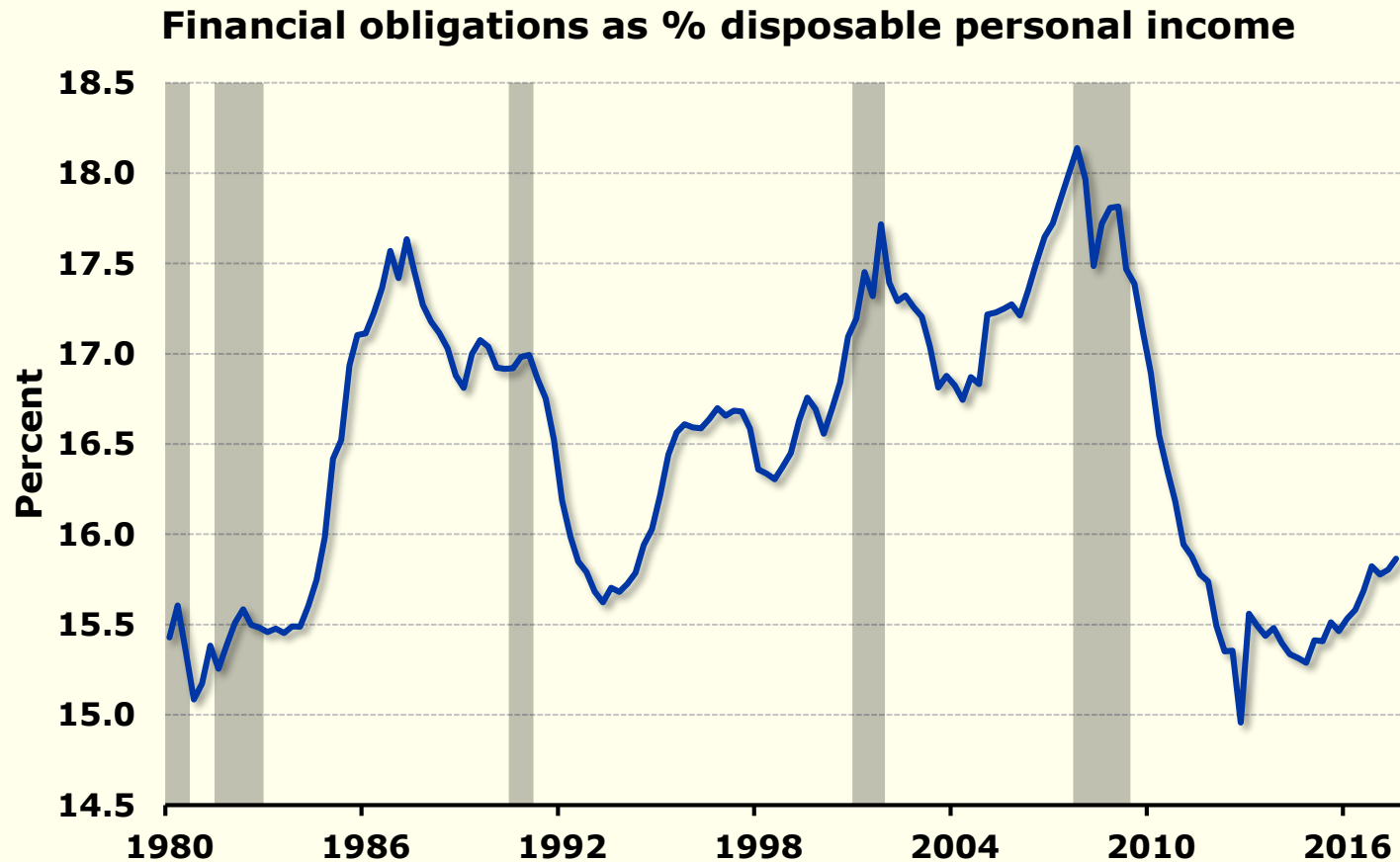


Source: Wall Street Journal



Household financial obligations as share of disposable income below levels in last three recessions

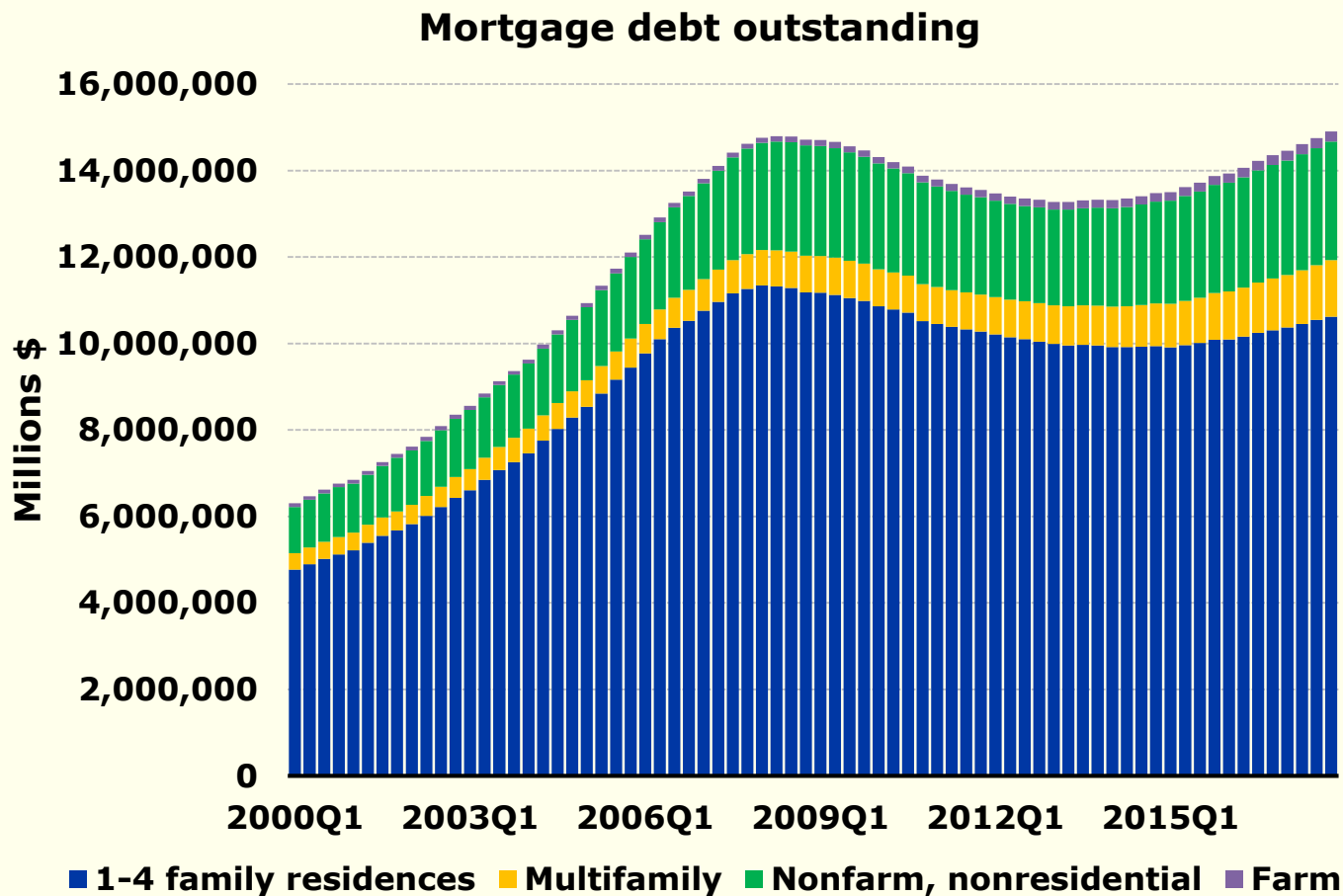
Financial obligations include mortgage payments & other required debt payments, rent, auto lease payments, and property taxes.



Source: Federal Reserve System Board of Governors, data through 2017Q3



Mortgage debt is slightly above its previous 2008 peak



Source: Federal Reserve System Board of Governors, data through 2017Q4

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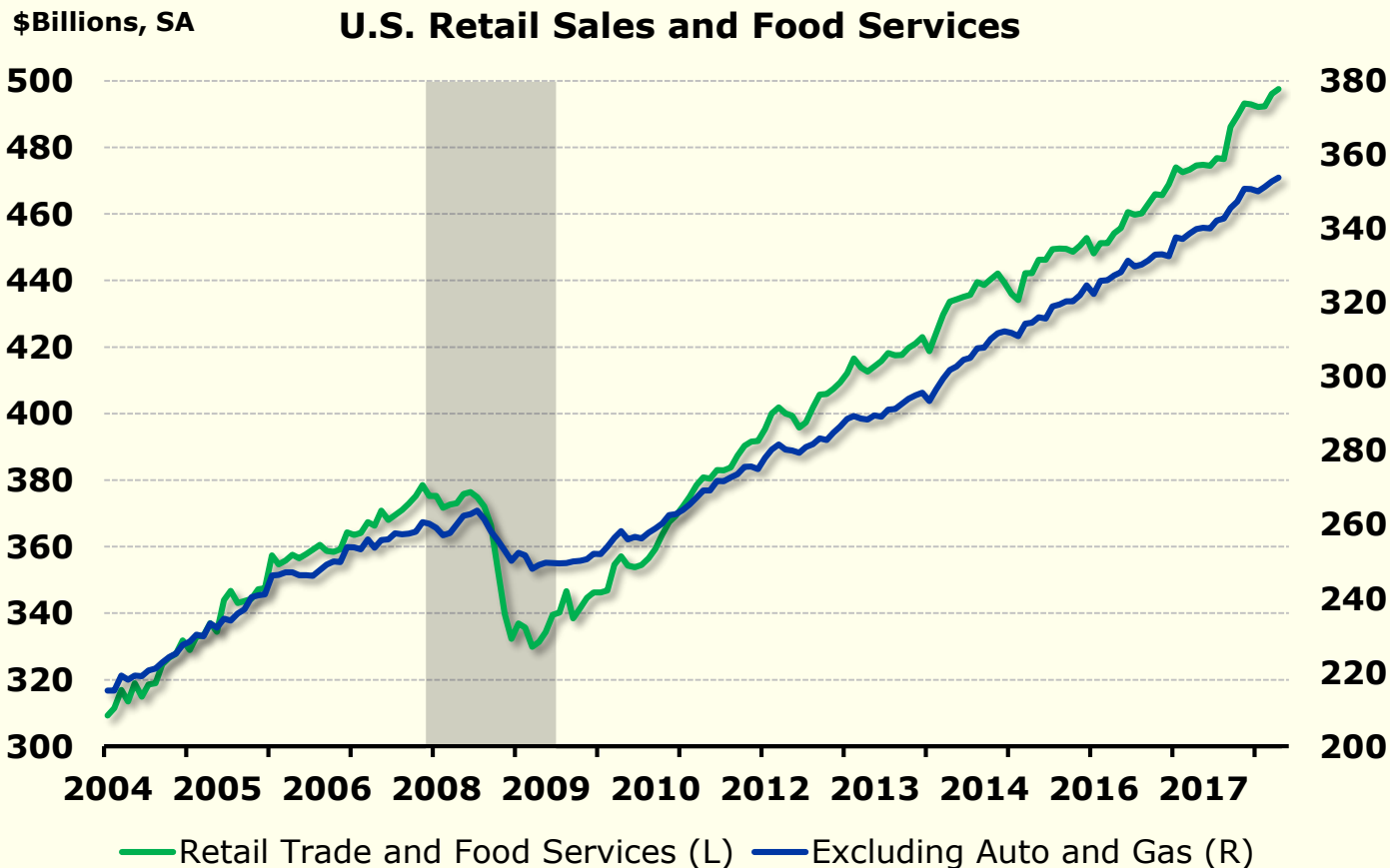


U.S. retail sales continue to grow

Preliminary U.S. retail trade and food services sales (SA) increased 4.8% YOY in March and 4.8% in April.

Excluding autos and gas, sales were up 4.2% YOY in March and 4.1% in April.

Retail sales at gas stations were up 10.9% YOY in March and 11.8% in April.

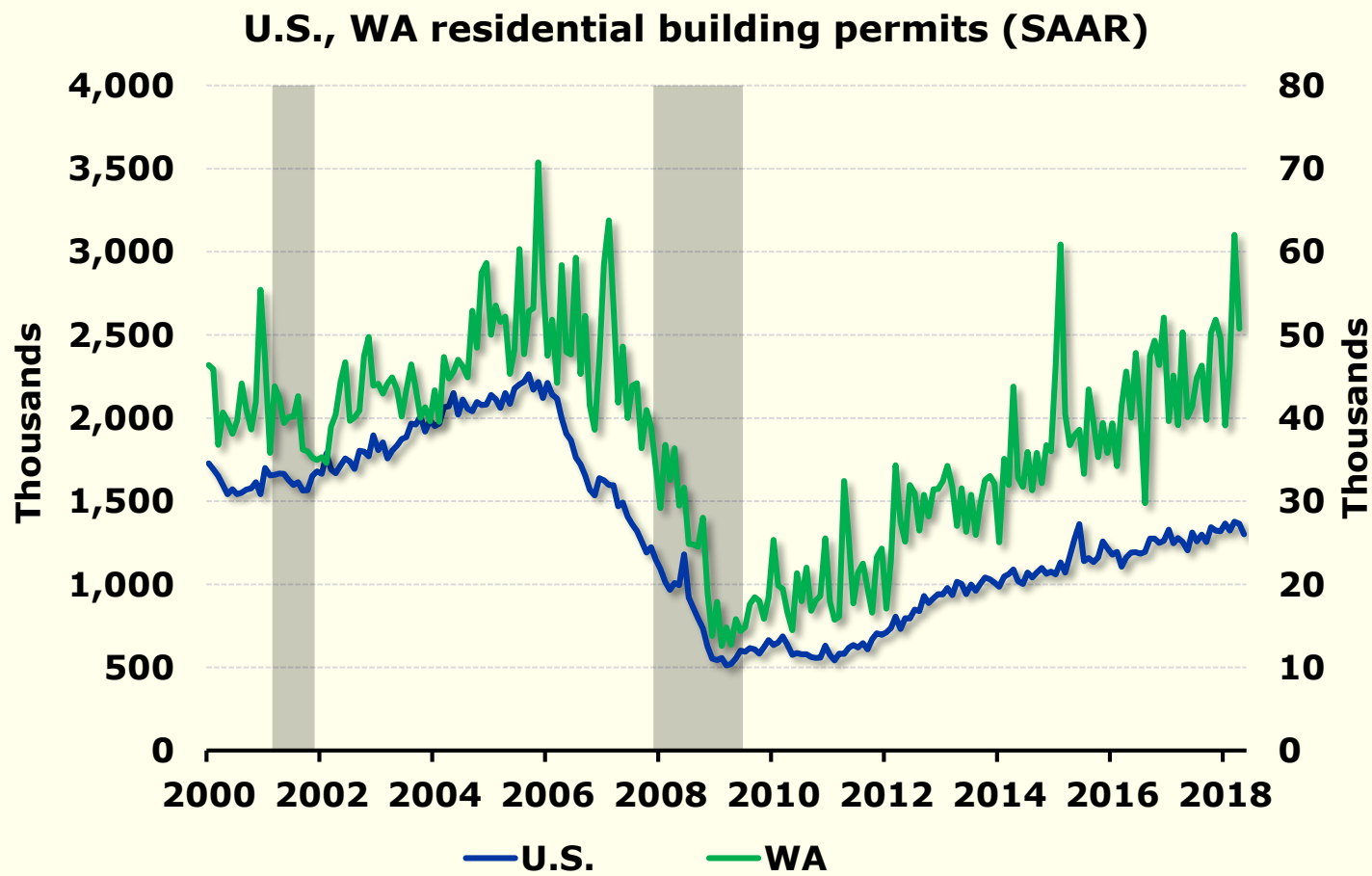


Source: U.S. Department of Commerce, Census Bureau; Data through April 2018 advance

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WA residential construction activity is at pre-housing boom levels

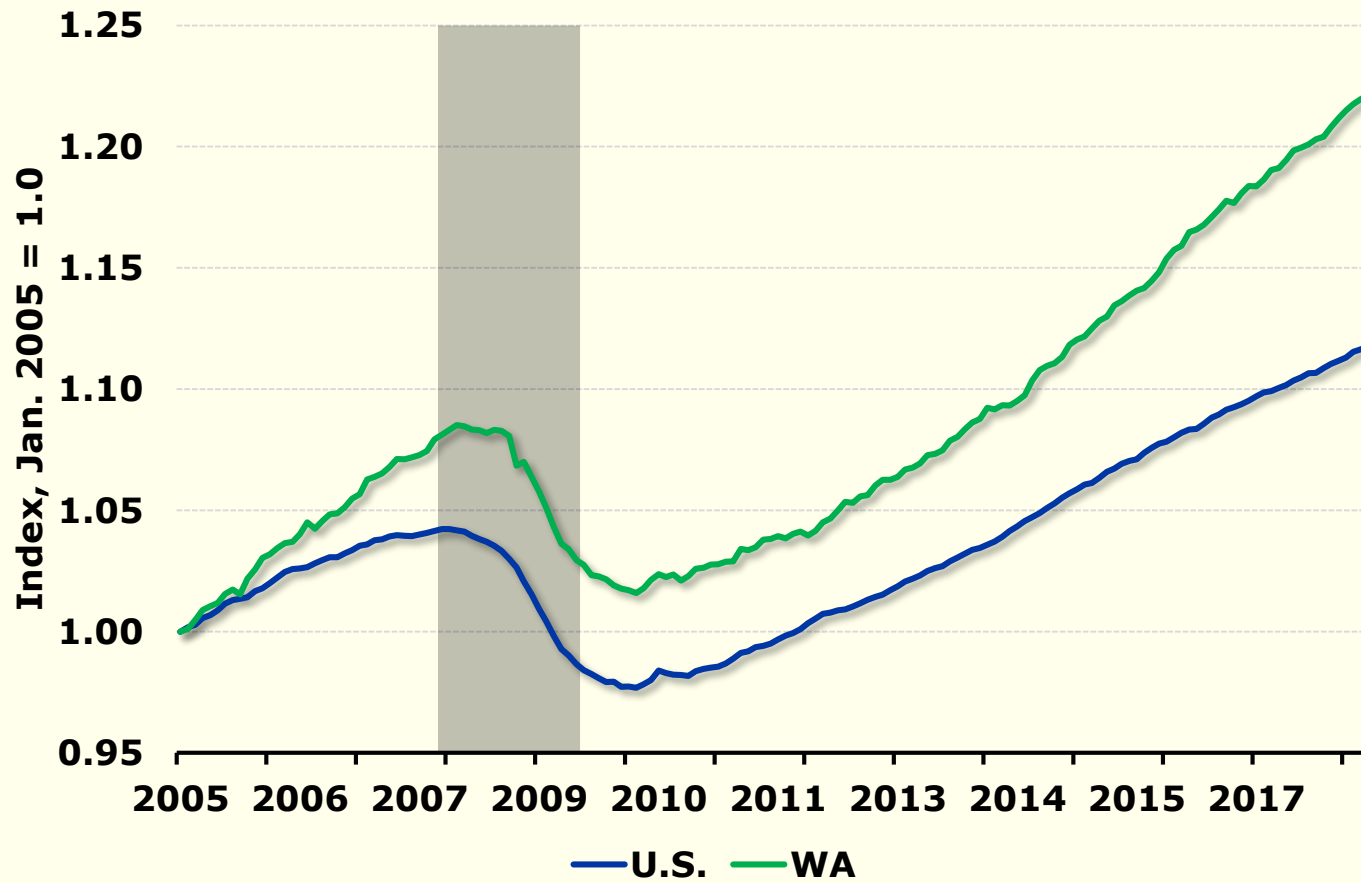


Source: U.S. Census Bureau, ERFC; U.S. data through May 2018, WA data through April 2018

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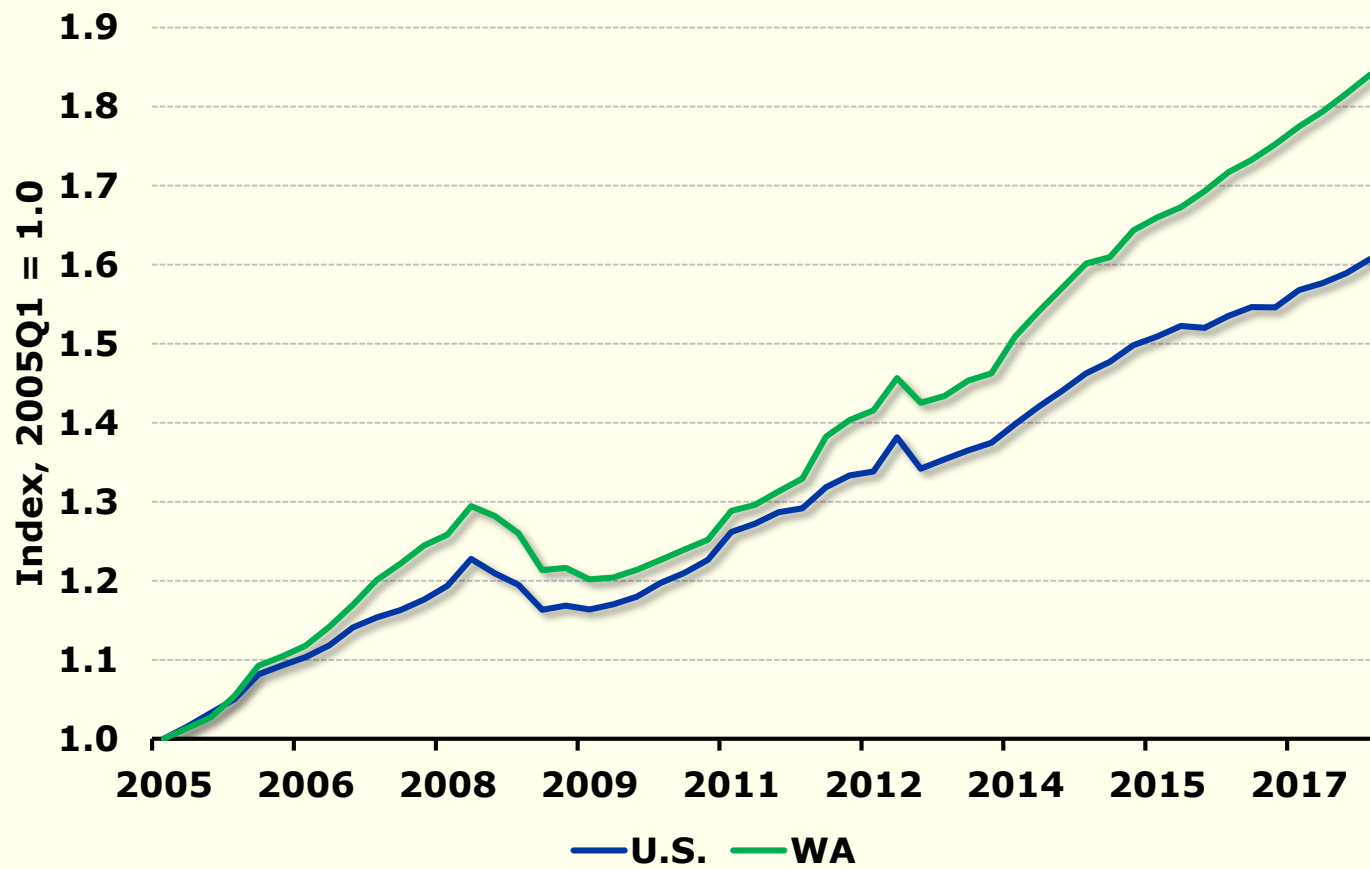
WA employment has grown much faster than for the U.S. as a whole





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

WA personal income grew by 4.8% in 2017 compared to a 3.1% growth rate for the U.S.



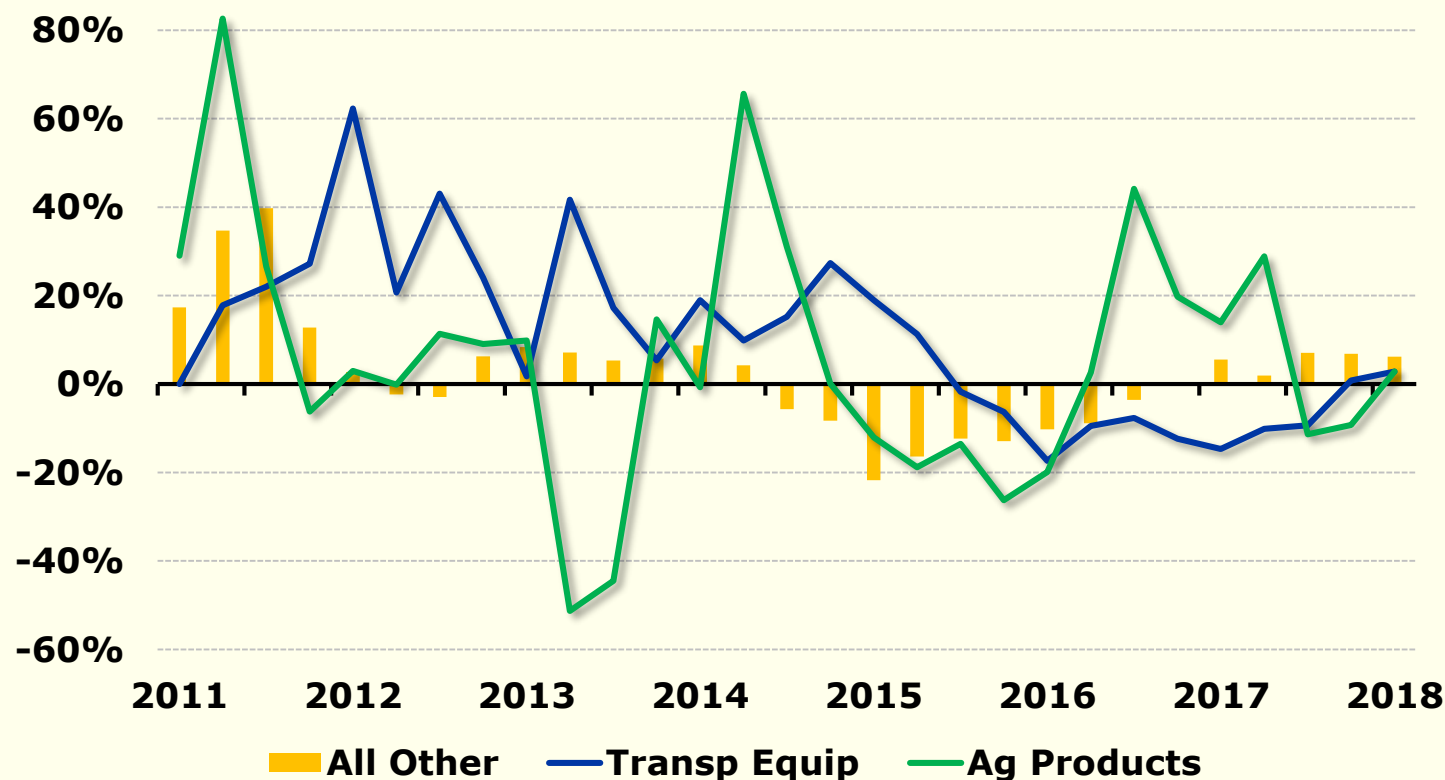
Source: U.S. Bureau of Economic Analysis; data through 2017 Q4

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After 10 quarters of decline, exports have grown slightly in the last two quarters

Year over year growth, quarterly WA exports



Source: WISERTrade, data through 2018 Q1

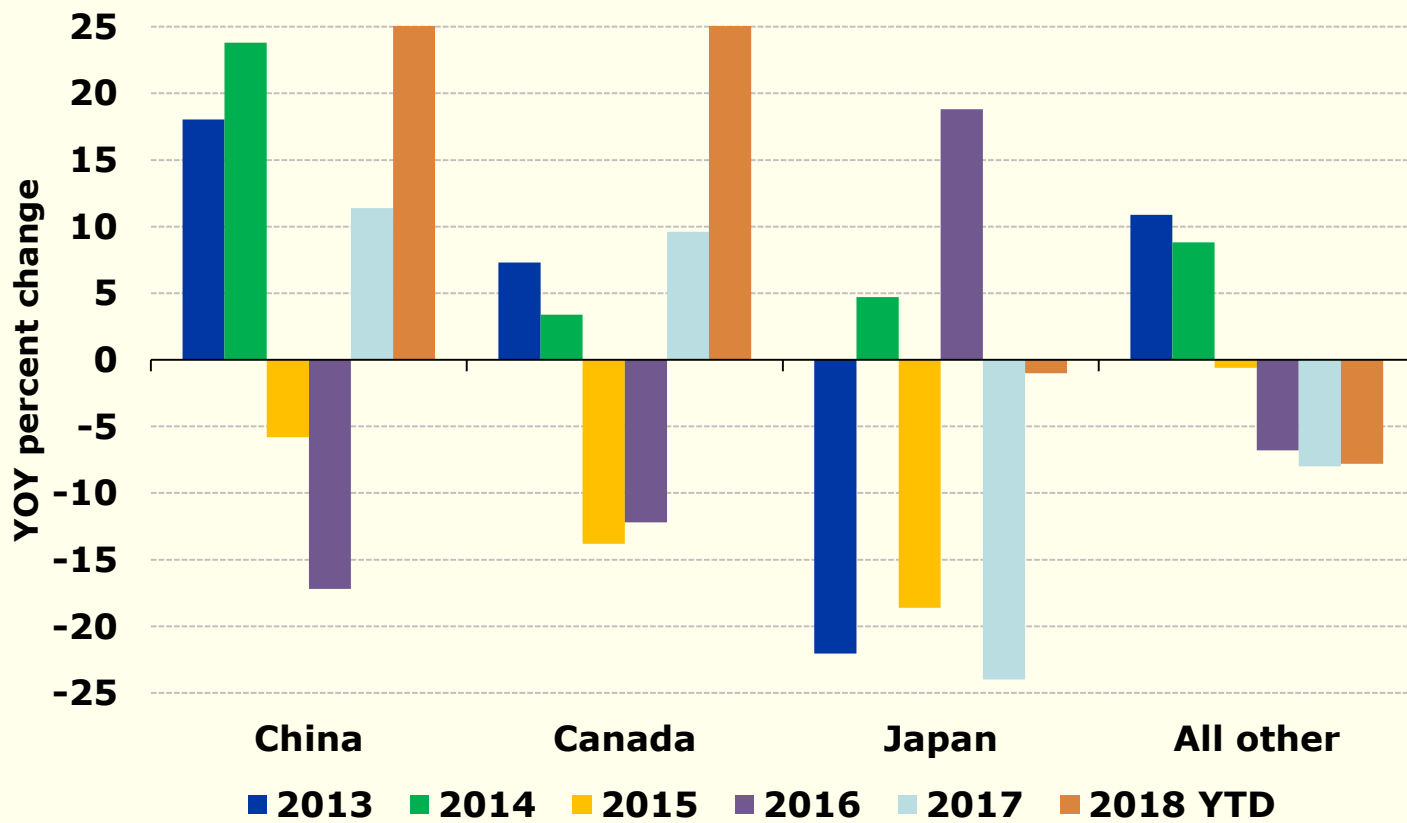
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WA exports have slowed, but exports to China, Canada improved in 2017

Total exports declined 3.9% in 2017 but increased 0.6% in fourth quarter 2017 and 3.9% in first quarter 2018

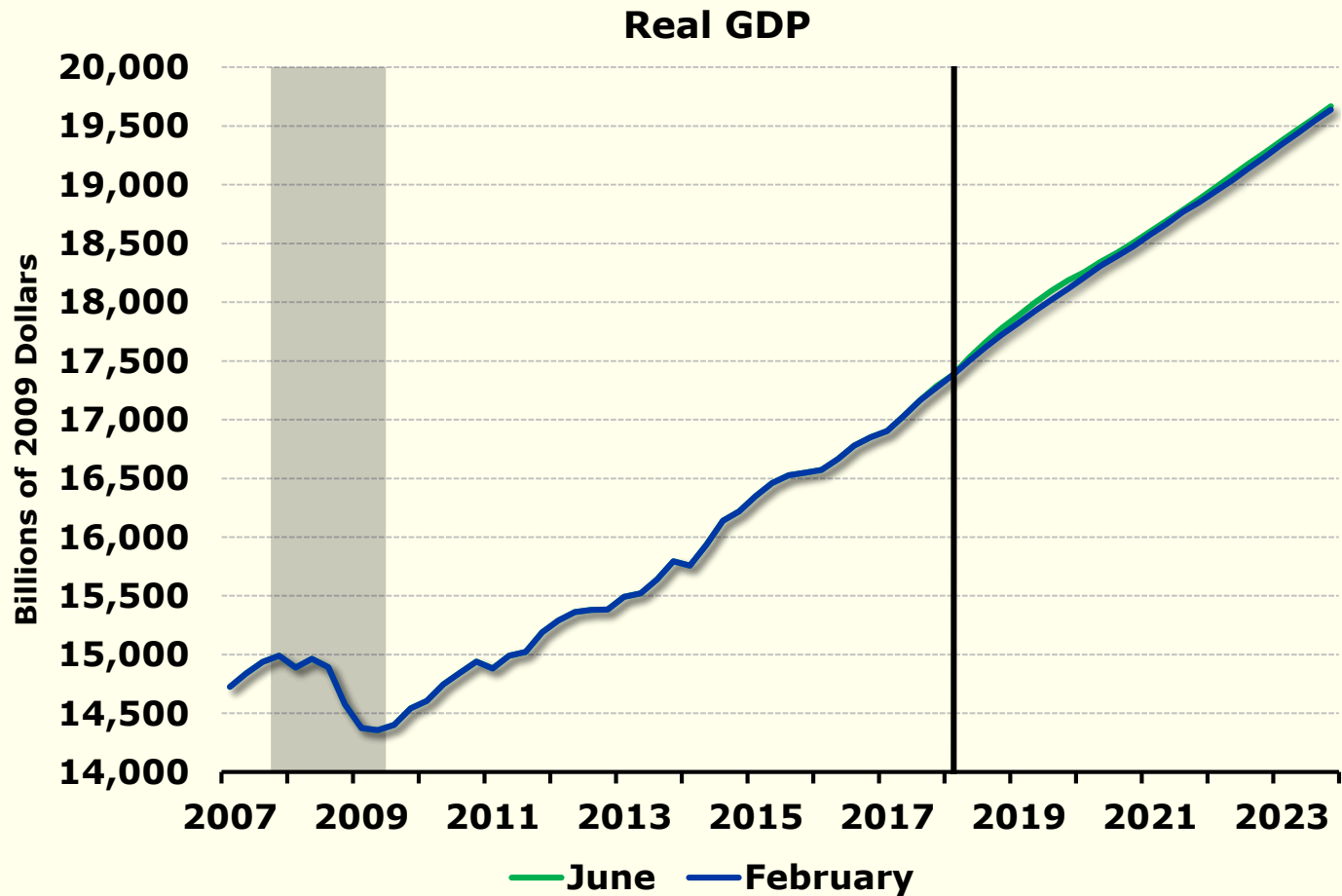
Year-over-year growth in export value, major trading partners



Source: WISERTrade; data through March 2018



Real GDP is very similar to the February forecast

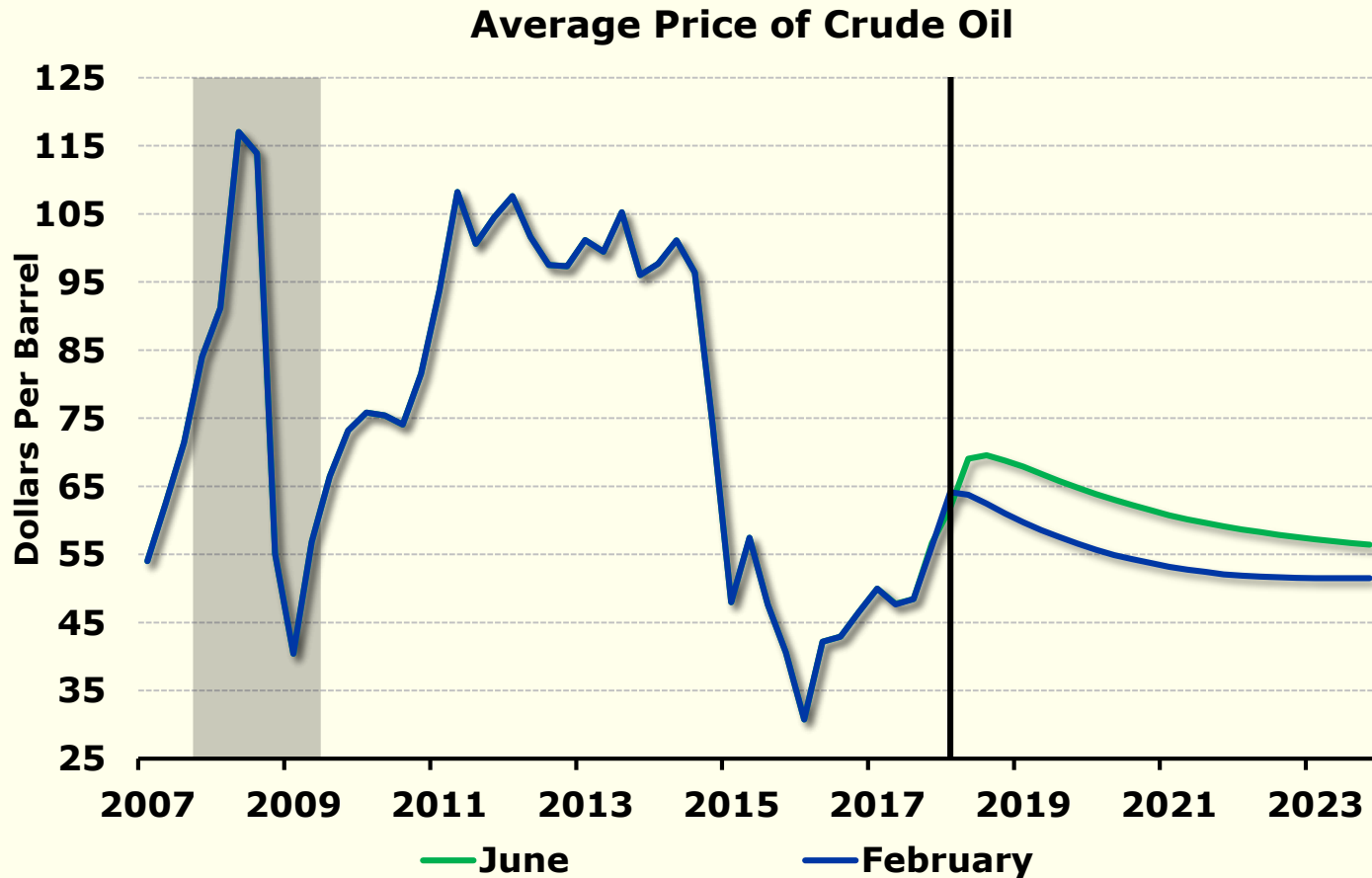


Source: ERFC June 2018 forecast; data through Q4 2017

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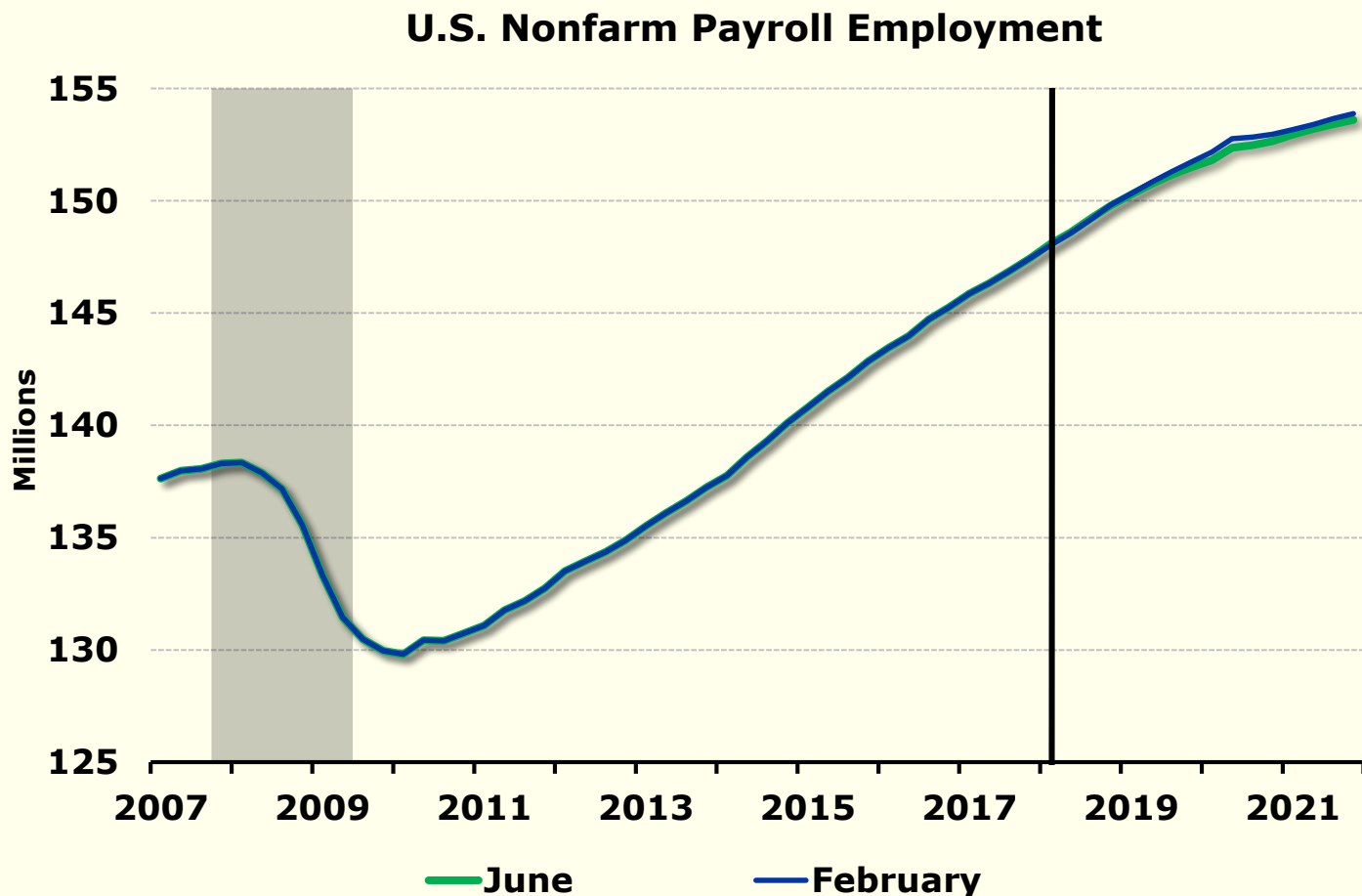


Oil prices are slightly higher compared to the February forecast





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

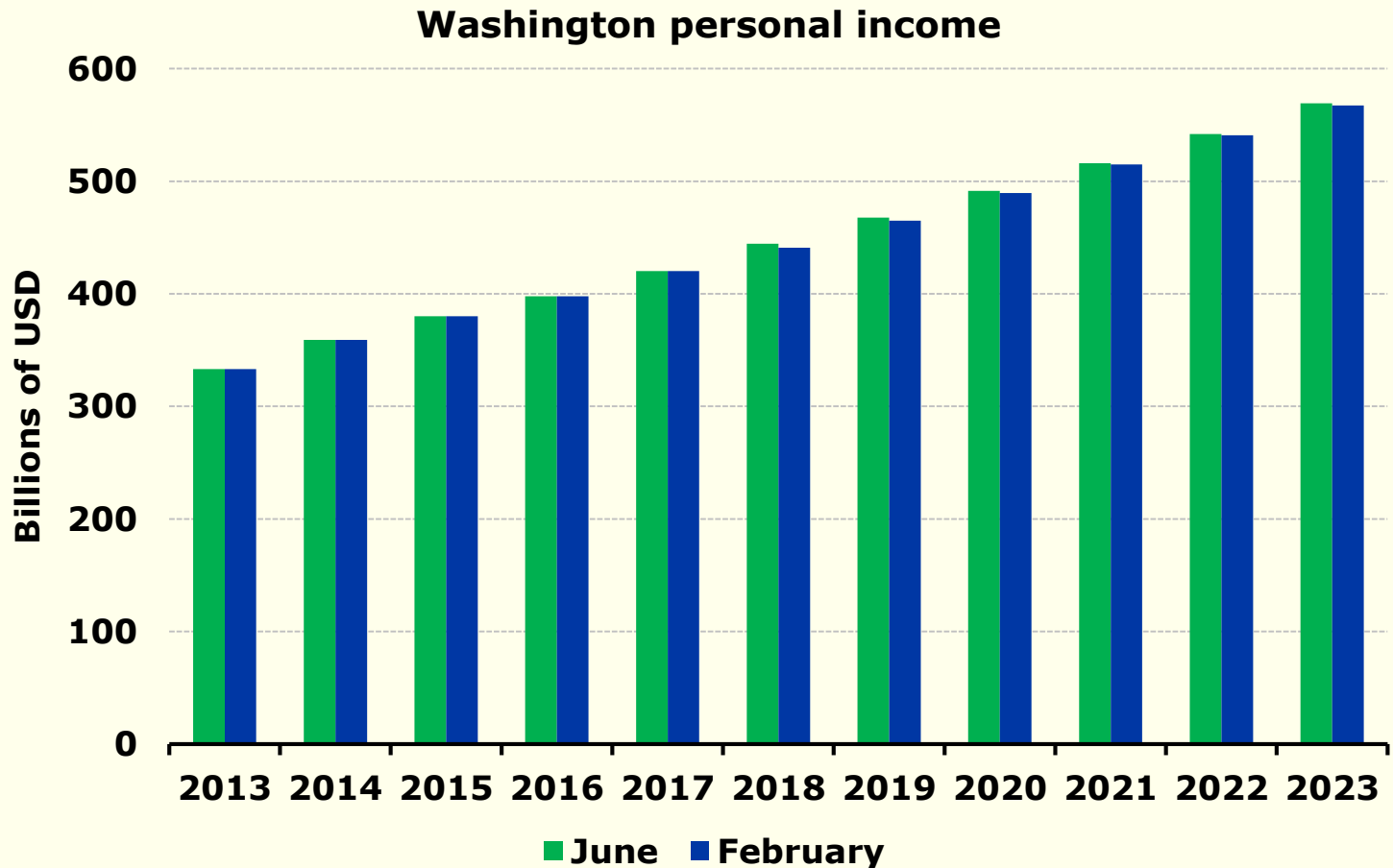


Source: ERFC June 2017 forecast; data through Q1 2018

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Washington personal income is slightly higher than in February



Source: ERFC June 2018 forecast; historical data through 2017

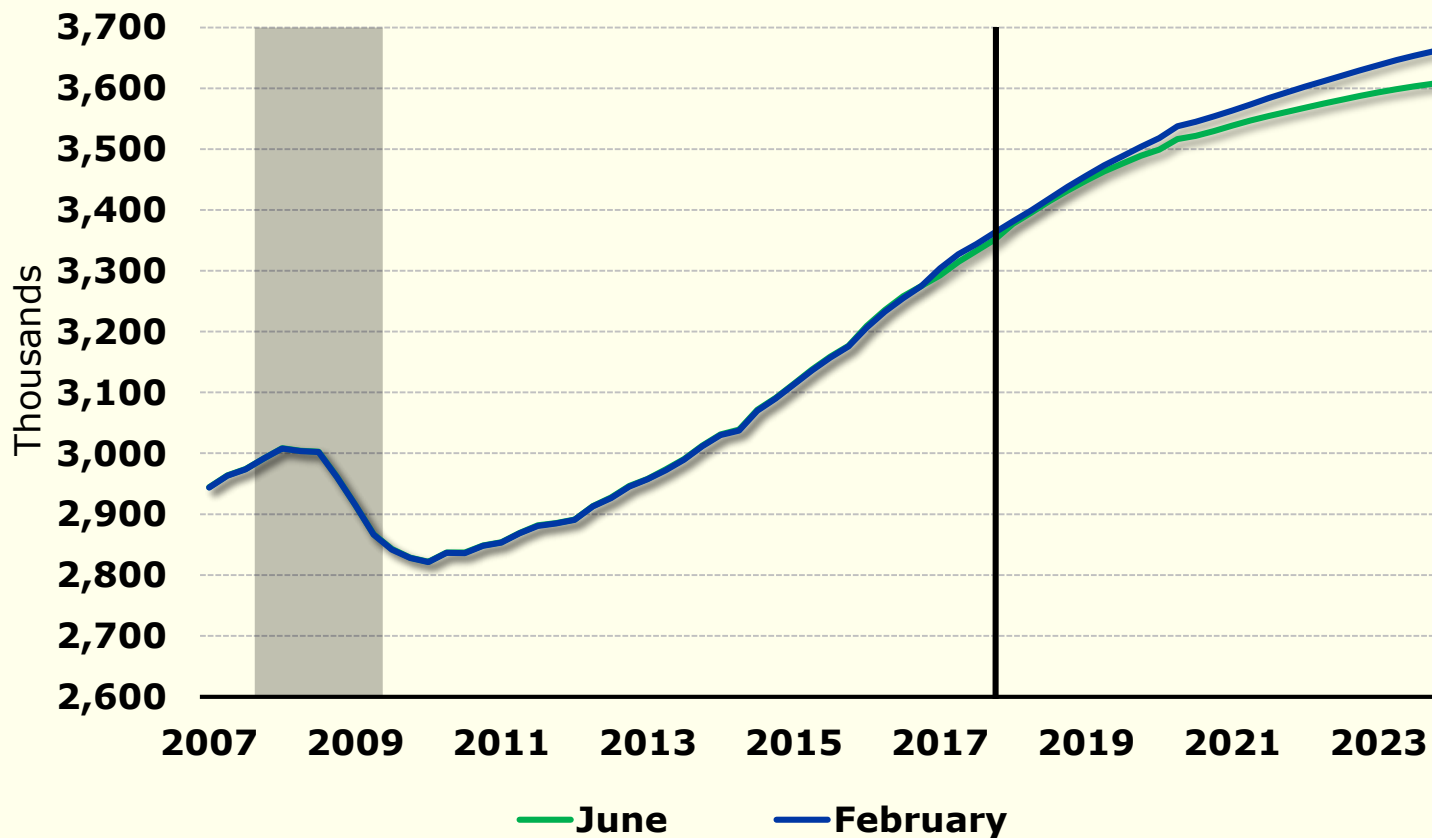
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Washington employment forecast is slightly lower compared to February

A downward revision in the population forecast has resulted in a nonfarm employment forecast 53,000 jobs lower (1.5%) by 2023 Q4 compared to February.

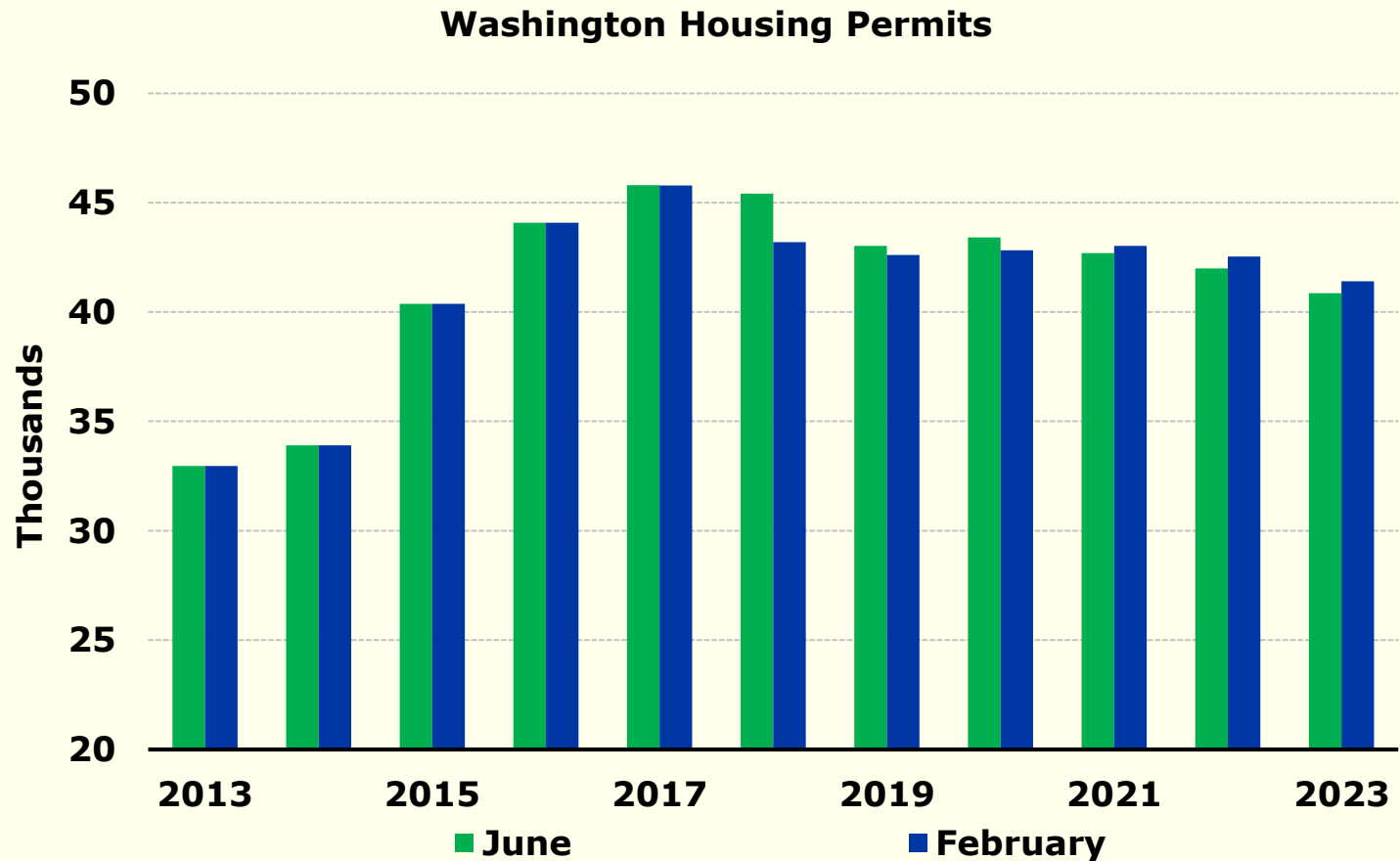
Washington Nonfarm Payroll Employment



Source: ERFC June 2018 forecast; historical data through Q1 2018



Washington housing permits forecast is higher in 2018 compared to February



Source: ERFC June 2018 forecast; historical data through 2017

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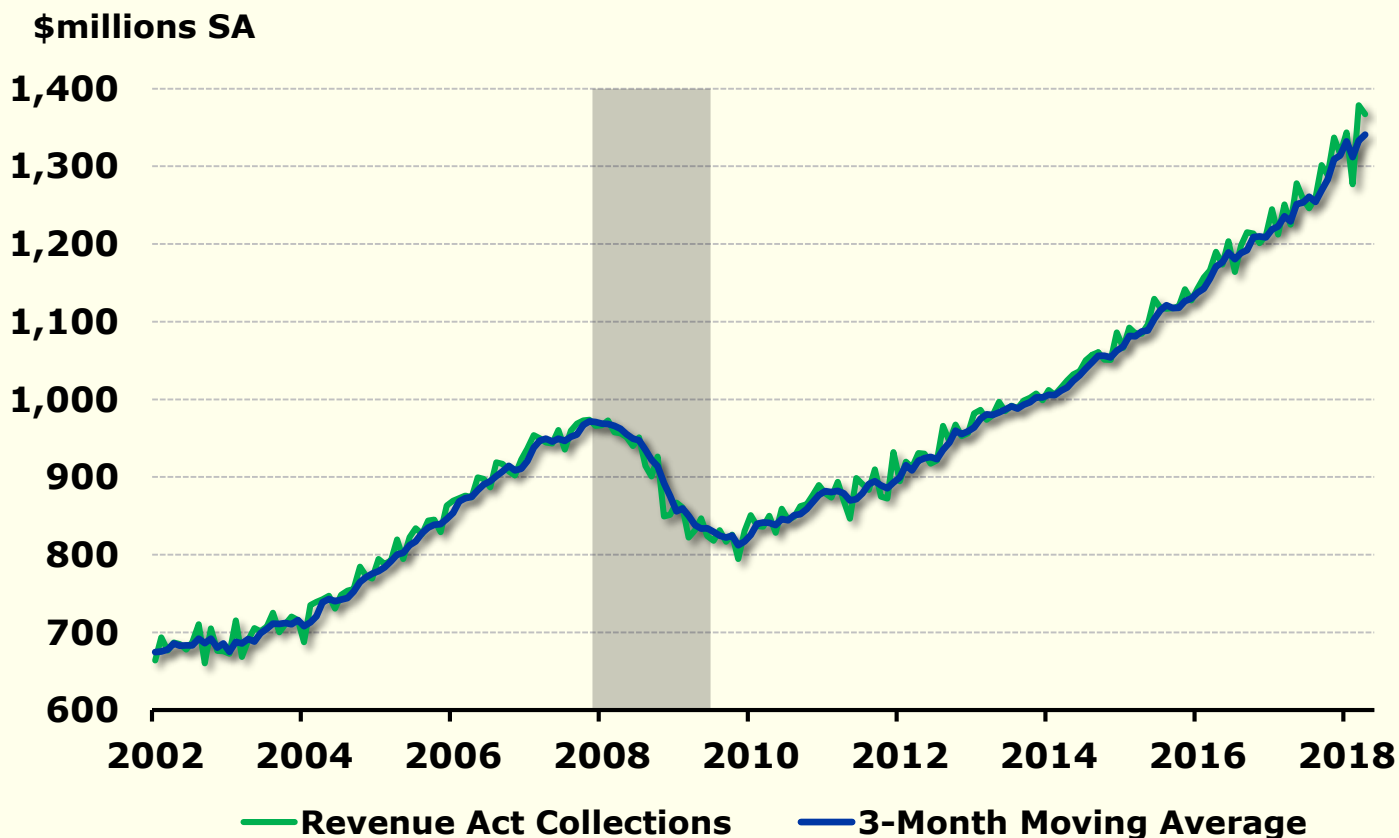


Revenue Act collections growth has been strong for two quarters

Adjusted year-over-year collections growth (by quarter of activity):

2017Q2: 5.6%
2017Q3: 6.4%
2017Q4: 8.3%
2018Q1: 8.2%

June 10, 2018 collections: 10.8%



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

Source: DOR and ERFC; monthly data through April 2018 activity



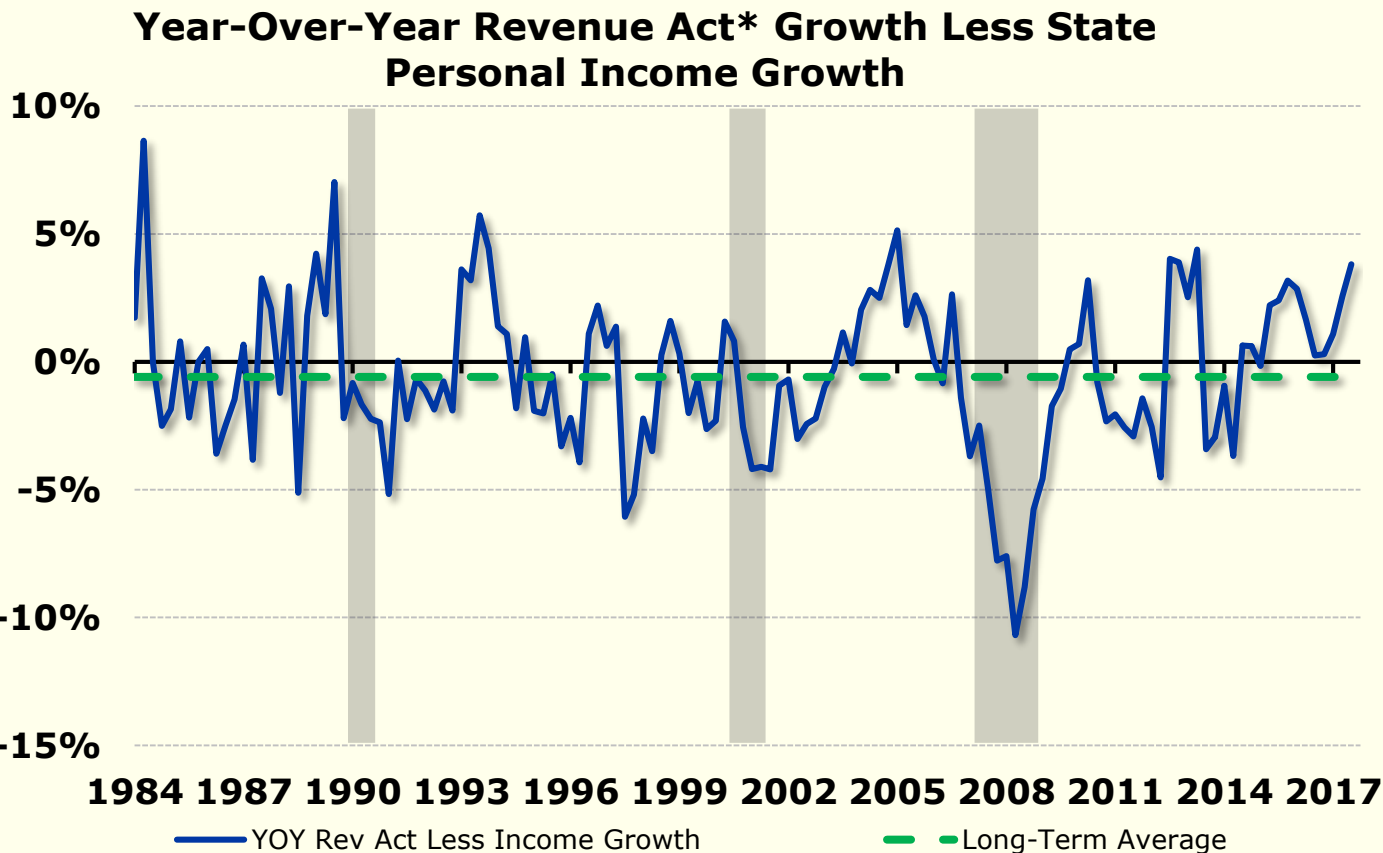
Revenue Act growth relative to personal income has rebounded since 2017Q3

Adjusted Revenue Act growth YOY:

17Q2: 5.6%
17Q3: 6.4%
17Q4: 8.3%
18Q1: 8.2%

February personal income YOY growth estimates:

17Q2: 5.3%
17Q3: 5.3%
17Q4: 5.7%
18Q1: 4.3%



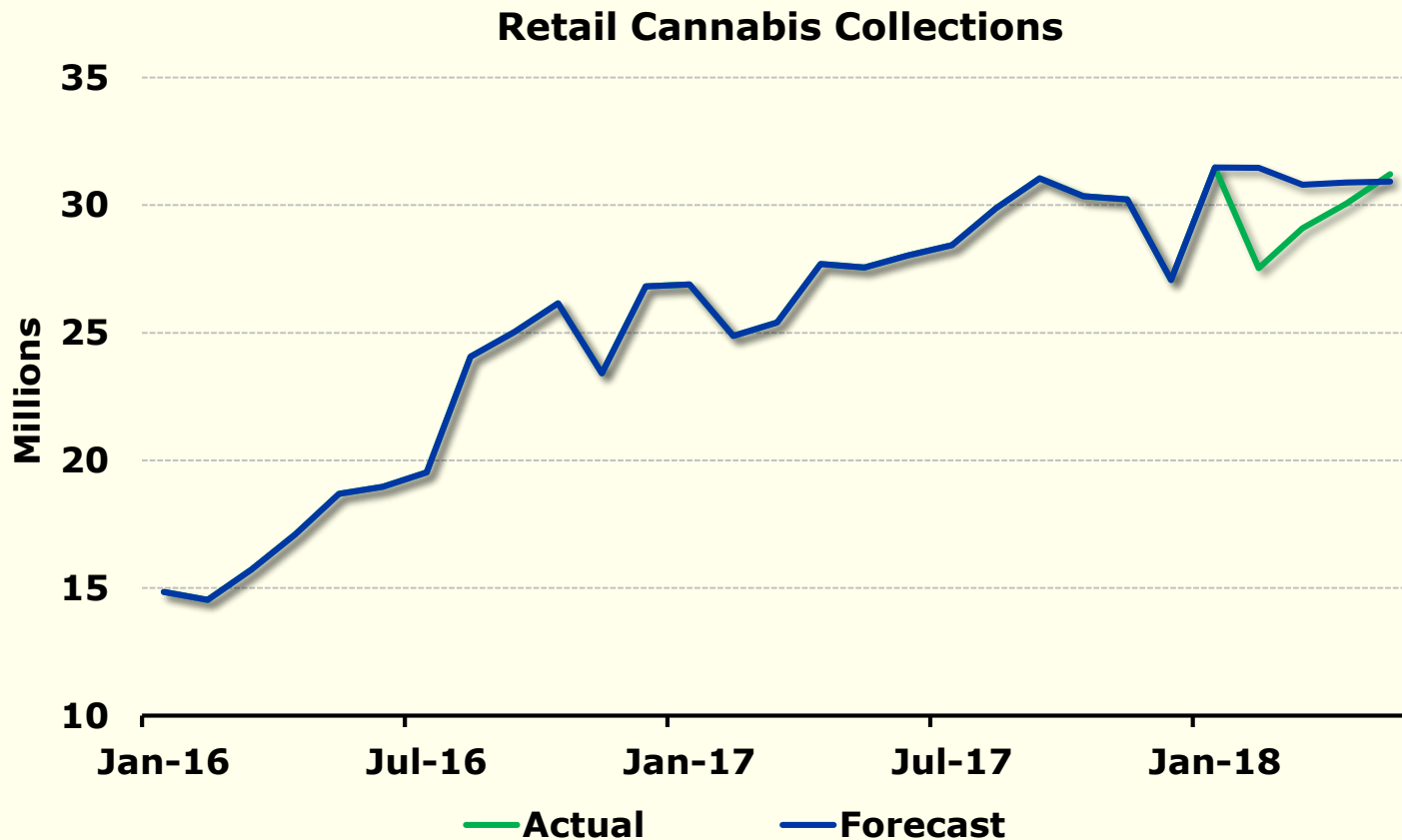
*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q1 2018, February 2018 income estimates



Cannabis revenue continues to be volatile

Collections were 0.9% above forecast in May

Collections are 5.0% below forecast since February





Cannabis excise tax and license fee estimates

Total change since February forecast:

- 2017-19
-\$0.2 M
- 2019-21
-\$10.8 M
- 2021-23
-\$2.6M

\$Millions

Cannabis Forecast

	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>
GF-S share of excise tax and license fees	\$247	\$268	\$321
Non-GF	\$501	\$530	\$530
Total	\$749	\$798	\$851

* Detail may not add to total due to rounding

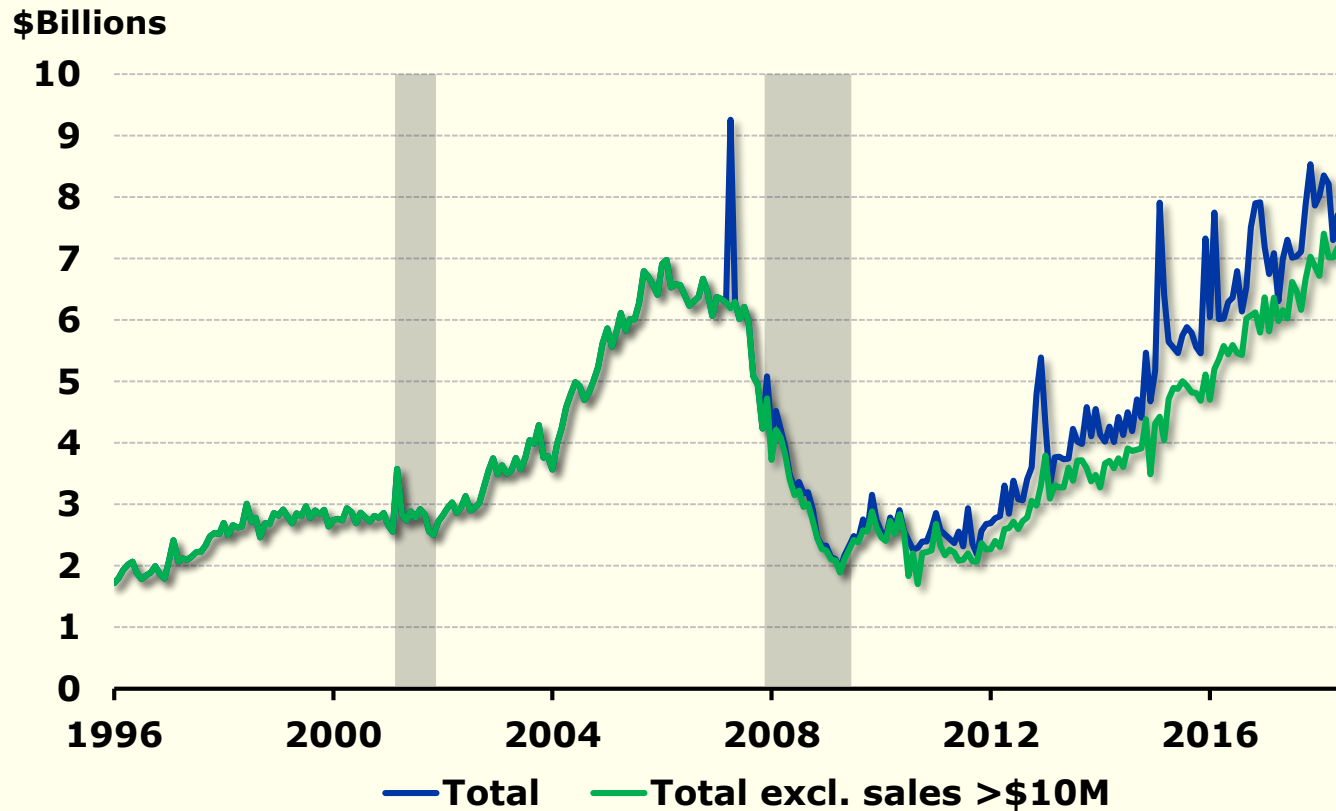


Large commercial property sales decreased but still strong in Q1 2018

Large commercial sales (>\$10 million) totaled \$2.6 billion in the 1st quarter of 2018, down from \$3.6 billion in the 4th quarter of 2017.

Residential and smaller commercial sales continue to grow.

Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through May 2018 preliminary



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

As of June 10, General Fund-State collections were \$189 million higher than the February forecast.

\$Millions	<u>February 2018 Forecast*</u>	<u>Non-economic Change**</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change#</u>
General Fund-State	\$44,213	(\$1,173)	\$493	\$43,532	(\$680)
Education Legacy Trust Account	\$520	\$935	\$43	\$1,498	\$978
WA Opportunity Pathways Account	\$257	\$0	\$1	\$258	\$1
Total Near GF-S	\$44,990	(\$238)	\$536	\$45,288	\$298

* Forecast for the 2017-19 biennium adopted February 20, 2018

** Sum of legislative and budget driven revenue changes from the 2018 legislative session

Detail may not add to total due to rounding

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

\$Millions	<u>February 2018 Forecast*</u>	<u>Non-economic Change**</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change#</u>
General Fund-State	\$48,253	(\$181)	\$448	\$48,520	\$267
Education Legacy Trust Account	\$565	\$0	\$17	\$582	\$17
WA Opportunity Pathways Account	\$258	\$0	\$3	\$261	\$3
Total Near GF-S	\$49,076	(\$181)	\$468	\$49,363	\$287

* Forecast for the 2019-21 biennium adopted February 20, 2018

** Sum of legislative and budget driven revenue changes from the 2018 legislative session

Detail may not add to total due to rounding



Conclusion

- WA personal income is slightly higher than in February
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Near GF-S revenues are expected to grow 16.0% between the 2015-17 and 2017-19 biennia and 9.0% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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