

# Washington State Economic Outlook & Revenue Collection Experience

Presented to  
Local Government Partnership

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Tumwater, Washington



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ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

- The preliminary economic forecast for the U.S. is similar to the February forecast; GDP growth and inflation are slightly higher for 2018 and 2019
- The preliminary economic forecast for WA has slightly higher personal income in 2018 but is generally similar to the February forecast
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns and higher oil prices
- Revenue collections since the February forecast are \$85.4 million (2.0%) above expectations



# 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
- Higher oil and gasoline prices
- Maturing economic expansion

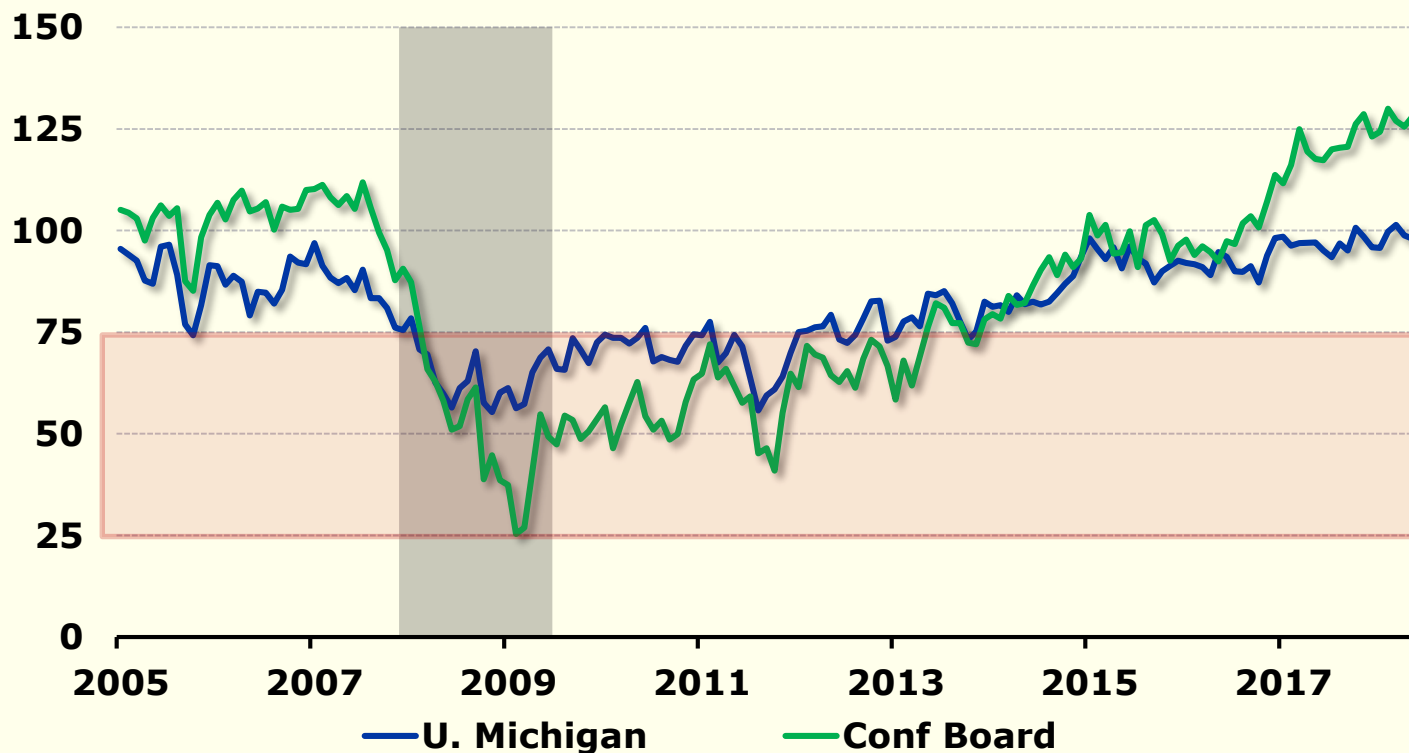


# Consumers remain confident about economic prospects

## Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

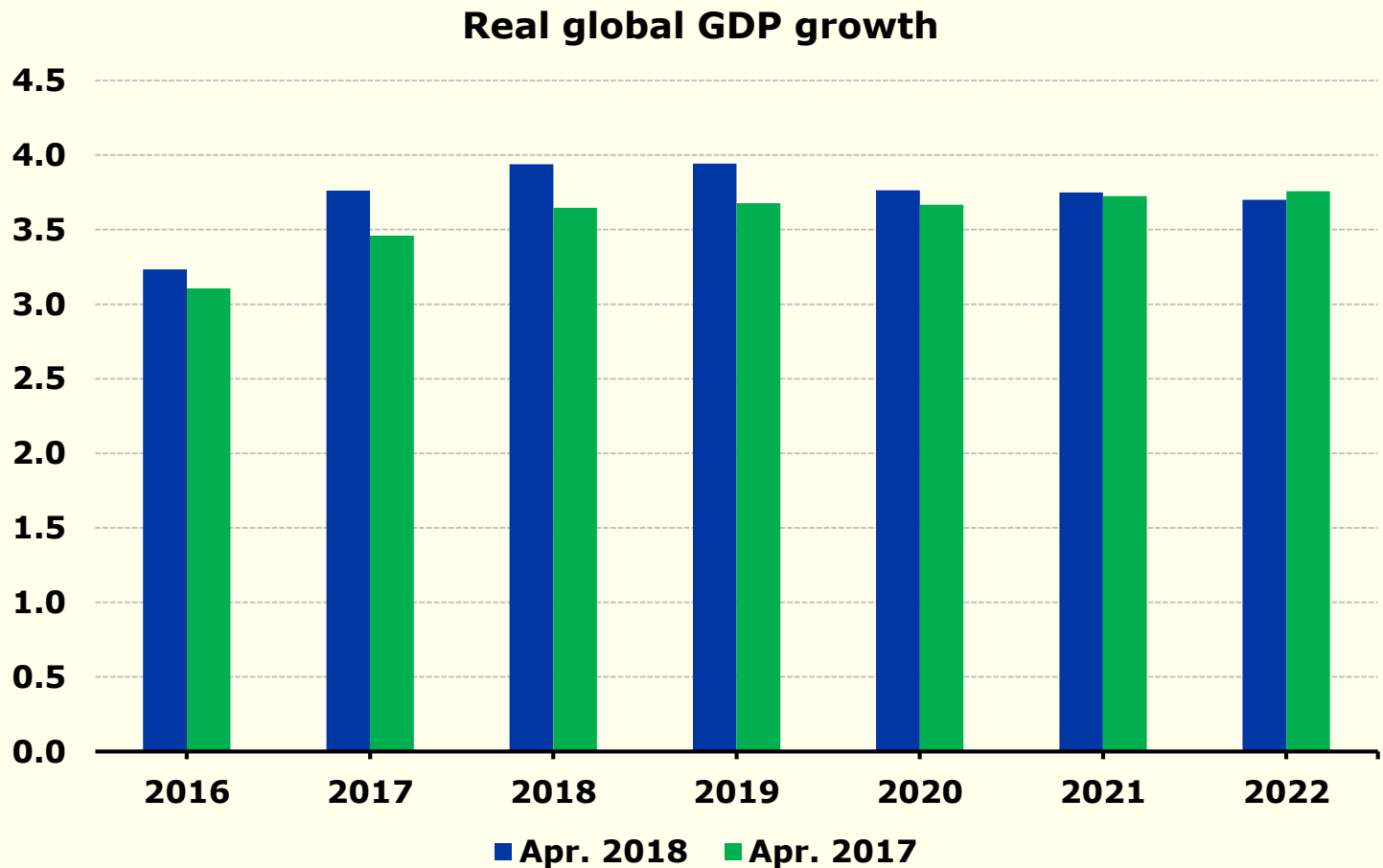


Sources: University of Michigan, Conference Board; data through May 2018

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# Global GDP forecasts have strengthened compared to last year

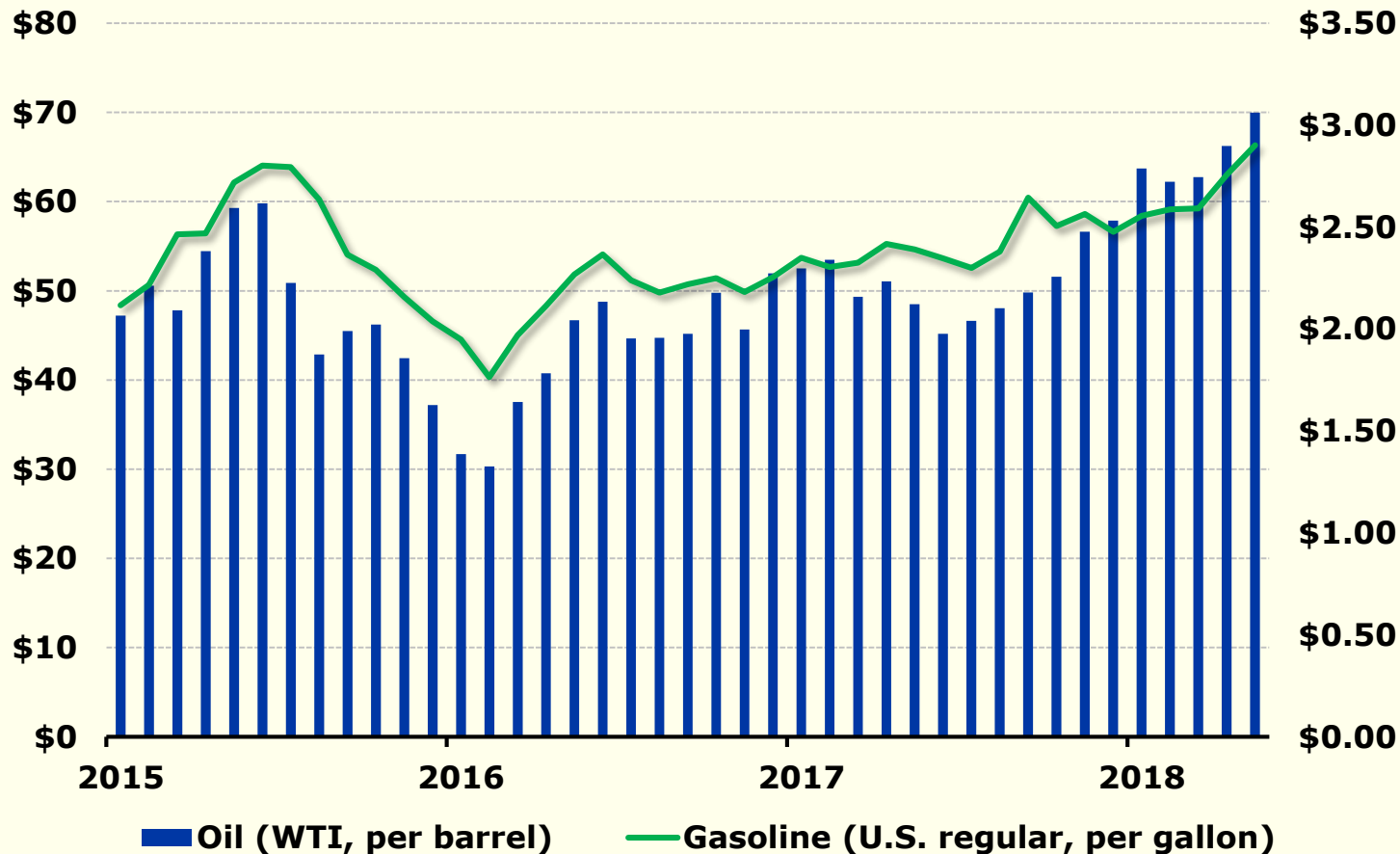


Source: International Monetary Fund, World Economic Outlook; April 2017 and April 2018

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# Oil and gasoline prices appear to be heading higher



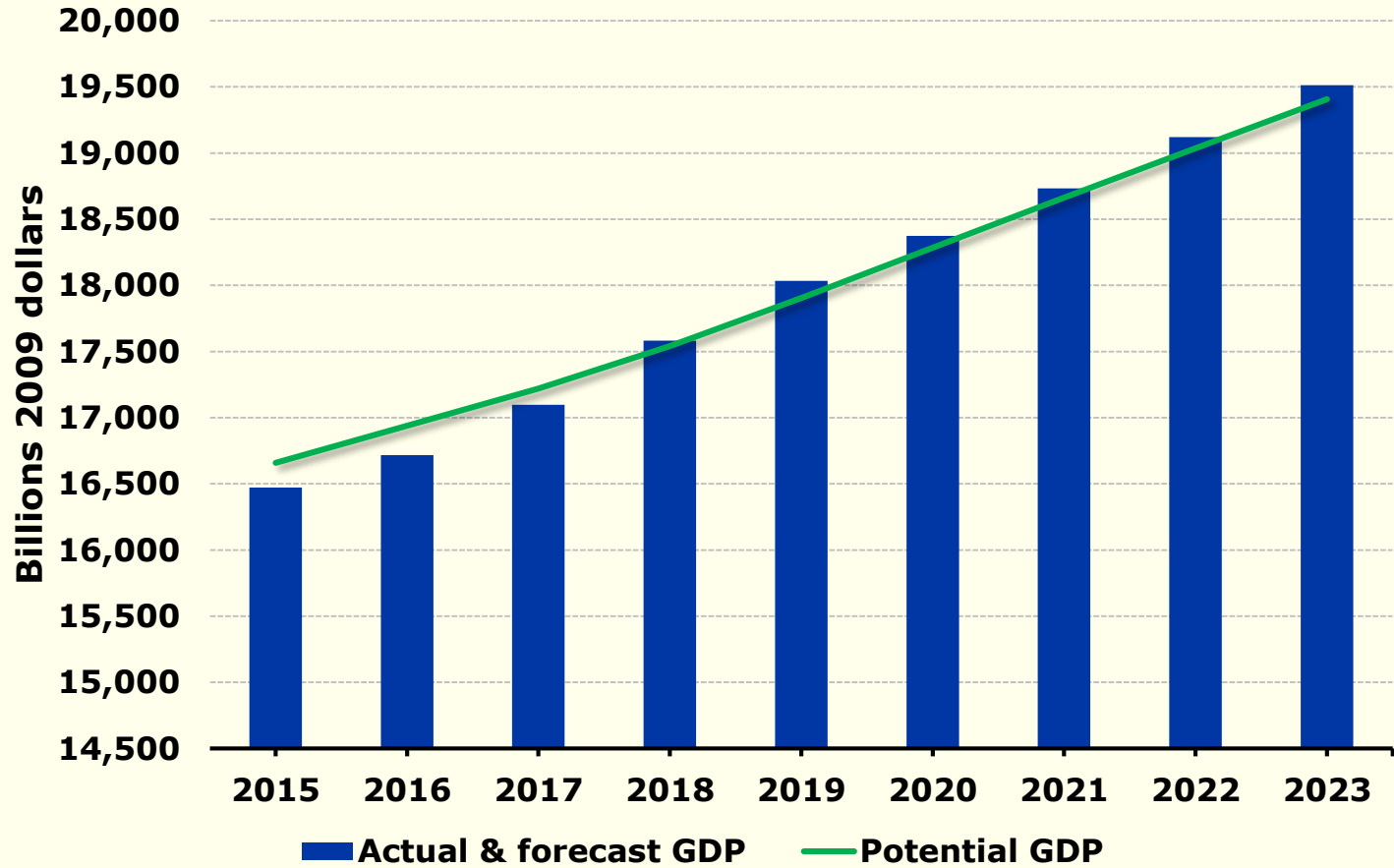
Source: U.S. Dept. of Energy, data through May 2018

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

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

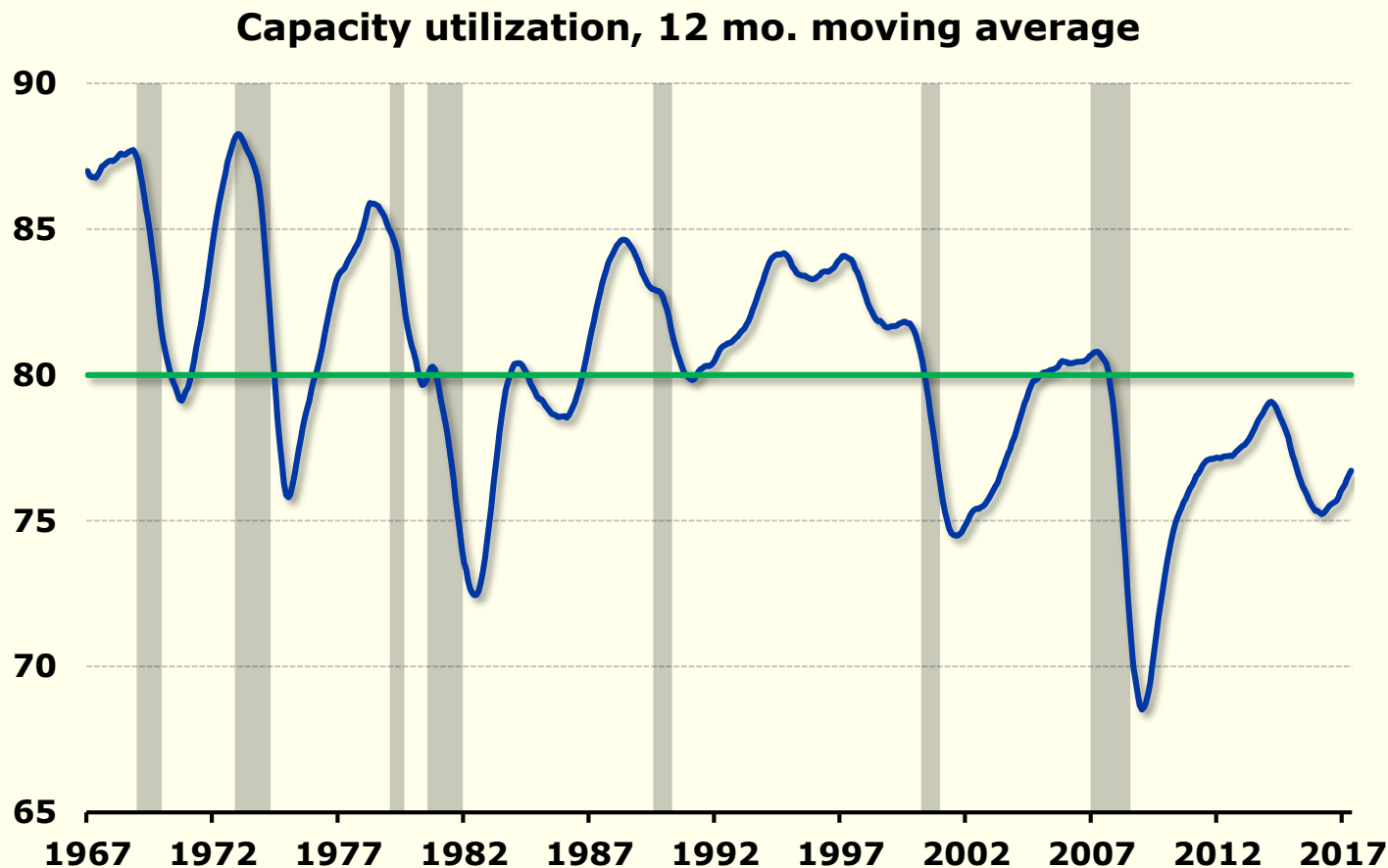


Source: CBO, BEA, ERFC June 2018 preliminary forecast

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



Source: Federal Reserve Bank of St. Louis, data through April 2018

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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 April 2018

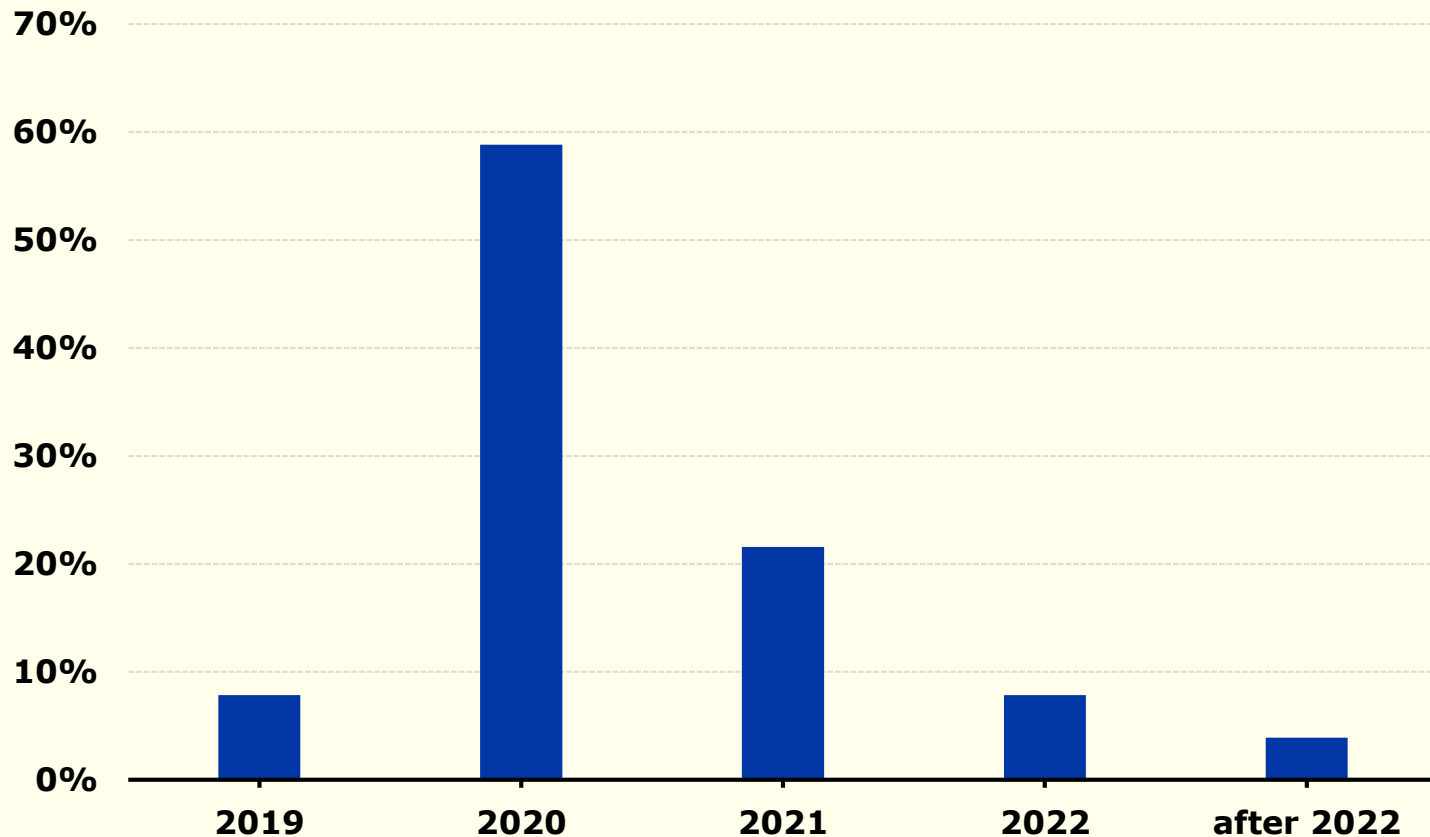
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# Probability of recession by year, May 2018 WSJ Survey of Economists

*Macroeconomic  
Advisors*  
recession  
probabilities:

1 year = 20%  
5 years = 80%



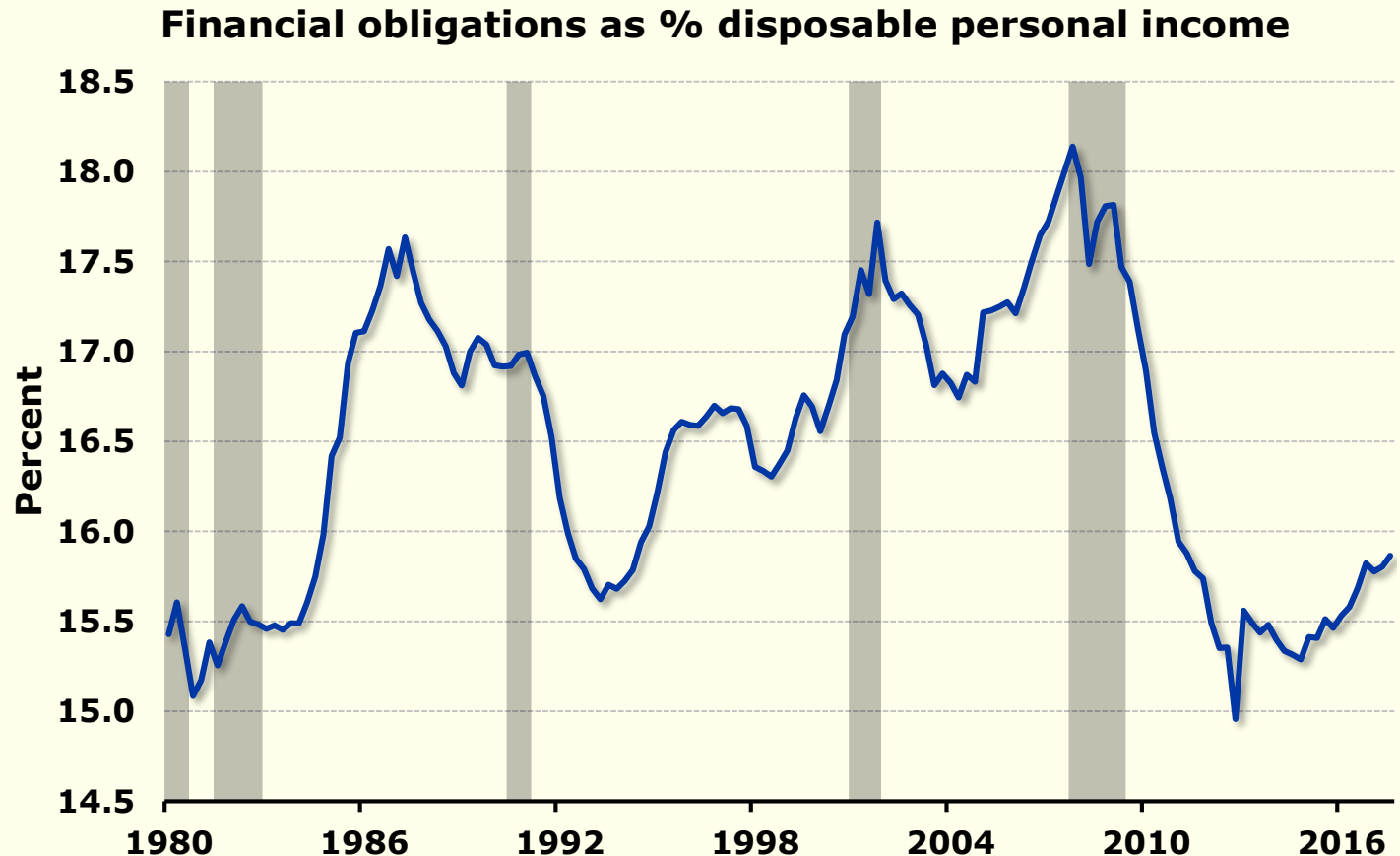
Source: Wall Street Journal, May 2018

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# 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.

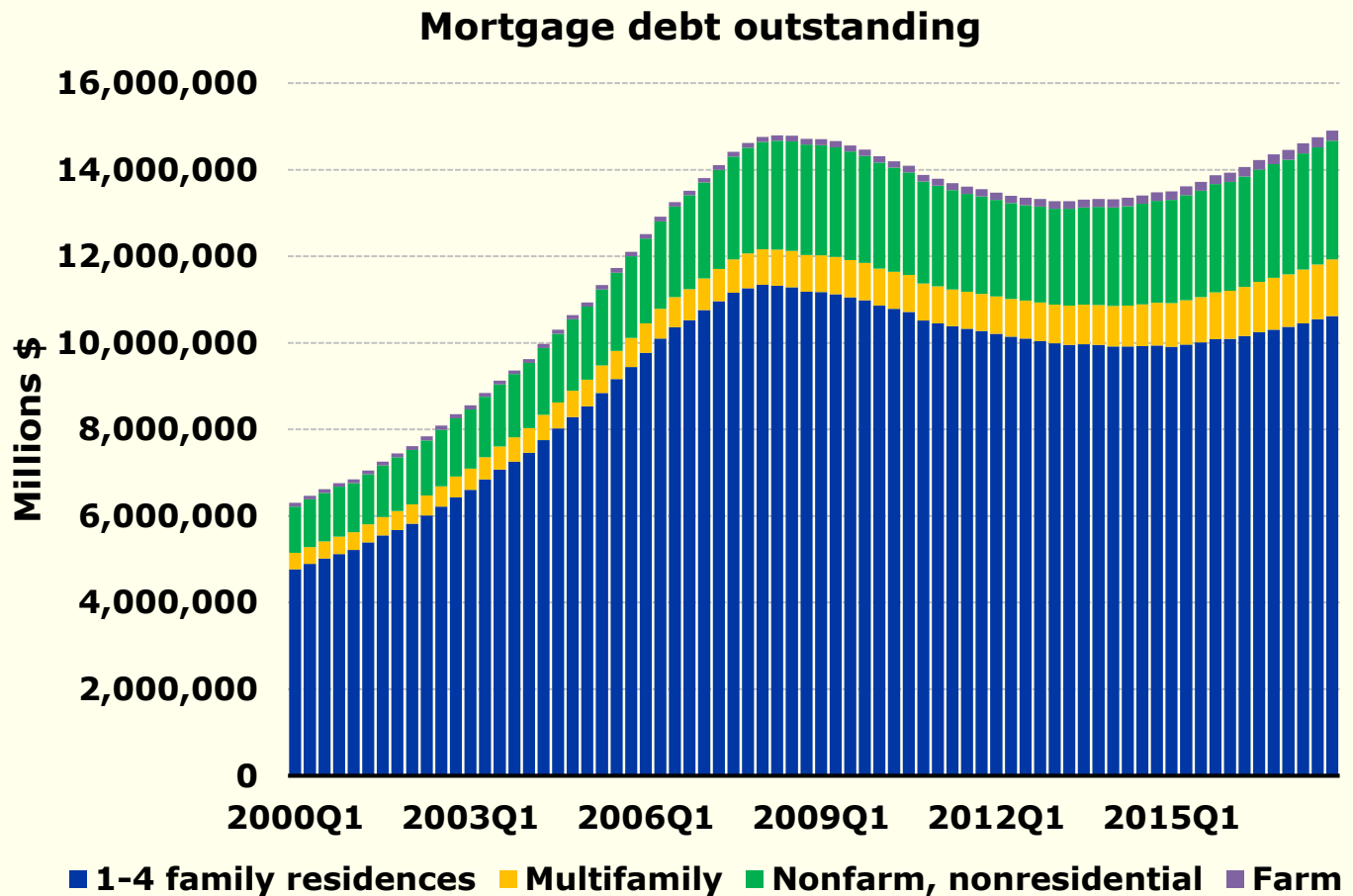


Source: Federal Reserve System Board of Governors, data through 2017Q3

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# 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.

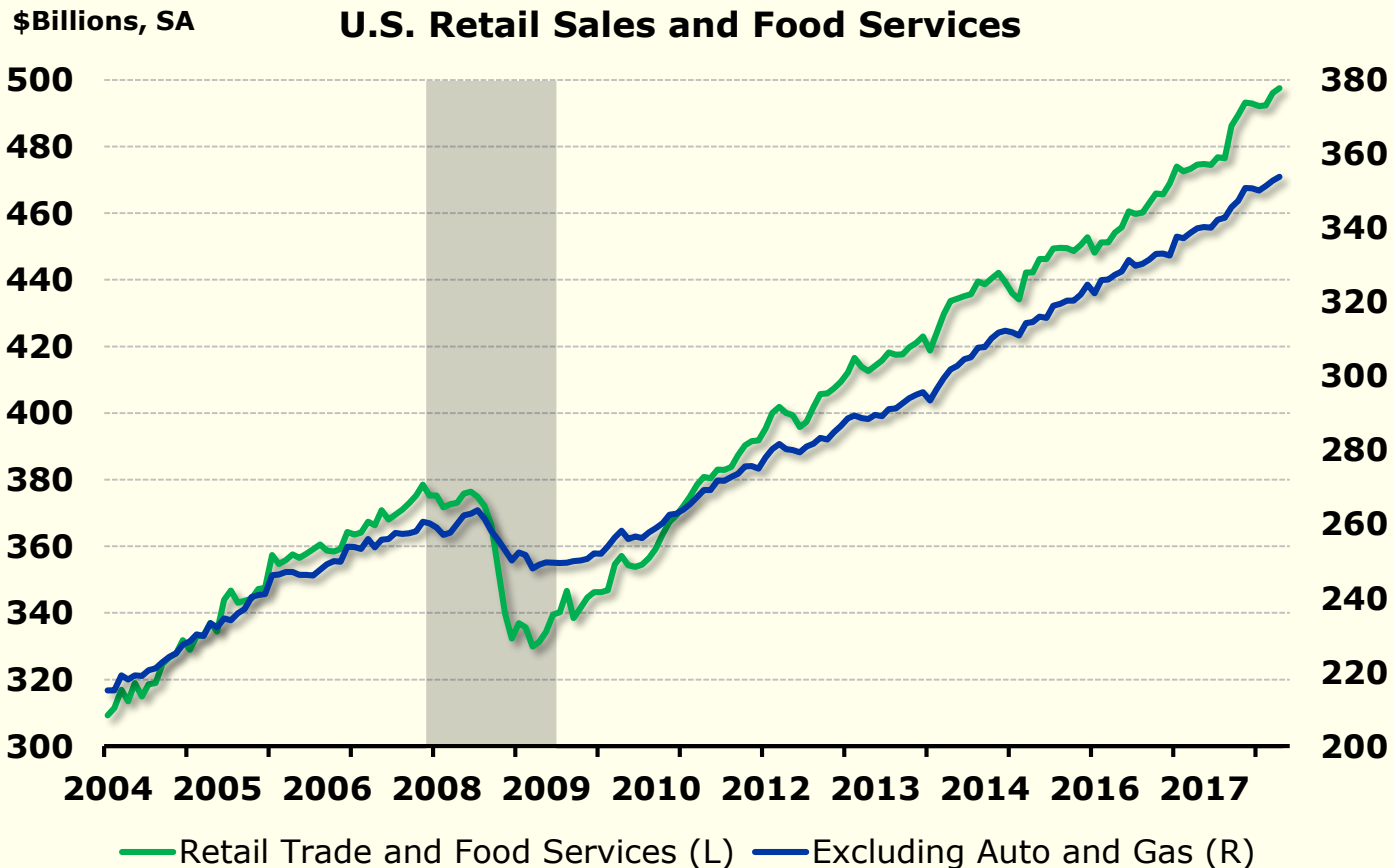
Excluding autos and gas, sales were up 4.2% YOY in March and 4.1% in April.

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

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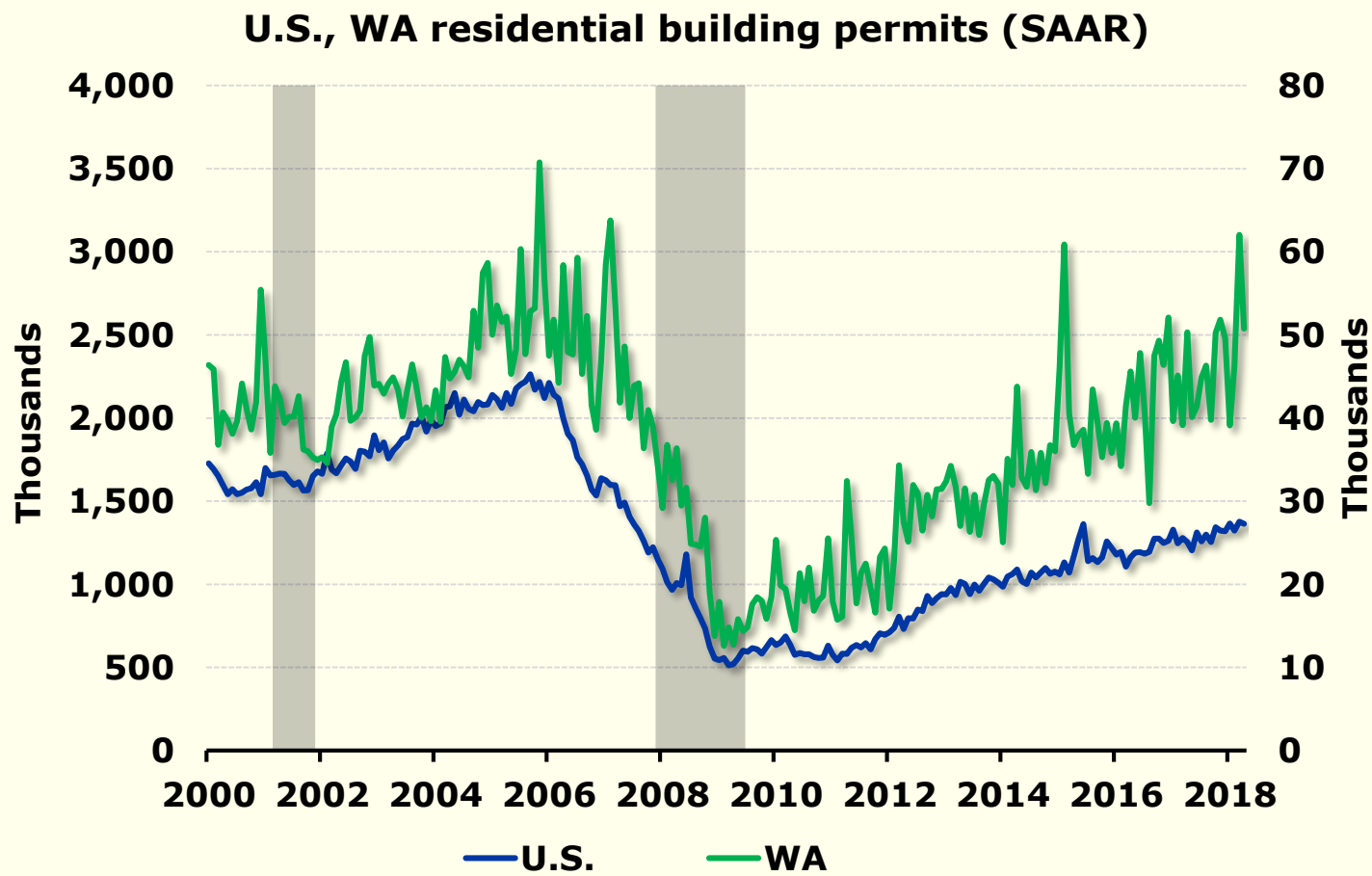


Source: U.S. Department of Commerce, Census Bureau; Data through April 2018 advance

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# WA residential construction activity is at pre-housing boom levels

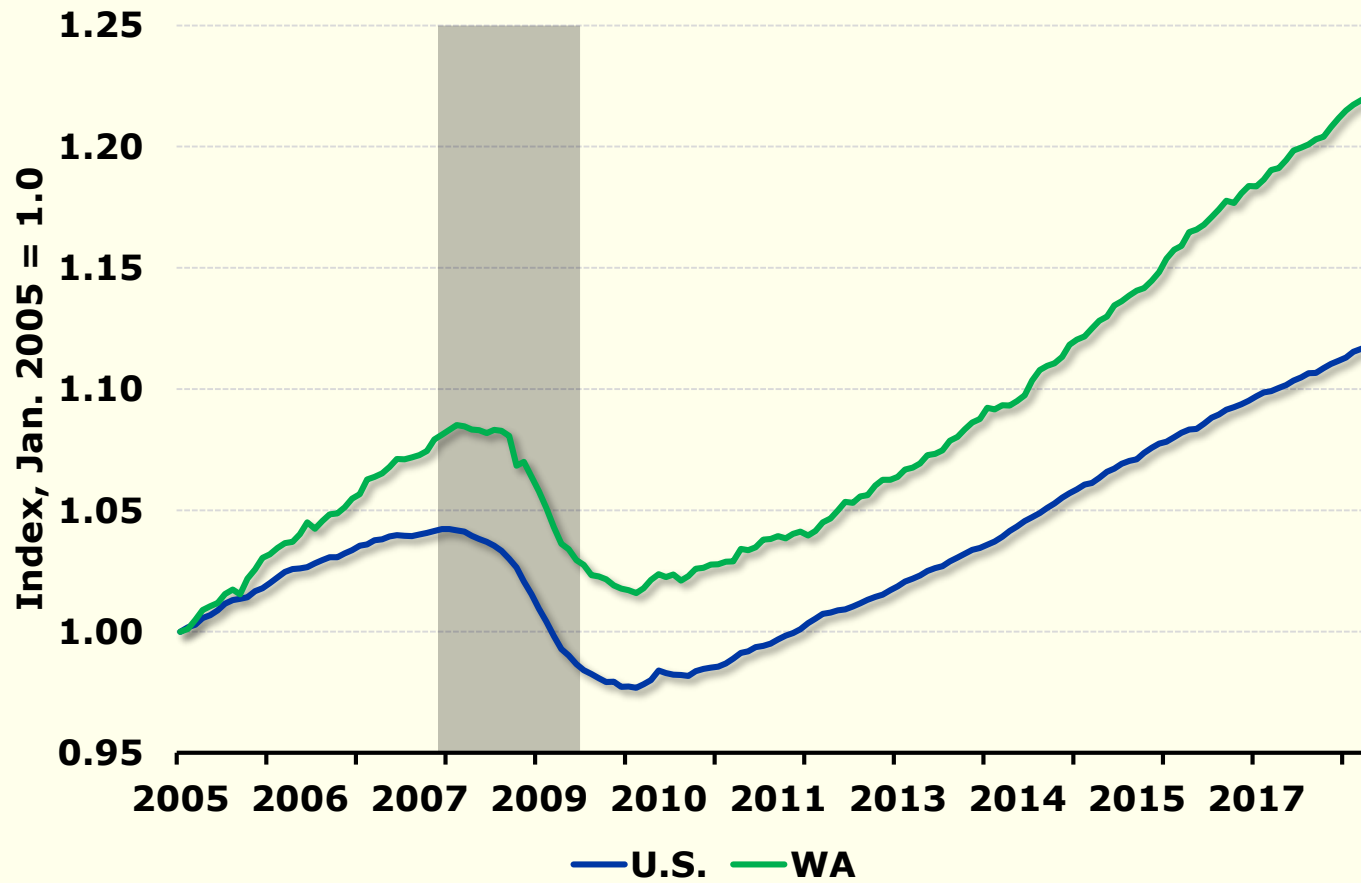


Source: U.S. Census Bureau, ERFC; data through April 2018

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



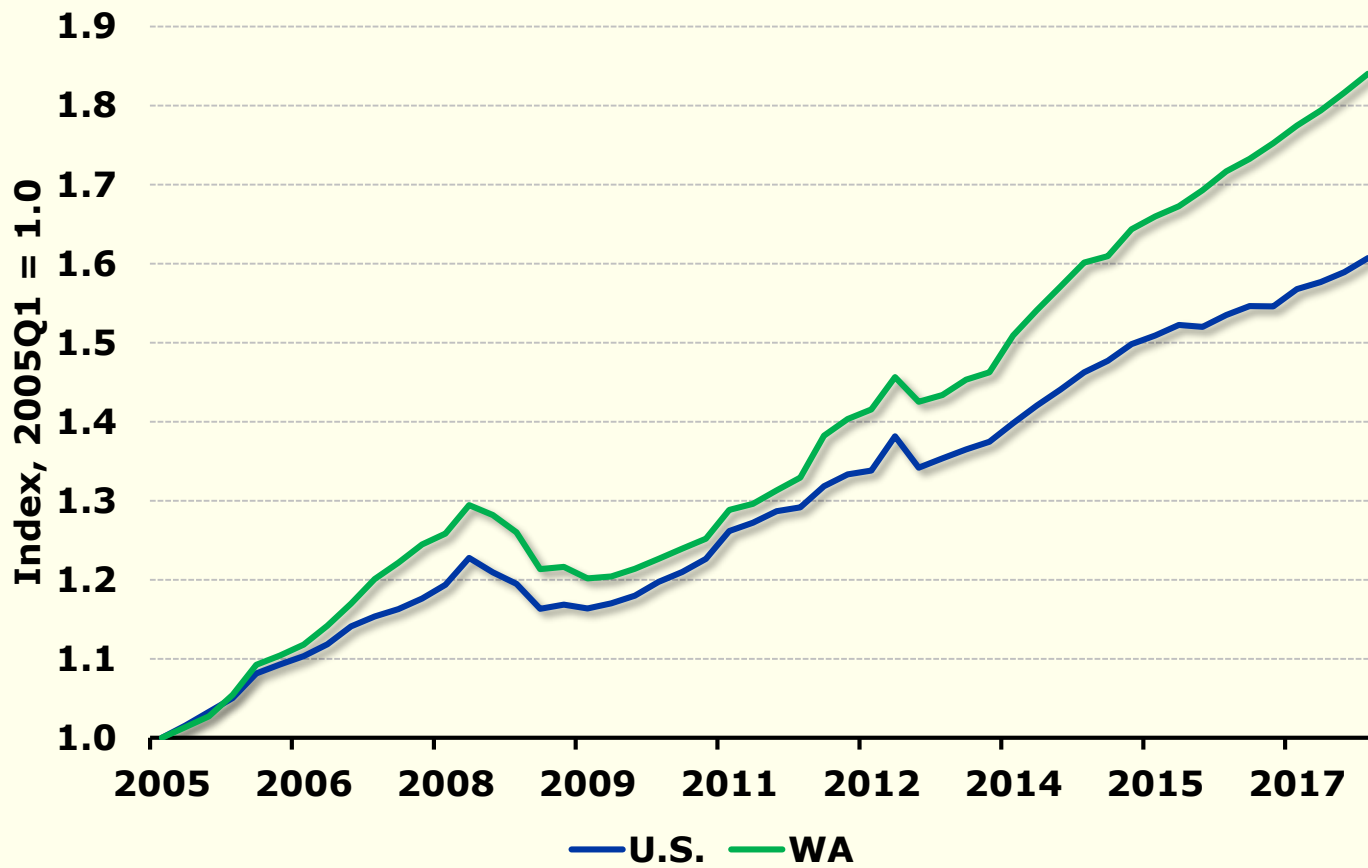
Source: U.S. Bureau of Labor Statistics, Employment Security Dept., ERFC; data through May 2018

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# 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

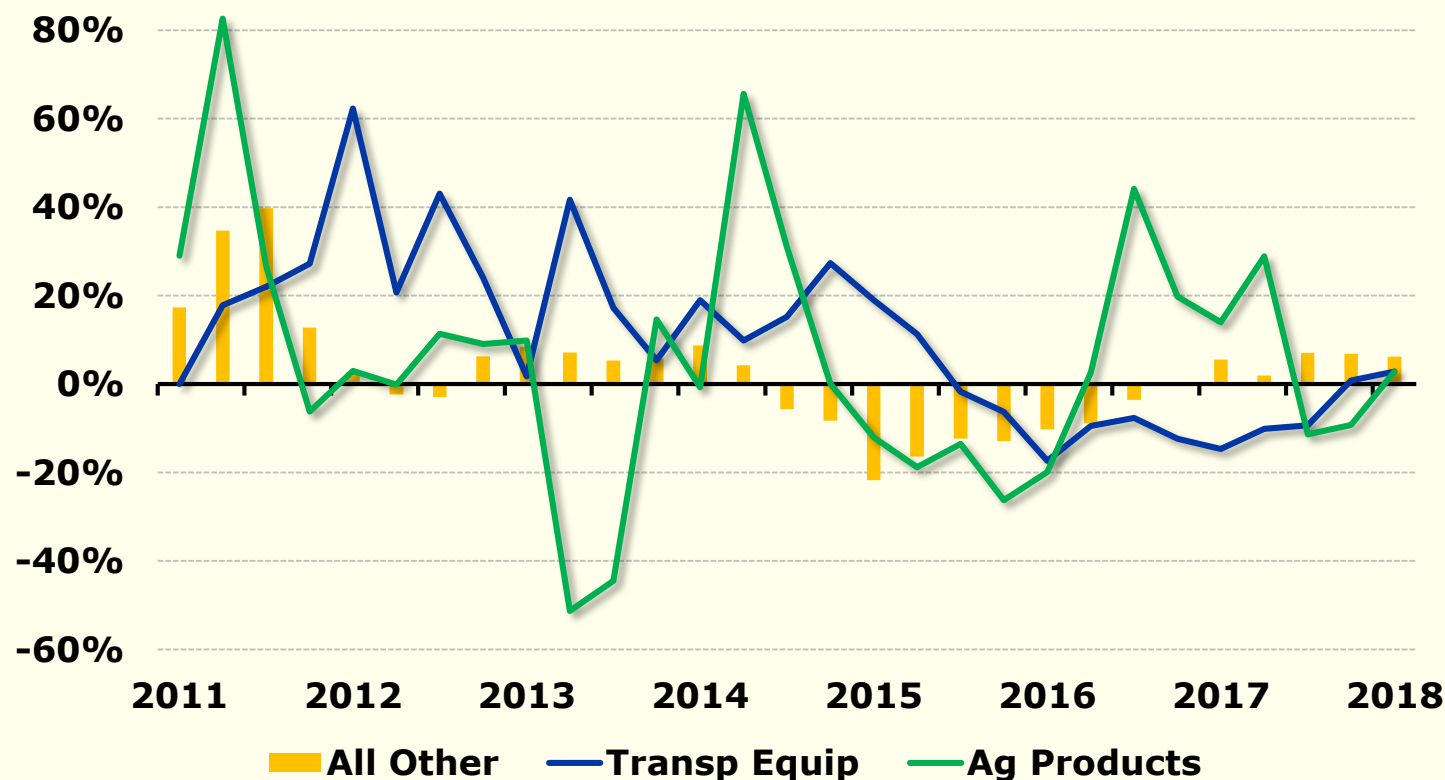
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# After 10 quarters of decline, exports have grown slightly in the last two quarters

Year over year growth, quarterly WA exports

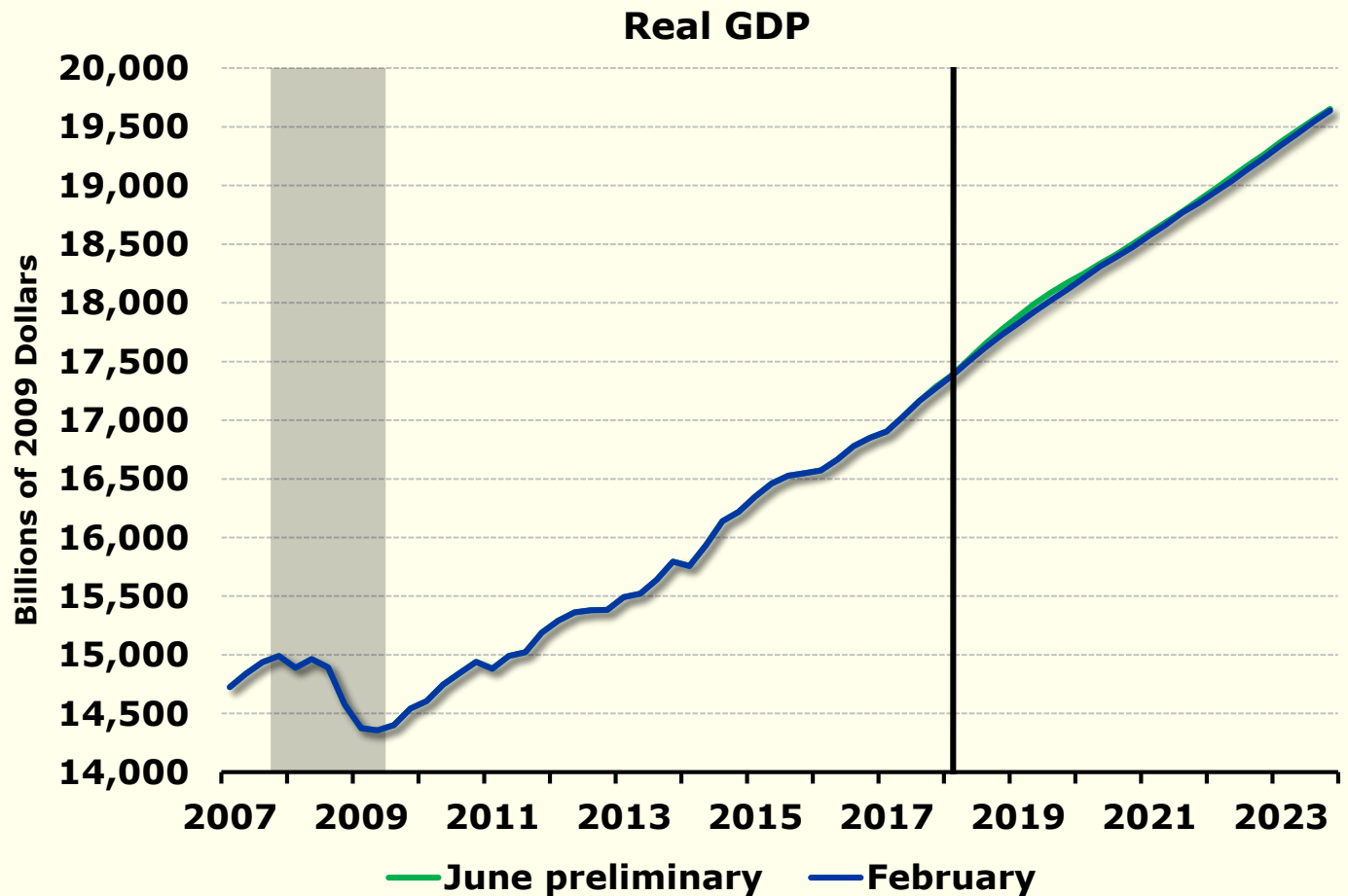


Source: WISERTrade, data through 2018 Q1

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# Real GDP is very similar to the February forecast

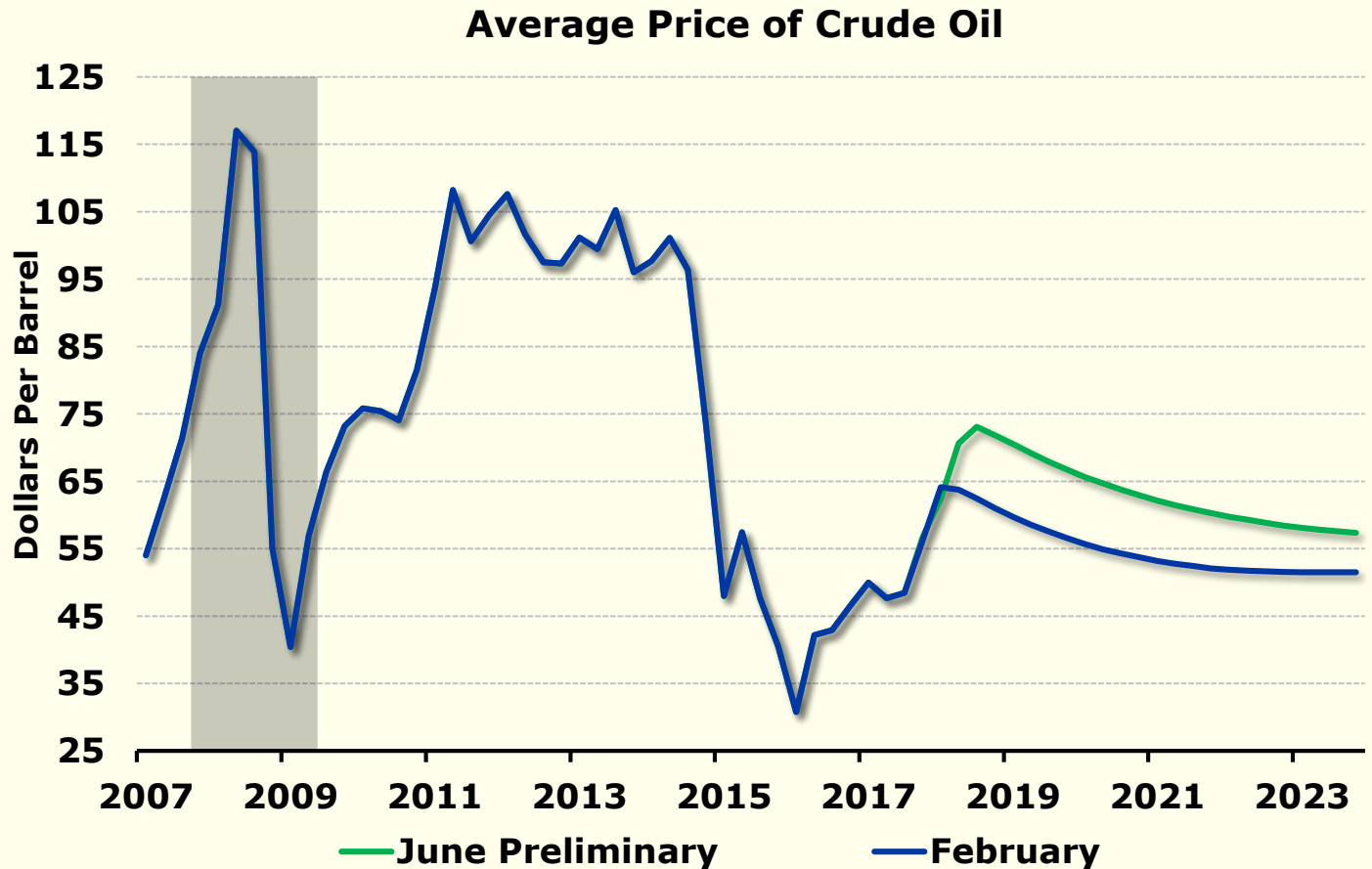


Source: ERFC June 2018 Preliminary forecast; data through Q4 2017

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# Oil prices are higher compared to the February forecast

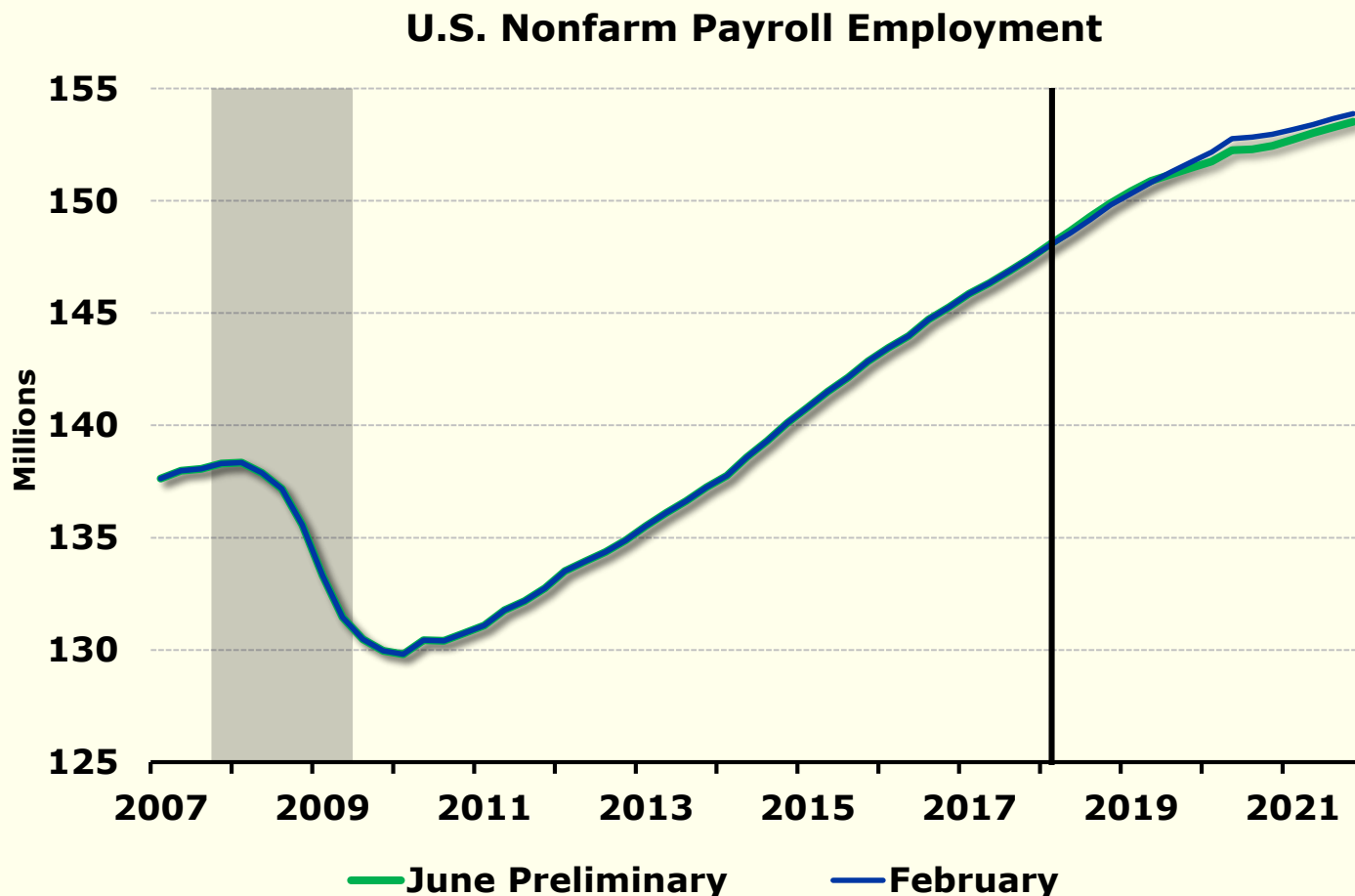


Source: DOE, ERFC June 2017 Preliminary forecast; historical data through Q1 2018

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

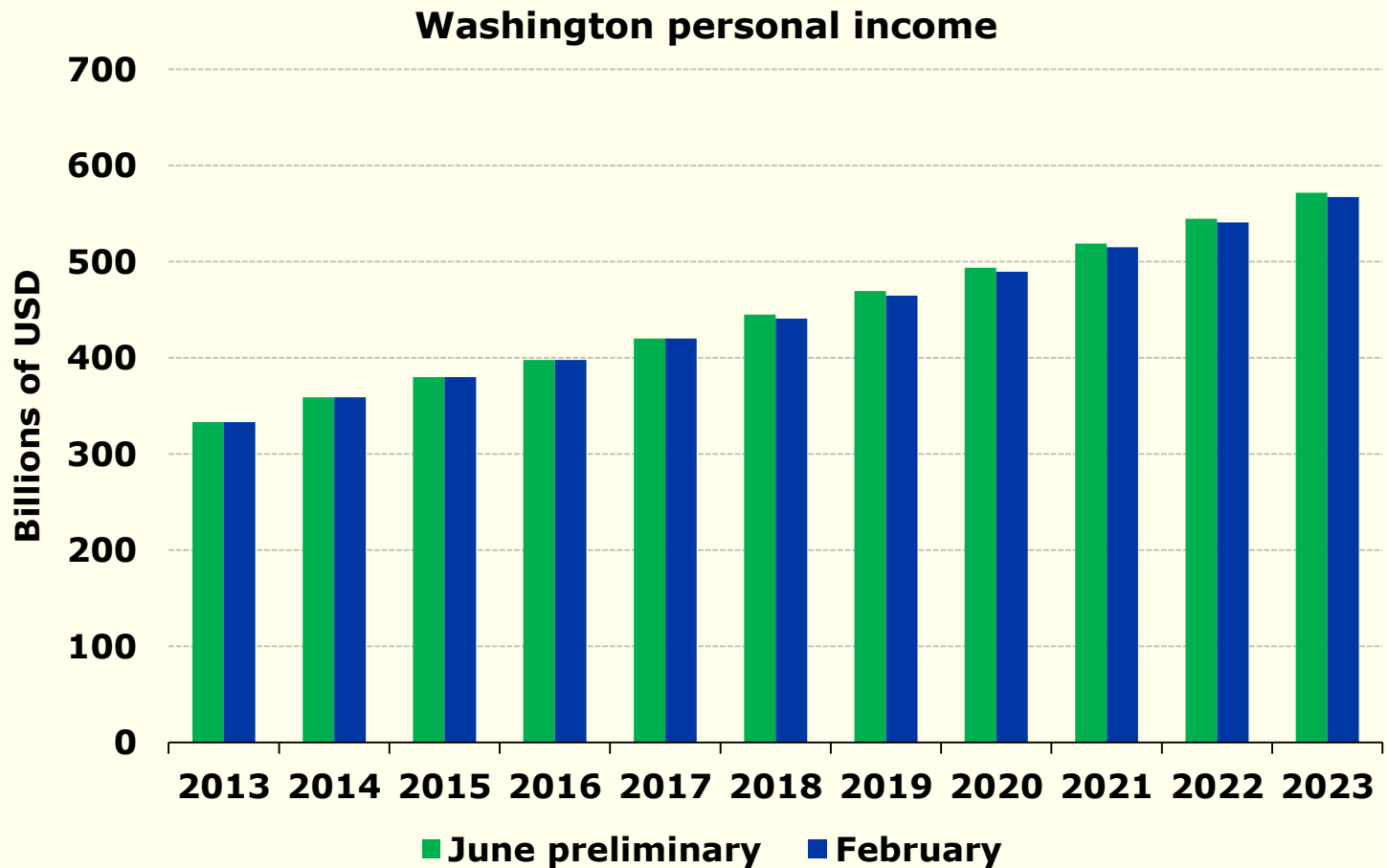


Source: ERFC June 2017 Preliminary forecast; data through Q1 2018

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# Washington personal income is slightly higher than in February



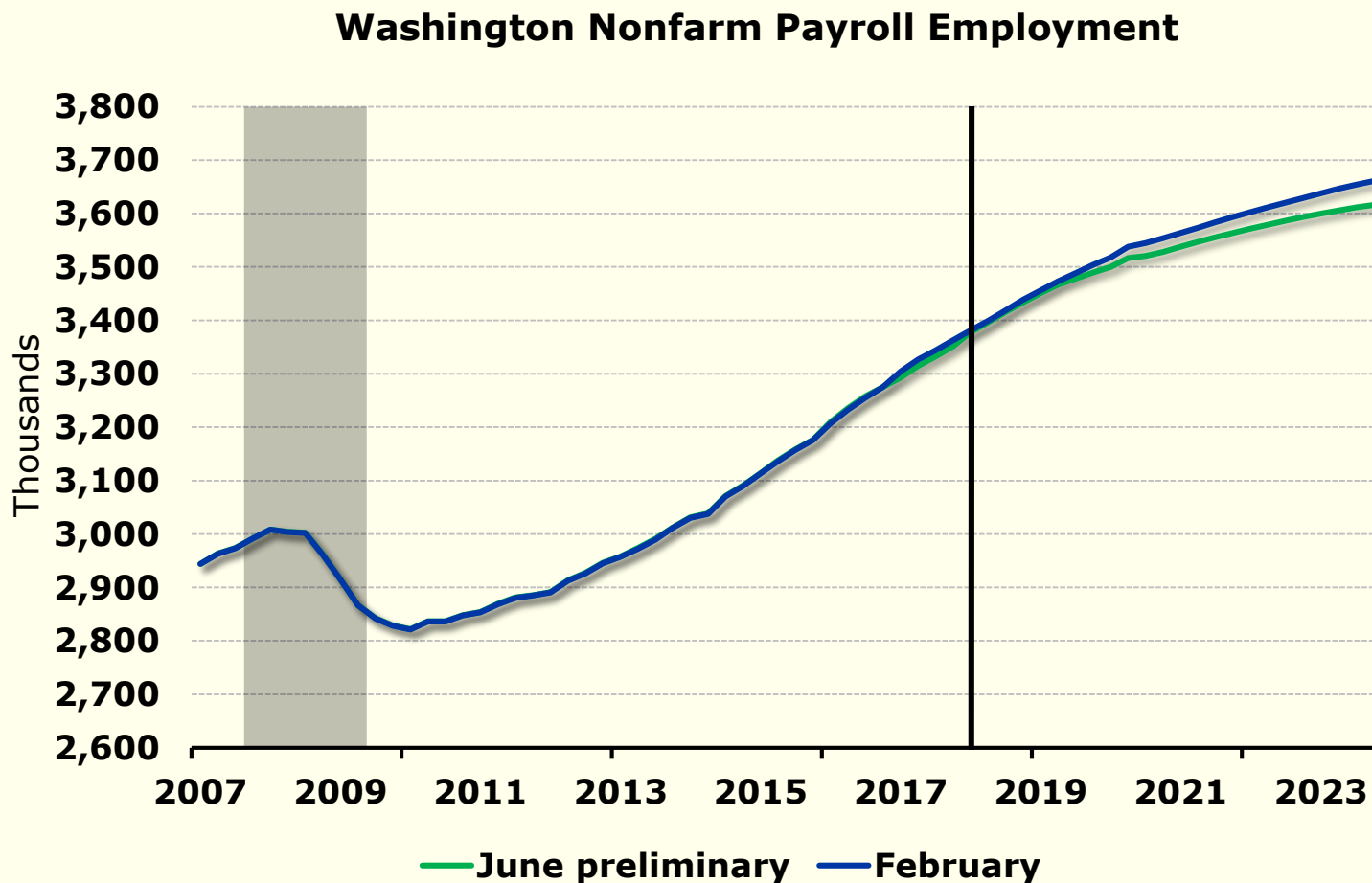
Source: ERFC June 2018 Preliminary forecast; historical data through 2017

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# Washington employment forecast is slightly lower than in February

A slightly lower population forecast revision has reduced the employment forecast. The nonfarm employment forecast is 42,000 jobs lower (1.1%) by 2023 compared to February.

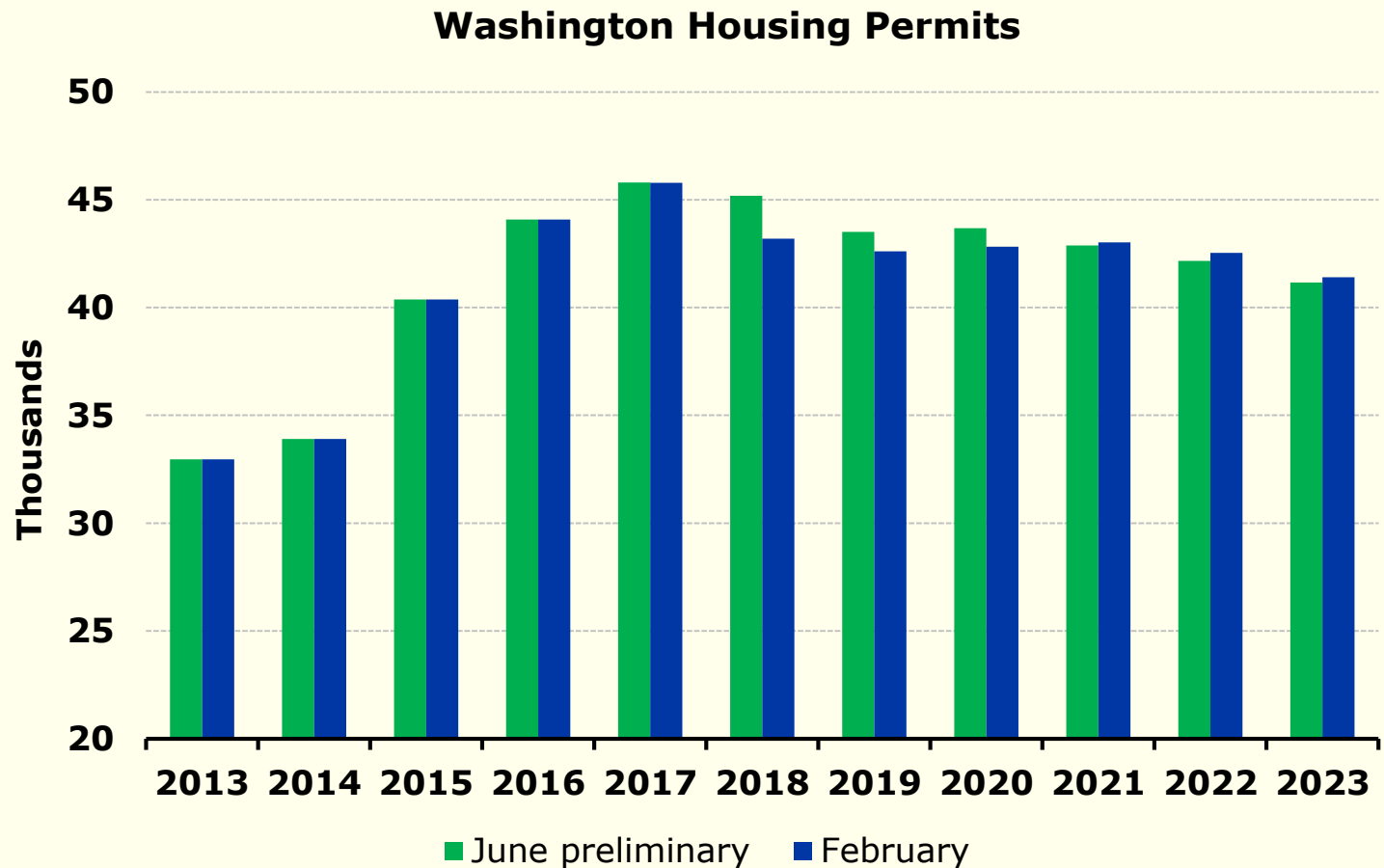


Source: ERFC June 2018 Preliminary forecast; historical data through Q1 2018

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# Washington housing permits forecast is higher this year, about the same for 2019 - 2023



Source: ERFC June 2018 Preliminary forecast; historical data through 2017

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# 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:

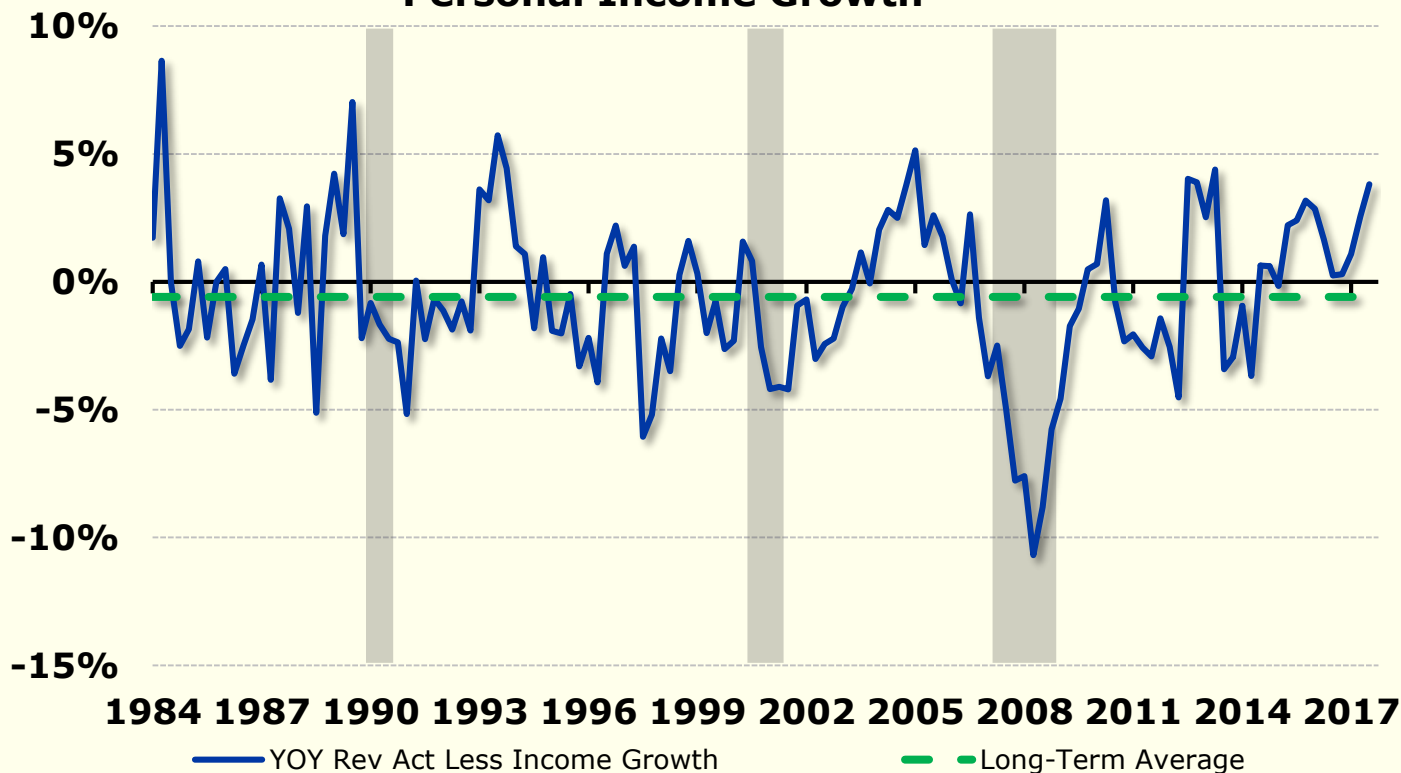
17Q2: 5.3%  
 17Q3: 5.3%  
 17Q4: 5.7%  
 18Q1: 4.3%

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**Year-Over-Year Revenue 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 Q1 2018, February 2018 income estimates

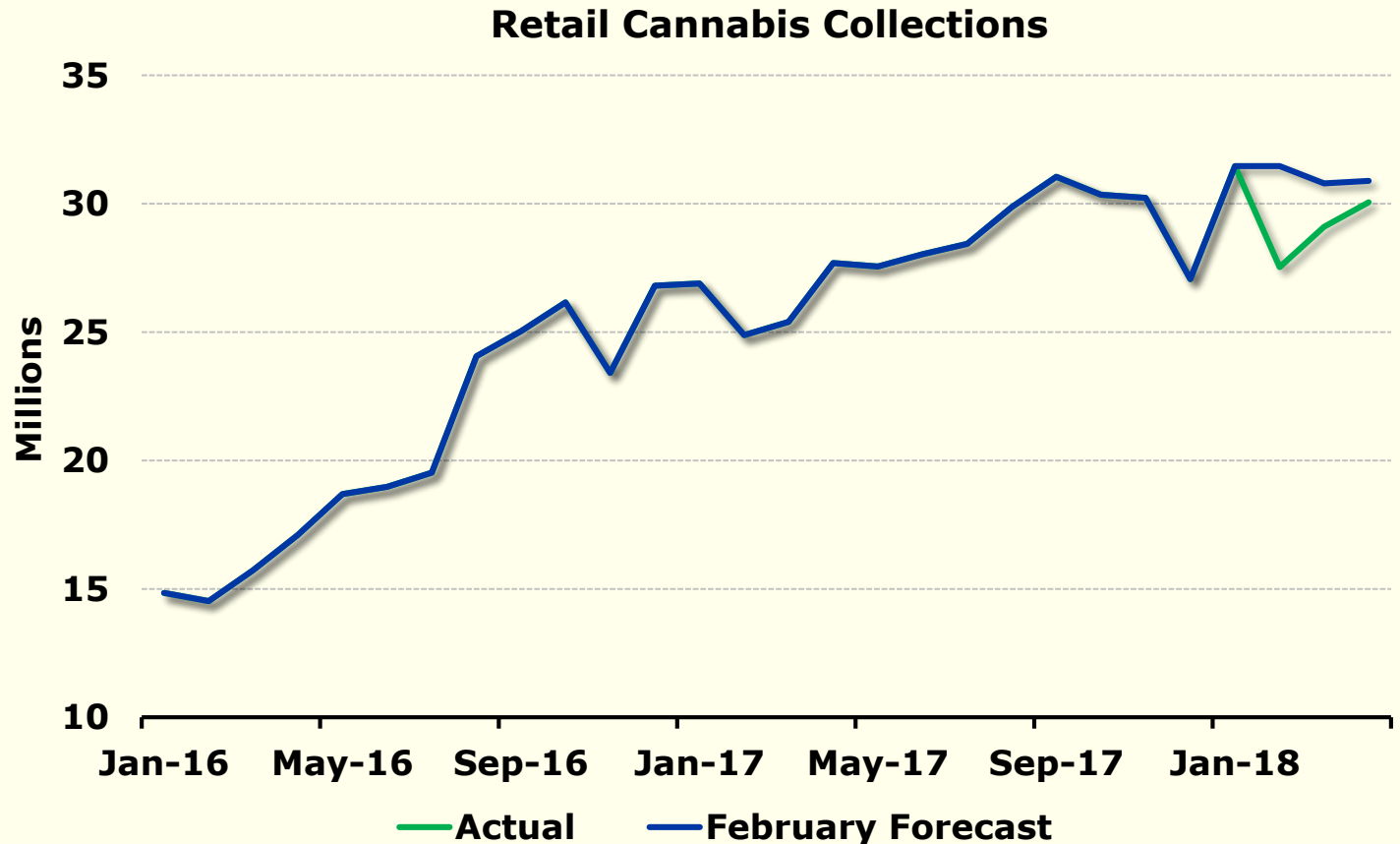




# Cannabis revenue continues to be volatile

Collections were 2.7% below forecast in April

Collections are 6.9% below forecast since February



Source: LCB, ERFC; data through April 2018

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# Large commercial property sales slowed in 2018Q1 while residential sales increased

Large commercial sales (>\$10 million) totaled \$3.5 billion in the 4<sup>th</sup> quarter of 2017 and \$2.6 billion in the first quarter of 2018

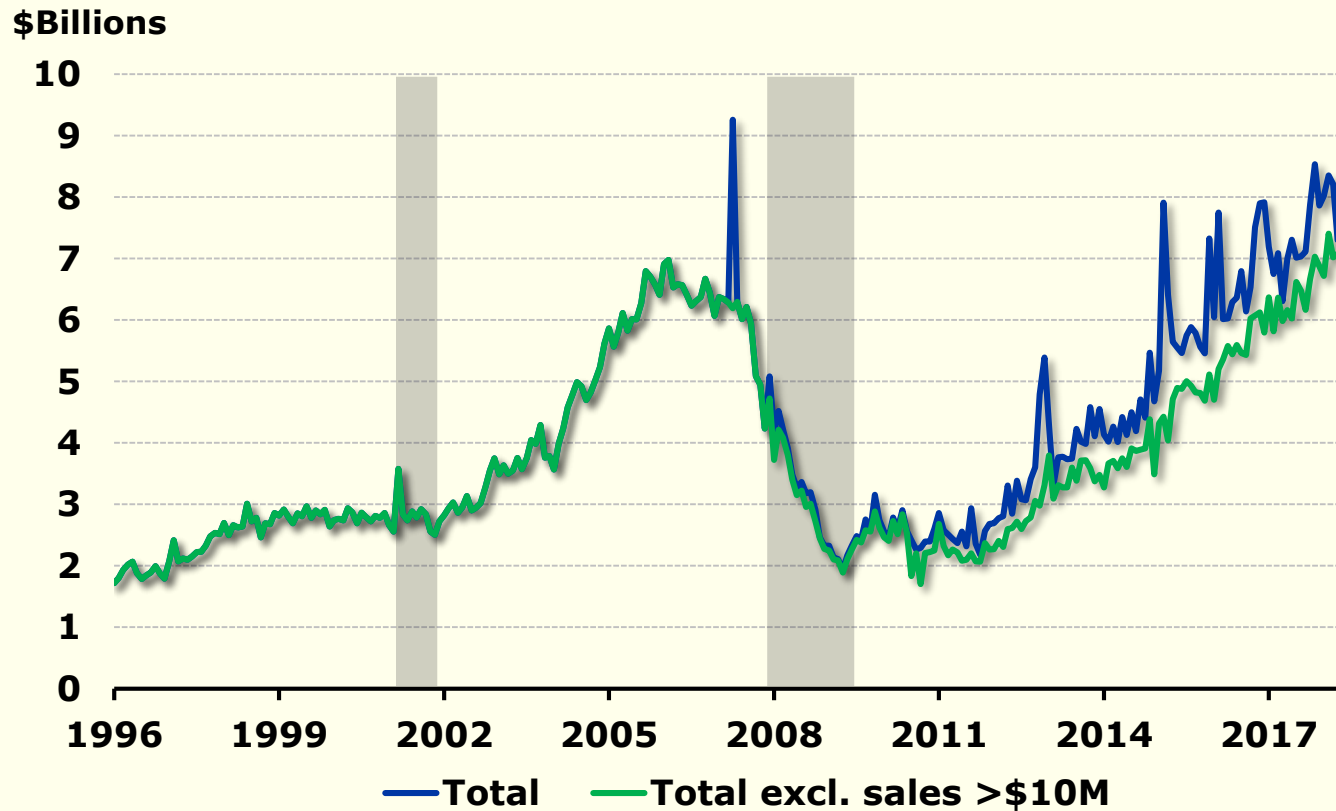
April large commercial sales were weak

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## Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through April 2018 preliminary

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# Revenue collections to date

## Collections Variance Since February Forecast (February 11, 2018 – May 10, 2018) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$4,258,020	\$4,340,611	\$82,590	1.9%
All other agencies	\$15,957	\$18,785	\$2,828	17.7%
Total GF-S	<b>\$4,273,977</b>	<b>\$4,359,395</b>	<b>\$85,418</b>	<b>2.0%</b>



# Legislation from the 2018 session with revenue impacts

## Millions of dollars

Bill #	Bill Title	2017-19	2019-21	2021-23
6614	Funding for common schools	(206.2)	(184.0)	-
2998	Accountable communities	(9.9)	(9.8)	(2.5)
2444	Low-income housing/REET	(1.0)	(2.3)	(2.3)
6007	Electrolytic processing tax	(0.3)	(1.4)	(1.4)
	Other*	(0.3)	(0.9)	(1.3)
	<b>Total</b>	<b>(217.7)</b>	<b>(198.4)</b>	<b>(7.5)</b>
<b>Other Transfers</b>		<b>GF-S</b>		
6614	Funding for common schools	(935.0)		
		<b>ELTA</b>		
6614	Funding for common schools	935.0		

\* Bills 1783, 2269, 2580, 5143, 5746, 6058

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# Conclusion

- The U.S. and Washington economic forecasts are similar to February; 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 geopolitical risks and concerns about international trade and fiscal policy
- The next monthly revenue collection report will be available on June 15<sup>th</sup> and the revenue forecast will be presented on June 19<sup>th</sup>



# Questions



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