Washington State Economic Update

Presented to
Local Government Partnership Meeting

Steve Lerch
Executive Director

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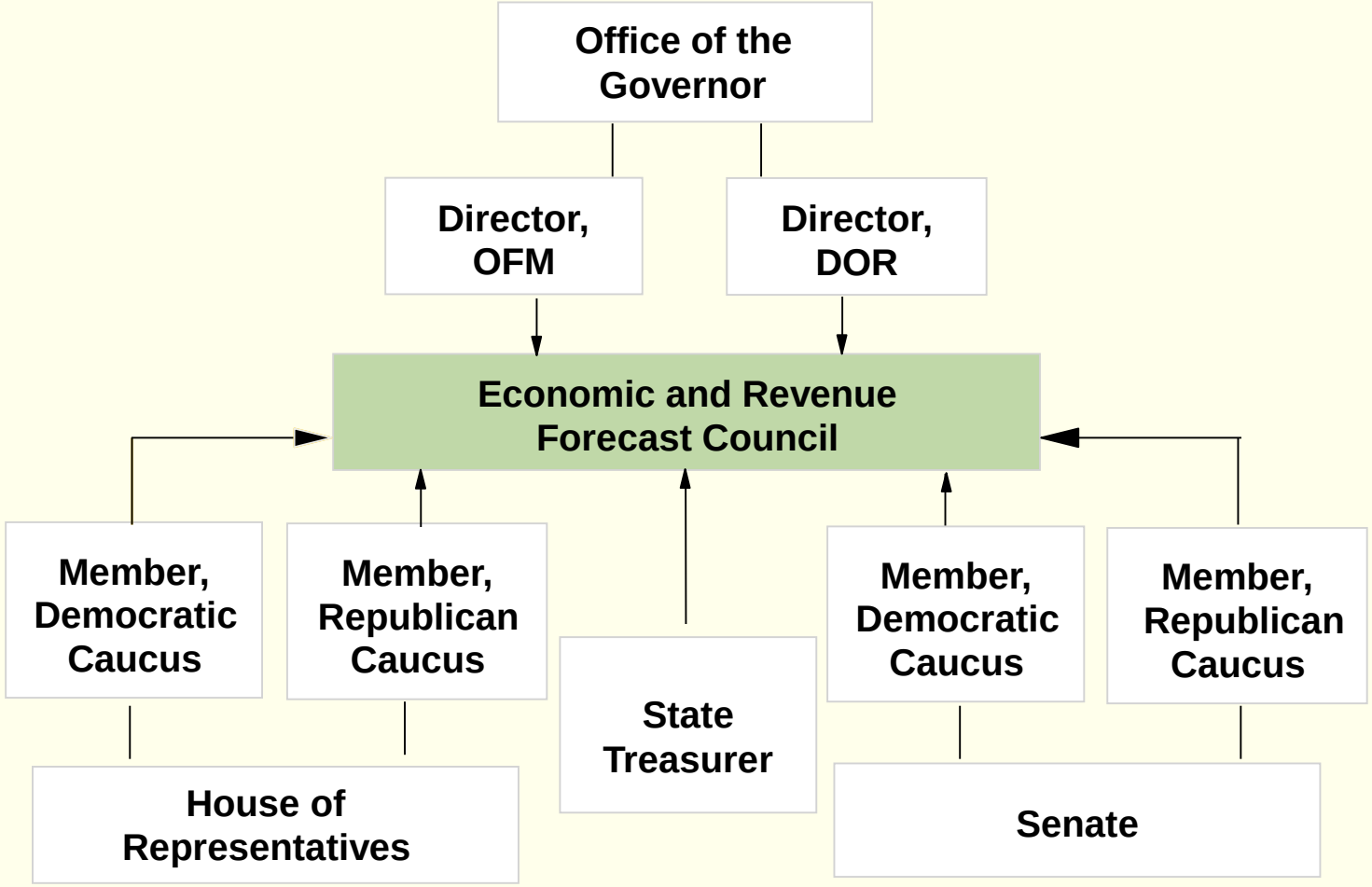
Tumwater, Washington

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

National Economic Forecast

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Preliminary Washington State Economic Forecast

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Review by Work Group

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Review by Governor's Council of Economic Advisors & Economic and Revenue Forecast Council

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Final National and Washington Economic Forecast

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ERFC and Revenue-Generating Agencies Create Revenue Forecasts

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Review by Forecast Council

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Final Washington General Fund Revenue Forecast

Summary

- U.S., WA forecasts similar to the November forecast
- Baseline forecast has slowing growth but no recession
- Wage growth and inflation remain moderate
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns and a maturing economic expansion
- Potential impact of 737 MAX grounding adds a new downside risk
- The Near General Fund-State forecast is increased by $307 million for the 2017-19 biennium and by $554 million for 2019-21 biennium

Selected forecast risks

Labor markets

- Unemployment rate, initial UI claims low
- Job growth dipped in February but bounced back

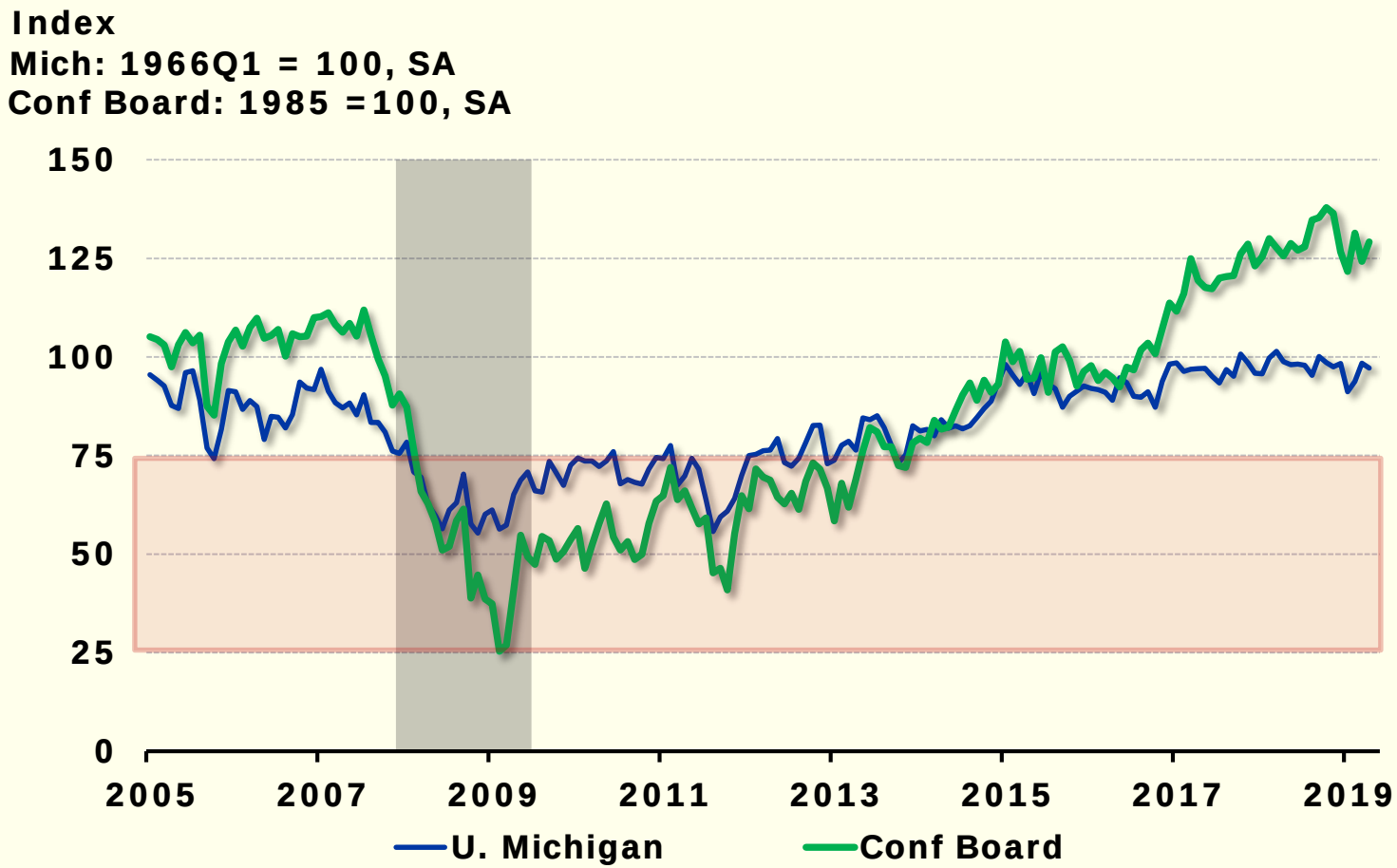
737 MAX

- Currently, impact on WA employment and personal income unclear

International trade policy

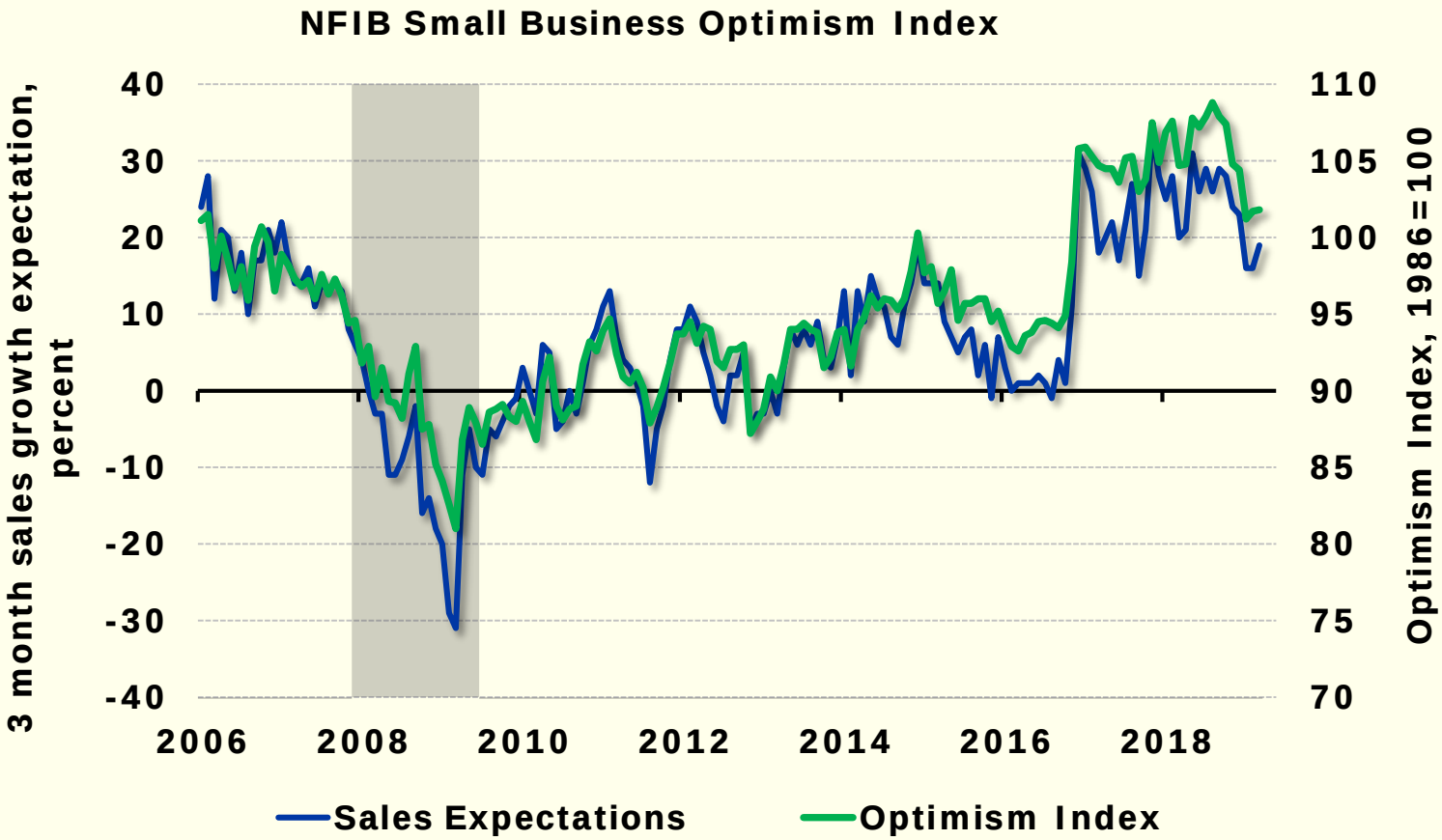
- China – U.S. trade deal remains uncertain

Consumer confidence dipped in late 2018 but has partially recovered, remains strong



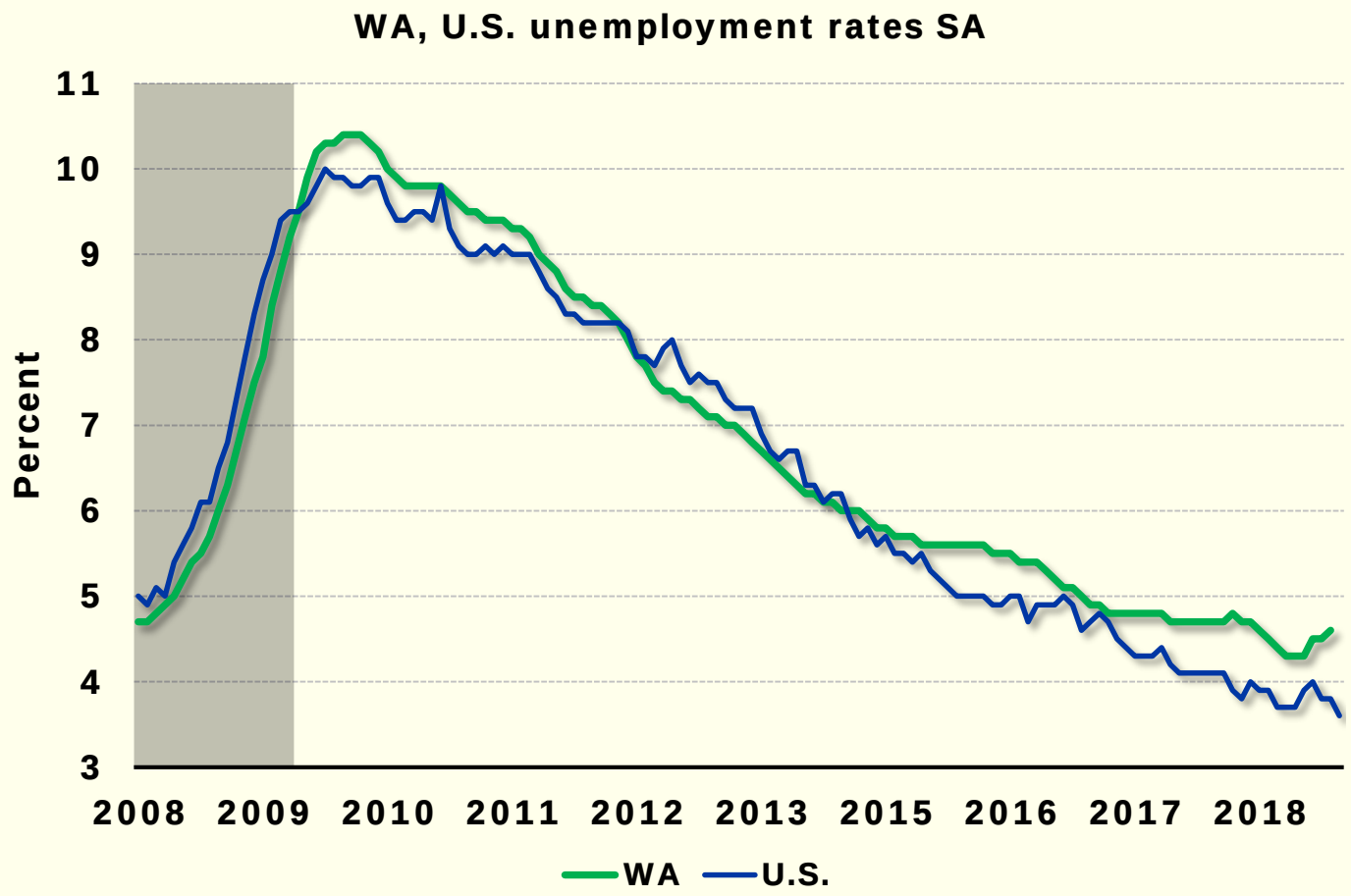
Sources: University of Michigan, Conference Board; data through April 2019

Small business optimism has weakened recently but remains strong



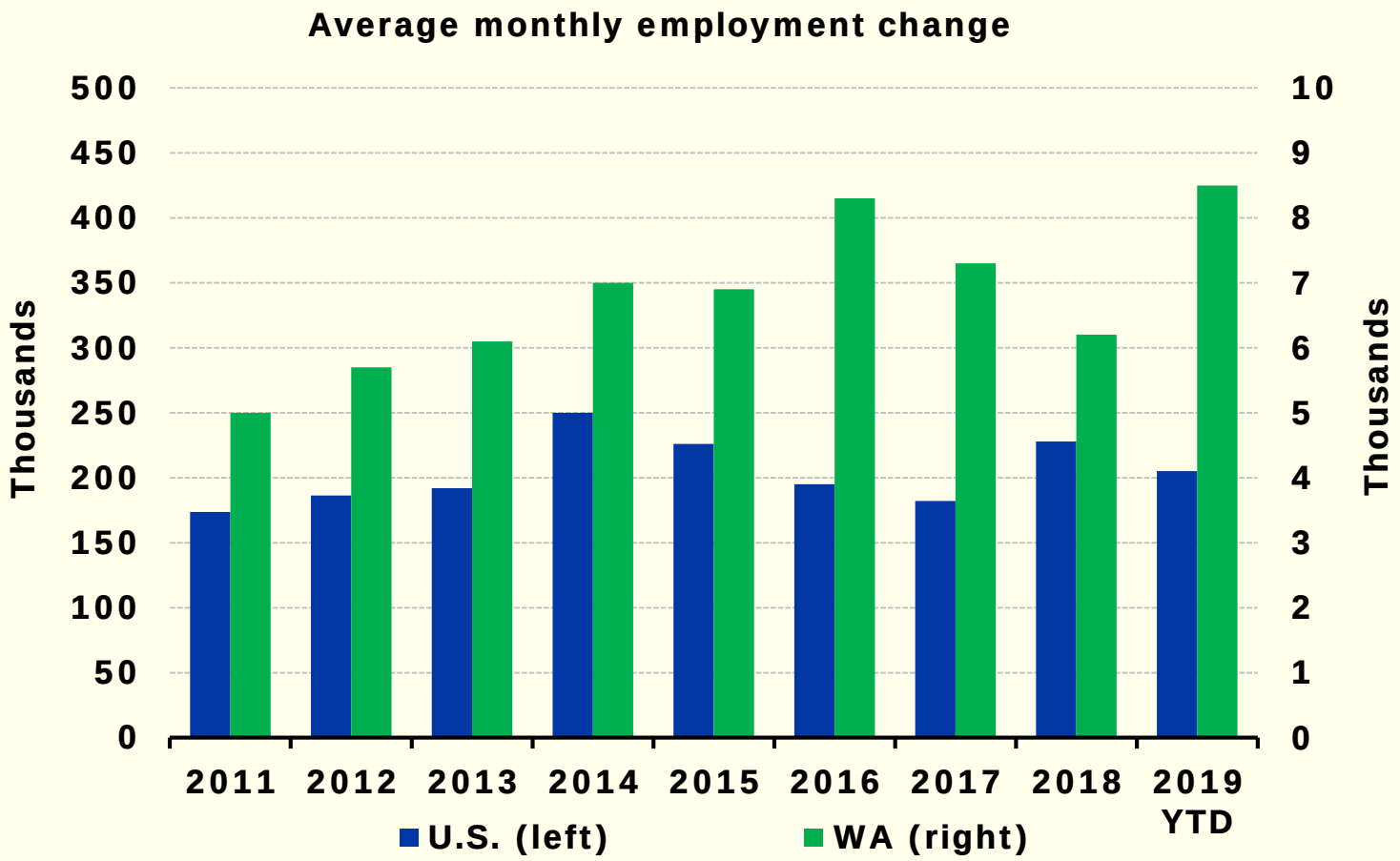
Source: National Federation of Independent Business; data through Mar. 2019

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



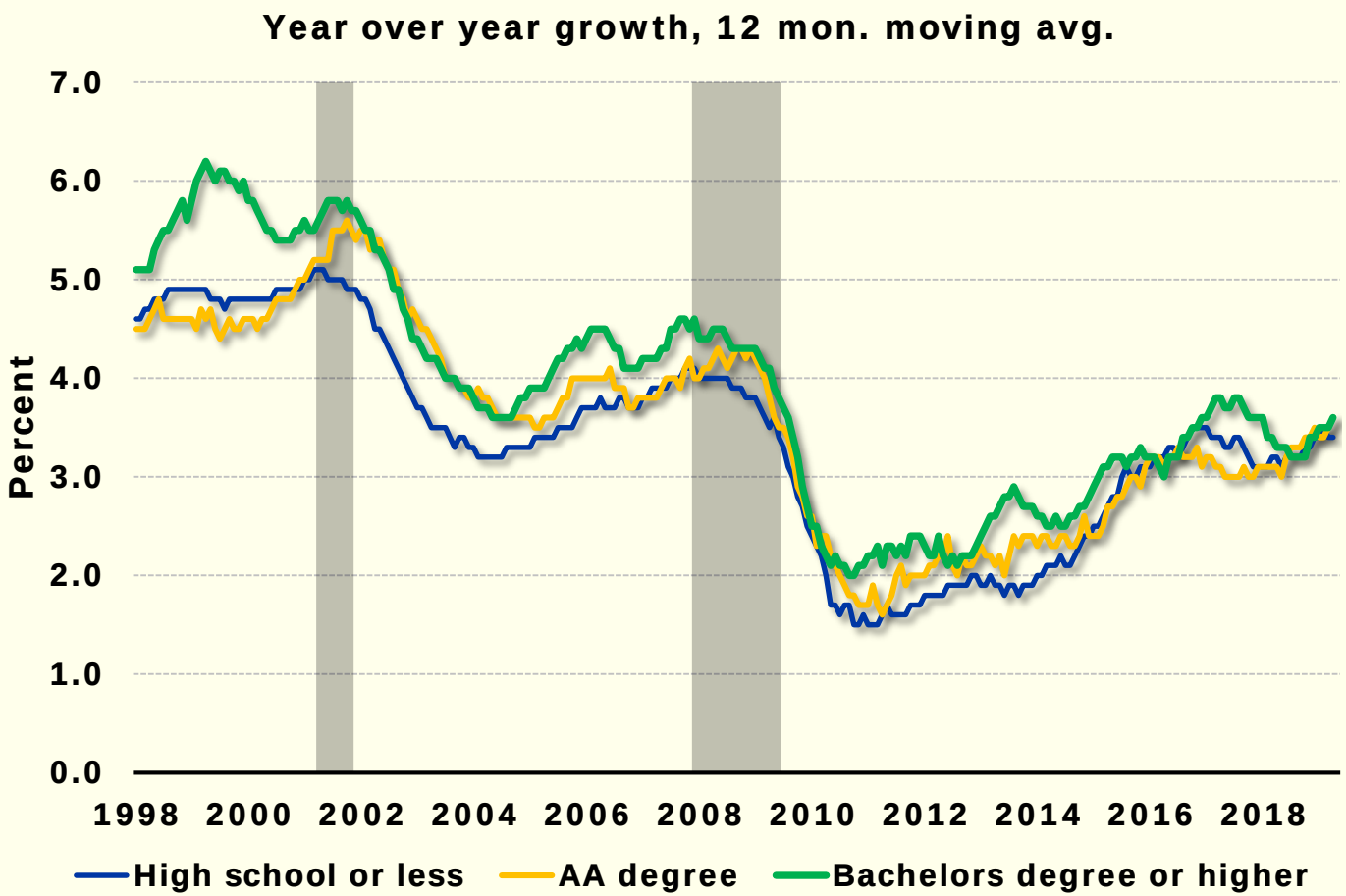
Source: Bureau of Labor Statistics, Employment Security Dept.; WA data through Mar. 2019, U.S. data through Apr. 2019

U.S. job growth slowed in February but picked up in March and April



Source: Bureau of Labor Statistics, Employment Security Dept.; WA data through Mar. 2019, U.S. data through Apr. 2019

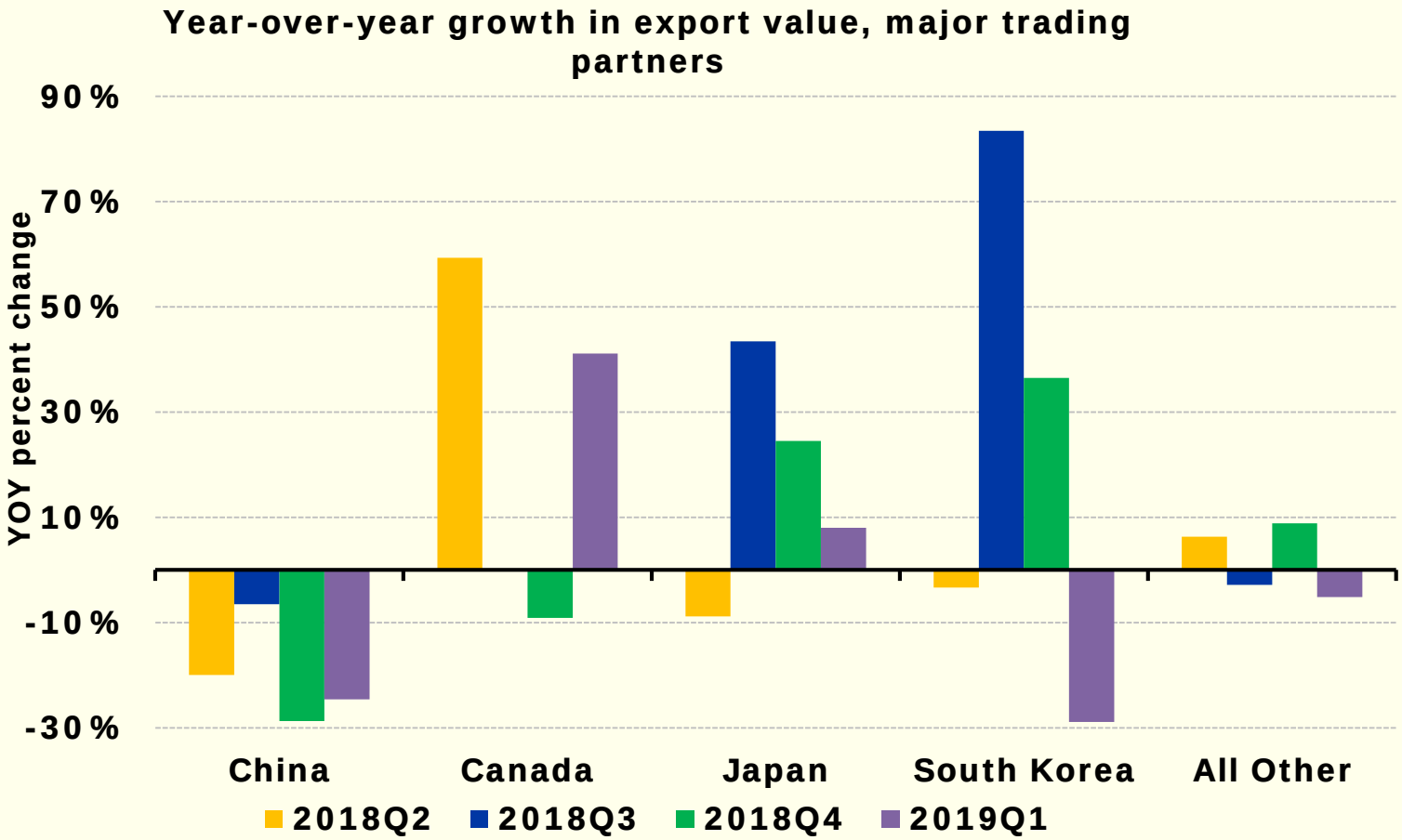
Nominal wage growth has averaged 3.3% - 3.4% in last 12 months regardless of educational level



Source: Federal Reserve Bank of Atlanta, data through Apr. 2019

Exports to China have declined for four consecutive quarters

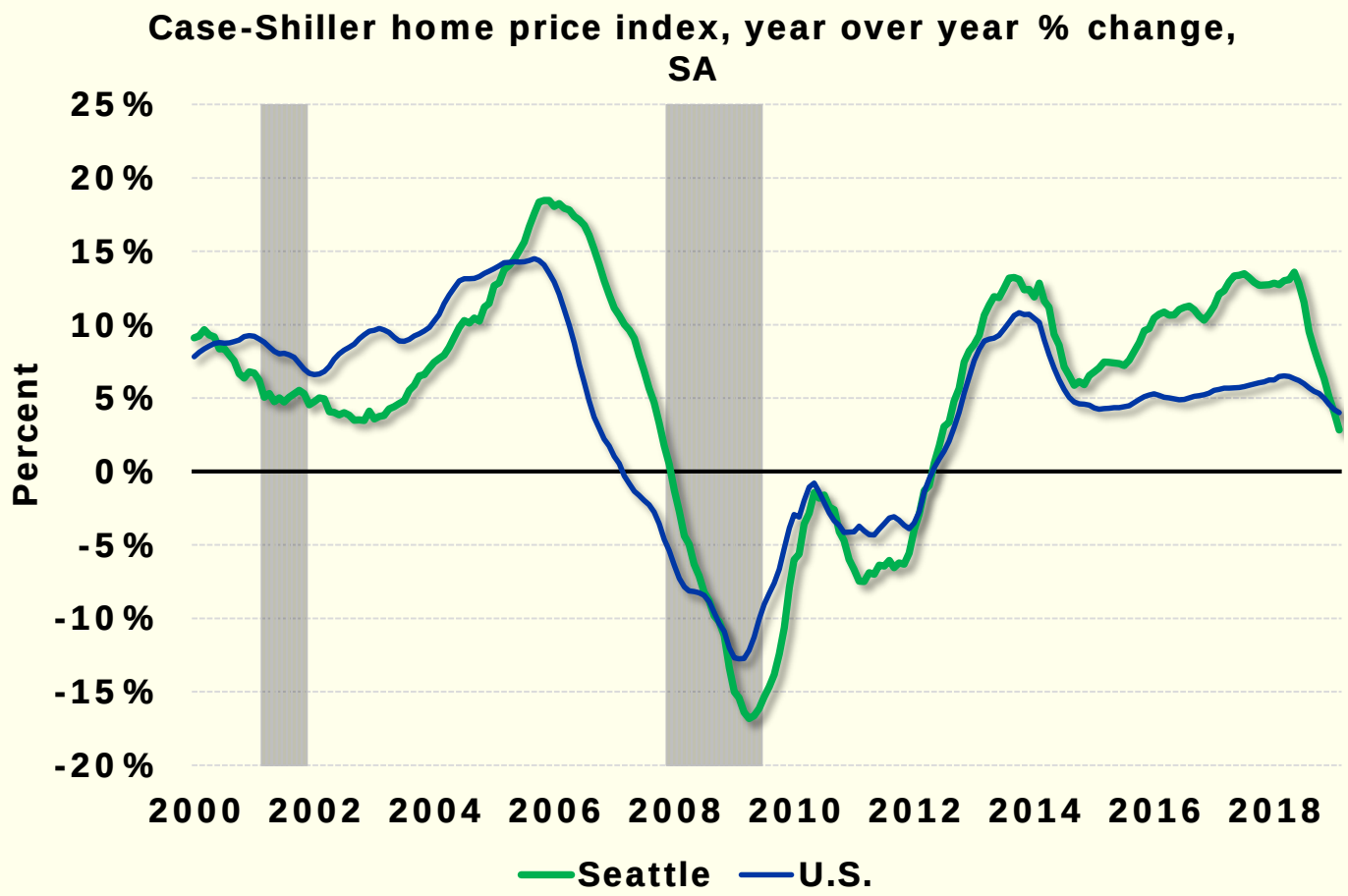
On a year-over-year basis, WA exports declined in 2018 Q4 and 2019 Q1



Source: WISERTrade; data through 2019 Q1

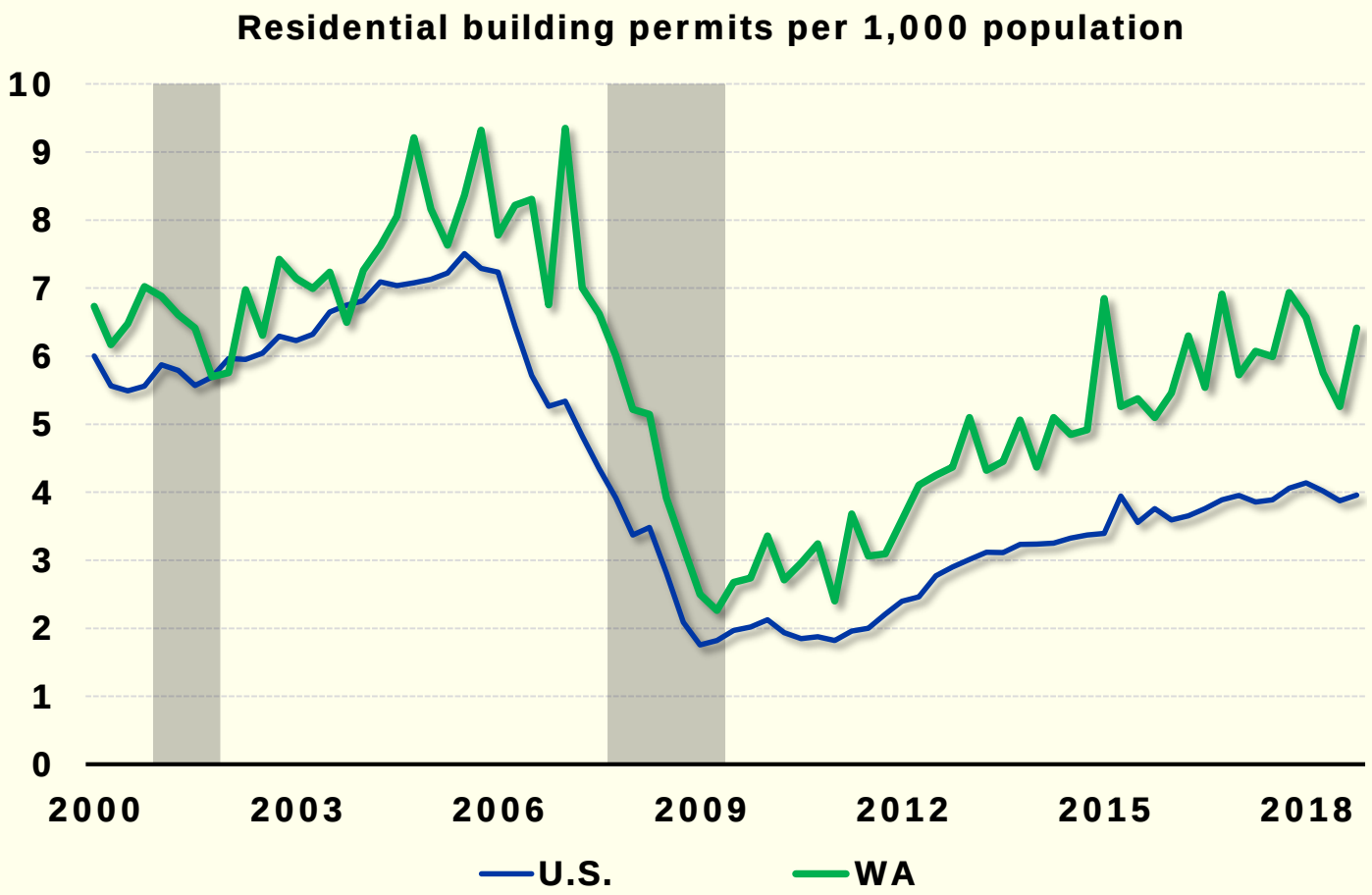
Home price growth is slowing

The Case-Shiller index for Seattle grew more slowly than the U.S. index in the last two months.



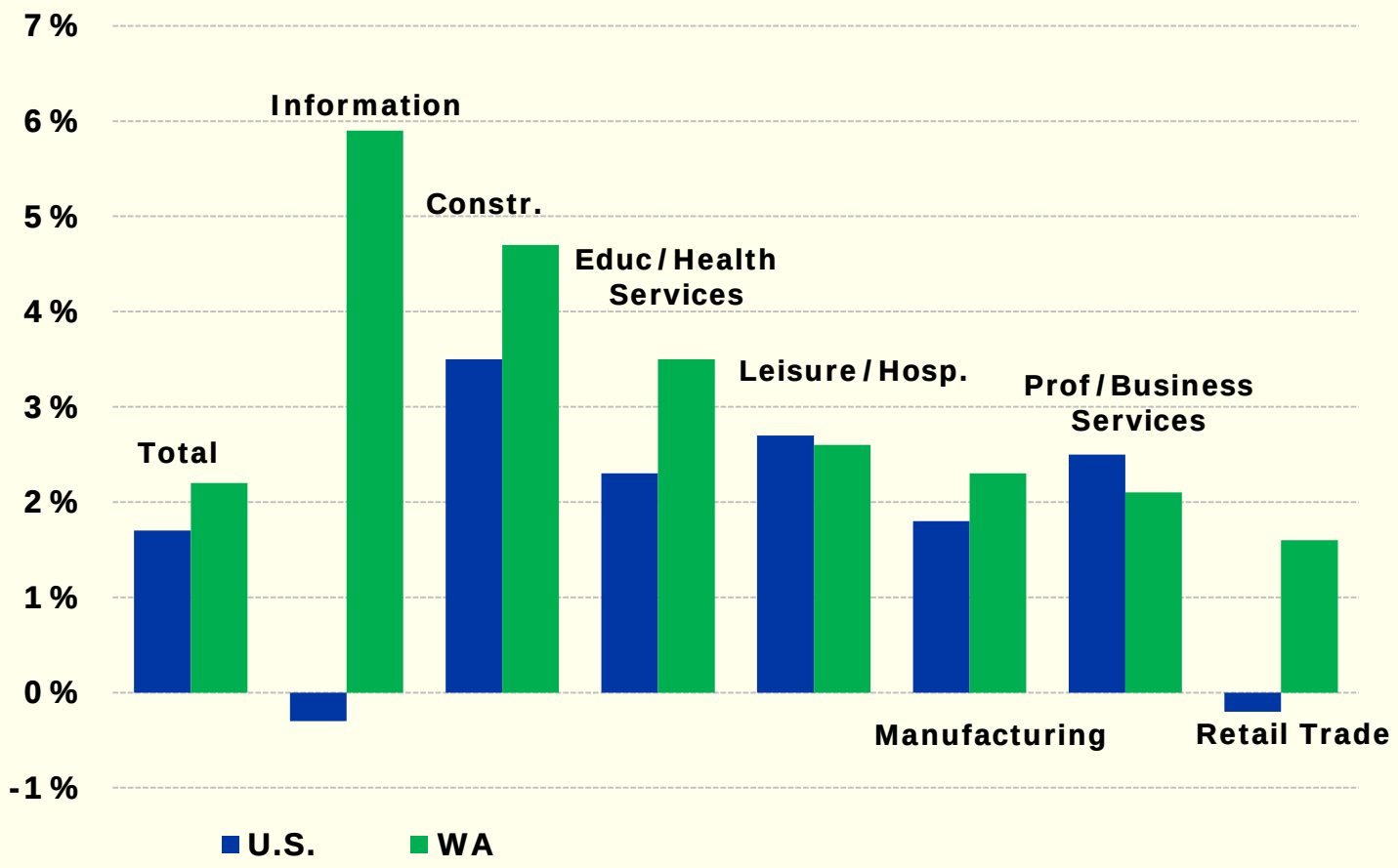
Source: Case-Shiller, data through February 2019

Relative to population, WA residential construction activity is stronger than the U.S.



Source: U.S. Census Bureau, ERFC; data through 2018 Q4

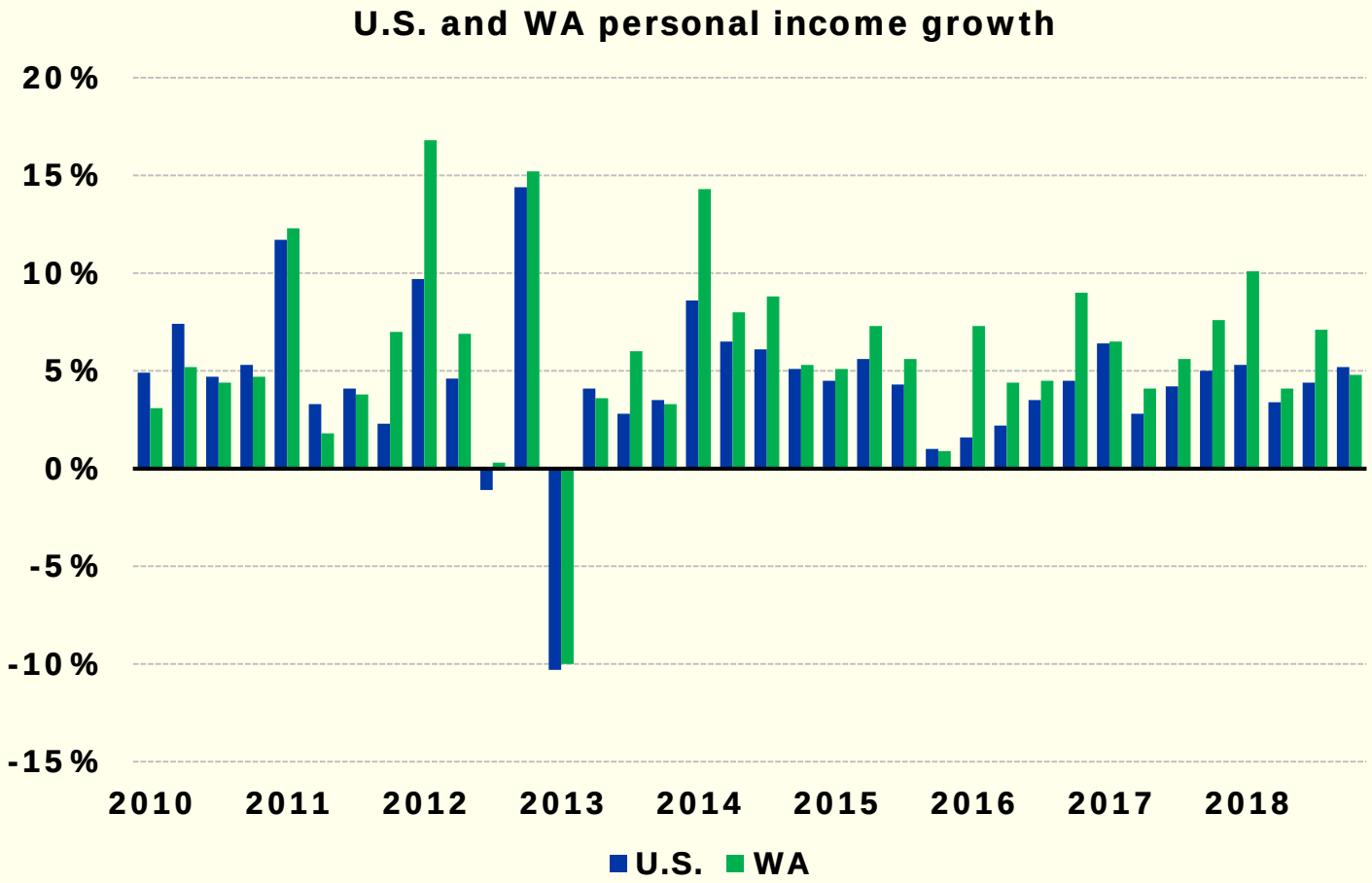
Washington vs U.S. employment growth: Mar. 2018 to Mar. 2019



Source: U.S. Bureau of Labor Statistics, Employment Security Dept., ERFC; data through Mar. 2019

WA personal income growth has outpaced the U.S. in 26 of last 36 quarters

WA personal income growth is expected to average 4.8% per year for 2019 - 2023



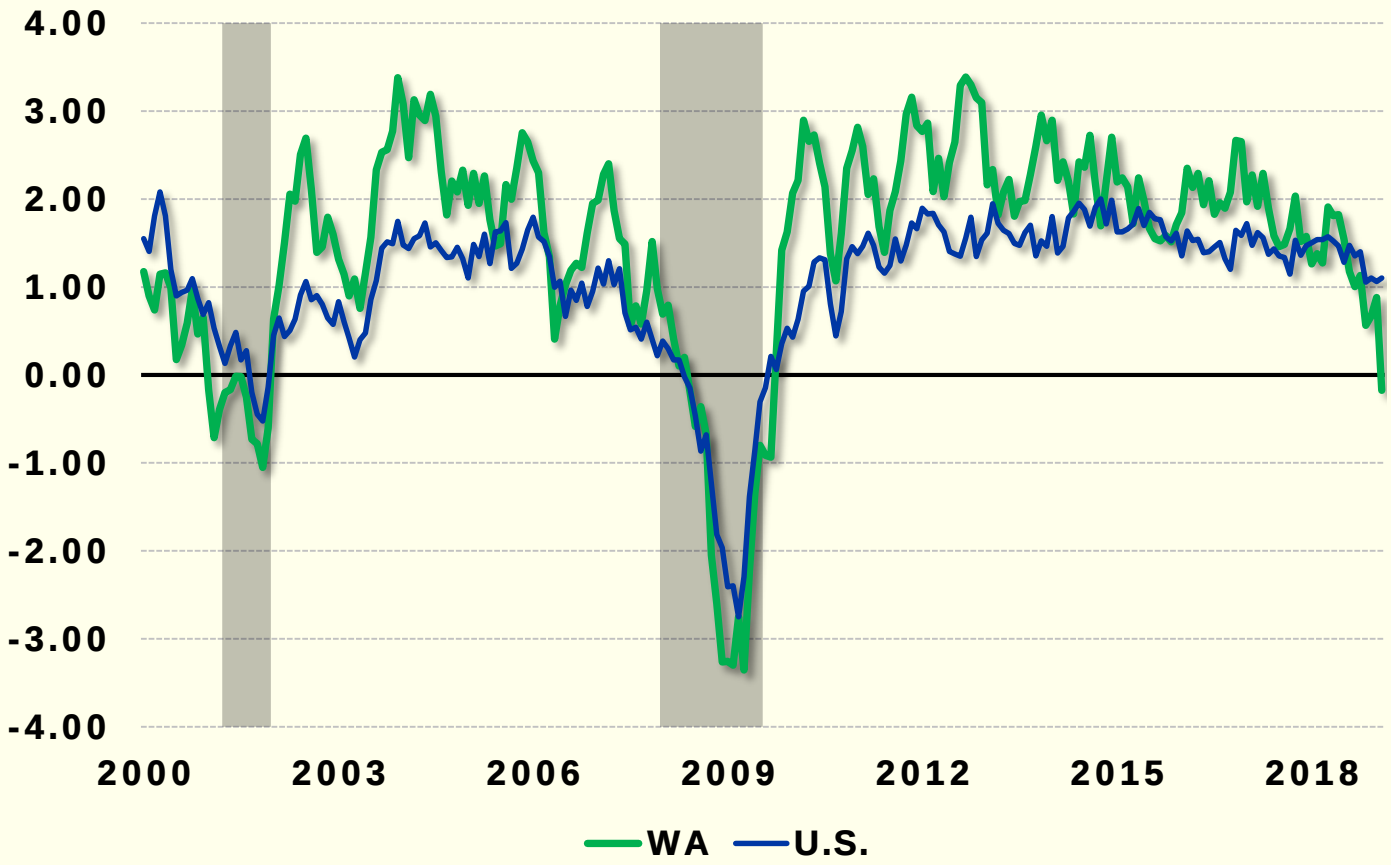
Source: U.S. Bureau of Economic Analysis, data through 2018 Q4

U.S. retail sales growth slowed in last half of 2018, may be bouncing back

Source: U.S. Census Bureau data through Mar. 2019 advanced release

Leading economic indexes for U.S. dipped recently but do not suggest a recession in near term

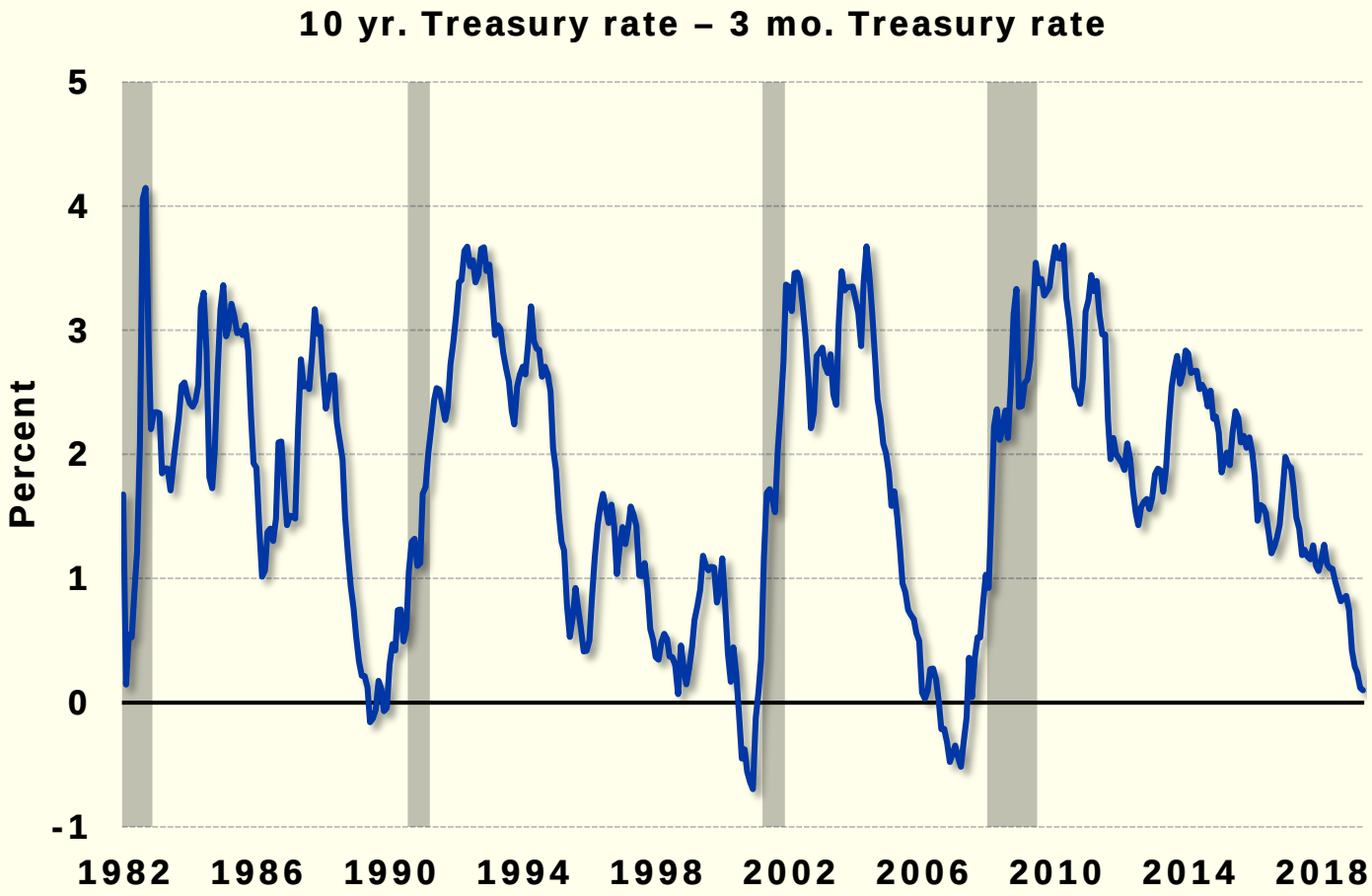
Besides WA, five other states had negative index values in February



Source: Federal Reserve Bank of Philadelphia, data through Feb. 2019

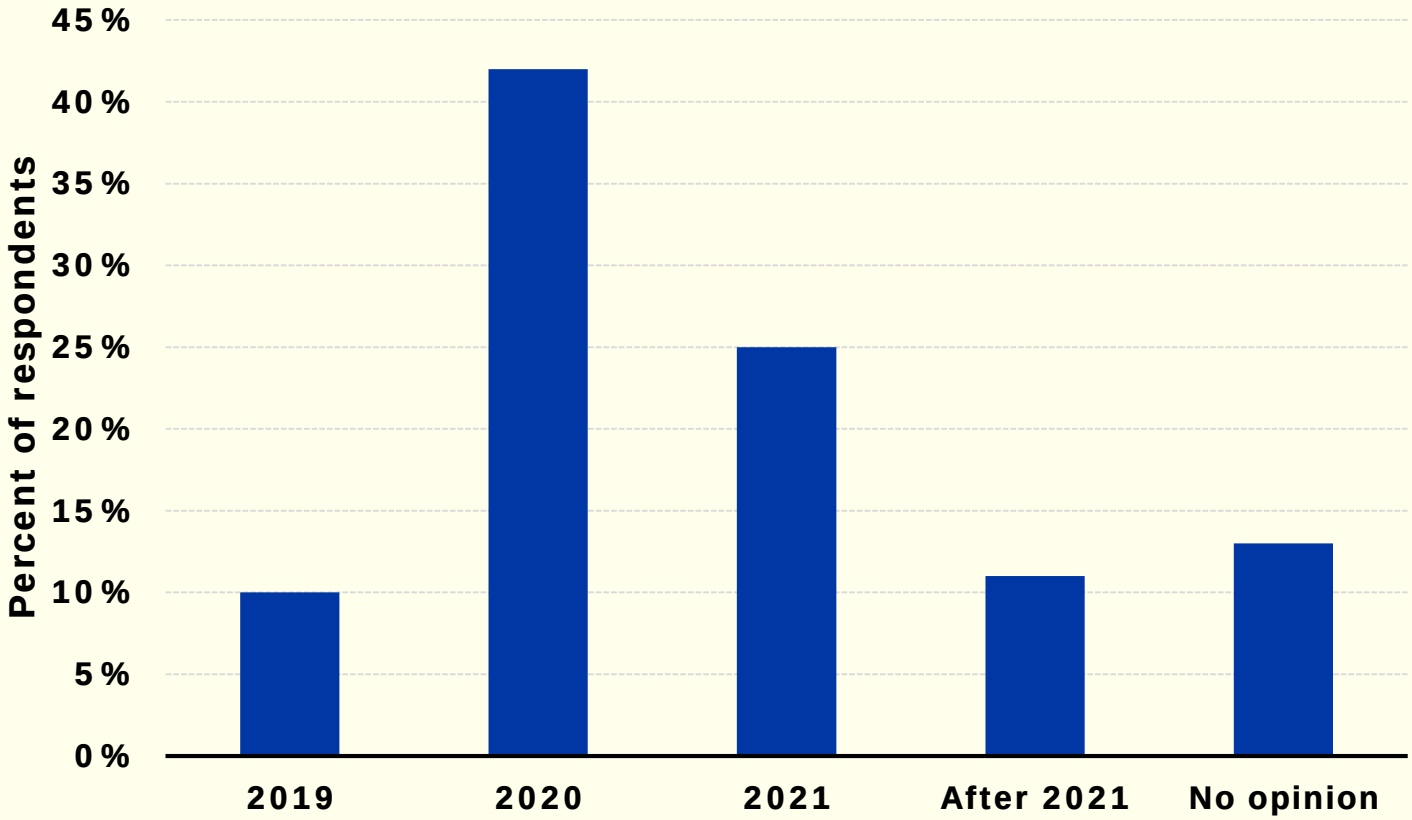
An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor

Although not apparent with the monthly averages shown here, the yield curve inverted from Mar. 22nd until Mar. 28th



Source: Federal Reserve Bank of St. Louis, monthly data through Apr. 2019

Timing of next recession: National Assoc. of Business Economists survey

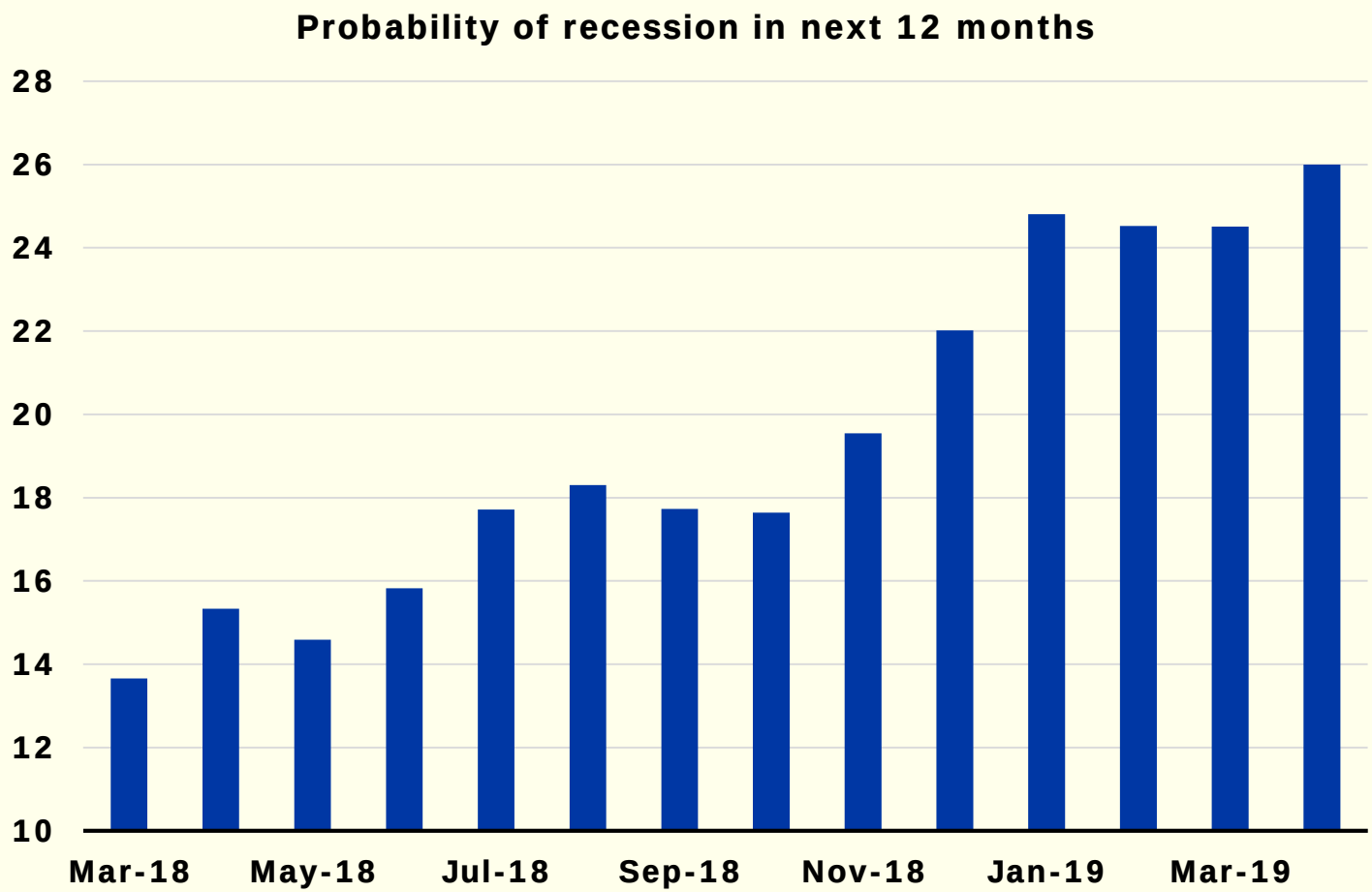


Source: National Association of Business Economists, Economic Policy Survey, Feb. 2019

Wall Street Journal economists' survey shows recession probability rising but still relatively low

GCEA members (Mar. 2019):

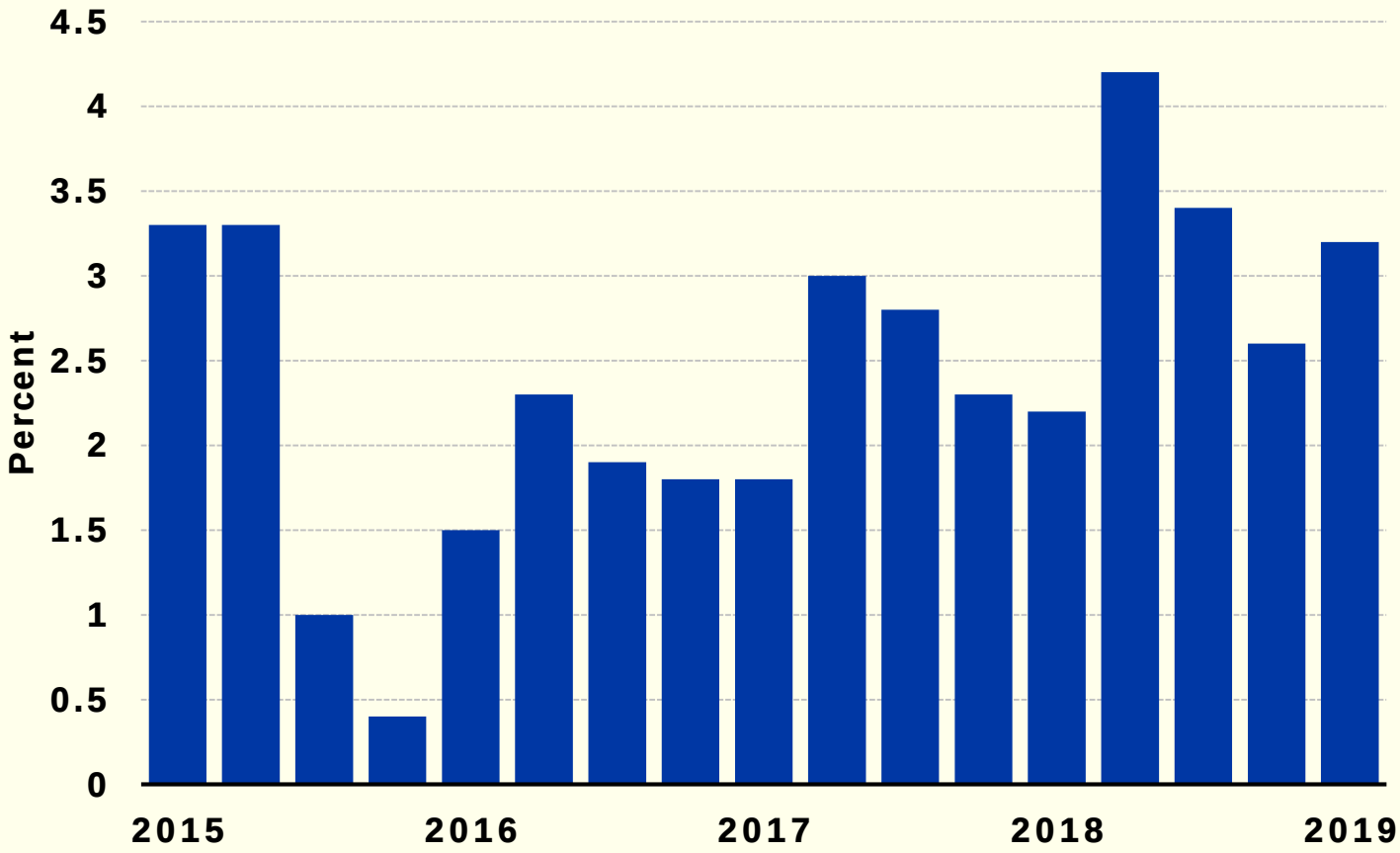
Average probability of recession in next 12 months = 36%



Source: Wall Street Journal economists' survey, data through Apr. 2019

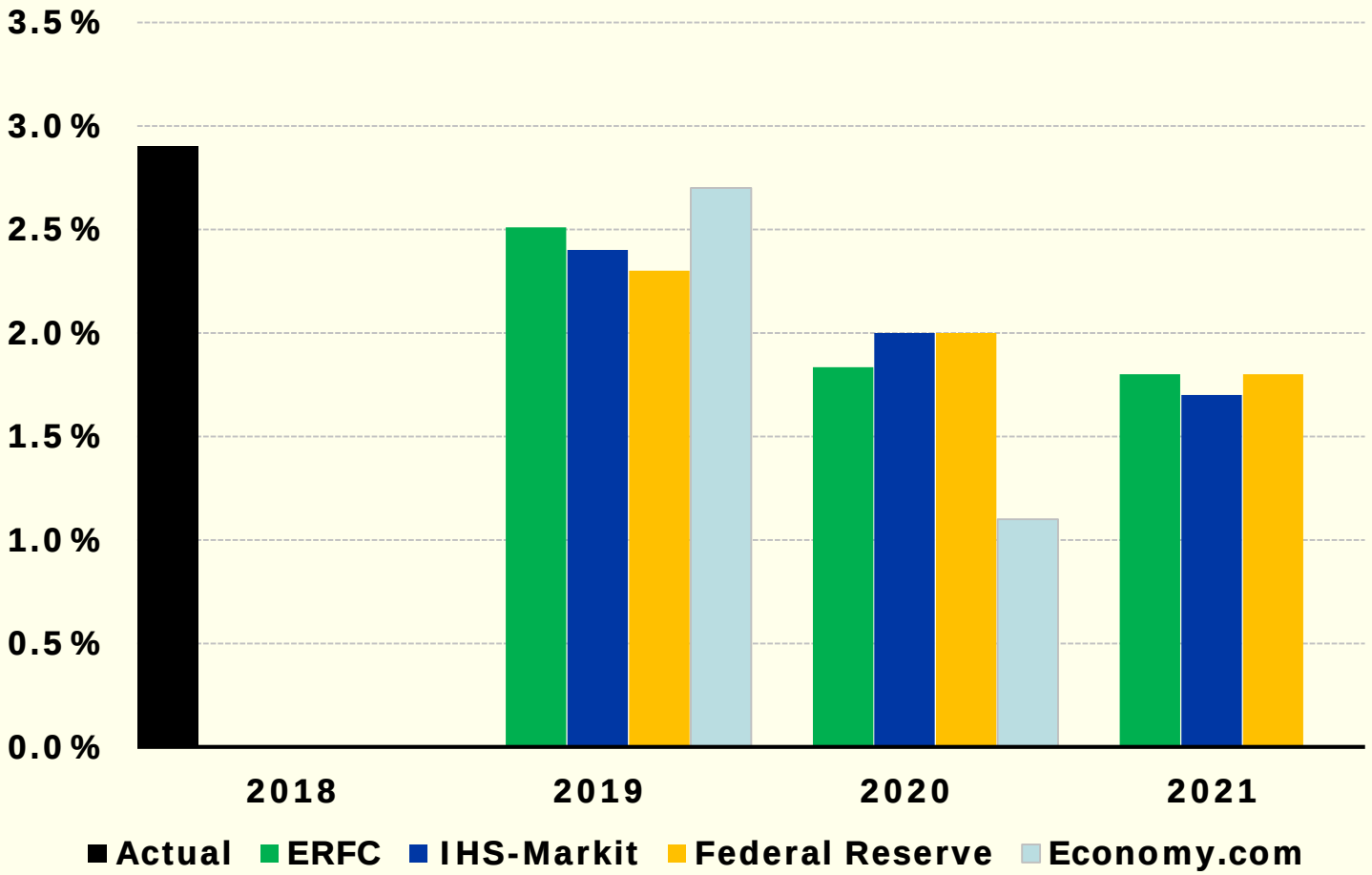
U.S. real GDP growth slowed then picked up in 2019 Q1

First quarter 2019 growth due in part to inventory accumulation that is unlikely to be repeated in the second quarter.



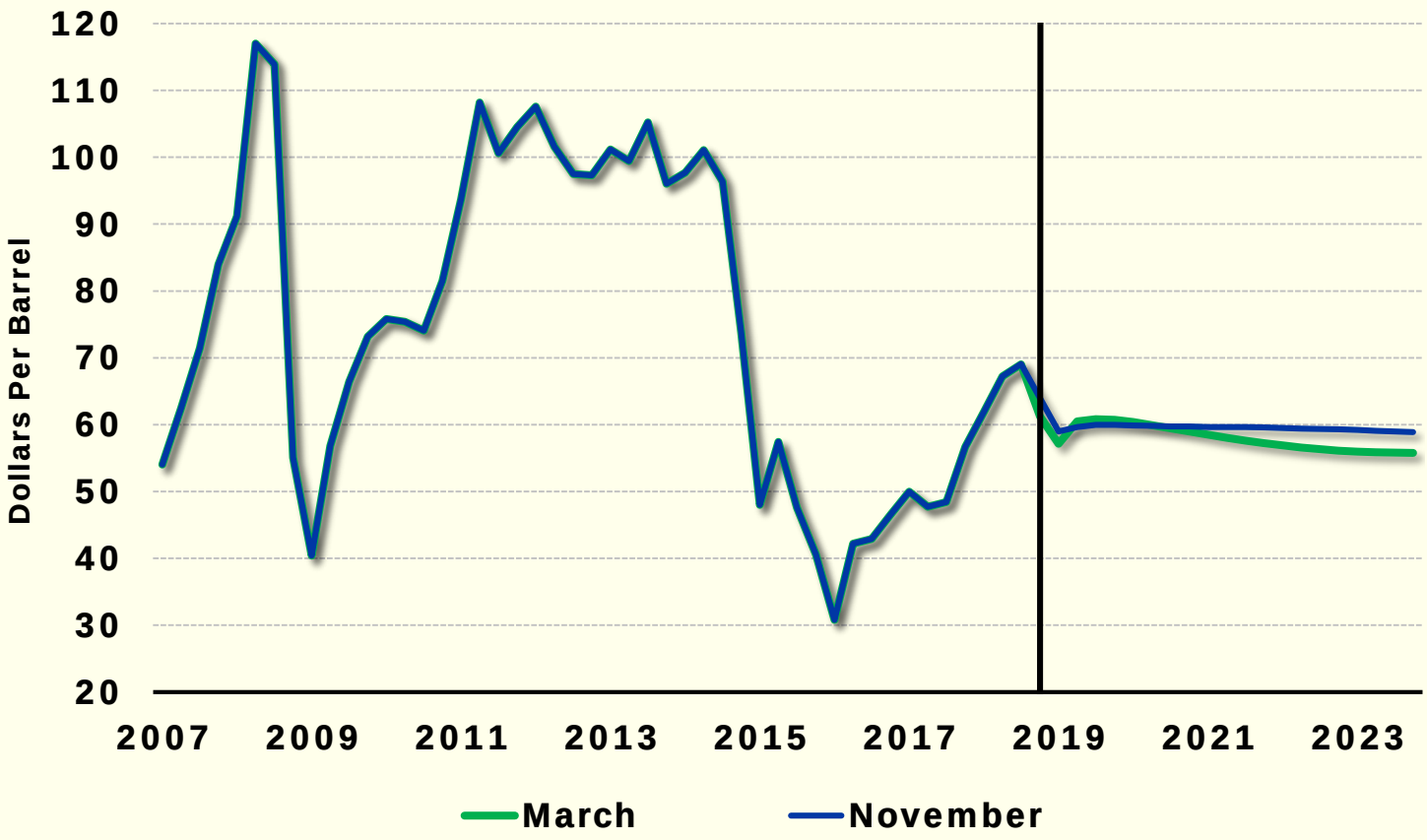
Source: U.S. Bureau of Economic Analysis. Data through Q1 2019

Many forecasters expect U.S. economic growth is to slow further



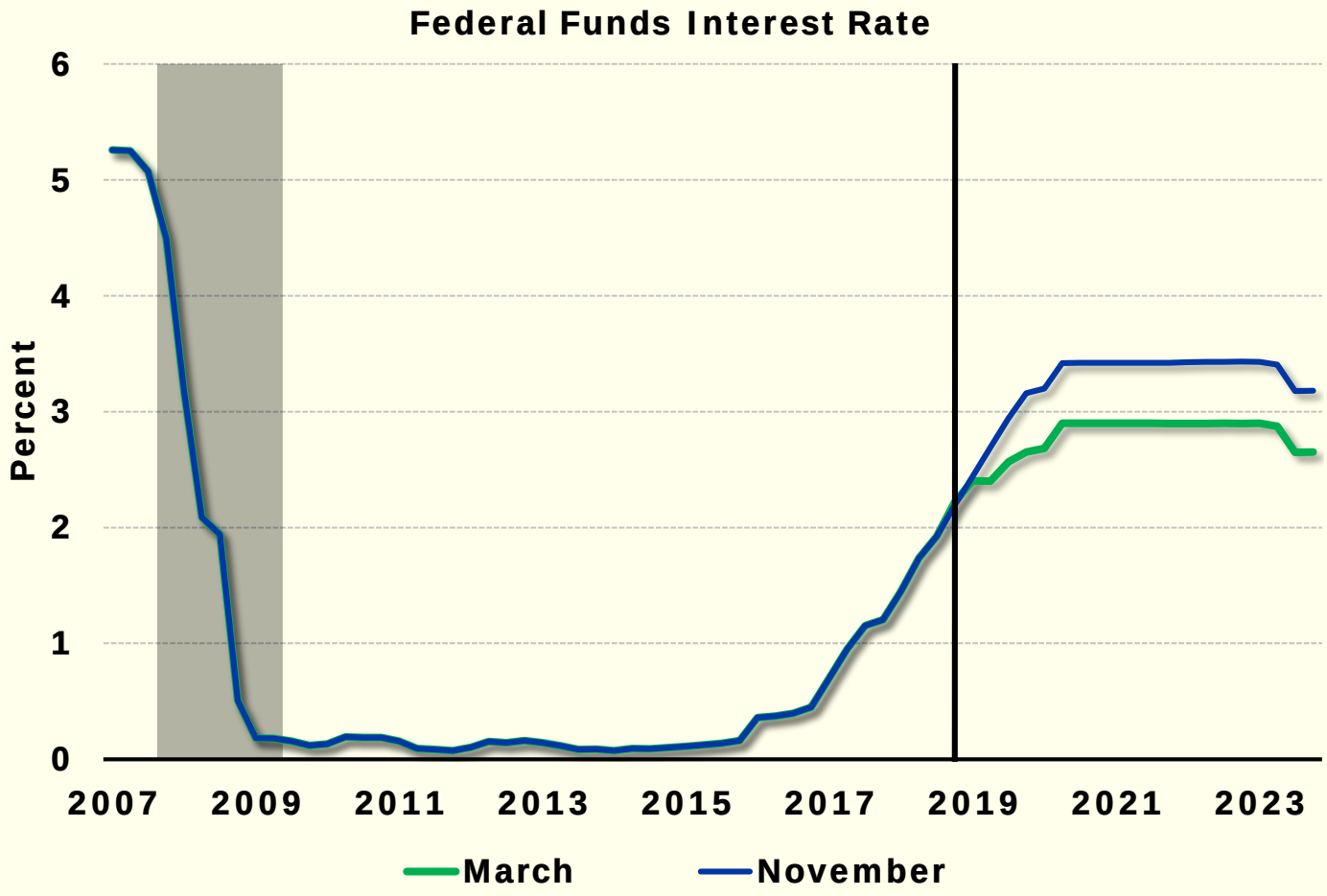
Sources: U.S. Bureau of Economic Analysis, ERFC Mar. 2019 preliminary forecast, IHS-Markit, Federal Reserve Board, Economy.com

Oil prices are slightly lower than in the November forecast



Source: Energy Information Administration, IHS Markit, ERFC; data through Q4 2018
Note: Vertical black line indicates last actual

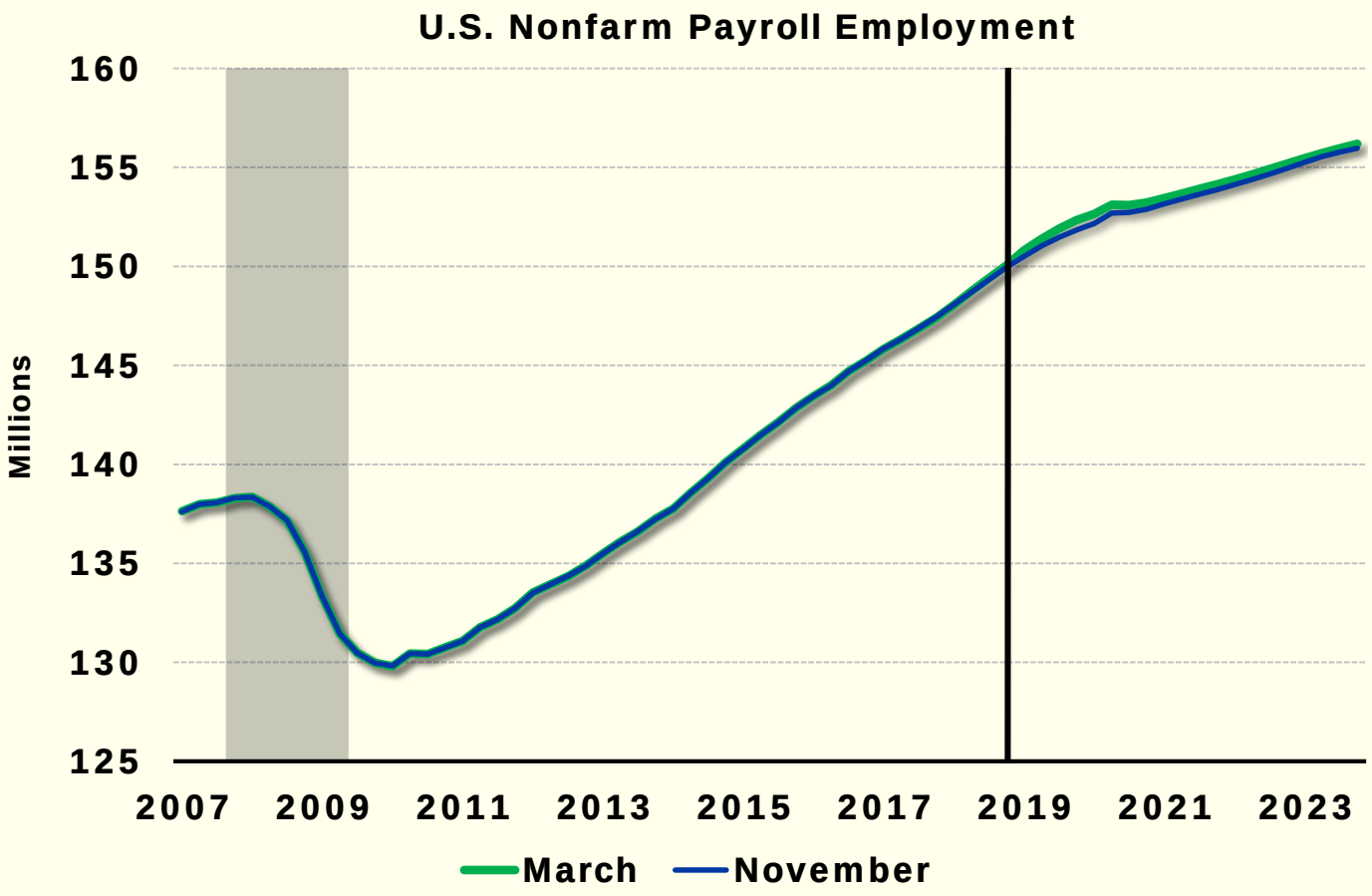
The Federal Reserve is not expected to raise interest rates as high as anticipated in November



Source: ERFC March 2019 forecast; historical data through Q4 2018

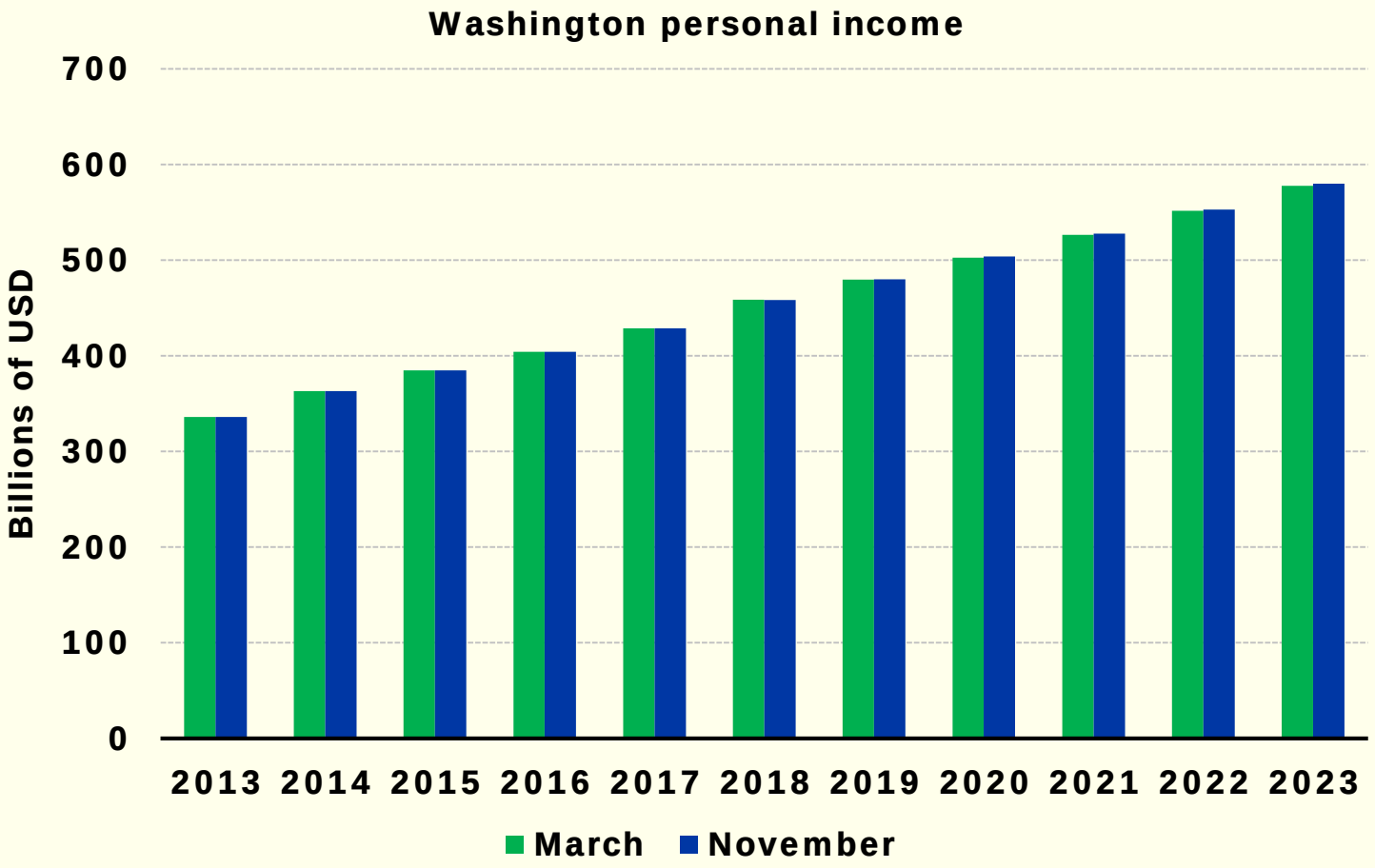
U.S. nonfarm payroll employment growth is slightly higher than in November

By the end of 2023, employment is 0.1% higher than in the November forecast.



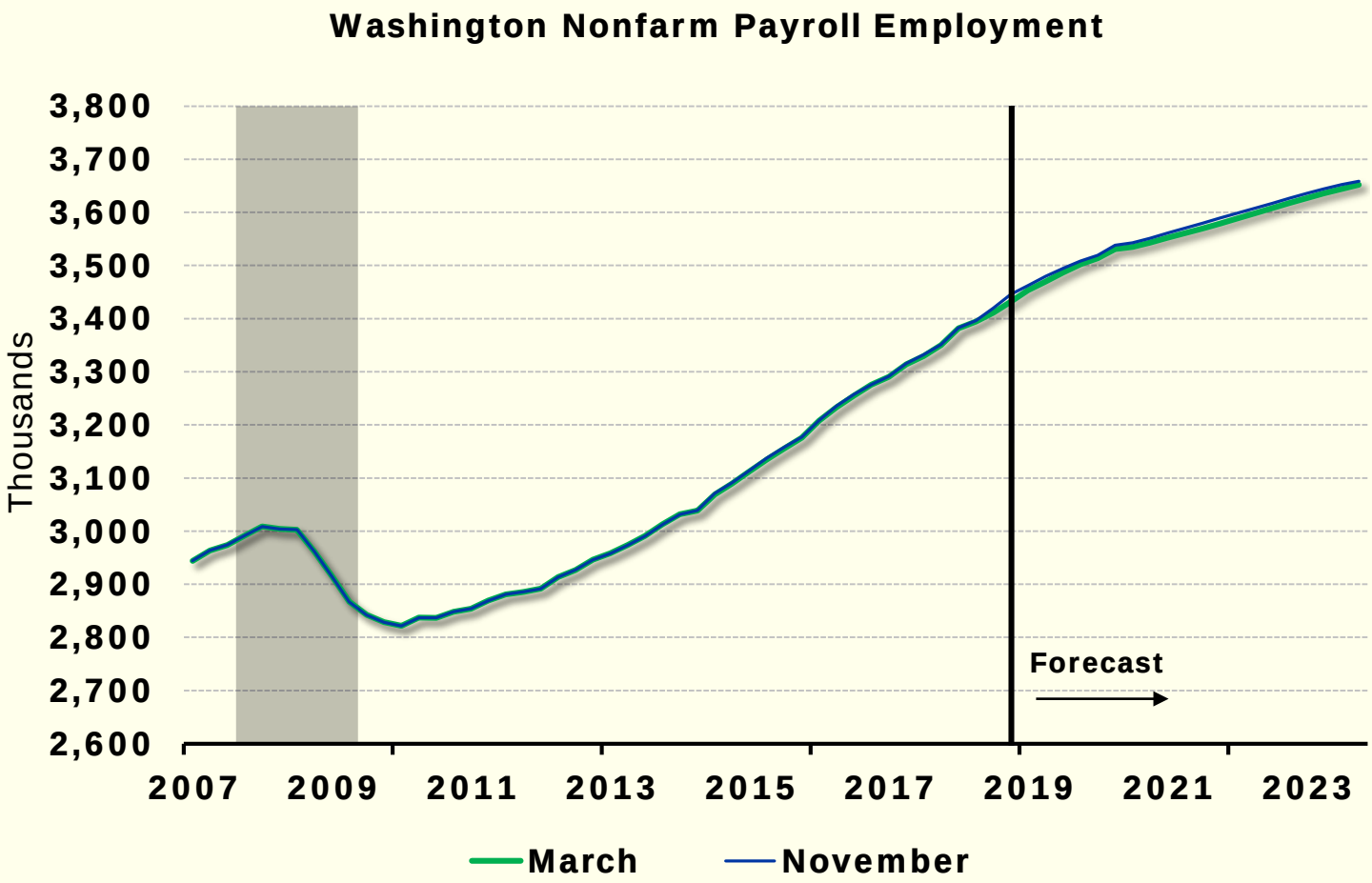
Source: IHS Markit, ERFC; data through Q4 2018
Note: Vertical black line indicates last actual

Washington personal income is slightly lower than in November



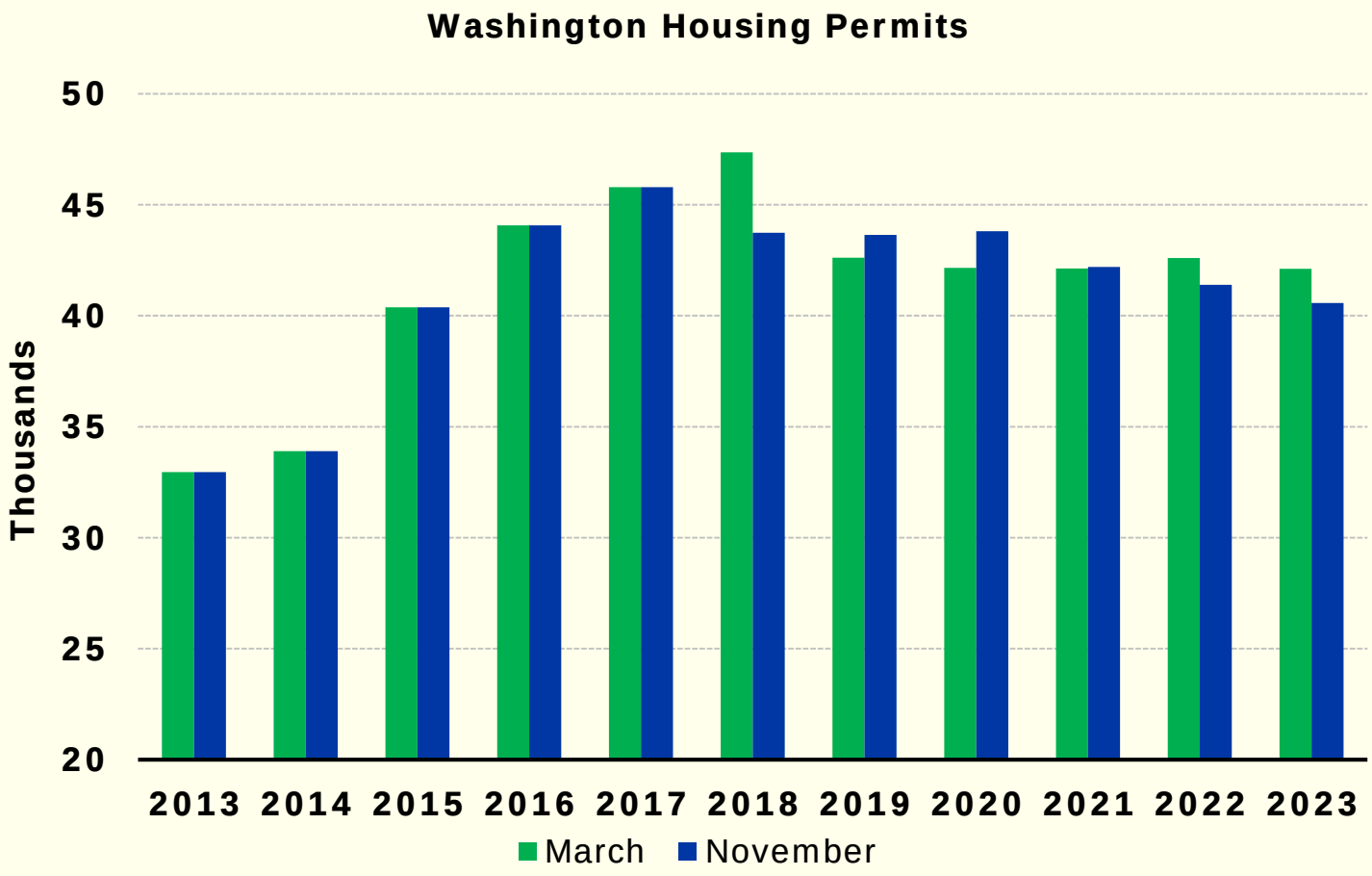
Source: ERFC March 2019 forecast; historical data through 2017

Washington employment forecast is slightly lower than in November



Source: ERFC March 2019 forecast; historical data through Q4 2018

Permits forecast for 2019 – 2023: average unchanged, timing slightly different compared to November

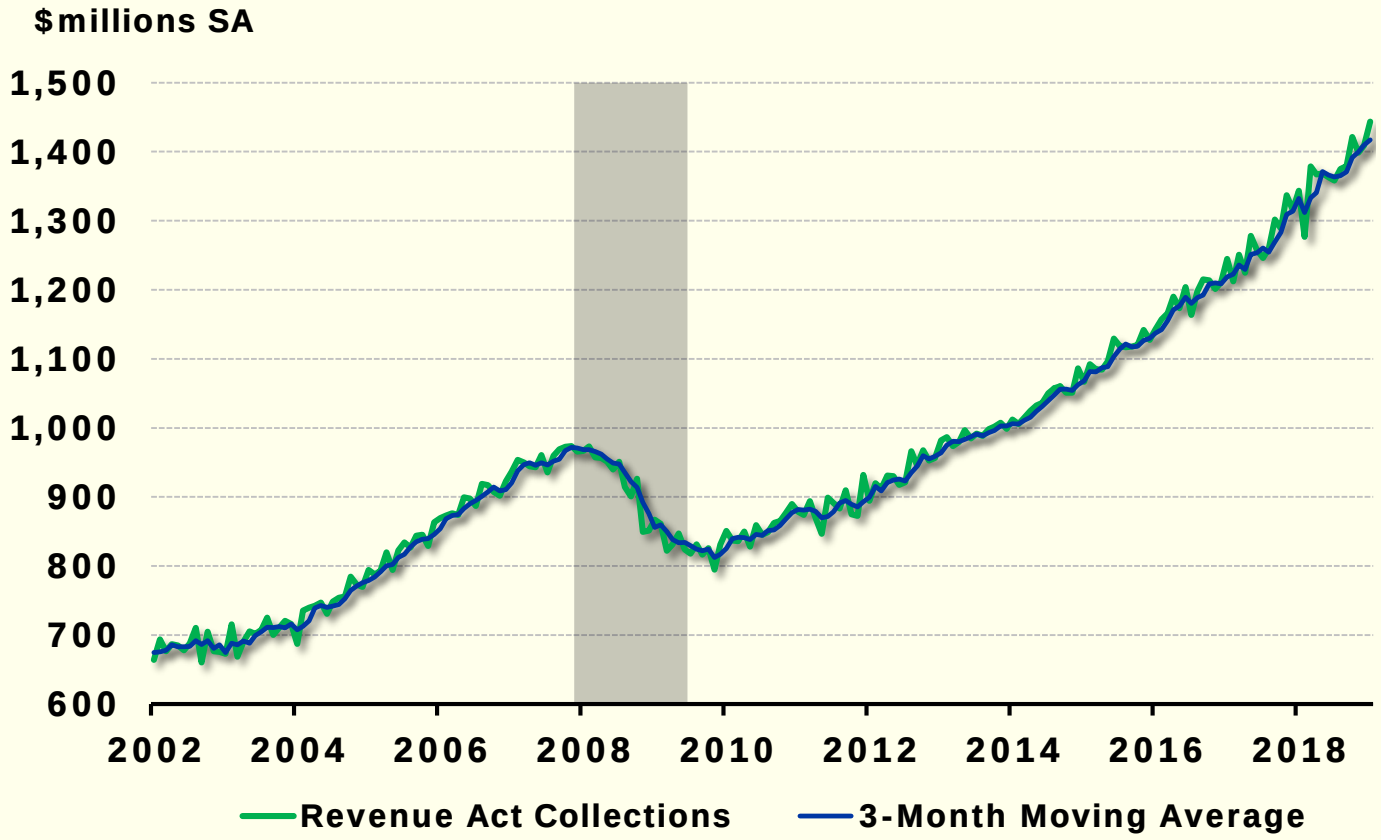


Source: ERFC March 2019 forecast; historical data through 2018

Revenue Act collections growth has been strong

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

2017Q4: 8.3%
2018Q1: 8.2%
2018Q2: 8.8%
2018Q3: 7.6%
2018Q4: 7.4%

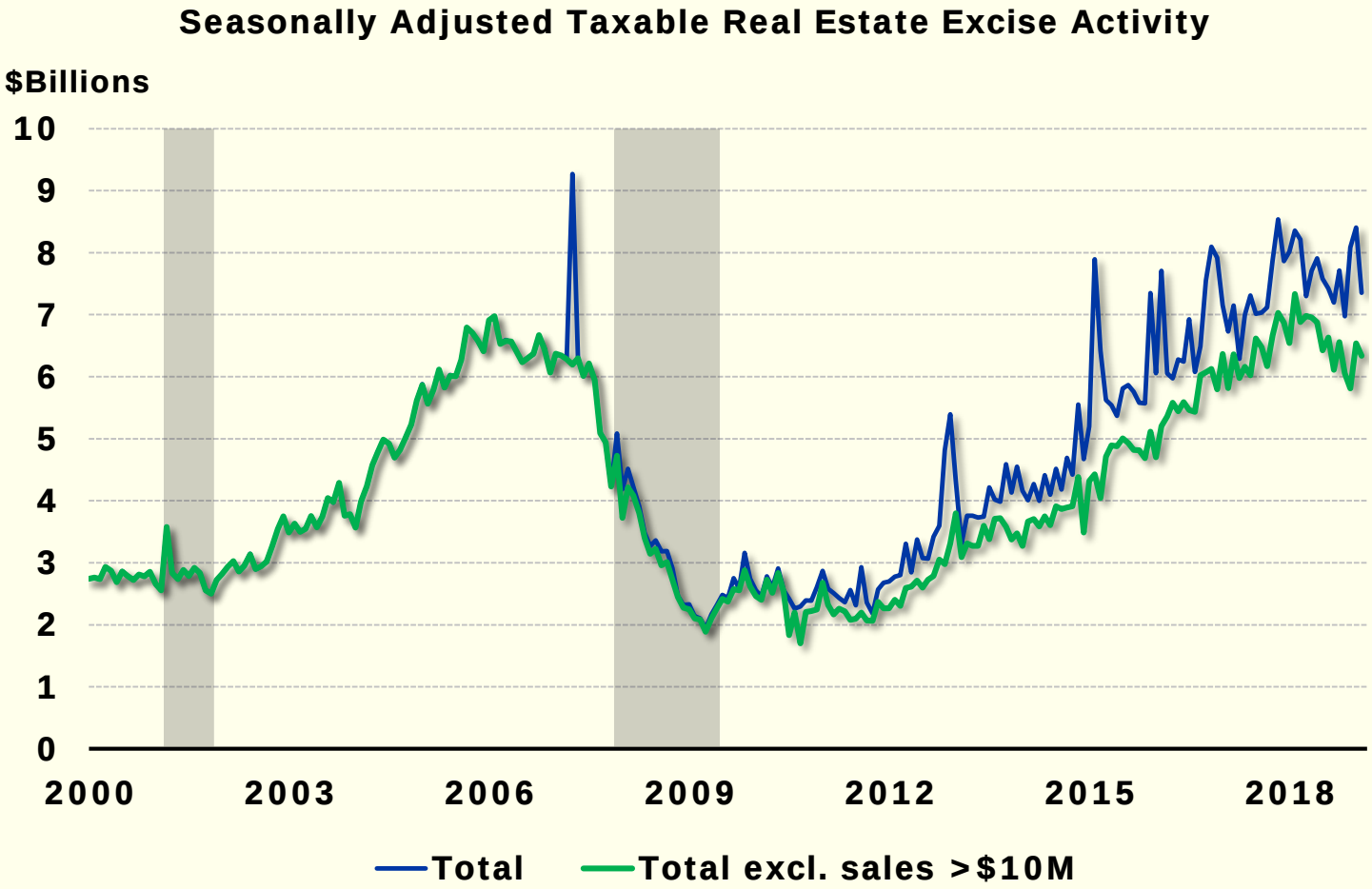


* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

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

Taxable REET activity declined in February but remained strong

There were $1.0 billion in large commercial sales (>$10 million) in February, down from $1.87 billion in January.



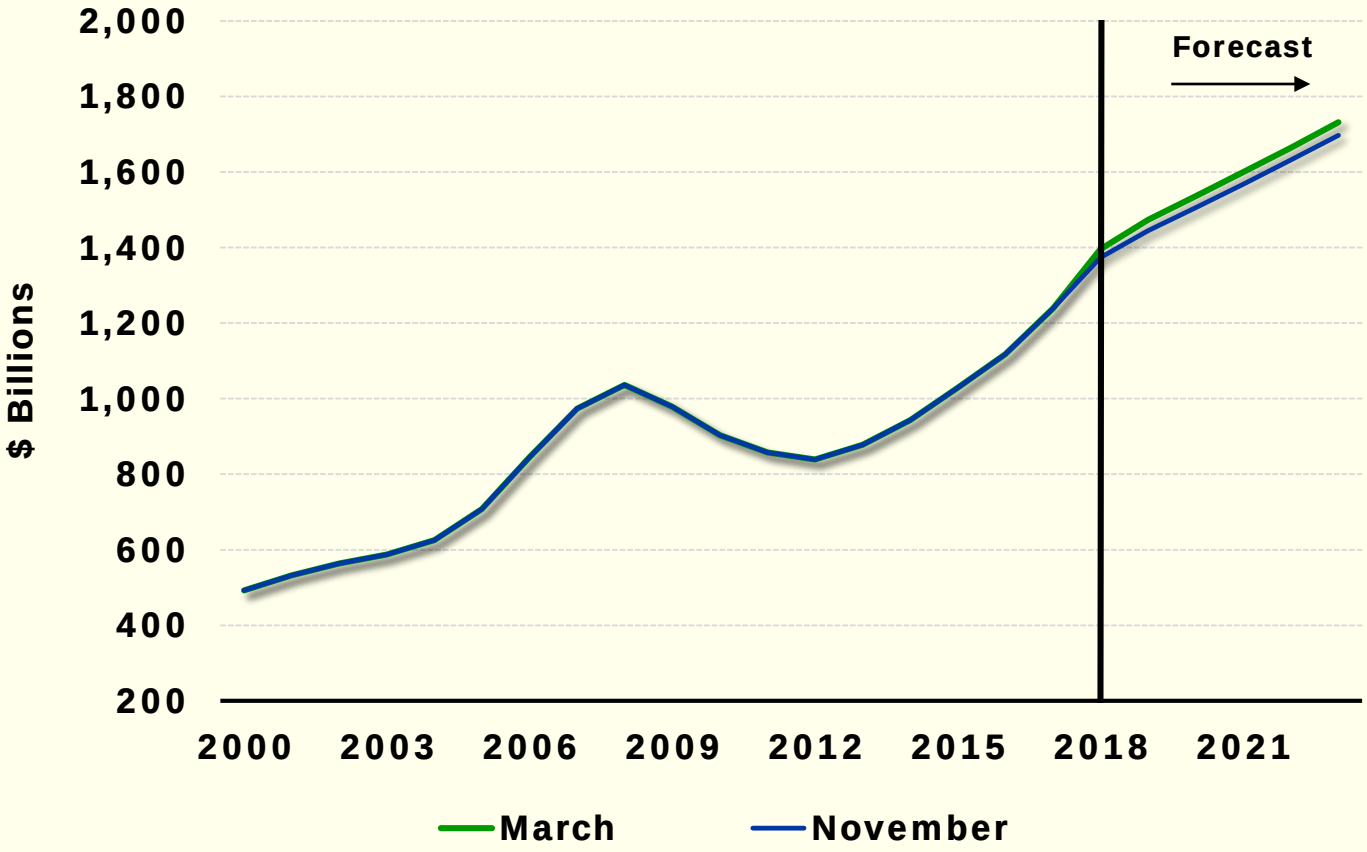
Source: ERFC; Monthly data through February 2019 preliminary

Assessed value on existing properties increased between November, March forecasts

November forecast for growth in Market Value: 10.9%

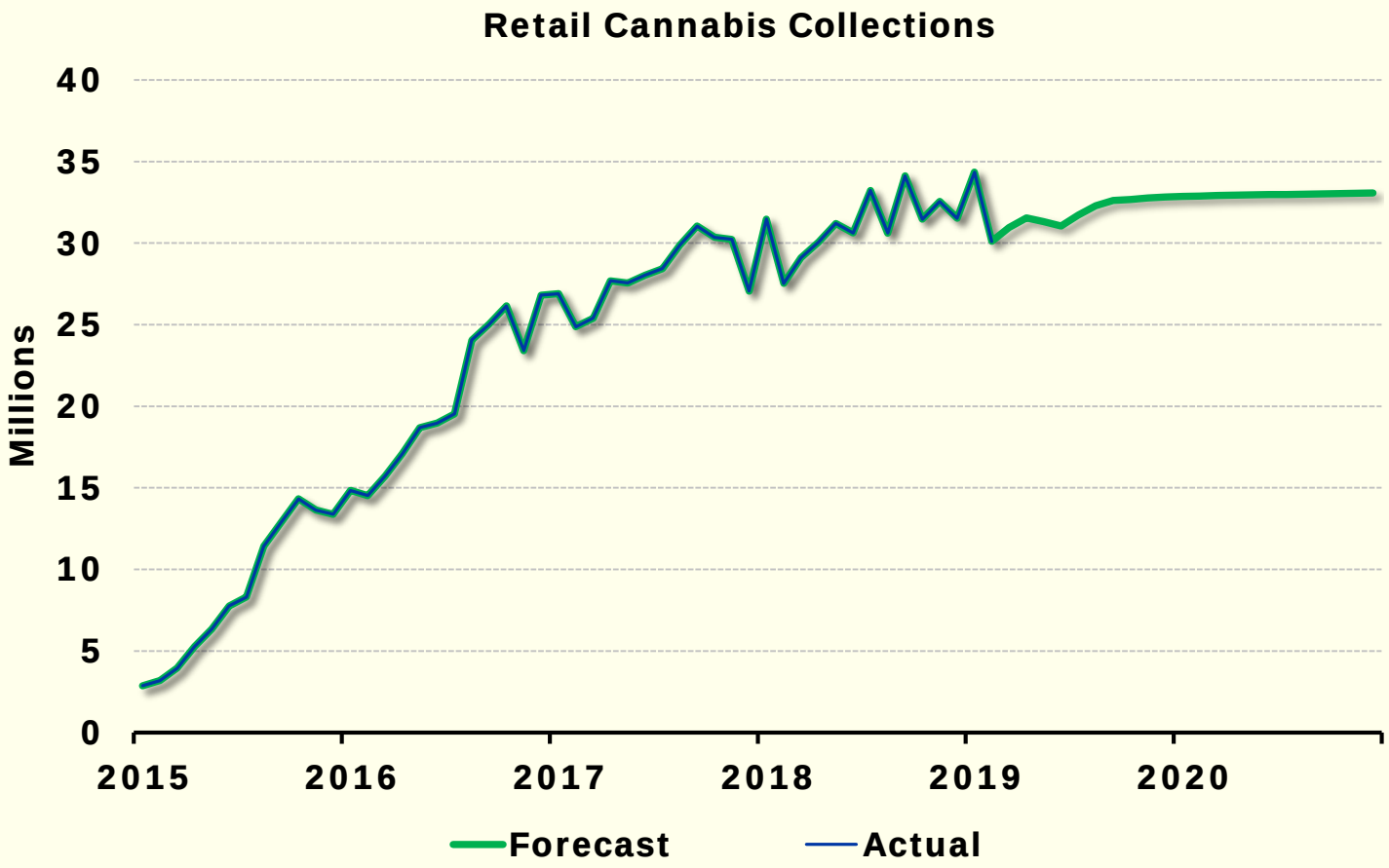
Actual growth: 12.6%

Every 1.0 percentage point increase in Market Value growth adds between $30-$40 million in revenue per year



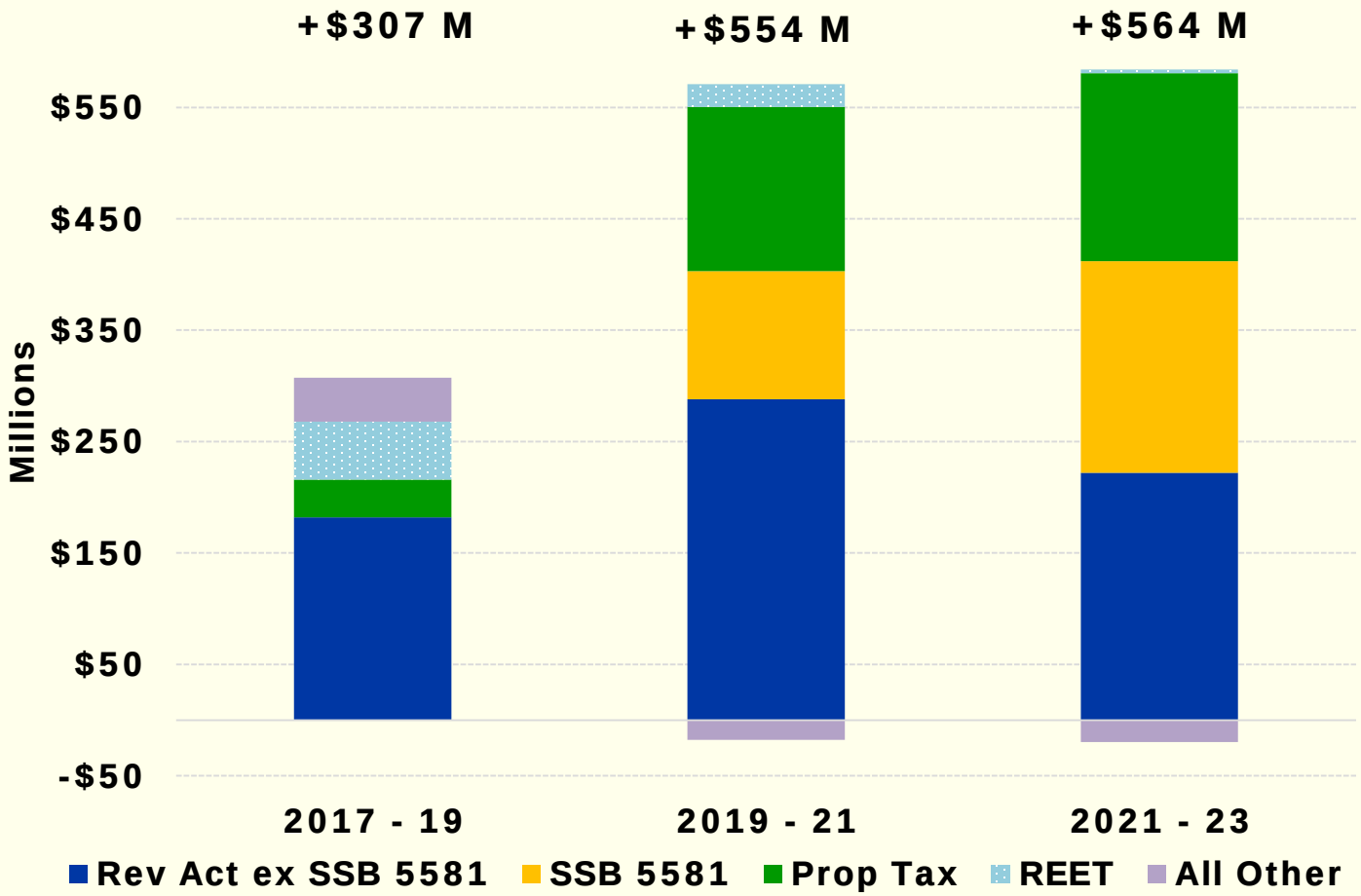
Source: ERFC March 2019 forecast; historical data through 2018

Cannabis revenue growth is expected to moderate



Source: ERFC March 2019 forecast; historical data through February 2019

Near GF-S forecast changes by source



Source: ERFC March 2019 forecast

Conclusion

- Economic forecasts are only slightly changed from November
- Washington's economy is continuing to outperform the nation but not as dramatically as in past
- Threats to economic expansion include concerns about international trade and fiscal policy, geopolitical risks and a maturing expansion
- GF-S revenues are expected to grow 15.3% between the 2015-17 and 2017-19 biennia and 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
360-534-1560