Washington and U.S. Economic Outlook

Presented to
City of Olympia

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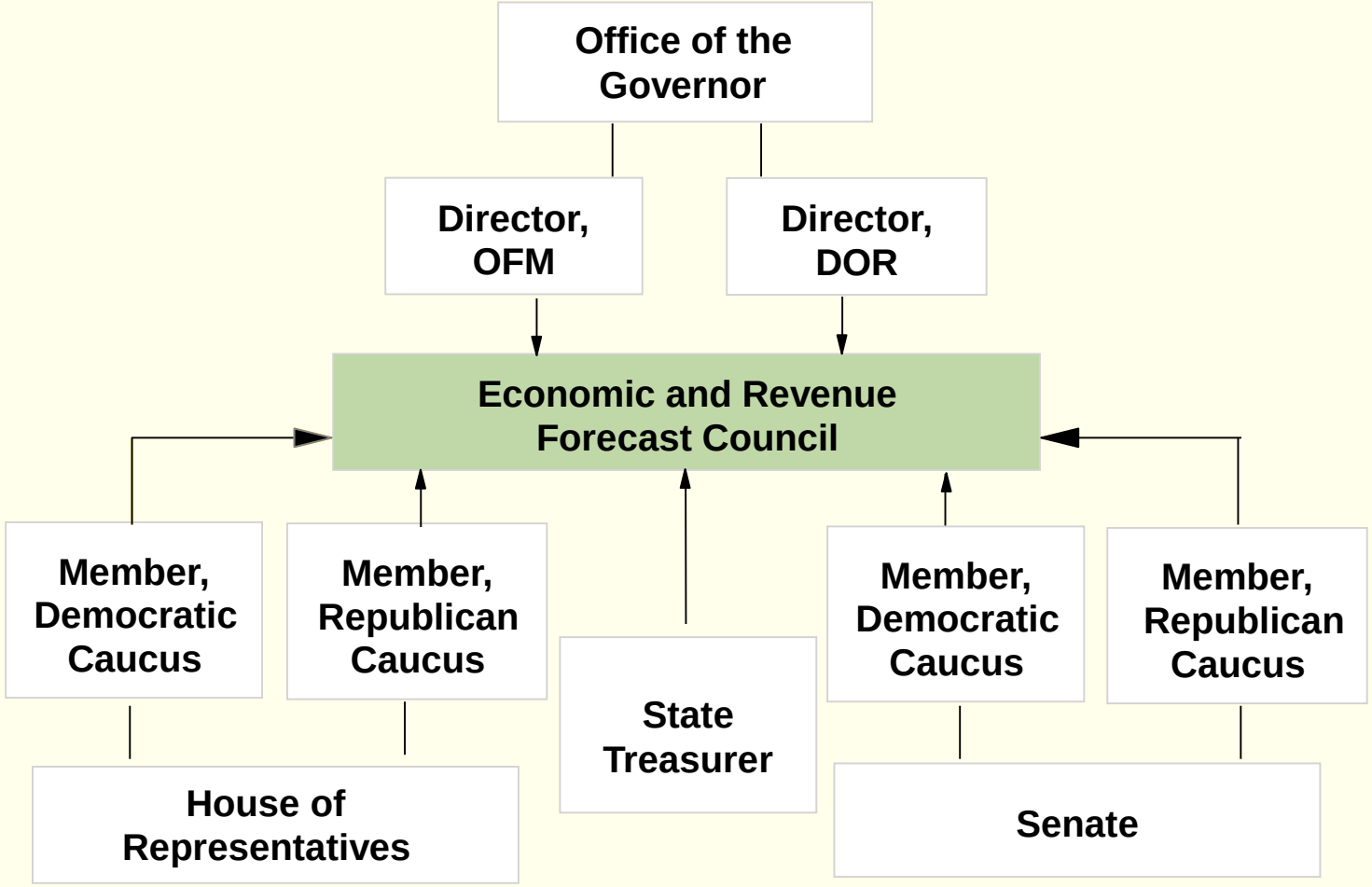
June 13, 2019
Olympia, Washington

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

- The preliminary economic forecast for both the U.S. and WA are very similar to the March forecast
- Despite a strong labor market, wage growth and inflation remain moderate
- Downside risks to the baseline include uncertainty regarding trade policy, geopolitical concerns and a maturing economic expansion
- Revenue collections since the March forecast are $0.4 million (0.0%) above expectations

Selected forecast risks

Labor markets

- Unemployment rate, initial UI claims low
- Job growth was strong in March and April but slowed in May

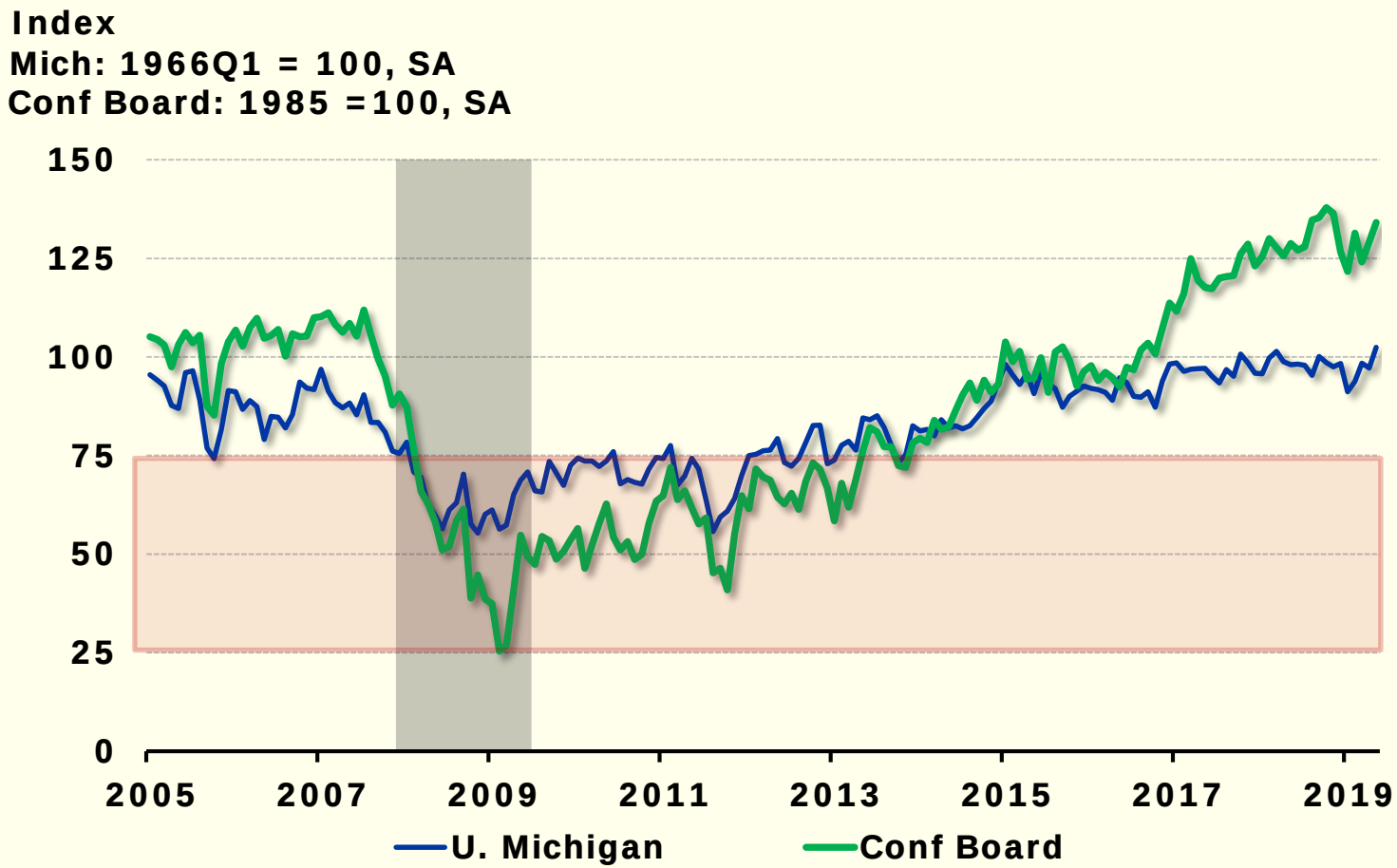
737 MAX

- Currently, impact on WA employment and personal income unclear

International trade policy

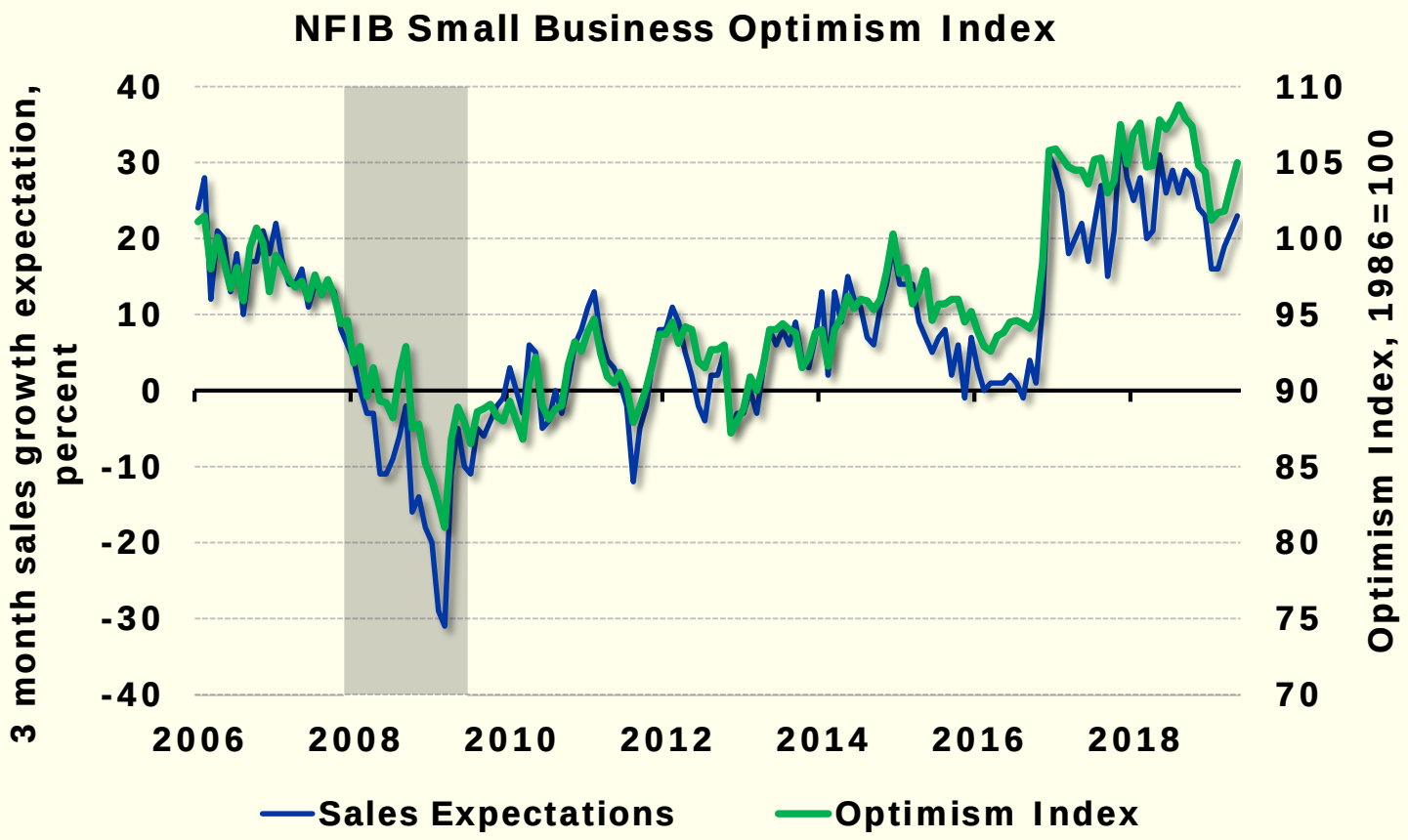
- China – U.S. trade deal no longer seems imminent

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



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

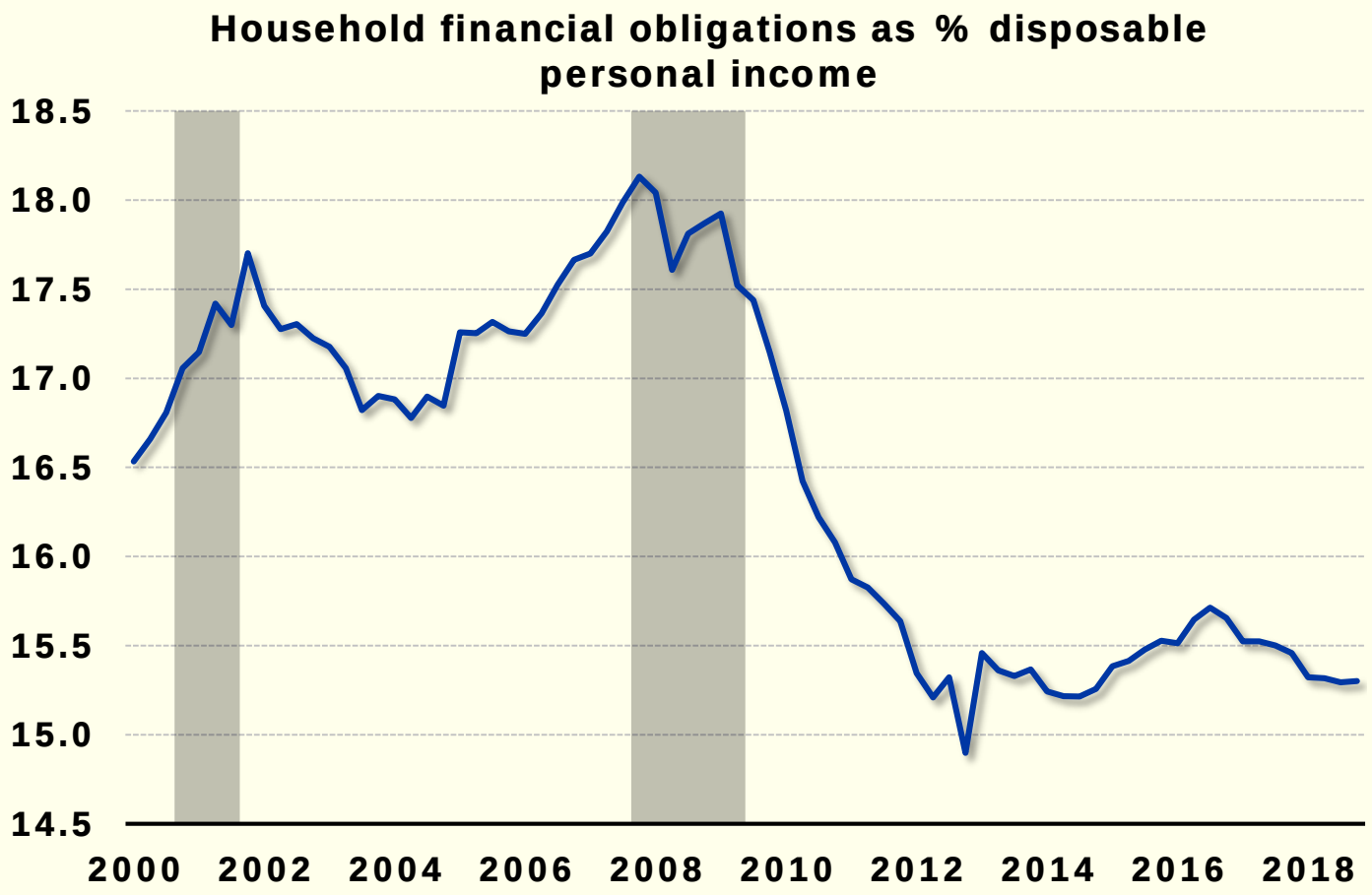
Small business optimism is below 2018 but remains strong



Source: National Federation of Independent Business; data through May 2019

Household recurring payments as share of disposable income have declined since the recession

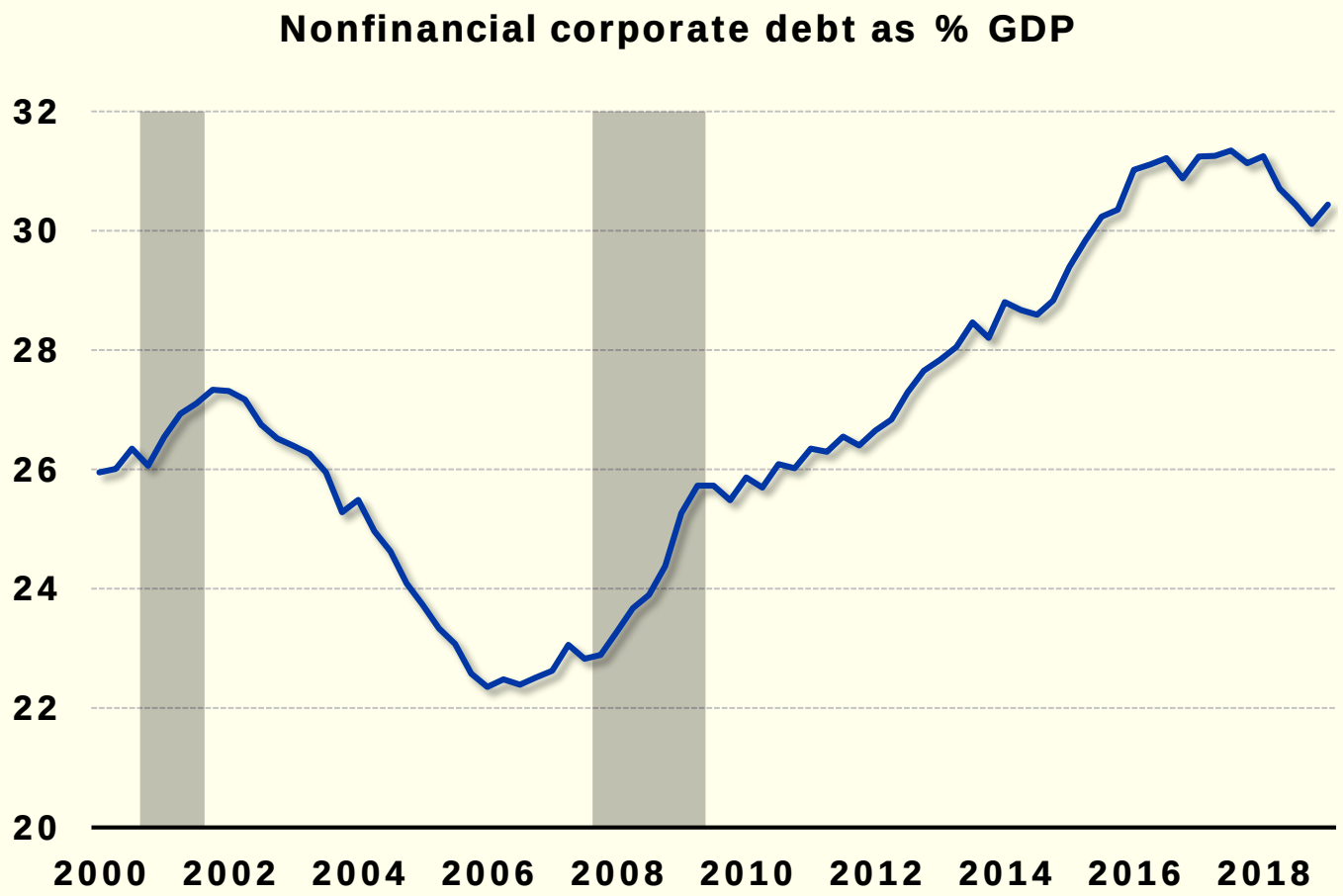
Financial obligations include all debt and other recurring payments such as rent, auto leases and property taxes



Source: Federal Reserve Bank of St. Louis, data through 2018 Q4

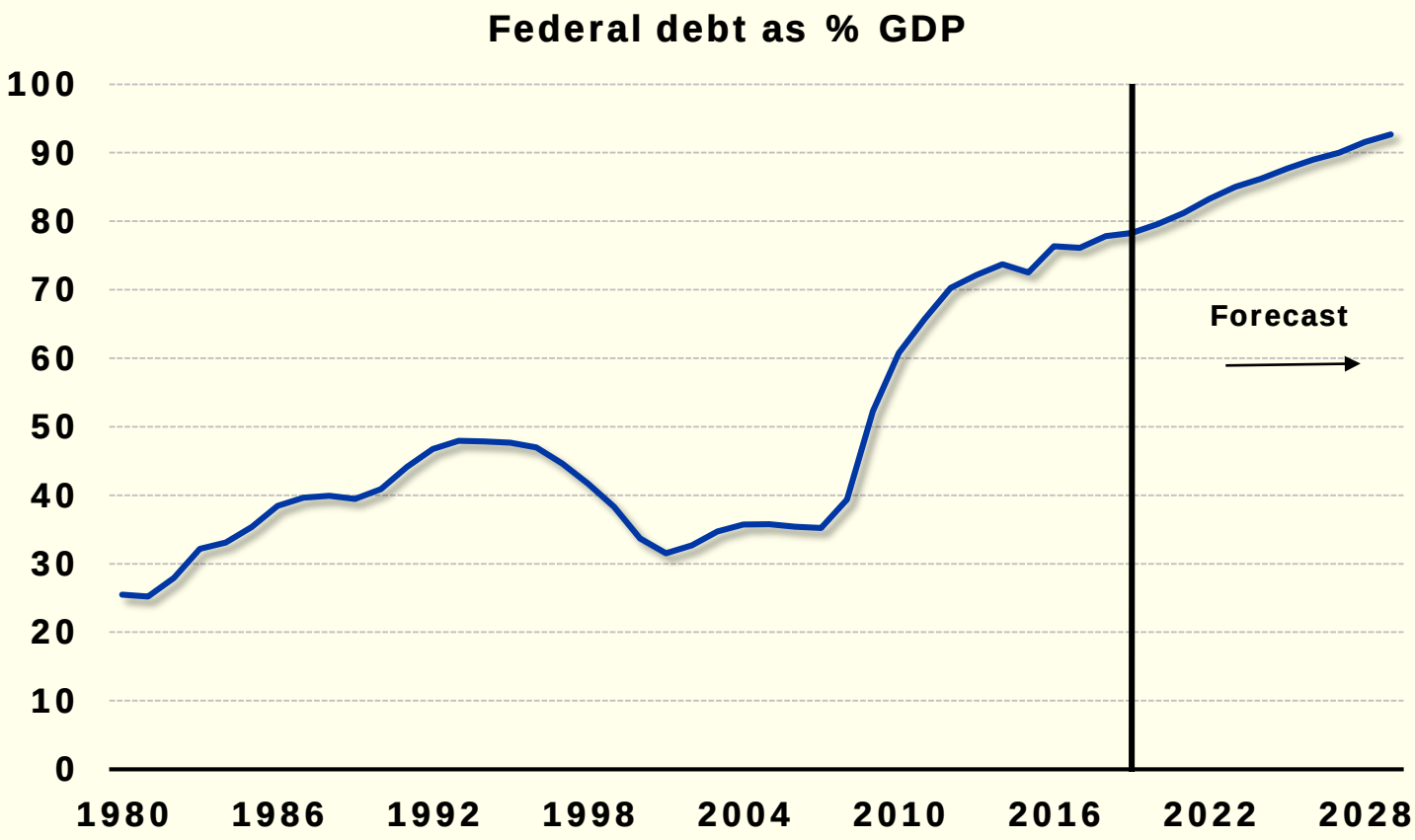
Corporate debt relative to GDP has increased since the recession

The Federal Reserve has recently expressed concerns about lending to highly indebted companies.



Source: Federal Reserve Bank of St. Louis, U.S. Bureau of Economic Analysis; data through 2019 Q1

By 2029, federal debt is expected to reach 93% of GDP



Source: Congressional Budget Office: Budget and Economic Outlook, Jan. 2019

WA exposure to retaliatory tariffs as of Fall 2018

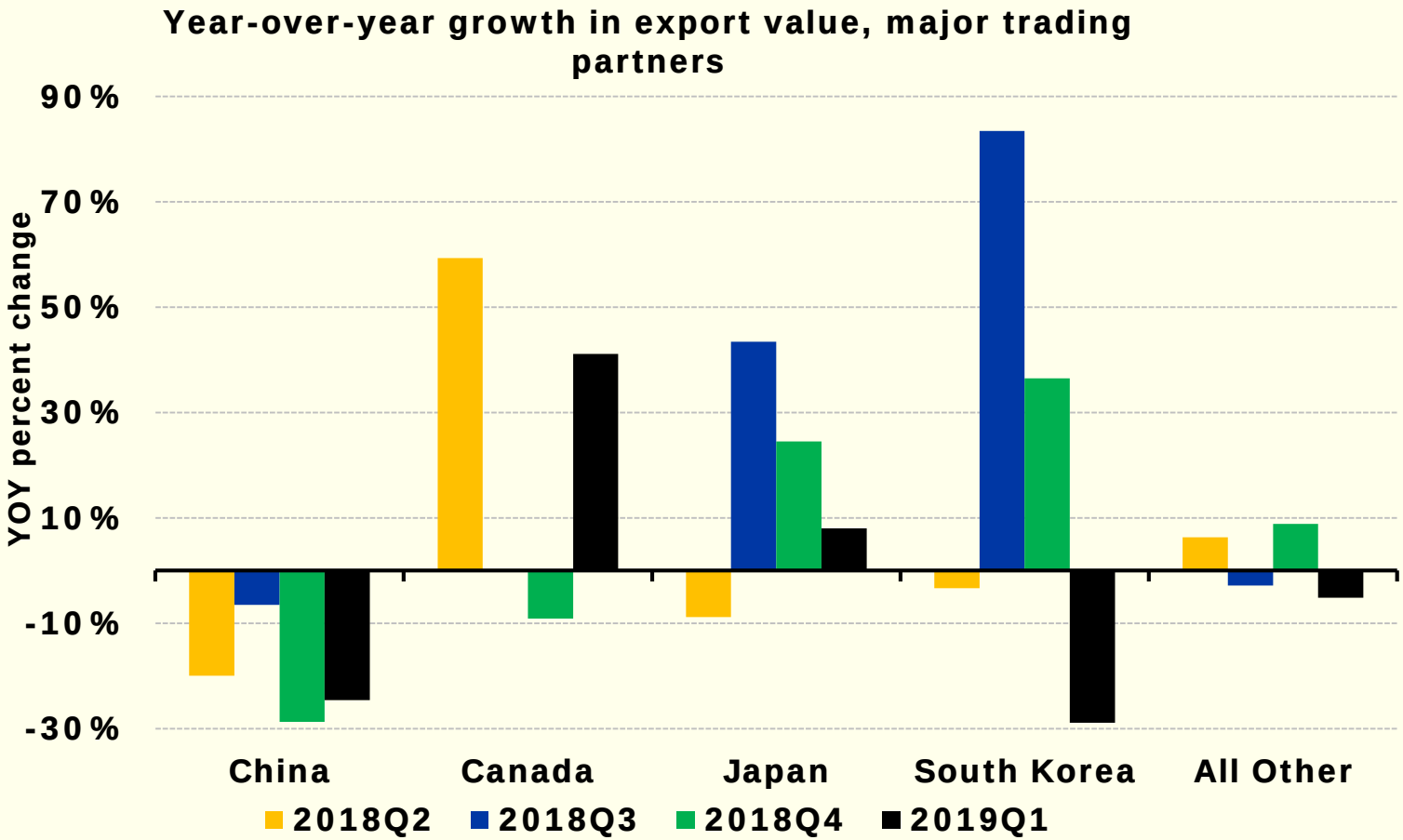
Based on 2017 export values:

- $3.7 billion of exports subject to retaliatory tariffs (6.1% of total exports)
- 8,300 direct export-supported jobs subject to retaliation
- 20,600 total export-related jobs subject to retaliation

Source: J. Parilla and M. Bouchet, "Which US communities are most affected by Chinese, EU and NAFTA retaliatory tariffs?", Brookings Institution , Oct. 2018

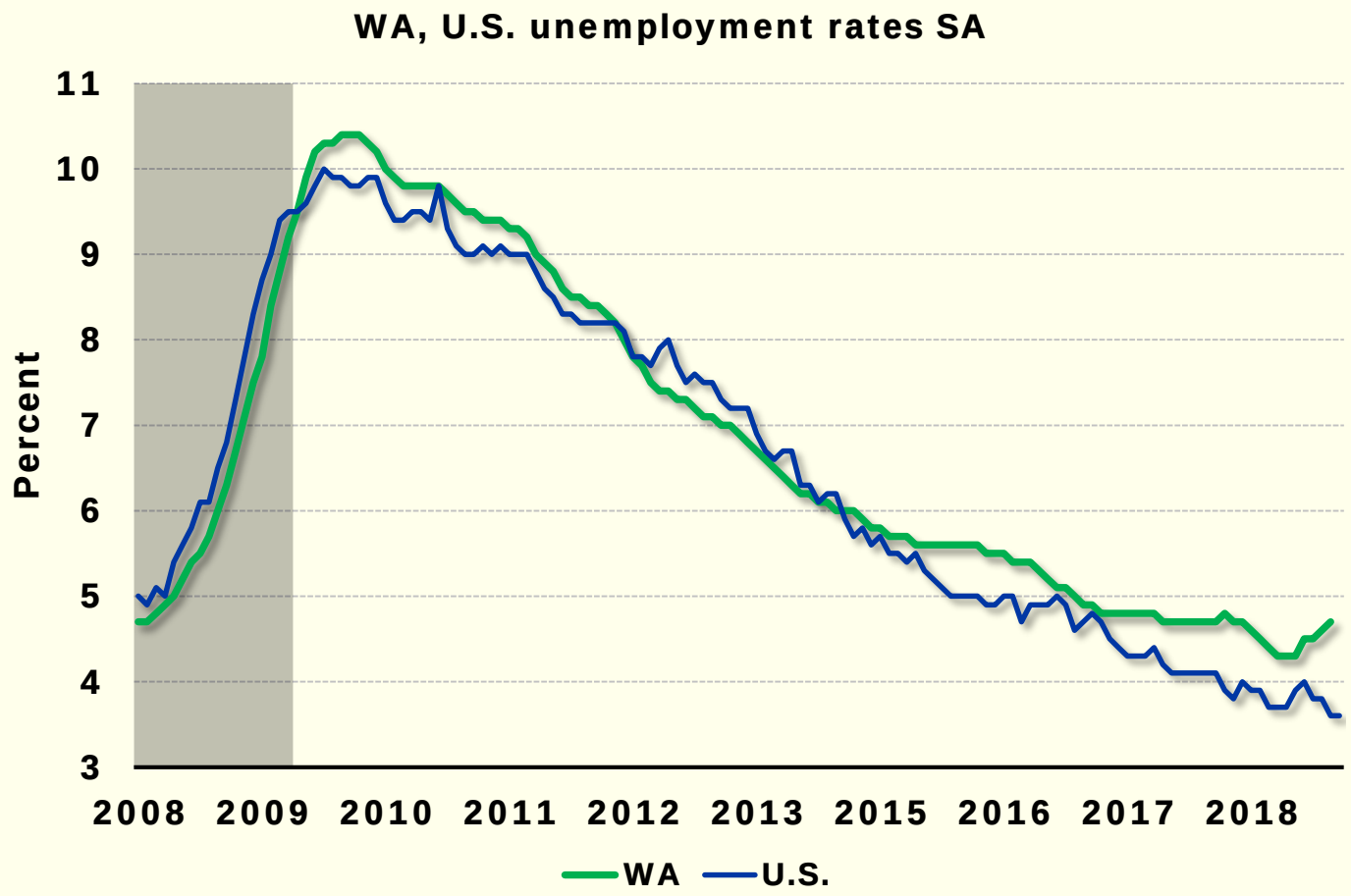
Exports to China have declined for four consecutive quarters

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



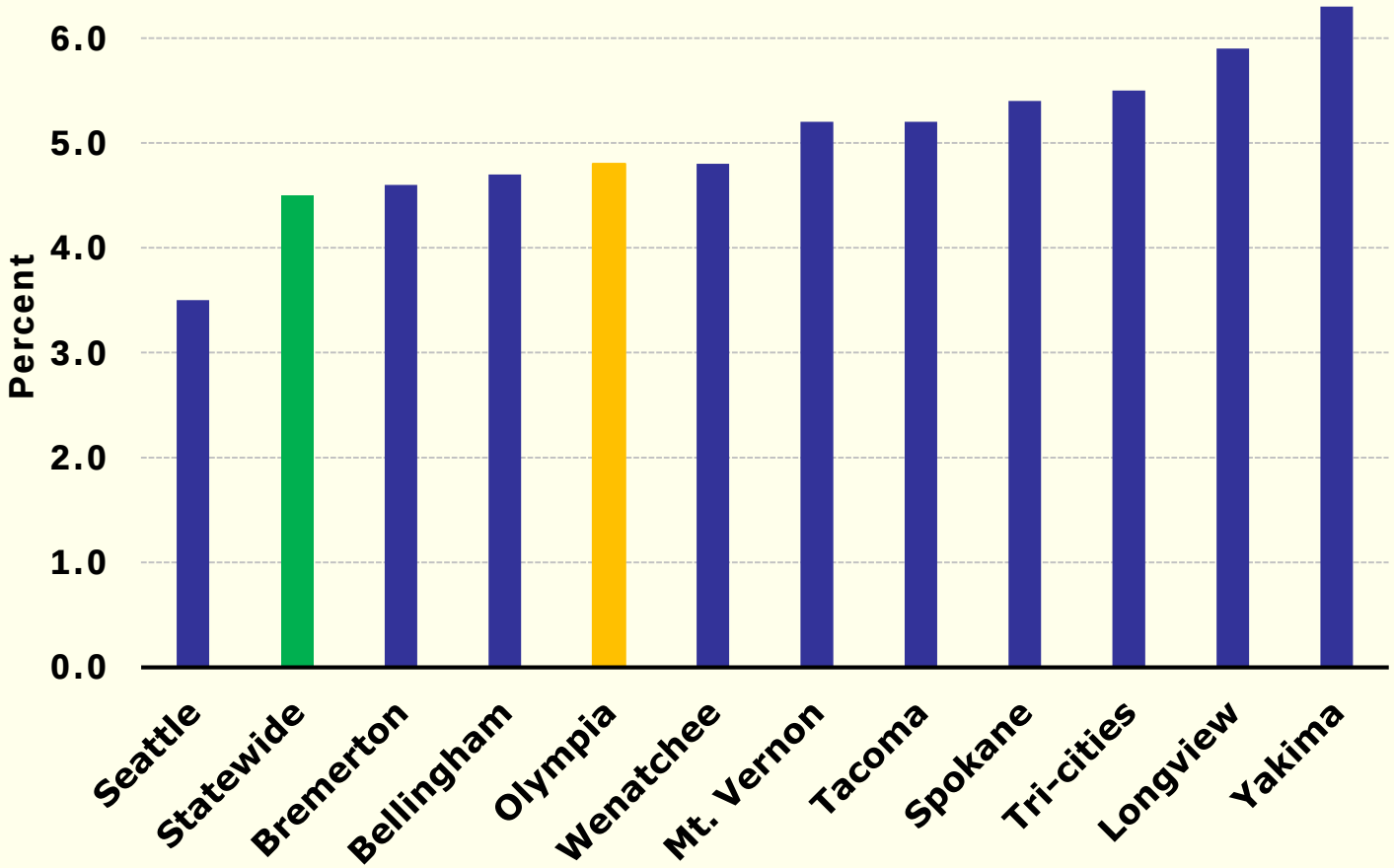
Source: WISERTrade; data through 2019 Q1

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



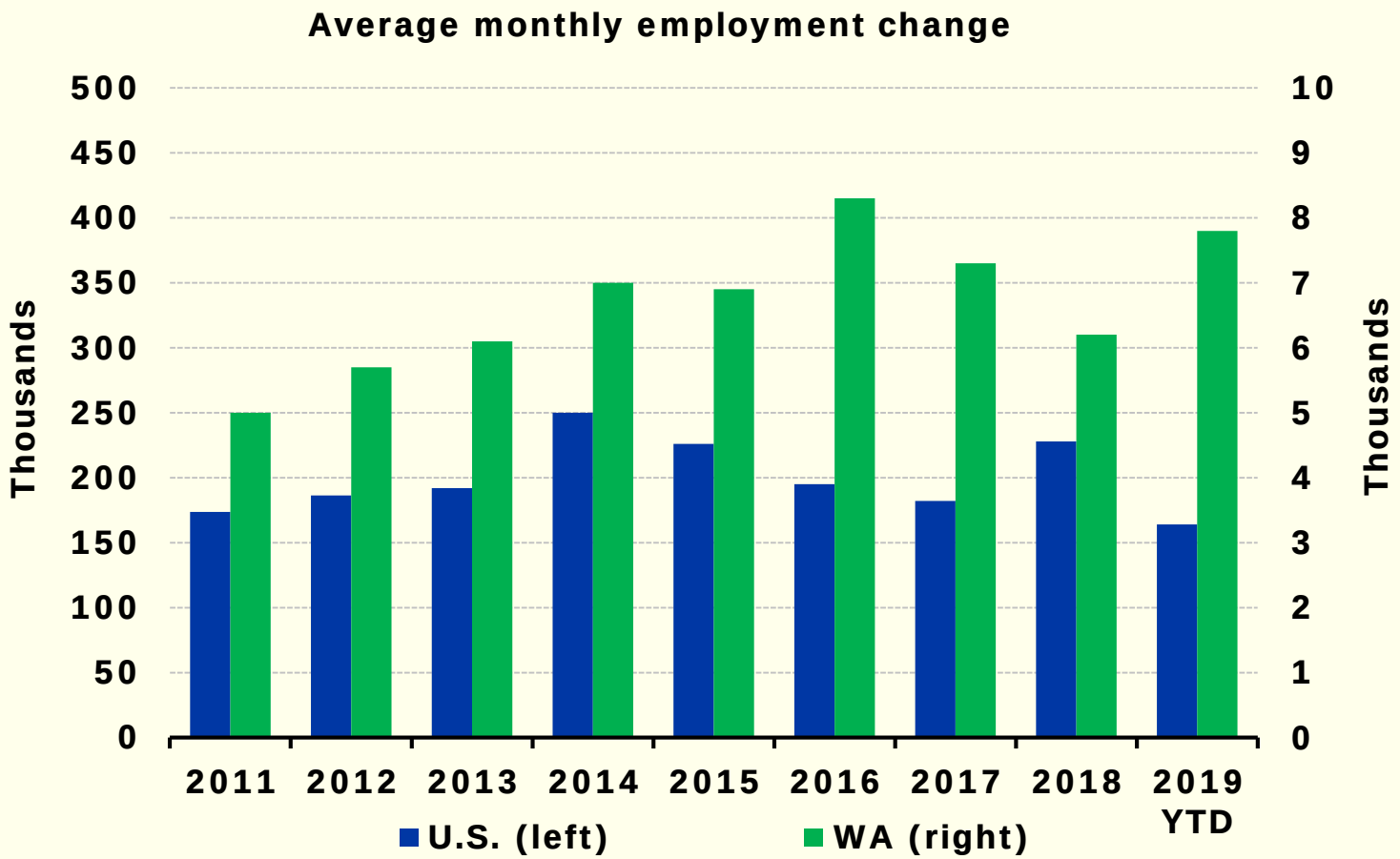
Source: Bureau of Labor Statistics, Employment Security Dept.; WA data through Apr. 2019, US through May 2019

2018 unemployment rates by metro area



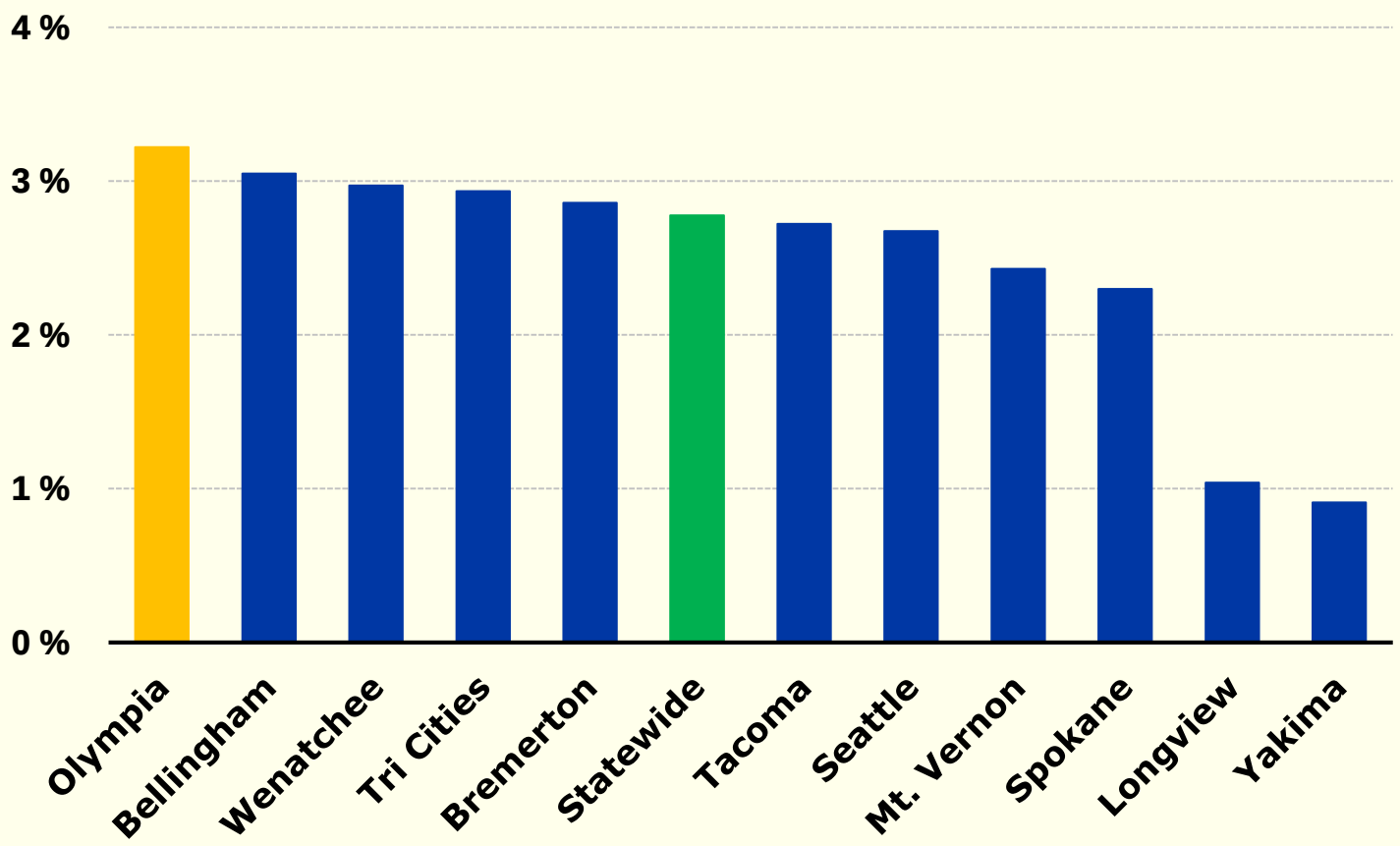
Source: Bureau of Labor Statistics, Employment Security Dept.

U.S. job growth slowed in May



Source: Bureau of Labor Statistics, Employment Security Dept.; WA data through Apr. 2019, US through May 2019

2018 metro area employment growth



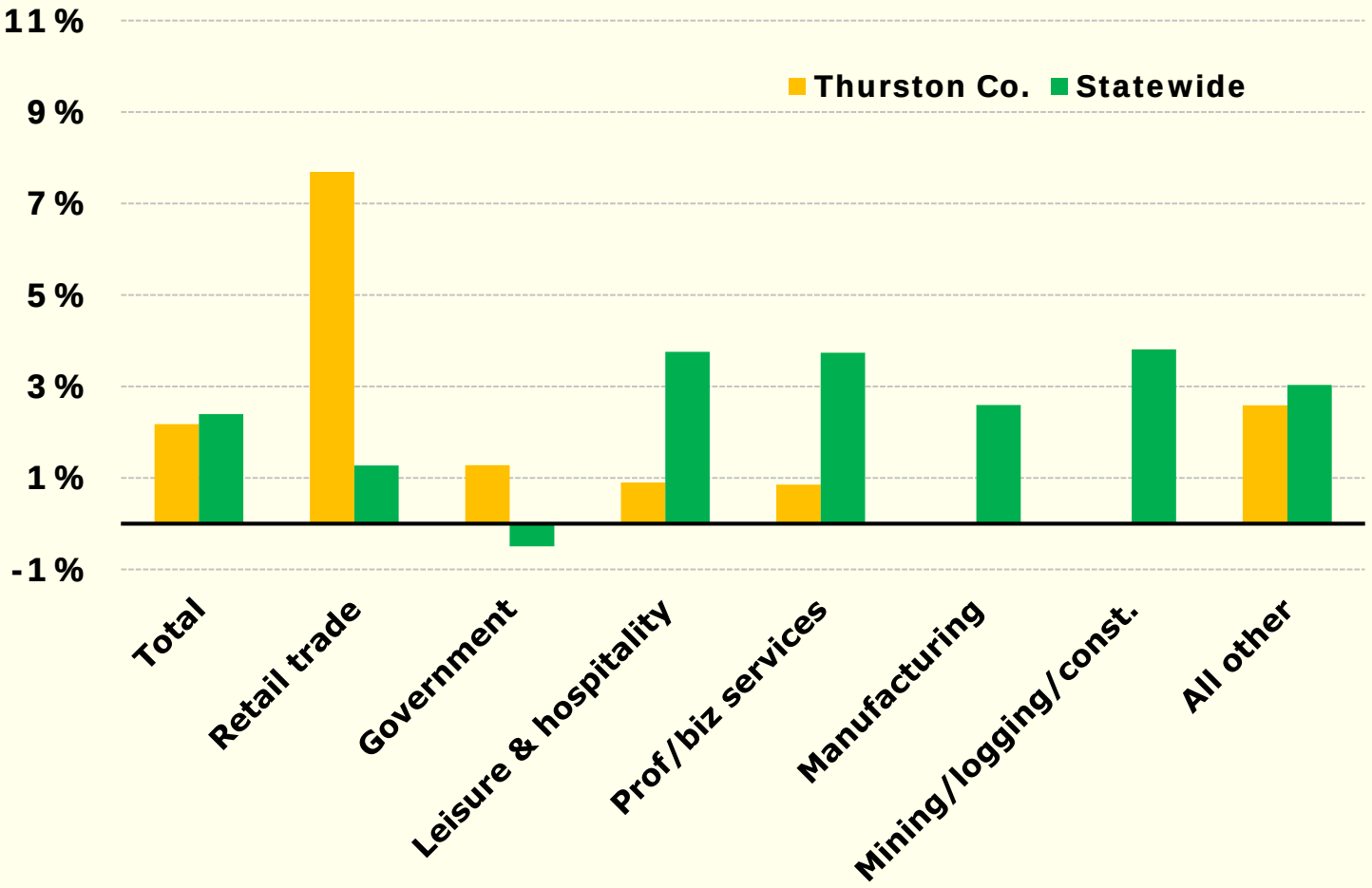
Source: Bureau of Labor Statistics, WA Employment Security Dept.

Employment growth by sector, April 2018 to April 2019

Employment change, April 2018 to April 2019:

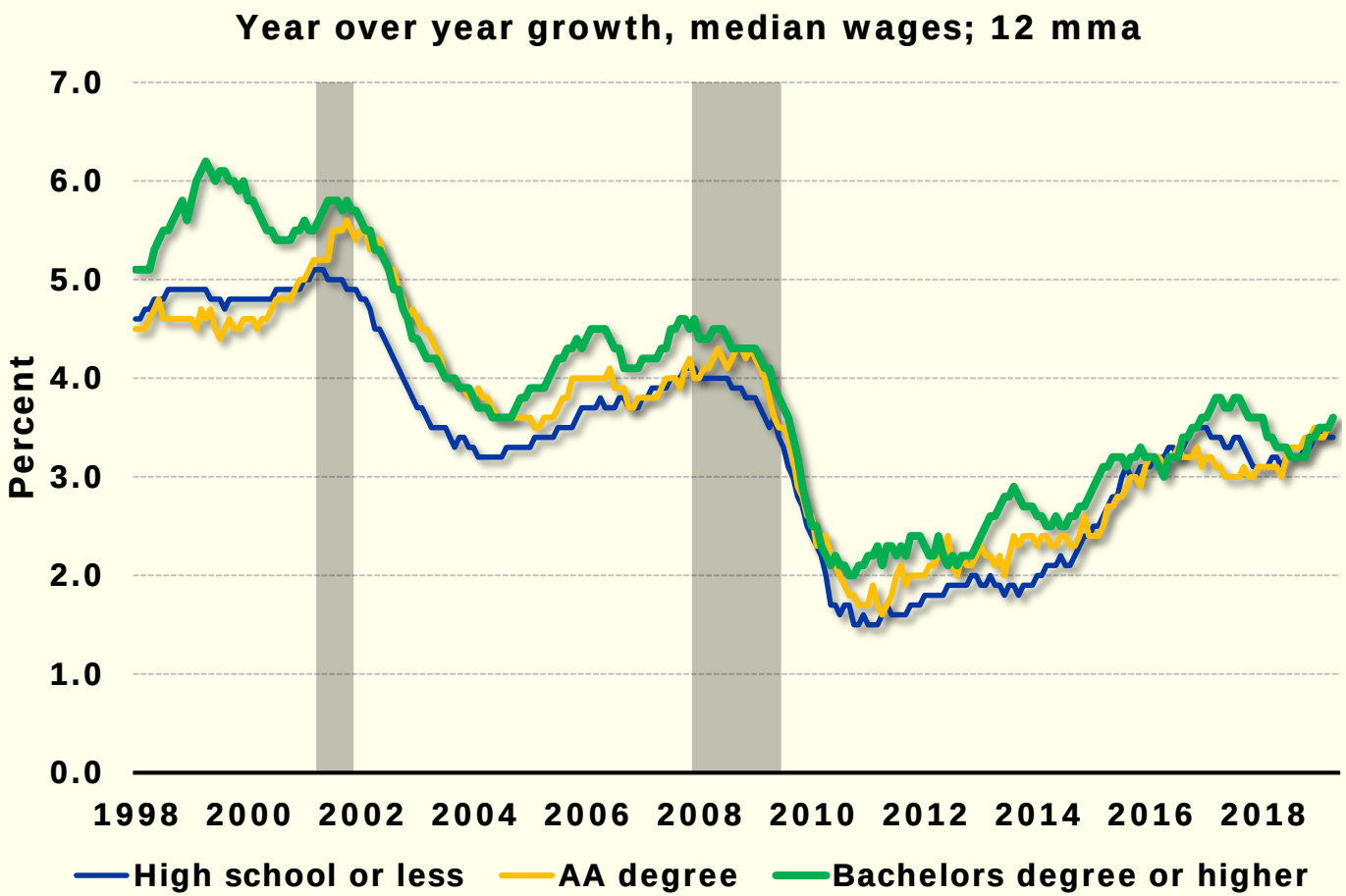
Thurston County: +2,600

Statewide: +81,200



Source: Employment Security Dept.

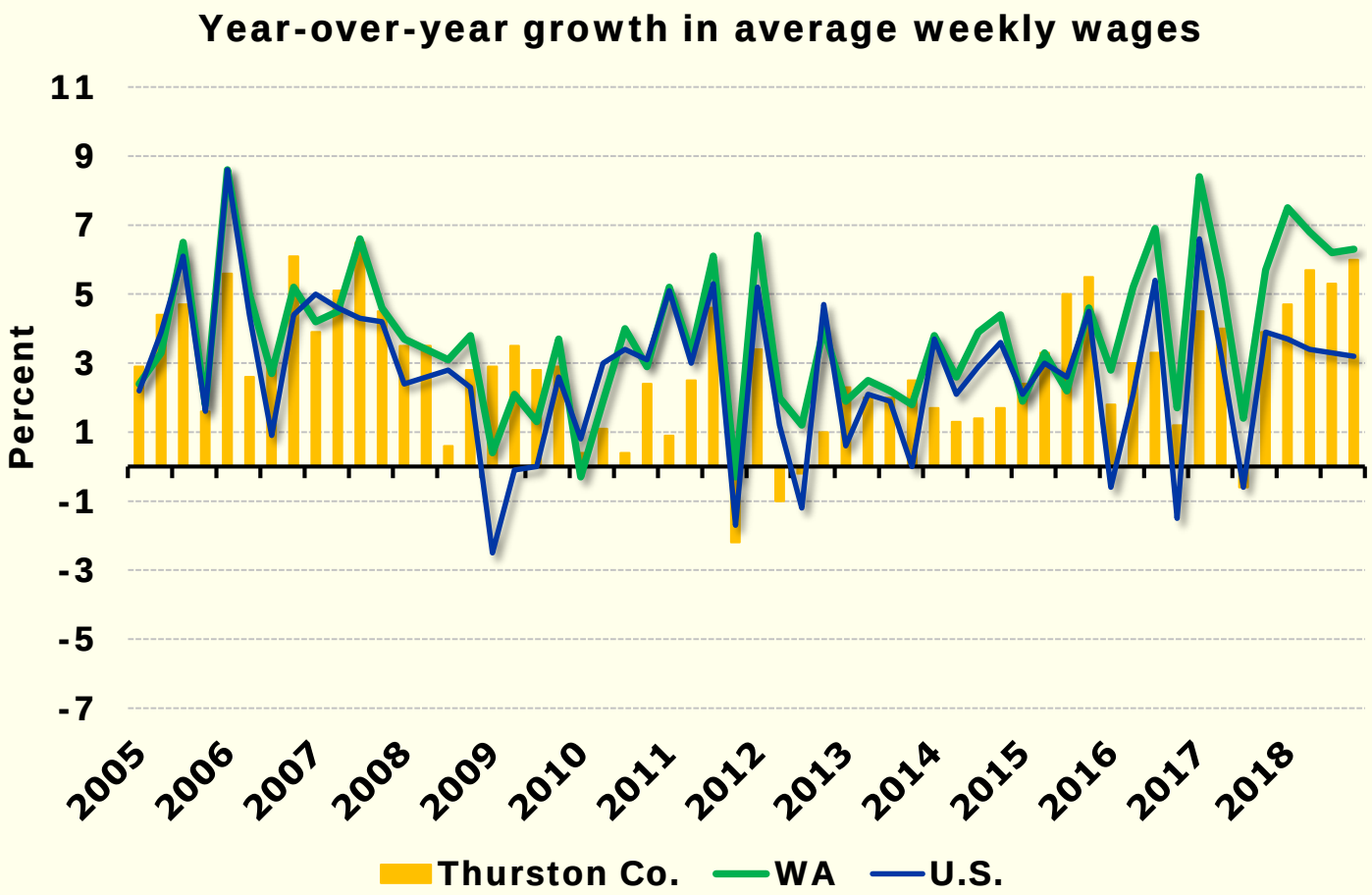
Wage growth has averaged 3.3% to 3.4% in last 12 months regardless of educational level



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

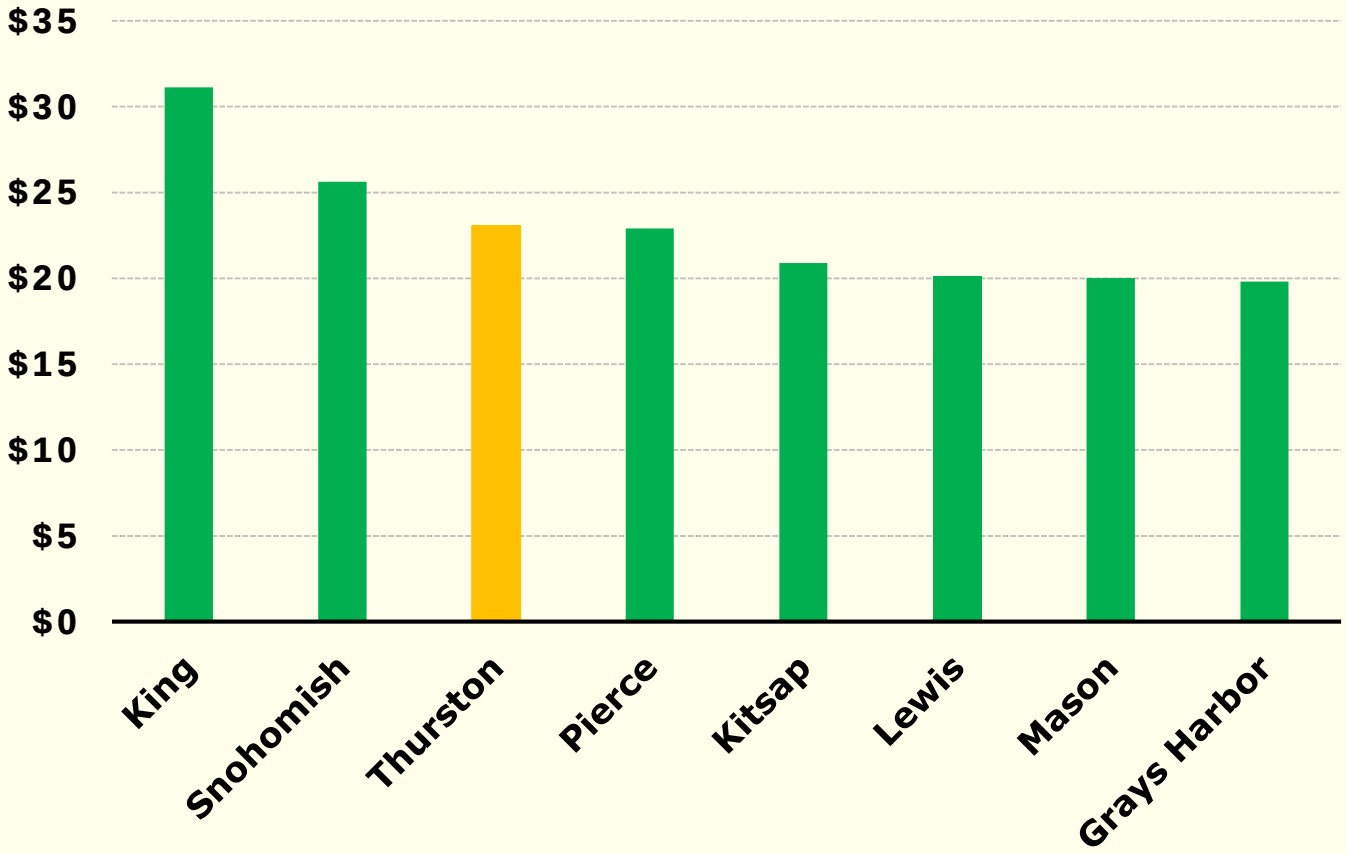
Weekly wage growth in WA and Thurston County are outpacing the nation recently

Weekly wage growth is due to both changes in hourly wages and changes in hours worked



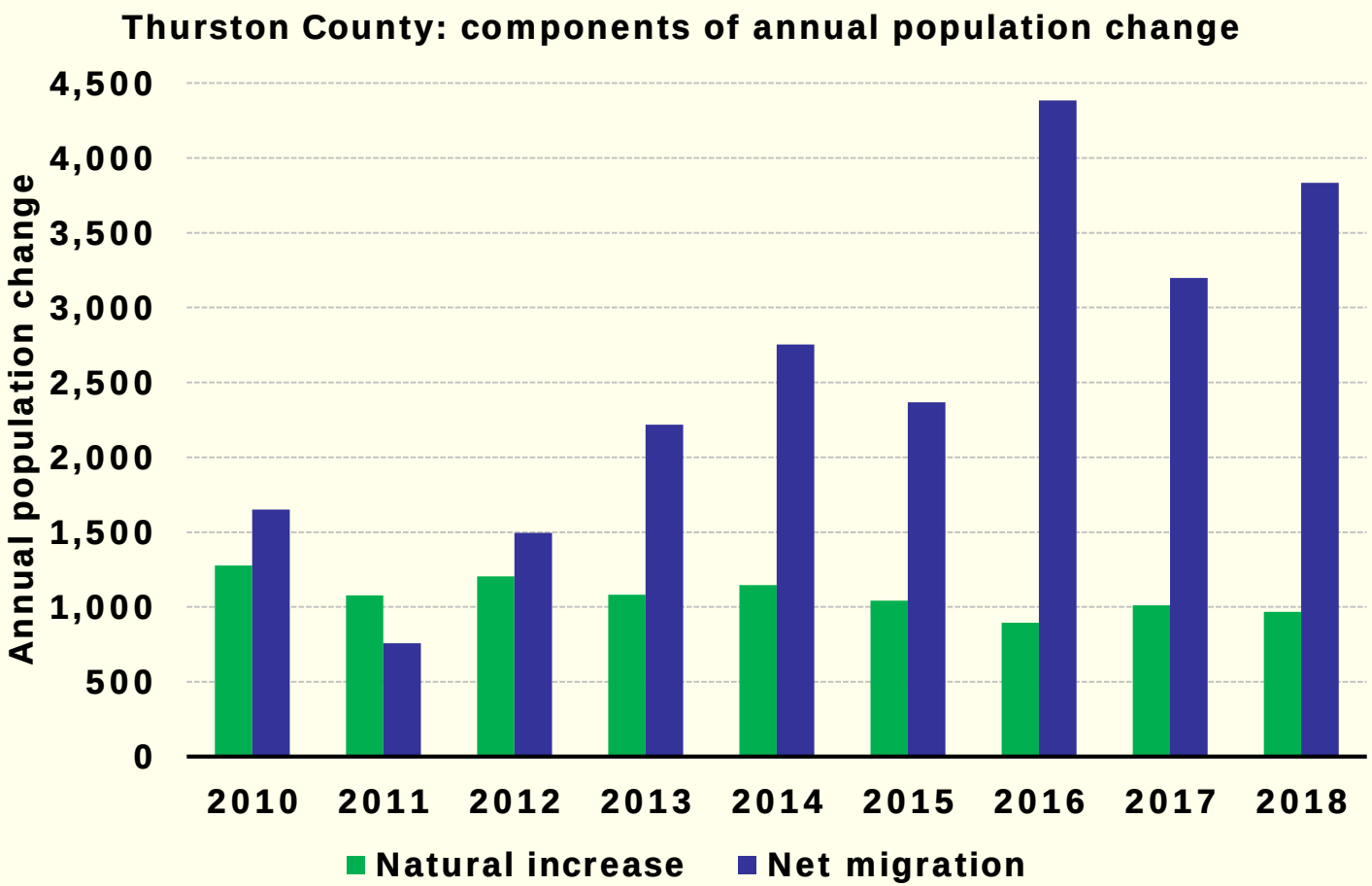
Source: U.S. Bureau of Labor Statistics, quarterly data through 2018 Q4

2017 median hourly wage, selected counties



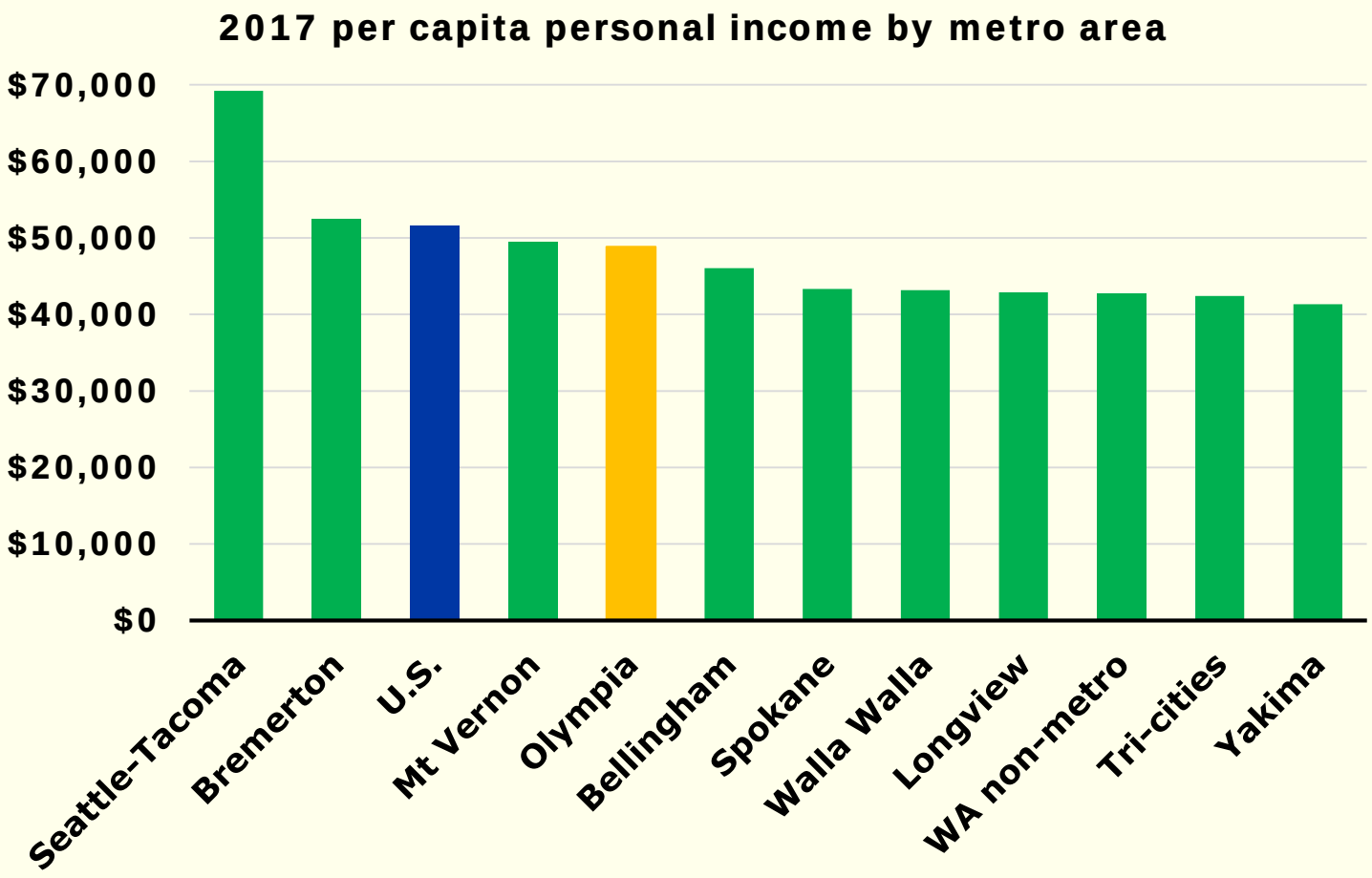
Source: WA Employment Security Dept.

Since 1990, net migration has accounted for an average of 74% of Thurston Co. population growth



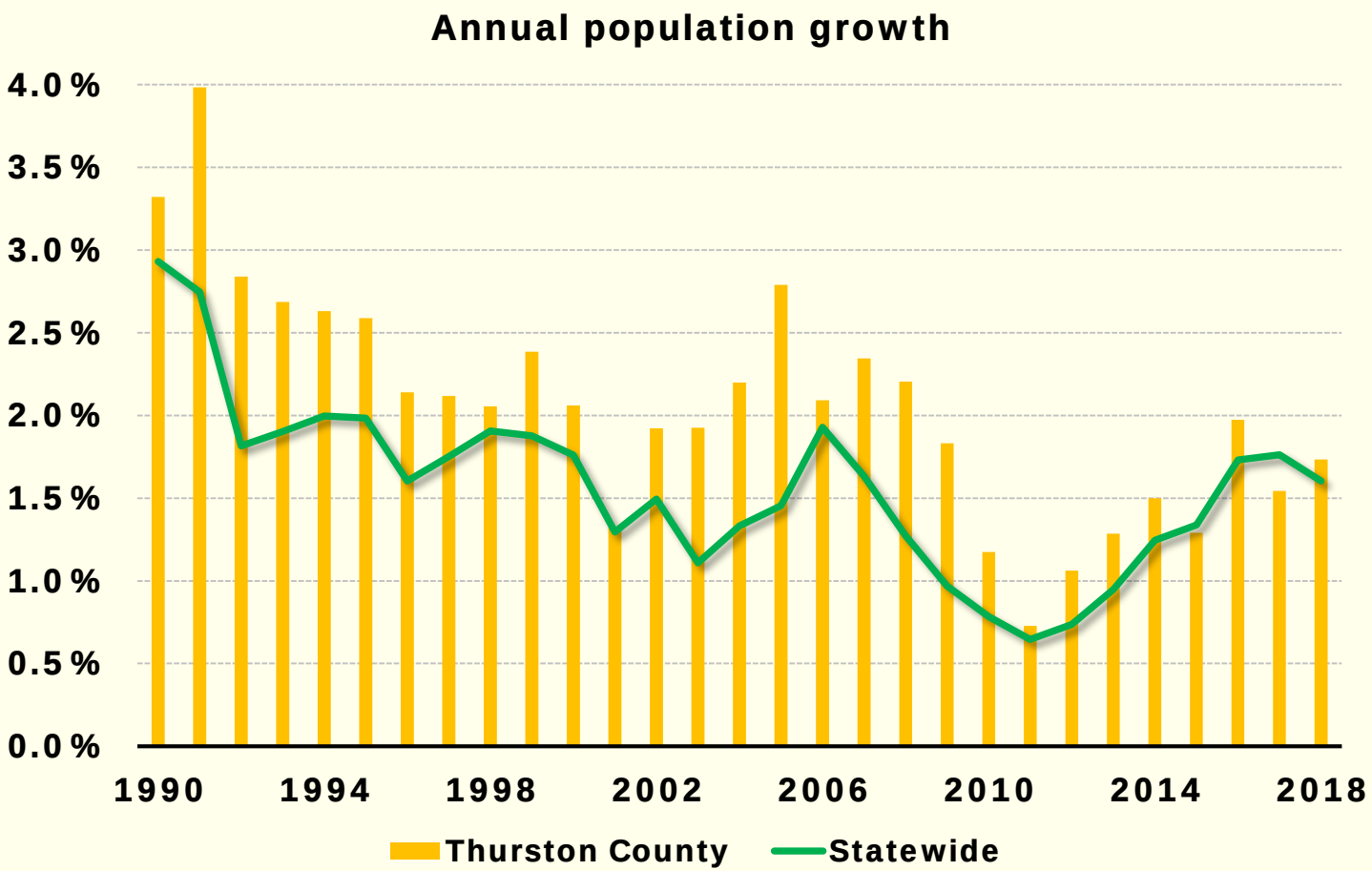
Source: Office of Financial Management, data for years ending April 1 through 2018

Outside of central Puget Sound, per capita income below U.S. level



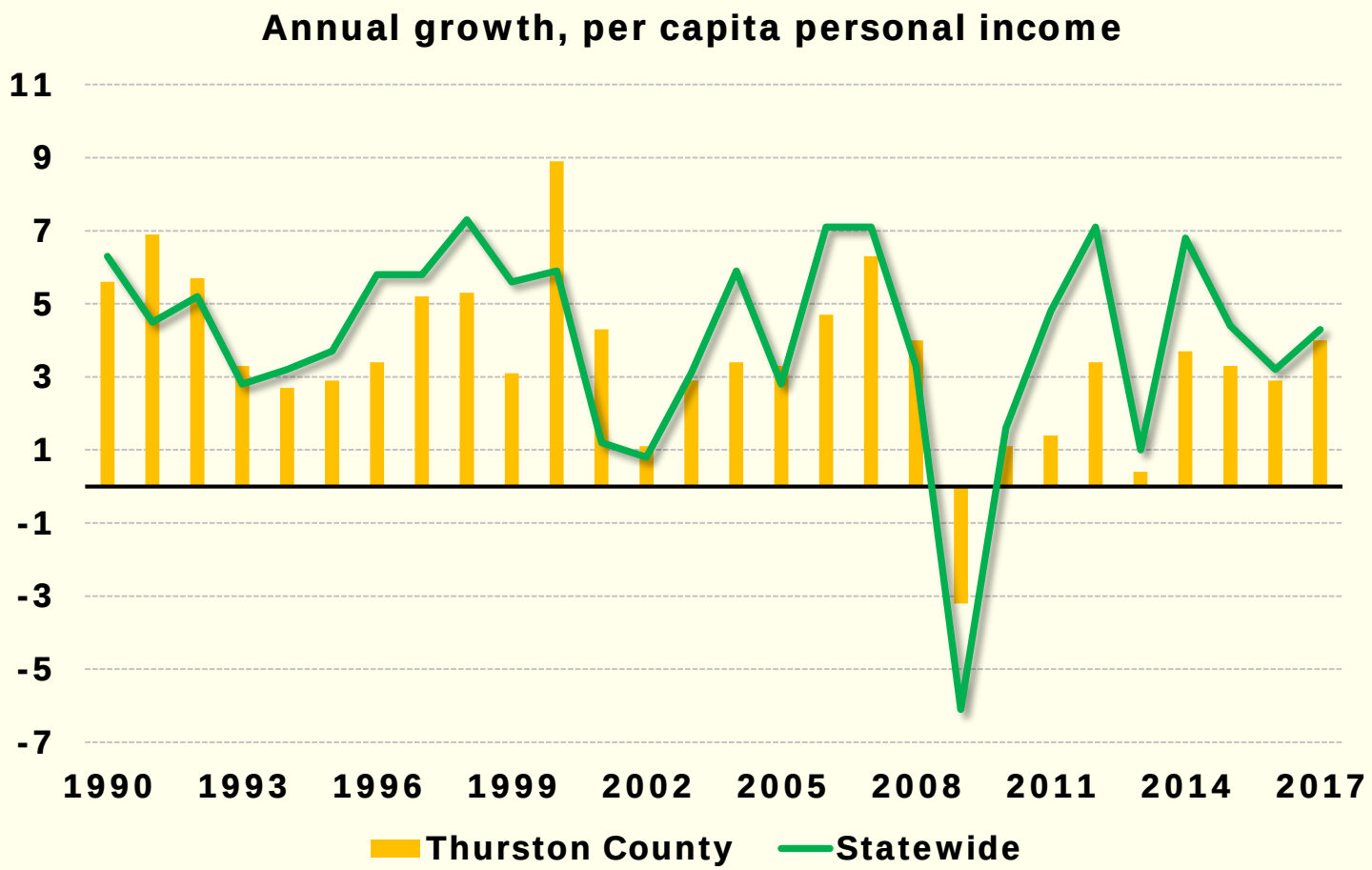
Source: U.S. Bureau of Economic Analysis

Since 1990, Thurston County has generally seen faster population growth than the state as a whole



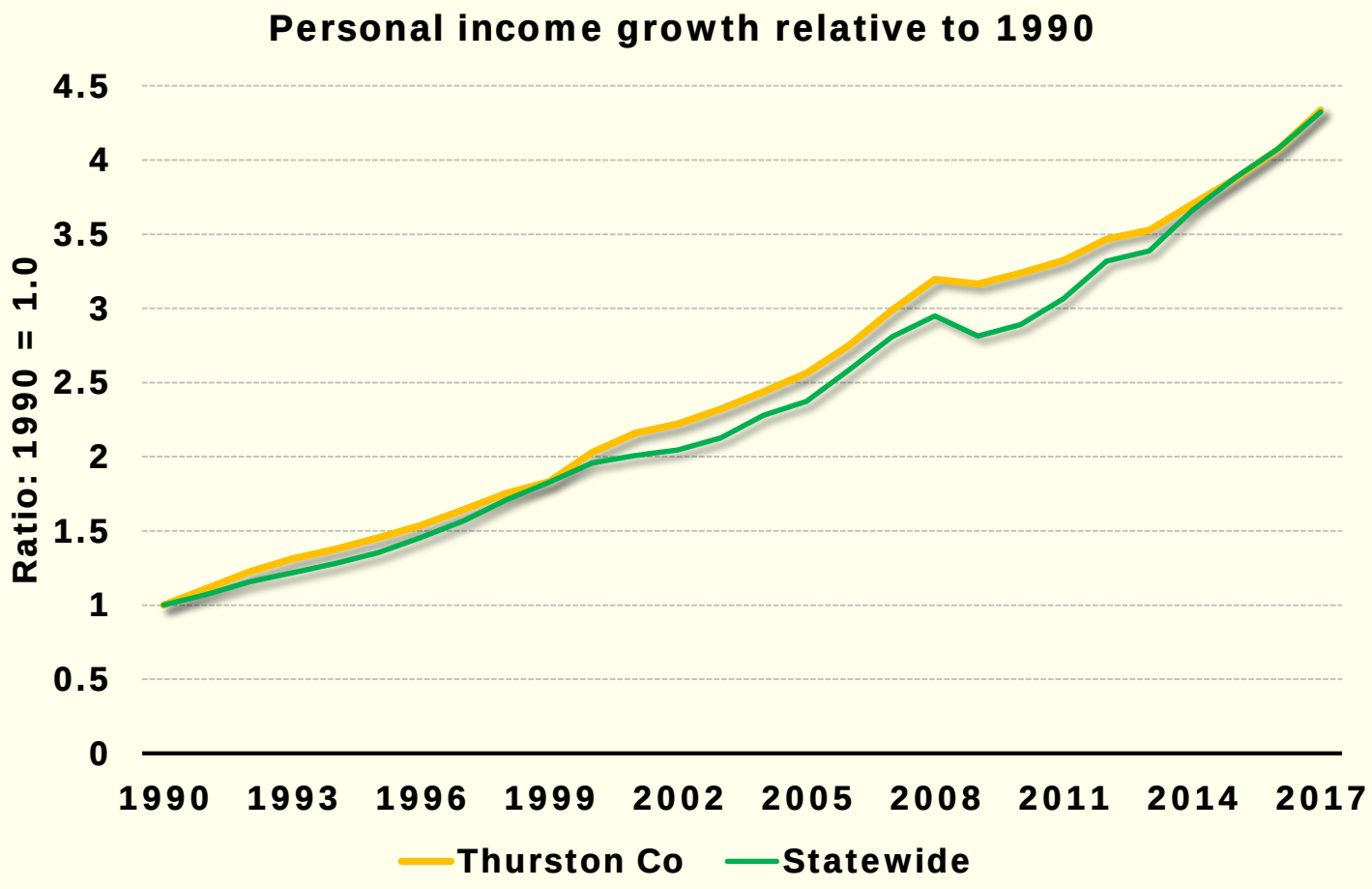
Source: Office of Financial Management, data for years ending April 1 through 2018

Thurston County per capita personal income has generally grown slower than the state



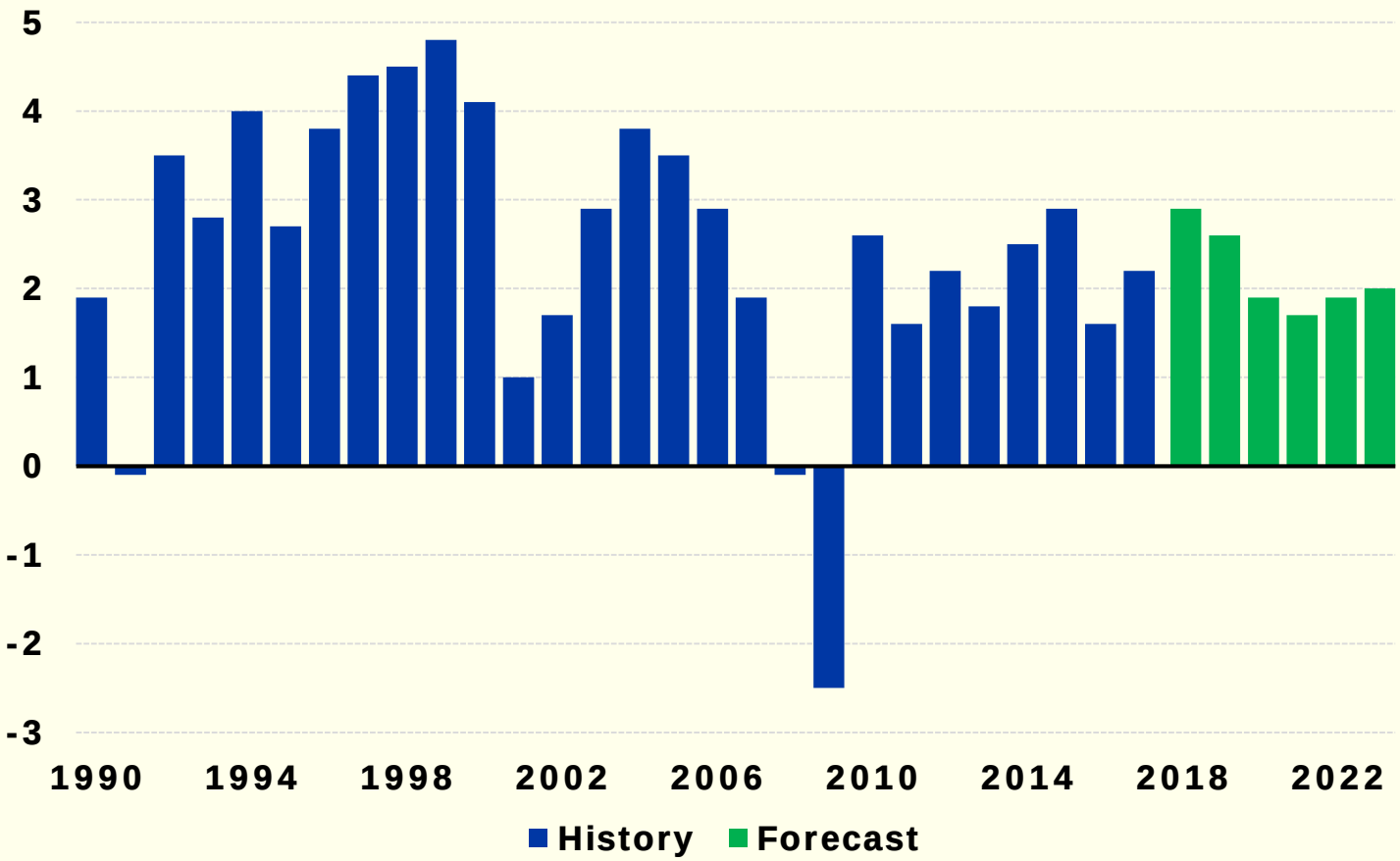
Source: U.S. Bureau of Economic Analysis, data through 2017

Thurston Co. personal income growth has generally tracked the state



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

GDP growth is expected to average 1.9% in 2019 - 2023



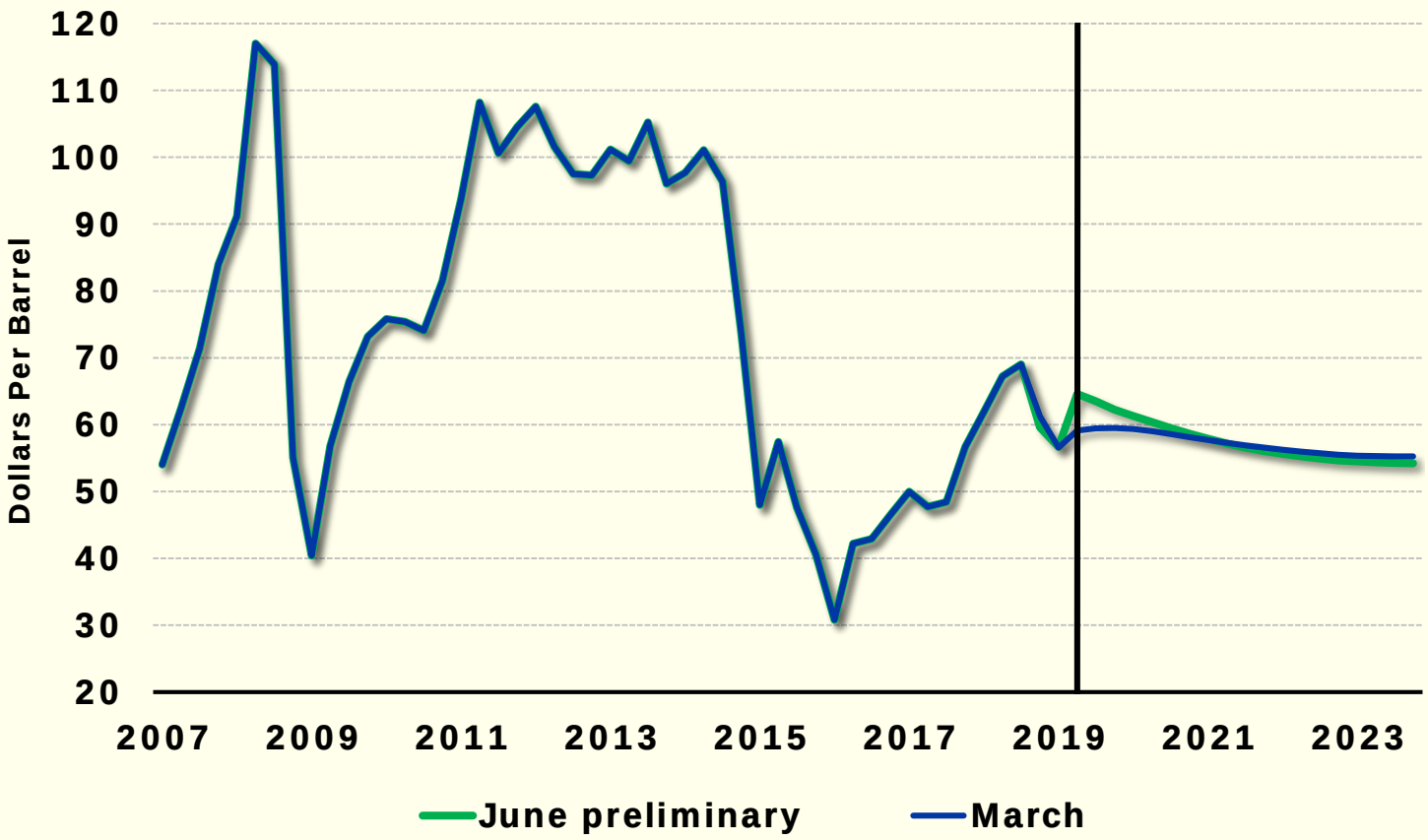
Source: U.S. Dept. of Commerce, BEA, history through 2018; ERFC preliminary June 2019 forecast

CBO estimates that the sustainable annual growth rate for U.S. economy averages 2% in 2019-23

The components of potential real GDP growth are potential growth in the labor force and potential growth in the productivity of the labor force

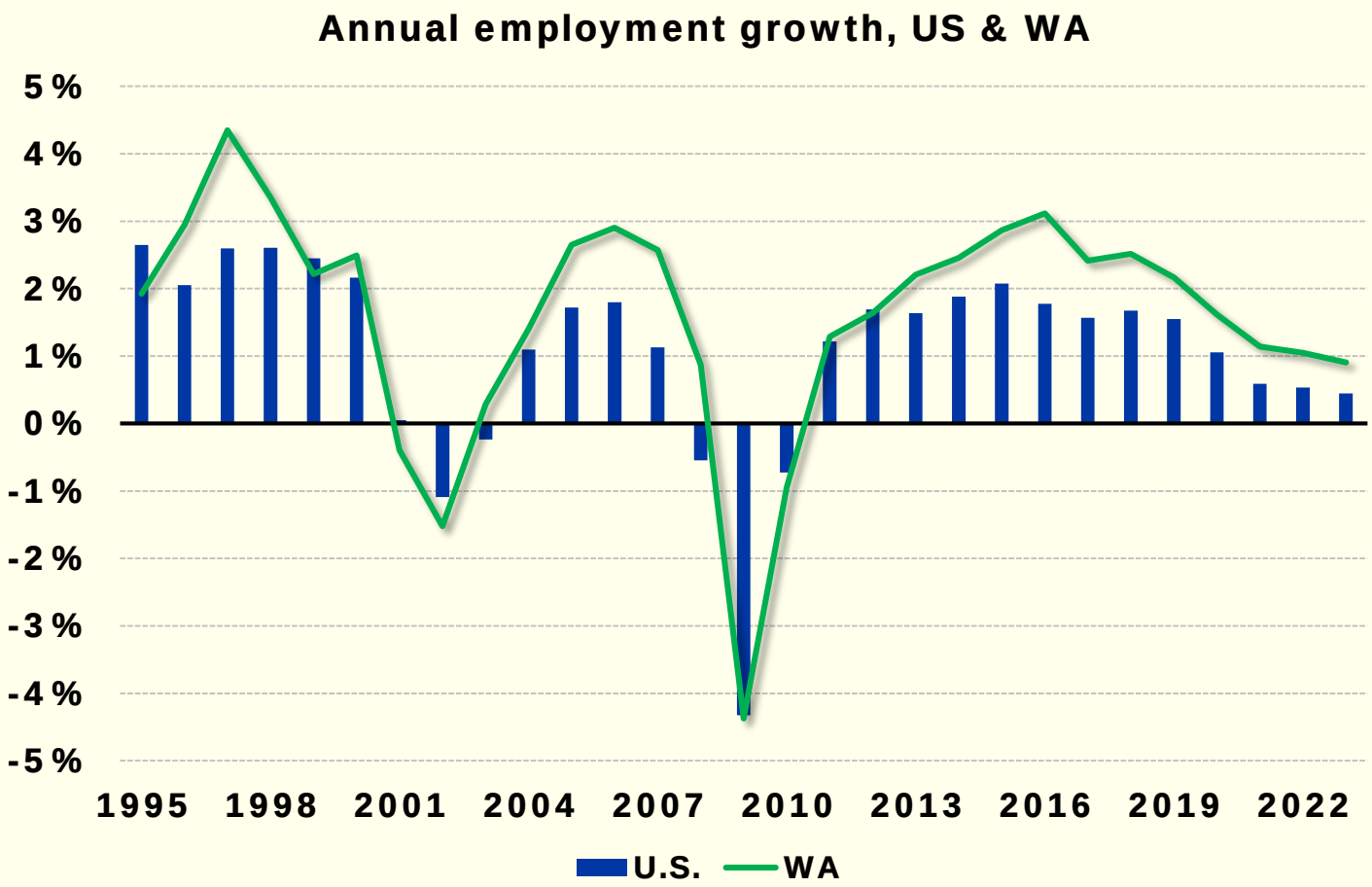
Source: Congressional Budget Office: Budget and Economic Outlook, Jan. 2019

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



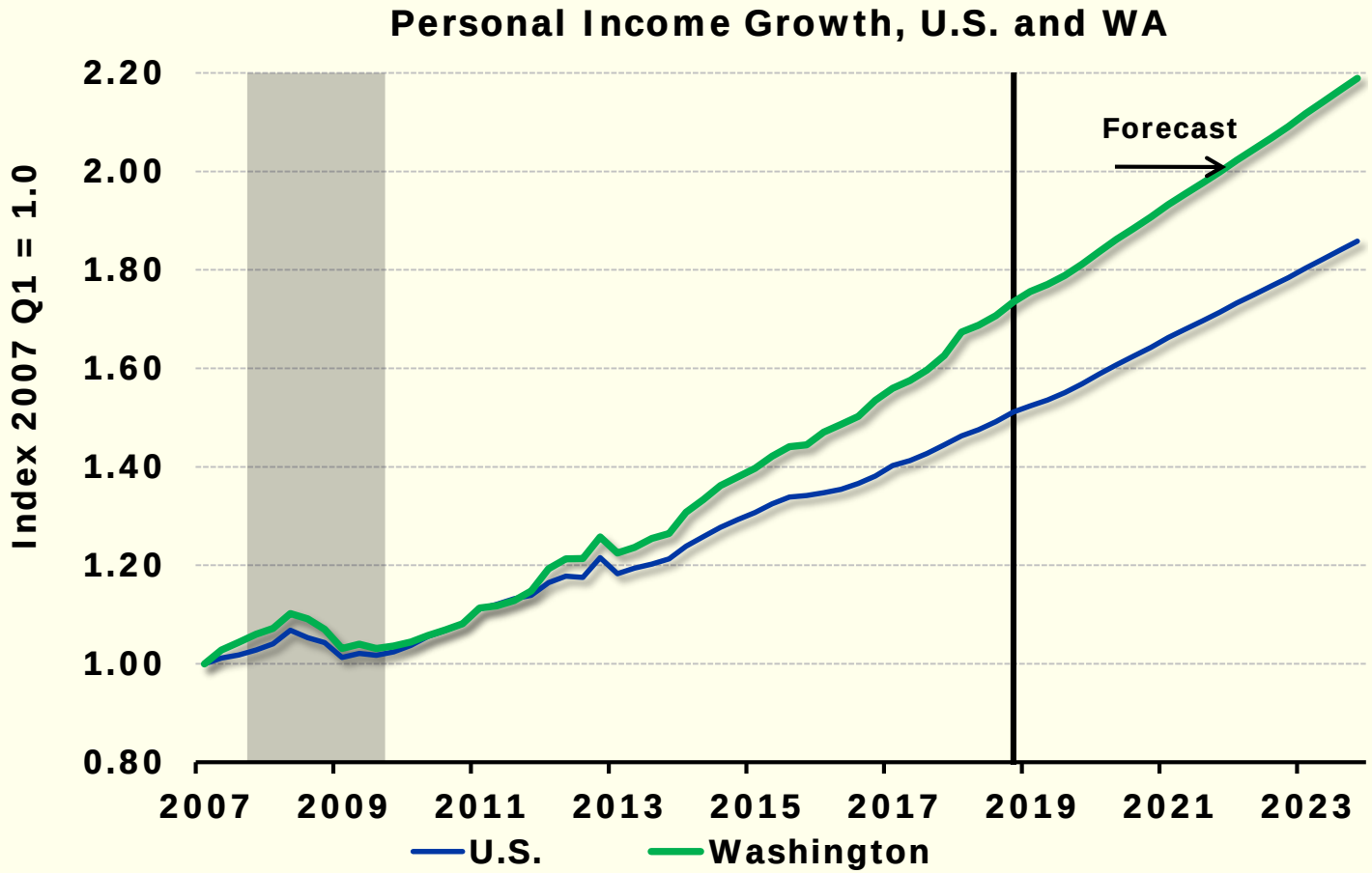
Source: Energy Information Administration, IHS Markit, ERFC; data through Q1 2019
Note: Vertical black line indicates last actual

Both U.S. and WA employment growth are expected to slow



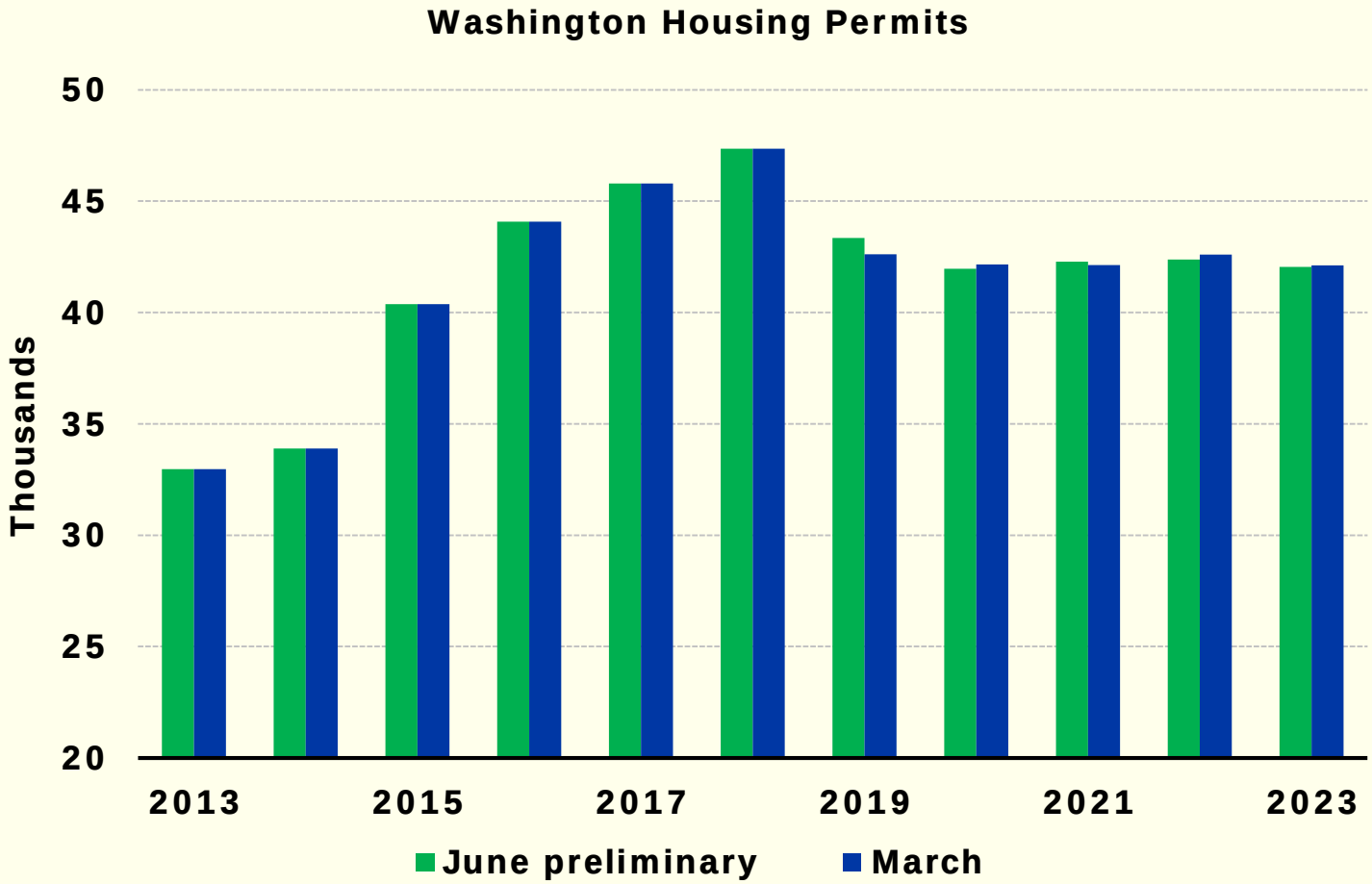
Source: U.S. Dept. of Labor, BLS, history through 2018; ERFC preliminary June 2019 forecast

State personal income will continue to grow faster than the U.S.



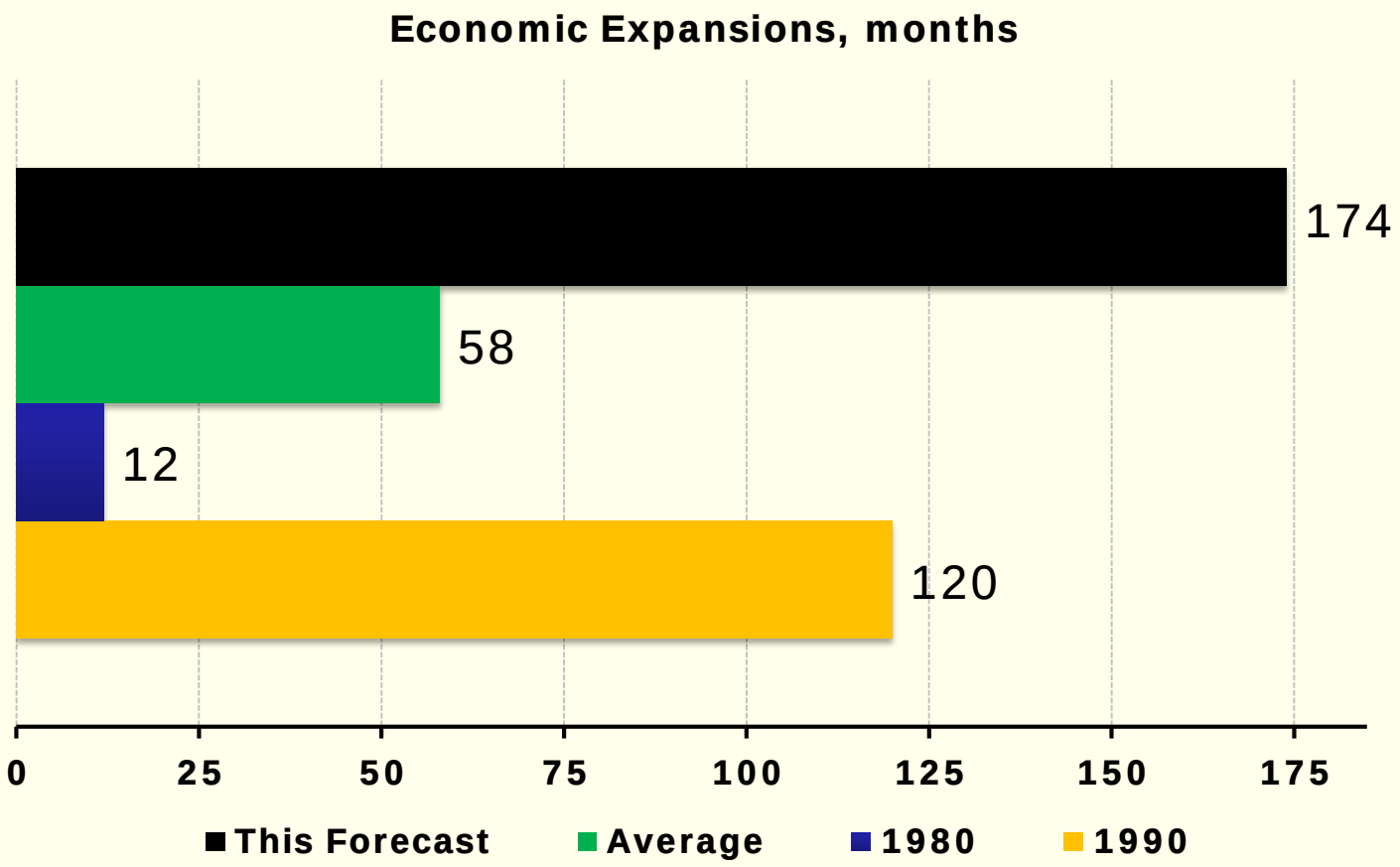
Source: ERFC preliminary June 2019 forecast; historical data through 2018Q4

Washington housing permits forecast is slightly higher in 2019 compared to March



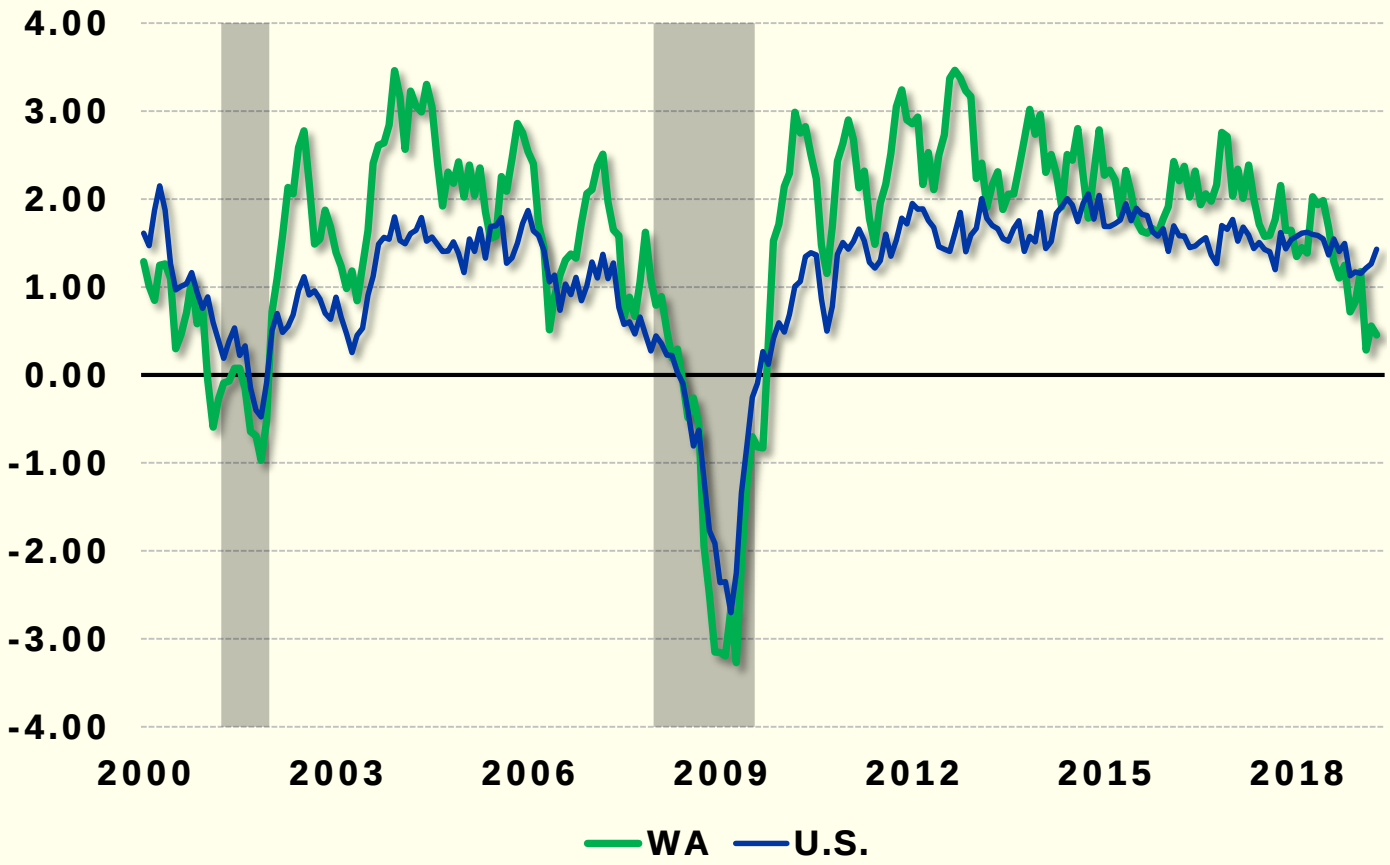
Source: ERFC June 2019 Preliminary forecast; historical data through 2018

U.S. Economic Expansions since 1945



Sources: NBER, ERFC preliminary June 2019 forecast

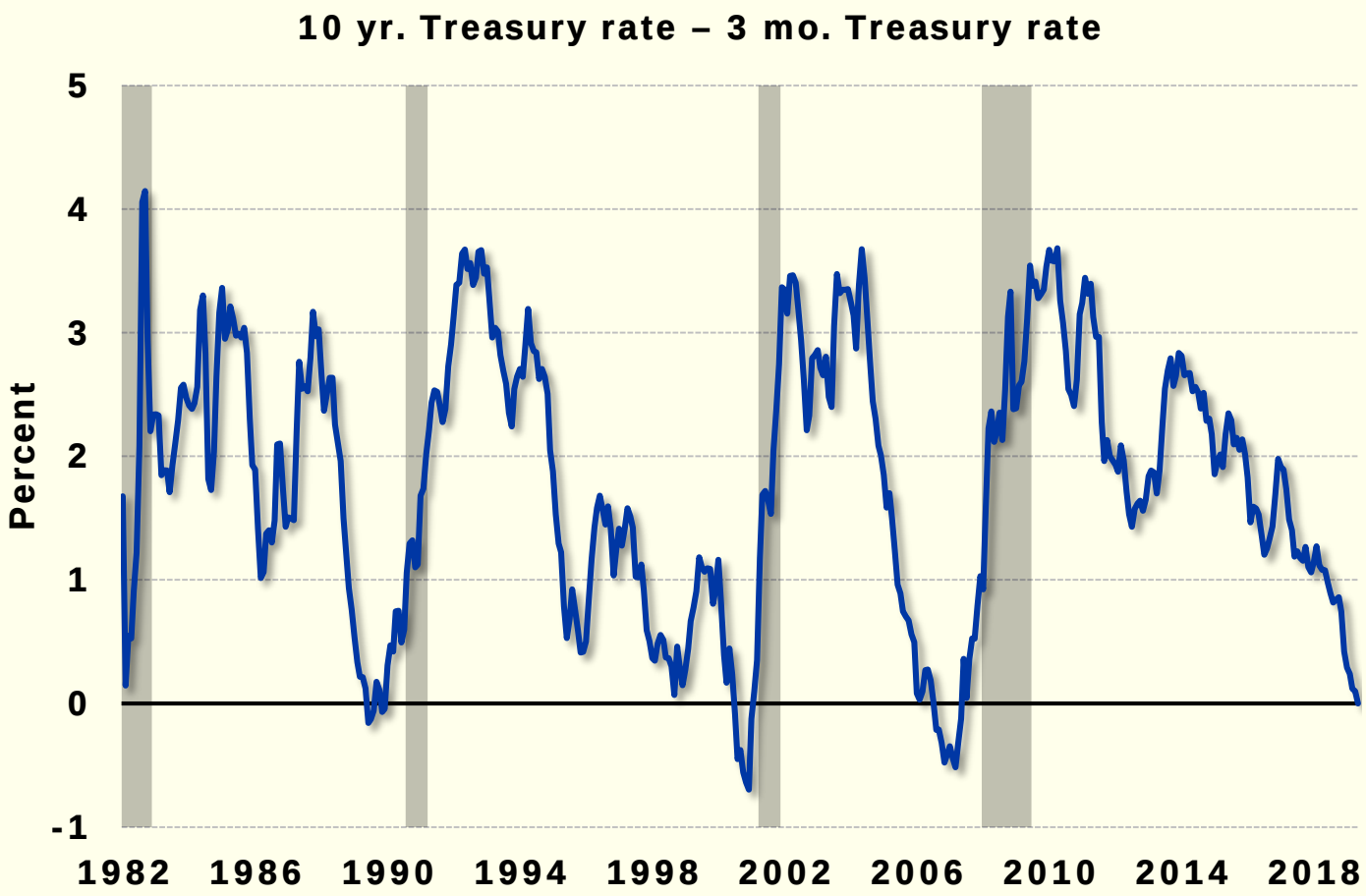
Leading economic indexes for WA dipped recently but do not suggest a recession in near term



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

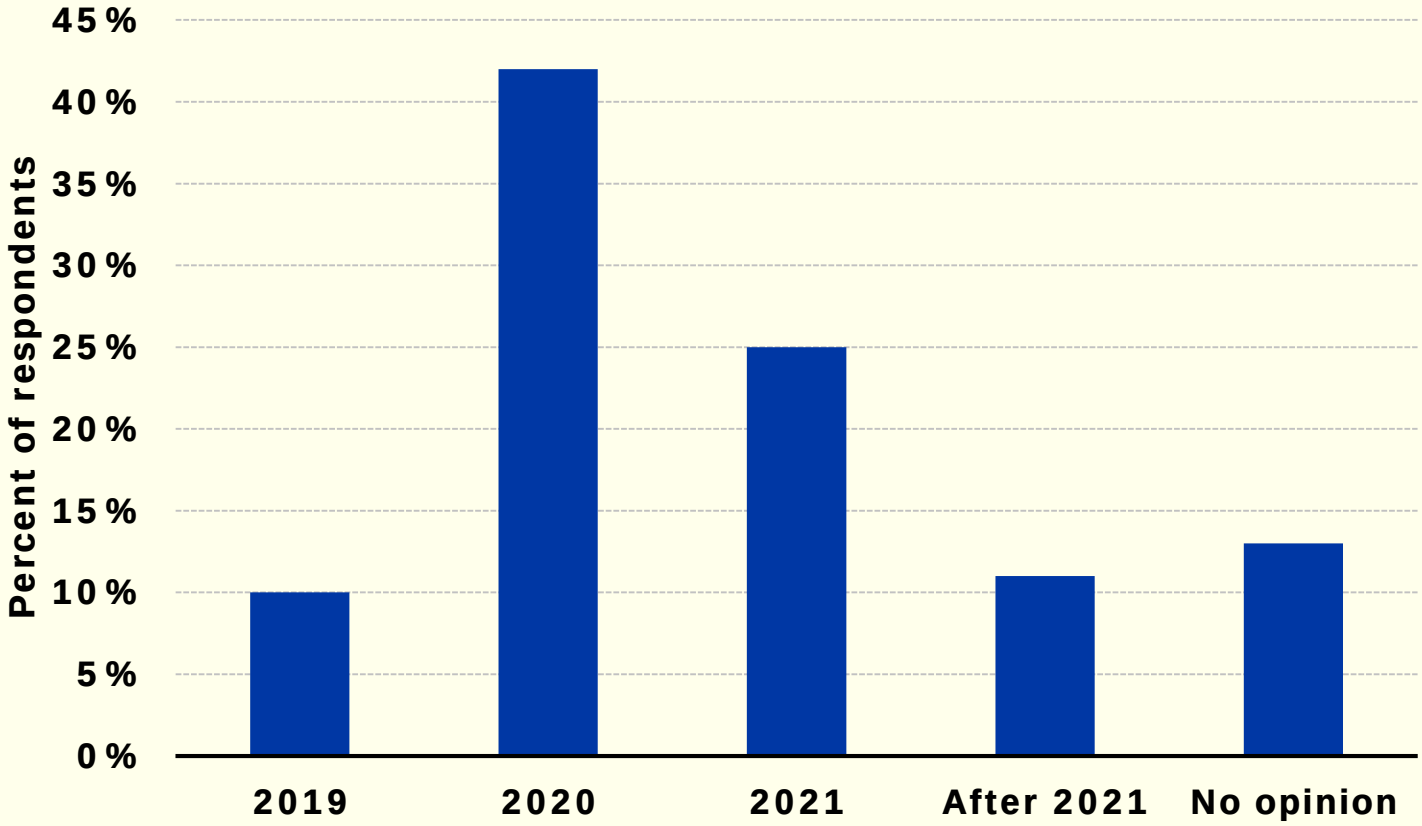
An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor

The yield curve inverted for five days in March and eight days in May. Through June 7th, the yield curve has been inverted for 11 days.



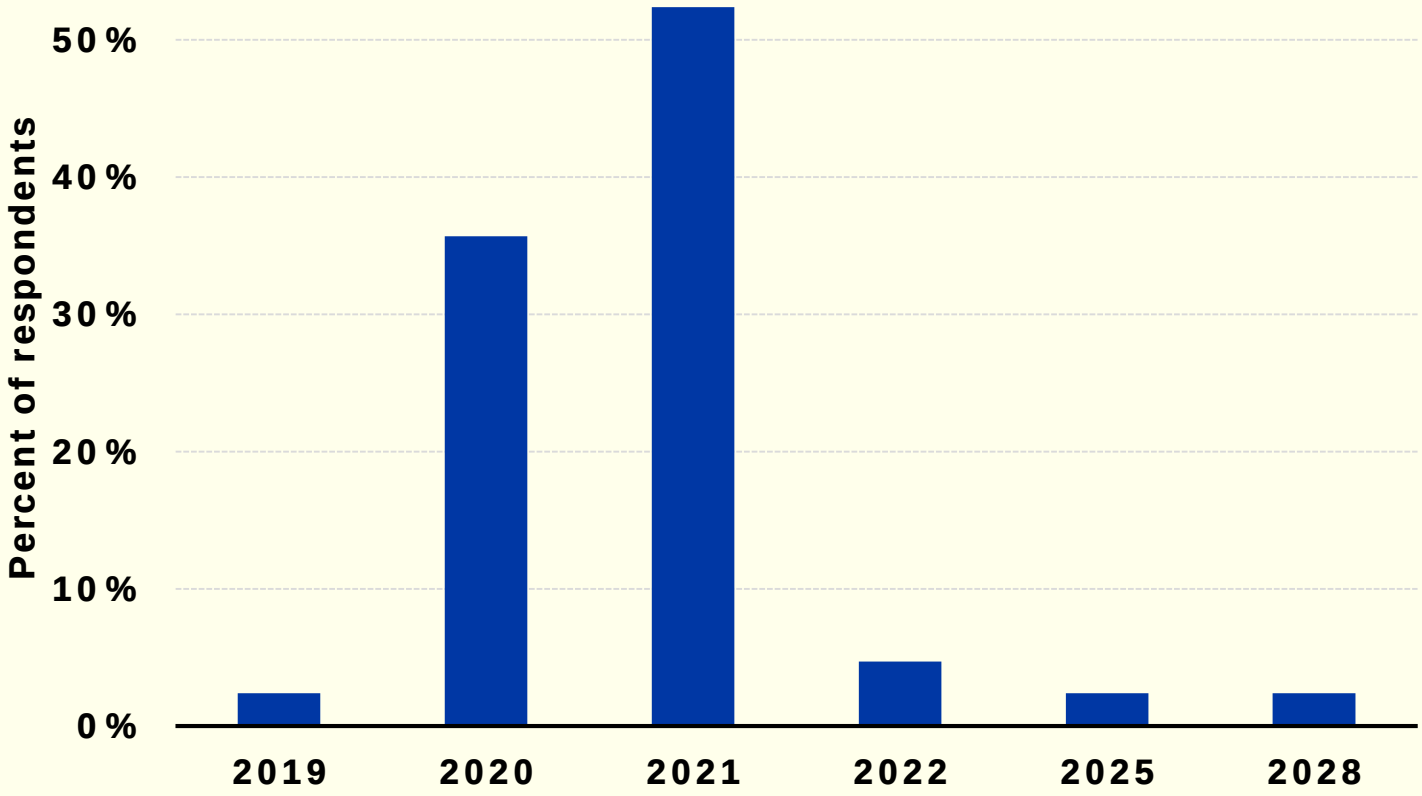
Source: Federal Reserve Bank of St. Louis, monthly data through May 2019

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



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

Timing of next recession: Wall Street Journal economist survey

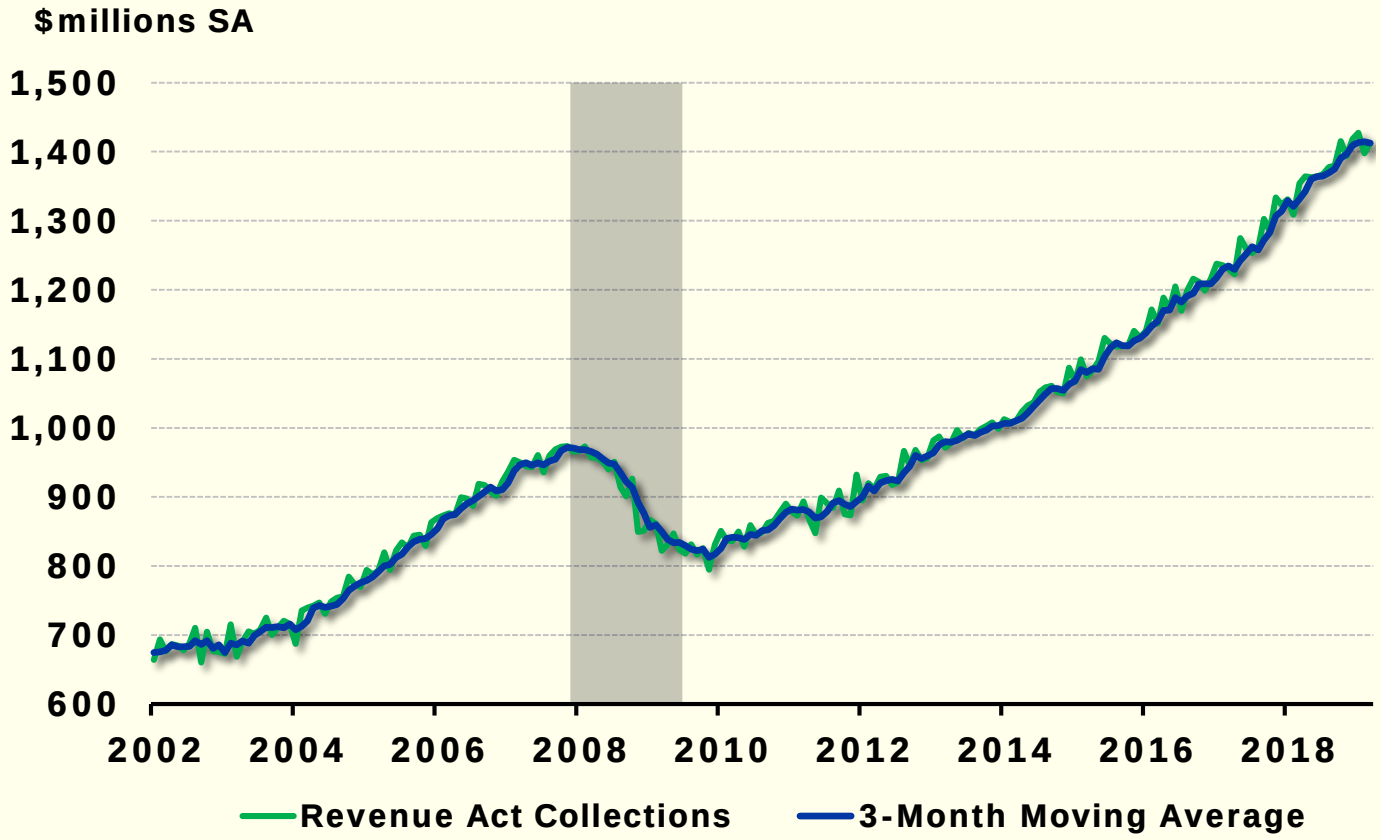


Source: Wall Street Journal, monthly economist survey, May 2019

Revenue Act collections growth has been strong

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

2018Q2: 8.8%
2018Q3: 7.6%
2018Q4: 7.4%
2019Q1: 5.6%



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

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

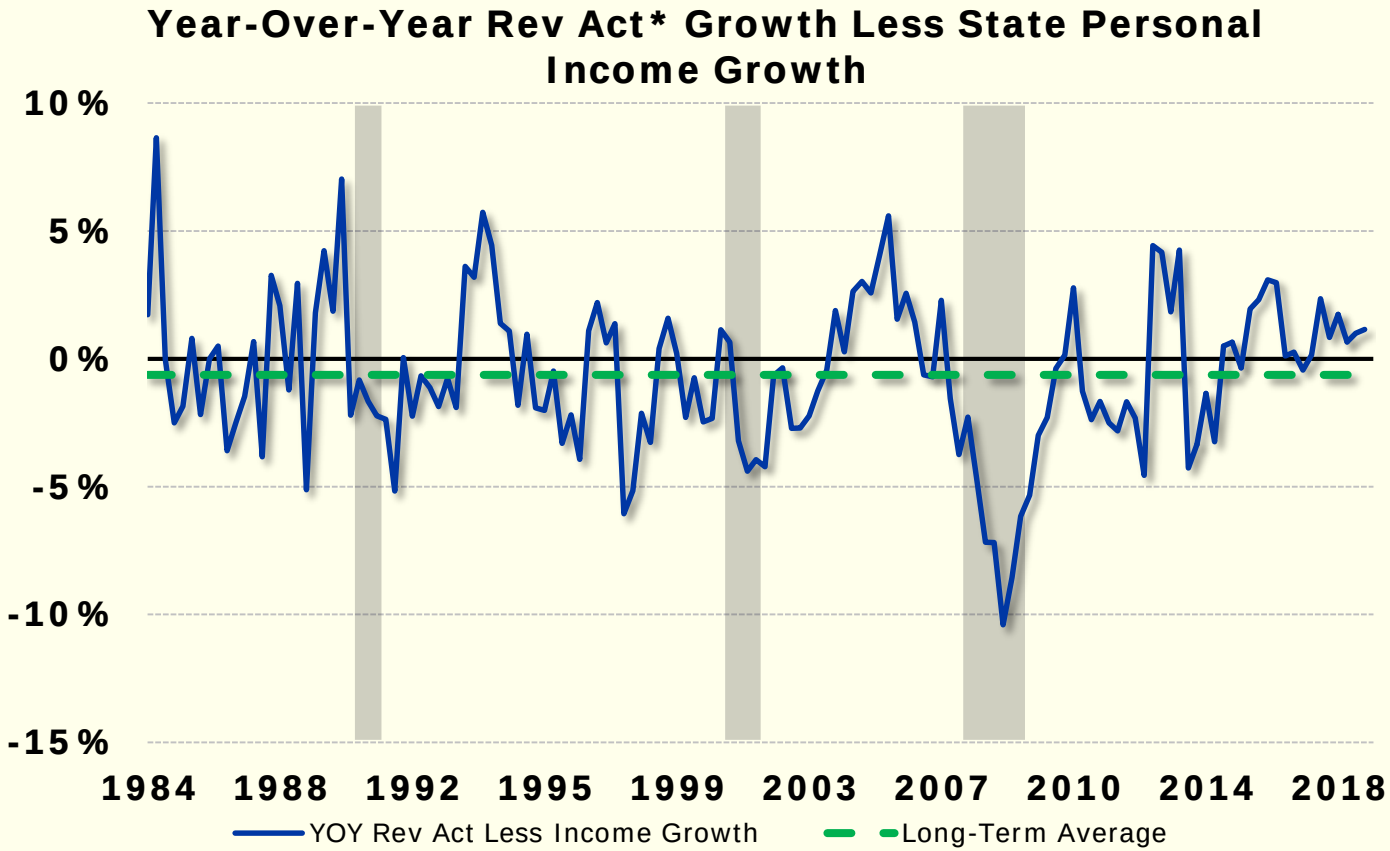
Rev Act collections still growing faster than personal income

Adjusted Rev Act growth YOY:

18Q2: 8.8%
18Q3: 7.6%
18Q4: 7.4%
19Q1: 5.6%

March personal income YOY growth estimates:

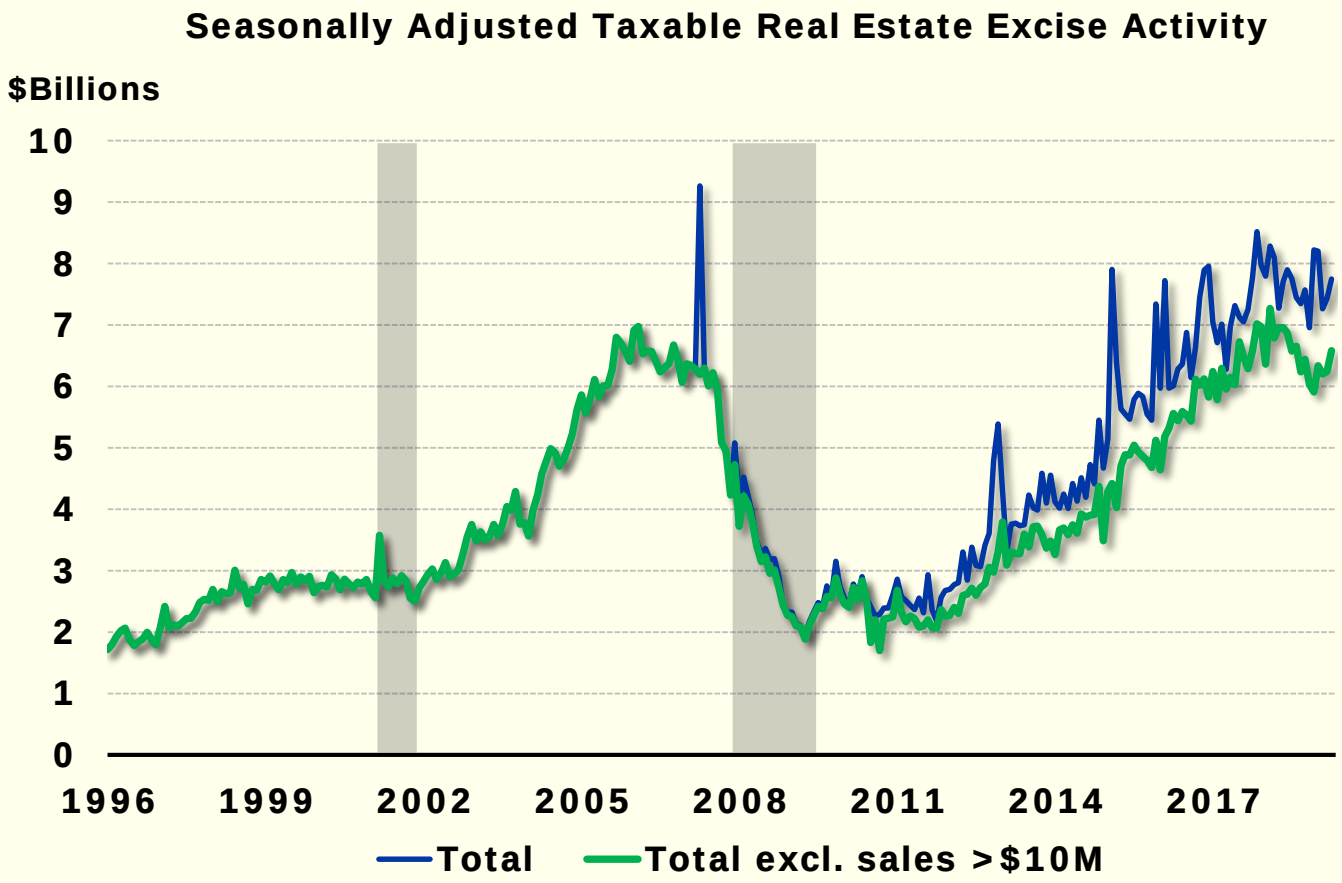
18Q2: 7.1%
18Q3: 6.9%
18Q4: 6.5%
19Q1: 4.4%



*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q1 2019, March 2019 income estimates

Residential REET activity has picked up while commercial remains strong

Large commercial sales (>$10 million) have averaged $1.1 billion per month for the last three months.

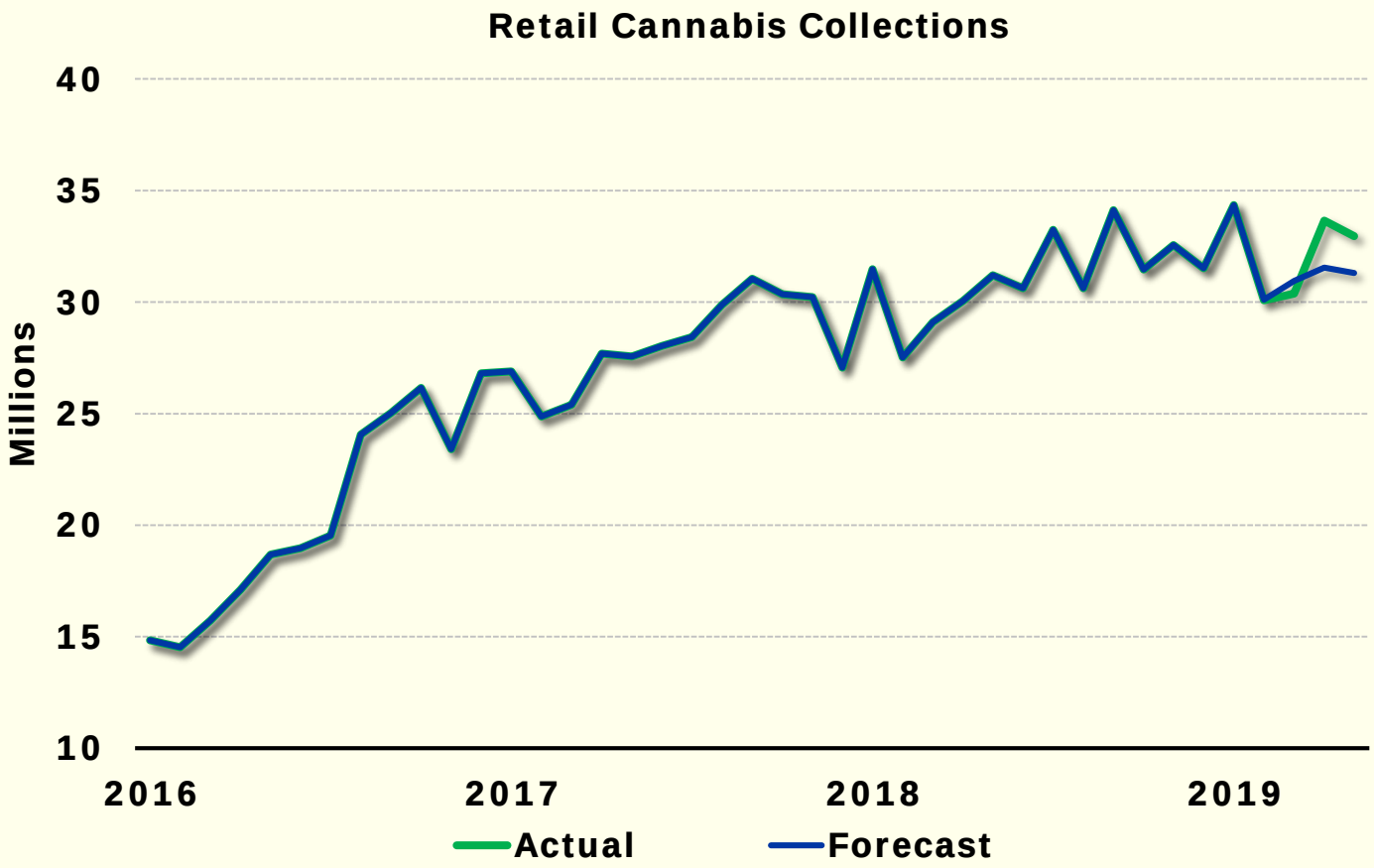


Source: ERFC; Monthly data through April 2019 preliminary

Cannabis revenue continues to be volatile

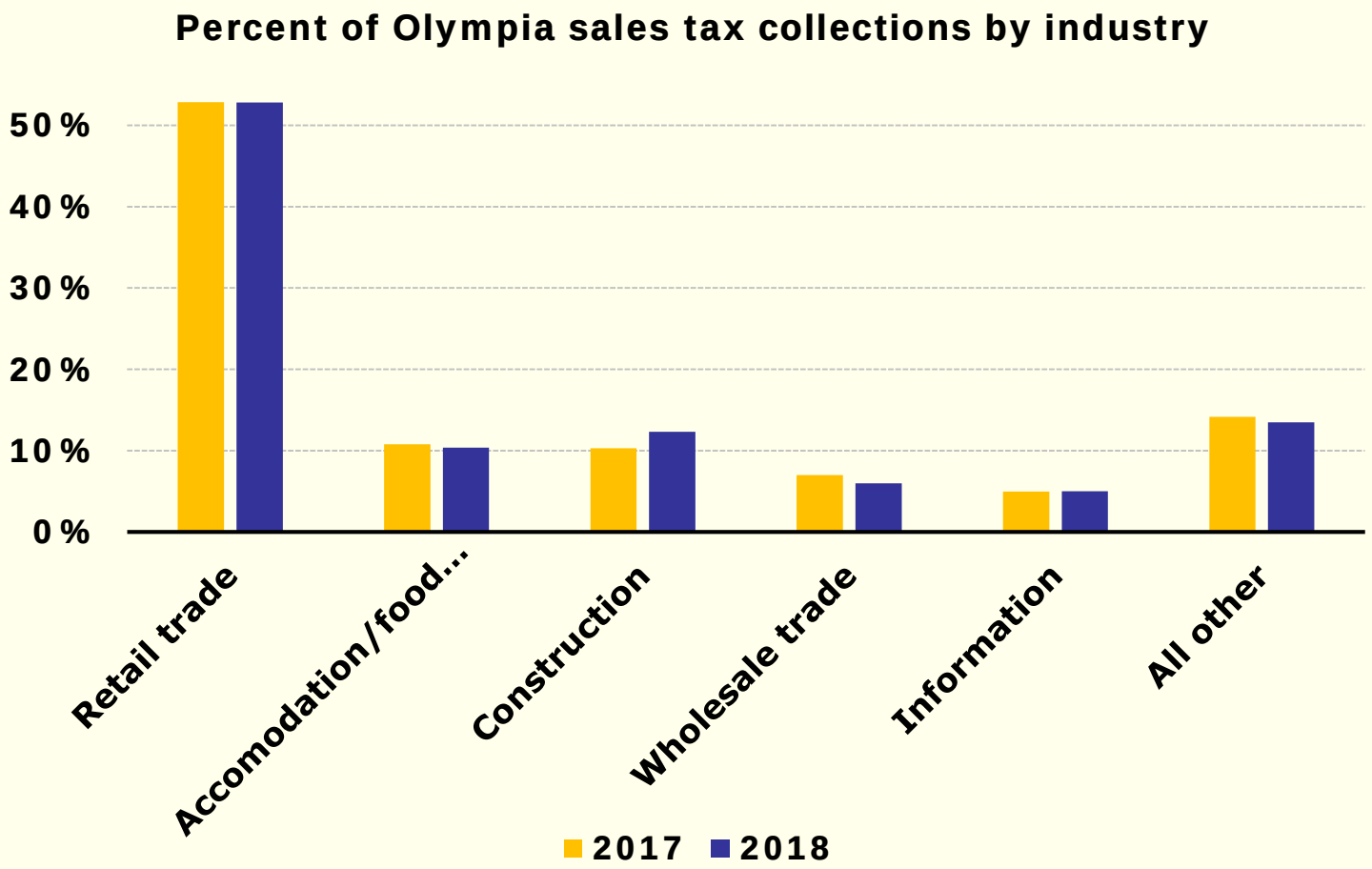
Collections were 5.2% above forecast in May

Collections are 3.4% above forecast since March



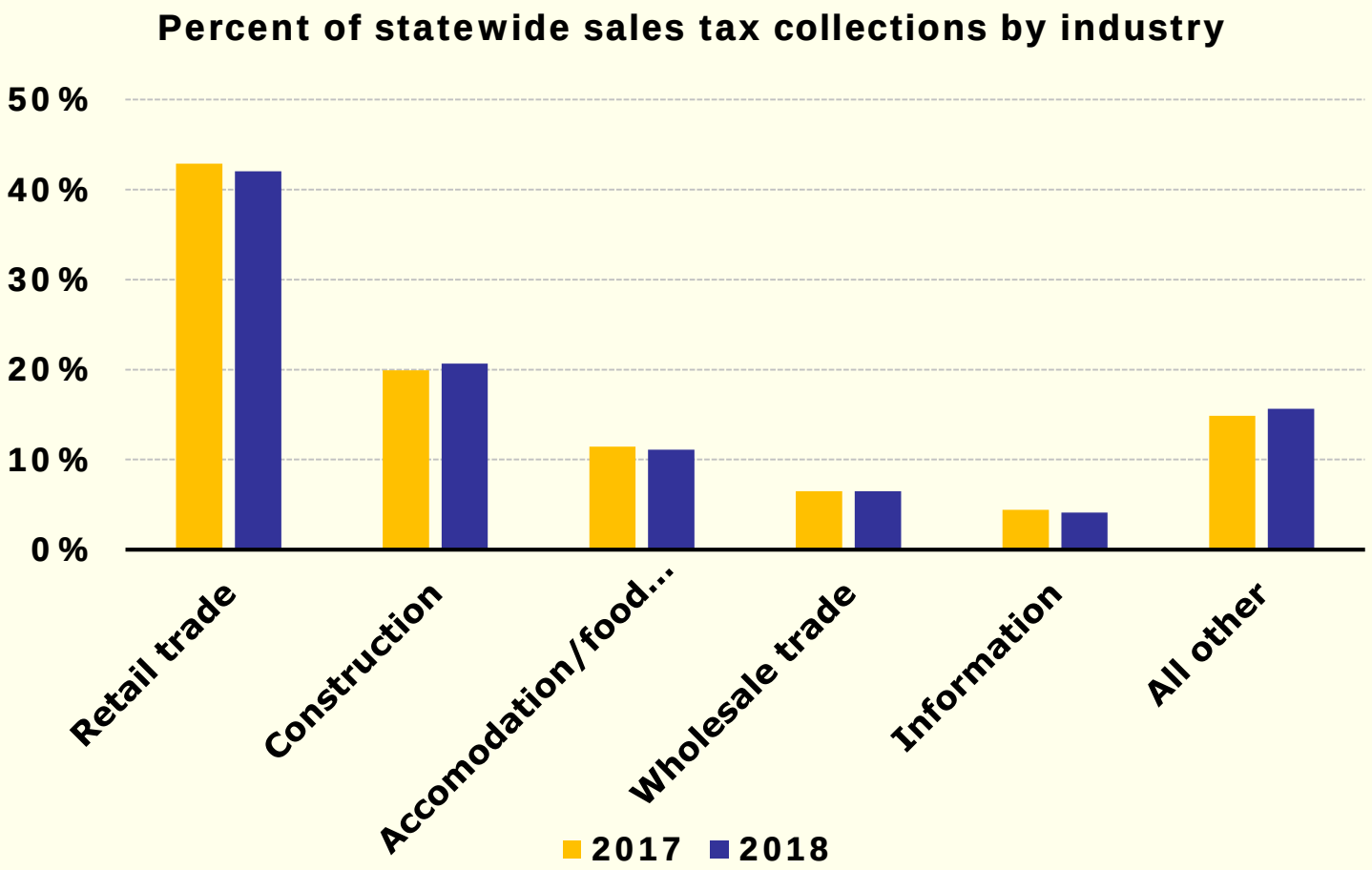
Source: LCB, ERFC March 2019 Forecast; data through May 2019

53% of Olympia sales tax collections come from the retail trade sector



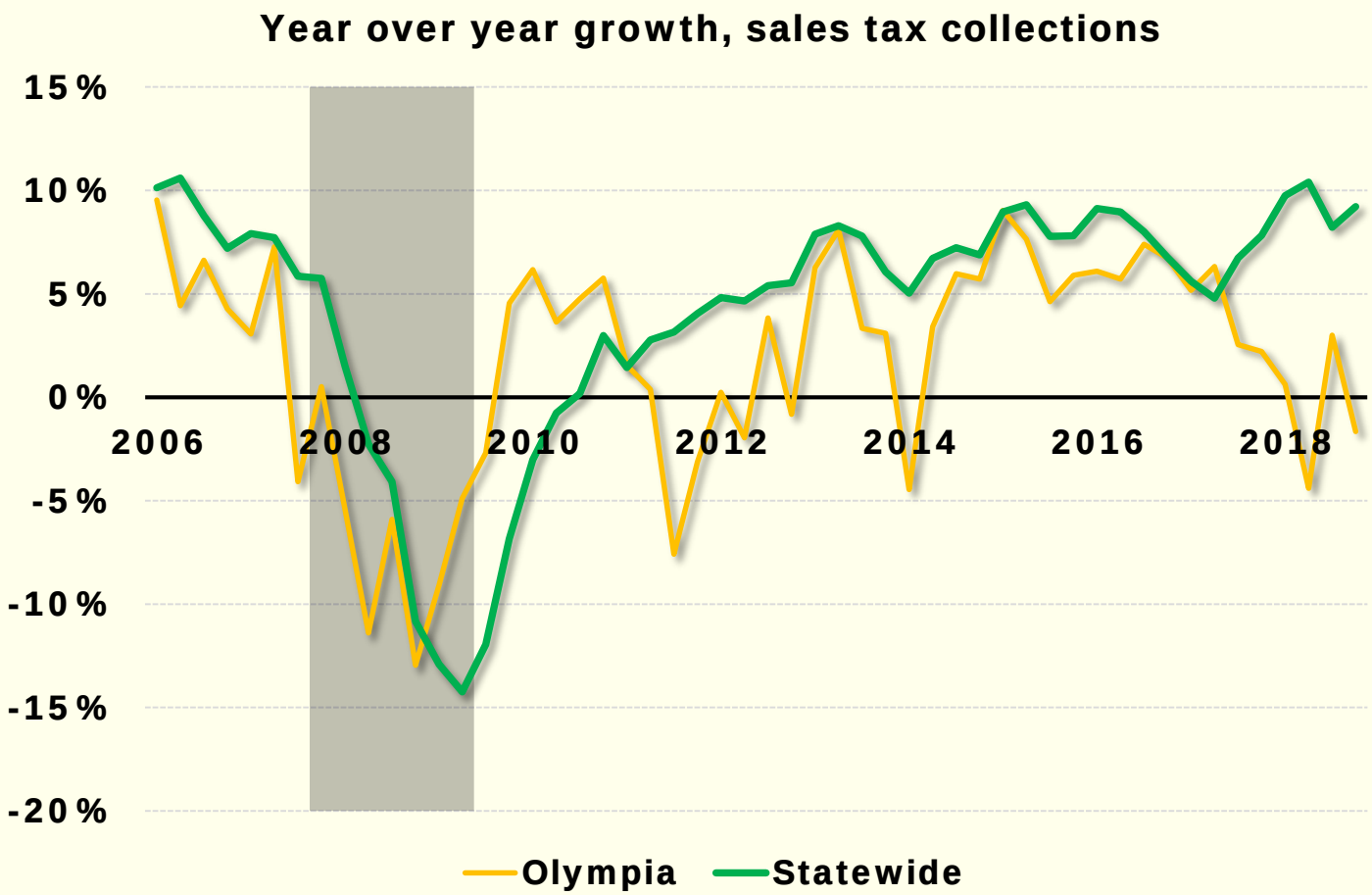
Source: Dept. of Revenue; City of Olympia only

Statewide, retail trade is a smaller share of sales tax collections compared to Olympia



Source: Dept. of Revenue, data through 2018

Olympia sales tax growth at or below statewide growth since mid-2011



Source: Dept. of Revenue, quarterly data through 2018 Q4

Conclusion

- U.S., WA Economic forecasts are only slightly changed from March
- 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
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks

Questions

Economic & Revenue Forecast Council
www.erfc.wa.gov
360-534-1560