U.S. and Washington State Economic Outlook

Presented to
Pierce County Fire Chiefs Association

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

Summary

- Both the U.S. and WA economies are performing well but are expected to slow
- Inflation remains tame
- U.S. manufacturing activity has slowed, although the resolution of the GM strike should be helpful
- The 737 MAX is assumed to return to service in early 2020 with an increase in both deliveries and production
- State revenue collections have been strong but are expected to slow to more sustainable levels

Forecast risks

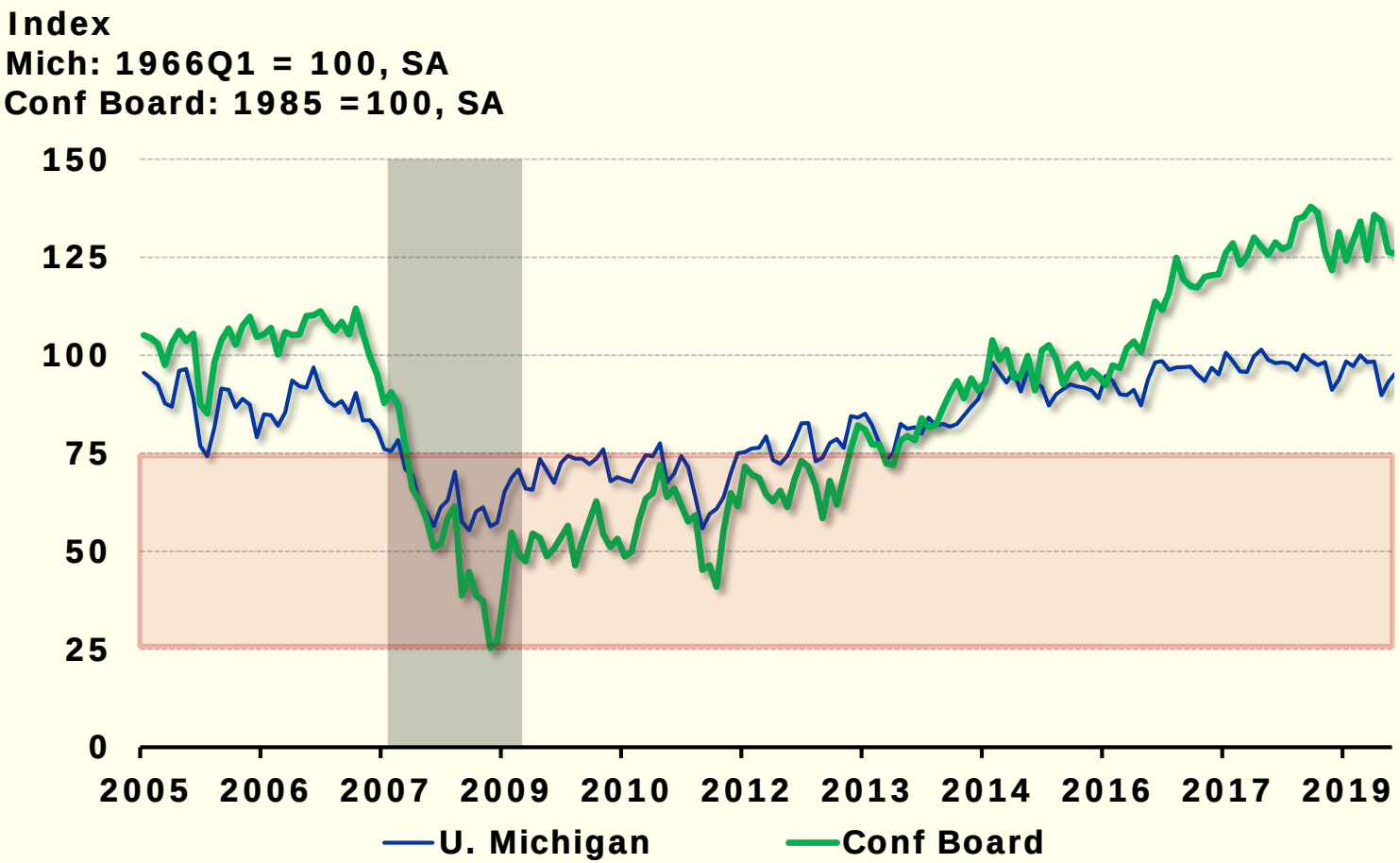
Upside

- Consumer and business confidence have dipped but remain at high levels
- U.S., WA labor markets have slowed compared to 2018 but remain strong

Downside

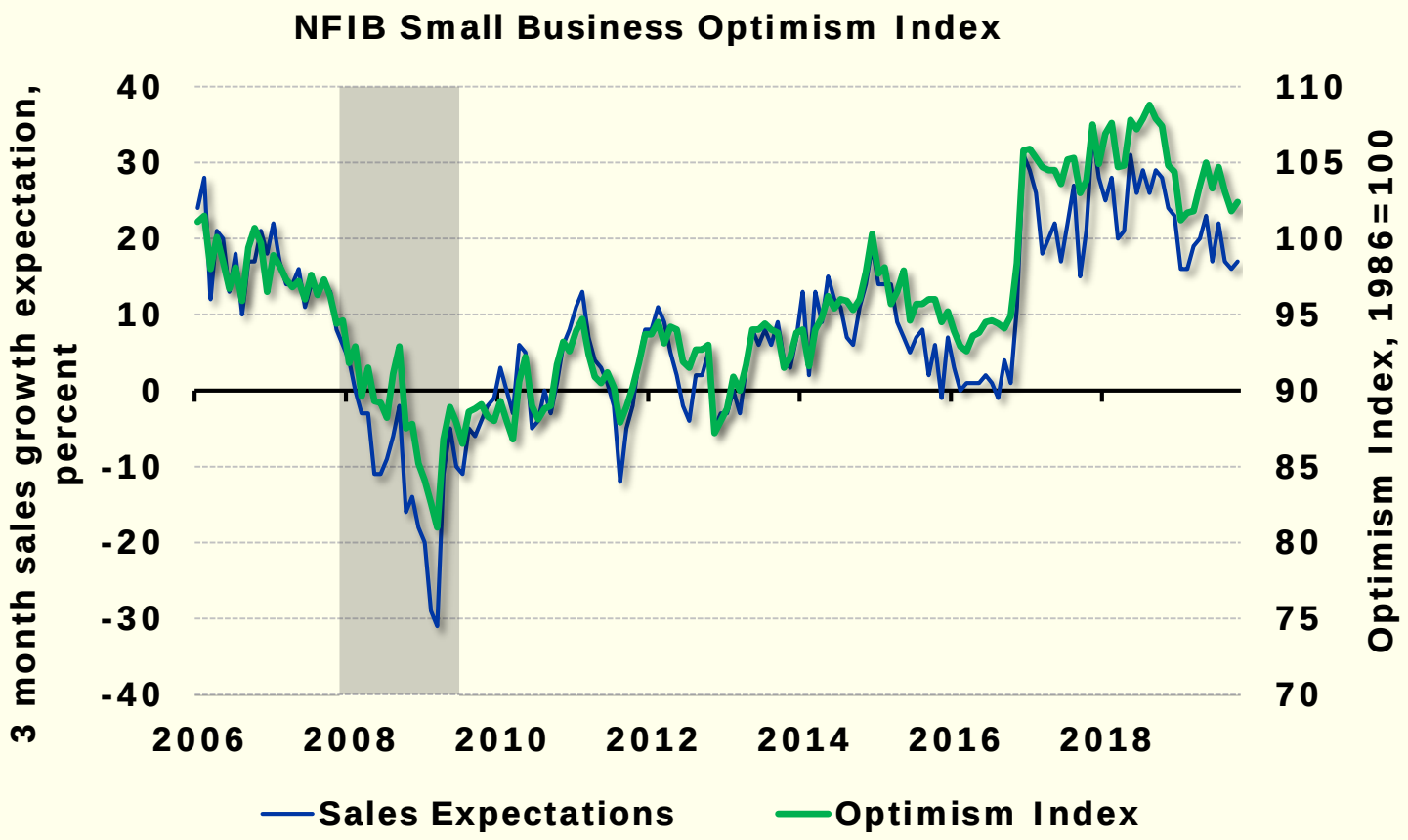
- International trade policy uncertainty
- Geopolitical risks: North Korea, China, Russia, Iran, Venezuela, Brexit
- Maturing economic expansion

Despite some volatility this year, consumer confidence remains at high levels



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

Small business optimism has declined but remains historically high



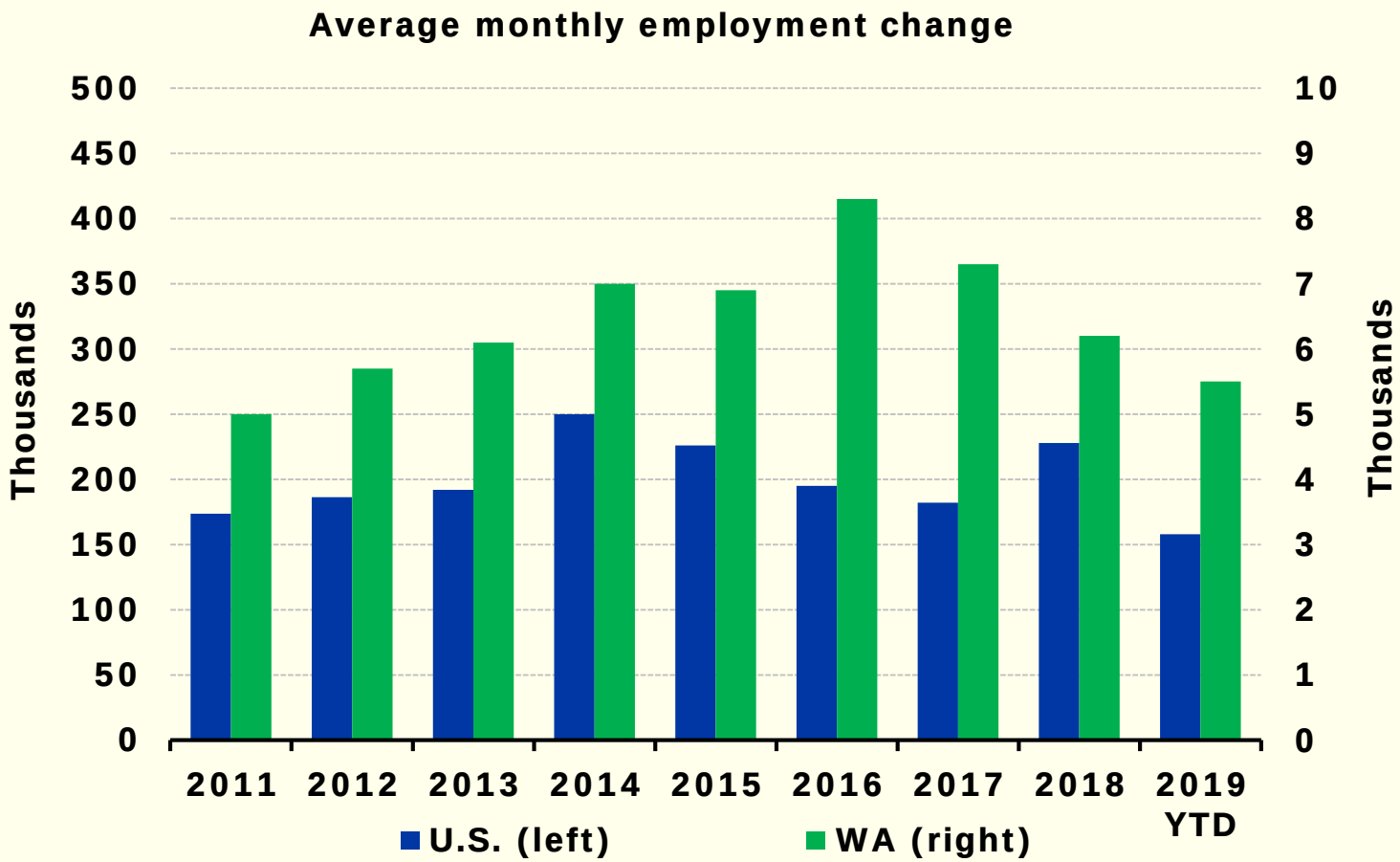
Source: National Federation of Independent Business; data through October 2019

A survey covering a broader mix of firms finds business expectations have been declining since late 2018

The index measures one year ahead expectations that firms have about their own employment, investment and sales.

Source: Atlanta Federal Reserve Bank, data through October 2019

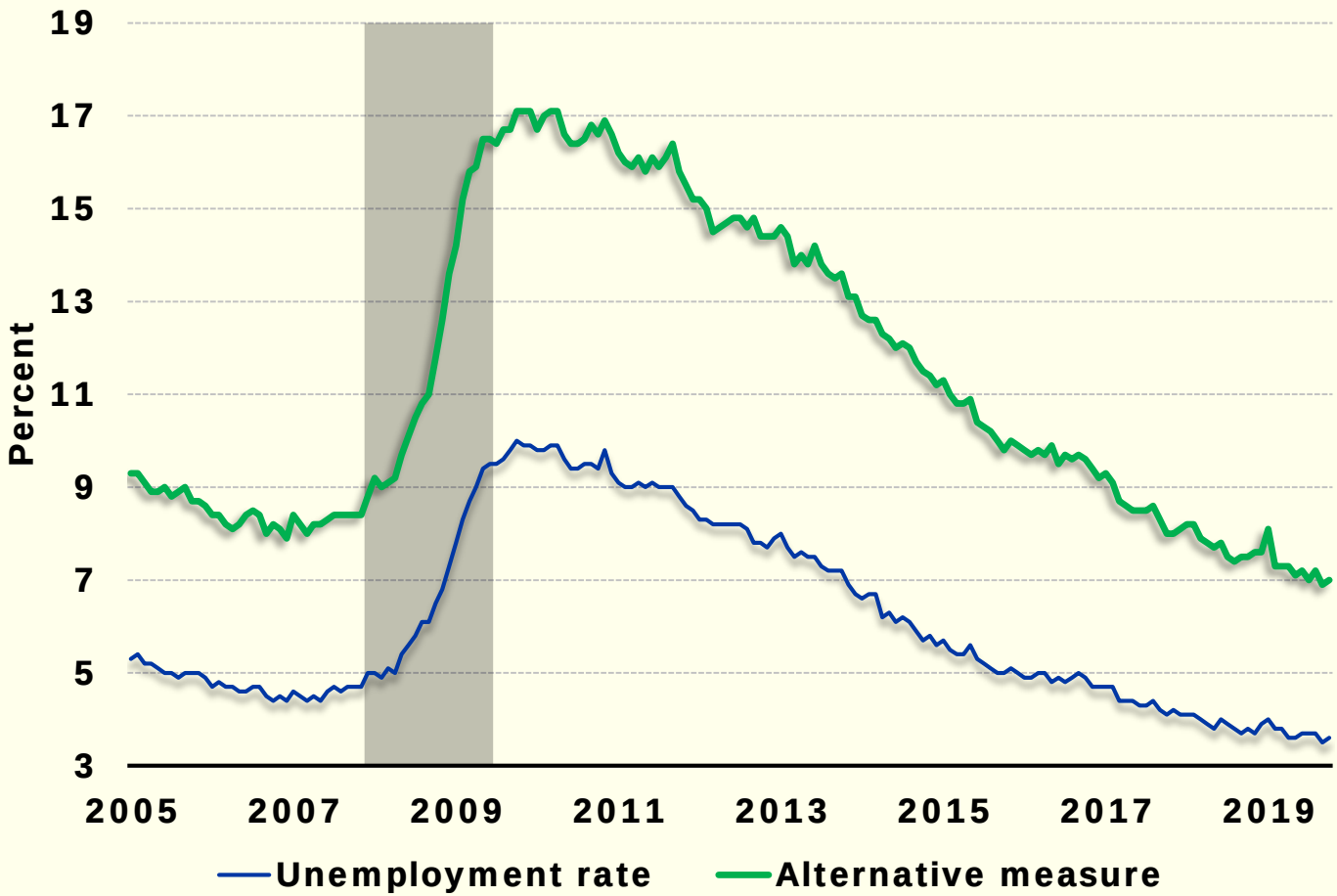
U.S., WA job growth below 2018 averages but remain healthy



Source: Bureau of Labor Statistics, Employment Security Dept.; data through October 2019

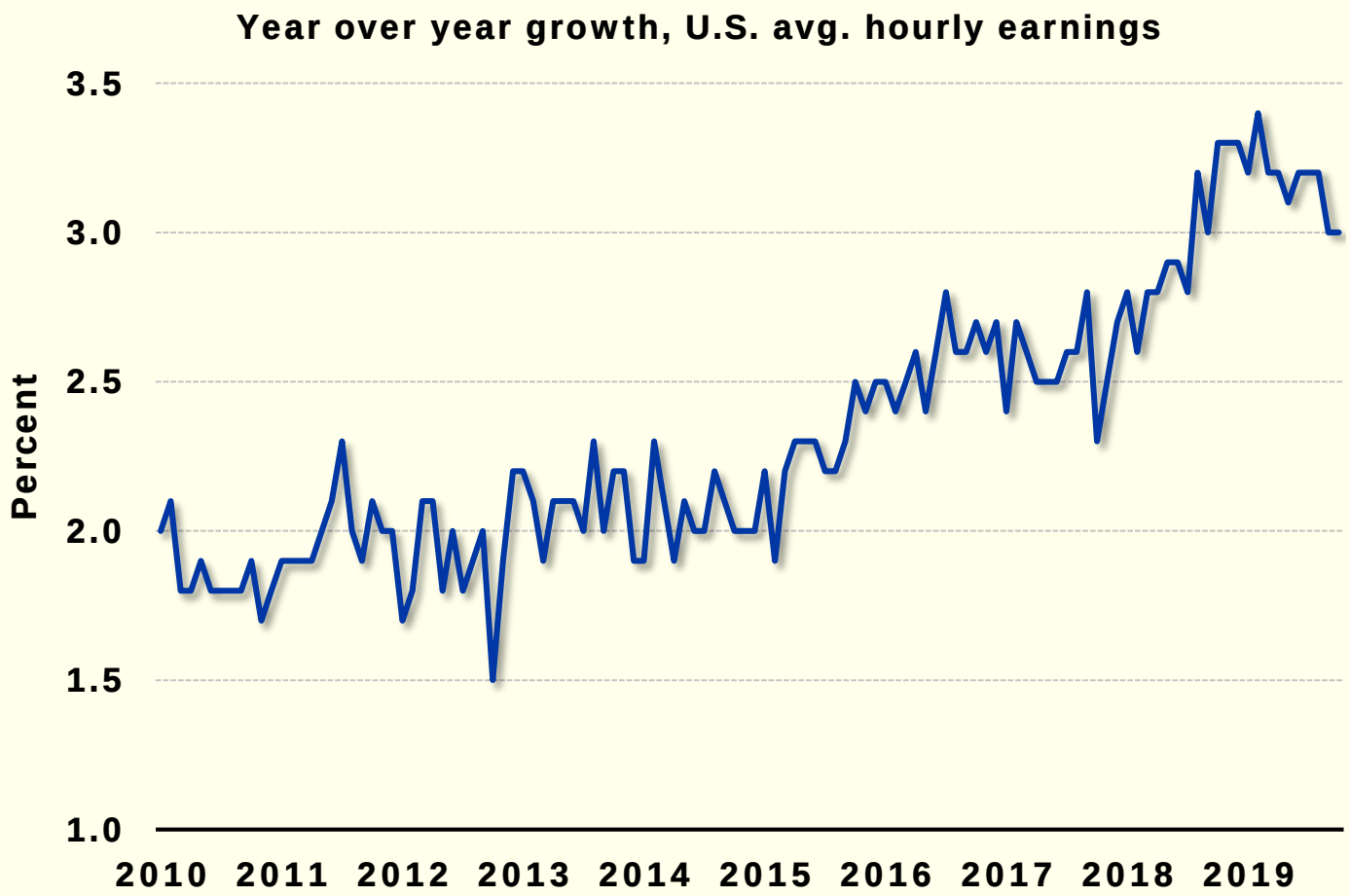
Unemployment rates remain low

The alternative unemployment measure includes discouraged workers and those working part time for economic reasons.



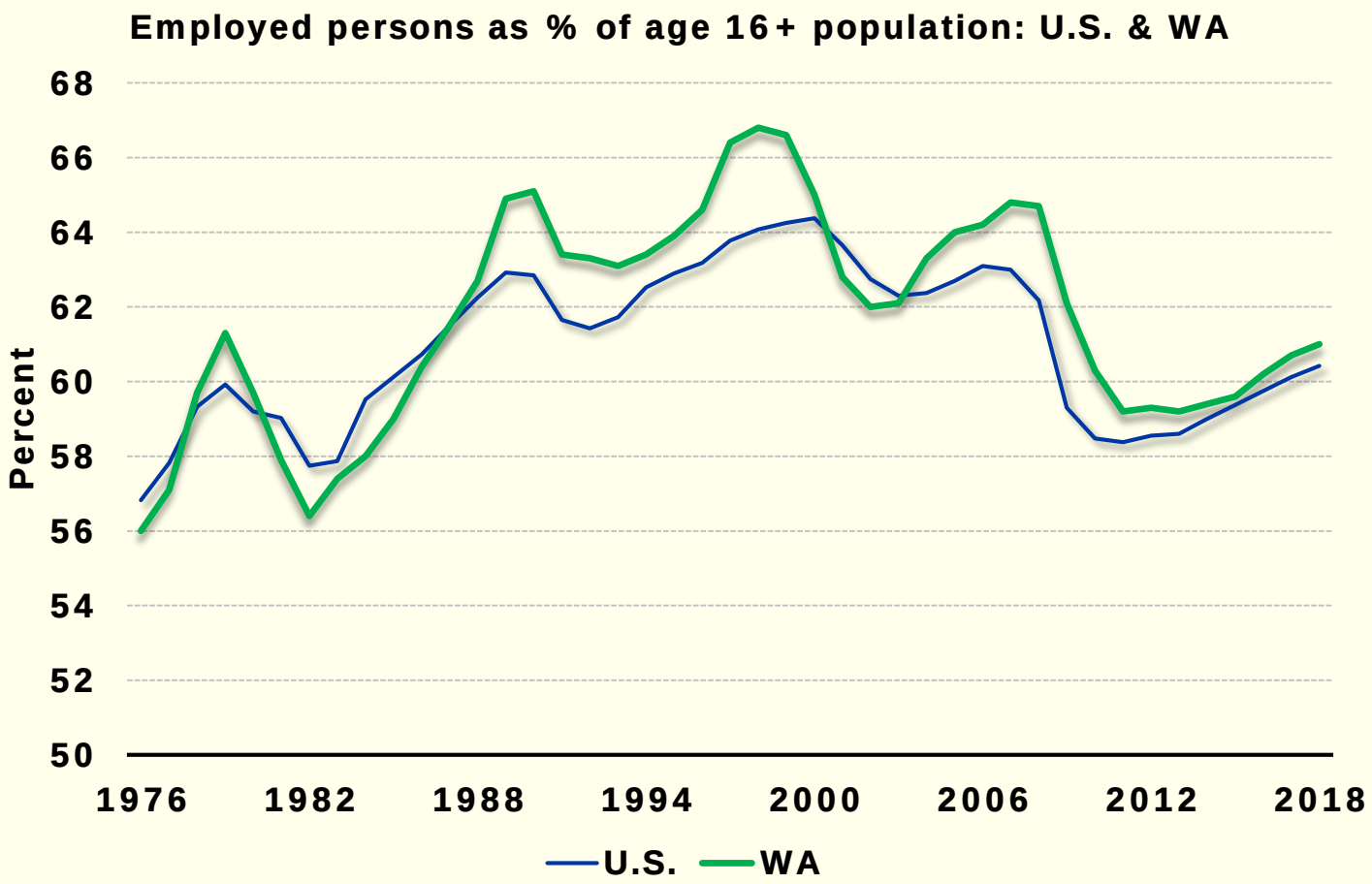
Sources: U.S. Bureau of Labor Statistics; data through October 2019

Hourly earnings are increasing but growth has slowed



Source: Bureau of Labor Statistics, data through October 2019

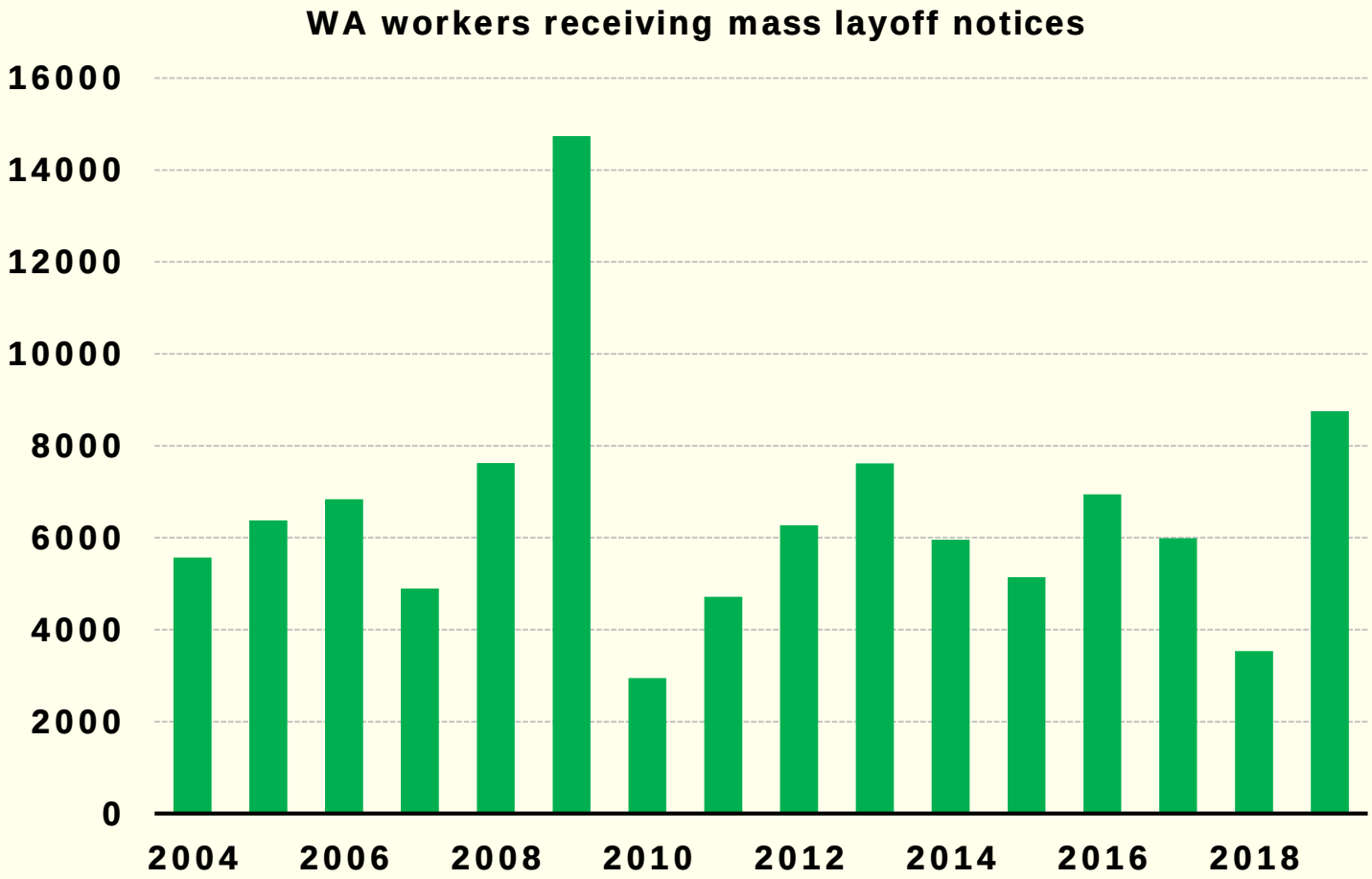
Employment-population ratio is rising but remains below late 90s peak



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

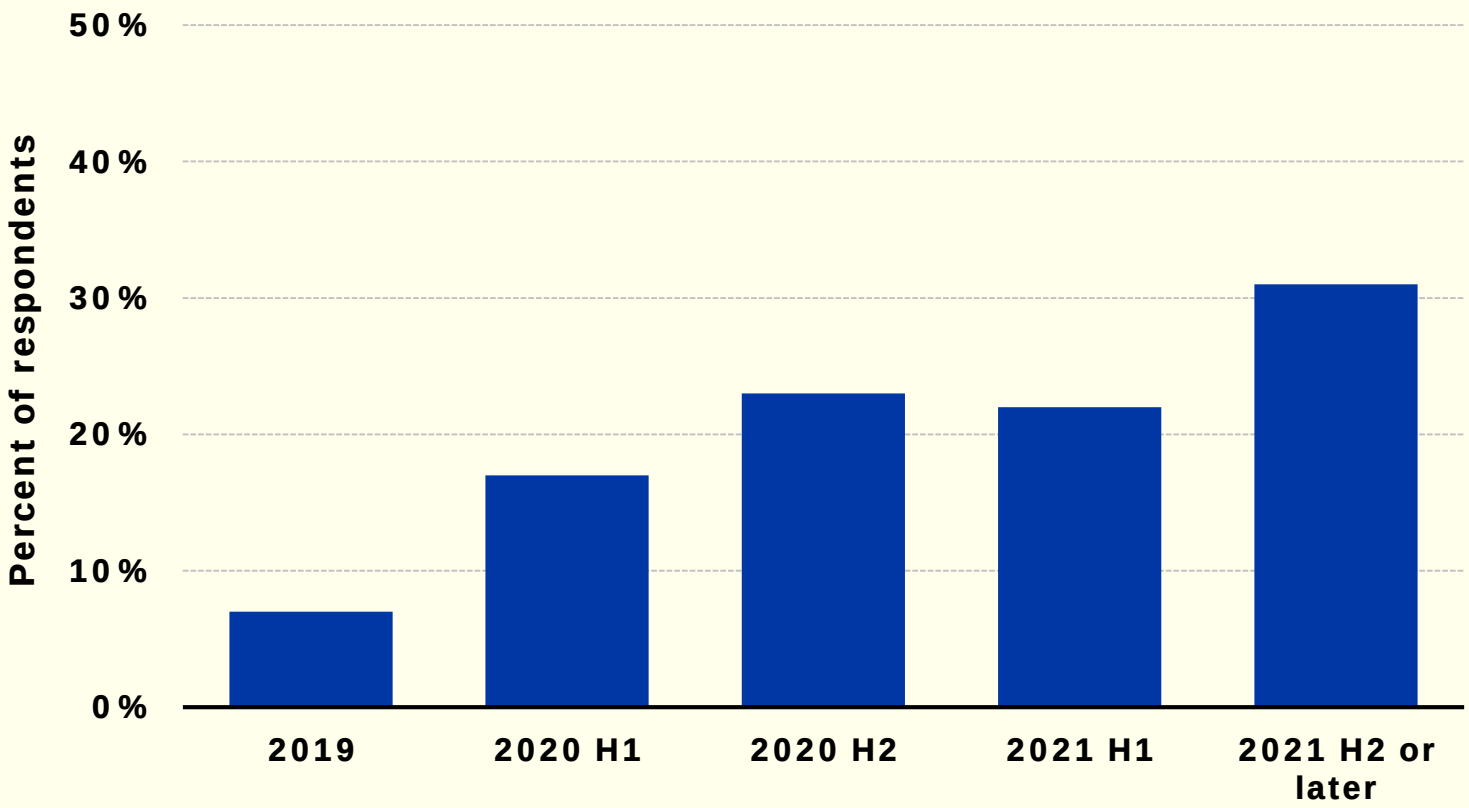
The number of workers in WA receiving layoff notices this year is the highest since 2009

Firms with 100+ employees planning layoffs of 50 or more workers are required to notify workers 60 days before closure.



Source: Employment Security Dept., data through 2019

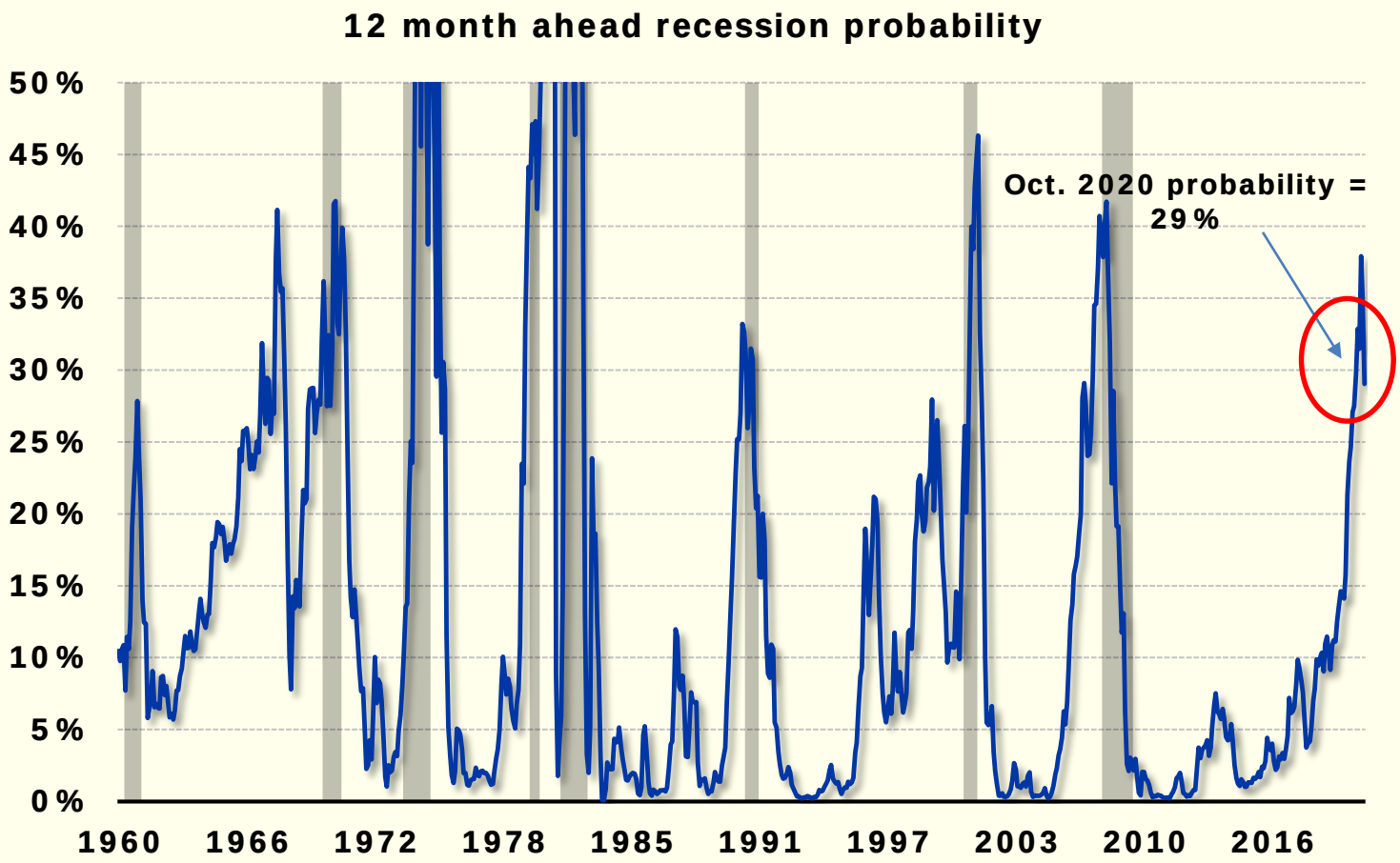
Timing of next recession: National Association of Business Economists survey



Source: National Association of Business Economists, Oct. 2019 Outlook Survey

NY Federal Reserve model indicates recession probabilities have dropped slightly in last month

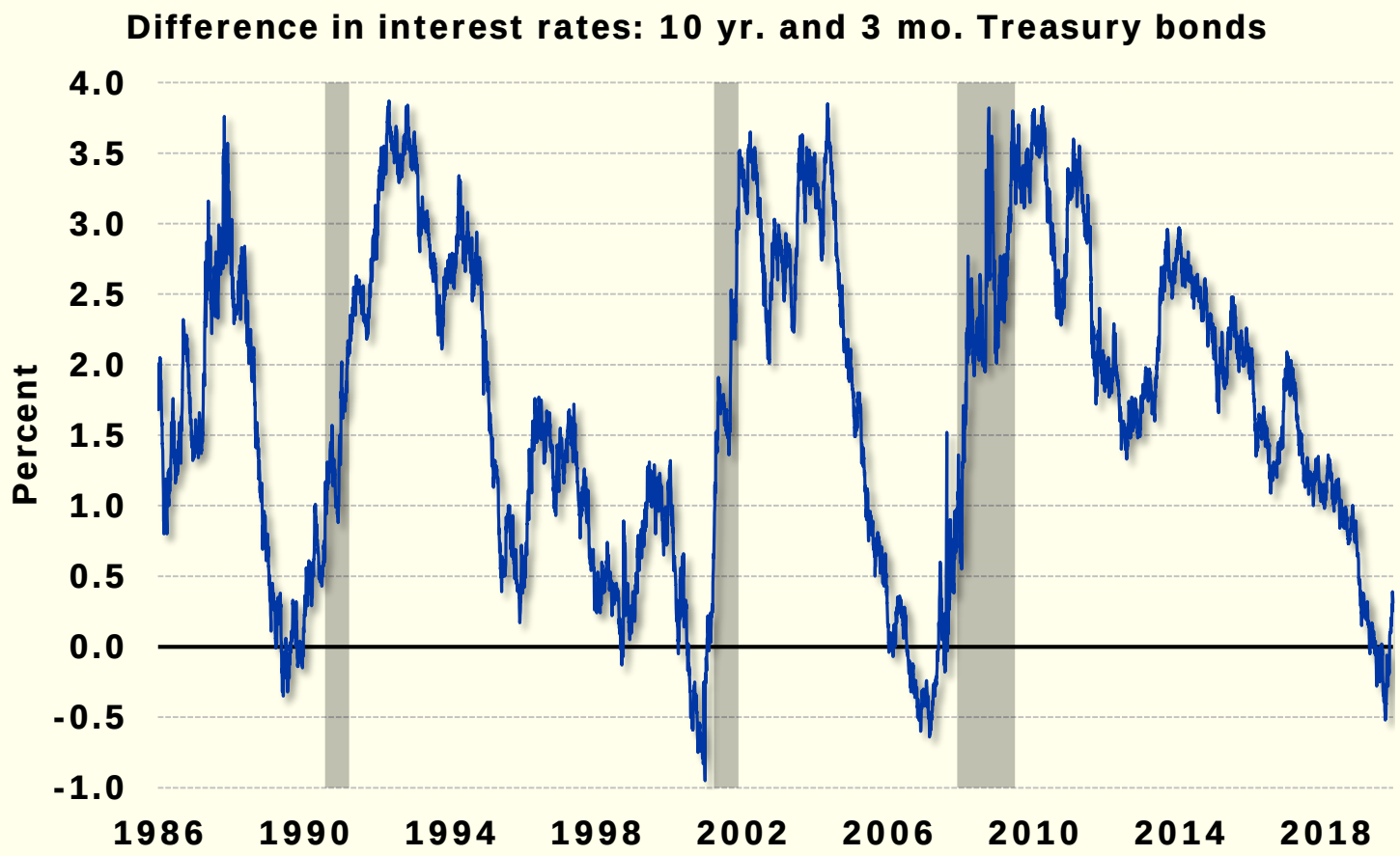
The model predicts recession probabilities 12 months in the future based on the difference in yields between 10 year and 3 month Treasury bonds.



Source: Federal Reserve Bank of New York; daily data through Oct. 31 2019

The 10 year – 3 month yield curve was inverted from May 23rd – October 10th

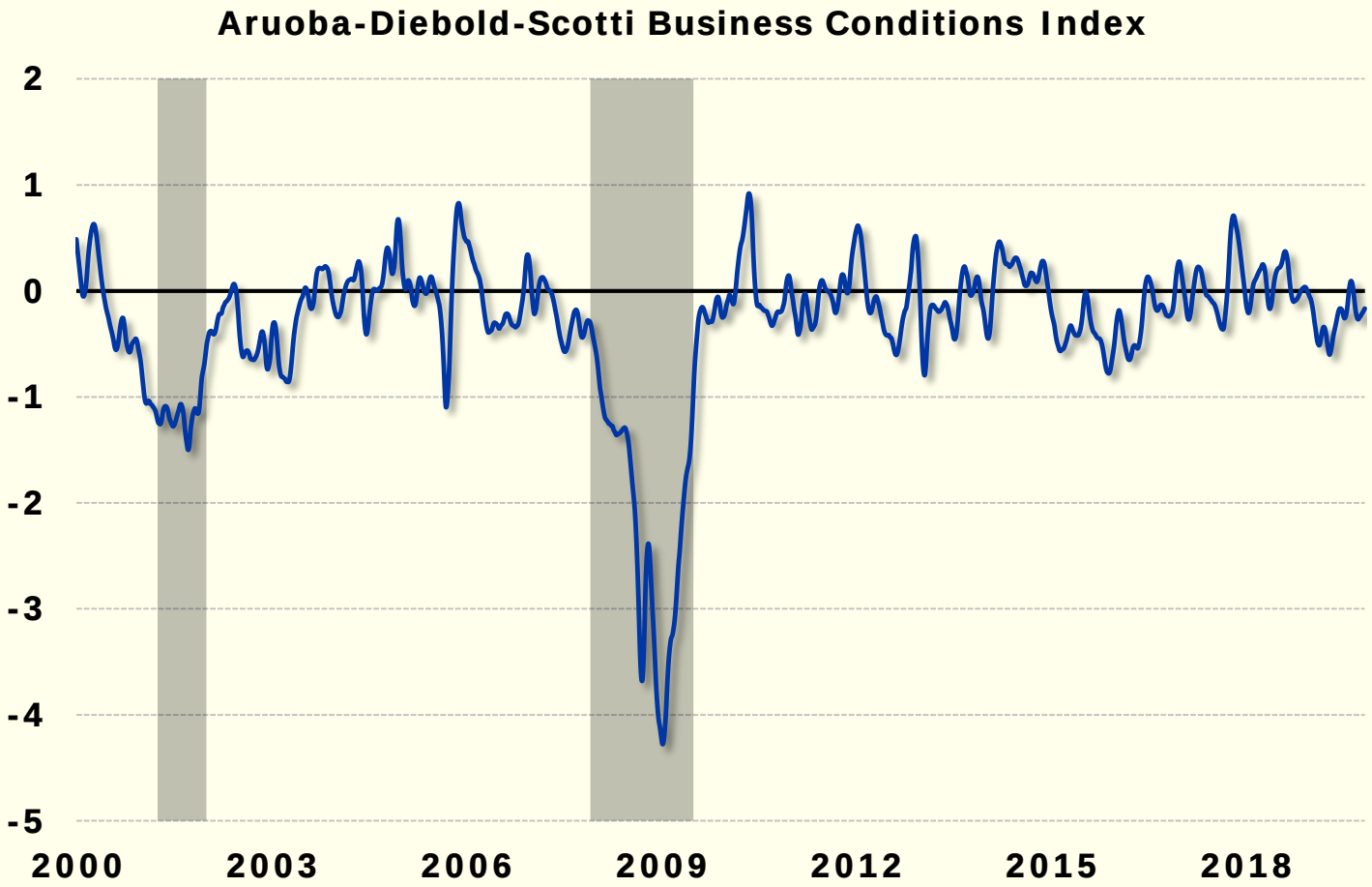
The yield curve has inverted before the last three recessions but is not always a recession signal



Source: Federal Reserve Bank of St. Louis, daily data through Nov. 13, 2019

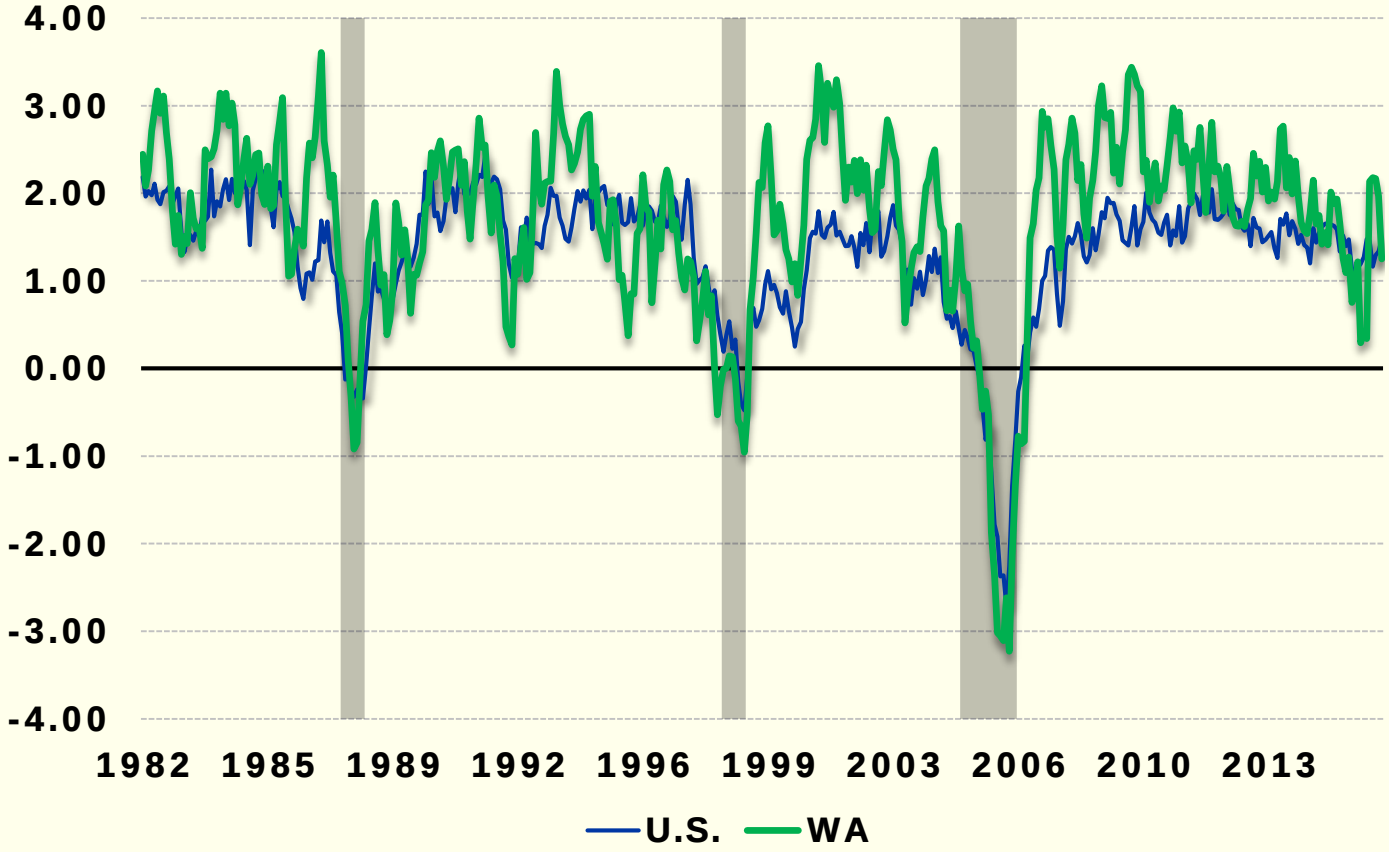
Business Conditions index is below average value of zero but not in recession territory

The index is based on a mix of weekly, monthly and quarterly data such as initial UI claims, industrial production and personal income.



Source: Federal Reserve Bank of Philadelphia; daily data through Nov. 2, 2019

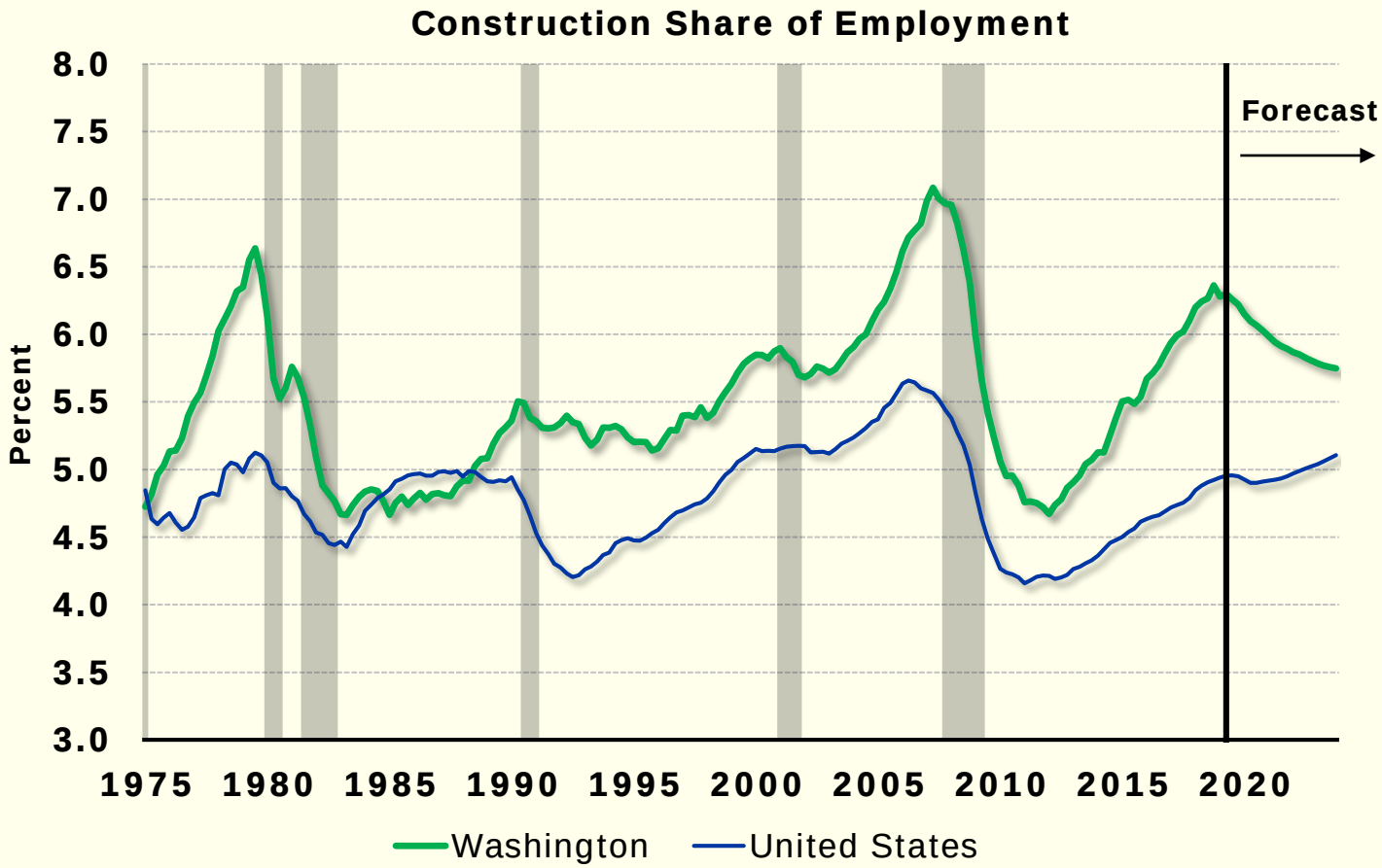
Philadelphia Fed leading economic indexes for WA, U.S. are declining but not in recession territory



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

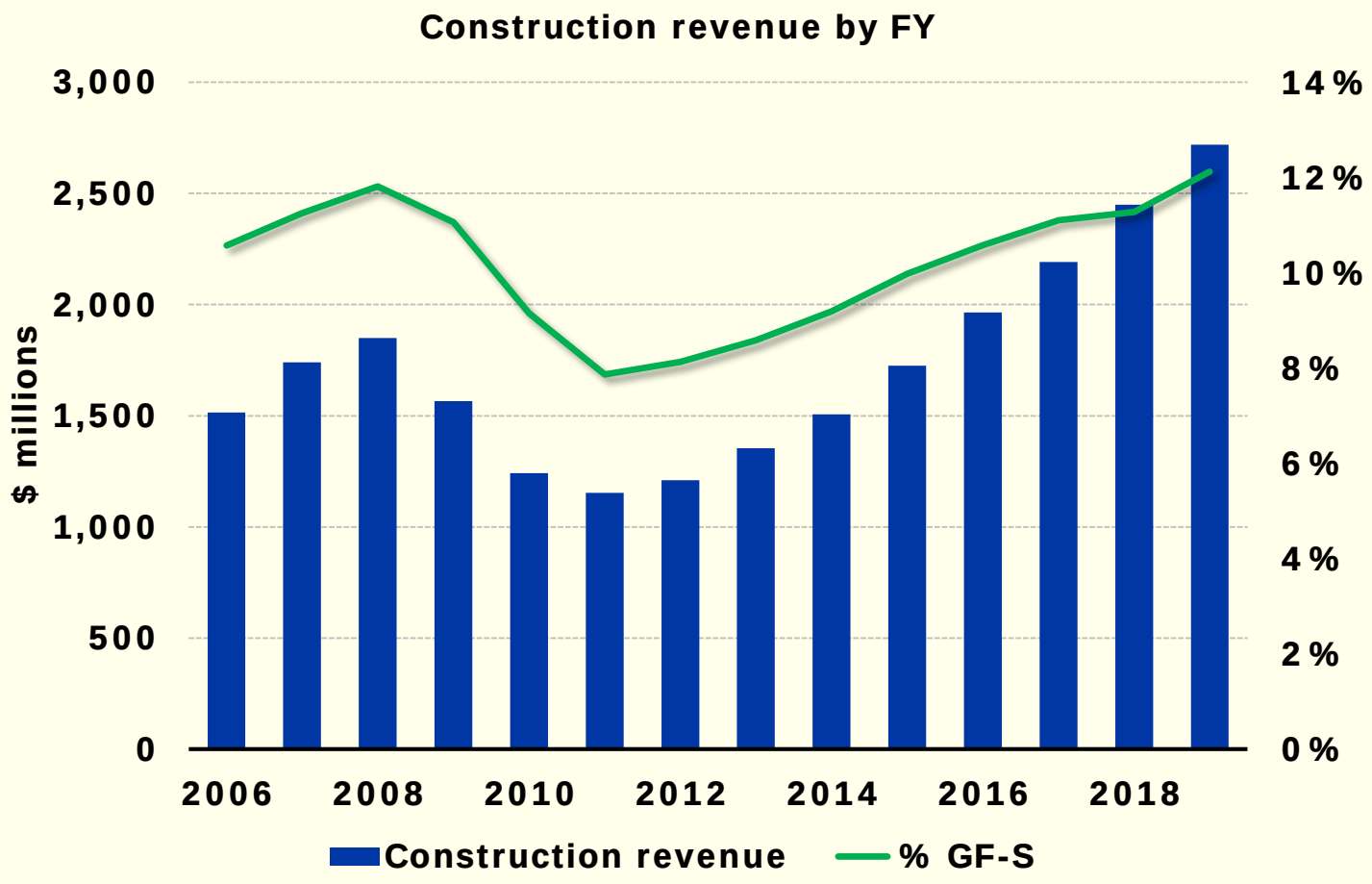
There is a heightened risk of a downturn in construction in WA

Since 1975, WA construction employment has exceeded 6% of total employment only three times.



Source: ERFC September forecast; data through Q3 2019
Note: Vertical black line indicates last actual in September

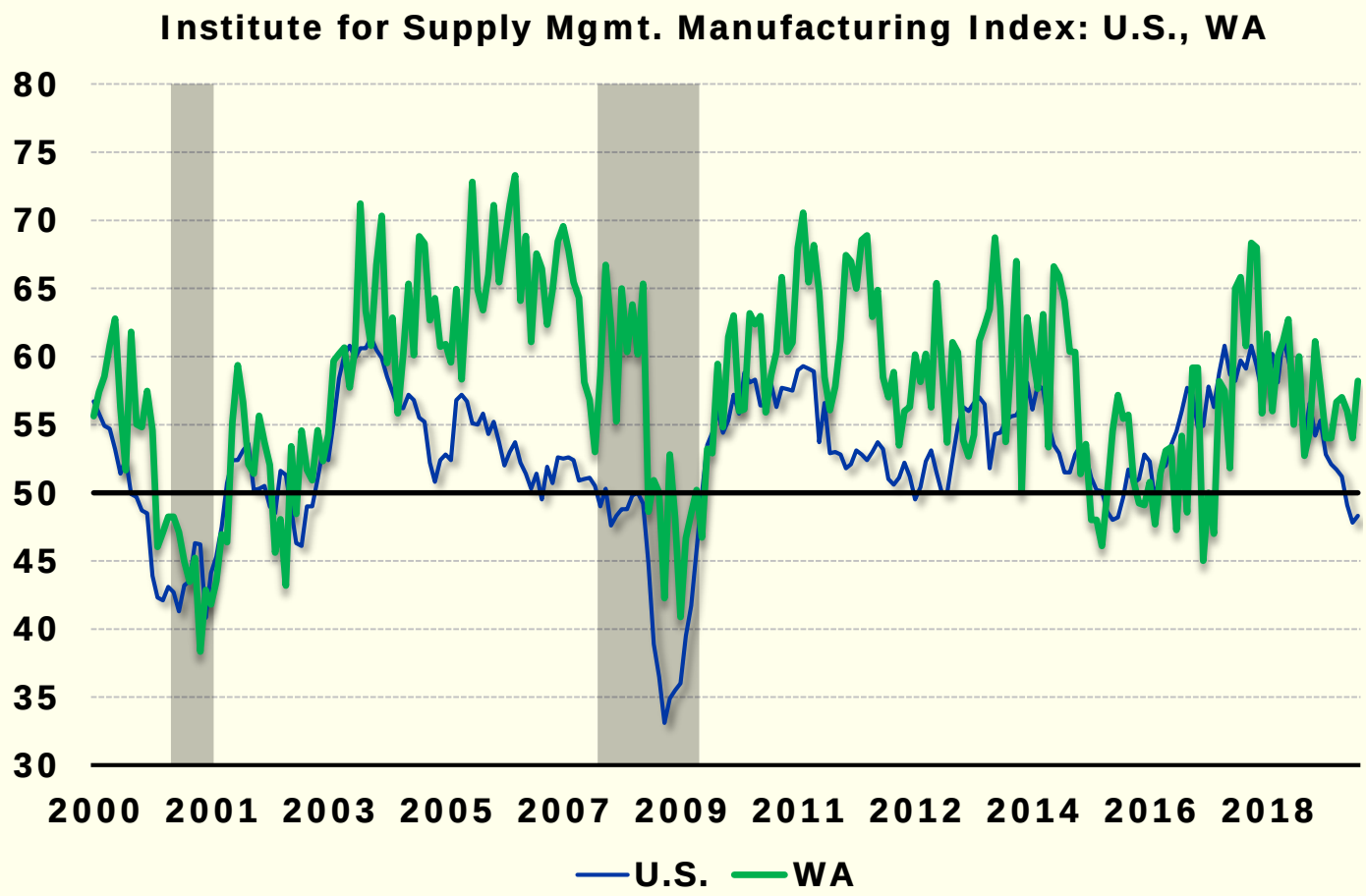
During the last construction downturn, construction revenue dropped from 12% to 8% of GF-S



Source: Dept. of Revenue, ERFC; data through FY 2019

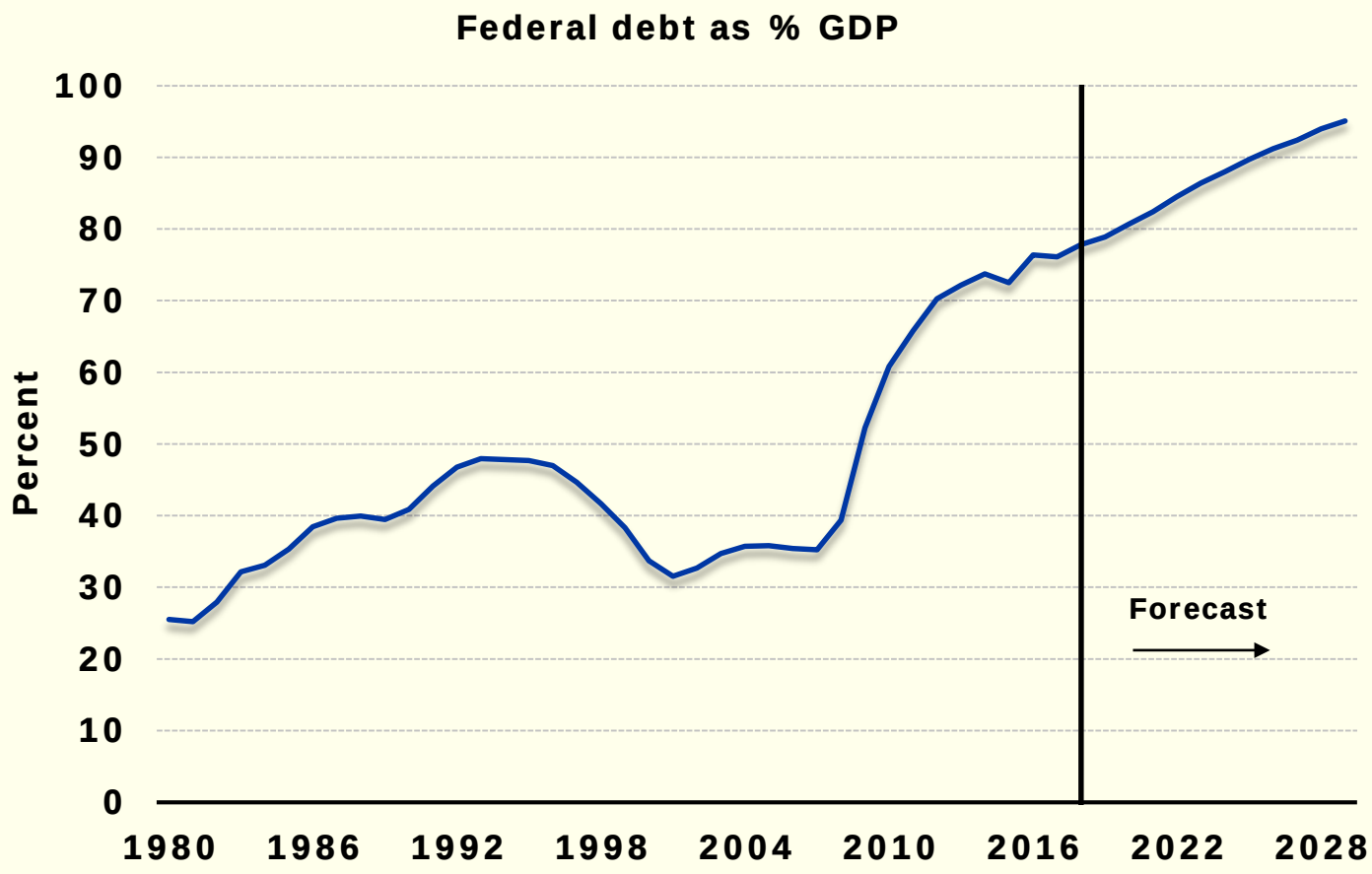
Manufacturing has slowed nationally but continues to expand in WA

Values above 50 indicate expansion, below 50 indicate contraction.



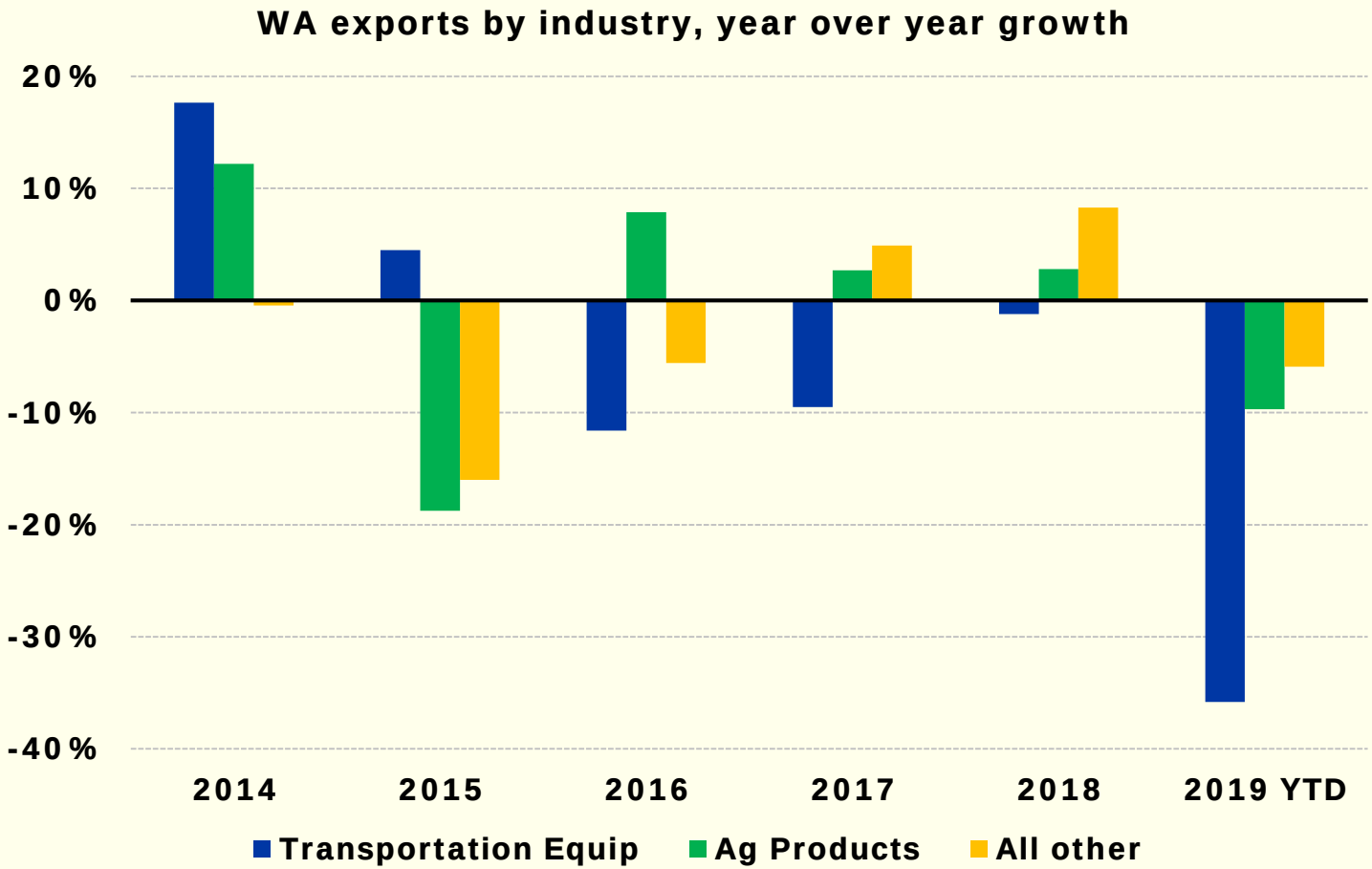
Source: ISM, data through Oct. 2019

Relative to GDP, Federal debt is expected to reach levels last seen just after WW II



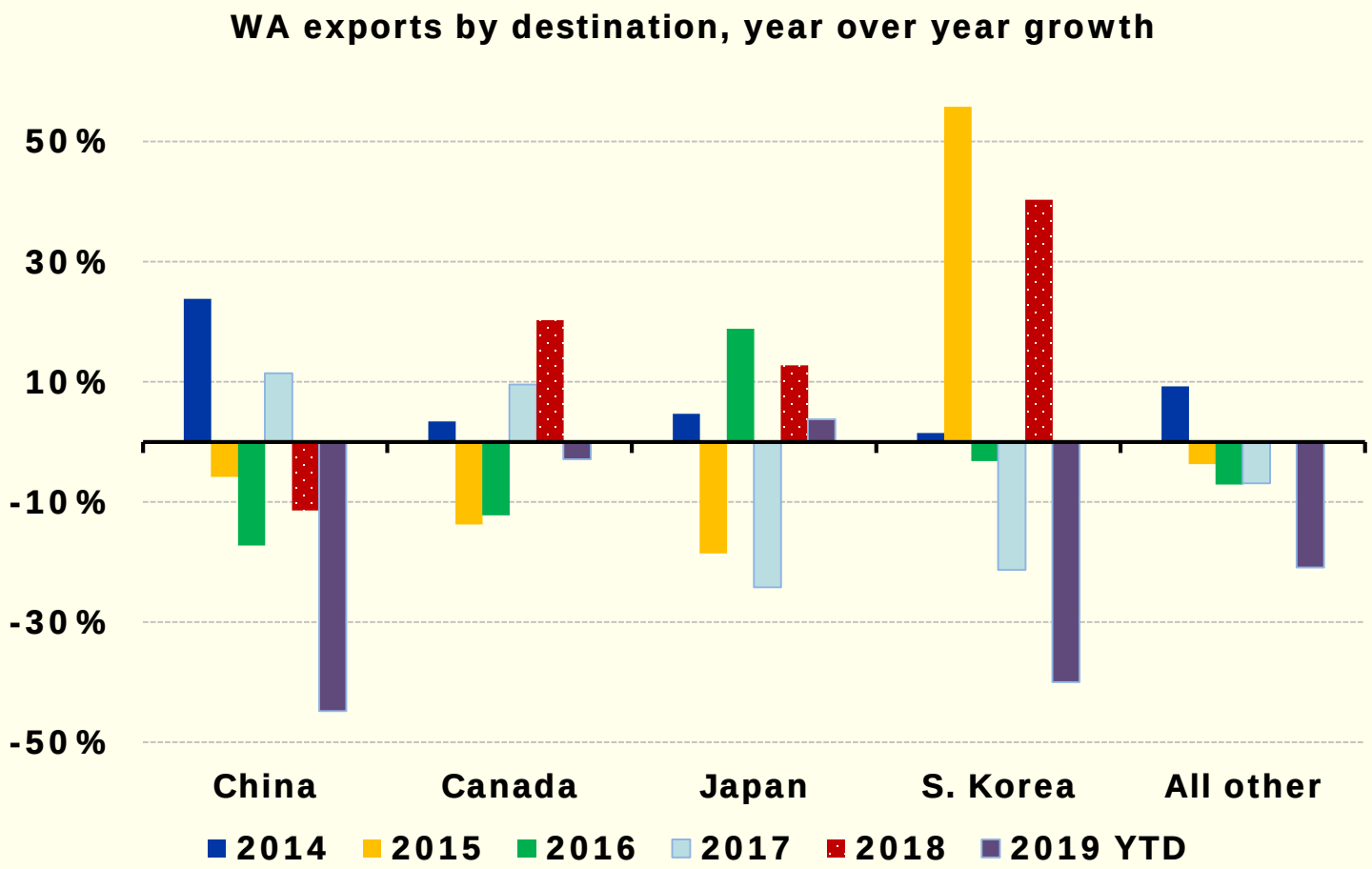
Source: Congressional Budget Office, Update to Budget and Economic Outlook Aug. 2019, historic data through 2018

So far this year, WA exports are down by 23% compared to last year



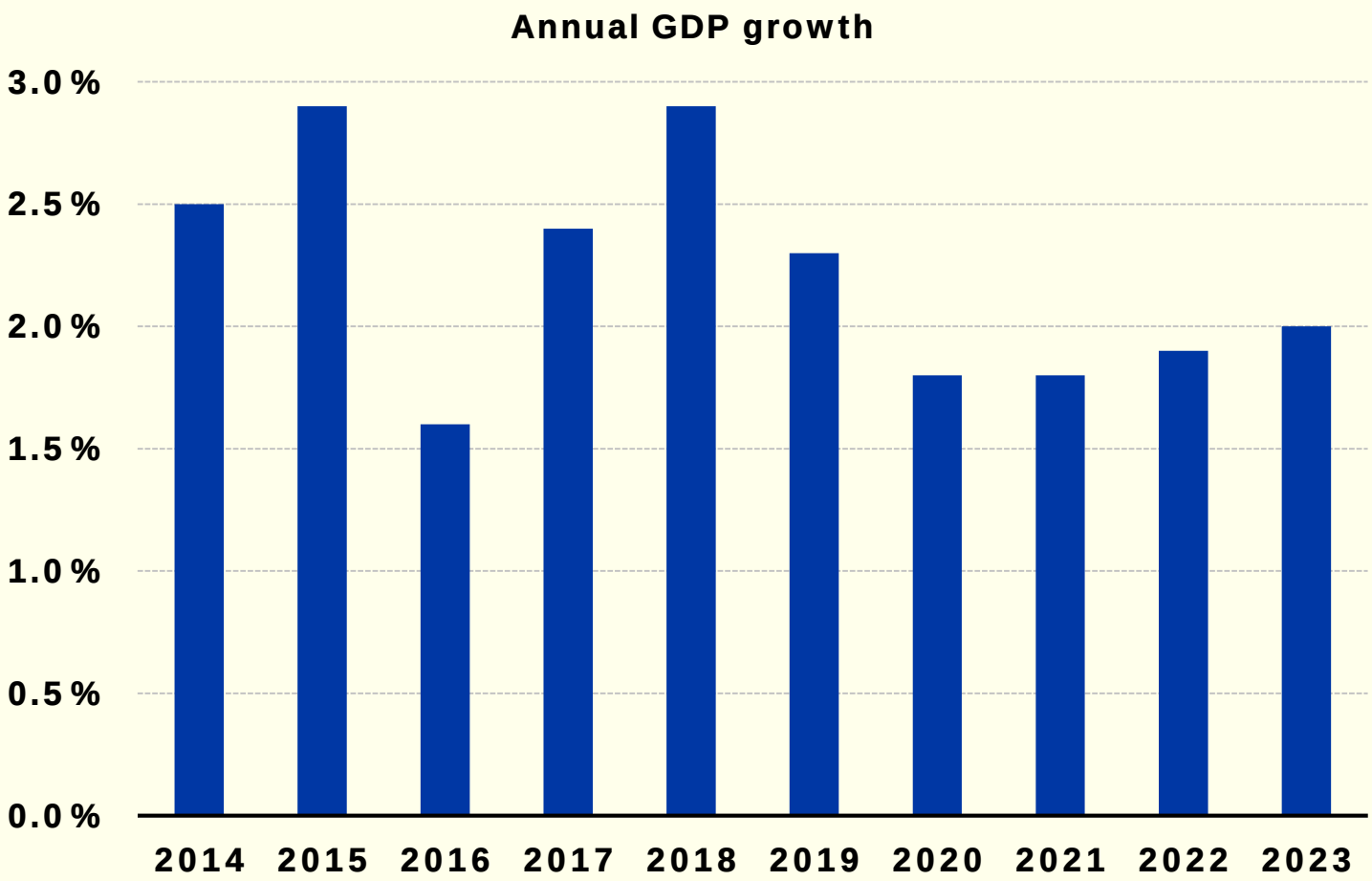
Source: WISERTrade, data through September 2019

WA exports to China and S. Korea are down by over 30% so far this year



Source: WISERTrade, data through September 2019

GDP growth is expected to slow

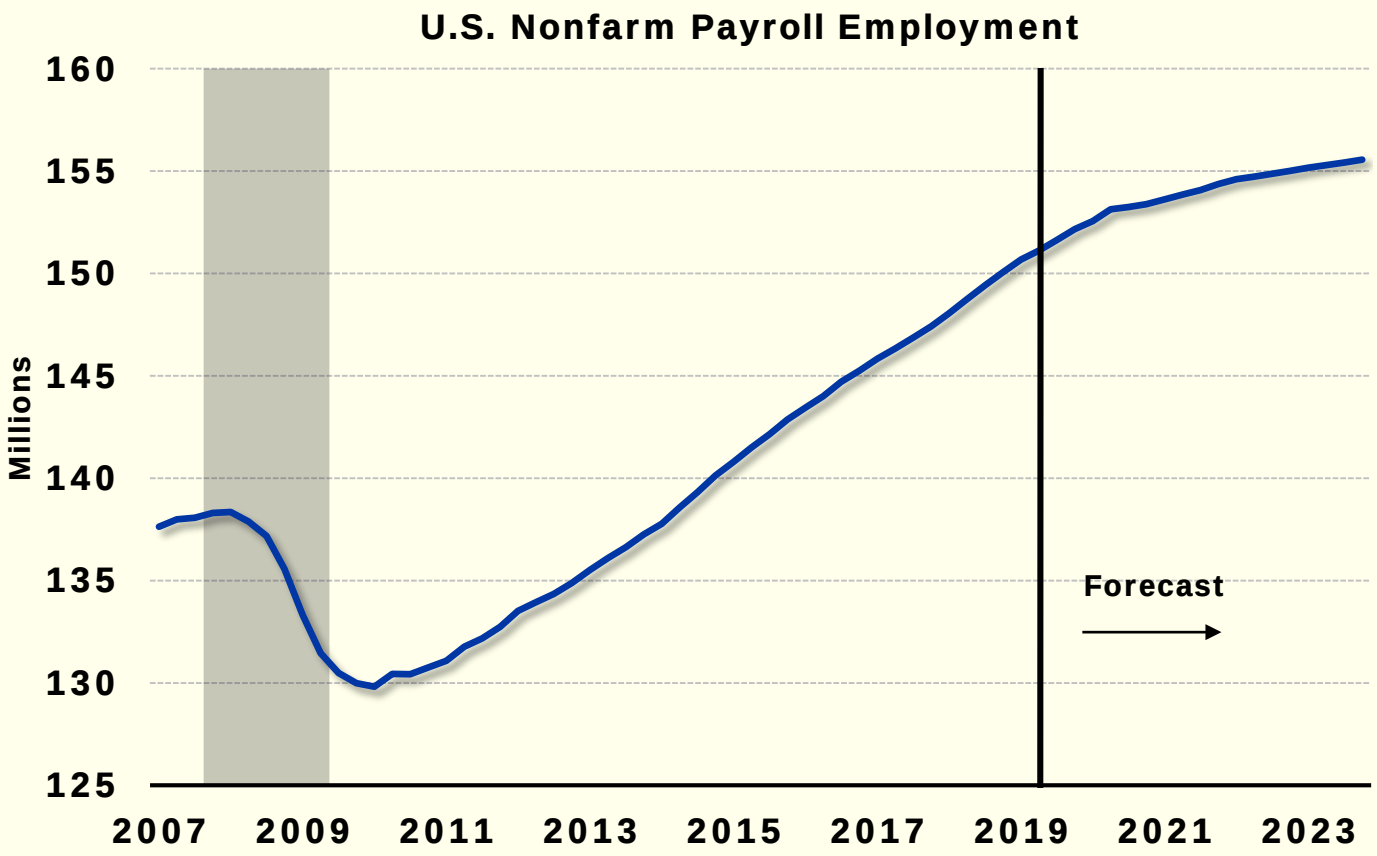


Source: IHS Markit, ERFC November 2019 forecast; data through 2018

Oil prices are expected to gradually decline to $52 per barrel

Source: Energy Information Administration, IHS Markit, ERFC; data through Q3 2019
Note: Vertical black line indicates last actual

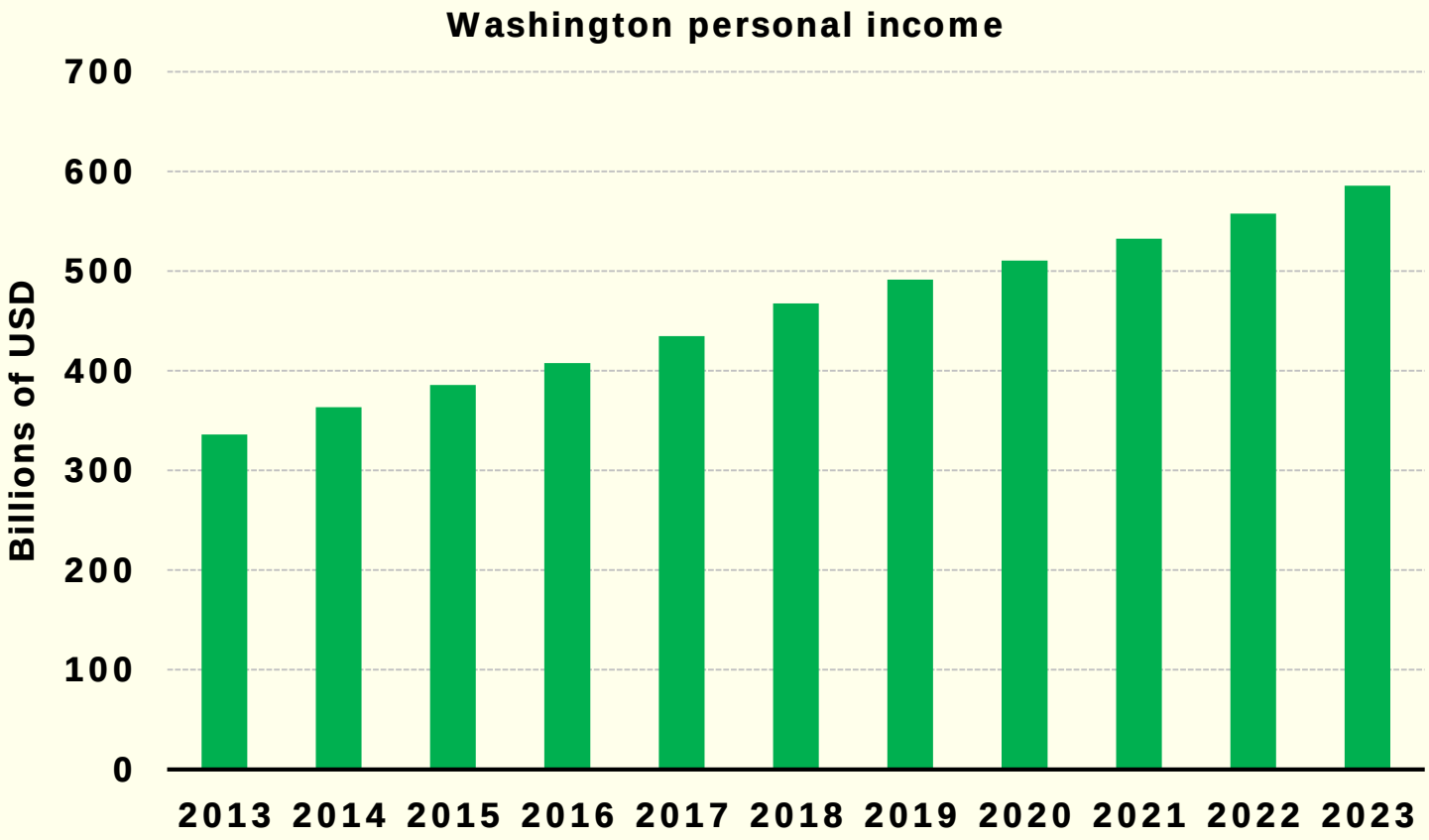
U.S. employment is expected to grow 1.6% this year, 1.1% next year and average 0.5% growth in 2021 - 2023



Source: IHS Markit, ERFC; data through Q3 2019
Note: Vertical black line indicates last actual

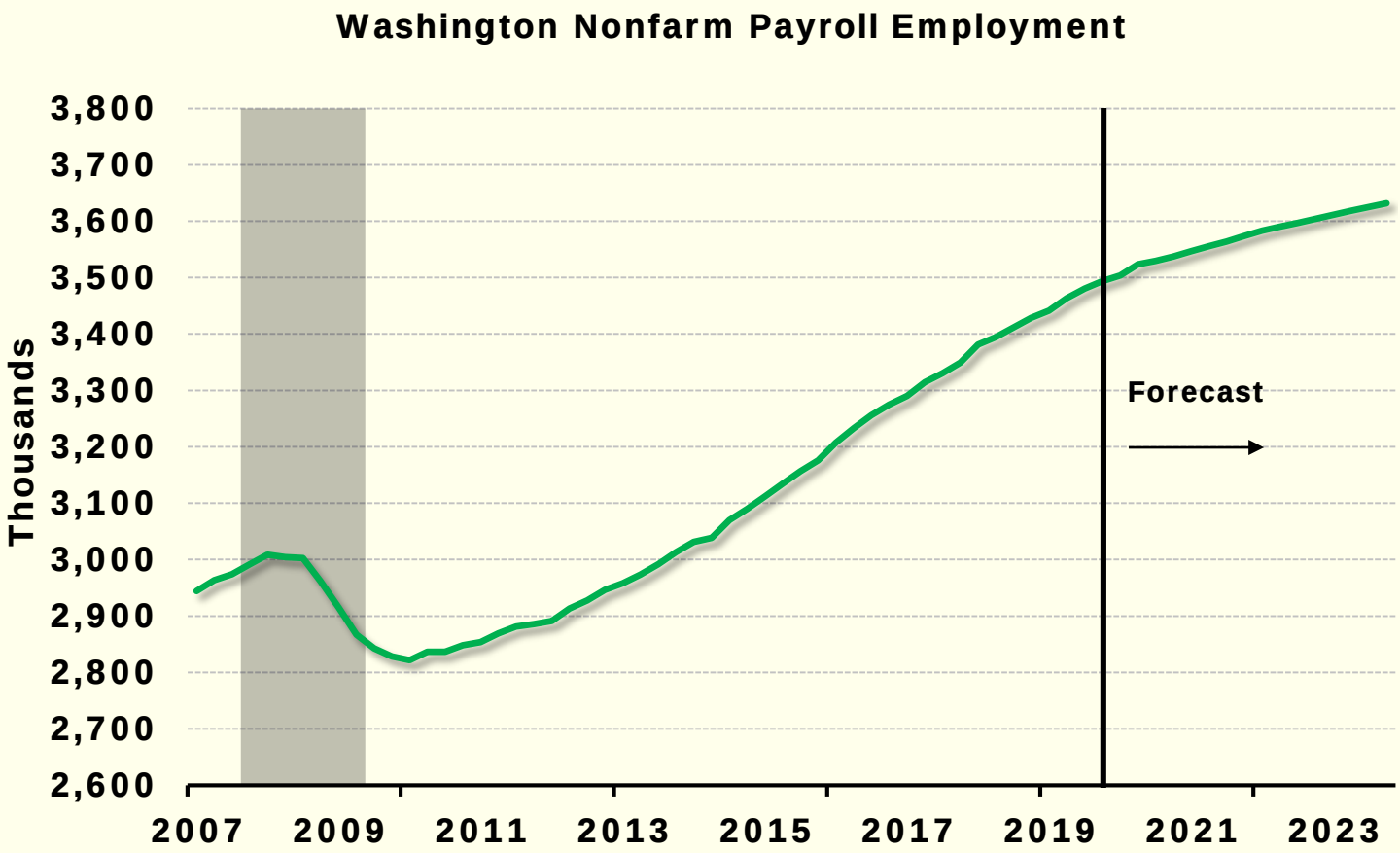
Washington personal income is expected to average 4.5% growth for 2019 - 2023

Personal income is the sum of wages and salaries; income from interest, dividends and rent; transfer payments such as Social Security and unemployment insurance.



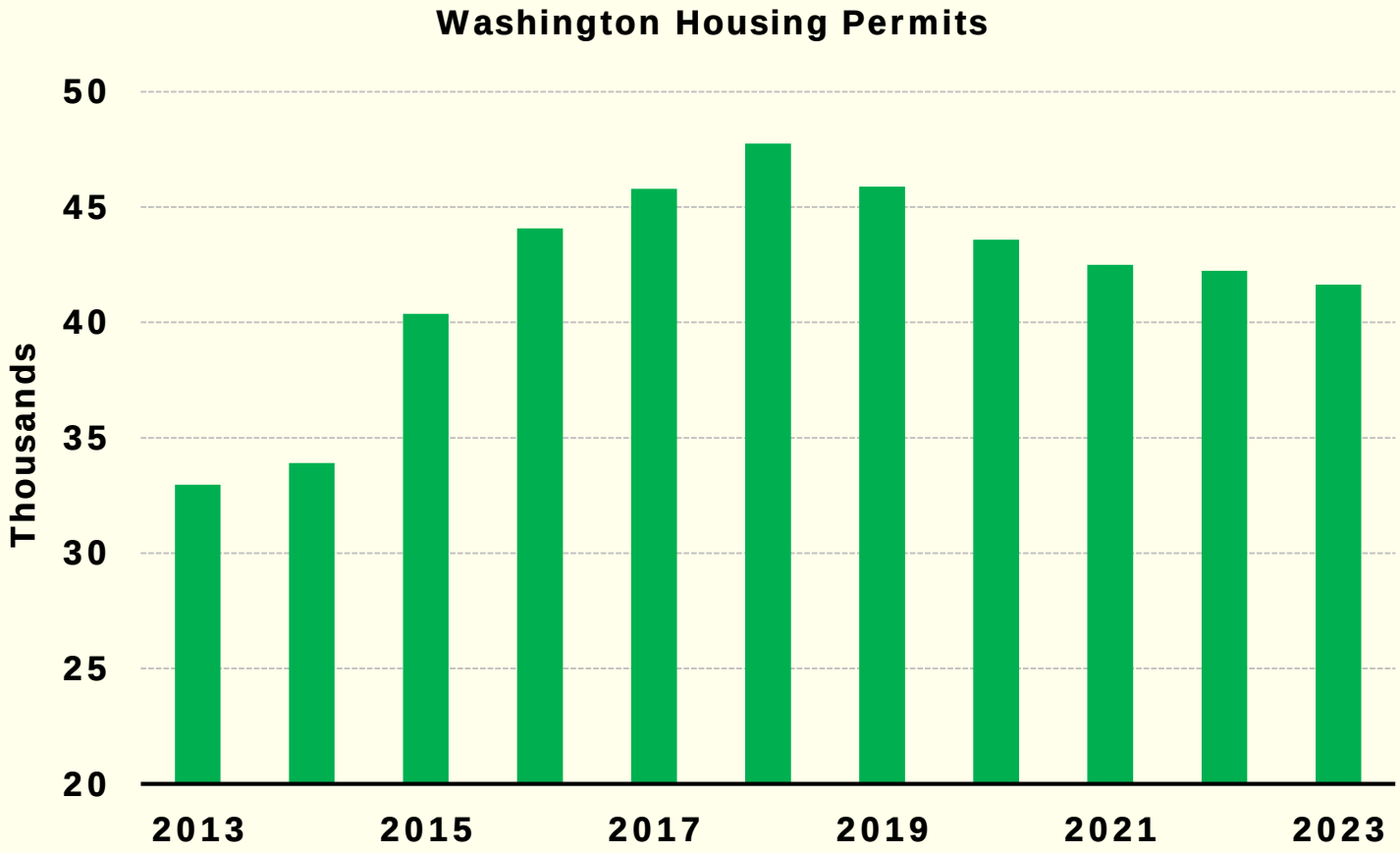
Source: ERFC November 2019 forecast; historical data through 2018

WA employment is expected to grow 1.9% this year, 1.5% in 2020 then slow to under 1% for 2021 - 2023



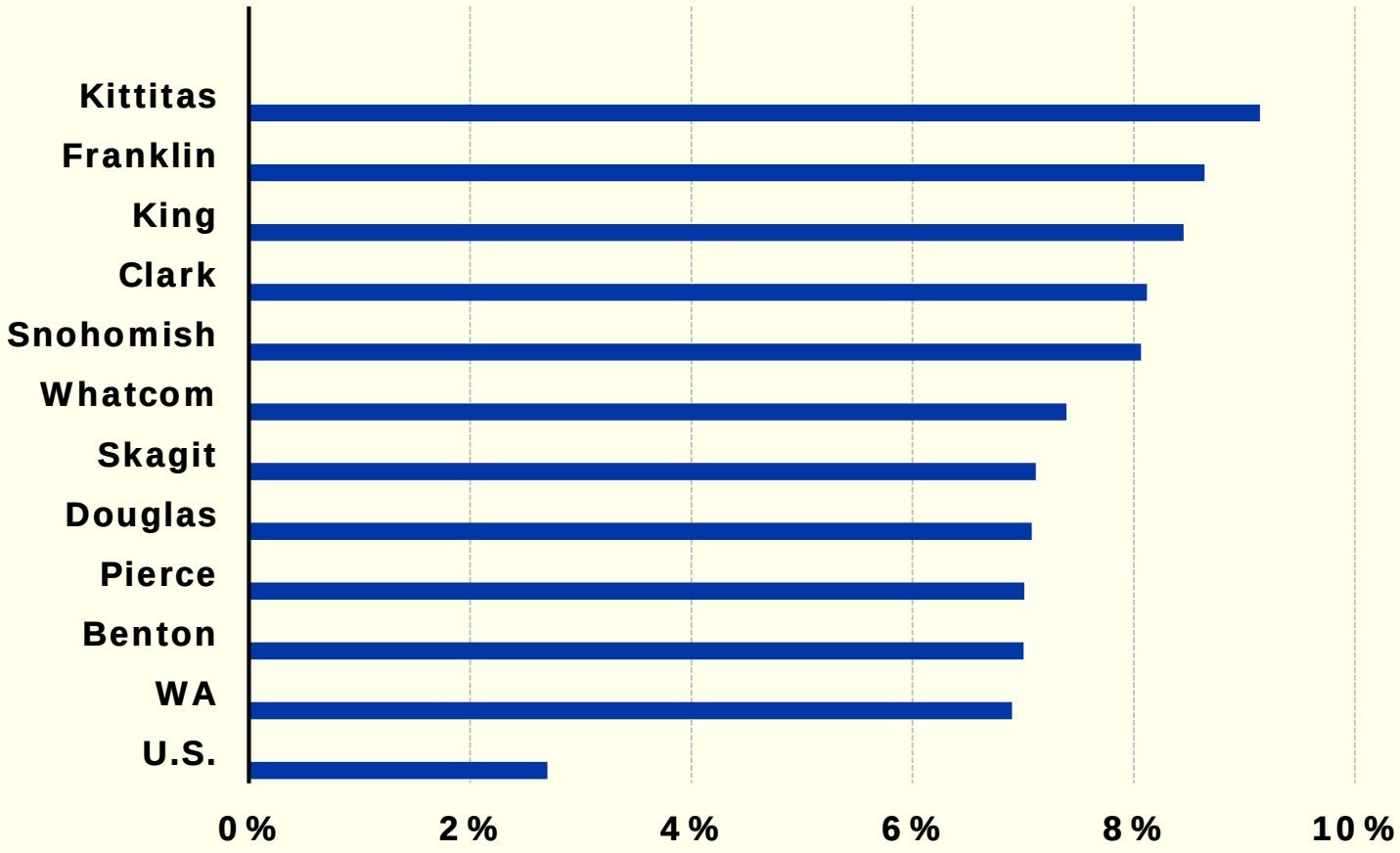
Source: ERFC November 2019 forecast; historical data through Q3 2019

Washington housing permits will average 42,500 units per year for 2020 - 2023



Source: ERFC November 2019 forecast; historical data through 2018

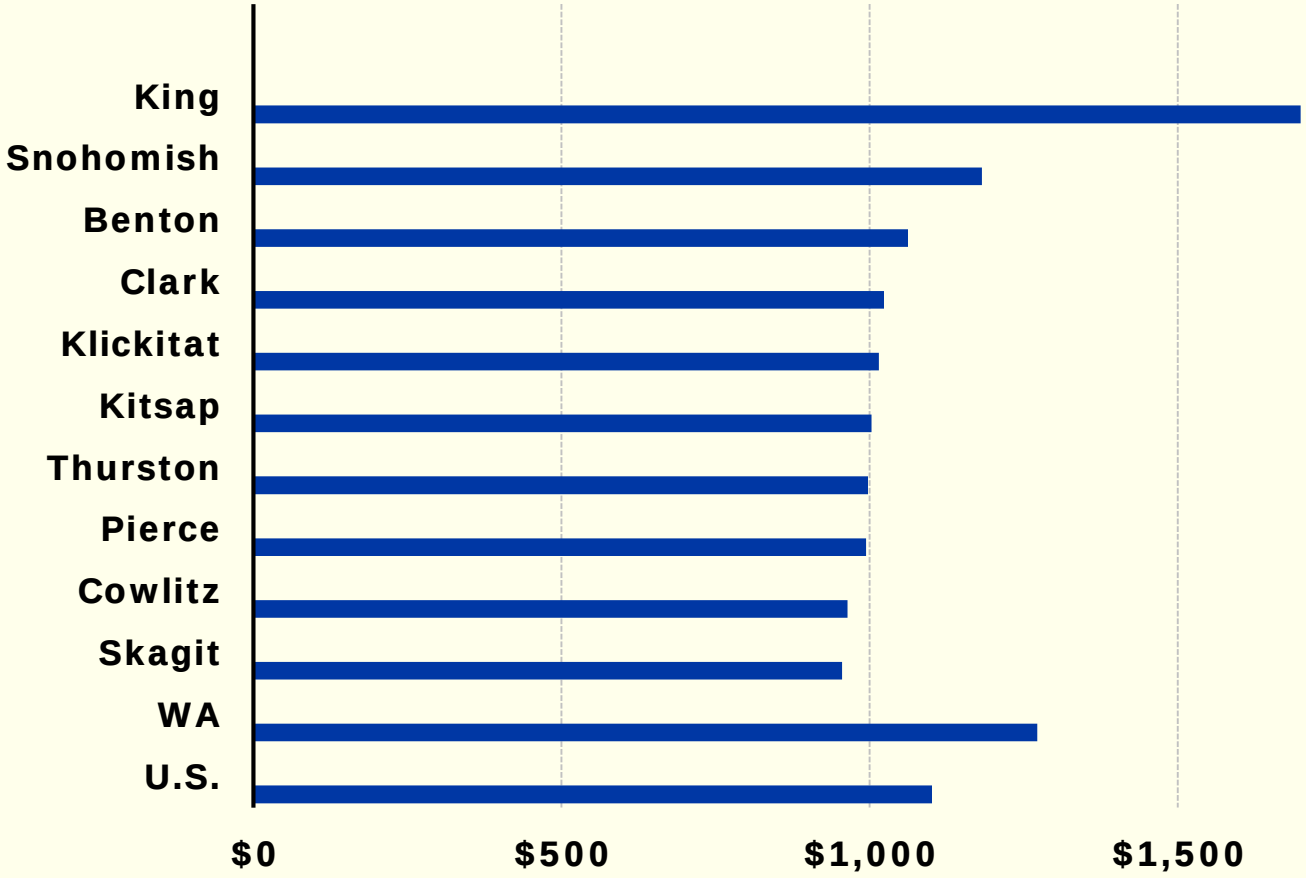
Population growth 2015-2019; top 10 Washington counties



Source: Office of Financial Management, U.S. Census Bureau; data April 2015 – April 2019

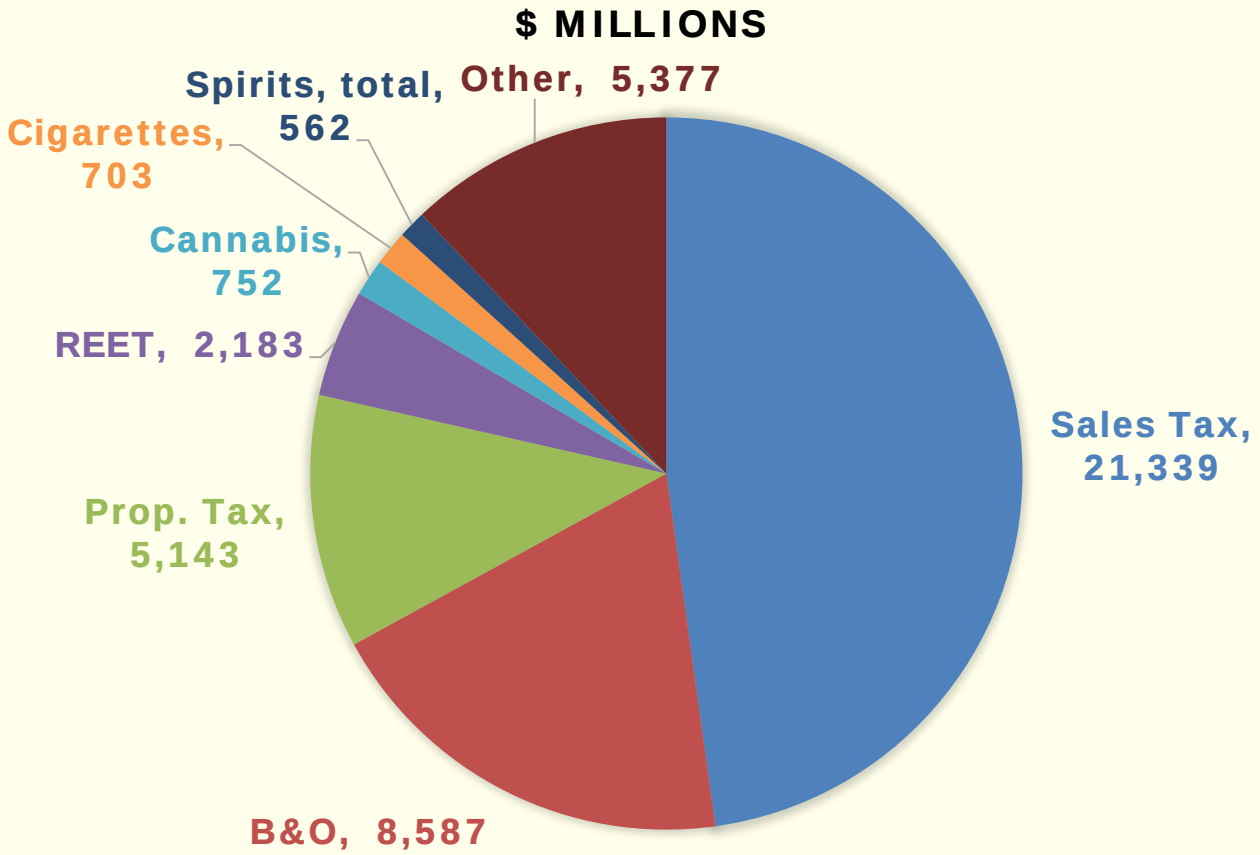
Average weekly wages, 2018; top 10 Washington counties

Includes part-time and full-time workers



Source: U.S. Bureau of Labor Statistics

General Fund-State plus cannabis revenues for 2017-19 biennium

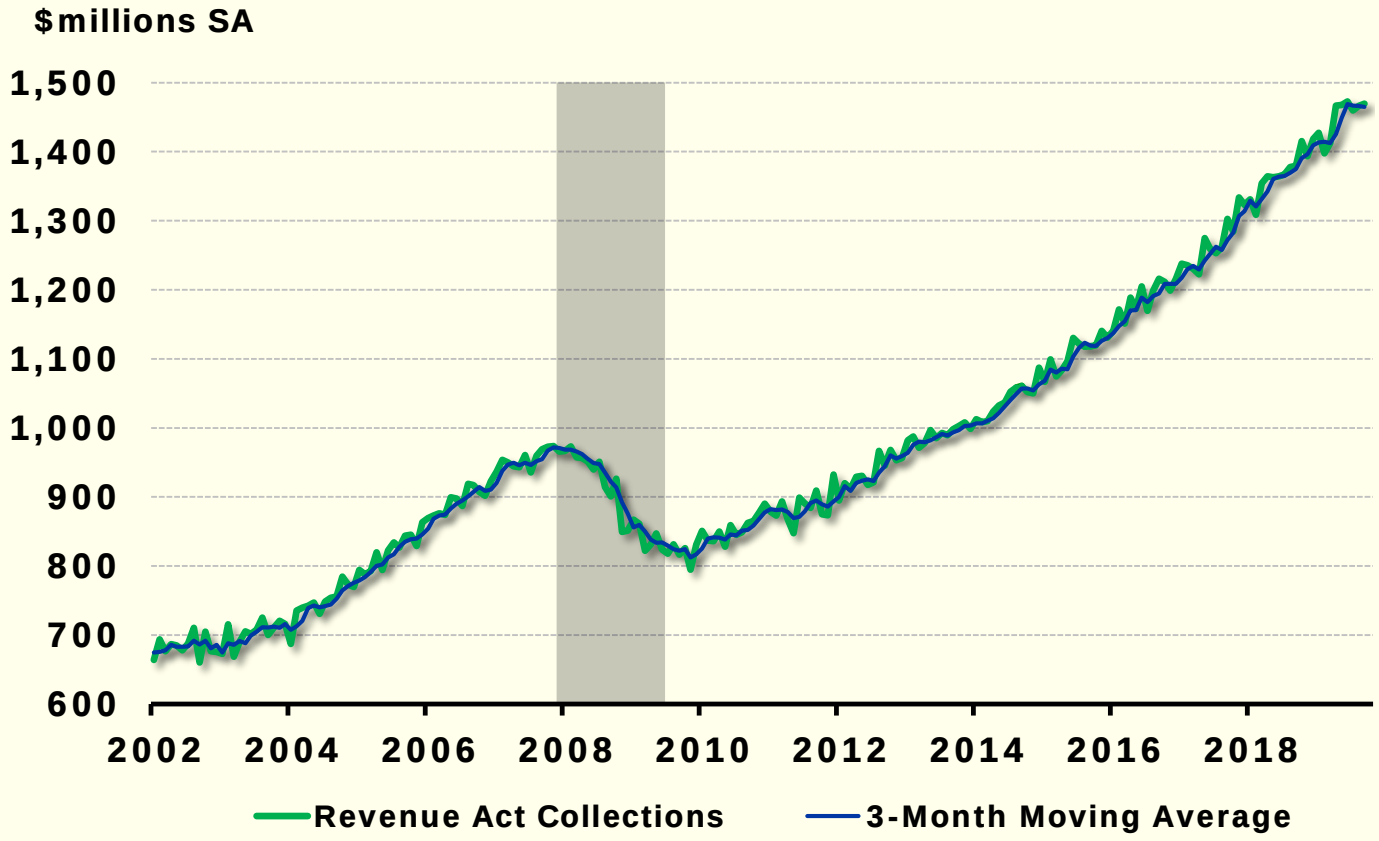


Source: ERFC September 2019 forecast

Revenue Act collections remain strong after second quarter jump

Adjusted collections for second quarter activity grew at 8.1% year over year (6.3% excluding extra-strong growth in remittances).

Adjusted collections for third quarter activity grew at 6.6% year over year.

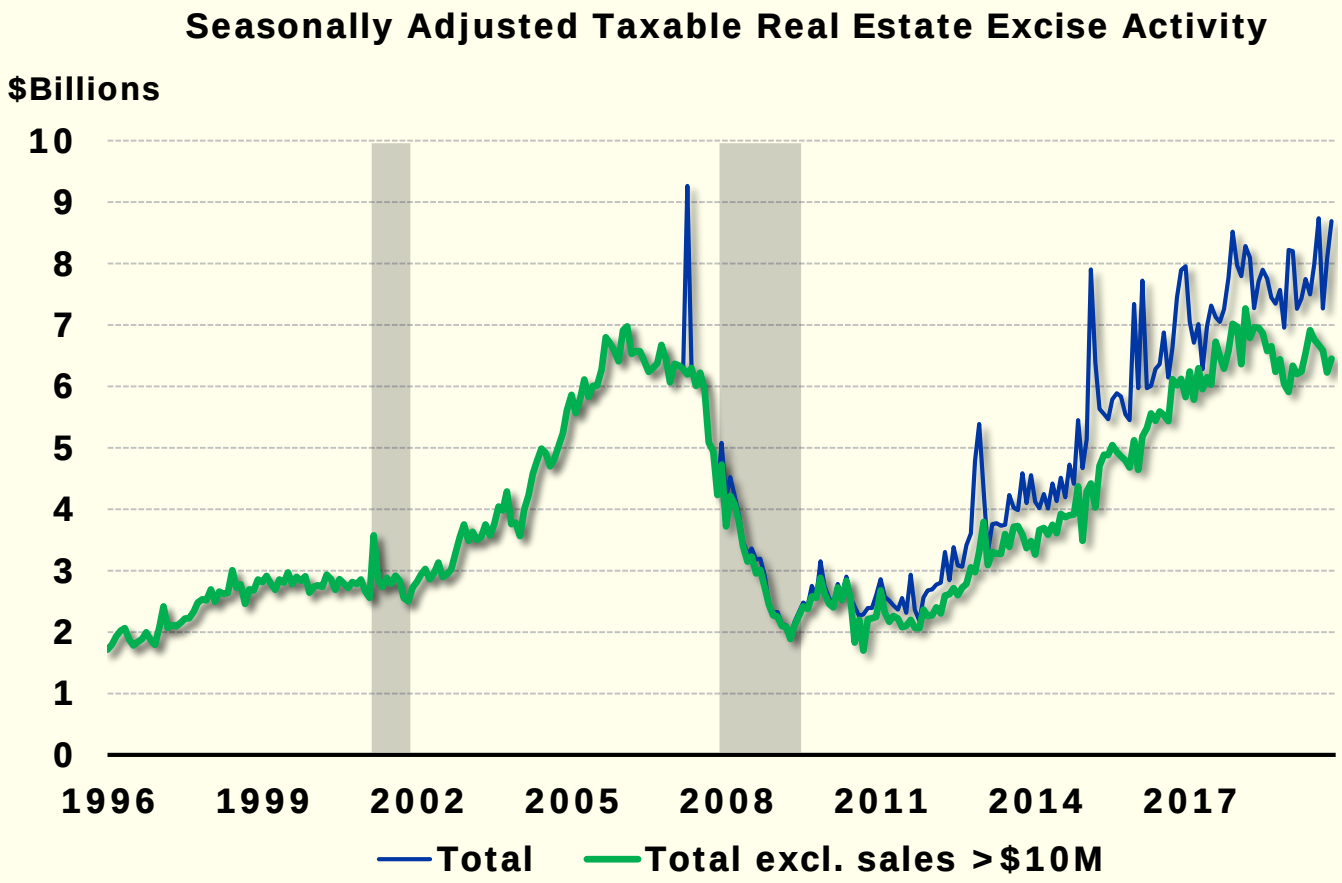


* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act
Source: DOR and ERFC; monthly data through September 2019 activity

Large commercial sales have increased ahead of January REET hike

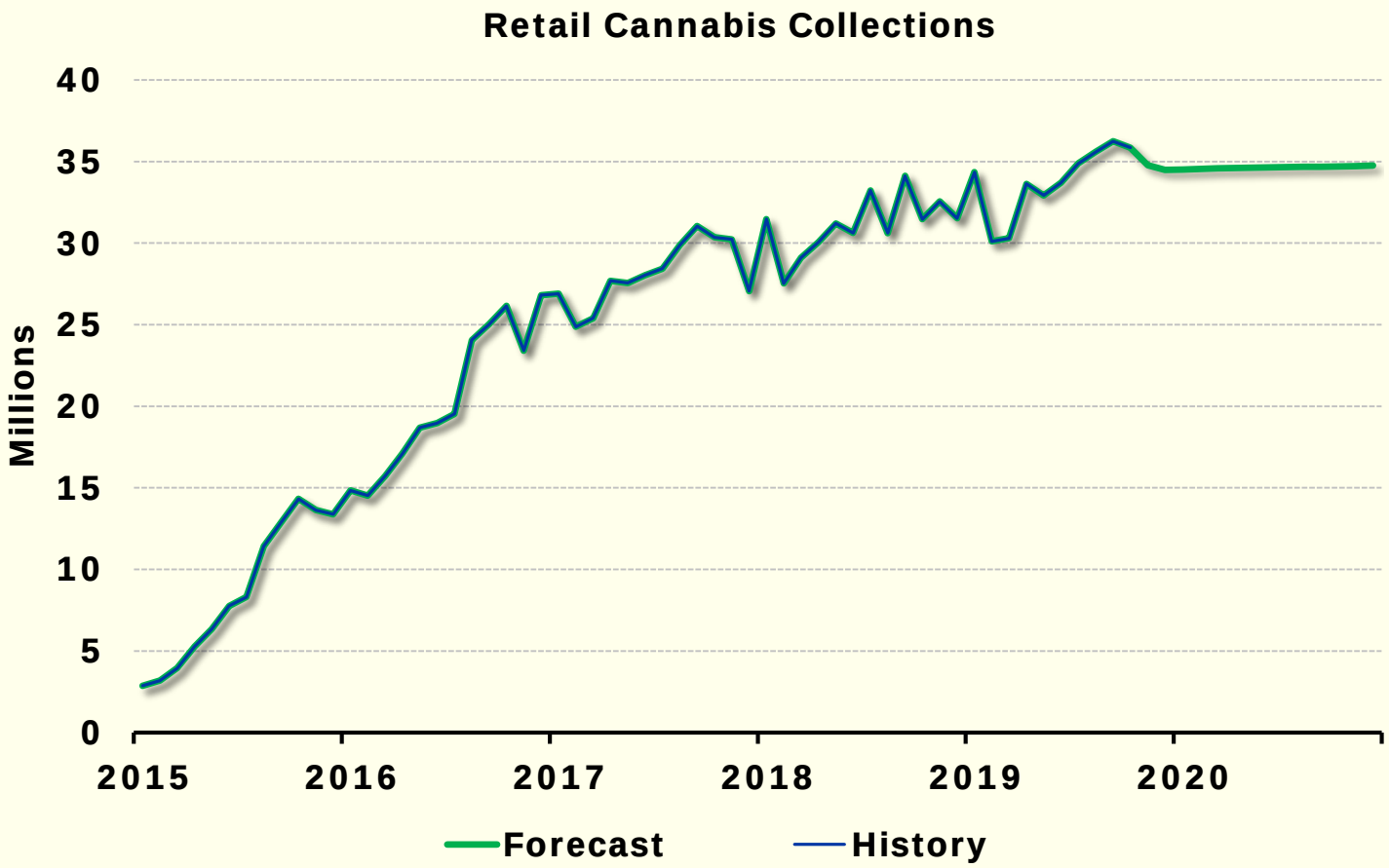
Large commercial sales (>$10 million) jumped to $1.8 billion in September and $2.2 billion in October, possibly in response to the REET rate increase that takes effect January 1, 2020.

Residential sales are down from their May peak but still strong.



Source: ERFC; Monthly data through October 2019

Cannabis revenue growth is expected to moderate



Source: ERFC November 2019 forecast; historical data through October 2019

Conclusion

- The U.S. and Washington economies are expected to continue growing but at a slower pace over the next several years
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- State revenue collections have been strong but are expected to slow as economic growth moderates
- Threats to economic expansion include concerns about international trade and fiscal policy, geopolitical risks and a maturing expansion

Questions

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