

Economic and Revenue Outlook

Presented to
Senate Ways and Means Committee

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Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Forecast risks

Upside

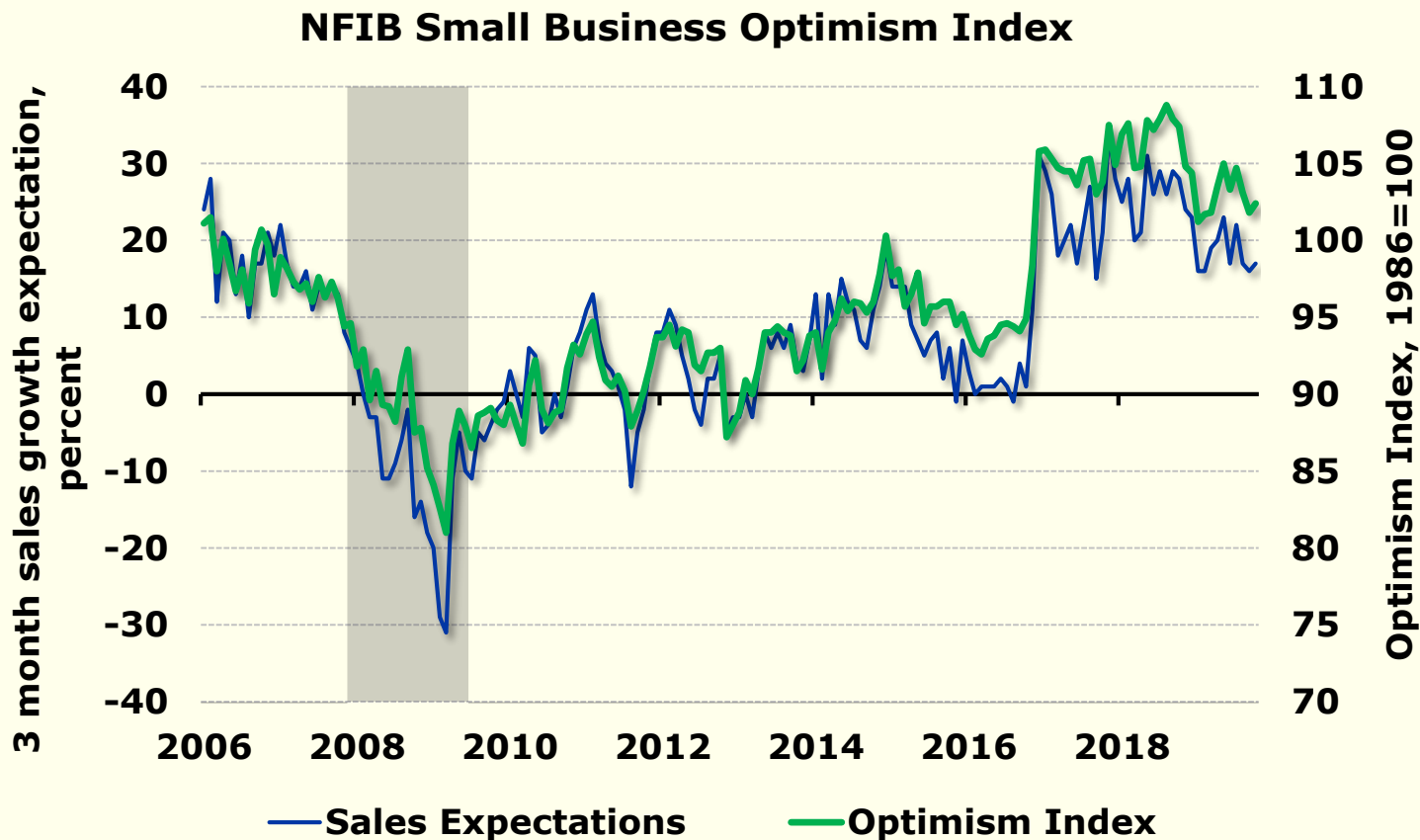
- Consumer and business confidence have dipped but remain at high levels
- U.S., WA labor markets have slowed compared to 2018 but remain strong

Downside

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



Small business optimism has declined but remains historically high

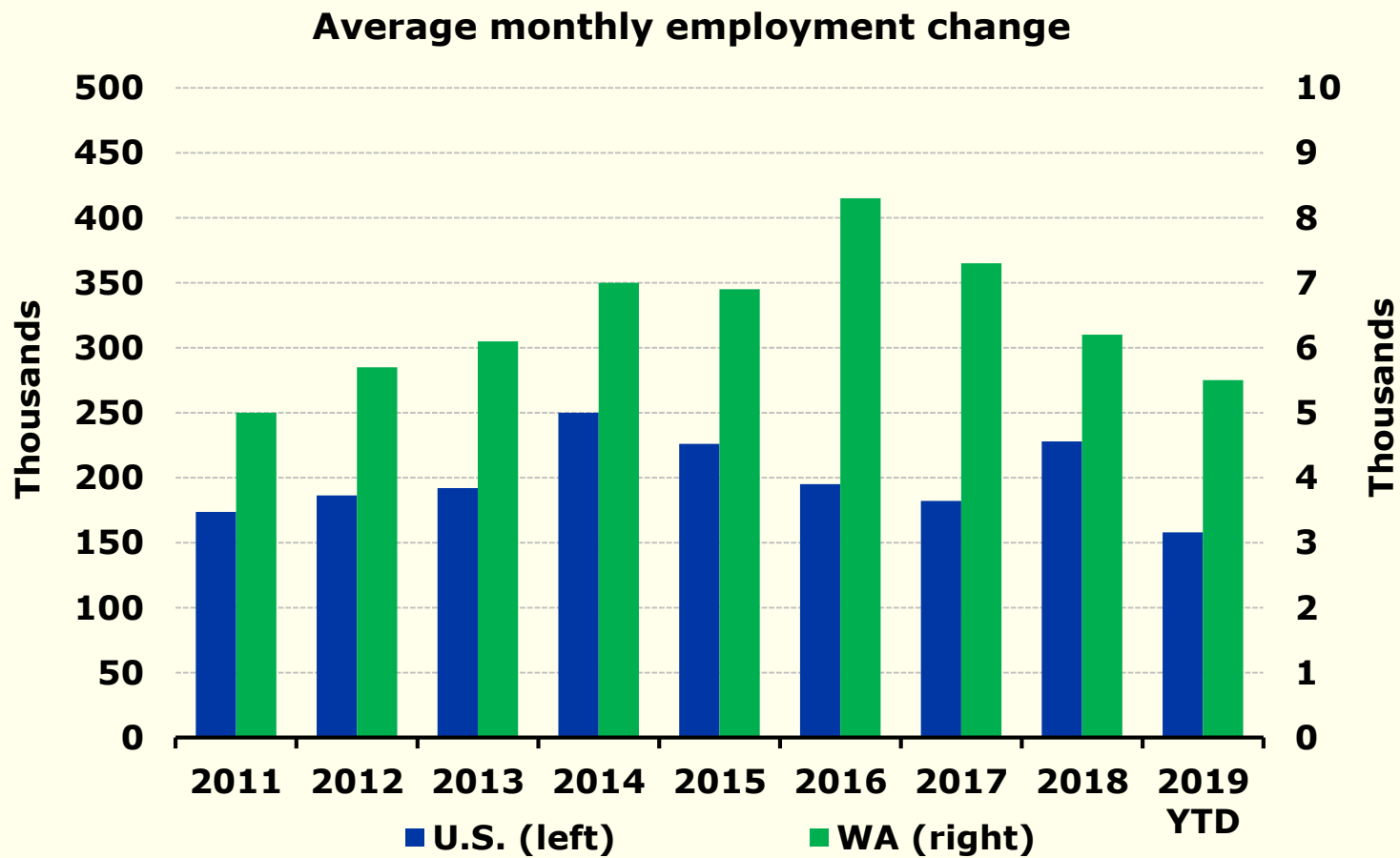


Source: National Federation of Independent Business; data through October 2019

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



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

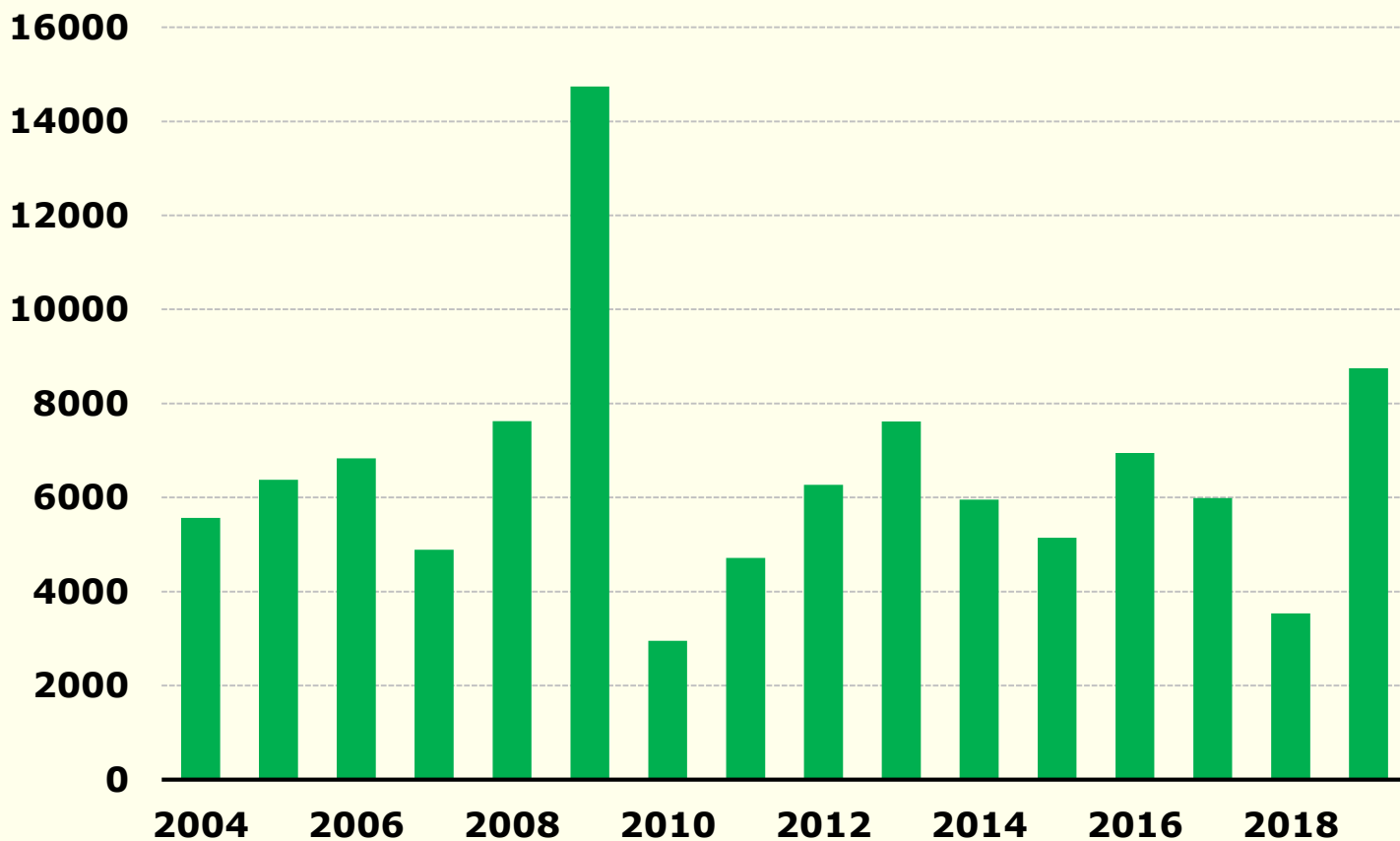
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The number of workers in WA receiving layoff notices this year is the highest since 2009

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

WA workers receiving mass layoff notices

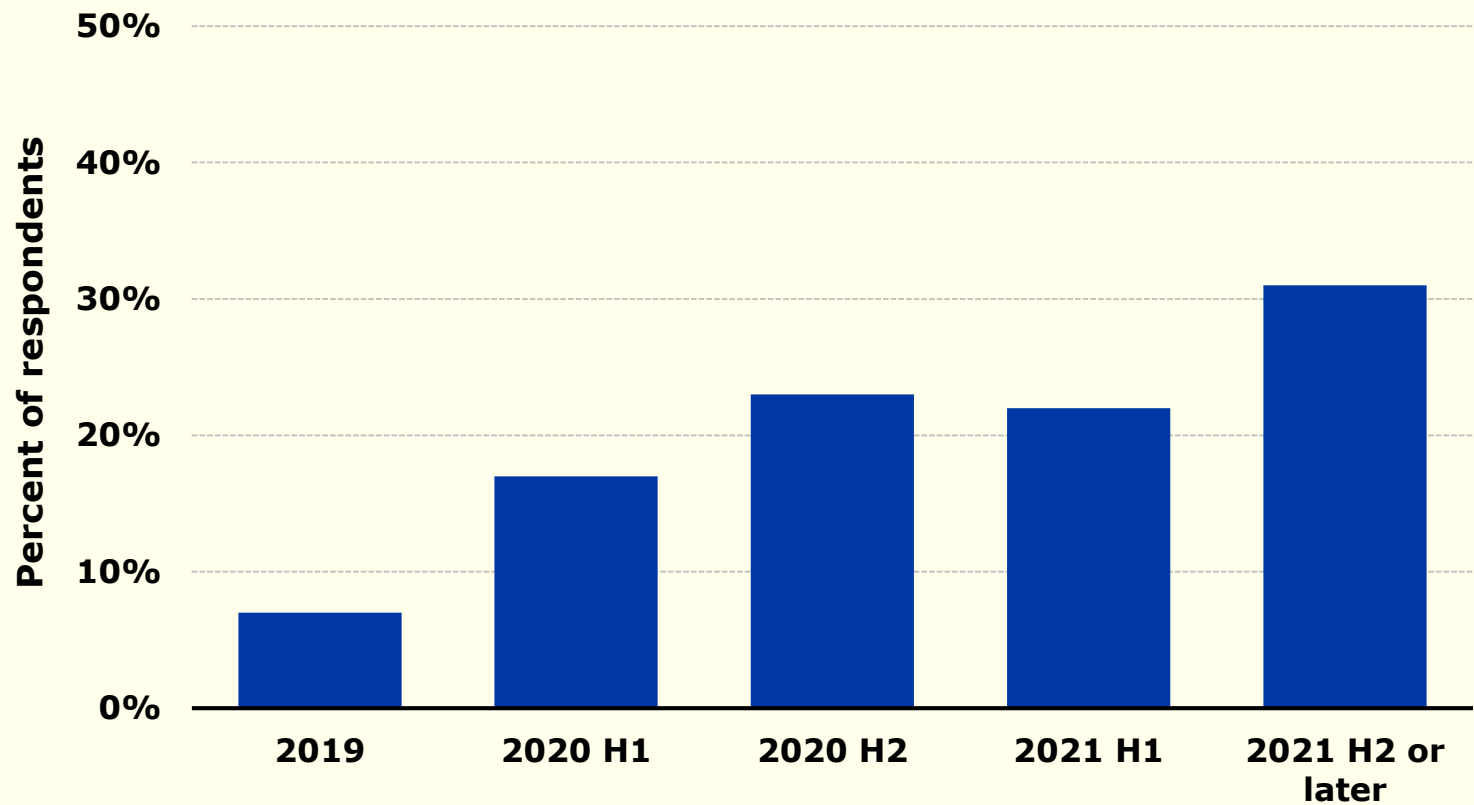


Source: Employment Security Dept., data through 2019

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Timing of next recession: National Association of Business Economists survey



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

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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.



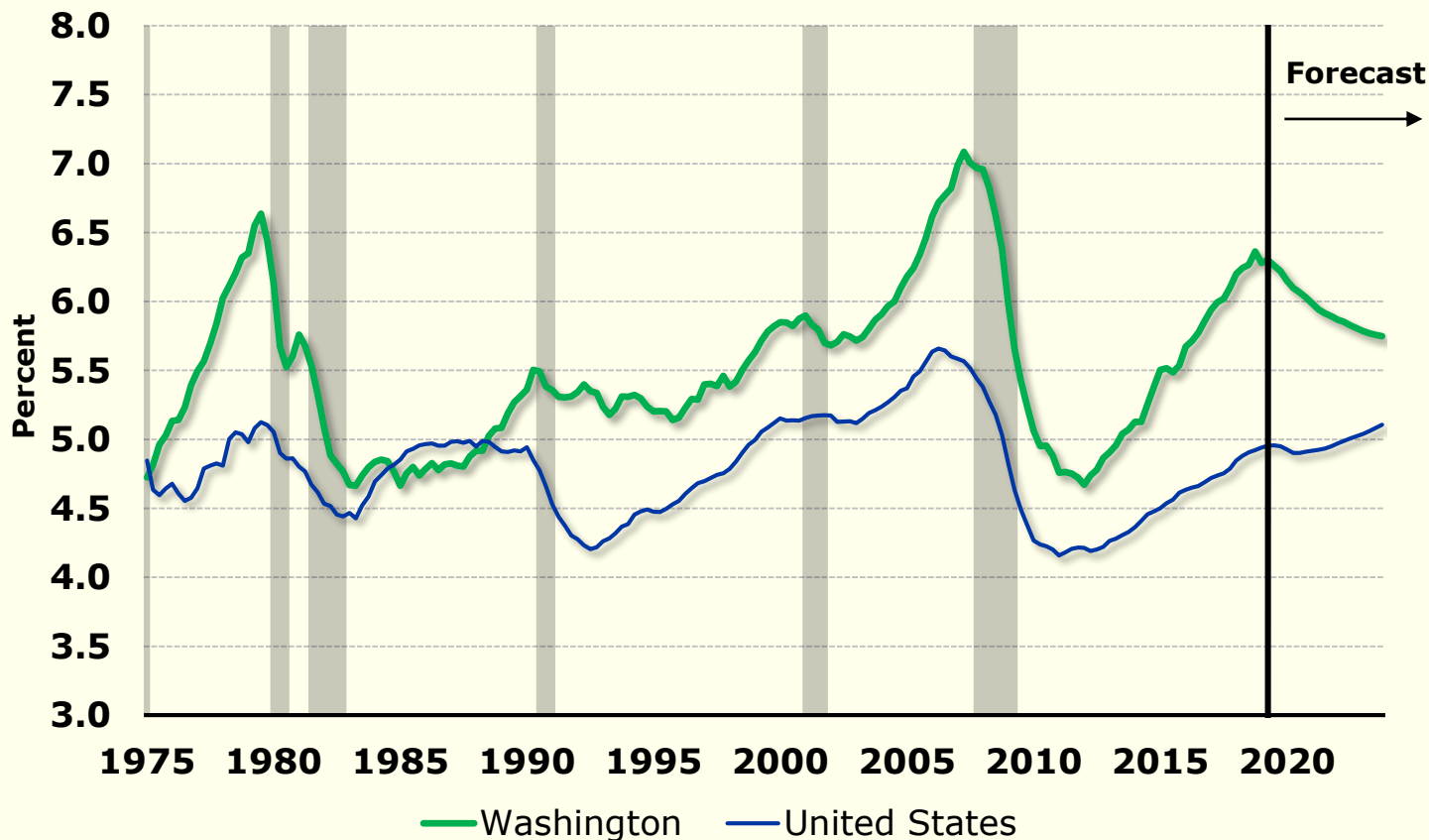
Source: Federal Reserve Bank of New York; daily data through Oct. 31 2019



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.

Construction Share of Employment

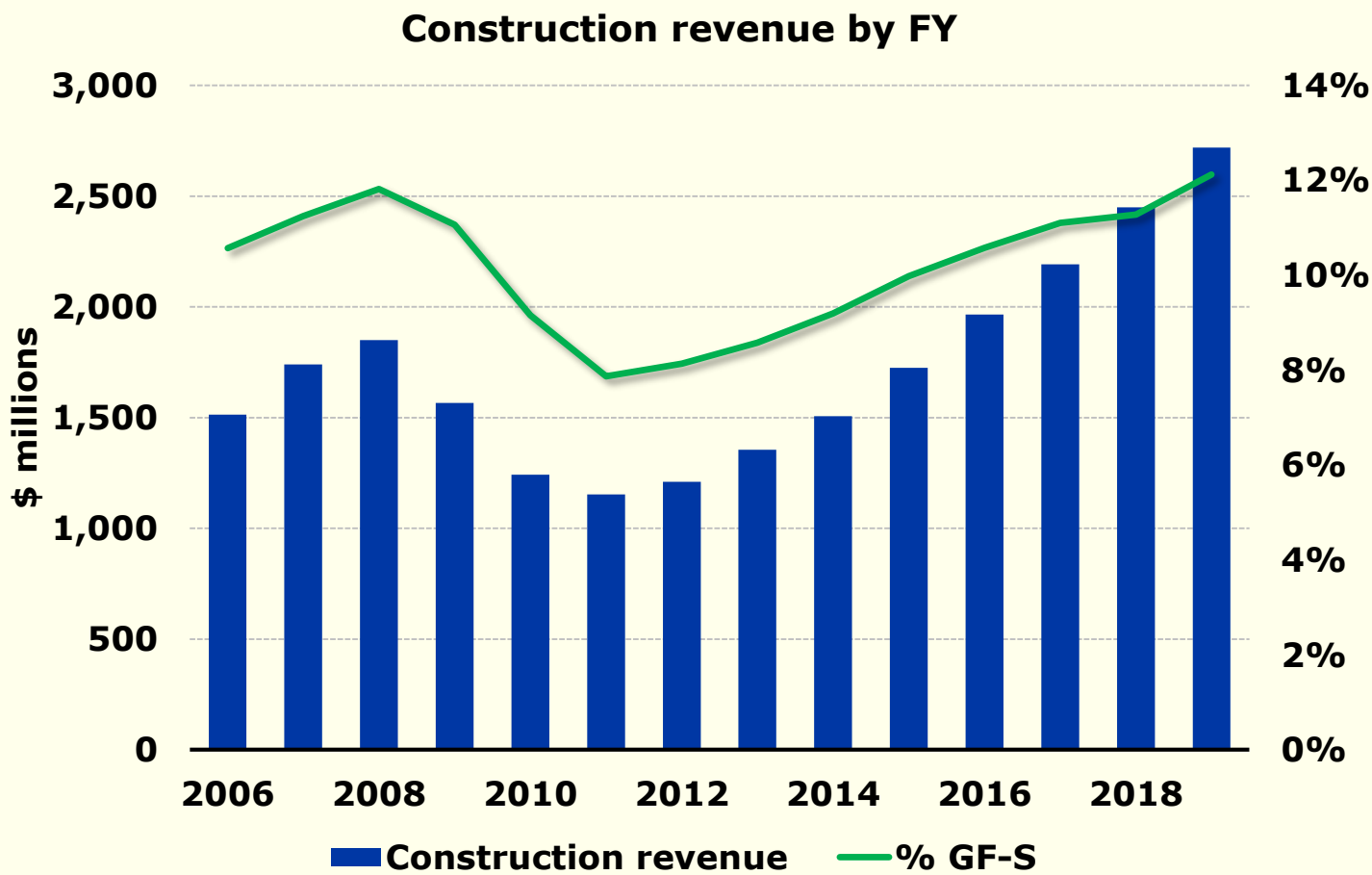


Source: ERFC September forecast; data through Q3 2019
Note: Vertical black line indicates last actual in September

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



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

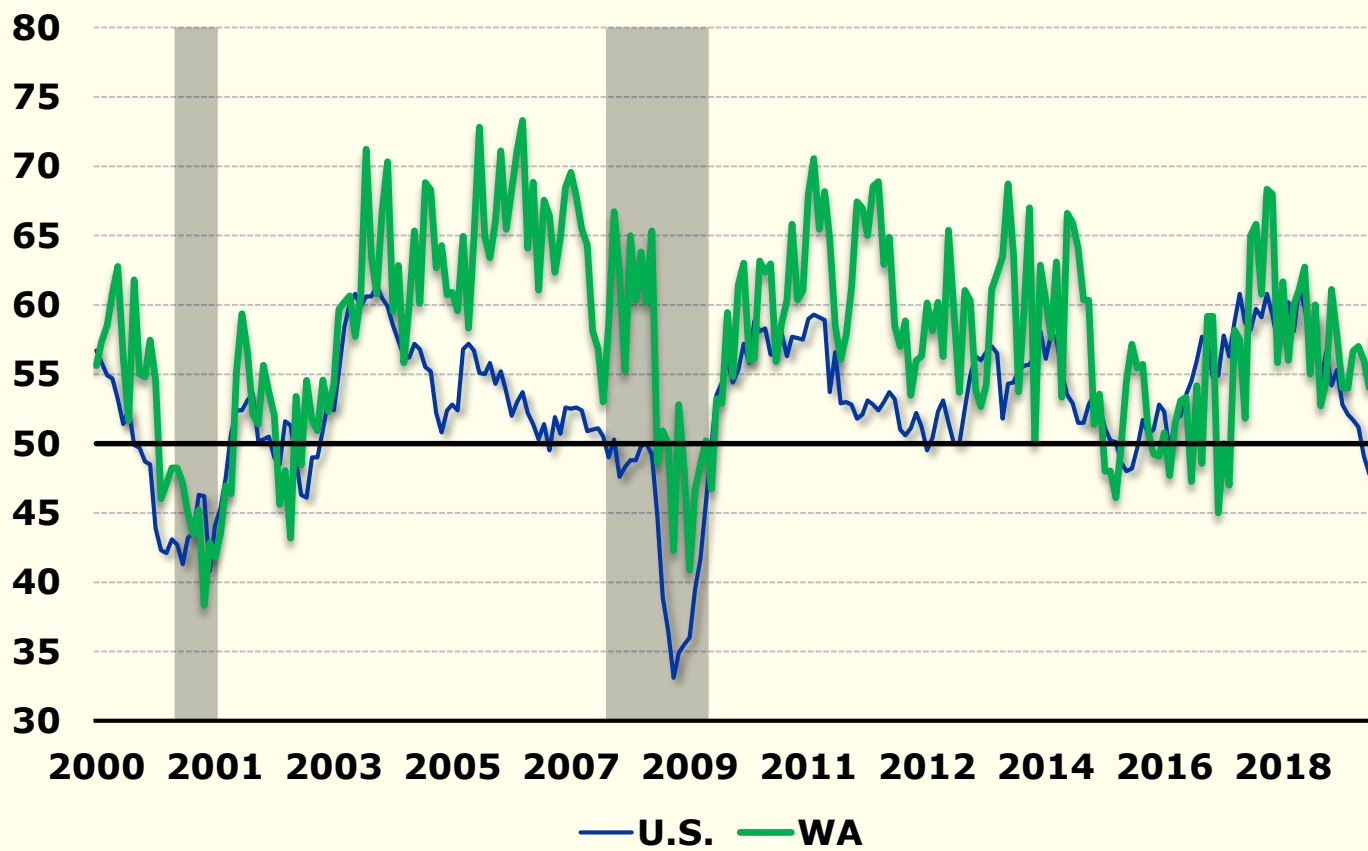
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Manufacturing has slowed nationally but continues to expand in WA

Values above 50 indicate expansion, below 50 indicate contraction

Institute for Supply Mgmt. Manufacturing Index: U.S., WA



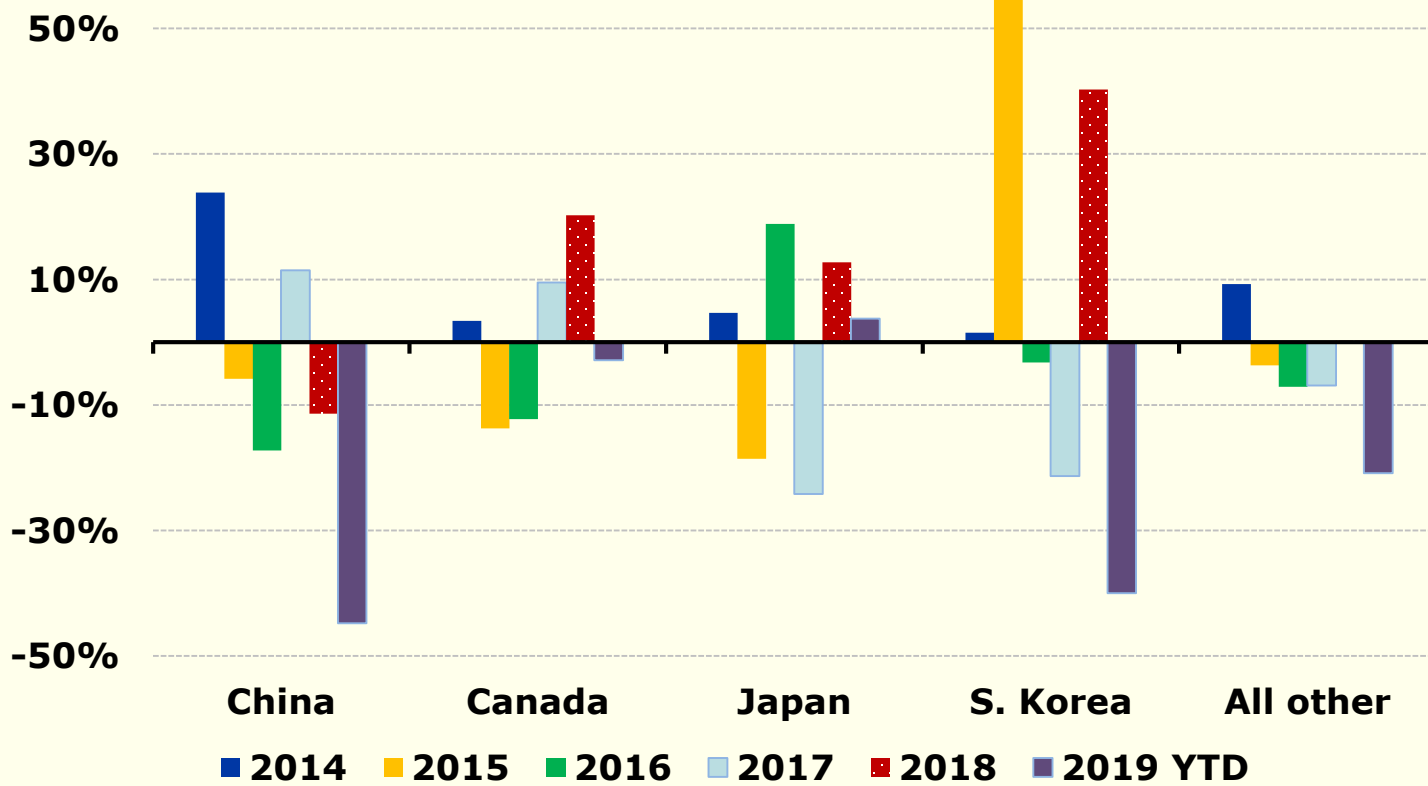
Source: ISM, data through Oct. 2019

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

WA exports by destination, year over year growth



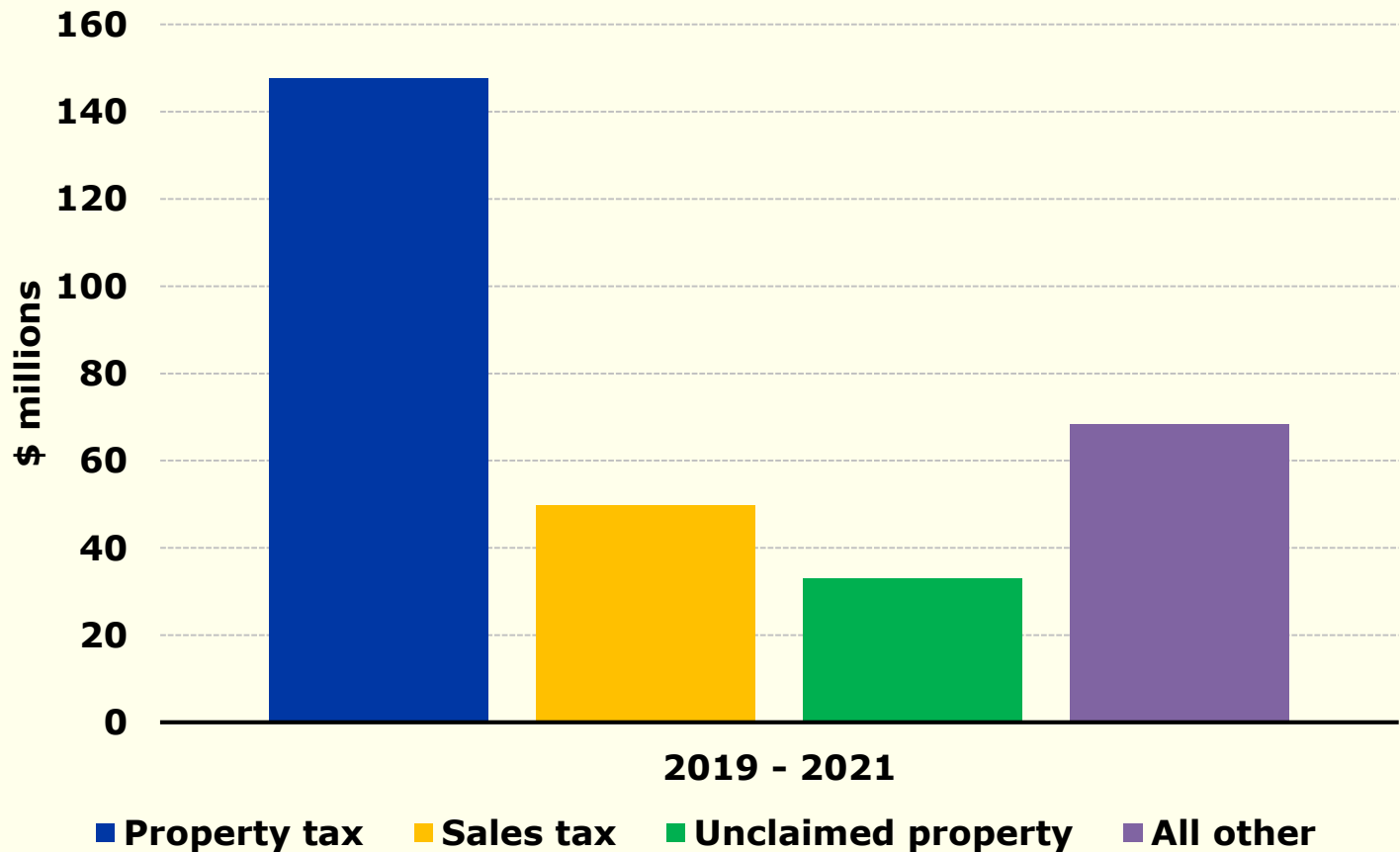
Source: WISERTrade, data through September 2019

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Components of change in November NGF-S revenue forecast for 2019 – 2021 biennium

Sept. forecast assumed 5.3% growth in assessed value for CY 2020 property taxes. With most county assessors having reported, assessed value growth for 2020 property taxes now assumed to be 7.9%.



Source: ERFC November 2019 forecast

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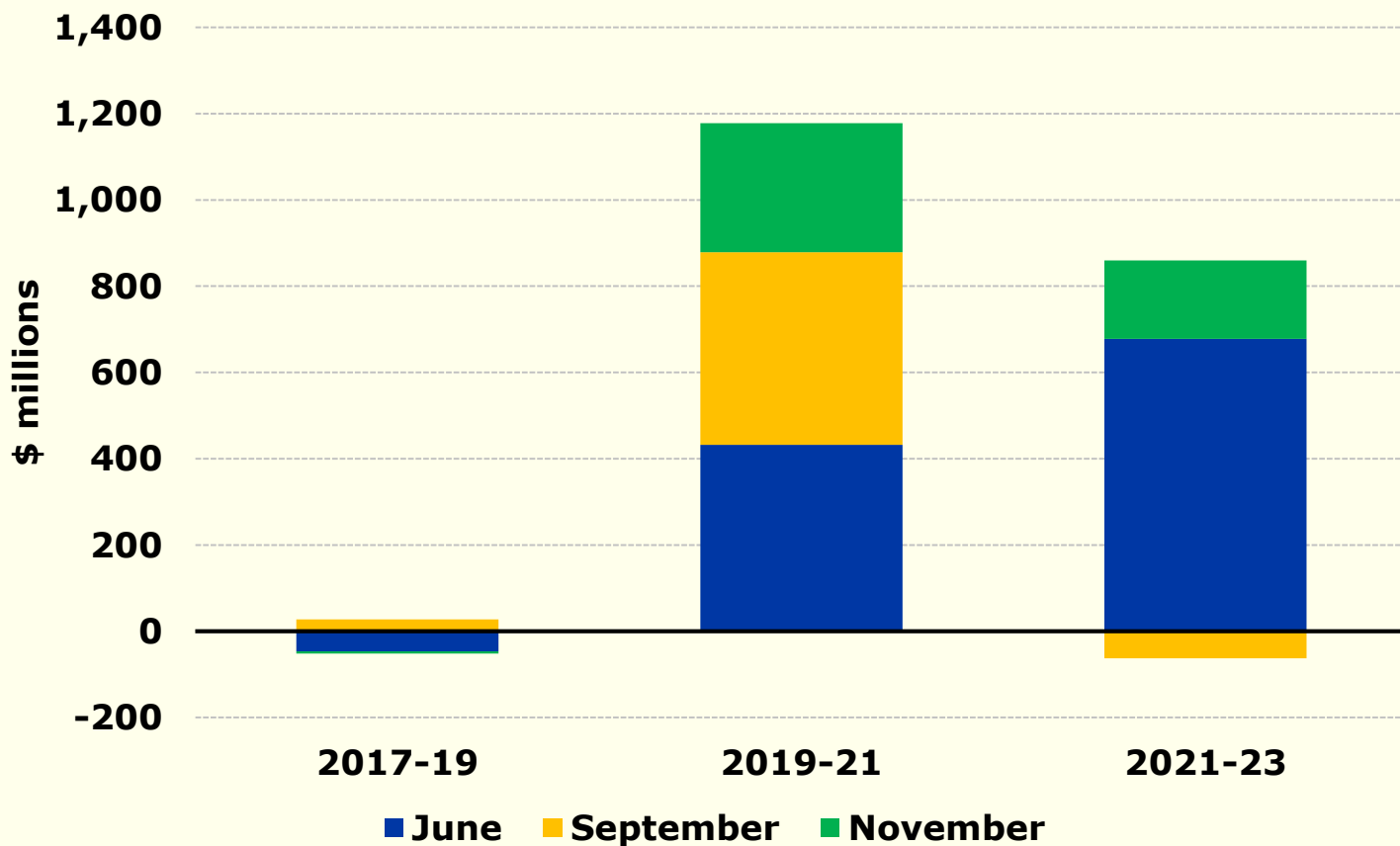


Near GF-S changes since March 2019 (forecast + legislative changes)

NGF-S,
2019-2021
biennium:

March 2019
= \$50.6 B

Nov. 2019
= \$51.7 B





Questions



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