

# Washington State Economic Outlook

Thurston County Commissioners Elected Officials and  
Appointed Directors

Steve Lerch  
Executive Director

July 11, 2018  
Olympia, Washington



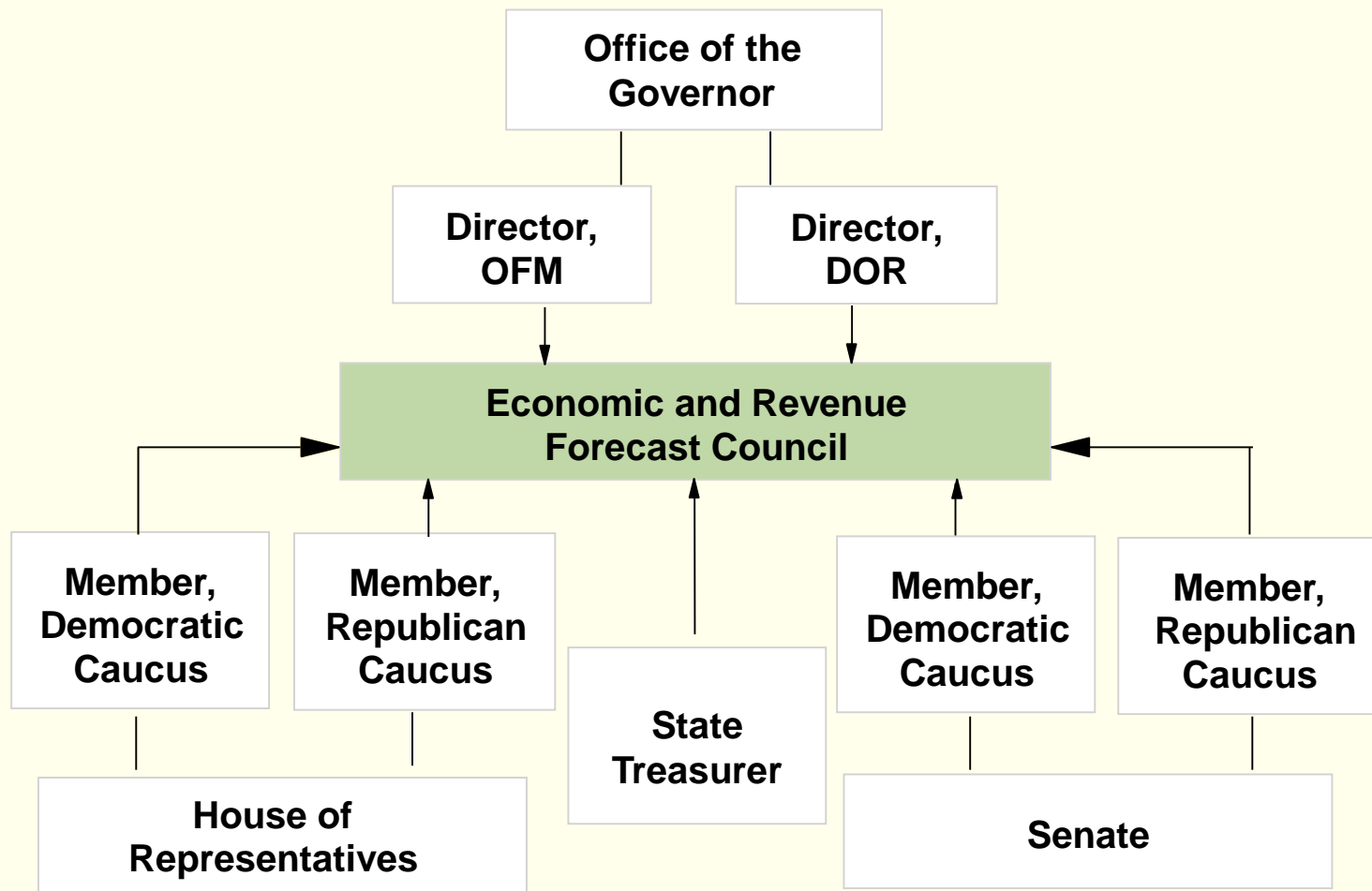
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ECONOMIC AND REVENUE FORECAST COUNCIL**



# Economic and Revenue Forecast Council Organization Chart

## ERFC

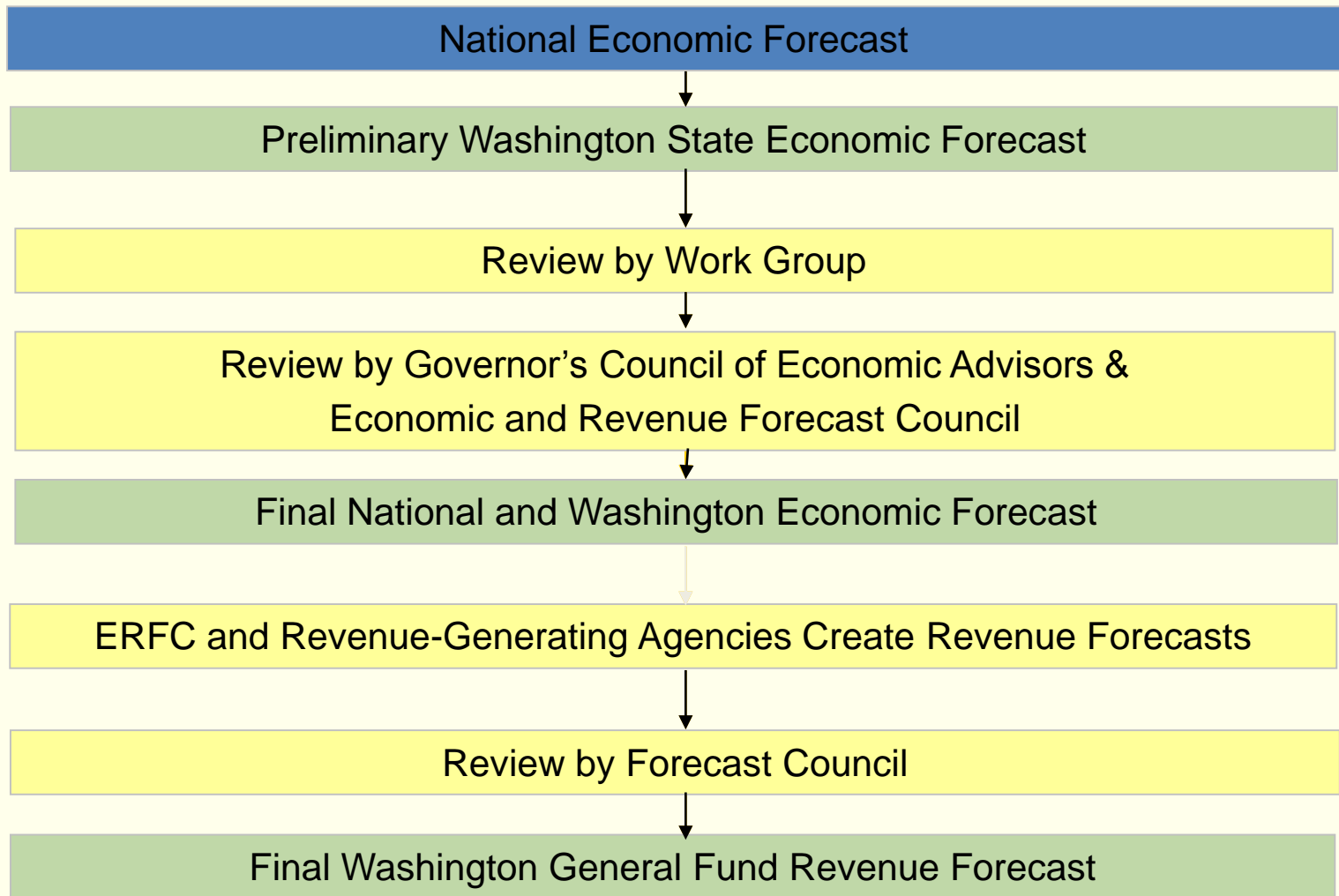
- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990





# ERFC Forecast Process

The national economic forecast is based on a modified version of the IHS Markit model of the U.S. economy



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# Summary

- The economic forecast for the U.S. is slightly stronger than in February.
- The economic forecast for WA has slightly higher personal income than in February.
- Risks to the baseline include concerns about international trade, geopolitical risks and a maturing economic expansion.
- The revenue collection variance since the February forecast is \$189 million.
- Near General Fund revenue for the 2017-19 biennium has been increased by \$298 million, and revenue for the 2019-21 biennium has been increased by \$287 million.



# 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, Europe
- Higher oil and gasoline prices
- Maturing economic expansion

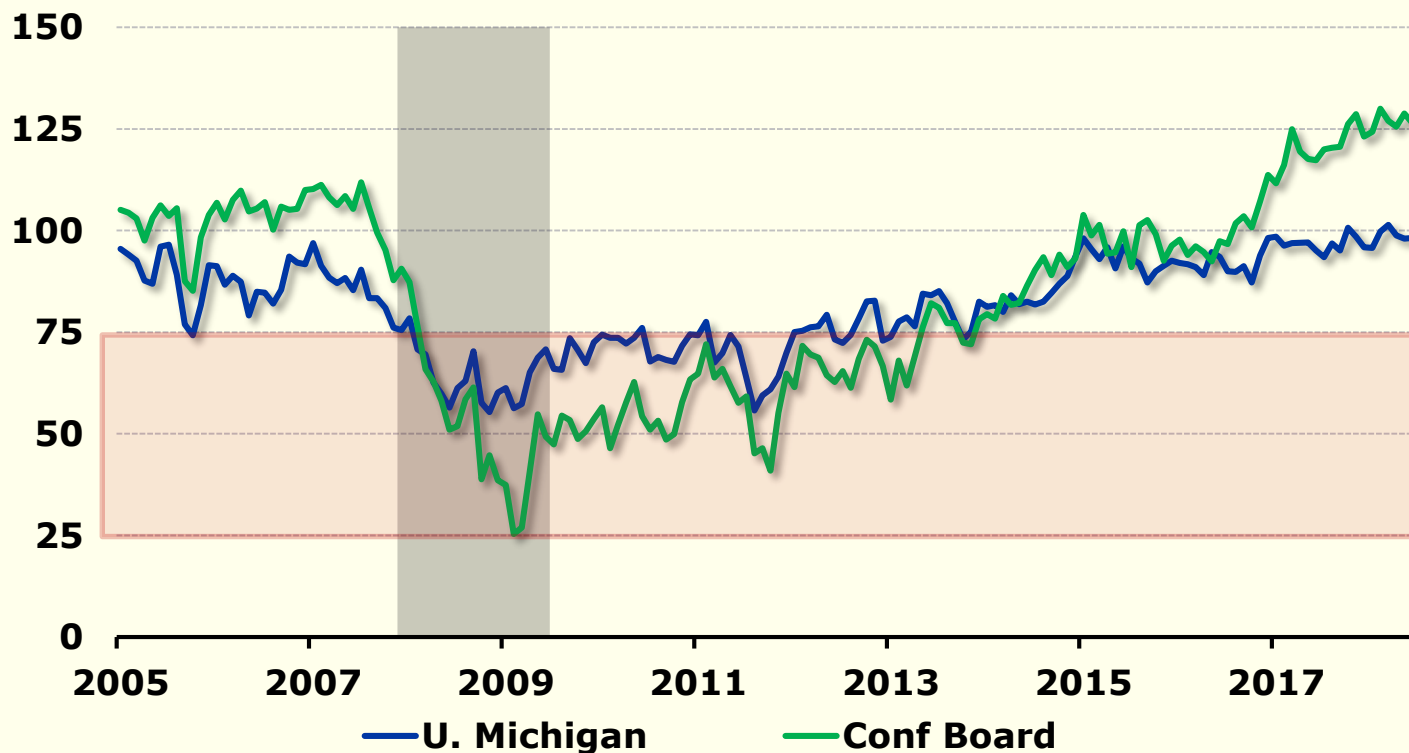


# Consumers remain confident about economic prospects

## Index

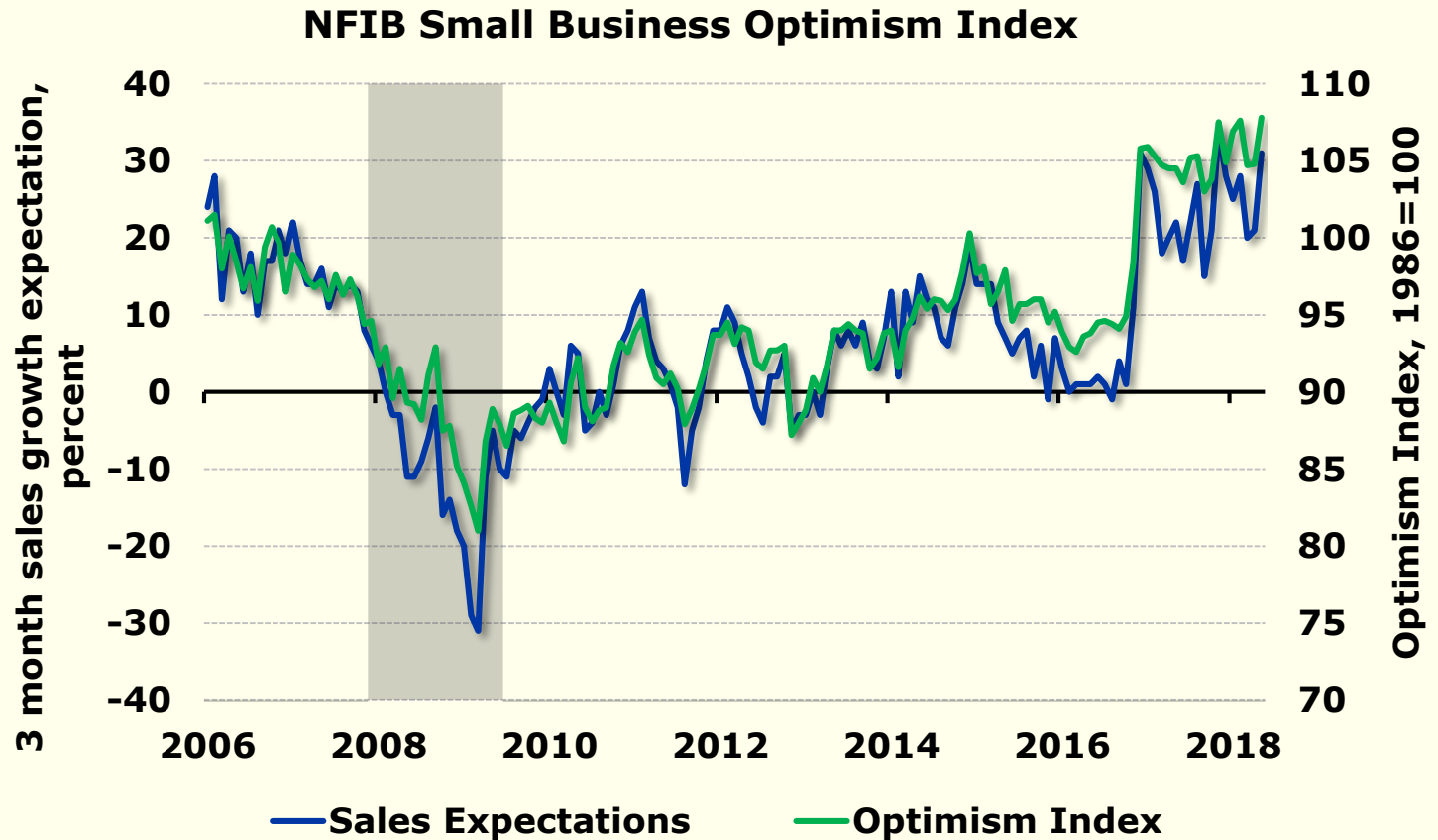
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





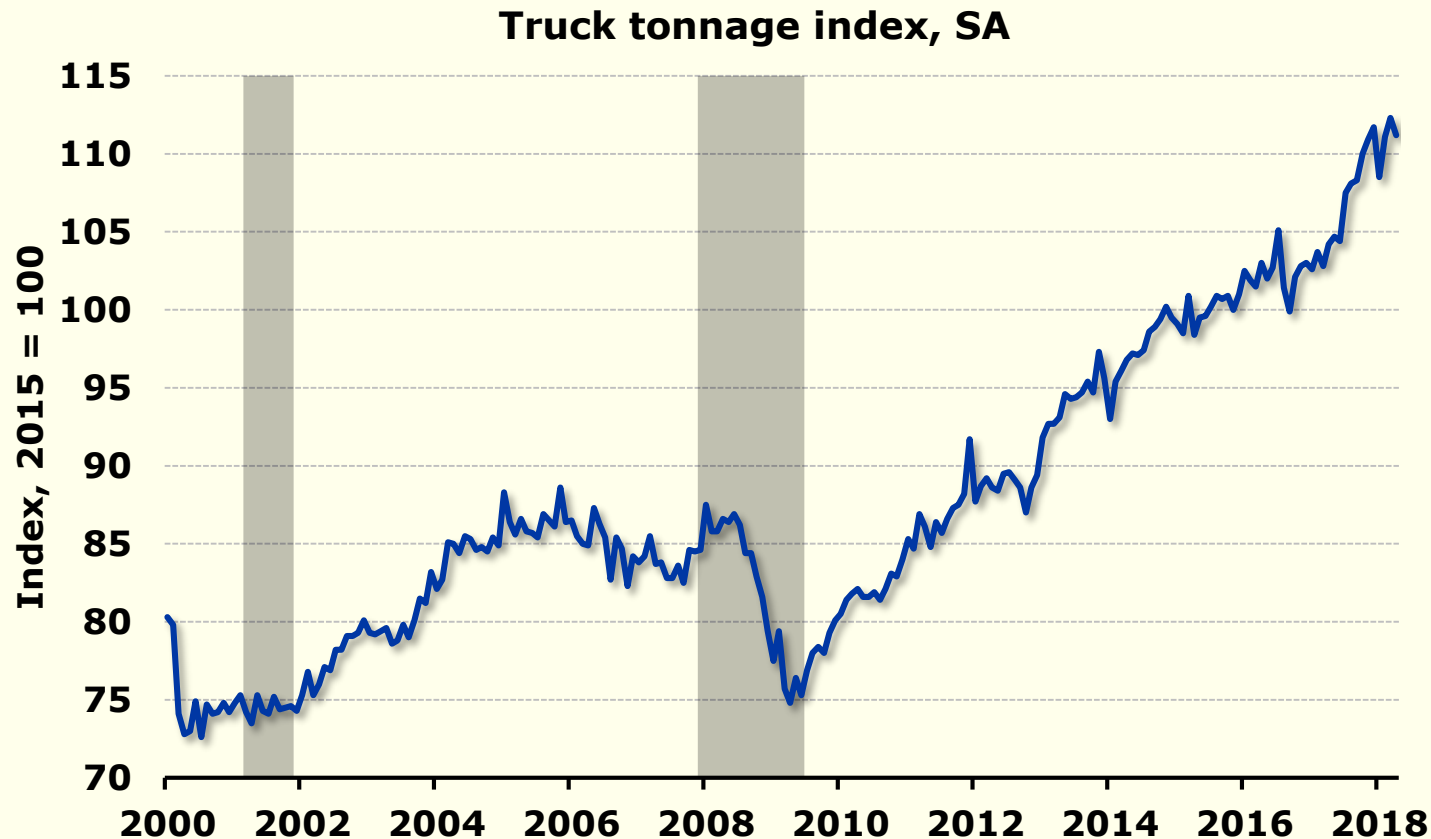
# Small business optimism and sales expectations are above pre-recession levels



Source: National Federation of Independent Business; data through May 2018



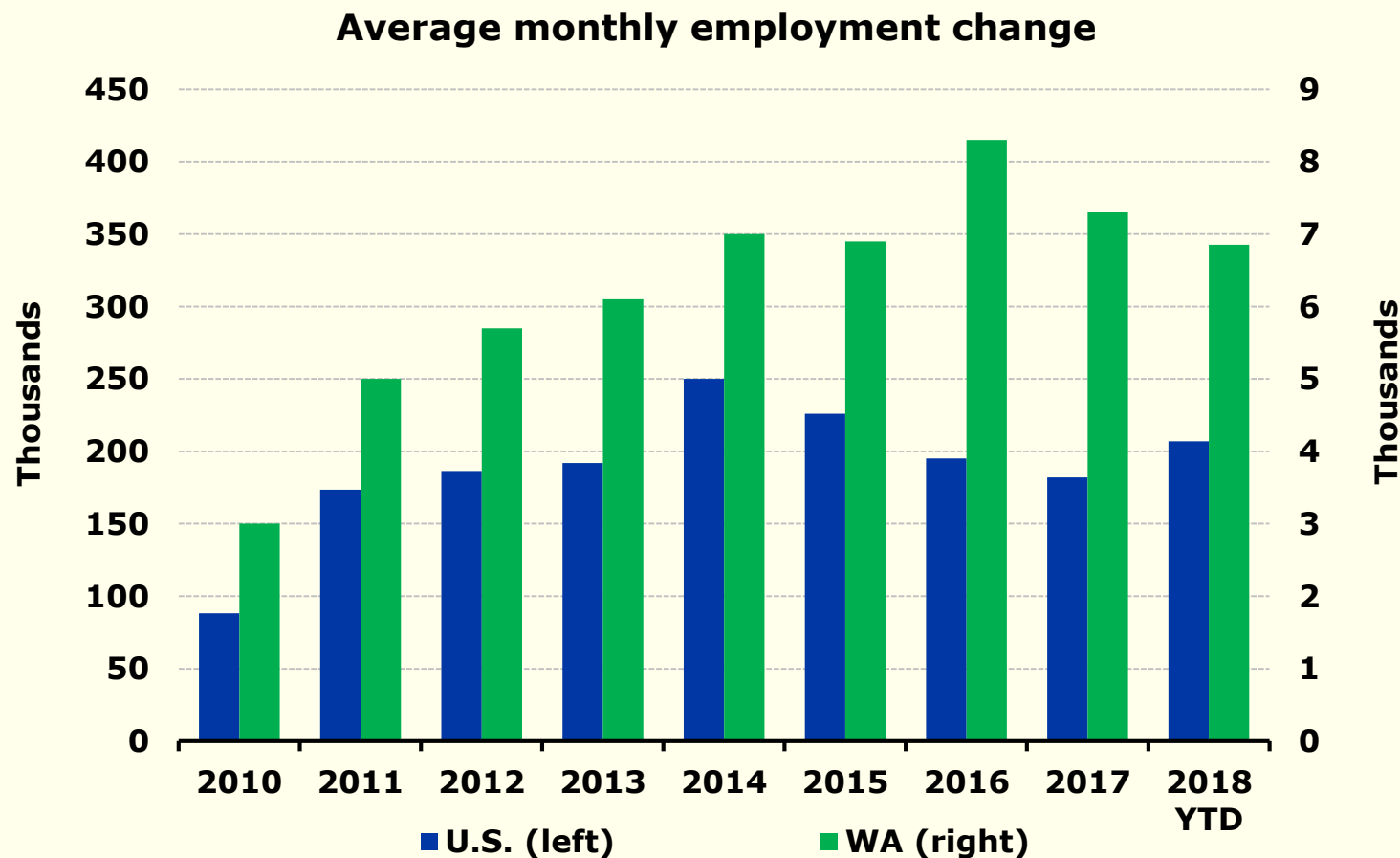
# Freight carried by trucks has steadily increased since the end of the recession







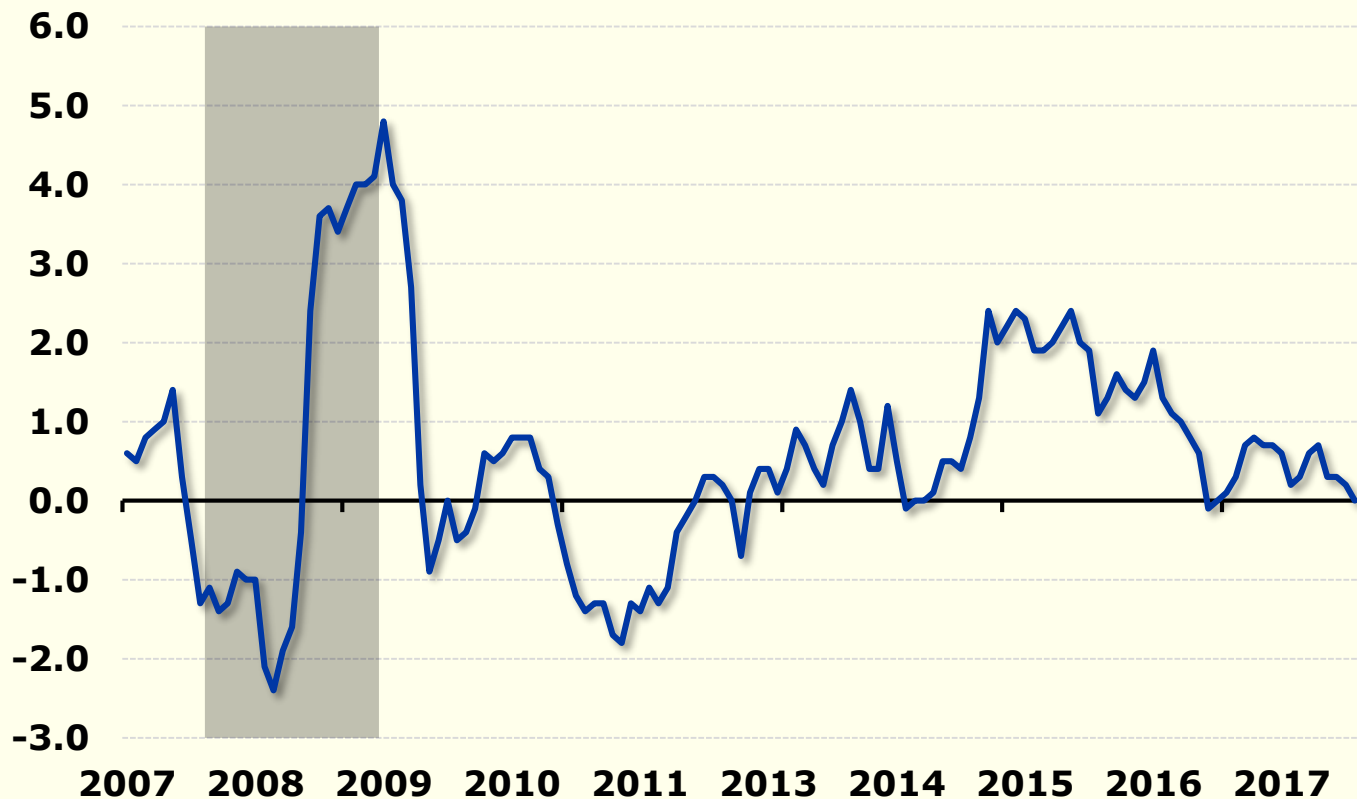
# U.S., WA labor markets look strong





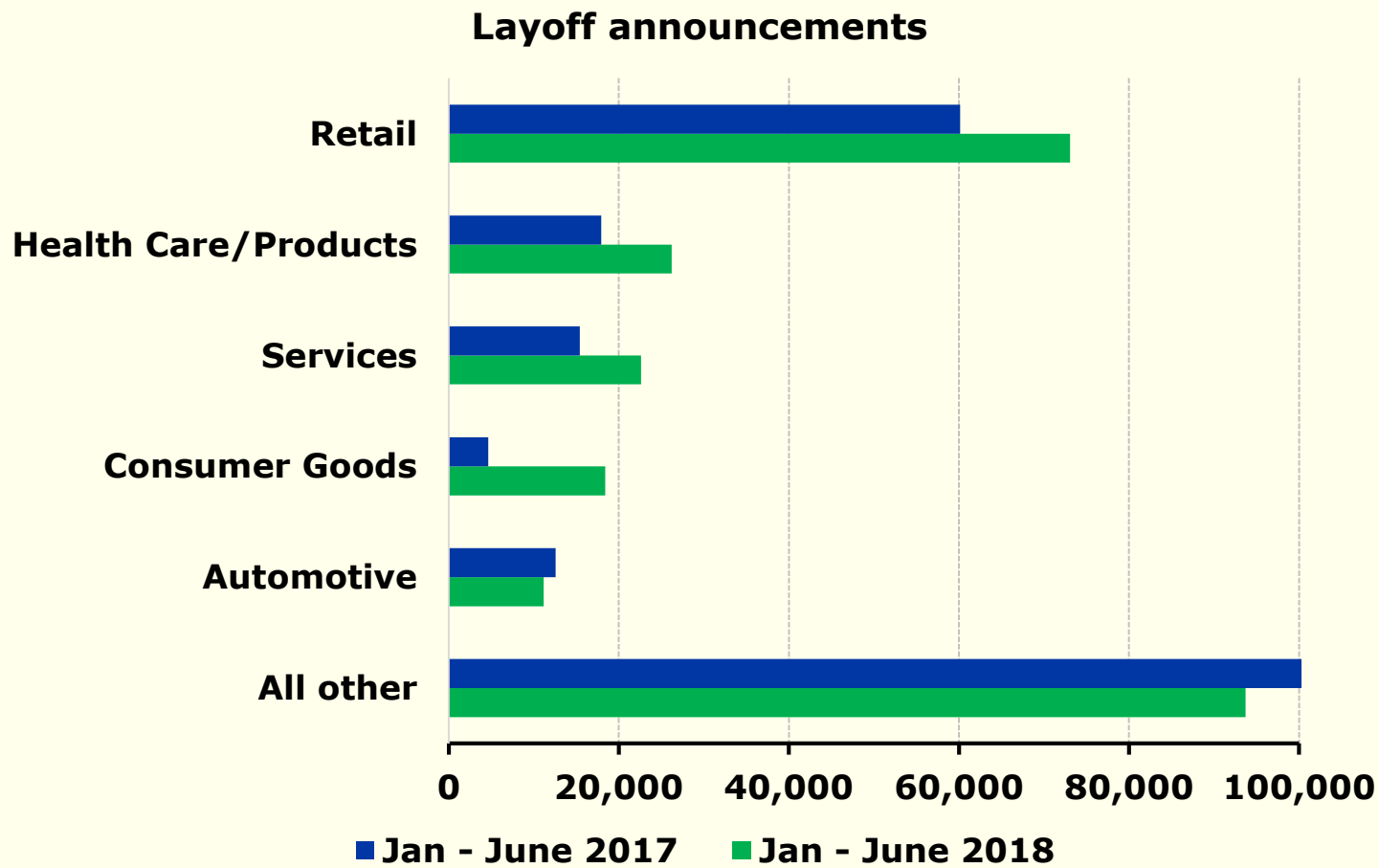
# Adjusted for inflation, hourly wage growth remains muted

Year-over-year growth in U.S. real average hourly wages





# Through June, layoff announcements are 8% above the same time period last year

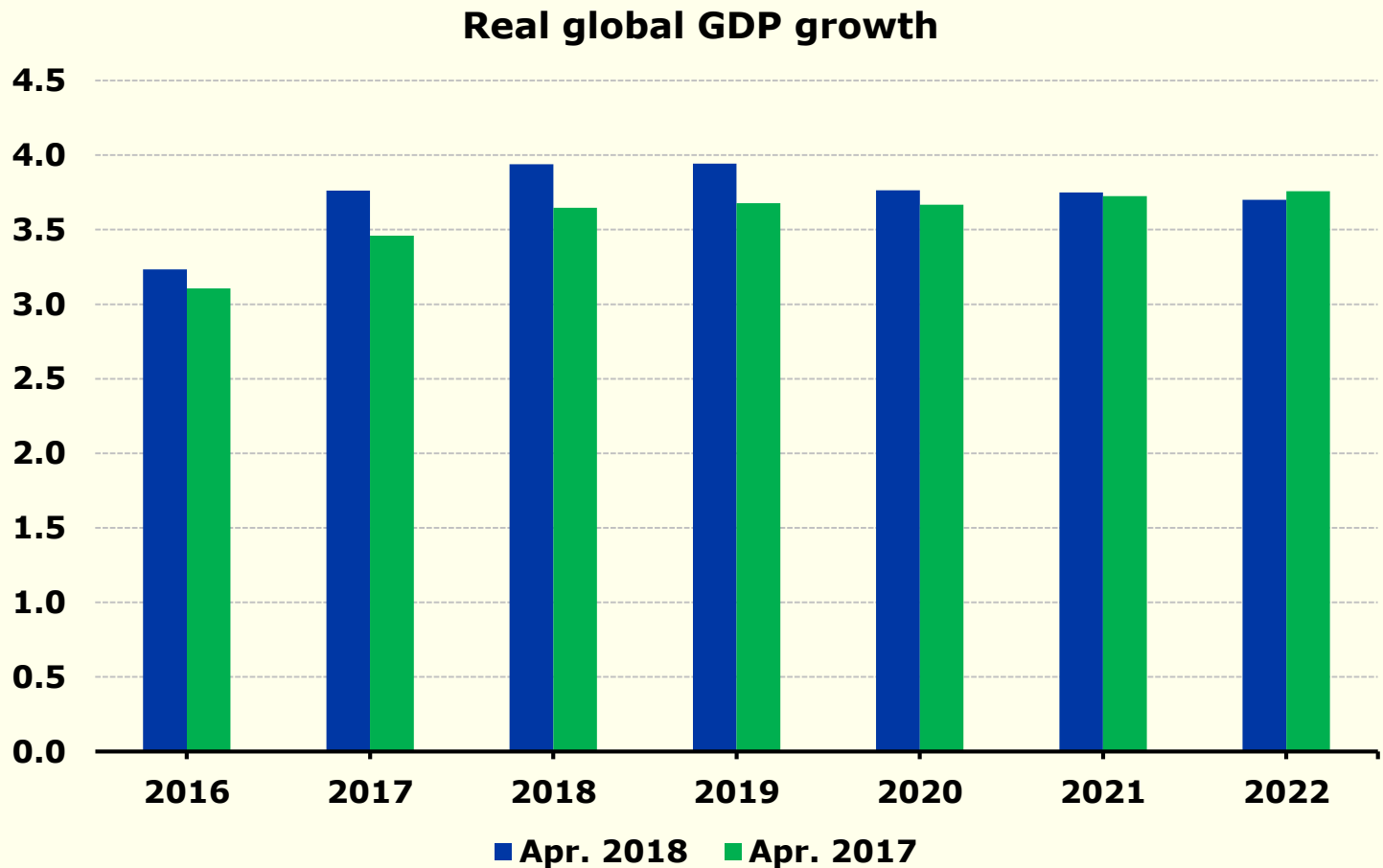


Source: Challenger, Gray & Christmas; Job Cut Report, June 2018

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# Global GDP forecasts have strengthened compared to last year

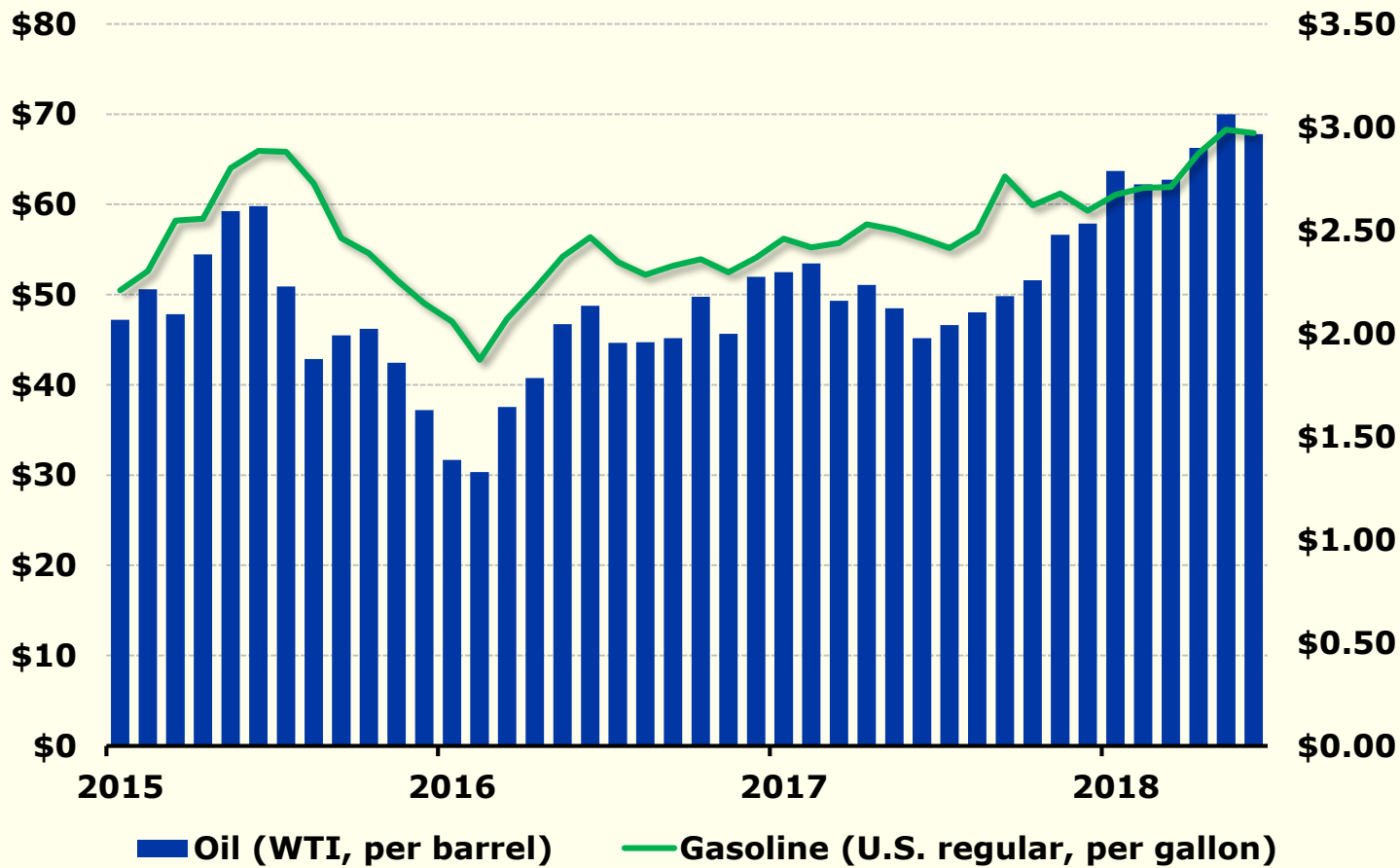


Source: International Monetary Fund, World Economic Outlook; April 2017 and April 2018

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# Oil and gasoline prices appear to be heading higher

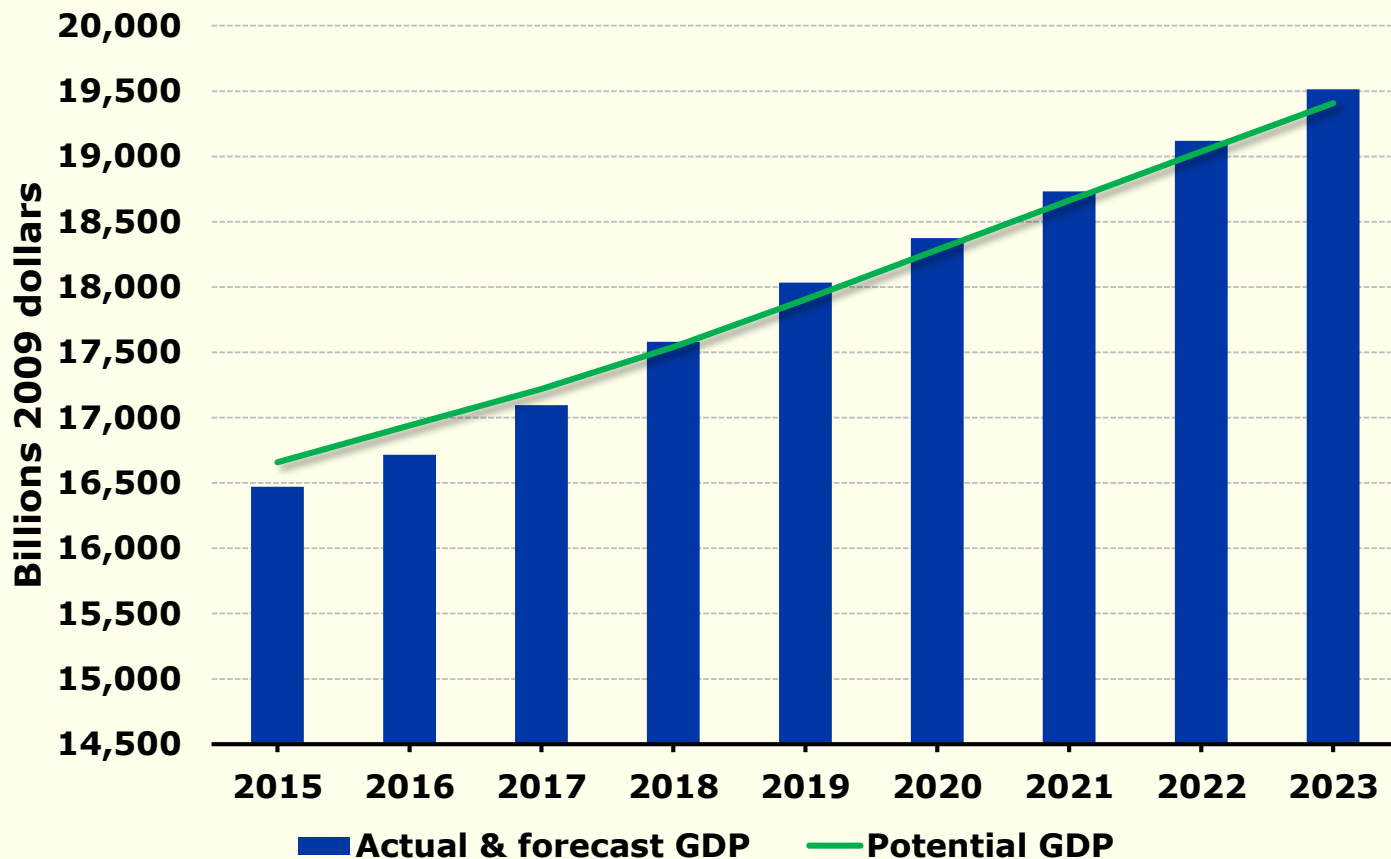


Source: U.S. Dept. of Energy, data through June 2018



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

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

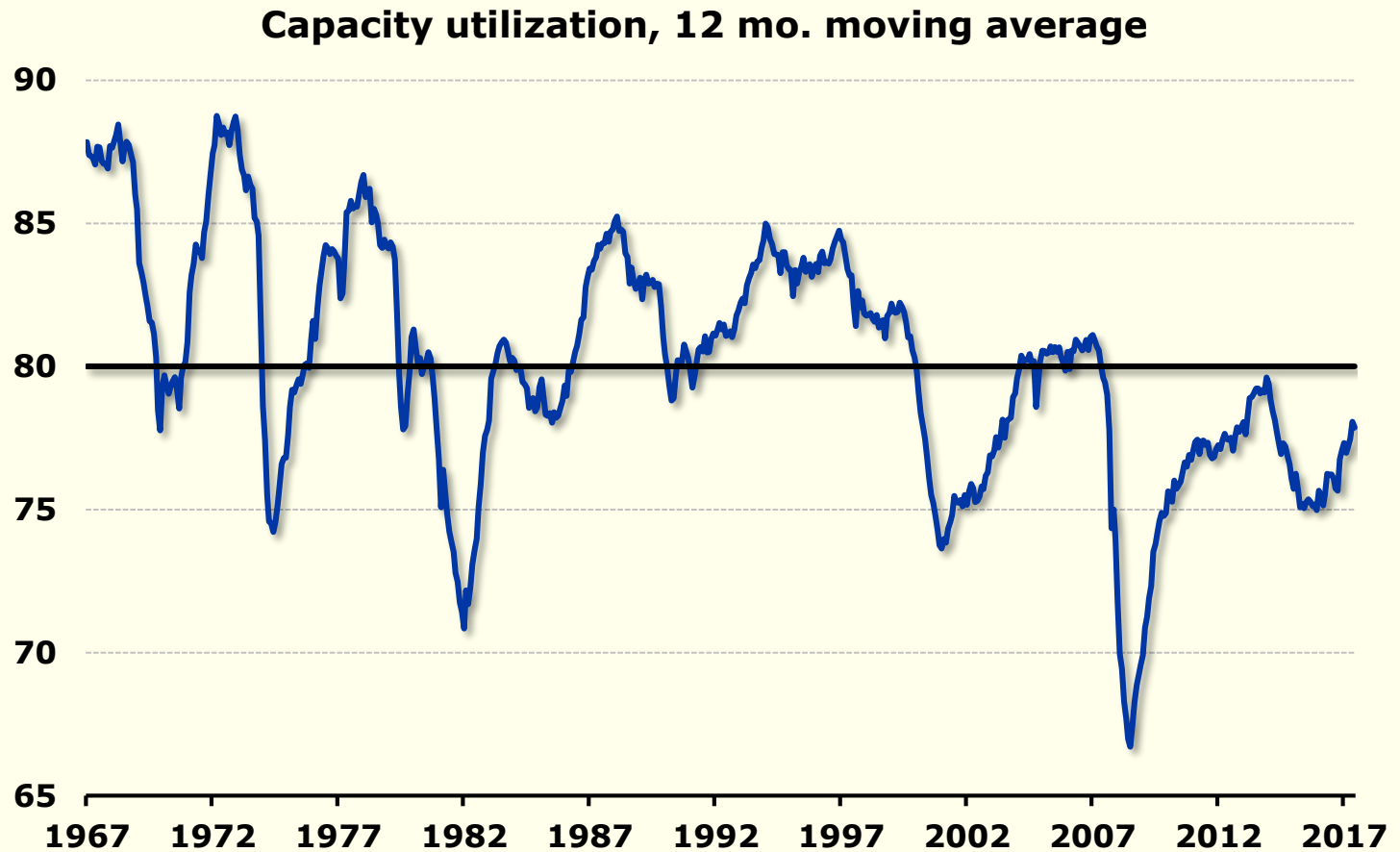


Source: CBO, BEA, ERFC June 2018 preliminary forecast

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





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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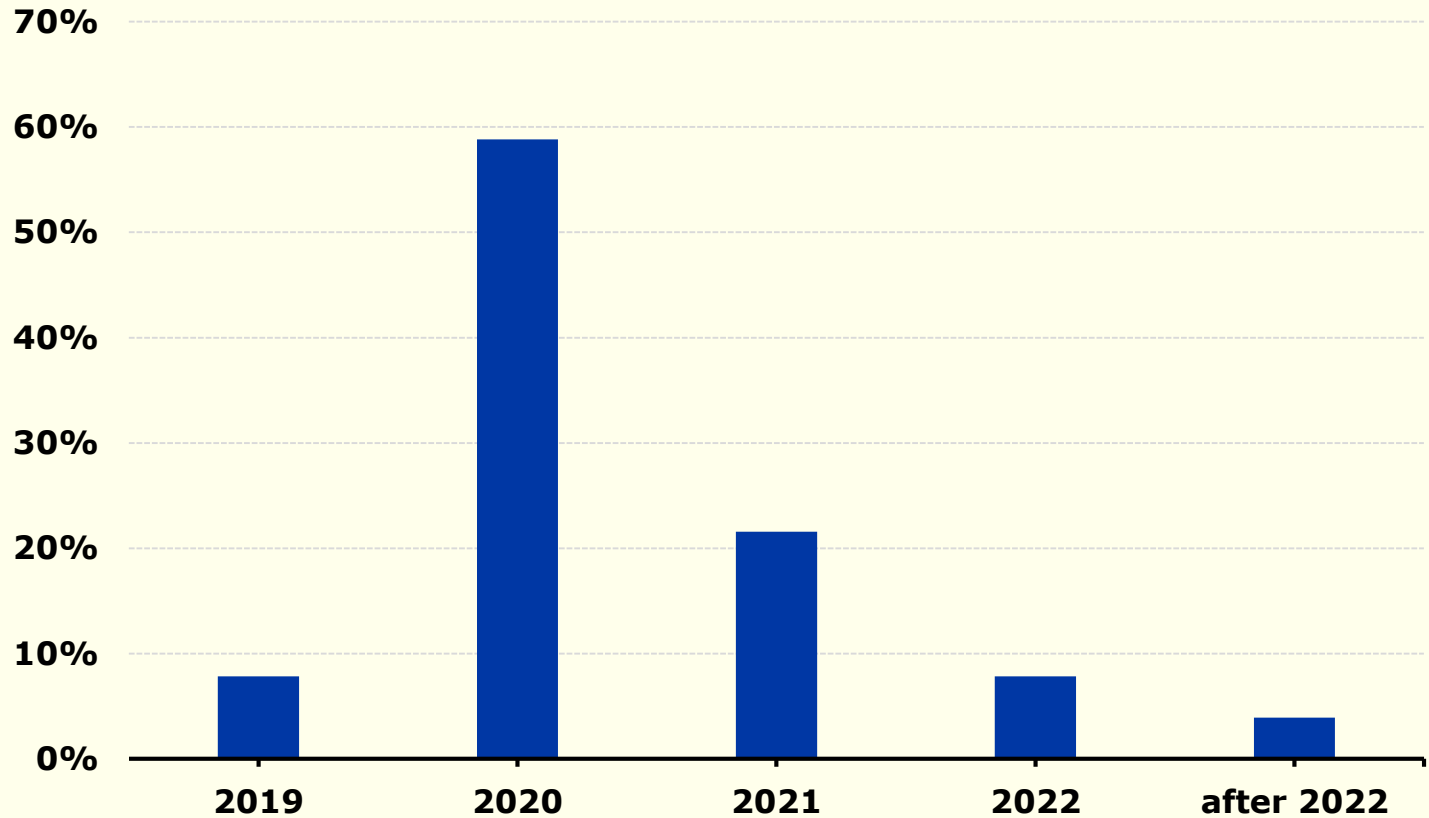




# Probability of recession by year, May 2018 WSJ Survey of Economists

*Macroeconomic  
Advisors*  
recession  
probabilities:

1 year = 20%  
5 years = 80%



Source: Wall Street Journal, 2018

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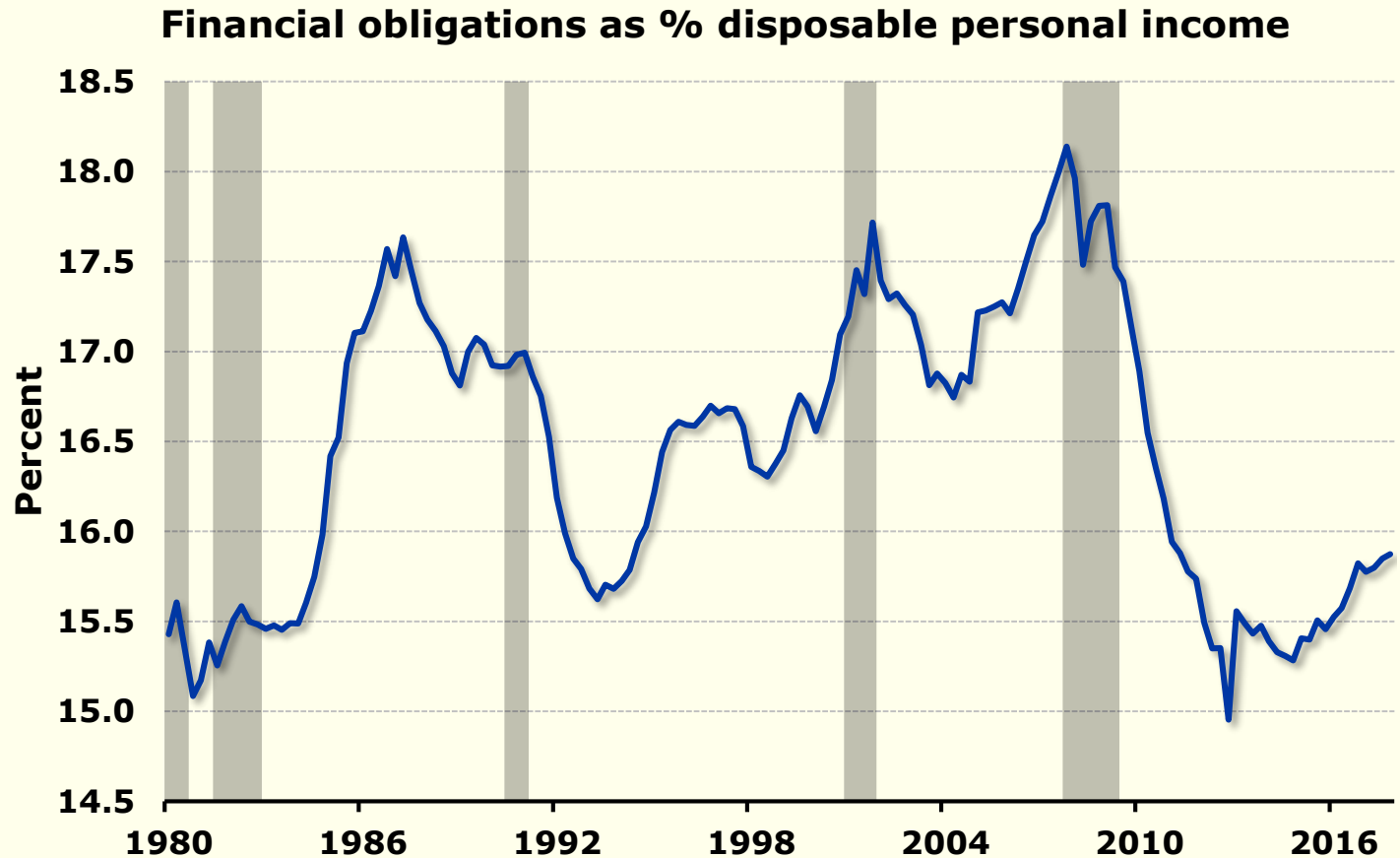
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# Household financial obligations as share of disposable income below levels in last three recessions

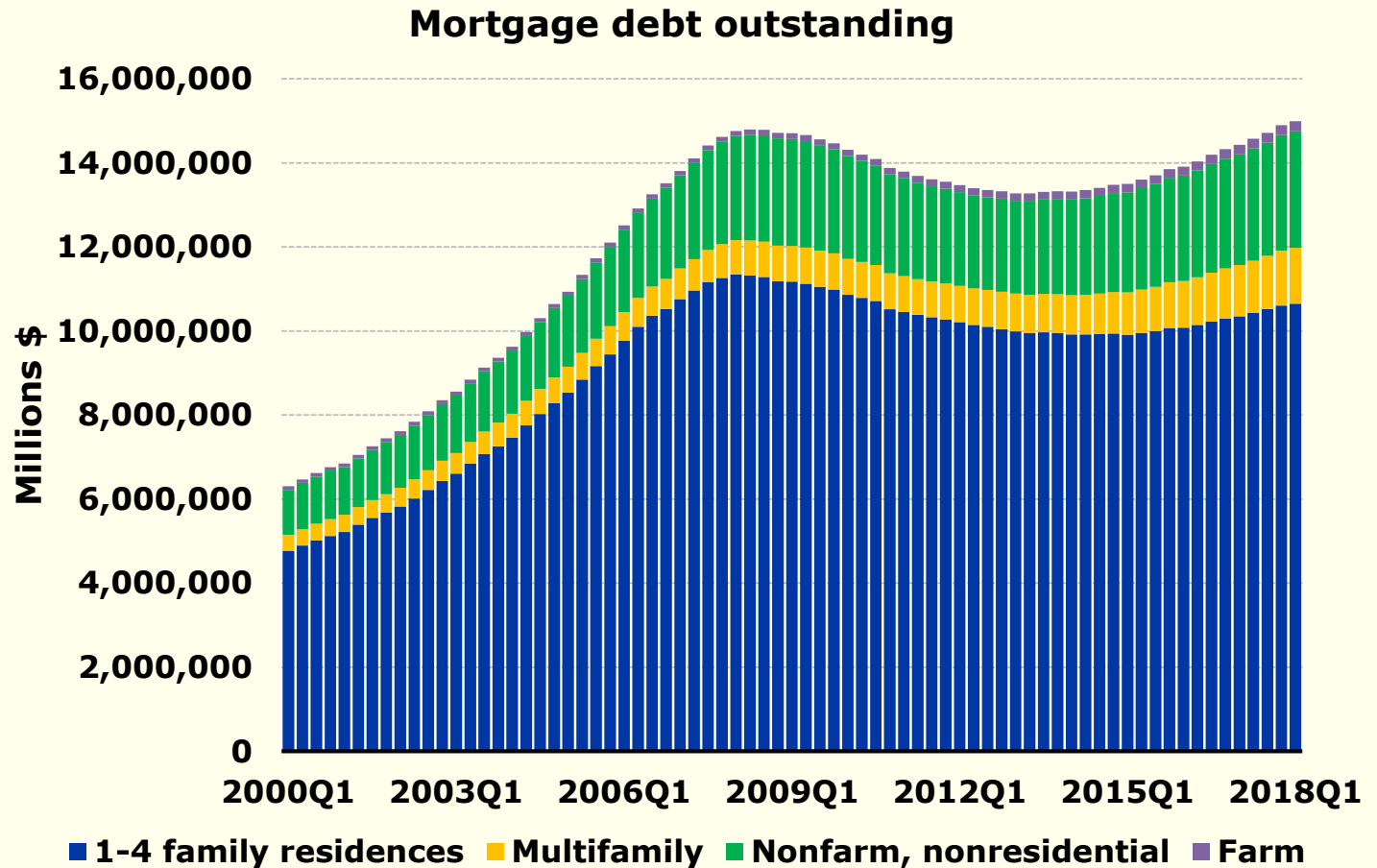
Financial obligations include mortgage payments & other required debt payments, rent, auto lease payments, and property taxes.



Source: Federal Reserve System Board of Governors, data through 2017Q4



# Mortgage debt is slightly above its previous 2008 peak

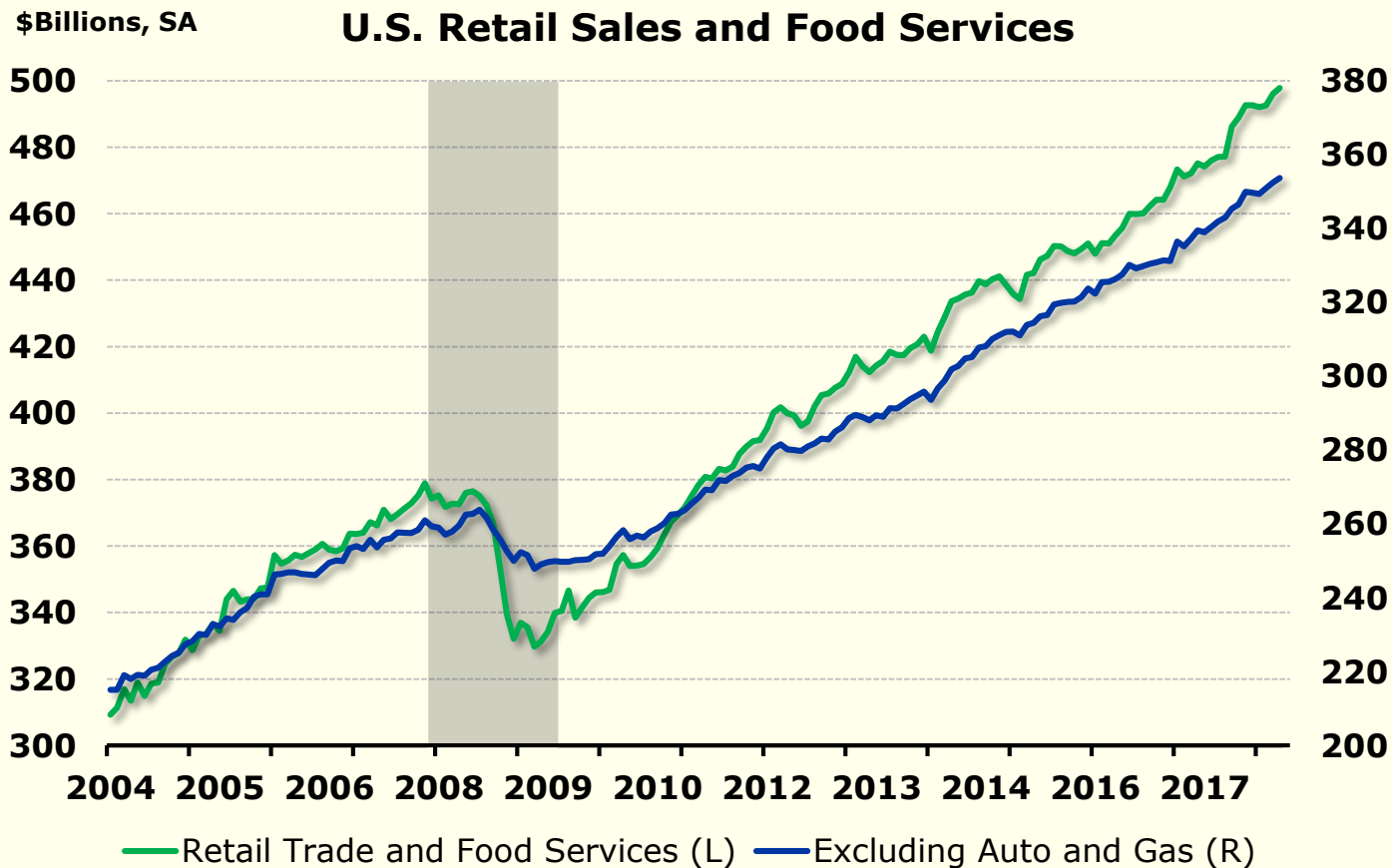


Source: Federal Reserve System Board of Governors, data through 2018Q1

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# U.S. retail sales continue to grow

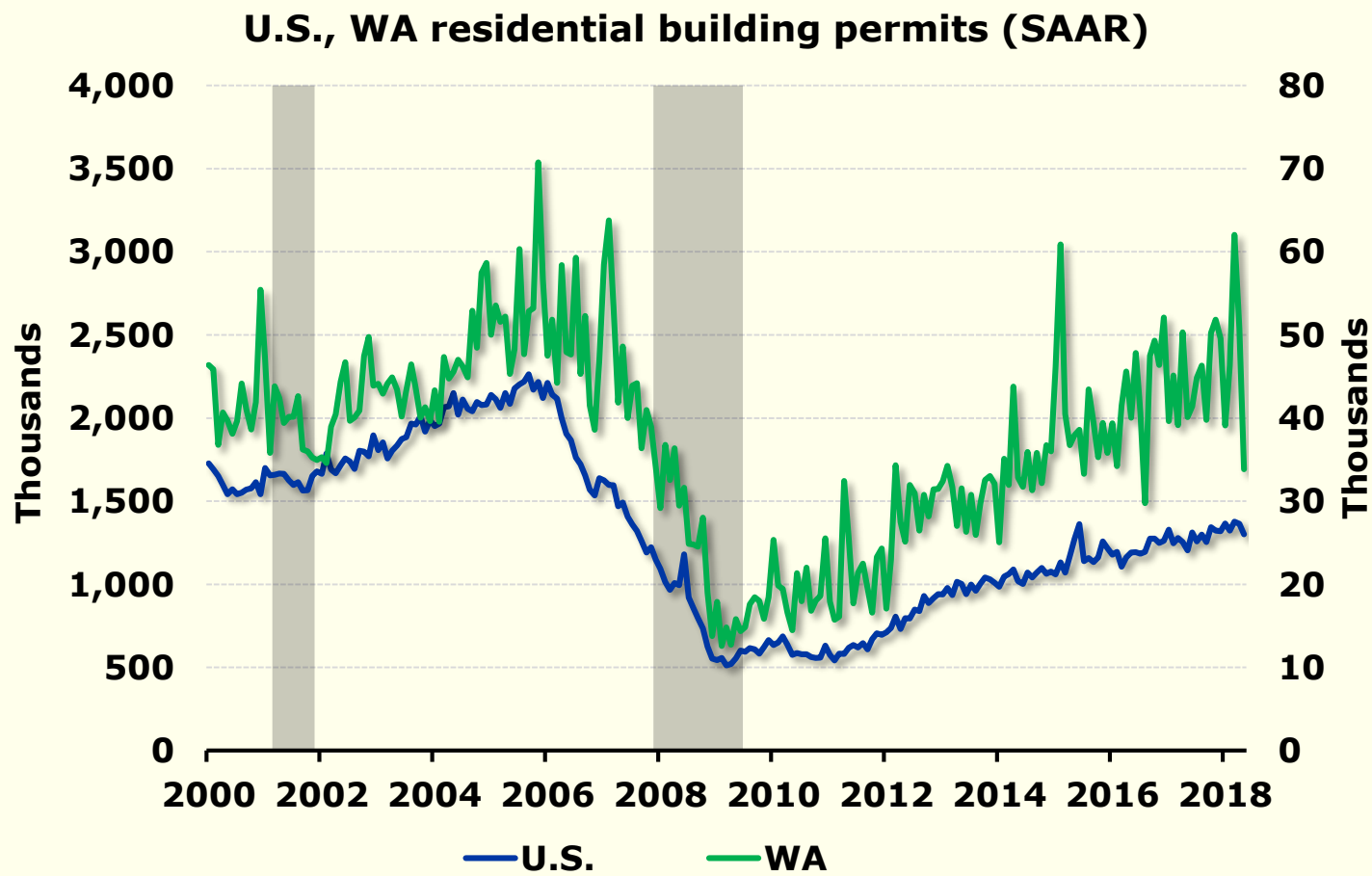


Source: U.S. Department of Commerce, Census Bureau; Data through May 2018 advance

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

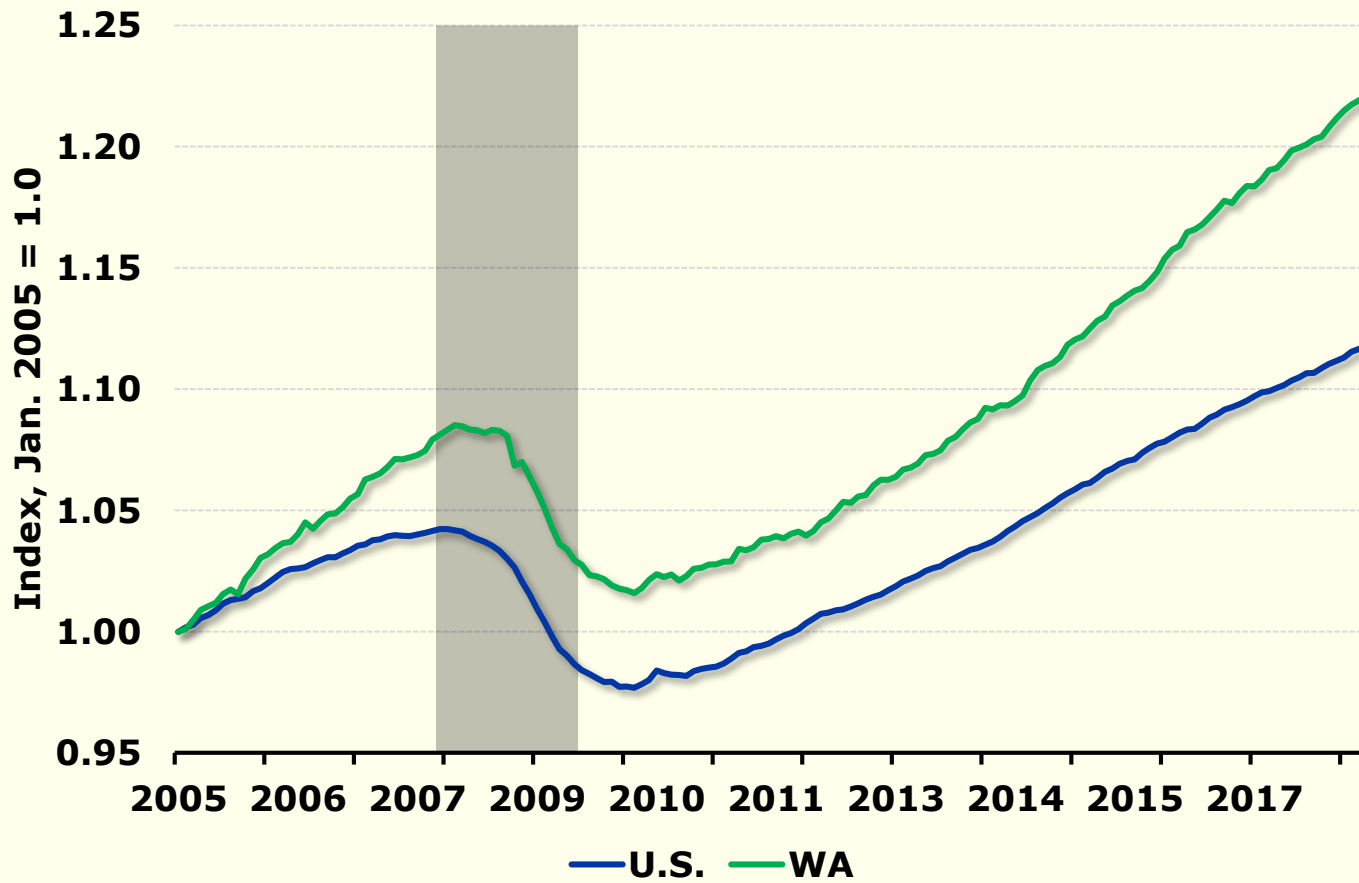


Source: U.S. Census Bureau, ERFC; data through May 2018

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



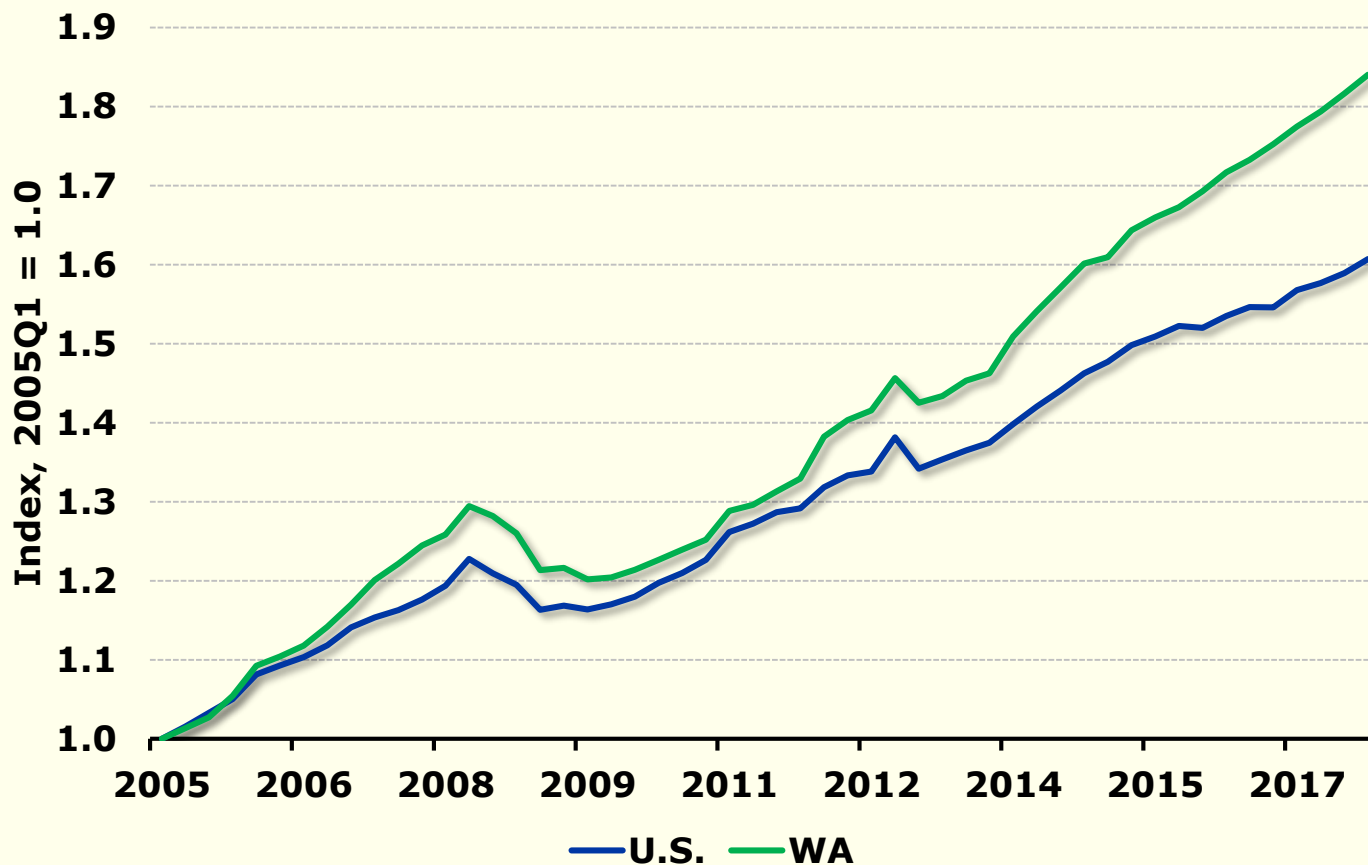
Source: U.S. Bureau of Labor Statistics, Employment Security Dept., ERFC; data through May 2018

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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.



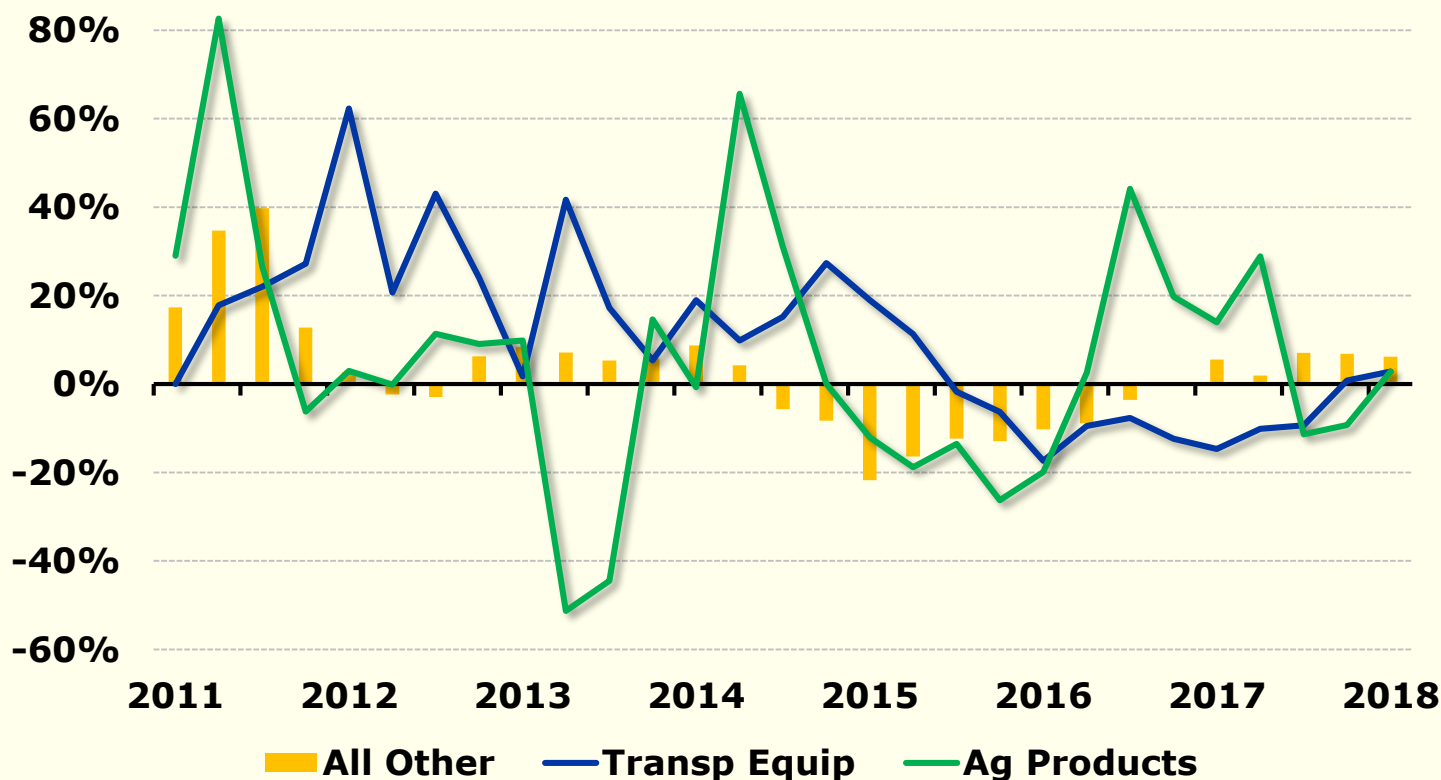
Source: U.S. Bureau of Economic Analysis; data through 2017 Q4

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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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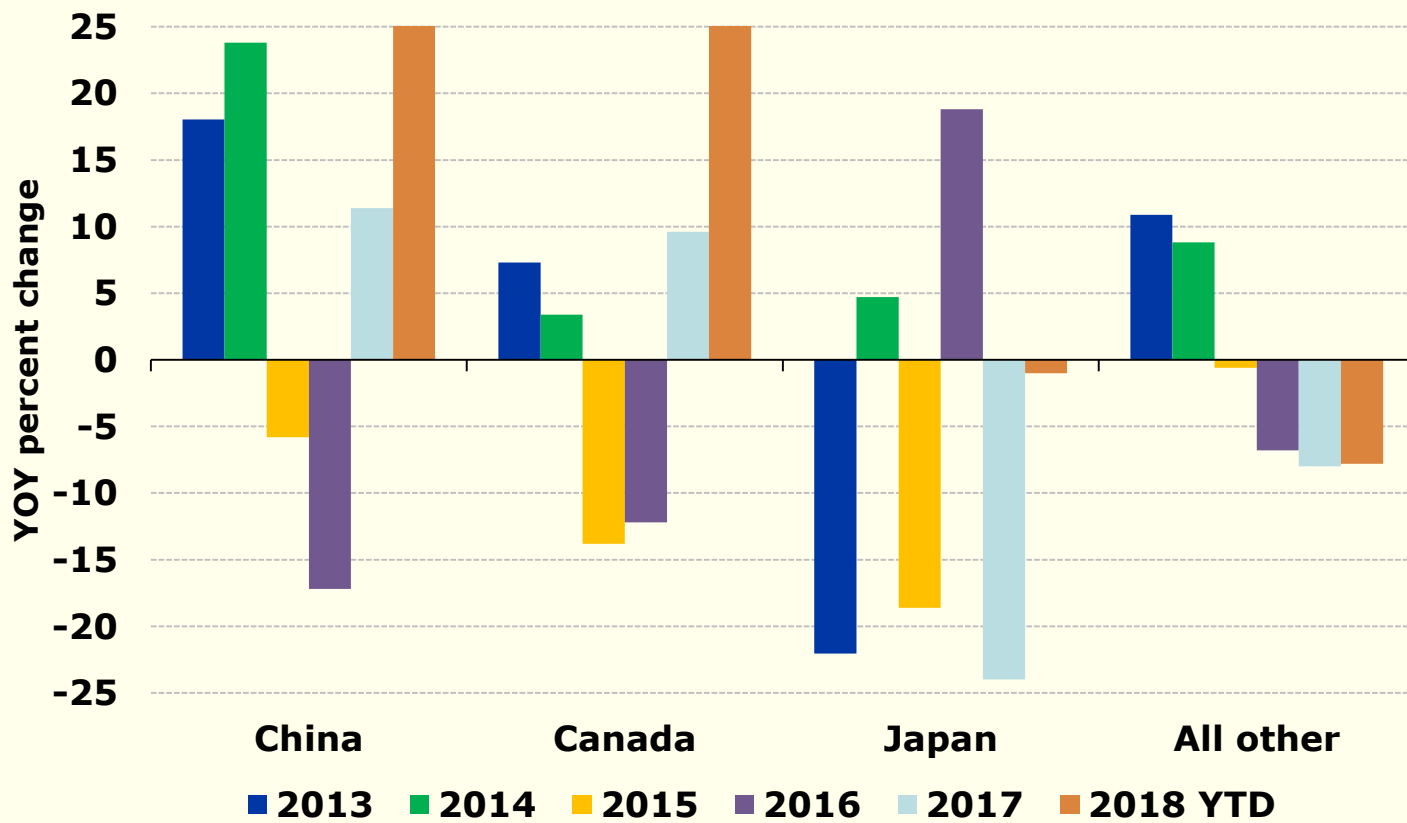




# WA exports have slowed, but exports to China, Canada improved in 2017

Total exports declined 3.9% in 2017 but increased 0.6% in fourth quarter 2017 and 3.9% in first quarter 2018

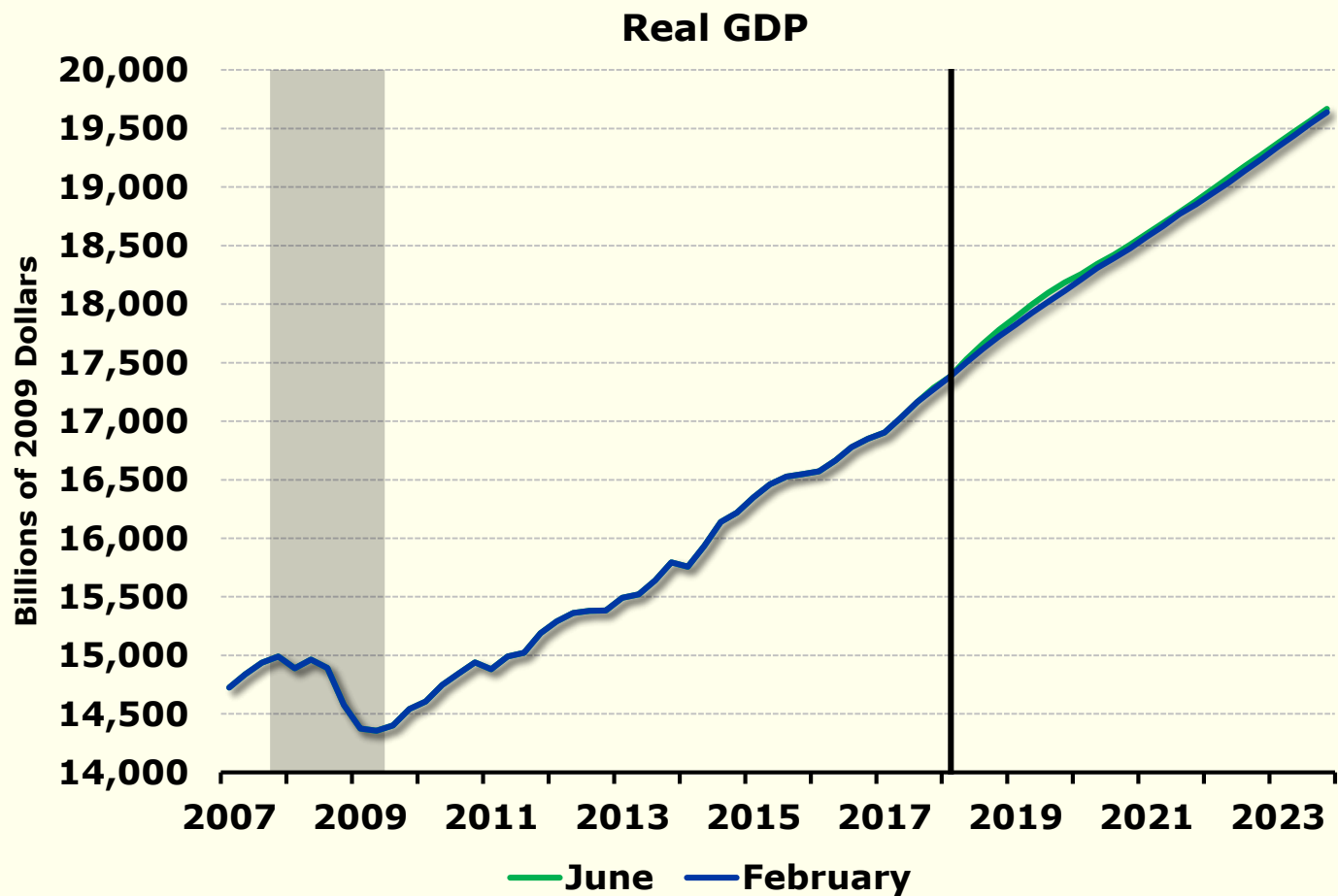
Year-over-year growth in export value, major trading partners



Source: WISERTrade; data through March 2018



# Real GDP is very similar to the February forecast

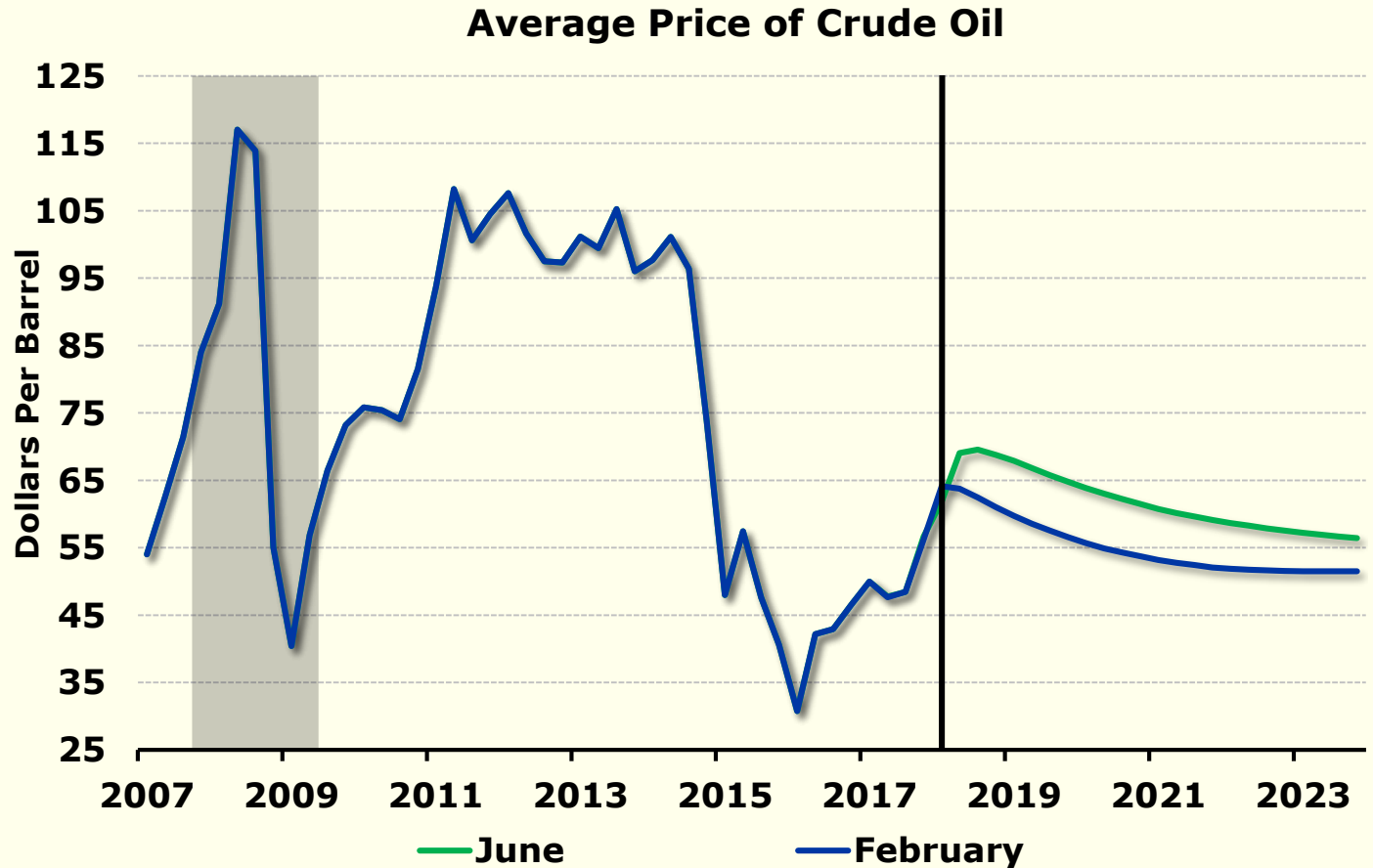


Source: ERFC June 2018 forecast; data through Q4 2017

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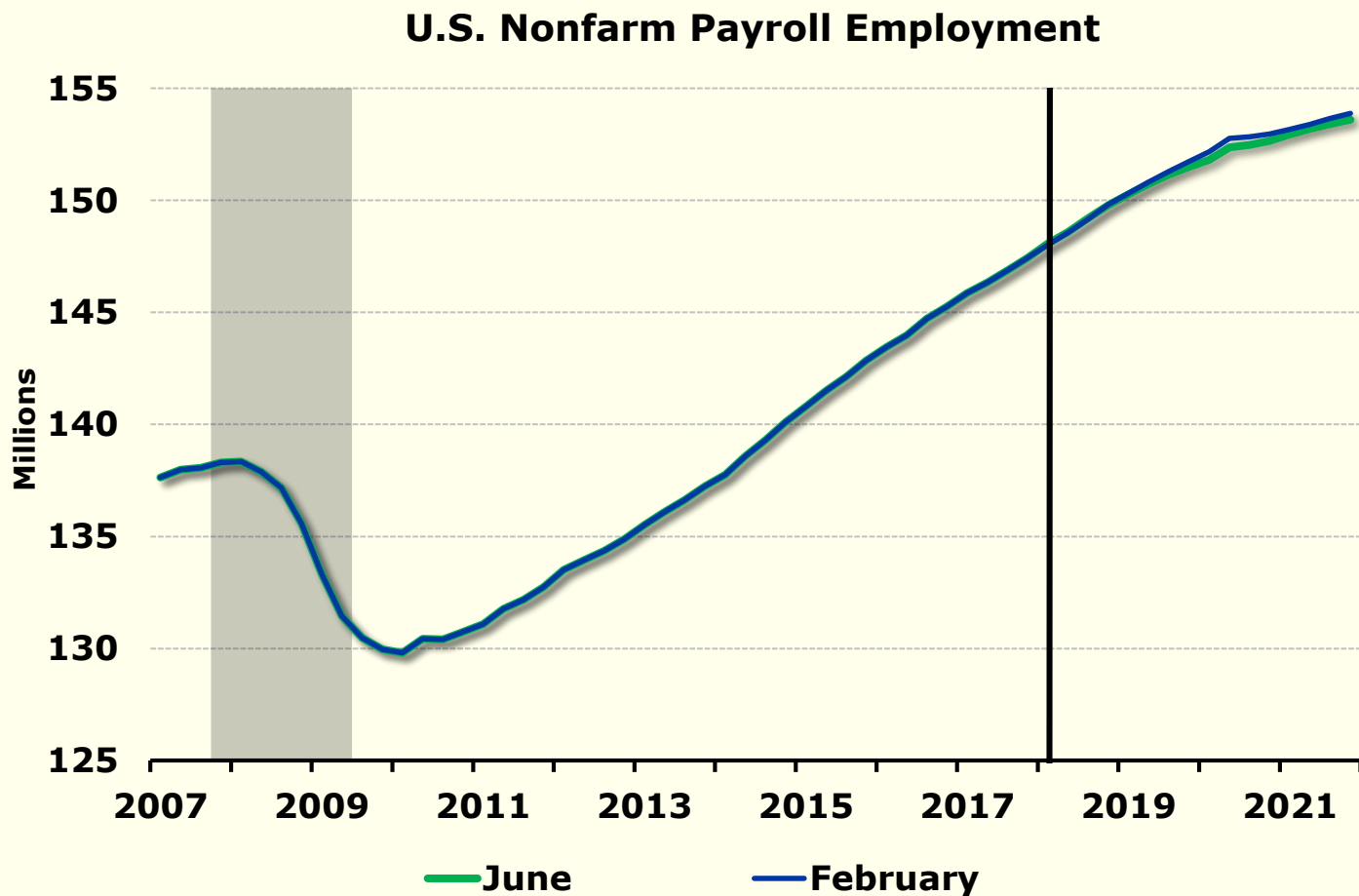


# Oil prices are slightly higher compared to the February forecast





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

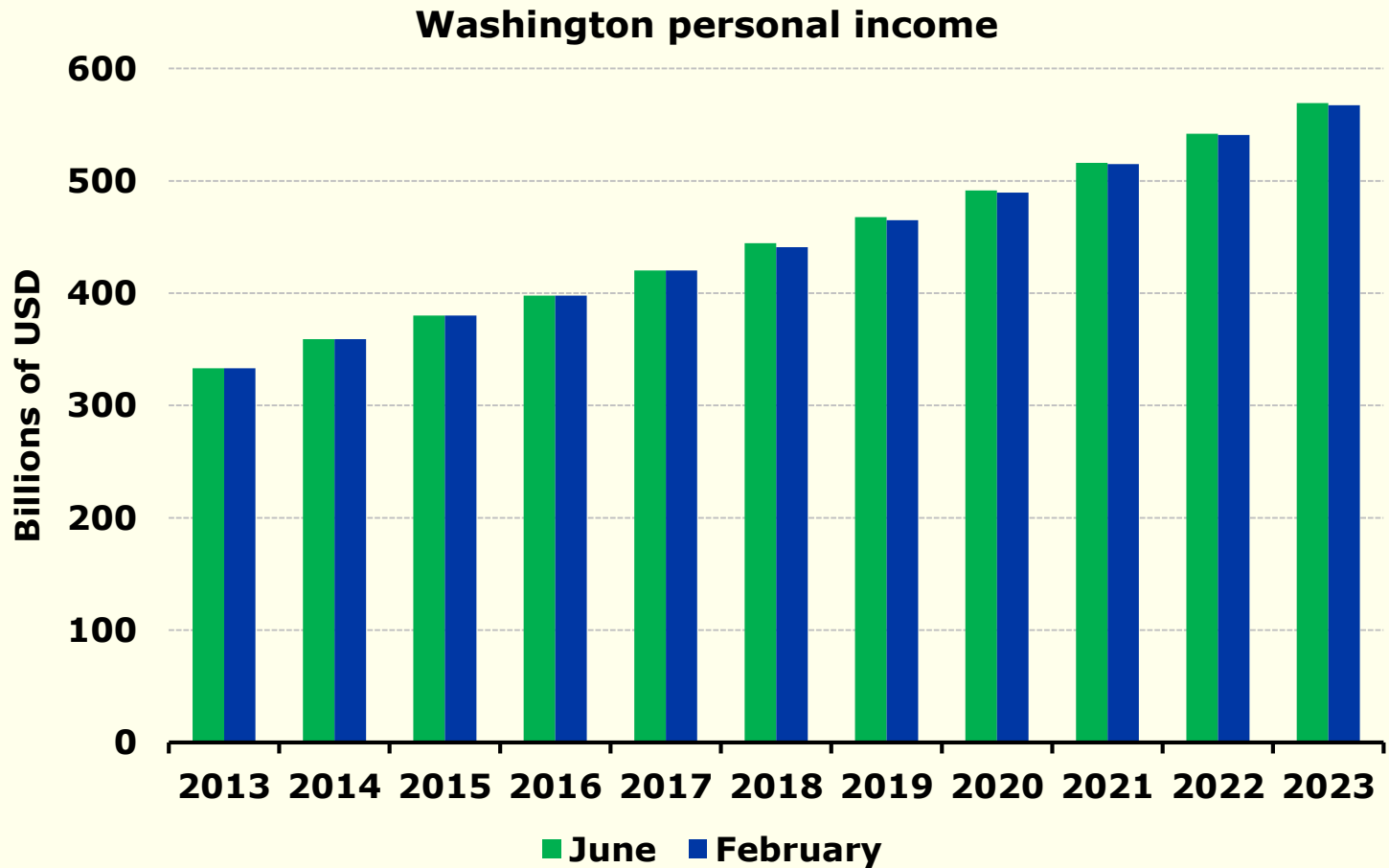


Source: ERFC June 2018 forecast; data through Q1 2018

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# Washington personal income is slightly higher than in February



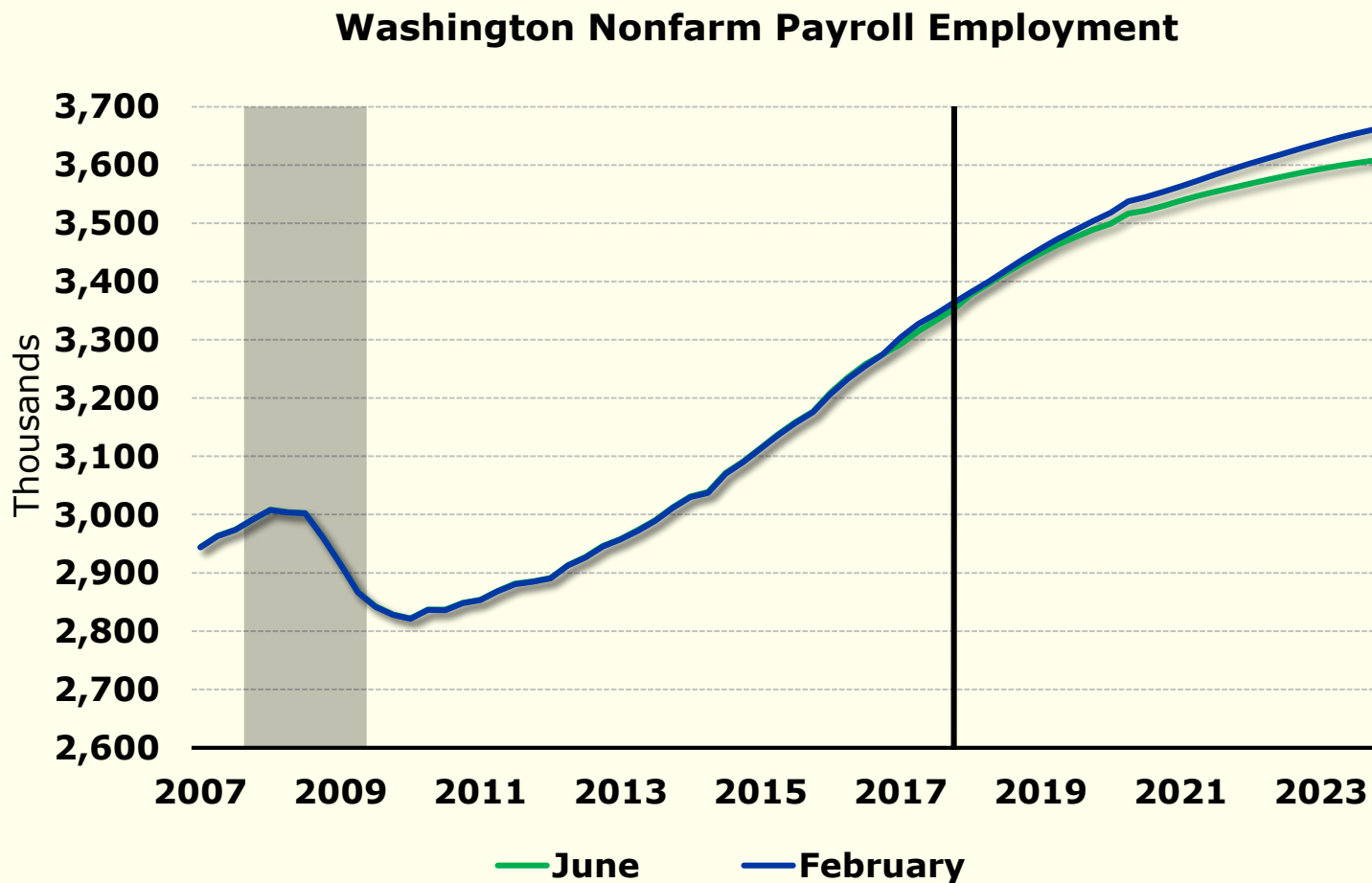
Source: ERFC June 2018 forecast; historical data through 2017

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# Washington employment forecast is slightly lower compared to February

A downward revision in the population forecast has resulted in a nonfarm employment forecast 53,000 jobs lower (1.5%) by 2023 Q4 compared to February.

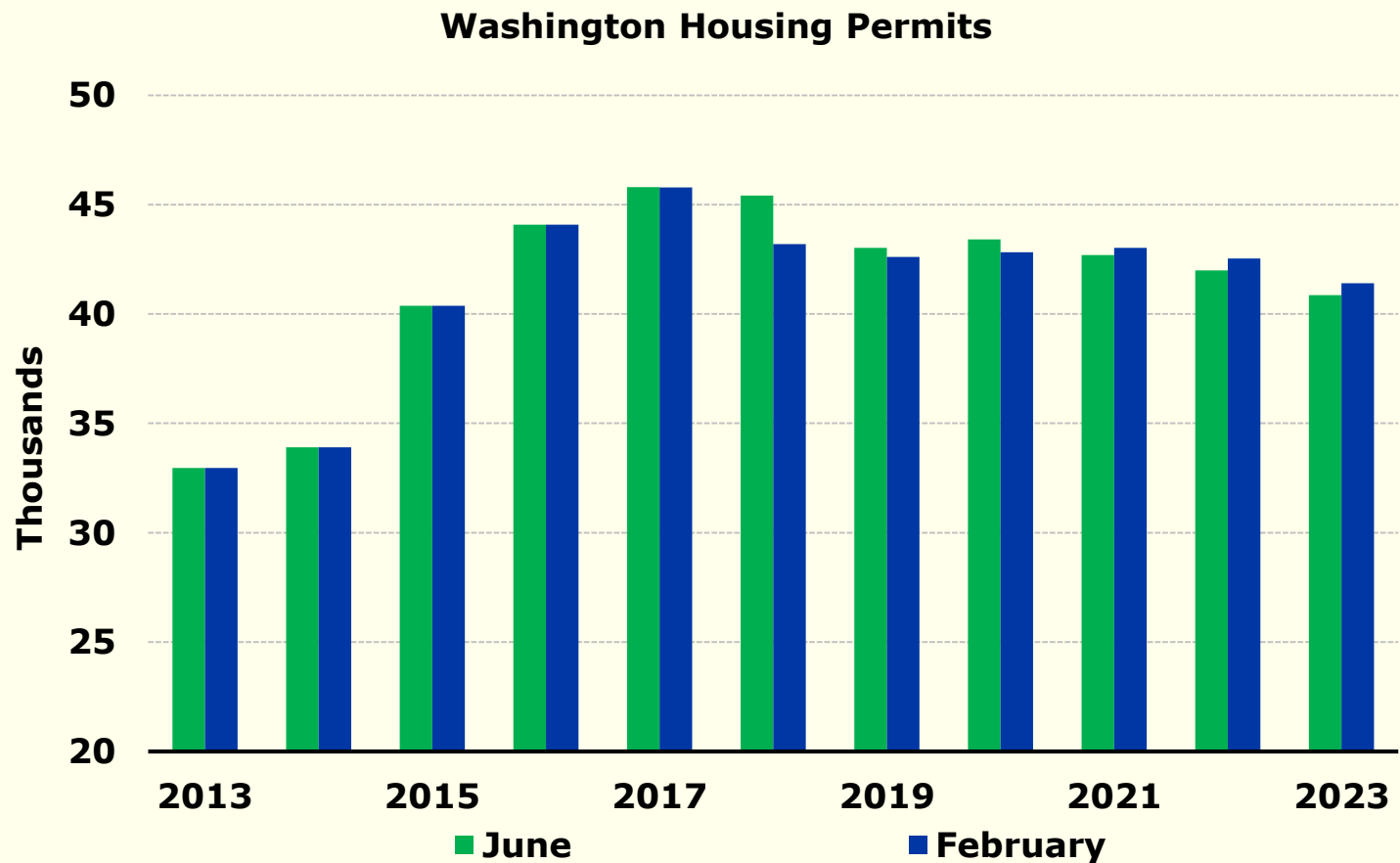


Source: ERFC June 2018 forecast; historical data through Q1 2018

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# Washington housing permits forecast is higher in 2018 compared to February



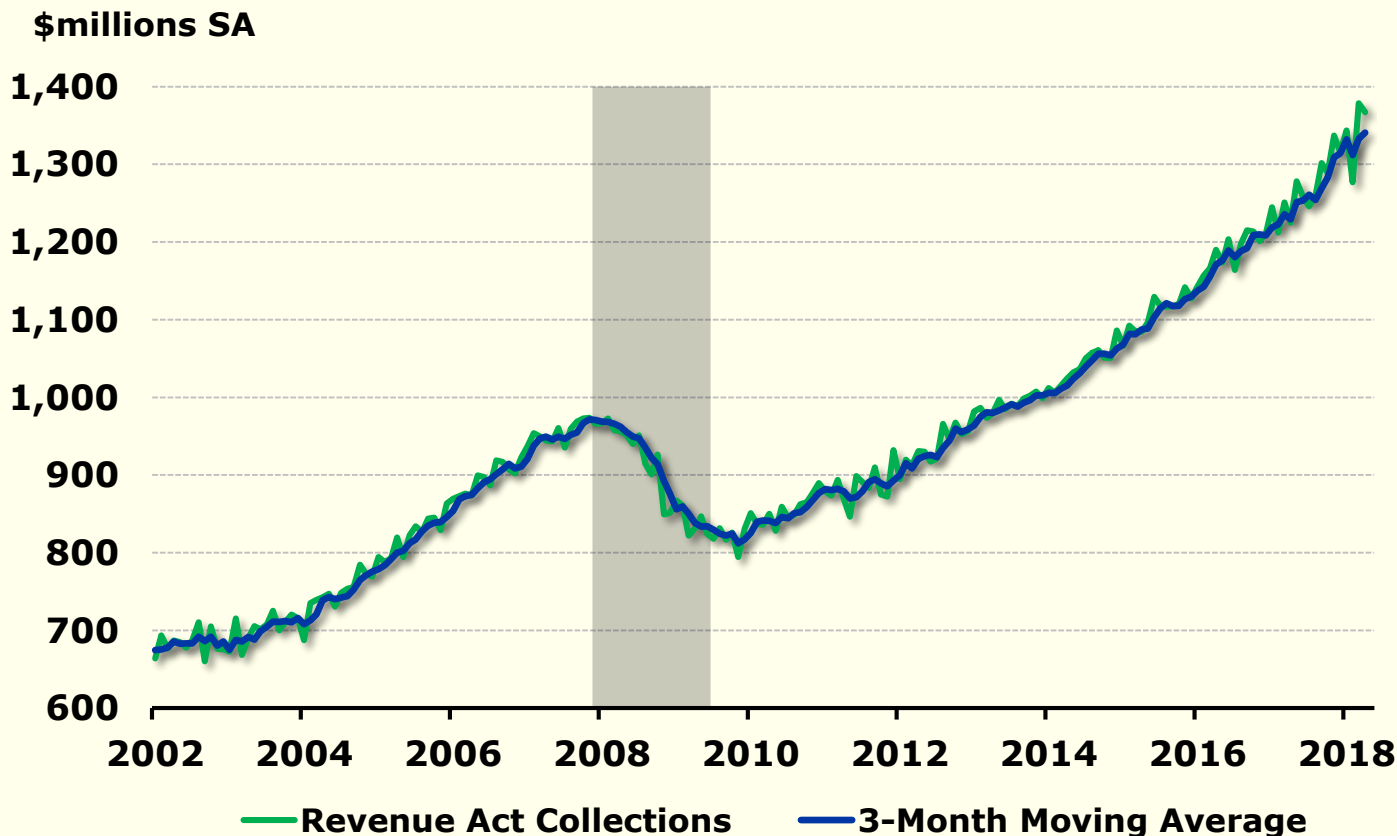


# Revenue Act collections growth has been strong for two quarters

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

2017Q2: 5.6%  
2017Q3: 6.4%  
2017Q4: 8.3%  
2018Q1: 8.2%

June 10, 2018 collections: 10.8%



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

Source: DOR and ERFC; monthly data through April 2018 activity





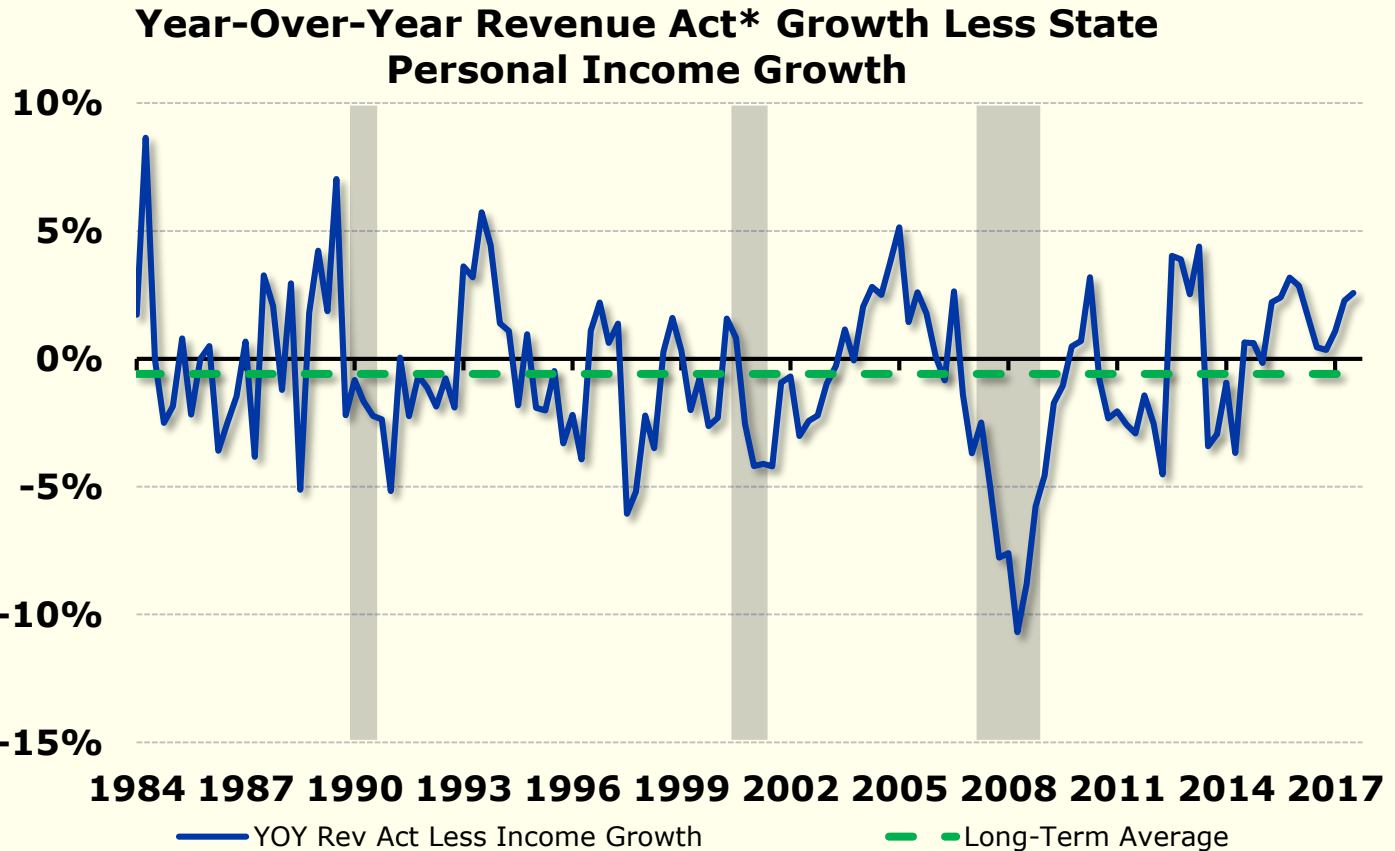
# Revenue Act growth relative to personal income has rebounded since 2017Q3

Adjusted Revenue Act growth YOY:

17Q2: 5.6%  
 17Q3: 6.4%  
 17Q4: 8.3%  
 18Q1: 8.2%

June personal income YOY growth estimates:

17Q2: 5.2%  
 17Q3: 5.4%  
 17Q4: 6.0%  
 18Q1: 5.6%



\*Adjusted for large one-time payments and refunds and payments under the amnesty program  
 Source: ERFC; Quarterly revenue data through Q1 2018, June 2018 income estimates

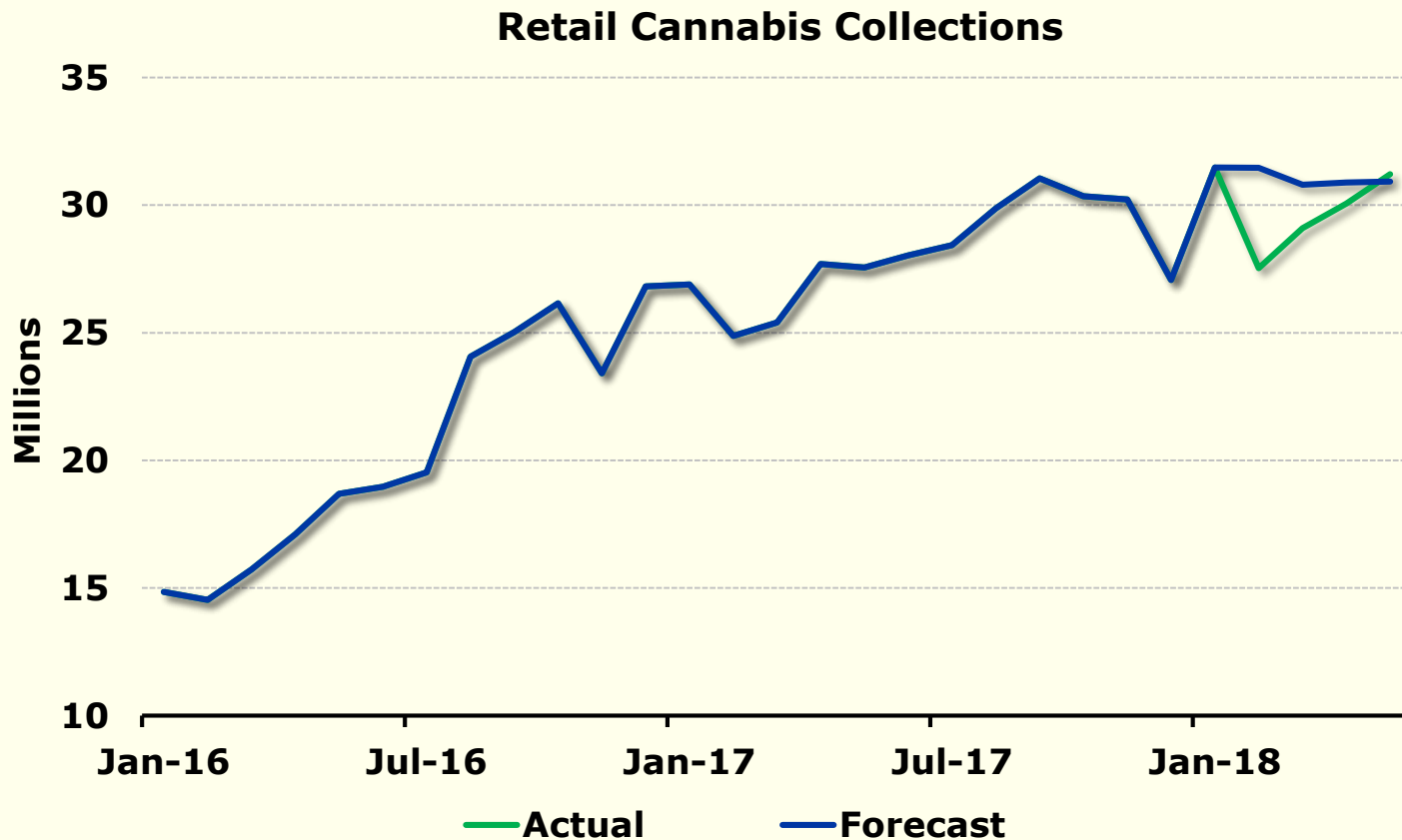
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# Cannabis revenue continues to be volatile

Collections were 0.9% above forecast in May

Collections are 5.0% below forecast since February



Source: LCB, ERFC; data through May 2018

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# Cannabis excise tax and license fee estimates

Total change since February forecast:

- 2017-19  
-\$0.2 M
- 2019-21  
-\$10.8 M
- 2021-23  
-\$2.6M

**\$Millions**

## Cannabis Forecast

	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>
GF-S share of excise tax and license fees	\$247	\$268	\$321
Non-GF	\$501	\$530	\$530
<b>Total</b>	<b>\$749</b>	<b>\$798</b>	<b>\$851</b>

\* Detail may not add to total due to rounding

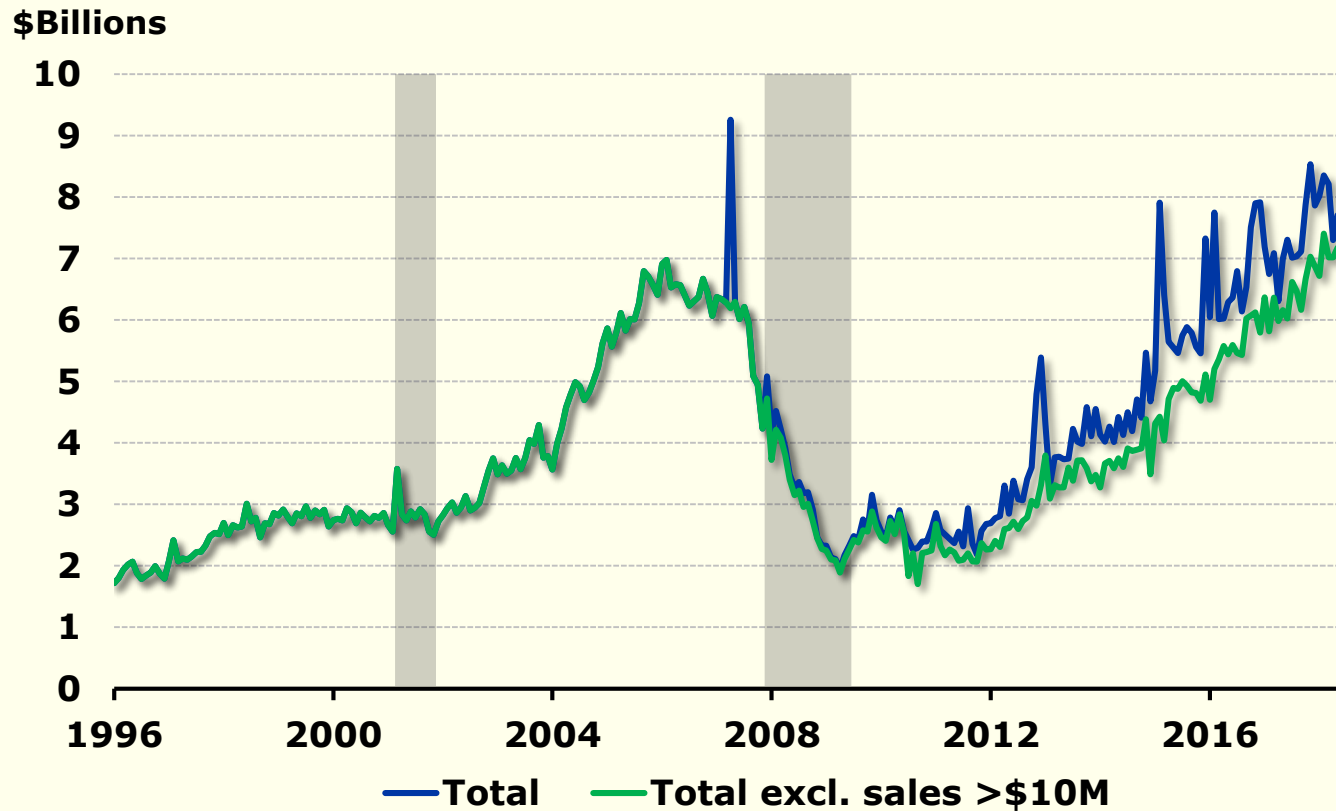


# Large commercial property sales decreased but still strong in Q1 2018

Large commercial sales (>\$10 million) totaled \$2.6 billion in the 1<sup>st</sup> quarter of 2018, down from \$3.6 billion in the 4<sup>th</sup> quarter of 2017.

Residential and smaller commercial sales continue to grow.

### Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through May 2018 preliminary

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# Forecast changes: Near General Fund-State, 2017-2019 biennium

As of June 10, General Fund-State collections were \$189 million higher than the February forecast.

<b>\$Millions</b>	<u>February 2018 Forecast*</u>	<u>Non-economic Change**</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change#</u>
General Fund-State	\$44,213	(\$1,173)	\$493	\$43,532	(\$680)
Education Legacy Trust Account	\$520	\$935	\$43	\$1,498	\$978
WA Opportunity Pathways Account	\$257	\$0	\$1	\$258	\$1
<b>Total Near GF-S</b>	<b>\$44,990</b>	<b>(\$238)</b>	<b>\$536</b>	<b>\$45,288</b>	<b>\$298</b>

\* Forecast for the 2017-19 biennium adopted February 20, 2018

\*\* Sum of legislative and budget driven revenue changes from the 2018 legislative session

# Detail may not add to total due to rounding



# Forecast changes: Near General Fund-State, 2019-2021 biennium

<b>\$Millions</b>	<u>February 2018 Forecast*</u>	<u>Non-economic Change**</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change#</u>
General Fund-State	\$48,253	(\$181)	\$448	\$48,520	\$267
Education Legacy Trust Account	\$565	\$0	\$17	\$582	\$17
WA Opportunity Pathways Account	\$258	\$0	\$3	\$261	\$3
<b>Total Near GF-S</b>	<b>\$49,076</b>	<b>(\$181)</b>	<b>\$468</b>	<b>\$49,363</b>	<b>\$287</b>

\* Forecast for the 2019-21 biennium adopted February 20, 2018

\*\* Sum of legislative and budget driven revenue changes from the 2018 legislative session

# Detail may not add to total due to rounding



# Conclusion

- WA personal income is slightly higher than in February
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Near GF-S revenues are expected to grow 16.0% between the 2015-17 and 2017-19 biennia and 9.0% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



# Questions



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