

Washington and U.S. Economic Outlook

Presented to
Washington Association of County Officials

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February 6, 2019
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- U.S. economic growth will slow but the baseline forecast does not contain a recession
- The forecast expects oil prices to stabilize at \$60/barrel but prices have continued to decline
- The economic forecast for WA has higher personal income than in September but slower growth
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns and higher interest rates
- The near General Fund-State forecast for the 2017-19 biennium is increased by \$163 million



Forecast risks

Upside

- Elevated consumer, business confidence could translate into stronger growth
- Strong U.S., WA labor markets

Downside

- International trade and fiscal policy uncertainty
- Slowing global economic growth
- Impact of rising interest rates
- Maturing economic expansion

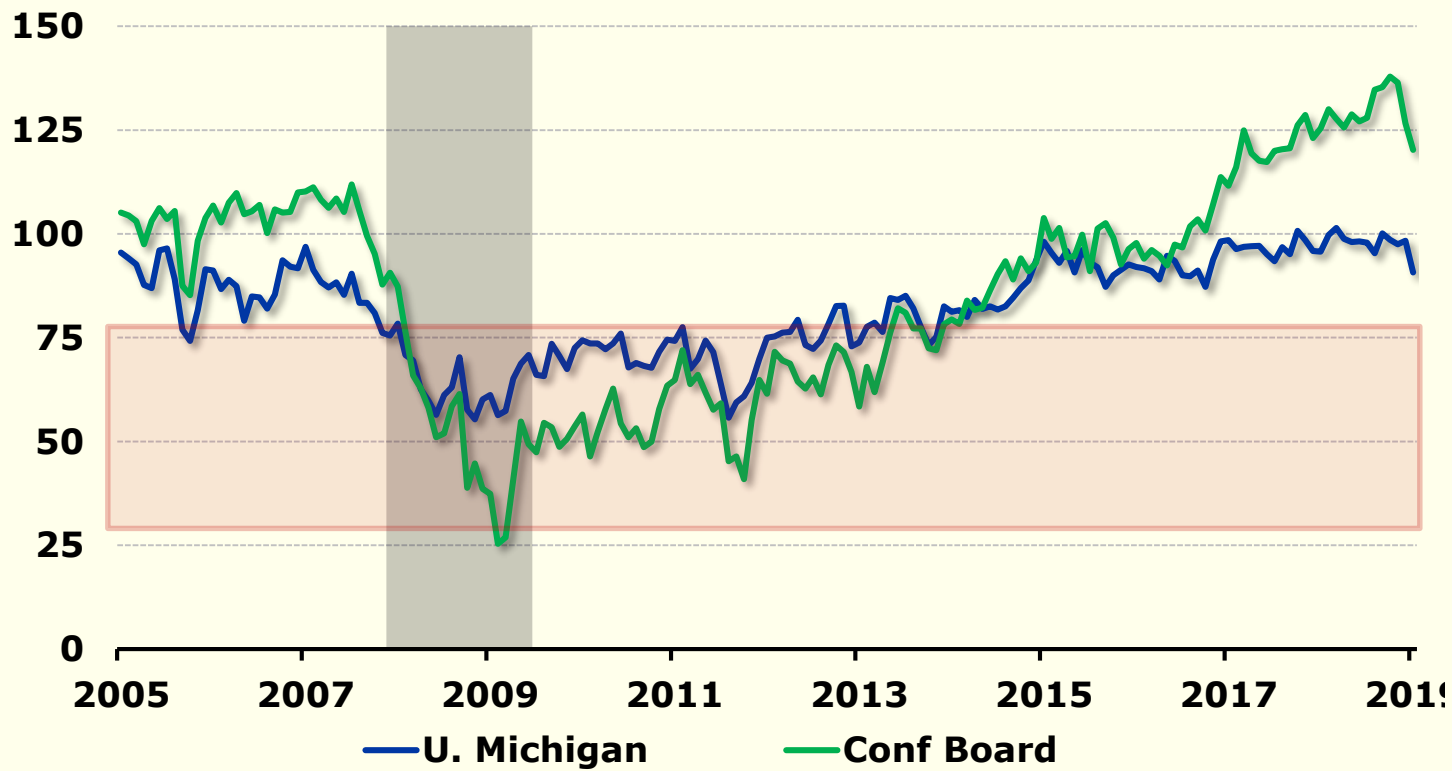


Consumer confidence has dipped recently but remains above pre-recession levels

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

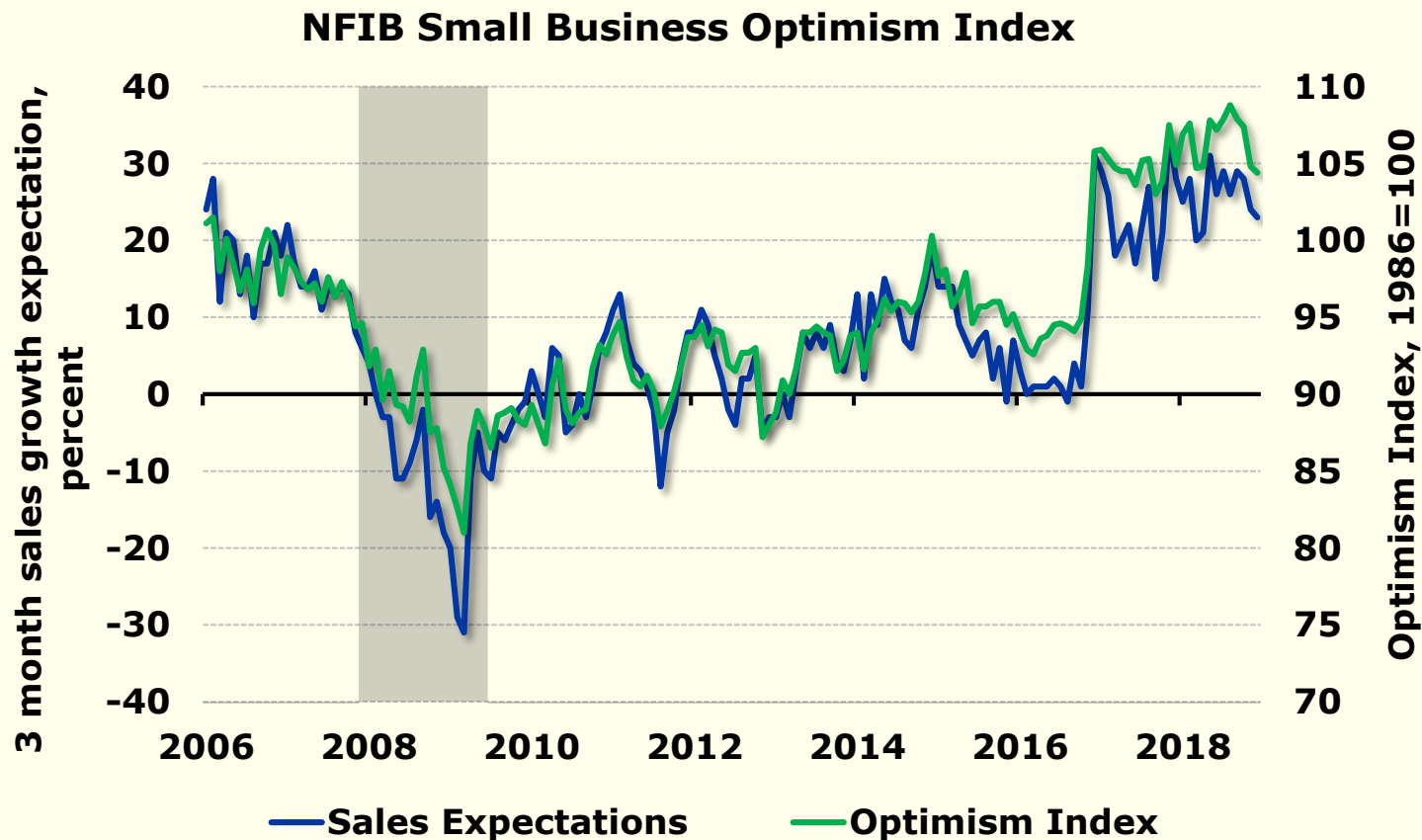


Sources: University of Michigan, Conference Board; data through January 2019

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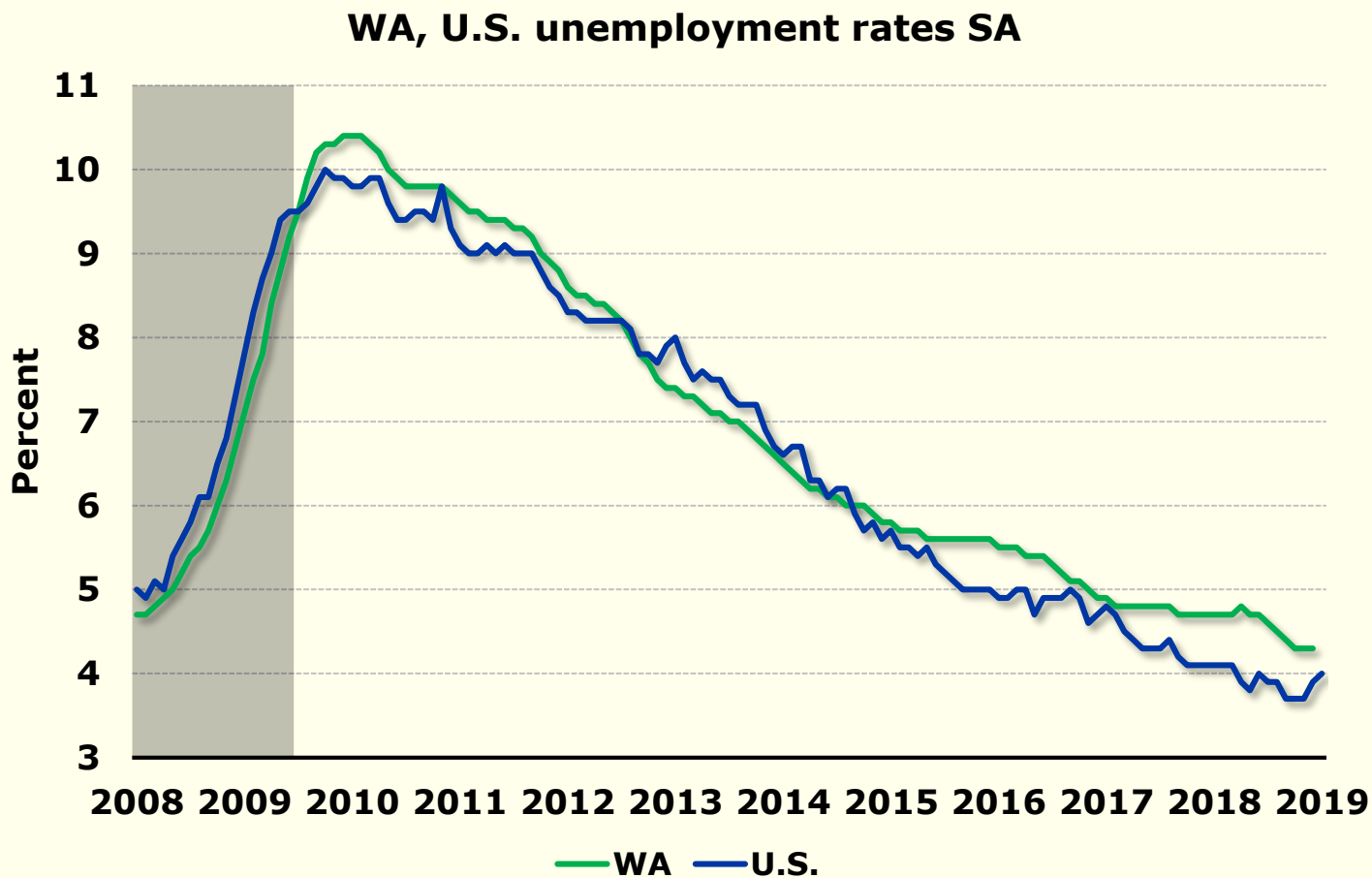
Small business optimism has weakened recently but remains strong



Source: National Federation of Independent Business; data through Dec. 2018



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

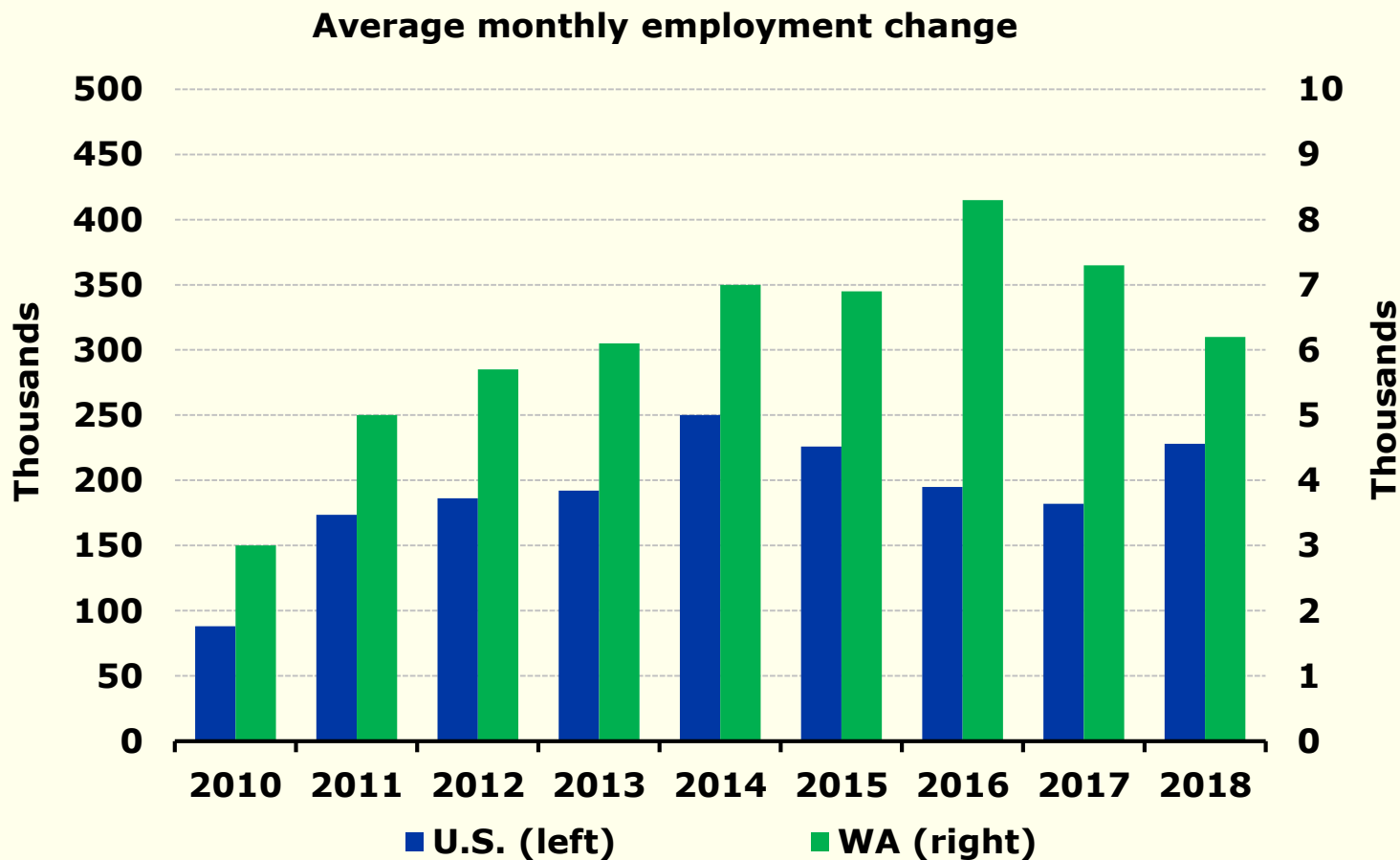


Source: Bureau of Labor Statistics, ERFC; U.S. data through Jan. 2019, WA data through Dec. 2018



WA, U.S. job growth remain strong

The U.S. added 304,000 jobs in January 2019; WA data for January are not yet available.



Source: Bureau of Labor Statistics, ERFC; data through Dec. 2018

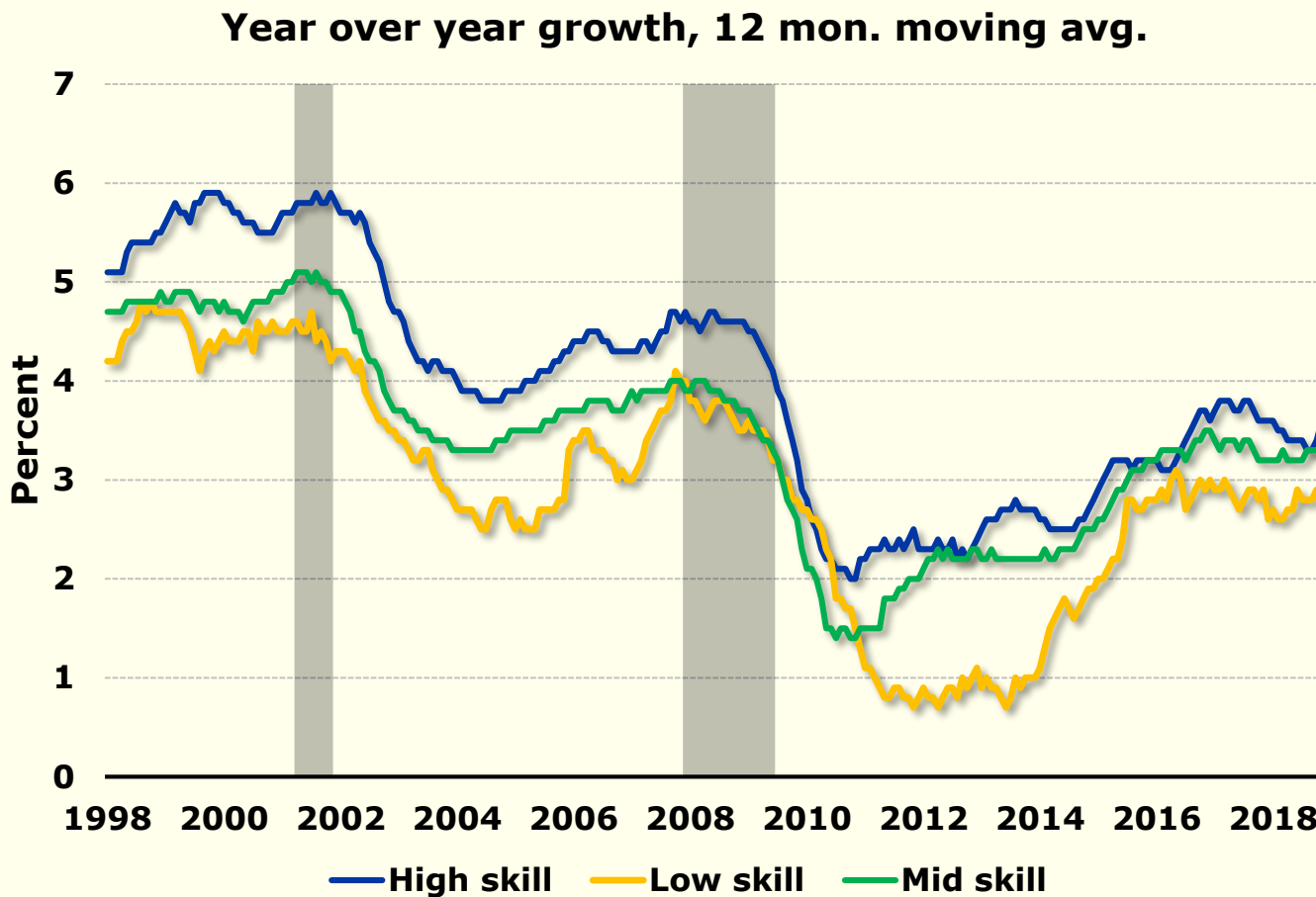


Nominal wage growth has plateaued regardless of occupational skill level

High:
managers,
professionals,
technicians

Mid:
office/admin,
production,
sales

Low: food prep
& serving,
cleaning,
personal care,
protective
services

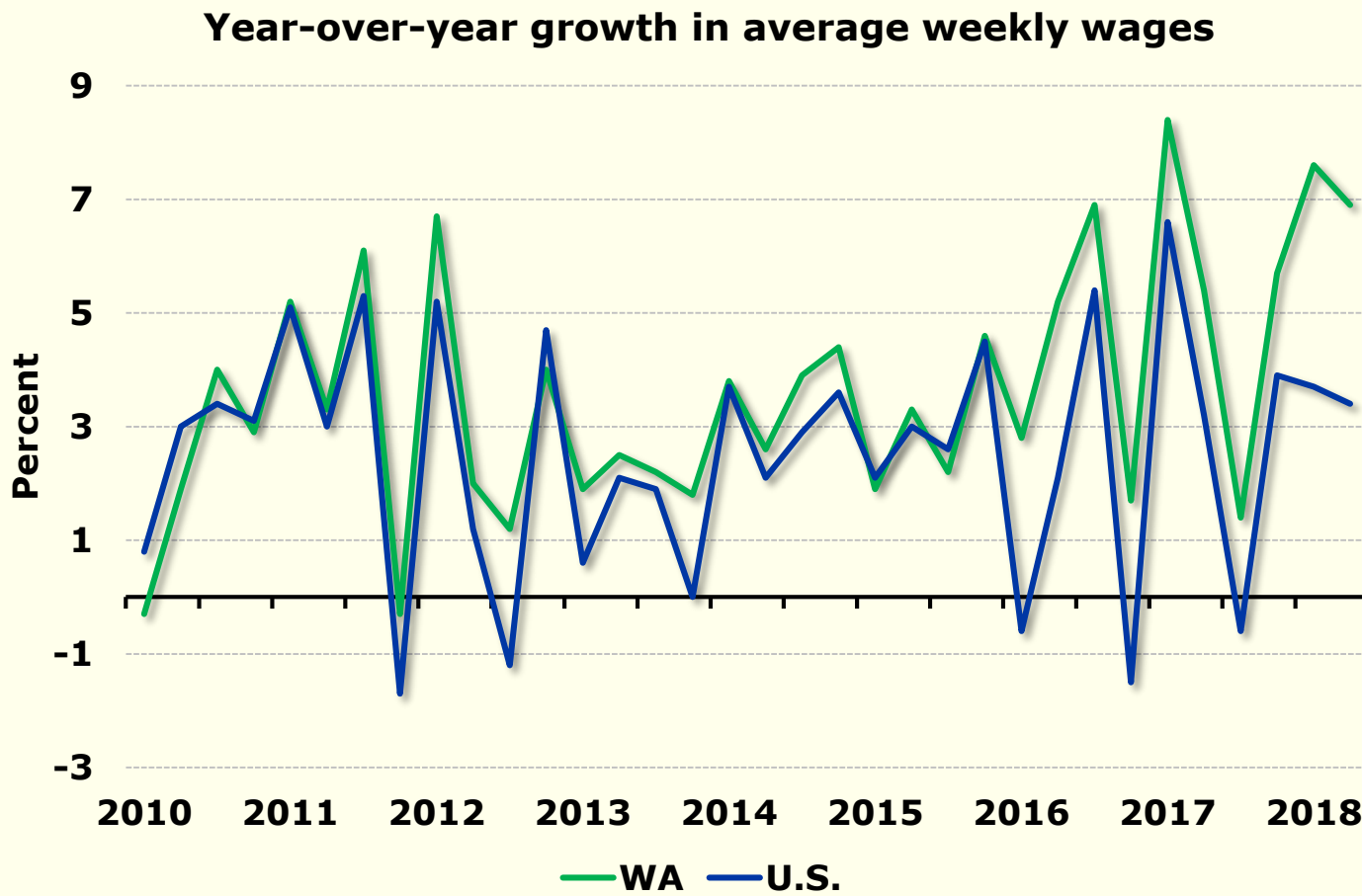


Source: Federal Reserve Bank of Atlanta, data through Nov. 2018

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Weekly wage growth in WA is outpacing the nation recently

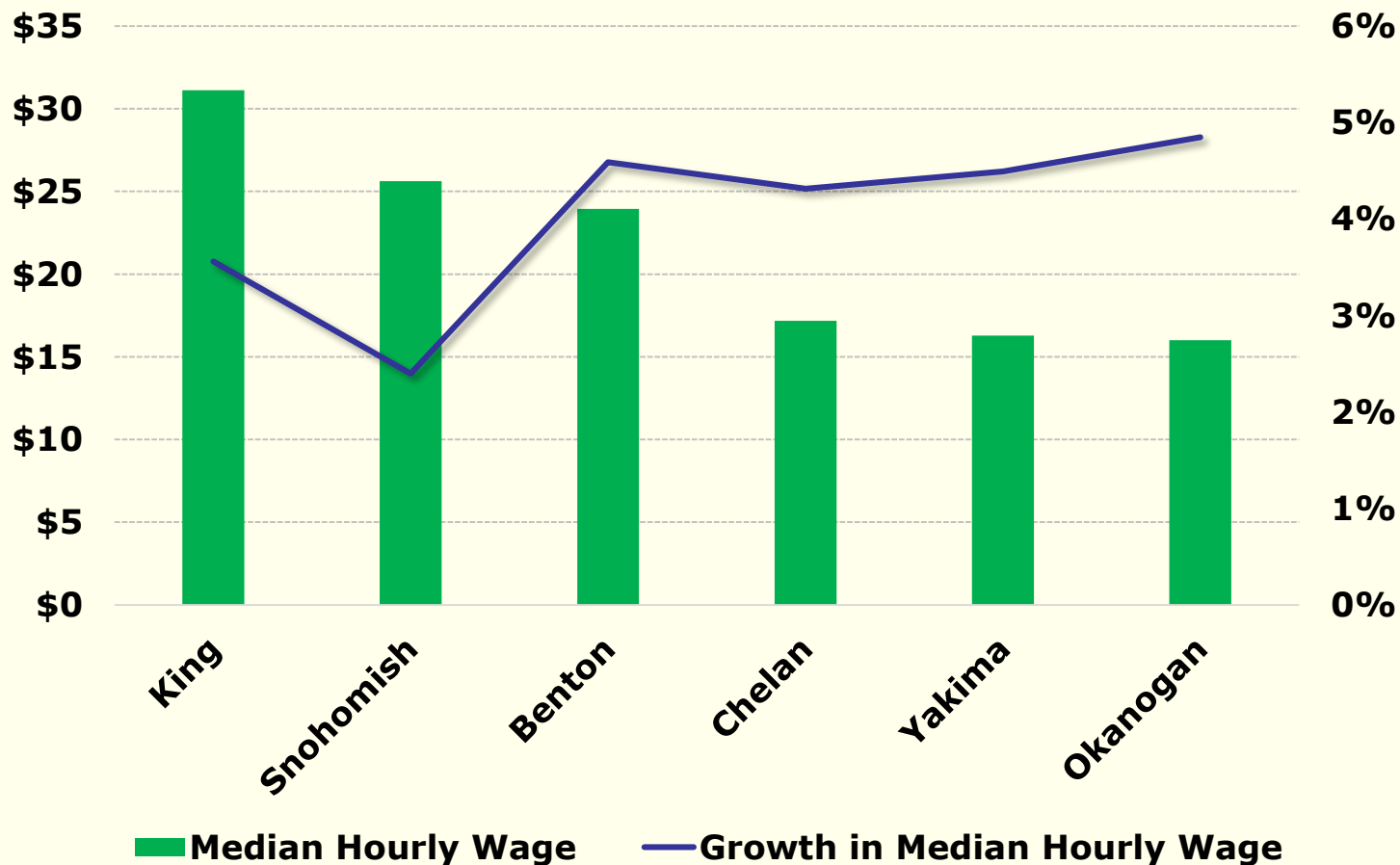


Source: U.S. Bureau of Labor Statistics, quarterly data through 2018 Q2

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Three highest, lowest counties by median hourly wage: 2017



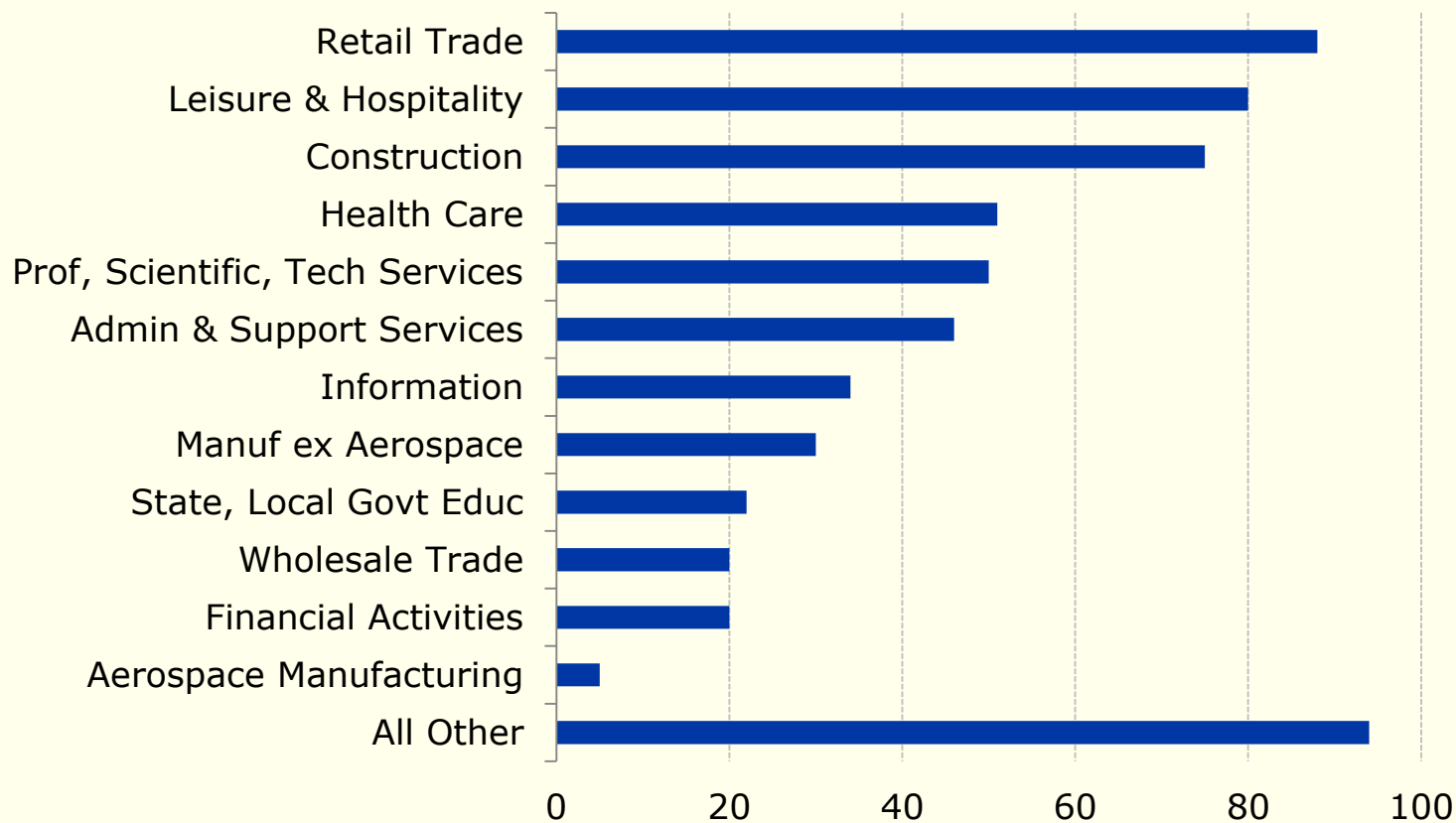
Source: WA Employment Security Dept.



Washington Employment Trends

Washington has gained 615,000 nonfarm jobs since February 2010

Employment Change since Trough (thousands)

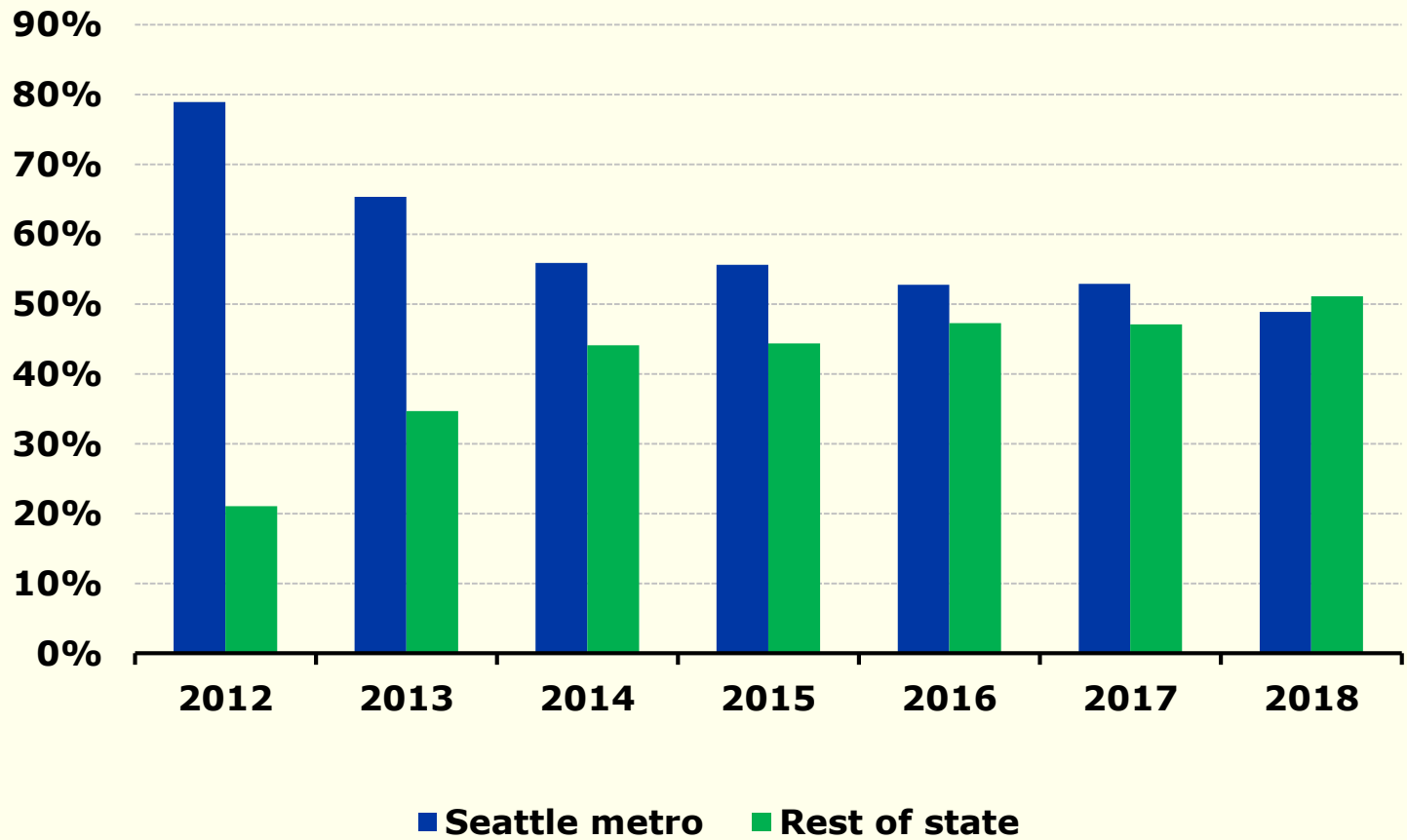


Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through Dec. 2018



Fraction of statewide employment change, Seattle vs. rest of state

The Seattle metro area is 40.3% of the state's population

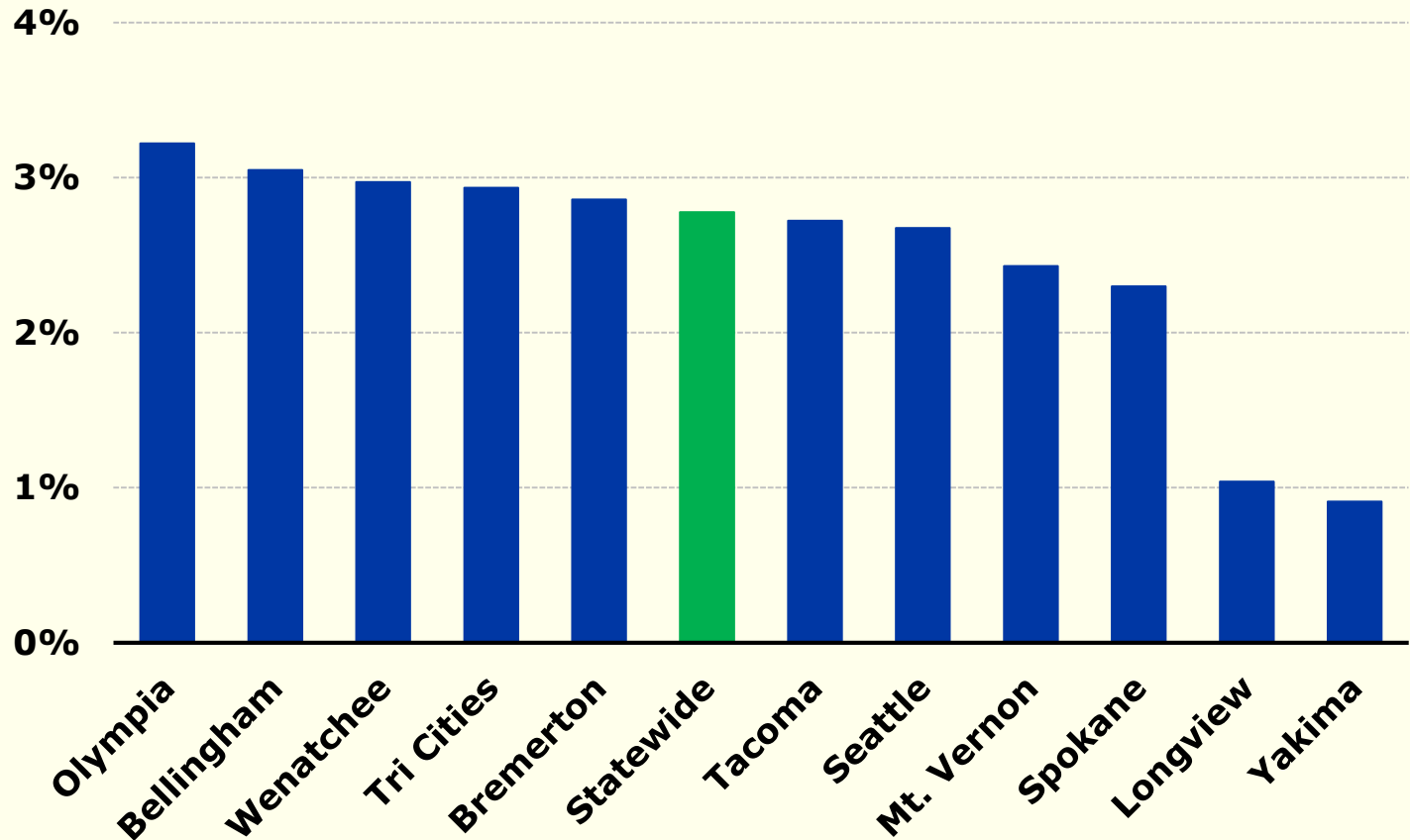


Source: Bureau of Labor Statistics, WA Employment Security Dept., WA Office of Financial Management

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2018 metro area employment growth



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



WA exposure to retaliatory tariffs

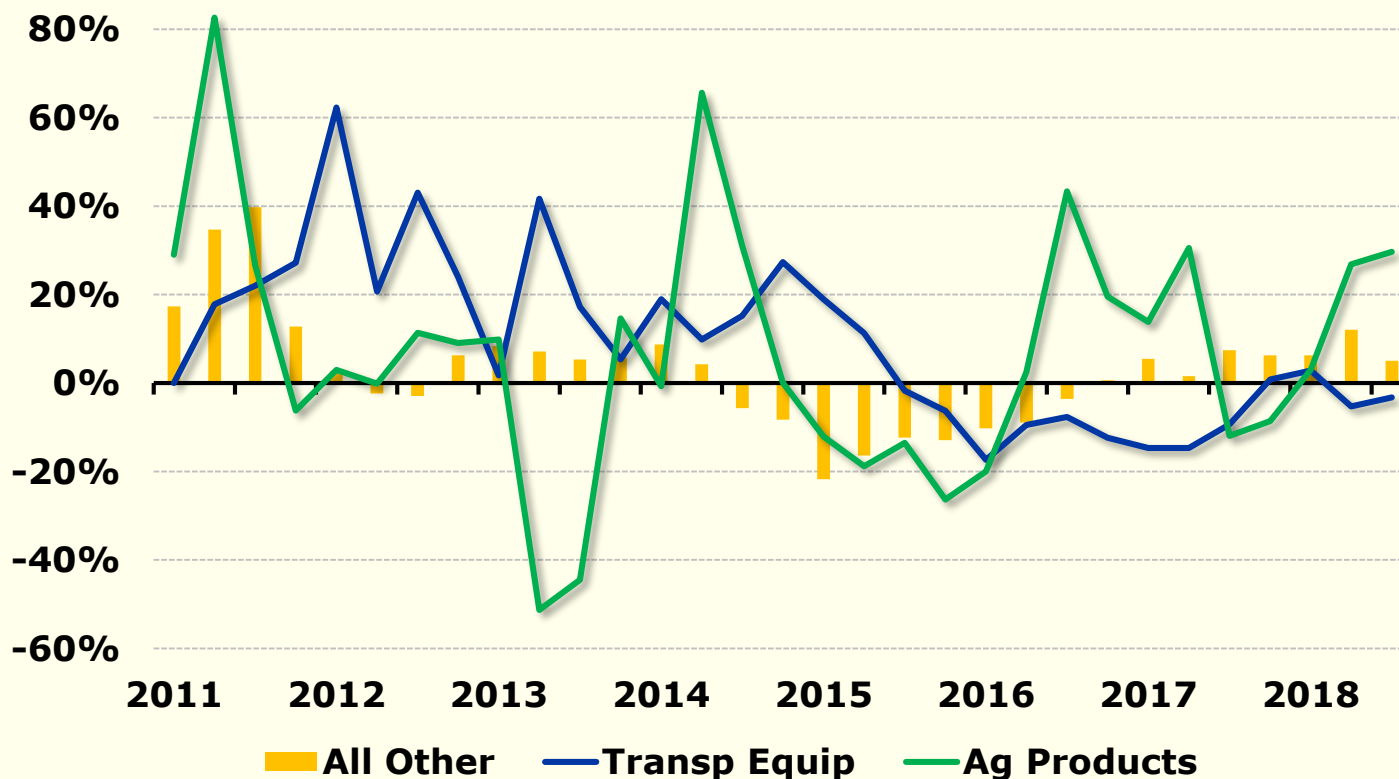
Based on 2017 export values:

- \$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



After 10 quarters of decline, exports have grown in the last four quarters

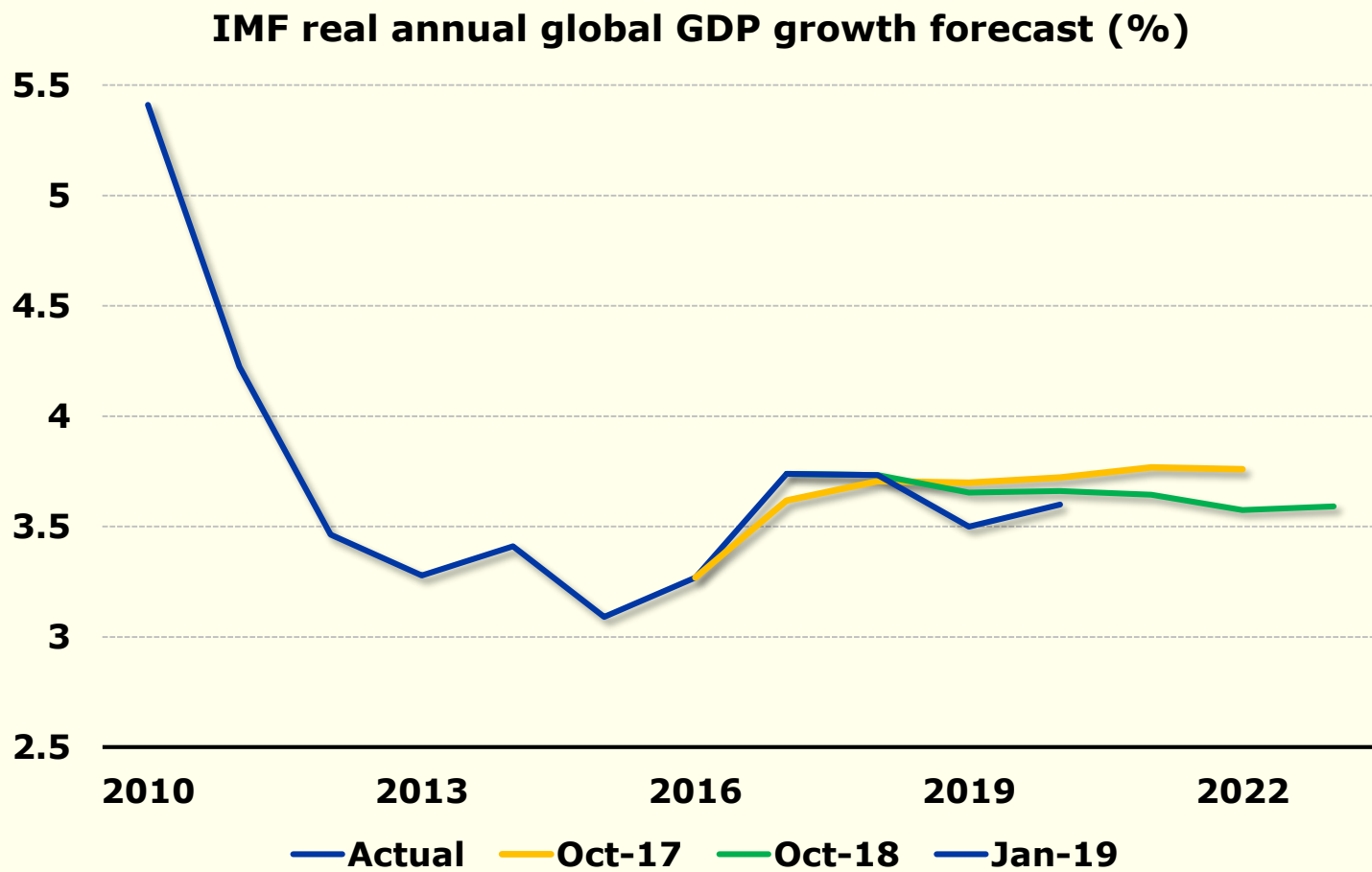
Year over year growth, quarterly WA exports



Source: WISERTrade, data through 2018 Q3



The IMF has revised its global GDP forecast down for 2019 and beyond

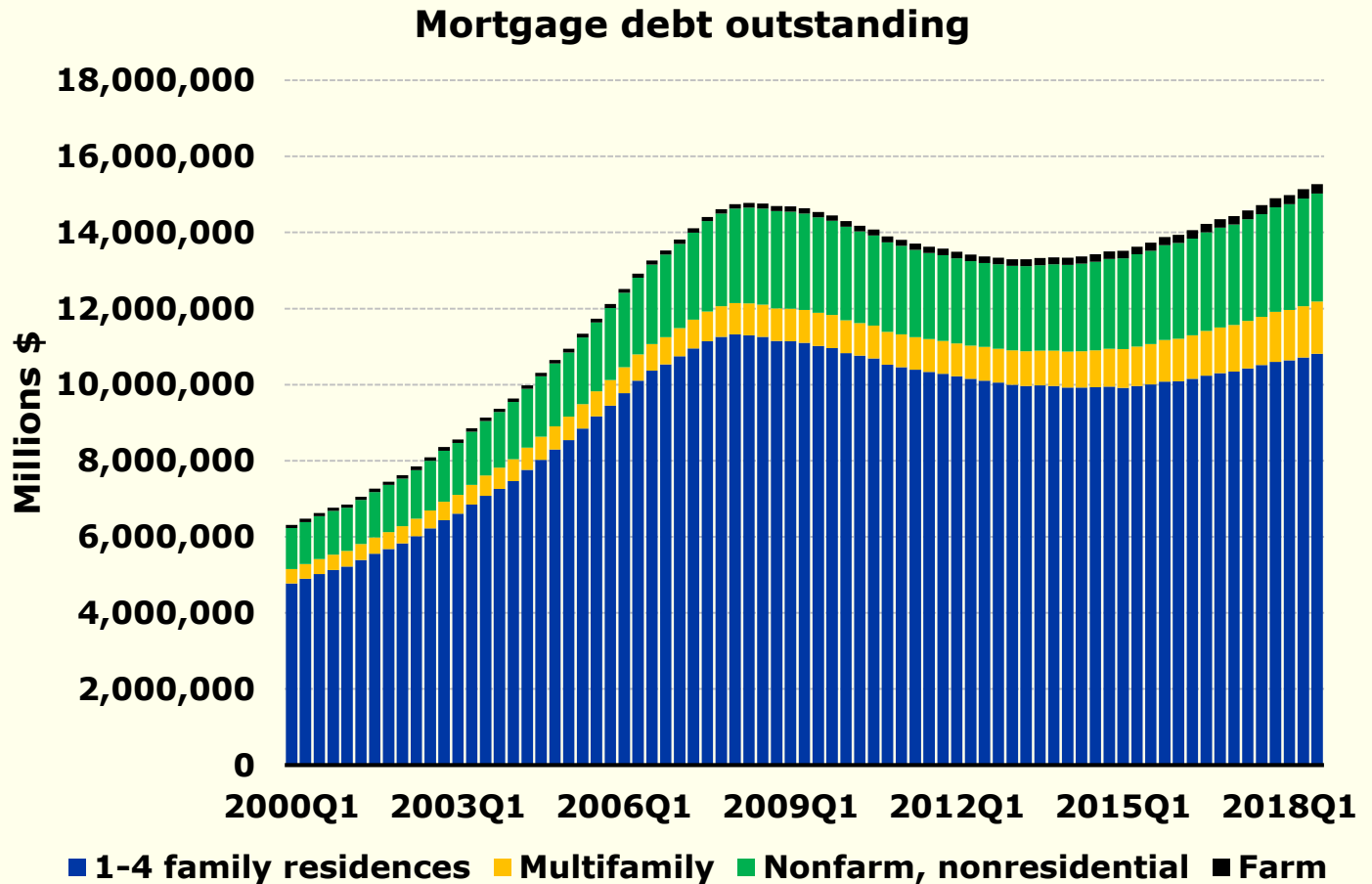


Source: International Monetary Fund, World Economic Outlook; historic data through 2017

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Mortgage debt is slightly above its previous 2008 peak

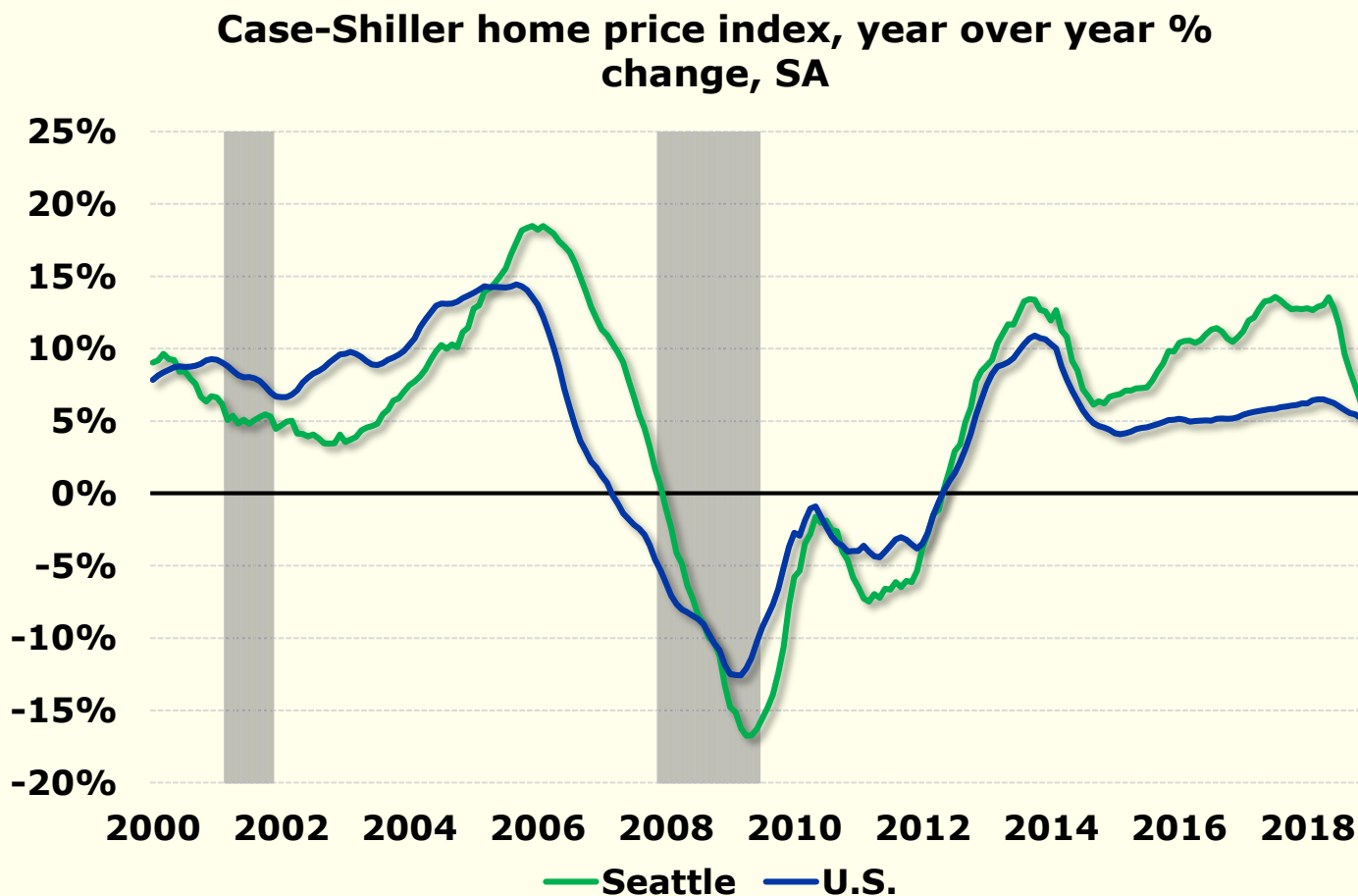


Source: Federal Reserve System Board of Governors, data through 2018Q3



Home price growth appears to be slowing

The Case-Shiller index for Seattle has decreased for five consecutive months



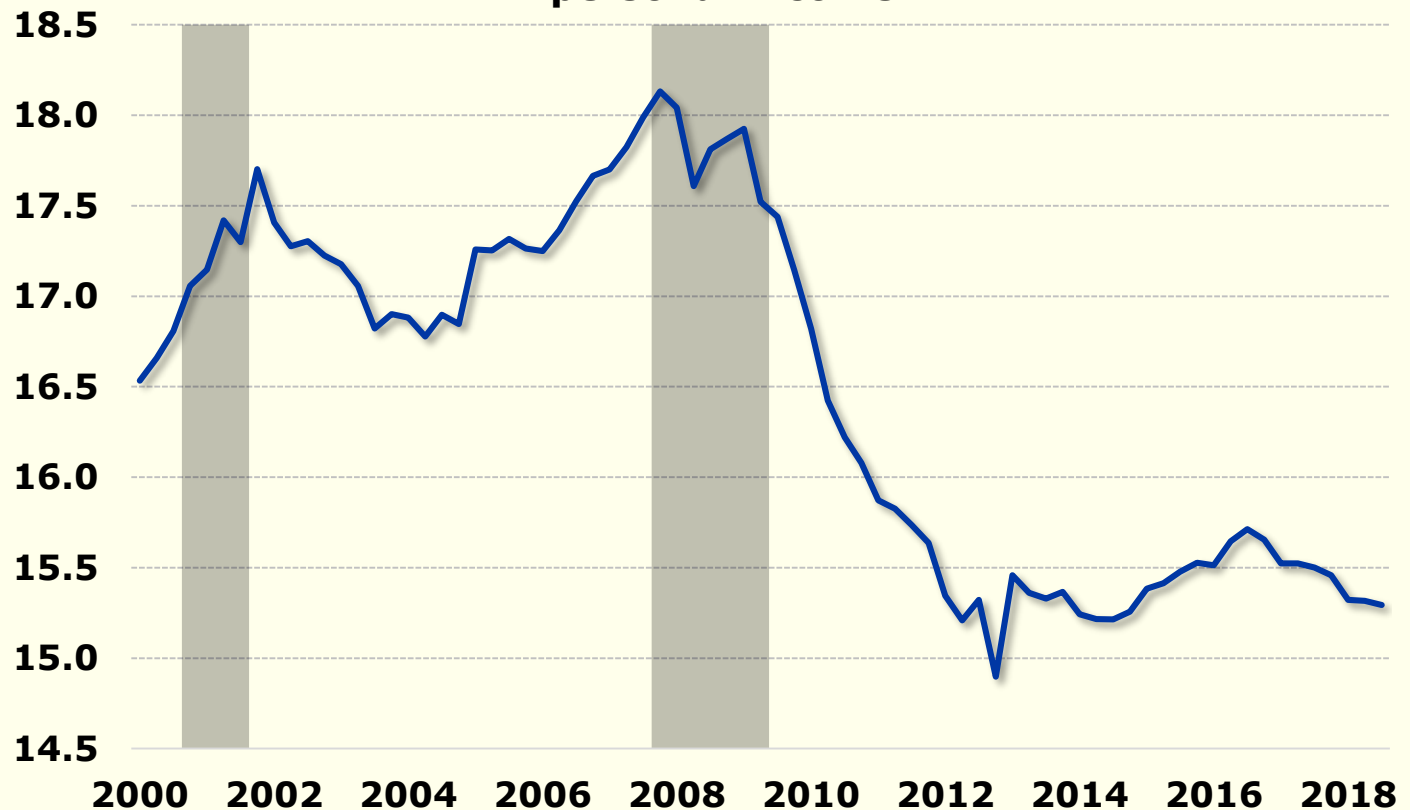
Source: Case-Shiller, data through Nov. 2018



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

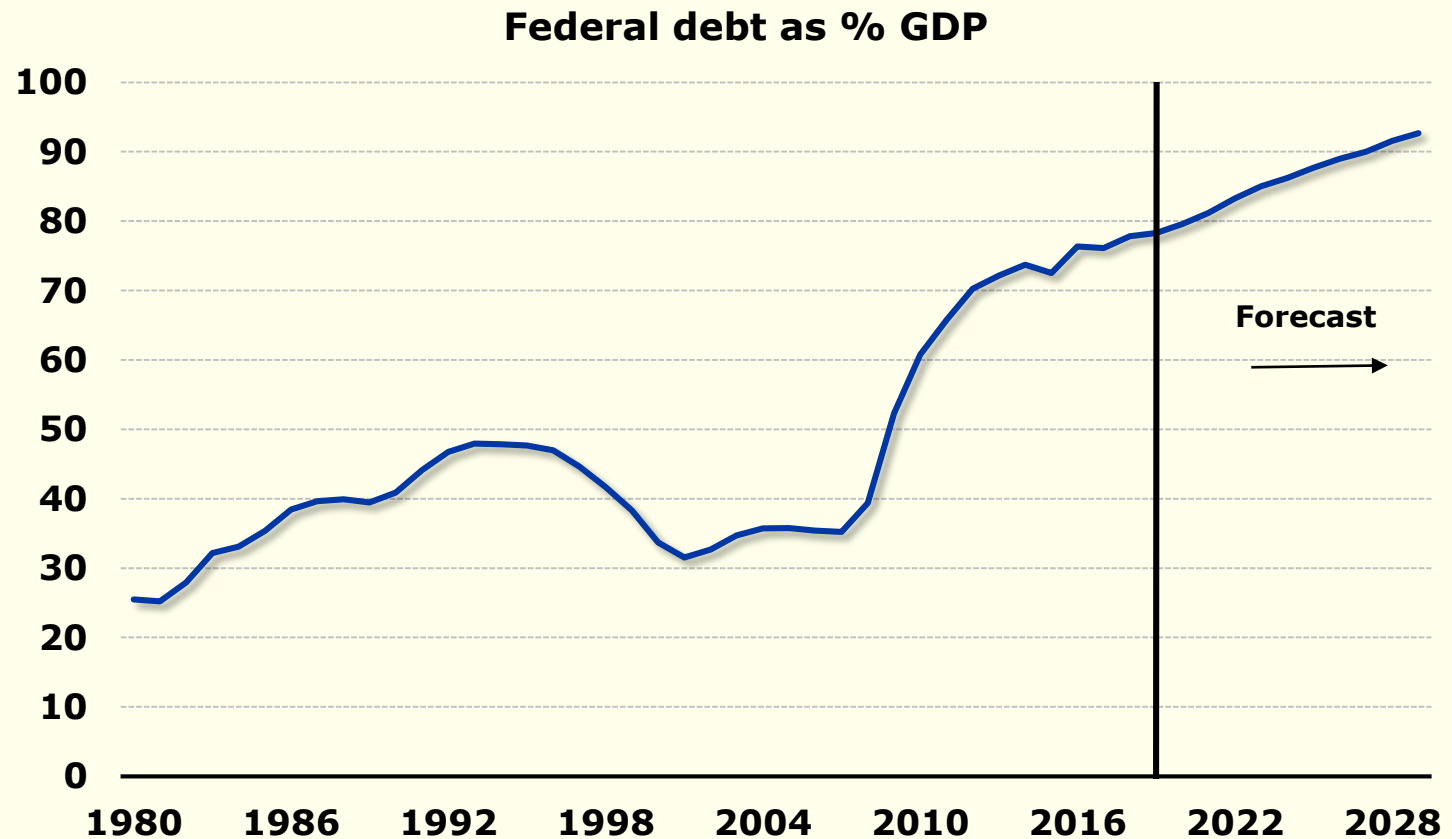
Household financial obligations as % disposable personal income



Source: Federal Reserve Bank of St. Louis, data through 2018 Q3

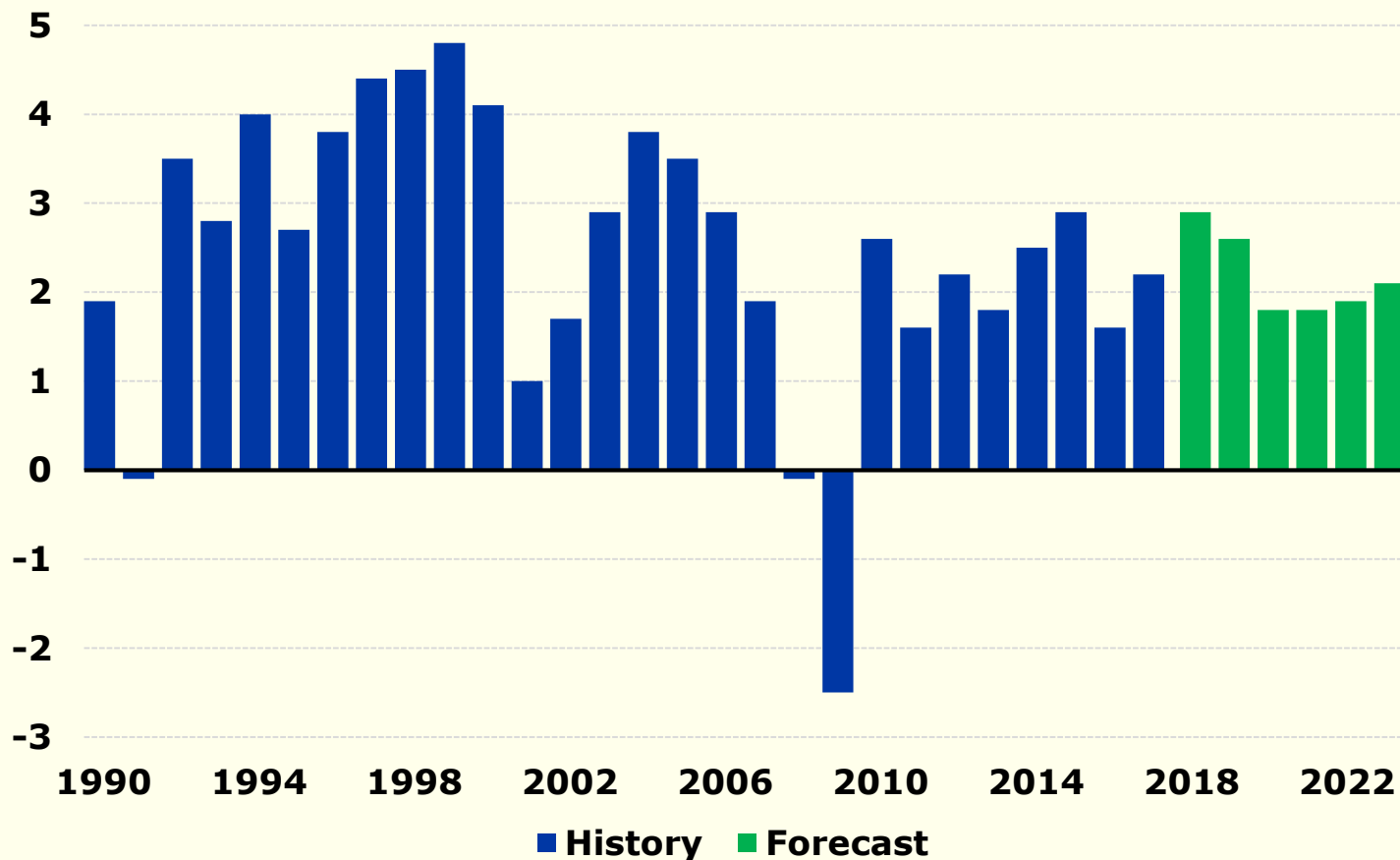


By 2029, federal debt is expected to reach 93% of GDP





GDP growth is expected to average 1.9% in 2020 - 2023



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Source: U.S. Dept. of Commerce, BEA, history through 2017; ERFC Nov. 2018 forecast

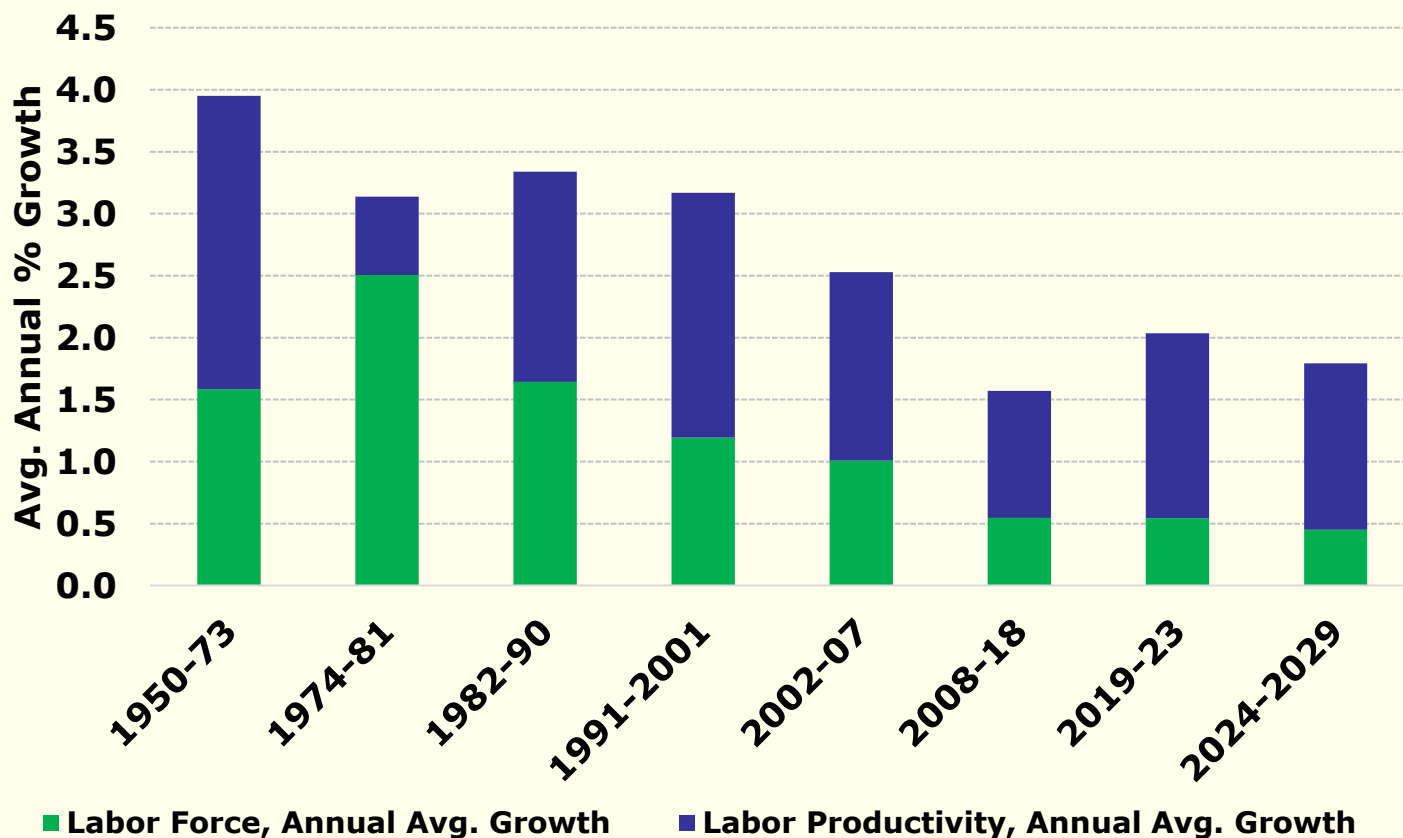
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CBO estimates that the sustainable annual growth rate for U.S. economy averages 2% in 2019-23

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

Potential Real GDP Growth (annual average)

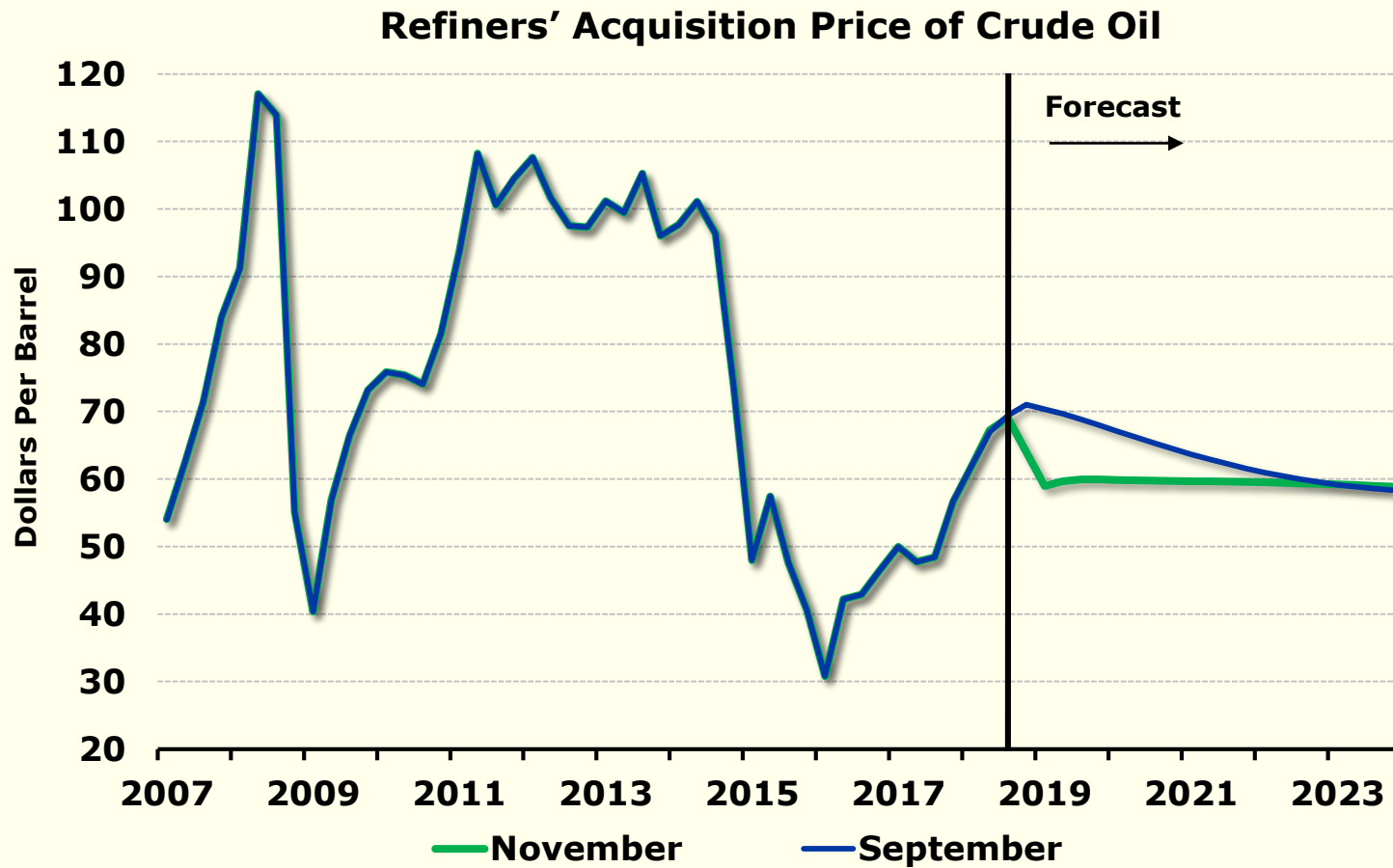


Source: Congressional Budget Office: Budget and Economic Outlook, Jan. 2019



Oil prices have declined recently

Since the preliminary forecast, oil prices have dropped \$8 per gallon for the 4th quarter of this year.



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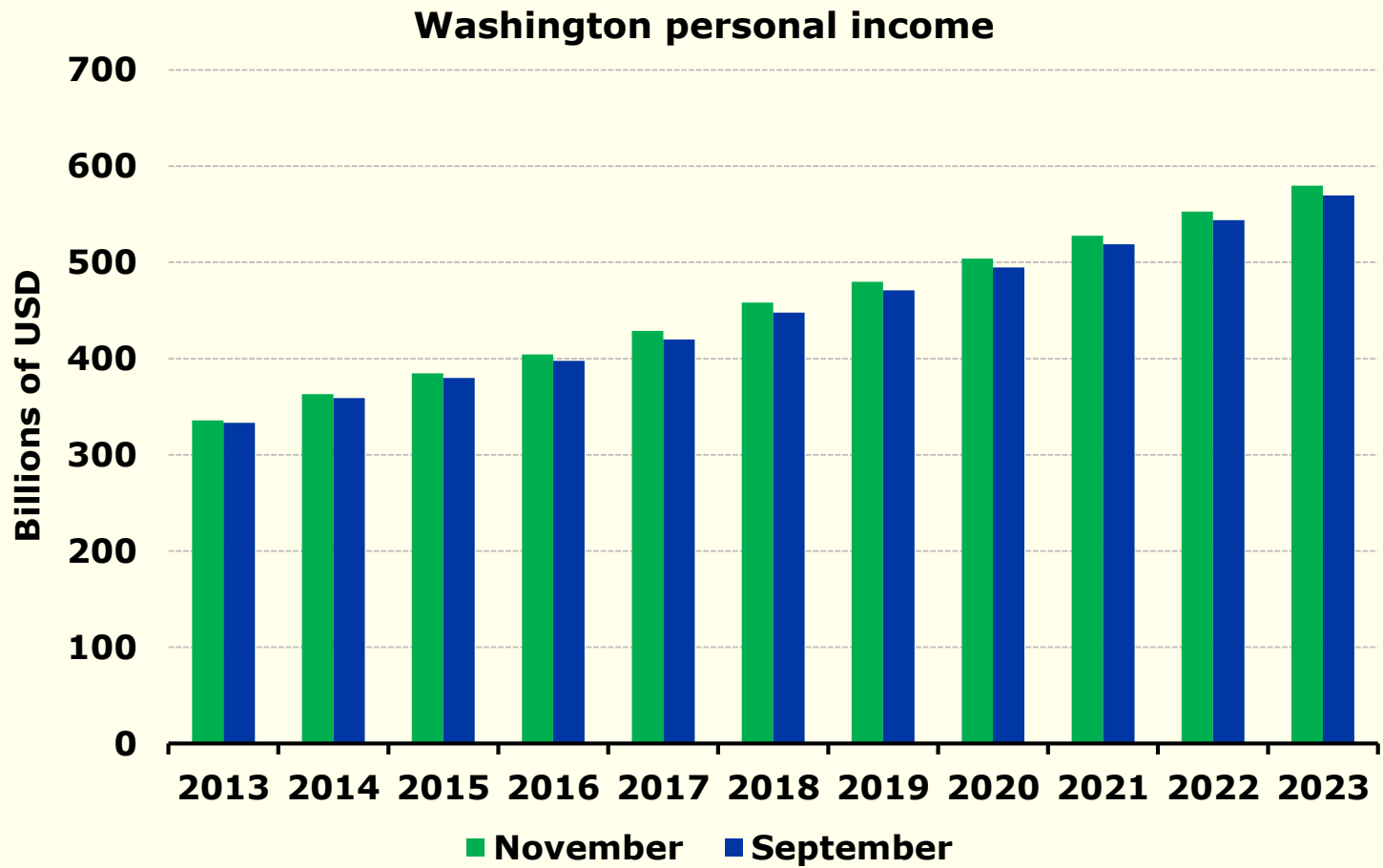
Source: Energy Information Administration, IHS Markit, ERFC November 2018 forecast; data through Q3 2018
Note: Vertical black line indicates last actual

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Washington personal income is slightly higher than in September but grows more slowly

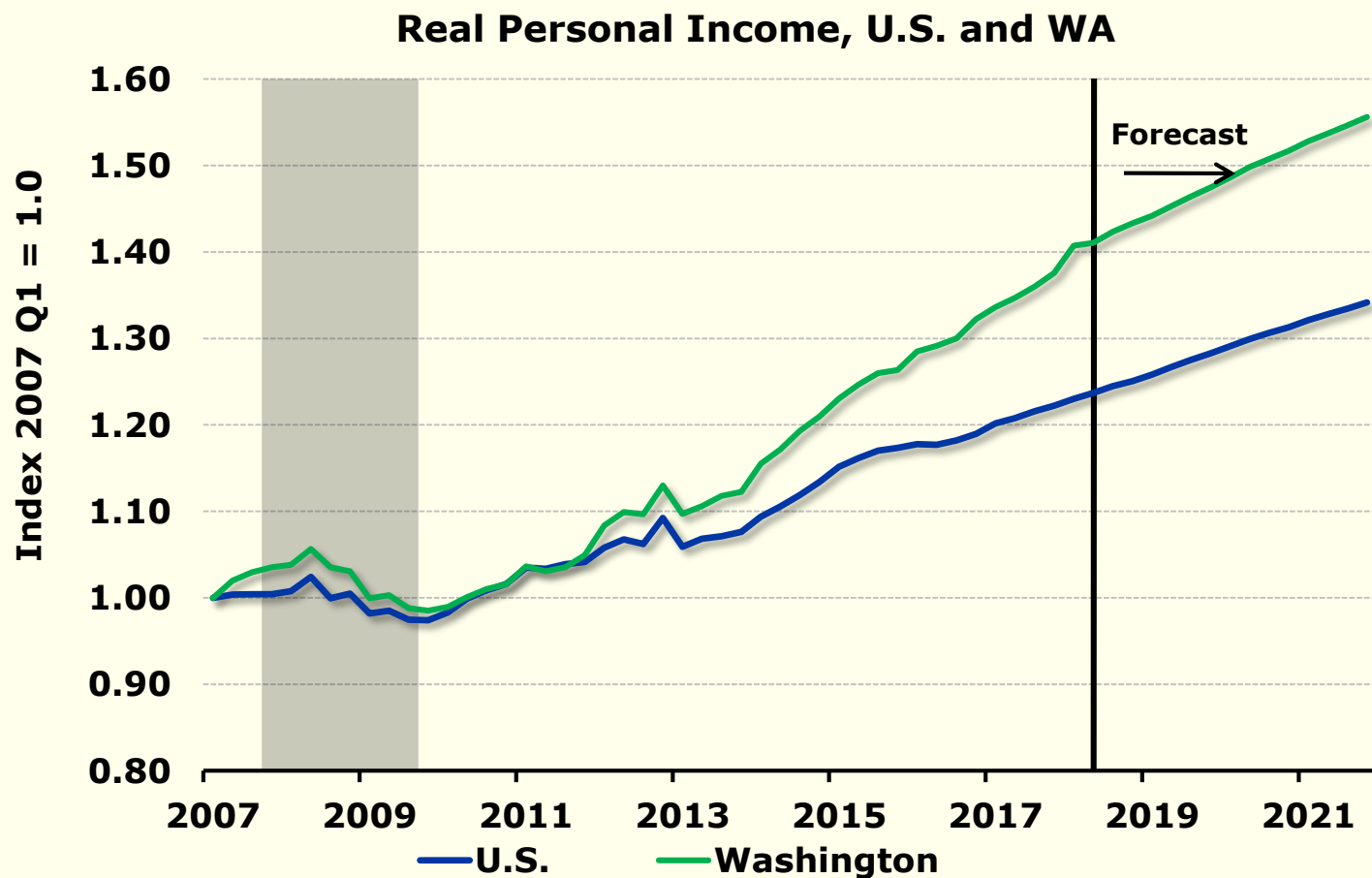
Personal income data were revised back to 1998 after the September forecast



Source: ERFC November 2018 forecast; historical data through 2017



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

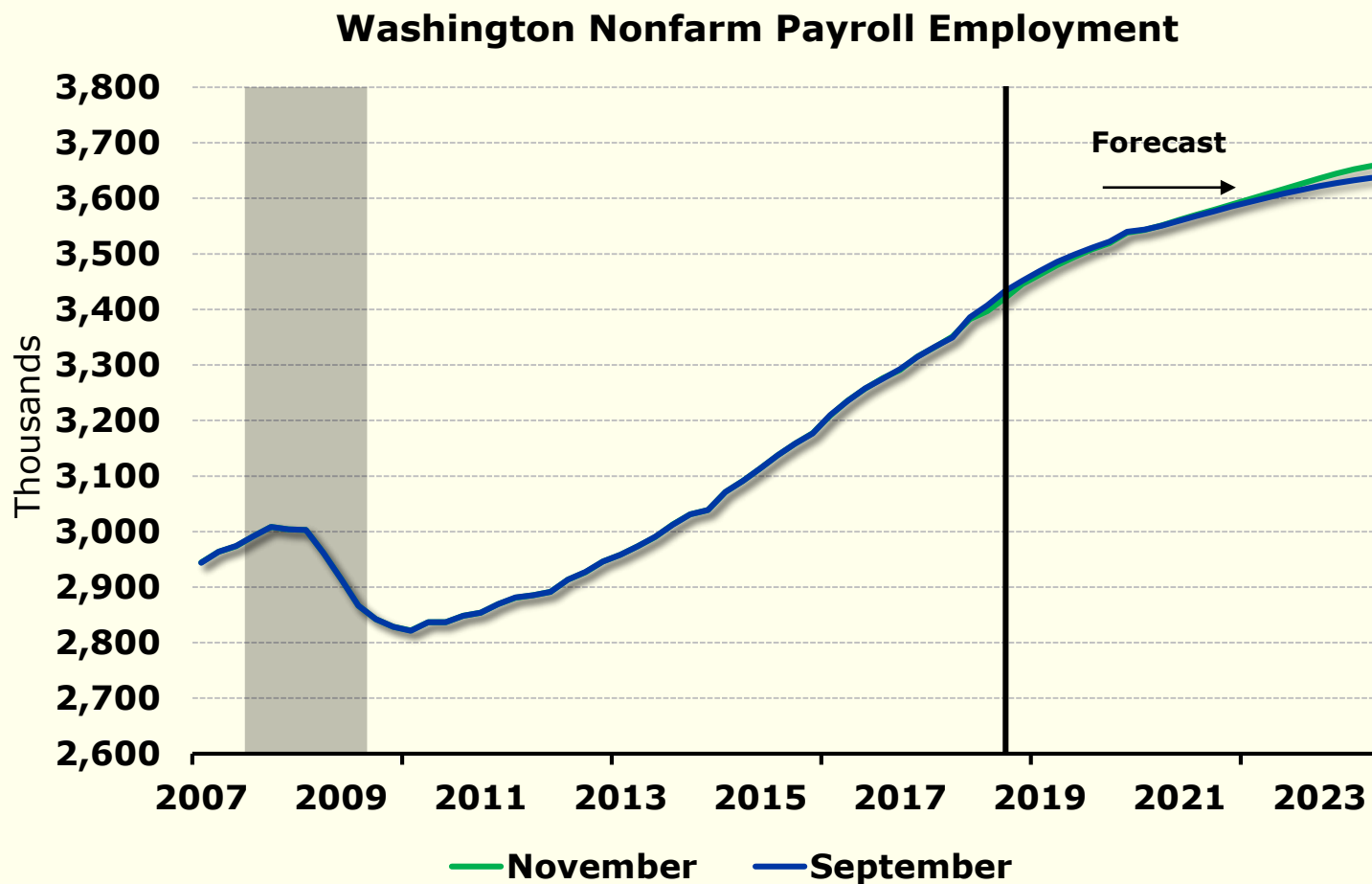


Source: ERFC November 2018 forecast; historical data through 2018Q3

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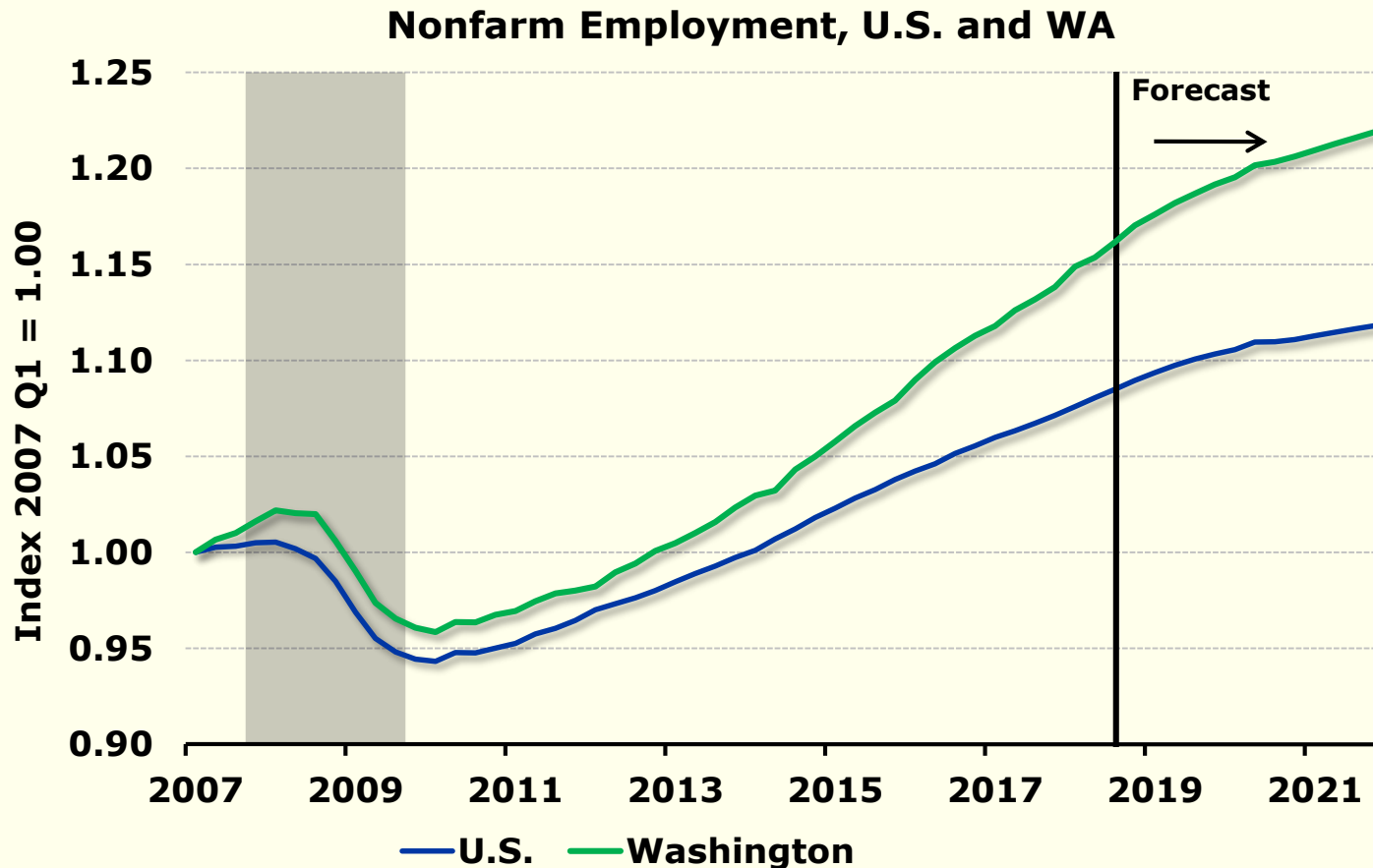
Washington employment forecast is very similar to September



Source: ERFC November 2018 forecast; historical data through Q3 2018



Washington employment will continue to grow faster than the U.S.

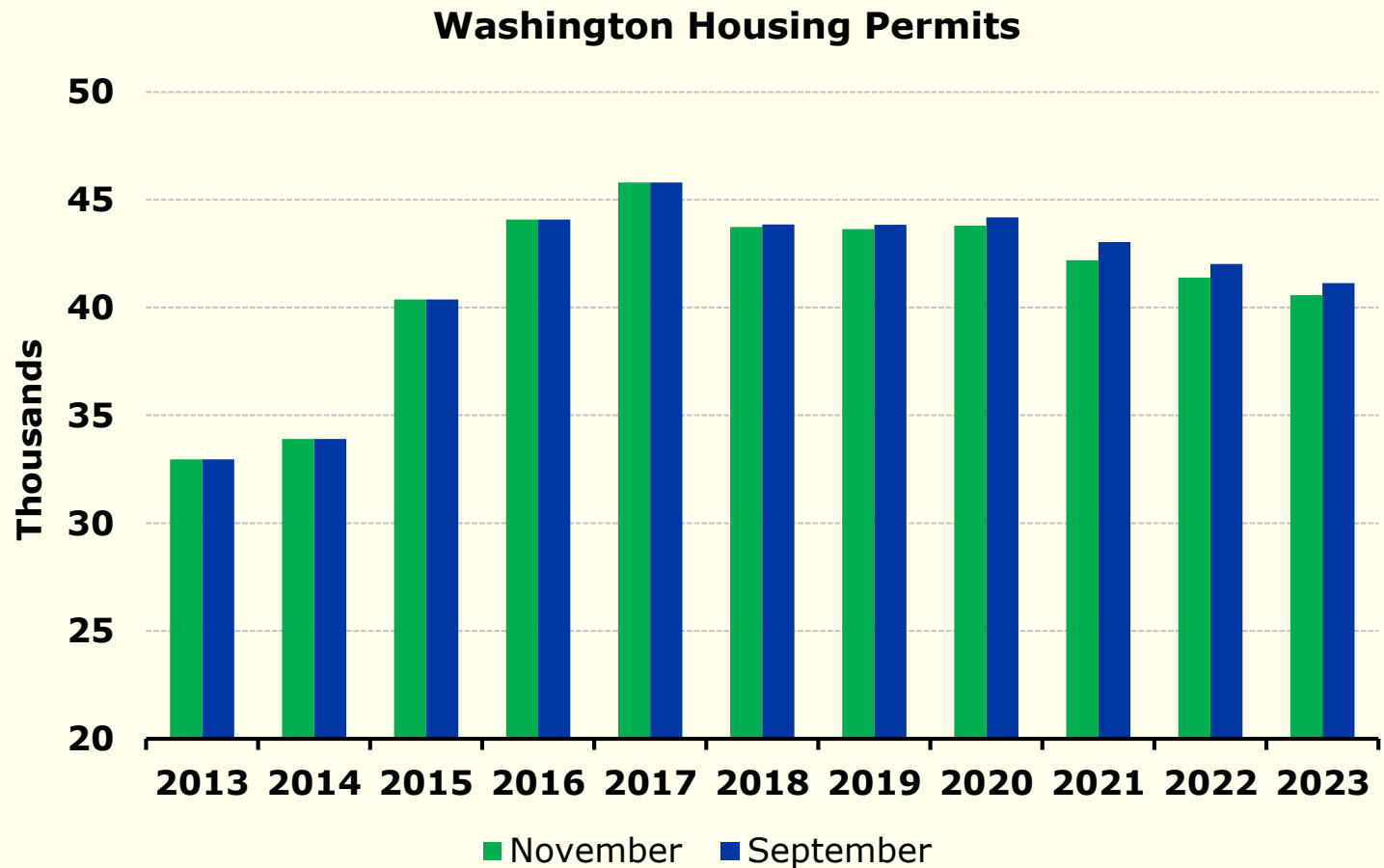


Source: ERFC November 2018 forecast; historical data through 2018 Q3

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WA housing permits forecast averages about 500 units lower per year for 2019 – 2023 compared to September

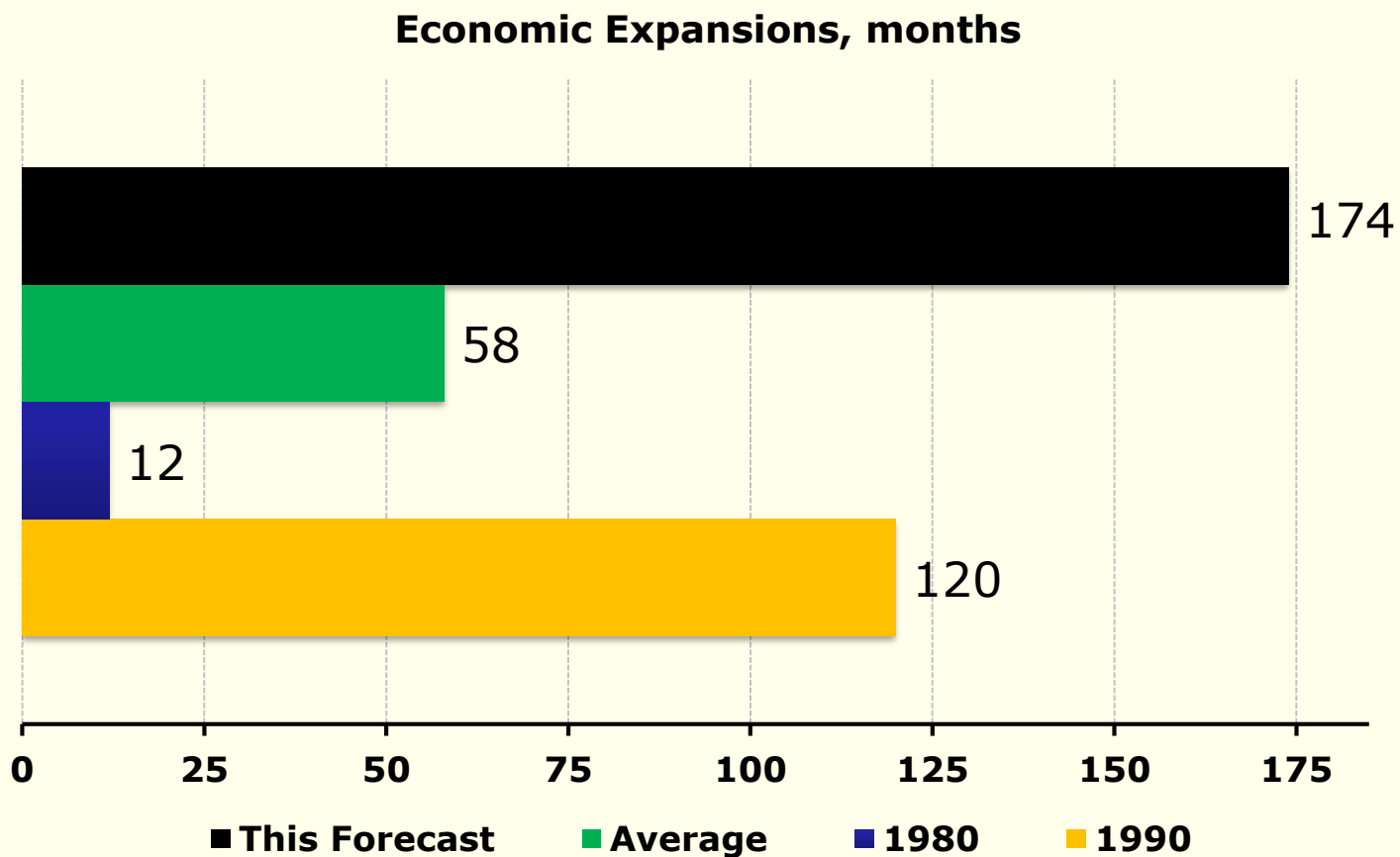


Source: ERFC November 2018 forecast; historical data through 2017

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U.S. Economic Expansions since 1945



Sources: NBER, ERFC November 2018 forecast

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Recession forecasts

Duke/U.S. CFO Magazine survey (Dec. 2018)

- 49% of CFOs expect recession by end of 2019
- 82% of CFOs expect recession by end of 2020

WSJ Economists Survey (Dec. 2018)

- 22% expect recession in next 12 months

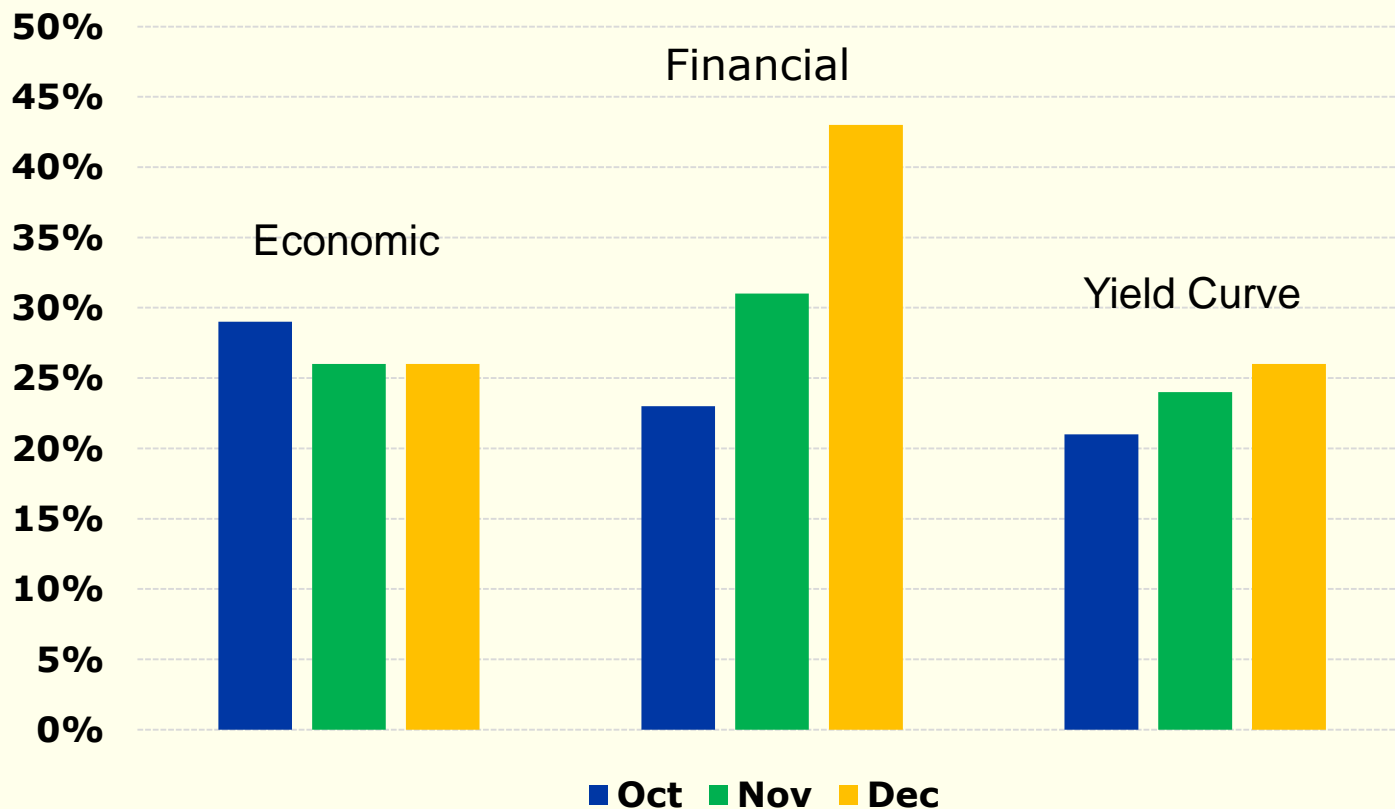
IHS Markit (Dec. 2018)

- Recession risks low in 2019 but rise in 2020 and beyond



Recession probabilities in next 12 months based on economic, financial and yield curve data

The probabilities are derived from three different models developed by Moody's Analytics

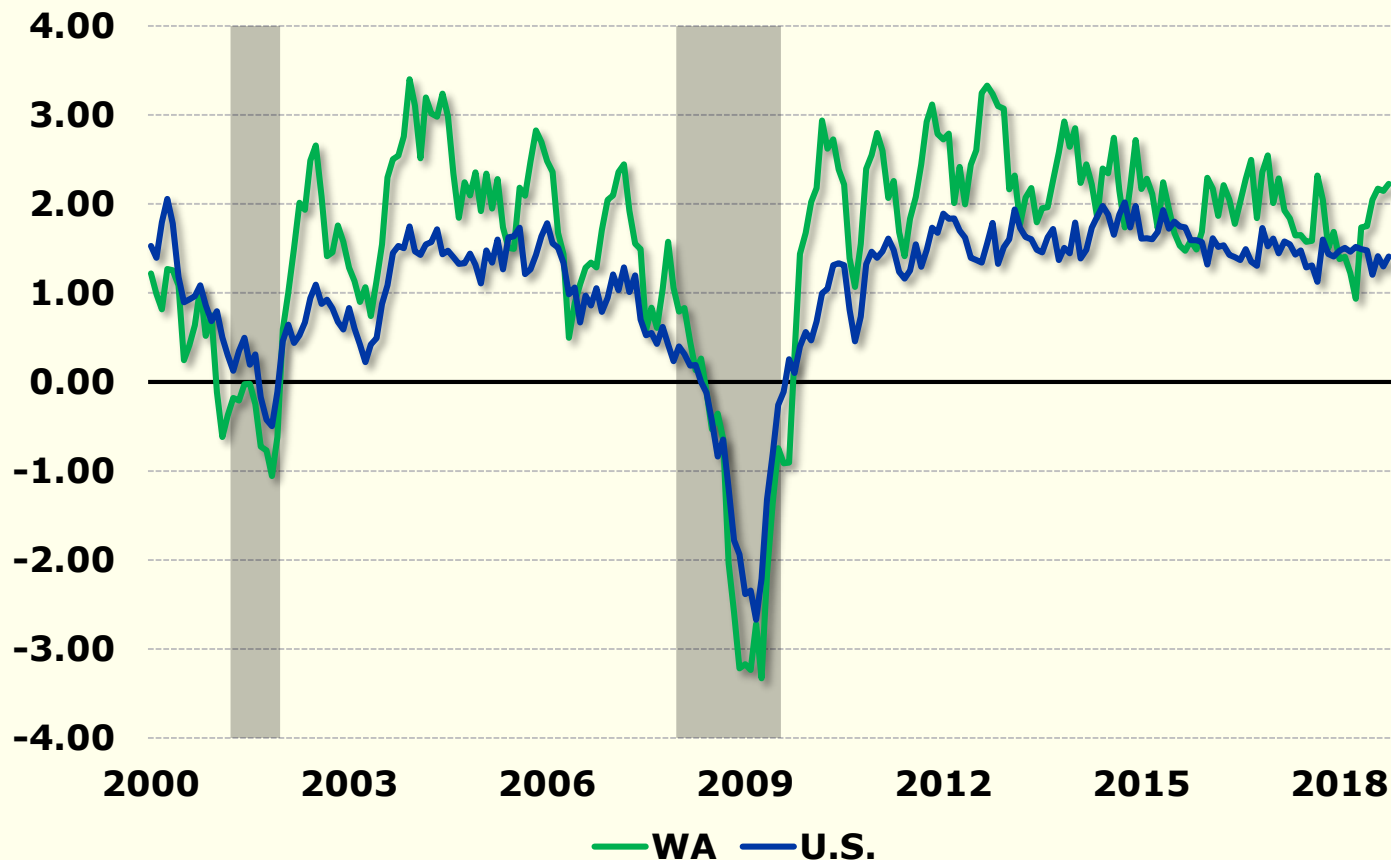


Source: Moody's Analytics, October - December 2018



Leading economic indexes for WA, U.S. do not suggest a recession in near term

Note that this was last updated in October; the closure of some federal agencies makes the next update uncertain



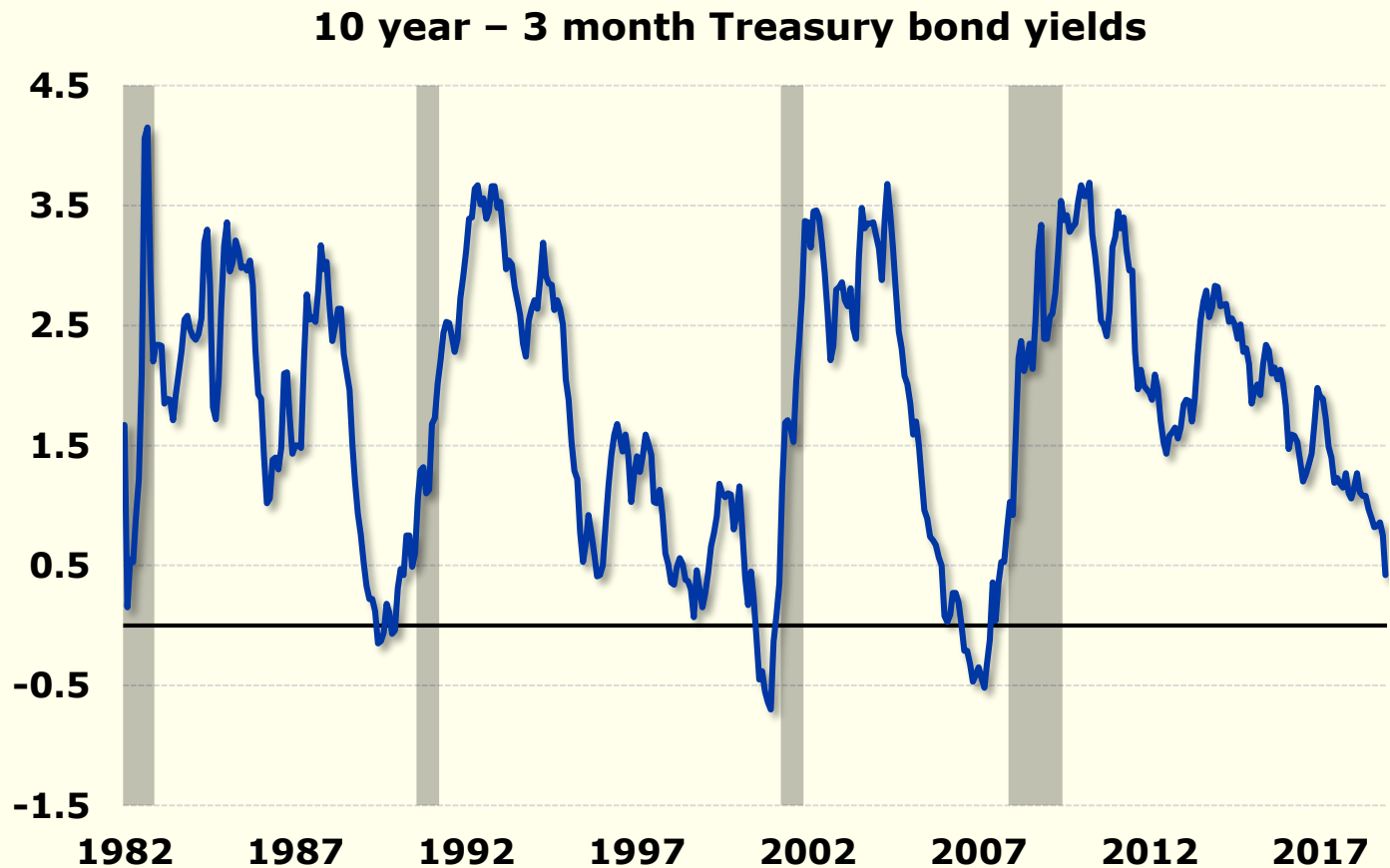
Source: Federal Reserve Bank of Philadelphia, data through Oct. 2018

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

As of Dec. 2018, 10 year Treasury bond yields were 0.42% above three month Treasury bill yields



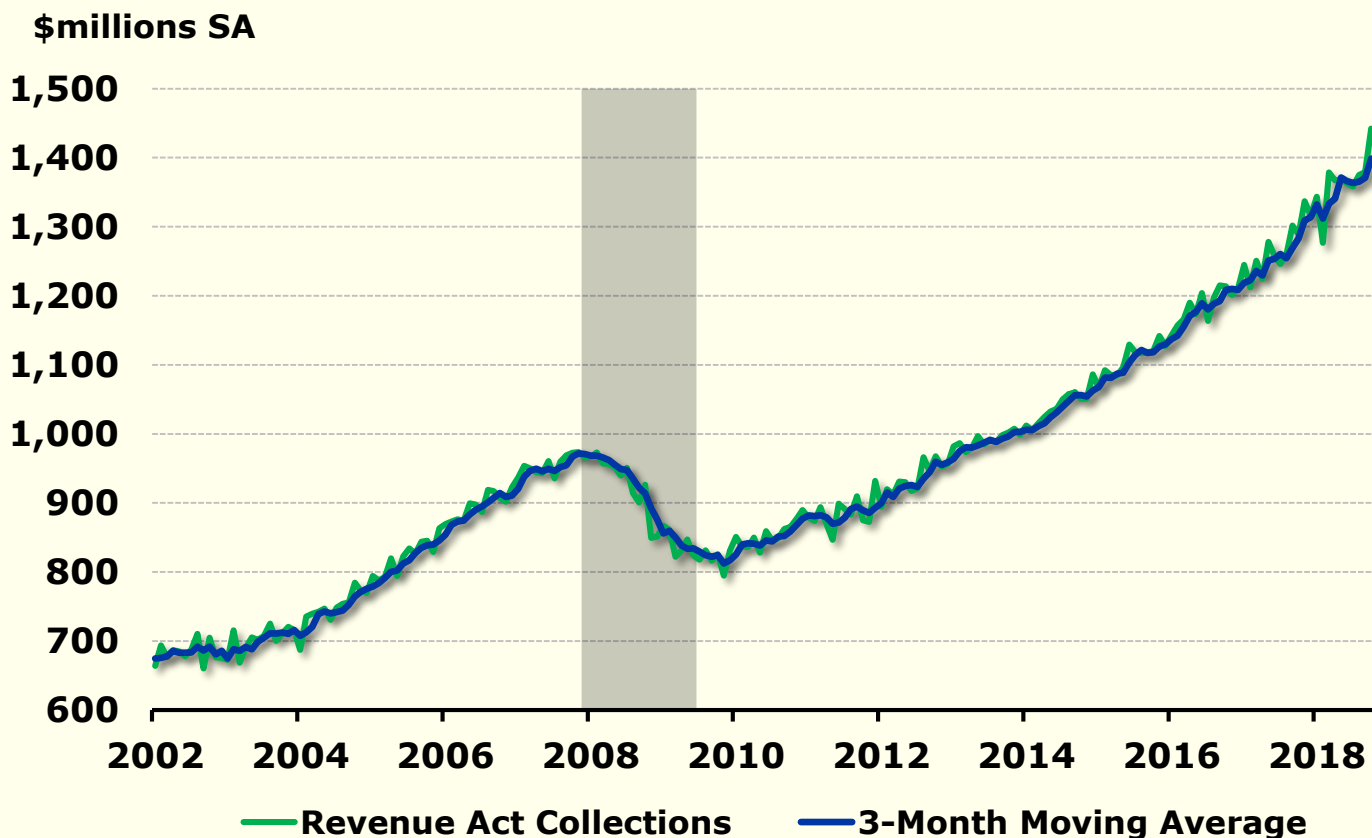
Source: Federal Reserve Bank of St. Louis, data through Dec. 2018



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%



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

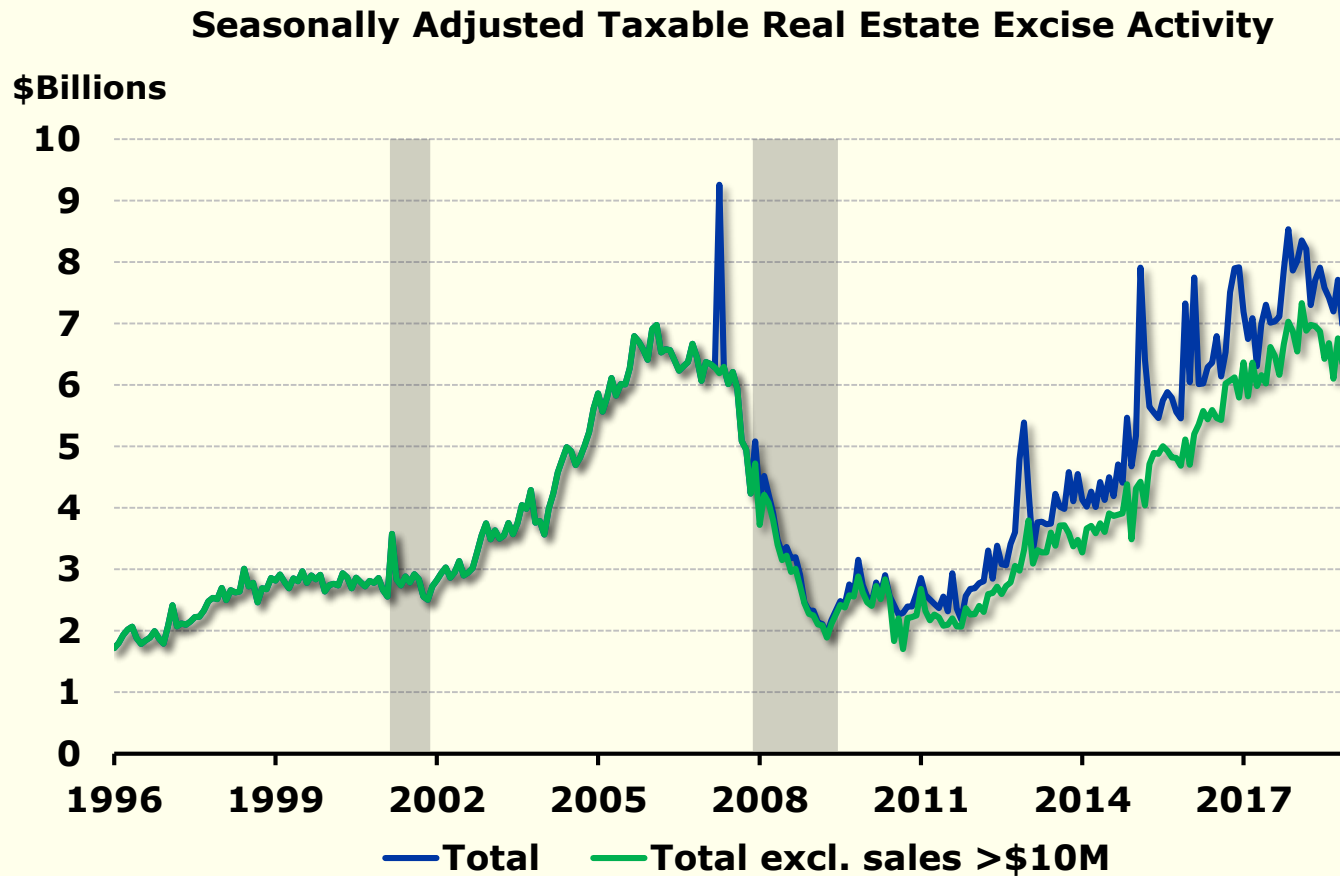
Source: DOR and ERFC; monthly data through October 2018 activity



Taxable REET activity may have peaked in Q1 2018

Taxable activity in residential sales has been on a downward trend since March.

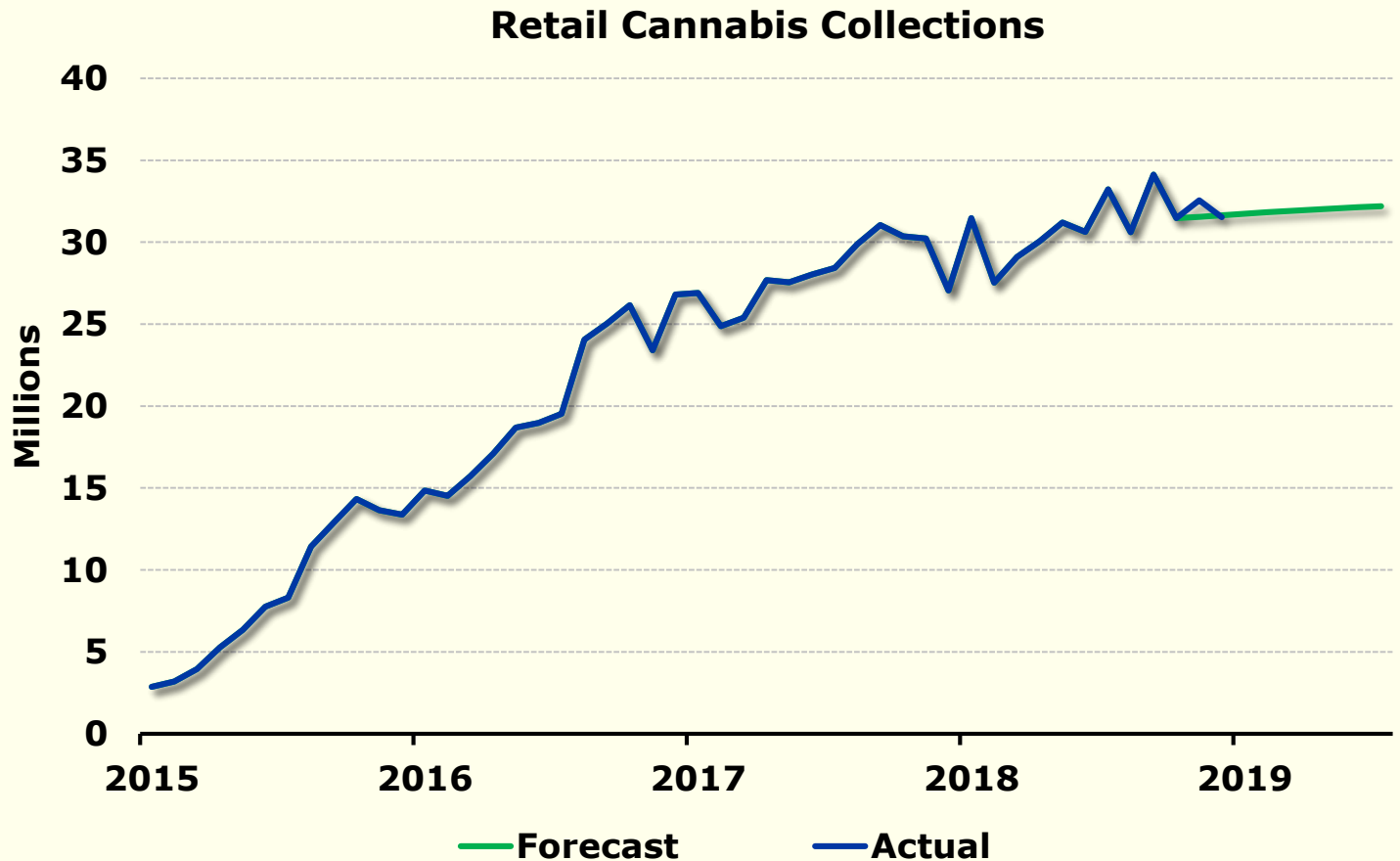
Large commercial sales (>\$10 million) have not slowed as much as residential sales.



Source: ERFC; Monthly data through November 2018 preliminary



The rapid growth in cannabis revenue is likely over



Source: ERFC November 2018 forecast; historical data through December 2018

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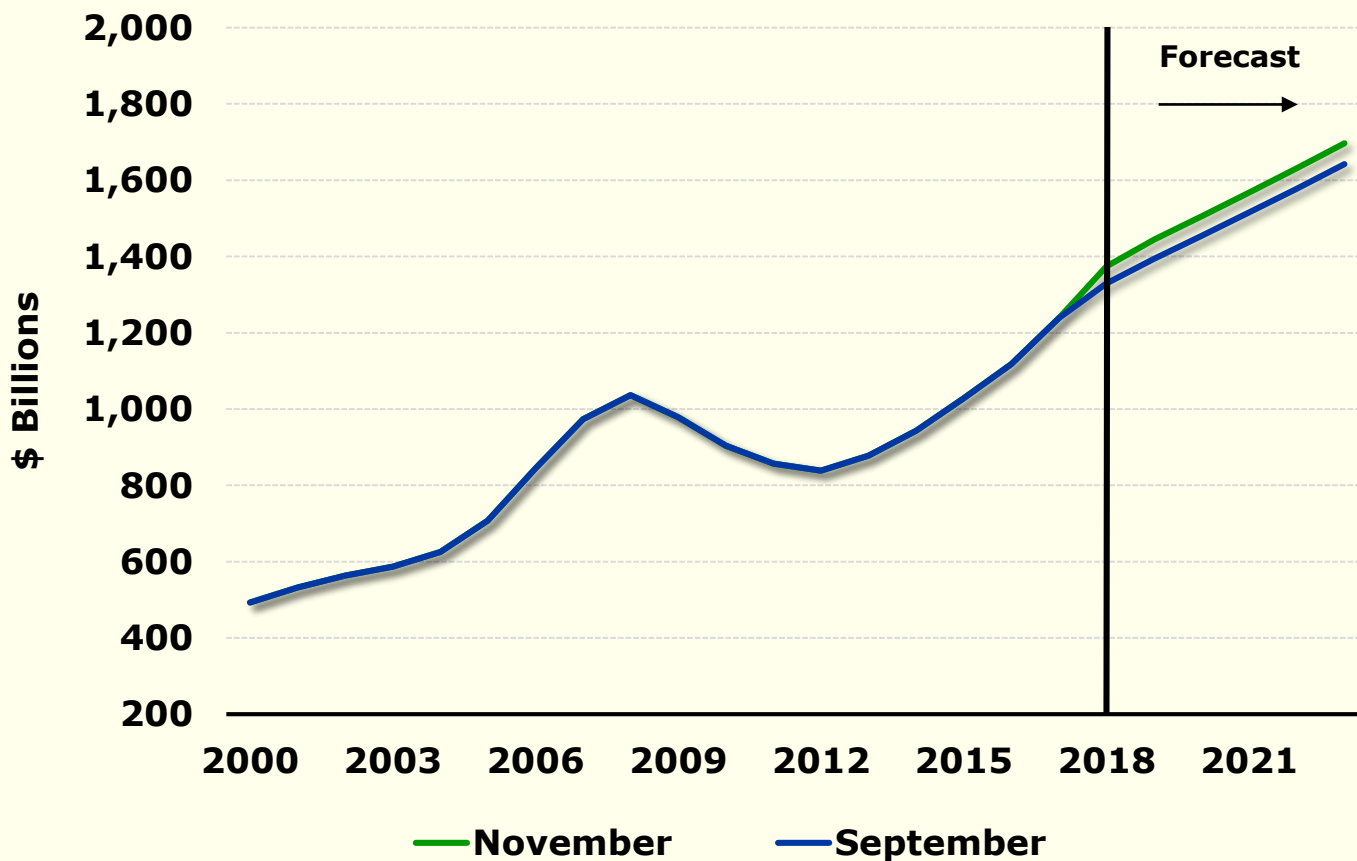


Assessed value on existing properties increased between September, November forecasts

September forecast for growth in Market Value: 7.3%

Actual growth: 10.9%

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



Source: ERFC November 2018 forecast

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Conclusion

- WA personal income is higher than in September as a result of revisions to historic data
- 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 17.3% between the 2015-17 and 2017-19 biennia and 9.2% 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
www.erfc.wa.gov
360-534-1560

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