Economic Outlook

Presented to
Washington Research Council Board

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

Summary

- U.S., WA forecasts similar to the June forecast; WA personal income slightly higher than in June
- Baseline forecast has slowing growth but no recession
- Forecast risks include the impact of trade disputes and a slowing global economy
- The Near General Fund-State forecast is increased by $27 million for the 2017-19 biennium and increased by $447 million for 2019-21 biennium

Data updates since preliminary forecast

U.S.

- August employment: +130,000 jobs
- August Blue Chip GDP forecast: 2019 & 2020 slightly lower than preliminary
- Monetary policy: two additional 0.25% Federal Funds rate cuts are assumed in 2019, one of which occurred this month
- **Washington**
- August employment: +4,000 jobs
- August unemployment rate remained at 4.6%

Selected forecast risks

Labor markets

- Unemployment rate, initial UI claims remain low
- Job growth slower than in 2018

737 MAX

- Currently, no impact on WA employment; forecast assumes gradual production increase over 2020 Q1 and Q2

International trade policy

- China – no agreement yet
- Europe – no agreement yet; potential for aircraft tariffs

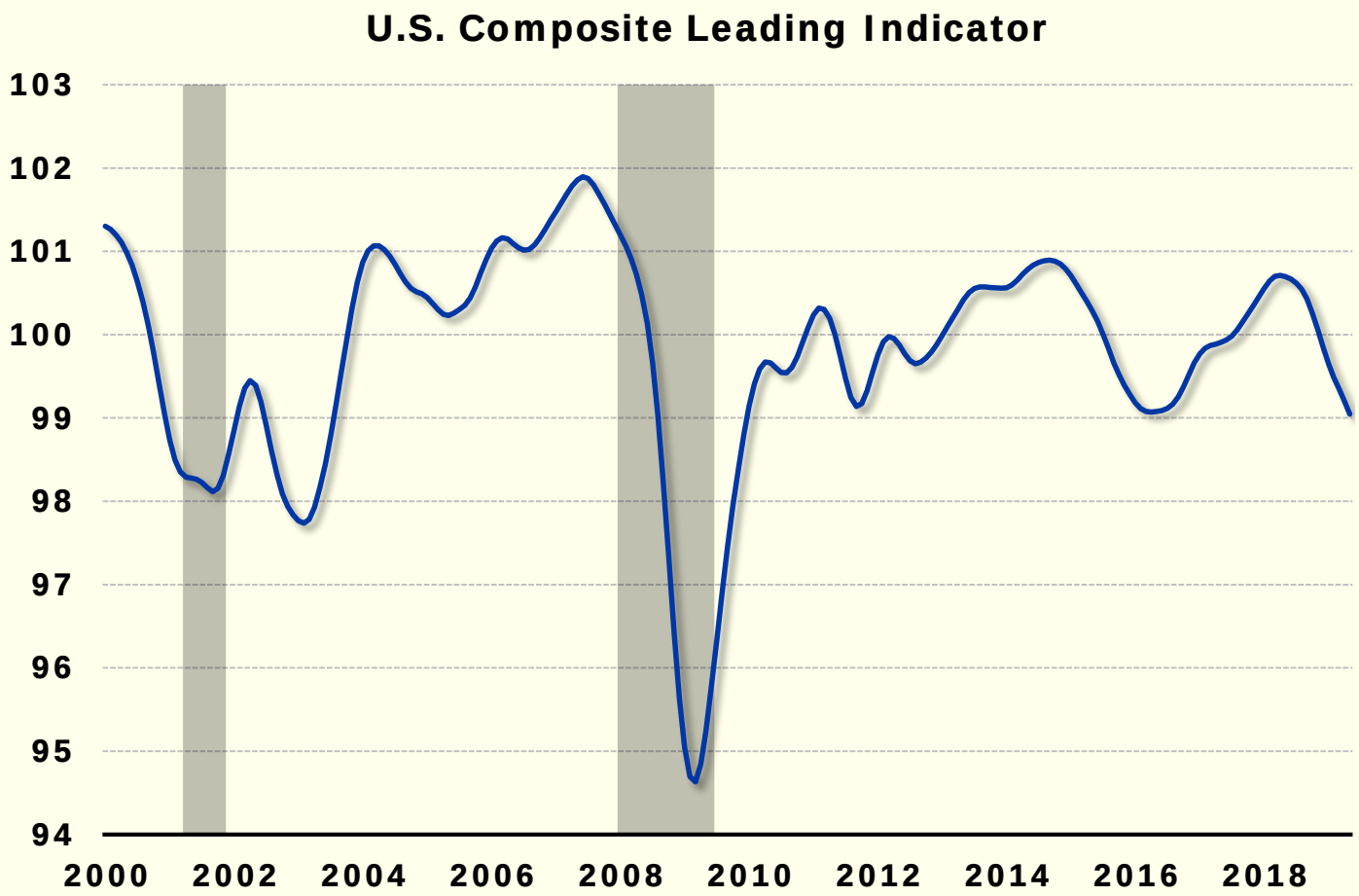
The 10 year – 3 month yield curve has been inverted since May 23rd

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 Oct. 4, 2019

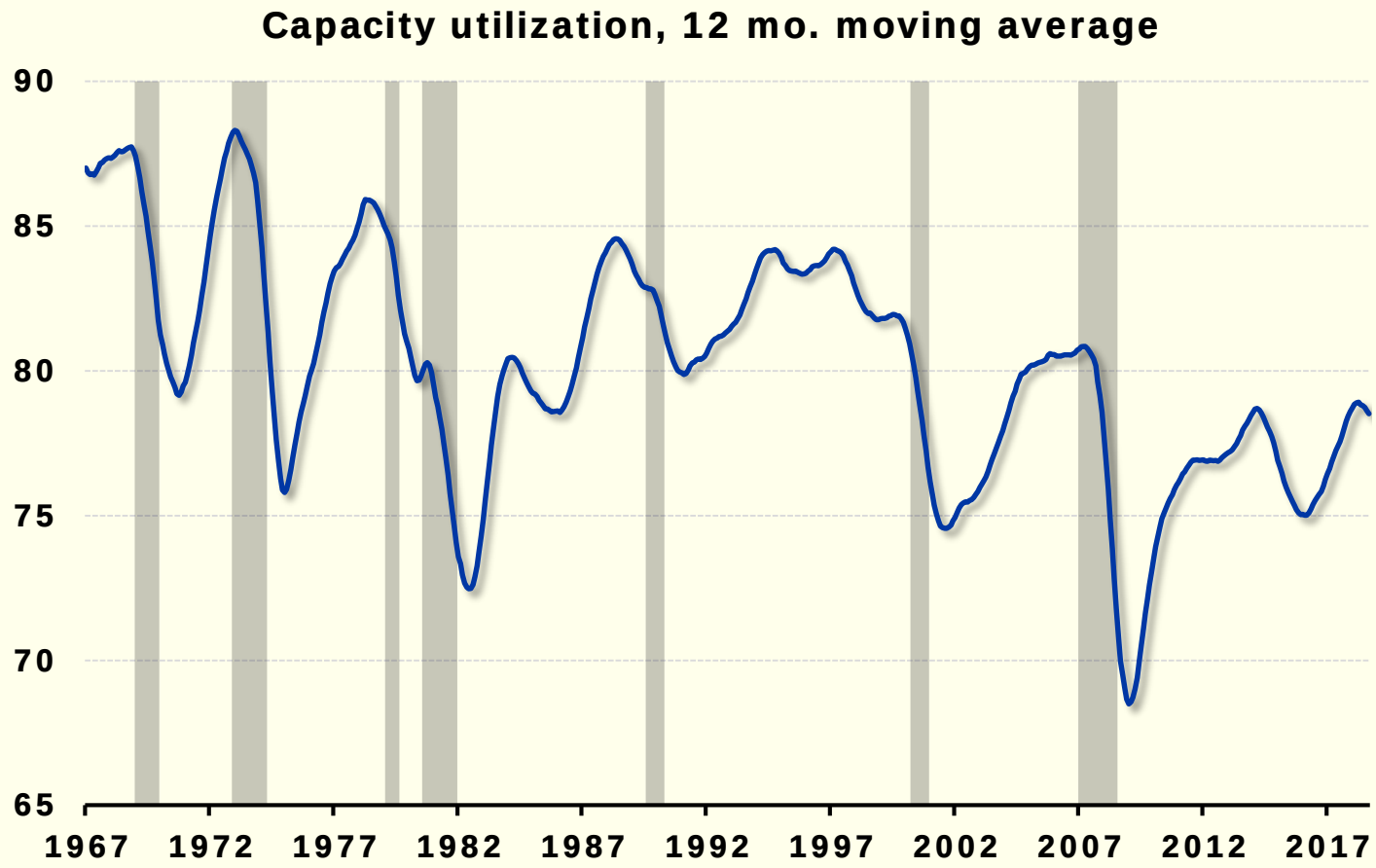
OECD leading index suggests slowing growth in next 6 – 9 months

The index is designed so the long-term average is 100.



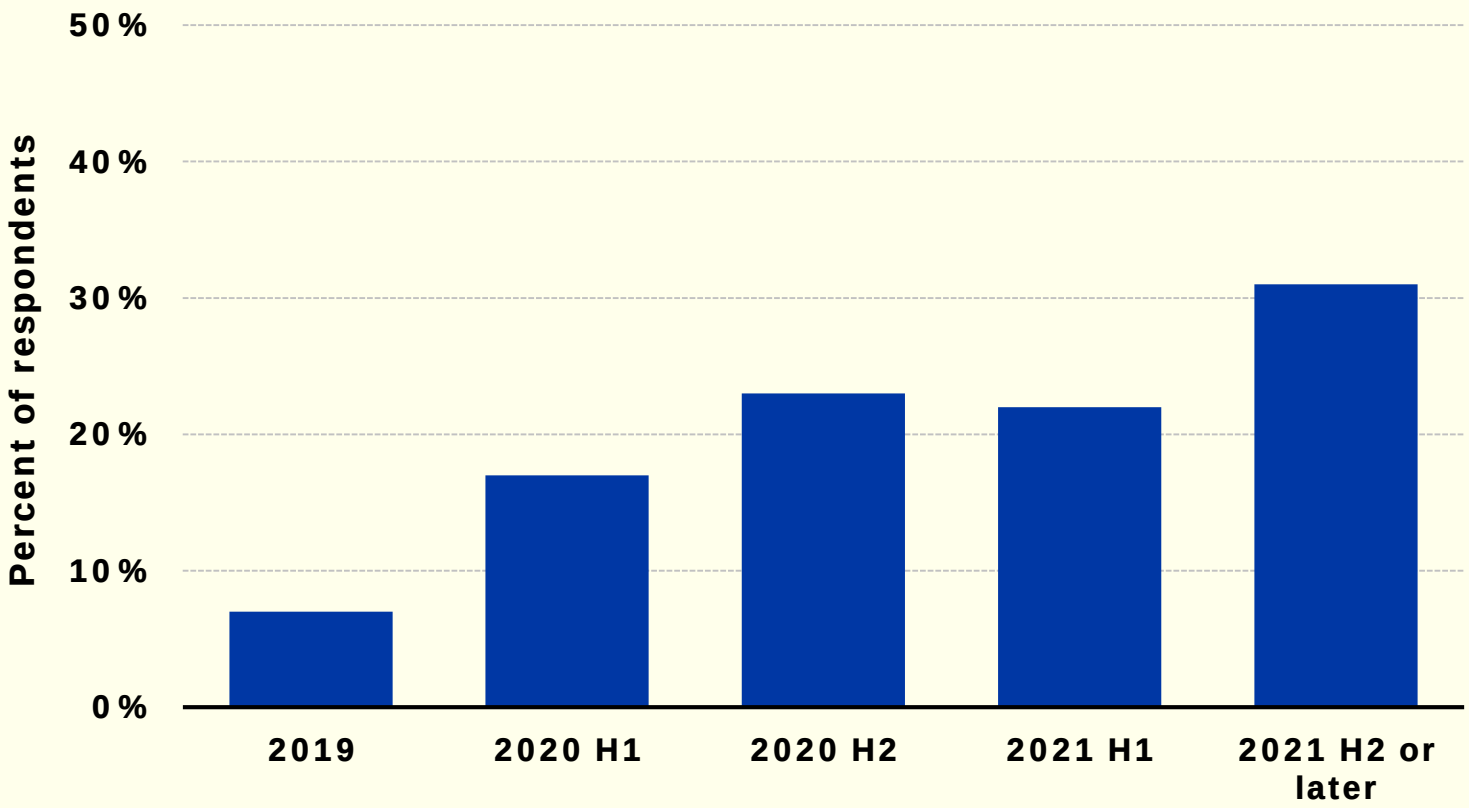
Source: Organization for Economic Cooperation and Development, data through July 2019

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



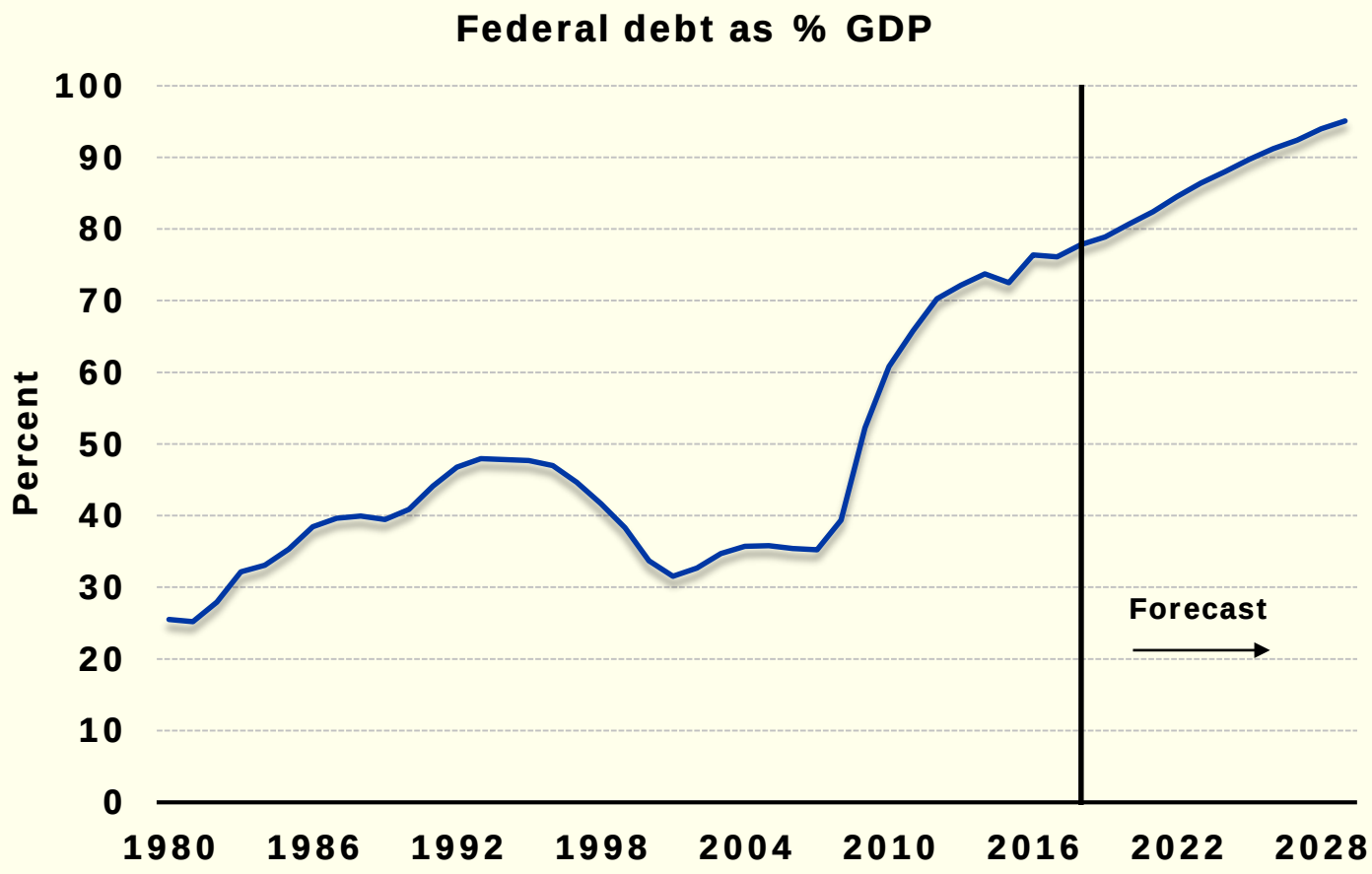
Source: Federal Reserve Bank of St. Louis, data through August 2019

Timing of next recession: National Association of Business Economists survey



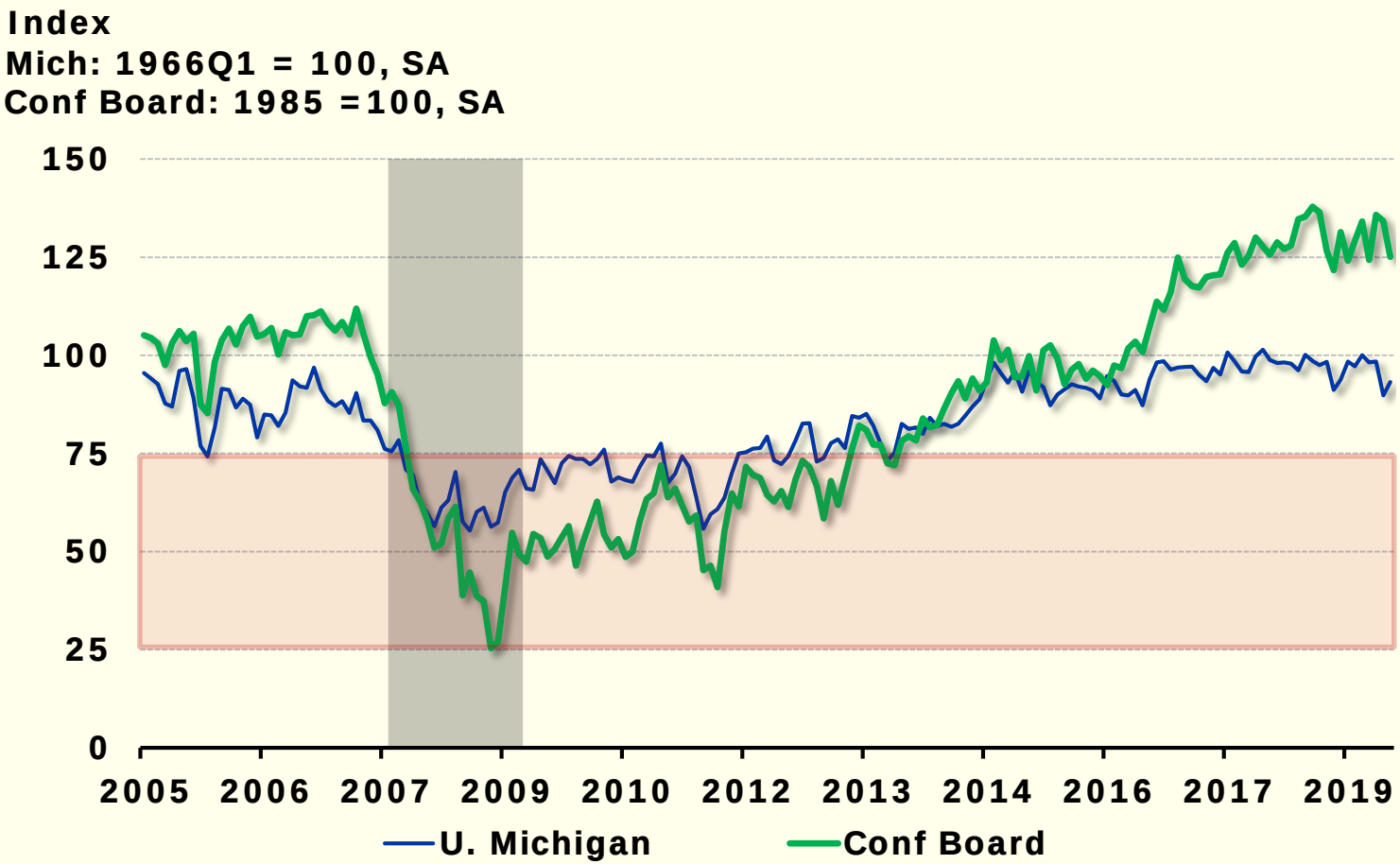
Source: National Association of Business Economists, Oct. 2019 Outlook Survey

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



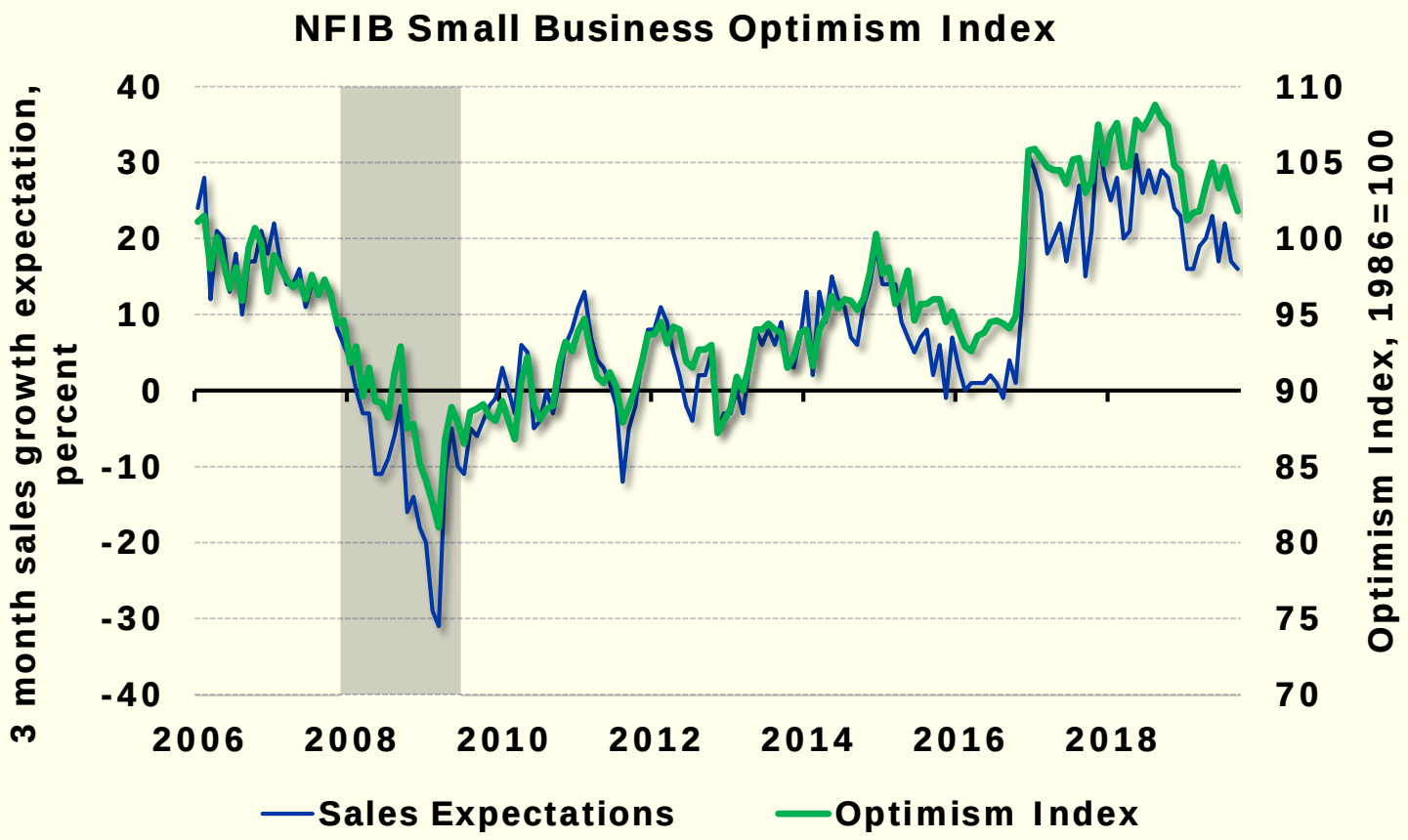
Source: Congressional Budget Office, Update to Budget and Economic Outlook Aug. 2019, historic data through 2018

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



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

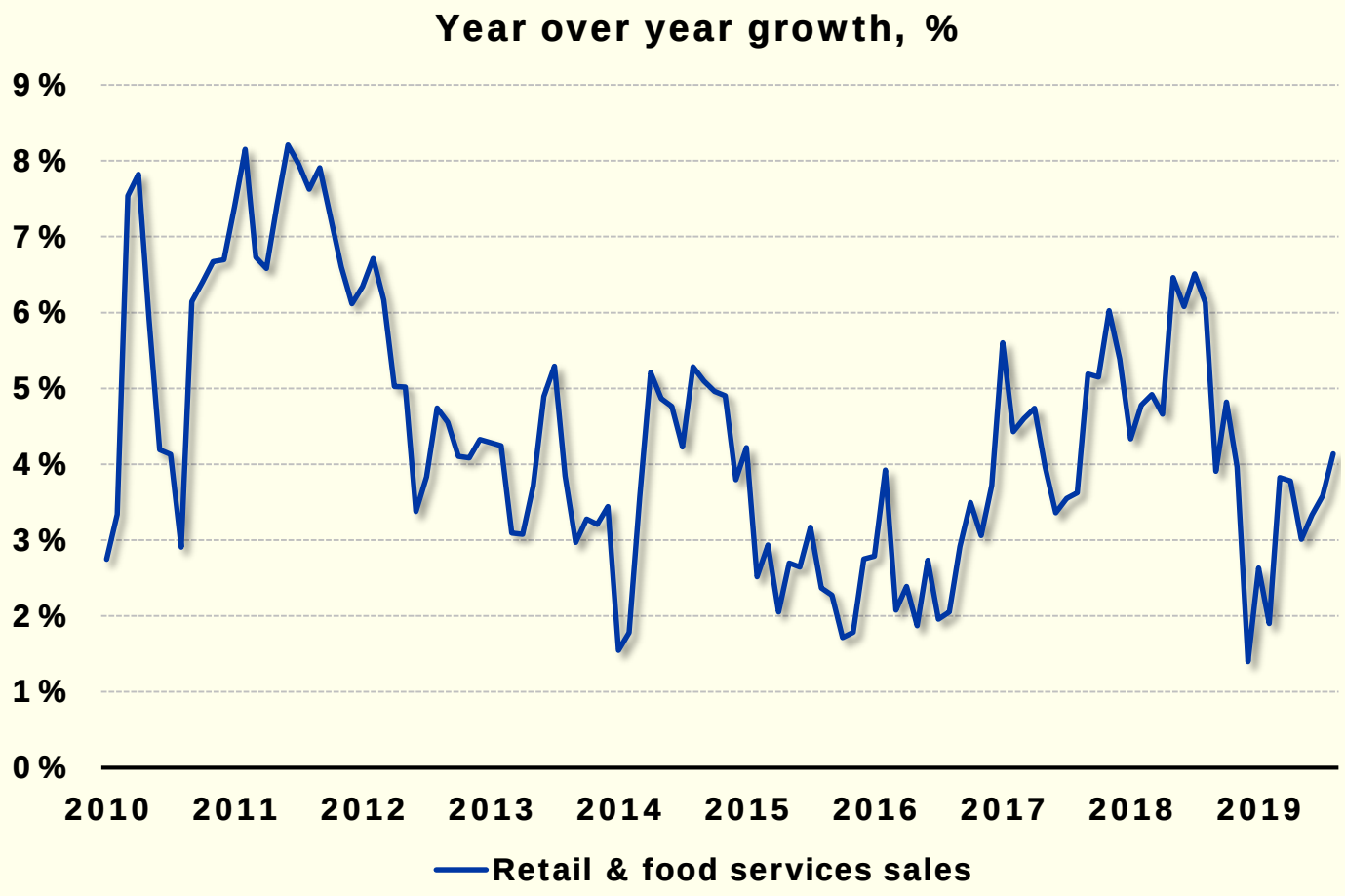
Small business optimism has declined but remains historically high



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

U.S. retail sales have trended upward in 2019

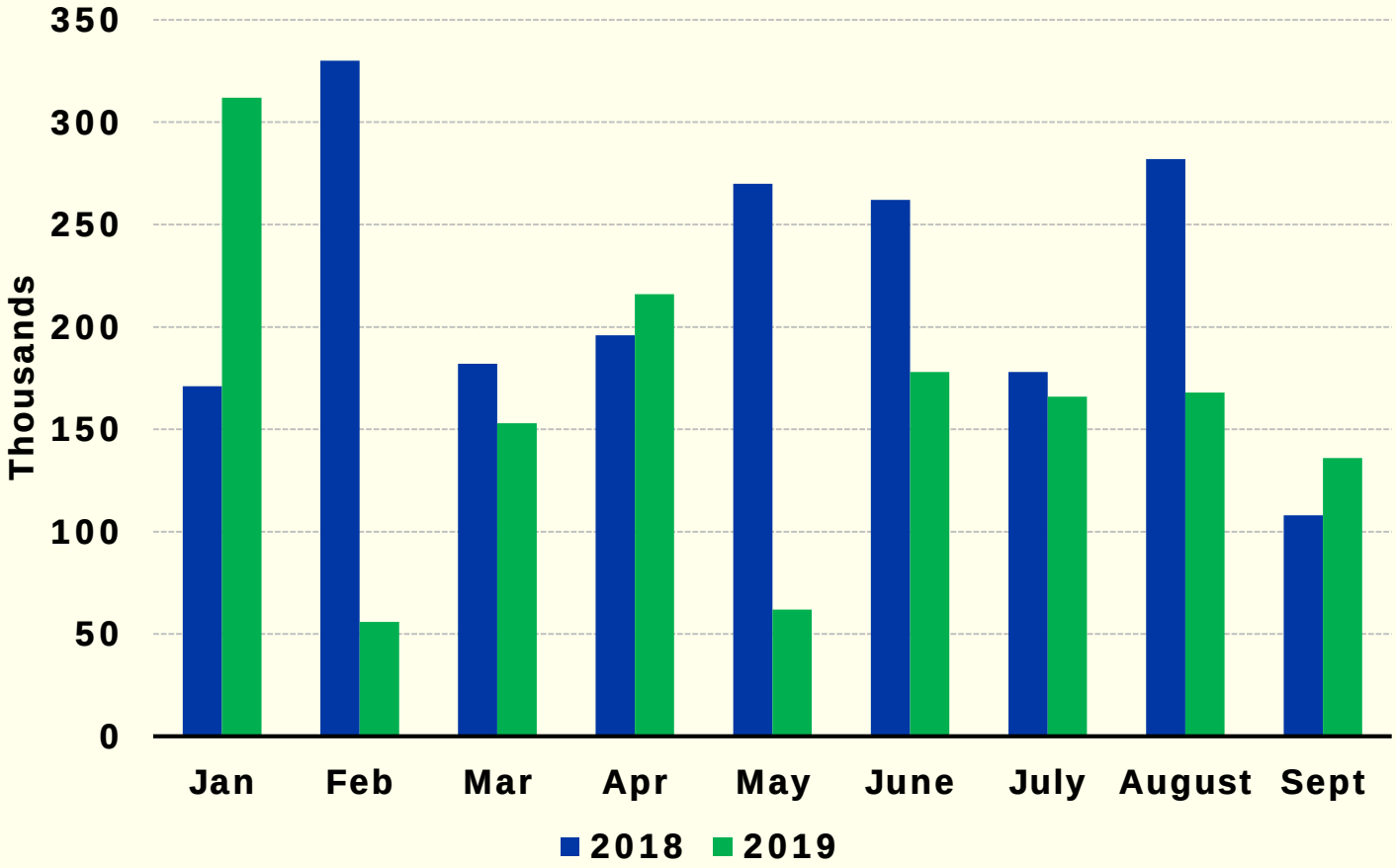
August retail sales grew by 0.4% over July



Source: U.S. Census Bureau data through August 2019 advanced release

U.S. employment change, January through September 2018 and 2019

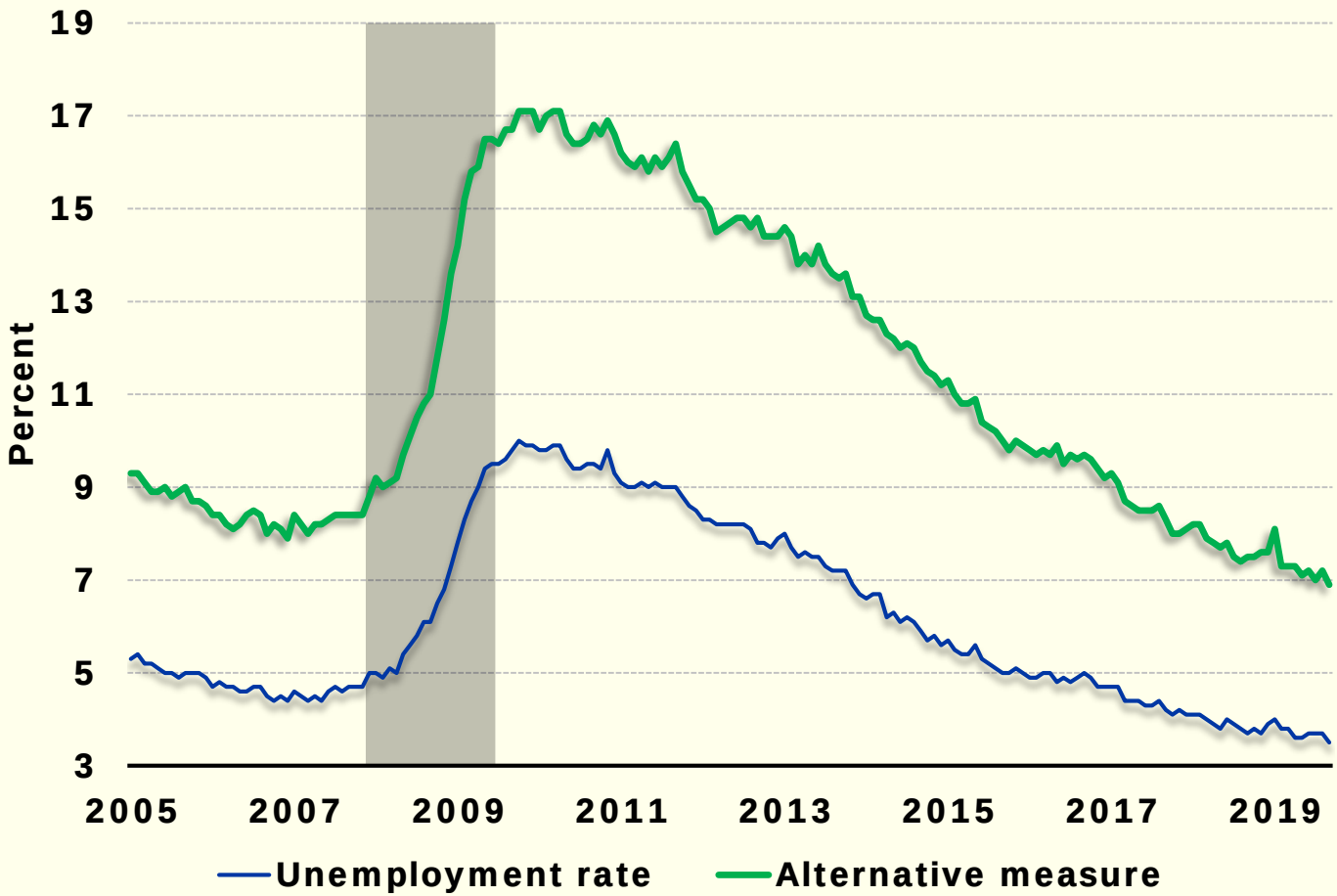
Monthly employment growth in 2019 YTD has averaged 59,000 fewer jobs than for the same period last year.



Source: U.S. Bureau of Labor Statistics, monthly data through Sept. 2019

U.S. unemployment rates remain low

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

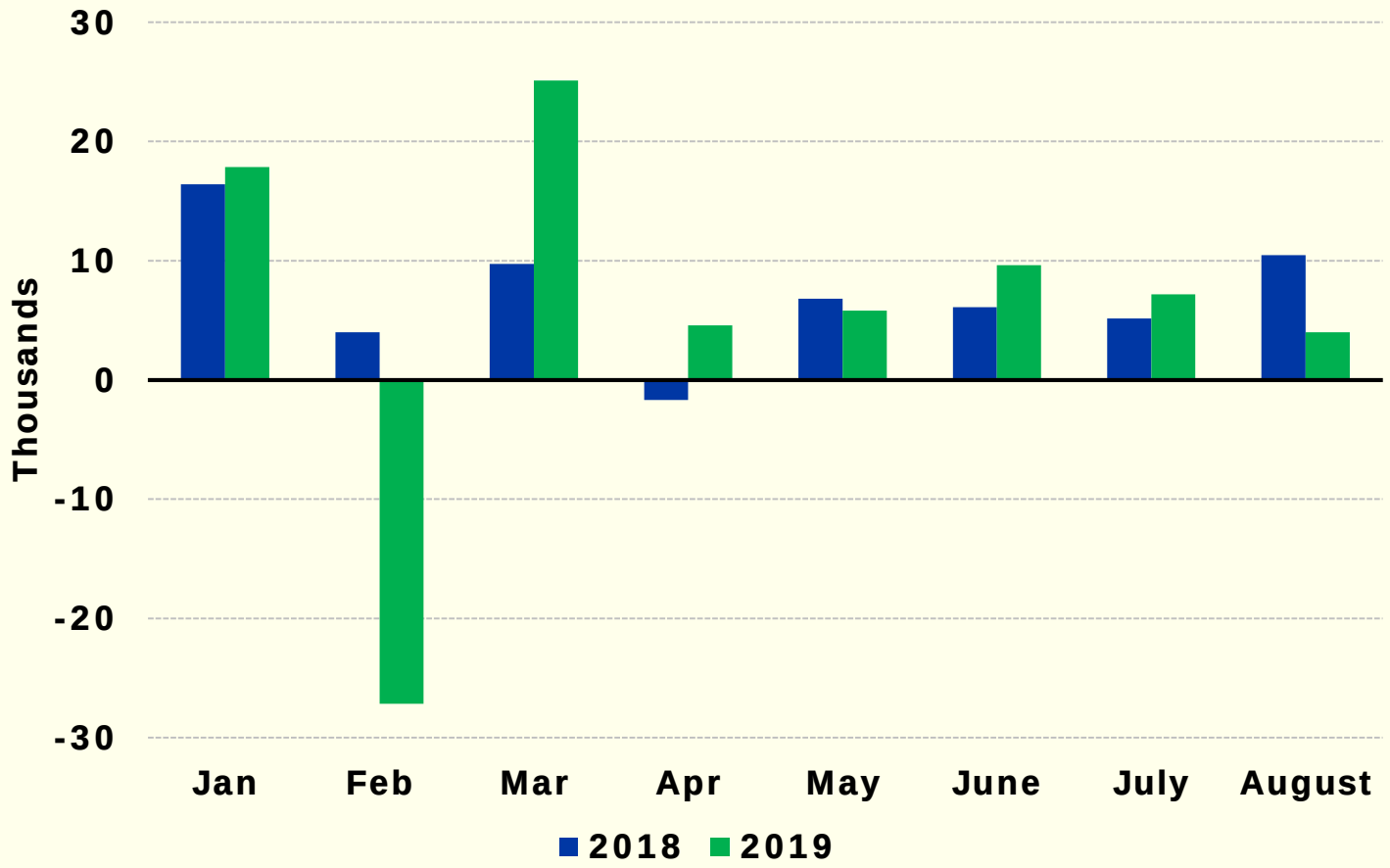


Sources: U.S. Bureau of Labor Statistics; data through Sept. 2019

WA employment change, January through August 2018 and 2019

WA employment does not show an obvious trend compared to 2018.

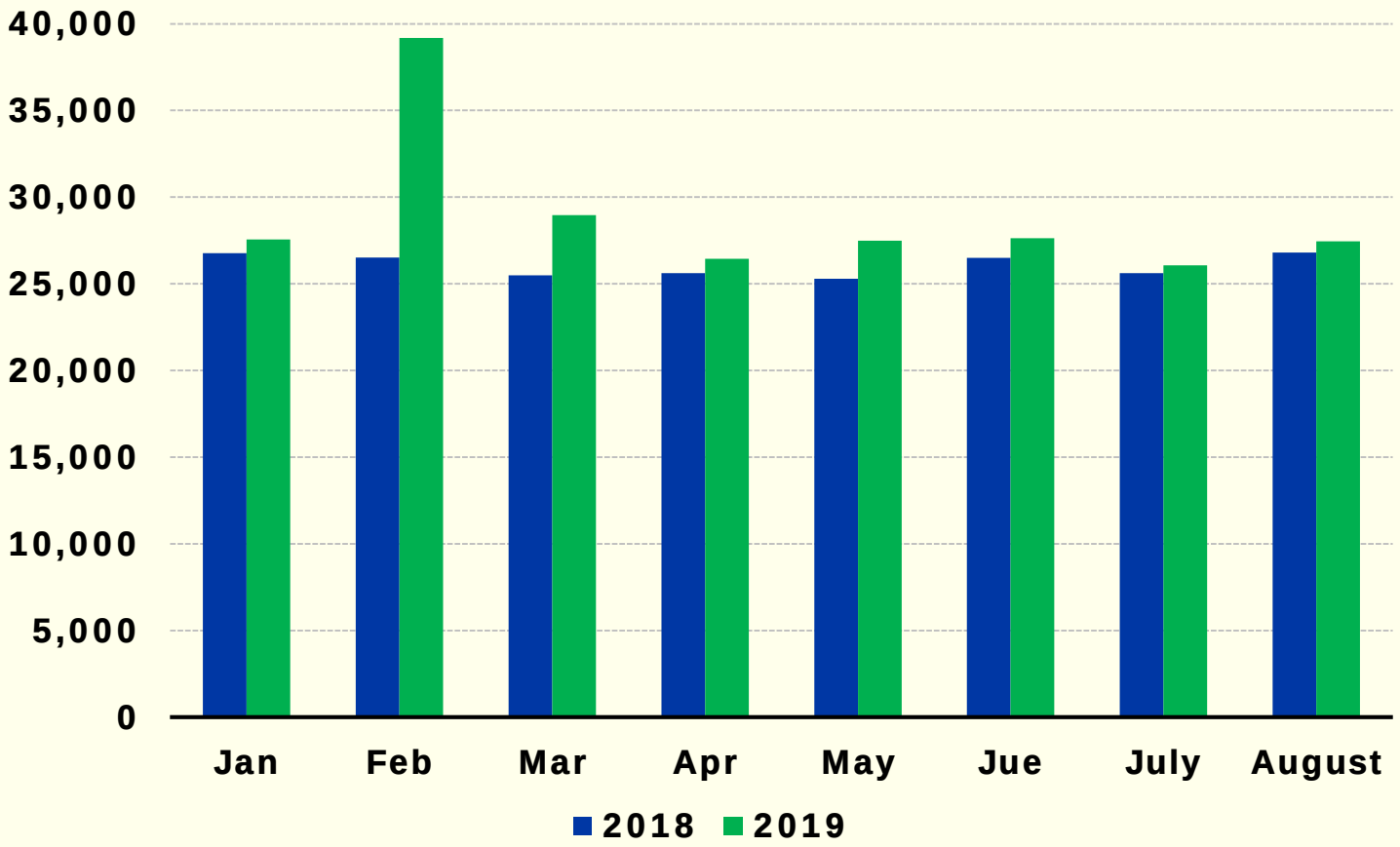
Feb. 2019 employment was impacted by severe weather.



Source: Employment Security Dept., ERFC; monthly data through August 2019

WA Initial Unemployment Insurance claims, Jan. – Aug. 2018 and 2019

WA initial UI claims are higher every month in 2019 compared to 2018 but differences are small with exception of February which was affected by severe weather.

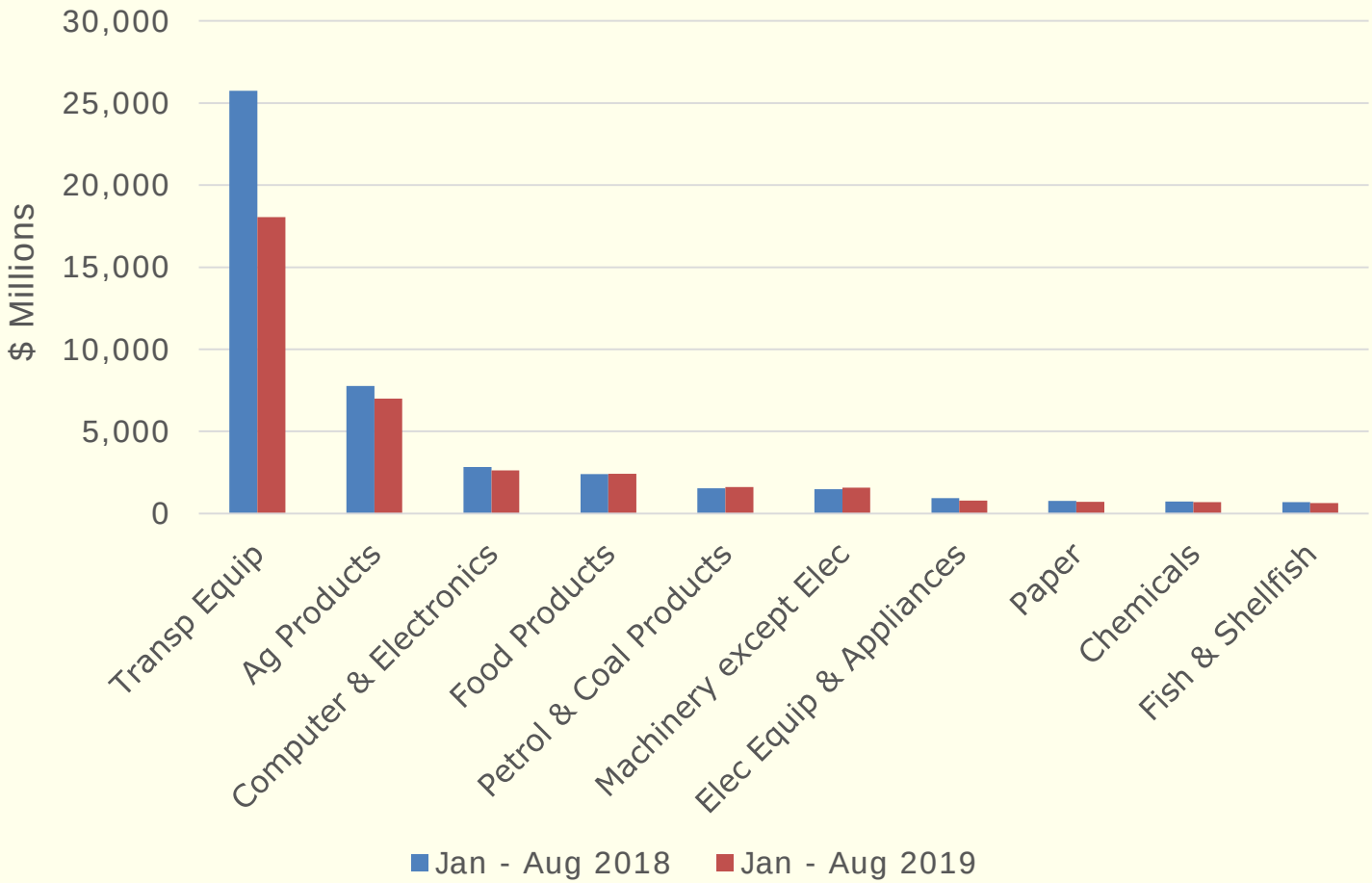


Source: Employment Security Dept.; monthly data through August 2019

So far this year, WA exports are down in many sectors

WA export growth, Jan-Aug 2018 to Jan-Aug 2019:

Transp Equip: -30%
Ag Products: -10%
Computer & Electronics: -8%
Food Products: +1%
Petrol & Coal: +6%
Mach ex Elec: +6%
Elec Equip & Appliances: -17%
Paper: -6%
Chemicals: -4%
Fish & Shellfish: -8%



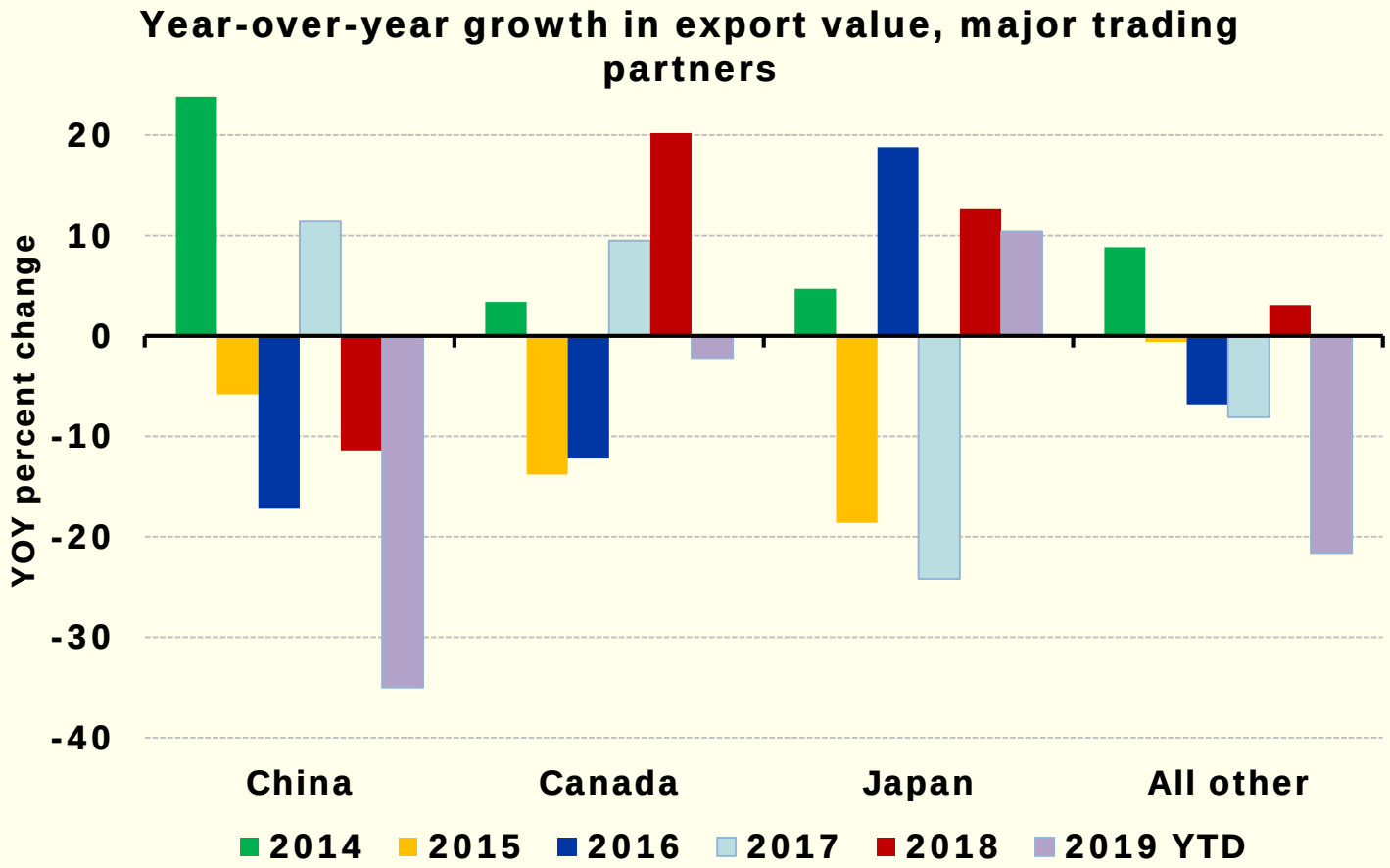
Source: WISERTrade, data through Aug. 2019

Largest WA export declines: detailed industry (4 digit NAICS): Jan-Aug 2019 compared to Jan-Aug 2018

INDUSTRY	$ millions
Aerospace Products & Parts	-7,916
Oilseeds & Grains	-665
Communications Equipment	-187
Timber & Logs	-137
Fruits & Tree Nuts	-131
Waste & Scrap	-107
Household Appliances & Misc Machines	-93
Semiconductors & Other Electronic Components	-82
Sawmill & Wood Products	-62
Oil & Gas	-59
Fish & Other Marine Products	-57
Electrical Equipment & Components	-49
Miscellaneous Manufactured Commodities	-47
Industrial Machinery	-39
Iron & Steel & Ferroalloy	-38

Source: WISERTrade, data through Aug. 2019

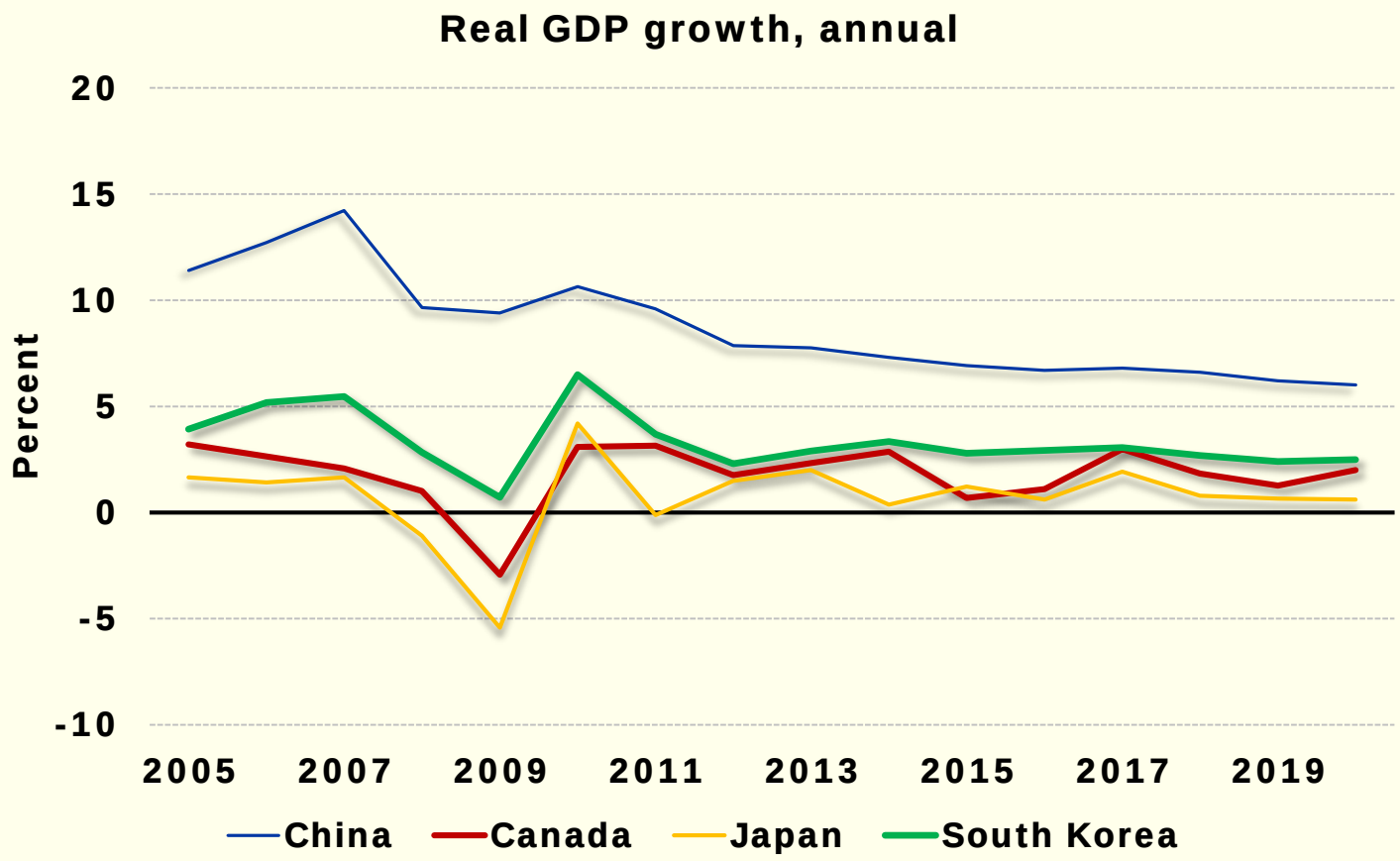
So far this year, WA exports to Japan are up but exports to China, Canada are down



Source: WISERTrade; data through August 2019

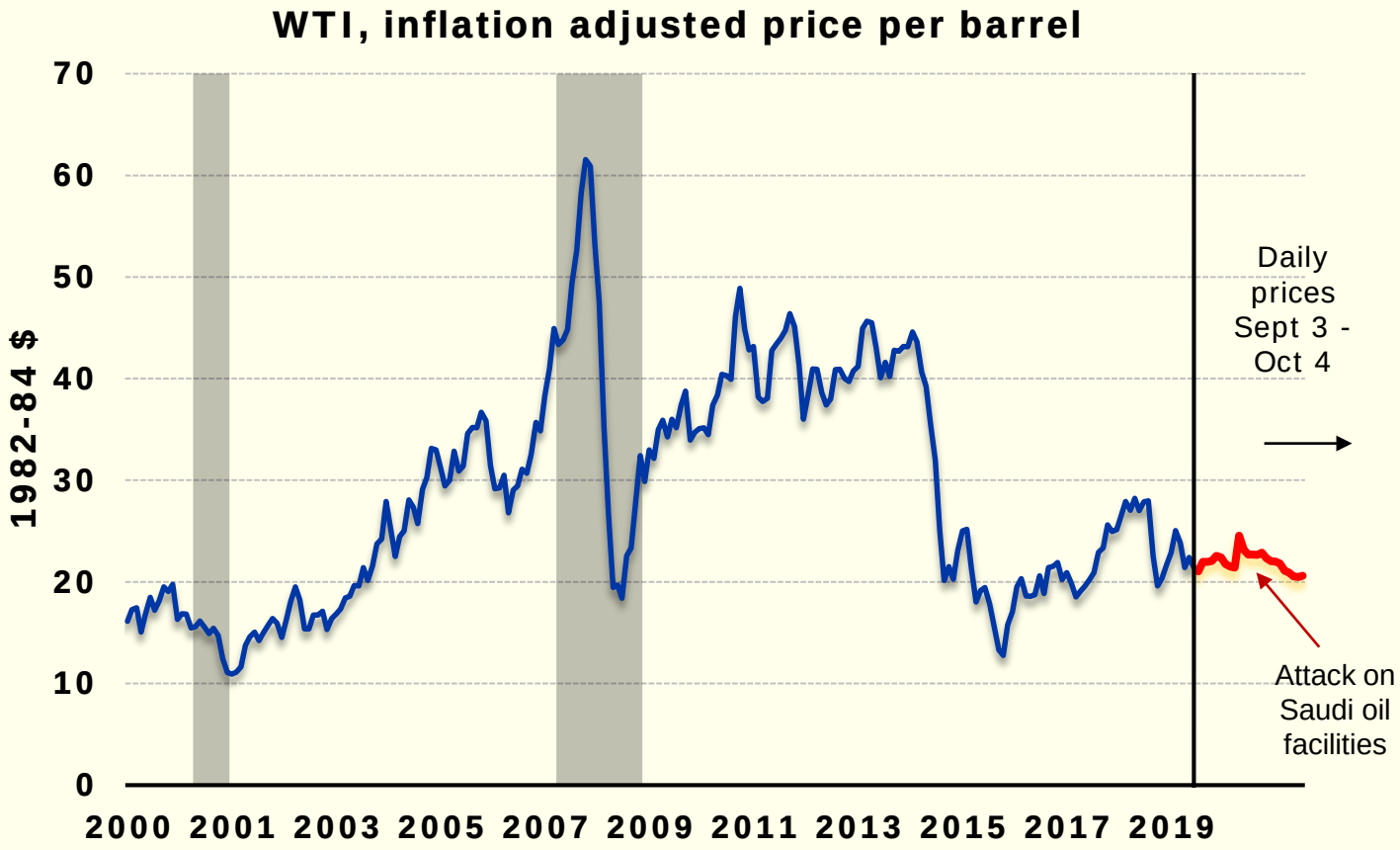
Washington's major trading partners are expected to have flat to slowing growth in 2019 and 2020

Since May, the OECD has revised down its 2019 and 2020 global GDP forecasts, in part due to trade and political tensions.



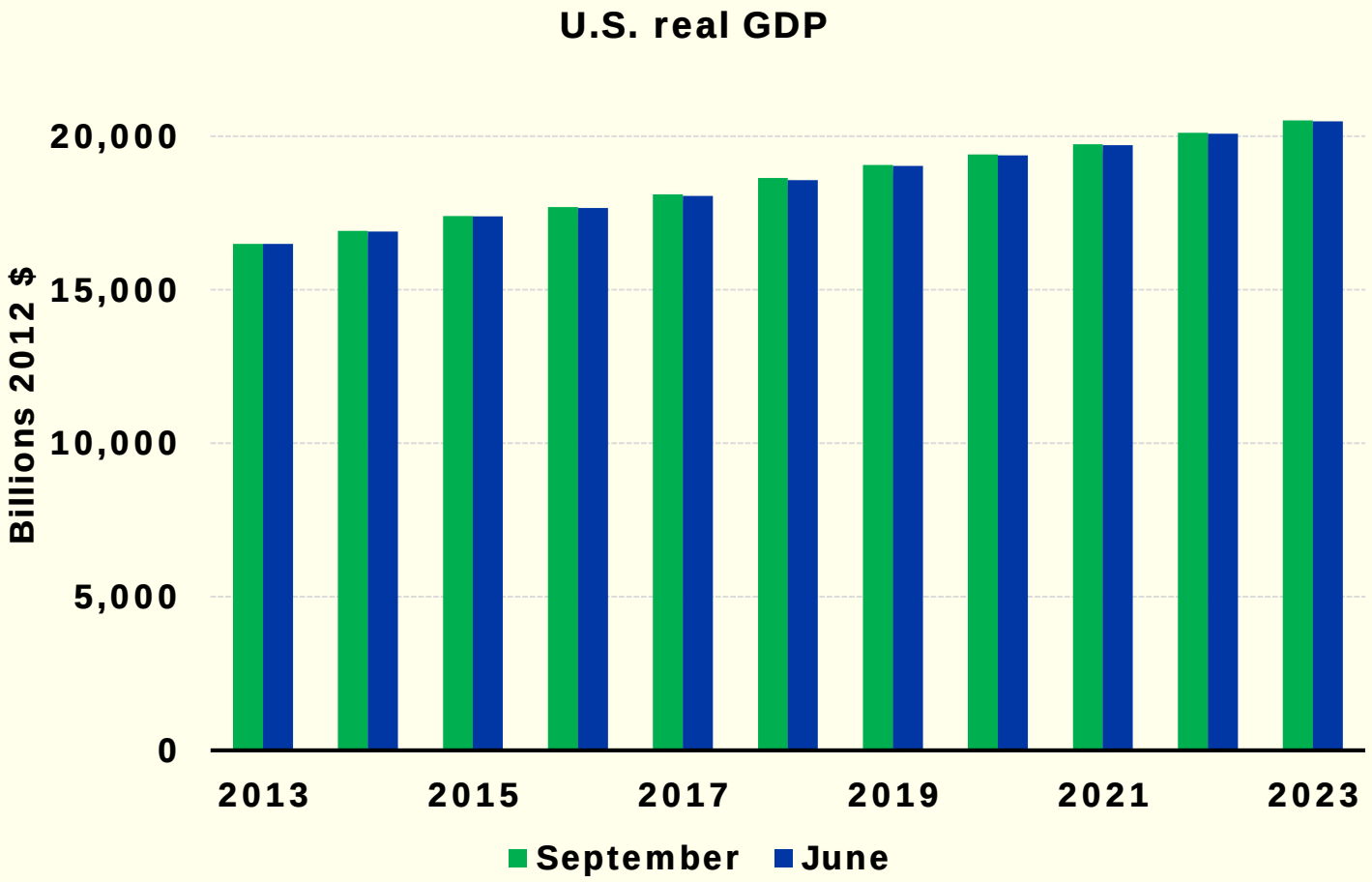
Source: OECD, Interim Economic Outlook, Sept. 2019; actual data through 2018

Oil prices adjusted for inflation remain low even after increases due to attack on Saudi oil facilities



Source: U.S. Dept. of Energy, U.S. Bureau of Labor Statistics; monthly spot prices through Aug. 2019, daily spot prices Sept. 3 – Oct. 4

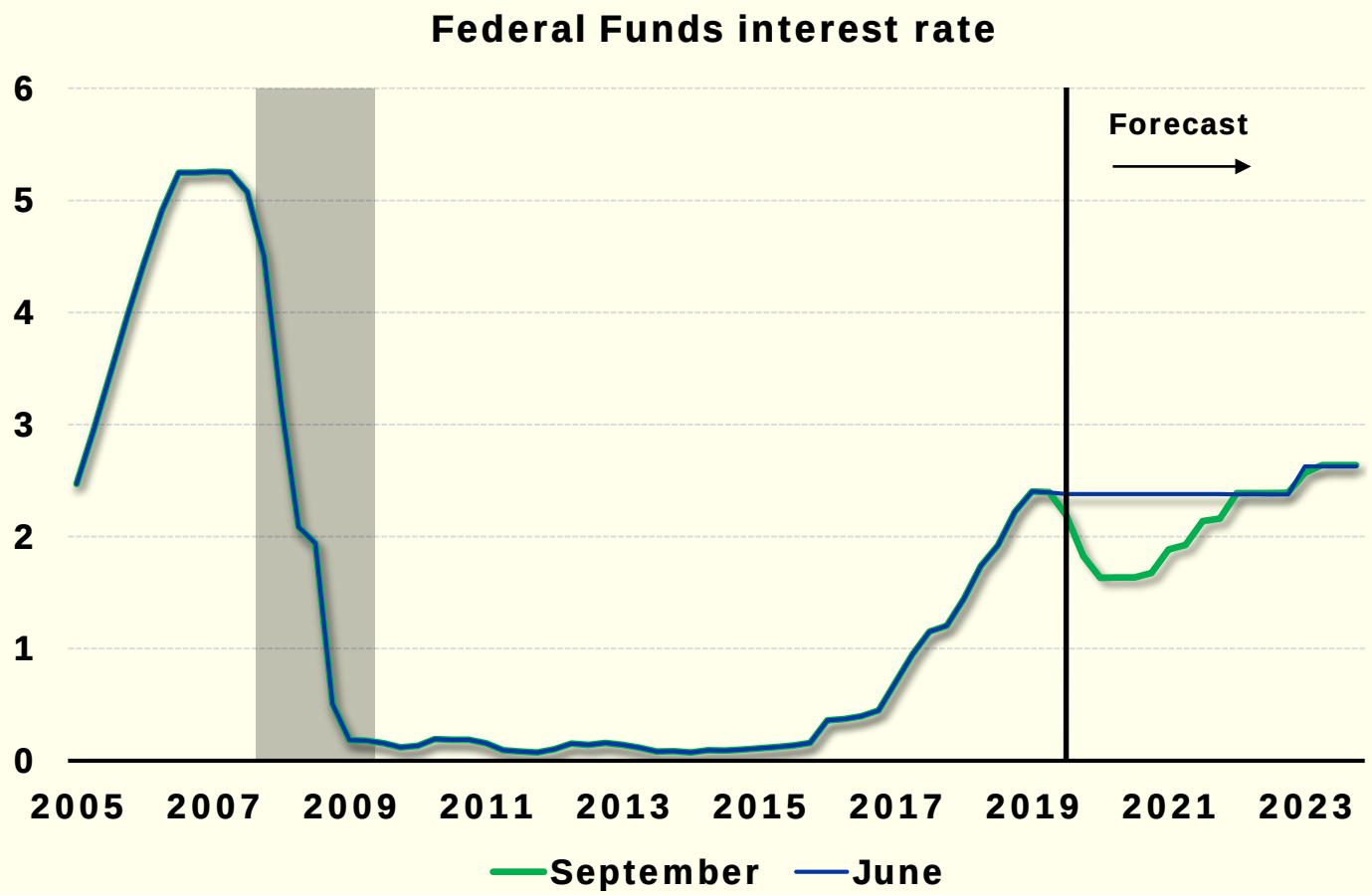
GDP is very similar to the June forecast



Source: ERFC September 2019 forecast; historical data through 2018

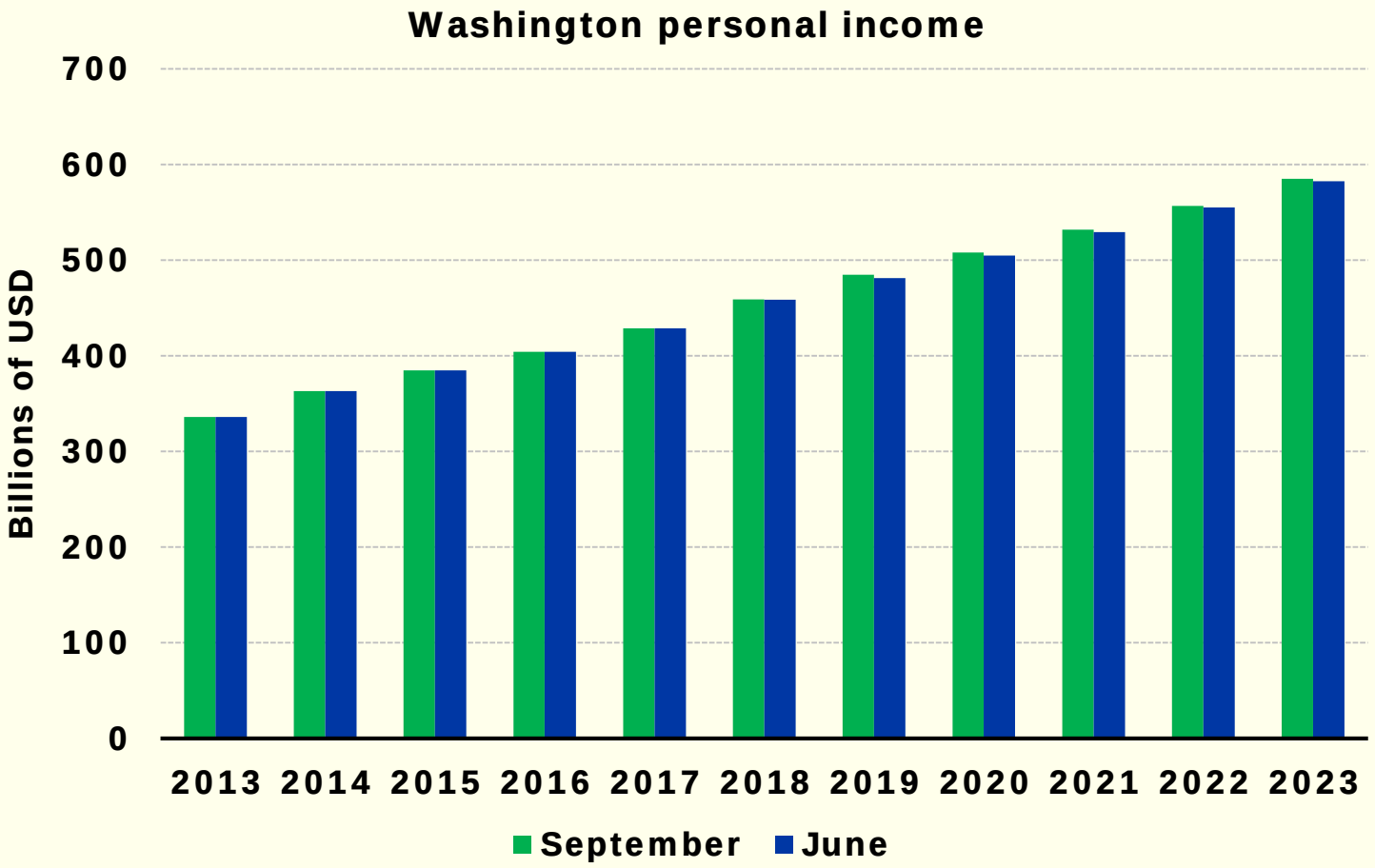
The September forecast includes three additional 0.25% Federal Funds rate cuts compared to June

This forecast incorporates the 0.25% rate cuts which occurred in July and September and assumes an additional 0.25% cut in December.



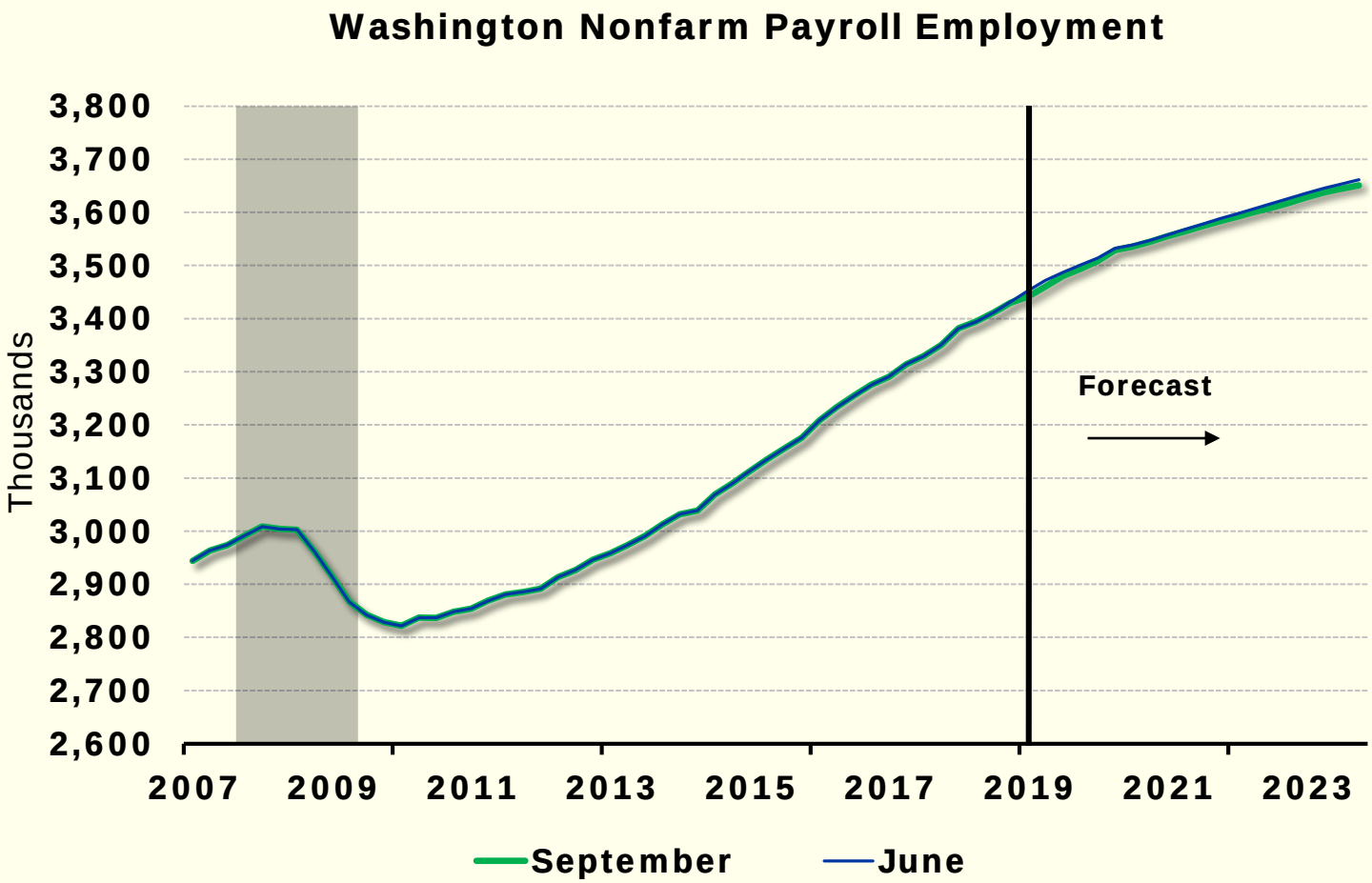
Source: ERFC September 2019 forecast; historical data through 2019 Q3

Washington personal income is slightly higher than in June



Source: ERFC September 2019 forecast; historical data through 2018

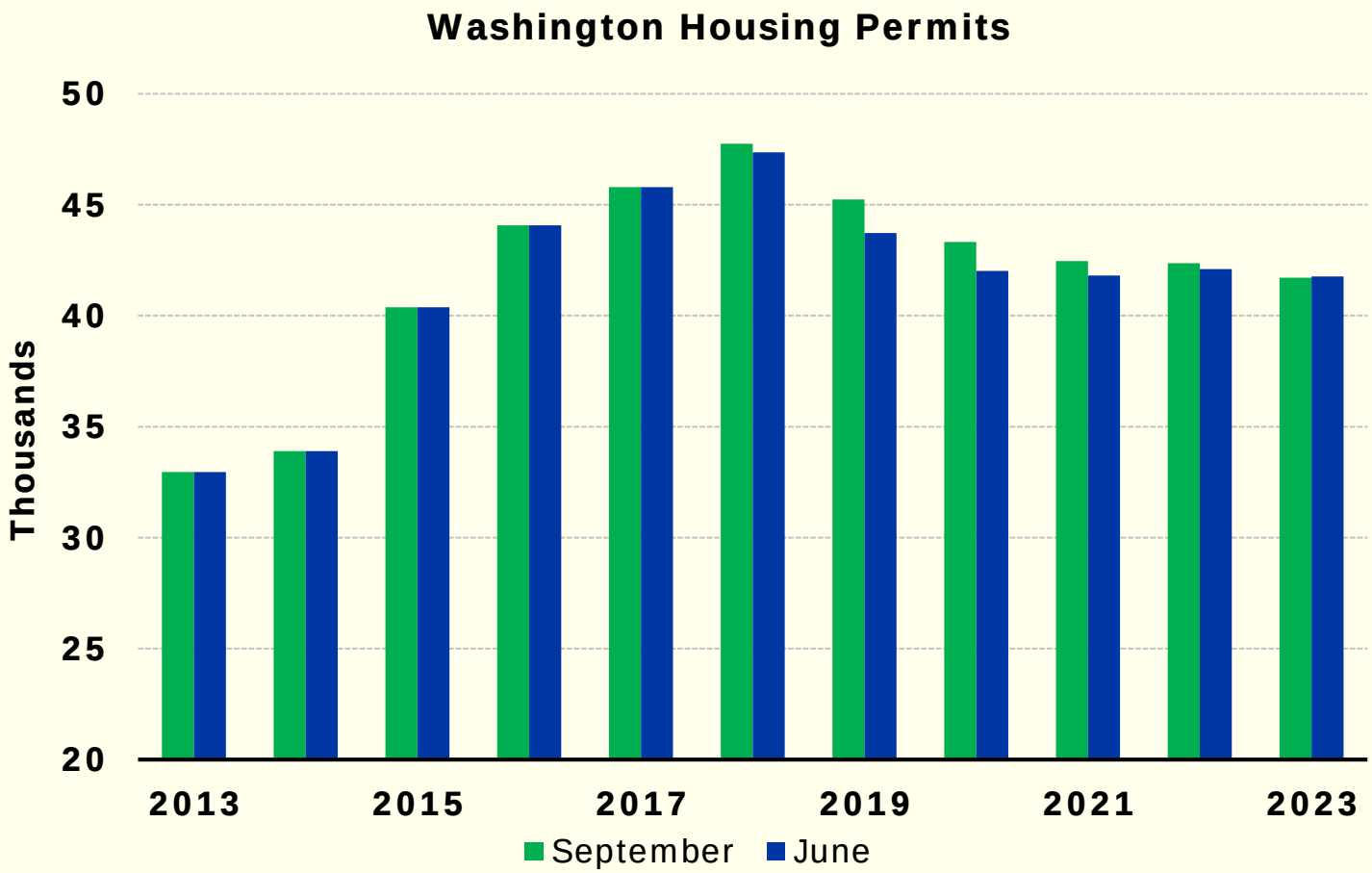
Washington employment forecast is nearly unchanged from June



Source: ERFC September 2019 forecast; historical data through Q2 2019

Washington housing permits forecast slightly higher compared to June

The slight forecast increase is due to stronger than expected multi-family permits since the June forecast.

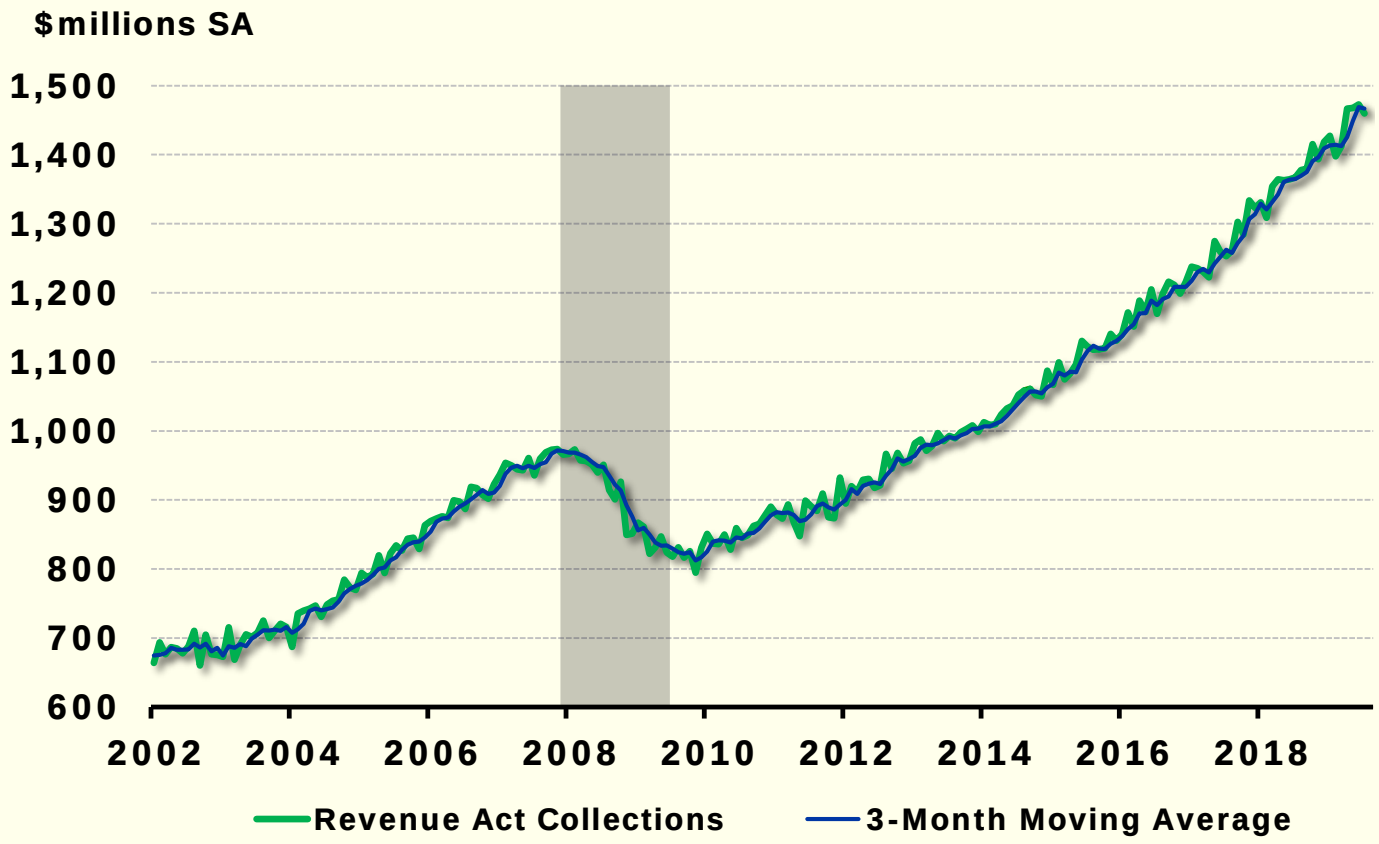


Source: ERFC September 2019 forecast; historical data through 2018

Seasonally adjusted Revenue Act growth increased in the second quarter

Adjusted collections for second quarter activity grew at 8.1% year over year after 5.6% growth in the first quarter.

$75.7 million of the YOY increase came from higher remittances (payments for activity outside of the quarter). Adjusted for these, YOY Q2 growth would have been 6.3%.

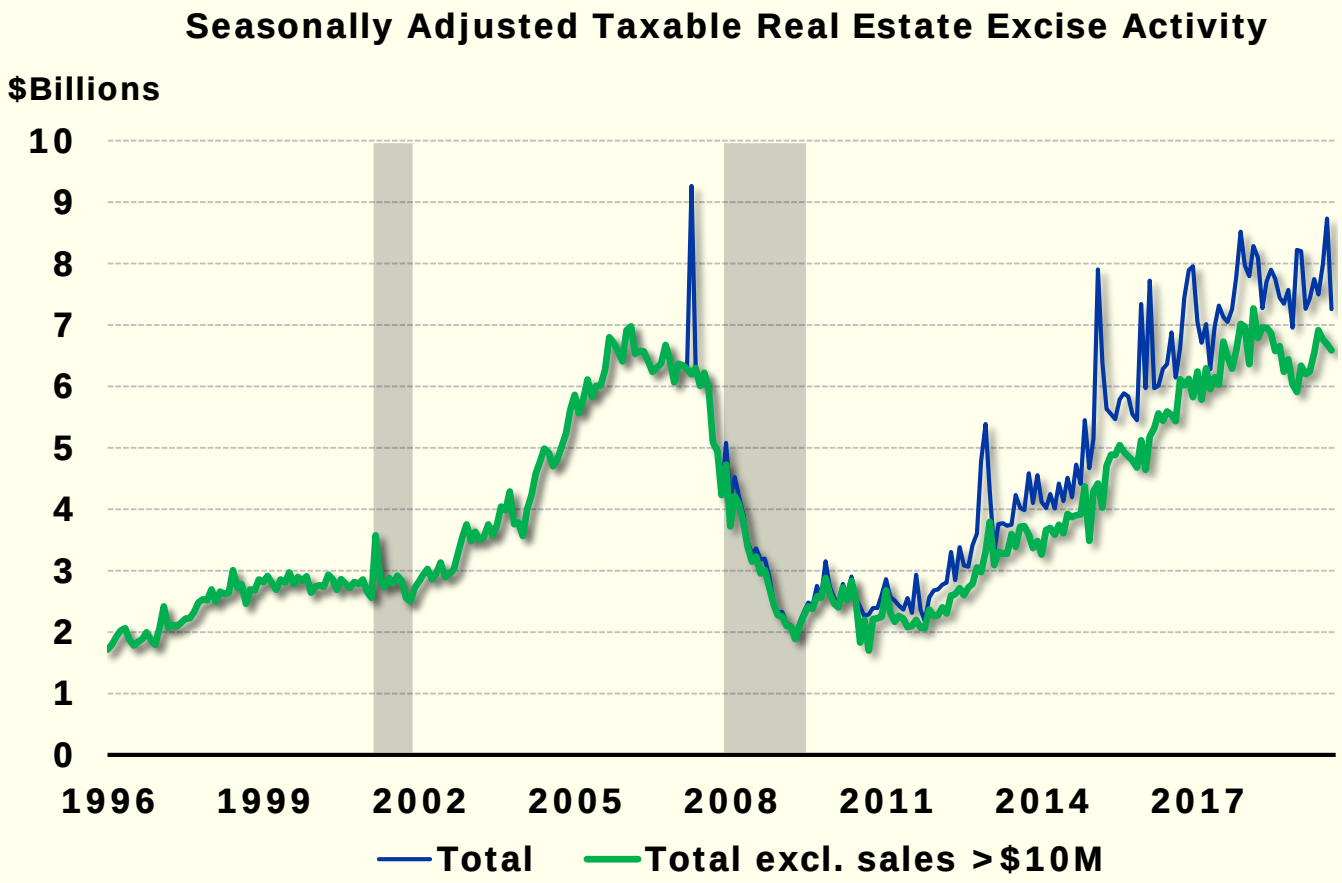


* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act
Source: DOR and ERFC; monthly data through July 2019 activity

Taxable REET activity strong but leveling off

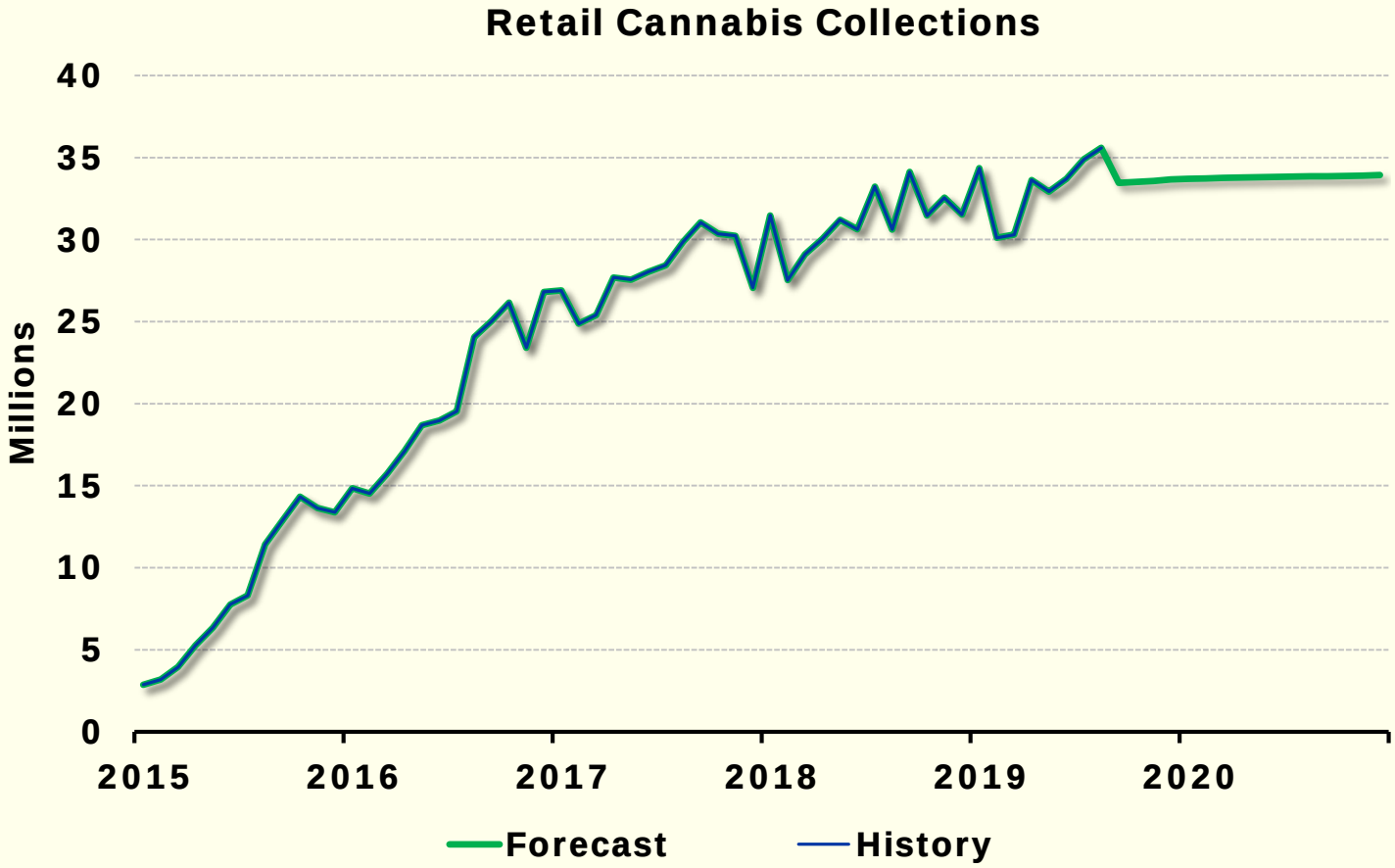
Large commercial sales (>$10 million) fell to $670 million in August after a $2 billion spike in July but could spike again to beat REET rate increase that takes effect January 1, 2020.

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



Source: ERFC; Monthly data through August 2019

Cannabis revenue growth is expected to moderate



Source: ERFC September 2019 forecast; historical data through August 2019

Cannabis excise tax and license fee estimates

Total change since June forecast:

- 2017-19 +$0.0M
- 2019-21 +$24.9M
- 2021-23 +$20.2M

$Millions	**Cannabis Forecast**		
	2017-19	**2019-21**	**2021-23**
GF-S share of excise tax and license fees	$249	$279	$294
Non-GF	$503	$546	$563
Total	**$752**	**$826**	**$858**

Detail may not add to total due to rounding
Source: ERFC September 2019 forecast; historical data through August 2019

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

$84 million of the statutory transfer of GF-S property tax into the Education Legacy Trust Account occurred in FY20 on a cash basis instead of in FY19 as forecasted.

The transfer still accrued to FY19 on a GAAP basis.

$Millions	June 2019 Forecast*	Non-economic Change**	Forecast Change	September 2019 Forecast	Total Change#
General Fund-State	$44,042	$84	$18	$44,144	$102
Education Legacy Trust Account	$1,734	($84)	$4	$1,654	($80)
WA Opportunity Pathways Account	$283	$0	$4	$288	$4
Total Near GF-S	**$46,059**	**$0**	**$27**	**$46,086**	**$27**

*Forecast for the 2017-19 biennium adopted June 25, 2019
**Transfer of GF-S property tax revenue to ELTA occurred in FY20 rather than FY19 as forecasted
Detail may not add to total due to rounding

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

$Millions	June 2019 Forecast*	Non-economic Change**	Forecast Change	September 2019 Forecast	Total Change#
General Fund-State	$49,804	($84)	$310	$50,030	$226
Education Legacy Trust Account	$899	$84	$135	$1,118	$219
WA Opportunity Pathways Account	$285	$0	$2	$286	$11
Total Near GF-S	**$50,988**	**$0**	**$447**	**$51,435**	**$447**

*Forecast for the 2019-21 biennium adopted June 25, 2019
** Transfer of property tax revenue to ELTA occurred in FY20 rather than FY19 as forecasted
# Detail may not add to total due to rounding

Workforce Education Investment Account

Millions	2019-21	2021-23	2023-25
B&O tax receipts	$380.0	$393.1	$451.3

- The Workforce Education Investment Account was established in the 2019 legislative session. The account is funded by a business and occupation tax surcharge on businesses in specified categories.
- The ERFC was tasked with forecasting B&O tax collections for the account in June 2019.
- The surcharge will take effect on January 1, 2020, with the first collections due on February 25, 2020. Until more data is available for forecasting purposes, we will continue to use the estimated revenue from the May 2019 fiscal note.

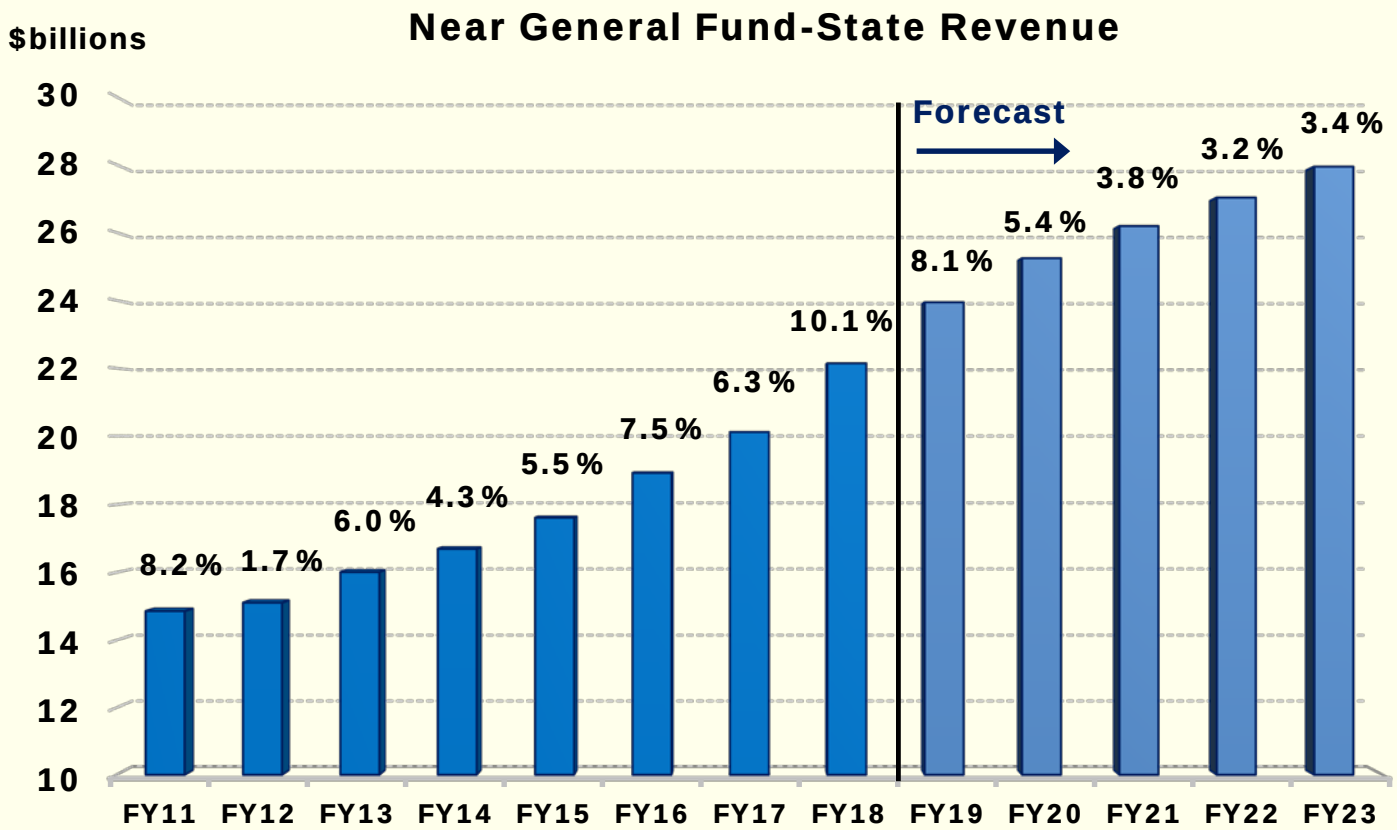
Source: Department of Revenue, 2158 2S HB PL Fiscal Note, May 2019

2019-21 Biennium alternative General Fund-State forecasts

$Millions (cash basis)	2019-21 Biennium	Difference From the baseline#
September 2019 Baseline (50%)	**$50,030**	
September 2019 Alternative Forecasts		
Optimistic (15%)	**$51,708**	**$1,678**
Pessimistic (35%)	**$48,037**	**($1,994)**
Probability Weighted Average	**$49,584**	**($446)**
GCEA*	**$50,063**	**$32**

*Based on the Governor's Council of Economic Advisors' economic assumptions
#May not add to total due to rounding

Near General Fund-State* forecast by fiscal year



*Near General Fund-State equals General Fund-State plus Education Legacy Trust and Washington Opportunities Pathway Accounts

Source: ERFC forecast, September 2019

Conclusion

- Economic forecasts are only slightly changed from June
- Washington's economy is continuing to outperform the nation but not as dramatically as in past
- Near GF-S revenues are expected to grow 18.0% between the 2015-17 and 2017-19 biennia and 11.6% 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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