

U.S. and Washington State Economic Outlook

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Forecast Summary

- The national economy continues to expand at a moderate pace.
- Job gains have remained solid even as the economy is at full employment.
- Consumer and business confidence are at cyclical highs.
- The housing market continues to improve.
- Washington State revenue collections are strong.
- Risks to the baseline include concerns about international trade, geopolitical risks and a maturing economic expansion.



Forecast risks

Upside

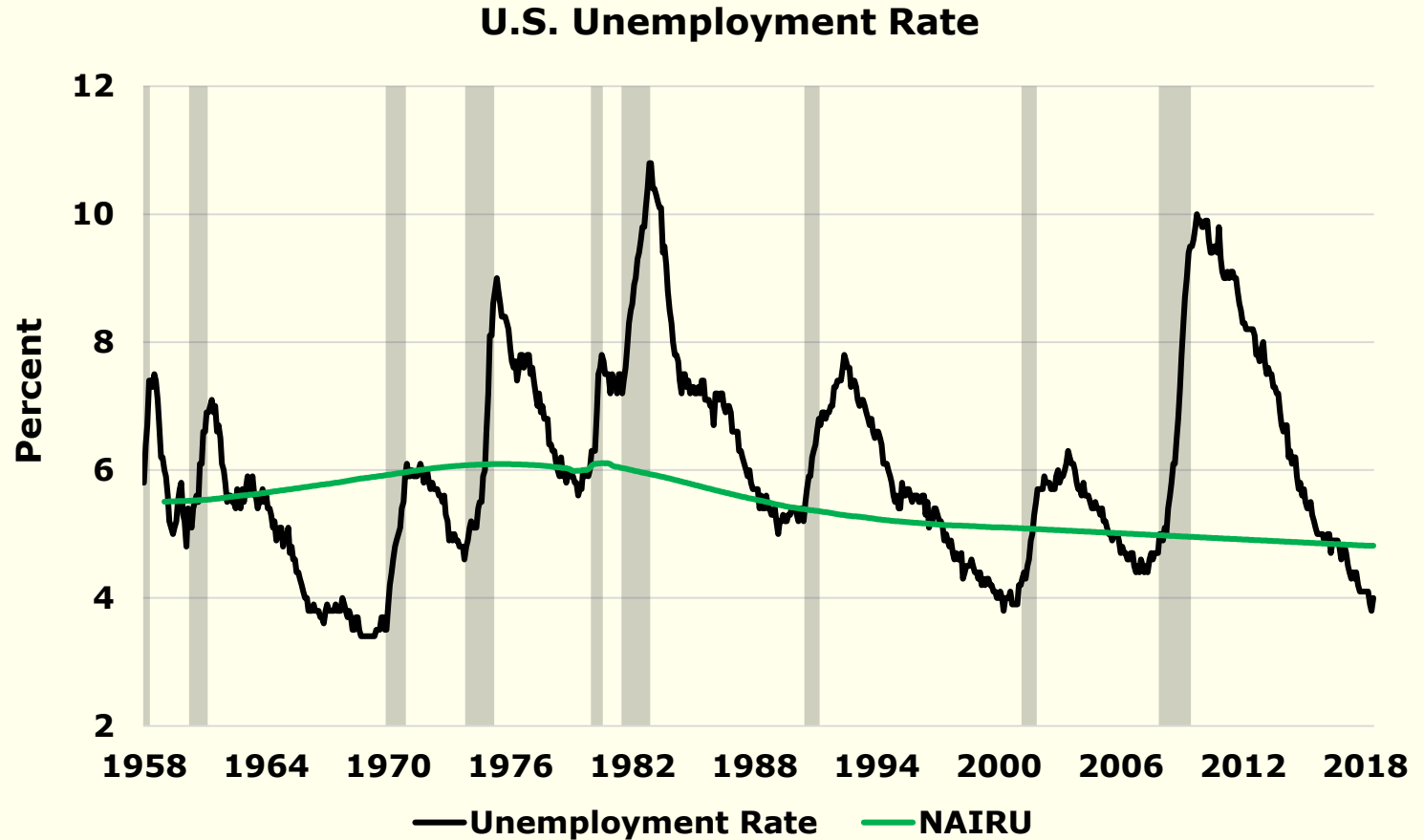
- Elevated consumer, business confidence could translate into stronger growth
- Stronger global economic growth

Downside

- International trade and fiscal policy uncertainty
- Geopolitical risks: North Korea, Russia, Iran, Venezuela, Europe
- Higher oil and gasoline prices
- Maturing economic expansion



The unemployment rate is near a 50-year low



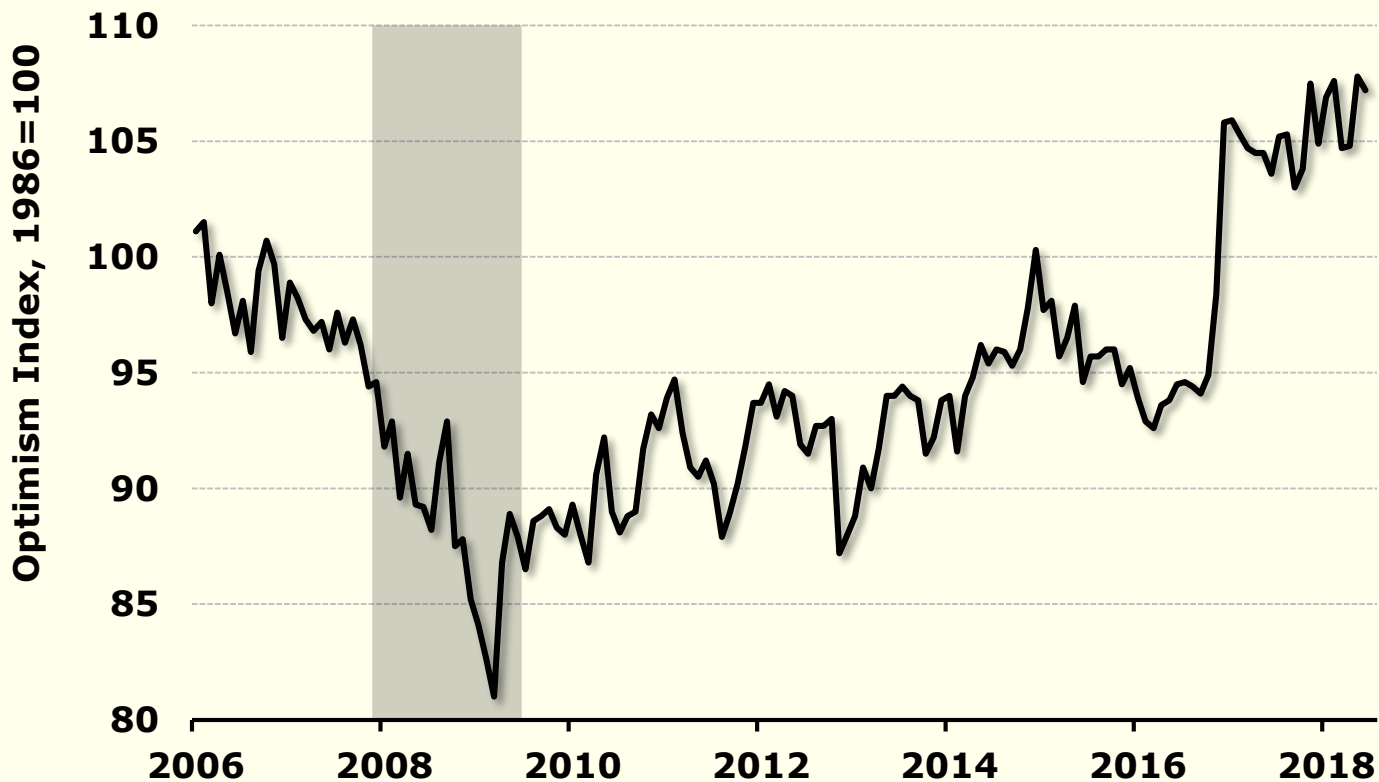
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September 12, 2018

Source: Bureau of Labor Statistics, data through June 2018



Small business optimism is near an all-time high

NFIB Small Business Optimism Index

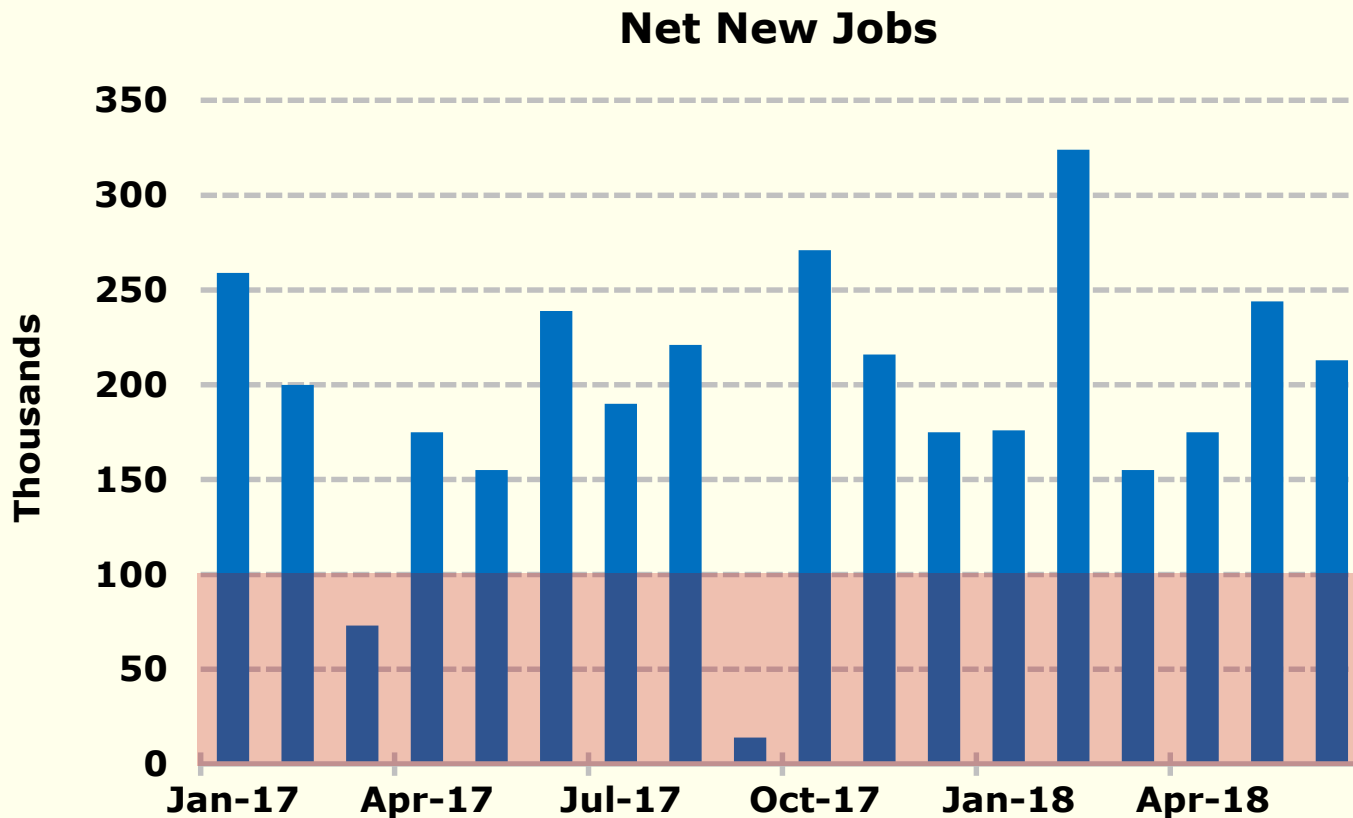


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Job growth remains strong

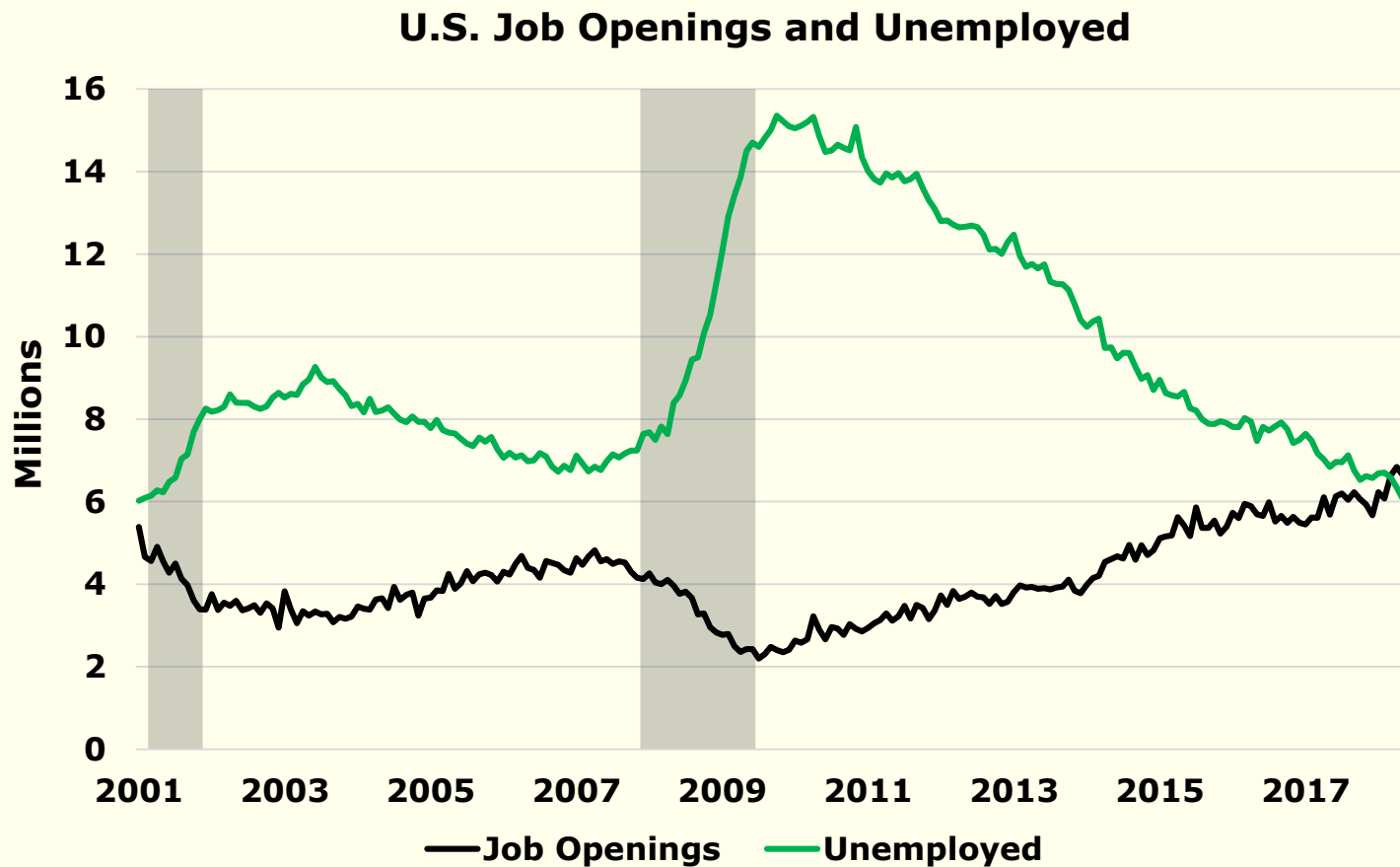
The economy needs to add roughly 100K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through June 2012

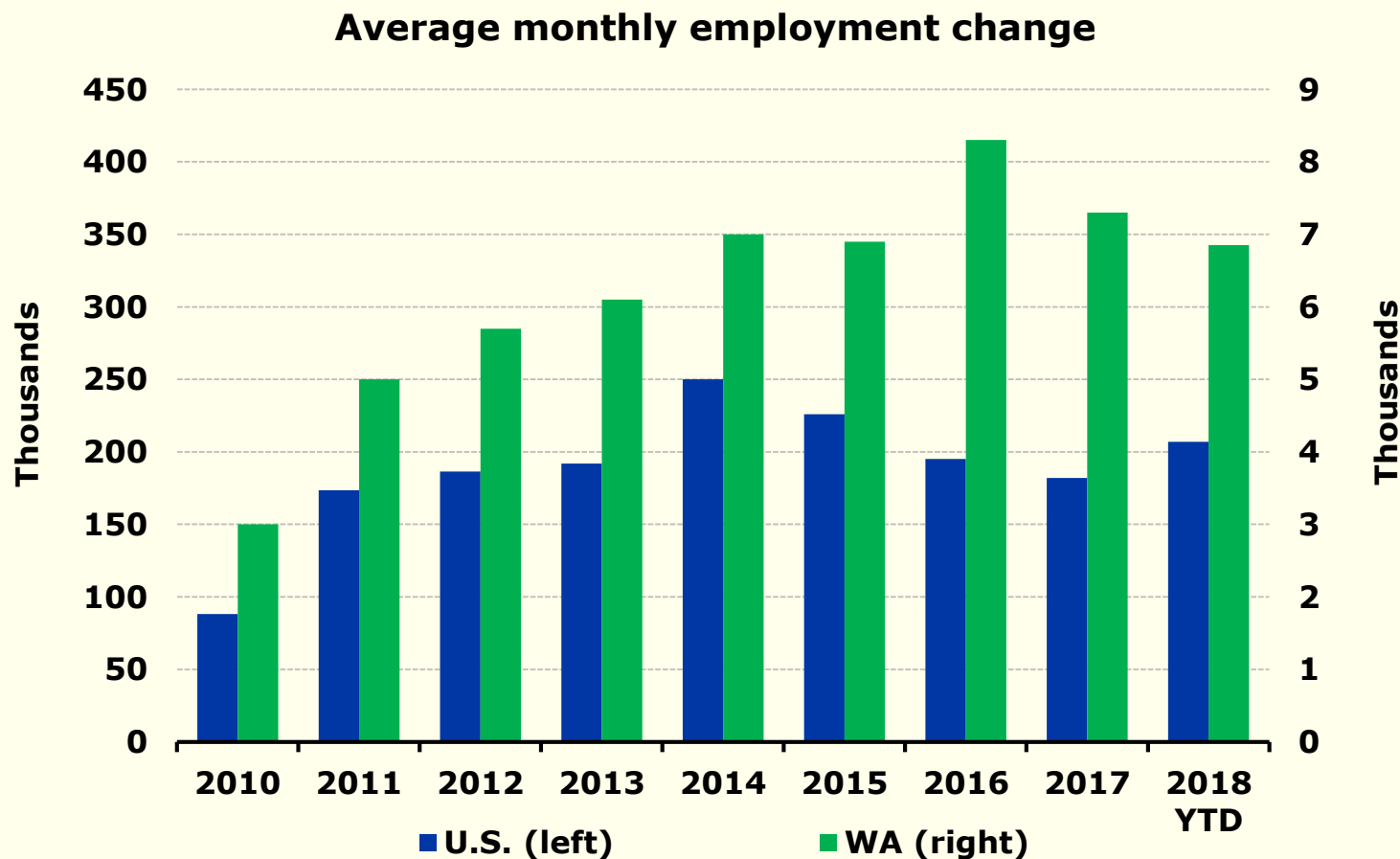


There are now more job openings than the number of people unemployed



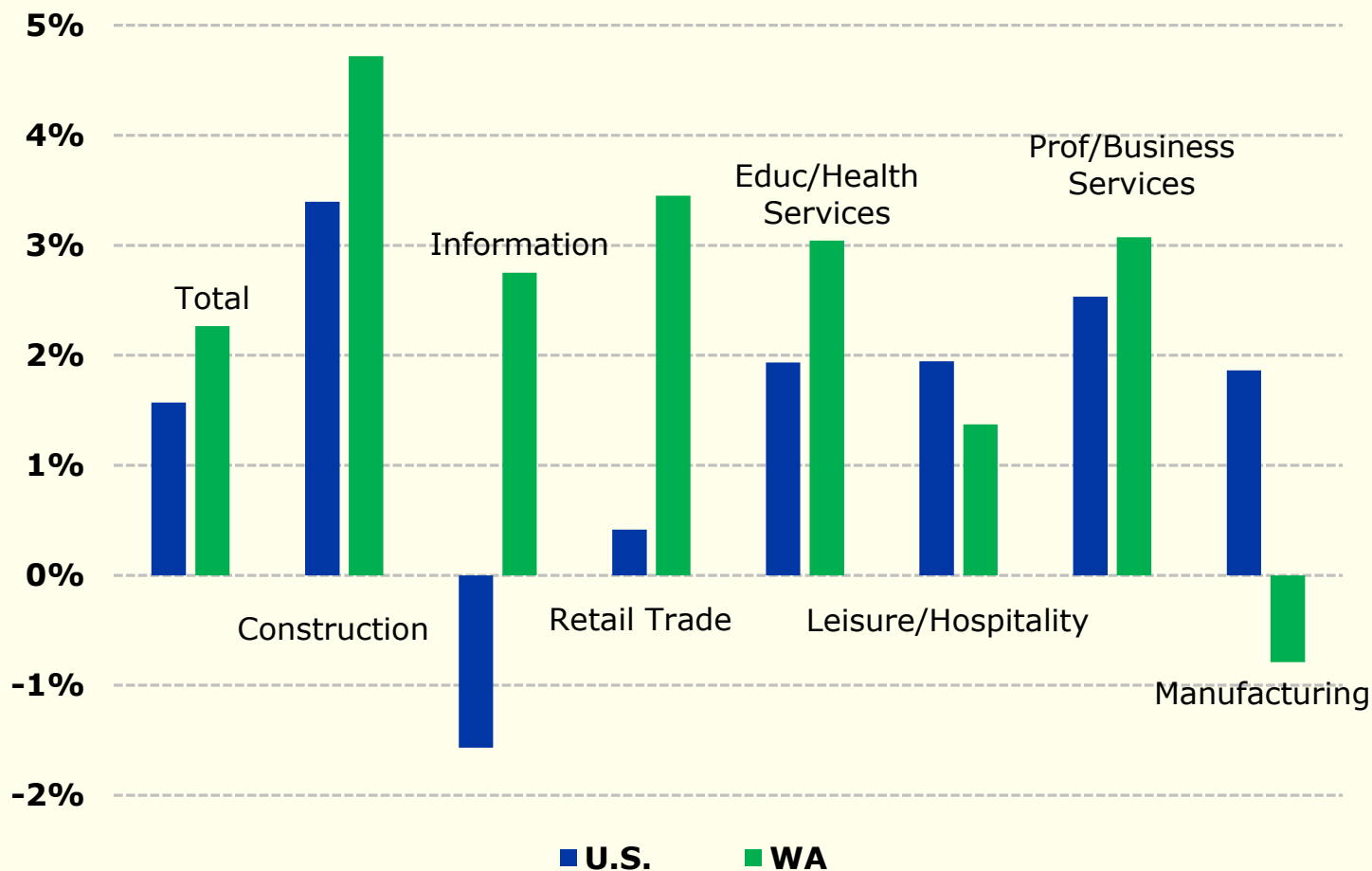


U.S., WA labor markets look strong



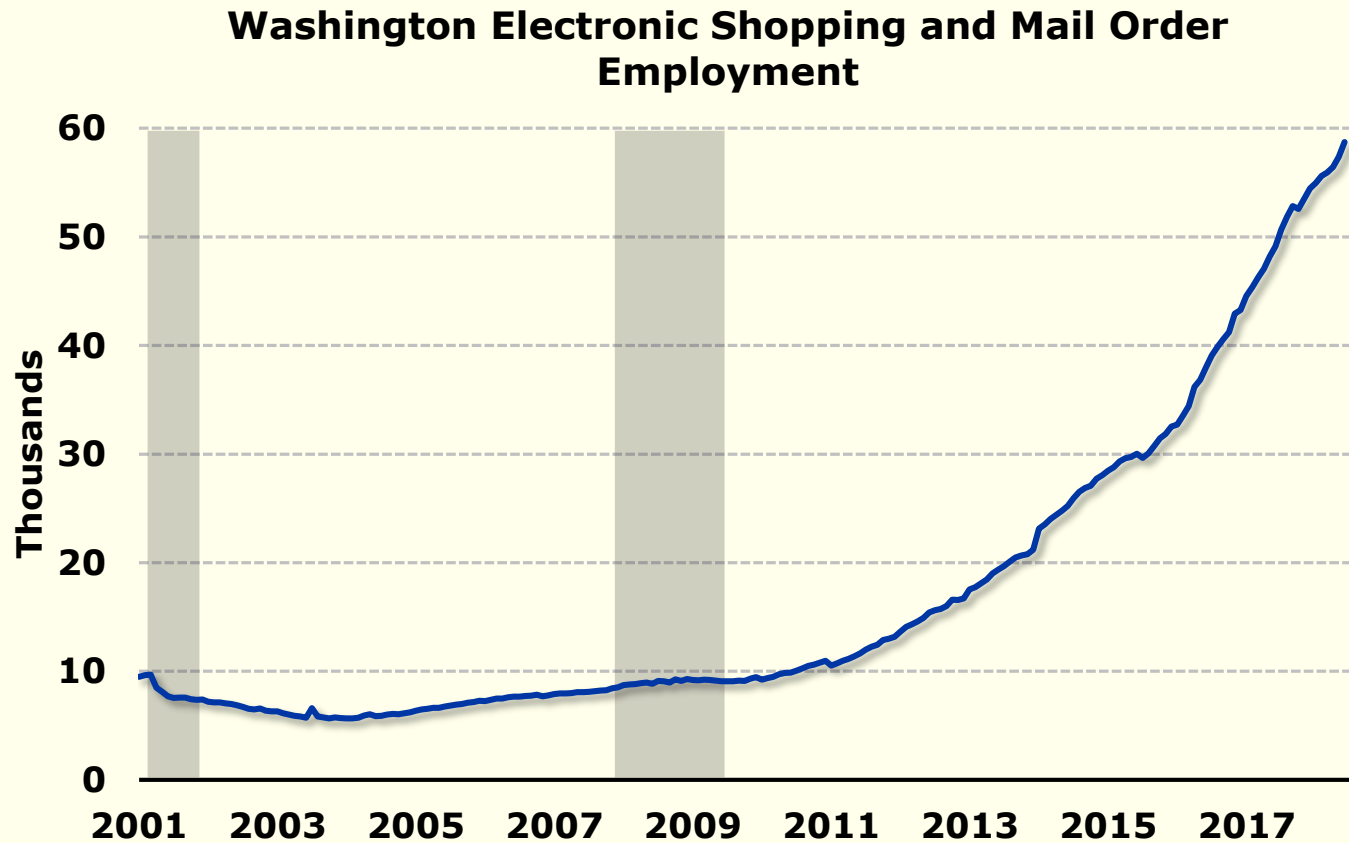


Washington vs U.S. employment growth: May 2017 to May 2018





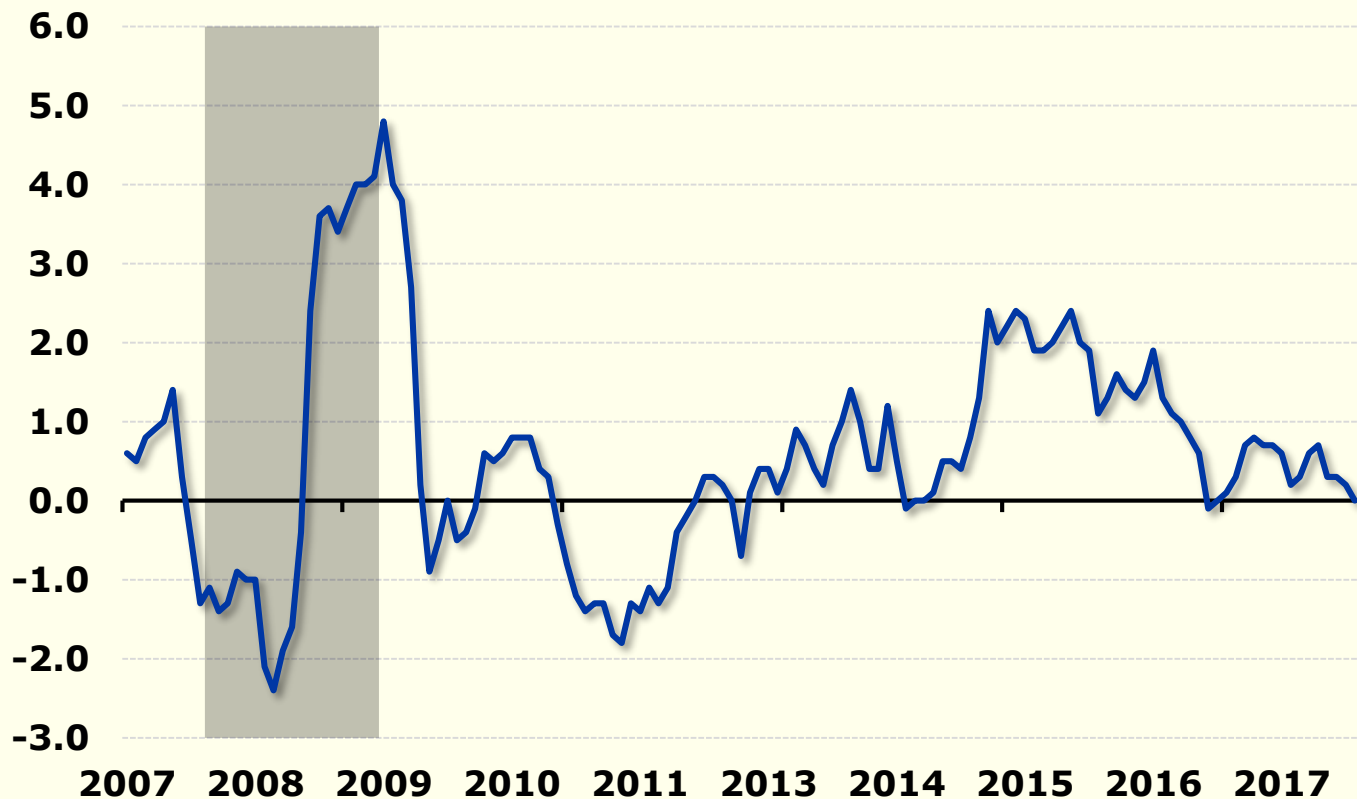
Washington electronic shopping employment is exploding





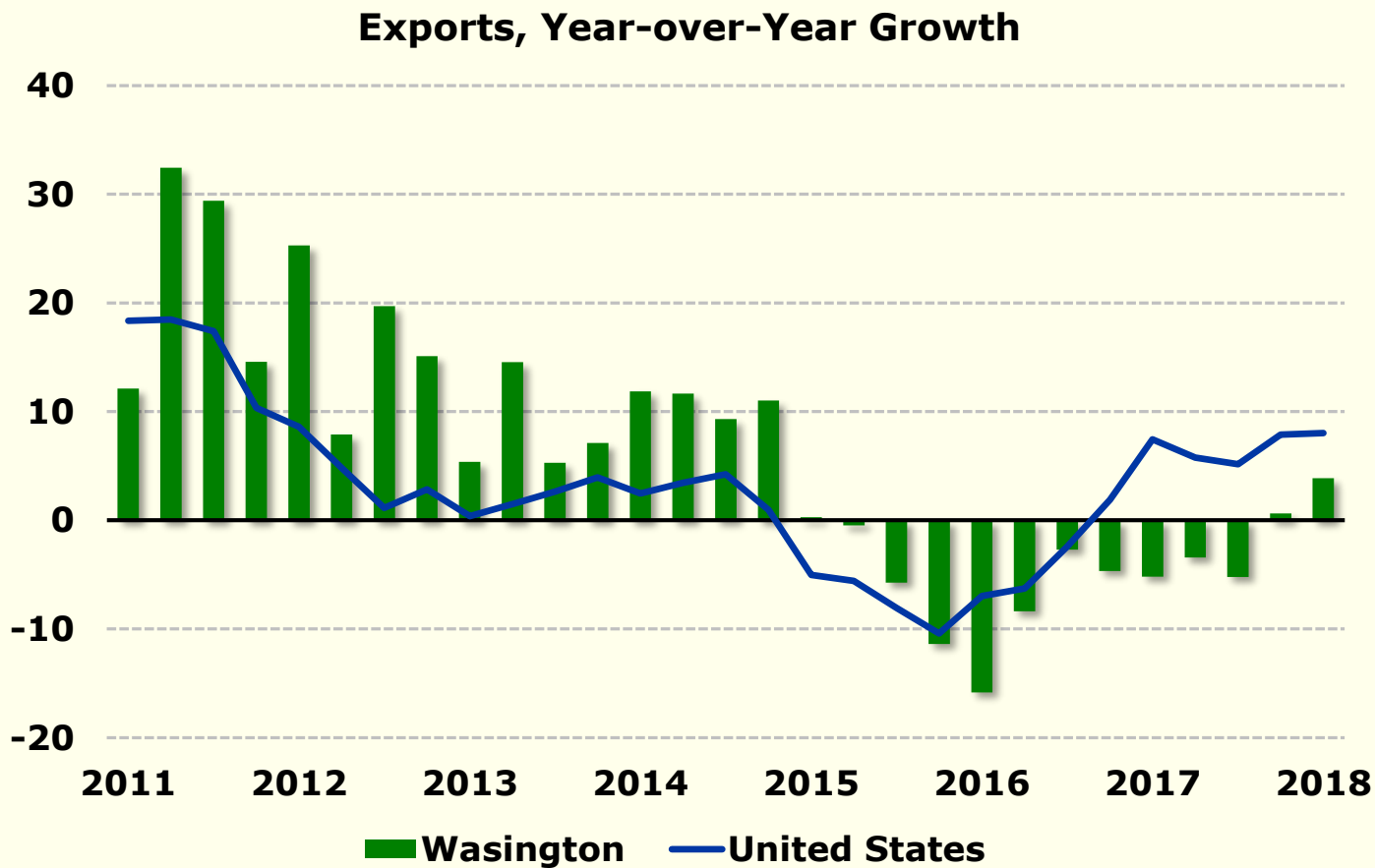
Adjusted for inflation, hourly wage growth remains muted

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



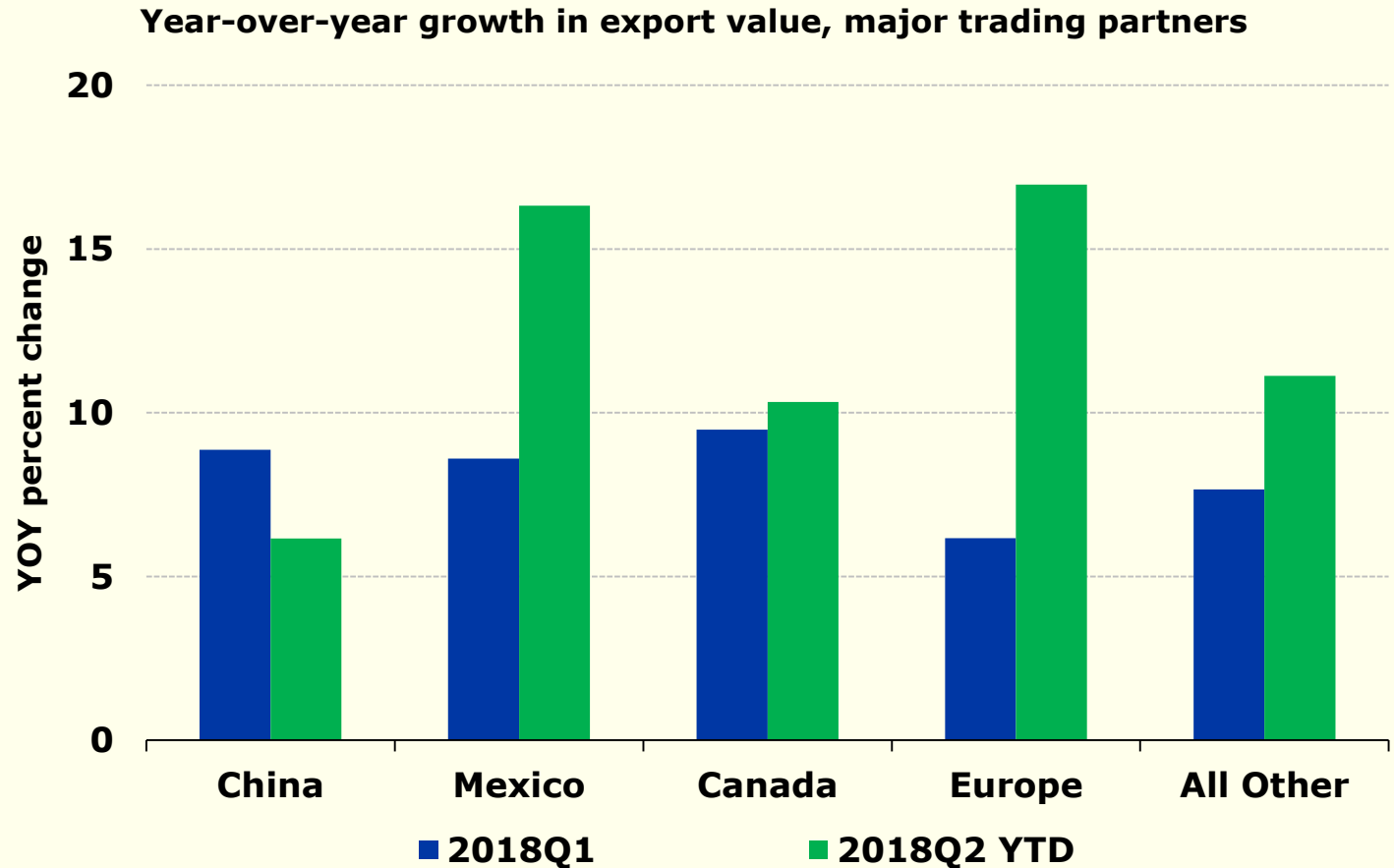


Exports are growing again





Exports to major trading partners are still increasing



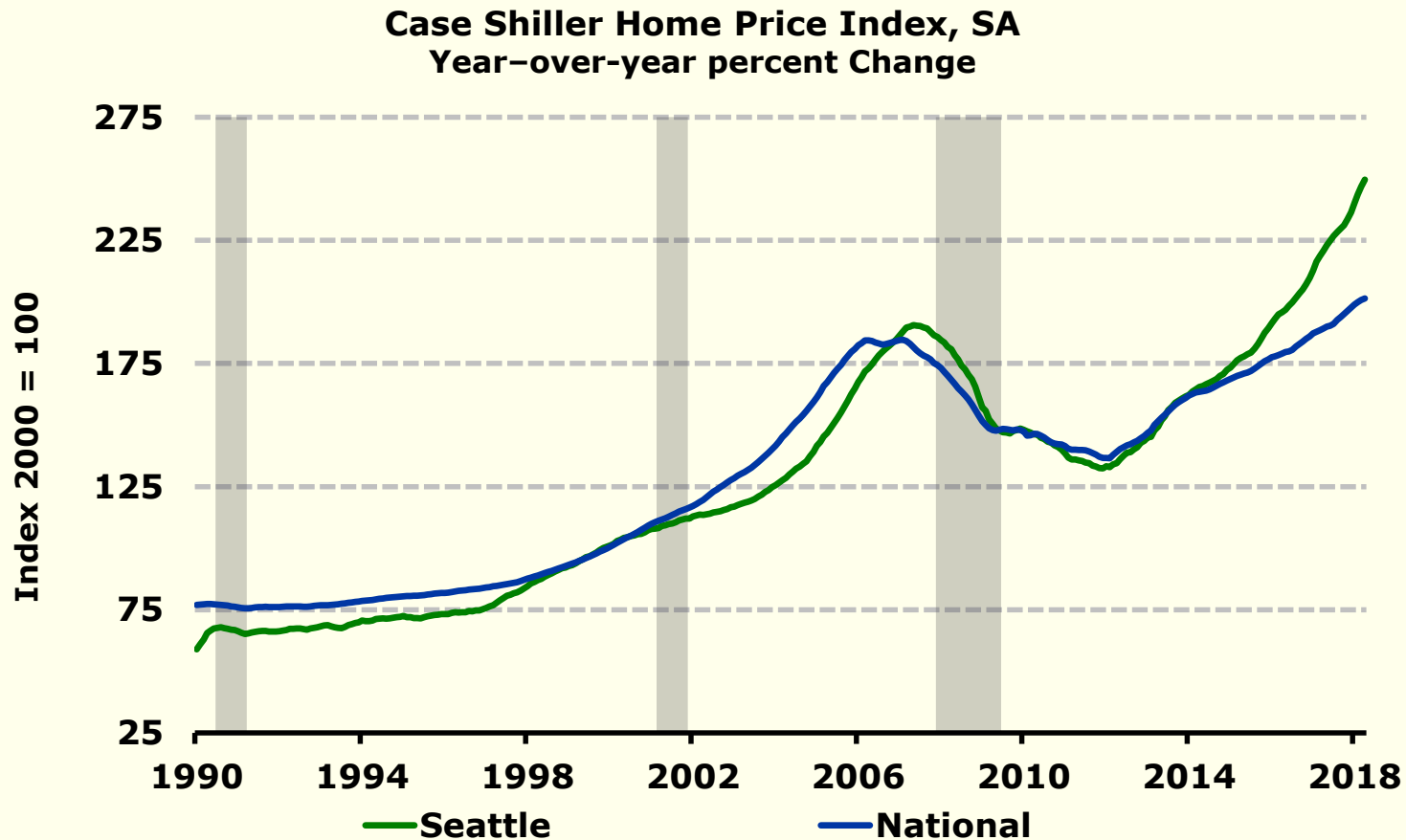


Seattle area home prices are skyrocketing

Apr 2018

U.S. is up
6.4%

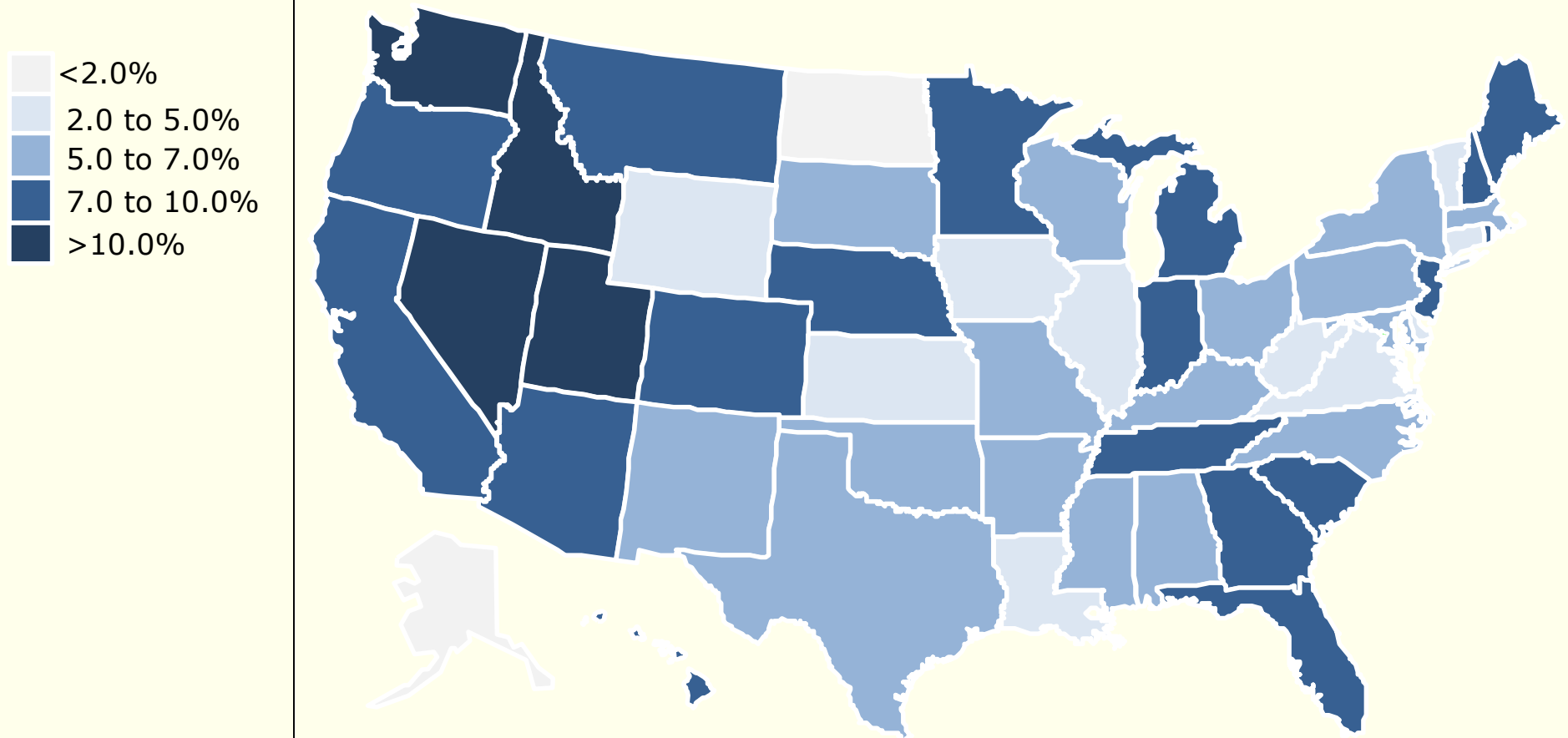
Seattle is
up 13.0%



Source: S&P/Case-Shiller; data through April 2018

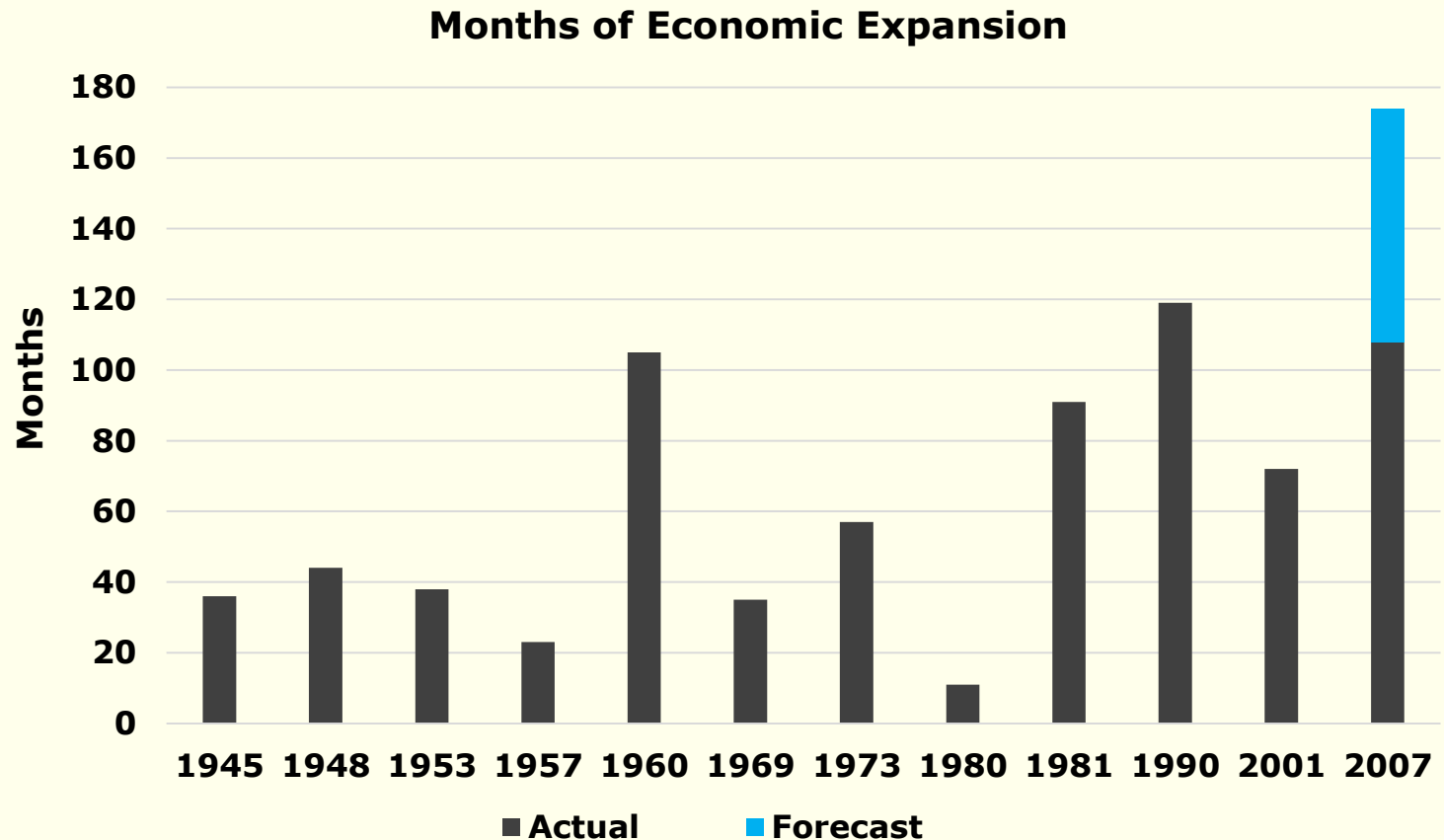


Washington ranks 4th in year-over-year home price growth





This recovery is forecasted to be the longest on record

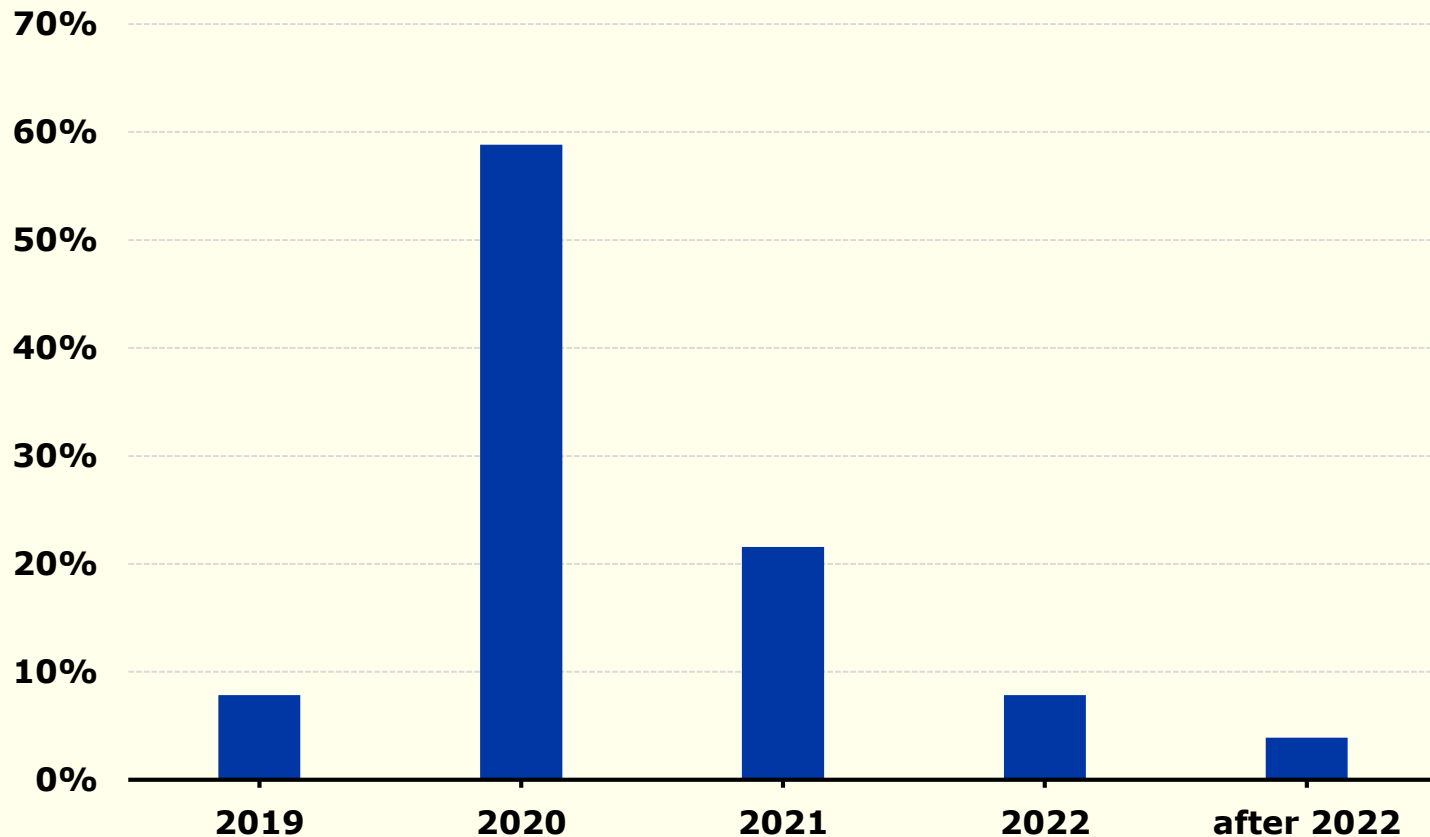




Probability of recession by year, May 2018 WSJ Survey of Economists

*Macroeconomic
Advisors*
recession
probabilities:

1 year = 20%
5 years = 80%



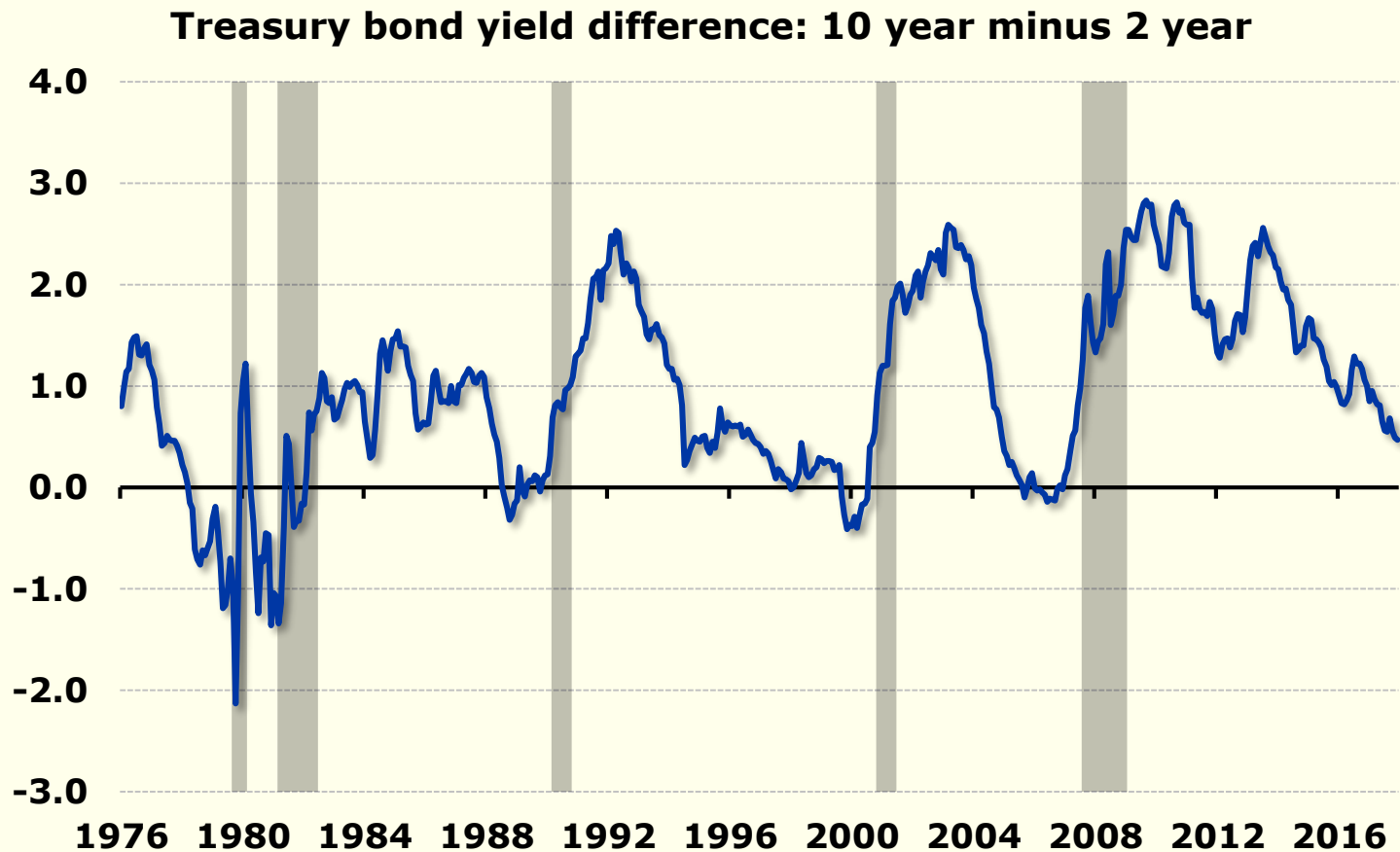
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September 12, 2018

Source: Wall Street Journal



When long-term interest rates are below short-term rates, it is often a signal of coming recession

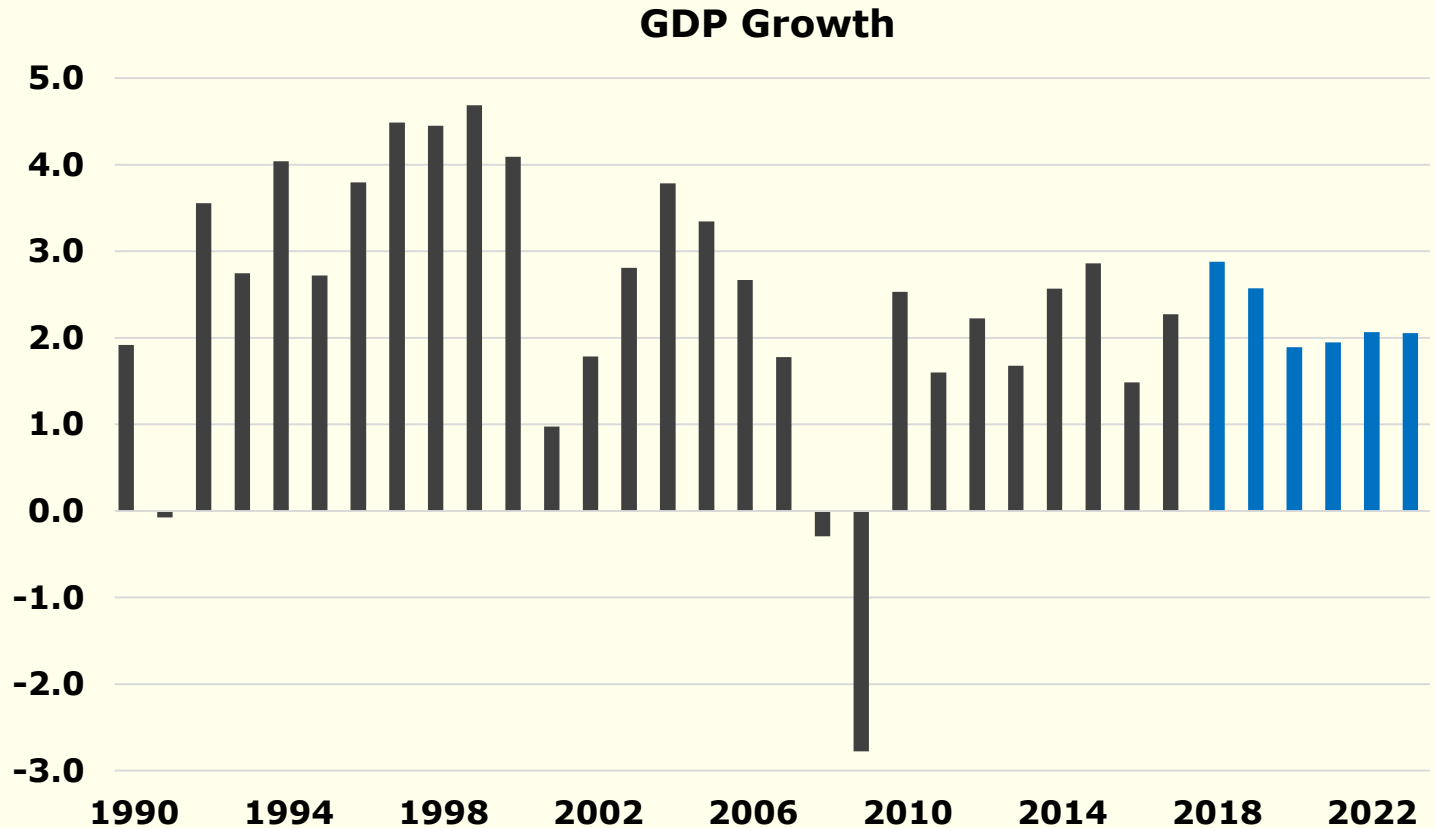
When long-term rates are below short-term rates, this is referred to as an inverted yield curve



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

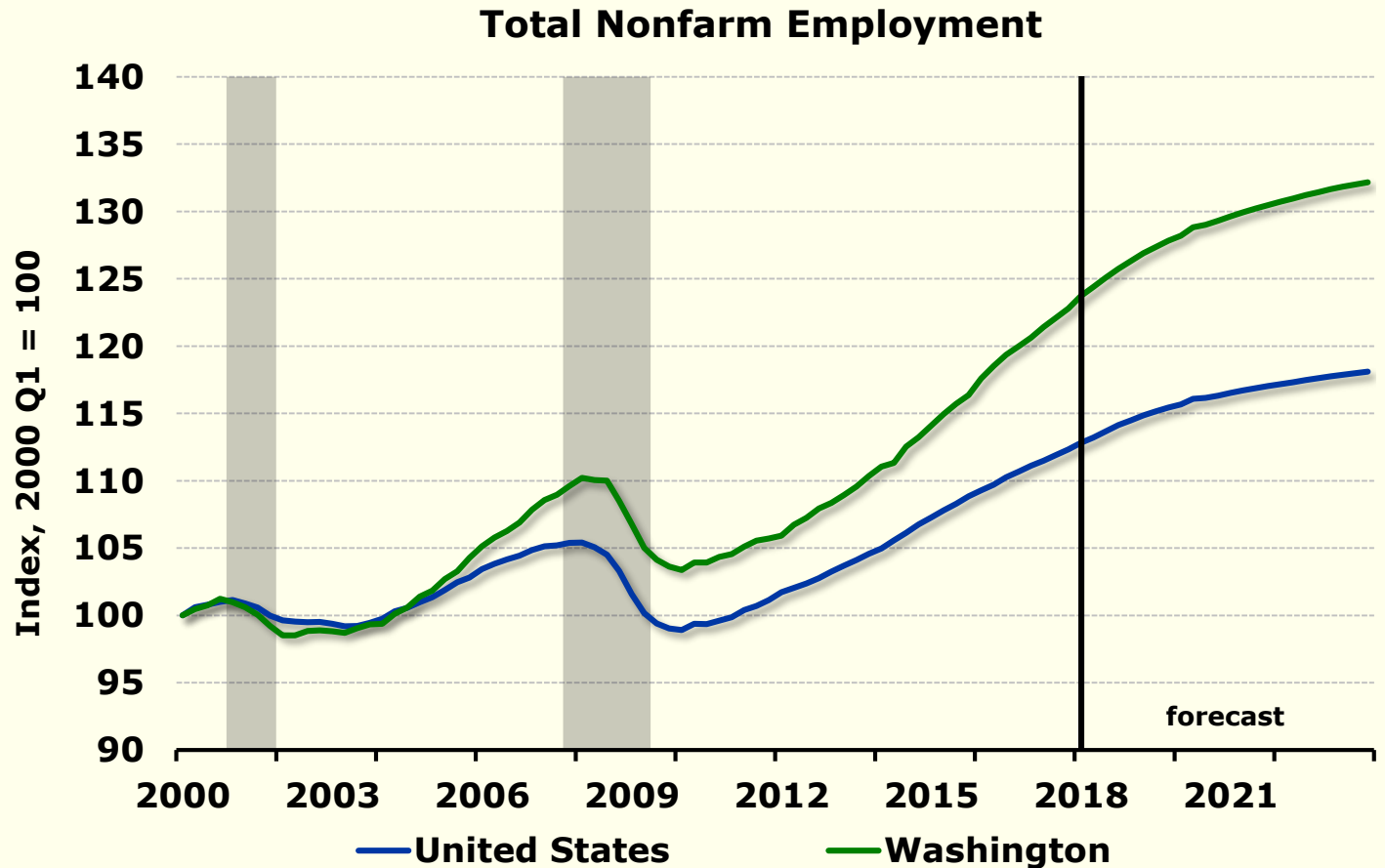


GDP growth is expected to pick up in the next few years



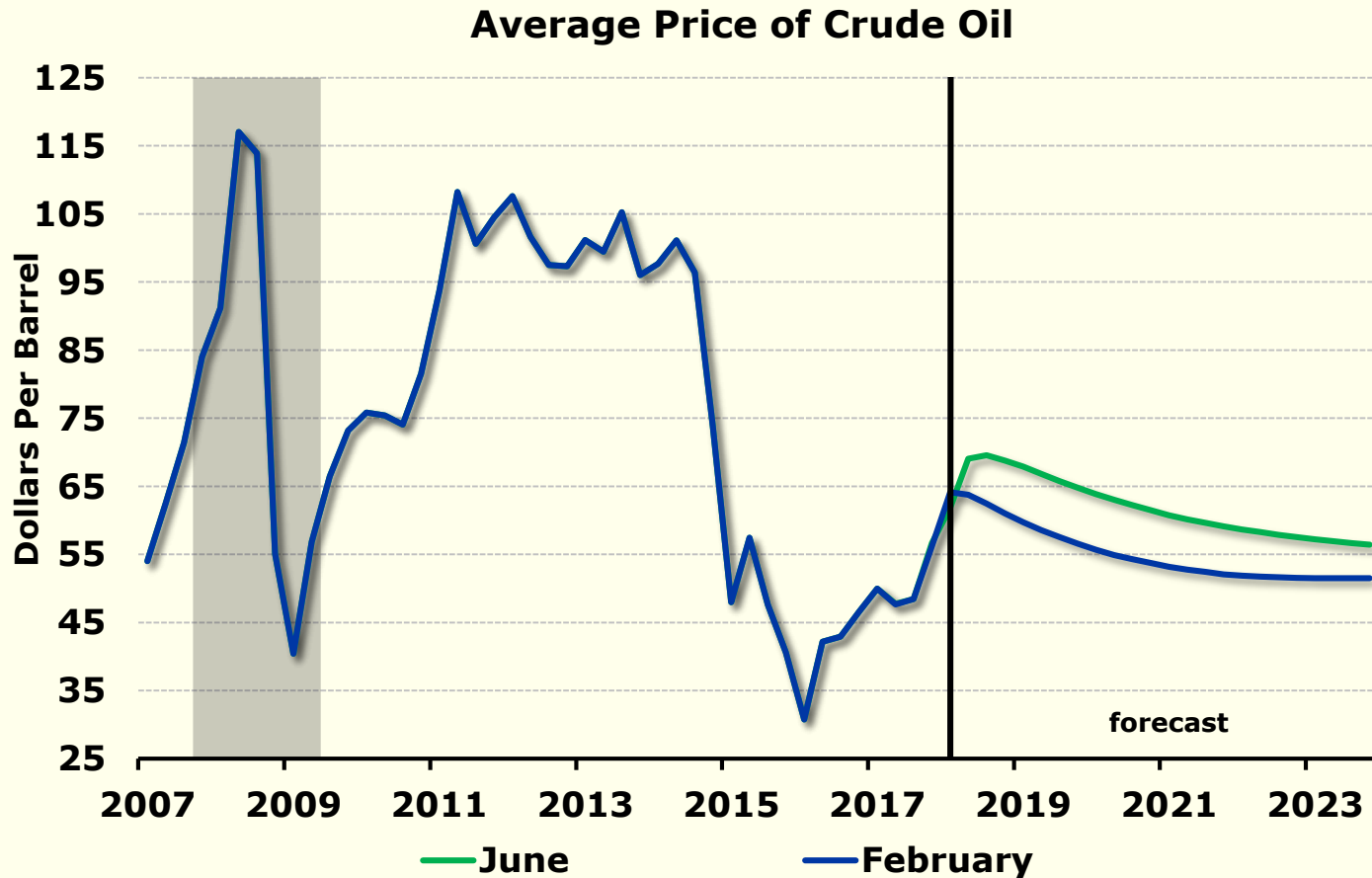


Employment is expected to climb throughout the forecast



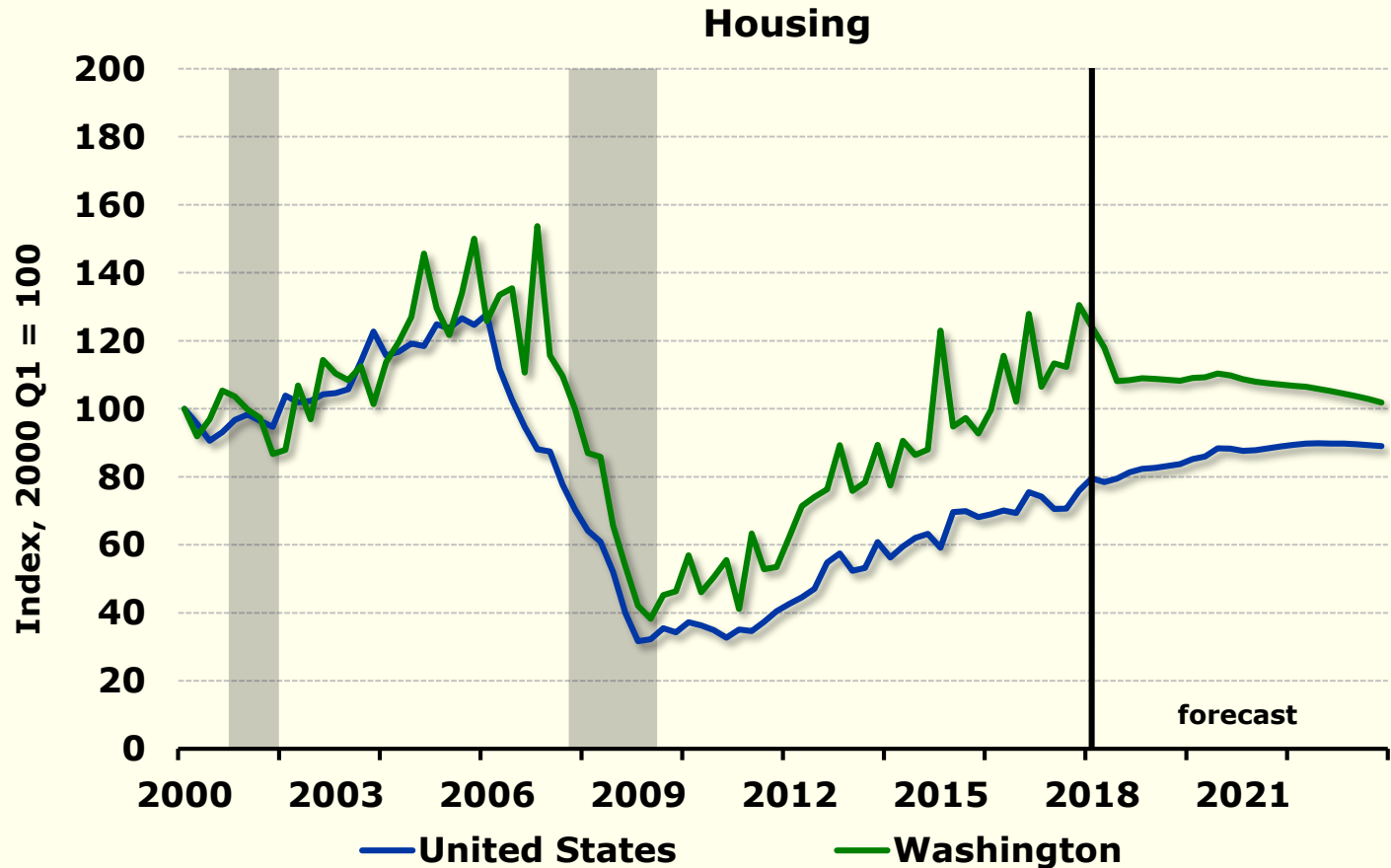


Oil prices are slightly higher compared to the February forecast



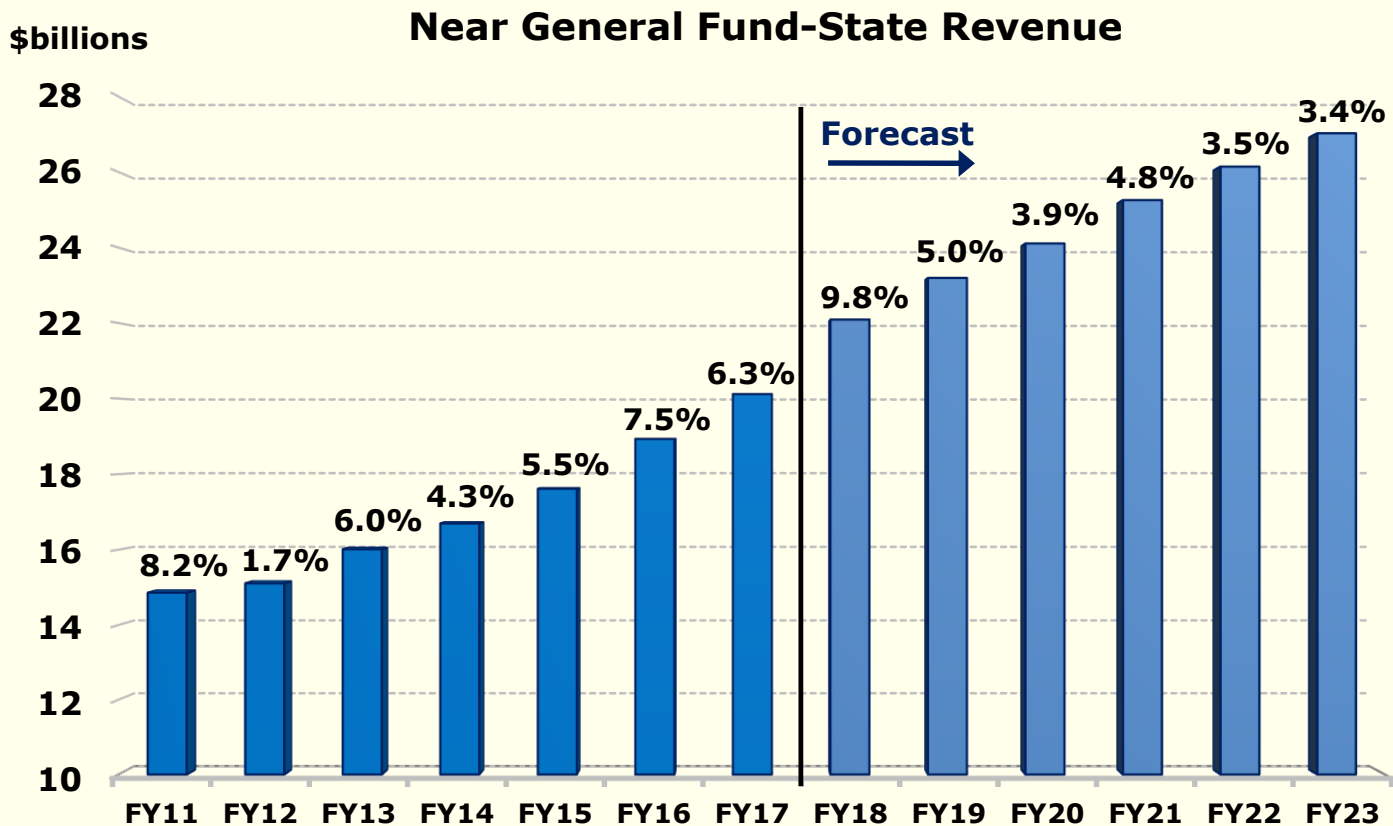


Washington's housing recovery is essentially complete





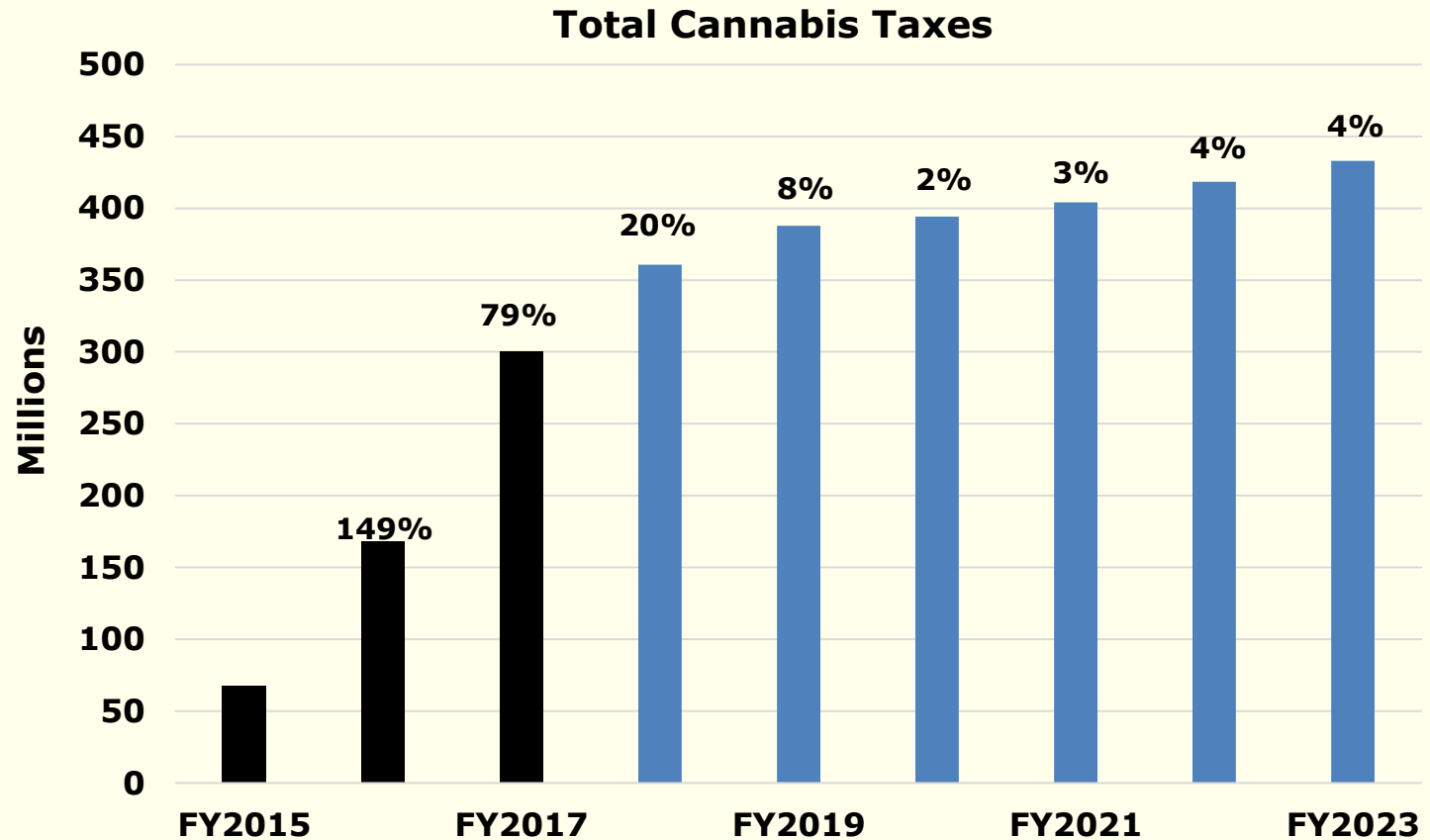
Near General Fund-State* forecast by fiscal year



*Near General Fund-State equals General Fund-State plus Education Legacy Trust and Washington Opportunities Pathway Accounts
Source: ERFC forecast, June 2018



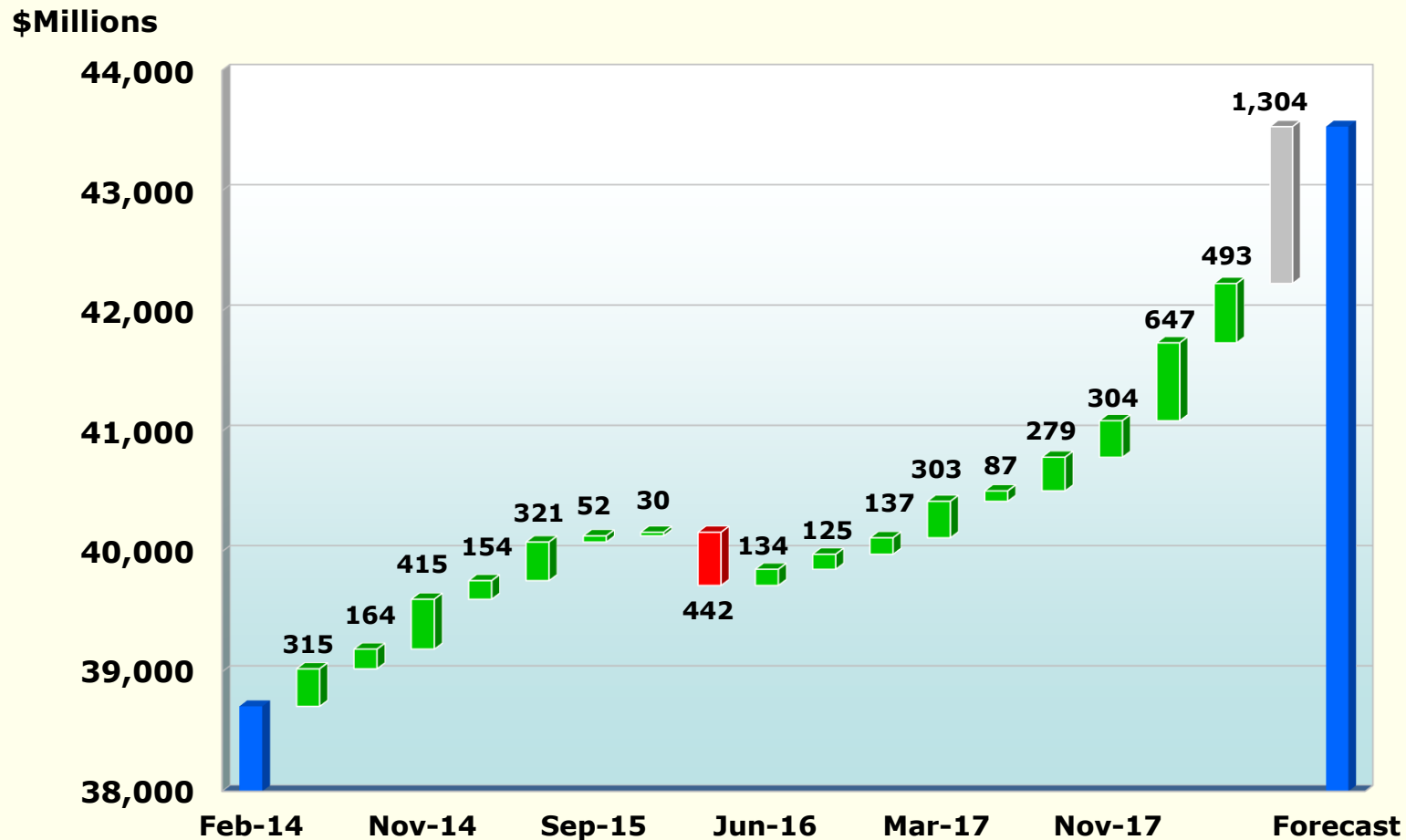
Cannabis tax collections are expected to slow



Source: LCB, ERFC June 2018 Forecast; historical data through May 2018



GF-S forecast revisions to the 2017-19 biennium



Economic Outlook
September 12, 2018

Source: ERFC February 2014 – June 2018 forecasts
Gray area indicates total noneconomic change



Conclusion

- As has been the case for some time, Washington's economy is continuing to outperform the nation
- Threats to economic expansion include slow labor productivity, geopolitical risks and uncertainty regarding international trade policy
- Home prices and residential rents continue to increase in many but not all parts of Washington
- Vacancy rates for central Puget Sound Class A office space have dropped from nearly 16% in 2012 to 11.3% in 2017 Q2
- Vacancy rates remain low for central Puget Sound area industrial property



Questions



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