

Washington State Economic and Revenue Outlook

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Executive Director

January 13, 2016
Federal Way, Washington



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ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The economic forecast has remained stable, with moderate economic growth in the U.S. and Washington
- We continue to expect slightly stronger employment and income growth in Washington compared to the national economy
- Risks to the baseline include slowing economic growth in the U.S. and globally, the impact of a stronger dollar on exports, weaker manufacturing activity, and a volatile stock market

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January 13, 2016

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Economic news continues to suggest risks to forecast

Upside:

- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weaker manufacturing activity

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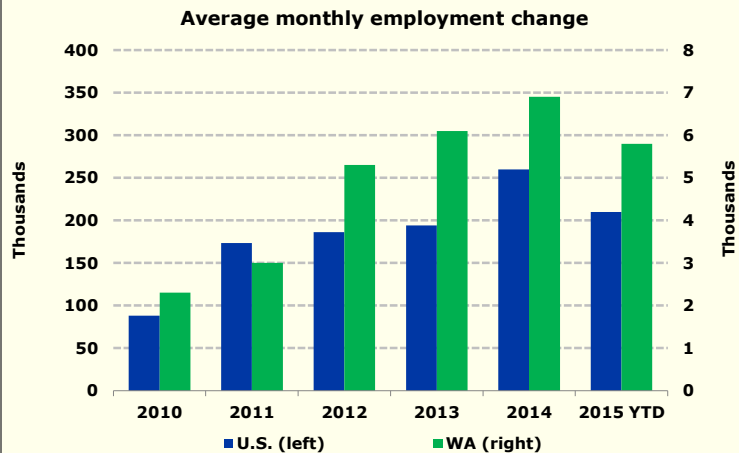
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Job creation is slightly weaker in both the U.S. and WA so far this year

November job gains:
U.S.: 211,000
WA: 5,000



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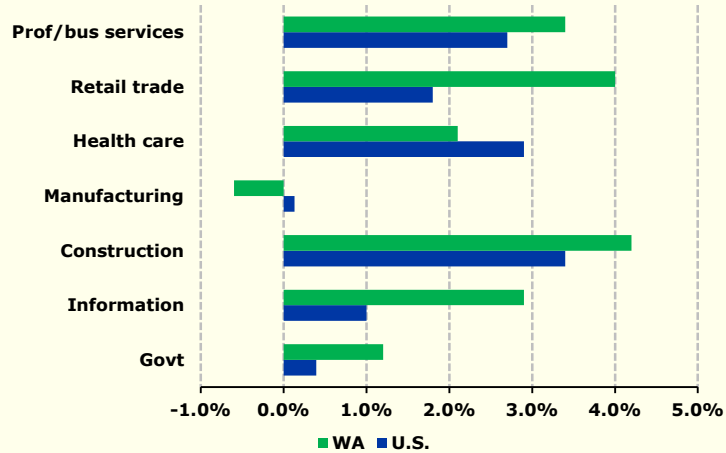
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Source: Bureau of Labor Statistics, ERFC; data through November 2015

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Year to date employment growth, selected industries



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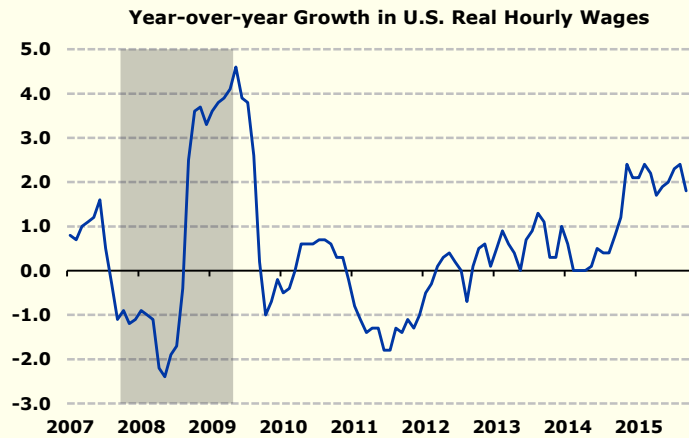
Source: BLS, ERFC; data through November 2015

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Average U.S. wage growth has turned positive



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Source: U.S. Bureau of Labor Statistics, data through Nov. 2015

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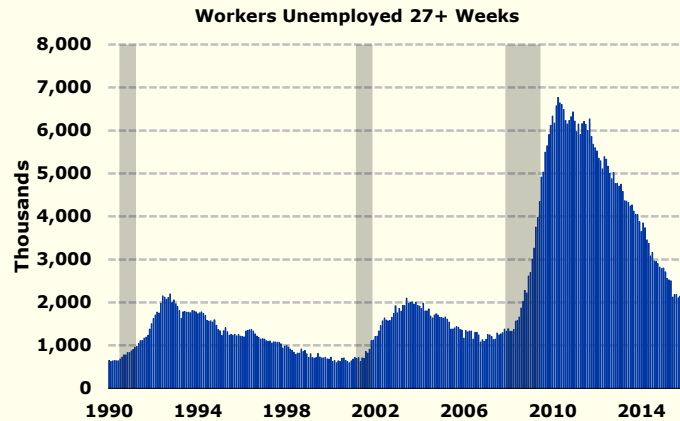


Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Nov. 2015: 26%



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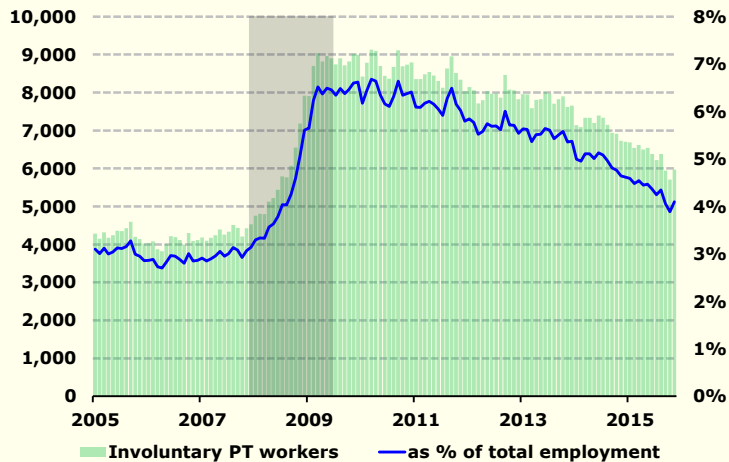
Source: Bureau of Labor Statistics; data through November 2015

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Involuntary part-time employment remains above pre-recession levels



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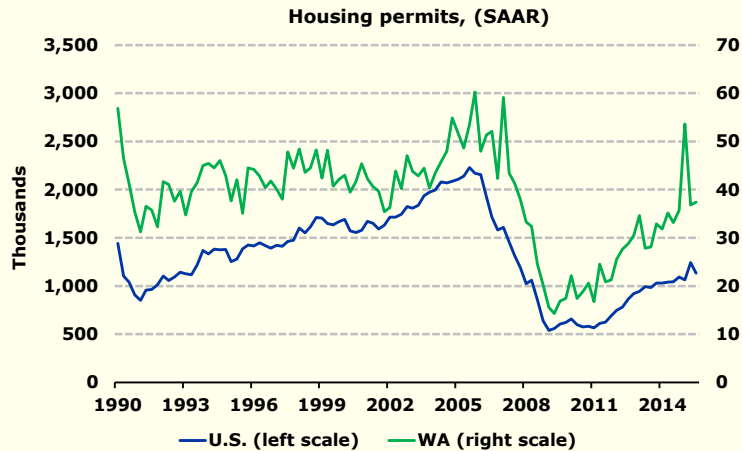
Source: U.S. Bureau of Labor Statistics; data through Nov. 2015

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Both U.S. and WA housing permits trending up since 2011



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Source: U.S. Census Bureau, data through 2015 Q3

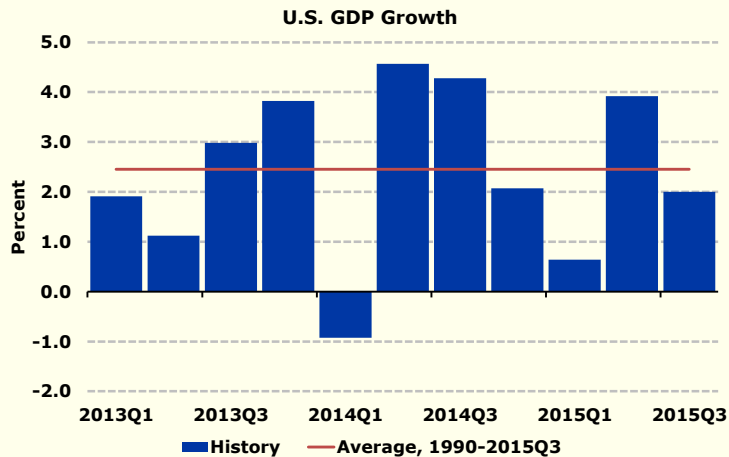
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U.S. economic growth weakened in the third quarter

Forecast GDP growth:
2.7% in 4th Q,
2.6% in 2016



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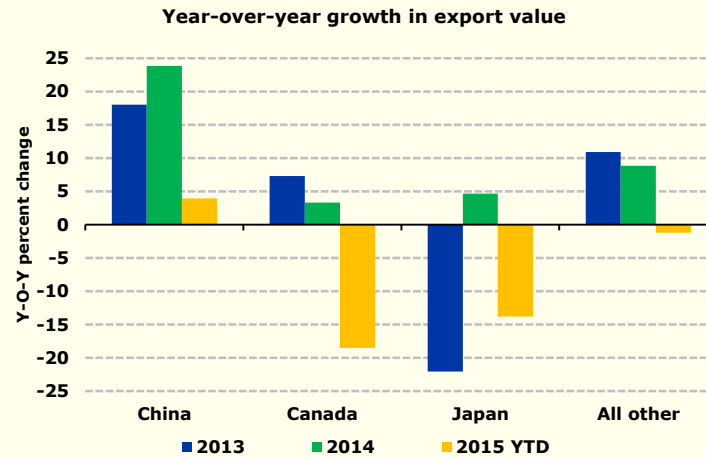
Source: U.S. Dept. of Commerce, BEA, data through 2015Q3

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WA exports to major trading partners have slowed



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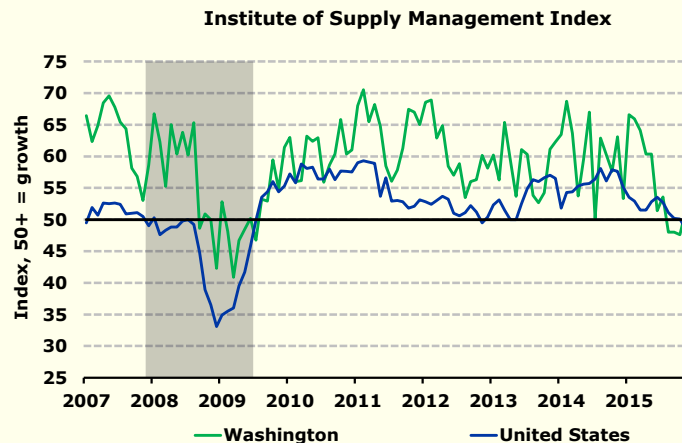
Source: WISERTrade; data through October 2015

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Manufacturing has slowed in Washington and nationally



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Source: ISM; data through November 2015

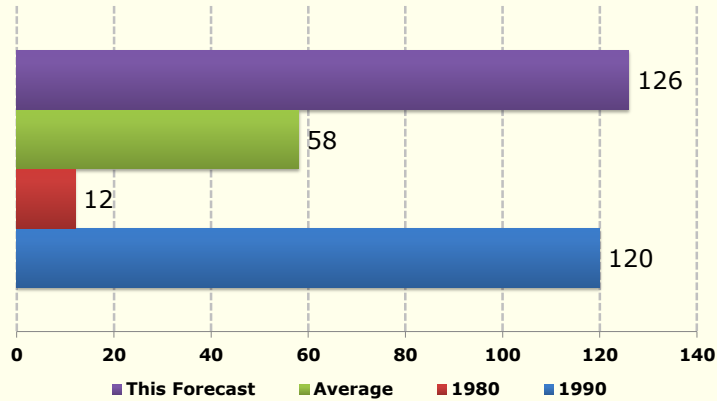
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U.S. Economic Expansions since 1945

Economic Expansions, months



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Sources: NBER, ERFC November 2015 forecast

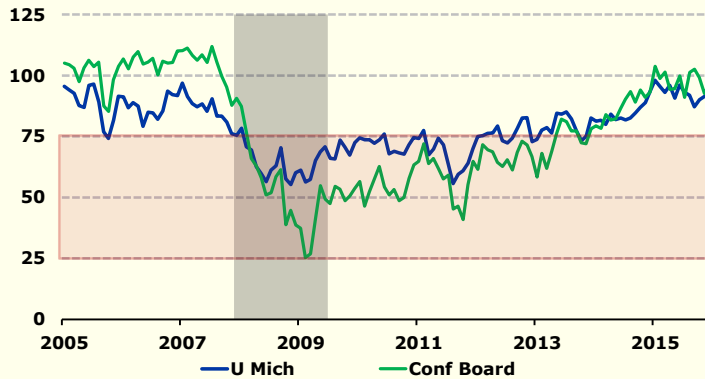
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After six months of moving in different directions Conference Board, UMich indexes both rise in December

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



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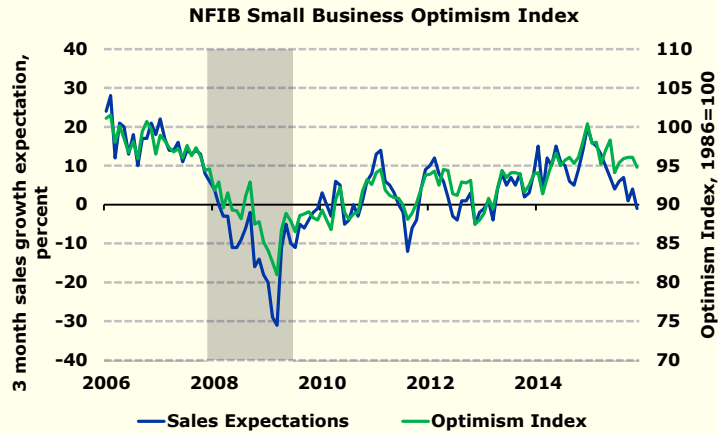
Sources: University of Michigan, Conference Board; data through December 2015

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Small business optimism and sales expectations have weakened in 2015



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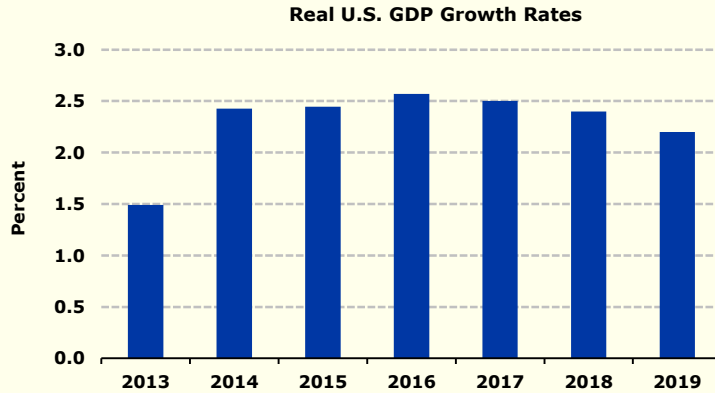
Source: National Federation of Independent Business; data through November 2015

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Real GDP growth is expected to slow slightly after 2016



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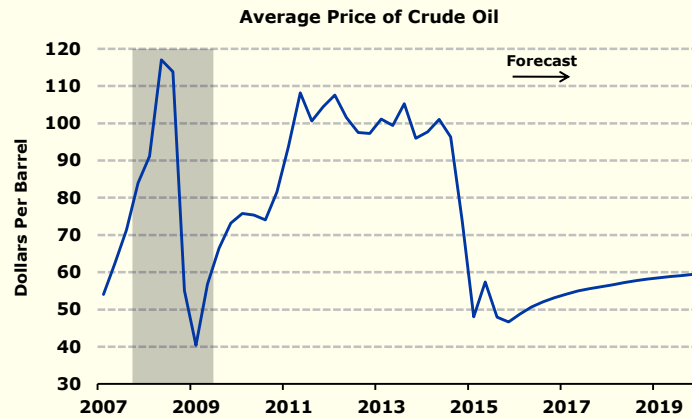
Source: ERFC November 2015 forecast; historical data through 2014

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Oil prices are expected to rise gradually starting next year



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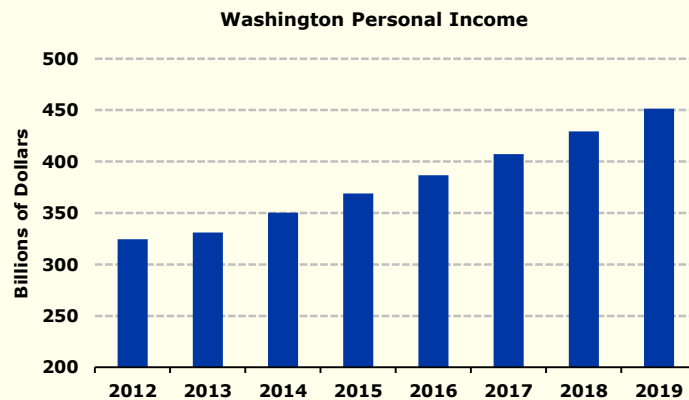
Source: DOE, ERFC November 2015 forecast; historical data through 2015Q3

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Washington annual personal income growth is expected to average 5.2% for 2016-19



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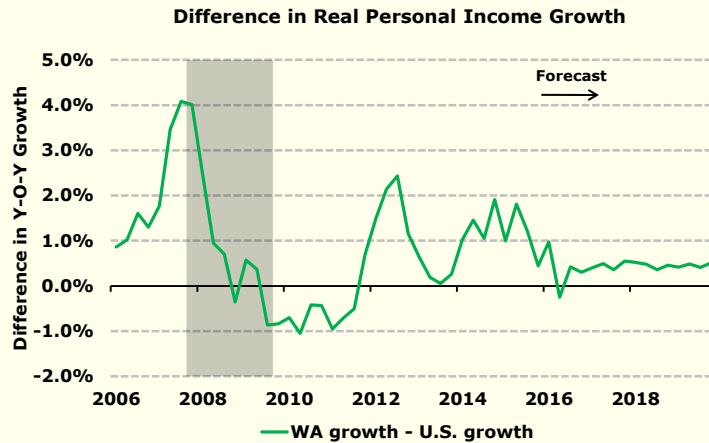
Source: ERFC November 2015 forecast; historical data through 2014

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State personal income will grow slightly faster than the U.S.



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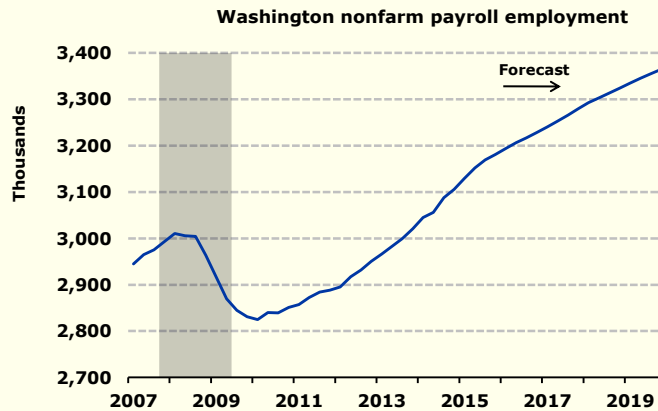
Source: ERFC November 2015 Preliminary forecast; historical data through 2015Q2

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Washington employment forecast is for average annual growth of 1.5%



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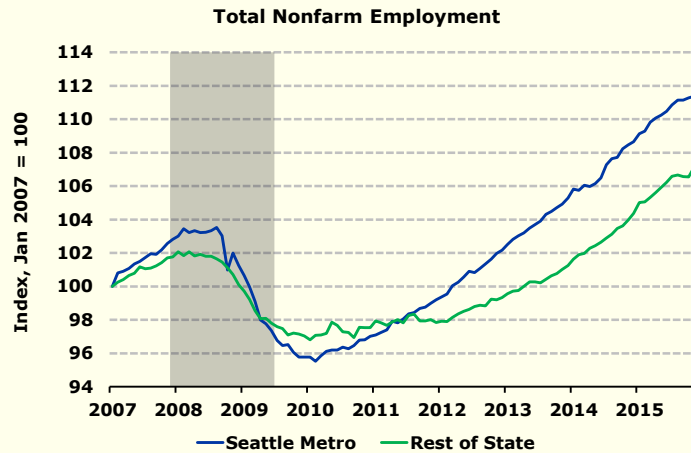
Source: Global Insight, ERFC November 2015 forecast; historical data through 2015Q3

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Seattle area employment continues to grow faster than the rest of the state



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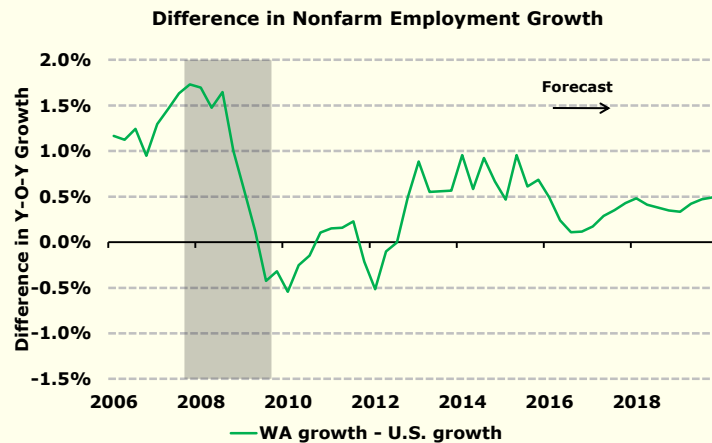
Source: Employment Security Department, ERFC; data through November 2015

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Washington employment will grow slightly faster than the U.S.



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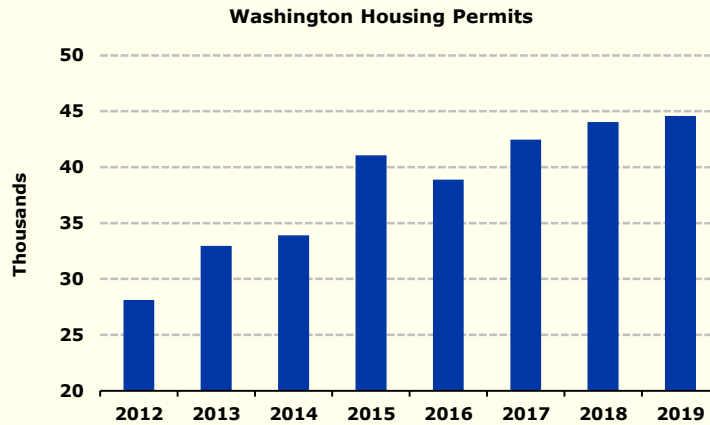
Source: ERFC November 2015 Preliminary forecast; historical data through 2015Q3

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Washington housing permits forecast is for moderate growth after 2016



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Source: ERFC November 2015 forecast; historical data through 2015Q3

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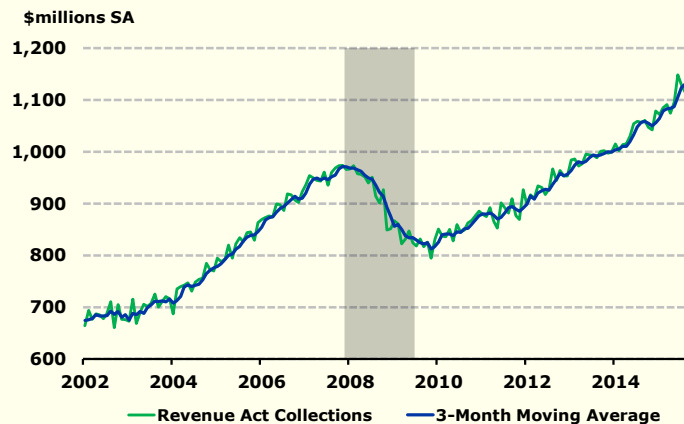
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Q3 Revenue Act collections growth slowed after a strong Q2

Adjusted Y-O-Y revenue growth for third quarter activity slowed to 5.8% after 7.1% growth in the second quarter.

Adjusted Y-O-Y growth was 5.3% for September activity and 6.3% for October activity.



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

Source: DOR and ERFC; monthly data through estimated October 2015 activity

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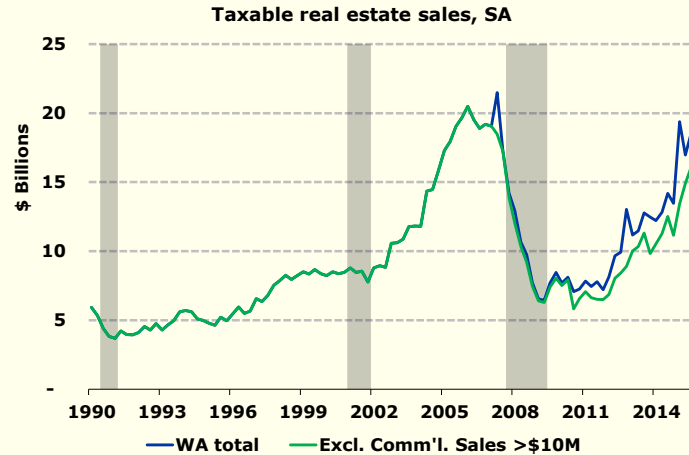
Large commercial property sales have had major impact on REET collections

Residential taxable activity has been growing rapidly for the last three quarters but future growth is expected to slow due to a lack of inventory.

Large commercial property sales are also expected to slow.

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Source: ERFC, data through 2015 Q3

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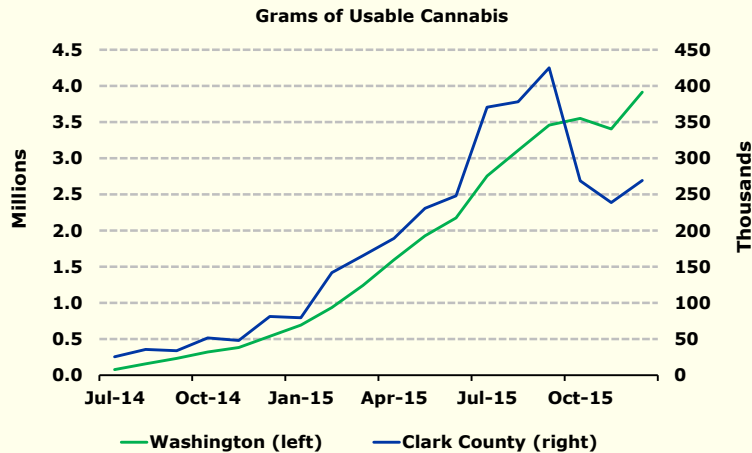
Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12.8% of total sales by quantity.

In December, Clark County accounted for 7.8% of total sales by quantity.

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Source: WA LCB; data through December 2015

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Cannabis excise tax and license fee estimates

Total change from September forecast:

•2015-17
+\$11 M

•2017-19
+\$2 M

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\$Millions

November Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$15	\$133	\$230
Non-GF	\$52	\$300	\$475
Total	\$67	\$433	\$705

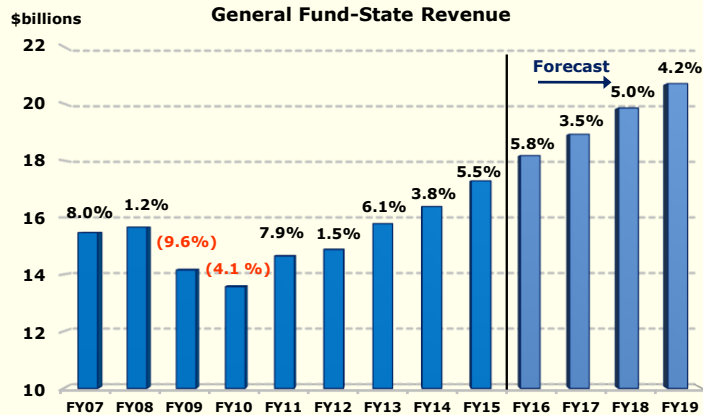
* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis

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General Fund-State* forecast by fiscal year



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*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17
Source: ERFC forecast, November 2015

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Conclusion

- The economic forecast expects slightly weaker growth in personal income and employment than in September
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- GF-S revenues are expected to grow 10.5% between the 2013-15 and 2015-17 biennia and 9.0% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks

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Questions



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